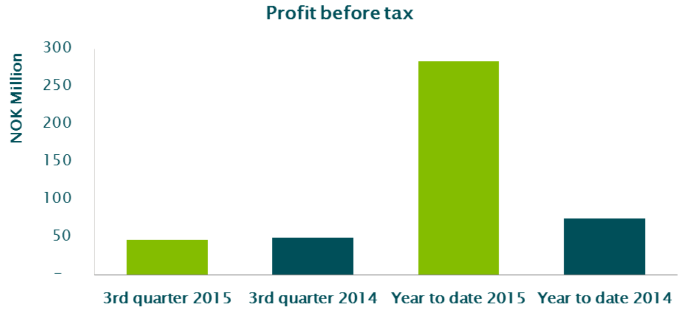
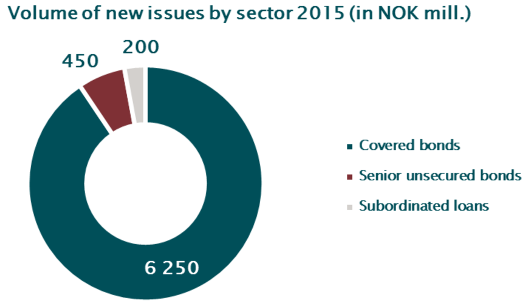
Eika Boligkreditt AS

Interim report for the third quarter 2015

Unaudited

Highlights





Third quarter 2015

- Pre-tax profit NOK 46 million (2014: NOK 50 million)
- Pre-tax loss NOK 5 million (2014: profit of NOK 22 million) excluding NOK 51.2 million in positive value changes related to the price of basis swaps
- Lending up by 0.4 per cent quarter on quarter (2014: 0.8 per cent)
- Commissions to owner banks of NOK 110 million (2014: NOK 142 million)
- NOK 1.05 billion in bonds issued (2014: NOK 0.4 billion)

First nine months of 2015

- Pre-tax profit NOK 284 million (2014: NOK 75 million)
- Pre-tax profit NOK 64 million (2014: NOK 106 million) excluding NOK 220.4 million in positive value changes related to the price of basis swaps
- Lending up by 4.8 per cent during the first nine months (annualised rate) (2014: 7.1 per cent)
- Commissions to owner banks of NOK 362 million (2014: NOK 440 million)
- NOK 6.9 billion in bonds issued (2014: NOK 9.8 billion)

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

INTERIM REPORT FOR THE THIRD QUARTER

Introduction

Eika Boligkreditt's main purpose is to ensure access for the local banks in Eika Alliance and the OBOS bank (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 length 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 2015, the owner banks had transferred a total of NOK 63.1 billion in residential mortgages and thereby reduced their own funding needs 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 thereby established a new type of bond which has become an important source of financing within a few years for the lending activities of banks and credit institutions. By concentrating funding 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 liquidity both in Norway and internationally.

Profit and loss account for the third quarter and first nine months of 2015

Pre-tax profit

Eika Boligkreditt showed a pre-tax profit of NOK 46.2 million for the third quarter, compared with NOK 50 million in the same period of 2014. Third-quarter profit included positive changes of NOK 51.2 million (2014: NOK 28 million) in the value of basis swaps, so that pre-tax loss excluding changes in the value of basis swaps came to NOK 5 million. Value changes to financial instruments in the third-quarter figure include NOK 22.2 million in net gain on lending at fair value, NOK 33.2 million in net loss on financial derivatives, NOK 50.1 million in net gain on fair value hedging of debt securities (including value changes for basis swaps), and NOK 16.1 million in net loss on bonds and certificates. That accordingly gives a net gain of NOK 22.9 million in the fair value of financial instruments, compared with NOK 34.7 million for the third quarter of 2014.

For the first nine months, the company showed a pre-tax profit of NOK 283.7 million, compared with NOK 75.1 million in the same period of 2014. Profit for the period included positive changes of NOK 220.4 million (2014: negative at NOK 31 million) in the value of basis swaps, so that pre-tax profit excluding changes in the value of basis swaps came to NOK 63.3 million. Value changes to financial instruments in the figure for the period include NOK 8.6 million in net loss on financial derivatives, NOK 220.6 million in net gain on fair value hedging of debt securities (including value changes for basis swaps), and NOK 23.1 million in net loss on bonds and certificates. That accordingly gives a net gain of NOK 188.8 million in the fair value of financial instruments, compared with a net loss of NOK 19.4 million for the first nine months of 2014.

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

Income

Eika Boligkreditt's interest income amounted to NOK 512 million in the third quarter, compared with NOK 619 million in the same period of 2014. Its net interest income for the period was NOK 145 million, compared with NOK 169 million for the third quarter of 2014.

The company's interest income amounted to NOK 1 597 million in the first nine months, compared with NOK 1 857 million in the same period of 2014. Its net interest income for the period was NOK 483 million, compared with NOK 561 million for the first nine months of 2014. These reductions in the company's interest and net interest incomes reflect lower interest rates and margins respectively on residential mortgages in Norway.

Distributor commissions

Distributor commissions, including arrangement commissions, paid to the owner banks came to NOK 110 million in the third quarter, compared with NOK 142 million for the same period of 2014.

NOK 362 million was paid to the owner banks in distributor commissions, including arrangement commissions, during the first nine months, compared with NOK 440 million for the same period of 2014. This fall reflected reduced margins for the owner banks on the company's residential mortgage portfolio.

Balance sheet and liquidity

Balance sheet

Assets under management by Eika Boligkreditt amounted to NOK 83 billion at 30 September, up by NOK 1.7 billion from 1 January.

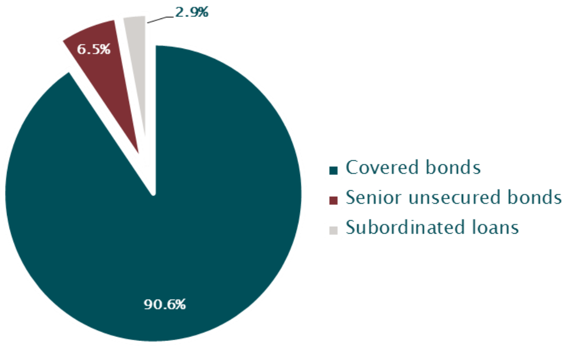
Lending

Eika Boligkreditt's residential mortgage portfolio at 30 September totalled NOK 63.1 billion, which represented a net increase of NOK 2.2 billion or 3.6 per cent from 1 January. This rise reflected a general growth in lending by the owner banks, combined with the fact that the owner banks transfer current residential mortgages from their own balance sheets to Eika Boligkreditt.

Borrowing

Eika Boligkreditt issued bonds with a nominal value of NOK 6.9 billion in the first nine months of 2015, including NOK 6.25 billion in covered bonds, NOK 450 million in senior unsecured bonds and NOK 200 million in subordinated loans.

Issues by sector (in %) in 2015



All issues in the first nine months were issued as bonds denominated in Norwegian kroner. Covered bonds accounted for 90.6 per cent of the issue volume.

The table below shows issues in the first nine months of 2015, the same period of 2014 and the full year for 2014 and 2013.

New issues (amounts in NOK million)	Jan-Sept 2015	Jan-Sept 2014	2014	2013
Covered bonds (issued in SEK)	-	-	-	925
Covered bonds (issued in EUR)	-	4 123	4 123	7 409
Covered bonds (issued in NOK)	6 250	3 750	3 750	10 508
Senior unsecured bonds (issued in NOK)	450	1 775	1 975	2 300
Subordinated loans (issued in NOK)	200	-	-	250
Tier 1 perpetual bonds (issued in NOK)	-	200	200	250
Totalt issued	**6 900**	**9 848**	**10 048**	**21 642**

The average tenor for bonds issued in the first nine months of 2015 was 6.1 years. The average tenor for the company's borrowing portfolio at 30 September 2015 was 4.2 years, a reduction of 0.2 years from 1 January.

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

Carrying value in NOK million	30 Sept 2015	30 Jun 2014	31 Dec 2014	31 Dec 2013
Covered bonds	71 857	68 006	69 952	61 129
Senior unsecured bonds	3 126	3 126	2 926	2 410
Senior unsecured certificates	-	-	-	350
Subordinated loans	449	429	250	429
Tier 1 perpetual bonds[1]	-	448	448	249
Total borrowing	**75 432**	**72 009**	**73 576**	**64 567**

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

The company's total borrowing at 30 September was NOK 75.4 billion, up by NOK 2.3 billion from 1 January after taking account of the reclassification of tier 1 perpetual bonds.

Liquidity

At 30 September 2015, the company had a total liquidity portfolio of NOK 9.9 billion, including cash collateral of NOK 3.1 billion received from counterparties to derivative contracts. Cash collateral is held in bank deposits and in 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 5.5 billion. The value of the bonds provided as collateral is not recognised in the company's liquidity portfolio or balance sheet.

Revised distributor agreement

In collaboration with the owner banks, the company has revised its current distributor agreement. This revision has included changes to the credit guarantees provided to Eika Boligkreditt by the banks. While the amount of the guarantee provided was previously related to the individual loan, combined with a common framework guarantee in which all the banks participated, the new agreement involves a maximum guarantee commitment for the banks over a rolling 12-month period.

The new guarantee agreement specifies that the bank which has transferred the residential mortgage concerned undertakes to cover 80 per cent of a realised loss when required by the company. The remaining 20 per cent of the loss can be offset by the company against commission payments to all the owner banks, allocated pro rata on the basis of the individual bank's share of the residential mortgage portfolio at the date when the loss is realised. Within the rolling 12-month period, the guarantee commitment is limited to a maximum of one per cent of the individual bank's residential mortgage portfolio in the company, with a minimum of NOK 5 million or 100 per cent of the residential mortgage portfolio if it is smaller than NOK 5 million. In addition, the bank has a joint liability with all the other banks to offset that part of the loss which exceeds the bank's 80 per cent share for an amount up to 12 months commission income from the company.

The revised distributor agreement replaces distribution agreements entered into earlier, and came into force on 1 October 2015. Such entry into force presupposes that all existing owner banks in Eika Boligkreditt enter into the revised distributor agreement before 31 December 2015. This regulation has been adopted in order to achieve a common entry into force for the distribution agreement.

Risk management and capital adequacy

Eika Boligkreditt had a total primary capital of NOK 4 223 million at 30 September 2015, an increase of NOK 600 during the first nine months. Primary capital rose by NOK 200 million through a new subordinated loan in the first quarter and by NOK 400 million through a share issue to existing shareholders in the second quarter. No change occurred in primary capital during the third quarter of 2015.

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

Since the third quarter of 2014, Eika Boligkreditt had taken account of the risk of credit valuation adjustment (CVA) at counterparties when calculating capital requirements for credit risk. This represents a supplement to the existing capital requirement for credit risk related to counterparty risk for derivatives. In line with the growth in overall lending, the basis for calculating the capital adequacy ratio has increased correspondingly and amounted to NOK 25.8 billion at 30 September. This amount represents a quantification of the company's risk, and its primary capital is calculated as a value in relation to this calculation base.

The table below presents developments in the capital adequacy ratio.

Amounts in NOK million	30 Sept 2015	31 Dec 2014	31 Dec 2013
Risk-weighted assets	25 799	25 154	21 445
Total primary capital (tier 2 capital)	4 223	3 623	3 077
Capital adequacy ratio in per cent	16.4%	14.4%	14.3%

Following the rise in the countercyclical capital buffer requirement from 0 to one per cent at 30 June 2015 (a further rise to 1.5 per cent has been approved from 30 June 2016), the company has increased its internal capital targets. The new targets apply from 30 June 2015 and are specified as follows:

- core tier 1 capital ratio: 11 per cent (12.9 per cent at 30 September 2015)
- tier 1 capital ratio: 12.5 per cent (14.6 per cent at 30 September 2015)
- tier 2 capital ratio: 14.5 per cent (16.4 per cent at 30 September 2015)

These targets are adequate in relation to legal and capital requirements based on the company's internal risk assessment. As shown in the table above, the applicable buffer requirements were fulfilled at 30 September with a capital adequacy of 12.9 per cent.

Outlook

The company's lending rose by NOK 2.2 billion in the first nine months, corresponding to a rise of 4.8 per cent on an annualised basis. Lending by the company over the past 12 months was up NOK 2.3 billion, corresponding to a growth rate of 3.9 per cent. Statistics Norway's credit indicator showed a 12-monthly increase in Norwegian household debt of 6.4 per cent in August 2015.

The bond market has been very challenging, with lower liquidity and substantially higher credit margins over the past four months. The credit margin over three-month Nibor for covered bonds issued by the company in Norwegian kroner with a five-year tenor rose from 28 basis points[1] at 31 May to 50 at 30 September. Similarly, the credit margin for an average Eika bank has risen from 85 to 145 basis points for the same tenor over the same period. This sharp rise in Norwegian credit margins reflects increased credit margins in the eurozone, reduced position-taking in trading portfolios and lower liquidity.

Rather stronger growth in the company's lending is expected by the board for the fourth quarter because of the challenging bond market, which hits bonds issued by the banks harder than covered bonds from the company.

The growth in Norwegian house prices slowed during the third quarter.[2] They rose by 0.5 per cent during the period, following an increase of 1.2 per cent in the second quarter and a very strong 4.7 per cent in the first. During the first nine months, the national average for house prices rose by 6.5 per cent. However, the statistics show significant regional variations. Developments in the housing market, particularly in the first quarter, have clearly been stronger than expected at 1 January. In its latest economic analyses,[3] Statistics Norway wrote: "House prices are expected to rise by a little over 5.5 per cent on an annual basis in 2015. That represents a real increase of just over 3.5 per cent. Since we have seen a strong growth in house prices so far this year, that could involve a flattening out or a modest nominal decline during the second half of this year".

In the latest lending survey from the Bank of Norway, dated 15 October, the banks reported somewhat lower borrowing demand from households, a stricter practice in granting credit and reduced mortgage margins in the third quarter. The tightening in granting credit relates particularly to the macro-economic outlook. Certain banks also identified the regulations on requirements for new residential mortgages, which came into effect on 1 July this year, as a contributory factor in the stricter practice in granting credit. The banks

[1] Source: DNB Markets, *Weekly Credit Report*.
[2] Sources: Eiendom Norge, FINN.NO and Eiendomsverdi.
[3] Source: Statistics Norway: *Økonomiske analyser* 3/2015, published 3 September 2015.

expect no change in demand from and credit practice for households in the fourth quarter, and a further decline in mortgage margins. Eika Boligkreditt's mortgage margins and borrowing demand have displayed the same trend as that described in the lending survey.

Oil prices at the time of writing were USD 51 per barrel, down by almost USD 5 since 1 January and by almost USD 20 from the top price so far this year at the beginning of June. The Norwegian krone weakened over the summer by NOK 0.90 against the euro, from around NOK 8.30 at 1 May to NOK 9.20 at the time of writing. At its weakest at 30 September, the exchange rate was NOK 9.60 to the euro – the lowest level since December 2008. Economic growth in Norway is expected to slow markedly in 2015 (Statistics Norway expects 1.3 per cent compared with 2.2 per cent in 2014) before recovering in 2016 and 2017. Unemployment is expected to rise somewhat (from very low levels). Since Norway has its own currency, the weakening of the krone – combined with more moderate pay rises and improved Norwegian competitiveness – will help to simplify restructuring of Norwegian industry towards sectors other than petroleum.

The government pension fund – global and the fiscal rule mean that the Norwegian authorities have considerable room to manoeuvre if required, while the injection of oil money into the economy is virtually divorced from the government's current oil and gas revenues. Norway differs from virtually all the other major oil and gas exporting countries in this respect. Despite the reduction in oil prices and petroleum revenues, the board believes that interest in Norwegian covered bonds among Norwegian and international investors will be good. The company plans to be an active issuer in both Norwegian and international markets in the time to come.

Oslo, 26 October 2015
The board of directors of Eika Boligkreditt AS

Bjørn Riise
Chair

Olav Sem Austmo

Boddvar Kaale

Tor Egil Lie

Terje Svendsen

Kjartan M. Bremnes
CEO

Statement of comprehensive income

Amounts in NOK 1 000	Notes	3Q 2015	3Q 2014	Jan-Sept 2015	Jan-Sept 2014	2014
INTEREST INCOME						
Interest from loans to customers		**474 947**	561 832	**1 481 782**	1 688 978	2 242 552
Interest from loans and receivables on credit institutions		**9 003**	9 116	**26 419**	30 732	41 060
Interest from bonds, certificates and financial derivatives		**23 851**	43 548	**75 280**	124 575	159 174
Other interest income		**4 591**	4 190	**13 714**	13 540	18 772
Total interest income		**512 392**	618 686	**1 597 196**	1 857 825	2 461 558
INTEREST EXPENSES						
Interest on debt securities issued		**358 430**	435 909	**1 079 670**	1 252 391	1 661 167
Interest on subordinated loan capital		**8 070**	11 193	**28 112**	30 962	41 731
Other interest expenses		**851**	2 883	**6 283**	13 810	18 059
Total interest expenses		**367 352**	449 985	**1 114 064**	1 297 163	1 720 957
Net interest income		**145 040**	168 701	**483 131**	560 662	740 600
Commission costs		**107 784**	139 777	**352 040**	430 814	571 145
Net interest income after commissions costs		**37 256**	28 923	**131 092**	129 848	169 455
Dividend from shares classified as available for sale		-	-	**6 429**	4 769	4 769
NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE						
Net gains and losses on bonds and certificates	Note 3	**(16 150)**	2 459	**(23 143)**	10 137	10 073
Net gains and losses of fair value hedging on debt securities issued	Note 3, 9	**50 138**	27 948	**220 581**	(35 084)	(20 653)
Net gains and losses on financial derivatives	Note 3	**(33 238)**	2 497	**(8 625)**	1 651	(11 264)
Net gains and losses on loans at fair value	Note 3	**22 200**	1 831	**31**	3 861	18 407
Total gains and losses on financial instruments at fair value		**22 949**	34 734	**188 843**	(19 435)	(3 437)
SALARIES AND GENERAL ADMINISTRATIVE EXPENSES						
Salaries, fees and other personnel expenses		**6 623**	6 566	**19 329**	18 170	24 855
Administrative expenses		**3 961**	3 755	**12 892**	10 993	15 571
Total salaries and administrative expenses		**10 583**	10 321	**32 221**	29 163	40 426
Depreciation		**503**	557	**1 493**	1 528	1 962
Other operating expenses		**2 896**	3 121	**8 991**	9 381	12 652
Losses on loans and guarantees		-	-	-	-	-
PROFIT BEFORE TAXES		**46 222**	49 660	**283 659**	75 109	115 748
Taxes		**12 228**	13 214	**73 818**	18 586	29 924
PROFIT FOR THE PERIOD		**33 995**	36 446	**209 841**	56 523	85 824
Other comprehensive income that will not be reclassified subsequently to P&L		-	-	-	-	(1 650)
Taxes on other comprehensive income		-	-	-	-	445
COMPREHENSIVE INCOME FOR THE PERIOD		**33 995**	36 446	**209 841**	56 523	84 619

The total comprehensive income for the period above is attributable to the shareholders of the company.

Balance sheet

Amounts in NOK 1 000	Notes	**30 Sept 2015**	30 Sept 2014	31 Dec 2014
ASSETS				
Lending to and receivables from credit institutions		**2 191 611**	3 287 814	3 402 638
Lending to customers	Note 4, 9	**63 100 777**	60 756 908	57 691 853
Other financial assets		**90 395**	132 041	94 994
Securities				
Bonds and certificates at fair value through profit or loss	Note 5,9	**7 705 158**	8 807 552	5 366 627
Financial derivatives	Note 8,9	**9 829 541**	3 822 433	3 217 425
Shares classified as available for sale	Note 10	**15 000**	15 000	15 000
Total securities		**17 549 699**	12 644 985	8 599 052
Other intangible assets				
Deferred tax assets		**32 419**	35 045	35 045
Fixed intangible assets		**3 926**	5 767	5 177
Total other intangible assets		**36 345**	40 812	40 222
TOTAL ASSETS		**82 968 828**	76 862 560	69 828 760
LIABILITIES AND EQUITY				
Loans from credit institutions	Note 12	**3 113 580**	1 405 913	2 347 027
Financial derivatives	Note 8,9	**67 914**	72 314	72 092
Debt securities issued	Note 6	**74 982 395**	71 131 446	63 888 693
Other liabilities		**353 208**	375 066	379 245
Pension liabilities		**6 683**	4 507	4 507
Subordinated loan capital	Note 7	**449 477**	877 683	677 998
TOTAL LIABILITIES		**78 973 257**	73 866 928	67 369 562
Called-up and fully paid capital				
Share capital		**810 553**	713 455	592 082
Share premium		**2 049 830**	1 746 928	1 368 300
Other paid-in equity		**477 728**	477 728	477 728
Total called-up and fully paid capital	Note 11	**3 338 111**	2 938 111	2 438 110
Retained earnings				
Other equity		**210 843**	57 522	85 618
Total retained equity	Note 11	**210 843**	57 522	85 618
Hybrid capital				-
Tier 1 capital		**446 617**	-	-
Total hybrid capital		**446 617**	-	-
TOTAL EQUITY		**3 995 571**	2 995 633	3 023 729
				-
TOTAL LIABILITIES AND EQUITY		**82 968 828**	76 862 560	81 298 346

Statement of changes in equity

Amounts in NOK 1 000	Share capital [1]	Share premium [1]	Other paid in equity [2]	Retained earnings: other equity [3]	Tier 1 perpetual bonds [4]	Total equity
Balance sheet as at 1 January 2014	**592 082**	**1 368 300**	**477 728**	**21 088**	**-**	**2 459 198**
Result for the period	-	-	-	(929)	-	**(929)**
Equity issue	-	-	-	-	-	**-**
Balance sheet as at 31 March 2014	**592 082**	**1 368 300**	**477 728**	**20 159**	**-**	**2 458 269**
Result for the period	-	-	-	21 007	-	**21 007**
Equity issue	121 373	378 628	-	-	-	**500 000**
Disbursed dividends for 2013	-	-	-	(20 089)	-	**(20 089)**
Balance sheet as at 30 June 2014	**713 455**	**1 746 928**	**477 728**	**21 077**	**-**	**2 959 187**
Result for the period	-	-	-	36 446	-	**36 446**
Equity issue	-	-	-	-	-	**-**
Balance sheet as at 30 September 2014	**713 455**	**1 746 928**	**477 728**	**57 522**	**-**	**2 995 632**
Result for the period	-	-	-	28 097	-	**28 097**
Equity issue	-	-	-	-	-	**-**
Balance sheet as at 31 December 2014	**713 455**	**1 746 928**	**477 728**	**85 618**	**-**	**3 023 729**
Result for the period	-	-	-	137 295	-	**137 295**
Equity issue	-	-	-	-	-	**-**
Balance sheet as at 31 March 2015	**713 455**	**1 746 928**	**477 728**	**222 913**	**-**	**3 161 024**
Result for the period	-	-	-	38 551	-	**38 551**
Equity issue	97 098	302 902	-	-	-	**400 000**
Tier 1 capital classified as equity	-	-	-	-	448 543	**448 543**
Disbursed dividends for 2014	-	-	-	(84 616)	-	**(84 616)**
Balance sheet as at 30 June 2015	**810 553**	**2 049 830**	**477 728**	**176 849**	**448 543**	**3 963 503**
Result for the period	-	-	-	33 995	-	**33 995**
Accrued unpaid interest tier 1 capital	-	-	-	-	(1 926)	**(1 926)**
Balance sheet as at 30 September 2015	**810 553**	**2 049 831**	**477 728**	**210 845**	**446 617**	**3 995 571**

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] Other equity comprises earned and retained profits

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

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

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

Eika Boligkreditt has the right to pay no interest to the investors. Interest payments are not recognised in the profit and loss account, but as a reduction in other equity. Accrued interest is included in in equity as hybrid capital until payment has been made.

Statement of cash flows

Amounts in NOK 1 000	3Q 2015	2014
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the period	209 841	85 824
Taxes	73 818	29 924
Income taxes paid	(35 735)	(37 455)
Ordinary depreciation	1 493	1 962
Non-cash pension costs	-	527
Change in lending to customers	(2 211 793)	(3 197 131)
Change in bonds and certificates	215 372	(2 553 903)
Change in financial derivatives and debt securities issued	(204 653)	52 343
Interest expenses	1 114 064	1 720 957
Paid interest	(1 124 149)	(1 741 973)
Interest income	1 583 481	2 461 558
Received interests	(1 555 687)	(2 437 420)
Changes in other financial assets	1 647	(48 985)
Changes in short-term liabilities and accruals	(38 431)	7 914
Net cash flow relating to operating activities	**(1 970 731)**	**(5 655 859)**
INVESTING ACTIVITIES		
Payments related to acquisition of fixed assets	(810)	(1 394)
Net cash flow relating to investing activities	**(810)**	**(1 394)**
FINANCING ACTIVITIES		
Gross receipts from issuance of bonds and commercial paper	6 702 544	9 866 770
Gross payments of bonds and commercial paper	(5 614 012)	(6 317 480)
Gross receipts on issue of subordinated loan capital and hybrid capital	198 118	199 632
Gross payments of subordinated loan capital	-	(179 653)
Gross receipts from issue of loan from credit institution	(1 146 904)	1 913 457
Payments of dividend	(84 616)	(20 089)
Paid-up new share capital	400 000	500 000
Net cash flow from financing activities	**455 130**	**5 962 637**
Net changes in lending to and receivables from credit institutions	(1 516 411)	305 384
Lending to and receivables from credit institutions at 1 January	3 708 022	3 402 638
Lending to and receivables from credit institutions at end of period	**2 191 611**	**3 708 022**

Notes

Note 1 – Accounting policies

General

Eika Boligkreditt has prepared its accounts for 2015 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 2014 contains further details of accounting policies in accordance with the IFRS.

Eika Boligkreditt reclassified tier 1 perpetual bonds during the second quarter from liabilities to equity. Interest is not recognised as interest expense in the profit and loss account, but as a reduction to equity until the interest is paid to the hybrid capital investors. Comparable figures have not been restated. See the statement of changes in equity for more information.

The financial statements for the third quarter of 2015 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 2014, 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 2015.

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	3rd quarter 2015	3rd quarter 2014	Jan-Sept 2015	Jan-Sept 2014	2014
Net gains and losses on loans at fair value	22 200	1 831	31	3 861	18 407
Net gains and losses on bonds and certificates	(16 150)	2 459	(23 143)	10 137	10 073
Net gains and losses on financial debts, hedged[1]	(2 968 077)	923 398	(1 015 947)	(659 961)	(5 439 933)
Net gains and losses on interest swaps related to lending	(33 238)	2 497	(8 625)	1 651	(11 264)
Net gains and losses on interest and currency swaps related to liabilities	3 018 214	(895 450)	1 236 527	624 877	5 419 280
Net gains and losses on financial instruments at fair value[2]	**22 949**	**34 734**	**188 843**	**(19 435)**	**(3 437)**

[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 profit includes positive changes of NOK 51.2 million in the value of basis swaps. In addition to value changes for basis swaps, third-quarter profit includes a loss of NOK 28.3 million in other changes to the value of financial instruments. That gives a total positive change of NOK 22.9 million in the value of financial instruments, compared with positive NOK 34.7 million for the same period of 2014.

In addition to the NOK 220.4 million in positive value changes for basis swaps, value changes to financial instruments for 2015 included a net loss of NOK 8.6 million on financial derivatives and a net loss of NOK 23.1 million on bonds and certificates. Profit for the first nine months of 2015 accordingly includes positive changes of NOK 188.8 million in the value of financial instruments, as against a negative NOK 19.4 million for the same period of 2014.

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 Sept 2015	30 Sept 2014	31 Dec 2014
Installment loans - retail market	54 375 185	51 652 566	52 047 723
Installment loans - housing cooperatives	8 676 196	9 069 522	8 791 895
Adjustment fair value lending to customers[1]	49 395	34 820	49 365
Total lending before specific and general provisions for losses	**63 100 777**	**60 756 908**	**60 888 984**
Individual impairments	-	-	-
Unspecified group impairments	-	-	-
Total lending to and receivables from customers	**63 100 777**	**60 756 908**	**60 888 984**

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 at 30 September 2015.

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

30 Sept 2015

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	60 200 286	60 200 286
Fixed rate loans	2 851 095	2 900 491
Toal lending	**63 051 381**	**63 100 777**

30 Sept 2014

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	59 709 632	59 709 632
Fixed rate loans	1 012 457	1 047 276
Toal lending	**60 722 089**	**60 756 908**

31 Dec 2014

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	59 818 358	59 818 358
Fixed rate loans	1 021 261	1 070 626
Toal lending	**60 839 619**	**60 888 984**

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.

In collaboration with the owner banks, the company has revised its current distributor agreement. This revision has included changes to the credit guarantees provided to Eika Boligkreditt by the banks. While the amount of the guarantee provided was previously related to the individual loan, combined with a common framework guarantee in which all the banks participated, the new agreement involves a maximum guarantee commitment for the banks over a rolling 12-month period.

The new guarantee agreement specifies that the bank which has transferred the residential mortgage concerned undertakes to cover 80 per cent of a realised loss when required by the company. The remaining 20 per cent of the loss can be offset by the company against commission payments to all the owner banks, allocated pro rata on the basis of the individual bank's share of the residential mortgage portfolio at the date when the loss is realised. Within the rolling 12-month period, the guarantee commitment is limited to a maximum of one per cent of the individual bank's residential mortgage portfolio in the company, with a minimum of NOK 5 million or 100 per cent of the residential mortgage portfolio if it is smaller than NOK 5 million. In addition, the bank has a joint liability with all the other banks to offset that part of the loss which exceeds the bank's 80 per cent share for an amount up to 12 months commission income from the company.

The revised distributor agreement replaces distribution agreements entered into earlier, and came into force on 1 October 2015. Such entry into force presupposes that all existing owner banks in Eika Boligkreditt enter into the revised distributor agreement before 31 December 2015. This regulation has been adopted in order to achieve a common entry into force for the distribution agreement.

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

30 September 2015

Amounts in NOK 1 000

Bonds broken down by issuer sector	**Nominal value**	**Cost price**	**Fair Value**
Municipalities	215 000	215 004	214 936
Credit institutions	4 916 306	4 949 124	4 947 788
Treasury bills	2 542 277	2 468 500	2 542 433
Total bonds and certificates at fair value through profit or loss	**7 673 583**	**7 632 628**	**7 705 158**
Change in value charged to the profit and loss account			**72 530**

Average effective interest rate is 1.01 per cent annualised. The calculation is based on a weighted fair value.

30 September 2014

Amounts in NOK 1 000

Bonds broken down by issuer sector	**Nominal value**	**Cost price**	**Market value**
Corporations owned by municipalities	25 000	25 003	25 030
Municipalities	3 486 630	3 486 765	3 487 658
Credit institutions	4 750 500	4 773 337	4 783 680
Treasury bills	500 000	511 506	511 184
Total bonds and certificates at fair value through profit or loss	**8 762 130**	**8 796 612**	**8 807 552**
Change in value charged to the profit and loss account			**10 940**

Average effective interest rate is 1.95 per cent annualised. The calculation is based on a weighted fair value.

31 December 2014

Amounts in NOK 1 000

Bonds broken down by issuer sector	**Nominal value**	**Cost price**	**Fair value**
Municipalities	1 225 524	1 225 549	1 225 999
Credit institutions	4 800 416	4 824 927	4 825 490
Government bonds	726 612	737 758	737 367
Treasury bills	1 132 273	1 132 699	1 131 674
Total bonds and certificates at fair value through profit or loss	**7 884 824**	**7 920 933**	**7 920 530**
Change in value charged to the profit and loss account			**(403)**

Average effective interest rate is 1.92 per cent annualised. The calculation is based on a weighted fair value.

	30 June 2015	**30 June 2014**	**31 Dec 2014**
Average term to maturity	**1.9**	**1.3**	**1.4**
Average duration	**0.1**	**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 Sept 2015	30 Sept 2014	31 Dec 2014
NO0010502149	1 200 000	NOK	Floating	3M Nibor + 0.70%	2009	2019	1 210 148	1 213 085	1 212 344
NO0010536089	200 000	NOK	Floating	3M Nibor + 0.40%	2009	2015	-	314 889	199 948
NO0010561103	1 948 000	NOK	Fixed	5.00%	2009	2019	1 999 490	2 011 712	2 008 631
NO0010565211	327 000	NOK	Fixed	4.40%	2010	2015	-	827 362	327 116
NO0010572373	4 037 000	NOK	Floating	3M Nibor + 0.53%	2010	2016	4 036 435	4 608 248	4 608 526
XS0537088899	487 133	EUR	Fixed	2.13%	2010	2015	-	3 940 930	4 404 735
NO0010605587	1 000 000	NOK	Fixed	5.20%	2011	2021	1 000 000	1 000 000	1 000 000
NO0010612179	700 000	NOK	Fixed	4.65%	2011	2018	707 649	710 495	709 778
NO0010612039	2 700 000	NOK	Floating	3M Nibor + 0.55%	2011	2018	2 703 059	2 704 197	2 703 910
NO0010625429	906 000	NOK	Floating	3M Nibor + 0.40%	2011	2014	-	905 959	-
NO0010625346	1 500 000	NOK	Fixed	4.60%	2011	2026	1 501 004	1 501 095	1 501 072
NO0010630148	1 035 000	NOK	Floating	3M Nibor + 0.45%	2011	2014	-	1 035 173	-
NO0010631336	738 000	NOK	Fixed	3.75%	2011	2016	738 324	850 770	850 657
XS0736417642	500 000	EUR	Fixed	2.25%	2012	2017	4 753 214	4 037 245	4 513 900
NO0010648884	308 000	NOK	Floating	3M Nibor + 0.42%	2012	2015	-	587 881	307 961
NO0010648892	1 400 000	NOK	Floating	3M Nibor + 0.74%	2012	2017	1 400 734	1 401 171	1 401 061
XS0794570944	650 000	EUR	Fixed	2.00%	2012	2019	6 162 475	5 231 919	5 851 519
XS0851683473	1 000 000	EUR	Fixed	1.25%	2012	2017	9 503 858	8 074 861	9 027 429
NO0010663727	5 220 000	NOK	Floating	3M Nibor + 0.60%	2012	2019	5 242 512	5 247 904	5 246 545
NO0010664428	1 000 000	NOK	Floating	3M Nibor + 0.53%	2012	2018	1 001 015	1 001 335	1 001 254
NO0010663743	1 000 000	NOK	Fixed	3.25%	2012	2019	1 007 175	1 008 893	1 008 460
NO0010669922	1 000 000	NOK	Fixed	4.00%	2013	2028	996 235	995 929	996 007
XS0881369770	1 000 000	EUR	Fixed	2.125%	2013	2023	9 480 736	8 054 472	9 006 347
NO0010685480	5 000 000	NOK	Floating	3M Nibor + 0.54%	2013	2020	5 029 166	3 029 967	3 029 766
NO0010685704	550 000	NOK	Fixed	3.50%	2013	2020	552 338	552 786	552 673
NO0010687023	150 000	NOK	Fixed	4.10%	2013	2028	150 000	150 000	150 000
NO0010697204	300 000	SEK	Fixed	2.38%	2013	2018	303 478	266 095	287 680
NO0010697212	700 000	SEK	Floating	3M Stibor + 0.50%	2013	2018	708 877	621 893	672 197
XS1044766191	500 000	EUR	Fixed	1.50%	2014	2021	4 730 887	4 015 067	4 491 684
NO0010732258	3 125 000	NOK	Floating	3M Nibor + 0.28%	2015	2022	3 111 208	-	-
NO0010733694	1 150 000	NOK	Fixed	1.75%	2015	2021	1 142 278	-	-
Value adjustments							2 684 492	2 104 612	2 880 442
Total covered bonds[1]							**71 856 786**	**68 005 945**	**69 951 642**

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

Senior unsecured bonds - amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	30 Sept 2015	30 Sept 2014	31 Dec 2014
NO0010673106	250 000	NOK	Floating	3M Nibor + 0.80%	2013	2015	-	250 217	250 095
NO0010685043	100 000	NOK	Floating	3M Nibor + 0.42%	2013	2014	-	99 999	-
NO0010685035	300 000	NOK	Floating	3M Nibor + 0.43%	2013	2014	-	299 982	-
NO0010691991	200 000	NOK	Floating	3M Nibor + 0.69%	2013	2015	199 998	199 938	199 953
NO0010697733	600 000	NOK	Floating	3M Nibor + 0.90%	2013	2016	600 011	600 021	600 018
NO0010699234	200 000	NOK	Floating	3M Nibor + 1.14%	2013	2018	199 807	199 747	199 762
NO0010705593	600 000	NOK	Floating	3M Nibor + 0.65 %	2014	2017	600 778	601 176	601 076
NO0010708936	425 000	NOK	Floating	3M Nibor + 0.82%	2014	2019	425 584	224 775	425 693
NO0010711716	400 000	NOK	Floating	3M Nibor + 0.82%	2014	2016	399 949	399 869	399 889
NO0010713753	250 000	NOK	Floating	3M Nibor + 0.72%	2014	2019	249 824	249 777	249 789
NO0010732886	250 000	NOK	Floating	3m Nibor + 0.30%	2015	2017	249 836	-	-
NO0010739287	200 000	NOK	Floating	3m Nibor + 0.70%	2015	2020	199 822	-	-
Total senior unsecured bonds							**3 125 609**	**3 125 501**	**2 926 275**

Total debt securities issued	**74 982 395**	**71 131 446**	**72 877 916**

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 Sept 2015	30 Sept 2014	31 Dec 2014
NO0010592991	180 000	NOK	Floating	3M Nibor + 2.40% [1]	2010	2020	-	179 848	-
NO0010679632	250 000	NOK	Floating	3M Nibor + 2.20% [2]	2013	2023	249 736	249 636	249 661
NO0010729650	200 000	NOK	Floating	3M Nibor + 1.85% [3]	2015	2025	199 742	-	-
Total subordinated loans							**449 477**	**429 483**	**249 661**
Total tier 1 perpetual bonds [4]							**-**	**448 199**	**448 315**
Total subordinated loan capital							**449 477**	**877 683**	**697 976**

[1] NOK 180 million in subordinate loan maturing on 15 December 2020 incorporate the right to a call on 15 December 2015. This loan was redeemed on 15 December 2014 because new official regulations have introduced changes which meant it could no longer be treated in full as tier 2 capital.

[2] 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.

[3] 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.

[4] Tier 1 perpetual bonds have been reclassified as equity as of 30 June 2015. See the statement of changes in equity for more information Comparative figures have not been restated.

Note 8 – Coverpool

	Fair value		
Amounts in NOK 1 000	**30 Sept 2015**	**30 Sept 2014**	**31 Dec 2014**
Lending to customers	63 100 777	60 756 908	60 888 984
Substitute assets and derivatives:			
Financial derivatives (net)	9 761 627	3 750 119	8 532 923
Substitute assets [1]	6 781 611	10 688 310	7 366 271
Total	**79 644 016**	**75 195 337**	**76 788 178**
The cover pool's overcollateralisation	110.82%	110.53%	109.74%

Covered bonds issued

	30 Sept 2015	30 Sept 2014	31 Dec 2014
Covered bonds	71 856 786	68 005 945	69 951 642
Premium/discount	10 882	23 939	22 215
Total covered bonds	**71 867 668**	**68 029 884**	**69 973 856**

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

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.

	30 Sept 2015		31 Dec 2014	
Assets				
Amounts in NOK 1 000	**Nominal amount**	**Fair value**	**Nominal amount**	**Fair value**
Interest rate swap lending[1]	11 500	26	-	-
Interest rate and currency swap[2]	38 533 563	9 829 515	43 050 563	8 608 941
Total financial derivative assets	**38 545 063**	**9 829 541**	**43 050 563**	**8 608 941**

Liabilities				
Amounts in NOK 1 000	**Nominal amount**	**Fair value**	**Nominal amount**	**Fair value**
Interest rate swap lending[1]	2 679 500	65 773	1 000 352	61 429
Interest rate and currency swap[2]	112 000	2 141	487 865	14 589
Total financial derivative liabilities	**2 791 500**	**67 914**	**1 488 217**	**76 018**

[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, with the exception of loans related to the swap arrangement with the Norwegian government. The hedge object is the swap interest element of the financial liabilities. Interest and currency swaps are used as hedging instruments.

	30 Sept 2015		31 Dec 2014	
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]	38 421 563	9 827 374	42 562 698	8 594 352
Hedged items: financial commitments incl foreign exchange[2]	38 421 563	(9 764 105)	42 562 698	(8 748 159)
Net value recognised in balance sheet	-	**63 269**	-	**(153 807)**

[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 2015**	**3rd quarter 2014**	**Jan-Sept 2015**	**Jan-Sept 2014**	**2014**
Hedging instruments	3 018 214	(895 450)	1 236 527	624 877	5 419 280
Hedged items	(2 968 077)	923 398	(1 015 947)	(659 961)	(5 439 933)
Net gains/losses (inefffectiveness)[3]	**50 138**	**27 948**	**220 581**	**(35 084)**	**(20 653)**

[3]The positive change in value for financial instruments in the third quarter of 2015 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. 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 2015.

30 September 2015

Amounts in NOK 1 000	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	2 900 491
Bonds and certificates at fair value through profit or loss	2 542 433	5 162 725	-
Financial derivatives	-	9 829 542	-
Shares classified as available for sale	-	-	15 000
Total financial assets	**2 542 433**	**14 992 266**	**2 915 491**
Financial liabilities			
Financial derivatives	-	67 914	-
Total financial liabilities	**-**	**67 914**	**-**

No significant transactions between the different levels have taken place so far in 2015.

31 December 2014

Amounts in NOK 1 000	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	1 070 626
Bonds and certificates at fair value through profit or loss	1 869 041	6 051 489	-
Financial derivatives	-	8 608 941	-
Shares classified as available for sale	-	-	15 000
Total financial assets	**1 869 041**	**14 660 430**	**1 085 626**
Financial liabilities			
Financial derivatives	-	76 018	-
Total financial liabilities	**-**	**76 018**	**-**

No significant transactions between the different levels took place in 2014.

Detailed statement of assets classified as level 3

2015 Amounts in NOK 1 000	1 Jan 2015	Purchases/ issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2015	Other comprehensive income	30 Sept 2015
Lending to customers (fixed-rate loans)	1 070 626	2 016 063	(164 028)	-	(22 170)	-	2 900 491
Shares available for sale	15 000	-	-	-	-	-	15 000
Total	**1 085 626**	**2 016 063**	**(164 028)**	**-**	**(22 170)**	**-**	**2 915 491**

2014 Amounts in NOK 1 000	1 Jan 2014	Purchases/ issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2014	Other comprehensive income	31 Dec 2014
Lending to customers (fixed-rate loans)	1 401 495	241 122	(590 398)	-	18 407	-	1 070 626
Shares available for sale	15 000	-	-	-	-	-	15 000
Total	**1 416 495**	**241 122**	**(590 398)**	**-**	**18 407**	**-**	**1 085 626**

Interest rate sensitivity of assets classified as Level 3 at 30 September 2015

A one percentage point increase in all interest rates would reduce the value of the company's fixed-rate loans at fair value at 31 December by NOK 98.3 million. The effect of a decrease in interest rates would be an increase of NOK 98.3 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 2015 and cumulatively.

Note 11 – Capital adequacy ratio

Amounts in NOK 1 000	30 Sept 2015	30 Sept 2014	31 Dec 2014
Share capital	810 553	713 455	713 455
Share premium	2 049 830	1 746 928	1 746 928
Paid, but not registered, share capital	-	-	-
Other paid-in equity	477 728	477 728	477 728
Total comprehensive income for the period	-	-	-
Other equity	1 003	997	999
Total equity recognised in the balance sheet (without tier 1 perpetual bonds)	**3 339 113**	**2 939 108**	**2 939 109**
Intangible assets	(3 926)	(5 767)	(4 609)
Deferred tax assets[1]	-	-	-
Prudent valuation adjustments of fair valued positions	(10 608)	-	(9 206)
Total core tier 1 capital	**3 324 579**	**2 933 341**	**2 925 294**

Core capital adequacy ratio (core tier 1 capital)	**30 Sept 2015**	**30 Sept 2014**	**31 Dec 2014**
Weighted calculation basis	25 798 734	25 074 470	25 154 656
Core tier 1 capital	3 324 579	2 933 341	2 925 294
Core tier 1 capital ratio	**12.9%**	**11.7%**	**11.6%**
Total core tier 1 capital	3 324 579	2 933 341	2 925 294
Tier 1 perpetual bonds	448 659	448 199	448 315
Total tier 1 capital	**3 773 238**	**3 381 540**	**3 373 609**

Capital adequacy ratio (tier 1 capital)	**30 Sept 2015**	**30 Sept 2014**	**31 Dec 2014**
Weighted calculation basis	25 798 734	25 074 470	25 154 656
Tier 1 capital	3 773 238	3 381 540	3 373 609
Tier 1 capital ratio	**14.6%**	**13.5%**	**13.4%**
Total tier 1 capital	3 773 238	3 381 540	3 373 609
Subordinated loans	449 477	429 483	249 661
Total primary capital (tier 2 capital)	**4 222 715**	**3 811 023**	**3 623 270**

Capital adequacy ratio (tier 2 capital)	**30 Sept 2015**	**30 Sept 2014**	**31 Dec 2014**
Weighted calculation basis	25 798 734	25 074 470	25 154 656
Total primary capital (tier 2 capital)	4 222 715	3 811 023	3 623 270
Capital adequacy ratio	**16.4%**	**15.2%**	**14.4%**
Required capital corresponding to eight per cent of calculation basis	2 063 899	2 005 958	2 012 372
Surplus equity and subordinated capital	2 158 816	1 805 065	1 610 897

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

30 September 2015

Calculation basis	**Weighted calculation basis**	**Capital requirement**
Credit risk	23 526 172	1 882 094
Operational risk	321 448	25 716
CVA risk[2]	1 951 114	156 089
Total	**25 798 734**	**2 063 899**

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

The company will maintain a buffer at all times in relation to the minimum requirement of eight per cent capital adequacy. This buffer will be sufficient to cope with relevant risks the company may face. The company's internal capital adequacy assessment process (ICAAP) is pursued to ensure that it has a sufficient buffer in relation to the minimum requirements. The company is planning to capitalise continued strong growth in the residential mortgage portfolio. Because of the rise in the countercyclical capital buffer requirement from zero to one per cent with effect from 30 June 2015 (a further rise to 1.5 per cent has been approved from 30 June 2016), the company increased its capital targets to 11 per cent core tier 1, 12.5 per cent tier 1 and 14.5 per cent tier 2 capital. These targets are adequate in relation to legal and capital requirements based on the company's internal risk assessment. As presented in the table above, the applicable buffer requirements were fulfilled at 30 September 2015 with a core capital 1 adequacy of 12.9 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 2014.

Note 12 – 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 2015, Eika Boligkreditt had received cash collateral of NOK 3.1 billion posted by counterparties to derivative contracts. In addition to cash collateral, the company had also received NOK 5.5 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 13 – Contingency and overdraft facilities

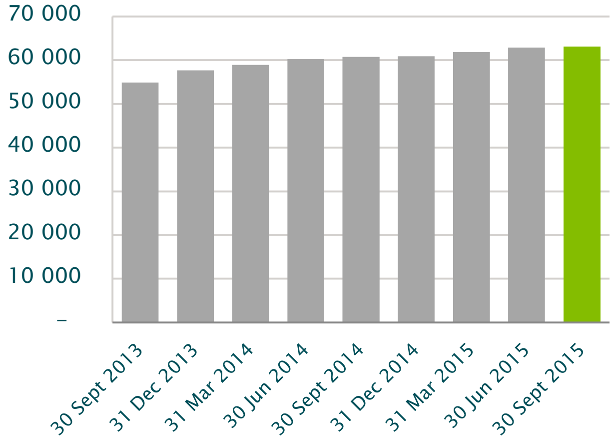
The company has an overdraft facility with DNB Bank ASA (DNB). Note 15 to the annual financial statements for 2014 provides a more detailed presentation of the overdraft with DNB. The company also has a note purchase agreement with the owner banks and OBOS concerning the purchase of covered bonds, whereby 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 2014.

Note 14 – Risk management

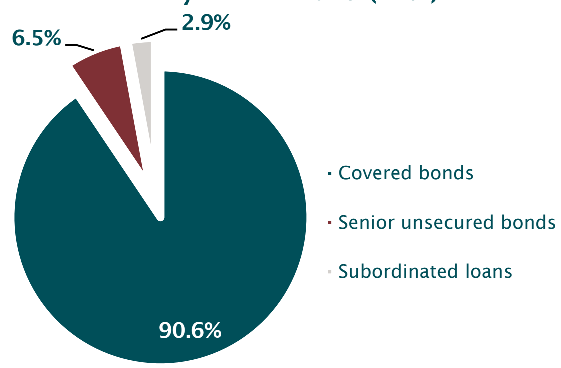
Eika Boligkreditt AS has established a framework for risk management and control in the company, which defines risk willingness and the principles for managing risk and capital. The value of financial assets and liabilities fluctuates as a result of risk in the financial markets. Note 3 to the annual accounts for 2014 describes the company's financial risk, which also applies to financial risk in 2015.

Key figures – Development

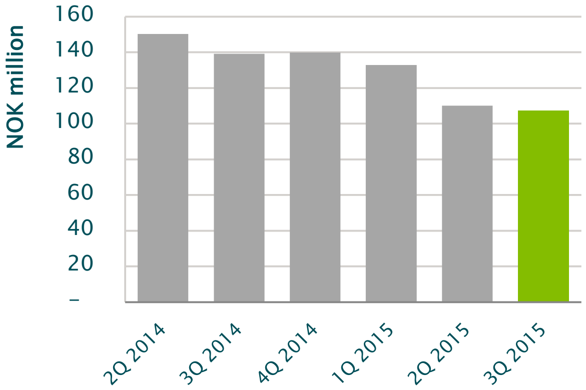
Lending to customers



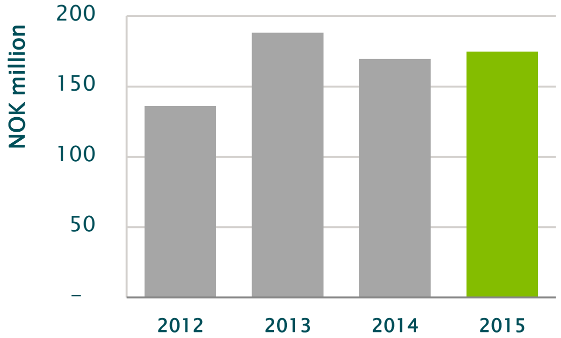
Issues by sector 2015 (in %)



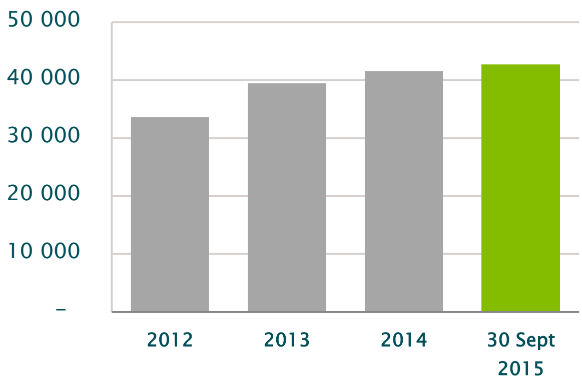
Distributor commissions



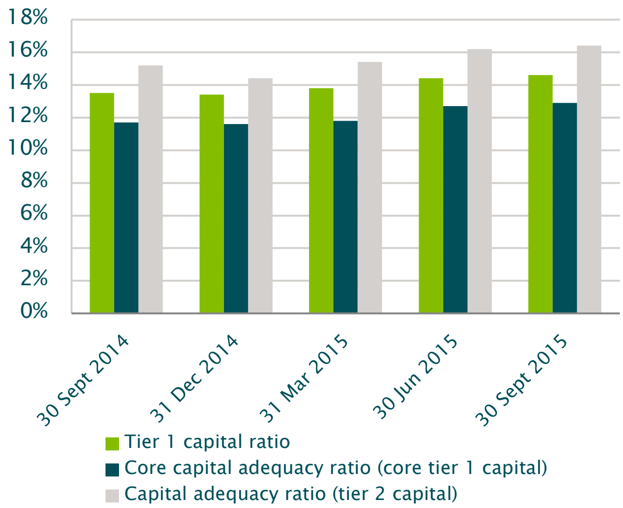
Net interest income after commissions costs (annualised)



Number of loans



Capital adequacy ratio



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Key figures – Unaudited

Amounts in NOK 1 000	30 Sept 2015	30 Sept 2014	31 Dec 2014
Balance sheet development			
Lending to customers	63 100 777	60 756 908	60 888 984
Debt securities issued	74 982 395	71 131 446	72 877 916
Subordinated loan capital	449 477	877 683	697 976
Equity	3 995 571	2 995 632	3 023 729
Equity in % of total assets	4.8	3.9	3.7
Average total assets	81 072 190	75 731 555	76 845 438
Total assets	82 968 828	76 862 560	81 298 346
Rate of return/profitability			
Fee and commission income in relation to average total assets, annualised (%)	0.6	0.8	0.7
Staff and general administration expenses in relation to average total assets, annualised (%)	0.1	0.1	0.1
Return on equity before tax, annualised (%)[1]	12.1	3.7	4.2
Total assets per full-time position	4 190 345	3 881 947	4 105 977
Cost/income ratio (%)[2]	32.6	30.9	32.5
Financial strength			
Core tier 1 capital	3 324 579	2 933 341	2 925 294
Tier 1 capital	3 773 238	3 381 540	3 373 609
Total primary capital (tier 2 capital)	4 222 715	3 811 023	3 623 270
Calculation basis capital adequacy ratio	25 798 734	25 074 470	25 154 656
Core tier 1 capital ratio (%)	12.9	11.7	11.6
Tier 1 capital ratio (%)	14.6	13.5	13.4
Capital adequacy ratio % (tier 2 capital)	16.4	15.2	14.4
Leverage ratio (%)[3]	4.3	3.6	4.0
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 Sept 2015	31 Dec 2015	31 Mar 2016	30 Jun 2016	30 Sept 2016
Liquidity Indicator I [4]	102%	107%	102%	103%	103%
Liquidity Indicator II [5]	110%	116%	117%	112%	113%
Average of indicators	**106%**	**112%**	**110%**	**108%**	**108%**

[1] Profit/loss before tax, in % of average equity (return on equity).
[2] Total operating expenses in % of net interest income after commissions costs.
[3] 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.
[4] Liquidity indicator I:

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

[5] Liquidity indicator II:

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

Tel: +47 22 87 81 00
E-mail: boligkreditt@eika.no
Parkveien 61
PO Box 2349 Solli
0201 Oslo

www.eikabk.no