Sparebanken Øst
Boligkreditt AS

Annual Report for 2020

Twelfth year of trading

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Key figures

	2020	2019	2018	2017	2016
1 Return on equity*	7.70	6.83	7.21	7.92	6.97
2 Net interest income as a % of average total assets (GFK)	1.04	0.91	0.91	1.10	1.00
3 Profit/loss after tax as a % of average total assets (GFK)	0.64	0.56	0.55	0.67	0.62
4 Costs as a % of income (before losses)*	17.88	19.78	20.38	17.22	18.06
5 Losses as a % of net lending to customers (OB)*	0.00	0.00	0.00	0.00	0.00
6 Net non-performing commitments as a % of net lending*	0.01	0.14	0.07	0.03	0.02
7 Capital adequacy ratio in %	21.37	21.07	23.00	21.67	24.04
8 Tier 1 capital ratio in %	21.37	21.07	23.00	21.67	24.04
9 Dividend/Additional dividend	88.8	72.9	71.4	70.0	10.0
10 Average total assets (GFK)	16,659.8	15,857.5	13,319.6	11,325.0	10,384.0

*Defined as alternate profit target
For definition of key figures and a review of alternative performance targets, see p. 43.

Annual report

The Board of Directors hereby submits its report for the twelfth year of trading.

The business

Sparebanken Øst Boligkreditt AS was founded on 14 April 2009.

Sparebanken Øst Boligkreditt AS is a wholly owned subsidiary of Sparebanken Øst and is licensed as a credit institution with the right to issue covered bonds. The company's business address is in Drammen. In its participation in the market, Sparebanken Øst Boligkreditt AS has played a vital role in securing long-term and favourable financing for the Group.

Moody's Investors Service has given the company an Aaa credit rating on all its bond issues. This reflects the lowest risk and is important for ensuring market access and obtaining good borrowing terms.

In 2012, Sparebanken Øst and Sparebanken Øst Boligkreditt AS launched "Boligkreditt.no", an online market concept which only offers loans secured against property which can be approved in the cover pool for covered bonds, without a deposit account or other banking products.

Business concept

Sparebanken Øst Boligkreditt AS exists to grant or acquire residential mortgages, commercial mortgages, loans secured against other real estate assets, and public loans, as well as to finance lending operations primarily by issuing covered bonds.

Sparebanken Øst Boligkreditt AS aims to be a profitable company run in accordance with business principles and with high ethical standards.

Report on the Annual Accounts

Income Statement

Total interest income in 2020 amounted to NOK 399.4 million (NOK 436.8 million in 2019), of which NOK 394.5 million (NOK 429.9 million) relates to interest income on lending to customers. Net interest income totalled NOK 173.4 million, an increase compared to 2019 (NOK 144.1 million). Over the past year, margins on lending to customers have increased more than the margin on borrowing.

The company's operating profit before tax for 2020 amounted to NOK 137.7 million (NOK 113.9 million in 2019), while profit after tax amounted to NOK 107.4 million (NOK 88.8 million).

Total operating costs in 2020 amounted to NOK 30.1 million (NOK 28.2 million in 2019), of which NOK 23.4 million (NOK 22.8 million) relate to management fees paid to the parent bank. Sparebanken Øst Boligkreditt AS has a formal partnership with Sparebanken Øst regulated by a comprehensive management agreement which ensures competency within key fields related to the business and helps to ensure cost-effective operations. In line with the management agreement, the fee is calculated according to business principles and the portfolio being managed at the time.

Losses on loans and unused credit facilities amounted to NOK 0.5 million (NOK 0.5 million in 2019). There were no confirmed losses or changes in individual loan loss provisions in 2020, and the loss for the year as a whole represents a change in model-based loan loss provisions.

Tax costs amounted to NOK 30.3 million (NOK 25.1 million in 2019).

The accounts are prepared on the assumption of a going concern, and it is confirmed that the conditions for this assumption are present.

Balance sheet

The total balance sheet of Sparebanken Øst Boligkreditt AS amounted to NOK 18,233.9 million at the end of 2020, an increase of NOK 2,443.6 million from the previous year. Of the total balance sheet, net lending to customers amounted to NOK 16,843.9 million, representing an increase of NOK 1,639.9 million from 2019. The managed volume originates from the acquisition of the mortgage portfolio from Sparebanken Øst or lending via Boligkreditt.no. Other assets largely comprise deposits in the parent bank.

Bond debt at the end of the year amounted to NOK 16,127.2 million, equivalent to an increase of NOK 2,230.2 million from 2019.

Total loan loss provisions at the end of the year amounted to NOK 5.1 million, an increase of NOK 0.5 million from 2019. All of the loan loss provisions are model-based loss provisions in Step 1 and Step 2. The major economic uncertainty that arose at the end of first quarter of 2020 as a result of the Covid-19 pandemic, and the fall in oil prices, were judged to have significantly reduced at the end of 2020 compared with the end of the first quarter of 2020. Despite improvements in the macroeconomic conditions, there remains widespread uncertainty over the long-term impact of the pandemic. During the first quarter of 2020, the probability of a pessimistic scenario increased from 15 to 30 per cent, while the probability of the expected scenario was reduced by a similar figure. This change during the first quarter of 2020 resulted in an increase in loan loss provisions in Step 1 and Step 2 totalling NOK 0.7 million. The probability weighting of macroeconomic scenarios remained unchanged at the end of 2020.

At the end of the year, NOK 451.2 million was drawn from an approved credit facility with a limit of NOK 3,000 million, which was made available from Sparebanken Øst.

Net cash flow was positive in 2020 at NOK 552.8 million. The growth in lending is primarily funded by issuing bond loans with preferential rights (covered bonds).

Share capital amounts to NOK 426.4 million, distributed on 10.66 million shares, each with a nominal value of NOK 40.

Risk and corporate governance

Sparebanken Øst Boligkreditt AS seeks to maintain a low risk profile in line with regulatory requirements, which also ensures that the company has confidence in the market for covered bonds. The business requires a certain degree of risk-taking, but Sparebanken Øst Boligkreditt AS seeks to maintain a conscious and measured approach to this. This applies particularly to credit risk, interest rate risk, liquidity risk, and operational risk (including ICT risk).

Sparebanken Øst Boligkreditt AS aims to achieve its economic objectives over time. These objectives include a return on equity equivalent to, as a minimum, the risk-free interest rate over time, capital adequacy at the highest level, either as stipulated by regulations or the company's own evaluations, and liquidity management that reduces the risk related to future liquidity requirements.

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

<u>Overall risk management</u>

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

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

The general manager is responsible for executing and implementing adequate internal controls and risk management. The company hires in resources from the parent bank's compliance department, which prepares quarterly risk reports using the existing portfolio as the basis for making spot-checks against credit risk and regulatory provisions. Checks and reports are also carried out for each portfolio transfer from the parent bank to Sparebanken Øst Boligkreditt AS. A quarterly Board and Management Report providing a picture of current risks and trends will be submitted to the Board. The company has established guidelines and a framework for the management and control of various types of risk. Foreign exchange, interest rate, and liquidity risks are managed in accordance with Acts and Regulations for covered bonds, and the framework laid down by the company's Board. The general manager holds quarterly meetings with the parent bank to review the current status, trends, and prospects on the basis of the financial report that has been compiled. Separate minutes are prepared following these quarterly meetings. A financial report together with minutes is submitted to the Board on a quarterly basis. The Board deems the overall financial risk to be low.

A management agreement (Transfer and Servicing Agreement – TSA) has been entered into with Sparebanken Øst covering administration, IT operations, and the production of various banking services, anti-money laundering activities, as well as finance, clearing, and accounting services. At the end of 2020, the company had hired a total of 1.4 FTEs, including a general manager, to assist with such assignments as follow-up and control related to outsourced services. The structure and systems associated with this are constantly evolving. The general manager submits an annual report on the implementation of internal control and risk management. The Board considers the operational risk to be low.

In connection with the rating of bond issues from Sparebanken Øst Boligkreditt AS, Sparebanken Øst has issued a guarantee relating to liabilities with regard to covered bonds in the mortgage company. Sparebanken Øst Boligkreditt AS also has drawing rights in Sparebanken Øst.

The assets primarily consist of lending secured against real estate within legal requirements with regard to quality and loan-to-value ratio. The loan-to-value ratio is calculated in relation to the reasonable property value determined in accordance with applicable legislation. The general assessment criteria related to the approval and maintenance of the loan follow the guidelines established by Sparebanken Øst. All collateral is established by way of a value assessment conducted by a competent and independent third party. The Board considers that the quality of the lending portfolio is good. The over-collateralisation of the cover pool was 12% at year-end.

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

Net primary capital amounted to NOK 1,496.9 million at year-end. This corresponded to capital adequacy of 21.37% and a Tier 1 capital ratio of 21.37%. The risk-weighted balance sheet at the end of 2020 was NOK 7,005.6 million. The company uses the standardised approach in its capital adequacy calculations. The Board deems the company’s capital adequacy to be satisfactory in relation to the company’s overall risk level, and the capital situation is helping to position the company for further growth.

Allocation of profit
The annual profit for 2020 amounted to NOK 107.4 million (NOK 88.8 million in 2019). The Board of Directors proposes that the profit for the year be transferred in its entirety to other equity.

Strategy
Through its collaboration with the parent bank, Sparebanken Øst Boligkreditt AS will help the Group to obtain competitive borrowing in a niche market which the bank cannot directly participate in itself. The activities of Sparebanken Øst Boligkreditt AS are, therefore, designed to limit the Group’s liquidity risk, and thereby help the Group to achieve its long-term strategic objectives. Through its activities, Sparebanken Øst Boligkreditt AS shall help Sparebanken Øst to offer competitively priced mortgages. New mortgages are sold through the bank’s distribution channels and in accordance with the bank’s current guidelines and regulations. The bank is responsible for customer relations, marketing, product development, etc. The company’s growth depends on the parent bank’s borrowing requirements and capital structure.

The target group for the covered bonds issued is mainly national players, but issues in foreign currencies may occur.

Employees and the working environment
Sparebanken Øst Boligkreditt AS employed a total of 1.4 FTEs at year-end. The general manager occupies a 40% position, the accounting department contributes resources equivalent to a 50% position and the departments for risk management and compliance contribute the equivalent of a 50% position. The working environment in the company is deemed to be good. The Board consists of four people.

External environment, social responsibility, and research and development
The company’s business activities do not involve any environmentally-harmful pollution or emissions. Please refer to the parent bank’s annual report for a social responsibility report in accordance with Section 3-3c of the Norwegian Accounting Act. This is available on the bank’s and company’s website at www.oest.no. The company has no ongoing research and development activities.

Equality
The Sparebanken Øst Group’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 Group. The Board of Directors of Sparebanken Øst Boligkreditt AS currently comprises two men and two women.

The market
Credit spreads in the market for Norwegian covered bonds decreased slightly in 2020. Sparebanken Øst Boligkreditt AS today pays approximately 31 basis points (hundredths of a percentage point) above the 3-month NIBOR rate for issuing such bonds with terms to maturity of five years. Access to capital in the market for covered bonds has been quite good overall throughout the year. When there was the greatest uncertainty associated with the global outbreak of Covid-19, the market ceased to function for a short period, but with swift action from the authorities, it quickly opened up again and by the summer, credit spreads were back to the levels preceding the outbreak of Covid-19.

In 2020, Sparebanken Øst Boligkreditt AS issued two new covered bonds, each with a nominal value of NOK 2,500 million, maturing in 2025 and 2026.

The cover pool contains secured mortgage loans concerning every county in the country. The majority of the homes are located in the central part of Eastern Norway, and loans from Oslo account for 83.7% of the total. The loans in the cover pool have first priority mortgage charges on Norwegian residential properties.

Future prospects

In 2020, Sparebanken Øst Boligkreditt AS took a market approach based on the strategy of the parent bank, and a general adjustment to market conditions. The growth in 2020 was adjusted to match the Group's need for funding. Apart from a period in March and April, access to financing through covered bonds has been good. The mortgage credit company expects slightly lower growth in the coming year, but given normal market conditions, covered bonds will cover part of the Group's funding needs with long terms to maturity. Issues of covered bonds have helped Sparebanken Øst to achieve a robust liquidity position.

The Covid-19 pandemic means that 2020 will go down in history as one of the most volatile economic years of modern times. In March, the Norwegian and international economies were severely impacted by the infection control measures introduced by governments to limit the damage done by the disease. Economic activity varied a lot throughout the year due to changes in the infection situation and the associated easing or tightening of infection control measures.

In Norway and among our trading partners, the shutdowns of economies were generally countered with major monetary and fiscal policy measures aimed at preventing prolonged recessions. The central banks' policy rates were cut quickly when liquidity in the financial markets faltered in March and the equity markets abruptly fell. The central banks in the USA, EU and Japan also launched major programmes to support purchases of bonds to ensure access to credit in their economies. The indications are that the central banks' measures will be maintained for several years going forward and that interest rates will probably be close to 0 per cent during this period.

Norges Bank also cut interest rates fast. The key policy rate was first cut from 1.50 per cent to 1.0 per cent on 12.03.20. A week later it was cut by a further 0.75 percentage points. At the beginning of May, Norges Bank cut its rate to 0 per cent. In parallel with the rate cuts and expanded supply of liquidity from Norges Bank, the Norwegian government launched several immediate measures aimed at reducing the economic damage caused by the pandemic. Compensation schemes for enterprises that experienced falls in earnings of more than 30 per cent, tax and VAT deferrals, and wages compensation for furloughed workers were some of the measures that were put in place in spring 2020.

The overall fall in the Norwegian Mainland economy is expected to be around 3.5 per cent for 2020 following strong fluctuations in growth throughout the year. In second quarter, GDP fell by 6.3 per cent, while in the third quarter it grew by 5.2 per cent. The infection control measures have had varying effects on the economy. Service industries have seen big drops in demand, while retail and parts of manufacturing have fared much better. Unemployment peaked in March in Norway at 10.6 per cent completely unemployed. Unemployment dropped quickly during the summer and autumn in line with society reopening and was 3.8 per cent in December. The housing market developed unexpectedly strongly due to the interest rate cuts and the growth in prices increased over the year after a fall in March. Prices rose by 8.7 per cent in 2020.

The company expects future mortgage growth and intends to contribute to continued lending growth in the Group. The company has good control over its costs, with no considerable costs expected in addition to costs which would arise naturally as a result of an increased portfolio. Consequently, the Board expects the company to achieve the adopted objective of a satisfactory return on equity.

The Board is also of the opinion that the company's capital base is sufficient to provide room for manoeuvre in the future. We expect the market for covered bonds with good ratings to meet the company's need for new funding and the refinancing of existing debenture loans.

Drammen, 11 February 2021

Board of Directors of Sparebanken Øst Boligkreditt AS

Kjell Engen
Chairman of the Board

Siren Coward
Deputy Chair

Leif Ove Sørby
Board member

Anne Grete Nesset
Board member

Vegard Kvamme
Managing director

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

We certify that, to best of our knowledge, the annual accounts for the period 1 January to 31 December 2020 have been prepared in accordance with IFRS and that the accounts give a true and fair view of the company's assets, liabilities, financial position, and results as a whole, and that the information in the annual report provides a true and fair view of the development, performance and position of the company, together with a description of the principal risks and uncertainties faced by the company.

Drammen, 11 February 2021

Board of Directors of Sparebanken Øst Boligkreditt AS

Kjell Engen *Chairman of the Board*	Siren Coward *Deputy Chair*	Leif Ove Sørby *Board member*
Anne Grete Nesset *Board member*	Vegard Kvamme *General manager*	

Income statement

(Figures in NOK thousands)	Notes	2020	2019
Interest income from assets valued at amortised cost	3,4	396,140	434,200
Interest income from assets valued at fair value	3,4	3,302	2,627
Interest costs	3,4	225,995	292,711
Net interest income		**173,447**	**144,116**
Commission income and income from banking services	3	43	35
Commission costs and costs for banking services	3	23,431	22,752
Net value adjustment and gain/loss on financial instruments	15	-5,185	-1,497
Administration costs	3,6	1,551	1,164
Other operating costs	3,5,7,8	5,109	4,299
PROFIT BEFORE LOSSES		**138,214**	**114,438**
Losses on loans and unused credit facilities	9	547	506
PROFIT BEFORE TAX		**137,667**	**113,932**
Tax costs	10	30,287	25,101
PROFIT FOR THE YEAR		**107,380**	**88,831**

Comprehensive income

(Figures in NOK thousands)	Notes	2020	2019
PROFIT FOR THE YEAR		**107,380**	**88,831**
Other operating income and costs in comprehensive income		0	0
STATEMENT OF COMPREHENSIVE INCOME		**107,380**	**88,831**

Balance sheet

(Figures in NOK thousands)	Notes	31.12.20	31.12.19
Loans to and receivables from financial institutions	3,21,22,23	864,739	311,914
Loans to and receivables from customers	9,11,21,22,23	16,843,903	15,204,020
Certificates, bonds, etc. at fair value	20,22,23	343,805	150,835
Financial derivatives	12,20,22,26	173,221	117,495
Other assets	3,13,21,22	8,277	6,076
TOTAL ASSETS		**18,233,945**	**15,790,339**
Liabilities to financial institutions	3,14,16,21,22,23	452,803	513,388
Securities issued	3,16,18,21,22,23	16,127,220	13,897,069
Tax payable	10	29,390	24,101
Other liabilities	3,17,22,23	124,296	76,222
Accruals and deferred income		1,309	115
Other provisions		139	101
Deferred tax liability		1,403	506
TOTAL LIABILITIES		**16,736,560**	**14,511,503**
Paid-up equity	24	1,149,990	949,990
Retained earnings		347,395	328,846
Total equity	19,24	**1,497,385**	**1,278,836**
TOTAL LIABILITIES AND EQUITY		**18,233,945**	**15,790,339**

Drammen, 11 February 2021

Kjell Engen
Chairman of the Board

Siren Coward
Deputy Chair

Leif Ove Sørby
Board member

Anne Grete Nesset
Board member

Vegard Kvamme
General manager

Cash Flow Statement

(figures in NOK thousands)	Notes		2020	2019
Operating activities				
Profit/loss before tax			137,667	113,932
Adjusted for:				
Change in net accrued interest income and interest costs			-14,679	1,348
Change in bonds at fair value			-192,548	-80
Net receipts/payments of loans to customers			-1,647,011	-1,691,412
Net receipts/disbursement of borrowing from financial institutions			-60,569	66,216
Change in other assets			-2,201	-5,333
Change in other liabilities			49,267	962
Change in premium/discount on securities issued			240	583
Non-cash items included in profit before tax			547	507
Net losses/gains from financing activities			4,101	1,840
Taxes paid for the period			-24,102	-21,238
Net cash flow from operating activities		**A**	**-1,749,288**	**-1,532,675**
Financing activities				
Payments on repayment of securities			-2,804,131	-814,510
Proceeds on issuance of securities			4,995,075	2,501,030
Proceeds from capital increase			200,000	0
Payment of additional dividends			-88,831	-72,904
Net cash flow from financing activities		**B**	**2,302,113**	**1,613,616**
Net change in cash and cash equivalents		**A+B**	552,825	80,941
Cash and cash equivalents at 01.01.	3		311,914	230,973
Cash and cash equivalents as at 31.12.			**864,739**	**311,914**

Liquid assets consist exclusively of bank deposits. Unused drawing rights at 31.12.20 were NOK 2,548.8 million, against NOK 2,487.0 million at 31.12.19.

Additional information for operating activities concerning interest	**2020**	**2019**
Interest payments received	407,119	430,840
Interest payments made	246,631	284,794

Change in equity

(figures in NOK thousands)

2020	Total equity	Share capital	Premium reserve	Other equity
Equity at 31.12.19	1,278,836	373,100	576,890	328,846
Profit for the year	107,380	0	0	107,380
Other operating income and costs in comprehensive income	0	0	0	0
Comprehensive income	107,380	0	0	107,380
Capital increase 27.08.2020	200,000	53,300	146,700	0
Additional dividends	-88,831	0	0	-88,831
Equity at 31.12.20	**1,497,385**	**426,400**	**723,590**	**347,395**

On the basis of the profit for 2019, an additional dividend of NOK 88.8 million was paid out, equivalent to NOK 8.33 per share. The proposed dividend based on the profit for 2020 is NOK 0 million.

2019	Total equity	Share capital	Premium reserve	Other equity
Equity at 31.12.18	1,262,909	373,100	576,890	312,919
Profit for the year	88,831	0	0	88,831
Other operating income and costs in comprehensive income	0	0	0	0
Comprehensive income	88,831	0	0	88,831
Additional dividends	-72,904	0	0	-72,904
Equity at 31.12.19	**1,278,836**	**373,100**	**576,890**	**328,846**

On the basis of the profit for 2018, additional dividend of NOK 72.9 million was paid out, equivalent to NOK 6.84 per share. The proposed dividend based on the profit for 2019 is NOK 0 million.

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NOTE 1 GENERAL INFORMATION

Sparebanken Øst Boligkreditt AS has its headquarters in Drammen and is a wholly owned subsidiary of Sparebanken Øst. 2020 is the company's 12th year of operation. The company was established on 14 April 2009 and registered in the Norwegian Register of Business Enterprises on 27 April 2009. Its business address is Bragernes Torg 2, N-3017 Drammen, Norway.

The object of the company is to grant or acquire home mortgage loans, property mortgage loans, loans secured by liens on other registered assets or public loans, and to finance lending activities, mainly by issuing covered bonds.

The annual accounts for 2020 were approved by the Board of Directors of Sparebanken Øst Boligkreditt AS on 11 February 2021.

The company is included in the consolidated accounts of Sparebanken Øst, business address Stasjonsgate 14, NO-3300 Hokksund, Norway.

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

NOTE 2 ACCOUNTING POLICIES

1. GENERAL

The financial statements for Sparebanken Øst Boligkreditt AS have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted 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 company uses hedge accounting, the value of the hedging object is adjusted for changes in value related to the hedged risk. Interest-bearing balance sheet items include earned/accrued interest.

2. AMENDMENTS TO ACCOUNTING POLICIES

The accounting policies applied are generally unchanged from the policies applied to the 2019 annual financial statements, with the exception of the changes in IFRS and interpretations that were implemented in 2020. All relevant amendments to IFRS and interpretations effective for the accounts for 2020, and the effect these have had on the annual financial statements, are listed below.

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 resulted 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 01.01.20. The changes have not resulted in material changes to the information presented in the financial statements.

3. CURRENCY

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

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

4. INCOME

4.1 INTEREST INCOME AND COSTS

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

If a financial asset or a group of similar assets are written down as a result of a credit loss, interest income is recognised through profit or loss using the interest rate at which future cash flows are discounted to calculate the impairment.

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

4.2 COMMISSION INCOME AND COSTS

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

5 FINANCIAL INSTRUMENTS

5.1 RECOGNITION AND DERECOGNITION

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

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

5.2 CLASSIFICATION

The company's financial instruments subject to 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 changes through profit or loss

5.3 MEASUREMENT

5.3.1 Initial recognition of financial instruments

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

5.3.2 Subsequent measurement

Measurement at fair value

In principle, observable market rates must be the basis on which a financial instrument at fair value is estimated. Where observable market rates do not exist and the fair value cannot be derived directly or indirectly from observable inputs in the market, other valuation methods are used. These are methods that can involve using discretionary evaluations to some degree. Such discretionary evaluations may involve assessments of liquidity risk, credit risk and volatility. Changes in the attitude toward these factors may affect the determination of the fair value of a financial instrument. All changes in fair value are recognised directly in the income statement.

Measurement at amortised cost

Financial instruments that are not measured at fair value are valued at amortised cost. 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.

5.3.3 Hedge accounting

The company uses fair value hedging of fixed-rate borrowing and foreign currency borrowing. For fair value hedging the hedged instrument is recognised at fair value and the value of the hedging object is adjusted in accordance with the change in value linked to the hedged risk. Hedge accounting is described in further detail under 5.4.4.

5.4 MORE INFORMATION ABOUT FINANCIAL INSTRUMENTS

5.4.1 Loans and receivables

The company's loans and receivables 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 loan loss provisions on loans and receivables in the period are recognised in the income statement under "Losses on loans and unused credit facilities". Interest income on loans and receivables with loan loss provisions in Step 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 credit loss
Expected losses are calculated regardless of whether there is objective evidence of impairment on the balance sheet date. Loans and receivables are presented in the balance sheet on a net basis after loss provisions. Measurement of expected losses is described in further detail under 5.4.6.

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 regarded as non-performing if the company:
- 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.
- Disposes of a receivable is disposed of at a lower price and the reduction is not insignificant.
- Assumes that debt negotiations will be initiated, bankruptcy occurs, or the counterparty enters into public administration.
- Assumes that the commitment will not be met for other reasons.

Non-performing commitments are assigned to Step 3.

Individually assessed loan 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. Where there are several probable outcomes, the probability-weighted present value of discounted future cash flows is used.

Declaring losses
The realisation of losses occurs only once debt settlement of bankruptcy of a debtor has been affirmed, when execution proceedings have not been conveyed, where there is a final and enforceable judgement, or in instances in which the company has renounced the loan or parts of it, or in other instances when it is highly likely that losses are finite. Declared losses that are covered by previous write-downs are posted to allocations. Declared losses that have not previously been subject to individual write-down, as well as over- or under-coverage in relation to previous write-downs, are recognised in the income statement.

5.4.2 Certificates and bonds
The company’s holdings of certificates and bonds constitute the company’s liquidity portfolio, which is managed and measured at fair value. The company’s holdings of certificates and bonds are classified at fair value with value changes through profit and loss. Interest income on certificates and bonds is included in “Interest income from assets assessed at fair value” in the income statement. The value adjustment and realised profit and losses are posted to “Net value adjustments and profit/loss on financial instruments”.

5.4.3 Financial derivatives
Financial derivatives are contracts that are entered into in order to neutralise an already relevant interest and/or foreign exchange risk assumed by the company. Derivatives include foreign currency and interest rate instruments. Financial derivatives are recognised at fair value with value adjustment through profit or loss. The derivative is recognised as an asset if the fair value is positive and as a liability if the fair value is negative. Accrued interest from financial derivatives, where hedge accounting is applied, is presented on the same line in the income statement as interest on the hedging object. Value adjustments and realised gains/losses on financial derivatives are recognised in the income statement under “Net value adjustments and gains/losses on financial instruments”. The accounting treatment of financial derivatives when hedge accounting is used is described in a separate section.

5.4.4 Hedge accounting
The company mainly uses financial derivatives to reduce interest rate and/or currency risk.

The company uses fair value hedging of fixed-rate borrowing and currency borrowing. In a fair value hedge the company seeks to hedge against exposure to changes in the fair value of recognised assets or liabilities. Bond debt at fixed interest rates constitutes an interest risk. Bond debt in foreign currency constitutes both an interest and a currency risk. Hedge accounting is applied to financial derivatives used to hedge the fair value of recognised liabilities where the criteria are met. Changes in the fair value of financial derivatives classified as and meeting the requirements of fair value hedging are recognised in the income statement together with any change in the fair value of the hedged liability which can be ascribed to the hedged risk. Interest rate swaps and combined interest rate and currency swaps (basis swaps) are the hedging instruments used by the company. The value adjustment of hedging instruments and items is posted to "Net value adjustments and gains/losses 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 company predominantly uses one-to-one hedging, which means, 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 hedging object.

5.4.5 Borrowing and other financial liabilities:

The company measures financial liabilities, other than derivatives, at their 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 rate 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. Interest costs and the amortisation effects on instruments are included in "Interest costs" in the income statement. In the case of buybacks, the difference between the book value and the remuneration paid is recognised in the income statement under "Net value adjustments and gains/losses on financial instruments".

5.4.6 Measurement of expected losses

Expected credit 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 expected loss on the commitment amount consisting of loans and unused credit facilities is calculated. Expected credit loss is calculated per commitment. The company divides commitments into three steps in calculating the expected losses. See Note 9 for model-calculated loss costs and loan loss provisions per step and Note 22 for commitment totals per risk class and distribution per step.

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

Step 2: Commitments with a significant increase in credit risk after initial calculation, measured on the basis of changes in the risk class including commitments overdue by more than 30 days, are included in Step 2. For Step 2 commitments, lifetime losses are calculated based on the exposure and expected maturity of the commitment. Commitments with forbearance are assigned to Step 2 if they have not already been assigned to Step 2 or Step 3.

Step 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 loan loss provisions and model-calculated expected credit loss. For commitments for which there is no individual loss assessment, expected credit loss is calculated on the basis of the commitment's exposure, the segment parameter for expected credit loss, and expected duration.

Principle for the calculation of expected credit loss: On the basis of the company's risk classification system, each risk class is subject to a probability of default in order to calculate the expected loss. The company's commitments have approximately the same risk profile and are classified into one segment. An expected loss given default has been determined in the segment. An expected commitment exposure is also determined. For repayment loans, the basis is an expected repayment plan. For credit lines, the basis is an expected exposure at default. Expected credit loss (ECL) is calculated by multiplying probability of default (PD) x loss given default (LGD) x exposure at default (EAD). When calculating expected losses, a probability-weighted calculation is made based on an analysis of alternative outcomes based on observed credit losses and forward-looking information, including expected macroeconomic developments.

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

Probability of default: The company has a risk classification based on 11 categories from A to K. For each risk class, an expected probability of default in the first 12 months is assigned for calculating expected losses in Step 1. The expected probability of default during the term of the commitment, used to calculate the expected credit loss in Step 2, is derived from the probability of default in the first 12 months. For risk classes J and K, which are the risk classes for non-performing commitments, the probability of default is 100%.

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 given default is assessed collectively for the loan portfolio. Assessments of the realisation value of collateral reflect short and medium-term expectations.

Exposure at default: For repayment loans, the expected repayment profile is determined from an analysis of the average maturity of the Group's mortgage portfolio. For commitments with a credit limit, a determination is made of how much of the credit limit is expected to have been drawn at the time 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, a significant increase in credit risk that would lead to Step 2 is when the change in risk classes increases to at least risk class E. Non-performing commitments are assigned to Step 3. The company does not use the exemption for loans with low credit risk.

Reversal from Step 2 and from Step 3: When the criteria for a significant increase in credit risk (Step 2) are no longer present, the commitment is transferred to Step 1 after one month. In the case of non-performing commitments in Step 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.

Macroeconomic scenarios and probability weighting: When calculating an expected credit 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 credit 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 credit loss. Factors and the probability of the scenarios are based on the Group's internal assessments, which include the expected development in key macroeconomic indicators, including economic growth (GDP), house 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, with the mortgage company comprising one such segment.

6 INCOME TAX

Tax costs for the year in the income statement comprise the tax payable for the financial year, any over/under allocated tax payable from previous years, and deferred tax recognised in the income statement. These are recognised as income or costs in the income statement with the exception of tax payable 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 temporary differences. The provisional difference is the difference between the book value and the tax value of assets and liabilities. Deferred tax assets are calculated on the tax effects of losses carried forward.

Deferred tax assets are recognised as assets in the balance sheet to the extent that it is expected that the company will have sufficient taxable profit in future periods so as to utilise the deferred tax asset. Deferred tax assets and 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 liabilities are not discounted, and are adjusted to the extent permitted. Deferred tax assets and 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.

7 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.

8 DIVIDEND

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

9 CASH FLOW STATEMENT

Cash flow statements show the cash flows grouped according to types and employment area. Cash and cash equivalents include cash, receivables at central banks, and lending to and receivables from financial institutions relating to direct investments. An indirect method for the preparation of cash flow setup has been used.

10 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.

11 FUTURE AMENDMENTS TO ACCOUNTING POLICIES

There are no standards and interpretations which were adopted prior to the publication of the accounts but which enter into force is in the future, and are expected to have a material impact on the company's income statement, balance sheet and/or notes.

12 MANAGEMENT ASSESSMENTS, USE OF ESTIMATES AND ASSUMPTIONS

Due to the uncertainties associated with business activities, many accounting items cannot be accurately measured, but only estimated. The management has used its judgement in applying accounting policies, and has used assumptions and expectations regarding future events that are considered likely. Estimates and assessments are regularly evaluated and are based on the most recent reliable data available, as well as experience from similar assessments. There will always be an inherent uncertainty related to accounting items that cannot be measured accurately, and the management's assessments and best estimates may differ significantly from actual outcomes.

In the company's financial statements, the use of such estimates relates in particular to the measurement of losses on loans and unused credit facilities.

12.1 MODEL-CALCULATED EXPECTED LOSS

Using a model to calculate expected credit loss requires the exercise of judgement and a degree of uncertainty is therefore associated with model-calculated expected credit 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 tied most to the uncertainty are the probability of default, expected loss in the event of default and probability weighting of the scenarios. Please see note 9 for quantitative details of this.

12.2 INDIVIDUALLY ASSESSED LOAN LOSS PROVISIONS

Loans are written down for a reduction in value on an individual basis provided there is objective evidence that such a reduction in value has occurred. Objective evidence is considered to exist where the debtor has substantial financial problems, is in default on payments or otherwise in material breach of contract, or in the case 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 proceedings. Estimates of possible credit loss are based on the size of expected future cash flows from sales 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. Where there are several probable outcomes, the probability-weighted present value of discounted future cash flows is used. 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. Individually assessed loan loss provisions are included in expected credit loss Step 3. Please refer to Note 9.

NOTE 3 ACCOUNT WITH THE PARENT BANK

Sparebanken Øst Boligkreditt AS is a wholly owned subsidiary of Sparebanken Øst and is defined as a related party. The company has entered into an agreement with Sparebanken Øst on management, hire of the general manager, controls and compliance, accounting analysis and reporting and purchase of home mortgages. Transactions between the companies are conducted in accordance with normal commercial terms and principles.

Profit/loss	**2020**	**2019**
Interest income, deposits in parent bank	1,648	4,298
Interest costs, loans from parent bank	8,702	9,466
Interest costs, covered bond liabilities to parent bank	9,802	13,773
Commission costs to parent bank	23,431	22,752
Administrative costs to parent bank	1,539	1,146
Other operating costs to parent bank	1,260	1,260

Balance sheet	**2020**	**2019**
Deposits in parent bank	864,739	311,914
Other receivables from parent bank	8,277	6,076
Loans from parent bank	452,803	513,388
Covered bond debt to parent bank	778,059	599,932
Other liabilities to parent bank	2,045	1,922

NOTE 4 NET INTEREST INCOME

	2020	**2019**
Interest income from lending to and receivables from financial institutions	1,648	4,298
Interest income from lending to and receivables from customers	394,492	429,902
Interest income from certificates and bonds at fair value	3,302	2,627
Interest income	**399,442**	**436,827**
Interest costs on liabilities to financial institutions	9,185	10,569
Interest costs on issued securities	214,678	280,794
Costs of the crisis action fund	2,133	1,347
Interest costs	**225,995**	**292,711**
Net interest income	**173,447**	**144,116**

NOTE 5 SALARIES AND OTHER REMUNERATION

Sparebanken Øst Boligkreditt AS has no employees, but has entered into an agreement with Sparebanken Øst to lease staff. The general manager has a 40% position, and the compliance controller a 50% position, while accounting, analysis and reporting has a 50% position, at a total cost of NOK 1,260,000 in 2020. The general manager is paid by Sparebanken Øst and had an annual salary of NOK 1,028,398 in 2020.

No contracted employees or board members have severance package agreements, subscription rights, options, or bonus agreements. No employees of Sparebanken Øst are paid remuneration for serving on the Board. Remuneration to external board member for 2020 amounts to NOK 77,000. The general manager, Board, and close associates do not have any loans in Sparebanken Øst Boligkreditt AS. The company is not obliged to have an occupational pension scheme under the Act on Mandatory Occupational Pensions.

NOTE 6 ADMINISTRATIVE COSTS

	2020	2019
IT costs	1,539	1,146
Other administrative costs	12	18
Administration costs	**1,551**	**1,164**

NOTE 7 OTHER OPERATING COSTS

	2020	2019
Consulting fees to Sparebanken Øst	1,260	1,260
External consultants and fees	2,820	2,040
Fees relating to own bonds	946	935
Other operating costs	83	63
Other operating costs	**5,109**	**4,299**

NOTE 8 REMUNERATION TO AUDITOR

	2020	2019
Audit	206	200
Other certification services*	167	136
Tax consulting	38	38
Other services	39	29
Remuneration to auditor	**450**	**402**

* Including investigator fees in relation to Sections 11-14 of the Norwegian Financial Institutions Act: NOK 136,000 in 2020 and NOK 136,000 in 2019.
The amounts are inclusive of VAT.

NOTE 9 LOSSES ON LOANS AND UNUSED CREDIT FACILITIES

Loss costs

	31.12.20	31.12.19
Change in model-calculated expected credit loss, Step 1	534	122
Change in model-calculated expected credit loss, Step 2	13	413
Change in model-calculated expected credit loss, Step 3	0	-28
Increase in existing individual loan loss provisions	0	0
New individual loan loss provisions	0	0
Established losses covered by previous individual loan loss provisions	0	0
Reversals of previous individual loan loss provisions	0	0
Actual losses where no individual loss provisions have previously been made	0	0
Recovery of previously identified losses	0	0
Amortisation costs for the period	0	0
Losses on loans and unused credit facilities	**547**	**506**
- Of which losses on unused credit facilities	38	31

Loss

Change in loss provisions	Expected loss Step 1	Expected loss Step 2	Expected loss Step 3*	Total
Opening balance at 01.01.20	**3,540**	**1,013**	**0**	**4,553**
Transferred to Step 1	150	-150	0	0
Transferred to Step 2	-60	60	0	0
Transferred to Step 3	0	0	0	0
Net change	-338	171	0	-167
New losses	1,694	35	0	1,729
Deducted losses	-1,382	-349	0	-1,731
Change in risk model/parameters	470	245	0	715
Closing balance at 31.12.20	**4,074**	**1,026**	**0**	**5,099**
- Of which provision for unused credits	135	4	0	139

* The company has no commitments with individually assessed loan loss provisions as at 31.12.20

Change in loss provisions	Expected loss Step 1	Expected loss Step 2	Expected loss Step 3*	Total
Opening balance at 01.01.19	**3,418**	**600**	**28**	**4,046**
Transferred to Step 1	79	-79	0	0
Transferred to Step 2	-23	36	-13	0
Transferred to Step 3	0	-16	16	0
Net change	-174	565	-31	360
New losses	1,256	65	0	1,322
Deducted losses	-1,016	-159	0	-1,175
Change in risk model/parameters	0	0	0	0
Closing balance at 31.12.19	**3,540**	**1,013**	**0**	**4,553**
- Of which provision for unused credits	100	1	0	101

* The company has no commitments with individually assessed loan loss provisions as at 31.12.19

Gross lending

Change in gross lending, broken down by step	Step 1	Stage 2	Stage 3	Total
Opening balance at 01.01.20	**15,070,771**	**116,658**	**21,044**	**15,208,472**
Transferred to Step 1	14,066	-13,115	-951	0
Transferred to Step 2	-38,596	40,184	-1,588	0
Transferred to Step 3	0	0	0	0
Net change	-348,693	-1,882	122	-350,453
New loans	7,998,961	24,294	0	8,023,255
Deducted lending	-5,966,844	-48,556	-17,010	-6,032,410
Closing balance at 31.12.20	**16,729,664**	**117,583**	**1,618**	**16,848,864**
- of which loans with forbearance	**0**	**46,311**	**0**	**46,311**

Change in gross lending, broken down by step	Step 1	Stage 2	Stage 3	Total
Opening balance at 01.01.19	**13,400,520**	**91,553**	**19,041**	**13,511,114**
Transferred to Step 1	20,572	-16,524	-4,048	0
Transferred to Step 2	-30,505	41,419	-10,914	0
Transferred to Step 3	-991	-2,249	3,240	0
Net change	-488,369	-1,690	296	-489,763
New loans	6,691,817	35,895	14,303	6,742,016
Deducted lending	-4,522,274	-31,746	-874	-4,554,895
Closing balance at 31.12.19	**15,070,771**	**116,658**	**21,044**	**15,208,472**
- of which loans with forbearance	**0**	**25,896**	**0**	**25,896**

Commitments without loan loss provisions in Stage 3

In the case of individual assessment where the assessed present value of securities indicates that the company has not incurred losses, no loss provisions relating to the commitments are made. The total of non-performing commitments without loan loss provisions amounts to NOK 1.6 million (NOK 21.0 million in 2019). The estimated fair value of the collateral amounts to NOK 3.7 million (NOK 39.6 million). The following table shows the loan to value (LTV) ratio for the collateral.

Non-performing commitments without loss provisions as a percentage of the market value of the securities	2020 NOK thousands	2020 Per cent	2019 NOK thousands	2019 Per cent
Less than 50%	1,618	100.0%	4,671	22.2%
50% to 70%	0	0.0%	5,199	24.7%
70% to 85%	0	0.0%	11,174	53.1%
85% to 100%	0	0.0%	0	0.0%
Over 100%	0	0.0%	0	0.0%
Unsecured	0	0.0%	0	0.0%
Total	**1,618**	**100.0%**	**21,044**	**100.0%**

Model-calculated expected credit loss

The major economic uncertainty that arose at the end of Q1 2020 as a result of the Covid-19 pandemic and the fall in oil prices was judged to have significantly decreased by the end of 2020. Despite improvements in macroeconomic conditions, there remains widespread uncertainty pertaining to the long-term impact of the pandemic.

As part of the Group's assessments, special evaluations and assessments of the company's lending portfolio have been carried out in connection with the Covid-19 pandemic with updated assessments through 2020. This is intended to identify any significantly increased credit and loss risk in individual commitment or in the portfolio as a result of Covid-19. As part of these reviews, an assessment was made as to whether risks relating to credit and loss increased over the duration of each respective commitment. The reviews have looked past beyond the situation that has arisen with the lockdown of society, which is assumed to be temporary. The reviews have also examined the authorities' initiatives and aid packages. Measures to remedy immediate liquidity challenges among the company's customers, as in the rest of the financial industry, have been implemented using temporary interest-only periods. The amount of temporary forbearance as a result of Covid-19 is limited and accounts for about 0.3% of the loan portfolio as of 31.12.20

Sensitivity analyses of model-calculated expected credit loss

Macroeconomic scenarios and probability weighting

Commitments in the company constitute one segment in model-calculated expected losses. The measurement of model-calculated expected losses takes account of the macro situation and expected macroeconomic developments, events occurring, developments in defaults and losses, changes in the credit quality of the portfolio, and trends in house prices. These assessments require a large amount of discretion. Expected credit losses in the expected scenario are based on a normal economic situation over time and the factor is set to 100. Assessments are made in the optimistic and pessimistic scenarios based on the expected scenario. The expected credit losses in these scenarios compared with the expected scenario are expressed by an estimated factor. In the pessimistic scenario, the factor is estimated at 200. In assessing a pessimistic scenario, assessments are made that reflect a realistically sharp, negative macroeconomic development, where non-performance increases and the value of collateral decreases such that the losses will increase and repayment plans will be affected by refinancing becoming more difficult. When assessing an optimistic scenario, the factor is estimated to be 80.

Given the ongoing uncertainty regarding long-term economic impact, the estimated uncertainty increased compared with that assumed at the end of 2019. The probability weighting of the pessimistic scenario was increased from 15 to 30 per cent in 2020, while the weighting for the expected scenario was reduced by a similar amount. The change resulted in NOK 0.7 million in increased loss provisions in Step 1 and Step 2 in the first quarter of 2020. The tables below show expected credit losses in the different scenarios as well as their probability weighting. Individually assessed loan loss provisions remain unchanged in the different scenarios.

31.12.20	Factor	Probability-weighted	Step 1	Stage 2	Stage 3	Total
Optimistic scenario	80	0%	2,507	631	0	3,138
Expected scenario	100	70%	3,134	789	0	3,923
Pessimistic scenario	200	30%	6,267	1,578	0	7,845
Loss provisions (weighted)		**100%**	**4,074**	**1,026**	**0**	**5,099**

31.12.19	Factor	Probability-weighted	Step 1	Stage 2	Stage 3	Total
Optimistic scenario	80	0%	2,462	705	0	3,167
Expected scenario	100	85%	3,078	881	0	3,959
Pessimistic scenario	200	15%	6,156	1,762	0	7,918
Loss provisions (weighted)		**100%**	**3,540**	**1,013**	**0**	**4,553**

Sensitivity to model parameters
A sensitivity analysis has been conducted based on the assumptions to which model-calculated expected credit loss is most sensitive, which are probability of default, 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 loss-assessed.

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 loss given default. The assumption used in setting pessimistic scenario's probability weight is that the probability will increase by 50 per cent and that the expected scenario will be reduced correspondingly.

Sensitivity to model parameters	Approximate doubling of probability of default (PD)	50 per cent increase in loss given default (LGD)	50 per cent increase in probability weight of pessimistic scenario
31.12.20	407	2,550	588
31.12.19	317	2,276	594

NOTE 10 TAXES

	2020	2019
The year's tax costs in the income statement are as follows		
Tax payable on the profit for the year	29,390	24,101
Recognised deferred tax	897	999
Recognised deferred tax due to change in tax rate	0	0
Total income tax for the year	**30,287**	**25,101**
Change in net deferred tax		
Recognised deferred tax in the income statement	897	999
Change in deferred tax carried directly to the balance sheet	0	0
Total change in net deferred tax	**897**	**999**
Reconciliation of tax for the year		
Profit before tax	137,667	113,932
Tax at nominal rate of 22%	30,287	25,103
Tax effect of permanent differences	0	-2
Tax effect of changed tax rate	0	0
Tax costs	**30,287**	**25,101**
Tax payable in the balance sheet is as follows		
Tax payable on the profit for the year	29,390	24,101
Tax payable	**29,390**	**24,101**

Deferred tax liability/deferred tax asset	2020	2019	Change 2020	Change 2019
Temporary differences				
Financial derivatives	164,724	102,679	-62,044	8,878
Securities issued	-158,279	-101,779	56.500	-8,339
Securities	-70	1,400	1,470	-1,200
Loss provisions, IFRS 9 at 01.01.18	0	0	0	-3,711
Total temporary differences	6,375	2,300	-4,075	-4,372
Deferred tax liability(+)/deferred tax asset(-)	**1,403**	**506**	**-897**	**-962**

The tax rate for tax payable is 22% in both 2020 and 2019. The deferred tax liability/deferred tax asset is recognised on the basis of the future tax rate of 22%.

NOTE 11 LENDING TO CUSTOMERS

	2020	2019
Credit lines secured against residential property	2,552,989	1,742,333
Repayment mortgages secured against property	14,295,875	13,466,139
Total gross lending	**16,848,864**	**15,208,472**
Loss provisions on loans	4,961	4,452
Total net lending	**16,843,903**	**15,204,020**

Please see Note 9 for further discussion of loss provisions for non-performing commitments (Step 3).

Geographical distribution of lending to customers	2020	2019
Drammen	3,661,748	3,125,681
Øvre Eiker	931,331	790,216
Asker/Bærum	2,615,654	2,250,338
Rest of Viken	3,445,958	3,281,361
Oslo	3,442,456	3,241,221
Vestfold and Telemark	1,513,013	1,261,708
Rest of Norway	1,238,704	1,257,947
Total gross lending	**16,848,864**	**15,208,472**
Loss provisions on loans	4,961	4,452
Total net lending	**16,843,903**	**15,204,020**

Lending by customer groups	2020	2019
Salaried employees	16,666,129	15,184,453
Self-employed	182,735	24,019
Total gross lending	**16,848,864**	**15,208,472**
Loss provisions on loans	4,961	4,452
Total net lending	**16,843,903**	**15,204,020**

Non-performing commitments	2020	2019
Payments over 90 days past due		
Business	0	0
Retail	1,618	21,044
Gross payment defaults	**1,618**	**21,044**
Loss provisions*	0	0
Net payment defaults	**1,618**	**21,044**
Provisions ratio	0.0%	0.0%

Other non-performing commitments

Business	0	0
Retail	0	0
Gross other non-performing commitments	**0**	**0**
Loss provisions	0	0
Net other non-performing commitments	**0**	**0**
Provisions ratio	0.0%	0.0%

Non-performing commitments

Business	0	0
Retail	1,618	21,044
Gross non-performing commitments	**1,618**	**21,044**
Loss provisions	0	0
Net non-performing commitments	**1,618**	**21,044**
Provisions ratio	0.0%	0.0%

*Refer to Note 9 for further discussion of commitments without loan loss provisions in Step 3.

NOTE 12 FINANCIAL DERIVATIVES

Interest rate derivatives have been entered into for the company's fixed-rate bonds to reduce interest rate risk. The hedging ratio is 1:1 and hedge accounting is used. The company only has debt in NOK.

Financial derivatives used for hedge accounting 2020

			Fair value of hedging instruments		Value adjustment of hedging object
	Contract sums	**Recognised value of subject of merger**	**Assets**	**Liabilities**	**Liabilities**
Interest rate instruments					
Interest rate swaps (IRS)	1,450,000		173,221	0	
Securities issued		1,625,902			158,364
Total derivatives			**173,221**	**0**	**158,364**

No significant hedging inefficiencies have been reported in 2020. The difference between the fair value of hedging instruments and the value adjustment of a security is due to accrued interest. The recognised value of the hedging instrument includes value adjustment and accrued interest. See Note 15

Financial derivatives used for hedge accounting 2019

			Fair value of hedging instruments		Value adjustment of hedging object
	Contract sums	**Recognised value of subject of merger**	**Assets**	**Liabilities**	**Liabilities**
Interest rate instruments					
Interest rate swaps	1,750,000		117,495	0	
Securities issued		1,875,135			99,351
Total derivatives			**117,495**	**0**	**99,351**

No significant hedging inefficiencies have been reported in 2019. The difference between the fair value of hedging instruments and the value adjustment of a security is explained by accrued interest. The recognised value of the hedging instrument includes value adjustment and accrued interest. See Note 15

NOTE 13 OTHER ASSETS

	2020	2019
Outstanding accounts, parent bank	8,277	6,076
Other assets	**8,277**	**6,076**

NOTE 14 LIABILITIES TO FINANCIAL INSTITUTIONS

	2020	2019
Loans from financial institutions with an agreed term or notice period	452,803	513,388
Liabilities to financial institutions	**452,803**	**513,388**

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

	2020	2019
Value change in certificates and bonds - held for trading	-1,084	343
Value change and gains/losses on financial instruments at fair value through profit or loss	**-1,084**	**343**
Financial derivatives - hedge accounting	59,012	-22,193
Financial liabilities - hedged	-59,012	22,193
Net hedged items*	**0**	**0**
Realised gains/losses on securities issued - amortised cost	-4,101	-1,840
Value change and gains/losses on financial instruments at amortised cost	**-4,101**	**-1,840**
Total value change and gains/losses on financial instruments	**-5,185**	**-1,497**

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

NOTE 16 LONG-TERM BORROWING

Securities issued

(figures in NOK thousands)	31.12.20	31.12.19
Covered bonds, nominal value in NOK	15,950,000	13,750,000
Value adjustment (including conversion/exchange rate)	154,668	100,371
Accrued interest	22,553	46,698
Total securities issued	**16,127,220**	**13,897,069**

Change for securities issued	31.12.20	Issued	Due/ redeemed	Other changes incl. currency	31.12.19
Covered bonds, nominal value in NOK	15,950,000	5,000,000	2,800,000	0	13,750,000
Value adjustment (including conversion/exchange rate)	154,668	0	0	54,297	100,371
Accrued interest	22,553	0	0	-24,145	46,698
Total securities issued	**16,127,220**	**5,000,000**	**2,800,000**	**30,151**	**13,897,069**

2020	Outstanding volume*	Avg. balance	Weighted effective interest rate
Covered bonds NOK	16,104,668	14,209,686	1.52
Securities issued	**16,104,668**	**14,209,686**	**1.52**

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

2019	Outstanding volume*	Avg. balance	Weighted effective interest rate
Covered bonds NOK	13,850,371	13,760,653	2.03
Covered bonds (FCY)	0	42,881	2.33
Securities issued	**13,850,371**	**13,803,534**	**2.03**

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

Long-term borrowing grouped according to maturity

31.12.20	Drawing right*	Covered bonds	Total
2021	0	2,300,000	2,300,000
2022	0	2,500,000	2,500,000
2023	0	2,500,000	2,500,000
2024	0	2,500,000	2,500,000
2025	0	2,500,000	2,500,000
2026	0	3,250,000	3,250,000
2027	0	0	0
2028	0	0	0
2029 and thereafter	0	400,000	400,000
No term	452,789	0	452,789
Gross borrowing	452,789	15,950,000	16,402,789
Accrued interest	14	22,553	22,567
Direct costs and premium/discount	0	-3,696	-3,696
Value adjustments	0	158,364	158,364
Net borrowing	**452,803**	**16,127,220**	**16,580,023**

*Approved overdraft limit of NOK 3,000 million.

31.12.19	Drawing right*	Covered bonds	Total
2020	0	2,000,000	2,000,000
2021	0	3,100,000	3,100,000
2022	0	2,500,000	2,500,000
2023	0	2,500,000	2,500,000
2024	0	2,500,000	2,500,000
2025	0	0	0
2026	0	750,000	750,000
2027	0	0	0
2028 and thereafter	0	400,000	400,000
No term	513,357	0	513,357
Gross deposits	513,357	13,750,000	14,263,357
Accrued interest	31	46,698	46,729
Direct costs and premium/discount	0	1,019	1,019
Value adjustments	0	99,351	99,351
Net deposits	**513,388**	**13,897,069**	**14,410,457**

*Approved overdraft limit of NOK 3,000 million.

NOTE 17 OTHER LIABILITIES

	2020	2019
Accrued management fees	2,045	1,922
Exchanged collateral, CSA	122,200	74,300
Other liabilities	51	0
Other liabilities	**124,296**	**76,222**

NOTE 18 COVERED BONDS AND PROVISION OF COLLATERAL

	2020	2019
Preferential rights pursuant to Section 11-15 of the Financial Institutions Act	**16,127,220**	**13,897,069**

Cover pool	**2020**	**2019**
Qualified lending secured against property*	16,841,201	15,171,768
Financial derivatives (net)	51,021	43,195
Other substitute assets (bank deposits)	1,106,852	311,914
Total cover pool	**17,999,074**	**15,526,876**
Cover pool utilisation	112%	112%

* NOK 7.7 million of gross lending in the company does not qualify for the cover pool at 31.12.20 (NOK 36.7 million at 31.12.19).

NOTE 19 CAPITAL ADEQUACY

	2020	2019
CET1 capital		
Book equity	1,497,385	1,278,836
Deduction items in CET1 capital		
Additional value adjustments (prudent valuation requirement) (AVA)	-517	-268
Total CET1 capital	**1,496,868**	**1,278,568**
Other Tier 1 capital	0	0
Total Tier 1 capital	**1,496,868**	**1,278,568**
Net primary capital	**1,496,868**	**1,278,568**
Calculation basis		
Calculation basis for credit and counterparty risk	6,746,860	5,831,904
Calculation basis for currency risk	0	0
Calculation basis for operational risk	228,097	203,135
Calculation basis for impaired counterparty credit valuation adjustment (CVA)	30,614	31,970
Deductions from calculation basis	0	0
Total calculation basis	**7,005,572**	**6,067,009**
CET1 capital ratio	**21.37%**	**21.07%**
Tier 1 capital ratio	**21.37%**	**21.07%**
Capital adequacy	**21.37%**	**21.07%**
Buffers		
Capital conservation buffer	175,139	151,675
Countercyclical buffer	70,056	151,675
Systemic risk buffer	210,167	182,010
Total buffer requirements	**455,362**	**485,361**
Available buffer capital	**936,423**	**793,207**
Leverage ratio	**8.02%**	**7.88%**

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

The credit institution's primary capital shall comply with minimum capital adequacy requirements at all times, with the addition of a buffer equivalent to the company's accepted risk tolerance.

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

NOTE 20 FINANCIAL INSTRUMENTS AT FAIR VALUE

Sparebanken Øst Boligkreditt AS' financial instruments in this category at fair value consist of derivatives certificates and bonds.

Valuation of financial instruments at fair value

General information
Sparebanken Øst Boligkreditt AS classifies fair value measurements 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.

Certificates and bonds
The company'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.

Assessments are made of whether the prices from Nordic Bond Pricing appear correct.

The company 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. In the opinion of the Bank, the prices used represent the best estimate of the securities' fair value. All of the company'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.

Derivatives
Sparebanken Øst Boligkreditt AS 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.

31.12.20	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets and liabilities measured at fair value				
Certificates and bonds	0	343,805	0	343,805
Financial derivatives	0	173,221	0	173,221
Total assets at fair value	**0**	**517,026**	**0**	**517,026**
Financial derivatives	0	0	0	0
Total liabilities at fair value	**0**	**0**	**0**	**0**

31.12.19	Level 1	Level 2	Level 3	Total
Financial assets and liabilities measured at fair value				
Certificates and bonds	0	150,835	0	150,835
Financial derivatives	0	117,495	0	117,495
Total assets at fair value	**0**	**268,330**	**0**	**268,330**
Financial derivatives	0	0	0	0
Total liabilities at fair value	**0**	**0**	**0**	**0**

NOTE 21 FINANCIAL INSTRUMENTS AT AMORTISED COST

Lending
The company has only lent at variable interest rates. The fair value of loans at variable interest rates is subject to the influence of changing interest rate levels and credit margins, but can be re-priced on an ongoing basis in the short term. The Norwegian Act on Financial Contracts and Financial Assignments permits re-pricing with six weeks' notice (less in case of major changes to the company's borrowing rate). Sparebanken Øst Boligkreditt AS' assessment of the best estimates for the lending portfolio, excluding loan loss provisions in Step 1, gives a good approximation of fair value.

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

31.12.20	Fair value	Book value
Financial assets and liabilities measured at amortised cost		
Loans to and receivables from financial institutions	864,739	864,739
Loans to and receivables from customers	16,834,899	16,843,903
Total assets at amortised cost	**17,699,638**	**17,695,699**
Liabilities to financial institutions	452,803	452,803
Securities issued	16,221,852	16,127,220
Total liabilities at amortised cost	**16,674,655**	**16,580,023**

31.12.19	Fair value	Book value
Financial assets and liabilities measured at amortised cost		
Loans to and receivables from financial institutions	311,914	311,914
Loans to and receivables from customers	15,207,459	15,204,020
Total assets at amortised cost	**15,519,373**	**15,515,934**
Liabilities to financial institutions	513,388	513,388
Securities issued	14,002,336	13,897,069
Total liabilities at amortised cost	**14,515,724**	**14,410,457**

NOTE 22 RISK AND RISK MANAGEMENT

Sparebanken Øst Boligkreditt AS seeks to maintain a low risk profile to ensure that the company's issued securities are attractive to external investors. The company's Board has adopted a strategy for financial risk, which sets out the company's policy and framework for risk-taking in the different risk areas. The company's Board revises the strategy at least annually.

The use of a framework as set out in the strategy is measured at least quarterly and reported to the Board. Sparebanken Øst Boligkreditt AS and the rest of the Group are measured and assessed as part of annual capital adequacy requirement evaluations (ICAAP). Monthly accounts reports are prepared on a monthly basis for the Board, the general manager, and the bank's management.

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

Sparebanken Øst Boligkreditt AS is exposed to the following risks:

- operational risk associated with the business's internal operating structure
- commercial risk associated with exposure to external parties and general market conditions

Operational risk

Operational risk is the risk of losses resulting from inadequate or failing internal processes, the failure of people and systems, or external events.

Operational risk in Sparebanken Øst Boligkreditt AS arises primarily in relation to the approval of loans, the use of IT systems, the issue of covered bond debt, and compliance with laws and regulations. The approval of loans takes place at Sparebanken Øst in accordance with an agreement between the companies. The credit process is subject to strict routines and the associated control procedures. IT systems are subject to the same control procedures that apply to Sparebanken Øst with operations and maintenance carried out by the bank in accordance with an agreement between the companies. The same applies to the issue of covered bond debt/liquidity management carried out by the bank as agreed. Compliance control is carried out by Sparebanken Øst Boligkreditt AS itself. An investigator (Ernst & Young AS) carries out independent quarterly checks. KPMG performs internal auditing for Sparebanken Øst Boligkreditt AS.

Commercial risks

The most significant commercial risks in Sparebanken Øst Boligkreditt AS include:

- Credit risk
- Market risk

Credit risk

Credit risk is the potential for losses as a result of customers and other counterparties failing to honour their commitments at the agreed time, and any security pledged for the relationship failing to cover the outstanding account. Concentration risk on geographic areas and individual customers is also included here.

Loans transferred to or provided by Sparebanken Øst Boligkreditt AS are approved against real estate (residential mortgage) up to 75% of the property's market value. The loans are granted in accordance with conservative credit approval procedures so as to minimise the risk of losses. The credit policy of lending to customers is addressed daily through credit manuals, frameworks, and powers of attorney handled by the bank's credit department. The development in credit risk related to the Bank's lending is monitored on an ongoing basis with framework control, periodic analyses and reports, and the use of random sampling at customer level. The loan-to-value ratio in the cover pool (LTV) was 48.3% at the end of 2020, compared to 48.5% at the end of 2019.

The parent bank's Internet concepts, in the shape of DinBank.no and Boligkreditt.no, along with the parent bank's existing branch network in the central area of the Eastern Norway region, are helping to reduce the geographical concentration found in the lending portfolio. There are limits to the size of loans to individual customers. Sparebanken Øst Boligkreditt AS is the legal and beneficial owner of all loans transferred to the cover pool, and shall have seniority if the same collateral secures loans in both the parent bank and the company.

Maximum credit exposure in excess of capitalised amount	**2020**	**2019**
Liabilities		
Loan pledges	7,900	20,631
Overdraft facilities	1,173,929	961,323
Total liabilities	**1,181,829**	**981,954**

Risk classification is an integral element of the credit process for retail customers for the approval and overall management of the portfolio. Retail customers are classified in line with the applicable rules described in Sparebanken Øst's credit handbook PM. The method of classifying customers by risk follows the attached description: The cumulative risk class is calculated on the basis of the ratio between total liabilities and total wage income (debt ratio), the customer's/household's general financial capacity to service their total debt with a mark-up of 5% over the current interest rate level (liquidity indicator), and the household's credit score and payment history. The above factors are weighted based on the following distribution: Debt ratio (15%), liquidity indicator (35%), credit score (25%) and payment history (25%).

Sparebanken Øst Boligkreditt AS' portfolio is based on credit ratings made by Sparebanken Øst and is subject to its organisation of the decision-making process. The decision-making process in the retail market is based on a centralised processing unit. The control measures implemented in the bank show that there is limited operational risk within this area. It is believed, therefore, that losses will primarily be linked to, and conditional upon, general future developments in the market.

The portfolio of Sparebanken Øst Boligkreditt AS is based on a risk classification comprising11 categories from A to K. Risk class A represents the lowest risk and risk class I represents the highest for non-performing customers. In Sparebanken Øst Boligkreditt AS, risk classes J and K consist of commitments for which objective evidence of a default exists and the commitments are subject to special monitoring.

Retail customers' risk is classified when new loan applications are assessed or due to a reclassification based on servicing history.

Lending by risk classes 2020

	Gross lending	Gross Overdraft facilities	Commit-ments	%	Commitment Stage 1	Loss provision Stage 1	Commit-ments Stage 2	Loss provision Stage 2	Commitment Stage 3	Loss provision Step 3
A	9,145,979	899,866	10,045,845	56	10,035,423	511	10,422	2	0	0
B	3,280,257	140,910	3,421,167	19	3,408,252	608	12,914	7	0	0
C	2,432,728	85,362	2,518,089	14	2,504,082	957	14,007	16	0	0
D	1,583,602	43,989	1,627,591	9	1,618,821	1,029	8,770	17	0	0
E	185,467	2,557	188,024	1	166,907	169	21,117	64	0	0
F	126,202	1,378	127,580	1	97,171	158	30,409	148	0	0
G	59,796	2	59,798	0	54,129	274	5,669	85	0	0
H	21,493	3	21,496	0	13,522	205	7,974	225	0	0
I	11,724	0	11,724	0	4,567	162	7,157	462	0	0
J	1,618	0	1,618	0	0	0	0	0	1,618	0
K	0	0	0	0	0	0	0	0	0	0
U	0	0	0	0	0	0	0	0	0	0
Total	**16,848,864**	**1,174,068**	**18,022,932**	**100**	**17,902,874**	**4,074**	**118,441**	**1,026**	**1,618**	**0**

Lending by risk classes 2019

	Gross lending	Gross Overdraft facilities	Commit-ments	%	Commitment Stage 1	Loss provision Stage 1	Commit-ments Stage 2	Loss provision Stage 2	Commitment Stage 3	Loss provision Step 3
A	7,706,576	734,410	8,440,985	52	8,433,116	376	7,869	1	0	0
B	2,998,408	110,190	3,108,599	19	3,106,340	485	2,259	1	0	0
C	2,378,152	72.126	2,450,279	15	2,443,667	817	6,611	5	0	0
D	1,664,342	40,885	1,705,227	11	1,684,987	937	20,240	25	0	0
E	207,637	2,707	210,344	1	194,532	173	15,812	32	0	0
F	127,075	1,106	128,180	1	86,429	123	41,752	133	0	0
G	70,069	0	70,069	0	68,055	302	2,014	20	0	0
H	21,498	0	21,498	0	7,276	96	14,222	424	0	0
I	13,671	0	13,672	0	7,489	232	6,183	372	0	0
J	21,044	0	21,044	0	0	0	0	0	21,044	0
K	0	0	0	0	0	0	0	0	0	0
U	0	0	0	0	0	0	0	0	0	0
Total	**15,208,472**	**961,424**	**16,169,896**	**100**	**16,031,891**	**3,540**	**116,962**	**1,013**	**21,044**	**0**

The pricing of loans to retail customers is primarily based on security coverage (loan-to-value ratio) and the size of the loan. Pricing throughout the year will still be influenced by developments in the general interest rate market, the parent bank's overall growth objectives, and the overall competitive situation.

The main parameter in relation to the credit rating is the borrower's financial situation and loan-to-value ratio. Loans at Sparebanken Øst Boligkreditt AS are secured against real estate, properties on leased land, or housing society dwellings within the statutory limits for loan-to-value ratios. The loan-to-value ratio is calculated on the basis of the loan amount in relation to the carefully assessed value of the collateral. For loans transferred to Sparebanken Øst Boligkreditt AS, the basis for determining the value is also ensured by a valuation undertaken by an approved independent third party.

Market risk
Market risk is the risk of losses in the market value of financial assets and liabilities in the event of a change in financial market prices. Sparebanken Øst is primarily exposed to market risk through changes in the level of interest rate and changes in the credit spread on bonds.

Interest rate risk
Interest rate risk arises when repricing interest rates for assets differs from the point of repricing for liabilities. The company does not offer fixed-rate lending. Interest-rate and currency derivatives to reduce interest-rate and currency risk have been entered into for the company's fixed-rate and foreign currency debenture loan. Interest rate risk is measured as the effect on net interest income and equity at changes in the yield curve. The interest rate risk at Sparebanken Øst Boligkreditt AS is limited.

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, 31.12.20, amounting to 1 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.

Interest rate sensitivity

Currency	Increase in base points	Sensitivity on earnings 2020	Sensitivity on earnings 2019	Sensitivity on equity 2020	Sensitivity on equity 2019
NOK	+100	22,333	15,779	**0**	**0**
Total		**22,333**	**15,779**	**0**	**0**

Currency	Reduction in base points	Sensitivity on earnings 2020	Sensitivity on earnings 2019	Sensitivity on equity 2020	Sensitivity on equity 2019
NOK	-100	-22,333	-15,779	0	0

Total	**-22,333**	**-15,779**	**0**	**0**

Time until expected interest rate change as at 31.12.20

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No fixed-rate period	Total
Assets							
Net lending to financial institutions	864,341					398	864,739
Net lending to customers	182,489	16,648,471					16,830,960
Certificates and bonds	51,033	292,175					343,208
Financial derivatives						158,364	158,364
Accrued interest, not yet due						28,397	28,397
Other asset items						8,277	8,277
Total	**1,097,863**	**16,940,646**	**0**	**0**	**0**	**195,436**	**18,233,945**
Liabilities							
Liabilities to financial institutions	452,789						452,789
Securities issued	757,273	15,347,395					16,104,668
Accrued interest						22,567	22,567
Other liabilities						122,339	122,339
Total	**1,210,062**	**15,347,395**	**0**	**0**	**0**	**144,905**	**16,702,362**
Net exposure	**-112,198**	**1,593,251**	**0**	**0**	**0**	**50,530**	

Time until expected rate change as at 31.12.19

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No fixed-rate period	Total
Assets							
Net lending to financial institutions	311,638					276	311,914
Net lending to customers	23,972	15,160,486					15,184,458
Certificates and bonds		150,660					150,660
Financial derivatives						99,351	99,351
Accrued interest, not yet due						37,880	37,880
Other asset items						6,076	6,076
Total	**335,610**	**15,311,146**	**0**	**0**	**0**	**143,584**	**15,790,339**
Liabilities							
Liabilities to financial institutions	513,358						513,358
Debt incurred by issuing securities	2,770,074	11,080,297					13,850,371
Accrued interest						46,728	46,728
Other liabilities						74,401	74,401
Total	**3,283,432**	**11,080,297**	**0**	**0**	**0**	**121,129**	**14,484,858**
Net exposure	**-2,947,822**	**4,230,849**	**0**	**0**	**0**	**22,454**	

Liquidity risk

Liquidity risk is the risk of the company failing to meet its debt obligations or other receivables obligations when due for payment, or having to pay a significantly higher price. Cash flows from lending in the cover pool shall always exceed payment obligations to holders of covered bonds and derivative counterparties.

Sparebanken Øst Boligkreditt AS covers its borrowing needs from two sources; the company can issue covered bonds and/or draw on a credit facility in Sparebanken Øst. Loans included in the cover pool and serving as over-collateralisation are financed by a credit facility. Should there be an urgent need for financing at the maturity of previously issued covered bond borrowing, new covered bond borrowing can be issued and sold to Sparebanken Øst. Parts of the loan may be pledged as collateral for D and/or F loans in Norges Bank. All of the covered bond agreements entered into by the company have a “soft bullet” whereby the mortgage credit company can defer redemption by one year.

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

Maturity analysis for financial liabilities as at 31.12.20

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Liabilities to financial institutions			456,643				456,643
Securities issued		339,068	2,138,256	10,568,381	3,761,786		16,807,491
Other liabilities			158,111				158,111
Unused credit	1,174,068						1,174,068
Financial liabilities excluding derivatives	**1,174,068**	**339,068**	**2,753,010**	**10,568,381**	**3,761,786**	**0**	**18,596,313**
Financial derivatives (outflows)	2,000	1,494	8,522	45,450	24,817		82,282
Financial liabilities	**1,176,068**	**340,562**	**2,761,532**	**10,613,831**	**3,786,602**	**0**	**18,678,595**
Financial derivatives (inflows)	0	9,150	45,245	180,980	89,725	0	325,100

Maturity analysis for financial liabilities as at 31.12.19

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Liabilities to financial institutions			524,017				524,017
Securities issued	11,040	78,588	2,241,581	11,283,968	1,284,970		14,900,147
Other liabilities			101,446				101,446
Unused credit	961,323						961,323
Financial liabilities excluding derivatives	**972,363**	**78,588**	**2,867,045**	**11,283,968**	**1,284,970**	**0**	**16,486,934**
Financial derivatives (outflows)	4,860	5,888	32,243	119,676	96,531		259,197
Financial liabilities	**977.223**	**84,475**	**2,899,288**	**11,403,644**	**1,381,501**	**0**	**16,746,131**
Financial derivatives (inflows)	0	18,300	45,307	199,527	135,341	0	398,475

Currency risk

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

The company has no items in foreign currency as at 31.12.20 or 31.12.19.

NOTE 23 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

31.12.20	Financial derivatives at fair value, used as hedging instruments	Measured at fair value	Measured at amortised cost	Total
Net loans to and receivables from financial institutions	0	0	864,739	864,739
Net loans to and receivables from customers	0	0	16,843,903	16,843,903
Certificates and bonds	0	343,805	0	343,805
Financial derivatives	173,221	0	0	173,221
Total financial assets	**173,221**	**343,805**	**17,708,642**	**18,225,668**
Liabilities to financial institutions	0	0	452,803	452,803
Securities issued	0	0	16,127,220	16,127,220
Total financial liabilities	**0**	**0**	**16,580,023**	**16,580,023**

31.12.19	Financial derivatives at fair value, used as hedging instruments	Measured at fair value	Measured at amortised cost	Total
Net loans to and receivables from financial institutions	0	0	311,914	311,914
Net loans to and receivables from customers	0	0	15,204,020	15,204,020
Certificates and bonds	0	150,835	0	150,835
Financial derivatives	117,495	0	0	117,495
Total financial assets	**117,495**	**150,835**	**15,515,934**	**15,784,264**
Liabilities to financial institutions	0	0	513,388	513,388
Securities issued	0	0	13,897,069	13,897,069
Total financial liabilities	**0**	**0**	**14,410,457**	**14,410,457**

NOTE 24 OWNERSHIP STRUCTURE

The share capital of Sparebanken Øst Boligkreditt AS amounts to NOK 426.4 million divided into 10.66 million shares each with a nominal value of NOK 40. All shares in Sparebanken Øst Boligkreditt AS are owned by Sparebanken Øst.

NOTE 25 OPERATING SEGMENTS

Sparebanken Øst Boligkreditt AS operates in only one customer-facing segment. This is also how the management have organised the company for operational and management purposes.

Through Boligkreditt.no, Sparebanken Øst Boligkreditt AS only offers residential mortgages up to 75% of a reasonable valuation. Information regarding the geographic distribution of the lending portfolio is provided in note 11. No customer may be deemed more important to the company than others based on size and similar. The company is not dependent on individual customers. No single customer accounts for more than 10%.

NOTE 26 NETTING RIGHT, FINANCIAL DERIVATIVES

Sparebanken Øst Boligkreditt AS' netting is in accordance with general rules set out in Norwegian legislation.

Sparebanken Øst Boligkreditt AS has entered into standardised and mainly bilateral ISDA agreements with financial institutions entitling the parties to netting in the event of any defaults. Additional agreements have also been entered into concerning provision of security (CSA) for the same counterparts.

As at 31.12.20 the exposure was as follows:	**Gross amount**	**Set off in the balance sheet**	**Book value**	**Amount subject to net settlement**	**Exchanged collateral security**	**Amount following any net settlement**
Financial derivatives, assets	173,221	0	173,221	0	-122,200	51,021
Financial derivatives, liabilities	0	0	0	0		0

As at 31.12.19 the exposure was as follows:	**Gross amount**	**Set off in the balance sheet**	**Book value**	**Amount subject to net settlement**	**Exchanged collateral security**	**Amount following any net settlement**
Financial derivatives, assets	117,495	0	117,495	0	-74,300	43,195
Financial derivatives, liabilities	0	0	0	0		0

Auditor’s Report

Auditor’s report is prepared in Norwegian only and is part of the Norwegian version of the Annual Report.

Quarterly development

Profit performance

(figures in NOK thousands)	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Interest income	83,598	88,905	103,647	123,292	119,399
Interest costs	30,706	34,037	74,553	86,699	80,671
Net interest income	**52,892**	**54,868**	**29,094**	**36,593**	**38,728**
Commission income and income from banking services	10	12	12	9	9
Commission costs and costs from banking services	5,783	5,914	5,989	5,745	5,638
Net value change and gains/losses on financial instruments	-2,266	-656	-220	-2,043	45
Administration costs	774	255	255	267	380
Other operating costs	1,333	1,082	1,165	1,529	672
PROFIT BEFORE LOSSES	**42,747**	**46,972**	**21,477**	**27,017**	**32,091**
Losses on loans and guarantees, etc.	247	-470	-84	854	-21
PROFIT BEFORE TAX	**42,501**	**47,442**	**21,561**	**26,163**	**32,112**
Tax costs (calculated for interim financial statements)	9,350	10,437	4,743	5,756	7,101
PROFIT/LOSS FOR THE PERIOD	**33,150**	**37,005**	**16,817**	**20,407**	**25,011**

Balance sheet performance

(figures in NOK thousands)	31.12.20	30.09.20	30.06.20	31.03.20	31.12.19
Loans to and receivables from financial institutions	864,739	594,275	432,793	408,369	311,914
Loans to and receivables from customers	16,843,903	15,362,998	15,854,214	16,050,863	15,204,020
Certificates, bonds, etc. at fair value	343,805	202,022	202,077	201,745	150,835
Financial derivatives	173,221	246,950	233,783	213,148	117,495
Other assets	8,277	27,584	60,294	51,442	6,076
Prepaid non-accrued costs and income earned, but not received	0	814	1,897	0	0
TOTAL ASSETS	**18,233,945**	**16,434,643**	**16,785,059**	**16,925,567**	**15,790,339**
Liabilities to financial institutions	452,803	569,386	1,090,141	592,260	513,388
Securities issued	16,127,220	14,106,723	14,190,360	14,853,912	13,897,069
Other liabilities	153,687	204,288	187,486	178,281	100,323
Accrued expenses and income earned, but not received	1,309	551	382	1,246	115
Other provisions	139	123	123	119	101
Deferred tax liability	1,402	506	506	506	506
Total liabilities	**16,736,560**	**14,881,577**	**15,468,998**	**15,626,324**	**14,511,503**
Paid-up equity	1,149,990	1,149,990	949,990	949,990	949,990
Retained earnings	347,395	328,846	328,846	328,846	328,846
Retained earnings	0	74,230	37,225	20,407	0
Total equity	**1,497,385**	**1,553,066**	**1,316,061**	**1,299,243**	**1,278,836**
TOTAL LIABILITIES AND EQUITY	**18,233,945**	**16,434,643**	**16,785,059**	**16,925,567**	**15,790,339**

Definition of key figures and alternative profit targets

1 Return on equity*	Profit/loss after tax as a % of average equity The key figure provides relevant information about the company's profitability by measuring its ability to generate profitability on equity.
2 Net interest income as a % of average total assets (GFK)	Net interest income as a % of average total assets.
3 Profit/loss after tax as a % of average total assets (GFK)	Profit/loss after tax as a % of average total assets.
4 Costs as a % of income (before losses)*	Com. costs, admin. costs and other operating costs as a % of net interest, com. income and gains/losses on financial instruments. The key figure is used to provide information about the ratio between income and costs.
5 Losses as a % of net lending to customers (OB)*	Losses as % of OB net loans to customers 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.
6 Net non-performing commitments as a % of net lending*	Net non-performing commitments as a % of net lending. This key figure provides relevant information about credit risk and is deemed useful additional information in addition to that stated in the loss notes.
7 Capital adequacy ratio in %	Total primary capital as a % of the risk-weighted volume (calculation basis).
8 Tier 1 capital ratio in %	Tier 1 capital as a % of the risk-weighted volume (calculation basis).
9 Dividend/Additional dividend	Dividend/additional dividend in NOK.
10 Average total assets (GFK)	Average total assets based on day-to-day balance sheet figures.

*Defined as alternate profit target