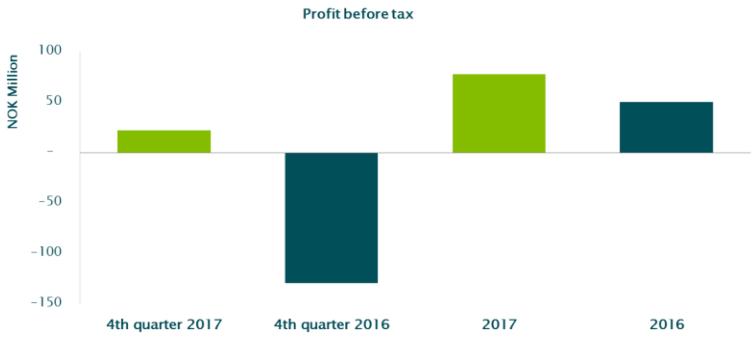
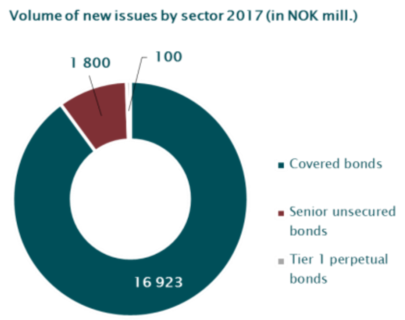
Eika Boligkreditt AS

Interim report for the fourth quarter of 2017

Unaudited

Highlights





Fourth quarter 2017

- Pre-tax profit NOK 22 million (2016: loss of NOK 129 million)
- Pre-tax profit of NOK 55 million (2016: loss of NOK 5 million) excluding NOK 33 million in negative value changes related to changes to the currency basis
- Financing of owner banks up by 1.9 per cent, corresponding to an annualised growth of 7.5 per cent
- Commissions to owner banks of NOK 138 million (2016: NOK 84 million)
- NOK 5.85 billion in bonds issued (2016: NOK 4.8 billion)

Full year 2017

- Pre-tax profit NOK 78 million (2016: NOK 50 million)
- Pre-tax profit of NOK 242 million (2016: NOK 165 million) excluding NOK 164 million in negative value changes related to changes to the currency basis
- Financing of owner banks up by 8.1 per cent
- Commissions to owner banks of NOK 433 million (2016: NOK 322 million)
- NOK 18.8 billion in bonds issued (2016: NOK 16.5 billion)
- The company's covered bonds were upgraded from Aa1 to Aaa

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

INTERIM REPORT FOR THE FOURTH QUARTER AND FULL YEAR OF 2017

Introduction

Eika Boligkreditt's main purpose is to ensure access for the local banks in the Eika Alliance (the owner banks) to long-term and competitive funding by issuing covered bonds. An important part of the company's business concept is to increase the competitiveness of the owner banks by improving their access to external funding in the Norwegian and international financial markets with regard to the tenor of loans, their terms and the depth of access. The object of the company's business is to reduce risk for the owner banks. At 31 December 2017, the owner banks had NOK 77.3 billion in total financing with Eika Boligkreditt and had thereby reduced the need for their own market and deposit financing by a corresponding amount.

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

Profit and loss account for the fourth quarter and full year of 2017

Amount i NOK tusen	4th quarter 2017	4th quarter 2016	2 017	2 016
Total interest income	520 456	479 150	2 049 291	1 861 340
Net interest income	202 735	106 025	683 490	481 965
Commission costs	132 043	76 984	410 449	299 523
Total gain and losses on financial instruments at fair value	(31 559)	(142 527)	(135 312)	(81 763)
Profit before taxes	**21 930**	**(129 373)**	**77 851**	**50 296**

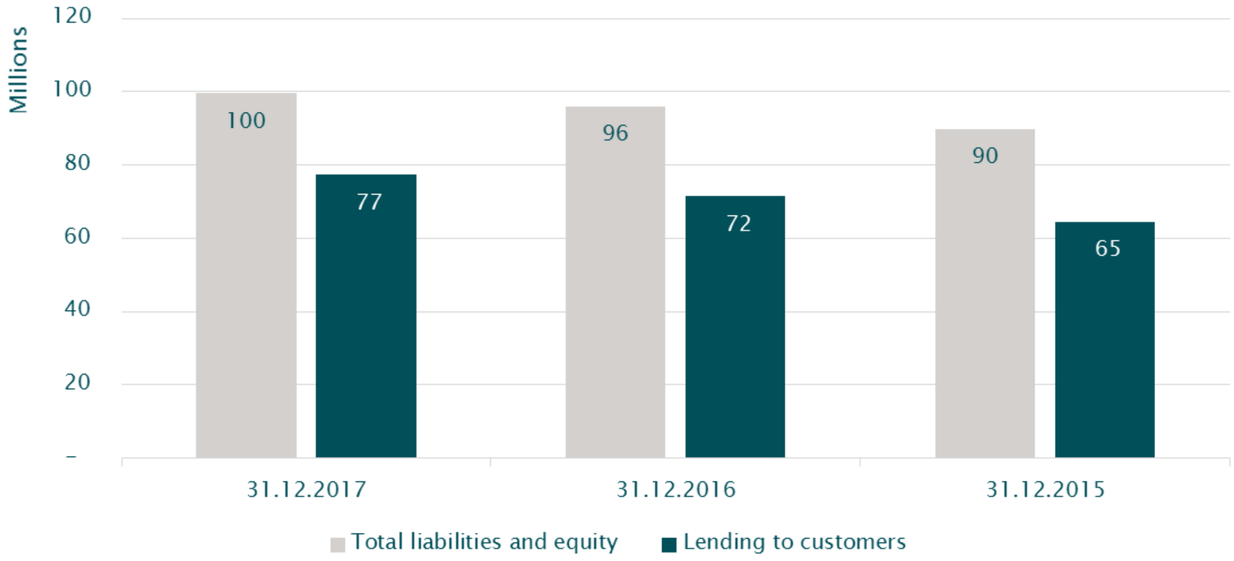
The rise in the company's interest income reflected increased lending volumes. The growth in net interest income reflected higher loan margins because interest rates on borrowing declined more than interest rates for residential mortgages.

The fourth-quarter profit included negative changes of NOK 33 million (2016: NOK 125 million) in the value of basis swaps, so that the pre-tax profit excluding such changes came to NOK 54.9 million (2016: NOK loss of 5 million). For the full year, negative changes in basis swaps amounted to NOK 164 million (2016: NOK 115 million), so that the pre-tax profit excluding such value changes was NOK 242 million (NOK 165 million).

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.

Interest on tier 1 perpetual bonds of NOK 6.5 million in the fourth quarter and NOK 24.7 million in the full year is not presented as an interest expense in the income statement, but as a reduction in equity.

Balance sheet and liquidity

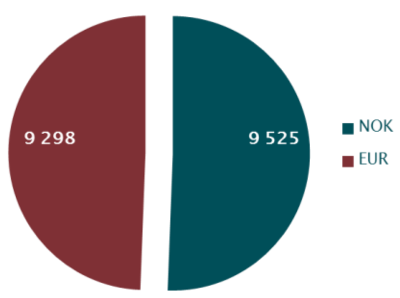


Assets under management by Eika Boligkreditt amounted to NOK 99.6 billion at 31 December 2017. Financing of the banks (residential mortgage lending to customers) came to NOK 77.3 billion at 31 December, representing a net increase of NOK 1.4 billion in the fourth quarter and NOK 5.8 billion for the full year. That represents a net growth in lending of 8.1 per cent for 2017. This reflected an increased financing requirement at the owner banks related to the growth in their mortgage lending.

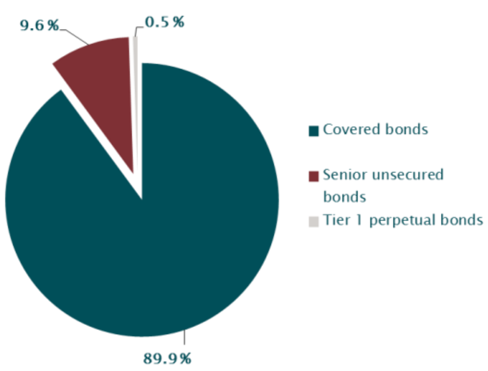
Borrowing

Eika Boligkreditt issued bonds with a nominal value of NOK 5.85 billion in the fourth quarter, compared with NOK 4.8 billion in the same period of 2016. Bonds with a nominal value of NOK 18.8 billion were issued in the full year, compared with NOK 16.5 billion for the same period of last year. Issues in 2017 broke down between NOK 16.9 billion in covered bonds, NOK 1.8 billion in senior unsecured bonds and NOK 100 million in tier 1 perpetual bonds.

Issues by currency (in NOK mill) in 2017



Issues by sector (in %) in 2017



Of bond issues in 2017, 49 per cent were denominated in euros and 51 per cent in Norwegian kroner. Covered bonds accounted for 90 per cent of the issue volume.

The table below shows issues (excluding tier 1 perpetual bonds) in 2017, 2016 and 2015.

New issues (amounts in NOK million)	2017	2016	2015
Covered bonds (issued in EUR)	9 298	4 650	4 636
Covered bonds (issued in NOK)	7 625	10 725	6 250
Senior unsecured bonds (issued in NOK)	1 800	950	450
Subordinated loans (issued in NOK)	-	150	200
Totalt issued	**18 823**	**16 475**	**11 536**

The average tenor for bonds issued in 2017 was 5.74 years. The average tenor for the company's borrowing portfolio at 31 December 2017 was 3.87 years, up from 3.64 years at 1 January.

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

Carrying value in NOK million	31 Dec 2017	31 Dec 2016	31 Dec 2015
Covered bonds	87 203	84 109	76 950
Senior unsecured bonds	2 827	2 874	2 926
Subordinated loans	600	599	449
Total borrowing	**90 630**	**87 582**	**80 325**

The company's total borrowing at 31 December was NOK 90.6 billion, up by NOK 3 billion from 1 January.

Liquidity

At 31 December 2017, the company had a total liquidity portfolio of NOK 14.7 billion when account is taken of existing repo agreements recognised as other financial assets. This figure includes cash collateral of NOK 3.8 billion received from counterparties to derivative contracts. Cash collateral received is held as bank deposits, repo agreements and various high-quality securities. In addition to cash collateral, the company has received collateral in the form of high-quality bonds corresponding in value to NOK 2.6 billion. The value of bonds provided as collateral is not recognised in the company's liquidity portfolio or balance sheet.

Notice of termination of agreements with Eika Gruppen AS

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

Changes to the Eika Boligkreditt AS board

Bjørn Riise, chair of Eika Boligkreditt AS, notified the nomination committee on 29 January 2018 that he was resigning from his post as chair with immediate effect. This resignation must be seen in relation to the termination issue, since Klæbu Sparebank is one of the 11 banks which has given notice to terminate its agreements with Eika Gruppen AS. To avoid problems with conflicts of interest, Riise opted to resign as chair. Deputy chair Tor Egil Lie will act as chair until the annual general meeting, which will be held in mid-April 2018. The company's nomination committee has started work on proposals for a new board composition, including election of the chair, which will be submitted to the Annual General Meeting.

Risk management and capital adequacy

Eika Boligkreditt had a total primary capital of NOK 5.3 billion at 31 December 2017, an increase of NOK 423 million since 1 January. This rise reflected additional equity raised through two private placements of shares with the company's owner banks of NOK 125 million and NOK 200 million in the first and third quarters respectively, as well as a new tier 1 perpetual bond of NOK 100 million issued in the second quarter.

Capital adequacy is calculated in accordance with the standard method specified in the regulations on capital requirements.

Eika Boligkreditt calculates the risk of credit valuation adjustment (CVA) at counterparties. The basis for calculating the capital adequacy ratio at 31 December amounted to NOK 31.4 billion. This amount represents a quantification of the company's risk, and its primary capital is calculated as a proportion of this calculation base.

The table below presents developments in the capital adequacy ratio.

Amounts in NOK million	31 Dec 2017	31 Dec 2016	31 Dec 2015
Risk-weighted assets	31 447	29 766	27 510
Total primary capital (tier 2 capital)	5 305	4 882	4 505
Capital adequacy ratio in per cent	**16.9 %**	**16.4 %**	**16.4 %**

The company's capital targets are specified as follows:

- core tier 1 capital ratio: 13.0 per cent (13.2 per cent at 31 December 2017)
- tier 1 capital ratio: 14.5 per cent (15.0 per cent at 31 December 2017)
- tier 2 capital ratio: 16.5 per cent (16.9 per cent at 31 December 2017)

These targets are adequate in relation to legal and capital requirements based on the company's internal risk assessment. As shown above, the applicable buffer requirements were fulfilled at 31 December 2017 with a core tier 1 capital adequacy of 13.2 per cent.

Outlook

The company's financing of the owner banks grew by a net NOK 5.8 billion in 2017, which represents a 12-monthly growth of 8.1 per cent. Statistics Norway's credit indicator for December 2017 showed a 12-monthly increase of 6.5 per cent in Norwegian household debt. The owner banks increased their lending – including the volume transferred to Eika Boligkreditt – by 7.7 per cent for the 12 months to 30 September 2017. Expanding lending faster than the market rate means an increase in market share for the Eika banks.

The lending survey from the Bank of Norway for the fourth quarter of 2017 showed no change in household demand for borrowing, in credit practice or in lending terms. Where the first quarter of 2018 is concerned, the banks expect slightly weaker demand by householders and no change in credit practice or lending terms. It thereby appears that the restrictions in credit practice adopted by the banks towards households in the first nine months of 2017 are a thing of the past. A weaker trend for house prices is an important factor in expectations of weaker demand for borrowing in the time to come.

According to the house price report from Real Estate Norway for December 2017, average Norwegian house prices were 2.1 per cent lower than they were at 1 January. Seasonally adjusted prices fell by 2.4 per cent on a national basis during the fourth quarter. This was the third quarter with a negative trend, after prices declined by 1.1 per cent in July-September and 1.5 per cent April-June, compared with a rise of 1.1 per cent in the first quarter. The fall in prices was strongest in Oslo. The big regional differences in house price developments seen over the past couple of years have now narrowed significantly. The annualised pace of house-price developments slowed substantially during 2017, and prices fell in all the big cities. However, examples of house-price growth can be seen in the areas around the major urban centres. Uncertainty over trends in this sector is now greater than for a long time. The reversal must be seen in relation to the alterations to the residential mortgage regulations, the record level of housebuilding in recent years and reduced labour immigration.

The bond market has been characterised in 2017 by good liquidity and a 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 with a five-year tenor in Norwegian kroner fell by 19 basis points to 35 during 2017.

Preliminary seasonally adjusted figures from the quarterly national accounts show a clear upturn in economic growth during 2017, with the economy expanding faster than the trend rate (Statistics Norway calculates a trend growth of just under two per cent at an annualised rate) in the first three quarters. Very expansive financial and monetary policies, a weak krone and a sharp expansion in housebuilding have moderated the downturn and contributed to the upturn in the business cycle. In addition, impulses from petroleum investment reversed from being sharply negative in 2014-16 to marginally negative in 2017.

Norway's robust macroeconomic position is expected to mean good demand for covered bonds from Norwegian issuers in 2018. The bond market is also affected positively by the total number of covered bonds denominated in euros which mature in 2018, and by the fact that the European Central Bank is an active buyer of covered bonds from banks in the eurozone. Liquidity is good in both Norwegian and international financial markets. Eika Boligkreditt expects to be an active issuer in both Norwegian and international financial markets in the time to come.

Oslo, 6 February 2017

The board of directors of Eika Boligkreditt AS

Tor Egil LIe
Chair

Jon Guste Pedersen

Terje Svendsen

Olav Sem Austmo

Rune Iversen

Kjartan M Bremnes
CEO

Statement of comprehensive income

Amounts in NOK 1 000	Notes	4Q 2017	4Q 2016	2017	2016
INTEREST INCOME					
Interest from loans to customers		**481 719**	433 810	**1 884 450**	1 708 294
Interest from loans and receivables on credit institutions		**11 260**	9 459	**32 163**	33 192
Interest from bonds, certificates and financial derivatives		**20 031**	30 017	**103 950**	97 485
Other interest income		**7 446**	5 864	**28 727**	22 369
Total interest income		**520 456**	479 150	**2 049 291**	1 861 340
INTEREST EXPENSES					
Interest on debt securities issued		**311 522**	367 200	**1 342 770**	1 354 496
Interest on subordinated loan capital		**4 952**	5 369	**20 395**	19 780
Other interest expenses		**1 248**	556	**2 636**	5 099
Total interest expenses		**317 721**	373 125	**1 365 801**	1 379 375
Net interest income		**202 735**	106 025	**683 490**	481 965
Commission costs		**132 043**	76 984	**410 449**	299 523
Net interest income after commissions costs		**70 693**	29 041	**273 040**	182 442
Dividend from shares classified as available for sale		-	-	**6 006**	5 652
NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE					
Net gains and losses on bonds and certificates	Note 3	**(2 085)**	(5 133)	**15 972**	32 245
Net gains and losses of fair value hedging on debt securities issued	Note 3, 9	**(37 094)**	(126 112)	**(172 309)**	(112 420)
Net gains and losses on financial derivatives	Note 3	**4 489**	22 292	**3 749**	40 704
Net gains and losses on loans at fair value	Note 3	**3 130**	(33 574)	**17 276**	(42 292)
Total gains and losses on financial instruments at fair value		**(31 559)**	(142 527)	**(135 312)**	(81 763)
SALARIES AND GENERAL ADMINISTRATIVE EXPENSES					
Salaries, fees and other personnel expenses		**8 059**	7 695	**29 296**	22 594
Administrative expenses		**4 718**	4 113	**18 267**	17 100
Total salaries and administrative expenses		**12 777**	11 808	**47 563**	39 694
Depreciation		**440**	463	**1 900**	1 747
Other operating expenses		**3 986**	3 616	**16 422**	14 594
Losses on loans and guarantees		-	-	-	-
PROFIT BEFORE TAXES		**21 930**	(129 373)	**77 851**	50 296
Taxes		**6 372**	(32 790)	**18 019**	11 370
PROFIT FOR THE PERIOD		**15 559**	(96 583)	**59 831**	38 926
Other comprehensive income		-	-	-	-
COMPREHENSIVE INCOME FOR THE PERIOD		**15 559**	(96 583)	**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

Amounts in NOK 1 000	Notes	**31 Dec. 2017**	31 Dec. 2016
ASSETS			
Lending to and receivables from credit institutions		**1 735 677**	2 215 466
Lending to customers	Note 4, 9	**77 285 950**	71 509 279
Other financial assets		**357 761**	786 862
Securities			
Bonds and certificates at fair value through profit or loss	Note 5,9	**12 712 300**	13 671 888
Financial derivatives	Note 8, 9	**7 452 520**	7 788 473
Shares classified as available for sale	Note 10,11	**32 200**	29 700
Total securities		**20 197 020**	21 490 061
Intangible assets			
Deferred tax assets		**20 578**	11 913
Other intangible assets		**5 989**	3 448
Total intangible assets		**26 566**	15 361
TOTAL ASSETS		**99 602 975**	96 017 030
LIABILITIES AND EQUITY			
Loans from credit institutions	Note 13	**3 791 533**	3 394 213
Financial derivatives	Note 8, 9	**76 779**	289 988
Debt securities issued	Note 6	**90 030 259**	86 982 995
Other liabilities		**332 106**	352 430
Pension liabilities		**3 005**	2 259
Deferred tax		**-**	-
Subordinated loan capital	Note 7	**599 646**	599 426
TOTAL LIABILITIES		**94 833 328**	91 621 311
Called-up and fully paid capital			
Share capital		**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	Note 12	**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	Note 12	**56 997**	108 372
Hybrid capital			
Tier 1 capital		**549 540**	449 236
Total hybrid capital		**549 540**	449 236
TOTAL EQUITY		**4 769 647**	4 395 719
TOTAL LIABILITIES AND EQUITY		**99 602 975**	96 017 030

Statement of changes in equity

Amounts in NOK 1 000	Share capital [1]	Share premium [1]	Paid-in unregistered increase in capital [6]	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 2016	**856 673**	**2 203 709**	**-**	**477 728**	**85 773**	**169 808**	**448 775**	**4 242 467**
Result for the period	-	-	-	-	64 167	36 859	5 812	106 838
Interest tier 1 capital	-	-	-	-	-	-	(5 697)	(5 697)
Taxes on interest tier 1 capital	-	-	-	-	-	1 453	-	1 453
Balance sheet as at 31 March 2016	**856 673**	**2 203 709**	**-**	**477 728**	**149 940**	**208 120**	**448 890**	**4 345 061**
Result for the period	-	-	-	-	(19 646)	38 822	5 700	24 876
Equity issue	35 450	114 550	-	-	-	-	-	150 000
Disbursed dividends for 2015	-	-	-	-	-	(168 799)	-	(168 799)
Interest tier 1 capital	-	-	-	-	-	-	(5 586)	(5 586)
Taxes on interest tier 1 capital	-	-	-	-	-	1 425	-	1 425
Balance sheet as at 30 June 2016	**892 123**	**2 318 259**	**-**	**477 728**	**130 294**	**79 568**	**449 005**	**4 346 977**
Result for the period	-	-	-	-	(34 252)	32 289	5 759	3 796
Interest tier 1 capital	-	-	-	-	-	-	(5 643)	(5 643)
Taxes on interest tier 1 capital	-	-	-	-	-	1 440	-	1 440
Balance sheet as at 30 September 2016	**892 123**	**2 318 259**	**-**	**477 728**	**96 042**	**113 297**	**449 121**	**4 346 570**
Result for the period	-	-	-	-	(81 342)	(21 086)	5 844	(96 584)
Equity issue	34 356	115 644	-	-	-	-	-	150 000
Interest tier 1 capital	-	-	-	-	-	-	(5 728)	(5 728)
Taxes on interest tier 1 capital	-	-	-	-	-	1 461	-	1 461
Balance sheet as at 31 December 2016	**926 479**	**2 433 903**	**-**	**477 728**	**14 700**	**93 672**	**449 237**	**4 395 719**
Result for the period	-	-	-	-	-	(6 629)	5 715	(914)
Equity issue	-	-	125 000	-	-	-	-	125 000
Interest tier 1 capital	-	-	-	-	-	-	(5 601)	(5 601)
Taxes on interest tier 1 capital	-	-	-	-	-	1 429	-	1 429
Balance sheet as at 31 March 2017	**926 479**	**2 433 903**	**125 000**	**477 728**	**14 700**	**88 473**	**449 349**	**4 515 632**
Result for the period	-	-	-	-	-	(8 540)	5 833	(2 707)
Equity issue	29 345	95 655	-125 000	-	-	-	-	-
Disbursed dividends for 2016	-	-	-	-	-	(92 658)	-	(92 658)
Interest tier 1 capital	-	-	-	-	-	-	(5 716)	(5 716)
Hybrid capital	-	-	-	-	-	-	99 825	99 825
Taxes on interest tier 1 capital	-	-	-	-	-	1 458	-	1 458.29
Balance sheet as at 30 June 2017	**955 824**	**2 529 558**	**-**	**477 728**	**14 700**	**(11 266)**	**549 291**	**4 515 835**
Result for the period	-	-	-	-	-	41 247	6 645	47 892
Equity issue	48 108	151 892	-	-	-	-	-	200 000
Interest tier 1 capital	-	-	-	-	-	-	(6 521)	(6 521)
Hybrid capital	-	-	-	-	-	-	-	-
Taxes on interest tier 1 capital	-	-	-	-	-	1 661	-	1 661.23
Balance sheet as at 30 September 2017	**1 003 932**	**2 681 450**	**-**	**477 728**	**14 700**	**31 642**	**549 415**	**4 758 868**
Result for the period	-	-	-	-	-	9 020	6 539	15 559
Equity issue	-	-	-	-	-	-	-	-
Interest tier 1 capital	-	-	-	-	-	-	(6 414)	(6 414)
Hybrid capital	-	-	-	-	-	-	-	-
Taxes on interest tier 1 capital	-	-	-	-	-	1 635	-	1 635
Balance sheet as at 31 December 2017	**1 003 932**	**2 681 451**	**-**	**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.
Eika Boligkreditt has the right to pay no interest to the investors. A regulatory right of redemption also exists. Should government regulations introduce changes which affect the extent to which the capital can be regarded as tier 1 capital, the bonds can be redeemed at a price equal to 100 per cent plus accrued interest.
The company has reclassified the following tier 1 perpetual bonds from liabilities to equity with effect from the second quarter of 2015:

- NOK 250 million of tier 1 perpetual bonds, issued 2013, with interest terms of three months Nibor plus 4.2 per cent. The loan provides for a call at 23 May 2018, and quarterly thereafter on each date interest payment falls due.
- NOK 200 million of tier 1 perpetual bonds, issued 2014, with interest terms of three months Nibor plus 3.5 per cent. The loan provides for a call at 5 March 2019, and quarterly thereafter on each date interest payment falls due.
- 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 investors. Interest is not recognised as interest expense in the profit and loss account, but as a reduction to equity.

Statement of cash flows

Amounts in NOK 1 000	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)
Gains on bonds and certificates	-	-
Ordinary depreciation	1 900	1 747
Non-cash pension costs	746	(3 796)
Change in loans 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 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)
Payments from shares classified as available for sale	-	-
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 of loans 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

Note 1 – Accounting policies

General

Eika Boligkreditt has prepared its 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 historic cost principle, with the exception of financial assets and financial liabilities at fair value through profit or loss, financial assets classified as available for sale, and financial assets and liabilities that are part of fair value hedges, which have been recorded at fair value. Note 1 of the annual report for 2016 contains further details of accounting policies in accordance with the IFRS.

The financial statements for the fourth quarter of 2017 have been prepared in accordance with IAS 34, Interim financial reporting.

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.

Hedge accounting
IFRS 9 makes it possible to separate the basis margin 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 "value changes basis margin in currency derivatives" 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 affect profit.

Note 2 – Use of estimates and discretion

In the application of the accounting policies, which are described in note 1 of the annual report for 2016, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates.

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

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

Lending, non-performing/doubtful loans and writedowns

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

No loans were written down at 31 December 2017.

Fair value of financial instruments

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

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

Net gains and losses on financial instruments at fair value

Amounts in NOK 1 000	4th quarter 2017	4th quarter 2016	2017	2016
Net gains and losses on loans at fair value	3 130	(33 575)	17 276	(42 292)
Net gains and losses on bonds and certificates	(2 008)	(5 133)	15 944	32 245
Net gains and losses on financial debts, hedged[1]	370 080	169 244	(78 916)	2 645 689
Net gains and losses on interest swaps related to lending	4 489	22 292	3 749	40 704
Net gains and losses on interest swaps related to bonds and certificates	(78)	-	29	-
Net gains and losses on interest and currency swaps related to liabilities	(407 174)	(295 356)	(93 393)	(2 758 110)
Net gains and losses on financial instruments at fair value[2]	**(31 559)**	**(142 527)**	**(135 312)**	**(81 763)**

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

[2] Fourth-quarter comprehensive profit includes positive changes of NOK 33 million in the value of basis swaps. In addition to value changes for basis swaps, fourth-quarter profit includes a profit of NOK 1.4 million in other changes to the value of financial instruments. That gives a total negative change of NOK 31.6 million in the value of financial instruments, compared with negative NOK 142.5 million for the same period of 2016.

In addition to the NOK 164 million in negative value changes for basis swaps, value changes to financial instruments for the fourth quarter of 2017 included NOK 17.3 million in net profit on lending at fair value, a net profit of NOK 3.7 million on financial derivatives, a loss of NOK 8.2 million in fair value hedging on debt securities issued, and a net gain of NOK 15.9 million on bonds and certificates. Profit for the full year of 2017 accordingly includes negative changes of NOK 135.3 million in the value of financial instruments, as against a negative NOK 81.7 million for the same period of 2016.

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

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

Note 4 – Lending to customers

Amounts in NOK 1 000	31 Dec 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]	18 834	3 804
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 Dec 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 Dec 2016

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

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

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

31 December 2017

Amounts in NOK 1 000

Bonds broken down by issuer sector	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 December 2016

Amounts in NOK 1 000

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

Average effective interest rate is 1.51 per cent. 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 6 – Debt securities issued

Covered bonds - amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	31 Dec 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	Establishment	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**

Note 7 – Subordinated loan capital

Subordinated loan capital - amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	31 Dec 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 8 – Coverpool

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. 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 covered bonds in the cover pool is required. Calculating the two-per-cent requirements is based on fair value and the company's own holding of covered bonds.

Calculation of overcollateralisation using nominal values

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

	31 Dec 2017	31 Dec 2016
Covered bonds	79 696 713	76 594 313
Total covered bonds	**79 696 713**	**76 594 313**

Calculation of overcollateralisation at fair value

Cover Pool

Amounts in NOK 1 000	Fair value 31 Dec 2017	Fair value 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

	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**

[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 9 – Derivatives and hedging

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

	31 Dec 2017		31 Dec 2016	
Assets				
Amounts in NOK 1 000	**Nominal amount**	**Fair value**	**Nominal amount**	**Fair value**
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				
Amounts in NOK 1 000	**Nominal amount**	**Fair value**	**Nominal amount**	**Fair value**
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.

	31 Dec 2017		31 Dec 2016	
Amounts in NOK 1 000	**Nominal amount**	**Value recognised in balance sheet**	**Nominal amount**	**Value recognised in balance sheet**
Hedging instruments: interest rate and currency swaps[1,2]	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)**

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

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

Gains/losses on fair value hedging				
Amounts in NOK 1 000	**4th quarter 2017**	**4th quarter 2016**	**2017**	**2016**
Hedging instruments	(407 174)	(295 356)	(93 393)	(2 758 110)
Hedged items	370 080	169 244	(78 916)	2 645 689
Net gains/losses (inefffectiveness)[3]	**(37 094)**	**(126 112)**	**(172 309)**	**(112 420)**

[3]The negative change in value for financial instruments in 2017 relate almost entirely to changes in basis swaps. See note 3 for more information.

Note 10 – Fair value hierarchy

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

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

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

Level 3: Financial instruments where the measurement is based on information other than observable market data
Level 3 comprises loans at fixed interest rates and shares available for sale. The fair value of fixed-rate loans is measured as equal to amortised cost adjusted for the present value of the difference between the loans' fixed rate of interest and the corresponding applicable offered fixed rate at 30 December 2017. Valuation of shares classified as available for sale are based on discounted cash flows.

31 December 2017

Amounts in NOK 1 000	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	3 647 877
Bonds and certificates at fair value through profit or loss	3 782 032	8 930 268	-
Financial derivatives	-	7 452 520	-
Shares classified as available for sale	-	-	32 200
Total financial assets	**3 782 032**	**16 382 788**	**3 680 077**
Financial liabilities			
Financial derivatives	-	76 779	-
Total financial liabilities	**-**	**76 779**	**-**

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

31 December 2016

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

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

Detailed statement of assets classified as level 3

2017 Amounts in NOK 1 000	01 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	01 Jan 2016	Purchases/ issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2016	Other comprehensive income	31 Dec 2016
Lending to customers (fixed-rate loans)	2 979 081	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**

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.

Detailed statement changes in debt related to currency changes

2017 Amounts in NOK 1 000	01 Jan 2017	Purchases/ issues	Disposals/ settlements	31 Dec 2017
Change in debt securities issued [1]	43 156 438	(2 027 100)	758 232	41 887 570
Total	**43 156 438**	**- 2 027 100**	**758 232**	**41 887 570**

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

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

Note 11 – Shares classified as available for sale

Shares classified as available for sale

Amounts in NOK 1 000	Number of shares	Cost price	Book value	Owner share
Eiendomsverdi AS	353 269	15 000	29 700	18.79 %
Nordic Credit Rating	10 000	2 500	2 500	4.99 %
Total	**363 269**	**17 500**	**32 200**	

Note 12 – 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

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

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**

Levereage Ratio	31.12.2017	31.12.2016
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.

The company has a shareholder agreement which commits the owner banks, under given circumstances, to provide it with necessary capital. More information on the shareholder agreement can be found in note 26 to the annual financial statements for 2016.

Note 13 – Loans from credit institutions

Agreements with counterparties regulating trades in OTC derivatives require collateral to be provided in certain cases. Eika Boligkreditt has been provided with such collateral in the form of cash. These cash sums are managed by Eika Boligkreditt for the duration of the collateral provision, and are recognised in the balance sheet as an asset with an associated liability. Both the cash asset and the liability are thereafter measured at amortised cost. At 31 December 2017, Eika Boligkreditt had received cash collateral of NOK 3.8 billion posted by counterparties to derivative contracts. Cash collateral is held in bank deposits, repo agreements and in various high-quality bonds. In addition to cash collateral, the company had also received NOK 2.6 billion in bonds as collateral from counterparties to derivative agreements. The value of the bonds provided as collateral is not recognised in the company's balance sheet.

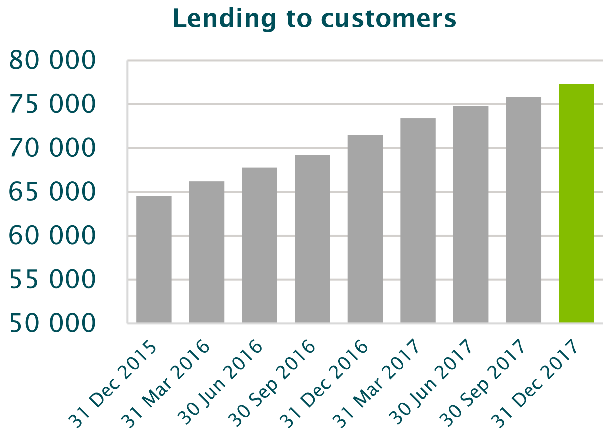
Note 14 – Contingency and overdraft facilities

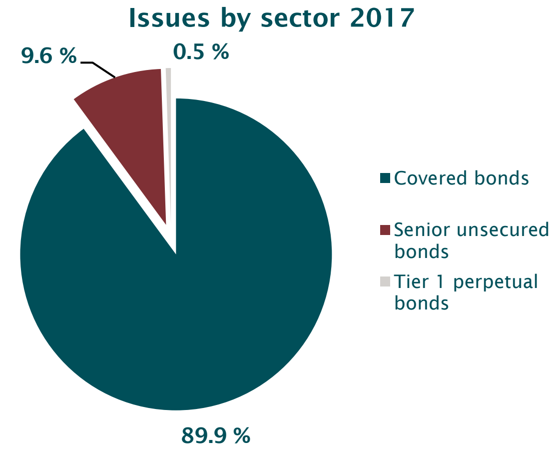
The company has an overdraft facility with DNB Bank ASA (DNB). Note 15 to the annual financial statements for 2016 provides a more detailed presentation of the overdraft with DNB. The company also has a note purchase agreement with the owner banks and OBOS concerning the purchase of covered bonds, whereby the owner banks and OBOS have accepted a liquidity obligation towards Eika Boligkreditt. More information on the note purchase agreement can be found in note 15 to the annual financial statements for 2016.

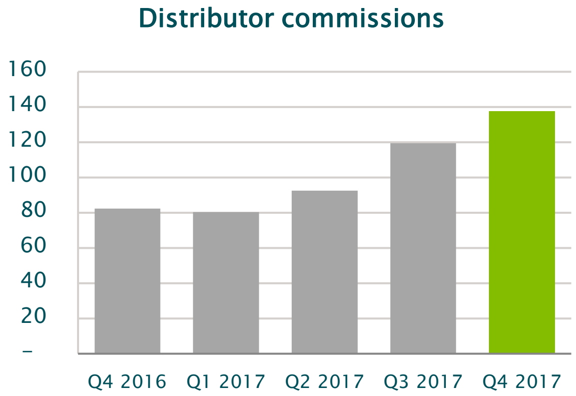
Note 15 – Risk management

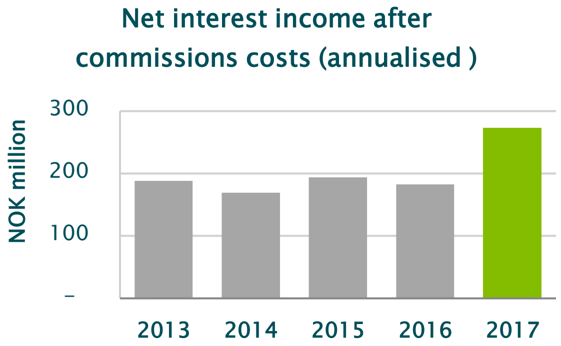
Eika Boligkreditt AS has established a framework for risk management and control in the company, which defines risk willingness and the principles for managing risk and capital. The value of financial assets and liabilities fluctuates as a result of risk in the financial markets. Note 3 to the annual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

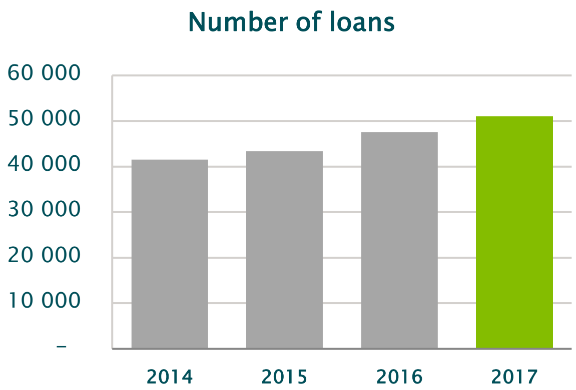
Key figures – Development

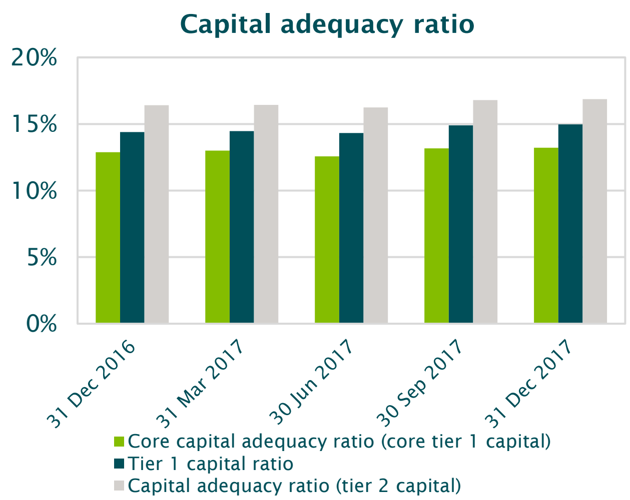












Key figures – Unaudited

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:

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

[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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