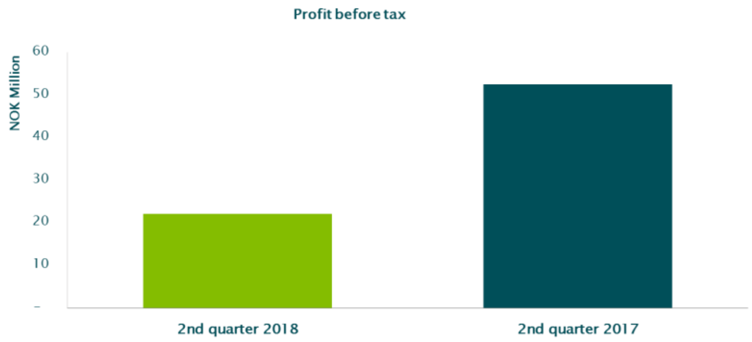
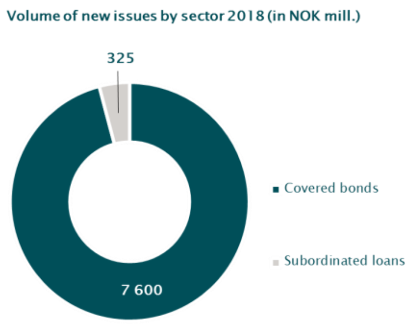
Eika Boligkreditt AS

Interim report for the second quarter and first half of 2018

Unaudited

Highlights





Second quarter 2018

- Pre-tax profit NOK 22.2 million (2017: NOK 52.6 million)
- Financing of owner banks up by 1.5 per cent, corresponding to an annualised growth of six per cent
- Commissions to owner banks of NOK 127.5 million (2017: NOK 87.7 million)
- NOK 5 billion in bonds issued (2017: NOK 6.3 billion)

First half 2018

- Pre-tax profit NOK 88.7 million (2017: NOK 111.6 million)
- Financing of owner banks up by 3.6 per cent, corresponding to an annualised growth of 7.2 per cent
- Commissions to owner banks of NOK 266.7 million (2017: NOK 176.2 million)
- NOK 7.9 billion in bonds issued (2017: NOK 10.9 billion)

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

INTERIM REPORT FOR THE SECOND QUARTER AND FIRST HALF 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 30 June 2018, the owner banks had NOK 80.1 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 second quarter and first half of 2018

Amount in NOK thousand	2nd quarter 2018	2nd quarter 2017	1st half 2018	1st half 2017
Total interest income	532 568	513 705	1 052 833	1 011 229
Net interest income	157 861	158 129	358 646	297 692
Commission costs	120 408	87 973	254 045	164 057
Total gain and losses on financial instruments at fair value	(6 681)	(7 219)	8 529	5 091
Profit before taxes	**22 165**	**52 594**	**88 685**	**111 563**

The rise in the company's interest income in the second quarter compared with the same period of 2017 reflected increased lending volumes. Net interest income in the second quarter was virtually unchanged from the same period of last year. Commission payments to the owner banks rose by 37 per cent from the second quarter of 2017 as a result of higher margins on residential mortgages and growth in lending volumes. The negative changes on financial instruments at fair value was virtually unchanged from the same period of last year. Pre-tax profit for the second quarter was down by NOK 30 million from the same period of 2017, reflecting lower net interest income after commission payments.

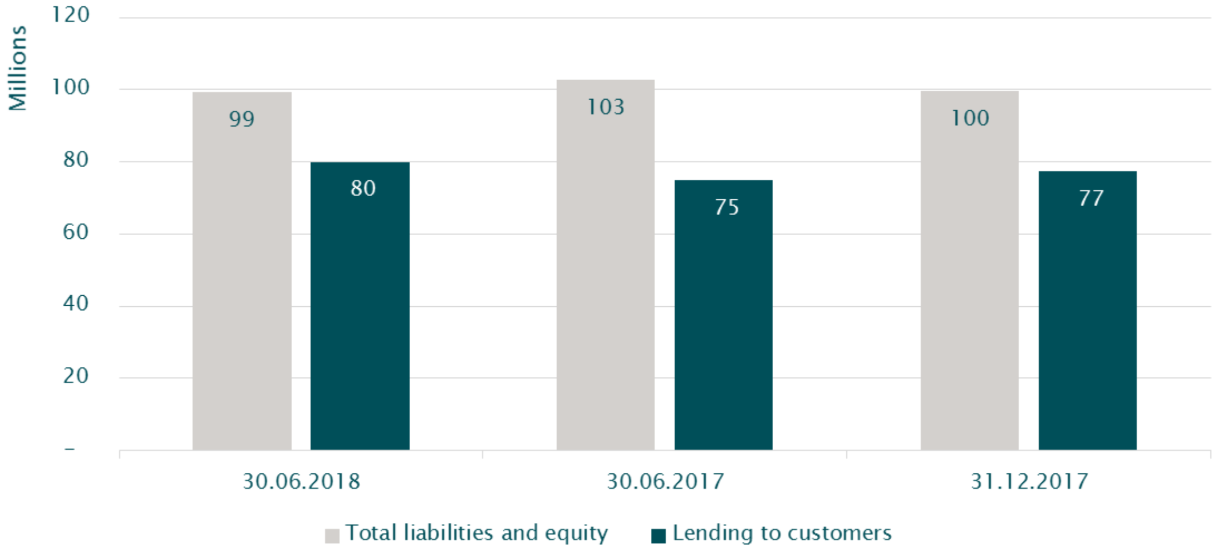
The rise in the company's interest income during the first half compared with the same period of 2017 reflected increased lending volumes. Net interest income in the first half was up by 20 per cent from the same period of last year, in part because lending volumes were higher but also because borrowing costs fell by more than interest rates on residential mortgages. That was offset to a great extent by commission payments to the owner banks. These rose by 55 per cent from the first half of 2017 as a result of higher margins on residential mortgages and growth in lending volumes. Pre-tax profit for the first half was down by NOK 22.9 million from the same period of 2017 after taking account of fair value changes to financial instruments, reflecting lower net interest income after commission payments.

Interest of NOK 6.5 million on tier 1 perpetual bonds in the second quarter is not presented as an interest expense in the income statement, but as a reduction in equity. Similarly, interest of NOK 14.7 million on tier 1 perpetual bonds in the first half is not presented as an interest expense in the income statement, but as a reduction in equity.

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 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 in the value of basis swaps of NOK 35.2 million (2017: NOK 64.3 million) for the second quarter and NOK 47.4 million (NOK 136.5 million) for the first half. 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



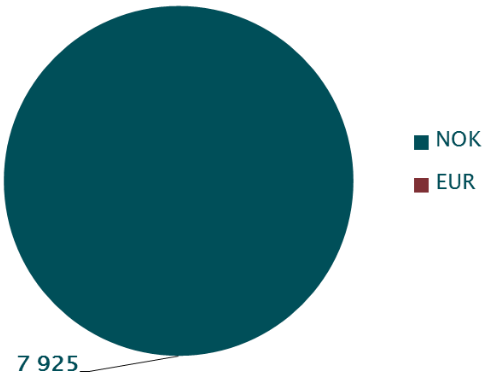
Assets under management by Eika Boligkreditt amounted to NOK 99.3 billion at 30 June 2018. Financing of the owner banks (residential mortgage lending to customers) came to NOK 80.1 billion at 30 June, representing a net increase of NOK 1.2 billion in the second quarter and NOK 5.2 billion for the past 12 months. That represents a net growth in lending of seven per cent year on year. This reflected an increased financing requirement at the owner banks related to the growth in their mortgage lending.

Borrowing

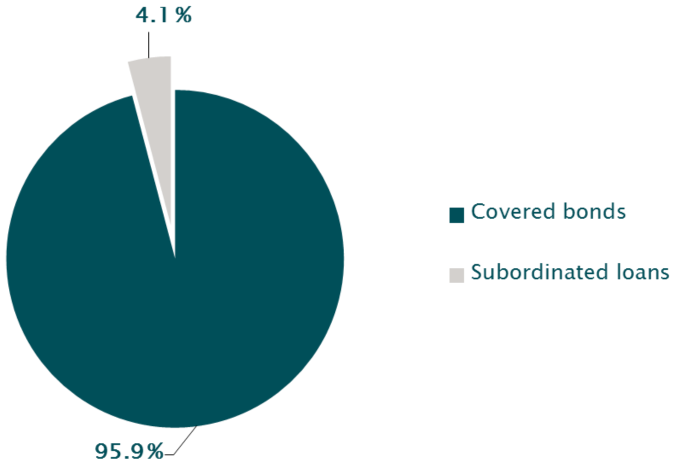
Eika Boligkreditt issued bonds with a nominal value of NOK 5 billion in the second quarter, compared with NOK 6.3 billion in the same period of 2017. All issues in the second quarter took the form of covered bonds.

Bonds with a nominal value of NOK 7.9 billion were issued by Eika Boligkreditt in the first half, compared with NOK 10.9 billion in the same period of 2017. Issues in the first half broke down between NOK 7.6 billion in covered bonds and NOK 325 million in subordinated loans.

Issues by currency (in NOK mill) in 2018



Issues by sector (in %) in 2018



All bond issues in the first half were denominated in Norwegian kroner. Covered bonds accounted for 95.9 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)	1st half 2018	1st half 2017	2017	2016
Covered bonds (issued in EUR)	-	4 448	9 298	4 650
Covered bonds (issued in NOK)	7 600	5 625	7 625	10 725
Senior unsecured bonds (issued in NOK)	-	800	1 800	950
Subordinated loans (issued in NOK)	325	-	-	150
Totalt issued	**7 925**	**10 873**	**18 723**	**16 475**

The average tenor for covered bonds issued in 2018 was 7.3 years. The average tenor for the company's borrowing portfolio at 30 June 2018 was 3.94 years, up 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	30 Jun 2018	30 Jun 2017	31 Dec 2017	31 Dec 2016
Covered bonds	87 133	89 745	87 203	84 109
Senior unsecured bonds	2 827	3 427	2 827	2 874
Subordinated loans	674	600	600	599
Total borrowing	**90 634**	**93 772**	**90 630**	**87 582**

The company's total borrowing at 30 June was NOK 90.6 billion, virtually unchanged from 1 January.

Liquidity

At 30 June 2018, the company had a liquidity portfolio of NOK 12.9 billion when account is taken of existing repo agreements recognised as other financial assets. This figure includes cash collateral of NOK 2.9 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 1.6 billion. The value of bonds provided as collateral is not recognised in the company's liquidity portfolio or balance sheet.

Risk management and capital adequacy

Eika Boligkreditt had a total primary capital of NOK 5.5 billion at 30 June 2018, a net increase of NOK 199 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 from a new subordinated loan and NOK 200 million from a new tier 1 perpetual bond issued in the first quarter. Redeeming NOK 250 million apiece of tier 1 perpetual bonds and subordinated loans before their call dates correspondingly reduced total primary capital.

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

Eika Boligkreditt calculates the risk of credit valuation adjustment (CVA) at counterparties. The basis for calculating the capital adequacy ratio at 30 June amounted to NOK 32.1 billion. This amount represents a quantification of the company's risk, and its primary capital is calculated as a proportion of this calculation base.

The table below presents developments in the capital adequacy ratio.

Amounts in NOK million	30 Jun 2018	31 Dec 2017	31 Dec 2016
Risk-weighted assets	32 077	31 468	29 766
Total primary capital (tier 2 capital)	5 504	5 305	4 882
Capital adequacy ratio in per cent	**17.2 %**	**16.9 %**	**16.4 %**

The company's capital targets are specified as follows:

- core tier 1 capital ratio: 13.0 per cent (13.5 per cent at 30 June 2018)
- tier 1 capital ratio: 14.5 per cent (15.1 per cent at 30 June 2018)
- tier 2 capital ratio: 16.5 per cent (17.2 per cent at 30 June 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 its internal risk assessment. As shown above, the applicable buffer requirements were fulfilled at 30 June 2018 with a core tier 1 capital adequacy of 13.5 per cent.

Outlook

The company's financing of the owner banks grew by a net NOK 5.2 billion over the past 12 months, representing a 12-monthly growth of seven per cent. Statistics Norway's credit indicator for May 2018 showed a 12-monthly increase of 5.8 per cent in Norwegian household debt.

The lending survey from the Bank of Norway for the second quarter of 2018 showed an increase in household demand for residential mortgages and no significant changes in credit practice by the banks. Mortgage interest rates for households were unchanged, even though bank financing costs increased during the period. That reduced margins for the banks on such lending during the second quarter. Demand for fixed-interest mortgages remained unchanged. Where the third quarter of 2018 is concerned, the survey shows that the banks do not expect significant changes in mortgage demand by households nor changes in their own credit practice. As already announced, the regulations governing residential mortgages have been extended with some minor adjustments from 1 July to 31 December 2019. This extension reinforces expectations that credit practice will remain unchanged. The lending survey shows that the banks expect small changes to interest rates on lending, financing costs and margins on residential mortgages for households over the coming quarter. Nevertheless, they anticipate an increase in Norges Bank's base rate in September, which is expected to result in higher mortgage interest rates towards the end of the year.

According to the house price report from Real Estate Norway for July 2018, average Norwegian house prices were 5.5 per cent higher than at 1 January and up by 2.2 per cent over the past 12 months. Seasonally adjusted house prices rose by 2.9 per cent during the first seven months. House prices in Norway showed a moderate trend in July, and the figures reveal a decline in all urban areas with the exception of the Oslo region and Bergen. Oslo had the strongest price growth in July, with an increase of 1.9 per cent. The biggest fall was in Trondheim, at 1.7 per cent. Trondheim and the Stavanger area had the weakest 12-monthly trend, with a decline of 2.8 per cent, while Fredrikstad/Sarpsborg experienced the strongest increase at 6.1 per cent. With the government's extension of the residential mortgage regulations to the end of 2019, increased housebuilding, substantially slower population growth and expectations of interest-rate increases in the autumn, the trend for house prices is likely to be moderate for the rest of 2018.

The bond market has been characterised so far in 2018 by a high level of activity. The credit margin paid by Eika Boligkreditt when issuing covered bonds with a five-year tenor in Norwegian kroner fell by a few basis points during the first half. The further development of credit margins is somewhat uncertain, given that the European Central Bank (ECB) has signalled its intention to reduce its bond purchases towards the end of the year. Regardless, the bank will continue to reinvest its redeemed bonds and thereby remain a substantial investor for a long time to come. 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. Most analysts expect some rise in credit margins during the second half.

GDP in Norway's mainland economy grew by 1.9 per cent during 2017, reflecting a clear recovery from 2016. Growth of 0.6 per cent in the first quarter of 2018 confirmed this upturn. Activity in the construction sector has long been an important driver behind the recovery. Looking ahead, international growth and the anticipated rise in oil investment are expected to boost the Norwegian economy. The fact that the upturn in Norway nevertheless looks like being moderate reflects the modest scale of the international revival compared with earlier recoveries, the likelihood that the Norwegian krone will strengthen, and some decline for housing investment in the short term. Growth over the next few years is expected to be a little above the trend level (which is estimated by Statistics Norway to be an annualised rate of just under two per cent).

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 reinvestment requirement for 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, 14 August 2018

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

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

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

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

Oslo, 14 August 2018

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CEO

Statement of comprehensive income

Amounts in NOK 1 000	Notes	2Q 2018	2Q 2017	1st half 2018	1 st half 2017	2017
INTEREST INCOME						
Interest from loans to customers		**495,438**	470,283	**982,950**	926,878	1,884,450
Interest from loans and receivables on credit institutions		**5,050**	7,314	**10,506**	13,208	32,163
Interest from bonds, certificates and financial derivatives		**24,324**	28,933	**44,036**	56,617	103,950
Other interest income		**7,755**	7,175	**15,341**	14,526	28,727
Total interest income		**532,568**	513,705	**1,052,833**	1,011,229	2,049,291
INTEREST EXPENSES						
Interest on debt securities issued		**368,411**	349,901	**682,541**	702,225	1,342,770
Interest on subordinated loan capital		**6,611**	5,150	**11,526**	10,394	20,395
Other interest expenses		**(316)**	525	**119**	918	2,636
Total interest expenses		**374,706**	355,575	**694,187**	713,537	1,365,801
Net interest income		**157,861**	158,129	**358,646**	297,692	683,490
Commission costs		**120,408**	87,973	**254,045**	164,057	410,449
Net interest income after commission costs		**37,453**	70,156	**104,601**	133,635	273,040
Dividend from shares classified as available for sale		**7,419**	6,006	**7,419**	6,006	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	**(10,583)**	(3,784)	**(4,708)**	(8,283)	(8,202)
Net gains and losses on financial derivatives	Note 3	**(8,437)**	2,222	**17,307**	111	3,749
Net gains and losses on loans at fair value	Note 3	**12,339**	(5,658)	**(4,070)**	13,263	17,276
Total gains and losses on financial instruments at fair value		**(6,681)**	(7,219)	**8,529**	5,091	12,823
PAY AND GENERAL ADMINISTRATIVE EXPENSES						
Pay, fees and other personnel expenses		**7,384**	6,457	**14,917**	13,901	29,296
Administrative expenses		**4,448**	4,926	**8,829**	9,690	18,267
Total pay and administrative expenses		**11,831**	11,383	**23,746**	23,591	47,563
Depreciation		**482**	538	**963**	1,028	1,900
Other operating expenses		**3,713**	4,428	**7,155**	8,550	16,422
Losses on loans and guarantees		-	-	-	-	-
PROFIT BEFORE TAX		**22,165**	52,594	**88,685**	111,563	225,985
Taxes		**3,133**	11,319	**18,148**	25,849	55,053
PROFIT FOR THE PERIOD		**19,033**	41,275	**70,537**	85,714	170,932
Net gains and losses on bonds and certificates		4,494	**5,701**	**5,590**	**17,420**	**15,972**
Net gains and losses on basis swaps		**(35,151)**	**(64,342)**	**(47,353)**	**(136,532)**	**(164,107)**
Taxes on other comprehensive income		**7,664**	**14,660**	**10,441**	**29,778**	**37,034**
COMPREHENSIVE INCOME FOR THE PERIOD		**(3,960)**	(2,705)	**39,214**	(3,620)	59,831

Of the total comprehensive income for the first half of 2018, NOK 24 517 thousand is attributable to the shareholders of the company and NOK 14 697 thousand to the hybrid capital investors.

Balance sheet

Amounts in NOK 1 000	Notes	30 June 2018	30 June 2017	31 Dec 2017
ASSETS				
Lending to and receivable from credit institutions		**1 226 799**	2 820 851	1 735 677
Lending to customers	Note 4, 9	**80 063 338**	74 857 449	77 285 950
Other financial assets		**123 453**	1 093 377	357 761
Securities				
Bonds and certificates at fair value through profit or loss	Note 5,9	**11 671 912**	15 065 277	12 712 300
Financial derivatives	Note 8,9	**6 114 517**	8 740 169	7 452 520
Shares classified as available for sale	Note 10, 11	**32 200**	32 200	32 200
Total securities		**17 818 629**	23 837 646	20 197 020
Other intangible assets				
Deferred tax assets		**20 578**	15 842	20 578
Intangible assets		**6 095**	6 671	5 989
Total other intangible assets		**26 672**	22 514	26 566
TOTAL ASSETS		**99 258 892**	102 631 836	99 602 975
LIABILITIES AND EQUITY				
Loans from credit institutions	Note 12	**2 921 442**	3 960 467	3 791 533
Financial derivatives	Note 8,9	**250 466**	96 263	76 779
Debt securities issued	Note 6	**89 959 847**	93 172 488	90 030 259
Other liabilities		**569 104**	286 448	332 106
Pension liabilities		**3 005**	2 259	3 005
Subordinated loan capital	Note 7	**674 147**	599 535	599 646
TOTAL LIABILITIES		**94 378 010**	98 117 459	94 833 328
Called-up and fully paid capital				
Share capital		**1 045 700**	955 824	1 003 932
Share premium		**2 814 683**	2 529 559	2 681 451
Other paid-in equity		**477 728**	477 728	477 728
Total called-up and fully paid capital	Note 12	**4 338 111**	3 963 111	4 163 111
Retained earnings				
Fund for unrealised gains		**14 700**	14 700	14 700
Other equity		**30 218**	(12 724)	42 297
Total retained equity	Note 12	**44 918**	1 976	56 997
Hybrid capital				
Tier 1 capital		**497 853**	549 291	549 540
Total hybrid capital		**497 853**	549 291	549 540
TOTAL EQUITY		**4 880 881**	4 514 377	4 769 647
TOTAL LIABILITIES AND EQUITY		**99 258 892**	102 631 836	99 602 975

Statement of changes in equity

Amounts in NOK 1 000	Share capital [1]	Share premium [1]	Innbetalt ikke registrert kapital-forhøyelse [6]	Other paid in equity [2]	Fund for unrealised gains [3]	Retained earnings: other equity [4]	Tier 1 perpetual bonds [5]	Total equity
Balance sheet as at 1 January 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	-	1 458.29
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	-	1 661.23
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**

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

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

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

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

[4] Other equity comprises earned and retained profits.

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

The company has recognised the following tier 1 perpetual bonds as equity:

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

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	2Q 2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the period	39 214	59 831
Taxes	7 708	18 019
Income taxes paid	(20 501)	(57 541)
Gains on bonds and certificates	-	-
Ordinary depreciation	963	1 900
Non-cash pension costs	-	746
Change in loans to customers	(2 777 388)	(5 776 671)
Change in bonds and certificates	1 040 388	959 588
Change in financial derivatives and debt securities issued	3 039 515	419 391
Interest expenses	694 187	1 365 801
Paid interest	(430 408)	(1 405 130)
interest income	(1 037 492)	(2 020 563)
received interests	1 022 448	2 042 140
Changes in other assets	249 351	407 524
Changes in short-term liabilities and accruals	163 039	(157 163)
Net cash flow relating to operating activities	**1 991 024**	(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	7 587 729	18 706 482
Gross payments of bonds and commercial paper	(9 359 653)	(15 745 156)
Gross receipts on issue of subordinated loan capital	74 501	220
Gross receipts from issue of loan from credit institution	-	397 320
Gross payments from loan from credit institution	(870 091)	-
Gross receipts from issuing tier 1 perpetual bonds	-	100 000
Gross payments from issuing tier 1 perpetual bonds	(51 688)	-
Interest to the hybrid capital investors	(13 348)	(24 428)
Payments of dividend	(41 282)	(92 658)
Paid-up new share capital	175 000	325 000
Net cash flow from financing activities	**(2 498 832)**	3 666 780
Net changes in lending to and receivables from credit institutions	(508 877)	(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	**1 226 799**	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 second 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 30 June 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, and 10.

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	2nd quarter 2018	2nd quarter 2017	1st half 2018	1st half 2017	2017
Net gains and losses on loans at fair value	12 339	(5 658)	(4 070)	13 263	17 276
Net gains and losses on financial debts, hedged[1]	604 419	(1 777 029)	1 748 865	(1 296 892)	(78 916)
Net gains and losses on interest swaps related to lending	(8 437)	2 222	17 307	111	3 749
Net gains and losses on interest and currency swaps related to liabilities	(615 002)	1 773 245	(1 753 573)	1 288 609	70 714
Net gains and losses on financial instruments at fair value	**(6 681)**	**(7 219)**	**8 529**	**5 091**	**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	2nd quarter 2018	2nd quarter 2017	1st half 2018	1st half 2017	2017
Net gains and losses on bonds and certificates	4 474	5 900	5 628	17 377	15 944
Net gains and losses on interest-rate swaps related to bonds and certificates	20	(199)	(38)	43	29
Net gains and losses on basis swaps [1]	(35 151)	(64 342)	(47 353)	(136 532)	(164 107)
Net gains and losses on financial instruments at fair value	**(30 657)**	**(58 641)**	**(41 763)**	**(119 111)**	**(148 135)**

[1] Comprehensive profit for the first half of 2018 includes negative changes of NOK 47.4 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, which would be unusual given the company's business.

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

Note 4 – Lending to customers

Amounts in NOK 1 000	30 Jun 2018	30 Jun 2017	31 Dec 2017
Installment loans - retail market	73 173 810	66 648 577	69 819 610
Installment loans - housing cooperatives	6 875 379	8 191 556	7 447 505
Adjustment fair value lending to customers [1]	14 148	17 314	18 834
Total lending before specific and general provisions for losses	**80 063 338**	**74 857 449**	**77 285 950**
Impairments on lending to customers	-	-	-
Total lending to and receivables from customers	**80 063 338**	**74 857 449**	**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 30 June 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.

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

30 Jun 2018

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	76 012 543	76 012 543
Fixed rate loans	4 036 647	4 050 795
Toal lending	**80 049 189**	**80 063 338**

30 Jun 2017

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

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 through profit or loss

30 June 2018

Amounts in NOK 1 000

Bonds broken down by issuer sector	Nominal value	Cost price	Fair Value
Municipalities	3 373 623	3 375 705	3 400 491
Credit institutions	5 828 264	5 849 395	5 866 790
Treasury bills	2 417 770	2 419 247	2 404 631
Total bonds and certificates at fair value through profit or loss	**11 619 657**	**11 644 346**	**11 671 912**
Change in value charged to the profit and loss account			**27 566**

Average effective interest rate is 1.12 per cent annualised. The calculation is based on a weighted fair value of NOK 11.7 billion. The calculation takes account of a return of NOK 65.2 million on bank deposits, bonds and certificates. The return on reinvested cash collateral received is excluded from the calculation.

30 June 2017

Amounts in NOK 1 000

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

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

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 through profit or loss	**12 564 028**	**12 583 399**	**12 712 300**
Change in value charged to the profit and loss account			**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

	30 Jun 2018	30 Jun 2017	31 Dec 2017
Average term to maturity	**1.1**	**1.0**	**0.8**
Average duration	**0.2**	**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	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	30 Jun 2018	30 Jun 2017	31 Dec 2017
NO0010502149	520 000	NOK	Floating	3M Nibor + 0.70 %	2009	2019	520 972	1 205 005	521 656
NO0010561103	1 948 000	NOK	Fixed	5.00 %	2009	2019	1 965 898	1 978 092	1 971 943
NO0010605587	1 000 000	NOK	Fixed	5.20 %	2011	2021	1 000 000	1 000 000	1 000 000
NO0010612039	-	NOK	Floating	3M Nibor + 0.55%	2011	2018	-	5 506 172	5 502 851
NO0010612179	-	NOK	Fixed	4,65%	2011	2018	-	476 167	474 742
NO0010625346	1 500 000	NOK	Fixed	4.60 %	2011	2026	1 500 757	1 500 844	1 500 802
NO0010663727	5 220 000	NOK	Floating	3M Nibor + 0.60%	2012	2019	5 227 681	5 233 073	5 230 355
NO0010663743	1 000 000	NOK	Fixed	3.25 %	2012	2019	1 002 456	1 004 167	1 003 306
NO0010664428	65 000	NOK	Floating	3M Nibor + 0.53%	2012	2018	65 012	65 041	65 027
NO0010669922	1 000 000	NOK	Fixed	4.00 %	2013	2028	997 076	996 771	996 925
NO0010685480	5 125 000	NOK	Floating	3M Nibor + 0.54 %	2013	2020	5 139 063	5 144 772	5 141 894
NO0010685704	550 000	NOK	Fixed	3.50 %	2013	2020	551 105	551 553	551 327
NO0010687023	150 000	NOK	Fixed	4.10 %	2013	2028	150 000	150 000	150 000
NO0010697204	300 000	SEK	Fixed	2.38 %	2013	2018	273 017	298 441	300 677
NO0010697212	700 000	SEK	Floating	3M Stibor + 0.50%	2013	2018	637 140	696 696	701 820
NO0010732258	8 000 000	NOK	Floating	3M Nibor + 0.28 %	2015	2022	7 961 676	7 951 079	7 956 421
NO0010733694	1 150 000	NOK	Fixed	1.75 %	2015	2021	1 145 808	1 144 529	1 145 172
NO0010763022	850 000	NOK	Fixed	2.25 %	2016	2031	843 077	842 538	842 810
NO0010775190	5 000 000	NOK	Floating	3M Nibor + 0.40 %	2016	2020	4 999 147	4 998 680	4 998 915
NO0010780687	700 000	NOK	Fixed	2.60 %	2016	2027	699 404	699 337	699 371
NO0010794308	5 000 000	NOK	Floating	3M Nibor + 0.43 %	2017	2022	5 011 174	1 998 999	4 006 501
NO0010815376	1 600 000	NOK	Fixed	2.67 %	2018	2033	1 587 867	-	-
NO0010821192	5 000 000	NOK	Floating	3M Nibor + 0.34 %	2018	2023	4 995 190	-	-
XS0794570944	650 000	EUR	Fixed	2.00 %	2012	2019	6 178 473	6 214 111	6 390 077
XS0881369770	1 000 000	EUR	Fixed	2.13 %	2013	2023	9 486 282	9 550 767	9 814 619
XS1044766191	500 000	EUR	Fixed	1.50 %	2014	2021	4 742 373	4 770 622	4 905 100
XS1312011684	500 000	EUR	Fixed	0.63 %	2015	2021	4 742 255	4 769 062	4 905 571
XS1397054245	500 000	EUR	Fixed	0.38 %	2016	2023	4 729 499	4 755 650	4 891 816
XS1566992415	500 000	EUR	Fixed	0.38 %	2017	2024	4 732 245	4 760 959	4 895 377
XS1725524471	500 000	EUR	Fixed	0.38 %	2017	2025	4 727 735	-	4 890 743
XS0851683473	-	EUR	Fixed	1.25 %	2012	2017	-	9 578 701	-
Value adjustments							1 520 759	1 903 249	1 747 423
Total covered bonds [1]							**87 133 141**	**89 745 076**	**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	Establishment	Maturity	30 Jun 2018	30 Jun 2017	31 Dec 2017
NO0010699234	200 000	NOK	Floating	3M Nibor + 1.14%	2013	2018	199 972	199 912	199 942
NO0010708936	425 000	NOK	Floating	3M Nibor + 0.80%	2014	2019	425 183	425 329	425 256
NO0010713753	250 000	NOK	Floating	3M Nibor + 0.70%	2014	2019	249 954	249 907	249 931
NO0010739287	600 000	NOK	Floating	3M Nibor + 0.70%	2015	2020	599 725	599 583	599 655
NO0010764160	350 000	NOK	Floating	3m Nibor +0.95%	2016	2019	350 245	350 541	350 392
NO0010776099	500 000	NOK	Floating	3m Nibor +0.92%	2016	2020	499 834	499 760	499 797
NO0010782048	500 000	NOK	Floating	3m Nibor +0.95%	2017	2022	501 792	502 299	502 044
NO0010705593	-	NOK	Floating	3M Nibor + 0.65 %	2014	2017	-	600 080	-
Total senior unsecured bonds							**2 826 706**	**3 427 412**	**2 827 016**

Total debt securities issued	**89 959 847**	**93 172 488**	**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	30 Jun 2018	30 Jun 2017	31 Dec 2017
NO0010679632	1 000	NOK	Flytende	3M Nibor + 2.20% [1]	2013	2023	-	249 911	249 961
NO0010729650	200 000	NOK	Floating	3M Nibor + 1.85% [2]	2015	2025	199 907	199 847	199 877
NO0010759475	150 000	NOK	Floating	3M Nibor + 3.40% [3]	2016	2026	149 837	149 777	149 808
NO0010814916	325 000	NOK	Floating	3M Nibor + 1.40% [4]	2018	2028	324 403	-	-
Total subordinated loan capital							**674 147**	**599 535**	**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 and 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	**30 Jun 2018**	**30 Jun 2017**	**31 Dec 2017**
Lending to customers [2]	79 442 228	73 729 638	76 667 013
Substitute assets and derivatives:			
Financial derivatives (net)	5 639 017	8 643 906	7 375 742
Substitute assets [3]	9 973 571	14 905 594	10 895 772
Total cover pool	**95 054 816**	**97 279 138**	**94 938 526**
The cover pool's overcollateralisation [4]	107.76%	108.23%	106.33%

Covered bonds issued

	30 Jun 2018	**30 Jun 2017**	**31 Dec 2017**
Covered bonds	87 133 141	89 745 076	87 203 243
Premium/discount	178 341	139 392	183 251
Own holding (Covered bonds) [1]	902 000	-	1 902 000
Total covered bonds	**88 213 482**	**89 884 469**	**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	**30 Jun 2018**	**30 Jun 2017**	**31 Dec 2017**
Lending to customers [2]	79 428 080	73 710 022	76 649 966
Substitute assets:			
Substitute assets [3]	9 932 668	14 865 118	10 860 316
Total	**89 360 748**	**88 575 140**	**87 510 282**
The cover pool's overcollateralisation [4]	109.88%	109.38%	109.80%

Covered bonds issued

	30 Jun 2018	30 Jun 2017	31 Dec 2017
Covered bonds	81 323 213	80 976 713	79 696 713
Total covered bonds	**81 323 213**	**80 976 713**	**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 through profit or loss 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	30 Jun 2018		31 Dec 2017	
Amounts in NOK 1 000	**Nominal amount**	**Fair value**	**Nominal amount**	**Fair value**
Interest rate swap lending[1]	3 672 420	13 888	850 370	5 631
Interest rate and currency swap[2]	35 695 713	6 100 629	45 416 713	7 446 888
Total financial derivative assets including accrued interest	**39 368 133**	**6 114 517**	**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]	3 834 254	17 878	2 620 988	26 055
Interest rate and currency swap[2]	11 697 500	232 102	850 000	50 022
Interest swap placement	237 968	486	235 270	701
Total financial derivative liabilities including accrued interest	**15 769 722**	**250 466**	**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 30 June 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.

	30 Jun 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]	32 023 293	5 642 126	44 566 713	7 396 866
Hedged items: financial commitments incl foreign exchange[2]	32 023 293	(5 988 269)	44 566 713	(7 689 781)
Net capitalised value without accrued interest	-	**(346 143)**	-	**(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	**2nd quarter 2018**	**2nd quarter 2017**	**1st half 2018**	**1st half 2017**	**2017**
Hedging instruments	(606 929)	1 700 898	(1 753 573)	1 152 077	70 714
Hedged items	596 346	(1 704 682)	1 748 865	(1 160 360)	(78 916)
Net gains/losses (inefffectiveness) recorded in profit and loss[3]	**(10 583)**	**(3 784)**	**(4 708)**	**(8 283)**	**(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 comprises loans at fixed interest rates and shares available for sale. The fair value of fixed-rate loans is measured as equal to amortised cost adjusted for the present value of the difference between the loans' fixed rate of interest and the corresponding applicable offered fixed rate at 30 June 2018. Valuation of shares classified as available for sale are based on discounted cash flows.

30 June 2018

Amounts in NOK 1 000	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	4 050 795
Bonds and certificates at fair value through profit or loss	2 404 631	9 267 281	-
Financial derivatives	-	6 114 517	-
Shares classified as available for sale	-	-	32 200
Total financial assets	**2 404 631**	**15 381 798**	**4 082 995**
Financial liabilities			
Financial derivatives	-	250 466	-
Total financial liabilities	**-**	**250 466**	**-**

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	30 Jun 2018
Lending to customers (fixed-rate loans)	3 647 877	1 111 761	(704 773)	-	(4 070)	-	4 050 795
Shares available for sale	32 200	-	-	-	-	-	32 200
Total	**3 680 077**	**1 111 761**	**(704 773)**	**-**	**(4 070)**	**-**	**4 082 995**

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 30 June 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 129 million. The effect of a decrease in interest rates would be an increase of NOK 129 million in the value of fixed-rate loans at fair value. The amounts are calculated by duration, which is the remaining portion of the fixed interest period.

Changes in fair value of fixed-rate loans attributable to a change in credit risk
Since the company's fixed-rate lending at fair value has an unchanged credit spread, no change in fair value is attributable to a change in the credit risk. That applies both for 30 June 2018 and cumulatively.

Detailed statement changes in debt related to currency changes

2018 Amounts in NOK 1 000	01 Jan 2018	Purchases/ issues	Disposals/ settlements	30 Jun 2018
Change in debt securities issued [1]	41 887 570	-	(1 474 765)	40 412 805
Total	**41 887 570**	**-**	**(1 474 765)**	**40 412 805**

2017 Amounts in NOK 1 000	01 Jan 2017	Purchases/ issues	Disposals/ settlements	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 institututions are not shown.

Note 11 – Shares classified as available for sale

Shares classified as available for sale

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

Note 12 – Capital adequacy ratio

Amounts in NOK 1 000	30 Jun 2018	30 Jun 2017	31 Dec 2017
Share capital	1 045 700	955 824	1 003 932
Share premium	2 814 683	2 529 558	2 681 451
Paid, but not registered, share capital	-	-	-
Other paid-in equity	477 728	477 728	477 728
Total comprehensive income for the period	-	(19 097)	-
Other equity	1 015	1 014	1 014
Total equity recognised in the balance sheet (without tier 1 perpetual bonds)	**4 339 125**	**3 945 027**	**4 164 125**
Fund for unrealised gains	14 700	14 700	14 700
Intangible assets	(6 095)	(6 671)	(5 989)
Deferred tax assets[1]	-	-	-
Prudent valuation adjustments of fair valued positions	(15 879)	(19 061)	(16 685)
Total core tier 1 capital	**4 331 852**	**3 933 995**	**4 156 151**

Core capital adequacy ratio (core tier 1 capital)	30 Jun 2018	30 Jun 2017	31 Dec 2017
Weighted calculation basis	32 077 493	31 292 213	31 468 201
Core tier 1 capital	4 331 852	3 933 995	4 156 151
Core tier 1 capital ratio	**13.5%**	**12.6%**	**13.2%**
Total core tier 1 capital	4 331 852	3 933 995	4 156 151
Tier 1 perpetual bonds	497 853	549 291	549 540
Total tier 1 capital	**4 829 705**	**4 483 285**	**4 705 690**

Capital adequacy ratio (tier 1 capital)	30 Jun 2018	30 Jun 2017	31 Dec 2017
Weighted calculation basis	32 077 493	31 292 213	31 468 201
Tier 1 capital	4 829 705	4 483 265	4 705 690
Tier 1 capital ratio	**15.1%**	**14.3%**	**15.0%**
Total tier 1 capital	4 829 705	4 483 285	4 705 690
Subordinated loans	674 147	599 535	599 646
Total primary capital (tier 2 capital)	**5 503 852**	**5 082 820**	**5 305 336**

Capital adequacy ratio (tier 2 capital)	30 Jun 2018	30 Jun 2017	31 Dec 2017
Weighted calculation basis	32 077 493	31 292 213	31 468 201
Total primary capital (tier 2 capital)	5 503 852	5 082 820	5 305 336
Capital adequacy ratio	**17.2%**	**16.2%**	**16.9%**
Required capital corresponding to eight per cent of calculation basis	2 566 199	2 503 377	2 517 456
Surplus equity and subordinated capital	2 937 653	2 579 443	2 787 880

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

30 June 2018

Calculation basis	Weighted calculation basis	Capital requirement
Credit risk	30 220 029	2 417 602
Operational risk	422 053	33 764
CVA risk[2]	1 435 411	114 833
Total	**32 077 493**	**2 566 199**

Levereage Ratio	30 Jun 2018	30 Jun 2017	31 Dec 2017
Total Leverage Ratio exposure	101 589 758	105 329 356	102 892 327
Tier 1 capital	4 829 705	4 483 286	4 705 690
Levereage Ratio	**4.8 %**	**4.3 %**	**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 30 June 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 32 billion at 30 June. This amount represented a quantification of the company's risk. After account has been taken of the growth in overall lending, and in changes to the company's liquidity portfolio, the calculation basis for capital adequacy at 30 June was NOK 0.6 billion higher than at 1 January.

At all times, the company must have a buffer in relation to the minimum capital adequacy requirement of eight per cent. This buffer must be sufficient to cover relevant risks which could affect the company. The company's internal capital adequacy assessment process (ICAAP) is pursued to ensure that it has an adequate buffer in relation to the minimum requirement. The company plans to capitalise continued growth in the residential mortgage portfolio. The company's capital targets are a core tier 1 capital ratio of 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 30 June 2018 with a core tier 1 capital ratio of 13.5 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 30 June 2018, Eika Boligkreditt had received cash collateral of NOK 2.9 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 1.6 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.

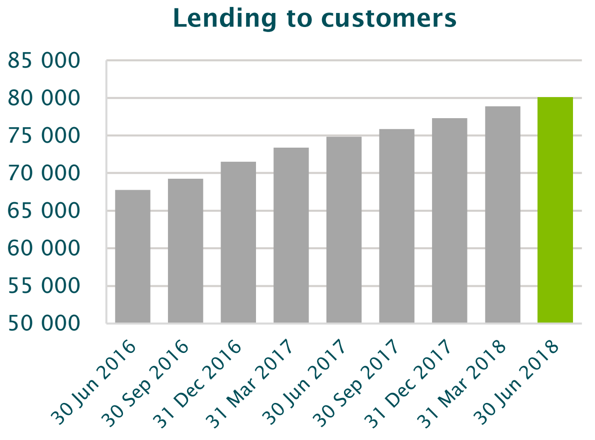
Note 14 – Contingency and overdraft facilities

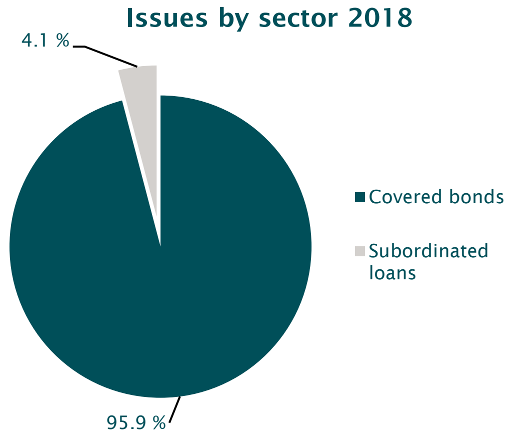
The company has an overdraft facility with DNB Bank ASA (DNB). Note 15 to the annual financial statements for 2017 provides a more detailed presentation of the overdraft with DNB. The company also has a note purchase agreement with the owner banks and OBOS concerning the purchase of covered bonds, whereby 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.

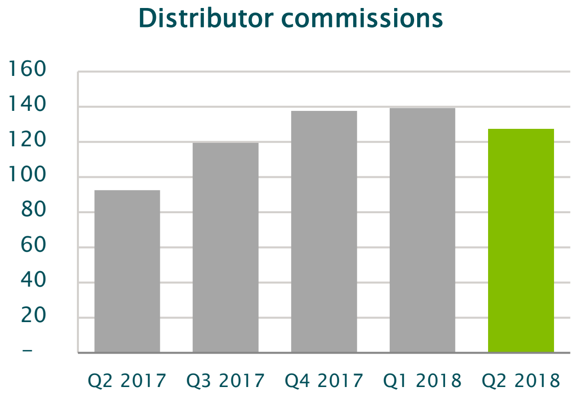
Note 15 – Risk management

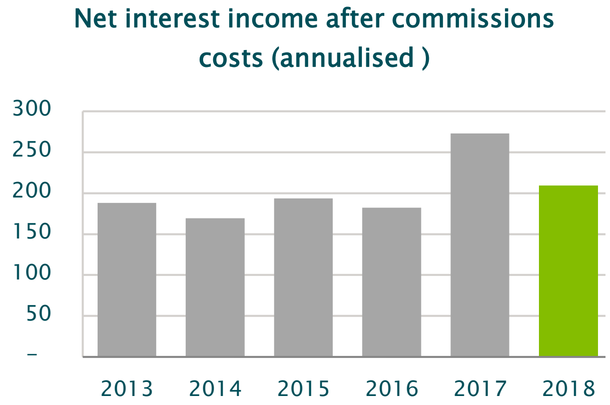
Eika Boligkreditt AS has established a framework for risk management and control in the company, which defines risk willingness and the principles for managing risk and capital. The value of financial assets and liabilities fluctuates as a result of risk in the financial markets. Note 3 to the annual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

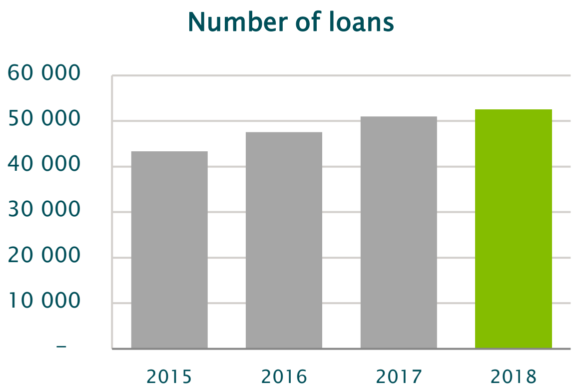
Key figures – Development

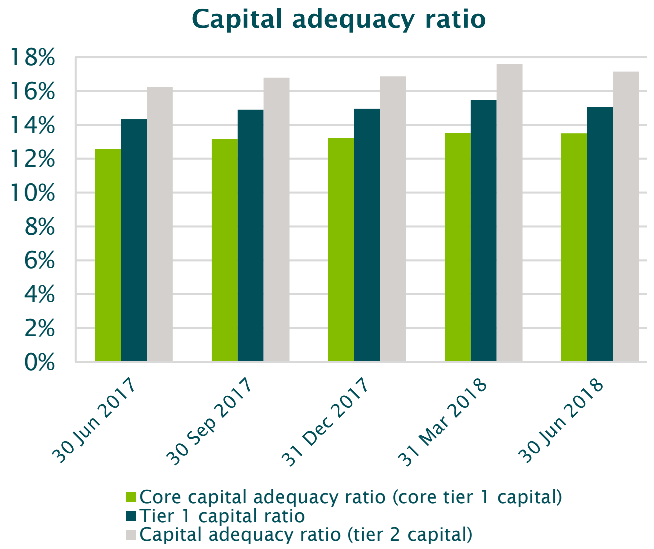












Key figures – Unaudited

Amounts in NOK 1 000	30 Jun 2018	30 Jun 2017	31 Dec 2017
Balance sheet development			
Lending to customers	80 063 338	74 857 449	77 285 950
Debt securities issued	89 959 847	93 172 488	90 030 259
Subordinated loan capital	674 147	599 535	599 646
Equity	4 880 881	4 514 377	4 769 647
Equity in % of total assets	4.9	4.4	4.8
Average total assets[1]	99 068 594	98 225 048	99 465 781
Total assets	99 258 892	102 631 836	99 602 975
Rate of return/profitability			
Fee and commission income in relation to average total assets, annualised (%)	0.5	0.3	0.4
Staff and general administration expenses in relation to average total assets, annualised (%)	0.05	0.05	0.05
Return on equity before tax, annualised (%) [2]	2.1	-0.2	1.9
Total assets per full-time position	5 013 075	5 183 426	5 030 453
Cost/income ratio (%) [3]	30.5	24.8	24.1
Financial strength			
Core tier 1 capital	4 331 852	3 933 995	4 156 151
Tier 1 capital	4 829 705	4 483 285	4 705 690
Total primary capital (tier 2 capital)	5 503 852	5 082 820	5 305 336
Calculation basis capital adequacy ratio	32 077 493	31 292 213	31 468 201
Core tier 1 capital ratio (%)	13.5	12.6	13.2
Tier 1 capital ratio (%)	15.1	14.3	15.0
Capital adequacy ratio % (tier 2 capital)	17.2	16.2	16.9
Leverage ratio (%) [4]	4.8	4.3	4.6
NSFR totalindicator i % [5]	101	96	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	19.8

Liquidity Coverage Ratio (LCR) [6] :

30 Jun 2018	NOK	EUR	Totalt
Stock of HQLA	2 486 798	262 996	6 247 090
Net outgoing cash flows next 30 days	1 062 563	48 903	2 561 028
LCR indicator (%)	**234 %**	**538 %**	**244 %**

30 Jun 2017	NOK	EUR	Totalt
Stock of HQLA	2 550 344	363 704	8 871 638
Net outgoing cash flows next 30 days	1 589 000	89 605	2 250 749
LCR indicator (%)	**160 %**	**406 %**	**394 %**

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):

$$\frac{\text{High-quality liquid assets}}{\text{Net outgoing cash flows next 30 days}}$$

[6] 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.

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

www.eikbol.no