



6th. year

# Quarterly report 2014

1. quarter 2014



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## Key figures

	31.03.14	31.03.13	31.12.13
Return on equity (%)	16.34	14.53	15.74
Net interest income as % of total assets	1.73	1.47	1.63
Cost/income ratio (%)	11.91	12.54	11.77
Losses as a % of net lending	0.0	0.0	0.00
Provision percentage for non-performing loans	0.0	0.0	0.00
Non-performing loans as a % of net lending	0.0	0.0	0.00
Capital adequacy %	17.32	17.88	18.70
Tier 1 capital adequacy %	17.32	17.88	18.70
Return (NOK million)	0.0	0.0	50.0
Average total assets (NOK million)	8,013.1	8,044.7	7,935.5

## Quarterly report Q1 2014

Sparebanken Øst Boligkreditt AS was founded on 14 April 2009.

Sparebanken Øst Boligkreditt AS is a wholly owned subsidiary of Sparebanken Øst and is a financing institution established for the purpose of issuing covered bonds.

Trends in the Norwegian and international capital markets in recent years have shown that the establishment of an independent mortgage lender as a wholly owned subsidiary of Sparebanken Øst was the right decision.

In its participation in the market, Sparebanken Øst Boligkreditt AS has played a vital role in securing long-term and favourable financing for the Group, and will continue to do so in the coming year.

Total lending secured against residential property amounted to NOK 7,822.9 million at the end of Q1 2014, while securities debt in the form of covered bonds amounted to NOK 6,827.3 million.

### Business Concept

Sparebanken Øst Boligkreditt AS's purpose is to grant or acquire residential mortgages, commercial mortgages, loans secured against other real estate assets, and public loans, as well as to finance lending operations primarily by issuing covered bonds.

Sparebanken Øst Boligkreditt AS shall be a profitable company run in accordance with business principles and with high ethical standards.

## Report on the Quarterly Accounts

### Income Statement

Total interest income as at Q1 2014 amounted to NOK 75.8 million compared with NOK 75.6 million at the same point in 2013. The vast majority of interest income relates to lending to customers. Net interest and commission income amounted to a total of NOK 34.2 million, which is a 17.1% increase compared to 2013 (NOK 29.2 million). The change is attributable to expanded margins.

The company's operating profit before tax for Q1 2014 amounted to NOK 30.1 million (NOK 25.5 million in Q1 2013), while profit after estimated tax amounted to NOK 22.0 million (NOK 18.4 million in Q1 2013).

Total operating expenses in Q1 2014 amounted to NOK 4.1 million (NOK 3.7 million in Q1 2013) of which NOK 2.9 million (NOK 2.9 million in Q1 2013) relate to management fees paid to the parent bank.

Sparebanken Øst Boligkreditt AS has a formal partnership with Sparebanken Øst regulated by a comprehensive management agreement which ensures competency within key fields related to the business and helps to ensure overall cost-effective operations. In line with the management agreement, the fee is calculated according to the lending portfolio being managed at the time.

No lending losses were reported on the company's portfolio in Q1 2014. Similarly, there was no reason to undertake individual or group write-downs.

The estimated tax expenses amount to NOK 8.1 million as at Q1 2014 compared to NOK 7.1 million for the same period last year.

### Balance Sheet

The company's balance sheet showed total capital of NOK 8,102.1 million at the end of Q1 2014, which represents an increase of NOK 449.1 million from Q1 2013 and an increase of NOK 386.9 million from 31.12.13. Of the total balance sheet, net lending to customers accounted for NOK 7,822.9 million, which represents an increase of NOK 384.0 million (5.2%) from Q1 2013 and an increase of NOK 391.0 million since year-end 2013. The managed volume originates in the acquisition of the residential mortgage portfolio from Sparebanken Øst and Boligkreditt.no. Other assets largely comprise deposits in the parent bank.

Bond debt at the end of Q1 2014 amounted to NOK 6,827.3 million, which represents an increase of NOK 431.7 million compared with the same point last year and an increase of NOK 411.9 million from year-end 2013. Sparebanken Øst Boligkreditt AS has this year issued covered bonds with a nominal value totalling NOK 900 million, NOK 400 million of which were issued in Q1.

At the end of Q1, NOK 664.7 million was drawn from an approved credit facility with a limit of NOK 2,000 million, which was made available from Sparebanken Øst.

## Risk

Sparebanken Øst Boligkreditt AS seeks to maintain a low risk profile in line with regulatory requirements, which also ensures that the company has confidence in the market for covered bonds. The business requires a certain degree of risk-taking, but Sparebanken Øst Boligkreditt AS seeks to maintain a conscious and measured approach to this. This applies particularly to credit risk, interest rate risk, liquidity risk, and operational risk (including ICT risk).

Sparebanken Øst Boligkreditt AS shall achieve its economic objectives over time. These objectives include a return on equity equivalent to risk-free interest over time, capital adequacy at the highest level as stipulated by regulations and the company's own evaluations, and liquidity management that minimises the risk related to future liquidity challenges.

### Overall risk management

The Board and management have 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 Board regularly evaluates strategies and guidelines pertaining to risk management and control.

Sparebanken Øst Boligkreditt AS monitors risk trends by way of systematic quarterly measurements and risk reports for the most crucial areas, including the actual level of risk compared to established limits.

The general manager is responsible for executing and implementing adequate internal controls and risk management. The company has its own controller, who prepares quarterly reports using the existing portfolio as the basis for making spot-checks against credit risk and regulatory provisions. Additionally, checks and reports are carried out for each portfolio transfer from the parent bank to Sparebanken Øst Boligkreditt AS. A quarterly Board and Management Report providing a picture of current risks and trends will be submitted to the Board. The company has established guidelines and a framework for the management and control of various types of risk. Foreign exchange, interest rate, and liquidity risks are managed in accordance with the provisions of the Norwegian Financial Institutions Act for covered bonds, and the framework laid down by the company's Board of Directors. The general manager holds quarterly meetings with the parent bank to review the current status, trends, and prospects on the basis of the financial report that has been compiled. Separate minutes are prepared following these quarterly meetings. A financial report together with minutes is submitted to the Board on a quarterly basis. The Board deems the overall financial risk to be low.

A management agreement has been entered into with Sparebanken Øst covering administration, IT operations, and the production of various banking services, as well as finance, clearing, and accounting services. As at the end of Q1 2014, the company had leased a total of 1.4 FTEs including a general manager to assist in assignments such as follow-ups and controls related to outsourced services. The structures and systems related to this have been developed considerably during the year. The general manager submits an annual report regarding the implementation of internal control and risk management. The Board deems operational risk to be low.

Sparebanken Øst has issued a guarantee for all covered bond liabilities in the mortgage company. Additionally, Sparebanken Øst Boligkreditt AS has drawing rights in Sparebanken Øst.

The assets primarily consist of lending secured against real estate within legal requirements with regard to quality and loan-to-value ratio. The loan-to-value ratio is calculated in relation to the reasonable property value determined in accordance with applicable legislation. The general assessment criteria related to the approval and maintenance of the loan follow the guidelines established by Sparebanken Øst. All collateral is established by way of a value assessment conducted by a competent and independent third party. The Board deems the quality of the lending portfolio to be good. The over-collateralisation of the cover pool was 15.0% at the end of Q1.

The Board is of the opinion that overall risk exposure in Sparebanken Øst Boligkreditt AS is very low.

At the end of Q1 2014 Sparebanken Øst Boligkreditt AS had a total subordinated capital of NOK 535.2 million. Total subordinated capital corresponds to a capital adequacy of 17.3% of which tier 1 capital adequacy amounted to 17.3%. The risk-weighted balance sheet as at Q1 2014 was NOK 3,089.9 million. Capital adequacy is calculated using the standard method in the Basil II framework.

The Board deems the company's risk capacity to be satisfactory.

### **The Market**

Credit spreads in the market for Norwegian covered bonds have contracted by around 5 basis points (hundredths of a percentage) to date in 2014. Covered bonds issued with an AAA rating and a 5-year term to maturity had a credit spread of roughly 35-37 basis points as at the end of Q1.

In Q1, Sparebanken Øst Boligkreditt AS issued covered bonds with a nominal value of NOK 400 million that mature in 2021. In April, it issued covered bonds with a nominal value of NOK 500 million that mature in 2020.

The cover pool contains secured mortgages from every county in the country. The majority of the objects are located in the centre of south east Norway with loans from Buskerud, Oslo, and Akershus accounting for 75% of the total. The loans in the cover pool have good security.

### **Future prospects**

Sparebanken Øst Boligkreditt AS took a market approach related to the strategy of the parent bank, and general adaptability to market conditions. Growth in 2014 was adjusted to the parent bank's capital supply. The supply of capital through the issue of covered bonds has been satisfactory. The issue of covered bonds has helped Sparebanken Øst to achieve a robust liquidity position.

Growth in the Norwegian economy has slowed after having previously shown strong growth driven by high oil prices and investments in oil. The international economy appears to be gradually coming out of recession.

House prices have stabilised again and risen slightly after falling in the latter half of 2013. There is some uncertainty about how they will develop going forward, but there is no reason to believe prices will drop massively given how the market has developed. The trends of house prices and growth in household debt are particularly important to the Norwegian economy, not to mention Sparebanken Øst Boligkreditt AS.

Mortgage margins are expected to decrease slightly because of greater competition in the market, after a period where they have stayed up due to higher capital requirements. Sparebanken Øst Boligkreditt AS has good control over its costs, with no considerable costs expected in addition to costs which would arise naturally as a result of an increased portfolio. Consequently, the Board expects that the company will achieve the adopted objective of a satisfactory return on equity.

Drammen, 6 May 2014

The Board of Directors of Sparebanken Øst Boligkreditt AS

Kjell Engen  
*Chairman of the Board*

Pål Strand  
*Deputy Chairman of the Board*

Lars-Runar Groven

Per Øyvind Mørk

Frode Lindbeck  
*General Manager*

## Income Statement

(Amounts in NOK 1,000)	31.03.14	31.03.13	31.12.13
Interest income and similar income	75,775	75,586	309,292
Interest charges and similar expenses	41,552	46,421	180,656
<b>Net interest and credit commission income</b>	<b>34,223</b>	<b>29,165</b>	<b>128,636</b>
Commission income and income from banking services	3	4	16
Commission expenses and expenses for banking services	2,863	2,907	11,579
Administrative expenses	75	69	280
Other operating expenses	1,139	681	3,287
<b>PROFIT BEFORE LOSSES</b>	<b>30,149</b>	<b>25,512</b>	<b>113,506</b>
Lending and guarantee losses	0	0	0
<b>PROFIT BEFORE TAX</b>	<b>30,149</b>	<b>25,512</b>	<b>113,506</b>
Tax expenses	8,140	7,143	31,782
<b>PROFIT AFTER TAX</b>	<b>22,009</b>	<b>18,369</b>	<b>81,724</b>
Earnings per share	2.06	1.72	7.67
Diluted earnings per share	2.06	1.72	7.67

## Total profit

(Amounts in NOK 1,000)	31.03.14	31.03.13	31.12.13
<b>TOTAL PROFIT</b>	<b>22,009</b>	<b>18,369</b>	<b>81,724</b>

## Balance Sheet

(Amounts in NOK 1,000)	31.03.14	31.03.13	31.12.13
Lending to and receivables from credit institutions	179,253	135,079	209,856
Lending to and receivables from customers	7,822,921	7,438,907	7,431,917
- Individual write-downs	0	0	0
- Write-down of groups of loans	0	0	0
Financial derivatives	73,963	60,044	60,251
Other assets	11,843	5,168	1,100
Expenses prepaid but not accrued, and income accrued but not received	14,152	13,795	12,158
<b>TOTAL ASSETS</b>	<b>8,102,132</b>	<b>7,652,993</b>	<b>7,715,282</b>
Debt to credit institutions	664,743	691,248	663,847
Debt established upon the issue of securities	6,827,315	6,395,574	6,415,409
Financial derivatives	2,190	0	0
Other debt	32,181	25,646	32,848
Accrued expenses and income accrued but not received	18,537	18,723	18,021
<b>Total debt</b>	<b>7,544,966</b>	<b>7,131,191</b>	<b>7,130,125</b>
Called-up and fully paid capital	449,990	449,990	449,990
Retained earnings	85,167	53,443	135,167
Retained earnings	22,009	18,369	0
<b>Total equity</b>	<b>557,166</b>	<b>521,802</b>	<b>585,157</b>
<b>TOTAL DEBT AND EQUITY</b>	<b>8,102,132</b>	<b>7,652,993</b>	<b>7,715,282</b>

Drammen, 6 May 2014

Kjell Engen  
*Chairman of the Board*

Pål Strand  
*Deputy Chairman of the Board*

Lars-Runar Groven

Per Øyvind Mørk

Frode Lindbeck  
*General Manager*

## Cash flow analysis

(Amounts in NOK 1,000)		31.03.14	31.03.13	31.12.13
<b>Operating activities</b>				
Profit before tax		30,149	25,512	113,506
Adjustments for:				
Change in lending		-391,004	860,094	867,084
Change in other assets		-12,737	-109	5,596
Change in loans from credit institutions		896	-858,657	-886,058
Change in other debt		731	-1,318	-1,968
Change in premium/discount on securities issued		383	321	4,603
Tax payable for the period		-9,021	-553	-18,042
<b>Net cash flow from operating activities</b>	<b>A</b>	<b>-380,603</b>	<b>25,290</b>	<b>84,721</b>
<b>Financing activities</b>				
Payments for buyback of securities		0	0	-983,234
Receipts on issue of securities		400,000	0	998,580
Dividend paid		-50,000	0	0
<b>Net cash flow from financing activities</b>	<b>B</b>	<b>350,000</b>	<b>0</b>	<b>15,346</b>
Net change in cash and cash equivalents	A+B	-30,603	25,290	100,067
Cash and cash equivalents at the start of the period		209,856	109,789	109,789
<b>Holding of cash and cash equivalents at the end of the period</b>		<b>179,253</b>	<b>135,079</b>	<b>209,856</b>

Liquid assets consist solely of bank deposits.

## Changes in equity

(Amounts in NOK 1,000)

Q1 2014	Total equity	Share capital	Share premium reserve	Other equity	Retained earnings
Equity as at 31.12.13	585,157	266,500	183,490	135,167	0
Total profit	22,009	0	0	0	22,009
Dividend 2013 finally adopted	-50,000	0	0	-50,000	0
<b>Equity as at 31.03.14</b>	<b>557,166</b>	<b>266,500</b>	<b>183,490</b>	<b>85,167</b>	<b>22,009</b>

Q1 2013	Total equity	Share capital	Share premium reserve	Other equity	Retained earnings
Equity as at 31.12.12	503,433	266,500	183,490	53,443	0
Total profit	18,369	0	0	0	18,369
Group contributions issued	0	0	0	-45,000	0
Group contributions received	0	0	0	45,000	0
<b>Equity as at 31.03.13</b>	<b>521,802</b>	<b>266,500</b>	<b>183,490</b>	<b>53,443</b>	<b>18,369</b>



2013	Total equity	Share capital	Share premium reserve	Other equity
Equity as at 31.12.12	503,433	266,500	183,490	53,443
Total profit	81,724	0	0	81,724
Group contributions issued	-45,000	0	0	-45,000
Group instalments received	45,000	0	0	45,000
<b>Equity as at 31.12.13</b>	<b>585,157</b>	<b>266,500</b>	<b>183,490</b>	<b>135,167</b>

The proposed dividend for the year is NOK 50 million and is included in other equity until finally adopted.

## General information

Sparebanken Øst Boligkreditt AS has its headquarters in Drammen and is a wholly owned subsidiary of Sparebanken Øst. 2014 is the company's sixth year of trading. The company was established on 14 April 2009 and registered in the Norwegian Register of Business Enterprises on 27 April 2009. The business address is Bragernes Torg 2, NO-3017 Drammen, Norway.

The purpose of the company is to acquire mortgage loans from Sparebanken Øst and issue covered bonds in the money market.

The quarterly accounts for Q1 2014 were approved by the Board of Sparebanken Øst Boligkreditt AS on 6 May 2014.

The company is included in the consolidated accounts of Sparebanken Øst - business address Stasjonsgt. 14, NO-3300 Hokksund, Norway.

## Accounting principles

The accounts for Sparebanken Øst Boligkreditt AS for Q1 2014 have been prepared in accordance with IFRS standards as approved by the EU, and IFRIC interpretations.

The accounts are based on historical cost principles, apart from financial derivatives, which are measured at fair value. Where the company uses hedge accounting, the value of the hedging object is adjusted for the change in value related to the hedged risk.

Please refer to the annual accounts for 2013 for a more in-depth description of the accounting principles. The quarterly accounts have been prepared in line with the accounting principles and measuring system used in the annual accounts.

The quarterly accounts have not been audited.

## Use of estimates and assumptions

Due to the uncertainty inherent in the business activities, accounting items cannot be measured accurately; rather they must be evaluated and estimated. Judgement has been exercised in applying accounting principles, and has used assumptions and expectations regarding future events that are considered likely. Estimates and assessments are evaluated regularly and are based on the most recent reliable data available, as well as experience from similar assessments. There will always be an inherent uncertainty related to accounting items that cannot be measured accurately, and the assessment and best estimates may differ significantly from actual outcomes.

## Transactions with related parties

Sparebanken Øst Boligkreditt AS is a wholly owned subsidiary of Sparebanken Øst and is defined as a related party. The company has entered into agreements with Sparebanken Øst regarding management, the lease of a general manager, controller compliance, and the purchase of residential mortgages. Transactions between the companies are conducted in accordance with normal commercial terms and principles.

<b>EARNINGS</b> (Amounts in NOK 1,000)	<b>31.03.14</b>	<b>31.03.13</b>	<b>31.12.13</b>
Interest income, deposits in parent bank	881	549	2,618
Interest expenses, loans from parent bank	4,211	6,918	21,966
Interest expenses, covered bond debt to parent bank	1,393	5,622	17,301
Commission expenses to parent bank	2,863	2,907	11,579
Administrative expenses to parent bank	69	69	276
Other operating expenses to parent bank	300	300	1,251
<b>BALANCE SHEET</b> (Amounts in NOK 1,000)	<b>31.03.14</b>	<b>31.03.13</b>	<b>31.12.13</b>
Deposits in parent bank	179,253	135,079	209,856
Other receivables from parent bank	11,843	5,168	1,100
Accrued interest income from parent bank	881	549	0
Loans from parent bank	664,743	691,248	663,847
Covered bond debt to parent bank	241,847	978,894	241,847
Other debt to parent bank	1,055	1,014	997
Accrued interest costs, covered bonds	611	1,058	629

## Lending to customers by geographical distribution of collateral

(Amounts in NOK 1,000)	<b>31.03.14</b>	<b>31.03.13</b>	<b>31.12.13</b>
Drammen	1,105,602	1,297,158	1,084,509
Øvre Eiker	433,215	517,802	450,780
Nedre Eiker	617,748	831,857	663,973
Rest of Buskerud	431,376	424,652	417,242
Akershus	1,574,667	1,433,734	1,490,084
Oslo	1,731,935	1,301,116	1,504,433
Vestfold	558,247	592,862	569,723
Østfold	287,219	284,605	289,525
Rest of country	1,082,912	755,121	961,648
<b>Total lending to and receivables from customers</b>	<b>7,822,921</b>	<b>7,438,907</b>	<b>7,431,917</b>

No lending losses were reported on the company's portfolio in Q1 2014. Nor are there any doubtful or non-performing loans in the cover pool. The company found no reason to undertake either individual or group write-downs in the portfolio.

## Cover pool

(Amounts in NOK 1,000)	31.03.14	31.03.13	31.12.13
Gross lending secured against property	7,802,174	7,438,869	7,410,489
Other substitute assets (bank deposits)	179,253	135,079	209,856
<b>Total cover pool</b>	<b>7,981,427</b>	<b>7,573,948</b>	<b>7,620,345</b>
Cover pool occupancy *	118%	119%	119%

\*The total cover pool is valued at the nominal value. When calculating the occupancy of the cover pool, bond loans are valued at the total of the discounted value of the nominal value and discounted coupon payments.

## Lending by customer groups

(Amounts in NOK 1,000)	31.03.14	31.03.13	31.12.13
Employees	7,780,201	7,381,485	7,385,667
Self-employed	42,720	57,422	46,250
<b>Total lending to and receivables from customers</b>	<b>7,822,921</b>	<b>7,438,907</b>	<b>7,431,917</b>

## Non-performing and doubtful commitments

(Amounts in NOK 1,000)	31.03.14	31.03.13	31.12.13
<b>Gross non-performing commitments (over 90 days)</b>			
Commercial	0	0	0
+ Personal	0	0	0
= <b>Gross non-performing commitments</b>	<b>0</b>	<b>0</b>	<b>0</b>
- Individual write-downs	0	0	0
= <b>Net non-performing commitments</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Doubtful (not non-performing) commitments</b>			
Commercial	0	0	0
+ Personal	0	0	0
= <b>Gross doubtful commitments</b>	<b>0</b>	<b>0</b>	<b>0</b>
- Individual write-downs	0	0	0
= <b>Net doubtful commitments</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Gross non-performing and doubtful commitments</b>			
Commercial	0	0	0
+ Personal	0	0	0
= <b>Gross non-performing and doubtful commitments</b>	<b>0</b>	<b>0</b>	<b>0</b>
- Individual write-downs	0	0	0
= <b>Net non-performing and doubtful commitments</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Securitised debt

(Amounts in NOK 1,000)	31.03.14	31.03.13	31.12.13
Covered bonds in NOK	6,510,000	6,090,000	6,110,000
Covered bonds in SEK (converted to NOK)	276,750	269,040	284,160
Value adjustment (including conversion/exchange rate)	40,565	36,534	21,249
<b>Total securitised debt</b>	<b>6,827,315</b>	<b>6,395,574</b>	<b>6,415,409</b>

Change securitised debt	31.03.14	Issued	Payable/ Redeemed	Change currency exchange rate	31.12.13
Covered bonds in NOK	6,510,000	400,000	0	0	6,110,000
Covered bonds in SEK (converted to NOK)	276,750	0	0	-7,410	284,160
Value adjustment (including conversion/exchange rate)	40,565	0	0	0	21,249
<b>Total securitised debt</b>	<b>6,827,315</b>	<b>400,000</b>	<b>0</b>	<b>-7,410</b>	<b>6,415,409</b>

## Financial derivatives

Interest-rate and currency derivatives to reduce interest-rate and currency risk have been entered into for the company's fixed rate and foreign currency bond loans. The hedge ratio is 1:1 and hedge accounting has been used.

(Amounts in NOK 1,000)

Financial derivatives used for hedge accounting	Contract total	Fair value 31.03.14	
		Assets	Liabilities
<i>Currency instruments</i>			
Currency swaps	252,101	24,649	0
<b>Total currency instruments</b>	<b>252,101</b>	<b>24,649</b>	<b>0</b>
<i>Interest instruments</i>			
Interest rate swaps	1,300,000	49,314	2,190
<b>Total interest instruments</b>	<b>1,300,000</b>	<b>49,314</b>	<b>2,190</b>
<b>Total derivatives</b>		<b>73,963</b>	<b>2,190</b>

No significant inefficiencies have been reported for the hedges.

Financial derivatives used for hedge accounting	Contract total	Fair value 31.03.13	
		Assets	Liabilities
<i>Currency instruments</i>			
Currency swaps	252,101	16,939	0
<b>Total currency instruments</b>	<b>252,101</b>	<b>16,939</b>	<b>0</b>
<i>Interest instruments</i>			
Interest rate swaps	900,000	43,105	0
<b>Total interest instruments</b>	<b>900,000</b>	<b>43,105</b>	<b>0</b>

<b>Total derivatives</b>	<b>60,044</b>	<b>0</b>
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No significant inefficiencies have been reported for the hedges.

Financial derivatives used for hedge accounting	Contract total	Fair value 31.12.13	
		Assets	Liabilities
<i>Currency instruments</i>			
Currency swaps	252,101	32,059	0
<b>Total currency instruments</b>	<b>252,101</b>	<b>32,059</b>	<b>0</b>
<i>Interest instruments</i>			
Interest rate swaps	900,000	28,192	0
<b>Total interest instruments</b>	<b>900,000</b>	<b>28,192</b>	<b>0</b>
<b>Total derivatives</b>	<b>60,251</b>	<b>0</b>	<b>0</b>

No significant inefficiencies have been reported for the hedges.

## Financial instruments

Sparebanken Øst Boligkreditt AS's financial instruments in this category at fair value consist of derivatives. Other instruments are measured at amortised cost.

The company has only lent at variable interest rates. The fair value of loans at variable interest rates is subject to the influence of changing interest rate levels and credit margins, but can be re-priced on an ongoing basis in the short term. The Norwegian Act on Financial Contracts and Financial Assignments permits re-pricing with six weeks' notice (less in case of major changes to the company's borrowing rate). Sparebanken Øst Boligkreditt AS's assessment of the best estimates for the remaining lending portfolio is that the amortised cost gives a good approximation of fair value.

### Valuation of financial instruments at fair value

#### *In general*

Sparebanken Øst Boligkreditt AS uses the following valuation hierarchy to determine the fair value of financial instruments:

Level 1: Observable market prices.

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.

#### *Derivatives*

Sparebanken Øst Boligkreditt AS does not use derivatives that are traded in an active market. The derivatives' fair values are based on observable yield curves and exchange rates. All of the company's derivatives are invested at level 2 of the pricing hierarchy.

31.03.14	Level 1	Level 2	Level 3	Fair value	Book value
<b>Amortised cost</b>					
Net lending to and receivables from credit institutions	0	179,253	0	179,253	179,253
Net lending to and receivables from customers	0	0	7,822,921	7,822,921	7,822,921
<b>Total assets at amortised cost</b>	<b>0</b>	<b>179,253</b>	<b>7,822,921</b>	<b>8,002,174</b>	<b>8,002,174</b>
Debt to credit institutions	0	664,743	0	664,743	664,743
Debt established upon the issue of securities	0	6,893,094	0	6,893,094	6,827,315
<b>Total liabilities at amortised cost</b>	<b>0</b>	<b>7,557,837</b>	<b>0</b>	<b>7,557,837</b>	<b>7,492,058</b>

<b>Fair value</b>					
Financial derivatives	0	73,963	0	73,963	73,963
<b>Total assets at fair value</b>	<b>0</b>	<b>73,963</b>	<b>0</b>	<b>73,963</b>	<b>73,963</b>
Financial derivatives	0	2,190	0	2,190	2,190
<b>Total liabilities at fair value</b>	<b>0</b>	<b>2,190</b>	<b>0</b>	<b>2,190</b>	<b>2,190</b>
<b>31.03.13</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value</b>	<b>Book value</b>
<b>Amortised cost</b>					
Net lending to and receivables from credit institutions	0	135,079	0	135,079	135,079
Net lending to and receivables from customers	0	0	7,438,907	7,438,907	7,438,907
<b>Total assets at amortised cost</b>	<b>0</b>	<b>135,079</b>	<b>7,438,907</b>	<b>7,573,986</b>	<b>7,573,986</b>
Debt to credit institutions	0	691,248	0	691,248	691,248
Debt established upon the issue of securities	0	6,455,599	0	6,455,599	6,395,574
<b>Total liabilities at amortised cost</b>	<b>0</b>	<b>7,146,847</b>	<b>0</b>	<b>7,146,847</b>	<b>7,086,822</b>
<b>Fair value</b>					
Financial derivatives	0	60,044	0	60,044	60,044
<b>Total assets at fair value</b>	<b>0</b>	<b>60,044</b>	<b>0</b>	<b>60,044</b>	<b>60,044</b>
<b>31.12.13</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value</b>	<b>Book value</b>
<b>Amortised cost</b>					
Net lending to and receivables from credit institutions	0	209,856	0	209,856	209,856
Net lending to and receivables from customers	0	0	7,431,917	7,431,917	7,431,917
<b>Total assets at amortised cost</b>	<b>0</b>	<b>209,856</b>	<b>7,431,917</b>	<b>7,641,773</b>	<b>7,641,773</b>
Debt to credit institutions	0	663,847	0	663,847	663,847
Debt established upon the issue of securities	0	6,516,519	0	6,516,519	6,415,409
<b>Total liabilities at amortised cost</b>	<b>0</b>	<b>7,180,366</b>	<b>0</b>	<b>7,180,366</b>	<b>7,079,256</b>
<b>Fair value</b>					
Financial derivatives	0	60,251	0	60,251	60,251
<b>Total assets at fair value</b>	<b>0</b>	<b>60,251</b>	<b>0</b>	<b>60,251</b>	<b>60,251</b>

## Financial derivatives - offsetting

Sparebanken Øst Boligkreditt AS' netting is in accordance with general rules set out in Norwegian legislation.

Sparebanken Øst Boligkreditt AS has entered into standardised and mainly bilateral ISDA agreements with financial institutions entitling the parties to netting in the event of any defaults. Additional agreements have also been entered into concerning provision of security (CSA) for the same counterparties.

As at 31.03.14 the exposure was as follows:	Gross amount	Offset	Capitalised value	Amount subject to net settlement	Amount following any net settlement
Financial derivatives assets	73,963	0	73,963	0	73,963
Financial derivatives debts	2,190	0	2,190	0	2,190

As at 31.03.13 the exposure was as follows:	Gross amount	Offset	Capitalised value	Amount subject to net settlement	Amount following any net settlement
Financial derivatives assets	60,044	0	60,044	0	60,044
Financial derivatives debts	0	0	0	0	0

As at 31.12.13 the exposure was as follows:	Gross amount	Offset	Capitalised value	Amount subject to net settlement	Amount following any net settlement
Financial derivatives assets	60,251	0	60,251	0	60,251
Financial derivatives debts	0	0	0	0	0

## Capital adequacy

(Amounts in NOK 1,000)	31.03.14	31.03.13	31.12.13
Share capital	266,500	266,500	266,500
Share premium reserve	183,490	183,490	183,490
Other reserves included in tier 1 capital	85,167	53,443	135,167
Deductions from core capital			-50,000
<b>Net tier 1 capital</b>	<b>535,157</b>	<b>503,433</b>	<b>535,157</b>
Subordinated loans	0	0	0
<b>Net tier 2 capital</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net subordinated capital</b>	<b>535,157</b>	<b>503,433</b>	<b>535,157</b>
<b>Basis of calculation</b>			
Basis of calculation for balance sheet items	2,872,944	2,677,454	2,723,708
Basis of calculation for items off-balance sheet	96,699	89,673	89,908
Basis of calculation for operational risk	120,273	48,794	48,794
<b>Total basis of calculation (risk-weighted balance sheet)</b>	<b>3,089,916</b>	<b>2,815,921</b>	<b>2,862,410</b>
<b>Capital adequacy</b>	<b>17.32%</b>	<b>17.88%</b>	<b>18.70%</b>
<b>Tier 1 capital adequacy</b>	<b>17.32%</b>	<b>17.88%</b>	<b>18.70%</b>

Sparebanken Øst Boligkreditt AS uses the standard method of the Basel II framework for calculating minimum equity and subordinated capital requirements for credit risk. The calculation related to operational risk is calculated based on the basic method.

The credit institution's equity and subordinated capital shall comply with minimum capital adequacy requirements at all times, with the addition of a buffer equivalent to the company's accepted risk tolerance.

Please refer to the Group's Pillar III document, which is available on Sparebanken Øst's website.

## Operating segments

Sparebanken Øst Boligkreditt AS operates in only one customer-facing segment. This is also how the management have organised the company for operational and management purposes.

Through Boligkreditt.no, Sparebanken Øst Boligkreditt AS only offers residential mortgages up to 70% of a reasonable valuation. Information regarding the geographical distribution of the lending portfolio is provided on page 9. No customer may be deemed more important to the company than others based on size and similar. The company is not dependent on individual customers. No single customer accounts for more than 10%.

## Guarantees and secured debt - nominal value

(Amounts in NOK 1,000)	31.03.14	31.03.13	31.12.13
<b>Guarantees</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Secured debt</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Preferential rights in accordance with the Norwegian Financial Institutions Act, section 2-35</b>	<b>6,786,750</b>	<b>6,359,040</b>	<b>6,394,160</b>

## Ownership structure

The share capital of Sparebanken Øst Boligkreditt AS amounts to NOK 266.5 shared across 10.66 million shares each with a nominal value of NOK 25. All shares in Sparebanken Øst Boligkreditt AS are owned by Sparebanken Øst.

## Profit performance

### Year to date

(Amounts in NOK 1,000)	31.03.14	31.12.13	30.09.13	30.06.13	31.03.13
Interest income and similar income	75,775	309,292	233,298	152,093	75,586
Interest charges and similar expenses	41,552	180,656	138,565	90,172	46,421
<b>Net interest and credit commission income</b>	<b>34,223</b>	<b>128,636</b>	<b>94,733</b>	<b>61,921</b>	<b>29,165</b>
Commission income and income from banking services	3	16	13	9	4
Commission expenses and expenses for banking services	2,863	11,579	8,734	5,722	2,907
Administrative expenses	75	280	208	138	69
Other operating expenses	1,139	3,287	2,640	2,165	681
<b>PROFIT BEFORE LOSSES</b>	<b>30,149</b>	<b>113,506</b>	<b>83,164</b>	<b>53,905</b>	<b>25,512</b>
Lending and guarantee losses, etc.	0	0	0	0	0
<b>PROFIT BEFORE TAX</b>	<b>30,149</b>	<b>113,506</b>	<b>83,164</b>	<b>53,905</b>	<b>25,512</b>
Tax expenses	8,140	31,782	23,286	15,093	7,143
<b>PROFIT AFTER TAX</b>	<b>22,009</b>	<b>81,724</b>	<b>59,878</b>	<b>38,812</b>	<b>18,369</b>
Earnings per share	2.06	7.67	5.62	3.64	1.72
Diluted earnings per share	2.06	7.67	5.62	3.64	1.72



## Quarter

(Amounts in NOK 1,000)	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13
Interest income and similar income	75,775	75,994	81,205	76,507	75,586
Interest charges and similar expenses	41,552	42,091	48,393	43,751	46,421
<b>Net interest and credit commission income</b>	<b>34,223</b>	<b>33,903</b>	<b>32,812</b>	<b>32,756</b>	<b>29,165</b>
Commission income and income from banking services	3	3	4	5	4
Commission expenses and expenses for banking services	2,863	2,845	3,012	2,815	2,907
Administrative expenses	75	72	70	69	69
Other operating expenses	1,139	647	475	1,484	681
<b>PROFIT BEFORE LOSSES</b>	<b>30,149</b>	<b>30,342</b>	<b>29,259</b>	<b>28,393</b>	<b>25,512</b>
Lending and guarantee losses, etc.	0	0	0	0	0
<b>PROFIT BEFORE TAX</b>	<b>30,149</b>	<b>30,342</b>	<b>29,259</b>	<b>28,393</b>	<b>25,512</b>
Tax expenses (calculated in the quarterly accounts)	8,140	8,496	8,193	7,950	7,143
<b>EARNINGS FOR THE PERIOD</b>	<b>22,009</b>	<b>21,846</b>	<b>21,066</b>	<b>20,443</b>	<b>18,369</b>
Earnings per share	2.06	2.05	1.98	1.92	1.72
Diluted earnings per share	2.06	2.05	1.98	1.92	1.72