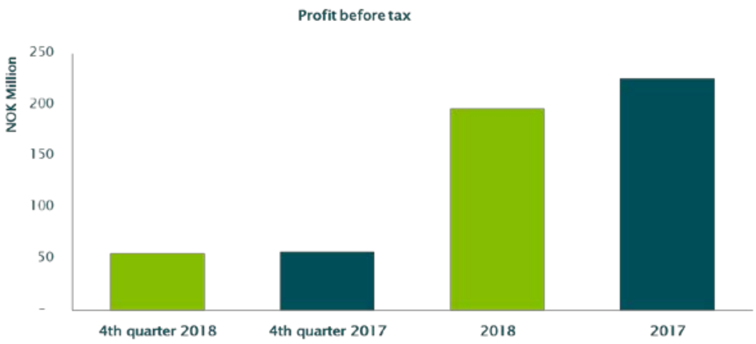
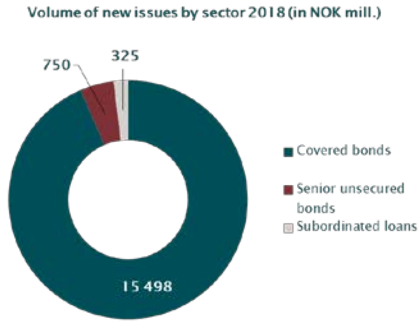
Eika Boligkreditt AS

Interim report for the fourth quarter 2018

Unaudited

Highlights





Fourth quarter 2018

- Pre-tax profit NOK 55.3 million (2017: NOK 56.7 million)
- Comprehensive income for the period (taking account of fair value changes in basis swaps) NOK -28,8 million (2017: NOK 15.6 million)
- Financing of owner banks up by 1.7 per cent, corresponding to an annualised growth of 7 per cent
- Commissions to owner banks of NOK 111.9 million (2017: NOK 138 million)
- NOK 3.35 billion in bonds issued (2017: NOK 5.85 billion)

2018

- Pre-tax profit NOK 196.6 million (2017: NOK 226 million)
- Comprehensive income for the period (taking account of fair value changes in basis swaps) NOK 52.5 million (2017: NOK 59.8 million)
- Financing of owner banks up by 6.1 per cent
- Commissions to owner banks of NOK 482.4 million (2017: NOK 433 million)
- NOK 16.6 billion in bonds issued (2017: NOK 18.7 billion)
- Proposed dividend for 2018 of NOK 35 446 000

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

INTERIM REPORT FOR THE FOURTH QUARTER AND FULL YEAR OF 2018

Introduction

Eika Boligkreditt's main purpose is to ensure access for the local banks in the Eika Alliance (the owner banks) to long-term and competitive funding by issuing covered bonds. An important part of the company's business concept is to increase the competitiveness of the owner banks by improving their access to external funding in the Norwegian and international financial markets with regard to the tenor of loans, their terms and the depth of access. The object of the company's business is to reduce risk for the owner banks. At 31 December 2018, the owner banks had NOK 82 billion in total financing with Eika Boligkreditt and had thereby reduced the need for their own market and deposit financing by a corresponding amount.

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

Profit and loss account for the fourth quarter and full year of 2018

Amount in NOK thousand	4th quarter 2018	4th quarter 2017	2 018	2 017
Total interest income	571 645	520 456	2 161 852	2 049 291
Net interest income	168 408	202 735	681 521	683 490
Commission costs	105 844	132 043	457 836	410 449
Total gain and losses on financial instruments at fair value	690	3 258	22 053	12 823
Profit before tax	**55 268**	**56 748**	**196 627**	**225 985**
Comprehensive income (taking account of fair value changes in basis swaps)	**(28 825)**	**15 559**	**52 491**	**59 831**

A rise corresponding to 9.8 per cent in the company's interest income in the fourth quarter compared with the same period of 2017 primarily reflected increased lending volumes as well as rather higher interest rates on residential mortgages. Net interest income in the fourth quarter was down by no less than 16.9 per cent from the same period of the year before because the impact of money market interest rates was greater on borrowing than on lending. Commission payments to the owner banks declined by 19 per cent from the fourth quarter of 2017 as a result of lower margins on residential mortgages at the owner banks. Changes to the fair value of financial instruments came to NOK 0.7 million, which was NOK 2.6 million lower than the same period of 2017. Pre-tax profit for the fourth quarter was NOK 55.3 million, down by NOK 1.5 million from the same period of 2017.

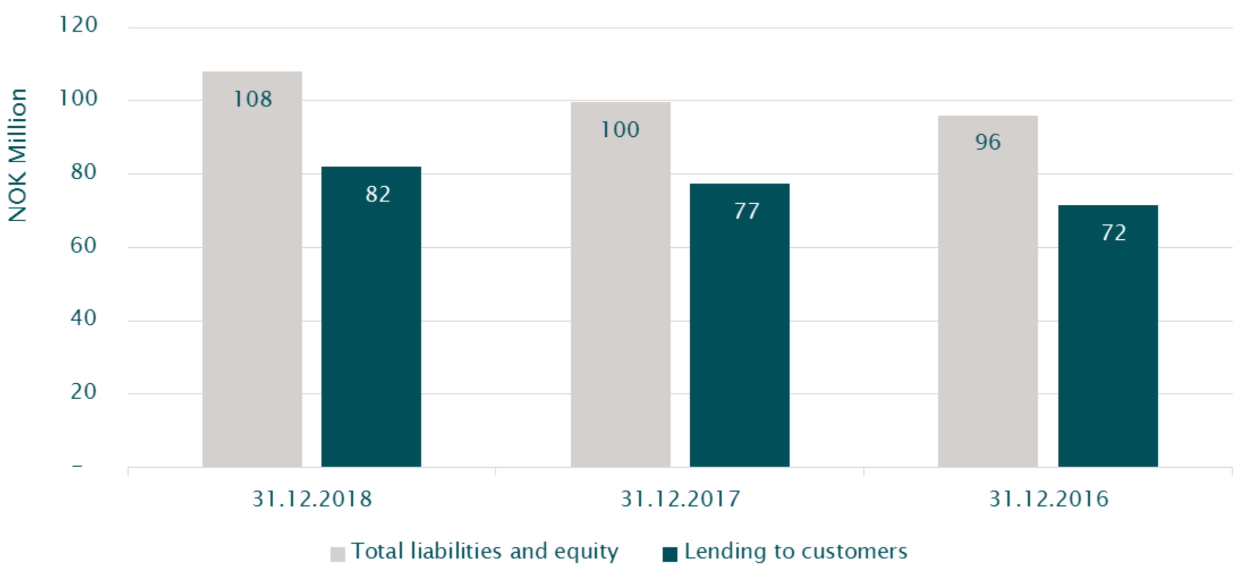
The increase in the company's interest income for the full year compared with 2017 reflected increased lending volumes. Net interest income for 2018 was down by 0.3 per cent from the year before. Commission payments increased by 11.5 per cent from 2017 as a result of higher margins on residential mortgages as well as growth in lending volumes. Pre-tax profit for the full year was down by NOK 29 million from 2017. This reflected higher commission payments in 2018.

Interest of NOK 8.3 million on tier 1 perpetual bonds in the fourth quarter is not presented as an interest expense in the income statement, but as a reduction in equity. Interest on tier 1 perpetual bonds for 2018 as a whole came to NOK 28.6 million.

Pursuant to IFRS 9, fair value changes related to value changes for basis swaps are incorporated with effect from 1 January 2018 in other comprehensive income and expenses rather than in the profit and loss item on "net gains and losses on fair-value hedging on debt securities issued". As a result, comparative quarterly and cumulative figures for 2017 have also been restated.

Overall profit includes negative changes of NOK 56 million (2017: NOK - 33 million) in the value of basis swaps for the fourth quarter and NOK 106 million (NOK - 164 million) for the full year. 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 basis swaps only have accrual effects with regard to unrealised gains and losses in the financial statements, but no realised gains or losses over the term of the derivative unless Eika Boligkreditt realises the derivative early.

Balance sheet and liquidity



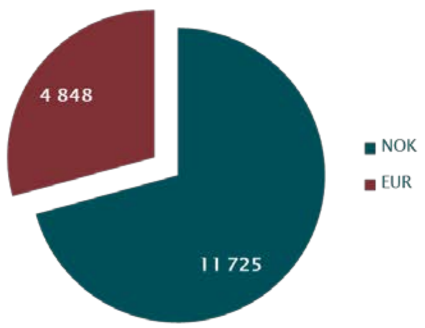
Assets under management by Eika Boligkreditt amounted to NOK 108 billion at 31 December 2018. Financing of the owner banks (residential mortgage lending to customers) came to NOK 82 billion at 31 December, representing a net increase of NOK 1,4 billion in the fourth quarter and NOK 4.7 billion for the past 12 months. That represents a net growth in lending of 6.12 per cent year on year. This reflected an increased financing requirement at the owner banks related to the growth in their mortgage lending.

Borrowing

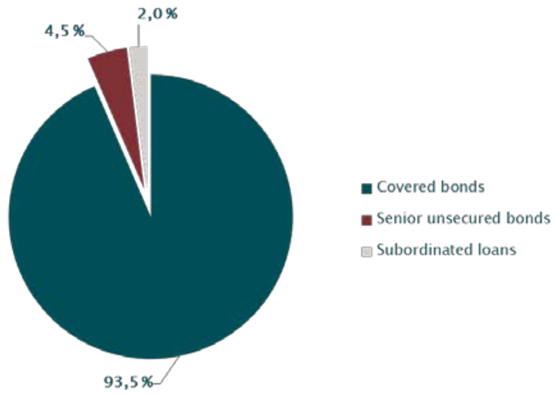
Eika Boligkreditt issued bonds (excluding tier 1 perpetual bonds) with a nominal value of NOK 3.35 billion in the fourth quarter, compared with NOK 5.85 billion in the same period of 2017. Issues in the fourth quarter broke down between NOK 3 050 million in covered bonds and NOK 300 million in senior unsecured loans.

Bonds with a nominal value of NOK 16.6 billion were issued by Eika Boligkreditt in the full year, compared with NOK 18.7 billion in 2017. Issues in the full year broke down between NOK 15.5 billion in covered bonds, NOK 750 million in senior unsecured loans and NOK 325 million in subordinated loans.

Issues by currency (in NOK mill) in 2018



Issues by sector (in %) in 2018



Seventy-one per cent of bond issues in 2018 were denominated in Norwegian kroner and 29 per cent in euros. Covered bonds accounted for 93.5 per cent of the issue volume.

The table below shows issues (excluding tier 1 perpetual bonds) in 2018, 2017 and 2016.

New issues (amounts in NOK million)	2018	2017	2016
Covered bonds (issued in EUR)	4 848	9 298	4 650
Covered bonds (issued in NOK)	10 650	7 625	10 725
Senior unsecured bonds (issued in NOK)	750	1 800	950
Subordinated loans (issued in NOK)	325	-	150
Totalt issued	**16 573**	**18 723**	**16 475**

The average tenor for covered bonds issued in 2018 was 6.7 years. The average tenor for the company's borrowing portfolio at 31 December 2018 was 3.77 years, down from 3.87 years at 1 January.

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

Carrying value in NOK million	31 Dec 2018	31 Dec 2017	31 Dec 2016
Covered bonds	93 913	87 203	84 109
Senior unsecured bonds	3 376	2 827	2 874
Subordinated loans	674	600	599
Total borrowing	**97 963**	**90 630**	**87 582**

The company's total borrowing at 31 December was NOK 98 billion, up by NOK 7.3 billion from 1 January.

Liquidity

At 31 December 2018, the company had a liquidity portfolio of NOK 17.9 billion when account is taken of existing repo agreements recognised as other financial assets. This figure includes cash collateral of NOK 3.9 billion received from counterparties to derivative contracts. Cash collateral received is held as bank deposits, repo agreements and various high-quality securities. In addition to cash collateral, the company has received collateral in the form of high-quality bonds corresponding in value to NOK 2.4 billion. The value of bonds provided as collateral is not recognised in the company's liquidity portfolio or balance sheet.

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 18.9 per cent of the shares, totalling 75.16 per cent, and three Eiendomsverdi employees held the remaining 24.86 per cent. The bank shareholders will now own all the shares, in equal proportions.

Risk management and capital adequacy

Eika Boligkreditt had a total primary capital of NOK 5.9 billion at 31 December 2018, a net increase of NOK 597 million since 1 January. This rise reflected NOK 175 million in additional equity from a private placement of shares with the company's owner banks, NOK 325 million in new subordinated loans and NOK 200 million from a new tier 1 perpetual bond issued in the first quarter. Redemptions before call dates in the first quarter and maturation of the remainder in the second quarter corresponding to NOK 250 million in tier 1 perpetual bonds and NOK 250 million in subordinated loans reduced total primary capital correspondingly. Raising NOK 200 million in additional equity through a private placement of shares with the company's owner banks during the third quarter increased total primary capital by about NOK 200 million in that period. Raising NOK 275 million through a new tier 1 perpetual bond in the fourth quarter, less NOK 68.6 million in redemption before the call date of a tier 1 perpetual bond maturing in the first quarter of 2019 increased total primary capital by a net NOK 206.4 million in the quarter.

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

Eika Boligkreditt calculates the risk of credit valuation adjustment (CVA) at counterparties. The basis for calculating the capital adequacy ratio at 31 December amounted to NOK 33.7 billion. This amount represents a quantification of the company's risk, and Eika Boligkreditt's primary capital is calculated as a proportion of this calculation base.

The table below presents developments in the capital adequacy ratio.

Amounts in NOK million	31 Dec 2018	31 Dec 2017	31 Dec 2016
Risk-weighted assets	33 731	31 447	29 766
Total primary capital (tier 2 capital)	5 902	5 305	4 882
Capital adequacy ratio in per cent	**17.5 %**	**16.9 %**	**16.4 %**

The company's capital targets are specified as follows:

- core tier 1 capital ratio: 13.0 per cent (13.4 per cent at 31 December 2018)
- tier 1 capital ratio: 14.5 per cent (15.5 per cent at 31 December 2018)
- tier 2 capital ratio: 16.5 per cent (17.5 per cent at 31 December 2018)

These targets are adequate in relation to legal requirements, the company's Pillar 2 requirement of 0.5 per cent and capital requirements based on Eika Boligkreditt's internal risk assessment. As shown above, the applicable buffer requirements were fulfilled at 31 December 2018 with a core tier 1 capital adequacy of 13.4 per cent. 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.

Allocation of profit

Overall profit for 2018, after taking account of NOK 106 million in negative fair value changes for basis swaps, came to NOK 52 491 000. 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 in line with the company's accounting principles 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 7 160 000 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, the allocation thereby limits the opportunity to pay dividend. Furthermore, the dividend payment is considered to leave Eika Boligkreditt with a prudent level of equity and liquidity.

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 6.12 per cent. Statistics Norway's credit indicator for November 2018 showed a 12-monthly increase of 5.4 per cent in Norwegian household debt. The overall growth in mortgage lending by the owner banks in 2018 was 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 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 basis swaps in the foreign exchange market. The Norwegian economy is experiencing a moderate cyclical upturn. According to preliminary seasonally adjusted figures from the quarterly national accounts, average quarterly GDP growth for Norway's mainland economy was just over 0.6 per cent over the eight quarters to the third quarter of 2018. That corresponded to an annual growth rate of 2.6 per cent, which was higher than the estimated trend level of around two per cent. 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, 6 February 2019

The board of directors of Eika Boligkreditt AS

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

Statement of comprehensive income

Amounts in NOK 1 000	Notes	4Q 2018	4Q 2017	2018	2017
INTEREST INCOME					
Interest from loans to customers at amortised cost		**493 242**	459 478	**1 892 554**	1 797 444
Interest from loans to customers at fair value					
Interest from loans and receivables on credit institutions		**3 226**	11 260	**17 323**	32 163
Interest from bonds, certificates and financial derivatives		**37 736**	20 031	**107 905**	103 950
Other interest income at amortised cost		**7 713**	7 198	**29 931**	27 772
Other interest income at fair value		**321**	248	**1 303**	955
Total interest income		**571 645**	520 456	**2 161 852**	2 049 291
INTEREST EXPENSES					
Interest on debt securities issued		**397 731**	311 522	**1 457 774**	1 342 770
Interest on subordinated loan capital		**5 374**	4 952	**22 199**	20 395
Other interest expenses		**132**	1 248	**358**	2 636
Total interest expenses		**403 237**	317 721	**1 480 331**	1 365 801
Net interest income		**168 408**	202 735	**681 521**	683 490
Commission costs		**105 844**	132 043	**457 836**	410 449
Net interest income after commission costs		**62 563**	70 693	**223 686**	273 040
Income from shares in associated company		**10 911**	-	**10 911**	6 006
Dividend from shares		**-**	-	**7 419**	-
Total income from shares	Note 11	**10 911**	-	**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	Note 3, 9	**2 448**	(4 361)	**5 994**	(8 202)
Net gains and losses on financial derivatives	Note 3	**(18 443)**	4 489	**13 933**	3 749
Net gains and losses on loans at fair value	Note 3	**16 686**	3 130	**2 126**	17 276
Total gains and losses on financial instruments at fair value		**690**	3 258	**22 053**	12 823
SALARIES AND GENERAL ADMINISTRATIVE EXPENSES					
Salaries, fees and other personnel expenses		**8 537**	8 059	**31 132**	29 296
Administrative expenses		**4 794**	4 718	**18 435**	18 267
Total salaries and administrative expenses		**13 331**	12 777	**49 567**	47 563
Depreciation		**490**	440	**1 942**	1 900
Other operating expenses		**5 076**	3 986	**15 932**	16 422
Losses on loans and guarantees		**-**	-	**-**	-
PROFIT BEFORE TAX		**55 268**	56 748	**196 627**	225 985
Taxes		**25 030**	15 076	**44 672**	55 053
PROFIT FOR THE PERIOD		**30 238**	41 671	**151 956**	170 932
Net gains and losses on bonds and certificates	Note 3	**(7 811)**	**(2 085)**	**(6 880)**	15 972
Fair value adjustment, shares	Note 11	**(14 700)**	-	**(14 700)**	-
Net gains and losses on basis swaps	Note 3	**(56 240)**	**(32 732)**	**(106 139)**	(164 107)
Taxes on other comprehensive income		19 688	**8 704**	28 255	37 034
COMPREHENSIVE INCOME FOR THE PERIOD		**(28 825)**	15 559	**52 491**	59 831

Of the total comprehensive income for 2018, NOK 23 851 thousand is attributable to the shareholders of the company and NOK 28 640 thousand to the hybrid capital investors.

Balance sheet

Amounts in NOK 1 000	Notes	**31 Dec 2018**	31 Dec 2017
ASSETS			
Lending to and receivable from credit institutions		**956 021**	1 735 677
Lending to customers	Note 4, 9	**82 014 685**	77 285 950
Other financial assets		**486 551**	357 761
Securities			
Bonds and certificates	Note 5,9	**16 593 308**	12 712 300
Financial derivatives	Note 8,9	**7 812 493**	7 452 520
Shares	Note 10, 11	**2 500**	32 200
Shares in associated company	Note 10, 11	**54 441**	-
Total securities		**24 462 742**	20 197 020
Other intangible assets			
Deferred tax assets		**44 085**	20 578
Intangible assets		**5 116**	5 989
Total other intangible assets		**49 200**	26 566
TOTAL ASSETS		**107 969 200**	99 602 975
LIABILITIES AND EQUITY			
Loans from credit institutions	Note 13	**3 855 067**	3 791 533
Financial derivatives	Note 8,9	**70 406**	76 779
Debt securities issued	Note 6	**97 288 469**	90 030 259
Other liabilities		**787 100**	332 106
Pension liabilities		**4 075**	3 005
Subordinated loan capital	Note 7	**674 273**	599 646
TOTAL LIABILITIES		**102 679 390**	94 833 328
Called-up and fully paid capital			
Share capital		**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	Note 12	**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	Note 12	**46 726**	56 997
Hybrid capital			
Tier 1 capital		**704 974**	549 540
Total hybrid capital		**704 974**	549 540
TOTAL EQUITY		**5 289 810**	4 769 647
TOTAL LIABILITIES AND EQUITY		**107 969 200**	99 602 975

Statement of changes in equity

Amounts in NOK 1 000	Share capital [1]	Share premium [1]	Paid-in unregistered increase in capital [6]	Other paid in equity [2]	Fund for unrealised gains [3]	Retained earnings: other equity [4]	Tier 1 perpetual bonds [5]	Total equity
Balance sheet as at 1 January 2017	**926 479**	**2 433 904**		**477 728**	**14 700**	**93 673**	**449 236**	**4 395 719**
Result for the period	-	-	-	-	-	(6 629)	5 715	(914)
Equity issue	-	-	125 000	-	-	-	-	125 000
Interest tier 1 capital	-	-	-	-	-	-	(5 601)	(5 601)
Taxes on interest tier 1 capital	-	-	-	-	-	1 429	-	1 429
Balance sheet as at 31 March 2017	**926 479**	**2 433 904**	**125 000**	**477 728**	**14 700**	**88 473**	**449 349**	**4 515 632**
Result for the period	-	-	-	-	-	(8 540)	5 833	(2 707)
Equity issue	29 345	95 655	(125 000)	-	-	-	-	-
Disbursed dividends for 2016	-	-	-	-	-	(92 658)	-	(92 658)
Interest tier 1 capital	-	-	-	-	-	-	(5 716)	(5 716)
Hybrid capital	-	-	-	-	-	-	99 825	99 825
Taxes on interest tier 1 capital	-	-	-	-	-	1 458	-	1 458
Balance sheet as at 30 June 2017	**955 824**	**2 529 559**	**-**	**477 728**	**14 700**	**(11 266)**	**549 291**	**4 515 835**
Result for the period	-	-	-	-	-	41 247	6 645	47 892
Equity issue	48 108	151 892	-	-	-	-	-	200 000
Interest tier 1 capital	-	-	-	-	-	-	(6 521)	(6 521)
Hybrid capital	-	-	-	-	-	-	-	-
Taxes on interest tier 1 capital	-	-	-	-	-	1 661	-	1 661
Balance sheet as at 30 September 2017	**1 003 932**	**2 681 451**	**-**	**477 728**	**14 700**	**31 642**	**549 415**	**4 758 868**
Result for the period	-	-	-	-	-	9 020	6 539	15 559
Equity issue	-	-	-	-	-	-	-	-
Interest tier 1 capital	-	-	-	-	-	-	(6 414)	(6 414)
Hybrid capital	-	-	-	-	-	-	-	-
Taxes on interest tier 1 capital	-	-	-	-	-	1 635	-	1 635
Balance sheet as at 31 December 2017	**1 003 932**	**2 681 452**	**-**	**477 728**	**14 700**	**42 297**	**549 540**	**4 769 647**
Result for the period	-	-	-	-	-	36 363	6 811	43 174
Equity issue	41 768	133 231	-	-	-	-	-	175 000
Interest tier 1 capital	-	-	-	-	-	-	(7 249)	(7 249)
Hybrid capital	-	-	-	-	-	-	76 800	76 800
Taxes on interest tier 1 capital	-	-	-	-	-	1 703	-	1 703
Balance sheet as at 31 March 2018	**1 045 700**	**2 814 683**	**-**	**477 728**	**14 700**	**80 363**	**625 902**	**5 059 075**
Result for the period	-	-	-	-	-	(10 497)	6 537	(3 960)
Equity issue	-	-	-	-	-	-	-	-
Interest tier 1 capital	-	-	-	-	-	-	(7 787)	(7 787)
Disbursed dividends for 2017	-	-	-	-	-	(41 282)	-	(41 282)
Hybrid capital	-	-	-	-	-	-	(126 800)	(126 800)
Taxes on interest tier 1 capital	-	-	-	-	-	1 634	-	1 634
Balance sheet as at 30 June 2018	**1 045 700**	**2 814 683**	**-**	**477 728**	**14 700**	**30 218**	**497 852**	**4 880 881**
Result for the period	-	-	-	-	-	35 124	6 978	42 102
Equity issue	47 620	152 380	-	-	-	-	-	200 000
Interest tier 1 capital	-	-	-	-	-	-	(5 549)	(5 549)
Taxes on interest tier 1 capital	-	-	-	-	-	1 745	-	1 745
Balance sheet as at 30 September 2018	**1 093 319**	**2 967 064**	**-**	**477 728**	**14 700**	**67 087**	**499 282**	**5 119 179**
Result for the period	-	-	-	-	(4 435)	(32 705)	8 314	(28 826)
Equity issue	-	-	-	-	-	-	-	-
Interest tier 1 capital	-	-	-	-	-	-	(9 021)	(9 021)
Hybrid capital	-	-	-	-	-	-	206 400	206 400
Taxes on interest tier 1 capital	-	-	-	-	-	2 078	-	2 078
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.

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

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 flows

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 loans 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	1 365 801
Paid interest	(1 008 943)	(1 405 130)
Interest income	(2 130 618)	(2 020 563)
Received interests	2 108 818	2 042 140
Changes in other assets	(131 732)	407 524
Changes in short-term liabilities and accruals	(28 657)	(157 163)
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	**7 912 231**	3 666 780
Net changes in lending to and receivables from credit institutions	(779 656)	(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

Note 1 – Accounting policies

General

Eika Boligkreditt will prepare financial statements for 2018 in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU). The financial statements are prepared in accordance with the historical cost principle, with the exception of financial assets and financial liabilities at fair value through profit or loss, financial assets classified as available for sale, and financial assets and financial liabilities which form part of fair value hedges. Note 1 to the annual financial statements for 2017 provides more details about accounting principles pursuant to the IFRS.

The financial statements for the fourth quarter of 2018 have been prepared in accordance with IAS 34 Interim financial reporting.

Note 2 – Use of estimates and discretion

In the application of the accounting policies described in note 1 to the annual financial statements for 2017, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities which are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors which 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, which 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 to the annual financial statements for 2017 for further information.

No loans were written down at 31 December 2018.

Fair value of financial instruments

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

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

Net gains and losses on financial instruments at fair value recognised through profit and loss

Amounts in NOK 1 000	4th quarter 2018	4th quarter 2017	2018	2017
Net gains and losses on loans at fair value	16 686	3 130	2 126	17 276
Net gains and losses on financial debts, hedged[1]	(2 509 353)	402 813	50 791	(78 916)
Net gains and losses on interest swaps related to lending	(18 443)	4 489	13 933	3 749
Net gains and losses on interest and currency swaps related to liabilities	2 511 801	(407 174)	(44 797)	70 714
Net gains and losses on financial instruments at fair value	**690**	**3 258**	**22 053**	**12 823**

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

Net gains and losses on financial instruments at fair value recognised over other comprehensive income

Beløp i tusen kroner	4th quarter 2018	4th quarter 2017	2018	2017
Net gains and losses on bonds and certificates	(7 811)	(2 085)	(6 715)	15 944
Net gains and losses on interest-rate swaps related to bonds and certificates	-	-	(165)	29
Net gains and losses on basis swaps [1]	(56 240)	(32 732)	(106 139)	(164 107)
Net gains and losses on financial instruments at fair value	**(64 051)**	**(34 817)**	**(113 020)**	**(148 135)**

[1] Comprehensive profit for 2018 includes negative changes of NOK 106 million in the value of basis swaps. Basis swaps are derivative contracts entered into in connection with long-term borrowing in foreign currency, whereby the foreign currency is converted to Norwegian kroner. These are hedging instruments, and the effect is zero over the term of the instrument. 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 currencies to Norwegian kroner. A typical example is when a loan raised in euros is converted to Norwegian kroner through an interest-rate and currency swap which includes a basis swap. In this case, Eika Boligkreditt would pay a Norwegian interest rate with a margin of three months Nibor in the swap and receive a euro interest rate in the swap which corresponds to the coupon it pays on the loan in euros. Derivatives are valued at fair value, while the hedged bond is valued in accordance with the principles which apply for hedge accounting.

Note 4 – Lending to customers

Amounts in NOK 1 000	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]	20 214	18 834
Total lending before specific and general provisions for losses	**82 014 685**	**77 285 950**
Impairments on lending to customers	-	-
Total lending to and receivables from customers	**82 014 685**	**77 285 950**

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

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.

IFRS 9

IFRS 9, which came into force on 1 January 2018, replaces the IAS 39 model for impairment of financial assets. Pursuant to IAS 39, impairments were calculated for losses when objective evidence existed that a loss event had occurred since initial recognition. Under the new IFRS 9 accounting standard, provision for losses must be 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 means that implementation of the standard has not had significant effects on EBK's profits or equity.

See note 4.2.2 to the annual financial statements for 2017 for further information.

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

Note 5 – Bonds and certificates at fair value

31 December 2018

Amounts in NOK 1 000

Bonds broken down by issuer sector	Nominal value	Cost price	Fair Value
Municipalities	5 438 386	5 439 810	5 437 976
Credit institutions	6 485 000	6 519 729	6 525 679
Treasury bills	4 538 440	4 544 130	4 629 653
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 129.39 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

Bonds broken down by issuer sector	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 6 – Debt securities issued

Covered bonds - amounts in NOK 1 000

ISIN	Pålydende beløp	Lokal valuta	Rente	Rentesats	Opptak	Forfall	31.12.2018	31.12.2017
NO0010502149	430 000	NOK	Floating	3M Nibor + 0.7%	2009	2019	430 233	521 656
NO0010561103	1 948 000	NOK	Fixed	5 %	2009	2019	1 959 785	1 971 943
NO0010605587	1 000 000	NOK	Fixed	5.2 %	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	4.6 %	2011	2026	1 500 712	1 500 802
NO0010663727	4 252 000	NOK	Floating	3M Nibor + 0.6%	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 %	2012	2019	6 436 913	6 390 077
NO0010669922	1 000 000	NOK	Fixed	4 %	2013	2028	997 229	996 925
NO0010685480	5 125 000	NOK	Floating	3M Nibor + 0.54%	2013	2020	5 136 185	5 141 894
NO0010685704	550 000	NOK	Fixed	3.5 %	2013	2020	550 881	551 327
NO0010687023	150 000	NOK	Fixed	4.1 %	2013	2028	150 000	150 000
NO0010697204	300 000	SEK	Fixed	2.375 %	2013	2018	-	300 677
NO0010697212	700 000	SEK	Floating	3M Stibor + 0.5%	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	1.5 %	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	Fixed	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 + 0.4%	2016	2020	4 999 382	4 998 915
NO0010780687	700 000	NOK	Fixed	2.6 %	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	Floating	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	Floating	3M Nibor + 0.34%	2018	2023	8 043 920	-
XS1869468808	500 000	EUR	Fixed	0.5 %	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 1000

ISIN	Pålydende beløp	Lokal valuta	Rente	Rentesats	Opptak	Forfall	31.12.2018	31.12.2017
NO0010699234	200 000	NOK	Floating	3M Nibor + 1.14%	2013	2018	-	199 942
NO0010708936	425 000	NOK	Floating	3M Nibor + 0.8%	2014	2019	425 110	425 256
NO0010713753	250 000	NOK	Floating	3M Nibor + 0.7%	2014	2019	249 978	249 931
NO0010739287	600 000	NOK	Floating	3M Nibor + 0.7%	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**

Note 7 – Subordinated loan capital

Subordinated loan capital - amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	31 Dec 2018	31 Dec 2017
NO0010679632	250 000	NOK	Flytende	3M Nibor + 2.20% [1]	2013	2023	-	249 961
NO0010729650	200 000	NOK	Floating	3M Nibor + 1.85% [2]	2015	2025	199 937	199 877
NO0010759475	150 000	NOK	Floating	3M Nibor + 3.40% [3]	2016	2026	149 868	149 808
NO0010814916	325 000	NOK	Floating	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 8 – Coverpool

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 with the exception of the credit spread on covered bonds, and account is also taken of the company's own holding of covered bonds.

Calculation of overcollateralisation at fair value (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

	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 2017, account has been taken of the company's own holding of covered bonds when calculating the two per cent requirement.

Calculation of overcollateralisation using nominal values (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 cover pool	**95 514 793**	**87 510 282**
The cover pool's overcollateralisation [4]	110.58%	109.80%

Covered bonds issued

	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 of 21 December 2016 from the Financial Supervisory Authority of Norway.

Note 9 – Derivatives and hedging

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

Assets	31 Dec 2018		31 Dec 2017	
Amounts in NOK 1 000	Nominal amount	Fair value	Nominal amount	Fair value
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				
Amounts in NOK 1 000	Nominal amount	Fair value	Nominal amount	Fair value
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. Fair value at 31 December 2018 included 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)**

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

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

Gains/losses on fair value hedging recorded in profit and loss				
Amounts in NOK 1 000	4th quarter 2018	4th quarter 2017	2018	2017
Hedging instruments	2 511 801	(407 174)	(44 797)	70 714
Hedged items	(2 509 353)	402 813	50 791	(78 916)
Net gains/losses (inefffectiveness) recorded in profit and loss[3]	**2 448**	**(4 361)**	**5 994**	**(8 202)**

[3]The negative change in value for financial instruments in 2018 relate almost entirely to changes in basis swaps. See note 3 for more information.

Note 10 – Fair value hierarchy

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

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

Level 2: Financial instruments where the measurement is based on observable market data
Level 2 comprises financial instruments that are measured using market information not consisting of quoted prices but which may be either directly or indirectly observable. Indirectly observable market data entail that the price is derived from corresponding financial instruments and commitments on which the market has based its valuation. This category consists of the fair value of interest and currency swaps based on swap curves and investments in certificates and bonds not issued by a national state and not issued in Euro. 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	5 437 976	11 155 332	-
Financial derivatives	-	7 812 493	-
Shares	-	-	2 500
Total financial assets	**5 437 976**	**18 967 825**	**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 through profit or loss	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 **Beløp i tusen kroner**	**01 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 at fair value over profit and 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	**01 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**	**608 558**	**(548 360)**	**-**	**17 276**	**2 500**	**3 680 077**

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.

Detailed statement changes in debt related to currency changes

2018 Amounts in NOK 1 000	**01 Jan 2018**	Purchases/ issues	Currency changes	**31 Dec 2018**
Change in debt securities issued [1]	41 887 570	3 923 000	269 070	46 079 640
Total	**41 887 570**	**3 923 000**	**269 070**	**46 079 640**

2017 Amounts in NOK 1 000	**01 Jan 2017**	Purchases/ issues	Currency changes	**31 Dec 2017**
Change in debt securities issued 1	43 156 438	(2 027 100)	758 232	41 887 570
Total	**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 institutions are not shown.

Note 11 – Shares at fair value recognised in profit in loss and shares in associated company

Shares classified at fair value recognised in profit and 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**	

Amounts in NOK 1 000	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 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 12 – 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.

The company has a shareholder agreement which commits the owner banks, under given circumstances, to provide it with necessary capital. More information on the shareholder agreement can be found in note 26 to the annual financial statements for 2017.

Note 13 – Loans from credit institutions

Agreements with counterparties regulating trades in OTC derivatives require collateral to be provided in certain cases. Eika Boligkreditt has been provided with such collateral in the form of cash. These cash sums are managed by Eika Boligkreditt for the duration of the collateral provision, and are recognised in the balance sheet as an asset with an associated liability. Both the cash asset and the liability are thereafter measured at amortised cost. At 31 December 2018, Eika Boligkreditt had received cash collateral of NOK 3.9 billion posted by counterparties to derivative contracts. Cash collateral is held in bank deposits, repo agreements and in various high-quality bonds. In addition to cash collateral, the company had also received NOK 2.4 billion in bonds as collateral from counterparties to derivative agreements. The value of the bonds provided as collateral is not recognised in the company's balance sheet.

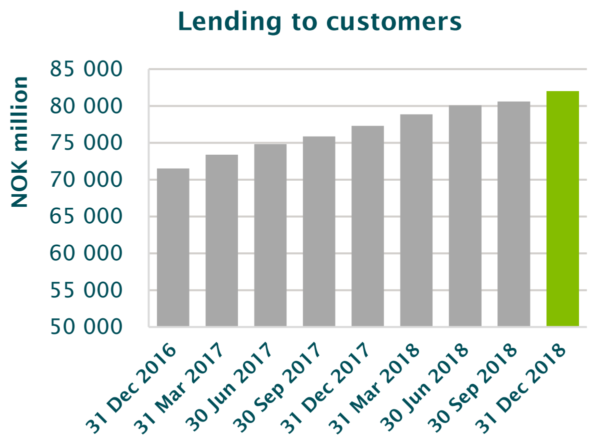
Note 14 – Contingency and overdraft facilities

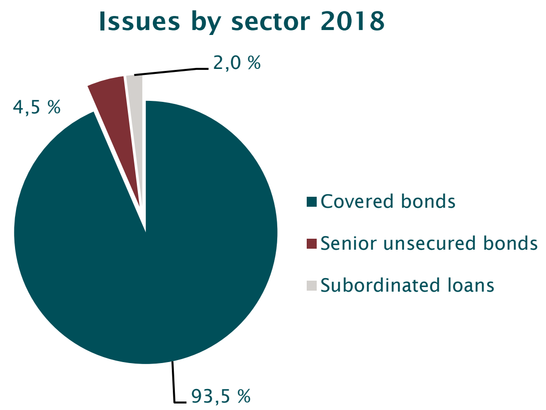
The company has an overdraft facility with DNB Bank ASA (DNB). Note 15 to the annual financial statements for 2017 provides a more detailed presentation of the overdraft with DNB. The company also has a note purchase agreement with the owner banks and OBOS concerning the purchase of covered bonds, whereby the owner banks and OBOS have accepted a liquidity obligation towards Eika Boligkreditt. More information on the note purchase agreement can be found in note 15 to the annual financial statements for 2017.

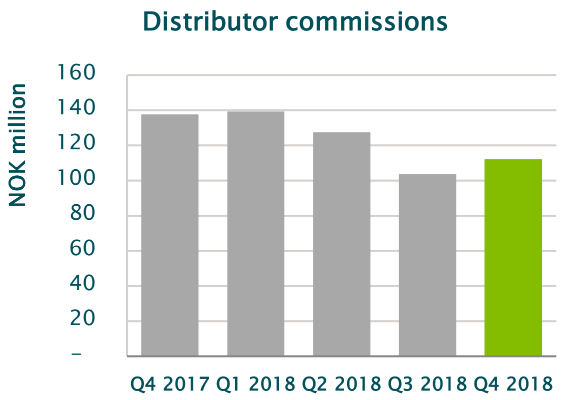
Note 15 – Risk management

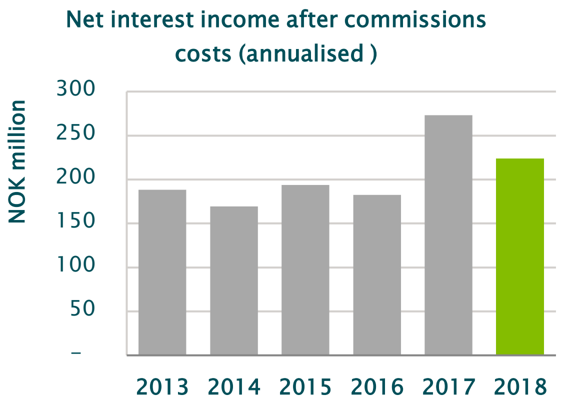
Eika Boligkreditt AS has established a framework for risk management and control in the company, which defines risk willingness and the principles for managing risk and capital. The value of financial assets and liabilities fluctuates as a result of risk in the financial markets. Note 3 to the annual accounts for 2017 describes the company's financial risk, which also applies to financial risk in 2018.

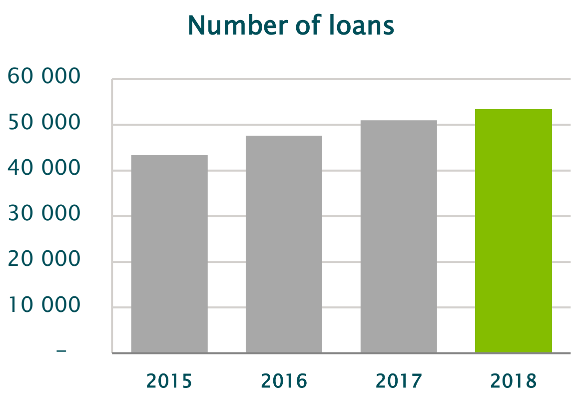
Key figures – Development

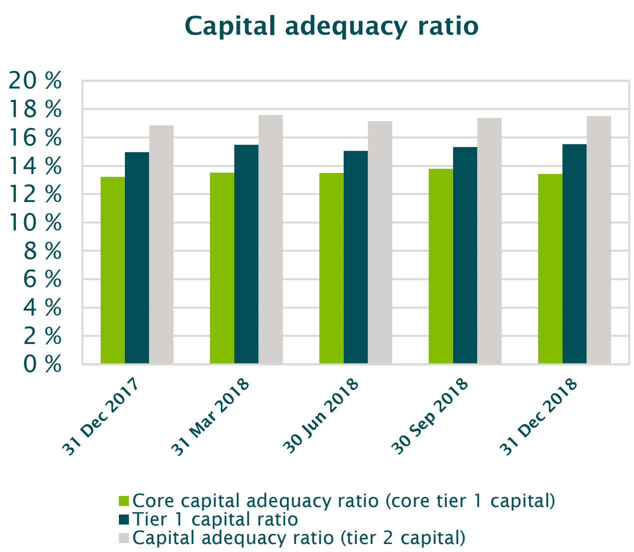












Key figures – Unaudited

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	NOK	EUR	Totalt
Stock of HQLA	4 438 752	334 757	10 105 760
Net outgoing cash flows next 30 days	685 595	21 278	2 512 269
LCR indicator (%)	**647 %**	**1573 %**	**402 %**

31 Dec 2017	NOK	EUR	Totalt
Stock of HQLA	2 229 202	358 547	9 319 994
Net outgoing cash flows next 30 days	655 897	137 213	3 713 814
LCR indicator (%)	**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 updated Norwegian guidelines of 21 December 2016 on the liquidity cover ratio (LCR), liquid assets in the cover pool related to the issue of covered bonds are regarded as encumbered and excluded from the LCR.

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