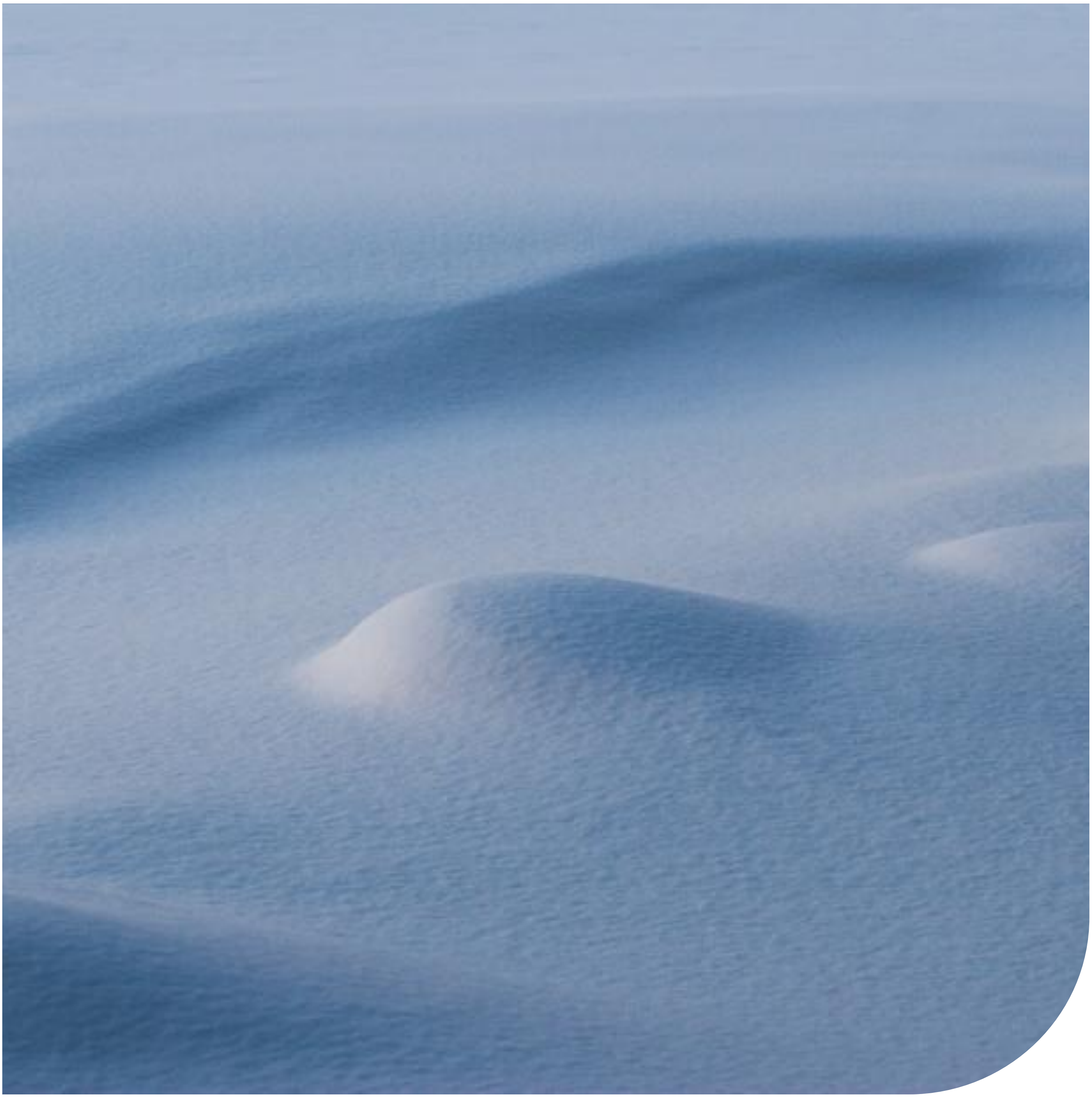
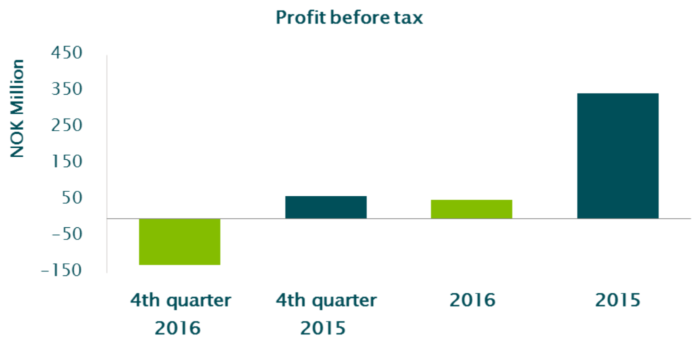
Eika Boligkreditt AS

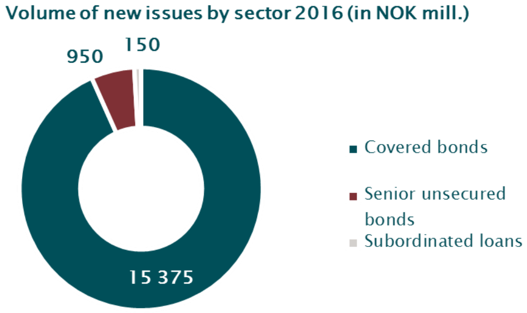
Interim report for the fourth quarter 2016

Unaudited



Highlights





Fourth quarter 2016

- Pre-tax loss NOK 129.4 million (2015: profit of NOK 61.4 million)
- Pre-tax loss NOK 4.6 million (2015: profit of NOK 53.4 million) excluding NOK 124.8 million in negative value changes related to the price of basis swaps
- Financing of owner banks up by 3.3 per cent quarter on quarter
- Commissions to owner banks of NOK 83.6 million (2015: NOK 94.1 million)
- NOK 4.8 billion in bonds issued (2015: NOK 4.6 billion)

Full year 2016

- Pre-tax profit NOK 50.3 million (2015: NOK 345 million)
- Pre-tax profit NOK 165.3 million (2015: NOK 117 million) excluding NOK 115 million in negative value changes related to the price of basis swaps
- Pre-tax dividend base of NOK 123.6 million when account is taken of the fund for unrealised gains
- Closure of the defined-benefit pension plan and recognition of NOK 4.5 million in income as a one-off effect
- Financing of owner banks up by 10.8 per cent
- Commissions to owner banks of NOK 321.7 million (2015: NOK 456 million)
- NOK 16.5 billion in bonds issued (2015: NOK 11.5 billion)

No full or limited external auditing of the quarterly figures has been undertaken.

INTERIM REPORT FOR THE FOURTH QUARTER OF 2016

Introduction

Eika Boligkreditt's main purpose is to ensure access for the local banks in the Eika Alliance (the owner banks) to long-term and competitive funding by issuing covered bonds. An important part of the company's business concept is to increase the competitiveness of the owner banks by improving their access to external funding in the Norwegian and international financial markets with regard to the tenor of loans, their terms and the depth of access. The object of the company's business is to reduce risk for the owner banks. At 31 December 2016, the owner banks had NOK 71.5 billion in total financing with Eika Boligkreditt and had thereby reduced the need for their own market financing by a corresponding amount.

Eika Boligkreditt is licensed as a credit institution and entitled to raise loans in the market through the issuance of covered bonds. Norwegian regulations for covered bonds were adopted in 2007, and this type of bond has become an important source of financing for the lending activities of banks and credit institutions. By concentrating financing activities relating to covered bonds in Eika Boligkreditt, the owner banks have secured a player in the bond market with the necessary requirements for securing competitive terms and depth of access to financing both in Norway and internationally.

Profit and loss account for the fourth quarter and full year 2016

Pre-tax profit

Eika Boligkreditt showed a pre-tax loss of NOK 129.4 million for the fourth quarter, compared with a profit of NOK 61.4 million in the same period of 2015. The fourth-quarter loss included negative changes of NOK 124.8 million (2015: NOK 7.9 million) in the value of basis swaps, so that the pre-tax loss excluding changes in the value of basis swaps came to NOK 4.6 million (2015: profit of NOK 53.4 million). This result included a net loss of NOK 142.5 million in the fair value of financial instruments, compared with a net gain of NOK 13.8 million for the fourth quarter of 2015.

The company had a pre-tax profit of NOK 50.3 million for the full year, compared with NOK 345 million for 2015. The 2016 figure included negative changes of NOK 115 million (2015: positive changes of NOK 228.3 million) in the value of basis swaps, so that pre-tax profit excluding changes in the value of basis swaps came to NOK 165.3 million (2015: NOK 116.7 million). Profit for 2016 included a net loss of NOK 81.8 million in the fair value of financial instruments, compared with a net gain of NOK 202.7 million for 2015.

Interest on tier 1 perpetual bonds of NOK 5.8 million in the fourth quarter and NOK 23.1 million for the full year is not presented as an interest expense in the income statement, but as a reduction in equity.

As reported above, the financial results were significantly affected by changes in the value of basis swaps related to the company's derivatives. Basis swaps are a price component in the derivative contracts entered into in connection with long-term borrowing. The derivatives are valued at fair value, while the hedged bond is valued in accordance with the principles which apply for hedge accounting. The derivatives are intended to hedge foreign exchange and interest rate risks on borrowing. They accordingly serve as hedging instruments, and the effect of such value changes will be zero over the term of the instruments. The accounting effects will thereby reverse until the derivatives mature. This means that changes in the value of basis swaps only have an accrual effect with regard to unrealised gains and losses in the financial statements, but no realised gains or losses over the term of the derivative unless Eika Boligkreditt realises the derivative early.

Income

Eika Boligkreditt's interest income amounted to NOK 479 million in the fourth quarter, compared with NOK 469 million for the same period of 2015. Its net interest income for the period was NOK 106 million, compared with NOK 152 million for the fourth quarter of 2015.

Interest income amounted to NOK 1 861 million for the full year, compared with NOK 2 067 million for the same period of 2015. Net interest income for the period was NOK 482 million, compared with NOK 635 million for the year before.

The reduction in the company's interest income reflected lower interest rates on residential mortgages in the cover pool. The reduction in net interest income reflected the reduction in loan margins because interest rates on residential mortgages fell more than interest rates on borrowing.

Defined-benefit pension plan closed

Eika Boligkreditt decided in 2016 to close its defined-benefit pension plan, which means that all employees are now covered by a defined-contribution scheme. The latter will contribute to greater predictability and reduce future pension commitments for the company. As part of the closure, the company recognised NOK 4.5 million in income as a one-off effect in 2016.

Distributor commissions

Distributor commissions, including arrangement commissions, paid to the owner banks came to NOK 83.6 million in the fourth quarter, compared with NOK 94.1 million for the same period of 2015.

Where the full year is concerned, distributor commissions, including arrangement commissions, paid to the owner banks came to NOK 321.7 million, compared with NOK 456 million for the same period of 2015. The reduction in distributor commissions reflected reduced loan margins.

Balance sheet and liquidity

Balance sheet

Assets under management by Eika Boligkreditt amounted to NOK 96 billion at 31 December 2016, up by NOK 6.1 billion from 1 January.

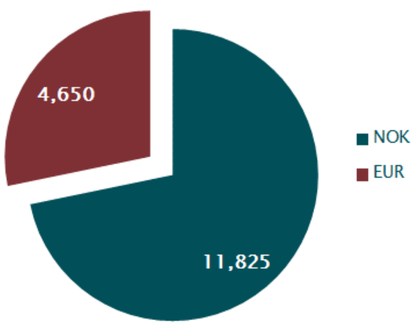
Lending

Eika Boligkreditt's residential mortgage portfolio had risen to NOK 71.5 billion at 31 December, a net increase of NOK 7 billion from 1 January. That represents a net growth of 10.8 per cent for the full year. This reflected an increased financing requirement at the owner banks related to the growth in their mortgage lending.

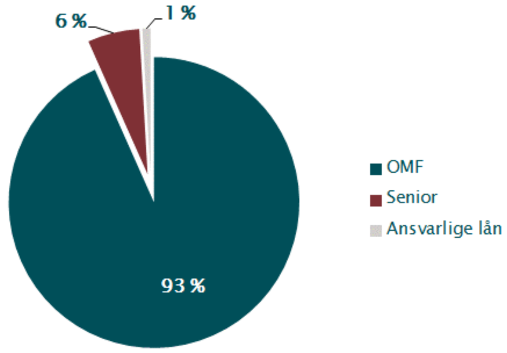
Borrowing

Eika Boligkreditt issued bonds with a nominal value of NOK 4.8 billion in the fourth quarter. Issues for the full year totalled NOK 16.5 billion, including NOK 15.4 billion in covered bonds, NOK 950 million in senior unsecured bonds and NOK 150 million in subordinated loans.

Issues by currency (in NOK mill) in 2016



Issues by sector (in %) in 2016



Of bond issues for the full year, 72 per cent were denominated in Norwegian kroner and 28 per cent in euros. Covered bonds accounted for 93 per cent of the issue volume.

The table below shows issues in 2016 as well as in 2015 and 2014.

New issues (amounts in NOK million)	2016	2015	2014
Covered bonds (issued in EUR)	4 650	4 636	4 123
Covered bonds (issued in NOK)	10 725	6 250	3 750
Senior unsecured bonds (issued in NOK)	950	450	1 975
Subordinated loans (issued in NOK)	150	200	-
Tier 1 perpetual bonds (issued in NOK)	-	-	200
Totalt issued	**16 475**	**11 536**	**10 048**

The average tenor for bonds issued in 2016 was 5.3 years. The average tenor for the company's borrowing portfolio at 31 December 2016 was 3.64 years, down from 4.08 years at 1 January.

The table below shows the breakdown of the company's borrowing in various instruments.

Carrying value in NOK million	31 Dec 2016	31 Dec 2015	31 Dec 2014
Covered bonds	84 109	76 950	69 952
Senior unsecured bonds	2 874	2 926	2 926
Subordinated loans	599	449	250
Tier 1 perpetual bonds[1]	-	-	448
Total borrowing	**87 582**	**80 325**	**73 576**

[1] Eika Boligkreditt reclassified tier 1 perpetual bonds during the second quarter of 2015 from liabilities to equity. Comparable figures have not been restated.

The company's total borrowing at 31 December was NOK 87.6 billion, up by NOK 7.3 billion from 1 January.

Liquidity

At 31 December 2016, the company had a total liquidity portfolio including repurchase (repo) agreements of NOK 16.5 billion. This figure includes cash collateral of NOK 3.4 billion received from counterparties to derivative contracts. repo agreements and in various high-quality bonds. In addition to cash collateral, the company has received collateral in the form of high-quality bonds corresponding in value to NOK 3.1 billion. The value of the bonds provided as collateral is not recognised in the company's liquidity portfolio or balance sheet.

Agreement concerning the distribution responsibility of OBOS-banken

The board of Eika Boligkreditt resolved at its meeting of 9 February 2016 to cancel the distribution agreement with OBOS-banken. Cancellation of such agreements by Eika Boligkreditt requires 12 months notice. The current distribution agreement will therefore run as normal until February 2017. At the termination date, OBOS-banken will cease to have the right to transfer new residential mortgages to Eika Boligkreditt. Pursuant to the stipulations in the distribution agreement, OBOS-banken and Eika Boligkreditt entered into a new agreement to regulate the extension of OBOS-banken's distribution responsibility for the existing residential mortgage portfolio, including other rights and obligations pursuant to the guarantee, custody, commission and shareholder agreements and the agreement on the purchase of covered bonds.

Risk management and capital adequacy

Eika Boligkreditt had a total primary capital of NOK 4 882 million at 31 December 2016, an increase of NOK 377 million since 1 January. This rise reflected a new subordinated loan amounting to NOK 150 million raised in the first quarter and NOK 300 million in new equity raised through two share issues of NOK 150 million each in the second and fourth quarters respectively. The fund for unrealised gains was reduced by NOK 71 million during 2016.

Under internal rules, the loan-to-value ratio of residential mortgages in Eika Boligkreditt's cover pool may not exceed 60 per cent of the mortgaged property at origination. Capital adequacy is calculated in accordance with the standard method specified in the regulations on capital requirements.

Eika Boligkreditt calculates the risk of credit valuation adjustment (CVA) at counterparties. This represents a supplement to the capital requirement for credit risk related to counterparty risk for derivatives. When the increase in the CVA risk and the growth in overall lending are taken into account, the basis for calculating the capital adequacy ratio at 31 December was up by NOK 2.3 billion from 1 January 2016 and amounted to NOK 29.8 billion. This amount represents a quantification of the company's risk, and its primary capital is calculated as a proportion of this calculation base.

The table below presents developments in the capital adequacy ratio.

Amounts in NOK million	31 Dec 2016	31 Dec 2015	31 Dec 2014
Risk-weighted assets	29 766	27 510	25 154
Total primary capital (tier 2 capital)	4 882	4 505	3 623
Capital adequacy ratio in per cent	16.4%	16.4%	14.4%

The present internal capital targets, which have been in effect from 30 June 2016, are specified as follows:

- core tier 1 capital ratio: 12.0 per cent (12.9 per cent at 31 December 2016)
- tier 1 capital ratio: 13.5 per cent (14.4 per cent at 31 December 2016)
- tier 2 capital ratio: 15.5 per cent (16.4 per cent at 31 December 2016)

These targets are adequate in relation to legal and capital requirements based on the company's internal risk assessment. As shown above, the applicable buffer requirements were fulfilled at 31 December 2016 with a core tier 1 capital adequacy of 12.9 per cent.

Outlook

The company's financing of the owner banks grew by a net NOK 7 billion in 2016, corresponding to a growth of 10.8 per cent in financing over the previous 12 months. That compared with a growth of NOK 3.6 billion for 2015 as a whole, which corresponded to a six per cent increase in financing. Statistics Norway's credit indicator for November 2016 showed a 12-monthly increase of 6.1 per cent in Norwegian household debt.

The lending survey from the Bank of Norway for the fourth quarter of 2016 showed a slight rise in household demand for borrowing. In the survey, the banks reported somewhat lower lending margins on loans to households during the fourth quarter as a result of increased financing costs, the competitive position and regulatory changes. The banks anticipate that credit practice will be somewhat tighter during the first quarter of 2017. This tightening largely relates to changes in the regulations governing residential mortgages, including stricter requirements for the maximum ratio of loan to income, maximum ratio of loan to property value, and the provision of interest-only terms. Demand by the owner banks for financing from Eika Boligkreditt has been higher than indicated in the lending survey. Margins on residential mortgages in the company's cover pool flattened out during the second half of 2016 after showing a declining trend since the second quarter of 2014.

According to the house price report from Real Estate Norway, average Norwegian house prices are 12.8 per cent higher than they were 12 months ago. Seasonally adjusted prices rose by 3.4 per cent on a national basis during the fourth quarter, following increases of 3.4 per cent in the third quarter, 3.1 per cent in the second and 2.3 per cent in the first. Substantial regional differences exist. The 12-month growth to 31 December was 23.3 per cent in Oslo, compared with rises of 4.9 and 10.3 per cent in Bergen and Trondheim respectively and a decline of 2.6 per cent in Stavanger. These differences demonstrate a continued tripartite division of the Norwegian housing market, with Oslo and Stavanger as the extremes while the rest of the country displays more moderate trends.

The bond market was characterised in 2016 by a substantial increase in liquidity and contraction in credit margins. The credit margin over the money market rate (three-month Nibor) for covered bonds issued by the company in Norwegian kroner with a five-year tenor fell by 20 basis points to 54 for the full year. The contraction in credit margins was distributed evenly between the second and third quarters of 2016.

The oil industry downturn and weak international demand continue to make their mark on the Norwegian economic. GDP for mainland Norway rose by a mere 0.6 per cent on an annualised basis in the third quarter after somewhat higher growth during the first half-year. Statistics Norway expects 0.7 per cent growth in GDP for 2016 compared with 1.1 per cent in 2015. An expansive monetary policy and a very expansive financial policy go a long way towards explaining why the economic downturn has not been even stronger. Unemployment is expected to top out at 4.7 per cent. Statistics Norway forecasts that the Norwegian economy will become more expansive in the time to come, and experience a cyclical shift in early 2018. It expects the decline in demand from the petroleum sector to slow significantly during 2017 and eventually to shift to a moderate improvement, and international growth to improve slightly in the time to come. The transition to growth in real pay will contribute to a faster rise in consumption, and commercial investment will show some increase as a delayed consequence of the recent improvement in competitiveness. Investment in housebuilding will also show a clear rise during 2017 from a high level in 2016.

Norway's sound macroeconomic position compared with other European countries, combined with a generally positive economic position for private households and companies not affected by the oil slowdown, means that Norwegian issuers are in demand among domestic and international investors. The company therefore expects to be an active issuer in both Norwegian and international financial markets in the time to come.

Oslo, 7 February 2017

The board of directors of Eika Boligkreditt AS

Bjørn Riise Chair	Tor Egil Lie
Jon Guste-Pedersen	Olav Sem Austmo
Terje Svendsen	Kjartan M Bremnes CEO

Statement of comprehensive income

Amounts in NOK 1 000	Notes	4Q 2016	4Q 2015	2016	2015
INTEREST INCOME					
Interest from loans to customers		**433 810**	434 583	**1 708 294**	1 916 365
Interest from loans and receivables on credit institutions		**9 459**	7 211	**33 192**	33 630
Interest from bonds, certificates and financial derivatives		**30 017**	23 267	**97 485**	98 548
Other interest income		**5 864**	4 384	**22 369**	18 098
Total interest income		**479 150**	469 445	**1 861 340**	2 066 641
INTEREST EXPENSES					
Interest on debt securities issued		**367 200**	329 219	**1 354 496**	1 408 889
Interest on subordinated loan capital		**5 369**	(12 754)	**19 780**	15 357
Other interest expenses		**556**	780	**5 099**	7 062
Total interest expenses		**373 125**	317 245	**1 379 375**	1 431 309
Net interest income		**106 025**	152 201	**481 965**	635 332
Commission costs		**76 984**	89 564	**299 523**	441 604
Net interest income after commissions costs		**29 041**	62 637	**182 442**	193 729
Dividend from shares classified as available for sale		**-**	-	**5 652**	6 430
NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE					
Net gains and losses on bonds and certificates	Note 3	**(5 133)**	(7 187)	**32 245**	(30 331)
Net gains and losses of fair value hedging on debt securities issued	Note 3, 9	**(126 112)**	12 332	**(112 420)**	232 913
Net gains and losses on financial derivatives	Note 3	**22 292**	870	**40 704**	(7 755)
Net gains and losses on loans at fair value	Note 3	**(33 574)**	7 799	**(42 292)**	7 830
Total gains and losses on financial instruments at fair value		**(142 527)**	13 813	**(81 763)**	202 656
SALARIES AND GENERAL ADMINISTRATIVE EXPENSES					
Salaries, fees and other personnel expenses		**7 695**	6 802	**22 594**	26 130
Administrative expenses		**4 113**	3 542	**17 100**	16 434
Total salaries and administrative expenses		**11 808**	10 344	**39 694**	42 565
Depreciation		**463**	490	**1 747**	1 983
Other operating expenses		**3 616**	4 234	**14 594**	13 225
Losses on loans and guarantees		**-**	-	**-**	-
PROFIT BEFORE TAXES		**(129 373)**	61 382	**50 296**	345 042
Taxes		**(32 790)**	7 859	**11 370**	81 677
PROFIT FOR THE PERIOD		**(96 583)**	53 524	**38 926**	263 365
Other comprehensive income that will not be reclassified subsequently to P&L (pensions)		-	1 301	-	1 301
Other comprehensive income that may be reclassified subsequently to P&L (shares)		-	14 700	-	14 700
Taxes on other comprehensive income		-	(325)	-	(325)
COMPREHENSIVE INCOME FOR THE PERIOD		**(96 583)**	69 200	**38 926**	279 041

Of the total comprehensive income for the period above, NOK 15 810 thousand is attributable to the shareholders of the company, NOK 23 116 thousand to the hybrid capital investors.

Balance sheet

Amounts in NOK 1 000	Notes	31 Dec. 2016	31 Dec. 2015
ASSETS			
Lending to and receivables from credit institutions		2 215 466	3 386 131
Lending to customers	Note 4, 9	71 509 279	64 527 405
Other financial assets		786 862	122 069
Securities			
Bonds and certificates at fair value through profit or loss	Note 5,9	13 671 888	11 553 507
Financial derivatives	Note 8, 9	7 788 473	10 309 668
Shares classified as available for sale	Note 10,11	29 700	29 700
Total securities		21 490 061	21 892 875
Other intangible assets			
Deferred tax assets		11 913	-
Fixed intangible assets		3 448	3 690
Total other intangible assets		15 361	3 690
TOTAL ASSETS		96 017 030	89 932 170
LIABILITIES AND EQUITY			
Loans from credit institutions	Note 13	3 394 213	4 967 024
Financial derivatives	Note 8, 9	289 988	66 236
Debt securities issued	Note 6	86 982 995	79 876 051
Other liabilities		352 430	284 691
Pension liabilities		2 259	6 055
Deferred tax		-	40 128
Subordinated loan capital	Note 7	599 426	449 518
TOTAL LIABILITIES		91 621 311	85 689 703
Called-up and fully paid capital			
Share capital		926 479	856 674
Share premium		2 433 904	2 203 709
Other paid-in equity		477 728	477 728
Total called-up and fully paid capital	Note 12	3 838 111	3 538 111
Retained earnings			
Fund for unrealised gains		14 700	85 773
Other equity		93 672	169 808
Total retained equity	Note 12	108 372	255 582
Hybrid capital			
Tier 1 capital		449 236	448 775
Total hybrid capital		449 236	448 775
TOTAL EQUITY		4 395 719	4 242 467
TOTAL LIABILITIES AND EQUITY		96 017 030	89 932 170

Statement of changes in equity

Amounts in NOK 1 000	Share capital [1]	Share premium [1]	Other paid in equity [2]	Fund for unrealised gains [3]	Retained earnings: other equity [4]	Tier 1 perpetual bonds [5]	Total equity
Balance sheet as at 1January 2015	**713 455**	**1 746 928**	**477 728**	**-**	**85 619**	**-**	**3 023 729**
Result for the period	-	-	-	-	137 295	-	**137 295**
Equity issue	-	-	-	-	-	-	-
Balance sheet as at 31 March 2015	**713 455**	**1 746 928**	**477 728**	**-**	**222 914**	**-**	**3 161 024**
Result for the period	-	-	-	-	38 551	-	**38 551**
Equity issue	97 098	302 902	-	-	-	-	**400 000**
Tier 1 capital classified as equity	-	-	-	-	-	448 543	**448 543**
Disbursed dividends for 2014	-	-	-	-	(84 616)	-	**(84 616)**
Balance sheet as at 30 June 2015	**810 553**	**2 049 830**	**477 728**	**-**	**176 849**	**448 543**	**3 963 502**
Result for the period	-	-	-	-	33 995	-	**33 995**
Accrued unpaid interest tier 1 capital	-	-	-	-	-	(1 926)	**(1 926)**
Balance sheet as at 30 September 2015	**810 553**	**2 049 830**	**477 728**	**-**	**210 844**	**446 617**	**3 995 571**
Result for the period	-	-	-	85 773	(41 035)	24 462	**69 200**
Equity issue	46 120	153 880	-	-	-	-	**200 000**
Accrued unpaid interest tier 1 capital	-	-	-	-	-	(22 304)	**(22 304)**
Balance sheet as at 31 December 2015	**856 673**	**2 203 709**	**477 728**	**85 773**	**169 809**	**448 775**	**4 242 467**
Result for the period	-	-	-	64 167	36 859	5 812	**106 838**
Interest tier 1 capital	-	-	-	-	-	(5 697)	**(5 697)**
Taxes on interest tier 1 capital	-	-	-	-	1 453	-	1 453
Balance sheet as at 31 March 2016	**856 673**	**2 203 709**	**477 728**	**149 940**	**208 121**	**448 890**	**4 345 061**
Result for the period	-	-	-	(19 646)	38 822	5 700	**24 876**
Equity issue	35 450	114 550	-	-	-	-	**150 000**
Disbursed dividends for 2015	-	-	-	-	(168 799)	-	**(168 799)**
Interest tier 1 capital	-	-	-	-	-	(5 586)	**(5 586)**
Taxes on interest tier 1 capital	-	-	-	-	1 425	-	**1 425**
Balance sheet as at 30 June 2016	**892 123**	**2 318 260**	**477 728**	**130 294**	**79 569**	**449 004**	**4 346 977**
Result for the period	-	-	-	(34 252)	32 289	5 759	**3 796**
Interest tier 1 capital	-	-	-	-	-	(5 643)	**(5 643)**
Taxes on interest tier 1 capital	-	-	-	-	1 440	-	**1 440**
Balance sheet as at 30 September 2016	**892 123**	**2 318 260**	**477 728**	**96 042**	**113 298**	**449 120**	**4 346 570**
Result for the period	-	-	-	(81 342)	(21 086)	5 844	(96 584)
Equity issue	34 356	115 644	-	-	-	-	150 000
Interest tier 1 capital	-	-	-	-	-	(5 728)	(5 728)
Taxes on interest tier 1 capital	-	-	-	-	1 461	-	1 461
Balance sheet as at 31 December 2016	**926 479**	**2 433 904**	**477 728**	**14 700**	**93 673**	**449 236**	**4 395 719**

The specification of equity comprises accounting items pursuant to the provisions in the Norwegian Private Limited Liability Companies Act:

[1] Share capital and the share premium comprises paid-in capital.

[2] Other paid-in capital comprises paid-in capital which has earlier been taken from the share premium reserve.

[3] The fund for unrealised gains comprises gains from value adjustments to shares held for sale

[4] Other equity comprises earned and retained profits.

[5] Tier 1 perpetual bonds form part of tier 1 capital pursuant to section 3a of the Norwegian regulations concerning the calculation of regulatory capital. Eika Boligkreditt has the right to pay no interest to the investors. A regulatory right of redemption also exists. Should government regulations introduce changes which affect the extent to which the capital can be regarded as tier 1 capital, the bonds can be redeemed at a price equal to 100 per cent plus accrued interest.

The company has reclassified the following tier 1 perpetual bonds from liabilities to equity with effect from the second quarter of 2015:

- NOK 250 million of tier 1 perpetual bonds, issued 2013, with interest terms of three months Nibor plus 4.2 per cent. The loan provides for a call at 23 May 2018, and quarterly thereafter on each date interest payment falls due.
- NOK 200 million of tier 1 perpetual bonds, issued 2014, with interest terms of three months Nibor plus 3.5 per cent. The loan provides for a call at 5 March 2019, and quarterly thereafter on each date interest payment falls due.

Eika Boligkreditt has the right to pay no interest to the investors. Interest is not recognised as interest expense in the profit and loss account, but as a reduction to equity.

Statement of cash flows

Amounts in NOK 1 000	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the period	38 926	263 365
Taxes	11 370	81 677
Income taxes paid	(9 466)	(26 644)
Gains on bonds and certificates	-	-
Ordinary depreciation	1 747	1 983
Non-cash pension costs	(3 796)	673
Change in lending to customers	(6 981 874)	(3 638 421)
Change in bonds and certificates	(2 118 381)	(3 632 977)
Change in financial derivatives and debt securities issued	(124 494)	(199 353)
Interest expenses	1 379 374	1 431 309
Paid interest	(1 347 826)	(1 434 520)
interest income	1 838 971	2 048 543
received interests	(1 831 853)	(2 044 414)
Changes in other financial assets	(671 911)	(21 057)
Changes in short-term liabilities and accruals	211 777	(69 993)
Net cash flow relating to operating activities	**(9 607 436)**	**(7 239 829)**
INVESTING ACTIVITIES		
Payments related to acquisition of fixed assets	(1 505)	(1 064)
Net cash flow relating to investing activities	**(1 505)**	**(1 064)**
FINANCING ACTIVITIES		
Gross receipts from issuance of bonds and commercial paper	16 149 754	11 273 811
Gross payments of bonds and commercial paper	(6 397 120)	(5 777 050)
Gross receipts on issue of subordinated loan capital	149 908	200 316
Gross payments of subordinated loan capital	-	-
Gross receipts from issue of loan from credit institution	(1 572 811)	706 540
Gross payments from loan from credit institution	-	-
Interest to the hybrid capital investors	(22 655)	-
Payments of dividend	(168 799)	(84 616)
Paid-up new share capital	300 000	600 000
Classification hybrid capital	-	-
Net cash flow from financing activities	**8 438 277**	**6 919 001**
Net changes in lending to and receivables from credit institutions	(1 170 664)	(321 891)
Lending to and receivables from credit institutions at 1 January	3 386 131	3 708 022
Lending to and receivables from credit institutions at end of period	**2 215 466**	**3 386 131**

Notes

Note 1 – Accounting policies

General

Eika Boligkreditt has prepared its accounts for 2016 in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU). The accounts have been prepared in accordance with the historic cost principle, with the exception of financial assets and financial liabilities at fair value through profit or loss, financial assets classified as available for sale, and financial assets and liabilities that are part of fair value hedges, which have been recorded at fair value. Note 1 of the annual report for 2015 contains further details of accounting policies in accordance with the IFRS.

The financial statements for the fourth quarter of 2016 have been prepared in accordance with IAS 34, Interim financial reporting.

New and revised IFRSs in issue

IFRS 9 Financial instruments
The regulations in IFRS 9 will be effective for fiscal years beginning on 1 January 2018 or subsequent periods. Earlier adoption is permitted, provided that all completed sub-projects are implemented at the same time. The standard was endorsed by the EU on 22 November 2016. Given the combination of the loan-to-value ratio for the residential mortgage portfolio and the credit guarantees provided by the owner banks, EBK does not expect the standard to have a significant impact on results.

Note 2 – Use of estimates and discretion

In the application of the accounting policies, which are described in note 1 of the annual report for 2015, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Lending, non-performing/doubtful loans and writedowns

If there are objective indications of an impairment loss having occurred, the loss is measured as the difference between the value of the asset recognised in the balance sheet and the present value of the estimated future cash flows, discounted at the original effective interest rate (ie, the effective interest rate calculated at initial recognition). In measuring future cash flows, guarantees furnished by the banks distributing the loans are taken into account. The value of the asset recognised in the balance sheet is reduced by means of a provision account. The amount of loss is recognised in the result for the year.

No loans were written down at 31 December 2016.

Fair value of financial instruments

The company applies various measurement methods to determine the fair value of financial instruments that are not traded in an active market. The chosen measurement methods are based on market conditions at the end of the reporting period. This means that if observable market data are unavailable, the company will make assumptions and apply discretion as to what the market will base its evaluation of corresponding financial instruments on. More information about the financial instruments can be found in notes 4, 5, 9 and 10.

Note 3 – Net gain and loss on financial instruments at fair value

Net gains and losses on financial instruments at fair value

Amounts in NOK 1 000	4th quarter 2016	4th quarter 2015	2016	2015
Net gains and losses on loans at fair value	(33 575)	7 799	(42 292)	7 830
Net gains and losses on bonds and certificates	(5 133)	(7 187)	32 245	(30 331)
Net gains and losses on financial debts, hedged[1]	169 244	(485 427)	2 645 689	(1 501 374)
Net gains and losses on interest swaps related to lending	22 292	870	40 704	(7 755)
Net gains and losses on interest and currency swaps related to liabilities	(295 356)	497 759	(2 758 110)	1 734 286
Net gains and losses on financial instruments at fair value[2]	**(142 527)**	**13 813**	**(81 763)**	**202 656**

[1] The company utilises hedge accounting for long-term borrowing in foreign currency, where the cash flows are matched 1:1 through derivative contracts versus the corresponding hedging object.

[2] Fourth-quarter profit includes negative changes of NOK 124.8 million in the value of basis swaps. In addition to value changes for basis swaps, fourth-quarter profit includes a loss of NOK 17.7 million in other changes to the value of financial instruments. That gives a total negative change of NOK 142.5 million in the value of financial instruments, compared with positive NOK 13.8 million for the same period of 2015.

In addition to the NOK 115 million in negative value changes for basis swaps, value changes to financial instruments for 2016 included NOK 2.6 million in net profit on lending at fair value, a net loss of NOK 42.3 million on financial derivatives, a gain of NOK 40.7 million in fair value hedging on debt securities issued, and a net gain of NOK 32.2 million on bonds and certificates. Profit for the first six months of 2016 accordingly includes negative changes of NOK 81.8 million in the value of financial instruments, as against a positive NOK 202.7 million for the same period of 2015.

Basis swaps are derivative contracts entered into in connection with long-term borrowing in foreign currency, whereby the foreign currency is converted to Norwegian kroner. These are hedging instruments, and the effect is zero over the term of the instrument. This means that changes in margins only have an accrual effect with regard to unrealised gains and losses in the financial statements, but no realised gains or losses over the term of the derivative unless Eika Boligkreditt realises the derivative early, which would be unusual given the company’s business.

Eika Boligkreditt utilises interest-rate and currency swaps in order to convert borrowing in foreign currencies to Norwegian kroner. A typical example is when a loan raised in euros is converted to Norwegian kroner through an interest-rate and currency swap which includes a basis swap. In this case, Eika Boligkreditt would pay a Norwegian interest rate with a margin of three months Nibor in the swap and receive a euro interest rate in the swap which corresponds to the coupon it pays on the loan in euros. Derivatives are valued at fair value, while the hedged bond is valued in accordance with the principles which apply for hedge accounting.

Note 4 – Lending to customers

Amounts in NOK 1 000	31 Dec 2016	31 Dec 2015
Installment loans - retail market	62 698 470	55 609 560
Installment loans - housing cooperatives	8 807 004	8 868 801
Adjustment fair value lending to customers[1]	3 804	49 042
Total lending before specific and general provisions for losses	**71 509 279**	**64 527 405**
Individual impairments	-	-
Unspecified group impairments	-	-
Total lending to and receivables from customers	**71 509 279**	**64 527 405**

All lending concerns residential mortgage loans with a loan-to-value ratio of up to 60 per cent at origination. The company had no non-performing loans where the outstanding instalment was more than 90 days overdue at 31 December 2016.

[1]The table below shows fair value lending to customers.

31 Dec 2016

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	67 938 877	67 938 877
Fixed rate loans	3 566 598	3 570 403
Toal lending	**71 505 474**	**71 509 279**

31 Dec 2015

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	61 548 324	61 548 324
Fixed rate loans	2 930 037	2 979 081
Toal lending	**64 478 361**	**64 527 405**

Calculation of fair value of loans: The margin on the loans is considered to be on market terms. The market value of variable rate loans is therefore measured as equal to amortised cost. The market value of fixed-rate loans is correspondingly measured as equal to amortised cost adjusted for the present value of the difference between the loans' fixed rate of interest and the applicable offered fixed rate at the balance sheet date.

Note 5 – Bonds and certificates at fair value through profit or loss

31 December 2016

Amounts in NOK 1 000

Bonds broken down by issuer sector	Nominal value	Cost price	Fair Value
Municipalities	4 620 489	4 621 591	4 621 136
Credit institutions	6 366 221	6 384 798	6 383 348
Government bonds	366 474	371 413	372 740
Treasury bills	2 292 228	2 294 460	2 294 664
Total bonds and certificates at fair value through profit or loss	**13 645 413**	**13 672 261**	**13 671 888**
Change in value charged to the profit and loss account			**(373)**

Average effective interest rate is 1.51 per cent annualised. The calculation is based on a weighted fair value of NOK 10.8 billion. The calculation takes account of a return of NOK 162.2 million on bank deposits, bonds and certificates.
The return on reinvested cash collateral received is excluded from the calculation

31 December 2015

Amounts in NOK 1 000

Bonds broken down by issuer sector	Nominal value	Cost price	Fair value
Municipalities	2 847 632	2 847 512	2 846 055
Credit institutions	5 826 589	5 855 141	5 855 077
Government bonds	743 324	747 456	772 046
Treasury bills	2 060 543	2 060 662	2 080 330
Total bonds and certificates at fair value through profit or loss	**11 478 088**	**11 510 770**	**11 553 507**
Change in value charged to the profit and loss account			**42 737**

Average effective interest rate is 1.11 per cent annualised. The calculation is based on a weighted fair value of NOK 8.8 billion. The calculation takes account of a return of NOK 98.2 million on bank deposits, bonds and certificates.
The return on reinvested cash collateral received is excluded from the calculation

	31 Dec 2016	31 Dec 2015
Average term to maturity	**1.0**	**1.4**
Average duration	**0.1**	**0.1**

All the bonds are rated AA-/Aa3 or better if the maturity exceeds 100 days, and A-/A3 if the maturity is 100 days or fewer. The rating is performed by an internationally recognised rating agency.

Note 6 – Debt securities issued

Covered bonds - amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	31 Dec 2016	31 Dec 2015
NO0010502149	1 200 000	NOK	Floating	3M Nibor + 0.70%	2009	2019	1 206 462	1 209 407
NO0010561103	1 948 000	NOK	Fixed	5.00%	2009	2019	1 984 153	1 996 409
NO0010572373	2 977 000	NOK	Floating	3M Nibor + 0.53%	2010	2016	-	4 036 677
NO0010605587	1 000 000	NOK	Fixed	5.20%	2011	2021	1 000 000	1 000 000
NO0010612179	700 000	NOK	Fixed	4.65%	2011	2018	704 078	706 932
NO0010612039	5 500 000	NOK	Floating	3M Nibor + 0.55%	2011	2018	5 509 438	2 702 772
NO0010625346	1 500 000	NOK	Fixed	4.60%	2011	2026	1 500 890	1 500 981
NO0010631336	658 000	NOK	Fixed	3.75%	2011	2016	-	738 211
XS0736417642	500 000	EUR	Fixed	2.25%	2012	2017	4 537 917	4 794 878
NO0010648892	654 000	NOK	Floating	3M Nibor + 0.74%	2012	2017	654 282	1 400 624
XS0794570944	650 000	EUR	Fixed	2.00%	2012	2019	5 882 331	6 216 586
XS0851683473	1 000 000	EUR	Fixed	1.25%	2012	2017	9 069 572	9 586 444
NO0010663727	5 220 000	NOK	Floating	3M Nibor + 0.60%	2012	2019	5 235 747	5 241 153
NO0010664428	1 000 000	NOK	Floating	3M Nibor + 0.53%	2012	2018	1 000 614	1 000 934
NO0010663743	1 000 000	NOK	Fixed	3.25%	2012	2019	1 005 019	1 006 742
NO0010669922	1 000 000	NOK	Fixed	4.00%	2013	2028	996 619	996 313
XS0881369770	1 000 000	EUR	Fixed	2.125%	2013	2023	9 043 001	9 562 629
NO0010685480	5 125 000	NOK	Floating	3M Nibor + 0.54%	2013	2020	5 147 604	5 027 756
NO0010685704	550 000	NOK	Fixed	3.50%	2013	2020	551 775	552 225
NO0010687023	150 000	NOK	Fixed	4.10%	2013	2028	150 000	150 000
NO0010697204	300 000	SEK	Fixed	2.38%	2013	2018	284 920	313 957
NO0010697212	700 000	SEK	Floating	3M Stibor + 0.50%	2013	2018	665 268	733 266
XS1044766191	500 000	EUR	Fixed	1.50%	2014	2021	4 515 402	4 772 513
NO0010732258	4 375 000	NOK	Floating	3M Nibor + 0.28%	2015	2022	4 346 095	3 111 754
NO0010733694	1 150 000	NOK	Fixed	1.75%	2015	2021	1 143 891	1 142 602
XS1312011684	500 000	EUR	Fixed	0.625%	2015	2021	4 514 057	4 771 603
NO0010763022	850 000	NOK	Fixed	2.250%	2016	2031	842 270	-
XS1397054245	500 000	EUR	Fixed	0.375%	2016	2023	4 500 133	-
NO0010775190	5 000 000	NOK	Floating	3M Nibor + 0.40%	2016	2020	4 998 448	-
NO0010780687	700 000	NOK	Fixed	2.60%	2016	2027	699 304	-
Value adjustments							2 419 717	2 677 130
Total covered bonds[1]							**84 109 007**	**76 950 496**

[1] For covered bonds ascribed to the company's cover pool, an overcollateralisation requirement of five per cent applies. This means that the company must at all times have assets in its cover pool which exceed at least 105 per cent of the total outstanding covered bonds.

Senior unsecured bonds - amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	31 Dec 2016	31 Dec 2015
NO0010697733	-	NOK	Floating	3M Nibor + 0.90%	2013	2016	-	600 009
NO0010699234	200 000	NOK	Floating	3M Nibor + 1.14%	2013	2018	199 883	199 822
NO0010705593	600 000	NOK	Floating	3M Nibor + 0.65 %	2014	2017	600 277	600 677
NO0010708936	425 000	NOK	Floating	3M Nibor + 0.80%	2014	2019	425 401	425 547
NO0010711716	400 000	NOK	Floating	3M Nibor + 0.36%	2014	2016	-	399 969
NO0010713753	250 000	NOK	Floating	3M Nibor + 0.70%	2014	2019	249 884	249 836
NO0010732886	250 000	NOK	Floating	3m Nibor + 0.30%	2015	2017	249 969	249 863
NO0010739287	300 000	NOK	Floating	3m Nibor + 0.70%	2015	2020	298 163	199 832
NO0010764160	350 000	NOK	Floating	3m Nibor + 0.95%	2016	2019	350 688	-
NO0010776099	500 000	NOK	Floating	3m Nibor + 0.92%	2016	2020	499 724	-
Total senior unsecured bonds							**2 873 989**	**2 925 555**

Total debt securities issued	**86 982 995**	**79 876 051**

Note 7 – Subordinated loan capital

Subordinated loan capital - amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	31 Dec 2016	31 Dec 2015
NO0010679632	250 000	NOK	Floating	3M Nibor + 2.20% [1]	2013	2023	249 861	249 761
NO0010729650	200 000	NOK	Floating	3M Nibor + 1.85% [2]	2015	2025	199 817	199 757
NO0010759475	150 000	NOK	Floating	3M Nibor + 3.40% [3]	2016	2026	149 748	-
Total subordinated loan capital							**599 426**	**449 518**

[1] Subordinated loan of NOK 250 million maturing on 23 May 2023, with a redemption right (call) on 23 May 2018 and thereafter quarterly at each interest date. A regulatory call is also provided. Should official regulation lead to changes which affect how far the capital can be regarded as tier 2 capital, the bond can be redeemed at a price equal to 100 per cent plus accrued interest.

[2] Subordinated loan of NOK 200 million maturing on 21 January 2025, with a redemption right (call) on 21 January 2020 and thereafter quarterly at each interest date. A regulatory and a tax related call is also provided. Should official regulation lead to changes which affect how far the capital can be regarded as tier 2 capital, the bond can be redeemed at a price equal to 100 per cent plus accrued interest.

[3] Subordinated loan of NOK 150 million maturing on 17 March 2026, with a redemption right (call) on 17 March 2021 and thereafter quarterly at each interest date. A regulatory and a tax related call is also provided. Should official regulation lead to changes which affect how far the capital can be regarded as tier 2 capital, the bond can be redeemed at a price equal to 100 per cent plus accrued interest.

Note 8 – Coverpool

	Fair value	
Amounts in NOK 1 000	**31 Dec 2016**	**31 Dec 2015**
Lending to customers [1]	70 256 756	64 527 405
Substitute assets and derivatives:		
Financial derivatives (net)	7 498 485	10 243 432
Substitute assets [2]	10 652 823	9 970 307
Total	**88 408 063**	**84 741 144**
The cover pool's overcollateralisation [3]	105.00%	110.07%

Covered bonds issued

	31 Dec 2016	31 Dec 2015
Covered bonds	84 109 007	76 950 496
Premium/discount	89 149	39 349
Total covered bonds	**84 198 156**	**76 989 845**

[1] Loans, which have collateral without legal protection, are excluded.

[2] Substitute assets include lending to and receivables from credit institutions, bond and certificates at fair value through profit or loss and repo agreements.

[3] In line with updated liquidity coverage ratio (LCR) guidance from the Financial Supervisory Authority of Norway of 21 December 2016, the company's LCR reporting for December 2016 only includes liquidity in the cover pool which exceeds the committed overcollateralisation. This liquidity is not included in the valuation of the cover pool at 31 December 2016. Were liquidity which exceeds the overcollateralisation also taken into account in the valuation of the cover pool, it would give an overcollateralisation of 107.96 per cent.

Note 9 – Derivatives and hedging

The purpose of all derivative transactions in Eika Boligkreditt is to reduce the interest rate and currency risk. Interest rate swaps, where Eika Boligkreditt receives a fixed interest rate and pays a floating interest rate are, entered into to convert issues of bonds and certificates from a fixed interest rate to a floating interest rate exposure. Financing at a floating interest rate would reduce the risk for the company, since most lending is done at a floating interest rate. Interest rate swaps where Eika Boligkreditt receives a floating interest rate and pays a fixed interest rate are entered into to hedge the interest rate margin from lending at a fixed interest rate.

	31 Dec 2016		31 Dec 2015	
Assets				
Amounts in NOK 1 000	**Nominal amount**	**Fair value**	**Nominal amount**	**Fair value**
Interest rate swap lending[1]	1 072 500	9 018	33 500	25
Interest rate and currency swap[2]	37 683 563	7 779 455	43 170 312	10 309 644
Total financial derivative assets	**38 756 063**	**7 788 473**	**43 203 812**	**10 309 668**

Liabilities				
Amounts in NOK 1 000	**Nominal amount**	**Fair value**	**Nominal amount**	**Fair value**
Interest rate swap lending[1]	2 393 500	33 192	2 788 500	64 902
Interest rate and currency swap[2]	10 836 750	256 797	112 000	1 335
Total financial derivative liabilities	**13 230 250**	**289 988**	**2 900 500**	**66 236**

[1]The hedging instruments related to the lending portfolio with fixed interest rate are rebalanced when necessary.

[2]The nominal amount is converted to the historical currency exchange rate.

Fair value hedging

Eika Boligkreditt applies fair value hedging on fixed-rate financial liabilities. The hedge object is the swap interest element of the financial liabilities. Interest and currency swaps are used as hedging instruments.

	31 Dec 2016		31 Dec 2015	
Amounts in NOK 1 000	**Nominal amount**	**Value recognised in balance sheet**	**Nominal amount**	**Value recognised in balance sheet**
Hedging instruments: interest rate and currency swaps[1, 2]	26 846 813	7 522 658	43 058 312	10 308 309
Hedged items: financial commitments incl foreign exchange[2]	26 846 813	(7 603 843)	43 058 312	(10 249 533)
Net value recognised in balance sheet	-	**(81 185)**	-	**58 776**

[1]The nominal amount is converted to historical currency exchange rate.

[2]The book value of the hedging instruments is its net market value. The book value of the hedged objects is the cumulative change in value associated with the hedged risk and is an adjustment of financial liabilities at amortised cost.

Gains/losses on fair value hedging				
Amounts in NOK 1 000	**4th quarter 2016**	**4th quarter 2015**	**2016**	**2015**
Hedging instruments	(295 356)	497 759	(2 758 110)	1 734 286
Hedged items	169 244	(485 427)	2 645 689	(1 501 374)
Net gains/losses (inefffectiveness)[3]	**(126 112)**	**12 332**	**(112 420)**	**232 913**

[3]The positive change in value for financial instruments in 2016 relate almost entirely to changes in basis swaps. See note 3 for more information.

Note 10 – Fair value hierarchy

Eika Boligkreditt AS measures financial instruments at fair value, and classifies the related fair value at three different levels, which are based on the market conditions at the balance sheet date.

Level 1: Financial instruments where the measurement is based on quoted prices in an active market
Included in Level 1 are financial instruments where the measurement is based on quoted prices in active markets for identical assets. Quoted prices are obtained from the Oslo Stock Exchange and Bloomberg. The company's investments in Treasury bills are included in this category.

Level 2: Financial instruments where the measurement is based on observable market data
Level 2 comprises financial instruments that are measured using market information not consisting of quoted prices but which may be either directly or indirectly observable. Indirectly observable market data entail that the price is derived from corresponding financial instruments and commitments on which the market has based its valuation. This category consists of the fair value of interest and currency swaps based on swap curves and investments in certificates and bonds not issued by a national state. Discounted cash flow is used in the valuation. Market data are obtained from an acknowledged provider of market data.

Level 3: Financial instruments where the measurement is based on information other than observable market data
Level 3 comprises loans at fixed interest rates and shares available for sale. The fair value of fixed-rate loans is measured as equal to amortised cost adjusted for the present value of the difference between the loans' fixed rate of interest and the corresponding applicable offered fixed rate at 31 December 2016. Valuation of shares classified as available for sale are based on discounted cash flows.

31 December 2016

Amounts in NOK 1 000	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	3 570 403
Bonds and certificates at fair value through profit or loss	2 667 404	11 004 484	-
Financial derivatives	-	7 788 473	-
Shares classified as available for sale	-	-	29 700
Total financial assets	**2 667 404**	**18 792 957**	**3 600 103**
Financial liabilities			
Financial derivatives	-	289 988	-
Total financial liabilities	**-**	**289 988**	**-**

No significant transactions between the different levels have taken place in 2016.

31 December 2015

Amounts in NOK 1 000	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	2 979 081
Bonds and certificates at fair value through profit or loss	2 852 376	8 701 132	-
Financial derivatives	-	10 309 668	-
Shares classified as available for sale	-	-	29 700
Total financial assets	**2 852 376**	**19 010 800**	**3 008 781**
Financial liabilities			
Financial derivatives	-	66 236	-
Total financial liabilities	**-**	**66 236**	**-**

No significant transactions between the different levels took place in 2015.

Detailed statement of assets classified as level 3

2016 Amounts in NOK 1 000	01 Jan 2016	Purchases/ issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2016	Other comprehensive income	31 Dec 2016
Lending to customers (fixed-rate loans)	2 979 081	-	633 613	-	(42 292)	-	3 570 403
Shares available for sale	29 700	-	-	-	-	-	29 700
Total	**3 008 781**	**-**	**633 613**	**-**	**(42 292)**	**-**	**3 600 103**

2015 Amounts in NOK 1 000	01 Jan 2015	Purchases/ issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2015	Other comprehensive income	31 Dec 2015
Lending to customers (fixed-rate loans)	1 070 626	2 145 706	(245 080)	-	7 830	-	2 979 081
Shares available for sale	15 000	-	-	-	-	14 700	29 700
Total	**1 085 626**	**2 145 706**	**(245 080)**	**-**	**7 830**	**14 700**	**3 008 781**

Interest rate sensitivity of assets classified as Level 3 at 31 December 2016

A one-percentage point increase in all interest rates would reduce the value of the company's fixed-rate loans at fair value at by NOK 126 million. The effect of a decrease in interest rates would be an increase of NOK 126 million in the value of fixed-rate loans at fair value. The amounts are calculated by duration, which is the remaining portion of the fixed interest period.

Changes in fair value of fixed-rate loans attributable to a change in credit risk

Since the company's fixed-rate lending at fair value has an unchanged credit spread, no change in fair value is attributable to a change in the credit risk. That applies both for 31 December 2016 and cumulatively.

Detailed statement changes in debt related to currency changes

2016 Amounts in NOK 1 000	01 Jan 2016	Purchases/ issues	Disposals/ settlements	31 Dec 2016
Change in debt securities issued [1]	40 894 715	4 650 000	(2 388 277)	43 156 438
Total	**40 894 715**	**4 650 000**	**(2 388 277)**	**43 156 438**

[1]The table shows currency changes related to bonds issued in foreign currencies. Currency changes related to liabilities with credit institututions are not shown.

Note 11 – Shares classified as available for sale

Shares classified as available for sale

Amounts in NOK 1 000	Number of shares	Cost price	Book value	Owner share
Eiendomsverdi AS	353 269	15 000	29 700	18.79 %
Total	**353 269**	**15 000**	**29 700**	**18.79 %**

Note 12 – Capital adequacy ratio

Amounts in NOK 1 000	31 Dec 2016	31 Dec 2015
Share capital	926 479	856 674
Share premium	2 433 904	2 203 709
Other paid-in equity	477 728	477 728
Total comprehensive income for the period	-	-
Other equity	1 009	1 003
Total equity recognised in the balance sheet (without tier 1 perpetual bonds)	**3 839 120**	**3 539 113**
Fund for unrealised gains	14 700	85 773
Intangible assets	(3 448)	(3 690)
Deferred tax assets[1]	-	-
Prudent valuation adjustments of fair valued positions	(17 366)	(14 656)
Total core tier 1 capital	**3 833 006**	**3 606 540**

Core capital adequacy ratio (core tier 1 capital)	**31 Dec 2016**	**31 Dec 2015**
Weighted calculation basis	29 766 452	27 509 998
Core tier 1 capital	3 833 006	3 606 540
Core tier 1 capital ratio	**12.9%**	**13.1%**
Total core tier 1 capital	3 833 006	3 606 540
Tier 1 perpetual bonds	449 236	448 775
Total tier 1 capital	**4 282 242**	**4 055 315**

Capital adequacy ratio (tier 1 capital)	**31 Dec 2016**	**31 Dec 2015**
Weighted calculation basis	29 766 452	27 509 998
Tier 1 capital	4 282 242	4 055 315
Tier 1 capital ratio	**14.4%**	**14.7%**
Total tier 1 capital	4 282 242	4 055 315
Subordinated loans	599 426	449 518
Total primary capital (tier 2 capital)	**4 881 667**	**4 504 832**

Capital adequacy ratio (tier 2 capital)	**31 Dec 2016**	**31 Dec 2015**
Weighted calculation basis	29 766 452	27 509 998
Total primary capital (tier 2 capital)	4 881 667	4 504 832
Capital adequacy ratio	**16.4%**	**16.4%**
Required capital corresponding to eight per cent of calculation basis	2 381 316	2 200 800
Surplus equity and subordinated capital	2 500 351	2 304 032

The capital adequacy ratio is calculated using the standard method in Basel II.

31 December 2016

Calculation basis	**Weighted calculation basis**	**Capital requirement**
Credit risk	27 751 596	2 220 128
Operational risk	354 879	28 390
CVA risk[2]	1 659 977	132 798
Total	**29 766 452**	**2 381 316**

The company employs the standardised approach for calculating credit risk and the basic indicator approach for calculating operational risk.

[1]Deferred tax assets attributable to temporary differences and amounting to less than 10 per cent of core tier 1 capital are not deducted from core tier 1 capital, but risk-weighted by 250 per cent. See the changes to the calculation regulations which came into force on 30 September 2014.

[2]At 31 December, Eika Boligkreditt had taken account of the risk of credit valuation adjustment (CVA) when calculating capital requirements for credit risk. This represents a supplement to the capital requirement for credit risk related to counterparty risk for derivatives.

The company will maintain a buffer at all times in relation to the minimum requirement of eight per cent capital adequacy. This buffer will be sufficient to cope with relevant risks the company may face. The company's internal capital adequacy assessment process (ICAAP) is pursued to ensure that it has a sufficient buffer in relation to the minimum requirements. The company is planning to capitalise continued strong growth in the residential mortgage portfolio. On the basis of a rise in the countercyclical capital buffer requirement from one to 1.5 per cent at 30 June 2016, the company has increased its internal capital targets with effect from the same date. These are specified as follows, 12 per cent core tier 1, 13.5 per cent tier 1 and 15.5 per cent tier 2 capital. These targets are adequate in relation to legal and capital requirements based on the company's internal risk assessment. As shown above, the applicable buffer requirements were fulfilled at 30 September 2016 with a core tier 1 capital adequacy of 13.1 per cent.

The company has a shareholder agreement which commits the owner banks, under given circumstances, to provide it with necessary capital. More information on the shareholder agreement can be found in note 26 to the annual financial statements for 2015.

Note 13 – Loans from credit institutions

Agreements with counterparties regulating trades in OTC derivatives require collateral to be provided in certain cases. Eika Boligkreditt has been provided with such collateral in the form of cash. These cash sums are managed by Eika Boligkreditt for the duration of the collateral provision, and are recognised in the balance sheet as an asset with an associated liability. Both the cash asset and the liability are thereafter measured at amortised cost. At 31 December 2016, Eika Boligkreditt had received cash collateral of NOK 3.4 billion posted by counterparties to derivative contracts. Cash collateral is held in bank deposits, repo agreements and in various high-quality bonds. In addition to cash collateral, the company had also received NOK 3.1 billion in bonds as collateral from counterparties to derivative agreements. The value of the bonds provided as collateral is not recognised in the company's balance sheet.

Note 14 – Contingency and overdraft facilities

The company has an overdraft facility with DNB Bank ASA (DNB). Note 15 to the annual financial statements for 2015 provides a more detailed presentation of the overdraft with DNB. The company also has a note purchase agreement with the owner banks and OBOS concerning the purchase of covered bonds, whereby the owner banks and OBOS have accepted a liquidity obligation towards Eika Boligkreditt. More information on the note purchase agreement can be found in note 15 to the annual financial statements for 2015.

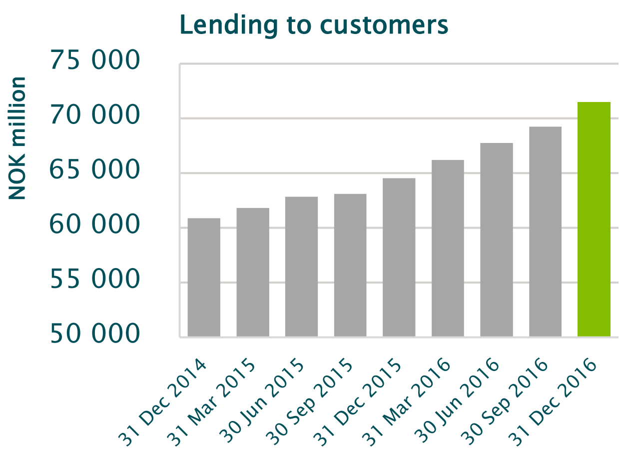
Note 15 – Risk management

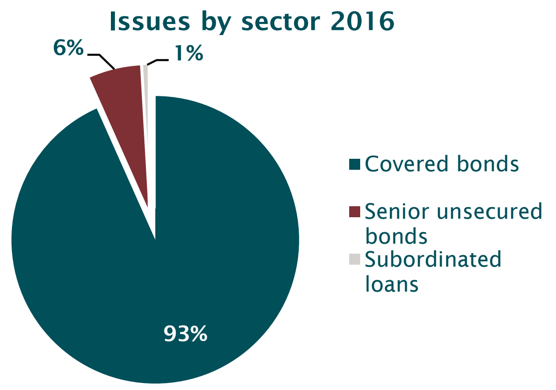
Eika Boligkreditt AS has established a framework for risk management and control in the company, which defines risk willingness and the principles for managing risk and capital. The value of financial assets and liabilities fluctuates as a result of risk in the financial markets. Note 3 to the annual accounts for 2015 describes the company's financial risk, which also applies to financial risk in 2016.

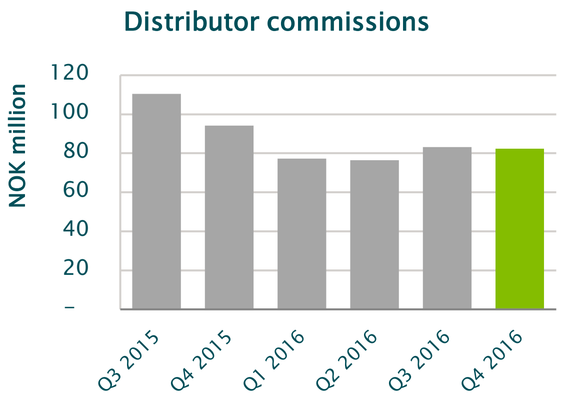
Note 16 – Defined-benefit pension plan closed

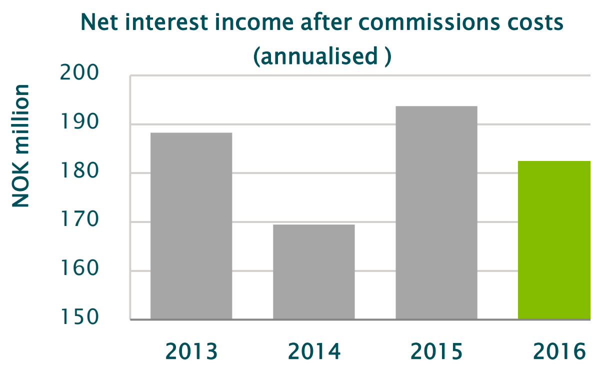
Eika Boligkreditt decided in the third quarter of 2016 to close its defined-benefit pension plan, which means that all employees are now covered by a defined-contribution scheme. The latter will contribute to greater predictability and reduce future pension commitments for the company. As part of the closure, the company recognised NOK 4.5 million in income as a one-off effect.

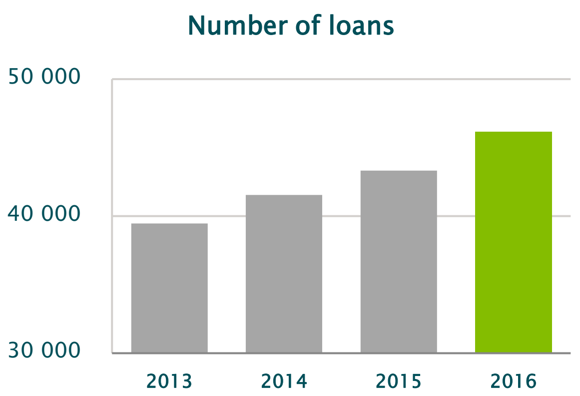
Key figures – Development

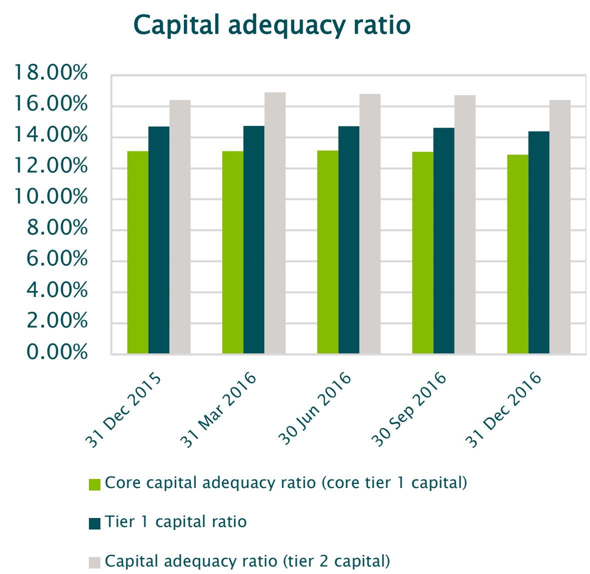












Key figures – Unaudited

Amounts in NOK 1 000	31 Dec 2016	31 Dec 2015
Balance sheet development		
Lending to customers	71 509 279	64 527 405
Debt securities issued	86 982 995	79 876 051
Subordinated loan capital	599 426	449 518
Equity	4 395 719	4 242 467
Equity in % of total assets	4.6	4.7
Average total assets [1]	92 323 733	82 844 186
Total assets	96 017 030	89 932 170
Rate of return/profitability		
Fee and commission income in relation to average total assets, annualised (%)	0.3	0.5
Staff and general administration expenses in relation to average total assets, annualised (%)	0.04	0.05
Return on equity before tax, annualised (%) [2]	1.4	10.7
Total assets per full-time position	4 849 345	4 542 029
Cost/income ratio (%) [3]	30.7	29.8
Financial strength		
Core tier 1 capital	3 833 006	3 606 540
Tier 1 capital	4 282 242	4 055 315
Total primary capital (tier 2 capital)	4 881 667	4 504 832
Calculation basis capital adequacy ratio	29 766 452	27 509 998
Core tier 1 capital ratio (%)	12.9	13.1
Tier 1 capital ratio (%)	14.4	14.7
Capital adequacy ratio % (tier 2 capital)	16.4	16.4
Leverage ratio (%) [4]	4.4	4.3
Defaults in % of gross loans	-	-
Loss in % of gross loans	-	-
Staff		
Number of full-time positions at end of period	19.8	19.8

Overview of liquidity indicators and prognosis

	Actual	Prognosis			
As of	**31 Dec 2016**	**31 Mar 2017**	**30 Jun 2017**	**30 Sep 2017**	**31 Dec 2017**
Liquidity Indicator I [5]	100%	105%	100%	102%	100%
Liquidity Indicator II [6]	112%	117%	120%	121%	112%
Average of indicators	**106%**	**111%**	**110%**	**111%**	**106%**

[1] Total assets are calculated as a quarterly average for the last period.

[2] Profit before tax as a percentage of average equity on a quarterly basis (return on equity).

[3] Total operating expenses in % of net interest income after commissions costs.

[4] Leverage ratio is calculated in accordance with the CRR/CRD IV regulatory. The calculation of the leverage ratio is described in articles 416 and 417 of the regulations.

[5] Liquidity indicator I:

$$\frac{\text{Funding with remaining time to maturity exceeding 12 months}}{\text{Illiquid assets}}$$

[6] Liquidity indicator II:

$$\frac{\text{Funding with remaining time to maturity exceeding one month}}{\text{Illiquid assets}}$$

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