



6th. year

Quarterly report 2014

4. quarter 2014



Contents

Key figures	3
Board of Directors' Report	4
Income Statement	8
Total comprehensive income	8
Balance Sheet	9
Cash Flow Statement.....	10
Change in equity	10
Notes to the annual report.....	11
Statement according to the Norwegian Securities Trading Act § 5-5.....	31

Key figures

	2014	2013	2012	2011	2010
Return on equity (%)	14.29	15.74	14.77	1.46	1.08
Net interest income as % of average total assets	1.56	1.62	1.05	0.31	0.49
Cost/income ratio (%)	12.28	11.77	18.12	73.49	83.96
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	0.01	0.00	0.02	0.00	0.00
Capital adequacy %	21.50	18.70	16.39	12.06	19.70
Tier 1 capital adequacy %	21.50	18.70	16.39	10.43	15.84
Dividend (NOK million)	0.0	50.0	0.0	0.0	0.0
Average total assets (NOK million)	8,854.0	7,943.2	7,467.6	4,887.2	2,319.8

Key figures for 2013 have been restated due to the inclusion of accrued interest in interest-bearing balance sheet items.

Board of Directors' Report

The Board of Directors hereby submits its report for the sixth 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 8,449.5 million, while securities debt in the form of covered bonds amounted to NOK 7,174.3 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.

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

Credit spreads in the market for Norwegian covered bonds have contracted in 2014 compared with the previous year. Covered bonds issued with an Aaa rating and a 5-year term to maturity had a credit spread of roughly 25-28 basis points at year end.

In 2014, Sparebanken Øst Boligkreditt AS issued covered bonds with a nominal value of NOK 700 million that mature in 2020 and a nominal value of NOK 600 million that mature in 2021, for a total of NOK 1.3 billion.

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 73.2 % 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 2014 amounted to NOK 326.9 million (NOK 309.3 million in 2013), of which NOK 323.2 million (NOK 306.7 million in 2013) relates to interest income on lending to customers. Net interest and commission income amounted to a total of NOK 138.4 million, a strong increase compared with 2013 (NOK 128.6 million). Over the past year, the margins between lending to customers and borrowing from the market have decreased due to lower interest rates on lending, even though the money market rates have fallen and the credit spread has narrowed.

The company's operating profit before tax for 2014 amounted to NOK 120.0 million (NOK 113.5 million in 2013), while profit after tax amounted to NOK 87.6 million (NOK 81.7 million in 2013).

Total operating expenses in 2014 amounted to NOK 16.8 million (NOK 15.1 million in 2013) of which NOK 12.8 million (NOK 11.6 million in 2013) 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 2014. Similarly, there was no reason to undertake individual or group write-downs.

Tax expenses amounted to NOK 32.4 million (NOK 31.8 million in 2013).

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 8,955.1 million at the end of 2014, an increase of NOK 1,231.8 million over the previous year. Of the total balance sheet, net lending to customers amounted to NOK 8,449.5 million, representing an increase of NOK 1,005.4 million over 2013. 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 7,174.3 million, equivalent to an increase of NOK 732.8 million over 2013.

At the end of the year, NOK 923.9 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 319.8 million shared across 10.66 million shares, each with a nominal value of NOK 30. A capital increase by the owner totalling NOK 200.0 million, including the premium, was approved by the Financial Supervisory Authority of Norway in the fourth quarter of 2014.

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 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 (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 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.

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 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 125 % 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 822.7 million at year-end. This corresponds to capital adequacy of 21.50 % of which tier 1 capital adequacy amounts to 21.50 %. 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 2014 amounted to NOK 87.6 million (NOK 81.7 million in 2013). The Board of Directors proposes that the profit for the year be transferred in its entirety to other equity.

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 of Directors consists of four members, all of whom are men.

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 company's Board of Directors consisted of four men at year end.

Future prospects

In 2014, 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 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. A sharp fall in oil prices over the last months of the year and into 2015 has resulted in uncertainty in the markets and an interest rate cut by Norges Bank. Significant weakening of the Norwegian krone will stimulate growth for traditional exports and increased inflation for imports.

After falling in the latter part of 2013, housing prices increased again throughout 2014, and what direction the prices will take in 2015 is marked by uncertainty. 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 more in the future due to weaker growth. Households continue to maintain strong finances, but uncertainty regarding economic development and house prices in particular may result in increased saving and sluggish spending. If the fall in oil prices endures, the outlook may change. The company expects that key interest rates will remain low for some time to come. The government's financial position is nevertheless very strong, offering good potential for stimulating the Norwegian economy in case of an economic recession.

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 2015 unless something unforeseen happens.

Drammen, 10 February 2015

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
Board member

Per Øyvind Mørk
Board member

Frode Lindbeck
General Manager

Income Statement

(Amounts in NOK thousand)	Notes	2014	2013
Interest income		326,876	309,292
Interest expenses		188,518	180,656
Net interest income	3, 4	138,358	128,636
Commission income and income from banking services	3	16	16
Commission expenses and expenses for banking services	3	12,771	11,579
Net value change and gains/losses on financial instruments	15	-1,617	0
Administrative expenses	3, 6	297	280
Other operating expenses	3, 5, 7, 8	3,726	3,287
PROFIT BEFORE LOSSES		119,963	113,506
Lending and guarantee losses	9	0	0
PROFIT BEFORE TAX		119,963	113,506
Tax expenses	10	32,390	31,782
PROFIT AFTER TAX		87,573	81,724

Total comprehensive income

(Amounts in NOK thousand)	Notes	2014	2013
TOTAL COMPREHENSIVE INCOME		87,573	81,724

Balance Sheet

(Amounts in NOK thousand)	Notes	31/12/2014	31/12/2013
Lending to and receivables from credit institutions	3, 21, 22, 23	250,187	209,856
Lending to and receivables from customers	9, 11, 21, 22, 23	8,449,489	7,444,075
Financial derivatives	12, 21, 22, 23, 27	251,388	68,301
Other assets	3, 13, 22, 23	4,005	1,100
TOTAL ASSETS		8,955,069	7,723,332
Debt to credit institutions	3, 14, 16, 21, 22, 23	924,436	663,889
Debt established upon the issue of securities	3, 15, 16, 18, 21, 22, 23	7,174,262	6,441,438
Other debt	3, 10, 17, 22, 23	33,641	32,848
Total debt		8,132,339	7,138,175
Called-up and fully paid capital	24	649,990	449,990
Retained earnings		172,740	135,167
Total equity	20, 24	822,730	585,157
TOTAL DEBT AND EQUITY		8,955,069	7,723,332

Drammen, 10 February 2015

Kjell Engen
Chairman of the Board

Pål Strand
Deputy Chairman of the Board

Lars-Runar Groven
Board member

Per Øyvind Mørk
Board member

Frode Lindbeck
General Manager

Cash Flow Statement

(Amounts in NOK thousand)		2014	2013
Operating activities			
Profit before tax		119,963	113,506
Adjustments for:			
Change in net accrued interest income and interest expenses		3,052	-604
Net repayment/disbursement of loans to customers		-1,005,136	867,084
Net repayment/disbursement of borrowing from credit institutions		260,535	-886,058
Change in other assets		-2,905	4,337
Change in other debt		186	-105
Change in premium/discount on debt established upon the issue of securities		1,576	4,603
Net cash flow from financing activities		1,617	0
Tax payable for the period		-31,782	-18,042
Net cash flow from operating activities	A	-652,894	84,721
Financing activities			
Payments for buyback of securities		-756,651	-983,234
Receipts on issue of securities		1,299,876	998,580
Receipts on capital increase		200,000	0
Dividend paid		-50,000	0
Net cash flow from financing activities	B	693,225	15,346
Net change in cash and cash equivalents	A+B	40,331	100,067
Cash and cash equivalents at 01/01		209,856	109,789
Holding of cash and cash equivalents at 31/12		250,187	209,856

Liquid assets consist solely of bank deposits. Unused drawing rights amounted to NOK 1,076,100 as at 31/12/14 and NOK 1,336,400 as at 31/12/13

Change in equity

(Amounts in NOK thousand)

2014	Total equity	Share capital	Share premium reserve	Other equity
Equity as at 31/12/2013	585,157	266,500	183,490	135,167
Total comprehensive income	87,573	0	0	87,573
Capital increase 06/10/2014	200,000	53,300	146,700	0
Dividend 2013 finally adopted	-50,000	0	0	-50,000
Equity as at 31/12/2014	822,730	319,800	330,190	172,740

Proposed dividend for the year is NOK 0.

2013	Total equity	Share capital	Share premium reserve	Other equity
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Equity as at 31/12/12	503,433	266,500	183,490	53,443
Total comprehensive income	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 it is included in other equity until finally adopted.

Notes to the annual report

Note 1	General information	12
Note 2	Accounting principles	12
Note 3	Running account with the parent bank	17
Note 4	Net interest income	17
Note 5	Salaries and other remuneration	17
Note 6	Administrative expenses	18
Note 7	Other operating expenses	18
Note 8	Remuneration to auditor	18
Note 9	Lending losses	18
Note 10	Taxes	19
Note 11	Lending to customers	19
Note 12	Financial derivatives	20
Note 13	Other assets	21
Note 14	Debt to credit institutions	21
Note 15	Debt established upon the issue of securities	21
Note 16	Long-term borrowing grouped according to maturity	21
Note 17	Other liabilities	22
Note 18	Guarantee liability	22
Note 19	Secured debt and preferential rights	22
Note 20	Capital adequacy	23
Note 21	Financial instruments	23
Note 22	Risk and risk management	24
Note 23	Classification of financial assets and liabilities	29
Note 24	Ownership structure	30
Note 25	Uncertainties and events after the balance sheet date	30
Note 26	Operating segments	30
Note 27	Offsetting right for financial derivatives	30

NOTE 1 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 annual accounts for 2014 were approved by the Board of Sparebanken Øst Boligkreditt AS on 10 February 2015.

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 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.

Interest-bearing balance sheet items are included in accrued interest.

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 2014 and the effect these have had on the annual accounts are listed below.

- *Amendments to IAS 32 Financial Instruments: Presentation*: Concerns offsetting criteria for settlement systems. The amendments have not entailed any changes to the company's annual accounts.

Annual improvement project 2010-2012:

- *Amendment to IFRS 13*: Clarification that current trade receivables and payables that are not interest-bearing can be measured at the invoiced amount when the effect of discounting is insignificant. Resulted in no changes.

Annual improvement project 2011-2013:

- *Amendment to IFRS 13*: The amendment clarifies that the portfolio exception can be applied to financial assets, financial liabilities and other contracts that fall under the scope of IAS 39 Financial Instruments - Recognition and Measurement. Resulted in no changes to the annual accounts.

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. RECOGNITION OF INCOME

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” 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 effective rate of interest method on the written-down value of loans is included in “Interest 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” 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.

Contingent assets are recognised in the accounts if the likelihood of the asset is high.

10. 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 cannot be measured accurately, and the management's assessments and best estimates 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. In July 2014 the IASB published the last IFRS 9 sub-project, and the standard has been completed now. IFRS entails changes related to classification and measurement hedge accounting and write-downs. The standard has not yet been

approved by the EU. The changes are not expected to have any significant effect on the annual accounts.

- *IAS 24 Related Party Disclosures:* The amendment clarifies that an enterprise that provides management services and provides key personnel for the management is a related party subject to the disclosure requirements for related parties. In addition, a company that makes use of such services shall disclose the costs incurred for management services. The amendments have not yet been approved by the EU. The amendments are not expected to have any significant effect on the 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	2014	2013
Interest income, deposits in parent bank	3,693	2,618
Interest expenses, loans from parent bank	19,568	21,966
Interest expenses, covered bond debt to parent bank	10,232	17,301
Commission expenses to parent bank	12,771	11,579
Administrative expenses to parent bank	276	276
Other operating expenses to parent bank	1,251	1,251
Balance Sheet	2014	2013
Deposits in parent bank	250,187	209,856
Other receivables from parent bank	4,005	1,100
Loans from parent bank	924,436	663,889
Covered bond debt to parent bank	0	242,476
Other debt to parent bank	1,134	997

NOTE 4 NET INTEREST INCOME

	2014	2013
Interest income from lending to and receivables from credit institutions	3,693	2,618
Interest income from lending to and receivables from customers	323,183	306,674
Interest income	326,876	309,292
Interest expenses on debt to credit institutions	19,568	21,969
Interest expenses on issued securities	168,950	158,687
Interest expenses	188,518	180,656
Net interest income	138,358	128,636

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 2014. The general manager is paid by Sparebanken Øst and had an annual salary of NOK 901,370 in 2014.

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

		2014	2013
Hans-Jacob Hansen	Manager	30	30
Emil Gamborg		15	15
Siren Coward	Employee of Sparebanken Øst	0	0
Remuneration to the audit committee		45	45

NOTE 6 ADMINISTRATIVE EXPENSES

	2014	2013
IT expenses	276	276
Other administrative expenses	21	4
Administrative expenses	297	280

NOTE 7 OTHER OPERATING EXPENSES

	2014	2013
Consultancy fees to Sparebanken Øst	1,251	1,251
External consultants	1,048	807
Fees relating to own bonds	966	757
Other operating expenses	461	472
Other operating expenses	3,726	3,287

NOTE 8 REMUNERATION TO AUDITOR

	2014	2013
Audit	210	196
Other certification services*	139	105
Other services	18	27
Remuneration to auditor	367	328

*Including investigator fees in relation to the Norwegian Financial Institutions Act § 2-34, NOK 124 thousand in 2014, and NOK 105 thousand in 2013.

The amounts are inclusive of VAT.

NOTE 9 LENDING LOSSES

There is no objective evidence of any impairment in value in the portfolio. There is one commitment of NOK 1.1 million in default and no doubtful commitments as at 31/12/2014.

	2014	2013
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 31/12.	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 31/12.	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

	2014	2013
The year's tax expenses in the income statement are as follows		
Tax payable on profit for the year	32,390	31,782
Deferred tax recognised in the income statement	0	0
Total tax for the year	32,390	31,782
Reconciliation of tax expenses for the year		
Profit before tax	119,963	113,506
Tax at the nominal rate of 27 % (28 % in 2013)	32,390	31,782
Tax effect of permanent differences	0	0
Tax expenses	32,390	31,782
Tax payable in the balance sheet is as follows		
Tax payable on profit for the year	32,390	31,782
Tax payable	32,390	31,782

The company has no temporary differences either as at 31/12/14 or 31/12/13, and no deferred tax.

NOTE 11 LENDING TO CUSTOMERS

	2014	2013
Line of credits secured against residential property	989,656	866,591
Repayment mortgages secured against property	7,459,833	6,577,484
Gross lending to and receivables from customers	8,449,489	7,444,075
Individual write-downs	0	0
Write-downs of groups of loans	0	0
Net lending to and receivables from customers	8,449,489	7,444,075
Geographical distribution of collateral		
Drammen	1,072,138	1,086,258
Øvre Eiker	435,879	451,550
Nedre Eiker	646,642	665,195

Buskerud generally	406,279	417,881
Akershus	1,731,810	1,492,383
Oslo	1,893,486	1,506,988
Vestfold	561,699	570,778
Østfold	276,172	290,082
Rest of country	1,425,384	962,960
Total	8,449,489	7,444,075

Cover pool	2014	2013
Loans secured against property	8,427,143	7,410,489
Other substitute assets (bank deposits)	250,187	209,856
Total cover pool	8,677,330	7,620,345
Cover pool occupancy*	125 %	119 %

*Total cover pool is valued within 75 % of the value of the collateral. 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	2014	2013
Employees	8,416,970	7,397,723
Self-employed	32,519	46,352
Net lending to and receivables from customers	8,449,489	7,444,075

Non-performing and doubtful commitments	2014	2013
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Non-performing commitments over 90 days

Commercial	0	0
Personal	1,101	0
Gross non-performing commitments	1,101	0
Individual write-downs	0	0
Net non-performing commitments	1,101	0
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	1,101	0
Gross non-performing and doubtful commitments	1,101	0
Individual write-downs	0	0
Net non-performing and doubtful commitments	1,101	0
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 2014	
		Assets	Liabilities
Currency instruments			

Currency swaps	252,101	35,809	0
Total currency instruments	252,101	35,809	0
Interest instruments			
Interest rate swaps	1,500,000	215,579	0
Total interest instruments	1,500,000	215,579	0
Total derivatives		251,388	0

No significant inefficiencies have been reported for the hedges in 2014.

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	36,242	0
Total interest instruments	900,000	36,242	0
Total derivatives		68,301	0

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

NOTE 13 OTHER ASSETS

	2014	2013
Outstanding accounts, parent bank	4,005	1,100
Other assets	4,005	1,100

NOTE 14 DEBT TO CREDIT INSTITUTIONS

	2014	2013
Loans from credit institutions with an agreed term or notice period	924,436	663,889
Debt to credit institutions	924,436	663,889

NOTE 15 DEBT ESTABLISHED UPON THE ISSUE OF SECURITIES

2014	Outstanding volume*	Avg. balance	Weighted interest rate
Covered bonds NOK	6,842,318	7,008,389	2.33
Covered bonds (foreign currency)	287,910	253,563	2.34
Debt established upon the issue of securities	7,130,228	7,261,952	2.33

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

In 2014, the company bought back issued debt with a nominal value of NOK 545 million. The buyback entailed a loss of NOK 1.6 million and has been recognised as net value changes and gains/losses on financial instruments.

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 excl. accrued interest on the balance sheet date.

NOTE 16 LONG-TERM BORROWING GROUPED ACCORDING TO MATURITY

31/12/2014	Drawing right*	Covered bonds	Total
2015	0	455,000	455,000
2016	0	1,437,910	1,437,910
2017	0	1,000,000	1,000,000
2018	0	1,000,000	1,000,000
2019	0	1,000,000	1,000,000
2020	0	700,000	700,000
2021	0	600,000	600,000
2022	0	0	0
2023 and later	0	750,000	750,000
No term	924,382	0	924,382
Gross borrowing	924,382	6,942,910	7,867,292
Accrued interest	54	44,034	44,088
Direct costs and premium/discount	0	-5,524	-5,524
Value adjustments	0	192,842	192,842
Net borrowing	924,436	7,174,262	8,098,698

*Approved overdraft limit of NOK 2,000 million.

31/12/2013	Drawing right*	Covered bonds	Total
2014	0	210,000	210,000
2015	0	1,000,000	1,000,000
2016	0	1,434,160	1,434,160
2017	0	1,000,000	1,000,000
2018	0	1,000,000	1,000,000
2019	0	1,000,000	1,000,000
2020	0	0	0
2021	0	0	0
2022 and later	0	750,000	750,000
No term	663,847	0	663,847
Gross borrowing	663,847	6,394,160	7,058,007
Accrued interest	42	26,029	26,071
Direct costs and premium/discount	0	-6,942	-6,942
Value adjustments	0	28,191	28,191
Net borrowing	663,889	6,441,438	7,105,327

*Approved overdraft limit of NOK 2,000 million.

NOTE 17 OTHER LIABILITIES

	2014	2013
Tax payable	32,390	31,782
Other liabilities	1,251	1,066
Other liabilities	33,641	32,848

NOTE 18 GUARANTEE LIABILITIES

	2014	2013
Guarantee liability	0	0

NOTE 19 SECURED DEBT AND PREFERENTIAL RIGHTS - NOMINAL VALUE

	2014	2013
Secured debt	0	0
Preferential rights in accordance with the Norwegian Financial Institutions Act § 2-35	6,942,910	6,394,160

NOTE 20 CAPITAL ADEQUACY

	2014	2013
Tier 1 capital		
Book equity	822,730	585,157
Deduction items from tier 1 capital		
Dividend	0	-50,000
Total tier 1 capital	822,730	535,157
Other tier capital	0	0
Total tier capital	822,730	535,157
Net subordinated capital	822,730	535,157
Basis of calculation		
Basis of calculation for credit and counterparty risk	3,380,791	2,813,617
Basis of calculation for currency risk	0	0
Basis of calculation for operational risk	120,273	48,794
Basis of calculation for weakened counterparty credit value (CVA)	325,463	0
Deductions from basis for calculation	0	0
Total basis for calculation	3,826,527	2,862,411
Tier 1 capital	21.50 %	18.70 %
Tier 1 capital adequacy	21.50 %	18.70 %
Capital adequacy	21.50 %	18.70 %
Buffers		
Capital conservation buffer	95,663	71,560
Countercyclical buffer	0	0
Systemic risk buffer	114,796	57,248

Combined buffer requirement	210,459	157,432
Available buffer capital	516,608	306,164
Unweighted Tier 1 capital ratio*	8.90 %	6.69 %

*Unweighted Tier 1 capital ratio is calculated at the end of the quarter.

Regulations on calculation of subordinated capital and the capital requirement regulations changed in connection with the introduction of CRD-IV with effect from 30/09/2014. No comparison figures for previous periods have been prepared in accordance with the new regulations. The figures are not therefore directly comparable.

Sparebanken Øst Boligkreditt AS uses the standard method 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 CVA supplement is calculated by the standard method. Commitment amounts for derivatives are calculated by the market value 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 21 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 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.

31/12/2014	Level 1	Level 2	Level 3	Fair value	Book value
Amortised cost					
Net lending to and receivables from credit institutions	0	250,187	0	250,187	250,187
Net lending to and receivables from customers	0	0	8,449,489	8,449,489	8,449,489
Total assets at amortised cost	0	250,187	8,449,489	8,699,676	8,699,676
Debt to credit institutions	0	924,436	0	924,436	924,436
Debt established upon the issue of securities	0	7,258,035	0	7,258,035	7,174,262
Total liabilities at amortised cost	0	8,182,471	0	8,182,471	8,098,698

Fair value

Financial derivatives	0	251,388	0	251,388	251,388
Total assets at fair value	0	251,388	0	251,388	251,388

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	7,444,075	7,444,075	7,444,075
Total assets at amortised cost	0	209,856	7,444,075	7,653,931	7,653,931
Debt to credit institutions	0	663,889	0	663,889	663,889
Debt established upon the issue of securities	0	6,542,548	0	6,542,548	6,441,438
Total liabilities at amortised cost	0	7,206,437	0	7,206,437	7,105,327
Fair value					
Financial derivatives	0	68,301	0	68,301	68,301
Total assets at fair value	0	68,301	0	68,301	68,301

NOTE 22 RISK AND RISK MANAGEMENT

Sparebanken Øst Boligkreditt AS seeks to maintain a low risk profile to ensure 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 credit process is subject to strict routines and the 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 AS) carries out independent quarterly checks. KPMG performs internal auditing for Sparebanken Øst Boligkreditt AS. 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 75 % 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 46.3 % at the end of 2014 against 47.0 % at the end of 2013.

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	2014	2013
Liabilities		
Loan commitments	5,929	28,901
Credit facilities	497,073	404,773
Total liabilities	503,002	433,674

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 general financial capacity to service their total debt with a mark-up of 5 % over the current interest rate level (net liquidity calculation), the household's credit score and payment experience. The above factors are weighted based on the following distribution: Debt ratio (10 %), net liquidity (50 %), credit score (30 %) and payment experience (10 %).

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 98 % in 2014, the same as in 2013. For loans with reasonably high risk and greater, the proportion is unchanged at 2 %.

Lending by risk classes 2014

	Gross lending	Credit facilities	Individual write-downs	Commitments	%
Low risk	6,241,709	386,652	0	6,628,361	74
Moderate risk	1,427,509	83,884	0	1,511,393	17
Normal risk	590,386	17,387	0	607,773	7
Reasonably high risk	97,277	2,381	0	99,658	1
High risk	8,146	0	0	8,146	0
Unspecified	84,462	6,769	0	91,231	1
Total	8,449,489	497,073	0	8,946,562	100

Lending by risk classes 2013

	Gross lending	Credit facilities	Individual write-downs	Commitments	%
Low risk	4,431,079	279,323	0	4,710,402	60
Moderate risk	1,926,272	91,421	0	2,017,693	26
Normal risk	851,577	23,954	0	875,531	11
Reasonably high risk	120,500	3,587	0	124,087	2
High risk	6,447	0	0	6,447	0
Unspecified	108,200	6,488	0	114,688	1
Total	7,444,075	404,773	0	7,848,848	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

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 2014	Sensitivity on earnings 2013	Sensitivity on equity 2014	Sensitivity on equity 2013
NOK	+100	9,960	8,422	0	0
SEK	+100	-2,401	-2,403	0	0
Total		7,559	6,019	0	0

Foreign currency	Reduction in basis points	Sensitivity on earnings 2014	Sensitivity on earnings 2013	Sensitivity on equity 2014	Sensitivity on equity 2013
NOK	-100	-9,960	-8,422	0	0
SEK	-100	2,401	2,403	0	0
Total		-7,559	-6,019	0	0

Time until expected change in interest as at 31/12/2014

	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	249,936					251	250,187
Net lending to customers	32,454	8,404,599					8,437,053
Financial derivatives NOK						192,842	192,842
Financial derivatives (foreign currency)						35,809	35,809
Accrued interest, not yet due						35,173	35,173
Other asset items						4,005	4,005
Total	282,390	8,404,599	0	0	0	268,080	8,955,069
Debt							
Debt to credit institutions	924,382						924,382
Debt established upon issue of securities NOK	2,518,960	4,323,358					6,842,318
Debt established upon issue of securities (foreign currency)	287,910						287,910
Accrued interest NOK						42,938	42,938
Accrued interest (foreign currency)						1,150	1,150
Total	3,731,252	4,323,358	0	0	0	44,088	8,098,698
Net exposure	-3,448,862	4,081,241	0	0	0	223,992	

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
Accrued interest, not yet due						20,208	20,208
Other asset items						1,100	1,100
Total	255,980	7,385,666	0	0	0	81,686	7,723,332
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
Accrued interest NOK						24,896	24,896
Accrued interest (foreign currency)						1,175	1,175
Total	2,704,093	4,375,163	0	0	0	26,071	7,105,327
Net exposure	-2,448,113	3,010,503	0	0	0	55,615	

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/or 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 31/12/2014

	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						250,187	250,187
Net lending to customers	21	40	2,260	1,083,482	7,351,250		8,437,053
Financial derivatives NOK				3,067	189,775		192,842
Financial derivatives (foreign currency)				35,809			35,809
Accrued interest, not yet due	16,132	18,913	128				35,173
Other asset items						4,005	4,005
Total receipts	16,153	18,953	2,388	1,122,358	7,541,025	254,192	8,955,069
Debt							
Debt to credit institutions			924,382				924,382
Debt established upon issue of securities NOK			455,000	4,150,000	2,050,000		6,655,000
Debt established upon issue of securities (foreign currency)				287,910			287,910
Accrued interest NOK	16,204	26,734					42,938
Accrued interest (foreign currency)	1,150						1,150
Other debt			33,641				33,641
Total payments	17,354	26,734	1,413,023	4,437,910	2,050,000	0	7,945,021
Net exposure	-1,201	-7,781	-1,410,635	-3,315,552	5,491,025	254,192	

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
Accrued interest, not yet due	15,715	4,293	200				20,208
Other asset items						1,100	1,100
Total receipts	15,722	10,000	1,893	1,008,308	6,476,453	210,956	7,723,332
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
Accrued interest NOK	12,956	11,940					24,896
Accrued interest (foreign currency)	1,175						1,175
Other debt			32,848				32,848
Total payments	14,131	11,940	906,695	4,434,160	1,750,000	0	7,116,926
Net exposure	1,591	-1,940	-904,802	-3,425,852	4,726,453	210,956	

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 31/12/2014. 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 31/12/2014

	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			943,150				943,150
Debt established upon the issue of securities	10,120	42,338	552,759	4,833,616	2,333,212		7,772,045
Other liabilities			33,641				33,641
Unused credit	497,073						497,073
Financial liabilities excluding derivatives	507,193	42,338	1,529,550	4,833,616	2,333,212	0	9,245,909
Financial derivatives (outflows)	3,107	3,923	21,089	121,451	142,936		292,506

Financial liabilities	510,300	46,261	1,550,639	4,955,067	2,476,148	0	9,538,415
Financial derivatives (inflows)	892	23,700	36,802	215,992	275,475	0	552,861

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

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 31/12/2014 or 31/12/2013.

Covered bond issues - nominal value by currency	2014	2013
Covered bonds in NOK	6,655,000	6,110,000
Covered bonds in SEK	287,910	284,160
Total covered bond issues	6,942,910	6,394,160

NOTE 23 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	Financial derivatives at fair value, used as hedging instruments	Financial assets and liabilities valued at amortised cost	Total
31/12/2014			
Net lending to and receivables from credit institutions	0	250,187	250,187
Net lending to and receivables from customers	0	8,449,489	8,449,489
Financial derivatives	251,388	0	251,388
Other assets	0	4,005	4,005
Total financial assets	251,388	8,703,681	8,955,069
Debt to credit institutions	0	924,436	924,436
Debt established upon the issue of securities	0	7,174,262	7,174,262
Other debt	0	1,083	1,083
Total financial liabilities	0	8,099,781	8,099,781

	Financial derivatives at fair value, used as hedging instruments	Financial assets and liabilities valued at amortised cost	Total
31/12/2013			
Net lending to and receivables from credit institutions	0	209,856	209,856
Net lending to and receivables from customers	0	7,444,075	7,444,075
Financial derivatives	68,301	0	68,301

Other assets	0	1,100	1,100
Total financial assets	68,301	7,655,031	7,723,332
Debt to credit institutions	0	663,889	663,889
Debt established upon the issue of securities	0	6,441,438	6,441,438
Other debt	0	946	946
Total financial liabilities	0	7,106,273	7,106,273

NOTE 24 OWNERSHIP STRUCTURE

The share capital of Sparebanken Øst Boligkreditt AS amounts to NOK 319.8 million divided into 10.66 million shares each with a nominal value of NOK 30. All shares in Sparebanken Øst Boligkreditt AS are owned by Sparebanken Øst.

NOTE 25 UNCERTAINTIES AND EVENTS AFTER THE BALANCE SHEET DATE

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

NOTE 26 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 75 % 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 27 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 at 31/12/2014 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	251,388	0	251,388	0	251,388
Financial derivatives debts	0	0	0	0	0

As at 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	68,301	0	68,301	0	68,301
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 2014, 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, 10 February 2015

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
Board member

Per Øyvind Mørk
Board member

Frode Lindbeck
General Manager