Sparebanken Øst
Boligkreditt AS

Annual Report 2021

Thirteenth year of trading

Contents

Key figures

	2021	2020	2019	2018	2017
1 Return on equity*	7.37	7.70	6.83	7.21	7.92
2 Net interest income as a % of average total assets (GFK)	0.95	1.04	0.91	0.91	1.10
3 Profit/loss after tax as a % of average total assets (GFK)	0,59	0.64	0.56	0.55	0.67
4 Costs as a % of income (before losses)*	18.04	17.88	19.78	20.38	17.22
5 Losses as a % of net lending to customers (OB)*	0.01	0.00	0.00	0.00	0.00
6 Net non-performing commitments as a % of net lending*	0.14	0.01	0.14	0.07	0.03
7 Capital adequacy ratio in %	21.55	21.37	21.07	23.00	21.67
8 Tier 1 capital ratio in %	21.55	21.37	21.07	23.00	21.67
9 Dividend/Additional dividend	107.4	88.8	72.9	71.4	70.0
10 Average total assets (GFK)	20,050,2	16,659.8	15,857.5	13,319.6	11,325.0

*Defined as alternate profit target
For definition of key figures and a review of alternative performance targets, see page 44.

Annual report

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

The company
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 2021 amounted to NOK 345.5 million (NOK 399.4 million in 2020), of which NOK 341.7 (394.5) million relates to interest income on lending to customers. Net interest income totalled NOK 190.2 million, an increase compared to 2020 (NOK 173.4 million). Over the past year, the margins against 3m NIBOR on lending to customers have been reduced compared to the margins on borrowing.

The company's operating profit before tax for 2021 amounted to NOK 152.4 million (NOK 137.7 million in 2020), while profit after tax amounted to NOK 118.9 million (NOK 107.4 million).

Total operating costs in 2021 amounted to NOK 33.9 million (NOK 30.1 million in 2020), of which NOK 27.8 million (NOK 23.4 million) relate to management fees paid to the parent bank. Sparebanken Øst Boligkreditt AS has a formal partnership with Sparebanken Øst regulated by a comprehensive management agreement which ensures competency within key fields related to the business and helps to ensure cost-effective operations. In line with the management agreement, the fee is calculated according to business principles and the portfolio being managed at the time.

Losses on loans and unused credit facilities amounted to NOK 1.4 million (NOK 0.5 million in 2020). There were no confirmed losses or changes in individual loan loss provisions in 2021, and the loss for the year as a whole represents a change in model-based loan loss provisions.

Tax costs amounted to NOK 33.5 million (NOK 30.3 million in 2020).

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

Balance sheet
The total balance sheet of Sparebanken Øst Boligkreditt AS amounted to NOK 20,734.3 million at the end of 2021, an increase of NOK 2,500.4 million from the previous year. Of the total balance sheet, net lending to customers amounted to NOK 19,495.5 million, representing an increase of NOK 2,651.6 million from 2020. 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 18,332.6 million, equivalent to an increase of NOK 2,205.4 million from 2020.

Total loan loss provisions at the end of the year amounted to NOK 6.5 million, an increase of NOK 1.4 million from 2020. All of the loan loss provisions are model-based loss provisions in Stage 1 and Stage 2. The economic outlook at the end of 2021 is considered to be improved compared with what was assumed in the preparation of the annual financial statements for 2020, but there remains some uncertainty surrounding the estimates of the long-term effects of the Covid-19 pandemic.

At the end of the year, NOK 587.2 million was drawn from an approved credit facility with a limit of NOK 3,000 million, which was made available from Sparebanken Øst.

Net cash flow was positive in 2021 at NOK 39.6 million. The growth in lending is primarily funded by issuing covered bonds.

Share capital amounts to NOK 437.1 million, distributed on 10.66 million shares, each with a nominal value of NOK 41.

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.

Sparebanken Øst and its subsidiaries have director's liability insurance covering the members of the Board, the general manager, other members of management or similar governing bodies in the bank, and any past, current or future employees of the bank who could incur personal management liability. The insurance covers liability for economic loss, including personal liability for the Group's debts arising from claims raised the bank during the insurance period relating to an alleged liability-bearing act or omission in the insured's capacity of general manager, Board member, or member of management or equivalent governing body in the bank. In this context, economic loss is any financial loss not directly arising from physical injury or damage to a person or object. The director's liability insurance has amount limits.

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

<u>Overall risk management</u>

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

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

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

A management agreement (Transfer and Servicing Agreement – TSA) has been entered into with Sparebanken Øst covering administration, IT operations, and the production of various banking services, anti-money laundering activities, as well as finance, clearing, and accounting services. At the end of 2021, 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 of Directors considers that the quality of the lending portfolio is good. The over-collateralisation of the cover pool was 11% 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 1,708.5 million at year-end. This corresponded to capital adequacy of 21.55% and a Tier 1 capital ratio of 21.55%. The risk-weighted balance sheet at the end of 2021 was NOK 7,927.1 million. The company uses the standardised approach in its capital adequacy calculations. The Board deems the company's capital adequacy to be satisfactory in relation to the company's overall risk level, and the capital situation is helping to position the company for further growth.

Allocation of profit

The annual profit for 2021 amounted to NOK 118.9 million (NOK 107.4 million in 2020). The Board of Directors proposes that the profit for the year be transferred in its entirety to other equity.

Strategy

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

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

Employees and the working environment

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

External environment, social responsibility, and research and development

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

Equality

The Sparebanken Øst Group's overall strategy includes organisational and employee development targets and stipulates that it must be sought to achieve equal opportunities in every area of the Group. The Board of Directors of Sparebanken Øst Boligkreditt AS currently comprises two men and two women.

The market

Credit spreads in the market for Norwegian covered bonds decreased slightly in 2021. Sparebanken Øst Boligkreditt AS today pays approximately 25 basis points (hundredths of a percentage point) above the 3-month NIBOR rate for issuing such bonds with terms to maturity of five years. Access to capital in the market for covered bonds has been quite good overall throughout the year. The Covid-19 pandemic is still hanging over us, but the market does not seem particularly concerned that it will lead to any major downturn in the economy.

In 2021, Sparebanken Øst Boligkreditt AS issued a new covered bond loan with a nominal value of NOK 3,000 million maturing in 2027, and increased an existing loan maturing in 2026 by NOK 1,500 million, so the amount outstanding on that loan is now NOK 4,000 million.

The cover pool contains secured mortgage loans from every county in the country. The majority of the homes are located in the central part of Eastern Norway, and loans from Viken and Oslo account for 81.0% of the total. The loans in the cover pool have first priority mortgage charges on Norwegian residential properties.

Macro conditions and future prospects

In 2021, 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 2021 was adjusted to match the Group's need for financing. Access to funding via covered bonds was good. The mortgage 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 reach a robust liquidity position.

Growth in mainland GDP was negative in Q1 2021 because of extensive infection control measures. From the start of the second quarter, growth has been high and forecasts indicate that growth for 2021 will be around four per cent despite the fresh restrictions introduced in December. A normalisation of household behaviour with higher consumption, especially of services, and lower savings is a major factor behind this growth. The strong growth must also be seen in light of the 2.3 per cent decrease in mainland GDP in 2020.
Unemployment fell sharply through 2021. The decline in unemployment picked up speed as society opened up from the end of the first quarter. At the end of the year, the number completely unemployed was 2.3 per cent, a fall of 1.7 percentage points from December 2020. The number of vacancies was at a record high at the end of the year, and demand for labour is high in most industries and regions.
Norges Bank was ahead of most other western central banks in 2021 in signalling that interest rates were likely to increase during the year. In September, Norges Bank raised its key policy rate to 0.25 per cent with a further increase to 0.50 per cent in December. The central bank has highlighted high capacity utilisation in the Norwegian economy and signs of increased inflation as reasons for normalising interest rates.
Money market rates moved substantially compared to the key policy rate during 2020. The gap between 3m Nibor and the key policy rate was high through the first quarter before falling to the end of June. 3m Nibor rose again from July, ahead of the expected rate increases from Norges Bank.
Inflation in Norway was 3.5 per cent in 2021. An increase in electricity prices of over 70 per cent compared to 2020 was a major cause of higher inflation.
House prices in Norway increased by just over five per cent in 2021. Price growth at the start of the year was very high, but the rate of growth slowed from the summer. Price growth in the bank's local market was higher than in the country as a whole. The prospect of increased interest rates, and the fact that price levels in many areas are now high, may have a dampening effect on house prices. Residential sales remained high throughout 2021 and the number of homes sold in Norway passed 100,000 units for the first time during the year.

Growth in the Norwegian economy is expected to be high in 2022, although activity levels in the first quarter may be dampened by the infection prevention measures. The GDP forecasts for mainland Norway indicate growth of at least four per cent this year, well above the trend in the economy. The authorities and businesses have gained plenty of experience in tackling new outbreaks of infection, and the risk of measures weakening growth in the Norwegian economy in the long term is considered to be small.
The labour market is showing a high level of activity and the number of unemployed people compared to the number of vacancies is at a record low. The scarcity of labour affects almost all industries and all parts of the country. The unemployment rate is likely to fall further through 2022 although there could be a temporary increase at the start of the year.
Expectations for wage growth over the next few years have risen as a result of labour shortages and rising inflation. There is great uncertainty surrounding future inflation. If inflation leads to increased wages, it could again cause more prolonged price growth.
Norges Bank has signalled that it will most probably raise its key policy rate once more in March. The market is now pricing in a total of four rate increases during 2022, and assumes that the key policy rate will be 1.50 per cent at the end of the year.

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, February 10, 2022

Board of Directors of Sparebanken Øst Boligkreditt AS

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

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

We certify that, to best of our knowledge, the annual accounts for the period 1 January to 31 December 2021 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, February 10, 2022

Board of Directors of Sparebanken Øst Boligkreditt AS

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

Income statement

(Figures in NOK thousands)	Notes	2021	2020
Interest income from assets valued at amortised cost	3,4	341,685	396,140
Interest income from assets valued at fair value	3,4	3,764	3,302
Interest costs	3,4	155 233	225,995
Net interest income		**190 216**	**173,447**
Commission income and income from banking services	3	37	43
Commission costs and costs for banking services	3	27,792	23,431
Net value adjustment and gain/loss on financial instruments	15	-2,593	-5,185
Administration costs	3,6	1,389	1,551
Other operating costs	3,5,7,8	4,677	5,109
PROFIT BEFORE LOSSES		**153,802**	**138,214**
Losses on loans and unused credit facilities	9	1,404	547
PROFIT BEFORE TAX		**152,398**	**137,667**
Tax costs	10	33,528	30,287
PROFIT FOR THE YEAR		**118,870**	**107,380**

Comprehensive income

(Figures in NOK thousands)	Notes	2021	2020
PROFIT FOR THE YEAR		**118,870**	**107,380**
Other operating income and costs in comprehensive income		0	0
STATEMENT OF COMPREHENSIVE INCOME		**118,870**	**107,380**

Balance sheet

(Figures in NOK thousands)	Notes	31.12.2021	31.12.2020
Loans to and receivables from financial institutions	3,21,22,23	825,175	864,739
Loans to and receivables from customers	9,11,21,22,23	19,495,527	16,843,903
Certificates, bonds, etc. at fair value	20,22,23	316,978	343,805
Financial derivatives	12,20,22,26	87,069	173,221
Other assets	3,13,21,22	9,551	8,277
TOTAL ASSETS		**20,734,300**	**18,233,945**
Liabilities to financial institutions	3,14,16,21,22,23	587,214	452,803
Securities issued	3,16,18,21,22,23	18,332,573	16,127,220
Tax payable	10	32,181	29,390
Other liabilities	3,17,22,23	69,244	124,296
Accrued expenses and deferred income		1,066	1,309
Other provisions		397	139
Deferred tax liability		2,749	1,403
TOTAL LIABILITIES		**19,025,424**	**16,736,560**
Paid-up equity	24	1,349,990	1,149,990
Retained earnings		358,886	347,395
Total equity	19,24	**1,708,876**	**1,497,385**
TOTAL LIABILITIES AND EQUITY		**20,734,300**	**18,233,945**

Drammen, February 10, 2022

Kjell Engen
Chairman of the Board

Siren Coward
Deputy Chair

Leif Ove Sørby
Board member

Anne Grete Nesset
Board member

Vegard Kvamme
General manager

Cash Flow Statement

(figures in NOK thousands)	Notes		2021	2020
Operating activities				
Profit/loss before tax			152,398	137,667
Adjusted for:				
Change in net accrued interest income and interest costs			8,270	-14,679
Change in bonds at fair value			26,658	-192,548
Net receipts/payments of loans to customers			-2,653,735	-1,647,011
Net receipts/disbursement of borrowing from financial institutions			135,974	-60,569
Change in other assets			-1,273	-2,201
Change in other liabilities			-56,869	49,267
Change in premium/discount on securities issued			-8,194	240
Non-cash items included in profit before tax			1,404	547
Net losses/gains from financing activities			482	4,101
Taxes paid for the period			-29,389	-24,102
Net cash flow from operating activities		**A**	**-2.424.274**	**-1,749,288**
Financing activities				
Payments on repayment of securities			-2.300.490	-2,804,131
Proceeds on issuance of securities			4,592,580	4,995,075
Proceeds from capital increase			200,000	200,000
Payment of additional dividends			-107,380	-88,831
Net cash flow from financing activities		**B**	**2,384,710**	**2,302,113**
Net change in cash and cash equivalents		**A+B**	-39,564	552,825
Cash and cash equivalents at 01.01.	3		864,739	311,914
Cash and cash equivalents as at 31.12.			**825,175**	**864,739**

Liquid assets consist exclusively of bank deposits. Unused drawing rights at 31.12.2021 were NOK 2,412.8 million, against NOK 2,548.8 million at 31.12.2020.

Additional information for operating activities concerning interest	**2021**	**2020**
Interest payments received	346,584	407,119
Interest payments made	156,289	246,631

Change in equity

(figures in NOK thousands)

2021	Total equity	Share capital	Premium reserve	Other equity
Equity at 31.12.2020	1,497,385	426,400	723,590	347,395
Profit for the year	118,870	0	0	118,870
Other operating income and costs in comprehensive income	0	0	0	0
Comprehensive income	118,870	0	0	118,870
Capital increase 02.09.2021	200,000	10,660	189,340	0
Additional dividends	-107,380	0	0	-107,380
Equity as at 31.12.2021	**1,708,876**	**437.060**	**912,930**	**358,885**

On the basis of the profit for 2020, an additional dividend of NOK 107.4 million was paid out, equivalent to NOK 10.07 per share. The proposed dividend based on the profit for 2021 is NOK 0 million.

2020	Total equity	Share capital	Premium reserve	Other equity
Equity at 31.12.19	1,278,836	373,100	576,890	328,846
Profit for the year	107,380	0	0	107,380
Other operating income and costs in comprehensive income	0	0	0	0
Comprehensive income	107,380	0	0	107,380
Capital increase 27.08.2020	200,000	53,300	146,700	0
Additional dividends	-88,831	0	0	-88,831
Equity at 31.12.2020	**1,497,385**	**426,400**	**723,590**	**347,395**

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. 2021 is the company's thirteenth 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 grant or acquire home mortgage loans, property mortgage loans, loans secured by liens on other registered assets or public loans, and to finance lending activities, mainly by issuing covered bonds.

The annual accounts for 2021 were approved by the Board of Directors of Sparebanken Øst Boligkreditt AS on 10 February 2022.

The company is included in the consolidated financial statements of Sparebanken Øst, business address: Stasjonsgata 14, N-3300 Hokksund.

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

NOTE 2 ACCOUNTING POLICIES

1. GENERAL

The financial statements for Sparebanken Øst Boligkreditt AS have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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

2. AMENDMENTS TO ACCOUNTING POLICIES

The accounting policies applied are generally unchanged from the policies applied to the 2020 annual financial statements, with the exception of the changes in IFRS and interpretations that were implemented in 2021. All relevant amendments to IFRS and interpretations effective for the accounts for 2021, and the effect these have had on the annual financial statements, are listed below.

Interest rate benchmarks reform (IBOR reform): IASB has made changes to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 due to the ongoing reform of interbank offered rates (IBOR) and other benchmark rates. The changes were introduced with effect from 01.01.2021. The changes were made to offset the potential effects of the IBOR reform for specific hedge accounting requirements. When an old benchmark rate is replaced by an alternative benchmark rate due to the reform, companies are required to provide additional information to investors about the affected hedging relationships and the impact on the financial accounts. The Group uses hedge accounting for fixed-rate borrowing in NOK. The reference rate reform has not had any effect on hedging efficiency, the market value of hedging instruments or the fair value of hedged interest rate risk in hedging objects and the hedging conditions have continued as before.

3. CURRENCY

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

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

4. INCOME

4.1 INTEREST INCOME AND COSTS

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

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

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

4.2 COMMISSION INCOME AND COSTS

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

5 FINANCIAL INSTRUMENTS

5.1 RECOGNITION AND DERECOGNITION

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

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

5.2 CLASSIFICATION

The company's financial instruments subject to IFRS 9 are classified on initial recognition in one of the following categories:

Financial assets:

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

Financial liabilities:

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

5.3 MEASUREMENT

5.3.1 Initial recognition of financial instruments

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

5.3.2 Subsequent measurement

Measurement at fair value

In principle, observable market rates must be the basis on which a financial instrument at fair value is estimated. Other valuation methods are used where there are no observable market rates in an active market and the fair value cannot be derived directly or indirectly from observable market input. These are methods that can involve using discretionary evaluations to some degree. Such discretionary evaluations may be liquidity risk, credit risk and volatility. Changes in the attitude toward these factors may affect the determination of the fair value of a financial instrument. All changes in fair value are recognised directly in the income statement.

Measurement at amortised cost

Financial instruments that are not measured at fair value are valued at amortised cost. Instruments that are measured at amortised cost comprise interest and liabilities and are held in a business model whose purpose is to receive interest payments and liabilities. Income/costs are calculated by the effective interest rate method, whereby the effective interest rate is determined by discounting contractual cash flows within the expected term. Amortised cost is the present value of cash flows discounted by the effective interest rate.

5.3.3 Hedge accounting

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

5.4 MORE INFORMATION ABOUT FINANCIAL INSTRUMENTS

5.4.1 Loans and receivables

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

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

Model-based expected credit loss
Expected credit 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 loan loss provisions. Measurement of expected credit loss is described in further detail under 5.4.6.

Non-performing commitments
A non-performing commitment is defined as a payment default if the following criteria are met:

- Arrears over 90 days
- Amount due greater than NOK 1,000 for retail customers or greater than NOK 2,000 for business customers
- Arrears exceeding 1 per cent of the present value of the customer's total commitment

A commitment should also be classed as non-performing if situations arise which make it unlikely that the customer will be able to meet its obligations ("unlikeliness to pay" criteria), including:

- The commitment has been individually loss-assessed and written down because of impaired creditworthiness
- It is assumed that debt negotiations will be initiated, bankruptcy occurs, or the counterparty enters into public administration.
- The terms have been changed because of payment issues, and it is assumed that this will reduce the value of the cash flow by a not insignificant amount.
- A receivable is disposed of at a lower price and the reduction is not insignificant.
- It is assumed that the commitment will not be met for other reasons.

Commitments are reported as non-performing for a waiting period of at least three months after the default position ceased.

If a customer with a non-performing commitment has multiple commitments, all of them will be treated as non-performing. For customers with joint commitments, default on the joint commitment will cause all joint commitments between the same customers to be treated as non-performing.

Non-performing commitments are assigned to Stage 3.

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

Estimates of any credit loss are based on the size of expected future cash flows from sale of collateral etc., when the cash flows are expected to be paid and the discount rate. The size of the loss is a direct function of the difference between the book value and the present value of the discounted future cash flows, discounted by the loan's effective interest rate. Where there are several probable outcomes, the probability-weighted present value of discounted future cash flows is used.

Declaring losses
Losses are only recognised when it is no longer considered possible to recover a commitment, when the bankruptcy of the debtor has been affirmed, when execution proceedings have not been successful, or when 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 the losses are final. Declared losses that are covered by previous write-downs are posted to allocations. Declared losses that have not previously been subject to individual write-down, as well as over- or under-coverage in relation to previous write-downs, are recognised in the income statement.

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

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

The company uses fair value hedging of fixed-rate borrowing and currency borrowing. In a fair value hedge the company seeks to hedge against exposure to changes in the fair value of recognised assets or liabilities. Bond debt at fixed interest rates constitutes an interest risk. Bond debt in foreign currency constitutes both an interest and a currency risk. Hedge accounting is applied to financial derivatives used to hedge the fair value of recognised liabilities where the criteria are met. Changes in the fair value of financial derivatives classified as and meeting the requirements of fair value hedging are recognised in the income statement together with any change in the fair value of the hedged liability which can be ascribed to the hedged risk. Interest rate swaps and combined interest rate and currency swaps (basis swaps) are the hedging instruments used by the company. The value adjustment of hedging instruments and items is posted to “Net value adjustments and gains/losses on financial instruments”. Any ineffective portion of the hedging is recognised. If the hedging relationship is interrupted or adequate hedging efficiency cannot be verified, the value adjustment linked to the hedging object is amortised over the remaining maturity.

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

5.4.5 Borrowing and other financial liabilities
The company measures financial liabilities, other than derivatives, at their amortised cost. Financial liabilities are measured at amortised cost where the differences between the amount received less transaction costs and the redemption value are accrued over the loan term, using the effective interest rate method. Interest costs and amortisation effects on instruments are posted to “Interest costs and similar costs” in the income statement. Holdings of own bonds are posted as reductions of liabilities. Interest costs and the amortisation effects on instruments are included in “Interest costs” in the income statement. In the case of buybacks, the difference between the book value and the remuneration paid is recognised in the income statement under “Net value adjustments and gains/losses on financial instruments”.

5.4.6 Measurement of expected credit loss
Expected credit loss is calculated for financial assets which are debt instruments measured at amortised cost or at fair value with value adjustments through comprehensive income. The expected loss on the commitment amount consisting of loans and unused credit facilities is calculated. Expected credit loss is calculated per commitment. The company divides commitments into three stages in calculating the expected credit loss. See Note 9 for model-based loss costs and loan loss provisions per stage and Note 22 for commitment totals per risk class and distribution per stage.

Stage 1: Commitments that do not have a substantial increase in credit risk after initial recognition, measured by the change in the probability of default (PD), are included in Stage 1. For commitments in Stage 1, an expected 12-month loss is calculated on the basis of the commitment’s exposure.

Stage 2: Commitments with a significant increase in credit risk after initial calculation, measured the change in the probability of default (PD), including commitments overdue by more than 30 days, are included in Stage 2. For commitments in Stage 2, an expected lifetime loss is calculated on the basis of the commitment’s exposure and expected duration. Commitments with forbearance are assigned to Stage 2 if they have not already been assigned to Stage 2 or Stage 3. If the credit risk is deemed to have significantly increased due to events that have occurred but that were not caught by the company’s system for measuring probability of default (PD), commitments are assigned to Stage 2 if they have not already been assigned to Stage 2 or Stage 3.

Stage 3: Non-performing commitments, i.e. commitments with further increases in credit risk, are included in Stage 3. The provisions for this stage consist of both individually assessed loan loss provisions and model-based expected credit loss. For commitments for which there is no individual loss assessment, expected credit loss is calculated on the basis of the commitment's exposure, the segment parameter for expected credit loss, and expected duration.

Principle for calculation of expected credit loss: Losses per commitment are calculated. The loss estimates are based on the estimated 12-month and lifelong probability of default (PD) per customer. The company's commitments are further classified into segments based on the product, security, and other criteria, so each segment contains loans with virtually the same risk profile. A loss given default (LGD) figure is determined for each segment. An expected commitment exposure is also determined. For repayment loans, the basis is an expected repayment plan. For credit lines and guarantees, the basis is an exposure at default (EAD). Expected credit loss (ECL) is calculated by multiplying probability of default (PD) x loss given default (LGD) x exposure at default (EAD). When calculating expected credit loss, probability-weighted calculations are made based on an analysis of alternative outcomes of observed credit losses and projected trends, including macroeconomic developments.

Probability of default (PD) at initial recognition: When a loan application is processed, a scoring model is used to estimate a 12-month probability of default for the customer. This probability forms the basis for measuring the material increase in credit risk, and is the probability of default (PD) used to calculate the expected credit loss in the first 6 months measured from the date of the loan application.

Probability of default (PD): In subsequent measurements, the portfolio scoring model is used, based on the estimated 12-month probability of default (PD). The portfolio is scored on a monthly basis with an updated probability of default (PD). The expected probability of default during the term of the commitment, used to calculate the expected credit loss in Stage 2, is derived from the probability of default in the first 12 months. For risk classes J and K, which cover non-performing commitments, the probability of default is 100 per cent.

Loss given default (LGD): 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 commitments. The loss ratio is assessed overall per segment and per product. Assessments of the realisation value of collateral reflect short and medium-term expectations.

Exposure at default (EAD): For repayment loans, the expected repayment profile is determined from an analysis of the average maturity of the Group's mortgage portfolio. For commitments with a credit limit, a determination is made of how much of the credit limit is expected to have been drawn at the time of default.

Rules concerning a significant increase in credit risk: The company uses the change in the 12-month probability of default (PD) measured against the probability of default (PD) at initial recognition as the primary criterion for a material increase in credit risk. As a general principle, a doubling of the 12-month probability of default (PD) implies a material increase in credit risk, and commitments are moved from Stage 1 to Stage 2 when the probability has changed to more than 0.5 per cent. Non-performing commitments are assigned to Stage 3. The company does not use the exemption for loans with low credit risk.

Reversal from Stage 2 and from Stage 3: When the criteria for a significant increase in credit risk (Stage 2) are no longer present, the commitment is transferred to Stage 1 after one month. For non-performing commitments in Stage 3, a quarantine period starts at least 90 days after the cause of the default has ceased. After the end of the quarantine period, the customer's behaviour and financial situation are assessed before they are given a clean bill of health.

Macroeconomic scenarios and probability weighting: When calculating an expected credit loss, this is done on the basis of the model parameters for the anticipated scenario. When assessing the macroeconomic situation and potential macroeconomic developments, two further scenarios are determined - one optimistic and the other pessimistic. On the basis of the anticipated scenario, a factor is set for how much the expected credit loss is expected to change in the optimistic and pessimistic scenarios, respectively. The three scenarios are weighted in terms of probability and constituted the model-based expected credit loss. Factors and the probability of the scenarios are set based on the Group's internal assessments, which include the expected development in key macroeconomic indicators, including economic growth (GDP), house prices, interest rate levels and unemployment, as well as observed credit losses. The factor and probability of the scenarios is set individually for each segment in the Group.

6 INCOME TAX

Tax costs for the year in the income statement comprise the tax payable for the financial year, any over/under allocated tax payable from previous years, and deferred tax recognised in the income statement. These are recognised as income or costs in the income statement with the exception of tax payable and deferred tax on transactions which are recognised directly in comprehensive income or under equity.

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

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

7 CONTINGENT LIABILITIES AND ASSETS

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

8 DIVIDEND

Dividend per share is recognised as equity in the period up to approval 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. The indirect method is used to prepare the cash flow statement.

10 EVENTS AFTER THE BALANCE SHEET DATE

New information after the balance sheet date concerning the company's financial position as at the balance sheet date will be included in the basis for assessing the accounting estimates in the accounts and will thus be taken into consideration in the annual financial statements. Events after the balance sheet date which do not affect the company's financial position on the balance sheet date, but which will affect the company's financial position in the future, are reported if such information is material.

11 FUTURE AMENDMENTS TO ACCOUNTING POLICIES

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

Changes in IAS 8 – Definition of accounting estimates: In February 2021, the IASB published changes to IAS 8, introducing a definition of "accounting estimates". The changes clarify the distinction between changes in accounting estimates and changes in accounting policies and correction of errors. The changes also clarify how entities should use measurement techniques and input to develop accounting estimates. The changes are not EU-approved but are intended to apply to accounting periods beginning on or after 1 January 2023. Earlier application is allowed. The changes are not expected to have a material impact on the company.

Changes to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies: Following feedback to the effect that more guidance was needed to help companies decide what information on accounting polices to disclose, the IASB has published changes to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 on making materiality judgments. The changes require companies to disclose 'material information about accounting policies' instead of 'material accounting policies'. The changes provide guidance on how the concept of materiality should be applied to accounting policies. The changes are not EU-approved but are intended to apply to accounting periods beginning on or after 1 January 2023. Earlier application is allowed. The company is assessing how the changes will affect the disclosures on accounting policies.

12 MANAGEMENT ASSESSMENTS, USE OF ESTIMATES AND ASSUMPTIONS

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

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

12.1 MODEL-BASED EXPECTED CREDIT LOSS
Using a model to calculate expected credit loss requires the exercise of judgement, and a degree of estimate uncertainty is therefore associated with model-based expected credit loss. The management team has used its discretion when determining the parameters included in the calculation. An expected credit loss model uses a significant number of parameters. The parameters that the model is most sensitive to and which carry the most uncertainty are probability of default, loss given default and probability weighting of the scenarios. Refer to Note 9 for quantitative information and sensitivity analyses for model-based expected credit loss.

12.2 INDIVIDUALLY ASSESSED LOAN LOSS PROVISIONS
Loans are written down for credit losses on a case by case (individual) basis if there is objective evidence that such credit losses have occurred. Objective evidence is considered to exist where the debtor has substantial financial problems, is in default on payments or otherwise in material breach of contract, or in the case of deferral of payments or new credit to pay amounts due, agreed changes in interest rates or other terms and conditions as a consequence of problems faced by the debtor, likelihood of the debtor entering into debt negotiations, other financial restructuring or that the debtor's estate will be lost in bankruptcy proceedings. Estimates of possible credit loss are based on the size of expected future cash flows from sales of collateral etc., when the cash flows are expected to be paid and the discount rate. The amount of the loss is directly proportional to the difference between the book value and the present value of discounted future cash flows. Where there are several probable outcomes, the probability-weighted present value of discounted future cash flows is used. The main uncertainty when estimating the size of credit losses stems from the assessment of the size of the cash flows and when they are expected to be received. Individually assessed loan loss provisions are included in expected credit loss Stage 3. Please refer to Note 9.

NOTE 3 TRANSACTIONS WITH 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.

Sparebanken Øst Boligkreditt AS regularly buys mortgages from the parent bank in order to replenish the cover pool in the mortgage company. This is either to increase the cover pool in connection with the issuance of new covered bonds or to compensate for mortgages that have been moved to other banks or back to the parent bank. In 2021, Sparebanken Øst Boligkreditt AS purchased mortgages from Sparebanken Øst worth NOK 10,103 million; the corresponding figure for 2020 was NOK 10,042 million.

Income statement	**2021**	**2020**
Interest income, deposits in parent bank	2,547	1,648
Interest costs, loans from parent bank	7,008	8,702
Interest costs, covered bond liabilities to parent bank	9,276	9,802
Commission costs to parent bank	27,792	23,431
Administrative costs to parent bank	1,380	1,539
Other operating costs to parent bank	1,260	1,260

Balance sheet	**2021**	**2020**
Deposits in parent bank	825,175	864,739
Other receivables from parent bank	9,551	8,277
Loans from parent bank	587,214	452,803
Covered bond debt to parent bank	513,220	778,059
Other liabilities to parent bank	3,422	2,045

NOTE 4 NET INTEREST INCOME

	2021	2020
Interest income from lending to and receivables from financial institutions	2,547	1,648
Interest income from lending to and receivables from customers	339,138	394,492
Interest income from certificates and bonds at fair value	3,764	3,302
Interest income	**345,449**	**399,442**
Interest costs on liabilities to financial institutions	7,045	9,185
Interest costs on issued securities	145,917	214,678
Costs of the crisis action fund	2,271	2,133
Interest costs	**155,233**	**225,995**
Net interest income	**190,216**	**173,447**

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 and risk manager a 50% position, while accounting, analysis and reporting has a 50% position, at a total cost of NOK 1,260,000 in 2021. The general manager is paid by Sparebanken Øst and had an annual salary of NOK 1,212,621 in 2021.

No contracted employees or Board members have severance package agreements, subscription rights, options, or bonus agreements. No employees of Sparebanken Øst are paid remuneration for serving on the Board. Remuneration to external board member for 2021 amounts to NOK 77,000. The general manager, the Board of Directors, 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

	2021	2020
IT costs	1,384	1,539
Other administrative costs	6	12
Administration costs	**1,389**	**1,551**

NOTE 7 OTHER OPERATING COSTS

	2021	2020
Consulting fees to Sparebanken Øst	1,260	1,260
External consultants and fees	2,295	2,820
Fees relating to own bonds	1,043	946
Other operating costs	79	83
Other operating costs	**4,677**	**5,109**

NOTE 8 REMUNERATION TO AUDITOR

	2021	2020
Audit	217	206
Other certification services*	166	167
Tax consulting	39	38
Other services	0	39
Remuneration to auditor	**422**	**450**

* Including inspector’s fees pursuant to Section 11-14 of the Norwegian Financial Institutions Act: NOK 106,000 in 2021 and NOK 136,000 in 2020.
The amounts are inclusive of VAT.

NOTE 9 LOSSES ON LOANS AND UNUSED CREDIT FACILITIES

Loss costs

	31.12.2021	31.12.2020
Change in model-based expected credit loss, Stage 1	-286	534
Change in model-based expected credit loss, Stage 2	1,649	13
Change in model-based expected credit loss, Stage 3	42	0
Increase in existing individual loan loss provisions	0	0
New individual loan loss provisions	0	0
Established losses covered by previous individual loan loss provisions	0	0
Reversals of previous individual loan loss provisions	0	0
Actual losses where no individual loan loss provisions have previously been made	0	0
Recovery of previously identified losses	0	0
Amortisation costs for the period	0	0
Losses on loans and unused credit facilities	**1,404**	**547**
- Of which losses on unused credit facilities	259	38

Loss

Change in loan loss provisions	**Expected credit loss, Stage 1**	**Expected credit loss, Stage 2**	**Expected credit loss, Stage 3***	**Total**
Opening balance as at 01.01.2021	**4,074**	**1,026**	**0**	**5,099**
Transferred to Stage 1	398	-398	0	0
Transferred to Stage 2	-140	140	0	0
Transferred to Stage 3	-1	-310	311	0
Net change	-913	1,796	-267	617
New losses	1,704	552	0	2,256
Deducted losses	-1,176	-240	0	-1,416
Change in risk model/parameters	-159	108	-2	-53
Closing balance at 31.12.2021	**3,788**	**2,674**	**42**	**6,504**
- Of which provision for unused credits	344	53	0	397

* The company has no commitments with individually assessed loan loss provisions as at 31.12.2021

Change in loan loss provisions	**Expected credit loss, Stage 1**	**Expected credit loss, Stage 2**	**Expected credit loss, Stage 3***	**Total**
Opening balance at 01.01.2020	**3,540**	**1,013**	**0**	**4,553**
Transferred to Stage 1	150	-150	0	0
Transferred to Stage 2	-60	60	0	0
Transferred to Stage 3	0	0	0	0
Net change	-338	171	0	-167
New losses	1,694	35	0	1,729
Deducted losses	-1,382	-349	0	-1,731
Change in risk model/parameters	470	245	0	715
Closing balance at 31.12.2020	**4,074**	**1,026**	**0**	**5,099**
- Of which provision for unused credits	135	4	0	139

* The company has no commitments with individually assessed loan loss provisions as at 31.12.2020

Gross lending

Change in gross lending, broken down by stage	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 01.01.2021	**16,729,664**	**117,583**	**1,618**	**16,848,864**
Transferred to Stage 1	38,117	-38.117	0	0
Transferred to Stage 2	-277,166	277,166	0	0
Transferred to Stage 3	-1,760	-23,859	25,618	0
Net change	-496,474	-6,634	-158	-503,267
New loans	8.308.925	62,849	1,238	8,373,012
Deducted lending	-5,195,746	-19,613	-1,618	-5.216.977
Closing balance at 31.12.2021	**19.105.561**	**369,374**	**26,698**	**19.501.633**
- of which loans with forbearance	**0**	**95.100**	**22,268**	**117,368**

Change in gross lending, broken down by stage	Stage 1	Stage 2	Stage 3	Total
Opening balance at 01.01.2020	**15,070,771**	**116,658**	**21,044**	**15,208,472**
Transferred to Stage 1	14,066	-13,115	-951	0
Transferred to Stage 2	-38,596	40,184	-1,588	0
Transferred to Stage 3	0	0	0	0
Net change	-348,693	-1,882	122	-350,453
New loans	7,998,961	24,294	0	8,023,255
Deducted lending	-5,966,844	-48,556	-17,010	-6,032,410
Closing balance at 31.12.2020	**16,729,664**	**117,583**	**1,618**	**16,848,864**
- of which loans with forbearance	**0**	**46,311**	**0**	**46,311**

Commitments without loan loss provisions in Stage 3

In the case of individual assessment where the assessed present value of securities indicates that the company has not incurred losses, no loss provisions relating to the commitments are made. The total of non-performing commitments without loan loss provisions amounts to NOK 7.5 million (NOK 1.6 million in 2020). The estimated fair value of the collateral amounts to NOK 18.2 (3.7) million. The following table shows the loan to value (LTV) ratio for the collateral.

Non-performing commitments without loss provisions as a percentage of the market value of the securities	2021 NOK thousands	2021 Per cent	2020 NOK thousands	2020 Per cent
Less than 50%	5,834	78.0%	1,618	100.0%
50% to 70%	1,647	22.0%	0	0.0%
70% to 85%	0	0.0%	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	**7,481**	**100.0%**	**1,618**	**100.0%**

Model-based expected credit loss

The economic outlook at the end of 2021 is considered to be improved compared with what was assumed in the preparation of the annual financial statements for 2020, but there remains some uncertainty surrounding the long-term effects of the Covid-19 pandemic.

The probability weighting of the macro scenarios used to calculate the model-based expected credit loss changed at the end of 2021 compared with what was used in the preparation of the annual financial statements for 2020. The probability of a pessimistic scenario has been reduced to 25 per cent from the previous figure of 30 per cent, while the expected scenario has increased to 75 per cent from 70 per cent. The effect of the change is a reduction of NOK 0.2 million across Stages 1 and 2. The factors for the different scenarios, which express the amount of expected credit losses in the optimistic and pessimistic scenarios compared to the expected loss in the expected scenario, are unchanged compared to 31.12.2020.

From the Q4 2021, model-based expected loss is based on a customer-specific probability of default (PD) from the scoring model and changes to it. This is a change from the probability of default per risk class used earlier (based on the customer's risk class). This change is the main reason for the increase in loan loss provisions for the year and increased numbers of commitments in Stage 2.

Sensitivity analyses of model-based expected credit loss

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

The tables below show expected credit losses in the different scenarios as well as their probability weighting. Individually assessed loan loss provisions remain unchanged in the different scenarios.

31.12.2021	**Factor**	**Probability-weighted**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Optimistic scenario	80	0%	2,424	1,711	27	4,162
Expected scenario	100	75%	3,030	2,139	33	5,503
Pessimistic scenario	200	25%	6,060	4,279	67	10,406
Loan loss provisions (weighted)		**100%**	**3,788**	**2,674**	**42**	**6,504**

31.12.2020	**Factor**	**Probability-weighted**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Optimistic scenario	80	0%	2,507	631	0	3,138
Expected scenario	100	70%	3,134	789	0	3,923
Pessimistic scenario	200	30%	6,267	1,578	0	7,845
Loan loss provisions (weighted)		**100%**	**4,074**	**1,026**	**0**	**5,099**

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

An increase in the probability of default assumes a doubling of the estimated 12-month probability of default (PD). For expected credit loss, an increase of 50 per cent is used. The assumption used in setting pessimistic scenario's probability weight is that the probability will increase by 50 per cent and that the expected scenario will be reduced correspondingly.

Sensitivity to model parameters	**Doubling of default probability (PD)***	**50 per cent increase in loss given default (LGD)**	**50 per cent increase in probability weight of pessimistic scenario**
31.12.2021	8,231	3,252	650
31.12.2020	5,099	2,550	588

*As of 31.12.2020, an approach has been used to estimate the effect of doubling the probability of default (PD) which equates to a doubling of model-based losses.

NOTE 10 TAXES

	2021	2020
The year's tax costs in the income statement are as follows		
Tax payable on the profit for the year	32,181	29,390
Recognised deferred tax	1,346	897
Recognised deferred tax due to change in tax rate	0	0
Total income tax for the year	**33,528**	**30,287**
Change in net deferred tax		
Recognised deferred tax in the income statement	1,346	897
Change in deferred tax carried directly to the balance sheet	0	0
Total change in net deferred tax	**1,346**	**897**
Reconciliation of tax for the year		
Profit before tax	152,398	137,667
Tax at nominal rate of 22%	33,528	30,287
Tax effect of permanent differences	0	0
Tax effect of changed tax rate	0	0
Tax costs	**33,528**	**30,287**
Tax payable in the balance sheet is as follows		
Tax payable on the profit for the year	32,181	29,390
Tax payable	**32,181**	**29,390**

Deferred tax liability/deferred tax asset	**2021**	**2020**	**Change 2021**	**Change 2020**
Temporary differences				
Financial derivatives	87,069	164,724	77,655	-62,044
Securities issued	-73,808	-158,279	-84,470	56.500
Securities	-765	-70	695	1,470
Total temporary differences	12,496	6,375	-6,120	-4,075
Deferred tax liability(+)/deferred tax asset(-)	**2,749**	**1,403**	**-1,346**	**-897**

The tax rate for tax payable is 22% in both 2021 and 2020. The deferred tax liability/deferred tax asset is recognised on the basis of the future tax rate of 22%.

NOTE 11 LENDING TO CUSTOMERS

	2021	2020
Credit lines secured against residential property	6,068,711	2,552,989
Repayment mortgages secured against property	13,432,922	14,295,875
Total gross lending	**19.501.633**	**16,848,864**
Loss provisions on loans	6,106	4,961
Total net lending	**19,495,527**	**16,843,903**

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

Geographical distribution of lending to customers	**2021**	**2020**
Drammen	3,003,969	3,661,748
Øvre Eiker	720.087	931,331
Asker/Bærum	3,010,518	2,615,654
Rest of Viken	3,915,959	3,445,958
Oslo	5,140,073	3,442,456
Vestfold and Telemark	1,359,495	1,513,013
Rest of Norway	2,351,533	1,238,704
Total gross lending	**19.501.633**	**16,848,864**
Loss provisions on loans	6,106	4,961
Total net lending	**19,495,527**	**16,843,903**

Lending by customer groups	**2021**	**2020**
Salaried employees	19.375.191	16,666,129
Self-employed	126,442	182,735
Total gross lending	**19.501.633**	**16,848,864**
Loss provisions on loans	6,106	4,961
Total net lending	**19,495,527**	**16,843,903**

Non-performing commitments	**2021**	**2020**
Payments over 90 days past due		
Business	0	0
Retail	2,642	1,618
Gross payment defaults	**2,642**	**1,618**
Loan loss provisions*	0	0
Net payment defaults	**2,642**	**1,618**
Provisions ratio	0.0%	0.0%
Other non-performing commitments		
Business	2,458	0
Retail	21,598	0
Gross other non-performing commitments	**24,056**	**0**
Loan loss provisions	42	0
Net other non-performing commitments	**24,015**	**0**
Provisions ratio	0.2%	0.0%
Non-performing commitments		
Business	2,458	0
Retail	24,240	1,618
Gross non-performing commitments	**26,698**	**1,618**
Loan loss provisions	42	0
Net non-performing commitments	**26,657**	**1,618**
Provisions ratio	0.2%	0.0%

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

With effect from 2021, Sparebanken Øst Boligkreditt AS has amended its definition of default in line with the EBA's guideline that came into force on 01.01.2021. The change has resulted in commitments being reported as non-performing for a waiting period of at least three months after the default position ceased. The amount of commitments in the waiting period is included in 'Net other non-performing commitments' in the table above and amounts to net NOK 3.2 million as at 31.12.2021.

NOTE 12 FINANCIAL DERIVATIVES

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

Financial derivatives used for hedge accounting 2021

			Fair value of hedging instruments		**Value adjustment of hedging object**
	Contract sums	**Recognised value of subject of merger**	**Assets**	**Liabilities**	**Liabilities**
Interest rate instruments					
Interest rate swaps (IRS)	1,150,000		87,069	0	
Securities issued		1,240,086			80,822
Total derivatives			**87,069**	**0**	**80,822**

No significant hedging inefficiencies have been reported in 2021. The difference between the fair value of hedging instruments and the value adjustment of a security is due to accrued interest. The recognised value of the hedging instrument includes value adjustment and accrued interest. See Note 15.

Financial derivatives used for hedge accounting 2020

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

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

NOTE 13 OTHER ASSETS

	2021	**2020**
Outstanding accounts, parent bank	9,551	8,277
Other assets	**9,551**	**8,277**

NOTE 14 LIABILITIES TO FINANCIAL INSTITUTIONS

	2021	**2020**
Loans from financial institutions with an agreed term or notice period	587,214	452,803
Liabilities to financial institutions	**587,214**	**452,803**

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

	2021	2020
Value change in certificates and bonds - held for trading	-2,111	-1,084
Value change and gains/losses on financial instruments at fair value through profit or loss	**-2,111**	**-1,084**
Financial derivatives - hedge accounting	-77,542	59,012
Financial liabilities - hedged	77,542	-59,012
Net hedged items*	**0**	**0**
Realised gains/losses on securities issued - amortised cost	-482	-4,101
Value change and gains/losses on financial instruments at amortised cost	**-482**	**-4,101**
Total value change and gains/losses on financial instruments	**-2,593**	**-5,185**

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

NOTE 16 LONG-TERM BORROWING

Securities issued

(figures in NOK thousands)	31.12.2021	31.12.2020
Covered bonds, nominal value in NOK	18,150,000	15,950,000
Value adjustment (including conversion/exchange rate)	161,505	154,668
Accrued interest	21,068	22,553
Total securities issued	**18,332,573**	**16,127,220**

Change for securities issued	31.12.2021	Issued	Due/ redeemed	Other changes incl. currency	31.12.2020
Covered bonds, nominal value in NOK	18,150,000	4,500,000	2,300,000	0	15,950,000
Value adjustment (including conversion/exchange rate)	161,505	0	0	6,838	154,668
Accrued interest	21,068	0	0	-1,485	22,553
Total securities issued	**18,332,573**	**4,500,000**	**2,300,000**	**5,353**	**16,127,220**

2021	Outstanding volume*	Avg. balance	Weighted effective interest rate
Covered bonds NOK	18,311,505	17,466,395	0.84
Securities issued	**18,311,505**	**17,466,395**	**0.84**

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

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

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

Long-term borrowing grouped according to maturity

31.12.2021	Drawing right*	Covered bonds	Total
2022	0	2,500,000	2,500,000
2023	195,729	2,500,000	2,695,729
2024	195,729	2,500,000	2,695,729
2025	195,729	2,500,000	2,695,729
2026	0	4,750,000	4,750,000
2027	0	3,000,000	3,000,000
2028	0	0	0
2029	0	0	0
2030 and beyond	0	400,000	400,000
No term	0	0	0
Gross borrowing	587,188	18,150,000	18,737,188
Accrued interest	25	21,068	21,093
Direct costs and premium/discount	0	80,683	80,683
Value adjustments	0	80,822	80,822
Net borrowing	**587,214**	**18.322.573**	**18,919,787**

*Approved overdraft limit of NOK 3,000 million.

31.12.2020	Drawing right*	Covered bonds	Total
2021	0	2,300,000	2,300,000
2022	452,789	2,500,000	2,952,789
2023	0	2,500,000	2,500,000
2024	0	2,500,000	2,500,000
2025	0	2,500,000	2,500,000
2026	0	3,250,000	3,250,000
2027	0	0	0
2028	0	0	0
2029 and thereafter	0	400,000	400,000
No term	0	0	0
Gross borrowing	452,789	15,950,000	16,402,789
Accrued interest	14	22,553	22,567
Direct costs and premium/discount	0	-3,696	-3,696
Value adjustments	0	158,364	158,364
Net borrowing	**452,803**	**16,127,220**	**16,580,023**

*Approved overdraft limit of NOK 3,000 million.

NOTE 17 OTHER LIABILITIES

	2021	2020
Accrued management fees	2,462	2,045
Exchanged collateral, CSA	65.200	122,200
Other liabilities	1,582	51
Other liabilities	**69,244**	**124,296**

NOTE 18 COVERED BONDS AND PROVISION OF COLLATERAL

	2021	2020
Preferential rights pursuant to Section 11-15 of the Financial Institutions Act	**18,332,573**	**16,127,220**

Cover pool	2021	2020
Qualified lending secured against property*	19,466,986	16,841,201
Financial derivatives (net)	21,869	51,021
Other substitute assets (bank deposits)	825,175	1,106,852
Total cover pool	**20.314.030**	**17,999,074**
Cover pool utilisation	111%	112%

* NOK 34.6 million of gross lending in the company does not qualify for the cover pool at 31.12.2021 (NOK 7.7 million at 31.12.2020).

NOTE 19 CAPITAL ADEQUACY

	2021	2020
CET1 capital		
Book equity	1,708,876	1,497,385
Deduction items in CET1 capital		
Additional value adjustments (prudent valuation requirement) (AVA)	-404	-517
Total CET1 capital	**1.708.472**	**1,496,868**
Other Tier 1 capital	0	0
Total Tier 1 capital	**1.708.472**	**1,496,868**
Net primary capital	**1.708.472**	**1,496,868**
Calculation basis		
Calculation basis for credit and counterparty risk	7,638,478	6,746,860
Calculation basis for currency risk	0	0
Calculation basis for operational risk	265,402	228,097
Calculation basis for impaired counterparty credit valuation adjustment (CVA)	23.223	30,614
Deductions from calculation basis	0	0
Total calculation basis	**7.927.102**	**7,005,572**
CET1 capital ratio	**21.55%**	**21.37%**
Tier 1 capital ratio	**21.55%**	**21.37%**
Capital adequacy	**21.55%**	**21.37%**
Buffers		
Capital conservation buffer	198,178	175,139
Countercyclical buffer	79,271	70,056
Systemic risk buffer	237,813	210,167
Total buffer requirements	**515,262**	**455,362**
Available buffer capital	**1,074,303**	**936,423**
Leverage ratio	**7.97%**	**8.02%**

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

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

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

NOTE 20 FINANCIAL INSTRUMENTS AT FAIR VALUE

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

Valuation of financial instruments at fair value

General information
Sparebanken Øst Boligkreditt AS classifies fair value measurements using a hierarchy with the following levels:

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

Certificates and bonds
The company's portfolio of certificates and bonds is valued based on prices received from Nordic Bond Pricing. The prices from Nordic Bond Pricing are based on reported spreads from the brokers active in the Norwegian market.

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

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

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

31.12.2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets and liabilities measured at fair value				
Certificates and bonds	0	316,978	0	316,978
Financial derivatives	0	87,069	0	87,069
Total assets at fair value	**0**	**404,047**	**0**	**404,047**
Financial derivatives	0	0	0	0
Total liabilities at fair value	**0**	**0**	**0**	**0**

31.12.2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets and liabilities measured at fair value				
Certificates and bonds	0	343,805	0	343,805
Financial derivatives	0	173,221	0	173,221
Total assets at fair value	**0**	**517,026**	**0**	**517,026**
Financial derivatives	0	0	0	0
Total liabilities at fair value	**0**	**0**	**0**	**0**

NOTE 21 FINANCIAL INSTRUMENTS AT AMORTISED COST

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

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

31.12.2021	Fair value	Book value
Financial assets and liabilities measured at amortised cost		
Loans to and receivables from financial institutions	825,175	825,175
Loans to and receivables from customers	19,498,971	19,495,527
Total assets at amortised cost	**20.324.145**	**20,320,702**
Liabilities to financial institutions	587,214	587,214
Securities issued	18,418,092	18,332,573
Total liabilities at amortised cost	**19.005.306**	**18,919,787**

31.12.2020	Fair value	Book value
Financial assets and liabilities measured at amortised cost		
Loans to and receivables from financial institutions	864,739	864,739
Loans to and receivables from customers	16,847,842	16,843,903
Total assets at amortised cost	**17.712.581**	**17,708,642**
Liabilities to financial institutions	452,803	452,803
Securities issued	16,221,852	16,127,220
Total liabilities at amortised cost	**16,674,655**	**16,580,023**

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 compliance departments report on ongoing checks to the general manager, and present an annual 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 inspector (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 45.4% at the end of 2021, compared to 48.3% at the end of 2020.

The parent bank's Internet concepts, in the shape of Nybygger.no, 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. 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	**2021**	**2020**
Liabilities		
Loan pledges	1,116	7,900
Overdraft facilities	2,373,718	1,173,929
Total liabilities	**2,374,834**	**1,181,829**

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.

Risk classification of mortgage customers is an integral part of the credit process for granting loans and overall management of the portfolio. Customers are classified according to the rules set out in Sparebanken Øst's credit handbook for the retail market, based on an automatic scoring model which estimates the probability of default (PD) from information about the customer's finances and behaviour. Risk classification is performed when new loan applications are assessed, then reviewed each month based on available information about changes in the customer's finances and behaviour.

The risk classification scale in Sparebanken Øst Boligkreditt AS consists of 11 categories from A to K, where risk class A represents the lowest credit risk and risk class I represents the highest risk for customers not in default. Risk classes J and K comprise commitments where there is objective evidence of non-performance, and these commitments are placed under special surveillance.

Probability of default (PD) by risk class

Risk class	From	To
A	0.00%	0.10%
B	0.10%	0.25%
C	0.25%	0.50%
D	0.50%	0.75%
E	0.75%	1.50%
F	1.50%	2.75%
G	2.75%	5.00%
H	5.00%	10.00%
I	10.00%	99.99%
Y and K	99.99%	100%

Lending by risk classes 2021

	Gross lending	Gross Overdraft facilities	Commit-ments	%	Commitment Stage 1	Loss prov. Stage 1	Commit-ments Stage 2	Loss prov. Stage 2	Commitment Stage 3	Loss prov. Stage 3
A	5.627.010	701,554	6,328,564	29	6,320,061	334	8,503	1	0	0
B	10,882,510	1,535,499	12.418.010	57	12,377,251	2,113	40,759	24	0	0
C	2,234,943	118,042	2,352,985	11	2,320,936	786	32,049	34	0	0
D	426,588	15,606	442,194	2	340,807	216	101,387	197	0	0
E	166,241	1,587	167,828	1	90,980	91	76,848	281	0	0
F	70,470	929	71,399	0	14,347	34	57,042	382	0	0
G	17,593	231	17,824	0	0	0	17,824	169	0	0
H	13,754	0	13,754	0	0	0	13,754	191	0	0
I	35,826	668	36,494	0	6,908	214	29,586	1,396	0	0
J	26,698	0	26,698	0	0	0	0	0	26,698	42
K	0	0	0	0	0	0	0	0	0	0
Total	**19.501.633**	**2,374,116**	**21.875.749**	**100**	**21.471.289**	**3,788**	**377.761**	**2,674**	**26,698**	**42**

Lending by risk classes 2020

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

From Q4 2021, the risk classification is based on an automatic scoring model which estimates the probability of default (PD), followed by monthly reclassification. This change is the main reason for the changes in the risk-classified at 31.12.2021 compared to 31.12.2020.

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 loans. Interest-rate and currency derivatives to reduce interest-rate and currency risk are entered into for the company's fixed-rate and foreign currency debenture loans. Interest rate risk is measured as the effect on net interest income and equity at changes in the yield curve. The interest rate risk at Sparebanken Øst Boligkreditt AS is limited.

The net interest rate sensitivity of a parallel shift in the yield curve of 1 percentage point is shown below. The effect is calculated based on a permanent shift in the yield curve occurring on the measurement date, 31.12.2021, amounting to one year's effect on the profit. The table shows that an immediate increase in interest rates of 1 percentage point will lead to higher net interest. Correspondingly, an immediate reduction in interest rates will give reduced net interest.

Interest rate sensitivity

Currency	**Increase in base points**	**Sensitivity on earnings 2021**	**Sensitivity on earnings 2020**	**Sensitivity on equity 2021**	**Sensitivity on equity 2020**
NOK	+100	24,762	22,333	**0**	**0**
Total		**24,762**	**22,333**	**0**	**0**

Currency	**Reduction in basis points**	**Sensitivity on earnings 2021**	**Sensitivity on earnings 2020**	**Sensitivity on equity 2021**	**Sensitivity on equity 2020**
NOK	-100	-24,762	-22,333	0	0
Total		**-24,762**	**-22,333**	**0**	**0**

Time until expected interest rate change as at 31.12.2021

	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	824,655					519	825,175
Net lending to customers	126,269	19,357,281					19,483,550
Certificates and bonds	111,818	204,732					316,550
Financial derivatives						80,822	80,822
Accrued interest, not yet due						18,653	18,653
Other asset items						9,551	9,551
Total	**1,062,743**	**19,562,012**	**0**	**0**	**0**	**109,545**	**20,734,300**
Liabilities							
Liabilities to financial institutions	587,188						587,188
Securities issued	756,674	17,554,832					18,311,505
Accrued interest						21,093	21,093
Other liabilities	1,582					65,597	67,179
Total	**1,345,444**	**17,554,832**	**0**	**0**	**0**	**86.691**	**18,986,966**
Net exposure	**-282,701**	**2.007.180**	**0**	**0**	**0**	**22,854**	

Time until expected interest rate change as at 31.12.2020

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

<u>Liquidity risk</u>
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 must 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. 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.

<u>Financial liabilities</u>
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 31.12.2021. 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 31.12.2021

	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			9,161	605,535			614,635
Securities issued		53,265	2,750,225	13,347,011	3,505,776		19,656,277
Other liabilities			105,637				105,637
Unused credit	2,373,718						2,373,718
Financial liabilities excluding derivatives	**2,373,718**	**53,265**	**2.865.022**	**13.952.545**	**3,505,776**	**0**	**22,750,327**
Financial derivatives (outflows)	2,651	1,325	11,928	63,615	21,193		100,712
Financial liabilities	**2,376,370**	**54,589**	**2,876,950**	**14.016.160**	**3.526.969**	**0**	**22.851.039**
Financial derivatives (inflows)	0	0	45,245	180,980	44,480	0	270,705

Maturity analysis for financial liabilities as at 31.12.2020

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

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

The company has no items in foreign currency as at 31.12.2021 or 31.12.2020.

NOTE 23 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

31.12.2021	**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	825,175	825,175
Net loans to and receivables from customers	0	0	19,495,527	19,495,527
Certificates and bonds	0	316,978	0	316,978
Financial derivatives	87,069	0	0	87,069
Total financial assets	**87,069**	**316,978**	**20,320,702**	**20.724.749**
Liabilities to financial institutions	0	0	587,214	587,214
Securities issued	0	0	18,332,573	18,332,573
Total financial liabilities	**0**	**0**	**18,919,787**	**18,919,787**

31.12.2020	**Financial derivatives at fair value, used as hedging instruments**	**Measured at fair value**	**Measured at amortised cost**	**Total**
Net loans to and receivables from financial institutions	0	0	864,739	864,739
Net loans to and receivables from customers	0	0	16,843,903	16,843,903
Certificates and bonds	0	343,805	0	343,805
Financial derivatives	173,221	0	0	173,221
Total financial assets	**173,221**	**343,805**	**17,708,642**	**18,225,668**
Liabilities to financial institutions	0	0	452,803	452,803
Securities issued	0	0	16,127,220	16,127,220
Total financial liabilities	**0**	**0**	**16,580,023**	**16,580,023**

NOTE 24 OWNERSHIP STRUCTURE

The share capital of Sparebanken Øst Boligkreditt AS amounts to NOK 437.1 million divided into 10.66 million shares each with a nominal value of NOK 41. All shares in Sparebanken Øst Boligkreditt AS are owned by Sparebanken Øst.

NOTE 25 OPERATING SEGMENTS

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

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

NOTE 26 NETTING RIGHT, FINANCIAL DERIVATIVES

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

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

As at 31.12.2021 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	87,069	0	87,069	0	-65,200	21,869
Financial derivatives, liabilities	0	0	0	0		0

As at 31.12.2020 the exposure was as follows:	**Gross amount**	**Set off in the balance sheet**	**Book value**	**Amount subject to net settlement**	**Exchanged collateral security**	**Amount following any net settlement**
Financial derivatives, assets	173,221	0	173,221	0	-122,200	51,021
Financial derivatives, liabilities	0	0	0	0		0

Auditor’s Report

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

QUARTERLY DEVELOPMENT

Profit performance (figures in NOK thousands)	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Interest income	90,886	87,033	84.455	83,095	83,598
Interest costs	46,720	32,917	38,933	36,663	30,706
Net interest income	**44,146**	**54,116**	**45.522**	**46,432**	**52,892**
Commission income and income from banking services	10	10	9	8	10
Commission costs and costs from banking services	7,224	7,370	6,933	6,266	5,783
Net value change and gains/losses on financial instruments	-1,199	-140	-1,015	-239	-2,266
Administration costs	347	347	351	345	774
Other operating costs	715	1,261	1,125	1,575	1,333
PROFIT BEFORE LOSSES	**34,672**	**45,008**	**36,108**	**38.015**	**42,746**
Losses on loans and guarantees, etc.	1,141	-279	97	445	247
PROFIT BEFORE TAX	**33,531**	**45,287**	**36,010**	**37,570**	**42,499**
Tax costs (calculated for interim financial statements)	7,377	9,963	7,923	8,265	9,351
PROFIT/LOSS FOR THE PERIOD	**26,154**	**35,324**	**28,088**	**29,305**	**33,148**

Balance sheet performance (figures in NOK thousands)	31.12.2021	30.09.2021	30.06.2021	31.03.2021	31.12.2020
Loans to and receivables from financial institutions	825,175	1,074,171	920,572	1,060,401	864,739
Loans to and receivables from customers	19,495,527	19.372.236	19,485,991	18,527,812	16,843,903
Certificates, bonds, etc. at fair value	316,978	318,083	286,072	306,967	342,805
Financial derivatives	87,069	134,003	140,055	127,273	173,221
Other assets	9,551	34,099	43,227	34,810	8,277
Prepaid expenses and accrued income	0	765	1,883	987	0
TOTAL ASSETS	**20,734,300**	**20.933.357**	**20,877,799**	**20,058,252**	**18,233,945**
Liabilities to financial institutions	587,214	625,258	807,791	1,123,635	452,803
Securities issued	18,332,573	18,378,962	18,385,833	17,287,425	16,127,220
Other liabilities	101,425	136,363	127,107	117,888	153,687
Accrued expenses and deferred income	1,066	1,000	655	1,015	1,309
Other provisions	397	269	242	196	139
Deferred tax liability	2,749	1,403	1,403	1,403	1,402
Total liabilities	**19,025,424**	**19.142.255**	**19.323.022**	**18.531.562**	**16,736,560**
Paid-up equity	1,349,990	1,349,990	1,149,990	1,149,990	1,149,990
Retained earnings	358,886	347,395	347,395	347,395	347,395
Unallocated profits	0	92,717	57,393	29,304	0
Total equity	**1,708,876**	**1.790.102**	**1,554,778**	**1.526.689**	**1,497,385**
TOTAL LIABILITIES AND EQUITY	**20,734,300**	**20.933.357**	**20,877,799**	**20,058,252**	**18,233,945**

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 a % 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