

177th year

ANNUAL REPORT 2019



SPAREBANKEN
ØST

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Key figures - group

	2019	2018	2017	2016	2015
Profitability					
1 Return on equity*	8,74	10,81	10,59	11,23	9,29
2 Net interest income as a percentage of average total assets	1,51	1,45	1,58	1,54	1,72
3 Profit after tax as a percentage of average total assets	0,77	0,96	0,94	0,94	0,75
4 Costs as a percentage of average total assets	0,65	0,74	0,76	0,80	0,85
5 Costs as a percentage of income (before losses on loans/guarantees)*	38,50	38,16	37,91	39,57	44,69
6 Costs as a percentage of income, exclusive of return on financial investments	39,57	45,29	40,50	46,18	42,00
Balance sheet figures					
7 Net lending to customers	34.225,3	35.147,4	30.972,4	29.695,7	27.975,8
8 Lending growth (12 months)	-2,62	13,48	4,30	6,15	-2,52
9 Deposits	14.791,7	14.899,7	13.971,8	13.887,4	13.159,3
10 Deposit growth (12 months)	-0,73	6,64	0,61	5,53	-1,77
11 Average equity	3.564,6	3.354,9	3.140,2	2.950,1	2.755,3
12 Average total assets	42.504,5	38.986,6	36.497,2	35.420,3	34.067,2
Write-downs of impaired and non-performing loans					
13 Losses as a percentage of net lending to customers (OB)*	0,05	0,06	0,02	0,02	0,06
14 Loss provisions as a percentage of gross lending to customers*	0,33	0,29	0,32	0,36	0,44
15 Net payments over 90 days past due as a percentage of net lending*	0,37	0,35	0,36	0,47	0,58
16 Other net non-performing commitments (Stage 3) as a percentage of net lending	0,02	0,19			
Financial strength					
17 CET1 capital ratio	17,69	16,39	17,49	17,21	16,29
18 Tier 1 capital ratio	19,49	18,15	19,44	19,19	18,29
19 Capital adequacy	21,25	19,87	21,39	21,17	20,29
20 Risk-weighted volume (calculation basis)	19.450,3	19.959,5	17.960,0	17.696,7	17.452,6
21 Leverage ratio (%)	8,81	8,48	9,23	9,24	8,97
Liquidity					
22 Loan to deposit ratio (LDR)	43,22	42,39	45,11	46,77	47,04
23 LCR (%)	265,11	224,93	204,15	284,00	215,80
Branches and full-time equivalents					
24 Number of bank branches	28	27	25	25	21
25 Full-time equivalents	192	199	181	209	226
Equity certificates					
26 Ownership fraction**	32,45	34,40	36,21	37,67	38,79
27 No. of equity certificates	20.731.183	20.731.183	20.731.183	20.731.183	20.731.183
28 Book equity per equity certificate*	58,95	58,98	58,57	57,30	55,06
29 Earnings per equity certificate	4,87	6,01	5,81	6,02	4,79
30 Dividend per equity certificate	3,60	4,60	5,00	4,00	3,30
31 Turnover rate	15,17	28,16	19,31	12,04	16,02
32 Price	54,60	55,60	55,25	52,00	47,60

* Defined as an alternate performance target

**For ownership fraction applicable from 01.01.2020, see note 53.

For definition of key figures and a review of alternative profit targets, see p. 126.

BOARD OF DIRECTORS' REPORT FOR 2019

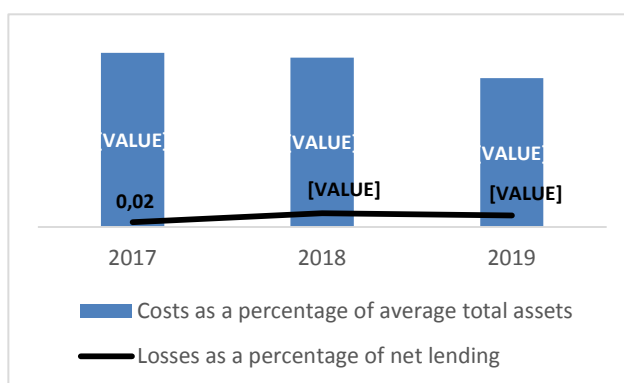
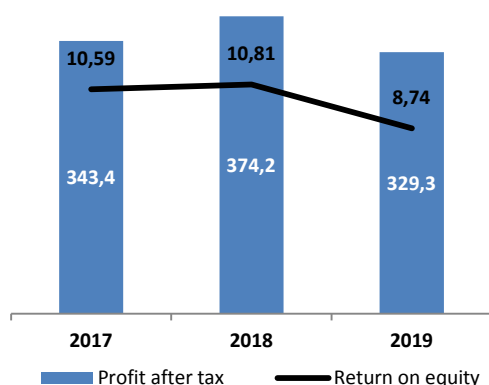
The bank's 177th year of operation resulted in a profit after tax for the group of NOK 424.8 million. The profit after tax was NOK 329.3 million. The result represents a return on equity of 8.74 per cent. The group had very sound Tier 1 capital at the end of the year amounting to NOK 3,790.3 million, which equates to a capital adequacy ratio of 19.49 per cent. The CET1 capital ratio is 17.69 per cent.

Earnings per equity certificate were NOK 4.87. The board proposes a cash dividend of NOK 3.60 per equity certificate and a provision for grants for good causes of NOK 59.7 million. The basis for the year's dividend for equity certificate holders is based on the bank's sound earnings, low credit risk and very solid capital adequacy.

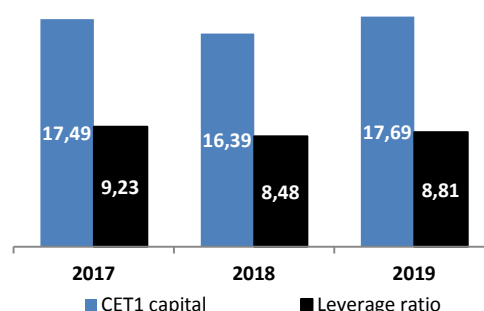
BUSINESS IN 2019

The group achieved a profit after tax of NOK 329.3 million in 2019. By comparison, the profit after tax was NOK 374.2 million in 2018. The return on equity in 2019 was 8.74 per cent, compared with 10.81 per cent in 2018. The underlying banking operations result in a higher profit contribution in 2019 than in 2018. Net interest income increased by NOK 76.6 million to NOK 641.7 million in 2019. Total operating costs were reduced by NOK 11.3 million and amounted to NOK 277.8 million in 2019. Lending losses are low and stable and amounted to NOK 18.9 million for 2019. The reduced profits in 2019 compared with 2018 is primarily explained by reduced financial effects from shareholdings in Frende Holding AS, Eksportfinans ASA and Vipps AS (owned via Balder Betaling AS), totalling NOK 111.2 million.

Lending decreased by 2.62 per cent in 2019, compared with a very high growth rate of 13.48 per cent in 2018. Deposits from customers decreased by 0.73 per cent in 2019.



The bank is very solid with a CET1 capital ratio of 17.69 per cent and a leverage ratio of 8.81 per cent. Total assets increased by NOK 403.3 million in 2019, amounting to NOK 42,385.8 million at the end of 2019. Good earnings, a reduced lending volume and the introduction of the SME discount on 31.12.2019 are the main reasons for the increase in the CET1 capital ratio. The effect of the SME discount amounted to 0.34 percentage points.



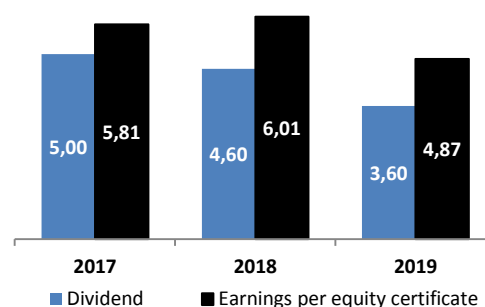
Sparebanken Øst maintained its distribution network in 2019. The combination of effective digital distribution solutions and physical presence is considered to be a good business model for Sparebanken Øst. Changed customer behaviour and the competition situation is increasing the need to develop existing operating models further. Ongoing streamlining and change work with good cost control and a very low level of costs will remain an important prerequisite if the group is 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.

Sparebanken Øst is constantly developing and streamlining work and credit processes. No own research was conducted and no internal costs were capitalised in relation to development activities in 2019.

The risk in portfolios associated with loans to business customers and retail loans is considered low. The bank has continued its restrictive credit policy with respect to granting loans to business customers. The risk associated with retail loans is generally low. An increasing proportion of retail customers is contributing to low concentration risk. Non-performing commitments were at a very low level at the end of 2019. 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 2019.

The group's profit after tax amounted to NOK 4.87 per equity certificate. The board proposes a cash dividend of NOK 3.60 per equity certificate, equivalent to 73.8 per cent of the equity certificate holders' share of the consolidated result. Book equity per certificate was NOK 58.95 including the proposed dividend as at 31.12.2019. The proposed provision for



grants for good causes of NOK 59.7 million is equivalent to 80.0 per cent of the dividend for equity certificate holders. The board's proposal for dividends lies within the bank's adopted dividend policy. The board and executive management team would like to thank the group's employees for their great efforts in 2019.

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 the bank has or assumes. 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.

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. The bank's branding strategy and concepts will be tailored to comply with any marketing guidelines issued by the government.

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 per cent and to young customers up to a loan-to-value ratio of 85 per cent. 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 per cent 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 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 per cent over time.

* The group is in an ongoing SREP process with the Financial Supervisory Authority of Norway and expects SREP resolutions and a new Pillar 2 requirement by 30.06.2020. Sparebanken Øst will determine a new target for the minimum CET1 capital ratio when new Pillar 2 requirements are issued. Reference is made to the more detailed discussion under the assessment of total risk and capital needs on page 19.

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

Profit

Sparebanken Øst achieved a profit after tax of NOK 329.3 million in 2019. By comparison, the profit after tax was NOK 374.2 million in 2018. The return on equity in 2019 was 8.74 per cent, compared with 10.81 per cent in 2018. Underlying banking operations generated a higher financial contribution through higher net interest income and lower costs. The reduced profits in 2019 compared with 2018 is primarily explained by reduced financial effects from shareholdings in Frende Holding AS, Eksportfinans ASA and Vipps AS (owned via Balder Betaling AS), totalling NOK 111.2 million.

Net interest income amounted to NOK 641.7 million in 2019 and increased by NOK 76.6 million compared with 2018. Net interest income amounted to 1.51 per cent of average total assets in 2019. The corresponding figure for 2018 was 1.45 per cent. The lending portfolios have been repriced in 2019 on the basis of Norges Bank's policy rate changes and developments in market interest rates.

Net commission income amounted to NOK 45.1 million in 2019, representing a decline of NOK 0.8 million compared with 2018.

Dividends received to date this year amount to NOK 28.9 million and apply almost entirely to repayments of equity from Frende Holding AS in the amount of NOK 26.4 million. By comparison, dividends in the corresponding period last year amounted to NOK 33.0 million, of which NOK 24.3 million concerned the receipt of repaid equity from Eksportfinans ASA and NOK 8.6 million concerned dividends from Frende Holding AS.

Net value adjustment and gains/losses on financial instruments amounted to a loss of NOK 9.5 million, a decrease of NOK 95.9 million compared with 2018. Positive value adjustments related to shares and equity rights in Visa Inc. totalled NOK 15.2 million in 2019, compared with a value increase of NOK 6.6 million in 2018. Negative value adjustment for shares in Frende Holding AS totalled NOK 10.7 million in 2019, compared with a positive value adjustment of NOK 83.3 million in 2018. The overall financial impact on shares in Frende Holding AS, including booked dividends, is positive in the amount of NOK 15.7 million in 2019 compared with NOK 91.9 million in 2018. The liquidity portfolio declined in value by NOK 9.9 million in 2019, compared with a NOK 11.4 million reduction in 2018. A loss of NOK 6.8 million relating the repurchase of bonds issued by the bank was recognised in 2019, while the equivalent figure for 2018 was a loss of NOK 4.1 million. The Vipps merger had a positive financial impact of NOK 10.7 million in 2018.

Other operating income amounted to NOK 15.3 million in 2019, compared with NOK 27.3 million in 2018. The reduction is explained by a gain on the sale of property totalling NOK 11.3 million in 2018.

The group's total operating costs for 2019 amounted to NOK 277.8 million and declined by NOK 11.3 million compared with the same period of last year. The reduction primarily concerns payroll costs and is primarily explained by reduced provisions for profit sharing and costs relating to the bank's 175th anniversary in 2018.

Impairment losses on loans to customers, unused credits and guarantees amounted to NOK 18.9 million in 2019 compared with NOK 17.6 million in 2018. AS Financiering's losses were NOK 13.5 million in 2019, compared with NOK 14.4 million in 2018.

Tax amounted to NOK 95.5 million in 2019, compared with NOK 76.7 million in 2018. Higher tax in relation to the profit before tax is explained by an increased taxable profit contribution from underlying banking operations, as well as a reduction in tax-free income relating to value adjustments and gains/loss on shares and gains from the sale of property.

Proposal for allocation of the profit

The profit for the year is allocated on the basis of the parent bank's financial statements. The parent bank's profit after tax was NOK 307.6 million in 2019, compared with NOK 373.9 million in 2018. Dividend from subsidiaries in the amount of NOK 107.9 million was recognised as income in the parent bank in 2019, compared with NOK 119.4 million in 2018.

The share of the parent bank's net profit after tax amounted to NOK 17.9 million in 2019 and is allocated to hybrid capital owners' equity shares. The corresponding share of profit amounted to NOK 11.7 million in 2018. The share of the results comprises fixed income costs on additional Tier 1 capital, where paid interest is presented as distribution from equity.

The board proposes that the parent bank's profit for 2019 be allocated to equity certificate holders and primary capital as stated below.

(NOK million)

Profit for the year for equity certificate holders and primary capital	289.7
Dividend, equity certificate holders	74.6
Grants for good causes	59.7
Total dividends	134.3
For equalisation fund	21.4
For primary capital	140.2
From fund for unrealised gains	-6.2
Total for equity	155.4
Total allocated	289.7

Total cash dividend and grants for good causes amount to NOK 134.3 million, equivalent to 46.4 per cent of the parent bank's profit accruing to equity certificate holders and primary capital.

Balance sheet

Total assets increased by NOK 403.3 million compared with 31.12.2018 and amounted to NOK 42,385.8 million at the end of 2019.

Assets

Cash and receivables at central banks amounted to NOK 302.5 million as at 31.12.2019, compared with NOK 603.1 million as at 31.12.2018.

Net lending to financial institutions amounted to NOK 15.9 million as at 31.12.2019, compared with NOK 9.5 million as at 31.12.2018.

Net lending to customers amounted to NOK 34,225.3 million as at 31.12.2019, compared with NOK 35,147.4 million as at 31.12.2018. This is a reduction of NOK 922.1 million over the past 12 months, corresponding to a lending decline of NOK 2.62 per cent. Very strong competition and strategic choices as a result of regulatory uncertainty about future capital requirements explain the lending trend in 2019. By comparison, lending growth in 2018 was very high at 13.48 per cent. Net lending to retail customers declined by 3.28 per cent in 2019, whereas net lending to business customers increased by 1.46 per cent. Gross lending to retail customers accounted for 85.6 per cent of total lending to customers.

Holdings of certificates and bonds amounted to NOK 6,755.1 million as at 31.12.2019, compared with NOK 5,173.1 million as at 31.12.2018. Liquidity reserves measured using LCR totalled 265.11 per cent as at 31.12.2019, compared with 224.93 per cent as at 31.12.2018. The bank's liquidity strategy involves a high proportion of securities that are included in the LCR calculation. The maturity structure for market funding significantly affects LCR.

Shares and units amounted to NOK 629.6 million as at 31.12.2019, compared with NOK 606.8 million as at 31.12.2018.

The bank's stake in Frende Holding AS was 13.19 per cent, and the shareholding was valued at NOK 307.6 million as at 31.12.2019. The bank owns 4.85 per cent of the shares in Eksportfinans ASA, and the shareholding was valued at NOK 195.0 million as at 31.12.2019.

Balder Betaling AS is owned by several independent banks, and its main purpose is to own these banks' shares in Vipps AS. The bank's shareholding in Vipps AS is 0.70 per cent. The bank's shares in Balder Betaling AS were valued at NOK 30.8 million at 31.12.2019. The valuation is based on the underlying share value in Vipps AS.

The bank owns 6.8 per cent of the shares in Kraft Bank ASA. The shareholding was valued at NOK 23.0 million at 31.12.2019.

The bank owns 'C' shares in Visa Inc. The shareholding was valued at NOK 31.3 million as at 31.12.2019. In addition, the bank has convertible C shares in Visa Inc., owned via Visa Norge Holding 1 AS and VN Norge AS. The rights are valued at NOK 24.2 million as at 31.12.2019.

The bank owns 16.3 per cent of the shares in Norwegian Block Exchange AS (NBX). At 31.12.2019, the shareholding is valued at NOK 15.0 million, which is unchanged from the amount invested in Q3 2019.

Liabilities

Deposits from customers amounted to NOK 14,791.7 million as at 31.12.2019, compared with NOK 14,899.7 million as at 31.12.2018. This is a reduction of NOK 108.0 million over the past 12 months, equivalent to 0.73 per cent. The loan-to-deposit ratio in the group at the end of 2019 was 43.22 per cent, compared with 42.39 per cent at the end of 2018.

Securities issued amounted to NOK 22,261.7 million as at 31.12.2019, compared with NOK 21,970.8 million as at 31.12.2018. The degree of stable and long-term financing measured by NSFR is 117.04 per cent as at 31.12.2019, against 118.59 per cent as at 31.12.2018. The average maturity for market funding is 3.16 years as at 31.12.2019, compared with 3.27 years as at 31.12.2018.

Other long-term borrowing amounted to NOK 300.6 million at the end of 2019, compared with NOK 300.4 million as at 31.12.2018.

Short-term borrowing (defined as borrowing with a remaining term to maturity of less than one year) amounted to NOK 2,640.0 million.

Event after the balance sheet date

The group has sold the property company Tollbugt. 49-51 AS with commercial property in Drammen City Centre. The property consists of office space and is leased to external tenants as well as to Sparebanken Øst Eiendom AS. The transaction was carried out on 02.01.2020, meaning that in Q1 2020, the Group books a gain of roughly NOK 20 million after tax on the income statement.

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. The company has a low loan-to-value (LTV) ratio in the cover pool. The loan-to-deposit ratio was 48.5 per cent at the end of 2019, compared with 46.6 per cent at the end of 2018.

At 31.12.2019, the company's total assets amounted to NOK 15,790.3 million, comprising first priority home mortgages, financed via covered bonds and drawing rights from the parent company. The company's deposited equity amounts to NOK 950.0 million, of which NOK 373.1 million is share capital and NOK 576.9 million is a share premium reserve. The result after tax at the end of 2019 was a profit of NOK 88.8 million, compared with NOK 72.9 million for 2018. The company has no employees, rather it sources services from Sparebanken Øst.

AS Financiering is a wholly owned subsidiary of Sparebanken Øst. Its main product is providing loans for second-hand cars with collateral in the purchased car. The company achieved a profit after tax of NOK 38.3 million at the end of 2019, compared with NOK 35.0 million for 2018. Total assets amounted to NOK 2,150.4 million. At the end of 2019, 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 10.1 million in 2019, compared with NOK 22.4 million in 2018. A profit of NOK 11.3 million from the sale of properties was recognised as income in 2018. The profit after tax was NOK 1.4 million in 2019, compared with NOK 13.3 million in 2018. The company has 2 employees, corresponding to 2 full-time equivalents. The CEO is hired in from Sparebanken Øst.

The property company Tollbugt. 49-51 AS was sold in January 2020. Please see events after the balance sheet date. The property portfolio has been significantly scaled down in recent years. The company will launch additional measures to reduce the cost level and resource situation, adjusted to reduced property activities.

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 profit after tax was NOK 0.6 million in 2019, compared with a loss of NOK 0.8 million in 2018. The company has no major ongoing projects.

Øst Inkasso AS is a wholly owned subsidiary of Sparebanken Øst. The purpose of the company is to run 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, at the same level as in 2018. The profit after tax was NOK 0.2 million in 2019, compared with a loss of NOK 0.2 million in 2018. The company has 5 employees, corresponding to 5 full-time equivalents. The company has also hired the managing director from Sparebanken Øst and an employee from AS Financiering.

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 had a profit after tax of NOK 324.2 million for 2019, compared with NOK 24.9 million for 2018.

Frende Skade had a profit after tax of NOK 217.2 million in 2019, compared with a profit of NOK 1.0 million in 2018. The company has a total premium stock of NOK 2,111 million, an increase from NOK 1,994 million in 2018. The premium stock is distributed across 164,000 customers, and the company's market share was 3.5 per cent at the end of Q3 2019. The claims rate for 2019 was 77.4 per cent compared with 81.5 per cent in 2018, and the company's combined ratio was 96.0 per cent compared with 100.5 per cent in 2018. 2019 was also impacted by a large number of major compensation cases, but with a favourable trend in loss frequency. The financial return in 2019 amounts to NOK 188.1 million before tax compared with NOK 18.1 million in 2018.

Frende Liv had a profit after tax of NOK 122.5 million in 2019, compared with a profit of NOK 28.0 million in 2018. The company has a total premium stock, including savings premiums, of NOK 975 million, up from NOK 895 million at the same time last year. The financial return in 2019 amounts to NOK 76.5 million before tax compared with NOK 7.5 million in 2018.

ENVIRONMENTAL, SOCIAL AND BUSINESS ETHICAL CONDITIONS

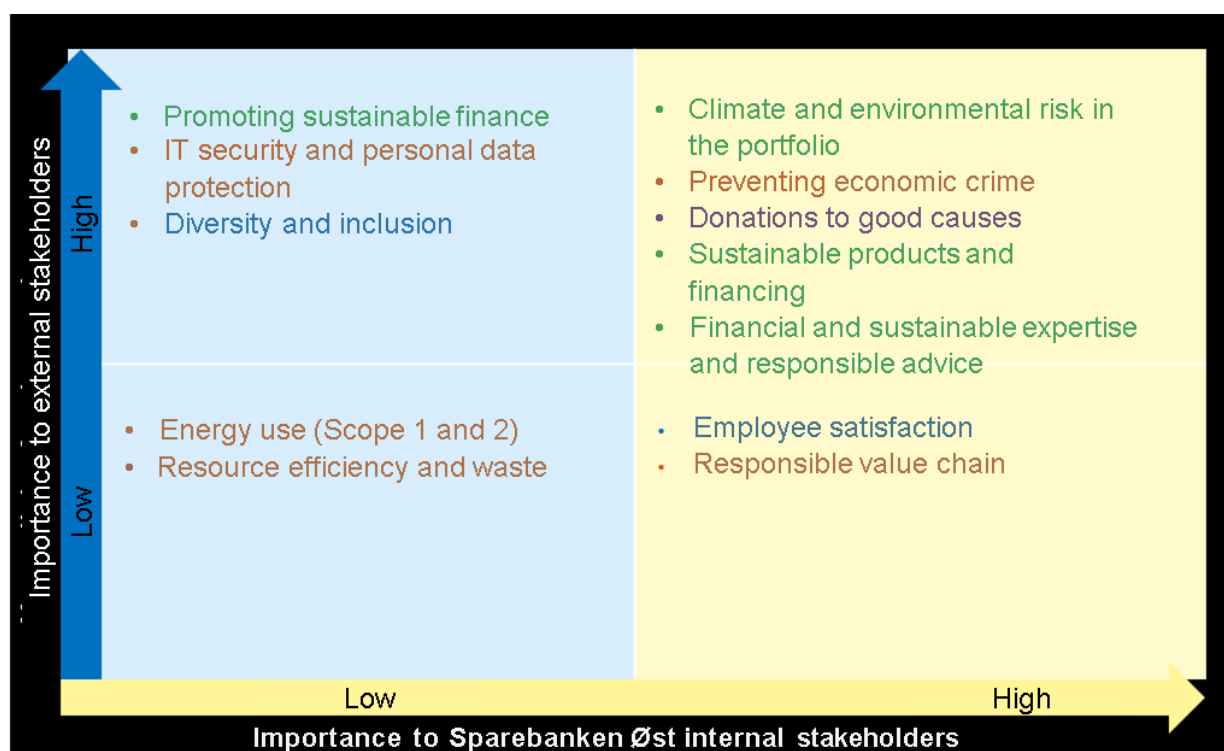
Sustainable growth

As a regional savings bank, we have a responsibility, through our actions and products, to be a positive driving force in society and support sustainable development. In our efforts to integrate sustainability into our strategy and reporting, we have a focused on ensuring this is done in an effective manner.

As a first step, we have reviewed our value chain to identify where we, as a regional bank, have the greatest impact. We have also looked at trends, focus areas and risks that have been identified by both internal and external stakeholders. This work has resulted in a priority matrix in which important topics have been mapped. This year's materiality analysis will be reviewed and updated in 2020 as part of our efforts to comply with the Global Reporting Initiative (GRI) standards in our reporting.

In line with the Norwegian Code of Practice for Corporate Governance (NUES), this section describes our ongoing work to identify significant non-financial issues and their impact on Sparebanken Øst's activities.

Materiality analysis



The main focus areas are further grouped into four topics. The themes are explained below.



Sustainable products and our contribution to local growth

Sustainable products and financing

We have developed our first green customer products in response to the increased focus on, and awareness of, climate risk and the role financial institutions can play in ensuring resources are allocated correctly. We offer green mortgages and car loans at competitive prices.

Sparebanken Øst wants to build on these products and will continue to work systemically on implementing principles for green products and green financing. This requires a framework for green product development and classification of customers based on sustainability criteria. The principles will also form the basis for the issuance of green bonds and stipulate how other parts of the business can be restructured in a more sustainable direction.

We want to develop our framework in line with leading standards, with guidance from industry organisations and national and international organisations. We will evaluate our customers' needs for green products and develop suitable products where we see a need and demand. We will also consider the possibility of issuing sustainable or green bonds, and will develop appropriate products for these.

Integrating climate risk and increasing expertise within sustainability

Given the awareness of how climate risk can lead to increased financial risk, financial institutions have been focusing on developing expertise within sustainability and the climate. Work will be started on incorporating climate risk and sustainability criteria into investment analyses and decision-making processes.

As a first step, Sparebanken Øst is in the process of developing customer sustainability assessments, which will be used in the lending process in the business market. The assessments will score customers on a number of environmental and sustainability criteria based on their responses. The bank will weight the criteria such that a customer's total score gives us a good indication of how ready the customer is with regards to meeting the sustainability and environmental challenges we face. The score will be an important element in the bank's continued dialogue with customers with a view to, for example, encouraging customers to make more sustainable choices.

We intend to develop a number of exclusion criteria as part of the work on customer sustainability assessments, and as part of our ongoing work on a framework for green products. The exclusion criteria will be based both ethical assessments and risk assessments. In addition to addressing our exclusion criteria, we will also assess which of our loans comply with our framework for green products. This will enable us to maintain a continuous overview over how large a proportion of our lending portfolio can be categorised as green.

Sparebanken Øst has a NOK 300 million loan from Nordic Investment Bank (NIB) dating from 2017. This borrowing finances green activities in line with NIB's mandate and sustainability criteria.

We will review our lending portfolio once our green framework has been finalised to see how large a proportion can be considered green based on our criteria.

We want to analyse relevant training measures, materials, and certifications to increase our internal expertise within sustainable. If we see a need for greater expertise in an area in which we have yet to develop internal expertise, we will seek help from a third party.

Actively promoting sustainable finance with third-party product providers

As a regional savings banks, we seek to offer our customers a broad range of financial products to meet every need. For products such as insurance, investments in funds and pensions, this means that we cooperate with other organisations or offer our customers products available from other financial institutions.

Since this is an area over which we have little direct control, from 2020 we will actively ask about and discuss the range of sustainable products with our third-party providers. If we determine that the range green products is inadequate, we will initiate a dialogue with the providers in order to help develop green options.

Our employees

In order to serve our customers in the best possible manner, both today and in the future, we want to ensure that our employees always have the knowledge and skills they need for current and future operations.

Sparebanken Øst wants to be an attractive workplace that provides our employees with interesting challenges in an inclusive and supportive working environment.

Diversity and inclusion

A working environment in which differences are respected and the employees' expectations match those of the bank and its needs is of great value to the bank.

We comply with relevant Norwegian regulations that, among other things, forbid discrimination based on sexual orientation, gender identity and expression, ethnicity, religion and beliefs, or disability.

Equal opportunities are also protected by local and national agreements with employee organisations.

Furthermore, the bank's overarching strategy contains development goals related to inclusion, both for employees and the organisation as a whole. The bank has worked well with the employees representatives in numerous committees and projects for a long time.

We will continue to identify pay differences between the genders as part of our work on developing our sustainability reporting. Our ambition is to strengthen our work on equal pay based on the principle of equal pay for equal work and performance.

Working environment

The bank has measured employee satisfaction for many years. A major survey of the bank's employees was conducted in 2019, and achieved a response rate of more than 90 per cent. The purpose of the survey is to measure the employees' satisfaction and commitment. The feedback provides us with a good insight into areas that are ripe for improvements, large and small, as well as areas in which we are doing well. The results from the last survey show that the bank's employees are generally satisfied, although there are also important areas requiring improvement, especially in parts of the operations. In an era of major changes, both in the industry and the company, employee uncertainty has naturally increased. Sparebanken Øst has worked on various improvement measures over time and in 2020 will implement measures in selected areas within the various parts of the operations, as well as some overarching measures. More skills development, including exchanging work experience between employees, will be facilitated. Furthermore, we will work on strengthening the bank's development processes, as well as on fostering a good working environment and internal pride.

Skills development

In 2019, the bank implemented measures aimed at improving employees' expertise in light of changed customer behaviour and technological advances in the financial services industry. The bank also adds to its expertise through recruiting new employees. The bank is affiliated with the authorisation schemes in FinAut. At the turn of the year, 35 per cent of the bank's employees were authorised within savings and investments, 40 per cent within credit, and 28 per cent within non-life insurance. Around 25 per cent of the bank's employees will complete personal insurance authorisation by 2020.

The bank will work on improving its in-house expertise within sustainability in general. At the same time, we will systematically work on developing our expertise so that we can include climate risk in the bank's assessments of customers.

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.

Health, safety and the 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.

Aftercare in connection with robberies is included in the bank's overall HSE work and is addressed by a special aftercare team.

Responsible corporate governance

Ethical approach to business

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 established a code of conduct for employees and elected representatives in the group. The code of conduct provides instructions on how employees must conduct themselves in relation to customers, the authorities, suppliers, competitors and colleagues. The code of conduct is readily accessible from the bank's intranet and must be reviewed annually by 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 conduct, as well as handling whistleblower reports about wrongdoing, cf. Working Environment Act, chapter 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 must review and make suggestions regarding Sparebanken Øst's code of conduct on an ongoing basis.

Preventing economic crime and corruption

Financial institutions play a crucial role in preventing money laundering, corruption, terrorist financing and other economic crime. Our customers, and society as a whole, trust and expect us to operate responsibly, ethically and legally. Sparebanken Øst is in a position to prevent these sort of suspicious transactions. We take this responsibility very seriously and have developed and implemented routines for preventing money laundering and terrorist financing.

The requirements for combating money laundering and terrorist financing are stipulated in the Money Laundering Act. The purpose of the act is to prevent and detect money laundering and terrorism financing. The bank has a duty to conduct investigations if circumstances are uncovered that may indicate that funds are related to money laundering or terrorism financing. One important principle in the Act is that banks must be familiar with their customers and their activities.

Sparebanken Øst has established routines and controls to ensure compliance with the Act. This includes customer measures for both new and existing customers. New customers must undergo a special verification process before an account can be opened. Suspicious transactions, including transactions potentially related to corruption, must be investigated. Suspicious transactions are reported to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM). Sparebanken Øst reported 35 cases in 2019.

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.

IT security and personal data protection

Sparebanken Øst systematically addresses IT security and personal data protection through its own information security management system with associated strategic security objectives, risk

assessments, instructions, routines, and guidelines. The bank has established an IT security culture programme involving training and documentation that ensures all of the bank's employees can better understand the role they play in day-to-day IT security. The bank's customer-oriented digital services, such as the online and mobile banks, are delivered by TietoEVERY via a multi-bank platform that is used by a significant proportion of comparable Norwegian savings banks. TietoEVERY has long and wide-ranging experience in delivering mission-critical digital services to Norwegian savings banks, including the IT security services and solutions necessary to ensure confidentiality, integrity, and accessibility in relation to the bank's technological platform.

Responsibility for information security rests with the bank's executive management team. The bank has appointed a data protection officer. Routines and instructions have been established for how customers can complain, report incidents, request access to registered personal data, and request the transfer of registered personal data to another data controller. These rights are described on the bank's website: (<https://www.oest.no/personvern/>). The Bank must register and assess all significant non-conformance related to the processing of personal data and base its reporting to the Norwegian Data Protection Authority on this. No substantial non-conformities were registered in 2019.

Responsible value chain

Suppliers must be chosen and goods and services purchased in line with our values, and they must also fulfil our goal of achieving sustainability throughout our entire value chain. As a first step, we have introduced a requirement that means that suppliers in exposed sectors must complete a self-declaration form confirming that they do not contribute to breaches of human or labour rights, do not contribute to a negative environmental impact, and that they do not contribute to corruption. Follow-up measures include checking pay and working conditions at relevant external suppliers.

We want to play a more active role in our value chain and discuss sustainability and climate impact with our suppliers. We also want to develop an ethical standard for suppliers that addresses the links in our value chain where we have the most costs and influence.

Resource efficiency

Sparebanken Øst recognises that resources are finite. We believe it is ethically and commercially appropriate to utilise available resources in the most efficient manner possible, which is also in line with our strategic objectives. Sparebanken Øst therefore uses district heating where available and electric heating where district heating is not available.

We will continue to work on this in 2020 by starting to report on Scope 1 and Scope 2 emissions, as well as one of the categories in Scope 3, cf. the GRI standards. We also continuously look for new solutions that will allow us to utilise the available resources in a more efficient manner.

Pensions

In Sparebanken Øst, we think it is important to lead by example, which is why we offer our employees pensions through Storebrand. Storebrand can point to a long tradition when it comes to incorporating sustainability considerations into the decision-making and management processes surrounding their investments, and offer a wide range of green investment options.

We will actively work with Storebrand to ensure that green investment options are made available for our employees' pension plans. We want to make our employees aware of the fact that green investment options are available and work with Storebrand on passing on relevant information to our employees.

Creating value in society as a savings bank

Because we are a savings bank, Sparebanken Øst's social responsibility extends beyond merely producing financial results.

Sparebanken Øst must be socially oriented and have higher ethical standards. We shall be a contributor to value creation and sustainable development, both through the group's ordinary operations and through the bank's grants for good causes from social capital – especially in the municipalities of Øvre Eiker, Nedre Eiker, and Drammen.

Grants for good causes

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 Norwegian kroner back to the local community. We support projects large and small with funds from our grants for good causes. 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 provide grants for a number of other good causes. In 2019, the board of trustees decided to set aside NOK 23.8 million for grants for good causes. The funds were distributed as follows: NOK 14.3 million for teams, associations and voluntary work, and NOK 9.5 million as a provision for social capital.

RISK MANAGEMENT AND INTERNAL CONTROL

Pursuant to section 13-5(1) of the Financial Institutions Act, the bank must be organised and operated properly. 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 with 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 the credit assessments. The Mortgage Regulation provides essential guidance to the bank's lending business to private individuals. The level of risk for lending to customers is measured by classifying customers according to risk. The 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 for the bank's Board of Directors.

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 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.

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 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

Sparebanken Øst has a financial strategy that is intended to help ensure that the bank's activities in the financial area are in line with the framework conditions and guidelines in the bank's overall business concept, strategic plans and budgets, as well as ensuring that the activities are justifiable in relation to the bank's capacity and willingness to bear risk.

The financial strategy is also intended to ensure that the bank's management of financial risk complies with the requirements stipulated in acts, regulations, directives from the authorities, and other regulatory conditions. Sparebanken Øst has a liquidity portfolio comprising interest-bearing securities that are primarily issued by Nordic financial institutions, Norwegian banks, municipalities, the central government and government-guaranteed companies. Through this, the bank takes credit spread risk.

The interest rate risk is kept within fixed limits and is limited in that assets and liabilities mainly have variable interest rates or are swapped to variable interest rates. Currency risk is reduced by entering into forward contracts or basis swaps. The bank has very little interest rate and currency risk. Exposure to equity instruments beyond the bank's subsidiaries and strategic investments is limited.

Liquidity risk

Sparebanken Øst has a conservative stance on liquidity risk and seeks to ensure proper liquidity management so that the group has sufficient liquid assets to cover its obligations at maturity at all times. The group shall be able to carry out normal operations for a period of at least 12 months without access to external financing. The group's liquidity is governed by established frameworks for, amongst others, LCR, NSFR and stress tests.

Sparebanken Øst issues covered bonds through the bank's wholly owned mortgage credit company. Covered bonds with long maturities are generally issued, while senior bond loans are issued with maturities that fit the existing maturity profile at any time.

The group's most important source of funding is the Norwegian covered bond market, which is a key part of the Norwegian securities market. Covered bonds provide security for 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 bond loans. The focus is therefore on facilitating issues of covered bonds within the framework established in the group.

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. Measures are taken to try and keep operational risk at a low level. The risk tolerance for operational risk is assigned to the Financial Supervisory Authority of Norway's incident categories, graded as zero tolerance, low and moderate risk. A code of conduct has been adopted and must be reviewed by all employees at least once a year in line with instructions. 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 in 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, special risk assessments and risk and vulnerability analyses have been established in accordance with the ICT Regulations, including based on the COBIT and ITIL frameworks. 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 guidelines for information security and 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 2019.

Assessment of overall risk and capital requirements

The capital adequacy ratio measured as CET1 capital amounted to 17.69 per cent at the end of 2019 compared with 16.39 per cent at the end of 2018. The increase is explained by good earnings, reduced lending volume as well as the introduction of an SME discount as at 31.12.2019. The effect of the SME discount amounted to 0.34 percentage points.

The group is in an ongoing SREP process with the Financial Supervisory Authority of Norway and expects SREP resolutions and a new Pillar 2 requirement by 30.06.2020. Until a new requirement exists, the Pillar 2 requirement adopted in April 2017 of 2.3 per cent applies. The countercyclical buffer increased by 0.5 percentage points to 2.5 per cent as at 31.12.2019, and the total capital adequacy requirement applicable to Sparebanken Øst is 14.8 per cent as at 31.12.2019. Sparebanken Øst will determine a new target for the minimum CET1 capital ratio when new Pillar 2 requirements are issued. Sparebanken Øst's CET1 capital ratio target is a minimum of 14.75 per cent. The board of Sparebanken Øst operates on the principle that all requirements and guides must be complied with at all times.

The net primary capital amounted to NOK 4,132.9 million at the end of 2019, of which the group's Tier 1 capital amounted to NOK 3,790.3 million. Given a basis for calculation of NOK 19,450.5 million, this corresponds to a capital adequacy ratio of 21.25 per cent, of which 19.49 per cent constitutes the CET1 capital ratio. The bank uses the standardised approach to calculate the minimum primary capital adequacy requirement for credit risk.

The bank has good financial strength with a leverage ratio of 8.81 percent at the end of 2019, against 8.48 percent at the end of 2018. The leverage ratio requirement 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. There are stable prospects for the bank's ratings and these were most recently confirmed in October 2019 by Moody's Investors Service. Covered bonds issued by Sparebanken Øst Boligkreditt AS have an AAA rating from Moody's.

EMPLOYEES, MANAGERS AND THE BOARD OF DIRECTORS

At the end of 2019, the group had 197 employees, equivalent to 192 FTEs, compared with 203 employees and 199 FTEs at the end of 2018. The average age of employees in the parent bank was 48. The proportion of female employees was 64 per cent. The proportion of women in management positions was 46.5 per cent at the end of the year. The average age of employees in management positions was 48. Total sick leave in 2019 amounted to 5.3 per cent of total working hours, compared with 3.6 per cent in 2018. The sick leave rate in 2019 was 1.3 per cent for men and 7.8 per cent for women. No personal injuries were recorded in 2019.

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. 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 team comprises the following seven members at the end of 2019:

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

Arnljot Lien, b. 1965

Director, Digitalisation and Technology

Bank employee since 2001

Of the bank's eight elected board members, four are women. The board consists of the following members: Øivind Andersson (chair), Morten A. Yttreide (deputy chair), Elly Therese Thoresen, Cecilie Hagby, Jorund Rønning Indrelid (from 29.03.2019), Arne K. Stokke (from 29.03.2019), Sissel Album Fjeld (from 29.03.2019, 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.

Morten Andre Yttreide, b. 1967

Managing director

Board member since 2012

Deputy chair of the board since 2019

Previously a deputy member of the board.

Elly Therese Thoresen, born 1957

Municipal council member

Board member since 2012

Cecilie Hagby, b. 1966

Managing director

Board member since 2018

Previously a member of the board of trustees.

Previously a deputy member of the board.

Jorund Rønning Indrelid, b. 1959
Managing director
Board member since 2019
Former board member 2001-2017

Arne K. Stokke, b. 1946
Lawyer
Board member since 2019
Former board member 1991-1997

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

Sissel Album Fjeld, b. 1959
Employee
Board member since 2019
Former member of the board of trustees and attending deputy member of the board.

Board members' attendance at board meetings in 2019:

Øivind Andersson	18 of 18 meetings	
Morten André Yttreide	18 of 18 meetings	
Elly Therese Thoresen	15 of 18 meetings	
Cecilie Hagby	17 of 18 meetings	
Jorund Rønning Indrelid 29.03.2019)	14 of 14 meetings	(from and including
Arne K. Stokke 29.03.2019)	14 of 14 meetings	(from and including
Knut Smedsrud	of meetings (until and including 28.03.2019)	
Kari Solberg Økland	of meetings (until and including 28.03.2019)	

Employee representatives

Ole-Martin Solberg	18 of 18 meetings	
Sissel Album Fjeld 29.03.2019)	13 of 14 meetings	(from and including
Inger Helen Pettersen	of meetings (until and including 28.03.2019)	

DIVIDEND POLICY

In June 2019, Sparebanken Øst changed its dividend policy for distributing dividends from the social capital in the form of grants for good causes. The extent of grants for good causes that Sparebanken Øst aims to issue as dividends has changed from '50 to 75 per cent' to '50 to 100 per cent' measured as a percentage of the dividend awarded to equity certificate holders.

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 100 per cent of the dividend paid to equity certificate holders as dividend to social capital in the form of

grants for good causes. On determining dividends and grants, due consideration will be made of the bank's financial performance, market situation, dividend stability, and need for Tier 1 capital.

MACROECONOMIC DEVELOPMENTS

2019 was a year marked by political and economic volatility, with moderate global economic growth. The turbulent trade war between the US and China and threats of increased tariffs on European goods also adversely affected global trade. The eurozone central bank ECB reinstated support measures, and interest rates are still low in the EU, the UK and Sweden.

The record-long upturn for the US economy continued in 2019. Even with historically low unemployment and good consumer growth, growth in the United States nevertheless levelled off slightly near the end of the year, especially in the manufacturing sector. Along with low inflation, this prompted the US Federal Reserve to abruptly turn away from raising interest rates and cut rates three times 2019. At the end of the year, the US negotiated an agreement with China to stop the escalation of the trade war, and this was adopted in January 2020. There is considerable uncertainty about whether this will help stop the negative developments in the conflict. The growth rate in the Chinese economy is well below the levels in previous years.

In the eurozone, the European Central Bank felt compelled to reintroduce measures to keep long interest rates low. Inflation remains low. A decrease in trade slowed industrial production, particularly in the German car industry, which is struggling to transition to lower greenhouse gas emissions. Even with slightly lower unemployment, growth is low. Following the election of Boris Johnson, the turbulent Brexit process ended with the UK formally leaving the EU on 31.03.2020. The UK will remain in the customs union and the single market in 2020, and there is still a lot of work to do before all the necessary agreements are in place. This is why the British economy has been characterised by uncertainty and has weakened significantly. The Swedish economy was also characterised by low investment and consumer growth, and unemployment rose slightly. The policy rate was cut to zero in December.

After production cuts in OPEC, oil prices rose to USD 75 per barrel in April, before falling to USD 56 in August. In September, drone strikes against Saudi Arabian oil installations prompted a short-lived price jump, and the price remained above USD 60 per barrel for the rest of the year. As expected, higher oil investments continued to spur growth in the Norwegian economy.

The growth in Norway's mainland economy in 2019 was estimated to be around 2.3 per cent, lower than in 2018 and falling towards the end of the year. Consumer growth slowed to a weak 1.6 per cent, and retail sales are showing a falling trend. Parts of the retail industry are struggling significantly. Exports have stayed up, partly due to a weakened NOK exchange rate. Employment rose by 0.4 per cent, while the unemployment rate rose slightly after bottoming out at 3.5 per cent in Q2 to 3.8 per cent in December. Housing prices increased by 2.5 per cent during the year, while mortgage regulations, raising of interest rates and the introduction of debt registers probably helped curb growth. The market has witnessed high activity, which seems to be more stable and balanced than in previous years.

OUTLOOK

Sparebanken Øst does most of its business in Eastern Norway. Further growth is expected in the Norwegian economy, but it is anticipated that this growth will level off in future. The economic

situation remains positive, and we continue to expect low unemployment and stable housing prices going forward. The outbreak and spread of the coronavirus in 2020 is giving rise to great global uncertainty. Among other things, it has resulted in falling interest rates, including in Norway. The likelihood of Norges Bank cutting interest rates has risen considerably and at the start of March the expectation is that Norges Bank will carry out at least one rate cut in the first half of 2020. A significant proportion of the bank's borrowing costs follows the development of the money market rates. With the prospect of lower money market rates going forward, borrowing costs are expected to decrease in 2020. Strong competition is expected, and continued pressure on the bank's net interest income cannot be ruled out. Along with regulatory uncertainty relating to future capital requirements, the competitive situation could affect growth estimates going forward.

Sparebanken Øst will continue to work purposefully to implement principles for green products and green funding. This requires a framework for green product development and the classification of customers based on sustainability criteria. The principles will also form the basis for the issuance of green bonds and stipulate how other parts of the business can be restructured in a more sustainable direction. Furthermore, the bank will implement reporting of non-financial information related to ESG in keeping with reputable standards. Going forward, the bank will allocate resources for the development of the bank's strategy so that Sparebanken Øst becomes a reliable contributor to sustainable development.

Sparebanken Øst is a cost-efficient bank with a keen focus and belief that low costs constitute a competitive advantage. The cost level is expected to remain stable.

Banking involves risking losses and non-performance, which means that losses on lending and guarantees to customers cannot be ruled out. The low rate of non-performing and impaired commitments and low losses on lending are expected to continue going forward.

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.

The group has great financial strength, which provides latitude, opportunities for growth and high potential dividends. The group also has a sound liquidity buffer that will provide security if the banks' access to funding is challenged in the future. 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 general competition in the banking market, as well as the access to long-term financing. Lending to both retail and business customers is expected to grow and over time lending growth is expected to be on a par with general credit growth. 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.

Sparebanken Øst expects to be set requirements for primary capital and qualifying liabilities that can be written down or converted to equity (MREL) during the course of the second half of 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 bond loans when these reach maturity and before the requirement is expected to come into force.

The CRR/CRD IV capital adequacy directive was implemented in Norway from and including 31.12.2019, when the Basel I floor for IRB was eliminated and 'SME discounts' for lending to small and medium-sized enterprises were introduced. The Ministry of Finance announced in a press release on 11.12.2019 that it would stipulate changes to banks' capital requirements that would come into effect from the end of 2020. New requirements will not begin to apply to standard banks until the end of 2022. The changes will mean that the system risk-buffer requirement is increased from 3 to 4.5 per cent, and that a floor for the risk weighting of real property loans is being introduced. On 11.12.2019, the Ministry of Finance sent a letter to the Financial Supervisory Authority of Norway on the relationship between general buffer requirements and the Pillar 2 process. The Ministry of Finance writes that the division of labour between the various requirements in Pillar 1 and Pillar 2, including the capital requirement margin, the EBA's guidelines and the conditions emphasised by determining the system risk buffer requirement, should be reviewed before the restructuring of the system risk-buffer requirement comes into force. The Ministry of Finance states that the review should also include an assessment of the system to determine Pillar 2 requirements, and how the restructuring of the system risk-buffer requirement affects the assessments of which risks are fully or partially covered in Pillar 1. The Ministry requests the Financial Supervisory Authority of Norway to assess these conditions by 02.05.2020.

In the bank's view, there is significant uncertainty relating to the framework conditions and future capital adequacy requirements for banks which calculate capital adequacy using the standard method. The Ministry of Finance states that the purpose of the proposed increase in the system risk buffer is to maintain the total actual capital requirements of Norwegian banks at a level that is adapted to the risk in the Norwegian economy, while facilitating equal capital requirements for Norwegian and foreign financial enterprises with operations in Norway. The bank is of the view that while the regulations aim to keep the total real capital adequacy requirement at a level that is suitable for risks in the Norwegian economy, there is widespread uncertainty about how the proposed regulations and, not least regulatory practice, will affect the capital adequacy requirements of individual banks and groups of banks, including banks that use the standard method.

The PSD2 Directive entered into force in Norway from 14.09.2019. In Q4 2019, Sparebanken Øst implemented new solutions that give the bank's customers account information (AISP) and the ability to pay directly from their own accounts in other banks (PISP) through the bank's online and mobile banks. So far, the bank has noted low levels of activity from new third parties and other banks, but it expects this activity to increase gradually over time. The services opened up by PSD2 may impact the competitive situation amongst financial market operators.

Hokksund, 31.12.2019

Drammen, 05.03.2020

Øivind Andersson
Chair

Morten André Yttreide
Deputy Chair

Elly Therese Thoresen
Board member

Cecilie Hagby
Board member

Jorund Rønning Indreliid
Board member

Arne K. Stokke
Board member

Ole-Martin Solberg
Employee representative

Sissel Album Fjeld
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 1710.2018.

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

Implementation and reporting 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 2019 annual report, including the bank's code of conduct 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 business 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'.

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 clearly demonstrates local corporate social responsibility since it is composed of representatives elected by depositors, municipalities, employees, and equity certificate holders.

For a further description of the activities, please see the Board of Directors' Report for 2019.

EQUITY 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 Board of 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 28.03.2019 and is subject to annual review. The Financial

Supervisory Authority of Norway 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 OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE 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 2019, no transactions took place between Sparebanken Øst 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.

FREELY NEGOTIABLE SHARES

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. The articles of association were last amended on 29.01.2020. Amendments resulting from new articles of association appear in brackets. In new articles of association, references to the municipalities of Øvre Eiker, Nedre Eiker and Drammen mean as they were geographically defined on 01.01.2019. Local corporate social responsibility is exercised via the composition of the board of trustees, which is made up of representatives elected by depositors, municipalities (the public sector), employees, and equity certificate holders. The board of trustees consists of a total of 32 members with 23 (24) deputy members. Eight (nine) members are elected by depositors with three from Øvre Eiker, two from Nedre Eiker, and three (four) from Drammen. Four members are elected by the municipalities: one member from Øvre Eiker, two members from Nedre Eiker and one member from Drammen. Eight members are elected by the employees, and 12 (11) 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 2019, the chair of the board of trustees was Frank Borgen (until 28.03.2019) who was then succeeded by May-Britt Andersen (from 29.03.2019), 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 2019. 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 COMMITTEE

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 Øst. 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 30.03.2017. In 2019 the nomination committee for the board of trustees and board of directors had the following members:

Tom R. Svendsen, chair

Nina Paulsen Viland

Jon Aas

Bent Inge Bye

Ann Kristin Plomås, employee (from 29.03.2019)

Anne Siri R. Jensen, employee (until 28.03.2019)

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 be 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 2019, the nomination committee held separate meetings with both the chair of the board and Sparebanken Øst's CEO.

CORPORATE ASSEMBLY AND 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 2019 are covered in the Board of Directors' Report for 2019. Detailed information concerning each board member can be found (in Norwegian) on [www.oest.no/Om Sparebanken Øst/Styret og ledelse](http://www.oest.no/Om%20Sparebanken%20Øst/Styret%20og%20ledelse).

The CEO and Deputy CEO attended 18 of 18 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 31.12.2019 are listed in note 54.

THE 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 Øst's code of conduct stipulates that board members and employees have a duty to state whether they have, directly or indirectly, significant interests in agreements entered into by the Sparebanken Øst 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 12.02.2020. 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

Pursuant to section 15-1 ff. of the Financial Institutions Act and section 15-1 ff. of the Regulations on financial institutions,

the savings bank has established a remuneration committee. 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 2019, the remuneration committee comprised the following members:

Øivind Andersson, chair

Cecilie Hagby

Jorund Rønning Indrelid (from 23.04.2019)

Kari Solberg Økland (until 28.03.2019)

Sissel Album Fjeld, employee representative (from 23.04.2019)

Inger Helen Pettersen, employee representative (until 28.03.2019)

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 and risk committee

In accordance with sections 8-18 and 13-4(6) of the Financial Institutions Act, the savings bank has established an audit committee and a risk 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 and risk committee is 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 audit and risk committee must also 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 audit and risk committee held eight meetings in 2019. In 2019, the audit and risk committee comprised the following members:

Morten A. Yttreide, chair

Cecilie Hagby

Arne K. Stokke (from 23.04.2019)

Kari Solberg Økland (until 28.03.2019)

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 basis¹. 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

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

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.

Follow-up

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.

Roles and responsibilities

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. I

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.

The board of trustees

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.

Board of Directors

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.

The board's audit and risk committee

The audit and risk 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.
- 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.

Remuneration committee

Pursuant to section 15-1 ff. of the Financial Institutions Act and section 15-1 ff. of the Regulations on financial institutions,

the savings bank has established a remuneration committee. The purpose of the remuneration committee is to prepare guidelines for the board of directors for the remuneration of executive personnel. It must also ensure that the company always 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 also provided in note 29 in the group's annual report.

Chief executive officer

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.

Business area managers

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.

Employees

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.

Risk management and compliance

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 audit and 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.

Anti-Money Laundering Officer is responsible for monitoring compliance with the regulations, checking the establishment of new customer relationships and internal training. The bank's Deputy CEO Kjell Engen is the **Anti-Money Laundering Officer**.

REMUNERATION OF THE BOARD OF DIRECTORS

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 Øst other than their duties as a board member in 2019.

REMUNERATION OF EXECUTIVE PERSONNEL

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 executive personnel. The remuneration of executive personnel is reported 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 and risk 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 and risk 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 2020

	Publication
• Preliminary 2019 income statement (Q4 2019)	13.02.2020
• Financial statements 2019	05.03.2020
• Meeting of the board of trustees	26.03.2020
• Ex. dividend date	27.03.2020
• Dividend payment	07.04.2020
• Q1 2020	13.05.2020
• Q2 2020	15.07.2020
• Q3 2020	28.10.2020

INVESTOR CONTACTS

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STATEMENT PURSUANT TO SECTION 5-5 OF THE SECURITIES TRADING ACT

We hereby confirm that the annual financial statements for the period from 01.01.2019 - 31.12.2019 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.

Hokksund, 31.12.2019
Drammen, 05.03.2020

THE BOARD OF DIRECTORS OF SPAREBANKEN ØST

Øivind Andersson
Chair

Morten André Yttreide
Deputy Chair

Elly Therese Thoresen
Board member

Cecilie Hagby
Board member

Jorund Rønning Indrelid
Board member

Arne K. Stokke
Board member

Ole-Martin Solberg
Employee representative

Sissel Album Fjeld
Employee representative

Pål Strand
CEO

INCOME STATEMENT

Group	Group			Parent bank	Parent bank
2019	2018	Figures in NOK millions	Notes	2019	2018
1.161,4	967,4	Interest income from assets valued at amortised cost	23, 24	569,0	517,0
129,5	81,6	Interest income from assets valued at fair value	23, 24	195,2	118,1
649,1	483,9	Interest costs and similar costs	23, 24, 49	388,1	307,9
641,7	565,1	NET INTEREST AND CREDIT COMMISSION INCOME		376,2	327,2
89,9	88,8	Commission income and income from banking services	26	111,3	106,1
44,8	42,9	Commission costs and costs for banking services	26	20,6	17,5
28,9	33,0	Dividend	25	136,8	152,4
-9,5	86,3	Net value adjustment and gain/loss on financial instruments	27	-5,2	91,7
15,3	27,3	Other operating income	28	7,7	4,7
162,6	172,0	Personnel expenses	29, 46	140,4	148,0
53,6	53,1	Administration costs	31	42,8	43,8
25,7	13,7	Depreciation/write-downs/value adjustments on non-financial assets	31, 37	25,0	9,5
35,9	50,3	Other operating costs	31, 32	28,6	41,1
443,7	468,5	PROFIT BEFORE LOSSES		369,2	422,2
18,9	17,6	Losses on loans, unused credit and guarantees	12	4,9	2,9
424,8	450,9	PROFIT BEFORE TAX		364,4	419,3
95,5	76,7	Tax	33	56,8	45,4
329,3	374,2	PROFIT FOR THE YEAR		307,6	373,9
17,9	11,7	Hybrid capital owners' share of the result		17,9	11,7
311,5	362,5	Equity certificate holders' and primary capital share of profits		289,7	362,2
329,3	374,2	PROFIT FOR THE YEAR		307,6	373,9
4,87	6,01	Earnings per equity certificate	53	4,54	6,01
4,87	6,01	Diluted earnings per equity certificate	53	4,54	6,01

STATEMENT OF COMPREHENSIVE INCOME

Group	Group			Parent bank	Parent bank
2019	2018	Figures in NOK millions	Notes	2019	2018
329,3	374,2	PROFIT FOR THE YEAR		307,6	373,9
		Items that will not be reclassified to the income statement			
4,1	-5,3	Actuarial gains and losses on defined-benefit plans	46	3,7	-5,9
-1,0	1,3	Tax related to items that cannot be reclassified	33, 46	-0,9	1,4
		Items that may later be reclassified to the income statement			
0,0	0,0	Lending at fair value	27	-0,2	-0,9
0,0	0,0	Tax related to items that may be reclassified	27, 33	0,0	0,2
332,4	370,2	STATEMENT OF COMPREHENSIVE INCOME		310,3	368,7

BALANCE SHEET

Group 31.12.19	Group 31.12.18	Figures in NOK millions	Notes	Parent bank 31.12.19	Parent bank 31.12.18
ASSETS					
302,5	603,1	Cash and receivables from central banks	18	302,5	603,1
15,9	9,5	Loans to and receivables from financial institutions	14, 18	2.273,2	2.155,1
34.225,3	35.147,4	Loans to and receivables from customers	10, 11, 12, 13, 18	16.982,8	19.716,6
6.755,1	5.173,1	Certificates and bonds	18, 21, 22, 34	7.197,6	5.012,1
629,6	606,8	Shares and units	18, 21, 22, 35	629,6	606,8
174,7	222,0	Financial derivatives	18, 19, 20, 21	57,2	80,1
0,0	0,0	Ownership interests in group companies	36	1.321,0	1.240,9
0,0	0,0	Deferred tax asset	33	6,8	7,2
59,0	59,9	Investment properties	37	0,0	0,0
137,7	134,2	Tangible fixed assets	37	89,6	84,4
49,5	0,0	Lease rights	37	84,8	0,0
23,9	19,6	Other assets		10,2	5,2
12,6	6,9	Prepaid non-accrued costs and income earned, but not received	38	9,1	8,4
42.385,8	41.982,5	TOTAL ASSETS		28.964,4	29.519,9
LIABILITIES AND EQUITY					
300,6	300,4	Liabilities to financial institutions	18, 40, 44	620,2	540,8
14.791,7	14.899,7	Deposits from and liabilities to customers	18, 41	14.879,5	14.974,3
35,3	30,7	Financial derivatives	18, 19, 20, 21	35,3	16,1
22.261,7	21.970,8	Securities issued	18, 41, 43	8.959,6	9.750,8
99,1	84,1	Tax payable	33	61,1	47,4
199,8	229,3	Other liabilities	44	117,6	142,6
33,6	41,2	Accruals and deferred income		25,5	32,6
67,4	78,4	Provisions for accrued costs and liabilities	45, 46	65,5	76,2
5,0	3,7	Deferred tax liability	33	0,0	0,0
49,9	0,0	Lease liabilities		85,5	0,0
400,4	400,0	Subordinated loan capital	18, 42, 43	400,4	400,0
38.244,3	38.038,3	TOTAL LIABILITIES		25.250,2	25.980,8
595,1	595,1	Paid-up equity	53	595,1	595,1
352,4	350,5	Hybrid capital	51	352,4	350,5
3.194,0	2.998,6	Retained earnings		2.766,8	2.593,5
4.141,5	3.944,2	TOTAL EQUITY	6	3.714,3	3.539,1
42.385,8	41.982,5	TOTAL LIABILITIES AND EQUITY		28.964,4	29.519,9

Hokksund, 31.12.2019
Drammen, 05.03.2020

Øivind Andersson
Chair

Morten André Yttreide
Deputy Chair

Elly Therese Thoresen
Board member

Cecilie Hagby
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Board member

Arne K. Stokke
Board member

Ole-Martin Solberg
Employee

Sissel Album Fjeld
Employee representative

Pål Strand
CEO

CHANGES IN EQUITY - GROUP

	Paid-up equity		Hybrid capital	Retained earnings						
(Amounts in NOK million)	Total equity	Equity certificates	Share premium reserve	Additional Tier 1 capital	Equalisation fund	Primary capital	Endowment fund	Fund for unrealised gains	Other equity	Retained profit
2019										
Equity as at 31.12.2018	3.944,2	207,3	387,8	350,5	404,1	1.867,5	38,1	283,6	405,3	0,0
Ordinary result	329,3	0,0	0,0	17,9	96,0	199,9	0,0	-6,2	21,7	0,0
Actuarial gains and losses on defined-benefit plans	3,0	0,0	0,0	0,0	0,9	1,9	0,0	0,0	0,3	0,0
Comprehensive income	332,4	0,0	0,0	17,9	96,9	201,8	0,0	-6,2	22,0	0,0
Dividend to equity certificate holders 2018 - adopted	-95,4	0,0	0,0	0,0	-95,4	0,0	0,0	0,0	0,0	0,0
Dividend to social capital 2018 - adopted	-23,8	0,0	0,0	0,0	0,0	-23,8	0,0	0,0	0,0	0,0
Interest paid on hybrid capital	-15,9	0,0	0,0	-15,9	0,0	0,0	0,0	0,0	0,0	0,0
Redemption of hybrid capital	-150,0	0,0	0,0	-150,0	0,0	0,0	0,0	0,0	0,0	0,0
Issue of hybrid capital	150,0	0,0	0,0	150,0	0,0	0,0	0,0	0,0	0,0	0,0
Equity as at 31.12.2019	4.141,5	207,3	387,8	352,4	405,7	2.045,5	38,1	277,5	427,2	0,0

The year's proposed dividend for equity certificate holders of NOK 74.6 million is held as part of the equalisation fund, and the year's proposed grants for good causes from the social capital of NOK 59.7 million is held as 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						
	Total equity	Equity certificates	Share premium reserve	Additional Tier 1 capital	Equalisation fund	Primary capital	Endowment fund	Fund for unrealised gains	Other equity	Retained profit
2018										
Equity as at 31.12.2017	3.384,3	207,3	387,8	0,0	409,3	1.731,6	38,1	197,6	412,6	0,0
Implementation effect of IFRS 9	6,6	0,0	0,0	0,0	5,1	9,5	0,0	0,0	-8,1	0,0
Reclassification of additional Tier 1 capital	351,7	0,0	0,0	351,7	0,0	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	0,0
Ordinary result	374,2	0,0	0,0	11,7	95,0	181,2	0,0	86,0	0,3	0,0
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	0,0
Comprehensive income	370,2	0,0	0,0	11,7	93,4	178,3	0,0	86,0	0,8	0,0
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	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	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	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	0,0
Redemption of hybrid capital	-200,0	0,0	0,0	-200,0	0,0	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	0,0
Equity as at 31.12.2018	3.944,2	207,3	387,8	350,5	404,1	1.867,5	38,1	283,6	405,3	0,0

The year's proposed dividend for equity certificate holders of NOK 95.4 million is held as part of the equalisation fund, and the year's proposed grants for good causes from the social capital of NOK 23.8 million is held as part of the primary capital until they are finally adopted by the board of trustees.

CHANGES IN EQUITY - PARENT BANK

	Paid-up equity		Hybrid capital	Retained earnings							
(Amounts in NOK million)	Total equity	Equity certificates	Share premium reserve	Additional Tier 1 capital	Equalisation fund	Primary capital	Endowment fund	Fund for unrealised gains	Reserve for adjustment of income as reclass.	Other equity	Retained profit
2019											
Equity as at 31.12.2018	3.539,1	207,3	387,8	350,5	404,1	1.867,5	38,1	283,6	0,2	0,0	0,0
Ordinary result	307,6	0,0	0,0	17,9	96,0	199,9	0,0	-6,2	0,0	0,0	0,0
Change in lending at fair value through comprehensive income	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,1	0,0	0,0
Actuarial gains and losses on defined-benefit plans	2,8	0,0	0,0	0,0	0,9	1,9	0,0	0,0	0,0	0,0	0,0
Comprehensive income	310,3	0,0	0,0	17,9	96,9	201,8	0,0	-6,2	-0,1	0,0	0,0
Dividend to equity certificate holders 2018 - adopted	-95,4	0,0	0,0	0,0	-95,4	0,0	0,0	0,0	0,0	0,0	0,0
Dividend to social capital 2018 - adopted	-23,8	0,0	0,0	0,0	0,0	-23,8	0,0	0,0	0,0	0,0	0,0
Interest paid on hybrid capital	-15,9	0,0	0,0	-15,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Redemption of hybrid capital	-150,0	0,0	0,0	-150,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Issue of hybrid capital	150,0	0,0	0,0	150,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Equity as at 31.12.2019	3.714,3	207,3	387,8	352,4	405,7	2.045,5	38,1	277,5	0,0	0,0	0,0

The year's proposed dividend for equity certificate holders of NOK 74.6 million is held as part of the equalisation fund, and the year's proposed grants for good causes from the social capital of NOK 59.7 million is held as 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							
	Total equity	Equity certificates	Share premium reserve	Additional Tier 1 capital	Equalisation fund	Primary capital	Endowment fund	Fund for unrealised gains	je adjustment inclusive income as reclass.	Other equity	Retained profit
2018											
Equity as at 31.12.2017	2.971,7	207,3	387,8	0,0	409,3	1.731,6	38,1	197,6	0,0	0,0	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	0,0	0,0
Reclassification of additional Tier 1 capital	351,7	0,0	0,0	351,7	0,0	0,0	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	0,0	0,0
Ordinary result	373,9	0,0	0,0	11,7	95,0	181,2	0,0	86,0	0,0	0,0	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	0,0	0,0
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	0,0	0,0
Comprehensive income	368,7	0,0	0,0	11,7	93,4	178,3	0,0	86,0	-0,7	0,0	0,0
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	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	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	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	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	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	0,0	0,0
Equity as at 31.12.2018	3.539,1	207,3	387,8	350,5	404,1	1.867,5	38,1	283,6	0,2	0,0	0,0

The year's proposed dividend for equity certificate holders of NOK 95.4 million is held as part of the equalisation fund, and the year's proposed grants for good causes from the social capital of NOK 23.8 million is held as part of the primary capital until they are finally adopted by the board of trustees.

CASH FLOW STATEMENT

Group 2019	Group 2018	Figures in NOK millions	Note	Parent bank 2019	Parent bank 2018
Operating activities					
424,8	450,9	Profit before tax		364,4	419,3
		Adjusted for:			
-9,2	1,3	Change in net interest income earned and accrued interest costs		-7,5	0,3
0,0	0,0	Net payment/disbursement of loans to financial institutions		-111,9	-222,6
924,4	-4.172,7	Net receipts/payments of loans to customers		2.738,1	-1.046,3
-1.581,7	-655,2	Change in certificates and bonds		-2.182,1	-650,6
-4,5	-98,6	Value adjustment, shares and units		-4,5	-98,6
-17,6	76,3	Change in other operating assets	51	-13,4	-2,3
0,1	0,0	Net receipt/disbursement of borrowing to financial institutions		79,2	8,5
-107,0	926,9	Net receipts/disbursement of deposits from customers		-93,8	972,3
-71,1	63,5	Change in other operating liabilities		-70,6	-7,9
34,0	27,3	Non-cash items included in profit before tax	51	25,1	17,4
-0,1	-12,6	Net gains from investing activities		-0,1	-1,5
6,8	4,1	Net losses from financing activities		0,9	2,6
0,0	-0,8	Other changes		0,0	0,0
-86,2	-107,6	Taxes paid for the period		-47,8	-68,0
-487,3	-3.497,2	Net cash flow from operating activities	A	676,1	-677,4
Investing activities					
-19,0	-20,0	Payments on purchases of tangible fixed assets		-17,6	-17,9
0,3	92,1	Proceeds from sales of tangible fixed assets		0,1	0,3
-18,3	-24,3	Payments on purchases of financial investments		-18,3	-24,3
0,0	1,2	Proceeds from sales of financial investments		0,0	1,2
0,0	0,0	Payment concerning investments in subsidiaries		-80,0	-350,0
-37,0	49,0	Net cash flow from investing activities	B	-115,8	-390,7
Financing activities					
0,0	-30,0	Net incoming/outgoing payments for loans to/from financial institutions		0,0	-30,0
-3.609,9	-2.638,0	Payments on repayment of securities		-2.192,4	-2.114,4
3.951,7	6.502,4	Proceeds on issuance of securities		1.449,7	3.598,7
-95,4	-103,7	Payment of dividend		-95,4	-103,7
-150,5	-200,0	Payment disbursed for repayment of hybrid capital		-150,4	-200,0
150,0	200,0	Payment received for issue of hybrid capital		150,0	200,0
-15,9	-16,8	Interest paid on hybrid capital		-15,9	-16,8
230,0	3.713,9	Net cash flow from financing activities	C	-854,5	1.333,8
-294,3	265,7	Net change in cash and cash equivalents	A+B+C	-294,3	265,7
612,6	346,9	Cash and cash equivalents as at 01.01.		612,6	346,9
318,3	612,6	Cash and cash equivalents as at 31.12.	51	318,3	612,6

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

Group 2019	Group 2018	Additional information for operating activities concerning interest and dividend in	Parent bank 2019	Parent bank 2018
1271,7	1043,6	Interest payments received	749,8	633,6
636,9	476,3	Interest payments made	379,9	307,0
28,9	33,0	Dividends received	136,8	152,4

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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.

At the end of 2019, 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 and its subsidiaries Borreveien 44 AS and Jon Smørs Vei 7 AS, and Sparebanken Øst Eiendom AS and 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 2019 were reviewed and approved by the board of directors of Sparebanken Øst on 05.03.2020.

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 adjustments 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 2018 annual financial statements, with the exception of the changes in IFRS that were implemented in the group in 2019. The changes relevant to the group which came into effect for the 2019 financial statements, and the effect of this on the consolidated financial statements, are listed below.

IFRS 16 Leases

IFRS 16 replaced the existing IFRS standard for leases, IAS 17 Leases. IFRS 16 specifies principles for recognition, measurement, presentation, and information about leases for both parties to a lease, i.e. the customer (lessee) and the provider (lessor). The new standard requires the lessor to recognise assets and liabilities for most leases, which is a significant change from the previous 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.

As a lessor, the group has leases classified according to IAS 17 as financial 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 financial leases when the lease period is longer than 12 months. For implementation, the modified retrospective method has been chosen, which involved implementation as at 01.01.2019 without restating comparative figures. Upon implementation, the 'lease rights' were capitalised as right-of-use asset amounting to NOK 57.6 for the lease of premises. Correspondingly, lease liabilities were capitalised as liabilities amounting to NOK 57.6 million. Lease rights are given a 100 per cent risk weighting in the basis for calculating capital adequacy. The effect of implementation represented a reduction of 5 basis points in the group's CET1 capital ratio.

The group's rental costs covered by the change amounted to NOK 10.2 million in 2019. The group's other operating costs were reduced by NOK 10.2 million in 2019 and were replaced by NOK 1.0 million in interest costs and NOK 9.6 million in depreciation. Correspondingly, the parent bank's rental costs amounted to NOK 13.5 million. The parent bank's other

operating costs were reduced by NOK 13.5 million in 2019 and were replaced by NOK 1.6 million in interest costs and NOK 12.6 million in depreciation.

IAS 12 Income Taxes

IAS 12 was amended with effect from 01.01.2019. The amendment clarified the treatment of tax in equity transactions. The amendment meant that tax deductions on interest from additional Tier 1 capital are presented as a reduction in tax in the income statement. Prior to the change, the tax deduction was not recognised as a reduction in tax but presented directly in equity. The change therefore implies reduced tax in the income statement and the hybrid capital owners' share of income after tax is increased accordingly. The equity certificate holders' and base capital share of the financial result are not affected by the change.

The tax deduction for additional Tier 1 capital totals NOK 4.5 million in 2019 and tax for 2019 has been reduced correspondingly. Comparative figures have not been restated.

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 book values in 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 written down as a result of a credit loss, interest income is recognised by using the interest rate at which future cash flows are discounted to calculate such impairment.

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

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 and when the risk and earning potential have 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 value adjustments through profit or loss

Financial liabilities:

- Amortised cost
- Fair value with value adjustments 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 measured at amortised cost. Instruments that are measured at amortised cost comprise interest and liabilities and are held in a business model whose purpose is to receive interest payments and liabilities. 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-rate borrowing and foreign currency borrowing. For fair value hedging the hedged instrument is recognised at fair value and the value of the security is adjusted in accordance with the value adjustment 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-rate 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 loss

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

Non-performing commitments

A non-performing commitment is defined as a payment over 90 days past due, where the overdue sum is greater than NOK 1,000.

A commitment will also be considered non-performing if the group:

- Has written down the commitment due to impaired creditworthiness.
- Changes the terms and conditions as a result of payment issues, and it is assumed that this reduces the value of the cash flow by a not insignificant amount.
- Assumes that debt negotiations will be initiated, bankruptcy occurs, or the counterparty enters into public administration.
- Disposes of a receivable at a lower price and the lower price is not insignificant.
- Assumes that the commitment will not be fulfilled for other reasons.

Non-performing commitments are assigned to Stage 3.

Individually assessed loss provisions

Non-performing commitments 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 by 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-rate loans, certificates, and bonds

Fixed-rate 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 value adjustments through profit or loss. Interest income on fixed-rate loans, certificates and bonds is recognised in 'Interest income from assets valued at fair value' in the income statement. The value adjustment and realised gains and losses are recognised in 'Net value adjustment and gain/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 value adjustment through profit or loss. The value adjustment and realised gain and loss are recognised in 'Net value adjustment 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. The value adjustment and realised gains/losses on financial derivatives are recognised in the income statement under 'Net value adjustment and gain/loss on financial instruments'.

Realised and unrealised gains and losses on financial derivatives are recognised in the income statement under 'Net value adjustment and gain/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 value adjustments for capitalised assets or liabilities. Bond debt at fixed interest rates constitutes an interest risk. Bond debt in foreign currency constitutes both an interest and a currency risk. Hedge accounting is applied to financial derivatives used to hedge the fair value of capitalised 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 adjustment 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.

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 Borrowing 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 income statement. 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 income statement under 'Net value adjustment and gain/loss on financial instruments'.

6.4.7 Measurement of expected loss

Expected loss is calculated for financial assets which are debt instruments measured at amortised cost or at fair value with value adjustments through comprehensive income. The group calculates expected loss for total commitments consisting of lending, unused credit and guarantees. Expected loss is calculated per engagement. The group breaks down commitments into three stages when calculating expected loss. See note 12 for model-calculated loss costs and loss provisions per stage and note 9 for commitment totals per risk class and distribution per stage.

Stage 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 Stage 1. For commitments in Stage 1, an expected 12-month loss is calculated on the basis of the commitment's exposure.

Stage 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 payments over 30 days past due, are included in Stage 2. For commitments in Stage 2, an expected lifetime loss is calculated on the basis of the commitment's exposure and expected duration. Commitments with reduced payments are assigned to Stage 2.

Stage 3: Non-performing commitments, i.e. commitments with further increases in credit risk, are included in Stage 3. The provisions for this stage consist of both individually assessed loss provisions and model-calculated expected loss. For

commitments for which there is no individual loss assessment, expected loss is calculated on the basis of the commitment's exposure, the segment parameter for expected loss, and expected duration.

Principle for the calculation of expected loss: Based on the group's risk classification system, a probability of default is assigned per 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 given 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. Expected loss is calculated by multiplying probability of default (PD) x loss given default (LGD) x 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.

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. An expected probability of default in the first 12 months is assigned to each risk class in order to calculate the expected loss in Stage 1. The expected probability of default during the term of the commitment, used to calculate the expected loss in Stage 2, is derived from the probability of default in the first 12 months. Risk classes J and K, which constitute the risk classes for non-performing commitments, are considered to have a 100 per cent probability of default.

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. Non-performing commitments are assigned to Stage 3. The company does not use the exemption for loans with low credit risk.

Reversal from Stage 2 and from Stage 3: When the criteria for a significant increase in credit risk (Stage 2) are no longer present, the commitment is transferred to Stage 1 after one month. In the case of non-performing retail commitments in Stage 3, a clean bill of health may be issued in exceptional circumstances. In the event of a clean bill of health, the cause of the default must have ceased and the financial situation must have improved, and a new assessment and risk classification of the customer must take place. Consideration is given to reversing non-performing business commitments when the cause of the non-performance has ceased and the commitment has been serviced every month for at least the last 6 months. A new commitment review and risk classification of the customer are conducted.

Macroeconomic scenarios and probability weighting: When calculating an expected loss, this is done on the basis of the model parameters for the anticipated scenario. When assessing the macroeconomic situation and potential macroeconomic developments, two further scenarios are determined - one optimistic and the other pessimistic. On the basis of the anticipated scenario, a factor is set for how much the expected loss is expected to change in the optimistic and pessimistic scenarios, respectively. The three scenarios are weighted in terms of probability and constituted the model-calculated expected loss. Factors and the probability of the scenarios are based on the Group's 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. The factor and probability of the scenarios is set individually for each segment in the group.

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 through comprehensive income. Interest income on the loans is included in 'Interest income from assets valued at fair value' in the ordinary income statement. Expected loss on the loans is included in the loss on loans, unused credits and guarantees in the ordinary income statement. Value adjustments for loans resulting from fair value measurement are included in the 'Loans at fair value' through comprehensive income. 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 adjustment and gain/loss on financial instruments'.

7. TANGIBLE FIXED ASSETS AND INVESTMENT PROPERTIES

Tangible fixed 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 income statement.

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.

A write-down is considered 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 higher 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

When the group enters into a contract it assesses whether the contract is a lease or contains a lease. A contract is or contains a lease if the contract transfers the right to control the use of an identified asset for a period of time in exchange for payment.

The group as lessee

On the date a lease starts, the group recognises a lease liability and a corresponding right-of-use asset for all of its leases, with the exception of: Short-term leases (lease period of 12 months or less) and low value assets. When one of the exceptions is applied, related rent payments are recognised in 'Other operating costs' in the income statement.

The lease liability is recognised at the present value of the rent payments for the right to use the underlying asset in the lease period. In subsequent periods, the lease liability is measured by increasing the book value to reflect the interest on the lease liability and reducing the book value of payments of the lease liability. The value of the lease liability is adjusted for any reassessments or changes to the lease, or to reflect adjustments in rent payments due to changes in indices or rates. The lease liabilities are presented as 'Lease liabilities' on the balance sheet. The group does not include variable rent payments in lease liabilities. Variable rent payments are included in 'Other operating costs' in the income statement.

The right-of-use asset is recognised at its acquisition cost. In subsequent periods, the asset is amortised over the shorter of the lease period and remaining usage period. As for tangible fixed assets, assessments are made regarding write-downs when there are indications of an impairment in value. Right-of-use assets are presented as 'lease rights' on the balance sheet.

The interest effect of discounting lease liabilities is included in the line 'Interest costs and similar costs' in the income statement. The amortisation cost of the asset is included in the line 'Depreciation/write-downs/value adjustments on non-financial assets' in the income statement.

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 activated and recognised as income over the maturity period and posted as current liabilities in the accounts.

9. UNCERTAIN COMMITMENTS

The group issues financial guarantees as part of its ordinary business. See also note 47. Assessment of loss provisions on guarantees issued by the bank together with assessment of losses on lending. See also note 12. 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 'Personnel expenses' in the income statement.

The actuarial calculations are based on several actuarial assumptions, see note 46. 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 liabilities for such schemes. Defined-contribution pension schemes are recognised directly as costs and are included under 'Personnel expenses' in the income statement.

12. INCOME TAX

The annual tax in the income statement consists of the tax payable for the income year, any surplus/deficit on allocated tax payable for the previous year, withholding tax, and recognised deferred tax. These are recognised as income or costs and are included in the income statement as tax 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 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. An indirect method for the preparation of cash flow setup has been used.

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 provisions for grants for good causes 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 additional Tier 1 capital that does not meet the definition of financial liabilities under IAS 32. Accrued interest on additional Tier 1 capital accrues to the hybrid capital. Interest paid on additional 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 on the date they enter into force, provided that the EU approves the changes before the presentation of the consolidated financial statements.

Changes to IAS 1 and IAS 8

The IASB has published changes to the definition of materiality to make it simpler to carry out materiality assessments in order to determine which information should be included in the financial statements. The new definition results in changes to IAS 1 and IAS 8, and also ensures that the term materiality is consistent throughout the IFRS framework. The changes came into force on 01.01.2020. It is the view of the group that these changes will not result in significant changes to the information that is presented in the financial statements.

Amendments to IFRS 3's definition of a business

The amendments will help companies assess whether an acquisition constitutes a business or a group of assets. The amendments must be applied to transactions where the acquisition date is on or after the start of the first accounting period beginning on or after 01.01.2020. Early implementation is permitted. The group will not implement the changes early. The changes are not expected to have any material effects for the group.

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 loss

Using a model to calculate expected loss requires the exercise of judgement and a degree of uncertainty is therefore associated with model-calculated expected loss estimates. The management team has used its discretion when determining the parameters included in the calculation. An expected loss model uses a significant number of parameters. The parameters that the model is most sensitive to and that are associated with the most uncertainty are probability of default, expected loss given default and the probability weighting of the scenarios. Please see note 12 for quantitative information and sensitivity analyses for model-calculated expected loss.

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 loss, Stage 3. See also note 12.

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 21 for information about the valuation of financial instruments 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 46 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 is earned in Norway. For the geographical distribution of loans to customers, see note 10.

For the purpose of management the bank is organised into five operational segments based on 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 per cent of the bank's total income in 2019 and 2018.

Income Statement

2019	Retail market	Corporate market	Finance	AS Financiering	Spb Øst Eiendom	Unallocated	Eliminations	Group
Net interest and commission income	349.2	137.7	-27.3	119.4	-1.9	65.1	-0.4	641.7
Other operating income	61.4	9.4	-12.7	-22.9	10.1	43.7	-9.1	79.8
Operating costs	59.5	19.6	0.0	31.7	6.3	166.8	-6.2	277.8
Profit before losses	351.0	127.5	-40.0	64.7	1.9	-58.1	-3.3	443.7
Losses on loans, unused credit and guarantees	-0.6	6.0	0.0	13.5	0.0	0.0	0.0	18.9
Profit before tax	351.6	121.5	-40.0	51.2	1.9	-58.1	-3.3	424.8
Tax	0.0	0.0	0.0	13.0	0.4	82.0	0.1	95.5
Profit after tax	351.6	121.5	-40.0	38.3	1.4	-140.1	-3.4	329.3

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 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 before tax	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 after tax	318.6	101.7	-37.2	35.0	13.3	-56.2	-1.0	374.2

Balance sheet

2019	Retail market	Corporate market	Finance	AS Financiering	Spb Øst Eiendom	Unallocated	Eliminations	Group
Loans to and receivables from customers	26,714.5	4,964.9	1.1	2,102.9	0.0	505.7	-63.8	34,225.3
Other assets	4.8	0.0	7,548.8	47.5	174.1	3,179.6	-2,794.3	8,160.5
Total assets	26,719.3	4,964.9	7,549.9	2,150.4	174.1	3,685.3	-2,858.1	42,385.8
Deposits from and liabilities to customers	9,429.3	3,530.8	1,741.2	0.0	0.0	158.8	-68.4	14,791.7
Other liabilities/offsetting	17,290.0	1,434.2	5,808.7	1,781.4	87.7	-476.2	-2,473.2	23,452.6
Equity	0.0	0.0	0.0	369.0	8.64	4,002.6	-316.5	4,141.5
Total liabilities and equity	26,719.3	4,964.9	7,549.9	2,150.4	174.1	3,685.3	-2,858.1	42,385.8

Year's investments	0.0	0.0	0.0	0.9	0.2	17.9	0.0	19.0
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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

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.

A central credit unit has been established in the retail market. This has been given authorisation to grant loans and credit facilities in line with the bank's credit strategy, approved instructions and the credit manual for the retail market, within the limits specified by the authorisation.

A board approved decision-making hierarchy has been established in the business market. The decision-making level required for the individual case is based on a combination of the customer's risk score and the amount in question. Key to the decision-making hierarchy is that a separate credit unit has been established. Decisions are taken in the credit unit individually or jointly, depending on the individual customer. If the allocation of credit exceeds the authority given to the credit unit, the case will be decided by an administrative decision-making committee. The bank's board is the supreme decision-making level, and smaller commitments 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 (guarantees, loan approvals, etc.) also entail credit risk in that contracts may produce a loss if the counterparty goes bankrupt or is unable to fulfil its payment obligations. Derivative 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 managed 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 31.12.2019, 85.6 per cent 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 67.3 per cent 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 9.5 per cent. 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 the levels of concentration that indicate that the greatest exposure must not exceed 10 per cent of the business portfolio, the three largest exposures no more than 20 per cent, and the ten largest no more than 40 per cent.

In its lending operations as at 31.12.2019, apart from commitments with its own subsidiaries (AS Financiering and Sparebanken Øst Boligkreditt AS), the bank had no exposure to external customers exceeding 10 per cent of its primary capital. As at 31.12.2019, loans to the group's largest loan customer represented 0.7 per cent of gross lending. The group's ten largest borrowers represented 4.1 per cent of gross lending, and the group's 20 largest borrowers represented 5.9 per cent 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.

Interest rate risk

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.

Credit spread risk

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.

Currency risk

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.

Equities risk

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 per cent drop in the value of equities would have a negative impact of NOK -61.8 million on the ordinary profit after tax. By comparison, a 10 per cent drop in the value of equities in 2018 would have had a negative impact of NOK -59.9 million on the ordinary profit after tax. Please see note 36 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 diversify 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 31.12.2019, deposits from customers amounted to 43.2 per cent of the group's net lending, compared with 42.4 per cent as at 31.12.2018.

It is primarily major institutional investors which invest in the banks' issued 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 for 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 addresses market events and agrees measures related to the liquidity situation in accordance with the adopted strategy on an ongoing basis. 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 group's current CET1 capital ratio target is set at 14.75 per cent. As at 31.12.2019, the group was involved in an ongoing SREP process with the Financial Supervisory Authority of Norway and expects SREP decisions and a new Pillar 2 requirement by 30.06.2020. Until a new requirement exists, the Pillar 2 requirement adopted in April 2017 of 2.3 per cent applies. The countercyclical buffer increased by 0.5 percentage points to 2.5 per cent as at 31.12.2019, and the total capital adequacy requirement applicable to Sparebanken Øst was 14.8 per cent as at 31.12.2019. Sparebanken Øst will determine a new target for the minimum CET1 capital ratio when new Pillar 2 requirements are issued. Sparebanken Øst adheres to the principle that all requirements and guides must be complied with at all times. The group's CET1 capital ratio was 17.69 per cent as at 31.12.2019. 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 2019	Group 2018		Parent bank 2019	Parent bank 2018
		CET1 capital		
3,789.1	3,593.7	Book equity	3,361.9	3,188.7
		Deduction items in CET1 capital		
-8.0	-6.4	Additional value adjustments (prudent valuation requirement) (AVA)	-8.6	-7.3
-134.3	-119.2	Dividends	-134.3	-119.2
-149.3	-150.9	Goodwill in the valuation of significant investments	-149.3	-150.9
-26.3	-17.8	Intangible assets	-25.2	-16.8
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
-30.8	-27.7	Other deductions from CET1 capital	-30.8	-27.7
3,440.3	3,271.8	Total CET1 capital	3,013.6	2,866.8
		Other Tier 1 capital		
350.0	350.0	Additional Tier 1 capital	350.0	350.0
		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	350.0	Total other Tier 1 capital	350.0	350.0
3,790.3	3,621.8	Total Tier 1 capital	3,363.6	3,216.8
		Tier 2 capital		
400.0	400.0	Subordinated loans	400.0	400.0
		Deductions from Tier 2 capital		
0.0	0.0	Tier 2 capital instruments in other financial institutions (not significant)	0.0	0.0
-57.3	-56.0	Tier 2 capital instruments in other financial institutions (significant)	-57.3	-56.0
342.7	344.0	Total Tier 2 capital	342.7	344.0
4,132.9	3,965.8	Net primary capital	3,706.3	3,560.8
		Basis for calculation		
0.0	0.0	Governments and central banks	0.0	0.0
127.5	67.8	Local and regional authorities	127.5	67.8
0.0	0.0	Publicly owned companies	0.0	0.0
0.0	0.0	Multilateral development banks	0.0	0.0
42.8	73.3	Institutions	984.7	3,228.1
528.8	572.6	Companies	589.2	640.9
1,703.3	1,655.3	Mass market accounts	177.4	206.5
14,059.2	14,692.0	Accounts secured against property	8,454.2	9,739.2
194.4	159.7	Accounts due	59.2	68.5
481.8	383.4	Covered bonds	1,851.5	373.4
0.0	0.0	Shares in securities fund	0.0	0.0
664.2	635.1	Equity positions	2,030.4	1,921.2
243.0	238.3	Other exposures	169.7	109.3
0.0	0.0	Securitisation	0.0	0.0
18,044.9	18,477.4	Calculation basis for credit and counterparty risk	14,443.7	16,354.8
0.0	0.0	Calculation basis for currency risk	0.0	0.0
1,363.1	1,294.6	Calculation basis for operational risk	935.1	841.7
42.4	187.5	Calculation basis for impaired counterparty credit valuation adjustment (CVA)	17.4	28.1
19,450.3	19,959.5	Total calculation basis	15,396.2	17,224.7
17.69%	16.39%	CET1 capital ratio	19.57%	16.64%
19.49%	18.15%	Tier 1 capital ratio	21.85%	18.68%
21.25%	19.87%	Capital adequacy	24.07%	20.67%

Group 2019	Group 2018	Buffers	Parent bank 2019	Parent bank 2018
486.3	499.0	Capital conservation buffer	384.9	430.6
486.3	399.2	Countercyclical buffer	384.9	344.5
583.5	598.8	Systemic risk buffer	461.9	516.7
0.0	0.0	Buffer for systemically important banks	0.0	0.0
1,556.0	1,497.0	Total buffer requirements	1,231.7	1,291.9
2,565.0	2,369.0	Available buffer capital	2,320.8	2,091.7
8.81%	8.48%	Leverage ratio	7.49%	7.37%

The bank uses the standardised approach to calculate the minimum primary capital adequacy 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 2019	Group 2018		Parent bank 2019	Parent bank 2018
		Liabilities		
478.6	1,015.8	Loan pledges	391.6	814.1
1,737.1	1,680.9	Overdraft facilities	3,590.5	2,890.9
87.3	106.3	Guarantees to customers	87.3	106.3
0.0	0.0	Guarantee for all covered bond liabilities in the mortgage credit company*	13,150.0	12,062.9
2,303.0	2,803.0	Total liabilities	17,219.3	15,874.2

* 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 key figures linked to ability and willingness to pay. The credit portfolio is classified into 11 risk classes. The commitments in the two worst classes 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 authorisations are also linked to the level of position.

The group is constantly 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 group 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 31.12.2019

Book values	Low risk	Moderate risk	High risk	Stage 3	Unclassified	Total
Loans						
Loans to and receivables from financial institutions	15.9	0.0	0.0	0.0	0.0	15.9
Loans to and receivables from customers						
- Financial leases	0.0	20.5	6.2	0.3	0.0	27.0
- Overdraft facilities and operating credits	2,747.4	57.0	10.9	0.7	0.3	2,816.4
- Building loans	228.5	10.2	3.9	0.0	0.0	242.6
- Repayment loans	27,325.0	2,281.2	1,393.0	130.5	9.6	31,139.3
Total loans	30,316.9	2,369.0	1,413.9	131.5	10.0	34,241.2
Financial investments						
Listed government bonds	0.0	0.0	0.0	0.0	0.0	0.0
Listed other bonds	6,146.1	57.4	0.0	0.0	0.0	6,203.6
Unlisted bonds	551.1	0.0	0.4	0.0	0.0	551.5
Total financial investments	6,697.2	57.4	0.4	0.0	0.0	6,755.1

Group as at 31.12.2018

Book values	Low risk	Moderate risk	High risk	Stage 3	Unclassified	Total
Loans						
Loans to and receivables from financial institutions	9.5	0.0	0.0	0.0	0.0	9.5
Loans to and receivables from customers						
- Financial leases	0.0	18.3	5.3	0.0	0.0	23.6
- Overdraft facilities and operating credits	2,619.3	63.7	12.0	5.7	0.2	2,700.8
- Building loans	144.8	26.4	0.0	0.0	0.0	171.2
- Repayment loans	28,888.5	1,765.5	1,411.4	178.8	7.7	32,251.8
Total loans	31,662.0	1,873.9	1,428.7	184.4	7.8	35,156.9
Financial investments						
Listed government bonds	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	4,972.7
Unlisted bonds	200.4	0.0	0.0	0.0	0.0	200.4
Total financial investments	5,094.9	78.2	0.0	0.0	0.0	5,173.1

Parent bank as at 31.12.2019

Book values	Low risk	Moderate risk	High risk	Stage 3	Unclassified	Total
Loans						
Loans to and receivables from financial institutions	2,273.2	0.0	0.0	0.0	0.0	2,273.2
Loans to and receivables from customers						
- Financial leases	0.0	0.0	0.0	0.0	0.0	0.0
- Overdraft facilities and operating credits	1,039.7	27.2	6.6	0.7	0.3	1,074.5
- Building loans	228.5	10.2	3.9	0.0	0.0	242.6
- Repayment loans	14,352.1	1,184.7	82.8	36.4	9.6	15,665.7
Total loans	17,893.6	1,222.1	93.3	37.1	9.9	19,256.0
Financial investments						
Listed government bonds	0.0	0.0	0.0	0.0	0.0	0.0
Listed other bonds	6,588.7	57.4	0.0	0.0	0.0	6,646.2
Unlisted bonds	551.1	0.0	0.4	0.0	0.0	551.5
Total financial investments	7,139.8	57.4	0.4	0.0	0.0	7,197.6

Parent bank as at 31.12.2018

Book values	Low risk	Moderate risk	High risk	Stage 3	Unclassified	Total
Loans						
Loans to and receivables from financial institutions	2,155.1	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
- Overdraft facilities and operating credits	1,478.6	41.9	8.5	3.6	0.2	1,532.7
- Building loans	144.8	26.4	0.0	0.0	0.0	171.2
- Repayment loans	17,025.7	743.4	145.5	90.5	7.7	18,012.8
Total loans	20,804.2	811.6	153.9	94.1	7.8	21,871.7
Financial investments						
Listed government bonds	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	4,811.7
Unlisted bonds	200.4	0.0	0.0	0.0	0.0	200.4
Total financial investments	4,933.9	78.2	0.0	0.0	0.0	5,012.1

NOTE 9 - CREDIT RISK BY RISK CLASS

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.

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 risk by risk class 2019 – group

	Gross lending	Gross guarantee liabilities	Overdraft facility	Commit- ments	%	Commitm ent Stage 1	Loss provisio n Stage 1	Commit- ments Stage 2	Loss provisio n Stage 2	Commitm ent Stage 3	Loss provisio n Stage 3*
A	14,084.5	8.3	1,159.2	15,252.0	42.2	15,238.8	0.8	13.2	0.0	0.0	0.0
B	5,674.1	14.0	219.2	5,907.3	16.3	5,899.7	1.2	7.6	0.0	0.0	0.0
C	5,661.1	12.7	156.7	5,830.5	16.1	5,795.0	2.7	35.5	0.0	0.0	0.0
D	4,890.3	39.8	184.1	5,114.2	14.1	5,086.5	5.1	27.7	0.0	0.0	0.0
E	1,163.8	11.0	14.2	1,189.0	3.3	1,009.8	2.0	179.2	0.9	0.0	0.0
F	1,211.0	1.1	2.1	1,214.2	3.4	1,117.1	2.5	97.1	0.4	0.0	0.0
G	1,099.7	0.0	1.7	1,101.4	3.0	879.8	3.0	221.6	1.4	0.0	0.0
H	301.1	0.2	0.1	301.3	0.8	104.5	1.7	196.9	5.6	0.0	0.0
I	26.3	0.0	0.1	26.4	0.1	18.6	0.8	7.8	0.5	0.0	0.0
J	58.1	0.0	0.2	58.3	0.2	0.0	0.0	0.0	0.0	58.3	3.1
K	157.1	0.5	0.0	157.5	0.4	0.0	0.0	0.0	0.0	157.5	80.9
U	10.2	0.0	0.0	10.2	0.0	10.1	0.0	0.1	0.0	0.0	0.0
Tota I	34,337.2	87.6	1,737.5	36,162.3	100.0	35,159.8	19.8	786.7	9.0	215.9	84.0

* Stage 3 provisions include individually assessed loss write-downs of NOK 83.4 million.

Credit risk by risk class 2018 – group

	Gross lending	Gross guarantee liabilities	Overdraft facility	Commit- ments	%	Commitm ent Stage 1	Loss provisio n Stage 1	Commit- ments Stage 2	Loss provisio n Stage 2	Commitm ent Stage 3	Loss provisio n Stage 3*
A	13,636.1	9.4	1,115.9	14,761.4	39.9	14,751.7	0.7	9.7	0.0	0.0	0.0
B	6,428.3	24.9	223.1	6,676.3	18.0	6,667.6	1.3	8.7	0.0	0.0	0.0
C	6,160.6	17.9	158.9	6,337.4	17.1	6,308.1	2.9	29.3	0.0	0.0	0.0
D	5,435.2	44.5	145.8	5,625.5	15.2	5,611.3	5.1	14.2	0.0	0.0	0.0
E	837.2	5.4	33.5	876.1	2.4	763.1	1.2	113.0	0.5	0.0	0.0
F	1,040.8	1.1	2.9	1,044.8	2.8	927.1	1.9	117.7	0.5	0.0	0.0
G	1,140.9	0.0	0.7	1,141.6	3.1	912.4	3.5	229.2	1.6	0.0	0.0
H	273.6	0.0	0.1	273.7	0.7	100.1	1.6	173.6	5.0	0.0	0.0
I	27.0	0.0	0.0	27.0	0.1	23.3	0.8	3.7	0.3	0.0	0.0
J	102.0	0.9	0.0	102.9	0.2	0.0	0.0	0.0	0.0	102.9	8.9
K	158.6	2.2	0.0	160.8	0.4	0.0	0.0	0.0	0.0	160.8	66.3
U	8.5	0.0	0.0	8.5	0.1	8.5	0.0	0.0	0.1	0.0	0.0
Tota I	35,248.8	106.3	1,680.9	37,036.0	100.0	36,073.2	19.0	699.1	8.0	263.7	75.2

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

Retail customers - parent bank and mortgage credit company

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 by risk class 2019 – person in parent bank and mortgage credit company

	Gross lending	Gross guarantee liabilities	Overdraft facility	Commit- ments	%	Commitm ent Stage 1	Loss provisio n Stage 1	Commit- ments Stage 2	Loss provisio n Stage 2	Commitm ent Stage 3	Loss provisio n Stage 3*
A	13,720.3	1.0	1,126.7	14,848.0	51.7	14,834.9	0.7	13.2	0.0	0.0	0.0
B	5,125.5	0.7	179.1	5,305.3	18.5	5,297.7	0.9	7.6	0.0	0.0	0.0
C	4,739.3	0.6	115.0	4,854.9	16.9	4,831.8	1.8	23.1	0.0	0.0	0.0
D	2,859.2	0.4	62.0	2,921.6	10.2	2,895.1	1.8	26.5	0.0	0.0	0.0
E	370.5	0.0	4.1	374.6	1.3	340.2	0.3	34.4	0.1	0.0	0.0
F	198.0	0.0	1.5	199.5	0.7	149.9	0.2	49.7	0.2	0.0	0.0
G	106.6	0.0	0.1	106.7	0.4	100.3	0.5	6.5	0.1	0.0	0.0
H	47.6	0.0	0.1	47.6	0.2	20.9	0.3	26.8	0.9	0.0	0.0
I	22.8	0.0	0.1	22.8	0.1	15.2	0.5	7.7	0.5	0.0	0.0
J	35.0	0.0	0.0	35.0	0.1	0.0	0.0	0.0	0.0	35.0	0.0
K	14.5	0.0	0.0	14.5	0.1	0.0	0.0	0.0	0.0	14.5	4.2
U	9.9	0.0	0.0	9.9	0.0	9.9	0.0	0.0	0.0	0.0	0.0
Tota I	27,249.1	2.8	1,488.7	28,740.6	100.0	28,495.8	7.2	195.3	1.8	49.5	4.2

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

Credit risk by risk class 2018 – person in parent bank and mortgage credit company

	Gross lending	Gross guarantee liabilities	Overdraft facility	Commit- ments	%	Commitm ent Stage 1	Loss provisio n Stage 1	Commit- ments Stage 2	Loss provisio n Stage 2	Commitm ent Stage 3	Loss provisio n Stage 3*
A	13,303.5	1.1	1,085.0	14,389.6	48.3	14,379.9	0.7	9.7	0.0	0.0	0.0
B	5,613.0	0.7	165.8	5,779.5	19.4	5,774.2	1.0	5.3	0.0	0.0	0.0
C	4,944.2	0.2	114.3	5,058.7	17.0	5,037.1	1.9	21.5	0.0	0.0	0.0
D	3,548.6	0.0	73.1	3,621.7	12.2	3,608.1	2.3	13.6	0.0	0.0	0.0
E	407.0	0.0	8.7	415.7	1.4	388.8	0.4	26.8	0.1	0.0	0.0
F	236.6	0.0	1.4	237.9	0.8	181.9	0.4	56.0	0.2	0.0	0.0
G	123.9	0.0	0.1	124.0	0.4	103.8	0.5	20.2	0.2	0.0	0.0
H	28.7	0.0	0.1	28.8	0.1	17.5	0.4	11.3	0.4	0.0	0.0
I	26.6	0.0	0.0	26.6	0.1	23.4	0.8	3.3	0.2	0.0	0.0
J	76.1	0.0	0.0	76.1	0.3	0.0	0.0	0.0	0.0	76.2	4.5
K	23.3	0.0	0.0	23.3	0.1	0.0	0.0	0.0	0.0	23.3	0.0
U	8.1	0.0	0.0	8.1	0.0	8.1	0.0	0.0	0.0	0.0	0.0
Tota I	28,339.5	2.0	1,448.5	29,790.0	100.0	29,522.7	8.3	167.7	1.1	99.5	4.5

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

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. Business customers undergo risk classification in the event of new application assessments and/or through annual renewals, or in the event of special incidents that require a review of the commitment. In addition, quarterly reclassification is carried out based on reminder statistics in the last 12 months.

Credit risk by risk class 2019 – business

	Gross lending	Gross guarantee liabilities	Overdraft facility	Commit- ments	%	Commitm ent Stage 1	Loss provisio n Stage 1	Commit- ments Stage 2	Loss provisio n Stage 2	Commitm ent Stage 3	Loss provisio n Stage 3*
A	364.2	7.3	32.4	404.0	7.6	404.0	0.0	0.0	0.0	0.0	0.0
B	548.6	13.3	40.1	602.0	11.3	602.0	0.2	0.0	0.0	0.0	0.0
C	986.2	12.1	63.5	1,061.8	20.0	1,049.3	0.9	12.5	0.0	0.0	0.0
D	2,031.1	39.4	122.1	2,192.5	41.3	2,191.4	3.3	1.1	0.0	0.0	0.0
E	793.3	11.0	10.1	814.4	15.3	669.6	1.6	144.8	0.8	0.0	0.0
F	198.7	1.1	0.6	200.4	3.8	178.9	0.7	21.5	0.2	0.0	0.0
G	11.7	0.0	1.6	13.3	0.3	4.1	0.0	9.3	0.2	0.0	0.0
H	8.7	0.2	0.0	8.8	0.2	8.6	0.3	0.2	0.0	0.0	0.0
I	3.5	0.0	0.0	3.5	0.1	3.4	0.3	0.1	0.0	0.0	0.0
J	11.5	0.0	0.2	11.7	0.2	0.0	0.0	0.0	0.0	11.7	0.0
K	1.6	0.5	0.0	2.1	0.0	0.0	0.0	0.0	0.0	2.1	0.6
U	0.2	0.0	0.0	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Tota I	4,959.4	84.8	270.5	5,314.7	100.0	5,111.5	7.5	189.5	1.3	13.8	0.6

* Stage 3 provisions include individually assessed loss write-downs of NOK 0.6 million.

Credit risk by risk class 2018 – business

	Gross lending	Gross guarantee liabilities	Overdraft facility	Commit- ments	%	Commitm ent Stage 1	Loss provisio n Stage 1	Commit- ments Stage 2	Loss provisio n Stage 2	Commitm ent Stage 3	Loss provisio n Stage 3*
A	332.6	8.3	30.9	371.9	7.1	371.8	0.0	0.0	0.0	0.0	0.0
B	815.3	24.2	57.3	896.8	17.0	893.4	0.3	3.4	0.0	0.0	0.0
C	1,280.4	17.7	66.9	1,365.0	25.9	1,357.2	1.0	7.8	0.0	0.0	0.0
D	1,886.6	44.5	72.6	2,003.7	38.1	2,003.1	2.7	0.6	0.0	0.0	0.0
E	430.2	5.4	24.8	460.3	8.7	374.2	0.8	86.2	0.4	0.0	0.0
F	71.5	1.1	1.5	74.1	1.4	41.7	0.1	32.4	0.2	0.0	0.0
G	60.9	0.0	0.6	61.5	1.2	43.7	0.5	17.8	0.4	0.0	0.0
H	6.9	0.0	0.0	6.9	0.1	1.4	0.0	5.4	0.4	0.0	0.0
I	0.4	0.0	0.0	0.4	0.0	0.0	0.0	0.4	0.1	0.0	0.0
J	13.8	0.9	0.0	14.47	0.3	0.0	0.0	0.0	0.0	14.7	1.4
K	7.0	2.2	0.0	9.2	0.2	0.0	0.0	0.0	0.0	9.2	0.0
U	0.2	0.0	0.0	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Tota I	4,905.8	104.3	254.6	5,264.8	100.0	5,086.8	5.4	154.0	1.5	23.9	1.4

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

AS Financiering

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. Retail customers are classified in relation to risk on an ongoing basis and when new loan applications are processed, based on internal repayment history and quarterly updated credit scores from external credit providers.

Credit risk by risk class 2019 – AS Financiering

	Gross lending	Gross guarantee liabilities	Overdraft facility	Commit- ments	%	Commitm ent Stage 1	Loss provisio n Stage 1	Commit- ments Stage 2	Loss provisio n Stage 2	Commitm ent Stage 3	Loss provisio n Stage 3*
A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
E	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
F	814.3	0.0	0.0	814.3	37.1	788.3	1.6	26.0	0.1	0.0	0.0
G	981.4	0.0	0.0	981.4	44.7	775.5	2.5	205.9	1.1	0.0	0.0
H	244.9	0.0	0.0	244.9	11.2	74.9	1.1	169.9	4.7	0.0	0.0
I	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
J	11.6	0.0	0.0	11.6	0.5	0.0	0.0	0.0	0.0	11.6	3.1
K	141.0	0.0	0.0	141.0	6.4	0.0	0.0	0.0	0.0	141.0	76.1
U	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Total	2,193.1	0.0	0.0	2,193.1	100.0	1,638.7	5.2	401.9	5.9	152.6	79.2

* Stage 3 provisions include individually assessed loss write-downs of NOK 79.2 million.

Credit risk by risk class 2018 – AS Financiering

	Gross lending	Gross guarantee liabilities	Overdraft facility	Commit- ments	%	Commitm ent Stage 1	Loss provisio n Stage 1	Commit- ments Stage 2	Loss provisio n Stage 2	Commitm ent Stage 3	Loss provisio n Stage 3*
A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
E	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
F	732.8	0.0	0.0	732.8	35.4	703.5	1.4	29.3	0.1	0.0	0.0
G	956.1	0.0	0.0	956.1	46.2	765.0	2.5	191.2	1.0	0.0	0.0
H	238.0	0.0	0.0	238.0	11.5	81.1	1.3	156.9	4.2	0.0	0.0
I	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
J	12.1	0.0	0.0	12.1	0.6	0.0	0.0	0.0	0.0	12.1	3.0
K	128.3	0.0	0.0	128.3	6.2	0.0	0.0	0.0	0.0	128.3	66.4
U	0.2	0.0	0.0	0.2	0.0	0.2	0.0	0.0	0.1	0.0	0.0
Total	2,067.5	0.0	0.0	2,067.5	100.0	1,549.8	5.2	377.3	5.4	140.4	69.3

* Stage 3 provisions include individually assessed loss write-downs of NOK 69.3 million.

Collateral in relation to loans to customers

Maximum exposure to credit risk	Group 31.12.2019	Group 31.12.2018	Parent bank 31.12.2019	Parent bank 31.12.2018
Gross loans to customers incl. unused overdraft facilities and guarantees for customers	36,162.3	37,036.0	17,885.5	20,826.5

Nature and quality of the objects used as collateral

The group'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 collateral objects are described in the bank's guidelines.

Commitments with individual assessed loss provisions in Stage 3

In the case of commitments in the group with individually assessed loss provisions, the sum of gross commitments totals NOK 164.5 million (NOK 158.3 million in 2018) and the associated individually assessed loss provisions NOK 83.4 million (NOK 73.1 million in 2018). For commitments in the parent bank, the corresponding sum of gross commitments totals NOK 11.9 million (NOK 17.7 million in 2018) and the associated individually assessed loss provisions NOK 4.3 million (NOK 3.7 million in 2018). The commitments in the parent bank and the mortgage credit company are largely secured by collateral in real estate. AS Financiering has an estimated 45.6 per cent (49.0 per cent in 2018) collateral cover for loans that have individually been written down in Stage 3.

Commitments without loss provisions in Stage 3

In the case of individual assessments, where the measured present value of the collateral indicates that no loss will be incurred by the group, no loss provisions are made for commitments. The sum of all non-performing commitments without loss provisions in the group totals NOK 47.1 million (NOK 80.5 million in 2018). The estimated fair value of the collateral amounts to NOK 84.6 million (NOK 196.1 million in 2018). In the parent bank, the commitments total NOK 26.0 million (NOK 69.9 million in 2018) and value of collateral NOK 51.5 million (NOK 182.2 million in 2018). The vast majority of the objects used as collateral are real estate. The following table shows the loan to value (LTV) ratio for the collateral.

Group 2019		Group 2018		Non-performing commitments without loss provisions as a percentage of assessed value of collateral	Parent bank 2019		Parent bank 2018	
NOK millions	Per cent	NOK millions	Per cent		NOK millions	Per cent	NOK millions	Per cent
5.8	12.3%	37.9	47.1%	Less than 50%	1.1	4.2%	31.2	44.6%
21.9	46.5%	34.0	42.2%	50% to 70%	16.7	64.1%	30.1	43.1%
19.4	41.3%	7.3	9.1%	70% to 85%	8.3	31.7%	7.3	10.4%
0.0	0.0%	0.2	0.2%	85% to 100%	0.0	0.0%	0.2	0.3%
0.0	0.0%	1.0	1.0%	Over 100%	0.0	0.0%	1.0	1.4%
0.0	0.0%	0.2	0.2%	Unsecured	0.0	0.0%	0.2	0.3%
47.1	100.0%	80.5	100.0%	Total	26.0	100.0%	69.9	100.0%

NOTE 10 - DISTRIBUTION OF LOANS AND GUARANTEES FOR CUSTOMERS BY SECTOR, INDUSTRY AND GEOGRAPHY

Distribution by sector and industry – group

	Gross loans		Guarantees		Potential exposure for overdraft facilities	
	2019	2018	2019	2018	2019	2018
Employees	29,349.3	30,337.9	2.8	2.1	1,488.6	1,447.8
Agriculture, forestry and fishing	97.0	108.2	0.4	0.0	12.5	13.3
Industry, mining, power and water	80.7	69.2	7.6	8.7	17.6	23.5
Building and construction	417.5	417.1	29.3	37.9	42.1	75.2
Wholesale and retail trade, hotels and restaurants	133.2	135.6	8.5	10.5	26.6	29.1
Transport and communications	34.2	46.7	5.2	8.1	4.9	4.6
Business financial services	131.0	192.3	0.1	4.5	5.3	5.1
Other service industries	788.5	788.2	3.0	3.5	15.7	30.0
Real estate sales and operation	3,264.0	3,117.0	30.7	31.0	124.2	51.7
Abroad	42.0	36.6	0.0	0.0	0.0	0.6
Total	34,337.2	35,248.8	87.6	106.3	1,737.5	1,680.9

Distribution by sector and industry – parent bank

	Gross loans		Guarantees		Potential exposure for overdraft facilities	
	2019	2018	2019	2018	2019	2018
Employees	12,045.5	14,881.5	2.8	2.1	532.7	738.0
Agriculture, forestry and fishing	95.8	106.3	0.4	0.0	12.5	13.3
Industry, mining, power and water	78.6	67.6	7.6	8.7	17.6	23.5
Building and construction	397.1	398.6	29.3	37.9	40.4	73.6
Wholesale and retail trade, hotels and restaurants	119.1	119.7	8.5	10.5	26.6	27.4
Transport and communications	21.3	32.1	5.2	8.1	4.4	4.6
Business financial services	125.3	183.0	0.1	4.5	25.9	26.7
Other service industries	774.5	755.6	3.0	3.5	14.8	28.1
Real estate sales and operation	3,321.4	3,174.8	30.7	31.0	122.8	50.3
Abroad	21.4	14.9	0.0	0.0	0.0	0.6
Total	17,000.0	19,734.1	87.6	106.3	797.9	986.1

Geographical distribution

Group Gross loans		Group Guarantees			Parent bank Gross loans		Parent bank Guarantees	
2019	2018	2019	2018		2019	2018	2019	2018
5,190.0	5,127.3	24.7	31.1	Drammen	3,360.7	3,589.1	24.7	31.1
2,399.0	2,458.4	10.7	12.4	Nedre Eiker	1,336.0	1,570.8	10.7	12.4
2,127.4	2,171.0	9.2	16.0	Øvre Eiker	1,295.4	1,519.2	9.2	16.0
4,479.3	4,006.0	5.7	7.9	Rest of Buskerud	2,466.7	2,746.2	5.7	7.9
6,656.4	7,087.6	18.4	18.8	Oslo	3,312.7	3,794.6	18.4	18.8
5,703.3	6,292.0	15.6	16.4	Akershus	2,453.6	3,108.0	15.6	16.4
2,787.3	2,836.9	3.1	3.6	Vestfold	1,381.4	1,679.2	3.1	3.6
1,785.4	1,698.0	0.1	0.1	Østfold	634.8	768.1	0.1	0.1
3,167.0	3,535.0	0.0	0.0	Rest of Norway	737.3	944.0	0.0	0.0
42.0	36.6	0.0	0.0	Abroad	21.4	14.9	0.0	0.0
34,337.2	35,248.8	87.6	106.3	Total	17,000.0	19,734.1	87.6	106.3

NOTE 11 - LOANS TO AND RECEIVABLES FROM CUSTOMERS

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
27.5	24.4	Financial leases	0.0	0.0
2,753.6	2,638.6	Overdraft facilities and operating credits	1,075.6	1,534.0
243.2	171.5	Building loans	243.2	171.5
31,313.0	32,414.3	Repayment loans	15,681.3	18,028.6
34,337.2	35,248.8	Gross loans to and receivables from customers	17,000.0	19,734.1
111.9	101.4	Loss provisions on loans	17.2	17.5
34,225.3	35,147.4	Net loans to and receivables from customers	16,982.8	19,716.6

NOTE 12 - LOSSES ON LOANS, UNUSED CREDIT AND GUARANTEE CUSTOMERS

Loss costs

	Group 31.12.2019	Group 31.12.2018	Parent bank 31.12.2019	Parent bank 31.12.2018
Change in model-calculated expected loss, Stage 1	0.9	-0.3	0.7	-0.3
Change in model-calculated expected loss, Stage 2	1.0	-0.5	0.0	-1.0
Change in model-calculated expected loss, Stage 3	-1.6	0.9	-1.6	0.9
Increase in existing individual write-downs	8.7	8.1	0.0	0.0
New individual write-downs	16.3	15.5	3.7	3.7
Established losses covered by previous individual write-downs	9.3	5.2	3.9	1.5
Reversals of previous individual write-downs	-14.7	-13.7	-3.3	-0.6
Actual losses where no provision for individual write-downs has previously been made	4.0	10.0	0.9	0.2
Recovery of previously identified losses	-5.6	-8.3	-0.3	-2.2
Amortisation costs for the period	0.7	0.8	0.7	0.8
Losses on loans, unused credit and guarantees	18.9	17.6	4.9	2.9
- of which losses on unused credit and guarantees	0.1	0.2	0.0	0.2

Loss cost in group

	Retail 2019	Retail 2018	Business 2019	Business 2018	ASF 2019	ASF 2018
Change in model-calculated expected loss, Stage 1	-1.1	-1.4	2.0	1.2	0.0	-0.1
Change in model-calculated expected loss, Stage 2	0.7	-0.5	-0.2	-0.2	0.6	0.2
Change in model-calculated expected loss, Stage 3	-0.6	0.7	-1.1	0.2	0.0	0.0
Increase in existing individual write-downs	0.0	0.0	0.0	0.0	8.7	8.1
New individual write-downs	3.5	3.4	0.3	0.3	12.6	11.9
Established losses covered by previous individual write-downs	3.9	0.0	0.0	1.4	5.4	3.7
Reversals of previous individual write-downs	-3.3	0.0	0.0	-0.5	-11.5	-13.1
Actual losses where no provision for individual write-downs has previously been made	0.7	0.0	0.2	0.1	3.0	9.8
Recovery of previously identified losses	-0.1	-0.8	-0.2	-1.4	-5.4	-6.1
Amortisation costs for the period	0.7	0.7	0.0	0.1	0.0	0.0
Losses on loans, unused credit and guarantees	4.4	2.1	1.0	1.2	13.5	14.4
- of which losses on unused credit and guarantees	0.0	0.0	0.1	0.2	0.0	0.0

Changes in loss provisions – group

Change in loss provisions 2019	Expected loss Stage 1	Expected loss Stage 2	Expected loss Stage 3	Total
Opening balance as at 01.01.2019	18.9	8.0	75.3	102.1
Transferred to Stage 1	3.7	-2.0	-1.7	0.0
Transferred to Stage 2	-0.9	2.1	-1.2	0.0
Transferred to Stage 3	-0.1	-0.6	0.7	0.0
Net change	-4.4	2.3	15.5	13.5
New losses	8.9	1.1	1.9	11.9
Deducted losses	-7.1	-2.1	-6.6	-15.8
Change in risk model/parameters	0.8	0.2	0.0	1.1

Closing balance as at 31.12.2019	19.8	9.0	84.0	112.8
- of which losses on unused credit and guarantees	0.5	0.1	0.3	0.8
Model-calculated loss provisions	19.8	9.0	0.6	29.4
Individual loss provisions	0.0	0.0	83.4	83.4
Change in loss provisions 2018	Expected loss Stage 1	Expected loss Stage 2	Expected loss Stage 3	Total
Total write-downs as at 31.12.2017 in accordance with IAS 39				97.9
Effect of change of rules on transition to IFRS 9				-5.8
Opening balance as at 01.01.2018	19.2	8.5	64.4	92.1
Transferred to Stage 1	2.8	-2.0	-0.8	0.0
Transferred to Stage 2	-1.0	2.2	-1.2	0.0
Transferred to Stage 3	-0.6	-1.4	2.0	0.0
Net change	-3.1	1.5	18.7	17.2
New losses	8.7	1.8	2.3	12.8
Deducted losses	-7.3	-2.6	-10.1	-20.0
Change in risk model/parameters	0.0	0.0	0.0	0.0
Closing balance as at 31.12.2018	18.9	8.0	75.3	102.1
- of which losses on unused credit and guarantees	0.5	0.1	0.3	0.8
Model-calculated loss provisions	18.9	8.0	2.2	29.1
Individual loss provisions			73.1	73.1

Changes in gross lending – group

Change in gross lending, by Stage 2019	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.2019	33,933.1	688.2	260.5	34,881.8
Transferred to Stage 1	198.5	-174.6	-23.9	0.0
Transferred to Stage 2	-416.6	446.6	-30.0	0.0
Transferred to Stage 3	-33.1	-34.7	67.8	0.0
Net change	296.6	-108.7	-34.4	153.5
New loans	17,379.0	164.7	33.9	17,577.6
Deducted lending	-18,438.5	-200.8	-58.5	-18,697.9
Closing balance as at 31.12.2019	32,919.1	780.7	215.3	33,915.1

The table above does not include fixed-rate loans at fair value.

Change in gross lending, by Stage 2018	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.2018	29,960.3	590.6	263.6	30,814.6
Transferred to Stage 1	176.7	-151.1	-25.6	0.0
Transferred to Stage 2	-397.0	420.1	-23.1	0.0
Transferred to Stage 3	-57.0	-50.4	107.3	0.0
Net change	-179.0	-96.1	-37.4	-312.4
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 31.12.2018	33,933.1	688.2	260.5	34,881.8

The table above does not include fixed-rate loans at fair value.

Changes in loss provisions – person in parent bank and mortgage credit company

Change in loss provisions 2019	Expected loss Stage 1	Expected loss Stage 2	Expected loss Stage 3	Total
Opening balance as at 01.01.2019	8.3	1.1	4.5	13.9
Transferred to Stage 1	0.3	-0.2	-0.1	0.0
Transferred to Stage 2	0.0	0.1	0.0	0.0
Transferred to Stage 3	0.0	0.0	0.0	0.0
Net change	-0.5	1.1	0.2	0.8
New losses	2.4	0.1	0.0	2.4
Deducted losses	-3.3	-0.3	-0.5	-4.1
Change in risk model/parameters	0.0	0.0	0.0	0.0
Closing balance as at 31.12.2019	7.2	1.8	4.2	13.1
- of which losses on unused credit and guarantees	0.2	0.0	0.0	0.2
Model-calculated loss provisions	7.2	1.8	0.5	9.4
Individual loss provisions	0.0	0.0	3.7	3.7

Change in loss provisions 2018	Expected loss Stage 1	Expected loss Stage 2	Expected loss Stage 3	Total
Total write-downs as at 31.12.2017 in accordance with IAS 39				1.6
Effect of change of rules for transition to IFRS 9				10.1
Opening balance as at 01.01.2018	9.7	1.6	0.4	11.7
Transferred to Stage 1	0.5	-0.5	0.0	0.0
Transferred to Stage 2	-0.1	0.1	0.0	0.0
Transferred to Stage 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
Change in risk model/parameters	0.0	0.0	0.0	0.0
Closing balance as at 31.12.2018	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

Changes in gross lending – person in parent bank and mortgage credit company

Change in gross lending, by Stage 2019	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.2019	27,724.7	166.9	101.5	27,993.1
Transferred to Stage 1	58.2	-42.2	-16.0	0.0
Transferred to Stage 2	-74.8	94.6	-19.8	0.0
Transferred to Stage 3	-2.0	-2.6	4.5	0.0
Net change	667.0	-4.3	-6.3	656.4
New loans	14,858.0	67.0	26.0	14,951.0
Deducted lending	-16,643.9	-85.0	-39.2	-16,768.1
Closing balance as at 31.12.2019	26,587.2	194.5	50.7	26,832.4

The table above does not include fixed-rate loans at fair value.

Change in gross lending, by Stage 2018	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.2018	24,284.1	125.4	117.5	24,527.7
Transferred to Stage 1	52.6	-32.6	-20.0	0.0
Transferred to Stage 2	-71.1	88.0	-16.9	0.0
Transferred to Stage 3	-22.9	-11.3	34.2	0.0
Net change	214.1	-2.4	-10.6	201.0
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 31.12.2018	27,724.7	166.9	101.5	27,993.1

The table above does not include fixed-rate loans at fair value.

Changes in loss provisions – business

Change in loss provisions 2019	Expected loss Stage 1	Expected loss Stage 2	Expected loss Stage 3	Total
Opening balance as at 01.01.2019	5.5	1.5	1.4	8.4
Transferred to Stage 1	1.4	-0.6	-0.9	0.0
Transferred to Stage 2	-0.1	0.1	0.0	0.0
Transferred to Stage 3	0.0	0.0	0.0	0.0
Net change	-1.9	0.5	0.3	-1.1
New losses	3.3	0.2	0.0	3.5
Deducted losses	-1.6	-0.6	-0.2	-2.4
Change in risk model/parameters	0.8	0.2	0.0	1.0
Closing balance as at 31.12.2019	7.5	1.3	0.6	9.4
- of which losses on unused credit and guarantees	0.3	0.1	0.3	0.6
Model-calculated loss provisions	7.5	1.3	0.1	8.8
Individual loss provisions	0.0	0.0	0.6	0.6

Change in loss provisions 2018	Expected loss Stage 1	Expected loss Stage 2	Expected loss Stage 3	Total
Total write-downs as at 31.12.2017 in accordance with IAS 39				30.4
Effect of change of rules for transition to IFRS 9				-23.0
Opening balance as at 01.01.2018	4.3	1.7	1.4	-7.4
Transferred to Stage 1	0.2	-0.2	0.0	0.0
Transferred to Stage 2	-0.1	0.1	0.0	0.0
Transferred to Stage 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
Change in risk model/parameters	0.0	0.0	0.0	0.0
Closing balance as at 31.12.2018	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

Changes in gross lending – business

Change in gross lending, by Stage 2019	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.2019	4,659.1	143.8	18.3	4,821.2
Transferred to Stage 1	58.7	-54.9	-3.9	0.0
Transferred to Stage 2	-105.2	107.1	-1.9	0.0
Transferred to Stage 3	-7.1	0.0	7.1	0.0
Net change	-155.7	-11.4	-0.1	-167.2
New loans	1,699.7	39.7	0.0	1,739.4
Deducted lending	-1,456.4	-39.9	-7.5	-1,503.9
Closing balance as at 31.12.2019	4,693.2	184.4	12.0	4,889.5

The table above does not include fixed-rate loans at fair value.

Change in gross lending, by Stage 2018	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.2018	4,150.9	151.2	24.9	4,327.0
Transferred to Stage 1	42.0	-39.9	-2.1	0.0
Transferred to Stage 2	-59.1	59.2	0.0	0.0
Transferred to Stage 3	-3.3	-5.8	9.1	0.0
Net change	-179.5	-4.5	-1.7	-185.8
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 31.12.2018	4,659.1	143.8	18.3	4,821.2

The table above does not include fixed-rate loans at fair value.

Changes in loss provisions – AS Financiering

Change in loss provisions 2019	Expected loss Stage 1	Expected loss Stage 2	Expected loss Stage 3	Total
Opening balance as at 01.01.2019	5.2	5.4	69.3	79.9
Transferred to Stage 1	1.9	-1.2	-0.8	0.0
Transferred to Stage 2	-0.8	1.9	-1.2	0.0
Transferred to Stage 3	-0.1	-0.6	0.7	0.0
Net change	-2.5	0.7	14.6	12.8
New losses	2.6	0.8	1.9	5.2
Deducted losses	-1.2	-1.1	-5.4	-7.6
Change in risk model/parameters	0.0	0.0	0.0	0.0
Closing balance as at 31.12.2019	5.2	5.9	79.2	90.3
- of which losses on unused credit and guarantees	0.0	0.0	0.0	0.0
Model-calculated loss provisions	5.2	5.9	0.0	11.1
Individual loss provisions	0.0	0.0	79.2	79.2

Change in loss provisions 2018	Expected loss Stage 1	Expected loss Stage 2	Expected loss Stage 3	Total
Total write-downs as at 31.12.2017 in accordance with IAS 39				65.9
Effect of change of rules for transition to IFRS 9				7.0
Opening balance as at 01.01.2018	5.2	5.2	62.5	72.9
Transferred to Stage 1	2.1	-1.3	-0.8	0.0
Transferred to Stage 2	-0.8	2.0	-1.2	0.0
Transferred to Stage 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
Change in risk model/parameters	0.0	0.0	0.0	0.0
Closing balance as at 31.12.2018	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

Changes in gross lending – AS Financiering

Change in gross lending, by Stage 2019	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.2019	1,549.3	377.5	140.7	2,067.5
Transferred to Stage 1	81.5	-77.5	-4.0	0.0
Transferred to Stage 2	-236.6	244.8	-8.2	0.0
Transferred to Stage 3	-24.0	-32.1	56.1	0.0
Net change	-214.7	-93.0	-28.1	-335.7
New loans	821.3	58.1	7.9	887.2
Deducted lending	-338.2	-75.9	-11.8	-425.9
Closing balance as at 31.12.2019	1,638.7	401.9	152.6	2,193.1

The table above does not include fixed-rate loans at fair value.

Change in gross lending, by Stage 2018	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.2018	1,525.4	313.9	121.2	1,960.5
Transferred to Stage 1	82.1	-78.6	-3.5	0.0
Transferred to Stage 2	-266.8	272.9	-6.1	0.0
Transferred to Stage 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 31.12.2018	1,549.3	377.5	140.7	2,067.5

The table above does not include fixed-rate loans at fair value.

Changes in loss provisions – parent bank

Change in loss provisions 2019	Expected loss Stage 1	Expected loss Stage 2	Expected loss Stage 3	Total
Opening balance as at 01.01.2019	10.3	2.0	5.9	18.2
Transferred to Stage 1	1.7	-0.7	-1.0	0.0
Transferred to Stage 2	-0.1	0.1	0.0	0.0
Transferred to Stage 3	0.0	0.0	0.0	0.0
Net change	-2.2	1.0	0.5	-0.7
New losses	4.4	0.2	0.0	4.6
Deducted losses	-3.8	-0.8	-0.7	-5.3
Change in risk model/parameters	0.8	0.2	0.0	1.1
Closing balance as at 31.12.2019	11.1	2.1	4.8	17.9
- of which losses on unused credit and guarantees	0.4	0.1	0.3	0.7
Model-calculated loss provisions	11.1	2.1	0.6	13.7
Individual loss provisions	0.0	0.0	4.3	4.3

Change in loss provisions 2018	Expected loss Stage 1	Expected loss Stage 2	Expected loss Stage 3	Total
Total write-downs as at 31.12.2017 in accordance with IAS 39				32.0
Effect of change of rules for transition to IFRS 9				-16.5
Opening balance as at 01.01.2018	10.6	3.0	1.9	15.5
Transferred to Stage 1	0.6	-0.6	0.0	0.0
Transferred to Stage 2	-0.1	0.1	0.0	0.0
Transferred to Stage 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	4.7
Deducted losses	-3.8	-1.2	0.0	-5.0
Change in risk model/parameters	0.0	0.0	0.0	0.0
Closing balance as at 31.12.2018	10.3	2.0	5.9	18.2
- of which losses on unused credit and guarantees	0.4	0.1	0.3	0.7
Model-calculated loss provisions	10.3	2.0	2.2	14.5
Individual loss provisions			3.7	3.7

Changes in gross lending – parent bank

Change in gross lending, by Stage 2019	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.2019	19,047.3	219.1	100.7	19,367.2
Transferred to Stage 1	96.4	-80.6	-15.8	0.0
Transferred to Stage 2	-149.5	160.3	-10.8	0.0
Transferred to Stage 3	-8.1	-0.3	8.4	0.0
Net change	-271.5	-8.5	0.4	-279.6
New loans	6,756.3	45.4	0.0	6,801.7
Deducted lending	-9,196.9	-73.3	-41.2	-9,311.4
Closing balance as at 31.12.2019	16,274.0	262.2	41.7	16,577.9

The table above does not include fixed-rate loans at fair value.

Change in gross lending, by Stage 2018	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.2018	18,072.1	241.5	116.2	18,429.8
Transferred to Stage 1	84.1	-65.2	-18.9	0.0
Transferred to Stage 2	-91.3	97.7	-6.4	0.0
Transferred to Stage 3	-17.7	-17.1	34.9	0.0
Net change	-589.1	-10.6	-3.4	-603.1
New loans	10,025.0	65.7	13.6	10,104.2
Deducted lending	-8,435.7	-92.8	-35.2	-8,563.7
Closing balance as at 31.12.2018	19,047.3	219.1	100.7	19,367.2

The table above does not include fixed-rate loans at fair value.

Sensitivity analyses of model-calculated expected loss

Probability weighting of macroeconomic scenarios

The most important segments in the group for which expected loss is calculated are commercial property, other business loans, mortgages and AS Financiering. On the basis of the expected scenario, a factor is set for how much model-calculated expected loss is expected to change in the optimistic and pessimistic scenarios, respectively. When calculating expected loss, the factor for the expected scenario is set at 100 for all segments. For the optimistic scenario, the factor is set at 80 for all segments. In the pessimistic scenario, it is set at 200 for all segments except business segments. For business segments in the pessimistic scenario, the factor is set at 300. Compared with the established factors as at 31.12.2018, the factor for business segments in the pessimistic scenario has been increased from 200 to 300. The same probability weightings were set for all segments as at 31.12.2019 and as at 31.12.2018. The tables below show the expected loss in the various scenarios and the probability weighting. Individually assessed loss provisions remain unchanged in the various scenarios.

31.12.2019 – group	Probability weighting	Stage 1	Stage 2	Stage 3	Total
Optimistic scenario	0%	13.2	6.2	83.8	103.1
Expected scenario	85%	16.5	7.7	83.9	108.0
Pessimistic scenario	15%	38.7	16.4	84.5	139.6

Loss provisions (probability weighted)	100%	19.8	9.0	84.0	112.8
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31.12.2018 – group	Probability weighting	Stage 1	Stage 2	Stage 3	Total
Optimistic scenario	0%	13.2	5.5	74.6	93.3
Expected scenario	85%	16.4	6.9	75.0	98.4
Pessimistic scenario	15%	32.9	13.9	76.9	123.6
Loss provisions (probability weighted)	100%	18.9	8.0	75.3	102.1

31.12.2019 – parent bank	Probability weighting	Stage 1	Stage 2	Stage 3	Total
Optimistic scenario	0%	7.1	1.3	4.6	13.1
Expected scenario	85%	8.9	1.7	4.7	15.3
Pessimistic scenario	15%	23.5	4.3	5.4	33.2
Loss provisions (probability weighted)	100%	11.1	2.1	4.8	17.9

31.12.2018 – parent bank	Probability weighting	Stage 1	Stage 2	Stage 3	Total
Optimistic scenario	0%	7.2	1.4	5.2	13.8
Expected scenario	85%	9.0	1.8	5.6	16.4
Pessimistic scenario	15%	18.0	3.5	7.5	29.0
Loss provisions (probability weighted)	100%	10.3	2.0	5.9	18.2

Sensitivity to model parameters

A sensitivity analysis has been conducted of the assumptions model-calculated expected loss estimates are most sensitive to, which are probability of default, expected loss given default and the probability weighting of the scenarios. The sensitivity analyses are based on the modelled expected loss and do not include commitments that have been individually assessed for loss write-downs.

The assumption used for the increase in probability of default is a deterioration in risk class per commitment that corresponds to almost a doubling of the assigned probability of default. An increase of 50 per cent is assumed for expected loss given default. The assumption used in the probability weighting of the pessimistic scenario is that the probability will increase by 50 per cent and that the expected scenario will be reduced correspondingly.

31.12.2019 – group	Approximate doubling of probability of default (PD)	50 per cent increase in expected loss (LGD)	50 per cent increase in probability weighting of pessimistic scenario
Business	1.2	4.4	1.0
Person in parent bank and mortgage credit company	0.8	4.7	0.6
AS Financiering	14.9	5.6	1.4
Total	16.8	14.7	3.1

31.12.2018 – group	Approximate doubling of probability of default (PD)	50 per cent increase in expected loss (LGD)	50 per cent increase in probability weighting of pessimistic scenario
Business	1.4	4.1	0.5
Person in parent bank and mortgage credit company	0.8	5.2	0.7
AS Financiering	14.5	5.3	1.4
Total	16.7	14.5	2.6

31.12.2019 – parent bank	Approximate doubling of probability of default (PD)	50 per cent increase in expected loss (LGD)	50 per cent increase in probability weighting of pessimistic scenario
Business	1.2	4.4	1.0
Retail	0.5	2.5	0.3
Total	1.6	6.8	1.3

31.12.2018 – parent bank	Approximate doubling of probability of default (PD)	50 per cent increase in expected loss (LGD)	50 per cent increase in probability weighting of pessimistic scenario
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Business	1.4	4.0	0.5
Retail	0.5	3.2	0.4
Total	1.9	7.3	0.9

Non-performing commitments, customers

Group	Group		Parent bank	Parent bank
2019	2018		2019	2018
Payments over 90 days past due				
12.4	11.5	Business market	12.4	11.5
44.5	44.6	Retail market	23.4	35.3
152.6	140.7	AS Financiering	0.0	0.0
209.5	196.8	Gross payment defaults	35.9	46.8
83.7	73.6	Loss provisions	4.5	4.2
125.8	123.3	Net payment defaults	31.4	42.6
40%	37%	Provisions ratio	13%	9%
Other non-performing commitments				
0.3	9.9	Business market	0.3	9.9
6.2	56.9	Retail market	6.2	47.2
0.0	0.0	AS Financiering	0.0	0.0
6.5	66.9	Gross other non-performing commitments	6.5	57.1
0.3	1.7	Loss provisions	0.3	1.7
6.1	65.1	Net other non-performing commitments	6.1	55.4
5%	3%	Provisions ratio	6%	3%
Non-performing commitments				
12.7	21.5	Business market	12.7	21.5
50.7	101.5	Retail market	29.6	82.5
152.6	140.7	AS Financiering	0.0	0.0
215.9	263.7	Gross non-performing commitments	42.3	103.9
84.0	75.3	Loss provisions	4.8	5.9
131.9	188.4	Net non-performing commitments	37.5	98.0
39%	29%	Provisions ratio	11%	7%

NOTE 13 - 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	Group		Parent bank	Parent bank
2019	2018		2019	2018
2.6	3.4	Within 1 year	0.0	0.0
16.9	20.7	Between 1 to 5 years	0.0	0.0
8.8	0.8	After 5 years	0.0	0.0
28.3	24.9	Gross receivables from financial leases	0.0	0.0
2.3	2.1	Non-accrued income from financial leases	0.0	0.0
26.0	22.9	Net receivables from financial leases	0.0	0.0
2.5	3.4	Within 1 year	0.0	0.0
15.6	18.8	Between 1 to 5 years	0.0	0.0
7.9	0.7	After 5 years	0.0	0.0
26.0	22.9	Net investments associated with financial leases	0.0	0.0
0.4	0.7	Accumulated loss provisions for outstanding minimum lease amounts	0.0	0.0

NOTE 14 - LOANS TO AND RECEIVABLES FROM FINANCIAL INSTITUTIONS

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
15.9	9.5	Loans to and receivables from financial institutions without agreed maturities or termination deadline	15.9	9.5
0.0	0.0	Loans to and receivables from financial institutions with agreed maturities or termination deadline	2,257.3	2,145.6
15.9	9.5	Gross loans to and receivables from financial institutions	2,273.2	2,155.1
0.0	0.0	Loss provisions on loans	0.0	0.0
15.9	9.5	Net loans to and receivables from financial institutions	2,273.2	2,155.1

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

NOTE 15 - INTEREST RATE RISK

Interest risk related to deposits from and loans to financial 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 borrowing 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, 31.12.2019, amounting to one year's effect on the profit. 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 31.12.2019

Currency	Increase in basis points	Sensitivity, profit	Sensitivity, equity	Reduction in basis points	Sensitivity, profit	Sensitivity, equity
NOK	+100	41.5	0.0	-100	-41.5	0.0
SEK	+100	0.0	0.0	-100	0.0	0.0
Total		41.5	0.0		-41.5	0.0

Interest rate sensitivity – group as at 31.12.2018

Currency	Increase in basis points	Sensitivity, profit	Sensitivity, equity	Reduction in basis points	Sensitivity, profit	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

Time until expected rate change as at 31.12.2019 – 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	281.9					20.0	301.9
	FCY						0.6	0.6
Net lending to financial institutions	NOK	15.9						15.9
Net lending to customers	NOK	4,867.0	28,913.4	12.7	346.3	26.9		34,166.4
Certificates and bonds	NOK	845.0	5,167.0	479.1	197.9	49.0		6,738.0
Financial derivatives	NOK						130.1	130.1
Accrued interest, not yet due	NOK						120.5	120.5
Other asset items	NOK						623.5	623.5
	FCY						55.5	55.5
Total		6,010.0	34,080.4	491.8	544.2	75.9	950.2	42,152.5
Liabilities								
Liabilities to financial institutions	NOK			299.8				299.8
Customer deposits	NOK	5,486.3	8,674.7	626.2				14,787.1
Financial derivatives	NOK						47.1	47.1
Securities issued	NOK	4,990.7	17,161.5					22,152.2
Subordinated loan capital	NOK		399.5					399.5
Accrued interest	NOK						103.9	103.9
Other liabilities	NOK						49.9	49.9
Total		10,477.0	26,235.6	925.9	0.0	0.0	200.9	37,839.4
Net interest rate exposure on balance sheet		-4,467.0	7,844.8	-434.2	544.2	75.9	749.3	
Contract sum for financial derivatives, without hedge accounting, that affects interest rate exposure								
	NOK	130.0	565.0	-155.0	-445.0	-95.0		
Net exposure		-4,337.0	8,409.8	-589.2	99.2	-19.1	749.3	

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

Time until expected rate change as at 31.12.2018 – 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 financial 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
Securities issued	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 affects 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 excluding accrued interest. Securities issued where hedge accounting is used include the effect of hedging instruments.

Interest rate sensitivity – parent bank as at 31.12.2019

Currency	Increase in basis points	Sensitivity, profit	Sensitivity, equity	Reduction in basis points	Sensitivity, profit	Sensitivity, equity
NOK	+100	24.8	0.0	-100	-24.8	0.0
Total		24.8	0.0		-24.8	0.0

Interest rate sensitivity – parent bank as at 31.12.2018

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

Time until expected rate change as at 31.12.2019 – 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 FCY	281.9					20.0 0.6	301.9 0.6
Net lending to financial institutions	NOK	2,227.9	45.0					2,272.9
Net lending to customers	NOK	4,907.4	11,665.5	12.7	346.3	26.9		16,958.8
Certificates and bonds	NOK	1,440.5	5,011.1	479.1	197.9	49.0		7,177.6
Financial derivatives	NOK						30.8	30.8
Accrued interest, not yet due	NOK						70.8	70.8
Other asset items	NOK FCY						1,979.8 55.5	1,979.8 55.5
Total		8,857.8	16,721.6	491.8	544.2	75.9	2,157.5	28,848.7
Liabilities								
Liabilities to financial institutions	NOK	196.5	0.6	299.8			122.4	619.3
Customer deposits	NOK	5,574.1	8,674.7	626.2				14,874.9
Financial derivatives	NOK						47.1	47.1
Securities issued	NOK	2,818.2	6,075.3					8,893.5
Subordinated loan capital	NOK		399.5					399.5
Accrued interest	NOK						60.4	60.4
Other liabilities	NOK						85.5	85.5
Total		8,588.8	15,150.1	925.9	0.0	0.0	315.5	24,980.4
Net exposure on balance sheet		268.9	1,571.4	-434.2	544.2	75.9	1,842.0	
Contract sum for financial derivatives, without hedge accounting, that affects interest rate exposure	NOK	130.0	565.0	-155.0	-445.0	-95.0		
Net exposure		398.9	2,136.4	-589.2	99.2	-19.1	1,842.0	

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

Time until expected rate change as at 31.12.2018 – 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 FCY	584.5					17.9 0.7	602.4 0.7
Net lending to financial 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 FCY						1,826.1 21.6	1,826.1 21.6
Total		8,257.1	18,329.1	236.7	577.9	30.6	1,983.3	29,414.7
Liabilities								
Liabilities to financial 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
Securities issued	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 affects 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 excluding accrued interest. Securities issued where hedge accounting is used include the effect of hedging instruments.

NOTE 16 - 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 at the end of 2019 was considered low.

The bank has deliberately sought to reduce the bank's liquidity risk by, among other things, distributing borrowing 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 means the bank seeks to have a long-term funding strategy, and wants a balanced relationship between long-term and short-term borrowing. The net stable funding ratio (NSFR) is used as a measure of the long-term sustainability of the funding. At the end of 2019, the Bank had an NSFR of 117.0 per cent.

The liquidity coverage ratio (LCR) amounted to 265.11 per cent as at 31.12.2019, compared with 224.93 per cent year a 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 amounted to 43.2 per cent as at 31.12.2019, compared with 42.4 per cent a year ago. Other funding in the market is mainly raised through senior unsecured bonds and covered bonds. Limits and targets have been adopted that are intended to ensure that the relationship between deposits and market funding is kept at a satisfactory level. The coming years will see a relatively high demand for refinancing and the bank wishes to take account of uncertainty and will thus seek to refinance at an early stage.

Financial liabilities

The mortgage company's financial liabilities are shown below at nominal value. All liabilities are added to the category for first possible payment when a contractual payment date is provided. The principal of the liability including future interest payments is what is stated. Interest rates and currency rates are as at 31.12.2019. 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 31.12.2019 – 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 financial institutions			7.2	28.9	321.7		357.8
Customer deposits	11,203.9	2,943.9	654.7	1.0			14,803.5
Securities issued	36.5	126.2	3,726.4	18,268.3	2,608.7		24,766.0
Other liabilities			299.7				299.7
Subordinated loan capital		3.2	9.7	425.9			438.8
Loan pledges	478.6						478.6
Unused credit	1,737.1						1,737.1
Guarantees						87.6	87.6
Financial liabilities excl. derivatives	13,456.2	3,073.4	4,697.7	18,724.1	2,930.3	87.6	42,969.2
Financial derivatives (outflows)	11.9	25.0	127.4	366.6	51.8		582.8
Financial liabilities	13,468.1	3,098.4	4,825.0	19,090.7	2,982.1	87.6	43,552.0
Financial derivatives (inflows)	10.9	29.6	128.7	0.0	50.7		219.9

Maturity analysis of financial liabilities as at 31.12.2018 – 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 financial institutions			5.8	22.6	322.6		351.0
Customer deposits	12,412.5	2,213.9	274.1				14,900.5
Securities issued	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 31.12.2019 – 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 financial institutions			7.2	28.9	321.7	319.6	677.3
Customer deposits	11,291.8	2,943.9	654.7	1.0			14,891.4
Securities issued	22.1	47.6	1,481.4	6,984.3	1,323.7		9,859.2
Other liabilities			179.4				179.4
Subordinated loan capital		3.2	9.7	425.9			438.8
Loan pledges	391.6						391.6
Unused credit	3,590.5						3,590.5
Guarantees						87.6	87.6
Financial liabilities excl. derivatives	15,296.0	2,994.8	2,332.4	7,440.1	1,645.3	407.2	30,115.8
Financial derivatives (outflows)	11.9	25.0	127.4	366.7	51.9		583.0
Financial liabilities	15,307.9	3,019.8	2,459.8	7,806.9	1,697.2	407.2	30,698.8
Financial derivatives (inflows)	10.9	29.5	128.7	401.6	50.6		621.3

Maturity analysis of financial liabilities as at 31.12.2018 – 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 financial institutions			5.8	22.6	322.6	240.4	591.4
Customer deposits	12,487.1	2,213.9	274.1				14,975.1
Securities issued	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

NOTE 17 - CURRENCY RISK

Market risk associated with currency risk as at 31.12.2019

Currency	Increase in exchange rate %	Effect on profit before tax	Effect on equity	Reduction in exchange rate %	Effect on profit before tax	Effect on equity
USD	+10	2.8	0.0	-10	-2.8	0.0
Total		2.8	0.0		-2.8	0.0

Market risk associated with currency risk as at 31.12.2018

Currency	Increase in exchange rate %	Effect on profit before tax	Effect on equity	Reduction in exchange rate %	Effect on profit 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

The bank's currency exposure is low. As at 31.12.2019, the bank's open net position was NOK 28.5 million (NOK 4.2 million as at 31.12.2018). Normally, investments and borrowing in foreign currency are covered by an opposite position, usually by using currency swap agreements and similar derivatives. See also Note 19 – Financial Derivatives.

NOTE 18 - CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Group as at 31.12.2019	Fair value through profit or loss		Measured at amortised cost*	Total
	Mandatory	Designated		
Cash and receivables from central banks	0.0	0.0	302.5	302.5
Net loans to and receivables from financial institutions	0.0	0.0	15.9	15.9
Net loans to and receivables from customers	0.0	422.1	33,803.2	34,225.3
Certificates, bonds	6,755.1	0.0	0.0	6,755.1
Shares and units	629.6	0.0	0.0	629.6
Financial derivatives**	174.7	0.0	0.0	174.7
Total financial assets	7,559.4	422.1	34,121.6	42,103.1
Liabilities to financial institutions	0.0	0.0	300.6	300.6
Deposits from and liabilities to customers	0.0	0.0	14,791.7	14,791.7
Financial derivatives**	35.3	0.0	0.0	35.3
Securities issued	0.0	0.0	22,261.7	22,261.7
Subordinated loan capital	0.0	0.0	400.4	400.4
Total financial liabilities	35.3	0.0	37,754.4	37,789.7

* Includes secured debt.

** Includes derivatives for which hedge accounting is used.

Group as at 31.12.2018	Fair value through profit or loss		Measured at amortised cost*	Total
	Mandatory	Designated		
Cash and receivables from central banks	0.0	0.0	603.1	603.1
Net loans to and receivables from financial 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	5,173.1	0.0	0.0	5,173.1
Shares and units	606.8	0.0	0.0	606.8
Financial derivatives**	222.0	0.0	0.0	222.0
Total financial assets	6,001.9	367.0	35,393.0	41,761.9
Liabilities to financial 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
Securities issued	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.

Parent bank as at 31.12.2019	Fair value through profit or loss		Fair value through comprehensive income	Measured at amortised cost*	Total
	Mandatory	Designated			
Cash and receivables from central banks	0.0	0.0	0.0	302.5	302.5
Net loans to and receivables from financial institutions	0.0	0.0	0.0	2,273.2	2,273.2
Net loans to and receivables from customers	0.0	422.2	273.7	16,286.9	16,982.8
Certificates, bonds	7,197.6	0.0	0.0	0.0	7,197.6
Shares and units	629.6	0.0	0.0	0.0	629.6
Financial derivatives**	57.2	0.0	0.0	0.0	57.2
Total financial assets	7,884.4	422.2	273.7	18,862.6	27,442.9
Liabilities to financial institutions	0.0	0.0	0.0	620.2	620.2
Deposits from and liabilities to customers	0.0	0.0	0.0	14,879.5	14,879.5
Financial derivatives**	35.3	0.0	0.0	0.0	35.3
Securities issued	0.0	0.0	0.0	8,959.6	8,959.6
Subordinated loan capital	0.0	0.0	0.0	400.4	400.4
Total financial liabilities	35.3	0.0	0.0	24,859.7	24,895.0

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

Parent bank as at 31.12.2018	Fair value through profit or loss		Fair value through comprehensive income	Measured at amortised cost*	Total
	Mandatory	Designated			
Cash and receivables from central banks	0.0	0.0	0.0	603.1	603.1
Net loans to and receivables from financial 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	5,012.1	0.0	0.0	0.0	5,012.1
Shares and units	606.8	0.0	0.0	0.0	606.8
Financial derivatives**	80.1	0.0	0.0	0.0	80.1
Total financial assets	5,699.0	367.0	1,241.9	20,865.9	28,173.8
Liabilities to financial 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
Securities issued	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.

NOTE 19 - FINANCIAL DERIVATIVES

Interest rate and exchange rate derivatives have been entered into for the group's fixed-rate 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 2019 and 2018. The value adjustment of financial derivatives used for hedge accounting was negative in the amount of NOK -70.2 million (NOK -77.8 million in 2018), with an equivalent, opposite change in value for hedged objects. For recognised value adjustments, gains/losses, see note 27.

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 2019	Contract sums	Book value of hedging object	Fair value of hedging instruments		Value adjustment of security
			Assets	Liabilities	Liabilities
Financial derivatives at fair value in profit or loss					
Currency instruments					
Forward exchange contracts	27.0		0.7	0.0	
Currency swap agreements	0.0		0.0	0.0	
Total currency instruments	27.0		0.7	0.0	
Interest rate instruments					
Interest rate swaps (IRS)	745.0		5.0	0.1	
Forward rate agreements (FRA)	0.0		0.0	0.0	
Standardised interest rate swaps (futures)	0.0		0.0	0.0	
Total interest instruments	745.0		5.0	0.1	
Financial derivatives used for hedge accounting					
Currency instruments					
Forward exchange contracts	0.0		0.0	0.0	
Currency swap agreements	0.0		0.0	0.0	
Securities issued		0.0			0.0
Total currency instruments	0.0	0.0			0.0
Interest rate instruments					
Interest rate swaps (IRS)	7,565.0		169.0	35.1	
Forward rate agreements (FRA)	0.0		0.0	0.0	
Standardised interest rate swaps (futures)	0.0		0.0	0.0	
Securities issued		7,723.0			76.5
Total interest instruments	7,565.0	7,723.0	169.0	35.1	76.5
Total derivatives			174.7	35.3	

Reference is made to note 27 for the period's recognised change in hedging instruments and hedging objects. The difference between the fair value of hedging instruments and the value adjustment of a security is explained by accrued interest. The book value of the hedging instrument includes value adjustments and accrued interest. See note 41.

Group 2018	Contract sums	Book value of hedging object	Fair value of hedging instruments		Value adjustment of security
			Assets	Liabilities	Liabilities
Financial derivatives at fair value in profit or loss					
Currency instruments					
Forward exchange contracts	16.9		0.0	0.5	
Currency swap agreements	0.0		0.0	0.0	
Total currency instruments	16.9		0.0	0.5	
Interest rate instruments					
Interest rate swaps (IRS)	765.0		0.9	8.8	
Forward rate agreements (FRA)	0.0		0.0	0.0	
Standardised interest rate swaps (futures)	0.0		0.0	0.0	
Total interest instruments	765.0		0.9	8.8	
Financial derivatives used for hedge accounting					
Currency instruments					
Forward exchange contracts	0.0		0.0	0.0	
Currency swap agreements	304.9		0.0	14.6	
Securities issued		291.0			-14.0
Total currency instruments	304.9	291.0		14.6	-14.0
Interest rate instruments					
Interest rate swaps (IRS)	7,315.0		221.1	6.8	
Forward rate agreements (FRA)	0.0		0.0	0.0	
Standardised interest rate swaps (futures)	0.0		0.0	0.0	
Securities issued		7,555.9			170.9
Total interest instruments	7,315.0	7,555.9	221.1	6.8	170.9
Total derivatives			222.0	30.7	

Reference is made to note 27 for the period's recognised change in hedging instruments and hedging objects. The difference between the fair value of hedging instruments and the value adjustment of a security is explained by accrued interest. The book value of the hedging instrument includes value adjustments and accrued interest. See note 41.

Parent bank 2019	Contract sums	Book value of hedging object	Fair value of hedging instruments		Value adjustment of security
			Assets	Liabilities	Liabilities
Financial derivatives at fair value in profit or loss					
Currency instruments					
Forward exchange contracts	27.0		0.7	0.0	
Currency swap agreements	0.0		0.0	0.0	
Total currency instruments	27.0		0.7	0.0	
Interest rate instruments					
Interest rate swaps (IRS)	745.0		5.0	0.1	
Forward rate agreements (FRA)	0.0		0.0	0.0	
Standardised interest rate swaps (futures)	0.0		0.0	0.0	
Total interest instruments	745.0		5.0	0.1	
Financial derivatives used for hedge accounting					
Currency instruments					
Forward exchange contracts	0.0		0.0	0.0	
Currency swap agreements	0.0		0.0	0.0	
Securities issued		0.0			0.0
Total currency instruments	0.0	0.0			0.0
Interest rate instruments					
Interest rate swaps (IRS)	5,815.0		51.5	35.1	
Forward rate agreements (FRA)	0.0		0.0	0.0	
Standardised interest rate swaps (futures)	0.0		0.0	0.0	
Securities issued		5,847.9			-22.9
Total interest instruments	5,815.0	5,847.9	51.5	35.1	-22.9
Total derivatives			57.2	35.3	

Reference is made to note 27 for the period's recognised change in hedging instruments and hedging objects. The difference between the fair value of hedging instruments and the value adjustment of a security is explained by accrued interest. The book value of the hedging instrument includes value adjustments and accrued interest. See note 41.

Parent bank 2018	Contract sums	Book value of hedging object	Fair value of hedging instruments		Value adjustment of security
			Assets	Liabilities	Liabilities
Financial derivatives at fair value in profit or loss					
Currency instruments					
Forward exchange contracts	16.9		0.0	0.5	
Currency swap agreements	0.0		0.0	0.0	
Total currency instruments	16.9		0.0	0.5	
Interest rate instruments					
Interest rate swaps (IRS)	765.0		0.9	8.8	
Forward rate agreements (FRA)	0.0		0.0	0.0	
Standardised interest rate swaps (futures)	0.0		0.0	0.0	
Total interest instruments	765.0		0.9	8.8	
Financial derivatives used for hedge accounting					
Currency instruments					
Forward exchange contracts	0.0		0.0	0.0	
Currency swap agreements	0.0		0.0	0.0	
Securities issued		0.0			0.0
Total currency instruments	0.0	0.0		0.0	0.0
Interest rate instruments					
Interest rate swaps (IRS)	5,565.0		79.2	6.8	
Forward rate agreements (FRA)	0.0		0.0	0.0	
Standardised interest rate swaps (futures)	0.0		0.0	0.0	
Securities issued		5,649.8			40.6
Total interest instruments	5,565.00	5,649.8	79.2	6.8	40.6
Total derivatives			80.1	16.1	

Reference is made to note 27 for the period's recognised change in hedging instruments and hedging objects. The difference between the fair value of hedging instruments and the value adjustment of a security is explained by accrued interest. The book value of the hedging instrument includes value adjustments and accrued interest. See note 41.

NOTE 20 - FINANCIAL DERIVATIVES, NETTING

The group's netting rights adhere to the general rules in Norwegian law. 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 capitalised amounts.

Group As at 31.12.2019, the exposure was as follows:	Gross amount	Offset	Capitalised amount	Amount subject to net settlement	Exchanged collateral security	Amount following any net settlement
Financial derivatives, assets	150.4	0.0	150.4	-17.0	-88.6	44.7
Financial derivatives, liabilities	27.6	0.0	27.6	-17.0	-7.9	2.7

Group As at 31.12.2018, the exposure was as follows:	Gross amount	Offset	Capitalised 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

Parent bank As at 31.12.2019, the exposure was as follows:	Gross amount	Offset	Capitalised amount	Amount subject to net settlement	Exchanged collateral security	Amount following any net settlement
Financial derivatives, assets	32.9	0.0	32.9	-17.0	-14.3	1.5
Financial derivatives, liabilities	27.6	0.0	27.6	-17.0	-7.9	2.7

Parent bank As at 31.12.2018, the exposure was as follows:	Gross amount	Offset	Capitalised 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

NOTE 21 - FINANCIAL INSTRUMENTS AT FAIR VALUE

The bank's financial instruments in the fair value category consist of fixed-rate loans, certificates and bonds, shares and derivatives.

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 on the balance sheet. The valuation is based on contracted cash flows discounted by the swap interest rate to which a margin is added.

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.

The valuation of the bank's bond portfolio includes an assessment of potential imbalance 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 where the fair value is based on observable yield curves and exchange rates and which are therefore placed at level 2 of the pricing hierarchy.

31.12.2019 – group	Level 1	Level 2	Level 3	Total
Financial assets and liabilities measured at fair value				
Loans to and receivables from customers	0.0	0.0	422.1	422.1
Certificates, bonds and other interest-bearing securities	0.0	6,755.1	0.0	6,755.1
Shares and units	31.3	0.0	598.3	629.6
Financial derivatives	0.0	174.7	0.0	174.7
Total assets at fair value	31.3	6,929.8	1,020.2	7,981.5
Financial derivatives	0.0	35.3	0.0	35.3
Total liabilities at fair value	0.0	35.3	0.0	35.3

Movement in level 3	Fixed-rate lending	Shares and units	Total
Balance sheet as at 01.01.2019	367.0	562.2	929.2
Net realised gains	0.0	0.0	0.0
Additions	90.5	18.3	108.8
Disposals	33.4	0.0	33.4
Value adjustment	-2.0	-5.2	-7.2
Transferred from levels 1 and 2	0.0	23.0	23.0
Balance sheet as at 31.12.2019	422.1	598.3	1,020.4

Shares and units

The shares in Frende Holding AS were valued at NOK 307.6 million at the end of 2019. The shareholding was valued on the basis of an earnings-based valuation model. Eksportfinans ASA was valued at NOK 195.0 million at the end of 2019. The shareholding was valued 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.

31.12.2018 – group	Level 1	Level 2	Level 3	Total
Financial assets and liabilities measured at fair value				
Loans to and receivables from customers	0.0	0.0	367.0	367.0
Certificates, bonds and other interest-bearing securities	0.0	5,173.1	0.0	5,173.1
Shares and units	21.6	23.0	562.2	606.8
Financial derivatives	0.0	222.0	0.0	222.0
Total assets at fair value	21.6	5,418.1	929.2	6,368.9
Financial derivatives	0.0	30.7	0.0	30.7
Total liabilities at fair value	0.0	30.7	0.0	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
Value adjustment	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

31.12.2019 – parent bank	Level 1	Level 2	Level 3	Total
Financial assets and liabilities measured at fair value				
Loans to and receivables from customers	0.0	0.0	695.7	695.7
Certificates, bonds and other interest-bearing securities	0.0	7,197.6	0.0	7,197.6
Shares and units	31.3	0.0	598.3	629.6
Financial derivatives	0.0	57.2	0.0	57.2
Total assets at fair value	31.3	7,254.8	1,294.0	8,580.1
Financial derivatives	0.0	35.3	0.0	35.3
Total liabilities at fair value	0.0	35.3	0.0	35.3

31.12.2018 – parent bank	Level 1	Level 2	Level 3	Total
Financial assets and liabilities measured at fair value				
Loans to and receivables from customers	0.0	0.0	1,608.9	1,608.9
Certificates, bonds and other interest-bearing securities	0.0	5,012.1	0.0	5,012.1
Shares and units	21.6	23.0	562.2	606.8
Financial derivatives	0.0	80.1	0.0	80.1
Total assets at fair value	21.6	5,115.2	2,171.1	7,307.9
Financial derivatives	0.0	16.1	0.0	16.1
Total liabilities at fair value	0.0	16.1	0.0	16.1

NOTE 22 - FINANCIAL INSTRUMENTS AT AMORTISED COST

Lending

The group's variable rate loan portfolios are measured at amortised cost. The fair value of variable rate loans is subject to the impact of changing interest rates and credit margins, but can be re-priced on an ongoing basis with a short deadline. The Financial Contracts Act provides access to repricing within a six-week period (unless it involves major changes to the bank's deposit rate). The bank's assessment of the best estimates for the lending portfolios, exclusive of loss provisions in Stage 1, results in a good approximation of fair value.

Securities issued and subordinated loan capital

Securities issued 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 capitalised amount provides a good 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, deposits from and debts to customers, as well as lease liabilities.

31.12.2019 – group	Fair value	Book value
Financial assets and liabilities measured at amortised cost		
Cash and receivables from central banks	302.5	302.5
Loans to and receivables from financial institutions	15.9	15.9
Loans to and receivables from customers	33,822.5	33,803.2
Total assets at amortised cost	34,140.9	34,121.6
Liabilities to financial institutions	300.6	300.6
Deposits from and liabilities to customers	14,791.7	14,791.7
Securities issued	22,445.6	22,261.7
Subordinated loan capital	403.8	400.4
Lease liabilities	49.9	49.9

Total liabilities at amortised cost	37,991.6	37,804.3
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31.12.2018 – group	Fair value	Book value
Financial assets and liabilities measured at amortised cost		
Cash and receivables from central banks	603.1	603.1
Loans to and receivables from financial institutions	9.5	9.5
Loans to and receivables from customers	34,798.8	34,780.4
Total assets at amortised cost	35,411.4	35,393.0
Liabilities to financial institutions	300.4	300.4
Deposits from and liabilities to customers	14,899.7	14,899.7
Securities issued	22,081.2	21,970.8
Subordinated loan capital	394.2	400.0
Total liabilities at amortised cost	37,675.5	37,570.9

31.12.2019 – parent bank	Fair value	Book value
Financial assets and liabilities measured at amortised cost		
Cash and receivables from central banks	302.5	302.5
Loans to and receivables from financial institutions	2,273.2	2,273.2
Loans to and receivables from customers	16,297.8	16,287.1
Total assets at amortised cost	18,873.5	18,862.8
Liabilities to financial institutions	620.2	620.2
Deposits from and liabilities to customers	14,879.5	14,879.5
Securities issued	8,992.4	8,959.6
Subordinated loan capital	403.8	400.4
Lease liabilities	85.5	85.5
Total liabilities at amortised cost	24,981.4	24,945.2

31.12.2018 – parent bank	Fair value	Book value
Financial assets and liabilities measured at amortised cost		
Cash and receivables from central banks	603.1	603.1
Net loans to and receivables from financial institutions	2,155.1	2,155.1
Net loans to and receivables from customers	18,117.6	18,107.7
Total assets at amortised cost	20,875.8	20,865.9
Liabilities to financial institutions	540.8	540.8
Deposits from and liabilities to customers	14,974.3	14,974.3
Securities issued	9,797.0	9,750.8
Subordinated loan capital	394.2	400.0
Total liabilities at amortised cost	25,706.3	25,665.9

NOTE 23 - ACCOUNT WITH GROUP COMPANIES

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

	31.12.2019	31.12.2018
Profit		
Interest income and similar income		
Interest income from subsidiaries	52.6	45.4
Interest certificates and covered bonds from subsidiaries	13.8	2.7
Interest costs and similar costs		
Interest and commission to subsidiaries	4.9	2.6
Commission income and income from banking services		
Other operating income from subsidiaries	27.2	22.7
Other operating costs		
Rent to subsidiaries	3.5	3.5
Other costs to subsidiaries	0.8	0.8
Balance sheet		
Loans to and receivables from financial institutions		
Loans to subsidiaries	2,257.3	2,145.6
Loans to and receivables from customers		
Loans to subsidiaries	64.3	63.8
Certificates, bonds and other interest-bearing securities		
Investment in covered bonds in subsidiaries	603.8	0.0
Prepaid non-accrued costs and earned but not received income		
Other receivables	1.9	1.7
Liabilities to financial institutions		
Deposits from subsidiaries	319.6	240.4
Customer deposits		
Deposits from subsidiaries	88.3	86.2
Other liabilities		
Other liabilities to subsidiaries	6.1	0.7

NOTE 24 - NET INTEREST AND CREDIT COMMISSION INCOME

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
4.6	2.2	Interest income and similar income from loans to and receivables from financial institutions	54.8	43.8
0.0	1.0	Interest income and similar income from financial leases	0.0	0.0
1,147.5	955.5	Interest income and similar income from loans to and receivables from customers	513.3	472.4
0.0	0.0	Interest income and similar income from financial assets that are written down		
9.2	8.7	Loans to and receivables from financial institutions	0.0	0.0
0.0	0.0	Loans to and receivables from customers	0.9	0.8
1,161.4	967.4	Other interest income and similar income	0.0	0.0
		Total interest income and similar income for instruments at amortised cost	569.0	517.0
11.3	8.0	Interest income and similar income from loans at fair value	66.1	44.2
118.2	73.6	Interest income and similar income from certificates, bonds, etc.	129.1	73.9
129.5	81.6	Total interest income and similar income for instruments at fair value through profit or loss	195.2	118.1
1,290.9	1,049.0	Interest income and similar income	764.2	635.1
8.1	6.6	Interest costs and similar costs for liabilities to financial institutions	11.3	9.0
144.9	122.8	Interest costs and similar costs for deposits from and liabilities to customers	145.5	122.8
472.8	332.7	Interest costs and similar costs for securities issued	208.9	154.3
11.7	10.3	Interest costs and similar costs for subordinated loan capital	11.7	10.3
11.5	11.5	Other interest costs and similar costs	10.7	11.5
649.1	483.9	Interest costs and similar costs for instruments at amortised cost	388.1	307.9
641.7	565.1	Net interest and credit commission income	376.2	327.2

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

Group 2019		Group 2018		Parent bank 2019		Parent bank 2018	
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							
416.7	1.11	429.7	0.52				
34,854.8	3.35	32,537.1	2.99	2,729.8	2.01	2,575.0	1.70
6,030.8	1.96	4,866.9	1.51	17,863.2	3.25	18,280.3	2.83
				6,451.4	2.00	4,789.1	1.54
Liabilities							
299.7	2.71	311.7	2.12				
14,895.3	0.97	14,315.2	0.86	614.4	1.84	556.9	1.62
22,616.8	2.14	19,994.6	1.72	14,976.9	0.97	14,377.5	0.85
				9,557.8	2.35	8,671.8	1.90

*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 2019	Group 2018		Parent bank 2019	Parent bank 2018
28.9	33.0	Dividend from equity instruments	28.9	33.0
0.0	0.0	Dividends and group contributions from subsidiaries	107.9	119.4
28.9	33.0	Dividends and other operating income from securities with variable yields	136.8	152.4

NOTE 26 - NET COMMISSION INCOME

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
64.5	58.2	Fees, money-transfer services	64.5	58.2
1.5	2.0	Fees, guarantees	1.5	2.0
23.8	28.6	Other commissions and fees	45.2	45.9
89.9	88.8	Commission income, etc.	111.3	106.1
14.5	11.2	Costs, money-transfer services	14.5	11.2
30.3	31.7	Other commissions and fees	6.2	6.3
44.8	42.9	Total commission costs, etc.	20.6	17.5
45.1	45.9	Net commission income, etc.	90.6	88.6

NOTE 27 - NET VALUE ADJUSTMENT AND GAIN/LOSS ON FINANCIAL INSTRUMENTS

Recognised in the income statement

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
		Value adjustment and gain/loss on financial instruments at fair value through profit or loss		
-2.2	-18.1	Value adjustment of certificates and bonds	-2.5	-17.5
-10.6	0.3	Realised gains/losses on certificates and bonds	-11.9	3.6
1.1	85.7	Value adjustment of equity instruments	1.1	85.7
0.0	12.0	Realised gains/losses on equity instruments	0.0	12.0
7.6	-3.6	Value adjustments for derivatives, hedge accounting not used	7.6	-3.6
-3.1	9.2	Realised gains/losses on derivatives, hedge accounting not used	-3.1	9.2
-1.9	-0.1	Value adjustment, fixed-rate loans	-1.9	-0.1
-9.1	85.4	Net value adjustment and gain/loss on financial instruments at fair value	-10.6	89.3
-70.2	-77.8	Financial derivatives - hedge accounting	-61.9	-42.0
70.2	77.8	Financial liabilities - hedged	61.9	42.0
0	0.0	Total net hedged items*	0.0	0.0
		Value adjustment and gains/losses on financial instruments at amortised cost		
-6.8	-4.1	Realised gains/losses on securities issued	-0.9	-2.6
-6.8	-4.1	Net realised gains/losses on securities issued at amortised cost	-0.9	-2.6
		Currency trading		
3.4	2.0	- Net translation gain	3.4	2.0
2.9	3.0	- Net transaction gain	2.9	3.0
6.4	5.0	Total net income from currency trading	6.4	5.0
-9.5	86.3	Net value adjustment and gain/loss on financial instruments	-5.2	91.7

* 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. Borrowing is 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 2019	Group 2018		Parent bank 2019	Parent bank 2018
		Value adjustment of financial instruments, OCI		
0.0	0.0	Lending at fair value	-0.2	-0.9
0.0	0.0	Net value adjustment of financial instruments, OCI	-0.2	-0.9

NOTE 28 - OTHER OPERATING INCOME

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
5.1	6.0	Rental income investment properties	0.0	0.0
0.4	0.4	Operating income, real estate	0.0	0.0
0.0	11.3	Profit from sale of real estate	0.0	0.0
9.7	9.6	Other operating income	7.7	4.7
15.3	27.3	Other operating income	7.7	4.7

NOTE 29 - SALARIES AND OTHER REMUNERATION

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
		Figures in NOK thousands		
116,277	124,618	Salaries	99,686	106,289
26,143	24,679	National insurance contributions	22,523	21,299
		Pensions		
8,227	8,079	- defined-benefit	7,592	7,197
5,067	4,581	- defined-contribution	4,621	4,142
6,884	10,023	Social security costs	6,020	9,021
162,598	171,980	Total salaries, etc.	140,441	147,948
192	199	No. of full-time equivalents as at 31.12.	167	174
197	203	No. of employees as at 31.12.	171	178
193	193	Average no. of full time equivalents	166	165
197	198	Average no. of employees	169	170

Remuneration 2019 – parent bank

The CEO's remuneration totalled NOK 3,198,990. The retirement age for 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 has been paid for special services beyond the normal duties of a manager.

Remuneration of executive management team and executive personnel in 2019

Figures in NOK thousands		Remuner ation	Salari es	Pensions	Paid profit sharing etc.	Benefits in kind	Total	Earned, not paid profit sharing etc.	Loans
Pål Strand	CEO		2,598	232	181	188	3,199		5,834
Kjell Engen	Deputy CEO		1,922	316	139	141	2,518		3,581
Lars-Runar Groven	Director, Business Market		1,149	228	81	157	1,615		2,764
Jan-Roger Vrabøl	Director, Retail Market		1,431	80	99	168	1,779		7,385
Thor-Henning Bråthen	CFO		1,539	78	108	148	1,874		
Anne Siri R. Jensen	Director, Credit, Retail Market	19	906	151	62	135	1,274		1,097
Arljot Lien	Director, Digitalisation and Technology from 21.03.2019		1,033	224	65	120	1,442		1,290
Total executive management team		19	10,578	1,310	736	1,058	13,700	0	21,952
Halvor Kirkebøen	Head of Management and Control Department		1,150	308	78	252	1,789		2,060
Total executive personnel			1,150	308	78	252	1,789	0	2,060

The executive management team and executive personnel 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 2019. 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 2019

Figures in NOK thousands		Remuner ation	Salarie s	Pension s	Paid profit sharing	Benefits in kind	Total	Loans
Øivind Andersson	Chair	330					330	19
Knut Smedsrud	Deputy Chair until 28.03.2019	160					160	
Morten André Yttreide	Deputy Chair from 29.03.2019	185					185	
Elly Therese Thoresen	Board member	146					146	
Cecilie Hagby	Board member	158					158	
Kari Solberg Økland	Board member until 28.03.2019	158					158	
Arne K. Stokke	Board member from 29.03.2019	0		185		3	188	743
Jorund Rønning Indrelid	Board member from 29.03.2019	0					0	
Inger Helen Pettersen	Employee representative from 28.03.2019	123	383	16	20	18	559	2,000
Sissel Album Fjeld	Employee representative from 29.03.2019	16	560	67	26	18	687	1,766
Ole-Martin Solberg	Employee representative	120	570	27	25	16	757	1,502
Total board of directors		1,395	1,513	294	70	54	3,327	6,030

Remuneration, other elected representatives 2019

Figures in NOK thousands		Remuner ation	Salarie s	Pension s	Paid profit sharing	Benefits in kind	Total	Loans
May-Britt Andersen	Chair of the board of trustees	3					3	
Lars M. Lunde	Deputy Chair of the board of trustees	10					10	
Other members of the board of trustees		194					7,874	29,539
Total board of trustees		207	6,261	748	300	371	7,887	29,539

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 has been paid for special services beyond the normal duties of a manager.

Remuneration of executive management team and executive personnel in 2018

Figures in NOK thousands		Remuneration	Salaries	Pensions	Paid profit sharing etc.	Benefits 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 01.10.2018	12	880	151	19	89	1,151	62	5,076
Total executive management team		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
Total executive personnel		0	1,101	349	22	208	1,680	78	2,202

The executive management team and executive personnel 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	Pensions	Paid profit sharing	Benefits in kind	Total	Loans
Øivind Andersson	Chair	353					353	29
Knut Smedsrud	Deputy Chair	160					160	
Morten André Yttreide	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 22.03.2018	160					160	
Cecilie Hagby	Board member from 23.03.2018	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
Total board of directors		1,415	1,085	54	27	31	2,611	3,578

Remuneration, other elected representatives, 2018

Figures in NOK thousands		Remuneration	Salaries	Pensions	Paid profit sharing	Benefits 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	
Other members of the board of trustees		131					7,303	32,114
Total board of trustees		205	5,909	716	129	418	7,377	32,763

NOTE 30 - CLOSE ASSOCIATES

	Executive management team and executive personnel		Board of Directors		Other close associates	
Figures in NOK thousands	2019	2018	2019	2018	2019	2018
Loans						
Outstanding loans as at 01.01.	24,718	13,668	3,578	3,098	27,687	32,390
Net change in loans in the period	-706	11,050	2,453	480	1,852	-4,703
Outstanding loans as at 31.12.	24,012	24,718	6,030	3,578	29,539	27,687
Interest income	495	333	126	54	795	641
Loan losses	0	0	0	0	0	0
Deposits						
Deposits as at 01.01.	2,327	2,949	13,131	9,224	10,390	12,667
Net change in deposits in the period	-312	-622	4,887	3,907	13,917	-2,277
Deposits as at 31.12.	2,015	2,327	18,018	13,131	24,307	10,390
Interest costs	20	5	256	152	102	128
Other operating income	0	0	0	0	0	0
Guarantees issued	0	0	0	0	0	0

NOTE 31 - ADMINISTRATION AND OPERATING COSTS

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
37.4	35.1	IT costs	33.5	32.5
16.2	18.0	Other administrative costs	9.3	11.3
53.6	53.1	Total administration costs	42.8	43.8
25.7	13.7	Ordinary depreciation	25.0	9.5
0.0	0.0	Write-downs	0.0	0.0
25.7	13.7	Depreciation/write-downs/value adjustments on non-financial assets	25.0	9.5
10.3	21.1	Operating costs, properties and premises	8.9	19.8
25.5	29.2	Other operating costs	19.8	21.3
35.9	50.3	Total operating costs	28.6	41.1
115.1	117.1	Total administration and operating costs	96.5	94.4

NOTE 32 - AUDITOR'S REMUNERATION

Group 2019	Group 2018	Figures in NOK thousands	Parent bank 2019	Parent bank 2018
2,202	2,137	Audit	1,352	1,313
151	149	Other certification services	0	0
455	255	Tax consulting	332	65
512	385	Other services	279	194
3,320	2,926	Total	1,963	1,572

The amounts are inclusive of VAT.

NOTE 33 - TAXES

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
		Tax for the year in the income statement		
94.6	83.5	Tax payable on the profit for the year	56.6	46.8
0.2	-4.5	Recognised deferred tax	-0.5	-1.4
0.0	-0.8	Recognised deferred tax due to change in tax rate	0.0	0.0
0.7	-1.5	Excess/deficit tax, previous year	0.7	0.0
95.5	76.7	Total tax for the year	56.8	45.4
		Tax on other operating income and costs recognised in comprehensive income		
		Change in net deferred tax		
1.0	-1.3	- Actuarial gains and losses on defined-benefit plans	0.9	-1.5
0.0	0.0	- Lending at fair value	0.0	-0.2
1.0	-1.3	Tax on other operating income and costs	0.9	-1.7
		Change in net deferred tax		
0.2	-5.3	Recognised deferred tax in the income statement	-0.5	-1.4
1.0	-1.3	Recognised deferred tax in comprehensive income	0.9	-1.7
0.0	1.5	Changes in net deferred tax entered directly on the balance sheet	0.0	5.1
1.2	-5.2	Total change in net deferred tax	0.4	2.0
		Reconciliation of tax for the year		
420.7	450.9	Profit before tax	360.6	419.3
101.7	110.6	Tax at the nominal rate	90.2	104.8
-6.9	-31.6	Tax effect of permanent differences	-34.1	-59.4
0.0	-0.8	Tax effect of changed tax rate for capitalised deferred tax	0.0	0.0
0.7	-1.5	Excess/deficit tax, previous year	0.7	0.0
95.5	76.7	Tax	56.8	45.4
		Tax payable on the balance sheet		
94.6	83.5	Tax payable on the profit for the year	56.6	46.8
0.0	-3.9	Payable tax carried directly to the balance sheet	0	-3.9
4.5	4.5	Year's wealth tax	4.5	4.5
99.1	84.1	Total tax payable	61.1	47.4

Group 2019	Group 2018	Group Change 2019	Group Change 2018	Deferred tax liability/deferred tax asset	Parent bank 2019	Parent bank 2018	Parent bank Change 2019	Parent bank Change 2018
				Positive temporary differences				
41.5	39.5	-2.0	0.7	Property, plant and equipment	1.5	1.7	0.2	-1.7
39.0	48.8	9.8	6.8	Gains and losses account	4.0	4.9	0.9	-4.1
30.1	17.7	-12.4	14.3	Securities	28.7	17.6	-11.1	13.6
102.7	158.1	55.4	52.4	Financial derivatives	0.0	46.5	46.5	19.6
0.0	5.8	5.8	-5.8	Implementation effect, IFRS 9, loss provisions loans	0.0	16.5	16.5	-16.5
1.0	2.9	1.9	-2.9	Lending	1.1	3.1	2.0	-3.1
23.5	0.0	-23.5	0.0	Securities issued	23.5	0.0	-23.5	0.0
237.9	272.8	34.9	65.5	Total positive temporary differences	58.7	90.3	31.6	7.8
54.1	64.3	10.2	19.3	Deferred tax liability	14.7	22.6	7.9	2.0

				Negative temporary differences and deficit to carry forward				
0.9	0.0	-0.9	0.0	Financial leases	0.7	0.0	-0.7	0.0
19.5	0.0	-19.5	0.0	Financial derivatives	19.5	0.0	-19.5	0.0
2.9	2.9	0.0	-1.2	Receivables	0.0	0.0	0.0	0.1
110.7	162.0	51.3	58.0	Securities issued	0.0	42.6	42.6	23.7
9.5	6.1	-3.4	-2.4	Other liabilities	1.0	1.0	0.0	1.4
66.5	77.6	11.1	-9.0	Pension liabilities	64.8	75.5	10.7	-9.4
0.0	0.0	0.0	1.2	Losses carried forward	0.0	0.0	0.0	0.0
209.9	248.6	38.7	46.6	Total negative temporary differences and deficit to carry forward	86.0	119.1	33.1	15.8
49.2	59.8	10.6	14.0	Deferred tax asset	21.5	29.8	8.3	4.0
0.0	0.8			Tax effect of changed tax rate	0.0	0.0		
-5.0	-3.7	0.5	-5.2	Net deferred tax liability (-) / net deferred tax asset (+)	6.8	7.2	0.4	2.0

Deferred tax liability/deferred tax asset as at 31.12.2019 is recognised at a tax rate of 25 per cent for the parent bank. Deferred tax liability/deferred tax asset as at 31.12.2019 in the group is recognised at a future tax rate in the range of 22-25 per cent. 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 2019 and 2018 are measured at fair value through profit or loss.

Certificates and bonds by issuing sector, group	Nominal value 2019	Fair value 2019	Nominal value 2018	Fair value 2018
State and state guaranteed	1,217.0	1,242.0	850.0	871.7
Other public issuers	635.5	637.3	336.0	338.8
Covered bonds	4,779.0	4,817.9	3,807.0	3,834.2
Financial institutions	56.4	57.8	128.0	128.4
Non-financial enterprises	0.0	0.0	0.0	0.0
Total certificates and bonds	6,687.9	6,755.1	5,121.0	5,173.1

Certificates and bonds by issuing sector, parent bank	Nominal value 2019	Fair value 2019	Nominal value 2018	Fair value 2018
State and state guaranteed	1,157.0	1,181.3	790.0	811.2
Other public issuers	635.5	637.3	336.0	338.8
Covered bonds	5,279.0	5,321.2	3,707.0	3,733.7
Financial institutions	56.4	57.8	128.0	128.4
Non-financial enterprises	0.0	0.0	0.0	0.0
Total certificates and bonds	7,127.9	7,197.6	4,961.0	5,012.1

Certificates and bonds by maturity as at 31.12.2019 – group

	Accrued interest	Up to 6 months	6-12 months	1-5 years	5-10 years	Total
State and state guaranteed	5.5	0.0	234.8	926.3	75.5	1,242.0
Other public issuers	1.8	599.5	36.0	0.0	0.0	637.3
Covered bonds	9.6	370.8	571.9	3,865.6	0.0	4,817.9
Financial institutions	0.1	0.0	0.0	57.7	0.0	57.8
Non-financial enterprises	0.0	0.0	0.0	0.0	0.0	0.0
Total certificates and bonds	17.1	970.3	842.7	4,849.6	75.5	6,755.1

Certificates and bonds by maturity as at 31.12.2019 – parent bank

	Accrued interest	Up to 6 months	6-12 months	1-5 years	5-10 years	Total
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State and state guaranteed	5.4	0.0	234.8	865.7	75.5	1,181.3
Other public issuers	1.8	599.5	36.0	0.0	0.0	637.3
Covered bonds	12.8	971.4	571.9	3,765.2	0.0	5,321.2
Financial institutions	0.1	0.0	0.0	57.7	0.0	57.8
Non-financial enterprises	0.0	0.0	0.0	0.0	0.0	0.0
Total certificates and bonds	20.1	1,570.9	842.7	4,688.6	75.5	7,197.6

Certificates and bonds by maturity as at 31.12.2018 – 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 institutions	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 by maturity as at 31.12.2018 – 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 institutions	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

Modified duration

	Group	Parent bank
State and state guaranteed	0.60	0.62
Other public issuers	0.19	0.19
Covered bonds	0.16	0.15
Financial institutions	0.21	0.21
Non-financial enterprises	0.00	0.00
Total duration	0.25	0.23

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 31.12.2019

Fair value through profit or loss	No. of shares	Stake in %	Book cost	Fair value
Balder Betaling AS	1,316,361	6.57	25.3	30.8
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	307.6
Kraft Bank ASA	2,875,000	6.85	23.0	23.0
Kredittforeningen for Sparebanker	2,760	5.52	2.8	0.7
Norne Securities AS	456,369	2.48	1.4	1.4
Norwegian Block Exchange AS (NBX)	6,437,768	16.30	15.0	15.0
Sparebankmaterieil AS	302	0.96	0.0	0.0
Visa Inc.	4,739	0.00	2.0	31.3
VN Norge AS	6.4 trillion	0.64	0.0	10.5
Visa Norge Holding 1 AS			6.3	13.7
Other shares			0.5	0.5
Total shares and equity certificates			323.2	629.6

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 per cent owned subsidiary of Sparebanken Øst Eiendom AS.

** 100 per cent owned subsidiary of Øst Prosjekt AS.

NOTE 37 - TANGIBLE FIXED ASSETS, INVESTMENT PROPERTIES AND LEASE RIGHTS

Property, plant and equipment as at 31.12.2019 – group

	Machinery/inventory/ vehicles/ intang. assets etc.	Properties	Investment properties	Lease rights
Acquisition cost as at 01.01.	141.8	109.1	61.7	57.6
Additions	18.8	0.1	0.1	1.5
Disposals	2.8	0.0	0.0	0.0
Acquisition cost as at 31.12.	157.8	109.1	61.8	59.1
Total ordinary depreciation and write-downs	109.8	19.3	2.8	9.6
Book value as at 31.12.	47.9	89.8	59.0	49.5
Year's ordinary depreciation	12.9	2.1	1.0	9.6
Year's write-downs	0.0	0.0	0.0	0.0
Economic life	2-10 years	10-100 years	10-100 years	2-12 years
Depreciation plan	Straight line	Straight line	Straight line	Straight line

Property, plant and equipment as at 31.12.2019 – parent bank

	Machinery/inventory/ vehicles/ intang. assets etc.	Properties	Investment properties	Lease rights
Acquisition cost as at 01.01.	111.4	58.6	0.0	95.8
Additions	17.6	0.1	0.0	1.5
Disposals	2.2	0.0	0.0	0.0
Acquisition cost as at 31.12.	126.8	58.6	0.0	97.4
Total ordinary depreciation and write-downs	82.0	13.8	0.0	12.6
Book value as at 31.12.	44.7	44.9	0.0	84.8
Year's ordinary depreciation	11.4	1.0	0.0	12.6
Year's write-downs	0.0	0.0	0.0	0.0
Economic life	2-10 years	10-100 years	10-100 years	2-12 years
Depreciation plan	Straight line	Straight line	Straight line	Straight line

Property, plant and equipment as at 31.12.2018 – group

	Machinery/inventory/ vehicles/ intang. assets etc.	Properties	Investment properties
Acquisition cost as at 01.01.	129.7	124.1	138.8
Additions	19.1	0.7	0.2
Disposals	7.0	15.7	77.3
Acquisition cost as at 31.12.	141.8	109.1	61.7
Total ordinary depreciation and write-downs	99.5	17.2	1.8
Book value as at 31.12.	42.3	91.9	59.9
Year's ordinary depreciation	10.3	2.0	1.4
Year's write-downs	0.0	0.0	0.0
Economic life	2-10 years	10-100 years	10-100 years
Depreciation plan	Straight line	Straight line	Straight line
Annual rent of non-capitalised assets	0.0	13.3	

Property, plant and equipment as at 31.12.2018 – parent bank

	Machinery/inventory/ vehicles/ intang. assets etc.	Properties	Investment properties
Acquisition cost as at 01.01.	100.2	58.4	0.0
Additions	17.8	0.2	0.0
Disposals	6.6	0.0	0.0
Acquisition cost as at 31.12.	111.4	58.6	0.0
Total ordinary depreciation and write-downs	72.8	12.8	0.0
Book value as at 31.12.	38.6	45.8	0.0
Year's ordinary depreciation	8.5	1.0	0.0
Year's write-downs	0.0	0.0	0.0
Economic life	2-10 years	10-100 years	10-100 years
Depreciation plan	Straight line	Straight line	Straight line
Annual rent of non-capitalised assets	0.0	14.4	

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 31.12.2019	82.5	59.0
Investment properties at fair value as at 31.12.2018	83.5	59.9

The fair value of investment properties is based on valuations by external parties. The valuation method used is discounted estimated cash flows. The average required rate of return is 6.5 per cent. 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 2019

Group Area - m²		Group Book value		Parent bank Area - m²		Parent bank Book value
Own use	Leasing	2019*	Commercial buildings	Own use	Leasing	2019*
3,398	4,310	103.3	Drammen	2,087	0	30.9
4,569	693	27.8	Øvre Eiker	0	0	0.0
7,967	5,003	131.1	Total commercial buildings	2,087	0	30.9

* 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 2018

Group Area - m²		Group Book value		Parent bank Area - m²		Parent bank Book value
Own use	Leasing	2018*	Commercial buildings	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	Total commercial buildings	2,087	0	31.7

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

NOTE 38 - PREPAID NON-ACCRUED COSTS AND EARNED BUT NOT RECEIVED INCOME

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
0.0	0.0	Earned but not received income	1.9	1.7
12.6	6.9	Other prepaid non-accrued costs	7.2	6.7
12.6	6.9	Prepaid non-accrued costs and earned but not received income	9.1	8.4

NOTE 39 - LIABILITIES TO FINANCIAL INSTITUTIONS

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
0.0	0.0	Loans and deposits from financial institutions without agreed maturities or deadline	318.9	239.7
300.6	300.4	Loans and receivables from financial institutions with agreed maturities or deadline	301.3	301.1
300.6	300.4	Liabilities to financial institutions	620.2	540.8

NOTE 40 - DEPOSITS FROM AND LIABILITIES TO CUSTOMERS

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
9,619.4	9,968.0	Deposits from and liabilities to customers without agreed maturity	9,707.1	10,042.5
5,172.3	4,931.7	Deposits from and liabilities to customers with agreed maturity	5,172.4	4,931.8
14,791.7	14,899.7	Deposits from and liabilities to customers	14,879.5	14,974.3

Geographical distribution of deposits

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
3,166.3	3,094.9	Drammen	3,254.2	3,181.0
1,953.9	1,941.7	Nedre Eiker	1,953.9	1,941.7
2,175.4	1,988.5	Øvre Eiker	2,175.4	1,988.5
1,052.5	957.4	Rest of Buskerud	1,052.5	957.2
3,049.5	3,157.6	Oslo	3,049.5	3,152.3
851.8	995.3	Akershus	851.8	991.5
703.3	698.3	Vestfold	703.3	698.3
201.5	199.3	Østfold	201.5	197.1
1,512.7	1,732.6	Rest of Norway	1,512.7	1,732.6
124.7	134.1	Abroad	124.7	134.1
14,791.7	14,899.7	Total	14,879.5	14,974.3

Distribution of deposits by sector and industry

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
8,388.9	8,580.4	Employees	8,388.5	8,571.9
543.7	518.1	Public administration	543.7	518.1
101.9	116.9	Agriculture, forestry and fishing	101.9	116.9
1,149.9	1,259.5	Industry and mining, power and water supply	1,149.9	1,259.5
627.8	570.2	Building and construction	627.8	568.1
442.1	448.4	Wholesale and retail trade, hotels and restaurants	442.1	448.4
219.4	223.8	Transport and communications	219.4	223.8
1,453.5	1,306.9	Business financial services	1,453.5	1,305.8
821.0	826.1	Other service industries	821.0	826.0
918.6	915.3	Real estate sales and operation	1,006.8	1,001.7
124.7	134.1	Abroad	124.7	134.1
14,791.7	14,899.7	Total	14,879.5	14,974.3

NOTE 41 - SECURITIES ISSUED

Securities issued	31.12.2019	31.12.2018
Bond loans, nominal value	22,065.0	21,705.8
Value adjustments (incl. excess/deficit value)	87.2	170.9
Accrued interest	109.5	94.1
Securities issued	22,261.7	21,970.8

	31.12.2018	Issued	Due/redeemed	Change in own holdings	Other changes incl. currency	31.12.2019
Change for securities issued						
Bond loans, nominal value	9,657.0	1,450.0	2,192.0	0.0	0.0	8,915.0
Covered bonds, nominal value in NOK	11,758.0	2,500.0	508.0	600.0	0.0	13,150.0
Covered bonds, nominal value in SEK (translated to NOK)	290.8	0.0	276.8	0.0	-14.0	0.0
Value adjustments (incl. excess/deficit value)	170.9	0.0	0.0	0.0	-83.7	87.2
Accrued interest	94.1	0.0	0.0	0.0	15.4	109.5
Securities issued	21,970.8	3,950.0	2,976.8	600.0	-82.3	22,261.7

Group	Outstanding volume 2019*	Avg. balance 2019	Weighted effective interest rate 2019	Outstanding volume, 2018*	Avg. balance, 2018	Weighted effective interest rate 2018
Bond loans	22,152.2	22,139.2	2.15%	21,876.7	19,363.3	1.73%
Own holdings - bond loans	0.0	0.0	0.00%	0.0	0.0	0.00%
Securities issued	22,152.2	22,139.2	2.15%	21,876.7	19,363.3	1.73%

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

Parent bank	Outstanding volume 2019*	Avg. balance 2019	Weighted effective interest rate 2019	Outstanding volume, 2018*	Avg. balance, 2018	Weighted effective interest rate 2018
Bond loans	8,893.5	9,089.5	2.30%	9,697.6	8,123.8	1.90%
Own holdings - bond loans	0.0	0.0	0.00%	0.0	0.0	0.00%
Securities issued	8,893.5	9,089.5	2.30%	9,697.6	8,123.8	1.90%

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

NOTE 42 - SUBORDINATED LOAN CAPITAL

	31.12.2018	Issued	Due/redeemed	Change in own holdings	Other changes incl. currency	31.12.2019
Change in subordinated loan capital	18					
Ordinary subordinated loan capital, nominal value	400.0	0.0	0.0	0.0	0.0	400.0
Value adjustments (incl. excess/deficit value)	-0.7	0.0	0.0	0.0	0.2	-0.5
Accrued interest	0.7	0.0	0.0	0.0	0.1	0.8
Subordinated loan capital	400.0	0.0	0.0	0.0	0.3	400.4

	Outstanding volume 2019*	Avg. balance 2019	Weighted effective interest rate 2019	Outstanding volume, 2018*	Avg. balance, 2018	Weighted effective interest rate 2018
Subordinated bond loan	399.5	399.4	2.92%	399.3	383.1	2.60%
Subordinated loan capital	399.5	399.4	2.92%	399.3	383.1	2.60%

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

NOTE 43 - LONG-TERM BORROWING BY MATURITY

Long-term borrowing as at 31.12.2019 – group

	Loans from financial institutions	Bond loans	Covered bonds	Subordinated loans	Total
2020	0.0	1,240.0	1,400.0	0.0	2,640.0
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	1,700.0	2,500.0	0.0	4,260.0
2025	60.0	525.0	0.0	0.0	585.0
2026	60.0	750.0	750.0	0.0	1,560.0
2027	60.0	0.0	0.0	0.0	60.0
2028 and thereafter	0.0	0.0	400.0	0.0	400.0
Gross borrowing	300.0	8,915.0	13,150.0	400.0	22,765.0
Accrued interest	0.8	66.0	43.5	0.8	111.1
Direct costs and premium/discount	-0.2	1.4	9.3	-0.5	10.1
Value adjustments	0.0	-22.9	99.4	0.0	76.5
Net borrowing	300.6	8,959.6	13,302.2	400.4	22,962.6

Call/put loans by call/put date.

Long-term borrowing as at 31.12.2019 – parent bank

	Loans from financial institutions	Bond loans	Subordinated loans	Total
2020	319.6	1,240.0	0.0	1,559.6
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	1,700.0	0.0	1,760.0
2025	60.0	525.0	0.0	585.0
2026	60.0	750.0	0.0	810.0
2027	60.0	0.0	0.0	60.0
2028 and thereafter	0.0	0.0	0.0	0.0
Gross borrowing	619.6	8,915.0	400.0	9,934.6
Accrued interest	0.8	66.0	0.8	67.6
Direct costs and premium/discount	-0.2	1.4	-0.5	0.7
Value adjustments	0.0	-22.9	0.0	-22.9
Net borrowing	620.2	8,959.6	400.4	9,980.0

Call/put loans by call/put date.

NOTE 44 - OTHER LIABILITIES

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
0.5	1.3	Liabilities linked to money-transfer services	0.5	1.3
64.7	72.2	Provisions for social dividends	64.7	72.2
6.0	6.6	Accounts payable	3.1	4.4
88.6	101.8	Exchanged collateral, CSA	14.3	28.3
40.0	47.4	Other liabilities	35.0	36.4
199.8	229.3	Other liabilities	117.6	142.6

NOTE 45 - PROVISIONS FOR INCURRED COSTS AND LIABILITIES

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
66.5	77.6	Pension liabilities (see note 46)	64.8	75.5
0.8	0.8	Loss provisions, unused credit and guarantees	0.7	0.7
67.4	78.4	Provisions for accrued costs and liabilities	65.5	76.2

NOTE 46 - 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 includes retirement pensions for scheme members, and spouse and child pensions for members' surviving families. The defined-benefit scheme currently covers 205 persons: 80 active employees, 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

On 01.01.2007, Sparebanken Øst introduced a defined-contribution pension scheme for all new employees in the bank. The scheme is managed by Storebrand Livsforsikring AS. 5 per cent of salaries between 1G and 7.1G (G = the National Insurance basic amount) and 8 per cent of salaries between 7.1G and 12G are paid. The paid contributions are managed in various Storebrand funds. The defined-contribution scheme now includes 103 employees, five of whom receive disability pensions. The premiums for these are paid and expensed in 'Personnel expenses' in the accounts on an ongoing basis.

Subsidiaries

AS Finansiering has a collective pension scheme which comprises 16 persons, 9 of whom are active and 7 disabled/retired. The scheme has been closed. 12 employees have defined-contribution schemes, of which one is disabled. Sparebanken Øst Eiendom AS has a defined-benefit scheme that covers one person. This is active. The scheme has been closed. One employee has a defined-contribution scheme. Øst Inkasso AS has a defined contribution scheme for five employees.

Operating pensions

The group has separate pension agreements in place for seven people on salaries above 12G, six 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 and Øst Inkasso AS are members 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 capitalised. Premiums for the scheme are expensed as they are incurred.

Contributions to the AFP scheme are included in the accounts under 'Personnel expenses', and comprised NOK 1.9 million in 2019 and NOK 1.6 million in 2018. It is estimated that next year's premium will be NOK 2.0 million.

An employee (member) must meet a number of criteria to be entitled to a contractual early retirement pension (AFP). 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 set such that it is sufficient to cover current costs and also provides a basis for the arrangement of a pension fund.

In 2019, the premium was 2.5 per cent of salary between 1G and 7.1G. The premium rate for 2020 is unchanged and will be 2.5 per cent. The premium model is based on actual paid salary.

There is some undercoverage 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 2 and 9 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 per cent for the age group 20-24 years, and down to 0 per cent 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	2019	2018
Expected return on pension funds	2.30%	2.60%
Discount rate	2.30%	2.60%
Annual salary growth	1.75%	2.25%
Annual G adjustment	0.50%	2.50%
Annual pension regulation	2.00%	0.80%

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 2019	Group 2018		Parent bank 2019	Parent bank 2018
		Net pension costs, defined-benefit scheme		
6.2	6.5	Present value of annual pension savings	5.6	5.6
2.0	1.6	Interest costs for pension liabilities	1.9	1.6
8.2	8.1	Net pension costs including employers' National Insurance contribution	7.6	7.2
3.1	3.0	Premium paid, defined-contribution scheme	2.7	2.6
1.9	1.6	Premium paid, AFP scheme	1.9	1.5
13.3	12.7	Total pension costs in ordinary result	12.2	11.3

Specification of pension liabilities and pension funds – group

2019			2018		
Funded	Unfunded	Total	Funded	Unfunded	Total
		Change in gross pension liabilities			
268.0	30.0	298.0	265.7	30.3	296.0
0.0	0.0	0.0	-0.4	0.0	-0.4
5.8	0.2	6.0	6.2	0.2	6.4
6.9	0.8	7.7	6.3	0.7	7.0
-4.0	-0.5	-4.5	-2.1	0.5	-1.6
-10.0	-1.6	-11.6	-7.7	-1.7	-9.4
266.7	28.9	295.5	268.0	30.0	298.0
		Change in gross pension funds			
220.4	0.0	220.4	227.4	0.0	227.4
0.0	0.0	0.0	-0.2	0.0	-0.2
5.4	0.0	5.4	5.2	0.0	5.2
-0.5	0.0	-0.5	-6.9	0.0	-6.9
11.5	0.0	11.5	2.2	0.0	2.2
-7.8	0.0	-7.8	-7.3	0.0	-7.3
229.0	0.0	229.0	220.4	0.0	220.4
37.7	28.9	66.5	47.6	30.0	77.6
		Net pension liabilities (+)/- pension funds (-)			

2019		2018
77.6	Net pension liabilities as at 01.01.	68.6
8.2	Recognised pension costs	8.2
0.0	Additions and disposals	-0.2
-4.1	Actuarial gains and losses	5.3
-11.5	Paid-in pension premiums	-2.2
-3.8	Pension payments	-2.1
66.5	Net capitalised pension liabilities as at 31.12.	77.6
12.7	Expected premium payment next year, defined-benefit scheme	9.0
3.3	Expected premium payment next year, defined-contribution scheme	2.9
2.0	Expected premium payment next year, contractual early retirement pension scheme (AFP)	1.5
	Investment of pension funds in per cent	
14.8%	Shares	15.4%
11.2%	Bonds	9.5%
13.1%	Loans	14.1%
36.4%	Facilities	35.7%
7.6%	Money market	8.4%
1.6%	Business loans	2.0%
13.4%	Property	13.7%
0.7%	Alternative investments	0.7%
3.6%	Booked returns totalled	2.8%

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.

Change in percentage points	Discount rate		Annual salary growth/ basic amount		Annual adjustment of pensions	
	+ 0.5%	- 0.5%	+ 0.5%	- 0.5%	+ 0.5%	- 0.0%
Percentage change in pension						
- Pension liability	-8.9%	10.0%	2.1%	-2.0%	7.8%	-7.1%
- Net pension costs for the period	-10.7%	12.4%	4.2%	-4.0%	7.8%	-7.1%

The pension liability is particularly sensitive to changes in the discount rate. A reduction in the discount rate will in isolation result in an increase in the pension liability. A reduction in the discount rate of 0.5 percentage point will increase pension liabilities by around 10 per cent. An increase in salary adjustments and the adjustment of pensions will result in an increase in the pension liability.

The maturity structure for the group's net pension liabilities for the next ten years was as follows as at 31.12.2019.

	Amount	As a percentage of gross pension liability
Under 1 year	9.1	3.1%
Year 2	10.1	3.4%
Year 3	10.2	3.5%
Year 4	10.0	3.4%
Year 5	10.5	3.6%
Years 6-10	60.7	20.5%
Total	110.7	37.4%

Specification of pension liabilities and pension funds – parent bank

2019			2018		
Funded	Unfunded	Total	Funded	Unfunded	Total
Change in gross pension liabilities					
251.4	29.6	281.0	246.5	29.9	276.4
0.0	0.0	0.0	-0.4	0.0	-0.4
5.3	0.2	5.5	5.4	0.2	5.6
6.5	0.7	7.2	5.8	0.7	6.5
-3.9	-0.5	-4.4	1.4	0.4	1.8
-9.2	-1.6	-10.9	-7.3	-1.6	-8.9
250.0	28.4	278.4	251.4	29.6	281.0
Change in gross pension funds					
205.5	0.0	205.5	210.3	0.0	210.3
0.0	0.0	0.0	-0.2	0.0	-0.2
5.1	0.0	5.1	4.8	0.0	4.8
-0.7	0.0	-0.7	-4.1	0.0	-4.1
10.9	0.0	10.9	1.7	0.0	1.7
-7.2	0.0	-7.2	-7.0	0.0	-7.0
213.6	0.0	213.6	205.5	0.0	205.5
36.4	28.4	64.8	45.9	29.6	75.5
Net pension liabilities (+)/- pension funds (-)					

2019		2018	
75.5	Net pension liabilities as at 01.01.	66.1	
7.6	Recognised pension costs	7.4	
0.0	Additions and disposals	-0.2	
-3.7	Actuarial gains and losses	5.9	
-10.9	Paid-in pension premiums	-1.7	
-3.7	Pension payments	-2.0	
64.8	Net capitalised pension liabilities as at 31.12.	75.5	
11.9	Expected premium payment next year, defined-benefit scheme	8.3	
2.8	Expected premium payment next year, defined-contribution scheme	2.5	
2.0	Expected premium payment next year, contractual early retirement pension scheme (AFP)	1.5	
Investment of pension funds in per cent			
14.8%	Shares	15.4%	
11.2%	Bonds	9.5%	
13.1%	Loans	14.1%	
36.4%	Facilities	35.7%	
7.6%	Money market	8.4%	
1.6%	Business loans	2.0%	
13.4%	Property	13.7%	
0.7%	Alternative investments	0.7%	
3.6%	Booked returns totalled	2.8%	

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.

Change in percentage points	Discount rate		Annual salary growth/basic amount		Annual adjustment of pensions	
	+ 0.5%	- 0.5%	+ 0.5%	- 0.5%	+ 0.5%	- 0.0%
Percentage change in pension						
- Pension liability	-8.9%	10.1%	2.1%	-2.0%	8.0%	-7.3%
- Net pension costs for the period	-11.0%	12.7%	4.7%	-4.4%	8.3%	-7.5%

The pension liability is particularly sensitive to changes in the discount rate. A reduction in the discount rate will in isolation result in an increase in the pension liability. A reduction in the discount rate of 0.5 percentage point will increase pension liabilities by around 10 per cent. An increase in salary adjustments and the adjustment of pensions will result in an increase in the pension liability.

The maturity structure for the parent bank's net pension liabilities for the next ten years was as follows as at 31.12.2019.

	Amount	As a percentage of gross pension liability
Under 1 year	8.7	3.1%
Year 2	9.6	3.4%
Year 3	9.6	3.5%
Year 4	9.4	3.4%
Year 5	9.9	3.6%
Years 6-10	57.2	20.5%
Total	104.4	37.5%

NOTE 47 - GUARANTEE LIABILITIES

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
14.0	23.6	Payment guarantees	14.0	23.6
42.6	51.6	Contract guarantees	42.6	51.6
20.5	17.5	Loan guarantees	20.5	17.5
10.5	13.6	Other guarantee liabilities	10.5	13.6
87.6	106.3	Total guarantee liabilities to customers	87.6	106.3

The parent bank has issued a guarantee for all covered bond commitments in the mortgage credit company in connection with the rating process for Sparebanken Øst Boligkreditt AS. Covered bonds amounted to a nominal value of NOK 13,150.0 million as at 31.12.2019 compared with a nominal value of NOK 12,048.8 million as at 31.12.2018. The parent bank's holdings of covered bonds with a nominal value of NOK 600 million (NOK 0 million as at 31.12.2018) has been excluded.

NOTE 48 - PLEDGED ASSETS AND PREFERENTIAL RIGHTS

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
410.0	711.0	Bonds, nominal value, pledged as security for borrowing facilities at Norges Bank	410.0	711.0
410.0	711.0	Pledges of security	410.0	711.0
13,750.0	12,048.8	Preferential rights in accordance with section 11-15 of the Financial Institutions Act (nominal value)	0.0	0.0

NOTE 49 - COSTS RELATED TO THE DEPOSIT GUARANTEE SCHEME FUND AND CRISIS ACTION FUND

Section 19-2 of the Financial Institutions Act requires all Norwegian banks to be members of the deposit guarantee scheme for banks. The scheme guarantees eligible deposits up to NOK 2 million per depositor, cf. section 19-3(2) of the Financial Institutions Act, as well as deposits as mentioned in section 19-(2) of the Financial Institutions Act. Sparebanken Øst pays annual contributions to the deposit guarantee scheme.

Section 20-51 of the Financial Institutions Act instructs banks and financial institutions to pay annual contributions to the crisis action fund.

Both the deposit guarantee scheme and the crisis action fund are administered by the Norwegian Banks' Guarantee Fund. The annual cost of the funds is included in the line 'Interest costs'.

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
3.9	11.4	Deposit guarantee scheme	3.9	11.4
6.7	0.0	Crisis action fund	5.2	0.0
10.5	11.4	Total	9.0	11.4

NOTE 50 - ADDITIONAL INFORMATION FOR CASH FLOW STATEMENT

Group 2019	Group 2018		Parent bank 2019	Parent bank 2018
		Cash and cash equivalents		
302.5	603.1	Cash and receivables from central banks	302.5	603.1
15.9	9.5	Loans to and receivables from financial institutions that are pure investments	15.9	9.5
318.4	612.6	Total	318.4	612.6
		Change in other assets in connection with operations		
-7.6	-6.6	Net change in financial derivatives (net assets and liabilities)	-7.7	-6.6
-10.0	82.9	Net change in other assets	-5.7	4.3
-17.6	76.3	Total	-13.4	-2.3
		Non-cash items included in profit before tax		
25.7	13.7	Depreciation/write-downs of tangible fixed assets and lease rights	25.0	9.5
0.0	0.0	Amortisation of financial investments held to maturity	0.0	0.0
10.5	9.8	Write-downs of financial assets	-0.3	2.6
-2.2	3.8	Amortisation of financing activities measured at amortised cost	0.4	5.3
34.0	27.3	Total	25.1	17.4

NOTE 51 - ADDITIONAL TIER 1 CAPITAL

Additional Tier 1 capital and interest earned on additional Tier 1 capital are presented as equity.

Additional Tier 1 capital, change	31.12.20 18	Issued	Due/redeemed	Change in own holdings	Other changes incl. currency	31.12.2019
Additional Tier 1 capital, nominal value	350.0	150.0	150.0	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	0.5	0.0	0.0	0.0	1.9	2.4
Additional Tier 1 capital	350.5	150.0	150.0	0.0	1.9	352.4

	Volume outstanding 2019	Avg. balance 2019	Weighted effective interest rate 2019	Outstanding volume 2018*	Avg. balance, 2018	Weighted effective interest rate 2018
Additional Tier 1 capital	350.0	363.1	4.93%	350.0	362.2	4.30%
Additional Tier 1 capital	350.0	363.1	4.93%	350.0	362.2	4.30%

NOTE 52 - EVENTS AFTER THE BALANCE SHEET DATE

The group has sold the property company Tollbugt. 49-51 with commercial property in Drammen City Centre. The property consists of office premises and is leased to external tenants as well as to Sparebanken Øst Eiendom AS. The transaction was carried out on 02.01.2020, meaning that in Q1 2020, the group booked a gain of roughly NOK 20 million after tax in the income statement.

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 2019	Group 2018		Parent bank 2019	Parent bank 2018
311.5	362.5	Equity certificate holders' and primary capital share of profits	289.7	362.2
101.1	124.7	Profit after tax attributable to equity certificate holders	94.0	124.6
20.7	20.7	Weighted average number of outstanding equity certificates	20.7	20.7
4.87	6.01	Earnings per equity certificate (NOK)	4.54	6.01

Weighted number of equity certificates

2019

No. of equity certificates in 2019	20,731,183
Total no. of equity certificates in 2019	20,731,183

2018

No. of certificates in 2018	20,731,183
Total no. of certificates in 2018	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 share, parent bank

	01.01.2020	01.01.2019
Equity certificate capital	207.3	207.3
Premium reserve	387.8	387.8
Equalisation fund (excl. dividend)	331.1	308.8
Share of Fund for Unrealised Gains	87.1	92.1
Total numerator (A)	1,013.3	996.0
Total equity excl. hybrid capital (dividend provisions for the year excluded)	3,227.6	3,069.5
Total denominator (B)	3,227.6	3,069.5
Ownership fraction (A/B) in per cent	31.40	32.45

The board's proposed dividend

NOK	2019	2018
Total dividend paid out	74,632,259	95,363,442
Paid out per equity certificate	3.60	4.60

Largest equity certificate holders as at 31.12.2019

Name	Number	%	Name	Number	%
1 MP Pensjon	1,667,815	8.04%	11 Storetind AS	220,503	1.06%
2 Cape Invest AS	1,405,705	6.78%	12 Profond AS	177,425	0.86%
3 Directmarketing Invest AS	999,500	4.82%	13 Tindra Eiendom AS	169,663	0.82%
4 VPF Eika egenkapitalbevis	969,949	4.68%	14 Morgan Stanley & Co. International	153,607	0.74%
5 Hansen, Asbjørn Rudolf	500,000	2.41%	15 Johansen, Kjell Petter	152,000	0.73%
6 Foretakskonsulenter AS	310,128	1.50%	16 Løkke, Helge Arnfinn	148,433	0.72%
7 Jag Holding AS	303,897	1.47%	17 Seriana AS	130,931	0.63%
8 Wenaasgruppen AS	273,000	1.32%	18 Nordnet Livsforsikring AS	123,903	0.60%
9 AS Andersen Eiendomsselskap	238,900	1.15%	19 Teigen, Hellik	120,400	0.58%
10 Skandinaviska Enskilda Banken AB	232,649	1.12%	20 Julius Johannessen & Sønner A/S	120,200	0.58%

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

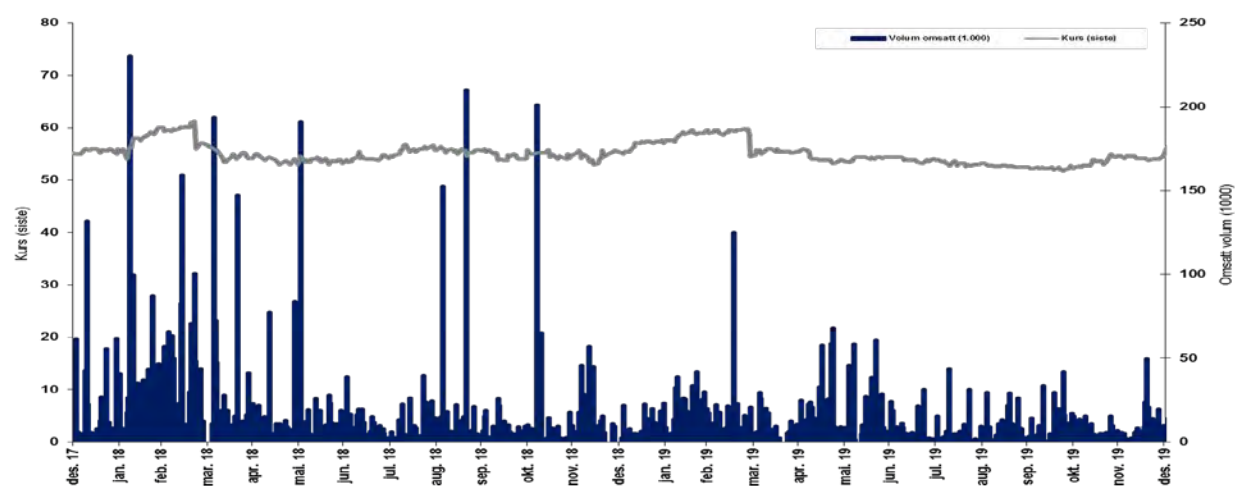
Owner statistics, geographical distribution

	No. of owners	%	No. of equity certificates	%
Abroad	92	3.3%	1,445,155	7.0%
Øvre Eiker	242	8.6%	713,220	3.4%
Nedre Eiker	157	5.5%	608,592	2.9%
Drammen	211	7.5%	2,698,690	13.0%
Rest of Buskerud	248	8.8%	690,443	3.3%
Asker/Bærum	169	6.0%	920,195	4.4%
Oslo	510	18.0%	6,158,408	29.7%
Trondheim	66	2.3%	247,600	1.2%
Bergen	120	4.2%	595,318	2.9%
Rest of Norway	1,014	35.8%	6,653,562	32.1%
Total	2,829	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	428	15.1%	18,959	0.1%
101–1,000	1,096	38.7%	539,803	2.6%
1,001–10,000	1,023	36.2%	3,852,327	18.6%
10,001–100,000	257	9.1%	7,346,006	35.4%
100,001-	25	0.9%	8,974,088	43.3%
Total	2,829	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	Board of Directors and personal close associates	No. of equity certificates
Jon Aas	9,947	Øivind Andersson	25,000
May-Britt Andersen	0	Elly Therese Thoresen	360
Ole Jørgen Smedsrud	1,000	Morten André Yttreide	38,000
Tor Flesaker	0	Cecilie Hagby	0
Knut Andersen	0	Jorund Rønning Indrelid	34,485
Morten Ranvik	0	Arne K. Stokke	6,012
Thomas F. Halvorsen	0	Sissel Album Fjeld	175
Nina Paulsen Viland	0	Ole-Martin Solberg	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	Executive personnel and personal close associates	No. of equity certificates
Vegard Kvamme	3,000	Pål Strand	20,000
Rolf Arne Fjelltoft	15	Kjell Engen	0
Brynulf Kopperud	0	Jan-Roger Vrabel	0
Stian Pettersen	0	Lars-Runar Groven	0
Siren Coward	117	Thor-Henning Bråthen	0
Camilla Schenk	0	Anne Siri Rhoden Jensen	416
Bente Niemann	6,153	Arnljot Lien	0
Ole B. Hoen (representing Hoen Invest AS)	25,104	Halvor Kirkebøen	1,255
Lars M. Lunde (representing MP Pensjon)	1,667,815		
Tom R. Svendsen	500		
Johan H. Vister	13,360		
Lina Andal Sørby	3,477		
Svein L. Syversen	37,500		
Asbjørn R. Hansen	500,000		
Kåre J. Grøtta (representing Storetind AS)	220,503		
Jørn Larsen (representing Bondeungdomslaget in Drammen)	17,500		
Åsmund Skår	0		
Kristin Nystrøm	39,728		

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of 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 2019, income statement, statements of comprehensive income, the statements of 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 2019 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 2019. 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.

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

Loans to customers represent MNOK 34 225 (81 % per cent) of total assets. Corresponding amount in the parent company is MNOK 16 983 (59% per cent) of total assets. Expected credit losses (ECL) on loans, unused credit and guarantees amount to MNOK 113. The ECL amount is allocated to three stages, of which MNOK 29 is based on model calculations (Stage 1 and 2) and MNOK 84 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 12 – 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 MNOK 598 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 21 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 2020
ERNST & YOUNG AS

Einar Hersvik
State Authorised Public Accountant (Norway)

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

Definition of key figures and alternative profit targets

Profitability	
1 Return on equity*	The profit that is attributable to equity certificates and primary capital as a percentage 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 Sparebanken Øst's most important target figures.
2 Net interest income as a percentage of average total assets	Net interest income as a percentage of average total assets
3 Profit after tax as a percentage of average total assets	Profit after tax as a percentage of average total assets
4 Costs as a percentage of average total assets	Personnel expenses, administrative costs, amortisation, and other operating costs as percentage of average total assets
5 Costs as a percentage of income (before losses on loans/guarantees)*	Personnel expenses, administrative costs, amortisation, and other operating costs as percentage 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 percentage of income, exclusive of the return on financial in	Personnel expenses, administrative costs, amortisation, and other operating costs as percentage 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 percentage of OB net lending. Quarterly figures show growth in the quarter, while other figures show 12-month growth.
9 Deposits	Customer deposits
10 Deposit growth (12 months)	Change in deposits as a percentage of OB deposits. Quarterly figures show growth in the quarter, while other figures show 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 percentage of net lending to customers (OB)*	Losses as a percentage of OB net lending 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 extent of the losses incurred by the group in relation to loan volume.
14 Write-downs as a percentage of gross loans to customers*	Total loss provisions, Stages 1, 2 and 3, as a percentage of gross lending. This key figure provides relevant information about credit risk and is deemed useful additional information to that stated in the loss notes.
15 Net payments over 90 days past due as a percentage of net lending*	Net payment defaults (over 90 days past due) as a percentage of net lending. This key figure provides relevant information about credit risk and is deemed useful additional information to that stated in the loss notes.
16 Other net non-performing commitments (Stage 3) as a percentage of net	Net other non-performing commitments as a percentage of net lending. This key figure provides relevant information about credit risk and is deemed useful additional information to that stated in the loss notes.
Financial strength	
17 CET1 capital ratio	CET1 capital as a percentage of the risk-weighted volume (calculation basis)
18 Tier 1 capital ratio	Tier 1 capital as a percentage of the risk-weighted volume (calculation basis)
19 Capital adequacy	Total primary capital as a percentage of the risk-weighted volume (calculation basis)
20 Risk-weighted volume (calculation basis)	Total credit and counterparty risk, currency risk, operational risk, and calculation basis for impaired counterparty credit rating (CVA)
21 Leverage ratio (%)	Tier 1 capital as a percentage of unweighted calculation basis
Liquidity	
22 Loan to deposit ratio (LDR)	Deposits as a percentage of net loans to customers
23 LCR (%)	Liquid assets as a percentage of net payments in a stress scenario lasting 30 days
Offices and full-time equivalents	
24 Number of bank branches	
25 Full-time equivalents	
Equity certificates	
26 Ownership fraction	Equity certificate holders' proportion of total equity adjusted for hybrid capital (less proposed dividends) as a percentage (basis as at 01.01, time-weighted by issue)
27 No. of equity certificates	Total no. of outstanding equity certificates
28 Book equity per equity certificate*	Equity share capital divided by no. of equity certificates. The calculation includes the year's allocation for dividends. 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.
29 Earnings per equity certificate	The equity share capital's share of the profit after tax divided by time-weighted average number of equity certificates during the period.
30 Dividend per equity certificate	Dividend in NOK per equity certificate
31 Turnover rate	Annualised turnover rate (traded as a percentage of issued)
32 Price	The most recently traded price on the Oslo Stock Exchange as at the balance sheet date.

* Defined as an alternate performance target