



5th. year

Annual report 2013



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Key figures

	2013	2012	2011	2010	2009
Return on equity (%)	15.74	14.77	1.46	1.08	3.78
Net interest income as % of average total assets	1.63	1.05	0.31	0.49	0.92
Cost/income ratio (%)	11.77	18.12	73.49	83.96	52.41
Losses as a % of net lending	0.00	0.00	0.00	0.00	0.00
Provision percentage for non-performing loans	0.00	0.00	0.00	0.00	0.00
Non-performing loans as a % of net lending	0.00	0.02	0.00	0.00	0.00
Capital adequacy %	18.70	16.39	12.06	19.70	10.91
Tier 1 capital adequacy %	18.70	16.39	10.43	15.84	10.91
Dividend (NOK million)	50.0	0.0	0.0	0.0	0.0
Average total assets (NOK million)	7,935.5	7,467.6	4,887.2	2,319.8	1,537.4

Board of Directors' Report

The Board of Directors hereby submits its report for the fifth year of trading.

The business

Sparebanken Øst Boligkreditt AS was founded on 14 April 2009.

Sparebanken Øst Boligkreditt AS is a wholly owned subsidiary of Sparebanken Øst and is licensed as a financing institution with the right to issue covered bonds. The company's business address is in Drammen.

Trends in the Norwegian and international capital markets in recent years have shown that the establishment of an independent 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 years to come.

Moody's Investors Service has given the company an AAA credit rating on all its bond issues. This reflects the lowest risk and is important for ensuring market access and obtaining good borrowing terms.

Total lending secured against residential property amounted to NOK 7,431.9 million, while securities debt in the form of covered bonds amounted to NOK 6,415.4 million at year-end.

In 2012, Sparebanken Øst and Sparebanken Øst Boligkreditt AS launched "Boligkreditt.no" - a new online market concept which only offers loans secured against property which can be approved in the cover pool for covered bonds, without a deposit account or other banking products. This has proved to be incredibly successful with Boligkreditt.no's lending volume surpassing NOK 1 billion in 2013.

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.

The Market

During 2013, the company met all of its obligations relating to a swap arrangement with the government.

Credit spreads in the market for Norwegian covered bonds remained relatively stable in 2013, with lower levels last seen in early 2010. Covered bonds issued with an AAA rating had a credit spread of roughly 41-43 basis points as at 31 December 2013.

In 2013, Sparebanken Øst Boligkreditt AS issued covered bonds with a nominal value of NOK 1 billion, maturing in 2019.

The cover pool contains secured mortgages from every county in the country. The majority of the houses are located in the centre of south east Norway with loans from Buskerud, Oslo, and Akershus accounting for 75.5 % of the total. The loans in the cover pool have senior collateral in Norwegian residential properties.

Report on the Annual Accounts

Income Statement

Total interest income in 2013 amounted to NOK 309.3 million (NOK 295.2 million in 2012), of which NOK 306.7 million (NOK 293.4 million in 2012) relates to interest income on lending to customers. Net interest and commission income amounted to a total of NOK 128.6 million, a strong increase compared to 2012 (NOK 78.7 million). Over the past year, the margins between lending to customers and borrowing from the market have increased. Money market rates have fallen, and the credit spread has decreased.

The company's operating profit before tax for 2013 amounted to NOK 113.5 million (NOK 64.4 million in 2012), while profit after tax amounted to NOK 81.7 million (NOK 46.4 million in 2012).

Total operating expenses in 2013 amounted to NOK 15.1 million (NOK 14.3 million in 2012) of which NOK 11.6 million (NOK 11.0 million in 2012) relate to management fees paid to the parent bank. The increase was due to higher volumes of managed loans throughout the year. 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 cost-effective operations. In line with the management agreement, the fee is calculated according to business principles and the portfolio being managed at the time.

No lending losses were reported on the company's portfolio in 2013. Similarly, there was no reason to undertake individual or Group write-downs.

Tax expenses amounted to NOK 31.8 million (NOK 18.0 million in 2012).

In accordance with the Norwegian Accounting Act, the Board of Directors confirms that the conditions exist to provide the accounts on a going concern basis.

Balance Sheet

The total balance sheet of Sparebanken Øst Boligkreditt AS amounted to NOK 7,715.3 million at the end of 2013, a decrease of NOK 763.5 million on the previous year. This is primarily due to an increased deposit-to-loan ratio in the parent bank, which reduced the need for issues and the transfer of loans in 2013. Of the total balance sheet, net lending to customers amounted to NOK 7,431.9 million, representing a decline of NOK 867.1 million on 2012. The managed volume originates in the acquisition of the residential mortgage portfolio from Sparebanken Øst. Other assets largely comprise deposits in the parent bank.

Bond debt at the end of the year amounted to NOK 6,415.4 million, equivalent to an increase of NOK 29.1 million on 2012.

At the end of the year, NOK 663.6 million was drawn from an approved credit facility with a limit of NOK 2,000 million, which was made available from Sparebanken Øst.

Share capital amounts to NOK 266.5 million shared across 10.66 million shares, each with a nominal value of NOK 25.

Risk and corporate governance

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 risk 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 risk is 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 (Transfer and Servicing Agreement - TSA) 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 2013, 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.

In connection with the rating process of Sparebanken Øst Boligkreditt AS, Sparebanken Øst has issued a guarantee relating to all liabilities with regard to covered bonds in the mortgage company. Additionally, Sparebanken Øst Boligkreditt AS has a drawing right 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 15.9% at year-end.

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

Net equity and subordinated loan capital amounted to NOK 535.2 million at year-end. This corresponds to capital adequacy of 18.70 % of which tier 1 capital adequacy amounts to 18.70 %. The company uses the standard method for Basel 2 in its capital adequacy calculations. The Board deems the company's capital adequacy to be satisfactory in relation to the company's overall risk level, and the capital situation is helping to position the company for further growth.

Allocation of profits

Annual profits for 2013 amounted to NOK 81.7 million (NOK 46.4 million in 2012). The Board proposes that a dividend of NOK 50 million after tax is given to Sparebanken Øst, and that NOK 31.7 million is transferred to other equity. The Board has conducted a risk analysis with regard to capital requirements and liquidity, and deems the dividend to be reasonable. It is assumed that the parent bank will increase the company's capital as required.

Strategy

Through its collaboration with the parent bank, Sparebanken Øst Boligkreditt AS will help the Group to obtain competitive borrowing in a niche market which the bank cannot directly participate in itself. The activities of Sparebanken Øst Boligkreditt AS are, therefore, designed to limit the Group's liquidity risk, and thereby help the Group to achieve its long-term strategic objectives. Through its activities, Sparebanken Øst Boligkreditt AS shall help Sparebanken Øst to offer competitively priced mortgages. New mortgages are sold through the bank's distribution channels and in accordance with the bank's current guidelines and regulations. The bank is responsible for customer relations, marketing, product development, etc. The company's growth shall depend on the parent bank's borrowing requirements and capital structure.

The target group for the covered bonds issued is, in the short-term, national players, but issues in foreign currencies are under constant evaluation.

Employees and the working environment

Sparebanken Øst Boligkreditt AS employed a total of 1.4 FTEs at year-end. The general manager occupies a 40% position while the controller has a 100% position. All employees have been leased from Sparebanken Øst. The working environment of the company is deemed to be good. The Board consists of four members, including one woman.

External environment, social responsibility, and research and development

The company's business activities do not involve any environmentally-harmful pollution or emissions. Please refer to the parent bank's annual report for a social responsibility report in accordance with § 3-3c of the Norwegian Accounting Act. This is available on the bank and company's website, www.oest.no. The company has no ongoing research and development activities.

Equality

The Sparebanken Øst Group strives to maintain equality when hiring and in its employee and management training, and is conscious of its role in this regard. The Board consists of three men and one woman.

Future prospects

In 2013, Sparebanken Øst Boligkreditt AS took a market approach related to the strategy of the parent bank, and general adaptability to market conditions. Growth in 2013 was adjusted to the parent bank's capital supply. The supply of capital through the issue of covered bonds has been satisfactory throughout the year. 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. Traditional exports have, however, been weakened by uncertainty and slow growth among our trading partners.

After many years of strong growth, house prices fell in the latter half of 2013 with uncertainty as to how large this fall in prices will be. The trends of house prices and growth in household debt are particularly important to the Norwegian economy, not to mention Sparebanken Øst Boligkreditt AS.

Unemployment is low, but is slowly increasing and can be expected to rise somewhat in the future. Households continue to maintain strong finances, but uncertainty regarding economic development and house prices in particular may result in increased saving and sluggish spending. As with a fall in the price of oil or a significant relapse among our trading partners, this may result in a change to these prospects. The company expects that key interest rates will remain low for some time to come. The government's financial position is very strong, offering good potential for stimulating the Norwegian economy in case of an economic recession.

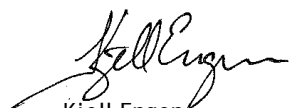
International regulations have imposed a strict tightening of the capital requirements of banks and mortgage companies, which will increase further in the future. Such conditions may have an effect on mortgage rates and the demand for mortgages, so the company is monitoring developments closely.

The company expects moderate future residential mortgage growth and intends to contribute to continued lending growth in the Group. The company 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.

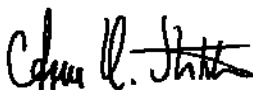
The Board is also of the opinion that the company's capital base is sufficient to ensure room for manoeuvre in the future. We expect that the market for well-rated covered bonds will continue to be relatively stable in 2014 unless something unforeseen happens.

Drammen, 11 February 2014

The Board of Directors of Sparebanken Øst Boligkreditt AS



Kjell Engen
Chairman of the Board



Arne K. Stokke
Deputy Chairman of the Board



Pål Strand



Anne Grete Nesset



Frode Lindbeck
General Manager

Income Statement

(Amount in NOK thousand)	Notes	2013	2012
Interest income and similar income		309,292	295,180
Interest expenses and similar costs		180,656	216,507
Net interest and credit commission income	3.4	128,636	78,673
Commission income and income from banking services	3	16	19
Commission expenses and expenses for banking services	3	11,579	11,018
Administrative expenses	3.6	280	318
Other operating expenses	3,5,7.8	3,287	2,920
PROFIT BEFORE LOSSES		113,506	64,436
Lending and guarantee losses	9	0	0
PROFIT BEFORE TAX		113,506	64,436
Tax expenses	10	31,782	18,042
PROFIT AFTER TAX		81,724	46,394
Earnings per share	27	7.67	4.35
Diluted earnings per share		7.67	4.35

Total profit

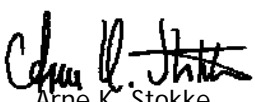
(Amount in NOK thousand)	Notes	2013	2012
TOTAL PROFIT		81,724	46,394

Balance Sheet

(Amount in NOK thousand)	Notes	31/12/2013	31.12.12
Lending to and receivables from credit institutions	3,24,25,26	209,856	109,789
Lending to and receivables from customers	9,11,24,25,26	7,431,917	8,299,001
Financial derivatives	12,24,25,26,30	60,251	51,164
Other assets	3,13,25,26	1,100	5,437
Expenses prepaid but not accrued, and income accrued but not received	14,25,26	12,158	13,417
TOTAL ASSETS		7,715,282	8,478,808
Debt to credit institutions	3,15,18,24,25,26	663,847	1,549,905
Debt established upon the issue of securities	3,16,18,21,24,25,26	6,415,409	6,386,373
Financial derivatives	12,24,25,26,30	0	0
Other debt	3,10,19,25,26	32,848	19,148
Accrued expenses and income accrued but not received	3,20,25,26	18,021	19,949
Perpetual subordinated loans	3,17,18,24,25,26	0	0
Total debt		7,130,125	7,975,375
Called-up and fully paid capital	27	449,990	449,990
Retained earnings		135,167	53,443
Total equity	23,27	585,157	503,433
TOTAL DEBT AND EQUITY		7,715,282	8,478,808

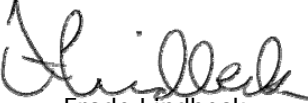
Drammen, 11 February 2014


Kjell Engen
Chairman of the Board


Arne K. Stokke
Deputy Chairman of the Board


Pål Strand


Anne Grete Nessel
Anne Grete Nessel


Frode Lindbeck
General Manager

Cash Flow Statement

(Amount in NOK thousand)		2013	2012
Operating activities			
Profit before tax		113,506	64,436
Adjustments for:			
Change in lending		867,084	-1,583,459
Change in other assets		5,596	-4,740
Change in loans from credit institutions		-886,058	737,002
Change in other debt		-1,968	-4,544
Change in premium/discount on debt established upon the issue of securities		4,603	1,450
Tax payable for the period		-18,042	-1,107
Net cash flow from operating activities	A	84,721	-790,962
Financing activities			
Payments for buyback of securities		-983,234	0
Receipts on issue of securities		998,580	684,647
Payments on redemption of subordinated loans		0	-40,000
Receipts on capital increase		0	200,000
Net cash flow from financing activities	B	15,346	844,647
Net change in cash and cash equivalents	A+B	100,067	53,685
Cash and cash equivalents at 01.01.		109,789	56,104
Holding of cash and cash equivalents at 31 December		209,856	109,789

Liquid assets consist solely of bank deposits.

Change in equity

(Amount in NOK thousand)

2013	Total equity	Share capital	Premium	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 contributions received	45,000	0	0	45,000
Equity as at 31/12/2013	585,157	266,500	183,490	135,167

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

2012	Total equity	Share capital	Premium	Other equity
Equity as at 31/12/2011	257,039	159,900	90,090	7,049
Total profit	46,394	0	0	46,394
Capital increase 30.10.12	200,000	106,600	93,400	0
Equity as at 31.12.12	503,433	266,500	183,490	53,443

The proposed Group contribution for the year is NOK 45 million and is included in other equity until finally adopted.

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NOTE 1 GENERAL INFORMATION

Sparebanken Øst Boligkreditt AS has its headquarters in Drammen and is a wholly owned subsidiary of Sparebanken Øst. 2013 is the company's fifth 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 annual accounts for 2013 were approved by the Board of Sparebanken Øst Boligkreditt AS on 11 February 2014.

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

All amounts in the notes are stated in NOK thousand unless otherwise stated.

NOTE 2 ACCOUNTING PRINCIPLES

1. GENERAL

The accounts for Sparebanken Øst Boligkreditt AS for 2013 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.

2. AMENDMENTS TO ACCOUNTING PRINCIPLES

The accounting policies applied are consistent with those applied in the previous accounting period, apart from amendments to IFRS, which have been implemented during the current accounting period. All relevant IFRS amendments effective for the accounts for 2013 and the effect these have had on the annual accounts are listed below.

- *Amendments to IFRS 7 Financial Instruments - Disclosures:* These amendments mean that the company is obliged to provide information regarding netting rights and related agreements. This information will provide the users of the accounts with useful information to enable them to evaluate the effect of netting agreements on the company's financial position. Notes are required for the recognised financial instruments presented at their net amount in accordance with IAS 32, and recognised financial instruments for which agreements exist regarding conditional netting permission. The information is presented in note 30 - Netting right, financial derivatives.
- *IFRS 13 Fair Value Measurement:* The company has implemented IFRS 13 regarding the measurement of fair value for assets and liabilities, which other standards require or allow to be measured at fair value. IFRS 13 requires more detailed information to be provided as notes. This information is presented in note 24 - Financial instruments.

Annual improvement project 2009-2011:

- *Amendment to IAS 1:* Preparation of requirements regarding comparative figures. Resulted in no changes.
- *Amendment to IAS 32:* Preparation of tax effects on equity transactions. Resulted in no changes.

3. FOREIGN CURRENCY

The accounts are presented in Norwegian kroner (NOK), which is also the company's functional currency.

Transactions in foreign currencies are translated to the functional currency (NOK) at the rate on the transaction date. Monetary items in foreign currencies are translated at the official mean exchange rate on the balance sheet date. Foreign exchange gains and losses arising due to different rates of exchange on the transaction date and the settlement date, and exchange differences on monetary items in foreign currencies that are not settled, are recognised in the income statement.

4. INCOME RECOGNITION

4.1 INTEREST INCOME AND EXPENSES

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

If a financial asset or a group of similar assets is devalued as a result of depreciation, interest income is recognised in the income statement by using the interest by which future cash flows are discounted by in order to calculate the depreciation.

The income recognition of interest into the profit and loss account according to the true rate of interest method is used for balance sheet items valued at amortised cost.

4.2 COMMISSION INCOME AND EXPENSES

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

5. CAPITALISATION OF ASSETS AND LIABILITIES

Assets are recognised in the balance sheet at the time the company obtains real control over the rights to the assets. The corresponding liabilities are recognised in the balance sheet at the time the company undertakes real commitments.

Assets are de-recognised from the balance sheet at the time the real risk relating to the assets has been transferred, and control over the rights to the assets has lapsed or expired.

6. FINANCIAL INSTRUMENTS

6.1 CLASSIFICATION

The company's financial instruments which are covered by IAS 39, are classified into one of the following categories:

Financial assets:

- Financial assets at fair value with changes in value over income
- Loans and receivables, capitalised at amortised cost

Financial liabilities:

- Financial liabilities at fair value with a change in value over income
- Financial liabilities, capitalised at amortised cost

6.2 MEASUREMENTS

6.2.1 Initial recognition of financial instruments

Financial instruments valued at fair value over income are measured at fair value at the contract date of 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.

6.2.2 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 rates do not exist and the fair value cannot be derived directly or indirectly from observable inputs in the market, other valuation techniques are used.

Measurement at amortised cost

Financial instruments not measured at fair value are valued at amortised cost and income/costs are calculated using the true rate of 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

It is assessed whether there is objective evidence that financial assets have been exposed to a reduction in value on each balance sheet date. Write-downs are discussed in more detail in section 6.3.

6.2.3 Hedge accounting

The company uses fair value hedging of fixed-rate borrowing and foreign currency borrowing. For fair value hedging, the hedging instrument is recognised at fair value and the value of the hedging item is adjusted for changes in value related to the hedged risk.

6.3 MORE INFORMATION ABOUT FINANCIAL INSTRUMENTS

6.3.1 Lending

On initial recognition, loans are valued at fair value plus direct transaction costs. Arrangement fees are capitalised and recognised as income over the expected term of the loan. Income is recognised on a monthly basis. For subsequent measurements, loans are valued at amortised cost using the true rate of 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 according to the true rate of interest method on the written-down value of loans is included in "Interest income and similar income".

Non-performing and doubtful commitments

Non-performing loans are defined as loans that are in default in excess of 90 days. Loans and other commitments which are not in default, but where the customer's economic situation makes it likely that the company will incur a loss are classified as doubtful commitments.

Individual write-downs of loans and guarantees

Loans are written down for a reduction in value on an individual basis provided there is objective evidence that such a reduction in value has occurred. The estimation of any reduction in value/loss takes place on the basis of the size of the expected future cash flows. Please refer to the more detailed description under "Use of estimates".

Write-downs of groups of loans

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. Please refer to the more detailed description under "Use of estimates".

Realisation of losses

The realisation of losses occurs only once debt settlement or bankruptcy of a debtor has been affirmed, when execution proceedings have not been conveyed, where there is a final and enforceable judgement, or in instances in which the company has renounced the loan or parts of it, or in other instances when it is highly likely that losses are finite. Realised losses covered by previous write-downs are recognised in provisions. Realised losses not covered by loss provisions, as well as over or under-coverage in relation to previous write-downs are recognised in the income statement.

6.3.2 Financial derivatives

Financial derivatives are contracts entered into to balance a pre-existing interest rate or currency risk that have been, or are in the process of being, undertaken by the company. Financial liabilities are recognised at fair value with a change in value over income. The derivative is recognised as an asset if the fair value is positive and as a liability if the fair value is negative.

Realised and unrealised gains and losses on financial derivatives are recognised in the income statement under "Net change in value and gains/losses on financial instruments". For the recognition of financial derivatives where hedge accounting has been used, see section 6.3.3.

6.3.3 Hedge accounting

Sparebanken Øst Boligkreditt AS uses financial derivatives to reduce interest rate and currency risk.

The company uses fair value hedging. A fair value hedge is a hedging relationship whereby the company seeks to hedge against exposure to changes in value of capitalised assets or liabilities. Fixed-rate bond debt is an example of an interest rate risk. Bond liabilities in a foreign currency represent both an

interest-rate and currency risk. Hedge accounting is used if certain criteria are met for financial derivatives used for fair value hedging on capitalised liabilities. Changes in the fair value of financial derivatives classified as hedging instruments are recognised in the income statement together with any changes in fair value of the hedged liability attributable to the hedged risk. The company uses interest rate swaps and currency swaps as hedging instruments.

Changes in the value of hedging instruments and hedging objects are included in "Net changes in value and gains/losses 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 company uses one-to-one hedges, i.e. nominal amounts and capital sums, terms, repricing dates, dates of receipt and payment of interest and capital sums, and the basis of measurement of interest are the same for the hedging instrument and the hedging object. If the measurement shows that the changes in value of the hedging instrument counter 80 to 125 per cent of the changes in the hedging object, the hedge will still qualify as a hedge in accordance with IAS 39. Any ineffective portion of the hedge is recognised in the income statement. If the hedging relationship is terminated or it is not possible to verify the adequacy of the effectiveness of the hedge, the change in value attributed to the hedging object is amortised over the remaining term.

6.3.4 Borrowings and other financial liabilities

The company measures financial liabilities, other than derivatives, at their amortised cost. At amortised cost, differences between the amount received less transaction costs and redemption value over the period of the loan are accrued by using the true rate of interest method. Interest expenses and the amortisation effects on instruments are included in "Interest expenses and similar costs" in the income statement. Holdings of own bonds are recognised as a reduction of debt. Upon repurchase, the difference between the capitalised value and the consideration paid is recognised in the income statement as a premium/discount.

7. LEASES

A lease is classified as a financial lease if it substantially transfers all the risks and returns associated with the ownership. Other leases are classified as operational leases.

As a lessee, the company has only signed operational leases. Lease payments are recognised linearly over the term of the lease as an expense in the income statement unless another systematic basis is more representative of the use value over time.

8. INCOME TAX

Income tax for the year in the income statement comprises the tax payable for the financial year, any over/under allocated tax payable from previous years, and deferred tax recognised in the income statement.

Deferred tax liabilities/deferred tax assets are calculated based on temporary differences. Temporary differences are the difference between the capitalised value and the tax value of assets and liabilities. Deferred tax assets are further calculated on the tax effects of losses carried forward.

Deferred tax assets are recognised as assets in the balance sheet to the extent that it is expected that the company will have sufficient taxable profit in future periods so as to utilise the deferred tax asset. Deferred tax assets and deferred tax liabilities are measured using the applicable tax rates and adjusted to the extent permitted.

Tax payable is recognised directly in the balance sheet to the extent the tax items relate to equity transactions.

9. CONTINGENT EVENTS

Contingent liabilities are not recognised in the annual accounts. Significant contingent liabilities are disclosed except for contingent liabilities where the likelihood of liability is low.

A contingent asset is not recognised in the annual accounts, but is disclosed if it is probable that it will benefit the company.

10. EQUITY

10.1 *Earnings per share*

Earnings per share are calculated as the shareholders' share of the company's profit for the period divided by the time-weighted average number of shares during the period.

10.2 *Dividend*

Dividend per share is recognised as equity in the period up until approved by the company's General Meeting.

11. CASH FLOW STATEMENT

The cash flow statements show cash flows grouped by type and area of application. Cash and cash equivalents include cash, receivables at central banks, and lending to and receivables from credit institutions relating to direct investments.

12. EVENTS AFTER THE BALANCE SHEET DATE

New information after the balance sheet date regarding the company's financial position on the balance sheet date will be included in the basis of the assessment of accounting estimates in the accounts and will consequently be taken into account in the annual accounts. 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.

13. MANAGEMENT ASSESSMENTS, 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. The management has used its judgement 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 are not measured accurately, and the assessment and best estimates of the management may differ significantly from actual outcomes.

Assessments, estimates and assumptions that are deemed to be the most significant to the accounts are discussed below.

13.1 *Lending losses*

Loans are written down for a reduction in value on an individual basis provided there is objective evidence that such a reduction in value has 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 other conditions as a result of financial difficulties of debtors, bankruptcy, etc. The estimation of any reduction in value/loss takes place on the basis of the size of the expected future cash flows from the sale of collateral and the like, when cash flows are expected to be paid, as well as the size of the discount rate. The size of the loss is a direct function of the difference between the capitalised value and the current value of discounted future cash flows. The primary uncertainty of estimates as to the size of the reduction in value/loss lies in the assessments of the cash flows' size and when they are expected to be received. Please see note 9 for lending losses.

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. The estimation of the reduction in value/loss on groups of loans takes place on the basis of historical loss data compounded with bank-specific and/or market parameters such as risk classification, macroeconomic size, and industry ratios. The primary uncertainty in the estimates as to the size of the reduction in value/loss on groups of loans is related to the data used. The representativeness and quality of the data are important elements. Write-downs of the reduction in value/loss on groups of loans are based on models of both an approximate and statistical character. Model risk will, generally speaking, always be an element of uncertainty which is transferred to the estimates which the models are used to calculate. Please see note 9 for write-downs of groups of loans

14. FUTURE AMENDMENTS TO ACCOUNTING PRINCIPLES

The adopted standards and interpretations are listed, except those clearly not deemed to be relevant.

- *IFRS 9 Financial Instruments*: IFRS 9 will replace the current IAS 39. IASB has split the project into several phases, and as each phase of IFRS 9 is completed, the relevant sections of IAS 39 will be annulled. The company will evaluate the potential effects of IFRS 9 in accordance with the other

phases as soon as the final standard, including all phases, is published. Deferred pending completion of the standard.

- *Amendments to IAS 32 Financial Instruments: Presentation*: Concerns offsetting criteria for settlement systems. Expected to apply with effect from 01 January 2014. The amendments are not expected to result in changes to the company's annual accounts.

NOTE 3 RUNNING ACCOUNT WITH THE PARENT BANK

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.

Income	2013	2012
Interest income, deposits in parent bank	2,618	1,770
Interest expenses, loans from parent bank	21,966	24,527
Interest expenses, subordinated loans in parent bank	0	1,884
Interest expenses, covered bond debt to parent bank	17,301	29,380
Commission expenses to parent bank	11,579	11,018
Administrative expenses to parent bank	276	276
Other operating expenses to parent bank	1,251	1,251
Balance Sheet	2013	2012
Deposits in parent bank	209,856	109,789
Other receivables from parent bank	1,100	5,437
Loans from parent bank	663,847	1,549,905
Covered bond debt to parent bank	241,847	978,894
Other debt to parent bank	997	1,098
Accrued interest costs, covered bonds	629	938
Subordinated loan from parent bank	0	0

NOTE 4 NET INTEREST AND CREDIT COMMISSION INCOME

	2013	2012
Interest and similar income from lending to and receivables from credit institutions	2,618	1,770
Interest and similar income from lending to and receivables from customers	306,674	293,410
Interest income and similar income	309,292	295,180
Interest and similar costs on debt to credit institutions	21,969	24,529
Interest and similar costs on liabilities on securities issued	158,687	190,094
Interest and similar costs on liabilities on subordinated loan capital	0	1,884
Interest expenses and similar costs	180,656	216,507
Net interest and credit commission income	128,636	78,673

NOTE 5 SALARIES AND OTHER REMUNERATION

Sparebanken Øst Boligkreditt AS has no employees, but has entered into an agreement with Sparebanken Øst to lease staff. The general manager has a 40% position, and the compliance controller a 100% position at a total cost of NOK 1,200,000 in 2013. The general manager is paid by Sparebanken Øst and had an annual salary of NOK 876,135 in 2013.

There are no employees or employee representatives who are entitled to termination benefits, subscription rights, options, or bonuses. No remuneration is paid for serving on the Board or Supervisory Board for positions held by employees of Sparebanken Øst. Neither the general manager, Board, audit committee, nor affiliated parties hold loans in Sparebanken Øst Boligkreditt AS. The company is not obliged to have an occupational pension scheme in accordance with the Act on Mandatory Occupational Pensions.

The following fees were paid to the audit committee during the financial year

	2013	2012
Hans-Jacob Hansen	30	30
Emil Gamborg	15	0
Siren Coward	0	0
Manager		
Employee of Sparebanken Øst		
Remuneration to the audit committee	45	30

NOTE 6 ADMINISTRATIVE EXPENSES

	2013	2012
IT expenses	276	276
Other administrative expenses	4	42
Administrative expenses	280	318

NOTE 7 OTHER OPERATING EXPENSES

	2013	2012
Consultancy fees to Sparebanken Øst	1,251	1,251
External consultants	807	777
Fees relating to own bonds	757	657
Other operating expenses	472	235
Other operating expenses	3,287	2,920

NOTE 8 REMUNERATION TO AUDITOR

	2013	2012
Audit	196	150
Other certification services*	105	85
Other services	27	59
Remuneration to auditor	328	294

*Including investigator fees in relation to the Norwegian Financial Institutions Act § 2-34, NOK 105 thousand in 2013, and NOK 85 thousand in 2012.

The amounts are inclusive of VAT.

NOTE 9 LENDING LOSSES

There is no objective evidence that there has been a fall in value, nor are there any non-performing or doubtful investments as at 31/12/2013.

	2013	2012
Individual write-downs		
Individual write-downs as at 01.01.	0	0
- Realised losses for the period for which individual write-downs have previously been made	0	0
+ Increased individual write-downs for the period	0	0
+ New individual write-downs for the period	0	0
- Reversed individual write-downs for the period	0	0
= Individual write-downs as at 31 December	0	0
Write-downs of groups of loans		
Write-downs of groups of loans as at 01.01.	0	0
+/- Changes in write-downs of groups of loans for the period	0	0
= Write-downs of groups of loans as at 31 December	0	0
Loss expenses for the period		
Change in individual write-downs for the period	0	0
+/- Changes in write-downs of groups of loans for the period	0	0

+ Realised losses for the period for which individual write-downs have previously been made	0	0
+ Realised losses for the period for which individual write-downs have not previously been made	0	0
- Recovery of previously realised losses for the period	0	0
+/- Amortisation cost write-downs for the period	0	0
= Lending and guarantee losses	0	0

NOTE 10 TAXES

	2013	2012
The year's tax expenses in the income statement are as follows		
Tax payable on profit for the year	31,782	18,042
Deferred tax recognised in the income statement	0	0
Total tax for the year	31,782	18,042
Reconciliation of tax expenses for the year		
Profit before tax	113,506	64,436
Tax at the nominal rate of 28%	31,782	18,042
Tax effect of permanent differences	0	0
Tax expenses	31,782	18,042
Tax payable in the balance sheet is as follows		
Tax payable on profit for the year	31,782	18,042
Tax payable	31,782	18,042

The company has no temporary differences either as at 31 December 2013 or as at 31 December 2012, and has no deferred tax assets recognised on the balance sheet.

NOTE 11 LENDING TO CUSTOMERS

	2013	2012
Line of credits secured against residential property	866,591	982,833
Repayment mortgages secured against property	6,565,326	7,316,168
Gross lending to and receivables from customers	7,431,917	8,299,001
Individual write-downs	0	0
Write-downs of groups of loans	0	0
Net lending to and receivables from customers	7,431,917	8,299,001

Geographical distribution of collateral

	2013	2012
Drammen	1,084,509	1,486,537
Øvre Eiker	450,780	588,950
Nedre Eiker	663,973	936,621
Buskerud generally	417,242	465,874
Akershus	1,490,084	1,603,800
Oslo	1,504,433	1,424,106
Vestfold	569,723	665,479
Østfold	289,525	308,542
Rest of country	961,648	819,092
Total	7,431,917	8,299,001

Cover pool

	2013	2012
Gross lending secured against property	7,410,489	8,298,865
Other substitute assets (bank deposits)	209,856	109,789
Total cover pool	7,620,345	8,408,654
Cover pool occupancy*	119 %	132 %

*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	2013	2012
Employees	7,385,667	8,235,022
Self-employed	46,250	63,979
Net lending to and receivables from customers	7,431,917	8,299,001
Non-performing and doubtful commitments	2013	2012
Non-performing commitments over 90 days		
Commercial	0	0
Personal	0	1,728
Gross non-performing commitments	0	1,728
Individual write-downs	0	0
Net non-performing commitments	0	1,728
Provision percentage	0 %	0 %
Doubtful (not non-performing) commitments		
Commercial	0	0
Personal	0	0
Gross doubtful commitments	0	0
Individual write-downs	0	0
Net doubtful commitments	0	0
Provision percentage	0 %	0 %
Gross non-performing and doubtful commitments		
Commercial	0	0
Personal	0	1,728
Gross non-performing and doubtful commitments	0	1,728
Individual write-downs	0	0
Net non-performing and doubtful commitments	0	1,728
Provision percentage	0 %	0 %

NOTE 12 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.

Financial derivatives used for hedge accounting	Contractual totals	Fair value 2013	
		Assets	Liabilities
Currency instruments			
Currency swaps	252,101	32,059	0
Total currency instruments	252,101	32,059	0
Interest instruments			
Interest rate swaps	900,000	28,192	0
Total interest instruments	900,000	28,192	0
Total derivatives		60,251	0

No significant inefficiencies have been reported for the hedges in 2013.

Financial derivatives used for hedge accounting	Contractual totals	Fair value 2012	
		Assets	Liabilities
Currency instruments			
Currency swaps	252,101	4,369	0
Total currency instruments	252,101	4,369	0
Interest instruments			
Interest rate swaps	900,000	46,795	0

Total interest instruments	900,000	46,795	0
Total derivatives		51,164	0

No significant inefficiencies have been reported for the hedges in 2012.

NOTE 13 OTHER ASSETS

	2013	2012
Outstanding accounts, parent bank	1,100	5,437
Other assets	1,100	5,437

NOTE 14 EXPENSES PREPAID BUT NOT ACCRUED AND INCOME ACCRUED BUT NOT RECEIVED

	2013	2012
Income accrued but not received	12,158	13,417
Expenses prepaid but not accrued, and income accrued but not received	12,158	13,417

NOTE 15 DEBT TO CREDIT INSTITUTIONS

	2013	2012
Loans from credit institutions with an agreed term or notice period	663,847	1,549,905
Debt to credit institutions	663,847	1,549,905

NOTE 16 DEBT ESTABLISHED UPON THE ISSUE OF SECURITIES

2013	Outstanding volume*	Avg. balance	Weighted interest rate
Covered bonds NOK	6,131,249	6,144,861	2.48
Covered bonds (foreign currency)	284,160	253,125	2.43
Debt established upon the issue of securities	6,415,409	6,397,986	2.48

*Measured at amortised cost on the balance sheet date.

2012	Outstanding volume*	Avg. balance	Weighted interest rate
Covered bonds NOK	6,129,903	6,029,025	3.06
Covered bonds (foreign currency)	256,470	197,967	2.90
Debt established upon the issue of securities	6,386,373	6,226,992	3.05

*Measured at amortised cost on the balance sheet date.

NOTE 17 SUBORDINATED LOAN CAPITAL

2013	Outstanding volume*	Avg. balance	Weighted interest rate
Perpetual subordinated loan capital	0	0	0.00
Subordinated loan capital	0	0	0.00

*Measured at amortised cost on the balance sheet date.

2012	Outstanding volume*	Avg. balance	Weighted interest rate
Perpetual subordinated loan capital	0	33,115	5.69
Subordinated loan capital	0	33,115	5.69

*Measured at amortised cost on the balance sheet date.

NOTE 18 LONG-TERM BORROWING GROUPED ACCORDING TO MATURITY

31/12/2013	Drawing right*	Covered bonds	Sub. loans	Total
2014	0	210,000	0	210,000
2015	0	1,000,000	0	1,000,000
2016	0	1,434,160	0	1,434,160
2017	0	1,000,000	0	1,000,000
2018	0	1,000,000	0	1,000,000
2019	0	1,000,000	0	1,000,000
2020	0	0	0	0
2021	0	0	0	0
2022 and later	0	750,000	0	750,000
No term	663,847	0	0	663,847
Gross borrowing	663,847	6,394,160	0	7,058,007
Direct costs and premium/discount	0	21,249	0	21,249
Net borrowing	663,847	6,415,409	0	7,079,256

*Approved overdraft limit of NOK 2,000 million.

31.12.12	Drawing right*	Covered bonds	Sub. loans	Total
2013	0	0	0	0
2014	0	1,190,000	0	1,190,000
2015	0	1,000,000	0	1,000,000
2016	0	1,406,470	0	1,406,470
2017	0	1,000,000	0	1,000,000
2018	0	1,000,000	0	1,000,000
2019	0	0	0	0
2020	0	0	0	0
2021 and later	0	750,000	0	750,000
No term	1,549,905	0	0	1,549,905
Gross borrowing	1,549,905	6,346,470	0	7,896,375
Direct costs and premium/discount	0	39,903	0	39,903
Net borrowing	1,549,905	6,386,373	0	7,936,278

*Approved overdraft limit of NOK 2,000 million.

NOTE 19 OTHER LIABILITIES

	2013	2012
Tax payable	31,782	18,042
Other liabilities	1,066	1,106
Other liabilities	32,848	19,148

NOTE 20 ACCRUED EXPENSES AND INCOME ACCRUED BUT NOT RECEIVED

	2013	2012
Accrued interest	18,021	19,885
Other accrued expenses	0	64
Accrued expenses and income accrued but not received	18,021	19,949

NOTE 21 GUARANTEE LIABILITIES

	2013	2012
Guarantee liability	0	0

NOTE 22 SECURED DEBT AND PREFERENTIAL RIGHTS - NOMINAL VALUE

	2013	2012
Secured debt	0	0
Preferential rights in accordance with the Norwegian Financial Institutions Act § 2-35	6,394,160	6,346,470

NOTE 23 CAPITAL ADEQUACY

	2013	2012
Share capital	266,500	266,500
Share premium account	183,490	183,490
Other reserves included in tier 1 capital	135,167	53,443
Deductions from core capital	-50,000	0
Net tier 1 capital	535,157	503,433
Subordinated loans	0	0
Net tier 2 capital	0	0
Net subordinated capital	535,157	503,433
Basis of calculation		
Basis of calculation for balance sheet items	2,723,708	2,974,410
Basis of calculation for items off-balance sheet	89,908	87,839
Basis of calculation for operational risk	48,794	9,695
Total basis of calculation (risk-weighted balance sheet)	2,862,410	3,071,944
Capital adequacy	18.70 %	16.39 %
Tier 1 capital adequacy	18.70 %	16.39 %

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.

NOTE 24 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 techniques 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.

31/12/2013	Level 1	Level 2	Level 3	Fair value	Book value
Amortised cost					
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
Total assets at amortised cost	0	209,856	7,431,917	7,641,773	7,641,773
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
Total liabilities at amortised cost	0	7,180,366	0	7,180,366	7,079,256
Fair value					
Financial derivatives	0	60,251	0	60,251	60,251
Total assets at fair value	0	60,251	0	60,251	60,251

31.12.12	Level 1	Level 2	Level 3	Fair value	Book value
Amortised cost					
Net lending to and receivables from credit institutions	0	109,789	0	109,789	109,789
Net lending to and receivables from customers	0	0	8,299,001	8,299,001	8,299,001
Total assets at amortised cost	0	0	8,299,001	8,408,790	8,408,790
Debt to credit institutions	0	1,549,905	0	1,549,905	1,549,905
Debt established upon the issue of securities	0	6,439,954	0	6,439,954	6,386,373
Total liabilities at amortised cost	0	7,989,859	0	7,989,859	7,936,278
Fair value					
Financial derivatives	0	51,164	0	51,164	51,164
Total assets at fair value	0	51,164	0	51,164	51,164

NOTE 25 RISK AND RISK MANAGEMENT

Sparebanken Øst Boligkreditt AS seeks to maintain a low risk profile in line with regulatory requirements for mortgage companies, and which ensures that the company's issued securities are attractive to external investors. The company's Board has adopted a strategy for financial risk, which sets out the company's policy and framework for risk-taking in the different risk areas. The company's Board revises the strategy at least annually.

The use of a framework as set out in the strategy is measured at least quarterly and reported to the Board and audit committee.

Sparebanken Øst Boligkreditt AS and the rest of the Group are measured and assessed as part of annual capital adequacy requirement evaluations (ICAAP). Monthly accounts reports are prepared on a monthly basis for the Board, the general manager, and the bank's management.

Reports from external and internal auditors are submitted to and considered by the Board, while internal and external auditors also hold monthly meetings with the audit committee. The general manager makes an annual report regarding the overall assessment of the risk situation and internal controls. The controller submits regular risk control reports to the general manager and presents a six-monthly status report to the Board and the audit committee.

Sparebanken Øst Boligkreditt AS is exposed to the following risks:

- operational risk associated with the business's internal operating structure
- commercial risk associated with exposure to external parties and general market conditions

Operational risk

Operational risk is the risk of losses resulting from inadequate or failing internal processes, the failure of people and systems, or external events.

Operational risk in Sparebanken Øst Boligkreditt AS arises primarily in relation to the approval of loans, the use of IT systems, the issue of covered bond debt, and compliance with laws and regulations. The approval of loans takes place at Sparebanken Øst in accordance with an agreement between the companies. The approval process is subject to strict credit approval procedures and associated control procedures. IT systems are subject to the same control procedures that apply to Sparebanken Øst with operations and maintenance carried out by the bank in accordance with an agreement between the companies. The same applies to the issue of covered bond debt/liquidity management carried out by the bank as agreed. Compliance control is carried out by Sparebanken Øst Boligkreditt AS itself. An investigator (Ernst & Young) carries out independent quarterly checks. Sparebanken Øst Boligkreditt AS has an internal audit conducted by KPMG. The company's audit committee carries out inspections as prescribed by law and in regulations.

Commercial risks

The most significant commercial risks in Sparebanken Øst Boligkreditt AS include:

- Credit risk
- Market risk

Credit risk

Credit risk is the potential for losses as a result of customers and other counterparties failing to honour their commitments at the agreed time, and any security pledged for the relationship failing to cover the outstanding account. Concentration risk on geographical areas and individual customers is also included here.

Loans transferred to or provided by Sparebanken Øst Boligkreditt AS are approved against real estate (residential mortgage) up to 70% of the property's market value. The loans are granted in accordance with conservative credit approval procedures so as to minimise the risk of losses. The credit policy of lending to customers is addressed daily through credit manuals, frameworks, and powers of attorney handled by the bank's credit department. Credit risk trends related to the bank's lending are constantly monitored by way of framework controls, periodic analyses and reports, and the use of spot checks at the customer level. The loan-to-value ratio in the cover pool (LTV) was 47.0% at the end of 2013 against 45.3% at the end of 2012.

The bank's branch network in the eastern part of southern Norway and a focus on internet concepts such as DinBank.no and Boligkreditt.no help to reduce geographic concentration. There are limits to the size of loans to individual customers. Sparebanken Øst Boligkreditt AS is the legal and beneficial owner of all loans in the cover pool, and shall have seniority if the same collateral secures loans in both the parent bank and the company.

Maximum credit exposure	2013	2012
Liabilities		
Loan commitments	28,901	0
Credit facilities	404,773	402,948
Total liabilities	433,674	402,948

Risk classification is an integral element of the credit process for retail customers for the approval and overall management of the portfolio. Retail customers are classified in line with the applicable rules described in Sparebanken Øst's credit handbook PM. The method of classifying customers by risk follows the attached description: The cumulative risk class is calculated on the basis of the ratio between total debt and total wage income (debt ratio), the customer's/household's security coverage (loan-to-value ratio), and the customer's/household's general financial situation. The parameter "general financial situation" is generated either on the basis of a liquidity calculation of the customer/household, or on the basis of a credit score model. The debt ratio is weighted by 10%, the security coverage by 25%, and the general financial situation by 65%. There is reason to believe that the company's credit losses as a percentage of net interest income will be marginal in the immediate future.

Sparebanken Øst Boligkreditt AS's portfolio is based on credit ratings made by Sparebanken Øst and is subject to its organisation of the decision-making process. The decision-making process in the retail market is based on a centralised processing unit. The control measures implemented in the bank show that there is limited operational risk within this area. It is believed, therefore, that losses will primarily be linked to, and conditional upon, general future developments in the market.

The proportion of commitments with low to normal risk was 97% in 2013, the same as in 2012. For loans with reasonably high risk and greater, the proportion is unchanged at 3%.

Lending by risk classes 2013

	Gross lending	Credit facilities	Individual write-downs	Commitments	%
Low risk	4,424,363	279,323	0	4,703,686	60
Moderate risk	1,922,938	91,421	0	2,014,359	26
Normal risk	849,955	23,954	0	873,909	11
Reasonably high risk	120,234	3,587	0	123,821	2
High risk	6,436	0	0	6,436	0
Unspecified	107,991	6,488	0	114,479	1
Total	7,431,917	404,773	0	7,836,690	100

Lending by risk classes 2012

	Gross lending	Credit facilities	Individual write-downs	Commitments	%
Low risk	3,859,649	271,148	0	4,130,797	47
Moderate risk	2,914,023	96,182	0	3,010,205	35
Normal risk	1,238,162	26,332	0	1,264,494	15
Reasonably high risk	180,491	3,438	0	183,929	2
High risk	7,058	0	0	7,058	0
Unspecified	99,618	5,848	0	105,466	1
Total	8,299,001	402,948	0	8,701,949	100

The pricing of loans to retail customers is primarily based on security coverage (loan-to-value ratio) and the size of the loan. Pricing throughout the year will still be influenced by developments in the general interest rate market, the parent bank's overall growth objectives, and the overall competitive situation.

The main parameter in relation to the credit rating is the borrower's financial situation and loan-to-value ratio. In 2010, Sparebanken Øst implemented the Financial Supervisory Authority of Norway's guidelines for responsible lending practices for mortgage lending. Loans at Sparebanken Øst Boligkreditt AS are secured against real estate, properties on leased land, or housing society dwellings within the statutory limits for loan-to-value ratios. The loan-to-value ratio is calculated on the basis of the loan amount in relation to the carefully assessed value of the collateral. For loans transferred to Sparebanken Øst Boligkreditt AS, the basis for determining the value is also ensured by a valuation undertaken by an approved independent third party.

Market risk

Market risk is the risk of losses in the market value of financial assets and liabilities in the event of a change in financial market prices. Sparebanken Øst is primarily exposed to market risk through changes in the level of interest rates (interest rate risk) and exchange rates (currency risk).

Interest rate risk

Interest rate risk arises when repricing interest rates for assets differs from the point of repricing for liabilities. Interest rate risk is measured as the effect on net interest income and equity at changes in the yield curve. The interest rate risk at Sparebanken Øst Boligkreditt AS is limited.

Interest rate sensitivity

Foreign currency	Increase in basis points	Sensitivity on earnings		Sensitivity on equity	
		2013	2012	2013	2012
NOK	+100	8,422	6,846	0	0
SEK	+100	-2,403	-2,414	0	0
Total		6,019	4,432	0	0

Foreign currency	Reduction in basis points	Sensitivity on earnings		Sensitivity on equity	
		2013	2012	2013	2012
NOK	-100	-8,422	-6,846	0	0
SEK	-100	2,403	2,414	0	0
Total		-6,019	-4,432	0	0

Time until expected change in interest as at 31/12/2013

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	No fixed- rate period	Total
Assets							
Net lending to credit institutions	209,729					127	209,856
Net lending to customers	46,251	7,385,666					7,431,917
Financial derivatives NOK						28,192	28,192
Financial derivatives (foreign currency)						32,059	32,059
Other asset items						13,258	13,258
Total	255,980	7,385,666	0	0	0	73,636	7,715,282
Debt							
Debt to credit institutions	663,847						663,847
Debt established upon issue of securities NOK	1,756,086	4,375,163					6,131,249
Debt established upon issue of securities (foreign currency)	284,160						284,160
Other debt						50,869	50,869
Total	2,704,093	4,375,163	0	0	0	50,869	7,130,125
Net exposure	-2,448,113	3,010,503	0	0	0	22,767	

Time until expected change in interest as at 31.12.12

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	No fixed- rate period	Total
Assets							
Net lending to credit institutions	109,432					357	109,789
Net lending to customers	63,979	8,235,022					8,299,001
Financial derivatives NOK						46,795	46,795
Financial derivatives (foreign currency)						4,369	4,369
Other asset items						18,854	18,854
Total	173,411	8,235,022	0	0	0	70,375	8,478,808
Debt							
Debt to credit institutions	1,549,905						1,549,905
Debt established upon issue of securities NOK	1,761,466	4,368,437					6,129,903
Debt established upon issue of securities (foreign currency)	256,470						256,470
Other debt						39,097	39,097
Total	3,567,841	4,368,437	0	0	0	39,097	7,975,375
Net exposure	-3,394,430	3,866,585	0	0	0	31,278	

Liquidity risk

Liquidity risk is the risk of the company failing to meet its debt obligations or other receivables obligations when due for payment, or having to pay a significantly higher price. Cash flows from lending in the cover pool shall always exceed payment obligations to holders of covered bonds and derivative counterparties.

Sparebanken Øst Boligkreditt AS covers its borrowing needs from two sources; the company can issue covered bonds and draw on a credit facility in Sparebanken Øst. Loans included in the cover pool and serving as over-collateralisation are financed by a credit facility. Should there be an urgent need for financing at the maturity of previously issued covered bond borrowing, new covered bond borrowing can be issued and provided as collateral for D and/or F loans in Norges Bank via Sparebanken Øst. All of the covered bond agreements entered into by the company have a "soft bullet" whereby the mortgage company can defer redemption by one year.

Remaining contractual term as at 31/12/2013

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	No term	Total
Assets							
Net lending to credit institutions						209,856	209,856
Net lending to customers	7	5,707	1,693	972,724	6,451,786		7,431,917
Financial derivatives NOK				3,525	24,667		28,192
Financial derivatives (foreign currency)				32,059			32,059
Other asset items			13,258				13,258
Total receipts	7	5,707	14,951	1,008,308	6,476,453	209,856	7,715,282
Debt							
Debt to credit institutions			663,847				663,847
Debt established upon issue of securities NOK			210,000	4,150,000	1,750,000		6,110,000
Debt established upon issue of securities (foreign currency)				284,160			284,160
Other debt			50,869				50,869
Total payments	0	0	924,716	4,434,160	1,750,000	0	7,108,876
Net exposure	7	5,707	-909,765	-3,425,852	4,726,453	209,856	

Remaining contractual term as at 31.12.12

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	No term	Total
Assets							
Net lending to credit institutions						109,789	109,789
Net lending to customers	209	305	3,822	1,086,640	7,208,025		8,299,001
Financial derivatives NOK				3,904	42,891		46,795
Financial derivatives (foreign currency)				4,369			4,369
Other asset items			18,854				18,854
Total receipts	209	305	22,676	1,094,913	7,250,916	109,789	8,478,808
Debt							
Debt to credit institutions			1,549,905				1,549,905
Debt established upon issue of securities NOK				4,340,000	1,750,000		6,090,000
Debt established upon issue of securities (foreign currency)				256,470			256,470
Other debt			85,490				85,490
Total payments	0	0	1,635,395	4,596,470	1,750,000	0	7,981,865
Net exposure	209	305	-1,612,719	-3,501,557	5,500,916	109,789	

Financial liabilities

The mortgage company's financial liabilities are shown below at nominal value. All liabilities are added to the category for first possible payment when a contractual payment date is provided. The liabilities include future interest payments. The liability's capital sum is stated. Interest rates and exchange rates are as at 31/12/2013. Liabilities related to derivatives are shown separately, while the related inflows from the derivatives are shown below each table.

Maturity analysis of financial liabilities as at 31/12/2013

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	No term	Total
Debt to credit institutions			678,549				678,549
Debt established upon the issue of securities	7,370	23,599	322,941	4,883,622	2,042,194		7,279,726
Other liabilities			32,848				32,848
Unused credit	404,316						404,316
Financial liabilities excluding derivatives	411,686	23,599	1,034,338	4,883,622	2,042,194	0	8,395,439

Financial derivatives (outflows)	3,166	866	12,098	71,325	148,836		236,291
Financial liabilities	414,852	24,465	1,046,436	4,954,947	2,191,030	0	8,631,730
Financial derivatives (inflows)	1,442	5,400	38,452	154,512	273,000	0	472,806

Maturity analysis of financial liabilities as at 31.12.12

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	No term	Total
Debt to credit institutions			1,587,416				1,587,416
Debt established upon the issue of securities	6,363	32,913	128,520	5,050,064	2,065,367		7,283,227
Other liabilities			65,605				65,605
Unused credit	402,948						402,948
Financial liabilities excluding derivatives	409,311	32,913	1,781,541	5,050,064	2,065,367	0	9,339,196
Financial derivatives (outflows)	3,682	971	13,957	78,930	190,585		288,125
Financial liabilities	412,993	33,884	1,795,498	5,128,994	2,255,952	0	9,627,321
Financial derivatives (inflows)	1,495	5,400	38,610	166,155	307,125	0	518,785

Currency risk

Currency risk is the risk of a loss of value due to a change in the market rate of a foreign currency. This risk is reduced by balancing active and passive positions in the balance sheet against one another by using currency derivatives.

Sparebanken Øst Boligkreditt AS has issued covered bonds in Swedish krona, but this position is currency hedged by way of a currency swap agreement. The company has no open currency risk as at 31/12/2013 or 31/12/2012.

Covered bond issues by currency	2013	2012
Covered bonds in NOK	6,131,249	6,129,903
Covered bonds in SEK	284,160	256,470
Total covered bond issues	6,415,409	6,386,373

NOTE 26 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

31/12/2013	Financial derivatives at fair value, used as hedging instruments	Financial assets and liabilities valued at amortised cost	Total
Net lending to and receivables from credit institutions	0	209,856	209,856
Net lending to and receivables from customers	0	7,431,917	7,431,917
Financial derivatives	60,251	0	60,251
Other assets	0	1,100	1,100
Expenses prepaid but not accrued, and income accrued but not received	0	12,158	12,158
Total financial assets	60,251	7,655,031	7,715,282
Debt to credit institutions	0	663,847	663,847
Debt established upon the issue of securities	0	6,415,409	6,415,409
Other debt	0	946	946
Accrued expenses and income accrued but not received	0	18,021	18,021
Total financial liabilities	0	7,098,223	7,098,223

31.12.12	Financial derivatives at fair value, used as hedging instruments	Financial assets and liabilities valued at amortised cost	Total
Net lending to and receivables from credit institutions	0	109,789	109,789
Net lending to and receivables from customers	0	8,299,001	8,299,001
Financial derivatives	51,164	0	51,164
Other assets	0	5,437	5,437
Expenses prepaid but not accrued, and income accrued but not received	0	13,417	13,417
Total financial assets	51,164	8,427,644	8,478,808
Debt to credit institutions	0	1,549,905	1,549,905
Debt established upon the issue of securities	0	6,386,373	6,386,373
Other debt	0	1,047	1,047
Accrued expenses and income accrued but not received	0	19,885	19,885
Total financial liabilities	0	7,957,210	7,957,210

NOTE 27 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.

NOTE 28 UNCERTAINTIES AND EVENTS AFTER THE BALANCE SHEET DATE

Sparebanken Øst Boligkreditt AS is not a party in any legal disputes.

NOTE 29 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 geographic distribution of the lending portfolio is provided in note 11. 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%.

NOTE 30 NETTING RIGHT, FINANCIAL DERIVATIVES

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 of 31/12/2013 the exposure was as follows:	Gross amount	Set off in the balance sheet	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

As of 31/12/2012 the exposure was as follows:	Gross amount	Set off in the balance sheet	Capitalised value	Amount subject to net settlement	Amount following any net settlement
Financial derivatives assets	51,164	0	51,164	0	51,164
Financial derivatives debts	0	0	0	0	0

Statement according to the Norwegian Securities Trading Act § 5-5

We certify that the annual accounts for the period 1 January to 31 December 2013, to best of our knowledge, have been prepared in accordance with IFRS and that the accounts give a true and fair view of the company's assets, liabilities, financial position, and profits as a whole, and that the information in the annual report provides a fair overview of the development, performance, and position of the company, together with a description of the principal risks and uncertainties facing the company.

Drammen, 11 February 2014

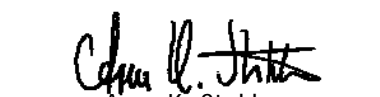
The Board of Directors of Sparebanken Øst Boligkreditt AS



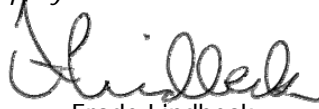
Kjell Engen
Chairman of the Board



Anne Grete Nesset



Arne K. Stokke
Deputy Chairman of the Board



Frode Lindbeck
General Manager



Pål Strand



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