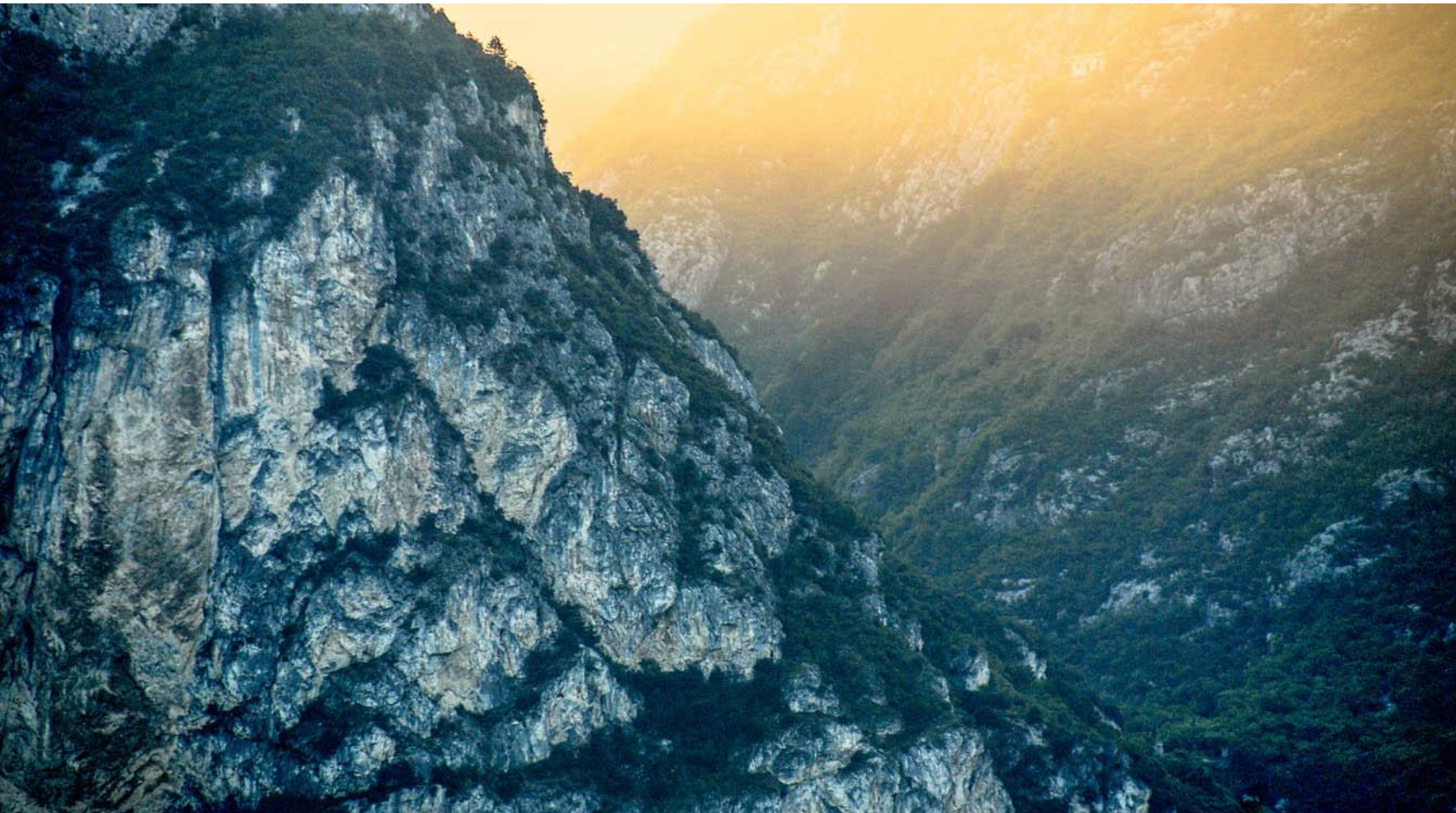


# Eika Boligkreditt

Investor presentation

June 2014



eika.

# Agenda

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Eika banks	10
Eika Boligkreditt and Collateral Pool	17
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## The operating environment

# The Norwegian economy – Key indicators

- Constitutional monarchy; Non EU member (EEA member); Population of 5 million
- Aaa / AAA / AAA rated country (all with stable outlook)
- GDP per capita amongst the highest in the OECD countries – estimated at \$98,300 in 2012
- Drivers of growth:
  - Energy sector – Norway is the seventh largest oil exporter and second largest gas exporter
  - Open, export oriented economy
  - Domestic demand supported by low unemployment

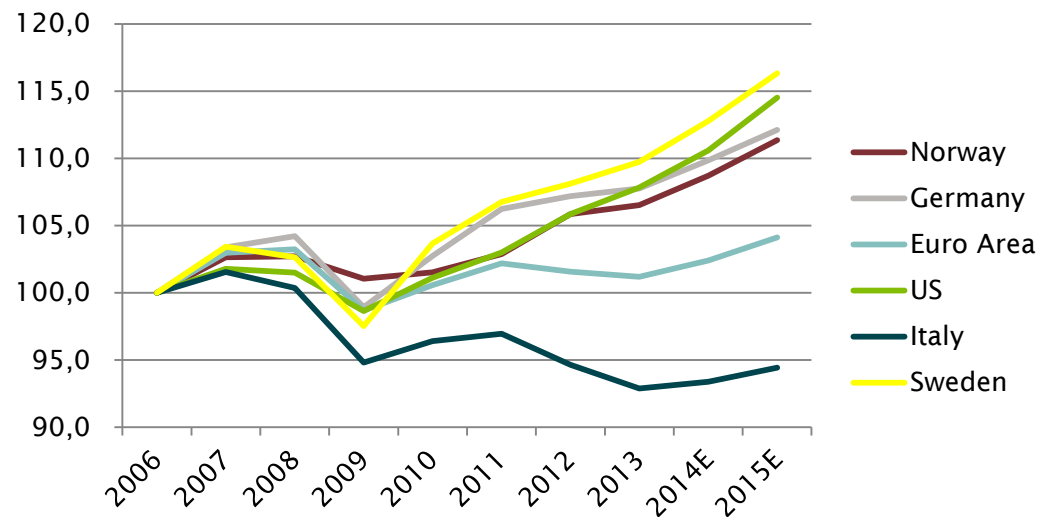
	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
GDP growth (Mainland)	5.3 %	1.5%	-1.6%	1.7%	2.5%	3.4%	2.0%	1.9%	2.4 %	2.9%
Consumer price inflation	0.8 %	3.8%	2.1%	2.5%	1.2%	0.8%	2.1%	2.3%	1.6%	1.7%
Unemployment	2.5 %	2.6%	3.2%	3.6%	3,3%	3.2%	3.5%	3.7%	3.9%	3.9%
Private Consumption	5.4 %	1.8%	0.0%	3.8%	2.5%	3.0%	2.1%	2.1%	3.4%	3.6%
Household savings rate	0.9%	3.8%	7.1%	5.8%	7.8%	8.6%	9.0%	9.6%	9.7 %	9.8%
Houseprices	12.6%	-1.1%	1.9%	8.3%	8.0%	6.7%	3.9 %	-0.9%	2.7%	2.8%
Interest rates (money market)	5.0%	6.2%	2.5%	2.5%	2.9%	2.2%	1.8%	1.7%	1.7%	2.1%
Government budget surplus / GDP	17.3%	18.8%	10.5%	11.1%	13.4%	13.9%	11.1%	10.7%	10.2%	n/a
Government pension fund / GDP	78 %	79 %	95%	131%	130%	131%	157%	170%	179%	187%

Source: Statistics Norway – Økonomiske analyser 2/2014 , OECD – Economic Outlook May 2014 and Norges Bank

## The operating environment

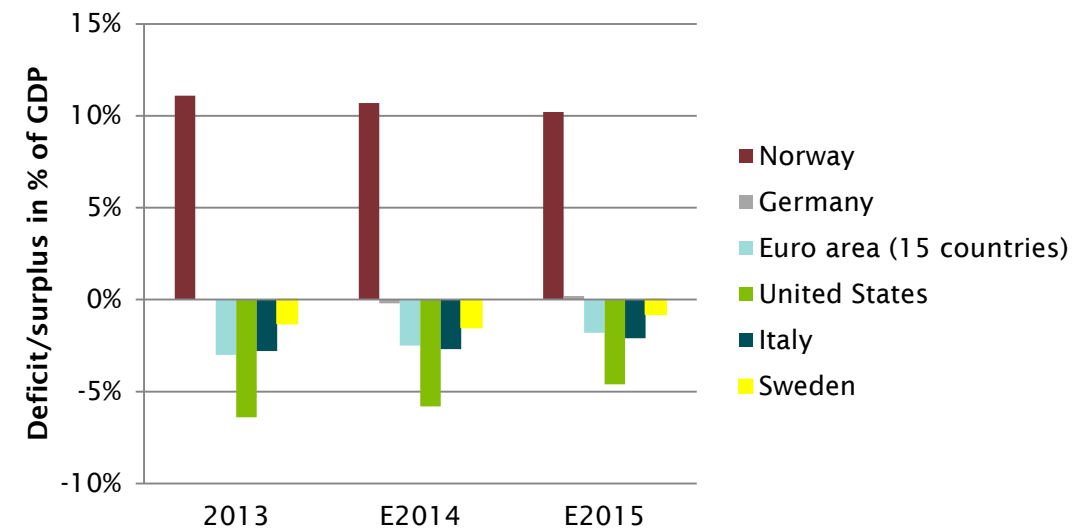
# The Norwegian economy – Solid economic situation

Real GDP growth (indexed to 100)



Source: OECD Economic Outlook No. 95 (database), May 2014

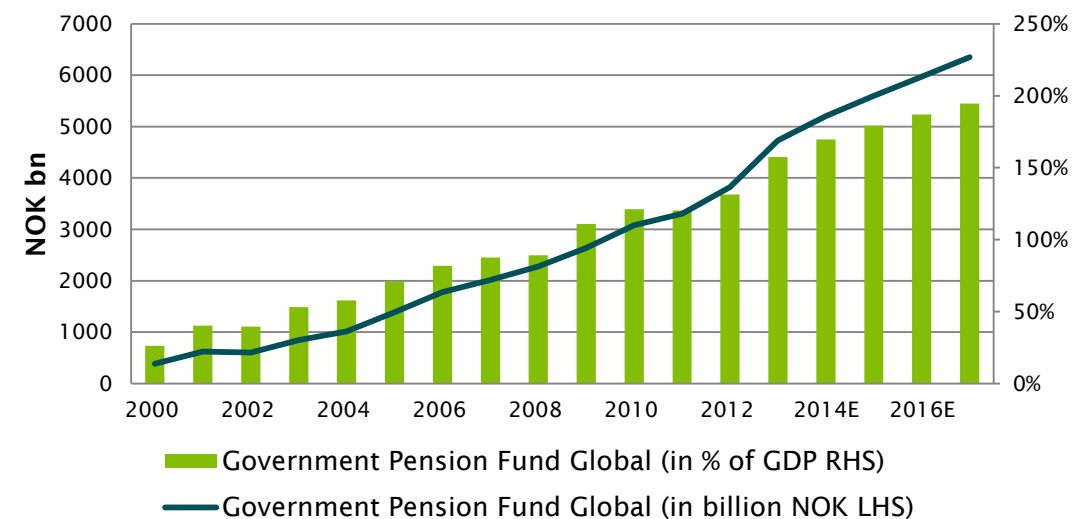
Government budget deficit/surplus



Source: OECD Economic Outlook No. 95 (database), May 2014

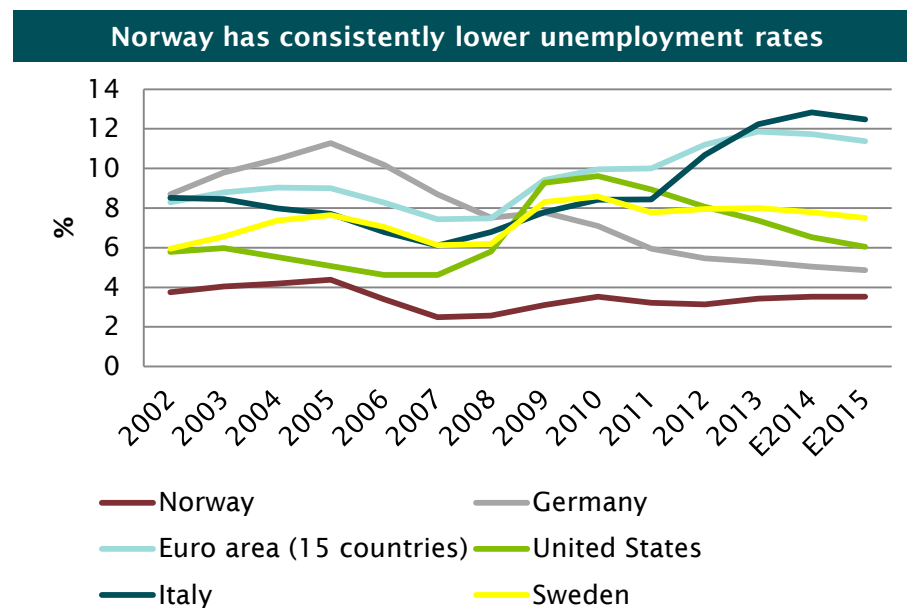
- Norway has an extremely strong balance sheet
- Relatively high net central government financial assets (173% of GDP in 2012)
- Significant budget surplus (11.1% of GDP in 2013) and the Government Pension Fund well in excess of GDP
- Sound economic growth at an annual average of 2.9% for mainland GDP (1.5% total including Offshore) for the last 10 years
- Strong current account surplus averaging around 14% of GDP since 2002

Government Pension Fund Global

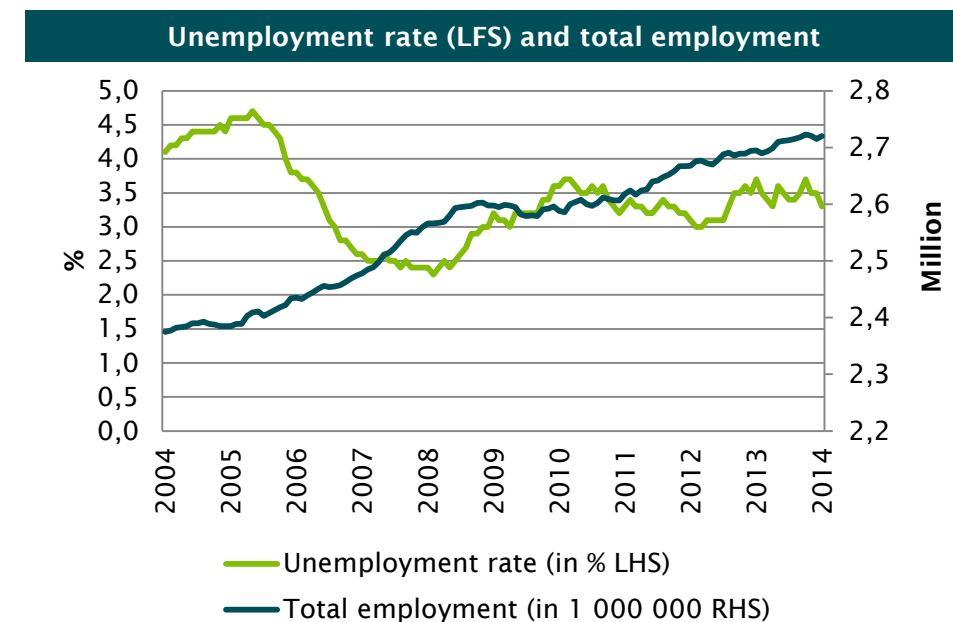


Source : Ministry of Finance, Statistics Norway

# The Norwegian economy – Low unemployment



Source: OECD Economic Outlook No. 95 (database), May 2014



Source: Statistics Norway, updated Q1 2014.

- A buoyant economy ensures a high rate of employment
- Average unemployment rate of 3.4% in the past 10 years
- A strong welfare system providing significant income protection: average unemployment benefit is 62% of salary for a minimum of 104 weeks



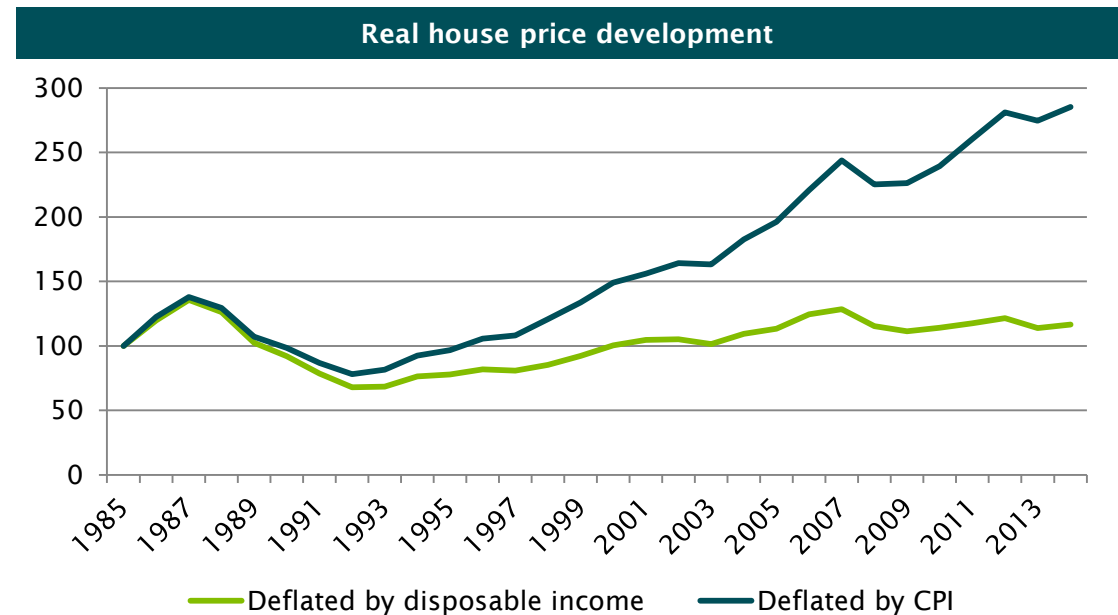
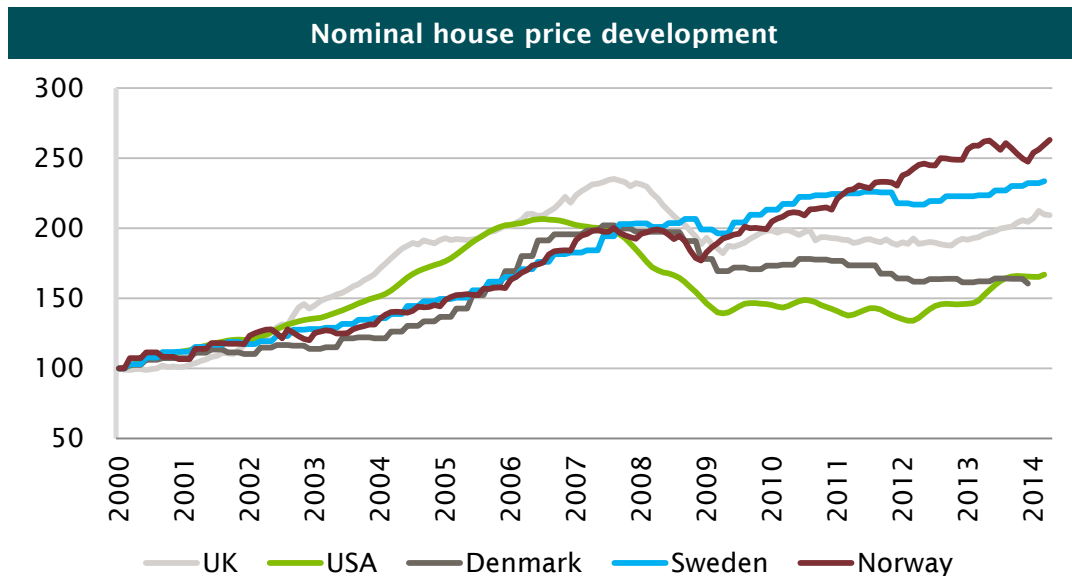
## The operating environment

# The housing market characteristics in Norway

Home ownership	<ul style="list-style-type: none"><li>▪ Among the highest in the world - around 80% are owner-occupied households</li><li>▪ Total size of the mortgage market ~ NOK 2,000bn (EUR 250bn)</li></ul>
FSA Lending guidelines	<ul style="list-style-type: none"><li>▪ Maximum LTV normally 85% (since Q4 2011, 90% before)</li><li>▪ In the interest-only loans maximum LTV normally 70%</li><li>▪ Debt service ability is stress tested for a 5%-point increase in interest rates</li></ul>
Tax incentives	<ul style="list-style-type: none"><li>▪ All interest expenses are tax deductible in Norway at capital gains tax rate (27%)</li><li>▪ Preferential treatment of properties when calculating the wealth tax (1.0%)</li><li>▪ Capital gain on a dwelling tax-free after one year of occupancy by the owner</li></ul>
Personal liability	<ul style="list-style-type: none"><li>▪ Borrowers personally liable for their debt – also following foreclosures and forced sales</li><li>▪ Prompt and efficient foreclosure process upon non-payment</li><li>▪ Strong incentives to service debt reflected in low arrears</li><li>▪ Transparent and reliable information about borrowers available to the lenders</li></ul>
Mortgage lending	<ul style="list-style-type: none"><li>▪ 97% of residential mortgage loans granted by banks/mortgage companies</li><li>▪ Typical legal maturity 25-30 years, on average 22-23 years</li><li>▪ 89.5 % of residential mortgages have variable interest rate (Q3 2013)</li><li>▪ Lenders allowed to adjust interest rates with a six week notice</li><li>▪ No “sub-prime” market in Norway</li><li>▪ Very limited buy-to-let market</li></ul>

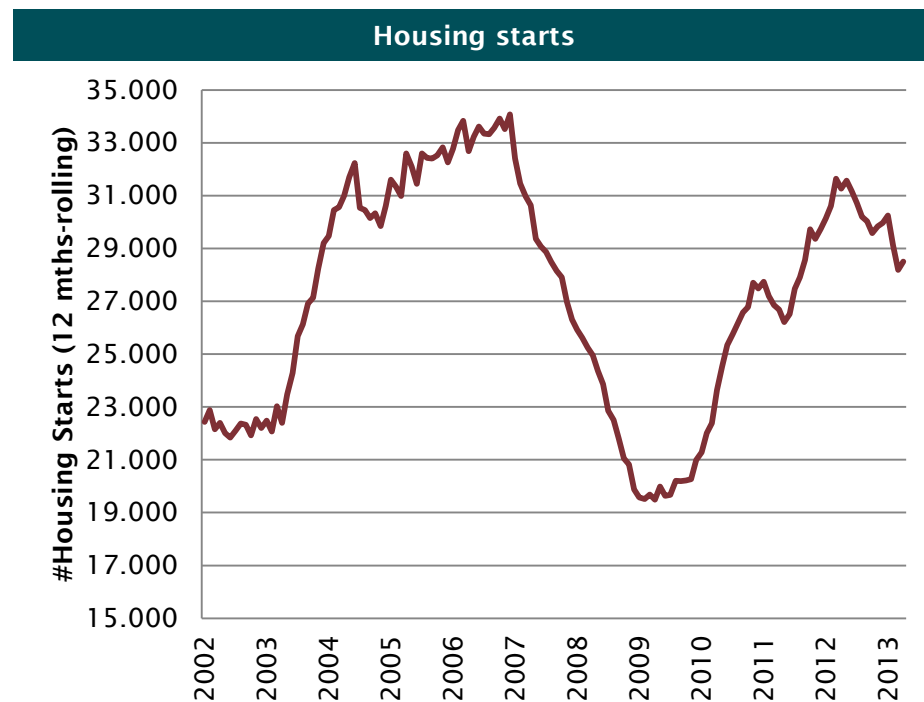
## The operating environment

# The housing market – Price development

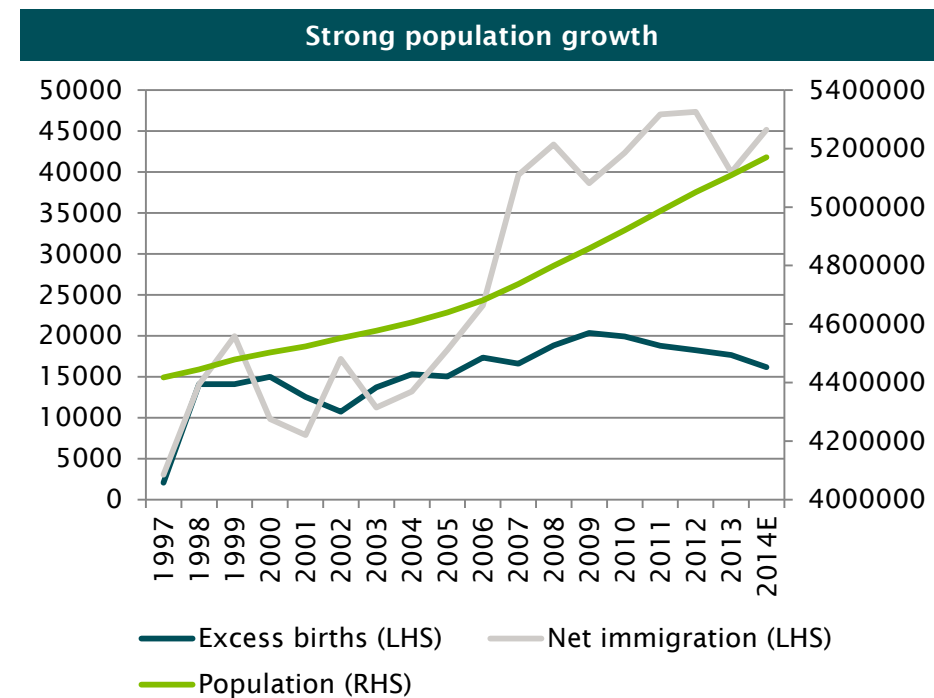


- Nominal house prices have increased by an average of 6.6 % per annum since 1985. However, when deflated by income growth (5.9% per annum since 1985) the increase in house prices has been very moderate
- The housing market has been spurred by strong economic activity, environment of low interest rates, wage increases, population growth and supply constraints
- Over the recent months the housing market has shown signs of stabilisation and prices have been levelling off. This is reflecting measures taken by the authorities including higher risk weights on mortgages and increased capital requirements for banks

# The housing market – Drivers of the housing market



Source: Statistics Norway, updated March 2014



Source: Statistics Norway, updated Q1 2014. Estimate 2014 is based on the assumption Q2-Q4 = Q1 for net immigration and excess births

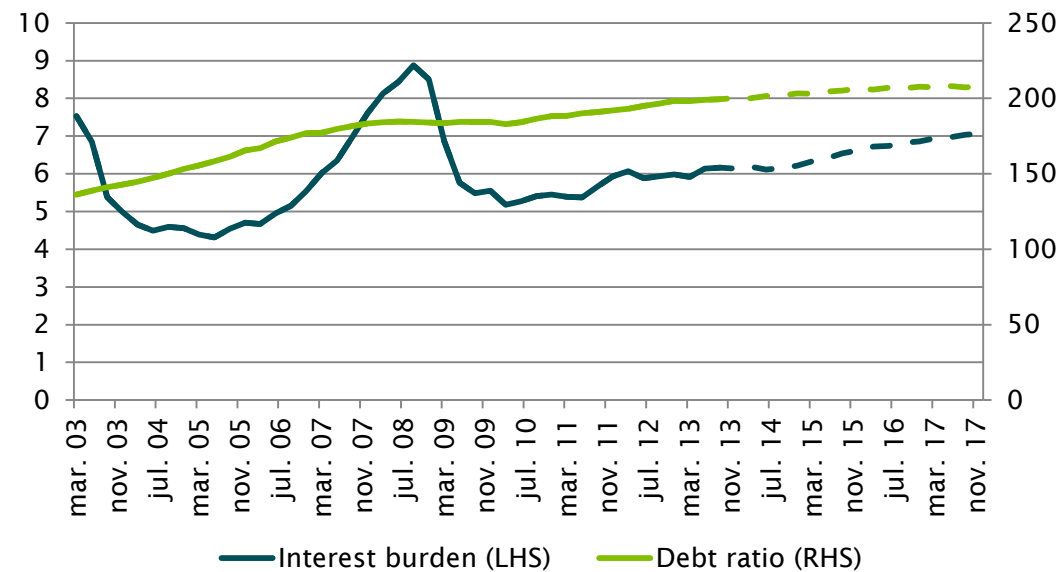
- Shortage of new housing supply and a strong population growth have been significant drivers of the strong price growth in the Norwegian housing market since 2008
- New home construction is up from the record low levels of 2009 and 2010 and has recently evolved towards the higher end of the range. This should mitigate the momentum on house prices going forward
- The population growth of 1.0 % p.a. since 1997 has been driven both by excess birth rate (36%) and net immigration (64%)



## The operating environment

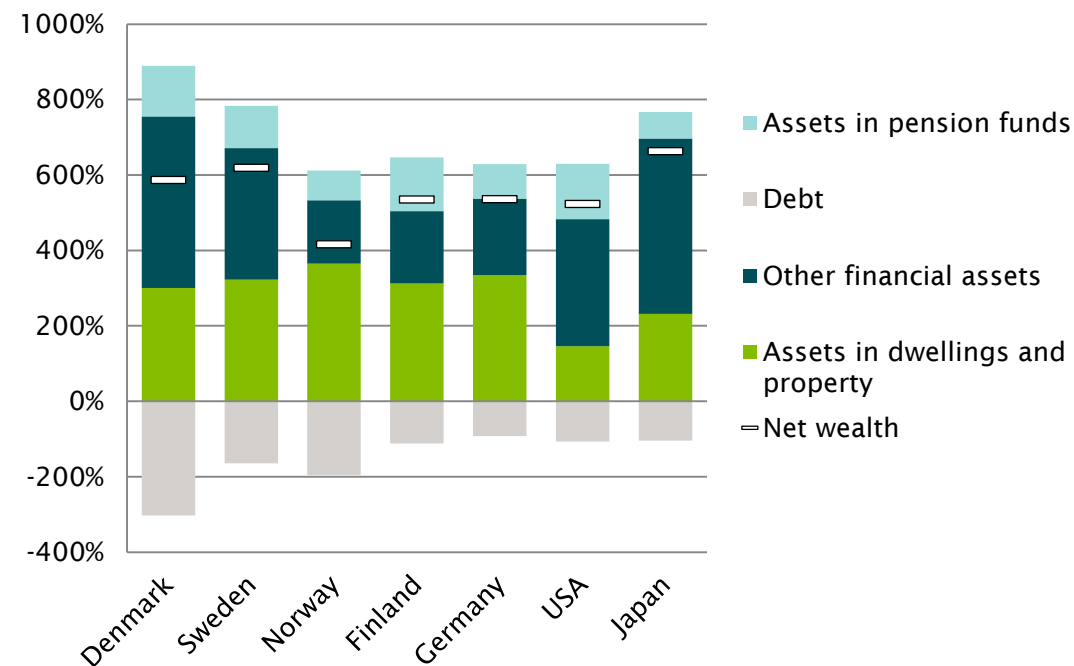
# Households financial position

Norwegian household interest-to-income and debt-to-income ratio (in %)



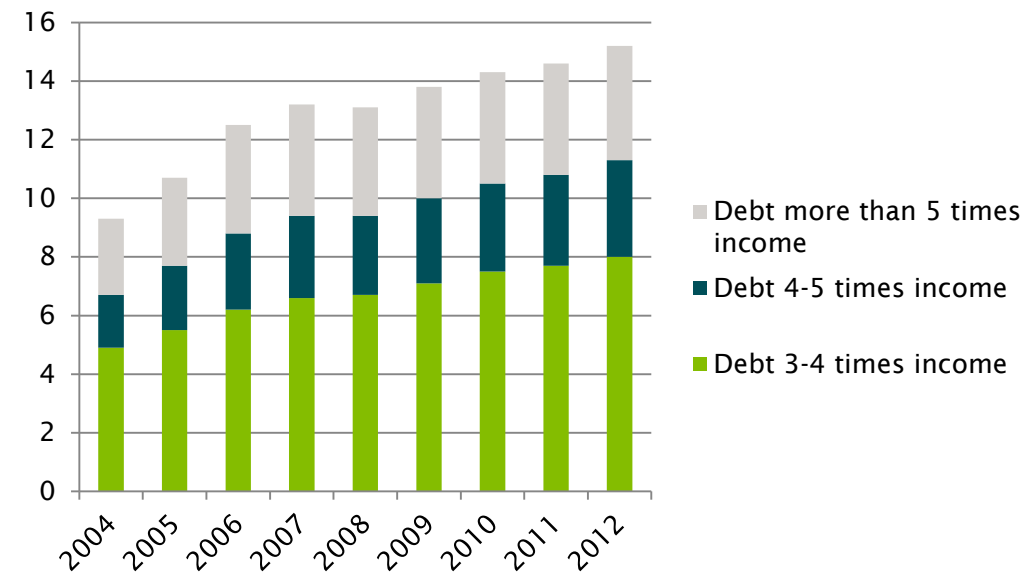
Source: Statistics Norway and Norges Bank, Expectations after December 2013 (dotted line)

Household gross wealth and debt (in % of disposal income 2012)



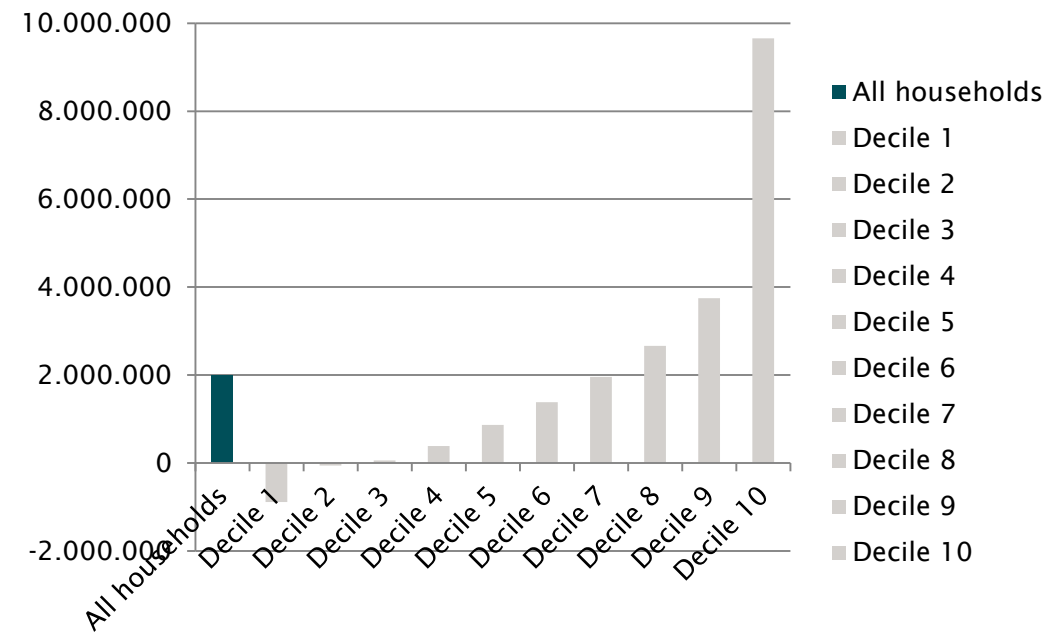
Source: Danmarks Nationalbank, Eurostat, OECD and Nordea, December 2012

Norwegian households with debt > 3 X total household income (in %)



Source: Statistics Norway, December 2012

Norwegian household net wealth (in NOK)



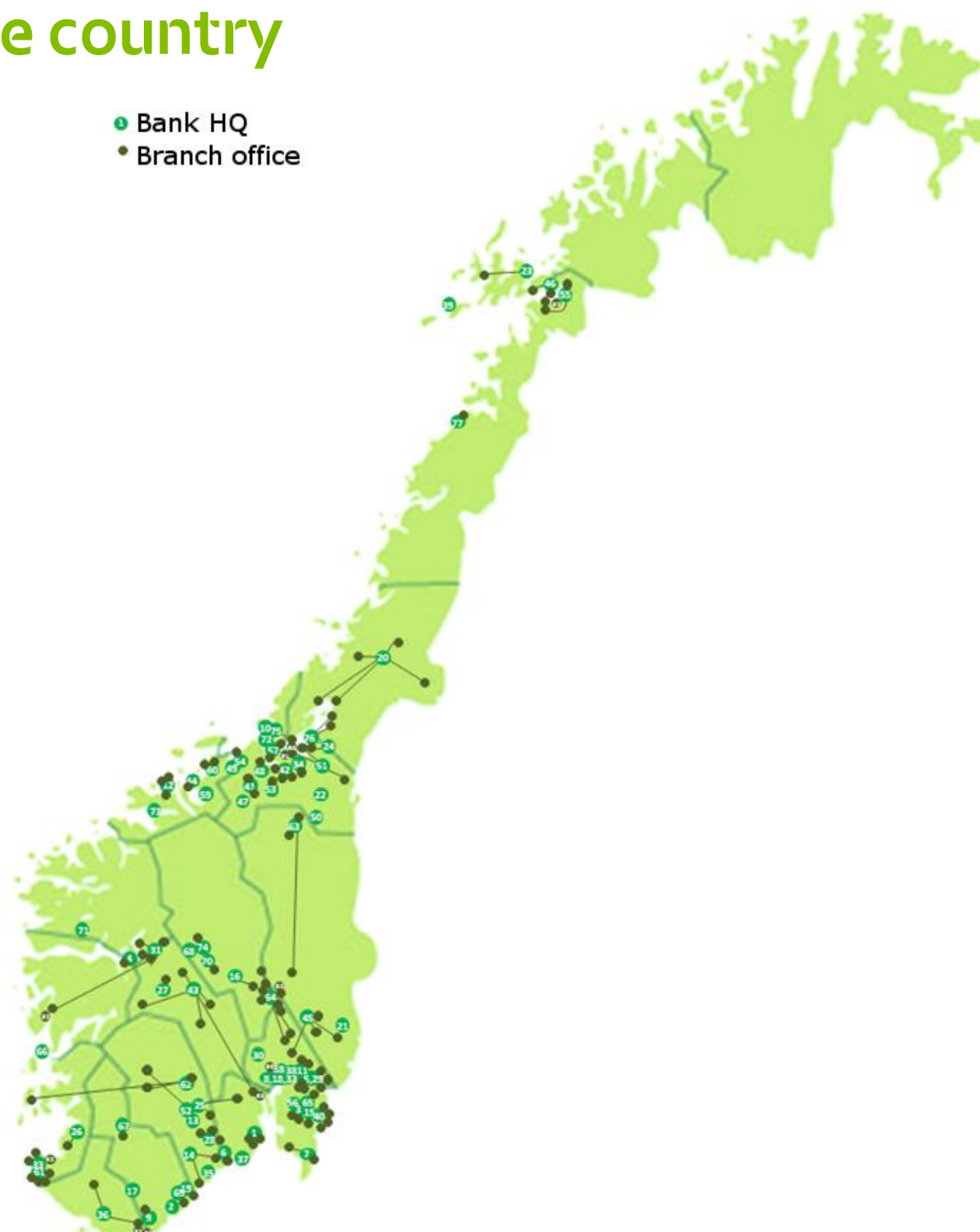
Source: Statistics Norway, December 2012

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# Diversified operations across the country

- The Eika banks consist of a group of 75 Norwegian local banks and OBOS\*
- The Eika banks' operations are fully focused on serving domestic customers. The banks have a wide geographical reach (presence in 18 out of 19 counties) with a strong position in the vibrant economic centres in Central and Eastern Norway
- Scope of the banking operations:
  - The third largest banking group in Norway
  - 193 branch offices
  - 2,000 employees
- Aggregated balance sheet of Eika Banks is NOK 210bn (€ 26.5bn) and average capital ratio of 18.8 %
- Market share in lending to retail customers
  - Between 40% and 80% in local markets (except the largest cities)
  - 10.4 % overall in Norway



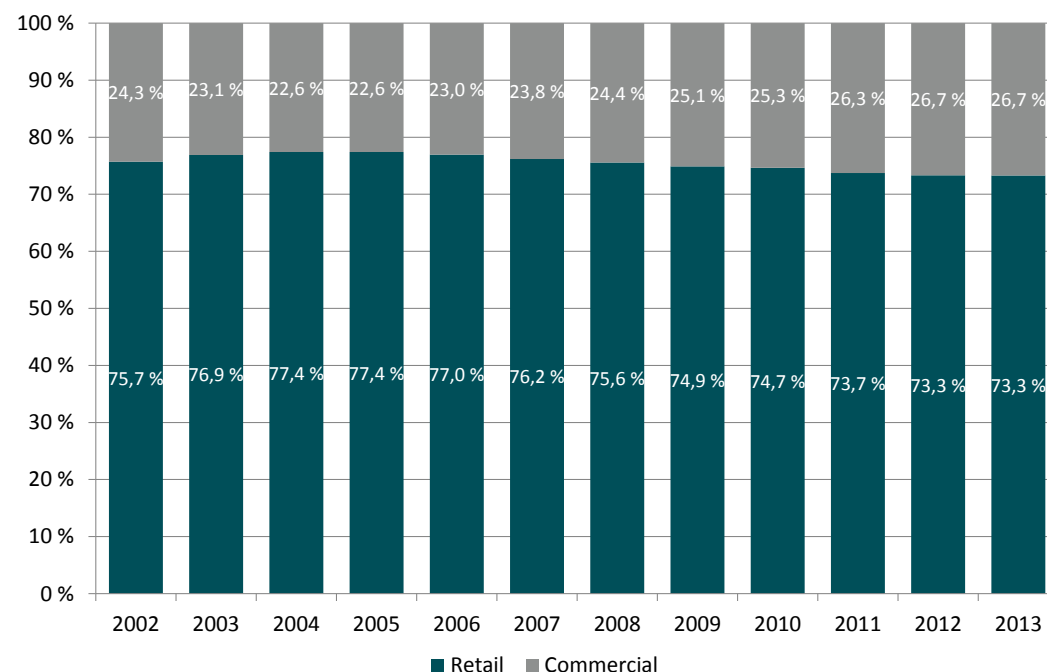
\*OBOS is the largest Nordic Cooperative Housing Association, established in 1929 and is owned by 226,000 members, mostly located in the Oslo-area. More information about OBOS can be found on [www.obos.no](http://www.obos.no)

## Eika banks

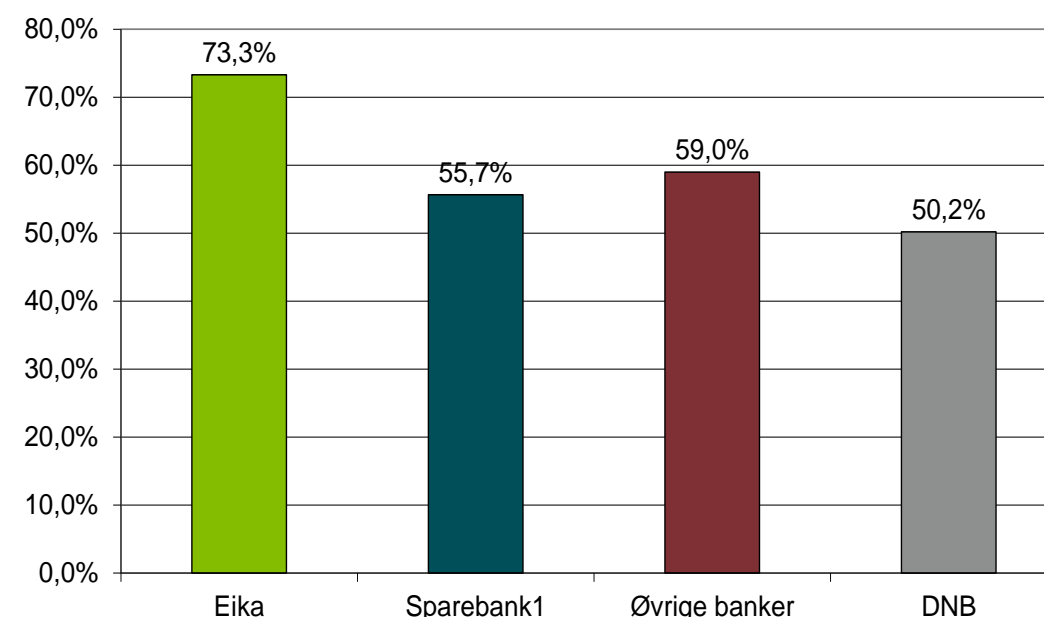
# Focus on retail customers

- High and stable retail share
- Retail lending accounts for 73.3% of Eika banks' total lending end Q4 2013 (own balance sheet). Including transfers to Eika Boligkreditt the consolidated retail share is 79.4%
- Eika banks have a higher share of retail lending compared to the other Norwegian peers
- Retail lending consist mainly of collateralised loans to housing/mortgage (approx. 94% of total)
- Low average LTV (53.5%) in mortgage portfolio
- Eika banks have low exposure to the corporate sector with no lending to shipping and relatively low exposure to commercial real estate

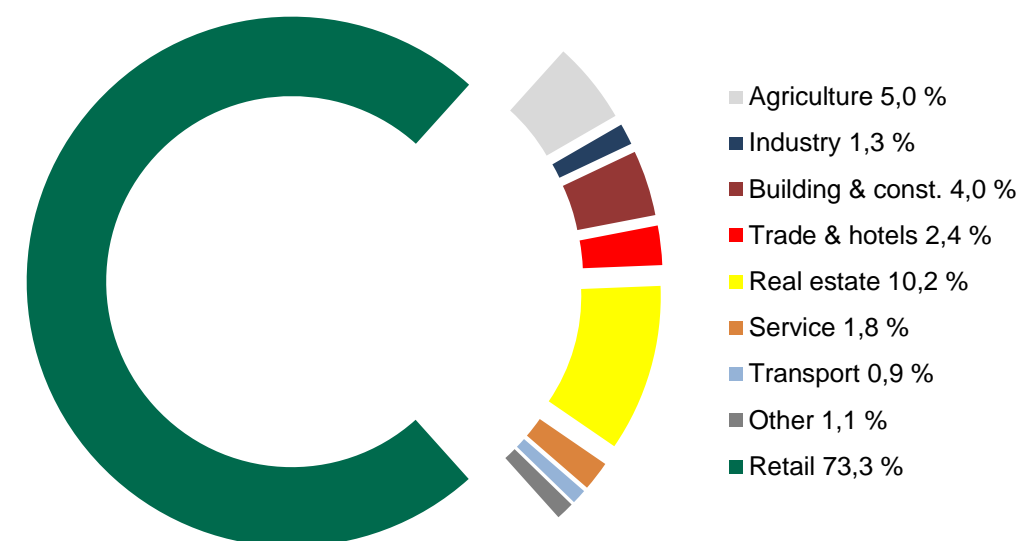
Breakdown of the Eika banks lending (excl. transfers CB company)



Retail share excl. transfers to CB company – Eika vs. peers YE2013



Sector breakdown of the loan book YE2013

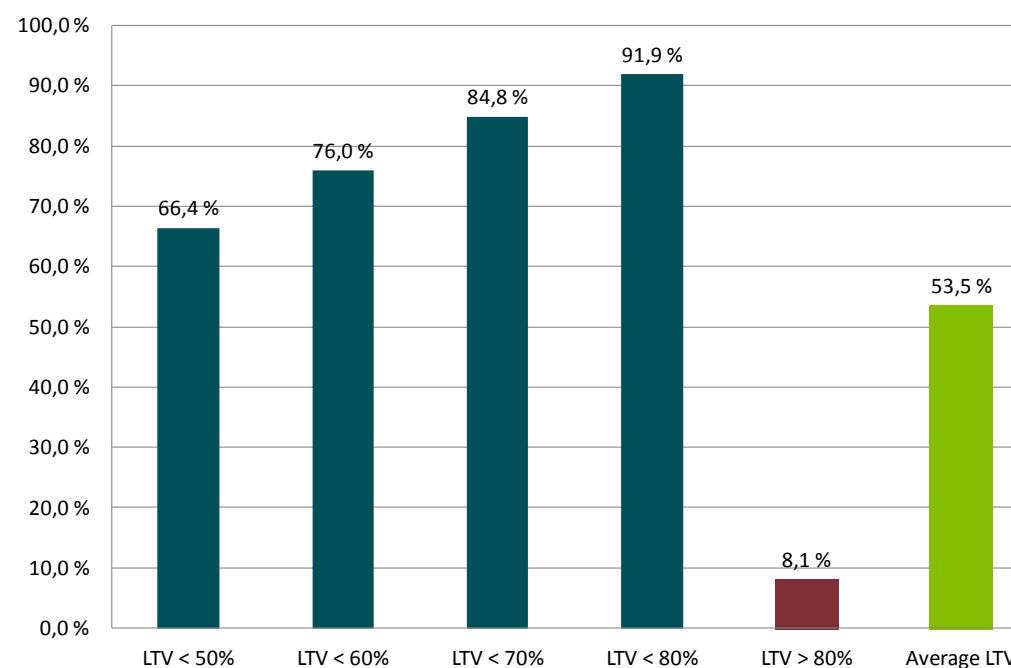


Source: Bank analyst Eika

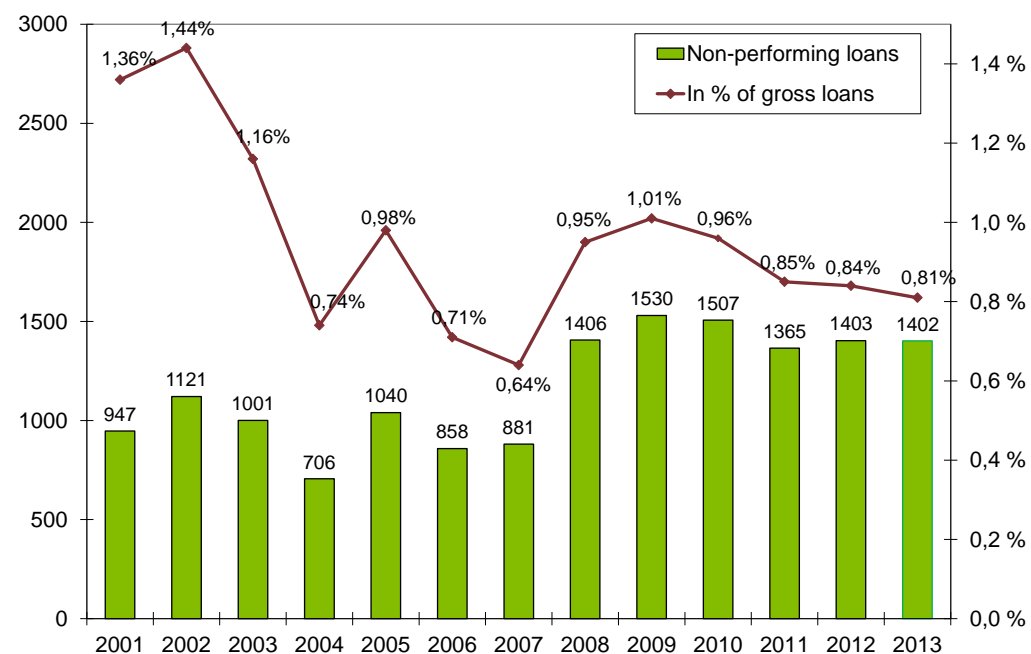
## High asset quality

- Conservative risk profile within the banks
- Low average LTV (53.5%) in mortgage portfolio and few loans with LTV in excess of 80% (only 8.1%). 76% of mortgage portfolio within 60% LTV
- Share retail lending ranging from 62% to 97% (excl. transfers to Eika Boligkreditt)
- Few non-performing and problem loans
  - Non-performing loans constitute 0.81% of gross loans in 4Q13, versus 0.90% in 3Q13
  - Problem loans constitute 0.81% of gross loans in 4Q13, versus 0.96% in 3Q13
  - Provisioning ratio of 50.8% (46.6%)

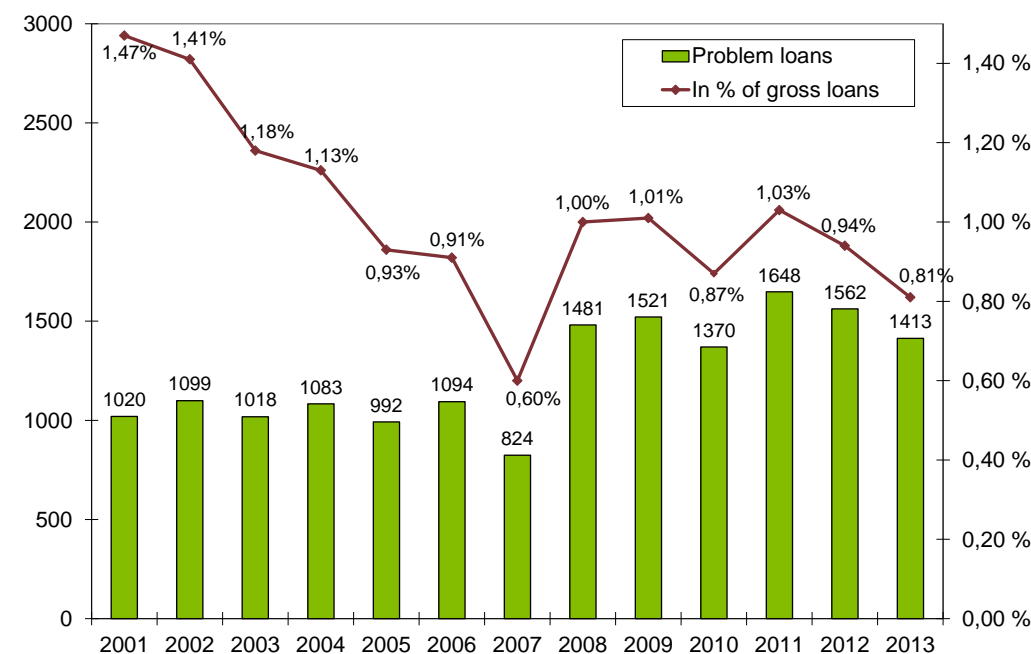
Low LTV in mortgage portfolio (Bank book) YE2012



Non performing loans (in NOK million LHS & % of total # of loans RHS)



Problem loans (in NOK million LHS & % of total # of loans RHS)



Definitions:

Provisioning ratio:  $\text{Write down ratio} = (\text{individual provisions} + \text{group provisions}) / \text{Problem loans}$

Non-performing loans (NPL): Loans in delinquency for more than 3 months.

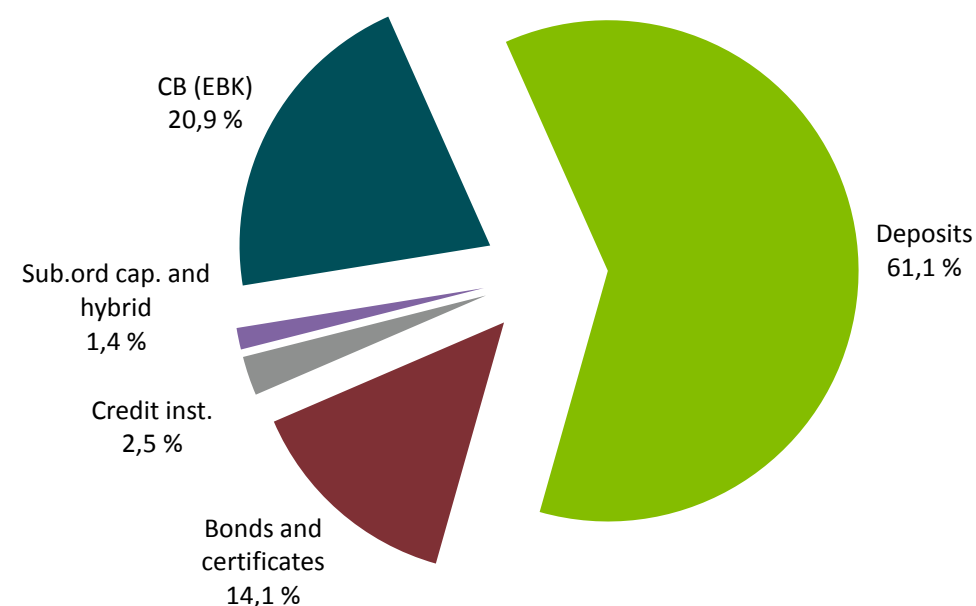
Problem loans: Loans that risk impairment (note that most banks use this rather conservatively)

Source: Bank analyst Eika

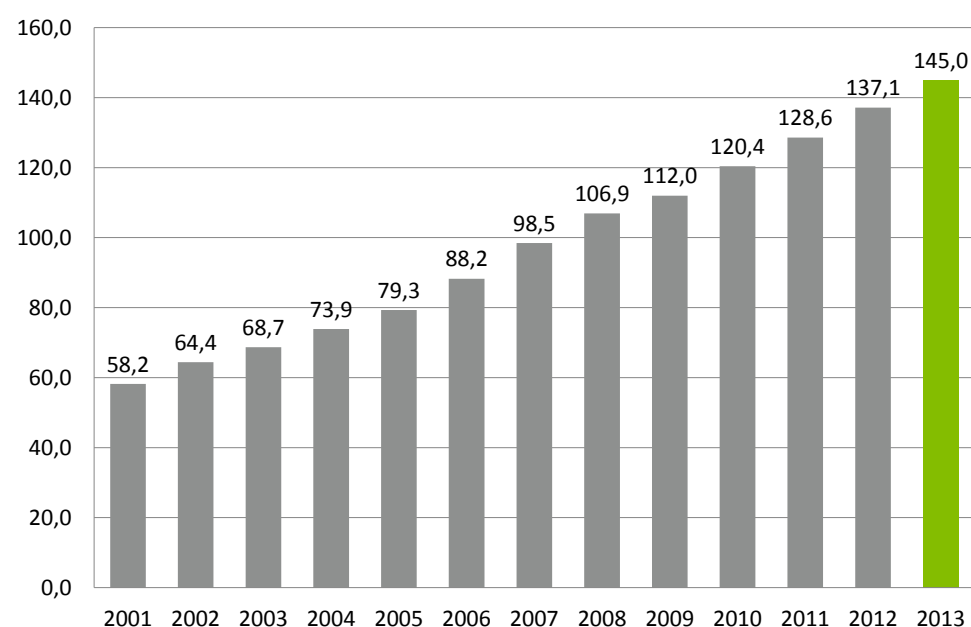
## High and growing deposit base

- Total funding of Eika banks amounts to NOK 237.5bn end Q4 2013 of which 61.1% consists of deposits
- Steady growth in the deposit base and high deposit ratio of 83.5 %. Average yearly growth rate in deposits has been 7.9 % over the past 13 years
- Well diversified deposit base - approx. 85% of all deposits is within the NOK 2mn bank guarantee fund limit
- Deposit base is essentially household retail deposits

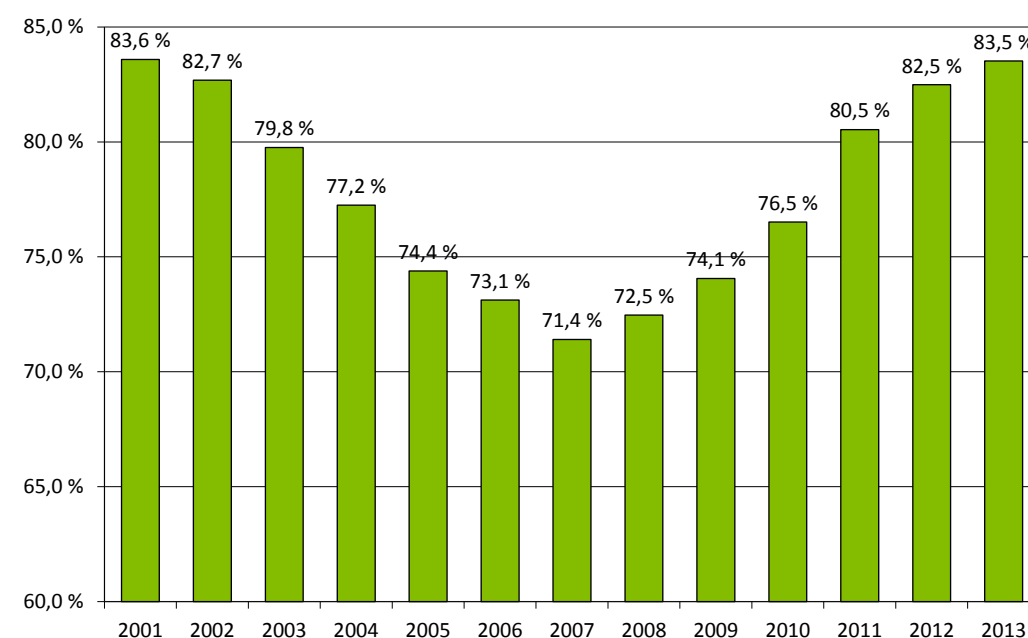
Total funding sources – NOK 237.5bn YE2013



Aggregated deposits (in NOK bn)



Deposit ratio (Deposits / lending)



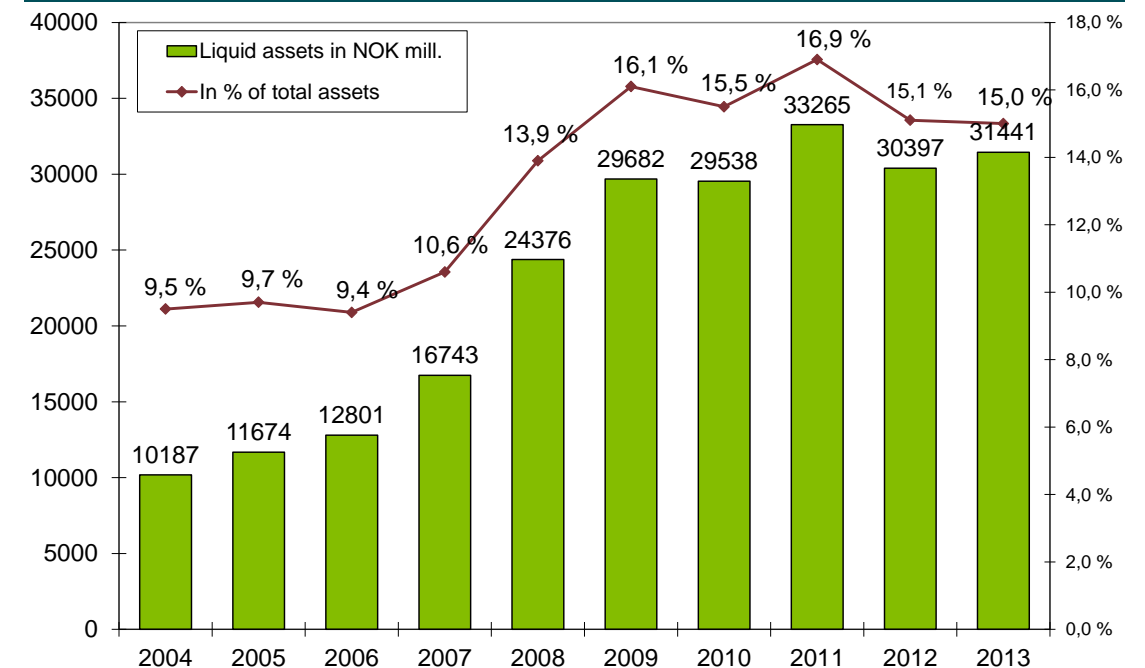
Source: Bank analyst Eika



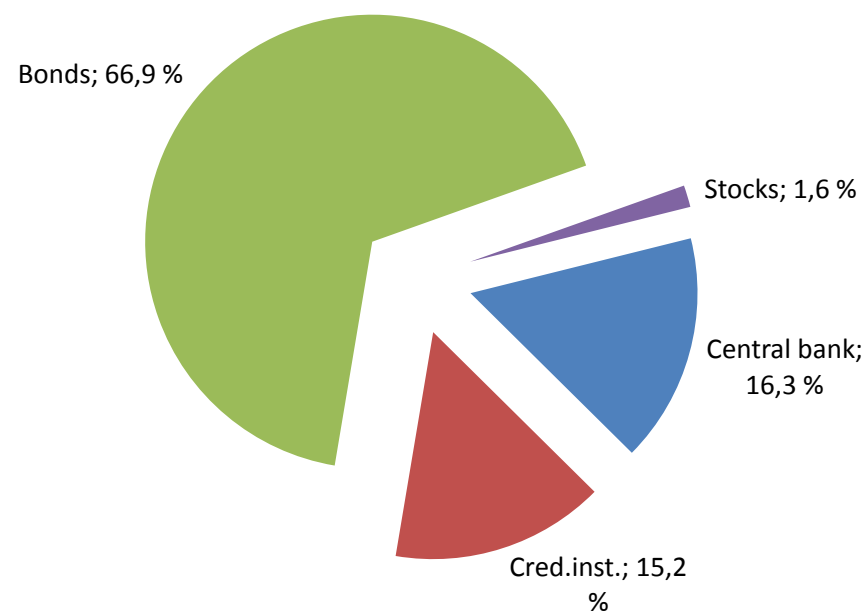
# Strong liquidity and funding position

- Large liquidity buffer amounting to NOK 31.4bn (EUR 3.8bn) and comprising 15.0% of total assets end Q4 2013
- Relatively low dependency on market funding. Net market funding (less liquid assets) was only 5.4% of total assets end Q4 2013
- Extended maturity profile with increasing proportion of long term funding
- Bond portfolio consists mainly of covered bonds, senior bank issues and money market funds
- No PIIGS exposure and low stock market exposure

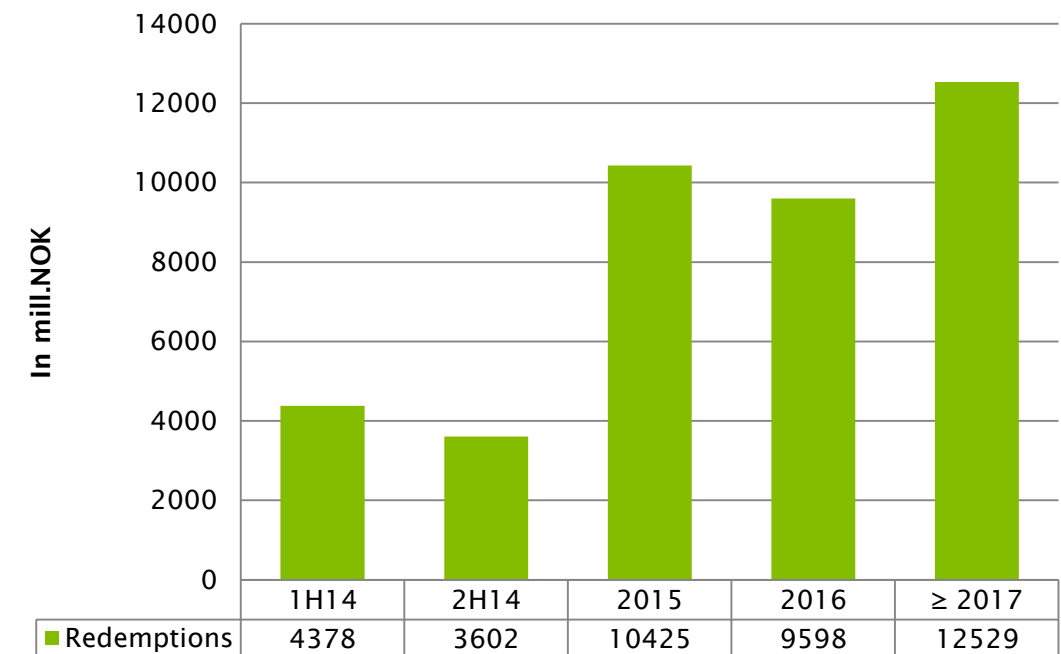
Total liquidity buffer (in million NOK LHS and % of total assets RHS)



Liquidity portfolio YE2013\*



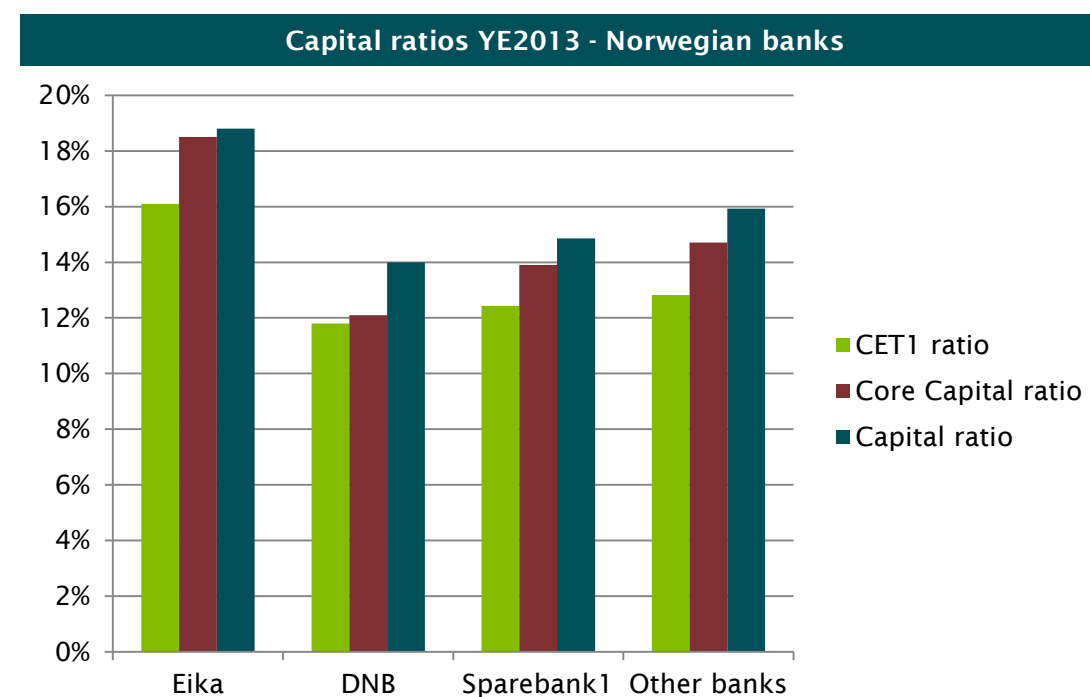
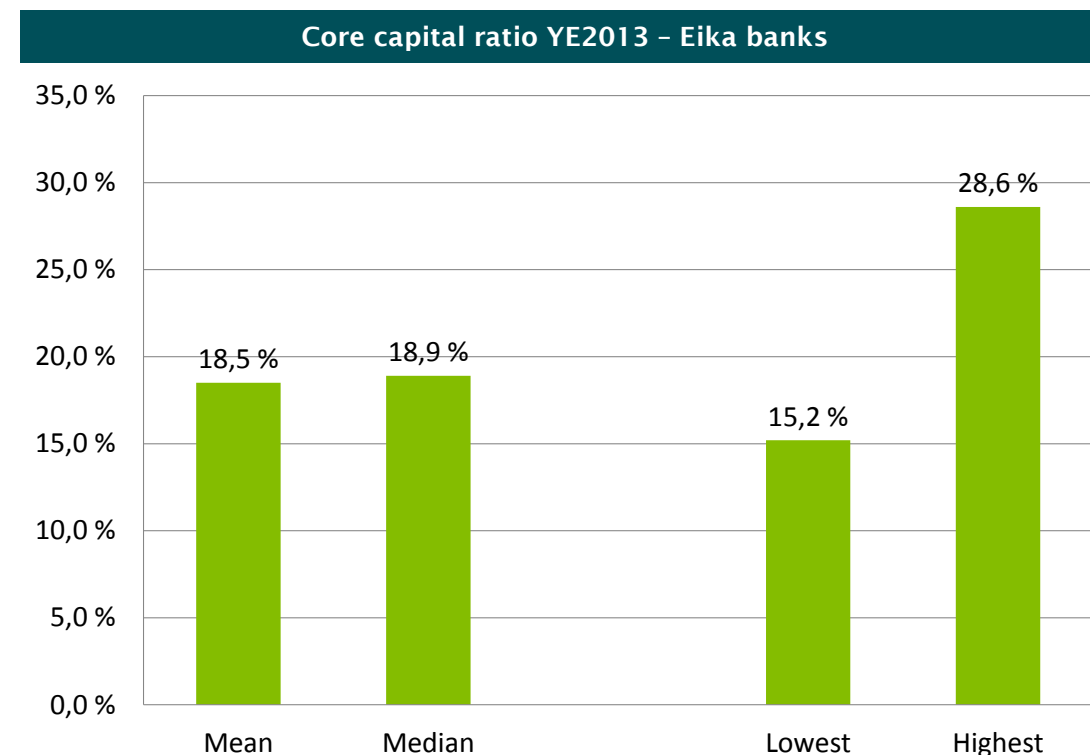
Maturity profile (Bonds, CD and Subordinated debt)



Liquidity buffer consists of cash, deposits in central bank and other credit institutions, bonds, certificates incl. money market funds and listed stocks  
31.12.2013 EURNOK: 8.1140

# Strong capitalization

- Strengthened capital ratios
  - Common equity ratio (CET1): 16.1% (15.8%)
  - Core capital ratio 18.5% (18.1%)
  - Capital ratio 18.8% (18.6%)
  - Equity ratio of 9.7% (equity/total assets) (9.4%)
- Therefore Eika banks are well prepared to meet the new and higher capital requirements following implementation of CRD IV/PROP 96 in Norway stipulating the following minimum levels
  - Common equity ratio (CET1) incl. all buffers: 12.5%
  - Core capital ratio incl. all buffers: 14.0%
  - Capital ratio incl. all buffers: 16.0%
- All Eika banks are well capitalized (T1 ratio)
  - Lowest: 15.2% (14.2%)
  - Highest: 28.6% (31.3%)
- All Eika banks use the standard approach under Basel II and therefore increase in mortgage risk-weights will not impact capital levels of Eika banks
- If Eika banks used the IRB method, the core and capital ratios are estimated to be at 26.0% and 26,2%



Source: Bank Analyst Eika

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# Eika Boligkreditt

## Ownership structure



### Eika Gruppen AS with product companies

- 1 Provides products and services to bank clients
- 2 Provide services to banks
- 3 Infrastructur / IT
- 4 Strategy and Lobbying

### Eika Boligkreditt

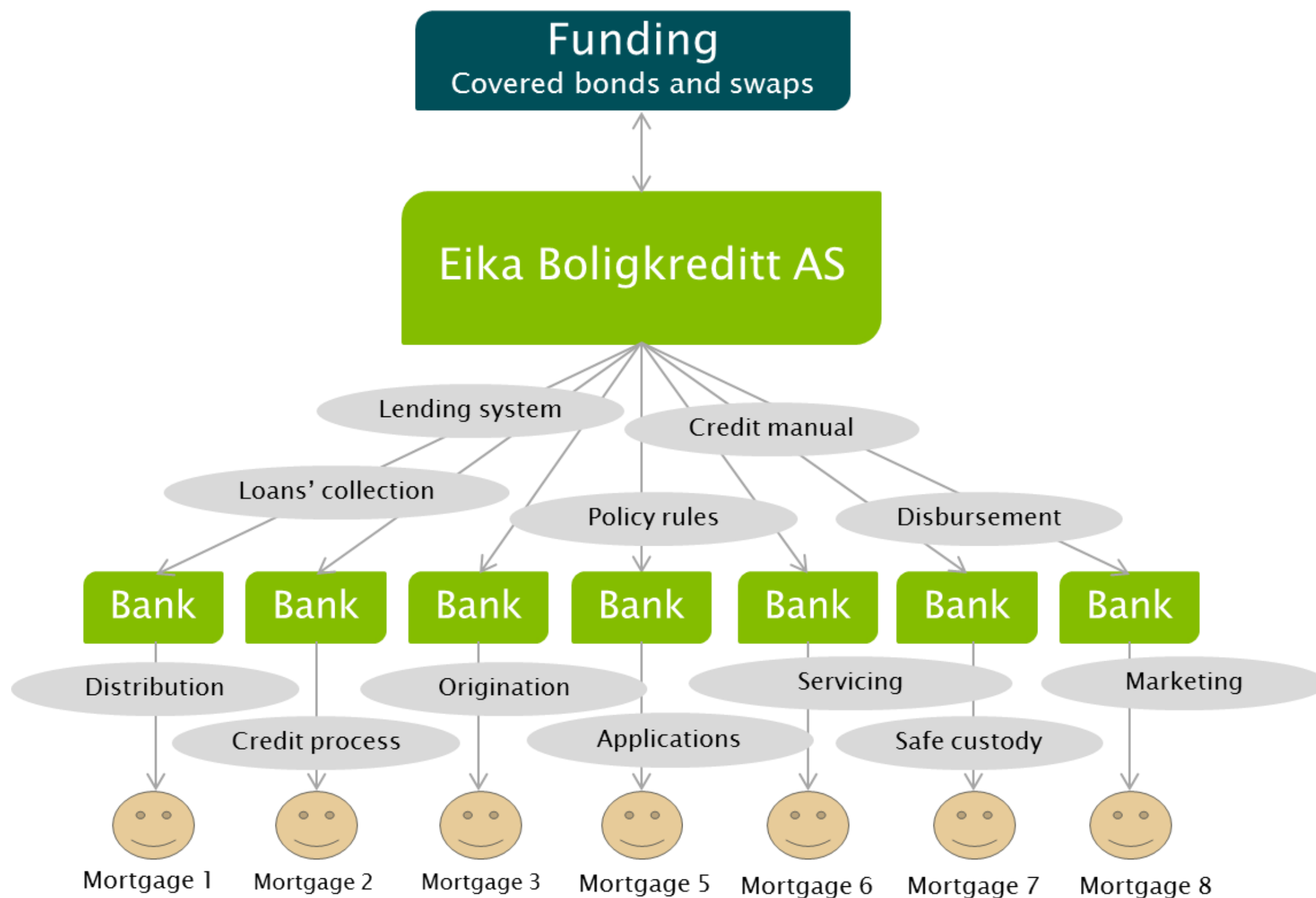
- 5 CB Funding  
Lending system  
Credit policy

<sup>1</sup> 75 Norwegian local savings banks and OBOS. The shareholder holdings in Eika Gruppen and Eika Boligkreditt may differ.

<sup>2</sup> OBOS owns 13.9% and 74 banks 86.1% of outstanding shares in Eika Boligkreditt AS

78 shareholders <sup>1,2</sup>

## Business concept



## Eligibility criteria for the cover pool

Origination process	<ul style="list-style-type: none"><li>▪ Loan-by-loan origination</li></ul>
Customer categories	<ul style="list-style-type: none"><li>▪ Norwegian residents (Retail)</li><li>▪ Cooperative housing associations (common debt between multiple individuals)</li></ul>
Credit Criteria	<ul style="list-style-type: none"><li>▪ Eika Boligkreditt sets the credit policy for acceptable mortgages (credit manual)</li><li>▪ No arrears</li><li>▪ Bank credit officers are authorised to grant loan with size &lt; 3 times gross annual household income (56 % of all loans)*</li></ul>
Collateral	<ul style="list-style-type: none"><li>▪ Max LTV 60% at time of origination (vs. max 75% in the Norwegian legislation)</li><li>▪ Recent valuations (within 6 months at time of origination)</li><li>▪ Quarterly valuation from independent 3<sup>rd</sup> party, documented</li></ul>
Type of properties	<ul style="list-style-type: none"><li>▪ Stand alone residential mortgages</li><li>▪ Cooperative housing residential mortgages</li></ul>
Type of products	<ul style="list-style-type: none"><li>▪ Principal repayment loans (no flexi loans)</li><li>▪ Fixed and variable interest rate loans</li></ul>

\* Bank credit managers are authorised to grant loan with size < 4 times gross annual household income (35 % of all loans). Loan size > 4 times gross annual household income have to be approved by Eika Boligkreditt (9 % of all loans)



# Strong incentive structure

- With regards to the mortgages in the Eika Boligkreditt cover pool there is a 3 pillar guarantee mechanism(s); this is to ensure that the originating banks are held responsible for potential losses on mortgages they distribute for Eika Boligkreditt

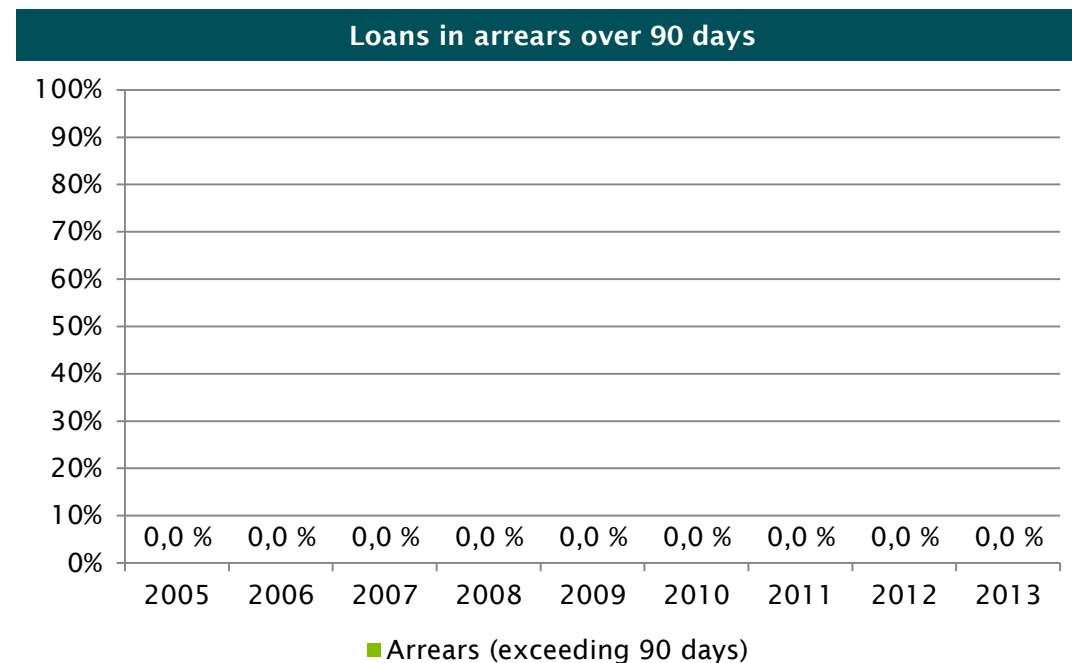
**Moody's:** "The members of the Terra Group (now Eika Group) are incentivised by guarantee obligations to pass high quality loans to the issuer."

(Source: Moody's Investors Services, Terra BoligKreditt Mortgage Covered Bonds, August 2007)

I Loss Guarantee	II Set-off rights	III Pro-rata Framework Guarantee
<ul style="list-style-type: none"><li>First loss guarantee for the portion of the loan exceeding 50% LTV</li><li>Minimum guarantee of NOK 25,000 (EUR 3,138) per loan, irrespective of LTV</li><li>100% of the loan is guaranteed by the bank until the collateral is registered</li></ul>	<ul style="list-style-type: none"><li>Eika Boligkreditt has set-off rights against each bank's commission for a period of up to 3 years</li><li>To be used by Eika Boligkreditt if losses exceed loss guarantee amounts, or a bank fails to meet its guarantee obligation</li></ul>	<ul style="list-style-type: none"><li>All banks participate in a 1% of the total mortgage portfolio pro-rata framework guarantee</li><li>To be used by Eika Boligkreditt if banks fail to meet their guarantee obligations, or losses exceed individual guarantees and set-offs</li></ul>
Currently EUR 687mn	Currently EUR 208mn	Currently EUR 71mn

# No arrears exceeding 90 days

- Eika Boligkreditt has *never* experienced mortgages being delinquent for more than 3 months
- The guarantees from the banks further reduce credit risk and help to avoid cherry-picking of mortgages
- In case there is a delayed payment (> 35 days) the Bank which has transferred the mortgage is required to solve the problem within 2 months by:
  - Paying the full guaranteed amount to EIKBOL
  - Giving the client extra credit
  - Transferring the loan back to the bank (439 loans transferred back since the start-up of company in 2004)



## Top notch collateral score by Moody's

- On 31 January 2014, Moody's released the 15th edition of their EMEA Covered Bonds monitoring overview. The primary objective of this report is to provide transparency to Moody's covered bond ratings
- In the report Eika Boligkreditt is ranked the best out of over 200 covered bond issuers in terms of quality of collateral in the cover pool which is measured by the Collateral Score\*
- Starting from Q2 2012, Moody's changed its methodology by applying a transaction minimum credit enhancement level at a country level, which resulted in Eika Boligkreditt's new collateral score at the floor level of 5% instead of a Eika Boligkreditt's individual Collateral Score currently reported to be 2.0% pre country floor.

### EXHIBIT 17

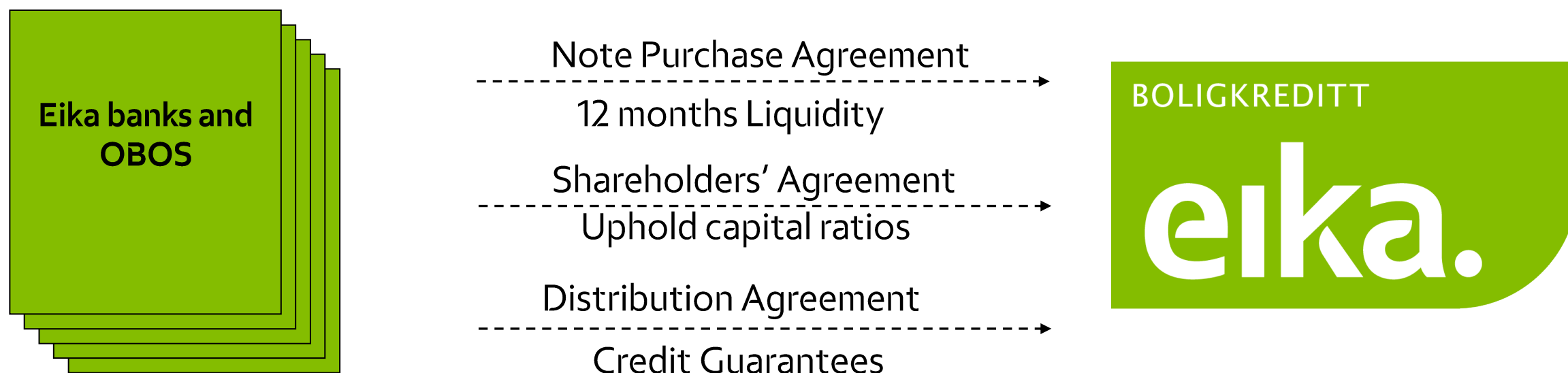
#### Deals with Lowest (Best) Collateral Scores<sup>10</sup>

Name of Programme	Type of Programme	Country	Collateral Score
Eika Boligkreditt AS Mortgage Covered Bond Programme	Mortgage	Norway	2.0%
OP Mortgage Bank II	Mortgage	Finland	2.3%
HSBC Covered Bond Programme	Mortgage	United Kingdom	2.4%
OP Mortgage Bank Mortgage Covered Bonds	Mortgage	Finland	2.6%
SpareBank 1 Boligkreditt AS Mortgage Covered Bonds	Mortgage	Norway	2.7%
Deutsche Postbank AG Mortgage Covered Bonds	Mortgage	Germany	2.8%
Landesbank Baden-Wuerttemberg - Public Sector Covered Bonds	Public Sector	Germany	2.9%
Storebrand Boligkreditt Mortgage Covered Bonds	Mortgage	Norway	3.0%
ING-DiBa - Mortgage Pfandbriefe - Covered Bond Programme	Mortgage	Germany	3.0%
Aktia Real Estate Mortgage Bank PLC - Euro Medium Term Covered Note Programme	Mortgage	Finland	3.1%

\* Measures the overall quality of collateral in the Cover Pool. The lower the Score, the better the credit quality of the Cover Pool. The average Collateral Score for Norwegian Covered Bonds programs was 7.3%

## Structure of support

- The Note Purchase Agreement (NPA) is structured to ensure that Eika Boligkreditt has liquidity, at all times, sufficient to pay the Final Redemption Amount of any series of Notes in a rolling twelve month period
- Contingency facility with DNB enables covered bonds to be issued ≤ NOK 1 billion
- The Shareholders' Agreement is structured to ensure that Eika Boligkreditt will uphold a sufficient capital adequacy ratio at all times
- The Owner Banks are obliged to pay their pro-rata share of any capital increase adopted by the Eika Boligkreditt's general meeting and of any capital instruments to be issued
- The agreements are structured to meet the Moody's criteria to be categorized as a Category 2 support agreement for Specialized Covered Bond Issuers



# Rating summary

- Eika Boligkreditt covered bonds:
  - Rated **Aa2** by Moody's
  - TPI: **High**
  - **Collateral Score on individual basis of 2%** as of Q3 2013 (pre 5% country floor)
- Moody's has recently stated that Norwegian banks' strengthened underwriting criteria is improving credit quality in the mortgage books.\* This is based on the report by the Norwegian FSA in November 2013 showing reduction in high LTV loans as well as proportion of interest-only loans
- In addition, Moody's maintains its stable outlook for the Norwegian Banking System\*\* given broadly benign macroeconomic conditions that is expected to support banks' performance. Also increasing local regulatory demands for capital and increased lending margins are viewed as positive elements

## Timely Payment Indicators

		Very Improbable	Improbable	Probable	Probable-High	High	Very High
Issuer Ratings	A1	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
	A2	Aa1	Aa1	Aaa	Aaa	Aaa	Aaa
	A3	Aa2	Aa2	Aaa	Aaa	Aaa	Aaa
	Baa1	Aa3	Aa3	Aa1	Aa1	Aaa	Aaa
	Baa2	A1	A1	Aa2	Aa2	Aa1	Aaa
	Baa3	A3	A2	A1	Aa3	Aa2	Aa1
	Ba1	Baa3	Baa2	Baa1	A3	Aa3 - A2	A1
	Ba2	Baa3	Baa2	Baa1	A3	A1-A3	A1
	Ba3	Baa3	Baa2	Baa1	A3	A2-Baa1	A1
	B1	Ba3	Ba2	Ba1	Baa3	A3-Baa2	Baa1
	B2	Ba3	Ba2	Ba1	Baa3	Baa1-Baa3	Baa1
	B3	Ba3	Ba2	Ba1	Baa3	Baa2-Ba1	Baa1

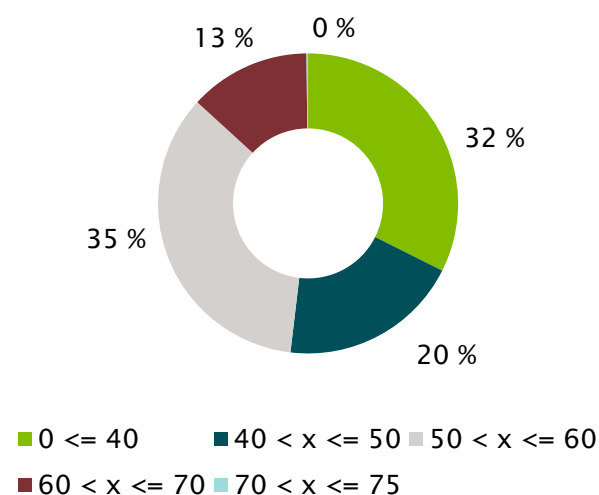
\* Norwegian Covered Bonds: Banks' Strengthened Underwriting Criteria Improve Mortgage Loan Credit Quality, Moody's Investors Service, 11 December 2013

\*\* Banking System Outlook: Norway, Moody's Investors Service, 12 December 2013

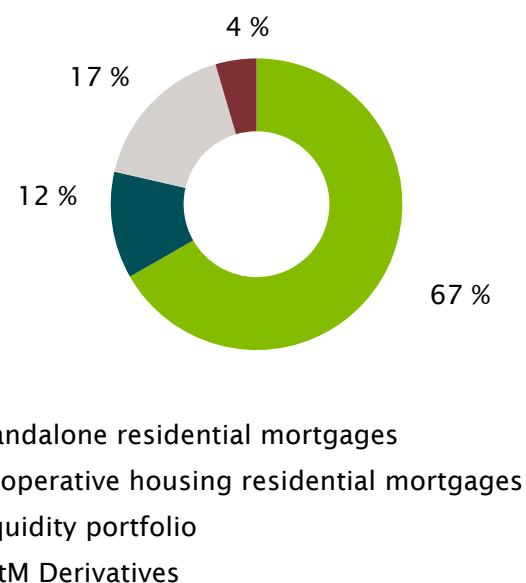
# Summary of the cover pool

Numbers in EUR	Grand total	Standalone residential mortgages	Cooperative residential housing
Nominal value	7,110,321,359	6,037,296,446	1,073,024,913
In % of total mortgage Pool	100 %	84.91 %	15.09 %
Number of loans	40,333	39,562	771
Arithmetic average loan (nominal)	176,290	152,603	1,391,731
WA LTV (unindexed / indexed)	46.23% / 43.77%	51.25% / 48.75%	17.99% / 15.74%
WA seasoning (months)	22.9	22.4	26.0
Loans in arrears (over 90 days)	0.00%	0.00%	0.00%
Estimated over collateralization *	109.97 %	n/a	n/a

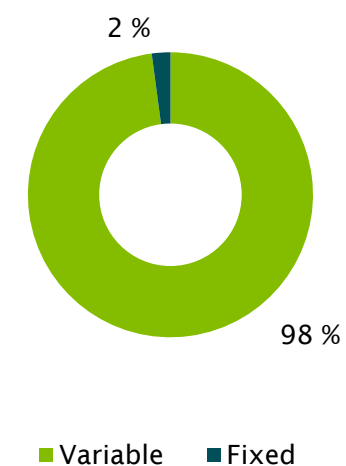
Indexed LTV distribution



Composition of Cover Pool



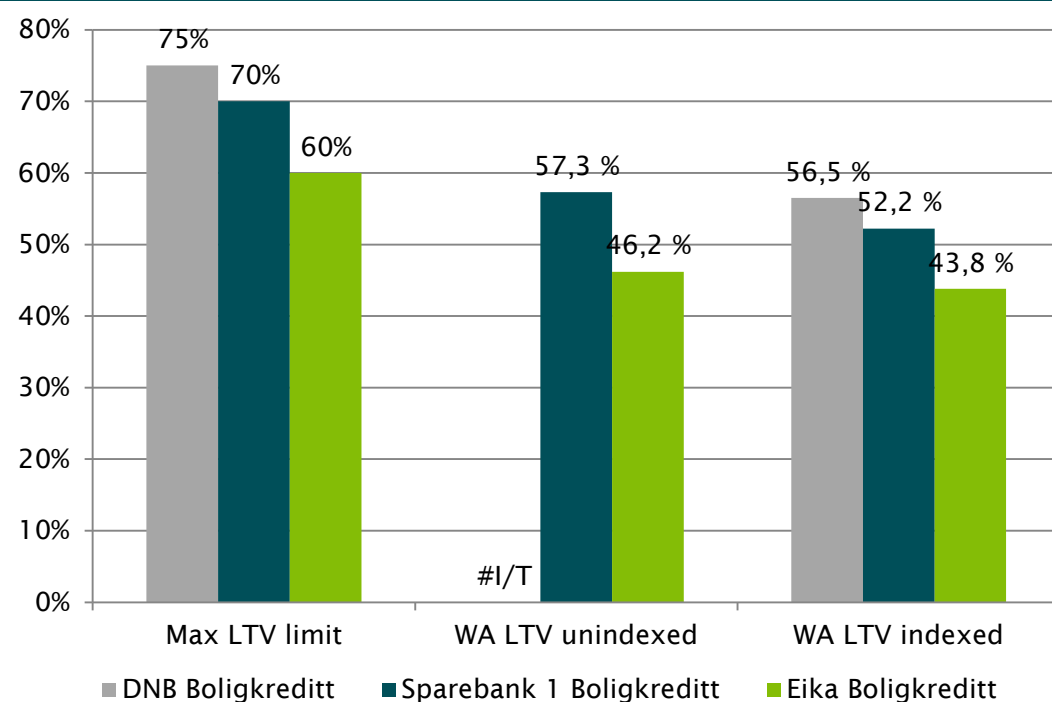
Variable vs fixed rate





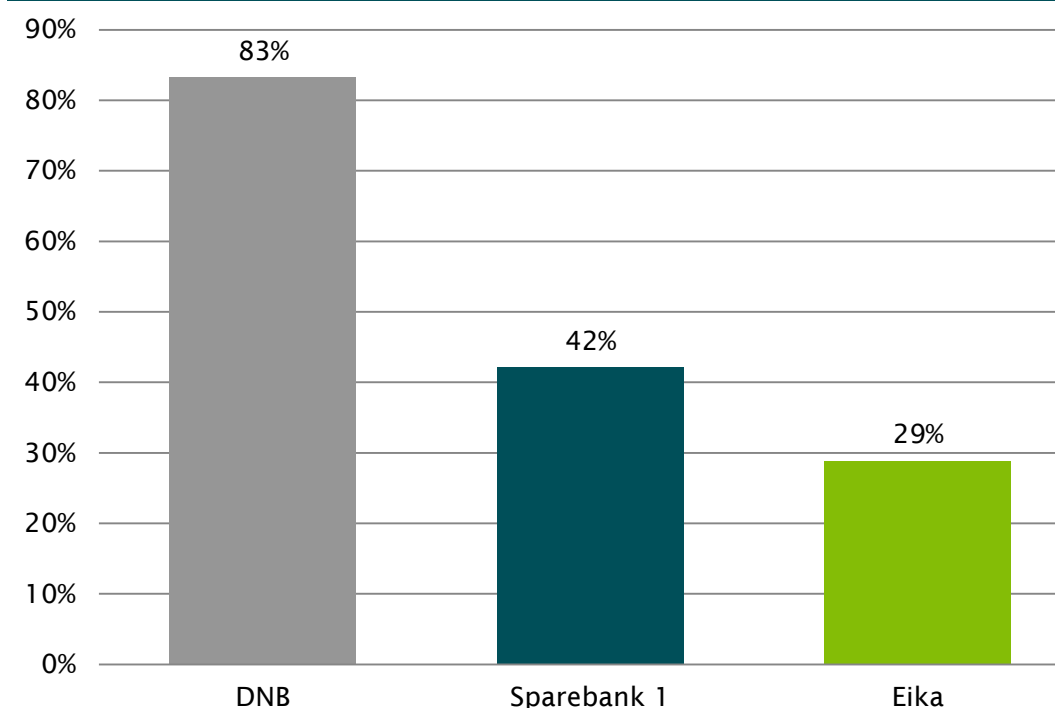
# Cover pool comparison and stress test

LTV comparison with peers end Q1 2013



Source: Cover pool information investor presentation DNB and Sparebank 1, May 2014

Share of retail mortgage loans transferred to CB issuer YE2013



Source: Bank Analyst Eika

Stress test: Decline in house prices

Stress test house price reduction	Currently	Decline of 15%	Decline of 25%	Decline of 35%
Mortgage Portfolio	€ 7,110 mill.	€ 7,110 mill.	€ 7,110 mill.	€ 7,110 mill.
Part of mortgages exceeding 75% LTV	-	€ 3 mill.	€ 104 mill.	€ 463 mill.
Share of mortgage portfolio >75% LTV	-	0.04 %	1.46 %	6.52 %
Estimated Over collateralization*	109.97 %	109.94 %	108.71 %	104.34 %

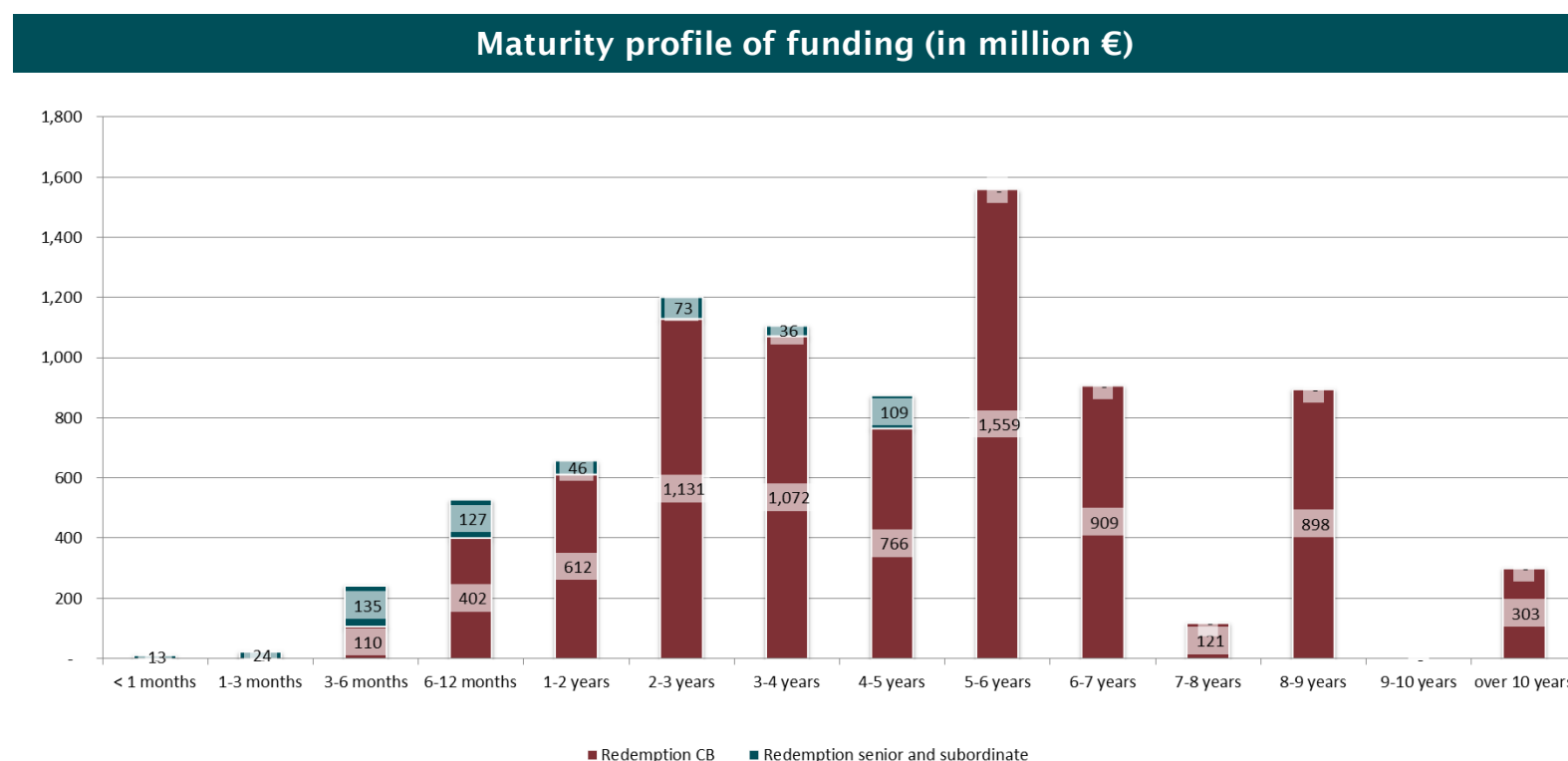
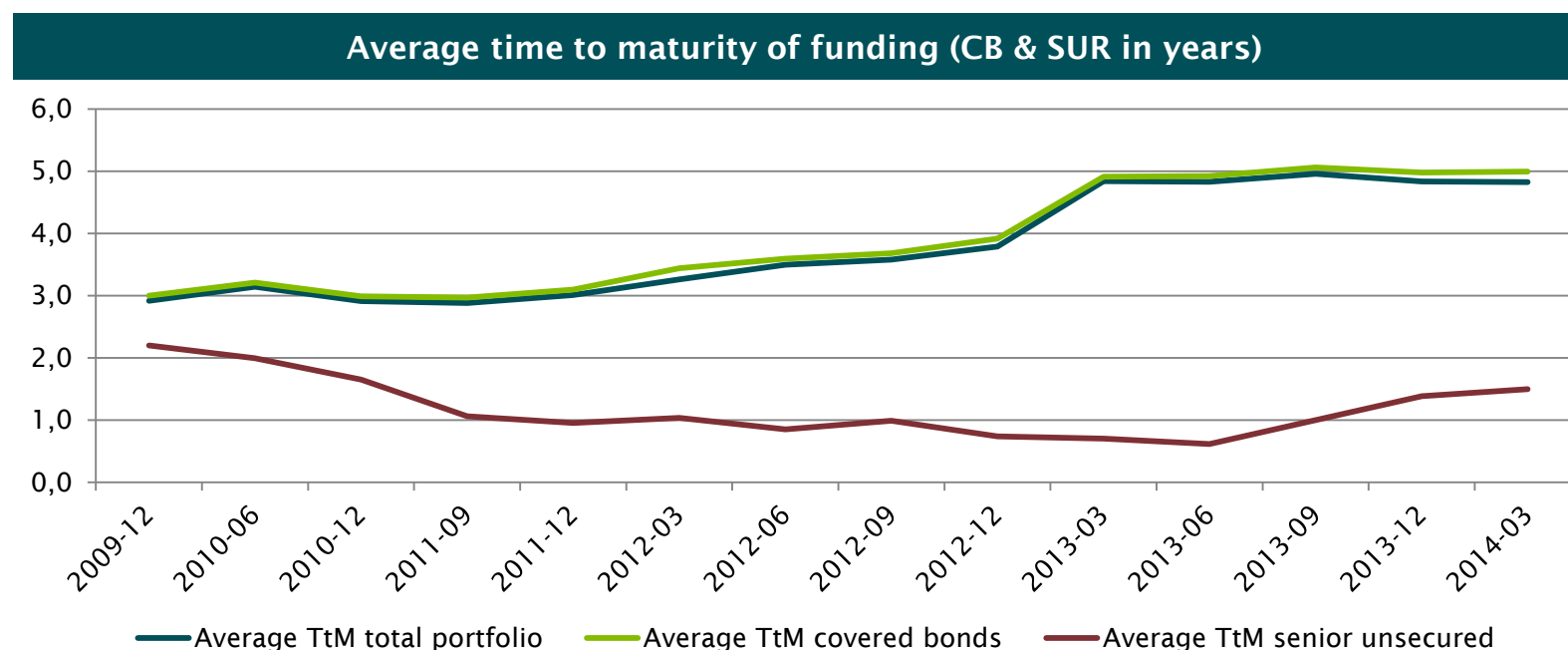
As of 31.03.2014. EURNOK 8.255  
 \* OC is estimated based on fair value

# Agenda

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# Strong risk management

- Both sides of the balance sheet mostly swapped to 3 month NIBOR
- Minimum Over Collateralization level of 5% (committed in EMTCN Program)
- Redemptions within any future 12-month rolling period should not exceed 20% of the gross funding at the time of redemption (internal policy)
  - The 20% level is related to the expected maturity on the assets, i.e. 5 years
- Internal target is to have liquid assets covering at least 75% of redemptions within the next 12 months
- One of the stress tests is the refinancing Indicator I
  - a simulation taking into account, amongst other elements, expected growth and future transactions
  - ensuring availability of funding options within the 20% limit



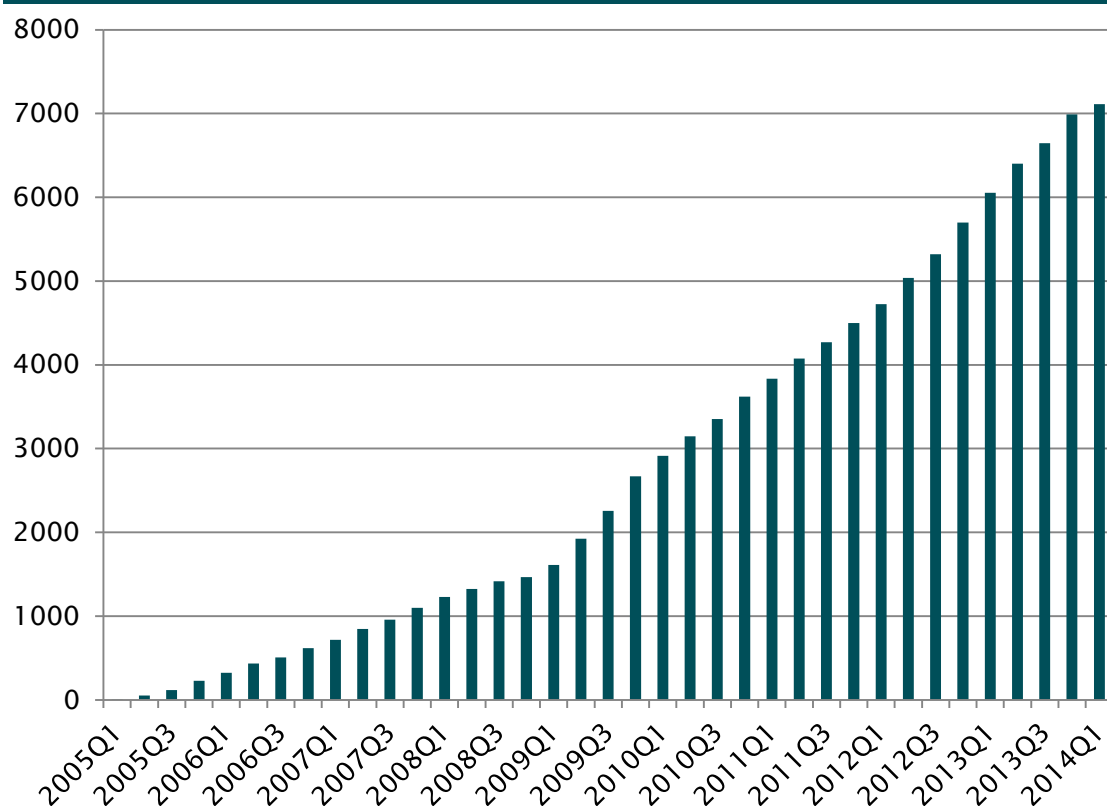
## Funding strategy and activity

# Funding and strategy

- With a stable organic growth, and redemptions starting to materialize in our Euro issues, Eika Boligkreditt has evolved from the €500mn no-grow strategy
- We issued our first Jumbo covered bonds in October 2012 followed by another in January 2013
- Eika Boligkreditt has the flexibility to tailor issue size to changing investor preferences and pricing sentiment going forward and can alternate between €500mn and €1bn format over time

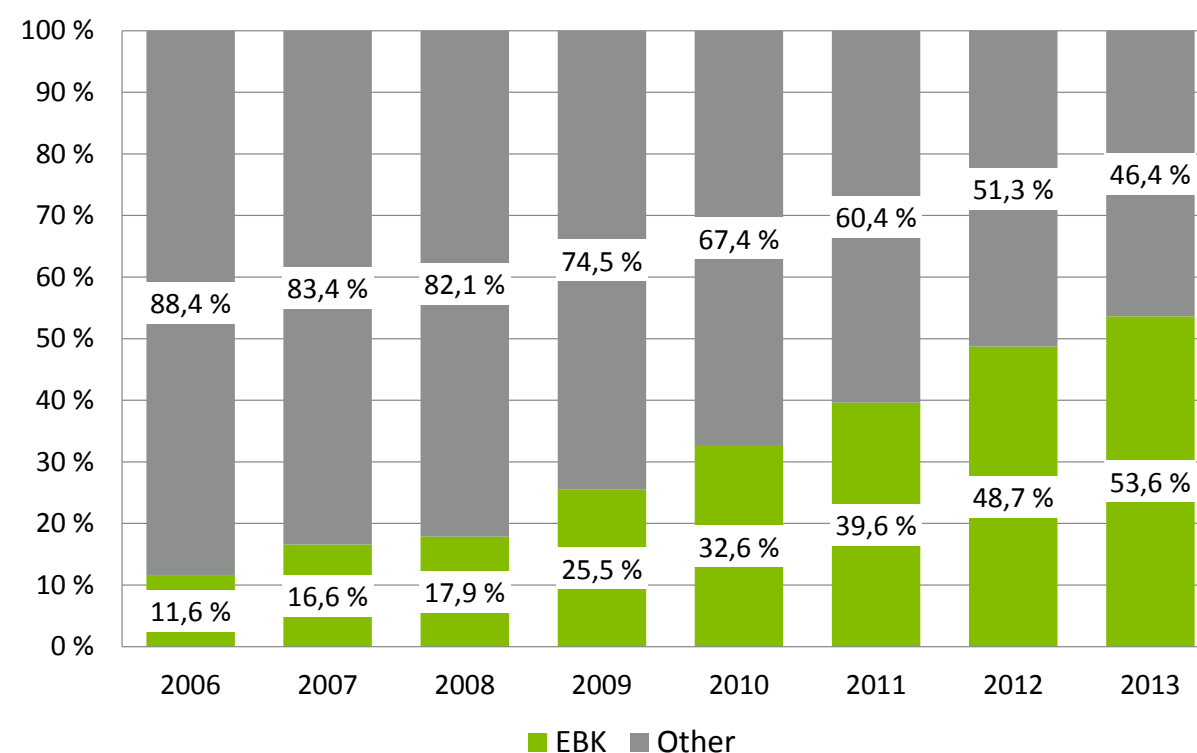
- To reflect this evolvement Eika Boligkreditt has increased the size of its European Medium Term Covered Note Program to €20bn
  - Eika Boligkreditt is an active issuer in both the NOK and Euro market
  - Eika Boligkreditt has the objective to be a frequent benchmark issuer in the Euro covered bond market, and to maintain a liquid yield curve

Stable growth in the loan book (in million €)



EURNOK as of 31.03.2014: 8.255

Eika Boligkreditt funding in % of Eika bank's external funding



Source: Bank analyst Eika

## Funding strategy and activity

# Funding and strategy

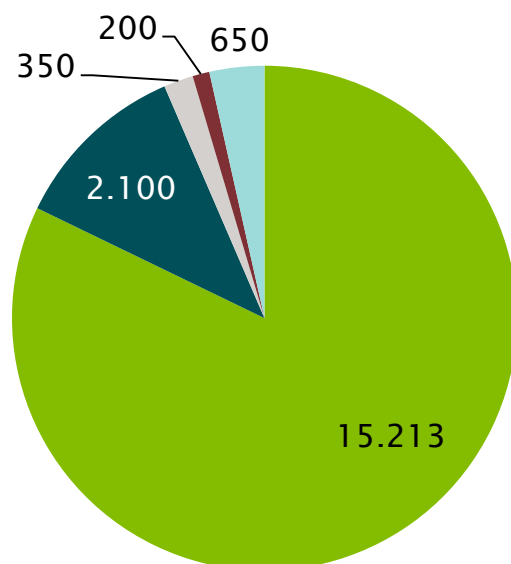
- Budget for gross funding in 2014 is NOK 18.5 billion
  - NOK 15.2 billion in covered bonds (where of NOK 8.2 billion in €)
  - NOK 2.1 billion in senior unsecured
  - NOK 350 million in Tier2
  - NOK 200 million in Tier 1
  - NOK 650 million in equity
- EIKBOL (and no Eika bank) are not suggested as SIFI from the FSA

Capital requirement for EIKBOL (in %)



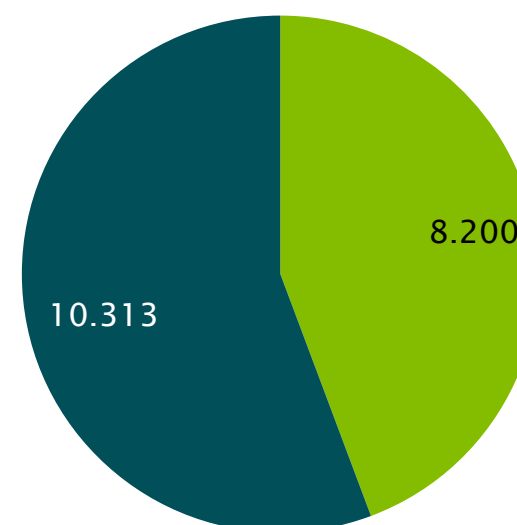
Funding P2014 per sector (million NOK)

■ CB ■ SUR ■ Tier 2 ■ Tier 1 ■ Equity



Funding P2014 per currency (in million NOK)

■ NOK ■ €



## Benchmark list

### Covered Bond Benchmark List expected to be launched June 16'th 2014

Oslo Stock Exchange will implement a new benchmark list June 16'th for covered bonds listed on Oslo Stock Exchange, Covered Bond Benchmark List. This list is a measure to develop the market for covered bonds in Norway.

A covered bond has to satisfy the following criteria to be listed on the Covered Bond Benchmark List:

- Minimum outstanding amount NOK 2,5 billion, excluding own holdings of issuer bonds. This requirement is not applicable the last 12 months before a bond listed matures
- Currency: NOK
- Covered pool has to consist of only Norwegian mortgages
- Both FRN and Fixed bonds qualify
- Minimum 10 investors at time for listing
- Running pricing terms quoted in Oslo Stock Exchange trading system, at minimum ask – or bid quotes. The prices will be indicative. Prices have to be quoted at minimum 85 % of the time the system is open for trading. This will be measured on a monthly basis. In addition it has to be quoted daily closing prices..

Oslo Stock Exchange will verify that the criteria are satisfied on a monthly basis. Listed bonds that do not satisfy the criteria will be transferred to one of the current bond lists.

Issuers who want to list their covered bonds will have to apply for listing.

Oslo Stock Exchange (and CB issuers) hope this benchmark list will improve the transparency in pricing of covered bonds and enable issuers of covered bonds fair terms regarding pricing.

Contact information: Per Gunnar Ølstad telephone 22 34 17 30/e-mail [po@oslobors.no](mailto:po@oslobors.no)



Eika Boligkreditt

Benchmark list

# Benchmark Issuers, Bonds (fixed and FRN)				
Maturity	# Issuers	# CB	# FRN	# Fixed
2014	1	2	0	2
2015	4	6	5	1
2016	3	3	3	0
2017	5	7	3	4
2018	3	6	5	1
2019	5	6	1	5
2020	1	1	1	0
2021	2	2	0	2
2022	1	1	0	1
2023	0	0	0	0
2024	0	0	0	0
2025	0	0	0	0
2026	0	0	0	0
2027	0	0	0	0
2028	0	0	0	0

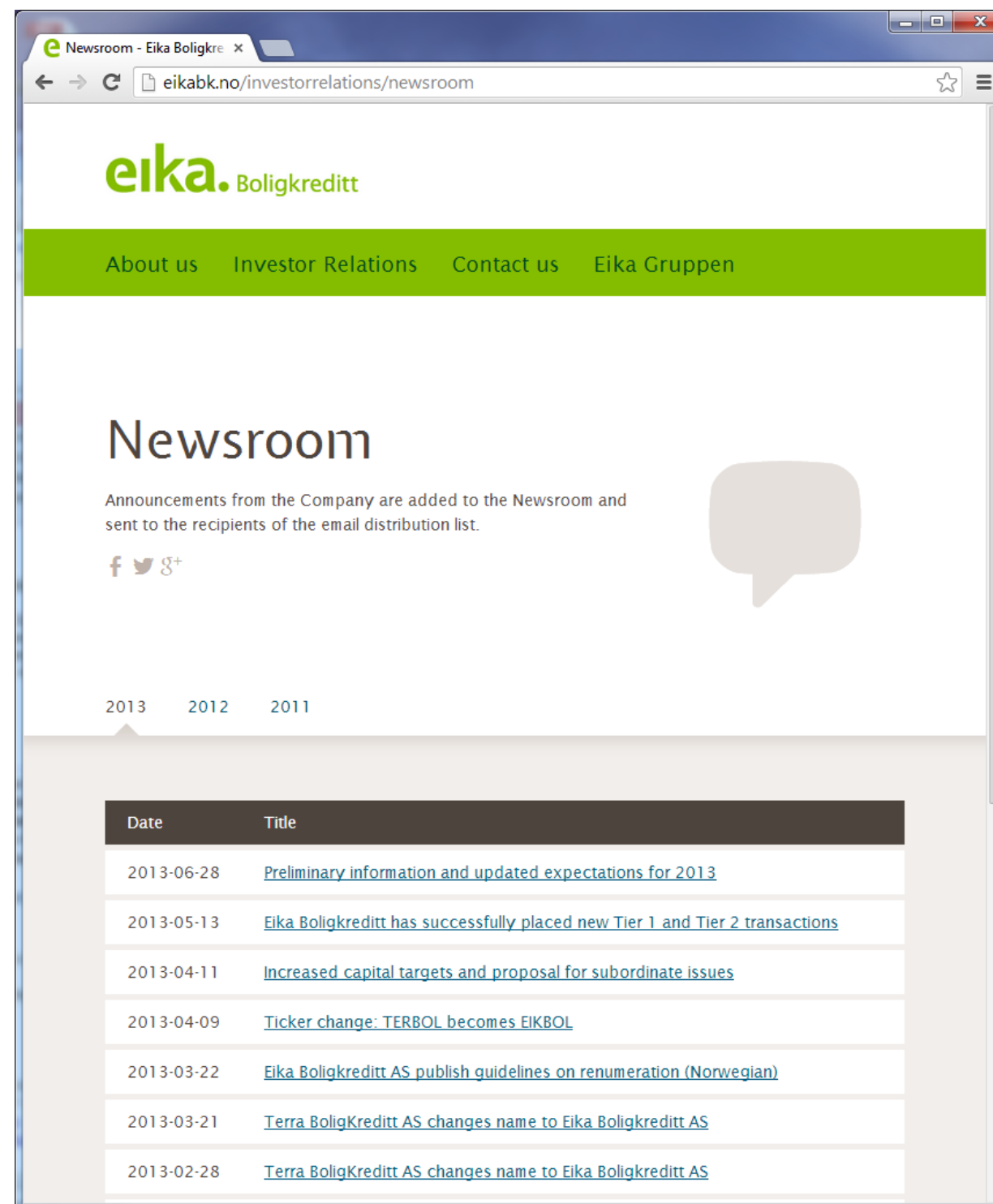
Issuers with benchmark CB	# BM
DnB Boligkreditt AS	10
Nordea Eiendomskreditt AS	7
Sparebank1 Boligkreditt	6
Eika Boligkreditt AS	4
Stadshypotek ABM (publ)	3
Storebrand Boligkreditt AS	1

Source: Oslo Stock Exchange

## Funding strategy and activity

# Funding and strategy

- Maintain Eika Boligkreditt as a solid, well-known and frequent issuer
  - Diversify funding both in terms of geography and investor type
  - Between  $\frac{1}{2}$  -  $\frac{3}{4}$  of the funding is expected to be international
- To provide the market with high quality and transparent information
  - Timely and high quality annual/quarterly reports and financial statements
  - Frequent road shows and investor presentations
  - Quarterly data on the cover pool (in accordance with standard developed by NCBC on request of CBIC) available on <http://eikabk.no>

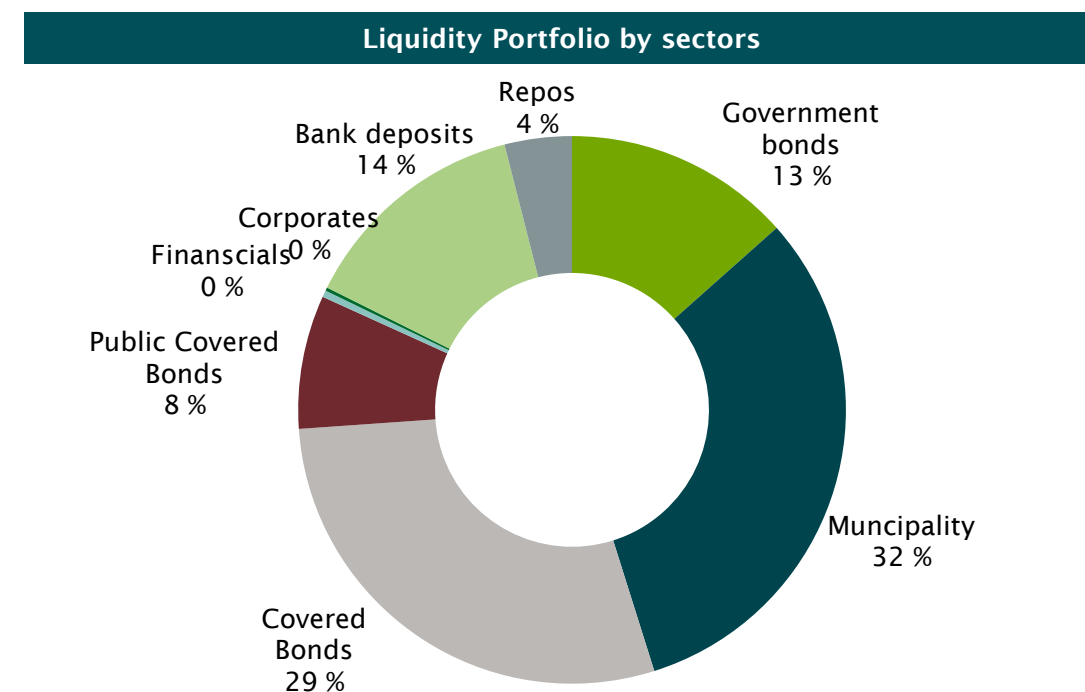


## Funding strategy and activity

# Liquidity portfolio

- **The substitute assets constitute EIKBOL's liquidity buffer**
  - Minimum liquidity > than 6% of outstanding covered bonds (hard limit)
  - Minimum liquidity > 100% of next 6 months redemptions (hard limit)
  - Internal target is to have liquid assets covering at least 75% of redemptions within the next 12 months
  
- **The Liquidity portfolio conforms to a conservative investment policy**
  - Only Norwegian and NOK denominated exposure
  - Portfolio weighted average time to maturity of maximum 2 years
  - An individual investment can have a remaining maturity of max 3.5 years
  - Rated AA-/Aa3 or better if the maturity exceeds 100 days, or A-/A3 if the maturity less than 100 days
  - Weighted average portfolio interest rate duration of less than 0.5 years, and individual securities less than 1 year

Sectors and tenors				
Sector	Market Value (EUR)	In % of portfolio	TtM	Duration
Government bonds	205,153,846	13 %	0.30	0.29
Municipality	484,336,704	32 %	0.28	0.19
Covered Bonds	439,078,319	29 %	2.02	0.09
Public Covered Bonds	120,428,508	8 %	2.18	0.17
Financials	6,072,491	0 %	0.21	0.20
Corporates	3,034,203	0 %	0.72	0.21
Bank deposits	208,664,545	14 %	0.00	0.00
Repos	60,589,478	4 %	0.02	0.00
<b>Total portfolio</b>	<b>1,527,358,094</b>	<b>100 %</b>	<b>0.90</b>	<b>0.16</b>



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## Appendix

# P&L Eika banks - Strong income growth and low loan losses

<i>P&amp;L in NOK mil.</i>	2 009	2 010	2 011	2 012	2 013	1Q13	2Q13	3Q13	4Q13
Net interest income	3 387	3 512	3 631	3 777	3 959	888	961	1 044	1 066
Net commission income	580	662	734	863	1 143	245	276	305	317
Other income	54	43	44	40	42	9	9	15	9
<b>Total income</b>	<b>4 021</b>	<b>4 217</b>	<b>4 409</b>	<b>4 681</b>	<b>5 144</b>	<b>1 142</b>	<b>1 246</b>	<b>1 365</b>	<b>1 392</b>
Personnel and adm. expenses	2 032	2 061	2 134	2 243	2 338	585	537	586	628
Depreciation	165	123	98	95	100	24	25	26	25
Other costs	442	469	495	515	580	136	144	129	171
<b>Total costs</b>	<b>2 639</b>	<b>2 653</b>	<b>2 726</b>	<b>2 852</b>	<b>3 018</b>	<b>745</b>	<b>706</b>	<b>742</b>	<b>825</b>
Core earnings before loan losses	1 383	1 564	1 683	1 828	2 126	397	539	623	567
Impairment of loans and guarantees	442	404	458	329	389	75	112	87	115
<b>Core earnings</b>	<b>940</b>	<b>1 160</b>	<b>1 225</b>	<b>1 499</b>	<b>1 737</b>	<b>322</b>	<b>427</b>	<b>536</b>	<b>452</b>
Dividends/associated companies	81	177	189	89	257	22	204	9	21
Net return on financial investments	564	218	-78	217	227	65	36	68	57
One-offs and loss/gain on long-term assets	117	376	-69	150	-77	-22	-24	-47	17
<b>Pre tax profit</b>	<b>1 701</b>	<b>1 931</b>	<b>1 267</b>	<b>1 955</b>	<b>2 144</b>	<b>387</b>	<b>643</b>	<b>566</b>	<b>548</b>
Taxes	443	501	412	542	583	113	163	173	134
<b>Net profit</b>	<b>1 259</b>	<b>1 430</b>	<b>855</b>	<b>1 413</b>	<b>1 561</b>	<b>274</b>	<b>480</b>	<b>393</b>	<b>414</b>

Source: Bank Analyst Eika

## Appendix

# Eika banks - Balance sheet and key figures

<i>Balance</i>	2 009	2 010	2 011	2 012	2 013	1Q13	2Q13	3Q13	4Q13
Gross loans	151 218	157 375	159 645	166 255	173 617	166 168	169 302	171 645	173 617
Gross loans incl. EBK	169 995	182 382	193 092	208 764	225 292	211 333	217 328	221 529	225 292
Deposits	111 983	120 419	128 567	137 142	144 975	138 340	143 243	141 454	144 975
Equity	15 496	16 748	17 525	18 833	20 422	19 008	19 543	19 951	20 422
Total assets	184 321	190 813	196 623	200 895	210 302	202 384	208 646	208 137	210 302
Growth in loans	2,5 %	4,1 %	1,4 %	4,1 %	4,4 %	-0,1 %	1,9 %	1,4 %	1,1 %
Growth in deposits	4,7 %	7,5 %	6,8 %	6,7 %	5,7 %	0,9 %	3,5 %	-1,2 %	2,5 %
Deposit ratio	74,1 %	76,5 %	80,5 %	82,5 %	83,5 %	83,3 %	84,6 %	82,4 %	83,5 %
(Market funding - Liquid assets)/Total assets	13,7 %	11,6 %	7,8 %	6,3 %	5,4 %		3,2 %	4,6 %	5,6 %
Equity ratio	8,4 %	8,8 %	8,9 %	9,4 %	9,7 %	9,4 %	9,4 %	9,6 %	9,7 %
Core capital ratio	16,4 %	17,0 %	17,3 %	18,1 %	18,5 %	17,7 %	17,5 %	17,6 %	18,5 %
Capital ratio	17,6 %	18,2 %	18,2 %	18,6 %	18,8 %	18,0 %	17,8 %	17,8 %	18,8 %
<i>Key figures</i>									
Net interest/total assets	1,88 %	1,87 %	1,87 %	1,90 %	1,93 %	1,76 %	1,87 %	2,00 %	2,04 %
Net commission incom/total assets	0,32 %	0,35 %	0,38 %	0,43 %	0,56 %	0,49 %	0,54 %	0,59 %	0,61 %
Loss provision ratio	0,30 %	0,26 %	0,29 %	0,20 %	0,23 %	0,18 %	0,27 %	0,20 %	0,27 %
NPL and problem loans	2,02 %	1,83 %	1,89 %	1,78 %	1,62 %	1,94 %	1,83 %	1,86 %	1,62 %
(NPL + Problem loans)/(Equity + LLR)	18,0 %	15,9 %	15,9 %	14,6 %	12,9 %	15,7 %	14,7 %	14,9 %	12,9 %
Cost/income ratio (adj.)	65,6 %	62,9 %	61,8 %	60,9 %	58,7 %	65,3 %	56,7 %	54,4 %	59,3 %
Net profit in % of total assets	0,70 %	0,76 %	0,44 %	0,71 %	0,76 %	0,54 %	0,93 %	0,75 %	0,79 %
Net profit on core earnings in % of RWA	0,96 %	1,12 %	1,14 %	1,36 %	1,53 %	1,14 %	1,48 %	1,86 %	1,56 %
Return on equity	8,5 %	8,9 %	5,0 %	7,8 %	8,0 %	5,8 %	10,0 %	8,0 %	8,2 %

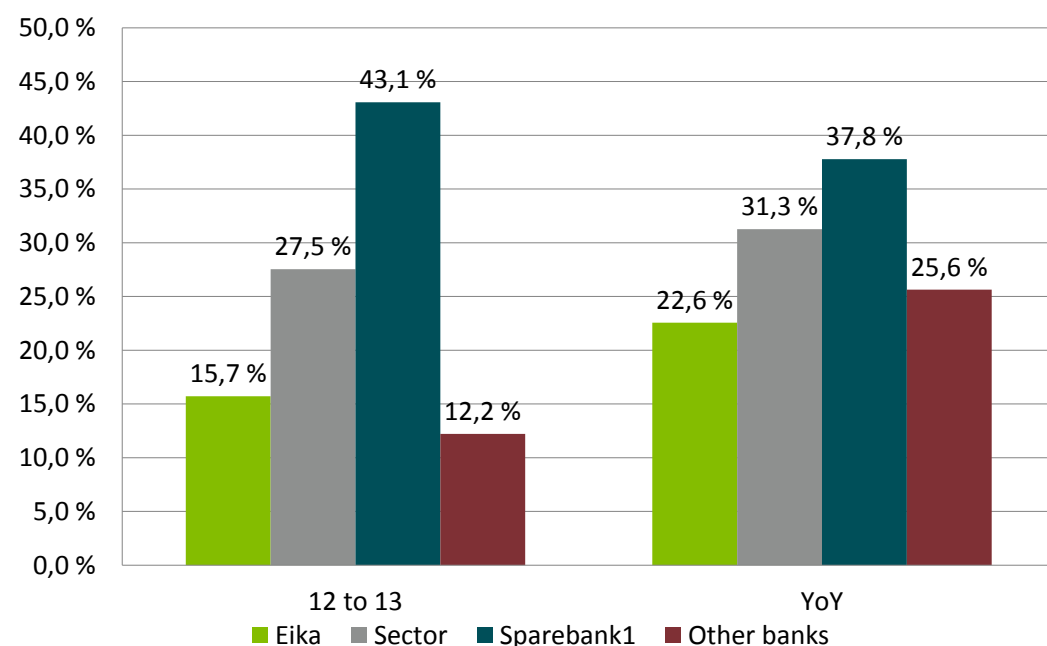


## Appendix

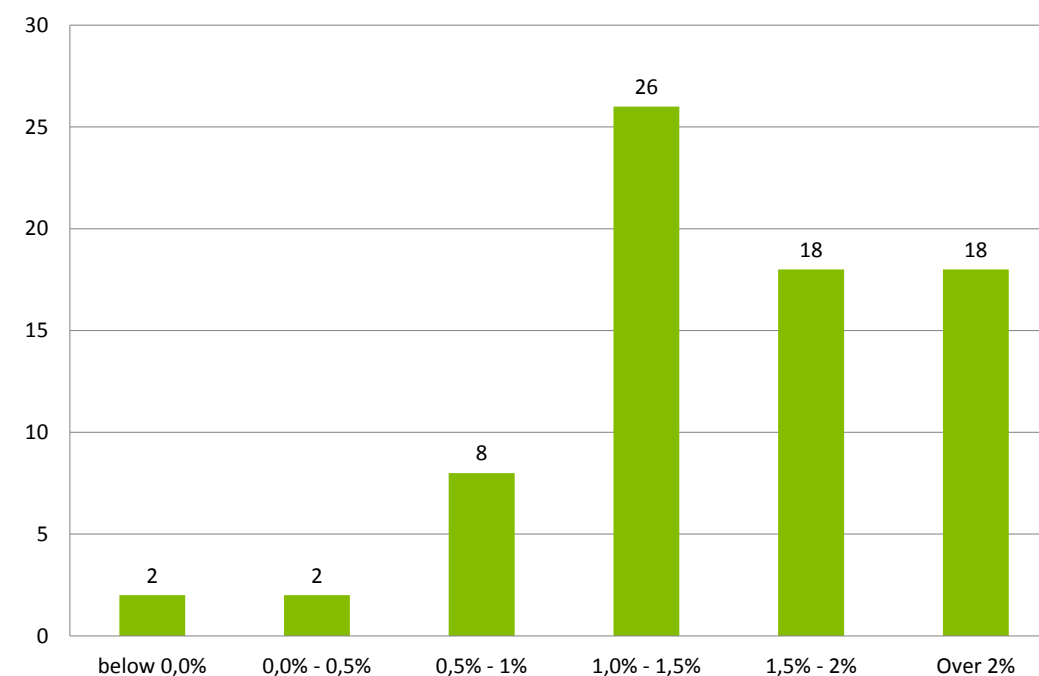
# Eika banks - Improved core earnings

- NOK 1.727 mill. vs NOK 1.499 mill. in 2012
  - In % of RWA 1.52% vs. 1.36% in 20112
- Core earnings after loan losses increased with 33,9% YoY (4Q13 vs. 4Q12) and with 15,2 % from 2012 to 2013
- Two Eika banks with negative core earnings due to loan losses
- Average yearly growth rate in core earning of 7.0% before loan losses and 8.6% over the last 13 years

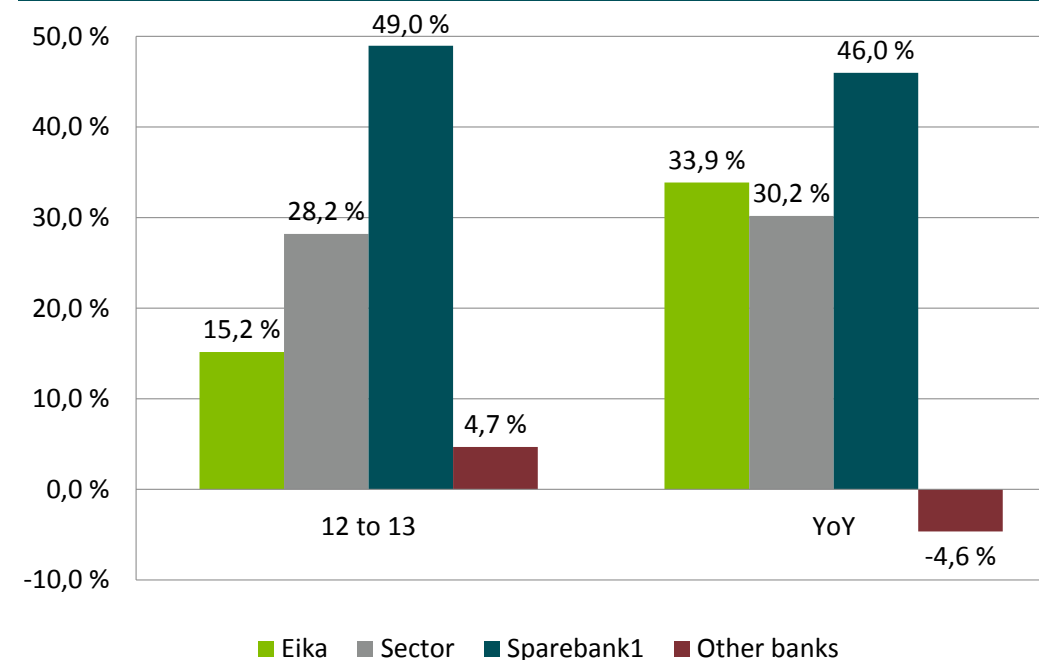
Change in core earnings before loan losses – Eika vs. other banks



Core earnings after loan losses in % of RWA

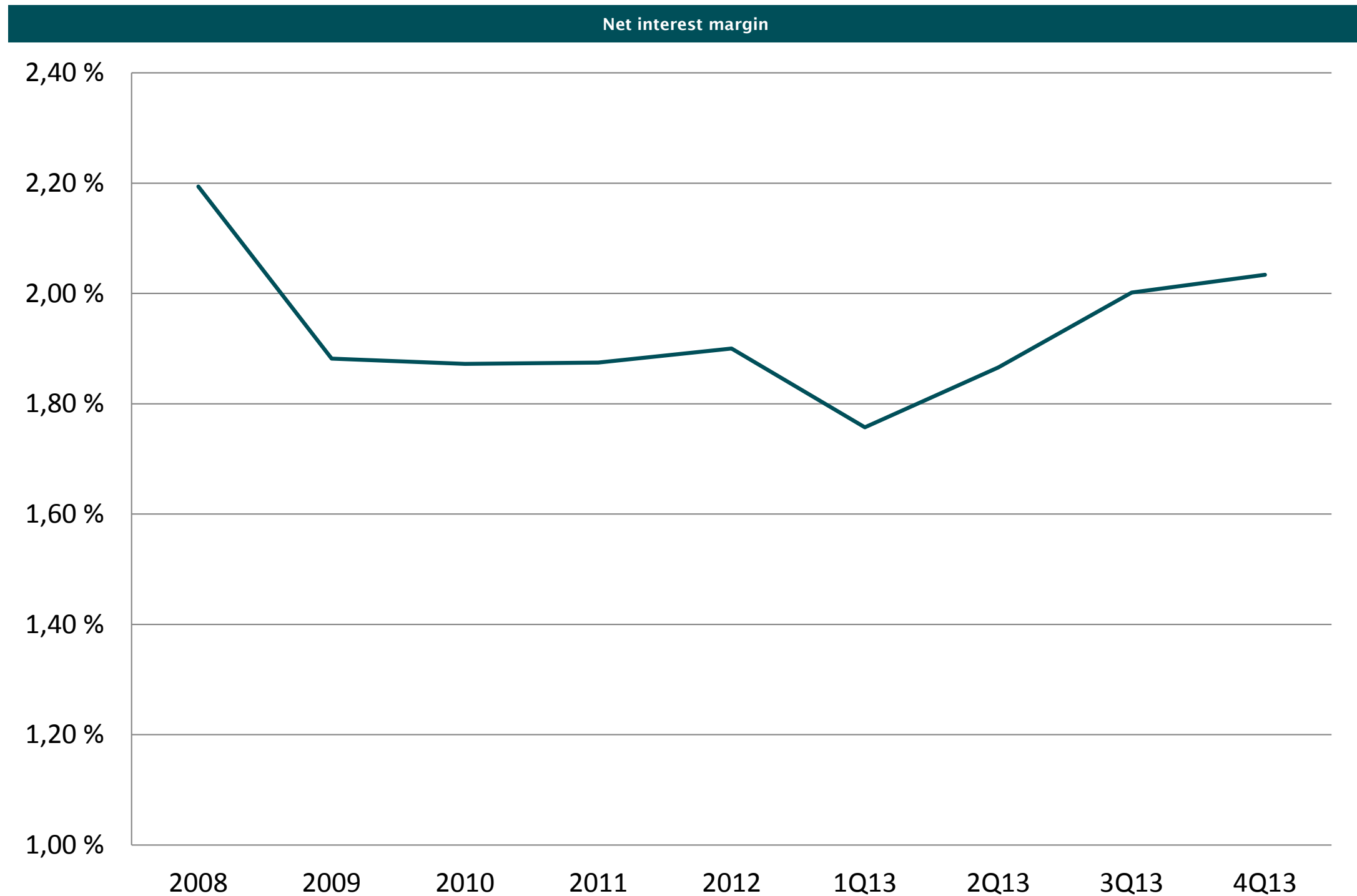


Changes in core earnings after loan losses – Eika vs. other banks



Source: Bank Analyst Eika

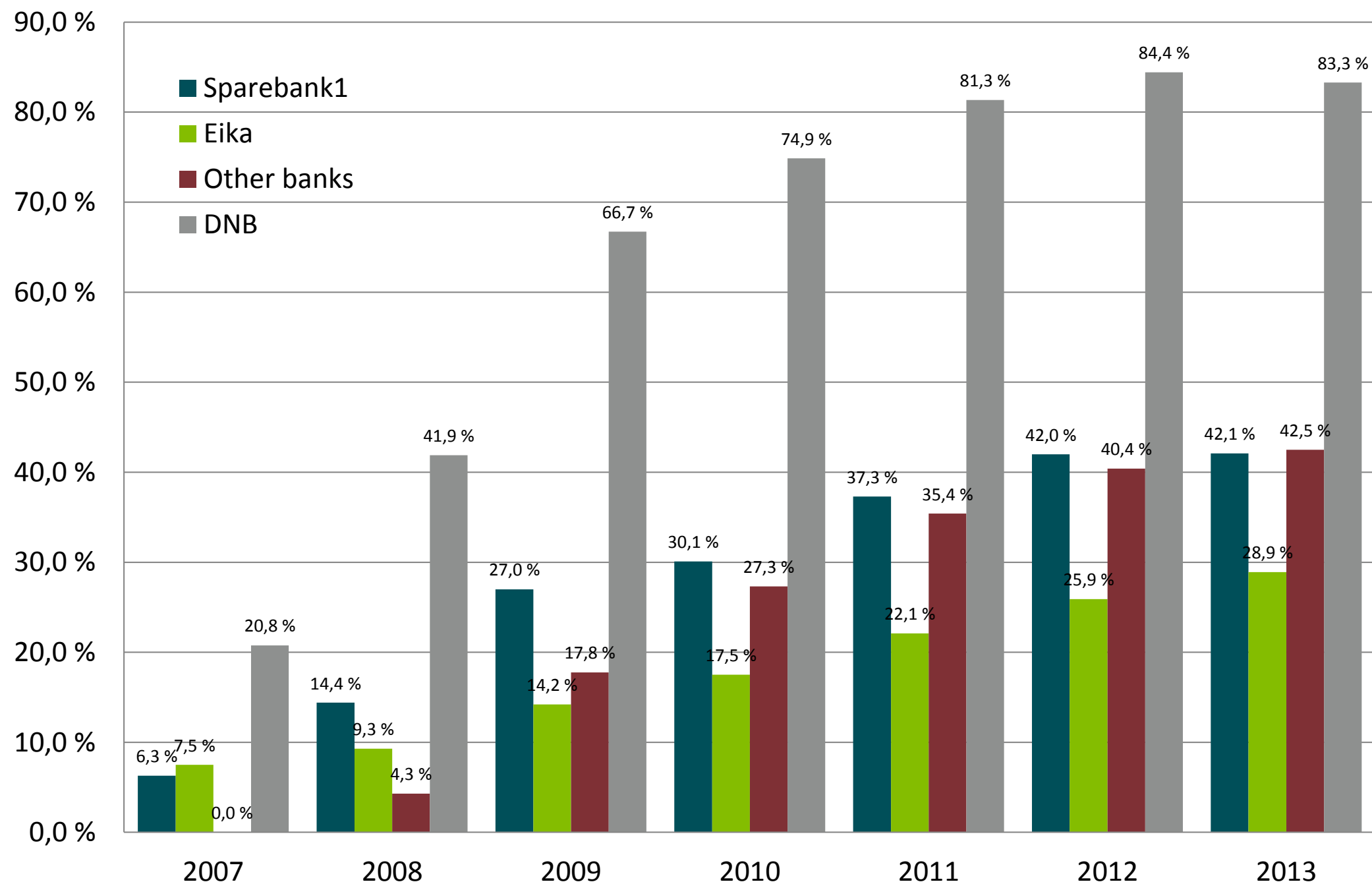
## Eika banks - increasing net interest margin



Source: Bank Analyst Eika

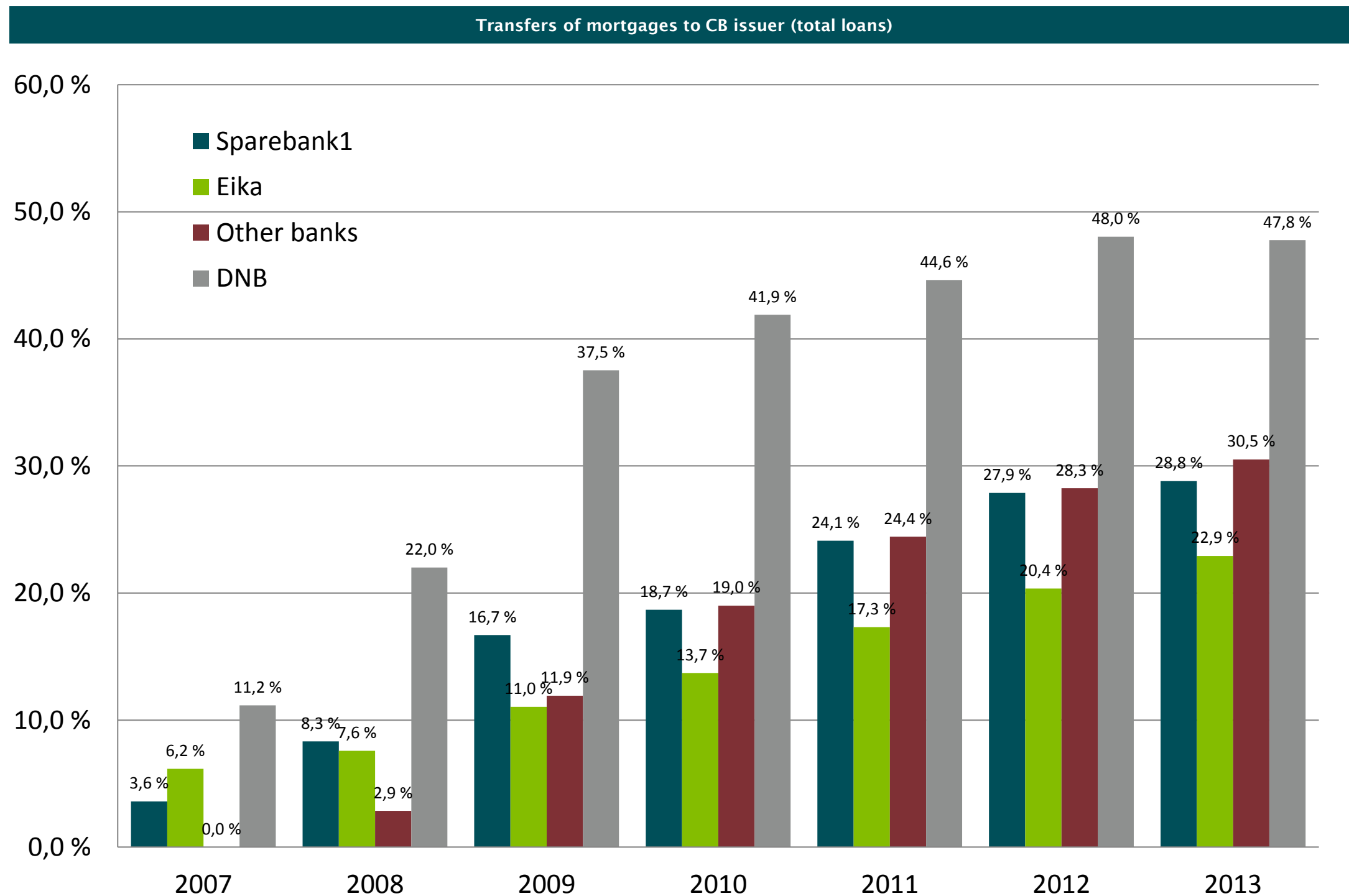
# Banks – transfer rate to Cov. Bond companies

Transfers of mortgages to CB issuer in percentage of retail loans (incl. EIKBOL and excl. OBOS)



Source: Bank Analyst Eika

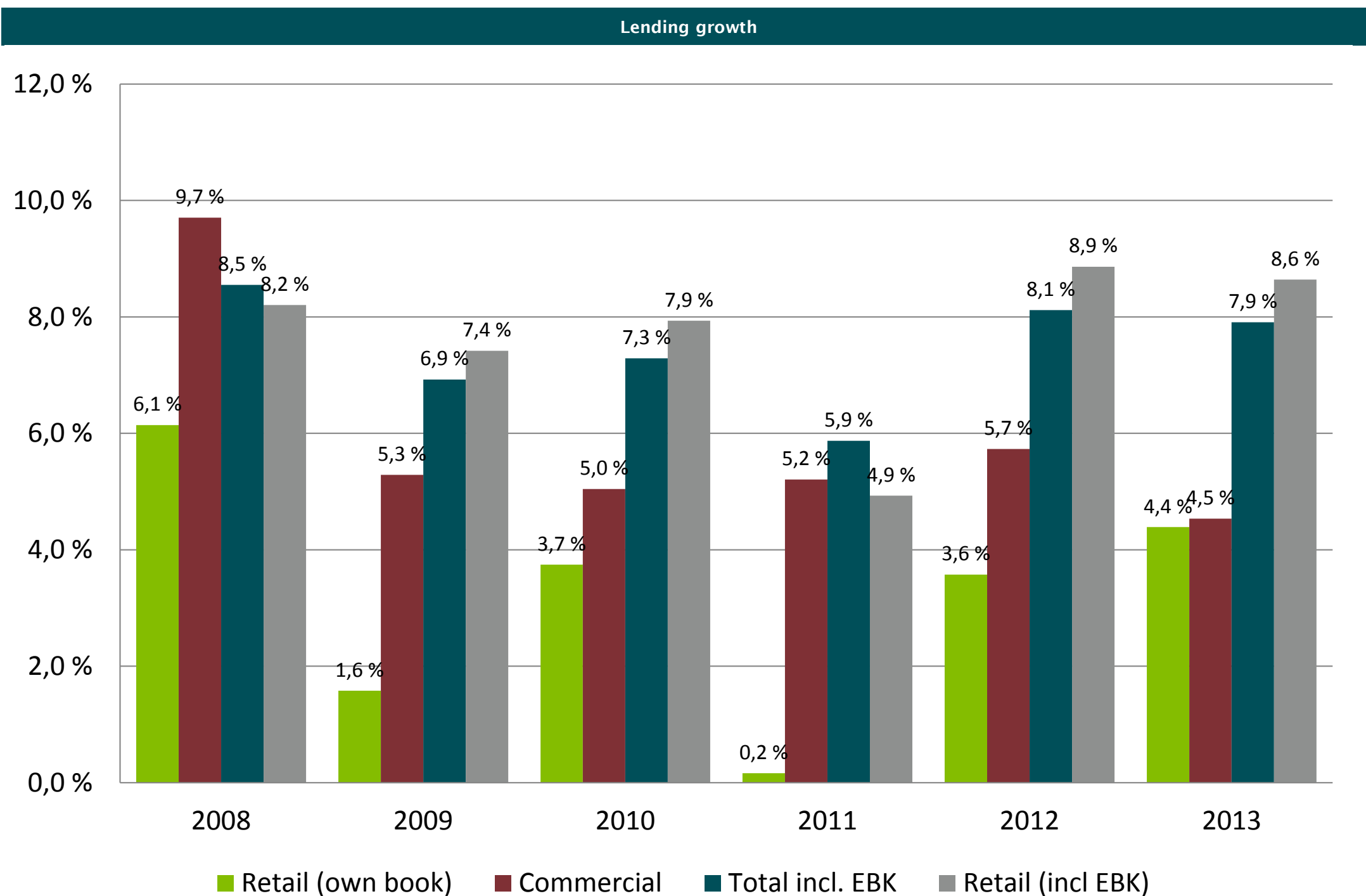
# Banks - transfers of mortgages to Cov. Bond companies



Source: Bank Analyst Eika

## Appendix

# Eika banks - lending growth



Source: Bank Analyst Eika

## Appendix

# Eika banks - lending distribution - high retail share compared to peers

- Significantly higher retail share compared with Sparebank1, other saving banks and DNB.
- Exposure to agriculture has more in common with retail loans since the house on the farm often makes up the main collateral of the loan
- No exposure to shipping and relatively low exposure to commercial real estate

Sector	Eika	Other banks	Sparebank 1	DNB	Nordea
Agriculture/forestry	5,0 %	2,7 %	4,8 %	0,6 %	0,0 %
Fishing/fish farming	0,0 %	1,8 %	1,3 %	1,4 %	0,0 %
Industry	1,3 %	2,3 %	2,8 %	4,3 %	5,9 %
Building and construction	4,0 %	4,0 %	3,4 %	3,5 %	2,9 %
Trade and hotels	2,4 %	2,0 %	2,4 %	3,2 %	3,6 %
Shipping	0,0 %	1,8 %	1,7 %	9,2 %	8,7 %
Real estate business	10,2 %	19,2 %	17,7 %	14,1 %	17,4 %
Service industry	1,8 %	3,2 %	4,7 %	5,3 %	2,5 %
Transport/comm.	0,9 %	1,1 %	3,4 %	2,5 %	2,0 %
Other	1,0 %	2,4 %	1,1 %	5,0 %	7,7 %
Public sector	0,1 %	0,2 %	0,9 %	0,6 %	0,3 %
Commercial lending	26,7 %	40,8 %	44,2 %	49,8 %	50,9 %
Retail lending	73,3 %	59,2 %	55,8 %	50,2 %	49,1 %
Total lending	100,0 %	100,0 %	100,0 %	100,0 %	100,0 %

## Appendix

# P&L Eika Boligkreditt - Strong income growth

Amounts in NOK Million	2010	2011	2012	2013	1Q13	2Q13	3Q13	4Q13	1Q14
Total interest income	1,029	1,403	1,806	2,205	508	541	573	583	609
Total interest expenses	866	1,229	1,458	1,568	375	397	405	391	404
Net interest income	163	173	348	637	132	145	168	191	206
Dividend from shares classified as available for sale	1	3	3	5	-	5	-	-	-
Total gains and losses on financial instruments at fair value	14	6	16	(111)	1	(3)	6	(115)	(55)
Commission costs	97	111	212	449	91	103	120	133	140
Total salaries and administrative expenses	26	26	31	37	9	10	9	9	9
Depreciation	1	1	2	2	0	0	0	0	0
Other operating expenses	8	11	11	14	4	3	3	4	3
Losses on loans and guarantees	-	-	-	-	-	-	-	-	-
PROFIT BEFORE TAXES	45	33	112	29	28	30	41	(70)	(1)
Taxes	12	8	31	8	8	7	11	(17)	(0)
PROFIT FOR THE PERIOD	32	25	82	21	20	23	30	(52)	(1)

### Eika Boligkreditt AS - Report Q1 2014:

*Eika Boligkreditt showed a pre-tax loss of NOK 1.3 million for the first quarter, compared with a pre-tax profit of NOK 28.3 million in the same period of 2013. Excluding the negative value changes related to basis swaps, the pre-tax profit for the first quarter was NOK 56.3 million. The first-quarter loss includes negative changes in the value of financial instruments of NOK 54.9 million, as against a positive NOK 0.8 million for the same period of 2013. The negative change in the value of financial instruments relates almost entirely to NOK 57.6 million in negative change in basis swaps. Basis swaps are a price component in the derivative contracts entered into in connection with long-term borrowing. Derivatives are valued at fair value, while the hedged bond is valued in accordance with the principles which apply for hedge accounting.*

*The full report is available on: <http://eikabk.no>*



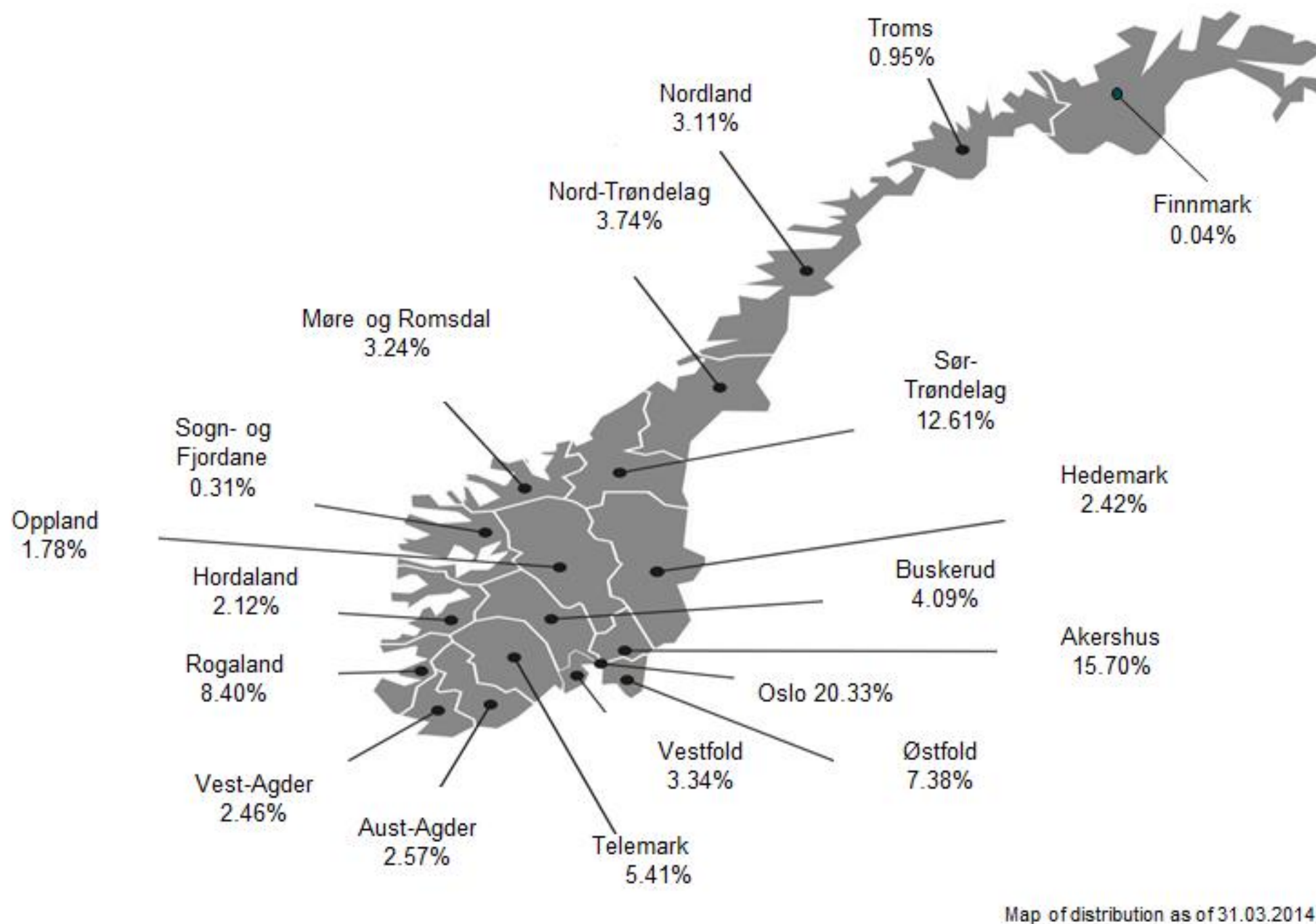
## Appendix

# Eika Boligkreditt - Balance sheet and key figures

Amounts in NOK million	2010	2011	2012	1Q2013	2Q2013	3Q2013	2013	1Q2014
<b>Balance sheet development</b>								
Lending to customers	29,904	37,194	47,086	49,970	52,856	54,858	57,692	58,723
Debt from issuing securities	32,719	41,212	52,583	57,189	61,334	61,826	63,889	71,183
Subordinated loans	438	318	319	180	678	678	678	877
Equity	909	1,070	1,801	1,921	2,032	2,062	2,459	2,458
Equity in % of total assets	2.63	2.47	3.21	3.17	3.10	3.09	3.52	3.18
Average total assets	31,337	38,645	50,013	58,427	60,785	62,249	63,765	73,546
Total assets	34,612	43,255	56,165	60,689	65,502	66,641	69,829	77,264
<b>Rate of return / profitability</b>								
Fee and commission income to relation to average total assets, annualised (%)	0.31	0.29	0.42	0.63	0.68	0.77	0.70	0.76
Staff and general administration expenses in relation to average total assets, annualised (%)	0.08	0.07	0.06	0.06	0.06	0.06	0.06	0.05
Return on equity, annualised (%)	4.92	3.12	6.54	6.22	5.98	8.25	1.21	-0.21
Total assets per full-time position	2,704	2,923	3,555	3,841	3,899	3,545	3,714	4,110
<b>Finacial strength</b>								
Core tier 1 capital	904	1,053	1,710	1,810	1,980	1,979	2,399	2,397
Total tier 1 capital	904	1,053	1,710	1,810	2,228	2,228	2,648	2,845
Total primary capital (tier 2 capital)	1,342	1,371	2,029	1,989	2,658	2,657	3,077	3,274
Weighted calculation basis	10,829	13,724	17,150	18,415	19,917	20,361	21,445	22,683
Core tier 1 capital ratio	8.3	7.7	10.0	9.8	9.9	9.7	11.2	10.6
Total tier 1 capital ratio	8.3	7.7	10.0	9.8	11.2	10.9	12.3	12.5
Capital adequacy ratio	12.4	10.0	11.8	10.8	13.3	13.1	14.3	14.4
Delinquines in % of gross loans	-	-	-	-	-	-	-	-
Loss in % of gross loans	-	-	-	-	-	-	-	-
<b>Staff</b>								
Number of full-time positions at end of period	12.80	14.80	15.80	15.80	16.80	18.80	18.80	18.80

Source: Bank Analyst Eika

## Eika Boligkreditt - Strong geographical diversification



## Appendix

# Comparison of legal frameworks for covered bonds

	Norway	Sweden	Denmark	Finland	Germany
Special Banking Principle	Yes; Kredittforetaks	No, but specialist banks still exist	No, but specialist banks still exist	No, but specialist banks still exist	No
Allowed Collateral	Residential mortgages, commercial mortgages, public sector debt	Residential Mortgages, commercial mortgages (max 10%), public sector debt	Residential and commercial mortgage loans and substitute collateral. Commercial banks are also allowed to introduce ship loans.	Residential mortgages, commercial mortgages (max. 10%), public sector debt and shares in Finnish real estate corporations	Mortgage loans, public sector debt, ship loans, aircraft loans
RMBS inclusion	No	No	No	No	No
Inclusion of Hedge Positions	Yes	Yes	Yes	Yes	Yes, 12% of the pool's NPV
Substitute collateral	Max. 20%; 30% for a limited period if authorized by the Norwegian FSA	Up to 20% (30% for a limited period if authorised by the Swedish FSA)	Up to 15 %	Up to 20%	Max. 20%
Geographical scope for public assets	OECD	OECD	Not applicable	EEA	EEA, Switzerland, USA, Canada and Japan
Geographical scope for mortgage assets	OECD	EEA	Denmark, Greenland and Faroe Islands without restrictions - other countries with approval of Supervisory Authority	EEA	EEA, Switzerland, USA, Canada and Japan
LTV barrier residential	75%	75% (70% for agricultural purposes)	80%	70%	60%
LTV barrier commercial	60%	60%	60%	60%	60%
Basis for valuation	Prudent Market value	Market value	Market value	Market value	Mortgage lending value
Valuation check	Regular surveillance through accountant	Regular monitoring of property values	Regular monitoring	Regular examination	Regular (at least every 2 years) examination of the cover register
Special supervision	Yes; Finanstilsynet	Yes; Finansinspektionen	Yes ; Finanstilsynet	Yes; Finanssivalvonta Finansinspektionen	Yes; BaFin
Protection against mismatching	The law stipulates that cash-flows should be matched narrowly	Nominal coverage, NPV coverage	Yes; general or specific balance principles govern several restrictions on max. mismatches possible	Nominal coverage, NPV coverage; 12 month cash flow coverage, stress testing, liquidity management	Nominal coverage, NPV coverage, 180d liq. buffer
Obligation to replace non-performing loans	No, but haircuts for loans in-arrears for more than 90 days	No	No	Readjustment of valuation	No
Mandatory overcollateralization	No	No	8% on a risk-weighted basis for specialist lenders	Yes (2% on a NPV basis)	2% NPV
Fulfills UCITS 22(4)/CRD	Yes	Yes	Yes	Yes	Yes

Source: Natixis Covered Bond Research/Nordea Markets

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