Annual Report for 2019

Eleventh year of trading

Contents

Key figures

	2019	2018	2017	2016	2015
1 Return on equity*	6.83	7.21	7.92	6.97	9.33
2 Net interest income as a % of average total assets (GFK)	0.91	0.91	1.10	1.00	1.44
3 Profit/loss after tax as a % of average total assets (GFK)	0.56	0.55	0.67	0.62	0.90
4 Costs as a % of income (before losses)*	19.78	20.38	17.22	18.06	13.06
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*	0.14	0.07	0.03	0.02	0.00
7 Capital adequacy ratio in %	21.07	23.00	21.67	24.04	23.04
8 Tier 1 capital ratio in %	21.07	23.00	21.67	24.04	23.04
9 Dividend/Additional dividend	72.9	71.4	70.0	10.0	0.0
10 Average total assets (GFK)	15,857.5	13,319.6	11,325.0	10,384.0	8,937.7

*Defined as alternate profit target
For definition of key figures and a review of alternative performance targets, see p. 38.

Board of Directors' Report

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

Business
Sparebanken Øst Boligkreditt AS was founded on 14 April 2009.

Sparebanken Øst Boligkreditt AS is a wholly owned subsidiary of Sparebanken Øst and is licensed as a 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 2019 amounted to NOK 436.8 million (NOK 315.5 million in 2018), of which NOK 429.9 million (NOK 310.8 million in 2018) relates to interest income on lending to customers. Net interest income amounted to a total of NOK 144.1 million, an increase compared with 2018 (NOK 121.3 million). Over the past year, the margins between lending to customers and borrowing have been stable.

The company's operating profit before tax for 2019 amounted to NOK 113.9 million (NOK 94.7 million in 2018), while profit after tax amounted to NOK 88.8 million (NOK 72.9 million in 2018).

Total operating costs in 2019 amounted to NOK 28.2 million (NOK 24.3 million in 2018) of which NOK 22.8 million (NOK 19.1 million in 2018) 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.

IFRS 9 has been implemented as from 1 January 2018, whereby loss provisions are made on the basis of an expected loss model, regardless of whether there is any objective evidence of impairment. This year's loss costs were NOK 0.5 million (NOK 0.3 million in 2018). This is a consequence of the changed provision level in the period. Loss provisions at the end of 2019 amounted to NOK 4.6 million.

Tax costs amounted to NOK 25.1 million (NOK 21.8 million in 2018).

In accordance with the Norwegian Accounting Act, the Board of Directors confirms that the conditions exist to provide the accounts on a going concern basis.

Balance sheet
The total balance sheet of Sparebanken Øst Boligkreditt AS amounted to NOK 15,790.3 million at the end of 2019, an increase of NOK 1,758.2 million from the previous year. Of the total balance sheet, net lending to customers amounted to NOK 15,204.0 million, representing an increase of NOK 1,696.9 million from 2018. 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 13,879.1 million, equivalent to an increase of NOK 1,686.4 million from 2018.

At the end of the year, NOK 513.0 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 2019 at NOK 80.9 million. The growth in lending is primarily funded by issuing bond loans with preferential rights (covered bonds).

Share capital amounts to NOK 373.1 million, distributed on 10.66 million shares, each with a nominal value of NOK 35.

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

Overall risk management

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

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

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

A management agreement (Transfer and Servicing Agreement – TSA) has been entered into with Sparebanken Øst covering administration, IT operations, and the production of various banking services, anti money laundering activities, as well as finance, clearing, and accounting services. At the end of 2019, 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 1,278.6 million at year-end. This corresponded to a capital adequacy of 21.07% of which tier 1 capital adequacy amounted to 21.07%. The risk-weighted balance sheet at the end of 2019 was NOK 6,067.0 million. The company uses the standard approach for Basel 2 in its capital adequacy calculations. The Board deems the company's capital adequacy to be satisfactory in relation to the company's overall risk level, and the capital situation is helping to position the company for further growth.

Allocation of profit

The annual profit for 2019 amounted to NOK 88.8 million (NOK 72.9 million in 2018). 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 department for risk management and compliance contributes the equivalent of a 50% position. The working environment in the company is deemed to be good. The Board consists of four people.

External environment, social responsibility, and research and development

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

Equality

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

The market

Credit spreads in the market for Norwegian covered bonds reduced in 2019. Sparebanken Øst Boligkreditt AS today pays approximately 33 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 good throughout the year.

In 2019, Sparebanken Øst Boligkreditt AS issued a new covered bond with a nominal value of NOK 2,500 million, maturing in 2024.

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 Buskerud, Oslo and Akershus account for 76.9% of the total. The loans in the cover pool have first priority mortgage charges on Norwegian residential properties.

Future prospects

In 2019, 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 2019 was adjusted to match the Group's need for funding. Access to funding via covered bonds was good in 2019. 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.
Global growth in GDP looks likely to be somewhere between 2.5 and 3 per cent for 2019. Somewhat weaker growth is expected during 2020, especially in the industrial nations. Emerging economies are forecast higher growth, especially in India, Brazil and Russia. Even with lower growth expectations overall, growth in the world economy will continue. After having raised the key policy rate several times, the US Federal Reserve reversed this in 2019 and cut the rate three times. Several other central banks, including the European Central Bank, also followed this trend and cut rates. The trade dispute between the USA and China that featured in the news throughout 2019 appears to have calmed down and the parties signed the first part of a trade deal in January 2020.

In Norway, macroeconomic developments have been more or less as expected and in line with Norges Bank's estimates. Oil investments have made a very strong contribution during 2019, although returns in this sector are expected to be somewhat lower in the next couple of years. Growth in the mainland economy is slowing and it is expected that inflation will remain close to the inflation target. Capacity utilisation in the economy has been high and will probably slow down somewhat and approach normals levels. Unemployment remains low. House prices grew 2.6 per cent in 2019. Higher interest rates, mortgage regulations, the introduction of a debt register and record levels of housing on offer have put a dampener on the rate of growth, while continued low interest rates, good income growth and low unemployment have contributed to higher growth in prices.

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, 12 February 2020

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 *CEO*	

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

We certify that the annual accounts for the period 1 January to 31 December 2019, to best of our knowledge, have been prepared in accordance with IFRS and that the accounts give a true and fair view of the company's assets, liabilities, financial position, and 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, 12 February 2020

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
CEO

Income statement

(Figures in NOK thousands)	Notes	2019	2018
Interest income from assets valued at amortised cost	3.4	434,200	313,206
Interest income from assets valued at fair value	3.4	2,627	2,268
Interest costs	3.4	292,711	194,147
Net interest income		**144,116**	**121,327**
Commission income and income from banking services	3	35	19
Commission costs and costs for banking services	3	22,752	19,130
Net value adjustments and gains/losses on financial instruments	15	-1,497	-2,035
Administration costs	3.6	1,164	1,165
Other operating costs	3,5,7,8	4,299	4,023
PROFIT BEFORE LOSSES		**114,438**	**94,993**
Losses on loans and unused credit facilities	9	506	335
PROFIT BEFORE TAX COSTS		**113,932**	**94,658**
Tax costs	10	25,101	21,755
PROFIT FOR THE YEAR		**88,831**	**72,903**

Comprehensive income

(Figures in NOK thousands)	Notes	2019	2018
PROFIT FOR THE YEAR		**88,831**	**72,903**
Other operating income and costs in comprehensive income		0	0
STATEMENT OF COMPREHENSIVE INCOME		**88,831**	**72,903**

Balance sheet

(Figures in NOK thousands)	Notes	31.12.19	31.12.18
Loans to and receivables from financial institutions	3,21,22,23	311,914	230,973
Loans to and receivables from customers	9,11,21,22,23	15,204,020	13,507,138
Certificates, bonds, etc. at fair value	20,22,23	150,835	150,713
Deferred tax asset	10	0	493
Financial derivatives	12,20,22,26	117,495	142,015
Other assets	3,13,21,22	6,076	743
TOTAL ASSETS		**15,790,339**	**14,032,075**
Liabilities to financial institutions	3,14,16,21,22,23	513,388	447,221
Securities issued	3,16,18,21,22,23	13,897,069	12,210,680
Financial derivatives	12,20,22,23,27	0	14,583
Tax payable	10	24,101	21,238
Other liabilities	3,17,22,23	76,222	75,249
Accruals and deferred income		115	125
Provisions for accrued costs and liabilities		607	70
Total liabilities		**14,511,503**	**12,769,166**
Paid-up equity	24	949,990	949,990
Retained earnings		328,846	312,919
Total equity	19,24	**1,278,836**	**1,262,909**
TOTAL LIABILITIES AND EQUITY		**15,790,339**	**14,032,075**

Drammen, 12 February 2020

Kjell Engen
Chairman of the Board

Siren Coward
Deputy Chair

Leif Ove Sørby
Board member

Anne Grete Nesset
Board member

Vegard Kvamme
CEO

Cash Flow Statement

(figures in NOK thousands)	Notes		2019	2018
Operating activities				
Profit/loss before tax costs			113,932	94,658
Adjusted for:				
Change in net accrued interest income and interest costs			1,348	3,065
Change in value of bonds at fair value			-80	550
Net receipts/payments of loans to customers			-1,691,412	-2,909,605
Net receipts/disbursement of borrowing from financial institutions			66,216	163,469
Change in other assets			-5,333	475
Change in other liabilities			962	73,831
Change in premium/discount on securities issued			583	1,026
Non-cash items included in profit before tax costs			507	334
Net losses/gains from financing activities			1,840	1,485
Taxes paid for the period			-21,238	-24,185
Net cash flow from operating activities		**A**	**-1,532,675**	**-2,594,897**
Financing activities				
Payments on repayment of securities			-814,510	-524,377
Proceeds on issuance of securities			2,501,030	2,900,522
Proceeds from capital increase			0	300,000
Payment of additional dividends			-72,904	-71,400
Net cash flow from financing activities		**B**	**1,613,616**	**2,604,745**
Net change in cash and cash equivalents		**A+B**	80,941	9,848
Cash and cash equivalents at 01.01	3		230,973	221,125
Holdings of cash and cash equivalents as at 31.12.			**311,914**	**230,973**

Liquid assets consist exclusively of bank deposits. Unused drawing rights at 31.12.19 were NOK 2,487.0 million and at 31.12.2018 were NOK 1,552.9 million.

Additional information for operating activities concerning interest	**2019**	**2018**
Interest payments received	430,840	312,935
Interest payments made	284,794	187,517

Change in equity

(figures in NOK thousands)

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.

2018	Total equity	Share capital	Premium reserve	Other equity
Equity at 31.12.2017	964,264	319,800	330,190	314,274
Implementation effect of IFRS 9	-2,858	0	0	-2,858
Restated equity as at 01.01.18	**961,406**	**319,800**	**330,190**	**311,416**
Profit for the year	72,903	0	0	72,903
Other operating income and costs in comprehensive income	0	0	0	0
Comprehensive income	72,903	0	0	72,903
Capital increase 13.12.18	300,000	53,300	246,700	0
Additional dividends	-71,400	0	0	-71,400
Equity at 31.12.18	**1,262,909**	**373,100**	**576,890**	**312,919**

On the basis of the profit for 2017, additional dividend of NOK 71.4 million was paid out, equivalent to NOK 6.70 per share. The proposed dividend based on the profit for 2018 is NOK 0 million.

Notes to the Annual Accounts

NOTE 1 GENERAL INFORMATION

Sparebanken Øst Boligkreditt AS has its headquarters in Drammen and is a wholly owned subsidiary of Sparebanken Øst. 2019 is the company's eleventh year of trading. The company was established on 14 April 2009 and registered in the Norwegian Register of Business Enterprises on 27 April 2009. Its business address is Bragernes Torg 2, N-3017 Drammen, Norway.

The object of the company is to acquire mortgage loans from Sparebanken Øst and issue covered bonds in the money market.

The annual accounts for 2019 were approved by the Board of Directors of Sparebanken Øst Boligkreditt AS on 12 February 2020.

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

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

NOTE 2 ACCOUNTING POLICIES

1. GENERAL

The accounts for Sparebanken Øst Boligkreditt AS for 2019 have been prepared in accordance with IFRS standards as approved by the EU, and IFRIC interpretations.

The financial statements are based on historical cost principles, apart from financial derivatives and investments in bonds, which are measured at fair value. Where the company uses hedge accounting, the value of the hedging object is adjusted for the change in value related to the hedged risk.

Interest-bearing balance sheet items include earned/accrued interest.

2. AMENDMENTS TO ACCOUNTING POLICIES

The accounting policies applied are generally unchanged from the policies applied to the 2018 annual financial statements, with the exception of the changes in IFRS and interpretations that were implemented in 2019. All relevant amendments to IFRS and interpretations effective for the accounts for 2019, and the effect these have had on the annual financial statements, are listed below.

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

3. CURRENCY

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

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

4. INCOME

4.1 INTEREST INCOME AND COSTS

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

If a financial asset or a group of similar assets are depreciated as a result of value impairment, interest income is recognised by using the interest rate at which future cash flows are discounted to calculate such impairment.

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

4.2 COMMISSION INCOME AND COSTS

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

5 FINANCIAL INSTRUMENTS

5.1 RECOGNITION AND DERECOGNITION

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the rights to receive the cash flow are transferred 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 changes 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 for a financial instrument's fair value. Where observable market rates do not exist and the fair value cannot be derived directly or indirectly from observable inputs in the market, other valuation methods are used. These are methods that can involve using discretionary evaluations to some degree. Such discretionary evaluations may be liquidity risk, credit risk and volatility. Changes in the attitude toward these factors may affect the determination of the fair value of a financial instrument. All changes in fair value are recognised directly in the income statement.

Measurement at amortised cost

Financial instruments that are not measured at fair value are valued at amortised cost. 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 At initial recognition lending is assessed at fair value and direct transaction costs are added. 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 financial instruments classified as loans and receivables is included in "Interest income from assets valued at amortised cost" in the income statement. The period's loss provisions on lending are recognised under "Losses on loans and unused credit facilities". Interest income on loans and receivables with 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 losses

Expected losses are calculated regardless of whether there is objective evidence of impairment on the balance sheet date. Loans and receivables are presented in the balance sheet on a net basis after loss provisions. Measurement of expected losses is described in further detail under 5.4.6.

Non-performing commitments

A non-performing commitment is defined as a payment default in excess of 90 days, where the overdue sum is greater than NOK 1,000.

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

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

Non-performing commitments are assigned to Step 3.

Individually assessed loss provisions

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

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

Declaring losses

The realisation of losses does not occur until debt settlement or the bankruptcy of the debtor has been affirmed, execution proceedings have not been successful, or 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 final. Declared losses that are covered by previous individual write-downs are carried to provisions. 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. The accrued interest from the contractual interest payment on interest-bearing instruments measured at fair value is presented on a separate line of the income statement. Value adjustments and realised gains/loses are recognised as "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/loses on financial derivatives are recognised in the income statement under "Net value adjustments and gains/losses on financial instruments".

5.4.4 Hedge accounting:
The company makes use of financial derivatives to reduce interest and/or currency risks.

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.

It must be possible to reliably measure the effectiveness of hedging. When the hedging is established, the relationship between the hedging object and hedging instrument is formally documented, including the risk that is hedged, the hedging objective and strategy, and the method that will be used to assess the effectiveness of hedging. The hedging is assessed and documented quarterly, including the effectiveness of hedging. The 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. 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 losses are calculated on financial assets which are debt instruments measured at amortised cost or at fair value with changes in value through comprehensive income. Expected losses are calculated and loss provisions posted regardless of whether there is objective evidence of impairment on the balance-sheet date. The company calculates expected losses on total commitments comprising loans and unused credit facilities. Expected losses are calculated per engagement. The companies divides commitments into three groups on calculating the expected losses. See Note 9 for model-calculated loss costs and loss provisions per group and Note 22 for commitment totals per risk class and distribution per group.

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

Step 3: Commitments with further increases in credit risk and commitments are considered to be non-performing, included in Step 3. The provision for this group consists of both individually assessed write-downs and model-calculated expected losses. For commitments for which there is no individual loss assessment, a lifetime expected loss is calculated on the basis of the commitment's exposure, the segment parameter for expected losses, and expected duration.

Principle for the calculation of expected losses: 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 virtually the same risk profile and an expected level of loss given default is determined. 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. The expected loss is calculated by multiplying the probability of default (PD) * expected loss given default (LGD) * by exposure at default (EAD). For calculating the expected loss, a probability-weighted calculation is made of the expected macroeconomic development, based on macroeconomic prospects and observed credit losses.

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

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

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

Exposure at default: For repayment loans, the expected repayment profile is determined on the basis of the analysis performed of the average maturity of the Group's mortgage portfolio. For commitments subject to a credit line, it is determined how much of the credit limit is expected to be drawn on 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 step 1 to step 2. For commitments with the lowest risk classes, an increase to at least risk class E is required before transfer to Step 2. Non-performing commitments are assigned to Step 2. 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 loss, this is done on the basis of the model parameters for the anticipated scenario. When assessing the macroeconomic situation and potential macroeconomic developments, two further scenarios are determined - one optimistic and the other pessimistic. On the basis of the anticipated scenario, a factor is set for how much the expected loss is expected to change in the optimistic and pessimistic scenarios, respectively. The three scenarios are weighted in terms of probability and constituted the model-calculated expected loss. Factors and the probability of the scenarios are based on the Group's internal assessments that include the expected development in key macroeconomic indicators, including housing prices, interest rate levels and unemployment, as well as observed credit losses. The factor and probability of the scenarios is set individually for each segment in the group, with the mortgage company comprising one such segment.

6 INCOME TAX

Income tax for the year in the income statement comprises the tax payable for the financial year, any over/under allocated tax payable from previous years, and deferred tax recognised in the income statement.
Deferred tax commitments/deferred tax portions are calculated on the basis of provisional differences. The provisional difference is the difference between the book value and the tax value of assets and liabilities. Deferred tax assets are calculated on the tax effects of losses carried forward.

Deferred tax assets are recognised as assets in the balance sheet to the extent that it is expected that the company will have sufficient taxable profit in future periods so as to utilise the deferred tax asset. Deferred tax assets and deferred tax liabilities are calculated using the tax rate expected to apply to temporary differences when they are reversed, and are offset to the degree permitted. Deferred tax assets and deferred tax liabilities are not discounted.

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

7 CONTINGENT EVENTS

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

Contingent assets are recognised if they are likely to occur.

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 MANAGEMENT ASSESSMENTS, USE OF ESTIMATES AND ASSUMPTIONS

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

Assessments, estimates and assumptions that are deemed to be the most significant for the accounts are discussed below.

11.1 MODEL-CALCULATED EXPECTED LOSSES

The use of a model for calculating the expected loss requires the use of discretion and there is a degree of uncertainty in terms of the estimates when calculating the model-calculated expected loss. 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.

11.2 INDIVIDUAL WRITE-DOWNS

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 in cases of major financial problems faced by the debtor, payment default or other material breach of contract, the granting of deferral of payments or new credit to pay due amounts, agreed changes in interest rates or other terms and conditions as a consequence of problems faced by the debtor, debt negotiation with the debtor, other financial restructuring or bankruptcy proceedings. Estimation of any reduction in value/loss takes place on the basis of the size of the expected future cash flows from the sale of collateral and the like, when cash flows are expected to be paid, as well as the size of the discount rate. The size of the loss is directly proportional to the difference between the book value and the present value of discounted future cash flows. The primary uncertainty of estimates as to the size of the reduction in value/loss lies in the assessments of the cash flows' size and when they are expected to be received. Individual write-downs are included in expected losses, step 3. Reference is made to Note 9 concerning losses on lending.

12 FUTURE AMENDMENTS TO ACCOUNTING POLICIES

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

Changes to IAS 1 and IAS 8: The IASB has published changes to the definition of materiality in order to make it simpler to carry out materiality assessments in order to determine which information should be included in the financial statements. The new definition results in changes to IAS 1 and IAS 8, and also ensures that the term

materiality is consistent throughout the IFRS framework. The changes took effect on 1 January 2020. It is the view of the company that these changes will not result in significant changes to the information that is presented in the financial statements.

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	**2019**	**2018**
Interest income, deposits in parent bank	4,298	2,414
Interest costs, loans from parent bank	9,466	11,154
Interest costs, covered bond liabilities to parent bank	13,773	2,717
Commission costs to parent bank	22,752	19,130
Administrative costs to parent bank	1,146	1,146
Other operating costs to parent bank	1,260	1,260

Balance sheet	**2019**	**2018**
Deposits in parent bank	311,914	230,973
Other receivables from parent bank	6,076	743
Loans from parent bank	513,388	447,221
Covered bond debt to parent bank	599,932	0
Other liabilities to parent bank	1,922	1,727

NOTE 4 NET INTEREST INCOME

	2019	**2018**
Interest income from lending to and receivables from financial institutions	4,298	2,414
Interest income from lending to and receivables from customers	429,902	310,792
Interest income from certificates and bonds at fair value	2,627	2,268
Interest income	**436,827**	**315,474**
Interest costs on liabilities to financial institutions	10,569	11,154
Interest costs on issued securities	280,794	182,993
Other interest costs and similar costs	1,347	0
Interest costs	**292,711**	**194,147**
Net interest income	**144,116**	**121,327**

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 2019. The general manager is paid by Sparebanken Øst and had an annual salary of NOK 1,076,172 in 2019.

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

NOTE 6 ADMINISTRATIVE COSTS

	2019	2018
IT costs	1,146	1,146
Other administrative costs	18	19
Administration costs	**1,164**	**1,165**

NOTE 7 OTHER OPERATING COSTS

	2019	2018
Consulting fees to Sparebanken Øst	1,260	1,260
External consultants	1,514	1,560
Fees relating to own bonds	935	883
Other operating costs	589	320
Other operating costs	**4,299**	**4,023**

NOTE 8 REMUNERATION TO AUDITOR

	2019	2018
Audit	200	194
Other certification services*	136	136
Tax consulting	38	0
Other services	29	0
Remuneration to auditor	**402**	**330**

* Including investigator fees in relation to Sections 11-14 of the Norwegian Financial Institutions Act: NOK 136,000 in 2019 and NOK 136,000 in 2018.
The amounts are inclusive of VAT.

NOTE 9 LOSSES ON LOANS AND UNUSED CREDIT FACILITIES

Loss costs

	31.12.19	31.12.18
Change in model-calculated expected loss, Step 1	122	4
Change in model-calculated expected loss, Step 2	413	303
Change in model-calculated expected loss, Step 3	-28	28
Increase in existing individual write-downs	0	0
New individual write-downs	0	0
Established losses covered by previous individual write-downs	0	0
Reversals of previous individual write-downs	0	0
Actual losses where no provision for individual write-downs has 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	**506**	**335**
- Of which losses on unused credit facilities	31	22

Loss

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 impairment losses as at 31.12.19

Change in loss provisions	Expected loss Step 1	Expected loss Step 2	Expected loss Step 3*	Total
Total write-downs as at 31.12.17 in accordance with IAS 39				0
Effect of change of rules on transition to IFRS 9				3,711
Opening balance as at 01.01.18	**3,413**	**298**	**0**	**3,711**
Transferred to Step 1	97	-97	0	0
Transferred to Step 2	-37	37	0	0
Transferred to Step 3	-6	0	6	0
Net change	-448	261	10	-177
New losses	1,244	173	13	1,429
Deducted losses	-846	-71	0	-917
Change in risk model/parameters	0	0	0	0
Closing balance as at 31.12.18	**3,418**	**600**	**28**	**4,046**
- Of which provision for unused credits	70	0	0	70

* The company has no commitments with individually assessed impairment losses as at 31.12.18

Gross lending

Change in gross lending distributed by step	Expected loss Step 1	Expected loss Step 2	Expected loss Step 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**

Change in gross lending distributed by step	Expected loss Step 1	Expected loss Step 2	Expected loss Step 3	Total
Opening balance as at 01.01.18	**10,537,672**	**35,129**	**26,210**	**10,599,011**
Transferred to Step 1	10,456	-7,286	-3,170	0
Transferred to Step 2	-38,965	49,478	-10,513	0
Transferred to Step 3	-8,493	0	8,493	0
Net change	-437,154	-1,535	-1,718	-440,406
New lending	6,027,719	27,162	5,890	6,060,770
Deducted lending	-2,690,715	-11,395	-6,152	-2,708,261
Closing balance as at 31.12.18	**13,400,520**	**91,553**	**19,041**	**13,511,114**

Commitments without loss provisions in Step 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 sum of all non-performing commitments without loss provisions totals NOK 21.0 million (NOK 10.6 million in 2018). The estimated fair value of the securities amounts to NOK 39.6 million (NOK 23.9 million in 2018). The following table shows the commitment exposure in relation to the assessed value of the securities (LTV).

Non-performing commitments without loss provisions as a percentage of the market value of the securities	2019 NOK thousands	2019 Per cent	2018 NOK thousands	2018 Per cent
Less than 50%	4,671	22.2 %	3,005	28.3 %
50% to 70%	5,199	24.7 %	7,595	71.7 %
70% to 85%	11,174	53.1 %	0	0.0%
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	**21,044**	**100.0 %**	**10,600**	**100.0 %**

Probability weighting of macroeconomic scenarios

Commitments in the company constitute one segment in model-calculated expected losses. On the basis of the anticipated scenario, a factor is set for how much the expected loss is expected to change in the optimistic and pessimistic scenarios, respectively. When calculating an expected loss, the factor for the anticipated scenario is set at 100, the factor for the optimistic scenario is set at 80, and the factor for the pessimistic scenario is set at 200. No changes have been made to the factors compared with the situation as at 31.12.18.

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

31.12.18	Probability weighting	Step 1	Step 2	Step 3	Total
Optimistic scenario	0%	2,377	418	20	2,815
Expected scenario	85%	2,972	522	25	3,519
Pessimistic scenario	15%	5,944	1,044	49	7,037
Loss provisions (weighted)	**100%**	**3,418**	**600**	**28**	**4,046**

NOTE 10 TAXES

	2019	2018
The year's tax costs in the income statement are as follows		
Tax payable on the profit for the year	24,101	21,238
Recognised deferred tax	999	533
Recognised deferred tax due to change in tax rate	0	-16
Total tax for the year	**25,101**	**21,755**
Change in net deferred tax		
Recognised deferred tax in the income statement	999	-517
Change in deferred tax carried directly to the balance sheet	0	854
Total change in net deferred tax	**999**	**337**

Reconciliation of tax costs for the year		
Profit before tax	113,932	94,658
Tax at the nominal rate of 22% (23%)	25,103	21,771
Tax effect of permanent differences	-2	0
Tax effect of changed tax rate	0	-16
Tax costs	**25,101**	**21,755**

Tax payable in the balance sheet is as follows		
Tax payable on the profit for the year	24,101	21,238
Tax payable	**24,101**	**21,238**

Deferred tax liability/deferred tax asset	2019	2018	Change 2019	Change 2018
Temporary differences				
Financial derivatives	102,679	111,557	8,878	32,815
Securities issued	-101,779	-110,118	-8,339	-35,685
Securities	1,400	200	-1,200	550
Loss provisions IFRS 9 01.01.18	0	-3,711	-3,711	3,711
Total temporary differences	2,300	-2,072	-4,372	1,391
Deferred tax liability(+)/deferred tax asset(-)	**506**	**-493**	**-962**	**337**

The tax rate for tax payable in 2019 is 22%, compared to 23% in 2018. The deferred tax liability/deferred tax asset is recognised on the basis of the future tax rate of 22%.

NOTE 11 LENDING TO CUSTOMERS

	2019	2018
Credit lines secured against residential property	1,742,333	1,168,452
Repayment mortgages secured against property	13,466,139	12,342,662
Total gross lending	**15,208,472**	**13,511,114**
Loss provisions on loans	4,452	3,976
Total net lending	**15,204,020**	**13,507,138**

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

Geographical distribution of lending to customers	2019	2018
Drammen	1,868,142	1,583,115
Øvre Eiker	790,216	620,565
Nedre Eiker	1,009,400	837,769
Rest of Buskerud	1,837,643	1,124,587
Akershus	2,948,057	2,863,487
Oslo	3,241,221	3,187,090
Vestfold	1,229,608	964,845
Østfold	745,999	545,375
Rest of Norway	1,538,185	1,784,281
Total gross lending	**15,208,472**	**13,511,114**
Loss provisions on loans	4,452	3,976
Total net lending	**15,204,020**	**13,507,138**

Lending by customer groups	2019	2018
Salaried employees	15,184,453	13,461,508
Self-employed	24,019	49,606
Total gross lending	**15,208,472**	**13,511,114**
Loss provisions on loans	4,452	3,976
Total net lending	**15,204,020**	**13,507,138**

Non-performing commitments	2019	2018
Payment defaults in excess of 90 days		

Business	0	0
Retail	21,044	9,315
Gross payment defaults	**21,044**	**9,315**
Loss provisions*	0	28
Net payment defaults	**21,044**	**9,287**
Provisions ratio	0.0%	0.3%
Other non-performing commitments		
Business	0	0
Retail	0	9,725
Gross other non-performing commitments	**0**	**9,725**
Loss provisions	0	0
Net other non-performing commitments	**0**	**9,725**
Provisions ratio	0.0%	0.0%
Non-performing commitments		
Business	0	0
Retail	21,044	19,041
Gross non-performing commitments	**21,044**	**19,041**
Loss provisions	0	28
Net non-performing commitments	**21,044**	**9,013**
Provisions ratio	0.0%	0.3%

*Reference is made to note 9 for further discussion of commitments without loss provisions in Step 3.

NOTE 12 FINANCIAL DERIVATIVES

Interest-rate and currency derivatives to reduce interest-rate and currency risk have been entered into for the company's fixed-rate and foreign currency debenture loan. The hedging ratio is 1:1 and hedge accounting is used.

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
Currency instruments					
Currency swap agreements	0	0	0	0	
Securities issued					0
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

Financial derivatives used for hedge accounting 2018

			Fair value of hedging instruments		Value adjustment of hedging object
	Contract sums	Recognised value of subject of merger	Assets	Liabilities	Liabilities

Currency instruments					
Currency swap agreements	304,859		0	14,583	
Securities issued		290,931			-14,033
Interest rate instruments					
Interest rate swaps	1,750,000		142,015	0	
Securities issued		1,897,544			121,736
Total derivatives			**142,015**	**14,583**	**107,703**

No significant hedging inefficiencies have been reported in 2018. 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

	2019	2018
Outstanding accounts, parent bank	6,076	743
Other assets	**6,076**	**743**

NOTE 14 LIABILITIES TO FINANCIAL INSTITUTIONS

	2019	2018
Loans from financial institutions with an agreed term or notice period	513,388	447,221
Liabilities to financial institutions	**513,388**	**447,221**

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

	2019	2018
Value change in certificates and bonds - held for trading	343	-550
Value change and gains/losses on financial instruments at fair value through profit or loss	**343**	**-550**
Financial derivatives - hedge accounting	-22,193	-21,940
Financial liabilities - hedged	22,193	21,940
Net hedged items*	**0**	**0**
Realised gains/losses on securities issued - amortised cost	-1,840	-1,485
Value change and gains/losses on financial instruments at amortised cost	**-1,840**	**-1,485**
Total value change and gains/losses on financial instruments	**-1,497**	**-2,035**

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

NOTE 16 LONG-TERM BORROWING

Securities issued

(Amounts in NOK 1,000)	31.12.19	31.12.18
Covered bonds, nominal value in NOK	13,750,000	11,758,000
Covered bonds, nominal value in SEK (converted to NOK)	0	290,827
Value adjustment (including conversion/exchange rate)	100,371	120,952
Accrued interest	46,698	40,901
Total securities issued	**13,897,069**	**12,210,680**

Change for securities issued	31.12.19	Issued	Due/ redeemed	Other changes incl. currency	31.12.18

Covered bonds, nominal value in NOK	13,750,000	2,500,000	508,000	0	11,758,000
Covered bonds, nominal value in SEK (converted to NOK)	0	0	276,810	-14,017	290,827
Value adjustment (including conversion/exchange rate)	100,371	0	0	-20,581	120,952
Accrued interest	46,698	0	0	5,797	40,901
Total securities issued	**13,897,069**	**2,500,000**	**784,810**	**-28,801**	**12,210,680**

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.

2018	Outstanding volume*	Avg. balance	Weighted effective interest rate
Covered bonds NOK	11,878,952	11,162,306	1.58
Covered bonds FCY	290,827	280,622	2.16
Securities issued	**12,169,779**	**11,442,928**	**1.60**

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

Long-term borrowing grouped according to maturity

31.12.19	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	400,000	400,000
2028 and thereafter	0	0	0
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.

31.12.18	Drawing right*	Covered bonds	Total
2019	0	298,827	298,827
2020	0	2,500,000	2,500,000
2021	0	3,100,000	3,100,000
2022	0	2,500,000	2,500,000
2023	0	2,500,000	2,500,000
2024	0	0	0
2025	0	0	0
2026	0	750,000	750,000
2027 and thereafter	0	400,000	400,000

No term	447,142	0	447,142
Gross borrowing	447,142	12,048,827	12,495,969
Accrued interest	79	40,901	40,980
Direct costs and premium/discount	0	-784	-784
Value adjustments	0	121,736	121,736
Net borrowing	**447,221**	**12,210,680**	**12,657,901**

*Approved overdraft limit of NOK 2,000 million.

NOTE 17 OTHER LIABILITIES

	2019	2018
Accounts payable	0	22
Accrued management fees	1,922	1,727
Exchanged collateral, CSA	74,300	73,500
Other liabilities	**76,222**	**75,249**

NOTE 18 COVERED BONDS AND PROVISION OF COLLATERAL

	2019	2018
Preferential rights pursuant to Section 11-15 of the Financial Institutions Act	**13,897,069**	**12,210,680**

Cover pool	**2019**	**2018**
Qualified lending secured against property*	15,171,768	13,481,443
Financial derivatives (net)	43,195	53,932
Other substitute assets (bank deposits)	311,914	230,973
Total cover pool	**15,526,876**	**13,766,348**
Cover pool utilisation	112%	113%

* NOK 36.7 million of gross lending in the company does not qualify for the cover pool.

NOTE 19 CAPITAL ADEQUACY

	2019	2018
CET1 capital		
Book equity	1,278,836	1,262,909
Deduction items in CET1 capital		
Additional value adjustments (prudent valuation requirement) (AVA)	-268	-307
Total CET1 capital	**1,278,568**	**1,262,602**
Other tier 1 capital	0	0
Total tier 1 capital	**1,278,568**	**1,262,602**
Net primary capital	**1,278,568**	**1,262,602**
Basis for calculation		
Calculation basis for credit and counterparty risk	5,831,904	5,135,690
Calculation basis for currency risk	0	0
Calculation basis for operational risk	203,135	193,699
Calculation basis for impaired counterparty credit valuation adjustment (CVA)	31,970	161,341
Deductions from calculation basis	0	0
Total calculation basis	**6,067,009**	**5,490,730**
CET1 capital ratio	**21.07%**	**23.00%**
Tier 1 capital ratio	**21.07%**	**23.00%**
Capital adequacy	**21.07%**	**23.00%**
Buffers		
Capital conservation buffer	151,675	137,268
Countercyclical buffer	151,675	109,815
Systemic risk buffer	182,010	164,722

Total buffer requirements	**485,361**	**411,805**
Available buffer capital	**793,207**	**823,343**
Tier 1 leverage ratio	**7.88%**	**8.81%**

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

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

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

NOTE 20 FINANCIAL INSTRUMENTS AT FAIR VALUE

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

Valuation of financial instruments at fair value

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

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

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

Derivatives
Sparebanken Øst Boligkreditt AS does not use derivatives that are traded in an active market. The derivatives' fair values are based on observable yield curves and exchange rates. All of the company's derivatives are invested at level 2 of the pricing hierarchy.

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**

31.12.18	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets and liabilities measured at fair value				
Certificates and bonds	0	150,713	0	150,713
Financial derivatives	0	142,015	0	142,015

Total assets at fair value	**0**	**292,728**	**0**	**292,728**
Financial derivatives	0	14,583	0	14,583
Total liabilities at fair value	**0**	**14,583**	**0**	**14,583**

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 is that amortised cost, exclusive of 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 valuation hierarchy because the turnover is not large enough in any of the loans to be able to read off a market price at any given time. The company uses price estimates and credit spread assessments from Nordic Bond Pricing and has taken transaction prices into account where these are available.

31.12.19	**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**

31.12.18	**Fair value**	**Book value**
Financial assets and liabilities measured at amortised cost		
Loans to and receivables from financial institutions	230,973	230,973
Loans to and receivables from customers	13,510,486	13,507,138
Total assets at amortised cost	**13,741,459**	**13,738,111**
Liabilities to financial institutions	447,221	447,221
Securities issued	12,288,959	12,210,680
Total liabilities at amortised cost	**12,736,180**	**12,657,901**

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 48.5% at the end of 2019, compared to 46.6% at the end of 2018.

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	2019	2018
Liabilities		
Loan pledges	20,631	124,711
Overdraft facilities	961,323	717,050
Total liabilities	**981,954**	**841,761**

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 2019

	Gross lending	Gross Overdraft facilities	Commit-ments	%	Commitment Step 1	Loss provision Step 1	Commit-ments Step 2	Loss provision Step 2	Commitment Step 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**

Lending by risk classes 2018

	Gross lending	Gross Overdraft facilities	Commit-ments	%	Commitment Step 1	Loss provision Step 1	Commitment Step 2	Loss provision Step 2	Commitment Step 3	Loss provision Step 3
A	6,411,591	584,140	6.995.731	49	6,994,641	313	1,090	0	0	0
B	2,771,623	52,396	2,824,019	20	2,820,048	443	3,971	1	0	0
C	2,131,555	45,315	2,176,870	15	2,164,827	729	12,043	9	0	0
D	1,755,118	33,676	1,788,794	13	1,776,561	995	12,233	15	0	6
E	193,214	967	194,181	1	180,493	161	13,688	27	0	0
F	138,337	553	138,890	1	110,047	157	28,843	91	0	0
G	66,647	0	66,647	1	56,386	251	10,261	100	0	22
H	11,691	0	11,691	0	5,295	70	6,396	190	0	0
I	12,355	3	12,358	0	9,548	299	2,810	167	0	0
J	18,983	0	18,983	0	0	0	0	0	19,041	0
K	0	0	0	0	0	0	0	0	0	0
U	0	0	0	0	0	0	0	0	0	0
Total	**13,511,114**	**717,050**	**14,228,164**	**100**	**14,117,846**	**3,418**	**91,335**	**600**	**19,041**	**28**

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 December 2019, amounting to one year's effect on the profit/loss. The table shows that an immediate increase in interest rates of 1 percentage point will lead to higher net interest. Correspondingly, an immediate reduction in interest rates will give reduced net interest.

Interest rate sensitivity

Currency	Increase in base points	Sensitivity on earnings 2019	Sensitivity on earnings 2018	Sensitivity on equity 2019	Sensitivity on equity 2018
NOK	+100	15,779	16,709	**0**	0
SEK	+100	0	-2,424	**0**	0
Total		**15,779**	**14,285**	**0**	**0**

Currency	Reduction in base points	Sensitivity on earnings 2019	Sensitivity on earnings 2018	Sensitivity on equity 2019	Sensitivity on equity 2018
NOK	-100	-15,779	-16,709	0	0
SEK	-100	0	2,424	0	0
Total		**-15,779**	**-14,285**	**0**	**0**

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**	

Time until expected interest rate change as at 31.12.18

	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	230,777					196	230,973
Net lending to customers	49,528	13,443,993					13,493,521
Certificates and bonds		150,580					150,580
Financial derivatives						121,736	121,736
Accrued interest, not yet due						34,029	34,029
Other asset items						743	743
Total	**280,305**	**13,594,573**	**0**	**0**	**0**	**156,704**	**14,031,582**
Liabilities							
Liabilities to financial institutions	447,142						447,142
Securities issued NOK	3,283,432	8,595,521					11,878,953
Securities issued FCY		290,826					290,826
Financial derivatives (FCY)						14,033	14,033
Accrued interest NOK						40,875	40,875
Accrued interest (FCY)						655	655
Total						73,500	73,500
Net exposure	**3,730,574**	**8,886,347**	**0**	**0**	**0**	**129,063**	**12,745,984**
	-3,450,269	**4,708,226**	**0**	**0**	**0**	**27,641**	

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 31.12.19. 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 31.12.19

	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

Maturity analysis for financial liabilities as at 31.12.18

	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			455,336				455,336
Securities issued	23,529	311,904	193,053	11,262,256	1,330,215		13,120,957
Other liabilities			96,682				96,682
Unused credit	717,050						717,050
Financial liabilities excluding derivatives	**740,579**	**311,904**	**745,071**	**11,262,256**	**1,330,215**	**0**	**14,390,025**
Financial derivatives (outflows)	3,610	2,519	23,357	97,865	92,262	0	219,613
Financial liabilities	**744,189**	**314,423**	**768,428**	**11,360,121**	**1,422,477**	**0**	**14,609,638**
Financial derivatives (inflows)	0	18,567	45,245	217,580	180,215	0	461,607

Currency risk

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

The company had no open currency risk as at 31.12.2019 or 31.12.2018.

Covered bond issues - nominal value by currency	**2019**	**2018**
Covered bonds in NOK	13,750,000	11,758,000
Covered bonds in SEK	0	290,827
Total covered bond issues	**13,750,000**	**12,048,827**

NOTE 23 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

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**

31.12.18	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	230,973	230,973
Net loans to and receivables from customers	0	0	13,507,138	13,507,138
Certificates and bonds	0	150,713	0	150,713
Financial derivatives	142,015	0	0	142,015
Total financial assets	**142,015**	**150,713**	**13,738,111**	**14,030,839**
Liabilities to financial institutions	0	0	447,221	447,221
Securities issued	0	0	12,210,680	12,210,680
Financial derivatives	14,583	0	0	14,583
Total financial liabilities	**14,583**	**0**	**12,657,901**	**12,672,484**

NOTE 24 OWNERSHIP STRUCTURE

The share capital of Sparebanken Øst Boligkreditt AS amounts to NOK 373.1 million divided into 10.66 million shares each with a nominal value of NOK 35. All shares in Sparebanken Øst Boligkreditt AS are owned by Sparebanken Øst.

NOTE 25 UNCERTAINTIES AND EVENTS AFTER THE BALANCE SHEET DATE

Sparebanken Øst Boligkreditt AS is not a party in any legal disputes.

NOTE 26 OPERATING SEGMENTS

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

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

NOTE 27 NETTING RIGHT, FINANCIAL DERIVATIVES

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

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

As 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

As 31.12.18 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	142,015	0	142,015	14,583	-73,500	53,932
Financial derivatives, liabilities	14,583	0	14,583	14,583		0

NOTE 28 QUARTERLY DEVELOPMENT

Profit performance

(Amounts in NOK 1,000)	Q4, 2019	Q3, 2019	Q2, 2019	Q1, 2019	Q4, 2018
Interest income	119,399	115,008	104,809	97,611	83,229
Interest costs	80,671	76,489	69,882	65,669	53,105
Net interest income	**38,728**	**38,519**	**34,927**	**31,942**	**30,124**
Commission income and income from banking services	9	9	10	7	5
Commission costs and costs from banking services	5,638	5,791	5,685	5,638	4,969
Net value change and gains/losses on financial instruments	45	45	-1,720	133	-344
Administration costs	380	256	260	268	396
Other operating costs	672	976	1,087	1,564	658
PROFIT BEFORE LOSSES	**32,091**	**31,550**	**26,185**	**24,612**	**23,762**
Losses on loans and guarantees, etc.	-21	89	-298	736	632
PROFIT BEFORE TAX COSTS	**32,112**	**31,461**	**26,483**	**23,876**	**23,130**
Tax costs (calculated for interim financial statements)	7,101	6,921	5,826	5,253	5,304
PROFIT/LOSS FOR THE PERIOD	**25,011**	**24,540**	**20,657**	**18,623**	**17,826**

Balance sheet performance

(Amounts in NOK 1,000)	31.12.19	30.09.19	30.06.19	31.03.19	31.12.18
Loans to and receivables from financial institutions	311,914	352,186	273,652	364,232	230,973
Loans to and receivables from customers	15,204,020	15,229,943	15,425,796	15,803,765	13,507,138
Certificates, bonds, etc. at fair value	150,835	150,763	150,706	150,573	150,713
Deferred tax asset	0	493	493	493	493
Financial derivatives	117,495	187,043	165,339	146,233	142,015
Other assets	6,076	50,095	29,409	26,678	743
Prepaid non-accrued costs and income earned, but not received	0	18	518	0	0
TOTAL ASSETS	**15,790,339**	**15,970,541**	**16,045,913**	**16,491,974**	**14,032,075**
Liabilities to financial institutions	513,388	532,024	684,626	671,373	447,221
Securities issued	13,897,069	13,963,038	13,938,757	14,428,498	12,210,680
Financial derivatives	0	0	0	0	14,583
Other liabilities	100,323	146,703	118,948	109,393	96,487
Accrued expenses and income earned, but	115	1,950	1,300	1,088	125

not received					
Provisions for accrued costs and obligations	101	97	93	90	70
Deferred tax liability	506	0	0	0	0
Total liabilities	**14,511,503**	**14,643,812**	**14,743,725**	**15,210,442**	**12,769,166**
Paid-up equity	949,990	949,990	949,990	949,990	949,990
Retained earnings	328,846	312,919	312,919	312,919	312,919
Retained earnings	0	63,820	39,279	18,623	0
Total equity	**1,278,836**	**1,326,729**	**1,302,188**	**1,281,532**	**1,262,909**
TOTAL LIABILITIES AND EQUITY	**15,790,339**	**15,970,541**	**16,045,913**	**16,491,974**	**14,032,075**

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

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Sparebanken Øst Boligkreditt AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sparebanken Øst Boligkreditt AS, which comprise the balance sheet as at 31 December 2019, income statement, statements of comprehensive income, the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Issued covered bonds – compliance with regulation

Sparebanken Øst Boligkreditt AS issues covered bonds as their prime source of funding and is therefore subject to detailed requirements of the Norwegian Financial Institutions Act and related regulation (the "Regulation") as a mortgage company and covered bonds issuer. The covered bonds represent total liabilities, measured at amortised cost, of NOK 13 897 million which are collateralised against a pool of assets, the cover pool. The cover pool consists of assets deemed eligible by management in accordance with the Regulation referred to above, in all material aspects mortgage loans within certain loan-to-value ratios and other explicit thresholds. In addition, the cover pool may hold derivatives for financial hedging purposes and other supplementary assets, also within the thresholds defined in the Regulation. At all times, Sparebanken Øst Boligkreditt AS is required to be compliant with the Regulation and align its

operations with the requirements of the Regulation. Since such compliance is of significant importance for the operations of Sparebanken Øst Boligkreditt AS, we considered this a key audit matter.

We have tested controls over amortised cost measurement of issued cover bonds presented as debt securities issued in the balance sheet. We have performed procedures on the cover pool as set out the Regulation with respect to loan-to-value ratios as well as the valuation of financial instruments held as supplementary assets. We have also tested the calculation of collateralisation in percent, as described in note 18 of the entity's financial statements.

See note 16 and 18 in the financial statements for further information.

IT systems supporting financial reporting

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

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

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

Other information

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

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

Responsibilities of management for the financial statements

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

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

Building a better working world

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

Opinion on registration and documentation

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

Drammen, 12 February 2020
ERNST & YOUNG AS

Einar Hersvik
State Authorised Public Accountant (Norway)

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