eika. Boligkreditt

Annual report 2016

At your side.

Front cover photo: *Olden in Stryn, Sogn og Fjordane*

Henningsvær in Lofoten, Nordland

Contents

Jæren, Rogaland

The Eika Alliance comprises 73 local banks, Eika Gruppen and Eika Boligkreditt. More than NOK 360 billion in total assets, almost a million customers and over 3 000 employees make it one of the largest players in the Norwegian banking and financial market – and one of the most important players in Norway's local communities.

Eika Boligkreditt

Eika Boligkreditt AS is a credit institution owned at 31 December 2016 by 71 Norwegian local banks in the Eika Alliance and OBOS. Its principal purpose is to provide access for the local banks to long-term and competitive funding. The company is licensed as a credit institution, and finances the local banks by issuing internationally rated covered bonds. By virtue of its size, Eika Boligkreditt is able to raise loans in both Norwegian and international financial markets, and to seek financing wherever the best market terms can be obtained at any given time. Eika Boligkreditt ensures that the alliance banks have access to financing on roughly the same terms as the larger banks in the Norwegian market. Eika Boligkreditt consequently ranks as an important contributor to reducing financing risk for the local banks and to ensuring that customers of the local banks achieve competitive terms for their residential mortgages.

The local banks in Eika

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

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

Eika Gruppen

Eika Gruppen serves as the financial services group in the Eika Alliance, and is owned by 73 local banks and OBOS. Its strategic foundation is to ensure strong and caring local banks which serve as a driving force for growth and development, for customers and for the local community. The group delivers a complete platform for banking infrastructure, including IT, payment processing and digital services which make the local bank competitive. In addition, it comprises the product companies Eika Forsikring, Eika Kredittbank, Eika Kapitalforvaltning and Aktiv Eiendomsmegling. Eika Gruppen's products and solutions are distributed through some 400 offices in Norway. Eika Boligkreditt was demerged from the Eika Gruppen financial group in 2012, and became directly owned by the local banks and OBOS.

Eika Boligkreditt in brief

Innvikfjorden, Sogn og Fjordane

History

2005

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

2007

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

2009

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

2010

- Eika Boligkreditt moves into new Oslo premises in Parkveien.
- Kjartan M Bremnes takes over as chief executive of Eika Boligkreditt.

2012

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

2014

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

2015

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

2016

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

2016: Highlights

71

LOCAL BANKS

Eika Boligkreditt was directly owned by 71 local banks and OBOS at 31 December 2016.

398

LOCAL AUTHORITIES

Eika Boligkreditt's cover pool includes mortgagees in 398 Norwegian local authorities.

96.0 BN

TOTAL ASSETS

Total assets were NOK 96 billion at 31 December.

47 THOUSAND

MORTGAGEES

Eika Boligkreditt has 47 592 mortgages in its cover pool.

47.3%

CURRENCY

47.3 per cent of the company's covered bonds are financed in NOK, while 52.7 per cent are financed in other currencies – primarily EUR.

30.5%

MORTGAGED PROPERTY

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

42.9%

LTV

The average loan to value (LTV) on mortgages in the cover pool was 42.9 per cent.

20

EMPLOYEES

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

Eika Boligkreditt in brief

Rådhuskaia (the City Hall pier), Oslo

Eika Boligkreditt is a credit institution which was directly owned at 31 December 2016 by 71 local banks in the Eika Alliance and the OBOS housing association. Its main purpose is to secure access for the owner banks in the Eika Alliance to long-term competitive funding by issuing covered bonds in the Norwegian and international financial markets. An important part of the company's business concept is to increase the competitiveness of the owner banks and reduce their risk. At 31 December 2016, the banks had transferred a total of NOK 71.5 billion in residential mortgages and thereby relieved their own financing requirements by a corresponding amount.

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

Activity began at Eika Boligkreditt in February 2005 and, with current total assets of NOK 96 billion, the company accounts for a substantial proportion of the external funding for the owner banks. To ensure the best possible financing terms for the owner banks, the company aims to be an active issuer in both Norwegian and international financial markets.

Shareholders

71 local banks and OBOS[1]

73 local banks and OBOS

Ownership structure and management

100%

Eika Boligkreditt AS

100%

Eika Gruppen AS

CEO
Kjartan M Bremnes

Risk manager Mari M Sjoner

IT manager Thomas Johansen

Head of lending Hege A Skoglund

Chief marketing officer Kurt E Mikalsen

Financial manager Hugo J Henriksen

CFO Odd-Arne Pedersen

Senior vice president funding
Anders Mathisen

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

Board of directors

Tor Egil Lie

Director

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

Jon Guste-Pedersen

Director

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

Bjørn Riise

Chair

- Born: 1963.
- Position: CEO, Klæbu Sparebank.
- Education: BSc computing finance, Trondheim Engineering College, business economics, Trondheim Business School.
- Other directorships: chair, Klæbu advisory board, Mid-Norway Chamber of Commerce and Industry.
- Director since 2008 and chair since 2015.

Olav Sem Austmo

Director

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

Terje Svendsen

Director

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

Executive management

Hugo J Henriksen

Financial manager

- Born: 1969.
- Education: MSc business economics, University of Bodø.
- Career: Terra-Gruppen, Ernst & Young.
- Joined company in 2007.

Kurt E Mikalsen

Chief marketing officer

- Born: 1968.
- Education: BA, University of Bodø.
- Career: DNB, GMAC Commercial Finance.
- Joined company in 2006.

Hege Skoglund

Head of lending

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

Kjartan M Bremnes

CEO

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

Mari M Sjoner

Risk manager

- Born: 1985.
- Education: MSc business economics, Norwegian School of Economics.
- Joined company in 2010.

Odd Arne Pedersen

CFO

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

Anders Mathisen

Senior vice president, funding

- Born: 1967.
- Education: MBE, BI Norwegian Business School.
- Career: Terra Forvaltning, SEB, Norges Bank.
- Joined company in 2012.

Krokvika in Trondheimsfjorden, Nord-Trøndelag

A strategically important company for the banks

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

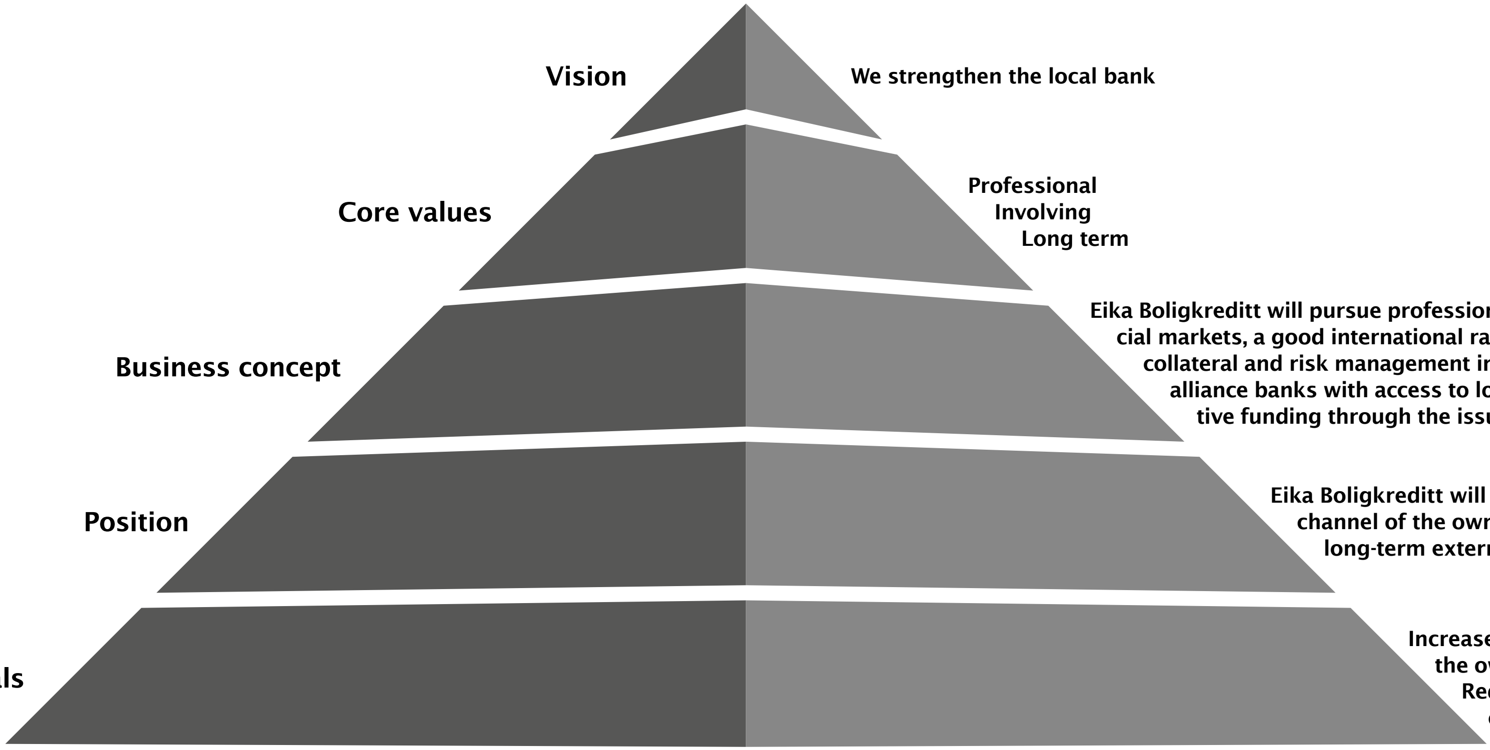
The decision by the local banks 14 years ago to establish a joint mortgage credit institution was a direct consequence of a trend where they – like all the other banks – experienced a decline in their deposit-to-loan ratio and a corresponding increase in the need for external financing from the bond market.

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

Through Eika Boligkreditt, the local banks and OBOS achieve indirect access to favourable financing in the Norwegian and international markets through the issue of internationally rated covered bonds. The local banks are active users of the company, and had secured NOK 71.5 billion in overall financing from Eika Boligkreditt at 31 December 2016. That corresponds to roughly half the total external financing for the local banks, and this share is rising.

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

Strategy pyramid



Vision – We strengthen the local bank

Core values – Professional, Involving, Long term

Business concept – Eika Boligkreditt will pursue professional cultivation of financial markets, a good international rating, and high-quality collateral and risk management in order to provide the alliance banks with access to long-term and competitive funding through the issue of covered bonds.

Position – Eika Boligkreditt will be the preferred channel of the owner banks for long-term external funding.

Strategic goals – Increase competitiveness for the owner banks. Reduce risk for the owner banks

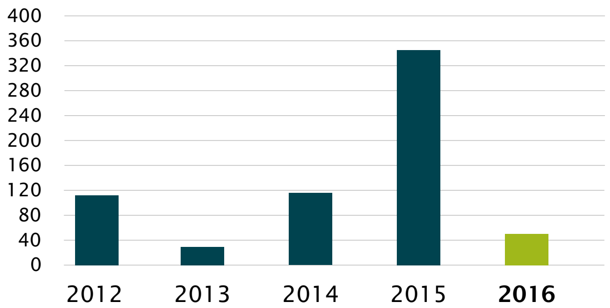
COMPANY PRIORITIES

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

Results and key figures

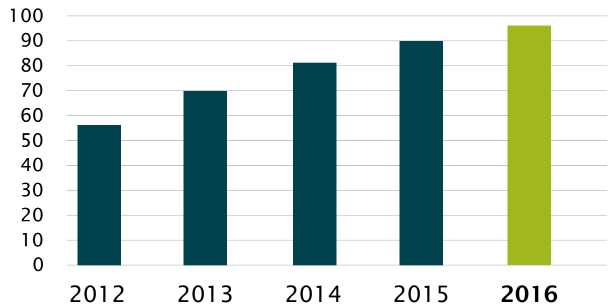
PROFIT BEFORE TAX

Amounts in NOK million



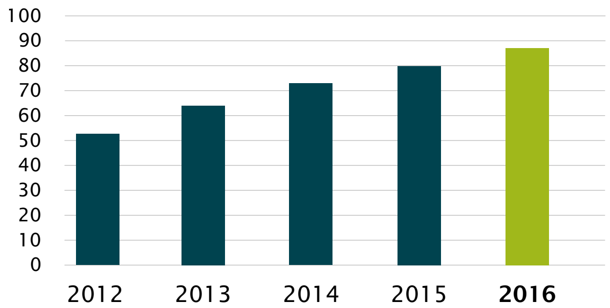
TOTAL ASSETS

Amounts in NOK billion



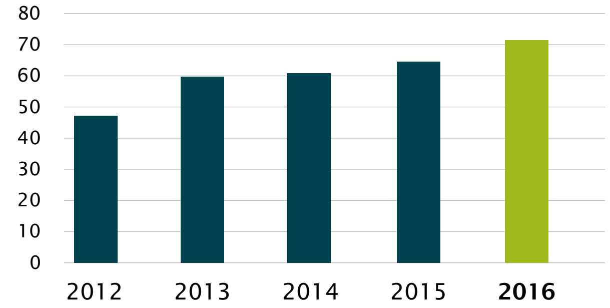
BORROWING PORTFOLIO

Amounts in NOK billion



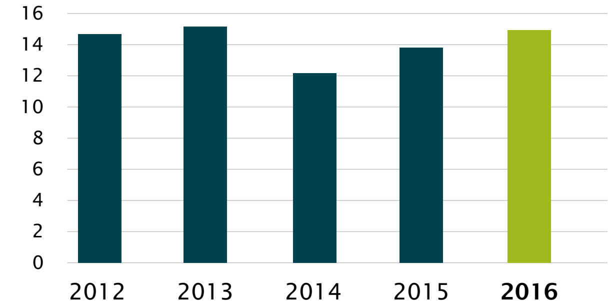
MORTGAGE PORTFOLIO

Amounts in NOK billion



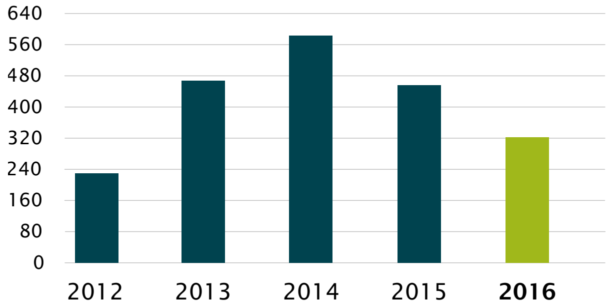
NEW MORTGAGES

in thousands



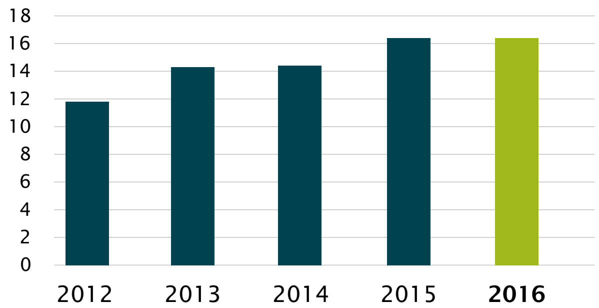
DISTRIBUTOR COMMISSIONS

Amounts in NOK million



CAPITAL ADEQUACY RATIO[1]

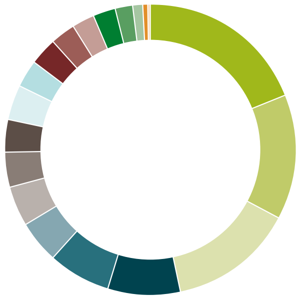
Value in per cent



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

GEOGRAPHICAL DISTRIBUTION

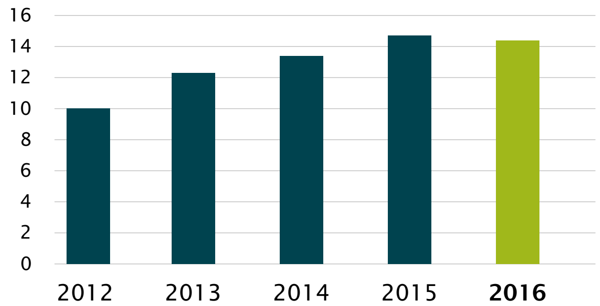
By county



Oslo	19.04%	Nordland county	3.21%
Akershus county	13.89%	Hordaland county	2.88%
Sør-Trøndelag county	13.80%	Aust-Agder county	2.79%
Rogaland county	8.13%	Hedmark county	2.70%
Østfold county	6.83%	Vest-Agder county	2.34%
Telemark county	4.83%	Oppland county	1.99%
Nord-Trøndelag county	4.38%	Troms county	1.24%
Buskerud county	3.92%	Sogn og Fjordane county	0.54%
Møre og Romsdal county	3.79%	Finnmark county	0.04%
Vestfold county	3.68%		

CORE TIER 1 CAPITAL RATIO

Value in per cent



LTV[1]

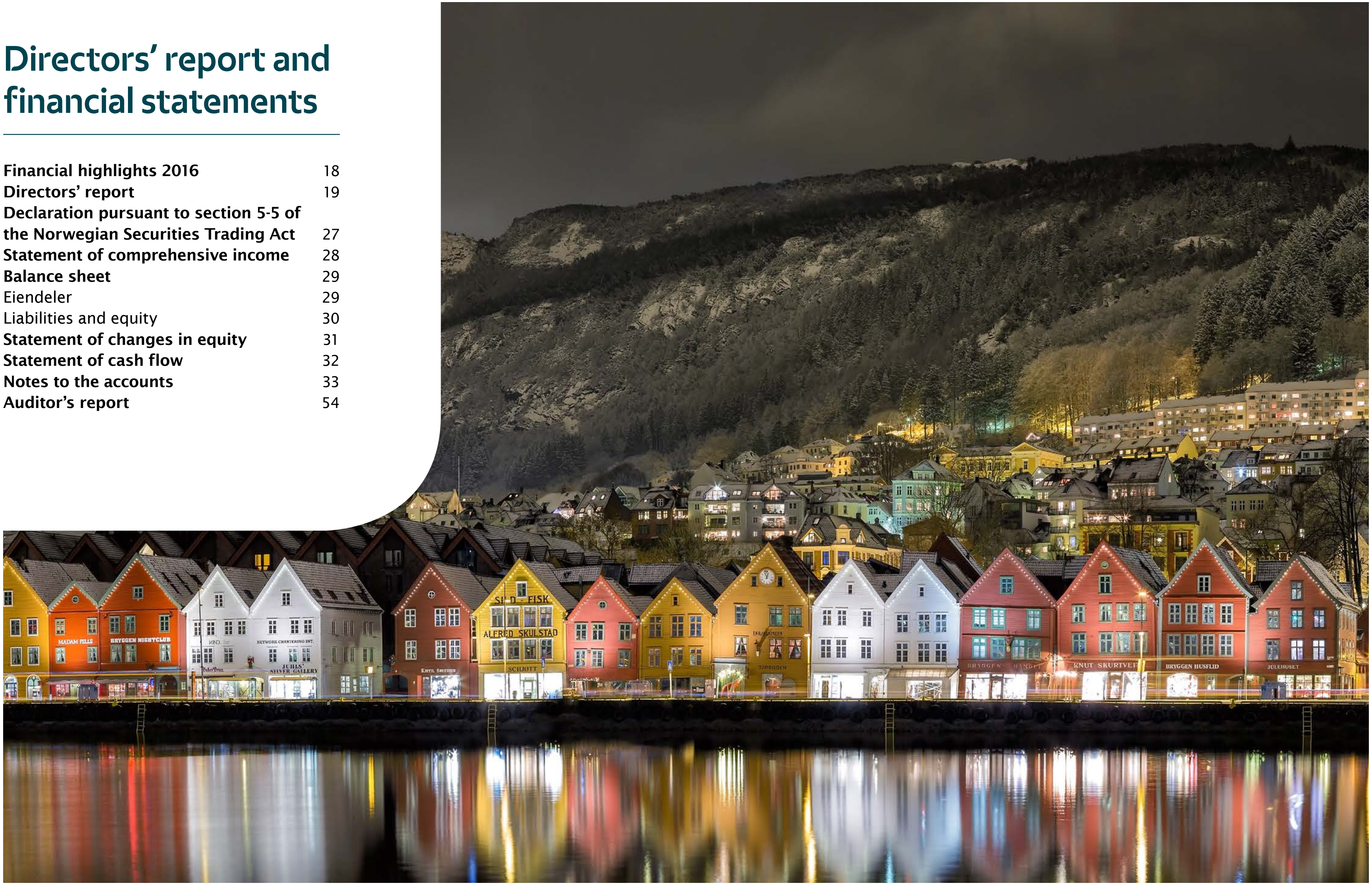
Specified in per cent and NOK

LTV:	0-≤40%	NOK 24 849.9 million	35.49%
LTV:	>40%-≤50%	NOK 15 731.4 million	22.47%
LTV:	>50%-≤60%	NOK 22 342.1 million	31.91%
LTV:	>60%-≤70%	NOK 6 733.3 million	9.62%
LTV:	>70%-≤75%	NOK 359.2 million	0.51%

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

Improved competitiveness
Reduced risk exposure

Directors’ report and financial statements



The harbour in Bergen, Hordaland

Financial highlights 2016

50.3 MILL

Pre-tax profit of NOK 50.3 million, compared with NOK 345 million in 2015.

96 BN

The company had total assets of NOK 96.0 billion at 31 December, compared with NOK 89.9 billion a year earlier.

87 BN

The borrowing portfolio totalled NOK 87 billion, a net increase of NOK 7.1 billion or 8.9 per cent from 31 December 2015.

10.8 %

The borrowing portfolio totalled NOK 71.5 billion, a net increase of NOK 7 billion or 10.8 per cent from 31 December 2015.

482 MILL

Net interest revenues were NOK 482 million, down by 24.1 per cent from 2015.

321.7 MILL

Distributor commissions to the owner banks totalled NOK 321.7 million, compared with NOK 456 million in 2015.

16.4 %

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

42.9 %

The average LTV for the whole cover pool was 42.9 per cent.

Directors' report 2016

The company's business

Nature of the business

Eika Boligkreditt's principal purpose is to secure access for the local banks in the Eika Alliance (the owner banks) to long-term and competitive funding through the issue of covered bonds. An important part of the company's business concept is to increase the competitiveness of the owner banks by improving their access to external financing in the Norwegian and international financial markets with regard to maturities, terms and depth. Reducing risk for the owner banks is an important purpose of the company's business. At 31 December 2016, the owner banks had a total financing of NOK 71.5 billion from Eika Boligkreditt and had thereby reduced the need for market financing on their own account by a corresponding amount. The company is licensed as a credit institution and authorised to raise loans in the market through the issue of covered bonds. Norwegian regulations for covered bonds were adopted in 2007, and this type of bond has become an important source of finance for lending activities by banks and credit institutions. Concentrating funding activities related to covered bonds in Eika Boligkreditt has secured the owner banks in the Eika Alliance a player in the bond market with the necessary requirements to obtain competitive terms in both Norway and internationally. With total assets of NOK 96 billion, the company ranks as one of the largest bond-issuing credit institutions in Norway.

Ownership structure

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

Agreements on liquidity and capital support

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

Capital support from the owner banks is regulated by a shareholder agreement dated 10 May 2012. OBOS is a party to this agreement for the share of the residential mortgage portfolio held by OBOS-banken. This includes a commitment by the owner banks that, under given circumstances, they will have to provide the company with the capital required to maintain the company's applicable targets at any given time for tier 1 capital and total primary capital ratios, or higher tier 1 capital and/or total primary capital ratios as required or recommended by the Financial Supervisory Authority of Norway. The present capital targets, which have applied from 30 June 2016, are set at a minimum of 12 per cent for the core tier 1 capital ratio, 13.5 per cent for the tier 1 capital ratio, and 15.5 per cent for the tier 2 capital ratio. The individual owner bank's capitalisation obligation is primarily limited to its pro rata share of capital issues, calculated on the basis of each owner bank's share of the company's bank financing. Should one or more owner banks fail to fulfil their capitalisation obligation pursuant to the agreement, the capitalisation obligation of the remaining owner banks can be raised to a limit of twice their original pro rata share. The agreement on purchasing covered bonds and the shareholder agreement can be terminated under certain conditions.

International rating

The company's covered bonds have an Aa1 (AA+) international rating from Moody's Investor Service (Moody's).

Residential mortgages included in Eika Boligkreditt's cover pool must have a maximum loan-to-value (LTV) of 60 per cent at origination. This is a stricter standard than the 75 per cent LTV ceiling permitted in the Norwegian covered bond regulations. In addition, the owner banks have provided guarantees against defaults on transferred residential mortgages. The particularly high credit quality of the residential mortgages in Eika Boligkreditt's cover pool has repeatedly been confirmed by Moody's in its quarterly EMEA Covered Bonds Monitoring Overview. In the latest report, published by Moody's on 11 November 2016, Eika Boligkreditt was ranked first among European issuers for the lowest risk of loss on residential mortgages in the cover pool. The primary purpose of the report is to support Moody's rating of covered bonds, and to provide insight into various key assumptions which are decisive for the rating. The report embraces all covered-bond issuers rated by Moody's. This ranking by the agency confirms that the owner banks provide the company with high-quality residential mortgages.

Development of bank financing

The owner banks had a total financing from Eika Boligkreditt of NOK 71.5 billion at 31 December 2016, representing an increase of NOK 7 billion or 10.8 per cent over the year. Standalone residential mortgages accounted for 87.7 per cent of the portfolio, with mortgages to residential cooperatives accounting for the remaining 12.3 per cent. Standalone mortgages include loans for holiday homes. The average LTV for the company's mortgages was 46.5 per cent based on the value of the properties at origination – 50.5 per cent for standalone mortgages and 18.2 per cent for mortgages to residential cooperatives. If subsequent price developments for the mortgaged properties are taken into account, the average LTV for the company's mortgages was 42.9 per cent at 31 December 2016 – 46.9 per cent for standalone mortgages and 15.1 per cent for mortgages to residential cooperatives. Since funding activity began in 2005, the company has experienced no defaults exceeding 90 days or losses related to its mortgage business. Guarantees issued by the owner banks have reduced the risk of loss.

Agreement concerning the distribution responsibility of OBOS-banken

The board of Eika Boligkreditt resolved at its meeting of 9 February 2016 to cancel the distribution agreement with OBOS-banken. Cancellation of the agreement by Eika Boligkreditt requires 12 months notice. The current distribution agreement therefore expires in mid-February 2017. From the termination date, OBOS-banken will no longer have the right to increase its financing from Eika Boligkreditt. Pursuant to the stipulations in the distribution agreement, OBOS-banken and Eika Boligkreditt entered into a new agreement in the autumn of 2016 to regulate the extension of OBOS-banken's distribution responsibility for its existing financing, including other rights and obligations pursuant to the guarantee, custody, commission and shareholder agreements and the agreement on the purchase of covered bonds.

Borrowing

The company's total borrowing (liabilities established through the issue of securities) amounted to NOK 87 billion at 31 December, up by NOK 7.1 billion from the end of 2015. Eika Boligkreditt issued bonds and certificates corresponding to NOK 16.5 billion in 2016. Twenty-eight per cent were issued in euros and 72 per cent in Norwegian kroner. Of the total issue volume, 93 per cent related to the issue of covered bonds. During 2016, repurchases of the company's own bonds totalled NOK 2.3 billion and maturing bonds amounted to NOK 4.2 billion.

The company's covered-bond issues are conducted under its Euro Medium Term Covered Note Programme, which is listed on the London Stock Exchange. This programme was last revised in October 2016. The borrowing limit in the programme is EUR 20 billion. Issues in 2016 and the three previous years are presented by sector in the table below. The issue volume in 2016

ISSUES BY SECTOR

(amounts in NOK million)

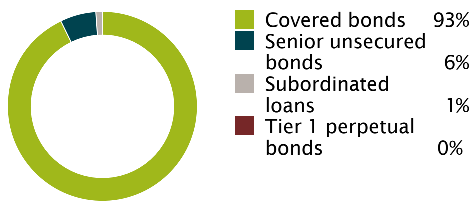
	2016	2015	2014	2013
Covered bonds (issued in SEK)	-	-	-	925
Covered bonds (issued in EUR)	**4 650**	4 636	4 123	7 409
Covered bonds (issued in NOK)	**10 725**	6 250	3 750	10 508
Senior unsecured bonds (issued in NOK)	**950**	450	1 975	2 300
Subordinated loans (issued in NOK)	**150**	200	-	250
Tier 1 perpetual bonds (issued in NOK)	-	-	200	250
Total issued	**16 475**	11 536	10 048	21 642

ISSUES BY CURRENCY

(in NOK mill) in 2016

ISSUES BY SECTOR

(in %) in 2016



BORROWING IN VARIOUS INSTRUMENTS

Capitalised amounts in NOK million

	31 Dec 2016	31 Dec 2015
Covered bonds	**84 109**	76 950
Senior unsecured bond loans	**2 874**	2 926
Subordinated loans	**599**	449
Total issued	**87 582**	80 325

was somewhat higher than expected. That is because the NOK 7 billion growth in mortgage lending during 2016 was somewhat higher than planned, which led to a corresponding increase in the issue volume. The bond market had a very good year in 2016, with improved liquidity and substantially lower credit margins. The credit margin over and above the money market interest rate (three months Nibor) for the company's covered bonds in Norwegian kroner and with a five-year tenor fell from 74 basis points at 31 May to 54 basis points at 31 December. Correspondingly, the credit margin for senior unsecured bonds issued by an average owner bank fell from 180 to 125 basis points over the same period for the same tenor. This sharp contraction in Norwegian credit margins reflects reduced credit margins in the eurozone and improved liquidity.

The average tenor for new financing in 2016 was 5.3 years, while the average tenor for the company's borrowing portfolio declined from 4.08 years at 1 January to 3.64 years at 31 December. The table above shows the breakdown of the company's borrowing in various instruments.

Profit and loss account

Pre-tax profit

Eika Boligkreditt delivered a pre-tax profit of NOK 50.3 million for 2016, compared with NOK 345 million the year before. The 2016 result includes NOK 115 million in negative value changes for basis swaps (2015: positive at NOK 228.3 million), so that pre-tax profit for the year excluding changes to the value of basis swaps came to NOK 165.3 million. Profit was also affected by value changes to other financial instruments, which yielded a net gain of NOK 33.2 million. Profit for 2016 accordingly includes negative value changes of NOK 81.8 million on the fair value of financial instruments, compared with positive value changes of NOK 202.6 million in 2015. A total of NOK 23.1 million in interest on tier 1 perpetual bonds is not presented as an interest expense in the income statement, but as a reduction in equity.

As reported above, profit for 2016 was significantly affected by value changes in basis swaps on 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. They are hedging instruments, and the effect of such value changes will be zero over the term of the derivatives. 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

The company's total interest income amounted to NOK 1 861 million in 2016, compared with NOK 2 067 million the year before. This change reflected lower interest rates on residential mortgages in the cover pool.

Net interest income

Net interest income amounted to NOK 482 million in 2016, compared with NOK 635 million the year before. This reduction reflects lower margins on residential mortgages. About 95 per cent of the residential mortgages in Eika Boligkreditt's portfolio have a variable interest rate. This means that the company, in consultation with the owner banks, can adjust the interest rate on its mortgages in line with interest-rate fluctuations in the market.

Distributor commissions

Distributor commissions to the owner banks, including arrangement commissions, amounted to NOK 322 million in 2016 compared with NOK 456 million the year before. Although the mortgage portfolio expanded in 2016, the decline in commission payments showed that the owner banks had reduced lending margins compared with 2015.

Defined-benefit pension plan closed

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

Balance sheet and liquidity

Balance sheet

Assets in the company's balance sheet amounted to NOK 96 billion at 31 December 2016, up by NOK 6.1 billion over the year. Lending to customers rose by NOK 7 billion or 10.8 per cent from 31 December 2015.

Borrowing

The company's total borrowing (liabilities established through the issue of securities) amounted to NOK 87 billion at 31 December, up by NOK 7.1 billion from the end of 2015.

Liquidity

Following a high level of activity in issuing covered bonds in Norwegian kroner over the year, the company maintained substantial liquidity during 2016. New financing totalling NOK 16.5 billion was raised by Eika Boligkreditt in 2016. Over the same period, the mortgage portfolio increased by NOK 7 billion while loan maturities and early redemptions amounted to NOK 6.5 billion. The company was provided with an additional NOK 0.3 billion in equity from the owners during the year, and raised NOK 0.15 billion in subordinated loans. A dividend of NOK 169 million was also paid to the owners. Cash collateral received from counterparties to derivative agreements declined by NOK 1.5 billion in 2016. When account is taken of NOK 0.6 billion in repurchase agreements entered into and recognised under other financial assets, overall liquidity for the company increased by about NOK 1.6 billion in 2016.

Counterparties to hedging contracts provided the company with NOK 3.4 billion in cash collateral during 2016. Cash collateral is held as bank deposits, repurchase agreements and various high-quality securities. In addition to straightforward cash collateral, the company received collateral in the form of securities (high-quality bonds) with a value corresponding to NOK 3.1 billion. The value of the securities provided as collateral is not included in the company's balance sheet. At 31 December, Eika Boligkreditt had an overall liquidity portfolio of NOK 16.5 billion – including NOK 3.4 billion in cash collateral received and taking account of NOK 0.6 billion in repurchase agreements recognised under other financial assets. In line with the regulations governing covered bonds, this liquidity is exclusively invested in a way which ensures low risk and a high degree of liquidity. It was invested at 31 December 2016 in Norwegian and European government securities, municipal bonds, covered bonds and repurchase agreements, and as deposits in banks with an international rating of A-/A3 or better. The size of the company's liquidity reserve, combined with a relatively low return resulting from a very conservative investment universe, involves not insignificant costs for the company. Eika Boligkreditt has nevertheless elected to maintain a relatively high liquidity ratio on the basis of continued strong growth in the mortgage portfolio and a conservative liquidity policy. The company has an agreement with the owner banks and OBOS on purchasing covered bonds. This facility is intended to secure liquidity for the company in circumstances where it cannot borrow in the financial market.

DEVELOPMENT IN CAPITAL ADEQUACY

(Amounts in NOK million)

	31 Dec 2016		31 Dec 2015	
Risk-weighted calculation basis	29 766		27 510	
Core tier 1 capital	3 833	12.9%	3 607	13.1%
Tier 1 capital	4 282	14.4%	4 055	14.7%
Total primary capital (tier 2 capital)	4 882	16.4%	4 505	16.4%

Risk management and capital adequacy ratio

Eika Boligkreditt obtained a total of NOK 450 million in additional primary (tier 2) capital during 2016, including NOK 300 million in core tier 1 capital and NOK 150 million in supplementary capital. This increase was accomplished by raising NOK 150 million in a new subordinated loan during the first quarter as well as NOK 300 million through two equity issues of NOK 150 million each in the second and fourth quarters respectively. The fund for unrealised gains was reduced by NOK 71 million during 2016. At 31 December, the company had a total primary capital of NOK 4 882 million, up by NOK 377 million from a year earlier.

Eika Boligkreditt's operations are confined exclusively to residential mortgage lending with security of up to 60 per cent of the mortgaged property at origination. Since the third quarter of 2015, the company has taken account of the risk of credit valuation adjustment (CVA) by 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. The basis for calculating the capital adequacy ratio has increased by NOK 2.3 billion in 2016, and amounted to NOK 29.8 billion at 31 December 2016. This represents a quantification of Eika Boligkreditt's risk, and the company's total primary capital is calculated as an economic variable in relation to this calculation basis.

The table above presents the development of the capital adequacy ratio.

Applicable from 30 June 2016, the present capital targets are set as follows.

		(At 31 Dec)
Core tier 1 capital	12.0%	(12.9%)
Tier 1 capital	13.5%	(14.4%)
Primary capital (tier 2 capital)	15.5%	(16.4%)

These targets are adequate in relation to legal provisions and capital requirements based on the company's internal risk assessment. As shown in the table above, the prevailing buffer requirements were met at 31 December 2016 with a capital adequacy ratio of 16.4 per cent. To satisfy the expected increase in the countercyclical capital buffer from 1.5 to two per cent from 31 December 2017, and the growth in lending, the company will need to increase both its tier 1 and tier 2 capital. In addition to capital provided by the owner banks, Eika Boligkreditt will seek to use the financial market to satisfy its capital targets. The company uses the standardised method specified by the capital requirement regulations for calculating capital requirements for credit risk.

Risk exposure

Activities in Eika Boligkreditt AS are exposed to various forms of risk. The company gives great emphasis to good continuous management and control of all the risks to which it is exposed. The board has implemented a framework for risk management and control which builds on the Coso framework for coherent risk management. This defines the company's willingness to accept risk and the principles for managing risk and capital, which build on the Basel II regulations. The company's performance target is to achieve a competitive return on equity. Its risk management will contribute to the attainment of this target both through the exploitation of business opportunities and by limiting the risk of possible negative results. Strategies, routines and instructions have been developed in connection with risk reviews to ensure that the company handles various risk factors in a satisfactory manner. Periodic checks are conducted to ensure that risk management routines are complied with and functioning as intended. The company is primarily exposed to the following risks: strategic and business, credit and counterparty, market, liquidity and refinancing, and operational.

Strategic and business risk

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

Credit and counterparty risk

Eika Boligkreditt is exposed to credit risk from granting credit to its customers. This risk relates primarily to the mortgages included in the company's cover pool. The granting of credit is managed through strategies for asset liability management, credit risk on loans and the credit manual, and through compliance with the administrative approval procedures and a well-developed set of rules for procedures and documentation which help to ensure adequate consideration. Portfolio risk is continuously monitored in order to expose possible defaults and to ensure rapid and adequate treatment of non-performing mortgages and advances. The risk of loss is further reduced through guarantees from the owner banks which establish new or transfer existing mortgages. The company had no losses on lending or guarantees in 2016. It maintains a conservative credit policy and expects no changes in future credit risk.

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

Market risk

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

Currency risk

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

Operational risk

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

Liquidity and refinancing risk

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

Internal control for financial reporting

Eika Boligkreditt has established frameworks for risk management and internal control related to its financial reporting process. These are considered by the board on an annual basis. The purpose of risk management and internal control is to reduce risk to an acceptable level. The company is organised with a financial manager responsible for the company's accounting function. In addition, the company purchases accounting services such as accountancy and financial reporting from Eika Gruppen AS. The company's accounting department is responsible for seeing to it that all financial reporting complies with applicable legislation, accounting standards and board guidelines. Furthermore, the department has established routines to ensure that financial reporting meets acceptable quality standards. All transactions are registered in the front office system and detailed reconciliation checks are conducted on a daily and monthly basis. These measures help to ensure that the company's reporting is accurate, valid and complete. Control measures such as reasonableness and probability tests have also been established.

Election and replacement of directors

Candidates for directorships are proposed by the company's nomination committee. This body is enshrined in the articles of association, and the general meeting has established guidelines for it. Fees for members of the nomination committee are determined by the general meeting. Pursuant to the company's articles, the composition of the nomination committee must represent the interests of the shareholders. It has not been the tradition to appoint members to the nomination committee from the company's board or executive management.

The nomination committee recommends candidates to sit on the board and the nomination committee, as well as fees for the members of these bodies. The committee has traditionally explained its recommendations orally at the general meeting. The nomination committee consults the chair, the CEO and the Alliance Council (the chairs of the five regional alliance networks) during the process, so that the regional structure functions as a channel for proposals to the committee without preventing shareholders contacting the committee directly should they so desire.

Corporate social responsibility at Eika Boligkreditt

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

Strengthening local communities

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

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

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

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

Professional and ethical perspective

Eika Boligkreditt has a clear goal of acting in a predictable manner and maintaining a high level of transparency in relation to processes and changes taking place within the applicable framework. This is achieved in part by good and clear communication and by a concentration on the needs and risk exposure of the owner banks. A high level of accessibility and a good correspondence between promises and deliveries are other crucial factors.

The company works actively to maintain a high score in the annual alliance survey, which measures the satisfaction of the owner banks with the quality of its products and services. Action is given priority when areas for improvement are identified. Eika Boligkreditt's goal for overall satisfaction by the owner banks is high, at 70 points or better. It scored 71 points in the most recent survey, which was in the autumn of 2016.

Eika Boligkreditt works actively to maintain a good internal working environment, and to ensure that employee rights are well maintained in accordance with Norwegian law. This is done in part through extensive efforts and information flow across departments where appropriate. An annual employee satisfaction survey is also conducted, where scores have been very high (79 per cent) and results are reviewed and evaluated with a view to further improvements. All financial institutions are required to comply with the provisions of the money laundering regulations, which are intended to prevent and expose transactions associated with the proceeds of crime or terrorist activities. Eika Boligkreditt's collaboration agreement with the owner banks contains provisions which ensure that identity checks are conducted when establishing mortgages or transferring them to the company. In addition, it has good routines for on-going checks of the mortgage portfolio aimed at exposing possible suspicious transactions pursuant to the money laundering rules. Eika Boligkreditt has established electronic monitoring of its mortgage portfolio, which regularly identifies suspicious transactions and then follows them up – initially with the bank concerned and subsequently by reporting if necessary to the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim). The company reported no cases to Økokrim in 2016.

Human rights are not considered a particularly relevant issue for the company's own business but are incorporated in Eika Gruppen's procurement routines, which are transferrable to Eika Boligkreditt in most contexts. When selecting suppliers, Eika Gruppen has routines for choosing reputable companies with solid references and their own ethical guidelines. Eika Boligkreditt places its surplus liquidity in securities issued by the Norwegian government, county councils and local authorities, credit institutions and banks, and on deposit with banks which have an international rating of A-/A3 or better. These are all enterprises with a core business which, in the company's view, does not breach generally accepted principles for unethical behaviour or activity (such as breaches of human rights, corruption, serious harm to the climate or the environment, or the manufacture of landmines, cluster bombs, nuclear weapons or tobacco products).

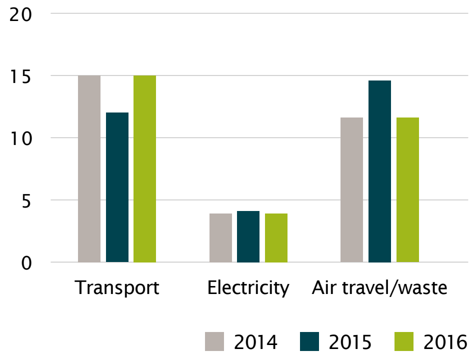
Natural environment, working environment and equal opportunities

Eika Boligkreditt had 20 permanent employees at 31 December. It also has an agreement with Eika Gruppen concerning the purchase of services in a number of areas. Customers of the company are mainly serviced by the owner banks. The working environment is regarded as good, and there were no injuries or accidents involving employees at work in 2016. Overall sickness absence was 1.13 per cent of total working hours. The goal of Eika Boligkreditt is to be a workplace where full equality prevails between men and women.

ANNUAL GREENHOUSE GAS EMISSIONS

Tonnes of carbon equivalent

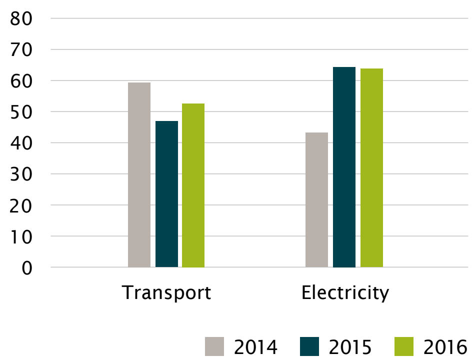
	2016	2015	2014
Transport	**13.2**	12.0	15.0
Electricity	**3.6**	4.1	3.9
Air travel/waste	**16.5**	14.6	11.6
Total	**33.3**	30.7	30.4



ANNUAL ENERGY CONSUMPTION

MWh

	2016	2015	2014
Transport	**52.6**	46.9	59.4
Electricity	**63.8**	64.3	43.2
Total	**116.3**	111.1	102.6



Its policy incorporates regulations related to equal opportunities, which aim to ensure that no gender-based discrimination occurs in such areas as pay, promotion or recruitment. Women made up 25 per cent of the workforce at 31 December and, all other conditions being equal, increasing this proportion when making new appointments will be desirable. The business in which Eika Boligkreditt is engaged causes no significant pollution, emissions or discharges which could harm the natural environment.

Environment- and climate-friendly operation

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

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

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

Eika Boligkreditt has a conscious approach to the use of paper and electronic templates and documents, in addition to postage costs. It has a clear goal of reducing paper consumption to a necessary minimum.

The company commissioned an overview of its greenhouse gas emissions and energy consumption in 2014, 2015 and 2016. This analysis is based on direct and indirect energy consumption related to its activities.

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

Comments on the annual financial statements

The financial statements for 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The board is of the opinion that the financial statements, including the balance sheet, give a true and fair view of the operations and financial position of the company at 31 December. The directors' report also gives a true and fair view of the development and results of operations and of the company's financial position. Interest income totalled NOK 1 861 million, interest charges NOK 1 379 million, net interest income NOK 482 million, and net interest charges after commission costs NOK 182 million in 2016. No losses were incurred in 2016 on loans or guarantees. The financial statements for 2016 show a comprehensive income of NOK 38 926 000, compared with NOK 279 041 000 for 2015.

Going concern

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

Balance sheet, liquidity and capital adequacy ratio

The book value of equity was NOK 4 396 million at 31 December 2016. Eika Boligkreditt had a capital adequacy ratio of 16.4 per cent at that date. The capital adequacy ratio is calculated in accordance with the standard method specified by Basel II.

Allocation of comprehensive income

Comprehensive income for 2016 is NOK 38 926 000. In its assessment of the proposed dividend for 2016, the board has given emphasis to conducting a consistent dividend policy over time. At 31 December 2016, the company had negative value changes related to fair value hedging of issued securities. This means that last year's provision of NOK 71 074 000 to the fund for unrealised gains related to fair value hedging of issued securities can be transferred back and paid out as dividend. The board has therefore proposed the payment of NOK 92 663 000 as dividend to the owner banks for 2016. Moreover, NOK 23 116 000 of the total profit is allocated to the investors in tier 1 perpetual bonds.

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

Outlook

The company's financing of the owner banks grew by a net NOK 7 billion in 2016, corresponding to a growth of 10.8 per cent in financing over the previous 12 months. That compared with a growth of NOK 3.6 billion or six per cent for 2015 as a whole. Statistics Norway's credit indicator for November 2016 showed a 12-monthly increase of 6.3 per cent in Norwegian household debt.

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

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

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

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

Oslo, 15 March 2017
The board of directors for Eika Boligkreditt AS

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

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

We hereby confirm that the company's financial statements for the period from 1 January to 31 December 2016 have been prepared to the best of our knowledge in accordance with prevailing accounting standards, and that the information provided in the financial statements gives a true and fair view of the company's assets, liabilities, financial position and performance as a whole.

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

Oslo, 15 March 2017
The board of directors for Eika Boligkreditt AS

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

Statement of comprehensive income

Amounts in NOK 1 000	Notes	2016	2015
INTEREST INCOME			
Interest from loans to customers		**1 708 294**	1 916 365
Interest from loans and receivables on credit institutions		**33 192**	33 630
Interest from bonds, certificates and financial derivatives		**97 485**	98 548
Other interest income		**22 369**	18 098
Total interest income		**1 861 340**	2 066 641
INTEREST EXPENSES			
Interest on debt securities issued		**1 354 496**	1 408 889
Interest on subordinated loan capital		**19 780**	15 357
Other interest expenses		**5 099**	7 062
Total interest expenses		**1 379 375**	1 431 309
Net interest income		**481 965**	635 332
Commission costs	23	**299 523**	441 604
Net interest income after commissions costs		**182 442**	193 729
Dividend from shares classified as available for sale	11	**5 652**	6 430
NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE			
Net gains and losses on bonds and certificates	11	**32 245**	(30 331)
Net gains and losses of fair value hedging on debt securities issued	8, 11	**(112 420)**	232 913
Net gains and losses on financial derivatives	11	**40 704**	(7 755)
Net gains and losses on loans at fair value	11	**(42 292)**	7 830
Total gains and losses on financial instruments at fair value		**(81 763)**	202 656
SALARIES AND GENERAL ADMINISTRATIVE EXPENSES			
Salaries, fees and other personnel expenses	17, 18	**22 594**	26 130
Administrative expenses	24	**17 100**	16 434
Total salaries and administrative expenses		**39 694**	42 565
Depreciation	13	**1 747**	1 983
Other operating expenses	24	**14 594**	13 225
Losses on loans and guarantees	4	**-**	-
PROFIT BEFORE TAXES		**50 296**	345 042
Taxes	20	**11 370**	81 677
PROFIT FOR THE PERIOD		**38 926**	263 365
Other comprehensive income that will not be reclassified subsequently to P&L (pensions)		**-**	1 301
Other comprehensive income that may be reclassified subsequently to P&L (shares)	9, 14	**-**	14 700
Taxes on other other comprehensive income		**-**	(325)
COMPREHENSIVE INCOME FOR THE PERIOD		**38 926**	279 041

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

Balance sheet

Assets

Amounts in NOK 1 000	Notes	**31 Dec 2016**	31 Dec 2015
ASSETS			
Lending to and receivables from credit institutions	4, 10, 12	**2 215 466**	3 386 131
Lending to customers	4, 9, 10, 12, 16	**71 509 279**	64 527 405
Other financial assets	4, 10, 21	**786 862**	122 069
Securities			
Bonds and certificates at fair value through profit or loss	4, 9	**13 671 888**	11 553 507
Financial derivatives	4, 8, 9	**7 788 473**	10 309 668
Shares classified as available for sale	9, 10, 14	**29 700**	29 700
Total securities		**21 490 061**	21 892 875
Intangible assets			
Deferred tax assets	20	**11 913**	-
Other intangible assets	13	**3 448**	3 690
Total intangible assets		**15 361**	3 690
TOTAL ASSETS		**96 017 030**	89 932 170

Balance sheet
Liabilities and equity

Amounts in NOK 1 000	Notes	31 Dec 2016	31 Dec 2015
LIABILITIES AND EQUITY			
Loans from credit institutions	4, 5	**3 394 213**	4 967 024
Financial derivatives	5, 8, 9, 10	**289 988**	66 236
Debt securities issued	5, 6, 10, 12, 15	**86 982 995**	79 876 051
Other liabilities	4, 10, 22	**352 430**	284 691
Pension liabilities	19	**2 259**	6 055
Deferred tax	20	-	40 128
Subordinated loan capital	5, 10, 12, 15	**599 426**	449 518
TOTAL LIABILITIES		**91 621 311**	85 689 703
Called-up and fully paid capital			
Share capital	25	**926 479**	856 674
Share premium		**2 433 904**	2 203 709
Other paid-in equity		**477 728**	477 728
Total called-up and fully paid capital	25, 26	**3 838 111**	3 538 111
Retained earnings			
Fund for unrealised gains		**14 700**	85 773
Other equity		**93 672**	169 808
Total retained equity	26	**108 372**	255 581
Hybrid capital			
Tier 1 capital		**449 236**	448 775
Total hybrid capital	26	**449 236**	448 775
TOTAL EQUITY		**4 395 719**	4 242 467
TOTAL LIABILITIES AND EQUITY		**96 017 030**	89 932 170

Oslo, 15 March 2017
The board of directors for Eika Boligkreditt AS

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

Statement of changes in equity

Amounts in NOK 1 000	Share capital[1]	Share premium[1]	Other paid in equity[2]	Fund for unrealised gains[3]	Retained earnings: other equity[4]	Tier 1 perpetual bonds[5]	**Total equity**
Balance sheet as at 1 January 2014	**592 082**	**1 368 300**	**477 728**	**-**	**21 088**	**-**	**2 459 198**
Result for the period	-	-	-	-	84 621	-	**84 621**
Equity issue	121 373	378 628	-	-	-	-	**500 000**
Dividends for 2013	-	-	-	-	(20 089)	-	**(20 089)**
Balance sheet as at 31 December 2014	**713 455**	**1 746 928**	**477 728**	**-**	**85 618**	**-**	**3 023 729**
Result for the period	-	-	-	85 773	168 806	24 462	**279 041**
Equity issue	143 218	456 782	-	-	-	-	600 000
Tier 1 capital classified as equity	-	-	-	-	-	448 775	448 775
Accrued unpaid interest tier1 capital	-	-	-	-	-	(24 462)	(24 462)
Dividends for 2013	-	-	-	-	(84 616)	-	(84 616)
Balance sheet as at 31 December 2015	**856 673**	**2 203 709**	**477 728**	**85 773**	**169 808**	**448 775**	**4 242 467**
Result for the period	-	-	-	(71 073)	86 884	23 116	38 926
Equity issue	69 806	230 194	-	-	-	-	300 000
Accrued unpaid interest tier1 capital	-	-	-	-	-	(22 654)	(22 654)
Taxes on interest tier 1 capital	-	-	-	-	5 779	-	5 779
Dividends for 2015	-	-	-	-	(168 799)	-	(168 799)
Balance sheet as at 31 December 2016	**926 479**	**2 433 904**	**477 728**	**14 700**	**93 672**	**449 236**	**4 395 719**

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 and unrealised gains on fair value hedging of debt securities.

[4] Other equity comprises earned and retained profits

[5] Tier 1 perpetual bonds form part of tier 1 capital pursuant to section 3a of the Norwegian regulations concerning the calculation of regulatory capital. Eika Boligkreditt has the right to pay no interest to the investors. A regulatory right of redemption also exists. Should government regulations introduce changes which affect the extent to which the capital can be regarded as tier 1 capital, the bonds can be redeemed at a price equal to 100 per cent plus accrued interest. The company has reclassified the following tier 1 perpetual bonds from liabilities to equity with effect from the second quarter of 2015:

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

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

Statement of cash flow

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

Notes to the accounts

NOTE 1: ACCOUNTING POLICIES

General

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

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

Eika Boligkreditt has prepared the accounts for 2016 in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU). The accounts have been prepared in accordance with the historical cost principle, with the exception of financial assets and financial liabilities at fair value through profit or loss, financial assets classified as available for sale, and fair value hedges, which have been recorded at fair value. Financial statements are prepared on the assumption that the entity is a going concern. The financial statements were approved by the board of directors and authorised for issue on 15 March 2017.

New and revised IFRSs in issue

IFRS 9 Financial instruments

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

Foreign currency

Functional and presentation currency

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

Foreign currency translation

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

Revenue recognition

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

Financial instruments

Classification

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

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

Financial asset and liability at fair value through profit or loss

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

A financial asset is designated through profit or loss if:

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

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

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

Loans and receivables

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

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

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

Financial assets available for sale

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

Other financial liabilities

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

Cash collateral

Agreements with counterparties regulating trades in OTC derivatives require collateral to be provided in certain cases. Eika Boligkreditt AS has been provided with such collateral in the form of cash in 2016. These cash sums are managed by Eika Boligkreditt AS for the duration of the collateral provision, and are recognised in the balance sheet as an asset with an associated liability. Both the cash asset and the liability are thereafter measured at amortised cost.

Recognition and derecognition

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

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

Financial assets are derecognised when the contractual rights to the cash flows from the investments have expired or when Eika Boligkreditt has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Subsequent measurement of financial assets and liabilities

Fair value

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

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

Amortised cost

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

Cash and cash equivalents

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

Offsetting

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

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

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

Impairment of financial assets

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

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

By the end of 2014, there is no objective evidence that impairment loss on financial assets carried at amortised cost has incurred.

Hedge accounting

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

Intangible assets

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

Commission costs

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

Segment

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

Pensions

Defined contribution plans

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

Defined benefit plans

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

AFP – early retirement pension

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

Taxation

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

Current tax

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

Deferred tax

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

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

NOTE 2: USE OF ESTIMATES AND DISCRETION

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

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

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

Lending, non-performing/doubtful loans and writedowns

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

No loans were written down at 31 December 2016. For more information about lending, see note 4.

Fair value of financial instruments

The company applies various measurement methods to determine the fair value of financial instruments that are not traded in an active market. The chosen measurement methods are based on market conditions at the end of the reporting period. This means that, if observable market data are unavailable, the company will make assumptions and apply discretion as to what the market will base its evaluation of corresponding financial instruments on. More information about the financial instruments can be found in notes 4, 5, 8, 9, 10 and 11.

NOTE 3: FINANCIAL RISK

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

Eika Boligkreditt's main purpose is to secure access for the owner banks to long-term and competitive financing by issuing covered bonds. Risk management in the company will contribute to reaching this goal through tailored growth, a good international rating, profitability and cost efficiency, prudent risk and quality at every stage.

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

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

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

NOTE 4: CREDIT RISK

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

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

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

Note 4.1 Maximum exposure to credit risk

Amounts in NOK 1 000	31 Dec 2016	31 Dec 2015
Financial assets recognised in balance sheet		
Lending to and receivables on credit institutions[1]	**2 215 466**	3 386 131
Lending to customers	**71 509 279**	64 527 405
Others financial assets	**786 862**	122 069
Bonds and certificates at fair value through profit or loss	**13 671 888**	11 553 507
Financial derivatives	**7 788 473**	10 309 668
Total credit risk exposure	**95 971 968**	89 898 780
Off-balance sheet financial assets		
Overdraft facility	**50 000**	50 000
Note Purchase Agreement[2]	**-**	-
Granted, but undisbursed loans	**1 011 146**	1 303 965

[1] Restricted funds for tax withholdings were NOK 934 thousand in 2016 and NOK 921 thousand in 2015. Restricted funds for pension liabilities were NOK 1 983 thousand in 2016 and NOK 1 388 thousand in 2015.
[2] The owner banks have accepted a liquidity obligation (Note Purchase Agreement) towards Eika BoligKreditt, see note 15 for more information. The amount per 31 December 2016 in the table above is NOK 0,- as the company's own liquidity is deducted at the time of measurement.

Note 4.2 Lending to customers

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

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

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

31 Dec 2016

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

31 Dec 2015

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

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

Guarantees and provision of cover

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

The main features of these guarantees are as follows.

a) Case guarantee

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

b) Loss guarantee

The bank guarantees to cover every loss suffered by Eika Boligkreditt was a result of non-performing loans, subject to the restrictions specified below. "Loss" means the residual claim against the mortgagee related to the relevant mortgage after all associated collateral has been realised, and it is to be regarded as recognised at the point when all collateral associated with a non-performing loan has been realised and paid to Eika Boligkreditt. The bank's loss guarantee

covers up to 80 per cent of the loss recognised on each loan. The total loss guarantee is limited to one per cent of the bank's overall mortgage portfolio in Eika Boligkreditt at any given time, but nevertheless such that the loss guarantee is (i) equal to the value of the mortgage portfolio for portfolios up to NOK 5 million and (ii) amounts to a minimum of NOK 5 million for mortgage portfolios which exceed NOK 5 million, calculated in all cases over the previous four quarters on a rolling basis.
This means that, if the distributor's total share of the recognised losses for each mortgage exceeds the above-mentioned limit, Eika Boligkreditt will cover the excess. As a result, the bank's share of the loss covered by the loss guarantee cannot exceed 80 per cent but, if the overall recognised loss exceeds the framework, the share of total will be lower than 80 per cent.

c) Right to offset against commission due to the bank

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

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

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

Defaults

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

The company had no non-performing loans where the outstanding instalment was more than 90 days overdue at 31 December 2016.

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

The owner bank's net interest rate

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

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

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

Past due loans not subject to impairment

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

Amounts in NOK 1 000	**31 Dec 2016**	31 Dec 2015
1-29 days	**222 588**	184 916
30-60 days	**38 777**	36 198
60-90 days	-	-
> 90 days	-	-
Total past due loans not subject to impairment (principal)	**261 365**	221 114

Note 4.2.1 Utlån fordelt på geografisk område[1]

Amounts in NOK 1 000		Lending 31 Dec 2016	Lending 31 Dec 2015	Lending as a % 2016
NO01	Østfold county	4 884 956	4 104 468	6.83%
NO02	Akershus county	9 933 590	9 287 510	13.89%
NO03	Oslo	13 615 913	12 170 164	19.04%
NO04	Hedmark county	1 927 826	1 570 362	2.70%
NO05	Oppland county	1 420 670	1 041 326	1.99%
NO06	Buskerud county	2 800 021	2 534 652	3.92%
NO07	Vestfold county	2 631 187	2 324 663	3.68%
NO08	Telemark county	3 452 246	3 347 882	4.83%
NO09	Aust-Agder county	1 995 975	1 823 974	2.79%
NO10	Vest-Agder county	1 670 114	1 631 341	2.34%
NO11	Rogaland county	5 812 253	5 680 063	8.13%
NO12	Hordaland county	2 058 363	1 709 637	2.88%
NO14	Sogn og Fjordane county	388 124	349 904	0.54%
NO15	Møre og Romsdal county	2 710 114	2 526 704	3.79%
NO16	Sør-Trøndelag county	9 866 552	8 804 170	13.80%
NO17	Nord-Trøndelag county	3 129 544	2 647 684	4.38%
NO18	Nordland county	2 291 782	2 138 966	3.21%
NO19	Troms county	885 277	745 347	1.24%
NO20	Finnmark county	30 968	39 545	0.04%
Total		**71 505 474**	**64 478 361**	**100%**

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

Note 4.3 Derivatives

Counterparty exposure related to derivative contracts

Assets	31 Dec 2016		31 Dec 2015	
Amounts in NOK 1 000	Book value	Net value[1]	Book value	Net value[1]
Financial derivatives	7 788 473	7 498 485	10 309 668	10 243 432
Received collateral	3 394 213	6 489 325	4 967 024	8 558 868
Net exposure	**4 394 260**	**1 009 161**	**5 342 644**	**1 684 564**

Liability	31 Dec 2016		31 Dec 2015	
Amounts in NOK 1 000	Book value	Net value[1]	Book value	Net value[1]
Financial derivatives	289 988	-	66 236	-
Received collateral	-	-	-	-
Net exposure	**289 988**	-	**66 236**	-

[1] Net value is the book value of the financial assets less the financial liabilities related to the same counterparty. Counterparties to hedging contracts provided the company with NOK 3.4 billion in cash collateral during 2016, compared to NOK 5 billion in 2015. Cash collateral is held as bank deposits, repo agreements and as various high quality securities. In addition to cash collateral, the company received collateral in the form of securities (high-quality bonds) with a value corresponding to NOK 3.1 billion. The value of the securities provided as collateral is not recognised in the company's balance sheet.

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

Bonds broken down by issuer sector

31 Dec 2016 — Amounts in NOK 1 000	Nominal value	Cost price	Fair Value
Municipalities	4 620 489	4 621 591	4 621 136
Credit institutions	6 366 221	6 384 798	6 383 348
Government bonds	366 474	371 413	372 740
Treasury bills	2 292 228	2 294 460	2 294 664
Total bonds and certificates at fair value through profit or loss	**13 645 413**	**13 672 261**	**13 671 888**
Change in value charged to the profit and loss account			**(373)**

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

31 Dec 2015 — Amounts in NOK 1 000	Nominal value	Cost price	Fair Value
Municipalities	2 847 632	2 847 512	2 846 055
Credit institutions	5 826 589	5 855 141	5 855 077
Government bonds	743 324	747 456	772 046
Treasury bills	2 060 543	2 060 662	2 080 330
Total bonds and certificates at fair value through profit or loss	**11 478 088**	**11 510 770**	**11 553 507**
Change in value charged to the profit and loss account			**42 737**

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

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

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

Note 4.5 Lending to and receivables from credit institutions

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

Of the company's lending to and receivables from credit institutions, 22 per cent are deposited in banks with Aa3/AA- rating, 40 per cent in banks with A1/A+ rating, 38 per cent in banks with A2/A rating.

NOTE 5: LIQUIDITY RISK

Liquidity risk is the risk of the company failing to meet its commitments at the due date without major costs arising in the form of refinancing or the need for premature realisation of assets. In the worst case, liquidity risk is the risk of the company being unable to obtain sufficient refinancing to meet its commitments on the due date. The company has loans maturing in 2017 of NOK 12.8 billion net when the currency hedge is taken into account. At 31 December 2016, the company had liquid funds in the form of bank deposits amounting to NOK 2.2 billion, repo agreements of NOK 0.6 billion, a securities portfolio of NOK 13.7 billion and overdraft facility of NOK 50 million. These assets can be sold to cover the company's liabilities. A note purchase agreement has also been entered into with the owners on buying the company's bonds.

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

Liquidity risk

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

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

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

Ordinary maturity is used as the basis for classification

Financial liabilities as at 31 December 2015 Amounts in NOK 1 000	Book value 31 Dec 2015	Without predetermined maturity	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	Total
Financial liabilities								
Debt securities issued	79 876 051	-	355 026	182 049	6 686 264	48 504 320	28 792 523	**84 520 183**
Subordinated loan capital	449 518	-	1 518	2 153	10 269	481 044	-	**494 984**
Financial derivatives (net)	(10 243 432)	-	(235 470)	31 895	(73 842)	(5 371 634)	(3 314 627)	**(8 963 678)**
Loans from credit institutions[1]	4 967 024	4 967 024	-	-	-	-	-	**4 967 024**
Other debt with remaining term to maturity[2]	284 691	-	96 978	2 588	17 326	-	-	**116 891**
Total financial liabilities	**75 333 852**	**4 967 024**	**218 051**	**218 685**	**6 640 017**	**43 613 730**	**25 477 896**	**81 135 404**

Amounts in NOK 1 000	Without predetermined maturity	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	Total
Derivatives							
Financial derivatives (gross)							
Incoming flow	-	(116 591)	(112 126)	(585 863)	(19 502 857)	(17 471 345)	**(37 788 782)**
Outgoing flow	-	352 061	80 231	659 705	24 874 491	20 785 972	**46 752 460**
Financial derivatives (net)	**-**	**235 470**	**(31 895)**	**73 842**	**5 371 634**	**3 314 627**	**8 963 678**

Ordinary maturity is used as the basis for classification

[1] Agreements with counterparties regulating trades in OTC derivatives require collateral to be provided in certain cases. Eika Boligkreditt AS has been provided with such collateral in the form of cash in 2015. These cash sums are managed by Eika Boligkreditt AS for the duration of the collateral provision, and are recognised in the balance sheet as an asset with an associated liability. Both the cash asset held as bank deposits and the liability are thereafter measured at amortised cost.

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

NOTE 6: MARKET RISK

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

Note 6.1 Interest rate risk

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

Interest sensitivity

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

Effect on profit of a change in fair value

A one percentage point increase in all interest rates, calculated over a period of 12 months on the basis of the portfolio at 31 December 2016, would reduce the value of the company's assets at 31 December by NOK 38.9 million, while the value of liabilities would be cut by NOK 59.5 million. The net effect on pre-tax profit would consequently have been an increase of NOK 20.6 million. The effect of a decrease in interest rates would be an increase of NOK 38.9 million of the value of assets, an increase of NOK 59.5 million in the value of liabilities and a reduction in pre-tax profit of NOK 20.6 million. These amounts are calculated on the basis of duration – in other words, the remainder of the fixed interest period – for both assets and liabilities. The corresponding interest-rate hedge is taken into account when calculating duration. The valuation comprises the fair value of fixed-interest mortgages, bonds and certificates at fair value through profit and loss, derivatives and debt established through the issue of fixed-interest securities, which are financial instruments not measured at amortised cost.

Effect on profit of change in net interest income

The effect of a one percentage point increase in all interest rates would be to increase interest income at 31 December by NOK 871 million, while interest expense would be increased by NOK 800 million. The effect on net interest income would accordingly have been an increase of NOK 71 million. A reduction in interest rates would decrease interest income by NOK 871 million and interest expenses by NOK 800 million. That would yield a reduction of NOK 71 million in net interest income. When calculating the profit effect on net interest income, the change in interest rates comprises the company's portfolio with floating interest rates and the fair value of fixed-interest mortgages, loans to and receivables from credit institutions, derivatives, bonds and certificates at fair value through profit and loss, debt securities issued and subordinated loans.

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

A one percentage point increase in all interest rates would produce an overall change through fair value and net interest income of NOK 92 million in pre-tax profit. A reduction of one percentage point in all interest rates would produce an overall negative change through fair value and net interest income of NOK 92 million in pre-tax profit. It is assumed in the calculation that the distributor commissions are not affected by this change.

Note 6.2 Currency risk

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

Currency risk as at 31 December 2016

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

Currency risk as at 31 December 2015

Amounts in NOK 1 000	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	Total
Debt securities issued in EUR	-	-	-	20 597 907	19 106 744	39 704 651
Debt securities issued in SEK	-	-	-	1 047 223	-	1 047 223
Currency derivatives in EUR	-	-	-	(20 597 907)	(19 106 744)	(39 704 651)
Currency derivatives in SEK	-	-	-	(1 047 223)	-	(1 047 223)
Net currency exposure	-	-	-	-	-	-

NOTE 7: OTHER RISK

Risk relating to capital management

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

Management and control of IT systems

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

NOTE 8: FINANCIAL DERIVATIVES

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

Financial derivatives

	31 Dec 2016		31 Dec 2015	
Amounts in NOK 1 000	**Nominal amount**	**Fair value**	Nominal amount	Fair value
Assets				
Interest rate swap lending[1]	**1 072 500**	**9 018**	33 500	25
Interest rate and currency swap[2]	**37 683 563**	**7 779 455**	43 170 312	10 309 644
Total financial derivative assets	**38 756 063**	**7 788 473**	43 203 812	10 309 668
Amounts in NOK 1 000	**Nominal amount**	**Fair value**	Nominal amount	Fair value
Liabilities				
Interest rate swap lending[1]	**2 393 500**	**33 192**	2 788 500	64 902
Interest rate and currency swap[2]	**10 836 750**	**256 797**	112 000	1 335
Total financial derivative liabilities	**13 230 250**	**289 988**	2 900 500	66 236

[1] The hedging instruments related to the lending portfolio with fixed interest rate are rebalanced when necessary.
[2] The nominal amount is converted to the historical currency exchange rate.

Fair value hedging

Eika Boligkreditt applies fair value hedging on fixed-rate financial liabilities, 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.

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

Gains/losses on fair value hedging

Amounts in NOK 1 000	**2016**	2015
Hedging instruments	**(2 758 110)**	1 734 286
Hedged items	**2 645 689**	(1 501 374)
Net gains/losses (inefffectiveness)[3]	**(112 420)**	232 913

[1] The nominal amount is converted to historical currency exchange rate.
[2] The book value of the hedging instruments is its net market value. The book value of the hedged objects is the cumulative change in value associated with the hedged risk and is an adjustment of financial liabilities at amortised cost.
[3] The negative change in value for financial instruments in 2016 relates almost entirely to negative changes in basis swaps totalling NOK 115 million. This is described further below.

The negative change in the value of financial instruments related almost entirely to NOK 115 million in positive change to basis swaps. Basis swaps are derivative contracts entered into in connection with long-term borrowing in foreign currency, whereby the foreign currency is converted to Norwegian kroner. These are hedging instruments, and the effect is zero over the term of the instrument. The accounting effects will thereby reverse over time, so that the unrealised gain at 31 December 2016 will be reversed until the derivatives mature. This means that changes in margins only have an accrual effect with regard to unrealised gains and losses in the financial statements, but no realised gains or losses over the term of the derivative unless Eika Boligkreditt realises the derivative early, which would be unusual given the company's business.

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

NOTE 9: FAIR VALUE HIERARCHY

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

Level 1: Financial instruments where the measurement is based on quoted prices in an active market

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

Level 2: Financial instruments where the measurement is based on observable market data

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

Level 3: Financial instruments where the measurement is based on information other than observable market data

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

31 Dec 2016 (Amounts in NOK 1 000)	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	3 570 403
Bonds and certificates at fair value through profit or loss	2 667 404	11 004 484	-
Financial derivatives	-	7 788 473	-
Shares classified as available for sale	-	-	29 700
Total financial assets	**2 667 404**	**18 792 957**	**3 600 103**
Financial liabilities			
Financial derivatives	-	289 988	-
Total financial liabilities	-	**289 988**	-

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

31 Dec 2015 (Amounts in NOK 1 000)	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	2 979 081
Bonds and certificates at fair value through profit or loss	2 852 376	8 701 132	-
Financial derivatives	-	10 309 668	-
Shares classified as available for sale	-	-	29 700
Total financial assets	**2 852 376**	**19 010 800**	**3 008 781**
Financial liabilities			
Financial derivatives	-	66 236	-
Total financial liabilities	-	**66 236**	-

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

Detailed statement of assets classified as level 3

2016 (Amounts in NOK 1 000)	1 Jan 2016	Purchases/issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2016	Other comprehensive income	31 Dec 2016
Lending to customers (fixed-rate loans)	2 979 081	1 094 416	(460 803)	-	(42 292)	-	3 570 403
Shares available for sale	29 700	-	-	-	-	-	29 700
Total	**3 008 781**	1 094 416	**(460 803)**	-	**(42 292)**	-	**3 600 103**

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	31 Dec 2015
Lending to customers (fixed-rate loans)	1 070 626	2 145 706	(245 080)	-	7 830	-	2 979 081
Shares available for sale	15 000	-	-	-	-	14 700	29 700
Total	**1 085 626**	**2 145 706**	**(245 080)**	-	**7 830**	**14 700**	**3 008 781**

Detailed statement changes in debt related to currency changes

2016 (Amounts in NOK 1 000)	1 Jan 2016	Purchases/issues	Disposals/ settlements	31 Dec 16
Change in financial derivatives and debt securities issued[1]	40 894 715	4 650 000	(2 388 277)	43 156 438
Total	**40 894 715**	**4 650 000**	**(2 388 277)**	**43 156 438**

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

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

A one-percentage point increase in all interest rates would reduce the value of the company's fixed-rate loans at fair value at by NOK 117 million. The effect of a decrease in interest rates would be an increase of NOK 117 million in the value of fixed-rate loans at fair value. The amounts are calculated by duration, which is the remaining portion of the fixed interest period.

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

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

NOTE 10: CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

31 December 2015	Financial instruments at fair value through profit or loss			Financial instruments at amortised cost			
Amounts in NOK 1 000	Held for trading	Fair value option	Derivatives for hedging	Available for sale	Financial assets and liabilities	Held to maturity	Total
Financial assets							
Lending to and receivables from credit institutions	-	-	-	-	3 386 131	-	3 386 131
Lending to customers	-	2 979 081	-	-	61 548 324	-	64 527 405
Bonds and certificates at fair value through profit or loss	-	11 553 507	-	-	-	-	11 553 507
Financial derivatives	25	-	10 309 643	-	-	-	10 309 668
Shares classified as available for sale	-	-	-	29 700	-	-	29 700
Other fnancial assets	-	-	-	-	122 069	-	122 069
Total financial assets	**-**	**14 532 588**	**10 309 668**	**29 700**	**65 056 524**	**-**	**89 928 480**
Financial liabilities							
Financial derivatives	64 902	-	1 335	-	-	-	66 236
Debt securities issued	-	-	-	-	79 876 051	-	79 876 051
Loans from credit institutions	-	-	-	-	4 967 024	-	4 967 024
Other liabilities	-	-	-	-	284 691	-	284 691
Subordinated loan capital	-	-	-	-	449 518	-	449 518
Total financial liabilities	**64 902**	**-**	**1 335**	**-**	**85 577 284**	**-**	**85 643 520**

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

Full year 2016

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

Full year 2015

Amounts in NOK 1 000	Held for trading	Fair value option	Hedging accounting	Available for sale	Total	Of which realised	Of which unrealised
Lending to customers (fixed income)	-	7 830	-	-	7 830	8 152	(322)
Bonds and certificates at fair value through profit or loss	-	(30 331)	-	-	(30 331)	2 379	(32 709)
Shares available for sale	-	-	-	6 429	6 429	6 429	-
Debts from issuance of securities	-	-	(1 501 374)	-	(1 501 374)	-	(1 501 374)
Financial derivatives	(7 755)	-	1 734 286	-	1 726 531	3 844	1 722 687
Total	**(7 755)**	**(22 501)**	**232 912**	**6 429**	**209 085**	**20 804**	**188 282**

NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST

	31 Dec 2016		31 Dec 2015	
Amounts in NOK 1 000	**Book value**	**Fair value**	Book value	Fair value
Financial assets				
Loans to and deposits with credit institutions	**2 215 466**	**2 215 466**	3 386 131	3 386 131
Lending to customers	**71 509 279**	**71 509 279**	64 527 405	64 527 405
Total financial assets	**73 724 745**	**73 724 745**	**67 913 536**	**67 913 536**
Financial liabilities				
Debt securities in issue	**86 982 995**	**87 259 457**	79 876 051	82 684 106
Subordinated loan capital	**599 426**	**578 161**	449 518	465 216
Total financial liabilities	**87 582 421**	**87 837 618**	**80 325 569**	**83 149 322**

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

NOTE 13: OTHER INTANGIBLE ASSETS

Amounts in NOK 1 000	Software	Total
Original cost 1 January	19 646	19 646
Additions	1 505	1 505
Disposals	-	-
Original cost 31 December	**21 151**	**21 151**
Accumulated depreciation 1 January	15 956	15 956
Accumulated depreciation 31 December	17 703	17 703
Book value 31 December	**3 448**	**3 448**
Depreciation charge for the year	1 747	1 747
Useful economic life	5 yrs	
Depreciation schedule	Linear	
Off-balance-sheet annual rent on fixed tangible assets and rent on premises	2 584	

NOTE 14: SHARES CLASSIFIED AS AVAILABLE FOR SALE

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

NOTE 15: LIABILITIES

Eika Boligkreditt has an overdraft facility with DNB Bank ASA (DNB). Amounting to NOK 50 million, this facility was undrawn at 31 December 2016 and 31 December 2015. Equity conditions apply to the overdraft facility.

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

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

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

At 31 December 2016, the company had bonds and certificates in issue with a nominal value of NOK 79 469 313 thousand.

Amounts in NOK 1 000	**31 Dec 2016**	31 Dec 2015
Nominal value of bonds	**79 469 313**	69 665 313
Difference in fair value	**7 513 682**	10 210 739
Nominal value of subordinated loan capital	**600 000**	450 000
Difference in fair value	**(574)**	(482)
Total	**87 582 421**	80 325 569

Note 15.1 Debts from issuance of securities

Covered bonds

Amounts in NOK 1 000

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

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

Senior unsecured bonds
Amounts in NOK 1 000

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

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

Subordinated loan capital
Amounts in NOK 1 000

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

[1] Subordinated loan of NOK 250 million maturing on 23 May 2023, with a redemption right (call) on 23 May 2018 and thereafter quarterly at each interest date. A regulatory call is also provided. Should official regulation lead to changes which affect how far the capital can be regarded as tier 2 capital, the bond can be redeemed at a price equal to 100 per cent plus accrued interest.
[2] Subordinated loan of NOK 200 million maturing on 21 January 2025, with a redemption right (call) on 21 January 2020 and thereafter quarterly at each interest date. A regulatory and a tax related call is also provided. Should official regulation lead to changes which affect how far the capital can be regarded as tier 2 capital, the bond can be redeemed at a price equal to 100 per cent plus accrued interest.
[3] Subordinated loan of NOK 150 million maturing on 17 March 2026, with a redemption right (call) on 17 March 2021 and thereafter quarterly at each interest date. A regulatory and a tax related call is also provided. Should official regulation lead to changes which affect how far the capital can be regarded as tier 2 capital, the bond can be redeemed at a price equal to 100 per cent plus accrued interest.

NOTE 16: COVER POOL

Cover Pool

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

Covered bonds issued

Amounts in NOK 1 000	31 Dec 2016	31 Dec 2015
Covered bonds	**84 109 007**	76 950 496
Premium/discount	**89 149**	39 349
Total covered bonds	**84 198 156**	**76 989 845**

[1] Loans which have collateral without legal protection are excluded.
[2] Substitute assets include lending to and receivables from credit institutions,bond and certificates at fair value through profit or loss and repo agreements.
[3] In line with updated liquidity coverage ratio (LCR) guidance from the Financial Supervisory Authority of Norway of 21 December 2016, the company's LCR reporting for December 2016 only includes liquidity in the cover pool which exceeds the committed overcollateralisation. This liquidity is not included in the valuation of the cover pool at 31 December 2016. Were liquidity which exceeds the overcollateralisation also taken into account in the valuation of the cover pool, it would give an overcollateralisation of 107.96 per cent.

NOTE 17: PAY AND OTHER PERSONNEL COSTS

Amounts in NOK 1 000	2016	2015
Pay, fees, etc	**19 695**	19 371
National insurance contributions	**3 741**	3 203
Pension costs	**(2 187)**	2 147
Other personnel costs[1]	**1 345**	1 409
Total	**22 594**	**26 130**
Average number of employees (full-time equivalent)	**19.8**	19.8

[1] Eika Boligkreditt decided in 2016 to close its defined-benefit pension plan, which means that all employees are now covered by a defined-contribution scheme. As part of the closure, the company recognised NOK 4.5 million as a one-off effect in 2016.

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

Amounts in NOK 1 000		Pay[1]	Other[2]	Bonus[3]	Pension costs ordinary scheme	Pension costs additional scheme
Kjartan M Bremnes	CEO	2 199	320	536	183	594

The company has implemented guidelines for variable remuneration in order to ensure compliance with the remuneration regulations for financial institutions. The CEO is included in the company's bonus scheme. Bonuses are calculated on the basis of a number of criteria, including the company's pre-tax profit, cost developments and development of the mortgage portfolio. Fifty per cent of the bonus awarded is paid as a lump sum in April of the year of award. The remaining 50 per cent is retained by the company and paid in equal annual instalments over a three-year period. Interest at the three-month Nibor rate is paid on bonuses awarded but not paid. All amounts in the bonus bank remain the company's property until payment takes place.

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

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

[1] Includes pay and holiday pay for 2016 exclusive bonus accrued in 2015.
[2] Fringe benefits and other benefits.
[3] 50 per cent of the bonus earned for 2016 will, in accordance with the guidelines mentioned above, be paid in 2017.

Directors

Amounts in NOK 1 000	Fees
Bjørn Arne Riise	165
Tor Egil Lie	110
Terje Svendsen	110
Olav Sem Austmo	110
Boddvar Kaale	110
Jon Guste-Pedersen	11
Dag Olav Løseth	6
Total directors' fee	**622**

Control committee

Amounts in NOK 1 000	Fees
Atle Degre	12
Hans Petter Gjeterud	6
Rune Iversen	4
Total control committee	**22**

Risk committee

Amounts in NOK 1 000	Fees
Terje Svendsen	39
Tor Egil Lie	33
Total risk committee	**72**

Supervisory board

Amounts in NOK 1 000	Fees
Jon Håvard Solum	8
Odd Nordli	4
Bjørg Storengen	2
Per Olav Nærestad	4
Ole Andreas Kvilesjø	2
Per Arne Hansen	4
Arne Gravdal	2
John Sigurd Bjørknes[1]	-
Total supervisory board	**26**

[1] Fees relating Jon Sigurd Bjørknes participation in the Supervisory board is paid to his employer, Høland og Setskog Sparebank.

Nomination committee

Amounts in NOK 1 000	Fees
Jan Kleppe	4
Odd Ivar Bjørnlie	2
Hans Kristian Glesne	2
Total nomination committee	**8**

Remuneration committee

Amounts in NOK 1 000	Fees
Bjørn Arne Riise	28
Boddvar Kaale	28
Total remuneration committee	**55**

Auditor

Remuneration to Deloitte AS and their associates is as follows:

Amounts in NOK 1 000	2016	2015
Statutory audit	**622**	697
Other assurance services	**370**	328
Tax advise	**186**	27
Other services unrelated to audit	**33**	-
Total	**1 210**	1 052

The figures above exclude VAT.

NOTE 19: PENSION COST

The company is required to have an occupational pension scheme in accordance with Norwegian legislation on defined contribution pensions ("lov om innskuddspensjon"). The company has arrangements that comply with the statutory requirements. Eika Boligkreditt decided in 2016 to close its defined-benefit pension plan, which means that all employees are now covered by a defined-contribution scheme.

Defined contribution scheme

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

AFP – early retirement pension

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

Individual plan

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

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

	2016	2015
Number of employees in the defined benefit pension scheme	-	3
Number of employees in the individual plan	**1**	1
Number of employees in the defined contribution pension scheme	**20**	17

Pension expenses

Amounts in NOK 1 000	2016	2015
Defined benefit pension scheme	(3 794)	1 053
Defined contribution pension schemes	1 044	888
Individual plan	678	483
AFP – early retirement pension	111	-
Net pension expenses	**(1 962)**	**2 424**

Pension commitments

Amounts in NOK 1 000	31 Dec 2016	31 Dec 2015
Accrued pension commitments	-	4 475
Value of pension funds	2 259	1 580
Pension liability	**(2 259)**	**6 055**

NOTE 20: TAXES

Amounts in NOK 1 000	2016	2015
Total tax		
Income tax payable in the balance sheet	55 807	9 457
Correction for tax on interest from tier 1 perpetual bonds recognised as equity	5 779	-
Change in deferred tax	(52 041)	72 222
Change in tax from previous years	1 825	(2)
Taxes	**11 370**	**81 677**
Reconciliation of expected and actual tax		
Profit before taxes	50 296	345 042
Expected tax on income at nominal tax rate (27%)	12 574	93 161
Reversal of earlier provisions for taxes	135	(2)
Tax effect of permanent differences	(1 339)	(8 298)
Deffered tax for change in tax rate	-	(3 184)
Taxes	**11 370**	**81 677**
Effective tax rate	22.6%	23.7%
Deferred taxes in other comprehensive income relates to the following temporary differences		
Pension liabilities	-	351
Effect of changes to tax rate on deffered tax	-	(26)
Taxes	**-**	**352**
Deferred taxes in the income statement affect the following temporary differences		
Fixed assets	(16)	(24)
Pensions	(949)	(170)
Financial instruments	52 978	(75 717)
Other temporary differences	28	154
Effect of changes to tax rate on deffered tax	-	3 210
Total change in deferred tax	**52 041**	**(72 547)**

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

Amounts in NOK 1 000	31 Dec 2016	31 Dec 2015
Fixed assets	145	207
Net pension commitments	2 259	6 055
Financial instruments	39 759	(172 152)
Other temporary differences	5 490	5 378
Total temporary differences	**47 653**	**(160 512)**
Deferred taxes before changes to tax rate	11 913	(43 338)
Change in tax rate from 27% to 25%	-	3 210
Deferred tax assets	**11 913**	**(40 128)**

NOTE 21: OTHER FINANCIAL ASSETS

Amounts in NOK 1 000	31 Dec 2016	31 Dec 2015
Prepaid expenses	658 424	749
Accrued interests	128 438	121 320
Short-term receivables	-	1
Total other financial assets	**786 862**	**122 069**

NOTE 22: OTHER LIABILITIES

Amounts in NOK 1 000	31 Dec 2016	31 Dec 2015
Accrued costs		
Commissions on bank lending	83 580	96 443
Accrued interest	199 348	167 800
Accrued employer's national insurance contributions	2 036	1 576
Deferred directors' fees	588	624
Accrued holiday pay	2 051	1 987
Deferred bonus	5 490	5 379
Other accrued costs	663	271
Total accrued costs	**293 755**	**274 080**
Other debt		
Debt to companies in the same group	-	-
Accounts payable	192	265
Unpaid withholding tax	907	892
Unpaid VAT	35	118
Tax payable	55 807	9 336
Other debt	1 735	-
Total	**58 675**	**10 611**
Total other liabilities	**352 430**	**284 691**

NOTE 23: COMMISSION COSTS

Amounts in NOK 1 000	2016	2015
Portfolio commission[1]	295 976	436 841
Instalment commission	2 426	-
Underwriter's commission	-	2 299
Banking services	1 121	2 464
Total commission costs	**299 523**	**441 604**

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

NOTE 24: ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Amounts in NOK 1 000	2016	2015
IT costs	7 329	6 276
Phone, postage, etc	580	767
Accessories and equipment	324	527
Marketing	312	417
Other administrative expenses	8 556	8 447
Total administrative expenses	**17 100**	**16 434**
External services	10 722	9 187
Operating expenses on rented premises	2 090	2 127
Insurance cost	292	356
Other operating expenses	1 489	1 555
Total other operating expenses	**14 594**	**13 225**

NOTE 25: SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital consists of 926 478 850 shares, each with a nominal value of NOK 1.00.
All shares were authorised, issued and fully paid at 31 December 2016.

List of shareholders at 31 December 2016	Number of shares	Ownership share
OBOS BBL	108 137 390	11.67%
Jernbanepersonalets Sparebank	62 139 476	6.71%
Jæren Sparebank	61 209 570	6.61%
Askim og Spydeberg Sparebank	35 989 728	3.88%
Skagerrak Sparebank[1]	33 142 326	3.58%
Sparebanken Narvik	26 843 044	2.90%
Aurskog Sparebank	23 456 808	2.53%
Totens Sparebank	23 318 548	2.52%
Lillestrøm Sparebank	18 580 114	2.01%
Surnadal Sparebank	17 808 384	1.92%
Melhus Sparebank	17 749 654	1.92%
Rørosbanken Røros Sparebank	17 511 728	1.89%
Selbu Sparebank	17 164 507	1.85%
Larvikbanken Brunlanes Sparebank	16 824 083	1.82%
Grong Sparebank	16 686 375	1.80%
Aasen Sparebank	14 806 155	1.60%
Hjartdal og Gransherad Sparebank	14 405 133	1.55%
Eidsberg Sparebank	14 249 718	1.54%
Kvinesdal Sparebank	14 206 450	1.53%
Indre Sogn Sparebank	14 100 230	1.52%
Skue Sparebank	13 649 106	1.47%
Odal Sparebank	13 645 573	1.47%
Stadsbygd Sparebank	12 948 253	1.40%
Orkdal Sparebank	12 825 118	1.38%
Drangedal Sparebank	12 816 358	1.38%
Bien Sparebank AS	11 687 422	1.26%
Berg Sparebank	11 674 739	1.26%
Andebu Sparebank	11 003 065	1.19%
Meldal Sparebank	10 826 575	1.17%
Bud, Fræna og Hustad Sparebank	10 578 354	1.14%
Strømmen Sparebank	10 457 604	1.13%
Klæbu Sparebank	10 430 696	1.13%
Trøgstad Sparebank	10 414 559	1.12%
Sunndal Sparebank	10 392 042	1.12%
Marker Sparebank	10 185 851	1.10%
Hegra Sparebank	10 112 099	1.09%
Høland og Setskog Sparebank	9 693 086	1.05%
Tinn Sparebank	9 516 618	1.03%
Blaker Sparebank	8 777 549	0.95%
Hønefoss Sparebank	8 440 237	0.91%
Hjelmeland Sparebank	8 295 596	0.90%
Ørland Sparebank	8 106 326	0.87%
Fornebu Sparebank	7 485 205	0.81%
Harstad Sparebank	7 432 151	0.80%
Sparebanken Hemne	7 389 070	0.80%
Tolga-Os Sparebank	6 929 459	0.75%
Birkenes Sparebank	6 643 889	0.72%
Arendal og Omegns Sparekasse	6 608 839	0.71%
Ofoten Sparebank	5 991 591	0.65%
Valle Sparebank	5 969 100	0.64%
Gjerstad Sparebank	5 935 733	0.64%
Tysnes Sparebank	5 672 464	0.61%
Opdals Sparebank	5 442 972	0.59%
Sparebanken DIN	5 217 380	0.56%
Nesset Sparebank	5 169 695	0.56%
Haltdalen Sparebank	5 163 329	0.56%
Ørskog Sparebank	4 357 754	0.47%
Vegårshei Sparebank	4 193 732	0.45%
Evje og Hornnes Sparebank	4 137 032	0.45%
Åfjord Sparebank	4 031 185	0.44%
Soknedal Sparebank	3 868 503	0.42%
Voss Veksel- og Landmandsbank ASA	3 436 344	0.37%
Grue Sparebank	2 870 087	0.31%
Rindal Sparebank	2 012 022	0.22%
Vestre Slidre Sparebank	1 531 583	0.17%
Vik Sparebank	1 473 216	0.16%
Vang Sparebank	975 156	0.11%
Lofoten Sparebank	765 248	0.08%
Gildeskål Sparebank	592 641	0.06%
Aurland Sparebank	325 729	0.04%
Etnedal Sparebank	51 493	0.01%
Bjugn Sparebank	1	0.00%
Total	**926 478 850**	**100%**

[1] Bamble Sparebank and Kragerø Sparebank merged 1 January 2017, under the name Skagerrak Sparebank.

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

NOTE 26: CAPITAL ADEQUACY RATIO

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

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

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

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

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

31 December 2016 Calculation basis	Weighted calculation basis	Capital requirement
Credit risk	27 751 596	2 220 128
Operational risk	354 879	28 390
CVA risk[2]	1 659 977	132 798
Total	**29 766 452**	**2 381 316**

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

[1] Deferred tax assets attributable to temporary differences and amounting to less than 10 per cent of core tier 1 capital are not deducted from core tier 1 capital, but risk-weighted by 250 per cent. See the changes to the calculation regulations which came into force on 30 September 2014.
[2] At 31 December, Eika Boligkreditt had taken account of the risk of credit valuation adjustment (CVA) when calculating capital requirements for credit risk. This represents a supplement to the capital requirement for credit risk related to counterparty risk for derivatives.

The company will maintain a buffer at all times in relation to the minimum requirement of eight per cent capital adequacy. This buffer will be sufficient to cope with relevant risks the company may face. The company's internal capital adequacy assessment process (ICAAP) is pursued to ensure that it has a sufficient buffer in relation to the minimum requirements. The company is planning to capitalise continued strong growth in the residential mortgage portfolio. On the basis of a rise in the countercyclical capital buffer requirement from one to 1.5 per cent at 30 June 2016, the company has increased its internal capital targets with effect from the same date. These are specified as follows, 12 per cent core tier 1, 13.5 per cent tier 1 and 15.5 per cent tier 2 capital. These targets are adequate in relation to legal and capital requirements based on the company's internal risk assessment. As shown above, the applicable buffer requirements were fulfilled at 31 December 2016 with a core tier 1 capital adequacy of 12.9 per cent.

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

NOTE 27: OWNERSHIP

Eika Boligkreditt was demerged from Eika Gruppen AS with effect from 18 May 2012. Following the demerger, the company is owned directly by 71 Norwegian banks and OBOS (the owner banks). In conjunction with the owner banks becoming the shareholders of Eika Boligkreditt, a shareholder agreement was entered into which stipulates in part that the ownership of the company is to be rebalanced on an annual basis. This will ensure an annual adjustment so that the holding of each owner bank corresponds to its share of the company's residential mortgage portfolio.

Independent auditor's report

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Translation from the original Norwegian version

To the General Meeting of Eika Boligkreditt AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Eika Boligkreditt AS which comprise the balance sheet as at 31 December 2016, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

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

Key Audit Matters

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

IT-systems and control activities relevant for financial reporting

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

Registrert i Foretaksregisteret Medlemmer av Den norske Revisorforening
Organisasjonsnummer: 980 211 282

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

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

Valuation of financial instruments

Key audit matter	How the matter was addressed in the audit
Eika Boligkreditt has financial derivatives with a net value in the balance sheet of 7,5 billion NOK as per December 31, 2016 whereof combined interest- and currency swaps constitutes 7,5 billion NOK as per December 31, 2016. The estimates and judgmental assessments concerning the valuation of these financial instruments are described in note 2 and 9 to the financial statements. The risk related to valuation of financial derivatives is particularly related to financial derivatives that are not traded in an active market. At Eika Boligkreditt this is the case for their combined interest- and currency swaps used to hedge exchange and interest risk related to their funding. These derivatives are valuated using valuation models where certain assumptions could not be obtained from other comparable instruments («non-observable assumptions»). Elements of basis swaps are included in the valuation of these derivatives. Net gain and loss from basis swaps results in annual net gain and loss in the statement of comprehensive income as there is no corresponding change in fair value on the funding. Valuation combined interest- and currency swaps is therefore considered a key audit matter in our audit.	Eika Boligkreditt has established certain control activities related to the valuation of combined interest- and currency swaps. We have assessed the design of selected key control activities. For a sample of these controls, we tested if they operated effectively in the reporting period. The controls we tested were related to the calculation method, determination of the assumptions used and the reasonability of the net gain and loss from the value changes from basis swaps. We challenged management's selection of method and the applied assumptions by considering if these were in line with commonly used valuation standards and industry practice. For a sample of combined interest- and currency swaps, we reconciled the applied assumptions with the external sources used by the company. Based on the company's own assumptions we also calculated the accuracy of gain and loss related to value changes from basis swaps. We also assessed whether the information in related notes was adequate.

Capital adequacy ratio notes to the financial statements

Key audit matter	How the matter was addressed in the audit
Eika Boligkreditt is subject to the regulations on capital requirement in the Norwegian Act on Financial Undertakings and Financial Groups and associated regulations. The Norwegian regulation on Financial statements for banks requires disclosures about capital adequacy ratio in the notes to the financial statements. Note 26 to the financial statements provides information on calculation methods, total primary capital, weighted calculation basis and capital adequacy ratio among others. The fact that compliance with the capital requirement according to the Norwegian Act on Financial Undertakings and Financial Groups and associated regulations is a basis for the going concern assumption makes it a key audit matter.	Eika Boligkreditt has established various control activities related to the calculation of total primary capital, weighted calculation basis and capital adequacy ratio. We assessed and tested the design of selected key control activities. The control activities we assessed were related to the risk-weighted balance sheet items and off-balance sheet items, and the calculation of weighted calculation basis. For a sample of these control activities, we tested if they operated effectively in the reporting period. For selected parts of the regulations on capital requirement, we assessed Eika Boligkreditt's interpretations against the regulations on capital requirement. We tested the accuracy of the capital requirement calculation for a sample of balance sheet items and off-balance sheet items. We tested the accuracy of the calculation of selected items included in total primary capital. We assessed whether the capital adequacy ratio met the capital adequacy requirement in the Norwegian Act on Financial Undertakings and Financial Groups and associated regulations. We also assessed the adequacy of other information in the notes on capital adequacy ratio concerning the requirement in the Norwegian regulation on Financial statements for banks.

Other information

Management is responsible for the other information. The other information comprises the Annual report for 2016, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting

Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 15 March 2017
Deloitte AS

Roger Furholm
State Authorised Public Accountant

Translation has been made for information purposes only

Key figures

Amounts in NOK 1 000	31 Dec 2016	31 Dec 2015
Balance sheet development		
Lending to customers	**71 509 279**	64 527 405
Debt securities issued	**86 982 995**	79 876 051
Subordinated loan capital	**599 426**	449 518
Equity	**4 395 719**	4 242 467
Equity in % of total assets	**4.6**	4.7
Average total assets[1]	**92 323 733**	82 844 186
Total assets	**96 017 030**	89 932 170
Rate of return/profitability		
Fee and commission income in relation to average total assets, annualised (%)	**0.3**	0.5
Staff and general administration expenses in relation to average total assets, annualised (%)	**0.0**	0.1
Return on equity before tax, annualised (%)[2]	**1.4**	10.7
Total assets per full-time position	**4 849 345**	4 542 029
Cost/income ratio (%)[3]	**30.7**	29.8
Financial strength		
Core tier 1 capital	**3 833 006**	3 606 540
Tier 1 capital	**4 282 242**	4 055 315
Total primary capital (tier 2 capital)	**4 881 667**	4 504 832
Calculation basis capital adequacy ratio	**29 766 452**	27 509 998
Core tier 1 capital ratio (%)	**12.9**	13.1
Tier 1 capital ratio (%)	**14.4**	14.7
Capital adequacy ratio % (tier 2 capital)	**16.4**	16.4
Leverage ratio (%)[4]	**4.4**	4.3
LCR indicator in NOK (%)[7]	**45**	254
LCR indicator in EUR (%)[7]	**98**	98
LCR totalindicator (%)[7]	**67**	313
Defaults in % of gross loans	**-**	-
Loss in % of gross loans	**-**	-
Staff		
Number of full-time positions at end of period	**19.8**	19.8

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

[1] Total assets are calculated as a quarterly average for the last period.
[2] 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 indicators: 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 reporting period, this means that Eika Boligkreditt has reported a lower total indicator at 31 December 2016. In anticipation of a clarification relating to the treatment of liquid assets in the cover pool, the company will report the LCR indicator in accordance with the updated LCR guidelines.

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