Sparebanken Øst
Boligkreditt AS

Eighth year of trading

Annual report 2016

Contents

Key figures

	2016	2015	2014	2013	2012
Return on equity (%)	6.97	9.33	14.29	15.74	14.77
Net interest income as % of average total assets	1.00	1.44	1.56	1.62	1.05
Profit after tax as % of average total assets	0.62	0.90	0.99	1.03	0.62
Cost/income ratio (%)	18.06	13.06	12.28	11.77	18.12
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	0.02	0.00	0.01	0.00	0.02
Capital adequacy ratio in %	24.04	23.04	21.50	18.70	16.39
Tier 1 capital ratio in %	24.04	23.04	21.50	18.70	16.39
Dividends/additional dividends (NOK millions)	10.0	0.0	0.0	50.0	0.0
Average total assets (NOK millions)	10,384.0	8,937.7	8,854.0	7,943.2	7,467.6

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 eighth 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.

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.

Report on the Annual Accounts

Income Statement

Total interest income in 2016 amounted to NOK 259.2 million (NOK 278.3 million in 2015), of which NOK 255.7 million (NOK 275.4 million in 2015) relates to interest income on lending to customers. Net interest income amounted to a total of NOK 104.2 million, a decrease compared with 2015 (NOK 128.6 million). The margins between loans to customers and borrowing have been reduced in the last year because lending rates have fallen more than borrowing rates.

The company's operating profit before tax for 2016 amounted to NOK 86.5 million (NOK 110.3 million in 2015), while profit after tax amounted to NOK 64.9 million (NOK 80.5 million in 2015).

Total operating costs in 2016 amounted to NOK 19.1 million (NOK 16.6 million in 2015) of which NOK 14.7 million (NOK 12.7 million in 2015) relate to management fees paid to the parent bank. Sparebanken Øst Boligkreditt AS has a formal partnership with Sparebanken Øst regulated by a comprehensive management agreement which ensures competency within key fields related to the business and helps to ensure 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 2016. Similarly, there was no reason to undertake individual or group write-downs.

Tax costs amounted to NOK 21.6 million (NOK 29.8 million in 2015).

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 9,628.2 million at the end of 2016, an increase of NOK 373.2 million over the previous year. Of the total balance sheet, net lending to customers amounted to NOK 9,052.5 million, representing an increase of NOK 282.6 million over 2015. The managed volume originates from the acquisition of the mortgage portfolio from Sparebanken Øst or lending via Boligkreditt.no. Other assets largely comprise deposits in the parent bank.

Bond debt at the end of the year amounted to NOK 8,362.7 million, equivalent to an increase of NOK 709.6 million over 2015.

At the end of the year, NOK 263.8 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.

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.

See "Corporate governance" in Sparebanken Øst's annual report for a description of the principles for corporate governance pursuant to section 3-3b of the Accounting Act This also covers Sparebanken Øst Boligkreditt AS

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.

Based on the new Financial Institutions Act and the recommendations of the Norwegian Banking Law Commission, a decision was made at an extraordinary general meeting on 5 January 2016 to abolish the Control Committee and the Board of Representatives.

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 hires in resources from the parent bank's risk management and compliance department, which 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 Acts and Regulations for covered bonds, and the framework laid down by the company's Board. 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 2016, 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 15% at year-end.

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

Net primary capital amounted to NOK 957.8 million at year-end. This corresponds to capital adequacy of 24.04% of which tier 1 capital adequacy amounts to 24.04%. The risk-weighted balance at the end of 2016 was NOK 3,984.2 million. The company uses the standard approach 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 2016 amounted to NOK 64.9 million (NOK 80.5 million in 2015). 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 mainly national players, but issues in foreign currencies are assessed on an ongoing basis.

Employees and the working environment
Sparebanken Øst Boligkreditt AS employed a total of 1.4 FTEs at year-end. The general manager has a 40% position and the compliance controller a 100% position. The working environment of the company is deemed to be good. The Board consists of four people.

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.

The Market
Credit spreads in the market for Norwegian covered bonds contracted slightly in 2016. Sparebanken Øst Boligkreditt AS currently has to pay around 58-60 basis points (hundredths of a percentage point) for issuing such bonds with terms to maturity of 5 years. The supply of capital in the covered

bond market was satisfactory and credit margins have been relatively stable, with a weakly falling mark-up in the year's first three quarters and largely unchanged in the fourth quarter.

In 2016, Sparebanken Øst Boligkreditt AS issued a new covered bond with a nominal value of NOK 2,500 million, maturing in 2021. The company expanded an existing bond, which matured in 2020, by NOK 500 million. A bond with a nominal value of SEK 300 million, which matures in 2019, was also issued.

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 73.3% of the total. The loans in the cover pool have senior collateral in Norwegian residential properties.

Future prospects

In 2016, Sparebanken Øst Boligkreditt AS took a market approach related to the strategy of the parent bank, and general adaptability to market conditions. The growth in 2016 was adjusted to match the Group's need for funding. Access to funding via covered bonds was good in 2016. The mortgage credit company is expected to continue to grow in coming years and, given normal market conditions, covered bonds will cover part of the Group's funding needs with long terms to maturity. Issuing covered bonds has helped Sparebanken Øst achieve a robust liquidity position.

The heavy fall in oil prices that started in autumn 2014 resulted in considerably weaker growth in the Norwegian economy in 2016 than in previous years, and unemployment has risen in oil-related operations and regions. Norges Bank has cut the key rate to a record low of 0.5%. Nevertheless, there are signs that the economic downturn may have turned a corner. Oil prices have stabilised at a higher level and unemployment also appears to have stabilised. The state budget for 2017 was, like the 2016 budget, expansive and the flow of cash towards the oil fund (Norwegian Government Pension Fund Global) has been reversed. House price trends and growth in household debt are particularly important to the Norwegian economy, not to mention Sparebanken Øst Boligkreditt AS. The growth in house prices was very high in 2016, especially in Eastern Norway, and the growth in debt has not significantly fallen in the last year. Real interest rates are at a low level. Mortgage rates were low in 2016 and margins have been under pressure, especially since the rise in money market rates has contributed to higher borrowing costs than expected.

The company expects moderate future 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 the company to 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 the market for covered bonds with good ratings to meet the company's need for new funding and the refinancing of existing debenture loans.

Drammen, 7 February 2017

The Board of Directors of Sparebanken Øst Boligkreditt AS

Kjell Engen *Chairman of the Board*	Pål Strand *Deputy chairman*	Lars-Runar Groven *Board member*
Per-Øyvind Mørk *Board member*	Vegard Kvamme *Managing director*	

Income statement

(Figures in NOK thousands)	Notes	2016	2015
Interest income		259,206	278,285
Interest costs		155,052	149,706
Net interest income	3, 4	**104,154**	**128,579**
Commission income and income from banking services	3	13	14
Commission costs and costs from banking services	3	14,687	12,715
Net value change and gains/losses on financial instruments	15	1,388	-1,762
Administration costs	3.6	423	400
Other operating costs	3, 5, 7, 8	3,952	3,451
PROFIT BEFORE LOSSES		**86,493**	**110,265**
Losses on loans and guarantees	9	0	0
PROFIT BEFORE TAX COSTS		**86,493**	**110,265**
Tax costs	10	21,621	29,759
PROFIT FOR THE YEAR		**64,872**	**80,506**

Comprehensive income

(Figures in NOK thousands)	Notes	2016	2015
PROFIT FOR THE YEAR		**64,872**	**80,506**
Other operating income and costs in comprehensive income		0	0
COMPREHENSIVE INCOME		**64,872**	**80,506**

Balance sheet

(Figures in NOK thousands)	Notes	31.12.2016	31.12.2015
Lending to and receivables from financial institutions	3, 21, 22, 23	227,785	267,061
Loans to and receivables from customers	9, 11, 21, 22, 23	9,052,491	8,769,849
Certificates, bonds, etc. at fair value	21, 22, 23	150,882	0
Deferred tax asset	10	26	0
Financial derivatives	12, 21, 22, 23, 27	183,095	212,172
Other assets	3, 13, 22, 23	13,896	5,855
TOTAL ASSETS		**9,628,175**	**9,254,937**
Liabilities to financial institutions	3, 14, 16, 21, 22, 23	264,260	667,640
Securities issued	3, 16, 18, 21, 22, 23	8,362,698	7,653,079
Financial derivatives	12, 21, 22, 23, 27	20,087	0
Tax payable	10	21,800	29,607
Other liabilities	3, 17, 22, 23	1,201	1,223
Accruals and deferred income		21	0
Deferred tax liability	10	0	152
Total liabilities		**8,670,067**	**8,351,701**
Paid-up equity	24	649,990	649,990
Retained earnings		308,118	253,246
Total equity	20, 24	**958,108**	**903,236**
TOTAL LIABILITIES AND EQUITY		**9,628,175**	**9,254,937**

Drammen, 7 February 2017

Kjell Engen
Chairman of the Board

Pål Strand
Deputy chairman

Lars-Runar Groven
Board member

Per-Øyvind Mørk
Board member

Vegard Kvamme
Managing director

Cash flow statement

(Figures in NOK thousands)		2016	2015
Operating activities			
Profit/loss before tax costs		86,493	110,265
Adjusted for:			
Change in net accrued interest income and interest costs		416	630
Net receipts/payments of bonds		-150,380	0
Change in value of bonds at fair value		-390	0
Net payment/disbursement of loans to customers		-283,130	-323,197
Net receipts/disbursement of borrowing from financial institutions		-403,373	-256,775
Change in other assets		-8,041	-1,850
Change in other liabilities		-7	-21
Change in premium/discount on securities issued		2,580	1,056
Net losses/gains from financing activities		-998	1,762
Taxes paid for the period		-29,600	-32,396
Net cash flow from operating activities	**A**	**-786,430**	**-500,526**
Financing activities			
Payments on repayment of securities		-2,542,346	-785,874
Proceeds on issuance of securities		3,299,500	1,303,274
Payment of additional dividends		-10,000	0
Net cash flow from financing activities	**B**	**747,154**	**517,400**
Net change in cash and cash equivalents	A+B	-39,276	16,874
Cash and cash equivalents as at 1 Jan		267,061	250,187
Holding of cash and cash equivalents as at 31 Dec		**227,785**	**267,061**

Liquid assets consist exclusively of bank deposits. Unused drawing rights amounted to NOK 1,736.2 million as at 31 December 2016, and NOK 1,332.6 million as at 31 December 2015.

Change in equity

(Figures in NOK thousands)

2016	**Total equity**	**Share capital**	**Share premium reserve**	**Other equity**
Equity as at 31.12.2015	903,236	319,800	330,190	253,246
Profit for the year	64,872	0	0	64,872
Other operating income and costs in comprehensive income	0	0	0	0
Comprehensive income	64,872	0	0	64,872
Additional dividends	-10,000	0	0	-10,000
Equity as at 31.12.2016	**958,108**	**319,800**	**330,190**	**308,118**

Additional dividends of NOK 10 million paid, equal to NOK 0.94 per share. Proposed dividend for the year is NOK 0.

2015	Total equity	Share capital	Share premium reserve	Other equity
Equity as at 31.12.2014	822,730	319,800	330,190	172,740
Profit for the year	80,506	0	0	80,506
Other operating income and costs in comprehensive income	0	0	0	0
Comprehensive income	80,506	0	0	80,506
Equity as at 31.12.2015	**903,236**	**319,800**	**330,190**	**253,246**

Proposed dividend for the year is NOK 0.

Notes to the annual report

NOTE 1 GENERAL INFORMATION

Sparebanken Øst Boligkreditt AS has its headquarters in Drammen and is a wholly owned subsidiary of Sparebanken Øst. 2016 is the company's eighth year of trading. The company was established on 14 April 2009 and registered in the Norwegian Register of Business Enterprises on 27 April 2009. Its business address is Bragernes Torg 2, N-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 2016 were approved by the Board of Sparebanken Øst Boligkreditt AS on 7 February 2017.

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

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

NOTE 2 ACCOUNTING POLICIES

1. GENERAL

The accounts for Sparebanken Øst Boligkreditt AS for 2016 have been prepared in accordance with IFRS standards as approved by the EU, and IFRIC interpretations.

The financial statements are based on historical cost principles, apart from financial derivatives and investments in bonds, 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 POLICIES

The accounting policies applied are consistent with those applied in the previous accounting period, apart from the amendments to IFRS and interpretations that have been implemented during the current accounting period. All relevant amendments to IFRS and interpretations effective for the accounts for 2016 and the effect these have had on the annual accounts are listed below.

Annual improvement project 2010–2012:

- *IAS 24 Related Party Disclosures:* The amendment clarifies that an enterprise that provides management services and provides key personnel for the executive management team is a close associate (related party) subject to the disclosure requirements for close associates. In addition, a company that makes use of such services shall disclose the costs incurred for management services. The changes have been approved by the EU and apply from the financial year starting after 01.02.15. Resulted in no changes to the annual financial statements.

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 COSTS

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

If a financial asset or a group of similar assets 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.

Recognition of interest as income according to the effective interest method is employed for balance sheet items measured at amortised cost, and balance sheet items measured at fair value through profit or loss.

4.2 COMMISSION INCOME AND COSTS

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

5. FINANCIAL INSTRUMENTS

5.1 RECOGNITION AND DERECOGNITION

Financial assets and liabilities are recognised when the company becomes a party to the instrument's contractual conditions.

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

5.2 CLASSIFICATION

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

Financial assets:

- Financial assets at fair value with changes through profit or loss
- Loans and receivables, capitalised at amortised cost

Financial liabilities:

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

5.3 MEASUREMENTS

<u>5.3.1 Initial recognition of financial instruments</u>

Financial instruments measured at fair value through profit or loss are measured at fair value on the agreement date upon initial recognition. Fair value is usually the transaction price. Financial assets and liabilities not classified in this category are measured at fair value plus/less directly attributable transaction costs on initial recognition.

<u>5.3.2 Subsequent measurement</u>

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 effective interest approach. The effective interest rate is determined by discounting contractual cash flows within the expected term. Amortised cost is the present value of cash flows discounted by the effective interest rate.

Write-down of financial assets
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.

5.3.3 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.

5.4 MORE INFORMATION ABOUT FINANCIAL INSTRUMENTS
5.4.1 Lending
On initial recognition, loans are measured 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. Upon subsequent measurement loans are measured at amortised cost using the effective interest approach.

Interest income on financial instruments classified as loans and receivables is included in “Interest income” 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 interest method on the written-down value of loans is included in “Interest income”.

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

Impairment for 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 of 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.

5.4.2 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 5.4.3.

5.4.3 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.

5.4.4 Borrowing 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 effective interest method. Interest costs and the amortisation effects on instruments are included in "Interest 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.

6 LEASES

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

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

7 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 calculated using the tax rate expected to apply to temporary differences when they are reversed, and are offset to the degree permitted. Deferred tax assets and deferred tax liabilities are not discounted.

Tax payable is entered directly on the balance sheet to the extent that the tax items relate to equity transactions.

8 CONTINGENT EVENTS

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

Contingent assets are recognised if they are likely to occur.

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

10 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 financial institutions relating to direct investments.

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

12 MANAGEMENT ASSESSMENTS, USE OF ESTIMATES AND ASSUMPTIONS
Due to the uncertainty inherent in business activities, accounting items cannot be measured accurately; rather they must be evaluated and estimated. The management has used its judgement in applying accounting policies, 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.

12.1 Losses on loans
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 losses on 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. 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

13 FUTURE AMENDMENTS TO ACCOUNTING POLICIES
Approved standards and interpretations where the date they become effective is in the future are listed below, except for those that are deemed clearly not to be relevant.

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

  Classification and measurement
  The new standard will require all financial assets, except equity instruments and derivatives, to be classified and measured based on a combination of the company's model for managing assets ('business model test') and the characteristics of the instruments' cash flow ('contractual cash flow test'). The measurement categories in IAS 39 will for financial assets be replaced with the following categories: fair value with value changes through profit or loss, fair value with value changes through other comprehensive income (with and without reclassification) and amortised cost. The switch to IFRS 9 will not result in any changes to the classification or measurement of derivatives. The requirements for measuring financial liabilities under IFRS 9 are largely the same as those under IAS 39, except when it comes to the treatment of gains or losses attributed to the company's own credit risk related to liabilities that are measured at fair value with value changes through profit or loss.

  The choice of classification is under consideration and the provisional assessment is that the implementation of IFRS 9 will not have any material effects. As far as the company's investments in bonds are concerned, no conclusion has been reached concerning the extent to which a proportion of these will be held to receive contractual cash flows.

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

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

  Write-downs
  IFRS 9 will change the rules for writing down losses on financial assets that are debt instruments and that are measured at amortised cost or fair value with value changes through other comprehensive income (OCI). This will be of significance for the company's assessment of write-downs for losses on loans. The new rules in IFRS 9 require provisions to be made for expected future losses, regardless of the extent to which such objective evidence of impairment exists on the balance sheet date. The rules are based on the loans being placed in one of three groups for write-down purposes. The loss provisions for group 1 must amount to the expected loss in the first 12 months after the balance sheet date. Instruments must be transferred to groups 2 or 3 when a material increase in credit risk is identified, and provisions must be made for the total expected loss over the instrument's lifetime.

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

- *IFRS 15 Revenue from Contracts with Customers* IFRS 15 will replace all existing standards and interpretations for the recognition of income. The core principle of IFRS 15 is that income is recognised so as to reflect the transfer of agreed goods or services to customers, and at an amount that reflects the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The standard will have accounting effect from 1 January 2018. The changes are not expected to materially affect the company's financial position, result and/or disclosures.

- *IAS 7 Statement of Cash Flows*: As part of the IASB's Disclosure Initiative, enterprises are required to provide explanatory information about changes in obligations that stem from financing activities:

changes with and without cash flow effects. The changes must be implemented prospectively and are expected to come into force on 1 January 2017. The changes are not expected to affect the company's cash flow statement or associated explanatory information.

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

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.

Profit/loss	**2016**	**2015**
Interest income, deposits in parent bank	2,565	2,850
Interest costs, loans from parent bank	11,251	12,542
Interest costs, covered bond liabilities to parent bank	7,790	1,957
Commission costs to parent bank	14,687	12,715
Administrative costs to parent bank	420	384
Other operating costs to parent bank	1,230	1,251

Balance sheet	**2016**	**2015**
Deposits in parent bank	227,785	267,061
Other receivables from parent bank	13,896	5,855
Loans from parent bank	264,260	667,640
Other liabilities to parent bank	1,164	1,176

NOTE 4 NET INTEREST INCOME

	2016	**2015**
Interest income from lending to and receivables from financial institutions	2,565	2,850
Interest income from lending to and receivables from customers	255,747	275,435
Interest income from certificates and bonds at fair value	894	0
Interest income	**259,206**	**278,285**
Interest costs on liabilities to financial institutions	11,251	12,542
Interest costs on issued securities	143,801	137,164
Interest costs	**155,052**	**149,706**
Net interest income	**104,154**	**128,579**

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 1,230,000 in 2016. The managing director is paid by Sparebanken Øst. Between 1 January 2016 and 31 October 2016, the managing director had an annual salary of NOK 893.229 and between 1 November 2016 and 31 December 2016 the managing director had an annual salary of NOK 673,822.

No contracted employees or board members have severance package agreements, subscription rights, options, or bonus agreements. No employees of Sparebanken Øst are paid remuneration for serving on the Board. The managing director, Board, and close associates do not have any 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 remuneration was paid to the Control Committee during the financial year		**2016**	**2015**
Hans-Jacob Hansen	Chairman	30	30
Emil Gamborg		15	15
Siren Coward	Employee of Sparebanken Øst	0	0
Remuneration to the Control Committee		**45**	**45**

The Financial Institutions Act which came into force on 1 January 2016 contains no provisions concerning a control committee. A decision was made to abolish the Control Committee on 5 January 2016.

NOTE 6 ADMINISTRATIVE COSTS

	2016	**2015**
IT costs	420	384
Other administrative costs	3	16
Administration costs	**423**	**400**

NOTE 7 OTHER OPERATING COSTS

	2016	**2015**
Consultancy fees to Sparebanken Øst	1,230	1,251
External consultants	1,342	926
Fees relating to own bonds	978	796
Other operating costs	402	478
Other operating costs	**3,952**	**3,451**

NOTE 8 REMUNERATION TO AUDITOR

	2016	**2015**
Audit	211	204
Other certification services*	101	101
Tax and levies advice	15	11
Other services	0	0
Remuneration to auditor	**327**	**316**

*Including investigator fees in relation to section 11-14 of the Financial Institutions Act: NOK 101,000 in 2016 and NOK 101,000 in 2015.
The amounts are inclusive of VAT.

NOTE 9 LENDING LOSSES

There is no objective evidence of any impairment in value in the portfolio. There was one non-performing commitment of NOK 2.1 million and no impaired commitments as at 31 December 2016. As at 31 December 2015, there were no non-performing and impaired commitments.

		2016	2015
	Individual write-downs		
	Individual write-downs as at 1 Jan	0	0
-	Actual losses for the period, where there have previously been individual write-downs	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 Dec**	**0**	**0**
	Collective write-downs of loans		
	Collective write-downs of loans as at 1 Jan	0	0
+/-	Change in collective write-downs of loans for the period	0	0
=	**Collective write-downs of loans as at 31 Dec**	**0**	**0**
	Loss costs for the period		
	Change in individual write-downs for the period	0	0
+/-	Change in collective write-downs of loans for the period	0	0
+	Actual losses for the period, where there have previously been individual write-downs	0	0
+	Actual losses for the period, where there have not previously been individual write-downs	0	0
-	Recovery of previously identified losses during the period	0	0
+/-	Amortisation cost of write-downs during the period	0	0
=	**Losses on loans and guarantees**	**0**	**0**

NOTE 10 TAXES

	2016	2015
The year's tax costs in the income statement are as follows		
Tax payable on profit for the year	21,800	29,607
Deferred tax recognised in the income statement	-179	152
Total tax for the year	**21,621**	**29,759**
Change in net deferred tax		
Recognised deferred tax in statement of income	-179	152
Total changes in net deferred tax	**-179**	**152**
Reconciliation of tax costs for the year		
Profit before tax	86,493	110,265
Tax at the nominal rate of 25% (27% in 2015)	21,623	29,771
Tax effect of permanent differences	-2	0
Tax effect of changed tax rate from 27% to 25% for deferred tax on the balance sheet	0	-12
Tax costs	**21,621**	**29,759**
Tax payable in the balance sheet is as follows		
Tax payable on profit for the year	21,800	29,607
Tax payable	**21,800**	**29,607**

Deferred tax liability/deferred tax asset	**2016**	**2015**	**Change 2016**	**Change 2015**
Temporary differences				
Financial derivatives	145,023	189,370	44,347	4,809
Securities issued	-145,519	-188,761	-43,242	-5,418
Securities	390	0	-390	

Total temporary differences	-106	609	715	-609
Deferred tax liability(+)/deferred tax asset(-)	**-26**	**152**	**179**	**-152**

NOTE 11 LENDING TO CUSTOMERS

	2016	2015
Line of credits secured against residential property	894,480	1,083,915
Repayment mortgages secured against property	8,158,011	7,685,934
Gross lending to and receivables from customers	**9,052,491**	**8,769,849**
Individual write-downs	0	0
Collective write-downs of loans	0	0
Net loans to and receivables from customers	**9,052,491**	**8,769,849**

Geographic distribution of gross of loans to and receivables from financial institutions	2016	2015
Drammen	982,077	1,030,953
Øvre Eiker	360,443	423,967
Nedre Eiker	512,316	585,406
Rest of Buskerud	484,124	460,470
Akershus	2,014,326	1,915,079
Oslo	2,283,587	1,914,202
Vestfold	568,629	584,825
Østfold	344,628	307,822
Rest of Norway	1,502,361	1,547,125
Total	**9,052,491**	**8,769,849**

Cover pool	2016	2015
Loans secured against property	9,030,579	8,750,128
Other substitute assets (bank deposits)	378,555	267,061
Total cover pool	**9,409,134**	**9,017,189**
Cover pool occupancy*	115%	121%

*Total cover pool is valued within 75% of the value of the collateral. When calculating the occupancy of the cover pool, debenture loans are valued at the total of the discounted value of the nominal value and discounted coupon payments.

Lending by customer groups	2016	2015
Salaried employees	9,022,217	8,745,777
Self-employed	30,274	24,072
Net loans to and receivables from customers	**9,052,491**	**8,769,849**

Non-performing and impaired commitments	2016	2015
Non-performing commitments over 90 days		
Business	0	0
Retail	2,050	0
Gross non-performing commitments	**2,050**	**0**
Individual write-downs	0	0
Net non-performing commitments	**2,050**	**0**
Provision percentage	0%	0%
Impaired (not non-performing) commitments		
Business	0	0

Retail	0	0
Gross impaired commitments	**0**	**0**
Individual write-downs	0	0
Net impaired commitments	**0**	**0**
Provision percentage	0%	0%

Gross non-performing and impaired commitments

Business	0	0
Retail	2,050	0
Gross non-performing and impaired commitments	**2,050**	**0**
Individual write-downs	0	0
Net non-performing and impaired commitments	**2,050**	**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 debenture loan. The hedge ratio is 1:1 and hedge accounting has been used.

		Fair value 2016	
Financial derivatives used for hedge accounting	**Contractual totals**	**Assets**	**Liabilities**
Currency instruments			
Currency swap agreements	304,859	0	20,087
Total currency instruments	**304,859**	**0**	**20,087**
Interest rate instruments			
Interest rate swaps	1,350,000	183,095	0
Total interest instruments	**1,350,000**	**183,095**	**0**
Total derivatives		**183,095**	**20,087**

No inefficiencies have been reported in hedges in 2016. See note 15

		Fair value 2015	
Financial derivatives used for hedge accounting	**Contractual totals**	**Assets**	**Liabilities**
Currency instruments			
Currency swap agreements	0	0	0
Total currency instruments	**0**	**0**	**0**
Interest rate instruments			
Interest rate swaps	1,500,000	212,172	0
Total interest instruments	**1,500,000**	**212,172**	**0**
Total derivatives		**212,172**	**0**

No inefficiencies have been reported in hedges in 2015. See note 15

NOTE 13 OTHER ASSETS

	2016	**2015**
Outstanding accounts, parent bank	13,896	5,855
Other assets	**13,896**	**5,855**

NOTE 14 LIABILITIES TO FINANCIAL INSTITUTIONS

	2016	**2015**

Loans from financial institutions with an agreed term or notice period	264,260	667,640
Liabilities to financial institutions	**264,260**	**667,640**

NOTE 15 - NET VALUE CHANGE AND GAINS/LOSSES FROM FINANCIAL INSTRUMENTS

	2016	2015
Value change in certificates and bonds - held for trading	390	**0**
Value change and gains/losses on financial instruments at fair value through profit or loss	**390**	**0**
Financial derivatives - hedge accounting	-44,347	-4,809
Financial liabilities - hedged	44,347	4,809
Net hedged items*	**0**	**0**
Realised gains/losses on securities issued - amortised cost	998	**-1,762**
Value change and gains/losses on financial instruments at amortised cost	**998**	**-1,762**
Total value change and gains/losses on financial instruments	**1,388**	**-1,762**

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

NOTE 16 LONG-TERM BORROWING

Securities issued

2016	Outstanding volume*	Avg. balance	Weighted effective interest rate
Covered bonds NOK	8,038,858	8,253,942	1.68
Covered bonds (FCY)	285,360	248,540	2.12
Securities issued	**8,324,218**	**8,502,482**	**1.69**

*Measured at amortised cost, value adjusted for hedged risk, excl. accrued interest on the balance sheet date.

2015	Outstanding volume*	Avg. balance	Weighted effective interest rate
Covered bonds NOK	7,609,829	7,024,581	1.90
Covered bonds (FCY)	0	163,403	2.09
Securities issued	**7,609,829**	**7,187,984**	**1.91**

*Measured at amortised cost, value adjusted for hedged risk, excl. accrued interest on the balance sheet date.

Long-term borrowing grouped according to maturity

31.12.2016	Drawing right*	Covered bonds	Total
2017	0	229,000	229,000
2018	0	1,000,000	1,000,000
2019	0	585,360	585,360
2020	0	2,500,000	2,500,000
2021	0	3,100,000	3,100,000
2022	0	0	0
2023	0	0	0
2024	0	0	0
2025 and later	0	750,000	750,000
No term	264,234	0	264,234
Gross borrowing	264,234	8,164,360	8,428,594

Accrued interest	26	38,480	38,506
Direct costs and premium/discount	0	-3,327	-3,327
Value adjustments	0	163,185	163,185
Net borrowing	**264,260**	**8,362,698**	**8,626,958**

*Approved overdraft limit of NOK 2,000 million.

31.12.2015	**Drawing right***	**Covered bonds**	**Total**
2016	0	1,073,000	1,073,000
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	2,000,000	2,000,000
2021	0	600,000	600,000
2022	0	0	0
2023	0	0	0
2024 and later	0	750,000	750,000
No term	667,607	0	667,607
Gross borrowing	667,607	7,423,000	8,090,607
Accrued interest	33	43,250	43,283
Direct costs and premium/discount	0	-1,204	-1,204
Value adjustments	0	188,033	188,033
Net borrowing	**667,640**	**7,653,079**	**8,320,719**

*Approved overdraft limit of NOK 2,000 million.

NOTE 17 OTHER LIABILITIES

	2016	**2015**
Accounts payable	37	47
Accrued management fees	1,164	1,176
Other liabilities	**1,201**	**1,223**

NOTE 18 GUARANTEE LIABILITIES

	2016	**2015**
Guarantee liability	**0**	**0**

NOTE 19 SECURED DEBT AND PREFERENTIAL RIGHTS - NOMINAL VALUE

	2016	**2015**
Pledged assets	**0**	**0**
Preferential rights pursuant to section 11-15 of the Financial Institutions Act	**8,164,360**	**7,423,000**

NOTE 20 CAPITAL ADEQUACY

	2016	**2015**
CET1 capital		
Book equity	958,108	903,236
Deduction items in CET1 capital		
Additional value adjustments (prudent valuation requirement) (AVA)	-354	-212
Total CET1 capital	**957,754**	**903,024**
Other tier 1 capital	0	0
Total tier 1 capital	**957,754**	**903,024**

Net primary capital	**957,754**	**903,024**
Calculation basis		
Basis of calculation for credit and counterparty risk	3,558,059	3,484,985
Calculation basis, currency risk	0	0
Calculation basis, operational risk	221,984	192,958
Calculation basis for weakened counterparty credit value (CVA)	204,171	241,961
Deductions from calculation basis	0	0
Total calculation basis	**3,984,215**	**3,919,904**
CET1 capital	**24.04%**	**23.04%**
Tier 1 capital ratio	**24.04%**	**23.04%**
Capital adequacy ratio	**24.04%**	**23.04%**
Buffers		
Capital conservation buffer	99,605	97,998
Countercyclical buffer	59,763	39,199
Systemic risk buffer	119,526	117,597
Total buffer requirements	**278,895**	**254,794**
Available buffer capital	**639,017**	**589,432**
Tier 1 leverage ratio*	**9.62%**	**9.40%**

*The tier 1 leverage ratio is calculated at the end of the year.

Sparebanken Øst Boligkreditt AS uses the standard approach for calculating minimum equity and primary capital requirements for credit risk. The calculation related to operational risk is calculated based on the basic approach. The CVA supplement is calculated using the standardised approach. Commitment amounts for derivatives are calculated using the market value approach.

The credit institution's primary 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.

See also 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 and a liquidity portfolio of bonds. Other instruments are measured at amortised cost.

Valuation of financial instruments at fair value

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

Level 1: Observable market prices.
Level 2: Observable market prices in less active markets, or the use of inputs which are either directly or indirectly observable.
Level 3: Valuation techniques not based on observable market data.

Net lending
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.

Certificates and bonds
The company's holdings of securities and bonds are placed in level 2 of the pricing hierarchy because the turnover is not large enough in any of the listed instruments to be able to read off a market price at any given time. The company uses price estimates and credit spread assessments from Nordic Bond Pricing and has taken transaction prices into account where these are available.

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.

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

31.12.2016	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Book value**
Amortised cost					
Net loans to and receivables from financial institutions	0	227,785	0	227,785	227,785
Net loans to and receivables from customers	0	0	9,052,491	9,052,491	9,052,491
Total assets at amortised cost	**0**	**227,785**	**9,052,491**	**9,280,276**	**9,280,276**
Liabilities to financial institutions	0	264,260	0	264,260	264,260
Securities issued	0	8,365,446	0	8,365,446	8,362,698
Total liabilities at amortised cost	**0**	**8,629,706**	**0**	**8,629,706**	**8,626,958**
Fair value					
Certificates and bonds	0	150,882	0	150,882	150,882
Financial derivatives	0	183,095	0	183,095	183,095
Total assets at fair value	**0**	**333,977**	**0**	**333,977**	**333,977**
Financial derivatives	0	20,087	0	20,087	20,087
Total liabilities at fair value	**0**	**20,087**	**0**	**20,087**	**20,087**

31.12.2015	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Book value**
Amortised cost					
Net loans to and receivables from financial institutions	0	267,061	0	267,061	267,061
Net loans to and receivables from customers	0	0	8,769,849	8,769,849	8,769,849
Total assets at amortised cost	**0**	**267,061**	**8,769,849**	**9,036,910**	**9,036,910**
Liabilities to financial institutions	0	667,640	0	667,640	667,640
Securities issued	0	7,606,672	0	7,606,672	7,653,079
Total liabilities at amortised cost	**0**	**8,274,312**	**0**	**8,274,312**	**8,320,719**
Fair value					
Financial derivatives	0	212,172	0	212,172	212,172
Total assets at fair value	**0**	**212,172**	**0**	**212,172**	**212,172**

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. 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 the external auditor and internal audit function are presented to and considered by the Board. The general manager makes an annual report regarding the overall assessment of the risk situation and internal controls. The risk management and compliance department submits regular risk control reports to the general manager and presents a six-monthly status report to the Board.

Based on the new Financial Institutions Act and the recommendations of the Norwegian Banking Law Commission, a decision was made at an extraordinary general meeting on 5 January 2016 to abolish the Control Committee. The Control Committee did not perform control tasks in 2016.

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. A decision was made to abolish the Control Committee and the Board of Representatives at an extraordinary general meeting on 5 January 2016, based on the new Financial Institutions Act and the recommendations of the Norwegian Banking Law Commission.

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 geographic 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 42.6% at the end of 2016 against 45.8% at the end of 2015.

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 in excess of capitalised amount

	2016	2015
Liabilities		
Loan commitments	501	17,513
Overdraft facilities	591,145	636,423
Total liabilities	**591,646**	**653,936**

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 liabilities 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 (15%), net liquidity (35%), credit score (25%) and payment experience (25%).

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 2016, compared with 98% in 2015. The proportion of loans with reasonably high risk and greater has increased from 2% to 3%.

Lending by risk classes 2016

	Gross lending	Overdraft facilities	Individual write-downs	Commitments	%
Low risk	6,220,756	526,997	0	6,747,753	70
Moderate risk	1,872,324	36,825	0	1,909,149	20
Normal risk	692,794	21,726	0	714,520	7
Reasonably high risk	243,707	2,757	0	246,464	3
High risk	0	0	0	0	0
Unallocated	22,910	2,840	0	25,750	0
Total	**9,052,491**	**591,145**	**0**	**9,643,636**	**100**

Lending by risk classes 2015

	Gross lending	Overdraft facilities	Individual write-downs	Commitments	%
Low risk	7,058,124	542,791	0	7,600,915	81
Moderate risk	1,103,804	68,809	0	1,172,613	12
Normal risk	410,702	16,649	0	427,351	5
Reasonably high risk	99,454	2,108	0	101,562	1
High risk	13,977	293	0	14,270	0
Unallocated	83,788	5,773	0	89,561	1
Total	**8,769,849**	**636,423**	**0**	**9,406,272**	**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 2016	Sensitivity on earnings 2015	Sensitivity on equity 2016	Sensitivity on equity 2015
NOK	+100	11,426	7,433	**0**	0
SEK	+100	-2,378	0	**0**	0
Total		**9,048**	**7,433**	**0**	**0**

Foreign currency	Reduction in basis points	Sensitivity on earnings 2016	Sensitivity on earnings 2015	Sensitivity on equity 2016	Sensitivity on equity 2015
NOK	-100	-11,426	-7,433	0	0
SEK	-100	2,378	0	0	0
Total		**-9,048**	**-7,433**	**0**	**0**

Time until expected rate change as at 31.12.2016

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No fixed-rate period	Total
Assets							
Net lending to financial institutions	227,694					91	227,785
Net lending to customers	30,229	9,013,151					9,043,380
Certificates and bonds		150,770					150,770
Financial derivatives						163,185	163,185
Accrued interest, not yet due						29,133	29,133
Other asset items						13,896	13,896

Total	**257,923**	**9,163,921**	**0**	**0**	**0**	**206,305**	**9,628,149**
Liabilities							
Liabilities to financial institutions	264,234						264,234
Securities issued NOK	3,315,940	4,722,918					8,038,858
Securities issued FCY		285,360					285,360
Financial derivatives (FCY)						19,499	19,499
Accrued interest NOK						38,506	38,506
Accrued interest (FCY)						588	588
Total	**3,580,174**	**5,008,278**	**0**	**0**	**0**	**58,593**	**8,647,045**
Net exposure	**-3,322,251**	**4,155,643**	**0**	**0**	**0**	**147,712**	

Time until expected rate change as at 31.12.2015

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No fixed-rate period	Total
Assets							
Net lending to financial institutions	266,887					174	267,061
Net lending to customers	24,032	8,736,218					8,760,250
Financial derivatives						188,033	188,033
Accrued interest, not yet due						33,738	33,738
Other asset items						5,855	5,855
Total	**290,919**	**8,736,218**	**0**	**0**	**0**	**227,800**	**9,254,937**
Liabilities							
Liabilities to financial institutions	667,607						667,607
Securities issued	3,765,445	3,844,384					7,609,829
Accrued interest						43,283	43,283
Total	**4,433,052**	**3,844,384**	**0**	**0**	**0**	**43,283**	**8,320,719**
Net exposure	**-4,142,133**	**4,891,834**	**0**	**0**	**0**	**184,517**	

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. If funding is urgently required upon the maturing of previously issued covered bonds, new covered bonds can be issued and parts of the bond provided as collateral for D and/or F bonds in Norges Bank via Sparebanken Øst. All of the covered bond agreements entered into by the company have a "soft bullet" whereby the mortgage credit company can defer redemption by one year.

Remaining contractual term as at 31.12.2016

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Assets							
Net lending to financial institutions						227,785	227,785
Net lending to customers	14	106	4,544	986,326	8,052,390		9,043,380
Certificates and bonds				100,000	50,000		150,000
Financial derivatives				31,651	131,534		163,185

Accrued interest, not yet due	9,091	15,268	4,774				29,133
Other asset items						13,896	13,896
Total receipts	**9,105**	**15,374**	**9,318**	**1,117,977**	**8,233,924**	**241,681**	**9,627,379**
Liabilities							
Liabilities to financial institutions			264,234				264,234
Securities issued NOK		229,000		6,900,000	750,000		7,879,000
Securities issued FCY				285,360			285,360
Financial derivatives (FCY)				19,499			19,499
Accrued interest NOK	17,539	20,941	26				38,506
Accrued interest (FCY)		588					588
Other liabilities			23,001				23,001
Total payments	**17,539**	**250,529**	**287,261**	**7,204,859**	**750,000**	**0**	**8,510,188**
Net exposure	**-8,434**	**-235,155**	**-277,943**	**-6,086,882**	**7,483,924**	**241,681**	

Remaining contractual term as at 31.12.2015

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Assets							
Net lending to financial institutions						267,061	267,061
Net lending to customers	21	212	4,132	1,177,938	7,577,947		8,760,250
Financial derivatives			446		187,587		188,033
Accrued interest, not yet due	14,241	19,425	72				33,738
Other asset items						5,855	5,855
Total receipts	**14,262**	**19,637**	**4,650**	**1,177,938**	**7,765,534**	**272,916**	**9,254,937**
Liabilities							
Liabilities to financial institutions			667,607				667,607
Securities issued		150,000	923,000	5,000,000	1,350,000		7,423,000
Accrued interest	18,728	24,555					43,283
Other liabilities			30,982				30,982
Total payments	**18,728**	**174,555**	**1,621,589**	**5,000,000**	**1,350,000**	**0**	**8,164,872**
Net exposure	**-4,466**	**-154,918**	**-1,616,939**	**3,822,062**	**6,415,534**	**272,916**	

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 December 2016. Liabilities associated with derivatives are shown on a separate line, and related inflows from derivatives are shown under each table.

Maturity analysis of financial liabilities as at 31.12.2016

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Liabilities to financial institutions			268,556				268,556
Securities issued	9,519	274,539	118,347	7,712,089	920,625		9,035,119
Other liabilities			23,001				23,001

Unused credit	591,145						591,145
Financial liabilities excluding derivatives	**600,664**	**274,539**	**409,904**	**7,712,089**	**920,625**	**0**	**9,917,821**
Financial derivatives (outflows)	3,667	602	12,808	79,683	73,344		170,104
Financial liabilities	**604,331**	**275,141**	**422,712**	**7,791,772**	**993,969**	**0**	**10,087,925**
Financial derivatives (inflows)	0	18,456	34,592	210,479	170,625	0	434,152

Maturity analysis of financial liabilities as at 31.12.2015

	Up to 1 month	**From 1-3 months**	**3 months to 1 year**	**From 1-5 years**	**Over 5 years**	**No term**	**Total**
Liabilities to financial institutions			679,472				679,472
Securities issued	11,476	186,086	1,017,089	5,366,061	1,573,050		8,153,762
Other liabilities			30,982				30,982
Unused credit	636,423						636,423
Financial liabilities excluding derivatives	**647,899**	**186,086**	**1,727,543**	**5,366,061**	**1,573,050**	**0**	**9,500,639**
Financial derivatives (outflows)	3,610	2,980	17,744	94,637	88,938		207,909
Financial liabilities	**651,509**	**189,066**	**1,745,287**	**5,460,698**	**1,661,988**	**0**	**9,708,548**
Financial derivatives (inflows)	0	23,700	34,125	209,700	223,050	0	490,575

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.

The company has no open currency risk as at 31 December 2016 or 31 December 2015.

Covered bond issues – nominal value by currency	**2016**	**2015**
Covered bonds in NOK	7,879,000	7,423,000
Covered bonds in SEK	285,360	0
Total covered bond issues	**8,164,360**	**7,423,000**

NOTE 23 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

31.12.2016	**Financial derivatives at fair value, used as hedging instruments**	**Held for trading**	**Financial assets and liabilities measured at amortised cost**	**Total**
Net loans to and receivables from financial institutions	0	0	227,785	227,785
Net loans to and receivables from customers	0	0	9,052,491	9,052,491
Certificates and bonds	0	150,882	0	150,882
Financial derivatives	183,095	0	0	183,095
Other assets	0	0	13,922	13,922
Total financial assets	**183,095**	**150,882**	**9,294,198**	**9,628,175**
Liabilities to financial institutions	0	0	264,260	264,260
Securities issued	0	0	8,362,698	8,362,698
Financial derivatives	20,087	0	0	20,087
Other liabilities	0	0	1,164	1,164
Total financial liabilities	**20,087**	**0**	**8,926,122**	**8,648,209**

31.12.2015	**Financial derivatives at fair value, used as**	**Financial assets and liabilities measure at**	**Total**

	hedging instruments	amortised cost	
Net loans to and receivables from financial institutions	0	267,061	267,061
Net loans to and receivables from customers	0	8,769,849	8,769,849
Financial derivatives	212,172	0	212,172
Other assets	0	5,855	5,855
Total financial assets	**212,172**	**9,042,765**	**9,254,937**
Liabilities to financial institutions	0	667,640	667,640
Securities issued	0	7,653,079	7,653,079
Other liabilities	0	1,124	1,124
Total financial liabilities	**0**	**8,321,843**	**8,321,843**

NOTE 24 OWNERSHIP STRUCTURE

Sparebanken Øst Boligkreditt AS's share capital 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 counterparts.

As at 31 December 2016, 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	183,095	0	183,095	-20,087	163,008
Financial derivatives, liabilities	20,087	0	20,087	-20,087	0

As at 31 December 2015, 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	212,172	0	212,172	0	212,172
Financial derivatives, liabilities	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 2016, 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, 07 February 2017

The Board of Directors of Sparebanken Øst Boligkreditt AS

Kjell Engen *Chairman of the Board*	Pål Strand *Deputy chairman*	Lars-Runar Groven *Board member*
Per-Øyvind Mørk *Board member*	Vegard Kvamme *Managing director*	

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Sparebanken Øst Boligkreditt AS

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Sparebanken Øst Boligkreditt AS, which comprise the balance sheet as at 31 December 2016, the statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2016. We have determined that there are no key audit matters to communicate in our report.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' concerning the financial statements, the going concern assumption and proposal for the allocation of the result]is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than* Audits *or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Drammen, 7 February 2017
ERNST & YOUNG AS

Atle Terum
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)