eika. Boligkreditt

Annual report 2018

At your side.

Photo front page: *Gimsøystraumen in Lofoten, Nordland*

Hauklandsstranda in Lofoten, Nordland

Contents

The Eika Alliance

Lindesnes lighthouse, Vest-Agder

The Eika Alliance comprises 68 local banks, Eika Gruppen and Eika Boligkreditt. More than NOK 450 billion in total assets, almost a million customers and about 2 700 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 2018 by 66 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 68 local banks. 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 250 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

Bjørvika, Oslo

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.

2017

- Eika Boligkreditt exceeds NOK 100 billion in total assets.
- Rating of the company's covered bonds is upgraded from Aa1 to Aaa.
- The company receives its first published issuer rating (Baa1).
- Eight owner banks merge to become four. The number of owner banks is correspondingly reduced.

2018

- The banks begin to issue mortgages directly via their own credit portal.
- Conducted a syndicated benchmark covered bond transaction for NOK 5 billion.
- Eika Boligkreditt increased its holding in Eiendomsverdi AS from 18.79 to 25 per cent.
- Total bank financing through Eika Boligkreditt exceeds NOK 80 billion.

2018: Highlights

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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.

66

LOCAL BANKS

Eika Boligkreditt was directly owned by 66 local banks and OBOS at 31 December 2018.

392

LOCAL AUTHORITIES

Eika Boligkreditt's cover pool includes mortgagees in 392 Norwegian local authorities.

108 BN

TOTAL ASSETS

Total assets were NOK 108 billion at 31 December.

53 THOUSAND

MORTGAGES

Eika Boligkreditt has 53 451 mortgages in its cover pool.

50.3%

CURRENCY

50.3 per cent of the company's covered bonds are financed in NOK, while 49.7 per cent are financed in other currencies – primarily EUR.

27.6%

MORTGAGED PROPERTY

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

46.2%

LTV

The average loan to value (LTV) on mortgages in the cover pool was 46.2 per cent.

482 MILL

COMMISIONS

Distributor commissions to the owner banks totalled NOK 482.4 million, compared with NOK 433.2 million in 2017.

16.6 BN

NEW ISSUES

Eika Boligkreditt issued NOK 16.6 billion in bonds, with rougly 70 per cent denominated in NOK and the rest in EUR.

Eika Boligkreditt in brief

Lærdalsøyri, Sogn og Fjordane

Eika Boligkreditt is a credit institution which was directly owned at 31 December 2018 by 66 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 2018, the banks had transferred a total of NOK 82 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 108 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

66 local banks and OBOS[1] — 100% — **Eika Boligkreditt AS**

68 local banks — 100% — **Eika Gruppen AS**

Ownership structure and management

Eika Boligkreditt AS

CEO
Kjartan M Bremnes

Risk manager Marthe Hildrum

IT manager André Gjertsen

Head of lending Hege A Skoglund

CMO Kurt E Mikalsen

CAO 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

Dag Olav Løseth

Director

Born: 1972
Position: CEO, Orkla Sparebank.
Education: : MSc business Economics and AFA, Norwegian School of Economics.
Other directorships: chair, Orkla Eindomsmegling and Næringshagen i Orkdalsregionen. Director, Midt-Norsk Sparebankgruppe, Stiftelsen Bårdshaug Herregård, STN Invest AS.
Director since 2018.

Terje Svendsen

Director

Born: 1956.
Position: President, Norges Fotballforbund.
Education: MSc business economics, Norwegian School of Economics.
Other directorships: chair, Tercon AS. Director, Bonitas Eiendomsforvaltning AS.
Director since 2011.

Tor Egil Lie

Chair

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.

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.

Torleif Lilløy

Director

Born: 1971.
Position: CEO, Odal Sparebank.
Education: Cand. Jur. University of Oslo, BSc economics and administration, Vestfold University College.
Other directorships: chair, Aktiv Eiendomsmegling Glåmdalsmegeleren AS.
Director since 2018.

Rune Iversen

Director

Born: 1962
Position: CEO, Marker Sparebank.
Education: Diploma, business economics, Master of management BI.
Other directorships: director, Sparebankenes Eiendomsmegler AS.
Director since 2018.

Executive management

Hugo J Henriksen

CAO

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

Kurt E Mikalsen

CMO

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.

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.

Jæren, Rogaland

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 16 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 82 billion in overall financing from Eika Boligkreditt at 31 December 2018. 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 channel of the owner banks for long-term external funding.
Strategic goals	Increase competitiveness for the owner banks. Reduce risk for the owner banks

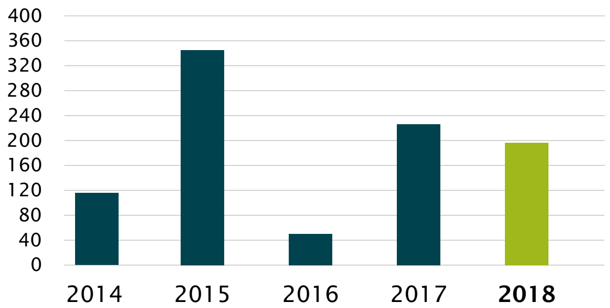
COMPANY PRIORITIES

- Optimal use of covered bond financing
- Good international rating
- Profitability and cost-efficiency
- Prudent risk
- Quality at every level

Results and key figures

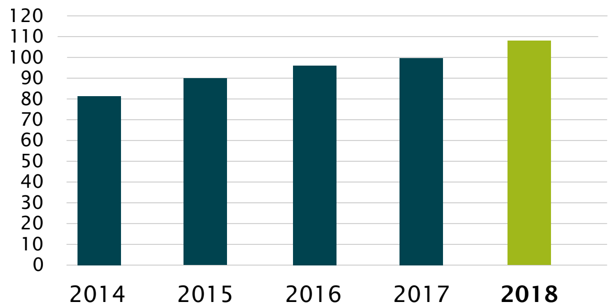
PROFIT BEFORE TAX

Amounts in NOK million



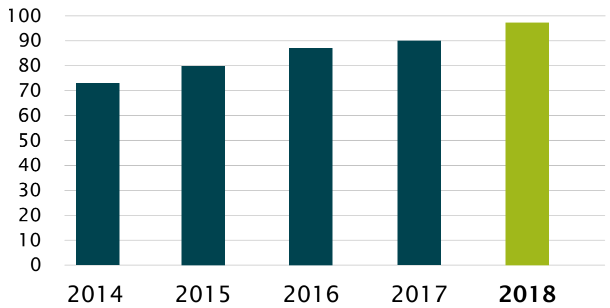
TOTAL ASSETS

Amounts in NOK billion



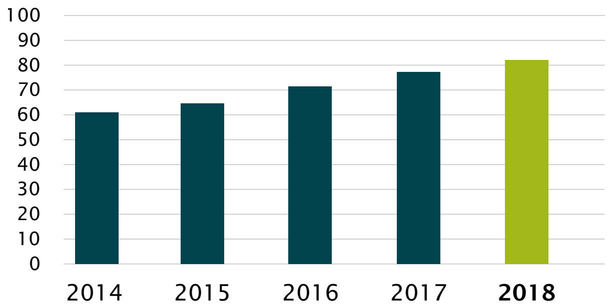
BORROWING PORTFOLIO

Amounts in NOK billion



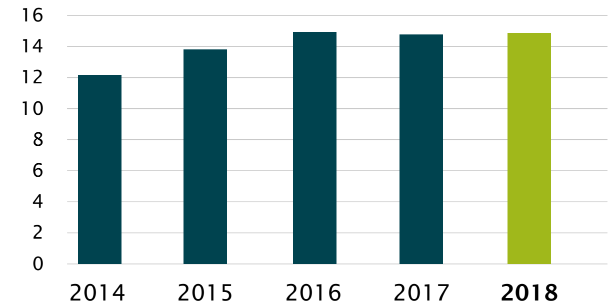
MORTGAGE PORTFOLIO

Amounts in NOK billion



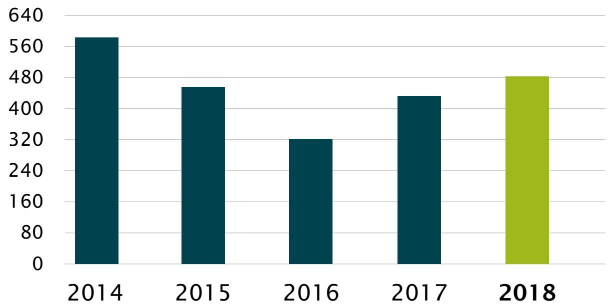
NEW MORTGAGES

In thousands



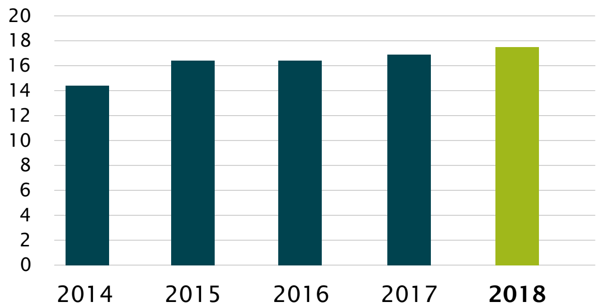
DISTRIBUTOR COMMISSIONS

Amounts in NOK million



CAPITAL ADEQUACY RATIO[1]

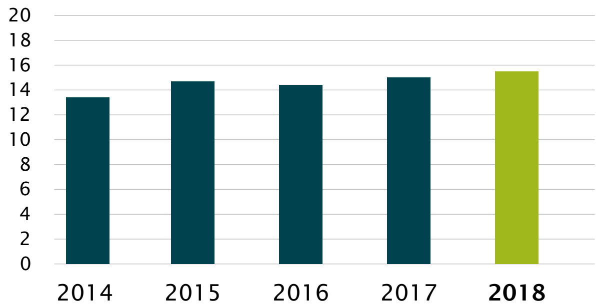
Value in per cent



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

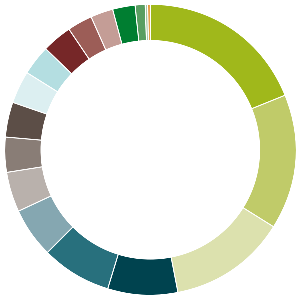
CORE TIER 1 CAPITAL RATIO

Value in per cent



GEOGRAPHICAL DISTRIBUTION

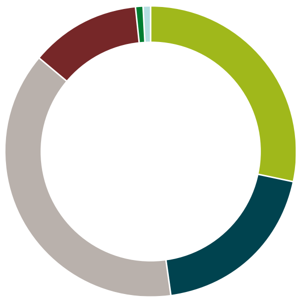
By county



Trøndelag county	18.95%
Akershus county	15.07%
Oslo	12.97%
Østfold county	7.85%
Rogaland county	7.69%
Telemark county	5.80%
Møre og Romsdal county	4.24%
Buskerud county	4.09%
Vestfold county	3.89%
Aust-Agder county	3.52%
Hedmark county	3.30%
Hordaland county	3.30%
Nordland county	2.91%
Vest-Agder county	2.52%
Oppland county	2.25%
Troms county	1.12%
Sogn og Fjordane county	0.46%
Finnmark county	0.08%

LTV[1]

Specified in per cent and NOK

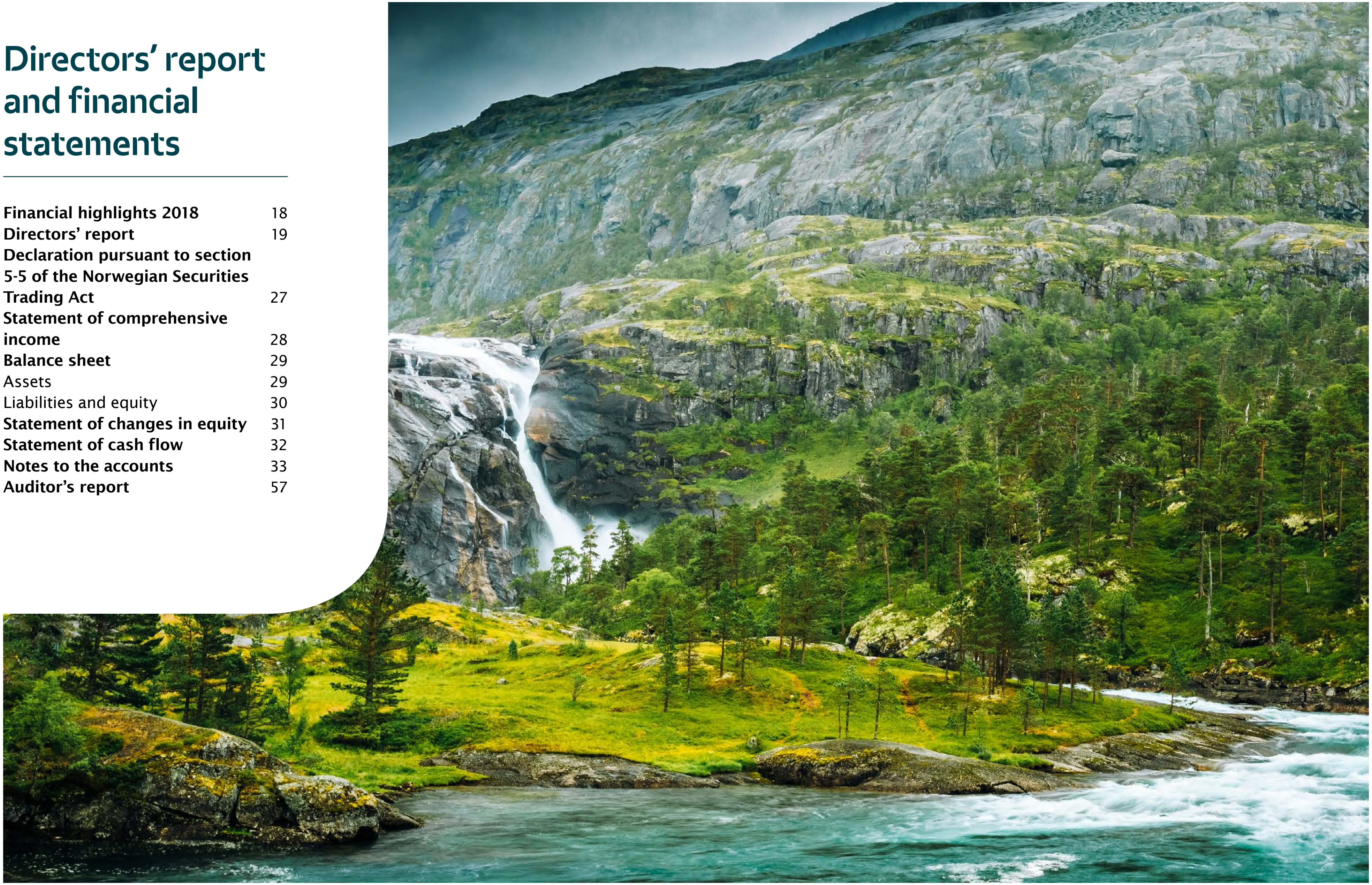


LTV:	0-≤40%	NOK 23 353.4 million	28.65%
LTV:	>40%-≤50%	NOK 15 931.7 million	19.54%
LTV:	>50%-≤60%	NOK 31 160.7 million	38.22%
LTV:	>60%-≤70%	NOK 9 995.3 million	12.26%
LTV:	>70%-≤75%	NOK 554.2 million	0.68%
LTV:	>75%-≤	NOK 525.9 million	0.65%

[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



Husedalen, Hordaland

Financial highlights 2018

196.6 MILL

Pre-tax profit of NOK 196.6 million, compared with NOK 226 million in 2017.

108 BN

The company had total assets of NOK 108 billion at 31 December, compared with NOK 99.6 billion a year earlier.

97.3 BN

The borrowing portfolio totalled NOK 97.3 billion, a net increase of NOK 7.3 billion or 8.1 per cent from 31 December 2017.

6.1%

The borrowing portfolio totalled NOK 82 billion, a net increase of NOK 4.7 billion or 6.1 per cent from 31 December 2017.

682 MILL

Net interest revenues were NOK 682 million, approximately unchanged compared with 2017.

482 MILL

Distributor commissions to the owner banks totalled NOK 482.4 million, compared with NOK 433.2 million in 2017.

17.5%

The company's capital adequacy ratio was 17.5 per cent at 31 December, compared with 16.9 a year earlier. Capital adequacy is calculated in accordance with the capital requirement regulations.

46.2%

The average LTV for the whole cover pool was 46.2 per cent.

Directors' report 2018

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. The company's business purpose also includes reducing risk for the owner banks. At 31 December 2018, the owner banks had a total financing of NOK 82 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 108 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 owners which includes the stipulation that 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.

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 (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 tier 1 capital and total primary capital ratios at levels required or recommended by the Financial Supervisory Authority of Norway.

The present capital targets, which have applied from 31 December 2018, are set at a minimum of 13 per cent for the core tier 1 capital ratio, 14.5 per cent for the tier 1 capital ratio, and 16.5 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

Covered bonds issued by Eika Boligkreditt have an Aaa rating from Moody's Investor Service (Moody's). The bonds have a rating buffer of two notches in the event of a downgrade for the owner banks. In other words, the rating assessment for the owner banks, which is reflected in Eika Boligkreditt's issuer rating of Baa1, can be downgraded by up to two notches without the covered bonds losing their Aaa rating. A precondition for the Aaa rating is an overcollateralisation of at least five per cent for the cover pool. At 31 December 2018, the overcollateralisation was 10.6 per cent (based on nominal values excluding the company's own holding of covered bonds). A strength for Eika Boligkreditt's rating is that the residential mortgages included in Eika Boligkreditt's cover pool have a maximum loan-to-value (LTV) of 60 per cent of the value of the residential property 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 been confirmed by Moody's in its quarterly Covered Bonds – Global Monitoring Overview. In the latest report, published by Moody's on 7 January 2019, Eika Boligkreditt was ranked in first place among the world's covered bond 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 82 billion at 31 December 2018, representing an increase of NOK 4.7 billion or 6.1 per cent over the year. Standalone residential mortgages accounted for 92.3 per cent of the portfolio, with mortgages to residential cooperatives accounting for the remaining 7.7 per cent. Standalone mortgages also include loans for holiday homes. The proportion of mortgages to residential cooperatives declined from 10.5 to 7.7. per cent in 2018, reflecting the fact that OBOS is reducing its financing from the company in accordance with the agreed plan. The average LTV for the mortgages in the cover pool was 48.3 per cent on the basis of the value of the properties at origination. Adjusted for subsequent price developments affecting the mortgaged objects, the average LTV for mortgages in the company's cover pool was 46.2 per cent at 31 December 2018. Since Eika Boligkreditt's 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 on OBOS-banken's distribution responsibility

The distribution agreement with OBOS-banken expired in mid-February 2017, in line with the notice of termination given by Eika Boligkreditt a year earlier. From the termination date, OBOS-banken no longer has the right to increase its financing from Eika Boligkreditt. Pursuant to the stipulations in the distribution agreement, OBOS/OBOS-banken and Eika Boligkreditt have entered into a new agreement which regulates the extension of OBOS/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.

Eleven banks have terminated their agreements with Eika Gruppen AS

Eleven banks gave notice on 9 January 2018 to terminate their agreements with Eika Gruppen AS. The period of notice for these agreements is three calendar years – in other words, 31 December 2021. The 11 departing banks are Askim og Spydeberg Sparebank, Aasen Sparebank, Drangedal Sparebank, Klæbu Sparebank, Harstad Sparebank, Lofoten Sparebank, Selbu Sparebank, Sparebanken DIN, Stadsbygd Sparebank, Tolga-Os Sparebank and Ørland Sparebank. Harstad Sparebank and Lofoten Sparebank have merged with effect from 1 January 2019 and changed their name to Sparebank 68° Nord. The agreements held by the above-named banks with Eika Boligkreditt are not covered by their notices of termination.

Changes to the Eika Boligkreditt board

Bjørn Riise, the chair of Eika Boligkreditt AS, informed the nomination committee on 29 January 2018 that he was resigning from this post with immediate effect. His resignation must be seen in the context of the termination matter, since Klæbu Sparebank is one of the 11 banks which have given notice of terminating their agreements with Eika Gruppen AS. In order to avoid problems for the chair related to conflicts of interest, Riise opted to step down. Deputy chair Tor Egil Lie acted as chair until the AGM was held on 18 April 2018. He was then elected as the new chair of the company. On the recommendation of the nomination committee, the AGM also voted to increase the number of directors from five to six members.

Acquisition of shares in Eiendomsverdi AS

A share purchase agreement was entered into on 3 October 2018 between the bank shareholders and the minority shareholders in Eiendomsverdi AS. Before this transaction, the bank shareholders – DNB Bank ASA, Nordea Bank Norge ASA, Sparebank 1 Gruppen AS and Eika Boligkreditt AS – each owned 18.79 per cent of the shares, totalling 75.16 per cent. Three Eiendomsverdi employees held the remaining 24.86 per cent. Through the agreement, the bank shareholders have bought out the minority shareholders and now own all the shares in the company, in equal proportions.

Borrowing

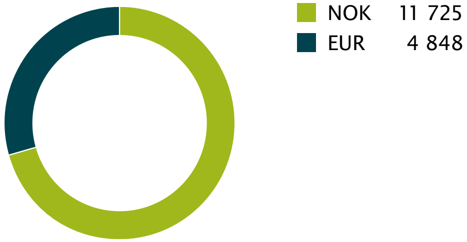
The company's total borrowing (liabilities established through the issue of securities) amounted to NOK 97.3 billion at 31 December 2018, up by NOK 7.3 billion from 1 January. Eika Boligkreditt issued bonds and certificates corresponding to NOK 16.6 billion in 2018. Twenty-nine per cent were issued in euros and 71 per cent in Norwegian kroner. Of the total issue volume, 93.5 per cent related to the issue of covered bonds. During 2018, repurchases of the company's own bonds before their call date and bonds redeemed at their call date amounted to

ISSUES BY SECTOR

(Amounts in NOK million)	**2018**	2017	2016	2015
Covered bonds (issued in EUR)	**4 848**	9 298	4 650	4 636
Covered bonds (issued in NOK)	**10 650**	7 625	10 725	6 250
Senior unsecured bonds (issued in NOK)	**750**	1 800	950	450
Subordinated loans (issued in NOK)	**325**	-	150	200
Total issued	**16 573**	18 723	16 475	11 536

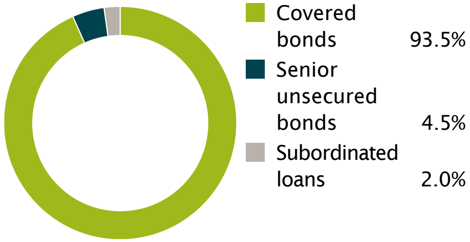
ISSUES BY CURRENCY

(in NOK mill) in 2018



ISSUES BY SECTOR

(in %) in2018



BORROWING IN VARIOUS INSTRUMENTS

(Capitalised amounts in NOK million)	**31 Dec 2018**	31 Dec 2017
Covered bonds	**93 913**	87 203
Senior unsecured bond loans	**3 376**	2 827
Subordinated loans	**674**	600
Total issued	**97 963**	90 630

NOK 9.6 billion. The company's covered-bond issues are conducted under its EMTCN Programme, which is listed on the Irish Stock Exchange. This programme was last revised in October 2018. The borrowing limit in the programme is EUR 20 billion. Issues in 2018 and the three previous years by sector are presented in the table above. The issue volume in 2018 was more or less in line with expectations at 1 January.

The bond market in 2018 was characterised by a high level of activity in the first half, which slowed in the second six months – particularly towards the end of the period. The credit margin paid by Eika Boligkreditt when issuing new covered bonds in Norwegian kroner rose by about five basis points over the year. By comparison, the company's credit margins in the euro market increased about 20 basis points in 2018. That largely reflects the effect of reduced bond purchases by the European Central Bank (ECB) and large redemptions by bond funds towards the end of the year. Covered bonds are part of the ECB's bond purchase programme, and it has subscribed for substantial proportions of new issues from issuers domiciled in the eurozone during recent years. That will not happen in 2019, but the ECB will remain a substantial buyer in the secondary market in order to reinvest its redemptions. On that basis, many analysts expect that credit margins will tend to widen a little further during 2019. This will be countered by a fairly considerable increase in the credit spread during 2018, and by some decline in the view that interest rates will rise in the euro market. Norwegian credit margins are also expected to tend to widen somewhat in 2019, but these are influenced to a great extent by developments with currency swaps in the foreign exchange market. The average tenor for new financing with covered bonds in 2018 was 6.7 years. The average tenor for the company's borrowing portfolio declined from 3.87 years at 1 January to 3.77 years at 31 December. The table on the left 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 196.6 million for 2018, compared with NOK 226 million the year before. Profit was affected by value changes to financial instruments, which yielded a net gain of NOK 22.1 million (2017: NOK 12.8 million). Pre-tax profit for 2018 excluding changes to the fair value of financial instruments was thereby NOK 174.6 million (2017: NOK 213.2 million). A total of NOK 28.6 million in interest on tier 1 perpetual bonds in 2018 (2107: NOK 24.7 million) is not presented as an interest expense in the income statement, but as a reduction in equity.

Net profit

Net profit for 2018 includes NOK 106.1 million in negative value changes in basis swaps (2017: negative NOK 164.1 million), so that net profit came to NOK 52.5 million (2017: NOK 59.8 million) when account is taken of value changes in basis swaps and other value changes recognised through other income and expenses.

Net profit for 2018 was significantly affected by value changes in basis swaps on the company's derivatives. Eika Boligkreditt is an active issuer of bonds in foreign currencies, principally in euros but occasionally in others. All lending is in Norwegian kroner, which means that borrowing in foreign currencies is hedged to kroner in the derivative market through currency swaps. A pricing and risk component in these derivative contracts is the currency basis, which is a premium (or deduction) for swapping cash flow in one currency with cash flow in another. Value changes in basis swaps during 2018 relate almost wholly to changes in the currency basis. During 2018, the volume-weighted currency basis from euros to Norwegian kroner for the derivative portfolio contracted by 8.4 basis points, from 22.8 to 14.4. A tightening in the currency basis premium has negative accrual effects on the company's profit and loss account. Over the term of the derivatives, the effect of such value changes will be zero. The accounting effects will thereby reverse until the derivatives mature. This means that changes in the value of the currency basis only have accrual effects with regard to unrealised gains and losses in the financial statements, but no realised gains or losses over the term of the derivative unless Eika Boligkreditt realises the derivative early.

Income

The company's total interest income amounted to NOK 2 162 million in 2018, compared with NOK 2 049 million the year before. This change primarily reflected an increase in the volumes of residential mortgages included in the cover pool.

Net interest income

Net interest income amounted to NOK 682 million in 2018, compared with NOK 683 million the year before. This reflects virtually unchanged net interest income over the year. 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 482 million in 2018, compared with NOK 433 million the year before.

Balance sheet and liquidity

Balance sheet

Assets in the company's balance sheet amounted to NOK 108 billion at 31 December 2018, up by NOK 8.4 billion over the year. Lending to customers rose by NOK 4.7 billion or 6.1 per cent from 31 December 2017.

Borrowing

The company's total borrowing (liabilities established through the issue of securities) amounted to NOK 97.3 billion at 31 December, up by NOK 7.3 billion from the end of 2017.

Liquidity

New financing totalling NOK 16.6 billion was raised by Eika Boligkreditt in 2018. Over the same period, the mortgage portfolio increased by NOK 4.7 billion while loan maturities and early redemptions amounted to NOK 9.6 billion. The company was provided with an additional NOK 375 million in equity from the owners during the year, and raised NOK 475 million in tier 1 perpetual bonds. A dividend of NOK 41.3 million was also paid to the owners. Cash collateral received from counterparties to derivative agreements increased by NOK 64 million in 2018. When account is taken of NOK 107 million in repurchase agreements entered into and recognised under other financial assets, overall liquidity for the company increased by about NOK 3.2 billion in 2018. Counterparties to hedging contracts provided the company with NOK 3.9 billion in cash collateral during 2018. 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 2.4 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 17.9 billion – including NOK 3.9 billion in cash collateral received and taking account of NOK 0.35 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 2018 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.

Risk management and capital adequacy ratio

Eika Boligkreditt obtained a total of NOK 597 million in additional primary (tier 2) capital during 2018. This increase was accomplished by raising NOK 175 million in new equity through a private placement with the company's owner banks, NOK 325 million in new subordinated loans and NOK 200 million in a new tier 1 perpetual bond during the first quarter. Tier 1 perpetual bonds and subordinated loans, each totalling NOK 250 million, were partly repurchased before their call dates during the first quarter and then fully redeemed at their call dates in the second quarter. These repurchases and redemptions reduced total primary capital by NOK 500 million. During the third quarter, the company secured NOK 200 million in new equity through a private placement with its owner banks and increased total primary capital correspondingly. In the fourth quarter, raising NOK 275 million with a new tier 1 perpetual bond, combined with early repurchase of NOK 68.6 million of a NOK 200 million tier 1 perpetual bond with a call date in the first quarter of 2019, increased total primary capital by a net NOK 206.4 million.

Eika Boligkreditt concentrates exclusively on residential mortgages with security of up to 60 per cent of the mortgaged property's value on origination. The basis for calculating the capital adequacy ratio increased by NOK 2.3 billion during 2018, and amounted to NOK 33.7 billion at 31 December. This amount represents a quantification of Eika Boligkreditt's risk, and credit risk is calculated in accordance with the standardised method in the capital requirement regulations. The growth in the total calculation basis primarily reflects the increase in the company's residential mortgage portfolio. The calculation basis for the risk of capital valuation adjustment (CVA) by counterparties to derivatives was NOK 1.6 billion at 31 December, virtually unchanged from the same date in 2017.

The company's capital targets are set as follows.

		(At 31 Dec)
Core tier 1 capital	13.0%	(13.4%)
Tier 1 capital	14.5%	(15.5%)
Primary capital (tier 2 capital)	16.5%	(17.5%)

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 2018. To satisfy the expected continued growth in lending, the company will need to increase its tier 1, hybrid 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 Norwegian Ministry of Finance resolved on 13 December 2018, on the advice of Norges Bank, to increase the requirement for the countercyclical capital buffer from two to 2.5 per cent with effect from 31 December 2019. This will mean a corresponding rise in the company's capital targets. The table on the next page presents the development in capital adequacy.

DEVELOPMENT IN CAPITAL ADEQUACY

(Amounts in NOK million)	31 Dec 2018		31 Dec 2017	
Risk-weighted calculation basis	**33 731**		31 447	
Core tier 1 capital	**4 522**	13.4%	4 156	13.2%
Tier 1 capital	**5 227**	15.5%	4 706	15.0%
Total primary capital (tier 2 capital)	**5 902**	17.5%	5 305	16.9%

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 function as intended. The company is primarily exposed to the following risks: strategic and business, credit and counterparty, market, liquidity and refinancing, and operational – including compliance.

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. Rating risk relates to the financing and rating risk which the company is exposed to. 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 2018. 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 undertakings. 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 when changes occur in the market value of the derivatives.

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 as well as 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 or as and when required. The purpose of risk management and internal control is to reduce risk to an acceptable level. The company is organised with a chief accounting officer 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 84 points in the most recent survey, which was in the autumn of 2018. 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 (83 per cent) and results are reviewed and evaluated with a view to further improvements.

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).

Financial crime

Eika Boligkreditt combats financial crime as an important part of its corporate social responsibility. The purpose of this work at financial institutions is to protect the international finance system's integrity and stability, counteract funding of terrorism, and make it more difficult for criminals to enjoy the proceeds of their illegal activities. As a credit institution, the company is required to comply with the reporting provisions in the money laundering regulations and is also subject to the regulations on sanctions. Eika Boligkreditt's collaboration agreement with the owner banks outsources the implementation of customer measures and associated services related to the money laundering and sanctions regulations in order to ensure that its obligations pursuant to the regulations are fulfilled by the owner banks as distributors. The company has established guidelines for measures to counter money laundering and funding of terrorism, as well as routines for on-going checks of customer relationships and transactions aimed at exposing possible suspicious transactions pursuant to the money laundering rules. Eika Boligkreditt has established electronic monitoring of transactions based on risk-based criteria, 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 2018. Eika Boligkreditt has its own designated money laundering manager with special responsibility for following up the regulations on money laundering and sanctions.

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 2018.

Overall sickness absence was 0.6 per cent of total working hours. The goal of Eika Boligkreditt is to be a workplace where full equality prevails between men and women. 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.

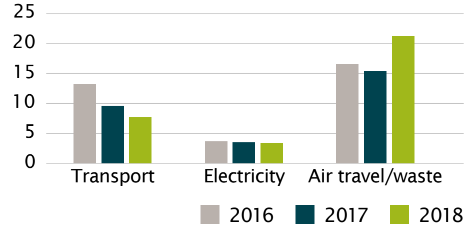
The owner banks are widely spread around Norway, which has helped to encourage Eika Boligkreditt to utilise video and web conferencing to a great and growing extent for training and information flow. That not only protects the environment but also reduces unnecessary travel time and stress in a busy 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 2016, 2017 and 2018. This analysis is based on direct and indirect energy consumption related to its activities.

The climate footprint provides a general overview of the company's greenhouse gas emissions converted to tonnes of carbon dioxide 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.

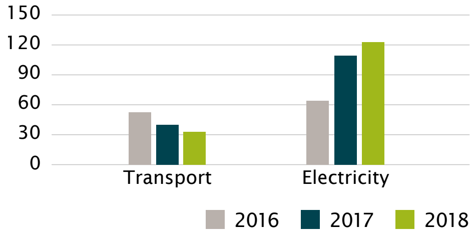
ANNUAL GREENHOUSE GAS EMISSIONS

Tonnes of carbon equivalent	**2018**	2017	2016
Transport	**7.7**	9.6	13.2
Electricity	**3.4**	3.5	3.6
Air travel/waste	**21.2**	15.4	16.5
Total	**32.3**	28.5	33.3



ANNUAL ENERGY CONSUMPTION

MWh	**2018**	2017	2016
Transport	**33.0**	39.9	52.6
Electricity	**122.6**	109.4	63.8
Total	**155.6**	149.3	116.3



Comments on the annual financial statements

The financial statements for 2018 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 2 162 million, interest charges NOK 1 480 million, net interest income NOK 682 million, and net interest charges after commission costs NOK 224 million in 2018. No losses were incurred in 2018 on loans or guarantees. The financial statements for 2018 show a net profit of NOK 52 491 000, compared with NOK 59 831 000 for 2017.

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 5 290 million at 31 December 2018. Eika Boligkreditt had a capital adequacy ratio of 17.5 per cent at that date. The capital adequacy ratio is calculated in accordance with the standardised method specified by Basel II.

Allocation of net profit

Net profit for 2018 is NOK 52 491 000 after taking account of NOK 106 million in negative value changes to basis swaps. In assessing its proposed dividend for 2018, the board has emphasised conducting a consistent dividend policy over time. The increased holding in Eiendomsverdi means that this investment is treated as an associated company on the basis of a staged acquisition, so that the share is valued at its acquisition price adjusted for the share of the profit. As a result, the reserve of NOK 14 700 000 for unrealised gains related to the change in the fair value of shares can be reversed and distributed as dividend for 2018. The board proposes to pay a dividend of NOK 35 446 000 to the owner bank, which takes account of the tax effect on NOK 7 1603 000 in interest on tier 1 perpetual bonds. Furthermore, NOK 28 640 000 of the overall profit is attributed to investors in the tier 1 perpetual bonds. In addition, NOK 10 265 000 is allocated to the reserve for unrealised gains related to changes in the fair value of financial instruments. Since the reserve is regarded as nondistributable equity, this allocation limits the opportunity to pay dividend. Furthermore, the dividend payment is considered to leave Eika Boligkreditt with a prudent level of 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 4.7 billion in 2018, representing a 12-monthly growth of 6.1 per cent. Statistics Norway's credit indicator for December 2018 showed a 12-monthly increase of 5.6 per cent in Norwegian household debt. The overall growth in mortgage lending by the owner banks in 2018 was thereby somewhat higher than for the sector as a whole.

The lending survey from Norges Bank for the fourth quarter of 2018 showed some narrowing in margins on mortgage lending to households because financing costs increased more than the rise in mortgage interest rates. The banks reported that they expect higher financing costs and base rates in the first quarter of 2019, which will lead in turn to higher interest rates on mortgage lending to households.

According to the house price report from Real Estate Norway for December 2018, average Norwegian house prices were 2.8 per cent higher than at 1 January. The strongest price growth during 2018 was in Oslo, at 6.3 per cent for the full year, but prices there remain below their peak level in February 2017. The weakest performance was in Trondheim, with a decline of 0.8 per cent. The number of second-hand homes on sale was high throughout 2018. That is expected to persist in 2019 in line with the simultaneous arrival of many completed new homes on the market because of the high level of housebuilding in recent years. Combined with warnings from Norges Bank of base rate rises, the company expect the growth in house prices to remain moderate in 2019.

The Norwegian economy is experiencing a moderate cyclical upturn. Gross domestic product for mainland Norway rose by 2.2 per cent in 2018. For more than two years, growth in mainland GDP has been above the estimated trend level of barely two per cent annually. An expansive financial policy, a weak exchange rate for the Norwegian krone, low pay growth and low interest rates have contributed to the upturn. Statistics Norway expects these factors to become more neutral or even contractive in coming years. With positive impulses from oil investment and a modest international revival, the moderate upturn in the Norwegian economy is likely to persist.

Norway's robust macroeconomic position and good results for Norwegian financial institutions are expected to mean good future demand for covered bonds from Norwegian issuers. The bond market is also affected positively by substantial redemptions of bonds and by the fact that the ECB has a substantial requirement for reinvestment in covered bonds. Liquidity is good in both Norwegian and international financial markets. Eika Boligkreditt expects to be an active issuer in both Norwegian and international financial markets in the time to come.

Oslo, 13 March 2019 — The board of directors for Eika Boligkreditt AS

Tor Egil Lie *Chair*	Dag Olav Løseth	Rune Iversen	Olav Sem Austmo	Terje Svendsen	Torleif Lilløy	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 2018 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, 13 March 2019
The board of directors for Eika Boligkreditt AS

Tor Egil Lie *Chair*	Dag Olav Løseth	Rune Iversen	Olav Sem Austmo	Terje Svendsen	Torleif Lilløy	Kjartan M Bremnes *CEO*

Statement of comprehensive income

Amounts in NOK 1 000	Notes	2018	2017
INTEREST INCOME			
Interest from loans to customers at amortised cost		**1 892 554**	1 797 444
Interest from loans to customers at fair value		**112 835**	87 006
Interest from loans and receivables on credit institutions		**17 323**	32 163
Interest from bonds, certificates and financial derivatives		**107 905**	103 950
Other interest income at amortised cost		**29 931**	27 772
Other interest income at fair value		**1 303**	955
Total interest income		**2 161 852**	2 049 291
INTEREST EXPENSES			
Interest on debt securities issued		**1 457 774**	1 342 770
Interest on subordinated loan capital		**22 199**	20 395
Other interest expenses		**358**	2 636
Total interest expenses		**1 480 331**	1 365 801
Net interest income		**681 521**	683 490
Commission costs	23	**457 836**	410 449
Net interest income after commission costs		**223 686**	273 040
Income from shares in associated company		**10 911**	6 006
Dividend from shares		**7 419**	-
Total income from shares	14	**18 330**	6 006
NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE			
Net gains and losses of fair value hedging on debt securities issued	8, 11	**5 994**	(8 202)
Net gains and losses on financial derivatives	11	**13 933**	3 749
Net gains and losses on loans at fair value	11	**2 126**	17 276
Total gains and losses on financial instruments at fair value		**22 053**	12 823
SALARIES AND GENERAL ADMINISTRATIVE EXPENSES			
Salaries, fees and other personnel expenses	17, 18	**31 132**	29 296
Administrative expenses	24	**18 435**	18 267
Total salaries and administrative expenses		**49 567**	47 563
Depreciation	13	**1 942**	1 900
Other operating expenses	24	**15 932**	16 422
Losses on loans and guarantees	4	**-**	-
PROFIT BEFORE TAX		**196 627**	225 985
Taxes	20	**44 672**	55 053
PROFIT FOR THE PERIOD		**151 956**	170 932
Net gains and losses on bonds and certificates	11	**(6 880)**	15 972
Fair value adjustment, shares	14	**(14 700)**	-
Net gains and losses on basis swaps	11	**(106 139)**	(164 107)
Taxes on other comprehensive income	20	**28 255**	37 034
COMPREHENSIVE INCOME FOR THE PERIOD		**52 491**	59 831

Of the total comprehensive income for the period above, NOK 23 851 thousand is attributable to the shareholders of the company and NOK 28 640 thousand to the hybrid capital investors.

Balance sheet

Assets

Amounts in NOK 1 000	Notes	31 Dec 2018	31 Dec 2017
ASSETS			
Lending to and receivables from credit institutions	4, 10, 12	**956 021**	1 735 677
Lending to customers	4, 9, 10, 12, 16	**82 014 685**	77 285 950
Other financial assets	4, 10, 21	**486 551**	357 761
Securities			
Bonds and certificates at fair value through profit or loss	4, 9	**16 593 308**	12 712 300
Financial derivatives	4, 8, 9	**7 812 493**	7 452 520
Shares classified at fair value recognised in profit and loss	9, 10, 14	**2 500**	32 200
Shares in associated company	10, 14	**54 441**	-
Total securities		**24 462 742**	20 197 020
Intangible assets			
Deferred tax assets	20	**44 085**	20 578
Other intangible assets	13	**5 116**	5 989
Total intangible assets		**49 201**	26 567
TOTAL ASSETS		**107 969 200**	99 602 970

Balance sheet
Liabilities and equity

Amounts in NOK 1 000	Notes	31 Dec 2018	31 Dec 2017
LIABILITIES AND EQUITY			
Loans from credit institutions	4, 5	**3 855 067**	3 791 533
Financial derivatives	5, 8, 9, 10	**70 406**	76 779
Debt securities issued	5, 6, 10, 12, 15	**97 288 469**	90 030 259
Other liabilities	4, 10, 22	**787 100**	332 106
Pension liabilities	19	**4 075**	3 005
Deferred tax	20	**-**	-
Subordinated loan capital	5, 10, 12, 15	**674 273**	599 646
TOTAL LIABILITIES		**102 679 390**	94 833 328
Called-up and fully paid capital			
Share capital	25	**1 093 319**	1 003 932
Share premium		**2 967 063**	2 681 451
Other paid-in equity		**477 728**	477 728
Total called-up and fully paid capital	25, 26	**4 538 111**	4 163 111
Retained earnings			
Fund for unrealised gains		**10 265**	14 700
Other equity		**36 461**	42 297
Total retained equity	26	**46 726**	56 997
Hybrid capital			
Tier 1 capital		**704 974**	549 540
Total hybrid capital	26	**704 974**	549 540
TOTAL EQUITY		**5 289 810**	4 769 647
TOTAL LIABILITIES AND EQUITY		**107 969 200**	99 602 975

Oslo, 13 March 2019
The board of directors for Eika Boligkreditt AS

Tor Egil Lie	Dag Olav Løseth	Rune Iversen	Olav Sem Austmo	Terje Svendsen	Torleif Lilløy	Kjartan M Bremnes
Chair						*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 2016	**856 673**	**2 203 709**	**477 728**	**85 773**	**169 808**	**448 775**	**4 242 467**
Result for the period	-	-	-	(71 073)	86 884	23 115	**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**
Result for the period	-	-	-	-	35 099	24 731	**59 830**
Equity issue	77 453	247 547	-	-	-	-	325 000
Accrued unpaid interest tier1 capital	-	-	-	-	-	(24 252)	(24 252)
Hubrid capital	-	-	-	-	-	99 825	99 825
Taxes on interest tier 1 capital	-	-	-	-	6 183	-	6 183
Dividends for 2016	-	-	-	-	(92 658)	-	(92 658)
Balance sheet as at 31 December 2017	**1 003 932**	**2 681 450**	**477 728**	**14 700**	**42 297**	**549 540**	**4 769 647**
Result for the period	-	-	-	(4 435)	28 286	28 640	52 491
Equity issue	89 387	285 614	-	-	-	-	375 001
Accrued unpaid interest tier1 capital	-	-	-	-	-	(29 606)	(29 606)
Hubrid capital	-	-	-	-	-	156 400	156 400
Taxes on interest tier 1 capital	-	-	-	-	7 160	-	7 160
Dividends for 2017	-	-	-	-	(41 282)	-	(41 282)
Balance sheet as at 31 December 2018	**1 093 319**	**2 967 064**	**477 728**	**10 265**	**36 461**	**704 974**	**5 289 810**

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 from value changes on financial instruments at fair value.

[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 recognised the following tier 1 perpetual bonds as equity:

- Tier 1 perpetual bond, originally issued NOK 250 in 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. Eika Boligkreditt redeemed the loan in its entirety on 23 May 2018.
- Tier 1 perpetual bond, originally issued NOK 200 million in 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 redeemed the equivalent of NOK 68.8 million before the call date during the fourth quarter of 2018.
- Tier 1 perpetual bond, issued NOK 100 million in 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.
- Tier 1 perpetual bond, issued NOK 200 million in 2018, with interest terms of three months Nibor plus 3.15 per cent. The loan provides for a call at 2 February 2023, and quarterly thereafter on each date interest payment falls due.
- Tier 1 perpetual bond, issued NOK 275 million in 2018, with interest terms of three months Nibor plus 3.75 per cent. The loan provides for a call at 30 October 2023, 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	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the period	**52 491**	59 831
Taxes	**16 417**	18 019
Income taxes paid	**(20 501)**	(57 541)
Gains on bonds and certificates	-	-
Ordinary depreciation	**1 942**	1 900
Non-cash pension costs	**1 070**	746
Change in lending to customers	**(4 728 735)**	(5 776 671)
Change in bonds and certificates	**(3 881 008)**	959 588
Change in financial derivatives and debt securities issued	**(421 695)**	419 391
Interest expenses	**1 480 331**	1 379 374
Paid interest	**(1 008 943)**	(1 347 826)
interest income	**(2 130 618)**	1 838 971
received interests	**2 108 818**	(1 831 853)
Changes in other financial assets	**(131 732)**	421 983
Changes in short-term liabilities and accruals	**(28 657)**	(228 040)
Net cash flow relating to operating activities	**(8 690 819)**	(4 142 128)
INVESTING ACTIVITIES		
Payments related to acquisition of fixed assets	**(1 069)**	(4 440)
Net cash flow relating to investing activities	**(1 069)**	(4 440)
FINANCING ACTIVITIES		
Gross receipts from issuance of bonds and commercial paper	**16 306 972**	18 706 482
Gross payments of bonds and commercial paper	**(8 993 413)**	(15 745 156)
Gross receipts on issue of subordinated loan capital	**324 588**	220
Gross payments of subordinated loan capital	**(249 961)**	-
Gross receipts from issue of loan from credit institution	**63 534**	397 320
Gross payments from loan from credit institution	-	-
Gross receipts from issuing tier 1 perpetual bonds	**475 000**	100 000
Gross payments from tier 1 perpetual bonds	**(376 846)**	-
Interest to the hybrid capital investors	**28 640**	(24 428)
Payments of dividend	**(41 282)**	(92 658)
Paid-up new share capital	**375 000**	325 000
Net cash flow from financing activities	**7 912 233**	3 666 780
Net changes in lending to and receivables from credit institutions	**(779 655)**	(479 788)
Lending to and receivables from credit institutions at 1 January	**1 735 677**	2 215 466
Lending to and receivables from credit institutions at end of period	**956 021**	1 735 677

Notes to the accounts

NOTE 1: ACCOUNTING POLICIES

General

Eika Boligkreditt AS (EBK) is licensed as a Norwegian credit institution and permitted to issue covered bonds. The company was established on 24 March 2003, and commenced its lending operations on 15 February 2005. The company offers only residential mortgages for up to 60 per cent of the collateral value (loan to value) at origination, and these 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 in the Eika Alliance to long-term and competitive funding by issuing covered bonds, while simultaneously reducing future refinancing risks for the company's owner banks. EBK has prepared its financial statements for 2018 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Financial assets and liabilities are measured at amortised cost, at fair value through profit or loss or at fair value through other comprehensive income.

The annual 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 13 March 2019.

Standards and interpretations approved and in force

IFRS 9 Financial instruments

IFRS 9 came into force for accounting years which started on 1 January 2018 or later. The standard received EU approval on 22 November 2016. Implementation of the standard has given rise to reclassification effects in the statement of comprehensive income and in equity. These effects are described in more detail below.

Impairment of financial assets

The new accounting standard introduces a new model for impairment of financial assets. The combination of the mortgage portfolio's loan-to-value ratio and the credit guarantees provided by the owner banks means that implementing the standard has had no significant effects for EBK's profit or equity. See also note 4.2.2 for further information.

Hedge accounting

IFRS 9 makes it possible to separate the basis margin on foreign currency from a financial instrument and exclude this from designating the financial instrument as a hedging instrument. EBK has utilised this opportunity when implementing IFRS 9 with effect from 1 January 2018. This means that changes in fair value which relate to the basis margin are recognised in other comprehensive income rather than in the item on "net gains and losses of fair value hedging on debt securities issued" and accumulated in a separate component of equity. As a result, a negative NOK 164.1 million has been reclassified from "net gains and losses of fair value hedging on debt securities issued" to "value changes basis margin in currency derivatives" under other comprehensive income for 2017. The corresponding amounts for the first, second, third and fourth quarters of 2017 are a negative NOK 72.2 million, negative NOK 64.3 million, positive NOK 5.1 million and negative NOK 32.7 million respectively. The corresponding amounts at 30 June, 30 September and 31 December 2017 are all negative at NOK 136.5, 131.4 and 164.1 million respectively. These amounts have also been reclassified to a separate component of equity.

Classification of financial assets

Pursuant to IFRS 9, an enterprise must classify financial assets as measured at amortised cost, at fair value through profit or loss or at fair value through other comprehensive income. The classification is made on the basis of an assessment of both

a. the enterprise's business model for managing financial assets
b. the characteristics of the financial asset's contractual cash flow.

Pursuant to IAS 39, EBK has used the fair value option for bonds and certificates, which are accordingly recognised at fair value through profit and loss. EBK has assessed that the above-mentioned criteria in IFRS 9 mean that bonds and certificates must be classified at fair value through other comprehensive income when implementing the standard from 1 January 2018. Implementing IFRS 9 does not affect recognition and measurement of the other financial assets or financial derivatives.

As a result of this, NOK 16 million will be reclassified from "net gains and losses on bonds and certificates" in the statement of comprehensive income to "net gains and losses on bonds" under other comprehensive income for 2017. The corresponding amounts for the first, second, third and fourth quarters of 2017 are a positive NOK 11.7, 5.7 and 0.6 million and a negative NOK 2 million respectively. The corresponding amounts at 30 June, 30 September and 31 December 2017 are positive at NOK 17.4, 18 and 16 million respectively.

Standards and interpretations approved but not in force

IFRS 16 Lease accounting

IFRS 16 on lease accounting must be implemented for accounting years which start on 1 January 2019. Earlier adoption is permitted, providing all completed projects are implemented simultaneously. The new standard received EU approval on 31 October 2017. It requires that all leases are recognised in the balance sheet by recognising the beneficial use of an asset as an asset, while making provision for the lease obligation as a liability. EBK has only one lease, covering office premises, which is subject to this standard. The beneficial use and lease obligation are recognised as NOK 18.8 million in the company's balance sheet at 1 January 2019, representing the present value of future rent payments over the duration of the lease. The lease duration which forms the basis for calculating future rent payments corresponds to the remaining period until the termination of the lease (about nine years at 1 January 2019). Possible options are not added to the lease duration. In addition, the beneficial use is depreciated over the duration of the lease while interest on the lease obligation is expensed. Depreciation is presented together with other depreciation in the statement of comprehensive income, while interest is included in financial expenses in the statement of comprehensive income. Interest costs are calculated by applying the discount rate (the company's incremental borrowing rate) to the lease obligation.

Foreign currency

Functional and presentation currency

The financial statements of EBK 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 its functional currency (foreign currencies) are recognised at the rate of exchange prevailing at the date of the transaction. 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 which discounts estimated future cash receipts or expenses through the expected life of the financial asset or liability to the net carrying amount of that asset or liability at initial recognition. When calculating the effective interest rate, the cash flows are estimated and all fees and remunerations paid or received between the parties to the contract are included as an integrated part of the effective interest rate. Dividends on investments are recognised from the date the dividends were approved at the general meeting.

Financial assets and liabilities

Recognition, derecognition and measurement

Financial assets and liabilities are recognised in the balance sheet when EBK becomes party to the contractual provisions of the instrument. Normal purchase or sale of financial instruments is recognised at the trade date.

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets have expired or when the company has transferred the financial asset in a transaction where all or substantially all risks and opportunity for reward related to ownership of the asset are transferred. Financial liabilities are derecognised from the balance sheet when they have terminated – in other words, when the obligation specified in the contract is discharged, cancelled or expires.

Standard in force from 1 January 2018

Classification – financial assets

Pursuant to IFRS 9, financial assets must be classified in three different measurement categories:
- amortised cost
- fair value through profit and loss
- fair value through other comprehensive income

The measurement category is determined on initial recognition on the basis of an assessment of both
a. the enterprise's business model for managing its financial assets (the business model test)
b. the characteristics of the financial asset's contractual cash flow (the SPPI test).

A business model says something about how groups of financial assets are managed to achieve a specific commercial goal. A company can therefore have several different business models for managing its financial instruments. The business model test assesses whether the financial asset is held within a business model in order to receive the contractual cash flows instead of selling the asset before maturity in order to realise fair value changes. IFRS 9 groups business models in three categories:
- held to receive contractual cash flows
- held to receive contractual cash flows and for sale
- other business models.

"Other business models" is a residual category used to classify and measure financial assets held for trade or which do not fall into one of the two prescribed business models.

The solely payments of principal and interest (SPPI) test is applied at the instrument level and focuses on assessing whether the contractual terms for the individual financial asset on specified dates solely involve payment of principal and interest on the outstanding principal. Only financial assets which are debt instruments qualify for measurement at amortised cost on the basis of the SPPI test, since neither derivatives nor investment in equity instruments will meet the requirements of this test.

A financial asset is classified at amortised cost if it meets the following criteria and is not classified at fair value through profit and loss:
- the asset is held grouped in a business model where the purpose is to receive contractual cash flows
- the asset passes the SPPI test.

Where EBK is concerned, this applies to floating-rate lending to customers, lending to credit institutions and other financial assets.

An exception to the above-mentioned description is provided by cases where financial assets which would be measured on the basis of the SPPI test and an assessment of the business model at either amortised cost or fair value through other comprehensive income can be designated for measurement at fair value through profit and loss if such designation provides more relevant and reliable information to the users of the financial statements. In such cases, the company may at initial recognition classify a financial asset which otherwise meets the requirements for measurement at amortised cost or at fair value through other comprehensive income at fair value through profit and loss if such a classification eliminates or significantly reduces the accounting inconsistency which would otherwise have arisen from measuring assets and liabilities on different bases. In this case, the fair value option will be an alternative to hedge accounting. EBK has therefore opted to classify fixed-rate lending to customers at fair value through profit and loss in the same way as the interest swap agreements.

Financial assets which are debt instruments

The classification of financial assets which are debt instruments depends on the outcome of the business model and SPPI tests. If the instrument's cash flows pass the SPPI test and the business model test groups the instruments as held to receive contractual cash flows and for sale, the financial assets must be classified at fair value through other comprehensive income. EBK has assessed that the above-mentioned criteria in IFRS 9 mean that bonds and certificates can be classified at fair value with value changes through other comprehensive income.

Financial assets which are derivatives

All derivatives must basically be measured at fair value through profit and loss, but special rules apply for derivatives designated as hedging instruments.

Financial assets which are equity instruments

Investments in equity instruments do not have cash flows which are confined to payment of principal and interest on the outstanding principal, and must therefore be measured at fair value through profit and loss unless they are designated as measured at fair value through other comprehensive income. EBK has recognised such investments at fair value through profit and loss.

Associated companies

Associated companies are companies where EBK has substantial influence – in other words, can influence financial and operational decisions in the company – but does not have control over the company alone or with others. EBK has basically assumed that substantial influence is exercised in companies where the company has an investment with a shareholding of 20-50 per cent. Associated companies are recognised in accordance with the equity method. When using the equity method, the investment is recognised at the overall acquisition cost and adjusted for subsequent changes to the company's share of profit/loss in the associated company. This means that, with staged acquisition up to substantial influence, possible value changes to the share measured at fair value pursuant to IFRS 9 will be reversed at the point in time when substantial influence is achieved.

Other financial assets

Other financial assets not assessed to be derivatives, debt instruments or equity instruments as mentioned above must be classified at amortised cost. This relates to lending to and receivables from credit institutions as well as floating-rate lending to customers.

Classification – financial liabilities

The main rule is that financial liabilities are measured at amortised cost with the exception of financial derivatives, which must be measured at fair value, financial instruments held for trade purposes, with measurement at fair value through profit and loss, and financial liabilities where the fair value option with measurement through other comprehensive income is applied. EBK only has financial derivatives held for risk management purposes, which are measured in the balance sheet at fair value with value changes recognised through profit and loss. Other liabilities are measured at amortised cost. The company has therefore classified liabilities to credit institutions, debt securities issued, subordinated loan capital and other debt in the amortised-cost measurement category.

Standard in force before 1 January 2018

Classification

Figures for 2017 have not been restated in connection with the implementation of IFRS 9. Classification pursuant to IAS 39 therefore continues to apply for 2017 figures in the report. Financial assets and liabilities are classified in one of the following categories:

- financial assets and liabilities 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 assets and liabilities at fair value through profit or loss

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

A financial asset is designated at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an accounting mismatch) which would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, or
- it forms part of a group of financial assets which is managed and its performance 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 board and CEO of EBK.

Fixed-rate lending to customers as well as all fixed-income certificates and bonds are designated at fair value through profit or loss.

The company has no financial assets classified as held to maturity.

Loans and receivables

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

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

Where EBK is concerned, this category includes lending to and receivables from credit institutions, floating-rate lending to customers, interest income earned and other short-term claims.

Financial assets available for sale

A financial asset which is not a derivative and which is classified neither as a loan and a receivable nor as a financial asset designated at fair value through profit or loss is classified as available for sale. EBK has classified shares as available for sale.

Other financial liabilities

A financial liability is classified in the other financial liabilities category if it is a non-derivative financial liability and not designated at fair value through profit or loss. The company has classified liabilities to credit institutions, debt securities issued, subordinated loan capital and other liabilities in this category.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when EBK

- 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.

EBK does not have financial assets and liabilities which are offset.

Subsequent measurement of financial assets and liabilities

Fair value

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

The fair value of certificates and bonds traded in an active market is based on the quoted bid price on the final day of trading up to and including the balance-sheet date. Where certificates, bonds, shares and derivatives not traded in an active market are concerned, fair value is determined by using valuation techniques. These include the use of recently undertaken market transactions conducted at arm's length between knowledgeable and independent parties if such transactions available, referring to the current fair value of another instrument which is substantially the same in practice, and using discounted cash flow analysis. Should there be a valuation method which is in common use by market participants for pricing the instrument, and this method has proved to provide reliable estimates of prices obtained in actual market transactions, this method is used. Pursuant to IFRS 9, changes in fair value for bonds and certificates are recognised with fair value changes through other comprehensive income.

Amortised cost

Subsequent to initial recognition, financial instruments classified as loans and receivables as well as financial liabilities are measured at amortised cost using the effective interest method. The effective interest method is described in the section on revenue recognition.

Impairment of financial assets

Pursuant to IFRS 9, provisions for loss must be recognised with effect from 1 January 2018 on the basis of an expected credit loss model and is applicable for the 2018 financial statements. The impairment rules apply to financial instruments measured at amortised cost or at fair value through other comprehensive income. Where EBK is concerned, this applies primarily to lending to customers. The combination of the lending portfolio's loan-to-value ratio and the credit guarantees provided by the owner banks means that implementation of the standard has not had significant effects for EBK's results or equity. See note 4.2.2 for further information.

Pursuant to IAS 39, financial assets measured at amortised cost or classified as available for sale must be assessed at each balance-sheet date to determine whether any objective evidence exists that the financial asset or group of financial assets is impaired. This method applied until 1 January 2018 and accordingly applies to the 2017 figures in the report. At 31 December 2017, no objective evidence existed that any impairment loss had been incurred on financial assets measured at amortised cost.

Cash and cash equivalents

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

Cash collateral

Pursuant to agreements with counterparties which regulate trades in OTC derivatives, collateral must be provided in certain cases. During 2018, EBK was provided with such collateral in the form of cash. These cash sums are managed by EBK 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.

Hedge accounting

EBK uses fair value hedging of fixed-rate financial liabilities, where the hedged item is the swap interest element in the financial liabilities. Value changes in the hedged item attributable to the hedged risk will adjust the carrying amount of the hedged item and be recognised in profit or loss. Value changes in the hedged item and associated hedge instruments are presented under "net gains and losses of fair value hedging on debt securities issued". IFRS 9 permits the basis margin on foreign currency to be separated from a financial instrument and excluded from the designation of the financial instrument as a hedge instrument. EBK has taken advantage of this opportunity with effect from 1 January 2018. This means that changes in fair value related to the basis margin are recognised in value changes through other comprehensive income instead of in the item "net gains and losses of fair value hedging on debt securities issued" in the statement of comprehensive income, and will be accumulated in a separate component of equity.

Intangible assets

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

Commission costs

The owner banks are paid commissions for arranging and managing residential mortgages. Such commissions are expensed on a current basis and presented in the item "commission costs" in the statement of comprehensive income. Accrued, unpaid costs to the owner banks at 31 December 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 comprises only one segment.

Pensions

Defined contribution plans

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

AFP – early retirement plan

The AFP is an early retirement pension plan for the Norwegian 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 average 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. 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 calculated on the basis of the taxable profit for the year. Taxable profit differs from the profit reported in the statement of comprehensive income because of income or expense items which are taxable or deductible in other years, and items which are not 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 normally recognised in the balance sheet 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 these 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

Pursuant to IFRS 9, provisions for losses will be recognised on the basis of expected credit losses in the light of relevant information available at the reporting date. The combination of the low loan-to-value ratio for the residential mortgage portfolio and the credit guarantees provided by the owner banks means that the company does not expect significant effects on EBK's profit or equity. See note 4.2.2 for further information.

No loans were written down at 31 December 2018. 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.

The company's key strategy is, through the issuance of covered bonds in the Norwegian and the international markets, to resolve a substantial part of the local banks' funding requirements and to reduce their refinancing risk. The company's risk management is intended to help attain this objective through tailored growth, good international ratin, profitability and cost-efficiency, prudent risk and quality at every level.

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 percent 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 and loss 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 2018	31 Dec 2017
Financial assets recognised in balance sheet		
Lending to and receivables on credit institutions[1]	**956 021**	1 735 677
Lending to customers	**82 014 685**	77 285 950
Others financial assets	**486 551**	357 761
Bonds and certificates at fair value	**16 593 308**	12 712 300
Financial derivatives	**7 812 493**	7 452 520
Total credit risk exposure	**107 863 059**	99 544 208
Off-balance sheet financial assets		
Overdraft facility	**50 000**	50 000
Note Purchase Agreement[2]	-	-
Granted, but undisbursed loans	**639 951**	579 454

[1] Restricted funds for tax withholdings were NOK 1 163 thousand in 2018 and NOK 1 179 thousand in 2017. Restricted funds for pension liabilities were NOK 3 429 thousand in 2018 and NOK 2 527 thousand in 2017.
[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 2018 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 2018	31 Dec 2017
Installment loans - retail market	**75 685 305**	69 819 610
Installment loans - housing cooperatives	**6 309 164**	7 447 505
Adjustment fair value lending to customers[1]	**20 215**	18 835
Total lending before specific and general provisions for losses	**82 014 685**	77 285 950
Individual impairments	-	-
Unspecified group impairments	-	-
Total lending to and receivables from customers	**82 014 685**	77 285 950

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 2018.

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

31 December 2018

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	77 184 505	77 184 505
Fixed rate loans	4 809 964	4 830 180
Toal lending	**81 994 470**	**82 014 685**

31 December 2017

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	73 638 073	73 638 073
Fixed rate loans	3 629 042	3 647 877
Toal lending	**77 267 115**	**77 285 950**

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 2018.

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 2018**	31 Dec 2017
1-29 days	**92 916**	306 902
30-60 days	**99 329**	95 910
60-90 days	-	-
> 90 days	-	-
Total past due loans not subject to impairment (principal)	**192 245**	402 812

Note 4.2.1 Lending by geographical area[1]

Amounts in NOK 1 000		Lending 31 Dec 2018	Lending 31 Dec 2017	Lending as a % 2018
NO01	Østfold county	6 438 853	5 673 359	7.85%
NO02	Akershus county	12 357 856	11 349 630	15.07%
NO03	Oslo	10 633 809	11 493 161	12.97%
NO04	Hedmark county	2 709 512	2 340 994	3.30%
NO05	Oppland county	1 841 324	1 717 292	2.25%
NO06	Buskerud county	3 349 647	3 167 305	4.09%
NO07	Vestfold county	3 187 286	2 783 549	3.89%
NO08	Telemark county	4 755 300	4 095 894	5.80%
NO09	Aust-Agder county	2 886 319	2 515 184	3.52%
NO10	Vest-Agder county	2 063 452	1 905 147	2.52%
NO11	Rogaland county	6 302 667	6 244 814	7.69%
NO12	Hordaland county	2 702 441	2 425 273	3.30%
NO14	Sogn og Fjordane county	379 948	398 623	0.46%
NO15	Møre og Romsdal county	3 477 154	3 105 183	4.24%
NO50	Trøndelag county	15 536 189	14 609 725	18.95%
NO18	Nordland county	2 387 898	2 404 982	2.91%
NO19	Troms county	921 324	977 805	1.12%
NO20	Finnmark county	63 490	59 193	0.08%
Total		**81 994 470**	**77 267 115**	**100%**

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

Note 4.2.2 IFRS 9

IFRS 9 came into force for fiscal years commencing on 1 January 2018 or later, replacing the IAS 39 model for impairment of financial assets. According to IAS 39, impairment for loss should only be performed when objective evidence exists that a loss event has occurred after initial recognition. Under the IFRS 9 accounting standard, provision for losses is recognised on the basis of the expected credit loss indicated by relevant information available at the reporting date. The combination of the residential mortgage portfolio's loan-to-value ratio and the credit guarantees provided by the owner banks mean that the standard does not have significant effects on EBK's profits or equity.

On initial recognition in the balance sheet, a provision for loss must be made which corresponds to the 12-month loss projection. The 12-month loss projection is the loss expected to arise over the life of the instrument, but which can be related to events occurring in the first 12 months.

If the credit risk for an asset or group of assets is considered to have risen significantly since initial recognition, a provision for loss must be made which corresponds to the whole expected life of the asset. EBK has decided that an annual review of such a change is an adequate assessment, since the company does not expect any accounting recognition of loss.

Impairment model in Eika Gruppen

Eika Gruppen has developed its own model for calculating the probability of default (PD), and EBK receives PD values for all its lending to customers. BanQsoft, the system deliverer for lending, has also developed solutions for exposure at default (EAD) and calculating losses as well as a model for assessing whether an engagement has significantly increased since its initial recognition. EBK has chosen to utilise these. Expected credit loss (ECL) is calculated as EAD x PC x LGD (loss given default), discounted by the original effective interest rate.

Description of the PD model

The PD model in Eika Gruppen (internal model) estimates the probability of default by estimating statistical correlations between default and the customer's financial position, demographic data and payment behaviour. Default is defined as an overdraft of at least NOK 1 000 over 90 consecutive days, in addition to other qualitative indicators which suggest that the engagement has become non-performing. See section 10, sub-section 1 of the capital requirement regulations.

The model distinguishes between private and corporate customers, and measures PD for the next 12 months. Payment behaviour requires six months of history before it can influence the internal model. This means that new customers will have six months with only the external model before the internal model can be used.

The model is validated annually and recalibrated as and when required. When model quality deteriorates, new models are developed.

Significant increase in credit risk

Should a significant increase in credit risk occur, the contract's expected credit loss is assessed over the whole life of the contract (PD-lif). EBK takes a conservative approach in this respect, utilising a straight-line projection of the PD for the next 12 months.

A significant increase in credit risk is measured on the basis of the development in PD. EBK has defined a significant increase in credit risk as a rise in the original PD at initial recognition (PD-ini) for different levels, so that the model can identify the relevant development in credit risk. A significant change is defined when engagements experience a relative alteration in PD exceeding PD-ini x 2, and are thereby moved to step 2. PD < 0.6 per cent is not moved to step 2.

Extra criteria are also defined for engagements to indicate a significant increase in credit risk:

- non-performance for 30 days (moved to step 2)
- non-performance for 90 days (moved to step 3).

Calculation of loss given default (LGD)

EBK's cover pool comprises objects with a very low LTV ratio (<=60 per cent LTV at origination), and calculating ECL will be based on information which is current, forward-looking and historical. EBK utilises the expected development of house prices when calculating LGD. The scenarios are given equal weighting and calculated for each contract. Valuation of the collateral is based on its estimated net realisable value.

Exposure at default (EAD)

EAD for agreements comprises mortgages to customers discounted by the effective interest rate for future cash flows.

The expected life of an agreement is calculated on the basis of the historical average life of similar agreements. Amended agreements are measured from the original origination date, even if new conditions have been set for the agreement. The expected tenor in EBK's portfolio is about four years.

Expected credit loss based on future expectations

EBK will adjust its provision for loss by the expected development in house prices, which is considered to influence expected loss. Future expectations are derived from Eika Gruppen's macro model, which takes account of three scenarios – the main estimate, the best estimate and a stress scenario – for expected macroeconomic developments one to three years ahead. The main estimate are based on values from Statistics Norway and Norges Bank. These scenarios are given equal weighting.

Stress scenario

At 1 January 2018, EBK had the following expectations for the development of the macroeconomic variables.

Changes in house prices	2019	2020	2021
Main estimate	1.25%	1.90%	1.85%
Stress scenario	(5.5%)	(6.5%)	(6.5%)
Best estimate	5.0%	5.0%	5.0%
Average	0.25%	0.13%	0.12%

Mortgages to customers by steps 1-3 in nominal value

Amounts in NOK 1 000	Step 1	Step 2	Step 3	**Total**
Mortgages 31 December 2017	**74 067 192**	**3 199 923**	**-**	**77 267 115**
Mortgages 31 December 2018	**81 994 470**	**-**	**-**	**81 994 470**

The expected loss on residential mortgages pursuant to IFRS 9 was calculated to total NOK 14 000 at 31 December 2018. Given NOK 851 million in credit guarantees from the owner banks at the same date, however, this would not represent an accounting loss for the company at 31 December 2018. There are no non-performing engagements in step 3.

Note 4.3 Derivatives

Counterparty exposure related to derivative contracts

Assets	31 Dec 2018		31 Dec 2017	
Amounts in NOK 1 000	Book value	Net value[1]	Book value	Net value[1]
Financial derivatives	**7 812 493**	**7 744 511**	7 452 520	7 375 741
Received collateral	**3 855 067**	**6 118 956**	3 791 533	6 374 078
Net exposure	**3 957 426**	**1 625 555**	**3 660 987**	**1 001 663**

Liability	31 Dec 2018		31 Dec 2017	
Amounts in NOK 1 000	Book value	Net value[1]	Book value	Net value[1]
Financial derivatives	**70 406**	**4 844**	76 779	-
Posted collateral	-	-	-	-
Net exposure	**70 406**	**4 844**	**76 779**	-

[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 3.9 billion in cash collateral during 2018, compared to NOK 3.8 billion in 2017. 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 2.3 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

Bonds broken down by issuer sector

31 December 2018	Amounts in NOK 1 000	Nominal value	Cost price	Fair Value
Municipalities		6 662 343	6 668 905	6 686 139
Credit institutions		6 485 000	6 519 729	6 525 679
Treasury bills		3 314 483	3 315 034	3 381 489
Total bonds and certificates at fair value		**16 461 826**	**16 503 669**	**16 593 308**
Change in value charged to other comprehensive income				**89 639**

Average effective interest rate is 1.09 per cent annualised. The calculation is based on a weighted fair value of NOK 11.9 billion. The calculation takes account of a return of NOK 129.4 million on bank deposits, bonds and certificates. The return on reinvested cash collateral received is excluded from the calculation.

31 December 2017	Amounts in NOK 1 000	Nominal value	Cost price	Fair Value
Municipalities		4 123 584	4 124 866	4 125 736
Credit institutions		4 774 000	4 786 832	4 804 532
Government bonds		339 123	340 668	375 930
Treasury bills		3 327 321	3 331 032	3 406 102
Total bonds and certificates at fair value		**12 564 028**	**12 583 399**	**12 712 300**
Change in value charged to other comprehensive income				**128 902**

Average effective interest rate is 1.21 per cent. The calculation is based on a weighted fair value of NOK 13.1 billion. The calculation takes account of a return of NOK 158.6 million on bank deposits, bonds and certificates. The return on reinvested cash collateral received is excluded from the calculation.

	31 Dec 2018	31 Dec 2017
Average term to maturity	**0.9**	0.8
Average duration	**0.2**	0.2

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 ratings, only those from approved rating agencies are taken into account. Pursuant to the CRR/CRD IV regulations, credit assessments from approved credit rating agencies can be used to determine credit quality for individual engagements. The new European Commission regulations cover a number of credit rating agencies, and ratings from 26 different agencies can be used for credit assessments. If a counterparty is rated by at least three of the agencies, the 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, 50 per cent are in banks with credit quality step 1 and 50 per cent in banks with credit quality step 2.

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 2019 of NOK 12.9 billion net when the currency hedge is taken into account. At 31 December 2018, the company had liquid funds in the form of bank deposits amounting to NOK 1 billion, repo agreements of NOK 0.35 billion, a securities portfolio of NOK 16.6 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 2018 Amounts in NOK 1 000	Book value 31 Dec 2018	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	97 288 469	-	278 982	717 385	14 931 139	69 850 836	16 957 540	**102 735 882**
Subordinated loan capital	674 273	-	1 481	3 951	17 509	720 481	-	**743 422**
Financial derivatives (net)	(7 742 087)	-	(128 089)	(29 431)	(1 307 227)	(3 147 572)	(205 159)	**(4 817 477)**
Loans from credit institutions[1]	3 855 067	3 855 067	-	-	-	-	-	**3 855 067**
Other debt with remaining term to maturity[2]	787 100	-	116 012	2 876	36 805	-	-	**155 694**
Total financial liabilities	**94 862 822**	**3 855 067**	**268 387**	**694 781**	**13 678 227**	**67 423 745**	**16 752 381**	**102 672 588**

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	-	(122 490)	(122 473)	(5 644 910)	(29 157 595)	(10 643 351)	**(45 690 819)**
Outgoing flow	-	250 579	151 904	6 952 137	32 305 167	10 848 510	**50 508 296**
Financial derivatives (net)	**-**	**128 089**	**29 431**	**1 307 227**	**3 147 572**	**205 159**	**4 817 477**

Ordinary maturity is used as the basis for classification.

Financial liabilities as at 31 December 2017 Amounts in NOK 1 000	Book value 31 Dec 2017	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	90 030 259	-	272 837	191 236	8 141 700	71 489 714	14 770 766	**94 866 253**
Subordinated loan capital	599 646	-	1 355	3 501	261 159	374 907	-	**640 922**
Financial derivatives (net)	(7 375 741)	-	(143 507)	(15 129)	(38 428)	(4 310 007)	(443 199)	**(4 950 269)**
Loans from credit institutions[1]	3 791 533	3 791 533	-	-	-	-	-	**3 791 533**
Other debt with remaining term to maturity[2]	332 106	-	143 354	2 985	25 748	-	-	**172 087**
Total financial liabilities	**87 377 803**	**3 791 533**	**274 039**	**182 594**	**8 390 179**	**67 554 614**	**14 327 567**	**94 520 526**

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	-	(105 844)	(81 787)	(1 505 302)	(29 636 249)	(10 127 567)	**(41 456 748)**
Outgoing flow	-	249 351	96 915	1 543 730	33 946 255	10 570 766	**46 407 017**
Financial derivatives (net)	**-**	**143 507**	**15 129**	**38 428**	**4 310 007**	**443 199**	**4 950 269**

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 both 2017 and 2018. 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 2018, would reduce the value of the company's assets at 31 December by NOK 45 million, while the value of liabilities would be cut by NOK 60.9 million. The net effect on pre-tax profit would consequently have been an increase of NOK 15.9 million. The effect of a decrease in interest rates would be an increase of NOK 45 million of the value of assets, an increase of NOK 60.9 million in the value of liabilities and a reduction in pre-tax profit of NOK 15.9 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 992 million, while interest expense would be increased by NOK 908 million. The effect on net interest income would accordingly have been an increase of NOK 84 million. A reduction in interest rates would decrease interest income by NOK 992 million and interest expenses by NOK 908 million. That would yield a reduction of NOK 84 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 99.5 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 99.5 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 2018

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	-	-	6 436 913	24 686 669	14 775 640	45 899 221
Currency derivatives in EUR	-	-	(6 436 913)	(24 686 669)	(14 775 640)	(45 899 221)
Net currency exposure	-	-	-	-	-	-

Currency risk as at 31 December 2017

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	-	-	-	16 200 749	24 492 556	40 693 304
Debt securities issued in SEK	-	-	1 002 497	-	-	1 002 497
Currency derivatives in EUR	-	-	-	(16 200 749)	(24 492 556)	(40 693 304)
Currency derivatives in SEK	-	-	(1 002 497)	-	-	(1 002 497)
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 bonds and certificates and lending at a fixed interest rate.

Financial derivatives

	31 Dec 2018		31 Dec 2017	
Amounts in NOK 1 000	Nominal amount	Fair value[3]	Nominal amount	Fair value
Assets				
Interest rate swap lending[1]	**1 864 130**	**12 005**	850 370	5 631
Interest rate and currency swap[2]	**55 027 640**	**7 800 488**	45 416 713	7 446 888
Total financial derivative assets including accrued interest	**56 891 770**	**7 812 493**	46 267 083	7 452 520
Liabilities				
Interest rate swap lending[1]	**2 562 335**	**18 997**	2 620 988	26 055
Interest rate and currency swap[2]	**2 000 000**	**51 410**	850 000	50 022
Interest swap placement	**-**	**-**	235 270	701
Total financial derivative liabilities including accrued interest	**4 562 335**	**70 406**	3 706 258	76 779

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.
3 Fair value at 31 December 2018 includes accrued interest.

Fair value hedging

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

	31 Dec 2018		31 Dec 2017	
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]	**53 027 640**	**7 334 528**	44 566 713	7 396 866
Hedged items: financial commitments incl foreign exchange[2]	**53 027 640**	**(7 745 130)**	44 566 713	(7 689 781)
Net capitalised value without accrued interest	**-**	**(410 602)**	-	(292 915)

Gains/losses on fair value hedging recorded in profit and loss

Amounts in NOK 1 000	2018	2017
Hedging instruments	**(44 797)**	70 714
Hedged items	**50 791**	(78 916)
Net gains/losses (inefffectiveness) recorded in profit and loss[3]	**5 994**	(8 202)

1 The nominal amount is converted to historical currency exchange rate.
2 The book value of the hedging instruments is its net market value without accrued interest. 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 2018 relates almost entirely to negative changes in basis swaps totalling NOK 106 million recorded in other comprehensive income. This is described further below.

The negative change in the value of financial instruments related almost entirely to NOK 106 million in negative change to basis swaps (NOK 164 million) is recognised through other comprehensive income. 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 change in value at 31 December 2018 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.

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 includes fixed-interest mortgages and shares at fair value over profit and loss. The fair value of the fixed-interest mortgages is their amortised cost adjusted for the present value of the difference between the mortgage's fixed interest rate and the applicable fixed interest rate offered on the balance sheet date. Shares are valued on the basis of discounted cash flows.

31 December 2018

Amounts in NOK 1 000	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	4 830 180
Bonds and certificates	6 686 139	9 907 169	-
Financial derivatives	-	7 812 493	-
Shares classified at fair value recognised in profit or loss	-	-	2 500
Total financial assets	**6 686 139**	**17 719 662**	**4 832 680**
Financial liabilities			
Financial derivatives	-	70 406	-
Total financial liabilities	**-**	**70 406**	**-**

No significant transactions between the different levels have taken place in 2018.

31 December 2017

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

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

Detailed statement of assets classified as level 3

2018 Amounts in NOK 1 000	1 Jan 2018	Purchases/issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2018	Other comprehensive income	31 Dec 2018
Lending to customers (fixed-rate loans)	3 647 877	2 202 231	(1 022 055)	-	2 126	-	4 830 180
Shares at fair value over OCI	29 700	-	-	(29 700)	-	-	-
Shares classified at fair value recognised in profit or loss	2 500	-	-	-	-	-	2 500
Total	**3 680 077**	2 202 231	**(1 022 055)**	**(29 700)**	**2 126**	-	**4 832 680**

2017 Amounts in NOK 1 000	1 Jan 2017	Purchases/issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2017	Other comprehensive income	31 Dec 2017
Lending to customers (fixed-rate loans)	3 570 403	608 558	(548 360)	-	17 276	-	3 647 877
Shares available for sale	29 700	2 500	-	-	-	-	32 200
Total	**3 600 103**	**611 058**	**(548 360)**	-	**17 276**	-	**3 680 077**

Detailed statement changes in debt related to currency changes

	2018				2017			
Amounts in NOK 1 000	1 Jan 2018	Issued/ matured	Currency changes	31 Dec 2018	1 Jan 2017	Issued/ matured	Currency changes	31 Dec 2017
Change in debt securities issued[1]	41 887 570	3 923 000	269 070	46 079 640	43 156 438	(2 027 100)	758 232	41 887 570
Total	**41 887 570**	**3 923 000**	**269 070**	**46 079 640**	**43 156 438**	**(2 027 100)**	**758 232**	**41 887 570**

[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 2018

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 160 million. The effect of a decrease in interest rates would be an increase of NOK 160 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 2018 and cumulatively.

NOTE 10: CLASSIFICATION OF FINANCIAL INSTRUMENTS

31 December 2018

Amounts in NOK 1 000	Financial instruments at fair value through profit or loss	Financial instruments at fair value through other comprehensive income	Financial instruments at amortised cost	Total
Financial assets				
Lending to and receivables from credit institutions	-	-	956 021	956 021
Lending to customers	4 830 180	-	77 184 505	82 014 685
Bonds and certificates	-	16 593 308	-	16 593 308
Financial derivatives	7 812 493	-	-	7 812 493
Shares classified at fair value recognised in profit or loss	2 500	-	-	2 500
Other financial assets	-	-	486 551	486 551
Total financial assets	**12 645 173**	**16 593 308**	**78 627 078**	**107 920 000**
Financial liabilities				
Financial derivatives	70 406	-	-	70 406
Debt securities issued	-	-	97 288 469	97 288 469
Loans from credit institutions	-	-	3 855 067	3 855 067
Other liabilities	-	-	787 100	787 100
Subordinated loan capital	-	-	674 273	674 273
Total financial liabilities	**70 406**	**-**	**102 604 909**	**102 675 315**

31 December 2017

	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	-	-	-	-	1 735 677	-	1 735 677
Lending to customers	-	3 647 877	-	-	73 638 073	-	77 285 950
Bonds and certificates at fair value through profit or loss	-	12 712 300	-	-	-	-	12 712 300
Financial derivatives	5 631	-	7 446 888	-	-	-	7 452 520
Shares classified as available for sale	-	-	-	32 200	-	-	32 200
Other financial assets	-	-	-	-	357 761	-	357 761
Total financial assets	**5 631**	**16 360 177**	**7 446 888**	**32 200**	**75 731 511**	**-**	**99 576 408**
Financial liabilities							
Financial derivatives	26 756	-	50 023	-	-	-	76 779
Debt securities issued	-	-	-	-	90 030 259	-	90 030 259
Loans from credit institutions	-	-	-	-	3 791 533	-	3 791 533
Other liabilities	-	-	-	-	332 106	-	332 106
Subordinated loan capital	-	-	-	-	599 646	-	599 646
Total financial liabilities	**26 756**	**-**	**50 023**	**-**	**94 753 544**	**-**	**94 830 323**

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

Full year 2018

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)	2 126	-	-	-	2 126	746	1 380
Bonds and certificates	-	(6 880)	-	-	(6 880)	32 411	(39 292)
Shares classified at fair value recognised in profit or loss	-	-	-	-	-	-	-
Debts from issuance of securities	-	-	50 791	-	50 791	-	50 791
Financial derivatives	13 933	(106 139)	(44 797)	-	(137 003)	35	(137 038)
Total	**16 059**	**(113 020)**	**5 994**	**-**	**(90 966)**	**33 192**	**(124 158)**

Full year 2017

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)	-	17 276	-	-	17 276	2 246	15 030
Bonds and certificates at fair value through profit or loss	-	15 972	-	-	15 972	4 620	11 352
Shares available for sale	-	-	-	6 006	6 006	6 006	-
Debts from issuance of securities	-	-	(78 916)	-	(78 916)	(11 608)	(67 309)
Financial derivatives	3 749	-	(93 393)	-	(89 643)	7 022	(96 665)
Total	**3 749**	**33 248**	**(172 309)**	**6 006**	**(129 307)**	**8 286**	**(137 592)**

NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST

	31 Dec 2018		31 Dec 2017	
Amounts in NOK 1 000	**Book value**	**Fair value**	Book value	Fair value
Financial assets				
Loans to and deposits with credit institutions	**956 021**	**956 021**	1 735 677	1 735 677
Lending to customers	**82 014 685**	**82 014 685**	77 285 950	77 285 950
Total financial assets	**82 970 706**	**82 970 706**	**79 021 628**	**79 021 628**
Financial liabilities				
Debt securities in issue	**97 288 469**	**97 684 168**	90 030 259	90 896 472
Subordinated loan capital	**674 273**	**678 763**	599 646	613 730
Total financial liabilities	**97 962 742**	**98 362 931**	**90 629 905**	**91 510 202**

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	25 592	25 592
Additions	1 069	1 069
Disposals	-	-
Original cost 31 December	**26 660**	**26 660**
Accumulated depreciation 1 January	19 603	19 603
Accumulated depreciation 31 December	21 545	21 545
Book value 31 December	**5 116**	**5 116**
Depreciation charge for the year	1 942	1 942
Useful economic life	5 yrs	
Depreciation schedule	Linear	
Off-balance-sheet annual rent on fixed tangible assets and rent on premises	2 766	

NOTE 14: SHARES AT FAIR VALUE RECOGNISED IN PROFIT IN LOSS AND SHARES IN ASSOCIATED COMPANY

Shares classified at fair value recognised in profit or loss

Amounts in NOK 1 000	Number of shares	Cost price	Book value	Owner share
Nordic Credit Rating AS	10 000	2 500	2 500	4.99%
Total	**10 000**	**2 500**	**2 500**	

Shares in associated company

Assets in associated companies are recognised using the equity method.

Amounts in NOK 1 000	Number of shares	Owner share
Eiendomsverdi AS[1]	470 125	25.00%
Total	**470 125**	

Beløp i 1000 kroner	2018
Carrying amount at 1 January 2018	29 700
Addition/disposal	28 530
Revalulation at acquisition cost	(14 700)
Share of profit/loss	10 911
Carrying amount at 31 December 2018	**54 441**

[1] EBK's investment in Eiendomsverdi during 2018 increased its shareholding to 25 per cent, which means that the investment is treated as an associated company at 31 December 2018. This investment has been deducted from shares classified at fair value through profit and loss and treated as shares in associated companies calculated in accordance with the equity method. The shareholding in Eiendomsverdi is valued at the overall acquisition price on the basis of a staged acquisition adjusted for EBK's share of the profit.

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 2018 and 31 December 2017. 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. See note 16 for more information.

At 31 December 2018, the company had bonds and certificates in issue with a nominal value of NOK 89 748 213.

Amounts in NOK 1 000	**31 Dec 2018**	31 Dec 2017
Nominal value of bonds	**89 748 213**	82 521 713
Difference in fair value	**7 540 256**	7 508 546
Nominal value of subordinated loan capital	**675 000**	600 000
Difference in fair value	**(727)**	(354)
Total	**97 962 743**	90 629 905

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	Estab-lishment	Maturity	31 Dec 2018	31 Dec 2017
NO0010502149	430 000	NOK	Floating	3M Nibor + 0.70%	2009	2019	**430 233**	521 656
NO0010561103	1 948 000	NOK	Fixed	5.00%	2009	2019	**1 959 785**	1 971 943
NO0010605587	1 000 000	NOK	Fixed	5.20%	2011	2021	**1 000 000**	1 000 000
NO0010612039	5 500 000	NOK	Floating	3M Nibor + 0.55%	2011	2018	**-**	5 502 851
NO0010612179	473 500	NOK	Fixed	4.65%	2011	2018	**-**	474 742
NO0010625346	1 500 000	NOK	Fixed	4.60%	2011	2026	**1 500 712**	1 500 802
NO0010663727	4 252 000	NOK	Floating	3M Nibor + 0.60%	2012	2019	**4 256 621**	5 230 355
NO0010663743	200 000	NOK	Fixed	3.25%	2012	2019	**200 470**	1 003 306
NO0010664428	65 000	NOK	Floating	3M Nibor + 0.53%	2012	2018	**-**	65 027
XS0794570944	650 000	EUR	Fixed	2.000%	2012	2019	**6 436 913**	6 390 077
NO0010669922	1 000 000	NOK	Floating	4.00%	2013	2028	**997 229**	996 925
NO0010685480	5 125 000	NOK	Fixed	3M Nibor + 0.54%	2013	2020	**5 136 185**	5 141 894
NO0010685704	550 000	NOK	Fixed	3.50%	2013	2020	**550 881**	551 327
NO0010687023	150 000	NOK	Fixed	4.10%	2013	2028	**150 000**	150 000
NO0010697204	300 000	SEK	Floating	2.38%	2013	2018	**-**	300 677
NO0010697212	700 000	SEK	Floating	3M Stibor + 0.50%	2013	2018	**-**	701 820
XS0881369770	1 000 000	EUR	Fixed	2.125%	2013	2023	**9 879 560**	9 814 619
XS1044766191	500 000	EUR	Fixed	1.50%	2014	2021	**4 940 427**	4 905 100
NO0010732258	8 000 000	NOK	Floating	3M Nibor + 0.28%	2015	2022	**7 967 018**	7 956 421
NO0010733694	1 150 000	NOK	Fixed	1.75%	2015	2021	**1 146 452**	1 145 172
XS1312011684	500 000	EUR	Floating	0.625%	2015	2021	**4 939 699**	4 905 571
NO0010763022	850 000	NOK	Fixed	2.25%	2016	2031	**843 347**	842 810
NO0010775190	5 000 000	NOK	Floating	3M Nibor + 0.40%	2016	2020	**4 999 382**	4 998 915
NO0010780687	700 000	NOK	Fixed	2.60%	2016	2027	**699 438**	699 371
XS1397054245	500 000	EUR	Fixed	0.375%	2016	2023	**4 926 983**	4 891 816
NO0010794308	5 000 000	NOK	Fixed	3M Nibor + 0.43%	2017	2022	**5 009 818**	4 006 501
XS1566992415	500 000	EUR	Fixed	0.375%	2017	2024	**4 929 108**	4 895 377
XS1725524471	500 000	EUR	Fixed	0.375%	2017	2025	**4 924 377**	4 890 743
NO0010815376	1 600 000	NOK	Fixed	2.67%	2018	2033	**1 588 282**	-
NO0010821192	8 050 000	NOK	Fixed	3M Nibor + 0.34%	2018	2023	**8 043 920**	-
XS1869468808	500 000	EUR	Fixed	0.500%	2018	2025	**4 922 155**	-
Value adjustments							**1 533 790**	1 747 423
Total covered bonds[1]							**93 912 784**	87 203 243

[1] For covered bonds ascribed to the company's cover pool, an overcollateralisation requirement of 5 per cent applies in accordance with the company's borrowing programme (Euro Medium Term Covered Note Programme). An overcollateralization of five per cent is also necessary to maintain the Aaa rating from Moody's Investor Service.

Senior unsecured bonds
Amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Estab-lishment	Maturity	**31 Dec 2018**	31 Dec 2017
NO0010699234	200 000	NOK	Floating	3M Nibor + 1.14%	2013	2018	-	199 942
NO0010708936	425 000	NOK	Floating	3M Nibor + 0.80%	2014	2019	**425 110**	425 256
NO0010713753	250 000	NOK	Floating	3M Nibor + 0.70%	2014	2019	**249 978**	249 931
NO0010739287	600 000	NOK	Floating	3M Nibor + 0.70%	2015	2020	**599 797**	599 655
NO0010764160	350 000	NOK	Floating	3m Nibor +0.95%	2016	2019	**350 096**	350 392
NO0010776099	500 000	NOK	Floating	3m Nibor +0.92%	2016	2020	**499 871**	499 797
NO0010782048	500 000	NOK	Floating	3m Nibor +0.95%	2017	2022	**501 537**	502 044
NO0010830367	450 000	NOK	Floating	3M Nibor + 0.56%	2018	2022	**449 764**	-
NO0010834716	300 000	NOK	Fixed	3.01%	2018	2025	**299 533**	-
Total senior unsecured bonds							**3 375 685**	2 827 016
Total debt securities issued							**97 288 469**	90 030 259

Subordinated loan capital
Amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Estab-lishment	Maturity	**31 Dec 2018**	31 Dec 2017
NO0010679632	250 000	NOK	Flytende	3M Nibor + 2.20%[1]	2013	2023	-	249 961
NO0010729650	200 000	NOK	Flytende	3M Nibor + 1.85%[2]	2015	2025	**199 937**	199 877
NO0010759475	150 000	NOK	Flytende	3M Nibor + 3.40%[3]	2016	2026	**149 868**	149 808
NO0010814916	325 000	NOK	Flytende	3M Nibor + 1.40%[4]	2018	2028	**324 469**	-
Total subordinated loan capital							**674 273**	599 646

[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. Eika Boligkreditt redeemed the the loan in its entirety on 23 May 2018.

[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.

[4] Subordinated loan of NOK 325 million maturing on 2 February 2023, with a redemption right (call) on 2 February 2023 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

For covered bonds ascribed to the company's cover pool, an overcollateralisation requirement of 5 per cent applies in accordance with the company's borrowing programme (Euro Medium Term Covered Note Programme). An overcollateralization of five per cent is also necessary to maintain the Aaa rating from Moody's Investor Service. Nominal values are used when calculating the five-per-cent overcollateralisation. Pursuant to section 11-7 of the financial institutions regulations, an overcollateralisation of at least two per cent of the value of the covered bonds in the cover pool is required. Calculating the two-per-cent requirements is based on fair value and the company's own holding of covered bonds.

Calculation of overcollateralisation using nominal values (calculated in accordance to section 11-7 of the financial institutions regulations)

Cover Pool	Fair value	
Amounts in NOK 1 000	**31 Dec 2018**	31 Dec 2017
Lending to customers[2]	**81 541 489**	76 667 013
Substitute assets and derivatives:		
Financial derivatives without accrued interest (net)	**7 323 128**	7 375 742
Substitute assets[3]	**14 046 298**	10 895 772
Total cover pool	**102 910 916**	**94 938 526**
The cover pool's overcollateralisation[4]	**107.06%**	**106.33%**

Covered bonds issued

Amounts in NOK 1 000	**31 Dec 2018**	31 Dec 2017
Covered bonds	**93 912 784**	87 203 243
Premium/discount	**200 252**	183 251
Own holding (Covered bonds)[1]	**2 010 000**	1 902 000
Total covered bonds	**96 123 036**	**89 288 493**

[1] With effect from 31 December 2018, account has been taken of the company's own holding of covered bonds when calculating the two per cent requirement.

Calculation of overcollateralisation at fair value (calculated in accordance to the requirements in the company's borrowing programme and according to Moody's Investors Service methodology)

Cover Pool	Nominal values	
Amounts in NOK 1 000	**31 Dec 2018**	31 Dec 2017
Lending to customers[2]	**81 521 274**	76 649 966
Substitute assets:		
Substitute assets[3]	**13 993 519**	10 860 316
Total	**95 514 793**	**87 510 282**
The cover pool's overcollateralisation[4]	**110.58%**	**109.80%**

Covered bonds issued

Amounts in NOK 1 000	**31 Dec 2018**	31 Dec 2017
Covered bonds	**86 373 213**	79 696 713
Total covered bonds	**86 373 213**	**79 696 713**

[2] Loans, which have collateral without legal protection, are excluded.
[3] Substitute assets include lending to and receivables from credit institutions, bond and certificates at fair value and repo agreements.
[4] Liquid assets in excess of the overcollateralisation requirement are considered to be unencumbered when calculating the liquidity coverage ratio (LCR). See the LCR guidelines from the Financial Supervisory Authority of Norway.

NOTE 17: PAYROLL COSTS

Amounts in NOK 1 000	**2018**	2017
Pay, fees, etc	**21 734**	20 248
National insurance contributions	**5 078**	4 744
Pension costs	**3 468**	2 812
Other personnel costs	**852**	1 491
Total	**31 132**	**29 296**
Average number of employees (full-time equivalent)	**19.8**	19.8

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

Amounts in NOK 1 000		Pay[1]	Other[2]	Pension costs ordinary scheme	Pension costs additional scheme
Kjartan M Bremnes	CEO	2 620	239	170	898

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 2018.
[2] Fringe benefits and other benefits.

The company's bonus scheme was wound up with effect from 2017. The balance in the bonus pot at 31 December 2018 will be paid out in accordance with the applicable rules. An employee has no rights to bonuses awarded but not disbursed. The entire balance in the pot remains the property of the company until disbursement takes place. Interest at a rate of three months Nibor is paid on the value of bonuses awarded but not disbursed.

Directors

Amounts in NOK 1 000	Fees
Tor Egil Lie	136
Bjørn Arne Riise	138
Terje Svendsen	122
Olav Sem Austmo	122
Jon Guste-Pedersen	122
Dag Olav Løset	12
Rune Iversen	6
Total directors' fee	**659**

Risk committee

Amounts in NOK 1 000	Fees
Tor Egil Lie	48
Terje Svendsen	48
Total risk committee	**97**

Nomination committee

Amounts in NOK 1 000	Fees
Hans Kristian Glesne	24
Jørn Berg	12
Odd Ivar Bjørnli	2
Hans Petter Gjeterud	7
Total nomination committee	**46**

Remuneration committee

Amounts in NOK 1 000	Fees
Bjørn Arne Riise	18
Jon Guste-Pedersen	24
Olav Sem Austmo	6
Total remuneration committee	**48**

Auditor

Remuneration to Deloitte AS and their associates is as follows:

Amounts in NOK 1 000	**2018**	2017
Statutory audit	**680**	550
Other assurance services	**291**	294
Tax advise	**33**	32
Other services unrelated to audit	**-**	29
Total	**1 003**	905

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 seven per cent of pay rates from zero to 7.1 times the national insurance base rate (G) and 20 per cent of pay from the 7.1 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.

Unfunded scheme

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.

	2018	2017
Number of employees in the unfunded scheme	1	1
Number of employees in the defined contribution pension scheme	21	20

Pension expenses

Amounts in NOK 1 000	2018	2017
Defined contribution pension schemes	2 639	2 337
Individual plan	1 110	690
AFP – early retirement pension	374	323
Net pension expenses	**4 123**	**3 349**

Pension commitments

Amounts in NOK 1 000	31 Dec 2018	31 Dec 2017
Value of pension funds	4 075	3 005
Pension liability	**4 075**	**3 005**

NOTE 20: TAXES

Amounts in NOK 1 000	2018	2017
Tax on ordinary profit and loss		
Income tax payable in the balance sheet	32 764	20 501
Correction for tax on interest from tier 1 perpetual bonds recognised as equity	7 160	6 183
Change in deferred tax ordinært resultat	4 748	28 369
Change in tax from previous years	-	-
Total tax on ordinary profit and loss	**44 672**	**55 053**
Reconciliation of expected and actual tax – ordinary profit and loss		
Profit before taxes	196 627	225 986
Expected tax on income at nominal tax rate (25%)	49 157	56 496
Reversal of earlier provisions for taxes	-	-
Tax effect of permanent differences	(4 485)	(1 443)
Deffered tax for change in tax rate	-	-
Total tax on ordinary profit and loss	**44 672**	**55 053**
Effective tax rate	22.7%	24.4%
Tax on other comprehensive income		
Change in deferred tax on net gains and losses on bonds and certificates	1 720	(3 993)
Change in deferred tax on net gains and losses on basis swaps	26 535	41 027
Total tax on other comprehensive income	**28 255**	**37 034**
Reconciliation of expected and actual tax – other comprehensive income		
Other comprehensive income before tax	127 720	148 135
Expected tax on income at nominal tax rate (25%)	31 930	37 034
Tax effect of permanent differences	(3 675)	-
Total tax on other comprehensive income	**28 255**	**37 034**
Income tax payable in the balance sheet		
Income tax payable in the statement of coprehensive income	39 924	26 684
tax on interest from tier 1 perpetual bonds recognised as equity	(7 160)	(6 183)
Income tax payable in the balance sheet	**32 764**	**20 501**
Deferred tax related to the following temporary differences		
Fixed assets	(8)	(11)
Pensions	268	187
Financial instruments	23 529	9 288
Other temporary differences	(282)	(799)
Total change in deferred tax	**23 507**	**8 664**

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

Amounts in NOK 1 000	31 Dec 2018	31 Dec 2017
Fixed assets	71	101
Net pension commitments	4 075	3 005
Financial instruments	171 028	76 911
Other temporary differences	1 165	2 293
Total temporary differences	**176 339**	**82 310**
Deferred tax assets	**44 085**	**20 578**

NOTE 21: OTHER FINANCIAL ASSETS

Amounts in NOK 1 000	31 Dec 2018	31 Dec 2017
Prepaid expenses	357 891	250 900
Accrued interests	128 660	106 861
Short-term receivables	-	-
Total other financial assets	**486 551**	**357 761**

NOTE 22: OTHER LIABILITIES

Amounts in NOK 1 000	31 Dec 2018	31 Dec 2017
Accrued costs		
Commissions on bank lending	115 390	142 031
Accrued interest	631 406	160 019
Accrued employer's national insurance contributions	1 598	1 789
Deferred directors' fees	584	552
Accrued holiday pay	2 293	2 293
Deferred bonus	1 165	2 402
Other accrued costs	(1)	489
Total accrued costs	**752 435**	**309 575**
Other debt		
Debt to companies in the same group	-	-
Accounts payable	622	834
Unpaid withholding tax	1 126	1 144
Unpaid VAT	152	52
Tax payable	32 764	20 501
Other debt	-	-
Total	**34 664**	**22 530**
Total other liabilities	**787 100**	**332 106**

NOTE 23: COMMISSION COSTS

Amounts in NOK 1 000	2018	2017
Portfolio commission[1]	448 632	402 469
Instalment commission	8 094	6 927
Banking services	1 109	1 054
Total commission costs	**457 836**	**410 449**

[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	2018	2017
IT costs	8 931	8 948
Phone, postage, etc	906	595
Accessories and equipment	341	324
Marketing	299	336
Other administrative expenses	7 958	8 064
Total administrative expenses	**18 435**	**18 267**
External services	11 758	11 877
Operating expenses on rented premises	2 313	2 441
Insurance cost	245	357
Other operating expenses	1 615	1 747
Total other operating expenses	**15 932**	**16 422**

NOTE 25: SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital consists of 1 093 319 449 shares, each with a nominal value of NOK 1.00.
All shares were authorised, issued and fully paid at 31 December 2018.

List of shareholders at 31 December 2018	Number of shares	Ownership share
OBOS BBL	80 765 449	7.39%
Jernbanepersonalets Sparebank	69 734 935	6.38%
Jæren Sparebank	68 521 257	6.27%
Askim og Spydeberg Sparebank	43 358 541	3.97%
Totens Sparebank	41 462 438	3.79%
Skagerrak Sparebank	38 685 036	3.54%
Orkla Sparebank	32 126 221	2.94%
Sparebanken Narvik	28 894 615	2.64%
Grong Sparebank	24 265 101	2.22%
Melhus Sparebank	23 972 521	2.19%
Aurskog Sparebank	22 833 591	2.09%
Lillestrøm Sparebank	22 024 337	2.01%
Skue Sparebank	21 620 930	1.98%
Surnadal Sparebank	20 716 558	1.89%
Rørosbanken Røros Sparebank	20 126 472	1.84%
Odal Sparebank	19 880 669	1.82%
Eidsberg Sparebank	19 774 933	1.81%
Selbu Sparebank	19 440 288	1.78%
Berg Sparebank	18 692 042	1.71%
Larvikbanken – Din Personlige Sparebank	18 184 660	1.66%
Aasen Sparebank	17 803 217	1.63%
Romsdal Sparebank	17 300 530	1.58%
Drangedal Sparebank	16 191 136	1.48%
Indre Sogn Sparebank	16 142 396	1.48%
Kvinesdal Sparebank	15 055 721	1.38%
Hjartdal og Gransherad Sparebank	15 006 434	1.37%
Andebu Sparebank	14 823 776	1.36%
Sunndal Sparebank	14 628 157	1.34%
Trøgstad Sparebank	14 138 106	1.29%
Marker Sparebank	13 816 149	1.26%
Bien Sparebank AS	13 137 099	1.20%
Stadsbygd Sparebank	12 737 949	1.17%
Østre Agder Sparebank	12 510 599	1.14%
Sparebank 68gr Nord[1]	12 230 874	1.12%

[1] Harstad Sparebank og Lofoten Sparebank merged 1 January 2019, under the name Sparebank 68gr Nord.

List of shareholders at 31 December 2018	Number of shares	Ownership share
Strømmen Sparebank	12 140 369	1.11%
Hegra Sparebank	12 108 812	1.11%
Arendal og Omegns Sparekasse	11 479 693	1.05%
Sparebanken Din	11 183 213	1.02%
Tysnes Sparebank	10 977 956	1.00%
Klæbu Sparebank	10 935 838	1.00%
Hønefoss Sparebank	10 788 063	0.99%
Hemne Sparebank	10 719 800	0.98%
Ørland Sparebank	10 202 770	0.93%
Høland og Setskog Sparebank	9 891 518	0.90%
Tinn Sparebank	9 278 948	0.85%
Valle Sparebank	8 767 441	0.80%
Birkenes Sparebank	8 683 133	0.79%
Grue Sparebank	8 584 931	0.79%
Hjelmeland Sparebank	8 099 898	0.74%
Tolga-Os Sparebank	7 860 514	0.72%
Fornebu Sparebank	7 182 146	0.66%
Åfjord Sparebank	6 995 952	0.64%
Blaker Sparebank	6 897 596	0.63%
Opdals Sparebank	6 685 727	0.61%
Haltdalen Sparebank	6 427 285	0.59%
Evje og Hornnes Sparebank	5 873 572	0.54%
Ørskog Sparebank	5 547 991	0.51%
Voss Veksel- og Landmandsbank ASA	5 411 709	0.49%
Ofoten Sparebank	5 035 191	0.46%
Soknedal Sparebank	4 523 292	0.41%
Rindal Sparebank	3 897 743	0.36%
Valdres Sparebank	3 521 918	0.32%
Etnedal Sparebank	1 366 299	0.12%
Vik Sparebank	850 127	0.08%
Gildeskål Sparebank	453 414	0.04%
Aurland Sparebank	343 852	0.03%
Bjugn Sparebank	1	0.00%
Total	**1 093 319 449**	**100%**

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 2018	31 Dec 2017
Share capital	1 093 319	1 003 932
Share premium	2 967 063	2 681 451
Other paid-in equity	477 728	477 728
Other equity	1 015	1 014
Total equity recognised in the balance sheet (without tier 1 perpetual bonds)	**4 539 126**	4 164 125
Fund for unrealised gains	10 265	14 700
Intangible assets	(5 116)	(5 989)
Deferred tax assets[1]	-	-
Prudent valuation adjustments of fair valued positions without accrued interest	(21 867)	(16 685)
Total core tier 1 capital	**4 522 408**	4 156 151

Core capital adequacy ratio (core tier 1 capital)	31 Dec 2018	31 Dec 2017
Weighted calculation basis	33 731 370	31 468 201
Core tier 1 capital	4 522 408	4 156 151
Core tier 1 capital ratio	**13.4%**	13.2%
Total core tier 1 capital	4 522 408	4 156 151
Tier 1 perpetual bonds	704 974	549 540
Total tier 1 capital	**5 227 381**	4 705 690

Capital adequacy ratio (tier 1 capital)	31 Dec 2018	31 Dec 2017
Weighted calculation basis	33 731 370	31 468 201
Tier 1 capital	5 227 381	4 705 690
Tier 1 capital ratio	**15.5%**	15.0%
Total tier 1 capital	5 227 381	4 705 690
Subordinated loans	674 273	599 646
Total primary capital (tier 2 capital)	**5 901 654**	5 305 336

Capital adequacy ratio (tier 2 capital)	31 Dec 2018	31 Dec 2017
Weighted calculation basis	33 731 370	31 468 201
Total primary capital (tier 2 capital)	5 901 654	5 305 336
Capital adequacy ratio	**17.5%**	16.9%
Required capital corresponding to eight per cent of calculation basis	2 698 510	2 517 456
Surplus equity and subordinated capital	3 203 145	2 787 880

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

31 December 2018 Calculation basis	Weighted calculation basis	Capital requirement
Credit risk	31 709 021	2 536 722
Operational risk	450 599	36 048
CVA risk[2]	1 571 751	125 740
Total	**33 731 370**	2 698 510

Levereage Ratio	31 Dec 2018	31 Dec 2017
Total Leverage Ratio exposure	110 627 267	102 892 327
Tier 1 capital	5 227 381	4 705 690
Levereage Ratio	**4.7%**	4.6%

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 2018, 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 33.7 billion at 31 December. This amount represented a quantification of the company's risk. After account has been taken of the growth in overall lending, and in changes to the company's liquidity portfolio, the calculation basis for capital adequacy at 31 December was NOK 2.3 billion higher than at 1 January.

At all times, the company must have a buffer in relation to the minimum capital adequacy requirement of eight per cent. This buffer must be sufficient to cover relevant risks which could affect the company. The company's internal capital adequacy assessment process (ICAAP) is pursued to ensure that it has an adequate buffer in relation to the minimum requirement. The company plans to capitalise continued growth in the residential mortgage portfolio. The company's capital targets are a core tier 1 capital ratio of 13 per cent, a tier 1 capital ratio of 14.5 per cent and a tier 2 capital ratio of 16.5 per cent. These targets are adequate in relation to the legal requirements, the company's Pillar 2-demands, and capital requirements based on the company's internal assessment of risk. As can be seen above, the applicable buffer requirement was met at 31 December 2018 with a core tier 1 capital ratio of 13.4 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 66 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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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 2018, 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 2018, 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.

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 7,8 billion NOK as per December 31, 2018 whereof combined interest- and currency swaps constitutes 7,8 billion NOK as per December 31, 2018. 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. 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 income statement 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 control activities, we tested if they operated effectively in the reporting period. The control activities 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.

Other information

Management is responsible for the other information. The other information comprises the Annual report for 2018, 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, 13 March 2019
Deloitte AS

Roger Furholm
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

Key figures

Amounts in NOK 1 000	31 Dec 2018	31 Dec 2017
Balance sheet development		
Lending to customers	**82 014 685**	77 285 950
Debt securities issued	**97 288 469**	90 030 259
Subordinated loan capital	**674 273**	599 646
Equity	**5 289 810**	4 769 647
Equity in % of total assets	**4.9**	4.8
Average total assets[1]	**101 744 032**	99 465 781
Total assets	**107 969 200**	99 602 975
Rate of return/profitability		
Fee and commission income in relation to average total assets, annualised (%)	**0.4**	0.4
Staff and general administration expenses in relation to average total assets, annualised (%)	**0.03**	0.05
Return on equity before tax, annualised (%)[2]	**4.5**	1.9
Total assets per full-time position	**5 452 990**	5 030 453
Cost/income ratio (%)[3]	**23.0**	24.1
Financial strength		
Core tier 1 capital	**4 522 408**	4 156 151
Tier 1 capital	**5 227 381**	4 705 690
Total primary capital (tier 2 capital)	**5 901 654**	5 305 336
Calculation basis capital adequacy ratio	**33 731 370**	31 468 201
Core tier 1 capital ratio (%)	**13.4**	13.2
Tier 1 capital ratio (%)	**15.5**	15.0
Capital adequacy ratio % (tier 2 capital)	**17.5**	16.9
Leverage ratio (%)[4]	**4.7**	4.6
NSFR totalindicator i %[5]	**97**	101
Defaults in % of gross loans	**-**	-
Loss in % of gross loans	**-**	-
Staff		
Number of full-time positions at end of period	**19.8**	19.8

Liquidity Coverage Ratio (LCR)[6]:	**31 Dec 2018**			31 Dec 2017		
	NOK	**EUR**	**Total**	NOK	EUR	Total
Stock of HQLA	**4 438 752**	**334 757**	**10 105 760**	2 229 202	358 547	9 319 994
Net outgoing cash flows next 30 days	**685 595**	**21 278**	**2 512 269**	655 897	137 213	3 713 814
LCR indicator (%)	**647%**	**1 573%**	**402%**	340%	261%	251%

[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] NSFR totalindicatorr: Is calculated in accordance with the CRR/CRD IV regulatory and is based on the Basel Committee recommendations.
[6] Liquidity Coverage Ratio (LCR): $\frac{\text{High-quality liquid assets}}{\text{Net outgoing cash flows next 30 days}}$

LCR totalindicator: As a consequence of the Norwegian guidelines 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.

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