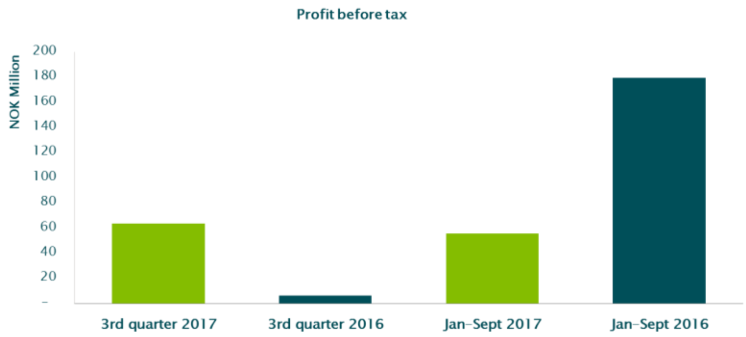
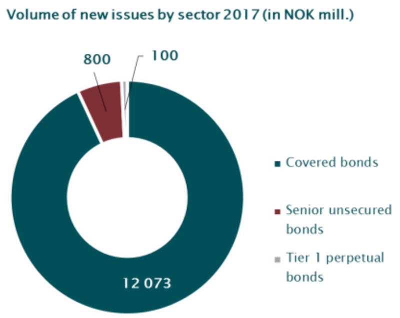
# Eika Boligkreditt AS

## Interim report for the third quarter of 2017

Unaudited

# Highlights




## Third quarter 2017

- Pre-tax profit NOK 63 million (2016: NOK 6 million)
- Pre-tax profit of NOK 58 million (2016: NOK 55 million) excluding NOK 5 million in positive value changes related to changes to the currency basis
- Financing of owner banks up by 1.3 per cent, corresponding to an annualised growth of 5.4 per cent
- Commissions to owner banks of NOK 119 million (2016: NOK 84 million)
- NOK 2 billion in bonds issued (2016: NOK 3.2 billion)

## First nine months 2017

- Pre-tax profit NOK 56 million (2016: NOK 180 million)
- Pre-tax profit of NOK 188 million (2016: NOK 170 million) excluding NOK 131 million in negative value changes related to changes to the currency basis
- Financing of owner banks up by 6.1 per cent, corresponding to an annualised growth of 8.1 per cent
- Commissions to owner banks of NOK 296 million (2016: NOK 238 million)
- NOK 13 billion in bonds issued (2016: NOK 11.2 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 THIRD QUARTER AND FIRST NINE MONTHS 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 30 September 2017, the owner banks had NOK 75.9 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 third quarter and first nine months of 2017

| Beløp i NOK tusen | 3rd quarter 2017 | 3rd quarter 2016 | Jan-Sept 2017 | Jan-Sept 2016 |
|---|---|---|---|---|
| Total interest income | 517 605 | 458 946 | 1 528 834 | 1 382 190 |
| Net interest income | 183 062 | 119 184 | 480 754 | 375 941 |
| Commission costs | 114 350 | 78 918 | 278 407 | 222 540 |
| Total gain and losses on financial instruments at fair value | 10 269 | (23 672) | (103 752) | 60 764 |
| **Profit before taxes** | **63 469** | **6 167** | **55 920** | **179 669** |

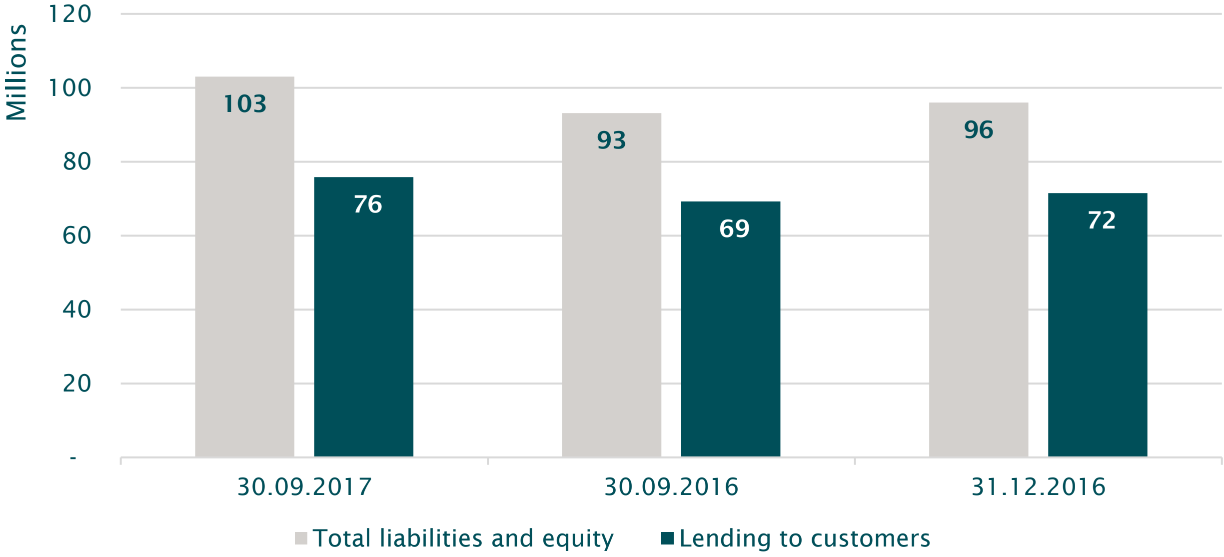
The increase in the company's interest income reflected increased lending volumes and marginally higher interest rates on residential mortgages in the cover pool. The growth in net interest income reflected the rise in loan margins because interest rates on residential mortgages increased more than interest rates on borrowing.

The third-quarter profit included positive changes of NOK 5 million (2016: negative at NOK 48.7 million) in the value of basis swaps, so that the pre-tax profit excluding such changes came to NOK 58 million (2016: NOK 54.9 million). For the first nine months, negative changes in basis swaps amounted to NOK 131 million (2016: positive at NOK 9.8 million), so that the pre-tax profit excluding such value changes was NOK 188 million (NOK 170 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 the first nine months of the year, the volume-weighted currency basis from euros to Norwegian kroner for the derivative portfolio contracted by 8.6 basis points, from 32.2 to 23.6. 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 value 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 6.6 million in the third quarter and NOK 18.2 million in the first nine months is not presented as an interest expense in the income statement, but as a reduction in equity.

## Balance sheet and liquidity

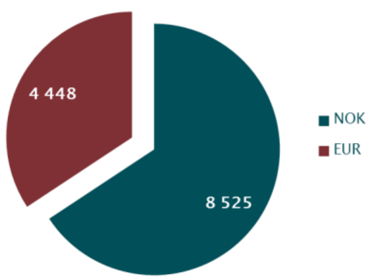



Assets under management by Eika Boligkreditt amounted to NOK 103.1 billion at 30 September 2017. Financing of the banks (residential mortgage lending to customers) came to NOK 75.9 billion at 30 September, representing a net increase of NOK 1 billion in the third quarter and NOK 4.3 billion from 1 January. That represents a net growth in lending of 6.1 per cent for the first nine months, corresponding to an annualised rate of 8.1 per cent. This reflected an increased financing requirement at the owner banks related to the growth in their mortgage lending.

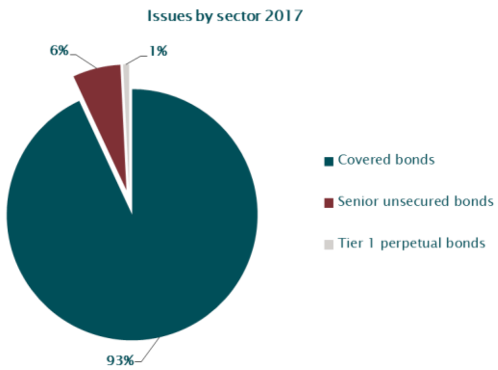
### Borrowing

Eika Boligkreditt issued bonds with a nominal value of NOK 2 billion in the third quarter, compared with NOK 3.2 billion in the same period of 2016. Bonds with a nominal value of NOK 13 billion were issued in the first nine months compared with NOK 11.7 billion for the same period of last year. Issues for the first nine months broke down between NOK 12.1 billion in covered bonds, NOK 800 million 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, 34 per cent were denominated in euros and 66 per cent in Norwegian kroner. Covered bonds accounted for 93 per cent of the issue volume.

The table below shows issues (excluding tier 1 perpetual bonds) in the first nine months of 2017, the corresponding period of 2016, and the full year in 2016 and 2015.

| New issues (amounts in NOK million) | Jan-Sept 2017 | Jan-Sept 2016 | 2016 | 2015 |
|---|---|---|---|---|
| Covered bonds (issued in EUR) | 4 448 | 4 650 | 4 650 | 4 636 |
| Covered bonds (issued in NOK) | 7 625 | 6 550 | 10 725 | 6 250 |
| Senior unsecured bonds (issued in NOK) | 800 | 300 | 950 | 450 |
| Subordinated loans (issued in NOK) | - | 150 | 150 | 200 |
| **Totalt issued** | **12 973** | **11 650** | **16 475** | **11 536** |

The average tenor for bonds issued in 2017 was 5.6 years. The average tenor for the company's borrowing portfolio at 30 September 2017 was 3.56 years, down 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 | 30 Sep 2017 | 30 Sep 2016 | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|---|
| Covered bonds | 90 832 | 80 632 | 84 109 | 76 950 |
| Senior unsecured bonds | 2 888 | 2 823 | 2 874 | 2 926 |
| Subordinated loans | 600 | 599 | 599 | 449 |
| **Total borrowing** | **94 320** | **84 055** | **87 582** | **80 325** |

The company's total borrowing at 30 September was NOK 94.3 billion, up by NOK 6.7 billion from 1 January.

### Liquidity

At 30 September 2017, the company had a total liquidity portfolio of NOK 19 billion when account is taken of existing repo agreements recognised as other financial assets. This figure includes cash collateral of NOK 3.5 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 3.1 billion. The value of bonds provided as collateral is not recognised in the company's liquidity portfolio or balance sheet.

## Risk management and capital adequacy

Eika Boligkreditt had a total primary capital of NOK 5.3 billion at 30 September 2017, an increase of NOK 421 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 30 September amounted to NOK 31.6 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 | 30 Sep 2017 | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|
| Risk-weighted assets | 31 557 | 29 766 | 27 510 |
| Total primary capital (tier 2 capital) | 5 303 | 4 882 | 4 505 |
| **Capital adequacy ratio in per cent** | **16.8 %** | **16.4 %** | **16.4 %** |

The company's capital targets are specified as follows:

- core tier 1 capital ratio: 12.5 per cent (13.2 per cent at 30 September 2017)
- tier 1 capital ratio: 14.0 per cent (14.9 per cent at 30 September 2017)
- tier 2 capital ratio: 16.0 per cent (16.8 per cent at 30 September 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 30 September 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 4.3 billion in the first nine months and by NOK 6.6 billion over the past 12 months. This represents a 12-monthly growth of 9.6 per cent in financing. Statistics Norway's credit indicator for August 2017 showed a 12-monthly increase of 6.6 per cent in Norwegian household debt. The owner banks increased their lending – including the volume transferred to Eika Boligkreditt – by 10 per cent for the 12 months to 30 June 2017, compared with 4.4 per cent growth for the market overall. Expanding lending faster than the market means an increase in market share for the Eika banks.

The lending survey from the Bank of Norway for the third quarter of 2017 showed some fall in household demand for borrowing, an increase in lending margins because financing costs declined, and virtually no change in credit practice. Where the fourth quarter is concerned, the banks expect no change in credit practice, loan terms, interest rates on loans or lending margins for householders, while demand for borrowing is expected to continue declining. In this report, the banks were asked to report the relative significance of the various restrictions introduced to the regulations on lending for residential mortgages in January 2017. Of the four measures adopted, the income ceiling on borrowing was considered to have had the biggest dampening effect. The second most important was the reduction in the loan-to-value ratio for secondary homes in Oslo.

According to the house price report from Real Estate Norway for September 2017, average Norwegian house prices were 1.5 per cent higher than they were 12 months earlier. Seasonally adjusted prices fell by 1.1 per cent on a national basis during the third quarter. This was the second quarter period with a negative trend, after prices declined by 1.5 per cent in April-June compared with rises of 1.1 per cent and 3.2 per cent in the first quarter and the fourth quarter of 2016 respectively. 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. A clear change of pace has occurred in the housing market over the past six months. Uncertainty over trends in this sector is now greater than it has been for a long time. The change 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 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 16 basis points to 38 during the first nine months of 2017.

Preliminary seasonally adjusted figures from the quarterly national accounts show a clear upturn in economic growth during the first half of 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 two quarters. Very expansive financial and monetary policies, a weak krone and a sharp expansion in housebuilding have softened 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 weakly positive in the first half of 2017.

Norway's robust macroeconomic position, combined with a net negative supply of covered bonds denominated in euros for investors, means good demand for covered bonds from Norwegian issuers. Liquidity is good in both Norwegian and international financial markets. With good liquidity in the markets and good demand for the company's financing from the owner banks, Eika Boligkreditt expects to be an active issuer in both Norwegian and international financial markets in the time to come.

Oslo, 13 November 2017

The board of directors of Eika Boligkreditt AS

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

# Statement of comprehensive income

| Amounts in NOK 1 000 | Notes | 3Q 2017 | 3Q 2016 | Jan-sept 2017 | Jan-sept 2016 | 2016 |
|---|---|---|---|---|---|---|
| **INTEREST INCOME** | | | | | | |
| Interest from loans to customers | | **475 853** | 423 015 | **1 402 731** | 1 274 484 | 1 708 294 |
| Interest from loans and receivables on credit institutions | | **7 694** | 7 716 | **20 902** | 23 733 | 33 192 |
| Interest from bonds, certificates and financial derivatives | | **27 303** | 22 061 | **83 920** | 67 468 | 97 485 |
| Other interest income | | **6 756** | 6 155 | **21 281** | 16 505 | 22 369 |
| **Total interest income** | | **517 605** | 458 946 | **1 528 834** | 1 382 190 | 1 861 340 |
| **INTEREST EXPENSES** | | | | | | |
| Interest on debt securities issued | | **329 023** | 333 315 | **1 031 248** | 987 295 | 1 354 496 |
| Interest on subordinated loan capital | | **5 049** | 5 264 | **15 443** | 14 411 | 19 780 |
| Other interest expenses | | **471** | 1 183 | **1 389** | 4 543 | 5 099 |
| **Total interest expenses** | | **334 543** | 339 762 | **1 048 080** | 1 006 249 | 1 379 375 |
| **Net interest income** | | **183 062** | 119 184 | **480 754** | 375 941 | 481 965 |
| **Commission costs** | | **114 350** | 78 918 | **278 407** | 222 540 | 299 523 |
| **Net interest income after commission costs** | | **68 713** | 40 267 | **202 348** | 153 401 | 182 442 |
| **Dividend from shares classified as available for sale** | | **-** | - | **6 006** | 5 652 | 5 652 |
| **NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE** | | | | | | |
| Net gains and losses on bonds and certificates | Note 3 | **637** | 15 595 | **18 058** | 37 378 | 32 245 |
| Net gains and losses of fair value hedging on debt securities issued | Note 3, 9 | **9 600** | (45 669) | **(135 216)** | 13 692 | (112 420) |
| Net gains and losses on financial derivatives | Note 3 | **(851)** | 26 443 | **(740)** | 18 412 | 40 704 |
| Net gains and losses on loans at fair value | Note 3 | **883** | (20 042) | **14 146** | (8 717) | (42 292) |
| **Total gains and losses on financial instruments at fair value** | | **10 269** | (23 672) | **(103 752)** | 60 764 | (81 763) |
| **PAY AND GENERAL ADMINISTRATIVE EXPENSES** | | | | | | |
| Pay, fees and other personnel expenses | | **7 336** | 2 260 | **21 237** | 14 899 | 22 594 |
| Administrative expenses | | **3 859** | 4 370 | **13 549** | 12 987 | 17 100 |
| **Total pay and administrative expenses** | | **11 195** | 6 630 | **34 786** | 27 886 | 39 694 |
| Depreciation | | **432** | 403 | **1 460** | 1 284 | 1 747 |
| Other operating expenses | | **3 886** | 3 395 | **12 435** | 10 978 | 14 594 |
| Losses on loans and guarantees | | **-** | - | **-** | - | - |
| **PROFIT BEFORE TAX** | | **63 469** | 6 167 | **55 920** | 179 669 | 50 296 |
| Taxes on other comprehensive income | | **15 577** | 2 371 | **11 648** | 44 159 | 11 370 |
| **PROFIT FOR THE PERIOD** | | **47 892** | 3 795 | **44 273** | 135 510 | 38 926 |
| Other comprehensive income | | **-** | - | **-** | - | - |
| **COMPREHENSIVE INCOME FOR THE PERIOD** | | **47 892** | 3 795 | **44 273** | 135 510 | 38 926 |

Of the total comprehensive income for the period above, NOK 26 080 thousand is attributable to the shareholders of the company and NOK 18 193 thousand to the hybrid capital investors.

# Balance sheet

| Amounts in NOK 1 000 | Notes | 30. sep. 2017 | 30. sep. 2016 | 31 Dec 2016 |
|---|---|---|---|---|
| ASSETS | | | | |
| **Lending to and receivable from credit institutions** | | **2 849 441** | 2 011 470 | 2 215 466 |
| **Lending to customers** | Note 4, 9 | **75 867 568** | 69 239 680 | 71 509 279 |
| **Other financial assets** | | **1 494 258** | 110 802 | 786 862 |
| **Securities** | | - | - | - |
| Bonds and certificates at fair value through profit or loss | Note 5,9 | **14 839 542** | 13 780 392 | 13 671 888 |
| Financial derivatives | Note 8,9 | **7 949 436** | 7 959 396 | 7 788 473 |
| Shares classified as available for sale | Note 10, 11 | **32 200** | 29 700 | 29 700 |
| **Total securities** | | **22 821 178** | 21 769 488 | 21 490 061 |
| **Other intangible assets** | | | | |
| Deferred tax assets | | **11 913** | - | 11 913 |
| Intangible assets | | **6 429** | 2 674 | 3 448 |
| **Total other intangible assets** | | **18 342** | 2 674 | 15 361 |
| TOTAL ASSETS | | **103 050 788** | 93 134 114 | 96 017 030 |
| LIABILITIES AND EQUITY | | | | |
| **Loans from credit institutions** | Note 13 | **3 509 786** | 4 197 655 | 3 394 213 |
| **Financial derivatives** | Note 8,9 | **151 692** | 182 460 | 289 988 |
| **Debt securities issued** | Note 6 | **93 720 419** | 83 455 481 | 86 982 995 |
| **Other liabilities** | | **311 293** | 315 188 | 352 430 |
| **Pension liabilities** | | **2 259** | 1 581 | 2 259 |
| **Deferred tax** | | - | 40 128 | - |
| **Subordinated loan capital** | Note 7 | **599 590** | 599 370 | 599 426 |
| TOTAL LIABILITIES | | **98 295 039** | 88 791 863 | 91 621 311 |
| **Called-up and fully paid capital** | | | | |
| Share capital | | **1 003 932** | 892 123 | 926 479 |
| Share premium | | **2 681 451** | 2 318 260 | 2 433 904 |
| Other paid-in equity | | **477 728** | 477 728 | 477 728 |
| **Total called-up and fully paid capital** | Note 12 | **4 163 111** | 3 688 111 | 3 838 111 |
| **Retained earnings** | | | | |
| Fund for unrealised gains | | **14 700** | 96 042 | 14 700 |
| Other equity | | **28 523** | 108 979 | 93 672 |
| **Total retained equity** | Note 12 | **43 223** | 205 021 | 108 372 |
| **Hybrid capital** | | | | |
| Tier 1 capital | | **549 415** | 449 120 | 449 236 |
| **Total hybrid capital** | | **549 415** | 449 120 | 449 236 |
| TOTAL EQUITY | | **4 755 749** | 4 342 251 | 4 395 719 |
| TOTAL LIABILITIES AND EQUITY | | **103 050 788** | 93 134 114 | 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** | **169 809** | **448 775** | **4 242 467** |
| Result for the period | - | - | - | - | 64 167 | 36 859 | 5 812 | 106 838 |
| Interest tier 1 capital | - | - | - | - | - | - | (5 697) | (5 697) |
| Taxes on interest tier 1 capital | - | - | - | - | - | 1 453 | - | 1 453 |
| **Balance sheet as at 31 March 2016** | **856 673** | **2 203 709** | **-** | **477 728** | **149 940** | **208 121** | **448 890** | **4 345 061** |
| Result for the period | - | - | - | - | (19 646) | 38 822 | 5 700 | 24 876 |
| Equity issue | 35 450 | 114 550 | - | - | - | - | - | 150 000 |
| Disbursed dividends for 2015 | - | - | - | - | - | (168 799) | - | (168 799) |
| Interest tier 1 capital | - | - | - | - | - | - | (5 586) | (5 586) |
| Taxes on interest tier 1 capital | - | - | - | - | - | 1 425 | - | 1 425 |
| **Balance sheet as at 30 June 2016** | **892 123** | **2 318 260** | **-** | **477 728** | **130 294** | **79 569** | **449 004** | **4 346 977** |
| Result for the period | - | - | - | - | (34 252) | 32 289 | 5 759 | 3 796 |
| Interest tier 1 capital | - | - | - | - | - | - | (5 643) | (5 643) |
| Taxes on interest tier 1 capital | - | - | - | - | - | 1 440 | - | 1 440 |
| **Balance sheet as at 30 September 2016** | **892 123** | **2 318 260** | **-** | **477 728** | **96 042** | **113 298** | **449 120** | **4 346 570** |
| Result for the period | - | - | - | - | (81 342) | (21 086) | 5 844 | (96 584) |
| Equity issue | 34 356 | 115 644 | - | - | - | - | - | 150 000 |
| Interest tier 1 capital | - | - | - | - | - | - | (5 728) | (5 728) |
| Taxes on interest tier 1 capital | - | - | - | - | - | 1 461 | - | 1 461 |
| **Balance sheet as at 31 December 2016** | **926 479** | **2 433 904** | **-** | **477 728** | **14 700** | **93 673** | **449 236** | **4 395 719** |
| Result for the period | - | - | - | - | - | (6 629) | 5 715 | (914) |
| Equity issue | - | - | 125 000 | 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** | **2 433 904** | **125 000** | **602 728** | **14 700** | **88 473** | **449 349** | **4 515 632** |
| Result for the period | - | - | - | - | - | (8 540) | 5 833 | (2 706) |
| Equity issue | 29 345 | 95 655 | -125 000 | -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 | - | - | - | - | - | - | - | - |
| **Balance sheet as at 30 June 2017** | **955 824** | **2 529 559** | **-** | **477 728** | **14 700** | **(12 724)** | **549 291** | **4 514 377** |
| 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 | - | - | - | - | - | - | - | - |
| **Balance sheet as at 30 September 2017** | **1 003 932** | **2 681 451** | **-** | **477 728** | **14 700** | **28 523** | **549 415** | **4 755 749** |

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 investors. Interest is not recognised as interest expense in the profit and loss account, but as a reduction to equity.

[6] Paid-in unregistered increase in capital comprises paid in but not registred at the end of the period.

# Statement of cash flows

| Amounts in NOK 1 000 | 3Q 2017 | 2016 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Profit for the period | 44 273 | 38 926 |
| Taxes | 11 648 | 11 370 |
| Income taxes paid | (57 541) | (9 466) |
| Ordinary depreciation | 1 460 | 1 747 |
| Non-cash pension costs | - | (3 796) |
| Change in loans to customers | (4 358 289) | (6 981 874) |
| Change in bonds and certificates | (1 167 654) | (2 118 381) |
| Change in financial derivatives and debt securities issued | 292 555 | (124 494) |
| Interest expenses | 1 048 080 | 1 379 374 |
| Paid interest | (1 074 742) | (1 347 826) |
| interest income | (1 507 553) | 1 838 971 |
| received interests | 1 502 083 | (1 831 853) |
| Changes in other assets | (701 926) | (671 911) |
| Changes in short-term liabilities and accruals | (105 449) | 211 777 |
| **Net cash flow relating to operating activities** | **(6 073 055)** | **(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 | 13 093 179 | 16 149 754 |
| Gross payments of bonds and commercial paper | (6 811 774) | (6 397 120) |
| Gross receipts on issue of subordinated loan capital | 164 | 149 908 |
| Gross receipts from issue of loan from credit institution | 115 573 | - |
| Gross receipts from issuing tier 1 perpetual bonds | 100 000 | - |
| Interest to the hybrid capital investors | (18 014) | (22 655) |
| Payments of dividend | (92 658) | (168 799) |
| Paid-up new share capital | 325 000 | 300 000 |
| **Net cash flow from financing activities** | **6 711 470** | **8 438 277** |
| | | |
| Net changes in lending to and receivables from credit institutions | 633 976 | (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** | **2 849 441** | **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 third quarter of 2017 have been prepared in accordance with IAS 34, Interim financial reporting.

## 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 30 September 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**<br>Amounts in NOK 1 000 | **3rd quarter 2017** | **3rd quarter 2016** | **Jan-Sept 2017** | **Jan-Sept 2016** | **2016** |
|---|---|---|---|---|---|
| Net gains and losses on loans at fair value | 883 | (20 042) | 14 146 | (8 717) | (42 292) |
| Net gains and losses on bonds and certificates | 574 | 15 595 | 17 951 | 37 378 | 32 245 |
| Net gains and losses on financial debts, hedged[1] | 847 895 | 1 925 679 | (448 997) | 2 476 445 | 2 645 689 |
| Net gains and losses on interest swaps related to lending | (851) | 26 443 | (740) | 18 412 | 40 704 |
| Net gains and losses on interest swaps related to bonds and certificates | 63 | - | 106 | - | - |
| Net gains and losses on interest and currency swaps related to liabilities | (838 295) | (1 971 348) | 313 781 | (2 462 754) | (2 758 110) |
| **Net gains and losses on financial instruments at fair value[2]** | **10 269** | **(23 672)** | **(103 752)** | **60 764** | **(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] Third-quarter comprehensive profit includes positive changes of NOK 5 million in the value of basis swaps. In addition to value changes for basis swaps, third-quarter profit includes a profit of NOK 5.3 million in other changes to the value of financial instruments. That gives a total positive change of NOK 10.3 million in the value of financial instruments, compared with negative NOK 23.7 million for the same period of 2016.

In addition to the NOK 131 million in negative value changes for basis swaps, value changes to financial instruments for the third quarter of 2017 included NOK 14.1 million in net profit on lending at fair value, a net loss of NOK 0.6 million on financial derivatives, a loss of NOK 4.1 million in fair value hedging on debt securities issued, and a net gain of NOK 17.9 million on bonds and certificates. Profit for the first nine months of 2017 accordingly includes negative changes of NOK 103.7 million in the value of financial instruments, as against a positive NOK 60.8 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 | 30 Sep 2017 | 30 Sep 2016 | 31 Dec 2016 |
|---|---|---|---|
| Installment loans - retail market | 67 880 359 | 60 208 080 | 62 698 470 |
| Installment loans - housing cooperatives | 7 969 571 | 8 993 640 | 8 807 004 |
| Adjustment fair value lending to customers [1] | 17 637 | 37 959 | 3 804 |
| **Total lending before specific and general provisions for losses** | **75 867 568** | **69 239 680** | **71 509 279** |
| Individual impairments | - | - | - |
| Unspecified group impairments | - | - | - |
| **Total lending to and receivables from customers** | **75 867 568** | **69 239 680** | **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 30 September 2017.

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

**30 Sep 2017**

| Amounts in NOK 1 000 | Nominal value | Fair value |
|---|---|---|
| Variable rate loans | 72 150 521 | 72 150 521 |
| Fixed rate loans | 3 699 409 | 3 717 047 |
| **Toal lending** | **75 849 930** | **75 867 568** |

**30 Sep 2016**

| Amounts in NOK 1 000 | Nominal value | Fair value |
|---|---|---|
| Variable rate loans | 65 937 005 | 65 937 005 |
| Fixed rate loans | 3 264 715 | 3 302 675 |
| **Toal lending** | **69 201 720** | **69 239 680** |

**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

**30 September 2017**

Amounts in NOK 1 000

| Bonds broken down by issuer sector | Nominal value | Cost price | Fair Value |
|---|---|---|---|
| Municipalities | 4 987 038 | 4 987 971 | 4 989 621 |
| Credit institutions | 6 264 962 | 6 277 326 | 6 305 823 |
| Government bonds | 339 123 | 341 109 | 359 530 |
| Treasury bills | 3 195 487 | 3 198 035 | 3 184 568 |
| **Total bonds and certificates at fair value through profit or loss** | **14 786 611** | **14 804 440** | **14 839 542** |
| **Change in value charged to the profit and loss account** | | | **35 102** |

Average effective interest rate is 1.38 per cent annualised. The calculation is based on a weighted fair value of NOK 11.1 billion. The calculation takes account of a return of NOK 115.3 million on bank deposits, bonds and certificates. The return on reinvested cash collateral received is excluded from the calculation.

**30 September 2016**

Amounts in NOK 1 000

| Bonds broken down by issuer sector | Nominal value | Cost price | Fair Value |
|---|---|---|---|
| Municipalities | 3 713 460 | 3 713 830 | 3 714 171 |
| Credit institutions | 6 284 181 | 6 306 233 | 6 289 310 |
| Government bonds | 425 000 | 430 823 | 430 745 |
| Treasury bills | 3 340 967 | 3 345 435 | 3 346 166 |
| **Total bonds and certificates at fair value through profit or loss** | **13 763 607** | **13 796 322** | **13 780 392** |
| **Change in value charged to the profit and loss account** | | | **(15 930)** |

Average effective interest rate is 1.68 per cent annualised. The calculation is based on a weighted fair value of NOK 9.9 billion. The calculation takes account of a return of NOK 125.7 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

| | 30 Sep 2017 | 30 Jun 2016 | 31 Dec 2016 |
|---|---|---|---|
| **Average term to maturity** | **0.8** | **1.3** | **1.0** |
| **Average duration** | **0.2** | **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 | 30.09.2017 | 30.09.2016 | 31.12.2016 |
|---|---|---|---|---|---|---|---|---|---|
| NO0010502149 | 1 200 000 | NOK | Floating | 3M Nibor + 0.70% | 2009 | 2019 | 1 204 265 | 1 207 202 | 1 206 462 |
| NO0010561103 | 1 948 000 | NOK | Fixed | 5.00 % | 2009 | 2019 | 1 975 000 | 1 987 234 | 1 984 153 |
| NO0010605587 | 1 000 000 | NOK | Fixed | 5.20 % | 2011 | 2021 | 1 000 000 | 1 000 000 | 1 000 000 |
| NO0010612179 | 473 500 | NOK | Fixed | 4.65 % | 2011 | 2018 | 475 454 | 704 795 | 704 078 |
| NO0010612039 | 5 500 000 | NOK | Floating | 3M Nibor + 0.55% | 2011 | 2018 | 5 504 511 | 5 511 098 | 5 509 438 |
| NO0010625346 | 1 500 000 | NOK | Fixed | 4.60 % | 2011 | 2026 | 1 500 825 | 1 500 913 | 1 500 890 |
| XS0736417642 | - | EUR | Fixed | 2.25 % | 2012 | 2017 | - | 4 477 881 | 4 537 917 |
| NO0010648892 | - | NOK | Floating | 3M Nibor + 0.74% | 2012 | 2017 | - | 1 178 342 | 654 282 |
| XS0794570944 | 650 000 | EUR | Fixed | 2.00 % | 2012 | 2019 | 6 101 799 | 5 804 335 | 5 882 331 |
| XS0851683473 | 1 000 000 | EUR | Fixed | 1.25 % | 2012 | 2017 | 9 409 755 | 8 950 241 | 9 069 572 |
| NO0010663727 | 5 220 000 | NOK | Floating | 3M Nibor + 0.60% | 2012 | 2019 | 5 231 714 | 5 237 106 | 5 235 747 |
| NO0010664428 | 65 000 | NOK | Floating | 3M Nibor + 0.53% | 2012 | 2018 | 65 034 | 1 000 695 | 1 000 614 |
| NO0010663743 | 1 000 000 | NOK | Fixed | 3.25 % | 2012 | 2019 | 1 003 736 | 1 005 452 | 1 005 019 |
| NO0010669922 | 1 000 000 | NOK | Fixed | 4.00 % | 2013 | 2028 | 996 848 | 996 542 | 996 619 |
| XS0881369770 | 1 000 000 | EUR | Fixed | 2.13 % | 2013 | 2023 | 9 373 522 | 8 924 363 | 9 043 001 |
| NO0010685480 | 5 125 000 | NOK | Floating | 3M Nibor + 0.54% | 2013 | 2020 | 5 143 333 | 5 023 557 | 5 147 604 |
| NO0010685704 | 550 000 | NOK | Fixed | 3.50 % | 2013 | 2020 | 551 439 | 551 888 | 551 775 |
| NO0010687023 | 150 000 | NOK | Fixed | 4.10 % | 2013 | 2028 | 150 000 | 150 000 | 150 000 |
| NO0010697204 | 300 000 | SEK | Fixed | 2.38 % | 2013 | 2018 | 293 422 | 279 068 | 284 920 |
| NO0010697212 | 700 000 | SEK | Floating | 3M Stibor + 0.50% | 2013 | 2018 | 684 950 | 651 677 | 665 268 |
| XS1044766191 | 500 000 | EUR | Fixed | 1.50 % | 2014 | 2021 | 4 683 963 | 4 455 404 | 4 515 402 |
| NO0010732258 | 8 000 000 | NOK | Floating | 3M Nibor + 0.28% | 2015 | 2022 | 7 953 750 | 4 344 670 | 4 346 095 |
| NO0010733694 | 1 150 000 | NOK | Fixed | 1.75 % | 2015 | 2021 | 1 144 850 | 1 143 567 | 1 143 891 |
| XS1312011684 | 500 000 | EUR | Fixed | 0.63 % | 2015 | 2021 | 4 684 702 | 4 454 168 | 4 514 057 |
| NO0010763022 | 850 000 | NOK | Fixed | 2.25 % | 2016 | 2031 | 842 675 | 500 000 | 842 270 |
| XS1397054245 | 500 000 | EUR | Fixed | 0.38 % | 2016 | 2023 | 4 671 294 | 4 439 983 | 4 500 133 |
| NO0010775190 | 5 000 000 | NOK | Floating | 3M Nibor + 0.40% | 2016 | 2020 | 4 998 798 | 1 998 404 | 4 998 448 |
| NO0010780687 | 1 000 000 | NOK | Fixed | 2.60 % | 2016 | 2027 | 699 354 | - | 699 304 |
| XS1566992415 | 500 000 | EUR | Fixed | 0.38 % | 2017 | 2024 | 4 675 044 | - | - |
| NO0010794308 | 5 000 000 | NOK | Floating | 3M Nibor + 0.43% | 2017 | 2022 | 4 006 853 | - | - |
| Value adjustments | | | | | | | 1 866 354 | 3 153 576 | 2 419 717 |
| **Total covered bonds[1]** | | | | | | | **90 893 245** | **80 632 160** | **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) and 5 per cent in accordance with Moody's Investro Service. This means that the company must at all times have assets in its cover pool which exceed at least 105 per cent of the total outstanding covered bonds.

**Senior unsecured bonds** - amounts in NOK 1 000

| ISIN | Nominal amounts | Local currency | Interest rate terms | Interest rate | Establishment | Maturity | 30.09.2017 | 30.09.2016 | 31.12.2016 |
|---|---|---|---|---|---|---|---|---|---|
| NO0010697733 | - | NOK | Floating | 3M Nibor + 0.90% | 2013 | 2016 | - | 600 002 | - |
| NO0010699234 | 200 000 | NOK | Floating | 3M Nibor + 1.14% | 2013 | 2018 | 199 927 | 199 867 | 199 883 |
| NO0010705593 | - | NOK | Floating | 3M Nibor + 0.65 % | 2014 | 2017 | - | 600 378 | 600 277 |
| NO0010708936 | 425 000 | NOK | Floating | 3M Nibor + 0.80% | 2014 | 2019 | 425 292 | 425 438 | 425 401 |
| NO0010713753 | 250 000 | NOK | Floating | 3M Nibor + 0.70% | 2014 | 2019 | 249 919 | 249 872 | 249 884 |
| NO0010732886 | - | NOK | Floating | 3m Nibor + 0.30% | 2015 | 2017 | - | 249 942 | 249 969 |
| NO0010739287 | 600 000 | NOK | Floating | 3m Nibor + 0.70% | 2015 | 2020 | 599 619 | 298 028 | 298 163 |
| NO0010764160 | 350 000 | NOK | Floating | 3m Nibor + 0.95% | 2016 | 2019 | 350 467 | 199 794 | 350 688 |
| NO0010776099 | 500 000 | NOK | Floating | 3m Nibor + 0.92% | 2016 | 2020 | 499 779 | - | 499 724 |
| NO0010782048 | 500 000 | NOK | Floating | 3m Nibor + 0.95% | 2017 | 2022 | 502 171 | - | - |
| **Total senior unsecured bonds** | | | | | | | **2 827 174** | **2 823 321** | **2 873 989** |

| | | | |
|---|---|---|---|
| **Total debt securities issued** | **93 720 419** | **83 455 481** | **86 982 995** |

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## 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 | 30 Sep 2017 | 30 Sep 2016 | 31 Dec 2016 |
|---|---|---|---|---|---|---|---|---|---|
| NO0010679632 | 250 000 | NOK | Floating | 3M Nibor + 2.20% [1] | 2013 | 2023 | 249 936 | 249 836 | 249 861 |
| NO0010729650 | 200 000 | NOK | Floating | 3M Nibor + 1.85% [2] | 2015 | 2025 | 199 862 | 199 802 | 199 817 |
| NO0010759475 | 150 000 | NOK | Floating | 3M Nibor + 3.40% [3] | 2016 | 2026 | 149 792 | 149 733 | 149 748 |
| **Total subordinated loan capital** | | | | | | | **599 590** | **599 370** | **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

| | Fair value | | |
|---|---|---|---|
| Amounts in NOK 1 000 | **30 Sep 2017** | **30 Jun 2016** | **31 Dec 2016** |
| Lending to customers [1] | 74 798 420 | 66 639 856 | 70 256 756 |
| **Substitute assets and derivatives:** | | | |
| Financial derivatives lending (net) | (25 825) | (72 908) | -24 173 |
| Financial derivatives borrowing (net) | - | 9 791 712 | 7 522 658 |
| Substitute assets [2] | 15 542 271 | 10 072 115 | 13 146 778 |
| **Total** | **90 314 867** | **86 430 775** | **90 902 019** |
| | | | |
| The cover pool's overcollateralisation [3] | 108.53% | 108.49% | 107.96% |

### Covered bonds issued

| | 30 Sep 2017 | 30 Jun 2016 | 31 Dec 2016 |
|---|---|---|---|
| Covered bonds | 90 893 245 | 79 596 834 | 84 109 007 |
| Premium/discount | 143 329 | 67 245 | 89 149 |
| Financial derivatives (net) | (7 823 569) | - | - |
| **Total covered bonds** | **83 213 005** | **79 664 079** | **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]The company's overcollateraliastion at 30 September 2017 is estimated to be 8.53 per cent. Liquid assets free of encumbrances are considered to account for 3.53 percentage points of this when calculating the liquidity coverage ratio (LCR) in accordance with the LCR guidelines issued by the Financial Supervisosry Authority of Norway on 21 December 2016.

## 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.

| **Assets** | 30 Sep 2017 | | 31 Dec 2016 | |
|---|---|---|---|---|
| Amounts in NOK 1 000 | Nominal amount | Fair value | Nominal amount | Fair value |
| Interest rate swap lending[1] | 723 020 | 5 579 | 1 072 500 | 9 018 |
| Interest rate and currency swap[2] | 43 366 713 | 7 943 857 | 37 683 563 | 7 779 455 |
| **Total financial derivative assets** | **44 089 733** | **7 949 436** | **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] | 2 757 649 | 30 492 | 2 393 500 | 33 192 |
| Interest rate and currency swap[2] | 5 500 000 | 120 287 | 10 836 750 | 256 797 |
| Interest swap placement | 235 270 | 912 | - | - |
| **Total financial derivative liabilities** | **8 492 919** | **151 692** | **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.

| | 30 Sep 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] | 37 866 713 | 7 823 569 | 26 846 813 | 7 522 658 |
| Hedged items: financial commitments incl foreign exchange[2] | 37 866 713 | (8 059 861) | 26 846 813 | (7 603 843) |
| **Net value recognised in balance sheet** | - | **(236 292)** | - | **(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 | 3rd quarter 2017 | 3rd quarter 2016 | Jan-Sept 2017 | Jan-Sept 2016 | 2016 |
| Hedging instruments | (838 295) | (1 971 348) | 313 781 | (2 462 754) | (2 758 110) |
| Hedged items | 847 895 | 1 925 679 | (448 997) | 2 476 445 | 2 645 689 |
| **Net gains/losses (inefffectiveness)[3]** | **9 600** | **(45 669)** | **(135 216)** | **13 692** | **(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 September 2017. Valuation of shares classified as available for sale are based on discounted cash flows.

**30 September 2017**

| Amounts in NOK 1 000 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Financial assets** | | | |
| Lending to customers (fixed income) | - | - | 3 717 047 |
| Bonds and certificates at fair value through profit or loss | 3 544 098 | 11 295 444 | - |
| Financial derivatives | - | 7 949 436 | - |
| Shares classified as available for sale | - | - | 32 200 |
| **Total financial assets** | **3 544 098** | **19 244 880** | **3 749 247** |
| | | | |
| **Financial liabilities** | | | |
| Financial derivatives | - | 151 692 | - |
| **Total financial liabilities** | **-** | **151 692** | **-** |

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** | **-** |

**Detailed statement of assets classified as level 3**

| 2017<br>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 | 30 Sep 2017 |
|---|---|---|---|---|---|---|---|
| Lending to customers (fixed-rate loans) | 3 570 403 | 471 677 | (339 179) | - | 14 146 | - | 3 717 047 |
| Shares available for sale | 29 700 | - | - | - | - | 2 500 | 32 200 |
| **Total** | **3 600 103** | **471 677** | **(339 179)** | **-** | **14 146** | **2 500** | **3 749 247** |

| 2016<br>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 30 September 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 107 million. The effect of a decrease in interest rates would be an increase of NOK 107 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 30 September 2017 and cumulatively.

**Detailed statement changes in debt related to currency changes**

| 2017<br>Amounts in NOK 1 000 | 01 Jan 2017 | Purchases/ issues | Disposals/ settlements | 30 Sep 2017 |
|---|---|---|---|---|
| Change in debt securities issued [1] | 43 156 438 | 572 900 | 1 009 382 | 44 738 720 |
| **Total** | **43 156 438** | **572 900** | **1 009 382** | **44 738 720** |

| 2016<br>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 instititutions 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 | 30 Sep 2017 | 30 Sep 2016 | 31 Dec 2016 |
|---|---|---|---|
| Share capital | 1 003 932 | 892 123 | 926 479 |
| Share premium | 2 681 451 | 2 318 260 | 2 433 904 |
| Other paid-in equity | 477 728 | 477 728 | 477 728 |
| Other equity | 1 014 | 1 009 | 1 009 |
| **Total equity recognised in the balance sheet (without tier 1 perpetual bonds)** | **4 164 125** | **3 689 120** | **3 839 120** |
| Fund for unrealised gains | 14 700 | 85 773 | 14 700 |
| Intangible assets | (6 429) | (2 674) | (3 448) |
| Deferred tax assets[1] | - | - | - |
| Prudent valuation adjustments of fair valued positions | (18 830) | (17 184) | (17 366) |
| **Total core tier 1 capital** | **4 153 566** | **3 755 035** | **3 833 006** |

| Core capital adequacy ratio (core tier 1 capital) | 30 Sep 2017 | 30 Sep 2016 | 31 Dec 2016 |
|---|---|---|---|
| Weighted calculation basis | 31 557 095 | 28 753 251 | 29 766 452 |
| Core tier 1 capital | 4 153 566 | 3 755 035 | 3 833 006 |
| **Core tier 1 capital ratio** | **13.2%** | **13.1%** | **12.9%** |
| Total core tier 1 capital | 4 153 566 | 3 755 035 | 3 833 006 |
| Tier 1 perpetual bonds | 549 415 | 449 120 | 449 236 |
| **Total tier 1 capital** | **4 702 981** | **4 204 155** | **4 282 242** |

| Capital adequacy ratio (tier 1 capital) | 30 Sep 2017 | 30 Sep 2016 | 31 Dec 2016 |
|---|---|---|---|
| Weighted calculation basis | 31 557 095 | 28 753 251 | 29 766 452 |
| Tier 1 capital | 4 702 981 | 4 204 155 | 4 282 242 |
| **Tier 1 capital ratio** | **14.9%** | **14.6%** | **14.4%** |
| Total tier 1 capital | 4 702 981 | 4 204 155 | 4 282 242 |
| Subordinated loans | 599 590 | 599 370 | 599 426 |
| **Total primary capital (tier 2 capital)** | **5 302 572** | **4 803 526** | **4 881 667** |

| Capital adequacy ratio (tier 2 capital) | 30 Sep 2017 | 30 Sep 2016 | 31 Dec 2016 |
|---|---|---|---|
| Weighted calculation basis | 31 557 095 | 28 753 251 | 29 766 452 |
| Total primary capital (tier 2 capital) | 5 302 572 | 4 803 526 | 4 881 667 |
| **Capital adequacy ratio** | **16.8%** | **16.7%** | **16.4%** |
| Required capital corresponding to eight per cent of calculation basis | 2 524 568 | 2 300 260 | 2 381 316 |
| Surplus equity and subordinated capital | 2 778 004 | 2 503 266 | 2 500 351 |

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

**30 September 2017**

| Calculation basis | Weighted calculation basis | Capital requirement |
|---|---|---|
| Credit risk | 29 577 174 | 2 366 174 |
| Operational risk | 354 879 | 28 390 |
| CVA risk[2] | 1 625 041 | 130 003 |
| **Total** | **31 557 095** | **2 524 568** |

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 30 September, 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 31.6 billion at 30 September. 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 30 September was NOK 1.8 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 12.5 per cent, a tier 1 capital ratio of 14 per cent and a tier 2 capital ratio of 16 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 30 Septmeber 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 30 September 2017, Eika Boligkreditt had received cash collateral of NOK 3.5 billion posted by counterparties to derivative contracts. Cash collateral is held in bank deposits, repo agreements and in various high-quality bonds. In addition to cash collateral, the company had also received NOK 3.1 billion in bonds as collateral from counterparties to derivative agreements. The value of the bonds provided as collateral is not recognised in the company's balance sheet.

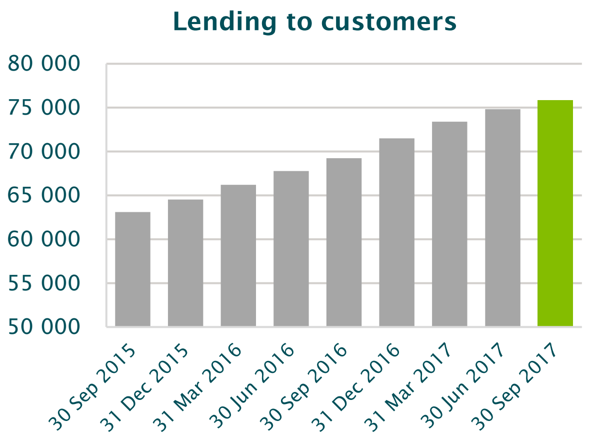
## Note 14 – Contingency and overdraft facilities

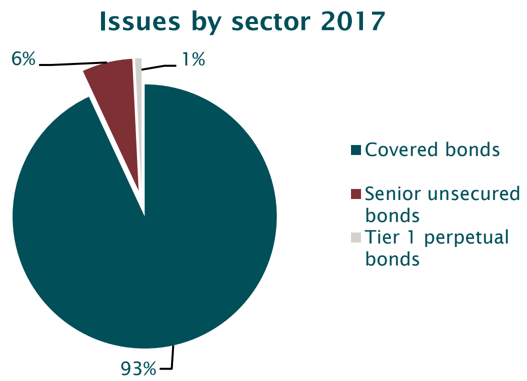
The company has an overdraft facility with DNB Bank ASA (DNB). Note 15 to the annual financial statements for 2016 provides a more detailed presentation of the overdraft with DNB. The company also has a note purchase agreement with the owner banks and OBOS concerning the purchase of covered bonds, whereby 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.

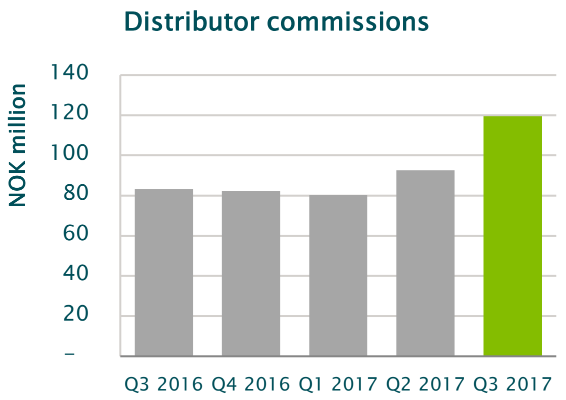
## Note 15 – Risk management

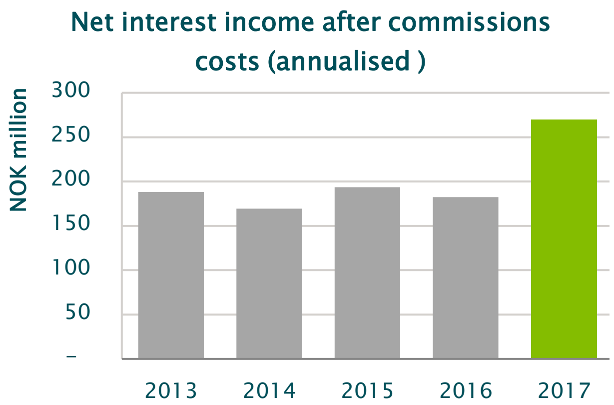
Eika Boligkreditt AS has established a framework for risk management and control in the company, which defines risk willingness and the principles for managing risk and capital. The value of financial assets and liabilities fluctuates as a result of risk in the financial markets. Note 3 to the annual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

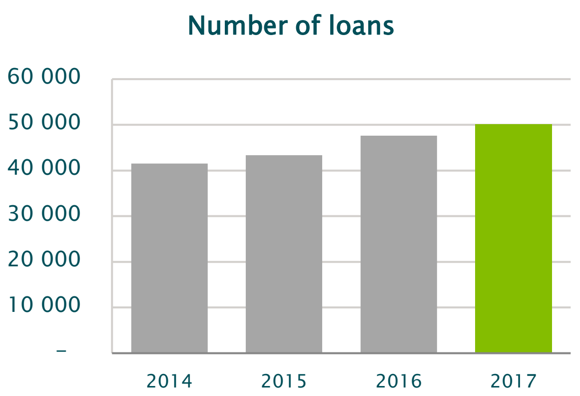
## Key figures – Development

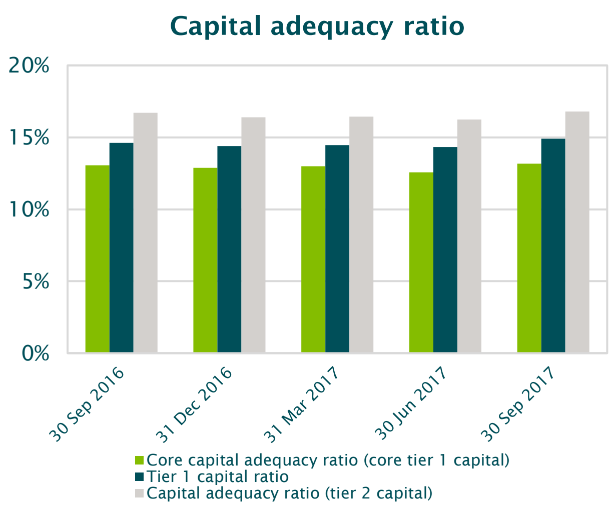


## Key figures – Unaudited

| Amounts in NOK 1 000 | 30 Sep 2017 | 30 Sep 2016 | 31 Dec 2016 |
|---|---|---|---|
| **Balance sheet development** | | | |
| Lending to customers | 75 867 568 | 69 239 680 | 71 509 279 |
| Debt securities issued | 93 720 419 | 83 455 481 | 86 982 995 |
| Subordinated loan capital | 599 590 | 599 370 | 599 426 |
| Equity | 4 757 410 | 4 342 251 | 4 395 719 |
| Equity in % of total assets | 4.6 | 4.7 | 4.6 |
| Average total assets[1] | 99 431 483 | 91 400 408 | 92 323 733 |
| Total assets | 103 050 788 | 93 134 114 | 96 017 030 |
| **Rate of return/profitability** | | | |
| Fee and commission income in relation to average total assets, annualised (%) | 0.4 | 0.3 | 0.3 |
| Staff and general administration expenses in relation to average total assets, annualised (%) | 0.05 | 0.04 | 0.04 |
| Return on equity before tax, annualised (%) [2] | 1.4 | 6.6 | 1.4 |
| Total assets per full-time position | 5 204 585 | 4 703 743 | 4 849 345 |
| Cost/income ratio (%) [3] | 24.1 | 26.2 | 30.7 |
| **Financial strength** | | | |
| Core tier 1 capital | 4 153 566 | 3 755 035 | 3 833 006 |
| Tier 1 capital | 4 702 981 | 4 204 155 | 4 282 242 |
| Total primary capital (tier 2 capital) | 5 302 572 | 4 803 526 | 4 881 667 |
| Calculation basis capital adequacy ratio | 31 557 095 | 28 753 251 | 29 766 452 |
| Core tier 1 capital ratio (%) | 13.2 | 13.1 | 12.9 |
| Tier 1 capital ratio (%) | 14.9 | 14.6 | 14.4 |
| Capital adequacy ratio % (tier 2 capital) | 16.8 | 16.7 | 16.4 |
| Leverage ratio (%) [4] | 4.4 | 4.3 | 4.4 |
| LCR indicator in NOK (%) [7] | 159 | 653 | 45 |
| LCR indicator in EUR (%) [7] | 547 | 98 | 98 |
| LCR totalindicator (%) [7] | 316 | 369 | 67 |
| Defaults in % of gross loans | - | - | - |
| Loss in % of gross loans | - | - | - |
| **Staff** | | | |
| Number of full-time positions at end of period | 19.8 | 19.8 | 19.8 |

**Overview of liquidity indicators and prognosis**

| | Actual | Prognosis | | | |
|---|---|---|---|---|---|
| **As of** | **30 Sep 2017** | **31 Dec 2017** | **31 Mar 2018** | **30 Jun 2018** | **30 Sep 2018** |
| Liquidity Indicator I [5] | 102% | 101% | 108% | 102% | 107% |
| Liquidity Indicator II [6] | 120% | 111% | 119% | 113% | 118% |
| **Average of indicators** | **111%** | **106%** | **113%** | **107%** | **112%** |

[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.

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