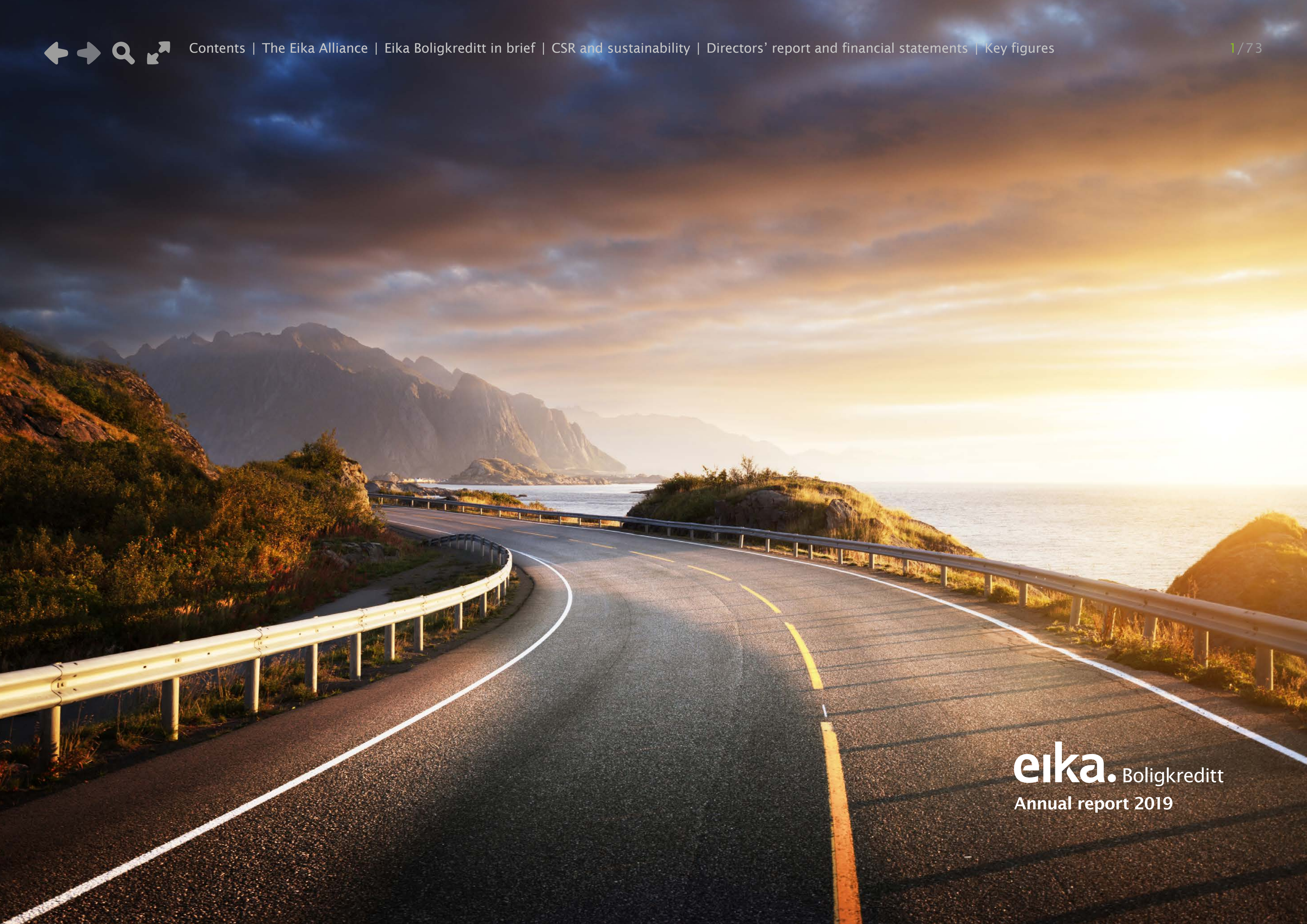


eika. Boligkreditt

Annual report 2019

At your side.

Front page photo – Lofoten, Nordland

Contents

The Eika Alliance

Sognefjorden, Vestland

The Eika Alliance comprises 66 local banks, Eika Gruppen and Eika Boligkreditt. More than NOK 450 billion in total assets, almost a million customers and about 3 000 employees make it one of the largest players in the Norwegian banking and financial market – and one of the most important players in Norway's local communities.

Eika Boligkreditt

Eika Boligkreditt AS is a credit institution owned at 31 December 2019 by 64 Norwegian local banks in the Eika Alliance and OBOS. Its principal purpose is to provide access for the local banks to long-term and competitive funding. The company is licensed as a credit institution, and finances the local banks by issuing internationally rated covered bonds. By virtue of its size, Eika Boligkreditt is able to raise loans in both Norwegian and international financial markets, and to seek financing wherever the best market terms can be obtained at any given time. Eika Boligkreditt ensures that the alliance banks have access to financing on roughly the same terms as the larger banks in the Norwegian market. Eika Boligkreditt consequently ranks as an important contributor to reducing financing risk for the local banks and to ensuring that customers of the local banks achieve competitive terms for their residential mortgages.

The local banks in Eika

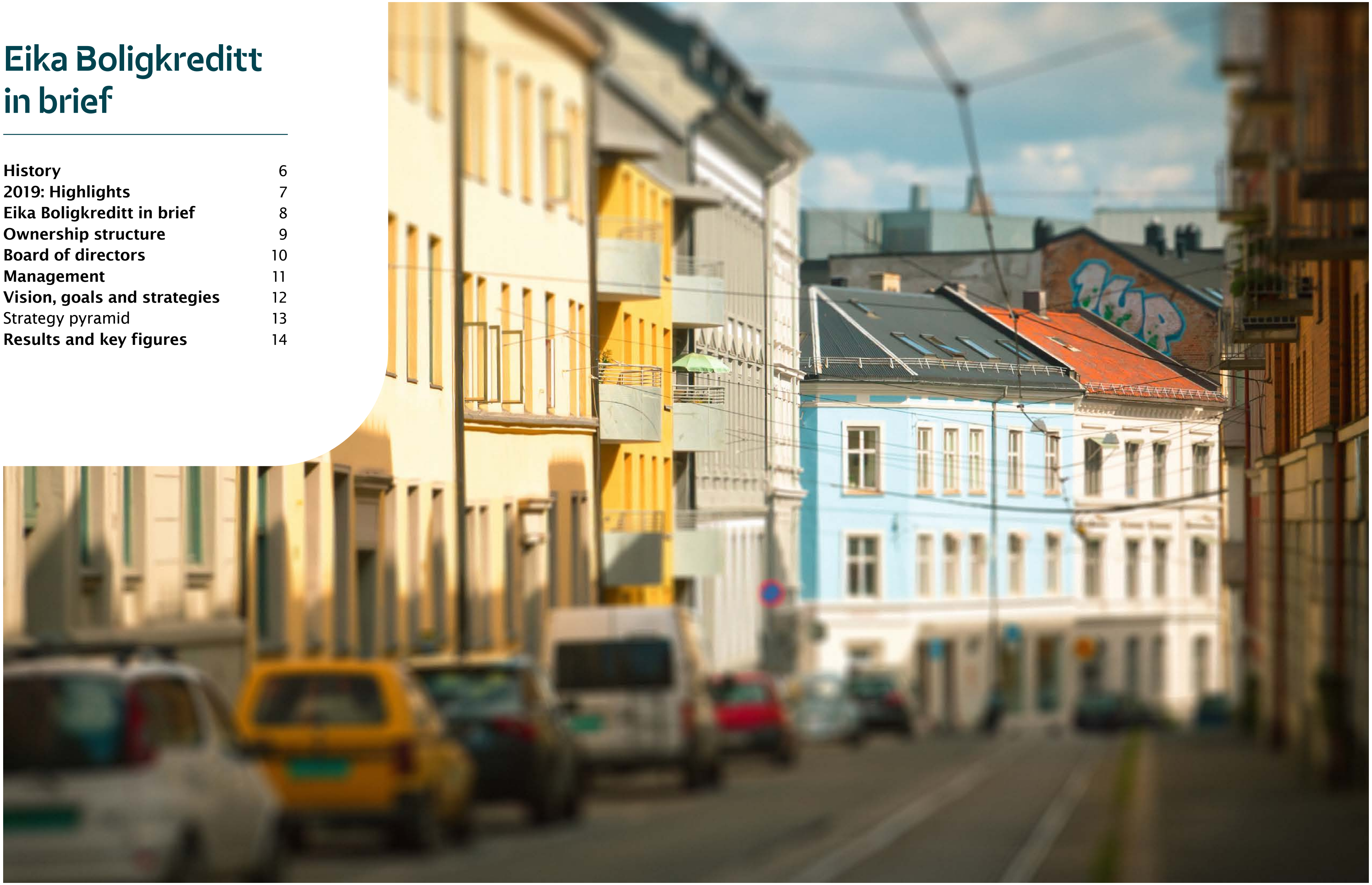
Local savings banks have contributed to settlement, economic development and security for private customers and the business sector in Norwegian local communities for almost 200 years. The local banks in the Eika Alliance are fully independent and control their own strategy, brand and visual identity.

A local presence, advisers with integrated financial expertise, and a clear commitment to their customers and the local community will also ensure them a strong position in the future. The local bank is moreover a trusted and important adviser to the local business community, with the emphasis on small and medium-sized enterprises. Through their philanthropic donations, too, the banks in the alliance contribute to innovation, growth and development by financing culture, sports and voluntary organisations. Levels of customer satisfaction with and loyalty to the alliance banks in Eika are among the highest in Norway in both private and company markets.

Eika Gruppen

Eika Gruppen serves as the financial services group in the Eika Alliance, and is owned by 66 local banks. Its strategic foundation is to ensure strong and caring local banks which serve as a driving force for growth and development, for customers and for the local community. The group delivers a complete platform for banking infrastructure, including IT, payment processing and digital services which make the local bank competitive. In addition, it comprises the product companies Eika Forsikring, Eika Kredittbank, Eika Kapitalforvaltning and Aktiv Eiendomsmegling. Eika Gruppen's products and solutions are distributed through some 250 offices in Norway. Eika Boligkreditt was demerged from the Eika Gruppen financial group in 2012, and became directly owned by the local banks and OBOS.

Eika Boligkreditt in brief



Welhavens gate, Oslo

History

2005

- The first residential mortgage is disbursed on 28 February to Røros-banken.
- The mortgage portfolio exceeds NOK 1 billion as early as October.

2007

- The Norwegian regulations for covered bonds come into force in June.
- Eika Boligkreditt's covered bonds are rated Aaa by Moody's Investors Service in the same month.
- The company issues its first covered bond in Norway during August, while the first international transaction takes place on 24 October.

2009

- Total bank financing through Eika Boligkreditt exceeds NOK 20 billion during November.
- The company's covered bonds are downgraded to Aa2 by Moody's Investors Service.
- Eika Boligkreditt participates in a NOK 10.4 billion swap arrangement with the Norwegian government.

2012

- Eika Boligkreditt is demerged from Eika Gruppen AS and becomes directly owned by the local banks and OBOS.
- A tighter structure of agreements is established between the new owners and the company.
- Total assets exceed NOK 50 billion during June.
- The company issues its first "jumbo" (EUR 1 billion) bond in the euro market.

2014

- Moody's Investors Service upgrades the company's covered bonds to Aa1 (AA+).
- Eika Boligkreditt's covered bonds are registered on the Oslo Stock Exchange's covered bond benchmark list.
- Total bank financing through Eika Boligkreditt exceeds NOK 60 billion.
- Commissions to owner banks of NOK 582 million.

2015

- Eika Boligkreditt introduces individual lending rates for the owner banks.
- New and improved agreement on credit guarantees comes into force on 1 October.
- The company's covered bonds have their rating further strengthened by a notch in leeway.
- Four owner banks merge into two, and the number of owner banks is correspondingly reduced.

2016

- Eika Boligkreditt is integrated in the banks' credit portal at the end of October.
- Total bank financing through Eika Boligkreditt exceeds NOK 70 billion.
- An agreement is entered into with the owner banks on the delivery of key data related to the company's rating from Moody's Investors Service.

2017

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

2018

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

2019

- With effect from 10 December, EBK increases its maximum LTV ratio for residential mortgages from 60 per cent to the legal limit of 75 per cent.
- With effect from 1 July, the required return on equity in EBK is changed from three months Nibor plus two percentage points to zero. Commissions to the owner banks are increased correspondingly.
- EBK adopts Power BI as a visualisation and reporting tool to provide the owner banks with better insight into the financing they have received from the company.

2019: Highlights

20

EMPLOYEES
Eika Boligkreditt has 20 permanent employees. In addition, the company has an agreement with Eika Gruppen on purchasing services in a number of areas.

64

LOCAL BANKS
Eika Boligkreditt was directly owned by 64 local banks and OBOS at 31 December 2019.

393

LOCAL AUTHORITIES
Eika Boligkreditt's cover pool includes mortgagees in 393 Norwegian local authorities.

106 BN

TOTAL ASSETS
Total assets were NOK 106 billion at 31 December.

54 THOUSAND

MORTGAGES
Eika Boligkreditt has 54 308 mortgages in its cover pool.

56.5%

CURRENCY
56.5 per cent of the company's covered bonds are financed in NOK, while 43.5 per cent are financed in other currencies – primarily EUR.

27.5%

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

47.1%

LTV
The average loan to value (LTV) on mortgages in the cover pool was 47.1 per cent.

513 MILL

COMMISIONS
Distributor commissions to the owner banks totalled NOK 513 million, compared with NOK 482 million in 2018.

14.3 BN

NEW ISSUES
Eika Boligkreditt issued NOK 14.3 billion in bonds, with roughly 61 per cent denominated in NOK and the rest in EUR.

Eika Boligkreditt in brief

Tjøme, Vestfold og Telemark

Eika Boligkreditt is a credit institution which was directly owned at 31 December 2019 by 64 local banks in the Eika Alliance and the OBOS housing association. Its main purpose is to secure access for the owner banks in the Eika Alliance to long-term competitive funding by issuing covered bonds in the Norwegian and international financial markets. An important part of the company's business concept is to increase the competitiveness of the owner banks and reduce their risk. At 31 December 2019, the banks had transferred a total of NOK 84.7 billion in residential mortgages and thereby relieved their own financing requirements by a corresponding amount.

The company is licensed as a credit institution and authorised to raise loans in the market by issuing covered bonds. Norwegian regulations for covered bonds were adopted in 2007, and this type of bond has become an important source for financing the lending activities of banks and credit institutions. By concentrating borrowing activity in Eika Boligkreditt, the owner banks have secured a player in the bond market which can, by virtue of its size, achieve competitive terms in both Norwegian and international financial markets.

Activity began at Eika Boligkreditt in February 2005 and, with current total assets of NOK 106 billion, the company accounts for a substantial proportion of the external funding for the owner banks. To ensure the best possible financing terms for the owner banks, the company aims to be an active issuer in both Norwegian and international financial markets.

Andebu Sparebank – en trivelig bank med kloke løsninger
Askim & Spydeberg Sparebank
Aurskog Sparebank
Bank2
Berg Sparebank
Bien Sparebank
Birkenes Sparebank
Bjugn Sparebank
Blaker Sparebank
Drangedal Sparebank
Eidsberg Sparebank
Etnedal Sparebank
Evje & Hornnes Sparebank
Fornebu banken
Gildeskål Sparebank
Grong Sparebank
Grue Sparebank
Haltdalen Sparebank
Hegra Sparebank
Hemne Sparebank
HjartdalBanken
Hjelmeland Sparebank ryfylkebanken
Høland og Setskog Sparebank
Hønefoss Sparebank
Jæren sparebank
Jernbanepersonalets bank og forsikring
Klæbu Sparebank
Banken Kvinesdal Sparebank
Larvikbanken
Lillestrøm banken
Marker Sparebank
Melhusbanken
OBOS
Odal Sparebank
Ofoten Sparebank
Oppdalsbanken
Orkla Sparebank
Rindal Sparebank
Romsdalsbanken
RørosBanken
Sandnes Sparebank
Selbu Sparebank
Skagerrak Sparebank
Skue Sparebank
Sogn Sparebank
Soknedal Sparebank
Sparebank 68° Nord
Sparebanken DIN
Sparebanken Narvik
Sparekassa
Stadsbygd Sparebank
Strømmen Sparebank
Sunndal Sparebank
Surnadal Sparebank
Tinn Sparebank
Tolga Os Sparebank
Totens Sparebank
Trøgstad Sparebank
Tysnes Sparebank
Valdres Sparebank
Valle Sparebank
Vekselbanken
Ørland Sparebank
Ørskog Sparebank
Østre Agder Sparebank
Åfjord Sparebank
Aasen Sparebank

Shareholders

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

66 local banks — 100% → **Eika Gruppen AS**

Ownership structure and management

Eika Boligkreditt AS

CEO
Kjartan M Bremnes

Risk manager Marthe Hildrum

IT manager André Gjertsen

Head of lending Hege A Skoglund

CMO Kurt E Mikalsen

CAO Hugo J Henriksen

CFO Odd-Arne Pedersen

Senior vice president funding
Anders Mathisen

[1] Bank2 and Sandnes Sparebank are only shareholders in Eika Gruppen AS.

Board of directors

Dag Olav Løseth

Director

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

Terje Svendsen

Director

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

Tor Egil Lie

Chair

Born: 1955
Position: CEO, Jæren Sparebank.
Education: BSc economics and administration, Rogaland Regional College/ University of Stavanger (UiS), chartered auditor.
Other directorships: director, Aktiv Jæren Eiendomsmegling AS and Safi, UiS.
Director since 2014.

Olav Sem Austmo

Director

Born: 1963
Position: CFO, TrønderEnergi AS.
Education: MBA, BI Norwegian Business School, AFA, Norwegian School of Economics.
Other directorships: chair, TrønderEnergi Vind Holding and Energibygget AS. Director, Sarepta Energi AS.
Director since 2015.

Torleif Lilløy

Director

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

Rune Iversen

Director

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

Executive management

Hugo J Henriksen

CAO

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

Kurt E Mikalsen

CMO

Born: 1968
Education: BA, University of Bodø.
Career: DNB, GMAC Commercial Finance.
Joined company in 2006.

Hege A Skoglund

Head of lending

Born: 1966
Education: Diploma, business economics, BI Norwegian Business School.
Career: Sparebanken Gjensidige Nor, Sparebanken Kreditt AS.
Joined company in 2005.

Kjartan M Bremnes

CEO

Born: 1965
Education: law degree, University of Oslo/King's College London.
Career: BA-HR law firm, Follo Consulting Team AS, Vesta Hygea AS.
Joined company in 2004.

Odd Arne Pedersen

CFO

Born: 1962
Education: MBE, BI Norwegian Business School, AFA and Master of Finance, Norwegian School of Economics.
Career: Terra Forvaltning, Terra Securities, Terra-Gruppen, Fearnley Fonds, DN Hypotekforening.
Joined company in 2008.

Anders Mathisen

Senior vice president, funding

Born: 1967
Education: MBE, BI Norwegian Business School.
Career: Terra Forvaltning, SEB, Norges Bank.
Joined company in 2012.

Blidensolstredet, Stavanger, Rogaland

A strategically important company for the banks

Common denominators for the local banks in the Eika Alliance are their strong local roots, that they rank among the smallest banks in Norway, and that a generally high proportion of their activity is directed at the private and residential mortgage market.

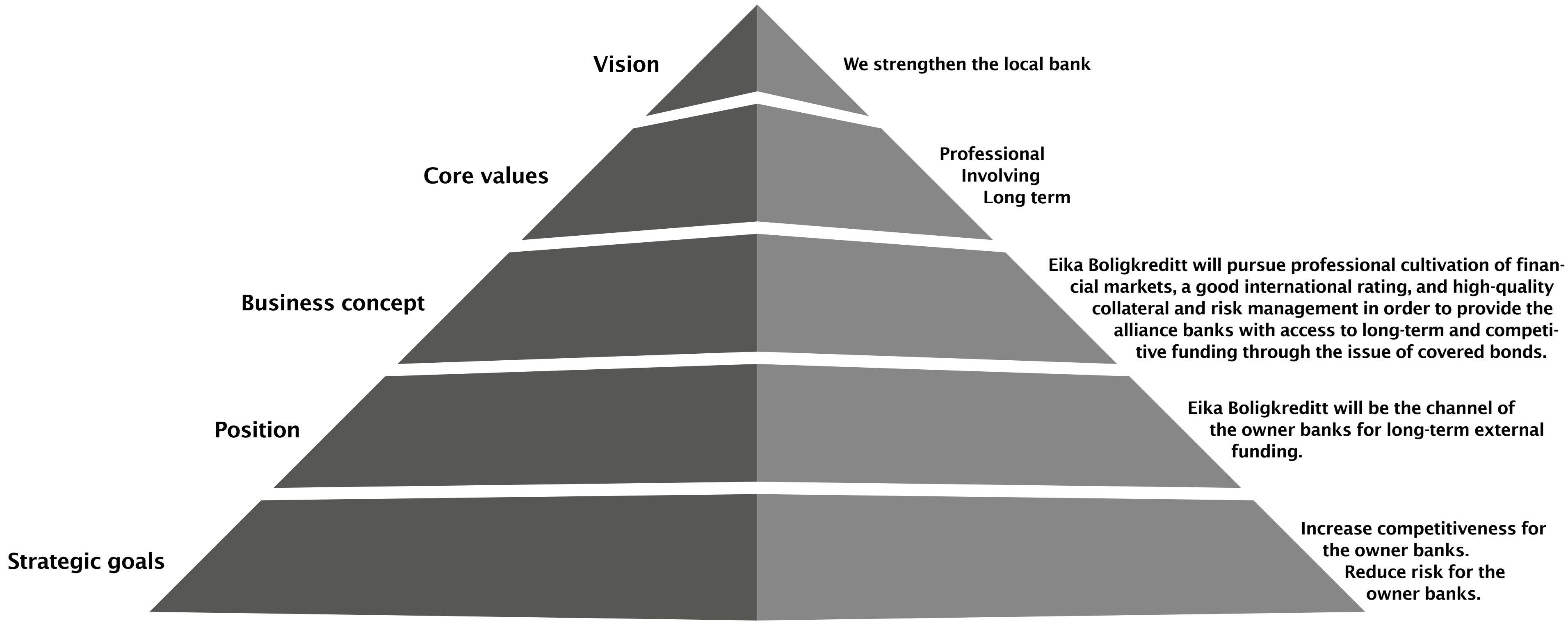
The decision by the local banks 17 years ago to establish a joint mortgage credit institution was a direct consequence of a trend where they – like all the other banks – experienced a decline in their deposit-to-loan ratio and a corresponding increase in the need for external financing from the bond market.

For small local banks, this meant increased vulnerability in achieving competitive borrowing costs and higher risk exposure because they would be subject to price fluctuations in the Norwegian bond market. The most important reasons for establishing Eika Boligkreditt were accordingly to maintain competitiveness in the residential mortgage segment – which was and remains the most important market for the local banks – and to reduce financing and refinancing risk in the bond market.

Through Eika Boligkreditt, the local banks and OBOS achieve indirect access to favourable financing in the Norwegian and international markets through the issue of internationally rated covered bonds. The local banks are active users of the company, and had secured NOK 84.7 billion in overall financing from Eika Boligkreditt at 31 December 2019. That corresponds to roughly half the total external financing for the local banks, and this share is rising.

Financing through Eika Boligkreditt involves generally longer tenors at a significantly more favourable rate than any of the owner banks could have achieved individually. That is precisely why Eika Boligkreditt has become a strategically important company for the owner banks – a company which contributes to enhanced competitiveness and lower risk exposure.

Strategy pyramid



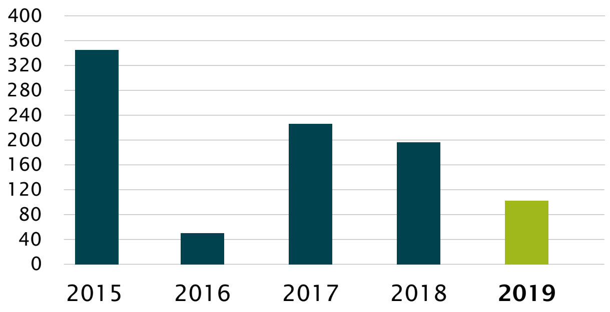
COMPANY PRIORITIES

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

Results and key figures

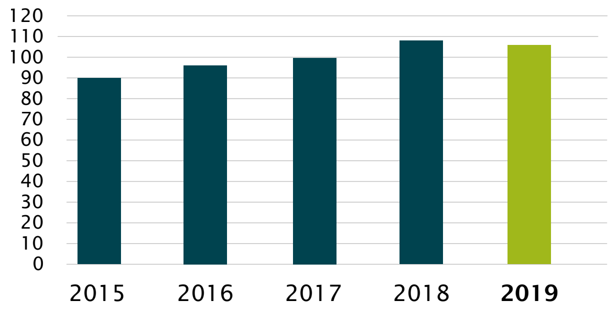
PROFIT BEFORE TAX

Amounts in NOK million



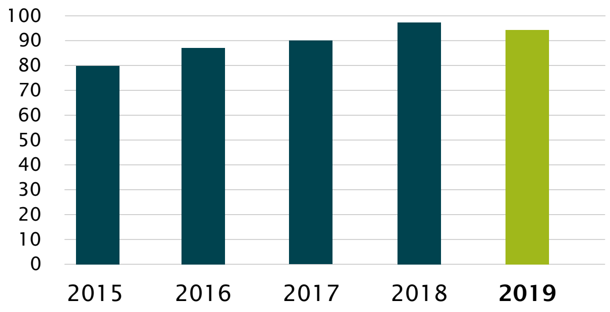
TOTAL ASSETS

Amounts in NOK billion



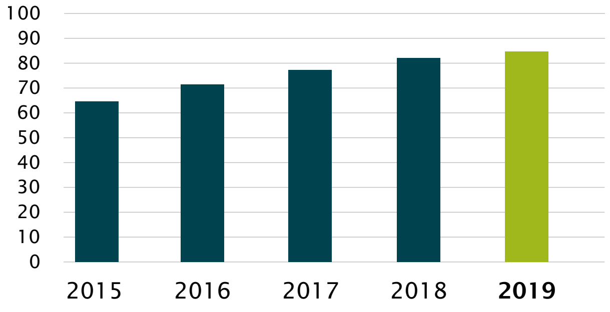
BORROWING PORTFOLIO

Amounts in NOK billion



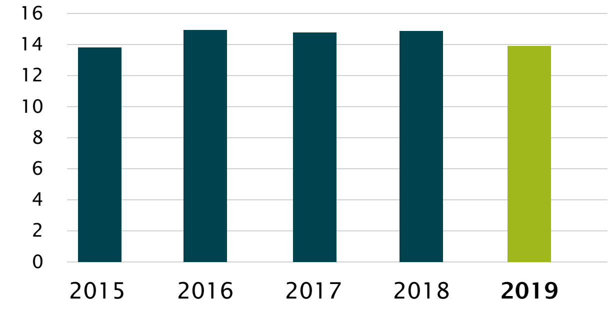
MORTGAGE PORTFOLIO

Amounts in NOK billion



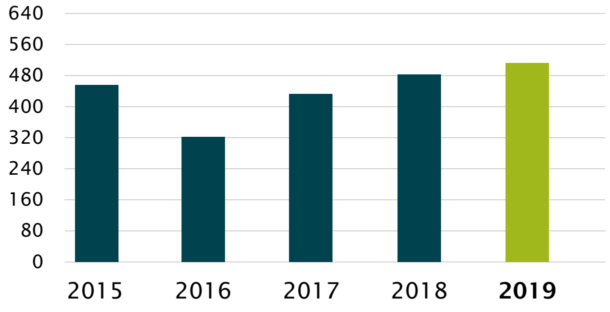
NEW MORTGAGES

In thousands



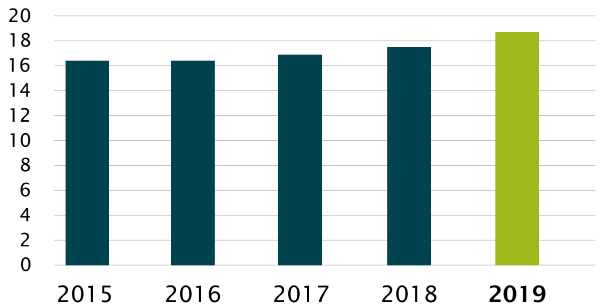
DISTRIBUTOR COMMISSIONS

Amounts in NOK million



CAPITAL ADEQUACY RATIO[1]

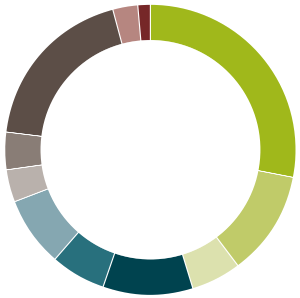
Value in per cent



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

GEOGRAPHICAL DISTRIBUTION

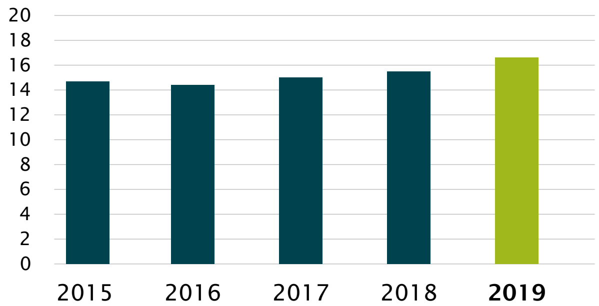
By county



Viken	28.22%
Oslo	11.66%
Innlandet	5.47%
Vestfold og Telemark	10.09%
Agder	6.19%
Rogaland	7.72%
Vestland	3.66%
Møre og Romsdal	4.10%
Trøndelag	18.75%
Nordland	2.94%
Troms og Finnmark	1.19%

CORE TIER 1 CAPITAL RATIO

Value in per cent



LTV[1]

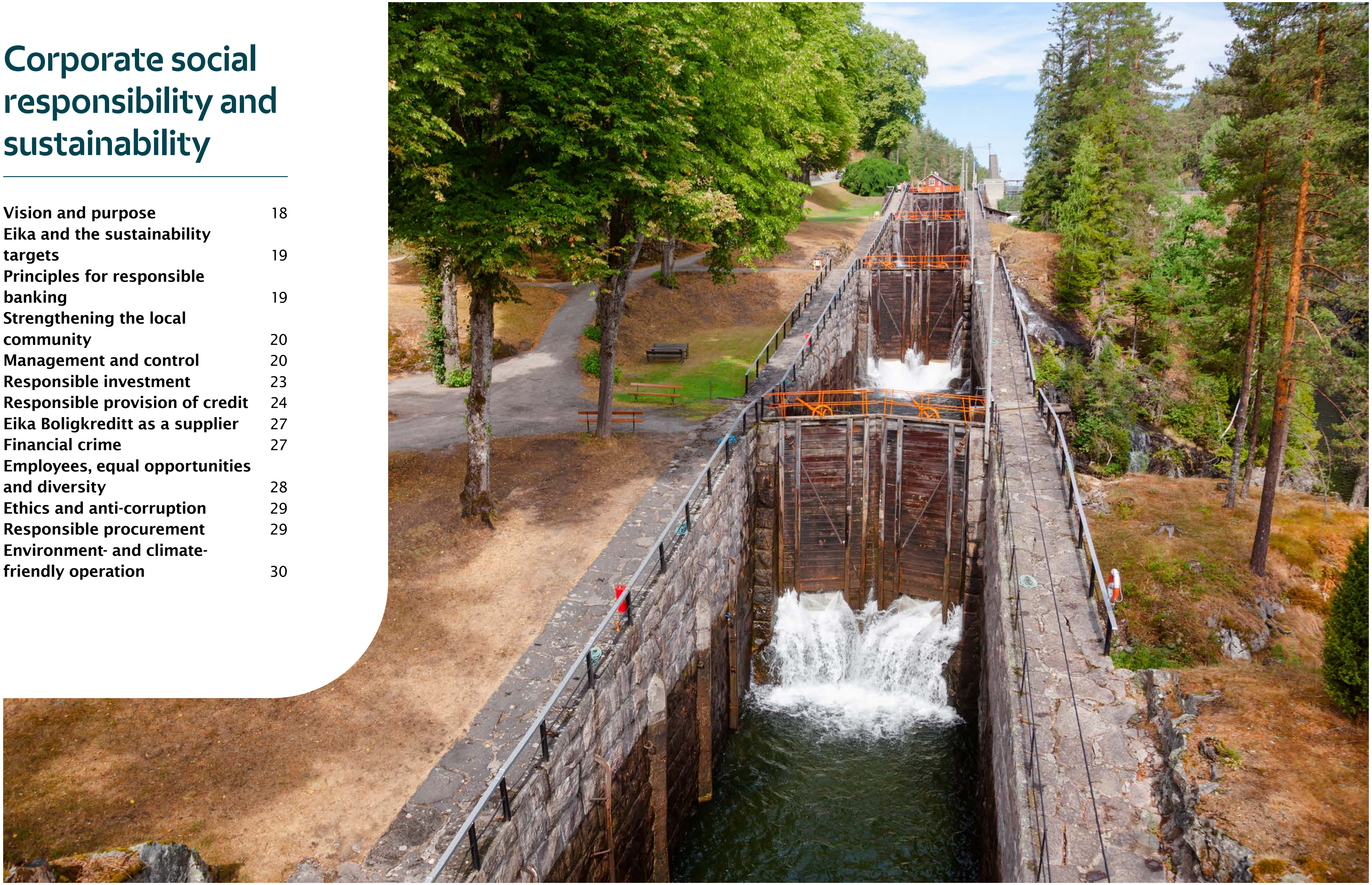
Specified in per cent and NOK

LTV:	0-≤40%	NOK 22 797.7 million	27.02%
LTV:	>40%-≤50%	NOK 15 771.4 million	18.70%
LTV:	>50%-≤60%	NOK 32 975.9 million	39.09%
LTV:	>60%-≤70%	NOK 11 335.1 million	13.44%
LTV:	>70%-≤75%	NOK 1 053.8 million	1.25%
LTV:	>75%-≤	NOK 425.2 million	0.50%

[1] Eika Boligkreditt does not permit an LTV of more than 75 per cent of the value of the residential property provided as collateral. In subsequent calculations of price trends for housing, statistical methods are used to determine the updated value. Variations could arise during this process between the valuation established by a surveyor/valuer or estate agent and that determined using statistical methods. The LTV in the table has been determined solely on the basis of statistical methods. This means that the LTV for certain mortgages could exceed 75 per cent.

Improved competitiveness
Reduced risk exposure

Corporate social responsibility and sustainability



Vrangfoss locks, Vestfold and Telemark

Lindesnes, Agder

Sustainability and societal engagement

Eika will take responsibility for a development of society which is sustainable and not achieved at the expense of future generations.

Sustainability and corporate social responsibility (CSR) are becoming increasingly important strategic drivers in industry and commerce. As a service provider to many Norwegian local communities, Eika contributes to and is a prime mover for sustainable their growth and to value creation in society through the responsible conduct of its business.

Sustainability is defined as social development which meets contemporary requirements without destroying the opportunities for future generations to satisfy their needs. It applies to economic, social, institutional and environmental aspects of society. At its core, the finance sector's CSR is to create value and operate profitably – but not at the expense of other people and the environment or at odds with basic ethical principles.

Vision and purpose

Eika's core business strengthens the local banks through good and cost-effective provision of products and services for modern and efficient bank operation. Its primary purpose is to "secure strong and caring local banks which serve as a driving force for local growth and sustainable development, for customers and the local community".

The Eika vision of "We strengthen the local

UN Sustainable Development Goals

bank" describes its desired future development. Its core business thereby supports the moral and ethical compass of the local banks and the societal engagement discharged by the local savings banks in the Eika Alliance. The motto is: "Present locally – with people you can meet and forge relationships with. Advisers who create a sense of security between people and an assurance that you are making the financial choices which are right for you."

Eika and the sustainability targets

Eika's work on sustainability in 2019 has involved taking responsibility for defining the strategic level at which Eika and the Eika Alliance will pursue their sustainability-related ambitions, with the emphasis on environmental, social and governance (ESG) criteria. These efforts have enjoyed broad support in the alliance, with good suggestions and initiatives from Eika and the local banks. Their goal has been to develop an integrated strategy for the whole Eika Alliance which sets a common standard for ambitions and goals, based on a suitable ESG framework for sustainability. The level of ambition backs sustainable local growth and change, sustainable financial products, and responsibility and sustainability in internal operations.

Sustainability in Eika builds on the UN sustainable development goals (SDGs), which represent the world's shared schedule for eliminating poverty, combating inequality and halting climate change by 2030. Coming into effect on 1 January 2016, these objectives provide many companies with a roadmap for their strategies on environmental and social responsibility.

Eika has influence over several of the SDGs, but sees that this impact can be greater with selected targets than for others. Eika Boligkreditt supports the following SDG and considers that the most relevant approach is to give particular emphasis to:

- SDG 8: promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

This target supports several sub-goals. Eika wants to contribute to better utilisation of resources, and works to end the link between economic growth and environmental damage, achieve full and productive employment and decent work for all, protect labour rights, promote a safe and secure working environment for all employees, and stimulate and expand access to banking, insurance and financial services for all.

Principles for responsible banking

Different principles and practices exist for work on sustainability. The UN environment programme finance initiative (UNEP-FI) launched its principles for responsible banking in the autumn of 2019. These provide guidance for banks in their sustainability efforts, and support society's overarching SDGs and the Paris agreement – which enshrines the 2˚C ceiling for global warming.

During 2020, Eika Boligkreditt will implement a process with aim of taking a decision on signing the UN's principles for responsible banking from the Paris agreement, and will in the event undertake to observe and comply with them. Pursuant to the principles, Eika Boligkreditt must:

1. align its business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the SDGs, the Paris climate agreement and relevant national and regional frameworks
2. continuously increase its positive impacts while reducing the negative impacts on,

Fredrikstad, Viken

and managing risks to, people and the environment resulting from its activities, products and services, and, to this end, will establish and publish targets for areas where the most significant impacts can be achieved

3. work responsibly with the local banks and customers to encourage sustainable practices and enable economic activities which create prosperity for both current and future generations
4. proactively and responsibly consult, engage with and partner relevant stakeholders to achieve society's overarching goals
5. pursue its commitment to these principles by implementing effective management tools and a culture of responsible banking
6. will periodically review its individual and collective implementation of these principles and be transparent about and accountable for its positive and negative impacts and its contribution to society's overarching goals.

Among other consequences, signing these principles requires an analysis of the company's climate footprint, a specification of how it will achieve its goals, and regular reporting of the status for this work.

Eika Boligkreditt furthermore regards Finance Norway's Roadmap to green competitiveness as a good guideline for the industry. This notes that Norway faces not only challenges but also big opportunities in the transition to a low-emission society. In the time to come, the company must handle risks associated with climate change, share in the available opportunities for a sustainable development of society, and continue to manage its societal engagement. Work on sustainability in Eika Boligkreditt will continue to find support in this roadmap.

Strengthening the local community

Eika Boligkreditt is firmly embedded in the various local communities through its owner banks. Many of these have histories extending back to the 19th century, and have been and remain an important contributor to the self-government, self-financing and development of their local communities. Their primary attention is directed at private customers, combined with local small-scale industries and the primary sector, and lending has been financed almost entirely through deposits.

Ever since the owner banks were established, they have made donations to philanthropic causes in their local communities, including culture, sports, clubs and societies. Increased market shares and high levels of customer satisfaction and loyalty confirm the important position and significance of the owner banks in their local communities.

Despite enormous social and structural changes since the first of the owner banks were established, it is not difficult to recognise the profile and role of these institutions today. As a result of such factors as the sharp increase in house prices over the past 20 years, the owner banks have become more dependent on external financing. For many of them, the growth in their lending and their overall loan portfolios have exceeded their total deposits. The establishment of Eika Boligkreditt is a direct consequence of this trend.

Through long-term and competitive funding, Eika Boligkreditt enhances the competitiveness of its owner banks and helps to reduce their risk exposure. That makes it indirectly an important contributor to strengthening a great many local communities in Norway. Profits made by Eika Boligkreditt are also returned directly to these communities in the form of commission payments and dividends paid to the owner banks.

Management and control

Effective risk management and good internal control are crucial for ensuring that goals are met, and form part of the ongoing management and follow-up of the business. Through good risk management and control, Eika Boligkreditt will be able at all times to identify, assess, deal with, monitor and report risks which could prevent its attainment of approved goals. The company's parameters for risk management and control define its willingness to accept risk and its principles for managing risk and capital. Risk management and control cover all types of risks which Eika Boligkreditt could encounter. Dealing with and controlling risk depends on its materiality. Risk management covers control, avoidance, acceptance or transfer of the risk to a third party. Controls embrace the organisation and division of labour, monitoring, reporting, and system-based and manual controls. They also cover values, attitudes, organisational culture, training and expertise, ethical guidelines, routines and procedures.

Eika Boligkreditt has established an independent risk management and compliance function, which continuously monitors and reports on whether risk management is complied with, functions as intended and is kept within approved parameters. This function is organised in accordance with the principle of three lines of defence. Eika Boligkreditt's business is subject to extensive legislation, which regulates its various governance bodies and their composition.

On-site inspection in 2019

The Financial Supervisory Authority of Norway (FSA) conducted an on-site inspection at Eika Boligkreditt on 30–31 January 2019. Relevant documentation was submitted to the FSA in advance. The company received a final report on 29 April 2019. It has assessed and dealt with all the comments received from the FSA following the inspection, and the recommendations made have been incorporated in the relevant governing documents.

Particular issues in 2019

Eika Boligkreditt devoted particular attention in 2019 to compliance with the regulations for combating money laundering and the funding of terrorism, including a review of governing documents and training. The company also focused on compliance with requirements introduced during 2018 in new regulations for processing personal data.

Everyday management and follow-up

Eika Boligkreditt's vision is to strengthen the local bank. Its main purposes is to ensure access for the local banks in the Eika Alliance to long-term and competitive funding by

Bjørvika, Oslo

Dyna lighthouse, Oslo

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. Generally speaking, financing through Eika Boligkreditt has longer tenors and substantially better borrowing costs than an individual owner bank could achieve on its own account. That is precisely why the company has become strategically important for the banks by contributing to increased competitiveness and lower risk exposure.

The strategic direction being taken by Eika Boligkreditt observes the principles for managing on the basis of balanced scorecard and provides the basis for implementing this approach along with projects and action plans. In addition, the company prepares budgets and forecasts, financial and non-financial measurement criteria, authorisations, policies and routines which are reported on and followed up as part of management in the company. Action plans and the status of risk and measures are carefully monitored and incorporated in ongoing management and board reporting over the year. Eika Boligkreditt is managed in accordance with approved risk strategies, and guidelines have been developed for risk reviews intended to ensure that the company and outsourced activities deal with risk in a satisfactory manner. The values of Eika Boligkreditt reflect the company's characteristics – professional, involving and long-term. Risk management and control in the company are rooted in these values together with approved strategies. The strategies are further broken down into operational action plans, which provide specifications, priorities, allocation of responsibilities and deadlines. Given the guidance and parameters in the strategic and action plans, risk management and control are built up around and within the business processes established to deliver the strategy. Management and control are thereby tailored to the business processes and specific requirements. This challenges and focuses risk management and control on the contribution to value, the commercial benefit and the most significant conditions which really mean something for meeting the targets.

Role of the board

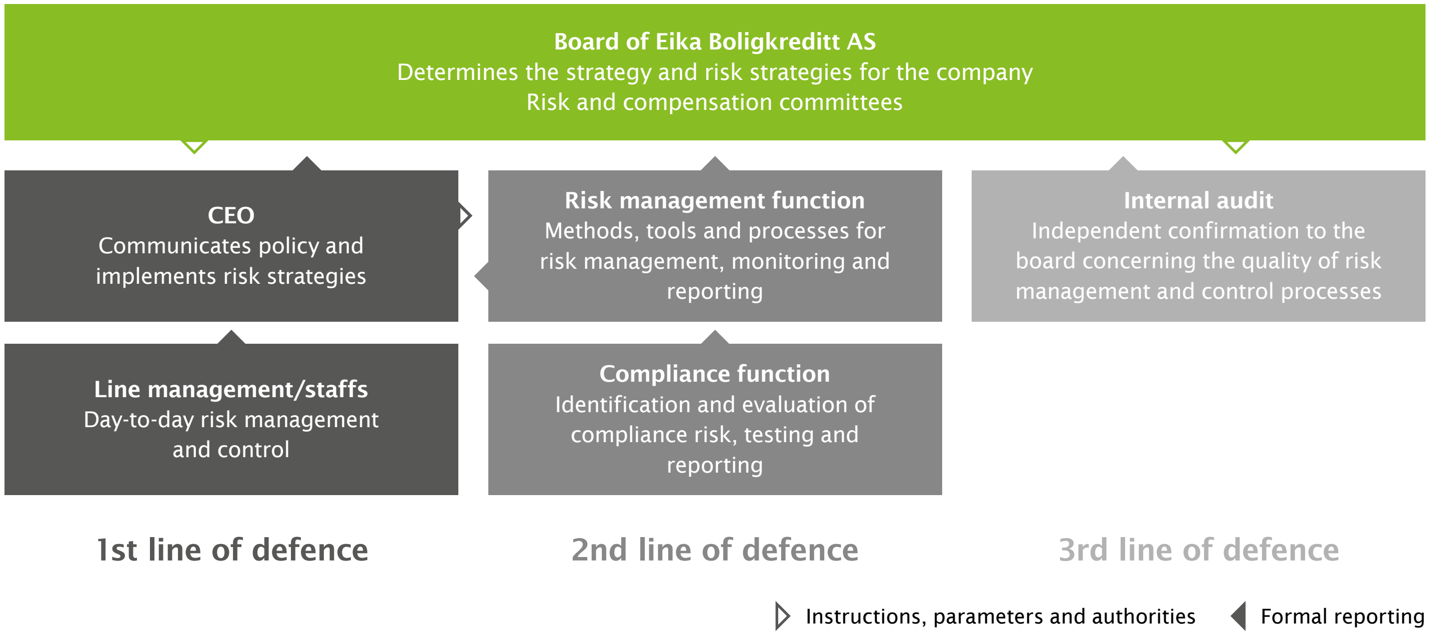
The board has adopted an instruction which specifies rules for its work and consideration of issues. Its annual plan covers duties specified in legislation, statutory regulations, official requirements, the articles of association and so forth. The board is responsible for determining the company's overall goals and strategies, including risk strategies and the risk profile as well as other key principles and guidelines, in addition to management of the company. It also ensures an acceptable organisation of the business. The board has established a separate instruction for the CEO. Board meetings are held in accordance with the annual plan, and as and when required. The board has appointed risk and compensation committees to prepare matters for consideration in these areas.

Role of the CEO

The CEO conducts day-to-day management of Eika Boligkreditt and has overall responsibility for all the company's operations. Responsibility for implementing strategies and policies approved by the board rests with the CEO. The latter ensures that risk management and control are implemented, documented, monitored and followed up in an acceptable manner, and ensures that the necessary resources, expertise and independence are provided for the risk management and compliance function. In addition, the CEO ensures that Eika Boligkreditt's risks are managed within the board's approved parameters. Furthermore, the CEO will continuously follow up management and control in all parts of the company's business.

Risk management function

The risk management function ensures that management and the board are adequately informed at all times about the company's risk profile through quarterly risk reporting and annual assessments of risk and capital requirements. It is responsible for continued development and implementation of an integrated framework for risk management, and for ensuring that this accords with external and internal requirements. That means policies and strategies must be in place which ensure management with the aid of goals and parameters for the desired level of risk, and that such policies and strategies are operationalised in an efficient manner. Ensuring clear responsibilities and roles plays a key role in management and control, along with follow-up of compliance through risk parameters and operational guidelines. The risk management function reports on a quarterly basis to Eika Boligkreditt's executive management and board.



Compliance function

The compliance function is charged with identifying and preventing risk from failure to comply with the regulations. Compliance risk is part of Eika Boligkreditt's operational risk, defined as the risk that the company incurs government sanctions or suffers financial or reputational loss because it fails to comply with legislation, statutory regulations and/or standards. The compliance function will have a preventive, advisory and monitoring role in the company, with responsibility for plans and testing in accordance with risk-based controls. It reports on a quarterly basis to the executive management and board of Eika Boligkreditt.

Internal audit

The internal audit function provides independent confirmation that risk is dealt with in a satisfactory manner and that communication and interaction work between the lines of defence. It represents the company's third line of defence. Eika Boligkreditt's independent internal audit function has been outsourced to PwC. The board approves annual plans for the internal audit function, which reports directly to the board. These reports are considered on a continuous basis.

Responsible investment

At any given time, Eika Boligkreditt has a substantial portfolio of liquid investments held as part of the requirements it is subject to as a credit institution.

These holdings largely comprise bonds issued by states, banks, financial institutions, local authorities and county councils, in addition to offset agreements and deposits in banks with a minimum A-/A3 rating.

Eika Boligkreditt has chosen not to invest in enterprises place by the ethical council of Norway's government pension fund global (SPU) on its list of excluded companies. The latter fall into the following categories:

- serious violations of human rights
- severe environmental damage
- serious violations of the rights of individuals in war or conflict
- gross corruption
- other serious breaches of fundamental ethical norms
- cluster weapons
- nuclear weapons
- anti-personnel mines
- tobacco production
- sale of military materials to certain states.

More information on companies excluded can be found here.

Eika Boligkreditt has also chosen to extend its exclusion list to include all companies in the following Global Industry Classification Standard (GICS) industries and sub-industries.

- **Coal** – Fossil fuels are significant contributors to negative climate impacts. Coal-based electricity generation makes a negative contribution to the climate as well as being associated with uncertainties over working conditions and safety in many parts of the world. The company has also distanced itself from the establishment of new coal mines.
- **Tobacco** – Globally, tobacco kills more than seven million people a year (NHI.no). In addition, it imposes huge health costs and lost production revenues.
- **Gambling** – Some people suffer serious problems from an addiction to gambling, which often affects families and children. A large unregulated gambling market with little transparency exists worldwide. In addition, casino and gambling activities pose a high risk of criminal behaviour, such as money laundering and bribery.

Eika Kapitalforvaltning, whose activities include managing the Eika funds, the Eika Forsikring portfolio and the liquidity reserves of most local banks in the Eika Alliance, manages these assets in accordance with more detailed ESG guidelines. Eika Kapitalforvaltning will share information with Eika Boligkreditt concerning Norwegian companies/issuers which it excludes, since these are not included in the exclusion list from the Government Pension Fund Global (GPFG).

Responsible provision of credit

Eika Boligkreditt's ambition is to be a responsible provider of credit and to help ensure that the local banks fulfil their role as attentive advisers to their customers. Responsible provision of credit is important in making sure that customers do not take on commitments they cannot cope with, and in helping the local banks to support a green transition where customers are informed of sustainable and competitive solutions. Eika Boligkreditt provides both credit to private customers and mortgages for residential cooperatives, but its approach to these two classes of customers differ a little.

The basic principle of sustainable residential mortgages in the private market is further enshrined in the strategy of the local banks for sustainability in their lending, and in their credit policy for private customers. These demands are also operationalised through Eika Boligkreditt's credit strategy, which describes specific requirements related to such aspects as combating money laundering, the black economy, checking the loan-to-value (LTV) ratio and assessing the customer's risk classification. In this way, the local banks contribute in collaboration with Eika Boligkreditt to ensuring that customers do not take on excessive debt.

The local bank also advises customers when not to borrow, based on the purpose of the loan. That may apply, for example, if customers want a loan to send money to unknown people, to free up a lottery prize or inheritance, or for other typical swindles.

Lom stave church, Innlandet

Mortgage regulations

Both the banks and Eika Boligkreditt are subject to the mortgage regulations, and check compliance with these. The main provisions cover the following.

- **Ability to service the debt** – the mortgagee must assess the mortgagor's ability to service the mortgage on the basis of their income and all relevant outgoings, including interest payments, mortgage instalments and normal living expenses. In assessing the mortgagor's ability to service the mortgage, the mortgagee must allow for an increase of five percentage points in the relevant interest rate.
- **Debt-to-income ratio** – total debt must not exceed five times the mortgagor's annual income.
- **LTV ratio** – the mortgage must not exceed 85 per cent of a prudent valuation of the residence at origination.
- **Instalments** – where a mortgage exceeds 60 per cent of the value of the mortgaged

Lovatnet, Vestland

residence, the mortgagee must require an annual repayment of at least 2.5 per cent of the mortgage principle.

The flexibility quota allows up to 10 per cent of the mortgages granted by a mortgagee in every quarter to fall short of the requirements in the mortgage regulations. This has to be followed up and reported at an aggregated level, which means the reporting must cover both mortgages carried on the bank's balance sheet and those placed with Eika Boligkreditt.

The Eika School

The alliance has its own Eika School, which provides teaching and courses required for filling many of the different roles in the local banks. All financial advisers in a bank, for example, most be authorised pursuant to Norway's AFR certification scheme. Acquiring this qualification includes taking and passing a test covering:

- parameters for giving credit
- credit assessment and products
- relevant collateral and mortgages
- information/explanations to the credit customer, dissuasion and proposals for solutions
- documents in the credit process
- follow-up during the life of the mortgage, redemption and default.

The training programme begins with a self-assessment and a test to assess the adviser's level of knowledge. The adviser then goes through the course and is given access to technical literature, refreshed questions and exercises. They are tested and can also take a trial exam on one occasion before the final examination. The latter comprises a total of 55 questions on the various subject areas, and takes 90 minutes.

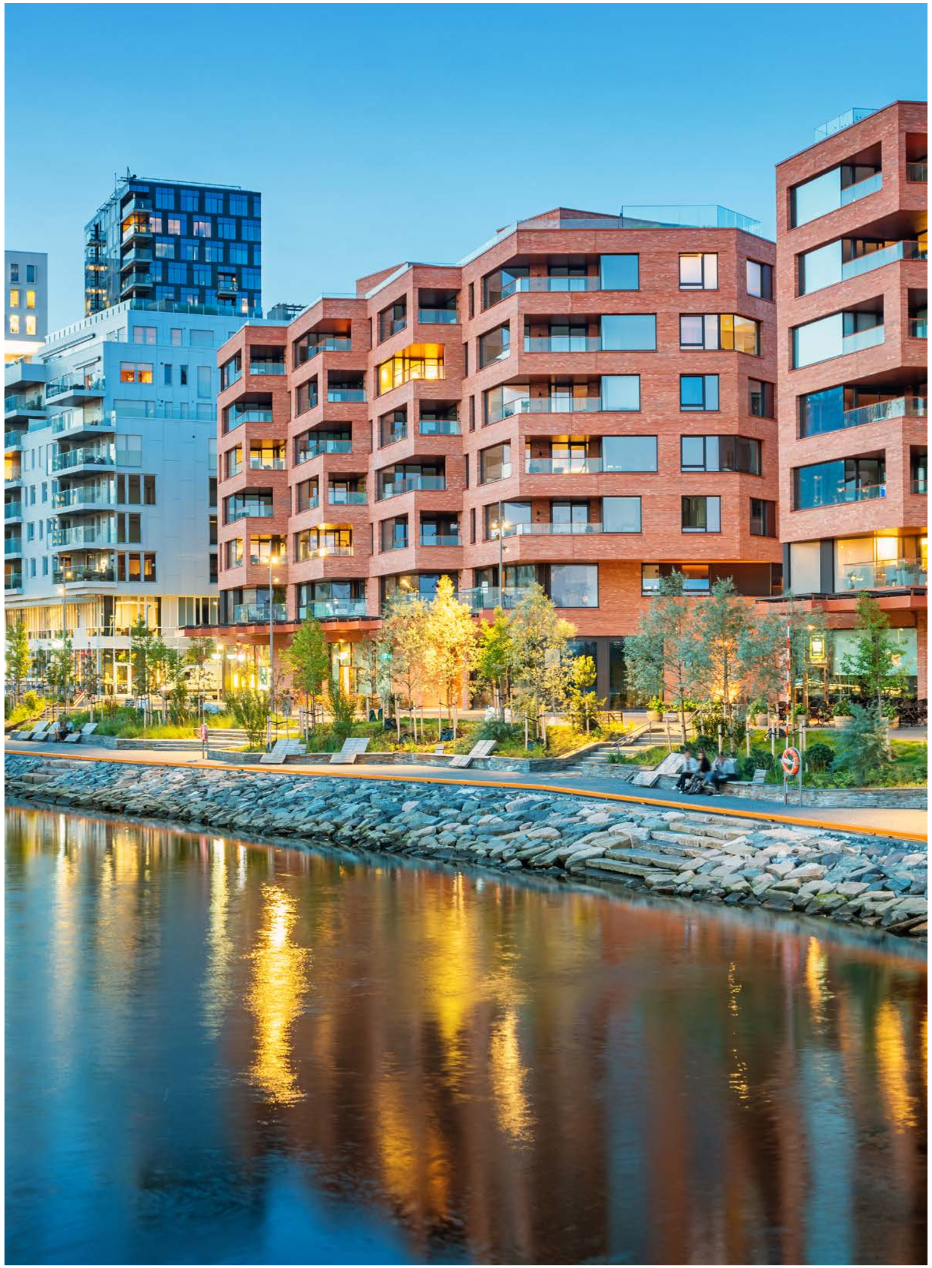
Customer complaints

As a general rule, Eika Boligkreditt is not in direct contact with the end customer. By agreement, the bank is the intermediary between Eika Boligkreditt and the customer and thereby the point of contact for the latter. If a customer of the bank wants to make a complaint about aspects of a mortgage held by Eika Boligkreditt, they must do so in writing to the bank. On request, the bank is required to give the customer information in writing about its complaint handling procedures, including details about how to complain.

A complaint received by the distributor bank which concerns Eika Boligkreditt must be forwarded in writing to the latter. If the customer has completed the complaint form made available by the individual bank, this is passed on in its entirety to Eika Boligkreditt. The complaint must include the grounds for making it and other possible details relevant to the case.

Eika Boligkreditt has well-established complaints procedures, which are readily accessible to customers. All cases are dealt with by dedicated complaints staff. The banks also conduct quarterly reviews of lessons learnt from complaints in their own internal complaints committee. This assesses the need to change policies, routines, marketing and products.

The management system for the product areas is evaluated annually, based on



Bjørvika, Oslo

complaints and incidents over the preceding year. No customer complaints were received in 2019. The last time the company received a customer complaint was in 2016.

LTV ratio

As a general rule, loans must be secured with a first preferred mortgage on the main mortgaged property. To the extent that a second preferred mortgage is involved, the sum of the first and second preferred mortgages must not exceed 75 per cent of the mortgaged property's value for residential properties and 50 per cent for holiday homes. At 31 December 2019, the average LTV ratio in the cover pool was 47 per cent.

Residence in Norway

The company's credit manual specifies as a general rule that all mortgagors in Eika Boligkreditt must be private customers, but mortgage finance can also be extended in exceptional circumstances to residential cooperatives. A further condition is that lending must be for residential mortgages, and must therefore be defined separately from commercial finance. Where private mortgagors are concerned, a fundamental requirement is that the mortgage sought can be serviced from income which does not derive from the mortgaged property. Pursuant to Norwegian law, the mortgagor(s) must be an adult and legally competent at the origination of the mortgage. This means that a mortgagor cannot be under 18 years of age (a minor) or placed under legal guardianship (see section 1 of the Norwegian Guardianship Act). No absolute upper age limit has been set for mortgagors. Mortgagors must also be permanently resident in Norway.

Mortgages for residential cooperatives

Eika Boligkreditt also finances mortgages for residential cooperatives, but these differ in certain respects from ordinary residential mortgages for private individuals. That includes the possibility of a somewhat higher risk concentration. As one of the few issuers of covered bonds offering this type of financing, Eika Boligkreditt has therefore chosen to maintain strict standards related to a good financial position, many residential units and a very low LTV ratio. At 31 December 2019, the average LTV ratio for this type of mortgage in Eika Boligkreditt was just under 19 per cent.

Green homes

Eika Boligkreditt has carried out an analysis of its cover pool which defines three criteria for classifying the mortgaged property as one of the 15 per cent of energy-efficient residential units in Norway – popularly known as "green homes". These criteria are based on building standards, energy certificates and refurbishments which confer a minimum 30 per cent improvement in the unit's energy efficiency. This accords with the principles enshrined in the Climate Bond Initiative, an international scheme with the sole purpose of promoting a rapid transition to a low-carbon and climate-robust economy through the role which the bond market can play. Based on this analysis, 933 of the 52 000 residential units in the cover pool qualify as green homes. While the overall portfolio has an estimated annual energy requirement of 2 076 gigawatt-hours (GWh), the average requirement for the green homes is 122 kilowatt-hours (kWh) per square metre.

That is 52 per cent lower than the average for Norwegian residential units. The green homes in the cover pool reduce the carbon footprint of residential units covered by mortgages from Eika Boligkreditt by 15 500 tonnes of CO_2 per annum compared with the figure if these homes had an energy efficiency corresponding to the Norwegian average. Click here to access the full analysis.

This work has been done by Eika Boligkreditt primarily because measuring the status of the climate footprint for the assets financed by its mortgages represents a first step towards fulfilling an ambition to reduce this footprint for residential units financed by the company over time. The analysis results will provide input to processes under way in the Eika Alliance to incorporate the climate risk and footprint in its credit processes. A secondary motive for such an analysis is to provide a key element in a green framework which the company can use for issuing green bonds.

Eika Boligkreditt as a supplier

The company has a clear goal of being predictable and providing a high level of transparency with regard to the processes and changes which occur within the applicable parameters. This is achieved in part through good and clear communication and through placing the needs and risk exposure of the banks at centre stage. A high level of availability and good correspondence between promise and performance are also crucial factors. Eika Boligkreditt works actively to maintain a high score in the annual Alliance survey, which measures the satisfaction of the owner banks with the company's deliveries in terms of product and service quality.

Aurland, Vestland

Measures are given priority where areas for improvement have been identified. Eika Boligkreditt's ambitious goal for overall satisfaction by the owner banks is 70 out of 100 points or better. The most recent assessment, carried out in the autumn of 2019, gave the company a score of 83 points.

Financial crime

Eika Boligkreditt regards combating financial crime as an important part of its CSR. The purpose of this work in financial institutions is to protect the integrity and stability of the international financial system, undermine the funding of terrorism, and make it difficult for criminals to benefit from their crimes. As a credit institution, Eika Boligkreditt has a statutory reporting obligation pursuant to the money laundering regulations and is also subject to the sanctions regulations. In its collaboration agreement with the owner banks, the company has outsourced the implementation of customer measures and associated services related to the money laundering and sanctions regulations in order to ensure that its obligations pursuant to these regulations are discharged by the owner banks as distributors. Eika Boligkreditt has established policies to combat money laundering and funding of terrorism as well as internal routines for continuous follow-up of customer relationships and transactions in order to identify possible suspicious transactions pursuant to the money laundering regulations. The company has also established electronic monitoring which regularly provides notification of suspicious transactions. These are then followed up, initially with the relevant bank, and if necessary

Stegastein, Aurland, Vestland

reported to the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim). No cases were reported to Økokrim in 2019. Eika Boligkreditt has appointed its own money laundering officer, who has special responsibility for following up the money laundering and sanctions regulations.

Employees, equal opportunities and diversity

Eika Boligkreditt had 20 permanent employees at 31 December 2019, including 19 in full-time posts and one employee working 80 per cent of a full-time position customised by the employer at her own request. In addition, the company has entered into an agreement with Eika Gruppen on purchasing services in a number of areas. Eika Boligkreditt's mortgage customers are primarily serviced by the owner banks. The working environment is regarded as good, and no personal injuries or occupational accidents were recorded in the workplace during 2019.

The Eika Alliance has a common digital learning platform (LMS), which makes courses and training programmes available for employees. Its own curricula and the finance industry's certification schemes form the basis for the alliance's goals with and responsibility for developing employee competence. Together with good adviser practice, the industry's procedures and rules as well as the bank's personnel manual form the basis for policies, guidelines and commitments.

The alliance belongs to the certification scheme for financial advisers, which requires the use of specific programmes for employee development.

Conversations on goals and performance are an important instrument for ensuring follow-up of and progress by employees. The company's personnel manual specifies that all employees will have a conversation with their immediate superior twice a year on their own development and performance.

Eika Boligkreditt makes active efforts to maintain a good internal working environment and to ensure that employee rights are well looked after. This is done in part through extensive cross-department work and information flow where appropriate. An employee satisfaction survey (MTU) is also conducted annually. Scores from this have been very high, and the findings are reviewed and evaluated with a view to further improvements. The annual MTU measures results for a total of 13 sub-sectors, based on responses to 49 questions. The average score in 2019 was 86, with a range for the sub-sector scores from 78 as the lowest to 91 as the highest.

Overall sickness absence in 2019 amounted to 0.5 per cent of total working hours. One employee took parental leave during the year.

Eika Boligkreditt aims to be a workplace which:
- is forward-looking and development-oriented
- contributes to resolving important social challenges
- contributes to higher participation in work
- increases value creation and provides a competitive working environment
- reflects the expectations of the market and society, and is open to new commercial opportunities.

This means the company wants to work actively, purposefully and in an planned manner to promote equal opportunities and prevent discrimination, regardless of gender, pregnancy, paternity or adoption leave, carer responsibilities, ethnicity, religion, beliefs, disabilities or sexual orientation. The company's policy includes regulations on equal opportunities which aim to prevent discriminatory treatment in such cases as pay, promotion and recruitment.

Average female pay as a proportion of the male average is presented below.

All employees	
Women	65%
Specialists and support functions	
Women	81%

Average pay for women is 65 per cent of the male average in the company. Where the subcategory of specialists and support functions is concerned, with 14 work-years including four females, the average pay for women is 81 per cent of the male rate. The remaining six employees are in the company's management (five men and one woman). Lower average pay for women in the company reflects differences in length of service and level of responsibility. The company also has relatively few employees, which could produce big variations in average pay for each group.

Eika Boligkreditt has entered into a company pay agreement in addition to the main collective pay settlement and the central agreement negotiated between Finance Norway and the Finance Sector Union. The company agreement covers all employees except the CEO and other senior operative executives. Ten per cent of the company's employees belong to the Finance Sector Union.

The company has a majority of males both in its operative management (five men and one woman) and among specialists and support functions (10 men and four women). Women accounted for 25 per cent of its workforce at 31 December 2019, unchanged from a year earlier. All other things being equal, it would be desirable to increase this proportion when making new appointments.

Two new employees were recruited in 2019 to replace departing personnel. These recruits, a man and a woman, are both new graduates and below the age of 30. The age and gender composition is presented in the table.

Appointments	< 30	30-40	41-50	> 50
Women	1	0	0	0
Men	1	0	0	0
Departures				
Women	0	1	0	0
Men	0	1	0	0

That represented a staff turnover of 10 per cent for Eika Boligkreditt in 2019, which was high compared with earlier years. No reduction in work-years occurred in the company during 2019.

The age distribution between women and men by job category is presented in the table.

Operative management	< 30	30-40	41-50	> 50
Women	0	0	0	1
Men	0	0	1	4
Specialists and support functions				
Women	1	1	0	2
Men	1	8	1	0

Board of directors	< 30	30-40	41-50	> 50
Women	0	0	0	0
Men	0	0	2	4

Ethics and anti-corruption

Like the rest of the Eika Alliance, Eika Boligkreditt AS is dependent on trust and a good reputation. A great responsibility accordingly rests both on the company and on the individual employee to act ethically towards customers, owner banks, investors, partners, colleagues and the world at large. The purpose of Eika Boligkreditt's ethical guidelines is to describe its standards in this area.

All Eika Boligkreditt's employees must behave and work in compliance with applicable legislation, statutory regulations and internal guidelines. They are all expected to do their job in an ethical and socially acceptable manner, and in line with the company's core values of being professional, involving and long-term.

No unambiguous answer exists to the question of what behaviour will be ethically acceptable in given circumstances. A possible guideline is that the following questions should be answered with an unqualified "no".

- Would I dislike it if this became known to the management or my colleagues at work?
- Could this in any way undermine trust in Eika Boligkreditt or the alliance were it to be reported in the media?
- Could the action conflict with the interests I am charged with protecting as an employee of Eika Boligkreditt, or be perceived as a benefit I am receiving by virtue of my position?

The guidelines regulate such matters as the individual employee's relationship with customers, suppliers, competitors and the world at large. All employees must avoid forming any kind of dependent relationship with customers or business connections, and must be fully conscious of attempts at corruption or forms of influence-peddling. The ethical guidelines make the company's zero tolerance of corruption clear, and employees must in no circumstances give or receive any form of inappropriate benefit – direct or indirect – through or in connection with Eika Boligkreditt's business operations. All new employees must read the ethical guidelines as part of their introduction programme, and ethics are on the agenda at fixed meetings for them. Eika Boligkreditt adopted updated ethical guidelines in March 2019. Click here to access the guidelines.

In addition to its ethical guidelines, the company has established its own whistleblowing procedure. This complies with the requirements of the Working Environment Act for notifying irregularities in the business. The purpose of the procedure is to reduce the risk of internal wrongdoing and to take care of the employee's right and duty to blow the whistle. Examples of irregularities which could form the basis for whistleblowing are provided in the procedure, such as improper behaviour, corruption, illegal acts, financial crime, unethical or damaging activity, or breaches of the ethical norms of others. The procedure also makes provision for employees to notify anonymously if they so wish.

Responsible procurement

Eika Boligkreditt has established a policy for procurement which specifies that documented CSR must form part of all purchase agreements. This policy covers contracts for procuring goods and services for Eika Boligkreditt, including agreements with investment banks/managers in the company's funding activities. Eika Gruppen has established a procurement policy which also covers purchases made on behalf of Eika Boligkreditt.

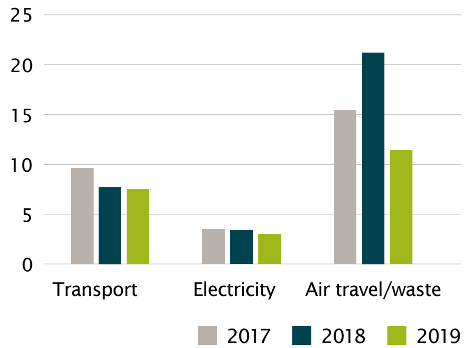
The company's procurement must accord with the following general principles.

- Products or services procured must be environment-friendly and sustainable, with attention paid to the life cycle of a product related to such aspects as recycling.
- The company must ensure that contracts for procurement of goods and services are entered into on the best possible terms, and its purchases must be as cost-efficient as possible.
- Eika Boligkreditt must maintain the integrity of its procurement processes in relation to applicable regulations, and

ANNUAL GREENHOUSE GAS EMISSIONS

Tonnes of carbon equivalent

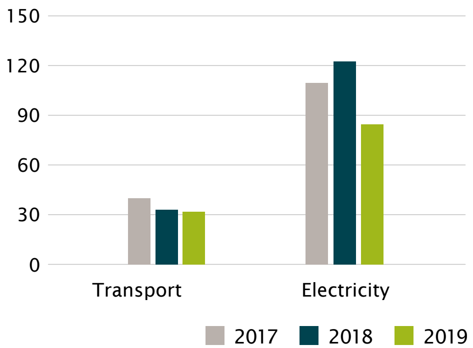
	2019	2018	2017
Transport	**7.5**	7.7	9.6
Electricity	**3.0**	3.4	3.5
Air travel/waste	**11.4**	21.2	15.4
Total	**21.8**	32.3	28.5



ANNUAL ENERGY CONSUMPTION

MWh

	2019	2018	2017
Transport	**31.7**	33.0	39.9
Electricity	**84.6**	122.6	109.4
Total	**116.4**	155.6	149.3



primarily make purchases on the basis of competitive tendering.
- Procurement processes must meet requirements for equal treatment, predictability, transparency and verifiability.
- In its procurement processes, Eika Boligkreditt must ensure that no questions can be raised concerning conflicts of interest from the relationship between its employees and the supplier company or their personal interests. The company has established a policy for dealing with conflicts of interest.

Furthermore, Eika Boligkreditt's suppliers must comply with national and international legislation and regulations as well as internationally recognised principles and guidelines. These include provisions related to human and labour rights, the environment, corruption, money laundering and funding of terrorism. They must also see to it that possible sub-suppliers comply with the same principles and rules.

Suppliers must sign a self-declaration that they comply with the obligations specified in the guidelines, and have a duty to notify Eika Boligkreditt in the event of actual or suspected breaches of these. Breaches of the provisions result in cancellation of the contract. Click here to access the policy.

Environment- and climate-friendly operation

Eika Boligkreditt wants to have the smallest possible negative impact on the natural environment, and entered into an agreement from 2013 with CO_2fokus. The latter has developed a dedicated energy and climate accounting (environmental report) for the business.

Eika Gruppen, which leases offices to the company, has energy- and heat-saving installations to help limit consumption. Hydropower has also been chosen as the sole energy source, giving the premises a Clean Hydropower certification. The latter contributes to an increased commitment to environment-friendly energy. All areas also have round-the-clock energy saving through regulation of temperature and lighting.

The owner banks are widely spread geographically, which has been a contributory factor in Eika Boligkreditt's extensive and growing use of video and web conferencing in connection with training and information flow. This not only safeguards the environment but reduces unnecessary use of travel time and effort in a busy day.

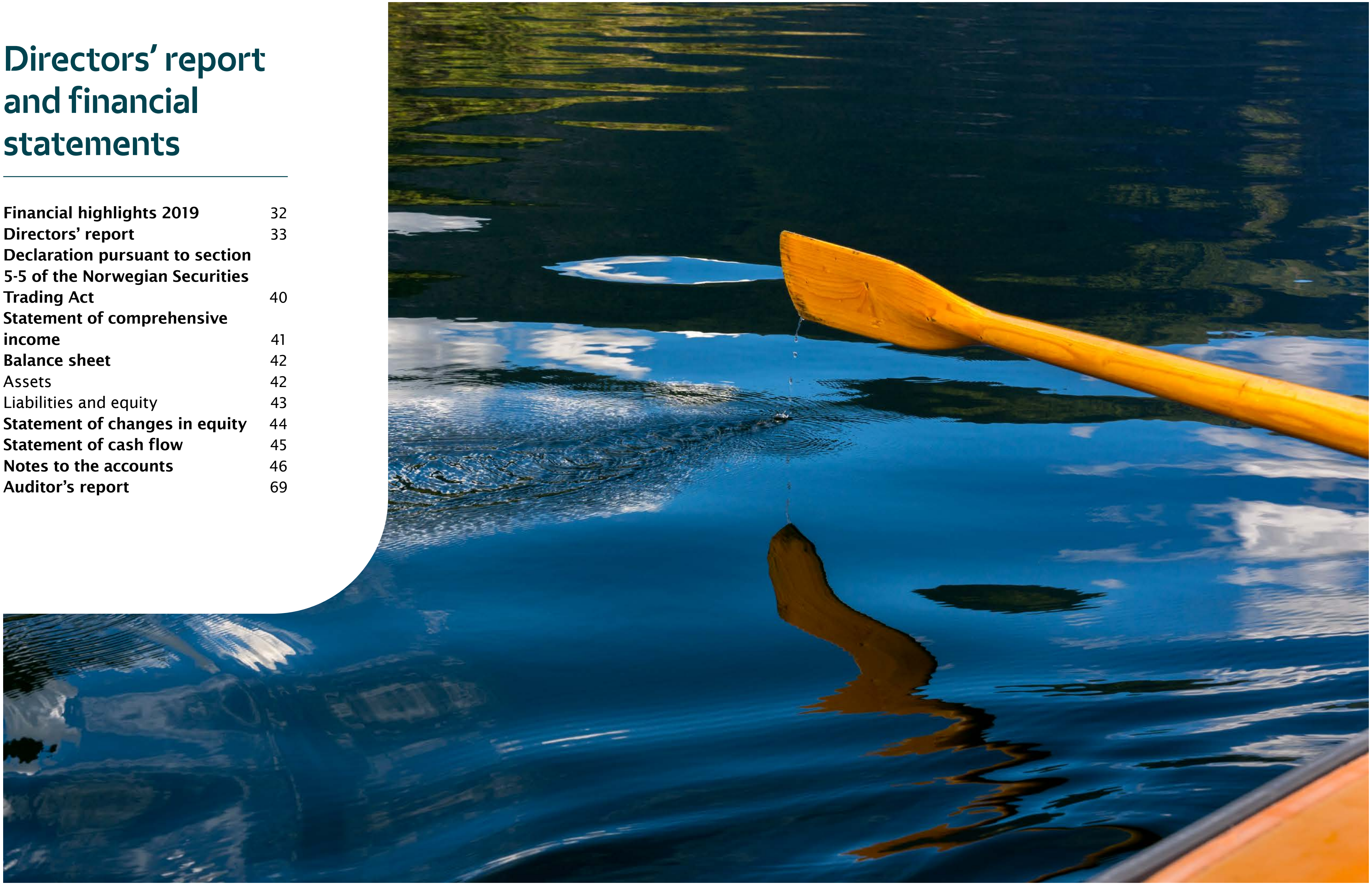
Eika Boligkreditt has a conscious attitude to the use of paper and electronic templates and documents, as well as to postage costs. Reducing paper consumption to a necessary minimum is a clear objective.

An overview of the company's greenhouse gas (GHG) emissions and energy consumption has been prepared for 2017, 2018 and 2019. This analysis is based on direct and indirect usage related to Eika Boligkreditt's activities. Its total GHG emissions in 2019 are estimated at 21.8 tonnes of CO_2, down by 10.5 tonnes or 32 per cent from the year before. Energy consumption was down 31 per cent by area from 2018 and 25 per cent in total. Reductions were also achieved in emissions per work-year (work-years were unchanged in 2019 at 19.8) and per NOK million in turnover (which was up from NOK 2 162 million in 2018 to NOK 2 624 million). Click here to access the full analysis (in Norwegian only).

In order to strengthen and intensify work with responsibility and sustainability in its own operations, Eika Gruppen has initiated a process for certification by the Eco-Lighthouse Foundation in 2020. Eika Boligkreditt rents premises from Eika Gruppen and will be indirectly embraced by such certification. Where Eco-Lighthouse certification for Eika Boligkreditt and specific targets for reaching the zero emissions goal are concerned, a process will be implemented during 2020 to reach a decision.

The climate footprint provides a general overview of the company's GHG emissions converted to tonnes of CO_2 equivalent, and comprises information from both internal and external systems. This analysis has been conducted in accordance with the GHG Protocol initiative, an international standard developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). It ranks today as the most important standard for measuring GHG emissions from an enterprise. The protocol divides the amounts released into three main segments or scopes, which include both direct and indirect emissions. Reporting takes account of the GHGs CO_2, CH_4 (methane), N_2O (nitrous oxide), SF_6, HFK and PFK.

Directors' report and financial statements



Financial highlights 2019

102.2 MILL

Pre-tax profit of NOK 102.2 million, compared with NOK 196.6 million in 2018.

106 BN

The company had total assets of NOK 106 billion at 31 December, compared with NOK 108 billion a year earlier.

94.3 BN

The borrowing portfolio totalled NOK 94.3 billion, a net reduction of NOK 3 billion or 3.1 per cent from 31 December 2018.

3.3%

The borrowing portfolio totalled NOK 84.7 billion, a net increase of NOK 2.7 billion or 3.3 per cent from 31 December 2018.

648 MILL

Net interest revenues were NOK 648 million, compared with NOK 682 million in 2018.

513 MILL

Distributor commissions to the owner banks totalled NOK 513 million, compared with NOK 482.4 million in 2018.

18.7%

The company's capital adequacy ratio was 18.7 per cent at 31 December, compared with 17.5 a year earlier. Capital adequacy is calculated in accordance with the CRR/CRD regulations.

47.1%

The average LTV for the whole cover pool was 47.1 per cent.

Directors' report 2019

The company's business

Nature of the business

Eika Boligkreditt's principal purpose is to secure access for the local banks in the Eika Alliance (the owner banks) to long-term and competitive funding through the issue of covered bonds. An important part of the company's business concept is to increase the competitiveness of the owner banks by improving their access to external financing in the Norwegian and international financial markets with regard to maturities, terms and depth. The company's business purpose also includes reducing risk for the owner banks. At 31 December 2019, the owner banks had a total financing of NOK 84.7 billion from Eika Boligkreditt and had thereby reduced the need for market financing on their own account by a corresponding amount.

The company is licensed as a credit institution and authorised to raise loans in the market through the issue of covered bonds. Norwegian regulations for covered bonds were adopted in 2007, and this type of bond has become an important source of finance for lending activities by banks and credit institutions. Concentrating funding activities related to covered bonds in Eika Boligkreditt has secured the owner banks in the Eika Alliance a player in the bond market with the necessary requirements to obtain competitive terms in both Norway and internationally. With total assets of NOK 105.8 billion, the company ranks as one of the largest bond-issuing credit institutions in Norway.

Ownership structure

Eika Boligkreditt was demerged from the Eika Gruppen AS financial group in May 2012, and became directly owned by the local banks in the Eika Alliance and the OBOS housing association. In conjunction with the changes to the ownership structure, a shareholder agreement was entered into with all the owners which includes the stipulation that ownership of the company is to be rebalanced on an annual basis. This will ensure an adjustment so that the holding of each owner bank corresponds to its share of the bank financing from the company.

Agreements on liquidity and capital support

Agreements were entered into in 2012 to regulate support for liquidity and capital respectively from the owner banks to Eika Boligkreditt. Liquidity support is regulated by an agreement concerning the purchase of covered bonds which came into effect on 10 May 2012. OBOS is a party to this agreement for the share of the residential mortgage portfolio held by OBOS-banken. The main features of this agreement are that the owner banks, for as long as they have residential mortgage portfolios in the company and under given circumstances, are committed to provide Eika Boligkreditt with liquidity. This liquidity obligation is limited to the maturity of the company's covered bonds issued under the Euro Medium Term Covered Note (EMTCN) Programme and associated derivative agreements over the coming 12 months. To the extent that covered bonds have been purchased by the owner banks under the liquidity agreement and have not been redeemed, these are deducted from the calculation of each owner bank's outstanding liquidity obligation. Each owner bank's liquidity obligation is primarily limited to its pro rata share of the issued amount, which is calculated on the basis of each owner bank's share of the company's bank financing. Should one or more owner banks fail to fulfil their liquidity obligation pursuant to the agreement, the liquidity obligation of the other owner banks can be increased up to a limit of twice their original pro rata share.

Capital support from the owner banks is regulated by a shareholder agreement dated 10 May 2012. OBOS is a party to this agreement for the share of the residential mortgage portfolio held by OBOS-banken. This includes a commitment by the owner banks that, under given circumstances, they will have to provide the company with the capital required to maintain the company's tier 1 capital and total primary capital ratios at levels required or recommended by the Financial Supervisory Authority of Norway. The present capital targets, which have applied from 31 December 2019, are set at a minimum of 13.5 per cent for the core tier 1 capital ratio, 15 per cent for the tier 1 capital ratio, and 17 per cent for the tier 2 capital ratio. The individual owner bank's capitalisation obligation is primarily limited to its pro rata share of capital issues, calculated on the basis of each owner bank's share of the company's bank financing. Should one or more owner banks fail to fulfil their capitalisation obligation pursuant to the agreement, the capitalisation obligation of the remaining owner banks can be raised to a limit of twice their original pro rata share. The agreement on purchasing covered bonds and the shareholder agreement can be terminated under certain conditions.

International rating

Covered bonds issued by Eika Boligkreditt have an Aaa rating from Moody's Investor Service (Moody's). The bonds have a rating buffer of two notches in the event of a downgrade for the owner banks. In other words, the rating assessment for the owner banks, which is reflected in Eika Boligkreditt's issuer rating of Baa1, can be downgraded by up to two notches without the covered bonds losing their Aaa rating. A precondition for the Aaa rating is an overcollateralisation of at least five per cent for the cover pool. At 31 December 2019, the overcollateralisation was 11.35 per cent (based on nominal values excluding the company's own holding of covered bonds). The owner banks have provided guarantees against defaults on transferred residential mortgages. The particularly high credit quality of the residential mortgages in Eika Boligkreditt's cover pool has been confirmed by Moody's in its quarterly Performance Overview for Eika Boligkreditt AS – Mortgage Covered Bonds. In the latest of these reports, published by Moody's on 10 December 2019, the credit risk in the cover pool – designated the collateral score excluding systemic risk – was estimated at 1.9 per cent. This is the lowest for the Norwegian covered bond issuers as well as very low on a global basis for the risk of loss from the credit risk in the cover pool. The primary purpose of the report is to support Moody's rating of covered bonds, and to provide insight into various key assumptions which are decisive for the rating. Similar reports are produced for all covered-bond issuers rated by Moody's. This report from the agency confirms that the owner banks provide the company with high-quality residential mortgages.

Development of bank financing

The owner banks had a total financing from Eika Boligkreditt of NOK 84.7 billion at 31 December 2019, representing an increase of NOK 2.7 billion or 3.3 per cent over the year. Standalone residential mortgages accounted for 93.4 per cent of the mortgages in the cover pool, with mortgages to residential cooperatives accounting for the remaining 6.6 per cent. Standalone mortgages also include loans for holiday homes. The proportion of mortgages to residential cooperatives declined from 7.7 to 6.6. per cent in 2019, reflecting the fact that OBOS is reducing its financing from the company in accordance with the agreed plan. The average LTV ratio for the mortgages in the cover pool was 48.8 per cent on the basis of the value of the properties at origination. Adjusted for subsequent price developments affecting the mortgaged objects, the average LTV ratio for mortgages in the company's cover pool was 47.1 per cent at 31 December 2019. Since Eika Boligkreditt's funding activity began in 2005, the company has experienced no defaults exceeding 90 days or losses related to its mortgage business. Guarantees issued by the owner banks have reduced the risk of loss.

About the Eika Alliance

The Eika Alliance comprises more than 60 local banks, Eika Gruppen and Eika Boligkreditt. It has total assets exceeding NOK 440 billion, almost a million customers, 3 000 employees and more than 200 local bank offices. The Eika Alliance is thereby one of the biggest players in the Norwegian financial market and an important player for many Norwegian local communities. The 10 banks which have terminated their agreements with Eika Gruppen have decided to establish Lokalbankalliansen (the Local Bank Alliance). These agreements with Eika Gruppen run to the end of 2021. Agreements with Eika Boligkreditt are not covered by the termination, but it is natural that these expire at the same time as the agreements with Eika Gruppen.

Customer satisfaction for banks in the Eika Alliance is among the highest in Norway among both personal and business customers. That reflects a conscious commitment to a good customer experience through personal service and advice, an intelligent bank for day-to-day transactions and a genuine combination of local presence and purposeful digital solutions.

Change to maximum loan-to-value for residential mortgages

With effect from 10 December 2019, Eika Boligkreditt increased its maximum LTV for residential mortgages from 60 per cent to the legal limit of 75 per cent. This corresponds to the ceiling applied by other Norwegian mortgage lenders. The right of the owner banks to transfer residential mortgages with up to 75 per cent LTV is conditional on entering into a supplementary agreement to their distribution agreement. Most of the owner banks are expected to take advantage of the new LTV limit.

An important reason for raising the maximum LTV is to increase the range of residential mortgages in the Eika Alliance which qualify for financing by Eika Boligkreditt, and thereby provide the Eika banks with competitive terms for covered-bond financing which are closer to those available to other banks. The change will also increase flexibility for the Eika banks when they need to replace mortgages in the cover pool.

Change to target return on equity for Eika Boligkreditt

With effect from 1 July 2019, the target return on equity for Eika Boligkreditt's underlying operations was altered from three-months Nibor plus two percentage points to zero. The background for this change was that the owner banks prefer to receive their return from Eika Boligkreditt's operations exclusively in the form of commissions rather than a split with the main emphasis on return commissions and some in the form of dividend. The former target corresponded in the 2019 budget to a pre-tax profit (taking account of interest costs related to tier 1 perpetual bonds) of about NOK 155 million or just under NOK 40 million per quarter. The company has emphasised conducting a consistent dividend policy over time. This means that the overall profit not attributable to investors in the tier 1 perpetual bonds is distributed as dividend. The change to the required return has only temporary effects on the company's capital position.

Borrowing

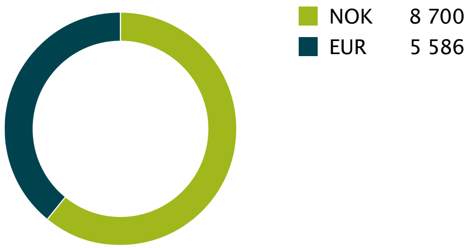
The company's total borrowing (liabilities established through the issue of securities) amounted to NOK 94.3 billion at 31 December 2019, down by NOK 3 billion from 1 January. Eika Boligkreditt issued bonds and certificates corresponding to NOK 14.3 billion in 2019. Thirty-nine per cent were issued in euros and 61 per cent in Norwegian kroner. Of the total issue volume, 90 per cent related to covered bonds. During 2019, repurchases of the company's own bonds before their call date and bonds redeemed at their call date amounted to NOK 15.7 billion. The company's

ISSUES BY SECTOR

(Amounts in NOK million)	2019	2018	2017	2016
Covered bonds (issued in EUR)	**5 586**	4 848	9 298	4 650
Covered bonds (issued in NOK)	**7 250**	10 650	7 625	10 725
Senior unsecured bonds (issued in NOK)	**1 200**	750	1 800	950
Subordinated loans (issued in NOK)	**250**	325	-	150
Total issued	**14 287**	16 573	18 723	16 475

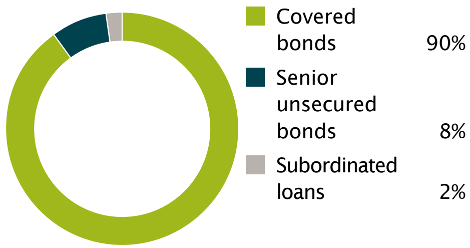
ISSUES BY CURRENCY

(in NOK mill) in 2019



ISSUES BY SECTOR

(in %) in 2019



BORROWING IN VARIOUS INSTRUMENTS

(Capitalised amounts in NOK million)	31 Dec 2019	31 Dec 2018
Covered bonds	**90 751**	93 913
Senior unsecured bond loans	**3 549**	3 376
Subordinated loans	**889**	674
Total issued	**95 189**	97 963

covered-bond issues are conducted under its EMTCN Programme, which is listed on the Irish Stock Exchange. This programme was last revised in October 2019. The borrowing limit in the programme is EUR 20 billion. Issues in 2019 and the three previous years by sector are presented in the table above. The issue volume in 2019 was more or less in line with expectations at 1 January.

The bond market was characterised in 2019 by a high level of activity, particularly in the first quarter. But activity also increased in the fourth quarter after the European Central Bank (ECB) stepped up its bond-buying programme again to EUR 20 billion in net purchases with effect from November. The move reflected weaker growth and inflation prospects for the eurozone. The credit margin paid by Eika Boligkreditt when issuing new covered bonds with a five-year tenor in Norwegian kroner declined by about 10 basis points during 2019. That reversed the upturn seen in the Norwegian market in the autumn of 2018.

By comparison, credit margins in the euro market for similar bonds declined by about nine basis points over the year. An important explanation for the contraction in credit margins for covered bonds seen in 2019 is that these bonds were perceived by investors as attractive placements after the credit margin downturn in 2018. Covered bonds are part of the ECB's bond purchase programme, and the bank has subscribed for substantial proportions of new issues from issuers domiciled in the eurozone during recent years. Following the contraction in credit margins during 2019, many analysts anticipate that margins in the euro market will remain low in 2020 because the ECB's bond purchase programme is expected to help keep them so. The ECB is expected to buy about 40 per cent of the covered bonds issued by issuers in the eurozone in 2020. The average tenor for covered bonds in 2019 was 7.7 years. Where the company's borrowing portfolio is concerned, the average tenor rose from 3.74 years at 1 January to 3.94 years at 31 December. The table on the left shows the breakdown of the company's borrowing in various instruments.

Profit and loss account

Pre-tax profit

Eika Boligkreditt delivered a pre-tax profit of NOK 102.2 million for 2019, compared with NOK 196.6 million the year before. Profit was affected by value changes to financial instruments, which yielded a net loss of NOK 6 million (2018: net gain of NOK 22.1 million). Pre-tax profit for 2019 excluding changes to the fair value of financial instruments was thereby NOK 108.2 million (2018: NOK 174.6 million). A total of NOK 30.2 million in interest on tier 1 perpetual bonds in 2019 (2018: NOK 28.6 million) is not presented as an interest expense in the income statement, but as a reduction in equity.

Net profit

Net profit for 2019 includes NOK 53 million in positive value changes to basis swaps (2018: negative at NOK 106.1 million), so that net profit came to NOK 133.4 million (2018: NOK 52.5 million) when account is taken of value changes to basis swaps and other value changes recognised through other income and expenses. Net profit for 2019 was significantly affected by value changes to basis swaps on the company's derivatives. Eika Boligkreditt is an active issuer of bonds in foreign currencies, principally in euros but occasionally in others. All borrowing in foreign currencies is hedged to Norwegian kroner in the derivative market through currency swaps. A pricing and risk component in these derivative contracts is the currency basis, which is a premium (or deduction) for swapping cash flow in one currency with cash flow in another. Changes to this premium could give unrealised value changes related to the currency swap contracts. Over the term of the derivatives, the effect of such value changes will be zero. The accounting effects will thereby reverse until the derivatives mature. This means that changes in the value of the currency basis only have accrual effects with regard to unrealised gains and losses in the financial statements, but no realised gains or losses over the term of the derivative unless Eika Boligkreditt realises the derivative early.

Income

The company's total interest income amounted to NOK 2 624 million in 2019, compared with NOK 2 162 million the year before. This change primarily reflected an increase in, and higher interest rates on, the volumes of residential mortgages included in the cover pool.

Net interest income

Net interest income amounted to NOK 648 million in 2019, compared with NOK 682 million the year before. This was because interest rates on borrowing increased by more than the repricing of rates on lending. Expensing NOK 18.3 million in contributions to the Norwegian Banks Guarantee Fund's resolution fund in 2019 also reduced net interest income. About 95 per cent of the residential mortgages in Eika Boligkreditt's portfolio have a variable interest rate. This means that the company, in consultation with the owner banks, can adjust the interest rate on its mortgages in line with interest-rate fluctuations in the market.

Distributor commissions

Distributor commissions to the owner banks, including arrangement commissions, amounted to NOK 513 million in 2019, compared with NOK 482 million the year before. This rise must be viewed in relation to the change made to the target return with effect from 1 July 2019, which increases commissions to the owner banks and reduces their dividend correspondingly.

Balance sheet and liquidity

Balance sheet

Assets in the company's balance sheet amounted to NOK 105.8 billion at 31 December 2019, down by NOK 2.2 billion over the year. Lending to customers rose by NOK 2.7 billion or 3.3 per cent from 31 December 2018.

Borrowing

The company's total borrowing (liabilities established through the issue of securities) amounted to NOK 94.3 billion at 31 December, down by NOK 3 billion from the end of 2018.

Liquidity

New financing totalling NOK 14 billion was raised by Eika Boligkreditt in 2019. Over the same period, the mortgage portfolio increased by NOK 2.7 billion. Covered bonds maturing and being redeemed early amounted to NOK 15.7 billion, while repurchases and redemptions of tier 1 perpetual bonds and subordinated loans came to NOK 83.1 million. The company was provided with NOK 550 million in additional equity from the owners during the year, and raised NOK 250 million in subordinated loans. A dividend of NOK 35.5 million was also paid to the owners. Cash collateral received from counterparties to derivative agreements increased by NOK 83 million in 2019. When account is taken of NOK 356 million in repurchase agreements entered into and recognised under other financial assets, overall liquidity for the company was reduced by about NOK 3.6 billion in 2019. Counterparties to hedging contracts provided the company with NOK 3.9 billion in cash collateral during 2019. Cash collateral is held as bank deposits, repurchase agreements and various high-quality securities. In addition to straightforward cash collateral, the company received collateral in the form of securities (high-quality bonds) with a value corresponding to NOK 0.9 billion. The value of the securities provided as collateral is not included in the company's balance sheet. At 31 December, Eika Boligkreditt had an overall liquidity portfolio of NOK 14.3 billion – including NOK 3.9 billion in cash collateral received. In line with the regulations governing covered bonds, this liquidity is exclusively invested in a way which ensures low risk and a high degree of liquidity. It was invested at 31 December 2019 in Norwegian and European government securities, municipal bonds, covered bonds and repurchase agreements, and as deposits in banks with an international rating of A-/A3 or better. The size of the company's liquidity reserve, combined with a relatively low return resulting from a very conservative investment universe, involves not insignificant costs for the company. Given continued strong growth in the mortgage portfolio and a conservative liquidity policy, Eika Boligkreditt has nevertheless elected to maintain a relatively high liquidity ratio. The company has an agreement with the owner banks and OBOS on purchasing covered bonds. This facility is intended to secure liquidity for the company in circumstances where it cannot borrow in the financial market.

Risk management and capital adequacy ratio

Eika Boligkreditt secured a total of NOK 469 million in additional primary (tier 2) capital during 2019. This increase was accomplished by raising NOK 550 million in new equity through private placements with the company's owner banks and NOK 250 million in new subordinated loans.

The company redeemed the NOK 131.4 million outstanding in tier 1 perpetual bonds in full at their call dates during the first quarter, which reduced total primary capital correspondingly. During the second quarter, the company secured NOK 150 million in new equity through a private placement with its owner banks and increased its total primary capital correspondingly. NOK 250 million was raised in the third quarter through a new subordinated loan, combined with the early redemption of NOK 35 million in another subordinated loan totalling NOK 200 million with a call date in the first quarter of 2020. Notice of early redemption of the remaining NOK 165 million was given on 17 October 2019. During the fourth quarter, the company secured NOK 400 million in new equity through a private placement with its owner banks and increased total primary capital correspondingly.

Eika Boligkreditt has residential mortgages which are secured by up to 75 per cent of the mortgaged property's value on origination. The basis for calculating the capital adequacy ratio increased by NOK 342 million during 2019, and amounted to NOK 34.1 billion at 31 December. This amount represents a quantification of Eika Boligkreditt's risk, of which credit risk is calculated in accordance with the standardised method in the (EU) 575/2013 (CRR) regulation. The growth in the total calculation basis reflects almost entirely the increase in the company's residential mortgage portfolio. The calculation basis for the risk of capital valuation adjustment (CVA) by counterparties to derivatives was NOK 1.7 billion at 31 December, an increase of about NOK 87 million from the same date in 2018.

The company's capital targets are set as follows.

		(At. 31 Dec)
Core tier 1 capital	13.5%	(14.9%)
Tier 1 capital	15.0%	(16.6%)
Primary capital (tier 2 capital)	17.0%	(18.7%)

These targets are adequate in relation to legal provisions, the company's Pillar 2 requirement of 0.5 per cent, and capital requirements based on the company's internal risk assessment. As shown in the table above, the prevailing buffer requirements were met at 31 December 2019. The company's capital targets were increased by 0.5 percentage points from 31 December 2019. This was

UTVIKLING I KAPITALDEKNING

(beløp i millioner NOK)

	31 Dec 2019		31 Dec 2018	
Vektet beregningsgrunnlag	**34 074**		33 731	
Ren kjernekapital	**5 074**	**14.9%**	4 522	13.4%
Kjernekapital	**5 648**	**16.6%**	5 227	15.5%
Ansvarlig kapital	**6 372**	**18.7%**	5 902	17.5%

because the Norwegian Ministry of Finance resolved on 13 December 2018, on the advice of Norges Bank, to increase the requirement for the countercyclical capital buffer from two to 2.5 per cent with effect from 31 December 2019. To meet the expected continued growth in lending, the company will seek capital expansions in order to satisfy its targets for core tier 1, tier 1 and tier 2 capital. In addition to capital provided by the owner banks, Eika Boligkreditt will seek to use the financial market to satisfy its capital targets. The table above presents the development in capital adequacy.

Risk exposure

Activities in Eika Boligkreditt AS are exposed to various forms of risk. The company gives great emphasis to good continuous management and control of all the risks to which it is exposed. The board has implemented a framework for risk management and control which builds on the Coso framework for coherent risk management. This defines the company's willingness to accept risk and the principles for managing risk and capital, which build on the Basel II regulations. Strategies, routines and instructions have been developed in connection with risk reviews to ensure that the company handles various risk factors in a satisfactory manner. Periodic checks are conducted to ensure that risk management routines are complied with and function as intended. The company is primarily exposed to the following risks: strategic and business, credit and counterparty, market, liquidity and refinancing, and operational – including compliance.

Strategic and business risk

Strategic and business risk is the risk of weakened profitability because of changes in external conditions, such as the market position or government regulations. It comprises rating, reputational and owner risk. The fact that the banks which transfer mortgages are also the company's shareholders reduces its strategic risk. Risk is further reduced because the costs of the company's distribution system depend directly on the size and quality of the portfolio. Agreements with non-shareholder banks will moderately increase the strategic risk. Rating risk relates to the financing and rating risk which the company is exposed to. In addition to the company's own reputation, reputational risk is linked to a considerable extent to Eika as a brand.

Credit and counterparty risk

Eika Boligkreditt is exposed to credit risk from granting credit to its customers. This risk relates primarily to the mortgages included in the company's cover pool. The granting of credit is managed through strategies for asset liability management, credit risk on loans and the credit manual, and through compliance with the administrative approval procedures and a well-developed set of rules for procedures and documentation which help to ensure adequate consideration. Portfolio risk is continuously monitored in order to expose possible defaults and to ensure rapid and adequate treatment of non-performing mortgages and advances. The risk of loss is further reduced through guarantees from the owner banks. The company also has counterparty risk in established derivative contracts with other financial undertakings. Extensive frameworks have been established for managing counterparty risk, related both to capital management and derivatives. A credit support annex has also been established in association with ISDA agreements with all derivative counterparties, which limits Eika Boligkreditt's counterparty risk in that the counterparty unilaterally provides cash collateral when changes occur in the market value of the derivatives.

Market risk

The market risk included in the company's risk limits consists of interest-rate risk on the balance sheet total and credit spread risk related to securities. Risk associated with net interest income on the balance sheet total arises from differences between interest terms for borrowing and lending as well as from the company borrowing in different markets than those it lends to, so that the borrowing interest rate may change without the company being able to adjust the lending rate equally quickly. This risk is reduced by coordinating the interest terms for borrowing and lending. The company is also exposed to credit spread risk on its investment of surplus liquidity. Through strategies for asset liability and capital management, exposure limits have been established for the total credit spread and interest-rate risk, maximum and average duration in the balance sheet, and maximum and average tenor for investments.

Currency risk

The company is exposed to currency risk through its borrowings in foreign currencies. Because the company exclusively lends money in Norwegian kroner, all currency risk related to borrowing in foreign currencies will be hedged through the use of financial derivatives in line with the company's strategy for asset liability management.

Operational risk

This type of risk and source of loss relates to day-to-day operation, including failures in systems and routines, lack of competence or mistakes by suppliers, staff and so forth. Operational risk includes compliance, legal, default and data protection risk, as well as risk associated with money laundering and funding terrorism. The company has developed strategies for operational and IT risks, descriptions of routines, formal approval procedures and so forth. Together with a clear and well-defined division of responsibility, these measures are designed to reduce operational risk. The company has relevant contingency plans for dealing with emergencies.

Refinancing and liquidity risk

A liquidity risk, including a refinancing risk, is associated with the company's business. This is the risk that the company will not be able to meet its liabilities when they fall due without incurring heavy costs in the form of expensive refinancing or facing the need to realise assets prematurely. Eika Boligkreditt has substantial external funding and expects continued growth in its mortgage portfolio. In order to keep liquidity risk at an acceptably low level, the company's financing strategy emphasises a good spread of financial instruments, markets and maturities for its borrowings and for investments made in managing surplus liquidity. As described above in the section covering agreements on liquidity and capital support, the company has an agreement with the owner banks on the purchase of covered bonds which reduces the company's liquidity and refinancing risk.

Internal control for financial reporting

Eika Boligkreditt has established frameworks for risk management and internal control related to its financial reporting process. These are considered by the board on an annual basis or as and when required. The purpose of risk management and internal control is to reduce risk to an acceptable level. The company is organised with a chief accounting officer responsible for the company's accounting function. In addition, the company purchases accounting services such as accountancy and financial reporting from Eika Gruppen AS. The company's accounting department is responsible for seeing to it that all financial reporting complies with applicable legislation, accounting standards and board guidelines. Furthermore, the department has established routines to ensure that financial reporting meets acceptable quality standards. All transactions are registered in the front office system and detailed reconciliation checks are conducted on a daily and monthly basis, while control measures such as reasonableness and probability tests have been established. These measures help to ensure that the company's reporting is accurate, valid and complete.

Election and replacement of directors

Candidates for directorships are proposed by the company's nomination committee. This body is enshrined in the articles of association, and the general meeting has established guidelines for it. Fees for members of the nomination committee are determined by the general meeting. Pursuant to the company's articles, the composition of the nomination committee must represent the interests of the shareholders. It has not been the tradition to appoint members to the nomination committee from the company's board or executive management. The nomination committee recommends candidates to sit on the board and the nomination committee, as well as fees for the members of these bodies. The committee has traditionally explained its recommendations orally at the general meeting. The nomination committee consults the chair and the CEO, and encourages contributions to the nomination process from the regional networks in the Eika Alliance. In this way, the alliance regions function as a channel for proposals to the committee without preventing shareholders contacting the committee directly should they so desire.

Working environment, sustainability and corporate social responsibility in Eika Boligkreditt

Eika Boligkreditt's clear intentions is to have a good and secure working environment, and to be a positive contributor in general to society and in particular to the many local communities where its owner banks are located. The company's strategy makes it clear that Eika Boligkreditt's vision is to strengthen the local banks. Eika Boligkreditt therefore works closely with the Eika Alliance at a strategic level to ensure a common standard for ambitions and goals, based on a suitable framework for dealing with environmental, social and governance (ESG) aspects. In that connection, the company has drawn up a separate document on corporate social responsibility and sustainability. This reports on the company's specific efforts to ensure sustainable societal development and a healthy working environment. It forms part of the annual report for 2019, and can be found from page 17.

Comments on the annual financial statements

The financial statements for 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The board is of the opinion that the financial statements, including the balance sheet, give a true and fair view of the operations and financial position of the company at 31 December. The directors' report also gives a true and fair view of the development and results of operations and of the company's financial position. Interest income totalled NOK 2 624 million, interest charges NOK 1 976 million, net interest income NOK 648 million, and net interest charges after commission costs NOK 158 million in 2019. No losses were incurred in 2019 on loans or guarantees. The financial statements for 2019 show a net profit of NOK 133 368 000 for the period, compared with NOK 52 491 000 for 2018.

Going concern

Pursuant to section 3-3 of the Norwegian Accounting Act, the board confirms that the financial statements for the year have been compiled on the assumption that the company is a going concern. No significant events have occurred since the balance sheet date which are expected to affect the company's business.

Balance sheet, liquidity and capital adequacy ratio

The book value of equity was NOK 5 776 million at 31 December 2019. Eika Boligkreditt had a capital adequacy ratio of 18.7 per cent at that date. The capital adequacy ratio is calculated in accordance with the standardised method specified by Basel II.

Allocation of net profit

Net profit for 2019 is NOK 133 368 000 after taking account of NOK 52 974 000 in positive value changes to basis swaps. The reserve for unrealised gains has been reduced by NOK 668 000 related to changes in the fair value of financial instruments. This reduction thereby increases the amount available for distribution as dividend correspondingly. When assessing its dividend proposal for 2019, the board has emphasised conducting a consistent dividend policy over time. NOK 20 155 000 has also been allocated to a fund for valuation differences related to the positive difference between the carried amount in the balance sheet and the acquisition price for investments in shares in associated companies. The board proposes to pay a dividend of NOK 103 875 000 to the owner banks for 2019. NOK 30 161 000 of the overall profit is attributed to investors in the tier 1 perpetual bonds. The dividend payment is considered to leave Eika Boligkreditt with a prudent level of equity and liquidity.

The dividend is also justified by the contractual capitalisation commitments which apply to the owner banks, and which are outlined in the section above concerning agreements on liquidity and capital support.

Outlook

The company's financing of the owner banks grew by a net NOK 2.7 billion in 2019, representing a 12-monthly growth of 3.3 per cent. Adjusted for the agreed reduction in OBOS-banken's financing, the 12-monthly growth was 4.9 per cent. Statistics Norway's credit indicator for December 2019 showed a 12-monthly increase of five per cent in Norwegian household debt, down from 5.6 per cent 12 months earlier.

Where 2020 is concerned, the owner banks are expected to increase their overall covered bond financing in Eika Boligkreditt in line with the demand they face for mortgages. Such demand has declined somewhat in recent years, but lending surveys by Norges Bank provide no indication of a further slowdown in the growth of debt for the future. Given the probable increase in residential mortgages, the banks are expected to raise their covered bond financing by about five per cent in 2020.

According to the house price report from Real Estate Norway for December 2019, average Norwegian house prices had risen 2.6 per cent over the previous 12 months. The moderate trend for price growth has now persisted continuously for 2.5 years – the longest period of moderate house-price rises in the statistics since 2003. The balance between supply and demand in the housing market is good, with many sales across much of the country during 2019. Uncertainty related to drivers in the housing market was lower at 1 January 2020 than a year earlier. The residential mortgage regulations have been clarified for 2020, housebuilding is at a high level nationally, population growth is moderate and the interest-rate projection by Norges Bank is flat after four base-rate rises.

The Norwegian economy is experiencing a moderate and broad-based cyclical upturn. Annual growth in mainland GDP has exceeded the estimated annual trend increase of just over two per cent for about three years. Marked growth in oil and manufacturing investment helped to lift the economy during 2019. The positive impulses from petroleum investment are not expected to persist in coming years when viewed as a whole. Statistics Norway expects mainland GDP to rise by 2.5 per cent in 2019 and 2.4 per cent in 2020, while its growth forecast of just under two per cent for 2021 and 2022 is in line with the trend figure for the economy. It expects Norges Bank to keep its base rate unchanged in coming years.

Norway's robust macroeconomic conditions and good results for Norwegian financial institutions suggest good future demand for covered bonds from Norwegian issuers. The bond market is also affected positively by substantial redemptions of bonds, and by the ECB becoming a net buyer of covered bonds from November while also having a substantial reinvestment requirement. Liquidity is good in both Norwegian and international financial markets, and Eika Boligkreditt expects to be an active issuer in both Norwegian and international financial markets in the time to come.

Oslo, 11 March 2020
The board of directors for Eika Boligkreditt AS

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

Declaration pursuant to section 5-5 of the Norwegian Securities Trading Act

We hereby confirm that the company's financial statements for the period from 1 January to 31 December 2019 have been prepared to the best of our knowledge in accordance with prevailing accounting standards, and that the information provided in the financial statements gives a true and fair view of the company's assets, liabilities, financial position and performance as a whole.

To the best of our knowledge, the annual report provides a true and fair view of important events during the accounting period and their influence on the financial statements, plus a description of the most important risk factors and uncertainties facing the company during the next accounting period.

Oslo, 11 March 2020
The board of directors for Eika Boligkreditt AS

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

Statement of comprehensive income

Amounts in NOK 1 000	Notes	2019	2018
INTEREST INCOME			
Interest from loans to customers at amortised cost		**2 239 530**	1 892 554
Interest from loans to customers at fair value		**151 353**	112 835
Interest from loans and receivables on credit institutions		**19 770**	17 323
Interest from bonds, certificates and financial derivatives		**179 252**	107 905
Other interest income at amortised cost		**32 118**	29 931
Other interest income at fair value		**1 882**	1 303
Total interest income		**2 623 905**	2 161 852
INTEREST EXPENSES			
Interest on debt securities issued		**1 929 706**	1 457 774
Interest on subordinated loan capital		**25 973**	22 199
Contribution to the Norwegian Banks' Guarantee Fund's Resolution Fund		**18 355**	-
Other interest expenses		**1 792**	358
Total interest expenses		**1 975 826**	1 480 331
Net interest income		**648 079**	681 521
Commission costs	23	**489 852**	457 836
Net interest income after commissions costs		**158 227**	223 686
Income from shares in associated company		**19 117**	10 911
Dividend from shares		**-**	7 419
Total income from shares	14	**19 117**	18 330
NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE			
Net gains and losses of fair value hedging on debt securities issued	8, 11	**(5 264)**	5 994
Net gains and losses on financial derivatives	11	**34 383**	13 933
Net gains and losses on loans at fair value	11	**(34 245)**	2 126
Fair value adjustment, shares	11	**(850)**	-
Total gains and losses on financial instruments at fair value		**(5 976)**	22 053
Other income		63	-
SALARIES AND GENERAL ADMINISTRATIVE EXPENSES			
Salaries, fees and other personnel expenses	17, 18	**32 256**	31 132
Administrative expenses	24	**18 326**	18 435
Total salaries and administrative expenses		**50 581**	49 567
Depreciation	13	**3 945**	1 942
Other operating expenses	24	**14 696**	15 932
Losses on loans and guarantees	4	**-**	-
PROFIT BEFORE TAXES		**102 208**	196 627
Taxes	20	**13 546**	44 672
PROFIT FOR THE PERIOD		**88 662**	151 956
Net gains and losses on bonds and certificates	11	**6 634**	(6 880)
Fair value adjustment, shares	14	**-**	(14 700)
Net gains and losses on basis swaps	11	**52 974**	(106 139)
Taxes on other comprehensive income	20	**(14 902)**	28 255
COMPREHENSIVE INCOME FOR THE PERIOD		**133 368**	52 491

Of the total comprehensive income for the period, NOK 103 207 thousand is attributable to the shareholders of the company and NOK 30 161 thousand to the hybrid capital investors.

Balance sheet
Assets

Amounts in NOK 1 000	Notes	31 Dec 2019	31 Dec 2018
ASSETS			
Lending to and receivables from credit institutions	4, 10, 12	**968 309**	956 021
Lending to customers	4, 9, 10, 12, 16	**84 718 544**	82 014 685
Other financial assets	4, 10, 21	**142 095**	486 551
Securities			
Bonds and certificates at fair value	4, 9	**13 362 946**	16 593 308
Financial derivatives	4, 8, 9	**6 478 291**	7 812 493
Shares	9, 10, 14	**1 650**	2 500
Total securities		**19 842 887**	24 408 301
Shares in associated company	14	**63 685**	54 441
Intangible assets			
Deferred tax assets	20	**77 868**	44 085
Intangible assets	13	**4 553**	5 116
Total other intangible assets		**82 421**	49 201
Tangible fixed assets			
Right-of-use assets	13	**16 701**	-
Tangible fixed assets		**16 701**	-
TOTAL ASSETS		**105 834 641**	107 969 200

Balance sheet
Liabilities and equity

Amounts in NOK 1 000	Notes	31 Dec 2019	31 Dec 2018
LIABILITIES AND EQUITY			
Loans from credit institutions	4, 5	**3 937 698**	3 855 067
Financial derivatives	5, 8, 9, 10	**68 756**	70 406
Debt securities issued	5, 6, 10, 12, 15	**94 300 106**	97 288 469
Other liabilities	5, 10, 22	**840 908**	787 100
Pension liabilities	19	**5 021**	4 075
Lease obligations	13	**16 593**	-
Subordinated loan capital	5, 10, 12, 15	**889 050**	674 273
TOTAL LIABILITIES		**100 058 132**	102 679 390
Called-up and fully paid capital			
Share capital	25	**1 225 497**	1 093 319
Share premium		**3 384 886**	2 967 063
Other paid-in equity		**477 728**	477 728
Total called-up and fully paid capital	25, 26	**5 088 111**	4 538 111
Retained earnings			
Fund for unrealised gains		**9 596**	10 265
Fund for valuation differences		**20 155**	-
Other equity		**84 736**	36 461
Total retained equity	26	**114 487**	46 726
Hybrid capital			
Tier 1 capital		**573 912**	704 974
Total hybrid capital	26	**573 912**	704 974
TOTAL EQUITY		**5 776 510**	5 289 810
TOTAL LIABILITIES AND EQUITY		**105 834 641**	107 969 200

Oslo, 11 March 2020
The board of directors for Eika Boligkreditt AS

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

Statement of changes in equity

Amounts in NOK 1 000	Share capital[1]	Share premium[1]	Other paid in equity[2]	Fund for unrealised gains[3]	Fund for valuation differences[4]	Other equity[5]	Tier 1 perpetual bonds[6]	Total equity
Balance sheet as at 1 January 2017	**926 479**	**2 433 904**	**477 728**	**14 700**	**-**	**93 672**	**449 236**	**4 395 719**
Result for the period	-	-	-		-	35 099	24 731	**59 830**
Equity issue	77 453	247 547	-	-	-	-	-	**325 000**
Accrued unpaid interest tier 1 capital	-	-	-	-	-	-	(24 252)	**(24 252)**
Hybrid capital					-	-	99 825	**99 825**
Taxes on interest tier 1 capital	-	-	-	-	-	6 183		**6 183**
Dividends for 2016	-	-	-	-	-	(92 658)	-	**(92 658)**
Balance sheet as at 31 December 2017	**1 003 932**	**2 681 450**	**477 728**	**14 700**	**-**	**42 297**	**549 540**	**4 769 647**
Result for the period	-	-	-	(4 435)	-	28 286	28 640	**52 491**
Equity issue	89 387	285 614	-	-	-	-	-	**375 001**
Accrued unpaid interest tier1 capital	-	-	-	-	-	-	(29 606)	**(29 606)**
Hybrid capital					-		156 400	**156 400**
Taxes on interest tier 1 capital	-	-	-	-	-	7 160		**7 160**
Dividends for 2017	-	-	-	-	-	(41 282)	-	**(41 282)**
Balance sheet as at 31 December 2018	**1 093 319**	**2 967 063**	**477 728**	**10 265**	**-**	**36 461**	**704 974**	**5 289 811**
Result for the period	-	-	-	(669)	20 155	83 722	30 161	**133 369**
Equity issue	132 177	417 823	-	-	-	-	-	**550 000**
Accrued unpaid interest tier1 capital	-	-	-	-	-	-	(29 824)	**(29 824)**
Hybrid capital	-	-	-	-	-	-	(131 400)	**(131 400)**
Taxes on interest tier 1 capital	-	-	-	-	-	-	-	**-**
Dividends for 2018	-	-	-	-	-	(35 445)	-	**(35 445)**
Balance sheet as at 31 December 2019	**1 225 496**	**3 384 886**	**477 728**	**9 596**	**20 155**	**84 736**	**573 912**	**5 776 510**

The specification of equity comprises accounting items pursuant to the provisions in the Norwegian Private Limited Liability Companies Act:
[1] Share capital and the share premium comprises paid-in capital.
[2] Other paid-in capital comprises paid-in capital which has earlier been taken from the share premium reserve.
[3] The fund for unrealised gains comprises from value changes on financial instruments at fair value.
[4] The fund for valuation differences comprises the positive difference between the carried amount in the balance sheet and the acquisition price for investments in shares in associated companies.
[5] Other equity comprises earned and retained profits.
[6] Tier 1 perpetual bonds form part of tier 1 capital pursuant to section 3a of the Norwegian regulations concerning the calculation of regulatory capital. A regulatory right of redemption also exists. Should government regulations introduce changes which affect the extent to which the capital can be regarded as tier 1 capital, the bonds can be redeemed at a price equal to 100 per cent plus accrued interest. The company has recognised the following tier 1 perpetual bonds as equity:

- Tier 1 perpetual bond, issued NOK 100 million in 2017, with interest terms of three months Nibor plus 3.25 per cent. The loan provides for a call at 16 June 2022, and quarterly thereafter on each date interest payment falls due.
- Tier 1 perpetual bond, issued NOK 200 million in 2018, with interest terms of three months Nibor plus 3.15 per cent. The loan provides for a call at 2 February 2023, and quarterly thereafter on each date interest payment falls due.
- Tier 1 perpetual bond, issued NOK 275 million in 2018, with interest terms of three months Nibor plus 3.75 per cent. The loan provides for a call at 30 October 2023, and quarterly thereafter on each date interest payment falls due.

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

Statement of cash flow

Amounts in NOK 1 000	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the period	**133 368**	52 491
Taxes	**28 448**	16 417
Income taxes paid	**(32 764)**	(20 501)
Ordinary depreciation	**1 857**	1 942
Non-cash pension costs	**946**	1 070
Change in loans to customers	**(2 703 859)**	(4 728 735)
Change in bonds and certificates	**3 230 362**	(3 881 008)
Change in financial derivatives and debt securities issued	**22 993**	(421 695)
Interest expenses	**1 975 826**	1 480 331
Paid interest	**(1 981 301)**	(1 008 943)
interest income	**(2 589 905)**	(2 130 618)
received interests	**2 578 588**	2 108 818
Changes in other assets	**356 621**	(131 732)
Changes in short-term liabilities and accruals	**28 059**	(28 657)
Net cash flow relating to operating activities	**1 049 240**	(8 690 819)
INVESTING ACTIVITIES		
Payments related to acquisition of fixed assets	**(1 294)**	(1 069)
Share of profit/loss in associated companies	**(19 117)**	-
Payments from shares in associated companies	**9 873**	-
Net cash flow relating to investing activities	**(10 538)**	(1 069)
FINANCING ACTIVITIES		
Gross receipts from issuance of bonds and commercial paper	**14 060 594**	16 306 972
Gross payments of bonds and commercial paper	**(15 737 748)**	(8 993 413)
Gross receipts on issue of subordinated loan capital	**249 729**	324 588
Gross payments of subordinated loan capital	**(34 952)**	(249 961)
Gross receipts from issue of loan from credit institution	**82 631**	63 534
Gross payments from loan from credit institution	**-**	-
Gross receipts from issuing tier 1 perpetual bonds	**-**	475 000
Gross payments from issuing tier 1 perpetual bonds	**(131 400)**	(376 846)
Interest to the hybrid capital investors	**(29 823)**	28 640
Payments of dividend	**(35 445)**	(41 282)
Paid-up new share capital	**550 000**	375 000
Net cash flow from financing activities	**(1 026 414)**	7 912 233
Net changes in lending to and receivables from credit institutions	**12 288**	(779 655)
Lending to and receivables from credit institutions at 1 January	**956 021**	1 735 677
Lending to and receivables from credit institutions at end of period	**968 309**	956 021

Notes to the accounts

NOTE 1: ACCOUNTING POLICIES

General

Eika Boligkreditt AS (EBK) is licensed as a Norwegian credit institution and permitted to issue covered bonds. The company was established on 24 March 2003, and commenced its lending operations on 15 February 2005. The company offers only residential mortgages for up to 75 per cent of the collateral value (loan to value) at origination, and these loans are distributed via the local banks (the owner banks). Residential mortgages also include mortgages for holiday homes. The company's main purpose is to ensure access for the owner banks in the Eika Alliance to long-term and competitive funding by issuing covered bonds, while simultaneously reducing future refinancing risks for the company's owner banks. EBK has prepared its financial statements for 2018 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

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

The annual financial statements are prepared on the assumption that the entity is a going concern. The financial statements were approved by the board of directors and authorised for issue on 11 March 2019.

Standards and interpretations approved and in force

IFRS 16 Lease accounting

IFRS 16 on lease accounting came into force for accounting years which started on 1 January 2019. The new standard received EU approval on 31 October 2017. It required that all leases are recognised in the balance sheet by recognising the beneficial use of an asset as an asset, while making provision for the lease obligation as a liability. EBK has only one lease, covering office premises, which is subject to this standard. The beneficial use and lease obligation are recognized as NOK 16.7 million and NOK 16.6 million respectively, in the company's balance sheet at 31 December 2019, representing the present value of future rent payments over the duration of the lease. The lease duration which formed the basis for calculating future rent payments corresponds to the remaining period until the termination of the lease (about eight years at 31 December 2019). Possible options are not added to the lease duration. In addition, the beneficial use is depreciated over the duration of the lease while interest on the lease obligation is expensed. Depreciation is presented together with other depreciation in the statement of comprehensive income, while interest is included in financial expenses in the statement of comprehensive income. Interest costs are calculated by applying the discount rate (the company's incremental borrowing rate) to the lease obligation.

Interest rate benchmark reform (Ibor reform)

The IASB published Interest rate benchmark reform – amendments to IFRS 9 and IFRS 7 in September 2019. These changes mean that the assumption is interest rates will not alter as a result of the interbank offered rate (Ibor) reform, and hedge accounting will continue as before without alterations to hedge documentation.

These amendments came into force on 1 January 2020, but could be applied earlier. Eika Boligkreditt has chosen to apply the IFRS 9 changes early for the reporting period ending on 31 December 2019.

Foreign currency

Functional and presentation currency

The financial statements of EBK are presented in NOK, which is also the company's functional currency.

Foreign currency translation

In preparing the financial statements of the company, transactions in currencies other than its functional currency (foreign currencies) are recognised at the rate of exchange prevailing at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Revenue recognition

Interest income is recognised using the effective interest rate method. The effective interest rate is the rate which discounts estimated future cash receipts or expenses through the expected life of the financial asset or liability to the net carrying amount of that asset or liability at initial recognition. When calculating the effective interest rate, the cash flows are estimated and all fees and remunerations paid or received between the parties to the contract are included as an integrated part of the effective interest rate. Dividends on investments are recognised from the date the dividends were approved at the general meeting.

Financial assets and liabilities

Recognition, derecognition and measurement

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

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

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

Classification – financial assets

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

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

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

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

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

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

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

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

Financial assets which are debt instruments

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

Financial assets which are derivatives

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

Financial assets which are equity instruments

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

Associated companies

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

Other financial assets

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

Classification – financial liabilities

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when EBK
- has a legally enforceable right to offset the recognised amounts, and
- intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

Subsequent measurement of financial assets and liabilities

Fair value

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

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

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

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

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

Cash collateral
Pursuant to agreements with counterparties which regulate trades in OTC derivatives, collateral must be provided in certain cases. During 2019, EBK was provided with such collateral in the form of cash. These cash sums are managed by EBK for the duration of the collateral provision, and are recognised in the balance sheet as an asset with an associated liability. Both the cash asset and the liability are thereafter measured at amortised cost.

Hedge accounting
EBK uses fair value hedging of fixed-rate financial liabilities, where the hedged item is the swap interest element in the financial liabilities. Value changes in the hedged item attributable to the hedged risk will adjust the carrying amount of the hedged item and be recognised in profit or loss. Value changes in the hedged item and associated hedge instruments are presented under "net gains and losses of fair value hedging on debt securities issued". IFRS 9 permits the basis margin on foreign currency to be separated from a financial instrument and excluded from the designation of the financial instrument as a hedge instrument.

The company separates out the basis margin related to foreign currency from financial instruments by excluding this from earmarking of the fair-value hedge, and has identified the currency element in the hedging as a cash flow hedge. This means that the fair value changes which arise in basis swaps when utilising currency swap agreements with the company's borrowing in foreign currencies in order to convert the cash flow from euros to Norwegian kroner are recognised as a cash flow hedge. Changes in fair value related to the basis margin will therefore be recognised in other comprehensive income.

This means that changes in fair value related to the basis margin are recognised in value changes through other comprehensive income instead of in the item "net gains and losses of fair value hedging on debt securities issued" in the statement of comprehensive income, and will be accumulated in a separate component of equity.

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

Commission costs
The owner banks are paid commissions for arranging and managing residential mortgages. Such commissions are expensed on a current basis and presented in the item "commission costs" in the statement of comprehensive income. Accrued, unpaid costs to the owner banks at 31 December are accrued and recognised as liabilities in the balance sheet.

Segment
The loans are made to private individuals and housing cooperatives. The company's business therefore comprises only one segment.

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

AFP – early retirement plan
The AFP is an early retirement pension plan for the Norwegian private sector enshrined in collective pay agreements. To benefit from the scheme, an employee must have been employed in a company affiliated to the AFP for seven of the nine years before they reach the age of 62. Premiums are calculated as a fixed percentage of annual pay between one and 7.1 times the average National Insurance base rate (G). No premiums are paid for employees after the year they reach the age of 61. All employees in the company are members of the scheme. The premium paid is expensed.

Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax, and is recognised in the statement of comprehensive income.

Current tax
The tax currently payable is calculated on the basis of the taxable profit for the year. Taxable profit differs from the profit reported in the statement of comprehensive income because of income or expense items which are taxable or deductible in other years, and items which are not taxable or deductible.

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are normally recognised in the balance sheet for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which these deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTE 2: USE OF ESTIMATES AND DISCRETION

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

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

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

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

No loans were written down at 31 December 2019. For more information about lending, see note 4.

Fair value of financial instruments

The company applies various measurement methods to determine the fair value of financial instruments that are not traded in an active market. The chosen measurement methods are based on market conditions at the end of the reporting period. This means that, if observable market data are unavailable, the company will make assumptions and apply discretion as to what the market will base its evaluation of corresponding financial instruments on. More information about the financial instruments can be found in notes 4, 5, 8, 9, 10 and 11.

NOTE 3: FINANCIAL RISK

Eika Boligkreditt has established a framework for risk management and control in the company to define risk willingness and principles for managing risk and capital. This framework is based on the Basel II regulations. The company is obliged to review its risk pursuant to the regulations relating to capital requirement and the internal control regulations.

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

Routines and instructions have been established with the aim of ensuring that the company handles the various risk factors in a satisfactory manner. The company's cooperation with the local banks contributes significantly to the management of risk through its customer selection processes. The owner banks operate in their local environment and are therefore close to their customers. The company is exposed to the following risks: credit and counterparty, market (including interest rate and currency), liquidity and operational risk, in addition to the company's overarching business risk, which entails strategic and reputational risk.

The company has implemented risk strategies based on the company's risk management of the balance sheet composition. The strategy for managing assets and liabilities forms the basis for ensuring that collateral for outstanding covered bonds is in compliance with regulatory requirements. Total risk limits have been established for managing the credit risk linked to lending, risk related to capital management, liquidity risk related to borrowing, and operational risk.

For additional description of risk, see notes 4, 5 and 6.

NOTE 4: CREDIT RISK

Credit risk is the risk of loss posed by customers or counterparties failing to meet their payment obligations. Credit risk affects all claims on customers/counterparties, lending, and counterparty risk that arises through derivatives and foreign exchange contracts. The credit risk related to lending must be low, and the same applies to counterparty risk. Credit risk is managed through the company's strategy for credit risk on lending. A credit manual and other routines have been prepared and implemented, including preparation of documentation requirements and clarification of the ability of customers who have been granted loans to service their loan, and requirements for collateral for residential mortgage loans of up to 75 percent of the value of the property at origination. Established requirements to be satisfied by customers and mortgaged objects are considered to entail low risk. In addition, the owner banks have ceded a case guarantee and loss guarantee. This contributes to reducing Eika Boligkreditt's credit risk. See note 4.2 related to lending to customers.

The company is also exposed to credit risk through its investments in bonds and certificates, bank deposits and counterparties to derivative contracts.

When investing in bonds and certificates, the company is subject to laws and regulations related to the types of investments that may be included in the company's cover pool as substitute assets. The company has also established counterparty limits to reduce counterparty risk related to the issuers to which the company desires to be exposed. The counterparty risk related to all counterparties in derivative contracts is reduced through the Credit Support Annex to the Schedule to the ISDA Master Agreement. Eika Boligkreditt manages counterparty risk through its investment strategy.

Note 4.1 Maximum exposure to credit risk

Amounts in NOK 1 000	31 Dec 2019	31 Dec 2018
Financial assets recognised in balance sheet		
Lending to and receivables on credit institutions[1]	**968 309**	956 021
Lending to customers	**84 718 544**	82 014 685
Others financial assets	**142 095**	486 551
Bonds and certificates at fair value	**13 362 946**	16 593 308
Financial derivatives	**6 478 291**	7 812 493
Total credit risk exposure	**105 670 184**	107 863 059
Off-balance sheet financial assets		
Overdraft facility	**50 000**	50 000
Note Purchase Agreement[2]	**-**	-
Granted, but undisbursed loans	**500 516**	639 951

[1] Restricted funds for tax withholdings were NOK 1 205 thousand in 2019 and NOK 1 163 thousand in 2018. Restricted funds for pension liabilities were NOK 4 230 thousand in 2019 and NOK 3 429 thousand in 2018.

[2] The owner banks have accepted a liquidity obligation (Note Purchase Agreement) towards Eika Boligkreditt, see note 15 for more information. The amount per 31 December 2019 in the table above is NOK 0,- as the company's own liquidity is deducted at the time of measurement.

Note 4.2 Lending to customers

Amounts in NOK 1 000	31 Dec 2019	31 Dec 2018
Installment loans - retail market	**79 150 938**	75 685 305
Installment loans - housing cooperatives	**5 582 664**	6 309 164
Adjustment fair value lending to customers[1]	**(15 058)**	20 215
Total lending before specific and general provisions for losses	**84 718 544**	82 014 685
Individual impairments	-	-
Unspecified group impairments	-	-
Total lending to and receivables from customers	**84 718 544**	82 014 685

All lending concerns residential mortgage loans with a loan-to-value ratio of up to 75 per cent at origination. The company had no non-performing loans where the outstanding instalment was more than 90 days overdue at 31 December 2019.

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

31 December 2019

Amounts in NOK 1 000	Nominal value	Fair value
Variable rate loans	78 400 667	78 400 667
Fixed rate loans	6 332 935	6 317 876
Toal lending	**84 733 602**	84 718 544

31 December 2018

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

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

Guarantees and provision of cover

All lending involves residential mortgages with a loan-to-value ratio of up to 75 per cent at origination. Guarantees furnished by the company's distributors (banks) reduce the risk for Eika Boligkreditt. Upon transfer to Eika Boligkreditt, the distributors assume mandatory guarantees for the mortgages they have transferred.

The main features of these guarantees are as follows.

a) Case guarantee

The bank which has transferred the loan to the cover pool guarantees the entire amount of the mortgage over the period from payment until the mortgage's collateral has been perfected (achieved legal protection). The case guarantee is limited to a maximum of the whole principal of the loan plus interest charges and costs.

b) Loss guarantee

The bank guarantees to cover every loss suffered by Eika Boligkreditt was a result of non-performing loans, subject to the restrictions specified below. "Loss" means the residual claim against the mortgagee related to the relevant mortgage after all associated collateral has been realised, and it is to be regarded as recognised at the point when all collateral associated with a non-performing loan has been realised and paid to Eika Boligkreditt. The bank's loss guarantee covers up to 80 per cent of the loss recognised on each loan. The total loss guarantee is limited to one per cent of the bank's overall mortgage portfolio in Eika Boligkreditt at any given time, but nevertheless such that the loss guarantee is (i) equal to the value of the mortgage portfolio for portfolios up to NOK 5 million and (ii) amounts to a minimum of NOK 5 million for mortgage portfolios which exceed NOK 5 million, calculated in all cases over the previous four quarters on a rolling basis.

This means that, if the distributor's total share of the recognised losses for each mortgage exceeds the above-mentioned limit, Eika Boligkreditt will cover the excess. As a result, the bank's share of the loss covered by the loss guarantee cannot exceed 80 per cent but, if the overall recognised loss exceeds the framework, the share of total will be lower than 80 per cent.

c) Right to offset against commission due to the bank

The bank's liability for the case and loss guarantees falls due for payment on demand, but Eika Boligkreditt can also choose to offset its claim against the distributor's future commissions and commissions due but not paid pursuant to the commission agreement. This offsetting right applies for a period of up to four quarters from the date when the loss was recognised.

d) Right to offset against commissions due to the bank and all authorised distributors

The bank is jointly liable with all other banks for offsetting losses on mortgages not covered by the loss guarantee – in other words, that part of the loss which exceeds the bank's share. This offsetting right is limited to the bank's pro rata share of the credit loss in Eika Boligkreditt over and above the amount covered by the loss guarantee, up to a maximum of four quarter's commission from the date the loss was recognised. The bank's pro rata share corresponds to the bank's proportionate share of the total residential mortgage portfolio in Eika Boligkreditt transferred by all the distributors at the date the loss was realised.

Defaults

Pursuant to section 7 of the CRR/CRD IV regulation, cf. CRR article 178.1, an engagement is to be regarded as being in default if a claim has fallen due more than 90 days earlier and the amount is not insignificant. Doubtful loans are not necessarily in default, but the customer's financial position and the value of the collateral indicate a risk of loss.

The company had no non-performing loans where the outstanding instalment was more than 90 days overdue at 31 December 2019.

Should an instalment due on a mortgage be four weeks in arrears, Eika Boligkreditt has the right to request the bank in writing to take over the mortgage. Should the mortgage not be repaid or taken over by the bank within eight weeks of going into default, the mortgage will be transferred for normal enforcement of payment via a debt recovery service, and the distributor could become liable pursuant to the case and loss guarantees as well as the offsetting right as specified above. Should the bank meet the loss guarantee in full, its recourse claim will be on an equal footing with Eika Boligkreditt's residual claim for restitution.

The owner bank's net interest rate

The supplement to the distribution agreement incorporates regulations which mean that the net interest rate for the bank– in other words, the price it pays for financing through Eika Boligkreditt – will be influenced by the market price for new borrowing in the covered bond market and by whether the bank increases or reduces its financing through Eika Boligkreditt. In this way, the terms achieved by the bank as a result of securing finance through Eika Boligkreditt will be influenced by the bank's own use of Eika Boligkreditt, and only affected to a limited extent by the increase in or reduction of financing by other banks in Eika Boligkreditt.

The bank is committed to maintaining an overall financing in Eika Boligkreditt which accords with the maturity profile for the bank's financing in Eika Boligkreditt. The bank's financing in Eika Boligkreditt is the overall value of the bank's share of the mortgage portfolio in Eika Boligkreditt. If the overall value of the bank's share of the mortgage portfolio in Eika Boligkreditt falls at any time below 75 per cent of the bank's commitment pursuant to the supplementary agreement, the bank is obliged – after a written warning – to pay Eika Boligkreditt the present value of the company's estimated costs for a corresponding redemption of its borrowing in the market.

If the bank's overall financing in Eika Boligkreditt is reduced in a way which means that Eika Boligkreditt must conduct an overall repurchase of its borrowing in the market during a calendar year which corresponds to five per cent or more of the mortgage portfolio, the bank's obligation to pay costs pursuant to the agreement can be triggered by a shortfall smaller than the level of 75 per cent of the bank's commitment. This means that the lower limit is moved up. A claim against the bank pursuant to the agreement can be offset by Eika Boligkreditt against commission payments due to the bank.

Loan-to-value for residential mortgages

With effect from 10 December 2019, Eika Boligkreditt increased its maximum LTV for residential mortgages from 60 per cent to the legal limit of 75 per cent. This corresponds to the ceiling applied by other Norwegian mortgage lenders. The right of the owner banks to transfer residential mortgages with up to 75 per cent LTV is conditional on entering into a supplementary agreement to their distribution agreement. Most of the owner banks are expected to take advantage of the new LTV limit.

Past due loans not subject to impairment

The table below shows overdue amounts on loans that are not due to delays in payment transfers from Eika Boligkreditt. Past due loans are subject to continual monitoring.

Amounts in NOK 1 000	**31 Dec 2019**	31 Dec 2018
1–29 days	**526 163**	92 916
30–60 days	**107 423**	99 329
60–90 days	**-**	-
> 90 days	**-**	-
Total past due loans not subject to impairment (principal)	**633 586**	192 245

Note 4.2.1 Lending by geographical area[1]

Amounts in NOK 1 000	**Lending 31 Dec 2019**	Lending 31 Dec 2018	Lending as a % 2019
Viken	**23 913 430**	22 146 356	28.22%
Oslo	**9 884 074**	10 633 809	11.66%
Innlandet	**4 633 872**	4 550 836	5.47%
Vestfold og Telemark	**8 552 575**	7 942 586	10.09%
Agder	**5 242 085**	4 949 771	6.19%
Rogaland	**6 538 619**	6 302 667	7.72%
Vestland	**3 100 334**	3 082 388	3.66%
Møre og Romsdal	**3 476 175**	3 477 154	4.10%
Trøndelag	**15 885 958**	15 536 189	18.75%
Nordland	**2 494 633**	2 387 898	2.94%
Troms og Finnmark	**1 011 848**	984 815	1.19%
Total	**84 733 602**	**81 994 470**	**100%**

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

Note 4.2.2 Provision for losses

Under the IFRS 9 accounting standard, provision for losses is recognised on the basis of the expected credit loss indicated by relevant information available at the reporting date. The combination of the residential mortgage portfolio's loan-to-value ratio and the credit guarantees provided by the owner banks mean that the standard does not have significant effects on EBK's profits or equity.

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

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

Impairment model in Eika Gruppen

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

Description of the PD model

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

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

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

Significant increase in credit risk

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

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

Extra criteria are also defined for engagements to indicate a significant increase in credit risk:
- non-performance for 30 days (moved to step 2)
- non-performance for 90 days (moved to step 3).

Calculation of loss given default (LGD)

EBK's cover pool comprises objects with a very low LTV ratio (<=75 per cent LTV at origination), and calculating ECL will be based on information which is current, forward-looking and historical. EBK utilises the expected development of house prices when calculating LGD. The scenarios are given equal weighting and calculated for each contract. Valuation of the collateral is based on its estimated net realisable value.

Exposure at default (EAD)

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

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

Expected credit loss based on future expectations

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

Stress scenario

At 31 December 2019, EBK had the following expectations for the development of the macroeconomic variables.

Changes in house prices	2020	2021	2022
Main estimate	2.55%	2.40%	2.05%
Stress scenario	(6.5%)	(6.5%)	(6.5%)
Best estimate	5.0%	5.0%	5.0%
Average	0.35%	0.30%	0.18%

Mortgages to customers by steps 1–3 in nominal value

Amounts in NOK 1 000	Step 1	Step 2	Step 3	Total
Mortgages 31 December 2018	**81 994 470**	**-**	**-**	**81 994 470**
Mortgages 31 December 2019	**84 733 602**	**-**	**-**	**84 733 602**

The expected loss on residential mortgages pursuant to IFRS 9 was calculated to total NOK 15 000 at 31 December 2019. Given NOK 870 million in credit guarantees from the owner banks at the same date, however, this would not represent an accounting loss for the company at 31 December 2019. There are no non-performing engagements in step 3.

Note 4.3 Derivatives

Counterparty exposure related to derivative contracts

Assets	31 Dec 2019		31 Dec 2018	
Amounts in NOK 1 000	Book value	Net value[1]	Book value	Net value[1]
Financial derivatives	**6 478 291**	**6 412 313**	7 812 493	7 744 511
Received collateral	**3 937 698**	**4 824 843**	3 855 067	6 118 956
Net exposure	**2 540 593**	**1 587 471**	3 957 426	1 625 555

Liability	31 Dec 2019		31 Dec 2018	
Amounts in NOK 1 000	Book value	Net value[1]	Book value	Net value[1]
Financial derivatives	**68 756**	**2 779**	70 406	4 844
Received collateral	**-**	**-**	-	-
Net exposure	**68 756**	**2 779**	70 406	4 844

[1] Net value is the book value of the financial assets less the financial liabilities related to the same counterparty. Counterparties to hedging contracts provided the company with NOK 3.9 billion in cash collateral during 2019, compared to NOK 3.9 billion in 2018. Cash collateral is held as bank deposits, repo agreements and as various high quality securities. In addition to cash collateral, the company received collateral in the form of securities (high-quality bonds) with a value corresponding to NOK 0.9 billion. The value of the securities provided as collateral is not recognised in the company's balance sheet.

Note 4.4 Lending to and receivables from credit institutions

Bonds broken down by issuer sector

31 Dec 2019 (Amounts in NOK 1 000)	Nominal value	Cost price	Fair Value
Municipalities	5 242 901	5 266 401	5 286 307
Credit institutions	6 256 000	6 293 016	6 296 828
Treasury bills	1 811 478	1 811 232	1 779 810
Total bonds and certificates at fair value	**13 310 379**	**13 370 649**	**13 362 946**
Change in value charged to other comprehensive income			**(7 703)**

Average effective interest rate is 1.55 per cent annualised. The calculation is based on a weighted fair value of NOK 13.8 billion. The calculation takes account of a return of NOK 213.9 million on bank deposits, bonds and certificates. The return on reinvested cash collateral received is excluded from the calculation.

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

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

	31 Dec 2019	31 Dec 2018
Average term to maturity	**1.4**	0.9
Average duration	**0.2**	0.2

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

Note 4.5 Lending to and receivables from credit institutions

When assessing ratings, only those from approved rating agencies are taken into account. Pursuant to the CRR/CRD IV regulations, credit assessments from approved credit rating agencies can be used to determine credit quality for individual engagements. The new European Commission regulations cover a number of credit rating agencies, and ratings from 26 different agencies can be used for credit assessments. If a counterparty is rated by at least three of the agencies, the credit quality step is determined on the basis of the two highest ratings. If these two ratings differ, the lowest of these is used to assess the credit quality step. If the counterparty is rated by two agencies, the lowest is applied, and if there is only one rating from an accredited agency, it is applied.

Of the company's lending to and receivables from credit institutions, 35 per cent are in banks with credit quality step 1 and 65 per cent in banks with credit quality step 2.

NOTE 5: LIQUIDITY RISK

Liquidity risk is the risk of the company failing to meet its commitments at the due date without major costs arising in the form of refinancing or the need for premature realisation of assets. In the worst case, liquidity risk is the risk of the company being unable to obtain sufficient refinancing to meet its commitments on the due date. The company has loans maturing in 2019 of NOK 9 billion net when the currency hedge is taken into account. At 31 December 2019, the company had liquid funds in the form of bank deposits amounting to NOK 1 billion, a securities portfolio of NOK 13.4 billion and overdraft facility of NOK 50 million. These assets can be sold to cover the company's liabilities. A note purchase agreement has also been entered into with the owners on buying the company's bonds.

More information and conditions related to the Note Purchase Agreement are provided in note 15. The liquidity risk is managed through set limits for funding structures, requirements for spreads on securities, tenors and markets, and the establishment of contingency facilities.

Liquidity risk

The tables show the undiscounted contractual cash flows of the financial liabilities.

Financial liabilities as at 31 December 2019 Amounts in NOK 1 000	Book value 31 Dec 2019	Without predetermined maturity	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	**Total**
Financial liabilities								
Debt securities issued	94 300 106	-	276 522	396 426	9 755 114	75 847 214	12 755 716	**99 030 991**
Subordinated loan capital	889 050	-	166 539	6 812	20 618	778 784	-	**972 753**
Financial derivatives (net)	(6 409 535)	-	(83 392)	(48 861)	636 292	(3 538 869)	(11 122)	**(3 045 953)**
Loans from credit institutions[1]	3 937 698	3 937 698	-	-	-	-	-	**3 937 698**
Other debt with remaining term to maturity[2]	840 908	-	146 457	2 922	65 599	-	-	**214 978**
Total financial liabilities	**93 558 227**	**3 937 698**	**506 125**	**357 299**	**10 477 623**	**73 087 129**	**12 744 593**	**101 110 467**

Amounts in NOK 1 000	Without predetermined maturity	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	**Total**
Derivatives							
Financial derivatives (gross)							
Incoming flow	-	(165 835)	(148 928)	(920 756)	(38 225 872)	(6 635 983)	**(46 097 376)**
Outgoing flow	-	249 228	197 790	284 464	41 764 741	6 647 106	**49 143 328**
Financial derivatives (net)	**-**	**83 392**	**48 861**	**(636 292)**	**3 538 869**	**11 122**	**3 045 953**

Ordinary maturity is used as the basis for classification.

Financial liabilities as at 31 December 2018 Amounts in NOK 1 000	Book value 31 Dec 2018	Without predetermined maturity	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	**Total**
Financial liabilities								
Debt securities issued	97 288 469	-	278 982	717 385	14 931 139	69 850 836	16 957 540	**102 735 882**
Subordinated loan capital	674 273	-	1 481	3 951	17 509	720 481	-	**743 422**
Financial derivatives (net)	(7 742 087)	-	(128 089)	(29 431)	(1 307 227)	(3 147 572)	(205 159)	**(4 817 477)**
Loans from credit institutions[1]	3 855 067	3 855 067	-	-	-	-	-	**3 855 067**
Other debt with remaining term to maturity[2]	787 100	-	116 012	2 876	36 805	-	-	**155 694**
Total financial liabilities	**94 862 822**	**3 855 067**	**268 387**	**694 781**	**13 678 227**	**67 423 745**	**16 752 381**	**102 672 588**

Amounts in NOK 1 000	Without predetermined maturity	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	**Total**
Derivatives							
Financial derivatives (gross)							
Incoming flow	-	(122 490)	(122 473)	(5 644 910)	(29 157 595)	(10 643 351)	**(45 690 819)**
Outgoing flow	-	250 579	151 904	6 952 137	32 305 167	10 848 510	**50 508 296**
Financial derivatives (net)	**-**	**128 089**	**29 431**	**1 307 227**	**3 147 572**	**205 159**	**4 817 477**

Ordinary maturity is used as the basis for classification.

[1] Agreements with counterparties regulating trades in OTC derivatives require collateral to be provided in certain cases. Eika Boligkreditt AS has been provided with such collateral in the form of cash in both 2018 and 2019. These cash sums are managed by Eika Boligkreditt AS for the duration of the collateral provision, and are recognised in the balance sheet as an asset with an associated liability. Both the cash asset held as bank deposits and the liability are thereafter measured at amortised cost.

[2] Accrued interest related to debt established through the issue of securities, subordinated loan capital and financial derivatives is included under the respective items.

NOTE 6: MARKET RISK

Market risk arises through the company's exposure in the interest and foreign exchange market.

Note 6.1 Interest rate risk

The company is also exposed to interest-rate risk related to net interest loss. Eika Boligkreditt finances its loan portfolio through external funding in the form of covered bonds and senior financing. Varying fixed interest rates and benchmark rates of interest on lending and borrowing affect the company's net interest income. The interest-rate risk is reduced to a great extent by adapting borrowing and lending to the same interest terms.

Interest sensitivity

Changes in the level of interest rates will have an effect on profits as a result of changes in both fair value and net interest income.

Effect on profit of a change in fair value

A one percentage point increase in all interest rates, calculated over a period of 12 months on the basis of the portfolio at 31 December 2019, would reduce the value of the company's assets at 31 December by NOK 55.4 million, while the value of liabilities would be cut by NOK 57.5 million. The net effect on pre-tax profit would consequently have been an increase of NOK 2.2 million. The effect of a decrease in interest rates would be an increase of NOK 55.4 million of the value of assets, an increase of NOK 57.5 million in the value of liabilities and a reduction in pre-tax profit of NOK 2.2 million. These amounts are calculated on the basis of duration – in other words, the remainder of the fixed interest period – for both assets and liabilities. The corresponding interest-rate hedge is taken into account when calculating duration. The valuation comprises the fair value of fixed-interest mortgages, bonds and certificates at fair value through profit and loss, derivatives and debt established through the issue of fixed-interest securities, which are financial instruments not measured at amortised cost.

Effect on profit of change in net interest income

The effect of a one percentage point increase in all interest rates would be to increase interest income at 31 December by NOK 987 million, while interest expense would be increased by NOK 893 million. The effect on net interest income would accordingly have been an increase of NOK 93 million. A reduction in interest rates would decrease interest income by NOK 987 million and interest expenses by NOK 893 million. That would yield a reduction of NOK 93 million in net interest income. When calculating the profit effect on net interest income, the change in interest rates comprises the company's portfolio with floating interest rates and the fair value of fixed-interest mortgages, loans to and receivables from credit institutions, derivatives, bonds and certificates at fair value through profit and loss, debt securities issued and subordinated loans.

Overall effect on profit of changes in fair value and net interest income

A one percentage point increase in all interest rates would produce an overall change through fair value and net interest income of NOK 95.5 million in pre-tax profit. A reduction of one percentage point in all interest rates would produce an overall negative change through fair value and net interest income of NOK 95.5 million in pre-tax profit. It is assumed in the calculation that the distributor commissions are not affected by this change.

Note 6.2 Currency risk

The company has debts through covered bonds issued in euros and Swedish kroner. These debts are hedged through currency derivatives. This means that the company has no currency risk. An overview of the book value of financial instruments in foreign currencies is provided below. The table is stated in NOK. Fair value adjustments related to the interest element and changes in basis swap in the currency hedge on debt securities issued are not included in the statement.

Currency risk as at 31 December 2019

Amounts in NOK 1 000	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	Total
Debt securities issued in EUR	-	-	-	29 456 235	15 411 368	**44 867 603**
Currency derivatives in EUR	-	-	-	(29 456 235)	(15 411 368)	**(44 867 603)**
Net currency exposure	-	-	-	-	-	-

Currency risk as at 31 December 2018

Amounts in NOK 1 000	Term to maturity 0-1 month	Term to maturity 1-3 months	Term to maturity 3-12 months	Term to maturity 1-5 years	Term to maturity > 5 years	Total
Debt securities issued in EUR	-	-	6 436 913	24 686 669	14 775 640	**45 899 221**
Currency derivatives in EUR	-	-	(6 436 913)	(24 686 669)	(14 775 640)	**(45 899 221)**
Net currency exposure	-	-	-	-	-	-

NOTE 7: OTHER RISK

Risk relating to capital management

The need for liquid funds increases as a result of balance sheet growth. This means there is a need to increase the number of lines to place liquidity with solvent counterparties pursuant to the regulations governing covered bonds. The company is exposed to risk linked to capital management through securities in Norway, including government securities, municipal bonds, and Norwegian covered bonds. A framework for managing surplus liquidity has been established to limit the interest and credit spread risk on the investments. The management is subject to the reporting and position framework determined by the company's board of directors. This framework is reviewed once a year. The company's total market risk is assessed on the basis of stress scenarios prepared in line with the recommendations of Norway's Financial Supervisory Authority and the Basel Committee. See note 4.4 relating to certificates, bonds and other securities with fixed yield.

Management and control of IT systems

The company's IT systems play a crucial role in accounting and reporting of implemented transactions, in providing the basis for important estimates and calculations, and in securing relevant supplementary information. IT systems are standardised, with parts of their management and operation largely outsourced to service providers. Good management and control of the IT systems, both in Eika Boligkreditt and at the service providers, are crucial for ensuring accurate, complete and reliable financial reporting.

NOTE 8: FINANCIAL DERIVATIVES

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

Financial derivatives	31 Dec 2019		31 Dec 2018	
Amounts in NOK 1 000	Nominal amount	Fair value	Nominal amount	Fair value
Assets				
Interest rate swap lending[1]	**5 064 060**	**35 709**	1 864 130	12 005
Interest rate and currency swap[2]	**47 600 550**	**6 441 900**	55 027 640	7 800 488
Interest swap placement	**98 460**	**682**	-	-
Total financial derivative assets including accrued interest	**52 763 070**	**6 478 291**	56 891 770	7 812 493
Liabilities				
Interest rate swap lending[1]	**856 576**	**7 165**	2 562 335	18 997
Interest rate and currency swap[2]	**2 050 500**	**51 299**	2 000 000	51 410
Interest swap placement	**1 467 054**	**10 293**	-	-
Total financial derivative liabilities including accrued interest	**4 374 130**	**68 756**	4 562 335	70 406

[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 and cash flow hedging on debt securities issued

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.

The company separates out the basis margin related to foreign currency from financial instruments by excluding this from earmarking of the fair value hedge, and has identified the currency element in the hedging as a cash flow hedge. This means that the fair value changes which arise in basis swaps when utilising currency swap agreements with the company's borrowing in foreign currencies in order to convert the cash flow from euros to Norwegian kroner are recognised as a cash flow hedge. Changes in fair value related to the basis margin will therefore be recognised in other comprehensive income.

	31 Dec 2019		31 Dec 2018	
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]	**45 550 050**	**6 061 740**	46 866 213	7 334 528
Hedged items: financial commitments incl foreign exchange[2]	**45 550 050**	**(6 433 921)**	46 866 213	(7 745 130)
Net capitalised value without accrued interest	**-**	**(372 181)**	-	(410 602)

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

Amounts in NOK 1 000	2019	2018
Hedging instruments	**(1 263 499)**	(44 797)
Hedged items	**1 258 235**	50 791
Net gains/losses (inefffectiveness) recorded in profit and loss[3]	**(5 264)**	5 994

[1] The nominal amount is converted to historical currency exchange rate. Figures for 2018 are corrected to historical currency exchange rate.
[2] The book value of the hedging instruments is its net market value. The book value of the hedged objects is the cumulative change in value associated with the hedged risk and is an adjustment of financial liabilities at amortised cost.
[3] The positive change in value for financial instruments in 2019 relates almost entirely to positive changes in basis swaps totalling NOK 53 million. This is described further below.

The positive change in the value of financial instruments related almost entirely to NOK 53 million in positive change to basis swaps (negative NOK 106 million). Basis swaps are derivative contracts entered into in connection with long-term borrowing in foreign currency, whereby the foreign currency is converted to Norwegian kroner. These are hedging instruments, and the effect is zero over the term of the instrument. The accounting effects will thereby reverse over time, so that the unrealised change in value at 31 December 2019 will be reversed until the derivatives mature. This means that changes in margins only have an accrual effect with regard to unrealised gains and losses in the financial statements, but no realised gains or losses over the term of the derivative unless Eika Boligkreditt realises the derivative early.

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

Interest rate benchmark reform (IBOR reform)

The IASB published Interest rate benchmark reform – amendments to IFRS 9 and IFRS 7 in September 2019. These changes mean that the assumption is interest rates will not alter as a result of the interbank offered rate (Ibor) reform, and hedge accounting will continue as before without alterations to hedge documentation.

These amendments came into force on 1 January 2020, but could be applied earlier. Eika Boligkreditt has chosen to apply the IFRS 9 changes early for the reporting period ending on 31 December 2019.

Hedge type	Maturity	Nominal value (millions)	Hedged item
Fair value and cash flow hedges	2021	EUR 1 000	EUR fixed rate issued debt of the same maturity and nominal of the swaps
	2023	EUR 1 500	
	2024	EUR 500	
	2025	EUR 1 000	
	2029	EUR 500	
	2039	EUR 75	
Fair value hedges	2020	NOK 550	NOK fixed rate issued debt of the same maturity and nominal of the swaps
	2021	NOK 3 000	
	2025	NOK 500	
	2026	NOK 1 800	
	2027	NOK 700	
	2028	NOK 1 150	
	2031	NOK 850	
	2033	NOK 1 600	

NOTE 9: FAIR VALUE HIERARCHY

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

Level 1: Financial instruments where the measurement is based on quoted prices in an active market

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

Level 2: Financial instruments where the measurement is based on observable market data

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

Level 3: Financial instruments where the measurement is based on information other than observable market data

Level 3 includes fixed-interest mortgages and shares at fair value over profit and loss. The fair value of the fixed-interest mortgages is their amortised cost adjusted for the present value of the difference between the mortgage's fixed interest rate and the applicable fixed interest rate offered on the balance sheet date. Shares are valued on the basis of discounted cash flows.

31 December 2019

(Amounts in NOK 1 000)	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	6 317 876
Bonds and certificates	794 342	12 568 604	-
Financial derivatives	-	6 478 291	-
Shares classified at fair value recognised in profit or loss	-	-	1 650
Total financial assets	**794 342**	**19 046 895**	**6 319 526**
Financial liabilities			
Financial derivatives	-	68 756	-
Total financial liabilities	**-**	**68 756**	**-**

No significant transactions between the different levels have taken place in 2019.

31 December 2018

(Amounts in NOK 1 000)	Level 1	Level 2	Level 3
Financial assets			
Lending to customers (fixed income)	-	-	4 830 180
Bonds and certificates	5 437 976	11 155 332	-
Financial derivatives	-	7 812 493	-
Shares classified at fair value recognised in profit or loss	-	-	2 500
Total financial assets	**5 437 976**	**18 967 825**	**4 832 680**
Financial liabilities			
Financial derivatives	-	70 406	-
Total financial liabilities	**-**	**70 406**	**-**

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

Detailed statement of assets classified as level 3

2019 (Amounts in NOK 1 000)	1 Jan 2019	Purchases/issues	Disposals/ settlements	Transfers in/out of level 3	Allocated to profit or loss 2019	Other compre- hensive income	31 Dec 2019
Lending to customers (fixed-rate loans)	4 830 180	2 307 239	(785 298)	-	(34 245)	-	6 317 876
Shares classified at fair value recognised in profit or loss	2 500	-	-	-	(850)	-	1 650
Total	**4 832 680**	**2 307 239**	**(785 298)**	**-**	**(35 095)**	**-**	**6 319 526**

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

Detailed statement changes in debt related to currency changes

	2019				2018			
(Amounts in NOK 1 000)	1 Jan 2019	Issued/matured	Currency changes	31 Dec 2019	01.01.2018	Issued/matured	Currency changes	31 Dec 2018
Change in debt securities issued[1]	46 079 640	1 173 813	(2 208 003)	45 045 450	41 887 570	3 923 000	269 070	46 079 640
Total	**46 079 640**	**1 173 813**	**(2 208 003)**	**45 045 450**	41 887 570	3 923 000	269 070	46 079 640

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

Interest rate sensitivity of assets classified as Level 3 at 31 December 2019

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 234 million. The effect of a decrease in interest rates would be an increase of NOK 234 million in the value of fixed-rate loans at fair value. The amounts are calculated by duration, which is the remaining portion of the fixed interest period.

Changes in fair value of fixed-rate loans attributable to a change in credit risk

Since the company's fixed-rate lending at fair value has an unchanged credit spread, no change in fair value is attributable to a change in the credit risk. That applies both for 31 December 2019 and cumulatively.

NOTE 10: CLASSIFICATION OF FINANCIAL INSTRUMENTS

31 December 2019

Amounts in NOK 1 000	Financial instruments at fair value through profit or loss	Financial instruments at fair value through other comprehensive income	Financial instruments at amortised cost	Total
Financial assets				
Lending to and receivables from credit institutions	-	-	968 309	**968 309**
Lending to customers	6 317 876	-	78 400 667	**84 718 544**
Bonds and certificates	-	13 362 946	-	**13 362 946**
Financial derivatives	6 478 291	-	-	**6 478 291**
Shares classified at fair value recognised in profit or loss	1 650	-	-	**1 650**
Other financial assets	-	-	142 045	**142 045**
Total financial assets	**12 797 817**	**13 362 946**	**79 511 021**	**105 671 784**
Financial liabilities				
Financial derivatives	68 756	-	-	**68 756**
Debt securities issued	-	-	94 300 106	**94 300 106**
Loans from credit institutions	-	-	3 937 698	**3 937 698**
Other liabilities	-	-	840 908	**840 908**
Subordinated loan capital	-	-	889 050	**889 050**
Total financial liabilities	**68 756**	**-**	**99 967 762**	**100 036 518**

31 December 2018

Amounts in NOK 1 000	Financial instruments at fair value through profit or loss	Financial instruments at fair value through other comprehensive income	Financial instruments at amortised cost	Total
Financial assets				
Lending to and receivables from credit institutions	-	-	956 021	**956 021**
Lending to customers	4 830 180	-	77 184 505	**82 014 685**
Bonds and certificates	-	16 593 308	-	**16 593 308**
Financial derivatives	7 812 493	-	-	**7 812 493**
Shares classified at fair value recognised in profit or loss	2 500	-	-	**2 500**
Other financial assets	-	-	486 551	**486 551**
Total financial assets	**12 645 173**	**16 593 308**	**78 627 078**	**107 865 559**
Financial liabilities				
Financial derivatives	70 406	-	-	**70 406**
Debt securities issued	-	-	97 288 469	**97 288 469**
Loans from credit institutions	-	-	3 855 067	**3 855 067**
Other liabilities	-	-	787 100	**787 100**
Subordinated loan capital	-	-	674 273	**674 273**
Total financial liabilities	**70 406**	**-**	**102 604 909**	**102 675 315**

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

Full year 2019

Amounts in NOK 1 000	Fair value through profit and loss	Fair value through other comprehensive income	Fair value hedge through profit and loss	Cash flow hedge through other comprehensive income	Total	Of which realised	Of which unrealised
Lending to customers (fixed income)	(34 245)		-	-	**(34 245)**	1 029	(35 274)
Bonds and certificates	-	6 634	-	-	**6 634**	103 181	(96 547)
Shares classified at fair value recognised in profit or loss	(850)	-	-	-	**(850)**	-	(850)
Debts from issuance of securities	-	-	1 258 235	-	**1 258 235**	-	1 258 235
Financial derivatives	34 383	-	(1 263 499)	52 974	**(1 229 116)**	-	(1 229 116)
Total	**(712)**	**6 634**	**(5 264)**	**52 974**	**658**	**104 210**	**(103 552)**

Full year 2018

Amounts in NOK 1 000	Fair value through profit and loss	Fair value through other comprehensive income	Fair value hedge through profit and loss	Cash flow hedge through other comprehensive income	Total	Of which realised	Of which unrealised
Lending to customers (fixed income)	2 126		-	-	**2 126**	746	1 380
Bonds and certificates	-	(6 880)	-	-	**(6 880)**	32 411	(39 292)
Shares classified at fair value recognised in profit or loss	-	-	-	-	**-**	-	-
Debts from issuance of securities	-	-	50 791	-	**50 791**	-	50 791
Financial derivatives	13 933	-	(44 797)	(106 139)	**(137 003)**	35	(137 038)
Total	**16 059**	**(6 880)**	**5 994**	**(106 139)**	**(90 966)**	**33 192**	**(124 158)**

NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST

	31 Dec 2019		31 Dec 2018	
Amounts in NOK 1 000	**Book value**	**Fair value**	Book value	Fair value
Financial assets				
Loans to and deposits with credit institutions	**968 309**	**968 309**	956 021	956 021
Lending to customers	**84 718 544**	**84 718 544**	82 014 685	82 014 685
Total financial assets	**85 686 852**	**85 686 852**	82 970 706	82 970 706
Financial liabilities				
Debt securities in issue	**94 300 106**	**94 809 378**	97 288 469	97 684 168
Subordinated loan capital	**889 050**	**899 677**	674 273	678 763
Total financial liabilities	**95 189 156**	**95 709 055**	97 962 742	98 362 931

The fair value of lending to customers with floating interest rates and of lending to and receivables from credit institutions is considered to be equal to book value, and is considered to be equal to amortised cost. The fair value of fixed-rate loans is measured as equal to amortised cost adjusted for the present value of the difference between the loans' fixed rate of interest and the interest rate at the balance sheet date. The share of fixed and floating rate loans is presented in note 4.2. The fair value of Norwegian debt securities in issue and subordinated loan capital are based on tax-related prices published by the Norwegian Securities Dealers Association (Norsk Fondsmeglerforbund). The fair value of foreign debt securities in issue is based on quoted prices provided by Bloomberg.

NOTE 13: TANGIBLE AND INTANGIBLE ASSETS

Amounts in NOK 1 000	Software	Total
Original cost 1 January	26 660	**26 660**
Additions	1 294	**1 294**
Disposals	-	-
Original cost 31 December	**27 954**	**27 954**
Accumulated depreciation 1 January	21 545	**21 545**
Accumulated depreciation 31 December	23 402	**23 402**
Book value 31 December	**4 552**	**4 552**
Depreciation charge for the year	1 857	**1 857**
Useful economic life	5 yrs	
Depreciation schedule	Linear	
Depreciaton recognised through profit and loss		
Depreciation charge for the year other intangible assets	1 857	
Depreciation charge of right-of-use assets for the year (IFRS 16)	2 088	
Total	**3 945**	

IFRS 16 – Leases

Amounts in NOK 1 000	31 Dec 2019	1 Jan 2019
Balance sheet		
Right-of-use assets	16 701	18 789
Lease obligations	16 593	18 789
Statement of comprehensive income		
Depreciation	2 088	
Interest expenses	541	
Total	**2 629**	
Effects relating to the implementation of IFRS 16		
Reduction in operating costs	2 513	
Increase in costs after implementing IFRS 16	2 629	
Change in profit before taxes in the period	**(115)**	

IFRS 16 on lease accounting requires that all leases are recognised in the balance sheet by recognising the beneficial use of an asset as an asset, while making provision for the lease obligation as a liability. EBK has only one lease, covering office premises, which is subject to this standard. The beneficial use and lease obligation are recognized as NOK 16.7 million and NOK 16.6 million respectively, in the company's balance sheet at 31 December 2019, representing the present value of future rent payments over the duration of the lease. The lease duration which forms the basis for calculating future rent payments corresponds to the remaining period until the termination of the lease (about 8 years at 31 December 2019). Possible options are not added to the lease duration. In addition, the beneficial use is depreciated over the duration of the lease while interest on the lease obligation is expensed. Depreciation is presented together with other depreciation in the statement of comprehensive income, while interest is included in financial expenses in the statement of comprehensive income. Interest costs are calculated by applying the discount rate (the company's incremental borrowing rate) to the lease obligation.

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

Shares classified at fair value recognised in profit and loss

Amounts in NOK 1 000	Number of shares	Cost price	Book value	Owner share
Nordic Credit Rating AS	10 000	2 500	1 650	1.67%
Total	**10 000**	**2 500**	**1 650**	

Shares in associated company

Assets in associated companies are recognised using the equity method.

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

Amounts in NOK 1 000	**2019**	2018
Carrying amount at 1 January 2018	**54 441**	29 700
Addition/disposal	**-**	28 530
Revaluation at acquisition cost	**-**	(14 700)
Share of profit/loss	**19 117**	10 911
Utbetalt utbytte	**(9 873)**	-
Carrying amount at 31 December 2018	**63 685**	54 441

[1] EBK's investment in Eiendomsverdi during 2018 increased its shareholding to 25 per cent. The investment the investment is treated as an associated company calculated in accordance with the equity method. The shareholding in Eiendomsverdi is valued at the overall acquisition price on the basis of a staged acquisition adjusted for EBK's share of the profit and dividend received.

NOTE 15: LIABILITIES

Amounts in NOK 1 000	**31 Dec 2019**	31 Dec 2018
Nominal value of bonds	**88 087 050**	89 748 213
Difference in fair value	**6 213 056**	7 540 256
Nominal value of subordinated loan capital	**890 000**	675 000
Difference in fair value	**(950)**	(727)
Total	**95 189 156**	97 962 743

Eika Boligkreditt has an overdraft facility with DNB Bank ASA (DNB). Amounting to NOK 50 million, this facility was undrawn at 31 December 2019 and 31 December 2018. Equity conditions apply to the overdraft facility.

Liquidity support from the owner banks is regulated by an agreement dated 10 May 2012 on the purchase of covered bonds. The main features of this agreement are that the owner banks, for as long as they have residential mortgage portfolios in the company and under given circumstances, are committed to provide Eika Boligkreditt with liquidity.

This liquidity obligation is limited to the maturity of the company's covered bonds issued under the Euro Medium Term Covered Note Programme (EMTCN Programme) and associated swap agreements over the coming 12 months. To the extent that covered bonds have been purchased by the owner banks under the liquidity agreement and have not been redeemed, these are deducted from the calculation of each owner bank's outstanding liquidity obligation. Each owner bank's liquidity obligation is primarily limited to its pro rata share of the issued amount, which is calculated on the basis of each owner bank's share of the company's mortgage portfolio. Should one or more owner banks fail to fulfil their liquidity obligation pursuant to the agreement, the liquidity obligation of the other owner banks can be increased up to a limit of twice their original pro rata share.

The agreement on purchasing covered bonds can be terminated under certain conditions.

Conditions also apply to the lender concerning overcollateralisation. For CBs ascribed to the company's cover pool, requirements relating to overcollateralisation of 105 per cent apply to loans included in the EMTCN-Programme. This means that the company must at all times have assets in its cover pool that constitute at least 105 per cent of total outstanding covered bonds. See note 16 for more information.

At 31 December 2019, the company had bonds and certificates in issue with a nominal value of NOK 94 300 106.

Note 15.1 Debts from issuance of securities

Covered bonds

Amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Establishment	Maturity	**31 Dec 2019**	31 Dec 2018
NO0010502149	-	NOK	Floating	3M Nibor + 0.70%	2009	2019	-	430 233
NO0010561103	-	NOK	Fixed	5.00%	2009	2019	-	1 959 785
NO0010605587	1 000 000	NOK	Fixed	5.20%	2011	2021	**1 000 000**	1 000 000
NO0010625346	1 500 000	NOK	Fixed	4.60%	2011	2026	**1 500 620**	1 500 712
NO0010663727	-	NOK	Floating	3M Nibor + 0.60%	2012	2019	-	4 256 621
NO0010663743	-	NOK	Fixed	3.25%	2012	2019	-	200 470
XS0794570944	-	EUR	Fixed	2.000%	2012	2019	-	6 436 913
NO0010669922	1 000 000	NOK	Fixed	4.00%	2013	2028	**997 537**	997 229
NO0010685480	5 125 000	NOK	Floating	3M Nibor + 0.54%	2013	2020	**5 130 475**	5 136 185
NO0010685704	550 000	NOK	Fixed	3.50%	2013	2020	**550 430**	550 881
NO0010687023	150 000	NOK	Fixed	4.10%	2013	2028	**150 000**	150 000
XS0881369770	1 000 000	EUR	Fixed	2.125%	2013	2023	**9 823 464**	9 879 560
XS1044766191	500 000	EUR	Fixed	1.50%	2014	2021	**4 915 227**	4 940 427
NO0010732258	8 000 000	NOK	Floating	3M Nibor + 0.28%	2015	2022	**7 977 615**	7 967 018
NO0010733694	2 000 000	NOK	Fixed	1.75%	2015	2021	**1 147 747**	1 146 452
XS1312011684	500 000	EUR	Fixed	0.625%	2015	2021	**4 913 307**	4 939 699
NO0010763022	850 000	NOK	Fixed	2.25%	2016	2031	**843 890**	843 347
NO0010775190	5 000 000	NOK	Floating	3M Nibor + 0.40%	2016	2020	**2 061 001**	4 999 382
NO0010780687	700 000	NOK	Fixed	2.60%	2016	2027	**699 505**	699 438
XS1397054245	500 000	EUR	Fixed	0.375%	2016	2023	**4 901 787**	4 926 983
NO0010794308	5 000 000	NOK	Floating	3M Nibor + 0.43%	2017	2022	**5 007 130**	5 009 818
XS1566992415	500 000	EUR	Fixed	0.375%	2017	2024	**4 902 450**	4 929 108
XS1725524471	500 000	EUR	Fixed	0.375%	2017	2025	**4 897 680**	4 924 377
NO0010815376	1 600 000	NOK	Fixed	2.67%	2018	2033	**1 589 113**	1 588 282
NO0010821192	8 050 000	NOK	Floating	3M Nibor + 0.34%	2018	2023	**8 045 233**	8 043 920
XS1869468808	500 000	EUR	Fixed	0.500%	2018	2025	**4 895 435**	4 922 155
XS1945130620	500 000	EUR	Fixed	0.88%	2019	2029	**4 879 971**	-
XS1969637740	10 000	EUR	Fixed	1.25%	2019	2039	**98 460**	-
XS1997131591	60 000	EUR	Fixed	1.11%	2019	2039	**590 657**	-
NO0010863178	7 250 000	NOK	Floating	3M Nibor + 0.25%	2019	2024	**7 243 266**	-
XS2085864911	5 000	EUR	Fixed	0.56%	2019	2039	**49 165**	-
Value adjustments							**1 939 521**	1 533 790
Total covered bonds[1]							**90 750 687**	93 912 784

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

Senior unsecured bonds
Amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Estab-lishment	Maturity	31 Dec 2019	31 Dec 2018
NO0010708936	425 000	NOK	Floating	3M Nibor + 0.80%	2014	2019	-	425 110
NO0010713753	-	NOK	Floating	3M Nibor + 0.70%	2014	2019	-	249 978
NO0010739287	600 000	NOK	Floating	3M Nibor + 0.70%	2015	2020	**599 940**	599 797
NO0010764160	-	NOK	Floating	3M Nibor +0.95%	2016	2019	-	350 096
NO0010776099	500 000	NOK	Floating	3M Nibor +0.92%	2016	2020	**499 944**	499 871
NO0010782048	500 000	NOK	Floating	3M Nibor +0.95%	2017	2022	**501 030**	501 537
NO0010830367	450 000	NOK	Floating	3M Nibor + 0.56%	2018	2022	**449 829**	449 764
NO0010834716	500 000	NOK	Fixed	3.01%	2018	2025	**299 602**	299 533
NO0010841620	300 000	NOK	Fixed	2.87%	2019	2026	**299 663**	-
NO0010845936	500 000	NOK	Floating	3M Nibor + 0.78%	2019	2024	**299 816**	-
NO0010849433	500 000	NOK	Floating	3M Nibor + 0.74%	2019	2024	**299 678**	-
NO0010851975	1 000 000	NOK	Floating	3M Nibor + 0.27%	2019	2021	**299 918**	-
Total senior unsecured bonds							**3 549 419**	3 375 685
Total debt securities issued							**94 300 106**	97 288 469

Subordinated loan capital
Amounts in NOK 1 000

ISIN	Nominal amounts	Local currency	Interest rate terms	Interest rate	Estab-lishment	Maturity	31 Dec 2019	31 Dec 2018
NO0010729650	200 000	NOK	Floating	3M Nibor + 1.85%[1]	2015	2025	**164 997**	199 937
NO0010759475	150 000	NOK	Floating	3M Nibor + 3.40%[2]	2016	2026	**149 928**	149 868
NO0010814916	325 000	NOK	Floating	3M Nibor + 1.40%[3]	2018	2028	**324 598**	324 469
NO0010864333	250 000	NOK	Floating	3M Nibor + 1.55%[4]	2019	2029	**249 526**	-
Total subordinated loan capital							**889 050**	674 273

[1] 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. Eika Boligkreditt redeemed the equivalent of NOK 35 million before the call date during the third quarter of 2019 which give a remaining outstanding nominal value of NOK 165 million as of 31 December 2019. The company has decided to exercise the redemption right on 21 January 2020. The loan is therefore not included in the company's Tier 2 capital at 31 December 2019.

[2] 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.

[3] Subordinated loan of NOK 325 million maturing on 2 February 2028, 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.

[4] Subordinated loan of NOK 250 million maturing on 27 September 2029, with a redemption right (call) on 27 September 2024 and thereafter quarterly at each interest date. A regulatory and a tax related call is also provided. Should official regulation lead to changes which affect how far the capital can be regarded as tier 2 capital, the bond can be redeemed at a price equal to 100 per cent plus accrued interest.

NOTE 16: COVER POOL

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

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

Cover Pool	Fair value	
Amounts in NOK 1 000	**31 Dec 2019**	31 Dec 2018
Lending to customers[2]	**84 345 467**	81 541 489
Substitute assets and derivatives:		
Financial derivatives without accrued interest (net)	**6 079 459**	7 323 128
Substitute assets[3]	**9 838 148**	14 046 298
Total cover pool	**100 263 074**	102 910 916
The cover pool's overcollateralisation[4]	**105.81%**	107.06%

Covered bonds issued		
Amounts in NOK 1 000	**31 Dec 2019**	31 Dec 2018
Covered bonds	**90 750 687**	93 912 784
Premium/discount	**217 963**	200 252
Own holding (Covered bonds)[1]	**3 789 000**	2 010 000
Total covered bonds	**94 757 650**	96 123 036

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

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

Cover Pool	Nominal values	
Amounts in NOK 1 000	**31 Dec 2019**	31 Dec 2018
Lending to customers[2]	**84 360 526**	81 521 274
Substitute assets:		
Substitute assets[3]	**9 775 435**	13 993 519
Total	**94 135 960**	95 514 793
The cover pool's overcollateralisation[4]	**111.35%**	110.58%

Covered bonds issued		
Amounts in NOK 1 000	**31 Dec 2019**	31 Dec 2018
Covered bonds	**84 537 050**	86 373 213
Total covered bonds	**84 537 050**	86 373 213

[2] Loans, which have collateral without legal protection, are excluded.
[3] Substitute assets include lending to and receivables from credit institutions, bond and certificates at fair value and repo agreements.
[4] Pursuant to the Financial Supervisory Authority's guidance for reporting LCR, the liquidity cover ratio is excluded when calculating the cover pool's overcollateralisation. At 31 December 2019, liquid assets totalling NOK 550 million in the form of bonds and certificates were excluded from the calculation of the cover pool's overcollateralisation. Had this liquidity also been taken into account when valuing the cover pool, overcollateralisation would have been 6.39 per cent at fair value and 12.01 per cent at nominal value.

NOTE 17: PAYROLL COSTS

Amounts in NOK 1 000	**2019**	2018
Pay, fees, etc	**22 600**	21 734
National insurance contributions	**5 155**	5 078
Pension costs	**3 484**	3 468
Other personnel costs	**1 017**	852
Total	**32 256**	31 132
Average number of employees (full-time equivalent)	**19.8**	19.8

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

Amounts in NOK 1 000		Pay[1]	Other[2]	Pension costs ordinary scheme	Pension costs additional scheme
Kjartan M Bremnes	CEO	2 718	325	180	794

The CEO is included in the company's ordinary pension scheme. In addition, an agreement has been entered into on an additional defined-contribution pension based on a fixed supplement to the company pension. This supplement comprises a contribution of 18 per cent of pay above 12 times the national insurance base rate (G) for a retirement pension between the ages of 67 and 77, as well as a calculated supplement to an early retirement pension from the ages of 63 to 67 which will provide a pension on retirement at the age of 63 of almost 66 per cent pay from the ages of 63 to 67. The pension shown in the table above presents the expense for the year.

The CEO has no agreement on pay after termination of his employment.

[1] Includes pay and holiday pay.
[2] Fringe benefits and other benefits.

The company's bonus scheme was wound up with effect from 2017. The balance in the bonus pot at 31 December 2019 will be paid out in accordance with the applicable rules.

Directors

Amounts in NOK 1 000	Fees
Tor Egil Lie	188
Dag Olav Løseth	126
Terje Svendsen	126
Olav Sem Austmo	126
Rune Iversen	126
Torleif Lilløy	126
Nina Holte	19
Total director's fee	**837**

Risk committee

Amounts in NOK 1 000	Fees
Terje Svendsen	44
Dag Olav Løseth	44
Torleif Lilløy	37
Tor Egil Lie	6
Total risk committee	**131**

Nomination committee

Amounts in NOK 1 000	Fees
Jørn Berg	25
Hans Petter Gjeterud	13
Harald Flaa	13
Trygve Jacobsen	13
Siri Fossum	13
Total nomination committee	**75**

Remuneration committee

Amounts in NOK 1 000	Fees
Rune Iversen	19
Olav Sem Austmo	19
Total risk committee	**37**

Auditor

Remuneration to Deloitte AS and their associates is as follows:

Amounts in NOK 1 000	**2019**	2018
Statutory audit	**581**	680
Other assurance services	**338**	291
Tax advise	**53**	33
Other services unrelated to audit	**41**	-
Total	**1 013**	1 003

The figures above exclude VAT.

NOTE 19: PENSION COST

The company is required to have an occupational pension scheme in accordance with Norwegian legislation on defined contribution pensions ("lov om innskuddspensjon"). The company has arrangements that comply with the statutory requirements. Eika Boligkreditt decided in 2016 to close its defined-benefit pension plan, which means that all employees are now covered by a defined-contribution scheme.

Defined contribution scheme

This scheme is based on an agreement that the company has to provide a contribution of seven per cent of pay rates from zero to 7.1 times the national insurance base rate (G) and 20 per cent of pay from the 7.1 to 12 G. In addition, the company provides risk insurance that includes disability and children's pensions for those included in the defined contribution scheme.

AFP – early retirement pension

The AFP is an early retirement pension plan for the private sector enshrined in collective pay agreements. To benefit from the scheme, an employee must have been employed in a company affiliated to the AFP for seven of the nine years before they reach the age of 62. Premiums are calculated as a fixed percentage of annual pay between one and 7.1 times the National Insurance base rate (G). No premiums are paid for employees after the year they reach the age of 61. All employees in the company are members of the scheme from 1 April 2016. The premium paid is expensed.

Unfunded scheme

The company has an additional defined-contribution pension for the chief executive. In connection with this plan, a secured loan agreement provides that an amount corresponding to the pension obligation is deposited in an escrow account.

Pension costs and pension liabilities include employer's national insurance contributions.

	2019	2018
Number of employees in the unfunded scheme	1	1
Number of employees in the defined contribution pension scheme	20	21

Pension expenses

Amounts in NOK 1 000	2019	2018
Defined contribution pension schemes	2 937	2 639
Individual plan	960	1 110
AFP – early retirement pension	333	374
Net pension expenses	**4 231**	**4 123**

Pension commitments

Amounts in NOK 1 000	31 Dec 2019	31 Dec 2018
Value of pension funds	5 021	4 075
Pension liability	**5 021**	**4 075**

NOTE 20: TAXES

Amounts in NOK 1 000	2019	2018
Tax on ordinary profit and loss		
Income tax payable in the balance sheet	62 232	32 764
Correction for tax on interest from tier 1 perpetual bonds recognised as equity	-	7 160
Change in deferred tax ordinary profit and loss	(33 783)	(23 507)
Change in deferred tax other comprehensive income	(14 902)	28 255
Total tax on ordinary profit and loss	**13 547**	**44 672**
Reconciliation of expected and actual tax - ordinary profit and loss		
Profit before taxes	102 209	196 627
Expected tax on income at nominal tax rate (25%)	25 552	49 157
Reversal of earlier provisions for taxes	-	-
Tax effect of permanent differences	(12 006)	(4 485)
Deffered tax for change in tax rate	-	-
Total tax on ordinary profit and loss	**13 547**	**44 672**
Effective tax rate	13.3%	22.7%
Tax on other comprehensive income		
Change in deferred tax on net gains and losses on bonds and certificates	1 659	1 720
Change in deferred tax on net gains and losses on basis swaps	13 244	26 535
Total tax on other comprehensive income	**14 902**	**28 255**
Reconciliation of expected and actual tax – other comprehensive income		
Other comprehensive income before tax	59 608	(127 720)
Expected tax on income at nominal tax rate (25%)	14 902	(31 930)
Tax effect of permanent differences	-	3 675
Total tax on other comprehensive income	**14 902**	**(28 255)**
Deferred tax related to the following temporary differences		
Fixed assets	(5)	(8)
Pensions	236	268
Financial instruments	33 736	23 529
Other temporary differences	(184)	(282)
Total change in deferred tax	**33 783**	**23 507**

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

Amounts in NOK 1 000	31 Dec 2019	31 Dec 2018
Fixed assets	50	71
Net pension commitments	5 021	4 075
Financial instruments	305 973	171 028
Other temporary differences	429	1 165
Total temporary differences	311 472	176 339
Deferred tax assets	77 868	44 085

NOTE 21: OTHER FINANCIAL ASSETS

Amounts in NOK 1 000	31 Dec 2019	31 Dec 2018
Prepaid expenses	2 068	1 452
Repo agreements	-	356 439
Accrued interests	139 977	128 660
Short-term receivables	50	-
Total other financial assets	142 095	486 551

NOTE 22: OTHER LIABILITIES

Amounts in NOK 1 000	31 Dec 2019	31 Dec 2018
Accrued costs		
Commissions on bank lending	145 719	115 390
Accrued interest	625 932	631 406
Accrued employer's national insurance contributions	1 500	1 598
Deferred directors' fees	612	584
Accrued holiday pay	2 327	2 293
Deferred bonus	429	1 165
Other accrued costs	-	(1)
Total accrued costs	776 518	752 435
Other debt		
Debt to companies in the same group	-	-
Accounts payable	736	622
Unpaid withholding tax	1 178	1 126
Unpaid VAT	245	152
Tax payable	62 232	32 764
Other debt	-	-
Total	64 390	34 664
Total other liabilities	840 908	787 100

NOTE 23: COMMISION COSTS

Amounts in NOK 1 000	2019	2018
Portfolio commission[1]	478 044	448 632
Instalment commission	10 072	8 094
Banking services	1 736	1 109
Total commission costs	489 852	457 836

[1] The company's distributors have the right to a portfolio commission for mortgages included in the mortgage portfolio. This commission equals the lending interest rate on the individual mortgage less a specified net interest rate. Distributors qualify for commission on the basis of the same calculation principles applied when calculating the mortgage interest rate to be paid by the mortgagee.

NOTE 24: ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Amounts in NOK 1 000	2019	2018
IT costs	9 618	8 931
Phone, postage, etc	1 092	906
Accessories and equipment	333	341
Marketing	284	299
Other administrative expenses	6 999	7 958
Total administrative expenses	18 326	18 435
External services	12 354	11 758
Operating expenses on rented premises	318	2 313
Insurance cost	253	245
Other operating expenses	1 771	1 615
Total other operating expenses	14 696	15 932

NOTE 25: SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital consists of 1 225 496 642 shares, each with a nominal value of NOK 1.00.
All shares were authorised, issued and fully paid at 31 December 2019.

List of shareholders at 31 December 2019	Number of shares	Ownership share
Jbf bank og forsikring	82 095 349	6.70%
Jæren Sparebank	72 939 669	5.95%
OBOS-banken	65 064 833	5.31%
Askim & Spydeberg Sparebank	51 768 237	4.22%
Skagerrak Sparebank	48 768 625	3.98%
Totens Sparebank	47 405 455	3.87%
Orkla Sparebank	37 168 911	3.03%
Sparebanken Narvik	29 453 414	2.40%
Aurskog Sparebank	26 730 204	2.18%
Melhus Sparebank	26 384 612	2.15%
Lillestrømbanken	26 134 118	2.13%
Grong Sparebank	25 659 118	2.09%
Surnadal Sparebank	25 306 084	2.06%
Eidsberg Sparebank	23 734 751	1.94%
Rørosbanken	23 327 560	1.90%
Larvikbanken – Din Personlige Sparebank	23 106 091	1.89%
Odal Sparebank	23 076 300	1.88%
Selbu Sparebank	22 322 799	1.82%
Skue Sparebank	21 689 595	1.77%
Berg Sparebank	21 308 501	1.74%
Aasen Sparebank	19 804 613	1.62%
Drangedal Sparebank	19 326 539	1.58%
Sunndal Sparebank	18 972 716	1.55%
Romsdal Sparebank	18 628 115	1.52%
Sogn Sparebank	18 006 327	1.47%
Sparebanken Din	17 326 456	1.41%
Andebu Sparebank	17 031 263	1.39%
Bien Sparebank ASA	16 938 951	1.38%
Trøgstad Sparebank	16 917 891	1.38%
Marker Sparebank	16 497 280	1.35%
Kvinesdal Sparebank	15 645 917	1.28%
Arendal og Omegn Sparekasse	15 302 457	1.25%
Hjartdal og Gransherad Sparebank	15 226 989	1.24%

List of shareholders at 31 December 2019	Number of shares	Ownership share
Østre Agder Sparebank	14 937 462	1.22%
Tysnes Sparebank	13 869 629	1.13%
Hegra Sparebank	13 573 765	1.11%
Strømmen Sparebank	12 971 707	1.06%
Stadsbygd Sparebank	12 971 012	1.06%
Sparebank 68° Nord	12 802 104	1.04%
Hønefoss Sparebank	12 573 195	1.03%
Grue Sparebank	11 839 370	0.97%
Ørland Sparebank	11 293 691	0.92%
Nidaros Sparebank	11 283 185	0.92%
Hemne Sparebank	10 777 911	0.88%
Valle Sparebank	10 769 550	0.88%
Birkenes Sparebank	10 292 564	0.84%
Høland og Setskog Sparebank	9 527 013	0.78%
Tinn Sparebank	9 447 675	0.77%
Hjelmeland Sparebank	8 919 531	0.73%
Tolga-Os Sparebank	8 329 412	0.68%
Blaker Sparebank	7 679 751	0.63%
Oppdalsbanken	7 602 369	0.62%
Haltdalen Sparebank	7 309 780	0.60%
Åfjord Sparebank	7 196 900	0.59%
Evje og Hornnes Sparebank	6 875 569	0.56%
Ørskog Sparebank	6 612 414	0.54%
Voss Veksel- og Landmandsbank ASA	6 281 006	0.51%
Fornebu Sparebank	5 839 511	0.48%
Soknedal Sparebank	5 699 541	0.47%
Rindal Sparebank	5 158 639	0.42%
Ofoten Sparebank	4 475 869	0.37%
Bjugn Sparebank	3 921 519	0.32%
Valdres Sparebank	3 056 820	0.25%
Etnedal Sparebank	2 060 380	0.17%
Gildeskål Sparebank	478 058	0.04%
Total	**1 225 496 642**	**100%**

The shares have full voting rights pursuant to the company's articles of association.

NOTE 26: CAPITAL ADEQUACY RATIO

Amounts in NOK 1 000	31 Dec 2019	31 Dec 2018
Share capital	**1 225 497**	1 093 319
Share premium	**3 384 886**	2 967 063
Other paid-in equity	**477 728**	477 728
Other equity	**1 016**	1 015
Total equity recognised in the balance sheet (without tier 1 perpetual bonds)	**5 089 127**	4 539 126
Fund for unrealised gains	**9 596**	10 265
Intangible assets	**(4 553)**	(5 116)
Deferred tax assets[1]	**-**	-
Prudent valuation adjustments of fair valued positions without accrued interest	**(20 106)**	(21 867)
Total core tier 1 capital	**5 074 063**	4 522 408

Core capital adequacy ratio (core tier 1 capital)	**31 Dec 2019**	31 Dec 2018
Weighted calculation basis	**34 073 656**	33 731 370
Core tier 1 capital	**5 074 063**	4 522 408
Core tier 1 capital ratio	**14.9%**	13.4%
Total core tier 1 capital	**5 074 063**	4 522 408
Tier 1 perpetual bonds	**573 912**	704 974
Total tier 1 capital	**5 647 975**	5 227 381

Capital adequacy ratio (tier 1 capital)	**31 Dec 2019**	31 Dec 2018
Weighted calculation basis	**34 073 656**	33 731 370
Tier 1 capital	**5 647 975**	5 227 381
Tier 1 capital ratio	**16.6%**	15.5%
Total tier 1 capital	**5 647 975**	5 227 381
Subordinated loans	**724 052**	674 273
Total primary capital (tier 2 capital)	**6 372 027**	5 901 654

Capital adequacy ratio (tier 2 capital)	**31 Dec 2019**	31 Dec 2018
Weighted calculation basis	**34 073 656**	33 731 370
Total primary capital (tier 2 capital)	**6 372 027**	5 901 654
Capital adequacy ratio	**18.7%**	17.5%
Required capital corresponding to eight per cent of calculation basis	**2 725 892**	2 698 510
Surplus equity and subordinated capital	**3 646 135**	3 203 145

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

31 December 2019 Calculation basis	Weighted calculation basis	Capital requirement
Credit risk	32 020 854	2 561 668
Operational risk	394 304	31 544
CVA risk[2]	1 658 498	132 680
Total	**34 073 656**	2 725 892

Levereage Ratio	**31 Dec 2019**	31 Dec 2018
Total Leverage Ratio exposure	**108 698 255**	110 627 267
Tier 1 capital	**5 647 975**	5 227 381
Levereage Ratio	**5.2%**	4.7%

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

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

[2] At 31 December 2019, 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 34.1 billion at 31 December. This amount represented a quantification of the company's risk. After account has been taken of the growth in overall lending, and in changes to the company's liquidity portfolio, the calculation basis for capital adequacy at 31 December was NOK 0.3 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 13.5 per cent, a tier 1 capital ratio of 15.0 per cent and a tier 2 capital ratio of 17.0 per cent. These targets are adequate in relation to the legal requirements, the company's Pillar 2-demands, and capital requirements based on the company's internal assessment of risk. As can be seen above, the applicable buffer requirement was met at 31 December 2019 with a core tier 1 capital ratio of 14.9 per cent. The Norwegian Ministry of Finance resolved on 13 December 2018, on the advice of Norges Bank, to increase the requirement for the countercyclical capital buffer from two to 2.5 per cent with effect from 31 December 2019. This increase has been taken into account in the company's capital targets.

Capital support from the owner banks is regulated by a shareholder agreement dated 10 May 2012. This includes a commitment by the owner banks that, under given circumstances, they will have to provide the company with the capital required to maintain the company's applicable targets at any given time for tier 1 capital and total primary capital ratios, or higher tier 1 capital and/or total primary capital ratios as required or recommended by the Financial Supervisory Authority of Norway. The individual owner bank's capitalisation obligation is primarily limited to its pro rata share of capital issues, calculated on the basis of each owner bank's share of the company's mortgage portfolio. Should one or more owner banks fail to fulfil their capitalisation obligation pursuant to the agreement, the capitalisation obligation of the remaining owner banks can be raised to a limit of twice their original pro rata share. The agreement on purchasing covered bonds and the shareholder agreement can be terminated under certain conditions

NOTE 27: OWNERSHIP

Eika Boligkreditt was demerged from Eika Gruppen AS with effect from 18 May 2012. Following the demerger, the company is owned directly by 64 Norwegian banks and OBOS (the owner banks). In conjunction with the owner banks becoming the shareholders of Eika Boligkreditt, a shareholder agreement was entered into which stipulates in part that the ownership of the company is to be rebalanced on an annual basis. This will ensure an annual adjustment so that the holding of each owner bank corresponds to its share of the company's residential mortgage portfolio.

Independent auditor's report

Deloitte.

Deloitte AS
Dronning Eufemias gate 14
Postboks 221 Sentrum
NO-0103 Oslo
Norway

Tel: +47 23 27 90 00
www.deloitte.no

To the General Meeting of Eika Boligkreditt AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Eika Boligkreditt AS, which comprise the balance sheet as at 31 December 2019, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

IT-systems and control activities relevant for financial reporting

Key audit matter	How the matter was addressed in the audit
Eika Boligkreditt AS's IT-systems are essential for the accounting and reporting of completed transactions, in order to provide the basis for important estimates and calculations, and to provide relevant notes. The IT-systems are standardized, and parts of management and operation is outsourced to service providers. Refer to note 7 Other risk to the financial statements for a more detailed description of development, management and operation of IT-systems in Eika Boligkreditt AS.	Eika Boligkreditt AS has established an overall governance model and control activities related to its IT-systems. We gained an understanding of Eika Boligkreditt AS's overall governance model for IT-systems relevant to financial reporting. We assessed and tested for the lending system the design of selected control activities relevant to financial reporting related to IT- operations, change management, and information security. For a sample of these control activities, we tested if they operated effectively in the reporting period.

IT-systems and control activities relevant for financial reporting, cont.

Key audit matter	How the matter was addressed in the audit
Effective internal control related to the lending system at Eika Boligkreditt AS is vital to ensure accurate, complete and reliable financial reporting and is therefore a key audit matter.	We assessed and tested the design of selected automated control activities within the lending system related to among other calculations and preventive automated controls. For a sample of these control activities, we tested if they operated effectively in the reporting period. We used our own IT specialists to understand the overall governance model for IT-systems and in the assessment and testing of the control activities related to the lending system.

Valuation of financial instruments

Key audit matter	How the matter was addressed in the audit
Eika Boligkreditt AS has financial derivatives with a net value in the balance sheet of 6,4 billion NOK as per December 31, 2019 whereof combined interest- and currency swaps constitutes 6,4 billion NOK as per December 31, 2019. The estimates and judgmental assessments concerning the valuation of these financial instruments are described in note 2 and 8 to the financial statements. The risk related to valuation of financial derivatives is particularly related to financial derivatives that are not traded in an active market. At Eika Boligkreditt AS this is the case for their combined interest- and currency swaps used to hedge exchange and interest risk related to their funding. Elements of basis swaps are included in the valuation of these derivatives. Net gain and loss from basis swaps results in annual net gain and loss in the income statement as there is no corresponding change in fair value on the funding. Valuation combined interest- and currency swaps is therefore considered a key audit matter in our audit.	Eika Boligkreditt AS has established certain control activities related to the valuation of combined interest- and currency swaps. We have assessed the design of selected key control activities. For a sample of these control activities, we tested if they operated effectively in the reporting period. The control activities we tested were related to the calculation method, determination of the assumptions used and the reasonability of the net gain and loss from the value changes from basis swaps. We challenged management's selection of method and the applied assumptions by considering if these were in line with commonly used valuation standards and industry practice. For a sample of combined interest- and currency swaps, we reconciled the applied assumptions with the external sources used by the company. Based on the company's own assumptions we also calculated the accuracy of gain and loss related to value changes from basis swaps. We also assessed whether the information in related notes was adequate.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the

financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 11 March 2020
Deloitte AS

Roger Furholm
State Authorised Public Accountant (Norway)

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

Key figures

Amounts in NOK 1 000	31 Dec 2019	31 Dec 2018
Balance sheet development		
Lending to customers	**84 718 544**	82 014 685
Debt securities issued	**94 300 106**	97 288 469
Subordinated loan capital	**889 050**	674 273
Equity	**5 776 510**	5 289 810
Equity in % of total assets	**5.5**	4.9
Average total assets[1]	**107 505 977**	101 744 032
Total assets	**105 834 641**	107 969 200
Rate of return/profitability		
Fee and commission income in relation to average total assets, annualised (%)	**0.5**	0.4
Staff and general administration expenses in relation to average total assets, annualised (%)	**0.03**	0.03
Return on equity before tax, annualised (%)[2]	**2.2**	4.5
Total assets per full-time position	**5 345 184**	5 452 990
Cost/income ratio (%)[3]	**43.7**	30.1
Financial strength		
Core tier 1 capital	**5 074 063**	4 522 408
Tier 1 capital	**5 647 975**	5 227 381
Total primary capital (tier 2 capital)	**6 372 027**	5 901 654
Calculation basis capital adequacy ratio	**34 073 656**	33 731 370
Core tier 1 capital ratio (%)	**14.9**	13.4
Tier 1 capital ratio (%)	**16.6**	15.5
Capital adequacy ratio % (tier 2 capital)	**18.7**	17.5
Leverage ratio (%)[4]	**5.2**	4.7
NSFR totalindicator i %[5]	**99**	97
Defaults in % of gross loans	**-**	-
Loss in % of gross loans	**-**	-
Staff		
Number of full-time positions at end of period	**19.8**	19.8

Liquidity Coverage Ratio (LCR)[6]:	**31 Dec 2019**			31 Dec 2018		
	NOK	**EUR**	**Totalt**	NOK	EUR	Totalt
Stock of HQLA	**762 793**	**359 753**	**4 904 632**	4 438 752	334 757	10 105 760
Net outgoing cash flows next 30 days	**1 246 420**	**252 920**	**4 334 152**	685 595	21 278	2 512 269
LCR indicator (%)	**61%**	**142%**	**113%**	647%	1 573%	402%

[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 indicators: Pursuant to the Financial Supervisory Authority's guidance for reporting LCR, the liquidity cover ratio is excluded when calculating the cover pool's overcollateralisation. At 31 December 2019, liquid assets totalling NOK 550 million in the form of bonds and certificates were excluded from the calculation of the cover pool's overcollateralisation.

Eika Boligkreditt

Tel: +47 22 87 81 00
Parkveien 61
PO Box 2349 Solli
N-0201 Oslo

www.eikbol.no