

Eika Boligkreditt AS

Interim report for the third quarter 2018

Unaudited



Highlights



Third quarter 2018

- Pre-tax profit NOK 52.7 million (2017: NOK 57.7 million)
- Financing of owner banks up by 0.7 per cent, corresponding to an annualised growth of 2.7 per cent
- Commissions to owner banks of NOK 103.7 million (2017: NOK 119 million)
- NOK 5.3 billion in bonds issued (2017: NOK 2 billion)

First nine months 2018

- Pre-tax profit NOK 141.4 million (2017: NOK 169.2 million)
- Financing of owner banks up by 4.3 per cent, corresponding to an annualised growth of 6.25 per cent
- Commissions to owner banks of NOK 370.4 million (2017: NOK 296 million)
- NOK 13.2 billion in bonds issued (2017: NOK 12.9 billion)

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

INTERIM REPORT FOR THE THIRD QUARTER 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 September 2018, the owner banks had NOK 80.6 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 third quarter 2018

Amount in NOK thousand	3rd quarter 2018	3rd quarter 2017	Jan-Sept 2018	Jan-Sept 2017
Total interest income	537 374	517 605	1 590 207	1 528 834
Net interest income	154 467	183 062	513 113	480 754
Commission costs	97 946	114 350	351 991	278 407
Total gain and losses on financial instruments at fair value	12 835	4 474	21 363	9 564
Profit before taxes	52 674	57 674	141 359	169 237

The rise in the company's interest income in the third quarter compared with the same period of 2017 reflected increased lending volumes. Net interest income in the third quarter was down by 16 per cent from the same period of last year. Commission payments to the owner banks declined by 14 per cent from the third quarter of 2017 as a result of lower margins on residential mortgages at the owner banks. Pre-tax profit for the third quarter was down by NOK 5 million from the same period of 2017. This reduction reflected a fall of NOK 12.2 million in net interest income after commission payments, while financial instruments at fair value rose by NOK 8.4 million from the same period of last year.

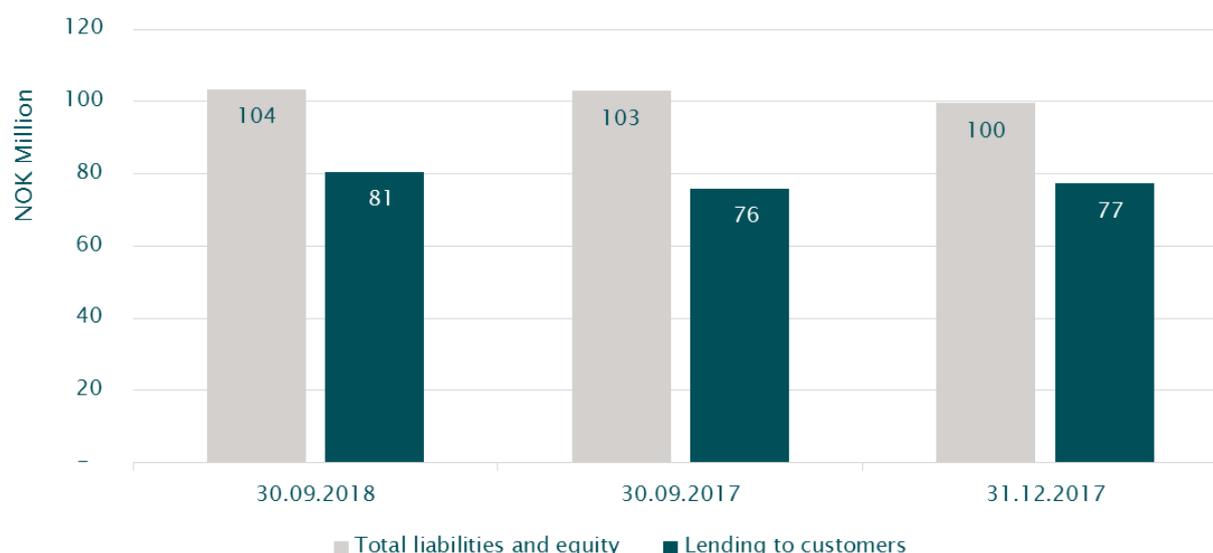
The increase in the company's interest income during the first nine months compared with the same period of 2017 reflected increased lending volumes. Net interest income in the first nine months was up by seven per cent from the same period of last year because of higher lending volumes. Commission payments increased by 26 per cent compared with 2017, largely as a result of higher margins on residential mortgages as well as growth in lending volumes. Pre-tax profit for the first nine months was down from the same period of 2017. This reflected a decline of NOK 41.2 million in net interest income after commission payments, while financial instruments at fair value rose by NOK 11.8 million from the same period of last year.

Interest of NOK 7 million on tier 1 perpetual bonds in the third quarter is not presented as an interest expense in the income statement, but as a reduction in equity. Similarly, interest of NOK 20.3 million on tier 1 perpetual bonds in the first nine months 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 of NOK 2.5 million (2017: positive at NOK 5.2 million) in the value of basis swaps for the third quarter and NOK 50 million (NOK 131.45 million) for the first nine months. 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



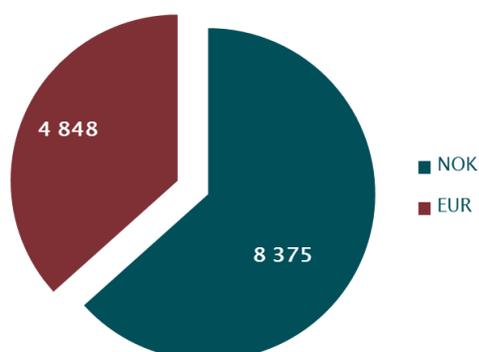
Assets under management by Eika Boligkreditt amounted to NOK 103.5 billion at 30 September 2018. Financing of the owner banks (residential mortgage lending to customers) came to NOK 80.6 billion at 30 September, representing a net increase of NOK 0.5 billion in the third quarter and NOK 4.7 billion for the past 12 months. That represents a net growth in lending of 6.25 per cent year on year. This reflected an increased financing requirement at the owner banks related to the growth in their mortgage lending.

Borrowing

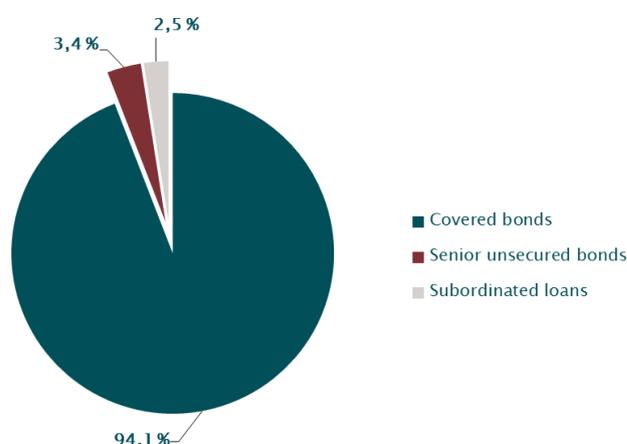
Eika Boligkreditt issued bonds with a nominal value of NOK 5.3 billion in the third quarter, compared with NOK 2 billion in the same period of 2017. Issues in the third quarter broke down between EUR 500 million (corresponding to NOK 4 848 million) in covered bonds and NOK 450 million in senior unsecured loans.

Bonds with a nominal value of NOK 13 223 million were issued by Eika Boligkreditt in the first nine months, compared with NOK 12.9 billion in the same period of 2017. Issues in the first nine months broke down between NOK 12.4 billion in covered bonds, NOK 450 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



Sixty-three per cent of bond issues in the first nine months were denominated in Norwegian kroner and 37 per cent in euros. Covered bonds accounted for 94.1 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)	Jan-Sept 2018	Jan-Sept 2017	2017	2016
Covered bonds (issued in EUR)	4 848	4 448	9 298	4 650
Covered bonds (issued in NOK)	7 600	7 625	7 625	10 725
Senior unsecured bonds (issued in NOK)	450	800	1 800	950
Subordinated loans (issued in NOK)	325	-	-	150
Total issued	13 223	12 873	18 723	16 475

The average tenor for covered bonds issued in 2018 was 7.2 years. The average tenor for the company's borrowing portfolio at 30 September 2018 was 3.89 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 Sep 2018	30 Sep 2017	31 Dec 2017	31 Dec 2016
Covered bonds	90 267	90 893	87 203	84 109
Senior unsecured bonds	3 276	2 827	2 827	2 874
Subordinated loans	674	600	600	599
Total borrowing	94 218	94 320	90 630	87 582

The company's total borrowing at 30 September was NOK 94.2 billion, up by NOK 3.6 billion from 1 January.

Liquidity

At 30 September 2018, the company had a liquidity portfolio of NOK 16.9 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 1.7 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 5.7 billion at 30 September 2018, a net increase of NOK 397 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. Redemption before their call dates in the first quarter and maturation of the remainder in the second quarter of NOK 250 million in tier 1 perpetual bonds and NOK 250 million in subordinated loans correspondingly reduced total primary capital. Raising NOK 200 million in additional equity from 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 the period.

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 September amounted to NOK 32.8 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	30 Sep 2018	31 Dec 2017	31 Dec 2016
Risk-weighted assets	32 828	31 468	29 766
Total primary capital (tier 2 capital)	5 702	5 305	4 882
Capital adequacy ratio in per cent	17.4 %	16.9 %	16.4 %

The company's capital targets are specified as follows:

- core tier 1 capital ratio: 13.0 per cent (13.8 per cent at 30 September 2018)
- tier 1 capital ratio: 14.5 per cent (15.3 per cent at 30 September 2018)
- tier 2 capital ratio: 16.5 per cent (17.4 per cent at 30 September 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 30 September 2018 with a core tier 1 capital adequacy of 13.8 per cent.

Outlook

The company's financing of the owner banks grew by a net NOK 4.7 billion over the past 12 months, representing a 12-monthly growth of 6.25 per cent. Statistics Norway's credit indicator for August 2018 showed a 12-monthly increase of 5.7 per cent in Norwegian household debt.

The lending survey from Norges Bank for the third quarter of 2018 showed virtually no change in household demand for residential mortgages, increased demand for fixed interest mortgages and little change in credit practice by the banks towards households. Margins on mortgage lending to households narrowed as a result of higher financing costs. The banks reported that interest rates on lending to both households and companies would increase somewhat in the fourth quarter because of the rise in Norges Bank's base rate during September.

According to the house price report from Real Estate Norway for September 2018, average Norwegian house prices were 5.1 per cent higher than at 1 January and up by 2.7 per cent over the past 12 months. Seasonally adjusted house prices rose by 2.8 per cent during the first nine months. House prices fell in all parts of Norway during September, as is normal for that month. Kristiansand had the smallest decline at 0.1 per cent, while

Alesund and environs experienced the biggest fall of 2.1 per cent. Fredrikstad/Sarpsborg had the strongest 12-monthly increase at 4.8 per cent, while the lowest increase was recorded by Stavanger and environs at 0.3 per cent. Many new and second-hand homes are expected to continue coming on the market in coming months, which will contribute to supply remaining stable and high – particularly in the big cities. Although Norges Bank's base rate was increased as expected in September, demand remains strong. This suggests that the moderate price trend and high level of activity will persist in the time to come.

Activity in the bond market was high in the first half but lower in the third quarter. The credit margin paid by Eika Boligkreditt when issuing new covered bonds in Norwegian kroner fell by a few basis points during the first half and rose a couple of points in July-September. For the year as a whole, the trend for credit margins has been fairly flat. 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. On that basis, 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 expectations of some decline in housing investment over 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, 8 November 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

Statement of comprehensive income

Amounts in NOK 1 000	Notes	3Q 2018	3Q 2017	Jan.- Sept. 2018	Jan.- Sept. 2017	2017
INTEREST INCOME						
Interest from loans to customers		499 790	475 853	1 482 740	1 402 731	1 884 450
Interest from loans and receivables on credit institutions		3 591	7 694	14 097	20 902	32 163
Interest from bonds, certificates and financial derivatives		26 134	27 303	70 170	83 920	103 950
Other interest income		7 859	6 756	23 200	21 281	28 727
Total interest income		537 374	517 605	1 590 207	1 528 834	2 049 291
INTEREST EXPENSES						
Interest on debt securities issued		377 502	329 023	1 060 043	1 031 248	1 342 770
Interest on subordinated loan capital		5 299	5 049	16 825	15 443	20 395
Other interest expenses		106	471	226	1 389	2 636
Total interest expenses		382 907	334 543	1 077 094	1 048 080	1 365 801
Net interest income		154 467	183 062	513 113	480 754	683 490
Commission costs		97 946	114 350	351 991	278 407	410 449
Net interest income after commission costs		56 521	68 713	161 122	202 348	273 040
Dividend from shares classified as available for sale		-	-	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	8 255	4 442	3 546	(3 841)	(8 202)
Net gains and losses on financial derivatives	Note 3	15 070	(851)	32 377	(740)	3 749
Net gains and losses on loans at fair value	Note 3	(10 490)	883	(14 559)	14 146	17 276
Total gains and losses on financial instruments at fair value		12 835	4 474	21 363	9 565	12 823
SALARIES AND GENERAL ADMINISTRATIVE EXPENSES						
Salaries, fees and other personnel expenses		7 679	7 336	22 595	21 237	29 296
Administrative expenses		4 812	3 859	13 642	13 549	18 267
Total salaries and administrative expenses		12 491	11 195	36 237	34 786	47 563
Depreciation		490	432	1 453	1 460	1 900
Other operating expenses		3 701	3 886	10 856	12 435	16 422
PROFIT BEFORE TAX		52 674	57 674	141 359	169 237	225 985
Taxes		5 168	14 128	23 317	39 977	55 053
PROFIT FOR THE PERIOD		47 506	43 546	118 042	129 260	170 932
Net gains and losses on bonds and certificates	Note 3	(4 659)	637	931	18 058	15 972
Net gains and losses on basis swaps	Note 3	(2 546)	5 157	(49 899)	(131 374)	(164 107)
Taxes on other comprehensive income		1 801	(1 449)	12 242	28 329	37 034
COMPREHENSIVE INCOME FOR THE PERIOD		42 102	47 892	81 316	44 273	59 831

Of the total comprehensive income for the first nine months of 2018, NOK 60 990 thousand is attributable to the shareholders of the company and NOK 20 326 thousand to the hybrid capital investors.

Balance sheet

Amounts in NOK 1 000	Notes	30. sep. 2018	30. sep. 2017	31 Dec 2017
ASSETS				
Lending to and receivable from credit institutions		1 644 109	2 849 441	1 735 677
Lending to customers	Note 4, 9	80 608 325	75 867 568	77 285 950
Other financial assets		629 233	1 494 258	357 761
Securities				
Bonds and certificates at fair value through profit or loss	Note 5,9	14 800 730	14 839 542	12 712 300
Financial derivatives	Note 8,9	5 804 398	7 949 436	7 452 520
Shares classified as available for sale	Note 10, 11	32 200	32 200	32 200
Total securities		20 637 328	22 821 178	20 197 020
Other intangible assets				
Deferred tax assets		20 578	11 913	20 578
Intangible assets		5 605	6 429	5 989
Total other intangible assets		26 183	18 342	26 566
TOTAL ASSETS		103 545 177	103 050 788	99 602 975
LIABILITIES AND EQUITY				
Loans from credit institutions	Note 12	2 915 194	3 509 786	3 791 533
Financial derivatives	Note 8,9	545 268	151 692	76 779
Debt securities issued	Note 6	93 543 327	93 720 419	90 030 259
Other liabilities		744 995	311 293	332 106
Pension liabilities		3 005	2 259	3 005
Subordinated loan capital	Note 7	674 210	599 590	599 646
TOTAL LIABILITIES		98 425 999	98 295 039	94 833 328
Called-up and fully paid capital				
Share capital		1 093 319	1 003 932	1 003 932
Share premium		2 967 063	2 681 451	2 681 451
Other paid-in equity		477 728	477 728	477 728
Total called-up and fully paid capital	Note 12	4 538 111	4 163 111	4 163 111
Retained earnings				
Fund for unrealised gains		14 700	14 700	14 700
Other equity		67 087	28 523	42 297
Total retained equity	Note 12	81 787	43 223	56 997
Hybrid capital				
Tier 1 capital		499 282	549 415	549 540
Total hybrid capital		499 282	549 415	549 540
TOTAL EQUITY		5 119 179	4 755 749	4 769 647
TOTAL LIABILITIES AND EQUITY		103 545 177	103 050 788	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	-	1 458.29
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
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

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	3Q 2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the period	81 316	59 831
Taxes	11 075	18 019
Income taxes paid	(20 501)	(57 541)
Gains on bonds and certificates	-	-
Ordinary depreciation	1 453	1 900
Non-cash pension costs	-	746
Change in loans to customers	(3 322 374)	(5 776 671)
Change in bonds and certificates	(2 088 430)	959 588
Change in financial derivatives and debt securities issued	4 158 367	419 391
Interest expenses	1 077 094	1 365 801
Paid interest	(612 954)	(1 405 130)
Interest income	(1 567 007)	(2 020 563)
Received interests	1 549 994	2 042 140
Changes in other assets	(254 459)	407 524
Changes in short-term liabilities and accruals	431 745	(157 163)
Net cash flow relating to operating activities	(554 681)	(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	12 578 177	18 706 482
Gross payments of bonds and commercial paper	(11 575 354)	(15 745 156)
Gross receipts on issue of subordinated loan capital	324 525	220
Gross payments of subordinated loan capital	(249 961)	-
Gross receipts from issue of loan from credit institution	(876 339)	397 320
Gross payments from loan from credit institution	-	-
Gross receipts from issuing tier 1 perpetual bonds	(250 000)	100 000
Gross payments from issuing tier 1 perpetual bonds	159 090	-
Interest to the hybrid capital investors	20 326	(24 428)
Payments of dividend	(41 282)	(92 658)
Paid-up new share capital	375 000	325 000
Net cash flow from financing activities	464 182	3 666 780
Net changes in lending to and receivables from credit institutions	(91 568)	(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	1 644 109	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 third 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 September 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	3rd quarter 2018	3rd quarter 2017	Jan-Sept 2018	Jan-Sept 2017	2017
Net gains and losses on loans at fair value	(10 490)	883	(14 559)	14 146	17 276
Net gains and losses on financial debts, hedged ¹	811 279	842 738	2 560 144	(317 623)	(78 916)
Net gains and losses on interest swaps related to lending	15 070	(851)	32 377	(740)	3 749
Net gains and losses on interest and currency swaps related to liabilities	(803 025)	(838 295)	(2 556 598)	313 781	70 714
Net gains and losses on financial instruments at fair value	12 835	4 474	21 363	9 565	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	3rd quarter 2018	3rd quarter 2017	Jan-Sept 2018	Jan-Sept 2017	2017
Net gains and losses on bonds and certificates	(4 532)	574	1 096	17 951	15 944
Net gains and losses on interest-rate swaps related to bonds and certificates	(127)	63	(165)	106	29
Net gains and losses on basis swaps ¹	(2 546)	5 157	(49 899)	(131 374)	(164 107)
Net gains and losses on financial instruments at fair value	(7 205)	5 795	(48 968)	(113 316)	(148 135)

¹ Comprehensive profit for the first nine months of 2018 includes negative changes of NOK 49.9 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 Sep 2018	30 Sep 2017	31 Dec 2017
Installment loans - retail market	74 109 562	67 880 359	69 819 610
Installment loans - housing cooperatives	6 495 258	7 969 571	7 447 505
Adjustment fair value lending to customers ¹	3 504	17 637	18 834
Total lending before specific and general provisions for losses	80 608 325	75 867 568	77 285 950
Impairments on lending to customers	-	-	-
Total lending to and receivables from customers	80 608 325	75 867 568	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 September 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.

¹The table below shows fair value lending to customers.

30 Sep 2018

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	76 146 563	76 146 563
Fixed rate loans	4 458 257	4 461 762
Toal lending	80 604 820	80 608 325

30 Sep 2017

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	72 150 521	72 150 521
Fixed rate loans	3 699 409	3 717 047
Toal lending	75 849 930	75 867 568

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 September 2018

Amounts in NOK 1 000

Bonds broken down by issuer sector	Nominal value	Cost price	Fair Value
Municipalities	5 905 032	5 912 342	5 909 394
Credit institutions	6 225 000	6 252 300	6 265 042
Treasury bills	2 651 902	2 653 137	2 626 295
Total bonds and certificates at fair value through profit or loss	14 781 934	14 817 779	14 800 731
Change in value charged to the profit and loss account			(17 048)

Average effective interest rate is 1.09 per cent annualised. The calculation is based on a weighted fair value of NOK 11.3 billion. The calculation takes account of a return of NOK 92.9 million on bank deposits, bonds and certificates. The return on reinvested cash collateral received is excluded from the calculation.

30 September 2017

Amounts in NOK 1 000

Bonds broken down by issuer sector	Nominal value	Cost price	Fair Value
Municipalities	4 987 038	4 987 971	4 989 621
Credit institutions	6 264 962	6 277 326	6 305 823
Government bonds	339 123	341 109	359 530
Treasury bills	3 195 487	3 198 035	3 184 568
Total bonds and certificates at fair value through profit or loss	14 786 611	14 804 440	14 839 542
Change in value charged to the profit and loss account			35 102

Average effective interest rate is 1.38 per cent annualised. The calculation is based on a weighted fair value of NOK 11.1 billion. The calculation takes account of a return of NOK 115.3 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 Sep 2018	30 Sep 2017	31 Dec 2017
Average term to maturity	0.9	0.8	0.8
Average duration	0.1	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		Establishment	Maturity	30 Sep 2018	30 Sep 2017	31 Dec 2017
			terms	Interest rate					
NO0010502149	520 000	NOK	Floating	3M Nibor + 0.70 %	2009	2019	430 526	1 204 265	521 656
NO0010561103	1 948 000	NOK	Fixed	5.00 %	2009	2019	1 962 842	1 975 000	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	-	5 504 511	5 502 851
NO0010612179	-	NOK	Fixed	4,65%	2011	2018	-	475 454	474 742
NO0010625346	1 500 000	NOK	Fixed	4.60 %	2011	2026	1 500 734	1 500 825	1 500 802
NO0010663727	5 220 000	NOK	Floating	3M Nibor + 0.60%	2012	2019	5 226 322	5 231 714	5 230 355
NO0010663743	1 000 000	NOK	Fixed	3.25 %	2012	2019	250 742	1 003 736	1 003 306
NO0010664428	65 000	NOK	Floating	3M Nibor + 0.53%	2012	2018	25 002	65 034	65 027
NO0010669922	1 000 000	NOK	Fixed	4.00 %	2013	2028	997 153	996 848	996 925
NO0010685480	5 125 000	NOK	Floating	3M Nibor + 0.54 %	2013	2020	5 137 624	5 143 333	5 141 894
NO0010685704	550 000	NOK	Fixed	3.50 %	2013	2020	550 993	551 439	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	274 752	293 422	300 677
NO0010697212	700 000	SEK	Floating	3M Stibor + 0.50%	2013	2018	641 130	684 950	701 820
NO0010732258	8 000 000	NOK	Floating	3M Nibor + 0.28 %	2015	2022	7 964 347	7 953 750	7 956 421
NO0010733694	1 150 000	NOK	Fixed	1.75 %	2015	2021	1 146 130	1 144 850	1 145 172
NO0010763022	850 000	NOK	Fixed	2.25 %	2016	2031	843 212	842 675	842 810
NO0010775190	5 000 000	NOK	Floating	3M Nibor + 0.40 %	2016	2020	4 999 264	4 998 798	4 998 915
NO0010780687	700 000	NOK	Fixed	2.60 %	2016	2027	699 421	699 354	699 371
NO0010794308	5 000 000	NOK	Floating	3M Nibor + 0.43 %	2017	2022	5 010 496	4 006 853	4 006 501
NO0010815376	1 600 000	NOK	Fixed	2.67 %	2018	2033	1 588 074	-	-
NO0010821192	5 000 000	NOK	Floating	3M Nibor + 0.34 %	2018	2023	4 995 426	-	-
XS0794570944	650 000	EUR	Fixed	2.000 %	2012	2019	6 137 491	6 101 799	6 390 077
XS0881369770	1 000 000	EUR	Fixed	2.125 %	2013	2023	9 421 678	9 373 522	9 814 619
XS1044766191	500 000	EUR	Fixed	1.500 %	2014	2021	4 710 766	4 683 963	4 905 100
XS1312011684	500 000	EUR	Fixed	0.625 %	2015	2021	4 710 360	4 684 702	4 905 571
XS1397054245	500 000	EUR	Fixed	0.375 %	2016	2023	4 697 962	4 671 294	4 891 816
XS1566992415	500 000	EUR	Fixed	0.375 %	2017	2024	4 700 339	4 675 044	4 895 377
XS1725524471	500 000	EUR	Fixed	0.375 %	2017	2025	4 695 844	-	4 890 743
XS0851683473	-	EUR	Fixed	1.250 %	2012	2017	-	9 409 755	-
XS1869468808	500 000	EUR	Fixed	0.500 %	2018	2025	4 693 734	-	-
Value adjustments							1 104 666	1 866 354	1 747 423
Total covered bonds¹							90 267 031	90 893 245	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		Establishment	Maturity	30 Sep 2018	30 Sep 2017	31 Dec 2017
			terms	Interest rate					
NO0010699234	200 000	NOK	Floating	3M Nibor + 1.14%	2013	2018	199 987	199 927	199 942
NO0010708936	425 000	NOK	Floating	3M Nibor + 0.80%	2014	2019	425 147	425 292	425 256
NO0010713753	250 000	NOK	Floating	3M Nibor + 0.70%	2014	2019	249 966	249 919	249 931
NO0010739287	600 000	NOK	Floating	3M Nibor + 0.70%	2015	2020	599 761	599 619	599 655
NO0010764160	350 000	NOK	Floating	3m Nibor +0.95%	2016	2019	350 170	350 467	350 392
NO0010776099	500 000	NOK	Floating	3m Nibor +0.92%	2016	2020	499 852	499 779	499 797
NO0010782048	500 000	NOK	Floating	3m Nibor +0.95%	2017	2022	501 665	502 171	502 044
NO0010830367	450 000	NOK	Floating	3M Nibor + 0.56 %	2018	2022	-	-	-
Total senior unsecured bonds							3 276 296	2 827 174	2 827 016
Total debt securities issued							93 543 327	93 720 419	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 Sep 2018	30 Sep 2017	31 Dec 2017
NO0010679632	250 000	NOK	Flytende	3M Nibor + 2.20% ¹	2013	2023	-	249 936	249 961
NO0010729650	200 000	NOK	Floating	3M Nibor + 1.85% ²	2015	2025	199 922	199 862	199 877
NO0010759475	150 000	NOK	Floating	3M Nibor + 3.40% ³	2016	2026	149 852	149 792	149 808
NO0010814916	325 000	NOK	Floating	3M Nibor + 1.40% ⁴	2018	2028	324 436	-	-
Total subordinated loan capital							674 210	599 590	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

Amounts in NOK 1 000	Fair value		
	30 Sep 2018	30 Sep 2017	31 Dec 2017
Lending to customers ²	79 981 938	74 798 420	76 667 013
Substitute assets and derivatives:			
Financial derivatives without accrued interest (net)	4 835 218	7 797 744	7 375 742
Substitute assets ³	14 028 619	15 542 271	10 895 772
Total cover pool	98 845 776	98 138 436	94 938 526
The cover pool's overcollateralisation ⁴	108.02%	107.80%	106.33%

Covered bonds issued

	30 Sep 2018	30 Sep 2017	31 Dec 2017
Covered bonds	90 267 031	90 893 245	87 203 243
Premium/discount	203 717	143 329	183 251
Own holding (Covered bonds) ¹	1 032 000	-	1 902 000
Total covered bonds	91 502 748	91 036 574	89 288 493

¹With 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

Amounts in NOK 1 000	Nominal values		
	30 Sep 2018	30 Sep 2017	31 Dec 2017
Lending to customers ²	79 978 434	74 780 782	76 649 966
Substitute assets:			
Substitute assets ³	13 980 758	15 477 535	10 860 316
Total	93 959 192	90 258 317	87 510 282
The cover pool's overcollateralisation ⁴	110.16%	108.78%	109.80%

Covered bonds issued

	30 Sep 2018	30 Sep 2017	31 Dec 2017
Covered bonds	85 291 213	82 976 713	79 696 713
Total covered bonds	85 291 213	82 976 713	79 696 713

²Loans, which have collateral without legal protection, are excluded.

³Substitute assets include lending to and receivables from credit institutions, bond and certificates at fair value through profit or loss and repo agreements.

⁴Liquid 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 Sep 2018		31 Dec 2017	
	Nominal amount	Fair value	Nominal amount	Fair value
Amounts in NOK 1 000				
Interest rate swap lending ¹	5 446 280	21 668	850 370	5 631
Interest rate and currency swap ²	32 681 463	5 782 729	45 416 713	7 446 888
Total financial derivative assets including accrued interest	38 127 743	5 804 398	46 267 083	7 452 520
Liabilities				
Amounts in NOK 1 000				
Interest rate swap lending ¹	2 515 102	10 607	2 620 988	26 055
Interest rate and currency swap ²	13 111 750	534 660	850 000	50 022
Interest swap placement	-	-	235 270	701
Total financial derivative liabilities including accrued interest	15 626 852	545 268	3 706 258	76 779

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

²The nominal amount is converted to the historical currency exchange rate. Fair value at 30 September 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.

Amounts in NOK 1 000	30 Sep 2018		31 Dec 2017	
	Nominal amount	Value recognised in balance sheet	Nominal amount	Value recognised in balance sheet
Hedging instruments: interest rate and currency swaps ^{1,2}	27 235 183	4 823 304	44 566 713	7 396 866
Hedged items: financial commitments incl foreign exchange ²	27 235 183	(5 179 536)	44 566 713	(7 689 781)
Net capitalised value without accrued interest	-	(356 232)	-	(292 915)

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

²The 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	3rd quarter 2018	3rd quarter 2017	Jan-Sept 2018	Jan-Sept 2017	2017
Hedging instruments	(803 025)	(838 295)	(2 556 598)	313 781	70 714
Hedged items	811 279	842 738	2 560 144	(317 622)	(78 916)
Net gains/losses (ineffectiveness) recorded in profit and loss³	8 255	4 442	3 546	(3 841)	(8 202)

³The 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 September 2018. Valuation of shares classified as available for sale are based on discounted cash flows.

30 September 2018

Amounts in NOK 1 000	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	4 461 762
Bonds and certificates at fair value through profit or loss	5 909 394	8 891 336	-
Financial derivatives	-	5 804 398	-
Shares classified as available for sale	-	-	32 200
Total financial assets	5 909 394	14 695 734	4 493 962
Financial liabilities			
Financial derivatives	-	545 268	-
Total financial liabilities	-	545 268	-

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 Sep 2018
Lending to customers (fixed-rate loans)	3 647 877	1 676 895	(848 451)	-	(14 559)	-	4 461 762
Shares available for sale	32 200	-	-	-	-	-	32 200
Total	3 680 077	1 676 895	(848 451)	-	(14 559)	-	4 493 962

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 September 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 157 million. The effect of a decrease in interest rates would be an increase of NOK 157 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 September 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 Sep 2018
Change in debt securities issued ¹	41 887 570	4 848 000	(1 867 405)	44 868 165
Total	41 887 570	4 848 000	(1 867 405)	44 868 165

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

¹The 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 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 Sep 2018	30 Sep 2017	31 Dec 2017
Share capital	1 093 319	1 003 932	1 003 932
Share premium	2 967 063	2 681 451	2 681 451
Other paid-in equity	477 728	477 728	477 728
Other equity	1 015	1 014	1 014
Total equity recognised in the balance sheet (without tier 1 perpetual bonds)	4 539 126	4 164 125	4 164 125
Fund for unrealised gains	14 700	14 700	14 700
Intangible assets	(5 605)	(6 429)	(5 989)
Deferred tax assets ¹	-	-	-
Prudent valuation adjustments of fair valued positions without accrued interest	(19 651)	(18 830)	(16 685)
Total core tier 1 capital	4 528 570	4 153 566	4 156 151

Core capital adequacy ratio (core tier 1 capital)	30 Sep 2018	30 Sep 2017	31 Dec 2017
Weighted calculation basis	32 827 580	31 557 095	31 468 201
Core tier 1 capital	4 528 570	4 153 566	4 156 151
Core tier 1 capital ratio	13.8%	13.2%	13.2%

Total core tier 1 capital	4 528 570	4 153 566	4 156 151
Tier 1 perpetual bonds	499 282	549 415	549 540
Total tier 1 capital	5 027 851	4 702 981	4 705 690

Capital adequacy ratio (tier 1 capital)	30 Sep 2018	30 Sep 2017	31 Dec 2017
Weighted calculation basis	32 827 580	31 557 095	31 468 201
Tier 1 capital	5 027 851	4 702 981	4 705 690
Tier 1 capital ratio	15.3%	14.9%	15.0%

Total tier 1 capital	5 027 851	4 702 981	4 705 690
Subordinated loans	674 210	599 590	599 646
Total primary capital (tier 2 capital)	5 702 061	5 302 572	5 305 336

Capital adequacy ratio (tier 2 capital)	30 Sep 2018	30 Sep 2017	31 Dec 2017
Weighted calculation basis	32 827 580	31 557 095	31 468 201
Total primary capital (tier 2 capital)	5 702 061	5 302 572	5 305 336
Capital adequacy ratio	17.4%	16.8%	16.9%

Required capital corresponding to eight per cent of calculation basis	2 626 206	2 524 568	2 517 456
Surplus equity and subordinated capital	3 075 854	2 778 004	2 787 880

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

30 September 2018

Calculation basis	Weighted calculation basis	Capital requirement
Credit risk	30 958 949	2 476 716
Operational risk	422 053	33 764
CVA risk ²	1 446 578	115 726
Total	32 827 580	2 626 206

Leverage Ratio	30 Sep 2018	30 Sep 2017	31 Dec 2017
Total Leverage Ratio exposure	106 161 840	106 231 030	102 892 327
Tier 1 capital	5 027 851	4 702 981	4 705 690
Leverage Ratio	4.7 %	4.4 %	4.6 %

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

¹Deferred 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.

²At 30 September 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 32.8 billion at 30 September. 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 September was NOK 1.3 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 30 September 2018 with a core tier 1 capital ratio of 13.8 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 September 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 1.7 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.

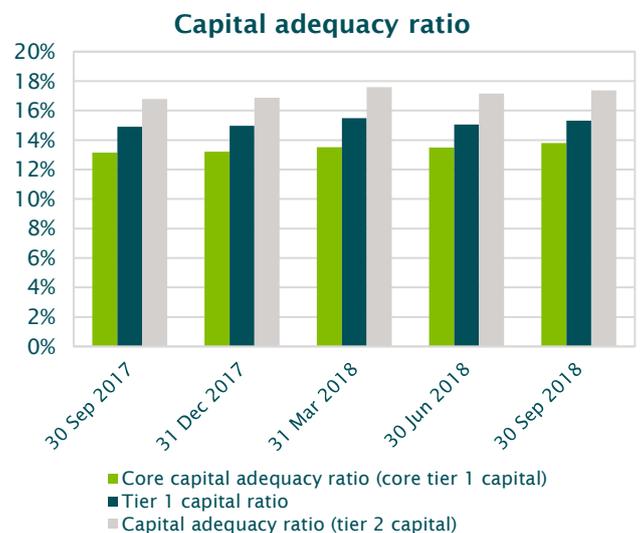
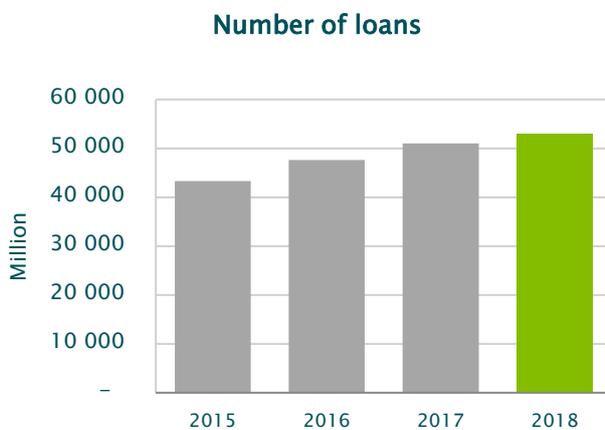
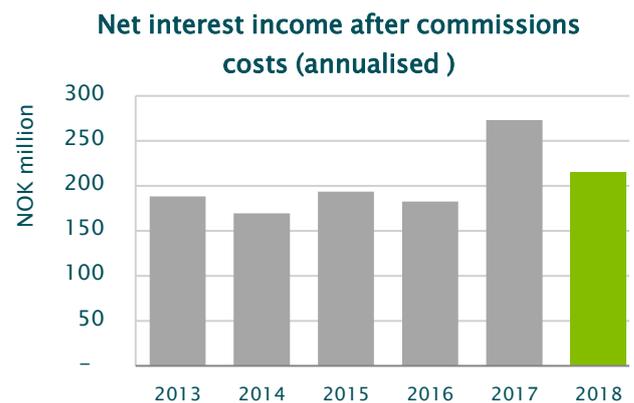
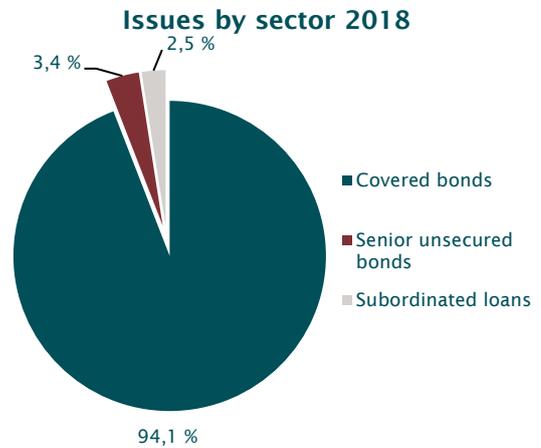
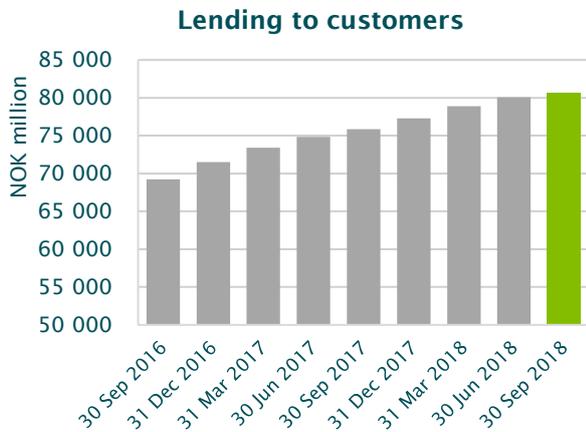
Note 14 – Contingency and overdraft facilities

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 Sep 2018	30 Sep 2017	31 Dec 2017
Balance sheet development			
Lending to customers	80 608 325	75 867 568	77 285 950
Debt securities issued	93 543 327	93 720 419	90 030 259
Subordinated loan capital	674 210	599 590	599 646
Equity	5 119 179	4 757 410	4 769 647
Equity in % of total assets	4.9	4.6	4.8
Average total assets ¹	100 187 740	99 431 483	99 465 781
Total assets	103 545 177	103 050 788	99 602 975
Rate of return/profitability			
Fee and commission income in relation to average total assets, annualised (%)	0.5	0.4	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	3.3	1.4	1.9
Total assets per full-time position	5 229 554	5 204 585	5 030 453
Cost/income ratio (%) ³	30.1	24.1	24.1
Financial strength			
Core tier 1 capital	4 528 570	4 153 566	4 156 151
Tier 1 capital	5 027 851	4 702 981	4 705 690
Total primary capital (tier 2 capital)	5 702 061	5 302 572	5 305 336
Calculation basis capital adequacy ratio	32 827 580	31 557 095	31 468 201
Core tier 1 capital ratio (%)	13.8	13.2	13.2
Tier 1 capital ratio (%)	15.3	14.9	15.0
Capital adequacy ratio % (tier 2 capital)	17.4	16.8	16.9
Leverage ratio (%) ⁴	4.7	4.4	4.6
NSFR totalindicator i % ⁵	103	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	19.8
Liquidity Coverage Ratio (LCR)⁶ :			
30 Sep 2018	NOK	EUR	Totalt
Stock of HQLA	3 632 064	288 365	8 389 373
Net outgoing cash flows next 30 days	696 143	75 948	2 525 528
LCR indicator (%)	522 %	380 %	332 %
30 Sep 2017	NOK	EUR	Totalt
Stock of HQLA	2 803 110	337 859	7 866 798
Net outgoing cash flows next 30 days	1 765 826	61 711	2 493 330
LCR indicator (%)	159 %	547 %	316 %
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 totalindicator: 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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