175th year

# ANNUAL REPORT 2017


Sparebanken Øst

# CONTENTS

## Key figures - Group

| | | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| | **Profitability** | | | | | |
| 1 | Return on equity | 10,59 | 11,23 | 9,29 | 16,72 | 12,46 |
| 2 | Net interest income as a % of average total assets | 1,54 | 1,54 | 1,72 | 1,81 | 1,87 |
| 3 | Profit/loss after tax as a % of average total assets | 0,91 | 0,94 | 0,75 | 1,28 | 0,93 |
| 4 | Costs as a % of average total assets | 0,76 | 0,80 | 0,85 | 0,88 | 0,97 |
| 5 | Costs as a % of income (before losses on loans/guarantees) | 38,69 | 39,57 | 44,69 | 34,72 | 42,04 |
| 6 | Costs as % of income, excl. return on financial investments | 41,39 | 46,18 | 42,00 | 43,21 | 44,55 |
| | **Balance sheet figures** | | | | | |
| 7 | Net lending to customers | 30.972,4 | 29.695,7 | 27.975,8 | 28.697,8 | 25.771,6 |
| 8 | Lending growth (12 months) | 4,30 | 6,15 | -2,52 | 11,35 | 14,23 |
| 9 | Deposits | 13.971,8 | 13.887,4 | 13.159,3 | 13.397,0 | 12.546,8 |
| 10 | Deposit growth (12 months) | 0,61 | 5,53 | -1,77 | 6,78 | 7,35 |
| 11 | Average equity | 3.140,2 | 2.950,1 | 2.755,3 | 2.563,9 | 2.268,1 |
| 12 | Average total assets | 36.497,2 | 35.420,3 | 34.067,2 | 33.618,8 | 30.263,2 |
| | **Write-downs of impaired and non-performing loans** | | | | | |
| 13 | Losses as a % of net loans to customers (OB) | 0,02 | 0,02 | 0,06 | 0,09 | 0,07 |
| 14 | Write-downs as a % of gross loans to customers | 0,32 | 0,36 | 0,44 | 0,48 | 0,54 |
| 15 | Net impaired and net non-performing commitments as % of net loan: | 0,36 | 0,47 | 0,58 | 1,15 | 1,56 |
| | **Financial strength** | | | | | |
| 16 | CET1 capital ratio | 17,49 | 17,21 | 16,29 | 13,94 | 13,23 |
| 17 | Tier 1 capital ratio | 19,44 | 19,19 | 18,29 | 15,89 | 16,47 |
| 18 | Capital adequacy | 21,39 | 21,17 | 20,29 | 18,17 | 18,41 |
| 19 | Risk-weighted volume (calculation basis) | 17.960,0 | 17.696,7 | 17.452,6 | 17.891,6 | 15.488,8 |
| 20 | Leverage ratio (%) | 9,23 | 9,24 | 8,97 | 7,93 | |
| | **Liquidity** | | | | | |
| 21 | Deposit coverage ratio | 45,11 | 46,77 | 47,04 | 46,68 | 48,68 |
| 22 | LCR (%) | 204,15 | 284,00 | 215,80 | 154,27 | |
| | **Branches and full-time equivalents** | | | | | |
| 23 | Number of bank branches | 25 | 25 | 21 | 22 | 22 |
| 24 | Full-time equivalents | 181 | 209 | 226 | 225 | 233 |
| | **Equity certificates** | | | | | |
| 25 | Ownership fraction* | 36,21 | 37,67 | 38,79 | 41,44 | 43,28 |
| 26 | No. of equity certificates | 20.731.183 | 20.731.183 | 20.731.183 | 20.731.183 | 20.731.183 |
| 27 | Book equity per equity certificate | 58,57 | 57,30 | 55,06 | 54,81 | 52,29 |
| 28 | Earnings per equity certificate | 5,81 | 6,02 | 4,79 | 8,57 | 5,90 |
| 29 | Dividend per equity certificate | 5,00 | 4,00 | 3,30 | 5,00 | 3,00 |
| 30 | Turnover rate | 19,31 | 12,04 | 16,02 | 10,46 | 21,81 |
| 31 | Price | 55,25 | 52,00 | 47,60 | 51,00 | 43,00 |

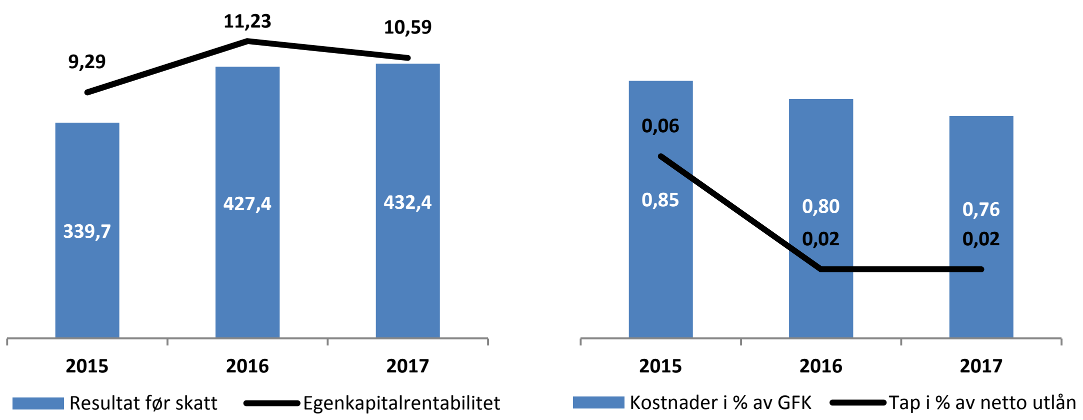
*For ownership fraction applicable from 01.01.18, see note 52.
For definitions of key figures, see page 122

# BOARD OF DIRECTORS' REPORT FOR 2017

The bank’s 175th year of operation shows a profit after tax for the group of NOK 432.4 million. The profit after tax amounted to NOK 332.4 million, which corresponds to a very good return on equity of 10.59 per cent. The group had very sound tier 1 capital at the end of the year amounting to NOK 3,491.6 million, which corresponds to a capital adequacy ratio of 19.44 per cent. As at 31 December 2017, the CET1 capital ratio was 17.49 per cent, significantly above the bank's set target of 14.5 per cent. Earnings per equity certificate were NOK 5.81. The board proposes a cash dividend of NOK 5.00 per equity certificate and a NOK 51.9 million provision for dividend on social capital. The basis for the dividend for the year to equity certificate holders is based on the bank's sound earnings, low credit risk and very solid capital adequacy.

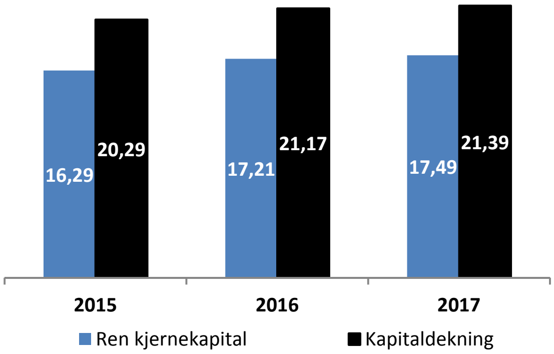
## BUSINESS IN 2017

The group's profit after tax for 2017 amounted to NOK 332.4 million, which corresponds to a very good return on equity of 10.59%. Net interest income performed well throughout 2017; the bank can still note good cost control and low loss costs. The group recognised gains on the sale of property in 2017. Dividend income, value changes as well as gains/losses on financial instruments yielded a reduced positive profit contribution in 2017 compared with 2016.




The bank's CET1 capital ratio is very solid at 17.49 per cent. Total assets increased by NOK 1,199.4 million in 2017, amounting to NOK 36,994.1 million at the end of 2017. Net lending to customers grew by 4.30 per cent during the last 12 months, while deposits are stable, increasing by 0.61 per cent in the same period.

In 2017, Sparebanken Øst took the decision to further enhance its physical distribution network. The combination of effective digital distribution solutions and physical presence is considered to be a good business model for Sparebanken Øst. Changed customer behaviour and the competition situation is increasing the need to further develop existing operating models. Ongoing change work will continue to be an important prerequisite in order to be able to be a relevant and sustainable provider of financial services in the future.



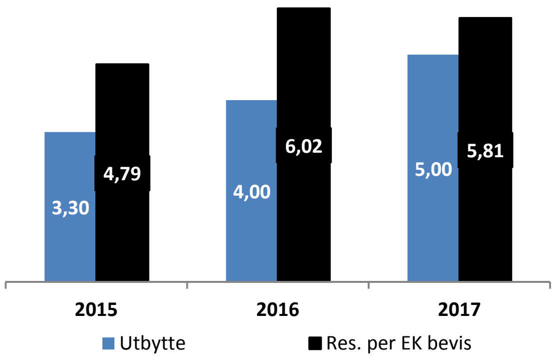

The Sparebanken Øst group consists of the parent bank and five wholly owned subsidiaries. Established in 1930, AS Financiering is a central market actor within used car financing. Sparebanken Øst Boligkreditt AS securitises mortgages for the bank and thereby achieves lower funding costs for the group. Sparebanken Øst Eiendom AS and its subsidiaries are tasked with actively managing properties belonging to the Sparebanken Øst group. The main purpose of Øst Prosjekt AS and its subsidiaries is to take over projects to hedge and realise exposed positions in the parent bank. Øst Inkasso AS is a debt recovery agency, which includes providing reminder services and monitoring debt recovery portfolios on a long-term basis.

The Sparebanken Øst group carried out no research or development activities in 2017.

The risk in portfolios associated with loans to business customers and retail loans developed positively in 2017. The bank has continued its restrictive credit policy with respect to granting loans to business customers. The growth in retail loans was primarily low risk. An increasing proportion of retail customers is contributing to low concentration risk. Non-performing and impaired loans were at a very low level at the end of 2017.  Compliance controls carried out by the internal auditor and the compliance and risk management department show a consistently satisfactory process for the assessment of risks, satisfactory formulation of procedures and routines, and that the compliance with procedures and routines is good. No incidents resulting in a risk of significant losses were registered in 2017.

The group's profit after tax amounted to NOK 5.81 per equity certificate. The board proposes a cash dividend of NOK 5.00 per equity certificate, equivalent to 86.17 per cent of the group’s profit attributable to the equity certificate holders. The bank has chosen to deviate from the adopted dividend policy which aims for 50 to 75 per cent of the profit attributable to equity certificate holders to be paid out as dividend. The board assesses that the proposed cash dividend is justifiable since the group has very good capital adequacy, a low credit risk and good earnings. Book equity per certificate was NOK 58.57 including the proposed dividend as at 31 December 2017. A social dividend for non-profit purposes of NOK 51.9 million has been proposed, which amounts to 50.07% of the dividend for equity certificate holders.

The board and executive management team would like to thank the group's employees for their great efforts in 2017.



# STRATEGY AND GOALS

**Vision**
We want to be a leading savings bank in Eastern Norway.

**Business concept**
Our mission is to be a non-affiliated, independent and locally managed provider of financial services, to enable people in general, along with small and medium-sized enterprises, to exploit their financial resources in the best possible manner.

**Savings bank identity**
We want to be:

- community-oriented with high ethical standards
- a contributor to value creation and sustainable development, both through the group's ordinary operations and through the bank's social dividend – especially in the municipalities of Øvre Eiker, Nedre Eiker, and Drammen
- development-oriented while remaining rooted in the local community
- sound, far-sighted and credible

**Core values**
We want to live up to the following three core values:

- predictable
- down-to-earth
- forward-leaning

**Geographical market area**
We define the central Eastern Norway region as our main market. With a combination of physical and digital distribution, we are a modern traditionalist and provider of financial services to the general public and local businesses in the region.

- We have our origins in the municipalities of Øvre Eiker, Nedre Eiker, and Drammen, and view these as our local market. We are a unique actor that offers a dense network of branches with traditional banking services and modern digital services.
- The use of digital distribution channels means that we view the entire country as our market. We have been modernising our distribution strategy since 2005 and offer standard products to the general public nationwide.
- We offer products and services to business customers in the central Eastern Norway region. We define Oslo – Akershus, as well as Nedre Buskerud, including Kongsberg, as our core market area.

**Products**
We want to satisfy our customers' needs for ordinary financial products. The bank's three core products are savings products, credit products and payment products. In addition, we distribute insurance, fund shares, interest rate hedging, currency and letters of credit.

**Organisational and employee development**
We want to be a market-oriented organisation that offers interesting challenges to responsible and qualified employees. Goals will be set for employees' achievements and skills where the expectations will be clearly communicated from management. We want to develop our employees to enable them to meet future skills and reorganisation requirements, as well as work for equal status in all areas of our business. We want to be an attractive employer by offering a good working environment and competitive terms.

In 2017, the bank undertook measures to strengthen employees' expertise in the light of changed customer behaviour and technological development in the financial industry. This will take place at the same time as the bank adds new employees with the intention of strengthening the bank's expertise in digital customer interfaces and automation of work processes. The bank is affiliated with the authorisation scheme for financial advisers (AFR) and at the end of the year had 49 authorised financial advisers.

**Market and brand strategy**
Sparebanken Øst has a distribution strategy that includes physical branches, digital sales portals, and external product intermediaries. The strategy gives customers the freedom to choose how they want to be served, thereby determining the degree of self-service. Sparebanken Øst has a marketing model based on a "House of Brands" brand strategy that provides differentiated product and service offerings based on customers' preferences and needs. In addition to the Sparebanken Øst brand, the group has the following brands: DinBank.no, Topprente.no, Boligkreditt.no, Youngbank.no, Nybygger.no and AS Financiering.

Dinbank.no is a very simple, efficient and straightforward banking alternative for self-service customers. Its main product is mortgage loans to customers up to a loan-to-value ratio of 75% and to young customers up to a loan-to-value ratio of 85%. Topprente.no is a self-service concept that offers competitive interest rates on two savings products. Boligkreditt.no is owned by Sparebanken Øst Boligkreditt AS and is a self-service concept offering mortgages with security in freehold housing. Boligkreditt.no offers competitive terms for mortgages within up to 75% of the property's market value. Youngbank.no is for customers between the ages of 10 and 17 and offers bank accounts with cards and a mobile bank. Nybygger.no is for customers between the ages of 18 and 33 and offers favourable interest on home loans or home refinancing. AS Financiering provides secured loans for new and used cars, motorcycles and caravans and secured loans for boats over 7 metres.

The group also follows trends in environmental protection and sustainable development and adapts our products in line with developments. We offer green mortgages and green car loans as part of this.

**Overall financial objectives**
We want to be a profitable bank run according to business principles. Its financial performance each year and over time must help ensure the group achieves its targets.

- The group's goal for liquidity is that non-liquid assets must be financed by long-term financing of 106% over time.

- The group's CET1 capital ratio target has been set at 14.5 per cent.
- The group's target for its return on equity has been set at 10% over time.

The board believes that expanding the bank can best be achieved through organic growth, and considers sustained growth important in ensuring that the bank can achieve its objectives, and retain its independence.

All growth must comply with the conditions established by the bank's three central financial objectives.

## COMMENTS ON THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with IFRS, International Financial Reporting Standards, approved by the EU.

The board hereby confirms that the conditions for the presentation of the financial statements under the going concern assumption are present.

**Profit/loss**

Sparebanken Øst reported a group profit after tax of NOK 332.4 million in 2017, which is an increase of NOK 1.2 million compared with 2016. The return on equity in 2017 was 10.59 per cent, compared with 11.23 per cent in 2016.

Net interest income amounted to NOK 562.5 million in 2017 and increased by NOK 16.7 million compared with 2016.

Net commission income amounted to NOK 45.3 million in 2017, which represents an increase of NOK 2.6 million compared with 2016.

Dividends received in 2017 comprised NOK 16.3 million, of which NOK 15.8 million is dividend from Frende Holding AS. For comparison, dividend received in 2016 totalled NOK 26.9 million and primarily consisted of dividend received from Frende Holding AS at NOK 10.6 million, and distribution of cash consideration from Visa Norge FLI of NOK 15.6 million.

Net value changes and gains/losses on financial instruments amounted to NOK 30.5 million in 2017, compared with NOK 75.8 million in 2016. A lower initial spread on bonds at fair value in 2017 caused the positive value change to be NOK 10.6 million lower than in 2016. Furthermore, in 2016 income of NOK 15.7 million was recognised concerning changes in the bank's warranty liability to Eksportfinans ASA, while income of NOK 17.6 million was recognised relating to the final settlement of shares in Nets that were sold in 2014.

Other operating income amounted to NOK 62.4 million in 2017, compared with NOK 27.2 million in 2016. Profit from the sale of properties in 2017 amounted to NOK 36.2 million. The Group's rental income from real estate was lower in 2017 as a consequence of the reduced property portfolio.

Operating costs for the Group in 2017 amounted to NOK 277.4 million, compared with NOK 284.3 million in 2016. In 2016, a write-down of NOK 10.0 million was made for a property held by one of the bank's subsidiaries. Costs in 2017 included the cost increase as a consequence of the financial tax of NOK 6.1 million and the profit sharing allocation for employees of NOK 2.5 million.

Losses on loans to customers amounted to NOK 7.2 million in 2017, compared with NOK 6.7 million in 2016.

Individual write-downs on loans and guarantees amounted to NOK 63.1 million at the end of 2017, compared with NOK 67.3 million at the end of 2016. Write-downs on groups of loans decreased by NOK 5.5 million compared with 2016, and amounted to NOK 34.8 million at the end of 2017.

**Proposal for allocation of profit**

The profit for the year is allocated based on the parent bank's financial statements. The parent bank's profit after tax was NOK 334.4 million in 2017, compared with NOK 279.7 million in 2016. The board proposes to the board of trustees that the parent bank's profit for the year be allocated as follows:

| (Amounts in NOK million) | | |
|---|---|---|
| Equity certificate dividend | 103.7 | |
| To the equalisation fund | 17.4 | |
| **To equity certificate holders** | | **121.1** |
| Dividend on social capital | 51.9 | |
| To primary capital | 161.4 | |
| **To dividend on social capital and primary capital** | | **213.3** |
| **Parent bank's profit for the year** | | **334.4** |

The total cash dividend and dividend on social capital amount to NOK 155.6 million, which is equivalent to 46.53 per cent of the parent bank's total profit.

**Balance sheet**
Total assets increased by NOK 1,199.4 million compared with 31.12.2016 and amounted to NOK 36,994.1 million at the end of 2017.

Assets
Cash and receivables at central banks amounted to NOK 341.2 million as at 31.12.2017, compared with NOK 311.9 million as at 31.12.2016.

Net lending to financial institutions amounted to NOK 5.7 million as at 31.12.2017, compared with NOK 9.5 million as at 31.12.2016. Lending to financial institutions solely comprises inter-bank loans in Norway.

Net lending to customers amounted to NOK 30,972.4 million as at 31.12.2017, compared with NOK 29,695.7 million as at 31.12.2016. This represents an increase of NOK 1,276.7 million in the last 12 months, or 4.30 per cent. Net lending to retail customers increased by 3.44 per cent, while net lending to business customers increased by 9.89 per cent. Gross lending to retail customers accounted for 85.80 per cent of the total lending to customers. The risk in the portfolio of business loans has been reduced in the last few years. Together with a significant reduction in impaired and non-performing loans, this provides a good basis for growth in business loans.

Holdings of certificates and bonds amounted to NOK 4,515.1 million as at 31.12.2017, compared with NOK 4,490.5 million as at 31.12.2016. The holding solely comprises the liquidity portfolio. For the liquidity portfolio, the weighted average term until the agreed maturity has been calculated at 2.30 years.

The bank's shares in Frende Holding AS are classified as 'available for sale' and were valued at NOK 235.0 million at the end of 2017.

The bank's shares in Eksportfinans ASA are also classified as 'available for sale' and were valued at NOK 195.0 million at the end of 2017. The guarantee agreement (PHA) with Eksportfinans ASA has been terminated with effect from 31.12.2017.

The bank's membership of Visa Norge FLI was valued at NOK 8.0 million as at 31.12.2017. This value comprises future cash settlement and rights to shares in Visa Inc. The bank also owns rights to shares in Visa Inc. via Visa Norge Holding 1 AS, valued at NOK 8.0 million as at 31.12.2017.

Liabilities
Deposits from customers amounted to NOK 13,971.8 million as at 31.12.2017, compared with NOK 13,887.4 million as at 31.12.2016. This is an increase of NOK 84.4 million, or 0.61 per cent, in the last 12 months. The deposit-to-loan ratio in the Group at the end of 2017 was 45.11 per cent, compared with 46.77 per cent at the end of 2016.

Securities issued amounted to NOK 18,228.5 million as at 31.12.2017, compared with NOK 17,614.6 million as at 31.12.2016. The liquidity situation, measured as long-term funding as a percentage of illiquid assets (Liquidity Indicator 1), amounted to 107.4 per cent at the end of 2017, compared with 107.5 per cent at the end of 2016. LCR amounted to 204.15 per cent at the end of 2017, compared with 284.00 per cent as at 31.12.2016. A conservative investment policy entails that a high proportion of securities count in the LCR calculation. The maturity structure significantly affects LCR.

Other long-term borrowing amounted to NOK 330.1 million at the end of 2017, compared with NOK 90.2 million as at 31.12.2016.

Short-term borrowing (defined as borrowing with a remaining term to maturity of less than 1 year) amounted to NOK 2,215.0 million.

## SUBSIDIARIES

**Sparebanken Øst Boligkreditt AS** is a wholly owned subsidiary of Sparebanken Øst. The company was founded on 14 April 2009 and aims to grant or acquire residential mortgages, commercial mortgages and loans secured by mortgages on other real property or public loans, and to finance its lending activities primarily by issuing covered bonds. At the end of 2017, the loan-to-value ratio (LTV) of the security portfolio was 43.9 per cent, compared with 42.6 per cent at the end of 2016.

As at 31.12.2017, the company's total assets amounted to NOK 11,142.7 million and mainly consist of first priority home mortgages, which are financed via covered bonds and drawing rights on the parent company. The company's deposited equity amounts to NOK 650.0 million, of which NOK 319.8 million constitutes share capital and NOK 330.2 million constitutes a share premium reserve. The result after tax at the end of 2017 was a profit of NOK 75.2 million, compared with NOK 64.9 million for 2016. The company has no employees, but hires services from Sparebanken Øst. Since Q1 2011, bonds issued by Sparebanken Øst Boligkreditt AS have been rated AAA by Moody's.

**AS Financiering** is a wholly owned financing subsidiary of Sparebanken Øst. Its main product is debenture financing of second-hand cars. The company achieved a profit after tax of NOK 41.7 million at the end of 2017, compared with NOK 41.4 million for 2016. Total assets amounted to NOK 1,921.8 million. At the end of 2017, the company had 19 employees, corresponding to 18 full-time equivalents.

**Sparebanken Øst Eiendom AS** is a wholly owned subsidiary of Sparebanken Øst and is tasked with actively maintaining properties belonging to the Sparebanken Øst group.
During the last few years the company has sold property and the property portfolio has been reduced. Operating income amounted to NOK 62.6 million in 2017, compared with NOK 27.6 million in 2016. A profit of NOK 40.3 million from the sale of properties was recognised as income in 2017. The result after tax was a profit of NOK 38.5 million in 2017, compared with NOK 5.1 million in 2016. Its share capital amounts to NOK 35.1 million. The company has 4 employees, corresponding to 3.8 full-time equivalents. The company will assess further measures to reduce the cost level and resource situation adjusted to reduced real estate activities.

**Øst Prosjekt AS** is a wholly owned subsidiary of Sparebanken Øst and its main object is to take over projects and to undertake industrial and commercial activities to hedge and realise exposed positions in the parent bank. The company has no employees. The result after tax was a loss of NOK 4.4 million in 2017, compared with NOK 8.8 million in 2016. The loss in 2017 is attributable to ongoing operating and interest costs, as well as the loss on the sale of a property. At the end of 2017, the company had two ongoing projects which were based on commitments taken over from the bank.

**Øst Inkasso AS** was established on 18 April 2016 and on 5 August 2016 received a licence to carry out third-party debt collection activities. The company is a wholly owned subsidiary of Sparebanken Øst. The company commenced operations on 1 October 2016. The company’s object is to engage in debt collection operations and other activities naturally associated with this, including reminder services and long-term monitoring of debt collection portfolios. The company’s operating income was NOK 9.7 million in 2017, giving a profit after tax of NOK 0.7 million. In 2017, the company employed six employees.

## FRENDE FORSIKRING

Frende Holding AS owns Frende Skade AS and Frende Liv AS (Frende Forsikring). The bank has a 13.19 per cent stake in the holding company. Frende is owned by 15 savings banks. Sparebanken Vest is the largest shareholder and Sparebanken Øst is the second largest. The company offers P&C and life insurance products to business and retail customers and has more than 200,000 customers. Frende Forsikring's head office is in Bergen. In 2017, Frende Holding AS achieved a profit after tax of NOK 245.2 million, of which the contribution from Frende Skade amounted to NOK 101.2 million, and from Frende Liv to NOK 145.8 million.

## CORPORATE SOCIAL RESPONSIBILITY

The bank's overall strategy states that Sparebanken Øst wants to be community-oriented and have high ethical standards. This means that the bank has a responsibility within the community beyond creating commercial profits. It means that high ethical standards must be set, not only for the bank's employees, but also with regard to customers, suppliers and other stakeholders. The bank has stipulated ethical guidelines for employees and elected representatives of the bank and its subsidiaries. These rules provide instructions for correct conduct with regard to customers, the authorities, suppliers, competitors and colleagues. The rules are easily accessible on the bank's intranet pages and are subject to annual review with the employees.

**Human rights**
Basic human rights form the basis for and are governed by Norwegian legislation. Among other things, these include prohibiting discrimination on the grounds of sexual orientation, gender identity and gender expression, prohibiting discrimination due to ethnicity, religion and beliefs, and prohibiting discrimination due to physical disability. The bank has implemented no special measures in this area beyond ensuring general compliance with the legislation and regulations.

**Employee rights and social conditions**
The employee rights and social conditions of the bank's employees are ensured through central and local agreements with employee organisations, which are subject to annual negotiations, as well as other legislation and regulations.

Our purchasing routines state that the bank, through its influence as a customer, must influence our suppliers to provide us with ethically responsible products and services. Follow-up measures include ongoing control of the pay and working conditions offered to subcontractors within especially exposed industries.

The bank's suppliers of products and services must confirm via a self-declaration form that they do not contribute to any breaches of human and employee rights, adverse environmental impacts or corruption.

**The external environment**
The bank utilises district heating where possible and electrical heating in the bank's buildings where it is not. This means that the bank's buildings cause very limited pollution in the external environment. The bank is currently not considering any further measures in this area. The bank's input factors and products have a limited impact on the external environment.

**Combating corruption**
The ethical rules include due diligence requirements with regard to suspicious transactions by customers. Through our measures against money laundering and the financing of terrorism, we follow up all suspicious transactions, including possible corruption payments. Suspicious transactions are reported to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime

(ØKOKRIM). The money laundering regulations include strict rules for the identification and verification of a customer's identity. Comprehensive internal checks have been established to ensure compliance with the money laundering regulations. The bank practises a zero tolerance policy with respect to breaches of the money laundering regulations. The scope of the internal checks will be maintained at a high level going forward.

**Corporate social responsibility**
Since the bank exclusively operates nationally and with customers that generally do the same, these are regarded as satisfactory measures with regard to the follow-up of human rights, employee rights, social conditions, the external environment, and combating corruption.

## RISK MANAGEMENT AND INTERNAL CONTROL

In accordance with section 13-5 (1) of the Financial Institutions Act, the bank must be organised and operated in a responsible manner. This involves having a clear organisational structure, clear division of responsibilities, clear and appropriate management and control systems, and appropriate guidelines and routines for identifying, managing, monitoring and reporting risks to which the bank is or may be exposed.

The bank's board and executive management team bear ultimate responsibility for risk management and internal control. The Board adopts the overall risk strategy and approves principles for monitoring, control, and risk thresholds. The executive management team regularly reports to the board on all significant risks, including the actual level of risk compared to established limits. An annual report on internal control, including confirmation that internal control has been carried out, is also produced together with an overall annual risk assessment.

Risk management must support the bank's development and achievement of objectives, and must ensure financial stability and responsible business operations. This must be achieved via a risk profile that must be characterised by a strong risk culture and a high awareness of risk management. Risk tolerance is quantified within the individual risk areas. The bank must have sufficient capital based on the selected risk profile. The process for risk management and internal control within the bank is described in more detail in the 'Risk management and internal control' section of the 'Corporate Governance of Sparebanken Øst' section in this annual report.

## RISK AND CAPITAL SITUATION

**Credit risk**
Sparebanken Øst has prepared a credit strategy that deals with various types of credit risk related to loans, credits and guarantees granted to customers in the retail and business markets, as well as counterparty risk for securities.

The credit strategy is intended to help ensure that the bank’s activities in the credit area are in line with the framework conditions and guidelines in the bank’s overall business concept and strategic plans, including ensuring that the activities are prudent in relation to the bank’s capacity and willingness to bear risk.

The strategy is intended to ensure that the bank's management of credit risk complies with the requirements stipulated by Acts, Regulations, directives from the authorities, and other regulatory conditions. This in turn is intended to ensure that the quality and composition of the established credit portfolio contributes to profitability in both the short and the long term.

The principles in the strategy document are detailed in the bank’s credit manuals and established instructions.

Within the retail and business markets, the capacity and willingness to pay are key aspects of credit assessment. The risk associated with loan commitments is measured and followed up by risk classifying customers. Risk classification has been established as an integral element of the credit process, and the requirement for the annual reclassification of loan commitments is met.

Credit risk trends are continuously monitored through administrative reports for the bank's executive management team and quarterly reports for the bank’s board.

The bank's geographical catchment area offers both the retail and business departments a large market area with flexibility in terms of customers and segments. In order to ensure the quality of the credit assessments in a branch-based organisational structure, all authorisations to grant credit in the retail market have been established in a central credit department. In the business market, local authorisations in the line are subject to limits. All cases that exceed the established line authorisations are processed by a central credit department. The bank's loan portfolio to retail customers and businesses is primarily spread across the central Eastern Norway region. A small proportion of lending to business customers contributes to a low sector concentration risk. The bank has almost no direct exposure to the oil or oil services industries. Exposure to property and property development has over time accounted for a relatively large share of the business portfolio, but measured as a share of the group's total lending portfolio this exposure accounts for a limited share of the bank's total lending portfolio.

Loans and credit facilities extended to the retail market primarily concern commitments against mortgages on real estate within appropriate loan-to-value ratios. The bank has implemented the Mortgage Regulations in the current credit manuals. The bank has low exposure to loans/credit facilities without related collateral. In 2017, the bank implemented the Financial Supervisory Authority of Norway’s guidelines for responsible lending practices for consumer loans.

Investments in interest-bearing securities for liquidity purposes are linked to the financial strategy adopted by the board. The adopted strategy specifies risk tolerance, allocation of asset classes, frameworks and mandates. Furthermore, a significant proportion of the portfolio must be suitable to act as collateral for lending from Norges Bank. When investing funds in certificates and bonds, risk is assessed on the basis of the liquidity of the securities, the issuer's rating and other counterparty-specific factors. Interest-bearing securities are booked at market value so that changes in risk are continuously reflected in the annual financial statements. Disregarding unrealised value changes, there have been no credit losses on the securities portfolio in 2017.

**Market risk**
Interest risk is kept within fixed limits and is limited since assets and liabilities are subject to variable rates or have been changed to variable rate terms. The credit spread risk, or the risk of margin changes on fixed-income securities, is managed such that the loss upon a change in the credit spread does not exceed a fixed level. Currency risk is reduced by entering into futures or basis swaps and kept within set limits. Exposure to equity instruments beyond the bank's subsidiaries and strategic investments is limited.

**Liquidity risk**
The bank has a conservative attitude towards liquidity risk in which a long-term, proactive view in relation to future maturity is a fundamental factor. The bank has limits that ensure compliance with the authorities' requirements concerning the liquidity buffer (LCR) and long-term funding (Liquidity Indicator 1). The bank's liquidity prognosis as at the end of 2017 shows adequate liquidity for a period of more than 12 months of operations. Deposits are a key source of funding for the banks. Competition for deposits has intensified in the last few years. The bank's product range, particularly Topprente.no, helps ensure the bank's necessary competitiveness in deposits.

Sparebanken Øst Boligkreditt AS is an integrated element of the group's financing structure and provides opportunities to issue covered bonds. This further strengthens the group's funding situation.

The Norwegian bond market is the most important funding source for the group. The market for covered bonds has become a central part of the Norwegian securities market. Covered bonds provide security to investors in the form of preferential rights to low-risk mortgages. The market is attractive for Norwegian institutional investors because the supply of Norwegian government debt is low, but foreign players also invest in such bonds. Through the issuance of covered bonds, the group secures access to external capital, often with a somewhat longer maturity than senior unsecured bonds. There is therefore an focus on facilitating the issuing of covered bonds.

**Operational risk**

Operational risk is the risk of losses resulting from inadequate or failing internal processes or systems, human error or external events.

Management and control of operational risk is safeguarded through the strategy for comprehensive risk management. The strategy is adopted by the board and evaluated at least once annually. The strategy clearly defines who is responsible for the establishment and implementation of the internal control. The strategy defines a risk tolerance quantified by number of incidents and maximum losses resulting from operational risk. Risk tolerance is determined based on estimated risk and incident history as set out in the established incident database. Ethical guidelines have been adopted and shall pursuant to the instructions be reviewed with all employees at least once a year. Such reviews must be confirmed by the managers in connection with the annual confirmation of the completed internal control. A clear organisational structure has been established with clear lines of responsibility. The required division of labour has been introduced as part of the internal control. Independent control functions have been established with responsibility for internal audit, risk management and compliance.

An annual review of all work processes in the organisation will be carried out where the associated potential risks are identified and the necessary measures to eliminate/reduce open risks will be defined. This is registered in a joint risk register divided by categories and the risk level will be assessed according to a fixed scale. The review starts at the department level and is evaluated at the manager level. This is called a Key Process Review at Sparebanken Øst. Measures can include a division of tasks, establishment of routines, line controls etc. The managers must confirm each year that they have carried out the internal control, including actions taken as defined in the Key Process Review.

Internal guidelines for outsourcing have been established. Written agreements have been prepared to ensure inspection, control and auditing.

An incident database has been established that shows incidents with any loss grouped by category. Incidents with follow-up actions are reported to the board each quarter. In the ICT area, dedicated management systems have been established according to the ICT regulations based, e.g., on risk and vulnerability analyses and COBIT analyses. Continuity and contingency plans have been drawn up in the area along with routines for operations, development, procurement, non-conformance and change management, and outsourcing.

A money laundering officer has been appointed in the bank. Anti-money laundering routines have been prepared along with routines for identification and customer control that safeguard risk classification requirements and execution of the customer control.

Contingency plans have been prepared to cover all of the bank’s operations. The contingency plans are tested on a regular basis.

The Group has not registered any significant losses due to the failure of internal processes, systems, human error or unforeseen events in 2017.

**Assessment of overall risk and capital requirements**
The bank's board assesses the need for equity based on an overall risk assessment through ICAAP. The assessments are carried out at a company and a group level and are forward looking. The group's target for primary capital is set at a level that enables growth and plans for growth in lending and other assets. Otherwise, there is a heavy focus on maintaining the prudent management of commercial operations so that the group can achieve good results and satisfactory returns on invested capital over time. This ensures that the bank remains attractive to investors and helps to ensure the group access to capital when required to strengthen its equity. The bank currently has no plans concerning new equity issues.

The capital adequacy ratio measured as CET1 capital amounted to 17.49 per cent at the end of 2017 and is an increase from 17.21 per cent at the end of 2016. On calculating the CET1 capital, as of the end of 2017 it is also adjusted for deductible items such as 'deduction for goodwill' on the valuation of Frende Holding AS. On the basis of its legal authority under Section 13-6 of the Norwegian Financial Institutions Act, the Financial Supervisory Authority of Norway has decided that the bank's Pillar 2 requirement will be set at 2.3 per cent of the calculation basis. The Pillar 2 requirement is linked to risk factors that are not covered by Pillar 1 and which must be covered by CET1 capital. The requirement came into effect on 30 June 2017. Given the current level of the countercyclical buffer of 2.0 per cent, this entails a total CET1 capital requirement of at least 14.3 per cent. Sparebanken Øst's CET1 capital ratio target is a minimum of 14.5 per cent.

There is a proposal from the Financial Supervisory Authority of Norway for a new method of assessment of ownership risk related to interests in fully- and partly-owned insurance companies. The proposed method consists of calculating a total capital requirement, adjusted for Pillar 1's calculated requirements. Sparebanken Øst's calculations estimate that the new method would entail an increased Pillar 2 requirement of approximately 44 basis points.

Net primary capital amounted to NOK 3,841.5 million at the end of 2017, of which the Group's Tier 1 capital amounted to NOK 3,491.6 million. With a calculation basis of NOK 17,960.0 million, this corresponds to a capital adequacy ratio of 21.39 per cent, of which 19.44 per cent constitutes the Tier 1 capital ratio. The bank uses the standardised approach to calculate the minimum primary capital requirement for credit risk.

The Tier 1 leverage ratio amounted to 9.23 per cent at the end of 2017, compared with 9.24 per cent at the end of 2016. The Ministry of Finance resolved on 20 December 2016 to require a Tier 1 leverage ratio for banks totalling 5.00 per cent. This requirement applies as from 30 June 2017.

## RATING

In October 2017, Moody's Investors Service upgraded Sparebanken Øst's 'long-term deposit' and 'issuer' rating from A3 to A2. Moody's simultaneously upgraded the bank's 'counterparty risk assessment' (CRA) from A2 to A1. There are stable prospects for all ratings.

## MACROECONOMIC DEVELOPMENTS

In 2017, global growth picked up from the previous year and unemployment is lower in many countries that have struggled with repercussions from the financial crisis, including many of Norway's most important trading partners. Low inflation and low interest rates still characterise the financial markets, and the central banks face a challenge when expansive monetary policies over many years are gradually reversed.

The United States has already carried out several interest rate hikes, and the FED has cut back on its measures. ECB is scheduled to conclude its extraordinary purchases of securities in 2018. The elections in the Netherlands, Italy and France ended without far right majorities, and Merkel remains the Chancellor of Germany. In March, the United Kingdom announced its departure from the EU, and since then Prime Minister May has been negotiating the conditions for a new agreement with the Union after its exit. The political news throughout the year was marked by President Trump and the United States' role in global economics, while the US economy has seen high growth and strong optimism in the stock market. Geopolitically, 2017 was particularly characterised by two situations: tension between China and the United States after threats to the latter from North Korea and the expulsion of IS from their power bases in Iraq and Syria. China continues to pursue global growth, although a slightly lower growth rate is expected going forward.

Oil prices rose considerably throughout the year, and it is believed that oil investments will increase somewhat over the next few years in Norway, where cost cuts in the oil sector have also yielded profitability at a lower price level than in the past.

Growth in Norway's mainland economy improved in 2017 after 2016, which was the weakest year since the financial crisis. In 2017 we saw an increase in production, consumption, export and employment. Registered unemployment has fallen throughout the country, and seasonally adjusted it is now at the same level as in May 2012. Housing investment was also high in 2017, following several years of strong growth in house prices. However, housing prices began to decline in the first quarter, especially in Oslo, which is probably connected with the authorities' tightening of the Mortgage Regulations since the previous turn of the year. This may affect housing starts going forward.

The exchange rate for the krone has strengthened somewhat, but is still lower than previously assumed. Inflation is, as expected, low, and is a contributing factor to Norge's Bank decision not to raise the key interest rate yet. However, the central bank has signalled that further economic growth at the expected level may lead to an interest rate increase in 2018.
Fiscal policy was also expansive in 2017, spurring growth. Covered by a withdrawal from the oil fund, the non-oil deficit in the state budget for 2017 amounted to 2.9 per cent. This was close to the revised fiscal rule, which was lowered from 4 to 3 per cent. An assumed lower future real return from the fund could mean a lower contribution to the state budgets in the years to come.

## EMPLOYEES, MANAGERS AND THE BOARD OF DIRECTORS

At the end of 2017 the group had 191 employees, equivalent to 181 FTEs, compared with 222 employees and 209 FTES at the end of 2016. The average age of employees in the parent bank was 49. The proportion of female employees was 65%. The proportion of women in management positions was 40% at the end of the year. The average age of employees in management positions was 48. The bank believes it is positive that it can recruit people to management positions internally. All employees in the bank are offered the same opportunities in terms of advancement and personal and professional development. The bank's overall strategy includes organisational and employee development targets and stipulates that it must be sought to achieve equal opportunities in every area of the bank. Equal opportunities are protected by central and local agreements with employee organisations, as well as other legislation and regulations. A special function has been established as an equal opportunities contact in the bank under the auspices of the employee organisations. Pål Strand is the company's CEO. He has extensive experience from various professional and management roles within the bank and has been a member of the bank's executive management team since 2003. In 2017, the executive management team consisted of the following seven people:

**Pål Strand**, born 1965
CEO
Bank employee since 1984

**Thor-Henning Bråthen**, born 1981
CFO from 14 August 2017
Bank employee since 2017

**Jan-Roger Vrabel**, born 1971
Director - Retail Market
Bank employee since 2011

**Arnljot Lien**, born 1965
Director - IT and Business Support
Bank employee since 2001

**Kjell Engen**, born 1969
Deputy CEO
Bank employee since 2003

**Per Øyvind Mørk**, born 1965
Director - CSR and Communication
Bank employee since 2011

**Lars-Runar Groven**, born 1966
Director - Business Market and Credit
Bank employee since 1992

Of the bank's eight elected board members, four are women. The following sat on the board of directors in 2017: Øivind Andersson (chair from 31 March 2017), Jorund Rønning Indrelid (chair until 30 March 2017), Knut Smedsrud (deputy chair), Morten A. Yttreeide, Elly Therese Thoresen, Hanne Margrete Lenes Solem, Kari Solberg Økland (from 31 March 2017), Inger Helen Pettersen (employee) and Ole-Martin Solberg (employee).

**Øivind Andersson**, born 1956
State authorised public accountant
Board member since 2015, chair from 2017
Previously a deputy member of the board of trustees and chair of the bank's control committee.

**Knut Smedsrud**, born 1960
Director
Board member since 2009
Deputy chair of the board since 2009
Previously a deputy member of the board.

**Elly Therese Thoresen**, born 1957
Project Manager
Board member since 2012
Previously a member of the board of trustees.

**Kari Solberg Økland**, born 1960
Adviser
Board member since 2017
Previously a member of the board of trustees.

**Morten André Yttreeide**, born 1967
Managing director
Board member since 2012
Previously a deputy member of the board.

**Hanne Margrete Lenes Solem**, born 1966
Head of Finance and Administration Department
Board member since 2010
Previously a deputy member of the board.

**Ole-Martin Solberg**, born 1978
Employee
Board member since 2016
Previously member of the board of trustees and a deputy member of the board.

**Inger Helen Pettersen**, born 1953
Employee
Board member since 2013
Also board member 1999-2011, as well as former attending deputy member

**Board members' attendance at board meetings in 2017:**

| | |
|---|---|
| Øivind Andersson | 17 of 17 meetings |
| Knut Smedsrud | 12 of 17 meetings |
| Elly Therese Thoresen | 16 of 17 meetings |
| Hanne Margrete Lenes Solem | 15 of 17 meetings |

| | |
|---|---|
| Morten André Yttreeide | 17 of 17 meetings |
| Kari Solberg Økland | 10 of 10 meetings (from 31 March 2017) |
| Jorund Rønning Indrelid | 4 of 7 meetings (until 30 March 2017) |

**Employee representatives**

| | |
|---|---|
| Inger Helen Pettersen | 14 of 17 meetings |
| Ole-Martin Solberg | 17 of 17 meetings |

## HEALTH, SAFETY AND ENVIRONMENT

The bank ensures that statutory health, safety and environment (HSE) requirements are implemented in a systematic manner, including via established procedures and a close cooperation with the occupational health service.

Follow-up care in connection with robberies is included in the bank's overall HSE work and is addressed by a special follow-up team. No personal injuries were registered in 2017.

Total sick leave in 2017 amounted to 4.13% of total working hours, compared with 4.34% in 2016. The sick leave rate was 3.60% for men and 4.44% for women in 2017.

## MEASURES AGAINST MONEY LAUNDERING AND THE FINANCING OF TERRORISM

The requirements for anti-money laundering and terror financing measures are stipulated in the Act on money laundering and terror financing, etc. The purpose of the Act is to prevent and uncover transactions with links to proceeds from criminal offences or with links to the financing of terrorism. One important principle in the Act is that banks should be familiar with their customers and their activities.

Sparebanken Øst has established routines and controls to ensure compliance with the Act. These include rules concerning checks of new and existing customers and investigations of suspicious transactions. The bank regularly conducts training of all employees in the position of customers in the regulations. In addition, all employees also undergo compulsory e-learning about anti-money laundering and terror financing measures.
Risk-based customer controls and continuously monitoring the customer base are important measures in the bank's work on money laundering and terror financing, where the risk is assessed based on the type of customer, customer relationship, product, or transaction. New customers undergo customer checks before a customer relationship is established in accordance with the rules concerning checks of ID papers and storing ID documents.

The bank continuously monitors all transactions conducted by its customers. Suspicious transactions are reported to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM). In 2017, 34 cases were reported to Økokrim.

## DIVIDEND POLICY

Sparebanken Øst's financial aims for its operations are to achieve results that provide a good and stable return on the bank’s equity, and create value for equity certificate holders as competitive returns in the form of dividends and equity certificate appreciation. The profit for the year will be divided between equity certificate holders and social capital in accordance with their respective shares of the bank’s equity.

Sparebanken Øst will endeavour to pay 50 to 75 per cent of the profit allocated to equity certificate holders as dividends. Sparebanken Øst also aims to distribute an amount equivalent to 50 to 75 per cent of the dividend paid to equity certificate holders as dividend to social capital in the form of gifts to charitable causes. On determining dividends and donations, due consideration will be made of the bank's financial performance, market situation, dividend stability, and need for Tier 1 capital.

## OUTLOOK

The outlook for the Norwegian economy in 2018 is better than in 2017. The Norwegian economy is influenced positively by our trading partners' increased economic growth and declining unemployment. In several of the countries, unemployment is now lower than before the financial crisis and there are expectations of a future increase in international economic growth. Low interest rates, improved competitiveness and an expansive fiscal policy have contributed to strengthening the Norwegian economy. Employment has increased and unemployment has declined, while oil prices have risen. High growth in housing prices and debt has made households more vulnerable and housing price drops, especially in the Oslo area, have enhanced this risk. The introduction of mortgage regulations and the upswing in the Norwegian economy may, however, cause any further decline in housing prices to be limited, thereby reducing the risk for the households.

Sparebanken Øst mainly has activities in Eastern Norway, where it also expects a better economic situation than in 2017. Housing prices in the Oslo area are not expected to fall as much in 2018 as in 2017.

The Group's capital is very robust and provides growth opportunities and high potential dividends. The CET1 capital ratio target has been set at 14.5 per cent. The Group also has a sound liquidity buffer that will provide security if the banks' access to funding is challenged during the year. The bank's long-term funding target is 106 per cent of illiquid assets. Again in 2018, the Group expects to be able to obtain new funding with margins at the level of those of the major regional banks. Sparebanken Øst believes that it holds a good position in the equity certificate market and aims to ensure simple, open communication with its investors. The bank's target for its return on equity has been set at 10 per cent over time.

Growth in lending to and deposits from customers will depend on the general competition in the banking market, as well as the access to long-term funding. The bank expects growth in lending to both retail and business customers in 2018. This growth is expected to be distributed relatively evenly across the various distribution channels. Growth in lending to retail customers will primarily come from home mortgages and the financing of second-hand cars against sales mortgages. Growth in lending to business customers will be seen in the Group's defined market areas, of which the main product is repayment loans against mortgages in real estate. Various capital requirements between banks domiciled in Norway and other countries affect the terms of competition, and thereby the profitability associated with such lending for Sparebanken Øst.

Banking involves risk, and non-performance and losses on loans and guarantees to customers therefore cannot be excluded. A low level of defaulted and non-performing exposures, and low loan losses, are also expected in the coming year.

The market values of securities such as bonds and equities will fluctuate over time, and losses on shares may occur. The Group's bond portfolio is held for liquidity purposes, with a low risk of losses.

Intense competition is expected in the banking market in 2018, and for Sparebanken Øst this concerns products related to lending, savings, payments and insurance. The bank expects continued pressure on margins for loans to retail and business customers. A sustained low interest rate level is exerting pressure on the interest rate differential between loans and deposits. The Group's earnings and return on equity will depend on macroeconomic trends, the Group's competitiveness, and the development in deposit margins during the coming year.

New accounting standards were introduced on 1 January 2018 for the recognition and measurement of financial instruments (IFRS 9). The new standard entails changing the rules for write-downs of loans and means that provisions are to be made for expected future losses. The group has completed work on establishing the principles and model for loss provisions and the implementation effect as at 1 January 2018 is estimated to represent a reduction of NOK 5.8 million in the group's loss provision. In addition, reference is made to the annual accounts' policies note for further discussion of implementation effects.

Hokksund, 31 December 2017
Drammen, 1 March 2018

| | | |
|---|---|---|
| Øivind Andersson<br>Chair | Knut Smedsrud<br>Deputy Chair | Morten A. Yttreeide<br>Board member |
| Hanne Margrete Lenes Solem<br>Board member | Elly T. Thoresen<br>Board member | Kari Solberg Økland<br>Board member |
| Ole-Martin Solberg<br>Employee representative | Inger Helen Pettersen<br>Employee representative | Pål Strand<br>CEO |

# CORPORATE GOVERNANCE

Savings banks are self-owned foundations. The Norwegian Code of Practice for Corporate Governance was drawn up by the Norwegian Corporate Governance Board (NUES) for limited companies owned by shareholders with shares listed on a regulated market in Norway. The standard applies to savings bank in so far as it is appropriate. The board of trustees is the supreme governing body of Sparebanken Øst. The board of trustees corresponds to the general meetings of limited liability companies. The board of trustees is elected from among the equity certificate holders, employees, depositors, and municipal nominees from Drammen, Nedre Eiker and Øvre Eiker. Each member of the board of trustees has one vote. The purpose of the NUES Code of Practice is to ensure that companies that are listed on regulated markets in Norway practise corporate governance that clarifies the division of roles between shareholders, the board, and day-to-day management beyond that which follows from the law. In a savings bank there is also a need to clarify roles in relation to employees, customers, and municipally appointed trustees. This is addressed through Sparebanken Øst's articles of association.

The board of directors (the board) and executive management team of Sparebanken Øst annually assess the corporate governance principles and how they are practised and complied with in the organisation. Sparebanken Øst first submits a report on the corporate governance principles and practice in accordance with section 3-3b of the Accounting Act. This is followed by a report with comments on each section of the Norwegian Code of Practice. The review is based on the latest revised version of the Code of Practice of 30 October 2014.

## REPORT ON CORPORATE GOVERNANCE

The description below describes how section 3-3b (2) of the Accounting Act is complied with in Sparebanken Øst. The structure refers to the numbering in the section.

**1-3. Statement on the corporate governance recommendations and regulations to which Sparebanken Øst is subject or follows**
Savings banks must be licensed and are subject to extensive regulations governing the savings bank's activities. The Financial Supervision Act and Financial Institutions Act, and associated Regulations, play a central role in this context. These regulations define, to a very great extent, what is regarded as good corporate governance in financial institutions. Savings banks are subject to the supervision of the Financial Supervisory Authority of Norway. Sparebanken Øst also complies with the Norwegian Code of Practice for Corporate Governance published by the Norwegian Corporate Governance Board (NUES) in so far as this is appropriate. Deviations may be necessary in order to safeguard all stakeholders in the savings bank. The Code of Practice is available at www.nues.no. Any deviations from the Code of Practice are commented on.

**4. Description of the main elements of the savings bank's internal control and risk management systems relating to the financial reporting process**
See the section on 'Risk management and internal control' below.

**5. Provisions in the articles of association that fully or partly extend or waive provisions in chapter 5 of the Public Limited Companies Act**
Sparebanken Øst is governed by the Financial Institutions Act and its articles of association comply with this.

**6. The composition of executive bodies and a description of the key elements of applicable instructions and guidelines for the work of the bodies and any committees**
See the sections entitled 'The board of trustees', 'Nomination committees', 'Corporate assembly and board of directors: composition and independence' and 'The work of the board of directors' below.

**7. Provisions of the articles of association governing the appointment and replacement of members of the board of directors**
See the section on 'Corporate assembly and board of directors: composition and independence' below.

**8. Provisions of the articles of association and delegation of authority entitling the board of directors to make decisions to buy back or issue own shares or own equity certificates**
See the section on 'Company capital and dividends' below.

## CORPORATE GOVERNANCE

**Report on corporate governance**
The corporate governance of Sparebanken Øst contributes to safeguarding the interests of employees, depositors, equity certificate holders and other external stakeholders in Sparebanken Øst. Corporate governance is the overall responsibility of the board of directors (the board) and must ensure that bodies and functions comply with the regulations and that the business activities are managed in an effective and purposeful manner over time.

The management of Sparebanken Øst is based on its adopted vision, company mission, objectives, strategies, and core values. See the section on 'Strategy and goals' in the annual report for 2017, including the savings bank’s ethical guidelines as determined by the board. The introduction to the rules states:

*“Sparebanken Øst and the other savings banks play a central role in modern society. We are more dependent on trust from all groups than other businesses. Of course trust is not just based on solidity and profitability, but also attitudes and the conduct we as a bank demonstrate. We cannot act independently of our surroundings. We have to be accepted by the market. To achieve this there must be no doubt about our standard of ethics.*

*The standard of ethics in Sparebanken Øst is the employee's responsibility. It is of course also the responsibility of the executive management team and elected representatives. Via their conduct, managers determine how high these standards are set, although managers alone cannot ensure a high standard of ethics. Everyone contributes to determining the standard of ethics in the bank. This is our shared challenge.*

*In Sparebanken Øst we require loyalty, integrity and openness among managers and employees. There is scope for disagreement in internal discussions and deliberations, but once a decision has been taken all employees are expected to loyally stand by the decision.”*

Sparebanken Øst must be development-oriented, with a local anchoring, as well as sound, far-sighted and credible. Sparebanken Øst’s corporate social responsibility is anchored in statutes and guidelines. The savings bank’s overall strategy clearly states that Sparebanken Øst is to be community-oriented and have a high standard of ethics. The savings bank must be a contributor to value creation and sustainable development, both through the group's ordinary operations and the bank's social dividend, especially in the municipalities of Øvre Eiker, Nedre Eiker, and Drammen. The board of trustees is the savings bank’s supreme body. The composition of the board of trustees is specified in the articles of association and exhibits clear corporate social responsibility to the local community through its very composition, which ensures equal representation for depositors (elected by the depositors), the local community (elected by the local municipality) and the employees, as well as the equity certificate holders.

The management is addressed by the savings bank's elected bodies and functions that have been assigned responsibilities. Solid expertise in the savings bank's core activities and an appropriate organisation based on retail and corporate market activities, financial operations, IT operations and special commitments, respectively, provide the basis for effective and target-oriented operations in Sparebanken Øst. The savings bank also has sound in-house legal expertise. The framework for corporate governance in savings banks is laid down in a comprehensive body of legislation and Regulations. The body of regulations consists of special regulations for financial institutions that are in a number of areas significantly more comprehensive than general corporate statutory regulations and recommendations directed at limited liability companies in general. The special regulations pertain to supervisory requirements, licences, the nature of the business, equity and dividends, composition and responsibility of governing bodies, risk management and control in relation to acquisitions, mergers, etc.

Sparebanken Øst practices a 'comply or explain' principle with regard to the Code of Practice (NUES), meaning that any deviations from NUES are commented on. In this respect we take into account the fact that savings banks are self-governing institutions and that the governance structure and composition of the governing bodies differ significantly from those in limited liability companies. Presentations, quarterly reports, etc. are available from www.oest.no under 'Investor Relations'.

**Business**

Sparebanken Øst's overall activities are presented in the articles of association. Sparebanken Øst's purpose is to perform the usual, natural transactions and services that a savings bank can perform in accordance with the applicable legislation and its licences at any given time.

The savings bank can own stakes in other financial institutions, as well as in companies that run activities with a natural connection to banking and financing activities, in accordance with the provisions of the Financial Institutions Act and other Acts in effect at any given time. The savings bank can also own shares in other companies, but may not operate or participate actively as a responsible party in companies that operate activities other than those stated in this section, unless this is temporary and is necessary to secure the savings bank's claims. The savings bank's activities are executed within the framework specified in the concession for running a savings bank, and according to the provisions of the Financial Institutions Act, and other Acts and Regulations applying to savings banks.  For a further description of the business, please see the board's 'Board of Directors' Report for 2017'.

**Company capital and dividends**

Company capital

The board continuously assesses the capital situation in the light of the company's mission, strategy and desired risk profile. The minimum requirement for equity for savings banks is stipulated in section 14-1 of the Financial Institutions Act. The requirements concerning a capital conservation buffer, systemic risk buffer and countercyclical capital buffer are governed by section 14-3 of the Financial Institutions Act. The group's CET1 capital ratio target has been set at 14.5 per cent. For further details of the rules regarding capital adequacy, which principles are used as the basis for the assessment of capital requirements, and a further specification of the elements in the savings bank's capital adequacy, reference is made to the savings bank's pillar 3 reporting on risk management, risk exposure and solidity conditions, which is published on the savings bank's website. The Financial Supervisory Authority of Norway supervises the savings bank in order to ensure it is operating with financial strength commensurate with its actual level of risk. The dividend policy is summarised in the directors' report. The board of trustees has granted the board of directors authorisation to acquire and/or pledge security in its own equity capital certificates. The authorisation is valid for 18 months from 30 March 2017 and is subject to annual review. The Norwegian Financial Authority has approved the authorisation. For practical reasons, the savings bank deviates from the NUES recommendation that such authorisations apply for one year.

*Capital increases*

The board of trustees has not granted the board of directors a general authorisation to increase the savings bank's capital. If the savings bank requires increased capital this will be considered as a separate matter at a meeting of the board of trustees. Decisions to increase the equity share capital must be approved by the Financial Supervisory Authority of Norway, cf. section 10-4 (3) of the Financial Institutions Act.

**Equal treatment and transactions with close associates**

Equal treatment
Sparebanken Øst has one class of equity certificate. The savings bank's equity certificates are listed on the Oslo Stock Exchange in line with the rules laid down by the financial legislation. All equity certificate holders have the same rights. In 2017, no transactions took place between the savings bank and the equity certificate holders and their close associates other than loans, deposits and payment settlement, as well as salaries/fees to employees and elected representatives who are equity certificate holders.

Preferential rights
The equity certificate holders' preferential rights in the event of capital increases are stipulated in section 10-10 (3) of the Financial Institutions Act. This states that in the event of an increase in equity share capital, equity certificate holders have a preferential right to subscribe to new equity certificates on a pro rata basis according to their existing ownership of equity certificates issued by the institution. Section 10-5 of the Public Limited Liability Companies Act concerning setting aside preferential rights applies correspondingly.

Transactions with close associates
The savings bank's ethical rules stipulate that board members and employees have a duty to state whether they have, directly or indirectly, significant interests in agreements entered into by the savings bank (the group). No such notifications were received in 2017.

**Freely negotiable equity certificates**
The savings bank's equity certificates are freely negotiable on the Oslo Stock Exchange. No restrictions on ownership apply other than the applicable rules in the Financial Institutions Act concerning ownership restrictions and licensing obligations and the rules in the articles of association concerning board approval for purchases of equity certificates that apply to equity certificate holders in Sparebanken Øst.

**The board of trustees**
The board of trustees shall ensure that the savings bank acts in line with its purpose in accordance with laws, its articles of association and decisions adopted by the board of trustees. The board of trustees adopts the financial statements and approves the remuneration of the savings bank's elected representatives, including the board of directors, nomination committee and elected auditor. The board of trustees appoints the nomination committee from among the members of the board of trustees. Pursuant to the articles of association, the following matters shall be considered by the ordinary board of trustees:

- Election of the board of trustees' chair and deputy chair.
- Approval of the annual financial statements and annual report, including the allocation of profit/distribution of dividends.
- Other matters that pursuant to law or the articles of association fall under the purview of the board of trustees

Composition
The composition of the board of trustees is stated in the articles of association. Local corporate social responsibility is exercised via the composition of the board of trustees, in which depositors (elected by the depositors), the local community (elected by the municipality), equity certificate holders, and the employees are represented. The board of trustees consists of a total of 32 members with 23 deputy members. Eight members are elected by depositors with three from Øvre Eiker, two from Nedre Eiker, and three from Drammen. Four municipal representatives are elected: one member from Øvre Eiker, two members from Nedre Eiker and one member from Drammen. Eight members are elected by the employees, and 12 members are elected by the equity certificate holders. The members of the board of trustees are elected for terms of 4 years. The members of the board of trustees are elected in accordance with the Financial Institutions Act and the savings bank's articles of association. This entails that the position is personal and meetings may not be attended by proxy. NUES's recommendation on the use of

proxies at general meetings thus does not apply to equity certificate holders in Sparebanken Øst. In 2017, the chair of the board of trustees was Frank Borgen and the deputy chair was Lars M. Lunde.

Meetings

The board of trustees holds 1 fixed meeting every year. In addition, meetings of the board of trustees are convened as deemed necessary by the chair of the board of trustees. The board of trustees held two meetings in 2017. The board convenes board of trustees' meetings with at least 21 days' notice, cf. section 8-3 (1) of the Financial Institutions Act. Both the savings bank's auditor and the board of directors are invited to board of trustees' meetings. The board of trustees' meetings are chaired by the chair of the board of trustees, cf. the articles of association and the Financial Institutions Act, and thus comply with the recommendation for the independent chairing of meetings. The savings bank adheres to NUES in all aspects related to case documents, reminders, elections and the publication of protocols of the minutes of the meetings of the board of trustees.

**Nomination committees**

The savings bank's articles of association state that the nomination of members of the board of trustees and the board of directors must take place according to the recommendations of a nomination committee. There are three nomination committees in Sparebanken Øst:

1) Nomination committee for the board of trustees and the board of directors
2) Nomination committee for depositors
3) Nomination committee for equity certificate holders

The employees' representatives on the board of directors and the board of trustees are elected by and from among the employees, in accordance with Regulation no. 9386 of 23 December 1977. The nomination committee for the board of trustees has representatives from all groups that are represented on the board of trustees, which also includes equity certificate holders. The independence and impartiality in relation to the nomination committee of those elected must be taken into account and it is also important that the various nomination committees maintain their independence from the board of directors of the savings bank. The various nomination committees must also ensure that access to the required expertise is available with regard to the tasks faced by the nomination committee.

The nomination committee for the board of trustees and the board of directors is elected by and from among the members of the board of trustees.
The composition of the nomination committee is detailed in the savings bank's articles of association. NUES's recommendations in this respect are followed insofar as they comply with the articles of association. The recommendations of the nomination committee with regard to the board of trustees are described in accordance with NUES. Separate instructions have been prepared for the nomination committees, most recently adopted by the board of trustees at the meeting on 30 March 2017. In 2017 the nomination committee for the board of trustees and board of directors consisted of the following people:

Tom R. Svendsen, chair
Nina Paulsen
Jon Aas
Bent Inge Bye
Jan Christian Skau, employee (until 30 March 2017),
Anne Siri R. Jensen, employee (from 31 March 2017)

The savings bank fulfils the requirement that a majority of the members of the nomination committee are independent of the board of directors and other executive personnel. The savings bank's articles of association require that all members of the nomination committee are members of the board of trustees. NUES's recommendation that at least one member should not be a member of the corporate assembly, board of representatives (board of trustees) or the board of directors, is therefore not relevant.

In 2017, the nomination committee held separate meetings with both the chair of the board and the savings bank's CEO.

**Corporate assembly and board of directors: composition and independence**
Sparebanken Øst does not have a corporate assembly.

Composition of the board of directors
The board of directors consists of six external members and two representatives of the employees with voting rights. The CEO and deputy CEO are required to attend meetings, but do not hold voting rights.

The composition of the board of directors and the board members' backgrounds and participation in board meetings in 2017 are covered in the Board of Directors' Report for 2017. Detailed information concerning each board member can be found (in Norwegian) on www.oest.no/kontakt oss/styret og ledelse.

The CEO attended 17 of 17 board meetings and the deputy CEO attended 15 of 17 board meetings.

Election of the board of directors
The election of board members takes place on the basis of the deliberations of a nomination committee appointed by the board of trustees. The nomination committee prepares a recommendation to the board of trustees.

Board members are elected for 2 years at a time. The board of trustees nominates the chair and deputy chair. The expertise and work experience of the board members are presented to the board of trustees in connection with the election process.

Independence
The board of directors must act independently and the members of the board that are not employee representatives must be assessed to be independent of the savings bank's significant business relations and the savings bank's day-to-day management. None of the savings bank's executive personnel are members of the board of directors. The composition of the board of directors is diverse. Its expertise and abilities provide a basis for performing the necessary work of the board. The instructions for the board of directors state that the board shall act as a single unit. However, each individual board member is responsible for the decisions made and transactions undertaken by the board.

Board members' holdings of own equity certificates
The board members who hold equity certificates in Sparebanken Øst as at 31 December 2017 are listed in note 53 to the annual financial statements.

**The work of the board of directors**

The duties of the board
The board of directors oversees the savings bank's business in accordance with the Acts, Regulations, articles of association and further instructions issued by the board of trustees.

The board is responsible for the administration of the savings bank. The board shall ensure that the operations are properly organised, which includes ensuring compliance with the requirements concerning the organisation of the savings bank and the establishment of proper management and control systems.

The board shall establish plans and budgets for the savings bank's operations. The board shall also establish guidelines for the savings bank's operations, including rules for the duty of confidentiality that applies to information about the savings bank and its operations.

The board shall keep abreast of the savings bank's financial position and obligations, and ensure that its operations, accounts and asset management are subject to satisfactory controls. The board shall meet the auditor at least once a year, and otherwise as needed, without the CEO or other members of the day-to-day executive management team being present.

The board shall supervise the day-to-day management of the savings bank and all other aspects of its operations. The board shall lay down instructions for the day-to-day management of the savings bank and ensure that the CEO regularly briefs the board on the savings bank's operations, status and financial performance.

The board shall initiate the investigations it deems necessary to discharge its duties.

The board of directors is responsible for ensuring that the savings bank has, at any given time, the equity sufficient for the risks and scope of the savings bank's activities. The board of directors has delegated parts of the management responsibility to the administration through various delegation resolutions. These resolutions are given for different lengths of time. The board of directors also has established procedures and rules for the internal auditor, who undertakes operational audits in line with current standards for such audits. Sparebanken Øst's internal auditor is KPMG.

Duty of confidentiality

All elected representatives in Sparebanken Øst are subject to the same rules of secrecy, ethics, and impartiality as the rest of the savings bank's employees. Independence between the savings bank's different management and control bodies is a central criterion for the responsible management of the organisation. Among the elected representatives in Sparebanken Øst there exist – according to the board of directors' assessment – no close personal relationships that could influence the individual elected representative's independence and judgement.

Instructions for the board of directors

The board's duties and responsibilities are stipulated in the Financial Institutions Act and the articles of association. The board of directors has drawn up its own separate set of instructions, which are subject to regular review. The instructions were last reviewed on 16 January 2018. These instructions describe which responsibilities the board of directors has, which cases the board of directors will consider, and which rules apply to the consideration of cases.  The board of directors determines the instructions for the CEO, who is responsible for the day-to-day operations and management of the savings bank. The instructions for the board of directors and instructions for the CEO stipulate the division of responsibilities and tasks between the board of directors and the CEO.

Financial reporting

The board receives monthly reports that comment on the savings bank's economic and financial status, and include the CEO's monthly activity report. The monthly reports are the basis for internal management and communication concerning the status of the savings bank. The board of directors receives periodic reports that present the savings bank's compliance with the delegated authorisations, as well as quarterly reports presenting the development in the savings bank's total risk overview.

Annual plan

The board of directors prepares an annual plan for its work. The annual plan includes a meeting plan for the year, details of fixed tasks at specific meetings and a financial calendar. The board of directors completes a self-evaluation process each year. This evaluation includes the competence of the board members, the composition of the board of directors and the way in which the board of directors functions both as a group and individually. This self-evaluation is made available to the nomination committee for the board of trustees.

**Committees of the board of directors**

Remuneration committee

A remuneration committee has been established in the savings bank pursuant to the requirements in section 15-1, etc. of the Financial Institutions Act and section 15-1, etc. of the Regulations on financial institutions and financial groups.

The purpose of the remuneration committee is to prepare guidelines for the board of directors for the remuneration of executive personnel. They must also ensure that the company at all times has and practices guidelines and a framework for the remuneration scheme that are in accordance with the rules for the remuneration schemes of financial institutions, securities companies and securities funds' management companies. The committee executes its duties according to the guidelines determined by the board of directors. The committee nominates its chair. Its members are nominated by the board of directors. In 2017, the remuneration committee consisted of the following people:

Hanne Margrete Lenes Solem, chair
Jorund Rønning Indrelid (until 30 March 2017)
Øivind Andersson
Kari Solberg Økland (from 25 April 2017)
Inger Helen Pettersen, employee representative on the board of directors

The head of the HR department, Kristin W. Myhre, has been the committee's secretary. The board of directors has approved the remuneration guidelines for Sparebanken Øst.

Audit committee

In accordance with section 8-18 of the Financial Institutions Act, the savings bank has established an audit committee in line with the guidelines described by the Act. The members are elected by the board of directors and serve for one year at a time. The chair of the committee is appointed by the board of directors. The main duties of the audit committee are to prepare the board of directors' follow-up work on financial statements and reporting, to monitor systems for risk management, internal control and the work of the internal audit, and to assess and monitor the auditor's independence. The committee executes its duties according to the instructions determined by the board of directors. The audit committee held eight meetings in 2017, three of which were joint meetings with the risk committee. In 2017, the audit committee consisted of the following people:

Øivind Andersson, chair
Hanne Margrete Lenes Solem
Morten André Yttreeide

Risk committee

In accordance with section 13-6 (4) of the Financial Institutions Act, the savings bank has established a risk committee as described by the Act. The members are elected by the board of directors and serve for 1 year at a time. The chair of the committee is appointed by the board of directors. The risk committee's main task is to prepare for and advise the board of directors in relation to the savings bank's existing and future risk appetite and risk strategy, as well as to follow up and implement this strategy. The committee is also tasked with monitoring the extent to which the savings bank's pricing of products towards customers fully reflects the risk borne by the savings bank. The committee executes its duties according to the instructions determined by the board of directors. The risk committee held six meetings in 2017, three of which were joint meetings with the audit committee. In 2017, the audit committee consisted of the following people:

Øivind Andersson, (chair from 25 April 2017)
Morten A. Yttreeide, (chair until 24 April 2017)
Elly Therese Thoresen
Kari Solberg Økland (from 25 April 2017)

Minutes are kept of the meetings of the audit committee and the risk committee. The minutes are presented by the chairs of the committees to the full board of directors at the next meeting of the board of directors.

**Risk management and internal control**

Risk management must support the group's development and achievement of objectives, and must ensure financial stability and responsible business operations. This must be achieved via a risk profile that is characterised by a strong risk culture and a high awareness of risk management.

In order to ensure an effective and appropriate process for risk management and internal control, the group has used the COSO model as a basis.[1] This is a recognised framework for risk management and internal control. The basis of the model is that risk management and internal control apply to all parts of the organisation, and that an overall perspective is applied. Risk management and internal control cover both strategic and operative conditions, with particular focus on the quality of external reporting and compliance with Acts and Regulations. This is called comprehensive risk management. Sparebanken Øst uses the term comprehensive risk management, which it defines as follows:

"Comprehensive risk management is a process, carried out by the organisation's board of directors, executive management team, and employees, that is used for determining strategy and across the organisation, designed to identify potential events that could affect the organisation and to manage risk so it matches the organisation's risk tolerance in order to provide a reasonable degree of certainty with respect to achieving the organisation's targets."

The model is based on the following components:

<u>Internal environment</u>
The employees' attitude to risk is determined by the internal environment. This also includes the risk management philosophy and willingness to take risk, integrity, ethical values, and environment in which they operate.

<u>Establishment of objectives</u>
Objectives have to be determined before the executive management team can identify potential events that could affect their attainment. Comprehensive risk management ensures that the team has a process in place for establishing objectives and that the objectives chosen support and correspond with the organisation's purpose and reflect its willingness to take risk.

<u>Identification of events</u>
Internal and external events that affect the organisation's target attainment must be identified and one distinguishes between risks and opportunities. Opportunities are channelled back the executive management team's processes for determining strategies or objectives.

<u>Risk assessment</u>
Risks are analysed and probabilities and consequences are assessed to decide how they should be managed. Both inherent and residual risks are assessed.

<u>Risk management</u>
The executive management team selects forms of risk management – avoiding, accepting, reducing or sharing risk – and develops an action plan to ensure correspondence with the organisation's risk tolerance.

<u>Control activities</u>
Guidelines and routines are established and implemented in order to ensure that the risk management is executed effectively.

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[1] The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Information and communication

Relevant information is identified, processed and communicated in a form and a time perspective that makes it possible for employees to fulfil their responsibilities. Effective communication also takes place in a broader sense, both vertically and horizontally in the organisation.

Follow-up

The comprehensive risk management process is followed up and changed as needed. The follow-up is performed on an ongoing basis through management activities, independent evaluations, or both.

Roles and responsibilities

Organisation and control functions are in line with applicable legislation. The provisions concerning comprehensive risk management are found in the Financial Institutions Act, section 13-5, Prudent operation, good business practice. Section 13-5 (1) states that a financial institution shall be organised and run in a prudent manner.

The institution shall have a clear organisation structure and distribution of responsibilities as well as clear and appropriate governance and control arrangements. The institution shall have appropriate policies and procedures for identifying, managing, monitoring and reporting risk to which the institution is, or may become, exposed. A clear organisation with clearly defined areas of responsibility and authorisations is a key element in good risk management and internal control.

The board of trustees

The board of trustees is the bank’s supreme body. The board of trustees shall ensure that the savings bank acts in line with its purpose in accordance with laws, its articles of association and decisions adopted by the board of trustees. Pursuant to the articles of association, the following matters shall be considered by the ordinary board of trustees:

- Election of the board of trustees' chair and deputy chair.
- Approval of the annual financial statements and annual report, including the allocation of profit/distribution of dividends.
- Other matters that pursuant to law or the articles of association fall under the purview of the board of trustee, including the election of board members.

The board of directors

The board shall establish goals and strategies for the group and overarching guidelines for the operations. The board shall establish principles for comprehensive risk management for the group as a whole and within each business area. The board shall also ensure that comprehensive risk management is established and performed in compliance with Acts, Regulations, articles of association, instructions from the Financial Supervisory Authority of Norway, and guidelines issued by the board to the executive management team.

The board shall ensure that the group is properly organised, including ensuring that responsibilities are clearly allocated and duties divided as necessary. The board shall each year evaluate its work and its expertise in relation to the bank's comprehensive risk management.

The board must ensure that guidelines for planning and management are communicated and implemented throughout the group and ensure efficient follow-up. The board is responsible for ensuring that capital planning and managing capital requirements are part of the group’s overall risk management. The board shall determine risk tolerance and the necessary capital requirements, capital plan with contingency plans, and capital goals.

The board's audit committee

The audit committee is a preparatory and advisory committee to the board of directors and shall:

- Prepare the board of directors' follow up on the financial reporting process.
- Monitor the internal control and risk management systems and the institution's internal audit function.
- Issue a statement regarding the election of auditor.

- Maintain ongoing contact with the group's elected auditor on the audit of the annual accounts.
- Assess and monitor the auditor's independence and objectivity, including in particular the extent to which non-audit services that have been delivered by the auditor may have a bearing on the auditor's independence and objectivity.

The board's risk committee

The risk committee is a preparatory and advisory committee to the board of directors and shall:

- Prepare the board's assessment of risk and total capital requirements.
- Maintain regular contact with the risk management function and receive relevant reports from the institution's control functions.
- Review the institution's risk strategies at least annually.
- Monitor compliance with the institution's risk strategies.
- Assess whether the pricing of the institution's products takes account of the institution's business model and risk strategy.

Remuneration committee

A remuneration committee has been established in the savings bank pursuant to the requirements in section 15-1, etc. of the Financial Institutions Act and section 15-1, etc. of the Regulations on financial institutions and financial groups.

The purpose of the remuneration committee is to prepare guidelines for the board of directors for the remuneration of executive personnel. They must also ensure that the company at all times has and practices guidelines and a framework for the remuneration scheme that are in accordance with the rules for the remuneration schemes of financial institutions, securities companies and securities funds' management companies. Information about remuneration is given in note 29 in the group's annual report.

Chief executive officer

The CEO bears responsibility for and shall formulate and ensure that:

- Proper comprehensive risk management has been established in accordance with guidelines set by the board.
- Comprehensive risk management is being properly documented, performed and monitored.
- The duty to report to the board complies with Acts, Regulations, the articles of association, and the group's adopted principles for this.
- The risk management systems are implemented, followed up and documented in accordance with Acts, Regulations, strategies/policies, and routines.
- The risk management process is appropriate and effective.

The CEO shall ensure that the group is properly organised, including ensuring that responsibilities are clearly allocated and duties divided as necessary. The CEO is responsible for ensuring that processes concerning the assessment of risks and total capital requirements (ICAAP) are carried out.

Business area managers

Business area managers, including directors and middle managers, have a responsibility to:

- Establish and perform proper risk management within their areas, including assessing risks and establishing the necessary line controls.
- Ensure compliance with the applicable regulations.
- Report on comprehensive risk management, including reporting material breaches/significant events.

Employees

Employees have a responsibility to:

- Possess enough expertise about their areas of responsibility and duties to satisfactorily assess their own work.
- Perform their work within the approved instructions, limits and authorisations, and with the right quality.

- Report material breaches/significant events to their supervisor.

Comprehensive risk management shall form part of the ongoing follow-up between the manager and the employee. The employee's role in this must be highlighted and followed up.

Risk management and compliance
Risk management and compliance shall:

- Sit in the "driver's seat" when policy and strategies are being formulated in key risk areas.
- Lead the work on ICAAP and perform stress tests and prognoses on an independent basis.
- Act as an independent environment that challenges the operational departments in the group.
- Contribute to the development of the group's framework for comprehensive risk management and internal control, including risk policy/strategies, methods, models, and systems, in accordance with recognised principles.
- Ensure that the risk management systems are implemented, used, followed up, and documented in accordance with Acts, Regulations, strategy/policy and routines, and that the risk management process is appropriate and effective.
- Coordinate annual management confirmations in accordance with the Financial Supervisory Authority of Norway's Regulations on risk management and internal control.
- Follow up the group's risk status and development in relation to approved strategic risk targets and business strategies
- Receive or prepare periodic and adequate information to safeguard and follow up reporting to the CEO.
- Ensure that effective systems and processes for compliance with applicable regulations are created, identify changes in Acts/Regulations, industry standards and internal guidelines, and ensure that these are implemented in the group.
- Test, assess and provide advice on internal control.
- Participate in meetings of the board's risk committee and internal risk committee.

Internal audit
Internal audit shall:

- Report to the board of directors, be entitled to attend board meetings, and report on risk management and internal control a minimum of once per year.
- Provide objective advice to the board and executive management team regarding the group's risk management and the development of and compliance with controls, as well as compliance with established routines, procedures and guidelines.
- Have adequate expertise and experience, methods, and tools to ensure that all areas of high and critical risk are covered.
- Implement planned internal controls.

External audit
The external auditor provides the executive management team and board of directors with independent and objective opinions that can help the bank achieve its objectives, not just for financial reporting but also within other categories. In connection with the annual financial audit, the auditor presents his/her opinion of the degree to which the financial statements provide a fair picture of the organisation's financial position according to IFRS and thus contributes to the organisation's objectives for financial reporting. The auditor can also contribute by providing useful information to the executive management team with regard to its risk management activities. Such information includes audit findings, analytical information, and recommendations concerning the measures necessary to achieve established objectives, and findings that the auditor makes regarding deficiencies in risk management and controls with recommendations for improvements.

Investigator
In line with section 11-14 of the Financial Institutions Act, Ernst & Young AS has been appointed the independent investigator for Sparebanken Øst Boligkreditt AS. An investigator conducts independent

quarterly controls of, e.g., statutory registers and the asset coverage balance between the cover pool and issued covered bonds. The investigator reports annually to the Financial Supervisory Authority of Norway.

The Financial Supervisory Authority of Norway
The Financial Supervisory Authority of Norway is an independent government agency that builds on Acts and resolutions by the Storting, government and Ministry of Finance, and international standards for financial supervision.

The authority's supervision of institutions and markets shall contribute to financial stability and orderly market conditions, and to ensuring that users can trust that financial agreements and services are followed up in accordance with their purpose. In addition to the preventive work, the authority must be able to contribute to resolving problems that could arise. The Financial Supervisory Authority of Norway bases its work on a belief that Norwegian organisations should have competitive terms and conditions that, overall, are on a par with operations in other EEA countries.

Other bodies and control points
**The bank's balance sheet steering committee** holds regular meetings in which the status of and measures relating to the liquidity situation are discussed. The balance sheet steering committee meets with the CEO, deputy CEO, CFO, risk controller and finance manager.

The **risk committee** assesses risk exposure and conducts risk reporting. The committee also assesses capital requirements and handles the risk reporting to the board. The members of the committee are the credit manager of BM, lawyer, head of the RM credit department, financial manager, head of Øst Inkasso AS, IT manager, head of Risk Management & Compliance and all of the controllers. The committee's conclusions and comments are recorded in the minutes.

A separate operative position as anti-money laundering officer has been created. The position entails following up on compliance with the regulations and control of new customer undertakings.

## REMUNERATION OF THE BOARD OF DIRECTORS AND ELECTED REPRESENTATIVES

The remuneration of the board of directors, board of trustees and nomination committee is determined by the board of trustees. The remuneration shall reflect the workloads and responsibilities that rest on each elected representative, and details can be found in the notes to the annual financial statements. Remuneration is not dependent on the savings bank’s results and consists of a specified amount. There are no result-based or variable remuneration schemes for the savings bank's elected representatives. The remuneration of the board of directors is listed in note 29 to the annual financial statements. None of the board members have carried out other tasks for the savings bank than their duties as board members in 2017.

## REMUNERATION OF EXECUTIVE PERSONNEL

In accordance with applicable legislation, sections 15-1 to 15-6 of the Financial Institutions Act, the board sets the required guidelines for the remuneration of executive personnel. The remuneration of executive personnel is listed in note 29 to the annual financial statements. Fixed salaries account for the main income of all employees of Sparebanken Øst. The board of directors determines the remuneration of the CEO. The CEO determines the remuneration of the executive management. There is no agreement concerning variable remuneration, or option or bonus agreements. The board of directors can decide to grant a one-off supplement to the CEO and deputy CEO. The rest of the executive management team are part of the profit sharing scheme approved by the board of directors.

## INFORMATION AND COMMUNICATION

The savings bank’s goals and objectives for information and communication are based on openness and accessibility. To ensure the necessary information flow, financial information must be published in line with the fixed financial calendar on the savings bank’s website, by notifying information to the Oslo Stock Exchange, and in presentations to investors and other stakeholders. The savings bank arranges open investor presentations in conjunction with the presentation of annual and quarterly results. The rules for information and communication, rules for good stock market ethics, in addition to a general requirement of equal treatment, do not restrict the savings bank's opportunity to provide information, including to analysts.

Sparebanken Øst has drawn up investor relations guidelines. These guidelines show how the savings bank wishes to have extensive and effective communication with the financial markets, with an emphasis on openness and credibility. The savings bank wishes to have long-term mutually beneficial relations with as many brokerages as possible. Investment decisions must be based on financial calculations rather than relations. The savings bank must take a positive approach to investment decisions which have no significant impact on current profitability estimates and which would be favourable for investors. The finance department manages contacts with brokers in order to ensure the consistency of the information that is issued and received.

Information which is deemed to be of an important and sensitive nature is first sent to the Oslo Stock Exchange. The savings bank will endeavour to provide correct and balanced verbal and written information, and no investors must receive preferential treatment. All information that is offered must be distributed to all investors and must be presented on a uniform basis. The savings bank must seek to be available to investors and queries must be answered without unreasonable delay. Information deemed to be vital for investors must be distributed via the savings bank’s website, the Oslo Stock Exchange and mailing lists.

## TAKE-OVERS

Savings banks may not be taken over by other enterprises or individuals. For this reason, NUES's recommendations in this respect are not relevant to savings banks. The board of trustees will take decisions in all cases concerning changes to the savings bank’s business activities, acquisition of other companies, or other cases of particular importance to the savings bank. Nevertheless, this does not apply to the acquisition of small companies within the savings bank’s present area of activity, or if, for other special reasons, the case should be decided by the board of directors and only thereafter presented to the board of trustees.

## AUDITOR

Auditing at Sparebanken Øst is undertaken according to acknowledged auditing principles, with due consideration of planning, implementation, and reporting. Ernst & Young is the savings bank's external auditor. At least once a year the external auditor attends a meeting of the audit committee, as well as board meetings and reviews its assessments of the savings bank’s risks. The external auditor always attends the board meeting at which the annual financial statements are presented and the accounts meeting of the audit committee, and reviews its assessment of significant conditions for the savings bank. The external auditor also attends other board meetings if necessary. Pursuant to section 8-6 (3) of the Financial Institutions Act, the board is required to meet with the auditor at least once a quarter without the executive management team present, unless otherwise is stipulated in the instructions for the board of directors. In its instructions, the board has stipulated that the board shall meet at least once a year and otherwise as needed with the auditor without day-to-day management present. The external auditor is invited to all meetings of the board of trustees. Please see note 32 to the annual financial statements in connection with the remuneration of the auditor, including the distribution of remuneration.

## FINANCIAL CALENDAR FOR 2018

| | Publication |
|---|---|
| • Preliminary results for 2017 (Q4 2017) | 7 February 2018 |
| • Annual financial statements for 2017 | 22 March 2018 |
| • Ex. dividend date | 23 March 2018 |
| • Dividend payment | 6 April 2018 |
| • Q1 2018 | 9 May 2018 |
| • Q2 2018 | 13 July 2018 |
| • Q3 2018 | 31 October 2018 |

## INVESTOR CONTACTS

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# Statement pursuant to section 5-5 of the Securities Trading Act

We hereby confirm that the annual financial statements for the period from 1 January to 31 December 2017 to the best of our knowledge have been prepared in accordance with applicable accounting standards and that the information gives a true and fair view of the group and parent company's assets, liabilities, financial position and profit or loss as a whole and that the information in the Board of Directors' Report gives a true and fair view of the development, profit or loss and financial position of the group and parent company, together with a description of the principal risks and uncertainties faced by the group.

Hokksund, 31 December 2017
Drammen, 1 March 2018

THE BOARD OF DIRECTORS OF SPAREBANKEN ØST

Øivind Andersson
Chair

Knut Smedsrud
Deputy Chair

Morten A. Yttreeide
Board member

Hanne Margrete Lenes Solem
Board member

Elly T. Thoresen
Board member

Kari Solberg Økland
Board member

Ole-Martin Solberg
Employee representative

Inger Helen Pettersen
Employee representative

Pål Strand
CEO

# STATEMENT OF INCOME

| Group 2017 | Group 2016 | Figures in NOK millions | Notes | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|---|
| 1.020,1 | 1.037,4 | Interest income and similar income | 23, 24 | 637,8 | 689,4 |
| 457,6 | 491,6 | Interest costs and similar costs | 23, 24, 50 | 317,4 | 357,3 |
| **562,5** | **545,8** | **NET INTEREST AND CREDIT COMMISSION INCOME** | | **320,4** | **332,1** |
| 85,7 | 82,4 | Commission income and income from banking services | 26 | 99,6 | 94,1 |
| 40,4 | 39,7 | Commission costs and costs from banking services | 26 | 14,4 | 15,3 |
| 16,3 | 26,9 | Dividends and other operating income from securities with variable yields | 25 | 164,4 | 81,9 |
| 30,5 | 75,8 | Net value change and gains/losses on financial instruments | 27 | 41,3 | 71,1 |
| 62,4 | 27,2 | Other operating income | 28 | 4,9 | 5,3 |
| 156,6 | 156,8 | Payroll, etc. | 29, 47 | 130,1 | 131,6 |
| 50,6 | 48,0 | Administration costs | 31 | 41,1 | 40,7 |
| 17,9 | 28,7 | Depreciation/write-downs and value change for non-financial assets | 31, 37 | 11,3 | 11,4 |
| 52,3 | 50,8 | Other operating costs | 31, 32, 38 | 43,5 | 43,4 |
| **439,6** | **434,1** | **PROFIT BEFORE LOSSES** | | **390,2** | **342,1** |
| 7,2 | 6,7 | Losses on loans and guarantees | 11, 13 | -1,6 | -2,8 |
| **432,4** | **427,4** | **PROFIT BEFORE TAX COSTS** | | **391,8** | **344,9** |
| 100,0 | 96,2 | Tax costs | 33 | 57,4 | 65,2 |
| **332,4** | **331,2** | **PROFIT FOR THE YEAR** | | **334,4** | **279,7** |
| 5,81 | 6,02 | Earnings per equity certificate | 52 | 5,84 | 5,08 |
| 5,81 | 6,02 | Diluted earnings per equity certificate | 52 | 5,84 | 5,08 |

# STATEMENT OF COMPREHENSIVE INCOME

| Group 2017 | Group 2016 | Figures in NOK millions | Notes | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|---|
| **332,4** | **331,2** | **PROFIT FOR THE YEAR** | | **334,4** | **279,7** |
| | | **Items that will not be reclassified to the statement of income** | | | |
| -30,3 | 2,9 | Actuarial gains and losses on defined-benefit plans | 47 | -29,0 | 3,1 |
| 7,6 | -0,7 | Tax related to items that cannot be reclassified | 33, 47 | 7,3 | -0,8 |
| | | **Items that may later be reclassified to the statement of income** | | | |
| 23,7 | -5,9 | Changes in fair value of investments available for sale | 27 | 23,7 | -5,9 |
| -0,8 | 0,1 | Tax related to items that can be reclassified | 27, 33 | -0,8 | 0,1 |
| **332,6** | **327,6** | **STATEMENT OF COMPREHENSIVE INCOME** | | **335,6** | **276,2** |

# BALANCE SHEET

| Group 31.12.17 | Group 31.12.16 | Figures in NOK millions | Notes | Parent bank 31.12.17 | Parent bank 31.12.16 |
|---|---|---|---|---|---|
| | | **ASSETS** | | | |
| 341,2 | 311,9 | Cash and receivables from central banks | 19 | 341,2 | 311,9 |
| 5,7 | 9,5 | Lending to and receivables from financial institutions | 15, 19 | 1.929,3 | 1.740,2 |
| 30.972,4 | 29.695,7 | Loans to and receivables from customers | 11, 12, 13, 14, 19 | 18.653,6 | 19.156,6 |
| 4.515,1 | 4.285,1 | Certificates, bonds, etc. at fair value | 19, 22, 34 | 4.358,8 | 4.129,1 |
| 483,9 | 460,1 | Shares and units | 19,22,35 | 483,9 | 460,1 |
| 297,9 | 369,6 | Financial derivatives | 19, 20, 21, 22 | 128,0 | 186,5 |
| 0,0 | 205,4 | Certificates and bonds, held to maturity | 19, 22, 34 | 0,0 | 205,4 |
| 0,0 | 0,0 | Ownership interests in Group companies | 36 | 890,9 | 888,5 |
| 0,0 | 0,0 | Deferred tax asset | 33 | 9,2 | 0,0 |
| 134,6 | 284,3 | Investment properties | 37 | 0,0 | 0,0 |
| 133,9 | 131,4 | Tangible fixed assets | 37 | 76,0 | 72,6 |
| 103,2 | 27,0 | Other assets | | 10,9 | 4,2 |
| 6,2 | 14,7 | Prepaid non-accrued costs and income earned, but not receivec | 39 | 7,0 | 15,1 |
| **36.994,1** | **35.794,7** | **TOTAL ASSETS** | | **26.888,8** | **27.170,2** |
| | | **LIABILITIES AND EQUITY** | | | |
| 330,1 | 90,2 | Liabilities to financial institutions | 19, 40, 44 | 562,0 | 325,7 |
| 13.971,8 | 13.887,4 | Deposits from and liabilities to customers | 19, 41 | 14.001,0 | 13.896,2 |
| 25,5 | 47,5 | Financial derivatives | 19, 20, 21, 22 | 19,4 | 27,4 |
| 18.228,5 | 17.614,6 | Securities issued | 19, 42, 44 | 8.357,8 | 9.249,5 |
| 110,5 | 88,1 | Tax payable | 33 | 68,1 | 51,0 |
| 124,5 | 95,5 | Other liabilities | 45 | 110,3 | 89,9 |
| 37,8 | 30,5 | Accruals and deferred income | | 28,8 | 25,5 |
| 68,6 | 38,6 | Provisions for accrued costs and liabilities | 46, 47 | 66,1 | 37,3 |
| 8,9 | 22,7 | Deferred tax liability | 33 | 0,0 | 3,6 |
| 703,6 | 703,5 | Subordinated loan capital | 19, 43, 44 | 703,6 | 703,5 |
| **33.609,8** | **32.618,6** | **TOTAL LIABILITIES** | | **23.917,1** | **24.409,6** |
| 595,1 | 595,1 | Paid-up equity | 52 | 595,1 | 595,1 |
| 2.789,2 | 2.581,0 | Retained earnings | | 2.376,6 | 2.165,5 |
| **3.384,3** | **3.176,1** | **TOTAL EQUITY** | 6 | **2.971,7** | **2.760,6** |
| **36.994,1** | **35.794,7** | **TOTAL LIABILITIES AND EQUITY** | | **26.888,8** | **27.170,2** |

Hokksund, 31 December 2017
Drammen. 1 March 2018

Øivind Andersson
Chair

Knut Smedsrud
Deputy Chair

Morten A. Yttreeide
Board member

Hanne Margrete Lenes Solem
Board member

Elly T. Thoresen
Board member

Kari Solberg Økland
Board member

Ole-Martin Solberg
Employee representative

Inger Helen Pettersen
Employee representative

Pål Strand
CEO

# CHANGES IN EQUITY - GROUP

Figures in NOK millions

| 2017 | Total equity | Paid-up equity: Equity certificates | Paid-up equity: Share premium reserve | Retained earnings: Equalisation fund | Retained earnings: Primary capital | Retained earnings: Endowment fund | Available for sale reserve | Other equity |
|---|---|---|---|---|---|---|---|---|
| Equity at 31.12.2016 | 3.176,1 | 207,3 | 387,8 | 379,0 | 1.573,7 | 38,1 | 174,7 | 415,5 |
| Profit for the year | 332,4 | 0,0 | 0,0 | 121,1 | 213,3 | 0,0 | 0,0 | -2,0 |
| Changes in fair value of investments in JV/AC | 22,9 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 22,9 | 0,0 |
| Actuarial gains and losses on defined-benefit plans | -22,7 | 0,0 | 0,0 | -7,9 | -13,9 | 0,0 | 0,0 | -0,9 |
| Other comprehensive income | 332,6 | 0,0 | 0,0 | 113,2 | 199,4 | 0,0 | 22,9 | -2,9 |
| Dividend to equity certificate holders 2016 - finally a | -82,9 | 0,0 | 0,0 | -82,9 | 0,0 | 0,0 | 0,0 | 0,0 |
| Dividend to social capital 2016 - finally approved | -41,5 | 0,0 | 0,0 | 0,0 | -41,5 | 0,0 | 0,0 | 0,0 |
| Changes in endowment fund | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| **Equity at 31.12.2017** | **3.384,3** | **207,3** | **387,8** | **409,3** | **1.731,6** | **38,1** | **197,6** | **412,6** |

The year's proposed dividend of NOK 103.7 million remains part of the Equalisation Fund and the year's proposed dividend on social capital of NOK 51.9 million remains part of the primary capital until they are finally adopted by the board of trustees.

See also Note 52 - Equity Certificates.

| 2016 | Total equity | Paid-up equity: Equity certificates | Paid-up equity: Share premium reserve | Retained earnings: Equalisation fund | Retained earnings: Primary capital | Retained earnings: Endowment fund | Available for sale reserve | Other equity |
|---|---|---|---|---|---|---|---|---|
| Equity at 31.12.2015 | 2.951,1 | 207,3 | 387,8 | 341,2 | 1.432,1 | 38,1 | 180,5 | 364,1 |
| Profit for the year | 331,2 | 0,0 | 0,0 | 105,3 | 174,4 | 0,0 | 0,0 | 51,5 |
| Changes in fair value of investments in JV/AC | -5,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | -5,8 | 0,0 |
| Actuarial gains and losses on defined-benefit plans | 2,2 | 0,0 | 0,0 | 0,9 | 1,4 | 0,0 | 0,0 | -0,1 |
| Other comprehensive income | 327,6 | 0,0 | 0,0 | 106,2 | 175,8 | 0,0 | -5,8 | 51,4 |
| Dividend to equity certificates holders 2015 - finally | -68,4 | 0,0 | 0,0 | -68,4 | 0,0 | 0,0 | 0,0 | 0,0 |
| Dividend to social capital 2015 - finally approved | -34,2 | 0,0 | 0,0 | 0,0 | -34,2 | 0,0 | 0,0 | 0,0 |
| Changes in endowment fund | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| **Equity at 31.12.2016** | **3.176,1** | **207,3** | **387,8** | **379,0** | **1.573,7** | **38,1** | **174,7** | **415,5** |

The year's proposed dividend of NOK 82.9 million remains part of the Equalisation Fund and the year's proposed dividend on social capital of NOK 41.5 million remains part of the primary capital until they are finally adopted by the board of trustees.

# CHANGES IN EQUITY – PARENT BANK

| 2017 | Total equity | Paid-up equity: Equity certificates | Paid-up equity: Share premium reserve | Retained earnings: Equalisation fund | Retained earnings: Primary capital | Retained earnings: Endowment fund | Available for sale reserve |
|---|---|---|---|---|---|---|---|
| Equity at 31.12.2016 | 2.760,6 | 207,3 | 387,8 | 379,0 | 1.573,7 | 38,1 | 174,7 |
| Profit for the year | 334,4 | 0,0 | 0,0 | 121,1 | 213,3 | 0,0 | 0,0 |
| Changes in fair value of investments in JV/AC | 22,9 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 22,9 |
| Actuarial gains and losses on defined-benefit plans | -21,7 | 0,0 | 0,0 | -7,9 | -13,9 | 0,0 | 0,0 |
| Other comprehensive income | 335,6 | 0,0 | 0,0 | 113,2 | 199,4 | 0,0 | 22,9 |
| Dividend to equity certificate holders 2016 - finally a | -82,9 | 0,0 | 0,0 | -82,9 | 0,0 | 0,0 | 0,0 |
| Dividend to social capital 2016 - finally approved | -41,5 | 0,0 | 0,0 | 0,0 | -41,5 | 0,0 | 0,0 |
| Changes in endowment fund | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| **Equity at 31.12.2017** | **2.971,7** | **207,3** | **387,8** | **409,3** | **1.731,6** | **38,1** | **197,6** |

The year's proposed dividend of NOK 103.7 million remains part of the Equalisation Fund and the year's proposed dividend on social capital of NOK 51.9 million remains part of the primary capital until they are finally adopted by the board of trustees.

See also Note 52 - Equity Certificates.

| 2016 | Total equity | Paid-up equity: Equity certificates | Paid-up equity: Share premium reserve | Retained earnings: Equalisation fund | Retained earnings: Primary capital | Retained earnings: Endowment fund | Available for sale reserve |
|---|---|---|---|---|---|---|---|
| Equity at 31.12.2015 | 2.587,0 | 207,3 | 387,8 | 341,2 | 1.432,1 | 38,1 | 180,5 |
| Profit for the year | 279,7 | 0,0 | 0,0 | 105,3 | 174,4 | 0,0 | 0,0 |
| Changes in fair value of investments in JV/AC | -5,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | -5,8 |
| Actuarial gains and losses on defined-benefit plans | 2,3 | 0,0 | 0,0 | 0,9 | 1,4 | 0,0 | 0,0 |
| Other comprehensive income | 276,2 | 0,0 | 0,0 | 106,2 | 175,8 | 0,0 | -5,8 |
| Dividend to equity certificates holders 2015 - finally | -68,4 | 0,0 | 0,0 | -68,4 | 0,0 | 0,0 | 0,0 |
| Dividend to social capital 2015 - finally approved | -34,2 | 0,0 | 0,0 | 0,0 | -34,2 | 0,0 | 0,0 |
| Changes in endowment fund | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| **Equity at 31.12.2016** | **2.760,6** | **207,3** | **387,8** | **379,0** | **1.573,7** | **38,1** | **174,7** |

The year's proposed dividend of NOK 82.9 million remains part of the Equalisation Fund and the year's proposed dividend on social capital of NOK 41.5 million remains part of the primary capital until they are finally adopted by the board of trustees.

# CASH FLOW STATEMENT

| Group 2017 | Group 2016 | Figures in NOK millions | Note | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|---|
| | | **Operating activities** | | | |
| 432,4 | 427,4 | Profit/loss before tax costs | | 391,8 | 344,9 |
| | | Adjusted for: | | | |
| -3,4 | -2,3 | Change in net interest income earned and accrued interest costs | | 4,5 | -3,1 |
| 0,0 | 0,0 | Net payment/disbursement of loans to financial institutions | | -193,0 | 362,6 |
| -1.267,3 | -1.700,4 | Net receipts/payments of loans to customers | | 509,2 | -1.418,4 |
| -229,9 | 268,3 | Change in certificates and bonds at fair value | | -229,6 | 424,2 |
| -61,6 | -47,8 | Change in other operating assets | 51 | 7,5 | -46,2 |
| -0,1 | 0,0 | Net payment/disbursement of deposits with financial institutions | | -3,7 | -39,0 |
| 83,8 | 729,0 | Net receipts/disbursement of deposits from customers | | 104,2 | 717,6 |
| -2,0 | -26,1 | Change in other operating liabilities | | -14,4 | -13,6 |
| 9,8 | 15,5 | Non-cash items included in profit before tax costs | 51 | 1,9 | -4,6 |
| -39,5 | -17,9 | Net gains from investing activities | | -3,4 | -17,9 |
| 5,8 | -0,1 | Net losses from financing activities | | 1,1 | 0,9 |
| 0,0 | 0,0 | Net change in relation to investing activities | | 0,0 | 10,0 |
| -88,1 | -98,4 | Taxes paid for the period | | -50,2 | -51,4 |
| -1.160,1 | -452,8 | **Net cash flow from operating activities** | **A** | 525,9 | 266,0 |
| | | **Investing activities** | | | |
| -21,1 | -63,9 | Payments on purchases of fixed assets | | -14,7 | -6,8 |
| 186,7 | 1,2 | Proceeds from sale of fixed assets | | 0,2 | 0,9 |
| 206,5 | 9,7 | Net proceeds/costs on the sale/purchase of financial investments | | 206,5 | 9,7 |
| 0,0 | 0,0 | Net payment/disbursement concerning investments in subsidiaries | | -2,4 | -11,0 |
| 372,1 | -53,0 | **Net cash flow from investing activities** | **B** | 189,6 | -7,2 |
| | | **Financing activities** | | | |
| 240,0 | -60,0 | Net incoming/outgoing payments for loans to/from financial institutions | | 240,0 | -60,0 |
| -3.248,0 | -4.386,4 | Payments on repayment of securities | | -2.246,4 | -1.844,1 |
| 3.904,4 | 4.955,9 | Proceeds on issuance of securities | | 1.399,3 | 1.649,0 |
| -82,9 | -68,4 | Payment of dividend | | -82,9 | -68,4 |
| 813,5 | 441,1 | **Net cash flow from financing activities** | **C** | -690,0 | -323,5 |
| 25,5 | -64,7 | Net change in cash and cash equivalents | **A+B+C** | 25,5 | -64,7 |
| 321,4 | 386,1 | Cash and cash equivalents as at 01.01 | | 321,4 | 386,1 |
| **346,9** | **321,4** | **Holdings of cash and cash equivalents as at 31.12** | 51 | **346,9** | **321,4** |

Liquidity reserves include cash and deposits with central banks and loans to and deposits with financial institutions which are investment placements.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## NOTE 1 - GENERAL INFORMATION

Sparebanken Øst is an equity certificate savings bank listed on the Oslo Stock Exchange. The bank's head office is at Bragernes Torg 2, Drammen. The bank's business address is Stasjonsgt. 14, N-3300 Hokksund. Sparebanken Øst is non-aligned and has operated savings bank activities since 1843.

The bank also has branches in the municipalities of Øvre Eiker, Nedre Eiker, Lier, Asker, Bærum, Oslo, Fredrikstad, Ullensaker, Horten, Tønsberg, Skedsmo, Kongsberg, Ringerike, Svelvik, Holmestrand, Røyken, Sande, and Hurum. The Sparebanken Øst group consists of the parent bank and the wholly owned subsidiaries Sparebanken Øst Boligkreditt AS, AS Financiering, Øst Inkasso AS, Øst Prosjekt AS with its subsidiaries Borreveien 44 AS and Jon Smørs Vei 7 AS, and Sparebanken Øst Eiendom AS with its subsidiaries Hawø Eiendom AS, Arbeidergata 28 AS, Stasjonsgata 14 AS, Tollbugt. 49-51 AS and Ingeniør Rybergsgate 101 AS.

Sparebanken Øst provides services within the areas of financing, savings and investment, money-transfer services and insurance.

The annual financial statements for 2017 were reviewed and approved by the board of directors of Sparebanken Øst on 1 March 2018.

## NOTE 2 - ACCOUNTING POLICIES

### 1. GENERAL INFORMATION

Sparebanken Øst's consolidated financial statements and the parent company's financial statements are prepared in accordance with international accounting standards, International Financial Reporting Standards (IFRS), which are approved by the EU.

The policies are used as the basis for historic cost accounts, with the exception of financial derivatives and investments that are held for trading or are available for sale, as well as that part of the securities portfolio for which the executive management team has chosen to use the 'fair value option' (FVO). These items are valued at fair value. Where the group uses hedge accounting the value is adjusted on the hedged object for value changes associated with hedged risk. Interest-bearing balance sheet items include earned/accrued interest.

The group's balance sheet is primarily based on an assessment of the liquidity of items posted to the balance sheet.

Unless otherwise specified, all amounts are stated in NOK millions in the notes.

### 2. AMENDMENTS TO ACCOUNTING POLICIES

The accounting policies applied are generally unchanged from the policies applied to the 2016 annual financial statements, with the exception of the changes in IFRS that were implemented in the group in 2017. The changes in IFRS that are relevant to the group and that came into force in 2017, and their effect for the group's annual financial statements, are listed below.

**IAS 7 Statement of Cash Flows**
As part of the IASB's Disclosure Initiative, enterprises are required to provide explanatory information in the notes about changes in obligations that stem from financing activities: changes with and without cash flow effects. The changes must be implemented prospectively and came into force on 1 January 2017. The amendment resulted in expanded note information in notes 42 and 43.

**IAS 12 Income Taxes**
The amendments clarify whether to recognise deferred tax assets related to debt instruments measured at fair value. In specific terms, the changes mean, for example, that unrealised losses on debt instruments measured at fair value in the accounts and at cost for tax purposes result in tax-reducing temporary differences regardless of how the owner expects to recover capitalised amounts. The amendment clarifies the accounting procedure for recognising deferred tax assets related to debt instruments measured at fair value in certain cases. The amendment caused no changes in the group's accounting for deferred tax assets and/or notes.

### 3. CONSOLIDATION

The consolidated financial statements cover the parent bank and all subsidiaries.

A company is deemed to be controlled by the group when the group is exposed to or has rights to variable returns from its involvement in the company in question, and is able to influence this return via its control of the company. Each investment is subject to assessment.

The consolidated financial statements cover the wholly owned subsidiaries Sparebanken Øst Boligkreditt AS, AS Financiering, Øst Inkasso AS, Øst Prosjekt AS with its subsidiaries Borreveien 44 AS and Jon Smørs Vei 7 AS, and Sparebanken Øst Eiendom AS with its subsidiaries Hawø Eiendom AS, Arbeidergata 28 AS, Stasjonsgata 14 AS, Tollbugt. 49-51 AS and Ingeniør Rybergsgate 101 AS.

Companies acquired or divested during the year are included in the consolidated financial statements from the time the group takes control until such control ceases. The purchase method is used when recognising acquisitions of subsidiaries. When control of a company is taken over, all identifiable assets and commitments are stated at fair value. Goodwill is recognised as a positive difference between the acquisition price and the balance sheet value of the acquired company after excess/deficit value has been assigned to identifiable assets at the time of acquisition. Where the difference is negative, this is charged to income upon acquisition. Goodwill is tested each year for impairment and is recognised on the balance sheet at cost price minus any accumulated write-downs.

When preparing the consolidated financial statements, internal transactions, internal gains and outstanding balances between companies within the group are eliminated.

The accounting policies of subsidiaries are adjusted when necessary in order to harmonise them with the accounting policies of the group.

### 3.1 Ownership interests in subsidiaries and associated companies

If the group holds the majority of the voting rights in a company, the company is presumed to be a subsidiary in the group. In order to support this, and if the group does not hold the majority of the voting rights, the group assesses all relevant factors and circumstances, in order to evaluate whether the group holds control of the company in which it invests. This includes assessing the ownership interest, voting rights, ownership structure and relative strength, as well as options controlled by the group and shareholder agreements or other agreements. The group re-assesses whether it controls or does not control a company when facts and circumstances indicate changes in one or several of the control elements. See also Note 36 - Ownership Interests in Group Companies.

In the parent company's financial statements, investments in subsidiaries are assessed at historical cost.

Associated companies are entities in which the group has significant influence, but not control or shared control of the financial and operational management. The group has no significant ownership interests in companies defined as associated companies.

## 4. CURRENCY

The financial statements are presented in NOK, which is the functional currency for all companies in the group.

Transactions in foreign currency are translated to the functional currency (NOK) at the exchange rates on the transaction date. Foreign currency items are translated at the official average exchange rates on the balance sheet date. Currency losses and gains attributable to different rates of exchange on the transaction and settlement dates, and translation differences on foreign currency items which cannot be assessed, are charged to income.

## 5. INCOME

### 5.1 Interest income and costs

Interest income and costs are recognised in the income statement using the effective interest method. The effective interest rate is determined by discounting contractual cash flows within the expected term.

If a financial asset or a group of similar assets are depreciated as a result of value impairment, interest income is recognised by using the interest rate at which future cash flows are discounted to calculate such impairment.

Recognition of interest as income according to the effect interest method is employed for both balance sheet items which are assessed at amortised cost, and balance sheet items which are assessed at fair value over the profit.

### 5.2 Commission income and costs

Commission income and costs are recognised in the income statement at the time the service is carried out. Fees related to interest-bearing instruments are not recognised in the income statement as commission, but are included in the calculation of the effective interest rate and recognised in the income statement accordingly.

### 5.3 Other operating income
Rental income from real estate is recognised linearly over the tenancy period.

### 5.4 Dividends received
Dividends received in equity instruments are recognised in the results once the group's right to receive payment has been determined, and included in 'Dividends and other operating income from securities with variable yields'.

## 6. FINANCIAL INSTRUMENTS
### 6.1 Recognition and derecognition
Financial assets and liabilities are recognised when the group becomes a party to the instrument's contractual conditions.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the rights to receive the cash flow are transferred. Financial liabilities are derecognised when the liability ends; this is when the liability stated in the contract is fulfilled, cancelled or expires.

### 6.2 Classification
The group's financial instruments subject to IAS 39 are classified into one of the following categories:

Financial assets:

- Financial assets at fair value with changes through profit or loss
  - financial assets held for trading
  - financial assets are recognised at fair value with changes through profit or loss, reserved at initial recognition
- Investments held to maturity, recognised at amortised cost
- Loans and receivables, capitalised at amortised cost
- Financial assets available for sale, assessed at fair value with value adjustments presented as other operating income or costs in the statement of comprehensive income

Financial liabilities:

- Financial liabilities at fair value with changes through profit or loss
- Financial liabilities, carried at amortised cost

### 6.3 Measurement
#### 6.3.1 Initial recognition of financial instruments
Financial instruments measured at fair value through profit or loss are measured at fair value on the agreement date upon initial recognition. Fair value will normally be the transaction price. Financial assets and liabilities which are not classified in this category are measured at fair value with the addition/deduction of directly attributable transaction costs upon initial recognition.

#### 6.3.2 Subsequent measurement
*Measurement at fair value*

In principle, observable market rates must be the basis on which a financial instrument at fair value is estimated. Where observable market prices do not exist and the fair value cannot be derived directly or indirectly from observable inputs in the market, various valuation techniques are used. These are methods that can involve using discretionary evaluations to some degree. Such discretionary evaluations may be liquidity risk, credit risk and volatility. Changes in the attitude toward these factors may affect the determination of the fair value of a financial instrument. All adjustments to fair value are recognised directly in the statement of income, unless the asset is classified as available for sale where the value adjustment is carried to comprehensive income.

*Measurement at amortised cost*

Financial instruments not measured at fair value, are valued at amortised cost and income/costs are calculated using the effective interest approach. The effective interest rate is determined by discounting contractual cash flows within the expected term. Amortised cost is the present value of cash flows discounted by the effective interest rate.

*Write-down of financial assets*

At each balance sheet date an assessment is made of whether there is objective evidence that financial assets have been exposed to any impairment. If there is objective evidence of impairment the financial asset is written down and write-downs are recognised in the accounts according to where they belong, based on their nature. Write-downs are discussed in more detail under 6.4.

#### 6.3.3 Takeover of assets
Assets that are taken over in connection with follow-up on defaulted or written-down loans are valued at fair value at the time of takeover.

### 6.3.4 Hedge accounting

The bank employs fair value hedging of fixed rate borrowing and currency borrowing. For fair value hedging the hedged instrument is recognised at fair value and the value of the hedged item is adjusted in accordance with the change in value linked to the hedged risk. If the hedge relationship is interrupted or adequate hedge efficiency cannot be verified, the value adjustment linked to the hedged item is amortised over the remaining maturity.

## 6.4 More on financial instruments

### 6.4.1 Lending

At initial recognition lending is assessed at fair value and direct transaction costs are added. Arrangement fees are capitalised and recognised as income over the expected maturity of the loan. Upon subsequent measurement loans are measured at amortised cost using the effective interest approach. Interest income on financial instruments classified as loans and receivables, is included in 'Interest income and similar income' in the statement of income. Write-downs on loans for the period are recognised under "Losses on loans and guarantees". Interest calculated using the effective interest method on the impaired value of loans is included in 'Interest income and similar income'.

*Impaired and non-performing commitments*

Non-performing loans are defined as loans that have defaulted on payment exceeding 90 days. Loans and other commitments that are not defaulted on, yet where the customer's financial situation makes it likely that the group will accrue losses are classified as impaired commitments.

*Individual write-downs of loans and guarantees*

Loans are written down for credit losses on a case by case basis (individually) if there is objective evidence of impairment. Objective evidence is considered to exist in cases of major financial problems at the debtor, payment default or other material breach of contract, granting of deferral of payments or new credit to pay forward, agreed changes in interest rates or other terms and conditions as a result of problems at the debtor, debt negotiation with the debtor, other financial restructuring or bankruptcy proceedings.

Estimates of any credit loss are based on the size of expected future cash flows from sales of collateral etc., when the cash flows are expected to be paid and the discount rate. The size of the loss is a direct function of the difference between the book value and the present value of the discounted future cash flows, discounted at the loan's effective interest rate.

*Collective write-downs of loans*

Assessing the need to write down a group of loans to retail customers are based on a loss indicator which takes various macroeconomic variables into consideration to indicate whether the bank is in a better or worse economic situation to the normal loss situation. Assessing the need for write-downs of groups of business loans is based on changes in the risk classification of the commitments. If there are negative changes between risk classes during a financial period, write-downs are made based on the bank's loss history for the risk classes involved. Assessment of loans is described in more detail in Note 3 - Assessments and Use of Estimates.

*Declaring losses*

Losses are not ascertained until composition or bankruptcy has been declared by the debtor, when execution has not been successful, there is a legal judgement or in cases where the bank has cancelled the loan or parts of it, or in other cases where it is most likely that the losses are final. Declared losses that are covered by previous write-downs are posted to allocations. Realised losses not covered by loss provisions, as well as over or under-coverage in relation to previous write-downs, are recognised in the income statement.

### 6.4.2 Certificates and bonds

The group has classified certificates and bonds into the following categories:

- at fair value through profit or loss
- hold to maturity

*Fair value through profit or loss*

The group's portfolio of certificates and bonds purchased after 1 January 2011 are part of the bank's liquidity strategy and are included in the category held for trading. The value adjustment and realised profit and losses are posted to 'Net value adjustments and profit/loss on financial instruments'.

The group's portfolio of certificates and bonds purchased before 1 January 2011 are part of the bank's liquidity and investment strategy and are recognised at fair value.

*Hold to maturity*

Bonds which the group intends and is able to hold to maturity are classified in the hold to maturity category.

Initial measurement is made at fair value including transaction costs. Subsequent measurement is made at amortised cost by applying the effective interest method. The current interest income is entered to income and any excess or deficit value at the time of acquisition is amortised by applying the effective interest method and entered to income as an adjustment of the bond's current interest income.

When there is objective evidence of credit loss on a bond in the hold to maturity category, the bond is written down in the statement of income for this credit loss under 'Net value adjustments and profit/loss on financial instruments' in the statement of income. The write-down is directly proportional to the difference between the book value and the present value of discounted future cash flows. Discounts are based on effective interest. Any reversals of previous write-downs are recognised as an increase in the book value to the extent that it does not exceed what the amortised cost would have been had the write-down not been made. Realised profit and losses are posted to 'Net value adjustments and profit/loss on financial instruments'.

**6.4.3 Equity instruments**

The group has classified equity instruments in the following categories:

- held for trading
- available for sale

*Held for trading*
Equity instruments owned for the purpose of selling or buyback in the short term, which are included in a portfolio and owned for the purpose of obtaining capital gains, are classified as held for trading. The value adjustment and realised profit and losses are posted to 'Net value adjustments and profit/loss on financial instruments'. The group's listed shares and capital certificates fall into this category.

Dividends received on equity instruments are recognised in the result once the group's right to receive payment has been determined, and posted to 'Dividends and other operating income from securities with variable yields'.

*Available for sale*
The group's holdings of equity instruments that are not classified as held for trading are classified as available for sale, and are valued at fair value with value changes presented as income and costs in comprehensive income. Write-downs of impairments are recognised in 'Net value adjustments and profit/loss on financial instruments' in the period in which they arise. Upon divestment, accumulated gains or losses on the financial instruments which were previously recognised in comprehensive income are reversed, and gains and losses are recognised under 'Net value adjustments and profit/loss on financial instruments'.

The group writes down equity instruments in the available for sale category when there has been enduring impairment of the fair value or the fair value is significantly lower than the book value. The bank deems it significant when the impairment is more than 20%, and when the impairment lasts longer than 6 months. Write-downs for impairment are recognised through profit or loss for this category are not reversed through profit or loss.

Dividends received on equity instruments are recognised in the results once the group's right to receive payment has been determined, and are posted to 'Dividends and other operating income from securities with variable yields'.

**6.4.4 Financial derivatives**

Financial derivatives are contracts that are signed to neutralise an already relevant interest and/or foreign currency risk the group has taken on. Derivatives include foreign currency and interest instruments. Financial derivatives are recognised at fair value with value adjustment through profit or loss. The derivative is recognised as an asset if the fair value is positive and as a liability if the fair value is negative.

Realised and unrealised profits and losses on financial derivatives are recognised in the statement of income under “Net value adjustments and profit/loss on financial instruments”. The accounting treatment of financial derivatives when hedge accounting is used is described in a separate paragraph.

**6.4.5 Hedge accounting**

The group mainly makes use of financial derivatives to reduce interest and/or currency risks.

The bank employs fair value hedging of fixed rate borrowing and currency borrowing. In a fair value hedge the company seeks to hedge against exposure to changes in the fair value of recognised assets or liabilities. Bond debt at fixed interest rates constitutes an interest risk. Bond debt in foreign currency constitutes both an interest and a currency risk. Hedge accounting is applied to financial derivatives used to hedge the fair value of recognised liabilities where certain criteria are met. Changes in the fair value of financial derivatives classified as and meeting the requirements of fair value hedging are recognised in the statement of income together with any change in the fair value of the hedged liability which can be ascribed to the hedged risk. The group mainly uses interest rate swaps and combined interest rate and currency swaps (basis swaps) as hedging instruments. The value adjustment on hedged instruments and items is posted to “Net value adjustments and profit/loss on financial instruments”.

It must be possible to reliably measure the effectiveness of hedging. On entering into the hedging relationship the formal relationship between the hedged item and hedging instrument is documented, including the risk that is hedged, the objective and the strategy for hedging and the method that will be used to determine the effectiveness of hedging. The hedge is assessed and documented quarterly, including hedge effectiveness. The group predominantly uses one-to-one hedging, meaning for example that the nominal amount and principal, terms, repricing dates, dates of receipt and payment of interest and principal, as well as the basis for measuring interest rates, are the same for the hedging instrument and the hedging object. If the measurement shows that the value changes on the hedging instrument counteract 80-125% of the changes in the hedging object, the hedge will still qualify as a hedge under IAS 39. Any ineffective portion of the hedge is recognised. If the hedge relationship is interrupted or adequate hedge efficiency cannot be verified, the value adjustment linked to the hedged item is amortised over the remaining maturity.

**6.4.6 Borrowing and other financial liabilities**

The group measures financial liabilities, apart from derivatives, at amortised cost. Financial liabilities are measured at amortised cost where the differences between the amount received less transaction costs and the redemption value are accrued over the loan term, using the effective interest method. Interest costs and amortisation effects on instruments are posted to 'Interest costs and similar costs' in the statement of income. Holdings of own bonds are posted as reductions of liabilities. In the case of buybacks, the difference between the book value and the remuneration paid is recognised in the statement of income under 'Net value adjustments and profit/loss on financial instruments'.

## 7. FIXED ASSETS AND INVESTMENT PROPERTIES

Fixed capital assets comprise buildings, land, and operating assets. Buildings and operating assets are recognised on the balance sheet at cost price less ordinary accumulated depreciation and write-downs. Land is not depreciated and is capitalised at cost less any write-downs. The cost price includes all directly attributable costs on the procurement of assets, with the addition of cost price for later improvements. All other repair and maintenance costs are recognised in the period for which they are incurred. On determining a depreciation plan allowance is made for the fixed asset's expected useful life and estimated residual value. The group buildings are broken down into four components: building structure, technical installations, façades and fixed inventory. Depreciation is calculated for each sub-component based on the expected useful life and estimated residual value.

The group's buildings for external rental, as well as buildings occupied to achieve appreciation, are classified as investment properties. The bank has assessed investment properties at cost price less accumulated depreciation. Cost price on the inclusion date and annual depreciation are determined according to the same principles as described above for other properties.

Depreciation is calculated on a linear basis over the following useful lives:

| | |
|---|---|
| Buildings | 10-100 years |
| Machines/fixtures and fittings/means of transport | 2-10 years |

The depreciation period, method and residual value are assessed annually.

Gains/losses arising from the sale of operating assets are the difference between the sales price and the book value and are included in the statement of income.

Buildings under construction are classified as plant and equipment and stated at cost until the construction is completed. Buildings under construction are not written off before the building is taken into use. Building loan costs are recognised on the balance sheet on an ongoing basis and included in the cost price.

Assessments are performed of depreciation when there are indications of impairment of value. If the book value of an operating asset is higher than the recovery amount, it is written down through profit or loss. The recoverable amount is the highest of net sales price and the discounted cash flow from continued use. The net sales price is the amount that can be achieved on sale to an independent third party, less sales costs. The recoverable amount is determined separately for all properties. If this is not possible, the recoverable amount is determined together with the unit the asset falls under.

## 8. LEASES

A lease is classified as a financial lease if it primarily transfers all the risk and returns associated with ownership. Other leases are classified as operating leases.

<u>The group as lessor</u>

Financial leases are presented as 'Loans to and receivables from customers' on the balance sheet and are recognised at amortised cost. Rent paid in advance is capitalised and recognised as income over the maturity period and posted as current liabilities in the accounts.

The group as lessee
The group has only signed operating leases as a lessor. Lease payments are recognised linearly over the term of the lease as a cost in the income statement unless another systematic basis is more representative of the use value over time.

## 9. UNCERTAIN COMMITMENTS

The group issues financial guarantees as part of its ordinary business. See also note 48. Assessment of loss provisions on guarantees issued by the bank together with assessment of losses on lending. See also note 13. The same principles are used to assess whether there has been a reduction in value. Provisions are made for other uncertain commitments if in all likelihood the commitment will materialise and the financial consequences can be reliably estimated.

## 10. CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities are not recognised in the annual financial statements. Information is provided on major contingent liabilities with the exception of contingent liabilities where there is great probability that the liability is low.

Contingent assets are recognised if they are likely to occur.

## 11. PENSIONS

The group has various defined-benefit schemes, as well as defined-contribution schemes.

*Defined-benefit schemes*
In defined-benefit pension schemes the employer is obliged to contribute to the future pension of a specified size. The group's collective pension schemes are administered by a life assurance company. The estimated accrued obligation is related to the value of the paid-in and saved up pension funds. If the total pension funds exceed the estimated pension liability on the balance sheet date, the net value is recognised as an asset on the balance sheet if it is likely that excesses can be utilised for future obligations. If the pension liabilities exceed the pension funds, the net liability is classified as a liability on the balance sheet.

The group also has unsecured pension liabilities which are funded through the group's operations. Pension liabilities on such agreements are posted as a liability on the balance sheet.

Pension liabilities are estimated annually by an independent actuary whereby the linear accrual method is applied. The pension liability is estimated as the present value of the estimated future pension contributions which for the purposes of accounting are regarded as accrued on the balance sheet date.

Changes to pension plans are recognised as income or costs at the time that the plan is changed.

The pension costs are based on requirements determined at the start of the period. The annual net pension cost consists of the present value of the annual pension accrued, interest costs on the net pension liability and accrued employer's payroll tax. The net pension costs for the period are posted to 'Payroll, etc.' in the statement of income.

The actuarial calculations are based on several actuarial assumptions, see note 47. When the liabilities' present value and fair value of the pension funds are calculated on the balance sheet date, actuarial gains and losses may occur as a result of changes in actuarial assumptions and actual effects. Actuarial gains and losses are included in comprehensive income.

The assessment of pension liabilities is described in Note 3 Assessments and Use of Estimates.

*Defined-contribution schemes*
Defined-contribution schemes involve the group depositing an annual contribution toward the employees' pension savings. This scheme is handled by a life assurance company. The future pension will depend on the size of the contribution and the annual return on the pension savings. The group has no further commitments in terms of the work performed, once the annual contribution is paid. There are no provisions for pension commitments for such schemes. Defined-contribution pension schemes are recognised directly as costs and are included under 'Payroll, etc.' in the statement of income.

## 12. INCOME TAX

The annual tax costs in the statement of income consist of the tax payable for the income year, any surplus/deficit on allocated tax payable for the previous year, tax at source, and recognised deferred tax. These are recognised as income or costs and are included in the statement of income as tax costs with the exception of current and deferred tax on transactions which are recognised directly in comprehensive income or under equity.

Deferred tax commitments/deferred tax portions are calculated on the basis of provisional differences. The provisional difference is the difference between the book value and the tax value of assets and liabilities. Deferred tax assets are calculated on the tax effects of losses carried forward.

Deferred tax assets are entered as assets on the balance sheet to the extent it is expected that the group will have sufficient taxable profit in later periods to utilise the deferred tax assets. Deferred tax assets and deferred tax liabilities are calculated in accordance with the tax rate expected to apply to temporary differences when they are reversed, based on applicable legislation at the time of reporting. Deferred tax assets and deferred tax liabilities are not discounted.

Deferred tax on transactions recognised in other comprehensive income or equity is recognised as the underlying transaction, either in comprehensive income or in equity. In comprehensive income this is shown as the tax effect. Tax payable is entered directly on the balance sheet to the extent that the tax items relate to equity transactions.

Property tax is not regarded as income tax as per IAS 12, and is recognised as an operating cost.

## 13. SEGMENTS

For the purpose of management the bank is organised into five operational segments based on the products and services. The segments form the basis for primary segment reporting. Financial information concerning the segments is presented in note 4.

## 14. CASH FLOW STATEMENT

Cash flow statements show the cash flows grouped according to types and employment area. Cash and cash equivalents include cash, deposits with central banks, treasury bills and loans to and receivables from financial institutions relating to the placement of funds.

## 15. EQUITY

### 15.1 Earnings per equity certificate

Earnings per equity certificate is calculated as the equity certificate holders' share of the profit for the period divided by the weighted average number of equity certificates during the period.

### 15.2 Dividends

Dividends on equity certificates and social capital are recognised in the annual financial statements as equity until they are adopted by the bank's board of trustees.

## 16. EVENTS AFTER THE BALANCE SHEET DATE

New information after the balance sheet date concerning the company’s financial position as at the balance sheet date will be included in the basis for assessing the accounting estimates in the accounts and will thus be taken into consideration in the annual financial statements. Events after the balance sheet date which do not affect the company’s financial position on the balance sheet date, but which will affect the company’s financial position in the future, are reported if such information is material.

## 17. FUTURE AMENDMENTS TO ACCOUNTING POLICIES

Standards and interpretations adopted at the time of the presentation of the annual financial statements, but where there is a later date of entry into force, except those assessed not to be relevant, are stated below. The group's intention is to implement the relevant changes as at the date of entry into force, provided that the EU approves the changes before the presentation of the consolidated financial statements.

**IFRS 9 Financial instruments**

IFRS 9 replaces the current IAS 39 Financial Instruments: Recognition and Measurement and entails changes related to classification and measurement, hedge accounting and write-downs. The standard has accounting effect as from 1 January 2018 and is implemented as from 1 January 2018. The Group has investigated consequences and implementation effects of the introduction of IFRS 9 and the implementation effects are described below. Tables of implementation effects are presented at the end.

Classification and measurement

The new standard requires all financial assets, except equity instruments and derivatives, to be classified and measured based on a combination of the Group's model for managing assets (the 'business model' test) and the characteristics of the instruments' cash flow (the 'contractual cash flow' test). For financial assets, the measurement categories in IAS 39 will be replaced with the following categories: fair value with value changes through profit or loss, fair value with value changes through other comprehensive income (with and without reclassification) and amortised cost. Instruments that must initially be measured at amortised cost or fair value with value changes through other comprehensive income can be designated for measurement at fair value with value changes through profit or loss if this eliminates or significantly reduces an accounting discrepancy. The switch to IFRS 9 will not result in any changes to the classification or measurement of derivatives. The requirements for the measurement of financial liabilities under IFRS 9 are by and large the same as under IAS 39, except for the treatment of gains or losses attributed to own credit risk related to liabilities that are measured at fair value with value changes through profit or loss.

The Group has completed its assessment regarding classification and measurement.

For the Group's loans to and receivables from customers, as well as credit institutions, excluding fixed-rate loans, it is concluded that the business model entails ‘holding to receive contractual cash flows’ and that the measurement method of amortised cost will be continued under IFRS 9. This choice does not entail any changes in how loans and receivables are accounted for in the balance sheet or through the profit or loss under IAS 39.

As at 31 December 2017, the Group has a limited portfolio of fixed rate loans to customers that are recognised at amortised cost under IAS 39. On the implementation of IFRS 9, it is concluded that fixed rate loans to customers should be measured at fair value, with value adjustment through the ordinary profit or loss. The implementation effect as at 1 January 2018 is calculated as an increase in the carrying amount of NOK 3.0 million.

Concerning ‘shares and units’ in the accounts, it is concluded that strategic and long-term investments are measured at fair value, with value changes through comprehensive income, whereby future realised gains and losses are not reversed in the ordinary operating profit or loss. Other equity instruments are measured at fair value, with value changes and realised gains and losses through the ordinary profit or loss.

Concerning “certificates and bonds etc. at fair value” in the accounts, the conclusion is that the measurement method of fair value through profit or loss is continued under IFRS 9.

Concerning the group's financial obligations, the measurement category of amortised cost is continued under IFRS 9. This choice does not entail any change from IAS 39.

In the parent bank's financial statements, the share of loans to customers identified as transferable to Sparebanken Øst Boligkreditt AS involve a business model where the parent bank both “receives contractual cash flows” and “sells loans to the subsidiary”. In the parent bank’s balance sheet, identified loans will be classified at fair value with value adjustment through other comprehensive income. As at 1 January 2018, identified loans amounted to NOK 3,799.6 million in the parent bank’s balance sheet. The implementation effect as at 1 January 2018 is calculated as an increase in the carrying amount of NOK 1.1 million. The change and implementation effect will not apply in the consolidated accounts because the group does not have a business model which involves the sale of loans to others outside the group.

Hedge accounting

IFRS 9 allows the application of hedge accounting to be based more on the business’s risk management than is permitted under IAS 39.

The company currently uses hedge accounting to hedge interest rate and currency risk on fixed interest rate deposit and borrowing in foreign currencies. IFRS 9 does not entail any changes in the company’s application of existing hedge accounting and the company will continue to apply hedge accounting under IFRS 9 by hedging the base interest rate on fixed interest rate deposits and the exchange rates for deposits in foreign currencies.

Write-downs

IFRS 9 will change the rules for impairment of financial assets that are debt instruments and which are measured at amortised cost or fair value, with value changes through other income or costs (other comprehensive income). This entails an implementation effect as at 1.1.2018 on the transition to IFRS 9 and a change in how the company measures loss provisions, going forward. The new rules in IFRS 9 require provisions to be made for expected future losses, regardless of the extent to which such objective evidence of impairment exists on the balance sheet date. The rules are based on the loans being placed in one of three groups for write-down purposes. The loss provisions for group 1 must amount to the expected loss in the first 12 months after the balance sheet date. Instruments must be transferred to groups 2 or 3 when a material increase in credit risk is identified, and provisions must be made for the expected loss over the instruments’ expected lifetime.

The Group has completed the work of establishing principles and a model for loss provisions under IFRS 9. A model has been established to calculate losses per commitment, based on the risk class of the commitment, whereby loss provisions, depending on the group, are calculated on the basis of the probability of default, the expected loss due to default, and the exposure of the commitment. When calculating future expected losses, a probability-weighted calculation is made concerning the expected macroeconomic development. To determine parameters, the project team has analysed historical defaults, historical losses and the development in risk classification distributed on lending segments. Payment default beyond 90 days is defined as default. The implementation effect as at 1 January 2018 is calculated as a reduction of the Group's loss provisions of NOK 5.8 million.

**Step 1:** Commitments that do not significantly increase credit risk, after initial recognition, measured on the basis of the change in risk class; and commitments with a risk class better than the limit set for 'low credit risk', are included in group 1. The limit for 'low credit risk' is set as risk class D, which entails that commitments with a significant change in risk class, but where the risk class is class D or better, will not be identified to have a substantial increase in credit risk. For commitments in group 1, an expected 12-month loss is calculated on the basis of the commitment's exposure.

**Step 2:** Commitments with a substantial increase in credit risk, after initial recognition, measured on the basis of the change in risk class, including commitments with default exceeding 30 days, are included in group 2. For commitments in group 2, a lifetime expected loss is calculated on the basis of the commitment's exposure and expected duration.

**Step 3:** Commitments with a significant increase in credit risk, where there is objective evidence of impairment, or where the default exceeds 90 days, are included in group 3. For commitments for which there is no individual impairment assessment, a lifetime expected loss is calculated on the basis of the commitment's exposure, the risk class parameter for expected losses, and expected duration.

<u>Effect of the implementation of IFRS 9</u>
The Group's equity at 1 January 2018 is expected to increase by NOK 6.6 million after tax effects as a consequence of the implementation of IFRS 9. The introduction of IFRS 9 does not entail any significant change in the Group's capital adequacy and the Group does not expect to apply the proposed transitional rules for the write-down of losses for capital adequacy purposes.

**The table below shows the measurement category and recognised amount under IAS 39 and how this will be reported under IFRS 9 in the group as from 01.01.2018:**

| **Accounting line** (figures in NOK millions) | **Measurement category under IAS 39** | **Measurement category under IFRS 9** | **Recognised under IAS 39** | **Recognised under IFRS 9** |
|---|---:|---:|---:|---:|
| Loans to and receivables from customers | Amortised cost | Amortised cost | 30,717.4 | 30,723.2 |
| Loans to and receivables from customers | Amortised cost | Fair value with value adj. through ord. profit or loss | 255.0 | 258.0 |
| Shares and units | Available for sale | Fair value with value adj. through ord. profit or loss | 26.8 | 26.8 |
| Shares and units | Available for sale | Fair value with value adj. through other comprehensive income | 439.3 | 439.3 |

**The table below shows loss provisions in the different groups with the introduction of IFRS 9 in the group from 01.01.2018:**

| **(figures in NOK millions)** | **Step 1** | **Step 2** | **Step 3** | **Total** |
|---|---:|---:|---:|---:|
| **Loans to and receivables from customers** | 19.5 | 8.2 | 64.4 | 92.1 |

**The table below shows the implementation effects on equity of the introduction of IFRS 9 in the group from 01.01.2018:**

| | Equity effect |
|---|---|
| **Changes in loss provisions** | |
| Capitalised amount under IAS 39 at 31.12.2017 | -73.4 |
| Effect of introducing the expected loss model on loans to and receivables from customers | 5.8 |
| Tax effect based on the item above | -1.4 |
| **Opening balance against equity under IFRS 9 as at 01.01.2018** | **-69.1** |
| | |
| **Changed measurement from amortised cost to fair value of fixed rate loans to customers** | |
| Amortised cost under IAS 39 at 31.12.2017 | 0.0 |
| Effect of changed measurement from amortised cost to fair value | 3.0 |
| Tax effect on above item | -0.8 |
| **Opening balance against equity under IFRS 9 as at 01.01.2018** | **2.2** |
| | |
| **Total change in equity on the introduction of IFRS 9 on 01.01.2018** | **6.6** |

**IFRS 15 Revenue from Contracts with Customers**
IFRS 15 will replace all existing standards and interpretations for the recognition of income. The core principle of IFRS 15 is that income is recognised so as to reflect the transfer of agreed goods or services to customers, and at an amount that reflects the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The standard includes a model for the recognition and measurement of the sale of non-financial assets (excluding the sale of properties, plant and equipment) and applies to all income contracts. The rules in IFRS 9 must be used for contracts that are recognised in line with the rules in IFRS 9. The standard will have accounting effect from 1 January 2018. The changes are not assessed to materially affect the group's financial position, result and/or disclosures.

**IFRS 16 Leases**
IFRS 16 replaces the existing IFRS standard leases, IAS 17 Leases. IFRS 16 specifies principles for recognition, measurement, presentation and information about leases for both parties to a lease, i.e. the customer (lessee) and the provider (lessor). The new standard requires the lessor to recognise assets and liabilities for most leases, which is a significant change from the current principles. As far as the lessee is concerned, IFRS 16 largely continues the existing principles in IAS 17. In line with these, a lessee must continue to classify its leases as operational or financial leases and recognise these leases differently. The standard will have accounting effect from 1 January 2019. The group's provisional assessment is that the standard will result in changes in the recognition of leases for premises. The standard is not expected to have a significant impact on the group's result, balance sheet and/or disclosures.

**IAS 40 Investment Property – changes**
The standard has been changed to clarify when properties, including property under construction, can be reclassified from inventory to investment property, or vice versa. Such reclassification requires change of use and this will occur when the property meets or stops to meet the definition of investment property, and there is evidence of the change of use. The standard has not yet been approved by the EU. The change is not expected to entail changes in the group's classification or measurement of the group's properties.

**Presentation of hybrid tier 1 capital bonds**
The bank had as at 31 December 2017 two hybrid tier 1 capital bonds totalling NOK 350 million, issued in 2013 and 2014. In the accounts, the hybrid tier 1 capital bonds are classified as liabilities and posted to “subordinary loan capital”.

Two letters from the Financial Supervisory Authority of Norway were made public on the 26th of February 2018 in connection with the inspection of the financial reports of two Norwegian savings banks, in which the Authority expressed its view of the presentation of hybrid tier 1 capital bonds. The published letters make it clear that, based on the wording of the agreements, said banks' hybrid tier 1 capital bonds do not satisfy the definition of financial obligations under IAS 32. The published information entails that Sparebanken Øst will adapt and change its presentation of hybrid tier 1 capital bonds in the balance sheet. As a result of the change, the issued hybrid tier 1 capital bonds will be reclassified from liability to paid-up capital. In the income statement, the change will result in the reclassification of interest on hybrid tier 1 capital bonds from interest costs to distribution from equity. Based on an assessment of materiality and practical feasibility up to the date for preparation of the financial statements, the bank has concluded that accounting practices will be changed from Q1 2018. If the change includes the bank's two hybrid tier 1 capital bonds, the interest costs in 2017 would be reduced by NOK 14.7 million before tax and NOK 11.0 million after tax. The allocation of the result for the year to equity certificate and primary capital would have remained unchanged. Similarly, the capital adequacy calculations would have also been unchanged.

## NOTE 3 - ASSESSMENTS AND USE OF ESTIMATES

Due to the uncertainties associated with business activities, many accounting items cannot be accurately measured, but only estimated. The executive management team has exercised judgement in the application of the accounting policies and used assumptions and expectations of future events that are regarded as likely. Estimates and assessments are regularly evaluated and are based on the most recent reliable data available, as well as experience from similar assessments. There will always be an inherent uncertainty associated with financial items that are not measured accurately, and the executive management team's assessments and best estimates may differ significantly from actual results.

Estimates are particularly used in the consolidated financial statements in relation to measurement of the following items:

- Losses on loans and guarantees
- Fair value of financial instruments
- Net pension liabilities

### 3.1 Losses on loans and guarantees

Loans are written down for credit losses on a case to case (individually) basis if there is objective evidence that such credit losses have occurred. Examples of such objective evidence include significant financial difficulties of debtors, defaults on payment, significant breach of contract, agreed changes to the interest rate or contractual conditions as a result of financial difficulties of debtors, bankruptcy, etc. Estimates of any credit loss are based on the size of expected future cash flows from sales of collateral etc., when the cash flows are expected to be paid and the discount rate. The size of the loss is directly proportional to the difference between the book value and the present value of discounted future cash flows. The main uncertainty when estimating the size of credit losses stems from the assessment of the size of the cash flows and when they are expected to be received. See also note 13.

Groups of loans are written down corresponding to individual loans when there is objective evidence that the Group has reduced in value as a result of an event that has occurred. Estimates of credit losses on groups of loans are based on historical loss data compared with bank-specific and/or market parameters such as, for example, risk classification, macroeconomic factors and comparative figures for the sector. The main uncertainty when estimating the size of credit losses on groups of loans is associated with the data basis used. How representative the data basis is and its quality are important. Write-down of impairment/losses on groups of loans is based on models of both an estimated and statistical nature. The general model risk will always be an uncertainty factor that is transferred to the estimates the models are intended to calculate. See also note 13.

### 3.2 Fair value of financial instruments

In principle, observable market rates must be used as the basis for measuring financial instruments at fair value. Where observable market prices do not exist and the fair value cannot be derived directly or indirectly from observable inputs in the market, various valuation techniques are used. These are methods that can involve using discretionary evaluations to some degree. Such discretionary evaluations may be liquidity risk, credit risk and volatility. Changes in the attitude toward these factors may affect the determination of the fair value of a financial instrument.

Equity instruments that are available for sale are valued on the basis of, among other things, the value created in the company, references to value development in comparable companies, and general valuation techniques. In those cases where equity instruments cannot reliably be established, equity instruments must be measured at cost.

See also note 22 for valuations of financial assets and liabilities at fair value.

### 3.3 Net pension liability

The group's defined-contribution pension liabilities are calculated by an external actuary. The calculations are based on standardised assumptions concerning death and disability and other demographic assumptions drawn up by Finance Norway (FNO). A number of economic assumptions are also used as the calculation basis, including the expected return on pension funds, the discount rate, annual payroll growth, the change in G (the National Insurance Scheme's basic amount) and the regulation of pensions.

The discount interest rate is based on the rate of interest on covered bonds in the Norwegian market, since the market for covered bonds in Norway is regarded as satisfying the requirements for corporate bonds of high quality with a deep market. The discount rate is adjusted by a premium to arrive at an interest rate that reflects the estimated time of payment. The expected return on the pension funds is set as the discount rate in accordance with IAS 19. Pension funds are mostly invested in liquid assets valued at fair value on the balance sheet date. The other economic assumptions are based on the expected long-term change in the parameters. A far higher risk is assessed to be associated with estimated gross pension liabilities than with estimated pension funds. See also note 47 for further information.

## NOTE 4 - OPERATIONAL SEGMENTS

Segment reporting is based on the bank's internal reporting format, in which the parent bank and the mortgage credit company are split into the retail market, the business market and the financial market. There are also other subsidiaries, as well as a non-reportable segment with items that are not allocated to other segments. Almost all the group's income comes from Norway. For the geographical distribution of loans to customers, see note 11.

For the purpose of management the bank is organised into five operational segments based on the products and services as follows: The retail market and business market segments mainly consist of lending to and deposits from customers. Finance mainly consists of the bank's liquidity portfolio, while the main product of AS Financiering is debenture financing of vehicles. Sparebanken Øst Eiendom AS is tasked with actively maintaining properties belonging to the Sparebanken Øst group. Income from the retail market, business market and AS Financiering mainly comprises net interest income, while income from Sparebanken Øst Eiendom AS consists of income from real estate. Income taxes are managed on a group basis and not allocated to operating segments, except for subsidiaries that are reported as separate operating segments.

Interest rates are reported on a net basis since the majority of segment income is derived from interest income on loans. The executive management team primarily bases its work on net interest income and not gross interest income and costs. Transactions between operational segments are based on arm's length pricing equivalent to transactions with third parties. No single customer accounts for more than 10% of the bank's total income in 2017 and 2016.

### Income statement

| 2017 | RM | BM | Finance | AS Financiering | Spb Øst Eiendom | Unallocated | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| Net interest and commission income | 335.5 | 108.7 | -26.1 | 123.0 | -4.1 | 24.5 | 1.0 | 562.5 |
| Other operating income | 63.2 | 10.2 | 20.3 | -23.7 | 62.6 | 33.8 | -11.9 | 154.5 |
| Operating costs | 58.1 | 16.5 | 0.0 | 34.7 | 13.7 | 159.7 | -5.3 | 277.4 |
| **Profit/loss before losses** | **340.6** | **102.4** | **-5.8** | **64.6** | **44.8** | **-101.4** | **-5.6** | **439.6** |
| Lending and guarantee losses, etc. | -0.2 | -1.4 | 0.0 | 8.8 | 0.0 | 0.0 | 0.0 | 7.2 |
| **Profit/loss before tax costs** | **340.8** | **103.8** | **-5.8** | **55.8** | **44.8** | **-101.4** | **-5.6** | **432.4** |
| Tax costs | 0.0 | 0.0 | 0.0 | 14.1 | 6.3 | 81.0 | -1.4 | 100.0 |
| **Profit/loss after tax** | **340.8** | **103.8** | **-5.8** | **41.7** | **38.5** | **-182.4** | **-4.2** | **332.4** |

### Income statement

| 2016 | RM | BM | Finance | AS Financiering | Spb Øst Eiendom | Unallocated | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| Net interest and commission income | 296.5 | 137.9 | -25.1 | 117.6 | -6.3 | 25.8 | -0.6 | 545.8 |
| Other operating income | 58.5 | 10.7 | 36.3 | -21.4 | 27.6 | 76.2 | -15.3 | 172.6 |
| Operating costs | 62.7 | 20.7 | 0.0 | 31.3 | 16.0 | 162.1 | -8.5 | 284.3 |
| **Profit/loss before losses** | **292.3** | **127.9** | **11.2** | **64.9** | **5.3** | **-60.1** | **-7.4** | **434.1** |
| Lending and guarantee losses, etc. | -0.1 | -2.7 | 0.0 | 9.5 | 0.0 | 0.0 | 0.0 | 6.7 |
| **Profit/loss before tax costs** | **292.4** | **130.6** | **11.2** | **55.4** | **5.3** | **-60.1** | **-7.4** | **427.4** |
| Tax costs | 0.0 | 0.0 | 0.0 | 14.0 | 0.2 | 83.8 | -1.8 | 96.2 |
| **Profit/loss after tax** | **292.4** | **130.6** | **11.2** | **41.4** | **5.1** | **-143.9** | **-5.6** | **331.2** |

### Balance sheet

| 2017 | RM | BM | Finance | AS Financiering | Spb Øst Eiendom | Unallocated | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| Net loans to and receivables from customers | 24,467.6 | 4,214.0 | 0.0 | 1,894.6 | 0.0 | 497.0 | -100.8 | 30,972.4 |
| Other assets | 7.0 | 0.0 | 4,682.5 | 27.2 | 232.4 | 2,965.0 | -1,892.4 | 6,021.7 |
| **Total assets** | **24,474.6** | **4,214.0** | **4,682.5** | **1,921.8** | **232.4** | **3,462.0** | **-1,993.2** | **36,994.1** |
| Deposits from and liabilities to customers | 9,377.8 | 2,854.7 | 1,646.0 | 12.7 | 0.0 | 117.9 | -37.3 | 13,971.8 |
| Other liabilities/offsetting | 15,096.8 | 1,359.3 | 3,036.5 | 1,667.5 | 149.2 | 98.5 | 1,769.8 | 19,638.0 |
| Equity | 0.0 | 0.0 | 0.0 | 241.6 | 83.2 | 3,245.6 | -186.1 | 3,384.3 |
| **Total liabilities and equity** | **24,474.6** | **4,214.0** | **4,682.5** | **1,921.8** | **232.4** | **3,462.0** | **-1,993.2** | **36,994.1** |
| **Year's investments** | **0.0** | **0.0** | **0.0** | **1.8** | **2.7** | **16.5** | **0.0** | **21.0** |

## Balance sheet

| 2016 | RM | BM | Finance | AS Financiering | Spb Øst Eiendom | Unallocated | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| Net loans to and receivables from customers | 23,638.3 | 3,895.8 | 0.0 | 1,721.0 | 0.0 | 627.2 | -186.6 | 29,695.7 |
| Other assets | 8.5 | 0.0 | 4,637.6 | 22.4 | 324.0 | 2,776.4 | -1,669.9 | 6,099.0 |
| **Total assets** | **23,646.8** | **3,895.8** | **4,637.6** | **1,743.4** | **324.0** | **3,403.6** | **-1,856.5** | **35,794.7** |
| Deposits from and liabilities to customers | 9,809.4 | 2,478.9 | 1,495.0 | 17.3 | 0.0 | 98.5 | -11.7 | 13,887.4 |
| Other liabilities/offsetting | 13,837.4 | 1,416.9 | 3,142.6 | 1,492.0 | 225.1 | 280.2 | -1,663.0 | 18,731.2 |
| Equity | 0.0 | 0.0 | 0.0 | 234.1 | 98.9 | 3,024.9 | -181.8 | 3,176.1 |
| **Total liabilities and equity** | **23,646.8** | **3,895.8** | **4,637.6** | **1,743.4** | **324.0** | **3,403.6** | **-1,856.5** | **35,794.7** |
| **Year's investments** | **0.0** | **0.0** | **0.0** | **1.1** | **9.8** | **53.0** | **0.0** | **63.9** |

## NOTE 5 - FINANCIAL RISK MANAGEMENT

Credit risk, market risk and liquidity risk are considered financial risks. Concentration risk is also discussed. Risks are reported quarterly to the executive management team and board. The reporting describes the current status in relation to various set limits for risk, both internal and statutory.

**Credit risk**
Credit risk is regarded as the risk of loss due to customers and other counterparties failing to meet their repayment obligations and any pledged collateral not covering the bank's outstanding debt.

Measuring risk when lending to customers takes place by classifying the risk customers represent and is an integral part of the credit process.
Pricing of credit is to be based on the risk of the individual commitment.

The bank's credit strategy describes the bank's overall extension of credit in the retail and business markets. On a day-to-day basis, the credit strategy is implemented via credit manuals, limits and authorisations that are handled via the bank's credit departments. All departments authorised to grant credit have a responsibility to comply with the credit policy adopted by the bank.

Central credit departments with authorisation to grant loans against security have been established in the retail market.

A separate credit department has been established which makes decisions on credit exceeding a certain amount in the business market. Decisions are taken in the credit department individually or jointly, according to a decision-making hierarchy. If the allocation of credit exceeds the authority given to the credit department, the case can be decided either by the executive management team or the board, depending on the amount. Smaller exposures are entered into in accordance with the adopted limits and personal mandates of the business market department. The development in credit risk related to the bank's lending is monitored on an ongoing basis with framework control, periodic analyses and reports, and the use of random sampling at customer level.

Placement in interest-bearing securities for liquidity purposes is linked to the strategy for liquidity management adopted by the board. The adopted strategy and the investment policy specify the risk tolerance, allocation to asset classes, limits and mandates. Credit losses must be close to zero. Furthermore, a significant proportion of the portfolio must be suitable to act as collateral for lending from Norges Bank. When investing funds in certificates and bonds, the risk is assessed on the basis of the paper's liquidity, issuer's rating and other counterparty-specific factors. Interest-bearing securities are booked at market value so that changes in value are continuously reflected in the financial statements.

Settlement risk is a form of credit risk. Should contract counterparties not meet their commitments, settlement in the form of cash or securities are at risk of being lost. The bank seeks to avoid such risks by entering into contracts with sound, and if possible rated, counterparties, and by using clearing systems with a good reputation.

Counterparty risk on derivatives and off balance sheet items is also a form of credit risk in that contracts may produce a loss if the counterparty goes bankrupt or is unable to fulfil its payment obligations. Such contracts are only entered into with financial institutions rated A or better by a credit assessment agency known by the bank.

**Concentration risk**
Concentration risk arises from low diversification with respect to geographical areas, industries and products. This is controlled in Sparebanken Øst by setting limits for exposure to industries and sectors, and commitment size.

The breakdown of the group's ordinary lending activities as at 31 December 2017 was 85.8% of gross lending to retail customers and 14.2% to business customers. A small proportion of lending to business customers contributes to a low concentration risk.

The group's loan portfolio to retail customers and businesses is primarily spread across the central Eastern Norway region. The bank is not regarded as being particularly exposed to individual business customers (cornerstone industries) or one-sided financial growth in the region. The bank's location in Eastern Norway provides close proximity to a large market area.

The business customer lending portfolio includes a variety of industries. Exposure to property and property development accounts for a relatively large proportion. Sales and the operation of real estate account for 62.2% of the business portfolio. Measured as a portion of the total lending portfolio in the group, exposure to sales and the operation of real estate is nonetheless no more than 8.8%. Property is a cyclical industry that is particularly vulnerable in periods of economic downturn. The commitments are, however, regarded as well secured, often with additional collateral.

Sparebanken Øst has set limits for concentration size whereby the three largest exposures in the business market portfolio may not account for more than 15% of the business market portfolio and the 10 largest for no more than 30%.

In its lending operations as at 31 December 2017, apart from commitments with its own subsidiaries (AS Financiering and Sparebanken Øst Boligkreditt AS), the bank had no exposures to external customers exceeding 10% of its primary capital. As at 31 December 2017, loans to the group's largest loan customer represented 0.5% of gross lending. The group's 10 largest loan customers represented 2.9% of gross lending, and the group's 20 largest loan customers represented 4.4% of gross lending.

**Market risk**
Market risk is the risk of a loss in the market value of financial assets and liabilities on the bank's balance sheet, or via a negative effect on earnings or equity in the event of changes in financial market prices.

Sparebanken Øst is exposed to market risk primarily through changes in the level of interest rates (interest risk), through changes in market prices of financial instruments, including changes in spreads for interest-bearing securities (credit spread risk), exchange rates (currency risk) and share prices (equities risk).

Market risk is managed via limits for maximum exposure to various asset classes, interest risk, currency risk and other risks.

<u>Interest rate risk</u>
When there is a change in the market interest rate, Sparebanken Øst is unable to immediately change the interest rate for all balance sheet items if these have different fixed-rate periods. A change in the market interest rate will then result in an increase or reduction of the net interest and balance sheet items' fair value. This risk is reduced by matching assets, liabilities and various derivatives with each other, in order to keep the risk within accepted limits.

<u>Credit spread risk</u>
The credit spread risk is the risk of losses due to changes in the margin (credit spread) on interest-bearing securities. The credit spread risk in the liquidity portfolio is managed by ensuring that the loss due to changes in the credit spread never exceeds a specific limit.

<u>Currency risk</u>
Currency risk is the risk of loss of value due to exchange rate fluctuations. Such risk is reduced by matching asset and liability positions with each other on the balance sheet or by using currency derivatives. Rolling swaps are used for assets where debtors are able to repay before the final due date. Where the final due date may not be deviated from, the positions are secured by basis swaps. Limits for currency exposure have been set.

<u>Equities risk</u>
The group has a holding of equities for mainly strategic purposes. Equities risk is the risk of losses due to changes in the prices of equities. A 10% fall in the value of equities would result in a negative effect on the result of NOK -1.8 million in the income statement and NOK -46.6 million in comprehensive income. Please refer to note 35 for specification of the group's equities and equity certificates.

**Risk reducing measures**
The bank uses guarantees, derivatives and financial hedging to reduce risk exposure due to changes in interest rate levels, exchange rates and credit risks. Please see the descriptions of each individual risk area.

The low proportion of lending to business customers contributes to a low concentration risk for the bank. The lending activities in the business market are not deemed to be particularly exposed to individual companies (cornerstone industries) or one-sided economic development in the region. Exposure to property and property development accounts for a relatively large share of the business portfolio, but measured as a share of the group's total lending portfolio this exposure accounts for a limited share of the total lending portfolio. Real estate commitments are, however, regarded as well secured, often with additional collateral. Loans and credit facilities extended to the retail market primarily concern commitments against mortgages on real estate within appropriate loan-to-value ratios. The bank has low exposure to loans/credit facilities without related collateral.

Lending to other banks and lending as senior bond placements and certificates is provided on an unsecured basis. Investments in covered bonds provide security in a defined selection of issuer's assets, usually mortgages.

**Liquidity risk**
Liquidity risk is the risk of the bank not being in a position to meet its ongoing liabilities as they fall due or having to obtain necessary funding at a higher cost. The overall strategy dictates that Sparebanken Øst must practise a conservative liquidity risk policy. This involves a long-term and proactive approach to future liquidity needs and managing liquidity through investments in assets with low liquidity risk and credit risk. Limits have been established which govern the composition of the balance sheet with regard to the degree of long-term funding and the horizon for survival in a situation with no access to new liquidity. The bank maintains liquidity reserves in the form of cash, drawing rights in Norges Bank and a bond portfolio consisting of liquid securities with high credit quality.

Sparebanken Øst seeks at all times to diversity its sources of finance in order to be as independent as possible of events in individual markets. In addition to deposits from customers, the Norwegian certificate and bond market, including the market for covered bonds, are current funding sources.

Deposits are a key source of funding for the banks. Following the financial crisis, the competition for deposits has intensified, particularly from the new consumer banks. Adjustments to the range of products available to our customers have so far provided stable deposits. In particular, Topprente.no has helped ensure the necessary competitiveness for the bank with regard to its deposit coverage ratio. Topprente.no is a self-service concept which provides an opportunity to offer customers competitive deposit terms. As at 31 December 2017, deposits from customers amounted to 45.1% of the group's net lending, compared with 46.8% as at 31 December 2016.

It is primarily the larger institutional investors that invest in the banks' debt securities. In order to ensure liquidity in the securities issues it is desirable that the bonds are of a certain size. On the other hand, it is not desirable to have loans that are too large, since this will increase the funding risk. Covered bonds provide security to investors in the form of preferential rights to low-risk mortgages. In principle, the largest bond loans are covered bonds.

The balance sheet steering committee constantly addresses market events and agrees measures linked to the liquidity situation in accordance with the adopted strategy. A contingency plan has also been specified for dealing with liquidity crises.

**Long-term capital management**
Sparebanken Øst's long-term capital management is intended to ensure good solidity and adequate liquidity for the entire group. Good solidity is maintained first and foremost by ensuring that there are sufficient capital buffers in excess of the minimum capital requirements. The bank is adapting to the new capital adequacy rules and closely monitors the development in the market's capital expectations beyond the regulatory requirements. The bank's adopted CET1 capital ratio target is 14.5%. This capital level provides capacity for growth, room for manoeuvre in relation to the regulatory requirements, competitiveness in the bond markets and the opportunity for a return on equity in line with the adopted objective.

Growth and planned growth in lending and other assets will therefore always take into consideration the need for buffer capital above the minimum requirements. Otherwise, there is a heavy focus on maintaining the prudent management of commercial operations so that the group can achieve good results and satisfactory returns on invested capital. This will ensure the bank remains attractive to investors and help to ensure the group access to capital when required to strengthen its equity share capital.

## NOTE 6 - CAPITAL ADEQUACY

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---:|---:|---|---:|---:|
| | | **CET1 capital** | | |
| 3,384.3 | 3,176.1 | Book equity | 2,971.7 | 2,760.5 |
| | | **Deduction items in CET1 capital** | | |
| -5.2 | -5.1 | Additional value adjustments (prudent valuation requirement) (AVA) | -4.9 | -4.8 |
| -155.6 | -124.4 | Dividends | -155.6 | -124.4 |
| -71.4 | 0.0 | Goodwill in the valuation of significant investments | -71.4 | 0.0 |
| -10.3 | 0.0 | Intangible assets | -8.5 | 0.0 |
| 0.0 | 0.0 | Deferred tax | 0.0 | 0.0 |
| 0.0 | 0.0 | CET1 capital instruments in other financial institutions (not significant) | 0.0 | 0.0 |
| 0.0 | 0.0 | CET1 capital instruments in other financial institutions (significant) | 0.0 | 0.0 |

| | | | | |
|---|---|---|---|---|
| **3,141.8** | **3,046.5** | **Total CET1 capital** | **2,731.3** | **2,631.3** |
| | | **Other tier 1 capital** | | |
| 349.8 | 349.6 | Hybrid tier 1 capital | 349.8 | 349.6 |
| | | **Deductions from other tier 1 capital** | | |
| 0.0 | 0.0 | Other tier 1 capital instruments in other financial institutions (not significant) | 0.0 | 0.0 |
| 0.0 | 0.0 | Other tier 1 capital instruments in other financial institutions (significant) | 0.0 | 0.0 |
| **349.8** | **349.6** | **Total other tier 1 capital** | **349.8** | **349.6** |
| **3,491.6** | **3,396.0** | **Total tier 1 capital** | **3,081.1** | **2,980.9** |
| | | **Tier 2 capital** | | |
| 349.9 | 349.7 | Subordinated loans | 349.9 | 349.7 |
| | | **Deductions from tier 2 capital** | | |
| 0.0 | 0.0 | Tier 2 capital instruments in other financial institutions (not significant) | 0.0 | 0.0 |
| 0.0 | 0.0 | Tier 2 capital instruments in other financial institutions (significant) | 0.0 | 0.0 |
| **349.9** | **349.7** | **Total tier 2 capital** | **349.9** | **349.7** |
| **3,841.5** | **3,745.7** | **Net primary capital** | **3,431.0** | **3,330.6** |
| | | **Calculation basis** | | |
| 0.0 | 0.0 | Governments and central banks | 0.0 | 0.0 |
| 39.8 | 135.8 | Local and regional authorities | 39.8 | 135.8 |
| 0.0 | 0.0 | Publicly owned companies | 0.0 | 0.0 |
| 0.0 | 0.0 | Multilateral development banks | 0.0 | 0.0 |
| 132.8 | 202.4 | Institutions | 2,773.2 | 2,492.0 |
| 462.7 | 454.8 | Companies | 655.1 | 691.0 |
| 1,575.5 | 1,522.3 | Mass market accounts | 191.8 | 255.2 |
| 12,791.3 | 12,077.9 | Accounts secured against property | 8,889.7 | 8,695.4 |
| 119.7 | 171.4 | Accounts due | 64.3 | 134.3 |
| 313.8 | 232.3 | Covered bonds | 303.7 | 222.2 |
| 0.0 | 0.0 | Shares in securities fund | 0.0 | 0.0 |
| 667.7 | 810.1 | Equity positions | 1,603.8 | 1,743.7 |
| 381.3 | 480.3 | Other exposures | 111.8 | 114.7 |
| 0.0 | 62.4 | Securitisation | 0.0 | 62.4 |
| **16,484.7** | **16,149.7** | **Calculation basis for credit and counterparty risk** | **14,633.4** | **14,546.8** |
| **0.0** | **0.0** | **Calculation basis, currency risk** | **0.0** | **0.0** |
| **1,289.7** | **1,283.5** | **Calculation basis, operational risk** | **840.9** | **807.6** |
| **185.6** | **263.5** | **Calculation basis for weakened counterparty credit value (CVA)** | **62.7** | **103.5** |
| **17,960.0** | **17,696.7** | **Total calculation basis** | **15,537.0** | **15,457.9** |
| 17.49 % | 17.21 % | CET1 capital ratio | 17.58 % | 17.02 % |
| 19.44 % | 19.19 % | Tier 1 capital ratio | 19.83 % | 19.28 % |
| 21.39 % | 21.17 % | Capital adequacy | 22.08 % | 21.55 % |

| **Group 2017** | **Group 2016** | **Buffers** | **Parent bank 2017** | **Parent bank 2016** |
|---|---|---|---|---|
| 449.0 | 442.4 | Capital conservation buffer | 388.4 | 386.4 |
| 359.2 | 265.5 | Countercyclical buffer | 310.7 | 231.9 |
| 538.8 | 530.9 | Systemic risk buffer | 466.1 | 463.7 |
| 0.0 | 0.0 | Buffer for systemically important banks | 0.0 | 0.0 |
| **1,347.0** | **1,238.8** | **Total buffer requirements** | **1,165.3** | **1,082.1** |
| **2,333.5** | **2,250.1** | **Available buffer capital** | **2,032.1** | **1,935.7** |
| 9.23 % | 9.24 % | Leverage ratio* | 7.92 % | 7.89 % |

*) The leverage ratio is calculated at the end of the quarter.

The bank uses the standardised approach to calculate the minimum primary capital requirement for credit risk. The calculation related to operational risk is calculated based on the basic approach. The capital charge for credit value adjustment (CVA) is calculated using the standardised approach. Commitment amounts for derivatives are calculated using the market value approach.

The bank's primary capital must satisfy the minimum capital adequacy ratio requirements at all times, with the addition of a buffer equivalent to the company's accepted risk tolerance.

See also the group's Pillar III document, which is available on Sparebanken Øst's website.

## NOTE 7 - CREDIT RISK

**Maximum credit risk**

Maximum credit risk is represented as the book value of the financial assets, including derivatives, on the balance sheet. The group also has credit risk related to loan approvals, unused overdraft facilities and guarantees. The maximum credit risk in excess of book values is shown below.

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| | | **Liabilities** | | |
| 395.9 | 196.7 | Loan pledges | 377.6 | 180.7 |
| 1,521.7 | 1,537.4 | Overdraft facilities | 3,129.3 | 2,774.3 |
| 116.6 | 154.1 | Guarantees to customers | 115.8 | 153.4 |
| 0.0 | 72.7 | Guarantee to Eksportfinans ASA | 0.0 | 72.7 |
| 0.0 | 0.0 | Guarantee for all covered bond obligations in the mortgage credit company* | 9,685.9 | 8,183.9 |
| **2,034.2** | **1,960.9** | **Total liabilities** | **13,308.6** | **11,365.0** |

* The parent bank has issued a guarantee for all covered bond commitments in the mortgage credit company in connection the rating process for Sparebanken Øst Boligkreditt AS.

For more information on maximum credit exposure linked to the various classes of financial instrument, see the specific associated notes.

**Credit risk**

Sparebanken Øst's credit policy provides the basis for the credit activities in the bank. Debt-servicing capacity is central to any credit assessment in either the retail or the business markets. Normally, credit must not be provided if it is unlikely that the customer will be able to service the debt even when adequate security is provided. The basis for the assessment of a customer's capacity to service the debt is current and future cash flows measured against the customer's cost obligations at any time. Cash flow is based on the salary income or business income of the customer(s) being financed. Besides this, the extent to which the bank will be able to cover the commitments by realising the security in the event of any future default, reduction of cash flows, or other negative market changes, is also assessed.

Procedures and guidelines have been established for both the retail and business markets to help ensure that all elements relating to credit assessments are adequately described and known. These must also ensure that portfolios are properly followed up and that any changes relating to the assessed risk for the individual commitment can be identified at an early stage and monitored closely. Sparebanken Øst generally has very low exposure to unsecured loans/credit facilities in the retail and business markets.

Sparebanken Øst implemented from 1 January 2017 the new Mortgage Regulations without this having entailed any significant changes in the bank's established credit practices in the retail market.

It is Sparebanken Øst's ambition to provide loans within the constraints of the Mortgage Regulations. Assessing a customer's capacity to service loans and credit facilities is key to this assessment. As far as capacity to pay is concerned, a comprehensive liquidity calculation is performed based on the borrower's income and expenditure situation. The key factor in this is that one tests the available liquidity against a potential interest rate rise of 5 percentage points. In principle, consumer loans and credit facilities are only granted against adequate security. Adequate security primarily means security in various types of real estate, usually in relation to the borrower's home. The various types of real estate could be owner-occupied homes, semi-detached homes, row houses, or various types of cooperatively owned homes. An overwhelming proportion of repayment loans with this type of security are within the 85% of the loan-to-value ratio, while credit limits are established within the 60% loan-to-value ratio of an appraised value. Pursuant to the Regulations, the bank has adapted to the new loan-to-value ratio for financing second homes in Oslo, as well as the deviation limitations in the various markets. The sound asset basis is usually based on documented marketable values, rates or agent valuations. Other types of security that may be used to some limited degree could be security in locked-in deposits, holiday homes, and land. Sales liens, securities, shares in flats/flats rented against a loan, life insurance policies, pledges or other security provided by a third party are used to a very small degree.

The basis for the credit process in the business market is an assessment of the customer's capacity to service the debt. A key aspect of this assessment is an analysis of the customer's current and future cash flows from the business activity being financed, and possibly also business activities that the company has already established. The degree of financing is also tested against a future increase in interest rates. Another key aspect of the credit process is assessing the business owners and the owners' capacity to support the business activities. The main types of security in the business market are real estate, with mortgages related to various types of commercial property. Other types of financing could be linked to security such as stock, trade receivables, machinery and plant, and farming products. Other security may also be provided by a third party. When assessing the security's value, the going concern assumption is generally applied and account is taken of any easements. The credit guidelines describe the policy norms the bank follows for different types of financing, as well as maximum financing rates for different types of security objects. Routines for the periodic follow-up of commitments have been established in the business market. These ensure the bank updated assessments at least once a year for the majority of the portfolio. In addition to the customary credit assessment, financial clauses in credit agreements are also used to reduce risk and ensure the follow-up and management of individual commitments. It is the total exposure to the individual customer that is taken into consideration when assessing the effect the security pledged has for the credit risk.

Chapter 11-II of the Financial Institutions Act governs the activities of Sparebanken Øst Boligkreditt AS and sets strict criteria concerning which loans may be included in the security pledged as collateral for covered bonds. These are more stringent regulations than for ordinary home mortgages and the Act also requires an independent assessor appointed by the Norwegian Financial Supervisory Authority and an independent assessment of each individual pledge of security.

## NOTE 8 – CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

Sparebanken Øst's underlying credit quality relating to loans and advances to customers is shown by the portfolio's risk classification. The risk classification of customers is an integral and mandatory element of the credit process within both the retail and business markets. The credit strategy sets limits for the minimum proportion of portfolios within the various risk classes. The development in the portfolio distribution within the risk classes must be followed up through continuous monitoring and reporting.

The bank is always seeking to improve its internal risk classification models in order to ensure that the models always have high explanatory power based on the key drivers in the various customer segments. The bank has started a project with the purpose of establishing a credit score model as a replacement for the current risk classification system.

The risk classification model for retail customers and business customers, respectively, emphasises key figures linked to ability and willingness to pay. The bank's risk classification in both the retail market and the business market is based on a scale consisting of 11 categories. Commitment size and risk classification are key elements in building up the bank's authorisation structure within the business market.

In the case of financial investments in certificates and bonds, the risk is assessed based on rating and counterparty-specific factors. Ratings from credit rating agencies are preferred. Where such ratings are not available, scores from Norwegian brokers as well as internal assessments are used.

Ratings from credit rating agencies and scores from brokers generally follow a scale from AAA to C, where AAA is the highest quality and C indicates the lowest quality. The scale is used such that AAA - A is deemed low risk, BBB - BB is deemed medium risk and B - C is deemed high risk.

### Group as at 31.12.2017

| | Not due or written down | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Low risk** | **Moderate risk** | **High risk** | **Unclassified** | **Due** | **Individually written down** | **Total** |
| **Loans** | | | | | | | |
| Loans to and receivables from financial institutions | 5.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.7 |
| Loans to and receivables from customers | | | | | | | |
| - Financial leases | 13.0 | 5.5 | 1.2 | 0.0 | 3.2 | 0.6 | 23.5 |
| - Overdraft facilities and operating credits | 2,228.2 | 57.7 | 25.7 | 0.2 | 92.4 | 0.0 | 2,404.2 |
| - Building loans | 123.4 | 10.6 | 0.0 | 0.0 | 17.2 | 0.0 | 151.2 |
| - Repayment loans | 25,153.4 | 1,760.3 | 522.4 | 0.5 | 939.7 | 115.1 | 28,491.4 |
| **Total loans** | **27,523.7** | **1,834.1** | **549.3** | **0.7** | **1,052.5** | **115.7** | **31,076.0** |
| | | | | | | | |
| **Financial investments** | | | | | | | |
| Listed government bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Listed other bonds | 4,309.8 | 50.2 | 0.0 | 0.0 | 0.0 | 0.0 | 4,360.0 |
| Unlisted bonds | 145.1 | 10.0 | 0.0 | 0.0 | 0.0 | 0.0 | 155.1 |
| **Total financial investments** | **4,454.9** | **60.2** | **0.0** | **0.0** | **0.0** | **0.0** | **4,515.1** |

## Group as at 31.12.2016

| | Not due or written down | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Low risk** | **Moderate risk** | **High risk** | **Unclassified** | **Due** | **Individually written down** | **Total** |
| **Loans** | | | | | | | |
| Loans to and receivables from financial institutions | 9.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.5 |
| Loans to and receivables from customers | | | | | | | |
| - Financial leases | 7.0 | 3.9 | 1.0 | 0.1 | 7.6 | 1.1 | 20.7 |
| - Overdraft facilities and operating credits | 2,067.4 | 134.3 | 32.7 | 13.4 | 80.5 | 39.9 | 2,368.2 |
| - Building loans | 82.5 | 18.8 | 0.0 | 0.0 | 0.0 | 0.0 | 101.3 |
| - Repayment loans | 22,313.8 | 3,227.5 | 688.7 | 98.2 | 858.2 | 126.7 | 27,313.1 |
| **Total loans** | **24,480.2** | **3,384.5** | **722.4** | **111.7** | **946.3** | **167.7** | **29,812.8** |
| **Financial investments** | | | | | | | |
| Listed government bonds | 205.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 205.4 |
| Listed other bonds | 3,117.4 | 178.4 | 0.0 | 0.0 | 0.0 | 0.0 | 3,295.8 |
| Unlisted bonds | 974.2 | 15.1 | 0.0 | 0.0 | 0.0 | 0.0 | 989.3 |
| **Total financial investments** | **4,297.0** | **193.5** | **0.0** | **0.0** | **0.0** | **0.0** | **4,490.5** |

## Parent bank as at 31.12.2017

| | Not due or written down | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Low risk** | **Moderate risk** | **High risk** | **Unclassified** | **Due** | **Individually written down** | **Total** |
| **Loans** | | | | | | | |
| Loans to and receivables from financial institutions | 1,929.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1,929.3 |
| Loans to and receivables from customers | | | | | | | |
| - Financial leases | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Overdraft facilities and operating credits | 1,567.1 | 35.9 | 22.0 | 0.2 | 64.3 | 0.0 | 1,689.5 |
| - Building loans | 123.4 | 10.6 | 0.0 | 0.0 | 17.2 | 0.0 | 151.2 |
| - Repayment loans | 15,511.7 | 689.5 | 231.1 | 0.1 | 411.8 | 0.7 | 16,844.9 |
| **Total loans** | **19,131.5** | **736.0** | **253.1** | **0.3** | **493.3** | **0.7** | **20,614.9** |
| **Financial investments** | | | | | | | |
| Listed government bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Listed other bonds | 4,153.5 | 50.2 | 0.0 | 0.0 | 0.0 | 0.0 | 4,203.7 |
| Unlisted bonds | 145.1 | 10.0 | 0.0 | 0.0 | 0.0 | 0.0 | 155.1 |
| **Total financial investments** | **4,298.6** | **60.2** | **0.0** | **0.0** | **0.0** | **0.0** | **4,358.8** |

## Parent bank as at 31.12.2016

| | Not due or written down | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Low risk** | **Moderate risk** | **High risk** | **Unclassified** | **Due** | **Individually written down** | **Total** |
| **Loans** | | | | | | | |
| Loans to and receivables from financial institutions | 1,740.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1,740.2 |
| Loans to and receivables from customers | | | | | | | |
| - Financial leases | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Overdraft facilities and operating credits | 1,462.7 | 72.7 | 22.7 | 9.6 | 56.5 | 39.9 | 1,664.1 |
| - Building loans | 82.5 | 18.8 | 0.0 | 0.0 | 0.0 | 0.0 | 101.3 |
| - Repayment loans | 14,652.0 | 1,964.6 | 325.2 | 77.9 | 383.0 | 31.3 | 17,434.0 |
| **Total loans** | **17,937.4** | **2,056.1** | **347.9** | **87.5** | **439.5** | **71.2** | **20,939.6** |
| **Financial investments** | | | | | | | |
| Listed government bonds | 205.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 205.4 |
| Listed other bonds | 2,966.5 | 178.4 | 0.0 | 0.0 | 0.0 | 0.0 | 3,144.9 |
| Unlisted bonds | 969.1 | 15.1 | 0.0 | 0.0 | 0.0 | 0.0 | 984.2 |
| **Total financial investments** | **4,141.0** | **193.5** | **0.0** | **0.0** | **0.0** | **0.0** | **4,334.5** |

## NOTE 9 - AGE DISTRIBUTION OF LOANS MATURED BUT NOT WRITTEN DOWN

### Group as at 31.12.2017

| | Up to 30 days | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|
| Loans to and receivables from customers | | | | | |
| - Financial leases | 1.5 | 1.7 | 0.0 | 0.0 | 3.2 |
| - Overdraft facilities and operating credits | 87.5 | 0.4 | 0.1 | 4.4 | 92.4 |
| - Building loans | 17.2 | 0.0 | 0.0 | 0.0 | 17.2 |
| - Repayment loans | 722.9 | 150.5 | 26.1 | 40.2 | 939.7 |
| **Total** | **829.1** | **152.6** | **26.2** | **44.6** | **1,052.5** |

### Group as at 31.12.2016

| | Up to 30 days | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|
| Loans to and receivables from customers | | | | | |
| - Financial leases | 7.5 | 0.1 | 0.0 | 0.0 | 7.6 |
| - Overdraft facilities and operating credits | 75.1 | 2.1 | 2.1 | 1.2 | 80.5 |
| - Building loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Repayment loans | 646.7 | 128.5 | 45.3 | 37.7 | 858.2 |
| **Total** | **729.3** | **130.7** | **47.4** | **38.9** | **946.3** |

### Parent bank as at 31.12.2017

| | Up to 30 days | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|
| Loans to and receivables from customers | | | | | |
| - Financial leases | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Overdraft facilities and operating credits | 62.1 | 0.4 | 0.1 | 1.7 | 64.3 |
| - Building loans | 17.2 | 0.0 | 0.0 | 0.0 | 17.2 |
| - Repayment loans | 312.1 | 56.8 | 2.7 | 40.2 | 411.8 |
| **Total** | **391.4** | **57.2** | **2.8** | **41.9** | **493.3** |

### Parent bank as at 31.12.2016

| | Up to 30 days | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|
| Loans to and receivables from customers | | | | | |
| - Financial leases | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Overdraft facilities and operating credits | 53.2 | 2.1 | 0.0 | 1.2 | 56.5 |
| - Building loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Repayment loans | 280.1 | 43.5 | 21.6 | 37.8 | 383.0 |
| **Total** | **333.3** | **45.6** | **21.6** | **39.0** | **439.5** |

## NOTE 10 - CREDIT RISK BY RISK CLASS

**Business customers - parent bank**

The risk parameters from the classification systems are included as an integral part of the credit process in the business market and are, together with commitment size, determining factors for the decision-making level and provide guidance with regard to pricing. Furthermore, the risk classification system is used with regard to the management and control of the current portfolio. The risk classification is based on a weighted calculation of the following key parameters: key figures from the borrowers' accounts, debt servicing history for current exposures and scoring from external credit information providers. The assessment of key figures and their weighting will differ somewhat according to the customer's sector (real estate or other sectors). In addition to the aforementioned, certain other factors are also weighted, depending on sector. In isolated terms, the key accounting figures have the highest weighting, irrespective of sector.

| | 2017 | | | | | | 2016 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk categories | Gross loans | Guaran-tees | Overdr-aft facil. | Individ. write-downs | Commit-ments | % | Gross loans | Guaran-tees | Overdr-aft facil. | Individ. write-downs | Commit-ments | % |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | 520 | 3 | 26 | 0 | 549 | 12 | 414 | 1 | 20 | 0 | 435 | 10 |
| B | 646 | 21 | 51 | 0 | 718 | 15 | 382 | 13 | 41 | 0 | 436 | 9 |
| C | 1,011 | 38 | 26 | 0 | 1,075 | 23 | 1,237 | 27 | 39 | 0 | 1,303 | 29 |
| D | 1,951 | 43 | 49 | 0 | 2,043 | 43 | 1,174 | 69 | 84 | 0 | 1,327 | 29 |
| E | 210 | 2 | 5 | 0 | 217 | 5 | 556 | 21 | 28 | 0 | 605 | 13 |
| F | 55 | 3 | 2 | 0 | 60 | 1 | 159 | 10 | 9 | 0 | 178 | 4 |
| G | 26 | 0 | 0 | 0 | 26 | 1 | 64 | 1 | 1 | 0 | 66 | 1 |
| H | 10 | 1 | 0 | 0 | 11 | 0 | 12 | 0 | 0 | 0 | 12 | 1 |
| I | 3 | 0 | 0 | 0 | 3 | 0 | 2 | 0 | 0 | 0 | 2 | 0 |
| J | 21 | 1 | 0 | 0 | 22 | 0 | 68 | 1 | 0 | 1 | 69 | 2 |
| K | 6 | 1 | 0 | 1 | 7 | 0 | 11 | 1 | 0 | 4 | 12 | 0 |
| Unallocated | 0 | 0 | 0 | 0 | 0 | 0 | 71 | 7 | 22 | 0 | 100 | 2 |
| **Total** | **4,459** | **113** | **159** | **1** | **4,731** | **100** | **4,150** | **151** | **244** | **5** | **4,545** | **100** |

A risk classification based on 11 categories from A to K is used in both the retail and business markets. Risk class A represents the lowest risk and risk class I represents the highest risk for non-default customers. Risk classes J and K consist of commitments for which objective evidence of a default/loss exists and the commitments are subject to special monitoring in the bank's recovery department.

The above table shows the portfolio risk in the business market in grouped risk classes. In the bank's credit strategy document, total target figures have been adopted for the exposure in the various risk categories. The credit strategy also provides specific guidelines for exposure within different sectors and especially the property segment. Furthermore, the bank's policy sets requirements regarding the minimum attained risk category upon the intake of new and/or recently established customers.

Business customers undergo risk classification in the event of new application assessments and/or through annual renewals.

The bank performs quarterly analyses whereby the business portfolio, on a portfolio and individual basis, is followed up and measured against credit score and probability of default (PD) as calculated by the bank's credit information provider. Any negative development related to the individual exposure is monitored closely and triggers close follow-up of the customer. The external analyses are also used to reconcile the risk in the portfolio against the risk identified through the bank's own risk classification system and "Sebra analysis", which is conducted annually by the Financial Supervisory Authority of Norway. These analyses confirm that the bank's own risk classification provides a true and fair picture of the risk in the portfolio.

The bank's first line of defence is defined as the customer's capacity to pay. If a customer is assessed as not having the capacity to service the debt, the debt will generally not be granted, even if the security in itself is deemed adequate. Capacity to service the debt is also tested against a higher interest rate regime.

The requirements for security, the second-line of defence, for business loans will vary widely depending on the nature of the commitment, the sector concerned, the size of the commitment and, not least, the project's or commitment's assessed risk. Security is assessed is assessed in relation to a prudently assessed market value. The majority of the bank's business loans are secured entirely or partly via property mortgages. Valuations and market values often exist for commercial properties. Any third party documentation of the value of security must as a general rule be supplemented by the bank's own assessments of the security. These are carried out based on the security's historical and potential cash flow, location, nature, general market outlook, etc. For parts of smaller accounts, in addition to any operations-dependent securities, there will often be a related security in real estate, private homes, etc. For each type of security the bank has drawn up specific requirements for processing and precautionary assessments which are detailed in the bank's credit manual.

In its credit strategy the board has determined overall limits related to the maximum exposure per customer/group, industry exposure, risk class, concentration risk and requirements for the acceptance of new customers. The target figures and limits adopted by the board, as described in the credit strategy, are followed up via the quarterly risk reports.

In general, the pricing of loans and guarantees depends on the risk classification of the exposures. However such pricing will be affected by the bank's overall growth targets, as well as the general market and competitive situation.

Collective write-downs of loans are not distributed by risk class.

Sparebanken Øst expresses its risk tolerance by ensuring that the bank's percentage loss of net lending over time may not exceed 0.2% of the total net lending to customers (total of retail and business commitments).

**Retail customers - parent bank**

The risk classification system is used for decision-making support, monitoring and reporting. The risk parameters from the classification systems are included as an integral part of the credit process and follow-up of the retail customer portfolio. The risk classification is based on a weighted calculation of the following parameters: level of debt, capacity to service the debt defined according to the customer's/household's net liquidity, taking into account a potential increase in interest rates by 5 percentage points, debt-servicing history, and credit score, obtained from an external credit information provider.

The bank's organisation of the approval process within the retail market is based on centralised decision-making units. Checks show that this form of organisation has been extremely successful and has limited the operational risk related to the processing of loans to retail customers.

| | 2017 | | | | | | 2016 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Risk categories** | **Gross loans** | **Guaran-tees** | **Overdr-aft facil.** | **Individ. write-downs** | **Commit-ments** | **%** | **Gross loans** | **Guaran-tees** | **Overdr-aft facil.** | **Individ. write-downs** | **Commit-ments** | **%** |
| A | 6,086 | 1 | 509 | 0 | 6,596 | 44 | 6,695 | 1 | 488 | 0 | 7,184 | 46 |
| B | 2,595 | 1 | 111 | 0 | 2,707 | 18 | 2,497 | 1 | 95 | 0 | 2,593 | 17 |
| C | 2,495 | 1 | 64 | 0 | 2,560 | 17 | 2,576 | 0 | 57 | 0 | 2,633 | 16 |
| D | 2,221 | 0 | 49 | 0 | 2,270 | 15 | 1,502 | 0 | 35 | 0 | 1,537 | 10 |
| E | 383 | 0 | 11 | 0 | 394 | 3 | 1,072 | 0 | 15 | 0 | 1,087 | 7 |
| F | 161 | 0 | 3 | 0 | 164 | 1 | 343 | 0 | 12 | 0 | 355 | 2 |
| G | 100 | 0 | 2 | 0 | 102 | 1 | 143 | 0 | 4 | 0 | 147 | 1 |
| H | 48 | 0 | 0 | 0 | 48 | 0 | 102 | 0 | 0 | 0 | 102 | 1 |
| I | 45 | 0 | 0 | 0 | 45 | 0 | 75 | 0 | 0 | 0 | 75 | 0 |
| J | 88 | 0 | 0 | 0 | 88 | 1 | 11 | 0 | 0 | 0 | 11 | 0 |
| K | 4 | 0 | 0 | 0 | 4 | 0 | 14 | 0 | 0 | 1 | 14 | 0 |
| Unallocated | 1 | 0 | 0 | 0 | 1 | 0 | 19 | 0 | 5 | 0 | 24 | 0 |
| **Total** | **14,227** | **3** | **749** | **0** | **14,979** | **100** | **15,049** | **2** | **711** | **1** | **15,762** | **100** |

Exposure limits have been adopted within the various risk classes in order to manage the total portfolio in the retail market. The bank adheres to a principle whereby commitments that are subject to observation/processing in the bank's department for recovery are classified within the high-risk categories (J and K). The limits adopted by the board are followed up through quarterly risk reports that are also presented to the bank's board.

Retail customers' risk is classified when new loan applications are assessed or due to a reclassification based on servicing history.

The bank carries out quarterly analyses, where the development of the total portfolio is followed up against the credit score that is calculated by the bank's credit information provider. The external analyses are also used to reconcile the risk in the portfolio against the risk revealed through the bank's own risk classification system. These analyses confirm that the bank's own risk classification provides a good picture of the risk in the portfolio.

The bank's first line of defence is defined as the customer's capacity to pay. If a customer is assessed as not having the capacity to service the debt, the debt will generally not be granted, even if the security in itself is deemed adequate.

The retail market loan portfolio is primarily linked to secured mortgage loans where commitments are secured by real estate, property on leased land or housing associations with adequate loan-to-value ratios. The loan-to-value ratio is calculated based on the loan exposure in relation to an estimated market value of the security item. For the majority of the approved loans, the basis for the valuation is a property valuation, broker evaluation, or sales value. Customers requiring loans with a loan-to-value ratio above 85% have primarily been secured by obtaining adequate supplementary security. The development in approved deviations from the Financial Supervisory Authority of Norway's Mortgage Regulations is followed up via quarterly reports. The credit guidelines were updated from 1 January 2017 in line with the new Mortgage Regulations. The pricing of loans to retail customers is primarily based on a combination of security coverage (loan-to-value ratio) and the size of the loan. However, such pricing will be affected by the bank's overall growth targets and the general market and competitive situation.

In terms of loans/credit/cards without security, Sparebanken Øst operates with a low volume and maintains a highly restrictive credit policy. The Financial Supervisory Authority of Norway’s guidelines for responsible lending practices for consumer loans (circular 5/2017) have been implemented without causing significant changes to the bank's credit rating practices for these products.

### Total portfolio - parent bank

| Risk categories | 2017 Gross loans | Guaran-tees | Overdr-aft facil. | Individ. write-downs | Commit-ments | % | 2016 Gross loans | Guaran-tees | Overdr-aft facil. | Individ. write-downs | Commit-ments | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | 6,606 | 4 | 535 | 0 | 7,145 | 37 | 7,109 | 2 | 508 | 0 | 7,619 | 37 |
| B | 3,241 | 22 | 162 | 0 | 3,425 | 17 | 2,879 | 14 | 136 | 0 | 3,029 | 15 |
| C | 3,506 | 39 | 90 | 0 | 3,635 | 18 | 3,813 | 27 | 96 | 0 | 3,936 | 19 |
| D | 4,172 | 43 | 98 | 0 | 4,313 | 22 | 2,676 | 69 | 119 | 0 | 2,864 | 14 |
| E | 593 | 2 | 16 | 0 | 611 | 3 | 1,628 | 21 | 43 | 0 | 1,692 | 8 |
| F | 216 | 3 | 5 | 0 | 224 | 1 | 502 | 10 | 21 | | 533 | 3 |
| G | 126 | 0 | 2 | 0 | 128 | 1 | 207 | 1 | 5 | 0 | 213 | 1 |
| H | 58 | 1 | 0 | 0 | 59 | 0 | 114 | 0 | 0 | 0 | 114 | 1 |
| I | 48 | 0 | 0 | 0 | 48 | 0 | 77 | 0 | 0 | 0 | 77 | 0 |
| J | 109 | 1 | 0 | 0 | 110 | 1 | 79 | 1 | 0 | 1 | 80 | 1 |
| K | 10 | 1 | 0 | 1 | 11 | 0 | 25 | 1 | 0 | 5 | 26 | 0 |
| Unallocated | 1 | 0 | 0 | 0 | 1 | 0 | 90 | 7 | 27 | 0 | 124 | 1 |
| **Total** | **18,686** | **116** | **908** | **1** | **19,710** | **100** | **19,199** | **153** | **955** | **6** | **20,307** | **100** |

Collective write-downs of loans to customers in the parent bank amounted to a total of NOK 31.5 million as at 31 December 2017.

### Total portfolio - group

AS Financiering's portfolio was classified as at 31 December 2016 using five classes and the classification criteria differ from those of the parent bank and Sparebanken Øst Boligkreditt AS. For comparative figures compared to the previous year, the classification for the group is therefore presented in the tables below.

| Risk categories | 2017 Gross loans | Guaran-tees | Overdr-aft facil. | Individ. write-downs | Commit-ments | % |
|---|---|---|---|---|---|---|
| A | 11,290 | 4 | 1,041 | 0 | 12,335 | 38 |
| B | 5,642 | 22 | 202 | 0 | 5,866 | 18 |
| C | 5,399 | 39 | 128 | 0 | 5,566 | 17 |
| D | 5,785 | 42 | 120 | 0 | 5,947 | 18 |
| E | 1,432 | 2 | 23 | 0 | 1,457 | 5 |
| F | 683 | 3 | 5 | 0 | 691 | 2 |
| G | 296 | 0 | 3 | 0 | 299 | 1 |
| H | 121 | 2 | 0 | 0 | 123 | 0 |
| I | 83 | 0 | 0 | 0 | 83 | 0 |
| J | 238 | 1 | 0 | 31 | 239 | 1 |
| K | 100 | 2 | 0 | 32 | 102 | 0 |
| Unallocated | 1 | 0 | 0 | 0 | 1 | 0 |
| **Total** | **31,070** | **117** | **1,522** | **63** | **32,709** | **100** |

| Risk categories | 2016 Gross loans | Guaran-tees | Overdr-aft facil. | Individ. write-downs | Commit-ments | % |
|---|---|---|---|---|---|---|
| A-B (A) | 16,329 | 16 | 1,161 | 5 | 17,506 | 55 |
| C-D (B) | 8,701 | 97 | 252 | 3 | 9,050 | 29 |
| E-F (C) | 3,677 | 31 | 86 | 20 | 3,794 | 12 |
| G-I (D) | 797 | 1 | 8 | 21 | 806 | 3 |
| J-K (E) | 184 | 2 | 0 | 18 | 186 | 1 |
| Unallocated | 115 | 7 | 30 | 0 | 152 | 0 |
| **Total** | **29,803** | **154** | **1,537** | **67** | **31,494** | **100** |

The consolidated figures show a summary of the parent bank, Sparebanken Øst AS, and AS Financiering. AS Financiering's business mainly consists of financing for used cars. Credit information is obtained when classifying risk in

AS Financiering. This is also adjusted for income, equity and any negative payment history AS Financiering may have with the customer. AS Financiering's losses for 2017 amounted to a total of NOK 8.8 million, compared with NOK 9.5 million in 2016. Book losses in 2017 amounted to 0.45% of gross lending. The corresponding figure for 2016 was 0.53%. Collective write-downs of loans to customers in the group amounted to a total of NOK 34.8 million as at 31 December 2017, compared with NOK 40.3 million as at 31 December 2016.

## Security in relation to loans to customers - group 31.12.17

The table below shows security in relation to loans to customers. Security is not taken for the bank's other financial assets.

| | Maximum exposure to credit risk | Security in property | Security in securities | Other security |
|---|---|---|---|---|
| **Gross loans to customers incl. unused overdraft facilities and guarantees for customers** | **32,708.9** | **65,613.7** | **65.9** | **4,788.6** |

The table above shows the sum of the values the bank has used as the basis for all the security pledged for the portfolio of loans to customers. The market values in the table are therefore not limited to maximum credit exposure on the individual loans or commitment. The bank's lending portfolio is primarily secured by real estate.
Where a commitment is secured by real estate, the property value is based on an estimated market value at the time of the last assessment of the commitment. The estimated market value is based on known market values, valuations or other types of value assessments. In the business market, the security's cash flow will provide a guide as to the estimated market value. The estimated market values for all types of security, including operationally dependent security, will be conservative. The principles for valuing all underlying securities are described in the bank's guidelines.

For the parent bank, the estimated fair value of security for non-performing and impaired, but not written down, loans was NOK 63.4 million (NOK 81.5 million in 2016). The book value non-performing and impaired, but not written down, loans was NOK 47.0 million (NOK 80.5 million in 2016). The estimated fair value of security for loans written down was NOK 0.0 million (NOK 12.8 million in 2016), which is equivalent to the book value of loans written down. The security consists mainly of real property, but smaller amounts may be secured with deposits, goods, claims and movable operating equipment as security.

Loans valued at NOK 2.7 million were non-performing at year end in Sparebanken Øst Boligkreditt AS. The estimated fair value of security for non-performing and impaired, but not written down, loans was NOK 5.2 million in 2017. Non-performing and impaired loans amounted to NOK 2.1 million in 2016.

AS Financiering has an estimated 47.5% (40.0% in 2016) security cover on the loans that are written down.

# NOTE 11 - DISTRIBUTION OF LOANS AND GUARANTEES FOR CUSTOMERS BY SECTOR, INDUSTRY AND GEOGRAPHY

## Distribution by sector and industry - group

| | Gross loans | | Guarantees | | Potential exposure via overdraft facilities | | Losses charged to income | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Salaried employees | 26,659.1 | 25,771.4 | 2.5 | 2.6 | 1,357.3 | 1,298.9 | 11.3 | 9.4 |
| Agriculture, forestry and fishing | 104.6 | 111.2 | 0.5 | 0.5 | 16.2 | 16.9 | 0.0 | 0.0 |
| Industry, mining, power and water | 82.4 | 94.0 | 6.0 | 11.7 | 12.8 | 15.0 | 1.5 | 0.3 |
| Building and construction | 292.1 | 474.4 | 36.6 | 63.4 | 44.2 | 88.6 | 0.4 | 0.8 |
| Wholesale and retail trade, hotels and restaurants | 154.7 | 242.3 | 12.2 | 24.7 | 30.9 | 39.3 | 0.0 | -0.6 |
| Transport and communications | 47.7 | 53.1 | 8.5 | 7.5 | 4.9 | 5.0 | 0.0 | 0.0 |
| Business financial services | 193.1 | 119.1 | 4.1 | 1.0 | 5.9 | 6.2 | 0.0 | 0.8 |
| Other service industries | 780.6 | 628.2 | 10.6 | 10.5 | 25.2 | 24.1 | 0.0 | -0.3 |
| Real estate sales and operation | 2,726.2 | 2,276.6 | 35.6 | 32.2 | 23.7 | 42.8 | -0.6 | -0.8 |
| Abroad | 29.8 | 33.0 | 0.0 | 0.0 | 0.6 | 0.6 | 0.1 | 0.2 |
| Group write-downs, industry | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -5.5 | -3.1 |
| **Total** | **31,070.3** | **29,803.3** | **116.6** | **154.1** | **1,521.7** | **1,537.4** | **7.2** | **6.7** |

| | Non-performing commitments | | Impaired commitments | | Individual write-downs | | Collective write-downs of loans | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Salaried employees | 154.9 | 140.0 | 0.1 | 0.1 | 60.6 | 60.1 | 4.9 | 4.9 |
| Agriculture, forestry and fishing | 0.2 | 0.2 | 0.0 | 0.0 | 0.2 | 0.2 | 0.0 | 0.0 |
| Industry, mining, power and water | 0.5 | 0.0 | 0.4 | 2.0 | 0.2 | 0.3 | 0.0 | 0.0 |
| Building and construction | 7.1 | 52.9 | 0.0 | 0.0 | 0.2 | 0.4 | 0.0 | 0.0 |
| Wholesale and retail trade, hotels and restaurants | 0.1 | 0.5 | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 |
| Transport and communications | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Business financial services | 0.3 | 0.7 | 0.0 | 1.0 | 0.2 | 0.6 | 0.0 | 0.0 |
| Other service industries | 3.1 | 0.2 | 0.8 | 0.0 | 0.1 | 0.2 | 0.0 | 0.0 |
| Real estate sales and operation | 6.3 | 7.1 | 0.1 | 0.0 | 0.5 | 3.7 | 0.0 | 0.0 |
| Abroad | 1.3 | 2.4 | 0.0 | 0.0 | 1.1 | 1.3 | 0.0 | 0.0 |
| Group write-downs, industry | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 29.9 | 35.4 |
| **Total** | **173.8** | **204.0** | **1.4** | **3.1** | **63.1** | **67.3** | **34.8** | **40.3** |

* Collective write-downs of loans are not distributed by industry.

## Distribution by sector and industry - parent bank

| | Gross loans | | Guarantees | | Potential exposure via overdraft facilities | | Losses charged to income | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Salaried employees | 14,207.5 | 15,033.7 | 2.5 | 2.6 | 747.1 | 710.8 | 2.6 | 0.1 |
| Agriculture, forestry and fishing | 102.1 | 110.9 | 0.5 | 0.5 | 16.2 | 16.9 | 0.0 | 0.0 |
| Industry, mining, power and water | 79.5 | 88.2 | 6.0 | 11.7 | 12.8 | 15.0 | 1.5 | 0.3 |
| Building and construction | 272.0 | 461.1 | 36.6 | 63.5 | 42.7 | 87.2 | 0.4 | 0.8 |
| Wholesale and retail trade, hotels and restaurants | 136.8 | 221.8 | 11.4 | 23.9 | 30.9 | 39.3 | 0.0 | -0.6 |
| Transport and communications | 36.3 | 41.2 | 8.5 | 7.5 | 4.9 | 5.0 | 0.0 | 0.0 |
| Business financial services | 185.3 | 112.9 | 4.1 | 1.0 | 5.7 | 6.2 | 0.0 | 0.8 |
| Other service industries | 757.6 | 610.8 | 10.6 | 10.5 | 25.2 | 24.1 | 0.0 | -0.3 |
| Real estate sales and operation | 2,895.7 | 2,506.3 | 35.6 | 32.2 | 22.3 | 49.5 | -0.6 | -0.8 |
| Abroad | 12.8 | 12.5 | 0.0 | 0.0 | 0.6 | 0.6 | 0.0 | 0.0 |
| Group write-downs, industry | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -5.5 | -3.1 |
| **Total** | **18,685.6** | **19,199.4** | **115.8** | **153.4** | **908.4** | **954.6** | **-1.6** | **-2.8** |

| | Non-performing commitments | | Impaired commitments | | Individual write-downs | | Collective write-downs of loans | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Salaried employees | 34.0 | 40.7 | 0.1 | 0.1 | 0.0 | 0.9 | 1.6 | 1.6 |
| Agriculture, forestry and fishing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Industry, mining, power and water | 0.0 | 0.0 | 0.4 | 2.0 | 0.0 | 0.3 | 0.0 | 0.0 |
| Building and construction | 7.0 | 52.6 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 |
| Wholesale and retail trade, hotels and restaurants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transport and communications | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Business financial services | 0.0 | 0.7 | 0.0 | 1.0 | 0.0 | 0.6 | 0.0 | 0.0 |
| Other service industries | 3.0 | 0.0 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Real estate sales and operation | 6.0 | 7.1 | 0.1 | 0.0 | 0.5 | 3.7 | 0.0 | 0.0 |
| Abroad | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Group write-downs, industry | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 29.9 | 35.4 |
| **Total** | **50.0** | **101.6** | **1.4** | **3.1** | **0.5** | **5.8** | **31.5** | **37.0** |

* Collective write-downs of loans are not distributed by industry.

## Geographical distribution

| Group Gross loans | | Group Guarantees | | | Parent bank Gross loans | | Parent bank Guarantees | |
|---|---|---|---|---|---|---|---|---|
| 2017 | 2016 | 2017 | 2016 | | 2017 | 2016 | 2017 | 2016 |
| 4,644.7 | 4,513.1 | 22.2 | 22.7 | Drammen | 3,617.8 | 3,694.9 | 22.2 | 22.7 |
| 2,434.4 | 2,373.0 | 10.7 | 17.9 | Nedre Eiker | 1,800.2 | 1,822.1 | 10.7 | 17.9 |
| 2,089.1 | 1,907.9 | 21.1 | 19.6 | Øvre Eiker | 1,615.8 | 1,523.6 | 21.1 | 19.6 |
| 3,105.5 | 2,522.0 | 8.8 | 8.9 | Rest of Buskerud | 2,289.3 | 1,940.4 | 8.8 | 8.9 |
| 5,980.6 | 5,977.3 | 25.0 | 24.7 | Oslo | 3,311.8 | 3,535.7 | 24.2 | 24.0 |
| 5,696.6 | 5,668.5 | 24.7 | 47.5 | Akershus | 2,979.8 | 3,368.6 | 24.7 | 47.5 |
| 2,762.7 | 2,569.7 | 4.0 | 12.7 | Vestfold | 1,770.6 | 1,874.7 | 4.0 | 12.7 |
| 1,587.0 | 1,523.9 | 0.1 | 0.1 | Østfold | 803.7 | 882.7 | 0.1 | 0.1 |
| 2,739.9 | 2,714.9 | 0.0 | 0.0 | Rest of Norway | 483.8 | 544.2 | 0.0 | 0.0 |
| 29.8 | 33.0 | 0.0 | 0.0 | Abroad | 12.8 | 12.5 | 0.0 | 0.0 |
| **31,070.3** | **29,803.3** | **116.6** | **154.1** | **Total** | **18,685.6** | **19,199.4** | **115.8** | **153.4** |

## NOTE 12 - LOANS TO AND RECEIVABLES FROM CUSTOMERS

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 23.5 | 20.7 | Financial leases | 0.0 | 0.0 |
| 2,404.2 | 2,368.2 | Overdraft facilities and operating credits | 1,689.5 | 1,664.1 |
| 151.2 | 101.3 | Building loans | 151.2 | 101.3 |
| 28,491.4 | 27,313.1 | Repayment loans | 16,844.9 | 17,434.0 |
| **31,070.3** | **29,803.3** | **Gross loans to and receivables from customers** | **18,685.6** | **19,199.4** |
| 63.1 | 67.3 | Individual write-downs | 0.5 | 5.8 |
| 34.8 | 40.3 | Collective write-downs of loans | 31.5 | 37.0 |
| **30,972.4** | **29,695.7** | **Net loans to and receivables from customers** | **18,653.6** | **19,156.6** |

## NOTE 13 - LOSSES ON LOANS AND GUARANTEES, CUSTOMERS

| Group 2017 | Group 2016 | | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|---|
| | | | **Individual write-downs** | | |
| 67.3 | 81.0 | | Individual write-downs as at 01.01. | 5.8 | 19.7 |
| 8.3 | 14.9 | - | Actual losses for the period, where there have previously been individual write-downs | 3.2 | 9.1 |
| 4.5 | 8.5 | + | Increased individual write-downs for the period | 0.0 | 3.1 |
| 9.6 | 10.6 | + | New individual write-downs for the period | 0.0 | 1.0 |
| 10.0 | 17.9 | - | Reversed individual write-downs for the period | 2.1 | 8.9 |
| **63.1** | **67.3** | = | **Individual write-downs as at 31.12.** | **0.5** | **5.8** |
| | | | **Collective write-downs of loans** | | |
| 40.3 | 43.4 | | Collective write-downs of loans as at 01.01. | 37.0 | 40.1 |
| -5.5 | -3.1 | +/- | Change in collective write-downs of loans for the period | -5.5 | -3.1 |
| **34.8** | **40.3** | **=** | **Collective write-downs of loans as at 31.12.** | **31.5** | **37.0** |
| | | | **Loss costs for the period** | | |
| -4.2 | -13.7 | | Change in individual write-downs for the period | -5.3 | -13.9 |
| -5.5 | -3.1 | +/- | Change in collective write-downs of loans for the period | -5.5 | -3.1 |
| 22.0 | 22.3 | + | Actual losses for the period, where there have previously been individual write-downs | 16.9 | 16.5 |
| 9.5 | 8.6 | + | Actual losses for the period, where there have not previously been individual write-downs | 1.9 | 0.5 |
| 15.3 | 11.0 | - | Recovery of previously identified losses during the period | 10.3 | 6.5 |
| 0.7 | 3.6 | +/- | Amortisation cost of write-downs during the period | 0.7 | 3.7 |
| **7.2** | **6.7** | **=** | **Losses on loans and guarantees** | **-1.6** | **-2.8** |
| **10.2** | **36.1** | | **Income interest on loans written down** | **1.8** | **28.7** |

### Losses on loans and guarantees by class as at 31.12.2017

| | | RM | BM | AS Financiering | Total |
|---|---|---|---|---|---|
| | **Individual write-downs** | | | | |
| | Individual write-downs as at 01.01. | 0.0 | 5.8 | 61.5 | 67.3 |
| - | Actual losses for the period, where there have previously been individual write-downs | 0.0 | 3.2 | 5.1 | 8.3 |
| + | Increased individual write-downs for the period | 0.0 | 0.0 | 4.5 | 4.5 |
| + | New individual write-downs for the period | 0.0 | 0.0 | 9.6 | 9.6 |
| - | Reversed individual write-downs for the period | 0.0 | 2.1 | 7.9 | 10.0 |
| = | **Individual write-downs as at 31.12.** | **0.0** | **0.5** | **62.6** | **63.1** |
| | **Collective write-downs of loans** | | | | |
| | Collective write-downs of loans as at 01.01. | 1.6 | 35.4 | 3.3 | 40.3 |
| +/- | Change in collective write-downs of loans for the period | 0.0 | -5.5 | 0.0 | -5.5 |

| | | RM | BM | AS Financiering | Total |
|---|---|---|---|---|---|
| = | **Collective write-downs of loans as at 31.12.** | **1.6** | **29.9** | **3.3** | **34.8** |
| | **Loss costs for the period** | | | | |
| | Change in individual write-downs for the period | 0.0 | -5.3 | 1.1 | -4.2 |
| +/- | Change in collective write-downs of loans for the period | 0.0 | -5.5 | 0.0 | -5.5 |
| + | Actual losses for the period, where there have previously been individual write-downs | 0.0 | 16.9 | 5.1 | 22.0 |
| + | Actual losses for the period, where there have not previously been individual write-downs | 0.0 | 1.9 | 7.6 | 9.5 |
| - | Recovery of previously identified losses during the period | 0.2 | 10.1 | 5.0 | 15.3 |
| +/- | Amortisation cost of write-downs during the period | 0.0 | 0.7 | 0.0 | 0.7 |
| = | **Losses on loans and guarantees** | **-0.2** | **-1.4** | **8.8** | **7.2** |

## Loan losses and guarantees by class as at 31.12.2016

| | | RM | BM | AS Financiering | Total |
|---|---|---|---|---|---|
| | **Individual write-downs** | | | | |
| | Individual write-downs as at 01.01. | 0.4 | 19.3 | 61.3 | 81.0 |
| - | Actual losses for the period, where there have previously been individual write-downs | 0.0 | 9.1 | 5.8 | 14.9 |
| + | Increased individual write-downs for the period | 0.0 | 3.1 | 5.4 | 8.5 |
| + | New individual write-downs for the period | 0.0 | 1.0 | 9.6 | 10.6 |
| - | Reversed individual write-downs for the period | 0.4 | 8.5 | 9.0 | 17.9 |
| = | **Individual write-downs as at 31.12.** | **0.0** | **5.8** | **61.5** | **67.3** |
| | **Collective write-downs of loans** | | | | |
| | Collective write-downs of loans as at 01.01. | 1.6 | 38.5 | 3.3 | 43.4 |
| +/- | Change in collective write-downs of loans for the period | 0.0 | -3.1 | 0.0 | -3.1 |
| = | **Collective write-downs of loans as at 31.12.** | **1.6** | **35.4** | **3.3** | **40.3** |
| | **Loss costs for the period** | | | | |
| | Change in individual write-downs for the period | -0.4 | -13.5 | 0.2 | -13.7 |
| +/- | Change in collective write-downs of loans for the period | 0.0 | -3.1 | 0.0 | -3.1 |
| + | Actual losses for the period, where there have previously been individual write-downs | 0.0 | 16.5 | 5.8 | 22.3 |
| + | Actual losses for the period, where there have not previously been individual write-downs | 0.4 | 0.1 | 8.1 | 8.6 |
| - | Recovery of previously identified losses during the period | 0.1 | 6.3 | 4.6 | 11.0 |
| +/- | Amortisation cost of write-downs during the period | 0.0 | 3.6 | 0.0 | 3.6 |
| = | **Losses on loans and guarantees** | **-0.1** | **-2.7** | **9.5** | **6.7** |

## Change in non-performing and impaired commitments

| Group 2017 | Group 2016 | Group 2015 | Group 2014 | Group 2013 | | Parent bank 2017 | Parent bank 2016 | Parent bank 2015 | Parent bank 2014 | Parent bank 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| 173.8 | 204.0 | 233.4 | 400.1 | 458.9 | Gross non-performing commitments | 50.0 | 101.6 | 141.6 | 295.8 | 365.1 |
| 63.1 | 66.4 | 80.0 | 85.4 | 82.9 | - Individual write-downs | 0.5 | 4.9 | 18.9 | 22.8 | 24.4 |
| **110.7** | **137.6** | **153.4** | **314.7** | **376.0** | **Net non-performing commitments** | **49.5** | **96.7** | **122.7** | **273.0** | **340.7** |
| 1.4 | 3.1 | 9.5 | 23.7 | 41.3 | Gross impaired commitments | 1.4 | 3.1 | 9.1 | 23.7 | 40.1 |
| 0.0 | 0.9 | 1.0 | 8.9 | 15.1 | - Individual write-downs | 0.0 | 0.9 | 0.8 | 8.9 | 14.9 |
| **1.4** | **2.2** | **8.5** | **14.8** | **26.2** | **Net impaired commitments** | **1.4** | **2.2** | **8.3** | **14.8** | **25.2** |

**Non-performing and impaired commitments**

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| | | **Non-performing commitments over 90 days** | | |
| 17.6 | 62.4 | Business market | 16.0 | 61.1 |
| 156.2 | 141.6 | Retail market | 34.0 | 40.5 |
| **173.8** | **204.0** | **Gross non-performing commitments** | **50.0** | **101.6** |
| 63.1 | 66.4 | Individual write-downs | 0.5 | 4.9 |
| **110.7** | **137.6** | **Net non-performing commitments** | **49.5** | **96.7** |
| 36% | 33% | Provisions ratio | 1% | 5% |
| | | **Impaired (not non-performing) commitments** | | |
| 1.3 | 3.0 | Business market | 1.3 | 3.0 |
| 0.1 | 0.1 | Retail market | 0.1 | 0.1 |
| **1.4** | **3.1** | **Gross impaired commitments** | **1.4** | **3.1** |
| 0.0 | 0.9 | Individual write-downs | 0.0 | 0.9 |
| **1.4** | **2.2** | **Net impaired commitments** | **1.4** | **2.2** |
| 0% | 29% | Provisions ratio | 0% | 29% |
| | | **Gross non-performing and impaired commitments** | | |
| 18.9 | 65.4 | Business market | 17.3 | 64.1 |
| 156.3 | 141.7 | Retail market | 34.1 | 40.6 |
| **175.2** | **207.1** | **Gross non-performing and impaired commitments** | **51.4** | **104.7** |
| 63.1 | 67.3 | Individual write-downs | 0.5 | 5.8 |
| **112.1** | **139.8** | **Net non-performing and impaired commitments** | **50.9** | **98.9** |
| 36% | 32% | Provisions ratio | 1% | 6% |

## NOTE 14 - LOANS AND RECEIVABLES FROM CUSTOMERS RELATED TO FINANCIAL LEASES

The group has financial leases with customers. The leases are largely associated with the leasing of cars and other vehicles, industrial equipment and machinery. The group has not assumed the risk relating to residual values.

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 1.6 | 3.0 | Within 1 year | 0.0 | 0.0 |
| 25.8 | 14.4 | Between 1 to 5 years | 0.0 | 0.0 |
| 0.9 | 4.6 | After 5 years | 0.0 | 0.0 |
| **28.3** | **22.0** | **Gross receivables from financial leases** | **0.0** | **0.0** |
| 7.1 | 2.1 | Non-accrued income from financial leases | 0.0 | 0.0 |
| **21.2** | **19.9** | **Net receivables from financial leases** | **0.0** | **0.0** |
| 0.4 | 2.8 | Within 1 year | 0.0 | 0.0 |
| 20.0 | 13.0 | Between 1 to 5 years | 0.0 | 0.0 |
| 0.8 | 4.1 | After 5 years | 0.0 | 0.0 |
| **21.2** | **19.9** | **Net investments associated with financial leases** | **0.0** | **0.0** |
| 0.6 | 0.9 | Accumulated loss provisions for outstanding minimum lease amounts | 0.0 | 0.0 |

## NOTE 15 - LOANS TO AND RECEIVABLES FROM FINANCIAL INSTITUTIONS

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 5.7 | 9.5 | Loans to and receivables from financial institutions without agreed maturities or deadline for termination | 5.7 | 9.5 |
| 0.0 | 0.0 | Loans to and receivables from financial institutions with agreed maturities or deadline for termination | 1,923.7 | 1,730.7 |
| **5.7** | **9.5** | **Gross loans to and receivables from financial institutions** | **1,929.3** | **1,740.2** |
| 0.0 | 0.0 | Individual write-downs | 0.0 | 0.0 |
| 0.0 | 0.0 | Collective write-downs of loans | 0.0 | 0.0 |
| **5.7** | **9.5** | **Net loans to and receivables from financial institutions** | **1,929.3** | **1,740.2** |

No losses or non-performance were identified for loans to and receivables from financial institutions. The loans are to financial institutions domiciled in Norway.

## NOTE 16 - INTEREST RATE RISK

Interest risk related to deposits from and loans to financial institutions, deposits from and loans to customers, and debt and investments in certificates and bonds, is managed using interest rate swaps and fixed rate agreements (FRA). For borrowing or positions in other currencies interest rate and currency swap agreements are generally entered into such that relevant market interest rates are Norwegian money market rates. The distribution of foreign currency in the tables is based on the instruments' underlying currency where the effect of hedging is included.

In reality, loans to retail customers at variable rates result in six weeks of fixed rates (section 50(3) of the Financial Contracts Act stipulates a minimum of six weeks' notice), while deposits from customers at variable rates result in two months of fixed rates (section 18(2) of the Financial Contracts Act stipulates a minimum of two months' notice).

The net interest rate sensitivity of a parallel shift in the yield curve of 1 percentage point is shown below. The effect is calculated on the basis that a permanent shift in the yield curve occurs on the measurement date, 31 December 2017, and amounts to one year's effect on the result. The table shows that an immediate increase in interest rates of 1 percentage point will lead to higher net interest. Correspondingly, an immediate reduction in interest rates will give reduced net interest.

The 'Time until expected rate change' table shows the balance sheet distribution in terms of the time of the change in interest rates. Net exposure shows the net fixing of net interest rates for assets and liabilities. Positive amounts for net exposure show that the bank has fixed interest rates on the asset side to a greater extent than on the liabilities side.

### Interest rate sensitivity - group as at 31.12.2017

| Currency | Increase in base points | Sensitivity - result | Sensitivity - equity | Reduction in base points | Sensitivity - result | Sensitivity - equity |
|---|---|---|---|---|---|---|
| NOK | +100 | 33.6 | 0.0 | -100 | -33.6 | 0.0 |
| SEK | +100 | -2.5 | 0.0 | -100 | 2.5 | 0.0 |
| **Total** | | **31.1** | **0.0** | | **-31.1** | **0.0** |

### Interest rate sensitivity - group as at 31.12.2016

| Currency | Increase in base points | Sensitivity - result | Sensitivity - equity | Reduction in base points | Sensitivity - result | Sensitivity - equity |
|---|---|---|---|---|---|---|
| NOK | +100 | 26.7 | 0.0 | -100 | -26.7 | 0.0 |
| SEK | +100 | -2.3 | 0.0 | -100 | 2.3 | 0.0 |
| **Total** | | **24.4** | **0.0** | | **-24.4** | **0.0** |

## Time until expected rate change as at 31.12.2017 - group

| | | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | With fixed rate | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and receivables from central banks | NOK | 314.2 | | | | | 26.4 | 340.6 |
| | FCY | | | | | | 0.6 | 0.6 |
| Net lending to financial institutions | NOK | 5.7 | | | | | | 5.7 |
| Net lending to customers | NOK | 4,284.7 | 26,494.9 | 15.3 | 104.4 | 29.9 | | 30,929.2 |
| Certificates and bonds | NOK | 658.6 | 3,422.6 | 50.0 | 369.9 | | | 4,501.1 |
| Financial derivatives | NOK | | | | | | 236.9 | 236.9 |
| Accrued interest, not yet due | NOK | | | | | | 118.2 | 118.2 |
| Other asset items | NOK | | | | | | 466.1 | 466.1 |
| | FCY | | | | | | 17.8 | 17.8 |
| **Total** | | **5,263.2** | **29,917.5** | **65.3** | **474.3** | **29.9** | **866.0** | **36,616.2** |
| **Liabilities** | | | | | | | | |
| Liabilities to financial institutions | NOK | | | 329.7 | | | | 329.7 |
| Customer deposits | NOK | 4,354.6 | 9,034.8 | 577.8 | | | | 13,967.2 |
| Financial derivatives | NOK | | | | | | 14.6 | 14.6 |
| | FCY | | | | | | 5.6 | 5.6 |
| Securities issued | NOK | 6,865.9 | 10,966.4 | | | | | 17,832.3 |
| | FCY | | 299.2 | | | | | 299.2 |
| Subordinated loan capital | NOK | 550.0 | 149.7 | | | | | 699.7 |
| Accrued interest | NOK | | | | | | 110.7 | 110.7 |
| | FCY | | | | | | 0.5 | 0.5 |
| Other liabilities | NOK | | | | | | | 0.0 |
| **Total** | | **11,770.5** | **20,450.1** | **907.5** | **0.0** | **0.0** | **131.4** | **33,259.5** |
| **Net interest rate exposure on balance sheet** | | **-6,507.3** | **9,467.4** | **-842.2** | **474.3** | **29.9** | **734.6** | |
| Contract sum for financial derivatives, without hedge accounting, that affect interest rate exposure | NOK | 150.0 | 340.0 | | -460.0 | -30.0 | | |
| **Net exposure** | | **-6,357.3** | **9,807.4** | **-842.2** | **14.3** | **-0.1** | **734.6** | |

The table is based on book values. Securities issued where hedge accounting is used include the effect of hedging instruments.

## Time until expected rate change as at 31.12.2016 - group

| | | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | With fixed rate | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and receivables from central banks | NOK | | 293.0 | | | | 18.1 | 311.1 |
| | FCY | | | | | | 0.8 | 0.8 |
| Net lending to financial institutions | NOK | | | | | | 9.5 | 9.5 |
| Net lending to customers | NOK | 3,892.6 | 25,497.8 | 0.5 | 233.2 | 28.1 | | 29,652.2 |
| Certificates and bonds | NOK | 822.1 | 2,825.4 | 558.0 | 215.7 | 50.1 | | 4,471.3 |
| Financial derivatives | NOK | | | | | | 300.8 | 300.8 |
| Accrued interest, not yet due | NOK | | | | | | 131.5 | 131.5 |
| Other asset items | NOK | | | | | | 447.3 | 447.3 |
| | FCY | | | | | | 12.8 | 12.8 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Total** | | **4,714.7** | **28,616.2** | **558.5** | **448.9** | **78.2** | **920.8** | **35,337.3** |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Liabilities to financial institutions | NOK | | | 90.0 | | | 0.1 | 90.1 |
| Customer deposits | NOK | 4,207.7 | 9,255.8 | 419.9 | | | | 13,883.4 |
| Financial derivatives | NOK | | | | | | 24.5 | 24.5 |
| | FCY | | | | | | 19.5 | 19.5 |
| Securities issued | NOK | 7,591.2 | 9,621.9 | | | | | 17,213.1 |
| | FCY | | 285.4 | | | | | 285.4 |
| Subordinated loan capital | NOK | 550.0 | 149.3 | | | | | 699.3 |
| Accrued interest | NOK | | | | | | 127.3 | 127.3 |
| | FCY | | | | | | 0.6 | 0.6 |
| Other liabilities | NOK | | | | | | | 0.0 |
| **Total** | | **12,348.9** | **19,312.4** | **509.9** | **0.0** | **0.0** | **172.0** | **32,343.2** |
| **Net interest rate exposure on balance sheet** | | **-7,634.2** | **9,303.8** | **48.6** | **448.9** | **78.2** | **748.8** | |
| | | | | | | | | |
| Contract sum for financial derivatives, without hedge accounting, that affect interest rate exposure | NOK | 175.5 | 372.5 | -58.0 | -410.0 | -80.0 | | |
| **Net exposure** | | **-7,458.7** | **9,676.3** | **-9.4** | **38.9** | **-1.8** | **748.8** | |

The table is based on book values. Securities issued where hedge accounting is used include the effect of hedging instruments.

## Interest rate sensitivity - parent bank as at 31.12.2017

| Currency | Increase in base points | Sensitivity - result | Sensitivity - equity | Reduction in base points | Sensitivity - result | Sensitivity - equity |
|---|---|---|---|---|---|---|
| NOK | +100 | 21.8 | 0.0 | -100 | -21.8 | 0.0 |
| **Total** | | **21.8** | **0.0** | | **-21.8** | **0.0** |

## Interest rate sensitivity - parent bank as at 31.12.2016

| Currency | Increase in base points | Sensitivity - result | Sensitivity - equity | Reduction in base points | Sensitivity - result | Sensitivity - equity |
|---|---|---|---|---|---|---|
| NOK | +100 | 16.5 | 0.0 | -100 | -16.5 | 0.0 |
| **Total** | | **16.5** | **0.0** | | **-16.5** | **0.0** |

## Time until expected rate change as at 31.12.2017 - parent bank

| | | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | With fixed rate | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and receivables from central banks | NOK | 314.2 | | | | | 26.4 | 340.6 |
| | FCY | | | | | | 0.6 | 0.6 |
| Net lending to financial institutions | NOK | 1,883.9 | 45.0 | | | | | 1,928.9 |
| Net lending to customers | NOK | 4,423.4 | 14,058.9 | 15.3 | 104.4 | 29.9 | | 18,631.9 |
| Certificates and bonds | NOK | 658.6 | 3,266.5 | 50.0 | 369.8 | | | 4,344.9 |
| Financial derivatives | NOK | | | | | | 87.8 | 87.8 |
| Accrued interest, not yet due | NOK | | | | | | 76.2 | 76.2 |
| Other asset items | NOK | | | | | | 1,357.0 | 1,357.0 |
| | FCY | | | | | | 17.8 | 17.8 |
| **Total** | | **7,280.1** | **17,370.4** | **65.3** | **474.2** | **29.9** | **1,565.8** | **26,785.7** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | |
| Liabilities to financial institutions | NOK | 221.0 | 0.6 | 329.7 | | | 10.3 | 561.6 |
| Customer deposits | NOK | 4,384.2 | 9,034.5 | 577.7 | | | | 13,996.4 |
| Financial derivatives | NOK | | | | | | 14.6 | 14.6 |
| Securities issued | NOK | 3,562.4 | 4,734.3 | | | | | 8,296.7 |
| Subordinated loan capital | NOK | 550.0 | 149.7 | | | | | 699.7 |
| Accrued interest | NOK | | | | | | 74.8 | 74.8 |
| Other liabilities | NOK | | | | | | | 0.0 |
| **Total** | | **8,717.6** | **13,919.1** | **907.4** | **0.0** | **0.0** | **99.7** | **23,643.8** |
| **Net exposure on balance sheet** | | **-1,437.5** | **3,451.3** | **-842.1** | **474.2** | **29.9** | **1,466.1** | |
| Contract sum for financial derivatives, without hedge accounting, that affect interest rate exposure | NOK | 150.0 | 340.0 | | -460.0 | -30.0 | | |
| **Net exposure** | | **-1,287.5** | **3,791.3** | **-842.1** | **14.2** | **-0.1** | **1,466.1** | |

The table is based on book values. Securities issued where hedge accounting is used include the effect of hedging instruments.

### Time until expected rate change as at 31.12.2016 - parent bank

| | | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | With fixed rate | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and receivables from central banks | NOK | | 293.0 | | | | 18.1 | 311.1 |
| | FCY | | | | | | 0.8 | 0.8 |
| Net lending to financial institutions | NOK | 1,685.3 | 45.0 | | | | 9.5 | 1,739.8 |
| Net lending to customers | NOK | 4,096.7 | 14,771.8 | 0.5 | 233.2 | 28.1 | | 19,130.3 |
| Certificates and bonds | NOK | 822.1 | 2,669.6 | 558.0 | 215.7 | 50.0 | | 4,315.4 |
| Financial derivatives | NOK | | | | | | 137.6 | 137.6 |
| Accrued interest, not yet due | NOK | | | | | | 94.7 | 94.7 |
| Other asset items | NOK | | | | | | 1,335.8 | 1,335.8 |
| | FCY | | | | | | 12.8 | 12.8 |
| **Total** | | **6,604.1** | **17,779.4** | **558.5** | **448.9** | **78.1** | **1,609.3** | **27,078.3** |
| **Liabilities** | | | | | | | | |
| Liabilities to financial institutions | NOK | 227.7 | 0.7 | 90.0 | | | 7.2 | 325.6 |
| Customer deposits | NOK | 4,216.5 | 9,255.8 | 419.9 | | | | 13,892.2 |
| Financial derivatives | NOK | | | | | | 24.5 | 24.5 |
| Securities issued | NOK | 4,274.3 | 4,897.6 | | | | | 9,171.9 |
| Subordinated loan capital | NOK | 550.0 | 149.3 | | | | | 699.3 |
| Accrued interest | NOK | | | | | | 88.8 | 88.8 |
| Other liabilities | NOK | | | | | | | 0.0 |
| **Total** | | **9,268.5** | **14,303.4** | **509.9** | **0.0** | **0.0** | **120.5** | **24,202.3** |
| **Net exposure on balance sheet** | | **-2,664.4** | **3,476.0** | **48.6** | **448.9** | **78.1** | **1,488.8** | |
| Contract sum for financial derivatives, without hedge accounting, that affect interest rate exposure | NOK | 175.5 | 372.5 | -58.0 | -410.0 | -80.0 | | |
| **Net exposure** | | **-2,488.9** | **3,848.5** | **-9.4** | **38.9** | **-1.9** | **1,488.8** | |

The table is based on book values. Securities issued where hedge accounting is used include the effect of hedging instruments.

## NOTE 17 - LIQUIDITY RISK

As long as the bank's loan customers require long-term financing and the bank's deposit customers are able in practice to withdraw their deposits at very short notice, the bank will be exposed to some liquidity risk. In addition, Sparebanken Øst is dependent on financing a gap between deposits from customers and loans to the general public. Sparebanken Øst has a conservative liquidity strategy, and the liquidity risk as at the end of 2017 was considered low.

The bank has deliberately sought to reduce the bank's liquidity risk by – among other things – distributing borrowing over the maximum possible number of sources/instruments and/or by balancing the maturity terms for capital acquisition and capital deployment. Uncertainty in the financial markets has resulted in the fall away of international funding sources the bank has previously used. The bank has thus become more dependent on the Norwegian bond market. The bank has a long-term funding strategy and therefore wishes to have a balanced relationship between long-term and short-term borrowing. The bank has previously aimed for a liquidity indicator 1 (Financial Supervisory Authority of Norway) target of 105% or higher (funding > 1 year as a percentage of non-liquid assets). This figure was raised to 106% from Q2 2017.

The table below presents the scope of results for liquidity indicator 1 for the last two years.

| | 31.12. | Average | Highest | Lowest |
|---|---|---|---|---|
| **2017** | 107.4 | 107.3 | 108.8 | 105.5 |
| **2016** | 107.5 | 108.3 | 111.2 | 106.4 |

The Liquidity Coverage Ratio (LCR) is intended to ensure that the banks have sufficient liquidity of very high quality to tolerate a period of 30 days with serious market instability. The bank will satisfy the applicable LCR requirement set by the authorities at all times, both at a company and at a group level. The bank's liquidity portfolio primarily consists of cash, securities issued by the Norwegian state, state guaranteed bonds, securities issued by Norwegian municipalities and covered bonds.

The group's deposits measured as a percentage of net lending amounted to 45.1% as at 31 December 2017, compared with 46.8% one year ago. Other funding in the market takes place is raised through senior unsecured bonds and covered bonds. Limits have been adopted that are intended to ensure that the relationship between deposits and market funding is maintained at a satisfactory level. The coming years will see a relatively great demand for refinancing and the bank wishes to take account of uncertainty and will thus seek to refinance at an early stage.

### Contractual maturity

The time at which the group's financial assets and liabilities mature is shown in the following table. Future interest payments relating to the items have not been factored in and it is the contractual amount that is specified. The tables are based on the group's internal reporting format.

### Remaining contractual term as at 31.12.2017 - group

| | | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | No term | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and receivables from central banks | NOK | | | | | | 340.6 | 340.6 |
| | FCY | | | | | | 0.6 | 0.6 |
| Net lending to financial institutions | NOK | | | | | | 5.7 | 5.7 |
| Net lending to customers | NOK | 38.9 | 39.6 | 849.5 | 5,860.7 | 24,140.5 | | 30,929.2 |
| Certificates and bonds | NOK | 100.0 | 354.7 | 245.0 | 3,680.0 | 85.0 | | 4,464.7 |
| Financial derivatives | NOK | | | 15.5 | 75.6 | 145.8 | | 236.9 |
| Accrued interest, not yet due | NOK | 46.0 | 27.0 | 24.4 | | | | 97.4 |
| Other asset items | NOK | | | 109.4 | | | 466.9 | 576.3 |
| | FCY | | | | | | 17.8 | 17.8 |
| **Total receipts** | | **184.9** | **421.3** | **1,243.8** | **9,616.3** | **24,371.3** | **831.6** | **36,669.2** |
| **Liabilities** | | | | | | | | |
| Liabilities to financial institutions | NOK | | | 30.0 | | 300.0 | | 330.0 |
| Customer deposits | NOK | 75.7 | 1,808.9 | 736.3 | 10.1 | | 11,336.2 | 13,967.2 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Financial derivatives | NOK | | 0.3 | | 14.3 | | | 14.6 |
| | FCY | | | | 5.6 | | | 5.6 |
| Securities issued | NOK | 504.0 | 231.0 | 900.0 | 14,690.0 | 1,275.0 | | 17,600.0 |
| | FCY | | | | 299.2 | | | 299.2 |
| Subordinated loan capital | NOK | | | 550.0 | 150.0 | | | 700.0 |
| Accrued interest | NOK | 48.6 | 36.5 | 32.0 | | | | 117.1 |
| | FCY | | 0.5 | | | | | 0.5 |
| Other liabilities | NOK | | | 235.0 | | | | 235.0 |
| **Total payments** | | **628.3** | **2,077.2** | **2,483.3** | **15,169.2** | **1,575.0** | **11,336.2** | **33,269.2** |
| **Net exposure** | | **-443.4** | **-1,655.9** | **-1,239.5** | **-5,552.9** | **22,796.3** | **-10,504.6** | |
| | | | | | | | | |
| Loan pledges | | 395.9 | | | | | | 395.9 |
| Unused credit | | | | 61.3 | 1,352.9 | | 107.5 | 1,521.7 |
| Guarantees | | | | | | | 116.6 | 116.6 |

## Remaining contractual term as at 31.12.2016 - group

| | | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | No term | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and receivables from central banks | NOK | | | | | | 311.1 | 311.1 |
| | FCY | | | | | | 0.8 | 0.8 |
| Net lending to financial institutions | NOK | | | | | | 9.5 | 9.5 |
| Net lending to customers | NOK | 18.8 | 91.5 | 1,011.4 | 5,063.3 | 23,467.2 | | 29,652.2 |
| Certificates and bonds | NOK | 109.6 | 210.0 | 654.0 | 3,255.0 | 225.0 | | 4,453.6 |
| Financial derivatives | NOK | | | 3.6 | 134.8 | 162.4 | | 300.8 |
| Accrued interest, not yet due | NOK | 51.8 | 22.5 | 57.2 | | | | 131.5 |
| Other asset items | NOK | | | 41.7 | | | 458.3 | 500.0 |
| | FCY | | | | | | 12.8 | 12.8 |
| **Total receipts** | | **180.2** | **324.0** | **1,767.9** | **8,453.1** | **23,854.6** | **792.5** | **35,372.3** |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Liabilities to financial institutions | NOK | | | 60.0 | 30.0 | | 0.1 | 90.1 |
| Customer deposits | NOK | 135.9 | 1,562.0 | 605.1 | 15.6 | | 11,564.8 | 13,883.4 |
| Financial derivatives | NOK | | | 1.2 | 23.0 | 0.3 | | 24.5 |
| | FCY | | | | 19.5 | | | 19.5 |
| Securities issued | NOK | | 229.0 | 1,899.0 | 13,040.0 | 1,775.0 | | 16,943.0 |
| | FCY | | | | 285.4 | | | 285.4 |
| Subordinated loan capital | NOK | | | | 700.0 | | | 700.0 |
| Accrued interest | NOK | 44.8 | 34.3 | 47.5 | | | | 126.7 |
| | FCY | | 0.6 | | | | | 0.6 |
| Other liabilities | NOK | | | 230.2 | | | | 230.2 |
| **Total payments** | | **180.7** | **1,825.9** | **2,843.0** | **14,113.5** | **1,775.3** | **11,564.9** | **32,303.4** |
| **Net exposure** | | **-0.5** | **-1,501.9** | **-1,075.1** | **-5,660.4** | **22,079.3** | **-10,772.4** | |
| | | | | | | | | |
| Loan pledges | | 196.7 | | | | | | 196.7 |
| Unused credit | | | | 112.0 | 1,302.9 | | 122.5 | 1,537.4 |
| Guarantees | | | | | | 72.7 | 154.1 | 226.8 |

## Remaining contractual term as at 31.12.2017 - parent bank

| | | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | No term | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and receivables from central banks | NOK | | | | | | 340.6 | 340.6 |
| | FCY | | | | | | 0.6 | 0.6 |
| Net lending to financial institutions | NOK | | | 283.3 | | 45.0 | 1,600.6 | 1,928.9 |
| Net lending to customers | NOK | 38.9 | 39.4 | 467.9 | 3,370.5 | 14,715.2 | | 18,631.9 |
| Certificates and bonds | NOK | 100.0 | 354.7 | 245.0 | 3,525.0 | 85.0 | | 4,309.7 |
| Financial derivatives | NOK | | | 15.5 | 49.5 | 22.8 | | 87.8 |
| Accrued interest, not yet due | NOK | 40.3 | 11.5 | 24.4 | | | | 76.2 |
| Other asset items | NOK | | | 17.9 | | | 1,356.6 | 1,374.5 |
| | FCY | | | | | | 17.8 | 17.8 |
| **Total receipts** | | **179.2** | **405.6** | **1,054.0** | **6,945.0** | **14,868.0** | **3,316.2** | **26,768.0** |
| **Liabilities** | | | | | | | | |
| Liabilities to financial institutions | NOK | | | 30.0 | | 300.0 | 231.9 | 561.9 |
| Customer deposits | NOK | 75.7 | 1,808.9 | 733.8 | | | 11,378.0 | 13,996.4 |
| Financial derivatives | NOK | | 0.3 | | 14.3 | | | 14.6 |
| Securities issued | NOK | 504.0 | | 900.0 | 6,290.0 | 525.0 | | 8,219.0 |
| Subordinated loan capital | NOK | | | 550.0 | 150.0 | | | 700.0 |
| Accrued interest | NOK | 33.0 | 16.2 | 32.0 | | | | 81.2 |
| Other liabilities | NOK | | | 178.4 | | | | 178.4 |
| **Total payments** | | **612.7** | **1,825.4** | **2,424.2** | **6,454.3** | **825.0** | **11,609.9** | **23,751.5** |
| **Net exposure** | | **-433.5** | **-1,419.8** | **-1,370.2** | **490.7** | **14,043.0** | **-8,293.7** | |
| Loan pledges | | 377.6 | | | | | | 377.6 |
| Unused credit | | | | 1,778.0 | 739.6 | | 611.7 | 3,129.3 |
| Guarantees | | | | | | | 115.8 | 115.8 |

## Remaining contractual term as at 31.12.2016 - parent bank

| | | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | No term | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and receivables from central banks | NOK | | | | | | 311.1 | 311.1 |
| | FCY | | | | | | 0.8 | 0.8 |
| Net lending to financial institutions | NOK | | | 263.8 | | 45.0 | 1,431.0 | 1,739.8 |
| Net lending to customers | NOK | 18.8 | 91.4 | 662.0 | 2,708.9 | 15,649.5 | | 19,130.6 |
| Certificates and bonds | NOK | 109.6 | 210.0 | 654.0 | 3,155.0 | 175.0 | | 4,303.6 |
| Financial derivatives | NOK | | | 3.6 | 103.1 | 30.9 | | 137.6 |
| Accrued interest, not yet due | NOK | 35.1 | 7.2 | 52.4 | | | | 94.7 |
| Other asset items | NOK | | | 19.4 | | | 1,332.9 | 1,352.3 |
| | FCY | | | | | | 12.8 | 12.8 |
| **Total receipts** | | **163.5** | **308.6** | **1,655.2** | **5,967.0** | **15,900.4** | **3,088.6** | **27,083.3** |
| **Liabilities** | | | | | | | | |
| Liabilities to financial institutions | NOK | | | 60.0 | 30.0 | | 235.6 | 325.6 |
| Customer deposits | NOK | 135.9 | 1,562.0 | 603.4 | | | 11,590.9 | 13,892.2 |
| Financial derivatives | NOK | | | 1.2 | 23.0 | 0.3 | | 24.5 |
| Securities issued | NOK | | | 1,899.0 | 6,140.0 | 1,025.0 | | 9,064.0 |
| Subordinated loan capital | NOK | | | | 700.0 | | | 700.0 |
| Accrued interest | NOK | 27.9 | 13.4 | 47.5 | | | | 88.8 |
| Other liabilities | NOK | | | 183.1 | | | | 183.1 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Total payments** | **163.8** | **1,575.4** | **2,794.2** | **6,893.0** | **1,025.3** | **11,826.5** | **24,278.2** |
| **Net exposure** | **-0.3** | **-1,266.8** | **-1,139.0** | **-926.0** | **14,875.1** | **-8,737.9** | |
| Loan pledges | 180.7 | | | | | | 180.7 |
| Unused credit | | | 1,848.2 | 711.8 | | 214.3 | 2,774.3 |
| Guarantees | | | | | 72.7 | 153.4 | 226.1 |

### Financial liabilities

The nominal value of the financial liabilities of the bank and the group is shown below. All liabilities are allocated to the category that covers the first possible payment in cases where the contractual payment date is not provided. The liabilities are inclusive of future interest payments and the principal of the liability that is stated. Interest rates and currency rates are as at 31.12.2017. Liabilities associated with derivatives are shown on a separate line, and related inflows from derivatives are shown under each table.

### Maturity analysis of financial liabilities as at 31.12.2017 - group

| | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | No term | Total |
|---|---|---|---|---|---|---|---|
| Liabilities to financial institutions | | | 34.2 | 16.0 | 319.9 | | 370.1 |
| Customer deposits | 11,412.0 | 1,812.5 | 742.0 | 10.0 | | | 13,976.5 |
| Securities issued | 543.5 | 285.7 | 1,187.7 | 15,933.7 | 1,458.4 | | 19,409.0 |
| Other liabilities | | | 235.0 | | | | 235.0 |
| Subordinated loan capital | 4.8 | 1.3 | 565.4 | 154.0 | | | 725.5 |
| Loan pledges | 395.9 | | | | | | 395.9 |
| Unused credit | 1,521.7 | | | | | | 1,521.7 |
| Guarantees | | | | | | 116.6 | 116.6 |
| **Financial liabilities excl. derivatives** | **13,877.9** | **2,099.5** | **2,764.3** | **16,113.7** | **1,778.3** | **116.6** | **36,750.3** |
| Financial derivatives (outflows) | 12.3 | 14.9 | 75.9 | 236.9 | 47.7 | | 387.7 |
| **Financial liabilities** | **13,890.2** | **2,114.4** | **2,840.2** | **16,350.6** | **1,826.0** | **116.6** | **37,138.0** |
| Financial derivatives (inflows) | 0.7 | 46.7 | 151.5 | 443.7 | 184.2 | | 826.8 |

### Maturity analysis of financial liabilities as at 31.12.2016 - group

| | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | No term | Total |
|---|---|---|---|---|---|---|---|
| Liabilities to financial institutions | | | 61.3 | 30.3 | | 0.1 | 91.7 |
| Customer deposits | 11,700.8 | 1,564.7 | 610.0 | 15.6 | | | 13,891.1 |
| Securities issued | 35.6 | 293.6 | 2,235.9 | 14,321.1 | 2,021.1 | | 18,907.3 |
| Other liabilities | | | 230.2 | | | | 230.2 |
| Subordinated loan capital | 5.2 | 1.5 | 20.0 | 718.2 | | | 744.9 |
| Loan pledges | 196.7 | | | | | | 196.7 |
| Unused credit | 1,537.4 | | | | | | 1,537.4 |
| Guarantees | | | | | 72.7 | 154.1 | 226.8 |
| **Financial liabilities excl. derivatives** | **13,475.7** | **1,859.8** | **3,157.4** | **15,085.2** | **2,093.8** | **154.2** | **35,826.1** |
| Financial derivatives (outflows) | 18.7 | 17.5 | 92.0 | 333.0 | 72.9 | | 534.1 |
| **Financial liabilities** | **13,494.4** | **1,877.3** | **3,249.4** | **15,418.2** | **2,166.7** | **154.2** | **36,360.2** |
| Financial derivatives (inflows) | 1.4 | 38.5 | 183.5 | 549.4 | 239.1 | | 1,011.9 |

### Maturity analysis of financial liabilities as at 31.12.2017 - parent bank

| | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | No term | Total |
|---|---|---|---|---|---|---|---|
| Liabilities to financial institutions | | | 34.2 | 16.0 | 319.9 | 231.9 | 602.0 |
| Customer deposits | 11,453.7 | 1,812.5 | 739.5 | | | | 14,005.7 |
| Securities issued | 536.0 | 17.2 | 1,070.4 | 6,669.5 | 571.9 | | 8,865.0 |
| Other liabilities | | | 178.4 | | | | 178.4 |
| Subordinated loan capital | 4.8 | 1.3 | 565.4 | 154.0 | | | 725.5 |
| Loan pledges | 377.6 | | | | | | 377.6 |
| Unused credit | 3,129.3 | | | | | | 3,129.3 |
| Guarantees | | | | | | 115.8 | 115.8 |
| **Financial liabilities excl. derivatives** | **15,501.4** | **1,831.0** | **2,587.9** | **6,839.5** | **891.8** | **347.7** | **27,999.3** |
| Financial derivatives (outflows) | 9.3 | 14.5 | 65.5 | 174.1 | -0.2 | | 263.2 |
| **Financial liabilities** | **15,510.7** | **1,845.5** | **2,653.4** | **7,013.6** | **891.6** | **347.7** | **28,262.5** |
| Financial derivatives (inflows) | 0.7 | 28.3 | 117.0 | 251.9 | 47.8 | | 445.7 |

### Maturity analysis of financial liabilities as at 31.12.2016 - parent bank

| | Up to 1 month | From 1-3 months | From 3 months to 1 year | From 1-5 years | Over 5 years | No term | Total |
|---|---|---|---|---|---|---|---|
| Liabilities to financial institutions | | | 61.3 | 30.3 | 0.0 | 235.6 | 327.2 |
| Customer deposits | 11,726.9 | 1,564.7 | 608.3 | | | | 13,899.9 |
| Securities issued | 26.0 | 19.1 | 2,117.6 | 6,609.0 | 1,100.4 | | 9,872.1 |
| Other liabilities | | | 183.1 | | | | 183.1 |
| Subordinated loan capital | 5.2 | 1.5 | 20.0 | 718.2 | | | 744.9 |
| Loan pledges | 180.7 | | | | | | 180.7 |
| Unused credit | 2,774.3 | | | | | | 2,774.3 |
| Guarantees | | | | | 72.7 | 153.4 | 226.1 |
| **Financial liabilities excl. derivatives** | **14,713.1** | **1,585.3** | **2,990.3** | **7,357.5** | **1,173.1** | **389.0** | **28,208.3** |
| Financial derivatives (outflows) | 15.0 | 16.9 | 79.2 | 253.4 | -0.4 | | 364.1 |
| **Financial liabilities** | **14,728.1** | **1,602.2** | **3,069.5** | **7,610.9** | **1,172.7** | **389.0** | **28,572.4** |
| Financial derivatives (inflows) | 1.4 | 20.0 | 148.9 | 338.9 | 68.5 | | 577.7 |

## NOTE 18 - CURRENCY RISK

### Market risk associated with currency risk as at 31.12.2017

| Currency | Increase in exchange rate % | Effect on profit before tax | Effect on equity | Reduction in exchange rate % | Effect on profit before tax | Effect on equity |
|---|---|---|---|---|---|---|
| USD | +10 | 0.5 | 0.0 | -10 | -0.5 | 0.0 |
| **Total** | | **0.5** | **0.0** | | **-0.5** | **0.0** |

### Market risk associated with currency risk as at 31.12.2016

| Currency | Increase in exchange rate % | Effect on profit before tax | Effect on equity | Reduction in exchange rate % | Effect on profit before tax | Effect on equity |
|---|---|---|---|---|---|---|
| USD | +10 | 0.6 | 0.0 | -10 | -0.6 | 0.0 |
| **Total** | | **0.6** | **0.0** | | **-0.6** | **0.0** |

The bank's currency exposure is low. As at 31 December 2017, the bank's open net position was NOK 5.5 million (NOK 5.9 million as at 31 December 2016). Normally, positions and borrowing in foreign currency are covered by contra positions, most often using currency swap agreements and similar derivatives. See also Note 20 - Financial Derivatives.

## NOTE 19 - CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

### Group as at 31.12.2017

| | Fair value through profit or loss | | | | | |
|---|---|---|---|---|---|---|
| | **Held for trading** | **Designated at fair value** | **Available for sale** | **Held to maturity** | **Amortised cost*** | **Total** |
| Cash and receivables from central banks | 0.0 | 0.0 | 0.0 | 0.0 | 341.2 | 341.2 |
| Net loans to and receivables from financial institutions | 0.0 | 0.0 | 0.0 | 0.0 | 5.7 | 5.7 |
| Net loans to and receivables from customers | 0.0 | 0.0 | 0.0 | 0.0 | 30,972.4 | 30,972.4 |
| Certificates, bonds, etc. at fair value | 4,461.0 | 54.1 | 0.0 | 0.0 | 0.0 | 4,515.1 |
| Shares and units | 17.8 | 0.0 | 466.1 | 0.0 | 0.0 | 483.9 |
| Financial derivatives** | 297.9 | 0.0 | 0.0 | 0.0 | 0.0 | 297.9 |
| Certificates and bonds, held to maturity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total financial assets** | **4,776.7** | **54.1** | **466.1** | **0.0** | **31,319.3** | **36,616.2** |
| Liabilities to financial institutions | 0.0 | 0.0 | 0.0 | 0.0 | 330.1 | 330.1 |
| Deposits from and liabilities to customers | 0.0 | 0.0 | 0.0 | 0.0 | 13,971.8 | 13,971.8 |
| Financial derivatives** | 25.5 | 0.0 | 0.0 | 0.0 | 0.0 | 25.5 |
| Securities issued | 0.0 | 0.0 | 0.0 | 0.0 | 18,228.5 | 18,228.5 |
| Subordinated loan capital | 0.0 | 0.0 | 0.0 | 0.0 | 703.6 | 703.6 |
| **Total financial liabilities** | **25.5** | **0.0** | **0.0** | **0.0** | **33,234.0** | **33,259.5** |

* Includes secured debt.
** Includes derivatives for which hedge accounting is used.

## Group as at 31.12.2016

| | Fair value through profit or loss | | | | | |
|---|---|---|---|---|---|---|
| | Held for trading | Designated at fair value | Available for sale | Held to maturity | Amortised cost* | Total |
| Cash and receivables from central banks | 0.0 | 0.0 | 0.0 | 0.0 | 311.9 | 311.9 |
| Net loans to and receivables from financial institutions | 0.0 | 0.0 | 0.0 | 0.0 | 9.5 | 9.5 |
| Net loans to and receivables from customers | 0.0 | 0.0 | 0.0 | 0.0 | 29,695.7 | 29,695.7 |
| Certificates, bonds, etc. at fair value | 4,229.7 | 55.4 | 0.0 | 0.0 | 0.0 | 4,285.1 |
| Shares and units | 14.4 | 0.0 | 445.7 | 0.0 | 0.0 | 460.1 |
| Financial derivatives** | 369.6 | 0.0 | 0.0 | 0.0 | 0.0 | 369.6 |
| Certificates and bonds, held to maturity | 0.0 | 0.0 | 0.0 | 205.4 | 0.0 | 205.4 |
| **Total financial assets** | **4,613.7** | **55.4** | **445.7** | **205.4** | **30,017.1** | **35,337.3** |
| Liabilities to financial institutions | 0.0 | 0.0 | 0.0 | 0.0 | 90.2 | 90.2 |
| Deposits from and liabilities to customers | 0.0 | 0.0 | 0.0 | 0.0 | 13,887.4 | 13,887.4 |
| Financial derivatives** | 47.5 | 0.0 | 0.0 | 0.0 | 0.0 | 47.5 |
| Securities issued | 0.0 | 0.0 | 0.0 | 0.0 | 17,614.6 | 17,614.6 |
| Subordinated loan capital | 0.0 | 0.0 | 0.0 | 0.0 | 703.5 | 703.5 |
| **Total financial liabilities** | **47.5** | **0.0** | **0.0** | **0.0** | **32,295.7** | **32,343.2** |

* Includes secured debt.
** Includes derivatives for which hedge accounting is used.

## Parent bank as at 31.12.2017

| | Fair value through profit or loss | | | | | |
|---|---|---|---|---|---|---|
| | Held for trading | Designated at fair value | Available for sale | Held to maturity | Amortised cost* | Total |
| Cash and receivables from central banks | 0.0 | 0.0 | 0.0 | 0.0 | 341.2 | 341.2 |
| Net loans to and receivables from financial institutions | 0.0 | 0.0 | 0.0 | 0.0 | 1,929.3 | 1,929.3 |
| Net loans to and receivables from customers | 0.0 | 0.0 | 0.0 | 0.0 | 18,653.6 | 18,653.6 |
| Certificates, bonds, etc. at fair value | 4,304.7 | 54.1 | 0.0 | 0.0 | 0.0 | 4,358.8 |
| Shares and units | 17.8 | 0.0 | 466.1 | 0.0 | 0.0 | 483.9 |
| Financial derivatives** | 128.0 | 0.0 | 0.0 | 0.0 | 0.0 | 128.0 |
| Certificates and bonds, held to maturity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total financial assets** | **4,450.5** | **54.1** | **466.1** | **0.0** | **20,924.1** | **25,894.8** |
| Liabilities to financial institutions | 0.0 | 0.0 | 0.0 | 0.0 | 562.0 | 562.0 |
| Deposits from and liabilities to customers | 0.0 | 0.0 | 0.0 | 0.0 | 14,001.0 | 14,001.0 |
| Financial derivatives** | 19.4 | 0.0 | 0.0 | 0.0 | 0.0 | 19.4 |
| Securities issued | 0.0 | 0.0 | 0.0 | 0.0 | 8,357.8 | 8,357.8 |
| Subordinated loan capital | 0.0 | 0.0 | 0.0 | 0.0 | 703.6 | 703.6 |
| **Total financial liabilities** | **19.4** | **0.0** | **0.0** | **0.0** | **23,624.4** | **23,643.8** |

* Includes secured debt.
** Includes derivatives for which hedge accounting is used.

**Parent bank as at 31.12.2016**

| | Fair value through profit or loss | | | | | |
|---|---|---|---|---|---|---|
| | **Held for trading** | **Designated at fair value** | **Available for sale** | **Held to maturity** | **Amortised cost*** | **Total** |
| Cash and receivables from central banks | 0.0 | 0.0 | 0.0 | 0.0 | 311.9 | 311.9 |
| Net loans to and receivables from financial institutions | 0.0 | 0.0 | 0.0 | 0.0 | 1,740.2 | 1,740.2 |
| Net loans to and receivables from customers | 0.0 | 0.0 | 0.0 | 0.0 | 19,156.6 | 19,156.6 |
| Certificates, bonds, etc. at fair value | 4,073.7 | 55.4 | 0.0 | 0.0 | 0.0 | 4,129.1 |
| Shares and units | 14.4 | 0.0 | 445.7 | 0.0 | 0.0 | 460.1 |
| Financial derivatives** | 186.5 | 0.0 | 0.0 | 0.0 | 0.0 | 186.5 |
| Certificates and bonds, held to maturity | 0.0 | 0.0 | 0.0 | 205.4 | 0.0 | 205.4 |
| **Total financial assets** | **4,274.6** | **55.4** | **445.7** | **205.4** | **21,208.7** | **26,189.8** |
| Liabilities to financial institutions | 0.0 | 0.0 | 0.0 | 0.0 | 325.7 | 325.7 |
| Deposits from and liabilities to customers | 0.0 | 0.0 | 0.0 | 0.0 | 13,896.2 | 13,896.2 |
| Financial derivatives** | 27.4 | 0.0 | 0.0 | 0.0 | 0.0 | 27.4 |
| Securities issued | 0.0 | 0.0 | 0.0 | 0.0 | 9,249.5 | 9,249.5 |
| Subordinated loan capital | 0.0 | 0.0 | 0.0 | 0.0 | 703.5 | 703.5 |
| **Total financial liabilities** | **27.4** | **0.0** | **0.0** | **0.0** | **24,174.9** | **24,202.3** |

* Includes secured debt.
** Includes derivatives for which hedge accounting is used.

## NOTE 20 - FINANCIAL DERIVATIVES

Interest rate and exchange rate derivatives have been entered into for the group's fixed interest bond loans and foreign currency bond loans, in order to reduce interest rate and exchange rate risk. The hedging ratio is one-to-one and hedge accounting is used. No ineffectiveness was identified in the hedges in 2017 and 2016. The change in value of financial derivatives used for hedge accounting was negative in the amount of NOK -30.6 million (NOK -142.5 million in 2016), with an equivalent change in value for hedged objects. For recognised changes in value, profit/loss, reference is made to note 27.

In addition, the group has entered into interest rate and exchange rate derivatives to reduce other interest rate and exchange rate risk without applying the rules for hedge accounting.

*Guarantee to Eksportfinans ASA*
The bank takes part in a portfolio hedge agreement (PHA guarantee) for Eksportfinans ASA. Equivalent to the bank's ownership interest in the company, a guarantee was provided for a share of Eksportfinans ASA's portfolio as at 29 February 2008. The PHA guarantee was fully terminated as at 31 December 2017.

| Group 2017 | Fair value | | | Parent bank 2017 | Fair value | |
|---|---|---|---|---|---|---|
| **Contract sum** | **Assets** | **Liabilities** | | **Contract sum** | **Assets** | **Liabilities** |
| | | | **Financial derivatives at fair value through profit or loss** | | | |
| | | | Currency instruments | | | |
| 12.4 | 0.1 | 0.0 | Forward exchange contracts | 12.4 | 0.1 | 0.0 |
| 0.0 | 0.0 | 0.0 | Currency swap agreements | 0.0 | 0.0 | 0.0 |
| **12.4** | **0.1** | **0.0** | **Total currency instruments** | **12.4** | **0.1** | **0.0** |
| | | | Interest rate instruments | | | |
| 590.0 | 0.1 | 15.3 | Interest rate swaps | 590.0 | 0.1 | 15.3 |
| 0.0 | 0.0 | 0.0 | Interest rate swaps (FRA) | 0.0 | 0.0 | 0.0 |
| 0.0 | 0.0 | 0.0 | Standardised interest rate swaps (futures) | 0.0 | 0.0 | 0.0 |
| **590.0** | **0.1** | **15.3** | **Total interest instruments** | **590.0** | **0.1** | **15.3** |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | **Financial derivatives used for hedge accounting** | | | |
| | | | Currency instruments | | | |
| 0.0 | 0.0 | 0.0 | Forward exchange contracts | 0.0 | 0.0 | 0.0 |
| 304.9 | 0.0 | 6.1 | Currency swap agreements | 0.0 | 0.0 | 0.0 |
| **304.9** | **0.0** | **6.1** | **Total currency instruments** | **0.0** | **0.0** | **0.0** |
| | | | Interest rate instruments | | | |
| 5,615.0 | 297.7 | 4.1 | Interest rate swaps | 4,265.0 | 127.8 | 4.1 |
| 0.0 | 0.0 | 0.0 | Interest rate swaps (FRA) | 0.0 | 0.0 | 0.0 |
| 0.0 | 0.0 | 0.0 | Standardised interest rate swaps (futures) | 0.0 | 0.0 | 0.0 |
| **5,615.0** | **297.7** | **4.1** | **Total interest instruments** | **4,265.0** | **127.8** | **4.1** |
| | **297.9** | **25.5** | **Total derivatives** | | **128.0** | **19.4** |

| **Group 2016 Fair value** | | | | **Parent bank 2016 Fair value** | | |
|---|---|---|---|---|---|---|
| **Contract sum** | **Assets** | **Liabilities** | | **Contract sum** | **Assets** | **Liabilities** |
| | | | **Financial derivatives at fair value through profit or loss** | | | |
| | | | Currency instruments | | | |
| 7.0 | 0.0 | 0.2 | Forward exchange contracts | 7.0 | 0.0 | 0.2 |
| 0.0 | 0.0 | 0.0 | Currency swap agreements | 0.0 | 0.0 | 0.0 |
| **7.0** | **0.0** | **0.2** | **Total currency instruments** | **7.0** | **0.0** | **0.2** |
| | | | Interest rate instruments | | | |
| 707.6 | 0.6 | 11.6 | Interest rate swaps | 707.6 | 0.6 | 11.6 |
| 0.0 | 0.0 | 0.0 | Interest rate swaps (FRA) | 0.0 | 0.0 | 0.0 |
| 0.0 | 0.0 | 0.0 | Standardised interest rate swaps (futures) | 0.0 | 0.0 | 0.0 |
| **707.6** | **0.6** | **11.6** | **Total interest instruments** | **707.6** | **0.6** | **11.6** |
| 72.7 | 7.8 | 0.0 | Guarantee to Eksportfinans ASA* | 72.7 | 7.8 | 0.0 |
| **72.7** | **7.8** | **0.0** | **Total other derivatives** | **72.7** | **7.8** | **0.0** |
| | | | **Financial derivatives used for hedge accounting** | | | |
| | | | Currency instruments | | | |
| 0.0 | 0.0 | 0.0 | Forward exchange contracts | 0.0 | 0.0 | 0.0 |
| 304.9 | 0.0 | 20.1 | Currency swap agreements | 0.0 | 0.0 | 0.0 |
| **304.9** | **0.0** | **20.1** | **Total currency instruments** | **0.0** | **0.0** | **0.0** |
| | | | Interest rate instruments | | | |
| 6,215.0 | 361.2 | 15.6 | Interest rate swaps | 4,865.0 | 178.1 | 15.6 |
| 0.0 | 0.0 | 0.0 | Interest rate swaps (FRA) | 0.0 | 0.0 | 0.0 |
| 0.0 | 0.0 | 0.0 | Standardised interest rate swaps (futures) | 0.0 | 0.0 | 0.0 |
| **6,215.0** | **361.2** | **15.6** | **Total interest instruments** | **4,865.0** | **178.1** | **15.6** |
| | **369.6** | **47.5** | **Total derivatives** | | **186.5** | **27.4** |

* The amount of NOK 7.8 million is the net positive value development in the guaranteed portfolio as at 31 December 2016 after deduction of the annual swap settlement. The underlying value of the derivative, exclusive of the swap settlement, was positive at NOK 41.0 million as at 31 December 2016.

## NOTE 21 - NETTING RIGHTS OF FINANCIAL INSTRUMENTS

The Group's netting rights comply with the general rules in Norwegian legislation. Standardised and mainly bilateral ISDA agreements have been entered into with financial institutions, which give the parties netting rights in the event of any default. Additional agreements for the provision of collateral (CSA) have also been entered into. In accordance with the offsetting disclosure requirements, there has been no offsetting of amounts recognised on the balance sheet.

| **Group**<br>**As at 31.12.2017 the exposure was as follows:** | **Gross amount** | **Offset** | **Book value amount** | **Amount subject to net settlement** | **Exchanged collateral security** | **Amount following any net settlement** |
|---|---|---|---|---|---|---|
| Financial derivatives, assets | 181.5 | 0.0 | 181.5 | -6.1 | -12.3 | 163.1 |
| Financial derivatives, liabilities | 6.1 | 0.0 | 6.1 | -6.1 | 0.0 | 0.0 |

| **Group**<br>**As at 31.12.2016, the exposure was as follows:** | **Gross amount** | **Offset** | **Book value amount** | **Amount subject to net settlement** | **Exchanged collateral security** | **Amount following any net settlement** |
|---|---|---|---|---|---|---|
| Financial derivatives, assets | 183.1 | 0.0 | 183.1 | -20.1 | 0.0 | 163.0 |
| Financial derivatives, liabilities | 20.1 | 0.0 | 20.1 | -20.1 | 0.0 | 0.0 |

| **Parent bank**<br>**As at 31.12.2017 the exposure was as follows:** | **Gross amount** | **Offset** | **Book value amount** | **Amount subject to net settlement** | **Exchanged collateral security** | **Amount following any net settlement** |
|---|---|---|---|---|---|---|
| Financial derivatives, assets | 11.6 | 0.0 | 11.6 | 0.0 | -12.3 | -0.7 |
| Financial derivatives, liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| **Parent bank**<br>**As at 31.12.2016, the exposure was as follows:** | **Gross amount** | **Offset** | **Book value amount** | **Amount subject to net settlement** | **Exchanged collateral security** | **Amount following any net settlement** |
|---|---|---|---|---|---|---|
| Financial derivatives, assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial derivatives, liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

## NOTE 22 - FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities on the balance sheet are measured at fair value, except for loans and receivables, deposits, bonds classified as hold to maturity, borrowing and issued securities.

**Valuation of financial assets and liabilities at fair value**

*General information*
The bank uses the following appreciation hierarchy to determine the fair value of financial instruments:

Level 1: Observable trading prices in active markets.
Level 2: Observable market prices in less active markets, or the use of inputs which are either directly or indirectly observable.

Level 3: Valuation techniques not based on observable market data.

*Cash and receivables from central banks*
Cash and receivables at central banks have no term to maturity and are placed in level 1. Book values represent best estimates of fair value.

*Net loans*

The fair value of fixed rate loans which are valued at amortised cost on the balance sheet have been valued at discounted cash flows based on current market rates for loans with the same remaining maturity. The fair value of the bank's remaining loan portfolio at floating interest rates is subject to the influence of changes in interest rates and credit margins, but can be repriced with a short deadline. The Financial Contracts Act provides access to repricing within a six-week period (unless there are major changes in the bank's borrowing rate). In the bank's opinion the best estimate for the remaining loan portfolio is that amortised cost is a good approximation of fair value. The fair value of net loans to and receivables from customers is classified in level 3.

The fair value of net loans to and receivables from financial institutions is classified as level 3. These are loans and receivables without terms of duration and fair value is assessed in accordance with the same method as used for the rest of the bank's lending portfolio at variable interest rates.

*Certificates and bonds*
As a general rule, the bank's portfolio of certificates and bonds is valued based on prices received from Nordic Bond Pricing. The prices from Nordic Bond Pricing are based on reported spreads from the brokers active in the Norwegian market.

Certificates or bonds not priced by Nordic Bond Pricing are valued on the basis of trades and observable credit spreads in the market. If this has not been possible, price estimates or credit spread assessments have been used based on other certificates and bonds with equivalent characteristics and maturities.

In the valuation of the bank's bond portfolio, we have assessed possible imbalances in the market, and whether there are different motives behind the transactions that have taken place. Assessments are made of whether the prices from Nordic Bond Pricing appear correct.

The bank believes that the valuation estimates used lie within reasonable intervals for fair value, and that the credit and liquidity risk development has been considered in the use of our judgement where this has been necessary. In the opinion of the bank the prices used represent the best estimate of the securities' fair value.

All of the bank's certificate and bond holdings are placed in the pricing hierarchy's level 2. This is due to the fact that there is insufficient trading in any of the listed instruments for a market price can be read at any given time.

*Shares and units*
If there are no listed prices in an active market, alternative valuation techniques are used. Such techniques include the use of the arm's length price of recent market transactions, comparison with the market value of corresponding financial instruments, and the discounting of expected future cash flows. As calibration tests of the feasibility of the estimate of fair value, multiplier models such as the price/book model and the price/profit model are used to check that the valuation models correlate with market data.

If the fair value of a financial instrument is regarded as clearly unreliable, the instrument is measured at cost price. The fair value of a financial instrument is regarded as clearly unreliable if the following two factors exist: The variability of reasonable value estimates is significant and there is the probability that the various value estimates cannot be assumed to be reliable.

Listed shares that are traded daily are classified as level 1. Level 3 consists of shares in local companies and other unlisted undertakings for which alternative valuation techniques are used to determine fair value.

*Derivatives*
Sparebanken Øst only has derivatives of which the fair value is based on observable yield curves and exchange rates and which are therefore placed at level 2 of the pricing hierarchy.

*Liabilities to financial institutions*
Liabilities to financial institutions are assessed at level 2. The short time remaining to maturity, together with the repayment profile of the debt, means that fair value is assessed as being equal to the nominal value.

*Customer deposits*
Customer deposits are classified as level 2. The bank's deposits are mainly with short or no time to maturity and fair value is assessed as being equal to the nominal value.

*Securities issued*
Securities issued and subordinated loan capital are placed in level 2 of the pricing hierarchy because the turnover is not large enough in any of the loans to be able to read off a market price at any given time. The group uses price estimates and credit spread assessments from Nordic Bond Pricing and has taken transaction prices into account where necessary.

| 31.12.2017 - group | Level 1 | Level 2 | Level 3 | Fair value | Book value |
|---|---|---|---|---|---|
| **Amortised cost** | | | | | |
| Cash and receivables from central banks | 341.2 | 0.0 | 0.0 | 341.2 | 341.2 |
| Net loans to and receivables from financial institutions | 0.0 | 0.0 | 5.7 | 5.7 | 5.7 |
| Net loans to and receivables from customers | 0.0 | 0.0 | 30,975.4 | 30,975.4 | 30,972.4 |
| Certificates, bonds and other interest-bearing securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total assets at amortised cost** | **341.2** | **0.0** | **30,981.1** | **31,322.3** | **31,319.3** |
| Liabilities to financial institutions | 0.0 | 330.1 | 0.0 | 330.1 | 330.1 |
| Deposits from and liabilities to customers | 0.0 | 13,971.8 | 0.0 | 13,971.8 | 13,971.8 |
| Securities issued | 0.0 | 18,396.0 | 0.0 | 18,396.0 | 18,228.5 |
| Subordinated loan capital | 0.0 | 707.2 | 0.0 | 707.2 | 703.6 |
| **Total liabilities at amortised cost** | **0.0** | **33,405.1** | **0.0** | **33,405.1** | **33,234.0** |
| **Fair value** | | | | | |
| Certificates, bonds and other interest-bearing securities | 0.0 | 4,515.1 | 0.0 | 4,515.1 | 4,515.1 |
| Stocks, units and other securities | | | | | |
| - at fair value through profit or loss | 17.8 | 0.0 | 0.0 | 17.8 | 17.8 |
| - available for sale | 0.0 | 0.0 | 466.1 | 466.1 | 466.1 |
| Financial derivatives | 0.0 | 297.9 | 0.0 | 297.9 | 297.9 |
| **Total assets at fair value** | **17.8** | **4,813.0** | **466.1** | **5,296.9** | **5,296.9** |
| Financial derivatives | 0.0 | 25.5 | 0.0 | 25.5 | 25.5 |
| **Total liabilities at fair value** | **0.0** | **25.5** | **0.0** | **25.5** | **25.5** |

| Movement in level 3 | Fair value |
|---|---|
| **Balance sheet as at 01.01.2017** | 445.7 |
| Net gains | 2.4 |
| Purchase of shares | 9.3 |
| Disposals | 15.1 |
| Changes in value | 23.7 |
| Transferred from levels 1 and 2 | 0.0 |
| **Balance sheet as at 31.12.2017** | **466.1** |

**Shares and units**

Movement in level 3 in 2017 relates to items classified as available for sale. Additions of NOK 9.3 million concern the investment in Balder Betaling AS. Disposals of NOK 15.1 million in 2017 concern the sale of shares in Eiendomskreditt AS, which yielded a realised profit of NOK 2.4 million. The positive change in value of NOK 23.7 million concerns changes in value that are recognised in comprehensive income for shares and units classified as available for sale. The shares in Frende Holding AS were valued at NOK 235.0 million at the end of 2017. The value of the holding is based on the last known transaction rate, values observed for companies in the same industry and the dividend level from the company. Eksportfinans ASA was valued at NOK 195.0 million at the end of 2017. The value of the holding is assessed based on a price/book assessment, taking into consideration risks and uncertainties concerning expected cash flow in connection with winding up and financial performance.

| 31.12.2016 - group | Level 1 | Level 2 | Level 3 | Fair value | Book value |
|---|---|---|---|---|---|
| **Amortised cost** | | | | | |
| Cash and receivables from central banks | 311.9 | 0.0 | 0.0 | 311.9 | 311.9 |
| Net loans to and receivables from financial institutions | 0.0 | 0.0 | 9.5 | 9.5 | 9.5 |
| Net loans to and receivables from customers | 0.0 | 0.0 | 29,696.2 | 29,696.2 | 29,695.7 |
| Certificates, bonds and other interest-bearing securities | 0.0 | 208.1 | 0.0 | 208.1 | 205.4 |
| **Total assets at amortised cost** | **311.9** | **208.1** | **29,705.7** | **30,225.7** | **30,222.5** |
| Liabilities to financial institutions | 0.0 | 90.2 | 0.0 | 90.2 | 90.2 |
| Deposits from and liabilities to customers | 0.0 | 13,887.4 | 0.0 | 13,887.4 | 13,887.4 |
| Securities issued | 0.0 | 17,677.0 | 0.0 | 17,677.0 | 17,614.6 |
| Subordinated loan capital | 0.0 | 699.8 | 0.0 | 699.8 | 703.5 |
| **Total liabilities at amortised cost** | **0.0** | **32,354.4** | **0.0** | **32,354.4** | **32,295.7** |

| Fair value | | | | | |
|---|---|---|---|---|---|
| Certificates, bonds and other interest-bearing securities | 0.0 | 4,285.1 | 0.0 | 4,285.1 | 4,285.1 |
| Shares, units and other securities | | | | | |
| - at fair value through profit or loss | 12.8 | 1.6 | 0.0 | 14.4 | 14.4 |
| - available for sale | 0.0 | 0.0 | 445.7 | 445.7 | 445.7 |
| Financial derivatives | 0.0 | 369.6 | 0.0 | 369.6 | 369.6 |
| **Total assets at fair value** | **12.8** | **4,656.3** | **445.7** | **5,114.8** | **5,114.8** |
| Financial derivatives | 0.0 | 47.5 | 0.0 | 47.5 | 47.5 |
| **Total liabilities at fair value** | **0.0** | **47.5** | **0.0** | **47.5** | **47.5** |

| Movement in level 3 | Fair value |
|---|---|
| **Balance sheet as at 01.01.2016** | 445.2 |
| Net gains | 0.0 |
| Purchase of shares | 6.3 |
| Disposals | 0.0 |
| Changes in value | -5.9 |
| Transferred from levels 1 and 2 | 0.0 |
| **Balance sheet as at 31.12.2016** | **445.7** |

| 31.12.2017 - parent bank | Level 1 | Level 2 | Level 3 | Fair value | Book value |
|---|---|---|---|---|---|
| **Amortised cost** | | | | | |
| Cash and receivables from central banks | 341.2 | 0.0 | 0.0 | 341.2 | 341.2 |
| Net loans to and receivables from financial institutions | 0.0 | 1,929.3 | 0.0 | 1,929.3 | 1,929.3 |
| Net loans to and receivables from customers | 0.0 | 0.0 | 18,656.6 | 18,656.6 | 18,653.6 |
| Certificates, bonds and other interest-bearing securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total assets at amortised cost** | **341.2** | **1,929.3** | **18,656.6** | **20,927.1** | **20,924.1** |
| Liabilities to financial institutions | 0.0 | 562.0 | 0.0 | 562.0 | 562.0 |
| Deposits from and liabilities to customers | 0.0 | 14,001.0 | 0.0 | 14,001.0 | 14,001.0 |
| Securities issued | 0.0 | 8,441.2 | 0.0 | 8,441.2 | 8,357.8 |
| Subordinated loan capital | 0.0 | 707.2 | 0.0 | 707.2 | 703.6 |
| **Total liabilities at amortised cost** | **0.0** | **23,711.4** | **0.0** | **23,711.4** | **23,624.4** |
| **Fair value** | | | | | |
| Certificates, bonds and other interest-bearing securities | 0.0 | 4,358.8 | 0.0 | 4,358.8 | 4,358.8 |
| Shares, units and other securities | | | | | |
| - at fair value through profit or loss | 17.8 | 0.0 | 0.0 | 17.8 | 17.8 |
| - available for sale | 0.0 | 0.0 | 466.1 | 466.1 | 466.1 |
| Financial derivatives | 0.0 | 128.0 | 0.0 | 128.0 | 128.0 |
| **Total assets at fair value** | **17.8** | **4,486.8** | **466.1** | **4,970.7** | **4,970.7** |
| Financial derivatives | 0.0 | 19.4 | 0.0 | 19.4 | 19.4 |
| **Total liabilities at fair value** | **0.0** | **19.4** | **0.0** | **19.4** | **19.4** |

| 31.12.2016 - parent bank | Level 1 | Level 2 | Level 3 | Fair value | Book value |
|---|---|---|---|---|---|
| **Amortised cost** | | | | | |
| Cash and receivables from central banks | 311.9 | 0.0 | 0.0 | 311.9 | 311.9 |
| Net loans to and receivables from financial institutions | 0.0 | 0.0 | 1,740.2 | 1,740.2 | 1,740.2 |
| Net loans to and receivables from customers | 0.0 | 0.0 | 19,157.1 | 19,157.1 | 19,156.6 |
| Certificates, bonds and other interest-bearing securities | 0.0 | 208.1 | 0.0 | 208.1 | 205.4 |
| **Total assets at amortised cost** | **311.9** | **208.1** | **20,897.3** | **21,417.3** | **21,414.1** |
| Liabilities to financial institutions | 0.0 | 325.7 | 0.0 | 325.7 | 325.7 |
| Deposits from and liabilities to customers | 0.0 | 13,896.2 | 0.0 | 13,896.2 | 13,896.2 |
| Securities issued | 0.0 | 9,309.2 | 0.0 | 9,309.2 | 9,249.5 |

| | | | | | |
|---|---|---|---|---|---|
| Subordinated loan capital | 0.0 | 699.8 | 0.0 | 699.8 | 703.5 |
| **Total liabilities at amortised cost** | **0.0** | **24,230.9** | **0.0** | **24,230.9** | **24,174.9** |
| | | | | | |
| **Fair value** | | | | | |
| Certificates, bonds and other interest-bearing securities | 0.0 | 4,129.1 | 0.0 | 4,129.1 | 4,129.1 |
| Shares, units and other securities | | | | | |
| - at fair value through profit or loss | 12.8 | 1.6 | 0.0 | 14.4 | 14.4 |
| - available for sale | 0.0 | 0.0 | 445.7 | 445.7 | 445.7 |
| Financial derivatives | 0.0 | 186.5 | 0.0 | 186.5 | 186.5 |
| **Total assets at fair value** | **12.8** | **4,317.2** | **445.7** | **4,775.7** | **4,775.7** |
| | | | | | |
| Financial derivatives | 0.0 | 27.4 | 0.0 | 27.4 | 27.4 |
| **Total liabilities at fair value** | **0.0** | **27.4** | **0.0** | **27.4** | **27.4** |

## NOTE 23 - ACCOUNT WITH GROUP COMPANIES

The posts below show transactions and balances that the parent company has with subsidiaries.

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **Profit/loss** | | |
| **Interest income and similar income** | | |
| Interest income from subsidiaries | 40.2 | 45.8 |
| Interest certificates and covered bonds from subsidiaries | 5.2 | 7.8 |
| **Interest costs and similar costs** | | |
| Interest and commission to subsidiaries | 1.9 | 2.7 |
| **Commission income and income from banking services** | | |
| Other operating income from subsidiaries | 20.0 | 17.3 |
| **Other operating costs** | | |
| Rent to subsidiaries | 4.8 | 7.9 |
| Other costs to subsidiaries | 1.7 | 0.7 |
| | | |
| **Balance sheet** | | |
| **Loans to and receivables from financial institutions** | | |
| Loans to subsidiaries | 1,923.7 | 1,730.7 |
| **Loans to and receivables from customers** | | |
| Loans to subsidiaries | 174.8 | 234.5 |
| **Certificates, bonds and other interest-bearing securities** | | |
| Investment in covered bonds in subsidiaries | 0.0 | 0.0 |
| **Prepaid non-accrued costs and earned but not received income** | | |
| Other receivables | 1.4 | 1.2 |
| **Liabilities to financial institutions** | | |
| Deposits from subsidiaries | 231.9 | 235.5 |
| **Customer deposits** | | |
| Deposits from subsidiaries | 42.2 | 26.4 |
| **Other liabilities** | | |
| Other liabilities to subsidiaries | 1.2 | 13.9 |

## NOTE 24 - NET INTEREST AND CREDIT COMMISSION INCOME

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 1.7 | 1.9 | Interest income and similar income from loans to and receivables from financial institutions | 34.9 | 40.1 |
| 1.2 | 1.2 | Interest income and similar income from financial leases | 0.0 | 0.0 |
| 937.8 | 918.5 | Interest income and similar income from loans to and receivables from customers | 528.9 | 534.0 |
| 3.1 | 8.3 | Interest income and similar income from bonds held to maturity | 3.1 | 8.3 |
| | | Interest income and similar income from financial assets that are written down | | |
| 0.0 | 0.0 | Loans to and receivables from financial institutions | 0.0 | 0.0 |
| 10.2 | 36.1 | Loans to and receivables from customers | 1.8 | 28.7 |
| 0.0 | 0.0 | Other interest income and similar income | 0.0 | 0.0 |
| 954.0 | 966.0 | Total interest income and similar income for instruments at amortised cost | 568.7 | 611.1 |
| 63.8 | 68.1 | Interest income and similar income from certificates, bonds, etc. held for trading | 66.8 | 75.0 |
| 2.3 | 3.3 | Interest income and similar income from certificates, bonds, etc. designated at fair value | 2.3 | 3.3 |
| 66.1 | 71.4 | Total interest income and similar income for instruments at fair value through profit or loss | 69.1 | 78.3 |
| **1,020.1** | **1,037.4** | **Interest income and similar income** | **637.8** | **689.4** |
| 3.3 | 6.8 | Interest costs and similar costs for liabilities to financial institutions | 5.2 | 9.3 |
| 116.5 | 132.1 | Interest costs and similar costs for deposits from and liabilities to customers | 116.2 | 131.8 |
| 300.6 | 314.2 | Interest costs and similar costs for securities issued | 158.8 | 177.7 |
| 25.8 | 26.8 | Interest costs and similar costs for subordinated loan capital | 25.8 | 26.8 |
| 11.4 | 11.7 | Other interest costs and similar costs | 11.4 | 11.7 |
| **457.6** | **491.6** | **Interest costs and similar costs for instruments at amortised cost** | **317.4** | **357.3** |
| **562.5** | **545.8** | **Net interest and credit commission income** | **320.4** | **332.1** |

### Average interest rates and average interest-bearing assets and liabilities in the period

| Group 2017 | | Group 2016 | | | Parent bank 2017 | | Parent bank 2016 | |
|---|---|---|---|---|---|---|---|---|
| Avg. int. bearing balance | Avg. interest rate, % | Avg. int. bearing balance | Avg. interest rate, % | | Avg. int. bearing balance | Avg. interest rate, % | vg. int. bearing balance | Avg. interest rate, % |
| | | | | **Assets** | | | | |
| 397.0 | 0.44 | 305.0 | 0.61 | Net loans to financial institutions* | 2,292.4 | 1.52 | 2,400.2 | 1.67 |
| 29,945.1 | 3.17 | 28,894.1 | 3.31 | Net lending to customers | 18,145.7 | 2.92 | 17,833.9 | 3.16 |
| 4,639.9 | 1.49 | 4,737.1 | 1.68 | Securities, investments | 4,714.4 | 1.53 | 4,964.2 | 1.74 |
| | | | | **Liabilities** | | | | |
| 127.1 | 2.64 | 126.8 | 5.33 | Deposits from financial institutions | 365.5 | 1.43 | 405.4 | 2.30 |
| 13,850.1 | 0.84 | 13,673.8 | 0.97 | Customer deposits | 13,868.3 | 0.84 | 13,691.9 | 0.96 |
| 18,765.7 | 1.74 | 18,075.1 | 1.89 | Securities, borrowing | 9,400.5 | 1.96 | 9,847.3 | 2.08 |

*Incl. receivables from central banks.

Average interest rate is calculated by dividing interest income recognised in year by average balance.

## NOTE 25 - DIVIDENDS AND OTHER INCOME FROM SECURITIES WITH VARIABLE YIELDS

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 0.1 | 0.4 | Dividends from equity instruments valued at fair value through profit or loss | 0.1 | 0.4 |
| 16.2 | 10.9 | Dividends from equity instruments classified as available for sale | 16.2 | 10.9 |
| 0.0 | 0.0 | Dividends and group contributions from subsidiaries. | 148.1 | 55.0 |
| 0.0 | 15.6 | Disbursements from participant assessed companies | 0.0 | 15.6 |
| **16.3** | **26.9** | **Dividends and other operating income from securities with variable yields** | **164.4** | **81.9** |

## NOTE 26 - NET COMMISSION INCOME

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 2.3 | 3.0 | Fees, guarantees and letters of credit | 2.3 | 3.0 |
| 0.0 | 0.0 | Fees, credit extension | 16.1 | 14.7 |
| 55.3 | 51.6 | Fees, money-transfer services | 55.3 | 51.6 |
| 1.4 | 1.4 | Interbank charges | 1.4 | 1.4 |
| 3.1 | 2.9 | Securities trading and management charges | 3.1 | 2.9 |
| 13.1 | 13.7 | Insurance charges | 13.1 | 13.7 |
| 10.5 | 9.8 | Other fees and commission income | 8.3 | 6.8 |
| **85.7** | **82.4** | **Total commission income, etc.** | **99.6** | **94.1** |
| 29.3 | 28.9 | Brokerage commission | 2.7 | 3.9 |
| 6.3 | 6.5 | Payment and electronic services | 6.9 | 7.1 |
| 3.1 | 2.8 | Interbank costs | 3.1 | 2.8 |
| 1.7 | 1.5 | Other commission costs | 1.7 | 1.5 |
| **40.4** | **39.7** | **Total commission costs, etc.** | **14.4** | **15.3** |
| **45.3** | **42.7** | **Net commission income, etc.** | **85.2** | **78.8** |

## NOTE 27 - NET VALUE CHANGE AND GAINS/LOSSES FROM FINANCIAL INSTRUMENTS

### Recognised in the statement of income

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| | | **Value change and gains/losses on financial instruments at fair value through profit or loss** | | |
| -1.3 | -2.2 | Value change of certificates and bonds - designated at fair value | -1.3 | -2.2 |
| 0.0 | 0.0 | Realised gains/losses on certificates and bonds - designated at fair value | 0.0 | 0.0 |
| **-1.3** | **-2.2** | **Net value change and gains/losses on financial instruments designated at fair value** | **-1.3** | **-2.2** |
| 4.0 | -0.6 | Value change in equity instruments - held for trading | 4.0 | -0.6 |
| 0.0 | 0.1 | Realised gains/losses on equity instruments - held for trading | 0.0 | 0.1 |
| 13.4 | 16.7 | Value change in certificates and bonds - held for trading | 13.1 | 16.3 |
| -2.4 | 6.5 | Realised gains/losses on certificates and bonds - held for trading | 4.2 | 13.3 |
| -40.6 | 64.4 | Change in value of derivatives - hedge accounting not used | -40.6 | 64.4 |
| 55.8 | -7.2 | Realised gains/losses on derivatives - hedge accounting not used | 55.8 | -7.2 |
| **30.2** | **79.9** | **Net value change and gains/losses on financial instruments held for trading** | **36.5** | **86.3** |
| **28.9** | **77.7** | **Net value change and gains/losses on financial instruments at fair value** | **35.2** | **84.1** |
| -30.6 | -142.5 | Financial derivatives - hedge accounting | -30.4 | -98.1 |
| 30.6 | 142.5 | Financial liabilities - hedged | 30.4 | 98.1 |

| | | | | |
|---|---|---|---|---|
| **0.0** | **0.0** | **Total net hedged items*** | **0.0** | **0.0** |
| | | **Net value change and gains/losses on financial instruments available for sale** | | |
| 0.0 | 0.0 | Write-downs of equity instruments - available for sale | 0.0 | 0.0 |
| 3.2 | 17.8 | Realised gains/losses on equity instruments - available for sale | 3.2 | 17.8 |
| **3.2** | **17.8** | **Net value change and gains/losses on financial instruments available for sale** | **3.2** | **17.8** |
| | | **Net value change and gains/losses on financial instruments held to maturity** | | |
| 0.0 | 0.0 | Realised gains/losses on certificates and bonds | 0.0 | 0.0 |
| **0.0** | **0.0** | **Net value change and gains/losses on financial instruments held to maturity** | **0.0** | **0.0** |
| | | **Value change and gains/losses on financial instruments at amortised cost** | | |
| -5.9 | 0.2 | Realised gains/losses on securities issued - amortised cost | -1.4 | -0.9 |
| **-5.9** | **0.2** | **Net realised gains/losses on securities issued - amortised cost** | **-1.4** | **-0.9** |
| | | **Changes in value and gains/losses on equity instruments in subsidiaries** | | |
| 0.0 | 0.0 | Write-downs equity instruments in subsidiaries | 0.0 | -10.0 |
| **0.0** | **0.0** | **Total changes in value and gains/losses on equity instruments in subsidiaries** | **0.0** | **-10.0** |
| | | **Currency trading** | | |
| 1.0 | -23.2 | - Net conversion gain | 1.0 | -23.2 |
| 3.3 | 3.3 | - Net transaction gain | 3.3 | 3.3 |
| **4.3** | **-19.9** | **Total net income from currency trading** | **4.3** | **-19.9** |
| **30.5** | **75.8** | **Net value changes and gains/losses on financial instruments** | **41.3** | **71.1** |

* For hedged financial liabilities, the hedged risk is measured at fair value, while the rest of the instrument is measured at amortised cost. Hedging derivatives are measured at fair value. The group uses hedge accounting on fixed rate bond loans and bond loans in foreign currency. The loans are hedged on a one-to-one basis.

See also note 25 for dividends and other operating income from securities with variable yields.

### Recognised in comprehensive income

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| | | **Value change in financial instruments available for sale** | | |
| 23.7 | -5.9 | Value change in equity instruments through comprehensive income - available for sale* | 23.7 | -5.9 |
| **23.7** | **-5.9** | **Net value change in financial instruments available for sale** | **23.7** | **-5.9** |

* See also note 22 for a more detailed description regarding value changes in equity instruments through comprehensive income, available for sale category.

## NOTE 28 - OTHER OPERATING INCOME

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 7.7 | 11.5 | Rental income investment properties | 0.0 | 0.0 |
| 5.9 | 6.8 | Operating income, real estate | 0.1 | 0.1 |
| 36.2 | 0.0 | Profit from sale of real estate | 0.0 | 0.0 |
| 12.6 | 8.9 | Other operating income | 4.8 | 5.2 |
| **62.4** | **27.2** | **Other operating income** | **4.9** | **5.3** |

# NOTE 29 - SALARIES AND OTHER REMUNERATION

| Group 2017 | Group 2016 | Figures in NOK thousands | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 116,593 | 118,638 | Salaries | 96,348 | 99,509 |
| 23,158 | 19,036 | National insurance contributions | 19,415 | 15,917 |
| | | Pensions | | |
| 5,671 | 7,207 | - defined-benefit | 4,410 | 5,920 |
| 4,015 | 4,012 | - defined-contribution | 3,733 | 3,707 |
| 7,193 | 7,956 | Social security costs | 6,243 | 6,585 |
| **156,631** | **156,849** | **Total salaries, etc.** | **130,149** | **131,638** |
| 181 | 209 | No. of full-time equivalents as at 31.12. | 154 | 183 |
| 191 | 222 | No. of employees as at 31.12. | 162 | 192 |
| 195 | 219 | Average no. of full time equivalents | 166 | 188 |
| 201 | 226 | Average no. of employees | 171 | 194 |

## Remuneration 2017 - parent bank

The CEO's remuneration totalled NOK 2,879,656. The retirement age of the CEO is 70. The CEO is a member of the bank's defined-benefit pension scheme and earns pension rights in the same way as other employees. If the CEO decides to leave the bank, no severance pay will be due in excess of the salary agreed for the notice period of 6 months. If the bank terminates the CEO's employment, the CEO has the right to claim severance pay for 3 years from the termination date. The salary basis is the annual salary at the time of termination. Apart from this no employee or employee representative has severance pay or subscription rights, options, or bonus agreements. No additional remuneration for special services in addition to the normal functions of a manager has been paid.

## Remuneration of executive management team and executive personnel in 2017

| Figures in NOK thousands | | Remuneration | Salaries | Pension | Paid profit sharing etc. | Payment in kind | Total | Earned, not paid profit sharing etc. | Loans |
|---|---|---|---|---|---|---|---|---|---|
| Pål Strand | CEO | | 2,440 | 223 | | 217 | 2,880 | 44 | 2,788 |
| Kjell Engen | Deputy CEO | | 1,915 | 298 | | 162 | 2,375 | 35 | 1,068 |
| Lars-Runar Groven | Director - Business Market and Credit | | 1,078 | 223 | | 166 | 1,467 | 23 | 2,779 |
| Per Øyvind Mørk | Director - CSR and Communication | | 1,439 | 75 | | 117 | 1,630 | 28 | |
| Jan-Roger Vrabel | Director - Retail Market | | 1,361 | 73 | | 166 | 1,600 | 27 | 3,272 |
| Thor-Henning Bråthen | CFO from 14.08.2017 | | 612 | 31 | | 49 | 692 | 12 | |
| Arnljot Lien | Director - IT and Business Support | | 846 | 217 | | 118 | 1,180 | 19 | 1,445 |
| **Total executive management team** | | **0** | **9,689** | **1,140** | **0** | **994** | **11,823** | **188** | **11,353** |
| Halvor Kirkebøen | Head of Management and Control Department | | 1,100 | 329 | | 166 | 1,595 | 22 | 2,315 |
| **Total executive personnel** | | **0** | **1,100** | **329** | **0** | **166** | **1,595** | **22** | **2,315** |

The executive management team and executive personnel are covered by the bank's general interest rate subsidised loans scheme for employees. The interest rates are lower than the rates that give rise to taxable benefits for the employees. The loan limit for interest rate subsidised loans was NOK 3.5 million in 2017. The limits for the CEO and Deputy CEO were NOK 5.5 million and NOK 4.5 million respectively. Members of the board and other control bodies have loans on ordinary terms. The subsidy costs linked to the interest rate subsidy scheme for loans to employees are not recognised as operating costs and affect the bank's net interest income.

## Remuneration, board of directors 2017

| Figures in NOK thousands | | Remuneration | Salaries | Pension | Paid profit sharing | Payment in kind | Total | Loans |
|---|---|---|---|---|---|---|---|---|
| Øivind Andersson | Board member/Board chair from 31.03.2017 | 196 | | | | | 196 | 11 |
| Jorund Rønning Indrelid | Chair until 30.03.2017 | 226 | | | | | 226 | |
| Knut Smedsrud | Deputy Chair | 150 | | | | | 150 | |
| Morten André Yttreeide | Board member | 195 | | | | | 195 | |
| Elly Therese Thoresen | Board member | 145 | | | | | 145 | |
| Hanne M. Lenes Solem | Board member | 146 | | | | | 146 | |
| Kari Solberg Økland | Board member from 31.03.2017 | 3 | | | | | 3 | |
| Inger Helen Pettersen | Employee representative | 111 | 548 | 29 | | 14 | 702 | 1,482 |
| Ole-Martin Solberg | Employee representative | 110 | 543 | 23 | | 14 | 691 | 1,606 |
| **Total board of directors** | | **1,282** | **1,091** | **52** | **0** | **29** | **2,453** | **3,098** |

## Remuneration, other elected representatives 2017

| Figures in NOK thousands | | Remuneration | Salaries | Pension | Paid profit sharing | Payments in kind | Total | Loans |
|---|---|---|---|---|---|---|---|---|
| Frank Borgen | Chair of the board of trustees | 52 | | | | | 52 | 696 |
| Lars M. Lunde | Deputy Chair of the board of trustees | 11 | | | | | 11 | |
| May-Britt Andersen | Member of the board of trustees | 5 | | | | | 5 | |
| Knut Andersen | Member of the board of trustees | 3 | | | | | 3 | |
| Bent Inge Bye | Member of the board of trustees | 11 | | | | | 11 | |
| Dag Fjeld Edvardsen | Member of the board of trustees | 0 | | | | | 0 | |
| Rolf Arne Fjelltoft | Employee representative | 5 | 892 | 71 | | 21 | 989 | 3,187 |
| Tor Flesaker | Member of the board of trustees | 3 | | | | | 3 | |
| Kåre J. Grøtta | Member of the board of trustees | 5 | | | | | 5 | 9,054 |
| Thomas F. Halvorsen | Member of the board of trustees | 0 | | | | | 0 | 3,438 |
| Asbjørn R. Hansen | Member of the board of trustees | 0 | | | | | 0 | |
| Ole B. Hoen | Member of the board of trustees | 5 | | | | | 5 | |
| Helle Elisabeth Hofgaard | Member of the board of trustees | 0 | | | | | 0 | |
| Anne Siri Rhoden Jensen | Employee representative | 11 | 886 | 145 | | 88 | 1,130 | 1,311 |
| Iver A. Juel | Member of the board of trustees | 3 | | | | | 3 | |
| Brynulf Kopperud | Employee representative | 5 | 546 | 82 | | 11 | 644 | 900 |
| Jostein André Kretz | Member of the board of trustees | 5 | | | | | 5 | 3,600 |
| Vegard Kvamme | Employee representative | 5 | 958 | 160 | | 132 | 1,255 | 3,184 |
| Jørn Larsen | Member of the board of trustees | 5 | | | | | 5 | |
| Frode Lindbeck | Employee representative | 5 | 862 | 153 | | 118 | 1,137 | 983 |
| Kristin Nystrøm | Member of the board of trustees | 8 | | | | | 8 | |
| Nina Paulsen | Member of the board of trustees | 6 | | | | | 6 | |
| Ann Kristin Plomås | Employee representative | 3 | 508 | 58 | | 13 | 582 | 1,583 |
| Gunnvor Ramnefjell | Member of the board of trustees | 0 | | | | | 0 | |
| Morten Ranvik | Member of the board of trustees | 5 | | | | | 5 | |
| Camilla Schenk | Employee representative | 5 | 397 | 17 | | 15 | 433 | 1,906 |
| Åsmund Skår | Member of the board of trustees | 3 | | | | | 3 | |
| Ole Jørgen Smedsrud | Member of the board of trustees | 3 | | | | | 3 | |
| Tom R. Svendsen | Member of the board of trustees | 25 | | | | | 25 | |
| Morten Wang | Employee representative | 5 | 668 | 31 | | 7 | 711 | |
| Helge Chr. Aaby | Member of the board of trustees | 0 | | | | | 0 | |
| Jon Aas | Member of the board of trustees | 11 | | | | | 11 | 2,549 |
| **Total board of trustees** | | **209** | **5,716** | **717** | **0** | **406** | **7,048** | **32,390** |

## Remuneration of executive management team and executive personnel in 2016

| Figures in NOK thousands | | Remuneration | Salaries | Pension | Paid, one-off supplement | Payment in kind | Total | Earned, not paid one-off supplement | Loans |
|---|---|---|---|---|---|---|---|---|---|
| Pål Strand | CEO | | 2,387 | 197 | | 216 | 2,800 | | 1,021 |
| Kjell Engen | Deputy CEO finance and internal operations | | 1,889 | 259 | | 164 | 2,312 | | 1,293 |
| Lars-Runar Groven | Director - Credit | | 1,032 | 188 | | 141 | 1,361 | | 2,422 |
| Per Øyvind Mørk | Director - Communications and Marketing | | 1,430 | 68 | | 117 | 1,615 | | |
| Jan-Roger Vrabel | Director - Retail and Business Markets | | 1,310 | 71 | | 143 | 1,523 | | 3,393 |
| Arnljot Lien | Director - IT and Business Support | | 793 | 154 | | 120 | 1,067 | | 1,520 |
| **Total executive management team** | | **0** | **8,841** | **937** | **0** | **901** | **10,679** | **0** | **9,650** |
| Halvor Kirkebøen | Head of Management and Control Department | | 1,099 | 66 | | 163 | 1,328 | | 2,440 |
| **Total executive personnel** | | **0** | **1,099** | **66** | **0** | **163** | **1,328** | **0** | **2,440** |

The executive management team and executive personnel are covered by the bank's general interest rate subsidised loans scheme for employees. The interest rates are lower than the rates that give rise to taxable benefits for the employees. The loan limit for interest rate subsidised loans was NOK 3.5 million in 2016. The limits for the CEO and Deputy CEO were NOK 5.5 million and NOK 4.5 million respectively. Members of the board and other control bodies have loans on ordinary terms. The subsidy costs linked to the interest rate subsidy scheme for loans to employees are not recognised as operating costs and affect the bank's net interest income.

## Remuneration, board of directors 2016

| Figures in NOK thousands | | Remuneration | Salaries | Pension | Paid profit sharing | Payment in kind | Total | Loans |
|---|---|---|---|---|---|---|---|---|
| Jorund Rønning Indrelid | Chair | 226 | | | | | 226 | |
| Knut Smedsrud | Deputy Chair | 150 | | | | | 150 | |
| Morten André Yttreeide | Board member | 150 | | | | | 150 | |
| Sverre Nedberg | Board member until 31.03.2016 | 161 | | | | | 161 | |
| Elly Therese Thoresen | Board member | 135 | | | | | 135 | |
| Hanne M. Lenes Solem | Board member | 136 | | | | | 136 | |
| Øivind Andersson | Board member | 150 | | | | | 150 | 29 |
| Inger Helen Pettersen | Employee representative | 110 | 544 | 11 | | 20 | 685 | 2,229 |
| Sissel Album Fjeld | Attending deputy employee representative until 31.03.2016 | 51 | 528 | 55 | | 14 | 648 | 2,182 |
| Ole-Martin Solberg | Employee representative from 01.04.2016 | 13 | 534 | 22 | | 17 | 586 | 1,679 |
| **Total board of directors** | | **1,282** | **1,605** | **88** | **0** | **52** | **3,027** | **6,119** |

## Remuneration, other elected representatives 2016

| Figures in NOK thousands | | Remuneration | Salaries | Pension | Paid profit sharing | Payments in kind | Total | Loans |
|---|---|---|---|---|---|---|---|---|
| Eli Kristin Nordsiden | Chair of the control committee | 65 | | | | | 65 | |
| Randi H. Sandli | Member of the control committee | 45 | | | | | 45 | |
| Sjur Kortgaard | Member of the control committee | 40 | | | | | 40 | 1,451 |
| Oddmar Nilsen | Member of the control committee | 40 | | | | | 40 | 830 |
| **Total control committee** | | **190** | **0** | **0** | **0** | **0** | **190** | **2,281** |
| Frank Borgen | Chair of the board of trustees | 52 | | | | | 52 | 740 |
| May-Britt Andersen | Member of the board of trustees | 6 | | | | | 6 | |
| Bent Inge Bye | Member of the board of trustees | 14 | | | | | 14 | |
| Dag Fjeld Edvardsen | Member of the board of trustees | 5 | | | | | 5 | |
| Rolf Arne Fjelltoft | Employee representative | 8 | 891 | 104 | | 26 | 1,029 | 3,328 |
| Øivind Granlund | Member of the board of trustees | 8 | | | | | 8 | |
| Kåre J. Grøtta | Member of the board of trustees | 8 | | | | | 8 | 9,642 |
| Thomas F. Halvorsen | Member of the board of trustees | 7 | | | | | 7 | 2,921 |
| Asbjørn R. Hansen | Member of the board of trustees | 3 | | | | | 3 | |
| Ole B. Hoen | Member of the board of trustees | 3 | | | | | 3 | |
| Helle Elisabeth Hofgaard | Member of the board of trustees | 10 | | | | | 10 | |
| Anne Siri Rhoden Jensen | Employee representative | 14 | 878 | 136 | | 91 | 1,119 | 1,442 |
| Iver A. Juel | Member of the board of trustees | 8 | | | | | 8 | |
| Brynulf Kopperud | Employee representative | 8 | 530 | 69 | | 13 | 620 | 900 |
| Jostein André Kretz | Member of the board of trustees | 3 | | | | | 3 | |
| Vegard Kvamme | Employee representative | 5 | 669 | 134 | | 135 | 943 | 3,233 |
| Jørn Larsen | Member of the board of trustees | 5 | | | | | 5 | |
| Frode Lindbeck | Employee representative | 5 | 888 | 129 | | 119 | 1,142 | 987 |
| Lars M. Lunde | Member of the board of trustees | 12 | | | | | 12 | |
| Kristin Nystrøm | Member of the board of trustees | 5 | | | | | 5 | |
| Nina Paulsen | Member of the board of trustees | 18 | | | | | 18 | |
| Gunnvor Ramnefjell | Member of the board of trustees | 8 | | | | | 8 | |
| Morten Ranvik | Member of the board of trustees | 8 | | | | | 8 | 989 |
| Anne Tonje Sanden | Member of the board of trustees | 5 | | | | | 5 | |
| Camilla Schenk | Employee representative | 8 | 340 | 14 | | 13 | 375 | 1,712 |
| Jan Christian Skau | Employee representative | 14 | 694 | 61 | | 17 | 786 | 1,621 |
| Tom R. Svendsen | Member of the board of trustees | 3 | | | | | 3 | |
| Morten Wang | Employee representative | 8 | 660 | 30 | | 9 | 707 | |
| Svein Westby | Member of the board of trustees | 3 | | | | | 3 | |
| Kari Solberg Økland | Member of the board of trustees | 5 | | | | | 5 | |
| Helge Chr. Aaby | Member of the board of trustees | 3 | | | | | 3 | |
| Jon Aas | Member of the board of trustees | 14 | | | | | 14 | 2,634 |
| **Total board of trustees** | | **276** | **5,553** | **677** | **0** | **424** | **6,927** | **30,150** |

## NOTE 30 - CLOSE ASSOCIATES

| Figures in NOK thousands | Executive management team and executive personnel 2017 | 2016 | The board of directors 2017 | 2016 | Other close associates 2017 | 2016 |
|---|---|---|---|---|---|---|
| **Loans** | | | | | | |
| Outstanding loans as at 01.01. | 12,089 | 13,075 | 6,218 | 8,849 | 30,150 | 38,330 |
| Net change in loans in the period | 1,579 | -986 | -3,120 | -2,631 | 2,240 | -8,180 |
| **Outstanding loans as at 31.12.** | **13,668** | **12,089** | **3,098** | **6,218** | **32,390** | **30,150** |
| Interest income | 222 | 223 | 56 | 134 | 613 | 578 |
| Loan losses | 0 | 0 | 0 | 0 | 0 | 0 |
| **Deposits** | | | | | | |
| Deposits as at 01.01. | 5,710 | 2,874 | 7,966 | 12,462 | 6,587 | 13,553 |
| Net change in deposits in the period | -2,761 | 2,836 | 1,258 | -4,496 | 6,080 | -6,966 |
| **Deposits as at 31.12.** | **2,949** | **5,710** | **9,224** | **7,966** | **12,667** | **6,587** |
| Interest costs | 33 | 126 | 80 | 111 | 76 | 69 |
| Other operating income | 0 | 0 | 0 | 0 | 0 | 0 |
| Guarantees issued | 0 | 0 | 0 | 0 | 0 | 0 |

## NOTE 31 - ADMINISTRATION AND OPERATING COSTS

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 34.3 | 31.8 | IT costs | 31.0 | 29.8 |
| 16.3 | 16.2 | Other administrative costs | 10.1 | 10.9 |
| **50.6** | **48.0** | **Total administration costs** | **41.1** | **40.7** |
| 17.9 | 18.7 | Ordinary depreciation | 11.3 | 11.4 |
| 0.0 | 10.0 | Write-downs | 0.0 | 0.0 |
| **17.9** | **28.7** | **Depreciation/write-downs/value change for non-financial assets** | **11.3** | **11.4** |
| 20.7 | 19.7 | Operating costs, properties and premises | 20.5 | 22.4 |
| 12.6 | 12.4 | Remuneration | 9.4 | 8.8 |
| 19.0 | 18.7 | Other operating costs | 13.6 | 12.2 |
| **52.3** | **50.8** | **Total operating costs** | **43.5** | **43.4** |
| **120.8** | **127.5** | **Total administration and operating costs** | **95.9** | **95.5** |

## NOTE 32 - AUDITOR'S REMUNERATION

| Group 2017 | Group 2016 | Figures in NOK thousands | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 2,430 | 2,376 | Audit | 1,440 | 1,419 |
| 101 | 147 | Other certification services | 0 | 0 |
| 269 | 247 | Tax and levies advice | 131 | 140 |
| 818 | 882 | Other services | 249 | 427 |
| **3,618** | **3,652** | **Total** | **1,820** | **1,986** |

The amounts are inclusive of VAT.

## NOTE 33 - TAXES

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| | | **Tax costs for the year in the statement of income** | | |
| 106.2 | 84.3 | Tax payable on profit for the year | 63.8 | 47.2 |
| -5.2 | 12.8 | Recognised deferred tax | -6.4 | 17.9 |
| -0.9 | -0.9 | Recognised deferred tax due to change in tax rate | 0.0 | 0.0 |
| -0.1 | 0.0 | Excess/deficit tax, previous year | 0.0 | 0.1 |
| **100.0** | **96.2** | **Total tax for the year** | **57.4** | **65.2** |
| | | **Tax on other operating income and costs recognised in comprehensive income** | | |
| | | Change in net deferred tax | | |
| -7.6 | 0.7 | - Actuarial gains and losses on defined-benefit plans | -7.3 | 0.8 |
| 0.8 | -0.1 | - Change in investments available for sale | 0.8 | -0.1 |
| 0.0 | 0.0 | - Change in deferred tax, effect of changed tax rate | 0.0 | 0.0 |
| **-6.8** | **0.6** | **Tax on other operating income and costs** | **-6.5** | **0.7** |
| | | **Change in net deferred tax** | | |
| -6.1 | 11.9 | Recognised deferred tax in statement of income | -6.4 | 17.9 |
| -6.8 | 0.6 | Recognised deferred tax in comprehensive income | -6.5 | 0.7 |
| -0.9 | 0.0 | Changes in net deferred tax entered directly on the balance sheet | 0.0 | 0.0 |
| **-13.8** | **12.5** | **Total changes in net deferred tax** | **-12.8** | **18.6** |
| | | **Reconciliation of tax costs for the year** | | |
| 432.4 | 427.4 | Profit before tax | 391.8 | 344.9 |
| 107.7 | 106.9 | Tax at the nominal rate of 24-25% | 97.9 | 86.2 |
| -6.7 | -9.8 | Tax effect of permanent differences | -40.5 | -21.1 |
| -0.9 | -0.9 | Tax effect of changed tax rate for deferred tax on the balance sheet | 0.0 | 0.0 |
| -0.1 | 0.0 | Excess/deficit tax, previous year | 0.0 | 0.1 |
| **100.0** | **96.2** | **Tax costs** | **57.4** | **65.2** |
| | | **Tax payable on the balance sheet** | | |
| 106.2 | 84.3 | Tax payable on profit for the year | 63.8 | 47.2 |
| 4.3 | 3.8 | Year's property tax | 4.3 | 3.8 |
| **110.5** | **88.1** | **Total tax payable** | **68.1** | **51.0** |

| Group 2017 | Group 2016 | Group Change 2017 | Group Change 2016 | **Deferred tax liability/deferred tax asset** | Parent bank 2017 | Parent bank 2016 | Parent bank Change 2017 | Parent bank Change 2016 |
|---|---|---|---|---|---|---|---|---|
| | | | | **Positive temporary differences** | | | | |
| 40.2 | 60.4 | 20.2 | 4.4 | Property, plant and equipment | 0.0 | 1.7 | 1.7 | 1.3 |
| 55.6 | 30.2 | -25.4 | 7.5 | Gains and losses account | 0.8 | 1.0 | 0.2 | 0.3 |
| 32.0 | 10.0 | -22.0 | 9.3 | Securities | 31.2 | 9.6 | -21.6 | 9.7 |
| 210.5 | 269.9 | 59.4 | 76.7 | Financial derivatives | 66.1 | 124.8 | 58.7 | 32.4 |
| 338.3 | 370.5 | 32.2 | 97.9 | Total positive temporary differences | 98.1 | 137.1 | 39.0 | 43.7 |
| 83.6 | 92.6 | 9.0 | 24.5 | Deferred tax liability | 24.5 | 34.3 | 9.8 | 10.9 |
| | | | | **Negative temporary differences and loss to carry forward** | | | | |
| 1.7 | 0.0 | -1.7 | 0.2 | Receivables | 0.1 | 0.0 | -0.1 | 0.0 |
| 220.0 | 230.8 | 10.8 | 130.8 | Securities issued | 66.3 | 82.9 | 16.6 | 95.0 |
| 3.7 | 3.3 | -0.4 | 2.9 | Other liabilities | 2.4 | 2.4 | 0.0 | 2.7 |
| 68.6 | 38.6 | -30.0 | 21.1 | Pension liabilities | 66.1 | 37.3 | -28.8 | 20.3 |
| 1.2 | 3.3 | 2.1 | -3.3 | Losses carried forward | 0.0 | 0.0 | 0.0 | 0.0 |
| 295.2 | 276.0 | -19.2 | 151.7 | Total negative temporary differences and loss to carry forward | 134.9 | 122.6 | -12.3 | 118.0 |
| 73.8 | 69.0 | -4.8 | 37.9 | Deferred tax asset | 33.7 | 30.7 | -3.1 | 29.5 |
| 0.9 | 0.9 | 0.0 | -0.9 | Tax effect of changed tax rate | 0.0 | 0.0 | 0.0 | 0.0 |
| **-8.9** | **-22.7** | **-13.8** | **12.5** | **Net deferred tax liability (-) / net deferred tax asset (+)** | **9.2** | **-3.6** | **-12.8** | **18.6** |

Deferred tax liability/deferred tax asset as at 31 December 2017 is recognised with a tax rate of 25% for the parent bank. Deferred tax liability/deferred tax asset as at 31 December 2017 in the group is recognised with a future tax rate in the range of 23-25%. Deferred tax assets are in their entirety recognised on the balance sheet when the group expects to be able to utilise this in the future.

## NOTE 34 - CERTIFICATES AND BONDS

### Certificates and bonds by issuing sector and category as at 31.12.2017 - group

| | Fair value through profit or loss | | Available for sale | | Hold to maturity | |
|---|---|---|---|---|---|---|
| | Nominal value | Fair value | Nominal value | Fair value | Nominal value | Book value |
| State and state guaranteed | 795.0 | 815.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other public issuers | 294.7 | 299.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Covered bonds | 3,115.0 | 3,138.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial enterprises | 260.0 | 261.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-financial enterprises | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total certificates and bonds** | **4,464.7** | **4,515.1** | **0.0** | **0.0** | **0.0** | **0.0** |

### Certificates and bonds by issuing sector and category as at 31.12.2017 - parent bank

| | Fair value through profit or loss | | Available for sale | | Hold to maturity | |
|---|---|---|---|---|---|---|
| | Nominal value | Fair value | Nominal value | Fair value | Nominal value | Book value |
| State and state guaranteed | 740.0 | 760.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other public issuers | 294.7 | 299.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Covered bonds | 3,015.0 | 3,037.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial enterprises | 260.0 | 261.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-financial enterprises | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total certificates and bonds** | **4,309.7** | **4,358.8** | **0.0** | **0.0** | **0.0** | **0.0** |

### Certificates and bonds by issuing sector and category as at 31.12.2016 - group

| | Fair value through profit or loss | | Available for sale | | Hold to maturity | |
|---|---|---|---|---|---|---|
| | Nominal value | Fair value | Nominal value | Fair value | Nominal value | Book value |
| State and state guaranteed | 738.0 | 746.2 | 0.0 | 0.0 | 200.0 | 205.4 |
| Other public issuers | 670.6 | 678.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Covered bonds | 2,315.0 | 2,322.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial enterprises | 535.0 | 537.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-financial enterprises | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total certificates and bonds** | **4,258.6** | **4,285.1** | **0.0** | **0.0** | **200.0** | **205.4** |

## Certificates and bonds by issuing sector and category as at 31.12.2016 - parent bank

| | Fair value through profit or loss | | Available for sale | | Hold to maturity | |
|---|---|---|---|---|---|---|
| | Nominal value | Fair value | Nominal value | Fair value | Nominal value | Book value |
| State and state guaranteed | 683.0 | 691.2 | 0.0 | 0.0 | 200.0 | 205.4 |
| Other public issuers | 670.6 | 678.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Covered bonds | 2,215.0 | 2,221.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial enterprises | 535.0 | 537.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-financial enterprises | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total certificates and bonds** | **4,103.6** | **4,129.1** | **0.0** | **0.0** | **200.0** | **205.4** |

## Certificates and bonds by maturity as at 31.12.2017 - group

| | Accrued interest | Up to 6 months | 6-12 months | 1-5 years | 5-10 years | Total |
|---|---|---|---|---|---|---|
| State and state guaranteed | 6.5 | 115.1 | 45.4 | 633.8 | 15.0 | 815.8 |
| Other public issuers | 2.9 | 244.7 | 0.0 | 51.9 | 0.0 | 299.5 |
| Covered bonds | 3.8 | 65.1 | 42.1 | 2,957.0 | 70.5 | 3,138.5 |
| Financial enterprises | 0.8 | 128.0 | 60.2 | 72.3 | 0.0 | 261.3 |
| Non-financial enterprises | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total certificates and bonds** | **14.0** | **552.9** | **147.7** | **3,715.0** | **85.5** | **4,515.1** |

## Certificates and bonds by maturity as at 31.12.2017 - parent bank

| | Accrued interest | Up to 6 months | 6-12 months | 1-5 years | 5-10 years | Total |
|---|---|---|---|---|---|---|
| State and state guaranteed | 6.5 | 115.1 | 45.4 | 578.6 | 15.0 | 760.6 |
| Other public issuers | 2.9 | 244.7 | 0.0 | 51.9 | 0.0 | 299.5 |
| Covered bonds | 3.7 | 65.1 | 42.1 | 2,856.0 | 70.5 | 3,037.4 |
| Financial enterprises | 0.8 | 128.0 | 60.2 | 72.3 | 0.0 | 261.3 |
| Non-financial enterprises | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total certificates and bonds** | **13.9** | **552.9** | **147.7** | **3,358.8** | **85.5** | **4,358.8** |

## Certificates and bonds by maturity as at 31.12.2016 - group

| | Accrued interest | Up to 6 months | 6-12 months | 1-5 years | 5-10 years | Total |
|---|---|---|---|---|---|---|
| State and state guaranteed | 8.5 | 233.0 | 26.2 | 554.1 | 129.8 | 951.6 |
| Other public issuers | 5.3 | 595.3 | 25.0 | 53.2 | 0.0 | 678.8 |
| Covered bonds | 3.7 | 0.0 | 20.1 | 2,204.6 | 94.2 | 2,322.6 |
| Financial enterprises | 1.6 | 93.2 | 182.5 | 260.2 | 0.0 | 537.5 |
| Non-financial enterprises | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total certificates and bonds** | **19.1** | **921.5** | **253.8** | **3,072.1** | **224.0** | **4,490.5** |

## Certificates and bonds by maturity as at 31.12.2016 - parent bank

| | Accrued interest | Up to 6 months | 6-12 months | 1-5 years | 5-10 years | Total |
|---|---|---|---|---|---|---|
| State and state guaranteed | 8.5 | 233.0 | 26.2 | 549.1 | 79.8 | 896.6 |
| Other public issuers | 5.3 | 595.3 | 25.0 | 53.2 | 0.0 | 678.8 |
| Covered bonds | 3.7 | 0.0 | 20.1 | 2,103.6 | 94.2 | 2,221.6 |
| Financial enterprises | 1.6 | 93.2 | 182.5 | 260.2 | 0.0 | 537.5 |
| Non-financial enterprises | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total certificates and bonds** | **19.1** | **921.5** | **253.8** | **2,966.1** | **174.0** | **4,334.5** |

### Modified duration

| | Group | Parent bank |
|---|---|---|
| State and state guaranteed | 0.69 | 0.72 |
| Other public issuers | 0.25 | 0.25 |
| Covered bonds | 0.16 | 0.16 |
| Financial enterprises | 0.08 | 0.08 |
| Non-financial enterprises | 0.00 | 0.00 |
| Total duration | 0.26 | 0.26 |

Modified duration is used as a measure of interest rate sensitivity for issuer sectors and categories.

## NOTE 35 - SHARES AND EQUITY CERTIFICATES

### Specification of shares and equity certificates as at 31.12.2017

| | No. of shares | Stake in % | Book cost | Fair value |
|---|---|---|---|---|
| **Fair value through profit or loss** | | | | |
| Visa Inc. | 4,739 | 0.00 | 2.0 | 17.8 |
| **Total at fair value through profit or loss** | | | **2.0** | **17.8** |
| **Available for sale** | | | | |
| BankAxept AS | 560 | 0.56 | 0.3 | 5.0 |
| Bankenes ID-tjeneste AS | 6,700 | 6.70 | 0.0 | 0.0 |
| BankID Norge AS | 260 | 0.52 | 0.4 | 1.3 |
| Balder Betaling AS | 691 | 6.91 | 9.3 | 9.3 |
| Eksportfinans ASA | 12,787 | 4.85 | 139.4 | 195.0 |
| Frende Holding AS | 891,491 | 13.19 | 107.3 | 235.0 |
| Kredittforeningen for Sparebanker | 2,760 | 5.52 | 2.8 | 2.8 |
| Norne Eierselskap | 4,553,571 | 2.48 | 1.3 | 1.3 |
| Sparebankmateriell AS | 302 | 0.96 | 0.0 | 0.0 |
| Visa Norge FLI | | | 0.0 | 8.0 |
| Visa Inc. owned via Visa Norge Holding 1 AS | | | 6.3 | 8.0 |
| **Total available for sale** | | | **267.1** | **465.7** |
| **Cost** | | | | |
| Other shares | | | 0.4 | 0.4 |
| **Total cost** | | | **0.4** | **0.4** |
| **Total shares and equity certificates** | | | **269.5** | **483.9** |

## NOTE 36 - OWNERSHIP INTERESTS IN GROUP COMPANIES

| Subsidiaries | Acquisition date | Business office | Stake | Number of votes |
|---|---|---|---|---|
| Sparebanken Øst Eiendom AS | 29.12.1988 | Drammen | 100% | 100% |
| AS Financiering | 01.10.1991 | Oslo | 100% | 100% |
| Øst Prosjekt AS | 22.12.1997 | Drammen | 100% | 100% |
| Sparebanken Øst Boligkreditt AS | 14.04.2009 | Drammen | 100% | 100% |
| Øst Inkasso AS | 18.04.2016 | Drammen | 100% | 100% |
| Hawø Eiendom AS* | 01.07.2011 | Drammen | 100% | 100% |
| Arbeidergata 28 AS* | 29.08.2012 | Drammen | 100% | 100% |
| Stasjonsgata 14 AS* | 29.08.2012 | Drammen | 100% | 100% |
| Tollbugt 49-51 AS* | 29.08.2012 | Drammen | 100% | 100% |
| Ingeniør Rybergsgate 101 AS* | 15.07.2014 | Drammen | 100% | 100% |
| Borreveien 44 AS** | 28.10.2014 | Drammen | 100% | 100% |
| Jon Smørs Vei 7 AS** | 05.02.2016 | Drammen | 100% | 100% |

* 100% owned subsidiary of Sparebanken Øst Eiendom AS.
** 100% owned subsidiary of Øst Prosjekt AS.

None of the subsidiaries are listed on the stock exchange.

## NOTE 37 - FIXED ASSETS AND INVESTMENT PROPERTIES

### Property, plant and equipment as at 31.12.2017

| Group Machinery/inventory/vehicles/intang. assets, etc. | Group Properties | Group Investment properties | | Parent bank Machinery/inventory/vehicles/ intang. assets etc. | Parent bank Properties | Parent bank Investment properties |
|---|---|---|---|---|---|---|
| 133.6 | 122.9 | 317.6 | Acquisition cost as at 01.01. | 105.0 | 58.2 | 0.0 |
| 16.7 | 1.3 | 3.0 | Additions | 14.5 | 0.2 | 0.0 |
| 20.6 | 0.1 | 181.8 | Disposals | 19.3 | 0.0 | 0.0 |
| **129.7** | **124.1** | **138.8** | **Acquisition cost as at 31.12.** | **100.2** | **58.4** | **0.0** |
| 95.8 | 24.1 | 4.2 | Total ordinary depreciation and write-downs | 70.8 | 11.8 | 0.0 |
| **33.9** | **100.0** | **134.6** | **Book value as at 31.12.** | **29.4** | **46.6** | **0.0** |
| 12.3 | 2.2 | 3.4 | Year's ordinary depreciation | 10.3 | 1.0 | |
| 0.0 | 0.0 | 10.0 | Year's write-downs | 0.0 | 0.0 | |
| 2-10 years | 10-100 years | 10-100 years | Economic life | 2-10 years | 10-100 years | |
| Straight line | Straight line | Straight line | Depreciation plan | Straight line | Straight line | |
| **0.0** | **13.2** | | **Annual hire of assets not on balance sheet** | **0.0** | **15.9** | |

## Property, plant and equipment as at 31.12.2016

| Group Machinery/inventory/vehicles/ intang. assets etc. | Group Properties | Group Investment properties | | Parent bank Machinery/inventory/vehicles/ intang. assets etc. | Parent bank Properties | Parent bank Investment properties |
|---|---|---|---|---|---|---|
| 134.3 | 117.8 | 268.7 | Acquisition cost as at 01.01. | 107.9 | 58.5 | 0.0 |
| 9.3 | 5.7 | 48.9 | Additions | 6.7 | 0.1 | 0.0 |
| 10.0 | 0.6 | 0.0 | Disposals | 9.6 | 0.4 | 0.0 |
| **133.6** | **122.9** | **317.6** | **Acquisition cost as at 31.12.** | **105.0** | **58.2** | **0.0** |
| 103.2 | 21.9 | 33.3 | Total ordinary depreciation and write-downs | 79.7 | 10.9 | 0.0 |
| **30.4** | **101.0** | **284.3** | **Book value as at 31.12.** | **25.3** | **47.3** | **0.0** |
| 12.1 | 2.2 | 4.4 | Year's ordinary depreciation | 10.5 | 0.9 | |
| 0.0 | 0.0 | 10.0 | Year's write-downs | 0.0 | 0.0 | |
| 2-10 years | 10-100 years | 10-100 years | Economic life | 2-10 years | 10-100 years | |
| Straight line | Straight line | Straight line | Depreciation plan | Straight line | Straight line | |
| **0.0** | **14.0** | | **Annual hire of assets not on balance sheet** | **0.0** | **19.7** | |

### Valuation of investment properties

The group uses the following valuation hierarchy:

Level 1: Observable market value in active market.
Level 2: Valuation techniques based on observable market data, external valuations.
Level 3: Valuation techniques not based on observable market data.

All the group's investment properties are categorised in level 3.

| Group | Fair value | Book value |
|---|---|---|
| Investment properties at fair value as at 31.12.2017 | 152.5 | 134.6 |
| Investment properties at fair value as at 31.12.2016 | 333.7 | 284.3 |

The fair value of the investment properties is based on assessments by external parties. The valuation method used is discounted estimated cash flows. The average required rate of return is 7.1%. All of the properties are situated in Drammen and the surrounding areas. Most of the properties are office buildings. No changes have been made to the valuation techniques compared with the previous year.

The group's assessment is that the best possible use of the investment properties does not differ significantly from the current use.

For leasing income and operating costs on investment properties see also Note 28 - Other Operating Income and Note 31 - Administration and Operating Costs.

### Real estate for own activities 2017

| Group Area - m$^2$ Own use | Group Area - m$^2$ Leasing | Group Book value 2017* | Commercial building | Parent bank Area - m$^2$ Own use | Parent bank Area - m$^2$ Leasing | Parent bank Book value 2017* |
|---|---|---|---|---|---|---|
| 3,398 | 11,161 | 180.6 | Drammen | 2,087 | 0 | 32.3 |
| 4,569 | 693 | 29.2 | Øvre Eiker | 0 | 0 | 0.0 |
| 975 | 884 | 6.8 | Nedre Eiker | 0 | 0 | 0.0 |
| **8,942** | **12,738** | **216.6** | **Total commercial buildings** | **2,087** | **0** | **32.3** |

* Total book value on the balance sheet also includes properties that are not commercial buildings.

### Liabilities
There are no liabilities relating to projects or purchases of property, plant and equipment.

**Real estate for own activities 2016**

| Group Area - m² Own use | Leasing | Group Book value 2016* | Commercial building | Parent bank Area - m² Own use | Leasing | Parent bank Book value 2016* |
|---|---|---|---|---|---|---|
| 3,398 | 13,457 | 219.0 | Drammen | 2,087 | 0 | 32.8 |
| 4,569 | 5,075 | 69.9 | Øvre Eiker | 0 | 0 | 0.0 |
| 1,255 | 3,708 | 36.0 | Nedre Eiker | 0 | 0 | 0.0 |
| 0 | 6,611 | 34.2 | Horten | 0 | 0 | 0.0 |
| **9,222** | **28,851** | **359.1** | **Total commercial buildings** | **2,087** | **0** | **32.8** |

* Total book value on the balance sheet also includes properties that are not commercial buildings.

## NOTE 38 - OPERATING LEASES

The parent bank and group have entered into operating leases for premises, office equipment and vehicles.

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 13.2 | 14.0 | Year's rental costs | 15.9 | 19.7 |
| | | Year's rental costs corresponds to minimum rental payments | | |
| | | **Minimum future rental payments** | | |
| 7.9 | 11.4 | Within 1 year | 9.2 | 13.8 |
| 16.9 | 27.6 | Between 1-5 years | 33.8 | 29.5 |
| 25.9 | 4.5 | After 5 years | 39.5 | 4.5 |
| **50.7** | **43.5** | **Total** | **82.5** | **47.9** |

## NOTE 39 - PREPAID NON-ACCRUED COSTS AND EARNED BUT NOT RECEIVED INCOME

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 0.0 | 0.0 | Income accrued but not received | 1.4 | 1.1 |
| 6.2 | 14.7 | Other prepaid non-accrued costs | 5.6 | 14.0 |
| **6.2** | **14.7** | **Prepaid non-accrued costs and earned but not received income** | **7.0** | **15.1** |

## NOTE 40 - LIABILITIES TO FINANCIAL INSTITUTIONS

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 0.0 | 0.1 | Loans and receivables from financial institutions without agreed maturities or deadline | 10.3 | 7.2 |
| 330.1 | 90.1 | Loans and receivables from financial institutions with agreed maturities or deadline | 551.7 | 318.5 |
| **330.1** | **90.2** | **Liabilities to financial institutions** | **562.0** | **325.7** |

# NOTE 41 - DEPOSITS FROM AND LIABILITIES TO CUSTOMERS

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 9,827.9 | 10,184.5 | Deposits from and liabilities to customers without agreed maturity | 9,856.9 | 10,193.0 |
| 4,143.9 | 3,702.9 | Deposits from and liabilities to customers with agreed maturity | 4,144.1 | 3,703.2 |
| **13,971.8** | **13,887.4** | **Deposits from and liabilities to customers** | **14,001.0** | **13,896.2** |

## Geographical distribution of deposits

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 2,928.3 | 2,956.2 | Drammen | 2,970.5 | 2,982.4 |
| 1,789.9 | 1,856.2 | Nedre Eiker | 1,789.9 | 1,854.1 |
| 1,911.3 | 1,793.5 | Øvre Eiker | 1,911.1 | 1,793.4 |
| 930.8 | 872.2 | Rest of Buskerud | 929.6 | 871.7 |
| 2,841.3 | 2,736.1 | Oslo | 2,835.6 | 2,729.6 |
| 1,079.6 | 1,142.2 | Akershus | 1,075.8 | 1,137.1 |
| 675.5 | 622.0 | Vestfold | 675.5 | 622.0 |
| 180.4 | 177.7 | Østfold | 178.2 | 175.7 |
| 1,539.4 | 1,636.4 | Rest of Norway | 1,539.4 | 1,635.3 |
| 95.4 | 94.9 | Abroad | 95.4 | 94.9 |
| **13,971.9** | **13,887.4** | **Total** | **14,001.0** | **13,896.2** |

## Distribution of deposits by sector and industry

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 8,400.6 | 8,927.3 | Salaried employees | 8,390.7 | 8,915.9 |
| 470.5 | 408.7 | Public administration | 470.5 | 408.7 |
| 123.3 | 119.1 | Agriculture, forestry and fishing | 123.3 | 119.1 |
| 1,109.5 | 583.7 | Industry and mining, power and water supply | 1,109.5 | 583.7 |
| 516.7 | 406.8 | Building and construction | 514.7 | 405.0 |
| 425.0 | 470.3 | Wholesale and retail trade, hotels and restaurants | 424.9 | 470.2 |
| 212.1 | 182.2 | Transport and communications | 212.1 | 182.1 |
| 1,148.1 | 1,169.2 | Financial services | 1,147.1 | 1,166.1 |
| 705.7 | 709.0 | Other service industries | 705.6 | 708.9 |
| 765.0 | 816.2 | Real estate sales and operation | 807.2 | 841.6 |
| 95.4 | 94.9 | Abroad | 95.4 | 94.9 |
| **13,971.9** | **13,887.4** | **Total** | **14,001.0** | **13,896.2** |

## NOTE 42 - SECURITIES ISSUED

| **Securities issued** | **31.12.2017** | **31.12.2016** |
|---|---|---|
| Hybrid tier 1 capital loans, nominal value | 17,899.2 | 17,228.3 |
| Value adjustments (incl. excess/deficit value) | 232.3 | 270.2 |
| Accrued interest | 97.0 | 116.1 |
| **Securities issued** | **18,228.5** | **17,614.6** |

| **Change securities issued** | **31.12.2016** | **Issued** | **Due/redeemed** | **Change in own holdings** | **Other changes incl. currency** | **31.12.2017** |
|---|---|---|---|---|---|---|
| Hybrid tier 1 capital loans, nominal value | 9,064.0 | 1,400.0 | 2,245.0 | 0.0 | 0.0 | 8,219.0 |
| Covered bonds, nominal value in NOK | 7,879.0 | 2,500.0 | 998.0 | 0.0 | 0.0 | 9,381.0 |
| Covered bonds, nominal value in SEK (converted to NOK) | 285.3 | 0.0 | 0.0 | 0.0 | 13.9 | 299.2 |
| Value adjustments (incl. excess/deficit value) | 270.0 | 0.0 | 0.0 | 0.0 | -37.9 | 232.3 |
| Accrued interest | 116.1 | 0.0 | 0.0 | 0.0 | -19.1 | 97.0 |
| **Securities issued** | **17,614.6** | **3,900.0** | **3,243.0** | **0.0** | **-43.1** | **18,228.5** |

| **Group** | **Outstanding volume 2017*** | **Avg. balance 2017** | **Weighted effective interest rate 2017** | **Outstanding volume 2016*** | **Avg. balance 2016** | **Weighted effective interest rate 2016** |
|---|---|---|---|---|---|---|
| Bond loans | 18,131.5 | 17,848.9 | 1.69% | 17,498.5 | 16,991.1 | 1.85% |
| Own holdings - bond loans | 0.0 | 0.0 | 0.00% | 0.0 | -1.0 | 1.67% |
| **Securities issued** | **18,131.5** | **17,848.9** | **1.69%** | **17,498.5** | **16,990.1** | **1.85%** |

* Measured at amortised cost excl. accrued interest on the balance sheet date.

| **Parent bank** | **Outstanding volume 2017*** | **Avg. balance 2017** | **Weighted effective interest rate 2017** | **Outstanding volume 2016*** | **Avg. balance 2016** | **Weighted effective interest rate 2016** |
|---|---|---|---|---|---|---|
| Bond loans | 8,296.7 | 8,560.0 | 1.85% | 9,171.9 | 8,902.2 | 2.00% |
| Own holdings - bond loans | 0.0 | 0.0 | 0.00% | 0.0 | -1.0 | 1.67% |
| **Securities issued** | **8,296.7** | **8,560.0** | **1.85%** | **9,171.9** | **8,901.2** | **2.00%** |

* Measured at amortised cost excl. accrued interest on the balance sheet date.

## NOTE 43 - SUBORDINATED LOAN CAPITAL

| **Change in subordinated loan capital and hybrid tier 1 capital loans** | **31.12.2016** | **Issued** | **Due/redeemed** | **Change in own holdings** | **Other changes incl. currency** | **31.12.2017** |
|---|---|---|---|---|---|---|
| Ordinary subordinated loan capital, nominal value | 350.0 | 0.0 | 0.0 | 0.0 | 0.0 | 350.0 |
| Hybrid tier 1 capital loans, nominal value | 350.0 | 0.0 | 0.0 | 0.0 | 0.0 | 350.0 |
| Value adjustments (incl. excess/deficit value) | -0.7 | 0.0 | 0.0 | 0.0 | 0.4 | -0.3 |
| Accrued interest | 4.2 | 0.0 | 0.0 | 0.0 | -0.3 | 3.9 |
| **Subordinated loan capital and hybrid tier 1 capital loans** | **703.5** | **0.0** | **0.0** | **0.0** | **0.1** | **703.6** |

| | **Outstanding volume 2017*** | **Avg. balance 2017** | **Weighted effective interest rate 2017** | **Outstanding volume 2016*** | **Avg. balance 2016** | **Weighted effective interest rate 2016** |
|---|---|---|---|---|---|---|
| Perpetual subordinated loan capital | 349.8 | 350.0 | 4.20% | 349.6 | 350.0 | 4.35% |
| Subordinated bond loan | 349.9 | 350.0 | 3.05% | 349.7 | 350.0 | 3.18% |
| **Subordinated loan capital** | **699.7** | **700.0** | **3.63%** | **699.3** | **700.0** | **3.77%** |

* Measured at amortised cost excl. accrued interest on the balance sheet date.

The group's perpetual subordinated loan capital consists of two hybrid tier 1 capital bonds from October 2013 and September 2014, respectively. For further details, see note 2, item 17.

## NOTE 44 - LONG-TERM BORROWING BY MATURITY

### Long-term borrowing as at 31.12.2017 - group

| | **Loans from financial institutions** | **Bond loans** | **Covered bonds** | **Subordinated loans** | **Total** |
|---|---|---|---|---|---|
| 2018 | 30.0 | 1,404.0 | 231.0 | 550.0 | 2,215.0 |
| 2019 | 0.0 | 2,550.0 | 599.2 | 150.0 | 3,299.2 |
| 2020 | 0.0 | 1,240.0 | 2,500.0 | 0.0 | 3,740.0 |
| 2021 | 0.0 | 1,400.0 | 3,100.0 | 0.0 | 4,500.0 |
| 2022 | 0.0 | 1,100.0 | 2,500.0 | 0.0 | 3,600.0 |
| 2023 | 60.0 | 0.0 | 0.0 | 0.0 | 60.0 |
| 2024 | 60.0 | 200.0 | 0.0 | 0.0 | 260.0 |
| 2025 | 60.0 | 325.0 | 0.0 | 0.0 | 385.0 |
| 2026 and after | 120.0 | 0.0 | 750.0 | 0.0 | 870.0 |
| Gross borrowing | 330.0 | 8,219.0 | 9,680.2 | 700.0 | 18,929.2 |
| Accrued interest | 0.4 | 61.1 | 35.9 | 3.9 | 101.3 |
| Direct costs and premium/discount | -0.3 | -3.2 | 5.5 | -0.3 | 1.7 |
| Value adjustments | 0.0 | 80.9 | 149.1 | 0.0 | 230.0 |
| **Net borrowing** | **330.1** | **8,357.8** | **9,870.7** | **703.6** | **19,262.2** |

Call/put loans by call/put date.

**Long-term borrowing as at 31.12.2017 - parent bank**

| | Loans from financial institutions | Bond loans | Subordinated loans | Total |
|---|---|---|---|---|
| 2018 | 261.9 | 1,404.0 | 550.0 | 2,215.9 |
| 2019 | 0.0 | 2,550.0 | 150.0 | 2,700.0 |
| 2020 | 0.0 | 1,240.0 | 0.0 | 1,240.0 |
| 2021 | 0.0 | 1,400.0 | 0.0 | 1,400.0 |
| 2022 | 0.0 | 1,100.0 | 0.0 | 1,100.0 |
| 2023 | 60.0 | 0.0 | 0.0 | 60.0 |
| 2024 | 60.0 | 200.0 | 0.0 | 260.0 |
| 2025 | 60.0 | 325.0 | 0.0 | 385.0 |
| 2026 and after | 120.0 | 0.0 | 0.0 | 120.0 |
| Gross borrowing | 561.9 | 8,219.0 | 700.0 | 9,480.9 |
| Accrued interest | 0.4 | 61.1 | 3.9 | 65.4 |
| Direct costs and premium/discount | -0.3 | -3.2 | -0.3 | -3.8 |
| Value adjustments | 0.0 | 80.9 | 0.0 | 80.9 |
| **Net borrowing** | **562.0** | **8,357.8** | **703.6** | **9,623.4** |

Call/put loans by call/put date.

## NOTE 45 - OTHER LIABILITIES

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 4.0 | 3.0 | Liabilities linked to money-transfer services | 4.0 | 3.0 |
| 54.0 | 27.5 | Provisions for social dividends | 54.0 | 27.5 |
| 5.6 | 16.4 | Accounts payable | 2.2 | 9.7 |
| 60.9 | 48.6 | Other liabilities | 50.1 | 49.7 |
| **124.5** | **95.5** | **Other liabilities** | **110.3** | **89.9** |

## NOTE 46 – ALLOCATIONS FOR COSTS AND COMMITMENTS INCURRED

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 68.6 | 38.6 | Pension liabilities (see note 47) | 66.1 | 37.3 |
| 0.0 | 0.0 | Specified allocations for guarantee liabilities | 0.0 | 0.0 |
| **68.6** | **38.6** | **Provisions for accrued costs and liabilities** | **66.1** | **37.3** |

## NOTE 47 – PENSION LIABILITIES

Mandatory Occupational Pensions (OTP) are mandatory, and the group has schemes that satisfy these requirements. Sparebanken Øst has both defined-contribution and defined-benefit plans.

The defined-benefit plans in the group are closed schemes. New employees receive a pension based on a defined-contribution plan.

**Defined-benefit pension scheme**

Sparebanken Øst has a collective pension scheme in Storebrand Livsforsikring AS. This is a defined-benefit scheme and covers retirement pensions for scheme members, and spouse and child pensions to members' surviving families. The defined-benefit scheme currently covers 215 persons: 96 active, 100 retirement pensioners and 19 who are completely or partly disabled. The scheme has been closed. Pension liabilities are entered to accounts in accordance with IAS 19, which requires that the present value of pension liabilities minus the market value of pension funds should be included on the balance sheet. Actuarial calculations are carried out each year on the basis of the information provided by the bank.

**Defined-contribution pension scheme**

As from 1 January 2007, Sparebanken Øst introduced a defined-contribution pension scheme for all new employees in the bank. The scheme is managed by Storebrand Livsforsikring AS. 5% of salaries between 1G and 7.1G (G = the National Insurance basic amount) and 8% of salaries between 7.1G and 12G are paid. The paid contributions are managed in various Storebrand funds. The defined-contribution scheme now includes 78 employees, of whom 4 receive disability pensions. The premiums for these are paid and expensed in salaries, etc. in the accounts on an ongoing basis.

**Subsidiaries**

AS Financiering has a collective pension scheme which comprises 17 persons, of whom 10 are active and 7 disabled/retired. The scheme has been closed. 12 employees have defined-contribution schemes. Sparebanken Øst Eiendom AS has a defined-benefit scheme for 3 persons, all of whom are active. The scheme has been closed. 3 employees have defined-contribution schemes. Øst Inkasso AS has a defined contribution scheme for three employees.

**Operating pensions**

The group has separate pension agreements in place for 7 persons on salaries above 12G, of whom 6 persons are no longer employed by the bank. These operating pensions are taken into account in the calculations from the actuary.

**Contractual early retirement pension (AFP)**

The parent bank is a member of the AFP scheme, which is a collective pension scheme for the sector regulated by tariff agreements in Norway. The AFP scheme is based on a tripartite collaboration between employer organisations, employee organisations and the state. The state covers 1/3 of the AFP pension costs, while companies that are members of the scheme covers 2/3. Companies that participate in the AFP scheme are joint and severally liable for that which shall be paid to the employees who fulfil the terms of the scheme at any given time. All the parent bank's employees are members of the scheme.

For accounting purposes, the scheme is regarded as a defined-benefit multi-company scheme. The bank is unable to identify its share of the scheme's underlying financial position and result with any sufficient degree of reliability, and for this reason the scheme is entered in the accounts as a defined-contribution scheme. This means that liabilities from the AFP scheme are not recognised on the balance sheet. Premiums for the scheme are expensed as they are incurred.

Contributions to the AFP scheme are included in the accounts under payroll, etc., and comprised NOK 1.4 million in 2017 and NOK 1.6 million in 2016. Next year's premium is estimated at approximately NOK 1.4 million.

In order to be entitled to a contractual early retirement pension (AFP), the employee (member) must fulfil several conditions. These include that the member must be an employed and actual employee of an organisation that is affiliated with the scheme at the time of drawing his/her pension, and the member must have been continuously employed for the past three years, and have been employed in an organisation affiliated with the scheme for 7 of the past 9 years. AFP provides employees with a lifelong premium to the retirement pension from the National Insurance Scheme.

The scheme is administrated by the 'Fellesordningen for AFP', which also determines and collects the scheme's premium. The premium shall be determined so that it is sufficient to cover current costs and furthermore provide a basis for the arrangement of a pension fund.

In 2017, the premium was 2.5% of salary between 1G and 7.1G. For 2018, the premium is unchanged and will amount to 2.5%. The premium model will be changed from being based on annual salaries to being based on actual salaries paid according to updated figures obtained from the Directorate of Taxes.

There is a shortfall in the scheme. In the event of any discontinuation of the scheme, the organisations participating in the scheme are obligated to continue premium payments for the coverage of pension payments to employees who have joined or who fulfil the requirements for the contractual early retirement pension (AFP) at the time of discontinuation.

**Further information about defined-benefit schemes**

*Remaining qualification period*

For secured schemes Sparebanken Øst's calculations are based on a remaining qualification period for active members of 8 years, whilst Sparebanken Øst Eiendom AS and AS Financiering's calculations are based on 6 and 9 years, respectively.

*Actuarial assumptions*

Calculations are based on death table K2013 and disability tariff KU. The calculations are based on standardised assumptions concerning death and disability trends. A retirement rate is expected that slowly decreases from 8% for the age group 20-24 years, and down to 0% for 51-year-olds and older.

*Qualification*
The qualification period for individual pension rights is calculated from employment by the company until the established retirement age. The actuarial calculation methods are based on the principle of linear earning and allow for future salary and G (the National Insurance basic amount) growth.

| **Financial assumptions** | **2017** | **2016** |
|---|---|---|
| Expected return on pension funds | 2.40% | 2.60% |
| Discount rate | 2.40% | 2.60% |
| Annual salary growth | 2.00% | 2.00% |
| Annual G adjustment | 2.25% | 2.25% |
| Annual pension regulation | 0.50% | 0.00% |

When calculating the pension costs and net pension liabilities, a number of assumptions are used. According to IAS 19, the discount interest rate on each balance sheet date must be determined with reference to the interest rate for corporate bonds of high quality or to government bonds in the absence of a deep market for corporate bonds of high quality, in accordance with the standard's description. The Norwegian market for covered bonds is assessed to have the characteristics that make them suitable to be the basis for the calculation of the discount interest rate.

Sparebanken Øst sets the discount rate on the basis of covered bonds.

*Risk assessment*
Via defined-benefit pension schemes, the group is affected by individual risks as a result of uncertainty in conditions and future development. The most central risks are:

Life expectancy: The group has undertaken to pay the pension for the entirety of the employee's life. Therefore an increase in life expectancy among the members will result in an increased liability for the group.

Return risk: The group will be affected by a reduction in actual return on the pension funds, which will result in increased liabilities for the company, since the return on the funds will not be sufficient to settle the liability.

Inflation and salary growth risk: The group's pension liability has risk relating to both inflation and salary development, even though salary development is closely related to inflation. Higher inflation and salary developments than those used in the pension calculations will result in increased liabilities for the group.

## Pension costs in ordinary result

| **Group 2017** | **Group 2016** | | **Parent bank 2017** | **Parent bank 2016** |
|---|---|---|---|---|
| | | **Net pension costs, defined-benefit scheme** | | |
| 4.7 | 5.6 | Present value of annual pension savings | 3.4 | 4.4 |
| 1.0 | 1.6 | Interest costs for pension liabilities | 1.0 | 1.5 |
| **5.7** | **7.2** | **Net pension costs including employers' National Insurance contribution** | **4.4** | **5.9** |
| 2.6 | 2.4 | Premium paid, defined-contribution scheme | 2.3 | 2.1 |
| 1.4 | 1.6 | Premium paid, AFP scheme | 1.4 | 1.6 |
| **9.7** | **11.2** | **Total pension costs in ordinary result** | **8.1** | **9.6** |

## Specification of pension liabilities and pension funds - group

| 2017 Funded | 2017 Unfunded | 2017 Total | | 2016 Funded | 2016 Unfunded | 2016 Total |
|---|---|---|---|---|---|---|
| | | | **Change in gross pension liabilities** | | | |
| 250.7 | 29.9 | 280.6 | Pension liabilities as at 01.01. | 267.0 | 28.9 | 295.9 |
| -13.4 | 0.0 | -13.4 | Additions/retirement (settlement disability pension) | -12.2 | 0.0 | -12.2 |
| 6.1 | 0.2 | 6.3 | Costs of current period's pension earnings | 7.2 | 0.2 | -7.4 |
| 6.3 | 0.8 | 7.1 | Interest costs | 7.0 | 0.7 | 7.7 |
| 25.5 | 1.1 | 26.6 | Actuarial gains and losses | -7.4 | 1.8 | -5.6 |
| -9.5 | -1.7 | -11.2 | Payment pension/paid-up policies | -10.9 | -1.7 | -12.6 |
| **265.7** | **30.3** | **296.0** | **Gross pension liabilities as at 31.12.** | **250.7** | **29.9** | **280.6** |
| | | | **Change in gross pension liabilities** | | | |
| 242.0 | 0.0 | 242.0 | Fair value of pension funds as at 01.01. | 236.2 | 0.0 | 236.2 |
| -11.7 | 0.0 | -11.7 | Additions/retirement (settlement disability pension) | -10.2 | 0.0 | -10.2 |
| 5.9 | 0.0 | 5.9 | Return on pension funds | 5.9 | 0.0 | 5.9 |
| -3.7 | 0.0 | -3.7 | Actuarial gains and losses | -2.7 | 0.0 | -2.7 |
| 3.7 | 0.0 | 3.7 | Premium payments | 20.8 | 0.0 | 20.8 |
| -8.8 | 0.0 | -8.8 | Payment of pension/paid-up policies | -8.0 | 0.0 | -8.0 |
| **227.4** | **0.0** | **227.4** | **Fair value of pension funds as at 31.12.** | **242.0** | **0.0** | **242.0** |
| **38.3** | **30.3** | **68.6** | **Net pension liabilities (+)/- pension funds (-)** | **8.7** | **29.9** | **38.6** |

| 2017 | | 2016 |
|---|---|---|
| **38.6** | **Net pension liabilities as at 01.01.** | **59.7** |
| 7.5 | Recognised pension costs | 9.2 |
| -1.7 | Additions/retirement (settlement disability pension) | -2.0 |
| 30.3 | Actuarial gains and losses | -2.9 |
| -3.7 | Paid-in pension premiums | -20.8 |
| -2.4 | Pension payments | -4.6 |
| **68.6** | **Net pension liabilities on balance sheet as at 31.12.** | **38.6** |
| 4.4 | Expected premium payment next year, defined-benefit scheme | 8.7 |
| 2.9 | Expected premium payment next year, defined-contribution scheme | 3.1 |
| 1.4 | Expected premium payment next year, AFP scheme | 1.7 |
| | **Placement of pension funds in %** | |
| 38.9% | Money market/bonds | 33.2% |
| 32.3% | Term bonds | 39.7% |
| 13.1% | Shares | 10.3% |
| 1.7% | Private Equity | 2.2% |
| 12.2% | Property | 14.3% |
| 1.7% | Other | 0.3% |
| 5.1% | Booked returns totalled | 6.4% |

## Sensitivity analysis, defined-benefit schemes

The sensitivity analysis is conducted by changing an actuarial assumption while simultaneously keeping the other assumptions unchanged. Actual results may differ significantly from these estimates.

| | Discount rate | | Annual salary growth/ basic amount | | Annual adjustment of pensions | |
|---|---|---|---|---|---|---|
| **Change in percentage points** | **+ 0.5%** | **- 0.5%** | **+ 0.5%** | **- 0.5%** | **+ 0.5%** | **- 0.0%** |
| Percentage change in pension | | | | | | |
| - Pension liabilities (PBO) | -9.2% | 10.4% | 2.2% | -2.1% | 8.0% | -7.3% |
| - Net pension costs for the period | -11.0% | 12.8% | 4.8% | -4.5% | 8.0% | -7.2% |

Pension liabilities are particularly sensitive to changes in the discount rate. A reduction in the discount rate will in isolation result in an increase in pension liabilities. A reduction in the discount rate of 0.5 percentage point will increase pension liabilities by around 10%. An increase in salary adjustments and the adjustment of pensions will result in an increase in pension liabilities.

The group's net pension liabilities as at 31 December 2017 have the following maturity structure over the next 10 years.

| | Amount | As % of gross pension liabilities |
|---|---|---|
| Under 1 year | 8.7 | 2.9% |
| Year 2 | 8.8 | 3.0% |
| Year 3 | 9.3 | 3.1% |
| Year 4 | 9.8 | 3.3% |
| Year 5 | 10.2 | 3.4% |
| Years 6-10 | 59.5 | 20.1% |
| Total | 106.4 | 35.9% |

## Specification of pension liabilities and pension funds - parent bank

| 2017 Funded | 2017 Unfunded | 2017 Total | | 2016 Funded | 2016 Unfunded | 2016 Total |
|---|---|---|---|---|---|---|
| | | | **Change in gross pension liabilities** | | | |
| 228.7 | 28.8 | 257.5 | Pension liabilities as at 01.01. | 242.8 | 27.9 | 270.7 |
| -12.7 | 0.0 | -12.7 | Additions/retirement (settlement disability pension) | -11.0 | 0.0 | -11.0 |
| 5.0 | 0.2 | 5.2 | Costs of current period's pension earnings | 5.9 | 0.1 | 6.0 |
| 5.8 | 0.7 | 6.5 | Interest costs | 6.3 | 0.7 | 7.0 |
| 28.5 | 1.9 | 30.4 | Actuarial gains and losses | -5.1 | 1.7 | -3.4 |
| -8.8 | -1.7 | -10.5 | Payment pension/paid-up policies | -10.2 | -1.6 | -11.8 |
| **246.5** | **29.9** | **276.4** | **Gross pension liabilities as at 31.12.** | **228.7** | **28.8** | **257.5** |
| | | | **Change in gross pension liabilities** | | | |
| 220.2 | 0.0 | 220.2 | Fair value of pension funds as at 01.01. | 213.0 | 0.0 | 213.0 |
| -10.9 | 0.0 | -10.9 | Additions/retirement (settlement disability pension) | -9.2 | 0.0 | -9.2 |
| 5.5 | 0.0 | 5.5 | Return on pension funds | 5.4 | 0.0 | 5.4 |
| 1.4 | 0.0 | 1.4 | Actuarial gains and losses | -0.3 | 0.0 | -0.3 |
| 2.4 | 0.0 | 2.4 | Premium payments | 18.9 | 0.0 | 18.9 |
| -8.3 | 0.0 | -8.3 | Payment of pension/paid-up policies | -7.6 | 0.0 | -7.6 |
| **210.3** | **0.0** | **210.3** | **Fair value of pension funds as at 31.12.** | **220.2** | **0.0** | **220.2** |
| **36.2** | **29.9** | **66.1** | **Net pension liabilities (+)/- pension funds (-)** | **8.5** | **28.8** | **37.3** |

| 2017 | | 2016 |
|---|---|---|
| **37.3** | **Net pension liabilities as at 01.01.** | **57.6** |
| 6.2 | Recognised pension costs | 7.7 |
| -1.8 | Additions/retirement (settlement disability pension) | -1.8 |
| 29.0 | Actuarial gains and losses | -3.1 |
| -2.4 | Paid-in pension premiums | -18.9 |
| -2.2 | Pension payments | -4.2 |
| **66.1** | **Net pension liabilities on balance sheet as at 31.12.** | **37.3** |
| 2.9 | Expected premium payment next year, defined-benefit scheme | 6.6 |
| 2.5 | Expected premium payment next year, defined-contribution scheme | 2.6 |
| 1.4 | Expected premium payment next year, AFP scheme | 1.7 |
| | **Placement of pension funds in %** | |
| 38.9% | Money market/bonds | 33.2% |
| 32.3% | Term bonds | 39.7% |
| 13.1% | Shares | 10.3% |
| 1.7% | Private Equity | 2.2% |
| 12.2% | Property | 14.3% |
| 1.7% | Other | 0.3% |
| 5.1% | Booked returns totalled | 6.4% |

**Sensitivity analysis, defined-benefit schemes**

The sensitivity analysis is conducted by changing an actuarial assumption while simultaneously keeping the other assumptions unchanged. Actual results may differ significantly from these estimates.

| | Discount rate | | Annual salary growth/ basic amount | | Annual adjustment of pensions | |
|---|---|---|---|---|---|---|
| **Change in percentage points** | **+ 0.5%** | **- 0.5%** | **+ 0.5%** | **- 0.5%** | **+ 0.5%** | **- 0.0%** |
| Percentage change in pension | | | | | | |
| - Pension liabilities (PBO) | -9.2% | 10.5% | 2.1% | -2.0% | 8.1% | -7.4% |
| - Net pension costs for the period | -11.5% | 13.3% | 4.9% | -4.6% | 8.4% | -7.5% |

Pension liabilities are particularly sensitive to changes in the discount rate. A reduction in the discount rate will in isolation result in an increase in pension liabilities. A reduction in the discount rate of 0.5 percentage point will increase pension liabilities by around 10%. An increase in salary adjustments and the adjustment of pensions will result in an increase in pension liabilities.

The parent bank's net pension liabilities as at 31 December 2017 have the following maturity structure over the next 10 years.

| | **Amount** | **As % of gross pension liabilities** |
|---|---|---|
| Under 1 year | 8.4 | 3.0% |
| Year 2 | 8.5 | 3.1% |
| Year 3 | 9.0 | 3.3% |
| Year 4 | 9.3 | 3.4% |
| Year 5 | 9.6 | 3.5% |
| Years 6-10 | 55.3 | 20.0% |
| Total | 100.1 | 36.2% |

### Development in pensions - group

| | **2017** | **2016** | **2015** | **2014** | **2013** |
|---|---|---|---|---|---|
| Gross pension liabilities (hedged and non-hedged schemes) | 296.0 | 280.6 | 295.9 | 321.4 | 257.7 |
| Gross fair value of pension funds | 227.4 | 242.0 | 236.2 | 234.3 | 220.1 |
| **Net pension liabilities** | **68.6** | **38.6** | **59.7** | **87.1** | **37.6** |

### Development in pensions - parent bank

| | **2017** | **2016** | **2015** | **2014** | **2013** |
|---|---|---|---|---|---|
| Gross pension liabilities (hedged and non-hedged schemes) | 276.4 | 257.5 | 270.6 | 295.0 | 237.0 |
| Gross fair value of pension funds | 210.3 | 220.2 | 213.0 | 213.0 | 201.1 |
| **Net pension liabilities** | **66.1** | **37.3** | **57.6** | **82.0** | **35.9** |

## NOTE 48 - GUARANTEE LIABILITIES

| **Group 2017** | **Group 2016** | | **Parent bank 2017** | **Parent bank 2016** |
|---|---|---|---|---|
| 30.9 | 70.1 | Payment guarantees | 30.1 | 69.4 |
| 52.8 | 55.0 | Contract guarantees | 52.8 | 55.0 |
| 17.3 | 13.9 | Loan guarantees | 17.3 | 13.9 |
| 15.6 | 15.1 | Other guarantee liabilities | 15.6 | 15.1 |
| **116.6** | **154.1** | **Total guarantee liabilities to customers** | **115.8** | **153.4** |
| 0.0 | 72.7 | Guarantee to Eksportfinans ASA * | 0.0 | 72.7 |
| **116.6** | **226.8** | **Total guarantee liabilities** | **115.8** | **226.1** |

* The Bank's guarantee liability towards Eksportfinans ASA has been terminated with effect from 31 December 2017.

The parent bank has issued a guarantee for all covered bond commitments in the mortgage credit company in connection the rating process for Sparebanken Øst Boligkreditt AS. Covered bonds amounted to a nominal value of NOK 9,680.2 million as at 31 December 2017 and a nominal value of NOK 8,164.4 million as at 31 December 2016.

## NOTE 49 - PLEDGES AND RIGHTS

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 561.0 | 415.0 | Bonds, nominal value, pledged as security for borrowing facilities at Norges Bank | 561.0 | 415.0 |
| **561.0** | **415.0** | **Pledges of security** | **561.0** | **415.0** |
| **9,680.2** | **8,164.4** | **Preferential rights in accordance with section 11-15 of the Financial Institutions Act (nominal value)** | **0.0** | **0.0** |

## NOTE 50 - COSTS RELATED TO THE NORWEGIAN BANKS' GUARANTEE FUND

The Act on Guarantee Schemes for Banks, Insurance Companies and Public Administration etc., of Financial Institutions (Guarantee Schemes Act) obligates all Norwegian banks to be members of the Norwegian Banks' Guarantee Fund. The scheme guarantees to cover all losses up to NOK 2 million that a deposit customer has on deposit in a Norwegian bank. The term deposit means all credit balances in the bank with regard to accounts under the name of, as well as liabilities according to deposit certificates of the named person, with the exception of deposits from other financial institutions.

### Parent bank

| | 2017 | 2016 |
|---|---|---|
| Norwegian Banks Guarantee Fund levy | 11.4 | 11.7 |

## NOTE 51 - ADDITIONAL INFORMATION CASH FLOW STATEMENT

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| | | **Cash and cash equivalents** | | |
| 341.2 | 311.9 | Cash and receivables from central banks | 341.2 | 311.9 |
| 5.7 | 9.5 | Loans to and receivables from financial institutions that are pure investments | 5.7 | 9.5 |
| **346.9** | **321.4** | **Total** | **346.9** | **321.4** |
| | | **Change in other assets in connection with operations** | | |
| -3.4 | 18.5 | Net change in financial assets held for trading | -3.4 | 18.5 |
| 9.5 | -58.9 | Net change in financial derivatives (net assets and liabilities) | 9.5 | -58.9 |
| -67.7 | -7.4 | Net change in other assets | 1.4 | -5.8 |
| **-61.6** | **-47.8** | **Total** | **7.5** | **-46.2** |
| | | **Non-cash items included in profit/loss before tax** | | |
| 17.9 | 28.7 | Depreciation/write-downs of tangible assets | 11.3 | 11.4 |
| 0.1 | 0.2 | Amortisation of financial investments held to maturity | 0.1 | 0.2 |
| -9.7 | -16.8 | Write-downs of financial assets | -10.8 | -17.0 |
| 1.5 | 3.4 | Amortisation of financing activities measured at amortised cost | 1.0 | 0.8 |
| **9.8** | **15.5** | **Total** | **1.6** | **-4.6** |

# NOTE 52 - EQUITY CERTIFICATES

## Earnings per equity certificate

Earnings per equity certificate are calculated by dividing that part of the earnings after tax that accrues to equity certificate holders with a weighted average number of outstanding equity certificates during the year.

Sparebanken Øst has issued no options or other instruments that may lead to the dilution of earnings per equity certificate. Diluted earnings per equity certificate will therefore be the same as earnings per equity certificate.

| Group 2017 | Group 2016 | | Parent bank 2017 | Parent bank 2016 |
|---|---|---|---|---|
| 332.4 | 331.2 | Profit after tax (NOK millions) | 334.4 | 279.7 |
| 120.4 | 124.8 | Profit after tax allocated to equity certificate holders (NOK millions) | 121.1 | 105.4 |
| 20.7 | 20.7 | Weighted average number of outstanding equity certificates (NOK millions) | 20.7 | 20.7 |
| 5.81 | 6.02 | Earnings per equity certificate (NOK) | 5.84 | 5.08 |

## Weighted number of equity certificates

| | |
|---|---|
| **2017** | |
| No. of certificates in 2017 | 20,731,183 |
| Total no. of certificates in 2017 | 20,731,183 |
| | |
| **2016** | |
| No. of certificates in 2016 | 20,731,183 |
| Total no. of certificates in 2016 | 20,731,183 |

Nominal value per equity certificate NOK 10.

Equity certificates registered in the CSD give voting rights in accordance with the articles of association. There are no other limitations to voting rights in the articles of association.

## Ownership fraction, parent bank

| | 01.01.2018 | 01.01.2017 |
|---|---|---|
| Equity certificate capital | 207.3 | 207.3 |
| Premium reserve | 387.8 | 387.8 |
| Equalisation fund (excl. dividend) | 305.6 | 296.1 |
| Available for sale reserve | 68.0 | 63.3 |
| Total numerator (A) | 968.7 | 954.4 |
| Total equity (dividend provisions for the year excluded) | 2,816.1 | 2,636.1 |
| Total denominator (B) | 2,816.1 | 2,636.1 |
| **Ownership fraction (A/B) in %** | **34.40** | **36.21** |

## Dividend

The board's proposed dividend is NOK 103,655,915, which amounts to NOK 5.00 per equity certificate.

| In NOK | 2017 | 2016 |
|---|---|---|
| Total dividends paid out | 103,655,915 | 82,924,732 |
| Paid out per equity certificate | 5 | 4 |

## The twenty largest equity certificate holders as at 31.12.2017

| | Name | Number | % | | Name | Number | % |
|---|---|---|---|---|---|---|---|
| 1 | MP Pensjon | 1,707,823 | 8.24% | 11 | Citibank NA New York (NOM.) | 301,418 | 1.45% |
| 2 | Directmarketing Invest AS | 999,500 | 4.82% | 12 | Wenaasgruppen AS | 273,000 | 1.32% |
| 3 | Verdipapirfondet Eika dividend | 704,682 | 3.40% | 13 | DnB NOR Markets | 233,000 | 1.12% |
| 4 | Hansen, Asbjørn Rudolf | 500,000 | 2.41% | 14 | Profond AS | 200,163 | 0.97% |
| 5 | Bergen Kommunale Pensjonskasse | 500,000 | 2.41% | 15 | Jal Holding AS | 198,104 | 0.96% |
| 6 | Cape Invest AS | 491,609 | 2.37% | 16 | Danske Bank AS (NOM.) | 156,842 | 0.76% |
| 7 | Storetind AS | 432,993 | 2.09% | 17 | Løkke, Helge Arnfinn | 148,433 | 0.72% |
| 8 | Jag Holding AS | 400,000 | 1.93% | 18 | Tomtefeste 1 AS | 140,278 | 0.68% |
| 9 | Foretakskonsulenter AS | 385,100 | 1.86% | 19 | Juel, Iver Albert | 131,306 | 0.63% |
| 10 | AS Andersen Eiendomselskap | 354,500 | 1.71% | 20 | Seriana AS | 130,931 | 0.63% |

## Development in equity certificate capital

| Year | Issue type | Paid-up equity certificate capital | | Total equity certificate capital | |
|---|---|---|---|---|---|
| 1988 | Public issue | NOK | 25,000,000 | NOK | 25,000,000 |
| 1989 | Issue 1:1 | NOK | 25,000,000 | NOK | 50,000,000 |
| 1991 | Issue 1:2 | NOK | 25,000,000 | NOK | 75,000,000 |
| 1991 | Private placement | NOK | 20,000,000 | NOK | 95,000,000 |
| 1993 | Converted subordinated loan | NOK | 15,531,000 | NOK | 110,531,000 |
| 1993 | Issue 1:3 | NOK | 36,843,700 | NOK | 147,374,700 |
| 1993 | Converted subordinated loan | NOK | 245,000 | NOK | 147,619,700 |
| 1994 | Converted subordinated loan | NOK | 5,128,000 | NOK | 152,747,700 |
| 1994 | Issue 1:3 | NOK | 50,915,900 | NOK | 203,663,600 |
| 1995 | Converted subordinated loan | NOK | 395,000 | NOK | 204,058,600 |
| 1996 | Converted subordinated loan | NOK | 808,000 | NOK | 204,866,600 |
| 1997 | Converted subordinated loan | NOK | 7,893,000 | NOK | 212,759,600 |
| 1997 | Public issue | NOK | 60,000,000 | NOK | 272,759,600 |
| 1999 | Issue 1:3 | NOK | 90,919,900 | NOK | 363,679,500 |
| 2008 | Dividend issue | NOK | 24,252,400 | NOK | 387,931,900 |
| 2009 | Write-down of nominal value from NOK 100 to NOK 20 | NOK | 310,345,520 | NOK | 77,586,380 |
| 2009 | Write-down of nominal value from NOK 20 to NOK 10 | NOK | 38,793,190 | NOK | 38,793,190 |
| 2009 | Preferential rights issue | NOK | 168,518,640 | NOK | 207,311,830 |

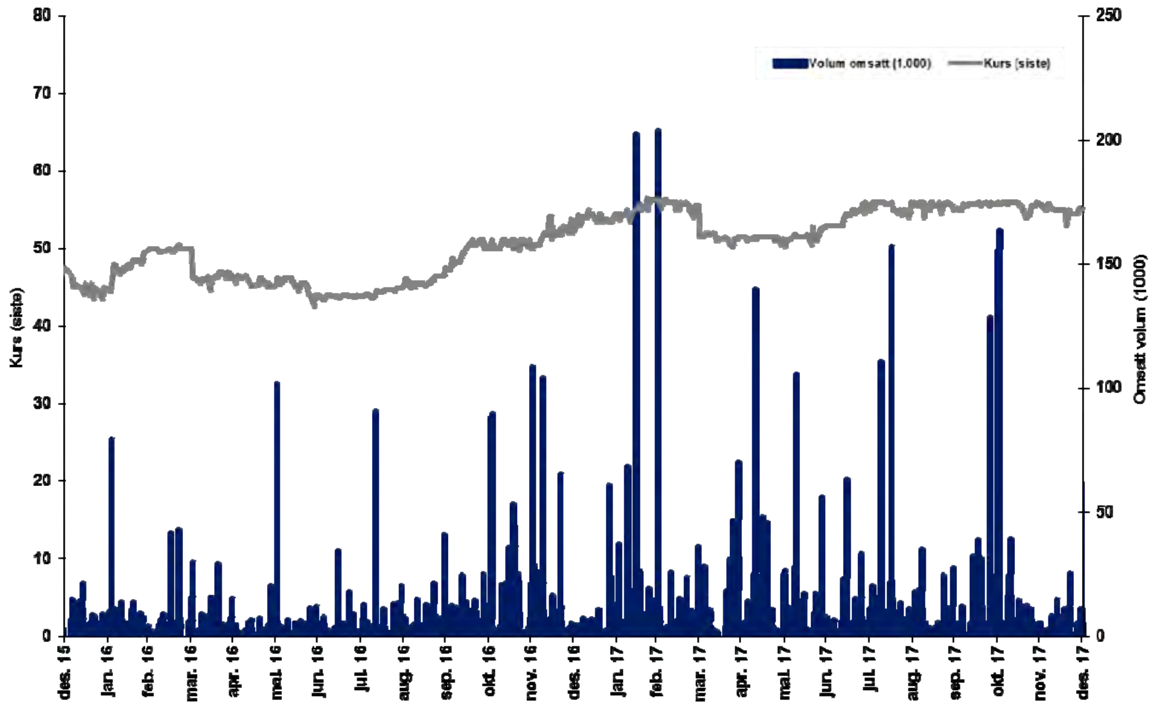
## Owner statistics - geographical distribution

| | No. of owners | % | No. of equity certificates | % |
|---|---|---|---|---|
| Abroad | 112 | 3.7% | 1,672,598 | 8.1% |
| Øvre Eiker | 256 | 8.5% | 715,110 | 3.4% |
| Nedre Eiker | 156 | 5.2% | 569,291 | 2.7% |
| Drammen | 202 | 6.7% | 2,924,881 | 14.1% |
| Rest of Buskerud | 254 | 8.4% | 527,339 | 2.5% |
| Asker/Bærum | 270 | 8.9% | 1,740,604 | 8.4% |
| Oslo | 483 | 16.0% | 6,310,617 | 30.5% |
| Trondheim | 134 | 4.4% | 190,206 | 0.9% |
| Bergen | 96 | 3.2% | 1,249,022 | 6.0% |
| Rest of Norway | 1,058 | 35.0% | 4,831,515 | 23.4% |
| **Total** | **3,021** | **100.0%** | **20,731,183** | **100.0%** |

## Equity certificates distribution

| No. of equity certificates per owner | No. of owners | % | No. of equity certificates | % |
|---|---|---|---|---|
| 1-100 | 416 | 13.8% | 20,561 | 0.1% |
| 101-1,000 | 1,352 | 44.7% | 583,989 | 2.8% |
| 1,001-10,000 | 973 | 32.2% | 3,436,839 | 16.6% |
| 10,001- 100,000 | 253 | 8.4% | 7,516,546 | 36.3% |
| 100,001- | 27 | 0.9% | 9,173,248 | 44.2% |
| **Total** | **3,021** | **100.0%** | **20,731,183** | **100.0%** |

## Sales and price trend in last 2 years



## NOTE 53 - ELECTED REPRESENTATIVES

| The board of trustees | No. of equity certificates |
|---|---|
| Jon Aas | 0 |
| May-Britt Andersen | 0 |
| Ole Jørgen Smedsrud | 1,000 |
| Tor Flesaker | 0 |
| Knut Andersen | 0 |
| Morten Ranvik | 0 |
| Thomas F. Halvorsen | 0 |
| Nina Paulsen | 0 |
| Helge Chr. Aaby | 0 |
| Bent Inge Bye | 0 |
| Jostein André Kretz | 0 |
| Dag Fjeld Edvardsen | 0 |
| Ann Kristin Plomås | 0 |
| Frode Lindbeck | 3,428 |
| Vegard Kvamme | 3,000 |
| Rolf Arne Fjelltoft | 15 |
| Brynulf Kopperud | 0 |
| Anne Siri Rhoden Jensen | 416 |
| Morten Wang | 0 |
| Camilla Schenk | 0 |
| Gunnvor Ramnefjell | 34,187 |
| Ole B. Hoen (representing Hoen Invest AS) | 5,104 |
| Lars M. Lunde (representing MP Pensjon) | 1,707,823 |
| Tom R. Svendsen | 500 |
| Frank Borgen | 33,123 |
| Helle Elisabeth Hofgaard | 7,000 |
| Iver A. Juel | 131,306 |
| Asbjørn R. Hansen | 500,000 |
| Kåre J. Grøtta (representing Storetind AS) | 432,993 |
| Jørn Larsen (representing Bondeungdomslaget in Drammen) | 17,500 |
| Åsmund Skår | 900 |
| Kristin Nystrøm | 38,303 |

| The board of directors and personal close associates | No. of equity certificates |
|---|---|
| Øivind Andersson | 15,000 |
| Elly Therese Thoresen | 18 |
| Morten André Yttreeide | 35,000 |
| Hanne Margrete Lenes Solem | 0 |
| Knut Smedsrud | 0 |
| Kari Solberg Økland | 0 |
| Inger Helen Pettersen | 20 |
| Ole-Martin Solberg | 0 |

| Executive personnel and personal close associates | No. of equity certificates |
|---|---|
| Pål Strand | 20,000 |
| Kjell Engen | 0 |
| Per Øyvind Mørk | 20,000 |
| Jan-Roger Vrabel | 0 |
| Lars-Runar Groven | 0 |
| Thor-Henning Bråthen | 0 |
| Arnljot Lien | 0 |
| Halvor Kirkebøen | 1,255 |

Statsautoriserte revisorer
Ernst & Young AS

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Medlemmer av Den norske Revisorforening

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees at Sparebanken Øst

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Sparebanken Øst, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheet as at 31 December 2017, the statements of income, other comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2017 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

#### Impairment of loans to customers

Loans to and receivables from customers amount to MNOK 30 972 (84% of total assets) in the consolidated financial statements. The corresponding amount in the parent company's financial statements is MNOK 18 654 (69% of total assets). Impairment on loans shall be calculated individually for significant loans when objective evidence for a fall in value has been identified, or collectively for groups of loans not assessed individually and where objective evidence for declining values have been identified on a portfolio basis. The identification of declining values and the calculation of impairment on loans to customers are processes with inherent risk involving the consideration of various assumptions and factors, including the counterparty's financial situation, expected future cash flows, observable market prices and expected net sales prices. The use of different valuation techniques and assumptions can

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result in significant different estimates on the impairment of loans. As impairment on loans is significant and subject to estimation uncertainty, we have considered this a key audit matter.

We reviewed and tested the internal control implemented by the Group in the processes for identifying and calculating impairment on individual loans and groups of loans. For individually significant loans, our audit procedures included testing and controlling the Group's identification of objective evidence for declining values and the assumptions used in the calculations of impairment, including expected future cash flows and the estimated value of underlying securities. For groups of loans, we assessed the data basis and assumptions for the models calculating the impairment. We have also tested that the assessments are consistent with previous years' assumptions, and where relevant, compared the information basis and assumptions with external references.

Losses on loans to customers are described in the Group's annual report's note 2 – Accounting principles, note 3 – Assessments and the use of estimates and note 13 – Losses on loans and guarantees to customers.

## Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

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- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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## Report on other legal and regulatory requirements

### Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

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

### Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Drammen, 1 March 2018
ERNST & YOUNG AS

Atle Terum

Atle Terum
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

# Definitions of key figures

| | | |
|---|---|---|
| | **Profitability** | |
| 1 | Return on equity | Profit/loss as % of average equity |
| 2 | Net interest income as a % of average total assets | Net interest income as a % of average total assets |
| 3 | Profit/loss after tax as a % of average total assets | Profit/loss after tax as a % of average total assets |
| 4 | Costs as a % of average total assets | Payroll, etc., administrative costs, amortisation and other operating costs as % of average total assets |
| 5 | Costs as a % of income (before losses on loans/guarantees) | Payroll, etc., administrative costs, amortisation and other operating costs as % of net interest income, dividend, net commission income, net value changes and gains/losses on financial instruments and other operating income |
| 6 | Costs as % of income, excl. return on financial investments | Payroll, etc., administrative costs, amortisation and other operating costs as % of net interest income, net commission income and other operating income |
| | **Balance sheet figures** | |
| 7 | Net lending to customers | Gross lending less write-downs |
| 8 | Lending growth (12 months) | Change in net lending as % of OB net lending (12-month growth) |
| 9 | Deposits | Customer deposits |
| 10 | Deposit growth (12 months) | Change in deposits as % of OB deposits (12-month growth) |
| 11 | Average equity | (OB equity less proposed dividends + CB equity less proposed dividends) / 2 |
| 12 | Average total assets | Average total assets based on quarterly balance sheet figures |
| | **Write-downs of impaired and non-performing loans** | |
| 13 | Losses as a % of net loans to customers (OB) | Losses as % of OB net loans for the period |
| 14 | Write-downs as a % of gross loans to customers | Total specified and unspecified write-downs as % of gross lending |
| 15 | Net impaired and net non-performing commitments as % of net loans | Net impaired and net non-performing commitments as % of net loans |
| | **Financial strength** | |
| 16 | CET1 capital ratio | CET1 capital as a % of the risk-weighted volume (calculation basis) |
| 17 | Tier 1 capital ratio | Tier 1 capital as a % of the risk-weighted volume (calculation basis) |
| 18 | Capital adequacy | Total primary capital as a % of the risk-weighted volume (calculation basis) |
| 19 | Risk-weighted volume (calculation basis) | Total credit and counterparty risk, currency risk, operational risk and calculation basis for impaired counterparty credit rating (CVA) |
| 20 | Leverage ratio (%) | Tier 1 capital as a % of unweighted calculation basis |
| | **Liquidity** | |
| 21 | Deposit coverage ratio | Deposits as a % of net loans to customers |
| 22 | LCR (%) | Liquid assets as a % of net payments in a stress scenario lasting 30 days |
| | **Branches and full-time equivalents** | |
| 23 | Number of bank branches | |
| 24 | Full-time equivalents | |
| | **Equity certificates** | |
| 25 | Ownership fraction | Equity certificate holders' proportion of total equity (less proposed dividends) as % (Basis as at 01.01, time-weighted by issue) |
| 26 | No. of equity certificates | Total no. of outstanding equity certificates |
| 27 | Book equity per equity certificate | Equity share capital divided by no. of equity certificates. Year's allocation for dividends is included in the calculation. |
| 28 | Earnings per equity certificate | Equity share capital's proportion of the group's profit/loss after tax per outstanding equity certificate as at 31.12. |
| 29 | Dividend per equity certificate | Dividend in NOK per equity certificate |
| 30 | Turnover rate | Annualised turnover rate (traded as a % of issued) |
| 31 | Price | Last traded |

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