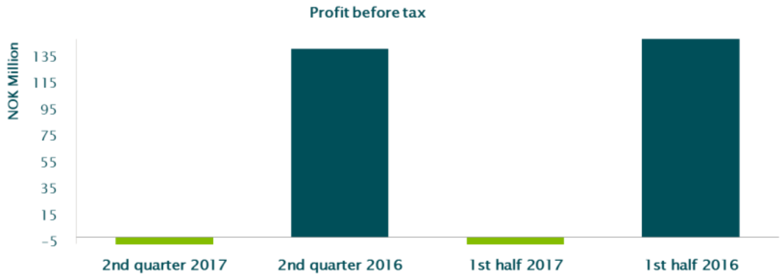
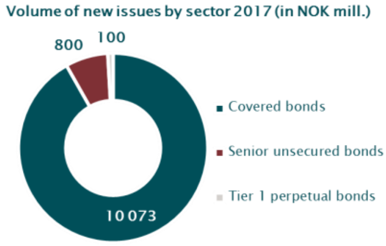
Eika Boligkreditt AS

Interim report for the second quarter and first half of 2017

Unaudited

Highlights





Second quarter 2017

- Pre-tax loss NOK 6 million (2016: profit of NOK 31 million)
- Pre-tax profit of NOK 58.3 million (2016: NOK 65.5 million) excluding NOK 64.3 million in negative value changes related to the price of basis swaps
- Financing of owner banks up by 2 per cent, corresponding to an annualised growth of 7.8 per cent
- Commissions to owner banks of NOK 94.3 million (2016: NOK 76.5 million)
- NOK 6.3 billion in bonds issued (2016: NOK 6.95 billion)
- The company's covered bonds upgraded to AAA

First half of 2017

- Pre-tax loss NOK 7.5 million (2016: NOK 173.5 million)
- Pre-tax profit NOK 129 million (2016: NOK 115 million) excluding NOK 136.5 million in negative value changes related to the price of basis swaps
- Lending up by 4.7 per cent during the first half, corresponding to an annualised growth of 9.4 per cent
- Commissions to owner banks of NOK 176.2 million (2015: NOK 153.7 million)
- NOK 11 billion in bonds issued (2016: NOK 8.45 billion)

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

INTERIM REPORT FOR THE SECOND QUARTER AND FIRST HALF OF 2017

Introduction

Eika Boligkreditt's main purpose is to ensure access for the local banks in the Eika Alliance (the owner banks) to long-term and competitive funding by issuing covered bonds. An important part of the company's business concept is to increase the competitiveness of the owner banks by improving their access to external funding in the Norwegian and international financial markets with regard to the tenor of loans, their terms and the depth of access. The object of the company's business is to reduce risk for the owner banks. At 30 June 2017, the owner banks had NOK 74.9 billion in total financing with Eika Boligkreditt and had thereby reduced the need for their own market and deposit financing by a corresponding amount.

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

Profit and loss account for the fourth quarter and full year 2016

Beløp i NOK tusen	2nd quarter 2017	2nd quarter 2016	1st half 2017	1st half 2016
Total interest income	513 705	460 899	1 011 229	923 244
Net interest income	158 129	130 093	713 537	153 485
Commission costs	87 973	70 678	164 057	110 691
Total gain and losses on financial instruments at fair value	(65 861)	(18 701)	(114 021)	84 436
Profit before taxes	**(6 047)**	**31 049**	**(7 549)**	**173 502**

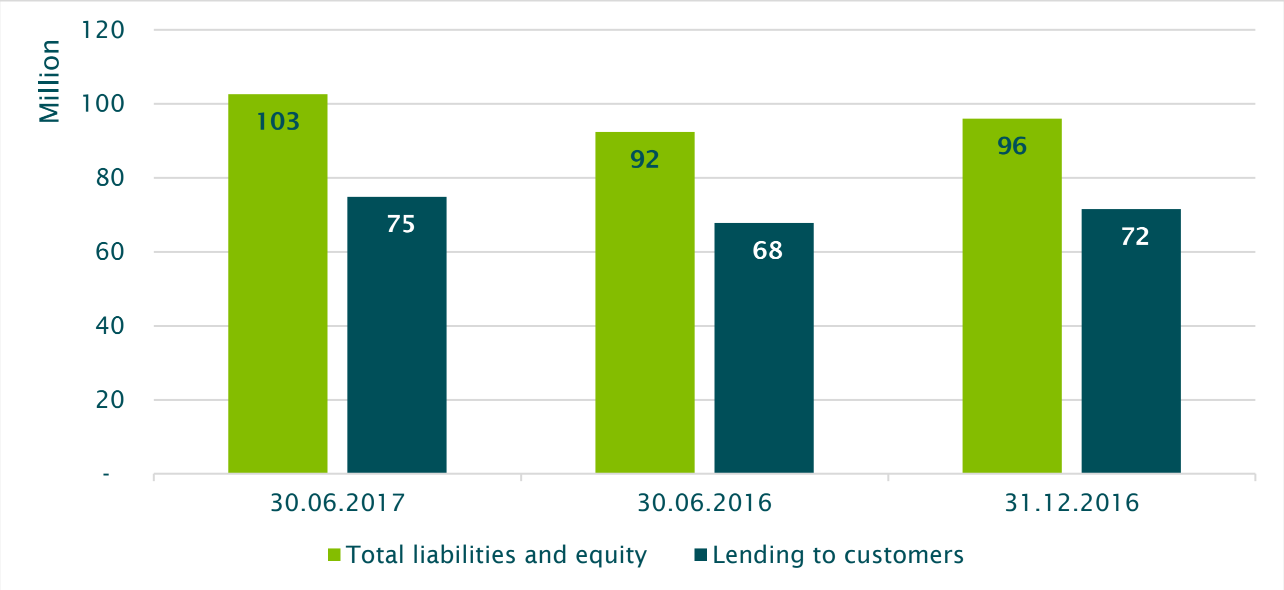
The increase in the company's interest income reflected increased lending volumes and marginally higher interest rates on residential mortgages in the cover pool. The growth in net interest income reflected the rise in loan margins because interest rates on residential mortgages increased more than interest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

The second-quarter loss included negative changes of NOK 64.3 million (2016: NOK 34.5 million) in the value of basis swaps, so that the pre-tax profit excluding such changes came to NOK 58.3 million (2016: NOK 65.5 million). For the first half, negative changes in basis swaps amounted to NOK 136.5 million (2016: NOK 58.5 million), so that the pre-tax profit excluding such changes was NOK 129 million (NOK 115 million). Eika Boligkreditt is an active issuer of bonds in foreign currencies, principally in euros but occasionally in others. All lending is in Norwegian kroner, which means that borrowing in foreign currencies is hedged to kroner in the derivative market through currency swaps. A pricing and risk component in these derivative contracts is the currency basis, which is a premium (or deduction) for swapping cash flow in one currency with cash flow in another. Value changes in basis swaps relate almost wholly to changes in the currency basis. During the first half of 2017, the volume-weighted currency basis from euros to Norwegian kroner for the derivative portfolio which hedges the currency risk for Eika Boligkreditt's borrowing portfolio in euros contracted by 8.4 basis points, from 32.3 to 23.8. A contraction in the currency basis premium has negative accrual effects on the company's profit and loss account.

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 hedging instruments, intended to hedge the company's foreign exchange and interest-rate risks on borrowing. Over the term of the instruments, the effect of such value changes will be zero. The accounting effects will thereby reverse until the derivatives mature. This means that changes in the value of basis swaps only have accrual effects with regard to unrealised gains and losses in the financial statements, but no realised gains or losses over the term of the derivative unless Eika Boligkreditt realises the derivative early.

Interest on tier 1 perpetual bonds of NOK 5.8 million in the second quarter and N OK 11.5 million in the first half is not presented as an interest expense in the income statement, but as a reduction in equity.

Balance sheet and liquidity



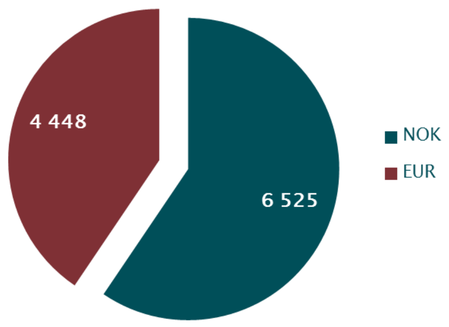
Assets under management by Eika Boligkreditt amounted to NOK 102.6 billion at 30 June 2017. Financing of the banks (residential mortgage lending to customers) came to NOK 74.9 billion at 30 June, representing a net increase of NOK 1.4 billion in the quarter and NOK 3.3 billion from 1 January.

That represents a net growth of 4.7 per cent for the first half, corresponding to an annualised rate of 9.4 per cent. This reflected an increased financing requirement at the owner banks related to the growth in their mortgage lending.

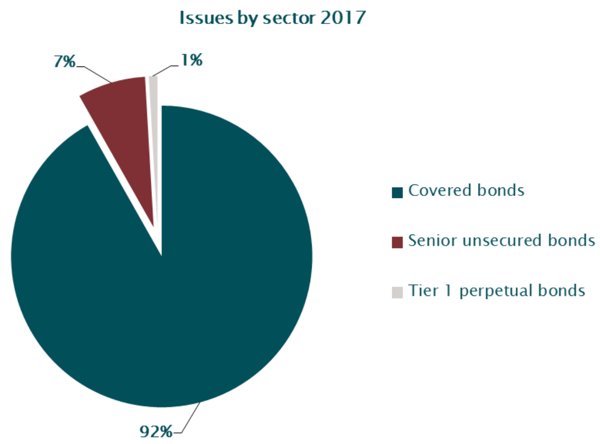
Borrowing

Eika Boligkreditt issued bonds with a nominal value of NOK 6.3 billion in the second quarter, compared with NOK 6.95 billion in the same period of 2016. Issues for the first half broke down between NOK 10 billion in covered bonds, NOK 800 million in senior unsecured bonds and NOK 100 million in tier 1 perpetual bonds.

Issues by currency (in NOK mill) in 2017



Issues by sector (in %) in 2017



Of bond issues in 2017, 40 per cent were denominated in euros and 60 per cent in Norwegian kroner. Covered bonds accounted for 92 per cent of the issue volume.

The table below shows issues in 2017, the corresponding period of 2016, and the full year in 2016 and 2015.

New issues (amounts in NOK million)	1st half 2017	1st half 2016	2016	2015
Covered bonds (issued in EUR)	4 448	4 650	4 650	4 636
Covered bonds (issued in NOK)	5 625	3 350	10 725	6 250
Senior unsecured bonds (issued in NOK)	800	300	950	450
Subordinated loans (issued in NOK)	-	150	150	200
Totalt issued	**10 973**	**8 450**	**16 475**	**11 536**

The average tenor for bonds issued in 2017 was 5.7 years. The average tenor for the company's borrowing portfolio at 30 June 2017 was 3.65 years, up from 3.63 years at 1 January.

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

Carrying value in NOK million	30 Jun 2017	30 Jun 2016	31 Dec 2016	31 Dec 2015
Covered bonds	89 745	79 597	84 109	76 950
Senior unsecured bonds	3 427	2 823	2 874	2 926
Subordinated loans	600	599	599	449
Total borrowing	**93 772**	**83 019**	**87 582**	**80 325**

The company's total borrowing at 30 June was NOK 93.7 billion, up by NOK 6.2 billion from 1 January.

Liquidity

At 30 June 2017, the company had a total liquidity portfolio of NOK 18.9 billion when account is taken of existing repo agreements recognised as other financial assets. This figure includes cash collateral of NOK 4 billion received from counterparties to derivative contracts. Cash collateral is held as bank deposits, repo agreements and various high-quality securities. In addition to cash collateral, the company has received collateral in the form of high-quality bonds corresponding in value to NOK 3.5 billion. The value of bonds provided as collateral is not recognised in the company's liquidity portfolio or balance sheet.

Covered bonds upgraded to AAA

Moody's Investors Service (Moody's) upgraded its rating of covered bonds issued by Eika Boligkreditt from Aa1 to Aaa on 6 June. In addition, Eika Boligkreditt received a published issuer rating (of Baa1) for the first time. An Aaa rating for its covered bonds represents an important milestone in the company's history. This is the highest credit rating and on a par with that applied to bonds issued by a few financially sound national states, including Norway.

The upgrading of Eika Boligkreditt's covered bonds reflects Moody's revised assessment of the credit risk in the banks making up the Eika Alliance, and of the support agreements entered into between the Eika banks and Eika Boligkreditt. Moody's recognises that, although the banks operate independently, membership of the Eika Alliance confers a number of advantages such as shared IT infrastructure and credit-risk scoring models which incentivise them to remain in the alliance. The rating agency also highlights the fact that Eika Boligkreditt's strong strategic position and operational integration in the business of the banks increases the likelihood that they will provide support.

An Aaa rating for Eika Boligkreditt's covered bonds is very significant for securing access by the Eika banks to financing in the Norwegian and international capital markets. A rating at the highest level will be particularly important at times when uncertainty prevails and many investors seek the safest havens for their capital. The Aaa rating awarded to the company is relatively robust and will be maintained even if the owner banks have their rating reduced by two notches. This upgrading substantially reduces the rating risk in the Eika Alliance. Overall, this means that Eika Boligkreditt is now better placed than ever to fulfil the mandate given it by the owner banks – namely, to secure access to long-term and competitive financing by issuing covered bonds.

Risk management and capital adequacy

Eika Boligkreditt had a total primary capital of NOK 5 billion at 30 June 2017, an increase of NOK 202 million since 1 January. This rise resulted from NOK 125 million in additional equity raised through a private placement of shares with the company's owner banks during the first quarter, and a new tier 1 perpetual bond of NOK 100 million issued in the second quarter. The remaining change primarily reflects the loss for the first half.

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

Eika Boligkreditt calculates the risk of credit valuation adjustment (CVA) at counterparties. The basis for calculating the capital adequacy ratio at 30 June amounted to NOK 31.3 billion. This amount represents a quantification of the company's risk, and its primary capital is calculated as a proportion of this calculation base.

The table below presents developments in the capital adequacy ratio.

Amounts in NOK million	30 Jun 2017	31 Dec 2016	31 Dec 2015
Risk-weighted assets	31 292	29 766	27 510
Total primary capital (tier 2 capital)	5 083	4 882	4 505
Capital adequacy ratio in per cent	**16.2 %**	**16.4 %**	**16.4 %**

The company's capital targets are specified as follows:

- core tier 1 capital ratio: 12.5 per cent (12.6 per cent at 31 March 2017)
- tier 1 capital ratio: 14.0 per cent (14.3 per cent at 31 March 2017)
- tier 2 capital ratio: 16.0 per cent (16.0 per cent at 31 March 2017)

These targets are adequate in relation to legal and capital requirements based on the company's internal risk assessment. As shown above, the applicable buffer requirements were fulfilled at 30 June 2017 with a core tier 1 capital adequacy of 12.6 per cent.

Outlook

The company's financing of the owner banks grew by a net NOK 3.3 billion in the first half and by NOK 7.1 billion over the past 12 months. This represents a 12-monthly growth of 10.5 per cent in financing over the year to 30 June. Statistics Norway's credit indicator for June 2017 showed a 12-monthly increase of 6.6 per cent in Norwegian household debt. The owner banks increased their financing over their own balance sheets by 11.1 per cent for the 12 months to 30 June 2017, compared with four per cent growth for the market overall. A faster expansion in lending than the market means an increase in market share for the Eika banks.

The lending survey from the Bank of Norway for the second quarter of 2017 showed some rise in household demand for borrowing, an increase in lending margins because financing costs declined, and a further tightening in credit practice towards households. However, the tightening was smaller than in January-March and is not expected to persist in the third quarter. The banks have justified the tightening with reference to the residential mortgage regulations which came into force after 1 January 2017, and particularly the requirement that mortgages cannot exceed five times the mortgagee's gross income. The regulations are probably an important reason for some downward correction in house prices this year.

According to the house price report from Real Estate Norway for June 2017, average Norwegian house prices are 6.3 per cent higher than they were 12 months earlier. Seasonally adjusted prices fell by 1.4 per cent on a national basis during the second quarter, following increases of 1.1 per cent in the first quarter of 2017 and 3.3 per cent in the third and fourth quarters of 2016. Substantial regional differences exist. The 12-monthly growth to 30 June was 11.54 per cent in Oslo, compared with rises of 1.1 per cent in Bergen, 5.9 per cent and Trondheim and 1.3 per cent in Stavanger. A clear change of pace has occurred in the housing market in recent months, with prices at a national level affected by the decline in the capital. Price trends in the housing market are likely to be weaker in coming months, but regional differences will remain substantial this year.

The bond market has been characterised in 2017 by good liquidity and contraction in credit margins. The credit margin (measured as an interest-rate premium on three-month Nibor) paid by the company when issuing covered bonds in Norwegian kroner with a five-year tenor fell by 16 basis points to 38 during the first half of 2017.

Preliminary seasonally adjusted figures from the quarterly national accounts show an upturn in economic growth during the first quarter of 2017. Gross domestic product for mainland Norway rose by 2.6 per cent measured as an annual rate. That was higher than the estimated growth trend of two per cent. Two and a half years of recession were driven by a fall in demand from the petroleum industry in Norway and abroad. The downturn in the Norwegian economy was moderated by a weakening in the krone exchange rate as a direct consequence of oil price developments and by reducing Norwegian interest rates to record low levels. The low interest rates stimulated investment, and housing development in particular shot up in response to a sharp rise in house prices.

Calculations by Statistics Norway indicate a cautious economic recovery during 2017. Nevertheless, no sharp improvement in growth is likely over the next few years. GDP for mainland Norway rose by only 0.9 per cent in 2016, the lowest increase since the financial crisis in 2009.

Unemployment appears to have topped out at 4.9 per cent in the summer of 2016. Statistics Norway expects employment to rise somewhat in 2017 and beyond. However, the economic upturn is also likely to have the effect of increasing the workforce, so that unemployment will show only a moderate decline.

Norway's robust macroeconomic position compared with most other European countries, combined with a generally positive economic position for private households and companies not affected by the oil slowdown, means that Norwegian issuers are in demand among domestic and international investors. The company therefore expects to be an active issuer in both Norwegian and international financial markets in the time to come.

Oslo, 14 August 2017

The board of directors of Eika Boligkreditt AS

Bjørn Riise
Chair

Tor Egil Lie

Jon Guste-Pedersen

Olav Sem Austmo

Terje Svendsen

Kjartan M Bremnes
CEO

DECLARATION PURSUANT TO SECTION 5-6 OF THE SECURITIES TRADING ACT

We hereby confirm that, to the best of our knowledge, the company's interim financial statements for the period from 1 January to 30 June 2016 have been prepared in accordance with applicable accounting standards, and that the information in the financial statements provides a true and fair picture of the overall assets, liabilities, financial position and financial results of the business.

To the best of our knowledge, the directors' half-year report provides a true and fair overview of important events in the accounting period and their influence on the financial statements, and a description of the most important risk factors and uncertainties facing the business in the next accounting period

Oslo, 14 August 2017

The board of directors of Eika Boligkreditt AS

Bjørn Riise
Chair

Tor Egil Lie

Jon Guste-Pedersen

Olav Sem Austmo

Terje Svendsen

Kjartan M. Bremnes
CEO

Statement of comprehensive income

Amounts in NOK 1 000	Notes	2Q 2017	2Q 2016	1st half 2017	1 st half 2016	2016
INTEREST INCOME						
Interest from loans to customers		**470 283**	425 494	**926 878**	851 469	1 708 294
Interest from loans and receivables on credit institutions		**7 314**	8 418	**13 208**	16 018	33 192
Interest from bonds, certificates and financial derivatives		**28 933**	21 729	**56 617**	45 408	97 485
Other interest income		**7 175**	5 259	**14 526**	10 350	22 369
Total interest income		**513 705**	460 899	**1 011 229**	923 244	1 861 340
INTEREST EXPENSES						
Interest on debt securities issued		**349 901**	324 058	**702 225**	653 980	1 354 496
Interest on subordinated loan capital		**5 150**	5 202	**10 394**	9 147	19 780
Other interest expenses		**525**	1 547	**918**	3 360	5 099
Total interest expenses		**355 575**	330 807	**713 537**	666 487	1 379 375
Net interest income		**158 129**	130 093	**297 692**	256 757	481 965
Commission costs		**87 973**	70 678	**164 057**	143 622	299 523
Net interest income after commission costs		**70 156**	59 415	**133 635**	113 135	182 442
Dividend from shares classified as available for sale		**6 006**	5 652	**6 006**	5 652	5 652
NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE						
Net gains and losses on bonds and certificates	Note 3	**5 701**	9 777	**17 420**	21 782	32 245
Net gains and losses of fair value hedging on debt securities issued	Note 3, 9	**(68 126)**	(26 195)	**(144 815)**	59 361	(112 420)
Net gains and losses on financial derivatives	Note 3	**2 222**	5 898	**111**	(8 032)	40 704
Net gains and losses on loans at fair value	Note 3	**(5 658)**	(8 182)	**13 263**	11 324	(42 292)
Total gains and losses on financial instruments at fair value		**(65 861)**	(18 701)	**(114 021)**	84 436	(81 763)
PAY AND GENERAL ADMINISTRATIVE EXPENSES						
Pay, fees and other personnel expenses		**6 457**	6 520	**13 901**	12 639	22 594
Administrative expenses		**4 926**	4 278	**9 690**	8 617	17 100
Total pay and administrative expenses		**11 383**	10 798	**23 591**	21 256	39 694
Depreciation		**538**	424	**1 028**	881	1 747
Other operating expenses		**4 428**	4 095	**8 550**	7 584	14 594
Losses on loans and guarantees		**-**	-	**-**	-	-
PROFIT BEFORE TAX		**(6 047)**	31 049	**(7 549)**	173 502	50 296
Taxes on other comprehensive income		**(3 341)**	6 173	**(3 929)**	41 788	11 370
PROFIT FOR THE PERIOD		**(2 706)**	24 876	**(3 619)**	131 714	38 926
Other comprehensive income		**-**	-	**-**	-	-
COMPREHENSIVE INCOME FOR THE PERIOD		**(2 706)**	24 876	**(3 619)**	131 714	38 926

The net loss for the first half of 2017 of NOK 3 619 thousand and NOK 11 548 thousand in interest paid to the investors in tier 1 perpetual bonds have been covered from other equity.

Balance sheet

Amounts in NOK 1 000	Notes	30 June 2017	30 June 2016	31 Dec 2016
ASSETS				
Lending to and receivable from credit institutions		2 820 851	1 936 312	2 215 466
Lending to customers	Note 4, 9	74 857 449	67 766 376	71 509 279
Other financial assets		1 093 377	115 626	786 862
Securities		-	-	-
Bonds and certificates at fair value through profit or loss	Note 5,9	15 065 277	12 765 036	13 671 888
Financial derivatives	Note 8,9	8 740 169	9 791 727	7 788 473
Shares classified as available for sale	Note 10, 11	32 200	29 700	29 700
Total securities		23 837 646	22 586 463	21 490 061
Other intangible assets				
Deferred tax assets		15 842	-	11 913
Intangible assets		6 671	3 077	3 448
Total other intangible assets		22 514	3 077	15 361
TOTAL ASSETS		102 631 836	92 407 854	96 017 030
LIABILITIES AND EQUITY				
Loans from credit institutions	Note 12	3 960 467	4 626 839	3 394 213
Financial derivatives	Note 8,9	96 263	72 924	289 988
Debt securities issued	Note 6	93 172 488	82 420 085	86 982 995
Other liabilities		286 448	298 407	352 430
Pension liabilities		2 259	6 055	2 259
Deferred tax		-	40 128	-
Subordinated loan capital	Note 7	599 535	599 318	599 426
				-
TOTAL LIABILITIES		98 117 459	88 063 755	91 621 311
Called-up and fully paid capital				
Share capital		955 824	892 123	926 479
Share premium		2 529 559	2 318 260	2 433 904
Other paid-in equity		477 728	477 728	477 728
Total called-up and fully paid capital	Note 12	3 963 111	3 688 111	3 838 111
Retained earnings				
Fund for unrealised gains		14 700	130 294	14 700
Other equity		-12 724	76 690	93 672
Total retained equity	Note 12	1 976	206 984	108 372
Hybrid capital				
Tier 1 capital		549 291	449 004	449 236
Total hybrid capital		549 291	449 004	449 236
TOTAL EQUITY		4 514 377	4 344 099	4 395 719
TOTAL LIABILITIES AND EQUITY		102 631 836	92 407 854	96 017 030

Statement of changes in equity

Amounts in NOK 1 000	Share capital [1]	Share premium [1]	Innbetalt ikke registrert kapital-forhøyelse [6]	Other paid in equity [2]	Fund for unrealised gains [3]	Retained earnings: other equity [4]	Tier 1 perpetual bonds [5]	Total equity
Balance sheet as at 1 January 2016	**856 673**	**2 203 709**		**477 728**	**85 773**	**169 809**	**448 775**	**4 242 467**
Result for the period	-	-	-	-	64 167	36 859	5 812	**106 838**
Interest tier 1 capital	-	-	-	-	-	-	(5 697)	**(5 697)**
Taxes on interest tier 1 capital	-	-	-	-	-	1 453	-	1 453
Balance sheet as at 31 March 2016	**856 673**	**2 203 709**	-	**477 728**	**149 940**	**208 121**	**448 890**	**4 345 061**
Result for the period	-	-	-	-	(19 646)	38 822	5 700	**24 876**
Equity issue	35 450	114 550	-	-	-	-	-	**150 000**
Disbursed dividends for 2015	-	-	-	-	-	(168 799)	-	**(168 799)**
Interest tier 1 capital	-	-	-	-	-	-	(5 586)	**(5 586)**
Taxes on interest tier 1 capital	-	-	-	-	-	1 425	-	**1 425**
Balance sheet as at 30 June 2016	**892 123**	**2 318 260**	-	**477 728**	**130 294**	**79 569**	**449 004**	**4 346 977**
Result for the period	-	-	-	-	(34 252)	32 289	5 759	**3 796**
Interest tier 1 capital	-	-	-	-	-	-	(5 643)	**(5 643)**
Taxes on interest tier 1 capital	-	-	-	-	-	1 440	-	**1 440**
Balance sheet as at 30 September 2016	**892 123**	**2 318 260**	-	**477 728**	**96 042**	**113 298**	**449 120**	**4 346 570**
Result for the period	-	-	-	-	(81 342)	(21 086)	5 844	(96 584)
Equity issue	34 356	115 644	-	-	-	-	-	150 000
Interest tier 1 capital	-	-	-	-	-	-	(5 728)	(5 728)
Taxes on interest tier 1 capital	-	-	-	-	-	1 461	-	1 461
Balance sheet as at 31 December 2016	**926 479**	**2 433 904**	-	**477 728**	**14 700**	**93 673**	**449 236**	**4 395 719**
Result for the period	-	-	-	-	-	(6 629)	5 715	(914)
Equity issue	-	-	125 000	125 000	-	-	-	125 000
Interest tier 1 capital	-	-	-	-	-	-	(5 601)	(5 601)
Taxes on interest tier 1 capital	-	-	-	-	-	1 429	-	**1 429**
Balance sheet as at 31 March 2017	**926 479**	**2 433 904**	**125 000**	**602 728**	**14 700**	**88 473**	**449 349**	**4 515 632**
Result for the period	-	-	-	-	-	(8 540)	5 833	(2 706)
Equity issue	29 345	95 655	-125 000	-125 000	-	-	-	-
Disbursed dividends for 2016	-	-	-	-	-	(92 658)	-	(92 658)
Interest tier 1 capital	-	-	-	-	-	-	(5 716)	(5 716)
Hybrid capital	-	-	-	-	-	-	99 825	99 825
Taxes on interest tier 1 capital	-	-	-	-	-	-	-	-
Balance sheet as at 30 June 2017	**955 824**	**2 529 559**	-	**477 728**	**14 700**	**(12 724)**	**549 291**	**4 514 378**

The specification of equity comprises accounting items pursuant to the provisions in the Norwegian Private Limited Liability Companies Act:

[1] Share capital and the share premium comprises paid-in capital.

[2] Other paid-in capital comprises paid-in capital which has earlier been taken from the share premium reserve.

[3] The fund for unrealised gains comprises gains from value adjustments to shares held for sale

[4] Other equity comprises earned and retained profits.

[5] Tier 1 perpetual bonds form part of tier 1 capital pursuant to section 3a of the Norwegian regulations concerning the calculation of regulatory capital. A regulatory right of redemption also exists. Should government regulations introduce changes which affect the extent to which the capital can be regarded as tier 1 capital, the bonds can be redeemed at a price equal to 100 per cent plus accrued interest.

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

- NOK 250 million of tier 1 perpetual bonds, issued 2013, with interest terms of three months Nibor plus 4.2 per cent. The loan provides for a call at 23 May 2018, and quarterly thereafter on each date interest payment falls due.
- NOK 200 million of tier 1 perpetual bonds, issued 2014, with interest terms of three months Nibor plus 3.5 per cent. The loan provides for a call at 5 March 2019, and quarterly thereafter on each date interest payment falls due.
- NOK 100 million of tier 1 perpetual bonds, issued 2017, with interest terms of three months Nibor plus 3.25 per cent. The loan provides for a call at 16 June 2022, and quarterly thereafter on each date interest payment falls due.

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

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

Statement of cash flows

Amounts in NOK 1 000	2Q 2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the period	(3 619)	38 926
Taxes	(3 929)	11 370
Income taxes paid	(57 541)	(9 466)
Ordinary depreciation	1 028	1 747
Non-cash pension costs	-	-3 796
Change in loans to customers	(3 348 170)	(6 981 874)
Change in bonds and certificates	(1 393 388)	(2 118 381)
Change in financial derivatives and debt securities issued	352 217	(124 494)
Interest expenses	713 537	1 379 374
Paid interest	(730 361)	(1 347 826)
interest income	(996 703)	1 838 971
received interests	1 017 021	(1 831 853)
Changes in other assets	(326 834)	(671 911)
Changes in short-term liabilities and accruals	(183 913)	211 777
Net cash flow relating to operating activities	**(4 960 655)**	**(9 607 436)**
INVESTING ACTIVITIES		
Payments related to acquisition of fixed assets	(4 251)	(1 505)
Disbursements to investment in shares classified as available for sale	(2 500)	-
Net cash flow relating to investing activities	**(6 751)**	**(1 505)**
FINANCING ACTIVITIES		
Gross receipts from issuance of bonds and commercial paper	11 168 660	16 149 754
Gross payments of bonds and commercial paper	(6 283 081)	(6 397 120)
Gross receipts on issue of subordinated loan capital	109	149 908
Gross receipts from issuing tier 1 perpetual bonds	99 825	-
Gross receipts from issue of loan from credit institution	566 254	(1 572 811)
Interest to the hybrid capital investors	(11 318)	(22 655)
Payments of dividend	(92 658)	(168 799)
Paid-up new share capital	125 000	300 000
Net cash flow from financing activities	**5 572 792**	**8 438 277**
Net changes in lending to and receivables from credit institutions	605 386	(1 170 664)
Lending to and receivables from credit institutions at 1 January	2 215 466	3 386 131
Lending to and receivables from credit institutions at end of period	**2 820 851**	**2 215 466**

Notes

Note 1 – Accounting policies

General

Eika Boligkreditt has prepared its accounts for 2017 in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the European Union (EU). The accounts have been prepared in accordance with the historic cost principle, with the exception of financial assets and financial liabilities at fair value through profit or loss, financial assets classified as available for sale, and financial assets and liabilities that are part of fair value hedges, which have been recorded at fair value. Note 1 of the annual report for 2016 contains further details of accounting policies in accordance with the IFRS.

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

Note 2 – Use of estimates and discretion

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

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

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

Lending, non-performing/doubtful loans and writedowns

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

No loans were written down at 30 June 2017.

Fair value of financial instruments

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

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

Net gains and losses on financial instruments at fair value Amounts in NOK 1 000	2nd quarter 2017	2nd quarter 2016	1st half 2017	1st half 2016	2016
Net gains and losses on loans at fair value	(5 658)	(8 182)	13 263	11 324	(42 292)
Net gains and losses on bonds and certificates	5 900	9 777	17 377	21 782	32 245
Net gains and losses on financial debts, hedged[1]	(1 769 024)	430 788	(1 296 892)	550 766	2 645 689
Net gains and losses on interest swaps related to lending	2 222	5 898	111	(8 032)	40 704
Net gains and losses on interest swaps related to bonds and certificates	(199)	-	43	-	-
Net gains and losses on interest and currency swaps related to liabilities	1 700 898	(456 983)	1 152 077	(491 405)	(2 758 110)
Net gains and losses on financial instruments at fair value[2]	**(65 861)**	**(18 701)**	**(114 021)**	**84 436**	**(81 763)**

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

[2] Second-quarter comprehensive loss includes negative changes of NOK 64.3 million in the value of basis swaps. In addition to value changes for basis swaps, seond-quarter loss includes a loss of NOK 1.6 million in other changes to the value of financial instruments. That gives a total negative change of NOK 65.9 million in the value of financial instruments, compared with negative NOK 18.7 million for the same period of 2016.

In addition to the NOK 136.5 million in negative value changes for basis swaps, value changes to financial instruments for the first half of 2017 included NOK 13.2 million in net profit on lending at fair value, a net profit of NOK 0.1 million on financial derivatives, a loss of NOK 8.2 million in fair value hedging on debt securities issued, and a net gain of NOK 17.4 million on bonds and certificates. Profit for the first six months of 2017 accordingly includes negative changes of NOK 114 million in the value of financial instruments, as against a positive NOK 84.4 million for the same period of 2016.

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

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

Note 4 – Lending to customers

Amounts in NOK 1 000	30 Jun 2017	30 Jun 2016	31 Dec 2016
Installment loans - retail market	66 648 577	58 662 962	62 698 470
Installment loans - housing cooperatives	8 191 556	9 044 503	8 807 004
Adjustment fair value lending to customers [1]	17 314	58 911	3 804
Total lending before specific and general provisions for losses	**74 857 449**	**67 766 376**	**71 509 279**
Individual impairments	-	-	-
Unspecified group impairments	-	-	-
Total lending to and receivables from customers	**74 857 449**	**67 766 376**	**71 509 279**

All lending concerns residential mortgage loans with a loan-to-value ratio of up to 60 per cent at origination. The company had no non-performing loans where the outstanding instalment was more than 90 days overdue at 30 June 2017.

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

30 Jun 2017

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	71 139 379	71 139 379
Fixed rate loans	3 700 754	3 718 070
Toal lending	**74 840 133**	**74 857 449**

30 Jun 2016

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	64 539 746	64 539 746
Fixed rate loans	3 167 719	3 226 631
Toal lending	**67 707 465**	**67 766 376**

31 Dec 2016

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

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

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

30 June 2017

Amounts in NOK 1 000

Bonds broken down by issuer sector	Nominal value	Cost price	Fair Value
Municipalities	4 814 410	4 815 771	4 818 335
Credit institutions	6 358 962	6 372 945	6 405 241
Government bonds	705 279	709 323	751 349
Treasury bills	3 050 154	3 053 780	3 090 352
Total bonds and certificates at fair value through profit or loss	**14 928 805**	**14 951 820**	**15 065 277**
Change in value charged to the profit and loss account			**113 457**

Average effective interest rate is 1.48 per cent annualised. The calculation is based on a weighted fair value of NOK 12.7 billion. The calculation takes account of a return of NOK 92.9 million on bank deposits, bonds and certificates. The return on reinvested cash collateral received is excluded from the calculation.

30 June 2016

Amounts in NOK 1 000

Bonds broken down by issuer sector	Nominal value	Cost price	Fair Value
Municipalities	3 538 702	3 539 374	3 539 537
Credit institutions	5 526 295	5 553 121	5 547 808
Government bonds	774 352	782 671	773 264
Treasury bills	2 901 981	2 904 132	2 904 427
Total bonds and certificates at fair value through profit or loss	**12 741 330**	**12 779 298**	**12 765 036**
Change in value charged to the profit and loss account			**(14 262)**

Average effective interest rate is 1.65 per cent annualised. The calculation is based on a weighted fair value of NOK 9.8 billion. The calculation takes account of a return of NOK 80.6 million on bank deposits, bonds and certificates. The return on reinvested cash collateral received is excluded from the calculation.

31 December 2016

Amounts in NOK 1 000

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

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

	30 Jun 2017	30 Jun 2016	31 Dec 2016
Average term to maturity	**1.0**	**1.3**	**1.0**
Average duration	**0.2**	**0.2**	**0.1**

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

Note 6 – Debt securities issued

Covered bonds - amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	30 Jun 2017	30 Jun 2016	31 Dec 2016
NO0010502149	1 200 000	NOK	Floating	3M Nibor + 0.70%	2009	2019	1 205 005	1 207 943	1 206 462
NO0010561103	1 948 000	NOK	Fixed	5.00%	2009	2019	1 978 092	1 990 314	1 984 153
NO0010605587	1 000 000	NOK	Fixed	5.20%	2011	2021	1 000 000	1 000 000	1 000 000
NO0010612179	473 500	NOK	Fixed	4.65%	2011	2018	476 167	705 513	704 078
NO0010612039	5 500 000	NOK	Floating	3M Nibor + 0.55%	2011	2018	5 506 172	5 512 758	5 509 438
NO0010625346	1 500 000	NOK	Fixed	4.60%	2011	2026	1 500 844	1 500 936	1 500 890
XS0736417642	500 000	EUR	Fixed	2.25%	2012	2017	-	4 649 404	4 537 917
NO0010648892	-	NOK	Floating	3M Nibor + 0.74%	2012	2017	-	1 400 407	654 282
XS0794570944	650 000	EUR	Fixed	2.00%	2012	2019	6 214 111	6 027 368	5 882 331
XS0851683473	1 000 000	EUR	Fixed	1.25%	2012	2017	9 578 701	9 294 030	9 069 572
NO0010663727	5 220 000	NOK	Floating	3M Nibor + 0.60%	2012	2019	5 233 073	5 238 465	5 235 747
NO0010664428	65 000	NOK	Floating	3M Nibor + 0.53%	2012	2018	65 041	1 000 775	1 000 614
NO0010663743	1 000 000	NOK	Fixed	3.25%	2012	2019	1 004 167	1 005 885	1 005 019
NO0010669922	1 000 000	NOK	Fixed	4.00%	2013	2028	996 771	996 465	996 619
XS0881369770	1 000 000	EUR	Fixed	2.125%	2013	2023	9 550 767	9 268 844	9 043 001
NO0010685480	5 125 000	NOK	Floating	3M Nibor + 0.54%	2013	2020	5 144 772	5 024 967	5 147 604
NO0010685704	550 000	NOK	Fixed	3.50%	2013	2020	551 553	552 001	551 775
NO0010687023	150 000	NOK	Fixed	4.10%	2013	2028	150 000	150 000	150 000
NO0010697204	300 000	SEK	Fixed	2.38%	2013	2018	298 441	295 806	284 920
NO0010697212	700 000	SEK	Floating	3M Stibor + 0.50%	2013	2018	696 696	690 792	665 268
XS1044766191	500 000	EUR	Fixed	1.50%	2014	2021	4 770 622	4 626 965	4 515 402
NO0010732258	8 000 000	NOK	Floating	3M Nibor + 0.28%	2015	2022	7 951 079	3 161 653	4 346 095
NO0010733694	1 150 000	NOK	Fixed	1.75%	2015	2021	1 144 529	1 143 243	1 143 891
XS1312011684	500 000	EUR	Fixed	0.625%	2015	2021	4 769 062	4 625 839	4 514 057
NO0010763022	850 000	NOK	Fixed	2.250%	2016	2031	842 538	500 000	842 270
XS1397054245	500 000	EUR	Fixed	0.375%	2016	2023	4 755 650	4 611 393	4 500 133
NO0010775190	5 000 000	NOK	Floating	3M Nibor + 0.40%	2016	2020	4 998 680	-	4 998 448
NO0010780687	700 000	NOK	Fixed	2.60%	2016	2027	699 337	-	699 304
XS1566992415	500 000	EUR	Fixed	0.375%	2017	2024	4 760 959	-	-
NO0010794308	2 000 000	NOK	Floating	3M Nibor + 0.43%	2017	2022	1 998 999	-	-
Value adjustments							1 903 249	3 415 069	2 419 717
Total covered bonds[1]							**89 745 076**	**79 596 834**	**84 109 007**

[1] For covered bonds ascribed to the company's cover pool, an overcollateralisation requirement of 5 per cent applies in accordance with the company's borrowing programme (Euro Medium Term Covered Note Programme) and 5.5 per cent in accordance with Moody's Investro Service. This means that the company must at all times have assets in its cover pool which exceed at least 105 per cent and 105.5 per cent of the total outstanding covered bonds.

Senior unsecured bonds - amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	30 Jun 2017	30 Jun 2016	31 Dec 2016
NO0010697733	600 000	NOK	Floating	3M Nibor + 0.90%	2013	2016	-	600 004	-
NO0010699234	200 000	NOK	Floating	3M Nibor + 1.14%	2013	2018	199 912	199 852	199 883
NO0010705593	600 000	NOK	Floating	3M Nibor + 0.65 %	2014	2017	600 080	600 478	600 277
NO0010708936	425 000	NOK	Floating	3M Nibor + 0.80%	2014	2019	425 329	425 475	425 401
NO0010713753	250 000	NOK	Floating	3M Nibor + 0.70%	2014	2019	249 907	249 860	249 884
NO0010732886	-	NOK	Floating	3m Nibor + 0.30%	2015	2017	-	249 915	249 969
NO0010739287	600 000	NOK	Floating	3m Nibor + 0.70%	2015	2020	599 583	297 893	298 163
NO0010764160	350 000	NOK	Floating	3m Nibor + 0.95%	2016	2019	350 541	199 774	350 688
NO0010776099	500 000	NOK	Floating	3m Nibor + 0.92%	2016	2020	499 760	-	499 724
NO0010782048	250 000	NOK	Floating	3m Nibor + 0.95%	2017	2022	502 299	-	-
Total senior unsecured bonds							**3 427 412**	**2 823 251**	**2 873 989**

Total debt securities issued	**93 172 488**	**82 420 085**	**86 982 996**

Note 7 – Subordinated loan capital

Subordinated loan capital - amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	30 Jun 2017	30 Jun 2016	31 Dec 2016
NO0010679632	250 000	NOK	Floating	3M Nibor + 2.20% [1]	2013	2023	249 911	249 811	249 861
NO0010729650	200 000	NOK	Floating	3M Nibor + 1.85% [2]	2015	2025	199 847	199 787	199 817
NO0010759475	150 000	NOK	Floating	3M Nibor + 3.40% [3]	2016	2026	149 777	149 717	149 748
Total subordinated loan capital							**599 535**	**599 318**	**599 426**

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

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

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

Note 8 – Coverpool

	Fair value		
Amounts in NOK 1 000	**30 Jun 2017**	**30 Jun 2016**	**31 Dec 2016**
Lending to customers [1]	73 729 638	66 639 856	70 256 756
Substitute assets and derivatives:			
Financial derivatives (net)	(25 286)	9 718 803	7 498 485
Substitute assets [2]	12 383 842	10 072 115	10 652 823
Total	**86 088 193**	**86 430 775**	**88 408 063**
The cover pool's overcollateralisation [3]	106.00%	108.49%	105.00%

Covered bonds issued

	30 Jun 2017	30 Jun 2016	31 Dec 2016
Covered bonds	89 745 076	79 596 834	84 109 007
Premium/discount	139 392	67 245	89 149
Financial derivatives (net)	(8 669 192)	-	-
Total covered bonds	**81 215 277**	**79 664 079**	**84 198 156**

[1]Loans, which have collateral without legal protection, are excluded.

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

[3]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. Taking this liquidity into account when calculating the value of the cover pool yields an overcollateralization of 109.1 per cent at 30 June 2017.

Note 9 – Derivatives and hedging

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

Assets	30 Jun 2017		31 Dec 2016	
Amounts in NOK 1 000	Nominal amount	Fair value	Nominal amount	Fair value
Interest rate swap lending[1]	890 500	7 005	1 072 500	9 018
Interest rate and currency swap[2]	45 688 713	8 733 164	37 683 563	7 779 455
Total financial derivative assets	**46 579 213**	**8 740 169**	**38 756 063**	**7 788 473**

Liabilities				
Amounts in NOK 1 000	Nominal amount	Fair value	Nominal amount	Fair value
Interest rate swap lending[1]	2 770 800	31 067	2 393 500	33 192
Interest rate and currency swap[2]	3 203 000	63 972	10 836 750	256 797
Interest swap placement	-	1 224	-	-
Total financial derivative liabilities	**5 973 800**	**96 263**	**13 230 250**	**289 988**

[1]The hedging instruments related to the lending portfolio with fixed interest rate are rebalanced when necessary.

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

Fair value hedging

Eika Boligkreditt applies fair value hedging on fixed-rate financial liabilities. The hedge object is the swap interest element of the financial liabilities. Interest and currency swaps are used as hedging instruments.

	30 Jun 2017		31 Dec 2016	
Amounts in NOK 1 000	Nominal amount	Value recognised in balance sheet	Nominal amount	Value recognised in balance sheet
Hedging instruments: interest rate and currency swaps[1, 2]	42 485 713	8 669 192	26 846 813	7 522 658
Hedged items: financial commitments incl foreign exchange[2]	42 485 713	(8 907 756)	26 846 813	(7 603 843)
Net value recognised in balance sheet	**-**	**(238 564)**	**-**	**(81 185)**

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

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

Gains/losses on fair value hedging					
Amounts in NOK 1 000	2nd quarter 2017	2nd quarter 2016	1st half 2017	1st half 2016	2016
Hedging instruments	1 700 898	(456 983)	1 152 077	(491 405)	(2 758 110)
Hedged items	(1 769 024)	430 788	(1 296 892)	550 766	2 645 689
Net gains/losses (inefffectiveness)[3]	**(68 126)**	**(26 195)**	**(144 815)**	**59 361**	**(112 420)**

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

Note 10 – Fair value hierarchy

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

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

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

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

30 June 2017

Amounts in NOK 1 000	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	3 718 070
Bonds and certificates at fair value through profit or loss	3 841 701	11 223 575	-
Financial derivatives	-	8 740 169	-
Shares classified as available for sale	-	-	32 200
Total financial assets	**3 841 701**	**19 963 744**	**3 750 270**
Financial liabilities			
Financial derivatives	-	96 263	-
Total financial liabilities	**-**	**96 263**	**-**

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

31 December 2016

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

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

Detailed statement of assets classified as level 3

2017 Amounts in NOK 1 000	**01 Jan 2017**	Purchases/ issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2017	Other comprehensive income	**30 Jun 2017**
Lending to customers (fixed-rate loans)	3 570 403	345 278	(210 874)	-	13 263	-	3 718 070
Shares available for sale	29 700	-	-	-	-	2 500	32 200
Total	**3 600 103**	**345 278**	**(210 874)**	**-**	**13 263**	**2 500**	**3 750 270**

2016 Amounts in NOK 1 000	**01 Jan 2016**	Purchases/ issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2016	Other comprehensive income	**31 Dec 2016**
Lending to customers (fixed-rate loans)	2 979 081	1 094 416	(460 803)	-	(42 292)	-	3 570 403
Shares available for sale	29 700	-	-	-	-	-	29 700
Total	**3 008 781**	**1 094 416**	**(460 803)**	**-**	**(42 292)**	**-**	**3 600 103**

Interest rate sensitivity of assets classified as Level 3 at 30 June 2017
A one-percentage point increase in all interest rates would reduce the value of the company's fixed-rate loans at fair value at by NOK 113 million. The effect of a decrease in interest rates would be an increase of NOK 113 million in the value of fixed-rate loans at fair value. The amounts are calculated by duration, which is the remaining portion of the fixed interest period.

Changes in fair value of fixed-rate loans attributable to a change in credit risk
Since the company’s fixed-rate lending at fair value has an unchanged credit spread, no change in fair value is attributable to a change in the credit risk. That applies both for 30 June 2017 and cumulatively.

Detailed statement changes in debt related to currency changes

2017 Amounts in NOK 1 000	**01 Jan 2017**	Purchases/ issues	Disposals/ settlements	**30 Jun 2017**
Change in debt securities issued [1]	43 156 438	572 900	1 820 382	45 549 720
Total	**43 156 438**	**572 900**	**1 820 382**	**45 549 720**

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

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

Note 11 – Shares classified as available for sale

Shares classified as available for sale

Amounts in NOK 1 000	**Number of shares**	**Cost price**	**Book value**	**Owner share**
Eiendomsverdi AS	353 269	15 000	29 700	18.79 %
Nordic Credit Rating	10 000	2 500	2 500	4.99 %
Total	**363 269**	**17 500**	**32 200**	**23.78 %**

Note 12 – Capital adequacy ratio

Amounts in NOK 1 000	30 Jun 2017	30 Jun 2016	31 Dec 2016
Share capital	955 824	892 123	926 479
Share premium	2 529 558	2 318 260	2 433 904
Paid, but not registered, share capital	-	-	-
Other paid-in equity	477 728	477 728	477 728
Total comprehensive income for the period	(19 097)	-	-
Other equity	1 014	1 009	1 009
Total equity recognised in the balance sheet (without tier 1 perpetual bonds)	**3 945 027**	**3 689 120**	**3 839 120**
Fund for unrealised gains	14 700	85 773	14 700
Intangible assets	(6 671)	(3 077)	(3 448)
Deferred tax assets[1]	-	-	-
Prudent valuation adjustments of fair valued positions	(19 061)	(16 158)	(17 366)
Total core tier 1 capital	**3 933 995**	**3 755 659**	**3 833 006**

Core capital adequacy ratio (core tier 1 capital)	30 Jun 2017	30 Jun 2016	31 Dec 2016
Weighted calculation basis	31 292 213	28 575 480	29 766 452
Core tier 1 capital	3 933 995	3 755 659	3 833 006
Core tier 1 capital ratio	**12.6%**	**13.1%**	**12.9%**
Total core tier 1 capital	3 933 995	3 755 659	3 833 006
Tier 1 perpetual bonds	549 291	449 004	449 236
Total tier 1 capital	**4 483 285**	**4 204 663**	**4 282 242**

Capital adequacy ratio (tier 1 capital)	30 Jun 2017	30 Jun 2016	31 Dec 2016
Weighted calculation basis	31 292 213	28 575 480	29 766 452
Tier 1 capital	4 483 265	4 204 663	4 282 242
Tier 1 capital ratio	**14.3%**	**14.7%**	**14.4%**
Total tier 1 capital	4 483 285	4 204 663	4 282 242
Subordinated loans	599 535	599 318	599 426
Total primary capital (tier 2 capital)	**5 082 820**	**4 803 981**	**4 881 667**

Capital adequacy ratio (tier 2 capital)	30 Jun 2017	30 Jun 2016	31 Dec 2016
Weighted calculation basis	31 292 213	28 575 480	29 766 452
Total primary capital (tier 2 capital)	5 082 820	4 803 981	4 881 667
Capital adequacy ratio	**16.2%**	**16.8%**	**16.4%**
Required capital corresponding to eight per cent of calculation basis	2 503 377	2 286 038	2 381 316
Surplus equity and subordinated capital	2 579 443	2 517 942	2 500 351

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

30 June 2017

Calculation basis	Weighted calculation basis	Capital requirement
Credit risk	29 214 318	2 337 145
Operational risk	354 879	28 390
CVA risk[2]	1 723 015	137 841
Total	**31 292 213**	**2 503 377**

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

[1]Deferred tax assets attributable to temporary differences and amounting to less than 10 per cent of core tier 1 capital are not deducted from core tier 1 capital, but risk-weighted by 250 per cent. See the changes to the calculation regulations which came into force on 30 September 2014.

[2]At 30 June, Eika Boligkreditt had taken account of the risk of credit valuation adjustment (CVA) when calculating capital requirements for credit risk. This represents a supplement to the capital requirement for credit risk related to counterparty risk for derivatives.

The calculation basis comprised NOK 31.4 billion at 30 June. This amount represented a quantification of the company's risk. After account has been taken of the growth in overall lending, changes to the company's liquidity portfolio and the increase in the calculation basis for CVA risk, the calculation basis for capital adequacy at 30 June was NOK 1.6 billion higher than at 1 January.

At all times, the company must have a buffer in relation to the minimum capital adequacy requirement of eight per cent. This buffer must be sufficient to cover relevant risks which could affect the company. The company's internal capital adequacy assessment process (ICAAP) is pursued to ensure that it has an adequate buffer in relation to the minimum requirement. The company plans to capitalise continued growth in the residential mortgage portfolio. The company's capital targets are a core tier 1 capital ratio of 12.5 per cent, a tier 1 capital ratio of 14 per cent and a tier 2 capital ratio of 16 per cent. These targets are adequate in relation to the legal requirements and capital requirements based on the company's internal assessment of risk. As can be seen above, the applicable buffer requirement was met at 30 June 2017 with a core tier 1 capital ratio of 12.6 per cent.

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

Note 13 – Loans from credit institutions

Agreements with counterparties regulating trades in OTC derivatives require collateral to be provided in certain cases. Eika Boligkreditt has been provided with such collateral in the form of cash. These cash sums are managed by Eika Boligkreditt for the duration of the collateral provision, and are recognised in the balance sheet as an asset with an associated liability. Both the cash asset and the liability are thereafter measured at amortised cost. At 30 June 2017, Eika Boligkreditt had received cash collateral of NOK 4 billion posted by counterparties to derivative contracts. Cash collateral is held in bank deposits, repo agreements and in various high-quality bonds. In addition to cash collateral, the company had also received NOK 3.5 billion in bonds as collateral from counterparties to derivative agreements. The value of the bonds provided as collateral is not recognised in the company's balance sheet.

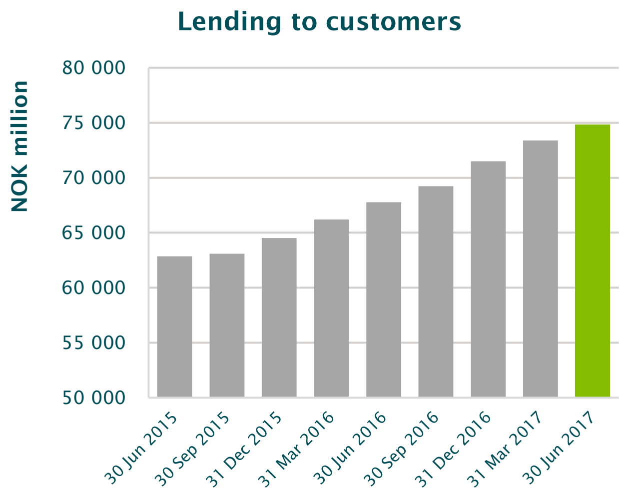
Note 14 – Contingency and overdraft facilities

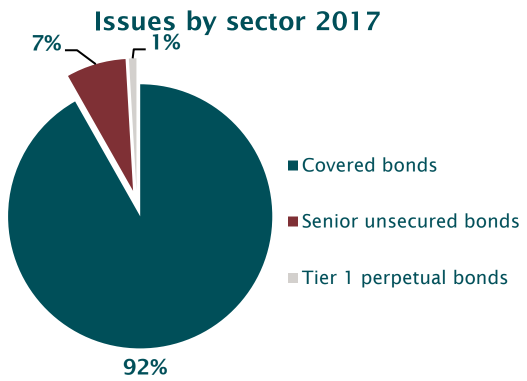
The company has an overdraft facility with DNB Bank ASA (DNB). Note 15 to the annual financial statements for 2016 provides a more detailed presentation of the overdraft with DNB. The company also has a note purchase agreement with the owner banks and OBOS concerning the purchase of covered bonds, whereby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

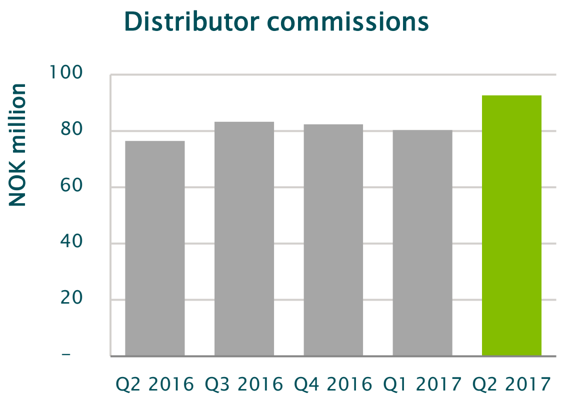
Note 15 – Risk management

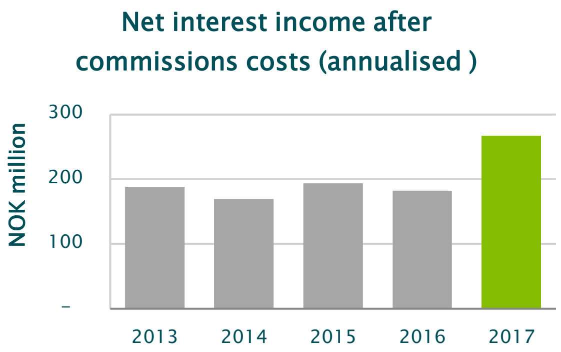
Eika Boligkreditt AS has established a framework for risk management and control in the company, which defines risk willingness and the principles for managing risk and capital. The value of financial assets and liabilities fluctuates as a result of risk in the financial markets. Note 3 to the annual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

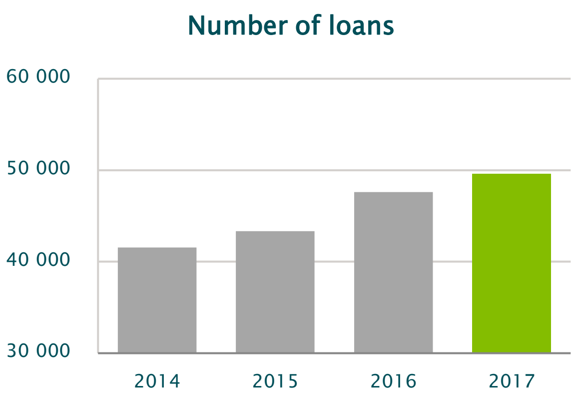
Key figures – Development

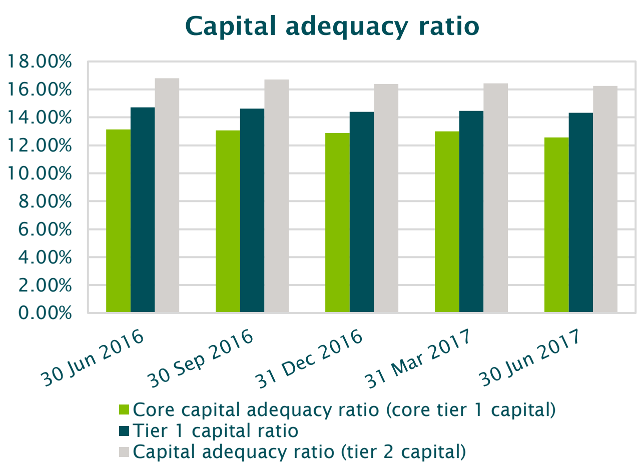












Key figures – Unaudited

Amounts in NOK 1 000	30 Jun 2017	30 Jun 2016	31 Dec 2016
Balance sheet development			
Lending to customers	74 857 449	67 766 376	71 509 279
Debt securities issued	93 172 488	82 420 085	86 982 995
Subordinated loan capital	599 535	599 318	599 426
Equity	4 514 377	4 344 099	4 395 719
Equity in % of total assets	4.4	4.7	4.6
Average total assets[1]	98 225 048	90 822 507	92 323 733
Total assets	102 631 836	92 407 854	96 017 030
Rate of return/profitability			
Fee and commission income in relation to average total assets, annualised (%)	0.3	0.3	0.3
Staff and general administration expenses in relation to average total assets, annualised (%)	0.0	0.0	0.0
Return on equity before tax, annualised (%)[2]	-0.2	9.7	1.4
Total assets per full-time position	5 183 426	4 667 063	4 849 345
Cost/income ratio (%)[3]	24.8	27.2	30.7
Financial strength			
Core tier 1 capital	3 933 995	3 755 659	3 833 006
Tier 1 capital	4 483 285	4 204 663	4 282 242
Total primary capital (tier 2 capital)	5 082 820	4 803 981	4 881 667
Calculation basis capital adequacy ratio	31 292 213	28 575 480	29 766 452
Core tier 1 capital ratio (%)	12.6	13.1	12.9
Tier 1 capital ratio (%)	14.3	14.7	14.4
Capital adequacy ratio % (tier 2 capital)	16.2	16.8	16.4
Leverage ratio (%)[4]	4.3	4.4	4.4
LCR indicator in NOK (%)[7]	160	389	45
LCR indicator in EUR (%)[7]	406	98	98
LCR totalindicator (%)[7]	394	297	67
Defaults in % of gross loans	-	-	-
Loss in % of gross loans	-	-	-
Staff			
Number of full-time positions at end of period	19.8	19.8	19.8

Overview of liquidity indicators and prognosis

	Actual	Prognosis			
As of	30 Jun 2017	30 Sep 2017	31 Dec 2017	31 Mar 2018	30 Jun 2018
Liquidity Indicator I[5]	101%	102%	101%	104%	103%
Liquidity Indicator II[6]	119%	121%	111%	116%	113%
Average of indicators	**110%**	**112%**	**106%**	**110%**	**108%**

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

[2] Annualised profit before tax as a percentage of average equity on a quarterly basis (return on equity).

[3] Total operating expenses in % of net interest income after commissions costs.

[4] Leverage ratio is calculated in accordance with the CRR/CRD IV regulatory. The calculation of the leverage ratio is described in articles 416 and 417 of the regulations.

[5] Liquidity indicator I:

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

[6] Liquidity indicator II:

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

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

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