

174th year

ANNUAL REPORT 2016



Sparebanken
Øst

CONTENTS

Key Figures.....	page	2
Board of Directors' Report.....	pages	3-19
Corporate Governance.....	pages	20-34
Statement pursuant to section 5-5 of the Securities Trading Act....	page	35
Statement of Income.....	page	36
Balance Sheet.....	page	37
Changes in Equity.....	page	38
Cash Flow Statement.....	page	39
Notes to the Financial Statements.....	pages	40-116
Auditor's Report.....	pages	117-120
Definitions of key figures.....	page	121

Key figures - Group

	2016	2015	2014	2013	2012
Profitability					
1 Return on equity	11,23	9,29	16,72	12,46	13,38
2 Net interest income as a % of average total assets	1,54	1,72	1,81	1,87	1,78
3 Profit/loss after tax as % of average total assets	0,94	0,75	1,28	0,93	0,91
4 Costs as % of average total assets	0,80	0,85	0,88	0,97	1,02
5 Costs as % of income (before losses on loans/guarantees)	39,57	44,69	34,72	42,04	43,20
6 Costs as % of income, excl. return on financial investments	46,18	42,00	43,21	44,55	48,48
Balance sheet figures					
7 Net lending to customers	29.695,7	27.975,8	28.697,8	25.771,6	22.560,2
8 Lending growth (12 months)	6,15	-2,52	11,35	14,23	1,70
9 Deposits	13.887,4	13.159,3	13.397,0	12.546,8	11.687,9
10 Deposit growth (12 months)	5,53	-1,77	6,78	7,35	30,84
11 Average equity	2.950,1	2.755,3	2.563,9	2.268,1	1.960,6
12 Average total assets	35.420,3	34.067,2	33.618,8	30.263,2	28.698,8
Write-downs of impaired and non-performing loans					
13 Losses as a % of net loans to customers (OB)	0,02	0,06	0,09	0,07	0,11
14 Write-downs as a % of gross lending to customers	0,36	0,44	0,48	0,54	0,65
15 Net impaired and net non-performing commitments as % of net loan	0,47	0,58	1,15	1,56	1,42
Financial strength					
16 CET1 capital ratio	17,21	16,29	13,94	13,23	12,76
17 Tier 1 capital ratio	19,19	18,29	15,89	16,47	14,85
18 Capital adequacy ratio	21,17	20,29	18,17	18,41	15,68
19 Risk-weighted volume (calculation basis)	17.696,7	17.452,6	17.891,6	15.488,8	14.748,8
20 Leverage ratio (%)	9,24	8,97	7,93		
Liquidity					
21 Deposit coverage ratio	46,77	47,04	46,68	48,68	51,81
22 LCR (%)	284,00	215,80	154,27		
Branches and full-time equivalents					
23 Number of bank branches	25	21	22	22	21
24 Full-time equivalents	209	226	225	233	224
Equity certificates					
25 Ownership fraction	37,67	38,79	41,44	43,28	44,98
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	57,30	55,06	54,81	52,29	46,22
28 Earnings per equity certificate	6,02	4,79	8,57	5,90	5,69
29 Dividend per equity certificate	4,00	3,30	5,00	3,00	3,00
30 Turnover rate	12,04	16,02	10,46	21,81	11,69
31 Price	52,00	47,60	51,00	43,00	32,50

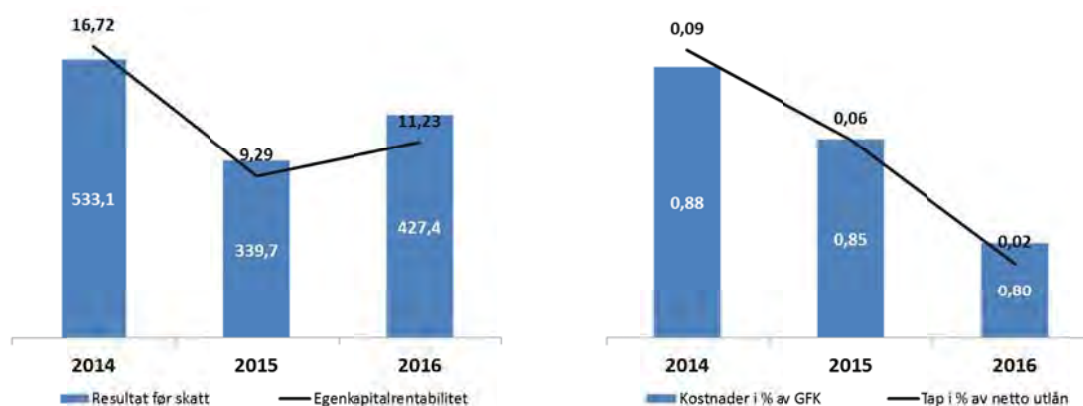
For definition of key figures, see page 121

BOARD OF DIRECTORS' REPORT FOR 2016

At the end of the bank's 174th year of operations, Sparebanken Øst enjoyed very strong capital adequacy and a good return on equity for 2016. The group's tier 1 capital at the end of the year amounted to NOK 3,396.0 million, which corresponds to a tier 1 capital ratio of 19.19%. As at 31 December 2016, the CET1 capital ratio was 17.21% and was significantly above the bank's set target. The capital situation ensures the bank is highly competitive, which provides great scope for growth and dividend payments. The group's profit before tax amounted to NOK 427.4 million for 2016. The profit after tax amounted to NOK 331.2 million, which corresponds to a return on equity of 11.23%. The result is considered good in light of the bank's solid capital adequacy, balance sheet composition, and interest rates. Given the bank's very sound capital situation and good result, the board has proposed a cash dividend of NOK 4.00 per equity certificate and a social dividend from the social capital of NOK 41.5 million. The dividends are in line with the adopted dividend policy.

BUSINESS IN 2016

The group's profit after tax for 2016 amounted to NOK 331.2 million, which corresponds to a return on equity of 11.23%. Earnings per equity certificate were NOK 6.02. The result for 2016 is affected by reduced net interest income, dividends from Frende Holding AS, distribution from Visa Norge FLI, deferred settlement from shares in Nets, which were sold in 2014, income related to amended guarantee liabilities to Eksportfinans ASA, positive changes in the value of securities, and low losses. Cost control in the bank remains very good.



The bank's CET1 capital ratio is very solid at 17.21% Total assets increased by NOK 1,285.6 million in 2016 and amounted to NOK 35,794.7 million at the end of 2016. Net lending to customers has grown

by 6.1% in the last 12 months, while deposits have grown by 5.5% in the same period. While Sparebanken Øst has strengthened its physical distribution during 2016 by opening branches in Sætre, Røyken, Holmestrand and Sande, the bank has also increased its focus on digitisation in order to further streamline and adapt the bank's operations to changing customer behaviour.

The Sparebanken Øst group consists of the parent bank and five wholly owned subsidiaries. AS Financiering, established in 1930, is a central market actor within used car financing.

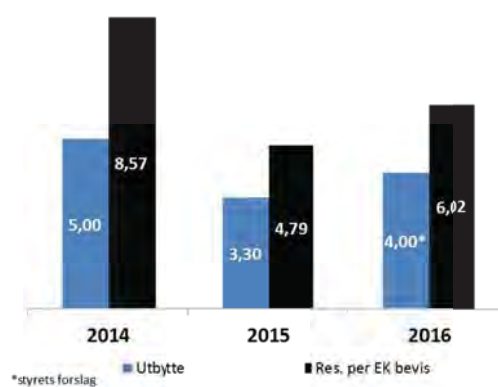
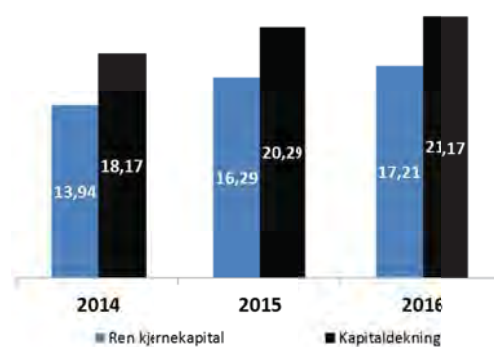
Sparebanken Øst Eiendom AS and its subsidiaries are tasked with actively managing properties belonging to the Sparebanken Øst group. Sparebanken Øst Boligkreditt AS securitises mortgages for the bank and thereby achieves lower funding costs for the group. The main purpose of Øst Prosjekt AS and its subsidiaries 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 2016.

The risk associated with loans to business customers developed positively in 2016. The bank has continued its restrictive credit policy with respect to granting loans to business customers. The risk in the retail loans portfolio was stable in 2016. 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 reduced in 2016. 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 2016.

The board is proposing a dividend of NOK 4.00 per equity certificate. Earnings per equity certificate after tax for the group were NOK 6.02. Book equity per certificate as at 31/12/2016 was NOK 57.30, inclusive of the proposed dividend. The proposed dividend for equity certificate holders is within the adopted and communicated dividend policy and amounts to 66.4% of the equity certificate holders' share of the group's profit for the year. A social dividend for non-profit purposes of NOK 41.5 million has been proposed, which amounts to 50.05% 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 2016.



STRATEGY AND GOALS

Vision

Sparebanken Øst wants to be a leading savings bank in Eastern Norway.

Business concept

Sparebanken Øst's 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

Sparebanken Øst wants 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

Sparebanken Øst want to live up to the following three core values:

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

Market

Sparebanken Øst defines the central Eastern Norway region as its main market. With its combination of physical and digital distribution, Sparebanken Øst is a modern traditionalist and provider of financial services to the general public and local businesses in the region.

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

Core activities

Sparebanken Øst wants to satisfy its customers' needs for ordinary financial products. Our main products are savings products, credit products and payment products. The bank also distributes insurance and fund products.

Organisational and employee development

Sparebanken Øst wants to be a market-oriented organisation that offers interesting challenges to responsible and qualified employees. We want to develop our employees so that they may be in a position to meet future skills and reorganisation requirements, and we want to be an attractive employer by offering a good working environment and competitive terms.

The bank is affiliated with the authorisation scheme for financial advisers (AFR) and at the end of the year had 56 authorised financial advisers. The bank's internal academy facilitates the necessary skills training in line with developments in our framework conditions and the sector in general.

Market and brand strategy

Sparebanken Øst serves the markets via a combination of the bank's branches, online solutions and external intermediaries. Sparebanken Øst has a tripartite and segmented market model based on a 'house of brands' brand strategy. The model enables the bank to serve all types of customers, both those who want services performed for them and those who wish to perform most of their banking services themselves. The model also enables us to serve both current and future bank customers.

DinBANK.no was launched in September 2006. The concept is now established as a very simple, efficient and straightforward banking alternative for self-service customers. DinBANK.no mainly offers loans to customers against property mortgages up to a loan-to-value ratio of 75% and to young customers up to a loan-to-value ratio of 85%. Its customers come from all over Norway, although the majority come from the counties of Oslo, Akershus and Buskerud.

Topprente.no was established in March 2011 and is an efficient self-service concept that offers highly competitive interest rates on bank savings products. Topprente.no has customers come from all over Norway, although the majority come from the counties of Oslo, Akershus and Buskerud.

Boligkreditt.no was established by Sparebanken Øst Boligkreditt AS in December 2012 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.

The Sparebanken Øst group also monitors trends within environmental and sustainable development and adapts its activities to developments in this area. In 2014, we therefore established two new products: **green mortgages** and **green car loans**.

Overall financial objectives

Sparebanken Øst wants 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 105% over time.
- The group's target for its CET1 capital ratio has been set at 14.5%.
- 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

Accounting policies

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 profit after tax of NOK 331.2 million in 2016, which is an increase of NOK 75.2 million compared with 2015. The return on equity in 2016 was 11.23% compared with 9.29% in 2015.

Net interest income amounts to NOK 545.8 million in 2016 and shows a decrease of NOK 40.9 million compared with 2015. Falling lending rates are being partly compensated for by lower deposit rates, but not completely. Prolonged stable and low interest rates are resulting in lower returns on the loans portfolio. The recognition of interest not previously recognised as income contributed to higher net interest income in 2016 compared to 2015.

Net commission income amounted to NOK 42.7 million in 2016, which represents an increase of NOK 2.1 million compared with 2015.

The dividends received from equity instruments amounted to NOK 26.9 million in 2016, compared with NOK 1.3 million in 2015. The amount this year primarily consists of NOK 10.6 million in dividends received from Frende Holding AS and payments of cash remuneration from Visa Norge FLI totalling NOK 15.6 million.

Net value changes and gains/losses from financial instruments amounted to NOK 75.8 million in 2016, an increase of NOK 118.5 million compared with 2015. The increase is connected to changes in value in the bank's liquidity portfolio worth NOK 64.1 million and income recognised in relation to the bank's guarantee liabilities to Eksportfinans ASA worth NOK 23.8 million, of which NOK 15.7 million is tied to a change in the guarantee liability. Furthermore, NOK 17.6 million was recorded in relation to the final settlement of shares in Nets which were sold in 2014.

Other operating income amounted to NOK 27.2 million in 2016, compared to NOK 61.0 million in 2015. Profit from the sale of properties in 2015 amounted to NOK 34.6 million.

Operating costs for the group in 2016 amounted to NOK 284.3 million compared with NOK 289.1 million in 2015. This reduction is primarily due to reduced salary, pensions and administration costs. During the second quarter of 2016, a write-down of property worth NOK 10.0 million was carried out by one of the bank's subsidiaries.

Losses on loans to customers amounted to NOK 6.7 million in 2016, compared with NOK 18.1 million in 2015.

Individual write-downs on loans and guarantees amounted to NOK 67.3 million at the end of 2016, compared with NOK 81.0 million at the end of 2015. The decrease was linked to the identification and recognition of previous individual write-downs. Write-downs of groups of loans decreased by NOK 3.1 million during the year compared with 2015, and amounted to NOK 40.3 million at the end of 2016.

Dividends from Frende Holding AS are covered by the exemption method. The payments from Visa Norge FLI and final settlement on the shares in Nets sold in 2014 are also deemed to be covered by the exemption method. The effective tax rate was therefore lower than 25% in 2016.

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 279.7 million in 2016, compared to NOK 182.1 million in 2015. The board proposes to the board of trustees that the parent bank's profit for the year be allocated as follows:

(Figures in NOK millions)

Equity certificate dividend	82.9
To equalisation fund	22.4
To equity certificate holders	105.3
Social dividend	41.5
To primary capital	132.9
To social dividend and primary capital	174.4
Parent bank's profit for the year	279.7

The total cash dividend and social dividend amounts to NOK 124.4 million, which is equivalent to 44.48% of the parent bank's total profit.

Balance sheet

Total assets amounted to NOK 35,794.7 million at the end of 2016, compared with NOK 34,509.1 million at the end of 2015.

Assets

Cash and receivables at central banks amounted to NOK 311.9 million as at 31.12.2016, compared with NOK 378.0 million as at 31.12.2015.

Net loans to financial institutions amounted to NOK 9.5 million as at 30.09.2016, compared with NOK 8.1 million as at 30.09.2015. Lending to financial institutions in Norway involves interbank loans only.

Net lending to customers amounted to NOK 29,695.7 million as at 30.09.2016, compared with NOK 27,975.8 million as at 30.09.2015. This represents an increase of NOK 1,719.9 million in the last 12 months, or 6.1%. Net lending to retail customers increased by 7.2%, while net lending to business customers was reduced by 0.1%. Gross lending to retail customers accounted for 86.47% of total lending to customers. The risk in the business loans portfolio has been reduced over the last 4 years. Together with a significant reduction in impaired and non-performing loans, this provides a good basis for growth in business loans in 2016 and subsequent years.

The holding of certificates and bonds amounted to NOK 4,490.5 million as at 30.09.2016, compared with NOK 4,760.2 million as at 30.09.2015. The holding consists in its entirety of the liquidity portfolio. For the liquidity portfolio, the weighted average term until the agreed maturity has been calculated as 2.36 years.

The bank's shares in Frende Holding AS are classified as 'available for sale' and were valued at NOK 220.0 million at the end of 2016.

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 2016. The bank has, since 2008, together with the other shareholders in the company, pledged guarantees for changes in the value of Eksportfinans ASA's liquidity portfolio. Sparebanken Øst issued a guarantee from 30 April 2016 for NOK 72.7 million of the total guarantee limit for Eksportfinans ASA.

The bank's membership in Visa Norge FLI is valued at NOK 6.5 million as at 31.12.16. This value primarily consists of cash settlement and rights to shares in Visa Inc. Furthermore, the deferred settlement following the sale of Nets shares in 2014 has given the bank rights to further shares in Visa Inc. and future cash settlements worth NOK 7.9 million, which have been recorded as income during the fourth quarter of 2016.

Liabilities

Deposits from customers amounted to NOK 13,887.4 million as at 31 December 2016, compared with NOK 13,159.3 million as at 31 December 2015. This is an increase in the last 12 months of NOK 728.1 million or 5.53%. The deposit-to-loan ratio in the group at the end of 2016 was 46.77%, compared to 47.04% at the end of 2015.

Securities issued amounted to NOK 17,614.6 million as at 31 December 2016, compared with NOK 17,205.3 million as at 31 December 2015. The liquidity situation measured as long-term funding as a percentage of liquid assets (Liquidity Indicator 1) amounted to 107.5% at the end of 2016, compared with 107.8% at the end of 2015. LCR amounted to 284.00% at the end of 2016. A conservative investment policy means that a high proportion of securities count in the LCR calculation. The maturity structure significantly affects LCR.

Other long-term borrowing amounted to NOK 90.2 million at the end of 2016, compared with NOK 150.3 million as at 31.12.2015.

Short-term borrowing (defined as borrowing with a remaining term to maturity of less than 1 year) amounted to NOK 2,188.0 million.

SUBSIDIARIES

Sparebanken Øst Boligkreditt AS is a wholly owned subsidiary of Sparebanken Øst. The company was established on 14 April 2009 with the object of granting or acquiring home mortgage loans, property mortgage loans, loans secured by liens on other registered assets or public loans, and of financing lending activities, mainly by issuing covered bonds. The loan-to-value ratio (LTV) for the cover at the end of 2016 was 42.6%. For comparison, the equivalent figure was 45.8% at the end of 2015.

The company's total assets as at 31 December 2016 was NOK 9,628.2 million and primarily consists of first priority mortgages on homes, which are financed via covered bonds and drawing rights on the parent company. The company's paid-up equity is NOK 650.0 million, of which NOK 319.8 million is share capital and NOK 330.2 million makes up the share premium account. Profit after tax shows a profit of NOK 64.9 million at the end of 2016 compared with NOK 80.5 million at the end of 2015. The company has no employees, but procures services from Sparebanken Øst. In the first quarter of 2011, Sparebanken Øst Boligkreditt AS was rated AAA by Moody's.

AS Finansiering is a wholly owned financing subsidiary of Sparebanken Øst. Its main product is debenture financing for used cars. The company achieved a profit after tax of NOK 41.4 million at the end of 2016 compared with NOK 39.7 million at the end of 2015. Total assets amounted to NOK 1,743.4 million. At the end of 2016, the company had 21 employees, corresponding to 21 full-time equivalents.

Sparebanken Øst Eiendom AS is a wholly owned subsidiary of Sparebanken Øst and

should actively maintain properties belonging to the Sparebanken Øst group.

Operating income amounted to NOK 27.6 million in 2016 compared to NOK 63.4 million in 2015. NOK 34.6 million in profit from the sale of property was recognised as income in 2015. The result after tax was a profit of NOK 5.1 million at the end of 2016 compared with NOK 39.2 million for the same period last year. The company has six employees. Its share capital amounts to NOK 35.1 million.

In connection with the presentation of its third quarter report in 2016, Sparebanken Øst reported a letter from the Financial Supervisory Authority of Norway concerning the bank's real estate activities. The bank does not perceive this matter to be controversial or significant to the bank, and continues to adopt the strategy from 2014 relating to the dismantling of its commercial property portfolio.

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 and its share capital amounts to NOK 12.1 million. The result after tax was a loss of NOK 8.8 million at the end of 2016. The deficit was linked to the writing down of property. The company posted a profit of NOK 0.7 million in 2015.

Øst Inkasso AS was established on 18 April 2016 and received a licence to carry out debt collection activities on 5 August 2016. The company is a wholly owned subsidiary company of Sparebanken Øst. The company commenced operations on 1 October 2016. The company's objective 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 in 2016 was NOK 1.0 million, with a loss after tax of NOK 0.6 million. In 2016, the company employed six employees.

FRENDE FORSIKRING

Frende Holding AS owns Frende Skade AS and Frende Liv AS (Frende Forsikring). The bank owns a 13.19% stake in the holding company. Frende Forsikring is owned by 15 savings banks and Sparebanken Vest is the largest shareholder. The company offers P&C and life insurance products to business and retail customers and has around 175,000 customers. Frende Forsikring's head office is in Bergen. In 2016, Sparebanken Øst received dividends from subsidiaries amounting to NOK 10.6 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, the above measures are regarded as satisfactory 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 each risk area. 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 central credit departments depending on the size of the commitment. 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. In 2016, the bank experienced strong competition in the long-term financing of commercial property and development projects (housing and commercial properties).

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's exposure to loans/credit without associated security is low. The new Mortgage Regulations were implemented from and including the start of the year.

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. In addition, a significant element of the portfolio must be suitable for use as collateral for a borrowing facility at 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 generally booked at market value so that changes in risk are continuously reflected in the financial statements. Disregarding unrealised value changes, there have been no credit losses on the securities portfolio in 2016.

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 2016 shows adequate liquidity for a period of more than 12 months of operations. Deposits are a key source of funding for banks. Competition for deposits has intensified in the last few years. Adjustments to the range of products available to our customers have led to an increased inflow of deposits. Topprente.no has made a particular contribution to increasing the bank's deposit cover, which has been stable in 2016.

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 a focus on facilitating the issuing of covered bonds.

Operational risk

The management and control of operational risk is ensured through annual reviews of key procedures and an established internal control process with semi-annual confirmation from managers that such internal control has been carried out. Registered incidents, follow-up points after

internal audit projects have been carried out, compliance checks, and any supervision by the Financial Supervisory Authority of Norway, as well as assessed risk in relation to set risk limits and targets, are reported to the board each quarter. The group has not registered significant losses due to the failure of internal processes, systems, human error or unforeseen events in 2016.

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 17.21% at the end of 2016, which represents an increase from 16.29% at the end of 2015. The leverage ratio represented 9.24% at the end of 2016, compared with 8.97% at the end of 2015. The Ministry of Finance resolved on 20 December 2016 to require unweighted tier 1 capital for banks amounting to 5.00%. This requirement will apply as at 30 June 2017. Net primary capital amounted to NOK 3,745.7 million at the end of 2016, of which the group's tier 1 capital amounted to NOK 3,396.0 million. With a calculation basis of NOK 17,696.7 million, this corresponds to a capital adequacy ratio of 21.17%, of which 19.19% constitutes the tier 1 capital ratio. The bank uses the standardised approach when calculating minimum requirements for subordinated capital for credit risk.

RATING

In April 2016, Sparebanken Øst was awarded an issuer rating of A3 with a stable outlook by Moody's Investor Service. This rating is additional to the existing bank deposit rating of A3 (stable) from Moody's.

MACROECONOMIC DEVELOPMENTS

2016 was a year of political surprises. Against all the odds, the world awoke to a new reality with Trump and Brexit. The election of Trump, with protectionism on the ballot, is very negative for global trade. Global growth showed an upturn in 2016. The USA has seen higher growth and improvements in the labour market; money market interest rates have risen and inflation is climbing. The eurozone has seen higher growth than expected; an upturn in private consumption has resulted in improvements in the labour market and wage growth. The ECB is continuing to supply massive amounts of liquidity in order to stimulate growth and prevent deflation, but has warned that the supply will decrease. There are warnings of a "hard Brexit" in the UK (restrictions on employment immigration with the negative impact on access to the EU's inner market) and even though there have been few negative effects for the British economy so far, there is a great deal of uncertainty about the future consequences. Political uncertainty is producing downside risk and sowing doubts about the future of the EU given that in 2017 we are facing elections characterised by populism in the leading countries of France and Italy. China and India remain the most important contributors to growth. An expansive policy in China is sustaining growth, but a lot of attention is still being paid to the growth in debt in industry and over-investment in the housing market. A production cut in OPEC has contributed to higher oil prices and we are seeing economic improvement in Brazil and Russia.

The Norwegian mainland economy saw its lowest GDP growth since the financial crisis in 2016 at 0.8%, weakened by the drop in oil investments, but there was still growth throughout the year and therefore hope of improvement. Petroleum production peaked as early as 2004 and lower investments have had a strong negative impact on activity on the Norwegian Continental Shelf and in the supply industry. This has resulted in larger regional differences. Rising oil prices throughout 2016 are therefore good news, and even though this has raised the value of the Norwegian kroner somewhat, it is still lower than it was. Inflation is also affected by the NOK exchange rate and is now falling after high inflation throughout 2016. The growth in real wages is lower than for many decades and savings are still higher and consumer growth lower in households than before the drop in oil prices.

Unemployment measured by the Labour Survey is, in Norwegian terms, high and characterised by falling employment. There are major regional differences, but the Norwegian Labour and Welfare Administration figures are falling in all counties outside the oil region. These differences are also reflected in house prices, which have increased very strongly in Eastern Norway since March. Expectations of low interest rates are a strong contributing factor and the annual growth in house prices was no less than 23.3% in Oslo and 16.5% in Drammen, while Stavanger saw a drop of 2.6%. Household debt is continuing to grow and is currently record high in relation to disposable income, which is a concern for Norges Bank and the Financial Supervisory Authority of Norway. Based on this, the Ministry of Finance tightened the Mortgage Regulations with effect from the start of the year. The key rate was lowered in March to a record 0.5% and is expected to remain low for a long time. The cash flow from the oil fund was negative for the first time in 2016 and the 2017 national budget was balanced by increasing the injection of oil income by no less than NOK 226 billion.

EMPLOYEES, MANAGERS AND THE BOARD OF DIRECTORS

At the end of 2016 the group had 222 employees, equivalent to 209 FTEs, compared with 237 employees and 226 FTES at the end of 2015. The average age of employees in the parent bank was 49. The proportion of female employees was 63%. The proportion of women in management positions was 39% 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 2016, the executive management team consisted of the following seven people:

Pål Strand, born 1965
CEO
Bank employee since 1984

Kjell Engen, born 1969
Deputy CEO/CFO
Bank employee since 2003

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

Jan-Roger Vrabel, born 1971
Director - Retail and Business Markets
Bank employee since 2011

Lars-Runar Groven, born 1966

Arnliot Lien, born 1965

Director - Credit
Bank employee since 1992

Director - IT and Business Support
Bank employee since 2001

Of the bank's eight elected board members, four are women. The chair of the board is a woman. The following sat on the board of directors in 2016: Jorund Rønning Indrelid (chair), Knut Smedsrud (deputy chair), Morten A. Yttreide, Elly Therese Thoresen, Sverre Nedberg (until 31 March 2016), Øivind Andersson, Hanne Margrete Lenes Solem, Inger Helen Pettersen (employee), Sissel Album Fjeld (attending deputy for employees until 31 March 2016), and Ole-Martin Solberg (employee – elected from 31 March 2016).

Jorund Rønning Indrelid, born 1959
Managing director
Board member since 2001
Deputy chair from 2003, chair from 2009.
Previously a deputy member of the board and 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.

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

Morten Andre Yttreide, 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 2016:

Jorund Rønning Indrelid	14 of 15 meetings
Knut Smedsrud	13 of 15 meetings
Elly Therese Thoresen	12 of 15 meetings
Hanne Margrete Lenes Solem	15 of 15 meetings
Morten André Yttreide	15 of 15 meetings
Øivind Andersson	14 of 15 meetings
Sverre Nedberg	4 of 4 meetings (left the board on 31 March 2016)

Employee representatives

Inger Helen Pettersen	14 of 15 meetings
Ole-Martin Solberg	12 of 15 meetings (joined the board on 31 March 2016)

Deputy employee representative

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. The bank was not subject to any robberies in 2016. No personal injuries were registered in 2016.

Total sick leave in 2016 amounted to 4.34% of total working hours, compared with 3.58% in 2015. The sick leave rate was 3.90% for men and 4.60% for women in 2016.

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 detailed training of employees in the position of customers in the law and internal regulations. All employees also undergo compulsory e-learning about anti-money laundering and terror financing measures.

Risk-based customer controls and continuously monitoring the existing 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 authenticity checks for 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). Thirteen such cases were reported to ØKOKRIM in 2016.

DIVIDEND POLICY

The board of Sparebanken Øst approved a minor adjustment to the bank's dividend policy from and including 2016. The change involves the target for, and level of, dividends on social capital. No changes have been made to the bank's dividend policy for equity certificate holders.

Sparebanken Øst's financial goals for its activities are to achieve results that provide a good, stable return on the bank's equity and to create value for equity certificate holders with competitive returns in the form of dividends and capital appreciation on equity certificates. Profit for the year will be divided between equity certificate holders and social capital in accordance with their respective proportion of the bank's equity.

Sparebanken Øst will endeavour to pay 50 to 75% of the profit allocated to equity certificate holders as dividends. Sparebanken Øst also aims to distribute an amount equivalent to 50 to 75% of the dividend paid to equity certificate holders as dividends on social capital in the form of gifts to charitable causes. When determining the dividend and donations, account will be taken of the bank's financial performance, market situation, dividend stability and core capital requirements.

OUTLOOK

The level of uncertainty regarding the Norwegian economy is expected to remain high both in terms of economic growth and employment rates. Low oil prices are still affecting the business sector in some regions of Norway and thus employment rates, as well as companies' profitability and ability to service debt. Sparebanken Øst's customer portfolio is generally not directly affected by lower activity in the oil sector. It is expected that low interest rates will continue to strengthen the ability of households and businesses to service debt despite lower incomes. The Norwegian krone is expected to be generally strengthened during 2017, meaning the competitive advantage for Norwegian businesses abroad may decline. Continuing high rates of unemployment could lessen the payment capacity of affected households. Sparebanken Øst is not expecting any major changes in the macroeconomic situation in Eastern Norway where it primarily operates. House prices are expected to rise in the future and increase households' debt burden. Some companies could be affected by the generally lower level of demand and by the situation in the oil sector in particular.

Part of the central government budget for 2017 adopted by the Storting (Norwegian parliament) is a fiscal tax that results in a 5 percentage point increase in employer social security contributions and a continuation of corporation tax for the financial industry at 25%.

The bank has a very sound capital situation that satisfies the authorities' requirements, including increased requirements for countercyclical buffers in 2017. This provides the bank with room for manoeuvre and not least security in a period of continued uncertainty. The bank's target for CET1 capital is 14.5%. The bank also has a solid liquidity buffer that provides security should the bank experience problems accessing funding during the year. The bank's target for long-term funding is 105% of non-liquid assets. The bank expects to be able to obtain new funding with margins on a par with those of the major regional banks. The bank believes it is in a good position in the capital markets and aims to ensure simple, open communication with its various investors. The bank's target for its return on equity has been set at 10% cent over time. The bank expects the regulatory uncertainty to be reduced through the authorities' ongoing overall risk assessments of the bank (SVR) and individual pillar 2 capital requirements.

Growth in lending to and deposits from customers will depend on the general competition in the banking market and access to long-term funding. The bank expects growth in lending to both retail and business customers. The growth is expected to be distributed evenly across different distribution channels. Growth in lending to retail customers will primarily come from home mortgages. The new Mortgage Regulations that apply from 2017 stipulate tighter requirements concerning the total debt a borrower can have and for what loans instalments must be paid. The equity requirement for borrowers in Oslo is also higher when buying second homes, while the banks' have less leeway to grant dispensations to the regulatory requirements than in the rest of the country. The bank does not believe that adjusting to the new regulations will materially affect its ability to grow going forward. Growth is expected in loans for financing used cars with sales liens (AS Financiering). The growth in lending to business customers will primarily occur in the bank's defined market areas. Repayment loans with security in real estate are the bank's main product in the business market. Differing capital requirements between banks domiciled in Norway and other countries, and between banks in Norway, affects the competitive situation in terms of lending to businesses to a

significant degree and may distort competition in favour of Norwegian IRB banks and banks with capital requirements set by, among others, the Swedish and Danish authorities.

Banking involves risk and non-performance and losses on loans and guarantees to customers cannot be excluded. The bank does not anticipate any significant increase in non-performing and doubtful commitments and lending losses going forward. The group has substantial in-house expertise that will work to resolve any problem commitments that might arise in the future. This includes expertise within recovery, as well as property and operation.

Fluctuations in the value of securities in the form of equities and bonds cannot be excluded. The holding of bonds is exclusively held for liquidity purposes. No significant changes in the bank's ownership interests in Frende Holding AS are expected. Eksportfinans ASA is in the process of winding up, but the winding-up date is not yet finally decided. The supply side in the bank market is expected to decrease somewhat, although the level of competition is expected to persist in high quality customer segments. The bank therefore expects continued pressure on margins on loans to retail customers and as a result of persistent low interest rates. Margins on loans to businesses are expected to increase slightly. Low interest rates are challenging for the bank's interest margin between loans and deposits. The level of uncertainty regarding macroeconomic developments, the bank's competitiveness, and the development of margins for the bank's borrowing are sources of uncertainty with respect to the bank's earnings and return on equity.

On 13 February 2017, Sparebanken Øst signed a letter of intent with more than 100 other savings banks and DNB concerning the establishment of a single mobile wallet service for the Norwegian public. Sparebanken Øst will, together with the other fourteen banks in the Frende Alliance, own around 12% of Vipps. The bank believes that such a partnership will provide the best and simplest payment solution for its customers.

Hokksund, 31 December 2016

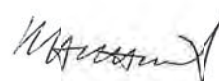
Drammen, 8 March 2017



Jorund Rønning Indrelid
Chair




Knut Smedsrud
Deputy Chair



Morten André Yttreeide
Board member



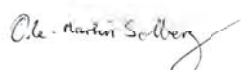
Øivind Andersson
Board member



Hanne Margrete Lenes Solem
Board member



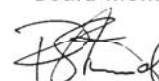
Elly Therese Thoresen
Board member



Ole-Martin Solberg
Employee representative



Inger Helen Pettersen
Employee representative



Pål Strand
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 30.10.14.

The Financial Institutions Act came into force on 01.01.16 with transitional rules that give banks 1 year to fulfil the Act's requirements, unless otherwise is specified by other transitional rules. Sparebanken Øst's articles of association were amended on 05.01.16 in accordance with the requirements and rules that follow from the Financial Institutions Act. The corporate governance report has been prepared in line with the Acts and articles of association that applied on 31 December 2016.

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 2016, 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 savings 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 2016'.

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%. 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 31/03/2016 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 2016, 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 2016.

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. Six members are elected by depositors with one from Øvre Eiker, two from Nedre Eiker, and three from Drammen. Six municipal representatives must be elected with proportional numbers from the municipalities of Øvre Eiker, Nedre Eiker, and Drammen. Eight members are elected by the employees, and twelve members are elected by the equity certificate holders. New requirements pursuant to the Regulations on financial institutions and financial groups that will come into effect on 1 January 2017 and will result in some changes in the composition of the board of trustees, where the depositors will have to account for at least one quarter of the board of trustees' members, will be dealt with in the board of trustees' meeting on 30 March 2017. 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 2016, 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 2016. 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.

Control committee

The Financial Institutions Act contains no provisions about a control committee. Pursuant to the amendments to the articles of association on 5 January 2016, the bank's control committee was wound up with effect from the same date.

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 23.12.77. 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. The nomination committee has drawn up separate guidelines which have been approved by the board of trustees. In 2016 the nomination committee for the board of trustees and board of directors consisted of the following people:

Petter Qvam, chair. From 31 March 2016 Tom R. Svendsen, chair
 Thomas F. Halvorsen, from 31 March 2016 Nina Paulsen
 Jon Aas
 Bent Inge Bye
 Jan Christian Skau, employee

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 2016, 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 2016 are described in the presentation of the board of directors in the Annual Report for 2016. Detailed information concerning each board member can be found (in Norwegian) on [www.oest.no/kontakt/oss/styret og ledelse](http://www.oest.no/kontakt/oss/styret%20og%20ledelse).

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

New provisions in the Regulations on financial institutions and financial groups, section 9-2, entail limits on the number of offices a board member can hold besides his or her seat on the bank's board. The limit will apply to newly appointed or reappointed board members after 1 January 2018.

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 2016 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 17/01/2017. 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

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, a remuneration committee has been established in the savings bank. 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 2016, the remuneration committee consisted of the following people:

Hanne Margrete Lenes Solem, chair
Sverre Nedberg, until 31 March 2016
Jorund Rønning Indrelid
Øivind Andersson, from 19 April 2016
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 seven meetings in 2016, two of which were joint meetings with the risk committee. In 2016, the audit committee consisted of the following people:

Øivind Andersson, chair
Sverre Nedberg, until 31 March 2016
Hanne Margrete Lenes Solem
Morten André Yttreide, from 19 April 2016

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 seven meetings in 2016, two of which were joint meetings with the audit committee. In 2016, the audit committee consisted of the following people:

Morten A. Yttreide, chair
Sverre Nedberg, until 31 March 2016
Elly Therese Thoresen
Øivind Andersson, from 19 April 2016

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 savings 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 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 savings bank has used the COSO model as a basis. 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. Furthermore, 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:

- Internal environment
The employees' attitude to risk is determined by the internal environment. This also includes the risk management philosophy and willingness to take risk, integrity and ethical values, and environment in which they operate.
- Establishment of objectives

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.

- **Identification of events**
Internal and external events that affect an 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.
- **Risk assessment**
Risks are analysed and probabilities and consequences assessed as a basis for deciding how they should be managed. Both inherent and residual risks are assessed.
- **Risk management**
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 and willingness to take risk.
- **Control activities**
Guidelines and routines are established and implemented in order to ensure that the risk management is executed effectively.
- **Information and communication**
Relevant information is identified, captured 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, free-standing evaluations, or both.

Roles and responsibilities

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.

The various roles

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 bank 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 bank 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 bank and ensure efficient follow-up.

The board is responsible for ensuring that capital planning and managing capital requirements are part of the bank's overall risk management. The board shall determine risk tolerance and the necessary capital requirements, capital plan with contingency plans, and capital goals. This is done via the annual ICAAP.

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 institution'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 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 policies at least annually
- Monitor compliance with the institution's risk policies
- Assess whether the pricing of the institution's products takes account of the institution's business model and risk strategy

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 bank'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 bank is properly organised, including ensuring that responsibilities are clearly allocated and duties divided as necessary. The CEO is responsible for ensuring that the

processes for assessing risks and the total risk linked to the operations and, based on this, assessing the total capital requirements for the operations, are implemented.

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 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 bank
- Contribute to the development of the bank'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 bank'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 bank.
- Test, assess and provide advice on internal control.
- Participate in meetings of the board's 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 advice to the board and executive management team regarding the bank'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 for the bank 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 good accounting practice 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.

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 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.

Administrative bodies

The savings bank's balance sheet steering committee holds regular meetings in which the status of, measures relating to, the liquidity situation are discussed. The balance sheet steering committee meets with the CEO, deputy CEO, general manager of Sparebanken Øst Boligkreditt AS/CFO and risk controller.

Within the private market, central credit departments have been established as the approval bodies for the granting of credit to private customers. Each individual credit department is located and organised as a unit, but considers various market channels. All of the departments are placed

organisationally under the credit director. Within all credit departments, individual authorisations and authorisation matrices have been established, to describe the existing authorisation hierarchy.

BM Credit is a central credit function and the body that approves credit granting to small business customers after processing via the savings bank's branch network. The department is structured as a single unit and has no sales responsibility. The department's employees have their own individual authorisations in accordance with the adopted authorisation matrix.

The credit department takes credit decisions above a certain size for customers in the business market and the private customer market. The department consists of 2 credit managers and 1 senior credit consultant. If the allocation of credit exceeds the authority given to the credit department, the case is considered by the credit department and is decided at an overall level in accordance with the current authorisation matrices. Smaller commitments are entered into in accordance with the adopted framework and personal authorisations held in the business market department.

The risk committee assesses risk exposure and conducts risk reporting. The committee also assesses capital requirements. The members of the committee are the credit manager BM, head of the RM credit department, financial manager, head of the SE department, IT manager and controllers. The committee's conclusions and comments are recorded in the minutes. Remarks recorded in the minutes, as well as a declaration that the risk report has been reviewed and exhibits the correct exposures, are submitted as an appendix to the risk report. The report is submitted to the board of directors on a quarterly basis.

The accounting department is responsible for financial reporting, internal financial management, taxes and duties.

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 all new customer undertakings.

Other bodies

A number of independent bodies undertake independent evaluations of the savings bank's profile, follow-up and organisation with regard to the handling of financial and operational risk. These include the internal auditor, external auditor and Moody's Investor Service.

Remuneration of the board of directors and elected representatives

The remuneration of the board of directors, board of trustees, control committee 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 2016.

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 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. 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 2017

Publication of quarterly results

	Publication	Presentation
• Preliminary results for 2016 (Q4 2016)	8 February 2017.	8 February 2017.
• ANNUAL financial statements for 2016	30 March 2017.	
• Ex. dividend date	31 March 2017	
• Dividend payment	11 April 2017	
• Q1 2017	9 May 2017.	10 May 2017.
• Q2 2017	13 July 2017.	13 July 2017.
• Q3 2017	31 October 2017.	1 November 2017.

Investor contacts

CEO Pål Strand
+47 916 24 428
paal.strand@oest.no

Deputy CEO Kjell Engen Sparebanken Øst
+47 957 75 003
kjell.engen@oest.no

Tel.: 03220
Postboks 67, N-3301 Hokksund
www.oest.no
firmapost@oest.no

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 2016 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 2016
Drammen, 8 March 2017

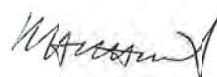
THE BOARD OF DIRECTORS OF SPAREBANKEN ØST



Jorund Rønning Indrelid
Chair



Knut Smedsrud
Deputy Chair



Morten André Yttreide
Board member



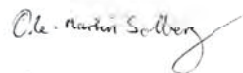
Øivind Andersson
Board member



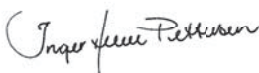
Hanne Margrete Lenes Solem
Board member



Elly Th. Thoresen
Board member



Ole-Martin Solberg
Employee representative



Inger Helen Pettersen
Employee representative



Pål Strand
CEO

STATEMENT OF INCOME

Group	Group			Parent bank	Parent bank
2016	2015	Figures in NOK millions	Notes	2016	2015
1.037,4	1.167,0	Interest income and similar income	23, 24	689,4	790,9
491,6	580,3	Interest costs and similar costs	23, 24, 50	357,3	447,3
545,8	586,7	NET INTEREST AND CREDIT COMMISSION INCOME		332,1	343,6
82,4	79,8	Commission income and income from banking services	26	94,1	89,7
39,7	39,2	Commission costs and costs from banking services	26	15,3	17,6
26,9	1,3	Dividends and other operating income from securities with variable yields	25	81,9	91,3
75,8	-42,7	Net value change and gains/losses on financial instruments	27	71,1	-46,3
27,2	61,0	Other operating income	28	5,3	4,7
156,8	166,8	Payroll, etc.	29, 47	131,6	139,8
48,0	51,7	Administration costs	31	40,7	44,6
28,7	17,9	Depreciation/write-downs and value change for non-financial assets	31, 37	11,4	10,9
50,8	52,7	Other operating costs	31, 32, 38	43,4	43,4
434,1	357,8	PROFIT/LOSS BEFORE LOSSES		342,1	226,7
6,7	18,1	Losses on loans and guarantees	11, 13	-2,8	7,3
427,4	339,7	PROFIT/LOSS BEFORE TAX COSTS		344,9	219,4
96,2	83,7	Tax costs	33	65,2	37,3
331,2	256,0	PROFIT FOR THE YEAR		279,7	182,1
6,02	4,79	Earnings per equity certificate	52	5,08	3,41
6,02	4,79	Diluted earnings per equity certificate	52	5,08	3,41

STATEMENT OF COMPREHENSIVE INCOME


Group	Group			Parent bank	Parent bank
2016	2015	Figures in NOK millions	Notes	2016	2015
331,2	256,0	PROFIT FOR THE YEAR		279,7	182,1
		Items that will not be reclassified to the statement of income			
2,9	29,8	Actuarial gains and losses on defined-benefit plans	47	3,1	27,4
-0,7	-7,4	Tax related to items that cannot be reclassified	33, 47	-0,8	-6,8
		Items that may later be reclassified to the statement of income			
-5,9	18,2	Changes in fair value of investments available for sale	27	-5,9	18,2
0,1	-0,1	Tax related to items that can be reclassified	27	0,1	-0,1
327,6	296,5	STATEMENT OF COMPREHENSIVE INCOME		276,2	220,8

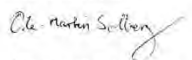
BALANCE SHEET

Group 31.12.16	Group 31.12.15	Figures in NOK millions	Notes	Parent bank 31.12.16	Parent bank 31.12.15
ASSETS					
311,9	378,0	Cash and receivables from central banks	19	311,9	378,0
9,5	8,1	Loans to and receivables from financial institutions	15, 19	1.740,2	2.101,3
29.695,7	27.975,8	Loans to and receivables from customers	11, 12, 13, 14, 19	19.156,6	17.717,9
4.285,1	4.554,6	Certificates, bonds, etc. at fair value	19, 22, 34	4.129,1	4.554,6
460,1	478,1	Shares and units	19, 22, 35	460,1	478,1
369,6	494,7	Financial derivatives	19, 20, 21, 22	186,5	282,5
205,4	205,6	Certificates and bonds, held to maturity	19, 22, 34	205,4	205,6
0,0	0,0	Ownership interests in group companies	36	888,5	887,5
0,0	0,0	Deferred tax asset	33	0,0	15,0
284,3	249,8	Investment properties	37	0,0	0,0
131,4	131,6	Tangible fixed assets	37	72,6	77,8
27,0	25,3	Other assets		4,2	4,0
14,7	7,5	Prepaid non-accrued costs and earned but not received income	39	15,1	8,0
35.794,7	34.509,1	TOTAL ASSETS		27.170,2	26.710,3
LIABILITIES AND EQUITY					
90,2	150,3	Liabilities to financial institutions	19, 40, 44	325,7	424,8
13.887,4	13.159,3	Deposits from and liabilities to customers	19, 41	13.896,2	13.179,5
47,5	68,4	Financial derivatives	19, 20, 21, 22	27,4	68,4
17.614,6	17.205,3	Securities issued	19, 42, 44	9.249,5	9.557,4
88,1	98,4	Tax payable	33	51,0	51,4
95,5	68,6	Other liabilities	45	89,9	52,4
30,5	34,9	Accruals and deferred income		25,5	28,9
38,6	59,7	Provisions for accrued costs and liabilities	46, 47	37,3	57,6
22,7	10,2	Deferred tax liability	33	3,6	0,0
703,5	702,9	Subordinated loan capital	19, 43, 44	703,5	702,9
32.618,6	31.558,0	TOTAL LIABILITIES		24.409,6	24.123,3
595,1	595,1	Paid-up equity	52	595,1	595,1
2.581,0	2.356,0	Retained earnings		2.165,5	1.991,9
3.176,1	2.951,1	TOTAL EQUITY	6	2.760,6	2.587,0
35.794,7	34.509,1	TOTAL LIABILITIES AND EQUITY		27.170,2	26.710,3

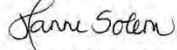
Hokksund, 31 December 2016
Drammen, 8 March 2017

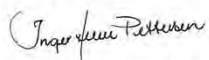

Jorund Rønning Indrelid
Chair

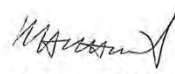

Øivind Andersson
Board member

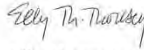

Ole-Martin Solberg
Employee representative


Knut Smedsrud
Deputy Chair


Hanne Margrete Lenes Solem
Board member


Inger Helen Pettersen
Employee representative


Morten André Yttreide
Board member


Elly Therese Thoresen
Board member


Pål Strand
CEO

CHANGES IN EQUITY - GROUP

Figures in NOK millions

2016	Total equity	Paid-up equity			Retained earnings		Available for sale reserve	Other equity
		Equity certificates	Share reserve	Equalisation fund	Primary capital	Endowment fund		
Equity as at 31.12.2015	2.951,1	207,3	387,8	341,2	1.432,1	38,1	180,5	364,1
Profit/loss	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 as 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.

See also Note 52 - Equity Certificates.

2015	Total equity	Paid-up equity			Retained earnings		Available for sale reserve	Other equity
		Equity certificates	Share reserve	Equalisation fund	Primary capital	Endowment fund		
Equity as at 31.12.2014	2.765,7	207,3	387,8	366,3	1.308,0	45,5	162,4	288,4
Profit/loss	256,0	0,0	0,0	70,6	111,5	0,0	0,0	73,9
Changes in fair value of investments in JV/AC	18,1	0,0	0,0	0,0	0,0	0,0	18,1	0,0
Actuarial gains and losses on defined-benefit plans	22,4	0,0	0,0	8,0	12,6	0,0	0,0	1,8
Other comprehensive income	296,5	0,0	0,0	78,6	124,1	0,0	18,1	75,7
Dividend to equity certificates holders 2014 - finally	-103,7	0,0	0,0	-103,7	0,0	0,0	0,0	0,0
Changes in endowment fund	-7,4	0,0	0,0	0,0	0,0	-7,4	0,0	0,0
Equity as at 31.12.2015	2.951,1	207,3	387,8	341,2	1.432,1	38,1	180,5	364,1

The year's proposed dividend of NOK 68.4 million remains part of the Equalisation Fund and the year's proposed dividend on social capital of NOK 34.2 million remains part of the primary capital until they are finally adopted by the board of trustees.

CHANGES IN EQUITY - PARENT BANK

2016	Total equity	Paid-up equity			Retained earnings		Available for sale reserve
		Equity certificates	Share reserve	Equalisation fund	Primary capital	Endowment fund	
Equity as at 31.12.2015	2.587,0	207,3	387,8	341,2	1.432,1	38,1	180,5
Profit/loss	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 as 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.

See also Note 52 - Equity Certificates.

2015	Total equity	Paid-up equity			Retained earnings		Available for sale reserve
		Equity certificates	Share reserve	Equalisation fund	Primary capital	Endowment fund	
Equity as at 31.12.2014	2.477,3	207,3	387,8	366,3	1.308,0	45,5	162,4
Profit/loss	182,1	0,0	0,0	70,6	111,5	0,0	0,0
Changes in fair value of investments in JV/AC	18,1	0,0	0,0	0,0	0,0	0,0	18,1
Actuarial gains and losses on defined-benefit plans	20,6	0,0	0,0	8,0	12,6	0,0	0,0
Other comprehensive income	220,8	0,0	0,0	78,6	124,1	0,0	18,1
Dividend to equity certificates holders 2014 - finally	-103,7	0,0	0,0	-103,7	0,0	0,0	0,0
Changes in endowment fund	-7,4	0,0	0,0	0,0	0,0	-7,4	0,0
Equity as at 31.12.2015	2.587,0	207,3	387,8	341,2	1.432,1	38,1	180,5

The year's proposed dividend of NOK 68.4 million remains part of the Equalisation Fund and the year's proposed dividend on social capital of NOK 34.2 million remains part of the primary capital until they are finally adopted by the board of trustees.

CASH FLOW STATEMENT

Group 2016	Group 2015	Figures in NOK millions	Note	Parent bank 2016	Parent bank 2015
Operating activities					
427,4	339,7	Profit/loss before tax costs		344,9	219,4
		Adjusted for:			
-2,3	3,3	Change in net interest income earned and accrued interest costs		-3,1	2,8
0,0	0,0	Net payment/disbursement of loans to financial institutions		362,6	236,5
-1.700,4	713,3	Net disbursement of loans to customers		-1.418,4	1.261,3
268,3	-650,3	Change in certificates and bonds at fair value		424,2	-650,3
-47,8	98,4	Change in other operating assets	51	-46,2	20,7
0,0	0,0	Net payment/disbursement of deposits with financial institutions		-39,0	15,4
729,0	-236,1	Net receipts/disbursement of deposits from customers		717,6	-238,9
-26,1	-11,5	Change in other operating liabilities		-13,6	-1,4
15,5	4,5	Non-cash items included in profit before tax	51	-4,6	-2,3
-17,9	-35,2	Net gains from investing activities		-17,9	-0,2
-0,1	4,0	Net losses from financing activities		0,9	2,2
		Net change in relation to investing activities		10,0	0,0
-98,4	-105,1	Taxes paid for the period		-51,4	-57,0
-452,8	125,0	Net cash flow from operating activities	A	266,0	808,2
Investing activities					
-63,9	-87,8	Payments on purchases of fixed assets		-6,8	-8,5
1,2	250,4	Proceeds from sale of fixed assets		0,9	0,4
9,7	1,1	Net proceeds/costs on the sale/purchase of financial investments		9,7	1,1
0,0	0,0	Net payment/disbursement concerning investments in subsidiaries		-11,0	-0,2
-53,0	163,7	Net cash flow from investing activities	B	-7,2	-7,2
Financing activities					
-60,0	-60,0	Net incoming/outgoing payments for loans to/from financial institutions		-60,0	-60,0
-4.386,4	-3.036,6	Payments on repayment of securities		-1.844,1	-2.250,7
4.955,9	2.808,7	Proceeds on issuance of securities		1.649,0	1.510,5
0,0	0,0	Proceeds on issuance of equity certificates		0,0	0,0
-68,4	-103,7	Payment of dividend		-68,4	-103,7
441,1	-391,6	Net cash flow from financing activities	C	-323,5	-903,9
-64,7	-102,9	Net change in cash and cash equivalents	A+B+C	-64,7	-102,9
386,1	489,0	Cash and cash equivalents as at 01.01.		386,1	489,0
321,4	386,1	Reserves of cash and cash equivalents as at 31.12.	51	321,4	386,1

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.....	41
NOTE 2 - ACCOUNTING POLICIES	41
NOTE 3 - ASSESSMENTS AND USE OF ESTIMATES	50
NOTE 4 - OPERATIONAL SEGMENTS	51
NOTE 5 - FINANCIAL RISK MANAGEMENT	52
NOTE 6 - CAPITAL ADEQUACY.....	55
NOTE 7 - CREDIT RISK.....	56
NOTE 8 - CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS.....	57
NOTE 9 - AGE DISTRIBUTION OF LOANS MATURED BUT NOT WRITTEN DOWN	59
NOTE 10 - CREDIT RISK BY RISK CLASS	60
NOTE 11 - DISTRIBUTION OF LOANS AND GUARANTEES FOR CUSTOMERS BY SECTOR, INDUSTRY AND GEOGRAPHY	63
NOTE 12 LOANS TO AND RECEIVABLES FROM CUSTOMERS.....	65
NOTE 13 - LOSSES ON LOANS AND GUARANTEES, CUSTOMERS.....	65
NOTE 14 - LOANS AND RECEIVABLES FROM CUSTOMERS RELATED TO FINANCIAL LEASES.....	68
NOTE 15 LOANS TO AND RECEIVABLES FROM FINANCIAL INSTITUTIONS.....	68
NOTE 16 - INTEREST RATE RISK	69
NOTE 17 - LIQUIDITY RISK.....	73
NOTE 18 - CURRENCY RISK	79
NOTE 19 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES.....	80
NOTE 20 - FINANCIAL DERIVATIVES	82
NOTE 21 - NETTING RIGHTS OF FINANCIAL INSTRUMENTS.....	84
NOTE 22 - FINANCIAL ASSETS AND LIABILITIES	84
NOTE 23 - ACCOUNT WITH GROUP COMPANIES.....	89
NOTE 24 - NET INTEREST AND CREDIT COMMISSION INCOME	90
NOTE 25 - DIVIDENDS AND OTHER INCOME FROM SECURITIES WITH VARIABLE YIELDS	91
NOTE 26 - NET COMMISSION INCOME	91
NOTE 27 - NET VALUE CHANGE AND GAINS/LOSSES FROM FINANCIAL INSTRUMENTS	91
NOTE 28 - OTHER OPERATING INCOME	92
NOTE 29 - SALARIES AND OTHER REMUNERATION.....	92
NOTE 30 - CLOSE ASSOCIATES.....	96
NOTE 31 - ADMINISTRATION AND OPERATING COSTS.....	97
NOTE 32 - AUDITOR'S REMUNERATION.....	97
NOTE 33 - TAXES	97
NOTE 34 - CERTIFICATES AND BONDS.....	98
NOTE 35 - SHARES AND EQUITY CERTIFICATES.....	100
NOTE 36 - OWNERSHIP INTERESTS IN GROUP COMPANIES	101
NOTE 37 - FIXED ASSETS AND INVESTMENT PROPERTIES	101
NOTE 38 - OPERATING LEASES.....	103
NOTE 39 - PREPAID NON-ACCRUED COSTS AND EARNED BUT NOT RECEIVED INCOME	103
NOTE 40 - LIABILITIES TO FINANCIAL INSTITUTIONS	103
NOTE 41 - DEPOSITS FROM AND LIABILITIES TO CUSTOMERS	104
NOTE 42 - SECURITIES ISSUED.....	104
NOTE 43 - SUBORDINATED LOAN CAPITAL	105
NOTE 44 - LONG-TERM BORROWING BY MATURITY	105
NOTE 45 - OTHER LIABILITIES	106
NOTE 46 - ALLOCATIONS FOR COSTS AND COMMITMENTS INCURRED.....	107
NOTE 47 - PENSION LIABILITIES	107
NOTE 48 - GUARANTEE LIABILITIES.....	112
NOTE 49 - PLEDGES AND RIGHTS.....	113
NOTE 50 - COSTS RELATED TO THE NORWEGIAN BANKS GUARANTEE FUND	113
NOTE 51 - ADDITIONAL INFORMATION CASH FLOW STATEMENT	113
NOTE 52 - EQUITY CERTIFICATES.....	114
NOTE 53 - ELECTED REPRESENTATIVES.....	117

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, Krokstad Terrasse 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, insurance, and property management.

The annual financial statements for 2016 were reviewed and approved by the board of directors of Sparebanken Øst on 8 March 2017.

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. CHANGES TO THE ACCOUNTING POLICIES

The accounting policies applied are generally unchanged from the policies applied to the 2015 annual financial statements, with the exception of the changes in IFRS that were implemented in the group in 2016. The changes in IFRS that are relevant to the group and that come into force in 2016, and their effect for the group's annual financial statements, are listed below.

Income-based depreciation methods – changes to IAS 16 and IAS 38

The change states that using income-based methods to calculate the depreciation of an asset is not permitted. The change also states that income is generally assumed not to be a correct basis for measuring the consumption of the financial benefits of an intangible asset. The change has been approved by the EU and comes into effect for the financial year starting after 01.01.16. The change has had no effect on the group's financial position, result and/or disclosures.

IAS 19 Employee Benefits

The change introduces an opportunity to recognise contributions from employees or third parties as a reduction in pension costs in the same period in which the contributions are payable if the contributions are exclusively linked to the employees' 'services' in the same period. The change has been approved by the EU with effect from the financial year starting after 1 February 2015 and must be implemented retrospectively. The changes have had no effect on the group's financial position, result and/or disclosures.

IFRS 8 Operating Segments

The change means that operating segments can be combined/merged if the merger is consistent with the standard's fundamental principles, if the segments have equivalent financial characteristics, and if, based on other qualitative aspects, they are equivalent. The change also means that information about the reconciliation of segment assets with total assets is only required if the reconciliation is reported to the most senior decision-maker. The same applies to segment liabilities. Resulted in no changes to the disclosures in the annual report's notes.

Annual improvement project 2010-2012

IAS 24 Related Party Disclosures

The amendment clarifies that an enterprise that provides management services and provides key personnel for the executive management team is a close associate (related party) subject to the disclosure requirements for close associates. In addition, a company that makes use of such services shall disclose the costs incurred for management services. The changes have been approved by the EU and apply from the financial year starting after 01.02.15. Resulted in no changes to the disclosures in the annual report's 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, Krokstad Terrasse 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 takeover 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 statement of income using the effective interest method. The effective interest is determined by discounting contractual cash flows within the expected maturity.

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 effective 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 performed. Charges associated with interest-bearing instruments are not recognised as commission, but are included in the calculation of effective interest rates and correspondingly recognised in income.

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, carried to 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, capitalised 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 is usually the transaction price. Financial assets and liabilities not classified in this category are measured at fair value plus/less directly attributable transaction costs on initial recognition.

6.2.3 Subsequent measurement

Measurement at fair value

In principle, observable market rates shall form the basis for the fair value of financial instruments. 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 according to the effective interest method. The true rate of interest is determined by discounting contractual cash flows within the expected term. Amortised cost is the present value of cash flows discounted by the true rate of interest.

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 valued at amortised cost, applying the effective interest method. Interest income on financial instruments classified as loans and receivables is included in "Interest income and similar income" in the income statement. Write-downs of loans for the period are recognised in the income statement under "Lending and guarantee losses". Interest calculated using the effective interest method on the impaired value of loans is included in 'Interest income and similar income'.

Non-performing and impaired 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. Declared losses that cannot be recovered from loss provisions, and any surplus or deficit in relation to previous write-downs, are recognised in the statement of income.

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 01.01.11 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 01.01.11 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.

Sparebanken Øst participates in a guarantee consortium in Eksportfinans ASA which supports Eksportfinans ASA's liquidity portfolio for value losses on credit risk. This guarantee is a derivative measured at fair value. See also note 20.

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'.

Hedge effectiveness must be able to be reliably measured. When the hedging relationship is entered into, the relationship between the hedging object and the hedging instrument is formally documented, including which risk is being hedged, the purpose and strategy for the hedge, and the method that will be used to calculate the effectiveness of the hedge. 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 operational leases.

The group as lessor

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 as a cost in the statement of income on a linear basis over the term of the lease, unless another systematic basis provides a better expression of the utility 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 'Salaries, 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 'Salaries, 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 bank's profit for the period divided by the weighted average number of equity certificates during the period.

15.2 Dividends

Dividends on equity certificates 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 disclosed if significant.

17. FUTURE CHANGES 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 will replace the current IAS 39 Financial Instruments: Recognition and Measurement and entails changes related to classification and measurement, hedge accounting and write-downs. The group will not exercise its option to implement the standard early. The standard will have accounting effect from 1 January 2018. The executive management team is currently assessing the consequences of implementing IFRS 9. IFRS 9 is expected to have the following effects:

Classification and measurement

The new standard will require 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 ('business model test') and the characteristics of the instruments' cash flow ('contractual cash flow test'). The measurement categories in IAS 39 will for financial assets 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 measuring financial liabilities under IFRS 9 are largely the same as those under IAS 39, except when it comes to 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 classification method is under consideration. Sparebanken Øst regularly transfers parts of its loan portfolio to its subsidiary Sparebanken Øst Boligkreditt AS, which issues covered bonds. On a consolidated basis, the loans are held to receive contractual cash flows, since the loans are not derecognised in the consolidated financial statements due to this transaction. The loans will be measured at amortised cost. As far as the group's investments in bonds are concerned, no conclusion has been reached concerning the extent to which a proportion of these will be classified at amortised cost. No final conclusion has been reached about whether the group's equity instruments that are classified as available for sale under IAS 39 will be classified at fair value with value changes through profit or loss or comprehensive income under IFRS 9. Besides this, the provisional assessment is that the implementation of IFRS 9 will not have any material effects.

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 group currently uses hedge accounting to hedge interest rate and currency risk for fixed-rate loans and borrowing in foreign currency, and the implementation of IFRS 9 is not expected to result in material effects for the group's financial position or the results of these hedging relationships. It is anticipated that it will be possible to use hedge accounting in those cases where derivative contracts are entered into in order to reduce hedged risk for the group's financial assets.

Write-downs

IFRS 9 will change the rules for writing down losses on financial assets that are debt instruments and that are measured at amortised cost or fair value with value changes through other comprehensive income. This will be of significance for the group's assessment of write-downs for losses on loans. 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. This is the part of the expected loss over the lifetime of the instrument that can be linked to the probability of default in the first 12 months. 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 total expected loss over the instrument's lifetime.

The group has established a joint project group. The project group has analysed historic losses, the development in defaults, and the development in commitments' risk classification distributed by groups of loans. Work has started on a model for write-downs and assessing the probability of losses and expected losses based on loans per risk class. The provisional assessment, based on the current financial situation and portfolio composition, is that the implementation of IFRS 9 is expected to result in no material changes to the group's write-downs of loans.

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 expected 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 two types of leases differently. The standard has not yet been approved by the EU. The group's provisional assessment is that the standard will result in changes in the recognition of leases for premises, which will affect the balance sheet.

IAS 7 Statement of Cash Flows

As part of the IASB's Disclosure Initiative, enterprises are required to provide explanatory information about changes in obligations that stem from financing activities: changes with and without cash flow effects. The changes must be

implemented prospectively and are expected to come into force on 1 January 2017. The changes are not expected to affect the group's cash flow statement or associated explanatory information.

IAS 12 Income Taxes

IAS 12 has been clarified with respect to how enterprises should record assets in the event of deferred tax linked to unrealised losses on debt instruments measured at fair value. It specifies that an enterprise must assess the extent to which tax rules result in limitations regarding the sources of taxable income to which deductions can be made when temporary differences are reversed. The changes must be implemented retrospectively and are expected to come into force on 1 January 2017. The changes are not expected to affect the group's accounting treatment of assets in the event of deferred tax and/or disclosures.

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 comprise net interest income, while income from Sparebanken Øst Eiendom AS primarily comprises income from leasing. 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 2016 and 2015.

Income statement

2016	RM	BM	Finance	AS Financiering	Spb Øst Eiendom	Unallocat ed	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
Losses on lending, guarantees, 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

Income statement

2015	RM	BM	Finance	AS Financiering	Spb Øst Eiendom	Unallocat ed	Eliminations	Group
Net interest and commission income	339.6	129.8	-26.8	120.0	-5.2	29.6	-0.3	586.7
Other operating income	53.1	12.4	-47.6	-18.8	63.4	0.8	-3.1	60.2
Operating costs	64.1	22.7	0.0	35.6	18.9	156.3	-8.5	289.1
Profit/loss before losses	328.6	119.5	-74.4	65.6	39.3	-125.9	5.1	357.8
Losses on lending, guarantees, etc.	-0.2	7.5	0.0	10.8	0.0	0.0	0.0	18.1
Profit/loss before tax costs	328.8	112.0	-74.4	54.8	39.3	-125.9	5.1	339.7
Tax costs	0.0	0.0	0.0	15.1	0.1	67.2	1.3	83.7
Profit/loss after tax	328.8	112.0	-74.4	39.7	39.2	-193.1	3.8	256.0

Balance sheet

2016	RM	BM	Finance	AS Financiering	Spb Øst Eiendom	Unallocat ed	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
---------------------------	------------	------------	------------	------------	------------	-------------	------------	-------------

Balance sheet

2015	RM	BM	Finance	AS Financiering	Spb Øst Eiendom	Unallocate d	Eliminations	Group
Net loans to and receivables from customers	21,914.9	3,906.6	0.0	1,674.3	0.0	666.2	-186.2	27,975.8
Other assets	14.7	0.0	5,145.7	18.3	342.0	2,677.8	-1,665.2	6,533.3
Total assets	21,929.6	3,906.6	5,145.7	1,692.6	342.0	3,344.0	-1,851.4	34,509.1
Deposits from and liabilities to customers	9,354.1	2,445.2	1,258.7	18.2	0.0	118.2	-35.1	13,159.3
Other liabilities/offsetting	12,575.5	1,461.4	3,887.0	1,456.7	228.1	429.9	-1,639.9	18,398.7
Equity	0.0	0.0	0.0	217.7	113.9	2,795.9	-176.4	2,951.1
Total liabilities and equity	21,929.6	3,906.6	5,145.7	1,692.6	342.0	3,344.0	-1,851.4	34,509.1
Year's investments	0.0	0.0	0.0	2.1	77.7	8.5	0.0	88.3

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 by classifying the risk a customer represents is an integral part of the credit process.

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 2016 was 86% of gross lending to retail customers and 14% 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 proximity to Oslo provides both the retail customer and business customer departments with a large market area with flexibility with regard to customers and markets.

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 56% 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%. 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 13% of the business market portfolio and the ten largest for no more than 25%.

In its lending operations as at 31 December 2016, apart from commitments with its own subsidiaries (AS Finansiering and Sparebanken Øst Boligkreditt AS), the bank had no exposures to external customers exceeding 10% of its primary capital. As at 31 December 2016, loans to the group's largest loan customer represented 0.5% of gross lending. The group's ten largest loan customers represented 3.2% of gross lending, and the group's 20 largest loan customers represented 5.0% 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.

Interest rate risk

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.

Credit spread risk

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.

Currency risk

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.

Equities risk

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 -1.4 million in the income statement and NOK -44.5 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's exposure to loans/credit without associated security is low.

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, the distribution of borrowing between an adequate number of countries, and managing liquidity needs 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 diversify 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. Adjustments to the range of products available to our customers have led to an increased inflow of deposits. Topprente.no has made a particular contribution to stabilising the bank's deposit coverage ratio. Topprente.no is a self-service concept which provides an opportunity to offer customers competitive deposit terms. As at 31 December 2016, deposits from customers amounted to 46.8% of the group's net lending, compared to 47.0% as at 31 December 2015.

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 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 2016	Group 2015		Parent bank 2016	Parent bank 2015
		CET1 capital		
3,176.1	2,951.1	Book equity	2,760.5	2,587.0
		Deduction items in CET1 capital		
-5.1	-5.6	Additional value adjustments (prudent valuation requirement) (AVA)	-4.8	-5.4
-124.4	-102.6	Dividends	-124.4	-102.6
0.0	-0.1	Intangible assets	0.0	-0.1
0.0	0.0	CET1 capital instruments in other fin. inst. (not significant)	0.0	-6.7
0.0	0.0	CET1 capital instruments in other fin. inst. (significant)	0.0	0.0
3,046.5	2,842.9	Total CET1 capital	2,631.3	2,472.2
		Other tier 1 capital		
349.6	349.3	Hybrid tier 1 capital	349.6	349.3
		Deductions from other tier 1 capital		
0.0	0.0	Other tier 1 capital instruments other fin. inst. (not significant)	0.0	-5.0
0.0	0.0	Other tier 1 capital instruments other fin. inst. (significant)	0.0	0.0
349.6	349.3	Total other tier 1 capital	349.6	344.3
3,396.0	3,192.2	Total tier 1 capital	2,980.9	2,816.5
		Tier 2 capital		
349.7	349.5	Subordinated loans	349.7	349.5
		Deductions from tier 2 capital		
0.0	0.0	Tier 2 capital instruments in other fin. inst. (not significant)	0.0	-7.2
0.0	0.0	Tier 2 capital instruments in other fin. inst. (significant)	0.0	0.0
349.7	349.5	Total tier 2 capital	349.7	342.3
3,745.7	3,541.7	Net primary capital	3,330.6	3,158.8
		Calculation basis		
0.0	0.0	Governments and central banks	0.0	0.0
135.8	162.1	Local and regional authorities	135.8	162.1
0.0	0.0	Publicly owned companies	0.0	0.0
0.0	0.0	Multilateral development banks	0.0	0.0
202.4	272.0	Institutions	2,492.0	2,399.4
454.8	433.1	Companies	691.0	621.3
1,522.3	1,553.7	Mass market accounts	255.2	314.9
12,077.9	11,541.0	Accounts secured against property	8,695.4	8,239.4
171.4	178.0	Accounts due	134.3	151.3
232.3	239.6	Covered bonds	222.2	239.6
0.0	0.0	Shares in securities fund	0.0	0.0
810.1	827.7	Equity positions	1,743.7	1,741.3
480.3	427.0	Other exposures	114.7	140.0
62.4	65.4	Securitisation	62.4	65.4
16,149.7	15,699.5	Calculation basis, credit and counterparty risk	14,546.8	14,074.8
0.0	0.0	Calculation basis, currency risk	0.0	0.0
1,283.5	1,393.5	Calculation basis, operational risk	807.6	1,106.6

263.5	359.5	Calculation basis, impaired counterparty credit rating (CVA)	103.5	157.1
17,696.7	17,452.6	Total calculation basis	15,457.9	15,338.5
17.21 %	16.29 %	CET1 capital ratio	17.02 %	16.12 %
19.19 %	18.29 %	Tier 1 capital ratio	19.28 %	18.36 %
21.17 %	20.29 %	Capital adequacy ratio	21.55 %	20.59 %

Group 2016	Group 2015	Buffers	Parent bank 2016	Parent bank 2015
442.4	436.3	Capital conservation buffer	386.4	383.5
265.5	174.5	Countercyclical buffer	231.9	153.4
530.9	523.6	Systemic risk buffer	463.7	460.2
0.0	0.0	Buffer for systemically important banks	0.0	0.0
1,238.8	1,134.4	Total buffer requirements	1,082.1	997.0
2,250.1	2,057.5	Available buffer capital	1,935.7	1,782.0
9.24%	8.97%	Leverage ratio*	7.89%	7.77%

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

The bank uses the standardised approach to calculate the minimum subordinate capital requirement for credit risk. The calculation related to operational risk is performed according to the basis method. The capital charge for credit value adjustment (CVA) is calculated using the standardised approach. Exposure amounts for derivatives are calculated using the market value method.

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 from 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 2016	Group 2015		Parent bank 2016	Parent bank 2015
		Liabilities		
196.7	78.9	Loan pledges	180.7	40.9
1,537.4	1,586.8	Overdraft facilities	2,774.3	2,417.6
154.1	143.7	Guarantees to customers	153.4	141.8
72.7	242.0	Guarantee to Eksportfinans ASA	72.7	242.0
0.0	0.0	Guarantee for all covered bond obligations in the mortgage credit company*	8,183.9	7,423.0
1,960.9	2,051.4	Total liabilities	11,365.0	10,265.3

* 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.

The Ministry of Finance implemented, with effect from 1 July 2015, the 'Regulations relating to new home mortgages', which replaced the Financial Supervisory Authority of Norway's 'Guidelines for responsible lending practises for mortgage lending' from 2011. The Mortgage Regulations from 1 July 2015 were, from and including 1 January 2017, replaced by new Mortgage Regulations in which changes were made in relation to the original Regulations. Sparebanken Øst has, from and including 1 July 2017, adapted to the new 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 will adapt to the new loan-to-value ratios 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 risk classification model for business customers strongly emphasises key figures linked to ability and willingness to pay. Commitment size and risk classification are key elements in building up the bank's authorisation structure within the business market. The bank's risk classification in the business market is based on a scale consisting of eleven categories.

In 2016, the bank changed risk classification in the retail market from the previous five to eleven categories. Adjustments have also been made to the underlying explanatory variables, as well as the weightings between the various parameters that make up the classification model. In the retail market, it is the key figures linked to ability and willingness to pay that form the risk class.

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, indicative ratings from Norwegian brokers as well as internal assessments are used. A majority of Nordic banks' brokers stopped publishing indicative ratings in 2016. In the absence of such ratings, the bank must assess counterparty risk based on its own internal assessments.

Ratings from credit rating agencies and indicative ratings 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 31.12.2016.

	Not due or written down				Due	Individually written down	Total
	Low risk	Moderate risk	High risk	Unclassified			
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

Group as at 31.12.2015

	Not due or written down				Due	Individually written down	Total
	Low risk	Moderate risk	High risk	Unclassified			
Loans							
Loans to and receivables from financial institutions	8.1	0.0	0.0	0.0	0.0	0.0	8.1
Loans to and receivables from customers							
- Financial leases	13.8	2.1	2.2	0.2	4.7	1.7	24.7
- Overdraft facilities and operating credits	1,846.7	82.2	208.1	12.5	89.8	10.5	2,249.8
- Building loans	100.3	154.4	4.1	1.6	37.5	0.0	297.9
- Repayment loans	21,424.1	2,377.5	548.2	186.6	786.3	205.1	25,527.8
Total loans	23,393.0	2,616.2	762.6	200.9	918.3	217.3	28,108.3
Financial investments							
Listed government bonds	205.6	0.0	0.0	0.0	0.0	0.0	205.6
Listed other bonds	3,266.0	172.4	0.0	0.0	0.0	0.0	3,438.4
Unlisted bonds	1,101.2	15.0	0.0	0.0	0.0	0.0	1,116.2
Total financial investments	4,572.8	187.4	0.0	0.0	0.0	0.0	4,760.2

Parent bank as at 31.12.2016.

	Not due or written down				Due	Individually written down	Total
	Low risk	Moderate risk	High risk	Unclassified			

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

Parent bank as at 31.12.2015

	Not due or written down				Due	Individually written down	Total
	Low risk	Moderate risk	High risk	Unclassified			
Loans							
Loans to and receivables from financial institutions	2,101.3	0.0	0.0	0.0	0.0	0.0	2,101.3
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	1,021.8	43.2	204.2	5.8	66.6	10.5	1,352.1
- Building loans	100.3	154.4	4.1	1.6	37.5	0.0	297.9
- Repayment loans	13,866.9	1,379.0	314.9	109.4	342.5	115.0	16,127.7
Total loans	17,090.3	1,576.6	523.2	116.8	446.6	125.5	19,879.0
Financial investments							
Listed government bonds	205.6	0.0	0.0	0.0	0.0	0.0	205.6
Listed other bonds	3,266.0	172.4	0.0	0.0	0.0	0.0	3,438.4
Unlisted bonds	1,101.2	15.0	0.0	0.0	0.0	0.0	1,116.2
Total financial investments	4,572.8	187.4	0.0	0.0	0.0	0.0	4,760.2

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

Group as at 31.12.2015

	Up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Loans to and receivables from customers					
- Financial leases	4.6	0.1	0.0	0.0	4.7
- Overdraft facilities and operating credits	83.5	3.9	1.5	0.9	89.8
- Building loans	37.5	0.0	0.0	0.0	37.5
- Repayment loans	542.1	147.8	62.4	34.0	786.3
Total	667.7	151.8	63.9	34.9	918.3

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

Parent bank as at 31.12.2015

	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	60.3	3.9	1.5	0.9	66.6
- Building loans	37.5	0.0	0.0	0.0	37.5
- Repayment loans	233.2	59.4	15.9	34.0	342.5
Total	331.0	63.3	17.4	34.9	446.6

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.

Risk categories	2016						2015					
	Gross loans	Guarantees	Overdraft facil.	Individ. write-downs	Commitments	%	Gross loans	Guarantees	Overdraft facil.	Individ. write-downs	Commitments	%
A-B	796	14	61	0	871	19	761	22	102	0	885	19
C-D	2,411	96	123	0	2,630	58	2,029	58	101	0	2,188	48
E-F	715	31	37	0	783	17	1,120	54	122	0	1,296	28
G-I	78	1	1	0	80	2	46	2	5	0	53	1
J-K	79	2	0	5	81	2	159	2	0	18	161	4
Unallocated	71	7	22	0	100	2	13	1	4	0	18	0
Total	4,150	151	244	5	4,545	100	4,128	139	334	18	4,601	100

Risk classification in the business market is based on eleven categories, from A to K. Risk class A represents the lowest risk and risk class K represents the highest risk. 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 portfolio is reclassified at least once a year, from and including 2016.

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 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. 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 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 reclassification system in the retail market was changed at the start of 2016 with respect to scaling underlying elements, weighting, and number of categories. The entire portfolio was reclassified in relation to the new risk classification model.

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.

Risk categories*	2016						2015					
	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-B (A)	9,192	2	583	0	9,777	63	10,997	2	532	0	11,531	81
C-D (B)	4,078	0	92	0	4,170	26	1,687	0	59	0	1,746	12
E-F (C)	1,415	0	27	0	1,442	9	498	1	16	0	515	4
G-I (D)	320	0	4	0	324	2	266	0	5	0	271	2
J-K (E)	25	0	0	1	25	0	94	0	0	2	94	1
Unallocated	19	0	5	0	24	0	108	0	15	0	123	0
Total	15,049	2	711	1	15,762	100	13,650	3	627	2	14,280	100

*The risk classification system for retail customers was divided into eleven risk categories in 2016, compared with five in 2015.

As a consequence of the changes to the risk classification model (as described above), the scales were tightened in relation to the underlying parameters and overall. This means that the requirements for achieving the best risk classes were tightened with the result that the portfolio is somewhat more broadly distributed within the risk classes than in previous years. The differences from 2015 to 2016 are due to these changes. The bank's underlying credit guidelines were not changed during the period.

In the retail market, the portfolio from and including 2016 was distributed on the basis of risk classification based on eleven categories: from A to K. Risk class A represents the lowest risk and risk class K represents the highest risk. 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.

Exposure limits have been adopted by the board 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. 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 where updated from and including 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.

Total portfolio - parent bank

Risk categories*	2016						2015					
	Gross loans	Guarantees	Overdraft facil.	Individ. write-downs	Commitments	%	Gross loans	Guarantees	Overdraft facil.	Individ. write-downs	Commitments	%
A-B (A)	9,988	16	644	0	10,648	52	11,758	24	634	0	12,416	66
C-D (B)	6,489	96	215	0	6,800	33	3,716	58	160	0	3,934	21
E-F (C)	2,130	31	64	0	2,225	11	1,618	55	138	0	1,811	10
G-I (D)	398	1	5	0	404	2	312	2	10	0	324	2
J-K (E)	104	2	0	6	106	1	253	2	0	20	255	1
Unallocated	90	7	27	0	124	1	121	1	19	0	141	0
Total	19,199	153	955	6	20,307	100	17,778	142	961	20	18,881	100

*The risk classification system for retail customers was divided into eleven risk categories in 2016, compared with five in 2015.

Collective write-downs of loans to customers in the parent bank amounted to a total of NOK 37.0 million as at 31 December 2016.

Total portfolio - group

Risk categories*	2016						2015					
	Gross loans	Guarantees	Overdraft facil.	Individ. write-downs	Commitments	%	Gross loans	Guarantees	Overdraft facil.	Individ. write-downs	Commitments	%
A-B (A)	16,329	16	1,161	5	17,506	55	18,931	24	1,166	1	20,121	68
C-D (B)	8,701	97	252	3	9,050	29	5,179	60	229	2	5,468	18
E-F (C)	3,677	31	86	20	3,794	12	2,876	55	154	24	3,085	10
G-I (D)	797	1	8	21	806	3	570	2	12	22	584	2
J-K (E)	184	2	0	18	186	1	338	2	1	32	341	1
Unallocated	115	7	30	0	152	0	206	1	25	0	232	1
Total	29,803	154	1,537	67	31,494	100	28,100	144	1,587	81	29,831	100

*The risk classification system for retail customers was divided into eleven risk categories in 2016, compared with five in 2015.

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 and leasing. 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 2016 amounted to a total of NOK 9.5 million, compared with NOK 10.8 million in 2015. Book losses in 2016 amounted to 0.53% of gross lending. The corresponding

figure for 2015 was 0.62%. Collective write-downs of loans to customers in the group amounted to a total of NOK 40.3 million as at 31 December 2016.

Security in relation to loans to customers – group 31.12.2016

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	31,494.4	62,813.2	131.7	2,688.3

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 37.4 million (NOK 54.8 million in 2015). The book value non-performing and impaired, but not written down, loans was NOK 37.7 million (NOK 54.9 million in 2015). The estimated fair value of security for loans written down was NOK 52.8 million (NOK 64.9 million in 2015), 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 2.1 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 5.0 million in 2016. Non-performing and impaired loans amounted to NOK 0.0 million in 2015.

AS Financiering has an estimated 40.0% (34.3% in 2015) 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	
	2016	2015	2016	2015	2016	2015	2016	2015
Salaried employees	25,771.4	24,049.8	2.6	2.4	1,298.9	1,258.9	9.4	10.1
Agriculture, forestry and fishing	111.2	130.2	0.5	0.6	16.9	18.1	0.0	0.0
Industry, mining, power and water	94.0	93.1	11.7	12.2	15.0	19.3	0.3	-4.1
Building and construction	474.4	587.9	63.4	50.7	88.6	145.2	0.8	7.3
Wholesale and retail trade, hotels and restaurants	242.3	284.4	24.7	26.5	39.3	48.9	-0.6	0.1
Transport and communications	53.1	56.5	7.5	9.3	5.0	4.9	0.0	0.0
Business financial services	119.1	87.3	1.0	2.0	6.2	9.8	0.8	0.3
Other service industries	628.2	532.7	10.5	5.8	24.1	19.4	-0.3	-0.4
Real estate sales and operation	2,276.6	2,248.7	32.2	34.2	42.8	60.9	-0.8	4.7
Abroad	33.0	29.6	0.0	0.0	0.6	1.4	0.2	0.1
Group write-downs, industry	0.0	0.0	0.0	0.0	0.0	0.0	-3.1	0.0
Total	29,803.3	28,100.2	154.1	143.7	1,537.4	1,586.8	6.7	18.1

	Non-performing commitments		Impaired commitments		Individual write-downs		Collective write-downs of loans*	
	2016	2015	2016	2015	2016	2015	2016	2015
Salaried employees	140.0	128.0	0.1	1.8	60.1	60.4	4.9	4.9
Agriculture, forestry and fishing	0.2	0.8	0.0	0.0	0.2	0.2	0.0	0.0
Industry, mining, power and water	0.0	0.0	2.0	0.0	0.3	0.0	0.0	0.0
Building and construction	52.9	54.5	0.0	0.0	0.4	3.6	0.0	0.0
Wholesale and retail trade, hotels and restaurants	0.5	2.8	0.0	0.0	0.5	2.4	0.0	0.0
Transport and communications	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Business financial services	0.7	2.8	1.0	0.0	0.6	0.1	0.0	0.0
Other service industries	0.2	8.1	0.0	0.0	0.2	0.2	0.0	0.0
Real estate sales and operation	7.1	33.1	0.0	7.7	3.7	13.3	0.0	0.0
Abroad	2.4	1.1	0.0	0.0	1.3	0.8	0.0	0.0
Group write-downs, industry	0.0	0.0	0.0	0.0	0.0	0.0	35.4	38.5
Total	204.0	233.4	3.1	9.5	67.3	81.0	40.3	43.4

* 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	
	2016	2015	2016	2015	2016	2015	2016	2015
Salaried employees	15,033.7	13,628.9	2.6	2.4	710.8	625.2	0.1	-0.3
Agriculture, forestry and fishing	110.9	128.8	0.5	0.6	16.9	18.1	0.0	0.0
Industry, mining, power and water	88.2	86.9	11.7	12.2	15.0	19.3	0.3	-4.1
Building and construction	461.1	576.9	63.5	50.7	87.2	143.9	0.8	7.3
Wholesale and retail trade, hotels and restaurants	221.8	259.6	23.9	25.7	39.3	48.9	-0.6	-0.1
Transport and communications	41.2	49.7	7.5	9.3	5.0	4.9	0.0	0.0
Business financial services	112.9	78.6	1.0	2.0	6.2	9.8	0.8	0.3
Other service industries	610.8	521.7	10.5	5.8	24.1	19.4	-0.3	-0.5
Real estate sales and operation	2,506.3	2,430.6	32.2	33.1	49.5	69.6	-0.8	4.7
Abroad	12.5	16.0	0.0	0.0	0.6	1.4	0.0	0.0
Group write-downs, industry	0.0	0.0	0.0	0.0	0.0	0.0	-3.1	0.0
Total	19,199.4	17,777.7	153.4	141.8	954.6	960.5	-2.8	7.3

	Non-performing commitments		Impaired commitments		Individual write-downs		Collective write-downs of loans*	
	2016	2015	2016	2015	2016	2015	2016	2015
Salaried employees	40.7	39.2	0.1	1.4	0.9	1.4	1.6	1.6
Agriculture, forestry and fishing	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Industry, mining, power and	0.0	0.0	2.0	0.0	0.3	0.0	0.0	0.0

water								
Building and construction	52.6	54.3	0.0	0.0	0.3	3.5	0.0	0.0
Wholesale and retail trade, hotels and restaurants	0.0	1.9	0.0	0.0	0.0	1.5	0.0	0.0
Transport and communications	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Business financial services	0.7	2.8	1.0	0.0	0.6	0.1	0.0	0.0
Other service industries	0.0	7.7	0.0	0.0	0.0	0.0	0.0	0.0
Real estate sales and operation	7.1	32.9	0.0	7.7	3.7	13.2	0.0	0.0
Abroad	0.5	0.0	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	35.4	38.5
Total	101.6	141.6	3.1	9.1	5.8	19.7	37.0	40.1

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

Geographical distribution

Group Gross loans		Group Guarantees			Parent bank Gross loans		Parent bank Guarantees	
2016	2015	2016	2015		2016	2015	2016	2015
4,513.1	4,168.1	22.7	25.6	Drammen	3,694.9	3,255.5	22.7	24.5
2,373.0	2,335.7	17.9	21.7	Nedre Eiker	1,822.1	1,718.4	17.9	21.7
1,907.9	1,894.4	19.6	17.4	Øvre Eiker	1,523.6	1,448.6	19.6	17.4
2,522.0	2,211.6	8.9	8.2	Other parts of Buskerud	1,940.4	1,645.9	8.9	8.2
5,977.3	5,543.4	24.7	23.6	Oslo	3,535.7	3,465.4	24.0	22.8
5,668.5	5,384.9	47.5	34.9	Akershus	3,368.6	3,179.6	47.5	34.9
2,569.7	2,358.8	12.7	12.2	Vestfold	1,874.7	1,641.5	12.7	12.2
1,523.9	1,317.9	0.1	0.1	Østfold	882.7	737.2	0.1	0.1
2,714.9	2,855.8	0.0	0.0	Rest of Norway	544.2	669.6	0.0	0.0
33.0	29.6	0.0	0.0	Abroad	12.5	16.0	0.0	0.0
29,803.3	28,100.2	154.1	143.7	Total	19,199.4	17,777.7	153.4	141.8

NOTE 12 LOANS TO AND RECEIVABLES FROM CUSTOMERS

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
20.7	24.7	Financial leases	0.0	0.0
2,368.2	2,249.8	Overdraft facilities and operating credits	1,664.1	1,352.1
101.3	297.9	Building loans	101.3	297.9
27,313.1	25,527.8	Repayment loans	17,434.0	16,127.7
29,803.3	28,100.2	Gross loans to and receivables from customers	19,199.4	17,777.7
67.3	81.0	Individual write-downs	5.8	19.7
40.3	43.4	Collective write-downs of loans	37.0	40.1
29,695.7	27,975.8	Net loans to and receivables from customers	19,156.6	17,717.9

NOTE 13 - LOSSES ON LOANS AND GUARANTEES, CUSTOMERS

Group 2016	Group 2015	Parent bank 2016	Parent bank 2015
---------------	---------------	------------------------	------------------------

Individual write-downs

81.0	94.3		Individual write-downs as at 01.01.	19.7	31.7
14.9	12.5	-	Actual losses for the period, where there have previously been individual write-downs	9.1	8.6
8.5	9.7	+	Increased individual write-downs for the period	3.1	2.9
10.6	9.7	+	New individual write-downs for the period	1.0	3.2
17.9	20.2	-	Reversed individual write-downs for the period	8.9	9.5
67.3	81.0	=	Individual write-downs as at 31.12	5.8	19.7
Collective write-downs of loans					
43.4	43.4		Collective write-downs of loans as at 01.01.	40.1	40.1
-3.1	0.0	+/-	Change in collective write-downs of loans for the period	-3.1	0.0
40.3	43.4	=	Collective write-downs of loans as at 31.12	37.0	40.1
Loss costs for the period					
-13.7	-13.3		Change in individual write-downs for the period	-13.9	-12.0
-3.1	0.0	+/-	Change in collective write-downs of loans for the period	-3.1	0.0
22.3	19.9	+	Actual losses for the period, where there have previously been individual write-downs	16.5	16.0
8.6	13.5	+	Actual losses for the period, where there have not previously been individual write-downs	0.5	0.5
11.0	9.5	-	Recovery of previously identified losses during the period	6.5	4.7
3.6	7.5	+/-	Amortisation cost of write-downs during the period	3.7	7.5
6.7	18.1	=	Losses on loans and guarantees	-2.8	7.3
36.1	21.1		Income interest on loans written down	28.7	14.1

Losses on loans 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
----------------------------------	------	------	-----	-----

Losses on loans and guarantees by class as at 31.12.2015

	RM	BM	AS Financiering	Total
Individual write-downs				
Individual write-downs as at 01.01.	0.5	31.2	62.6	94.3
- Actual losses for the period, where there have previously been individual write-downs	0.0	8.6	3.9	12.5
+ Increased individual write-downs for the period	0.0	2.9	6.8	9.7
+ New individual write-downs for the period	0.0	3.2	6.5	9.7
- Reversed individual write-downs for the period	0.1	9.4	10.7	20.2
= Individual write-downs as at 31.12	0.4	19.3	61.3	81.0
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	0.0	0.0	0.0
= Collective write-downs of loans as at 31.12	1.6	38.5	3.3	43.4
Loss costs for the period				
Change in individual write-downs for the period	-0.1	-11.9	-1.3	-13.3
+/- Change in collective write-downs of loans for the period	0.0	0.0	0.0	0.0
+ Actual losses for the period, where there have previously been individual write-downs	0.0	16.0	3.9	19.9
+ Actual losses for the period, where there have not previously been individual write-downs	0.3	0.2	13.0	13.5
- Recovery of previously identified losses during the period	0.2	4.5	4.8	9.5
+/- Amortisation cost of write-downs during the period	-0.2	7.7	0.0	7.5
= Losses on loans and guarantees	-0.2	7.5	10.8	18.1

Change in non-performing and impaired commitments

Group 2016	Group 2015	Group 2014	Group 2013	Group 2012		Parent bank 2016	Parent bank 2015	Parent bank 2014	Parent bank 2013	Parent bank 2012
204.0	233.4	400.1	458.9	349.8	Gross non-performing commitments	101.6	141.6	295.8	365.1	265.9
66.4	80.0	85.4	82.9	83.8	– Individual write-downs	4.9	18.9	22.8	24.4	30.2
137.6	153.4	314.7	376.0	266.0	Net non-performing commitments	96.7	122.7	273.0	340.7	235.7
3.1	9.5	23.7	41.3	76.9	Gross impaired commitments	3.1	9.1	23.7	40.1	75.3
0.9	1.0	8.9	15.1	21.6	– Individual write-downs	0.9	0.8	8.9	14.9	21.1
2.2	8.5	14.8	26.2	55.3	Net impaired commitments	2.2	8.3	14.8	25.2	54.2

Non-performing and impaired commitments

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
Non-performing commitments over 90 days				
62.4	104.7	Business market	61.1	102.4
141.6	128.7	Retail market	40.5	39.2
204.0	233.4	Gross non-performing commitments	101.6	141.6
66.4	80.0	Individual write-downs	4.9	18.9
137.6	153.4	Net non-performing commitments	96.7	122.7
33%	34%	Provisions ratio	5%	13%
Impaired (not non-performing) commitments				
3.0	7.7	Business market	3.0	7.7
0.1	1.8	Retail market	0.1	1.4
3.1	9.5	Gross impaired commitments	3.1	9.1
0.9	1.0	Individual write-downs	0.9	0.8

2.2	8.5	Net impaired commitments	2.2	8.3
29%	11%	Provisions ratio	29%	9%
Gross non-performing and impaired commitments				
65.4	112.4	Business market	64.1	110.1
141.7	130.5	Retail market	40.6	40.6
207.1	242.9	Gross non-performing and impaired commitments	104.7	150.7
67.3	81.0	Individual write-downs	5.8	19.7
139.8	161.9	Net non-performing and impaired commitments	98.9	131.0
32%	33%	Provisions ratio	6%	13%

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 2016	Group 2015		Parent bank 2016	Parent bank 2015
3.0	4.1	Within 1 year	0.0	0.0
14.4	17.4	Between 1 to 5 years	0.0	0.0
4.6	5.4	After 5 years	0.0	0.0
22.0	26.9	Gross receivables from financial leases	0.0	0.0
2.1	3.5	Non-accrued income from financial leases	0.0	0.0
19.9	23.4	Net receivables from financial leases	0.0	0.0
2.8	2.9	Within 1 year	0.0	0.0
13.0	15.8	Between 1 to 5 years	0.0	0.0
4.1	4.7	After 5 years	0.0	0.0
19.9	23.4	Net investments associated with financial leases	0.0	0.0
0.9	1.2	Accumulated loss provisions for outstanding minimum lease amounts	0.0	0.0

NOTE 15 LOANS TO AND RECEIVABLES FROM FINANCIAL INSTITUTIONS

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
9.5	8.1	Loans to and receivables from financial institutions without agreed maturities or deadline for termination	9.5	8.1
0.0	0.0	Loans to and receivables from financial institutions with agreed maturities or deadline for termination	1,730.7	2,093.2
9.5	8.1	Gross loans to and receivables from financial institutions	1,740.2	2,101.3
0.0	0.0	Individual write-downs	0.0	0.0
0.0	0.0	Collective write-downs of loans	0.0	0.0
9.5	8.1	Net loans to and receivables from financial institutions	1,740.2	2,101.3

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 2016 and amounts to the 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 31.12.2016.

Currency	Increase in basis points	Sensitivity - result	Sensitivity - equity	Reduction in basis points	Sensitivity - result	Sensitivity - equity
NOK	+100	26.7	0.0	-100	-26.7	0.0
EUR	+100	0.0	0.0	-100	0.0	0.0
SEK	+100	-2.3	0.0	-100	2.3	0.0
DKK	+100	0.0	0.0	-100	0.0	0.0
Total		24.4	0.0		-24.4	0.0

Interest rate sensitivity - group as at 31.12.2015

Currency	Increase in basis points	Sensitivity - result	Sensitivity - equity	Reduction in basis points	Sensitivity - result	Sensitivity - equity
NOK	+100	20.7	0.0	-100	-20.7	0.0
EUR	+100	0.3	0.0	-100	-0.3	0.0
SEK	+100	0.0	0.0	-100	0.0	0.0
DKK	+100	1.1	0.0	-100	-1.1	0.0
Total		22.1	0.0		-22.1	0.0

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.

Time until expected rate change as at 31.12.2015 - 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		359.5				17.5	377.0
	FCY						1.0	1.0
Net lending to financial institutions	NOK						8.1	8.1
Net lending to customers	NOK	3,899.3	23,730.5	51.4	239.6	14.2		27,935.0
Certificates and bonds	NOK	1,082.6	2,825.7	125.7	490.2	50.3		4,574.5
	FCY	109.6				55.7		165.3
Financial derivatives	NOK						403.0	403.0
Accrued interest, not yet due	NOK						152.5	152.5
	FCY						0.4	0.4

Other asset items	NOK						465.0	465.0
	FCY						13.1	13.1
Total		5,091.5	26,915.7	177.1	729.8	120.2	1,060.6	34,094.9
Liabilities								
Liabilities to financial institutions	NOK			150.0			0.1	150.1
Customer deposits	NOK	4,131.2	8,807.5	215.7				13,154.4
Financial derivatives	NOK						34.7	34.7
	FCY						28.0	28.0
Securities issued	NOK	7,656.0	9,412.6					17,068.6
Subordinated loan capital	NOK	550.0	148.8					698.8
Accrued interest	NOK						151.6	151.6
Other liabilities	NOK							0.0
Total		12,337.2	18,368.9	365.7	0.0	0.0	214.4	31,286.2
Net interest rate exposure on balance sheet		-7,245.7	8,546.8	-188.6	729.8	120.2	846.2	
Contract sum for financial derivatives, without hedge accounting, that affect interest rate exposure								
	NOK	285.1	457.5	-125.0	-552.6	-65.0		
	FCY		38.5			-38.5		
Net exposure		-6,960.6	9,042.8	-313.6	177.2	16.7	846.2	

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 31.12.2016

Currency	Increase in basis points	Sensitivity - result	Sensitivity - equity	Reduction in basis points	Sensitivity - result	Sensitivity - equity
NOK	+100	16.5	0.0	-100	-16.5	0.0
EUR	+100	0.0	0.0	-100	0.0	0.0
SEK	+100	0.0	0.0	-100	0.0	0.0
DKK	+100	0.0	0.0	-100	0.0	0.0
Total		16.5	0.0		-16.5	0.0

Interest rate sensitivity - parent bank as at 31.12.2015

Currency	Increase in basis points	Sensitivity - result	Sensitivity - equity	Reduction in basis points	Sensitivity - result	Sensitivity - equity
NOK	+100	14.0	0.0	-100	-14.0	0.0
EUR	+100	0.3	0.0	-100	-0.3	0.0
SEK	+100	0.0	0.0	-100	0.0	0.0
DKK	+100	1.1	0.0	-100	-1.1	0.0
Total		15.4	0.0		-15.4	0.0

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.

Time until expected rate change as at 31.12.2015 - 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		359.5				17.5	377.0
	FCY						1.0	1.0
Net lending to financial institutions	NOK	2,047.9	45.0				8.1	2,101.0
Net lending to customers	NOK	4,061.4	13,328.3	51.4	239.6	14.2		17,694.9
Certificates and bonds	NOK	1,082.6	2,825.7	125.7	490.2	50.3		4,574.5
	FCY	109.6				55.7		165.3
Financial derivatives	NOK						215.0	215.0
Accrued interest, not yet due	NOK						110.8	110.8
	FCY						0.4	0.4
Other asset items	NOK						1,352.5	1,352.5
	FCY						13.1	13.1

Total		7,301.5	16,558.5	177.1	729.8	120.2	1,718.4	26,605.5
Liabilities								
Liabilities to financial institutions	NOK	266.9	0.8	150.0			6.9	424.6
Customer deposits	NOK	4,151.4	8,807.5	215.7				13,174.6
Financial derivatives	NOK						34.7	34.7
	FCY						28.0	28.0
Securities issued	NOK	3,893.1	5,570.8					9,463.9
Subordinated loan capital	NOK	550.0	148.8					698.8
Accrued interest	NOK						108.4	108.4
Other liabilities	NOK							0.0
Total		8,861.4	14,527.9	365.7	0.0	0.0	178.0	23,933.0
Net exposure on balance sheet		-1,559.9	2,030.6	-188.6	729.8	120.2	1,540.4	
Contract sum for financial derivatives, without hedge accounting, that affect interest rate exposure								
	NOK	285.1	457.5	-125.0	-552.6	-65.0		
	FCY		38.5			-38.5		
Net exposure		-1,274.8	2,526.6	-313.6	177.2	16.7	1,540.4	

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 permanently 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 2016 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 aims 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).

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

	31.12	Average	Highest	Lowest
2016	107.5	108.3	111.2	106.4
2015	107.8	108.4	109.8	106.2

A liquidity requirement has been introduced by the authorities: liquidity coverage ratio (LCR). This 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 46.8% as at 31 December 2016, compared with 47.0% the year before. 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 above. 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 31.12.2016 - 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 31.12.2015 - 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						377.0	377.0
	FCY						1.0	1.0
Net lending to financial institutions	NOK						8.1	8.1
Net lending to customers	NOK	32.0	85.3	1,193.5	4,717.3	21,908.0		27,936.1
Certificates and bonds	NOK	275.0	230.0	377.0	3,197.6	500.0		4,579.6
	FCY	109.6				48.1		157.7
Financial derivatives	NOK			47.3	151.5	204.2		403.0
Accrued interest, not yet due	NOK	56.0	25.3	71.2				152.5
	FCY	0.3		0.1				0.4
Other asset items	NOK			32.8			462.7	495.5
	FCY						13.1	13.1
Total receipts		472.9	340.6	1,721.9	8,066.4	22,660.3	861.9	34,124.0

Liabilities

Liabilities to financial institutions	NOK			60.0	90.0		0.1	150.1
Customer deposits	NOK	102.2	908.6	437.2	16.4		11,690.0	13,154.4
Financial derivatives	NOK		2.3		19.0	13.3		34.6
	FCY	11.7		0.1		16.3		28.1
Securities issued	NOK	433.0	150.0	2,082.0	11,940.0	2,075.0		16,680.0
Subordinated loan capital	NOK				700.0			700.0
Accrued interest	NOK	45.5	38.5	67.6				151.6
Other liabilities	NOK			201.9				201.9
Total payments		592.4	1,099.4	2,848.8	12,765.4	2,104.6	11,690.1	31,100.7
Net exposure		-119.5	-758.8	-1,126.9	-4,699.0	20,555.7	-10,828.2	
Loan pledges		78.9						78.9
Unused credit				206.1	1,240.2		140.5	1,586.8
Guarantees						100.0	143.7	243.7

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

Remaining contractual term as at 31.12.2015 - 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						377.0	377.0
	FCY						1.0	1.0
Net lending to financial institutions	NOK			667.4		45.0	1,388.6	2,101.0
Net lending to customers	NOK	31.9	85.1	853.9	2,209.0	14,516.3		17,696.2
Certificates and bonds	NOK	275.0	230.0	377.0	3,197.6	500.0		4,579.6
	FCY	109.6				48.1		157.7
Financial derivatives	NOK			46.8	151.5	16.7		215.0
Accrued interest, not yet due	NOK	33.8	5.9	71.1				110.8
	FCY	0.3		0.1				0.4
Other asset items	NOK			12.0			1,344.3	1,356.3
	FCY						13.1	13.1
Total receipts		450.6	321.0	2,028.3	5,558.1	15,126.1	3,124.0	26,608.1

Liabilities

Liabilities to financial institutions	NOK			60.0	90.0		274.6	424.6
Customer deposits	NOK	102.2	908.6	435.4			11,728.4	13,174.6
Financial derivatives	NOK		2.3		19.0	13.3		34.6
	FCY	11.7		0.1		16.3		28.1
Securities issued	NOK	433.0		1,159.0	6,940.0	725.0		9,257.0
Subordinated loan capital	NOK				700.0			700.0
Accrued interest	NOK	26.8	13.9	67.7				108.4
Other liabilities	NOK			132.7				132.7
Total payments		573.7	924.8	1,854.9	7,749.0	754.6	12,003.0	23,860.0
Net exposure		-123.1	-603.8	173.4	-2,190.9	14,371.5	-8,879.0	
Loan pledges		40.9						40.9
Unused credit				1,538.7	603.8		275.1	2,417.6
Guarantees						100.0	141.8	241.8

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 December 2016. 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 31.12.2016 - 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 31.12.2015 - 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			62.1	91.4		0.1	153.6
Customer deposits	11,790.4	910.5	442.1	16.4			13,159.4
Securities issued	471.8	211.3	2,412.0	12,868.3	2,383.4		18,346.8
Other liabilities			201.9				201.9
Subordinated loan capital	5.2	1.5	20.2	736.3			763.2
Loan pledges	78.9						78.9
Unused credit	1,586.8						1,586.8
Guarantees					100.0	143.7	243.7
Financial liabilities excl. derivatives	13,933.1	1,123.3	3,138.3	13,712.4	2,483.4	143.8	34,534.3
Financial derivatives (outflows)	14.0	29.4	101.4	371.2	141.9		657.9
Financial liabilities	13,947.1	1,152.7	3,239.7	14,083.6	2,625.3	143.8	35,192.2
Financial derivatives (inflows)	1.6	34.3	219.2	646.0	226.5		1,127.6

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

Maturity analysis for financial liabilities as at 31.12.2015 - 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			62.1	91.4		274.6	428.1
Customer deposits	11,830.8	910.5	440.2				13,181.5
Securities issued	460.3	25.3	1,394.9	7,502.2	810.3		10,193.0
Other liabilities			132.7				132.7
Subordinated loan capital	5.2	1.5	20.2	736.3			763.2
Loan pledges	40.9						40.9
Unused credit	2,417.6						2,417.6
Guarantees					100.0	141.8	241.8
Financial liabilities excl. derivatives	14,754.8	937.3	2,050.1	8,329.9	910.3	416.4	27,398.8
Financial derivatives (outflows)	10.4	26.5	83.7	276.5	53.0		450.1
Financial liabilities	14,765.2	963.8	2,133.8	8,606.4	963.3	416.4	27,848.9
Financial derivatives (inflows)	1.6	10.6	185.1	436.3	3.5		637.1

NOTE 18 - CURRENCY RISK**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

Market risk associated with currency risk as at 31.12.2015

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
EUR	+10	0.1	0.0	-10	-0.1	0.0
USD	+10	0.6	0.0	-10	-0.6	0.0
Total		0.7	0.0		-0.7	0.0

The bank's currency exposure is low. As at 31 December 2016, the bank's open net position was NOK 5.9 million (NOK 6.9 million as at 31 December 2015). 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 31.12.2016

	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.

Group as at 31.12.2015

	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	378.0	378.0
Net loans to and receivables from financial institutions	0.0	0.0	0.0	0.0	8.1	8.1
Net loans to and receivables from customers	0.0	0.0	0.0	0.0	27,975.8	27,975.8
Certificates, bonds, etc. at fair value	4,471.8	82.8	0.0	0.0	0.0	4,554.6
Shares and units	32.9	0.0	445.2	0.0	0.0	478.1
Financial derivatives**	494.7	0.0	0.0	0.0	0.0	494.7
Certificates and bonds, held to maturity	0.0	0.0	0.0	205.6	0.0	205.6
Total financial assets	4,999.4	82.8	445.2	205.6	28,361.9	34,094.9

Liabilities to financial institutions	0.0	0.0	0.0	0.0	150.3	150.3
Deposits from and liabilities to customers	0.0	0.0	0.0	0.0	13,159.3	13,159.3
Financial derivatives**	68.4	0.0	0.0	0.0	0.0	68.4
Securities issued	0.0	0.0	0.0	0.0	17,205.3	17,205.3
Subordinated loan capital	0.0	0.0	0.0	0.0	702.9	702.9
Total financial liabilities	68.4	0.0	0.0	0.0	31,217.8	31,286.2

* Includes secured debt.

** Includes derivatives for which hedge accounting is used.

Parent bank as at 31.12.2016

	Fair value through profit or loss		Available for sale	Held to maturity	Amortised cost*	Total
	Held for trading	Designated at fair value				
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.

Parent bank as at 31.12.2015

	Fair value through profit or loss		Available for sale	Held to maturity	Amortised cost*	Total
	Held for trading	Designated at fair value				
Cash and receivables from central banks	0.0	0.0	0.0	0.0	378.0	378.0
Net loans to and receivables from financial institutions	0.0	0.0	0.0	0.0	2,101.3	2,101.3
Net loans to and receivables from customers	0.0	0.0	0.0	0.0	17,717.9	17,717.9
Certificates, bonds, etc. at fair value	4,471.8	82.8	0.0	0.0	0.0	4,554.6
Shares and units	32.9	0.0	445.2	0.0	0.0	478.1
Financial derivatives**	282.5	0.0	0.0	0.0	0.0	282.5

Certificates and bonds, held to maturity	0.0	0.0	0.0	205.6	0.0	205.6
Total financial assets	4,787.2	82.8	445.2	205.6	20,197.2	25,718.0
Liabilities to financial institutions	0.0	0.0	0.0	0.0	424.8	424.8
Deposits from and liabilities to customers	0.0	0.0	0.0	0.0	13,179.5	13,179.5
Financial derivatives**	68.4	0.0	0.0	0.0	0.0	68.4
Securities issued	0.0	0.0	0.0	0.0	9,557.4	9,557.4
Subordinated loan capital	0.0	0.0	0.0	0.0	702.9	702.9
Total financial liabilities	68.4	0.0	0.0	0.0	23,864.6	23,933.0

* 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 2016 and 2015. The change in value of financial derivatives used for hedge accounting was negative in the amount of NOK -142.5 million (NOK -88.4 million in 2015), 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, the bank has provided a guarantee for a share of Eksportfinans ASA's portfolio as at 29 February 2008. The bank's share of the guarantee obligation was reduced from NOK 242.0 million to NOK 72.7 million in 2016. The bank ended the concluded contra guarantee which previously reduced the guarantee responsibility to NOK 100.0 million in 2016.

The guarantee is a derivative and the fair value is based on the value development in the guaranteed portfolio. The PHA agreement assumes an annual exchange statement of the value of the derivative.

Group 2016			Parent bank 2016		
	Fair value			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
0.0	0.0	0.0	Currency swap agreements	0.0	0.0

7.0	0.0	0.2	Total currency instruments	7.0	0.0	0.2
707.6	0.6	11.6	Interest rate instruments	707.6	0.6	11.6
0.0	0.0	0.0	Interest rate swaps	0.0	0.0	0.0
0.0	0.0	0.0	Interest rate swaps (FRA)	0.0	0.0	0.0
707.6	0.6	11.6	Standardised interest rate swaps (futures)	707.6	0.6	11.6
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						
0.0	0.0	0.0	Currency instruments	0.0	0.0	0.0
304.9	0.0	20.1	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
6,215.0	361.2	15.6	Interest rate instruments	4,865.0	178.1	15.6
0.0	0.0	0.0	Interest rate swaps	0.0	0.0	0.0
0.0	0.0	0.0	Interest rate swaps (FRA)	0.0	0.0	0.0
6,215.0	361.2	15.6	Standardised interest rate swaps (futures)	4,865.0	178.1	15.6
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 NOK 7.8 million is the net positive development in guaranteed portfolio as at 31 December 2016 after the annual exchange amount is deducted. The underlying value of the derivative, exclusive of the swap settlement, was positive at NOK 41.0 million as at 31 December 2016.

Group 2015			Parent bank 2015		
Fair value			Fair value		
Contract sum	Assets	Liabilities	Contract sum	Assets	Liabilities
Financial derivatives at fair value through profit or loss					
7.0	0.0	0.1	Currency instruments	7.0	0.0
			Forward exchange contracts	0.0	0.1

136.4	0.0	28.0	Currency swap agreements	136.4	0.0	28.0
143.4	0.0	28.1	Total currency instruments	143.4	0.0	28.1
Interest rate instruments						
767.6	0.0	24.0	Interest rate swaps	767.6	0.0	24.0
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
767.6	0.0	24.0	Total interest instruments	767.6	0.0	24.0
242.0	0.0	10.7	Guarantee to Eksportfinans ASA*	242.0	0.0	10.7
242.0	0.0	10.7	Total other derivatives	242.0	0.0	10.7
Financial derivatives used for hedge accounting						
Currency instruments						
0.0	0.0	0.0	Forward exchange contracts	0.0	0.0	0.0
0.0	0.0	0.0	Currency swap agreements	0.0	0.0	0.0
0.0	0.0	0.0	Total currency instruments	0.0	0.0	0.0
Interest rate instruments						
6,215.0	494.7	5.6	Interest rate swaps	4,715.0	282.5	5.6
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	494.7	5.6	Total interest instruments	4,715.0	282.5	5.6
494.7	68.4	Total derivatives		282.5	68.4	

*) The amount of NOK 10.7 million is the net negative value adjustment in the guaranteed portfolio as at 31 December 2015 after the annual exchange amount is deducted. The underlying value of the derivative, exclusive of the swap settlement, was positive at NOK 31.7 million as at 31 December 2015.

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.

There are no agreements in the parent bank regarding offsetting rights in the event of defaults, nor have any CSA agreements been entered into.

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

Group As at 31.12.2015, the exposure was as follows:	Gross amount	Offset	Book value amount	Amount subject to net settlement	Amount following any net settlement
Financial derivatives, assets	212.2	0.0	212.2	0.0	212.2
Financial derivatives, liabilities	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. Prices from Nordic Bond Pricing can be replaced by actual transaction prices reported in the stock exchange in connection with valuations in financial statements.

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.

Stocks 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.

As at 31 December 2016, the bank values equity instruments at all levels in the hierarchy. Listed shares that are traded daily are classified as level 1. Other listed shares are classified as level 2. 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 these are available.

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
Stocks, 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

Stocks and units

Movement in level 3 in 2016 relates to items classified as available for sale. Access shares worth NOK 6.3 million in 2016 applies to shares in Visa Inc. The negative change in value worth NOK 5.9 million belongs to the category "available for sale" and applies to changes in value that are recognised and/or reversed in comprehensive income. The sum includes net reversal of value changes connected to Visa FLI of NOK -10.9 million, negative value changes for Eksportfinans ASA of NOK 5.0 million, and positive value changes on Frende Holding AS of NOK 10.0 million. At year-end 2016, the shares in Frende Holding AS were valued at NOK 220.0 million, based on a price/book assessment, taking into account the pricing of companies in the same industry, a liquidity discount, and the company's business model and plan. At year-end 2016, the shares in Eksportfinans ASA were valued at NOK 195.0 million, based on a price/book assessment, taking into account the risk and uncertainty concerning the expected cash flow in connection with winding up and the development of the result from underlying operations.

31.12.2015 - group	Level 1	Level 2	Level 3	Fair value	Book value
Amortised cost					
Cash and receivables from central banks	378.0	0.0	0.0	378.0	378.0
Net loans to and receivables from financial institutions	0.0	0.0	8.1	8.1	8.1
Net loans to and receivables from customers	0.0	0.0	27,978.2	27,978.2	27,975.8
Certificates, bonds and other interest-bearing securities	0.0	216.0	0.0	216.0	205.6
Total assets at amortised cost	378.0	216.0	27,986.3	28,580.3	28,567.5
Liabilities to financial institutions	0.0	150.3	0.0	150.3	150.3
Deposits from and liabilities to customers	0.0	13,159.3	0.0	13,159.3	13,159.3
Securities issued	0.0	17,092.2	0.0	17,092.2	17,205.3
Subordinated loan capital	0.0	691.9	0.0	691.9	702.9
Total liabilities at amortised cost	0.0	31,093.7	0.0	31,093.7	31,217.8
Fair value					
Certificates, bonds and other interest-bearing securities	0.0	4,554.6	0.0	4,554.6	4,554.6
Stocks, units and other securities					
- at fair value through profit or loss	13.1	19.8	0.0	32.9	32.9
- available for sale	0.0	0.0	445.2	445.2	445.2
Financial derivatives	0.0	494.7	0.0	494.7	494.7
Total assets at fair value	13.1	5,069.1	445.2	5,527.4	5,527.4
Financial derivatives	0.0	68.4	0.0	68.4	68.4
Total liabilities at fair value	0.0	68.4	0.0	68.4	68.4
Movement in level 3				Fair value	
Balance sheet as at 01.01.2015				428.0	
Net gains				0.1	
Purchase of shares				0.0	
Disposals				1.1	
Changes in value				18.2	
Transferred from levels 1 and 2				0.0	
Balance sheet as at 31.12.2015				445.2	

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
Stocks, 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

31.12.2015 - parent bank	Level 1	Level 2	Level 3	Fair value	Book value
Amortised cost					
Cash and receivables from central banks	378.0	0.0	0.0	378.0	378.0
Net loans to and receivables from financial institutions	0.0	0.0	2,101.3	2,101.3	2,101.3
Net loans to and receivables from customers	0.0	0.0	17,720.4	17,720.4	17,717.9
Certificates, bonds and other interest-bearing securities	0.0	216.0	0.0	216.0	205.6
Total assets at amortised cost	378.0	216.0	19,821.7	20,415.7	20,402.8
Liabilities to financial institutions	0.0	424.8	0.0	424.8	424.8
Deposits from and liabilities to customers	0.0	13,179.5	0.0	13,179.5	13,179.5
Securities issued	0.0	9,490.7	0.0	9,490.7	9,557.4
Subordinated loan capital	0.0	691.8	0.0	691.8	702.9
Total liabilities at amortised cost	0.0	23,786.9	0.0	23,786.9	23,864.6
Fair value					
Certificates, bonds and other interest-bearing securities	0.0	4,554.6	0.0	4,554.6	4,554.6
Stocks, units and other securities					
- at fair value through profit or loss	13.1	19.8	0.0	32.9	32.9
- available for sale	0.0	0.0	445.2	445.2	445.2
Financial derivatives	0.0	282.5	0.0	282.5	282.5
Total assets at fair value	13.1	4,856.9	445.2	5,315.2	5,315.2
Financial derivatives	0.0	68.4	0.0	68.4	68.4
Total liabilities at fair value	0.0	68.4	0.0	68.4	68.4

NOTE 23 - ACCOUNT WITH GROUP COMPANIES

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

	31.12.2016	31.12.2015
Profit/loss		
Interest income and similar income		
Interest income from subsidiaries	45.8	47.9
Interest certificates and covered bonds from subsidiaries	7.8	2.0
Interest costs and similar costs		
Interest and commission to subsidiaries	2.7	3.0
Dividend/group contribution receipts		
Dividends from subsidiaries	55.0	90.0
Commission income and income from banking services		
Other operating income from subsidiaries	17.3	14.9
Other operating costs		
Rent to subsidiaries	7.9	8.2
Other costs to subsidiaries	0.7	0.2
Balance sheet		
Loans to and receivables from financial institutions		
Loans to subsidiaries	1,730.7	2,093.1
Loans to and receivables from customers		
Loans to subsidiaries	234.5	186.2
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	1.2	1.1
Liabilities to financial institutions		
Deposits from subsidiaries	235.5	274.5
Customer deposits		
Deposits from subsidiaries	26.4	38.8
Other liabilities		
Other liabilities to subsidiaries	13.9	5.9

NOTE 24 - NET INTEREST AND CREDIT COMMISSION INCOME

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
1.9	3.9	Interest income and similar income from loans to and receivables from financial institutions	40.1	46.0
1.2	1.6	Interest income and similar income from financial leases	0.0	0.0
918.5	1,056.4	Interest income and similar income from loans to and receivables from customers	534.0	645.2
8.3	8.3	Interest income and similar income from bonds held to maturity	8.3	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
36.1	21.1	Loans to and receivables from customers	28.7	14.1
0.0	0.5	Other interest income and similar income	0.0	0.1
966.0	1,091.8	Total interest income and similar income for instruments at amortised cost	611.1	713.7
68.1	70.9	Interest income and similar income from certificates, bonds, etc. held for trading	75.0	72.9
3.3	4.3	Interest income and similar income from certificates, bonds, etc. designated at fair value	3.3	4.3
71.4	75.2	Total interest income and similar income for instruments at fair value through profit or loss	78.3	77.2
1,037.4	1,167.0	Interest income and similar income	689.4	790.9
6.8	8.0	Interest costs and similar costs for liabilities to financial institutions	9.3	10.9
132.1	194.9	Interest costs and similar costs for deposits from and liabilities to customers	131.8	194.6
314.2	337.6	Interest costs and similar costs for securities issued	177.7	202.0
26.8	28.5	Interest costs and similar costs for subordinated loan capital	26.8	28.5
11.7	11.3	Other interest costs and similar costs	11.7	11.3
491.6	580.3	Interest costs and similar costs for instruments at amortised cost	357.3	447.3
545.8	586.7	Net interest and credit commission income	332.1	343.6

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

Group 2016		Group 2015			Parent bank 2016		Parent bank 2015	
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								
305.0	0.61	429.6	0.91	Net loans to financial institutions	2,400.2	1.67	2,441.7	1.88
28,894.1	3.31	27,832.1	3.88	Net lending to customers	17,833.9	3.16	17,972.9	3.67
4,737.1	1.68	4,274.3	1.95	Securities, investments	4,964.2	1.74	4,383.7	1.95
Liabilities								
126.8	5.33	186.6	4.31	Deposits from financial institutions	405.4	2.30	440.9	2.47
13,673.8	0.97	13,242.8	1.47	Customer deposits	13,691.9	0.96	13,259.6	1.47
18,075.1	1.89	17,250.9	2.12	Securities, borrowing	9,847.3	2.08	9,988.3	2.31

*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 2016	Group 2015		Parent bank 2016	Parent bank 2015
0.4	0.9	Dividends from equity instruments valued at fair value through profit or loss	0.4	0.9
10.9	0.4	Dividends from equity instruments classified as available for sale	10.9	0.4
0.0	0.0	Dividends and group contributions from subsidiaries.	55.0	90.0
15.6	0.0	Disbursements from participant assessed companies	15.6	0.0
26.9	1.3	Dividends and other operating income from securities with variable yields	81.9	91.3

NOTE 26 - NET COMMISSION INCOME

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
3.0	3.5	Fees, guarantees and letters of credit	3.0	3.5
0.0	0.0	Fees, credit extension	14.7	12.7
51.6	49.8	Fees, money-transfer services	51.6	49.8
1.4	1.5	Interbank charges	1.4	1.5
2.9	2.8	Securities trading and management charges	2.9	2.8
13.7	13.7	Insurance charges	13.7	13.7
9.8	8.5	Other fees and commission income	6.8	5.7
82.4	79.8	Total commission income, etc.	94.1	89.7
28.9	28.5	Brokerage commission	3.9	6.4
6.5	6.5	Payment and electronic services	7.1	7.0
2.8	2.9	Interbank costs	2.8	2.9
1.5	1.3	Other commission costs	1.5	1.3
39.7	39.2	Total commission costs, etc.	15.3	17.6
42.7	40.6	Net commission income, etc.	78.8	72.1

NOTE 27 - NET VALUE CHANGE AND GAINS/LOSSES FROM FINANCIAL INSTRUMENTS**Recognised in the statement of income**

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
		Value change and gains/losses on financial instruments at fair value through profit or loss		
-2.2	-3.5	Value change of certificates and bonds - designated at fair value	-2.2	-3.6
0.0	0.9	Realised gains/losses on certificates and bonds - designated at fair value	0.0	0.9
-2.2	-2.6	Net value change and gains/losses on financial instruments designated at fair value	-2.2	-2.7
-0.6	0.2	Value change in equity instruments - held for trading	-0.6	0.2
0.1	0.0	Realised gains/losses on equity instruments - held for trading	0.1	0.0
16.7	-51.7	Value change in certificates and bonds - held for trading	16.3	-51.7
6.5	3.2	Realised gains/losses on certificates and bonds - held for trading	13.3	-2.1
64.4	-5.0	Change in value of derivatives - hedge accounting not used	64.4	-5.0
-7.2	-0.6	Realised gains/losses on derivatives - hedge accounting not used	-7.2	-0.8
79.9	-53.9	Net value change and gains/losses on financial instruments held for trading	86.3	-59.4
77.7	-56.5	Net value change and gains/losses on financial instruments at fair value	84.1	-62.1
-142.5	-88.4	Financial derivatives - hedge accounting	-98.1	-47.7
142.5	88.4	Financial liabilities - hedged	98.1	47.7
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
17.8	0.1	Realised gains/losses on equity instruments - available for sale	17.8	0.1
17.8	0.1	Net value change and gains/losses on financial instruments available for sale	17.8	0.1
		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		
0.2	-4.2	Realised gains/losses on securities issued - amortised cost	-0.9	-2.2
0.2	-4.2	Net realised gains/losses on securities issued - amortised cost	-0.9	-2.2
		Changes in value and gains/losses on equity instruments in subsidiaries		
0.0	0.0	Write-downs equity instruments in subsidiaries	-10.0	0.0
0.0	0.0	Total changes in value and gains/losses on equity instruments in subsidiaries	-10.0	0.0
		Currency trading		
-23.2	14.9	- Net conversion gain	-23.2	14.9
3.3	3.0	- Net transaction gain	3.3	3.0
-19.9	17.9	Total net income from currency trading	-19.9	17.9
75.8	-42.7	Net value changes and gains/losses on financial instruments	71.1	-46.3

* 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 2016	Group 2015		Parent bank 2016	Parent bank 2015
		Value change in financial instruments available for sale		
-5.9	18.2	Value change in equity instruments through comprehensive income - available for sale*	-5.9	18.2
-5.9	18.2	Net value change in financial instruments available for sale	-5.9	18.2

* 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 2016	Group 2015		Parent bank 2016	Parent bank 2015
11.5	14.3	Rental income investment properties	0.0	0.0
6.8	6.2	Operating income, real estate	0.1	1.2
0.0	35.6	Profit from sale of real estate	0.0	0.0
8.9	4.9	Other operating income	5.2	3.5
27.2	61.0	Other operating income	5.3	4.7

NOTE 29 - SALARIES AND OTHER REMUNERATION

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
		Figures in NOK thousands		
118,638	123,695	Salaries	99,509	103,444
19,036	19,250	National insurance contributions	15,917	16,016
		Pensions		
7,207	11,552	- defined-benefit	5,920	9,991
4,012	4,083	- defined-contribution	3,707	3,657

7,956	8,229	Social security costs	6,585	6,733
156,849	166,809	Total salaries, etc.	131,638	139,841
209	226	No. of full-time equivalents as at 31.12.	183	196
222	237	No. of employees as at 31.12.	192	206
219	224	Average no. of full time equivalents	188	194
226	231	Average no. of employees	194	200

Remuneration 2016 - parent bank

The CEO's remuneration totalled NOK 2,799,642. 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 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		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 Vrabøl	Director - Retail and Business Markets		1,310	71		143	1,523		3,393
Arnlfjot 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 Yttreide	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	Payment 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

Remuneration of executive management team and executive personnel in 2015

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		2,328	194		137	2,660		1,089
Kjell Engen	Deputy CEO		1,841	263		175	2,279		1,644
Lars-Runar Groven	Director - Credit		1,009	182		124	1,314		2,453
Per Øyvind Mørk	Director - Communications and Marketing		1,409	100		121	1,630		
Kristian Thowsen	Director - Business Market until 28.04.15		1,107	107		129	1,344		3,099
Jan-Roger Vrabøl	Director - Retail and Business Markets		1,178	104		134	1,416		3,729
Arnljot Lien	Director - IT and Business Support from 14.09.15		790	162		152	1,104		1,595
Total executive management team		0	9,663	1,112	0	972	11,747	0	13,609
Halvor Kirkebøen	Head of Management and Control Department		1,092	80		175	1,347		2,564
Total executive personnel		0	1,092	80	0	175	1,347	0	2,564

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 2015. 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 2015

Figures in NOK thousands		Remuner ation	Salarie s	Pension	Paid profit sharing	Payment in kind	Total	Loans
Jorund Rønning Indrelid	Chair	216					216	
Knut Smedsrud	Deputy Chair	150					150	
Morten André Yttreide	Board member	100					100	
Sverre Nedberg	Board member	141					141	
Elly Therese Thoresen	Board member	125					125	
Hanne M. Lenes Solem	Board member	126					126	
Øivind Andersson	Board member	65					65	
Inger Helen Pettersen	Employee representative	101	563	125		29	819	2,322
Sissel Album Fjeld	Deputy employee representative	50	503	63		30	646	4,180
Total board of directors		1,074	1,066	189	0	59	3,852	6,502

Remuneration, other elected representatives 2015

Figures in NOK thousands		Remuner ation	Salarie s	Pension	Paid profit sharing	Payment s in kind	Total	Loans
Eli Kristin Nordsiden	Chair of the control committee	45					45	
Randi H. Sandli	Member of the control committee	40					40	
Sjur Kortgaard	Member of the control committee	40					40	1,542
Oddmar Nilsen	Member of the control committee							805
Total control committee		125	0	0	0	0	125	2,347
Frank Borgen	Chair of the board of trustees	50					50	781
May-Britt Andersen	Member of the board of trustees	6					6	
Bent Inge Bye	Member of the board of trustees	9					9	
Rolf Arne Fjelltoft	Employee representative	4	863	118		34	1,019	3,466
Øivind Granlund	Member of the board of trustees	4					4	
Kåre J. Grøtta	Member of the board of trustees	19					19	6,376
Thomas F. Halvorsen	Member of the board of trustees	7					7	2,744
Ole B. Hoen	Member of the board of trustees	2					2	

Helle Elisabeth Hofgaard	Member of the board of trustees	2				2	
Anne Enberg Jensen	Employee representative	2	306	28		361	2,201
Anne Siri Rhoden Jensen	Employee representative	9	875	154		1,138	1,572
Iver A. Juel	Member of the board of trustees	4				4	
Steinar Karlsen	Member of the board of trustees	4				4	
Brynulf Kopperud	Employee representative	2	528	71	18	618	900
Vegard Kvamme	Employee representative	4	897	122	145	1,167	3,281
Jørn Larsen	Member of the board of trustees	4				4	
Thor-Kristian Lien	Member of the board of trustees	2				2	
Frode Lindbeck	Employee representative	4	894	105	149	1,152	987
Lars M. Lunde	Member of the board of trustees	2				2	
Anne Irene Lunden	Employee representative	4	647	51	10	711	81
Frode Lund Nielsen	Member of the board of trustees						2,435
Borghild Nordlid	Member of the board of trustees	2				2	
Kristin Nystrøm	Member of the board of trustees	4				4	
Geir Opdahl	Employee representative	4	469	25	38	537	4,702
Nina Paulsen	Member of the board of trustees	7				7	
Petter Qvam	Member of the board of trustees	4				4	
Morten Ranvik	Member of the board of trustees	4				4	843
Camilla Schenk	Employee representative	4	336	21	25	385	1,766
Jan Christian Skau	Employee representative	9	692	80	25	806	1,668
Ole-Martin Solberg	Employee representative	12	534	28	27	601	1,750
Nils Kr. Steenberg	Member of the board of trustees	4				4	
Tom R. Svendsen	Member of the board of trustees	7				7	
Svein L. Syversen	Member of the board of trustees	4				4	
Turid Solberg							
Thomassen	Member of the board of trustees	4				4	
Øyvind Thorsby	Member of the board of trustees	4				4	
Morten Wang	Employee representative	2	652	38	10	701	74
Jon Aas	Member of the board of trustees	9				9	2,703
Total board of trustees		226	7,691	841	0	605	9,363
						38,330	

NOTE 30 - CLOSE ASSOCIATES

Figures in NOK thousands	Executive management team and executive personnel		Board of directors and control committee		Other close associates	
	2016	2015	2016	2015	2016	2015
Loans						
Outstanding loans as at 01.01.	13,075	16,806	8,849	5,376	38,330	37,723
Net change in loans in the period	-986	-3,731	-2,631	3,473	-8,180	607
Outstanding loans as at 31.12	12,089	13,075	6,218	8,849	30,150	38,330
Interest income	223	281	134	176	578	932
Loan losses	0	0	0	0	0	0
Deposits						
Deposits as at 01.01.	2,874	2,946	12,462	7,025	13,553	13,859
Net change in deposits in the period	2,836	-72	-4,496	5,437	-6,966	-306

Deposits as at 31.12	5,710	2,874	7,966	12,462	6,587	13,553
Interest costs	126	35	111	185	69	250
Other operating income	0	0	0	0	0	0
Guarantees issued	0	0	0	0	0	0

NOTE 31 - ADMINISTRATION AND OPERATING COSTS

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
31.8	31.8	IT expenses	29.8	29.7
16.2	19.9	Other administrative expenses	10.9	14.9
48.0	51.7	Total administration costs	40.7	44.6
18.7	17.9	Ordinary depreciation	11.4	10.9
10.0	0.0	Write-downs	0.0	0.0
28.7	17.9	Depreciation/write-downs/value change for non-financial assets	11.4	10.9
19.7	22.2	Operating costs properties and premises	22.4	22.7
12.4	11.5	Remuneration	8.8	8.4
18.7	19.0	Other operating costs	12.2	12.3
50.8	52.7	Total operating costs	43.4	43.4
127.5	122.3	Total administration and operating costs	95.5	98.9

NOTE 32 - AUDITOR'S REMUNERATION

Group 2016	Group 2015	Figures in NOK thousands	Parent bank 2016	Parent bank 2015
2,376	2,272	Audit	1,419	1,375
147	109	Other certification services	0	0
247	198	Tax and levies advice	140	103
882	867	Other services	427	365
3,652	3,446	Total	1,986	1,843

The amounts are inclusive of VAT.

NOTE 33 - TAXES

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
		Tax costs for the year in the statement of income		
84.3	95.2	Tax payable on profit for the year	47.2	48.2
12.8	-11.0	Recognised deferred tax	17.9	-12.7
-0.9	-0.2	Recognised deferred tax due to change in tax rate	0.0	1.8
0.0	-0.3	Excess/deficit tax, previous year	0.1	0.0
0.0	0.0	Tax deducted at source	0.0	0.0
96.2	83.7	Total tax for the year	65.2	37.3
		Tax on other operating income and costs recognised in comprehensive income		
		Change in net deferred tax		
0.7	8.0	- Actuarial gains and losses on defined-benefit plans	0.8	7.4
-0.1	0.1	- Change in investments available for sale	-0.1	0.1
0.0	-0.6	- Change in deferred tax, effect of changed tax rate	0.0	-0.6

0.6	7.5	Tax on other operating income and costs	0.7	6.9
		Change in net deferred tax		
11.9	-11.2	Recognised deferred tax in statement of income	17.9	-10.9
0.6	7.5	Recognised deferred tax in comprehensive income	0.7	7.0
0.0	-6.6	Changes in net deferred tax entered directly on the balance sheet	0.0	0.0
12.5	-10.3	Total changes in net deferred tax	18.6	-3.9
		Reconciliation of tax costs for the year		
427.4	339.7	Profit before tax	344.9	219.4
106.9	91.7	Tax at the nominal rate of 25% (27%)	86.2	59.2
-9.8	-7.5	Tax effect of permanent differences	-21.1	-23.7
-0.9	-0.2	Tax effect of changed tax rate for deferred tax on the balance sheet	0.0	1.8
0.0	-0.3	Excess/deficit tax, previous year	0.1	0.0
0.0	0.0	Tax deducted at source	0.0	0.0
96.2	83.7	Tax costs	65.2	37.3
		Tax payable on the balance sheet		
84.3	95.2	Tax payable on profit for the year	47.2	48.2
3.8	3.2	Year's property tax	3.8	3.2
88.1	98.4	Total tax payable	51.0	51.4

Group		Group		Deferred tax liability/deferred tax asset	Parent bank		Parent bank	
2016	2015	Change 2016	Change 2015		2016	2015	Change 2016	Change 2015
				<i>Tax</i>				
				Positive temporary differences				
60.4	64.8	4.4	20.9	Property, plant and equipment	1.7	3.0	1.3	-0.5
30.2	37.7	7.5	3.7	Gains and losses account	1.0	1.3	0.3	0.3
10.0	19.3	9.3	40.1	Securities	9.6	19.3	9.7	40.1
269.9	346.6	76.7	74.0	Financial derivatives	124.8	157.2	32.4	69.3
0.0	0.0	0.0	0.1	Other positive temporary differences	0.0	0.0	0.0	0.0
370.5	468.4	97.9	138.8	Total positive temporary differences	137.1	180.8	43.7	109.2
92.6	117.1	24.5	37.5	Deferred tax liability	34.3	45.2	10.9	29.5
				Negative temporary differences and loss to carry forward				
0.0	0.2	0.2	-0.2	Receivables	0.0	0.0	0.0	0.0
230.8	361.6	130.8	74.8	Securities issued	82.9	177.9	95.0	64.4
3.3	6.2	2.9	1.4	Other liabilities	2.4	5.1	2.7	1.6
38.6	59.7	21.1	27.4	Pension liabilities	37.3	57.6	20.3	24.4
3.3	0.0	-3.3	0.2	Losses carried forward	0.0	0.0	0.0	0.0
276.0	427.7	151.7	103.6	Total negative temporary differences and loss to carry forward	122.6	240.6	118.0	90.4
69.0	106.9	37.9	28.0	Deferred tax asset	30.7	60.2	29.5	24.4
-0.9	0.0	0.9	0.0	Tax effect of changed tax rate	0.0	0.0	0.0	0.0
-22.7	-10.2	12.5	-9.5	Net deferred tax liability (-) / net deferred tax asset (+)	-3.6	15.0	18.6	-5.1

The financial undertakings in the group are subject to a future tax rate of 25%, while the other companies are subject to a future tax rate of 24%. Deferred tax liability/deferred tax asset as at 31 December 2016 was included at a tax rate of 25% for the parent bank and weighted 24% for the group. 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 31.12.2016 - 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 issuing sector and category as at 31.12.2015 - 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	638.0	648.0	0.0	0.0	200.0	205.6
Other public issuers	799.6	810.5	0.0	0.0	0.0	0.0
Covered bonds	2,397.7	2,396.2	0.0	0.0	0.0	0.0
Financial enterprises	677.0	674.5	0.0	0.0	0.0	0.0
Non-financial enterprises	25.0	25.4	0.0	0.0	0.0	0.0
Total certificates and bonds	4,537.3	4,554.6	0.0	0.0	200.0	205.6

Certificates and bonds by issuing sector and category as at 31.12.2015 - 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	638.0	648.0	0.0	0.0	200.0	205.6
Other public issuers	799.6	810.5	0.0	0.0	0.0	0.0
Covered bonds	2,397.7	2,396.2	0.0	0.0	0.0	0.0
Financial enterprises	677.0	674.5	0.0	0.0	0.0	0.0
Non-financial enterprises	25.0	25.4	0.0	0.0	0.0	0.0
Total certificates and bonds	4,537.3	4,554.6	0.0	0.0	200.0	205.6

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

Certificates and bonds by maturity as at 31.12.2015 - group

	Accrued interest	Up to 6 months	6-12 months	1-5 years	5-10 years	Total
State and state guaranteed	8.3	0.0	40.0	676.0	129.3	853.6
Other public issuers	5.9	480.0	135.7	188.9	0.0	810.5
Covered bonds	3.7	119.6	80.1	1,776.4	416.4	2,396.2
Financial enterprises	2.1	41.9	70.3	560.2	0.0	674.5
Non-financial enterprises	0.4	25.0	0.0	0.0	0.0	25.4
Total certificates and bonds	20.4	666.5	326.1	3,201.5	545.7	4,760.2

Certificates and bonds by maturity as at 31.12.2015 - parent bank

	Accrued interest	Up to 6 months	6-12 months	1-5 years	5-10 years	Total
State and state guaranteed	8.3	0.0	40.0	676.0	129.3	853.6
Other public issuers	5.9	480.0	135.7	188.9	0.0	810.5
Covered bonds	3.7	119.6	80.1	1,776.4	416.4	2,396.2
Financial enterprises	2.1	41.9	70.3	560.2	0.0	674.5
Non-financial enterprises	0.4	25.0	0.0	0.0	0.0	25.4
Total certificates and bonds	20.4	666.5	326.1	3,201.5	545.7	4,760.2

Modified duration

	Group	Parent bank
State and state guaranteed	0.76	0.80
Other public issuers	0.24	0.24
Covered bonds	0.15	0.15
Financial enterprises	0.10	0.10
Non-financial enterprises	0.00	0.00
Total duration	0.29	0.29

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 31.12.2016

	No. of shares	Stake in %	Book cost	Fair value
Fair value through profit or loss				
Visa Inc.	4,739	0.00	2.0	12.8
Voss Veksel- og Landmandsbank ASA	14,069	0.74	1.6	1.6
Total at fair value through profit or loss			3.6	14.4
Available for sale				
BankAxept AS	560	0.56	0.3	0.3

Bankenes ID-tjeneste AS	6,700	6.70	0.0	0.0
BankID Norge AS	260	0.52	0.4	0.4
Eiendomskreditt AS	126,594	4.12	12.7	12.7
Eksportfinans ASA	12,787	4.85	139.4	195.0
Frende Holding AS	891,491	13.19	107.3	220.0
Kredittforeningen for Sparebanker	2,760	5.52	2.8	2.8
Norne Eierselskap	4,553,571	2.55	1.3	1.3
Sparebankmaterieil AS	302	0.96	0.0	0.0
Visa Norge FLI			0.0	6.5
Visa Inc. owned via Visa Norge Holding 1 AS			6.3	6.3
Total available for sale			270.5	445.3
Cost				
Other shares			0.4	0.4
Total cost			0.4	0.4
Total shares and equity certificates			274.5	460.1

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%
Krokstad Terrasse 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 31.12.2016

Group	Group	Group		Parent bank	Parent bank	Parent bank
Machinery/inventor y/vehicles, etc.	Properties	Investment properties		Machinery/inventor y/vehicles, etc.	Properties	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	

Property, plant and equipment as at 31.12.2015

Group Machinery/inventor y/vehicles, etc.	Group Properties	Group Investment properties		Parent bank Machinery/inventor y/vehicles, etc.	Parent bank Properties	Parent bank Investment properties
130.3	116.4	428.9	Acquisition cost as at 01.01.	105.7	58.0	0.0
10.6	2.3	75.4	Additions	8.0	0.5	0.0
6.6	0.9	235.6	Disposals	5.8	0.0	0.0
134.3	117.8	268.7	Acquisition cost as at 31.12	107.9	58.5	0.0
100.4	20.1	18.9	Total ordinary depreciation and write-downs	78.3	10.3	0.0
33.9	97.7	249.8	Book value as at 31.12	29.6	48.2	0.0
12.1	2.0	3.8	Year's ordinary depreciation	10.0	0.9	
0.0	0.0	0.0	Year's write-downs	0.0	0.0	
2-8 years	10-100 years	20-100 years	Economic life	2-5 years	10-100 years	
Straight line	Straight line	Straight line	Depreciation plan	Straight line	Straight line	
0.0	13.8		Annual hire of assets not on balance sheet	0.0	20.0	

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 31.12.2016	333.7	284.3
Investment properties at fair value as at 31.12.2015	288.6	249.8

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 6.7%. 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 2016

Group Area - m ²		Group Book value		Parent bank Area - m ²		Parent bank Book value
Own use	Leasing	2016*	Commercial building	Own use	Leasing	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.

Liabilities

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

Real estate for own activities 2015

Group Area - m ²		Group Book value		Parent bank Area - m ²		Parent bank Book value
Own use	Leasing	2015*	Commercial building	Own use	Leasing	2015*
2,363	14,492	224.3	Drammen	2,087	0	33.5
4,533	5,111	66.7	Øvre Eiker	0	0	0.0
1,255	3,708	35.7	Nedre Eiker	0	0	0.0
8,151	23,311	326.7	Total commercial buildings	2,087	0	33.5

* 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 2016	Group 2015		Parent bank 2016	Parent bank 2015
14.0	13.8	Year's rental costs	19.7	20.0
		Year's rental costs corresponds to minimum rental payments		
		Minimum future rental payments		
11.4	9.3	Within 1 year	13.8	13.2
27.6	6.2	Between 1-5 years	29.5	12.5
4.5	0.3	After 5 years	4.5	0.3
43.5	15.8	Total	47.9	26.0

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

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
0.0	0.0	Income accrued but not received	1.1	1.1
14.7	7.5	Other prepaid non-accrued costs	14.0	6.9
14.7	7.5	Prepaid non-accrued costs and earned but not received income	15.1	8.0

NOTE 40 - LIABILITIES TO FINANCIAL INSTITUTIONS

Group	Group	Parent bank	Parent bank
-------	-------	-------------	-------------

2016	2015		2016	2015
0.1	0.1	Loans and receivables from financial institutions without agreed maturities or deadline	7.2	6.9
90.1	150.2	Loans and receivables from financial institutions with agreed maturities or deadline	318.5	417.9
90.2	150.3	Liabilities to financial institutions	325.7	424.8

NOTE 41 - DEPOSITS FROM AND LIABILITIES TO CUSTOMERS

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
10,184.5	10,665.7	Deposits from and liabilities to customers without agreed maturity	10,193.0	10,685.7
3,702.9	2,493.6	Deposits from and liabilities to customers with agreed maturity	3,703.2	2,493.8
13,887.4	13,159.3	Deposits from and liabilities to customers	13,896.2	13,179.5

Geographical distribution of deposits

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
2,956.2	2,716.1	Drammen	2,982.4	2,754.6
1,856.2	1,808.2	Nedre Eiker	1,854.1	1,806.2
1,793.5	1,741.9	Øvre Eiker	1,793.4	1,741.8
872.2	739.3	Other parts of Buskerud	871.7	738.7
2,736.1	2,662.0	Oslo	2,729.6	2,655.7
1,142.2	1,105.2	Akershus	1,137.1	1,100.3
622.0	592.2	Vestfold	622.0	590.9
177.7	194.3	Østfold	175.7	192.1
1,636.4	1,495.4	Rest of Norway	1,635.3	1,494.5
94.9	104.7	Abroad	94.9	104.7
13,887.4	13,159.3	Total	13,896.2	13,179.5

Distribution of deposits by sector and industry

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
8,927.3	8,517.5	Salaried employees	8,915.9	8,506.7
408.7	339.4	Public administration	408.7	339.4
119.1	136.9	Agriculture, forestry and fishing	119.1	136.9
583.7	446.9	Industry and mining, power and water supply	583.7	446.9
406.8	361.6	Building and construction	405.0	359.7
470.3	455.1	Wholesale and retail trade, hotels and restaurants	470.2	455.0
182.2	167.0	Transport and communications	182.1	166.9
1,169.2	1,175.5	Financial services	1,166.1	1,171.9
709.0	693.5	Other service industries	708.9	692.6
816.2	761.2	Real estate sales and operation	841.6	798.8
94.9	104.7	Abroad	94.9	104.7
13,887.4	13,159.3	Total	13,896.2	13,179.5

NOTE 42 - SECURITIES ISSUED

Group	Outstanding volume 2016*	Avg. balance 2016	Weighted effective interest rate 2016	Outstanding volume 2015*	Avg. balance 2015	Weighted effective interest rate 2015
Bond loans	17,498.5	16,991.1	1.85%	17,068.6	15,973.2	2.13%
Own holdings - bond loans	0.0	-1.0	1.67%	0.0	-1.8	2.43%
Securities issued	17,498.5	16,990.1	1.85%	17,068.6	15,971.4	2.13%

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

Parent bank	Outstanding	Weighted	Outstanding	Weighted
-------------	-------------	----------	-------------	----------

	volume 2016*	Avg. balance 2016	effective interest rate 2016	volume 2015*	Avg. balance 2015	effective interest rate 2015
Bond loans	9,171.9	8,902.2	2.00%	9,463.9	8,896.4	2.27%
Own holdings - bond loans	0.0	-1.0	1.67%	0.0	-1.8	2.43%
Securities issued	9,171.9	8,901.2	2.00%	9,463.9	8,894.6	2.27%

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

NOTE 43 - SUBORDINATED LOAN CAPITAL

	Outstanding volume 2016*	Avg. balance 2016	Weighted effective interest rate 2016	Outstanding volume 2015*	Avg. balance 2015	Weighted effective interest rate 2015
Perpetual subordinated loan capital	349.6	350.0	4.35%	349.3	350.0	4.59%
Subordinated bond loan	349.7	350.0	3.18%	349.5	350.0	3.44%
Subordinated loan capital	699.3	700.0	3.77%	698.8	700.0	4.02%

* 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. The hybrid tier 1 capital in the financial statements is classified as debt based on an assessment of the bonds contracts.

NOTE 44 - LONG-TERM BORROWING BY MATURITY

Long-term borrowing as at 31.12.2016 - group

	Loans from financial institutions	Bond loans	Covered bonds	Subordinated loans	Total
2017	60.1	1,899.0	229.0	0.0	2,188.1
2018	30.0	1,750.0	1,000.0	550.0	3,330.0
2019	0.0	2,550.0	585.4	150.0	3,285.4
2020	0.0	1,240.0	2,500.0	0.0	3,740.0
2021	0.0	600.0	3,100.0	0.0	3,700.0
2022	0.0	500.0	0.0	0.0	500.0
2023	0.0	0.0	0.0	0.0	0.0
2024	0.0	200.0	0.0	0.0	200.0
2025 and later	0.0	325.0	750.0	0.0	1,075.0
Gross borrowing	90.1	9,064.0	8,164.4	700.0	18,018.5
Accrued interest	0.1	77.6	38.5	4.2	120.4
Direct costs and premium/discount	0.0	-3.4	-0.9	-0.7	-5.0
Value adjustments	0.0	111.3	163.1	0.0	274.4
Net borrowing	90.2	9,249.5	8,365.1	703.5	18,408.3

Call/put loans by call/put date.

Long-term borrowing as at 31.12.2015 - group

	Loans from financial institutions	Bond loans	Covered bonds	Subordinated loans	Total
2016	60.1	1,592.0	1,073.0	0.0	2,725.1
2017	60.0	2,150.0	1,000.0	0.0	3,210.0
2018	30.0	1,750.0	1,000.0	550.0	3,330.0
2019	0.0	1,800.0	1,000.0	150.0	2,950.0

2020	0.0	1,240.0	2,000.0	0.0	3,240.0
2021	0.0	200.0	600.0	0.0	800.0
2022	0.0	0.0	0.0	0.0	0.0
2023	0.0	0.0	0.0	0.0	0.0
2024 and later	0.0	525.0	750.0	0.0	1,275.0
Gross borrowing	150.1	9,257.0	7,423.0	700.0	17,530.1
Accrued interest	0.2	93.5	43.2	4.1	141.0
Direct costs and premium/discount	0.0	-2.5	-6.3	-1.2	-10.0
Value adjustments	0.0	209.4	188.0	0.0	397.4
Net borrowing	150.3	9,557.4	7,647.9	702.9	18,058.5

Call/put loans by call/put date.

Long-term borrowing as at 31.12.2016 - parent bank

	Loans from financial institutions	Bond loans	Subordinated loans	Total
2017	295.6	1,899.0	0.0	2,194.6
2018	30.0	1,750.0	550.0	2,330.0
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	600.0	0.0	600.0
2022	0.0	500.0	0.0	500.0
2023	0.0	0.0	0.0	0.0
2024	0.0	200.0	0.0	200.0
2025 and later	0.0	325.0	0.0	325.0
Gross borrowing	325.6	9,064.0	700.0	10,089.6
Accrued interest	0.1	77.6	4.2	81.9
Direct costs and premium/discount	0.0	-3.4	-0.7	-4.1
Value adjustments	0.0	111.3	0.0	111.3
Net borrowing	325.7	9,249.5	703.5	10,278.7

Call/put loans by call/put date.

Long-term borrowing as at 31.12.2015 - parent bank

	Loans from financial institutions	Bond loans	Subordinated loans	Total
2016	334.6	1,592.0	0.0	1,926.6
2017	60.0	2,150.0	0.0	2,210.0
2018	30.0	1,750.0	550.0	2,330.0
2019	0.0	1,800.0	150.0	1,950.0
2020	0.0	1,240.0	0.0	1,240.0
2021	0.0	200.0	0.0	200.0
2022	0.0	0.0	0.0	0.0
2023	0.0	0.0	0.0	0.0
2024 and later	0.0	525.0	0.0	525.0
Gross borrowing	424.6	9,257.0	700.0	10,381.6
Accrued interest	0.2	93.5	4.1	97.8
Direct costs and premium/discount	0.0	-2.5	-1.2	-3.7
Value adjustments	0.0	209.4	0.0	209.4
Net borrowing	424.8	9,557.4	702.9	10,685.1

Call/put loans by call/put date.

NOTE 45 - OTHER LIABILITIES

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
3.0	3.2	Liabilities linked to money-transfer services	3.0	3.2
27.5	0.0	Provisions for social dividends	27.5	0.0
16.4	7.6	Accounts payable	9.7	0.5

48.6	57.8	Other liabilities	49.7	48.7
95.5	68.6	Other liabilities	89.9	52.4

NOTE 46 - ALLOCATIONS FOR COSTS AND COMMITMENTS INCURRED

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
38.6	59.7	Pension liabilities (see note 47)	37.3	57.6
0.0	0.0	Specified allocations for guarantee liabilities	0.0	0.0
38.6	59.7	Provisions for accrued costs and liabilities	37.3	57.6

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 218 persons, 105 active and 113 retired, of whom 18 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.

Change to disability pensions

A new disability pension was introduced by the National Insurance Scheme in 2015 and the authorities have decided that companies' disability pensions must be adjusted to the new Regulations. As a consequence of the change, disability pensions were closed as at 30 June 2016 for those active members in the group's pension scheme. The change has been taken into account in the calculations and follows the rules for curtailment/settlement. According to the new rules, the company's contributions to disability pensions will be treated in the same way as defined contribution pensions.

Defined-contribution pension scheme

As from 01.01.07, 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 1 and 6G (G = the National Insurance basic amount) plus 8% of salaries between 6 and 12G, are paid. The paid contributions are managed in various Storebrand funds. The defined-contribution scheme now includes 90 employees, of whom 3 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 bank has separate pension agreements in place for 6 persons on salaries above 12 G, of whom 5 persons are no longer employed by the bank. Sparebanken Øst Eiendom AS has a pension scheme for salaries above 12 G that is covered via operations. 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 salaries, etc., and comprised NOK 1.6 million in 2016 and NOK 1.6 million in 2015. Next year's premium is estimated at approximately NOK 1.7 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. The new 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 2016, the premium was 2.5% of salary between 1G and 7.1G. The premium will be 2.5% in 2017.

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 5 and 10 years, respectively. The average remaining qualification period for operational pensions lies in intervals of 2-4 years.

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	2016	2015
Expected return on pension funds	2.60%	2.70%
Discount rate	2.60%	2.70%
Annual salary growth	2.00%	2.00%
Annual G adjustment	2.25%	2.25%
Annual pension regulation	0.00%	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 2016	Group 2015		Parent bank 2016	Parent bank 2015
		Net pension costs, defined-benefit scheme		
5.6	9.6	Present value of annual pension savings	4.4	8.1
1.6	2.0	Interest costs for pension liabilities	1.5	1.9
7.2	11.6	Net pension costs including employers' National Insurance contribution	5.9	10.0
2.4	2.4	Premium paid, defined-contribution scheme	2.1	2.0
1.6	1.6	Premium paid, AFP scheme	1.6	1.6
11.2	15.6	Total pension costs in ordinary result	9.6	13.6

Specification of pension liabilities and pension funds - group

2016				2015		
Funded	Unfunde d	Total		Funded	Unfunde d	Total
Change in gross pension liabilities						
267.0	28.9	295.9	Pension liabilities as at 01.01.	290.6	30.8	321.4
-12.2	0.0	-12.2	Additions/retirement (settlement disability pension)	0.0	0.0	0.0
7.2	0.2	7.4	Costs of current period's pension earnings	9.1	0.3	9.4
7.0	0.7	7.7	Interest costs	6.6	0.7	7.3
-7.4	1.8	-5.6	Actuarial gains and losses	-31.0	-1.0	-32.0
-10.9	-1.7	-12.6	Payment pension/paid-up policies	-8.3	-1.9	-10.2
250.7	29.9	280.6	Gross pension liabilities as at 31.12	267.0	28.9	295.9
Change in gross pension liabilities						
236.2	0.0	236.2	Fair value of pension funds as at 01.01.	234.4	0.0	234.4
-10.2	0.0	-10.2	Additions/retirement (settlement disability pension)	0.0	0.0	0.0
5.9	0.0	5.9	Return on pension funds	5.1	0.0	5.1
-2.7	0.0	-2.7	Actuarial gains and losses	-2.2	0.0	-2.2
20.8	0.0	20.8	Premium payments	6.4	0.0	6.4
-8.0	0.0	-8.0	Payment of pension/paid-up policies	-7.5	0.0	-7.5
242.0	0.0	242.0	Fair value of pension funds as at 31.12	236.2	0.0	236.2
8.7	29.9	38.6	Net pension liabilities (+)/- pension funds (-)	30.8	28.9	59.7

2016		2015	
59.7	Net pension liabilities as at 01.01.	87.1	
9.2	Recognised pension costs	11.6	
-2.0	Additions/retirement (settlement disability pension)	0.0	
-2.9	Actuarial gains and losses	-29.8	
-20.8	Paid-in pension premiums	-6.4	
-4.6	Pension payments	-2.8	
38.6	Net pension liabilities on balance sheet as at 31.12	59.7	
8.7	Expected premium payment next year, defined-benefit scheme	15.3	
2.8	Expected premium payment next year, defined-contribution scheme	2.7	
0.3	Expected premium payment next year, disability pensions	0.0	
1.7	Expected premium payment next year, new AFP scheme	1.7	
Placement of pension funds in %			
33.2%	Money market/bonds	31.9%	
39.7%	Term bonds	45.2%	
10.3%	Shares	5.7%	
2.2%	Private Equity	2.9%	
14.3%	Property	12.1%	
0.3%	Other	2.2%	
6.4%	Booked returns totalled	5.4%	

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.

Change in percentage points	Discount rate		Annual salary growth/ basic amount		Annual adjustment of pensions	
	+ 0.5%	- 0.5%	+ 0.5%	- 0.5%	+ 0.5%	- 0.0%
Percentage change in pension						
- Pension liabilities (PBO)	-8.3%	10.3%	2.5%	-2.5%	7.8%	0.0%
- Net pension costs for the period	-10.7%	12.4%	5.0%	-4.8%	7.6%	0.0%

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 points will give an increase in pension liabilities of 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 2016 have the following maturity structure over the next 10 years.

	Amount	As % of gross pension liabilities
Under 1 year	10.2	3.6%
Year 2	10.2	3.6%
Year 3	10.2	3.6%
Year 4	10.8	3.8%
Year 5	11.9	4.2%
Years 6-10	64.3	22.9%
Total	117.7	41.9%

Specification of pension liabilities and pension funds - parent bank

2016				2015		
Funded	Unfunde d	Total		Funded	Unfunde d	Total
			Change in gross pension liabilities			
242.8	27.9	270.7	Pension liabilities as at 01.01.	265.1	29.9	295.0
-11.0	0.0	-11.0	Additions/retirement (settlement disability pension)	0.0	0.0	0.0
5.9	0.1	6.0	Costs of current period's pension earnings	7.9	0.2	8.1
6.3	0.7	7.0	Interest costs	5.9	0.7	6.6
-5.1	1.7	-3.4	Actuarial gains and losses	-28.5	-1.0	-29.5
-10.2	-1.6	-11.8	Payment pension/paid-up policies	-7.6	-1.9	-9.5
228.7	28.8	257.5	Gross pension liabilities as at 31.12	242.8	27.9	270.7
			Change in gross pension liabilities			
213.0	0.0	213.0	Fair value of pension funds as at 01.01.	213.0	0.0	213.0
-9.2	0.0	-9.2	Additions/retirement (settlement disability pension)	0.0	0.0	0.0
5.4	0.0	5.4	Return on pension funds	4.7	0.0	4.7
-0.3	0.0	-0.3	Actuarial gains and losses	-2.1	0.0	-2.1
18.9	0.0	18.9	Premium payments	4.4	0.0	4.4
-7.6	0.0	-7.6	Payment of pension/paid-up policies	-7.0	0.0	-7.0
220.2	0.0	220.2	Fair value of pension funds as at 31.12	213.0	0.0	213.0
8.5	28.8	37.3	Net pension liabilities (+)/- pension funds (-)	29.7	27.9	57.6

2016		2015	
57.6	Net pension liabilities as at 01.01.	82.0	
7.7	Recognised pension costs	10.0	
-1.8	Additions/retirement (settlement disability pension)	0.0	
-3.1	Actuarial gains and losses	-27.4	
-18.9	Paid-in pension premiums	-4.4	
-4.2	Pension payments	-2.6	
37.3	Net pension liabilities on balance sheet as at 31.12	57.6	
6.6	Expected premium payment next year, defined-benefit scheme	13.6	
2.3	Expected premium payment next year, defined-contribution scheme	2.2	
0.3	Expected premium payment next year, disability pensions	0.0	
1.7	Expected premium payment next year, new AFP scheme	1.7	
Placement of pension funds in %			
33.2%	Money market/bonds	31.9%	
39.7%	Term bonds	45.2%	
10.3%	Shares	5.7%	
2.2%	Private Equity	2.9%	
14.3%	Property	12.1%	
0.3%	Other	2.2%	
6.4%	Booked returns totalled	5.4%	

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.

Change in percentage points	Discount rate		Annual salary growth/ basic amount		Annual adjustment of pensions	
	+ 0.5%	- 0.5%	+ 0.5%	- 0.5%	+ 0.5%	- 0.0%
Percentage change in pension						
- Pension liabilities (PBO)	-8.0%	10.0%	2.3%	-2.3%	7.7%	0.0%
- Net pension costs for the period	-11.4%	13.3%	5.4%	-5.2%	8.0%	0.0%

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 points will give an increase in pension liabilities of 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 2016 have the following maturity structure over the next 10 years.

	Amount	As % of gross pension liabilities
Under 1 year	9.7	3.8%
Year 2	9.8	3.8%
Year 3	9.8	3.8%
Year 4	10.3	4.0%
Year 5	10.9	4.2%
Years 6-10	58.4	22.7%
Total	108.9	42.3%

Development in pensions - group

	2016	2015	2014	2013	2012
Gross pension liabilities (hedged and non-hedged schemes)	280.6	295.9	321.4	257.7	246.8
Gross fair value of pension funds	242.0	236.2	234.3	220.1	221.8
Net pension liabilities	38.6	59.7	87.1	37.6	25.0

Development in pensions - parent bank

	2016	2015	2014	2013	2012
Gross pension liabilities (hedged and non-hedged schemes)	257.5	270.6	295.0	237.0	225.5
Gross fair value of pension funds	220.2	213.0	213.0	201.1	203.9
Net pension liabilities	37.3	57.6	82.0	35.9	21.6

NOTE 48 - GUARANTEE LIABILITIES

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
70.1	60.5	Payment guarantees	69.4	59.7
55.0	53.0	Contract guarantees	55.0	51.9
13.9	4.5	Loan guarantees	13.9	4.5
15.1	25.7	Other guarantee liabilities	15.1	25.7
154.1	143.7	Total guarantee liabilities to customers	153.4	141.8
72.7	100.0	Guarantee to Eksportfinans ASA*	72.7	100.0
226.8	243.7	Total guarantee liabilities	226.1	241.8

*Net guarantee liability is NOK 72.7 million as at 31 December 2016, and NOK 100.0 million as at 31 December 2015. The guarantee is a derivative. The value of the derivative excluding the swap settlement was positive at NOK 41.0 million as at 31 December 2016 compared with NOK 31.7 million as at 31 December 2015. See also Note 20 - Financial Derivatives.

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 8,164.4 million as at 31 December 2016 and nominal value of NOK 7,423.0 as at 31 December 2015.

NOTE 49 - PLEDGES AND RIGHTS

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
415.0	645.0	Bonds, nominal value, pledged as security for borrowing facilities at Norges Bank	415.0	645.0
415.0	645.0	Pledged assets	415.0	645.0
8,164.4	7,423.0	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

	2016	2015
Norwegian Banks Guarantee Fund levy	11.7	11.3

NOTE 51 - ADDITIONAL INFORMATION CASH FLOW STATEMENT

Group 2016	Group 2015		Parent bank 2016	Parent bank 2015
		Cash and cash equivalents		
311.9	378.0	Cash and receivables from central banks	311.9	378.0
9.5	8.1	Loans to and receivables from financial institutions that are pure investments	9.5	8.1
321.4	386.1	Total	321.4	386.1
		Change in other assets in connection with operations		
18.5	-3.4	Net change in financial assets held for trading	18.5	-3.4
-58.9	17.0	Net change in financial derivatives (net assets and liabilities)	-58.9	17.0
-7.4	84.8	Net change in other assets	-5.8	7.1
-47.8	98.4	Total	-46.2	20.7
		Non-cash items included in profit before tax		
28.7	17.9	Depreciation/write-downs of tangible assets	11.4	10.9
0.2	0.2	Amortisation of financial investments held to maturity	0.2	0.2
-16.8	-12.8	Impairment of financial assets	-17.0	-11.5
3.4	-0.8	Amortisation of financing activities measured at amortised cost	0.8	-1.9
15.5	4.5	Total	-4.6	-2.3

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 2016	Group 2015		Parent bank 2016	Parent bank 2015
331.2	256.0	Profit after tax (NOK millions)	279.7	182.1
124.8	99.3	Profit after tax allocated to equity certificate holders (NOK millions)	105.4	70.6
20.7	20.7	Weighted average number of outstanding equity certificates (NOK millions)	20.7	20.7
6.02	4.79	Earnings per equity certificate (NOK)	5.08	3.41

Weighted number of equity certificates

2016

No. of certificates in 2016	20,731,183
Total no. of certificates in 2016	20,731,183

2015

No. of certificates in 2015	20,731,183
Total no. of certificates in 2015	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

	01.01.2017	01.01.2016
Equity certificate capital	207.3	207.3
Premium reserve	387.8	387.8
Equalisation fund (excl. dividend)	296.1	272.8
Available for sale reserve	63.3	68.0
Total numerator (A)	954.4	935.9
Total equity (dividend provisions for the year excluded)	2,636.1	2,484.4
Total denominator (B)	2,636.1	2,484.4
Ownership fraction (A/B) in %	36.21	37.67

Dividends

The board's proposal for dividends is NOK 82,924,732.00, which amounts to NOK 4.00 per equity certificate.

In NOK	2016	2015
--------	------	------

Total dividends paid out	82,924,732.00	68,412,903.90
Paid out per equity certificate	4.00	3.30

The twenty largest equity certificate holders as at 31.12.2016

Name	Number	%	Name	Number	%
1 MP Pensjon	2,012,218	9.71%	11 Profond AS	317,723	1.53%
2 Directmarketing Invest AS	999,500	4.82%	12 Wenaasgruppen AS	273,000	1.32%
3 Storetind AS	641,000	3.09%	13 Bergen Kommunale Pensjonskasse	265,000	1.28%
4 Pareto AS	584,070	2.82%	14 Hustadlitt AS	229,531	1.11%
5 Citibank NA New York (NOM.)	553,822	2.67%	15 Jal Holding AS	198,104	0.96%
6 Verdipapirfondet Eika Utbytte	512,262	2.47%	16 Danske Bank AS (NOM.)	162,571	0.78%
7 Hansen, Asbjørn Rudolf	466,443	2.25%	17 Nordenfjelske Bykreditts Stiftelse	156,318	0.75%
8 Jag Holding AS	425,900	2.05%	18 Løkke, Helge Arnfinn	148,433	0.72%
9 Foretakskonsulenter AS	385,100	1.86%	19 Tomtefeste 1 AS	140,278	0.68%
10 AS Andersen Eiendomselskap	354,500	1.71%	20 Øvrum Invest AS	132,162	0.64%

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

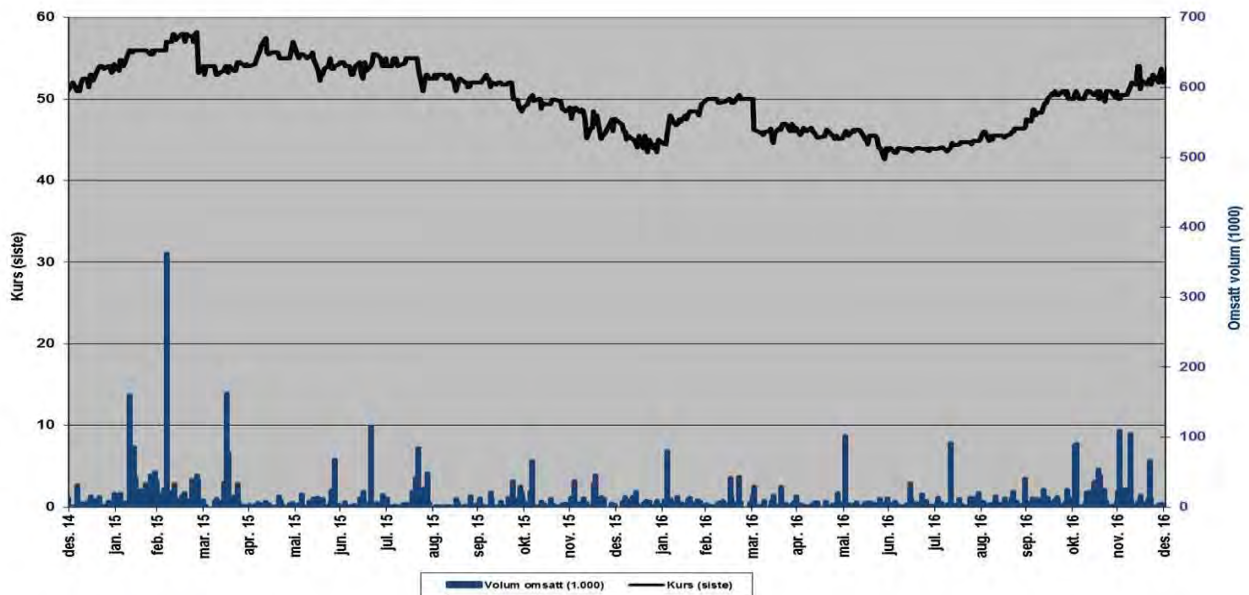
	No. of owners	%	No. of equity certificates	%
Abroad	97	3.3%	1,744,025	8.4%
Øvre Eiker	272	9.2%	737,063	3.6%
Nedre Eiker	158	5.4%	545,509	2.6%
Drammen	204	6.9%	3,025,477	14.6%
Other parts of Buskerud	250	8.5%	635,857	3.1%
Asker/Bærum	201	6.8%	1,579,148	7.6%
Oslo	420	14.2%	6,323,910	30.5%
Trondheim	509	17.2%	459,045	2.2%
Bergen	97	3.3%	1,085,190	5.2%
Rest of Norway	745	25.2%	4,595,959	22.2%
Total	2,953	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	422	14.3%	21,035	0.1%
101-1,000	1,305	44.2%	551,300	2.7%
1,001-10,000	968	32.8%	3,457,500	16.7%

10,001- 100,000	230	7.8%	6,854,480	33.0%
100,001-	28	0.9%	9,846,868	47.5%
Total	2,953	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	The board of directors and personal close associates	No. of equity certificates
Jon Aas	0	Jorund Rønning Indrelid	34,485
May-Britt Andersen	0	Øivind Andersson	10,000
Kari Solberg Økland	0	Elly Therese Thoresen	18
Morten Ranvik	0	Morten André Yttreide	35,000
Thomas F. Halvorsen	0	Hanne Margrete Lenes Solem	0
Nina Paulsen	0	Knut Smedsrud	0
Øivind Granlund	0	Inger Helen Pettersen	20
Helge Chr. Aaby	0	Ole-Martin Solberg	0
Bent Inge Bye	0		
Jostein André Kretz	0		
Dag Fjeld Edvardsen	0		
Jorunn Jagland	0		
Jan Christian Skau	0		
Frode Lindbeck	3,428		
Vegard Kvamme	3,000	Executive personnel and personal close associates	No. of equity certificates
Rolf Arne Fjelltoft	15	Pål Strand	20,000
Brynulf Kopperud	0	Kjell Engen	0
Anne Siri Rhoden Jensen	416	Per Øyvind Mørk	20,000
Morten Wang	0	Jan-Roger Vrabel	0
Camilla Schenk	0	Lars-Runar Groven	0
Gunnvor Ramnefjell	34,187	Arnlfjot Lien	0
Ole B. Hoen (representing Hoen Invest AS)	4,606	Halvor Kirkebøen	1,255
Lars M. Lunde (representing MP Pensjon)	2,012,218		
Tom R. Svendsen	3,003		
Frank Borgen	33,123		
Helle Elisabeth Hofgaard	7,000		
Iver A. Juel	131,306		
Asbjørn R. Hansen	466,443		
Kåre J. Grøtta (representing Storetind AS)	641,000		
Jørn Larsen (representing Bondeungdomslaget in Drammen)	17,500		
Andreas E. Øvrum (representing Øvrum Invest AS)	132,162		
Kristin Nystrøm	38,303		

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 2016, 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 bank and the Group as at 31 December 2016 and their financial performance 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 bank 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 2016. 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 customers represent 83% of the Group's total asset as of 31 December 2016. Impairment on loans shall be calculated individually for individually significant loans where 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 result in significant different estimates on the impairment of

loans to customers. 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 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 the mathematical accuracy of the models.

Losses on loans to customers are described in the Group's annual report's note 2 – Accounting policies, note 3 – Assessments and use of estimates and note 13 – Losses on loans and guarantees, customers.

Other information

Other information consists of the information included in the bank'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 bank'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 bank 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;
- ▶ 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 bank'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 bank'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 bank 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.

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 bank's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Drammen, 8 March 2017
ERNST & YOUNG AS

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 % of average total assets
3	Profit/loss after tax as % of average total assets	Profit/loss after tax as % of average total assets
4	Costs as % of average total assets	Payroll, etc., administrative costs, amortisation and other operating costs as % of average total assets
5	Costs as % 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 % of gross lending 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 % of the risk-weighted volume (calculation basis)
17	Tier 1 capital ratio	Tier 1 capital as % of the risk-weighted volume (calculation basis)
18	Capital adequacy ratio	Total primary capital as % 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 % of unweighted calculation basis.

Liquidity

21	Deposit coverage ratio	Deposits as % 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	Annual turnover rate (traded as % of issued)
31	Price	Last traded