eika. Boligkreditt

Annual report 2017

At your side.

Atlantic Ocean Road, Møre og Romsdal

Contents

The Eika Alliance

Åndalsnes, Møre og Romsdal

The Eika Alliance comprises 69 local banks, Eika Gruppen and Eika Boligkreditt. More than NOK 400 billion in total assets, almost a million customers and over 3 000 employees make it one of the largest players in the Norwegian banking and financial market – and one of the most important players in Norway's local communities.

Eika Boligkreditt

Eika Boligkreditt AS is a credit institution owned at 31 December 2017 by 67 Norwegian local banks in the Eika Alliance and OBOS. Its principal purpose is to provide access for the local banks to long-term and competitive funding. The company is licensed as a credit institution, and finances the local banks by issuing internationally rated covered bonds. By virtue of its size, Eika Boligkreditt is able to raise loans in both Norwegian and international financial markets, and to seek financing wherever the best market terms can be obtained at any given time. Eika Boligkreditt ensures that the alliance banks have access to financing on roughly the same terms as the larger banks in the Norwegian market. Eika Boligkreditt consequently ranks as an important contributor to reducing financing risk for the local banks and to ensuring that customers of the local banks achieve competitive terms for their residential mortgages.

The local banks in Eika

Local savings banks have contributed to settlement, economic development and security for private customers and the business sector in Norwegian local communities for almost 200 years. The local banks in the Eika Alliance are fully independent and control their own strategy, brand and visual identity.

A local presence, advisers with integrated financial expertise, and a clear commitment to their customers and the local community will also ensure them a strong position in the future. The local bank is moreover a trusted and important adviser to the local business community, with the emphasis on small and medium-sized enterprises. Through their philanthropic donations, too, the banks in the alliance contribute to innovation, growth and development by financing culture, sports and voluntary organisations. Levels of customer satisfaction with and loyalty to the alliance banks in Eika are among the highest in Norway in both private and company markets.

Eika Gruppen

Eika Gruppen serves as the financial services group in the Eika Alliance, and is owned by 69 local banks and OBOS. Its strategic foundation is to ensure strong and caring local banks which serve as a driving force for growth and development, for customers and for the local community. The group delivers a complete platform for banking infrastructure, including IT, payment processing and digital services which make the local bank competitive. In addition, it comprises the product companies Eika Forsikring, Eika Kredittbank, Eika Kapitalforvaltning and Aktiv Eiendomsmegling. Eika Gruppen's products and solutions are distributed through some 250 offices in Norway. Eika Boligkreditt was demerged from the Eika Gruppen financial group in 2012, and became directly owned by the local banks and OBOS.

Eika Boligkreditt in brief

Røros, Trøndelag

History

2005

- The first residential mortgage is disbursed on 28 February to Røros-banken.
- The mortgage portfolio exceeds NOK 1 billion as early as October.

2007

- The Norwegian regulations for covered bonds come into force in June.
- Eika Boligkreditt's covered bonds are rated Aaa by Moody's Investors Service in the same month.
- The company issues its first covered bond in Norway during August, while the first international transaction takes place on 24 October.

2009

- Total bank financing through Eika Boligkreditt exceeds NOK 20 billion during November.
- The company's covered bonds are downgraded to Aa2 by Moody's Investors Service.
- Eika Boligkreditt participates in a NOK 10.4 billion swap arrangement with the Norwegian government.

2012

- Eika Boligkreditt is demerged from Eika Gruppen AS and becomes directly owned by the local banks and OBOS.
- A tighter structure of agreements is established between the new owners and the company.
- Total assets exceed NOK 50 billion during June.
- The company issues its first "jumbo" (EUR 1 billion) bond in the euro market.

2014

- Moody's Investors Service upgrades the company's covered bonds to Aa1 (AA+).
- Eika Boligkreditt's covered bonds are registered on the Oslo Stock Exchange's covered bond benchmark list.
- Total bank financing through Eika Boligkreditt exceeds NOK 60 billion.
- Commissions to owner banks of NOK 582 million.

2015

- Eika Boligkreditt introduces individual lending rates for the owner banks.
- New and improved agreement on credit guarantees comes into force on 1 October.
- The company's covered bonds have their rating further strengthened by a notch in leeway.
- Four owner banks merge into two, and the number of owner banks is correspondingly reduced.

2016

- Eika Boligkreditt is integrated in the banks' credit portal at the end of October.
- Total bank financing through Eika Boligkreditt exceeds NOK 70 billion.
- An agreement is entered into with the owner banks on the delivery of key data related to the company's rating from Moody's Investors Service.

2017

- Eika Boligkreditt exceeds NOK 100 billion in total assets.
- Rating of the company's covered bonds is upgraded from Aa1 to Aaa.
- The company receives its first published issuer rating (Baa1).
- Eight owner banks merge to become four. The number of owner banks is correspondingly reduced.

2017: Highlights

67

LOCAL BANKS

Eika Boligkreditt was directly owned by 67 local banks and OBOS at 31 December 2017.

393

LOCAL AUTHORITIES

Eika Boligkreditt's cover pool includes mortgagees in 393 Norwegian local authorities.

99.6 BN.

TOTAL ASSETS

Total assets were NOK 96.6 billion at 31 December.

51 THOUSAND

MORTGAGES

Eika Boligkreditt has 51 013 mortgages in its cover pool.

50.6%

CURRENCY

50.6 per cent of the company's covered bonds are financed in NOK, while 49.4 per cent are financed in other currencies – primarily EUR.

29.5%

MORTGAGED PROPERTY

29.5 per cent of the mortgaged property in the company's cover pool lies in Oslo and Akershus.

44.8%

LTV

The average loan to value (LTV) on mortgages in the cover pool was 44.8 per cent.

20

EMPLOYEES

Eika Boligkreditt has 20 permanent employees. In addition, the company has an agreement with Eika Gruppen on purchasing services in a number of areas.

Eika Boligkreditt in brief

Akershus festning, Oslo

Eika Boligkreditt is a credit institution which was directly owned at 31 December 2017 by 67 local banks in the Eika Alliance and the OBOS housing association. Its main purpose is to secure access for the owner banks in the Eika Alliance to long-term competitive funding by issuing covered bonds in the Norwegian and international financial markets. An important part of the company's business concept is to increase the competitiveness of the owner banks and reduce their risk. At 31 December 2017, the banks had transferred a total of NOK 77.3 billion in residential mortgages and thereby relieved their own financing requirements by a corresponding amount.

The company is licensed as a credit institution and authorised to raise loans in the market by issuing covered bonds. Norwegian regulations for covered bonds were adopted in 2007, and this type of bond has become an important source for financing the lending activities of banks and credit institutions. By concentrating borrowing activity in Eika Boligkreditt, the owner banks have secured a player in the bond market which can, by virtue of its size, achieve competitive terms in both Norwegian and international financial markets.

Activity began at Eika Boligkreditt in February 2005 and, with current total assets of NOK 99.6 billion, the company accounts for a substantial proportion of the external funding for the owner banks. To ensure the best possible financing terms for the owner banks, the company aims to be an active issuer in both Norwegian and international financial markets.

Shareholders

67 local banks and OBOS[1]

69 local banks and OBOS

Ownership structure and management

100%

Eika Boligkreditt AS

100%

Eika Gruppen AS

CEO
Kjartan M Bremnes

Risk manager Mari M Sjoner

IT manager Thomas Johansen

Head of lending Hege A Skoglund

Chief marketing officer Kurt E Mikalsen

Chief accounting officer Hugo J Henriksen

CFO Odd-Arne Pedersen

Senior vice president funding
Anders Mathisen

[1] Bank2 and Sandnes sparebank are only shareholders in Eika Gruppen AS.

Board of directors

Tor Egil Lie

Acting Chair

- Born: 1955.
- Position: CEO, Jæren Sparebank.
- Education: BSc economics and administration, Rogaland Regional College/University of Stavanger (UiS), chartered auditor.
- Other directorships: director, Aktiv Jæren Eiendomsmegling AS and Safi, UiS.
- Director since 2014.

Jon Guste-Pedersen

Director

- Born: 1959.
- Position: Business development manager, Skagerrak Sparebank.
- Education: MBE, BI Norwegian Business School.
- Other directorships: chair, Telemarksmegleren AS, director, NBNP AS.
- Director since 2016.

Olav Sem Austmo

Director

- Born: 1963.
- Position: CFO, TrønderEnergi AS.
- Education: MBA, BI Norwegian Business School, AFA, Norwegian School of Economics.
- Other directorships: chair, TrønderEnergi Vind Holding and Energibygget AS, director, Sarepta Energi AS.
- Director since 2015.

Terje Svendsen

Director

- Born: 1956.
- Position: President Norges Fotballforbund.
- Education: MSc business economics, Norwegian School of Economics.
- Other directorships: chair, Tercon AS. Director, Bonitas Eiendomsforvaltning AS.
- Director since 2011.

Executive management

Hugo J Henriksen
Chief accounting officer
- Born: 1969.
- Education: MSc business economics, University of Bodø.
- Career: Terra-Gruppen, Ernst & Young.
- Joined company in 2007.

Kurt E Mikalsen
Chief marketing officer
- Born: 1968.
- Education: BA, University of Bodø.
- Career: DNB, GMAC Commercial Finance.
- Joined company in 2006.

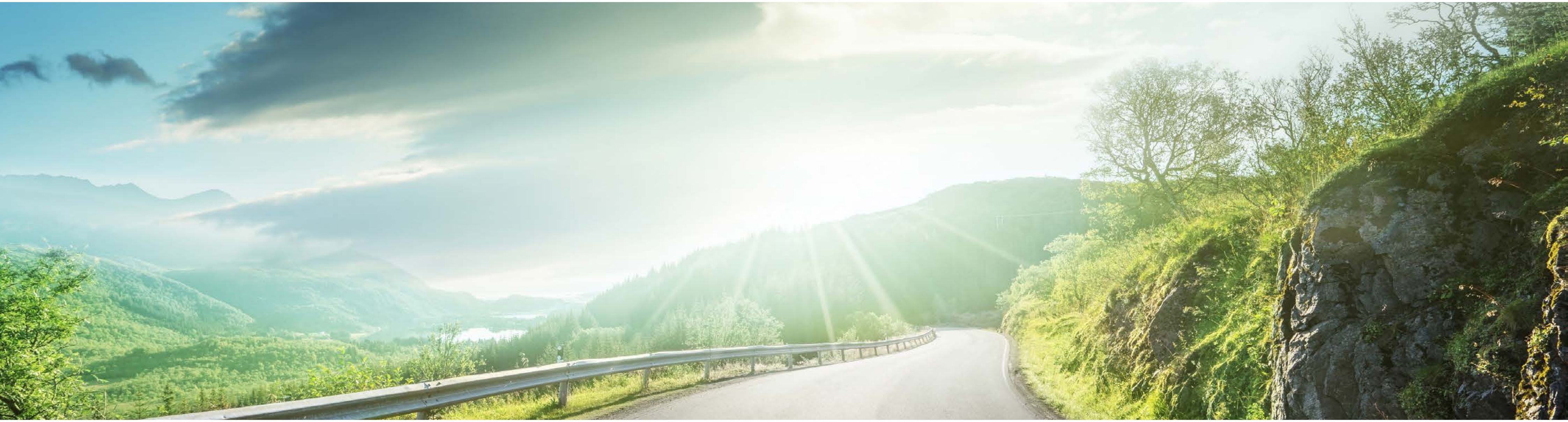
Hege Skoglund
Head of lending
- Born: 1966.
- Education: Diploma, business economics, BI Norwegian Business School.
- Career: Sparebanken Gjensidige Nor, Sparebanken Kreditt AS.
- Joined company in 2005.

Kjartan M Bremnes
CEO
- Born: 1965.
- Education: law degree, University of Oslo/King's College London.
- Career: BA-HR law firm, Follo Consulting Team AS, Vesta Hygea AS.
- Joined company in 2004.

Mari M Sjoner
Risk manager
- Born: 1985.
- Education: MSc business economics, Norwegian School of Economics.
- Joined company in 2010.

Odd Arne Pedersen
CFO
- Born: 1962.
- Education: MBE, BI Norwegian Business School, AFA and Master of Finance, Norwegian School of Economics.
- Career: Terra Forvaltning, Terra Securities, Terra-Gruppen, Fearnley Fonds, DN Hypotekforening.
- Joined company in 2008.

Anders Mathisen
Senior vice president, funding
- Born: 1967.
- Education: MBE, BI Norwegian Business School.
- Career: Terra Forvaltning, SEB, Norges Bank.
- Joined company in 2012.



Lofoten, Nordland

A strategically important company for the banks

Common denominators for the local banks in the Eika Alliance are their strong local roots, that they rank among the smallest banks in Norway, and that a generally high proportion of their activity is directed at the private and residential mortgage market.

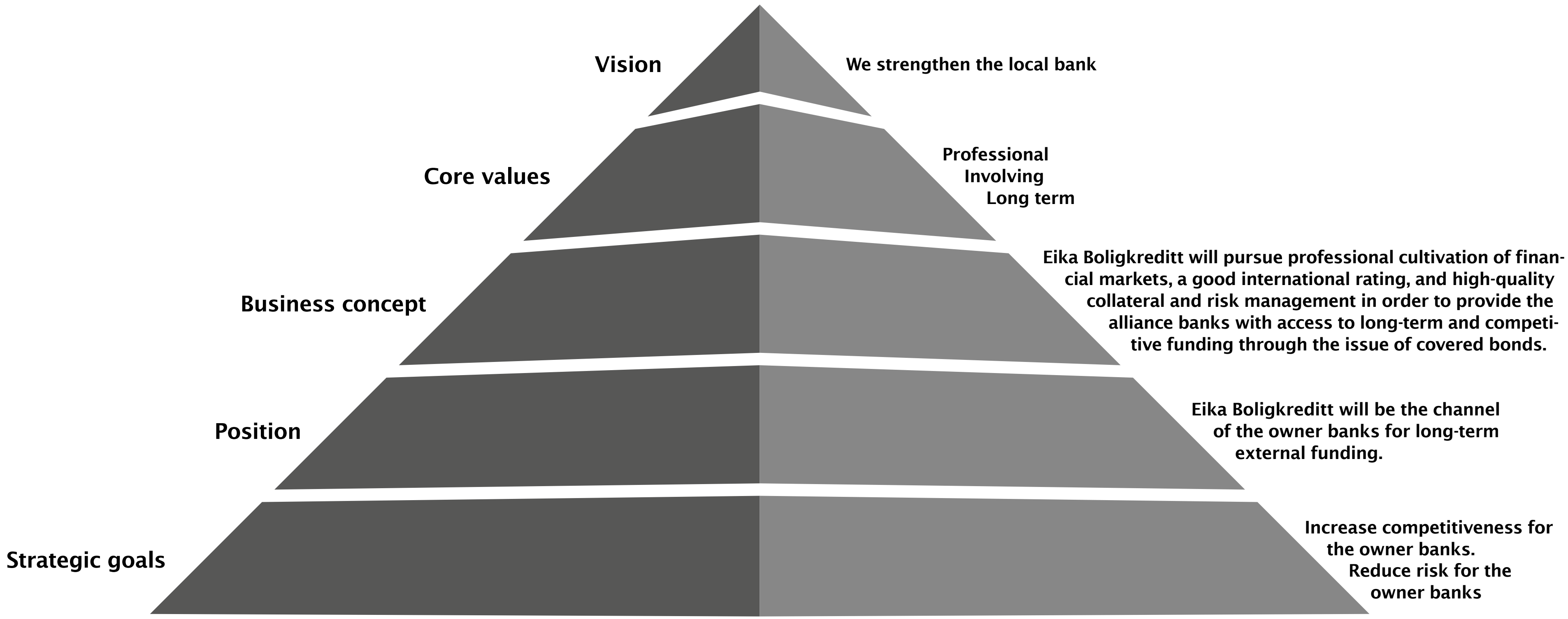
The decision by the local banks 15 years ago to establish a joint mortgage credit institution was a direct consequence of a trend where they – like all the other banks – experienced a decline in their deposit-to-loan ratio and a corresponding increase in the need for external financing from the bond market.

For small local banks, this meant increased vulnerability in achieving competitive borrowing costs and higher risk exposure because they would be subject to price fluctuations in the Norwegian bond market. The most important reasons for establishing Eika Boligkreditt were accordingly to maintain competitiveness in the residential mortgage segment – which was and remains the most important market for the local banks – and to reduce financing and refinancing risk in the bond market.

Through Eika Boligkreditt, the local banks and OBOS achieve indirect access to favourable financing in the Norwegian and international markets through the issue of internationally rated covered bonds. The local banks are active users of the company, and had secured NOK 77.3 billion in overall financing from Eika Boligkreditt at 31 December 2017. That corresponds to roughly half the total external financing for the local banks, and this share is rising.

Financing through Eika Boligkreditt involves generally longer tenors at a significantly more favourable rate than any of the owner banks could have achieved individually. That is precisely why Eika Boligkreditt has become a strategically important company for the owner banks – a company which contributes to enhanced competitiveness and lower risk exposure.

Strategy pyramid



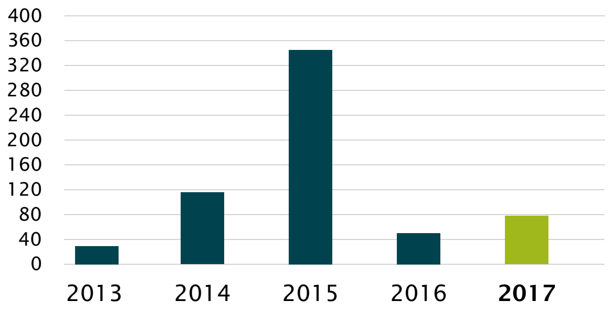
COMPANY PRIORITIES

- Tailored growth
- Good international rating
- Profitability and cost-efficiency
- Prudent risk
- Quality at every level

Results and key figures

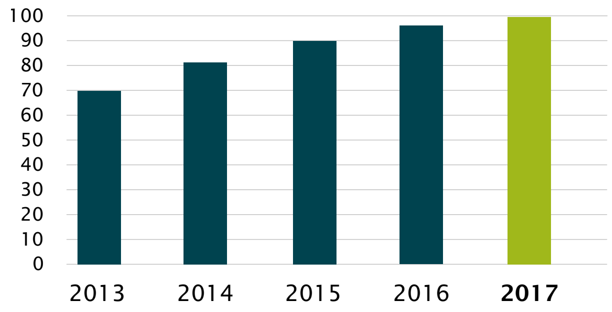
PROFIT BEFORE TAX

Amounts in NOK million



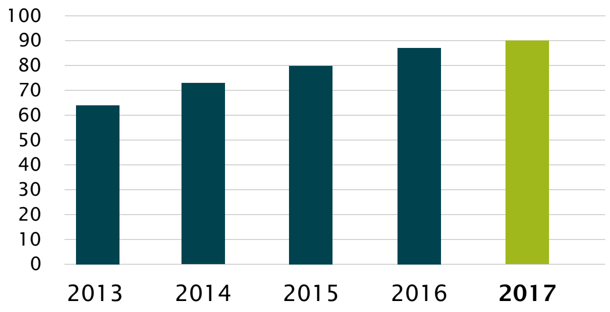
TOTAL ASSETS

Amounts in NOK billion



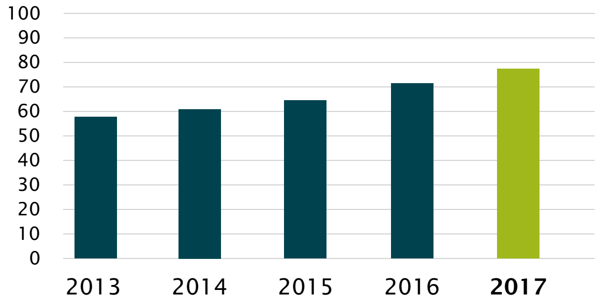
BORROWING PORTFOLIO

Amounts in NOK billion



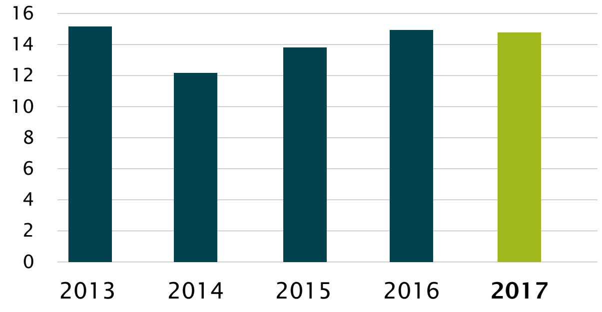
MORTGAGE PORTFOLIO

Amounts in NOK billion



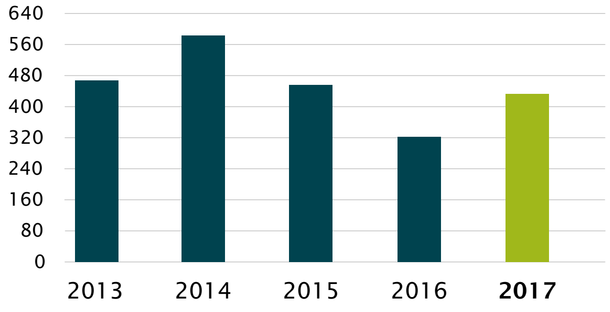
NEW MORTGAGES

in thousands



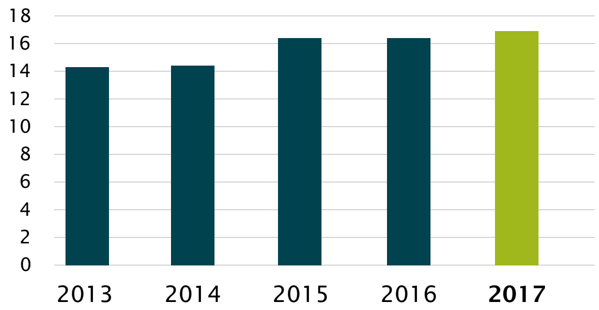
DISTRIBUTOR COMMISSIONS

Amounts in NOK million



CAPITAL ADEQUACY RATIO[1]

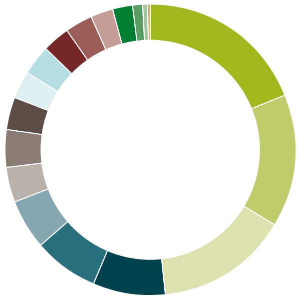
Value in per cent



[1] The company employs the standard method specified by the capital requirement regulations for calculating capital requirements for credit risk.

GEOGRAPHICAL DISTRIBUTION

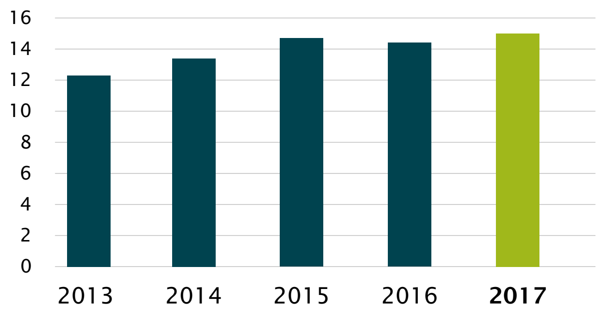
By county



Trøndelag county	18.91%
Oslo	14.88%
Akershus county	14.69%
Rogaland county	8.08%
Østfold county	7.34%
Telemark county	5.30%
Buskerud county	4.10%
Møre og Romsdal county	4.02%
Vestfold county	3.60%
Aust-Agder county	3.26%
Hordaland county	3.14%
Nordland county	3.11%
Hedmark county	3.03%
Vest-Agder county	2.47%
Oppland county	2.22%
Troms county	1.27%
Sogn og Fjordane county	0.52%
Finnmark county	0.08%

CORE TIER 1 CAPITAL RATIO

Value in per cent



LTV[1]

Specified in per cent and NOK

LTV :	0-≤40%	NOK 24 423.2 million	31.86%
LTV :	>40%-≤50%	NOK 16 143.9 million	21.06%
LTV :	>50%-≤60%	NOK 25 270.6 million	32.97%
LTV :	>60%-≤70%	NOK 9 692.6 million	12.65%
LTV :	>70%-≤75%	NOK 553.9 million	0.72%
LTV :	>75%-≤	NOK 565.7 million	0.74%

[1] Eika Boligkreditt does not permit an LTV of more than 60 per cent of the value of the residential property provided as collateral. In subsequent calculations of price trends for housing, statistical methods are used to determine the updated value. Variations could arise during this process between the valuation established by a surveyor/valuer or estate agent and that determined using statistical methods. The LTV in the table has been determined solely on the basis of statistical methods. This means that the LTV for certain mortgages could exceed 60 per cent.

Improved competitiveness
Reduced risk exposure

Directors' report and financial statements

Flåm, Sogn og Fjordane

Financial highlights 2017

77.9 MILL

Pre-tax profit of NOK 77.9 million, compared with NOK 50.3 million in 2016.

99.6 BN

The company had total assets of NOK 99.6 billion at 31 December, compared with NOK 96 billion a year earlier.

90 BN

The borrowing portfolio totalled NOK 90 billion, a net increase of NOK 3 billion or 3.5 per cent from 31 December 2016.

8.1%

The borrowing portfolio totalled NOK 77.3 billion, a net increase of NOK 5.8 billion or 8.1 per cent from 31 December 2016.

683 MILL

Net interest revenues were NOK 683 million, up by 41.7 per cent from 2016.

433.2 MILL

Distributor commissions to the owner banks totalled NOK 433.2 million, compared with NOK 321.7 million in 2016.

16.9%

The company's capital adequacy ratio was 16.9 per cent at 31 December, compared with 16.4 a year earlier. Capital adequacy is calculated in accordance with the capital requirement regulations.

44.8%

The average LTV for the whole cover pool was 44.8 per cent.

Directors' report 2017

The company's business

Nature of the business

Eika Boligkreditt's principal purpose is to secure access for the local banks in the Eika Alliance (the owner banks) to long-term and competitive funding through the issue of 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 financing in the Norwegian and international financial markets with regard to maturities, terms and depth. The company's business purpose also includes reducing risk for the owner banks. At 31 December 2017, the owner banks had a total financing of NOK 77.3 billion from Eika Boligkreditt and had thereby reduced the need for market financing on their own account by a corresponding amount.

The company is licensed as a credit institution and authorised to raise loans in the market through the issue of covered bonds. Norwegian regulations for covered bonds were adopted in 2007, and this type of bond has become an important source of finance for lending activities by banks and credit institutions. Concentrating funding activities related to covered bonds in Eika Boligkreditt has secured the owner banks in the Eika Alliance a player in the bond market with the necessary requirements to obtain competitive terms in both Norway and internationally. With total assets of roughly NOK 100 billion, the company ranks as one of the largest bond-issuing credit institutions in Norway.

Ownership structure

Eika Boligkreditt was demerged from the Eika Gruppen AS financial group in May 2012, and became directly owned by the local banks in the Eika Alliance and the OBOS housing association. In conjunction with the changes to the ownership structure, a shareholder agreement was entered into with all the owners which includes the stipulation that ownership of the company is to be rebalanced on an annual basis. This will ensure an adjustment so that the holding of each owner bank corresponds to its share of the bank financing from the company. Pursuant to a special agreement between Eika Boligkreditt, OBOS and OBOS-banken, OBOS is the shareholder in the company for the interest which OBOS-banken would have had in Eika Boligkreditt on the basis of its share of the bank financing.

Agreements on liquidity and capital support

Agreements were entered into in 2012 to regulate support for liquidity and capital respectively from the owner banks to Eika Boligkreditt. Liquidity support is regulated by an agreement concerning the purchase of covered bonds which came into effect on 10 May 2012. OBOS is a party to this agreement for the share of the residential mortgage portfolio held by OBOS-banken. The main features of this agreement are that the owner banks, for as long as they have residential mortgage portfolios in the company and under given circumstances, are committed to provide Eika Boligkreditt with liquidity. This liquidity obligation is limited to the maturity of the company's covered bonds issued under the Euro Medium Term Covered Note (EMTCN) Programme and associated derivative agreements over the coming 12 months. To the extent that covered bonds have been purchased by the owner banks under the liquidity agreement and have not been redeemed, these are deducted from the calculation of each owner bank's outstanding liquidity obligation. Each owner bank's liquidity obligation is primarily limited to its pro rata share of the issued amount, which is calculated on the basis of each owner bank's share of the company's bank financing. Should one or more owner banks fail to fulfil their liquidity obligation pursuant to the agreement, the liquidity obligation of the other owner banks can be increased up to a limit of twice their original pro rata share.

Capital support from the owner banks is regulated by a shareholder agreement dated 10 May 2012. OBOS is a party to this agreement for the share of the residential mortgage portfolio held by OBOS-banken. This includes a commitment by the owner banks that, under given circumstances, they will have to provide the company with the capital required to maintain the company's tier 1 capital and total primary capital ratios at levels required or recommended by the Financial Supervisory Authority of Norway.

The present capital targets, which have applied from 31 December 2017, are set at a minimum of 13 per cent for the core tier 1 capital ratio, 14.5 per cent for the tier 1 capital ratio, and 16.5 per cent for the tier 2 capital ratio. The individual owner bank's capitalisation obligation is primarily limited to its pro rata share of capital issues, calculated on the basis of each owner bank's share of the company's bank financing. Should one or more owner banks fail to fulfil their capitalisation obligation pursuant to the agreement, the capitalisation obligation of the remaining owner banks can be raised to a limit of twice their original pro rata share. The agreement on purchasing covered bonds and the shareholder agreement can be terminated under certain conditions.

International rating

The rating for covered bonds issued by Eika Boligkreditt was upgraded on 6 June from Aa1 to Aaa by Moody's Investor Service (Moody's). In addition, the company secured a published issuer rating (Baa1) for the first time. Obtaining an Aaa rating for its covered bonds represents an important milestone in the history of the business. Aaa represents the highest credit rating, and is in line with the rating given to bonds issued by a few economically sound national states, including Norway.

The background for upgrading Eika Boligkreditt's covered bonds is Moody's revised assessment of the credit risk posed by the banks which make up the Eika Alliance, and the support agreements established between the company and the Eika banks. Moody's recognises that, although these banks operate independently of each other, participation in the Eika Alliance offers a number of benefits – such as shared IT infrastructure and credit-risk scoring models – which give the banks an incentive to remain part of the alliance. It also emphasises that the strong strategic position and operational integration of Eika Boligkreditt in the business of the banks increases the probability of their support.

Residential mortgages included in Eika Boligkreditt's cover pool must have a maximum loan-to-value (LTV) of 60 per cent at origination. This is a stricter standard than the 75 per cent LTV ceiling permitted in the Norwegian covered bond regulations. In addition, the owner banks have provided guarantees against defaults on transferred residential mortgages. The particularly high credit quality of the residential mortgages in Eika Boligkreditt's cover pool has repeatedly been confirmed by Moody's in its quarterly EMEA Covered Bonds Monitoring Overview. In the latest report, published by Moody's on 2 January 2018, Eika Boligkreditt was ranked second among European issuers for the lowest risk of loss on residential mortgages in the cover pool. The primary purpose of the report is to support Moody's rating of covered bonds, and to provide insight into various key assumptions which are decisive for the rating. The report embraces all covered-bond issuers rated by Moody's. This ranking by the agency confirms that the owner banks provide the company with high-quality residential mortgages.

Development of bank financing

The owner banks had a total financing from Eika Boligkreditt of NOK 77.3 billion at 31 December 2017, representing an increase of NOK 5.8 billion or 8.1 per cent over the year. Standalone residential mortgages accounted for 89.5 per cent of the portfolio, with mortgages to residential cooperatives accounting for the remaining 10.5 per cent. Standalone mortgages also include loans for holiday homes. The average LTV for the company's mortgages was 47.4 per cent on the basis of the value of the properties at origination. Adjusted for subsequent price developments affecting the mortgaged objects, the average LTV for mortgages in the company's cover pool was 44.8 per cent at 31 December 2017. Since Eika Boligkreditt's funding activity began in 2005, the company has experienced no defaults exceeding 90 days or losses related to its mortgage business. Guarantees issued by the owner banks have reduced the risk of loss.

Agreement on OBOS-banken's distribution responsibility

The distribution agreement with OBOS-banken expired in mid-February 2017, in line with the notice of termination given by Eika Boligkreditt a year earlier. From the termination date, OBOS-banken no longer has the right to increase its financing from Eika Boligkreditt. Pursuant to the stipulations in the distribution agreement, OBOS/OBOS-banken and Eika Boligkreditt have entered into a new agreement which regulates the extension of OBOS/OBOS-banken's distribution responsibility for its existing financing, including other rights and obligations pursuant to the guarantee, custody, commission and shareholder agreements and the agreement on the purchase of covered bonds.

Termination of agreements with Eika Gruppen AS

Eleven banks gave notice on 9 January 2018 to terminate all agreements with Eika Gruppen AS and its subsidiaries. These agreements terminate when the relevant periods of notice end, in most cases after three calendar years. The 11 departing banks are Askim og Spydeberg, Aasen, Drangedal, Klæbu, Harstad, Lofoten, Selbu, Sparebanken DIN, Stadsbygd, Tolga-Os and Ørland. Their agreements with Eika Boligkreditt are not covered by the notices of termination.

Change to the Eika Boligkreditt board

Bjørn Riise, the chair of Eika Boligkreditt AS, informed the nomination committee on 29 January 2018 that he was resigning from this post with immediate effect. His resignation must be seen in the context of the termination matter, since Klæbu Sparebank is one of the 11 banks which have given notice of terminating their agreements with Eika Gruppen AS. In order to avoid problems for the chair related to conflicts of interest, Riise opted to step down. Deputy chair Tor Egil Lie is acting as chair until the next AGM, which will be held in mid-April 2018. The company's nomination committee has started work on proposals for a new composition of the board, including the election of a chair, which will be put to the AGM.

Borrowing

The company's total borrowing (liabilities established through the issue of securities) amounted to NOK 90 billion at 31 December, up by NOK 3 billion from 1 January. Eika Boligkreditt issued bonds and certificates corresponding to NOK 18.7 billion in 2017. Fifty per cent were issued in euros and 50 per cent in Norwegian kroner. Of the total issue volume, 90 per cent related to the issue of covered bonds. During 2017, repurchases of the company's own bonds before maturity totalled NOK 1.5 billion and maturing bonds amounted to NOK 13.5 billion.

The company's covered-bond issues are conducted under its EMTCN Programme, which is listed on the Irish Stock Exchange. This programme was last revised in October 2017. The borrowing limit in the programme is EUR 20 billion. Issues in 2017 and the three previous years by sector are presented in the table on the next page. The issue volume in 2017 was somewhat higher than expected, primarily because an EUR 500 million euro issue originally planned for the first quarter

ISSUES BY SECTOR

(amounts in NOK million)

	2017	2016	2015	2014
Covered bonds (issued in SEK)	-	-	-	-
Covered bonds (issued in EUR)	**9 298**	4 650	4 636	4 123
Covered bonds (issued in NOK)	**7 625**	10 725	6 250	3 750
Senior unsecured bonds (issued in NOK)	**1 800**	950	450	1 975
Subordinated loans (issued in NOK)	-	150	200	-
Total issued	**18 723**	16 475	11 536	9 848

ISSUES BY CURRENCY

(in NOK mill) in 2017

ISSUES BY SECTOR

(in %) in 2017

BORROWING IN VARIOUS INSTRUMENTS

Capitalised amounts in NOK million

	31 Dec 2017	31 Dec 2016
Covered bonds	**87 203**	84 109
Senior unsecured bond loans	**2 827**	2 874
Subordinated loans	**600**	599
Total issued	**90 630**	87 582

of 2018 was brought forward to the fourth quarter of 2017. Another factor was that lending growth of NOK 5.8 billion in 2017 exceeded the level anticipated at 1 January to some extent. The bond market performed very well in 2017, with good liquidity and substantially lower credit margins.

The credit margin over and above the money market interest rate (three months Nibor) for the company's covered bonds in Norwegian kroner and with a five-year tenor fell from 54 basis points at 1 January 2017 to 35 basis points at 31 December. Correspondingly, the credit margin for senior unsecured bonds issued by an average owner bank fell from 125 to 100 basis points over the same period for the same tenor. This sharp contraction in Norwegian credit margins reflects reduced credit margins in the eurozone as well as lower costs associated with currency hedging from euros to Norwegian kroner, which found expression through the contraction in the currency basis between euros and kroner. The average tenor for new financing in 2017 was 5.75 years, while the average tenor for the company's borrowing portfolio increased from 3.64 years at 1 January to 3.87 years at 31 December. The table to the left shows the breakdown of the company's borrowing in various instruments.

Profit and loss account

Pre-tax profit

Eika Boligkreditt delivered a pre-tax profit of NOK 77.9 million for 2017, compared with NOK 50.3 million the year before. The 2017 result includes NOK 164 million in negative value changes for basis swaps (2016: NOK 115 million), so that pre-tax profit for the year excluding changes to the value of basis swaps came to NOK 242 million (2016: NOK 165 million). Profit was also affected by value changes to other financial instruments, which yielded a net gain of NOK 28.7 million. Profit for 2017 accordingly includes a net loss of NOK 135.3 million on the fair value of financial instruments, compared with a net loss of NOK 81.8 million in 2016. A total of NOK 24.7 million in interest on tier 1 perpetual bonds is not presented as an interest expense in the income statement, but as a reduction in equity (NOK 23.1 million).

As reported above, profit for 2017 was significantly affected by value changes in basis swaps on the company's derivatives. Eika Boligkreditt is an active issuer of bonds in foreign currencies, principally in euros but occasionally in others. All lending is in Norwegian kroner, which means that borrowing in foreign currencies is hedged to kroner in the derivative market through currency swaps. A pricing and risk component in these derivative contracts is the currency basis, which is a premium (or deduction) for swapping cash flow in one currency with cash flow in another. Value changes in basis swaps during 2017 relate almost wholly to changes in the currency basis. During 2017, the volume-weighted currency basis from euros to Norwegian kroner for the derivative portfolio contracted by 9.5 basis points, from 32.3 to 22.8. A contraction in the currency basis premium has negative accrual effects on the company's profit and loss account. Over the term of the derivatives, the effect of such value changes will be zero. The accounting effects will thereby reverse until the derivatives mature. This means that changes in the value of the currency basis only have accrual effects 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

The company's total interest income amounted to NOK 2 049 million in 2017, compared with NOK 1 861 million the year before. This change primarily reflected an increase in the volumes of residential mortgages included in the cover pool.

Net interest income

Net interest income amounted to NOK 683 million in 2017, compared with NOK 482 million the year before. This increase reflects higher margins on residential mortgages because borrowing costs have declined more than interest rates on the mortgages. About 95 per cent of the residential mortgages in Eika Boligkreditt's portfolio have a variable interest rate. This means that the company, in consultation with the owner banks, can adjust the interest rate on its mortgages in line with interest-rate fluctuations in the market.

Distributor commissions

Distributor commissions to the owner banks, including arrangement commissions, amounted to NOK 433 million in 2017, compared with NOK 322 million the year before.

Balance sheet and liquidity

Balance sheet

Assets in the company's balance sheet amounted to NOK 99.6 billion at 31 December 2017, up by NOK 3.6 billion over the year. Lending to customers rose by NOK 5.8 billion or 8.1 per cent from 31 December 2016.

Borrowing

The company's total borrowing (liabilities established through the issue of securities) amounted to NOK 90 billion at 31 December, up by NOK 3 billion from the end of 2016.

Liquidity

New financing totalling NOK 18.7 billion was raised by Eika Boligkreditt in 2017. Over the same period, the mortgage portfolio increased by NOK 5.8 billion while loan maturities and early redemptions amounted to NOK 15 billion. The company was provided with an additional NOK 325 million in equity from the owners during the year, and raised NOK 100 million in tier 1 perpetual bonds. A dividend of NOK 92.6 million was also paid to the owners. Cash collateral received from counterparties to derivative agreements increased by NOK 397 million in 2017. When account is taken of NOK 351 million in repurchase agreements entered into and recognised under other financial assets, overall liquidity for the company was reduced by about NOK 1.7 billion in 2017.

Counterparties to hedging contracts provided the company with NOK 3.8 billion in cash collateral during 2017. Cash collateral is held as bank deposits, repurchase agreements and various high-quality securities. In addition to straightforward cash collateral, the company received collateral in the form of securities (high-quality bonds) with a value corresponding to NOK 2.6 billion. The value of the securities provided as collateral is not included in the company's balance sheet. At 31 December, Eika Boligkreditt had an overall liquidity portfolio of NOK 14.7 billion – including NOK 3.8 billion in cash collateral received and taking account of NOK 0.25 billion in repurchase agreements recognised under other financial assets. In line with the regulations governing covered bonds, this liquidity is exclusively invested in a way which ensures low risk and a high degree of liquidity. It was invested at 31 December 2017 in Norwegian and European government securities, municipal bonds, covered bonds and repurchase agreements, and as deposits in banks with an international rating of A-/A3 or better. The size of the company's liquidity reserve, combined with a relatively low return resulting from a very conservative investment universe, involves not insignificant costs for the company. Eika Boligkreditt has nevertheless elected to maintain a relatively high liquidity ratio on the basis of continued strong growth in the mortgage portfolio and a conservative liquidity policy. The company has an agreement with the owner banks and OBOS on purchasing covered bonds. This facility is intended to secure liquidity for the company in circumstances where it cannot borrow in the financial market.

Risk management and capital adequacy ratio

Eika Boligkreditt obtained a total of NOK 423 million in additional primary (tier 2) capital during 2017. This increase was accomplished by raising NOK 100 million in a new tier 1 perpetual bond during the second quarter as well as NOK 325 million through two equity issues of NOK 125 million in the first quarter and a further NOK 200 million in the third quarter respectively. At 31 December, the company had a total primary capital of NOK 5 305 million, up by NOK 423 million from a year earlier. In addition to covering the increased growth in mortgage lending, core tier 1 capital was enlarged in order to satisfy countercyclical buffer requirements for capitalisation. These went up from 1.5 to two per cent on 31 December 2017.

Eika Boligkreditt concentrates exclusively on residential mortgages with security of up to 60 per cent of the mortgaged property's value on origination. The basis for calculating the capital adequacy ratio increased by NOK 1.7 billion during 2017, and amounted to NOK 31.5 billion at 31 December. This amount represents a quantification of Eika Boligkreditt's risk, and credit risk is calculated in accordance with the standardised method in the capital requirement regulations. The growth in the total calculation basis primarily reflects the increase in the company's residential mortgage portfolio. The calculation basis for the risk of capital valuation adjustment (CVA) by counterparties to derivatives declined by about NOK 100 million during 2017. The table below presents the development of the capital adequacy ratio.

DEVELOPMENT IN CAPITAL ADEQUACY

(Amounts in NOK million)

	31 Dec 2017		31 Dec 2016	
Risk-weighted calculation basis	**31 468**		29 766	
Core tier 1 capital	**4 156**	13.2%	3 833	12.9%
Tier 1 capital	**4 706**	15.0%	4 282	14.4%
Total primary capital (tier 2 capital)	**5 305**	16.9%	4 882	16.4%

The company's capital targets are set as follows.

	(At 31 Dec)	
Core tier 1 capital	13.0%	(13.2%)
Tier 1 capital	14.5%	(15.0%)
Primary capital (tier 2 capital)	16.5%	(16.9%)

These targets are adequate in relation to legal provisions and capital requirements based on the company's internal risk assessment. As shown in the table above, the prevailing buffer requirements were met at 31 December 2017. To satisfy the expected continued growth in lending, the company will need to increase its tier 1, hybrid and tier 2 capital. In addition to capital provided by the owner banks, Eika Boligkreditt will seek to use the financial market to satisfy its capital targets.

Risk exposure

Activities in Eika Boligkreditt AS are exposed to various forms of risk. The company gives great emphasis to good continuous management and control of all the risks to which it is exposed. The board has implemented a framework for risk management and control which builds on the Coso framework for coherent risk management. This defines the company's willingness to accept risk and the principles for managing risk and capital, which build on the Basel II regulations.

The company's performance target is to achieve a competitive return on equity. Its risk management will contribute to the attainment of this target both through the exploitation of business opportunities and by limiting the risk of possible negative results. Strategies, routines and instructions have been developed in connection with risk reviews to ensure that the company handles various risk factors in a satisfactory manner. Periodic checks are conducted to ensure that risk management routines are complied with and function as intended. The company is primarily exposed to the following risks: strategic and business, credit and counterparty, market, liquidity and refinancing, and operational – including compliance.

Strategic and business risk

Strategic and business risk is the risk of weakened profitability because of changes in external conditions, such as the market position or government regulations. It comprises rating, reputational and owner risk. The fact that the banks which transfer mortgages are also the company's shareholders reduces its strategic risk. Risk is further reduced because the costs of the company's distribution system depend directly on the size and quality of the portfolio. Agreements with non-shareholder banks will moderately increase the strategic risk. Rating risk relates to the financing and rating risk which the company is exposed to. In addition to the company's own reputation, reputational risk is linked to a considerable extent to Eika as a brand.

Credit and counterparty risk

Eika Boligkreditt is exposed to credit risk from granting credit to its customers. This risk relates primarily to the mortgages included in the company's cover pool. The granting of credit is managed through strategies for asset liability management, credit risk on loans and the credit manual, and through compliance with the administrative approval procedures and a well-developed set of rules for procedures and documentation which help to ensure adequate consideration. Portfolio risk is continuously monitored in order to expose possible defaults and to ensure rapid and adequate treatment of non-performing mortgages and advances. The risk of loss is further reduced through guarantees from the owner banks which establish new or transfer existing mortgages. The company had no losses on lending or guarantees in 2017. It maintains a conservative credit policy and expects no changes in future credit risk.

The company also has credit risk associated with the management of surplus liquidity, including bank deposits and the investment of surplus liquidity in interest-bearing instruments. In addition, the company has counterparty risk in established derivative contracts with other financial undertakings. Extensive frameworks have been established for managing counterparty risk, related both to capital management and derivatives. A credit support annex has also been established in association with ISDA agreements with all derivative counterparties, which limits Eika Boligkreditt's counterparty risk in that the counterparty unilaterally provides cash collateral in accordance with limits defined in relation to the counterparty's rating risk.

Market risk

The market risk included in the company's risk limits consists of interest-rate and credit risk related to securities. Eika Boligkreditt is exposed to interest-rate risk both through financial investments in interest-bearing securities and in relation to net interest income. Risk associated with net interest income arises from differences between interest terms for borrowing and lending as well as from the company borrowing in different markets than those it lends to, so that the borrowing interest rate may change without the company being able to adjust the lending rate equally quickly. This risk is reduced by coordinating the interest terms for borrowing and lending. The company is also exposed to credit risk on its investment of surplus liquidity. Through strategies for asset liability management and capital management, exposure limits have been established for maximum and average duration in the balance sheet, maximum tenor on investments and maximum credit risk as part of the management of surplus liquidity.

Currency risk

The company is exposed to currency risk through its borrowings in foreign currencies. This risk is minimised through the use of financial derivatives in line with the company's asset liability management strategy.

Operational risk

This type of risk and source of loss relates to day-to-day operation, including failures in systems and routines, lack of competence or mistakes by suppliers, staff and so forth. Operational risk includes compliance, legal and default risk. The company has developed strategies for operational and IT risks, descriptions of routines, formal approval procedures and so forth. Together with a clear and well-defined division of responsibility, these measures are designed to reduce operational risk. Relevant contingency plans for dealing with emergencies have also been put in place.

Liquidity and refinancing risk

A liquidity risk, including a refinancing risk, is associated with the company's business. This is the risk that the company will not be able to meet its liabilities when they fall due without incurring heavy costs in the form of expensive refinancing or facing the need to realise assets prematurely. Eika Boligkreditt has substantial external funding and expects continued growth in its mortgage portfolio. In order to keep liquidity risk at an acceptably low level, the company's financing strategy emphasises a good spread of financial instruments, markets and maturities for its borrowings and for investments made in managing surplus liquidity. As described above in the section covering agreements on liquidity and capital support, the company has an agreement with the owner banks on the purchase of covered bonds which reduces the liquidity and refinancing risk.

Internal control for financial reporting

Eika Boligkreditt has established frameworks for risk management and internal control related to its financial reporting process. These are considered by the board on an annual basis or as and when required. The purpose of risk management and internal control is to reduce risk to an acceptable level. The company is organised with a chief accounting officer responsible for the company's accounting function. In addition, the company purchases accounting services such as accountancy and financial reporting from Eika Gruppen

AS. The company's accounting department is responsible for seeing to it that all financial reporting complies with applicable legislation, accounting standards and board guidelines. Furthermore, the department has established routines to ensure that financial reporting meets acceptable quality standards. All transactions are registered in the front office system and detailed reconciliation checks are conducted on a daily and monthly basis. These measures help to ensure that the company's reporting is accurate, valid and complete. Control measures such as reasonableness and probability tests have also been established.

Election and replacement of directors

Candidates for directorships are proposed by the company's nomination committee. This body is enshrined in the articles of association, and the general meeting has established guidelines for it. Fees for members of the nomination committee are determined by the general meeting. Pursuant to the company's articles, the composition of the nomination committee must represent the interests of the shareholders. It has not been the tradition to appoint members to the nomination committee from the company's board or executive management. The nomination committee recommends candidates to sit on the board and the nomination committee, as well as fees for the members of these bodies. The committee has traditionally explained its recommendations orally at the general meeting. The nomination committee consults the chair, the CEO and the Alliance Council (the chairs of the five regional alliance networks) during the process, so that the regional structure functions as a channel for proposals to the committee without preventing shareholders contacting the committee directly should they so desire.

Corporate social responsibility at Eika Boligkreditt

Eika Boligkreditt's clear intentions is to be a positive contributor to society in general and to the many local communities where its owner banks are located in particular. The company's strategy makes it clear that Eika Boligkreditt's vision is to strengthen the local banks.

Strengthening local communities

Eika Boligkreditt is strongly entrenched in the respective local communities through its owner banks. Many of these have histories which reach back to the 19th century, and have been and remain an important contributor to the self-government, self-financing and development of their local communities. Their primary attention is directed at private customers, combined with local small-scale industries and the primary sector, and loans have been financed almost entirely through deposits.

Ever since the owner banks were established, they have made donations to philanthropic causes in their local communities, including culture, sports, clubs and societies. Increased market shares and high levels of customer satisfaction and loyalty confirm the important position and significance of the owner banks in their local communities.

Despite enormous social and structural changes since the first of the owner banks were established, it is not difficult to recognise the profile and role of these institutions today. As a result of such factors as the sharp increase in house prices over the past 20 years, the owner banks have become more dependent on external financing. For many of them, the growth in their lending and their overall loan portfolios have exceeded their total deposits. The establishment of Eika Boligkreditt is a direct consequence of this development.

Through long-term and competitive funding, Eika Boligkreditt enhances the competitiveness of its owner banks and helps to reduce their risk exposure. That makes it indirectly an important contributor to strengthening a great many local communities in Norway. Profits made by Eika Boligkreditt are also returned directly to these communities in the form of commission payments and dividends to the owner banks.

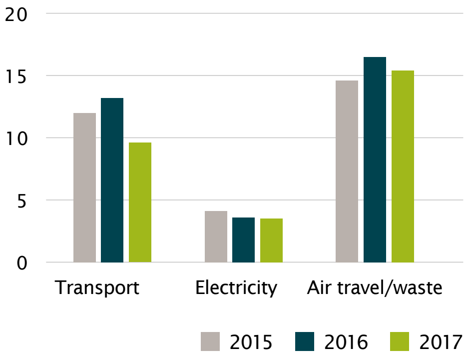
Professional and ethical perspective

Eika Boligkreditt has a clear goal of acting in a predictable manner and maintaining a high level of transparency in relation to processes and changes taking place within the applicable framework. This is achieved in part by good and clear communication and by a concentration on the needs and risk exposure of the owner banks. A high level of accessibility and a good correspondence between promises and deliveries are other crucial factors. The company works actively to maintain a high score in the annual alliance survey, which measures the satisfaction of the owner banks with the quality of its products and services. Action is given priority when areas for improvement are identified. Eika Boligkreditt's goal for overall satisfaction by the owner banks is high, at 70 points or better. It scored 81 points in the most recent survey, which was in the autumn of 2017. Eika Boligkreditt works actively to maintain a good internal working environment, and to ensure that employee rights are well maintained in accordance with Norwegian law. This is done in part through extensive efforts and information flow across departments where appropriate. An annual employee satisfaction survey is also conducted, where scores have been very high (83 per cent) and results are reviewed and evaluated with a view to further improvements. All financial institutions are required to comply with the provisions of the money laundering regulations, which are intended to prevent and expose transactions associated with the proceeds of crime or terrorist activities. Eika Boligkreditt's collaboration agreement with the owner banks contains provisions which ensure that identity checks are conducted when establishing mortgages or transferring them to the company. In addition, it has good routines for on-going checks of the mortgage portfolio aimed at exposing possible suspicious transactions pursuant to the money laundering rules. Eika Boligkreditt has established electronic monitoring of its mortgage portfolio, which regularly identifies suspicious transactions and then follows them up – initially with the bank concerned and subsequently by reporting if necessary to the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim). The company reported no cases to Økokrim in 2017. Human rights are not considered a particularly relevant issue for the company's own business but are incorporated in Eika Gruppen's procurement routines, which are transferrable to Eika Boligkreditt in most contexts. When selecting suppliers, Eika Gruppen has routines for choosing reputable companies with solid references and their own ethical guidelines. Eika Boligkreditt places its surplus liquidity in securities issued by the Norwegian government, county councils and local authorities, credit institutions and banks, and on

ANNUAL GREENHOUSE GAS EMISSIONS

Tonnes of carbon equivalent

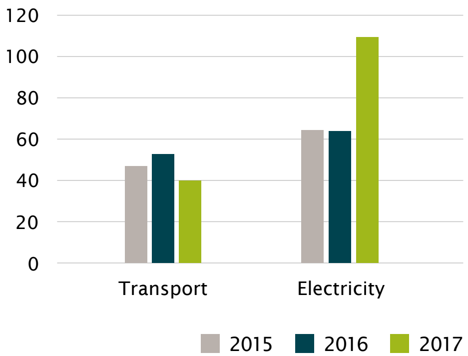
	2017	2016	2015
Transport	**9.6**	13.2	12.0
Electricity	**3.5**	3.6	4.1
Air travel/waste	**15.4**	16.5	14.6
Total	**28.5**	33.3	30.7



ANNUAL ENERGY CONSUMPTION

MWh

	2017	2016	2015
Transport	**39.9**	52.6	46.9
Electricity	**109.4**	63.8	64.3
Total	**149.3**	116.3	111.1



deposit with banks which have an international rating of A-/A3 or better. These are all enterprises with a core business which, in the company's view, does not breach generally accepted principles for unethical behaviour or activity (such as breaches of human rights, corruption, serious harm to the climate or the environment, or the manufacture of landmines, cluster bombs, nuclear weapons or tobacco products).

Natural environment, working environment and equal opportunities

Eika Boligkreditt had 20 permanent employees at 31 December. It also has an agreement with Eika Gruppen concerning the purchase of services in a number of areas. Customers of the company are mainly serviced by the owner banks. The working environment is regarded as good, and there were no injuries or accidents involving employees at work in 2017. Overall sickness absence was 2.2 per cent of total working hours. The goal of Eika Boligkreditt is to be a workplace where full equality prevails between men and women. Its policy incorporates regulations related to equal opportunities, which aim to ensure that no gender-based discrimination occurs in such areas as pay, promotion or recruitment. Women made up 25 per cent of the workforce at 31 December and, all other conditions being equal, increasing this proportion when making new appointments will be desirable. The business in which Eika Boligkreditt is engaged causes no significant pollution, emissions or discharges which could harm the natural environment.

Environment- and climate-friendly operation

Eika Boligkreditt wants to have the smallest possible impact on the natural environment. It entered into an agreement in 2013 with CO_2focus, which has prepared a dedicated energy and climate accounting (environmental report) for the business.

Eika Gruppen, the company's landlord, has energy- and heat-saving installations which help to limit energy consumption. Hydropower has also been selected as the sole energy source, which has led to the company receiving a "Pure Hydropower" certificate. This certification helps to increase the commitment to environment-friendly energy. All premises also have round-the-clock energy-saving regulation of both temperature and light sources.

The owner banks are widely spread around Norway, which has helped to encourage Eika Boligkreditt to utilise video and web conferencing to a great and growing extent for training and information flow. That not only protects the environment but also reduces unnecessary travel time and stress in a busy life for everyone concerned.

Eika Boligkreditt has a conscious approach to the use of paper and electronic templates and documents, in addition to postage costs. It has a clear goal of reducing paper consumption to a necessary minimum. The company commissioned an overview of its greenhouse gas emissions and energy consumption in 2015, 2016 and 2017. This analysis is based on direct and indirect energy consumption related to its activities.

The climate footprint provides a general overview of the company's greenhouse gas emissions converted to tonnes of carbon dioxide equivalent, and is based on information from both internal and external systems. This analysis has been conducted in accordance with the Greenhouse Gas (GHG) Protocol Initiative. Developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), this ranks today as the most important international standard for measuring greenhouse gas emissions from an enterprise. The GHG Protocol divides emissions into three main scopes, covering both direct and indirect sources, and takes the following greenhouse gases into account: carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, hydrofluorocarbons and perfluorocarbons.

Comments on the annual financial statements

The financial statements for 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The board is of the opinion that the financial statements, including the balance sheet, give a true and fair view of the operations and financial position of the company at 31 December. The directors' report also gives a true and fair view of the development and results of operations and of the company's financial position. Interest income totalled NOK 2 049 million, interest charges NOK 1 366 million, net interest income NOK 683 million, and net interest charges after commission costs NOK 273 million in 2017. No losses were incurred in 2017 on loans or guarantees. The financial statements for 2017 show a net profit of NOK 59 831 000, compared with NOK 38 926 000 for 2016.

Going concern

Pursuant to section 3-3 of the Norwegian Accounting Act, the board confirms that the financial statements for the year have been compiled on the assumption that the company is a going concern. No significant events have occurred since the balance sheet date which are expected to affect the company's business.

Balance sheet, liquidity and capital adequacy ratio

The book value of equity was NOK 4 770 million at 31 December 2017. Eika Boligkreditt had a capital adequacy ratio of 16.9 per cent at that date. The capital adequacy ratio is calculated in accordance with the standardised method specified by Basel II.

Allocation of net profit

Net profit for 2017 is NOK 59 831 000. In its assessment of the proposed dividend for 2017, the board has given emphasis to conducting a consistent dividend policy over time. At 31 December 2017, the company had net unrealised losses related to the fair value hedging of issued securities. No transfer to the fund for unrealised gains has therefore been recognised for 2017. The board has proposed the payment of NOK 41 282 000 as dividend to the owner banks for 2017, after taking account of tax effects of NOK 6 183 000 on interest from tier 1 perpetual bonds. Moreover, NOK 24 732 000 of the total profit is allocated to the investors in tier 1 perpetual bonds.

These payments are furthermore considered to leave Eika Boligkreditt with an acceptable equity and liquidity. The dividend is also justified by the contractual capitalisation commitments which apply to the owner banks, and which are outlined in the section above concerning agreements on liquidity and capital support.

Outlook

The company's financing of the owner banks increased by NOK 5.8 billion in 2017, corresponding to a growth of 8.1 per cent in financing over the previous 12 months. Statistics Norway's credit indicator for December 2017 showed a 12-monthly increase of 6.5 per cent in Norwegian household debt. At 30 September 2017, lending by the owner banks, including Eika Boligkreditt, had risen by 7.7 per cent over the previous 12 months. By growing their lending faster than the market, the local banks are increasing their market share. The overall financing of the owner banks by the company in 2018 is expected to rise in line with the growth in lending by the owner banks.

The lending survey from the Bank of Norway for the fourth quarter of 2017 showed no change in household demand for borrowing, nor were there any changes in credit practice or loan conditions. During the first quarter of 2018, the banks expect slightly weaker household demand for borrowing and no changes in credit practice or loan conditions. It thereby appears that the more restrictive credit practice adopted by the banks towards households in the first three quarters of 2017 is a thing of the past. Expectations of somewhat lower borrowing demand in the time to come must be viewed in relation to prospect for a weak trend in house prices during 2018.

Norwegian house prices fell by 1.1 per cent in 2017 for the country as a whole. Oslo experienced the sharpest decline, at 10.6 per cent on average. The big regional differences in house price developments seen over the past couple of years have now been significantly reduced. The annual pace of house price change slowed considerably during 2017, and prices are falling on an annual basis in all the large cities. However, examples of price growth can be seen in the areas around the latter. Uncertainty about housing market trends is now greater than for a long time. The about-turn must be viewed in relation to changes in mortgage regulations, the record level of housebuilding in recent years and reduced labour immigration. Although many observers expect house prices to make weak progress over the coming year, no major corrections are expected. The consensus is that the trend will be flat or weakly declining. If this proves correct, the Norwegian housing market will have achieved a soft landing after many years of sharply rising house prices.

Preliminary seasonally adjusted figures from the quarterly national accounts reveal a clear upturn in the economy during 2017, with growth exceeding the trend rate (Statistics Norway estimates the latter as just under two per cent on an annual basis). Very expansive finance and monetary policies, a weak krone and strong growth in housebuilding have moderated the downturn and contributed to the cyclical about-turn. In addition, impulses from petroleum investment have switch from being strongly negative in 2014–16 to marginally negative in 2017. This positive trend is expected to continue in 2018.

The bond market was characterised in 2017 by good liquidity and contraction in credit margins. The credit margin (measured as an interest-rate premium on three-month Nibor) paid by the company when issuing covered bonds in Norwegian kroner with a five-year tenor fell by 19 basis points to 35 during the year. Following a substantial contraction in credit margins during 2017, it is uncertain whether this development will continue in 2018. Through its bond purchase programme, the European Central Bank (ECB) has been an active buyer of covered bonds from eurozone issuers in recent years. With effect from 1 January 2018, the ECB has reduced its bond purchase programme from EUR 60 billion to EUR 30 billion per month. Nevertheless, it is likely to remain an active investor in 2018, both because of continued growth in the portfolio and to cover ongoing maturation.

Norway's robust macroeconomic position is expected to mean good demand for covered bonds from Norwegian issuers in 2018. Liquidity in Norwegian and international financial markets is good, and Eika Boligkreditt expects to be an active issuer in both during the time to come.

Oslo, 15 March 2018
The board of directors for Eika Boligkreditt AS

Tor Egil Lie	Jon Guste-Pedersen	Olav Sem Austmo	Terje Svendsen	Kjartan M Bremnes
Acting chair				*CEO*

Declaration pursuant to section 5-5 of the Norwegian Securities Trading Act

We hereby confirm that the company's financial statements for the period from 1 January to 31 December 2017 have been prepared to the best of our knowledge in accordance with prevailing accounting standards, and that the information provided in the financial statements gives a true and fair view of the company's assets, liabilities, financial position and performance as a whole.

To the best of our knowledge, the annual report provides a true and fair view of important events during the accounting period and their influence on the financial statements, plus a description of the most important risk factors and uncertainties facing the company during the next accounting period.

Oslo, 15 March 2018
The board of directors for Eika Boligkreditt AS

Tor Egil Lie *Acting chair*	Jon Guste-Pedersen	Olav Sem Austmo	Terje Svendsen	Kjartan M Bremnes *CEO*

Statement of comprehensive income

Amounts in NOK 1 000	Notes	2017	2016
INTEREST INCOME			
Interest from loans to customers		**1 884 450**	1 708 294
Interest from loans and receivables on credit institutions		**32 163**	33 192
Interest from bonds, certificates and financial derivatives		**103 950**	97 485
Other interest income		**28 727**	22 369
Total interest income		**2 049 291**	1 861 340
INTEREST EXPENSES			
Interest on debt securities issued		**1 342 770**	1 354 496
Interest on subordinated loan capital		**20 395**	19 780
Other interest expenses		**2 636**	5 099
Total interest expenses		**1 365 801**	1 379 375
Net interest income		**683 490**	481 965
Commission costs	23	**410 449**	299 523
Net interest income after commissions costs		**273 040**	182 442
Dividend from shares classified as available for sale	11	**6 006**	5 652
NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE			
Net gains and losses on bonds and certificates	11	**15 972**	32 245
Net gains and losses of fair value hedging on debt securities issued	8, 11	**(172 309)**	(112 420)
Net gains and losses on financial derivatives	11	**3 749**	40 704
Net gains and losses on loans at fair value	11	**17 276**	(42 292)
Total gains and losses on financial instruments at fair value		**(135 312)**	(81 763)
SALARIES AND GENERAL ADMINISTRATIVE EXPENSES			
Salaries, fees and other personnel expenses	17, 18	**29 296**	22 594
Administrative expenses	24	**18 267**	17 100
Total salaries and administrative expenses		**47 563**	39 694
Depreciation	13	**1 900**	1 747
Other operating expenses	24	**16 422**	14 594
Losses on loans and guarantees	4	**-**	-
PROFIT BEFORE TAXES		**77 851**	50 296
Taxes	20	**18 019**	11 370
PROFIT FOR THE PERIOD		**59 831**	38 926
Other comprehensive income		**-**	-
COMPREHENSIVE INCOME FOR THE PERIOD		**59 831**	38 926

Of the total comprehensive income for the period above, NOK 35 099 thousand is attributable to the shareholders of the company and NOK 24 732 thousand to the hybrid capital investors.

Balance sheet

Assets

Amounts in NOK 1 000	Notes	31 Dec 2017	31 Dec 2016
ASSETS			
Lending to and receivables from credit institutions	4, 10, 12	**1 735 677**	2 215 466
Lending to customers	4, 9, 10, 12, 16	**77 285 950**	71 509 279
Other financial assets	4, 10, 21	**357 761**	786 862
Securities			
Bonds and certificates at fair value through profit or loss	4, 9	**12 712 300**	13 671 888
Financial derivatives	4, 8, 9	**7 452 520**	7 788 473
Shares classified as available for sale	9, 10, 14	**32 200**	29 700
Total securities		**20 197 020**	21 490 061
Intangible assets			
Deferred tax assets	20	**20 578**	11 913
Other intangible assets	13	**5 989**	3 448
Total intangible assets		**26 567**	15 361
TOTAL ASSETS		**99 602 975**	96 017 030

Balance sheet

Liabilities and equity

Amounts in NOK 1 000	Notes	31 Dec 2017	31 Dec 2016
LIABILITIES AND EQUITY			
Loans from credit institutions	4, 5	**3 791 533**	3 394 213
Financial derivatives	5, 8, 9, 10	**76 779**	289 988
Debt securities issued	5, 6, 10, 12, 15	**90 030 259**	86 982 995
Other liabilities	4, 10, 22	**332 106**	352 430
Pension liabilities	19	**3 005**	2 259
Subordinated loan capital	5, 10, 12, 15	**599 646**	599 426
TOTAL LIABILITIES		**94 833 328**	91 621 311
Called-up and fully paid capital			
Share capital	25	**1 003 932**	926 479
Share premium		**2 681 451**	2 433 904
Other paid-in equity		**477 728**	477 728
Total called-up and fully paid capital	25, 26	**4 163 111**	3 838 111
Retained earnings			
Fund for unrealised gains		**14 700**	14 700
Other equity		**42 297**	93 672
Total retained equity	26	**56 997**	108 372
Hybrid capital			
Tier 1 capital		**549 540**	449 236
Total hybrid capital	26	**549 540**	449 236
TOTAL EQUITY		**4 769 647**	4 395 719
TOTAL LIABILITIES AND EQUITY		**99 602 975**	96 017 030

Oslo, 15 March 2018
The board of directors for Eika Boligkreditt AS

Tor Egil Lie	Jon Guste-Pedersen	Olav Sem Austmo	Terje Svendsen	Kjartan M Bremnes
Acting chair				*CEO*

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 1 January 2015	**713 455**	**1 746 928**	**477 728**	**-**	**85 618**	**-**	**3 023 729**
Result for the period	-	-	-	85 773	168 806	24 462	**279 041**
Equity issue	143 218	456 782	-	-	-	-	**600 000**
Tier 1 capital classified as equity	-	-	-	-	-	448 775	**448 775**
Accrued unpaid interest tier1 capital	-	-	-	-	-	(24 462)	**(24 462)**
Dividends for 2013	-	-	-	-	(84 616)	-	**(84 616)**
Balance sheet as at 31 December 2015	**856 673**	**2 203 709**	**477 728**	**85 773**	**169 808**	**448 775**	**4 242 467**
Result for the period	-	-	-	(71 073)	86 884	23 115	**38 926**
Equity issue	69 806	230 194	-	-	-	-	300 000
Accrued unpaid interest tier1 capital	-	-	-	-	-	(22 654)	(22 654)
Taxes on interest tier 1 capital	-	-	-	-	5 779	-	5 779
Dividends for 2015	-	-	-	-	(168 799)	-	(168 799)
Balance sheet as at 31 December 2016	**926 479**	**2 433 904**	**477 728**	**14 700**	**93 672**	**449 236**	**4 395 719**
Result for the period	-	-	-		35 099	24 731	59 830
Equity issue	77 453	247 547	-	-	-	-	325 000
Accrued unpaid interest tier1 capital	-	-	-	-	-	(24 252)	(24 252)
Hubrid capital						99 825	99 825
Taxes on interest tier 1 capital	-	-	-	-	6 183		6 183
Dividends for 2015	-	-	-	-	(92 658)	-	(92 658)
Balance sheet as at 31 December 2017	**1 003 932**	**2 681 450**	**477 728**	**14 700**	**42 297**	**549 540**	**4 769 647**

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. 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
- NOK 100 million of tier 1 perpetual bonds, issued 2017, with interest terms of three months Nibor plus 3.25 per cent. The loan provides for a call at 16 June 2022, and quarterly thereafter on each date interest payment falls due

Eika Boligkreditt has the right to pay no interest to the tier 1 investors. Interest is not recognised as interest expense in the profit and loss account, but as a reduction to equity.

Statement of cash flow

Amounts in NOK 1 000	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the period	**59 831**	38 926
Taxes	**18 019**	11 370
Income taxes paid	**(57 541)**	(9 466)
Ordinary depreciation	**1 900**	1 747
Non-cash pension costs	**746**	(3 796)
Change in lending to customers	**(5 776 671)**	(6 981 874)
Change in bonds and certificates	**959 588**	(2 118 381)
Change in financial derivatives and debt securities issued	**419 391**	(124 494)
Interest expenses	**1 365 801**	1 379 374
Paid interest	**(1 405 130)**	(1 347 826)
interest income	**(2 020 563)**	1 838 971
received interests	**2 042 140**	(1 831 853)
Changes in other financial assets	**407 524**	(671 911)
Changes in short-term liabilities and accruals	**(157 163)**	211 777
Net cash flow relating to operating activities	**(4 142 128)**	(9 607 436)
INVESTING ACTIVITIES		
Payments related to acquisition of fixed assets	**(4 440)**	(1 505)
Net cash flow relating to investing activities	**(4 440)**	(1 505)
FINANCING ACTIVITIES		
Gross receipts from issuance of bonds and commercial paper	**18 706 482**	16 149 754
Gross payments of bonds and commercial paper	**(15 745 156)**	(6 397 120)
Gross receipts on issue of subordinated loan capital	**220**	149 908
Gross payments of subordinated loan capital	**-**	-
Gross receipts from issue of loan from credit institution	**397 320**	-
Gross payments from loan from credit institution	**-**	(1 572 811)
Gross receipts from issuing tier 1 perpetual bonds	**100 000**	-
Interest to the hybrid capital investors	**(24 428)**	(22 655)
Payments of dividend	**(92 658)**	(168 799)
Paid-up new share capital	**325 000**	300 000
Net cash flow from financing activities	**3 666 780**	8 438 277
Net changes in lending to and receivables from credit institutions	**(479 788)**	(1 170 664)
Lending to and receivables from credit institutions at 1 January	**2 215 466**	3 386 131
Lending to and receivables from credit institutions at end of period	**1 735 677**	2 215 466

Notes to the accounts

NOTE 1: ACCOUNTING POLICIES

General

Eika Boligkreditt AS (EBK) is licensed as a credit institution and entitled to issue covered bonds (CB). The company was established on 24 March 2003, and commenced its lending operations on 15 February 2005. The company exclusively offers residential mortgages up to 60 per cent of the collateral value (loan to value) at origination, and the loans are distributed via the local banks (the owner banks).

Residential mortgages also include mortgages for holiday homes. The company's main purpose is to ensure access for the owner banks in the Eika Alliance to long-term and competitive funding by issuing covered bonds, while reducing the future refinancing risks for the company's owner banks.

Eika Boligkreditt has prepared the accounts for 2017 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 historical 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 fair value hedges, which have been recorded at fair value. Financial statements are prepared on the assumption that the entity is a going concern. The financial statements were approved by the board of directors and authorised for issue on 15 March 2018.

New and revised IFRSs in issue

IFRS 9 Financial instruments

IFRS 9 comes into effect for accounting years which start on 1 January 2018 or later. Earlier adoption is permitted, providing all completed projects are implemented simultaneously. The standard received EU approval on 22 November 2016. EBK expects implementation of the standard to give rise to reclassification effects in the statement of comprehensive income and in equity. The expected effects are described in more detail below.

Impairment of financial assets

The new accounting standard introduces a new model for impairment of financial assets. The combination of the mortgage portfolio's loan-to-value ratio and the credit guarantees provided by the owner banks mean that implementing the standard will have no significant effects for EBK's profit or equity. See note 4.2.2 for further information.

Hedge accounting

IFRS 9 makes it possible to separate the gain and loss on the basis swap on foreign currency from a financial instrument and exclude this from earmarking of the financial instrument as a hedging instrument. EBK will utilise this opportunity when implementing IFRS 9 with effect from 1 January 2018. That means changes in fair value which relate to the basis margin will be included in other comprehensive income rather than in the item on "net gains and losses of fair value hedging on debt securities issued" and will be accumulated in a separate component of equity. As a result, a negative NOK 164.1 million will be reclassified from "net gains and losses of fair value hedging on debt securities issued" to "net gain and losses on basis swap" under other comprehensive income for 2017. The corresponding amounts for the first, second, third and fourth quarters of 2017 are a negative NOK 72.2 million, negative NOK 64.3 million, positive NOK 5.1 million and negative NOK 32.7 million respectively. The corresponding amounts at 30 June, 30 September and 31 December 2017 are all negative at NOK 136.5, 131.4 and 164.1 million respectively. These amounts will also be reclassified to a separate component of equity.

Classification of financial assets

Pursuant to IFRS 9, an enterprise must classify financial assets as measured at amortised cost, at fair value through profit or loss or at fair value through other comprehensive income. The classification is to be made on the basis of an assessment of both

a. the enterprise's enterprise model for administering financial assets
b. the characteristics of the financial asset's contractually regulated cash flow.

Pursuant to IAS 39, EBK has used the fair value option for bonds and certificates, which are accordingly recognised at fair value through profit and loss. EBK has assessed that the above-mentioned criteria in IFRS 9 mean that bonds and certificates will be classified at fair value through other comprehensive income when implementing the standard with effect from 1 January 2018. Implementing IFRS 9 does not affect recognition and measurement of the other financial assets or financial derivatives.

As a result of this, NOK 16 million will be reclassified from "net gains and losses on bonds and certificates" in the statement of comprehensive income to "net gains and losses on bonds" under other comprehensive income for 2017. The corresponding amounts for the first, second, third and fourth quarters of 2017 are a positive NOK 11.7, 5.7 and 0.6 million and a negative NOK 2 million respectively. The corresponding amounts at 30 June, 30 September and 31 December 2017 are positive at NOK 17.4, 18 and 16 million respectively.

IFRS 16

IFRS 16 on lease accounting must be implemented for accounting years which start on 1 January 2019. Earlier adoption is permitted , providing all completed projects are implemented simultaneously. The standard received EU approval on 31 October 2017. It requires that all leases are recognised in the balance sheet by recognising the beneficial use of an asset as an asset, while making provision for the lease obligation as a liability. EBK therefore does not expect the standard to have significant impact on profit.

Foreign currency

Functional and presentation currency

The financial statements of Eika Boligkreditt are presented in NOK, which is also the company's functional currency.

Foreign currency translation

In preparing the financial statements of the company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Revenue recognition

Interest income is recognised using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash receipts or expenses of the financial asset or liability through the expected life to that asset or liability's net carrying amount on initial recognition. When calculating the effective interest, the cash flows are estimated and all fees and remunerations paid or received between the parties of the contract are included as an integrated part of the effective interest rate. Dividends on investments are recognised from the date the dividends were approved at the general meeting.

Financial instruments

Classification

Financial assets and liabilities are classified into one of the following categories:

- financial asset and liability at fair value through profit or loss:
  - held for trading
  - designated at fair value through profit or loss
- loans and receivables
- available for sale
- Other financial liabilities

Financial asset and liability at fair value through profit or loss

Apart from derivatives, Eika Boligkreditt does not have financial assets and liabilities classified as held for trading.

A financial asset is designated through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the company is provided internally on that basis to the entity's key management personnel.

Fixed-rate loans to customers, bills and bonds are designated as at fair value through profit or loss.

The company does not classify any financial assets as held to maturity.

Loans and receivables

A financial asset is classified in the category loans and receivables if it is a non-derivative financial asset with payments that are fixed or determinable, and is not quoted in an active market, except if it is

- classified as held for trading,
- designated as at fair value through profit or loss, or
- designated as available for sale

For Eika Boligkreditt, this category includes lending to and receivables from credit institutions, floating rate lending to customers, interest revenues earned and other short-term claims.

Financial assets available for sale

A financial asset that is not a derivative and not classified as a loan and a receivable or as financial asset designated as at fair value through profit or loss, is classified as available for sale. Eika Boligkreditt has classified shares as available for sale.

Other financial liabilities

Financial liabilities are classified in the category other financial liabilities if the financial asset is a non-derivative financial liability and if it is not designated as at fair value through profit or loss. Eika Boligkreditt has classified loans from credit institutions, debt securities issued, subordinated loan capital, and other liabilities in this category.

Cash collateral

Agreements with counterparties regulating trades in OTC derivatives require collateral to be provided in certain cases. Eika Boligkreditt AS has been provided with such collateral in the form of cash in 2017. These cash sums are managed by Eika Boligkreditt AS 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.

Recognition and derecognition

Financial assets and liabilities are recognised when Eika Boligkreditt becomes party to the contractual provisions of the instrument. Normal purchase or sale of a financial instrument is recognised at the trade date.

When a financial asset or financial liability is recognised initially, it is measured at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial assets are derecognised when the contractual rights to the cash flows from the investments have expired or when Eika Boligkreditt has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Subsequent measurement of financial assets and liabilities

Fair value

Financial assets classified as at fair value through profit or loss and financial assets classified as available for sale are measured at fair value on the balance-sheet date. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

The fair value of bills and bonds traded in active markets is based on the current quoted bid price. For bills, bonds, shares and derivatives that are not traded in an active market, the fair value is determined by using valuation techniques. Valuation techniques include the use of comparable recent arm's length transactions between knowledgeable and willing parties, if available, reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis. If there is a valuation method that is commonly used by market participants to price the instrument and this method has proven to provide reliable estimates of prices obtained in actual market transactions, this method is used.

Amortised cost

Subsequent to initial recognition, financial instruments classified as loans and receivables or financial liabilities are measured at amortised cost using the effective interest method. The effective interest method is described under the "Revenue recognition" section.

Cash and cash equivalents

Cash and cash equivalents include lending to and receivables from credit institutions.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet if Eika Boligkreditt

- has a legally enforceable right to offset the recognised amounts, and
- intends to settle on a net basis or to realise the asset and settle the liability simultaneously

Eika Boligkreditt does not have financial assets and liabilities that are offset.

Impairment of financial assets

Financial assets measured at amortised cost or classified as available for sale are assessed at each balance sheet date to determine whether any objective evidence exists that the financial asset or group of financial assets are impaired. If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in statement of comprehensive income.

When a decline in the fair value of an available for-sale financial asset has been recognised in other comprehensive income and objective evidence exists that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income will be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

By the end of 2017, there is no objective evidence that impairment loss on financial assets carried at amortised cost has incurred.

Hedge accounting

Eika Boligkreditt AS use fair value hedging of fixed-rate financial liabilities, where the hedged item is the interest rate and the financial liability, excluding credit spreads. Gain or loss on the hedged item attributable to the hedged risk will adjust the carrying amount of the hedged item and be recognised in profit or loss. Gain or loss on the hedged item is presented under "Net gains and losses of fair value hedging on debt securities issued".

Intangible assets

Intangible assets consist of purchased software and are carried at cost less accumulated amortisation or impairment losses. Depreciation in the accounts is classified as ordinary depreciation under a depreciation schedule with a useful economic life on 5 years.

Commission costs

The owner banks are paid commissions for arranging and managing mortgages. Commissions are expensed on a current basis and presented in the line "commission costs" in the statement of comprehensive income. Accrued, unpaid costs to the owner banks at year-end are accrued and recognised as liabilities in the balance sheet.

Segment

The loans are made to private individuals and housing cooperatives. The company's business therefore consists solely of one segment.

Pensions

Defined contribution plans

Defined contribution plans are accounted for in accordance with the matching principle. Contributions to the pension plan are recorded as expenses.

AFP – early retirement pension

The AFP is an early retirement pension plan for the private sector enshrined in collective pay agreements. To benefit from the scheme, an employee must have been employed in a company affiliated to the AFP for seven of the nine years before they reach the age of 62. Premiums are calculated as a fixed percentage of annual pay between one and 7.1 times the National Insurance base rate (G). No premiums are paid for employees after the year they reach the age of 61. All employees in the company are members of the scheme. The premium paid is expensed.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax, and is recognised in the statement of comprehensive income.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTE 2: USE OF ESTIMATES AND DISCRETION

In the application of the accounting policies described in note 1, management is required to make judgements, 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 that are 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 local banks and OBOS-banken (the distributors) 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 2017. For more information about lending, see note 4.

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, 8, 9, 10 and 11.

NOTE 3: FINANCIAL RISK

Eika Boligkreditt has established a framework for risk management and control in the company to define risk willingness and principles for managing risk and capital. This framework is based on the Basel II regulations. The company is obliged to review its risk pursuant to the regulations relating to capital requirement and the internal control regulations.

The company's key strategy is, through the issuance of covered bonds in the Norwegian and the international markets, to resolve a substantial part of the local banks' funding requirements and to reduce their refinancing risk. The company's risk management is intended to help attain this objective through tailored growth, good international ratin, profitability and cost-efficiency, prudent risk and quality at every level.

Routines and instructions have been established with the aim of ensuring that the company handles the various risk factors in a satisfactory manner. The company's cooperation with the local banks contributes significantly to the management of risk through its customer selection processes. The owner banks operate in their local environment and are therefore close to their customers. The company is exposed to the following risks: credit and counterparty, market (including interest rate and currency), liquidity and operational risk, in addition to the company's overarching business risk, which entails strategic and reputational risk.

The company has implemented risk strategies based on the company's risk management of the balance sheet composition. The strategy for managing assets and liabilities forms the basis for ensuring that collateral for outstanding covered bonds is in compliance with regulatory requirements. Total risk limits have been established for managing the credit risk linked to lending, risk related to capital management, liquidity risk related to borrowing, and operational risk.

For additional description of risk, see notes 4, 5 and 6.

NOTE 4: CREDIT RISK

Credit risk is the risk of loss posed by customers or counterparties failing to meet their payment obligations. Credit risk affects all claims on customers/counterparties, lending, and counterparty risk that arises through derivatives and foreign exchange contracts. The credit risk related to lending must be low, and the same applies to counterparty risk. Credit risk is managed through the company's strategy for credit risk on lending. A credit manual and other routines have been prepared and implemented, including preparation of documentation requirements and clarification of the ability of customers who have been granted loans to service their loan, and requirements for collateral for residential mortgage loans of up to 60 percent of the value of the property at origination. Established requirements to be satisfied by customers and mortgaged objects are considered to entail low risk. In addition, the owner banks have ceded a case guarantee and loss guarantee. This contributes to reducing Eika Boligkreditt's credit risk. See note 4.2 related to lending to customers.

The company is also exposed to credit risk through its investments in bonds and certificates, bank deposits and counterparties to derivative contracts.

When investing in bonds and certificates, the company is subject to laws and regulations related to the types of investments that may be included in the company's cover pool as substitute assets. The company has also established counterparty limits to reduce counterparty risk related to the issuers to which the company desires to be exposed. The counterparty risk related to all counterparties in derivative contracts is reduced through the Credit Support Annex to the Schedule to the ISDA Master Agreement. Eika Boligkreditt manages counterparty risk through its investment strategy.

Note 4.1 Maximum exposure to credit risk

Amounts in NOK 1 000	31 Dec 2017	31 Dec 2016
Financial assets recognised in balance sheet		
Lending to and receivables on credit institutions[1]	1 735 677	2 215 466
Lending to customers	77 285 950	71 509 279
Others financial assets	357 761	786 862
Bonds and certificates at fair value through profit or loss	12 712 300	13 671 888
Financial derivatives	7 452 520	7 788 473
Total credit risk exposure	**99 544 208**	95 971 968
Off-balance sheet financial assets		
Overdraft facility	50 000	50 000
Note Purchase Agreement[2]	-	-
Granted, but undisbursed loans	579 454	1 011 146

[1] Restricted funds for tax withholdings were NOK 1 179 thousand in 2017 and NOK 934 thousand in 2016. Restricted funds for pension liabilities were NOK 2 527 thousand in 2017 and NOK 1 983 thousand in 2016.
[2] The owner banks have accepted a liquidity obligation (Note Purchase Agreement) towards Eika BoligKreditt, see note 15 for more information. The amount per 31 December 2017 in the table above is NOK 0,- as the company's own liquidity is deducted at the time of measurement.

Note 4.2 Lending to customers

Amounts in NOK 1 000	31 Dec 2017	31 Dec 2016
Installment loans - retail market	69 819 610	62 698 470
Installment loans - housing cooperatives	7 447 505	8 807 004
Adjustment fair value lending to customers[1]	18 835	3 805
Total lending before specific and general provisions for losses	**77 285 950**	71 509 279
Individual impairments	-	-
Unspecified group impairments	-	-
Total lending to and receivables from customers	**77 285 950**	71 509 279

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 2017.

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

31 December 2017

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	73 638 073	73 638 073
Fixed rate loans	3 629 042	3 647 877
Toal lending	**77 267 115**	**77 285 950**

31 December 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**

Calculation of the fair value of loans to customers: 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 interest rate at the balance sheet date.

Guarantees and provision of cover

All lending involves residential mortgages with a loan-to-value ratio of up to 60 per cent at origination. Guarantees furnished by the company's distributors (banks) reduce the risk for Eika Boligkreditt. Upon transfer to Eika Boligkreditt, the distributors assume mandatory guarantees for the mortgages they have transferred.

The main features of these guarantees are as follows.

a) Case guarantee

The bank which has transferred the loan to the cover pool guarantees the entire amount of the mortgage over the period from payment until the mortgage's collateral has been perfected (achieved legal protection). The case guarantee is limited to a maximum of the whole principal of the loan plus interest charges and costs.

b) Loss guarantee

The bank guarantees to cover every loss suffered by Eika Boligkreditt was a result of non-performing loans, subject to the restrictions specified below. "Loss" means the residual claim against the mortgagee related to the relevant mortgage after all associated collateral has been realised, and it is to be regarded as recognised at the point when all collateral associated with a non-performing loan has been realised and paid to Eika Boligkreditt. The bank's loss guarantee covers up to 80 per cent of the loss recognised on each loan. The total loss guarantee is limited to one per cent of the bank's overall mortgage portfolio in Eika Boligkreditt at any given time, but nevertheless such that the loss guarantee is (i) equal to the value of the mortgage portfolio for portfolios up to NOK 5 million and (ii) amounts to a minimum of NOK 5 million for mortgage portfolios which exceed NOK 5 million, calculated in all cases over the previous four quarters on a rolling basis.

This means that, if the distributor's total share of the recognised losses for each mortgage exceeds the above-mentioned limit, Eika Boligkreditt will cover the excess. As a result, the bank's share of the loss covered by the loss guarantee cannot exceed 80 per cent but, if the overall recognised loss exceeds the framework, the share of total will be lower than 80 per cent.

c) Right to offset against commission due to the bank

The bank's liability for the case and loss guarantees falls due for payment on demand, but Eika Boligkreditt can also choose to offset its claim against the distributor's future commissions and commissions due but not paid pursuant to the commission agreement. This offsetting right applies for a period of up to four quarters from the date when the loss was recognised.

d) Right to offset against commissions due to the bank and all authorised distributors

The bank is jointly liable with all other banks for offsetting losses on mortgages not covered by the loss guarantee – in other words, that part of the loss which exceeds the bank's share. This offsetting right is limited to the bank's pro rata share of the credit loss in Eika Boligkreditt over and above the amount covered by the loss guarantee, up to a maximum of four quarter's commission from the date the loss was recognised. The bank's pro rata share corresponds to the bank's proportionate share of the total residential mortgage portfolio in Eika Boligkreditt transferred by all the distributors at the date the loss was realised.

Defaults

Pursuant to section 10-1, paragraph one of the capital requirement regulations, an engagement is to be regarded as being in default if a claim has fallen due more than 90 days earlier and the amount is not insignificant. Doubtful loans are not necessarily in default, but the customer's financial position and the value of the collateral indicate a risk of loss.

The company had no non-performing loans where the outstanding instalment was more than 90 days overdue at 31 December 2017.

Should an instalment due on a mortgage be four weeks in arrears, Eika Boligkreditt has the right to request the bank in writing to take over the mortgage. Should the mortgage not be repaid or taken over by the bank within eight weeks of going into default, the mortgage will be transferred for normal enforcement of payment via a debt recovery service, and the distributor could become liable pursuant to the case and loss guarantees as well as the offsetting right as specified above. Should the bank meet the loss guarantee in full, its recourse claim will be on an equal footing with Eika Boligkreditt's residual claim for restitution.

The owner bank's net interest rate

The supplement to the distribution agreement incorporates regulations which mean that the net interest rate for the bank– in other words, the price it pays for financing through Eika Boligkreditt – will be influenced by the market price for new borrowing in the covered bond market and by whether the bank increases or reduces its financing through Eika Boligkreditt. In this way, the terms achieved by the bank as a result of securing finance through Eika Boligkreditt will be influenced by the bank's own use of Eika Boligkreditt, and only affected to a limited extent by the increase in or reduction of financing by other banks in Eika Boligkreditt.

The bank is committed to maintaining an overall financing in Eika Boligkreditt which accords with the maturity profile for the bank's financing in Eika Boligkreditt. The bank's financing in Eika Boligkreditt is the overall value of the bank's share of the mortgage portfolio in Eika Boligkreditt. If the overall value of the bank's share of the mortgage portfolio in Eika Boligkreditt falls at any time below 75 per cent of the bank's commitment pursuant to the supplementary agreement, the bank is obliged – after a written warning – to pay Eika Boligkreditt the present value of the company's estimated costs for a corresponding redemption of its borrowing in the market.

If the bank's overall financing in Eika Boligkreditt is reduced in a way which means that Eika Boligkreditt must conduct an overall repurchase of its borrowing in the market during a calendar year which corresponds to five per cent or more of the mortgage portfolio, the bank's obligation to pay costs pursuant to the agreement can be triggered by a shortfall smaller than the level of 75 per cent of the bank's commitment. This means that the lower limit is moved up. A claim against the bank pursuant to the agreement can be offset by Eika Boligkreditt against commission payments due to the bank.

Past due loans not subject to impairment

The table below shows overdue amounts on loans that are not due to delays in payment transfers from Eika BoligKreditt. Past due loans are subject to continual monitoring.

Amounts in NOK 1 000	**31 Dec 2017**	31 Dec 2016
1-29 days	**306 902**	222 588
30-60 days	**95 910**	38 777
60-90 days	-	-
> 90 days	-	-
Total past due loans not subject to impairment (principal)	**402 812**	261 365

Note 4.2.1 Lending by geographical area[1]

Amounts in NOK 1 000		Lending 31 Dec 2017	Lending 31 Dec 2016	Lending as a % 2017
NO01	Østfold county	5 673 359	4 884 956	7.34%
NO02	Akershus county	11 349 630	9 933 590	14.69%
NO03	Oslo	11 493 161	13 615 913	14.88%
NO04	Hedmark county	2 340 994	1 927 826	3.03%
NO05	Oppland county	1 717 292	1 420 670	2.22%
NO06	Buskerud county	3 167 305	2 800 021	4.10%
NO07	Vestfold county	2 783 549	2 631 187	3.60%
NO08	Telemark county	4 095 894	3 452 246	5.30%
NO09	Aust-Agder county	2 515 184	1 995 975	3.26%
NO10	Vest-Agder county	1 905 147	1 670 114	2.47%
NO11	Rogaland county	6 244 814	5 812 253	8.08%
NO12	Hordaland county	2 425 273	2 058 363	3.14%
NO14	Sogn og Fjordane county	398 623	388 124	0.52%
NO15	Møre og Romsdal county	3 105 183	2 710 114	4.02%
NO50	Trøndelag county	14 609 725	12 996 096	18.91%
NO18	Nordland county	2 404 982	2 291 782	3.11%
NO19	Troms county	977 805	885 277	1.27%
NO20	Finnmark county	59 193	30 968	0.08%
Total		**77 267 115**	**71 505 474**	**100%**

[1] The geographical distribution is based on the portfolio at amortised cost.

Note 4.2.2 IFRS 9

IFRS 9, which comes into force for fiscal years commencing on 1 January 2018, replaces the IAS 39 model for impairment of financial assets. According to IAS 39, impairment for loss should only be performed when objective evidence exists that a loss event has occurred after initial recognition. Under the new IFRS 9 accounting standard, provision for losses must be recognised on the basis of the expected credit loss indicated by relevant information available at the reporting date. The combination of the residential mortgage portfolio's loan-to-value ratio and the credit guarantees provided by the owner banks mean that implementation of the standard will not have significant effects on EBK's profits or equity.

On initial recognition in the balance sheet, a provision for loss must be made which corresponds to the 12-month loss projection. The 12-month loss projection is the loss expected to arise over the life of the instrument, but which can be related to events occurring in the first 12 months.

If the credit risk for an asset or group of assets is considered to have risen significantly since initial recognition, a provision for loss must be made which corresponds to the whole expected life of the asset. EBK has decided that an annual review of such a change is an adequate assessment, since the company does not expect any accounting recognition of loss.

Impairment model in Eika Gruppen

Eika Gruppen has developed its own model for calculating the probability of default (PD), and EBK receives PD values for all its lending to customers. BanQsoft, the system deliverer for lending, has also developed solutions for exposure at default (EAD) and calculating losses as well as a model for assessing whether an engagement has significantly increased since its initial recognition. EBK has chosen to utilise these. Expected credit loss (ECL) is calculated as EAD x PC x LGD (loss given default), discounted by the original effective interest rate.

Description of the PD model

The PD model in Eika Gruppen estimates the probability of default by estimating statistical correlations between default and the customer's financial position, demographic data and payment behaviour. Default is defined as an overdraft of at least NOK 1 000 over 90 consecutive days, in addition to other qualitative indicators which suggest that the engagement has become non-performing. See section 10, sub-section 1 of the capital requirement regulations.

The model distinguishes between private and corporate customers, and measures PD for the next 12 months. Payment behaviour requires six months of history before it can influence the model. This means that new customers will have six months with only the external model before the internal model can be used.

The model is validated annually and recalibrated as and when required. When model quality deteriorates, new models are developed.

Significant increase in credit risk

Should a significant increase in credit risk occur, the contract's expected credit loss is assessed over the whole life of the contract (PD-lif). EBK takes a conservative approach in this respect, utilising a straight-line projection of the PD for the next 12 months.

A significant increase in credit risk is measured on the basis of the development in PD. EBK has defined a significant increase in credit risk as a rise in the original PD at initial recognition (PD-ini) for different levels, so that the model can identify the relevant development in credit risk. A significant change is defined when engagements experience a relative alteration in PD exceeding PD-ini x 2, and are thereby moved to step 2. PD < 0.6 per cent is not moved to step 2.

Extra criteria are also defined for engagements to indicate a significant increase in credit risk:

- non-performance for 30 days (moved to step 2)
- non-performance for 90 days (moved to step 3).

Calculation of loss given default (LGD)

EBK's cover pool comprises objects with a very low LTV ratio (<=60 per cent LTV at origination), and calculating ECL will be based on information which is current, forward-looking and historical. EBK utilises the expected development of house prices when calculating LGD. The scenarios are given equal weighting and calculated for each contract. Valuation of the collateral is based on its estimated net realisable value.

Exposure at default (EAD)

EAD for agreements comprises mortgages to customers discounted by the effective interest rate for future cash flows.

The expected life of an agreement is calculated on the basis of the historical average life of similar agreements. Amended agreements are measured from the original origination date, even if new conditions have been set for the agreement. The expected tenor in EBK's portfolio is about four years.

Expected credit loss based on future expectations

EBK will adjust its provision for loss by the expected development in house prices, which is considered to influence expected loss. Future expectations are derived from Eika Gruppen's macro model, which takes account of three scenarios – the main estimate, the best estimate and a stress scenario – for expected macroeconomic developments one to three years ahead. The main estimate and stress scenario are based on the Financial Supervisory Authority of Norway's values for its basis scenario and stress test at 30 June 2017. The best estimate is based on forecasts from Eika Gruppen's macroeconomics specialist. These scenarios are given equal weighting.

Stress scenario

At 1 January 2018, EBK had the following expectations for the development of the macroeconomic variables.

Changes in house prices	2018	2019	2020
Main estimate	3%	5%	4%
Stress scenario	(5.5%)	(6.5%)	(6.5%)
Best estimate	5%	5%	5%
Average	0.83%	1.17%	0.83%

Mortgages to customers by steps 1–3 in nominal value

Amounts in NOK 1 000	Step 1	Step 2	Step 3	**Total**
Mortgages 31 December 2017	**74 067 192**	**3 199 923**	**-**	**77 267 115**

The expected loss on residential mortgages pursuant to IFRS 9 was calculated to total NOK 147 000 at 1 January 2018. Given NOK 812 million in credit guarantees from the owner banks at the same date, however, this would not represent an accounting loss for the company at 1 January 2018. There are no non-performing engagements in step 3.

Note 4.3 Derivatives

Counterparty exposure related to derivative contracts

Assets	31 Dec 2017		31 Dec 2016	
Amounts in NOK 1 000	Book value	Net value[1]	Book value	Net value[1]
Financial derivatives	**7 452 520**	**7 375 741**	7 788 473	7 498 485
Received collateral	**3 791 533**	**6 374 078**	3 394 213	6 489 325
Net exposure	**3 660 987**	**1 001 663**	**4 394 260**	**1 009 161**

Liability	31 Dec 2017		31 Dec 2016	
Amounts in NOK 1 000	Book value	Net value[1]	Book value	Net value[1]
Financial derivatives	**76 779**	-	289 988	-
Posted collateral	-	-	-	-
Net exposure	**76 779**	-	**289 988**	-

[1] Net value is the book value of the financial assets less the financial liabilities related to the same counterparty. Counterparties to hedging contracts provided the company with NOK 3.8 billion in cash collateral during 2017, compared to NOK 3.4 billion in 2016. Cash collateral is held as bank deposits, repo agreements and as various high quality securities. In addition to cash collateral, the company received collateral in the form of securities (high-quality bonds) with a value corresponding to NOK 2.6 billion. The value of the securities provided as collateral is not recognised in the company's balance sheet.

Note 4.4 Bonds and certificates at fair value through profit or loss

Bonds broken down by issuer sector

31 Dec 2017 Amounts in NOK 1 000	Nominal value	Cost price	Fair Value
Municipalities	4 123 584	4 124 866	4 125 736
Credit institutions	4 774 000	4 786 832	4 804 532
Government bonds	339 123	340 668	375 930
Treasury bills	3 327 321	3 331 032	3 406 102
Total bonds and certificates at fair value through profit or loss	**12 564 028**	**12 583 399**	**12 712 300**
Change in value charged to the profit and loss account			**128 902**

Average effective interest rate is 1.21 per cent annualised. The calculation is based on a weighted fair value of NOK 13.1 billion. The calculation takes account of a return of NOK 158.6 million on bank deposits, bonds and certificates. The return on reinvested cash collateral received is excluded from the calculation.

31 Dec 2016 Amounts in NOK 1 000	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. 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 Dec 2017	31 Dec 2016
Average term to maturity	**0.8**	1.0
Average duration	**0.2**	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 4.5 Lending to and receivables from credit institutions

When assessing the rating, only ratings from Standard & Poor's, Moody's, Fitch and DBRS are utilised. If a counterparty is rated by at least three of the agencies, he credit quality step is determined on the basis of the two highest ratings. If these two ratings differ, the lowest of these is used to assess the credit quality step. If the counterparty is rated by two agencies, the lowest is applied, and if there is only one rating from an accredited agency, it is applied.

Of the company's lending to and receivables from credit institutions, 25 per cent are deposited in banks with Aa3/AA- rating, 50 per cent in banks with A1/A+ rating, 25 per cent in banks with A2/A rating.

NOTE 5: LIQUIDITY RISK

Liquidity risk is the risk of the company failing to meet its commitments at the due date without major costs arising in the form of refinancing or the need for premature realisation of assets. In the worst case, liquidity risk is the risk of the company being unable to obtain sufficient refinancing to meet its commitments on the due date. The company has loans maturing in 2018 of NOK 7.3 billion net when the currency hedge is taken into account. At 31 December 2017, the company had liquid funds in the form of bank deposits amounting to NOK 1.7 billion, repo agreements of NOK 0.25 billion, a securities portfolio of NOK 12.7 billion and overdraft facility of NOK 50 million. These assets can be sold to cover the company's liabilities. A note purchase agreement has also been entered into with the owners on buying the company's bonds.

More information and conditions related to the Note Purchase Agreement are provided in note 15. The liquidity risk is managed through set limits for funding structures, requirements for spreads on securities, tenors and markets, and the establishment of contingency facilities.

Liquidity risk

The tables show the undiscounted contractual cash flows of the financial liabilities.

Financial liabilities as at 31 December 2017 Amounts in NOK 1 000	Book value 31 Dec 2017	Without predetermined maturity	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	**Total**
Financial liabilities								
Debt securities issued	90 030 259	-	272 837	191 236	8 141 700	71 489 714	14 770 766	**94 866 253**
Subordinated loan capital	599 646	-	1 355	3 501	261 159	374 907	-	**640 922**
Financial derivatives (net)	(7 375 741)	-	(143 507)	(15 129)	(38 428)	(4 310 007)	(443 199)	**(4 950 269)**
Loans from credit institutions[1]	3 791 533	3 791 533	-	-	-	-	-	**3 791 533**
Other debt with remaining term to maturity[2]	332 106	-	143 354	2 985	25 748	-	-	**172 087**
Total financial liabilities	**87 377 803**	**3 791 533**	**274 039**	**182 594**	**8 390 179**	**67 554 614**	**14 327 567**	**94 520 526**

Amounts in NOK 1 000	Without predetermined maturity	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	**Total**
Derivatives							
Financial derivatives (gross)							
Incoming flow	-	(105 844)	(81 787)	(1 505 302)	(29 636 249)	(10 127 567)	**(41 456 748)**
Outgoing flow	-	249 351	96 915	1 543 730	33 946 255	10 570 766	**46 407 017**
Financial derivatives (net)	**-**	**143 507**	**15 129**	**38 428**	**4 310 007**	**443 199**	**4 950 269**

Ordinary maturity is used as the basis for classification

Financial liabilities as at 31 December 2016 Amounts in NOK 1 000	Book value 31 Dec 2016	Without predetermined maturity	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	**Total**
Financial liabilities								
Debt securities issued	86 982 995	-	4 900 049	170 168	11 639 159	51 315 723	23 603 555	**91 628 654**
Subordinated loan capital	599 426	-	1 535	3 777	16 757	642 885	-	**664 953**
Financial derivatives (net)	(7 498 485)	-	(853 395)	30 786	(1 599 673)	(1 349 560)	(1 653 676)	**(5 425 518)**
Loans from credit institutions[1]	3 394 213	3 394 213	-	-	-	-	-	**3 394 213**
Other debt with remaining term to maturity[2]	352 430	-	84 435	2 977	65 671	-	-	**153 083**
Total financial liabilities	**83 830 579**	**3 394 213**	**4 132 624**	**207 707**	**10 121 914**	**50 609 047**	**21 949 879**	**90 415 385**

Amounts in NOK 1 000	Without predetermined maturity	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	**Total**
Derivatives							
Financial derivatives (gross)							
Incoming flow	-	(4 019 884)	(108 218)	(8 142 521)	(17 365 010)	(13 375 528)	**(43 011 161)**
Outgoing flow	-	4 873 279	77 432	9 742 194	18 714 570	15 029 203	**48 436 679**
Financial derivatives (net)	**-**	**853 395**	**(30 786)**	**1 599 673**	**1 349 560**	**1 653 676**	**5 425 518**

Ordinary maturity is used as the basis for classification

[1] Agreements with counterparties regulating trades in OTC derivatives require collateral to be provided in certain cases. Eika Boligkreditt AS has been provided with such collateral in the form of cash in both 2016 and 2017. These cash sums are managed by Eika Boligkreditt AS 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 held as bank deposits and the liability are thereafter measured at amortised cost.

[2] Accrued interest related to debt established through the issue of securities, subordinated loan capital and financial derivatives is included under the respective items.

NOTE 6: MARKET RISK

Market risk arises through the company's exposure in the interest and foreign exchange market.

Note 6.1 Interest rate risk

The company is also exposed to interest-rate risk related to net interest loss. Eika Boligkreditt finances its loan portfolio through external funding in the form of covered bonds and senior financing. Varying fixed interest rates and benchmark rates of interest on lending and borrowing affect the company's net interest income. The interest-rate risk is reduced to a great extent by adapting borrowing and lending to the same interest terms.

Interest sensitivity

Changes in the level of interest rates will have an effect on profits as a result of changes in both fair value and net interest income.

Effect on profit of a change in fair value

A one percentage point increase in all interest rates, calculated over a period of 12 months on the basis of the portfolio at 31 December 2017, would reduce the value of the company's assets at 31 December by NOK 44.4 million, while the value of liabilities would be cut by NOK 59.9 million. The net effect on pre-tax profit would consequently have been an increase of NOK 15.5 million. The effect of a decrease in interest rates would be an increase of NOK 44.4 million of the value of assets, an increase of NOK 59.9 million in the value of liabilities and a reduction in pre-tax profit of NOK 15.5 million. These amounts are calculated on the basis of duration – in other words, the remainder of the fixed interest period – for both assets and liabilities. The corresponding interest-rate hedge is taken into account when calculating duration. The valuation comprises the fair value of fixed-interest mortgages, bonds and certificates at fair value through profit and loss, derivatives and debt established through the issue of fixed-interest securities, which are financial instruments not measured at amortised cost.

Effect on profit of change in net interest income

The effect of a one percentage point increase in all interest rates would be to increase interest income at 31 December by NOK 905 million, while interest expense would be increased by NOK 829 million. The effect on net interest income would accordingly have been an increase of NOK 76 million. A reduction in interest rates would decrease interest income by NOK 905 million and interest expenses by NOK 829 million. That would yield a reduction of NOK 76 million in net interest income. When calculating the profit effect on net interest income, the change in interest rates comprises the company's portfolio with floating interest rates and the fair value of fixed-interest mortgages, loans to and receivables from credit institutions, derivatives, bonds and certificates at fair value through profit and loss, debt securities issued and subordinated loans.

Overall effect on profit of changes in fair value and net interest income

A one percentage point increase in all interest rates would produce an overall change through fair value and net interest income of NOK 91 million in pre-tax profit. A reduction of one percentage point in all interest rates would produce an overall negative change through fair value and net interest income of NOK 91 million in pre-tax profit. It is assumed in the calculation that the distributor commissions are not affected by this change.

Note 6.2 Currency risk

The company has debts through covered bonds issued in euros and Swedish kroner. These debts are hedged through currency derivatives. This means that the company has no currency risk. An overview of the book value of financial instruments in foreign currencies is provided below. The table is stated in NOK. Fair value adjustments related to the interest element and changes in basis swap in the currency hedge on debt securities issued are not included in the statement.

Currency risk as at 31 December 2017

Amounts in NOK 1 000	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	Total
Debt securities issued in EUR	-	-	-	16 200 749	24 492 556	40 693 304
Debt securities issued in SEK	-	-	-	1 002 497	-	1 002 497
Currency derivatives in EUR	-	-	-	(16 200 749)	(24 492 556)	(40 693 304)
Currency derivatives in SEK	-	-	-	(1 002 497)	-	(1 002 497)
Net currency exposure	-	-	-	-	-	-

Currency risk as at 31 December 2016

Amounts in NOK 1 000	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	Total
Debt securities issued in EUR	-	4 537 917	9 069 572	14 911 790	13 543 134	42 062 413
Debt securities issued in SEK	-	-	-	950 188	-	950 188
Currency derivatives in EUR	-	(4 537 917)	(9 069 572)	(14 911 790)	(13 543 134)	(42 062 413)
Currency derivatives in SEK	-	-	-	(950 188)	-	(950 188)
Net currency exposure	-	-	-	-	-	-

NOTE 7: OTHER RISK

Risk relating to capital management

Issuance of covered bonds causes the company to have surplus liquidity during the periods after the loan is raised. The need for liquid funds increases as a result of balance sheet growth. This means there is a need to increase the number of lines to place liquidity with solvent counterparties pursuant to the regulations governing covered bonds. The company is exposed to risk linked to capital management through securities in Norway, including government securities, municipal bonds, and Norwegian covered bonds. A framework for managing surplus liquidity has been established to limit the interest and credit spread risk on the investments. The management is subject to the reporting and position framework determined by the company's board of directors. This framework is reviewed once a year. The company's total market risk is assessed on the basis of stress scenarios prepared in line with the recommendations of Norway's Financial Supervisory Authority and the Basel Committee. See note 4.4 relating to certificates, bonds and other securities with fixed yield.

Management and control of IT systems

The company's IT systems play a crucial role in accounting and reporting of implemented transactions, in providing the basis for important estimates and calculations, and in securing relevant supplementary information. IT systems are standardised, with parts of their management and operation largely outsourced to service providers. Good management and control of the IT systems, both in Eika Boligkreditt and at the service providers, are crucial for ensuring accurate, complete and reliable financial reporting.

NOTE 8: FINANCIAL DERIVATIVES

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 of bonds and certificates and lending at a fixed interest rate.

Financial derivatives

Amounts in NOK 1 000	31 Dec 2017 Nominal amount	31 Dec 2017 Fair value	31 Dec 2016 Nominal amount	31 Dec 2016 Fair value
Assets				
Interest rate swap lending[1]	**850 370**	**5 631**	1 072 500	9 018
Interest rate and currency swap[2]	**45 416 713**	**7 446 888**	37 683 563	7 779 455
Total financial derivative assets	**46 267 083**	**7 452 520**	38 756 063	7 788 473
Liabilities				
Interest rate swap lending[1]	**2 620 988**	**26 055**	2 393 500	33 192
Interest rate and currency swap[2]	**850 000**	**50 022**	10 836 750	256 797
Interest swap placement	**235 270**	**701**	-	-
Total financial derivative liabilities	**3 706 258**	**76 779**	13 230 250	289 988

[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.

Amounts in NOK 1 000	31 Dec 2017 Nominal amount	31 Dec 2017 Value recognised in balance sheet	31 Dec 2016 Nominal amount	31 Dec 2016 Value recognised in balance sheet
Hedging instruments: interest rate and currency swaps[1,2]	**44 566 713**	**7 396 866**	26 846 813	7 522 658
Hedged items: financial commitments incl foreign exchange[2]	**44 566 713**	**(7 689 781)**	26 846 813	(7 603 843)
Net value recognised in balance sheet	**-**	**(292 915)**	-	(81 185)

Gains/losses on fair value hedging

Amounts in NOK 1 000	2017	2016
Hedging instruments	**(93 393)**	(2 758 110)
Hedged items	**(78 916)**	2 645 689
Net gains/losses (inefffectiveness)[3]	**(172 309)**	(112 420)

[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.
[3] The negative change in value for financial instruments in 2017 relates almost entirely to negative changes in basis swaps totalling NOK 164 million. This is described further below.

The negative change in the value of financial instruments related almost entirely to NOK 164 million in positive change to basis swaps (NOK 115 million). 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. The accounting effects will thereby reverse over time, so that the unrealised change in value at 31 December 2017 will be reversed until the derivatives mature. 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 currency 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. The derivatives are valued at fair value, while the hedged bond is valued in accordance with the principles which apply for hedge accounting.

NOTE 9: 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 2017. Valuation of shares classified as available for sale are based on discounted cash flows.

	31 December 2017			31 December 2016		
(Amounts in NOK 1 000)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Lending to customers (fixed income)	-	-	3 647 877	-	-	3 570 403
Bonds and certificates at fair value through profit or loss	3 782 032	8 930 268	-	2 667 404	11 004 484	-
Financial derivatives	-	7 452 520	-	-	7 788 473	-
Shares classified as available for sale	-	-	32 200	-	-	29 700
Total financial assets	**3 782 032**	**16 382 788**	**3 680 077**	**2 667 404**	**18 792 957**	**3 600 103**
Financial liabilities						
Financial derivatives	-	76 779	-	-	289 988	-
Total financial liabilities	**-**	**76 779**	**-**	**-**	**289 988**	**-**

No significant transactions between the different levels have taken place in 2016 or 2017.

Detailed statement of assets classified as level 3

2017 (Amounts in NOK 1 000)	1 Jan 2017	Purchases/issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2017	Other comprehensive income	31 Dec 2017
Lending to customers (fixed-rate loans)	3 570 403	608 558	(548 360)	-	17 276	-	3 647 877
Shares available for sale	29 700	-	-	-	-	2 500	32 200
Total	**3 600 103**	608 558	**(548 360)**	-	**17 276**	**2 500**	**3 680 077**

2016 (Amounts in NOK 1 000)	1 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	1 094 416	(460 803)	-	(42 292)	-	3 570 403
Shares available for sale	29 700	-	-	-	-	-	29 700
Total	**3 008 781**	**1 094 416**	**(460 803)**	-	**(42 292)**	-	**3 600 103**

Detailed statement changes in debt related to currency changes

	2017				2016			
(Amounts in NOK 1 000)	1 Jan 2017	Purchases/ issues	Disposals/ settlements	31 Dec 2017	1 Jan 2016	Purchases/ issues	Disposals/ settlements	31 Dec 2016
Change in debt securities issued[1]	43 156 438	(2 027 100)	758 232	41 887 570	40 894 715	4 650 000	(2 388 277)	43 156 438
Total	**43 156 438**	**(2 027 100)**	**758 232**	**41 887 570**	**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 institutions are not shown.

Interest rate sensitivity of assets classified as Level 3 at 31 December 2017

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 103 million. The effect of a decrease in interest rates would be an increase of NOK 103 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 2017 and cumulatively.

NOTE 10: CLASSIFICATION OF FINANCIAL INSTRUMENTS

31 December 2017	Financial instruments at fair value through profit or loss				Financial instruments at amortised cost		
Amounts in NOK 1 000	Held for trading	Fair value option	Derivatives for hedging	Available for sale	Financial assets and liabilities	Held to maturity	Total
Financial assets							
Lending to and receivables from credit institutions	-	-	-	-	1 735 677	-	1 735 677
Lending to customers	-	3 647 877	-	-	73 638 073	-	77 285 950
Bonds and certificates at fair value through profit or loss	-	12 712 300	-	-	-	-	12 712 300
Financial derivatives	5 631	-	7 446 888	-	-	-	7 452 520
Shares classified as available for sale	-	-	-	32 200	-	-	32 200
Other fnancial assets	-	-	-	-	357 761	-	357 761
Total financial assets	**5 631**	**16 360 177**	**7 446 888**	**32 200**	**75 731 511**	**-**	**99 576 408**
Financial liabilities							
Financial derivatives	26 756	-	50 023	-	-	-	76 779
Debt securities issued	-	-	-	-	90 030 259	-	90 030 259
Loans from credit institutions	-	-	-	-	3 791 533	-	3 791 533
Other liabilities	-	-	-	-	332 106	-	332 106
Subordinated loan capital	-	-	-	-	599 646	-	599 646
Total financial liabilities	**26 756**	**-**	**50 023**	**-**	**94 753 544**	**-**	**94 830 323**

31 December 2016	Financial instruments at fair value through profit or loss				Financial instruments at amortised cost		
Amounts in NOK 1 000	Held for trading	Fair value option	Derivatives for hedging	Available for sale	Financial assets and liabilities	Held to maturity	Total
Financial assets							
Lending to and receivables from credit institutions	-	-	-	-	2 215 466	-	2 215 466
Lending to customers	-	3 570 403	-	-	67 938 877	-	71 509 279
Bonds and certificates at fair value through profit or loss	-	13 671 888	-	-	-	-	13 671 888
Financial derivatives	9 018	-	7 779 455	-	-	-	7 788 473
Shares classified as available for sale	-	-	-	29 700	-	-	29 700
Other fnancial assets	-	-	-	-	786 862	-	786 862
Total financial assets	**9 018**	**17 242 291**	**7 779 455**	**29 700**	**70 941 205**	**-**	**96 001 668**
Financial liabilities							
Financial derivatives	33 192	-	256 797	-	-	-	289 988
Debt securities issued	-	-	-	-	86 982 995	-	86 982 995
Loans from credit institutions	-	-	-	-	3 394 213	-	3 394 213
Other liabilities	-	-	-	-	352 430	-	352 430
Subordinated loan capital	-	-	-	-	599 426	-	599 426
Total financial liabilities	**33 192**	**-**	**256 797**	**-**	**91 329 064**	**-**	**91 619 052**

NOTE 11: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE

Full year 2017

Amounts in NOK 1 000	Held for trading	Fair value option	Hedging accounting	Available for sale	Total	Of which realised	Of which unrealised
Lending to customers (fixed income)	-	17 276	-	-	17 276	2 246	15 030
Bonds and certificates at fair value through profit or loss	-	15 972	-	-	15 972	4 620	11 352
Shares available for sale	-	-	-	6 006	6 006	6 006	-
Debts from issuance of securities	-	-	(78 916)	-	(78 916)	(11 608)	(67 309)
Financial derivatives	3 749	-	(93 393)	-	(89 643)	7 022	(96 665)
Total	**3 749**	**33 248**	**(172 309)**	**6 006**	**(129 307)**	**8 286**	**(137 592)**

Full year 2016

Amounts in NOK 1 000	Held for trading	Fair value option	Hedging accounting	Available for sale	Total	Of which realised	Of which unrealised
Lending to customers (fixed income)	-	(42 292)	-	-	(42 292)	2 946	(45 238)
Bonds and certificates at fair value through profit or loss	-	32 245	-	-	32 245	2 063	30 182
Shares available for sale	-	-	-	5 652	5 652	5 652	-
Debts from issuance of securities	-	-	2 645 689	-	2 645 689	-	2 645 689
Financial derivatives	40 704	-	(2 758 110)	-	(2 717 406)	-	(2 717 406)
Total	**40 704**	**(10 047)**	**(112 420)**	**5 652**	**(76 112)**	**10 662**	**(86 773)**

NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST

	31 Dec 2017		31 Dec 2016	
Amounts in NOK 1 000	**Book value**	**Fair value**	Book value	Fair value
Financial assets				
Loans to and deposits with credit institutions	**1 735 677**	**1 735 677**	2 215 466	2 215 466
Lending to customers	**77 285 950**	**77 285 950**	71 509 279	71 509 279
Total financial assets	**79 021 628**	**79 021 628**	**73 724 745**	**73 724 745**
Financial liabilities				
Debt securities in issue	**90 030 259**	**90 896 472**	86 982 995	87 259 457
Subordinated loan capital	**599 646**	**613 730**	599 426	578 161
Total financial liabilities	**90 629 905**	**91 510 202**	**87 582 421**	**87 837 618**

The fair value of lending to customers with floating interest rates and of lending to and receivables from credit institutions is considered to be equal to book value, and is considered to be equal to amortised cost. 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 interest rate at the balance sheet date. The share of fixed and floating rate loans is presented in note 4.2. The fair value of Norwegian debt securities in issue and subordinated loan capital are based on tax-related prices published by the Norwegian Securities Dealers Association (Norsk Fondsmeglerforbund). The fair value of foreign debt securities in issue is based on quoted prices provided by Bloomberg.

NOTE 13: OTHER INTANGIBLE ASSETS

Amounts in NOK 1 000	Software	Total
Original cost 1 January	21 151	21 151
Additions	4 440	4 440
Disposals	-	-
Original cost 31 December	**25 592**	**25 592**
Accumulated depreciation 1 January	17 703	17 703
Accumulated depreciation 31 December	19 603	19 603
Book value 31 December	**5 989**	**5 989**
Depreciation charge for the year	1 900	1 900
Useful economic life	5 yrs	
Depreciation schedule	Linear	
Off-balance-sheet annual rent on fixed tangible assets and rent on premises	2 983	

NOTE 14: 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%
Nordic Credit Rating	10 000	2 500	2 500	4.99%
Total	**363 269**	**17 500**	**32 200**	

NOTE 15: LIABILITIES

Eika Boligkreditt has an overdraft facility with DNB Bank ASA (DNB). Amounting to NOK 50 million, this facility was undrawn at 31 December 2017 and 31 December 2016. Equity conditions apply to the overdraft facility.

Liquidity support from the owner banks is regulated by an agreement dated 10 May 2012 on the purchase of covered bonds. The main features of this agreement are that the owner banks, for as long as they have residential mortgage portfolios in the company and under given circumstances, are committed to provide Eika Boligkreditt with liquidity. This liquidity obligation is limited to the maturity of the company's covered bonds issued under the Euro Medium Term Covered Note Programme (EMTCN Programme) and associated swap agreements over the coming 12 months. To the extent that covered bonds have been purchased by the owner banks under the liquidity agreement and have not been redeemed, these are deducted from the calculation of each owner bank's outstanding liquidity obligation. Each owner bank's liquidity obligation is primarily limited to its pro rata share of the issued amount, which is calculated on the basis of each owner bank's share of the company's mortgage portfolio. Should one or more owner banks fail to fulfil their liquidity obligation pursuant to the agreement, the liquidity obligation of the other owner banks can be increased up to a limit of twice their original pro rata share..

The agreement on purchasing covered bonds can be terminated under certain conditions.

Conditions also apply to the lender concerning overcollateralisation. For CBs ascribed to the company's cover pool, requirements relating to overcollateralisation of 105 per cent apply to loans included in the EMTCN-Programme. This means that the company must at all times have assets in its cover pool that constitute at least 105 per cent of total outstanding covered bonds. See note 16 for more information.

At 31 December 2017, the company had bonds and certificates in issue with a nominal value of NOK 82 521 713.

Amounts in NOK 1 000	**31 Dec 2017**	31 Dec 2016
Nominal value of bonds	**82 521 713**	79 469 313
Difference in fair value	**7 508 546**	7 513 682
Nominal value of subordinated loan capital	**600 000**	600 000
Difference in fair value	**(354)**	(574)
Total	**90 629 905**	87 582 421

Note 15.1 Debts from issuance of securities

Covered bonds

Amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	31 Dec 2017	31 Dec 2016
NO0010502149	520 000	NOK	Floating	3M Nibor + 0.70%	2009	2019	**521 656**	1 206 462
NO0010561103	1 948 000	NOK	Fixed	5.00%	2009	2019	**1 971 943**	1 984 153
NO0010605587	1 000 000	NOK	Fixed	5.20%	2011	2021	**1 000 000**	1 000 000
NO0010612179	473 500	NOK	Fixed	4.65%	2011	2018	**474 742**	704 078
NO0010612039	5 500 000	NOK	Floating	3M Nibor + 0.55%	2011	2018	**5 502 851**	5 509 438
NO0010625346	1 500 000	NOK	Fixed	4.60%	2011	2026	**1 500 802**	1 500 890
XS0736417642	-	EUR	Fixed	2.25%	2012	2017	-	4 537 917
NO0010648892	-	NOK	Floating	3M Nibor + 0.74%	2012	2017	-	654 282
XS0794570944	650 000	EUR	Fixed	2.00%	2012	2019	**6 390 077**	5 882 331
XS0851683473	-	EUR	Fixed	1.25%	2012	2017	-	9 069 572
NO0010663727	5 220 000	NOK	Floating	3M Nibor + 0.60%	2012	2019	**5 230 355**	5 235 747
NO0010664428	65 000	NOK	Floating	3M Nibor + 0.53%	2012	2018	**65 027**	1 000 614
NO0010663743	1 000 000	NOK	Fixed	3.25%	2012	2019	**1 003 306**	1 005 019
NO0010669922	1 000 000	NOK	Fixed	4.00%	2013	2028	**996 925**	996 619
XS0881369770	1 000 000	EUR	Fixed	2.13%	2013	2023	**9 814 619**	9 043 001
NO0010685480	5 125 000	NOK	Floating	3M Nibor + 0.54%	2013	2020	**5 141 894**	5 147 604
NO0010685704	550 000	NOK	Fixed	3.50%	2013	2020	**551 327**	551 775
NO0010687023	150 000	NOK	Fixed	4.10%	2013	2028	**150 000**	150 000
NO0010697204	300 000	SEK	Fixed	2.38%	2013	2018	**300 677**	284 920
NO0010697212	700 000	SEK	Floating	3M Stibor + 0.50%	2013	2018	**701 820**	665 268
XS1044766191	500 000	EUR	Fixed	1.50%	2014	2021	**4 905 100**	4 515 402
NO0010732258	8 000 000	NOK	Floating	3M Nibor + 0.28%	2015	2022	**7 956 421**	4 346 095
NO0010733694	1 150 000	NOK	Fixed	1.75%	2015	2021	**1 145 172**	1 143 891
XS1312011684	500 000	EUR	Fixed	0.63%	2015	2021	**4 905 571**	4 514 057
NO0010763022	850 000	NOK	Fixed	2.25%	2016	2031	**842 810**	842 270
XS1397054245	500 000	EUR	Fixed	0.38%	2016	2023	**4 891 816**	4 500 133
NO0010775190	5 000 000	NOK	Floating	3M Nibor + 0.40%	2016	2020	**4 998 915**	4 998 448
NO0010780687	700 000	NOK	Fixed	2.60%	2016	2027	**699 371**	699 304
XS1566992415	500 000	EUR	Fixed	0.38%	2017	2024	**4 895 377**	-
NO0010794308	5 000 000	NOK	Floating	3M Nibor + 0.43%	2017	2022	**4 006 501**	-
XS1725524471	500 000	EUR	Fixed	0.38%	2017	2025	**4 890 743**	-
Value adjustments							**1 747 423**	2 419 717
Total covered bonds[1]							**87 203 243**	84 109 007

[1] For covered bonds ascribed to the company's cover pool, an overcollateralisation requirement of 5 per cent applies in accordance with the company's borrowing programme (Euro Medium Term Covered Note Programme). An overcollateralization of five per cent is also necessary to maintain the Aaa rating from Moody's Investor Service.

Senior unsecured bonds
Amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Estab-lishment	Maturity	**31 Dec 2017**	31 Dec 2016
NO0010699234	200 000	NOK	Floating	3M Nibor + 1.14%	2013	2018	**199 942**	199 883
NO0010705593	-	NOK	Floating	3M Nibor + 0.65%	2014	2017	-	600 277
NO0010708936	425 000	NOK	Floating	3M Nibor + 0.80%	2014	2019	**425 256**	425 401
NO0010713753	250 000	NOK	Floating	3M Nibor + 0.70%	2014	2019	**249 931**	249 884
NO0010732886	-	NOK	Floating	3M Nibor + 0.30%	2015	2017	-	249 969
NO0010739287	600 000	NOK	Floating	3M Nibor + 0.70%	2015	2020	**599 655**	298 163
NO0010764160	350 000	NOK	Floating	3M Nibor + 0.95%	2016	2019	**350 392**	350 688
NO0010776099	500 000	NOK	Floating	3M Nibor + 0.92%	2016	2020	**499 797**	499 724
NO0010782048	500 000	NOK	Floating	3M Nibor + 0.95%	2017	2022	**502 044**	-
Total senior unsecured bonds							**2 827 016**	2 873 989
Total debt securities issued							**90 030 259**	86 982 995

Subordinated loan capital
Amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Estab-lishment	Maturity	**31 Dec 2017**	31 Dec 2016
NO0010679632	250 000	NOK	Floating	3M Nibor + 2.20%[1]	2013	2023	**249 961**	249 861
NO0010729650	200 000	NOK	Floating	3M Nibor + 1.85%[2]	2015	2025	**199 877**	199 817
NO0010759475	150 000	NOK	Floating	3M Nibor + 3.40%[3]	2016	2026	**149 808**	149 748
Total subordinated loan capital							**599 646**	599 426

[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 16: COVER POOL

For issued covered bonds ascribed to the company's cover pool, an overcollateralisation requirement of 5 per cent applies in accordance with the company's borrowing programme (Euro Medium Term Covered Note Programme). An overcollateralization of five per cent is also necessary to maintain the Aaa rating from Moody's Investor Service. Nominal values are used when calculating the five-per-cent overcollateralisation. Pursuant to section 11-7 of the financial institutions regulations, an overcollateralisation of at least two per cent of the value of the issued covered bonds in the cover pool is required. Calculating the two-per-cent requirements is based on fair value of the issued covered bonds and the company's own holding of covered bonds.

Calculation of overcollateralisation using nominal values (calculated in accordance to section 11-7 of the financial institutions regulations)

Cover Pool	Fair value	
Amounts in NOK 1 000	**31 Dec 2017**	31 Dec 2016
Lending to customers[1]	**76 667 013**	70 256 756
Substitute assets and derivatives:		
Financial derivatives (net)	**7 375 742**	7 498 485
Substitute assets[2]	**10 895 772**	13 146 778
Total	**94 938 526**	**90 902 019**
The cover pool's overcollateralisation[3]	**106.33%**	**107.96%**

Covered bonds issued		
Amounts in NOK 1 000	**31 Dec 2017**	31 Dec 2016
Covered bonds	**87 203 243**	84 109 007
Premium/discount	**183 251**	89 149
Own holding (Covered bonds)	**1 902 000**	-
Total covered bonds	**89 288 493**	**84 198 156**

Calculation of overcollateralisation at fair value (calculated in accordance to the requirements in the company's borrowing programme and according to Moody's Investors Service methodology)

Cover Pool	Nominal values	
Amounts in NOK 1 000	**31 Dec 2017**	31 Dec 2016
Lending to customers[1]	**76 649 966**	70 252 458
Substitute assets and derivatives:		
Substitute assets[2]	**10 860 316**	13 090 257
Total	**87 510 282**	**83 342 715**
The cover pool's overcollateralisation[3]	**109.80%**	**108.81%**

Covered bonds issued		
Amounts in NOK 1 000	**31 Dec 2017**	31 Dec 2016
Covered bonds	**79 696 713**	76 594 313
Total covered bonds	**79 696 713**	**76 594 313**

[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] Liquid assets in excess of the overcollateralisation requirement are considered to be unencumbered when calculating the liquidity coverage ratio (LCR). See the LCR guidelines of 21 December 2016 from the Financial Supervisory Authority of Norway.

NOTE 17: PAYROLL COSTS

Amounts in NOK 1 000	2017	2016
Pay, fees, etc	**20 248**	19 695
National insurance contributions	**4 744**	3 741
Pension costs	**2 812**	(2 187)
Other personnel costs	**1 491**	1 345
Total	**29 296**	**22 594**
Average number of employees (full-time equivalent)	**19.8**	19.8

NOTE 18: REMUNERATION OF SENIOR EXECUTIVES, GOVERNING BODIES, AUDITORS, ETC

Amounts in NOK 1 000		Pay[1]	Other[2]	Pension costs ordinary scheme	Pension costs additional scheme
Kjartan M Bremnes	CEO	2 504	336	557	594

Payroll expenses include compensation for loss of bonus. The company's bonus scheme was wound up with effect from 1 January 2017.

The CEO is included in the company's ordinary pension scheme. In addition, an agreement has been entered into on an additional defined-contribution pension based on a fixed supplement to the company pension. This supplement comprises a contribution of 18 per cent of pay above 12 times the national insurance base rate (G) for a retirement pension between the ages of 67 and 77, as well as a calculated supplement to an early retirement pension from the ages of 63 to 67 which will provide a pension on retirement at the age of 63 of almost 66 per cent pay from the ages of 63 to 67. The pension shown in the table above presents the expense for the year.

The CEO has no agreement on pay after termination of his employment.

[1] Includes pay and holiday pay for 2017 exclusive bonus accrued in 2016.
[2] Fringe benefits and other benefits.

The balance in the bonus pot at 31 December 2017 will be paid out in accordance with the applicable rules. An employee has no rights to bonuses awarded but not disbursed. The entire balance in the pot remains the property of the company until disbursement takes place. Interest at a rate of three months Nibor is paid on the value of bonuses awarded but not disbursed.

Directors

Amounts in NOK 1 000	Fees
Bjørn Arne Riise	168
Tor Egil Lie	112
Terje Svendsen	112
Olav Sem Austmo	112
Jon Guste-Pedersen	112
Dag Olav Løset	11
Total directors' fee	**627**

Risk committee

Amounts in NOK 1 000	Fees
Tor Egil Lie	50
Terje Svendsen	50
Total risk committee	**100**

Nomination committee

Amounts in NOK 1 000	Fees
Hans Kristian Glesne	18
Jørn Berg	9
Odd Ivar Bjørnli	9
Total nomination committee	**36**

Remuneration committee

Amounts in NOK 1 000	Fees
Bjørn Arne Riise	33
Jon Guste-Pedersen	33
Total remuneration committee	**67**

Auditor

Remuneration to Deloitte AS and their associates is as follows:

Amounts in NOK 1 000	2017	2016
Statutory audit	**550**	622
Other assurance services	**294**	370
Tax advise	**32**	186
Other services unrelated to audit	**29**	33
Total	**905**	1 210

The figures above exclude VAT.

NOTE 19: PENSION COST

The company is required to have an occupational pension scheme in accordance with Norwegian legislation on defined contribution pensions ("lov om innskuddspensjon"). The company has arrangements that comply with the statutory requirements. 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

Defined contribution scheme

This scheme is based on an agreement that the company has to provide a contribution of five per cent of pay rates from one to six times the national insurance base rate (G) and eight per cent of pay from the six to 12 G. In addition, the company provides risk insurance that includes disability and children's pensions for those included in the defined contribution scheme.

AFP – early retirement pension

The AFP is an early retirement pension plan for the private sector enshrined in collective pay agreements. To benefit from the scheme, an employee must have been employed in a company affiliated to the AFP for seven of the nine years before they reach the age of 62. Premiums are calculated as a fixed percentage of annual pay between one and 7.1 times the National Insurance base rate (G). No premiums are paid for employees after the year they reach the age of 61. All employees in the company are members of the scheme from 1 April 2016. The premium paid is expensed.

Unfunded scheme

The company has an additional defined-contribution pension for the chief executive. In connection with this plan, a secured loan agreement provides that an amount corresponding to the pension obligation is deposited in an escrow account.

Pension costs and pension liabilities include employer's national insurance contributions.

	2017	2016
Number of employees in the unfunded scheme	**1**	1
Number of employees in the defined contribution pension scheme	**20**	20

Pension expenses

Amounts in NOK 1 000	**2017**	2016
Defined benefit pension scheme	-	(3 794)
Defined contribution pension schemes	**2 337**	1 044
Individual plan	**690**	678
AFP – early retirement pension	**323**	111
Net pension expenses	**3 349**	**(1 962)**

Pension commitments

Amounts in NOK 1 000	**31 Dec 2017**	31 Dec 2016
Value of pension funds	**3 005**	2 259
Pension liability	**(3 005)**	**(2 259)**

NOTE 20: TAXES

Amounts in NOK 1 000	**2017**	2016
Total tax		
Income tax payable in the balance sheet	**20 501**	55 807
Correction for tax on interest from tier 1 perpetual bonds recognised as equity	**6 183**	5 779
Change in deferred tax	**(8 664)**	(52 041)
Change in tax from previous years	**-**	1 825
Taxes	**18 019**	11 370
Reconciliation of expected and actual tax		
Profit before taxes	**77 851**	50 296
Expected tax on income at nominal tax rate (27%)	**19 463**	12 574
Reversal of earlier provisions for taxes	**-**	135
Tax effect of permanent differences	**(1 443)**	(1 339)
Deffered tax for change in tax rate	**-**	-
Taxes	**18 019**	11 370
Effective tax rate	**23.1%**	22.6%
Deferred taxes in the income statement affect the following temporary differences		
Fixed assets	**(11)**	(16)
Pensions	**187**	(949)
Financial instruments	**9 288**	52 978
Other temporary differences	**(799)**	28
Total change in deferred tax	**8 664**	52 041

Deferred tax asset and deferred tax in the balance relate to the following temporary differences

Amounts in NOK 1 000	**31 Dec 2017**	31 Dec 2016
Fixed assets	**101**	145
Net pension commitments	**3 005**	2 259
Financial instruments	**76 911**	39 759
Other temporary differences	**2 293**	5 490
Total temporary differences	**82 310**	**47 653**
Deferred tax assets	**20 578**	**11 913**

NOTE 21: OTHER FINANCIAL ASSETS

Amounts in NOK 1 000	31 Dec 2017	31 Dec 2016
Prepaid expenses	250 900	658 424
Accrued interests	106 861	128 438
Short-term receivables	-	-
Total other financial assets	**357 761**	**786 862**

NOTE 22: OTHER LIABILITIES

Amounts in NOK 1 000	31 Dec 2017	31 Dec 2016
Accrued costs		
Commissions on bank lending	142 031	83 580
Accrued interest	160 019	199 348
Accrued employer's national insurance contributions	1 789	2 036
Deferred directors' fees	552	588
Accrued holiday pay	2 293	2 051
Deferred bonus	2 402	5 490
Other accrued costs	489	663
Total accrued costs	**309 575**	**293 755**
Other debt		
Debt to companies in the same group	-	-
Accounts payable	834	192
Unpaid withholding tax	1 144	907
Unpaid VAT	52	35
Tax payable	20 501	55 807
Other debt	-	1 735
Total	**22 530**	**58 675**
Total other liabilities	**332 106**	**352 430**

NOTE 23: COMMISSION COSTS

Amounts in NOK 1 000	2017	2016
Portfolio commission[1]	402 469	295 976
Instalment commission	6 927	2 426
Banking services	1 054	1 121
Total commission costs	**410 449**	**299 524**

[1] The company's distributors have the right to a portfolio commission for mortgages included in the mortgage portfolio. This commission equals the lending interest rate on the individual mortgage less a specified net interest rate. Distributors qualify for commission on the basis of the same calculation principles applied when calculating the mortgage interest rate to be paid by the mortgagee.

NOTE 24: ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Amounts in NOK 1 000	2017	2016
IT costs	8 948	7 329
Phone, postage, etc	595	580
Accessories and equipment	324	324
Marketing	336	312
Other administrative expenses	8 064	8 556
Total administrative expenses	**18 267**	**17 100**
External services	11 877	10 722
Operating expenses on rented premises	2 441	2 090
Insurance cost	357	292
Other operating expenses	1 747	1 489
Total other operating expenses	**16 422**	**14 594**

NOTE 25: SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital consists of 1 003 932 347 shares, each with a nominal value of NOK 1.00.
All shares were authorised, issued and fully paid at 31 December 2017.

List of shareholders at 31 December 2017	Number of shares	Ownership share
OBOS BBL	100 999 199	10.06%
Jernbanepersonalets Sparebank	63 857 992	6.36%
Jæren Sparebank	63 458 208	6.32%
Askim og Spydeberg Sparebank	41 875 995	4.17%
Totens Sparebank	37 310 176	3.72%
Skagerrak Sparebank	33 913 152	3.38%
Orkla Sparebank	27 858 583	2.77%
Sparebanken Narvik	27 685 274	2.76%
Aurskog Sparebank	23 178 766	2.31%
Melhus Sparebank	22 578 606	2.25%
Grong Sparebank	21 334 811	2.13%
Lillestrøm Sparebank	19 507 896	1.94%
Surnadal Sparebank	18 761 692	1.87%
Skue Sparebank	18 598 200	1.85%
Larvikbanken – Din Personlige Sparebank	17 976 835	1.79%
Selbu Sparebank	17 890 431	1.78%
Rørosbanken Røros Sparebank	17 411 445	1.73%
Eidsberg Sparebank	17 112 157	1.70%
Aasen Sparebank	16 705 831	1.66%
Romsdal Sparebank[1]	15 948 191	1.59%
Indre Sogn Sparebank	15 057 721	1.50%
Kvinesdal Sparebank	14 824 984	1.48%
Odal Sparebank	14 607 140	1.45%
Drangedal Sparebank	14 082 615	1.40%
Berg Sparebank	13 901 820	1.38%
Hjartdal og Gransherad Sparebank	13 748 860	1.37%
Andebu Sparebank	12 701 571	1.27%
Stadsbygd Sparebank	11 964 126	1.19%
Bien Sparebank AS	11 510 901	1.15%
Østre Agder Sparebank	11 463 180	1.14%
Hegra Sparebank	11 249 362	1.12%
Strømmen Sparebank	11 015 161	1.10%
Marker Sparebank	10 937 426	1.09%
Sunndal Sparebank	10 910 236	1.09%

[1] Bud, Fræna og Hustad Sparebank and Nesset Sparebank merged 2 January 2018, under the name Romsdal Sparebank.

List of shareholders at 31 December 2017	Number of shares	Ownership share
Trøgstad Sparebank	10 638 924	1.06%
Høland og Setskog Sparebank	10 209 163	1.02%
Klæbu Sparebank	9 890 239	0.99%
Tinn Sparebank	9 363 497	0.93%
Harstad Sparebank	9 314 389	0.93%
Hemne Sparebank	9 190 077	0.92%
Tysnes Sparebank	9 076 406	0.90%
Hønefoss Sparebank	8 918 327	0.89%
Ørland Sparebank	8 650 898	0.86%
Fornebu Sparebank	8 309 572	0.83%
Blaker Sparebank	8 212 301	0.82%
Arendal og Omegns Sparekasse	8 205 733	0.82%
Sparebanken Din	7 863 082	0.78%
Hjelmeland Sparebank	7 363 302	0.73%
Birkenes Sparebank	7 123 832	0.71%
Valle Sparebank	7 093 043	0.71%
Grue Sparebank	6 526 478	0.65%
Tolga-Os Sparebank	6 302 072	0.63%
Opdals Sparebank	6 147 516	0.61%
Haltdalen Sparebank	6 061 229	0.60%
Ofoten Sparebank	5 898 141	0.59%
Evje og Hornnes Sparebank	4 946 750	0.49%
Åfjord Sparebank	4 907 392	0.49%
Ørskog Sparebank	4 176 622	0.42%
Soknedal Sparebank	4 021 031	0.40%
Voss Veksel- og Landmandsbank ASA	3 930 979	0.39%
Valdres Sparebank	2 771 363	0.28%
Rindal Sparebank	2 337 975	0.23%
Etnedal Sparebank	1 491 888	0.15%
Lofoten Sparebank	1 078 003	0.11%
Vik Sparebank	1 054 016	0.10%
Gildeskål Sparebank	603 817	0.06%
Aurland Sparebank	315 746	0.03%
Bjugn Sparebank	1	0.00%
Total	**1 003 932 347**	**100%**

The shares have full voting rights pursuant to the company's articles of association.

NOTE 26: CAPITAL ADEQUACY RATIO

Amounts in NOK 1 000	31 Dec 2017	31 Dec 2016
Share capital	**1 003 932**	926 479
Share premium	**2 681 451**	2 433 904
Other paid-in equity	**477 728**	477 728
Other equity	**1 014**	1 009
Total equity recognised in the balance sheet (without tier 1 perpetual bonds)	**4 164 125**	3 839 120
Fund for unrealised gains	**14 700**	14 700
Intangible assets	**(5 989)**	(3 448)
Deferred tax assets[1]	**-**	-
Prudent valuation adjustments of fair valued positions	**(16 685)**	(17 366)
Total core tier 1 capital	**4 156 151**	3 833 006

Core capital adequacy ratio (core tier 1 capital)	31 Dec 2017	31 Dec 2016
Weighted calculation basis	**31 468 201**	29 766 452
Core tier 1 capital	**4 156 151**	3 833 006
Core tier 1 capital ratio	**13.2%**	12.9%
Total core tier 1 capital	**4 156 151**	3 833 006
Tier 1 perpetual bonds	**549 540**	449 236
Total tier 1 capital	**4 705 690**	4 282 242

Capital adequacy ratio (tier 1 capital)	31 Dec 2017	31 Dec 2016
Weighted calculation basis	**31 468 201**	29 766 452
Tier 1 capital	**4 705 690**	4 282 242
Tier 1 capital ratio	**15.0%**	14.4%
Total tier 1 capital	**4 705 690**	4 282 242
Subordinated loans	**599 646**	599 426
Total primary capital (tier 2 capital)	**5 305 336**	4 881 667

Capital adequacy ratio (tier 2 capital)	31 Dec 2017	31 Dec 2016
Weighted calculation basis	**31 468 201**	29 766 452
Total primary capital (tier 2 capital)	**5 305 336**	4 881 667
Capital adequacy ratio	**16.9%**	16.4%
Required capital corresponding to eight per cent of calculation basis	**2 517 456**	2 381 316
Surplus equity and subordinated capital	**2 787 880**	2 500 351

31 December 2017 Calculation basis	Weighted calculation basis	Capital requirement
Credit risk	29 480 676	2 358 454
Operational risk	422 053	33 764
CVA risk[2]	1 565 471	125 238
Total	**31 468 201**	2 517 456

Leverage Ratio	31 Dec 2017	31 Dec 2016
Total Leverage Ratio exposure	**102 892 327**	98 305 084
Tier 1 capital	**4 705 690**	4 282 242
Levereage Ratio	**4.6%**	4.4%

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 calculation basis comprised NOK 31.5 billion at 31 December. This amount represented a quantification of the company's risk. After account has been taken of the growth in overall lending, and in changes to the company's liquidity portfolio, the calculation basis for capital adequacy at 31 December was NOK 1.7 billion higher than at 1 January.

At all times, the company must have a buffer in relation to the minimum capital adequacy requirement of eight per cent. This buffer must be sufficient to cover relevant risks which could affect the company. The company's internal capital adequacy assessment process (ICAAP) is pursued to ensure that it has an adequate buffer in relation to the minimum requirement. The company plans to capitalise continued growth in the residential mortgage portfolio. The company's capital targets are a core tier 1 capital ratio of 13 per cent, a tier 1 capital ratio of 14.5 per cent and a tier 2 capital ratio of 16.5 per cent. These targets are adequate in relation to the legal requirements and capital requirements based on the company's internal assessment of risk. As can be seen above, the applicable buffer requirement was met at 31 December 2017 with a core tier 1 capital ratio of 13.2 per cent.

Capital support from the owner banks is regulated by a shareholder agreement dated 10 May 2012. This includes a commitment by the owner banks that, under given circumstances, they will have to provide the company with the capital required to maintain the company's applicable targets at any given time for tier 1 capital and total primary capital ratios, or higher tier 1 capital and/or total primary capital ratios as required or recommended by the Financial Supervisory Authority of Norway. The individual owner bank's capitalisation obligation is primarily limited to its pro rata share of capital issues, calculated on the basis of each owner bank's share of the company's mortgage portfolio. Should one or more owner banks fail to fulfil their capitalisation obligation pursuant to the agreement, the capitalisation obligation of the remaining owner banks can be raised to a limit of twice their original pro rata share. The agreement on purchasing covered bonds and the shareholder agreement can be terminated under certain conditions.

NOTE 27: OWNERSHIP

Eika Boligkreditt was demerged from Eika Gruppen AS with effect from 18 May 2012. Following the demerger, the company is owned directly by 67 Norwegian banks and OBOS (the owner banks). In conjunction with the owner banks becoming the shareholders of Eika Boligkreditt, a shareholder agreement was entered into which stipulates in part that the ownership of the company is to be rebalanced on an annual basis. This will ensure an annual adjustment so that the holding of each owner bank corresponds to its share of the company's residential mortgage portfolio.

Independent auditor's report

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Translation from the original Norwegian version

To the General Meeting of Eika Boligkreditt AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Eika Boligkreditt AS which comprise the balance sheet as at 31 December 2017, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

IT-systems and control activities relevant for financial reporting

Key audit matter	How the matter was addressed in the audit
Eika Boligkreditt's IT-systems are essential for the accounting and reporting of completed transactions, in order to provide the basis for important estimates and calculations, and to provide relevant notes. The IT-systems are standardized, and parts of management and operation is outsourced to service providers. Note 7 gives a description of development, management and operation of IT-systems in Eika Boligkreditt.	Eika Boligkreditt has established an overall governance model and control activities related to its IT-systems. We gained an understanding of Eika Boligkreditt's overall governance model for IT-systems relevant to financial reporting. We assessed and tested the design of selected control activities relevant to financial reporting related to IT-operations, change management, and information security. For a sample of these control activities, we tested if they operated effectively in the reporting period.

IT-systems and control activities relevant for financial reporting, cont.

Key audit matter	How the matter was addressed in the audit
Effective internal control related to IT-systems both at Eika Boligkreditt and at the service providers is vital to ensure accurate, complete and reliable financial reporting and is therefore a key audit matter.	We assessed and tested the design of selected automated control activities within the IT-systems related to among other calculations and preventive automated controls. For a sample of these control activities, we tested if they operated effectively in the reporting period. We used our own IT specialists to understand the overall governance model for IT-systems and in the assessment and testing of the control activities related to IT-systems.

Valuation of financial instruments

Key audit matter	How the matter was addressed in the audit
Eika Boligkreditt has financial derivatives with a net value in the balance sheet of 7,4 billion NOK as per December 31, 2017 whereof combined interest- and currency swaps constitutes 7,4 billion NOK as per December 31, 2017. The estimates and judgmental assessments concerning the valuation of these financial instruments are described in note 2 and 9 to the financial statements. The risk related to valuation of financial derivatives is particularly related to financial derivatives that are not traded in an active market. At Eika Boligkreditt this is the case for their combined interest- and currency swaps used to hedge exchange and interest risk related to their funding. Elements of basis swaps are included in the valuation of these derivatives. Net gain and loss from basis swaps results in annual net gain and loss in the income statement as there is no corresponding change in fair value on the funding. Valuation of combined interest- and currency swaps is therefore considered a key audit matter in our audit.	Eika Boligkreditt has established certain control activities related to the valuation of combined interest- and currency swaps. We have assessed the design of selected control activities. For a sample of these control activities, we tested if they operated effectively in the reporting period. The control activities we tested where related to the calculation method, determination of the assumptions used and the reasonability of the net gain and loss from the value changes from basis swaps. We challenged management's selection of method and the applied assumptions by considering if these were in line with commonly used valuation standards and industry practice. For combined interest- and currency swaps, we reconciled selected assumptions with the external sources used by the company. Based on the company's own assumptions we also, on a sample basis, calculated the accuracy of gain and loss related to value changes from basis swaps. We also assessed whether the information in related notes was adequate.

Other information

Management is responsible for the other information. The other information comprises the Annual report for 2017, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsiblities of The Board of Directors and the Managing Director for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 15 March 2018
Deloitte AS

Roger Furholm
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only

Key figures

Amounts in NOK 1 000	31 Dec 2017	31 Dec 2016
Balance sheet development		
Lending to customers	**77 285 950**	71 509 279
Debt securities issued	**90 030 259**	86 982 995
Subordinated loan capital	**599 646**	599 426
Equity	**4 769 647**	4 395 719
Equity in % of total assets	**4.8**	4.6
Average total assets[1]	**99 465 781**	92 323 733
Total assets	**99 602 975**	96 017 030
Rate of return/profitability		
Fee and commission income in relation to average total assets, annualised (%)	**0.4**	0.3
Staff and general administration expenses in relation to average total assets, annualised (%)	**0.05**	0.04
Return on equity before tax, annualised (%)[2]	**1.9**	1.4
Total assets per full-time position	**5 030 453**	4 849 345
Cost/income ratio (%)[3]	**24.1**	30.7
Financial strength		
Core tier 1 capital	**4 156 151**	3 833 006
Tier 1 capital	**4 705 690**	4 282 242
Total primary capital (tier 2 capital)	**5 305 336**	4 881 667
Calculation basis capital adequacy ratio	**31 468 201**	29 766 452
Core tier 1 capital ratio (%)	**13.2**	12.9
Tier 1 capital ratio (%)	**15.0**	14.4
Capital adequacy ratio % (tier 2 capital)	**16.9**	16.4
Leverage ratio (%)[4]	**4.6**	4.4
LCR indicator in NOK (%)[7]	**340**	45
LCR indicator in EUR (%)[7]	**261**	98
LCR totalindicator (%)[7]	**251**	67
NSFR totalindicator i %[8]	**101**	97
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 2017	31 Mar 2018	30 Jun 2018	30 Sep 2018	31 Dec 2018
Liquidity Indicator I[5]	104%	107%	101%	106%	101%
Liquidity Indicator II[6]	113%	117%	111%	116%	119%
Average of indicators	**109%**	**112%**	**106%**	**111%**	**110%**

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

[2] Annualised 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: $\frac{\text{Funding with remaining time to maturity exceeding one months}}{\text{Illiquid assets}}$

[7] LCR totalindicator: As a consequence of the updated Norwegian guidelines of 21 December 2016 on the liquidity cover ratio (LCR), liquid assets in the cover pool related to the issue of covered bonds are regarded as encumbered and excluded from the LCR. Combined with a EUR 500 million maturation during the resporting period, this means that Eika Boligkreditt has reported a lower total indicator at 31 December 2016.

[8] NSFR totalindicatorr: Is calculated in accordance with the CRR/CRD IV regulatory and is based on the Basel Committee recommendations.

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