176th year

ANNUAL REPORT 2018

CONTENTS

	Key figures - Group	**2018**	**2017**	**2016**	**2015**	**2014**
	Profitability					
1	Return on equity*	10,81	10,59	11,23	9,29	16,72
2	Net interest income as a % of average total assets	1,45	1,58	1,54	1,72	1,81
3	Profit/loss after tax as a % of average total assets	0,96	0,94	0,94	0,75	1,28
4	Costs as a % of average total assets	0,74	0,76	0,80	0,85	0,88
5	Costs as a % of income (before losses on loans/guarantees)*	38,16	37,91	39,57	44,69	34,72
6	Costs as a % of income, exclusive of return on financial investments	45,29	40,50	46,18	42,00	43,21
	Balance sheet figures					
7	Net lending to customers	35.147,4	30.972,4	29.695,7	27.975,8	28.697,8
8	Lending growth (12 months)	13,48	4,30	6,15	-2,52	11,35
9	Deposits	14.899,7	13.971,8	13.887,4	13.159,3	13.397,0
10	Deposit growth (12 months)	6,64	0,61	5,53	-1,77	6,78
11	Average equity	3.354,9	3.140,2	2.950,1	2.755,3	2.563,9
12	Average total assets	38.986,6	36.497,2	35.420,3	34.067,2	33.618,8
	Write-downs of impaired and non-performing loans					
13	Losses as a % of net loans to customers (OB)*	0,06	0,02	0,02	0,06	0,09
14	Write-downs as a % of gross loans to customers*	0,29	0,32	0,36	0,44	0,48
15	Net impaired and net non-performing commitments as a % of net loa	0,36	0,36	0,47	0,58	1,15
	Financial strength					
16	CET1 capital ratio	16,39	17,49	17,21	16,29	13,94
17	Tier 1 capital ratio	18,15	19,44	19,19	18,29	15,89
18	Capital adequacy	19,87	21,39	21,17	20,29	18,17
19	Risk-weighted volume (calculation basis)	19.959,5	17.960,0	17.696,7	17.452,6	17.891,6
20	Leverage ratio (%)	8,48	9,23	9,24	8,97	7,93
	Liquidity					
21	Loan to deposit ratio (LDR)	42,39	45,11	46,77	47,04	46,68
22	LCR (%)	224,93	204,15	284,00	215,80	154,27
	Branches and full-time equivalents					
23	Number of bank branches	27	25	25	21	22
24	Full-time equivalents	199	181	209	226	225
	Equity certificates					
25	Ownership fraction**	34,40	36,21	37,67	38,79	41,44
26	No. of equity certificates	20.731.183	20.731.183	20.731.183	20.731.183	20.731.183
27	Book equity per equity certificate*	58,98	58,57	57,30	55,06	54,81
28	Earnings per equity certificate*	6,01	5,81	6,02	4,79	8,57
29	Dividend per equity certificate	4,60	5,00	4,00	3,30	5,00
30	Turnover rate	28,16	19,31	12,04	16,02	10,46
31	Price	55,60	55,25	52,00	47,60	51,00

*Defined as alternate profit target

**For ownership fraction applicable from 01.01.19, see Note 53.

For definition of key figures and a review of alternative profit targets, see p. 122.

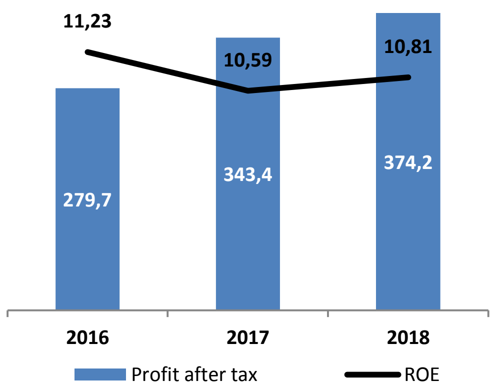
BOARD OF DIRECTORS’ REPORT FOR 2018

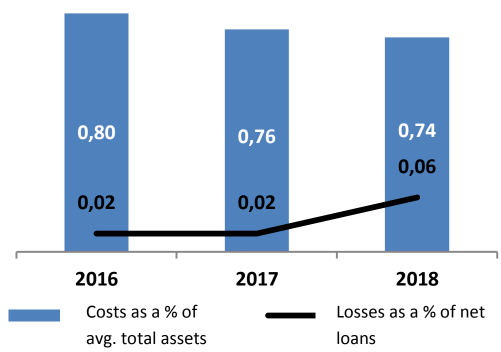
The bank’s 176th year of operation shows a profit after tax for the group of NOK 450.9 million. The profit after tax amounted to NOK 374.2 million, which corresponds to a good return on equity of 10.81 per cent. The group had very sound tier 1 capital at the end of the year amounting to NOK 3,621.8 million, which equates to a capital adequacy ratio of 18.15 per cent. The CET1 capital ratio was 16.39 per cent, significantly above the bank’s set target of 14.75 per cent.

Earnings per equity certificate were NOK 6.01. The Board of Directors proposes a cash dividend of NOK 4.60 per equity certificate and a provision for dividends on social capital of NOK 23.8 million. The basis for the dividend for the year to equity certificate holders is based on the bank's sound earnings, low credit risk and very solid capital adequacy.

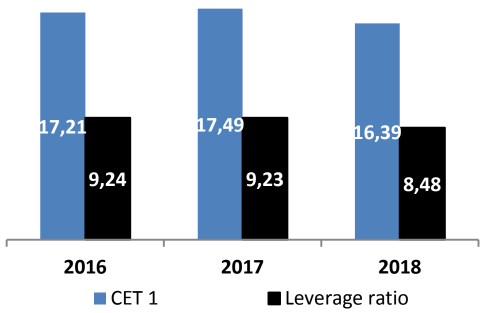
BUSINESS IN 2018

The group increased its profit by NOK 30.8 million to NOK 374.2 million after tax in 2018 which gives a good equity rate of 10.81 per cent. The year was characterised by slight decline in net interest income, declining cost level, one-off gains at Frende Holding AS and Eksportfinans ASA, as well as a slight increase in losses. In addition, the group had a very high lending growth in 2018 and the twelve-month growth ended at 13.48 per cent.





The bank is very solid with tier 1 capital adequacy of 16.39 per cent and an unweighted tier 1 capital leverage ratio of 8.48 per cent. Total assets increased by NOK 4,988.4 million in 2018, amounting to NOK 41,982.5 million at the end of 2018. Growth in net lending to customers was the main reason for the reduction in the CET1 from 2017.

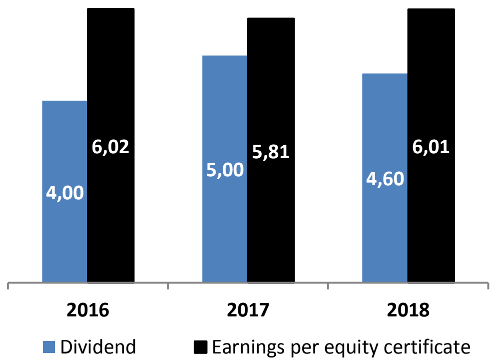


In 2018, Sparebanken Øst further reinforced its distribution network. The combination of effective digital distribution solutions and physical presence is considered to be a good business model for Sparebanken Øst. Changed customer behaviour and the competition situation is increasing the need to further develop existing operating models. Ongoing change work will continue to be an important prerequisite in order to be able to be a relevant and sustainable provider of financial services in the future.

The Sparebanken Øst group comprises the parent bank and five wholly owned subsidiaries. Established in 1930, AS Financiering is a central market actor within used car financing. Sparebanken Øst Boligkreditt AS securitises mortgages for the bank and thereby achieves lower funding costs for the group. Sparebanken Øst Eiendom AS and its subsidiaries are tasked with managing properties belonging to the Sparebanken Øst group. The main object of Øst Prosjekt AS and its subsidiaries is to take over projects and to undertake industrial and commercial activities to hedge and realise exposed commitments in the parent bank. The object of Øst Inkasso AS is to engage in debt collection operations and other activities naturally associated with this, including reminder services and long-term monitoring of debt collection portfolios.

No research was conducted and no costs were capitalised in relation to development activities in 2018.

The risk in portfolios associated with loans to business customers and retail loans developed positively in 2018. The bank has continued its restrictive credit policy with respect to granting loans to business customers. The growth in retail loans was primarily low risk. An increasing proportion of retail customers is contributing to low concentration risk. Non-performing and impaired loans were at a very low level at the end of 2018. Compliance controls carried out by the internal auditor and the compliance and risk management department show a consistently satisfactory process for the assessment of risks, satisfactory formulation of procedures and routines, and that the compliance with procedures and routines is good. No incidents resulting in a risk of significant losses were registered in 2018.



The group's profit after tax amounted to NOK 6.01 per equity certificate. The board proposes a cash dividend of NOK 4.60 per equity certificate, equivalent to 76.5 per cent of the group's profit attributable to the equity certificate holders. Book equity per certificate was NOK 58.98 including the proposed dividend as at 31 December 2018. The proposed provision for the dividend on social capital of NOK 23.8 million is equivalent to 25.0 per cent of the dividend to equity certificate holders.

The board and executive management team would like to thank the group's employees for their great efforts in 2018.

STRATEGY, OBJECTIVES AND RISK PROFILE

Vision
We want to be a leading savings bank in Eastern Norway.

Business concept
Our mission is to be a non-affiliated, independent and locally managed provider of financial services, to enable people in general, along with small and medium-sized enterprises, to exploit their financial resources in the best possible manner.

Savings bank identity
We want to be:

- community-oriented with high ethical standards
- a contributor to value creation and sustainable development, both through the group's ordinary operations and through the bank's social dividend – especially in the municipalities of Øvre Eiker, Nedre Eiker, and Drammen
- development-oriented while remaining rooted in the local community
- sound, far-sighted and credible

Core values
We want to live up to the following three core values:

- predictable
- down-to-earth
- forward-leaning

Geographical market area
We define the central Eastern Norway region as our main market. With a combination of physical and digital distribution, we are a modern traditionalist and provider of financial services to the general public and local businesses in the region.

- We have our origins in the municipalities of Øvre Eiker, Nedre Eiker, and Drammen, and view these as our local market. We are a unique actor that offers a dense network of branches with traditional banking services and modern digital services.
- The use of digital distribution channels means that we view the entire country as our market. We have been modernising our distribution strategy since 2005 and offer standard products to the general public nationwide.
- We offer products and services to business customers in the central Eastern Norway region. We define Oslo – Akershus, as well as Nedre Buskerud, including Kongsberg, as our core market area.

Products
We want to satisfy our customers' needs for ordinary financial products. The bank’s three core products are savings products, credit products and payment products. In addition, we distribute insurance, fund shares, interest rate hedging, currency and letters of credit.

Risk tolerance
Banking requires a certain degree of risk-taking, but we seek to take a conscious and

measured approach to the risks assumed by the bank. This applies to the most significant risk areas for losses involving credit risk, market risk, operational risk and liquidity risk.

Organisational and employee development

We want to be a market-oriented organisation that offers interesting challenges to responsible and qualified employees. Goals will be set for employees' achievements and skills where the expectations will be clearly communicated from management. We want to develop our employees to enable them to meet future skills and reorganisation requirements, as well as work for equal status in all areas of our business. We want to be an attractive employer by offering a good working environment and competitive terms.

In 2018, the bank carried on the measures aimed at strengthening employees' expertise in the light of changed customer behaviour and technological development in the financial industry. The Bank has hired many new employees over the year, both to further develop our sales and advisor expertise, but also to establish new business areas with expertise we have not previously had in the bank. The bank is affiliated with the certification scheme for financial advisers (AFR) and at the end of the year had 63 authorised financial advisers. The bank has also started the process of certifying credit workers and now has 68 employees who have certified their credit expertise.

Market and brand strategy

Sparebanken Øst bases its brand strategy on a desire to give its customers freedom of choice. This means that the bank wants to facilitate efficient distribution through physical branches, digital sales portals and external product vendors. The strategy gives customers the freedom to choose how they want to be served, thereby determining the degree of self-service. Sparebanken Øst has a marketing model based on a "House of Brands" brand strategy that provides differentiated product and service offerings based on customers' preferences and needs. In addition to the Sparebanken Øst brand, the group has the following brands: DinBANK.no, Topprente.no, Boligkreditt.no, Youngbank.no, Nybygger.no and AS Financiering.

DinBANK.no is a very simple, efficient and straightforward banking alternative for self-service customers. Its main product is mortgage loans to customers up to a loan-to-value ratio of 75% and to young customers up to a loan-to-value ratio of 85%. During 2019, DinBANK.no will be further developed on mobile platforms to reinforce its national presence. Topprente.no is a self-service concept that offers competitive interest rates on savings products. Boligkreditt.no is Sparebanken Øst Boligkreditt AS's self-service concept offering mortgages with security in freehold housing. Boligkreditt.no provides very competitive terms for mortgages within up to 75% of the property's market value. Youngbank.no is adapted to customers between the ages of 10 and 17 and provides bank accounts with cards and a mobile bank. Nybygger.no is adapted to customers between the ages of 18 and 33 who need to finance housing and provides favourable interest on home loans or home refinancing. AS Financiering provides secured loans for the purchase of new and used cars, motorcycles and caravans and secured loans for boats over 7 metres.

The group has products to honour the needs of environmentally aware customers and sustainable development by providing green mortgages and green car loans at very competitive prices.

Overall financial objectives

We want to be a profitable bank run according to business principles. Its financial performance each year and over time must help ensure the group achieves its targets.

- The group's goal for liquidity is that non-liquid assets must be financed by long-term financing of
  106% over time.

- The group's CET1 capital ratio target is set at 14.75 per cent.
- The group's target for its return on equity has been set at 10% over time.

The board believes that expanding the bank can best be achieved through organic growth, and considers sustained growth important in ensuring that the bank can achieve its objectives, and retain its independence.
All growth must comply with the conditions established by the bank's three central financial objectives.

COMMENTS ON THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with IFRS, International Financial Reporting Standards, approved by the EU. The implementation of IFRS 9 in 2018 did not have a significant impact on the group (see transition information in Note 2).

The board hereby confirms that the conditions for the presentation of the financial statements under the going concern assumption are present.

Profit/loss
Sparebanken Øst reported a consolidated profit after tax of NOK 374.2 million in 2018, an increase of NOK 30.8 million compared with 2017. The return on equity in 2018 was 10.81 per cent, compared with 10.59 per cent in 2017.

Net interest income amounts to NOK 565.1 million in 2018 and shows a decrease of NOK 12.1 million compared with 2017. Net interest income amounted to 1.45 per cent of average total assets in 2018. The corresponding figure for 2017 was 1.58 per cent. Higher money market rates and strong competition contributed to lower net interest income as a percentage of average total assets compared to 2017.

Net commission income amounted to NOK 45.9 million in 2018, which represents an increase of NOK 0.6 million compared with 2017.

Dividends received in 2018 total NOK 33.0 million and are mainly repayments from Eksportfinans ASA totalling NOK 24.3 million and dividends from Frende Holding AS of NOK 8.6 million. In comparison, dividends at the end of 2017 amounted to NOK 16.3 million, NOK 15.8 million of which came from dividends from Frende Holding AS.

Net changes in value and gains/losses on financial instruments amounted to NOK 86.3 million, compared with NOK 30.5 million in the same period last year. In 2018, the bank recognised income of NOK 10.7 million arising from the merger of Vipps AS, BankID AS and BankAxept AS and a positive value adjustment in Frende Holding AS of NOK 83.3 million. Positive changes in value related to shares and options in Visa Inc. came to NOK 6.6 million in 2018. As a result of increased credit spreads in the bond markets, the value of the liquidity portfolio dropped by NOK 11.4 million in 2018, compared with an increase of NOK 14.0 million in 2017. In 2017, the bank recognised NOK 8.2 million in changes in value on the bank's shareholdings and NOK 10.0 million in changes in value and a termination fee on the warranty agreement with Eksportfinans ASA which ended on 31.12.2017.

Other operating income amounted to NOK 27.3 million in 2018, compared with NOK 62.4 million in 2017. Profit from the sale of properties amounted to NOK 11.3 million compared to NOK 36.2 million in 2017. The Group's rental income from real estate decreased by NOK 10.7 million in 2018 following the sale of the property portfolio.

The group's total operating costs for 2018 were NOK 289.1 million, compared to NOK 277.4 million in 2017, equivalent to a 4.22 per cent increase. The increase is mainly related to payroll-related costs. Payroll costs mainly increased due to new recruitment, increased provisions for profit sharing, increased pension costs and costs in connection with the bank's 175th anniversary. The increase in administration costs of NOK 2.5 million is related to increased IT and marketing costs.

Losses on loans to customers amounted to NOK 17.6 million in 2018, compared with NOK 7.2 million in 2017. AS Financiering's losses were NOK 14,4 million in 2018, compared with NOK 8.8 million in 2017.

Tax amounted to NOK 76.7 million in 2018, compared to NOK 103.7 million in 2017. The reduction in tax measured against the profit before tax is explained by a net increase in tax-free revenues relating to value adjustment and gains/loss on shares and gains from the sale of property.

Proposal for allocation of profit
The profit for the year is allocated based on the parent bank's financial statements. The parent bank's profit after tax was NOK 373.9 million in 2018, compared with NOK 345.4 million in 2017. Dividend from subsidiaries in the amount of NOK 119.4 million is recognised as income in the parent bank in 2018, compared to NOK 148.1 million in 2017.

The board proposes to the board of trustees that the parent bank's profit for the year in 2018 be allocated as follows:

(Amounts in NOK million)

Profit for the year - Parent Bank		**373.9**
To hybrid tier 1 capital		11.7
Profit for the year for equity certificate holders and primary capital		**362.2**
Dividend to equity certificate holders	95.4	
Dividend on social capital	23.8	
Total dividends		**119.2**
From the equalisation fund	-0.4	
To primary capital	157.4	
To the fund for unrealised gains	86.0	
Total to equity		**243.0**
Total allocated		**373.9**

The total cash dividend and dividend on social capital amount to NOK 119.2 million, which is equivalent to 32.91 per cent of the parent bank's profit accruing to equity certificate holders and primary capital. The bank has chosen to deviate from the adopted dividend policy for social benefits, as it proposes to allocate a dividend on social capital of only 25 percent to equity holders. The board's assessment is that the proposed aggregate dividend is prudent as the group meets all of the regulatory requirements by a good margin.

Balance sheet
Total assets increased by NOK 4,988.4 million compared with 31.12.2017 and amounted to NOK 41,982.5 million at the end of 2018.

<u>Assets</u>

Cash and receivables at central banks amounted to NOK 603.1 million as at 31.12.2018, compared with NOK 341.2 million as at 31.12.2017.

Net lending to financial institutions amounted to NOK 9.5 million as at 31.12.2018, compared with NOK 5.7 million as at 31.12.2017.

Net lending to customers amounted to NOK 35,147.4 million as at 31.12.2018, compared with NOK 30,972.4 million as at 31.12.2017. This represents an increase of NOK 4,175.0 million in the last 12 months, or 13.48 per cent. Net lending to retail customers increased by 13.74 per cent, while net lending to business customers increased by 11.87 per cent. Gross lending to retail customers accounted for 86.07 per cent of the total lending to customers.

Holdings of certificates and bonds amounted to NOK 5,173.1 million as at 31.12.2018, compared with NOK 4,515.1 million as at 31.12.2017.

Shares and units amounted to NOK 606.8 million as at 31.12.2018, compared with NOK 483.9 million as at 31.12.2017.

At 31.12.2018, the bank's shares in Frende Holding AS were valued at NOK 318.3 million and its shares in Eksportfinans ASA were valued at NOK 195.0 million.

The main purpose of Balder Betaling AS is to own shares in Vipps AS, and it is owned by several independent banks. The bank's stake in Vipps AS is currently indirectly owned via Balder Betaling AS and amounts to 0.67 per cent The bank's shares in Balder Betaling AS were valued at NOK 27.7 million at 31.12.2018 The valuation is based on the underlying share value in Vipps AS.

The bank owns 6.85 per cent of the shares in Kraft Bank ASA. The stake was valued at NOK 23.0 million at 31.12.2018.

The bank owns the rights to shares of Visa Inc. via Visa Norge holding 1 AS. The rights are valued at NOK 9.7 million as at 31.12.2018. The bank's shares in VN Norge AS were valued at NOK 9.0 million at 31.12.2018, based on future cash settlements and rights to shares in Visa Inc.

<u>Liabilities</u>

Deposits from customers amounted to NOK 14,899.7 million as at 31.12.2018, compared with NOK 13,971.8 million as at 31.12.2017. This is an increase of NOK 927.9 million, or 6.64 per cent, in the last 12 months. The deposit-to-loan ratio in the Group at the end of 2018 was 42.39 per cent, compared with 45.11 per cent at the end of 2017.

Securities issued amounted to NOK 21,970.8 million as at 31.12.2018, compared with NOK 18,228.5 million as at 31.12.2017. The liquidity situation, measured as long-term funding as a percentage of illiquid assets (Liquidity Indicator 1), amounted to 109.2 per cent at the end of 2018, compared with 107.4 per cent at the end of 2017. LCR amounted to 224.93 per cent at the end of 2018, compared with 204.15 per cent as at 31.12.2017. The bank's liquidity strategy involves a high proportion of securities that count towards the LCR calculation. The maturity structure significantly affects LCR.

Other long-term borrowing amounted to NOK 300.4 million at the end of 2018, compared with NOK 330.1 million as at 31.12.2017.

Short-term deposits (defined as deposits with a remaining term to maturity of less than 1 year) amounted to NOK 2,654.9 million.

SUBSIDIARIES

Sparebanken Øst Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Øst and exists to grant or acquire residential mortgages, commercial mortgages, loans secured by means of mortgage in other real estate assets, and public loans, and to finance lending operations primarily by issuing covered bonds. At the end of 2018, the loan-to-value ratio (LTV) of the security portfolio was 46.6 per cent, compared with 43.9 per cent at the end of 2017.

As at 31.12.2018, the company's total assets amounted to NOK 14,032.1 million and mainly consist of first priority home mortgages, which are financed via covered bonds and drawing rights on the parent company. The company's deposited equity amounts to NOK 950.0 million, of which NOK 373.1 million constitutes share capital and NOK 576.9 million constitutes a share premium reserve. The result after tax at the end of 2018 was a profit of NOK 72.9 million, compared with NOK 75.2 million for 2017. The company has no employees, but buys services from Sparebanken Øst. Covered bonds issued by Sparebanken Øst Boligkreditt AS have an AAA rating.

AS Financiering is a wholly owned subsidiary of Sparebanken Øst. Its main product is providing loans for second-hand cars that are secured by security in the purchased car. The company achieved a profit after tax of NOK 35.0 million at the end of 2018, compared with NOK 41.7 million for 2017. Total assets amounted to NOK 2,020.5 million. At the end of 2018, the company had 19 employees, corresponding to 19 full-time equivalents.

Sparebanken Øst Eiendom AS is a wholly owned subsidiary of Sparebanken Øst and manages properties belonging to the Sparebanken Øst Group.
Operating income amounted to NOK 22.4 million in 2018, compared with NOK 62.6 million in 2017. A profit of NOK 11.3 million from the sale of properties was recognised as income in 2018, compared to NOK 40.3 million in 2017. The company's rental income from real estate was lower in 2018 as a consequence of the reduced property portfolio. The result after tax was a profit of NOK 13.3 million in 2018, compared with NOK 38.5 million in 2017. At the end of 2018, the company had 2 employees, corresponding to 2 full-time equivalents. The CEO is hired in from Sparebanken Øst.

Øst Prosjekt AS is a wholly owned subsidiary of Sparebanken Øst and its main object is to take over projects and to undertake industrial and commercial activities to hedge and realise exposed positions in the parent bank. The company has no employees. The result after tax was a loss of NOK 0.8 million in 2018, compared to a loss of NOK 4.4 million in 2017. The company has no major ongoing projects at the end of 2018.

Øst Inkasso AS is a wholly owned subsidiary of Sparebanken Øst. The company's object is to engage in debt collection operations and other activities naturally associated with this, including reminder services and long-term monitoring of debt collection portfolios. The company's operating income was NOK 8.5 million, against NOK 9.7 million in 2017. The profit after tax was NOK 0.2 million, compared with NOK 0.7 million for 2017. At the end of 2018, the company had 4 employees, corresponding to 4 full-time equivalents. The company also hired one employee from AS Financiering in 2018.

FRENDE FORSIKRING

Frende Holding AS owns Frende Skade AS and Frende Liv AS (Frende Forsikring). The bank has a 13.19 per cent stake in the holding company. Frende is owned by 15 savings banks. Sparebanken Vest is the largest shareholder and Sparebanken Øst is the third largest. The company offers P&C and life insurance products to business and retail customers and has more than 250,000 customers. Frende Forsikring's head office is in Bergen. Frende Holding AS reported a profit before tax of NOK 53.3 million for 2018, compared with NOK 245.2 million for 2017.

Frende Skade had a profit after tax of NOK 1.2 million in 2018, compared to a profit of NOK 145.8 million in 2017. 2018 was characterised by many large fire claims and a high claims rate especially in motor insurance for the first three quarters, but with an improvement in the fourth quarter. The claims rate for the year ended at 81.5 percent against 76.9 per cent in 2017, and the company's combined ratio was 100.4 percent against 96.2 per cent in 2017.

Frende Liv had a profit after tax of NOK 55.9 million in 2018, compared to a profit of NOK 101.2 million in 2017.

CORPORATE SOCIAL RESPONSIBILITY

The bank's overall strategy states that Sparebanken Øst wants to be community-oriented and have high ethical standards. This means that the bank has a responsibility within the community beyond creating commercial profits.

Ethics
It means that high ethical standards must be set, not only for the bank's employees, but also with regard to customers, suppliers and other stakeholders. The bank has stipulated ethical guidelines for employees and elected representatives of the bank and its subsidiaries. These rules provide instructions for correct conduct with regard to customers, the authorities, suppliers, competitors and colleagues. The rules are easily accessible on the bank's intranet pages and are subject to annual review with the employees. An ethics committee has been established comprising of chief employee representatives, an attorney, the HR Manager, the Deputy CEO and the CEO. The committee may be enlarged to include the main safety representatives. The committee is tasked with updating and maintaining the code of ethics, as well as processing warnings about critical situations, cf. Working Environment Act, chap. 2A. The committee must ensure uniform processing of warnings as defined in the Work Environment Act and ensure that both the alarm and the person notified of the alarm are dealt in a responsible manner. The committee shall review and provide input related to the code of Ethics in the Sparebanken Øst on an ongoing basis.

Human rights
Basic human rights form the basis for and are governed by Norwegian legislation. Among other things, these include prohibiting discrimination on the grounds of sexual orientation, gender identity and gender expression, prohibiting discrimination due to ethnicity, religion and beliefs, and prohibiting discrimination due to physical disability. The bank has implemented no special measures in this area beyond ensuring general compliance with the legislation and regulations.

Employee rights and social conditions
The employee rights and social conditions of the bank's employees are ensured through central and local agreements with employee organisations, which are subject to annual negotiations, as well as other legislation and regulations.

The bank's suppliers of products and services in separate vulnerable sectors must confirm via a self-declaration form that they do not contribute to any breaches of human rights or labour rights, do not contribute to adverse environmental impacts or to corruption. Follow-up measures include ongoing control of the wage and working conditions at these external suppliers.

Combating corruption
The ethical rules include due diligence requirements with regard to suspicious transactions by customers. Through our measures against money laundering and the financing of terrorism, we follow up all suspicious transactions, including possible corruption payments. Suspicious transactions are reported to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM). The money laundering regulations include strict rules for the identification and verification of a customer's identity. Comprehensive internal checks have been established to ensure compliance with the money laundering regulations. The bank practises a zero tolerance policy with respect to breaches of the money laundering regulations. The scope of the internal checks will be maintained at a high level going forward.

The external environment
The bank utilises district heating where possible and electrical heating in the bank's buildings where it is not. This means that the bank's buildings cause very limited pollution in the external environment. The bank is currently not considering any further measures in this area. The bank's input factors and products have a limited impact on the external environment.

Corporate Social Responsibility and non-profit activity
Sparebanken Øst was established by and for the local community. Ever since 1843, the bank has helped build the local community stone by stone. Each year, Sparebanken Øst gives millions of kroner back to the local community. We support projects large and small with funds from our dividend on social capital. These funds go to children and young people participating in sports clubs, bands, theatre and other types of associations. We also support young people who want to pursue a career in sports or culture, and we donate money to a number of other purposes for public benefit. In 2018, the board of trustees decided to set aside NOK 51.9 million as a dividend on social capital. The funds are broken down as NOK 31.1 million to teams, associations and voluntary work and as NOK 20.8 million as a provision for social capital. See also the separate 2018 Corporate Social Responsibility Report.

RISK MANAGEMENT AND INTERNAL CONTROL

In accordance with section 13-5 (1) of the Financial Institutions Act, the bank must be organised and operated in a responsible manner. This involves having a clear organisational structure, clear division of responsibilities, clear and appropriate management and control systems, and appropriate guidelines and routines for identifying, managing, monitoring and reporting risks to which the bank is or may be exposed.

The bank's board and executive management team bear 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 executive management team regularly reports to the board on all significant risks, including the actual level of risk compared to established limits. An annual report on internal control, including confirmation that internal control has been carried out, is also produced together with an overall annual risk assessment.

Risk management must support the bank's development and achievement of objectives, and must ensure financial stability and responsible business operations. The process for risk management and internal control in the bank is described in more detail in the “Risk management and internal control” section of the “Corporate Governance” section of this annual report.

RISK AND CAPITAL SITUATION

Credit risk
Sparebanken Øst has a credit strategy that deals with various types of credit risk related to loans, credits and guarantees granted to customers in the retail and business markets, as well as counterparty risk for securities.

The credit strategy is intended to help ensure that the bank's activities in the credit area are in line with the framework conditions and guidelines in the bank's overall business concept and strategic plans, including ensuring that the activities are prudent in relation to the bank's capacity and willingness to bear risk.

The bank has an established credit portfolio of a quality and composition that ensures the bank's profitability in the short and long term, and ensures that the bank's management of credit risk is in accordance with the requirements stipulated in acts, regulations, directives from the authorities and other regulatory conditions.

The credit strategy is implemented in the bank's credit manuals and in other instructions.

Within the retail and business markets, the capacity and willingness to pay are key aspects of credit assessment. The Mortgage Regulation provides essential guidance to the bank's lending business to private individuals. Measurement of risk on lending to customers is by classifying customers according to risk. Risk classification has been established as an integral element of the credit process, and the requirement for the annual reclassification of loan commitments is fulfilled. Credit risk trends are monitored continuously through reports to the bank's executive management and quarterly reports to the bank's Board of Directors.

Loans and credits to the retail market are generally only granted against home mortgages. The bank's exposure to lending and credit without associated security is low.

The low proportion of lending to the business market contributes to a generally low concentration risk for the bank. Exposure to commercial property represents a relatively large proportion of the business portfolio, but a limited proportion of the bank's total loan portfolio.

The bank's geographical coverage provides access to a large market area with flexibility with regard to customers and segments. The bank's loan portfolio is primarily spread across the central Eastern Norway area.

The bank also takes credit risks in managing liquidity reserves and excess liquidity. The bank intends to retain interest-bearing securities with low credit risk for liquidity purposes (reserve for disposal when needed), or as a deposit basis for borrowing facilities at the central bank, or both.

The bank's credit risk is monitored continuously and updated overviews of the bank's total counterparty risk are available.

Market risk
Interest risk is kept within fixed limits and is limited since assets and liabilities are subject to variable rates or have been changed to variable rate terms. The credit spread risk, or the risk of margin changes on fixed-income securities, is managed such that the loss upon a change in the credit spread does not exceed a fixed level. Currency risk is reduced by entering into futures or basis swaps and

kept within set limits. Exposure to equity instruments beyond the bank's subsidiaries and strategic investments is limited.

Liquidity risk
The bank has a conservative attitude towards liquidity risk in which a long-term, proactive view in relation to future maturity is a fundamental factor. The bank has limits that ensure compliance with the authorities' requirements concerning the liquidity buffer (LCR) and long-term funding (Liquidity Indicator 1). The bank’s liquidity prognosis as at the end of 2018 shows adequate liquidity for a period of more than 12 months of operations. Deposits are a key source of funding for the banks. Competition for deposits has intensified in the last few years. The bank’s product range, particularly Topprente.no, is a tool which helps ensure the bank’s necessary competitiveness for deposits.

Sparebanken Øst Boligkreditt AS is an integrated element of the group's financing structure and provides opportunities to issue covered bonds. This further strengthens the group's funding situation.

The Norwegian bond market is the most important funding source for the group. The covered-bond market is a central part of the Norwegian securities market. Covered bonds provide security to investors in the form of preferential rights to low-risk mortgages. The market is attractive for Norwegian institutional investors because the supply of Norwegian government debt is low, but foreign players also invest in such bonds. Through the issuance of covered bonds, the group secures access to external capital, often with a somewhat longer maturity than senior unsecured bonds. There is therefore an focus on facilitating the issuing of covered bonds.

Operational risk
Operational risk is the risk of losses resulting from inadequate or failing internal processes or systems, human error or external events.

Management and control of operational risk is safeguarded through the strategy for comprehensive risk management. The strategy is adopted by the board and evaluated at least once annually. The strategy clearly defines who is responsible for the establishment and implementation of the internal control. The strategy defines a risk tolerance quantified by number of incidents and maximum losses resulting from operational risk. Risk tolerance is determined based on estimated risk and incident history as set out in the established incident database. Ethical guidelines have been adopted and shall pursuant to the instructions be reviewed with all employees at least once a year. Such reviews must be confirmed by the managers in connection with the annual confirmation of the completed internal control. A clear organisational structure has been established with clear lines of responsibility. The required division of labour has been introduced as part of the internal control. Independent control functions have been established with responsibility for internal audit, risk management and compliance.

An annual review of all work processes in the organisation will be carried out where the associated potential risks are identified and the necessary measures to eliminate/reduce open risks will be defined. This is registered in a joint risk register divided into categories. Risk level is assessed according to a stipulated scale. The review starts at the department level and is evaluated at the manager level. This is called a Key Process Review at Sparebanken Øst. Measures can include a division of tasks, establishment of routines, line controls etc. Managers must confirm each year that they have carried out the internal control, including actions taken as defined in the “Key Process Review”.

Internal guidelines for outsourcing have been established. Written agreements have been prepared to ensure inspection, control and auditing.

An incident database has been established that shows incidents with any loss grouped by category. Incidents with follow-up actions are reported to the board each quarter. In the ICT area, dedicated management systems have been established according to the ICT regulations based, e.g., on risk and vulnerability analyses and COBIT analyses. Continuity and contingency plans have been drawn up in the area along with routines for operations, development, procurement, non-conformance and change management, as well as routines for outsourcing. Contingency plans have been prepared to cover all of the bank's operations. The contingency plans are tested on a regular basis. Measures to combat money laundering and the funding of terrorist activities are discussed in a separate section of the board's report.

The Group has not registered any significant losses due to the failure of internal processes, systems, human error or unforeseen events in 2018.

Assessment of overall risk and capital requirements
The bank's board assesses the need for equity based on an overall risk assessment through ICAAP. The assessments are carried out at a company and a group level and are forward looking. The group's target for primary capital is set at a level that enables growth and plans for growth in lending and other assets. Otherwise, there is a heavy focus on maintaining the prudent management of commercial operations so that the group can achieve good results and satisfactory returns on invested capital over time. This ensures that the bank remains attractive to investors and helps to ensure the group access to capital when required to strengthen its equity. The bank currently has no plans concerning new equity issues.

The capital adequacy ratio measured as CET1 capital amounted to 16.39 per cent at the end of 2018, a decrease from 17.49 per cent at the end of 2017. The reduction is chiefly explained by the very high lending growth in 2018. The group's Pillar 2 requirement is 2.3 per cent. Given the current level of the countercyclical buffer of 2.0 per cent, this entails a total CET1 capital ratio of at least 14.3 per cent. Sparebanken Øst's CET1 capital ratio target is a minimum of 14.75 per cent.

The Financial Supervisory Authority of Norway has adopted an increase in the countercyclical buffer of 0.5 percentage points to 2.5 per cent with effect from 31.12.2019. The Board of the Sparebanken Øst operates on the principle that all requirements and guidance should be complied with at all times.

Net primary capital amounted to NOK 3,965.8 million at the end of 2018, of which the Group's Tier 1 capital amounted to NOK 3,621.8 million. Given a basis for calculation of NOK 19,959.5 million, this corresponds to a capital adequacy ratio of 19.87 per cent, of which 18.15 per cent constitutes the Tier 1 capital ratio. The bank uses the standardised approach to calculate the minimum primary capital requirement for credit risk.

The bank has good financial strength with a tier 1 leverage ratio of 8.48 percent at the end of 2018, against 9.23 percent at the end of 2017. The unweighted requirement for tier 1 capital is 5.00 per cent.

RATING

Sparebanken Øst has had an A2 long-term deposit and issuer rating from Moody's Investors Service since October 2017. The bank's counterparty risk assessment (CRA) and long-term counterparty risk rating (CRR) are A1. The prospects for all of the bank's ratings are stable.

EMPLOYEES, MANAGERS AND THE BOARD OF DIRECTORS

At the end of 2018, the group had 203 employees, equivalent to 199 FTEs, compared with 191 employees and 181 FTES at the end of 2017. The average age of employees in the parent bank is 47. The proportion of female employees was 63%. The proportion of women in management positions was 44% at the end of the year. The average age of employees in management positions was 48. The bank believes it is positive that it can recruit people to management positions internally. All employees in the bank are offered the same opportunities in terms of advancement and personal and professional development. The bank's overall strategy includes organisational and employee development targets and stipulates that it must be sought to achieve equal opportunities in every area of the bank. Equal opportunities are protected by central and local agreements with employee organisations, as well as other legislation and regulations. A special function has been established as an equal opportunities contact in the bank under the auspices of the employee organisations. Pål Strand is the company's CEO. He has extensive experience from various professional and management roles within the bank and has been a member of the bank's executive management team since 2003. The executive management comprises the following six members at the end of 2018:

Pål Strand, b. 1965
CEO
Bank employee since 1984

Kjell Engen, born 1969
Deputy CEO
Bank employee since 2003

Lars-Runar Groven, b. 1966
Director, Business Market
Bank employee since 1992

Jan-Roger Vrabel, b. 1971
Director - Retail Market
Bank employee since 2011

Thor-Henning Bråthen, b. 1981
CFO
Bank employee since 2017

Anne Siri Rhoden Jensen, b. 1961
Director, Credit, retail market
Bank employee since 1985

Of the bank's eight elected board members, four are women. The Board of Directors comprises the following members: Øivind Andersson, Knut Smedsrud (Deputy Chair), Morten A. Yttreeide, Elly Therese Thoresen, Cecilie Hagby (from 23.03.18), Kari Solberg Økland, Inger Helen Pettersen (employee) and Ole-Martin Solberg (employee).

Øivind Andersson, b. 1956
State authorised public accountant
Board member since 2015, chair from 2017
Previously a deputy member of the board of trustees and chair of the bank's control committee.

Knut Smedsrud, born 1960
Director
Board member since 2009
Deputy chair of the board since 2009
Previously a deputy member of the board.

Elly Therese Thoresen, born 1957
Project Manager
Board member since 2012
Previously a member of the board of trustees.

Kari Solberg Økland, born 1960
Adviser
Board member since 2017
Previously a member of the board of trustees.

Morten Andre Yttreeide, born 1967
Managing director

Cecilie Hagby, b. 1966
Managing director

Board member since 2012
Previously a deputy member of the board.

Ole-Martin Solberg, born 1978
Employee
Board member since 2016
Previously member of the board of trustees and a deputy member of the board.

Board member since 2018
Previously a deputy member of the board.

Inger Helen Pettersen, born 1953
Employee
Board member since 2013
Also board member 1999-2011, as well as former attending deputy member

Board members' attendance at board meetings in 2018:

Øivind Andersson	16 of 16 meetings
Knut Smedsrud	10 of 16 meetings
Elly Therese Thoresen	14 of 16 meetings
Morten André Yttreeide	16 of 16 meetings
Kari Solberg Økland	16 of 16 meetings
Cecilie Hagby	8 of 11 meetings (from 23 March 2017)
Hanne Margrete Lenes Solem	4 of 5 meetings (until 22 March 2018)

Employee representatives

Inger Helen Pettersen	11 of 16 meetings
Ole-Martin Solberg	15 of 16 meetings

HEALTH, SAFETY AND ENVIRONMENT

The bank ensures that statutory health, safety and environment (HSE) requirements are implemented in a systematic manner, including via established procedures and a close cooperation with the occupational health service.

Follow-up care in connection with robberies is included in the bank's overall HSE work and is addressed by a special follow-up team. Two minor injuries were registered in 2018.

Total sick leave in 2018 amounted to 3.6% of total working hours, compared with 4.1% in 2017. The sick leave rate in 2018 was 1.2% for men and 5.1% for women.

MEASURES AGAINST MONEY LAUNDERING AND THE FINANCING OF TERRORISM

The requirements for anti-money laundering and terror financing measures are stipulated in the Act on money laundering and terrorism financing, etc. The purpose of the act is to prevent and detect money laundering and terrorism financing. The bank has a duty to conduct investigations if conditions indicate that funds are related to money laundering or terrorism financing. One important principle in the Act is that banks should be familiar with their customers and their activities.

Sparebanken Øst has established routines and controls to ensure compliance with the Act. These include rules concerning checks of new and existing customers and investigations of suspicious transactions. The bank regularly conducts training of all employees in the position of customers in the regulations. In addition, all employees also undergo compulsory e-learning about anti-money laundering and terrorism financing measures.

Risk-based customer controls and continuously monitoring the customer base are important measures in the bank's work on money laundering and terror financing, where the risk is assessed based on the type of customer, customer relationship, product, or transaction. New customers are subjected to a customer verification procedure before a customer relationship is established.

The bank continuously monitors all transactions conducted by its customers. Suspicious transactions are reported to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM). In 2018, the bank reported 57 cases to the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway.

DIVIDEND POLICY

Sparebanken Øst’s financial targets for its operations are to achieve results that provide a good and stable return on the bank’s equity, and create value for equity certificate holders as competitive returns in the form of dividends and equity certificate appreciation. The profit for the year will be divided between equity certificate holders and social capital in accordance with their respective shares of the bank’s equity.

Sparebanken Øst will endeavour to pay 50 to 75 per cent of the profit allocated to equity certificate holders as dividends. Sparebanken Øst also aims to distribute an amount equivalent to 50 to 75 per cent of the dividend paid to equity certificate holders as dividend to social capital in the form of gifts to charitable causes. On determining dividends and donations, due consideration will be made of the bank’s financial performance, market situation, dividend stability, and need for Tier 1 capital.

MACROECONOMIC DEVELOPMENTS

After a positive trend in 2017, global economic growth slowed in 2018. Both interest rates and price growth remain low in Norway’s most important trading partners. Brexit and the trade war with the USA have made the headlines throughout the year and contributed to falling prices on the world’s stock exchanges at the end of 2018.

Propelled by tax cuts, the high growth rate in the USA continued in 2018. Low unemployment and higher inflation have prompted the Fed to make four interest rate increases in 2018. In 2018, President Trump imposed several increases in tariffs on imports from China, and he has threatened to increase tariffs on imports of European cars, among other things. China has responded in kind and has introduced expansive measures to prevent a marked decline in the economy.

In the eurozone, political processes have again produced uncertainty. The Brexit process is still largely unresolved. The new government in Italy finally reached agreement with the EU on the budget deficit, but growth in the country was negative at the end of the year. In Germany, growth has also slowed. Angela Merkel has been a stable factor through her 13 years as Chancellor, but has now announced her retirement in 2021. The ECB has completed new extraordinary securities purchases and says that the base rate will change in the autumn of 2019 at the earliest. Overall, growth has declined somewhat from 2017, but investments and wages are still increasing.

Oil prices rose steadily to top USD 85 per barrel in October, before falling to USD 50 by Christmas and stabilising at a level above USD 60. In Norway, oil investments have increased sharply as expected, and this has resulted in a shortage of labour and pressure on wages in the industry.

The growth in the Norwegian mainland economy ended at 2.2 percent in 2018, slightly lower than expected. This was partly due to a cold winter, dry summer and lower oil prices. Although growth slowed over the year, there has been an increase in production, consumption, export and employment. Registered unemployment has decreased further. After falling in 2017, house prices showed a modest increase in 2018.

Norges Bank's inflation target was lowered in March from 2.5 to 2.0 per cent. The base rate was raised in September from 0.5 to 0.75 per cent. The Norwegian krone was weaker in 2018 than previously anticipated. Inflation has been higher than expected, driven partly by the sharp rise in electricity prices. The central bank has indicated that further economic growth at the expected level will lead to an interest rate increase in March 2019. Covered by a withdrawal from the oil fund, the non-oil deficit in the state budget for 2018 amounted to 2.6 per cent in 2018, 0.4 percentage points lower than the fiscal rule.

OUTLOOK

Sparebanken Øst does most of its business in the East of Norway. Economic prospects are still good and house prices are expected to be stable in the years ahead. In themselves, prospects of higher wage growth and lower unemployment point to a growth in house prices. Increased house building, the retention of the Mortgage Regulation and expectations of interest rate increase, are factors that could pull house price growth down. Increased money market rates have led to higher borrowing costs and added pressure on net interest income in 2018. Rising borrowing costs are expected in 2019 and we may expect at least one increase in the base rate from Norges Bank. Continued pressure on the bank's net interest cannot be excluded.

Sparebanken Øst is a cost-efficient bank with a strong focus and a belief that low costs represent a competitive advantage. Costs as a percentage of average total assets are expected to remain low going forward.

The Group has great financial strength, which provides scope for growth and high dividend payments. The CET1 capital ratio target is 14.75 per cent. The Group also has a sound liquidity buffer that will provide security if the banks' access to funding is challenged in the future. The bank's long-term funding target is 106 per cent of illiquid assets. The Group expects to be able to obtain new funding with margins at the level of those of the major regional banks. Sparebanken Øst believes that it holds a good position in the equity certificate market and aims to ensure simple, open communication with its investors. The bank's target for its return on equity has been set at 10 per cent over time.

Growth in lending to and deposits from customers will depend on the general competition in the banking market, as well as the access to long-term funding. The bank expects growth in lending to both retail and business customers. This growth is expected to be distributed relatively evenly across the various distribution channels. Growth in lending to retail customers will primarily come from home mortgages and providing loans for second-hand cars that are secured by security in the purchased car. Growth in lending to business customers will be seen in the Group's defined market areas, of which the main product is repayment loans against mortgages in real estate. Incorporation of the Capital Requirements Directive (CRD IV) into Norwegian law could impact the competitive situation between banks with operations in Norway. However, the Financial Supervisory Authority says that solvency in Norwegian banking industry must be maintained and that available instruments should be used when CRR/CRD IV are introduced. Various capital requirements between banks domiciled in Norway and other countries affect the terms of competition, and thereby the profitability associated with lending for Sparebanken Øst.

Sparebanken Øst expects to be set requirements for primary capital and qualifying liabilities that can be written down or converted to equity (MREL) at the end of 2019 or no later than 2020. This requirement is expected to create a need to issue senior subordinated debt (Tier 3). The anticipated need to issue subordinated debt could replace parts of existing senior unsecured bonds when these fall due and before the requirement is expected to come into force.

Banking involves risk, and non-performance and losses on loans and guarantees to customers therefore cannot be excluded. A continuing low level of non-performing and impaired commitments, and low loan losses, are expected in the future.

The market values of securities such as bonds and equities will fluctuate over time, and losses on shares may occur. The Group's bond portfolio is held for liquidity purposes, with a low risk of losses.

Continued intense competition is expected in the banking market, and for Sparebanken Øst this concerns products related to lending, savings, payments and insurance. Implementation of the European Union's PSD2 directive in Norwegian law could affect the competition situation among the players in the financial markets, not least because third parties may be granted access to customer data, subject to customer consent. The bank expects continued pressure on margins for loans to retail and business customers.

Hokksund, 31 December 2018
Drammen, 5 March 2019

Øivind Andersson Chair	Knut Smedsrud Deputy Chair	Morten André Yttreeide Board member
Cecilie Hagby Board member	Elly Therese Thoresen Board member	Kari Solberg Økland Board member
Ole-Martin Solberg Employee representative	Inger Helen Pettersen Employee representative	Pål Strand CEO

CORPORATE GOVERNANCE

Savings banks are self-owned foundations. The Norwegian Code of Practice for Corporate Governance was drawn up by the Norwegian Corporate Governance Board (NUES) for limited companies owned by shareholders with shares listed on a regulated market in Norway. The standard applies to savings bank in so far as it is appropriate. The board of trustees is the supreme governing body of Sparebanken Øst. The board of trustees corresponds to the general meetings of limited liability companies. The board of trustees is elected from among the equity certificate holders, employees, depositors, and municipal nominees from Drammen, Nedre Eiker and Øvre Eiker. Each member of the board of trustees has one vote. The purpose of the NUES Code of Practice is to ensure that companies listed on regulated markets in Norway practise corporate governance that clarifies the division of roles between shareholders, the board, and day-to-day management beyond that stipulated by law. In a savings bank there is also a need to clarify roles in relation to employees, customers, and municipally appointed trustees. This is addressed through Sparebanken Øst's articles of association.

The board of directors (the board) and executive management team of Sparebanken Øst annually assess the corporate governance principles and how they are practised and complied with in the organisation. Sparebanken Øst first submits a report on the corporate governance principles and practice in accordance with section 3-3b of the Accounting Act. This is followed by a report with comments on each section of the Norwegian Code of Practice. The review is based on the latest revised version of the Code of Practice of 17 October 2018.

REPORT ON CORPORATE GOVERNANCE

The description below describes how section 3-3b (2) of the Accounting Act is complied with in Sparebanken Øst. The structure refers to the numbering in the section.

1-3. Statement on the corporate governance recommendations and regulations to which Sparebanken Øst is subject or follows
Savings banks must be licensed and are subject to extensive regulations governing the savings bank's activities. The Financial Supervision Act and Financial Institutions Act, and associated Regulations, play a central role in this context. These regulations define, to a very great extent, what is regarded as good corporate governance in financial institutions. Savings banks are subject to the supervision of the Financial Supervisory Authority of Norway. Sparebanken Øst also complies with the Norwegian Code of Practice for Corporate Governance published by the Norwegian Corporate Governance Board (NUES) in so far as this is appropriate. Deviations may be necessary in order to safeguard all stakeholders in the savings bank. The Code of Practice is available at www.nues.no. Any deviations from the Code of Practice are commented on.

4. Description of the main elements of the savings bank's internal control and risk management systems relating to the financial reporting process
See the section on "Risk management and internal control" below.

5. Provisions in the articles of association that fully or partly extend or waive provisions in chapter 5 of the Public Limited Companies Act
Sparebanken Øst is governed by the Financial Institutions Act and its articles of association comply with this.

6. The composition of executive bodies and a description of the key elements of applicable instructions and guidelines for the work of the bodies and any committees
See the sections entitled "Board of trustees", "Nomination committees", "Board of directors: composition and independence" and "Work of the board of directors" below.

7. Provisions of the articles of association governing the appointment and replacement of members of the board of directors
See the section "Board of directors: composition and independence" below.

8. Provisions of the articles of association and delegation of authority entitling the board of directors to make decisions to buy back or issue own shares or own equity certificates
See the section on "Company capital and dividends" below.

CORPORATE GOVERNANCE

Report on corporate governance
The corporate governance of Sparebanken Øst contributes to safeguarding the interests of employees, depositors, equity certificate holders and other external stakeholders in Sparebanken Øst. Corporate governance is the overall responsibility of the board of directors (the board) and must ensure that bodies and functions comply with the regulations and that the business activities are managed in an effective and purposeful manner over time.

The management of Sparebanken Øst is based on the adopted vision, company mission, objectives, strategies, and core values. See the section on "Strategy, objectives and risk profile" in the 2018 annual report, including Sparebanken's ethical guidelines adopted by the board. The introduction to the rules states:

"Sparebanken Øst and other savings banks play a central role in modern society. We are more dependent on trust from all groups than other businesses. Of course trust is not just based on solidity and profitability, but also attitudes and the conduct we as a bank demonstrate. We cannot act independently of our surroundings. We have to be accepted by the market. To achieve this there must be no doubt about our standard of ethics.

The standard of ethics in Sparebanken Øst is the employee's responsibility. It is of course also the responsibility of the executive management team and elected representatives. Via their conduct, managers determine how high these standards are set, although managers alone cannot ensure a high standard of ethics. Everyone contributes to determining the standard of ethics in the bank. This is our shared challenge.

In Sparebanken Øst we require loyalty, integrity and openness among managers and employees. There is scope for disagreement in internal discussions and deliberations, but once a decision has been taken, all employees are expected to loyally stand by the decision."

The management is addressed by the savings bank's elected bodies and functions that have been assigned responsibilities. Solid expertise in the savings bank's core activities and an appropriate organisation based on retail and corporate market activities, financial operations, IT operations and special commitments, respectively, provide the basis for effective and target-oriented operations in Sparebanken Øst. The savings bank also has sound in-house legal expertise. The framework for corporate governance in savings banks is laid down in a comprehensive body of legislation and Regulations. The body of regulations consists of special regulations for financial institutions that are in a number of areas significantly more comprehensive than general corporate statutory regulations and recommendations directed at limited liability companies in general. The special regulations pertain to supervisory requirements, licences, the nature of the business, equity and dividends, composition and responsibility of governing bodies, risk management and control in relation to acquisitions, mergers, etc.

Sparebanken Øst practices a "comply or explain" principle with regard to the Code of Practice (NUES), meaning that any deviations from NUES are commented on. In this respect we take into account the fact that savings banks are self-governing institutions and that the governance structure and composition of the governing bodies differ significantly from those in limited liability companies. Presentations, quarterly reports, statutes, etc., are available on www.oest.no under "About Sparebanken Øst".

THE BUSINESS

Sparebanken Øst's overall activities are presented in the articles of association. Sparebanken Øst's purpose is to perform the usual, natural transactions and services that a savings bank can perform in accordance with the applicable legislation and its licences at any given time.

The savings bank can own stakes in other financial institutions, as well as in companies that run activities with a natural connection to banking and financing activities, in accordance with the provisions of the Financial Institutions Act and other Acts in effect at any given time. The savings bank can also own shares in other companies, but may not operate or participate actively as a responsible party in companies that operate activities other than those stated in this section, unless this is temporary and is necessary to secure the savings bank's claims. The savings bank's activities are executed within the framework specified in the concession for running a savings bank, and according to the provisions of the Financial Institutions Act, and other Acts and Regulations applying to savings banks.

Sparebanken Øst must be development-oriented, with a local anchoring, as well as sound, far-sighted and credible. Sparebanken Øst’s corporate social responsibility is anchored in statutes and guidelines. The savings bank’s overall strategy clearly states that Sparebanken Øst is to be community-oriented and have a high standard of ethics. The savings bank must be a contributor to value creation and sustainable development, both through the group's ordinary operations and the bank's social dividend, especially in the municipalities of Øvre Eiker, Nedre Eiker, and Drammen. The board of trustees is the savings bank’s supreme body. The composition of the board of trustees is specified in the articles of association and exhibits clear corporate social responsibility to the local community through its very composition, which ensures equal representation for depositors (elected by the depositors), the local community (elected by the local municipality) and the employees, as well as the equity certificate holders.

For a further description of the business, please see the board’s Board of Directors Report for 2018.

COMPANY CAPITAL AND DIVIDENDS

Company capital

The board continuously assesses the capital structure in the light of the company’s mission, strategy and desired risk profile. The minimum requirement for equity for savings banks is stipulated in section 14-1 of the Financial Institutions Act. The requirements concerning a capital conservation buffer, systemic risk buffer and countercyclical capital buffer are governed by section 14-3 of the Financial Institutions Act. The group’s CET1 capital ratio target is set at 14.75 per cent. For further details of the rules regarding capital adequacy, which principles are used as the basis for the assessment of capital requirements, and a further specification of the elements in the savings bank’s capital adequacy, reference is made to the savings bank’s pillar 3 reporting on risk management, risk exposure and solidity conditions, which is published on the savings bank’s website. The Financial Supervisory Authority of Norway supervises the savings bank in order to ensure it is operating with financial strength commensurate with its actual level of risk. The dividend policy is summarised in the directors’ report. The board of trustees has granted the board of directors authorisation to acquire and/or pledge security in its own equity capital certificates. The authorisation is valid for 18 months from 22 March 2018 and is subject to annual review. The Norwegian Financial Authority has approved the authorisation. For practical reasons, the savings bank deviates from the NUES recommendation that such authorisations apply for one year.

Capital increases

The board of trustees has not granted the board of directors a general authorisation to increase the savings bank's capital. If the savings bank requires increased capital this will be considered as a separate matter at a meeting of the board of trustees. Decisions to increase the equity share capital must be approved by the Financial Supervisory Authority of Norway, cf. section 10-4 (3) of the Financial Institutions Act.

EQUAL TREATMENT AND TRANSACTIONS WITH ASSOCIATES

Equal treatment

Sparebanken Øst has one class of equity certificate. The savings bank's equity certificates are listed on the Oslo Stock Exchange in line with the rules laid down by the financial legislation. All equity certificate holders have the same rights. In 2018, no transactions took place between Sparebanken and equity certificate holders and their close associates other than loans, deposits and payment transfers, as well as salaries/fees to employees and elected representatives who are equity certificate holders.

Preferential rights
The equity certificate holders' preferential rights in the event of capital increases are stipulated in section 10-10 (3) of the Financial Institutions Act. This states that in the event of an increase in equity share capital, equity certificate holders have a preferential right to subscribe to new equity certificates on a pro rata basis according to their existing ownership of equity certificates issued by the institution. Section 10-5 of the Public Limited Liability Companies Act concerning setting aside preferential rights applies correspondingly.

EQUITY CERTIFICATES AND NEGOTIABILITY

The savings bank’s equity certificates are freely negotiable on the Oslo Stock Exchange. No restrictions on ownership apply other than the applicable rules in the Financial Institutions Act concerning ownership restrictions and licensing obligations and the rules in the articles of association concerning board approval for purchases of equity certificates that apply to equity certificate holders in Sparebanken Øst.

BOARD OF TRUSTEES

The board of trustees shall ensure that the savings bank acts in line with its purpose in accordance with laws, its articles of association and decisions adopted by the board of trustees. The board of trustees adopts the financial statements and approves the remuneration of the savings bank's elected representatives, including the board of directors, nomination committee and elected auditor. The board of trustees appoints the nomination committee from among the members of the board of trustees.
Pursuant to the articles of association, the following matters shall be considered by the ordinary board of trustees:

- election of the board of trustees' chair and deputy chair;
- approval of the annual financial statements and annual report, including the allocation of profit/distribution of dividends;
- other matters that pursuant to law or the articles of association fall under the purview of the board of trustees.

Composition
The composition of the board of trustees is stated in the articles of association. Local corporate social responsibility is exercised via the composition of the board of trustees, in which depositors (elected by the depositors), the local community (elected by the municipality), equity certificate holders, and the employees are represented. The board of trustees consists of a total of 32 members with 23 deputy members. Eight members are elected by depositors with three from Øvre Eiker, two from Nedre Eiker, and three from Drammen. Four municipal representatives are elected: one member from Øvre Eiker, two members from Nedre Eiker and one member from Drammen. Eight members are elected by the employees, and 12 members are elected by the equity certificate holders. The members of the board of trustees are elected for terms of 4 years. The members of the board of trustees are elected in accordance with the Financial Institutions Act and the savings bank’s articles of association. This entails that the position is personal and meetings may not be attended by proxy. NUES's recommendation on the use of proxies at general meetings thus does not apply to equity certificate holders in Sparebanken Øst. In 2018, the chair of the board of trustees was Frank Borgen and the deputy chair was Lars M. Lunde.

Meetings
The board of trustees holds 1 fixed meeting every year. In addition, meetings of the board of trustees are convened as deemed necessary by the chair of the board of trustees. The board of trustees held one meeting in 2018. The board convenes board of trustees' meetings with at least 21 days' notice, cf. section 8-3 (1) of the Financial Institutions Act. Both the savings bank's auditor and the board of directors are invited to board of trustees' meetings. The board of trustees’ meetings are chaired by the chair of the board of trustees, cf. the

articles of association and the Financial Institutions Act, and thus comply with the recommendation for the independent chairing of meetings. The savings bank adheres to NUES in all aspects related to case documents, reminders, elections and the publication of protocols of the minutes of the meetings of the board of trustees.

NOMINATION COMMITTEES

The savings bank's articles of association state that the nomination of members of the board of trustees and the board of directors must take place according to the recommendations of a nomination committee. There are three nomination committees in Sparebanken Øst:

1) Nomination committee for the board of trustees and the board of directors
2) Nomination committee for depositors
3) Nomination committee for equity certificate holders

The employees' representatives on the board of directors and the board of trustees are elected by and from among the employees, in accordance with Regulation no. 9386 of 23.12.1977. The nomination committee for the board of trustees has representatives from all groups that are represented on the board of trustees, which also includes equity certificate holders. It must ensure that the relationship between the nomination committees and the person elected takes account of independence and impartiality. It is also emphasised that the various nomination committees maintain their independence from the board of Sparebanken. The various nomination committees must also ensure that access to the required expertise is available with regard to the tasks faced by the nomination committee.

The nomination committee for the board of trustees and the board of directors is elected by and from among the members of the board of trustees.
The composition of the nomination committee is detailed in the savings bank's articles of association. NUES's recommendations in this respect are followed insofar as they comply with the articles of association. The recommendations of the nomination committee with regard to the board of trustees are described in accordance with NUES. Separate instructions have been prepared for the nomination committees, most recently adopted by the board of trustees at the meeting on 30 March 2017. In 2018 the nomination committee for the board of trustees and board of directors had the following members:

Tom R. Svendsen, chair
Nina Paulsen
Jon Aas
Bent Inge Bye
Anne Siri R. Jensen, employee

The savings bank fulfils the requirement that a majority of the members of the nomination committee are independent of the board of directors and other executive personnel. The savings bank's articles of association require that all members of the nomination committee are members of the board of trustees. NUES's recommendation that at least one member should not be a member of the board of representatives (board of trustees) or the board of directors, is therefore not relevant.

In 2018, the nomination committee held separate meetings with both the chair of the board and Sparebanken's CEO.

BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

Composition of the board of directors
The board of directors consists of six external members and two representatives of the employees with voting rights. The CEO and deputy CEO are required to attend meetings, but do not hold voting rights.

The composition of the board of directors and the board members' backgrounds and participation in board meetings in 2018 are covered in the Board of Directors' Report for 2018. Details about each board member can be found (in Norwegian) on www.oest.no, under "Om Sparebanken Øst".

The CEO and Deputy CEO attended 16 of 16 board meetings.

Election of the board of directors
The election of board members takes place on the basis of the deliberations of a nomination committee appointed by the board of trustees. The nomination committee prepares a recommendation to the board of trustees.

Board members are elected for 2 years at a time. The board of trustees nominates the chair and deputy chair. The expertise and work experience of the board members are presented to the board of trustees in connection with the election process.

Independence
The board of directors must act independently and the members of the board that are not employee representatives must be assessed to be independent of the savings bank's significant business relations and the savings bank's day-to-day management. None of the savings bank's executive personnel are members of the board of directors. The composition of the board of directors is diverse. Its expertise and abilities provide a basis for performing the necessary work of the board. The instructions for the board of directors state that the board shall act as a single unit. However, each individual board member is responsible for the decisions made and transactions undertaken by the board.

Board members' holdings of own equity certificates
Board members who hold equity certificates in Sparebanken Øst as at 31 December 2018 are listed in Note 54.

WORK OF THE BOARD OF DIRECTORS

The duties of the board
The board of directors oversees the savings bank's business in accordance with the Acts, Regulations, articles of association and further instructions issued by the board of trustees.

The board is responsible for the administration of the savings bank. The board shall ensure that the operations are properly organised, which includes ensuring compliance with the requirements concerning the organisation of the savings bank and the establishment of proper management and control systems.

The board shall establish plans and budgets for the savings bank's operations. The board shall also establish guidelines for the savings bank's operations, including rules for the duty of confidentiality that applies to information about the savings bank and its operations.

The board shall keep abreast of the savings bank's financial position and obligations, and ensure that its operations, accounts and asset management are subject to satisfactory controls. The board shall meet the auditor at least once a year, and otherwise as needed, without the CEO or other members of the day-to-day executive management team being present.
The board shall supervise the day-to-day management of the savings bank and all other aspects of its operations. The board shall lay down instructions for the day-to-day management of the savings bank and ensure that the CEO regularly briefs the board on the savings bank's operations, status and financial performance.

The board shall initiate the investigations it deems necessary to discharge its duties.

The board of directors is responsible for ensuring that the savings bank has, at any given time, the equity sufficient for the risks and scope of the savings bank's activities. The board of directors has delegated parts of the management responsibility to the administration through various delegation resolutions. These resolutions are given for different lengths of time. The board of directors also has established procedures and rules for the internal auditor, who undertakes operational audits in line with current standards for such audits. Sparebanken Øst's internal auditor is KPMG.

Duty of confidentiality
All elected representatives in Sparebanken Øst are subject to the same rules of secrecy, ethics, and impartiality as the rest of the savings bank's employees. Independence between the savings bank's different management and control bodies is a central criterion for the responsible management of the organisation. Among the elected representatives in Sparebanken Øst there exist – according to the board of directors' assessment – no close personal relationships that could influence the individual elected representative's independence and judgement.

Conflicts of Interest and impartiality
Sparebanken's ethical rules stipulate that board members and employees have a duty to state whether they have, directly or indirectly, significant interests in agreements entered into by Sparebanken (the group) or in matters to be discussed by the board.

Instructions for the board of directors
The board's duties and responsibilities are stipulated in the Financial Institutions Act and the articles of association. The board of directors has drawn up its own separate set of instructions, which are subject to regular review. The instructions were last revised on 12 February 2019. These instructions specify the responsibilities of the board of directors, the cases the board of directors will consider, and the rules which apply to the consideration of cases. The board of directors determines the instructions for the CEO, who is responsible for the day-to-day operations and management of the savings bank. The instructions for the board of directors and instructions for the CEO stipulate the division of responsibilities and tasks between the board of directors and the CEO.

Financial reporting
The board receives monthly reports that comment on the savings bank's economic and financial status, and include the CEO's monthly activity report. The monthly reports are the basis for internal management and communication concerning the status of the savings bank. The board of directors receives periodic reports that present the savings bank's compliance with the delegated authorisations, as well as quarterly reports presenting the development in the savings bank's total risk overview.

Annual plan
The board of directors prepares an annual plan for its work. The annual plan includes a meeting plan for the year, details of fixed tasks at specific meetings and a financial calendar. The board of directors completes a self-evaluation process each year. This evaluation includes the competence of the board members, the composition of the board of directors and the way in which the board of directors functions both as a group and individually. This self-evaluation is made available to the nomination committee for the board of trustees.

Committees of the board of directors

Remuneration committee
A remuneration committee has been established in the savings bank pursuant to the requirements in section 15-1 ff of the Financial Institutions Act and section 15-1 ff of the Regulations on financial institutions and financial groups.

The purpose of the remuneration committee is to prepare guidelines for the board of directors for the remuneration of executive personnel. They must also ensure that the company at all times has and practices guidelines and a framework for the remuneration scheme that are in accordance with the rules for the remuneration schemes of financial institutions, securities companies and securities funds' management companies. The committee executes its duties according to the guidelines determined by the board of directors. The committee nominates its chair. Its members are nominated by the board of directors. In 2018, the remuneration committee comprised the following members:

Hanne Margrete Lenes Solem, chair (until 22 March 2018)
Øivind Andersson, chair from 17 April 2018
Kari Solberg Økland
Cecilie Hagby (from 17 April 2018)
Inger Helen Pettersen, employee representative on the board of directors

Kristin W. Myhre, HR Manager, has served as the committee's secretary. The board of directors has approved the remuneration guidelines for Sparebanken Øst.

Audit committee

In accordance with section 8-18 of the Financial Institutions Act, the savings bank has established an audit committee in line with the guidelines described by the Act. The members are elected by the board of directors and serve for one year at a time. The chair of the committee is appointed by the board of directors. The main duties of the audit committee are to prepare the board of directors' follow-up work on financial statements and reporting, to monitor systems for risk management, internal control and the work of the internal audit, and to assess and monitor the auditor's independence. The committee executes its duties according to the instructions determined by the board of directors. The audit committee held eight meetings in 2018, three of which were joint meetings with the risk committee. In 2018, the audit committee comprised the following members:

Øivind Andersson, chair
Hanne Margrete Lenes Solem (until 22 March 2018)
Morten André Yttreeide
Cecilie Hagby (from 17 April 2018)

Risk committee

In accordance with section 13-6 (4) of the Financial Institutions Act, the savings bank has established a risk committee as described by the Act. The members are elected by the board of directors and serve for 1 year at a time. The chair of the committee is appointed by the board of directors. The risk committee's main task is to prepare for and advise the board of directors in relation to the savings bank's existing and future risk appetite and risk strategy, as well as to follow up and implement this strategy. The committee is also tasked with monitoring the extent to which the savings bank's pricing of products towards customers fully reflects the risk borne by the savings bank. The committee executes its duties according to the instructions determined by the board of directors. The risk committee held six meetings in 2018, three of which were joint meetings with the audit committee. In 2018, the risk committee comprised the following members:

Øivind Andersson, chair
Morten A. Yttreeide
Elly Therese Thoresen
Kari Solberg Økland

Minutes are kept of the meetings of the audit committee and the risk committee. The minutes are presented by the chairs of the committees to the full board of directors at the next meeting of the board of directors.

Audit and risk committee

Based on the EBA's Guidelines on internal Governance under Directive 2013/36/EU (CRD IV) and the Financial Supervisory Authority's clarification of the principle of proportionality, at a meeting of 15 January 2019, the board of directors adopted a measure to merge the Audit Committee and the Risk Committee into a single committee: the Audit and Risk Committee. The new committee will perform all tasks previously assigned to the two committees. The committee comprises the following members:

Morten A. Yttreeide, chair
Cecilie Hagby
Kari Solberg Økland

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management must support the group's development and achievement of objectives, and must ensure financial stability and responsible business operations. This must be achieved via a risk profile that is characterised by a strong risk culture and a high awareness of risk management.

In order to ensure an effective and appropriate process for risk management and internal control, the group has used the COSO model as a basis[1]. This is a recognised framework for risk management and internal control. The basis of the model is that risk management and internal control apply to all parts of the organisation, and that an overall perspective is applied. Risk management and internal control cover both strategic and operative conditions, with particular focus on the quality of external reporting and compliance with Acts and Regulations. This is called comprehensive risk management. Sparebanken Øst uses the term comprehensive risk management, which it defines as follows:

"Comprehensive risk management is a process, carried out by the organisation's board of directors, executive management team, and employees, that is used for determining strategy and across the organisation, designed to identify potential events that could affect the organisation and to manage risk so it matches the organisation's risk tolerance in order to provide a reasonable degree of certainty with respect to achieving the organisation's targets."

The model is based on the following components:

Internal environment
The employees' attitude to risk is determined by the internal environment. This also includes the risk management philosophy and willingness to take risk, integrity, ethical values, and environment in which they operate.

Establishment of objectives
Objectives have to be determined before the executive management team can identify potential events that could affect their attainment. Comprehensive risk management ensures that the team has a process in place for establishing objectives and that the objectives chosen support and correspond with the organisation's purpose and reflect its willingness to take risk.

Identification of events
Internal and external events that affect the organisation's target attainment must be identified and one distinguishes between risks and opportunities. Opportunities are channelled back the executive management team's processes for determining strategies or objectives.

Risk assessment
Risks are analysed and probabilities and consequences are assessed to decide how they should be managed. Both inherent and residual risks are assessed.

Risk management
The executive management team selects forms of risk management – avoiding, accepting, reducing or sharing risk – and develops an action plan to ensure correspondence with the organisation's risk tolerance.

Control activities
Guidelines and routines are established and implemented in order to ensure that the risk management is executed effectively.

Information and communication
Relevant information is identified, processed and communicated in a form and a time perspective that makes it possible for employees to fulfil their responsibilities. Effective communication also takes place in a broader sense, both vertically and horizontally in the organisation.

[1] The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has given content to the concepts through an internationally recognised framework and used legislation in the financial area, etc.

<u>Follow-up</u>
The comprehensive risk management process is followed up and changed as needed. The follow-up is performed on an ongoing basis through management activities, independent evaluations, or both.

<u>Roles and responsibilities</u>
Organisation and control functions are in line with applicable legislation. The provisions concerning comprehensive risk management are found in the Financial Institutions Act, section 13-5, Prudent operation, good business practice.
Section 13-5 (1) states that a financial institution must be prudently organised and operated. The institution shall have a clear organisation structure and distribution of responsibilities as well as clear and appropriate governance and control arrangements. The institution shall have appropriate policies and procedures for identifying, managing, monitoring and reporting risk to which the institution is, or may become, exposed. A clear organisation with clearly defined areas of responsibility and authorisations is a key element in good risk management and internal control.

<u>The board of trustees</u>
The board of trustees is the bank's supreme body. The board of trustees shall ensure that the savings bank acts in line with its purpose in accordance with laws, its articles of association and decisions adopted by the board of trustees. Pursuant to the articles of association, the following matters shall be considered by the ordinary board of trustees:

- Election of the board of trustees' chair and deputy chair.
- Approval of the annual financial statements and annual report, including the allocation of profit/distribution of dividends.
- Other matters that pursuant to law or the articles of association fall under the purview of the board of trustee, including the election of board members.

<u>Board of directors</u>
The board must establish goals, strategies and a risk profile for the group, as well as overarching guidelines for the enterprise. The board must establish principles for comprehensive risk management for the group as a whole and within each business area. The board must also ensure that comprehensive risk management is established and performed in compliance with Acts, Regulations, articles of association, instructions from the Financial Supervisory Authority of Norway, and guidelines issued by the board to the executive management team.

The board shall ensure that the group is properly organised, including ensuring that responsibilities are clearly allocated and duties divided as necessary. Each year, the board must evaluate its work and its expertise in relation to the bank's comprehensive risk management.

The board must ensure that guidelines for planning and management are communicated and implemented throughout the group and ensure efficient follow-up. The board is responsible for ensuring that capital planning and managing capital requirements are part of the group's overall risk management. The board shall determine risk tolerance and the necessary capital requirements, capital plan with contingency plans, and capital goals.

<u>The board's audit committee</u>
The audit committee is a preparatory and advisory committee to the board of directors and shall:

- Prepare the board of directors' follow up on the financial reporting process.
- Monitor the internal control and risk management systems and the institution's internal audit function.
- Issue a statement regarding the election of auditor.
- Maintain ongoing contact with the group's elected auditor on the audit of the annual accounts.
- Assess and monitor the auditor's independence and objectivity, including in particular the extent to which non-audit services that have been delivered by the auditor may have a bearing on the auditor's independence and objectivity.

<u>The board's risk committee</u>
The risk committee is a preparatory and advisory committee to the board of directors and shall:

- Prepare the board's assessment of risk and total capital requirements.
- Maintain regular contact with the risk management function and receive relevant reports from the institution's control functions.
- Review the institution's risk strategies at least annually.
- Monitor compliance with the institution's risk strategies.
- Assess whether the pricing of the institution's products takes account of the institution's business model and risk strategy.

Effective from 15 January 2019, the Audit Committee and the Risk Committee have merged into one committee: the Audit and Risk Committee, which is charged with the tasks assigned to the two committees.

<u>Remuneration committee</u>
A remuneration committee has been established in Sparebanken pursuant to the requirements in section 15-1 ff of the Financial Institutions Act and section 15-1 ff of the Regulations on financial institutions and financial groups.
The purpose of the remuneration committee is to prepare guidelines for the board of directors for the remuneration of managerial staff. They must also ensure that the company at all times has and practises guidelines and a framework for the remuneration scheme that are in accordance with section 15-1 ff of the Financial Institutions Act and section 15-1 ff of the Regulations on financial institutions and financial groups. Information about remuneration is given in note 29 in the group's annual report.

<u>Chief executive officer</u>
The CEO bears responsibility for and shall formulate and ensure that:
- Proper comprehensive risk management has been established in accordance with guidelines set by the board.
- Comprehensive risk management is being properly documented, performed and monitored.
- The duty to report to the board complies with Acts, Regulations, the articles of association, and the group's adopted principles for this.
- The risk management systems are implemented, followed up and documented in accordance with Acts, Regulations, strategies/policies, and routines.
- The risk management process is appropriate and effective.

The CEO shall ensure that the group is properly organised, including ensuring that responsibilities are clearly allocated and duties divided as necessary. The CEO is responsible for ensuring that processes concerning the assessment of risks and total capital requirements (ICAAP) are carried out.

<u>Business area managers</u>
Business area managers, including directors and middle managers, have a responsibility to:
- Establish and perform proper risk management within their areas, including assessing risks and establishing the necessary line controls.
- Ensure compliance with the applicable regulations.
- Report on comprehensive risk management, including reporting material breaches/significant events.

<u>Employees</u>
Employees have a responsibility to:
- Possess enough expertise about their areas of responsibility and duties to satisfactorily assess their own work.
- Perform their work within the approved instructions, limits and authorisations, and with the right quality.
- Report material breaches/significant events to their supervisor.

Comprehensive risk management shall form part of the ongoing follow-up between the manager and the employee. The employee's role in this must be highlighted and followed up.

<u>Risk management and compliance</u>
Risk management and compliance shall:
- Sit in the "driver's seat" when policy and strategies are being formulated in key risk areas.

- Be involved in the assessments of risks associated with new and significant changes in products, services and other activities, including outsourcing.
- Be involved in the preparation of risk tolerance, risk strategies and a general framework for risk-taking.
- Lead the work on ICAAP and perform stress tests and prognoses on an independent basis.
- Act as an independent environment that challenges the operational departments in the group.
- Contribute to the development of the group's framework for comprehensive risk management and internal control, including risk policy/strategies, methods, models, and systems, in accordance with recognised principles.
- Ensure that the risk management systems are implemented, used, followed up, and documented in accordance with Acts, Regulations, strategy/policy and routines, and that the risk management process is appropriate and effective.
- Coordinate annual management confirmations in accordance with the Financial Supervisory Authority of Norway's Regulations on risk management and internal control.
- Follow up the group's risk status and development in relation to approved strategic risk targets and business strategies
- Receive or prepare periodic and adequate information to safeguard and follow up reporting to the CEO.
- Ensure that effective systems and processes for compliance with applicable regulations are created, identify changes in Acts/Regulations, industry standards and internal guidelines, and ensure that these are implemented in the group.
- Test, assess and provide advice on internal control.
- Participate in meetings of the board's risk committee and internal risk committee.

Internal audit

Internal audit shall:

- Report to the board of directors, be entitled to attend board meetings, and report on risk management and internal control a minimum of once per year.
- Provide objective advice to the board and executive management team regarding the group’s risk management and the development of and compliance with controls, as well as compliance with established routines, procedures and guidelines.
- Have adequate expertise and experience, methods, and tools to ensure that all areas of high and critical risk are covered.
- Implement planned internal controls.

External audit

The external auditor provides the executive management team and board of directors with independent and objective opinions that can help the bank achieve its objectives, not just for financial reporting but also within other categories. In connection with the annual financial audit, the auditor presents his/her opinion of the degree to which the financial statements provide a fair picture of the organisation's financial position according to IFRS and thus contributes to the organisation's objectives for financial reporting. The auditor can also contribute by providing useful information to the executive management team with regard to its risk management activities. Such information includes audit findings, analytical information, and recommendations concerning the measures necessary to achieve established objectives, and findings that the auditor makes regarding deficiencies in risk management and controls with recommendations for improvements.

Investigator

In line with section 11-14 of the Financial Institutions Act, Ernst & Young AS has been appointed the independent investigator for Sparebanken Øst Boligkreditt AS. An investigator conducts independent quarterly controls of, e.g., statutory registers and the asset coverage balance between the cover pool and issued covered bonds. The investigator reports annually to the Financial Supervisory Authority of Norway.

The Financial Supervisory Authority of Norway

The Financial Supervisory Authority of Norway is an independent government agency that builds on Acts and resolutions by the Storting, government and Ministry of Finance, and international standards for financial supervision.

The authority's supervision of institutions and markets shall contribute to financial stability and orderly market conditions, and to ensuring that users can trust that financial agreements and services are followed up in accordance with their purpose. In addition to the preventive work, the authority must be able to contribute to resolving problems that could arise. The Financial Supervisory Authority of Norway bases its work on a belief that Norwegian organisations should have competitive terms and conditions that, overall, are on a par with operations in other EEA countries.

Other bodies and control points
The bank's balance sheet steering committee holds regular meetings to discuss the status of and measures relating to the liquidity situation. The balance sheet steering committee meets with the CEO, deputy CEO, CFO, risk controller and finance manager.

The **risk committee** assesses risk exposure and conducts risk reporting. The committee also assesses capital requirements and handles the risk reporting to the board. The members of the committee are credit manager for the business market, an attorney, credit manager for the retail market), CFO, head of section, information security officer, head of Risk Management & Compliance and other controllers. The committee's conclusions and comments are recorded in the minutes.

A special department to combat money laundering has been created. The department must identify, develop and evaluate a control plan for the area of money laundering, as well as prepare the bank's business-oriented risk assessment. In addition, the department must ensure that the bank has IT systems associated with the control, etc., of money laundering and terrorism financing, as well as follow up on whether the functionality is maintained in keeping with legislative and regulatory requirements. This applies to documentation, risk classification, customer declaration and rules relating to transaction monitoring, including the follow-up of suspicious transactions and reporting to the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway. The bank's money-laundering officer is Deputy CEO Kjell Engen.

REMUNERATION OF THE BOARD OF DIRECTORS AND ELECTED REPRESENTATIVES

The remuneration of the board of directors, board of trustees and nomination committee is determined by the board of trustees. The remuneration shall reflect the workloads and responsibilities that rest on each elected representative, and details can be found in the notes to the annual financial statements. Remuneration is not dependent on the savings bank's results and consists of a specified amount. There are no result-based or variable remuneration schemes for the savings bank's elected representatives. The remuneration of the board of directors is listed in note 29 to the annual financial statements. No board member, besides the employee representatives, has carried out tasks for Sparebanken besides his/her duties as a board member in 2018.

REMUNERATION OF MANAGERIAL STAFF

In accordance with applicable legislation, sections 15-1 to 15-6 of the Financial Institutions Act, the board sets the required guidelines for the remuneration of managerial staff. The remuneration of executive personnel is listed in note 29 to the annual financial statements. Fixed salaries account for the main income of all employees of Sparebanken Øst. The board of directors determines the remuneration of the CEO. The CEO determines the remuneration of the executive management. There is no agreement concerning variable remuneration, or option or bonus agreements. The executive management are part of the profit sharing scheme approved by the board of directors. The board of directors can decide to grant a one-off supplement to the CEO and deputy CEO.

INFORMATION AND COMMUNICATION

The savings bank's goals and objectives for information and communication are based on openness and accessibility. To ensure the necessary information flow, financial information must be published in line with the fixed financial calendar on the savings bank's website, by notifying information to the Oslo Stock Exchange, and in presentations to investors and other stakeholders. The savings bank arranges open investor presentations in conjunction with the presentation of annual and quarterly results. The rules for information and communication, rules for good stock market ethics, in addition to a general requirement of equal treatment, do not restrict the savings bank's opportunity to provide information, including to analysts.

Sparebanken Øst has drawn up investor relations guidelines. These guidelines show how the savings bank wishes to have extensive and effective communication with the financial markets, with an emphasis on openness and credibility. The savings bank wishes to have long-term mutually beneficial relations with as many brokerages as possible. Investment decisions must be based on financial calculations rather than relations. The savings bank must take a positive approach to investment decisions which have no significant impact on current profitability estimates and which would be favourable for investors. The finance department manages contacts with brokers in order to ensure the consistency of the information that is issued and received.

Information which is deemed to be of an important and sensitive nature is first sent to the Oslo Stock Exchange. The savings bank will endeavour to provide correct and balanced verbal and written information, and no investors must receive preferential treatment. All information that is offered must be distributed to all investors and must be presented on a uniform basis. The savings bank must seek to be available to investors and queries must be answered without unreasonable delay. Information deemed to be vital for investors must be distributed via the savings bank’s website, the Oslo Stock Exchange and mailing lists.

TAKE-OVERS

Savings banks may not be taken over by other enterprises or individuals. For this reason, NUES's recommendations in this respect are not relevant to savings banks. The board of trustees will take decisions in all cases concerning changes to the savings bank’s business activities, acquisition of other companies, or other cases of particular importance to the savings bank. Nevertheless, this does not apply to the acquisition of small companies within the savings bank’s present area of activity, or if, for other special reasons, the case should be decided by the board of directors and only thereafter presented to the board of trustees.

AUDITOR

Auditing at Sparebanken Øst is undertaken according to acknowledged auditing principles, with due consideration of planning, implementation, and reporting. Ernst & Young is the savings bank's external auditor. At least once a year the external auditor attends a meeting of the audit committee, as well as board meetings and reviews its assessments of the savings bank’s risks. The external auditor always attends the board meeting at which the annual financial statements are presented and the accounts meeting of the audit committee, and reviews its assessment of significant conditions for the savings bank. The external auditor also attends other board meetings if necessary. Pursuant to section 8-6 (3) of the Financial Institutions Act, the board is required to meet with the auditor at least once a quarter without the executive management team present, unless otherwise is stipulated in the instructions for the board of directors. In its instructions, the board has stipulated that the board shall meet at least once a year and otherwise as needed with the auditor without day-to-day management present. The external auditor is invited to all meetings of the board of trustees. See also Note 32 to the annual financial statements in connection with the remuneration of the auditor, including the distribution of remuneration.

FINANCIAL CALENDAR FOR 2019

	Publication
• Preliminary 2018 income statement (Q4 2018)	13 February 2019
• 2018 annual financial statements	6 March 2019
• Ex. dividend date	29 March 2019
• Dividend payment	9 April 2019
• Q1 2019	8 May 2019
• Q2 2019	12 July 2019
• Q3 2019	30 October 2019

INVESTOR CONTACTS

CEO Pål Strand
916 24 428
paal.strand@oest.no

Deputy CEO Kjell Engen
957 75 003
kjell.engen@oest.no

Sparebanken Øst
Bragernes Torg 2, Drammen
PO Box 67, 3301 Hokksund
post@oest.no
www.oest.no

Statement pursuant to section 5-5 of the Securities Trading Act

We hereby confirm that the annual financial statements for the period from 1 January to 31 December 2018 to the best of our knowledge have been prepared in accordance with applicable accounting standards and that the information gives a true and fair view of the group and parent company's assets, liabilities, financial position and profit or loss as a whole and that the information in the Board of Directors' Report gives a true and fair view of the development, profit or loss and financial position of the group and parent company, together with a description of the principal risks and uncertainties faced by the group.

<u>Hokksund, 31 December 2018</u>
Drammen, 5 March 2019

THE BOARD OF DIRECTORS OF SPAREBANKEN ØST

Øivind Andersson Chair	Knut Smedsrud Deputy Chair	Morten André Yttreeide Board member
Cecilie Hagby Board member	Elly Therese Thoresen Board member	Kari Solberg Økland Board member
Ole-Martin Solberg Employee representative	Inger Helen Pettersen Employee representative	Pål Strand CEO

STATEMENT OF INCOME

Group 2018	Group 2017	Figures in NOK millions	Notes	Parent bank 2018	Parent bank 2017
967,4	950,9	Interest income from assets valued at amortised cost	23, 24	517,0	565,6
81,6	69,2	Interest income from assets valued at fair value	23, 24	118,1	72,2
483,9	442,9	Interest costs and similar costs	23, 24, 50	307,9	302,7
565,1	**577,2**	**NET INTEREST AND CREDIT COMMISSION INCOME**		**327,2**	**335,1**
88,8	85,7	Commission income and income from banking services	26	106,1	99,6
42,9	40,4	Commission costs and costs for banking services	26	17,5	14,4
33,0	16,3	Dividend	25	152,4	164,4
86,3	30,5	Net value adjustments and gains/losses on financial instruments	27	91,7	41,3
27,3	62,4	Other operating income	28	4,7	4,9
172,0	156,6	Payroll, etc.	29, 47	148,0	130,1
53,1	50,6	Administration costs	31	43,8	41,1
13,7	17,9	Depreciation/write-downs/changes in value for non-financial assets	31, 37	9,5	11,3
50,3	52,3	Other operating costs	31, 32, 38	41,1	43,5
468,5	**454,3**	**PROFIT BEFORE LOSSES**		**422,2**	**404,9**
17,6	7,2	Losses on loans, unused credit and guarantees	13	2,9	-1,6
450,9	**447,1**	**PROFIT BEFORE TAX COSTS**		**419,3**	**406,5**
76,7	103,7	Tax costs	33	45,4	61,1
374,2	**343,4**	**PROFIT FOR THE YEAR**		**373,9**	**345,4**
11,7	11,0	Hybrid capital owners’ share of the result		11,7	11,0
362,5	332,4	Equity certificate holders’ and primary capital share of profits		362,2	334,4
374,2	**343,4**	**PROFIT FOR THE YEAR**		**373,9**	**345,4**
6,01	5,81	Earnings per equity certificate	53	6,01	5,84
6,01	5,81	Diluted earnings per equity certificate	53	6,01	5,84

STATEMENT OF COMPREHENSIVE INCOME

Group 2018	Group 2017	Figures in NOK millions	Notes	Parent bank 2018	Parent bank 2017
374,2	**343,4**	**PROFIT FOR THE YEAR**		**373,9**	**345,4**
		Items that will not be reclassified to the income statement			
-5,3	-30,3	Actuarial gains and losses on defined-benefit plans	47	-5,9	-29,0
1,3	7,6	Tax related to items that cannot be reclassified	33, 47	1,4	7,3
		Items that may later be reclassified to the income statement			
0,0	0,0	Lending at fair value	27	-0,9	0,0
0,0	23,7	Changes in fair value of investments available for sale (IAS 39 up to 31.12.2017)	27	0,0	23,7
0,0	-0,8	Tax related to items that may be reclassified	27, 33	0,2	-0,8
370,2	**343,6**	**STATEMENT OF COMPREHENSIVE INCOME**		**368,7**	**346,6**

BALANCE SHEET

Group 31.12.18	Group 31.12.17	Figures in NOK millions	Notes	Parent bank 31.12.18	Parent bank 31.12.17
		ASSETS			
603,1	341,2	Cash and receivables from central banks	19	603,1	341,2
9,5	5,7	Loans to and receivables from financial institutions	15, 19	2.155,1	1.929,3
35.147,4	30.972,4	Loans to and receivables from customers	11, 12, 13, 14, 19	19.716,6	18.653,6
5.173,1	4.515,1	Certificates and bonds	19, 22, 34	5.012,1	4.358,8
606,8	483,9	Shares and units	19,22,35	606,8	483,9
222,0	297,9	Financial derivatives	19, 20, 21, 22	80,1	128,0
0,0	0,0	Ownership interests in Group companies	36	1.240,9	890,9
0,0	0,0	Deferred tax asset	33	7,2	9,2
59,9	134,6	Investment properties	37	0,0	0,0
134,2	133,9	Tangible fixed assets	37	84,4	76,0
19,6	103,2	Other assets		5,2	10,9
6,9	6,2	Prepaid non-accrued costs and income earned, but not received	39	8,4	7,0
41.982,5	**36.994,1**	**TOTAL ASSETS**		**29.519,9**	**26.888,8**
		LIABILITIES AND EQUITY			
300,4	330,1	Liabilities to financial institutions	19, 40, 44	540,8	562,0
14.899,7	13.971,8	Deposits from and liabilities to customers	19, 41	14.974,3	14.001,0
30,7	25,5	Financial derivatives	19, 20, 21, 22	16,1	19,4
21.970,8	18.228,5	Securities issued	19, 42, 44	9.750,8	8.357,8
84,1	110,5	Tax payable	33	47,4	68,1
229,3	124,5	Other liabilities	45	142,6	110,3
41,2	37,8	Accruals and deferred income		32,6	28,8
78,4	68,6	Provisions for accrued costs and liabilities	46, 47	76,2	66,1
3,7	8,9	Deferred tax liability	33	0,0	0,0
400,0	351,9	Subordinated loan capital	19, 43, 44	400,0	351,9
38.038,3	**33.258,1**	**TOTAL LIABILITIES**		**25.980,8**	**23.565,4**
595,1	595,1	Paid-up equity	53	595,1	595,1
350,5	351,7	Hybrid tier 1 capital	52	350,5	351,7
2.998,6	2.789,2	Retained earnings		2.593,5	2.376,6
3.944,2	**3.736,0**	**TOTAL EQUITY**	6	**3.539,1**	**3.323,4**
41.982,5	**36.994,1**	**TOTAL LIABILITIES AND EQUITY**		**29.519,9**	**26.888,8**

Hokksund, 31 December 2018
Drammen, 5 March 2019

Øyvind Andersson
Chair

Knut Smedsrud
Deputy Chair

Morten André Yttreeide
Board member

Cecilie Hagby
Board member

Elly Therese Thoresen
Board member

Kari Solberg Økland
Board member

Ole-Martin Solberg
Employee

Inger Helen Pettersen
Employee representative

Pål Strand
CEO

CHANGES IN EQUITY - GROUP

(Amounts in NOK million)		Paid-up equity		Hybrid capital	Retained earnings				
2018	Total equity	Equity certificates	Share premium reserve	AT1	Equalisation fund	Primary capital	Endowment fund	Fund for unrealised gains	Other equity
Equity at 31.12.2017	**3.384,3**	**207,3**	**387,8**	**0,0**	**409,3**	**1.731,6**	**38,1**	**197,6**	**412,6**
Implementation effect of IFRS 9	6,6	0,0	0,0	0,0	5,1	9,5	0,0	0,0	-8,1
Reclassification of hybrid tier 1 capital	351,7	0,0	0,0	351,7	0,0	0,0	0,0	0,0	0,0
Restated equity as at 01.01.2018	**3.742,5**	**207,3**	**387,8**	**351,7**	**414,4**	**1.741,1**	**38,1**	**197,6**	**404,5**
Ordinary result	374,2	0,0	0,0	11,7	95,0	181,2	0,0	86,0	0,3
Actuarial gains and losses on defined-benefit plans	-4,0	0,0	0,0	0,0	-1,6	-2,9	0,0	0,0	0,5
Other comprehensive income	**370,2**	**0,0**	**0,0**	**11,7**	**93,4**	**178,3**	**0,0**	**86,0**	**0,8**
Dividend to equity certificate holders 2017 - adopted	-103,7	0,0	0,0	0,0	-103,7	0,0	0,0	0,0	0,0
Dividend to social capital 2017 - adopted	-51,9	0,0	0,0	0,0	0,0	-51,9	0,0	0,0	0,0
Interest paid on hybrid capital	-16,8	0,0	0,0	-16,8	0,0	0,0	0,0	0,0	0,0
Tax effect on hybrid capital taken directly to equity	3,9	0,0	0,0	3,9	0,0	0,0	0,0	0,0	0,0
Redemption of hybrid capital	-200,0	0,0	0,0	-200,0	0,0	0,0	0,0	0,0	0,0
Issue of hybrid capital	200,0	0,0	0,0	200,0	0,0	0,0	0,0	0,0	0,0
Equity at 31.12.2018	**3.944,2**	**207,3**	**387,8**	**350,5**	**404,1**	**1.867,5**	**38,1**	**283,6**	**405,3**

The year's proposed dividend of NOK 95.4 million remains part of the Equalisation Fund and the year's proposed dividend on social capital of NOK 23.8 million remains part of the primary capital until they are finally adopted by the board of trustees. See also Note 53, Equity Certificates.

		Paid-up equity		Hybrid capital	Retained earnings				
2017	Total equity	Equity certificates	Share premium reserve	AT1	Equalisation fund	Primary capital	Endowment fund	Fund for unrealised gains	Other equity
Equity at 31.12.2016	**3.176,1**	**207,3**	**387,8**	**0,0**	**379,0**	**1.573,7**	**38,1**	**174,7**	**415,5**
Reclassification of hybrid tier 1 capital	351,9	0,0	0,0	351,9	0,0	0,0	0,0	0,0	0,0
Restated equity as at 01.01.2017	**3.528,0**	**207,3**	**387,8**	**351,9**	**379,0**	**1.573,7**	**38,1**	**174,7**	**415,5**
Ordinary result	343,4	0,0	0,0	11,0	121,1	213,3	0,0	0,0	-2,0
Changes in fair value of investments in JV/AC	22,9	0,0	0,0	0,0	0,0	0,0	0,0	22,9	0,0
Actuarial gains and losses on defined-benefit plans	-22,7	0,0	0,0	0,0	-7,9	-13,9	0,0	0,0	-0,9
Comprehensive income	**343,6**	**0,0**	**0,0**	**11,0**	**113,2**	**199,4**	**0,0**	**22,9**	**-2,9**
Dividend to equity certificate holders 2016 - adopted	-82,9	0,0	0,0	0,0	-82,9	0,0	0,0	0,0	0,0
Dividend to social capital 2016 - adopted	-41,5	0,0	0,0	0,0	0,0	-41,5	0,0	0,0	0,0
Interest paid on hybrid capital	-14,8	0,0	0,0	-14,8	0,0	0,0	0,0	0,0	0,0
Tax effect on hybrid capital taken directly to equity	3,6	0,0	0,0	3,6	0,0	0,0	0,0	0,0	0,0
Equity as at 31.12.2017, restated	**3.736,0**	**207,3**	**387,8**	**351,7**	**409,3**	**1.731,6**	**38,1**	**197,6**	**412,6**

The year's proposed dividend of NOK 103.7 million remains part of the Equalisation Fund and the year's proposed dividend on social capital of NOK 51.9 million remains part of the primary capital until they are finally adopted by the board of trustees.

CHANGES IN EQUITY - PARENT BANK

(Amounts in NOK million)		Paid-up equity		Hybrid capital	Retained earnings				
2018	Total equity	Equity certificates	Share premium reserve	AT1	Equalisation fund	Primary capital	Endowment fund	Fund for unrealised gains	Change in value through comprehensive income as reclass.
Equity at 31.12.2017	**2.971,7**	**207,3**	**387,8**	**0,0**	**409,3**	**1.731,6**	**38,1**	**197,6**	**0,0**
Implementation effect of IFRS 9	15,5	0,0	0,0	0,0	5,1	9,5	0,0	0,0	0,9
Reclassification of hybrid tier 1 capital	351,7	0,0	0,0	351,7	0,0	0,0	0,0	0,0	0,0
Restated equity as at 01.01.2018	**3.338,9**	**207,3**	**387,8**	**351,7**	**414,4**	**1.741,1**	**38,1**	**197,6**	**0,9**
Ordinary result	373,9	0,0	0,0	11,7	95,0	181,2	0,0	86,0	0,0
Change in lending at fair value through comprehensive income	-0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,7
Actuarial gains and losses on defined-benefit plans	-4,5	0,0	0,0	0,0	-1,6	-2,9	0,0	0,0	0,0
Other comprehensive income	**368,7**	**0,0**	**0,0**	**11,7**	**93,4**	**178,3**	**0,0**	**86,0**	**-0,7**
Dividend to equity certificate holders 2017 - adopted	-103,7	0,0	0,0	0,0	-103,7	0,0	0,0	0,0	0,0
Dividend to social capital 2017 - adopted	-51,9	0,0	0,0	0,0	0,0	-51,9	0,0	0,0	0,0
Interest paid on hybrid capital	-16,8	0,0	0,0	-16,8	0,0	0,0	0,0	0,0	0,0
Tax effect on hybrid capital taken directly to equity	3,9	0,0	0,0	3,9	0,0	0,0	0,0	0,0	0,0
Redemption of hybrid capital	-200,0	0,0	0,0	-200,0	0,0	0,0	0,0	0,0	0,0
Issue of hybrid capital	200,0	0,0	0,0	200,0	0,0	0,0	0,0	0,0	0,0
Equity at 31.12.2018	**3.539,1**	**207,3**	**387,8**	**350,5**	**404,1**	**1.867,5**	**38,1**	**283,6**	**0,2**

The year's proposed dividend of NOK 95.4 million remains part of the Equalisation Fund and the year's proposed dividend on social capital of NOK 23.8 million remains part of the primary capital until they are finally adopted by the board of trustees. See also Note 53, Equity Certificates.

		Paid-up equity		Hybrid capital	Retained earnings				
2017	Total equity	Equity certificates	Share premium reserve	AT1	Equalisation fund	Primary capital	Endowment fund	Fund for unrealised gains	Other equity
Equity at 31.12.2016	**2.760,6**	**207,3**	**387,8**	**0,0**	**379,0**	**1.573,7**	**38,1**	**174,7**	**0,0**
Reclassification of hybrid tier 1 capital	351,9	0,0	0,0	351,9	0,0	0,0	0,0	0,0	0,0
Restated equity as at 01.01.2017	**3.112,5**	**207,3**	**387,8**	**351,9**	**379,0**	**1.573,7**	**38,1**	**174,7**	**0,0**
Ordinary result	345,4	0,0	0,0	11,0	121,1	213,3	0,0	0,0	0,0
Changes in fair value of investments in JV/AC	22,9	0,0	0,0	0,0	0,0	0,0	0,0	22,9	0,0
Actuarial gains and losses on defined-benefit plans	-21,7	0,0	0,0	0,0	-7,9	-13,9	0,0	0,0	0,0
Comprehensive income	**346,6**	**0,0**	**0,0**	**11,0**	**113,2**	**199,4**	**0,0**	**22,9**	**0,0**
Dividend to equity certificate holders 2016 - adopted	-82,9	0,0	0,0	0,0	-82,9	0,0	0,0	0,0	0,0
Dividend to social capital 2016 - adopted	-41,5	0,0	0,0	0,0	0,0	-41,5	0,0	0,0	0,0
Interest paid on hybrid capital	-14,8	0,0	0,0	-14,8	0,0	0,0	0,0	0,0	0,0
Tax effect on hybrid capital taken directly to equity	3,6	0,0	0,0	3,6	0,0	0,0	0,0	0,0	0,0
Equity as at 31.12.2017, restated	**3.323,4**	**207,3**	**387,8**	**351,7**	**409,3**	**1.731,6**	**38,1**	**197,6**	**0,0**

The year's proposed dividend of NOK 103.7 million remains part of the Equalisation Fund and the year's proposed dividend on social capital of NOK 51.9 million remains part of the primary capital until they are finally adopted by the board of trustees.

CASH FLOW STATEMENT

Group 2018	Group 2017	Figures in NOK millions	Note	Parent bank 2018	Parent bank 2017
		Operating activities			
450,9	447,1	Profit/loss before tax costs		419,3	406,5
		Adjusted for:			
1,3	-3,2	Change in net interest income earned and accrued interest costs		0,3	4,7
0,0	0,0	Net payment/disbursement of loans to financial institutions		-222,6	-193,0
-4.172,7	-1.267,3	Net receipts/payments of loans to customers		-1.046,3	509,2
-655,2	-229,9	Change in certificates and bonds		-650,6	-229,6
-98,6	-3,4	Value change, shares and units		-98,6	-3,4
76,3	-58,2	Change in other operating assets	51	-2,3	10,9
0,0	-0,1	Net receipt/disbursement of deposits to financial institutions		8,5	-3,7
926,9	83,8	Net receipts/disbursement of deposits from customers		972,3	104,2
63,5	-2,0	Change in other operating liabilities		-7,9	-14,4
27,3	9,8	Non-cash items included in profit before tax costs	51	17,4	1,9
-12,6	-39,5	Net gains from investing activities		-1,5	-3,4
4,1	5,8	Net losses from financing activities		2,6	1,1
-0,8	0,0	Other changes		0,0	0,0
-107,6	-88,1	Taxes paid for the period		-68,0	-50,2
-3.497,2	-1.145,2	**Net cash flow from operating activities**	**A**	-677,4	540,8
		Investing activities			
-20,0	-21,1	Payments on purchases of fixed assets		-17,9	-14,7
92,1	186,7	Proceeds from sale of fixed assets		0,3	0,2
-23,1	206,5	Net proceeds/costs on the sale/purchase of financial investments		-23,1	206,5
0,0	0,0	Net payment/disbursement concerning investments in subsidiaries		-350,0	-2,4
49,0	372,1	**Net cash flow from investing activities**	**B**	-390,7	189,6
		Financing activities			
-30,0	240,0	Net incoming/outgoing payments for loans to/from financial institutions		-30,0	240,0
-2.638,0	-3.248,0	Payments on repayment of securities		-2.114,4	-2.246,4
6.502,4	3.904,4	Proceeds on issuance of securities		3.598,7	1.399,3
-103,7	-82,9	Payment of dividend		-103,7	-82,9
-200,0	0,0	Payment disbursed for repayment of hybrid capital		-200,0	0,0
200,0	0,0	Payment received for issue of hybrid capital		200,0	0,0
-16,8	-14,9	Interest paid on hybrid capital		-16,8	-14,9
3.713,9	798,6	**Net cash flow from financing activities**	**C**	1.333,8	-704,9
265,7	25,5	Net change in cash and cash equivalents	**A+B+C**	265,7	25,5
346,9	321,4	Cash and cash equivalents as at 01.01.		346,9	321,4
612,6	**346,9**	**Holdings of cash and cash equivalents as at 31.12.**	51	**612,6**	**346,9**

Liquidity reserves include cash and deposits with central banks and loans to and deposits with financial institutions which are investment placements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

Sparebanken Øst is an equity certificate savings bank listed on the Oslo Stock Exchange. The bank's head office is at Bragernes Torg 2, Drammen. The bank's business address is Stasjonsgt. 14, N-3300 Hokksund. Sparebanken Øst is non-aligned and has been operating savings bank activities without interruption since 1843.

The bank also has branches in the municipalities of Øvre Eiker, Nedre Eiker, Lier, Asker, Bærum, Oslo, Fredrikstad, Ullensaker, Horten, Tønsberg, Skedsmo, Kongsberg, Ringerike, Svelvik, Holmestrand, Røyken, Sande, Hurum and Larvik. The Sparebanken Øst group consists of the parent bank and the wholly owned subsidiaries Sparebanken Øst Boligkreditt AS, AS Financiering, Øst Inkasso AS, Øst Prosjekt AS with its subsidiaries Borreveien 44 AS and Jon Smørs Vei 7 AS, and Sparebanken Øst Eiendom AS with its subsidiaries Hawø Eiendom AS, Stasjonsgata 14 AS, and Tollbugt. 49-51 AS.

Sparebanken Øst provides services within the areas of financing, savings and investment, money-transfer services and insurance.

The annual financial statements for 2018 were reviewed and approved by the board of directors of Sparebanken Øst on 5 March 2019.

NOTE 2: ACCOUNTING POLICIES

1. GENERAL INFORMATION

Sparebanken Øst's consolidated financial statements and the parent company's financial statements are prepared in accordance with current international accounting standards, International Financial Reporting Standards (IFRS), approved by the EU.

The basic principles of historical cost accounting are applied, with the exception of financial assets and liabilities measured at fair value. Where the group uses hedge accounting, the value of the hedged object is adjusted for value changes associated with hedged risk. Interest-bearing balance sheet items include earned/accrued interest.

The group's balance sheet is primarily based on an assessment of the liquidity of items posted to the balance sheet.

Unless otherwise specified, all amounts are stated in NOK millions in the notes.

2. AMENDMENTS TO ACCOUNTING POLICIES

The accounting policies applied are generally unchanged from the policies applied to the 2017 annual report, with the exception of a presentation of hybrid tier 1 capital and the changes in IFRS that were implemented in the group in 2018. The changes relevant to the group which came into effect for the 2018 financial statements, and the effect of this on the consolidated financial statements, are listed below.

Presentation of hybrid tier 1 capital
Sparebanken Øst has changed its presentation of hybrid tier 1 capital from 1 January 2018, based on two letters from the Financial Supervisory Authority of Norway published on 26 February in connection with an audit of two Norwegian banks, where the Authority expressed its view on the presentation of hybrid tier 1 capital. The published letters made it clear that, based on the wording of the agreements, said banks' hybrid tier 1 capital does not satisfy the definition of financial obligations under IAS 32.

The change means that hybrid tier 1 capital issues are presented as equity, rather than debt as previously, and that the profit/loss after tax increases because the interest on hybrid tier 1 capital is no longer presented as interest costs but as allocations from equity. Interest costs on hybrid tier 1 capital in 2018 amounted to NOK 15.6 million, and NOK 11.7 million after tax. Comparative figures have been restated and the interest costs in 2017 were reduced by NOK 14.7 million and the profit after tax increased by NOK 11.0 million.

Equity and the share of profit falling to equity certificate holders and primary capital are not affected by the change.

IFRS 9 Financial instruments
IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement and entailed changes related to classification and measurement, hedge accounting and write-downs. The changes in presentation and measurement, as well as the implementation effects on the introduction of IFRS 9, are described below. Differences that arose on the implementation are recognised directly to equity as of 1 January 2018 and presented in conclusion. See item 6 for a review of updated accounting policies. Financial instruments and Note 3Assessments and use of estimates. Comparative figures and notes for 2017 have not been restated as a consequence of the changes and are therefore not directly comparable in areas for which IFRS 9 has entailed changes. For a review of comparative figures for accounting principles, refer to the 2017 Annual Report.

Classification and measurement
IFRS 9 requires all financial assets, except equity instruments and derivatives, to be classified and measured on the basis of a combination of the group's model for managing the assets ("business model" test) and the characteristics of the instruments' cash flow ("contractual cash flow" test). The measurement categories in IAS 39 have been replaced with the following categories: fair value with value changes through profit or loss, fair value with value changes through other income and costs (with and without reclassification) and amortised cost. Instruments that must initially be measured at amortised cost or fair value with value changes through other income and costs 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 transiton to IFRS 9 will not result in any changes to the classification or measurement of derivatives. The requirements concerning measurement of 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.

For the group's lending to and receivables from customers, as well as credit institutions, excluding fixed-rate loans, it is concluded that the business model entails 'holding to receive contractual cash flows' and that the measurement method of amortised cost is to be continued under IFRS 9.

For the implementation of IFRS 9, the measurement of fixed rate loans to customers is changed from amortised cost to fair value, with value adjustment through the ordinary profit or loss. The implementation effect as at 1 January 2018 amounted to an increase in the carrying amount of NOK 3.0 million.

Concerning "Shares and units" in the accounts, it is concluded that equity instruments are to be measured at fair value, with value changes and realised gains and losses through the ordinary profit or loss.

Concerning "Certificates and bonds" in the accounts, the measurement method is fair value with value changes continued through profit or loss.

Concerning the group's financial obligations, the measurement category of amortised cost is continued under IFRS 9.

In the parent bank's company accounts, the measurement method is changed for the share of lending to customers which is identified as transferable to Sparebanken Øst Boligkreditt AS. Such loans involve a business model where the parent bank both "receives contractual cash flows" and "sells loans". In the parent bank's balance sheet, identified loans are classified at fair value with value adjustment through other comprehensive income, by contrast with previously amortised cost pursuant to IAS 39. As at 1 January 2018, identified loans amounted to NOK 3,799.6 million in the parent bank's balance sheet. The implementation effect as at 1 January 2018 amounted to an increase in the carrying amount of NOK 1.1 million. The change and implementation effect does not apply in the consolidated accounts, as the group does not have a business model which involves the sale of loans.

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 group currently uses hedge accounting to hedge interest rate and currency risk on fixed-rate borrowing and currency borrowing. The implementation of IFRS 9 did not lead to any changes in the group's application of existing hedge accounting and, under IFRS 9, the group has continued to apply hedge accounting as under IAS 39, by hedging the base interest rate on fixed-rate borrowing and the exchange rates for currency borrowing.

Write-downs
IFRS 9 changes the rules for the impairment of financial assets that are debt instruments and which are measured at amortised cost or fair value, with value changes through other income or costs (other comprehensive income). In addition, loan pledges and unused credit facilities are also included. This entailed an implementation effect as at 01.01.2018 for the transition to IFRS 9 and a change in how the group measures loss provisions from now on. 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 accounting policies concerning expected losses are discussed in more detail under 6.4.7. The implementation of IFRS 9 resulted in a reduction in the group's loss provisions of NOK 5.8 million as at 01.01.2018.

The table below shows changes in measurement category and the booked amount from IAS 39 to IFRS 9 as at 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	30,717.4	30,723.2

Loans to and receivables from customers	Amortised cost	Fair value with value adj. through ord. profit or loss	255.0	258.0
Shares and units	Available for sale	Fair value with value adj. through ord. profit or loss	466.1	466.1

The table below shows loss provisions per stage for the introduction of IFRS 9 in the group from 01.01.2018:

(figures in NOK millions)	Stage 1	Stage 2	Stage 3	Total
Loans to and receivables from customers	19.5	8.2	64.4	92.1

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

	Equity effect
Changes in loss provisions	
Capitalised amount under IAS 39 at 31.12.2017	-73.4
Effect of introducing the expected loss model on loans to and receivables from customers	5.8
Tax effect based on the item above	-1.4
Opening balance against equity under IFRS 9 as at 01.01.2018	**-69.1**
Changed measurement from amortised cost to fair value of fixed rate loans to customers	
Amortised cost under IAS 39 at 31.12.2017	0.0
Effect of changed measurement from amortised cost to fair value	3.0
Tax effect based on the item above	-0.8
Opening balance against equity under IFRS 9 as at 01.01.2018	**2.2**
Total change in equity on the introduction of IFRS 9 on 01.01.2018	**6.6**

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 includes a model for the recognition and measurement of the sale of non-financial assets (excluding the sale of properties, plant and equipment) and applies to all income contracts. The rules in IFRS 9 must be used for contracts that are recognised in line with the rules in IFRS 9. The changes have not resulted in any changes in the group's revenue recognition or changes in the information in the notes to the annual report.

3. CONSOLIDATION

The consolidated financial statements cover the parent bank and all subsidiaries.

A company is deemed to be controlled by the group when the group is exposed to or has rights to variable returns from its involvement in the company in question, and is able to influence this return via its control of the company. Each investment is subject to assessment.

The consolidated financial statements cover the wholly owned subsidiaries Sparebanken Øst Boligkreditt AS, AS Financiering, Øst Inkasso AS, Øst Prosjekt AS with its subsidiaries Borreveien 44 AS and Jon Smørs Vei 7 AS, and Sparebanken Øst Eiendom AS with its subsidiaries Hawø Eiendom AS, Stasjonsgata 14 AS and Tollbugt. 49-51 AS.

Companies acquired or divested during the year are included in the consolidated financial statements from the time the group takes control until such control ceases. The purchase method is used when recognising acquisitions of subsidiaries. When control of a company is taken over, all identifiable assets and commitments are stated at fair value. Goodwill is recognised as a positive difference between the acquisition price and the balance sheet value of the acquired company after excess/deficit value has been assigned to identifiable assets at the time of acquisition. Where the difference is negative, this is charged to income upon acquisition. Goodwill is tested each year for impairment and is recognised on the balance sheet at cost price minus any accumulated write-downs.

When preparing the consolidated financial statements, internal transactions, internal gains and outstanding balances between companies within the group are eliminated.

The accounting policies of subsidiaries are adjusted when necessary in order to harmonise them with the accounting policies of the group.

3.1 Ownership interests in subsidiaries and associated companies

If the group holds the majority of the voting rights in a company, the company is presumed to be a subsidiary in the group. In order to support this, and if the group does not hold the majority of the voting rights, the group assesses all relevant factors and circumstances, in order to evaluate whether the group holds control of the company in which it invests. This includes assessing the ownership interest, voting rights, ownership structure and relative strength, as well as options controlled by the group and shareholder agreements or other agreements. The group re-assesses whether it controls or does not control a company when facts and circumstances indicate changes in one or several of the control elements. See also Note 36 - Ownership Interests in Group Companies.

In the parent company's financial statements, investments in subsidiaries are assessed according to the cost method.

Associated companies are entities in which the group has significant influence, but not control or shared control of the financial and operational management. The group has no significant ownership interests in companies defined as associated companies.

4. CURRENCY

The financial statements are presented in NOK, which is the functional currency for all companies in the group.

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.

5. INCOME

5.1 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 effect interest method is employed for both balance sheet items which are assessed at amortised cost, and balance sheet items which are assessed at fair value over the profit.

5.2 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.

5.3 Other operating income

Rental income from real estate is recognised linearly over the tenancy period.

5.4 Dividends received

Dividends received in equity instruments are recognised in the results once the group’s right to receive payment has been determined, and included in the accounting line “Dividends”.

6. FINANCIAL INSTRUMENTS

6.1 Recognition and derecognition

Financial assets and liabilities are recognised when the Group 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 or when the risk and earning potential has essentially been transferred. Financial liabilities are derecognised when the liability ends; this is when the liability stated in the contract is fulfilled, cancelled or expires.

6.2 Classification

The Group’s financial instruments covered by IFRS 9 are classified on initial recognition in one of the following categories:

Financial assets:

- Amortised cost
- Fair value with changes through profit or loss

Financial liabilities:

- Amortised cost
- Fair value with changes through profit or loss

6.3 Measurement

6.3.1 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.

6.3.2 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 methods are used. These are methods that can involve using discretionary evaluations to some degree. Such discretionary evaluations may be liquidity risk, credit risk and volatility. Changes in the attitude toward these factors may affect the determination of the fair value of a financial instrument. All changes in fair value are recognised directly in the income statement.

Measurement at amortised cost

Financial instruments that are not measured at fair value are valued at amortised cost. Income/costs are calculated by the effective interest rate method, whereby 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.

6.3.3 Takeover of assets

Assets that are taken over in connection with follow-up on defaulted or written-down positions are valued at fair value at the time of takeover.

6.3.4 Hedge accounting

The group uses fair value hedging of fixed-interest deposits and foreign currency deposits. For fair value hedging the hedged instrument is recognised at fair value and the value of the security is adjusted in accordance with the change in value linked to the hedged risk. Hedge accounting is described in further detail under 6.4.5.

6.4 More on financial instruments

6.4.1 Loans and receivables

The group's loans and receivables, except for fixed-interest loans, are measured at amortised cost. The classification is based on the group's business model, where the purpose is to hold the instruments to receive contractual cash flows. Arrangement fees are capitalised and recognised as income over the expected maturity of the loan. Upon subsequent measurement loans are measured at amortised cost using the effective interest rate approach. Interest income on loans and receivables measured at amortised cost is included in "Interest income from assets valued at amortised cost" in the income statement.

The period's loss provisions on loans and receivables are recognised under "Losses on loans, unused credit facilities and guarantees". Interest income on loans and receivables with loss provisions in stage 3 is calculated according to the effective interest rate method based on the amortised value of the loan and is included in "Interest income from assets valued at amortised cost".

Model-calculated expected losses

Expected losses are calculated regardless of whether there is objective evidence of impairment on the balance sheet date. Loans and receivables are presented in the balance sheet on a net basis after loss provisions. Measurement of expected losses is described in further detail under 6.4.7.

Non-performing and impaired commitments

Non-performing loans are defined as loans that have defaulted on payment exceeding 90 days. Loans and other commitments that are not defaulted on, yet where the customer's financial situation makes it likely that the group will accrue losses are classified as impaired commitments.

Individual write-downs of loans and guarantees

Loans are written down for credit losses on a case by case basis (individually) if there is objective evidence of impairment. Objective evidence is considered to exist in cases of major financial problems at the debtor, payment default or other material breach of contract, granting of deferral of payments or new credit to pay forward, agreed changes in interest rates or other terms and conditions as a result of problems at the debtor, debt negotiation with the debtor, other financial restructuring or bankruptcy proceedings.

Estimates of any credit loss are based on the size of expected future cash flows from sale of collateral etc., when the cash flows are expected to be paid and the discount rate. The size of the loss is a direct function of the difference between the book value and the present value of the discounted future cash flows, discounted at the loan's effective interest rate.

Declaring losses
Losses are not ascertained until composition or bankruptcy has been declared by the debtor, when execution has not been successful, there is a legal judgement or in cases where the bank has cancelled the loan or parts of it, or in other cases where it is most likely that the losses are final. Declared losses that are covered by previous write-downs are posted to allocations. Declared losses that have not previously been subject to individual write-down, as well as excess or insufficient coverage in relation to previous individual write-downs, are recognised in the income statement.

6.4.2 Fixed interest loans, certificates and bonds

Fixed interest loans are recognised and measured at fair value through profit and loss to avoid accounting discrepancies when interest-bearing derivatives are used to reduce interest rate risk. The group's holding of certificates, bonds, etc., comprises the group's liquidity portfolio, which is managed and measured at fair value. The group's holding of certificates and bonds is classified at fair value with changes through profit or loss. Interest income on fixed interest loans, certificates and bonds is recognised in "Interest income from assets valued at fair value" in the income statement. The value adjustment and realised profit and losses are recognised in "Net value adjustments and profit/loss on financial instruments" in the income statement.

6.4.3 Equity instruments

The group's holding of equity instruments is measured at fair value with a value adjustment over the profit or loss. The value adjustment and realised gain and loss are recognised in "Net value adjustments and gain/loss on financial instruments" in the income statement. Dividends received are recognised in the income statement once the group's right to receive payment has been determined, and included in the accounting line "Dividends".

6.4.4 Financial derivatives

Financial derivatives are contracts that are signed to neutralise an already relevant interest and/or foreign currency risk the Group has taken on. Derivatives include foreign currency and interest instruments. 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. Accrued interest from financial derivatives, where hedge accounting is applied, is presented on the same line in the income statement as interest on the hedging object. Value adjustments and realised gains/loses on financial derivatives are recognised in the income statement under "Net value adjustments and gains/losses on financial instruments".

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". The accounting treatment of financial derivatives when hedge accounting is used is described in a separate paragraph.

6.4.5 Hedge accounting

The Group mainly makes use of financial derivatives to reduce interest and/or currency risks.

The Group employs fair value hedging for fixed rate borrowing and currency borrowing. In a fair value hedge the company seeks to hedge against exposure to changes in the value of recognised 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 applied to financial derivatives used to hedge the fair value of recognised liabilities where the criteria are met. Changes in the fair value of financial derivatives classified as and meeting the requirements of fair value hedging are recognised in the income statement together with any change in the fair value of the hedged liability which can be ascribed to the hedged risk. Interest rate swaps and combined interest rate and currency swaps (basic swaps) are the hedging instruments used by the group. The value adjustment on hedged instruments and items is included in "Net value adjustments and gain/loss on financial instruments". Any ineffective portion of the hedging is recognised. If the hedging relationship is interrupted or adequate hedging efficiency cannot be verified, the value adjustment linked to the hedging object is amortised over the remaining maturity.

It must be possible to reliably measure the effectiveness of hedging. When the hedging is established, the relationship between the hedging object and hedging instrument is formally documented, including the risk that is hedged, the hedging objective and strategy, and the method that will be used to assess the effectiveness of hedging. The hedging is assessed and documented quarterly, including the effectiveness of hedging. The group predominantly uses one-to-one hedging, meaning for example that the nominal amount and principal, terms, repricing dates, dates of receipt and payment of interest and principal, as well as the basis for measuring interest rates, are the same for the hedging instrument and the security.

6.4.6 Deposits and other financial liabilities
The group measures financial liabilities, apart from derivatives, at amortised cost. Financial liabilities are measured at amortised cost where the differences between the amount received less transaction costs and the redemption value are accrued over the loan term, using the effective interest method. Interest costs and amortisation effects on instruments are posted to 'Interest costs and similar costs' in the statement of income. Holdings of own bonds are posted as reductions of liabilities. In the case of buybacks, the difference between the book value and the remuneration paid is recognised in the statement of income under 'Net value adjustments and gain/loss on financial instruments'.

6.4.7 Measurement of expected loss
Expected losses are calculated on financial assets which are debt instruments measured at amortised cost or at fair value with changes in value through comprehensive income. Expected losses are calculated and loss provisions posted regardless of whether there is objective evidence of impairment on the balance-sheet date. The Group calculates expected losses on total commitments consisting of lending, unused credit and guarantees. The group breaks down commitments into three groups in calculating the expected loss.

Group 1: Commitments that do not have a substantial increase in credit risk, after initial recognition, measured on the basis of the change in risk class, are included in group 1. For commitments in group 1, an expected 12-month loss is calculated on the basis of the commitment's exposure.

Group 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.

Group 3: Commitments with a significant increase in credit risk, where there is objective evidence of impairment, or where the default situation exceeds 90 days, are included in group 3. The provision for this group consists of both individually assessed write-downs and model-calculated expected losses. 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 segment parameter for expected losses, and expected duration.

Principle for the calculation of expected losses: Based on the group's risk classification system, a probability of default is determined for each risk class for the purpose of being able to calculate the expected loss. The group's commitments are classified in segments based on the product, security and other criteria, so each segment contains loans with virtually the same risk profile. An expected level of loss due to default is determined for each segment. An expected commitment exposure is also determined. For repayment loans, the basis is an expected repayment plan. For credit lines and guarantees, the basis is an expected exposure at default. The expected loss is calculated by multiplying the probability of default (PD) times the expected loss given default (LGD) times the exposure at default (EAD). For calculating the expected loss, a probability-weighted calculation is made of the expected macroeconomic development, based on macroeconomic prospects and observed credit losses.

6.4.8 Change in lending at fair value through comprehensive income, parent bank
The parent bank has a practice whereby it transfers loans to its subsidiary Sparebanken Øst Boligkreditt AS, which involves a business model in which the parent bank both "receives contractual cash flows" and "sells loans". The share of loans to customers identified as transferable to Sparebanken Øst Boligkreditt AS is measured in the parent bank at fair value with value adjustment over the comprehensive income statement. Interest income on the loans is included in "Interest income from assets valued at fair value" in the ordinary income statement. Expected losses on the loans are included in the loss on loans, unused credits and guarantees in the ordinary income statement. Value changes to loans resulting from fair value measurement are included in the "Loans at fair value" over the comprehensive income statement. Upon divestment, accumulated gains or losses on the loans, which were previously recognised in comprehensive income, are reversed, and gains and losses are recognised under "Net value adjustments and gain/loss on financial instruments".

7. FIXED ASSETS AND INVESTMENT PROPERTIES

Fixed capital assets comprise buildings, land, and operating assets. Buildings and operating assets are recognised on the balance sheet at cost price, less ordinary accumulated depreciation and write-downs. Land is not depreciated and is capitalised at cost, less any write-downs. The cost price includes all directly attributable costs on the procurement of assets, with the addition of cost price for later improvements. All other repair and maintenance costs are recognised in the period for which they are incurred. On determining a depreciation plan allowance is made for the fixed asset's expected useful life and estimated residual value. The group buildings are broken down into four components: building structure, technical installations, façades and fixed inventory. Depreciation is calculated for each sub-component based on the expected useful life and estimated residual value.

The group's buildings for external rental, as well as buildings occupied to achieve appreciation, are classified as investment properties. The bank has assessed investment properties at cost price less accumulated depreciation. Cost price on the inclusion date and annual depreciation are determined according to the same principles as described above for other properties.

Depreciation is calculated on a linear basis over the following useful lives:

Buildings	10-100 years
Machines/fixtures and fittings/means of transport	2-10 years

The depreciation period, method and residual value are assessed annually.

Gains/losses arising from the sale of operating assets are the difference between the sales price and the book value and are included in the statement of income.

Buildings under construction are classified as plant and equipment and stated at cost until the construction is completed. Buildings under construction are not written off before the building is taken into use. Building loan costs are recognised on the balance sheet on an ongoing basis and included in the cost price.

Assessments are performed of depreciation when there are indications of impairment of value. If the book value of an operating asset is higher than the recovery amount, it is written down through profit or loss. The recoverable amount is the highest of net sales price and the discounted cash flow from continued use. The net sales price is the amount that can be achieved on sale to an independent third party, less sales costs. The recoverable amount is determined separately for all properties. If this is not possible, the recoverable amount is determined together with the unit the asset falls under.

8. 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.

The group as lessor

Financial leases are presented as 'Loans to and receivables from customers' on the balance sheet and are recognised at amortised cost. Rent paid in advance is capitalised and recognised as income over the maturity period and posted as current liabilities in the accounts.

The group as lessee

The group has only signed operating leases as a lessor. 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.

9. UNCERTAIN COMMITMENTS

The group issues financial guarantees as part of its ordinary business. See also note 48. Assessment of loss provisions on guarantees issued by the bank together with assessment of losses on lending. See also note 13. The same principles are used to assess whether there has been a reduction in value. Provisions are made for other uncertain commitments if in all likelihood the commitment will materialise and the financial consequences can be reliably estimated.

10. CONTINGENT LIABILITIES AND ASSETS

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.

11. PENSIONS

The group has various defined-benefit schemes, as well as defined-contribution schemes.

Defined-benefit schemes

In defined-benefit pension schemes the employer is obliged to contribute to the future pension of a specified size. The group's collective pension schemes are administered by a life assurance company. The estimated accrued obligation is related to the value of the paid-in and saved up pension funds. If the total pension funds exceed the estimated pension liability on the balance sheet date, the net value is recognised as an asset on the balance sheet if it is likely that excesses can be utilised for future obligations. If the pension liabilities exceed the pension funds, the net liability is classified as a liability on the balance sheet.

The group also has unsecured pension liabilities which are funded through the group's operations. Pension liabilities on such agreements are posted as a liability on the balance sheet.

Pension liabilities are estimated annually by an independent actuary whereby the linear accrual method is applied. The pension liability is estimated as the present value of the estimated future pension contributions which for the purposes of accounting are regarded as accrued on the balance sheet date.

Changes to pension plans are recognised as income or costs at the time that the plan is changed.

The pension costs are based on requirements determined at the start of the period. The annual net pension cost consists of the present value of the annual pension accrued, interest costs on the net pension liability and accrued employer's payroll tax. The net pension costs for the period are posted to 'Payroll, etc.' in the statement of income.

The actuarial calculations are based on several actuarial assumptions, see note 47. When the liabilities' present value and fair value of the pension funds are calculated on the balance sheet date, actuarial gains and losses may occur as a result of changes in actuarial assumptions and actual effects. Actuarial gains and losses are included in comprehensive income.

The assessment of pension liabilities is described in Note 3 Assessments and Use of Estimates.

Defined-contribution schemes
Defined-contribution schemes involve the group depositing an annual contribution toward the employees' pension savings. This scheme is handled by a life assurance company. The future pension will depend on the size of the contribution and the annual return on the pension savings. The group has no further commitments in terms of the work performed, once the annual contribution is paid. There are no provisions for pension commitments for such schemes. Defined-contribution pension schemes are recognised directly as costs and are included under 'Payroll, etc.' in the statement of income.

12. INCOME TAX

The annual tax costs in the statement of income consist of the tax payable for the income year, any surplus/deficit on allocated tax payable for the previous year, tax at source, and recognised deferred tax. These are recognised as income or costs and are included in the statement of income as tax costs with the exception of current and deferred tax on transactions which are recognised directly in comprehensive income or under equity.

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 entered as assets on the balance sheet to the extent it is expected that the group will have sufficient taxable profit in later periods to utilise the deferred tax assets. Deferred tax assets and deferred tax liabilities are calculated in accordance with the tax rate expected to apply to temporary differences when they are reversed, based on applicable legislation at the time of reporting. Deferred tax assets and deferred tax liabilities are not discounted.
Deferred tax on transactions recognised in other comprehensive income or equity is recognised as the underlying transaction, either in comprehensive income or in equity. In comprehensive income this is shown as the tax effect. Tax payable is entered directly on the balance sheet to the extent that the tax items relate to equity transactions.

Property tax is not regarded as income tax as per IAS 12, and is recognised as an operating cost.

13. SEGMENTS

For the purpose of management the bank is organised into five operational segments based on the products and services. The segments form the basis for primary segment reporting. Financial information concerning the segments is presented in note 4.

14. CASH FLOW STATEMENT

Cash flow statements show the cash flows grouped according to types and employment area. Cash and cash equivalents include cash, deposits with central banks, treasury bills and loans to and receivables from financial institutions relating to the placement of funds.

15. EQUITY

15.1 Earnings per equity certificate

Earnings per equity certificate is calculated as the equity certificate holders' share of the profit for the period divided by the weighted average number of equity certificates during the period.

15.2 Dividends

Dividends on equity certificates and social capital are recognised in the annual financial statements as equity until they are adopted by the bank's board of trustees.

15.3 Hybrid capital

Hybrid capital consists of hybrid tier 1 capital that does not meet the definition of financial liabilities under IAS 32. Accrued interest on hybrid tier 1 capital accrues to the hybrid capital. Interest paid on hybrid tier 1 capital is recognised as a payment from hybrid capital at the time of payment.

16. 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.

17. FUTURE AMENDMENTS TO ACCOUNTING POLICIES

Standards and interpretations adopted at the time of the presentation of the annual financial statements, but where there is a later date of entry into force, except those assessed not to be relevant, are stated below. The group's intention is to implement the relevant changes as at the date of entry into force, provided that the EU approves the changes before the presentation of the consolidated financial statements.

IFRS 16 Leases

IFRS 16 replaces the existing IFRS standard 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 leases differently. The standard will have accounting effect as from 1 January 2019.

The group has completed its assessment of the effects of the new accounting standard for leases. As a lessor, the group has leases classified according to IAS 17 as finance leases. For the transition to IFRS 16, the group's classification, income statement and balance sheet will not be affected where the group is a lessor.

As lessee, the group has leases classified under IAS 17 as operating leases. The group's leases have been reviewed and it is concluded that the group's leasing of premises meets the criteria and should be entered in the accounts as finance leases. For implementation, the modified retrospective method has been chosen, which involves implementation as at 1 January 2019 without restating comparative figures. For implementation, the right to use properties will be recognised at NOK 57.6 million for the leasing of premises as well as the rental liability (debt) of NOK 57.6 million. The expected rental cost in 2019 covered by the change amounts to NOK 10.1 million. The rent, which under the current IAS 17 would be entered in the accounts as other operating costs, will in 2019 be replaced by NOK 1.0 million in interest expense and NOK 9.6 million in depreciation. The right to use the properties will be included with a 100% risk weight in the basis for calculation for calculating capital adequacy. The effect of implementation as at 1 January 2018 is calculated as a reduction of 5 basis points in the group's CET1 capital ratio.

NOTE 3 - ASSESSMENTS AND USE OF ESTIMATES

Due to the uncertainties associated with business activities, many accounting items cannot be accurately measured, but only estimated. The executive management team has exercised judgement in the application of the accounting policies and used assumptions and expectations of future events that are regarded as 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 associated with financial items that are not measured accurately, and the executive management team's assessments and best estimates may differ significantly from actual results.

Estimates are particularly used in the consolidated financial statements in relation to measurement of the following items:

- Losses on loans, unused credit and guarantees
- Fair value of financial instruments
- Net pension liabilities

3.1 Losses on loans, unused credit and guarantees

3.1.1 Model-calculated expected losses

The group has established principles and models to calculate expected losses on commitments, irrespective of whether there is objective evidence of depreciation on the balance sheet date. The group calculates expected losses on total commitments consisting of lending, unused credit and guarantees. Expected losses are calculated per commitment, where the most significant elements of the calculation are described below. See Note 13 for model-calculated loss costs and loss provisions per group and Note 10 for commitment totals per risk class and distribution per group.

Original risk class: The risk class to which a commitment is assigned on processing the loan application is the basis for measuring substantial increases in credit risk.

Probability of default: The group has a risk classification based on 11 categories from A to K. For each risk class, the expected probability of default in the first 12 months is determined, in order to calculate the expected loss in group 1. The expected probability of default during the term of the commitment, used to calculate the expected loss in group 2, is derived from the probability of default in the first 12 months. For risk classes J and K, the probability of default is set at 100% when there is objective evidence of default and/or loss.

Expected loss given default: The loss given default must reflect the degree of uncovered losses given the cash flow from the customer and any realisation of the collateral for non-performing loans. The loss ratio is assessed overall per segment and per product. On assessing the realisation of collateral, considerations are made which reflect the expectations in the short and medium term.

Exposure at default: For repayment loans, the expected repayment profile is determined per segment on the basis of an analysis of the average maturity in the segments. For commitments with a credit limit, it is determined how much of the credit limit is expected to be drawn on at the time of default. For guarantees, the expected exposure is determined in the event of default.

Rules concerning a significant increase in credit risk: The rules concerning a significant increase in credit risk are based on the risk class and changes in the risk classification. The rules are presented as a matrix table, based on the original risk class and current risk class. As a general principle, an increase by two risk classes entails a substantial increase in credit risk and transfer from stage 1 to stage 2. For commitments with the lowest risk classes, an increase to at least risk class E is required before transfer to stage 2. Commitments with payment reduction are assigned to stage 2. Commitments in risk classes J and K are assigned to stage 3.

Probability weighting of macroeconomic scenarios: Estimated expected losses are weighted by the factors and probability of three scenarios: an optimistic, an expected and a pessimistic scenario. Factors and the probability of the factors are based on internal assessments that include the expected development in key macroeconomic indicators, including housing prices, interest rate levels and unemployment, as well as observed credit losses.

3.1.2 Individual write-downs

Loans are written down for credit losses on a case by case (individual) basis if there is objective evidence that such a credit loss has occurred. Objective evidence is considered to exist in cases of major financial problems faced by the debtor, payment default or other material breach of contract, the granting of deferral of payments or new credit to pay due amounts, agreed changes in interest rates or other terms and conditions as a consequence of problems faced by the debtor, debt negotiations with the debtor, other financial restructuring or bankruptcy payment. Estimates of any credit loss are based on the size of expected future cash flows from sale of collateral etc., when the cash flows are expected to be paid and 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 main uncertainty when estimating the size of credit losses stems from the assessment of the size of the cash flows and when they are expected to be received. Individual write-downs are included in expected losses, stage 3. See also note 13.

3.2 Fair value of financial instruments

In principle, observable market rates must be used as the basis for measuring financial instruments at fair value. Other valuation methods are used wherever observable market rates do not exist and the fair value cannot be derived directly or indirectly from observable market input. These are methods that can involve using discretionary evaluations to some degree. Such discretionary evaluations may be liquidity risk, credit risk and volatility. Changes in the attitude toward these factors may affect the determination of the fair value of a financial instrument.

See also note 22 for valuations of financial assets and liabilities at fair value.

3.3 Net pension liability

The group's defined-contribution pension liabilities are calculated by an external actuary. The calculations are based on standardised assumptions concerning death and disability and other demographic assumptions drawn up by Finance Norway (FNO). A number of economic assumptions are also used as the calculation basis, including the expected return on pension funds, the discount rate, annual payroll growth, the change in G (the National Insurance Scheme's basic amount) and the regulation of pensions.

The discount interest rate is based on the rate of interest on covered bonds in the Norwegian market, since the market for covered bonds in Norway is regarded as satisfying the requirements for corporate bonds of high quality with a deep market. The discount rate is adjusted by a premium to arrive at an interest rate that reflects the estimated time of payment. The expected return on the pension funds is set as the discount rate in accordance with IAS 19. Pension funds are mostly invested in liquid assets valued at fair value on the balance sheet date. The other economic assumptions are based on the expected long-term change in the parameters. A far higher risk is assessed to be associated with estimated gross pension liabilities than with estimated pension funds. See also note 47 for further information.

NOTE 4 - OPERATIONAL SEGMENTS

Segment reporting is based on the bank's internal reporting format, in which the parent bank and the mortgage credit company are split into the retail market, the business market and the financial market. There are also other subsidiaries, as well as a non-reportable segment with items that are not allocated to other segments. Almost all the group's income comes from Norway. For the geographical distribution of loans to customers, see note 11.

For the purpose of management the bank is organised into five operational segments based on the products and services as follows: The retail market and business market segments mainly consist of lending to and deposits from customers. Finance mainly consists of the bank's liquidity portfolio, while the main product of AS Financiering is debenture financing of vehicles. Sparebanken Øst Eiendom AS is tasked with managing properties belonging to the Sparebanken Øst group. Income from the retail market, business market and AS Financiering mainly comprises net interest income, while income from Sparebanken Øst Eiendom AS consists of income from real estate. Income taxes are managed on a group basis and not allocated to operating segments, except for subsidiaries that are reported as separate operating segments.

Interest rates are reported on a net basis since the majority of segment income is derived from interest income on loans. The executive management team primarily bases its work on net interest income and not gross interest income and costs. Transactions between operational segments are based on arm’s length pricing equivalent to transactions with third parties. No single customer accounts for more than 10% of the bank’s total income in 2018 and 2017.

Income statement

2018	Retail market	Corporate market	Finance	AS Financiering	Spb Øst Eiendom	Unallocated	Eliminations	Group
Net interest and commission income	311.8	114.2	-25.8	118.4	-2.3	47.1	1.7	565.1
Other operating income	66.0	8.7	-11.4	-23.8	22.4	137.8	-7.2	192.5
Operating costs	60.4	16.8	0.0	33.3	-7.4	175.3	-4.1	289.1
Profit/loss before losses	**317.4**	**106.1**	**-37.2**	**61.3**	**12.7**	**9.6**	**-1.4**	**468.5**
Losses on loans, unused credit and guarantees	-1.2	4.4	0.0	14.4	0.0	0.0	0.0	17.6
Profit/loss before tax costs	**318.6**	**101.7**	**-37.2**	**46.9**	**12.7**	**9.6**	**-1.4**	**450.9**
Tax	0.0	0.0	0.0	11.9	-0.6	65.8	-0.4	76.7
Profit/loss after tax	**318.6**	**101.7**	**-37.2**	**35.0**	**13.3**	**-56.2**	**-1.0**	**374.2**

Income statement

2017	Retail market	Corporate market	Finance	AS Financiering	Spb Øst Eiendom	Unallocated	Eliminations	Group
Net interest and commission income	335.5	108.7	-26.1	123.0	-4.1	39.2	1.0	577.2
Other operating income	63.2	10.2	20.3	-23.7	62.6	33.8	-11.9	154.5
Operating costs	58.1	16.5	0.0	34.7	13.7	159.7	-5.3	277.4
Profit/loss before losses	**340.6**	**102.4**	**-5.8**	**64.6**	**44.8**	**-86.7**	**-5.6**	**454.3**
Losses on loans, unused credit and guarantees	-0.2	-1.4	0.0	8.8	0.0	0.0	0.0	7.2
Profit/loss before tax costs	**340.8**	**103.8**	**-5.8**	**55.8**	**44.8**	**-86.7**	**-5.6**	**447.1**
Tax	0.0	0.0	0.0	14.1	6.3	84.7	-1.4	103.7
Profit/loss after tax	**340.8**	**103.8**	**-5.8**	**41.7**	**38.5**	**-171.4**	**-4.2**	**343.4**

Balance sheet

2018	Retail market	Corporate market	Finance	AS Financiering	Spb Øst Eiendom	Unallocated	Eliminations	Group
Loans to and receivables from customers	27,963.6	4,795.0	0.0	1,987.7	0.0	464.9	-63.8	35,147.4
Other assets	6.4	0.0	5,630.9	32.8	176.8	3,008.4	-2,020.2	6,835.1
Total assets	**27,970.0**	**4,795.0**	**5,630.9**	**2,020.5**	**176.8**	**3,473.3**	**-2,084.0**	**41,982.5**
Deposits from and liabilities to customers	9,633.5	3,298.0	1,875.3	11.5	0.0	150.0	-68.6	14,899.7

Other liabilities/offsetting	18,336.5	1,497.0	3,755.6	1,723.5	91.9	-488.9	-1,777.0	23,138.6
Equity	0.0	0.0	0.0	285.5	84.9	3,812.2	-238.4	3,944.2
Total liabilities and equity	**27,970.0**	**4,795.0**	**5,630.9**	**2,020.5**	**176.8**	**3,473.3**	**2,084.0**	**41,982.5**
Year's investments	**0.0**	**0.0**	**0.0**	**1.5**	**0.3**	**18.2**	**0.0**	**20.0**

Balance sheet

2017	Retail market	Corporate market	Finance	AS Financiering	Spb Øst Eiendom	Unallocated	Eliminations	Group
Loans to and receivables from customers	24,467.6	4,214.0	0.0	1,894.6	0.0	497.0	-100.8	30,972.4
Other assets	7.0	0.0	4,682.5	27.2	232.4	2,965.0	-1,892.4	6,021.7
Total assets	**24,474.6**	**4,214.0**	**4,682.5**	**1,921.8**	**232.4**	**3,462.0**	**-1,993.2**	**36,994.1**
Deposits from and liabilities to customers	9,377.8	2,854.7	1,646.0	12.7	0.0	117.9	-37.3	13,971.8
Other liabilities/offsetting	15,096.8	1,359.3	3,036.5	1,667.5	149.2	-253.2	1,769.8	19,286.3
Equity	0.0	0.0	0.0	241.6	83.2	3,597.3	-186.1	3,736.0
Total liabilities and equity	**24,474.6**	**4,214.0**	**4,682.5**	**1,921.8**	**232.4**	**3,462.0**	**-1,993.2**	**36,994.1**
Year's investments	**0.0**	**0.0**	**0.0**	**1.8**	**2.7**	**16.5**	**0.0**	**21.0**

NOTE 5 - FINANCIAL RISK MANAGEMENT

Credit risk, market risk and liquidity risk are considered financial risks. Concentration risk is also discussed. Risks are reported quarterly to the executive management team and board. The reporting describes the current status in relation to various set limits for risk, both internal and statutory.

Credit risk
Credit risk is regarded as the risk of loss due to customers and other counterparties failing to meet their repayment obligations and any pledged collateral not covering the bank's outstanding debt.

Measuring risk when lending to customers takes place by classifying the risk customers represent and is an integral part of the credit process.
Pricing of credit is to be based on the risk of the individual commitment.

The bank's credit strategy describes the bank's overall extension of credit in the retail and business markets. On a day-to-day basis, the credit strategy is implemented via credit manuals, limits and authorisations that are handled via the bank's credit departments. All departments authorised to grant credit have a responsibility to comply with the credit policy adopted by the bank.

Central credit departments with authorisation to grant loans against security have been established in the retail market.

A separate credit department has been established which makes decisions on credit exceeding a certain amount in the business market. Decisions are taken in the credit department individually or jointly, according to a decision-making hierarchy. If the allocation of credit exceeds the authority given to the credit department, the case can be decided either by the executive management team or the board, depending on the amount. Smaller exposures are entered into in accordance with the adopted limits and personal mandates of the business market 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.

Placement in interest-bearing securities for liquidity purposes is linked to the strategy for liquidity management adopted by the board. The adopted strategy and the investment policy specify the risk tolerance, allocation to asset classes, limits and mandates. Credit losses must be close to zero. Furthermore, a significant proportion of the portfolio must be suitable to act as collateral for lending from Norges Bank. When investing funds in certificates and bonds, the risk is assessed on the basis of the paper's liquidity, issuer's rating and other counterparty-specific factors. Interest-bearing securities are booked at market value so that changes in value are continuously reflected in the financial statements.

Settlement risk is a form of credit risk. Should contract counterparties not meet their commitments, settlement in the form of cash or securities are at risk of being lost. The bank seeks to avoid such risks by entering into contracts with sound, and if possible rated, counterparties, and by using clearing systems with a good reputation.

Counterparty risk on derivatives and off balance sheet items is also a form of credit risk in that contracts may produce a loss if the counterparty goes bankrupt or is unable to fulfil its payment obligations. Such contracts are only entered into with financial institutions rated A or better by a credit assessment agency known by the bank.

Concentration risk
Concentration risk arises from low diversification with respect to geographical areas, industries and products. This is controlled in Sparebanken Øst by setting limits for exposure to industries and sectors, and commitment size.

Out of the group’s ordinary lending activities as at 31 December 2018, 86.07% of gross lending involved retail customers. A small proportion of lending to business customers contributes to a low concentration risk.

The group's loan portfolio to retail customers and businesses is primarily spread across the central Eastern Norway region. The bank is not regarded as being particularly exposed to individual business customers (cornerstone industries) or one-sided financial growth in the region. The bank's location in Eastern Norway provides close proximity to a large market area.

The business customer lending portfolio includes a variety of industries. Exposure to property and property development accounts for a relatively large proportion. Sales and the operation of real estate account for 64.0% of the business portfolio. Measured as a portion of the total lending portfolio in the group, exposure to sales and the operation of real estate is nonetheless no more than 8.8%. Property is a cyclical industry that is particularly vulnerable in periods of economic downturn. The commitments are, however, regarded as well secured, often with additional collateral.

Sparebanken Øst has set limits for concentration size whereby the three largest exposures in the business market portfolio may not account for more than 15% of the business market portfolio and the 10 largest for no more than 30%.

In its lending operations as at 31 December 2018, apart from commitments with its own subsidiaries (AS Financiering and Sparebanken Øst Boligkreditt AS), the bank had no exposures to external customers exceeding 10% of its primary capital. As at 31 December 2018, loans to the group’s largest loan customer represented 0.5% of gross lending. The group’s 10 largest borrowers represented 3.2% of gross lending, and the group's 20 largest borrowers represented 4.7% of gross lending.

Market risk
Market risk is the risk of a loss in the market value of financial assets and liabilities on the bank's balance sheet, or via a negative effect on earnings or equity in the event of changes in financial market prices.

Sparebanken Øst is exposed to market risk primarily through changes in the level of interest rates (interest risk), through changes in market prices of financial instruments, including changes in spreads for interest-bearing securities (credit spread risk), exchange rates (currency risk) and share prices (equities risk).

Market risk is managed via limits for maximum exposure to various asset classes, interest risk, currency risk and other risks.

<u>Interest rate risk</u>
When there is a change in the market interest rate, Sparebanken Øst is unable to immediately change the interest rate for all balance sheet items if these have different fixed-rate periods. A change in the market interest rate will then result in an increase or reduction of the net interest and balance sheet items' fair value. This risk is reduced by matching assets, liabilities and various derivatives with each other, in order to keep the risk within accepted limits.

<u>Credit spread risk</u>
The credit spread risk is the risk of losses due to changes in the margin (credit spread) on interest-bearing securities. The credit spread risk in the liquidity portfolio is managed by ensuring that the loss due to changes in the credit spread never exceeds a specific limit.

<u>Currency risk</u>
Currency risk is the risk of loss of value due to exchange rate fluctuations. Such risk is reduced by matching asset and liability positions with each other on the balance sheet or by using currency derivatives. Rolling swaps are used for assets where debtors are able to repay before the final due date. Where the final due date may not be deviated from, the positions are secured by basis swaps. Limits for currency exposure have been set.

<u>Equities risk</u>
The group has a holding of equities for mainly strategic purposes. Equities risk is the risk of losses due to changes in the prices of equities. A 10% drop in the share price would have a negative impact of NOK -59.9 million on the gross profit/loss after tax. By comparison, a 10% drop in the share value in 2017 would have had a negative impact of NOK 1.3 million on the gross profit/loss after tax and NOK 45.9 million on the comprehensive profit/loss after tax. See Note 35 for specification of the group’s shares and equity certificates.

Risk mitigation measures
The bank uses guarantees, derivatives and financial hedging to reduce risk exposure due to changes in interest rate levels, exchange rates and credit risks. Please see the descriptions of each individual risk area.

The low proportion of lending to business customers contributes to a low concentration risk for the bank. The lending activities in the business market are not deemed to be particularly exposed to individual companies (cornerstone industries) or one-sided economic development in the region. Exposure to property and property development accounts for a relatively large share of the business portfolio, but measured as a share of the group's total lending portfolio this exposure accounts for a limited share of the total lending portfolio. Real estate commitments are, however, regarded as well secured, often with additional collateral. Loans and credit facilities extended to the retail market primarily concern commitments against mortgages on real estate within appropriate loan-to-value ratios. The bank has low exposure to loans/credit facilities without related collateral.

Lending to other banks and lending as senior bond placements and certificates is provided on an unsecured basis. Investments in covered bonds provide security in a defined selection of issuer's assets, usually mortgages.

Liquidity risk
Liquidity risk is the risk of the bank not being in a position to meet its ongoing liabilities as they fall due or having to obtain necessary funding at a higher cost. The overall strategy dictates that Sparebanken Øst must practise a conservative liquidity risk policy. This involves a long-term and proactive approach to future liquidity needs and managing liquidity through investments in assets with low liquidity risk and credit risk. Limits have been established which govern the composition of the balance sheet with regard to the degree of long-term funding and the horizon for survival in a situation with no access to new liquidity. The bank maintains liquidity reserves in the form of cash, drawing rights in Norges Bank and a bond portfolio consisting of liquid securities with high credit quality.

Sparebanken Øst seeks at all times to diversity its sources of finance in order to be as independent as possible of events in individual markets. In addition to deposits from customers, the Norwegian certificate and bond market, including the market for covered bonds, are current funding sources.

Deposits are a key source of funding for the banks. Following the financial crisis, the competition for deposits has intensified, particularly from the new consumer banks. Adjustments to the range of products available to our customers have so far provided stable deposits. In particular, Topprente.no has helped ensure the necessary competitiveness for the bank with regard to its deposit coverage ratio. Topprente.no is a self-service concept which provides an opportunity to offer customers competitive deposit terms. As at 31 December 2018, deposits from customers amounted to 42.4% of the group’s net lending, compared to 45.1% as at 31 December 2017.

It is primarily major institutional investors which invest in the banks’ debt securities. In order to ensure liquidity in the securities, it is desirable that the bond issues are of a certain size. On the other hand, it is not desirable to have loans that are too large, since this will increase the refinancing risk. Covered bonds provide security to investors in the form of preferential rights to low-risk mortgages. In principle, the largest bond loans are covered bonds.

The balance sheet steering committee constantly addresses market events and agrees measures linked to the liquidity situation in accordance with the adopted strategy.
A contingency plan has also been specified for dealing with liquidity crises.

Long-term capital management
Sparebanken Øst's long-term capital management is intended to ensure good solidity and adequate liquidity for the entire group. Good solidity is maintained first and foremost by ensuring that there are sufficient capital buffers in excess of the minimum capital requirements. The bank is adapting to the new capital adequacy rules and closely monitors the development in the market's capital expectations beyond the regulatory requirements. The bank’s adopted CET1 capital ratio target is 14.75%. This capital level provides capacity for growth, room to manoeuvre in relation to regulatory requirements, competitiveness in bond markets and an opportunity for a return on equity in line with the adopted objective.

Growth and planned growth in lending and other assets will therefore always take into consideration the need for buffer capital above the minimum requirements. Otherwise, there is a heavy focus on maintaining the prudent management of commercial operations so that the group can achieve good results and satisfactory returns on invested capital. This will ensure the bank remains attractive to investors and help to ensure the group access to capital when required to strengthen its equity share capital.

NOTE 6 - CAPITAL ADEQUACY

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
		CET1 capital		
3,593.7	3,384.3	Book equity	3,188.7	2,971.7
		Deduction items in CET1 capital		
-6.4	-5.2	Additional value adjustments (prudent valuation requirement) (AVA)	-7.3	-4.9
-119.2	-155.6	Dividends	-119.2	-155.6
-150.9	-71.4	Goodwill in the valuation of significant investments	-150.9	-71.4
-17.8	-10.3	Intangible assets	-16.8	-8.5
0.0	0.0	Deferred tax	0.0	0.0
0.0	0.0	CET1 capital instruments in other financial institutions (not significant)	0.0	0.0
0.0	0.0	CET1 capital instruments in other financial institutions (significant)	0.0	0.0
-27.7	0.0	Other deductions from pure tier 1 capital	-27.7	0.0
3,271.8	**3,141.8**	**Total CET1 capital**	**2,866.8**	**2,731.3**
		Other tier 1 capital		
350.0	349.8	Hybrid tier 1 capital	350.0	349.8
		Deductions from other tier 1 capital		
0.0	0.0	Other tier 1 capital instruments in other financial institutions (not significant)	0.0	0.0
0.0	0.0	Other tier 1 capital instruments in other financial institutions (significant)	0.0	0.0
350.0	**349.8**	**Total other tier 1 capital**	**350.0**	**349.8**
3,621.8	**3,491.6**	**Total tier 1 capital**	**3,216.8**	**3,081.1**
		Tier 2 capital		
400.0	349.9	Subordinated loans	400.0	349.9
		Deductions from tier 2 capital		
0.0	0.0	Tier 2 capital instruments in other financial institutions (not significant)	0.0	0.0
-56.0	0.0	Tier 2 capital instruments in other financial institutions (significant)	-56.0	0.0
344.0	**349.9**	**Total tier 2 capital**	**344.0**	**349.9**
3,965.8	**3,841.5**	**Net capital resources**	**3,560.8**	**3,431.0**
		Basis for calculation		
0.0	0.0	Governments and central banks	0.0	0.0
67.8	39.8	Local and regional authorities	67.8	39.8
0.0	0.0	Publicly owned companies	0.0	0.0
0.0	0.0	Multilateral development banks	0.0	0.0
73.3	132.8	Institutions	3,228.1	2,773.2
572.6	462.7	Companies	640.9	655.1
1,655.3	1,575.5	Mass market accounts	206.5	191.8
14,692.0	12,791.3	Accounts secured against property	9,739.2	8,889.7
159.7	119.7	Accounts due	68.5	64.3
383.4	313.8	Covered bonds	373.4	303.7
0.0	0.0	Shares in securities fund	0.0	0.0
635.1	667.7	Equity positions	1,921.2	1,603.8
238.3	381.3	Other exposures	109.3	111.8
0.0	0.0	Securitisation	0.0	0.0
18,477.4	**16,484.7**	**Calculation basis for credit and counterparty risk**	**16,354.8**	**14,633.4**
0.0	**0.0**	**Calculation basis for currency risk**	**0.0**	**0.0**
1,294.6	**1,289.7**	**Calculation basis for operational risk**	**841.7**	**840.9**
187.5	**185.6**	**Calculation basis for impaired counterparty credit valuation adjustment (CVA)**	**28.1**	**62.7**
19,959.5	**17,960.0**	**Total calculation basis**	**17,224.7**	**15,537.0**
16.39%	17.49%	CET1 capital ratio	16.64%	17.58%
18.15%	19.44%	Tier 1 capital ratio	18.68%	19.83 %
19.87%	21.39%	Capital adequacy	20.67%	22.08 %

Group 2018	Group 2017	Buffers	Parent bank 2018	Parent bank 2017
499.0	449.0	Capital conservation buffer	430.6	388.4
399.2	359.2	Countercyclical buffer	344.5	310.7
598.8	538.8	Systemic risk buffer	516.7	466.1
0.0	0.0	Buffer for systemically important banks	0.0	0.0
1,497.0	**1,347.0**	**Total buffer requirements**	**1,291.9**	**1,165.3**
2,369.0	**2,333.5**	**Available buffer capital**	**2,091.7**	**2,032.1**
8.48%	9.23%	Tier 1 leverage ratio	7.37%	7.92%

The bank uses the standard approach to calculate the minimum capital resources requirement for credit risk. Operational risk is calculated using the basic indicator 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 bank's primary capital must satisfy the minimum capital adequacy ratio requirements at all times, with the addition of a buffer equivalent to the company's accepted risk tolerance.

See also the group's Pillar III document, which is available on Sparebanken Øst's website.

NOTE 7 - CREDIT RISK

Maximum credit risk

Maximum credit risk is represented as the book value of the financial assets, including derivatives, on the balance sheet. The group also has credit risk related to loan approvals, unused overdraft facilities and guarantees. The maximum credit risk in excess of book values is shown below.

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
		Liabilities		
1,015.8	395.9	Loan pledges	814.1	377.6
1,680.9	1,521.7	Overdraft facilities	2,890.9	3,129.3
106.3	116.6	Guarantees to customers	106.3	115.8
0.0	0.0	Guarantee for all covered bond obligations in the mortgage credit company*	12,062.9	9,685.9
2,803.0	**2,034.2**	**Total liabilities**	**15,874.2**	**13,308.6**

* The parent bank has issued a guarantee for all covered bond commitments in the mortgage credit company in connection the rating process for Sparebanken Øst Boligkreditt AS.

For more information on maximum credit exposure linked to the various classes of financial instrument, see the specific associated notes.

Credit risk

Sparebanken Øst's credit strategy provides the basis for the credit activities in the bank. The scope, target figures, procedures and guidelines have been established for both the retail and business markets to help ensure that all elements associated with credit assessments are adequately described and known. These must also ensure that portfolios are properly followed up and that any changes relating to the assessed risk for the individual commitment can be identified at an early stage and monitored closely. Developments in individual commitments and portfolios are continuously followed up on through various administrative reports. Target figures and frameworks adopted by the board are followed up on and reported to the board on quarterly basis.

Debt-servicing capacity is central to any credit assessment in either the retail or the business markets. Normally, credit must not be provided if it is unlikely that the customer will be able to service the debt even when adequate security is provided. The basis for the assessment of a customer's capacity to service the debt is current and future cash flows measured against the customer's cost obligations at any time. Cash flow is based on the salary income or business income of the customer(s) being financed. Besides this, the extent to which the bank will be able to cover the commitments by realising the security in the event of any future default, reduction of cash flows, or other negative market changes, is also assessed. Sparebanken Øst generally has very low exposure to unsecured loans/credit facilities.

Routines for the periodic follow-up of commitments have been established in the business market. These ensure the bank updated assessments at least once a year for the majority of the portfolio. In addition to the customary credit assessment, financial clauses in credit agreements are also used to reduce risk and ensure the follow-up and management of individual commitments. It is the total exposure to the individual customer that is taken into consideration when assessing the effect the security pledged has for the credit risk.

Chapter 11-II of the Financial Institutions Act governs the activities of Sparebanken Øst Boligkreditt AS and sets strict criteria concerning which loans may be included in the security pledged as collateral for covered bonds. These are more stringent regulations than for ordinary home mortgages and the Act also requires an independent assessor appointed by the Norwegian Financial Supervisory Authority and an independent assessment of each individual pledge of security.

NOTE 8 – CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

Sparebanken Øst's underlying credit quality relating to loans and advances to customers is shown by the portfolio's risk classification. The risk classification of customers is an integral and mandatory element of the credit process in both the retail and business markets. The credit strategy stipulates the limits for the minimum proportion of portfolios within the various risk classes. The development in the portfolio distribution in the risk classes must be followed up on through continuous monitoring and reporting.

The risk classification models prioritise the key figures linked to the ability and willingness to pay. The credit portfolio is classified within eleven risk classes (A–K). The commitments in the two worst classes (J and K) represent identified default commitments. The combination of commitment size and risk classification is crucial in building up the bank's authorisation structure in the business market.

The group is always seeking to improve its internal risk classification models in order to ensure that the models always have high explanatory power based on the key drivers in the various customer segments. The parent bank is working on a project aimed at replacing the current risk classification model with a credit score model.

In the case of financial investments in certificates and bonds, the risk is assessed based on rating and counterparty-specific factors. Ratings from credit rating agencies are preferred. Where such ratings are not available, scores from Norwegian brokers as well as internal assessments are used.

Ratings from credit rating agencies and scores from brokers generally follow a scale from AAA to C, where AAA is the highest quality and C indicates the lowest quality. The scale is used such that AAA–A is deemed low risk, BBB is deemed medium risk and BB–C is deemed higher risk.

Group as at 31.12.18

	Not due or written down						
	Low risk	**Moderate risk**	**High risk**	**Unclassified**	**Due, not written down**	**Individually written down**	**Total**
Loans							
Loans to and receivables from financial institutions	9.5	0.0	0.0	0.0	0.0	0.0	9.5
Loans to and receivables from customers							
- Financial leases	15.3	4.0	0.3	0.0	3.9	0.9	24.4
- Overdraft facilities and operating credits	2,433.9	42.3	12.6	0.2	149.3	0.3	2,638.6
- Building loans	124.3	26.5	0.0	0.0	20.7	0.0	171.5
- Repayment loans	28,874.0	1,722.8	386.8	8.1	1,277.8	144.8	32,414.3
Total loans	**31,457.0**	**1,795.6**	**399.7**	**8.3**	**1,451.7**	**146.0**	**35,258.3**
Financial investments							
Listed government bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Listed other bonds	4,894.5	78.2	0.0	0.0	0.0	0.0	4,972.7
Unlisted bonds	200.4	0.0	0.0	0.0	0.0	0.0	200.4
Total financial investments	**5,094.9**	**78.2**	**0.0**	**0.0**	**0.0**	**0.0**	**5,173.1**

Group as at 31.12.2017

	Not due or written down						
	Low risk	Moderate risk	High risk	Unclassified	Due, not written down	Individually written down	Total
Loans							
Loans to and receivables from financial institutions	5.7	0.0	0.0	0.0	0.0	0.0	5.7
Loans to and receivables from customers							
- Financial leases	13.0	5.5	1.2	0.0	3.2	0.6	23.5
- Overdraft facilities and operating credits	2,228.2	57.7	25.7	0.2	92.4	0.0	2,404.2
- Building loans	123.4	10.6	0.0	0.0	17.2	0.0	151.2
- Repayment loans	25,153.4	1,760.3	522.4	0.5	939.7	115.1	28,491.4
Total loans	**27,523.7**	**1,834.1**	**549.3**	**0.7**	**1,052.5**	**115.7**	**31,076.0**
Financial investments							
Listed government bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Listed other bonds	4,309.8	50.2	0.0	0.0	0.0	0.0	4,360.0
Unlisted bonds	145.1	10.0	0.0	0.0	0.0	0.0	155.1
Total financial investments	**4,454.9**	**60.2**	**0.0**	**0.0**	**0.0**	**0.0**	**4,515.1**

Parent bank as at 31.12.18

	Not due or written down						
	Low risk	Moderate risk	High risk	Unclassified	Due, not written down	Individually written down	Total
Loans							
Loans to and receivables from financial institutions	2,155.1	0.0	0.0	0.0	0.0	0.0	2,155.1
Loans to and receivables from customers							
- Financial leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Overdraft facilities and operating credits	1,384.6	28.2	9.0	0.2	111.7	0.3	1,534.0
- Building loans	124.3	26.5	0.0	0.0	20.7	0.0	171.5
- Repayment loans	16,551.3	688.3	141.3	7.7	635.0	5.0	18,028.6
Total loans	**20,215.3**	**743.0**	**150.3**	**7.9**	**767.4**	**5.3**	**21,889.2**
Financial investments							
Listed government bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Listed other bonds	4,733.5	78.2	0.0	0.0	0.0	0.0	4,811.7
Unlisted bonds	200.4	0.0	0.0	0.0	0.0	0.0	200.4
Total financial investments	**4,933.9**	**78.2**	**0.0**	**0.0**	**0.0**	**0.0**	**5,012.1**

Parent bank as at 31.12.2017

	Not due or written down						
	Low risk	Moderate risk	High risk	Unclassified	Due, not written down	Individually written down	Total
Loans							
Loans to and receivables from financial institutions	1,929.3	0.0	0.0	0.0	0.0	0.0	1,929.3
Loans to and receivables from customers							
- Financial leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Overdraft facilities and operating credits	1,567.1	35.9	22.0	0.2	64.3	0.0	1,689.5
- Building loans	123.4	10.6	0.0	0.0	17.2	0.0	151.2
- Repayment loans	15,511.7	689.5	231.1	0.1	411.8	0.7	16,844.9
Total loans	**19,131.5**	**736.0**	**253.1**	**0.3**	**493.3**	**0.7**	**20,614.9**
Financial investments							
Listed government bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Listed other bonds	4,153.5	50.2	0.0	0.0	0.0	0.0	4,203.7
Unlisted bonds	145.1	10.0	0.0	0.0	0.0	0.0	155.1
Total financial investments	**4,298.6**	**60.2**	**0.0**	**0.0**	**0.0**	**0.0**	**4,358.8**

NOTE 9 - AGE DISTRIBUTION OF LOANS MATURED BUT NOT WRITTEN DOWN

Group as at 31.12.18

	Up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Loans to and receivables from customers					
- Financial leases	2.7	0.9	0.3	0.0	3.9
- Overdraft facilities and operating credits	141.2	3.7	2.9	1.5	149.3
- Building loans	20.7	0.0	0.0	0.0	20.7
- Repayment loans	1,028.7	155.3	48.0	45.8	1,277.8
Total	**1,193.3**	**159.9**	**51.2**	**47.3**	**1,451.7**

Group as at 31.12.2017

	Up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Loans to and receivables from customers					
- Financial leases	1.5	1.7	0.0	0.0	3.2
- Overdraft facilities and operating credits	87.5	0.4	0.1	4.4	92.4
- Building loans	17.2	0.0	0.0	0.0	17.2
- Repayment loans	722.9	150.5	26.1	40.2	939.7
Total	**829.1**	**152.6**	**26.2**	**44.6**	**1,052.5**

Parent bank as at 31.12.18

	Up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Loans to and receivables from customers					
- Financial leases	0.0	0.0	0.0	0.0	0.0
- Overdraft facilities and operating credits	103.6	3.7	2.9	1.5	111.7
- Building loans	20.7	0.0	0.0	0.0	20.7
- Repayment loans	548.2	40.0	10.3	36.5	635.0
Total	**672.5**	**43.7**	**13.2**	**38.0**	**767.4**

Parent bank as at 31.12.2017

	Up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Loans to and receivables from customers					
- Financial leases	0.0	0.0	0.0	0.0	0.0
- Overdraft facilities and operating credits	62.1	0.4	0.1	1.7	64.3
- Building loans	17.2	0.0	0.0	0.0	17.2
- Repayment loans	312.1	56.8	2.7	40.2	411.8
Total	**391.4**	**57.2**	**2.8**	**41.9**	**493.3**

NOTE 10 - CREDIT RISK BY RISK CLASS

Business customers, parent bank

The risk classification is included as an integral part of the credit process in the business market and, together with commitment size, it determines the decision-making level and provides guidance with regard to pricing. The risk classification is key in terms of managing and controlling the portfolio on an ongoing basis. The risk classification is based on a weighted calculation of various parameters, in which the financial key figures are weighted highest.

Credit risk broken down by risk class, 2018

	Gross lending	Guarantee liability	Overdraught facilities	Commit-ments	%	Commitments Stage 1	Commitments Stage 2	Commitments Stage 3*
				352.5	6.8	352.5	0.0	0.0
A	317.2	8.3	27.0	885.4	17.1	885.2	0.2	0.0
B	803.9	24.2	57.3	1,349.9	26.0	1,342.2	7.7	0.0
C	1,267.0	17.7	65.2	1,987.0	38.3	1,986.4	0.6	0.0
D	1,870.8	44.5	71.7	454.0	8.7	370.4	83.6	0.0
E	424.4	5.4	24.2	71.4	1.4	41.5	29.9	0.0
F	68.8	1.1	1.5	61.0	1.2	43.5	17.5	0.0
G	60.5	0.0	0.5	6.9	0.1	1.5	5.4	0.0
H	6.9	0.0	0.0	0.4	0.0	0.0	0.4	0.0
I	0.4	0.0	0.0	14.7	0.3	1.0	0.0	13.7
J	13.8	0.9	0.0	9.2	0.1	2.3	0.0	6.9
K	7.0	2.2	0.0	0.2	0.0	0.2	0.0	0.0
Unallocated	0.2	0.0	0.0	**5,192.6**	**100.0**	**5,026.7**	**145.3**	**20.6**
Total	**4,840.9**	**104.3**	**247.4**	**8.3**		**5.4**	**1.5**	**1.4**
Loss provisions								

* Stage 3 provisions include individually assessed loss write-downs of NOK 0.3 million.

Credit risk broken down by risk class, 2017

	Gross lending	Guarantee liability	Overdraught facilities	Individ. write-downs	Commitment	%
A	519.9	2.7	26.3	0.0	548.9	11.6
B	646.0	21.7	50.6	0.0	718.3	15.2
C	1,010.7	38.0	26.4	0.0	1,075.1	22.7
D	1,950.8	40.4	49.4	0.0	2,040.6	43.1
E	209.4	2.1	5.3	0.0	216.8	4.6
F	55.1	2.5	2.4	0.0	60.0	1.3
G	26.3	0.0	0.4	0.0	26.7	0.6
H	9.8	1.2	0.1	0.0	11.1	0.2
I	3.1	0.0	0.0	0.0	3.1	0.1
J	21.2	1.3	0.0	0.0	22.5	0.5
K	5.6	1.5	0.0	0.5	7.1	0.1
Unallocated	0.0	0.0	0.0	0.0	0.0	0.0
Total	**4,457.9**	**111.4**	**160.9**	**0.5**	**4,730.2**	**100.0**

In its credit strategy the board has determined overall limits related to the maximum exposure per customer/group, industry exposure, risk class, concentration risk and requirements for the acceptance of new customers. The target figures and limits adopted by the board, as described in the credit strategy, are followed up via the quarterly risk reports.

A risk classification based on 11 categories from A to K is used in both the retail and business markets. Risk class A represents the lowest risk and risk class I represents the highest risk for non-default customers. 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 in the bank's recovery department.
Business customers undergo risk classification in the event of new application assessments and/or through annual renewals.

Retail customers - parent bank

The risk classification system is used for decision-making support, monitoring and reporting. The risk parameters from the classification systems are included as an integral part of the credit process and follow-up of the retail customer portfolio. The risk classification is based on a weighted calculation of the following parameters: level of debt, capacity to service the debt, debt-servicing history, and credit score, obtained from an external credit information provider.
Retail customers’ risk is classified when new loan applications are assessed or as a result of annual reclassifications.

The bank's organisation of the approval process within the retail market is based on centralised decision-making units.

Credit risk broken down by risk class, 2018

	Gross lending	Guarantee liability	Overdraught facilities	Commit-ments	%	Commitments Stage 1	Commitments Stage 2	Commitments Stage 3*
A	6,907.6	1.1	504.8	7,413.5	47.4	7,404.9	8.6	0.0
B	2,852.8	0.7	113.4	2,966.9	19.0	2,962.4	4.5	0.0
C	2,826.0	0.2	70.7	2,896.9	18.5	2,887.4	9.5	0.0
D	1,808.9	0.0	40.4	1,849.3	11.8	1,847.9	1.4	0.0
E	219.5	0.0	8.3	227.8	1.5	212.4	15.4	0.0
F	100.8	0.0	0.8	101.6	0.7	72.0	29.6	0.0
G	57.5	0.0	0.2	57.7	0.4	47.6	10.1	0.0
H	17.0	0.0	0.1	17.1	0.1	12.2	4.9	0.0
I	14.3	0.0	0.0	14.3	0.0	13.8	0.5	0.0
J	57.1	0.0	0.0	57.1	0.4	0.6	0.0	56.5
K	23.7	0.0	0.0	23.7	0.2	0.3	0.0	23.4
Unallocated	8.1	0.0	0.0	8.1	0.0	8.1	0.0	0.0
Total	**14,893.3**	**2.0**	**738.7**	**15,634.0**	**100.0**	**15,469.6**	**84.5**	**79.9**
Loss provisions				**9.9**		**4.9**	**0.5**	**4.5**

* Sage 3 provisions include individually assessed loss write-downs of NOK 3.4 million.

Credit risk broken down by risk class, 2017

	Gross lending	Guarantee liability	Overdraught facilities	Individ. write-downs	Commitment	%
A	6,087.4	1.1	508.6	0.0	6,597.1	44.0
B	2,594.6	0.7	111.4	0.0	2,706.7	18.1
C	2,494.8	1.2	63.1	0.0	2,559.1	17.1
D	2,220.7	1.3	48.4	0.0	2,270.4	15.2
E	383.9	0.1	11.2	0.0	395.2	2.6
F	161.0	0.0	2.9	0.0	163.9	1.1
G	99.8	0.0	1.2	0.0	101.0	0.7
H	48.4	0.0	0.3	0.0	48.7	0.3
I	45.1	0.0	0.3	0.0	45.4	0.3
J	87.4	0.0	0.1	0.0	87.5	0.6
K	3.9	0.0	0.0	0.0	3.9	0.0
Unallocated	0.7	0.0	0.0	0.0	0.7	0.0
Total	**14,227.7**	**4.4**	**747.5**	**0.0**	**14,979.6**	**100.00**

Total portfolio - parent bank

Credit risk broken down by risk class, 2018

	Gross lending	Guarantee liability	Overdraught facilities	Commit-ments	%	Commitments Stage 1	Commitments Stage 2	Commitments Stage 3*
A	7,224.7	9.4	531.8	7,766.0	37.4	7,757.4	8.6	0.0
B	3,656.7	24.9	170.7	3,852.3	18.5	3,847.6	4.7	0.0
C	4,093.0	17.9	135.9	4,246.8	20.4	4,229.6	17.2	0.0
D	3,679.7	44.5	112.1	3,836.3	18.4	3,834.3	2.0	0.0
E	643.9	5.4	32.5	681.8	3.3	582.8	99.0	0.0
F	169.6	1.1	2.3	173.0	0.8	113.5	59.5	0.0
G	118.0	0.0	0.7	118.7	0.6	91.1	27.6	0.0
H	23.9	0.0	0.1	24.0	0.1	13.7	10.3	0.0
I	14.7	0.0	0.0	14.7	0.0	13.8	0.9	0.0
J	70.9	0.9	0.0	71.8	0.3	1.6	0.0	70.2
K	30.7	2.2	0.0	32.9	0.2	2.6	0.0	30.3
Unallocated	8.3	0.0	0.0	8.3	0.0	8.3	0.0	0.0

Total	**19,734.1**	**106.3**	**986.1**	**20,826.5**	**100.0**	**20,496.3**	**229.8**	**100.5**
Loss provisions				**18.2**		**10.3**	**2.0**	**5.9**

* Stage 3 provisions include individually assessed loss write-downs of NOK 3.7 million.

Credit risk broken down by risk class, 2017

	Gross lending	Guarantee liability	Overdraught facilities	Individ. write-downs	Commitment	%
A	6,607.3	3.8	534.9	0.0	7,146.0	36.4
B	3,240.6	22.4	162.0	0.0	3,425.0	17.4
C	3,505.5	39.2	89.5	0.0	3,634.2	18.4
D	4,171.5	41.7	97.8	0.0	4,311.0	21.9
E	593.3	2.2	16.5	0.0	612.0	3.1
F	216.1	2.5	5.3	0.0	223.9	1.1
G	126.1	0.0	1.6	0.0	127.7	0.6
H	58.2	1.2	0.4	0.0	59.8	0.3
I	48.2	0.0	0.3	0.0	48.5	0.2
J	108.6	1.3	0.1	0.0	110.0	0.5
K	9.5	1.5	0.0	0.5	11.0	0.1
Unallocated	0.7	0.0	0.0	0.0	0.7	0.0
Total	**18,685.6**	**115.8**	**908.4**	**0.5**	**19,709.8**	**100.0**

Collective write-downs of loans to customers in the parent bank amounted to a total of NOK 31.5 million as at 31 December 2017.

Total portfolio - stage

Credit risk broken down by risk class, 2018

	Gross lending	Guarantee liability	Overdraught facilities	Commit-ments	%	Commitments Stage 1	Commitments Stage 2	Commitments Stage 3*
A	13,636.3	9.4	1,115.9	14,761.6	39.9	14,751.9	9.7	0.0
B	6,428.3	24.9	223.1	6,676.3	18.0	6,667.6	8.7	0.0
C	6,160.6	17.9	158.9	6,337.4	17.1	6,308.2	29.2	0.0
D	5,434.9	44.5	145.8	5,625.2	15.2	5,611.0	14.2	0.0
E	837.2	5.4	33.5	876.1	2.4	763.4	112.7	0.0
F	1,040.7	1.1	2.9	1,044.7	2.8	927.1	117.6	0.0
G	1,140.8	0.0	0.7	1,141.5	3.1	912.4	229.1	0.0
H	273.6	0.0	0.1	273.7	0.7	100.1	173.6	0.0
I	27.0	0.0	0.0	27.0	0.1	23.3	3.7	0.0
J	101.9	0.9	0.0	102.8	0.2	1.5	0.0	101.3
K	159.0	2.2	0.0	161.2	0.4	2.6	0.0	158.6
Unallocated	8.5	0.0	0.0	8.5	0.1	8.5	0.0	0.0
Total	**35,248.8**	**106.3**	**1,680.9**	**37,036.0**	**100.0**	**36,077.6**	**698.5**	**259.9**
Loss provisions				**102.2**		**19.0**	**8.0**	**75.2**

* Stage 3 provisions include individually assessed loss write-downs of NOK 73.1 million.

Credit risk broken down by risk class, 2017

	Gross lending	Guarantee liability	Overdraught facilities	Individ. write-downs	Commitment	%
A	11,290.6	3.8	1,040.8	0.0	12,335.2	37.7
B	5,641.7	22.4	201.6	0.0	5,865.7	17.9
C	5,398.7	39.2	128.0	0.0	5,565.9	17.0
D	5,785.3	41.7	119.6	0.0	5,946.6	18.2
E	1,431.7	2.2	22.8	0.0	1,456.7	4.5
F	682.9	2.5	5.5	0.0	690.9	2.1
G	296.5	0.0	2.7	0.0	299.2	0.9
H	120.9	2.0	0.4	0.0	123.3	0.4
I	83.4	0.0	0.3	0.0	83.7	0.3
J	237.9	1.3	0.1	30.9	239.3	0.7
K	99.6	1.5	0.0	32.2	101.1	0.3
Unallocated	1.1	0.0	0.0	0.0	1.1	0.0
Total	**31,070.3**	**116.6**	**1,521.7**	**63.1**	**32,708.6**	**100.0**

The consolidated figures show a summary of the parent bank, Sparebanken Øst AS, and AS Financiering. AS Financiering's business mainly consists of financing for used cars. Credit information is obtained when classifying risk in AS Financiering. This is also adjusted for income, equity and any negative payment history AS Financiering may have with the customer.

Security in relation to loans to customers, group 31.12.18

The table below shows security in relation to loans to customers. Security is not taken for the bank's other financial assets.

	Maximum exposure to credit risk	Security in property	Security in securities	Other security
Gross loans to customers incl. unused overdraft facilities and guarantees for customers	**37,036.0**	**78,983.3**	**249.8**	**2,576.2**

The table above shows the sum of the values the bank has used as the basis for all the security pledged for the portfolio of loans to customers. The market values in the table are therefore not limited to maximum credit exposure on the individual loans or commitment. The bank's lending portfolio is primarily secured by real estate.
Where a commitment is secured by real estate, the property value is based on an estimated market value at the time of the last assessment of the commitment. The estimated market value is based on known market values, valuations or other types of value assessments. In the business market, the security's cash flow will provide a guide as to the estimated market value. The estimated market values for all types of security, including operationally dependent security, will be conservative. The principles for valuing all underlying securities are described in the bank's guidelines.

For the parent bank, the estimated fair value of security for gross non-performing and impaired, but not written down, loans was NOK 55.0 million (NOK 63.4 million in 2017). Gross non-performing and impaired, but not written down, loans amounted to NOK 29.4 million (NOK 47.0 million in 2017). The estimated fair value of security for loans individually written down was NOK 18.6 million (NOK 0.0 million in 2017), which is equivalent to the book value of individually written down loans. The security consists mainly of real property, but smaller amounts may be secured with deposits, goods, claims and movable operating equipment as security.

Sparebanken Øst Boligkreditt AS's gross non-performing and impaired loans amounted to NOK 9.3 million at the end of the year. The estimated fair value of security for non-performing and impaired, but not written down, loans was NOK 21.8 million in 2018. Non-performing and impaired loans amounted to NOK 2.7 million in 2017.

AS Financiering has an estimated 49.0% (47.5% in 2017) security cover on loans that are written down.

NOTE 11 - DISTRIBUTION OF LOANS AND GUARANTEES FOR CUSTOMERS BY SECTOR, INDUSTRY AND GEOGRAPHY

Distribution by sector and industry - group

	Gross loans		Guarantees		Potential exposure for overdraught facilities	
	2018	2017	2018	2017	2018	2017
Salaried employees	30,337.9	26,659.1	2.1	2.5	1,447.8	1,357.3
Agriculture, forestry and fishing	108.2	104.6	0.0	0.5	13.3	16.2
Industry, mining, power and water	69.2	82.4	8.7	6.0	23.5	12.8
Building and construction	417.1	292.1	37.9	36.6	75.2	44.2
Wholesale and retail trade, hotels and restaurants	135.6	154.7	10.5	12.2	29.1	30.9
Transport and communications	46.7	47.7	8.1	8.5	4.6	4.9
Business financial services	192.3	193.1	4.5	4.1	5.1	5.9
Other service industries	788.2	780.6	3.5	10.6	30.0	25.2
Real estate sales and operation	3,117.0	2,726.2	31.0	35.6	51.7	23.7
Abroad	36.6	29.8	0.0	0.0	0.6	0.6
Total	**35,248.8**	**31,070.3**	**106.3**	**116.6**	**1,680.9**	**1,521.7**

Distribution by sector and industry - parent bank

	Gross loans		Guarantees		Potential exposure for overdraught facilities	
	2018	2017	2018	2017	2018	2017
Salaried employees	14,881.5	14,207.5	2.1	2.5	738.0	747.1
Agriculture, forestry and fishing	106.3	102.1	0.0	0.5	13.3	16.2
Industry, mining, power and water	67.6	79.5	8.7	6.0	23.5	12.8
Building and construction	398.6	272.0	37.9	36.6	73.6	42.7
Wholesale and retail trade, hotels and restaurants	119.7	136.8	10.5	11.4	27.4	30.9
Transport and communications	32.1	36.3	8.1	8.5	4.6	4.9
Business financial services	183.0	185.3	4.5	4.1	26.7	5.7
Other service industries	755.6	757.6	3.5	10.6	28.1	25.2
Real estate sales and operation	3,174.8	2,895.7	31.0	35.6	50.3	22.3
Abroad	14.9	12.8	0.0	0.0	0.6	0.6
Total	**19,734.1**	**18,685.6**	**106.3**	**115.8**	**986.1**	**908.4**

Geographical distribution

Group Gross loans		Group Guarantees			Parent bank Gross loans		Parent bank Guarantees	
2018	2017	2018	2017		2018	2017	2018	2017
5,127.3	4,644.7	31.1	22.2	Drammen	3,589.1	3,617.8	31.1	22.2
2,458.4	2,434.4	12.4	10.7	Nedre Eiker	1,570.8	1,800.2	12.4	10.7
2,171.0	2,089.1	16.0	21.1	Øvre Eiker	1,519.2	1,615.8	16.0	21.1
4,006.0	3,105.5	7.9	8.8	Rest of Buskerud	2,746.2	2,289.3	7.9	8.8
7,087.6	5,980.6	18.8	25.0	Oslo	3,794.6	3,311.8	18.8	24.2
6,292.0	5,696.6	16.4	24.7	Akershus	3,108.0	2,979.8	16.4	24.7
2,836.9	2,762.7	3.6	4.0	Vestfold	1,679.2	1,770.6	3.6	4.0

1,698.0	1,587.0	0.1	0.1	Østfold	768.1	803.7	0.1	0.1
3,535.0	2,739.9	0.0	0.0	Rest of Norway	944.0	483.8	0.0	0.0
36.6	29.8	0.0	0.0	Abroad	14.9	12.8	0.0	0.0
35,248.8	**31,070.3**	**106.3**	**116.6**	**Total**	**19,734.1**	**18,685.6**	**106.3**	**115.8**

NOTE 12 - LOANS TO AND RECEIVABLES FROM CUSTOMERS

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
24.4	23.5	Leasing agreements	0.0	0.0
2,638.6	2,404.2	Overdraught facilities and operating credits	1,534.0	1,689.5
171.5	151.2	Building loans	171.5	151.2
32,414.3	28,491.4	Repayment loans	18,028.6	16,844.9
35,248.8	**31,070.3**	**Gross loans to and receivables from customers**	**19,734.1**	**18,685.6**
101.4	97.9	Loss provisions on loans	17.5	32.0
35,147.4	**30,972.4**	**Net loans to and receivables from customers**	**19,716.6**	**18,653.6**

NOTE 13 - LOSSES ON LOANS, UNUSED CREDIT AND GUARANTEE CUSTOMERS

Loss costs

	Group 31.12.18	Group 31.12.17	Parent bank 31.12.18	Parent bank 31.12.17
Change in write-downs on groups of loans for the period (IAS 39)		-5.5		-5.5
Change in model-calculated expected loss, group 1	-0.3		-0.3	
Change in model-calculated expected loss, group 2	-0.6		-1.0	
Change in model-calculated expected loss, group 3	0.9		0.9	
Increase in existing individual write-downs	8.1	4.5	0.0	0.0
New individual write-downs	15.5	9.6	3.6	0.0
Established losses covered by previous individual write-downs	5.2	13.7	1.5	13.7
Reversals of previous individual write-downs	-13.7	-10.0	-0.6	-2.1
Actual losses where no provision for individual write-downs has previously been made	10.0	9.5	0.2	1.9
Recovery of previously identified losses	-8.3	-15.3	-2.2	-10.3
Amortisation costs for the period	0.8	0.7	0.8	0.7
Losses on loans, unused credit and guarantees	**17.6**	**7.2**	**2.9**	**-1.6**
- of which losses on unused credit and guarantees	0.2	0.0	0.2	0.0

Changes in loss and gross exposure 2018, group

Change in loss provisions	Expected loss Stage1	Expected loss Stage 2	Expected loss Stage3	Total
Total write-downs as at 31.12.17 in accordance with IAS 39				97.9
Effect of change of rules on transition to IFRS 9				-5.8
Opening balance as at 01.01.18	**19.2**	**8.5**	**64.4**	**92.1**
Transferred to group 1	2.8	-2.0	-0.8	0.0
Transferred to group 2	-1.0	2.2	-1.2	0.0
Transferred to group 3	-0.6	-1.4	2.0	0.0
Net change	-2.8	1.5	18.6	17.3
New losses	8.7	1.8	2.3	12.8
Deducted losses	-7.3	-2.6	-10.1	-20.0
Closing balance as at 31.12.18	**19.0**	**8.0**	**75.2**	**102.2**
- of which losses on unused credit and guarantees	0.5	0.1	0.2	0.8
Model-calculated loss provisions	19.0	8.0	2.1	29.1
Individual loss provisions			73.1	73.1

Change in gross lending distributed by stage	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.18	**30,216.1**	**590.6**	**263.6**	**31,070.3**
Transferred to group 1	176.7	-151.1	-25.6	0.0
Transferred to group 2	-397.0	420.1	-23.1	0.0
Transferred to group 3	-57.0	-50.4	107.4	0.0
Net change	-68.3	-95.5	-37.3	-201.1
New loans	20,407.8	179.4	35.0	20,622.2
Deducted lending	-15.978, 8	-204.3	-59.5	-16,242.6
Closing balance as at 31.12.18	**34,299.5**	**688.8**	**260.5**	**35,248.8**

Changes in loss and gross exposure 2018, parent bank

Change in loss provisions	Expected loss Stage1	Expected loss Stage 2	Expected loss Stage 3	Total
Total write-downs as at 31.12.17 in accordance with IAS 39				32.0
Effect of change of rules for transition to IFRS 9				-16.5
Opening balance as at 01.01.18	**10.6**	**3.0**	**1.9**	**15.5**
Transferred to group 1	0.6	-0.6	0.0	0.0
Transferred to group 2	-0.1	0.1	0.0	0.0
Transferred to group 3	-0.4	-0.6	1.0	0.0
Net change	-0.6	0.8	2.9	3.1
New losses	4.0	0.4	0.2	4.6
Deducted losses	-3.8	-1.2	0.0	-5.0
Closing balance as at 31.12.18	**10.3**	**1.9**	**6.0**	**18.2**
- of which losses on unused credit and guarantees	0.4	0.1	0.3	0.8
Model-calculated loss provisions	10.3	2.0	2.2	14.5
Individual loss provisions			3.7	3.7

Change in gross lending, broken down by group	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.18	**18,327.9**	**241.5**	**116.2**	**18,685.6**
Transferred to group 1	84.1	-65.2	-18.9	0.0
Transferred to group 2	-91.3	97.7	-6.4	0.0
Transferred to group 3	-17.7	-17.1	34.8	0.0
Net change	-478.6	-10.1	-3.4	-492.1
New loans	10,025.0	65.7	13.6	10,104.3
Deducted lending	-8,435.7	-92.8	-35.2	-8,563.7
Closing balance as at 31.12.18	**19,413.7**	**219.7**	**100.7**	**19,734.1**

Loss cost, group

	Retail 2018	Retail 2017	Business 2018	Business 2017	ASF 2018	ASF 2017
Change in write-downs on groups of loans for the period (IAS 39)		0.0		-5.5		0.0
Change in model-calculated expected loss, group 1	-1.4		1.2		-0.1	
Change in model-calculated expected loss, group 2	-0.5		-0.2		0.2	
Change in model-calculated expected loss, group 3	0.7		0.2		0.0	
Increase in existing individual write-downs	0.0	0.0	0.0	0.0	8.1	4.5
New individual write-downs	3.3	0.0	0.3	0.0	11.9	9.6
Established losses covered by previous individual write-downs	0.0	5.4	1.4	8.4	3.7	0.0
Reversals of previous individual write-downs	0.0	-0.9	-0.5	-1.3	-13.1	-7.9
Actual losses where no provision for individual write-downs has previously been made	0.0	0.0	0.1	1.9	9.8	7.6
Recovery of previously identified losses	-0.8	-2.1	-1.4	-8.2	-6.1	-5.0
Amortisation costs for the period	0.7	0.2	0.1	0.5	0.0	0.0
Losses on loans, unused credit and guarantees	**2.0**	**2.6**	**1.2**	**-4.2**	**14.4**	**8.8**
- of which losses on unused credit and guarantees	0.0	0.0	0.2	0.0	0.0	0.0

Changes in loss and gross exposure 2018 – person in parent bank and housing credit company

Change in loss provisions	**Expected loss Stage 1**	**Expected loss Stage 2**	**Expected loss Stage 3**	**Total**
Total write-downs as at 31.12.17 in accordance with IAS 39				1.6
Effect of change of rules for transition to IFRS 9				10.1
Opening balance as at 01.01.18	**9.7**	**1.6**	**0.4**	**11.7**
Transferred to group 1	0.5	-0.5	0.0	0.0
Transferred to group 2	-0.1	0.1	0.0	0.0
Transferred to group 3	-0.1	-0.4	0.5	0.0
Net change	-1.4	0.5	3,4	2.5
New losses	3,4	0.2	0.2	3.8
Deducted losses	-3.7	-0.4	0.0	-4.1
Closing balance as at 31.12.18	**8.3**	**1.1**	**4.5**	**13.9**
- of which losses on unused credit and guarantees	0.2	0.0	0.0	0.2
Model-calculated loss provisions	8.3	1.1	1.1	10.5
Individual loss provisions			3,4	3,4

Change in gross lending, broken down by group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance as at 01.01.18	**24,539.9**	**125.4**	**117.5**	**24,782.8**
Transferred to group 1	52.6	-32.6	-20.0	0.0
Transferred to group 2	-71.1	88.0	-16.9	0.0
Transferred to group 3	-22.9	-11.3	34.2	0.0
Net change	322.5	-1.7	-10.6	310.2
New loans	18,022.8	78.6	26.8	18,128.2
Deducted lending	-14,754.8	-78.9	-29.5	-14,863.2
Closing balance as at 31.12.18	**28,089.0**	**167.5**	**101.5**	**28,358.0**

Changes in loss and gross exposure 2018, business

Change in loss provisions	**Expected loss Stage1**	**Expected loss Stage 2**	**Expected loss Stage 3**	**Total**
Total write-downs as at 31.12.17 in accordance with IAS 39				30.4
Effect of change of rules for transition to IFRS 9				-23.0
Opening balance as at 01.01.18	**4.3**	**1.7**	**1.4**	**-7.4**
Transferred to group 1	0.2	-0.2	0.0	0.0
Transferred to group 2	-0.1	0.1	0.0	0.0
Transferred to group 3	-0.3	-0.2	0.5	0.0
Net change	0.4	0.6	-0.5	0.5
New losses	1.9	0.4	0.0	2.3
Deducted losses	-0.9	-0.9	0.0	-1.8
Closing balance as at 31.12.18	**5.5**	**1.5**	**1.4**	**8.4**
- of which losses on unused credit and guarantees	0.3	0.1	0.2	0.6
Model-calculated loss provisions	5.5	1.5	1.1	8.1
Individual loss provisions			0.3	0.3

Change in gross lending, broken down by group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance as at 01.01.18	**4,150.9**	**151.2**	**24.9**	**4,327.0**
Transferred to group 1	42.0	-39.9	-2.1	0.0
Transferred to group 2	-59.2	59.2	0.0	0.0
Transferred to group 3	-3.3	-5.8	9.1	0.0
Net change	-177.5	-4.5	-1.7	-183.7
New loans	1,594.1	35.9	0.0	1,630.0
Deducted lending	-885.9	-52.3	-11.9	-950.1
Closing balance as at 31.12.18	**4,661.1**	**143.8**	**18.3**	**4,823.2**

Changes in loss and gross exposure 2018, AS Financiering

Change in loss provisions	Expected loss Stage 1	Expected loss Stage 2	Expected loss Stage 3	Total
Total write-downs as at 31.12.17 in accordance with IAS 39				65.9
Effect of change of rules for transition to IFRS 9				7.0
Opening balance as at 01.01.18	**5.2**	**5.2**	**62.5**	**72.9**
Transferred to group 1	2.1	-1.3	-0.8	0.0
Transferred to group 2	-0.8	2.0	-1.2	0.0
Transferred to group 3	-0.1	-0.8	0.9	0.0
Net change	-2.7	0.4	15.9	13.6
New losses	2.6	1.0	2.1	5.7
Deducted losses	-1.1	-1.1	-10.1	-12.3
Closing balance as at 31.12.18	**5.2**	**5.4**	**69.3**	**79.9**
- of which losses on unused credit and guarantees	0.0	0.0	0.0	0.0
Model-calculated loss provisions	5.2	5.4	0.0	10.6
Individual loss provisions			69.3	69.3

Change in gross lending, broken down by group	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.18	**1,525.4**	**313.9**	**121.2**	**1,960.5**
Transferred to group 1	82.1	-78.6	-3.5	0.0
Transferred to group 2	-266.8	272.9	-6.1	0.0
Transferred to group 3	-30.7	-33.3	64.0	0.0
Net change	-213.4	-89.2	-25.1	-327.7
New loans	790.9	64.9	8.3	864.1
Deducted lending	-338.2	-73.1	-18.1	-429.4
Closing balance as at 31.12.18	**1,549.3**	**377.5**	**140.7**	**2,067.5**

Loan losses and guarantees, broken down by class as at 31.12.17, group

		Retail	Business	AS Financiering	Total
	Individual write-downs				
	Individual write-downs as at 01.01.	0.0	5.8	61.5	67.3
-	Actual losses for the period, where there have previously been individual write-downs	0.0	3.2	5.1	8.3
+	Increased individual write-downs for the period	0.0	0.0	4.5	4.5
+	New individual write-downs for the period	0.0	0.0	9.6	9.6
-	Reversed individual write-downs for the period	0.0	2.1	7.9	10.0
=	**Individual write-downs as at 31.12.**	**0.0**	**0.5**	**62.6**	**63.1**
	Collective write-downs of loans				
	Collective write-downs of loans as at 01.01.	1.6	35.4	3.3	40.3
+/-	Change in collective write-downs of loans for the period	0.0	-5.5	0.0	-5.5
=	**Collective write-downs of loans as at 31.12.**	**1.6**	**29.9**	**3.3**	**34.8**

Losses on loans and guarantees as at 31.12.17, parent bank

		Parent bank
	Individual write-downs	
	Individual write-downs as at 01.01.	5.8
-	Actual losses for the period, where there have previously been individual write-downs	3.2
+	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	2.1
=	**Individual write-downs as at 31.12.**	**0.5**

	Collective write-downs of loans	
	Collective write-downs of loans as at 01.01.	37.0
+/-	Change in collective write-downs of loans for the period	-5.5
=	**Collective write-downs of loans as at 31.12.**	**31.5**

Change in non-performing and impaired commitments

Group, 2018	Group, 2017	Group 2016	Group, 2015	Group, 2014		Parent bank, 2018	Parent bank, 2017	Parent bank, 2016	Parent bank, 2015	Parent bank, 2014
200.5	173.8	204.0	233.4	400.1	Gross non-performing commitments	50.5	50.0	101.6	141.6	295.8
73.6	63.1	66.4	80.0	85.4	- Individual write-downs	4.2	0.5	4.9	18.9	22.8
126.9	**110.7**	**137.6**	**153.4**	**314.7**	**Net non-performing commitments**	**46.3**	**49.5**	**96.7**	**122.7**	**273.0**
0.0	1.4	3.1	9.5	23.7	Gross impaired commitments	0.0	1.4	3.1	9.1	23.7
0.0	0.0	0.9	1.0	8.9	- Individual write-downs	0.0	0.0	0.9	0.8	8.9
0.0	**1.4**	**2.2**	**8.5**	**14.8**	**Net impaired commitments**	**0.0**	**1.4**	**2.2**	**8.3**	**14.8**

Non-performing and impaired commitments

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
		Non-performing commitments over 90 days		
11.7	16.0	Business market	11.7	16.0
48.1	36.7	Retail market	38.8	34.0
140.7	121.1	AS Financiering	0.0	0.0
200.5	**173.8**	**Gross non-performing commitments**	**50.5**	**50.0**
73.6	63.1	Loss provisions	4.2	0.5
126.9	**110.7**	**Net non-performing commitments**	**46.3**	**49.5**
37%	36%	Provisions ratio	8%	1%
		Impaired (not non-performing) commitments		
0.0	1.3	Business market	0.0	1.3
0.0	0.1	Retail market	0.0	0.1
0.0	0.0	AS Financiering	0.0	0.0
0.0	**1.4**	**Gross impaired commitments**	**0.0**	**1.4**
0.0	0.0	Loss provisions	0.0	0.0
0.0	**1.4**	**Net impaired commitments**	**0.0**	**1.4**
0%	0%	Provisions ratio	0%	0%
		Gross non-performing and impaired commitments		
11.7	17.3	Business market	11.7	17.3
48.1	36.8	Retail market	38.8	34.1
140.7	121.1	AS Financiering	0.0	0.0
200.5	**175.2**	**Gross non-performing and impaired commitments**	**50.5**	**51.4**
73.6	63.1	Loss provisions	4.2	0.5
126.9	**112.1**	**Net non-performing and impaired commitments**	**46.3**	**50.9**
37%	36%	Provisions ratio	8%	1%

NOTE 14 - LOANS AND RECEIVABLES FROM CUSTOMERS RELATED TO FINANCIAL LEASES

The group has financial leases with customers. The leases are largely associated with the leasing of cars and other vehicles, industrial equipment and machinery. The group has not assumed the risk relating to residual values.

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
3,4	1.6	Within 1 year	0.0	0.0
20.7	25.8	Between 1 to 5 years	0.0	0.0
0.8	0.9	After 5 years	0.0	0.0
24.9	**28.3**	**Gross receivables from financial leases**	**0.0**	**0.0**
2.1	7.1	Non-accrued income from financial leases	0.0	0.0
22.9	**21.2**	**Net receivables from financial leases**	**0.0**	**0.0**
3,4	0.4	Within 1 year	0.0	0.0
18.8	20.0	Between 1 to 5 years	0.0	0.0
0.7	0.8	After 5 years	0.0	0.0
22.9	**21.2**	**Net investments associated with financial leases**	**0.0**	**0.0**
0.7	0.6	Accumulated loss provisions for outstanding minimum lease amounts	0.0	0.0

NOTE 15 - LOANS TO AND RECEIVABLES FROM FINANCIAL INSTITUTIONS

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
9.5	5.7	Loans to and receivables from credit institutions without agreed maturities or termination deadline	9.5	5.7
0.0	0.0	Loans to and receivables from credit institutions with agreed maturities or termination deadline	2,145.6	1,923.7
9.5	**5.7**	**Gross loans to and receivables from credit institutions**	**2,155.1**	**1,929.3**
0.0	0.0	Loss provisions on loans	0.0	0.0
9.5	**5.7**	**Net loans to and receivables from credit institutions**	**2,155.1**	**1,929.3**

No losses or non-performance was identified for loans to and receivables from credit institutions. The loans are to credit institutions domiciled in Norway.

NOTE 16 - INTEREST RATE RISK

Interest risk related to deposits from and loans to credit institutions, deposits from and loans to customers, and debt and investments in certificates and bonds, is managed using interest rate swaps and fixed rate agreements (FRA). For deposits or investments in other currencies, interest rate and currency swap agreements are generally entered into such that relevant market interest rates are Norwegian money-market rates. The distribution of foreign currency in the tables is based on the instruments' underlying currency where the effect of hedging is included.

In reality, loans to retail customers at floating interest rates result in a six-week fixed interest rate (section 50(3) of the Financial Contracts Act stipulates a minimum of six weeks' notice), while deposits from customers with a floating interest rate result in a two-months fixed interest rate (section 18(2) of the Financial Contracts Act stipulates a minimum of two months' notice).

The net interest rate sensitivity of a parallel shift in the yield curve of 1 percentage point is shown below. The effect is calculated based on a permanent shift in the yield curve occurring on the measurement date, 31 December 2018, amounting to one year's effect on the profit/loss. The table shows that an immediate increase in interest rates of 1 percentage point will lead to higher net interest. Correspondingly, an immediate reduction in interest rates will give reduced net interest.

The 'Time until expected rate change' table shows the balance sheet distribution in terms of the time of the change in interest rates. Net exposure shows the net fixing of net interest rates for assets and liabilities. Positive amounts for net exposure show that the bank has fixed interest rates on the asset side to a greater extent than on the liabilities side.

Interest rate sensitivity, group as at 31.12.18

Currency	Increase in basis points	Sensitivity, profit/loss	Sensitivity, equity	Reduction in basis points	Sensitivity, profit/loss	Sensitivity, equity
NOK	+100	40.9	0.0	-100	-40.9	0.0
SEK	+100	-2.4	0.0	-100	2.4	0.0
Total		**38.5**	**0.0**		**-38.5**	**0.0**

Interest rate sensitivity - group as at 31.12.2017

Currency	Increase in basis points	Sensitivity, profit/loss	Sensitivity, equity	Reduction in basis points	Sensitivity, profit/loss	Sensitivity, equity
NOK	+100	36.7	0.0	-100	-36.7	0.0
SEK	+100	-2.5	0.0	-100	2.5	0.0
Total		**34.2**	**0.0**		**-34.2**	**0.0**

Time until expected rate change as at 31.12.18, group

		Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	Without fixed interest rate	Total
Assets								
Cash and receivables from central banks	NOK	584.5					17.9	602.4
	FCY						0.7	0.7
Net lending to financial institutions	NOK	9.5						9.5
Net lending to customers	NOK	4,801.8	29,939.9	6.4	322.7	30.6		35,101.4
Certificates and bonds	NOK	752.1	3,918.7	230.3	255.2			5,156.3
Financial derivatives	NOK						170.7	170.7
Accrued interest, not yet due	NOK						114.1	114.1
Other asset items	NOK						585.2	585.2
	FCY						21.6	21.6
Total		**6,147.9**	**33,858.6**	**236.7**	**577.9**	**30.6**	**910.2**	**41,761.9**
Liabilities								
Liabilities to credit institutions	NOK			299.7				299.7
Customer deposits	NOK	5,204.3	9,140.0	549.8				14,894.1
Financial derivatives	NOK						11.1	11.1
	FCY						14.0	14.0
Debt established upon the issuance of securities	NOK	6,265.5	15,320.4					21,585.9
	FCY		290.8					290.8
Subordinated loan capital	NOK		399.3					399.3
Accrued interest	NOK						106.0	106.0
	FCY						0.7	0.7
Other liabilities	NOK							0.0
Total		**11,469.8**	**25,150.5**	**849.5**	**0.0**	**0.0**	**131.8**	**37,601.6**
Net interest rate exposure on balance sheet		**-5,321.9**	**8,708.1**	**-612.8**	**577.9**	**30.6**	**778.4**	
Contract sum for financial derivatives, without hedge accounting, that affect interest rate exposure	NOK	105.0	510.0	-30.0	-550.0	-35.0		
Net exposure		**-5.216, 9**	**9,218.1**	**-642.8**	**27.9**	**-4.4**	**778.4**	

The table is based on book values. Securities issued where hedge accounting is used include the effect of hedging instruments.

Time until expected rate change as at 31.12.2017, group

		Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	Without fixed interest rate	Total
Assets								
Cash and receivables from central banks	NOK	314.2					26.4	340.6
	FCY						0.6	0.6
Net lending to credit institutions	NOK	5.7						5.7
Net lending to customers	NOK	4,284.7	26,494.9	15.3	104.4	29.9		30,929.2
Certificates and bonds	NOK	658.6	3,422.6	50.0	369.9			4,501.1
Financial derivatives	NOK						236.9	236.9
Accrued interest, not yet due	NOK						118.2	118.2
Other asset items	NOK						466.1	466.1
	FCY						17.8	17.8
Total		**5,263.2**	**29,917.5**	**65.3**	**474.3**	**29.9**	**866.0**	**36,616.2**
Liabilities								
Liabilities to credit institutions	NOK			329.7				329.7
Customer deposits	NOK	4,354.6	9,034.8	577.8				13,967.2
Financial derivatives	NOK						14.6	14.6
	FCY						5.6	5.6
Debt established upon the issuance of securities	NOK	6,865.9	10,966.4					17,832.3
	FCY		299.2					299.2
Subordinated loan capital	NOK	349.7						349.7
Accrued interest	NOK						109.0	109.0
	FCY						0.5	0.5
Other liabilities	NOK							0.0
Total		**11,570.2**	**20,300.4**	**907.5**	**0.0**	**0.0**	**129.7**	**32,907.8**
Net interest rate exposure on balance sheet		**-6.307, 0**	**9,617.1**	**-842.2**	**474.3**	**29.9**	**736.3**	
Contract sum for financial derivatives, without hedge accounting, that affect interest rate exposure	NOK	150.0	340.0		-460.0	-30.0		
Net exposure		**-6.157, 0**	**9,957.1**	**-842.2**	**14.3**	**-0.1**	**736.3**	

The table is based on book values. Securities issued where hedge accounting is used include the effect of hedging instruments.

Interest rate sensitivity, parent bank as at 31.12.18

Currency	Increase in basis points	Sensitivity, profit/loss	Sensitivity, equity	Reduction in basis points	Sensitivity, profit/loss	Sensitivity, equity
NOK	+100	22.9	0.0	-100	-22.9	0.0
Total		**22.9**	**0.0**		**-22.9**	**0.0**

Interest rate sensitivity, parent bank as at 31.12.2017

Currency	Increase in basis points	Sensitivity, profit/loss	Sensitivity, equity	Reduction in basis points	Sensitivity, profit/loss	Sensitivity, equity
NOK	+100	25.0	0.0	-100	-25.0	0.0
Total		**25.0**	**0.0**		**-25.0**	**0.0**

Time until expected rate change as at 31.12.18, parent bank

		Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	Without fixed interest rate	Total
Assets								
Cash and receivables from central banks	NOK	584.5					17.9	602.4
	FCY						0.7	0.7
Net lending to credit institutions	NOK	2,109.6	45.0					2,154.6
Net lending to customers	NOK	4,816.1	14,521.0	6.4	322.7	30.6		19,696.8
Certificates and bonds	NOK	746.9	3,763.1	230.3	255.2			4,995.5
Financial derivatives	NOK						49.0	49.0
Accrued interest, not yet due	NOK						68.0	68.0
Other asset items	NOK						1,826.1	1,826.1
	FCY						21.6	21.6
Total		**8,257.1**	**18,329.1**	**236.7**	**577.9**	**30.6**	**1,983.3**	**29,414.7**
Liabilities								
Liabilities to credit institutions	NOK	230.8	0.7	299.7			8.9	540.1
Customer deposits	NOK	5,278.9	9,140.0	549.8				14,968.7
Financial derivatives	NOK						11.1	11.1
Debt established upon the issuance of securities	NOK	2,979.5	6,718.1					9,697.6
Subordinated loan capital	NOK		399.3					399.3
Accrued interest	NOK						65.2	65.2
Other liabilities	NOK							0.0
Total		**8,489.2**	**16,258.1**	**849.5**	**0.0**	**0.0**	**85.2**	**25,682.0**
Net exposure on balance sheet		**-232.1**	**2,071.0**	**-612.8**	**577.9**	**30.6**	**1,898.1**	
Contract sum for financial derivatives, without hedge accounting, that affect interest rate exposure	NOK	105.0	510.0	-30.0	-550.0	-35.0		
Net exposure		**-127.1**	**2,581.0**	**-642.8**	**27.9**	**-4.4**	**1,898.1**	

The table is based on book values. Securities issued where hedge accounting is used include the effect of hedging instruments.

Time until expected rate change as at 31.12.2017, parent bank

		Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	Without fixed interest rate	Total
Assets								
Cash and receivables from central banks	NOK	314.2					26.4	340.6
	FCY						0.6	0.6
Net lending to credit institutions	NOK	1,883.9	45.0					1,928.9
Net lending to customers	NOK	4,423.4	14,058.9	15.3	104.4	29.9		18,631.9
Certificates and bonds	NOK	658.6	3,266.5	50.0	369.8			4,344.9
Financial derivatives	NOK						87.8	87.8
Accrued interest, not yet due	NOK						76.2	76.2
Other asset items	NOK						1,357.0	1,357.0
	FCY						17.8	17.8
Total		**7,280.1**	**17,370.4**	**65.3**	**474.2**	**29.9**	**1,565.8**	**26,785.7**
Liabilities								
Liabilities to credit institutions	NOK	221.0	0.6	329.7			10.3	561.6
Customer deposits	NOK	4,384.2	9,034.5	577.7				13,996.4
Financial derivatives	NOK						14.6	14.6
Debt established upon the issuance of securities	NOK	3,562.4	4,734.3					8,296.7
Subordinated loan capital	NOK	349.7						349.7
Accrued interest	NOK						73.1	73.1
Other liabilities	NOK							0.0
Total		**8,517.3**	**13,769.4**	**907.4**	**0.0**	**0.0**	**98.0**	**26,292.1**
Net exposure on balance sheet		**-1,237.2**	**3,601.0**	**-842.1**	**474.2**	**29.9**	**1,467.8**	
Contract sum for financial derivatives, without hedge accounting, that affect interest rate exposure	NOK	150.0	340.0		-460.0	-30.0		
Net exposure		**-1,087.2**	**3,941.0**	**-842.1**	**14.2**	**-0.1**	**1,467.8**	

The table is based on book values. Securities issued where hedge accounting is used include the effect of hedging instruments.

NOTE 17 - LIQUIDITY RISK

As long as the bank's loan customers require long-term financing and the bank's deposit customers are able in practice to withdraw their deposits at very short notice, the bank will be exposed to some liquidity risk. In addition, Sparebanken Øst is dependent on financing a gap between deposits from customers and loans to the general public. Sparebanken Øst has a conservative liquidity strategy, and the liquidity risk as at the end of 2018 is considered low.

The bank has deliberately sought to reduce the bank's liquidity risk by, among other things, distributing deposits over the maximum possible number of sources/instruments and/or by balancing the maturity terms for capital acquisition and capital deployment. Essentially, banks use the Norwegian bond market as a source of funding. This increases its vulnerability somewhat and prompts the bank to try to have a long-term funding strategy, and it wants to have a balanced relationship between long-term and short-term deposits. The bank aims for a liquidity indicator 1 (Financial Supervisory Authority of Norway) target of 106% or higher (funding > 1 year as a percentage of non-liquid assets).

The table below presents the scope of results for liquidity indicator 1 for the last two years.

	31.12.	**Average**	**Highest**	**Lowest**
2018	109.2	109.0	111.2	106.8
2017	107.4	107.3	108.8	105.5

The Liquidity Coverage Ratio (LCR) amounts to 224.93% as at 31.12.18, versus 204.15% one year ago. The LCR is intended to ensure that the banks have sufficient liquidity of very high quality to tolerate a period of 30 days with serious market instability. The bank will satisfy the applicable LCR requirement set by the authorities at all times, both at a company and at a group level. The bank's liquidity portfolio primarily consists of cash, securities issued by the Norwegian state, state guaranteed bonds, securities issued by Norwegian municipalities and covered bonds.

The group's deposits measured as a percentage of net lending amount to 42.4% as at 31 December 2018, compared with 45.1% one year ago. Other funding in the market takes place is raised through senior unsecured bonds and covered bonds. Limits have been adopted that are intended to ensure that the relationship between deposits and market funding is maintained at a satisfactory level. The coming years will see a relatively great demand for refinancing and the bank wishes to take account of uncertainty and will thus seek to refinance at an early stage.

Contractual maturity

The time at which the group's financial assets and liabilities mature is shown in the following table. Future interest payments relating to the items have not been factored in and it is the contractual amount that is specified. The tables are based on the group's internal reporting format.

Remaining contractual term as at 31.12.18, group

		Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Assets								
Cash and receivables from central banks	NOK						602.4	602.4
	FCY						0.7	0.7
Net lending to credit institutions	NOK						9.5	9.5
Net lending to customers	NOK	95.7	30.8	645.1	5,801.6	28,528.2		35,101.4
Certificates and bonds	NOK	50.0	125.0	1,409.0	3,512.0	25.0		5,121.0
Financial derivatives: hedge accounting, interest rate swaps	NOK		0.7	2.5	34.5	131.9		169.6
Other financial derivatives	NOK				0.9	0.2		1.1
Accrued interest, not yet due	NOK	66.7	40.6	2.4	1.8	2.6		114.1
Other asset items	NOK			26.5			585.9	612.4
	FCY						21.6	21.6
Total deposits		**212.4**	**197.1**	**2,085.5**	**9,350.8**	**28,687.9**	**1,220.1**	**41,753.8**
Liabilities								
Liabilities to credit institutions	NOK					300.0		300.0
Customer deposits	NOK	355.9	2,210.0	272.0			12,056.2	14,894.1
Financial derivatives: hedge accounting, interest rate swaps	NOK		0.5	0.9	0.6	0.2		2.2
Financial derivatives: hedge accounting, basis swaps	FCY			14.0				14.0
Other financial derivatives	NOK				8.9			8.9
Debt established upon the issuance of securities	NOK	342.0	300.0	1,558.0	17,740.0	1,475.0		21,415.0
	FCY		291.3					291.3
Subordinated loan capital	NOK				400.0			400.0
Accrued interest	NOK	42.7	49.0	14.9	0.1		0.3	107.0
	FCY		0.1					0.1
Loss provisions, unused credit and guarantees	NOK				0.8			0.8
Other liabilities	NOK			308.5				308.5
Total disbursements		**740.6**	**2,850.9**	**2,168.3**	**18,150.4**	**1,775.2**	**12,056.5**	**37,741.9**
Net exposure		**-528.2**	**-2,653.8**	**-82.8**	**-8,799.6**	**26,912.7**	**-10,836.4**	
Loan pledges		1,015.8						1,015.8
Unused credit				119.9	1,445.2		115.8	1,680.9
Guarantees							106.3	106.3

Remaining contractual term as at 31.12.2017, group

		Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Assets								
Cash and receivables from central banks	NOK						340.6	340.6
	FCY						0.6	0.6
Net lending to credit institutions	NOK						5.7	5.7
Net lending to customers	NOK	38.9	39.6	849.5	5,860.7	24,140.5		30,929.2
Certificates and bonds	NOK	100.0	354.7	245.0	3,680.0	85.0		4,464.7
Financial derivatives: hedge accounting, interest rate swaps	NOK			15.4	75.5	145.7		236.6
Other financial derivatives	NOK				0.3			0.3
Accrued interest, not yet due	NOK	46.0	27.0	24.4				97.4
Other asset items	NOK			109.4			466.9	576.3
	FCY						17.8	17.8
Total deposits		**184.9**	**421.3**	**1,243.7**	**9,616.5**	**24,371.2**	**831.6**	**36,669.2**
Liabilities								
Liabilities to credit institutions	NOK			30.0		300.0		330.0
Customer deposits	NOK	75.7	1,808.9	736.3	10.1		11,336.2	13,967.2
Financial derivatives: hedge accounting, interest rate swaps	NOK				6.6			6.6
Financial derivatives: hedge accounting, basis swaps	FCY				5.6			5.6
Other financial derivatives	NOK		0.3		7.5	0.2		8.0
Debt established upon the issuance of securities	NOK	504.0	231.0	900.0	14,690.0	1,275.0		17,600.0
	FCY				299.2			299.2
Subordinated loan capital	NOK			350.0				350.0
Accrued interest	NOK	46.5	36.4	32.0				114.9
	FCY		0.5					0.5
Other liabilities	NOK			235.0				235.0
Total disbursements		**626.2**	**2,077.1**	**2,283.3**	**15,019.0**	**1,575.2**	**11,336.2**	**32,917.0**
Net exposure		**-441.3**	**-1,655.8**	**-1,039.6**	**-5,402.5**	**22,796.0**	**-10,504.6**	
Loan pledges		395.9						395.9
Unused credit				61.3	1,352.9		107.5	1,521.7
Guarantees							116.6	116.6

Remaining contractual term as at 31.12.18, parent bank

		Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Assets								
Cash and receivables from central banks	NOK						602.4	602.4
	FCY						0.7	0.7
Net lending to credit institutions	NOK			447.1		45.0	1,662.5	2,154.6
Net lending to customers	NOK	31.2	26.0	624.1	3,816.9	15,198.7		19,696.9
Certificates and bonds	NOK	50.0	120.0	1,309.0	3,457.0	25.0		4,961.0
Financial derivatives: hedge accounting, interest rate swaps	NOK		0.7	2.5	20.1	24.6		47.9
Other financial derivatives	NOK				0.9	0.2		1.1
Accrued interest, not yet due	NOK	40.1	25.0	2.4				67.5
Other asset items	NOK			13.6			1,826.1	1,839.7
	FCY						21.6	21.6
Total deposits		**121.3**	**171.7**	**2,398.7**	**7,294.9**	**15,293.5**	**4,113.3**	**29,393.4**
Liabilities								
Liabilities to credit institutions	NOK					300.0	240.4	540.4
Customer deposits	NOK	355.9	2,210.0	272.0			12,130.8	14,968.7
Financial derivatives: hedge accounting, interest rate swaps	NOK		0.5	0.9	0.6	0.2		2.2
Other financial derivatives	NOK				8.9			8.9
Debt established upon the issuance of securities	NOK	342.0	300.0	1,550.0	7,140.0	325.0		9,657.0
Subordinated loan capital	NOK				400.0			400.0
Accrued interest	NOK	25.3	25.0	14.9				65.2
Loss provisions, unused credit and guarantees	NOK				0.7			0.7
Other liabilities	NOK			186.1				186.1
Total disbursements		**723.2**	**2,535.5**	**2,023.9**	**7,550.2**	**625.2**	**12,371.2**	**25,829.2**
Net exposure		**-601.9**	**-2,363.8**	**374.8**	**-255.3**	**14,668.3**	**-8,257.9**	
Loan pledges		814.1						814.1
Unused credit				1,672.0	728.1		490.8	2,890.9
Guarantees							106.3	106.3

Remaining contractual term as at 31.12.17, parent bank

		Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Assets								
Cash and receivables from central banks	NOK						340.6	340.6
	FCY						0.6	0.6
Net lending to credit institutions	NOK			283.3		45.0	1,600.6	1,928.9
Net lending to customers	NOK	38.9	39.4	467.9	3,370.5	14,715.2		18,631.9
Certificates and bonds	NOK	100.0	354.7	245.0	3,525.0	85.0		4,309.7
Financial derivatives: hedge accounting, interest rate swaps	NOK			15.4	49.3	22.8		87.5
Other financial derivatives	NOK				0.3			0.3
Accrued interest, not yet due	NOK	40.3	11.5	24.4				76.2
Other asset items	NOK			17.9			1,356.6	1,374.5
	FCY						17.8	17.8
Total deposits		**179.2**	**405.6**	**1,053.9**	**6,945.1**	**14,868.0**	**3,316.2**	**26,768.0**
Liabilities								
Liabilities to credit institutions	NOK			30.0		300.0	231.9	561.9
Customer deposits	NOK	75.7	1,808.9	733.8			11,378.0	13,996.4
Financial derivatives: hedge accounting, interest rate swaps	NOK				6.6			6.6
Other financial derivatives	NOK		0.3		7.5	0.2		8.0
Debt established upon the issuance of securities	NOK	504.0		900.0	6,290.0	525.0		8,219.0
Subordinated loan capital	NOK			350.0				350.0
Accrued interest	NOK	30.9	16.1	32.0				79.0
Other liabilities	NOK			178.4				178.4
Total disbursements		**610.6**	**1,825.3**	**2,224.2**	**6,304.1**	**825.2**	**11,609.9**	**23,399.3**
Net exposure		**-431.4**	**-1,419.7**	**-1,170.3**	**641.0**	**14,042.8**	**-8,293.7**	
Loan pledges		377.6						377.6
Unused credit				1,778.0	739.6		611.7	3,129.3
Guarantees							115.8	115.8

Financial liabilities

The nominal value of the financial liabilities of the bank and the group is shown below. All liabilities are allocated to the category that covers the first possible payment in cases where the contractual payment date is not 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 31.12.18. Liabilities associated with derivatives are shown on a separate line, and related inflows from derivatives are shown under each table.

Maturity analysis of financial liabilities as at 31.12.18, group

	Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Liabilities to credit institutions			5.8	22.6	322.6		351.0
Customer deposits	12,412.5	2,213.9	274.1				14,900.5
Debt established upon the issuance of securities	391.0	648.1	1,903.1	18,927.0	1,710.5		23,579.7
Other liabilities			309.3				309.3
Subordinated loan capital		2.6	407.9	31.7			442.2
Loan pledges	1,015.8						1,015.8
Unused credit	1,680.9						1,680.9
Guarantees						106.3	106.3
Financial liabilities excl. derivatives	**15,500.2**	**2,864.6**	**2,900.2**	**18,981.3**	**2,033.1**	**106.3**	**42,385.7**
Financial derivatives (outflows)	9.5	30.6	116.8	395.7	114.8		667.3
Financial liabilities	**15,509.7**	**2,895.2**	**3,017.0**	**19,377.0**	**2,147.9**	**106.3**	**43,053.0**

Financial derivatives (inflows)	15.7	30.3	165.2	443.6	220.7		875.5

Maturity analysis of financial liabilities as at 31.12.17, group

	Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Liabilities to credit institutions			34.2	16.0	319.9		370.1
Customer deposits	11,412.0	1,812.5	742.0	10.0			13,976.5
Debt established upon the issuance of securities	543.5	285.7	1,187.7	15,933.7	1,458.4		19,409.0
Other liabilities			235.0				235.0
Subordinated loan capital	2.6		354.6				357.2
Loan pledges	395.9						395.9
Unused credit	1,521.7						1,521.7
Guarantees						116.6	116.6
Financial liabilities excl. derivatives	**13,875.7**	**2,098.2**	**2,553.5**	**15,959.7**	**1,778.3**	**116.6**	**36,382.0**
Financial derivatives (outflows)	12.3	14.9	75.9	236.9	47.7		387.7
Financial liabilities	**13,888.0**	**2,113.1**	**2,629.4**	**16,196.6**	**1,826.0**	**116.6**	**36,769.7**
Financial derivatives (inflows)	0.7	46.7	151.5	443.7	184.2		826.8

Maturity analysis of financial liabilities as at 31.12.18, parent bank

	Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Liabilities to credit institutions			5.8	22.6	322.6	240.4	591.4
Customer deposits	12,487.1	2,213.9	274.1				14,975.1
Debt established upon the issuance of securities	367.5	336.2	1,710.0	7,664.8	380.2		10,458.7
Other liabilities			186.8				186.8
Subordinated loan capital		2.6	407.9	31.7			442.2
Loan pledges	814.1						814.1
Unused credit	2,890.9						2,890.9
Guarantees						106.3	106.3
Financial liabilities excl. derivatives	**16,559.6**	**2,552.7**	**2,584.6**	**7,719.1**	**702.8**	**346.7**	**30,465.5**
Financial derivatives (outflows)	5.9	28.1	93.4	297.8	22.5		447.7
Financial liabilities	**16,565.5**	**2,580.8**	**2,678.0**	**8,016.9**	**725.3**	**346.7**	**30,913.2**
Financial derivatives (inflows)	15.7	11.8	120.0	330.5	40.5		518.5

Maturity analysis of financial liabilities as at 31.12.2017, parent bank

	Up to 1 month	From 1-3 months	From 3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Liabilities to credit institutions			34.2	16.0	319.9	231.9	602.0
Customer deposits	11,453.7	1,812.5	739.5				14,005.7
Debt established upon the issuance of securities	536.0	17.2	1,070.4	6,669.5	571.9		8,865.0
Other liabilities			178.4				178.4
Subordinated loan capital	2.6		354.6				357.2
Loan pledges	377.6						377.6
Unused credit	3,129.3						3,129.3
Guarantees						115.8	115.8

Financial liabilities excl. derivatives	**15,499.2**	**1,829.7**	**2,377.1**	**6,685.5**	**891.8**	**347.7**	**27,631.0**
Financial derivatives (outflows)	9.3	14.5	65.5	174.1	-0.2		263.2
Financial liabilities	**15,508.5**	**1,844.2**	**2,442.6**	**6,859.6**	**891.6**	**347.7**	**27,894.2**
Financial derivatives (inflows)	0.7	28.3	117.0	251.9	47.8		445.7

NOTE 18 - CURRENCY RISK

Market risk associated with currency risk as at 31.12.18

Currency	Increase in exchange rate %	Effect on profit/loss before tax	Effect on equity	Reduction in exchange rate %	Effect on profit/loss before tax	Effect on equity
USD	+10	0.4	0.0	-10	-0.4	0.0
Total		**0.4**	**0.0**		**-0.4**	**0.0**

Market risk associated with currency risk as at 31.12.2017

Currency	Increase in exchange rate %	Effect on profit/loss before tax	Effect on equity	Reduction in exchange rate %	Effect on profit/loss before tax	Effect on equity
USD	+10	0.5	0.0	-10	-0.5	0.0
Total		**0.5**	**0.0**		**-0.5**	**0.0**

The bank's currency exposure is low. As at 31.12.18, the bank’s open net position was NOK 4.2 million (NOK 5.5 million as at 31.12.17). Normally, investments and deposits in foreign currency are covered by an opposite position, usually by using currency swap agreements and similar derivatives. See also Note 20 - Financial Derivatives.

NOTE 19 - CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	Fair value through profit or loss			
Group as at 31.12.18	**Held for trading**	**Measured at fair value**	**Measured at amortised cost***	**Total**
Cash and receivables from central banks	0.0	0.0	603.1	603.1
Net loans to and receivables from credit institutions	0.0	0.0	9.5	9.5
Net loans to and receivables from customers	0.0	367.0	34,780.4	35,147.4
Certificates, bonds	0.0	5,173.1	0.0	5,173.1
Shares and units	0.0	606.8	0.0	606.8
Financial derivatives**	222.0	0.0	0.0	222.0
Total financial assets	**222.0**	**6,146.9**	**35,393.0**	**41,761.9**
Liabilities to credit institutions	0.0	0.0	300.4	300.4
Deposits from and liabilities to customers	0.0	0.0	14,899.7	14,899.7
Financial derivatives**	30.7	0.0	0.0	30.7
Debt established upon the issuance of securities	0.0	0.0	21,970.8	21,970.8
Subordinated loan capital	0.0	0.0	400.0	400.0
Total financial liabilities	**30.7**	**0.0**	**37,570.9**	**37,601.6**

* Includes secured debt.

** Includes derivatives for which hedge accounting is used.

Group as at 31.12.2017	Fair value through profit or loss				
	Held for trading	Designated at fair value	Available for sale	Amortised cost*	Total
Cash and receivables from central banks	0.0	0.0	0.0	341.2	341.2
Net loans to and receivables from credit institutions	0.0	0.0	0.0	5.7	5.7
Net loans to and receivables from customers	0.0	0.0	0.0	30,972.4	30,972.4
Certificates, bonds	4,461.0	54.1	0.0	0.0	4,515.1
Shares and units	17.8	0.0	466.1	0.0	483.9
Financial derivatives**	297.9	0.0	0.0	0.0	297.9
Total financial assets	**4,776.7**	**54.1**	**466.1**	**31,319.3**	**36,616.2**
Liabilities to credit institutions	0.0	0.0	0.0	330.1	330.1
Deposits from and liabilities to customers	0.0	0.0	0.0	13,971.8	13,971.8
Financial derivatives**	25.5	0.0	0.0	0.0	25.5
Debt established upon the issuance of securities	0.0	0.0	0.0	18,228.5	18,228.5
Subordinated loan capital	0.0	0.0	0.0	351.9	351.9
Total financial liabilities	**25.5**	**0.0**	**0.0**	**32,882.3**	**32,907.8**

* Includes secured debt.
** Includes derivatives for which hedge accounting is used.

Parent bank as at 31.12.18	Fair value through profit or loss				
	Held for trading	Measured at fair value	Fair value through comprehensive income	Measured at amortised cost*	Total
Cash and receivables from central banks	0.0	0.0	0.0	603.1	603.1
Net loans to and receivables from credit institutions	0.0	0.0	0.0	2,155.1	2,155.1
Net loans to and receivables from customers	0.0	367.0	1,241.9	18,107.7	19,716.6
Certificates, bonds	0.0	5,021.1	0.0	0.0	5,012.1
Shares and units	0.0	606.8	0.0	0.0	606.8
Financial derivatives**	80.1	0.0	0.0	0.0	80.1
Total financial assets	**80.1**	**5,994.9**	**1,241.9**	**20,865.9**	**28,173.8**
Liabilities to credit institutions	0.0	0.0	0.0	540.8	540.8
Deposits from and liabilities to customers	0.0	0.0	0.0	14,974.3	14,974.3
Financial derivatives**	16.1	0.0	0.0	0.0	16.1
Debt established upon the issuance of securities	0.0	0.0	0.0	9,750.8	9,750.8
Subordinated loan capital	0.0	0.0	0.0	400.0	400.0
Total financial liabilities	**16.1**	**0.0**	**0.0**	**25,665.9**	**25,682.0**

* Includes secured debt.
** Includes derivatives for which hedge accounting is used.

Parent bank as at 31.12.2017	Fair value through profit or loss				
	Held for trading	Designated at fair value	Available for sale	Amortised cost*	Total
Cash and receivables from central banks	0.0	0.0	0.0	341.2	341.2
Net loans to and receivables from credit institutions	0.0	0.0	0.0	1,929.3	1,929.3
Net loans to and receivables from customers	0.0	0.0	0.0	18,653.6	18,653.6
Certificates, bonds	4,304.7	54.1	0.0	0.0	4,358.8
Shares and units	17.8	0.0	466.1	0.0	483.9
Financial derivatives**	128.0	0.0	0.0	0.0	128.0
Total financial assets	**4,450.5**	**54.1**	**466.1**	**20,924.1**	**25,894.8**
Liabilities to credit institutions	0.0	0.0	0.0	562.0	562.0
Deposits from and liabilities to customers	0.0	0.0	0.0	14,001.0	14,001.0
Financial derivatives**	19.4	0.0	0.0	0.0	19.4
Debt established upon the issuance of securities	0.0	0.0	0.0	8,357.8	8,357.8

Subordinated loan capital	0.0	0.0	0.0	351.9	351.9
Total financial liabilities	**19.4**	**0.0**	**0.0**	**23,272.7**	**23,292.1**

* Includes secured debt.
** Includes derivatives for which hedge accounting is used.

NOTE 20 - FINANCIAL DERIVATIVES

Interest rate and exchange rate derivatives have been entered into for the group's fixed interest bond loans and foreign currency bond loans, in order to reduce interest rate and exchange rate risk. For lending at fixed interest rates, the hedging includes a change in value due to changes in market interest rates. Equivalently, for lending in foreign currencies both the currency and interest rate risk are hedged in the foreign market interest rate. The hedging ratio is one-to-one and hedge accounting is used. No material ineffectiveness of the hedges was recognised in the accounts in 2018 and 2017. The value adjustment of financial derivatives used for hedge accounting was negative in the amount of NOK -77.8 million (NOK -30.6 million in 2017), with an equivalent, opposite change in value for hedged objects. For recognised changes in value, gain/loss, see Note 27. See Note 17 for the remaining contractual maturity of derivatives for which hedge accounting is used.

In addition, the group has entered into interest rate and exchange rate derivatives to reduce other interest rate and exchange rate risk without applying the rules for hedge accounting.

Group 2018					**Parent bank 2018**			
	Fair value of hedging instrument		**Value adjustment of security**			**Fair value of hedging instrument**		**Value adjustment of security**
Contract total	**Property**	**Liability**	**Liability**		**Contract sum**	**Property**	**Liability**	**Liability**
				Financial derivatives at fair value through profit or loss				
				Currency instruments				
16.9	0.0	0.5		Forward exchange contracts	16.9	0.0	0.5	
0.0	0.0	0.0		Currency swap agreements	0.0	0.0	0.0	
16.9	**0.0**	**0.5**		**Total currency instruments**	**16.9**	**0.0**	**0.5**	
				Interest rate instruments				
765.0	0.9	8.8		Interest rate swaps (IRS)	765.0	0.9	8.8	
0.0	0.0	0.0		Forward rate agreements (FRA)	0.0	0.0	0.0	
0.0	0.0	0.0		Standardised interest rate swaps (futures)	0.0	0.0	0.0	
765.0	**0.9**	**8.8**		**Total interest instruments**	**765.0**	**0.9**	**8.8**	
				Financial derivatives used for hedge accounting				
				Currency instruments				
0.0	0.0	0.0		Forward exchange contracts	0.0	0.0	0.0	
304.9	0.0	14.6		Currency swap agreements	0.0	0.0	0.0	
			-14.0	Debt established upon the issuance of securities				0.0
304.9	**0.0**	**14.6**	**-14.0**	**Total currency instruments**	**0.0**	**0.0**	**0.0**	**0.0**
				Interest rate instruments				
7,315.0	221.1	6.8		Interest rate swaps (IRS)	5,565.0	79.2	6.8	
0.0	0.0	0.0		Forward rate agreements (FRA)	0.0	0.0	0.0	
0.0	0.0	0.0		Standardised interest rate swaps (futures)	0.0	0.0	0.0	
			170.9	Debt established upon the issuance of securities				40.6
7,315.0	**221.1**	**6.8**	**170.9**	**Total interest instruments**	**5,565.0**	**79.2**	**6.8**	**40.6**
	222.0	**30.7**	**156.9**	**Total derivatives**		**80.1**	**16.1**	**40.6**

The difference between the fair value of hedging instruments and the value adjustment of a security is explained by accrued interest.

Group 2017					Parent bank 2017			
	Fair value of hedging instrument		Value adjustment of security			Fair value of hedging instrument		Value adjustment of security
Contract total	**Property**	**Liability**	**Liability**		**Contract sum**	**Property**	**Liability**	**Liability**
				Financial derivatives at fair value through profit or loss				
				Currency instruments				
12.4	0.1	0.0		Forward exchange contracts	12.4	0.1	0.0	
0.0	0.0	0.0		Currency swap agreements	0.0	0.0	0.0	
12.4	**0.1**	**0.0**		**Total currency instruments**	**12.4**	**0.1**	**0.0**	
				Interest rate instruments				
590.0	0.1	15.3		Interest rate swaps (IRS)	590.0	0.1	15.3	
0.0	0.0	0.0		Forward rate agreements (FRA)	0.0	0.0	0.0	
0.0	0.0	0.0		Standardised interest rate swaps (futures)	0.0	0.0	0.0	
590.0	**0.1**	**15.3**		**Total interest instruments**	**590.0**	**0.1**	**15.3**	
				Financial derivatives used for hedge accounting				
				Currency instruments				
0.0	0.0	0.0		Forward exchange contracts	0.0	0.0	0.0	
304.9	0.0	6.1		Currency swap agreements	0.0	0.0	0.0	
			-5.6	Debt established upon the issuance of securities				0.0
304.9	**0.0**	**6.1**	**-5.6**	**Total currency instruments**	**0.0**	**0.0**	**0.0**	**0.0**
				Interest rate instruments				
5,615.0	297.7	4.1		Interest rate swaps (IRS)	4,265.0	127.8	4.1	
0.0	0.0	0.0		Forward rate agreements (FRA)	0.0	0.0	0.0	
0.0	0.0	0.0		Standardised interest rate swaps (futures)	0.0	0.0	0.0	
			232.3	Debt established upon the issuance of securities				77.7
5,615.0	**297.7**	**4.1**	**232.3**	**Total interest instruments**	**4,265.0**	**127.8**	**4.1**	**77.7**
	297.9	**25.5**	**226.7**	**Total derivatives**		**128.0**	**19.4**	**77.7**

The difference between the fair value of hedging instruments and the value adjustment of a security is explained by accrued interest.

NOTE 21 - NETTING RIGHTS OF FINANCIAL INSTRUMENTS

The Group’s netting rights comply with the general rules in Norwegian legislation. Standardised and mainly bilateral ISDA agreements have been entered into with financial institutions, which give the parties netting rights in the event of any default. In addition, credit support annexes (CSA) have been entered into for the provision of collateral. In accordance with the offsetting disclosure requirements, there has been no offsetting of amounts recognised on the balance sheet.

Group As at 31.12.18, the exposure was as follows:	Gross amount	Offset	Recognised amount	Amount subject to net settlement	Exchanged collateral security	Amount following any net settlement
Financial derivatives, assets	175.6	0.0	175.6	-17.1	-101.8	56.7
Financial derivatives, liabilities	17.6	0.0	17.6	-17.1	0.0	0.5

Group As at 31.12.2017 the exposure was as follows:	Gross amount	Offset	Recognised amount	Amount subject to net settlement	Exchanged collateral security	Amount following any net settlement
Financial derivatives, assets	181.5	0.0	181.5	-6.1	-12.3	163.1
Financial derivatives, liabilities	6.1	0.0	6.1	-6.1	0.0	0.0

Parent bank As at 31.12.18, the exposure was as follows:	Gross amount	Offset	Recognised amount	Amount subject to net settlement	Exchanged collateral security	Amount following any net settlement
Financial derivatives, assets	33.6	0.0	33.6	-2.5	-28.3	2.8
Financial derivatives, liabilities	3.0	0.0	3.0	-2.5	0.0	0.5

Parent bank As at 31.12.2017 the exposure was as follows:	Gross amount	Offset	Recognised amount	Amount subject to net settlement	Exchanged collateral security	Amount following any net settlement
Financial derivatives, assets	11.6	0.0	11.6	0.0	-12.3	-0.7
Financial derivatives, liabilities	0.0	0.0	0.0	0.0	0.0	0.0

NOTE 22 - FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities on the balance sheet are measured at fair value, except for loans with floating interest, receivables, contributions, deposits and issued securities.

Valuation of financial assets and liabilities at fair value

General information
The bank classifies fair value measurements by using a hierarchy with the following levels:

Level 1: Observable trading prices in active markets.
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.

Loans to and receivables from customers
Loans with fixed interest rates are valued at fair value in the balance sheet. The valuation is based on contracted cash flows discounted with the swap interest rate to which a margin is added.

The fair value of the bank's remaining loan portfolio at floating interest rates is subject to the influence of changes in interest rates and credit margins, but can be repriced with a short deadline. The Financial Contracts Act provides access to repricing within a six-week period (unless there are major changes in the bank's interest on deposit). In the bank's opinion the best estimate for the remaining loan portfolio is that amortised cost is a good approximation of fair value. The fair value of net loans to and receivables from customers is classified in level 3.

Certificates and bonds

As a general rule, the bank's portfolio of certificates and bonds is valued based on prices received from Nordic Bond Pricing. The prices from Nordic Bond Pricing are based on reported spreads from the brokers active in the Norwegian market.

Certificates or bonds not priced by Nordic Bond Pricing are valued on the basis of trades and observable credit spreads in the market. If this has not been possible, price estimates or credit spread assessments have been used based on other certificates and bonds with equivalent characteristics and maturities.

In the valuation of the bank's bond portfolio, we have assessed possible imbalances in the market, and whether there are different motives behind the transactions that have taken place. Assessments are made of whether the prices from Nordic Bond Pricing appear correct.

The bank believes that the valuation estimates used are within reasonable intervals for fair value and that the credit and liquidity risk development has been considered in the valuation wherever necessary. In the opinion of the bank, the prices used represent the best estimate of the securities' fair value.
All of the bank's certificate and bond holdings are placed in the pricing hierarchy's level 2. This is due to the fact that there is insufficient trading in any of the listed instruments for a market price can be read at any given time.

Shares and units
If there are no listed prices in an active market, alternative valuation techniques are used. Such techniques include the use of the arm's length price of recent market transactions, comparison with the market value of corresponding financial instruments, and the discounting of expected future cash flows. As a calibration test of the feasibility of the estimate of fair value, multiplier models such as the price/book model and the price/profit model are used to check that the valuation models correlate with market data.

Listed shares that are traded daily are classified as level 1. Level 2 consists of shares where valuation is based on observable market data. Level 3 consists of shares in local companies and other unlisted undertakings for which alternative valuation techniques are used to determine fair value.

Financial derivatives
Sparebanken Øst only has derivatives of which the fair value is based on observable yield curves and exchange rates and which are therefore placed at level 2 of the pricing hierarchy.

Debt established by issuing securities and subordinated loan capital
Securitised debt and subordinated loan capital 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 group uses price estimates and credit spread assessments from Nordic Bond Pricing and has taken transaction prices into account where necessary.

Other financial assets and liabilities
Other financial assets and liabilities are measured at amortised cost. These instruments assume that the carrying amount is a reasonable approximation of fair value. This includes the accounting lines of cash and receivables at central banks, loans to and receivables from financial institutions, debt to financial institutions as well as deposits from and debts to customers.

31.12.18, Group	Level 1	Level 2	Level 3	Fair value	Book value
Financial assets and liabilities measured at amortised cost					
Cash and receivables from central banks	0.0	603.1	0.0	603.1	603.1
Net loans to and receivables from credit institutions	0.0	9.5	0.0	9.5	9.5
Net loans to and receivables from customers	0.0	0.0	34,780.4	34,780.4	34,780.4
Total assets at amortised cost	**0.0**	**612.6**	**34,780.4**	**35,393.0**	**35,393.0**
Liabilities to credit institutions	0.0	300.4	0.0	300.4	300.4
Deposits from and liabilities to customers	0.0	14,899.7	0.0	14,899.7	14,899.7
Debt established upon the issuance of securities	0.0	22,081.2	0.0	22,081.2	21,970.8
Subordinated loan capital	0.0	394.2	0.0	394.2	400.0
Total liabilities at amortised cost	**0.0**	**37,675.5**	**0.0**	**37,675.5**	**37,570.9**
Financial assets and liabilities measured at fair value					
Loans to and receivables from customers	0.0	0.0	367.0	367.0	367.0
Certificates, bonds and other interest-bearing securities	0.0	5,173.1	0.0	5,173.1	5,173.1
Shares and units	21.6	23.0	562.2	606.8	606.8
Financial derivatives	0.0	222.0	0.0	222.0	222.0
Total assets at fair value	**21.6**	**5,418.1**	**929.2**	**6,368.9**	**6,368.9**

Financial derivatives	0.0	30.7	0.0	30.7	30.7
Total liabilities at fair value	**0.0**	**30.7**	**0.0**	**30.7**	**30.7**

Movement in level 3	Fixed-rate lending	Shares and units	Total
Balance sheet as at 01.01.2018	255.7	466.1	721.8
Net realised gains	0.0	10.7	10.7
Additions	221.2	12.8	234.0
Disposals	112.8	11.4	124.2
Changes in value	2.9	84.0	86.9
Transferred from levels 1 and 2	0.0	0.0	0.0
Balance sheet as at 31.12.2018	**367.0**	**562.2**	**929.2**

Shares and units
Capital increase in Balder Betaling AS by NOK 1.3 million, as well as the merger of Vipps AS, BankID AS and BankAxept AS with subsequent non-cash contribution to Balder Betaling AS explains the year's net realised gains, inflow and disposals in the movements note in 2018. The value adjustment in the amount of NOK 84.0 million is primarily explained as a value adjustment of the shares in Frende Holding AS in the amount of NOK 83.3 million. The shares in Frende Holding AS were assessed at NOK 318.3 million at the end of 2018. The assessment of the shareholding is based on the last known transaction price. Eksportfinans ASA was assessed at NOK 195.0 million at the end of 2018. The shareholding is assessed on the basis of a price/book assessment, taking into consideration risks at the enterprise and uncertainties concerning expected cash flow relating to financial performance and winding up.

31.12.17, Group	Level 1	Level 2	Level 3	Fair value	Book value
Financial assets and liabilities measured at amortised cost					
Cash and receivables from central banks	0.0	341.2	0.0	341.2	341.2
Net loans to and receivables from credit institutions	0.0	5.7	0.0	5.7	5.7
Net loans to and receivables from customers	0.0	0.0	30,975.4	30,975.4	30,972.4
Certificates, bonds and other interest-bearing securities	0.0	0.0	0.0	0.0	0.0
Total assets at amortised cost	**0.0**	**346.9**	**30,975.4**	**31,322.3**	**31,319.3**
Liabilities to credit institutions	0.0	330.1	0.0	330.1	330.1
Deposits from and liabilities to customers	0.0	13,971.8	0.0	13,971.8	13,971.8
Securitised debt	0.0	18,396.0	0.0	18,396.0	18,228.5
Subordinated loan capital	0.0	353.8	0.0	353.8	351.9
Total liabilities at amortised cost	**0.0**	**33,051.7**	**0.0**	**33,051.7**	**32,882.3**
Financial assets and liabilities measured at fair value					
Certificates, bonds and other interest-bearing securities	0.0	4,515.1	0.0	4,515.1	4,515.1
Shares, units and other securities					
- at fair value through profit or loss	17.8	0.0	0.0	17.8	17.8
- available for sale	0.0	0.0	466.1	466.1	466.1
Financial derivatives	0.0	297.9	0.0	297.9	297.9
Total assets at fair value	**17.8**	**4,813.0**	**466.1**	**5,296.9**	**5,296.9**
Financial derivatives	0.0	25.5	0.0	25.5	25.5
Total liabilities at fair value	**0.0**	**25.5**	**0.0**	**25.5**	**25.5**

Movement in level 3	Fair value
Balance sheet as at 01.01.2017	445.7
Net gains	2.4
Purchase of shares	9.3
Disposals	15.1
Changes in value	23.7
Transferred from levels 1 and 2	0.0
Balance sheet as at 31.12.2017	**466.1**

31.12.18, parent bank	Level 1	Level 2	Level 3	Fair value	Book value
Financial assets and liabilities measured at amortised cost					
Cash and receivables from central banks	0.0	603.1	0.0	603.1	603.1
Net loans to and receivables from credit institutions	0.0	2,155.1	0.0	2,155.1	2,155.1
Net loans to and receivables from customers	0.0	0.0	18,107.7	18,107.7	18,107.7
Certificates, bonds and other interest-bearing securities	0.0	0.0	0.0	0.0	0.0
Total assets at amortised cost	**0.0**	**2,758.2**	**18,107.7**	**20,865.9**	**20,865.9**
Liabilities to credit institutions	0.0	540.8	0.0	540.8	540.8
Deposits from and liabilities to customers	0.0	14,974.3	0.0	14,974.3	14,974.3
Securitised debt	0.0	9,797.0	0.0	9,797.0	9,750.8
Subordinated loan capital	0.0	394.2	0.0	394.2	400.0
Total liabilities at amortised cost	**0.0**	**25,706.3**	**0.0**	**25,706.3**	**25,665.9**
Financial assets and liabilities measured at fair value					
Loans to and receivables from customers	0.0	0.0	1,608.9	1,608.9	1,608.9
Certificates, bonds and other interest-bearing securities	0.0	5,012.1	0.0	5,012.1	5,012.1
Shares and units	21.6	23.0	562.2	606.8	606.8
Financial derivatives	0.0	80.1	0.0	80.1	80.1
Total assets at fair value	**21.6**	**5,115.2**	**2,171.1**	**7,307.9**	**7,307.9**
Financial derivatives	0.0	16.1	0.0	16.1	16.1
Total liabilities at fair value	**0.0**	**16.1**	**0.0**	**16.1**	**16.1**

31.12.2017 - parent bank	Level 1	Level 2	Level 3	Fair value	Book value
Financial assets and liabilities measured at amortised cost					
Cash and receivables from central banks	0.0	341.2	0.0	341.2	341.2
Net loans to and receivables from credit institutions	0.0	1,929.3	0.0	1,929.3	1,929.3
Net loans to and receivables from customers	0.0	0.0	18,656.6	18,656.6	18,653.6
Certificates, bonds and other interest-bearing securities	0.0	0.0	0.0	0.0	0.0
Total assets at amortised cost	**0.0**	**2,270.5**	**18,656.6**	**20,927.1**	**20,924.1**
Liabilities to credit institutions	0.0	562.0	0.0	562.0	562.0
Deposits from and liabilities to customers	0.0	14,001.0	0.0	14,001.0	14,001.0
Securitised debt	0.0	8,441.2	0.0	8,441.2	8,357.8
Subordinated loan capital	0.0	353.8	0.0	353.8	351.9
Total liabilities at amortised cost	**0.0**	**23,358.0**	**0.0**	**23,358.0**	**23,272.7**
Financial assets and liabilities measured at fair value					
Certificates, bonds and other interest-bearing securities	0.0	4,358.8	0.0	4,358.8	4,358.8
Shares, units and other securities					
- at fair value through profit or loss	17.8	0.0	0.0	17.8	17.8
- available for sale	0.0	0.0	466.1	466.1	466.1
Financial derivatives	0.0	128.0	0.0	128.0	128.0
Total assets at fair value	**17.8**	**4,486.8**	**466.1**	**4,970.7**	**4,970.7**
Financial derivatives	0.0	19.4	0.0	19.4	19.4
Total liabilities at fair value	**0.0**	**19.4**	**0.0**	**19.4**	**19.4**

NOTE 23 - ACCOUNT WITH GROUP COMPANIES

The posts below show transactions and balances that the parent company has with subsidiaries.

	31.12.18	31.12.17
Profit/loss		
Interest income and similar income		
Interest income from subsidiaries	45.4	40.2
Interest certificates and covered bonds from subsidiaries	2.7	5.2
Interest costs and similar costs		
Interest and commission to subsidiaries	2.6	1.9
Commission income and income from banking services		
Other operating income from subsidiaries	22.7	20.0
Other operating costs		
Rent to subsidiaries	3.5	4.8
Other costs to subsidiaries	0.8	1.7
Balance		
Loans to and receivables from financial institutions		
Loans to subsidiaries	2,145.6	1,923.7
Loans to and receivables from customers		
Loans to subsidiaries	63.8	174.8
Certificates, bonds and other interest-bearing securities		
Investment in covered bonds in subsidiaries	0.0	0.0
Prepaid non-accrued costs and earned but not received income		
Other receivables	1.7	1.4
Liabilities to credit institutions		
Deposits from subsidiaries	240.4	231.9
Customer deposits		
Deposits from subsidiaries	86.2	42.2
Other liabilities		
Other liabilities to subsidiaries	0.7	1.2

NOTE 24 - NET INTEREST AND CREDIT COMMISSION INCOME

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
2.2	1.7	Interest income and similar income from loans to and receivables from credit institutions	43.8	34.9
1.0	1.2	Interest income and similar income from financial leases	0.0	0.0
955.5	937.8	Interest income and similar income from loans to and receivables from customers	472.4	528.9
		Interest income and similar income from financial assets that are written down		
0.0	0.0	Loans to and receivables from financial institutions	0.0	0.0
8.7	10.2	Loans to and receivables from customers	0.8	1.8
0.0	0.0	Other interest income and similar income	0.0	0.0
967.4	950.9	Total interest income and similar income for instruments at amortised cost	517.0	565.6
8.0	0.0	Interest income and similar income from loans at fair value	44.2	0.0
73.6	69.2	Interest income and similar income from certificates, bonds, etc.	73.9	72.2
81.6	69.2	Total interest income and similar income for instruments at fair value through profit or loss	118.1	72.2
1,049.0	**1,020.1**	**Interest income and similar income**	**635.1**	**637.8**
6.6	3.3	Interest costs and similar costs for liabilities to credit institutions	9.0	5.2
122.8	116.5	Interest costs and similar costs for deposits from and liabilities to customers	122.8	116.2
332.7	300.6	Interest costs and similar costs for securities issued	154.3	158.8
10.3	11.1	Interest costs and similar costs for subordinated loan capital	10.3	11.1
11.5	11.4	Other interest costs and similar costs	11.5	11.4
483.9	**442.9**	**Interest costs and similar costs for instruments at amortised cost**	**307.9**	**302.7**
565.1	**577.2**	**Net interest and credit commission income**	**327.2**	**335.1**

Average interest rates and average interest-bearing assets and liabilities in the period

Group 2018		Group 2017			Parent bank 2018		Parent bank 2017	
Avg. int. bearing balance	**Avg. interest rate, %**	**Avg. int. bearing balance**	**Avg. interest rate, %**		**Avg. int. bearing balance**	**Avg. interest rate, %**	**vg. int. bearing balance**	**Avg. interest rate, %**
				Assets				
429.7	0.52	397.0	0.44	Net lending to credit institutions*	2,575.0	1.70	2,292.4	1.52
32,537.1	2.99	29,945.1	3.17	Net lending to customers	18,280.3	2.83	18,145.7	2.92
4,866.9	1.51	4,639.9	1.49	Securities, investments	4,789.1	1.54	4,714.4	1.53
				Liabilities				
311.7	2.12	127.1	2.64	Deposits from credit institutions	556.9	1.62	365.5	1.43
14,315.2	0.86	13,850.1	0.84	Customer deposits	14,377.5	0.85	13,868.3	0.84
19,994.6	1.72	18,765.7	1.74	Securities, deposits	8,671.8	1.90	9,400.5	1.96

*Including receivables from central banks.

Average interest rate is calculated by dividing interest income recognised in year by average balance.

NOTE 25 - DIVIDENDS AND OTHER INCOME FROM SECURITIES WITH VARIABLE YIELDS

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
33.0	16.3	Dividend from equity instruments	33.0	16.3
0.0	0.0	Dividends and group contributions from subsidiaries	119.4	148.1
33.0	**16.3**	**Dividends and other operating income from securities with variable yields**	**152.4**	**164.4**

NOTE 26 - NET COMMISSION INCOME

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
58.2	56.7	Fees, money-transfer services	58.2	56.7
2.0	2.3	Fees, guarantees	2.0	2.3
28.6	26.7	Other commissions and fees	45.9	40.6
88.8	**85.7**	**Commission income, etc.**	**106.1**	**99.6**
11.2	10.0	Costs, money-transfer services	11.2	10.0
31.7	30.4	Other commissions and fees	6.3	4.4
42.9	**40.4**	**Total commission costs, etc.**	**17.5**	**14.4**
45.9	**45.3**	**Net commission income, etc.**	**88.6**	**85.2**

NOTE 27 - NET VALUE CHANGE AND GAINS/LOSSES FROM FINANCIAL INSTRUMENTS

Recognised in the statement of income

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
		Value change and gains/losses on financial instruments at fair value through profit or loss		
-18.1	12.1	Value adjustment of certificates and bonds	-17.5	11.8
0.3	-2.4	Realised gains/losses on certificates and bonds	3.6	4.2
85.7	4.0	Value adjustment of equity instruments	85.7	4.0
12.0	0.0	Realised gains/losses on equity instruments	12.0	0.0
-3.6	-40.6	Change in value of derivatives, hedge accounting not used	-3.6	-40.6
9.2	55.8	Realised gains/losses on derivatives, hedge accounting not used	9.2	55.8
0.0	3.2	Realised gains/losses on equity instruments, available for sale (IAS 39 up to and including 31.12.17)	0.0	3.2
-0.1	0.0	Value adjustment, fixed rate loans	-0.1	0.0
85.4	**32.1**	**Net value change and gains/losses on financial instruments at fair value**	**89.3**	**38.4**
-77.8	-30.6	Financial derivatives, hedge accounting	-42.0	-30.4
77.8	30.6	Financial liabilities, hedged	42.0	30.4
0.0	**0.0**	**Total net hedged items***	**0.0**	**0.0**
		Value adjustment and gains/losses on financial instruments at amortised cost		
-4.1	-5.9	Realised gains/losses on securitised debt	-2.6	-1.4
-4.1	**-5.9**	**Net realised gains/losses on securitised debt at amortised cost**	**-2.6**	**-1.4**
		Currency trading		
2.0	1.0	- Net conversion gain	2.0	1.0
3.0	3.3	- Net transaction gain	3.0	3.3
5.0	**4.3**	**Total net income from currency trading**	**5.0**	**4.3**
86.3	**30.5**	**Net value changes and gains/losses on financial instruments**	**91.7**	**41.3**

* 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 group uses hedge accounting on fixed rate bond loans and bond loans in foreign currency. Deposits are hedged on a one-to-one basis.

See also note 25 for dividends and other operating income from securities with variable yields.

Recognised in comprehensive income

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
		Value adjustment of financial instruments, OCI		
0.0	0.0	Lending at fair value	-0.9	0.0
0.0	23.7	Value adjustment on equity instruments over comprehensive income, available for sale* (IAS 39 up to 31.12.17)	0.0	23.7
0.0	**23.7**	**Net value adjustment of financial instruments, OCI**	**-0.9**	**23.7**

* See also note 22 for a more detailed description regarding value changes in equity instruments through comprehensive income, available for sale category.

NOTE 28 - OTHER OPERATING INCOME

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
6.0	7.7	Rental income investment properties	0.0	0.0
0.4	5.9	Operating income, real estate	0.0	0.1
11.3	36.2	Profit from sale of real estate	0.0	0.0
9.6	12.6	Other operating income	4.7	4.8

27.3	**62.4**	**Other operating income**	**4.7**	**4.9**

NOTE 29 - SALARIES AND OTHER REMUNERATION

Group 2018	Group 2017	Figures in NOK thousands	Parent bank 2018	Parent bank 2017
124,618	116,593	Payroll, etc.	106,289	96,348
24,679	23,158	National insurance contributions	21,299	19,415
		Pensions		
8,079	5,671	- defined-benefit	7,197	4,410
4,581	4,015	- defined-contribution	4,142	3,733
10,023	7,193	Social security costs	9,021	6,243
171,980	**156,631**	**Total salaries, etc.**	**147,948**	**130,149**
199	181	No. of full-time equivalents as at 31.12.	174	154
203	191	No. of employees as at 31.12.	178	162
193	195	Average no. of full time equivalents	165	166
198	201	Average no. of employees	170	171

Remuneration 2018, parent bank

The CEO's remuneration totalled NOK 3,035,538. The retirement age of the CEO is 70. The CEO is a member of the bank's defined-benefit pension scheme and earns pension rights in the same way as other employees. If the CEO decides to leave the bank, no severance pay will be due in excess of the salary agreed for the notice period of 6 months. If the bank terminates the CEO's employment, the CEO has the right to claim severance pay for 3 years from the termination date. The salary basis is the annual salary at the time of termination. Apart from this no employee or employee representative has severance pay or subscription rights, options, or bonus agreements. No additional remuneration for special services in addition to the normal functions of a manager has been paid.

Remuneration of executive management team and managerial staff in 2018

Figures in NOK thousands		Remuneration	Salaries	Pension	Paid profit sharing etc.	Payment in kind	Total	Earned, not paid profit sharing etc.	Loans
Pål Strand	CEO		2,519	240	44	232	3,036	181	6,085
Kjell Engen	Deputy CEO		1,948	323	35	133	2,440	139	947
Lars-Runar Groven	Director, Business Market		1,132	239	23	159	1,552	81	2,773
Jan-Roger Vrabel	Director, Retail Market		1,389	76	27	166	1,657	99	7,634
Thor-Henning Bråthen	CFO		1,519	74	12	155	1,760	108	0
Anne Siri R. Jensen	Director, Credit, retail market, from 1 October 2018	12	880	151	19	89	1,151	62	5,076
Executive management team, total		**12**	**9,387**	**1,102**	**160**	**935**	**11,595**	**671**	**22,516**
Halvor Kirkebøen	Head of Management and Control Department		1,101	349	22	208	1,680	78	2,202
Managerial staff, total		**0**	**1,101**	**349**	**22**	**208**	**1,680**	**78**	**2,202**

The executive management team and managerial staff are covered by the bank's general-interest-rate subsidised loans scheme for employees. The interest rates are lower than the rates that give rise to taxable benefits for the employees. The loan limit for interest-rate subsidised loans was NOK 3.5 million in 2018. The limits for the CEO and Deputy CEO were NOK 5.5 million and NOK 4.5 million respectively. Members of the board and other control bodies have loans on ordinary terms. The subsidy costs linked to the interest rate subsidy scheme for loans to employees are not recognised as operating costs and affect the bank's net interest income.

Remuneration, board of directors 2018

Figures in NOK thousands		Remuneration	Salaries	Pension	Paid profit sharing	Payment in kind	Total	Loans
Øivind Andersson	Chair	353					353	29
Knut Smedsrud	Deputy Chair	160					160	
Morten André Yttreeide	Board member	190					190	
Elly Therese Thoresen	Board member	155					155	
Kari Solberg Økland	Board member	158					158	
Hanne M. Lenes Solem	Board member until 22 March 2018	160					160	

		Remuneration	Salaries	Pension	Paid profit sharing	Payments in kind	Total	Loans
Cecilie Hagby	Board member from 23 March 2018	0					0	
Inger Helen Pettersen	Employee representative	120	536	31	14	15	715	2,000
Ole-Martin Solberg	Employee representative	120	549	24	13	15	721	1,548
Board of directors, total		**1,415**	**1,085**	**54**	**27**	**31**	**2,611**	**3,578**

Remuneration, other elected representatives, 2018

Figures in NOK thousands		Remuneration	Salaries	Pension	Paid profit sharing	Payments in kind	Total	Loans
Frank Borgen	Chair of the board of trustees	60					60	649
Lars M. Lunde	Deputy Chair of the board of trustees	14					14	
May-Britt Andersen	Member of the board of trustees	3					3	
Knut Andersen	Member of the board of trustees	3					3	
Bent Inge Bye	Member of the board of trustees	12					12	
Dag Fjeld Edvardsen	Member of the board of trustees	3					3	
Rolf Arne Fjelltoft	Employee representative	3	876	38	19	22	956	3.043
Tor Flesaker	Member of the board of trustees	3					3	
Kåre J. Grøtta	Member of the board of trustees	3					3	8,448
Thomas F. Halvorsen	Member of the board of trustees	6					6	3,053
Asbjørn R. Hansen	Member of the board of trustees	3					3	
Ole B. Hoen	Member of the board of trustees	3					3	135
Helle Elisabeth Hofgaard	Member of the board of trustees	0					0	
Anne Siri Rhoden Jensen	Employee representative	12	880	151	19	89	1,151	5,076
Iver A. Juel	Member of the board of trustees	0					0	
Brynulf Kopperud	Employee representative	3	566	85	14	13	680	1,100
Jostein André Kretz	Member of the board of trustees	3					3	
Vegard Kvamme	Employee representative	3	991	170	20	133	1,316	3,070
Jørn Larsen	Member of the board of trustees	3					3	
Frode Lindbeck	Employee representative	3	870	158	18	120	1,169	910
Bente Niemann	Member of the board of trustees	3					3	
Kristin Nystrøm	Member of the board of trustees	2					2	
Nina Paulsen	Member of the board of trustees	12					12	
Ann Kristin Plomås	Employee representative	9	547	63	13	15	646	1,542
Morten Ranvik	Member of the board of trustees	3					3	1,636
Camilla Schenk	Employee representative	3	496	21	11	17	548	1,840
Åsmund Skår	Member of the board of trustees	5					5	
Ole Jørgen Smedsrud	Member of the board of trustees	3					3	
Tom R. Svendsen	Member of the board of trustees	25					25	
Morten Wang	Employee representative	0	683	31	15	9	739	
Helge Chr. Aaby	Member of the board of trustees	3					3	
Jon Aas	Member of the board of trustees	6					6	2,261
Board of trustees, total		**205**	**5,909**	**716**	**129**	**418**	**7,377**	**32,763**

Remuneration of executive management team and managerial staff in 2017

Figures in NOK thousands		Remuneration	Salaries	Pension	Paid profit sharing etc.	Payment in kind	Total	Earned, not paid profit sharing etc.	Loans
Pål Strand	CEO		2,440	223		217	2,880	44	2,788
Kjell Engen	Deputy CEO		1,915	298		162	2,375	35	1,068
Lars-Runar Groven	Director - Business Market and Credit		1,078	223		166	1,467	23	2,779
Per Øyvind Mørk	Director - CSR and Communication		1,439	75		117	1,630	28	
Jan-Roger Vrabel	Director, Retail Market		1,361	73		166	1,600	27	3,272
Thor-Henning Bråthen	CFO from 14.08.2017		612	31		49	692	12	
Arnljot Lien	Director - IT and Business Support		846	217		118	1,180	19	1,445
Executive management team, total		**0**	**9,689**	**1,140**	**0**	**994**	**11,823**	**188**	**11,353**
Halvor Kirkebøen	Head of Management and Control Department		1,100	329		166	1,595	22	2,315
Managerial staff, total		**0**	**1,100**	**329**	**0**	**166**	**1,595**	**22**	**2,315**

The executive management team and managerial staff are covered by the bank's general-interest-rate subsidised loans scheme for employees. The interest rates are lower than the rates that give rise to taxable benefits for the employees. The loan limit for interest rate subsidised loans was NOK 3.5 million in 2017. The limits for the CEO and Deputy CEO were NOK 5.5 million and NOK 4.5 million respectively. Members of the board and other control bodies have loans on ordinary terms. The subsidy costs linked to the interest rate subsidy scheme for loans to employees are not recognised as operating costs and affect the bank's net interest income.

Remuneration, board of directors 2017

Figures in NOK thousands		Remuneration	Salaries	Pension	Paid profit sharing	Payment in kind	Total	Loans
Øivind Andersson	Board member/Board chair from 31.03.2017	196					196	11
Jorund Rønning Indrelid	Chair until 30.03.2017	226					226	
Knut Smedsrud	Deputy Chair	150					150	
Morten André Yttreeide	Board member	195					195	
Elly Therese Thoresen	Board member	145					145	
Hanne M. Lenes Solem	Board member	146					146	
Kari Solberg Økland	Board member from 31.03.2017	3					3	
Inger Helen Pettersen	Employee representative	111	548	29		14	702	1,482
Ole-Martin Solberg	Employee representative	110	543	23		14	691	1,606
Board of directors, total		**1,282**	**1,091**	**52**	**0**	**29**	**2,453**	**3,098**

Remuneration, other elected representatives 2017

Figures in NOK thousands		Remuneration	Salaries	Pension	Paid profit sharing	Payments in kind	Total	Loans
Frank Borgen	Chair of the board of trustees	52					52	696
Lars M. Lunde	Deputy Chair of the board of trustees	11					11	
May-Britt Andersen	Member of the board of trustees	5					5	
Knut Andersen	Member of the board of trustees	3					3	
Bent Inge Bye	Member of the board of trustees	11					11	
Dag Fjeld Edvardsen	Member of the board of trustees	0					0	
Rolf Arne Fjelltoft	Employee representative	5	892	71		21	989	3,187
Tor Flesaker	Member of the board of trustees	3					3	
Kåre J. Grøtta	Member of the board of trustees	5					5	9,054
Thomas F. Halvorsen	Member of the board of trustees	0					0	3,438
Asbjørn R. Hansen	Member of the board of trustees	0					0	
Ole B. Hoen	Member of the board of trustees	5					5	
Helle Elisabeth Hofgaard	Member of the board of trustees	0					0	
Anne Siri Rhoden Jensen	Employee representative	11	886	145		88	1,130	1,311
Iver A. Juel	Member of the board of trustees	3					3	
Brynulf Kopperud	Employee representative	5	546	82		11	644	900
Jostein André Kretz	Member of the board of trustees	5					5	3,600
Vegard Kvamme	Employee representative	5	958	160		132	1,255	3,184
Jørn Larsen	Member of the board of trustees	5					5	
Frode Lindbeck	Employee representative	5	862	153		118	1,137	983
Kristin Nystrøm	Member of the board of trustees	8					8	
Nina Paulsen	Member of the board of trustees	6					6	
Ann Kristin Plomås	Employee representative	3	508	58		13	582	1,583
Gunnvor Ramnefjell	Member of the board of trustees	0					0	
Morten Ranvik	Member of the board of trustees	5					5	
Camilla Schenk	Employee representative	5	397	17		15	433	1,906
Åsmund Skår	Member of the board of trustees	3					3	
Ole Jørgen Smedsrud	Member of the board of trustees	3					3	
Tom R. Svendsen	Member of the board of trustees	25					25	
Morten Wang	Employee representative	5	668	31		7	711	
Helge Chr. Aaby	Member of the board of trustees	0					0	
Jon Aas	Member of the board of trustees	11					11	2,549
Board of trustees, total		**209**	**5,716**	**717**	**0**	**406**	**7,048**	**32,390**

NOTE 30 - CLOSE ASSOCIATES

Figures in NOK thousands	Executive management team and managerial staff 2018	2017	Board of directors 2018	2017	Other close associates 2018	2017
Loans						
Outstanding loans as at 01.01.	13,668	12,089	3,098	6,218	32,390	30,150
Net change in loans in the period	11,050	1,579	480	-3,120	-4,703	2,240
Outstanding loans as at 31.12.	**24,718**	**13,668**	**3,578**	**3,098**	**27,687**	**32,390**
Interest income	333	222	54	56	641	613
Loan losses	0	0	0	0	0	0
Deposits						
Deposits as at 01.01.	2,949	5,710	9,224	7,966	12,667	6,587
Net change in deposits in the period	-622	-2,761	3,907	1,258	-2,277	6,080
Deposits as at 31.12.	**2,327**	**2,949**	**13,131**	**9,224**	**10,390**	**12,667**
Interest costs	5	33	152	80	128	76
Other operating income	0	0	0	0	0	0
Guarantees issued	0	0	0	0	0	0

NOTE 31 - ADMINISTRATION AND OPERATING COSTS

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
35.1	34.3	IT costs	32.5	31.0
18.0	16.3	Other administrative costs	11.3	10.1
53.1	**50.6**	**Total administration costs**	**43.8**	**41.1**
13.7	17.9	Ordinary depreciation	9.5	11.3
0.0	0.0	Write-downs	0.0	0.0
13.7	**17.9**	**Depreciation/write-downs/changes in value for non-financial assets**	**9.5**	**11.3**
21.1	20.7	Operating costs, properties and premises	19.8	20.5
29.2	31.6	Other operating costs	21.3	23.0
50.3	**52.3**	**Total operating costs**	**41.1**	**43.5**
117.1	**120.8**	**Total administration and operating costs**	**94.4**	**95.9**

NOTE 32 - AUDITOR'S REMUNERATION

Group 2018	Group 2017	Figures in NOK thousands	Parent bank 2018	Parent bank 2017
2,137	2,430	Audit	1,313	1,440
149	101	Other certification services	0	0
255	269	Tax consulting	65	131
385	818	Other services	194	249
2,926	**3,618**	**Total**	**1,572**	**1,820**

The amounts are inclusive of VAT.

NOTE 33 - TAXES

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
		Tax costs for the year in the statement of income		
83.5	109.9	Tax payable on the profit for the year	46.8	67.5
-4.5	-5.2	Recognised deferred tax	-1.4	-6.4
-0.8	-0.9	Recognised deferred tax due to change in tax rate	0.0	0.0
-1.5	-0.1	Excess/deficit tax, previous year	0.0	0.0
76.7	**103.7**	**Total tax for the year**	**45.4**	**61.1**
		Tax on other operating income and costs recognised in comprehensive income		
		Change in net deferred tax		
-1.3	-7.6	- Actuarial gains and losses on defined-benefit plans	-1.5	-7.3
0.0	0.0	- Lending at fair value	-0.2	0.0
0.0	0.8	- Change in investments available for sale (IAS 39 up to 31 December 2017)	0.0	0.8
0.0	0.0	- Change in deferred tax, effect of changed tax rate	0.0	0.0
-1.3	**-6.8**	**Tax on other operating income and costs**	**-1.7**	**-6.5**
		Change in net deferred tax		
-5.3	-6.1	Recognised deferred tax in the income statement	-1.4	-6.4
-1.3	-6.8	Recognised deferred tax in comprehensive income	-1.7	-6.5
1.5	-0.9	Changes in net deferred tax entered directly on the balance sheet	5.1	0.0
-5.2	**-13.8**	**Total change in net deferred tax**	**2.0**	**-12.8**
		Reconciliation of tax costs for the year		
450.9	447.1	Profit before tax	419.3	406.5
110.6	111.4	Tax at the nominal rate	104.8	101.6
-31.6	-6.7	Tax effect of permanent differences	-59.4	-40.5
-0.8	-0.9	Tax effect of changed tax rate for deferred tax on the balance sheet	0.0	0.0
-1.5	-0.1	Excess/deficit tax, previous year	0.0	0.0
76.7	**103.7**	**Tax**	**45.4**	**61.1**
		Tax payable on the balance sheet		
83.5	109.9	Tax payable on the profit for the year	46.8	67.5
-3.9	-3.7	Payable tax carried directly to the balance sheet	-3.9	-3.7
4.5	4.3	Year's property tax	4.5	4.3
84.1	**110.5**	**Total tax payable**	**47.4**	**68.1**

Group		Group			Parent bank		Parent bank	
		Change	Change				Change	Change
2018	2017	2018	2017	**Deferred tax liability/deferred tax asset**	2018	2017	2018	2017
				Positive temporary differences				
39.5	40.2	0.7	20.2	Property, plant and equipment	1.7	0.0	-1.7	1.7
48.8	55.6	6.8	-25.4	Gains and losses account	4.9	0.8	-4.1	0.2
17.7	32.0	14.3	-22.0	Securities	17.6	31.2	13.6	-21.6
158.1	210.5	52.4	59.4	Financial derivatives	46.5	66.1	19.6	58.7
5.8	0.0	-5.8	0.0	Implementation effect, IFRS 9, loss accrual loans	16.5	0.0	-16.5	0.0
2.9	0.0	-2.9	0.0	Lending	3.1	0.0	-3.1	0.0
272.8	338.3	65.5	32.2	Total positive temporary differences	90.3	98.1	7.8	39.0
64.3	83.6	19.3	9.0	Deferred tax liability	22.6	24.5	2.0	9.8
				Negative temporary differences and deficit to carry forward				
2.9	1.7	-1.2	-1.7	Receivables	0.0	0.1	0.1	-0.1
162.0	220.0	58.0	10.8	Securitised debt	42.6	66.3	23.7	16.6
6.1	3.7	-2.4	-0.4	Other liabilities	1.0	2.4	1.4	0.0
77.6	68.6	-9.0	-30.0	Pension liabilities	75.5	66.1	-9.4	-28.8
0.0	1.2	1.2	2.1	Losses carried forward	0.0	0.0	0.0	0.0
248.6	295.2	46.6	-19.2	Total negative temporary differences and deficit to carry forward	119.1	134.9	15.8	-12.3
59.8	73.8	14.0	-4.8	Deferred tax asset	29.8	33.7	4.0	-3.1
0.8	0.9	0.1	0.0	Tax effect of changed tax rate	0.0	0.0	0.0	0.0
-3.7	**-8.9**	**-5.2**	**-13.8**	**Net deferred tax liability (-) / net deferred tax asset (+)**	**7.2**	**9.2**	**2.0**	**-12.8**

Deferred tax liability/deferred tax asset as at 31 December 2018 is recognised with a tax rate of 25% for the parent bank. Deferred tax liability/deferred tax asset as at 31 December 2018 in the group is recognised with a future tax rate in the range of 22-25%. Deferred tax assets are in their entirety recognised on the balance sheet when the group expects to be able to utilise this in the future.

NOTE 34 - CERTIFICATES AND BONDS

All certificates and bonds in 2018 and 2017 are measured at fair value through profit or loss.

Certificates and bonds broken down by issuing sector, group	Nominal value 2018	Fair value 2018	Nominal value 2017	Fair value 2017
State and state guaranteed	850.0	871.7	795.0	815.9
Other public issuers	336.0	338.8	294.7	299.5
Covered bonds	3,807.0	3,834.2	3,115.0	3,138.4
Financial enterprises	128.0	128.4	260.0	261.3
Non-financial enterprises	0.0	0.0	0.0	0.0
Total certificates and bonds	**5,121.0**	**5,173.1**	**4,464.7**	**4,515.1**

Certificates and bonds broken down by issuing sector, parent bank	Nominal value 2018	Fair value 2018	Nominal value 2017	Fair value 2017
State and state guaranteed	790.0	811.2	740.0	760.6
Other public issuers	336.0	338.8	294.7	299.5
Covered bonds	3,707.0	3,733.7	3,015.0	3,037.4
Financial enterprises	128.0	128.4	260.0	261.3
Non-financial enterprises	0.0	0.0	0.0	0.0
Total certificates and bonds	**4,961.0**	**5,012.1**	**4,309.7**	**4,358.8**

Certificates and bonds broken down by maturity as at 31.12.18, group

	Accrued interest	Up to 6 months	6-12 months	1-5 years	5-10 years	Total
State and state guaranteed	7.5	156.0	0.0	681.5	26.7	871.7
Other public issuers	2.9	250.0	0.0	85.9	0.0	338.8
Covered bonds	6.1	168.5	942.0	2,717.6	0.0	3,834.2
Financial enterprises	0.3	57.1	15.0	56.0	0.0	128.4
Non-financial enterprises	0.0	0.0	0.0	0.0	0.0	0.0
Total certificates and bonds	**16.8**	**631.6**	**957.0**	**3,541.0**	**26.7**	**5,173.1**

Certificates and bonds broken down by maturity as at 31.12.18, parent bank

	Accrued interest	Up to 6 months	6-12 months	1-5 years	5-10 years	Total
State and state guaranteed	7.4	151.0	0.0	626.1	26.7	811.2
Other public issuers	2.9	250.0	0.0	85.9	0.0	338.8
Covered bonds	6.0	68.1	942.0	2,717.6	0.0	3,733.7
Financial enterprises	0.3	57.1	15.0	56.0	0.0	128.4
Non-financial enterprises	0.0	0.0	0.0	0.0	0.0	0.0
Total certificates and bonds	**16.6**	**526.2**	**957.0**	**3,485.6**	**26.7**	**5,012.1**

Certificates and bonds by maturity as at 31.12.2017, group

	Accrued interest	Up to 6 months	6-12 months	1-5 years	5-10 years	Total
State and state guaranteed	6.5	115.1	45.4	633.8	15.0	815.8

Other public issuers	2.9	244.7	0.0	51.9	0.0	299.5
Covered bonds	3.8	65.1	42.1	2,957.0	70.5	3,138.5
Financial enterprises	0.8	128.0	60.2	72.3	0.0	261.3
Non-financial enterprises	0.0	0.0	0.0	0.0	0.0	0.0
Total certificates and bonds	**14.0**	**552.9**	**147.7**	**3,715.0**	**85.5**	**4,515.1**

Certificates and bonds by maturity as at 31.12.2017 - parent bank

	Accrued interest	Up to 6 months	6-12 months	1-5 years	5-10 years	Total
State and state guaranteed	6.5	115.1	45.4	578.6	15.0	760.6
Other public issuers	2.9	244.7	0.0	51.9	0.0	299.5
Covered bonds	3.7	65.1	42.1	2,856.0	70.5	3,037.4
Financial enterprises	0.8	128.0	60.2	72.3	0.0	261.3
Non-financial enterprises	0.0	0.0	0.0	0.0	0.0	0.0
Total certificates and bonds	**13.9**	**552.9**	**147.7**	**3,558.8**	**85.5**	**4,358.8**

Modified duration

	Group	Parent bank
State and state guaranteed	0.63	0.67
Other public issuers	0.21	0.21
Covered bonds	0.16	0.16
Financial enterprises	0.13	0.13
Non-financial enterprises	0.00	0.00
Total duration	0.24	0.24

Modified duration is used as a measure of interest rate sensitivity for issuer sectors and categories.

NOTE 35 - SHARES AND EQUITY CERTIFICATES

Specification of shares and equity certificates as at 31.12.18

Fair value through profit or loss	No. of shares	Stake in %	Book cost	Fair value
Balder Betaling AS	1,180,486	6.51	22.1	27.7
Bankenes ID-tjeneste AS	6,700	6.70	0.0	0.0
Eksportfinans ASA	12,787	4.85	139.4	195.0
Frende Holding AS	891,491	13.19	107.3	318.3
Kraft Bank ASA	2,875,000	6.85	23.0	23.0
Kredittforeningen for Sparebanker	2,760	5.52	2.8	0.7
Norne Eierselskap AS	4,553,571	2.48	1.3	1.3
Sparebankmateriell AS	302	0.96	0.0	0.0
Visa Inc.	4,739	0.00	2.0	21.6
VN Norge AS	6.4 trillion	0.64	0.0	9.0
Visa Norge Holding 1 AS			6.3	9.7
Other shares			0.5	0.5
Total shares and equity certificates			**304.7**	**606.8**

NOTE 36 - OWNERSHIP INTERESTS IN GROUP COMPANIES

Subsidiaries	Acquisition date	Business office	Stake	Voting share
Sparebanken Øst Eiendom AS	29.12.1988	Drammen	100%	100%
AS Financiering	01.10.1991	Oslo	100%	100%
Øst Prosjekt AS	22.12.1997	Drammen	100%	100%

Sparebanken Øst Boligkreditt AS	14.04.2009	Drammen	100%	100%
Øst Inkasso AS	18.04.2016	Drammen	100%	100%
Hawø Eiendom AS*	01.07.2011	Drammen	100%	100%
Stasjonsgata 14 AS*	29.08.2012	Drammen	100%	100%
Tollbugt 49-51 AS*	29.08.2012	Drammen	100%	100%
Borreveien 44 AS**	28.10.2014	Drammen	100%	100%
Jon Smørs Vei 7 AS**	05.02.2016	Drammen	100%	100%

* 100% owned subsidiary of Sparebanken Øst Eiendom AS.
** 100% owned subsidiary of Øst Prosjekt AS.

NOTE 37 - FIXED ASSETS AND INVESTMENT PROPERTIES

Property, plant and equipment as at 31.12.18

Group Machinery/inventory/vehicles/intang. assets, etc.	Group Properties	Group Investment properties		Parent bank Machinery/inventory/vehicles/ intang. assets etc.	Parent bank Properties	Parent bank Investment properties
129.7	124.1	138.8	Acquisition cost as at 01.01.	100.2	58.4	0.0
19.1	0.7	0.2	Additions	17.8	0.2	0.0
7.0	15.7	77.3	Disposals	6.6	0.0	0.0
141.8	**109.1**	**61.7**	**Acquisition cost as at 31.12.**	**111.4**	**58.6**	**0.0**
99.5	17.2	1.8	Total ordinary depreciation and write-downs	72.8	12.8	0.0
42.3	**91.9**	**59.9**	**Book value as at 31.12.**	**38.6**	**45.8**	**0.0**
10.3	2.0	1.4	Year's ordinary depreciation	8.5	1.0	
0.0	0.0	0.0	Year's write-downs	0.0	0.0	
2-10 years	10-100 years	10-100 years	Economic life	2-10 years	10-100 years	
Straight line	Straight line	Straight line	Depreciation plan	Straight line	Straight line	
0.0	**13.3**		**Annual rent of property not recognised on balance sheet**	**0.0**	**14.4**	

Property, plant and equipment as at 31.12.2017

Group Machinery/inventory/vehicles/ intang. assets etc.	Group Properties	Group Investment properties		Parent bank Machinery/inventory/vehicles/ intang. assets etc.	Parent bank Properties	Parent bank Investment properties
133.6	122.9	317.6	Acquisition cost as at 01.01.	105.0	58.2	0.0
16.7	1.3	3.0	Additions	14.5	0.2	0.0
20.6	0.1	181.8	Disposals	19.3	0.0	0.0
129.7	**124.1**	**138.8**	**Acquisition cost as at 31.12.**	**100.2**	**58.4**	**0.0**
95.8	24.1	4.2	Total ordinary depreciation and write-downs	70.8	11.8	0.0
33.9	**100.0**	**134.6**	**Book value as at 31.12.**	**29.4**	**46.6**	**0.0**
12.3	2.2	3.4	Year's ordinary depreciation	10.3	1.0	
0.0	0.0	10.0	Year's write-downs	0.0	0.0	
2-10 years	10-100 years	10-100 years	Economic life	2-10 years	10-100 years	
Straight line	Straight line	Straight line	Depreciation plan	Straight line	Straight line	
0.0	**13.2**		**Annual rent of property not recognised on balance sheet**	**0.0**	**15.9**	

Valuation of investment properties

The group uses the following valuation hierarchy:

Level 1: Observable market value in active market.
Level 2: Valuation techniques based on observable market data, external valuations.
Level 3: Valuation techniques not based on observable market data.

All the group's investment properties are categorised in level 3.

Group	Fair value	Book value
Investment properties at fair value as at 31.12.18	83.5	59.9
Investment properties at fair value as at 31.12.2017	152.5	134.6

The fair value of the investment properties is based on assessments by external parties. The valuation method used is discounted estimated cash flows. The average required rate of return is 6.4%. All of the properties are situated in Drammen and the surrounding areas. Most of the properties are office buildings. No changes have been made to the valuation techniques compared with the previous year.
The group's assessment is that the best possible use of the investment properties does not differ significantly from the current use.

For leasing income and operating costs on investment properties see also Note 28 - Other Operating Income and Note 31 - Administration and Operating Costs.

Real estate for own activities, 2018

Group Area - m^2		Group Book value		Parent bank Area - m^2		Parent bank Book value
Own use	**Leasing**	**2018***	**Commercial building**	**Own use**	**Leasing**	**2018***
3,398	4,310	105.1	Drammen	2,087	0	31.7
4,569	693	28.5	Øvre Eiker	0	0	0.0
7,967	**5,003**	**133.6**	**Commercial buildings, total**	**2,087**	**0**	**31.7**

* Total book value on the balance sheet also includes properties that are not commercial buildings.

Liabilities
There are no liabilities relating to projects or purchases of property, plant and equipment.

Real estate for own activities 2017

Group Area - m^2		Group Book value		Parent bank Area - m^2		Parent bank Book value
Own use	**Leasing**	**2017***	**Commercial building**	**Own use**	**Leasing**	**2017***
3,398	11,161	180.6	Drammen	2,087	0	32.3
4,569	693	29.2	Øvre Eiker	0	0	0.0
975	884	6.8	Nedre Eiker	0	0	0.0
8,942	**12,738**	**216.6**	**Commercial buildings, total**	**2,087**	**0**	**32.3**

* Total book value on the balance sheet also includes properties that are not commercial buildings.

NOTE 38 - OPERATING LEASES

The parent bank and group have entered into operating leases for premises, office equipment and vehicles.

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
13.9	13.2	Year's rental costs	15.1	15.9
		Year's rental costs corresponds to minimum rental payments		
		Minimum future rental payments		
12.2	11.4	Within 1 year	13.4	12.7
33.5	35.6	Between 1-5 years	50.4	52.5
19.9	25.9	After 5 years	30.3	39.5
65.6	**72.9**	**Total**	**94.2**	**104.6**

NOTE 39 - PREPAID NON-ACCRUED COSTS AND EARNED BUT NOT RECEIVED INCOME

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
0.0	0.0	Income accrued but not received	1.7	1.4
6.9	6.2	Other prepaid non-accrued costs	6.7	5.6
6.9	**6.2**	**Prepaid non-accrued costs and earned but not received income**	**8.4**	**7.0**

NOTE 40 - LIABILITIES TO CREDIT INSTITUTIONS

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
0.0	0.0	Loans and deposits from credit institutions without agreed maturities or deadline	239.7	10.3
300.4	330.1	Loans and receivables from financial institutions with agreed maturities or deadline	301.1	551.7
300.4	**330.1**	**Liabilities to credit institutions**	**540.8**	**562.0**

NOTE 41 - DEPOSITS FROM AND LIABILITIES TO CUSTOMERS

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
9,968.0	9,827.9	Deposits from and liabilities to customers without agreed maturity	10,042.5	9,856.9
4,931.7	4,143.9	Deposits from and liabilities to customers with agreed maturity	4,931.8	4,144.1
14,899.7	**13,971.9**	**Deposits from and liabilities to customers**	**14,974.3**	**14,001.0**

Geographical distribution of deposits

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
3,094.9	2,928.3	Drammen	3,181.0	2,970.5
1,941.7	1,789.9	Nedre Eiker	1,941.7	1,789.9
1,988.5	1,911.3	Øvre Eiker	1,988.5	1,911.1
957.4	930.8	Rest of Buskerud	957.2	929.6
3,157.6	2,841.3	Oslo	3,152.3	2,835.6
995.3	1,079.6	Akershus	991.5	1,075.8
698.3	675.5	Vestfold	698.3	675.5
199.3	180.4	Østfold	197.1	178.2
1,732.6	1,539.4	Rest of Norway	1,732.6	1,539.4
134.1	95.4	Abroad	134.1	95.4
14,899.7	**13,971.9**	**Total**	**14,974.3**	**14,001.0**

Distribution of deposits by sector and industry

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
8,580.4	8,400.6	Salaried employees	8,571.9	8,390.7
518.1	470.5	Public administration	518.1	470.5
116.9	123.3	Agriculture, forestry and fishing	116.9	123.3
1,259.5	1,109.5	Industry and mining, power and water supply	1,259.5	1,109.5
570.2	516.7	Building and construction	568.1	514.7
448.4	425.0	Wholesale and retail trade, hotels and restaurants	448.4	424.9
223.8	212.1	Transport and communications	223.8	212.1
1,306.9	1,148.1	Financial services	1,305.8	1,147.1
826.1	705.7	Other service industries	826.0	705.6
915.3	765.0	Real estate sales and operation	1,001.7	807.2
134.1	95.4	Abroad	134.1	95.4
14,899.7	**13,971.9**	**Total**	**14,974.3**	**14,001.0**

NOTE 42 - DEBT INCURRED BY ISSUING SECURITIES

Securitised debt	**31.12.18**	**31.12.17**
Hybrid tier 1 capital loans, nominal value	21,705.8	17,899.2
Value adjustments (including premium/discount)	170.9	232.3
Accrued interest	94.1	97.0
Debt incurred by issuing securities	**21,970.8**	**18,228.5**

	31.12.17	**Issued**	**Due/redeemed**	**Change in own holdings**	**Other changes incl. currency**	**31.12.18**
Change, securitised debt						
Hybrid tier 1 capital loans, nominal value	8,219.0	3,200.0	1,762.0	0.0	0.0	9,657.0
Covered bonds, nominal value in NOK	9,381.0	2,900.0	523.0	0.0	0.0	11,758.0
Covered bonds, nominal value in SEK (converted to NOK)	299.2	0.0	0.0	0.0	-8.4	290.8
Value adjustments (including premium/discount)	232.3	0.0	0.0	0.0	-61.4	170.9
Accrued interest	97.0	0.0	0.0	0.0	-2.9	94.1
Debt incurred by issuing securities	**18,228.5**	**6,100.0**	**2,285.0**	**0.0**	**-72.7**	**21,970.8**

Group	**Outstanding volume, 2018***	**Avg. balance, 2018**	**Weighted effective interest rate, 2018**	**Outstanding volume, 2017***	**Avg. balance 2017**	**Weighted effective interest rate, 2017**
Bond loans	21,876.7	19,363.3	1.73%	18,131.5	17,848.9	1.69%
Own holdings - bond loans	0.0	0.0	0.00%	0.0	0.0	0.00%
Debt incurred by issuing securities	**21,876.7**	**19,363.3**	**1.73%**	**18,131.5**	**17,848.9**	**1.69%**

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

Parent bank	**Outstanding volume, 2018***	**Avg. balance, 2018**	**Weighted effective interest rate, 2018**	**Outstanding volume, 2017***	**Avg. balance, 2017**	**Weighted effective interest rate, 2017**
Bond loans	9,697.6	8,123.8	1.90%	8,296.7	8,560.0	1.85%
Own holdings - bond loans	0.0	0.0	0.00%	0.0	0.0	0.00%
Debt incurred by issuing securities	**9,697.6**	**8,123.8**	**1.90%**	**8,296.7**	**8,560.0**	**1.85%**

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

NOTE 43 - SUBORDINATED LOAN CAPITAL

Change in subordinated loan capital	31.12.17	Issued	Due/redeemed	Change in own holdings	Other changes incl. currency	31.12.18
Ordinary subordinated loan capital, nominal value	350.0	400.0	350.0	0.0	0.0	400.0
Value adjustments (including premium/discount)	-0.3	0.0	0.0	0.0	-0.4	-0.7
Accrued interest	2.2	0.0	0.0	0.0	-1.5	0.7
Subordinated loan capital	**351.9**	**400.0**	**350.0**	**0.0**	**-1.9**	**400.0**

	Outstanding volume, 2018*	Avg. balance, 2018	Weighted effective interest rate, 2018	Outstanding volume, 2017*	Avg. balance 2017	Weighted effective interest rate, 2017
Subordinated bond loan	399.3	383.1	2.60%	349.9	350.0	3.05%
Subordinated loan capital	**399.3**	**383.1**	**2.60%**	**349.9**	**350.0**	**3.05%**

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

NOTE 44 - LONG-TERM DEPOSITS BY MATURITY

Long-term deposits as at 31.12.18, group

	Loans from financial institutions	Bond loans	Covered bonds	Subordinated loans	Total
2019	0.0	2,192.0	298.8	0.0	2,490.8
2020	0.0	1,240.0	2,500.0	0.0	3,740.0
2021	0.0	1,600.0	3,100.0	0.0	4,700.0
2022	0.0	1,800.0	2,500.0	0.0	4,300.0
2023	60.0	1,300.0	2,500.0	400.0	4,260.0
2024	60.0	1,200.0	0.0	0.0	1,260.0
2025	60.0	325.0	0.0	0.0	385.0
2026	60.0	0.0	750.0	0.0	810.0
2027 and thereafter	60.0	0.0	400.0	0.0	460.0
Gross deposits	300.0	9,657.0	12,048.8	400.0	22,405.8
Accrued interest	0.7	53.2	40.9	0.7	95.5
Direct costs and premium/discount	-0.3	1.6	8.5	-0.7	9.1
Value adjustments	0.0	39.0	121.8	0.0	160.8
Net deposits	**300.4**	**9,750.8**	**12,220.0**	**400.0**	**22,671.2**

Call/put loans by call/put date.

Long-term deposits as at 31.12.18, parent bank

	Loans from credit institutions	Bond loans	Subordinated loans	Total
2019	240.4	2,192.0	0.0	2,432.4
2020	0.0	1,240.0	0.0	1,240.0
2021	0.0	1,600.0	0.0	1,600.0
2022	0.0	1,800.0	0.0	1,800.0
2023	60.0	1,300.0	400.0	1,760.0
2024	60.0	1,200.0	0.0	1,260.0
2025	60.0	325.0	0.0	385.0

2026	60.0	0.0	0.0	60.0
2027 and thereafter	60.0	0.0	0.0	60.0
Gross deposits	540.4	9,657.0	400.0	10,597.4
Accrued interest	0.7	53.2	0.7	54.6
Direct costs and premium/discount	-0.3	1.6	-0.7	0.6
Value adjustments	0.0	39.0	0.0	39.0
Net deposits	**540.8**	**9,750.8**	**400.0**	**10,691.6**

Call/put loans by call/put date.

NOTE 45 - OTHER LIABILITIES

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
1.3	4.0	Liabilities linked to money-transfer services	1.3	4.0
72.2	54.0	Provisions for social dividends	72.2	54.0
6.6	5.6	Accounts payable	4.4	2.2
101.8	12.3	Exchanged collateral, CSA	28.3	12.3
47.4	48.6	Other liabilities	36.4	37.8
229.3	**124.5**	**Other liabilities**	**142.6**	**110.3**

NOTE 46 - PROVISIONS FOR INCURRED COSTS AND LIABILITIES

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
77.6	68.6	Pension liabilities (see note 47)	75.5	66.1
0.8	0.0	Loss provisions, unused credit and guarantees	0.7	0.0
78.4	**68.6**	**Provisions for accrued costs and liabilities**	**76.2**	**66.1**

NOTE 47 - PENSION LIABILITIES

Mandatory Occupational Pensions (OTP) are mandatory, and the group has schemes that satisfy these requirements. Sparebanken Øst has both defined-contribution and defined-benefit plans.

The defined-benefit plans in the group are closed schemes. New employees receive a pension based on a defined-contribution plan.

Defined-benefit pension scheme

Sparebanken Øst has a collective pension scheme in Storebrand Livsforsikring AS. This is a defined-benefit scheme and covers retirement pensions for scheme members, and spouse and child pensions to members' surviving families. The defined-benefit scheme currently covers 210 persons: 85 active, 106 retirement pensioners and 19 who are completely or partly disabled with premium reduction according to degree of disability. The scheme has been closed. Pension liabilities are entered to accounts in accordance with IAS 19, which requires that the present value of pension liabilities minus the market value of pension funds should be included on the balance sheet. Actuarial calculations are carried out each year on the basis of the information provided by the bank.

Defined-contribution pension scheme

As from 1 January 2007, Sparebanken Øst introduced a defined-contribution pension scheme for all new employees in the bank. The scheme is managed by Storebrand Livsforsikring AS. 5% of salaries between 1G and 7.1G (G = the National Insurance basic amount) and 8% of salaries between 7.1G and 12G are paid. The paid contributions are managed in various Storebrand funds. The defined-contribution scheme now includes 104 employees, 5 of whom receive disability pensions. The premiums for these are paid and expensed in salaries, etc. in the accounts on an ongoing basis.

Subsidiaries
AS Financiering has a collective pension scheme which comprises 16 persons, 9 of whom are active and 7 disabled/retired. The scheme has been closed. 11 employees have defined-contribution schemes. Sparebanken Øst Eiendom AS has a defined-benefit scheme for 1 person. This is active. The scheme has been closed. 1 employee has a defined-contribution scheme. Øst Inkasso AS has a defined contribution scheme for 4 employees.

Operating pensions
The group has separate pension agreements in place for 7 persons on salaries above 12G, 6 of whom are no longer employed by the bank. These operating pensions are taken into account in the calculations from the actuary.

Contractual early retirement pension (AFP)
The parent bank is a member of the AFP scheme, which is a collective pension scheme for the sector regulated by tariff agreements in Norway. The AFP scheme is based on a tripartite collaboration between employer organisations, employee organisations and the state. The state covers 1/3 of the AFP pension costs, while companies that are members of the scheme covers 2/3. Companies that participate in the AFP scheme are joint and severally liable for that which shall be paid to the employees who fulfil the terms of the scheme at any given time. All the parent bank's employees are members of the scheme.

For accounting purposes, the scheme is regarded as a defined-benefit multi-company scheme. The bank is unable to identify its share of the scheme's underlying financial position and result with any sufficient degree of reliability, and for this reason the scheme is entered in the accounts as a defined-contribution scheme. This means that liabilities from the AFP scheme are not recognised on the balance sheet. Premiums for the scheme are expensed as they are incurred.

Contributions to the AFP scheme are included in the accounts under payroll, etc., and comprised NOK 1.4 million in 2018 and NOK 1.4 million in 2017. Next year's premium is estimated at approximately NOK 1.5 million.

In order to be entitled to a contractual early retirement pension (AFP), the employee (member) must fulfil several conditions. These include that the member must be an employed and actual employee of an organisation that is affiliated with the scheme at the time of drawing his/her pension, and the member must have been continuously employed for the past three years, and have been employed in an organisation affiliated with the scheme for 7 of the past 9 years. AFP provides employees with a lifelong premium to the retirement pension from the National Insurance Scheme.

The scheme is administrated by the 'Fellesordningen for AFP', which also determines and collects the scheme's premium. The premium shall be determined so that it is sufficient to cover current costs and furthermore provide a basis for the arrangement of a pension fund.

In 2018, the premium was 2.5% of the salary between 1G and 7.1G. For 2019, the premium is unchanged and will amount to 2.5%. In 2018, the premium model was changed from being based on annual salaries to being based on actual salaries paid according to updated figures obtained from the Directorate of Taxes.

There is a shortfall in the scheme. In the event of any discontinuation of the scheme, the organisations participating in the scheme are obliged to continue premium payments for the coverage of pension payments to employees who have joined or who fulfil the requirements for the contractual early retirement pension (AFP) at the time of discontinuation.

Further information about defined-benefit schemes
Remaining qualification period
For secured schemes Sparebanken Øst's calculations are based on a remaining qualification period for active members of 8 years, whilst Sparebanken Øst Eiendom AS and AS Financiering's calculations are based on 3 and 10 years, respectively.

Actuarial assumptions
Calculations are based on death table K2013 and disability tariff KU. The calculations are based on standardised assumptions concerning death and disability trends. A retirement rate is expected that slowly decreases from 8% for the age group 20-24 years, and down to 0% for 51-year-olds and older.

Qualification
The qualification period for individual pension rights is calculated from employment by the company until the established retirement age. The actuarial calculation methods are based on the principle of linear earning and allow for future salary and G (the National Insurance basic amount) growth.

Financial assumptions	**2018**	**2017**
Expected return on pension funds	2.60%	2.40%
Discount rate	2.60%	2.40%
Annual salary growth	2.25%	2.00%

Annual G adjustment	2.50%	2.25%
Annual pension regulation	0.80%	0.50%

When calculating the pension costs and net pension liabilities, a number of assumptions are used. According to IAS 19, the discount interest rate on each balance sheet date must be determined with reference to the interest rate for corporate bonds of high quality or to government bonds in the absence of a deep market for corporate bonds of high quality, in accordance with the standard's description. The Norwegian market for covered bonds is assessed to have the characteristics that make them suitable to be the basis for the calculation of the discount interest rate.

Sparebanken Øst sets the discount rate on the basis of covered bonds.

Risk assessment

Via defined-benefit pension schemes, the group is affected by individual risks as a result of uncertainty in conditions and future development. The most central risks are:

Life expectancy: The group has undertaken to pay the pension for the entirety of the employee's life. Therefore an increase in life expectancy among the members will result in an increased liability for the group.

Return risk: The group will be affected by a reduction in actual return on the pension funds, which will result in increased liabilities for the company, since the return on the funds will not be sufficient to settle the liability.

Inflation and salary growth risk: The group's pension liability has risk relating to both inflation and salary development, even though salary development is closely related to inflation. Higher inflation and salary developments than those used in the pension calculations will result in increased liabilities for the group.

Pension costs in ordinary result

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
		Net pension costs, defined-benefit scheme		
6.5	4.7	Present value of annual pension savings	5.6	3.4
1.6	1.0	Interest costs for pension liabilities	1.6	1.0
8.1	**5.7**	**Net pension costs including employers' National Insurance contribution**	**7.2**	**4.4**
3.0	2.6	Premium paid, defined-contribution scheme	2.6	2.3
1.6	1.4	Premium paid, AFP scheme	1.5	1.4
12.7	**9.7**	**Total pension costs in ordinary result**	**11.3**	**8.1**

Specification of pension liabilities and pension funds - group

	2018				2017	
Funded	Unfunded	Total		Funded	Unfunded	Total
			Change in gross pension liabilities			
265.7	30.3	296.0	Pension liabilities as at 01.01.	250.7	29.9	280.6
-0.4	0.0	-0.4	Additions/retirement	-13.4	0.0	-13.4
6.2	0.2	6.4	Costs of current period's pension earnings	6.1	0.2	6.3
6.3	0.7	7.0	Interest costs	6.3	0.8	7.1
-2.1	0.5	-1.6	Actuarial gains and losses	25.5	1.1	26.6
-7.7	-1.7	-9.4	Payment pension/paid-up policies	-9.5	-1.7	-11.2
268.0	**30.0**	**298.0**	**Gross pension liabilities as at 31.12.**	**265.7**	**30.3**	**296.0**
			Change in gross pension liabilities			
227.4	0.0	227.4	Fair value of pension funds as at 01.01.	242.0	0.0	242.0
-0.2	0.0	-0.2	Additions/retirement	-11.7	0.0	-11.7
5.2	0.0	5.2	Return on pension funds	5.9	0.0	5.9
-6.9	0.0	-6.9	Actuarial gains and losses	-3.7	0.0	-3.7
2.2	0.0	2.2	Premium payments	3.7	0.0	3.7

-7.3	0.0	-7.3	Payment of pension/paid-up policies	-8.8	0.0	-8.8
220.4	**0.0**	**220.4**	**Fair value of pension funds as at 31.12.**	**227.4**	**0.0**	**227.4**
47.6	**30.0**	**77.6**	**Net pension liabilities (+)/- pension funds (-)**	**38.3**	**30.3**	**68.6**

2018		2017
68.6	**Net pension liabilities as at 01.01.**	**38.6**
8.2	Recognised pension costs	7.5
-0.2	Additions and disposals	-1.7
5.3	Actuarial gains and losses	30.3
-2.2	Paid-in pension premiums	-3.7
-2.1	Pension payments	-2.4
77.6	**Net pension liabilities on balance sheet as at 31.12.**	**68.6**
9.0	Expected premium payment next year, defined-benefit scheme	4.4
2.9	Expected premium payment next year, defined-contribution scheme	2.9
1.5	Expected premium payment next year, AFP scheme	1.4
	Placement of pension funds in %	
15.4%	Shares	14.9%
9.5%	Bonds	19.9%
14.1%	Loans	12.4%
35.7%	Facilities	32.3%
8.4%	Monetary market	5.0%
2.0%	Commercial Loans	1.7%
13.7%	Property	12.1%
0.7%	Alternative Investments	1.8%
2.8%	Booked returns totalled	5.1%

Sensitivity analysis, defined-benefit schemes

The sensitivity analysis is conducted by changing an actuarial assumption while simultaneously keeping the other assumptions unchanged. Actual results may differ significantly from these estimates.

	Discount rate		**Annual salary growth/ basic amount**		**Annual adjustment of pensions**	
Change in percentage points	**+ 0.5%**	**- 0.5%**	**+ 0.5%**	**- 0.5%**	**+ 0.5%**	**- 0.0%**
Percentage change in pension						
- Projected benefit obligation (PBO)	-9.2%	10.4%	2.3%	-2.1%	8.1%	-7.4%
- Net pension costs for the period	-11.3%	13.1%	4.9%	-4.6%	8.4%	-7.6%

The projected benefit obligation (PBO) is particularly sensitive to changes in the discount rate. A reduction in the discount rate will in isolation result in an increase in the PBO. A reduction in the discount rate of 0.5 percentage point will increase pension liabilities by around 10%. An increase in salary adjustments and the adjustment of pensions will result in an increase in the PBO.

The group's net PBO as at 31 December 2018 has the following maturity structure over the next ten years.

	Amou nt	**As a % of gross PBO**
Under 1 year	9.0	3.0%
Year 2	9.2	3.1%
Year 3	9.8	3.3%
Year 4	10.3	3.5%
Year 5	10.9	3.7%
Years 6-10	63.7	21.4%
Total	113.0	37.9%

Specification of PBO and pension funds, parent bank

2018 Funded	2018 Unfunded	2018 Total		2017 Funded	2017 Unfunded	2017 Total
			Change in gross PBO			
246.5	29.9	276.4	PBO as at 01.01.	228.7	28.8	257.5
-0.4	0.0	-0.4	Additions and disposals	-12.7	0.0	-12.7
5.4	0.2	5.6	Costs of current period's pension earnings	5.0	0.2	5.2
5.8	0.7	6.5	Interest costs	5.8	0.7	6.5
1.4	0.4	1.8	Actuarial gains and losses	28.5	1.9	30.4
-7.3	-1.6	-8.9	Disbursement of pension/paid-up policies	-8.8	-1.7	-10.5
251.4	**29.6**	**281.0**	**Gross PBO as at 31.12.**	**246.5**	**29.9**	**276.4**
			Change in gross pension funds			
210.3	0.0	210.3	Fair value of pension funds as at 01.01.	220.2	0.0	220.2
-0.2	0.0	-0.2	Additions and disposals	-10.9	0.0	-10.9
4.8	0.0	4.8	Return on pension funds	5.5	0.0	5.5
-4.1	0.0	-4.1	Actuarial gains and losses	1.4	0.0	1.4
1.7	0.0	1.7	Premium payments	2.4	0.0	2.4
-7.0	0.0	-7.0	Disbursement of pension/paid-up policies	-8.3	0.0	-8.3
205.5	**0.0**	**205.5**	**Fair value of pension funds as at 31.12.**	**210.3**	**0.0**	**210.3**
45.9	**29.6**	**75.5**	**Net PBO (+)/- pension funds (-)**	**36.2**	**29.9**	**66.1**

2018		2017
66.1	**Net PBO as at 01.01.**	**37.3**
7.4	Recognised pension costs	6.2
-0.2	Additions and disposals	-1.8
5.9	Actuarial gains and losses	29.0
-1.7	Paid-in pension premiums	-2.4
-2.0	Pension payments	-2.2
75.5	**Net PBO on balance sheet as at 31.12.**	**66.1**
8.3	Expected premium payment next year, defined-benefit scheme	2.9
2.5	Expected premium payment next year, defined-contribution scheme	2.5
1.5	Expected premium payment next year, contractual early retirement pension scheme (AFP)	1.4
	Placement of pension funds, %	
15.4%	Shares	14.9%
9.5%	Bonds	19.9%
14.1%	Loans	12.4%
35.7%	Facilities	32.3%
8.4%	Monetary market	5.0%
2.0%	Commercial loans	1.7%
13.7%	Property	12.1%
0.7%	Alternative investments	1.8%
2.8%	Booked returns totalled	5.1%

Sensitivity analysis, defined-benefit schemes

The sensitivity analysis is conducted by changing an actuarial assumption while simultaneously keeping the other assumptions unchanged. Actual results may differ significantly from these estimates.

	Discount rate		Annual salary growth/ basic amount		Annual adjustment of pensions	
Change in percentage points	**+ 0.5%**	**- 0.5%**	**+ 0.5%**	**- 0.5%**	**+ 0.5%**	**- 0.0%**
Percentage change in pension						
- Projected benefit obligation (PBO)	-9.3%	10.5%	2.2%	-2.1%	8.3%	-7.5%
- Net pension costs for the period	-11.6%	13.5%	5.0%	-4.7%	8.7%	-7.9%

The projected benefit obligation (PBO) is particularly sensitive to changes in the discount rate. A reduction in the discount rate will in isolation result in an increase in the PBO. A reduction in the discount rate of 0.5 percentage point will increase pension liabilities by around 10%. An increase in salary adjustments and the adjustment of pensions will result in an increase in the PBO.

The parent bank's net PBO at 31 December 2018 has the following maturity structure over the next ten years.

	Amount	As a % of gross PBO
Under 1 year	8.5	3.0%
Year 2	8.8	3.1%
Year 3	9.2	3.3%
Year 4	9.6	3.4%
Year 5	10.2	3.6%
Years 6-10	59.8	21.3%
Total	106.1	37.8%

Development in pensions, group

	2018	2017	2016	2015	2014
Gross PBO (hedged and non-hedged schemes)	298.0	296.0	280.6	295.9	321.4
Gross fair value of pension funds	220.4	227.4	242.0	236.2	234.3
Net PBO	**77.6**	**68.6**	**38.6**	**59.7**	**87.1**

Development in pensions, parent bank

	2018	2017	2016	2015	2014
Gross PBO (hedged and non-hedged schemes)	281.0	276.4	257.5	270.6	295.0
Gross fair value of pension funds	205.5	210.3	220.2	213.0	213.0
Net PBO	**75.5**	**66.1**	**37.3**	**57.6**	**82.0**

NOTE 48 - GUARANTEE LIABILITIES

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
23.6	30.9	Payment guarantees	23.6	30.1
51.6	52.8	Contract guarantees	51.6	52.8
17.5	17.3	Loan guarantees	17.5	17.3
13.6	15.6	Other guarantee liabilities	13.6	15.6
106.3	**116.6**	**Total guarantee liabilities to customers**	**106.3**	**115.8**

The parent bank has issued a guarantee for all covered bond commitments in the mortgage credit company in connection the rating process for Sparebanken Øst Boligkreditt AS. Covered bonds amounted to a nominal value of NOK 12,048.8 million as at 31 December 2018 and a nominal value of NOK 9,680.2 million as at 31 December 2017.

NOTE 49 - PLEDGES AND RIGHTS

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
711.0	561.0	Bonds, nominal value, pledged as security for borrowing facilities at Norges Bank	711.0	561.0
711.0	**561.0**	**Pledges of security**	**711.0**	**561.0**
12,048.8	**9,680.2**	**Preferential rights in accordance with section 11-15 of the Financial Institutions Act (nominal value)**	**0.0**	**0.0**

NOTE 50 - COSTS RELATED TO THE NORWEGIAN BANKS' GUARANTEE FUND

The Act on Guarantee Schemes for Banks, Insurance Companies and Public Administration etc., of Financial Institutions (Guarantee Schemes Act) obligates all Norwegian banks to be members of the Norwegian Banks' Guarantee Fund. The scheme guarantees to cover all losses up to NOK 2 million that a deposit customer has on deposit in a Norwegian bank. The term deposit means all credit balances in the bank with regard to accounts under the name of, as well as liabilities according to deposit certificates of the named person, with the exception of deposits from other financial institutions.

Parent bank

	2018	2017
Norwegian Banks Guarantee Fund levy	11.4	11.4

NOTE 51 - ADDITIONAL INFORMATION CASH FLOW STATEMENT

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
		Cash and cash equivalents		
603.1	341.2	Cash and receivables from central banks	603.1	341.2
9.5	5.7	Loans to and receivables from financial institutions that are pure investments	9.5	5.7
612.6	**346.9**	**Total**	**612.6**	**346.9**
		Change in other assets in connection with operations		
-6.6	9.5	Net change in financial derivatives (net assets and liabilities)	-6.6	9.5
82.9	-67.7	Net change in other assets	4.3	1.4
76.3	**-58.2**	**Total**	**-2.3**	**10.9**
		Non-cash items included in profit/loss before tax		
13.7	17.9	Depreciation/write-downs of tangible assets	9.5	11.3
0.0	0.1	Amortisation of financial investments held to maturity	0.0	0.1
9.8	-9.7	Write-downs of financial assets	2.6	-10.8
3.8	1.5	Amortisation of financing activities measured at amortised cost	5.3	1.3
27.3	**9.8**	**Total**	**17.4**	**1.9**

NOTE 52: HYBRID TIER 1 CAPITAL

Hybrid tier 1 capital and interest earned on hybrid tier 1 capital are presented as equity.

Hybrid tier 1 capital, change	**31.12.17**	**Issued**	**Due/redeemed**	**Change in own holdings**	**Other changes incl. currency**	**31.12.18**
Hybrid tier 1 capital, nominal value	350.0	200.0	200.0	0.0	0.0	350.0
Value adjustments (including premium/discount)	0.0	0.0	0.0	0.0	0.0	0.0
Accrued interest	1.7	0.0	0.0	0.0	-1.2	0.5
Hybrid tier 1 capital	**351.7**	**200.0**	**200.0**	**0.0**	**-1.2**	**350.5**

	Outstanding volume, 2018*	**Avg. balance, 2018**	**Weighted effective interest rate,**	**Outstanding volume, 2017**	**Avg. balance 2017**	**Weighted effective interest rate,**

			2018			2017
Hybrid tier 1 capital	350.0	362.2	4.30%	349.8	350.0	4.20%
Hybrid tier 1 capital	**350.0**	**362.2**	**4.30%**	**349.8**	**350.0**	**4.20%**

NOTE 53: EQUITY CERTIFICATES

Earnings per equity certificate

Earnings per equity certificate are calculated by dividing the part of the earnings after tax that accrues to equity certificate holders by a weighted average number of outstanding equity certificates during the year.

Sparebanken Øst has issued no options or other instruments that may lead to the dilution of earnings per equity certificate. Diluted earnings per equity certificate will therefore be the same as earnings per equity certificate.

Group 2018	Group 2017		Parent bank 2018	Parent bank 2017
362.5	332.4	Equity certificate holders' and primary capital share of profits	362.2	334.4
124.7	120.4	Profit after tax attributable to equity certificate holders	124.6	121.1
20.7	20.7	Weighted average number of outstanding equity certificates	20.7	20.7
6.01	5.81	Earnings per equity certificate (NOK)	6.01	5.84

Weighted number of equity certificates

2018	
No. of certificates in 2018	20,731,183
Total no. of certificates in 2018	20,731,183
2017	
No. of certificates in 2017	20,731,183
Total no. of certificates in 2017	20,731,183

Nominal value per equity certificate NOK 10.

Equity certificates registered in the CSD give voting rights in accordance with the articles of association. There are no other limitations to voting rights in the articles of association.

Ownership fraction, parent bank

	01.01.19	01.01.2018
Equity certificate capital	207.3	207.3
Premium reserve	387.8	387.8
Equalisation fund (excl. dividend)	308.8	310.7
Share of Fund for Unrealised Gains	92.1	68.3
Total numerator (A)	996.0	974.0
Total equity excl. hybrid capital (dividend provisions for the year excluded)	3,069.5	2,831.6
Total denominator (B)	3,069.5	2,831.6
Ownership fraction (A/B), %	**32.45**	**34.40**

The board's proposal for dividends

NOK	2018	2017

Total dividends paid out	95,363,441.80	103,655,915.00
Paid out per equity certificate	4.60	5.00

Largest equity certificate holders as at 31.12.18

	Name	Number	%		Name	Number	%
1	MP Pensjon	1,667,815	8.04%	11	Profond AS	200,163	0.97%
2	Cape Invest AS	1,370,000	6.61%	12	DnB NOR Markets	160,000	0.77%
3	Directmarketing Invest AS	999,500	4.82%	13	Johansen, Kjell Petter	152,000	0.73%
4	Verdipapirfondet Eika dividend	811,943	3.92%	14	Atlas Absolutt	151,325	0.73%
5	Hansen, Asbjørn Rudolf	500,000	2.41%	15	Løkke, Helge Arnfinn	148,433	0.72%
6	Jag Holding AS	400,000	1.93%	16	Juel, Iver Albert	131,306	0.63%
7	Foretakskonsulenter AS	385,100	1.86%	17	Seriana AS	130,931	0.63%
8	Storetind AS	285,000	1.37%	18	Morgan Stanley & Co. International	123,592	0.60%
9	Wenaasgruppen AS	273,000	1.32%	19	Teigen, Hellik	120,400	0.58%
10	AS Andersen Eiendomselskap	270,972	1.31%	20	Ødegård, Helge	105,885	0.51%

Development in equity certificate capital

Year	Issue type	Paid-up equity certificate capital		Total equity certificate capital	
1988	Public issue	NOK	25,000,000	NOK	25,000,000
1989	Issue 1:1	NOK	25,000,000	NOK	50,000,000
1991	Issue 1:2	NOK	25,000,000	NOK	75,000,000
1991	Private placement	NOK	20,000,000	NOK	95,000,000
1993	Converted subordinated loan	NOK	15,531,000	NOK	110,531,000
1993	Issue 1:3	NOK	36,843,700	NOK	147,374,700
1993	Converted subordinated loan	NOK	245,000	NOK	147,619,700
1994	Converted subordinated loan	NOK	5,128,000	NOK	152,747,700
1994	Issue 1:3	NOK	50,915,900	NOK	203,663,600
1995	Converted subordinated loan	NOK	395,000	NOK	204,058,600
1996	Converted subordinated loan	NOK	808,000	NOK	204,866,600
1997	Converted subordinated loan	NOK	7,893,000	NOK	212,759,600
1997	Public issue	NOK	60,000,000	NOK	272,759,600
1999	Issue 1:3	NOK	90,919,900	NOK	363,679,500
2008	Dividend issue	NOK	24,252,400	NOK	387,931,900
2009	Write-down of nominal value from NOK 100 to NOK 20	NOK	310,345,520	NOK	77,586,380
2009	Write-down of nominal value from NOK 20 to NOK 10	NOK	38,793,190	NOK	38,793,190
2009	Preferential rights issue	NOK	168,518,640	NOK	207,311,830

Owner statistics, geographical distribution

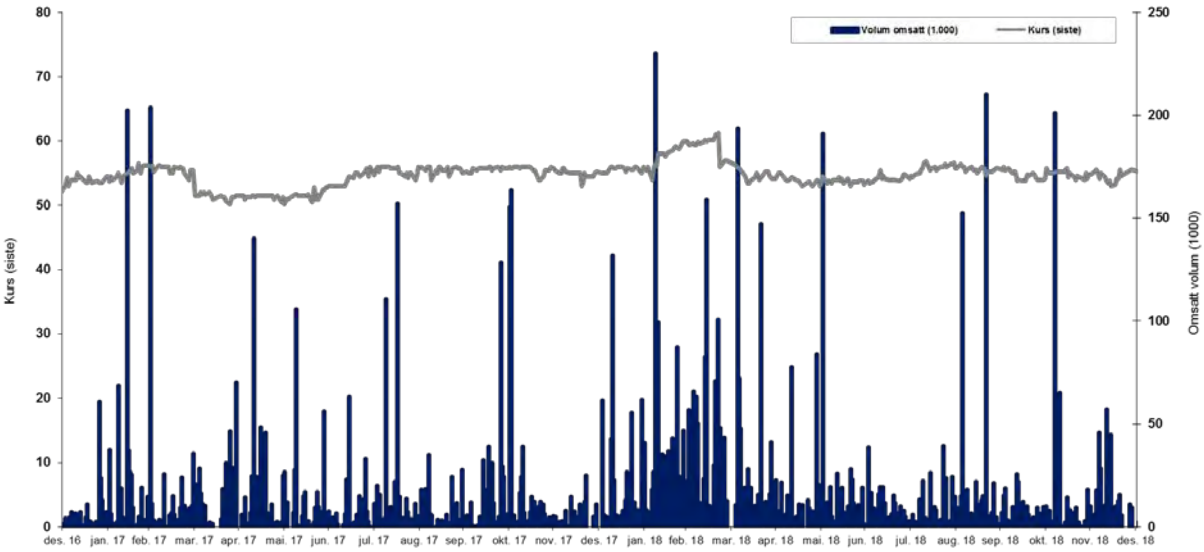
	No. of owners	%	No. of equity certificates	%
Abroad	93	3.4%	1,085,358	5.2%
Øvre Eiker	253	9.2%	712,948	3.4%
Nedre Eiker	157	5.7%	614,108	3.0%
Drammen	213	7.8%	2,922,911	14.1%
Rest of Buskerud	251	9.1%	770,622	3.7%
Asker/Bærum	164	6.0%	1,042,212	5.0%
Oslo	499	18.2%	6,048,479	29.2%
Trondheim	63	2.3%	246,549	1.2%
Bergen	112	4.1%	760,695	3.7%
Rest of Norway	937	34.2%	6,527,301	31.5%
Total	**2,742**	**100.0%**	**20,731,183**	**100.0%**

Equity certificates distribution

No. of equity certificates per owner	No. of owners	%	No. of equity certificates	%

1-100	394	14.4%	17,021	0.1%
101–1,000	1,041	38.0%	511,911	2.5%
1,001–10,000	1,021	37.2%	3,797,664	18.3%
10,001–100,000	264	9.6%	7,809,890	37.7%
100,001-	22	0.8%	8,594,697	41.4%
Total	**2,742**	**100.0%**	**20,731,183**	**100.0%**

Sales and price trend in last 2 years



NOTE 54: ELECTED REPRESENTATIVES

The board of trustees	No. of equity certificates
Jon Aas	0
May-Britt Andersen	0
Ole Jørgen Smedsrud	1,000
Tor Flesaker	0
Knut Andersen	0
Morten Ranvik	0
Thomas F. Halvorsen	0
Nina Paulsen	0
Helge Chr. Aaby	0
Bent Inge Bye	0
Jostein André Kretz	0
Dag Fjeld Edvardsen	0
Ann Kristin Plomås	0
Frode Lindbeck	3,428
Vegard Kvamme	3,000
Rolf Arne Fjelltoft	15
Brynulf Kopperud	0
Anne Siri Rhoden Jensen	416
Morten Wang	0
Camilla Schenk	0
Bente Niemann	6,153
Ole B. Hoen (representing Hoen Invest AS)	5,104
Lars M. Lunde (representing MP Pensjon)	1,667,815
Tom R. Svendsen	500
Frank Borgen	33,123
Helle Elisabeth Hofgaard	7,000
Iver A. Juel	131,306
Asbjørn R. Hansen	500,000
Kåre J. Grøtta (representing Storetind AS)	285,000
Jørn Larsen (representing Bondeungdomslaget in Drammen)	17,500
Åsmund Skår	900
Kristin Nystrøm	39,728

Board of directors and personal close associates	No. of equity certificates
Øivind Andersson	20,000
Elly Therese Thoresen	360
Morten André Yttreeide	38,000
Cecilie Hagby	0
Knut Smedsrud	0
Kari Solberg Økland	0
Inger Helen Pettersen	20
Ole-Martin Solberg	0

Executive personnel and personal close associates	No. of equity certificates
Pål Strand	20,000
Kjell Engen	0
Jan-Roger Vrabel	0
Lars-Runar Groven	0
Thor-Henning Bråthen	0
Anne Siri Rhoden Jensen	416
Halvor Kirkebøen	2,591

Definition of key figures and alternative profit targets

	Profitability	
1	Return on equity*	The profit/loss that is attributable to equity certificates and primary capital as a % of the average equity adjusted for hybrid capital. The key figure provides relevant information about the group's profitability by measuring its ability to generate profitability on equity. The return on equity is one of the Sparebanken Øst's most important target figures.
2	Net interest income as a % of average total assets	Net interest income as a % of average total assets
3	Profit/loss after tax as a % of average total assets	Profit/loss after tax as a % of average total assets
4	Costs as a % of average total assets	Payroll, etc., administrative costs, amortisation and other operating costs as % of average total assets
5	Costs as a % of income (before losses on loans/guarantees)*	Payroll, etc., administrative costs, amortisation and other operating costs as % of net interest income, dividend, net commission income, net value changes and gains/losses on financial instruments and other operating income The key figure is used to provide information about the ratio between income and costs.
6	Costs as a % of income, exclusive of the return on financial investmen	Payroll, etc., administrative costs, amortisation and other operating costs as % of net interest income, net commission income and other operating income The key figure is used to provide information about the ratio between income and costs.
	Balance sheet figures	
7	Net lending to customers	Gross lending minus loss provisions
8	Lending growth (12 months)	Change in net lending as a % of OB net lending (12-month growth).
9	Deposits	Customer deposits
10	Deposit growth (12 months)	Change in deposits as a % of OB deposits (12-month growth).
11	Average equity	OB equity adjusted for hybrid capital less proposed dividends + CB equity adjusted for hybrid capital less proposed dividends) / 2
12	Average total assets	Average total assets based on quarterly balance sheet figures
	Write-downs of impaired and non-performing loans	
13	Losses as a % of net loans to customers (OB)*	Losses as a % of OB net loans for the period. The key figure indicates the recognised loss in relation to net lending at the beginning of the fiscal period and provides relevant information on the amount of losses incurred by the group in relation to the loan volume.
14	Loss provisions as a % of gross lending to customers*	Total loss provisions, groups 1, 2 and 3, as a % of gross lending. This key figure provides relevant information about credit risk and is deemed useful additional information in addition to that stated in the loss notes.
15	Net impaired and net non-performing commitments as a % of net loans	Net impaired and net non-performing commitments as a % of net loans. This key figure provides relevant information about credit risk and is deemed useful additional information in addition to that stated in the loss notes.
	Financial strength	
16	CET1 capital ratio	CET1 capital as a % of the risk-weighted volume (calculation basis)
17	Tier 1 capital ratio	Tier 1 capital as a % of the risk-weighted volume (calculation basis)
18	Capital adequacy	Total primary capital as a % of the risk-weighted volume (calculation basis)
19	Risk-weighted volume (calculation basis)	Total credit and counterparty risk, currency risk, operational risk and calculation basis for impaired counterparty credit rating (CVA)
20	Leverage ratio (%)	Tier 1 capital as a % of unweighted calculation basis
	Liquidity	
21	Loan to deposit ratio (LDR)	Deposits as a % of net loans to customers
22	LCR (%)	Liquid assets as a % of net payments in a stress scenario lasting 30 days
	Branches and full-time equivalents	
23	Number of bank branches	
24	Full-time equivalents	
	Equity certificates	
25	Ownership fraction	Equity certificate holders' proportion of total equity adjusted for hybrid capital (less proposed dividends) as a % (basis as at 01.01, time-weighted by issue)
26	No. of equity certificates	Total no. of outstanding equity certificates
27	Book equity per equity certificate*	Equity share capital divided by no. of equity certificates. Year's allocation for dividends is included in the calculation. The key figure provides information about the value of the book equity per equity certificate. This gives the reader the opportunity to assess the reasonableness of the market price in relation to the equity certificate.
28	Earnings per equity certificate	The equity share capital's share of the profit/loss after tax divided by time-weighted average number of equity certificates during the period.
29	Dividend per equity certificate	Dividend in NOK per equity certificate
30	Turnover rate	Annualised turnover rate (traded as a % of issued)
31	Price	The most recently traded price on the Oslo Stock Exchange as at the balance sheet date.

*Defined as alternate profit target

Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6A, NO-0191 Oslo
Postboks 1156 Sentrum, NO-0107 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00

www.ey.no
Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees at Sparebanken Øst

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sparebanken Øst, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheets as at 31 December 2018, income statement, statements of comprehensive income, changes in equity and cash flows 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 and the Group as at 31 December 2018 and their 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 and the Group 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 2018. 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.

The implementation of IFRS 9 and losses on loans, unused credit and guarantees to customers

On 1 January 2018 the Group implemented the accounting standard IFRS 9. The implementation required the Group to reassess the classification of its financial assets and to make provisions for expected future credit losses "ECL" on debt instruments measured at amortised cost or fair value, as well as unused credit and guarantees, regardless of whether objective evidence of impairment exists on the balance sheet date.

Loans to customers represent NOK 35 147 million (84 % per cent) of total assets. Corresponding amount in the parent company is MNOK 19 717 (68% of total assets). ECL on loans, unused credit and guarantees amount to NOK 102 million. The ECL amount is allocated to three stages of which NOK 27 million is based on model calculations (Stage 1 and 2) and NOK 75 million is primarily based on individual assessments of impairment (Stage 3).

In respect of the calculation for ECL, IFRS 9 requires models, but does not prescribe a particular approach, thus requiring management to use judgement to obtain an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, reasonable and supportable information about past events, current conditions and forecasts of economic expectations. Due to the use of judgement in applying the ECL measurement criteria of IFRS 9, the complexity of the calculation and the resulting effect of the estimate, we considered provisioning for ECL a key audit matter.

We assessed the Group's methodology for calculating ECL. We assessed the design and tested the effectiveness of controls of key assumptions and input to the model as well as the calculation of ECL in the model. We evaluated management's assessments of multiple economic scenarios as well as macroeconomic data used for ECL. For stage 3 engagements subject to individual assessment by management, we assessed the expected future cash flows and the estimated value of underlying collateral for a sample of engagements.

ECL is referred to in the group annual report note 2 – Accounting policies, note 3 – Assessments and use of estimates, and note 13 – Losses on loans, unused credit and guarantee customers.

Valuation of financial instruments

Unlisted equity instruments measured at fair value are valued based on models that use assumptions that are not observable in the market place. The valuation of these instruments therefore has higher risk of errors. Unlisted equity instruments comprise NOK 562 million and are classified as level 3 instruments within the fair value hierarchy. Due to the materiality of the unlisted equity instruments, we have considered the valuation of these instruments to be a key audit matter.

We assessed the management's determination and approval of assumptions and methodologies used in the valuations. We have evaluated pricing model methodologies against industry practice and valuation guidelines. We performed independent valuations for selected instruments and used external source data where available. Level 3 instruments which are presented at fair value on the balance sheet are disclosed in note 22 in the financial statements.

IT systems supporting financial reporting

Sparebanken Øst uses complex IT systems in an automated IT environment and is highly dependent on its IT systems in supporting the reporting of financial information. The core banking systems are managed and operated by an external service provider. To ensure complete and accurate presentation of financial information, it is key that controls over transaction processing and measurement are designed and operate effectively. Likewise controls to ensure appropriate access rights and system changes also need to be designed and operate effectively both within the Sparebanken Øst organization as well as within the service provider organization. Due to this, the IT systems supporting financial reporting are considered a Key Audit Matter.

We obtained an understanding of Sparebanken Øst's IT systems and the IT environment relevant for financial reporting. We engaged our own IT specialists in assessing and testing the operating effectiveness of the IT general controls covering access and change management for the relevant systems, exercised by the management of Sparebanken Øst throughout the reporting period. Furthermore, we obtained and assessed the ISAE 3402 report issued by the independent auditor of the service organization, covering the relevant core banking systems and related infrastructure, to assess and verify to which extent the service organization had effective internal controls in place in areas relevant to financial reporting in the reporting period.

Our audit procedures further included assessment and test of the automated controls within the core banking system related to amongst others, effective interest rate, amortization and expected credit loss calculation and the subsequent recoding to the general ledger.

Other information

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

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

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 and on the statement on corporate governance

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 and in the statement on corporate governance 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, 5 March 2019
ERNST & YOUNG AS

Einar Hersvik
State Authorised Public Accountant (Norway)

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