Sparebanken Øst
Boligkreditt AS

Ninth year of trading

Annual report 2017

Contents

Key figures

	2017	2016	2015	2014	2013
Return on equity (%)	7.92	6.97	9.33	14.29	15.74
Net interest income as a % of average total assets	1.10	1.00	1.44	1.56	1.62
Profit after tax as % of average total assets	0.67	0.62	0.90	0.99	1.03
Cost/income ratio (%)	17.22	18.06	13.06	12.28	11.77
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	0.03	0.02	0.00	0.01	0.00
Capital adequacy ratio in %	21.67	24.04	23.04	21.50	18.70
Tier 1 capital ratio in %	21.67	24.04	23.04	21.50	18.70
Dividends/additional dividends (NOK millions)	70.0	10.0	0.0	0.0	50.0
Average total assets (NOK millions)	11,325.0	10,384.0	8,937.7	8,854.0	7,943.2

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 ninth year of trading.

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 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.

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 exists 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 aims to 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 2017 amounted to NOK 280.5 million (NOK 259.2 million in 2016), of which NOK 276.6 million (NOK 255.7 million in 2016) relates to interest income on lending to customers. Net interest income amounted to a total of NOK 125.1 million, an increase compared with 2016 (NOK 104.2 million). The margins between loans to customers and borrowing increased in the last year because borrowing rates have fallen more than lending rates.

The company's operating profit before tax for 2017 amounted to NOK 100.2 million (NOK 86.5 million in 2016), while profit after tax amounted to NOK 76.2 million (NOK 64.9 million in 2016).

Total operating costs in 2017 amounted to NOK 20.8 million (NOK 19.1 million in 2016) of which NOK 16.1 million (NOK 14.7 million in 2016) 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 2017. Similarly, there was no reason to undertake individual or group write-downs.

Tax costs amounted to NOK 24.1 million (NOK 21.6 million in 2016).

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 11,142.7 million at the end of 2017, an increase of NOK 1.514.5 million over the previous year. Of the total balance sheet, net lending to customers amounted to NOK 10,599.0 million, representing an increase of NOK 1.546.5 million over 2016. 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 9,862.9 million, equivalent to an increase of NOK 1.500.2 million over 2016.

At the end of the year, NOK 283.3 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 aims to 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 Norwegian Accounting Act This also covers Sparebanken Øst Boligkreditt AS

<u>Overall risk management</u>

The Board and management have ultimate responsibility for risk management and internal control. The Board adopts the overall risk strategy and approves principles for monitoring, control, and risk thresholds. The Board regularly evaluates strategies and guidelines pertaining to risk management and control.

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

The general manager is responsible for executing and implementing adequate internal controls and risk management. The company 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 2017, the company had hired 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 structure and logic associated with this are constantly evolving. The general manager submits an annual report on the implementation of internal control and risk management. The Board considers the operational risk to be low.

In connection with the rating of bond issues from Sparebanken Øst Boligkreditt AS, Sparebanken Øst has issued a guarantee relating to all liabilities with regard to covered bonds in the mortgage company. Sparebanken Øst Boligkreditt AS also 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 considers that the quality of the lending portfolio is good. The over-collateralisation of the cover pool was 13% 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 964.0 million at year-end. This corresponds to capital adequacy of 21.67% of which tier 1 capital adequacy amounts to 21.67%. The risk-weighted balance at the end of 2017 was NOK 4,448.5 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 2017 amounted to NOK 76.2 million (NOK 64.9 million in 2016). 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 depends 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 occupies a 40% position, the accounting department contributes resources equivalent to a 50% position and the department for risk management and compliance contributes the equivalent of a 50% position. The working environment in 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 Section 3-3c of the Norwegian Accounting Act. This is available on the bank's and company's website at www.oest.no. The company has no ongoing research and development activities.

Equality
The Sparebanken Øst Group strives to maintain equality when hiring and in its employee and management training, and is conscious of its role in this regard. The Board of Sparebanken Øst Boligkreditt AS is currently composed of 4 men.

The market
Credit spreads in the market for Norwegian covered bonds contracted in 2017. Sparebanken Øst Boligkreditt AS currently has to pay approx. 42 basis points (hundredths of a percentage point) for issuing such bonds with terms to maturity of 5 years. Access to capital in the market for covered bonds has been good, and credit markups have been reduced by more than 15 basis points so far this year.

In 2017, Sparebanken Øst Boligkreditt AS issued a new covered bond with a nominal value of NOK 2,500 million, maturing in 2022.

The cover pool contains secured mortgages from every county in the country. The majority of the homes are located in the central part of southeast Norway with loans from Buskerud, Oslo, and Akershus accounting for 73.7% of the total. The loans in the cover pool have senior collateral in Norwegian residential properties.

Future prospects

In 2017, 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 2017 was adjusted to match the Group's need for funding. Access to funding via covered bonds was good in 2017. 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. Issues of covered bonds have helped Sparebanken Øst to achieve a robust liquidity position.

In 2017, the Norwegian economy was characterised by increased growth and capacity utilisation. Interest rates are still low and improved competitiveness and an expansive monetary policy have contributed to this growth. The labour market has also looked better and oil prices ended the year close to USD 70. There is every sign that the growth will continue into 2018. High house prices and increased household debt drew a lot of attention in 2017. House prices rose sharply through 2016, up until new mortgage policies were launched in early 2017. Tightening of the mortgage policies had an early impact and the growth in house prices stopped quickly. Oslo was subject to special constraints, which led to a bigger drop in housing prices there. At the end of 2017, there are signs that the biggest correction is over and that we will eventually see some stabilisation in Oslo. In the rest of the country, the growth was flatter through 2017.

Sparebanken Øst Boligkreditt AS has good control over its costs, with no considerable costs expected in addition to costs which would arise naturally as a result of an increased portfolio.

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 provide 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, 6 February 2018

The Board of Directors of Sparebanken Øst Boligkreditt AS

Kjell Engen *Chairman of the Board*	Pål Strand *Deputy chair*	Lars-Runar Groven *Board member*
Per-Øyvind Mørk *Board member*	Vegard Kvamme *General manager*	

Income statement

(Figures in NOK thousands)	Notes	2017	2016
Interest income		280,547	259,206
Interest costs		155,420	155,052
Net interest income	3,4	**125,127**	**104,154**
Commission income and income from banking services	3	14	13
Commission costs and costs from banking services	3	16,121	14,687
Net value change and gains/losses on financial instruments	15	-4,087	1,388
Administration costs	3, 6	898	423
Other operating costs	3,5,7,8	3,824	3,952
PROFIT BEFORE LOSSES		**100,211**	**86,493**
Losses on loans and guarantees	9	0	0
PROFIT BEFORE TAX COSTS		**100,211**	**86,493**
Tax costs	10	24,055	21,621
PROFIT FOR THE YEAR		**76,156**	**64,872**

Comprehensive income

(Figures in NOK thousands)	Notes	2017	2016
PROFIT FOR THE YEAR		**76,156**	**64,872**
Other operating income and costs in comprehensive income		0	0
COMPREHENSIVE INCOME		**76,156**	**64,872**

Balance sheet

(Figures in NOK thousands)	Notes	31.12.2017	31.12.2016
Lending to and receivables from financial institutions	3,21,22,23	221,125	227,785
Loans to and receivables from customers	9,11,21,22,23	10,599,011	9,052,491
Certificates, bonds, etc. at fair value	21,22,23	151,223	150,882
Deferred tax asset	10	156	26
Financial derivatives	12,21,22,23,27	169,929	183,095
Other assets	3,13,22,23	1,218	13,896
TOTAL ASSETS		**11,142,662**	**9,628,175**
Liabilities to financial institutions	3,14,16,21,22,23	283,708	264,260
Securities issued	3,16,18,21,22,23	9,862,850	8,362,698
Financial derivatives	12,21,22,23,27	6,111	20,087
Tax payable	10	24,185	21,800
Other liabilities	3,17,22,23	1,523	1,201
Accruals and deferred income		21	21
Total liabilities		**10,178,398**	**8,670,067**
Paid-up equity	24	649,990	649,990
Retained earnings		314,274	308,118
Total equity	20,24	**964,264**	**958,108**
TOTAL LIABILITIES AND EQUITY		**11,142,662**	**9,628,175**

Drammen, 6 February 2018

Kjell Engen
Chairman of the Board

Pål Strand
Deputy chair

Lars-Runar Groven
Board member

Per-Øyvind Mørk
Board member

Vegard Kvamme
General manager

Cash Flow Statement

(Figures in NOK thousands)		2017	2016
Operating activities			
Profit/loss before tax costs		100,211	86,493
Adjusted for:			
Change in net accrued interest income and interest costs		-5,525	416
Net receipts/payments of bonds		0	-150,380
Change in value of bonds at fair value		-360	-390
Net receipts/payments of loans to customers		-1,544,513	-283,130
Net receipts/disbursement of borrowing from financial institutions		19,439	-403,373
Change in other assets		12,678	-8,041
Change in other liabilities		322	-7
Change in premium/discount on securities issued		1,526	2,580
Net losses/gains from financing activities		4,447	-998
Taxes paid for the period		-21,800	-29,600
Net cash flow from operating activities	**A**	**-1,433,575**	**-786,430**
Financing activities			
Payments on repayment of securities		-1,001,575	-2,542,346
Proceeds on issuance of securities		2,498,490	3,299,500
Payment of additional dividends		-70,000	-10,000
Net cash flow from financing activities	**B**	**1,426,915**	**747,154**
Net change in cash and cash equivalents	A+B	-6,660	-39,276
Cash and cash equivalents as at 01.01		227,785	267,061
Holdings of cash and cash equivalents as at 31.12		**221,125**	**227,785**

Liquid assets consist exclusively of bank deposits. Unused drawing rights at 31.12.2017 were NOK 1,716.7 million and at 31.12.2016 were NOK 1,736.2.

Change in equity

(figures in NOK thousands)

2017	Total equity	Share capital	Premium reserve	Other equity
Equity at 31.12.2016	958,108	319,800	330,190	308,118
Profit for the year	76,156	0	0	76,156
Other operating income and costs in comprehensive income	0	0	0	0
Comprehensive income	76,156	0	0	76,156
Additional dividends	-70,000	0	0	-70,000
Equity at 31.12.2017	**964,264**	**319,800**	**330,190**	**314,274**

Additional dividends of NOK 70 million paid, equal to NOK 6.57 per share. Proposed dividend for the year is NOK 0.

2016	Total equity	Share capital	Premium reserve	Other equity
Equity 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 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.

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. 2017 is the company's ninth 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 2017 were approved by the Board of Sparebanken Øst Boligkreditt AS on 6 February 2018.

The company is included in the consolidated accounts of Sparebanken Øst - business address Stasjonsgate 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 2017 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 include earned/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 2017 and the effect these have had on the annual accounts are listed below.

- *Statement of Cash Flows* As part of the IASB's Disclosure Initiative, enterprises are required to provide explanatory information in the notes 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 brought no change in the company's cash flow statement or the corresponding notes.

- *IAS 12 Income Taxes:* The amendments clarify whether to recognise deferred tax assets related to debt instruments measured at fair value. In specific terms, the changes mean, for example, that unrealised losses on debt instruments measured at fair value in the accounts and at cost for tax purposes result in tax-reducing temporary differences regardless of how the owner expects to recover capitalised amounts. The amendment clarifies the accounting procedure for recognising deferred tax assets related to debt instruments measured at fair value in certain cases. The amendment caused no changes in the company's accounting for deferred tax assets and/or notes.

3. CURRENCY

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

Transactions in foreign currency are translated to the functional currency (NOK) at the exchange rates on the transaction date. Foreign currency items are translated at the official average exchange rates on the balance sheet date. Currency losses and gains attributable to different rates of exchange on the transaction and settlement dates, and translation differences on foreign currency items which cannot be assessed, are charged to income.

4. 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 are depreciated as a result of value impairment, interest income is recognised by using the interest rate at which future cash flows are discounted to calculate such impairment.

Recognition of interest as income according to the effective interest method is employed for 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, carried at amortised cost

5.3 MEASUREMENTS

5.3.1 Initial recognition of financial instruments

Financial instruments measured at fair value through profit or loss are measured at fair value on the agreement date upon initial recognition. Fair value will normally be the transaction price. Financial assets and liabilities which are not classified in this category are measured at fair value with the addition/deduction of directly attributable transaction costs upon initial recognition.

5.3.2 Subsequent measurement

Measurement at fair value

In principle, observable market rates must be the basis on which a financial instrument at fair value is estimated. 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 under 5.4.

5.3.3 Hedge accounting

The company uses fair value hedging of fixed-rate borrowing and foreign currency borrowing. For fair value hedging the hedged instrument is recognised at fair value and the value of the hedged item is adjusted in accordance with the change in value linked to the hedged risk.

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 maturity 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 on loans for the period are recognised under “Losses on loans and guarantees”. Interest calculated according to the effective interest method on the written-down value of loans is included in “Interest income”.

Impaired and non-performing commitments

Non-performing loans are defined as loans that have defaulted on payment exceeding 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”.

Collective write-downs 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”.

Declaring 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. Declared losses that are covered by previous write-downs are posted to allocations. 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 derivatives are recognised at fair value with value adjustment through profit or loss. The derivative is recognised as an asset if the fair value is positive and as a liability if the fair value is negative.

Realised and unrealised profits and losses on financial derivatives are recognised in the statement of income under “Net value adjustments and profit/loss on financial instruments”. 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. Bond debt at fixed interest rates constitutes an interest risk. Bond debt in foreign currency constitutes both an interest and a currency risk. Hedge accounting is 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.

The value adjustment on hedged instruments and items is posted to “Net value adjustments and profit/loss on financial instruments”.

It must be possible to reliably measure the effectiveness of hedging. On entering into the hedging relationship the formal relationship between the hedged item and hedging instrument is documented, including the risk that is hedged, the objective and the strategy for hedging and the method that will be used to determine the effectiveness of hedging. 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 value changes on the hedging instrument counteract 80-125% of the changes in the hedging object, the hedge will still qualify as a hedge under IAS 39. Any ineffective portion of the hedge is recognised. If the hedge relationship is interrupted or adequate hedge efficiency cannot be verified, the value adjustment linked to the hedged item is amortised over the remaining maturity.

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 posted as reductions of liabilities. 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 operating 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 commitments/deferred tax portions are calculated on the basis of provisional differences. The provisional difference is the difference between the book value and the tax value of assets and liabilities. Deferred tax assets are calculated on the tax effects of losses carried forward.

Deferred tax assets are 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 financial statements. Information is provided on major contingent liabilities with the exception of contingent liabilities where there is great probability that the liability is low.

Contingent assets are recognised if they are likely to occur.

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

Cash flow statements show the cash flows grouped according to types and employment area. 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 regularly evaluated and are based on the most recent reliable data available, as well as experience from similar assessments. There will always be an inherent uncertainty 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 Loan losses
Loans are written down for a reduction in value on an individual basis provided there is objective evidence that such a reduction in value has occurred. Examples of such objective evidence include significant financial difficulties of debtors, defaults on payment, significant breach of contract, agreed changes to the interest rate or other conditions as a result of financial difficulties of debtors, bankruptcy, etc. The estimation of any reduction in value/loss takes place on the basis of the size of the expected future cash flows from the sale of collateral and the like, when cash flows are expected to be paid, as well as the size of the discount rate. The size of the loss is directly proportional to the difference between the book value and the present value of discounted future cash flows. The primary uncertainty of estimates as to the size of the reduction in value/loss lies in the assessments of the cash flows' size and when they are expected to be received. Please see note 9 for lending losses.

Groups of loans are written down corresponding to individual loans when there is objective evidence that the Group has reduced in value as a result of an event that has occurred. The estimation of the reduction in value/loss on groups of loans takes place on the basis of historical loss data compounded with bank-specific and/or market parameters such as risk classification, macroeconomic size, and industry ratios. The primary uncertainty in the estimates as to the size of the reduction in value/loss on groups of loans is related to the data used. How representative the data basis is and its quality are important. Write-down of impairment/losses on groups of loans is based on models of both an estimated and statistical nature. The general model risk will always be an uncertainty factor that is transferred to the estimates the models are intended to calculate. 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 replaces the current IAS 39 Financial Instruments: Recognition and Measurement and entails changes related to classification and measurement, hedge accounting and write-downs. The standard takes effect for the accounts from 1 January 2018 and has been implemented as from 1 January 2018. The company has examined the consequences and implementation effects of introducing IFRS 9, and the implementation effects are discussed below. Tables of implementation effects are presented at the end.

  Classification and measurement
  The new standard requires all financial assets, except equity instruments and derivatives, to be classified and measured based on a combination of the group's model for managing assets (the "business model test") and the characteristics of the instruments' cash flow (the "contractual cash flow test"). For financial assets, the measurement categories in IAS 39 will be replaced with the following categories: fair value with value changes through profit or loss, fair value with value changes through other comprehensive income (with and without reclassification) and amortised cost. Instruments that must initially be measured at amortised cost or fair value with value changes through other comprehensive income can be designated for measurement at fair value with value

changes through profit or loss if this eliminates or significantly reduces an accounting discrepancy. The switch to IFRS 9 will not result in any changes to the classification or measurement of derivatives. The requirements for measuring financial liabilities under IFRS 9 are largely the same as those under IAS 39, except when it comes to the treatment of gains or losses attributed to own credit risk related to liabilities that are measured at fair value with value changes through profit or loss.

The company has completed its review of classification and measurement, and has concluded that IFRS 9 does not involve any change in the way the company measures financial instruments in the company's balance sheet or through profit/loss.

For the company's loans to and receivables from customers as well as credit institutions, the conclusion is that the business model entails "hold to receive contractual cash flows" and that the measurement method of amortised cost will be continued under IFRS 9. This choice does not entail any changes in how loans and receivables are accounted for in the balance sheet or through the profit or loss under IAS 39.

Concerning "certificates and bonds etc. at fair value" in the accounts, the conclusion is that the measurement method of fair value through profit or loss is continued under IFRS 9.

For the company's financial obligations, i.e. "liabilities created by the issuance of securities and "liabilities to credit institutions", the measurement category of amortised cost under IFRS 9 is retained. This choice does not entail any change from IAS 39.

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 on fixed interest rate deposit and borrowing in foreign currencies. IFRS 9 does not entail any changes in the company's application of existing hedge accounting and the company will continue to apply hedge accounting under IFRS 9, by hedging the base interest rate on fixed interest rate deposits and the exchange rates for deposits in foreign currencies.

Write-downs
IFRS 9 will change the rules for writing down 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 entails an implementation effect as at 01.01.2018 on the transition to IFRS 9 and a change in how the company measures loss provisions, going forward. 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 expected loss over the instrument's expected lifetime.

Together with the Group, the company has completed the work of establishing principles and a model for loss provisions under IFRS 9. A model has been established to calculate losses per commitment, based on the risk class of the commitment, whereby loss provisions, depending on the group, are calculated on the basis of the probability of default, the expected loss due to default, and the exposure of the commitment. When calculating future expected losses, a probability-weighted calculation is made concerning the expected macroeconomic development. To determine parameters, the project team has analysed historical defaults, historical losses and the development in risk classification distributed on lending segments. Arrears of payment beyond 90 days are defined as default. The implementation effect as at 1 January 2018 is calculated as an increase in the carrying amount of NOK 3.7 million.

Step 1: Commitments that do not significantly increase credit risk, after initial recognition, measured on the basis of the change in risk class, and commitments with a risk class better than the limit set for "low credit risk", are included in group 1. The limit for "low credit risk" is set as risk class D, which means that commitments with a significant change in risk class, but where the risk class is class D or better, will not be considered to have a substantial increase in credit risk. For commitments in group 1, an expected 12-month loss is calculated on the basis of the commitment's exposure.

Step 2: Commitments with a substantial increase in credit risk, after initial recognition, measured on the basis of the change in risk class, including commitments with default exceeding 30 days, are included in group 2. For commitments in group 2, a lifetime expected loss is calculated on the basis of the commitment's exposure and expected duration.

Step 3: Commitments with a significant increase in credit risk, where there is objective evidence of impairment, or where the default exceeds 90 days, are included in group 3. For commitments for which there is no individual impairment assessment, a lifetime expected loss is calculated on the basis of the commitment's exposure, the risk class parameter for expected losses, and expected duration.

The table below shows the measurement category and recognised amount under IAS 39 and how this will be reported under IFRS 9 as from 01.01.2018:

Accounting line (figures in NOK millions)	**Measurement category under IAS 39**	**Measurement category under IFRS 9**	**Recognised under IAS 39**	**Recognised under IFRS 9**
Loans to and receivables from customers	Amortised cost	Amortised cost	10,599.0	10,595.3

The table below shows loss provisions in the different groups with the introduction of IFRS 9 from 01.01.2018:

(figures in NOK millions)	**Step 1**	**Step 2**	**Step 3**	**Total**
Loans to and receivables from customers	3,4	0.3	0.0	3.7

The table below shows the implementation effects on equity of the introduction of IFRS 9 from 01.01.2018:

Changes in loss provisions (figures in NOK millions)	**Equity effect**
Capitalised amount under IAS 39 at 31.12.2017	0.0
Effect of introducing the expected loss model on loans to and receivables from customers	-3.7
Tax effect based on the item above	0.9
Opening balance against equity under IFRS 9 as at 01.01.2018	**-2.9**
Total change in equity on the introduction of IFRS 9 on 01.01.2018	**-2.9**

- *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 result in any changes in the company's income statement, balance sheet and/or notes.

- *IAS 16 replaces the existing IFRS standard for leases,* IAS 17 Leases. IFRS 16 specifies principles for recognition, measurement, presentation and information about leases for both parties to a lease, i.e. the customer (lessee) and the provider (lessor). The new standard requires the lessor to recognise assets and liabilities for most leases, which is a significant change from the current principles. As far as the lessee is concerned, IFRS 16 largely continues the existing principles in IAS 17. In line with these, a lessee must continue to classify its leases as operational or financial leases and recognise these two types of leases differently. The standard will have accounting effect from 1 January 2019. The company's preliminary assessment is that the standard will not have any major effect on the company's income statement, balance sheet and/or notes.

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 an agreement with Sparebanken Øst on management, hire of the general manager, controls and compliance, accounting analysis and reporting and purchase of home mortgages. Transactions between the companies are conducted in accordance with normal commercial terms and principles.

Profit/loss	**2017**	**2016**
Interest income, deposits in parent bank	1,858	2,565
Interest costs, loans from parent bank	7,391	11,251
Interest costs, covered bond liabilities to parent bank	5,190	7,790
Commission costs to parent bank	16,121	14,687
Administrative costs to parent bank	877	420
Other operating costs to parent bank	1,260	1,230

Balance sheet	**2017**	**2016**
Deposits in parent bank	221,125	227,785
Other receivables from parent bank	1,218	13,896
Loans from parent bank	283,708	264,260
Other liabilities to parent bank	1,356	1,164

NOTE 4 NET INTEREST INCOME

	2017	**2016**
Interest income from lending to and receivables from financial institutions	1,858	2,565
Interest income from lending to and receivables from customers	276,567	255,747
Interest income from certificates and bonds at fair value	2,122	894
Interest income	**280,547**	**259,206**
Interest costs on liabilities to financial institutions	7,391	11,251
Interest costs on issued securities	148,029	143,801
Interest costs	**155,420**	**155,052**
Net interest income	**125,127**	**104,154**

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 50% position and accounting, analysis and reporting a 50% position, at a total cost of NOK 1,260,000 in 2017. The general manager is paid by Sparebanken Øst and had an annual salary of NOK 963,223 in 2017.

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 general manager, 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 under the Act on Mandatory Occupational Pensions.

NOTE 6 ADMINISTRATIVE COSTS

	2017	**2016**
IT costs	877	420
Other administrative costs	21	3
Administration costs	**898**	**423**

NOTE 7 OTHER OPERATING COSTS

	2017	2016
Consultancy fees to Sparebanken Øst	1,260	1,230
External consultants	1,293	1,342
Fees relating to own bonds	858	978
Other operating costs	413	402
Other operating costs	**3,824**	**3,952**

NOTE 8 REMUNERATION TO AUDITOR

	2017	2016
Audit	211	211
Other certification services*	95	101
Tax and levies advice	0	15
Other services	40	0
Remuneration to auditor	**346**	**327**

* Including investigator fees in relation to Section 11-14 of the Norwegian Financial Institutions Act: NOK 95,000 in 2017 and NOK 101,000 in 2016.
The amounts are inclusive of VAT.

NOTE 9 LENDING LOSSES

There is no objective evidence of any impairment in value in the portfolio. There were two non-performing commitments totalling NOK 2.7 million as of 31.12.2017, and one non-performing commitment of NOK 2.1 million as of 31.12.2016. There were no impaired commitments as of 31.12.2017 or per 31.12.2016.

		2017	2016
	Individual write-downs		
	Individual write-downs as at 01.01.	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 31.12.**	**0**	**0**
	Collective write-downs of loans		
	Collective write-downs of loans as at 01.01.	0	0
+/-	Change in collective write-downs of loans for the period	0	0
=	**Collective write-downs of loans as at 31.12.**	**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

	2017	2016
The year's tax costs in the income statement are as follows		
Tax payable on profit for the year	24,185	21,800
Recognised deferred tax	-144	-179
Recognised deferred tax due to change in tax rate	14	
Total tax for the year	**24,055**	**21,621**
Change in net deferred tax		
Recognised deferred tax in statement of income	-130	-179
Total changes in net deferred tax	**-130**	**-179**
Reconciliation of tax costs for the year		
Profit before tax	100,211	86,493
Tax at the nominal rate of 24% (25%)	24,051	21,623
Tax effect of permanent differences	-3	-2
Tax effect of changed tax rate	7	
Tax costs	**24,055**	**21,621**
Tax payable in the balance sheet is as follows		
Tax payable on profit for the year	24,185	21,800
Tax payable	**24,185**	**21,800**

Deferred tax liability/deferred tax asset	2017	2016	Change 2017	Change 2016
Temporary differences				
Financial derivatives	144,372	145,023	651	44,347
Securities issued	-145,803	-145,519	284	-43,242
Securities	750	390	-360	-390
Total temporary differences	-681	-106	575	715
Deferred tax liability(+)/deferred tax asset(-)	**-156**	**-26**	**130**	**179**

The tax rate for tax payable in 2017 is 24%, against 25% in 2016. The deferred tax liability/deferred tax assets as at 31.12.2017 was recognised based on the future tax rate of 23% versus 25% in previous years.

NOTE 11 LENDING TO CUSTOMERS

	2017	2016
Line of credits secured against residential property	889,466	894,480
Repayment mortgages secured against property	9,709,545	8,158,011
Gross loans to and receivables from customers	**10,599,011**	**9,052,491**
Individual write-downs	0	0
Collective write-downs of loans	0	0
Net loans to and receivables from customers	**10,599,011**	**9,052,491**

Geographic distribution of gross of loans to and receivables from financial institutions	2017	2016
Drammen	1,133,227	982,077
Øvre Eiker	447,523	360,443
Nedre Eiker	596,227	512,316
Rest of Buskerud	699,763	484,124
Akershus	2,400,184	2,014,326
Oslo	2,534,149	2,283,587
Vestfold	830,066	568,629
Østfold	438,897	344,628
Rest of Norway	1,518,975	1,502,361

Total		10,599,011	9,052,491

Lending by customer groups	2017	2016
Salaried employees	10,562,924	9,022,217
Self-employed	36,087	30,274
Net loans to and receivables from customers	**10,599,011**	**9,052,491**

Non-performing and impaired commitments	2017	2016
Non-performing commitments over 90 days		
Business	0	0
Retail	2,730	2,050
Gross non-performing commitments	**2,730**	**2,050**
Individual write-downs	0	0
Net non-performing commitments	**2,730**	**2,050**
Provisions ratio	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**
Provisions ratio	0%	0%
Gross non-performing and impaired commitments		
Business	0	0
Retail	2,730	2,050
Gross non-performing and impaired commitments	**2,730**	**2,050**
Individual write-downs	0	0
Net non-performing and impaired commitments	**2,730**	**2,050**
Provisions ratio	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 2017	
Financial derivatives used for hedge accounting	**Contractual totals**	**Assets**	**Liabilities**
Currency instruments			
Currency swap agreements	304,859	0	6,111
Total currency instruments	**304,859**	**0**	**6,111**
Interest rate instruments			
Interest rate swaps	1,350,000	169,929	0
Total interest instruments	**1,350,000**	**169,929**	**0**
Total derivatives		**169,929**	**6,111**

No ineffective hedges were reported in 2017. See note 15

Financial derivatives used for hedge accounting	Contractual totals	Fair value 2016 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 ineffective hedges were reported in 2016. See note 15

NOTE 13 OTHER ASSETS

	2017	2016
Outstanding accounts, parent bank	1,218	13,896
Other assets	**1,218**	**13,896**

NOTE 14 LIABILITIES TO FINANCIAL INSTITUTIONS

	2017	2016
Loans from financial institutions with an agreed term or notice period	283,708	264,260
Liabilities to financial institutions	**283,708**	**264,260**

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

	2017	2016
Value change in certificates and bonds - held for trading	360	390
Value change and gains/losses on financial instruments at fair value through profit or loss	**360**	**390**
Financial derivatives - hedge accounting	-201	-44,347
Financial liabilities - hedged	201	44,347
Net hedged items*	**0**	**0**
Realised gains/losses on securities issued - amortised cost	-4,447	998
Value change and gains/losses on financial instruments at amortised cost	**-4,447**	**998**
Total value change and gains/losses on financial instruments	**-4,087**	**1,388**

* 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

(Amounts in NOK 1,000)	31.12.2017	31.12.2016
Covered bonds, nominal value in NOK	9,381,000	7,879,000
Covered bonds, nominal value in SEK (converted to NOK)	299,218	285,360
Value adjustment (including conversion/exchange rate)	146,687	159,858
Accrued interest	35,945	38,480

Total securities issued	9,862,850	8,362,698

Change securities issued	31.12.2017	Issued	Due/ redeemed	Other changes incl. currency	31.12.2016
Covered bonds, nominal value in NOK	9,381,000	2,500,000	998,000	0	7,879,000
Covered bonds, nominal value in SEK (converted to NOK)	299,218	0	0	13,858	285,360
Value adjustment (including conversion/exchange rate)	146,687	0	0	13,171	159,858
Accrued interest	35,945	0	0	2,535	38,480
Total securities issued	**9,862,850**	**2,500,000**	**998,000**	**-1,848**	**8,362,698**

2017	Outstanding volume*	Avg. balance	Weighted effective interest rate
Covered bonds NOK	9,527,687	9,354,872	1.52
Covered bonds (FCY)	299,218	289,727	2.01
Securities issued	**9,826,905**	**9,644,599**	**1.53**

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

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.

Long-term borrowing grouped according to maturity

31.12.2017	Drawing right*	Covered bonds	Total
2018	0	231,000	231,000
2019	0	599,218	599,218
2020	0	2,500,000	2,500,000
2021	0	3,100,000	3,100,000
2022	0	2,500,000	2,500,000
2023	0	0	0
2024	0	0	0
2025	0	0	0
2026 and after	0	750,000	750,000
No term	283,673	0	283,673
Gross borrowing	283,673	9,680,218	9,963,891
Accrued interest	35	35,945	35,980
Direct costs and premium/discount	0	-2,439	-2,439
Value adjustments	0	149,126	149,126
Net borrowing	**283,708**	**9,862,850**	**10,146,558**

*Approved overdraft limit of NOK 2,000 million.

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 after	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.

NOTE 17 OTHER LIABILITIES

	2017	2016
Accounts payable	167	37
Accrued management fees	1,356	1,164
Other liabilities	**1,523**	**1,201**

NOTE 18 GUARANTEE LIABILITIES

	2017	2016
Guarantee liability	**0**	**0**

NOTE 19 COVERED BONDS AND SECURITIES

	2017	2016
Preferential rights in accordance with Section 11-15 of the Norwegian Financial Institutions Act (nominal value)*	**9,680,218**	**8,164,360**

Cover pool	2017	2016
Loans secured against property	10,574,255	9,030,579
Other substitute assets (bank deposits)	322,075	378,555
Total cover pool	**10,896,330**	**9,409,134**
Cover pool occupancy*	113%	115%

*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.

NOTE 20 CAPITAL ADEQUACY

	2017	2016
CET1 capital		
Book equity	964,264	958,108
Deduction items in CET1 capital		

Additional value adjustments (prudent valuation requirement) (AVA)	-306	-354
Total CET1 capital	**963,958**	**957,754**
Other tier 1 capital	0	0
Total tier 1 capital	**963,958**	**957,754**
Net primary capital	**963,958**	**957,754**
Calculation basis		
Calculation basis for credit and counterparty risk	4,076,003	3,558,059
Calculation basis, currency risk	0	0
Calculation basis, operational risk	205,607	221,984
Calculation basis for weakened counterparty credit value (CVA)	166,882	204,171
Deductions from calculation basis	0	0
Total calculation basis	**4,448,491**	**3,984,215**
CET1 capital ratio	**21.67%**	**24.04%**
Tier 1 capital ratio	**21.67%**	**24.04%**
Capital adequacy	**21.67%**	**24.04%**
Buffers		
Capital conservation buffer	111,212	99,605
Countercyclical buffer	88,970	59,763
Systemic risk buffer	133,455	119,526
Total buffer requirements	**333,637**	**278,895**
Available buffer capital	**608,079**	**639,017**
Leverage ratio*	**8.40%**	**9.62%**

*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 capital charge for credit value adjustment (CVA) 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 from 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

General information
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 loans
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.

31.12.2017	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Book value**
Amortised cost					
Net loans to and receivables from financial institutions	0	221,125	0	221,125	221,125
Net loans to and receivables from customers	0	0	10,599,011	10,599,011	10,599,011
Total assets at amortised cost	**0**	**221,125**	**10,599,011**	**10,820,136**	**10,820,136**
Liabilities to financial institutions	0	283,708	0	283,708	283,708
Securities issued	0	9,952,716	0	9,952,716	9,862,850
Total liabilities at amortised cost	**0**	**10,236,424**	**0**	**10,236,424**	**10,146,558**
Fair value					
Certificates and bonds	0	151,223	0	151,223	151,223
Financial derivatives	0	169,929	0	169,929	169,929
Total assets at fair value	**0**	**321,152**	**0**	**321,152**	**321,152**
Financial derivatives	0	6,111	0	6,111	6,111
Total liabilities at fair value	**0**	**6,111**	**0**	**6,111**	**6,111**

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**

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.

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.

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. The development in credit risk related to the bank's lending is monitored on an ongoing basis with framework control, periodic analyses and reports, and the use of random sampling at customer level. The loan-to-value ratio in the cover pool (LTV) was 43.9% at the end of 2017 against 42.6% at the end of 2016.

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	**2017**	**2016**
Liabilities		
Loan pledges	6,111	501
Overdraft facilities	613,345	591,145
Total liabilities	**619,456**	**591,646**

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 history. The above factors are weighted based on the following distribution: Debt ratio (15%), net liquidity (35%), credit score (25%) and payment history (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 portfolio of Sparebanken Øst Boligkreditt AS is based on a risk classification comprising11 categories from A to K. Risk class A represents the lowest risk and risk class K represents the highest. In Sparebanken Øst Boligkreditt AS, risk classes J and K consist of commitments for which objective evidence of a default/loss exists and the commitments are subject to special monitoring.

Lending by risk classes 2017

	Gross loans	Overdraft facilities	Individual write-downs	Commitments	%
A	4,826,090	505,891	0	5,331,981	47
B	2,057,180	39,596	0	2,096,776	19
C	1,717,574	38,454	0	1,756,028	16
D	1,411,664	21,793	0	1,433,457	13
E	278,886	6,291	0	285,177	3
F	138,427	241	0	138,668	1
G	89,631	1,079	0	90,710	1
H	37,248	0	0	37,248	0
I	15,732	0	0	15,732	0
J	26,209	0	0	26,209	0
K	0	0	0	0	0
U	370	0	0	370	0
Total	**10,599,011**	**613,345**	**0**	**11,212,356**	**100**

Lending by risk classes 2016

	Gross loans	Overdraft facilities	Individual write-downs	Commitments	%
A	4,742,693	504,705	0	5,247,398	55
B	1,478,063	22,292	0	1,500,355	16
C	1,227,399	32,262	0	1,259,661	13
D	644,925	4,563	0	649,488	7
E	478,037	15,223	0	493,260	5
F	214,757	6,503	0	221,260	2
G	92,042	86	0	92,128	1
H	122,169	2,671	0	124,840	1
I	29,496	0	0	29,496	0
J	0	0	0	0	0
K	0	0	0	0	0
U	22,910	2,840	0	25,750	0
Total	**9,052,491**	**591,145**	**0**	**9,643,636**	**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

Currency	Increase in base points	Sensitivity on earnings 2017	Sensitivity on earnings 2016	Sensitivity on equity 2017	Sensitivity on equity 2016
NOK	+100	12,318	11,426	**0**	0
SEK	+100	-2,494	-2,378	**0**	0
Total		**9,824**	**9,048**	**0**	**0**

Currency	Reduction in base points	Sensitivity on earnings 2017	Sensitivity on earnings 2016	Sensitivity on equity 2017	Sensitivity on equity 2016
NOK	-100	-12,318	-11,426	0	0
SEK	-100	2,494	2,378	0	0
Total		**-9,824**	**-9,048**	**0**	**0**

Time until expected rate change as at 31.12.2017

	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	220,997					128	221,125
Net lending to customers	36,044	10,551,849					10,587,893
Certificates and bonds		151,130					151,130
Financial derivatives						149,127	149,127
Accrued interest, not yet due						32,013	32,013
Other asset items						1,218	1,218
Total	**257,041**	**10,702,979**	**0**	**0**	**0**	**182,486**	**11,142,506**
Liabilities							
Liabilities to financial institutions	283,673						283,673
Securities issued NOK	3,300,819	6,226,868					9,527,687
Securities issued FCY		299,218					299,218
Financial derivatives (FCY)						5,642	5,642
Accrued interest NOK						35,930	35,930
Accrued interest (FCY)						519	519
Total	**3,584,492**	**6,526,086**	**0**	**0**	**0**	**42,091**	**10,152,669**
Net exposure	**-3,327,451**	**4,176,893**	**0**	**0**	**0**	**140,395**	

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						38,445	38,445
Accrued interest (FCY)						649	649
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**	

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 can be 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 31.12.2017

	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						221,125	221,125
Net lending to customers	12	143	2,012	985,570	9,600,156		10,587,893
Certificates and bonds				100,000	50,000		150,000
Financial derivatives				26,153	122,974		149,127
Accrued interest, not yet due	16,464	15,505	44				32,013
Other asset items						1,218	1,218
Total receipts	**16,476**	**15,648**	**2,056**	**1,111,723**	**9,773,130**	**222,343**	**11,141,376**
Liabilities							
Liabilities to financial institutions			283,673				283,673
Securities issued NOK		231,000		8,400,000	750,000		9,381,000
Securities issued FCY				299,218			299,218
Financial derivatives (FCY)				5,642			5,642
Accrued interest NOK	15,602	20,293	35				35,930
Accrued interest (FCY)		519					519
Other liabilities			25,708				25,708
Total payments	**15,602**	**251,812**	**309,416**	**8,704,860**	**750,000**	**0**	**10,031,690**
Net exposure	**874**	**-236,164**	**-307,360**	**-7,593,137**	**9,023,130**	**222,343**	

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	20,880	26				38,445
Accrued interest (FCY)		649					649
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**	

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 are inclusive of future interest payments and the principal of the liability that is stated. Interest rates and currency rates are as at 31.12.2017. Liabilities associated with derivatives are shown on a separate line, and related inflows from derivatives are shown under each table.

Maturity analysis for financial liabilities as at 31.12.2017

	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			287,338				287,338
Securities issued	7,539	268,510	117,232	9,264,116	886,500		10,543,897
Other liabilities			25,708				25,708
Unused credit	613,345						613,345
Financial liabilities excluding derivatives	**620,884**	**268,510**	**430,278**	**9,264,116**	**886,500**	**0**	**11,470,288**
Financial derivatives (outflows)	2,996	446	10,328	62,746	47,942		124,458
Financial liabilities	**623,880**	**268,956**	**440,606**	**9,326,862**	**934,442**	**0**	**11,594,746**
Financial derivatives (inflows)	0	18,429	34,512	191,529	136,500	0	380,970

Maturity analysis for 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	265,019	118,347	7,712,089	920,625		9,025,599
Other liabilities			23,001				23,001
Unused credit	591,145						591,145
Financial liabilities excluding derivatives	**600,664**	**265,019**	**409,904**	**7,712,089**	**920,625**	**0**	**9,908,301**
Financial derivatives (outflows)	3,667	602	12,808	79,683	73,344		170,104
Financial liabilities	**604,331**	**265,621**	**422,712**	**7,791,772**	**993,969**	**0**	**10,078,405**
Financial derivatives (inflows)	0	18,456	34,592	210,479	170,625	0	434,152

Currency risk
Currency risk is the risk of a loss of value due to a change in the market rate of a foreign currency. Such risk is reduced by matching asset and liability positions with each other on the balance sheet or by using currency derivatives.

The company had no open currency risk as at 31.12.2017 or 31.12.2016.

Covered bond issues – nominal value by currency	**2017**	**2016**
Covered bonds in NOK	9,381,000	7,879,000
Covered bonds in SEK	299,218	285,360
Total covered bond issues	**9,680,218**	**8,164,360**

NOTE 23 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

31.12.2017	**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	221,125	221,125
Net loans to and receivables from customers	0	0	10,599,011	10,599,011
Certificates and bonds	0	151,223	0	151,223
Financial derivatives	169,929	0	0	169,929
Total financial assets	**169,929**	**151,223**	**10,820,136**	**11,141,288**
Liabilities to financial institutions	0	0	283,708	283,708
Securities issued	0	0	9,862,850	9,862,850
Financial derivatives	6,111	0	0	6,111
Total financial liabilities	**6,111**	**0**	**10,146,558**	**10,152,669**

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
Total financial assets	**183,095**	**150,882**	**9,280,276**	**9,614,253**
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
Total financial liabilities	**20,087**	**0**	**8,626,958**	**8,647,045**

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's 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.

At On 31.12.2017 the exposure was as follows:	Gross amount	Set off in the balance sheet	Book value	Amount subject to net settlement	Amount following any net settlement
Financial derivatives, assets	169,929	0	169,929	-6,111	163,818
Financial derivatives, liabilities	6,111	0	6,111	-6,111	0

At 31.12.2016, the exposure was as follows:	Gross amount	Set off in the balance sheet	Book 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

Statement according to the Norwegian Securities Trading Act, Section 5-5

We certify that the annual accounts for the period 1 January to 31 December 2017, 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, 6 February 2018

The Board of Directors of Sparebanken Øst Boligkreditt AS

Kjell Engen *Chairman of the Board*	Pål Strand *Deputy chair*	Lars-Runar Groven *Board member*
Per-Øyvind Mørk *Board member*	Vegard Kvamme *General manager*	

Building a better working world

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Ernst & Young AS

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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 2017, 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 2017 and its financial performance and cash flows 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 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Covered bonds – compliance with law and regulation

Sparebanken Øst Boligkreditt is issuing covered bonds as its main source of financing. As a mortgage credit enterprise and issuer of covered bonds, the company must comply with detailed requirements pursuant to the Financial Undertakings Act and the Financial Undertakings Regulation ("law and regulation"). The covered bonds constitute total obligations of MNOK 9 863 measured at amortised cost. The covered bonds are secured by a cover pool, considered by management to be qualified pursuant to the requirements in law and regulation. This mainly concerns residential mortgages within certain loan-to-value ratios and other explicit limits. In addition, the cover pool can include other substitute assets, also within the limits defined in law and regulation. The company must at all times comply with law and regulation and adjust operations in line with the current rules. As such compliance is of significant importance for Sparebanken Øst Boligkreditt, we consider this to be a key audit matter.

We have tested controls of the amortised cost measurement of issued covered bonds presented as debt established at the issuance of securities in the balance sheet. We have assessed the design and efficiency of internal controls in the process of transfer and measurement of qualified residential mortgages from the parent company Sparebanken Øst and the subsequent valuation of the mortgage in Sparebanken Øst Boligkreditt. As stated in law and regulation, we have also carried out control procedures concerning the cover pool with regard to loan-to-value ratios and reviewed the valuation of other substitute assets. In addition, we have tested the calculation of the cover pool occupancy in percent, as described in note 19 in the annual report.

Notes 16 and 19 to the financial statements have additional information.

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;

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- 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.

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' report 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, 6 February 2018
ERNST & YOUNG AS

Atle Terum

Atle Terum
State Authorised Public Accountant (Norway)

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