

# Eika Boligkreditt

Investor presentation

*March 2019*



# Executive summary

## • The economy is strong

- GDP-growth above trend
- Large current account and fiscal surpluses
- Low unemployment
- Balanced housing market with moderate increases in house prices
- Petroleum investments are expected to increase again from 2018 after more than 25% drop from 2014 to 2017

## • Robust, local saving banks

- 3<sup>rd</sup> largest Norwegian banking group
- Focus on retail lending
- High asset quality with low levels of doubtful & non-performing loans, low LTV and no direct exposure to oil/offshore
- Strong and diversified deposit base
- Strong capitalization and high level of liquidity buffers
- Strong position in the local markets

## • Conservative cover pool

- Maximum 60% LTV for mortgages at origination and strict underwriting criteria
- No arrears or losses since inception
- Prudent risk management with regards to refinancing, liquidity, currency, interest rate and counterparty risk
- Credit guarantees from the distributors and capital and liquidity support agreements with the owners

# Agenda

- The Norwegian economy
- Eika Alliance
- Eika Boligkreditt
- Appendix
- Disclaimer



# The Norwegian economy – Key indicators

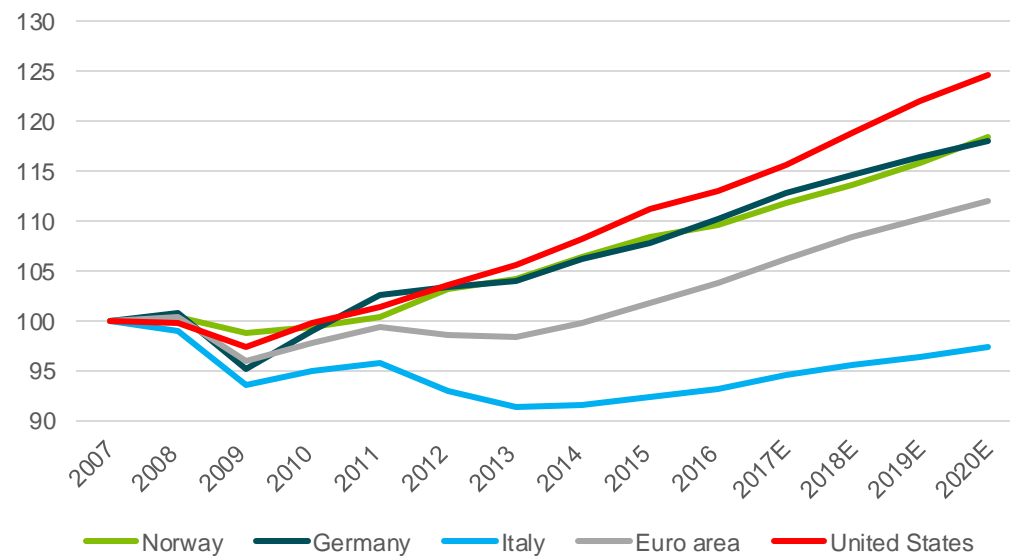
- Constitutional monarchy; Non EU member (EEA member); Population of 5.3 million
- Aaa / AAA / AAA rated country (all with stable outlook)
- GDP per capita amongst the highest in the OECD countries – estimated to be 48% higher than the average in EU (28 countries)
- Expected contributors to growth in 2019:
  - Positive contribution from private consumption, increased export, public investments & consumption, petroleum investments and other mainland industrial investments

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
GDP growth (Mainland)	2.3 %	2.2 %	1.4 %	1.1 %	2.0 %	2.2 %	2.4 %	2.3 %	2.0 %	1.9 %
Consumer price inflation	2.1 %	2.1 %	2.1 %	3.6 %	1.8 %	2.7 %	2.3 %	1.7 %	1.9 %	2.1 %
Unemployment	3.8 %	3.6 %	4.5 %	4.7 %	4.2 %	3.8 %	3.7 %	3.7 %	3.7 %	3.6 %
Private Consumption	2.8 %	2.1 %	2.6 %	1.3 %	2.2 %	2.0 %	2.2 %	2.3 %	2.3 %	2.3 %
Household savings rate	7.4 %	8.2 %	10.3 %	7.3 %	6.7 %	6.5 %	6.7 %	7.5 %	8.2 %	8.2 %
Houseprices	4.0 %	2.7 %	6.1 %	7.0 %	5.0 %	1.4 %	2.1 %	0.8 %	0.9 %	1.8 %
Interest rates (money market)	1.8 %	1.7 %	1.3 %	1.1 %	0.9 %	1.1 %	1.4 %	1.9 %	2.3 %	2.3 %
Government net lending as % of GDP	10.8 %	8.7 %	6.1 %	4.0 %	5.1 %	5.3 %	5.4 %	5.5 %	n/a	n/a
Government pension fund / GDP	164 %	204 %	239 %	241 %	257 %	246 %	255 %	260 %	268 %	277 %

Source: Statistics Norway – Konjunkturtendensen 1/2019, OECD – Economic Outlook No 104 November 2018 and Norges Bank

# The Norwegian economy – Solid economic situation

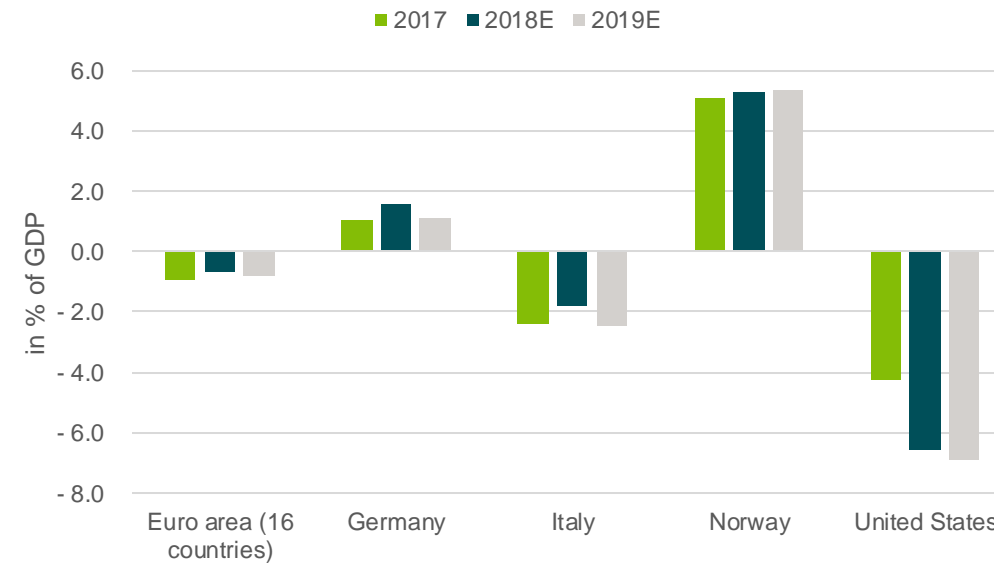
Real GDP growth (rebased to 100 in 2007)



Source: OECD Economic Outlook No. 104 (database), November 2018

- Economic growth at an annual average of 1.7% for Norwegian mainland GDP last 10 years
- Strong current account surplus averaging 10.0% of GDP since 2008

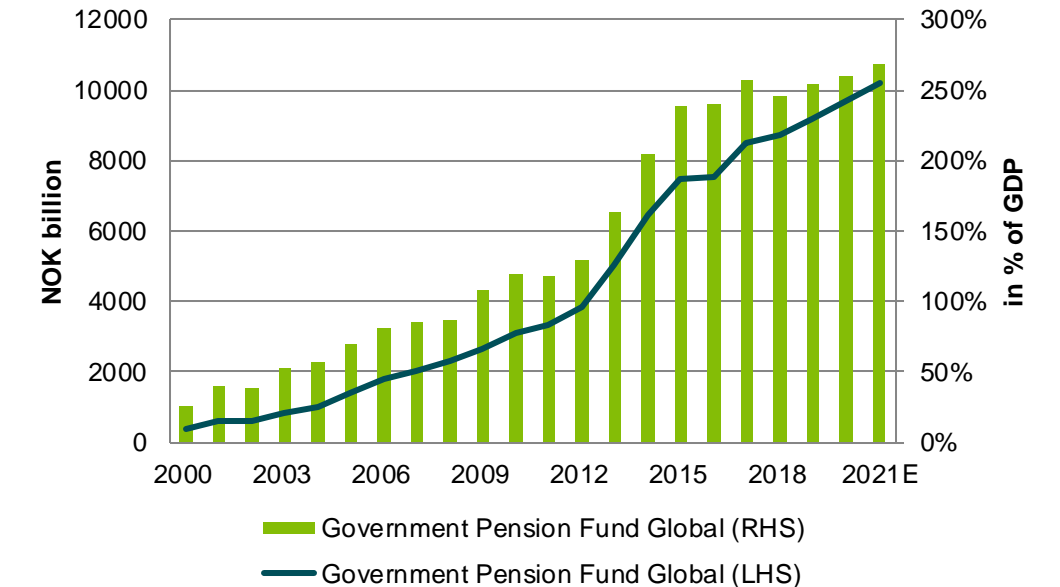
Government net lending



Source: OECD Economic Outlook No. 104 (database), November 2018

- Significant government net lending (5.1% of GDP in 2017) and the Government Pension Fund more than twice the size of GDP

Government Pension Fund Global

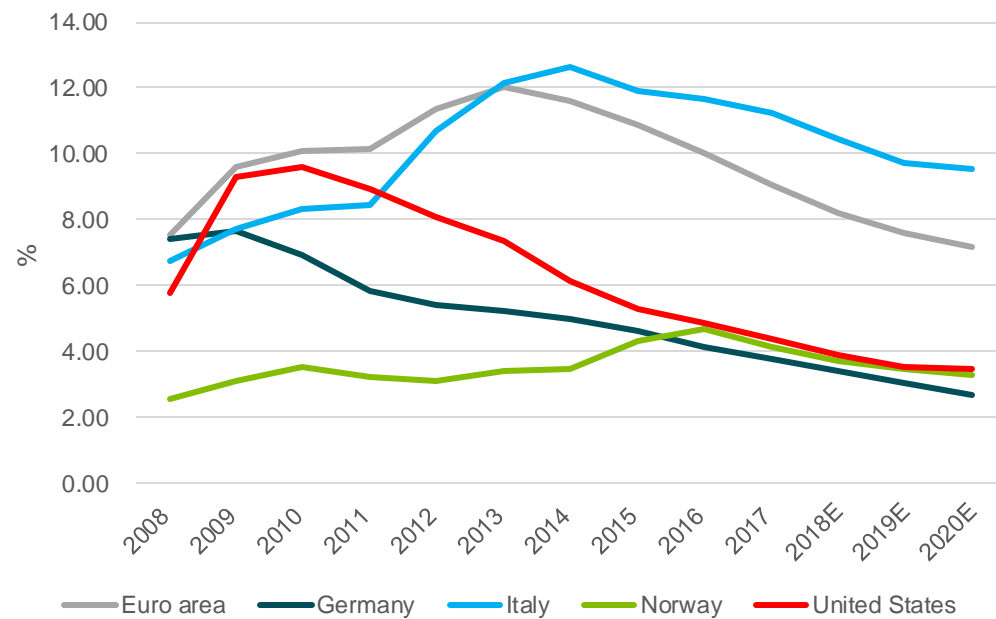


Source : Norges Bank, Statistics Norway, Q4 2018

- Norway has a strong balance sheet
- High net central government financial assets (290% of GDP in 2016)

# The Norwegian economy – Low unemployment

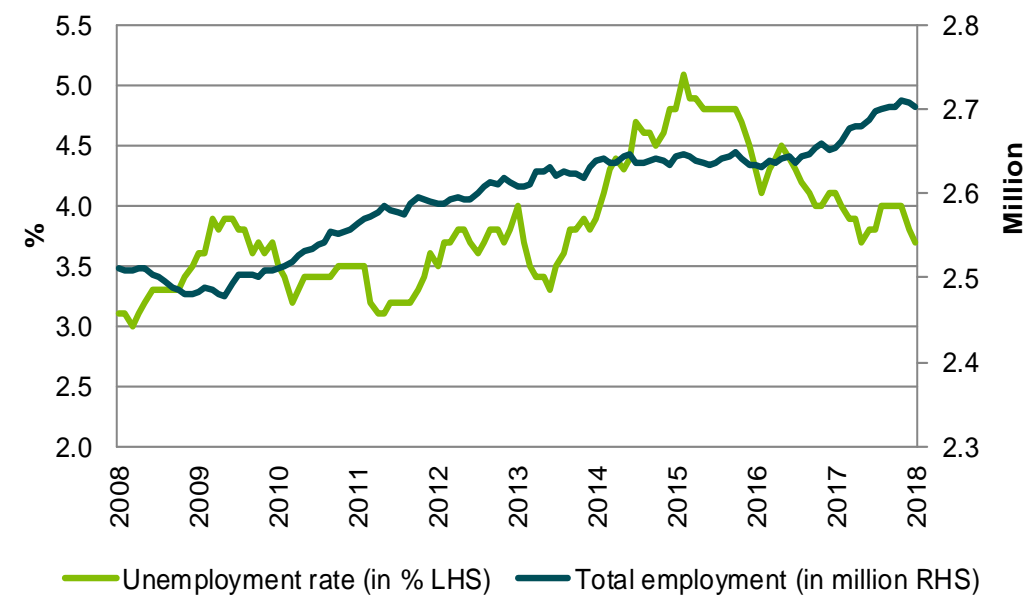
Norway has consistently low unemployment rate



Source: OECD Economic Outlook No. 104 (database), November 2018

- A stable economy ensures a high rate of employment
- The survey based unemployment rate has fallen by 1.3%-points to 3.7% after hitting the highest level in the last decade of 5.0% in July 2016. Unemployment is expected to remain at low levels going forward

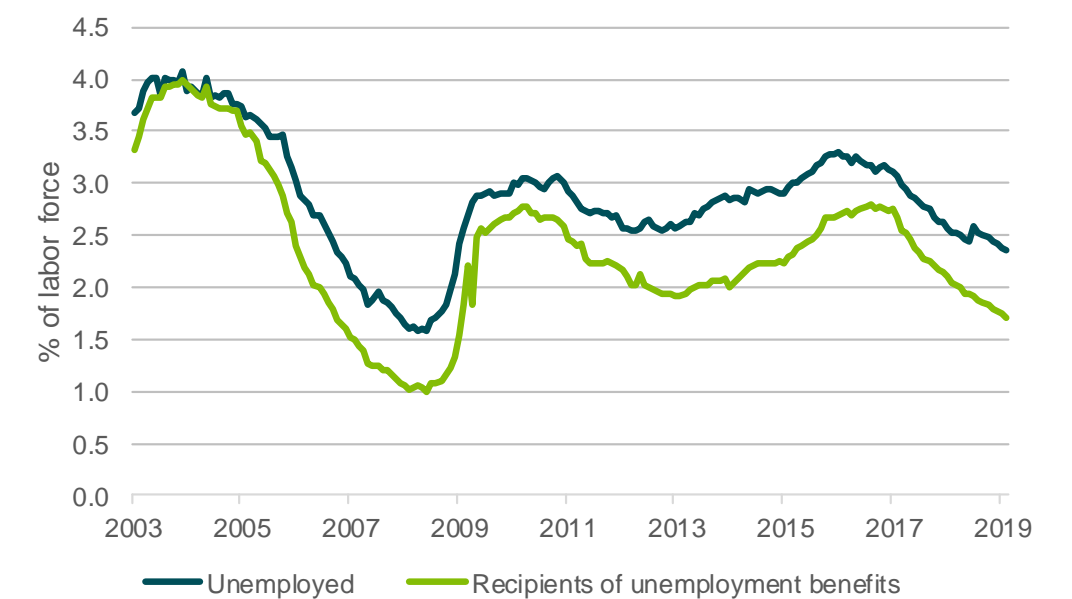
Survey unemployment rate and total employment



Source: Statistics Norway, December 2018

- Significant growth in employment through 2017 and 2018 and growth is expected to continue going forward
- Increased demand for labour and increasing number of vacancies are expected to increase wage growth (+3.6% in 2022 vs +2.8% in 2018)

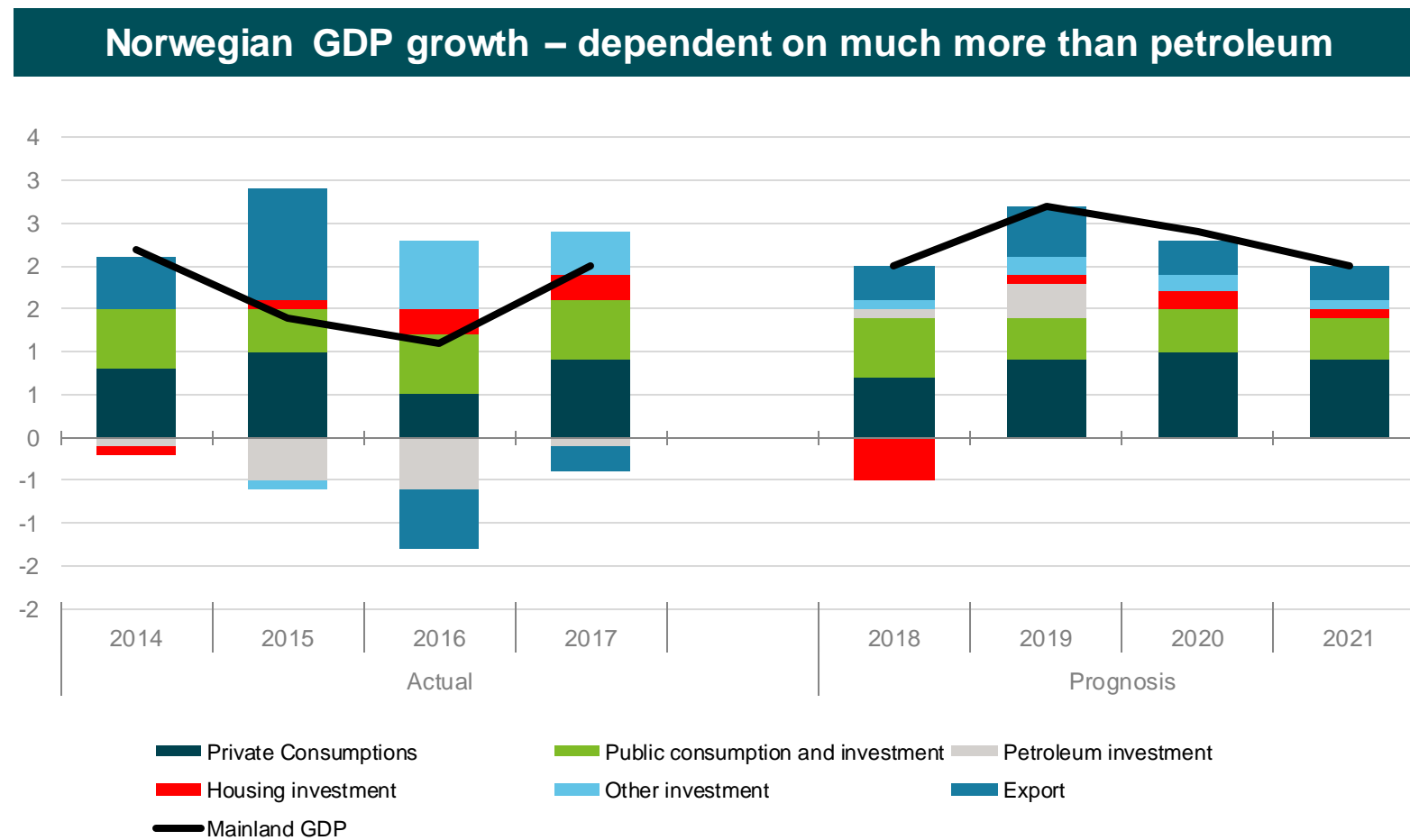
Registered unemployment and unemployment benefit recipients



Source: NAV, Monetary Policy Report 1/2019

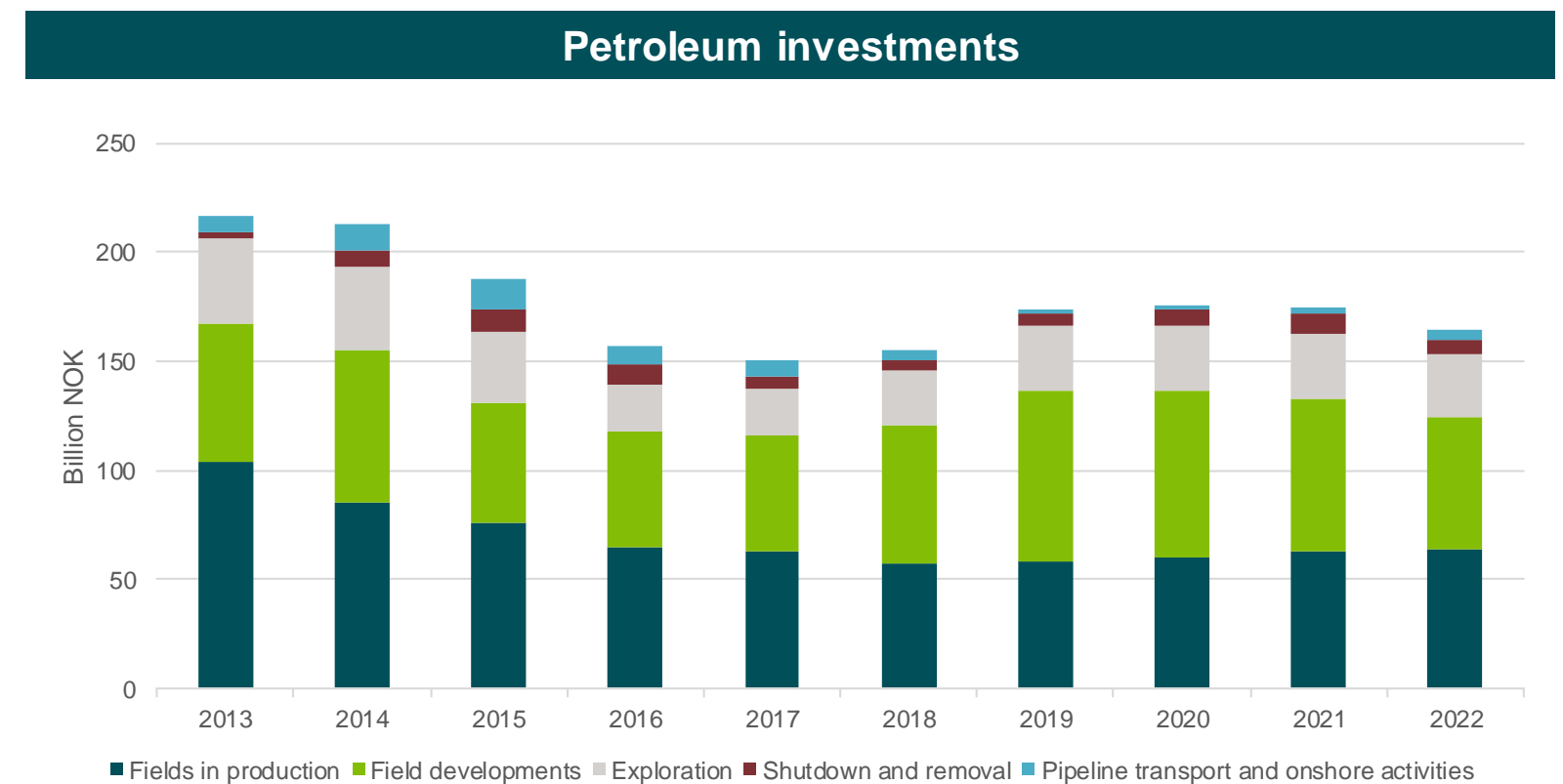
- A strong welfare system provides significant income protection: average unemployment benefit is 62.4% of salary (capped at NOK 540,408) for a minimum of 104 weeks

# The Norwegian economy – much more than petroleum



Source: Statistics Norway, Konjunkturtendensene 4/2018

- Petroleum investments has been a drag on growth 2015-17, but is expected to be a positive contributor to GDP growth from 2018.
- Contributions from housing investments was negative in 2018, expected to be positive going forward.



Source: Statistics Norway and Norges bank, Monetary Policy Report 1/2019

- Petroleum investments are expected to pick up going forward after sharp reductions 2014-17. Increasing investments are driven by reduced costs in the industry and higher oil and gas prices since the beginning of 2016. Break even costs for new fields being developed is \$10-35 per barrel, much lower than long term expectations for the oil price

# The housing market characteristics in Norway

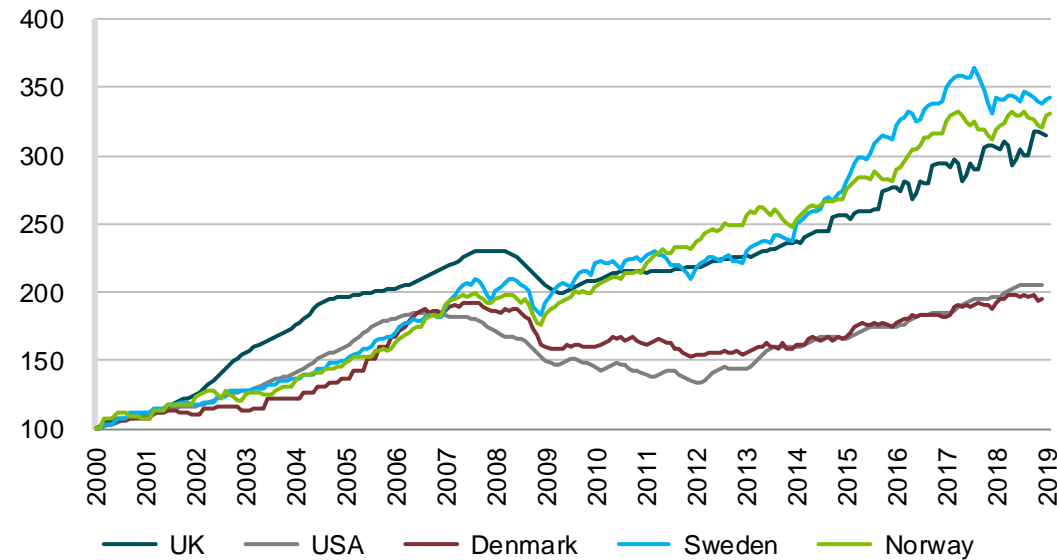
<b>Home ownership</b>	<ul style="list-style-type: none"> <li>• Among the highest in the world - around <b>77%</b> are owner-occupied households</li> <li>• Total size of the mortgage market NOK <b>2,662 bn</b> (EUR 270bn)</li> </ul>	<b>Personal liability</b>	<ul style="list-style-type: none"> <li>• Borrowers <b>personally liable</b> for their debt – also following foreclosures and forced sales</li> <li>• Prompt and <b>efficient foreclosure</b> process upon non-payment</li> <li>• Strong incentives to <b>service debt</b> reflected in low arrears</li> <li>• Transparent <b>and reliable information</b> about borrowers available to the lenders</li> </ul>
<b>MoF lending regulation*</b>	<ul style="list-style-type: none"> <li>• Mortgages maximum LTV <b>85%</b> (60% for secondary homes in Oslo)</li> <li>• Mortgages with an LTV &gt; <b>60%</b> are required to be amortizing</li> <li>• Debt service ability is stress tested for a <b>5%</b> - point increase in interest rates</li> <li>• Total debt over gross income less than <b>5</b></li> </ul>	<b>Mortgage lending</b>	<ul style="list-style-type: none"> <li>• <b>97.5 %</b> of residential mortgage loans granted by banks/mortgage companies (Q4 2017)</li> <li>• Typical legal maturity 25-30 years, on average <b>22-23 years</b></li> <li>• <b>93.1%</b> of residential mortgages have variable interest rate (Q4 2017)</li> <li>• Lenders allowed to <b>adjust interest</b> rates with a six week notice</li> <li>• <b>No “sub-prime”</b> market in Norway</li> <li>• Very limited <b>buy-to-let market</b></li> </ul>
<b>Tax incentives</b>	<ul style="list-style-type: none"> <li>• All interest expenses are tax deductible in Norway at capital gains tax rate (<b>22%</b>)</li> <li>• Preferential treatment of properties when calculating the wealth tax (<b>0.85%</b>)</li> <li>• Capital gain on a dwelling tax-free after <b>one year</b> of occupancy by the owner</li> </ul>		

\* The Ministry of Finance updated the mortgage regulation with effect from 1<sup>st</sup> July 2018. Was mainly unchanged from existing regulation expiring June 30<sup>th</sup> 2018

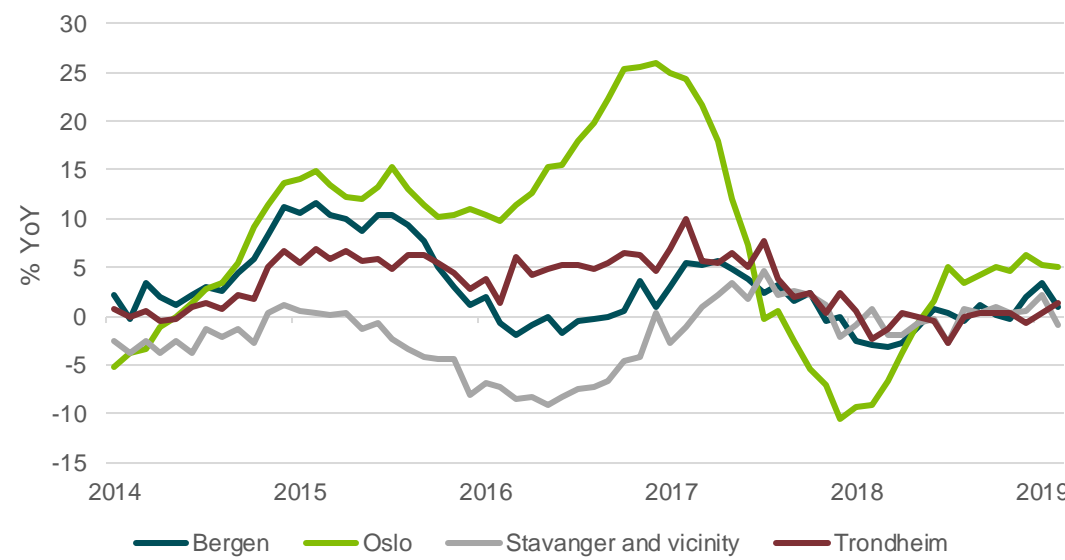


# The housing market – Price development

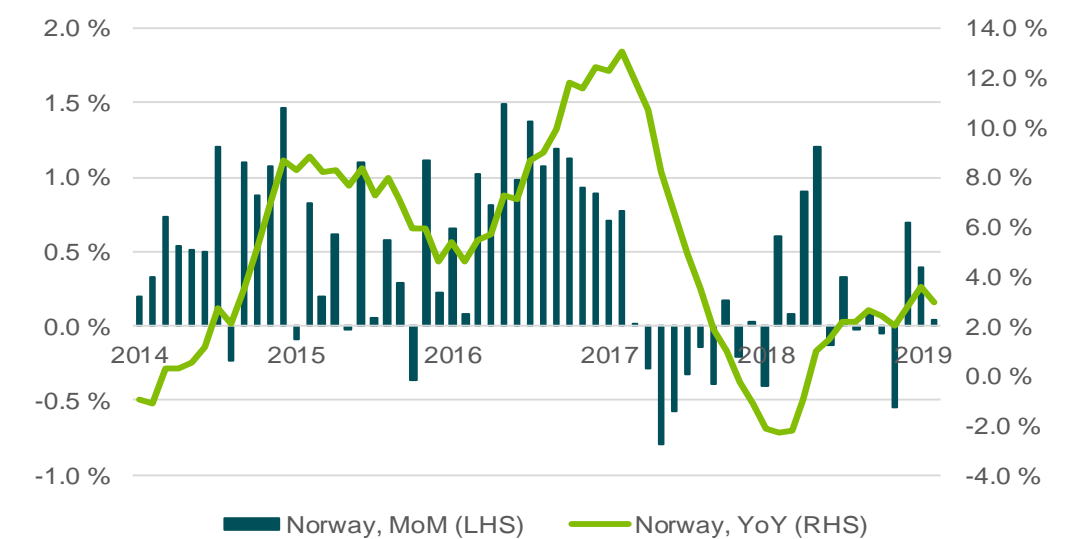
Nominal house price development



House prices – larger cities (twelve-month



House prices- Monthly and twelve-month change

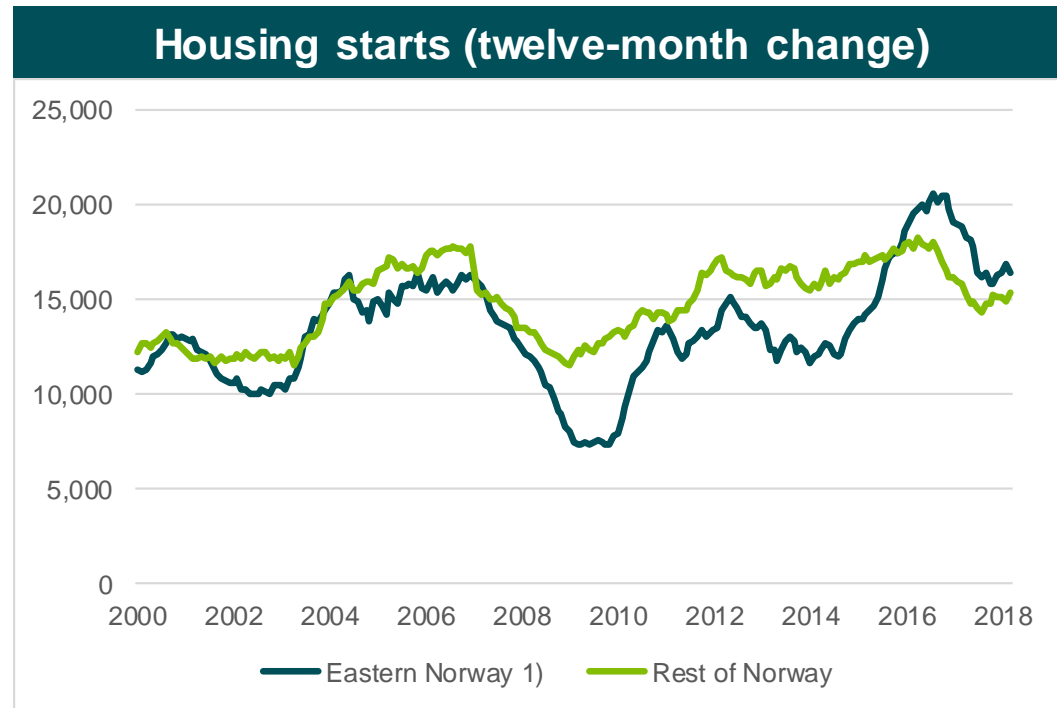


- Nominal house prices have increased by an average of 6.5% per annum since 2000.
- The Norwegian housing market have stabilized in 2018 after volatile price development in 2016 and 2017.

- House prices are expected to show moderate increases going forward driven from expected increase in mortgage rates, increased supply and slower population growth
- The soft landing in housing prices in 2017, lower housings starts and improved growth in the economy have reduced the risk for a sudden and significant downward correction in house prices going forward

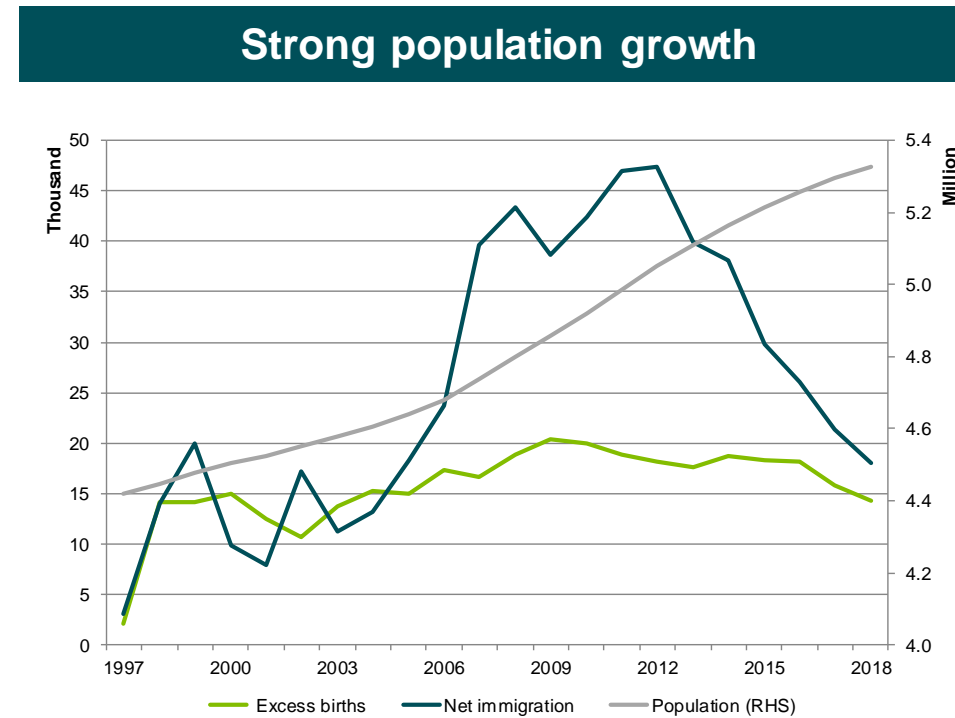
- Median house price in Norway is € 323,000, median house price in Oslo is € 407,000
- m<sup>2</sup> price in Norway is € 4,273 , m<sup>2</sup> price in Oslo is € 7,137

# The housing market – Drivers of the housing market



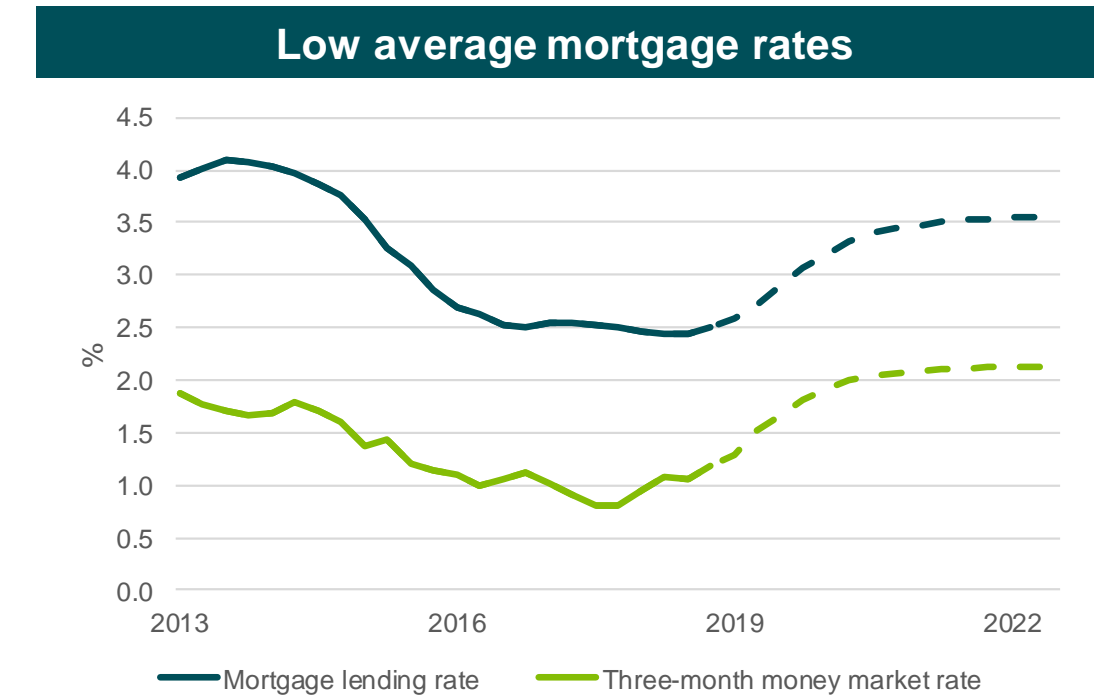
Source: Statistics Norway, February 2019  
1) Akershus, Buskerud, Hedmark, Oppland, Oslo, Telemark, Vestfold and Østfold

- New home construction is down from “all time high”. Housing investments are expected to show a marginal increase in 2019-22 after a significant reduction in the last 4 quarters



Source: Statistics Norway, Q4 2018

- Net immigration down from above 47,000 in 2011/12 to 18,000 in 2018
- The population growth of 0.9% p.a. since 1997 has been driven both by excess birth rate (38%) and net immigration (62%)

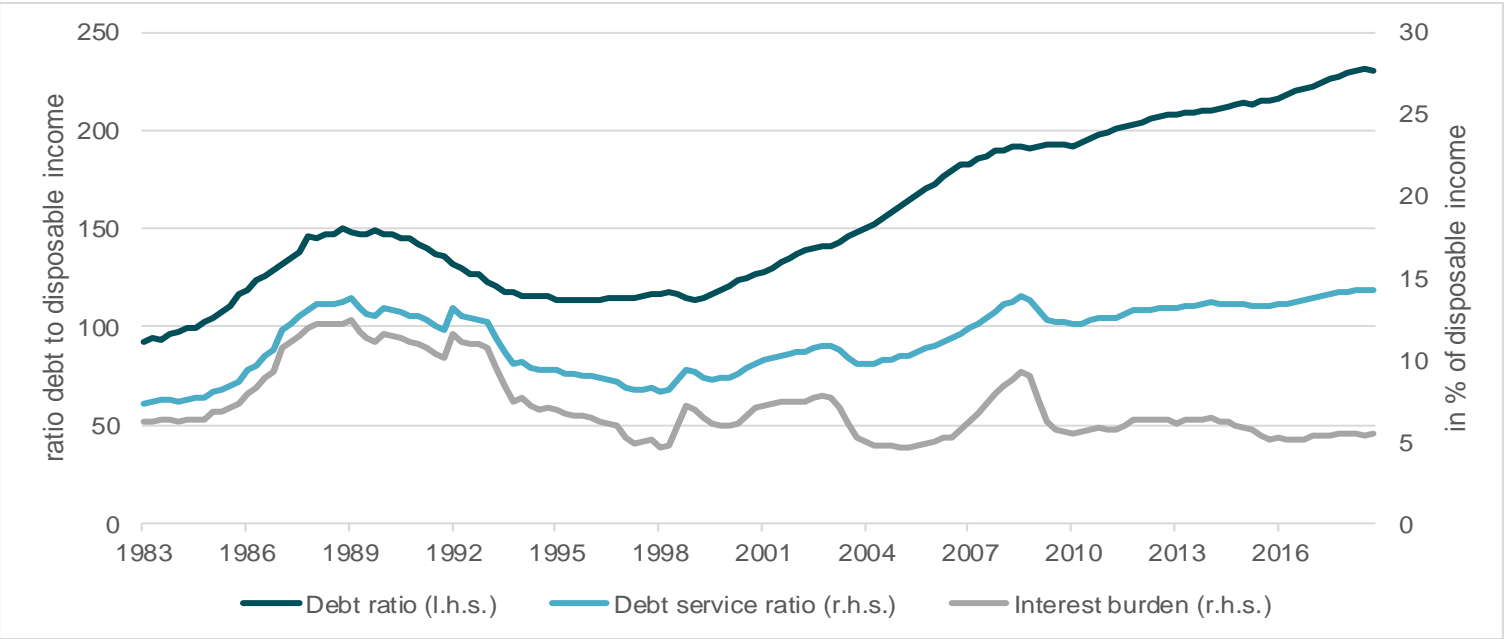


Source: Statistics Norway, Thomson Reuters, Norges Bank, projections broken lines, Monetary Policy Report 4/2018

- Low average mortgage rates for households. Mortgage rates are expected to increase from 2.5% to 3.5% over the next 3 years in line with expected increases in money markets and key policy rates

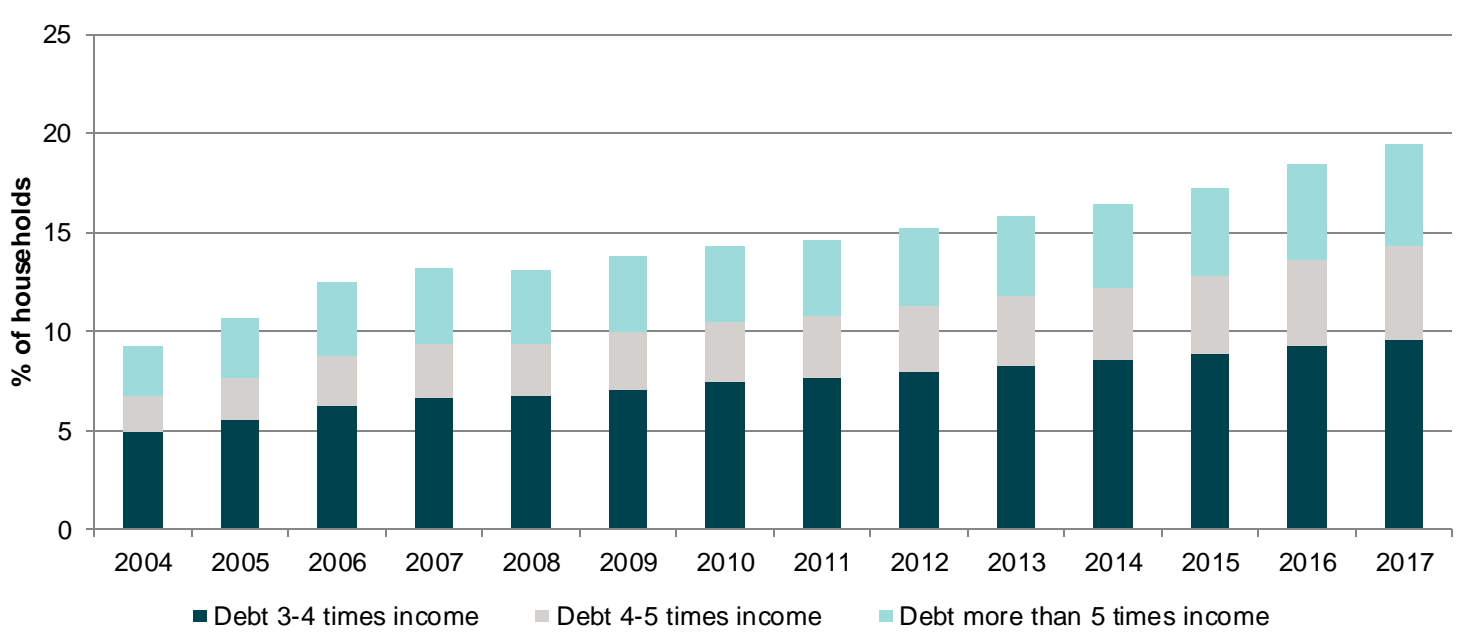
# Households financial position

Household debt service ratio, interest burden and debt-to-income ratio



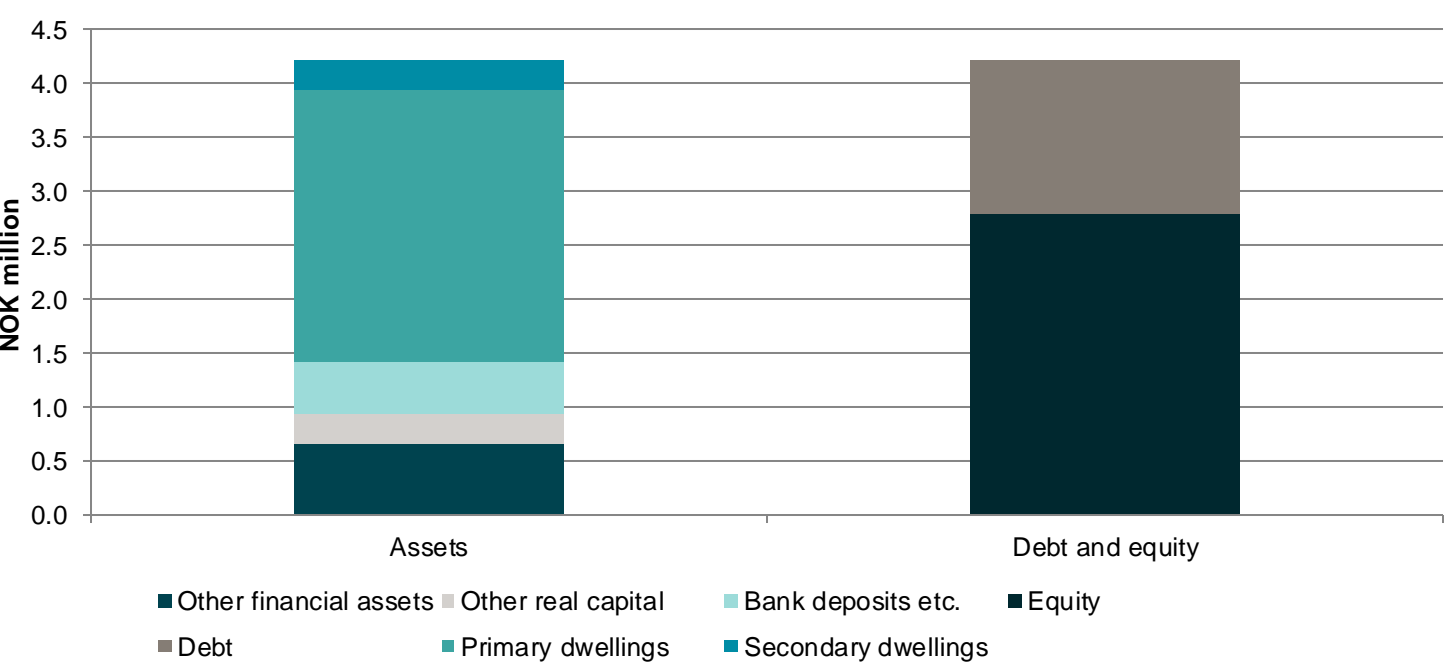
Source: Statistics Norway and Norges Bank, Q4 2018

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



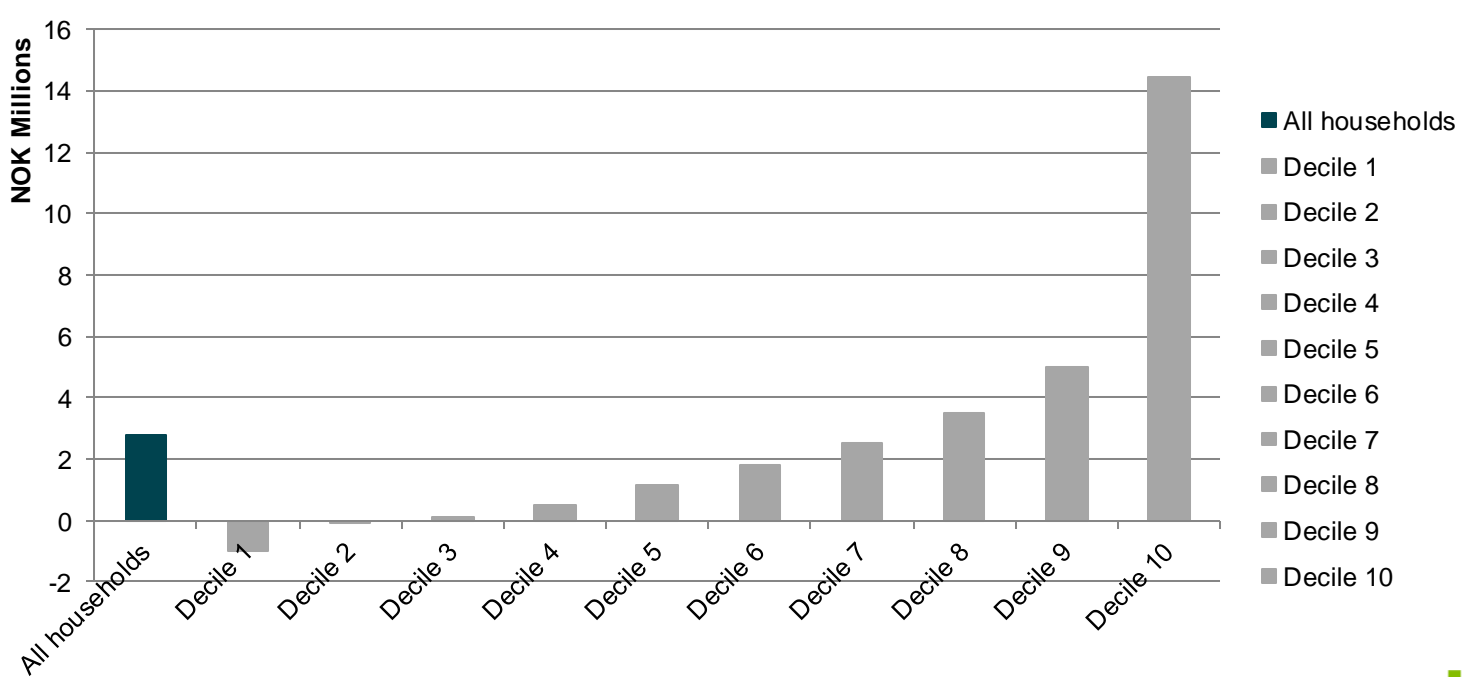
Source: Statistics Norway, Updated 2017

Household balance sheet



Source: Statistics Norway Updated 2017

Norwegian households net wealth (in NOK)



Source: Statistics Norway, Updated 2017

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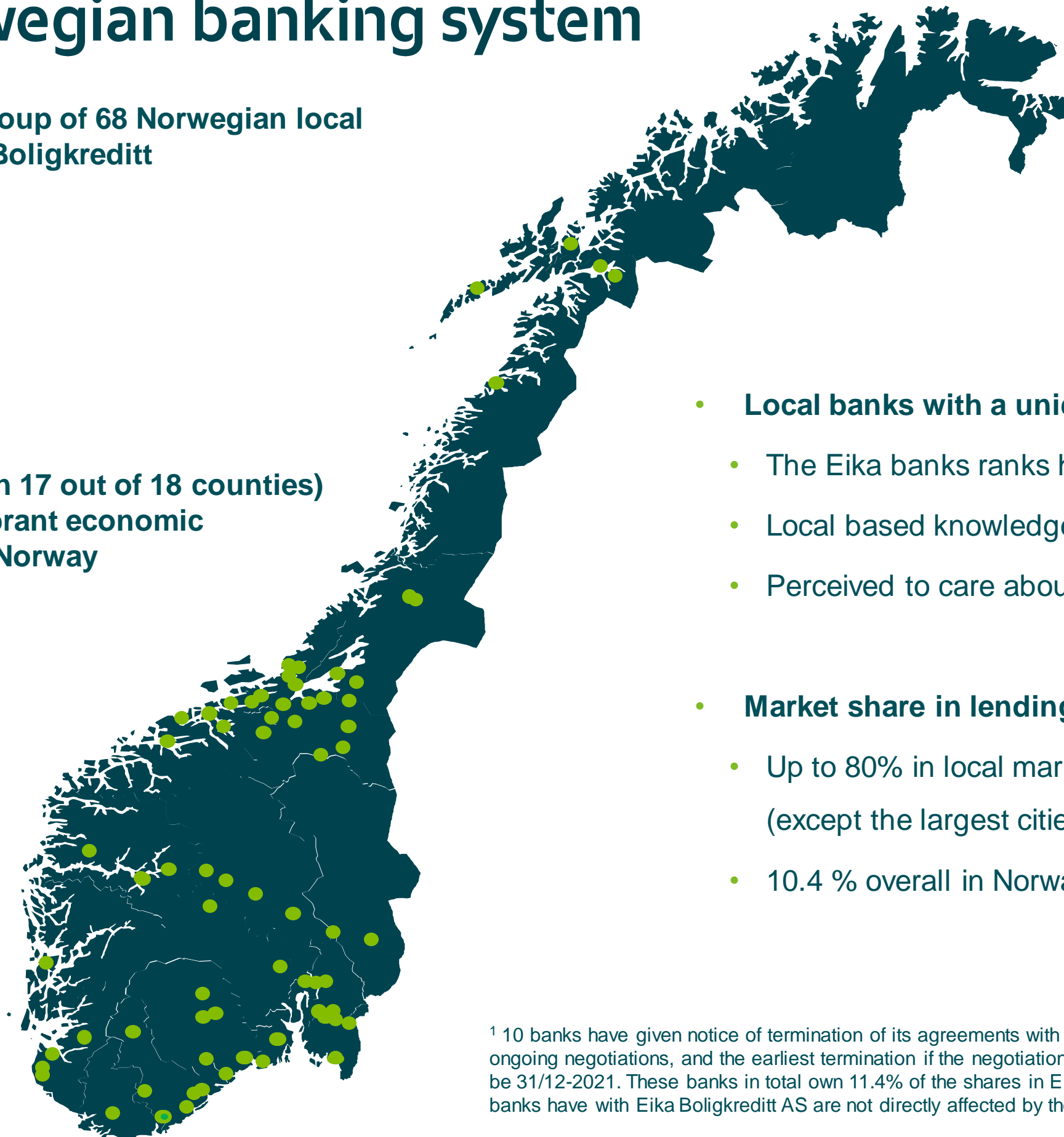


# 3<sup>rd</sup> largest Norwegian banking system

- The Eika Alliance consist of a group of 68 Norwegian local banks<sup>1</sup>, Eika Gruppen and Eika Boligkreditt

- Total assets EUR 46 bn
- 900,000 customers
- 2,208 employees
- 214 branch offices

- The banks have a wide geographical reach (presence in 17 out of 18 counties) with a strong position in the vibrant economic centres in Central and Eastern Norway



- **Local banks with a unique market position**

- The Eika banks ranks high on client experience
- Local based knowledge and credit committee decisions
- Perceived to care about their clients

- **Market share in lending to retail customers**

- Up to 80% in local markets (except the largest cities)
- 10.4 % overall in Norway

<sup>1</sup> 10 banks have given notice of termination of its agreements with Eika-Gruppen. There are still ongoing negotiations, and the earliest termination if the negotiations does not conclude successfully will be 31/12-2021. These banks in total own 11.4% of the shares in Eika Gruppen. The agreements these banks have with Eika Boligkreditt AS are not directly affected by the notices of termination.

# The Eika Alliance



## Eika Boligkreditt AS

Covered Bond Funding

## Eika Gruppen AS

Provides products and services to bank clients

Provide services to banks

Infrastructure / IT

Strategy and Lobbying

Bank2 and Sandnes sparebank are only shareholders in Eika Gruppen AS  
OBOS is the largest Nordic Cooperative Housing Association, established in 1929 and is owned by 454,000 members, mostly located in the Oslo-area. More information about OBOS can be found on [www.obos.no](http://www.obos.no)

# Achieving economies of scale, while being local

## I. Eika banks

- The saving banks are independent banks with very strong local focus, and operate solely in the local markets where they have been active for almost 200 years

## II. Eika Gruppen

- The smaller Norwegian Savings banks established the Eika Alliance in 1997.
- Efficiency in banking operations and IT infrastructure
- Realize the economics of scale
- Jointly owned product companies (insurance, mutual funds etc)
- Shared resources to handle regulatory changes

## III. Eika Boligkreditt

- Provider of covered bond funding

### Efficiency

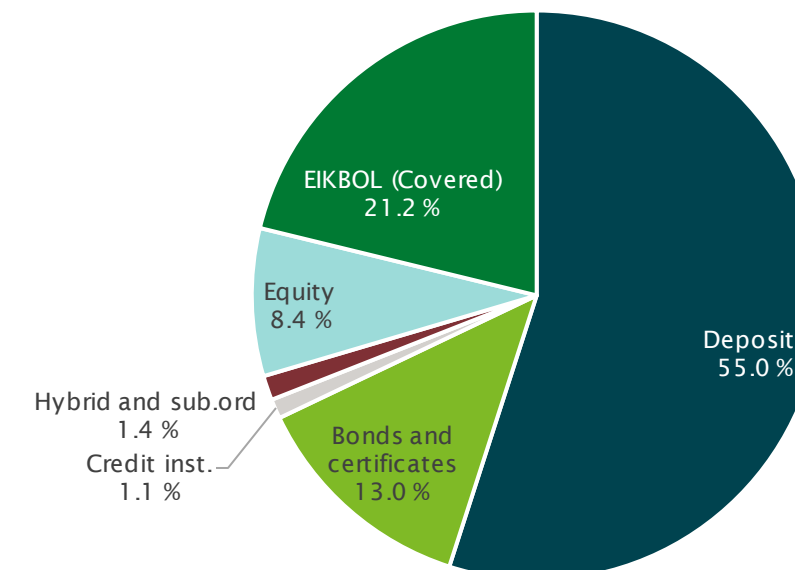
- Work as if one integrated entity
- Operational integration
- Offer non-core banking products through jointly owned product companies



Alliance programme

### Total funding sources

As of Q2 2018



Source: Bank analyst Eika

# Focus on retail customers

- Eika banks have a large and stable retail customer base
- Retail lending accounts for 81.1% of Eika banks' total lending
- Eika banks have a higher share of retail lending compared to the other Norwegian peers
- Retail lending consist predominantly of mortgage collateralized housing loans (approx. 93% of total)
- Low average LTV of 52.9% in mortgage portfolio

## Local market focus

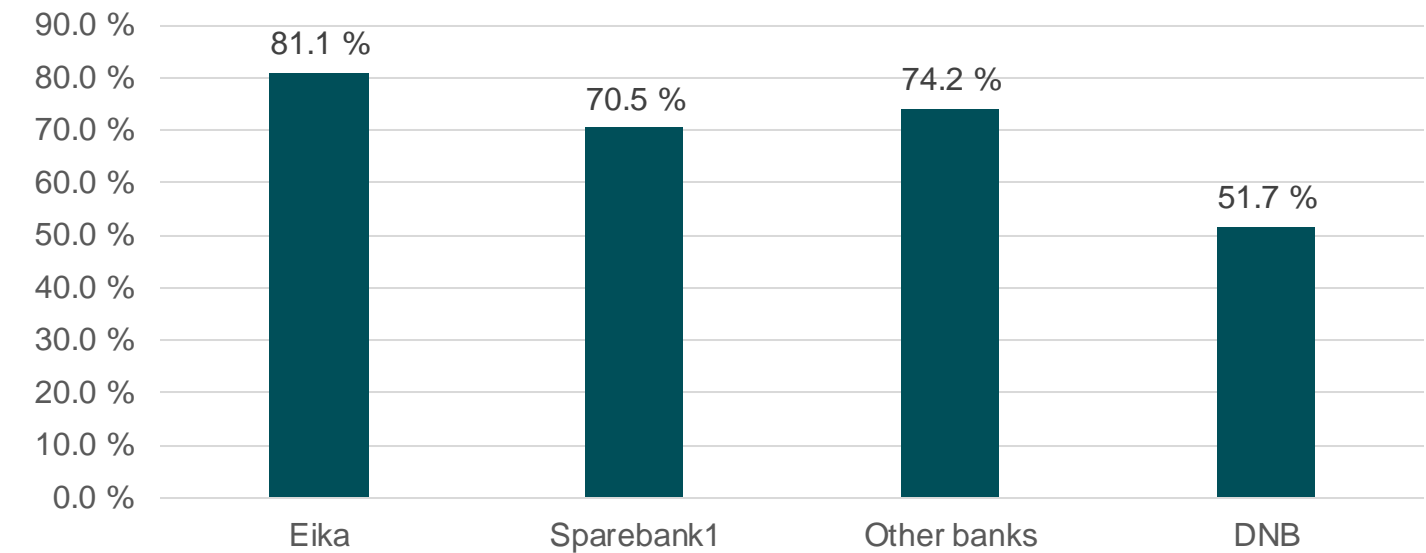
- Decisions are made close to the customer and transaction originations
- Each bank continues to develop its link with its local community
- Keeping its own name and legal identity



Separate legal identities and a common support brand

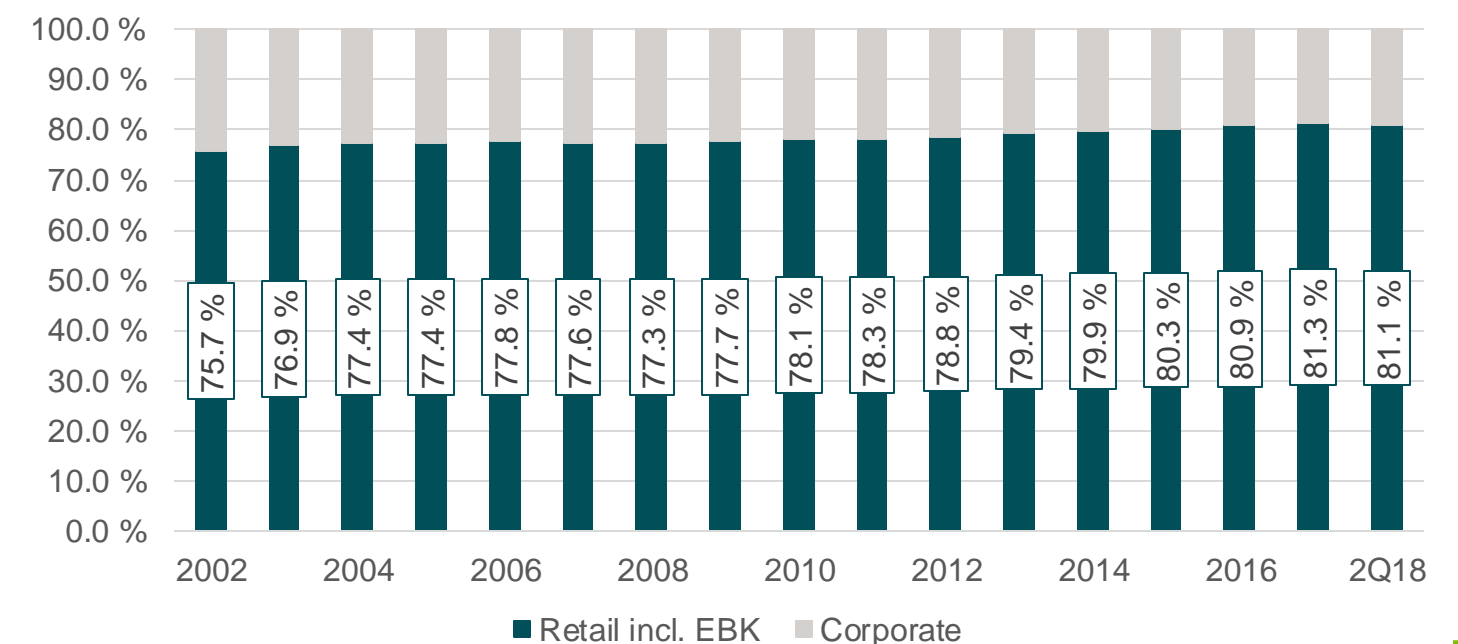
## Retail share - Eika vs. peers

As of Q2 2018



## Breakdown of the Eika banks lending

As of Q2 2018



Source: Bank analyst Eika

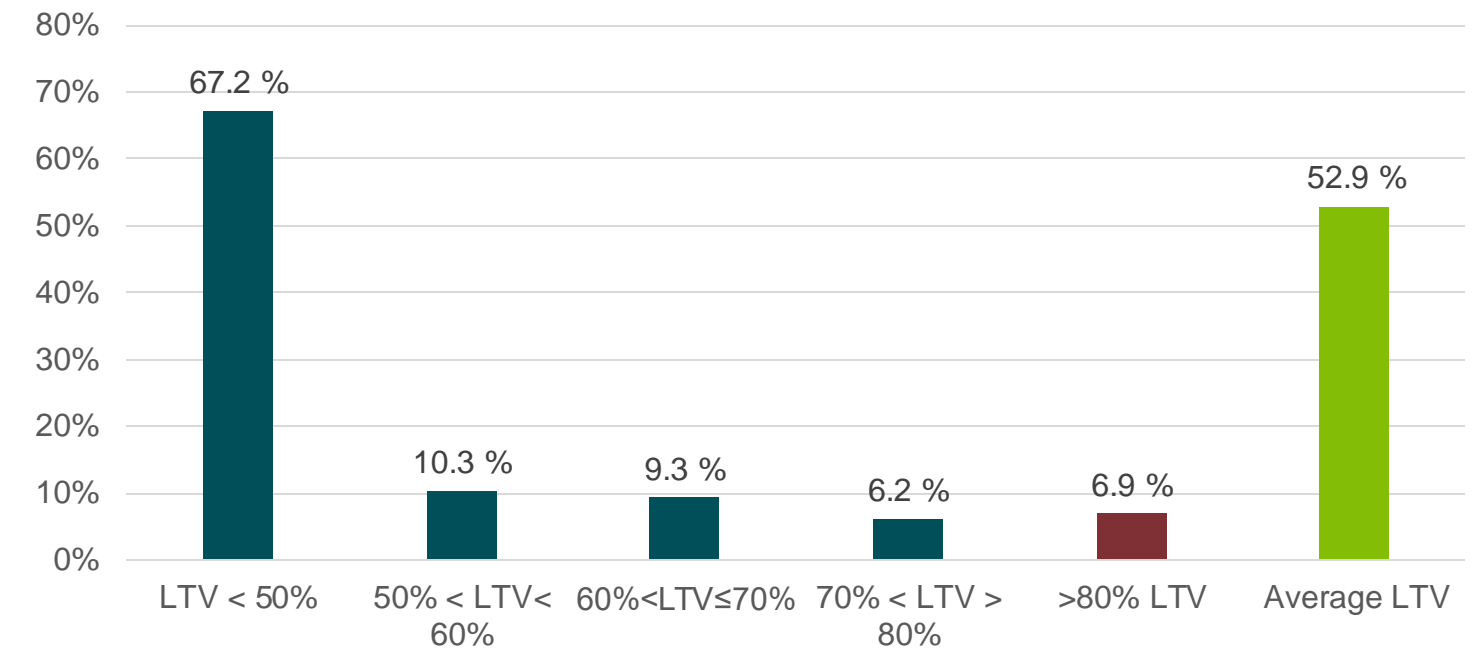


# High asset quality

- Conservative risk profile within the banks
- Eika banks have low exposure to the corporate sector with no lending to shipping, oil sector and relatively low exposure to commercial real estate
- Few non-performing and doubtful loans
  - Gross non-performing loans constitute 0.50% of gross loans 2018Q2
  - Gross doubtful loans constitute 0.53% of gross loans 2018Q2
  - Provisioning ratio on problem loans of 53.3% 2018Q2
- Gross problem loans relative to equity + loan loss reserves has been declining gradually over the last 9 years and is now at 7.7% (Q2 2018)

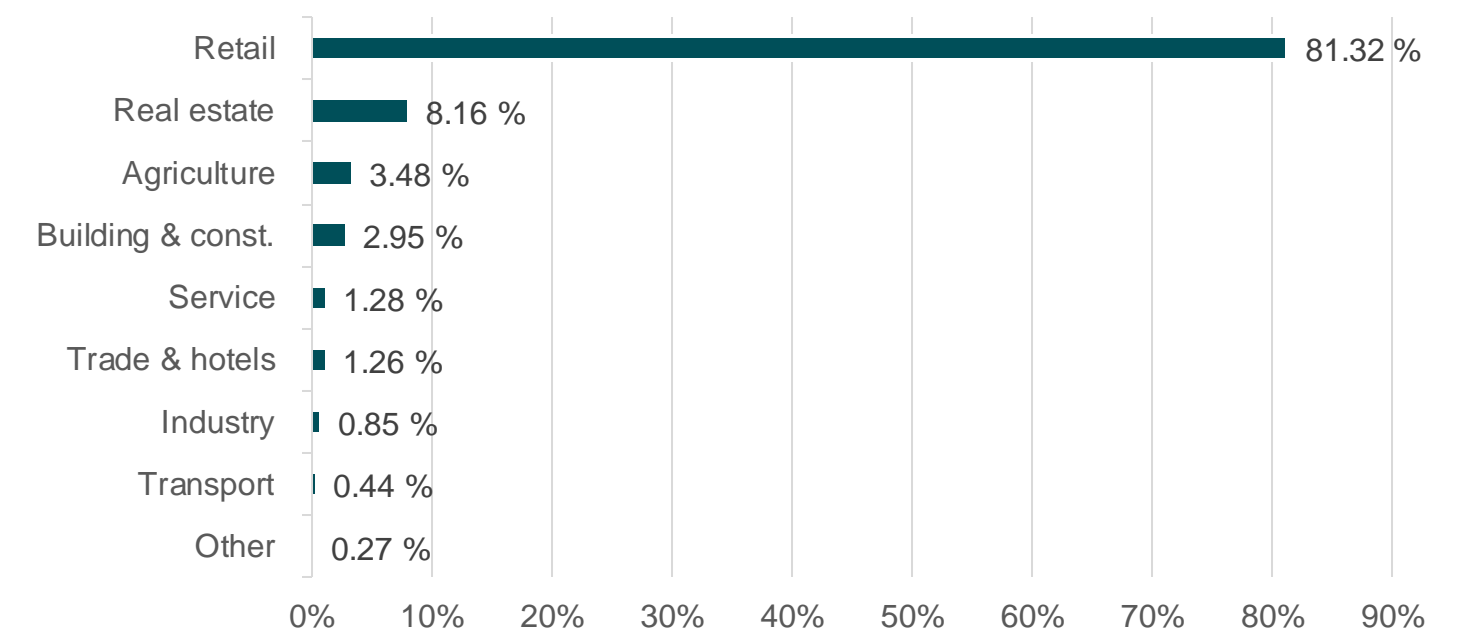
## Low LTV in mortgage portfolio (bank book)

As of YE2017



## Sector breakdown of the loan book (incl.EBK)

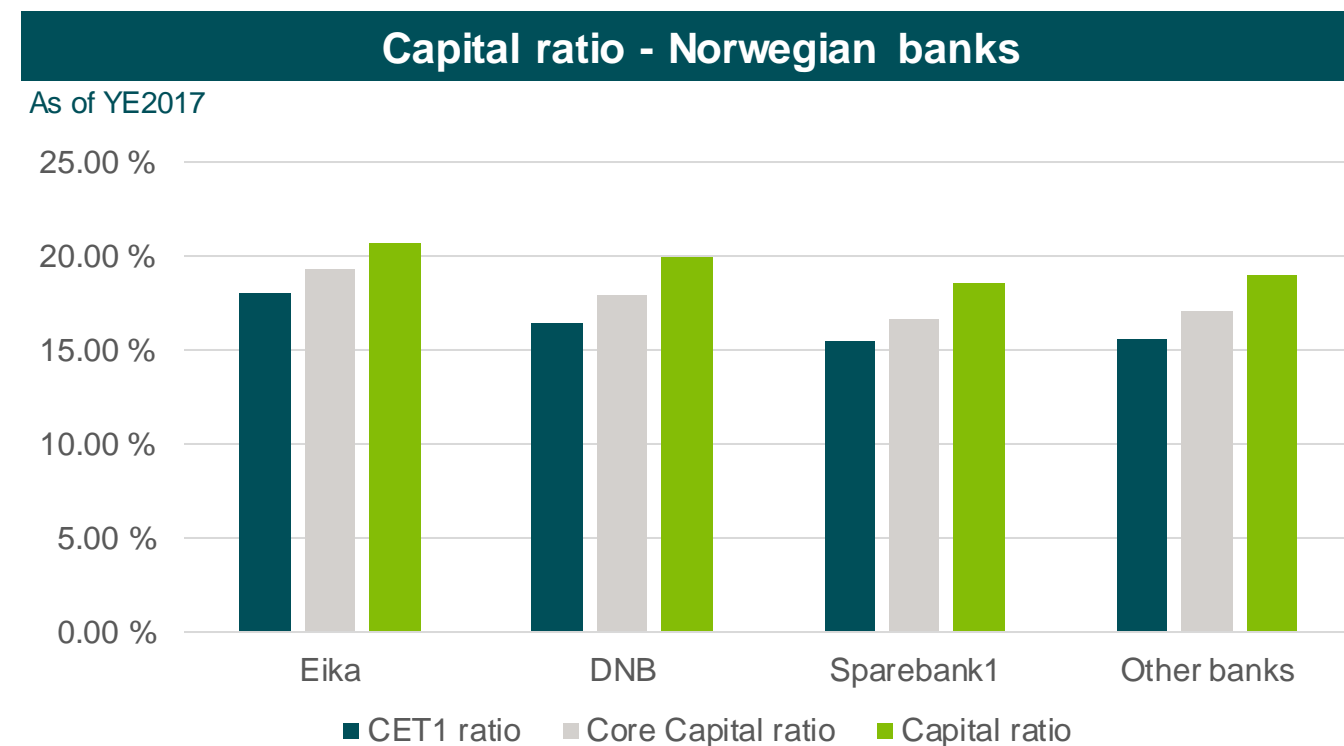
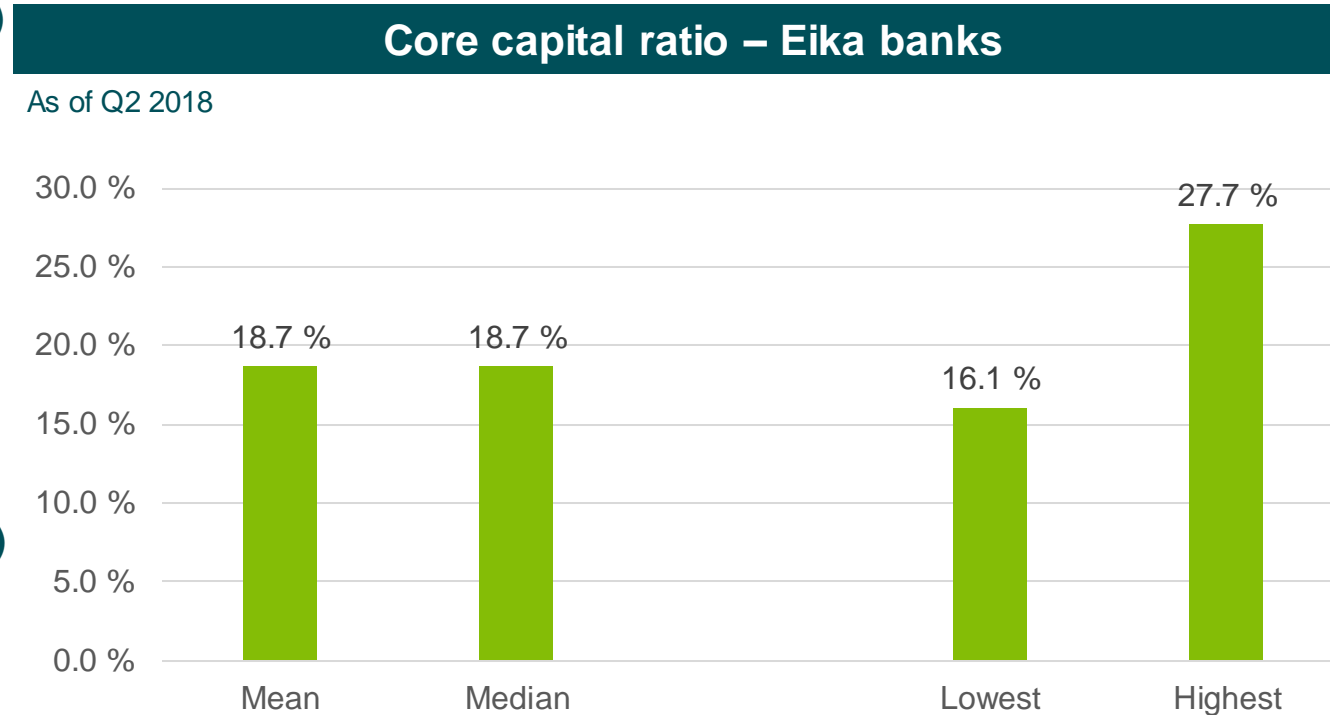
As of YE2017



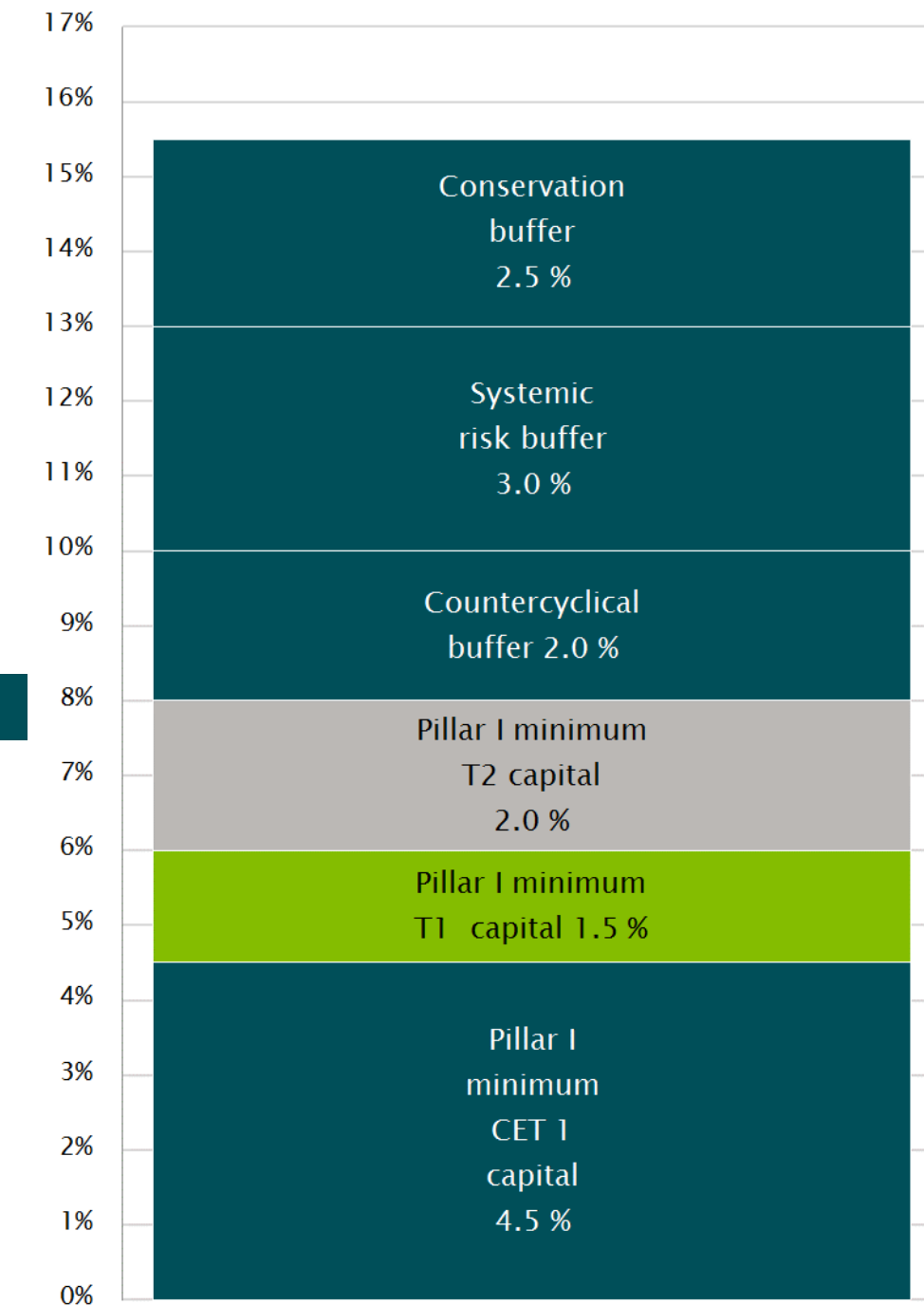
Source: Bank analyst Eika

# Strong capitalization

- **Strong capital ratios – Q2 2018 (including profit in ( ))**
  - Common equity ratio (CET1): 17.2% (17.9%)
  - Core capital ratio: 18.7% (19.4%)
  - Capital ratio: 20.4% (21.1%)
  - Equity ratio (Equity/Total assets): 10.5%
- **All Eika banks are well capitalized (core capital ratio)**
  - Lowest: 16.1%
  - Highest: 27.7%
- **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 were using the IRB method, the core and capital ratios are estimated to have been at 25.1% and 27.4% at end Q2 2018**



## Minimum capital requirements for Eika Banks\*



\* The countercyclical buffer increases to 2.5 percent from 31 December 2019  
No Eika Bank has SIFI requirements

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# Norwegian covered bonds

## I. Norway's covered bonds legislation

- Specialist banking principle, ring fencing of assets and transparency
- Standard principles in the legislation in effect since 2007
- Harmonisation (EBA proposal from 2017) can easily be implemented in Norwegian law with minor changes

## II. Regulatory

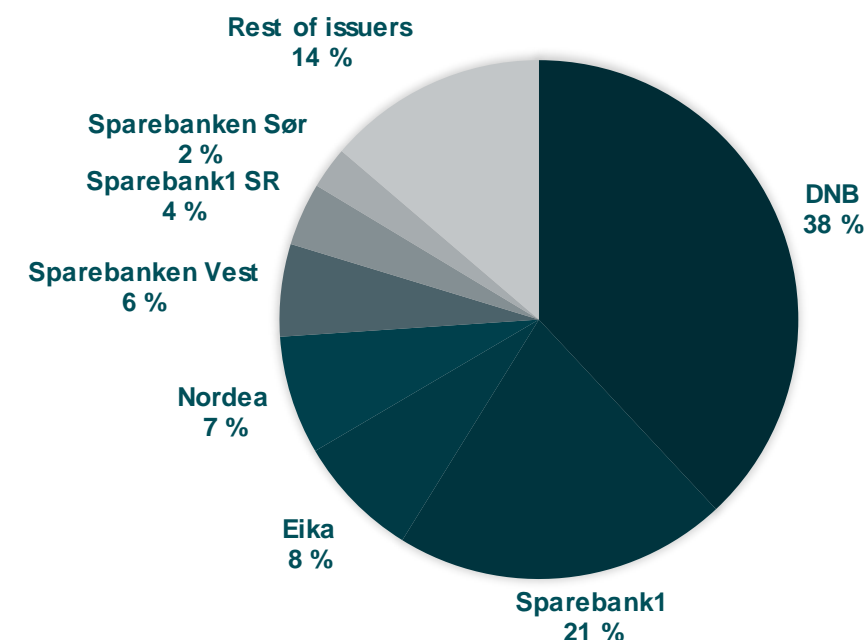
- Norwegian covered bonds are category 1 for LCR purposes (above EUR 500 mill.)
- 10% preferential risk weighting

## III. Eika Boligkreditt covered bonds

- Eika Boligkreditt (**EIKBOL**) is a labelled covered bond issuer ([www.coveredbondlabel.com](http://www.coveredbondlabel.com))
- EIKBOL covered bonds are rated **Aaa** by Moody's
- Committed minimum OC of 5%
- 12 month soft-bullet on all CBs

## Norwegian covered bond market- biggest issuers

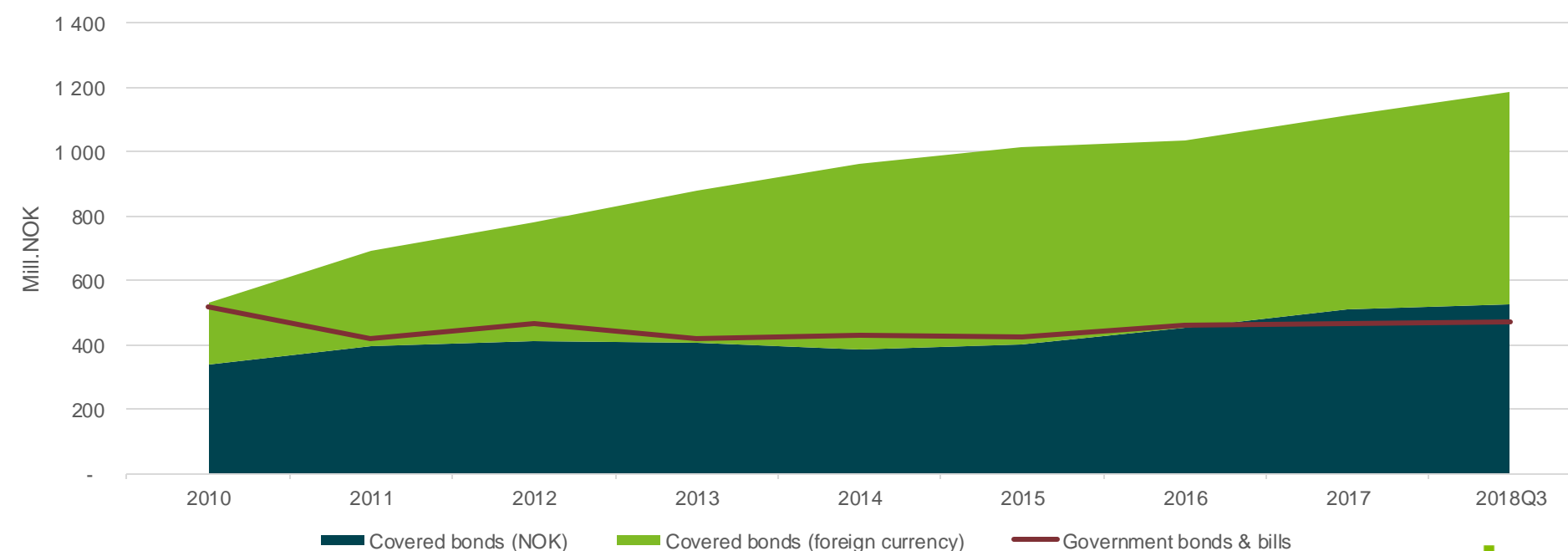
As of 2018Q3



Source: Finance Norway

## Norwegian covered bonds and government bonds outstanding

As of 2018Q3



Source: Finance Norway, Oslo Stock Exchange



# Eligibility criteria for mortgages in the cover pool

## I. Customer categories

- Norwegian residents (Retail)
- Cooperative housing associations (common debt between multiple individuals)

## II. Credit Criteria

- Eika Boligkreditt sets the credit policy for acceptable mortgages for the cover pool (credit manual)
- No arrears

## III. Collateral

- Max LTV 60% at time of origination (vs. max 75% in the Norwegian legislation)
- Recent valuations (within 6 months at time of origination)
- Quarterly valuation from independent 3rd party, documented

## IV. Type of properties

- Stand alone residential mortgages
- Cooperative housing residential mortgages

## V. Type of products

- Principal repayment loans (currently no flexi loans)
- Fixed and variable interest rate loans

## VI. Origination process

- Loan-by-loan origination

# Structure of liquidity and capital support from owners

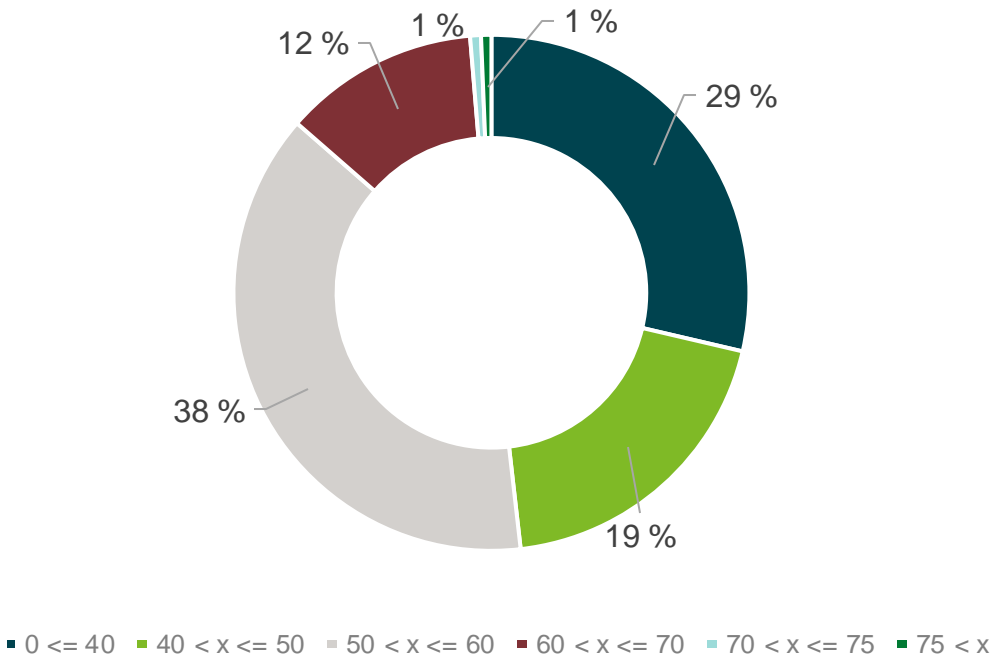
- **The Note Purchase Agreement (NPA)** is structured to ensure that EIKBOL has liquidity, at all times, sufficient to pay the Final Redemption Amount of any series of Notes in a rolling twelve month period
- **The Shareholders' Agreement** is structured to ensure that EIKBOL will uphold a sufficient capital adequacy ratio at all times. The Owner Banks are obliged to pay their pro-rata share of any capital increase adopted by EIKBOL's general meeting and of any capital instruments to be issued
- **The Distribution Agreement** is structured to provide servicing of the mortgages and includes credit guarantees for mortgages transferred to EIKBOL.



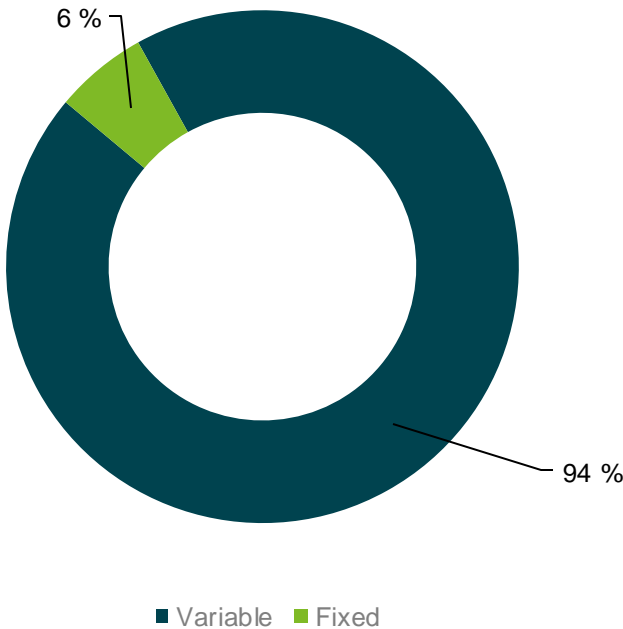
# Summary of the mortgages in the cover pool

Nominal value	EUR 8.2 bn
Number of loans	53,174
Arithmetic average loan (nominal)	EUR 154,107
WALTV (indexed)	46.2%
WA seasoning (months)	32
Loans in arrears (over 90 days)	0.0
Over-collateralization *	10.6 %

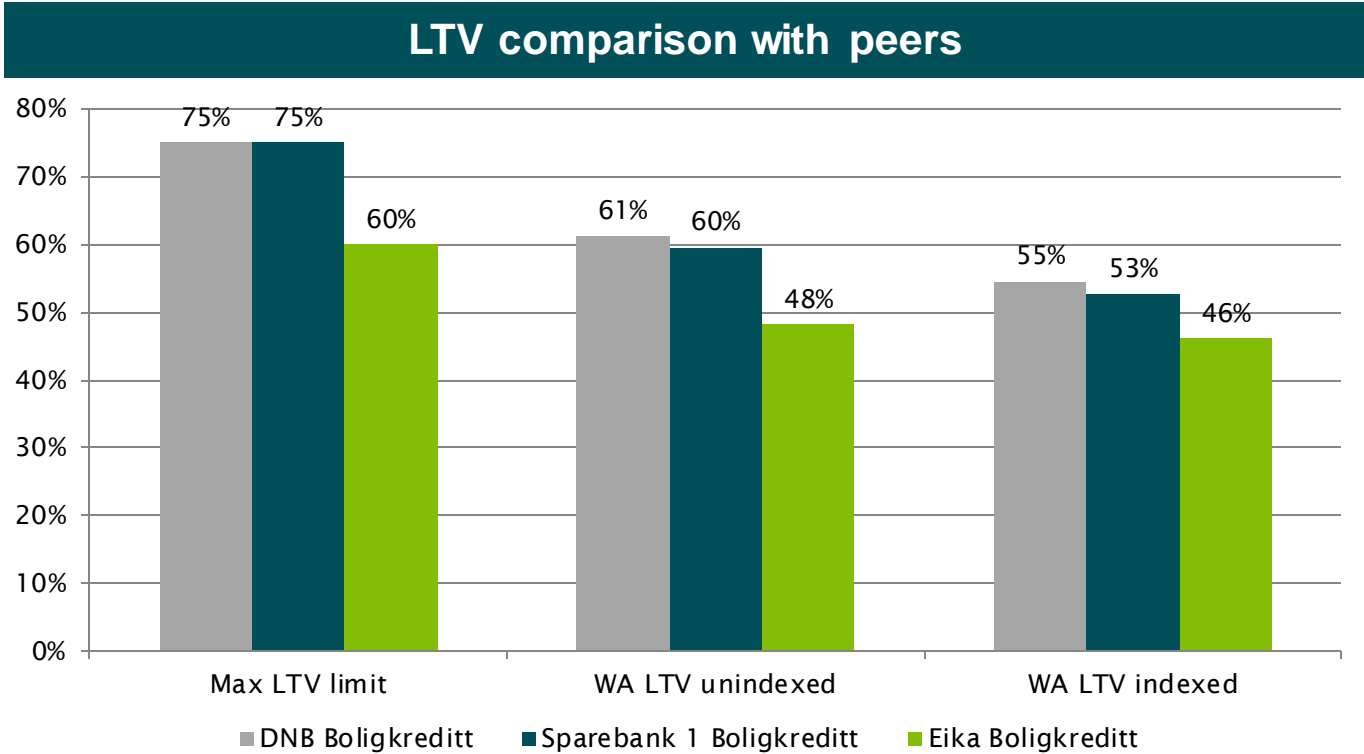
Indexed LTV distribution



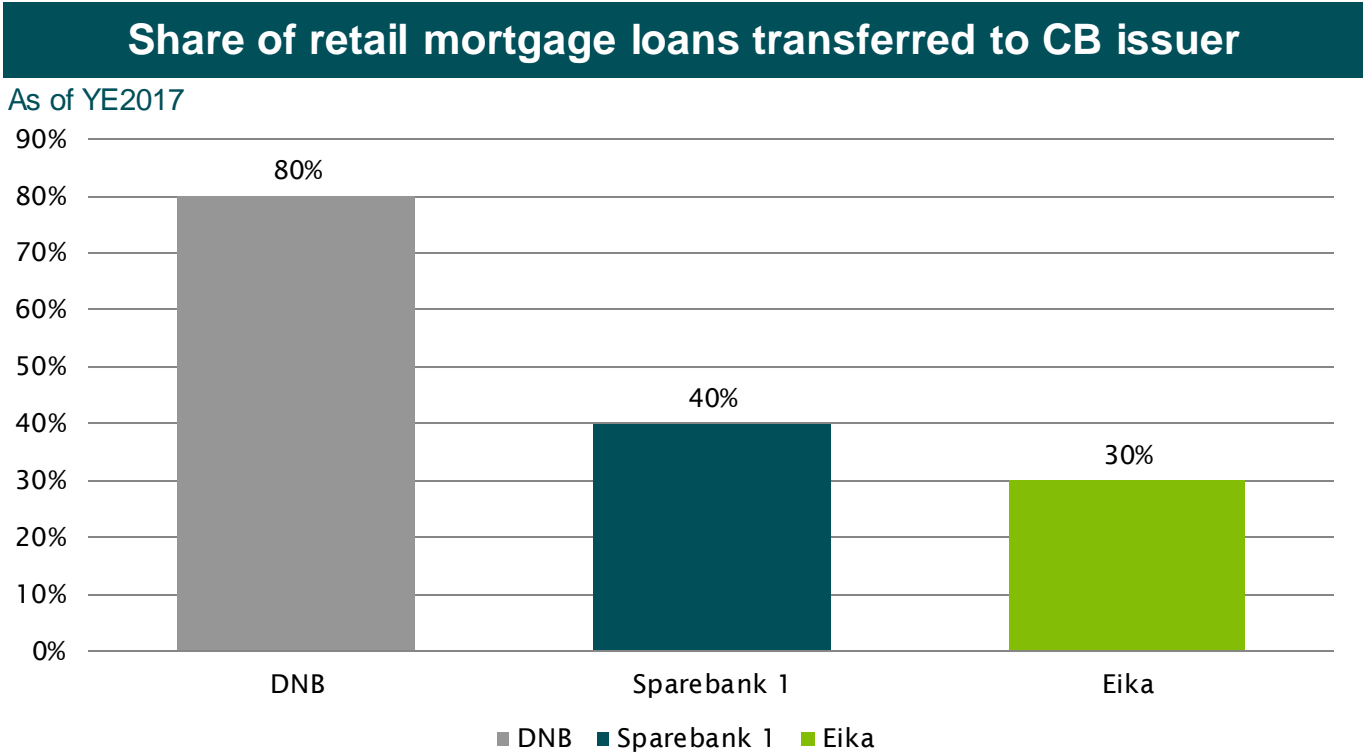
Variable vs fixed rate



# Cover pool comparison and stress test



Source: Cover pool information as of Q4 2018 for Eika Boligkreditt, DNB Boligkreditt and Sparebank 1 Boligkreditt



Source: Bank Analyst Eika

Stress test: Decline in house prices				
Stress test house price reduction (numbers in € million)	Unchanged	Decline of 10%	Decline of 20%	Decline of 30%
Mortgage Portfolio	8,194	8,194	8,194	8,194
Part of mortgages exceeding 75% LTV	0	13.9	57.6	391.4
Share of mortgage portfolio >75% LTV	0.00 %	0.2 %	0.7 %	4.8 %
Estimated Over collateralization*	10.6 %	10.4 %	9.9 %	6.1 %

Data as of 31.12.2018. EURNOK 9.9483  
\* OC is estimated based on nominal values

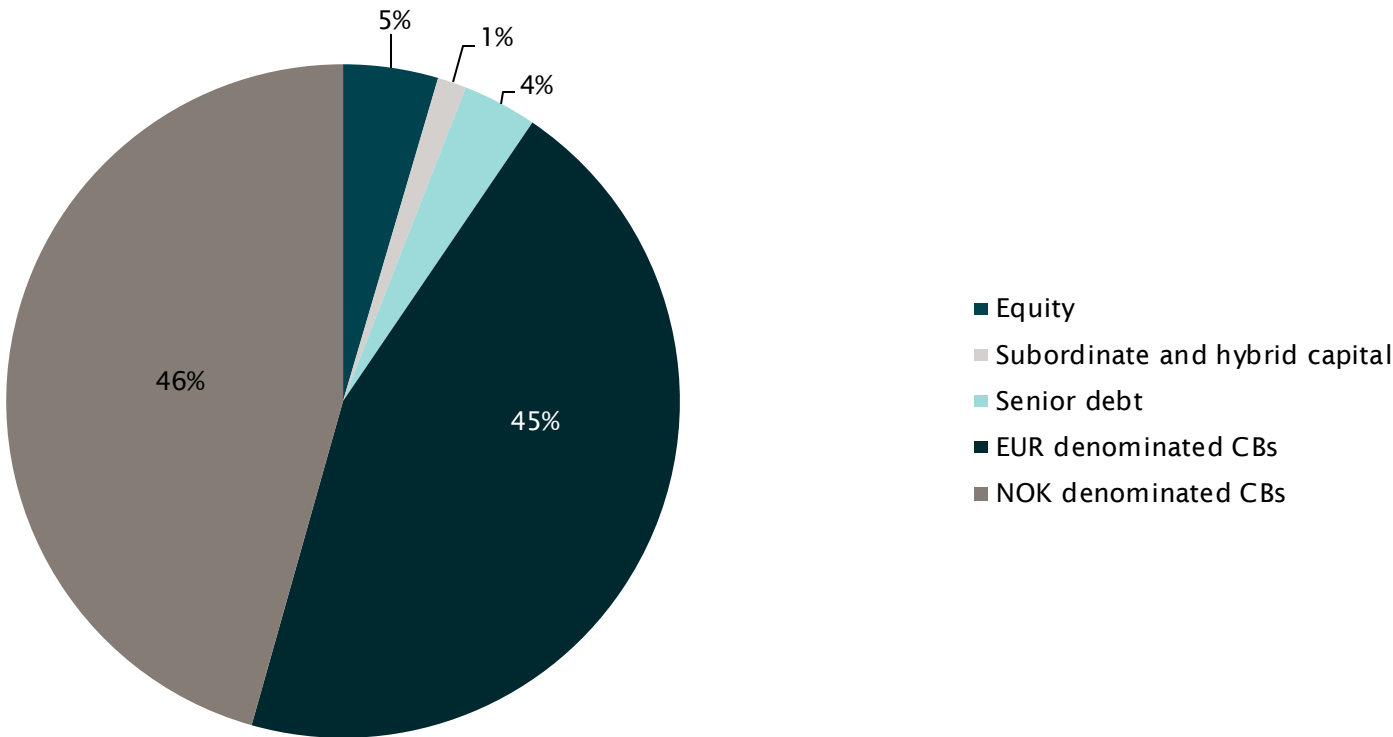


# Current funding

- EIKBOL has the objective to be a frequent benchmark issuer in both EUR and NOK covered bond markets
- Redemptions within any future 12-month rolling period should not exceed 20% of the gross funding at the time of redemption
- Targeting a level of liquidity covering redemptions the next 12 months
- Balance swapped to 3M NIBOR on both sides

Funding mix EIKBOL

As of 2019-01-31

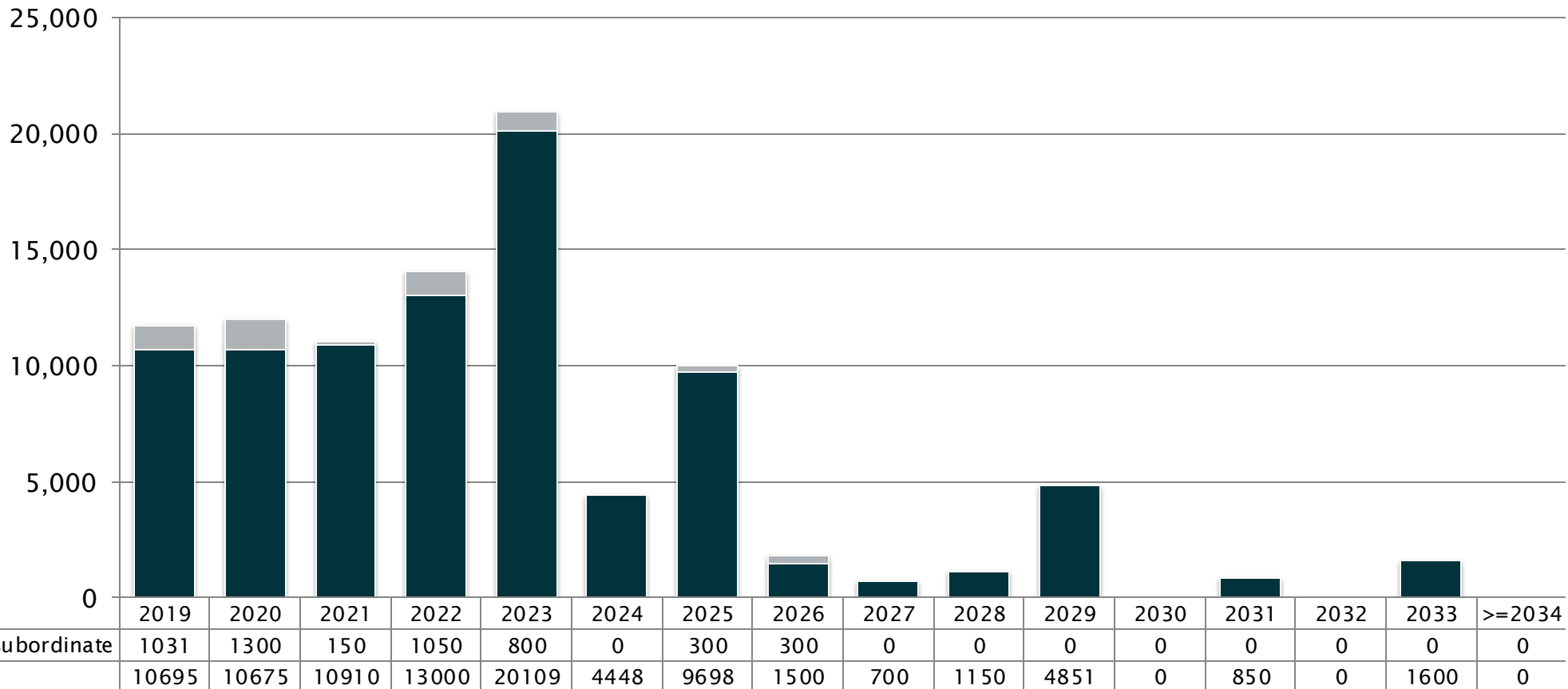


Outstanding EUR transactions

ISIN	Issue date	Volume (EUR mio)	Maturity date
XS0794570944	2012-06-19	650	2019-06-19
XS1044766191	2014-03-12	500	2021-03-12
XS1312011684	2015-10-28	500	2021-10-28
XS0881369770	2013-01-30	1000	2023-01-30
XS1397054245	2016-04-20	500	2023-04-20
XS1566992415	2017-02-16	500	2024-02-16
XS1725524471	2017-11-28	500	2025-02-26
XS1869468808	2018-08-28	500	2025-08-28
XS1945130620	2019-02-01	500	2029-02-01

Maturity profile of funding (in million NOK)

As of 2019-01-31

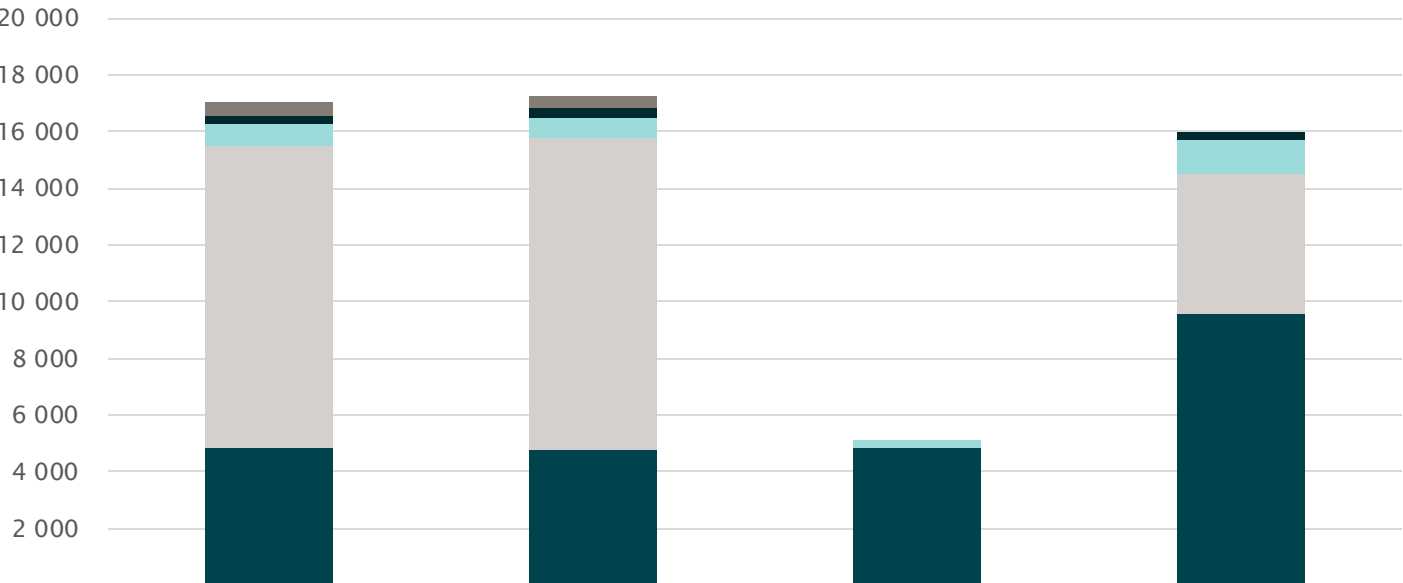


# Planned funding

- Budget for gross funding in 2019 is NOK-equivalent of 16.0 billion (EUR 1.7bn)
  - NOK-equivalent of 14.5 billion in covered bonds
  - NOK 1,200 million in senior unsecured bonds
  - NOK 250 million in Tier 2 bonds
- EIKBOL has the flexibility to pre-fund expected need in coming periods or shifting between covered bond funding in EUR vs NOK on a discretionary basis.
- Stable growth of mortgage book

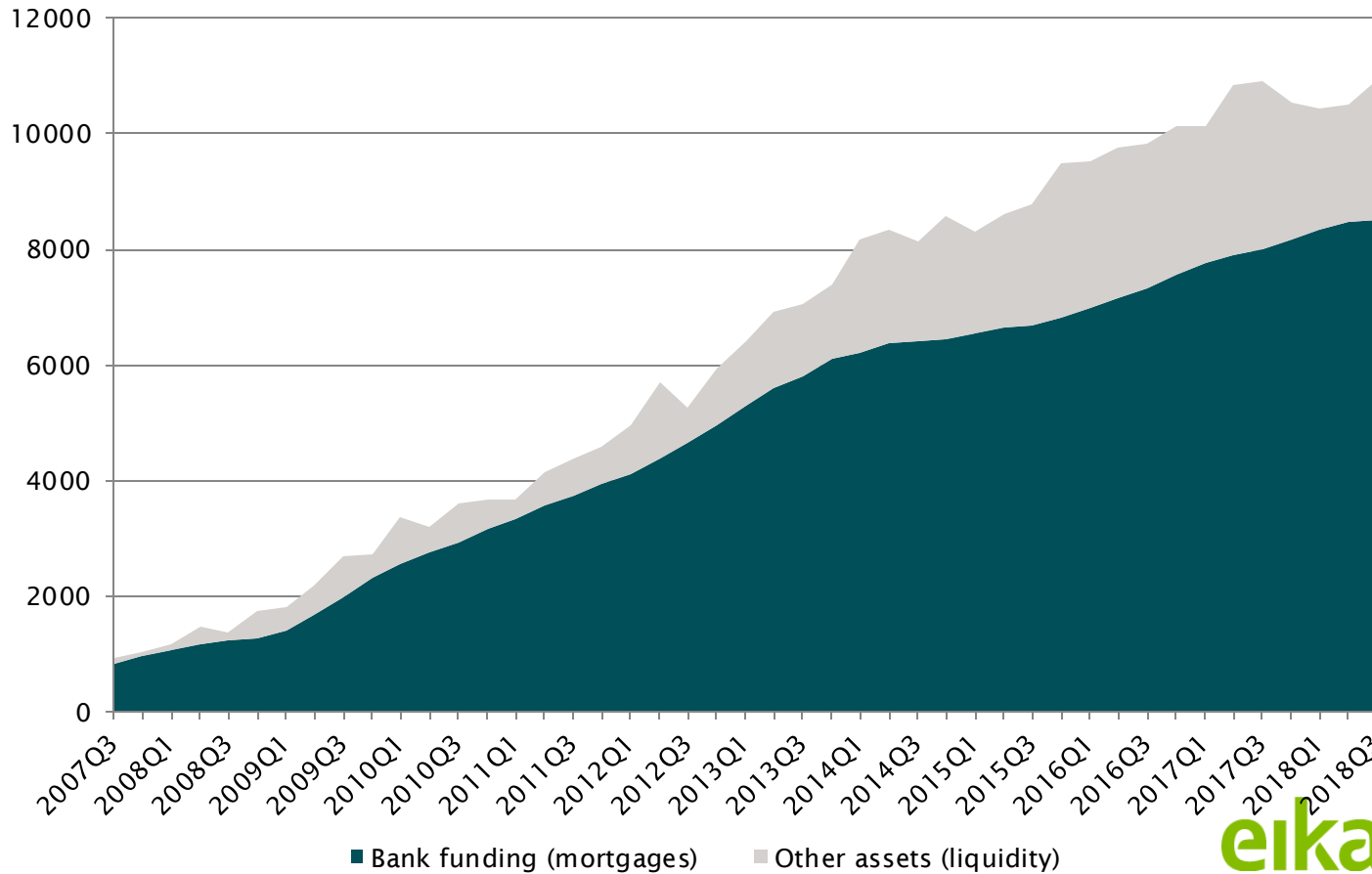
Actual and planned funding by instrument (in million NOK)

As of 2019-01-31



■ AT1	475	450	-	-
■ T2	325	325	-	250
■ Senior unsecured	750	700	300	1 200
■ Covered Bonds (denominated in NOK)	10 650	11 000	-	5 000
■ Covered Bonds (denomianted in EUR)	4 848	4 800	4 851	9 545

EIKBOL development in mortgages and AUM (in million €)





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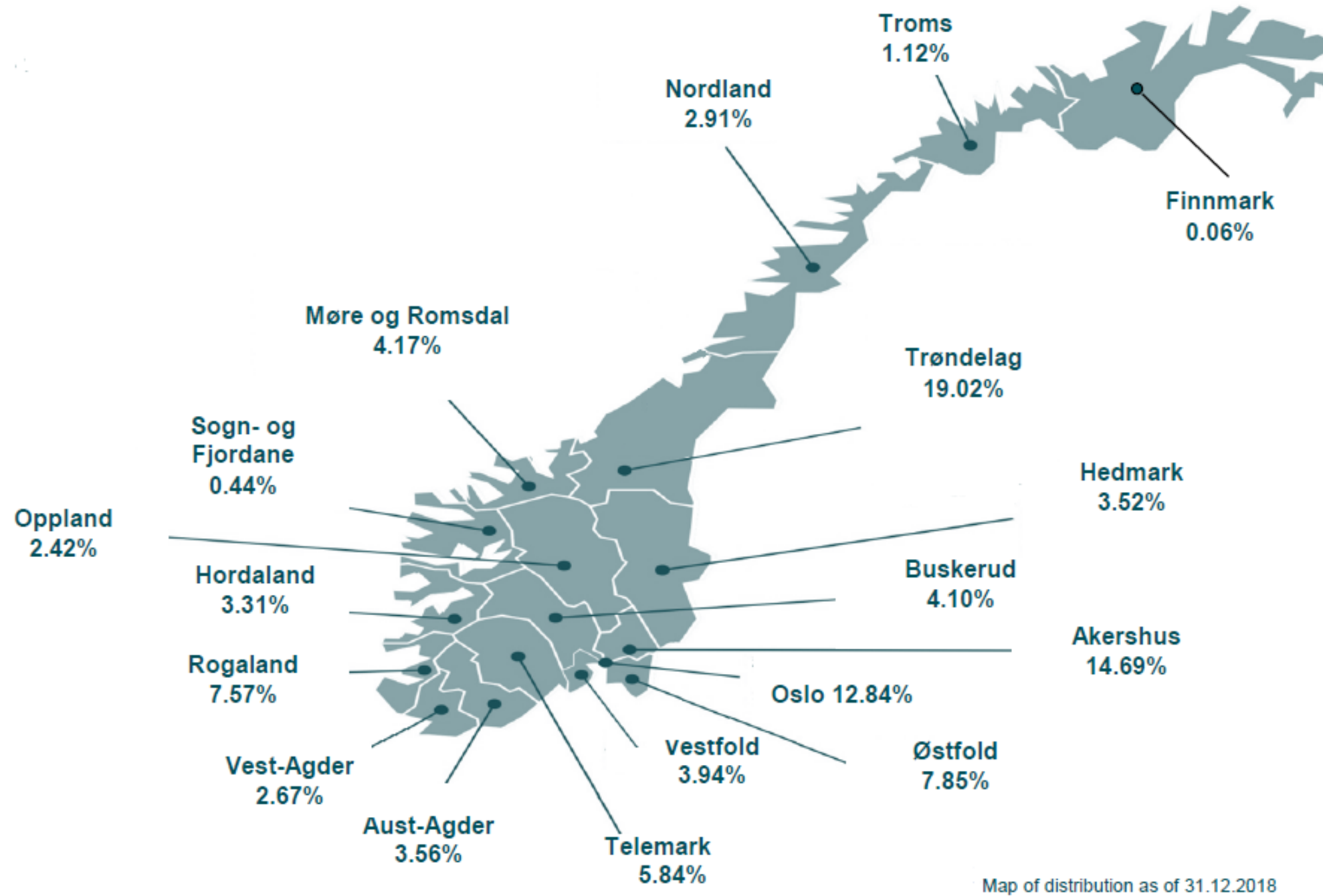
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<https://eikabk.no>

# Agenda

- The Norwegian economy
- Eika Alliance
- Eika Boligkreditt
- Appendix
- Disclaimer

# Eika Boligkreditt - Strong geographical diversification



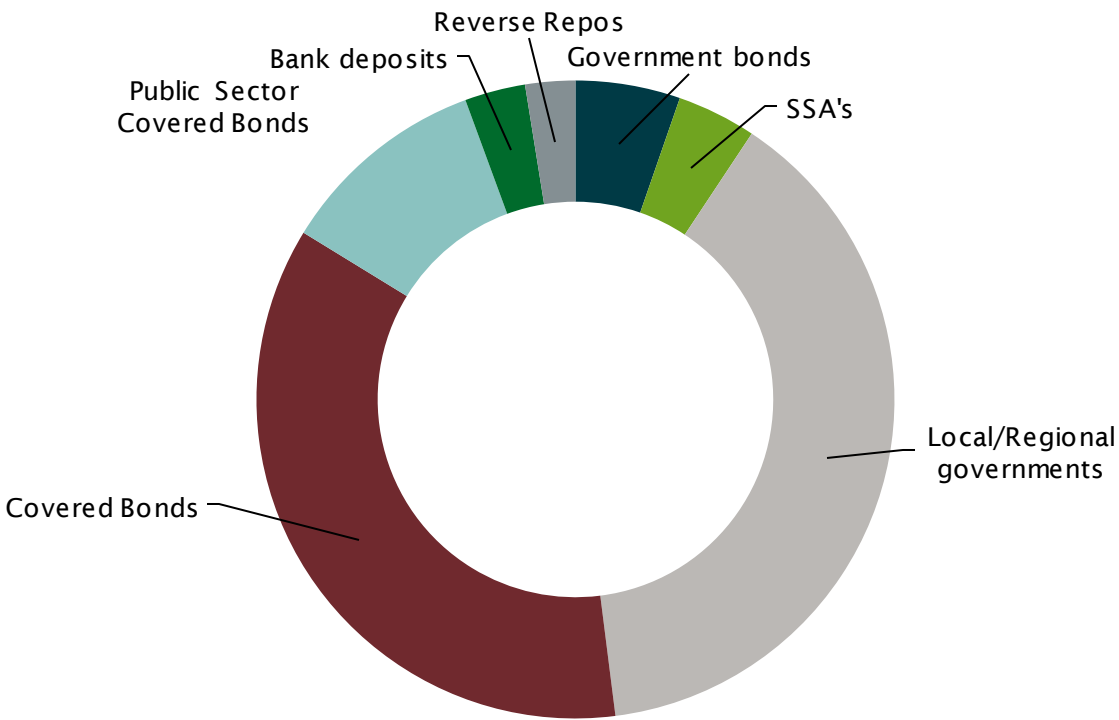
# Liquidity portfolio

- The substitute assets constitute EIKBOL’s liquidity buffer
  - Minimum liquidity > 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

Sectors and tenors			
Sector	Market values (EUR)	In % of portfolio	TtM
Government bonds	75,201,542	5 %	0.30
SSA's	56,888,347	4 %	2.23
Local/Regional governments	547,925,555	39 %	0.26
Covered Bonds	506,608,745	36 %	1.97
Public Sector Covered Bonds	150,743,527	11 %	1.67
Bank deposits	43,551,754	3 %	0.00
Repos	35,859,059	3 %	0.01
Total portfolio	1,416,778,529	100 %	1.09

- The Liquidity portfolio conforms to a conservative investment policy
  - Nordic and German exposure, only NOK denominated
  - 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 0.3 years, and individual securities less than 1 year

Liquidity portfolio by sectors





# Strong incentive structure

With regards to the mortgages in the Eika Boligkreditt cover pool there is a 2 pillar guarantee mechanism; this is to ensure that the originating banks are held responsible for potential losses on mortgages transferred to Eika Boligkreditt

## I Loss Guarantee

- 80% of any losses, including unpaid interest, on mortgages in EBK's portfolio will be covered by the owner bank
- The guarantee from an owner bank will have a floor of (i) NOK 5 million; or (ii) 100 per cent. of the relevant owner bank's loan portfolio if it is lower than NOK 5 million
- The guarantee from an owner bank is limited to 1% of the owner bank's total portfolio
- 100% of the loan is guaranteed by the bank until the collateral is registered

## II Set-off rights

- The remaining 20% of the losses will be covered by a counter-claim on all commission receivables due from EBK to each owner bank
- The set-off rights are limited to a period of up to 12 months after such losses are incurred.

# LCR Level 1 Eligibility

- All EUR denominated Covered bonds issued by Eika Boligkreditt AS fulfil the requirements to qualify as Level 1 assets pursuant to Commission Delegated Regulation (EU) 2015/61 regarding liquidity coverage requirement for credit institutions (“LCR regulation”).
- With reference to Article 10(1)(f) of the LCR-regulation, Eika Boligkreditt AS confirms the following:
  - Covered bonds issued by Eika Boligkreditt AS meet the requirements to be eligible for the treatment set out in Article 129(4) of Regulation (EU) No 575/2013 (“CRR”) and the requirements referred to in Article 52(4) of Directive 2009/65/EC, cf. the European Commission’s website: [http://ec.europa.eu/finance/investment/legal\\_texts/index\\_en.htm](http://ec.europa.eu/finance/investment/legal_texts/index_en.htm)
  - The exposures to institutions in the cover pool meet the conditions laid down in Article 129(1)(c) and in Article 129(1) last subparagraph of CRR
  - Eika Boligkreditt AS gives the information required in Article 129(7) of CRR to its investors: <http://eikabk.no/investorrelations/coverpool>
  - Covered bonds issued by Eika Boligkreditt AS are assigned a credit assessment by a nominated ECAI which is at least credit quality step 1 in accordance with Article 129(4) of CRR, and the equivalent credit quality step in the event of short term credit assessment
  - Eika Boligkreditt AS’ EMTCN Programme requires a level of overcollateralization higher than the 2% needed for LCR level 1 classification

# 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 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	Yes (allowed in regulation, but not used)	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	Denmark, Greenland and Faroe Islands without restrictions - other countries with approval of Supervisory Authority	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	Market value	Market value	Market value	Market value	Mortgage lending value
Valuation check	Regular monitoring	Regular monitoring	Regular monitoring	Regular monitoring	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			8% on a risk-weighted basis for specialised institutions	Yes (2% on a NPV basis)	2% NPV
Fulfills UCITS 22(4)/CRD	Yes Yes (2% on NPV basis)	Yes No	Yes	Yes	Yes

Source: Natixis Covered Bond Research, Nordea Markets and Eika Boligkreditt

# P&L Eika Boligkreditt - Strong income growth

Amounts in NOK Million	2013	2014	2015	2016	2017	Q118	Q218	Q318	Q418
Total Interest income	2 205	2 461	2 066	1 861	2 049	520	533	537	572
Total interest expenses	1 568	1 721	1 430	1 380	1 366	319	375	383	403
Net interest income	637	741	636	482	683	201	158	154	169
Dividend from shares classified as available for sale	5	-	6	6	6	-	7	-	-
Total gains and losses on financial instruments at fair value	(111)	51	203	(81)	(135)	15	(7)	13	1
Comission costs	449	431	443	300	410	134	120	98	106
Total salaries and administrative expenses	37	32	42	39	48	12	12	12	13
Depreciation	2	1	2	1	2	0	0	0	0
Other operating expenses	14	10	13	14	16	3	4	4	5
Losses on loans and gurantees	-	-	-	-	-	-	-	-	-
PROFIT/(LOSS) BEFORE TAXES	29	117	344	50	78	67	22	53	55
Taxes	8	30	81	11	18	15	3	5	25
PROFIT/(LOSS) FOR THE PERIOD	21	87	263	39	60	52	19	48	30
Net gains and losses on bonds and certificates	-	-	-	-	-	1	4	(5)	(8)
Fair value adjustment, shares	-	-	-	-	-	-	-	-	(15)
Net gains and losses on basis swaps	-	-	-	-	-	(12)	(35)	(3)	(56)
Taxes on other comprehensive income	-	-	-	-	-	3	8	2	20
COMPREHENSIVE INCOME FOR THE PERIOD	-	-	-	-	-	43	(4)	42	(29)

<sup>1</sup> Pursuant to IFRS 9, net gains and loss on basis swaps and net gain and loss on bonds and certificates are recognised as other comprehensive income from 1 January 2018.

## Eika Boligkreditt AS - Report Q4 2018:

Eika Boligkreditt showed a profit of NOK 55 million for the forth quarter, compared with a profit of NOK 57 million in the same period of 2017. Net gains and losses on basis swaps came to negative NOK 56 million for the forth quarter of 2018 (2017: NOK loss of 33 million) , net gains and losses on bonds and certificates came to negative NOK 8 million and taxes on other comprehensive income came to NOK 20 million, so that the comprehensive income for the period including such changes came to a loss of NOK 29 million.

The full report is available on: [eikabk.no](http://eikabk.no)

# Eika Boligkreditt - Balance sheet and key figures

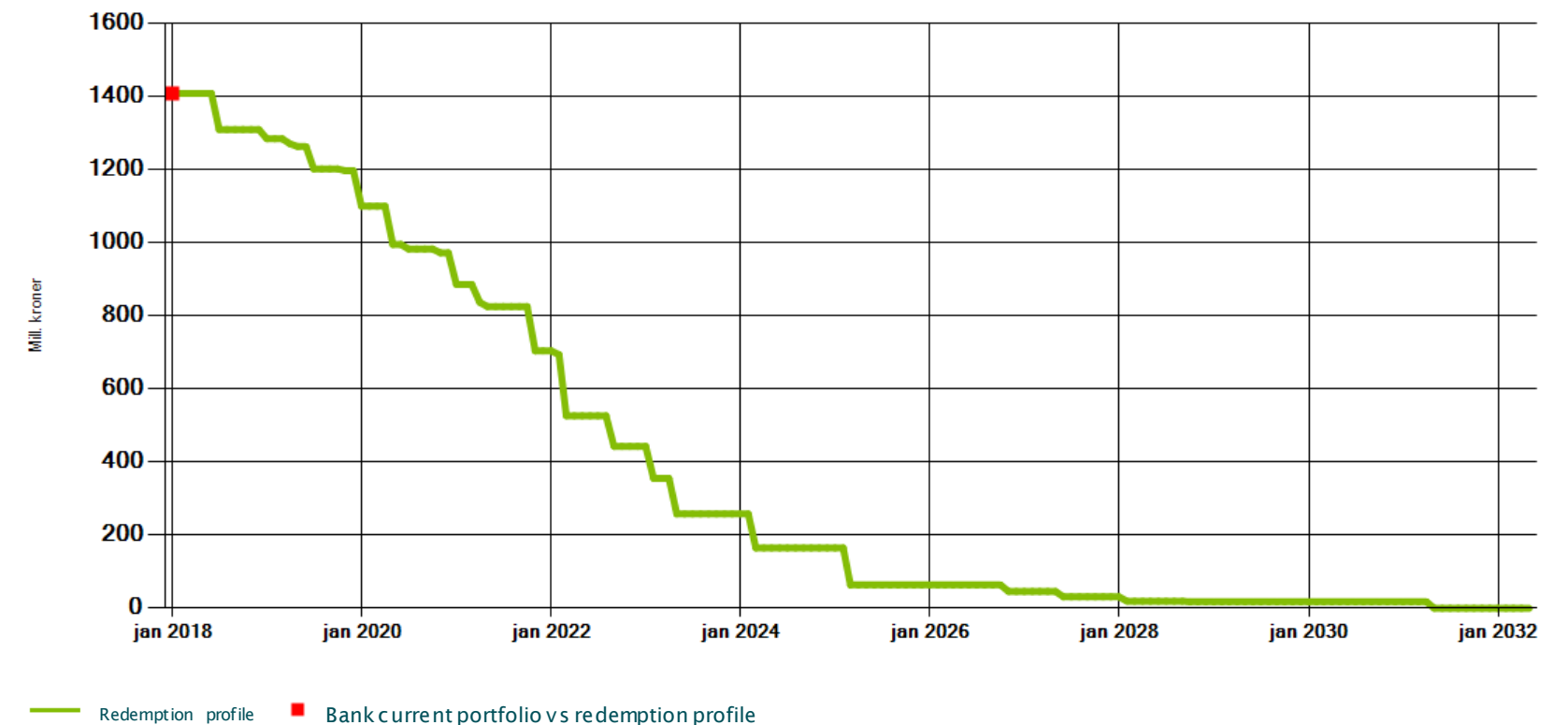
Amounts in NOK Million	2013	2014	2015	2016	2017	1Q2018	2Q2018	3Q2018	4Q2018
<b>Balance sheet development</b>									
Lending to customers	57 692	60 889	64 527	71 509	77 286	78 877	80 063	80 608	82 015
Debt from issuing securities	63 889	72 878	79 876	86 983	90 030	89 340	89 960	93 543	97 288
Subordinated loans	678	698	450	599	600	675	674	674	674
Equity	2 459	3 024	4 242	4 396	4 770	5 059	4 881	5 119	5 390
Equity in % of total assets	3,52	3,72	4,72	4,58	4,79	5,12	4,92	4,94	4,90
Average total assets	63 765	76 845	84 571	92 324	99 466	99 202	99 069	100 188	101 774
Total assets	69 829	81 298	89 932	96 017	99 603	98 801	99 259	103 545	107 969
<b>Rate of return / profitability</b>									
Fee and commission income to relation to average total assets, annualised (%)	0,70	0,74	0,50	0,32	0,40	0,50	0,50	0,47	0,40
Staff and general administration expenses in relation to average total assets, annualised (%)	0,06	0,05	0,10	0,04	0,05	0,05	0,05	0,05	0,03
Return on equity, annualised (%)	1,21	4,17	10,70	1,37	1,90	1,70	2,10	3,25	4,50
Total assets per full-time position	3 714	4 106	4 542	4 849	5 030	4 990	5 013	5 230	5 453
<b>Finacial strength</b>									
Core tier 1 capital	2 399	2 925	3 607	3 833	4 156	4 332	4 332	4 529	4 522
Total tier 1 capital	2 648	3 374	4 055	4 282	4 706	4 958	4 830	5 028	5 227
Total primary capital (tier 2 capital)	3 077	3 623	4 505	4 882	5 305	5 633	5 504	5 702	5 902
Weighted calculation basis	21 445	25 155	27 510	29 766	31 468	32 037	32 077	32 828	33 731
Core tier 1 capital ratio	11,19	11,63	13,10	12,88	13,20	13,50	13,50	13,80	13,40
Total tier 1 capital ratio	12,35	13,41	14,70	14,39	15,00	15,50	15,10	15,32	15,50
Capital adeqacy ratio	14,35	14,40	16,40	16,40	16,90	17,60	17,20	17,37	17,50
Delinquinces in % of gross loans	-	-	-	-	-	-	-	-	-
Loss in % of gross loans	-	-	-	-	-	-	-	-	-
<b>Staff</b>									
Number of full-time positions at end of period	18,8	19,8	19,8	19,8	19,8	19,8	19,8	19,8	19,8

Source: EBK quarterly reports

# Cancellation of distribution agreement

- An EIKBOL Distributor (**EBKD**) can terminate the distribution agreement with EIKBOL with 3 months notice
- EIKBOL can terminate a distribution agreement with an EBKD with 12 months notice
- In the event a distribution agreement is terminated, obligations continues to apply with regards to the various agreements;
  - At the expiry date for the distribution agreement, the EBKD will no longer have the right to transfer new residential mortgages to EIKBOL
  - The EKBD is required to uphold its mortgage portfolio in line with the redemptions of EIKBOL's funding
  - The EBKD has continued responsibilities for servicing the mortgages in the existing residential mortgage portfolio, including other rights and obligations pursuant to the guarantee, custody, commission and shareholder agreements and the agreement on the purchase of covered bonds

Example of an EBKD's redemption profile





# Mergers between Eika banks in 2018/19

## Bud, Fræna og Hustad Sparebank og Nesset Sparebank

- Merged January 1<sup>st</sup> 2018
- The name of the merged bank is Romsdal Sparebank
- Odd Kjetil Sørgaard, CEO in BFH Sparebank, is CEO in the merged bank
- Total assets of NOK 6 billion
- Rationales for the merger was to increase competitiveness in local markets, expand market reach and improve attractiveness as an employer

## Lofoten Sparebank and Harstad Sparebank

- Merged January 1<sup>st</sup> 2019
- The name of the merged bank is Sparebank 68 grader nord
- Tore Karlsen, CEO in Harstad Sparebank, is CEO in the merged bank
- Total assets, including transferred to Eika Boligkreditt, of NOK 6,4 billion
- Rationales for the merger was to improve competitiveness while still being present in local markets, improve profitability and further enhance ability to contribute to develop their local communities

## Indre Sogn, Aurland and Vik Sparebank

- December 18<sup>th</sup> 2018: The committee of representatives in the three banks approved the agreements to merge the three banks
- The name for the merged bank will be Sogn Sparebank
- Mads Indrehus, CEO in Vik Sparebank, will be CEO in the merged bank and Morten Kristiansen, chair in the board of Indre Sogn will be chair of the board in the merged bank
- The mergers are pending approval from the authorities
- The merger is expected to take effect from April 1<sup>st</sup> 2019
- Total assets, including transferred to Eika Boligkreditt, of NOK 7,6 billion
- Rationales for considering to merge are to improve competitiveness in local markets, expand market reach, improve cost efficacy and attractiveness as an employer and further enhance ability to contribute to develop their local communities

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

P&L & balance in NOK mil.	2010	2011	2012	2013	2014	2015	2016	2017
Net interest income	3,512	3,631	3,777	3,949	4,163	4,275	4,556	4,955
Net commission income	662	734	863	1,142	1,320	1,260	1,195	1,359
Other income	43	44	40	39	39	37	38	35
Total income	4,217	4,409	4,681	5,130	5,523	5,572	5,789	6,349
Personnel and adm. expenses	2,061	2,134	2,243	2,344	2,491	2,669	2,780	2,913
Depreciation	123	98	95	100	110	117	131	139
Other costs	469	495	515	578	605	665	687	705
Total costs	2,653	2,726	2,852	3,023	3,206	3,451	3,598	3,756
Core earnings before loan losses	1,564	1,683	1,828	2,108	2,317	2,121	2,191	2,592
Impairment of loans and guarantees	404	458	329	389	315	237	233	197
Core earnings	1,160	1,225	1,499	1,719	2,002	1,884	1,957	2,395
Dividends/associated companies	177	189	89	257	238	348	397	421
Net return on financial investments	218	-78	217	228	132	-189	182	147
One-offs and loss/gain on long-term assets	376	-69	150	-61	181	217	314	-12
Pre tax profit	1,931	1,267	1,955	2,142	2,553	2,260	2,851	2,951
Taxes	501	412	542	583	623	553	579	669
<b>Net profit</b>	<b>1,430</b>	<b>855</b>	<b>1,413</b>	<b>1,559</b>	<b>1,930</b>	<b>1,707</b>	<b>2,271</b>	<b>2,282</b>
Gross loans	157,375	159,645	166,255	173,617	182,081	193,576	214,360	228,738
Gross loans incl. EBK	182,382	193,092	208,764	225,292	238,296	253,212	280,620	302,214
Deposits	120,419	128,567	137,142	144,975	156,594	164,697	178,098	187,805
Equity	16,748	17,525	18,833	20,422	22,268	23,624	26,240	28,865
Total assets	190,813	196,623	200,895	210,302	224,157	231,814	254,313	273,190
Total assets incl. EBK	215,820	230,070	243,403	261,977	280,371	291,450	320,573	346,666
Growth in loans	4.1 %	1.4 %	4.1 %	4.4 %	4.9 %	6.3 %	10.7 %	6.7 %
Growth in loans incl. EBK	7.3 %	5.9 %	8.1 %	7.9 %	5.8 %	6.3 %	10.8 %	7.7 %
Growth in deposits	7.5 %	6.8 %	6.7 %	5.7 %	8.0 %	5.2 %	8.1 %	5.5 %

Source: Bank Analyst Eika

# Eika banks - Key figures

Key figures	2010	2011	2012	2013	2014	2015	2016	2017
Deposit ratio	76.5 %	80.5 %	82.5 %	83.5 %	86.0 %	85.1 %	83.1 %	82.1 %
Deposit over total funding	69.9 %	72.6 %	76.1 %	77.2 %	78.4 %	79.9 %	78.9 %	77.6 %
(Market funding - Liquid assets)/Total assets	11.6 %	7.8 %	6.3 %	5.4 %	3.1 %	4.2 %	5.9 %	6.3 %
Liquid assets/Total assets	15.5 %	16.9 %	15.1 %	15.0 %	16.2 %	13.7 %	12.9 %	13.5 %
Market funds/Total assets	27.1 %	24.7 %	21.4 %	20.4 %	19.3 %	17.8 %	18.8 %	19.8 %
Equity ratio	8.8 %	8.9 %	9.4 %	9.7 %	9.9 %	10.2 %	10.3 %	10.6 %
Leverage ratio		9.6 %	10.0 %	10.2 %	10.1 %	10.0 %	10.1 %	10.2 %
Common Equity Tier 1 ratio (CET1)	15.0 %	15.2 %	15.8 %	16.0 %	16.9 %	17.5 %	17.8 %	18.0 %
Core capital ratio	17.0 %	17.3 %	18.1 %	18.5 %	18.3 %	18.5 %	18.9 %	19.3 %
Capital ratio	18.2 %	18.2 %	18.6 %	18.7 %	18.9 %	19.2 %	20.0 %	20.7 %
Loan loss provision ratio	0.26 %	0.29 %	0.20 %	0.23 %	0.18 %	0.13 %	0.11 %	0.09 %
Loan loss provision/Pre-provision income	20.6 %	25.5 %	15.4 %	15.0 %	11.7 %	10.4 %	8.4 %	6.2 %
Gross problem loans/Gross loans	1.83 %	1.89 %	1.78 %	1.62 %	1.53 %	1.38 %	1.12 %	0.96 %
Net problem loans/Gross loans	1.34 %	1.38 %	1.32 %	1.20 %	1.13 %	1.01 %	0.84 %	0.72 %
Loan loss reserves/Gross loans	0.88 %	0.92 %	0.88 %	0.82 %	0.79 %	0.73 %	0.64 %	0.59 %
Problem loans/(Equity + LLR)	15.9 %	15.9 %	14.6 %	12.9 %	11.8 %	10.7 %	8.7 %	7.3 %
Net interest income/total assets	1.87 %	1.87 %	1.90 %	1.92 %	1.92 %	1.88 %	1.87 %	1.88 %
Net commission incom/total assets	0.35 %	0.38 %	0.43 %	0.56 %	0.61 %	0.55 %	0.49 %	0.52 %
Loss provision ratio	0.26 %	0.29 %	0.20 %	0.23 %	0.18 %	0.13 %	0.11 %	0.09 %
Cost/income ratio	57.5 %	60.3 %	57.2 %	53.8 %	54.4 %	60.2 %	56.5 %	54.3 %
Cost/income ratio (adjusted for net finance)	60.4 %	59.3 %	59.8 %	56.1 %	55.6 %	58.3 %	58.2 %	55.5 %
Cost/income ratio (adj. for net finance and dividends)	62.9 %	61.8 %	60.9 %	58.9 %	58.0 %	61.9 %	62.2 %	59.2 %
Net profit in % of total assets	0.76 %	0.44 %	0.71 %	0.76 %	0.89 %	0.75 %	0.93 %	0.87 %
Net profit/average RWA	1.38 %	0.80 %	1.29 %	1.37 %	1.61 %	1.37 %	1.74 %	1.63 %
Pre-provision income/average RWA	1.89 %	1.68 %	1.94 %	2.28 %	2.25 %	1.83 %	2.12 %	2.25 %
Core earnings in % of average RWA	1.12 %	1.14 %	1.36 %	1.51 %	1.67 %	1.52 %	1.50 %	1.71 %
Return on equity	8.9 %	5.0 %	7.8 %	7.9 %	9.0 %	7.4 %	9.1 %	8.3 %

Source: Bank Analyst Eika

# Quarterly data - P&L and Key figures

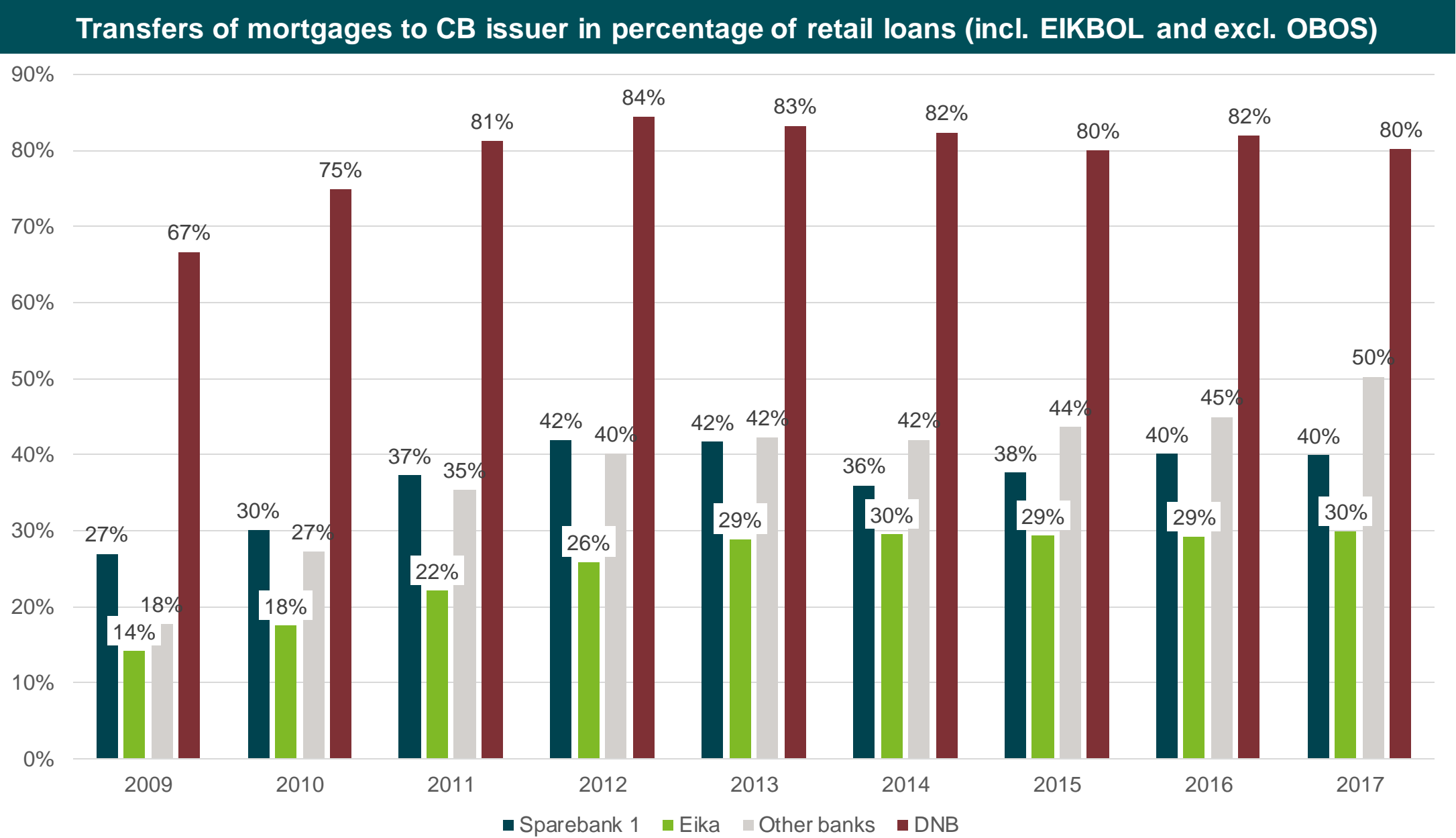
<i>P&amp;L &amp; balance in NOK mil.</i>	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Net interest income	1 167	1 186	1 176	1 224	1 266	1 288	1 235	1 256
Net commission income	320	311	298	322	351	388	355	362
Other income	9	10	9	8	8	8	7	11
Total income	1 496	1 506	1 483	1 554	1 626	1 684	1 597	1 629
Personnel and adm. expenses	686	765	738	669	732	774	736	664
Depreciation	33	32	35	35	35	34	35	35
Other costs	160	172	187	184	172	161	190	175
Total costs	879	969	961	888	939	970	962	874
Core earnings before loan losses	617	537	522	667	687	715	635	754
Impairment of loans and guarantees	81	57	23	68	36	70	26	38
Core earnings	536	480	499	599	651	645	608	717
Dividends/associated companies	18	15	27	367	6	21	24	373
Net return on financial investments	82	53	60	38	24	25	10	31
One-offs and loss/gain on long-term assets	28	111	-9	13	-5	-10	3	44
Pre tax profit	664	659	577	1 017	676	681	646	1 165
Taxes	165	102	142	191	170	166	163	212
Net profit	499	557	435	826	506	515	483	953
Gross loans	209 583	214 360	217 908	222 793	225 967	228 738	230 308	236 454
Gross loans incl. EBK	273 450	280 620	286 361	293 026	297 252	302 214	305 673	313 395
Deposits	175 243	178 098	180 211	188 040	186 643	187 805	190 313	199 511
Equity	25 598	26 240	26 634	27 735	28 244	28 865	29 359	30 406
Total assets	250 379	254 314	259 210	269 633	269 999	273 190	276 442	289 333
Total assets incl. EBK	314 246	320 574	327 663	339 866	341 285	346 666	351 807	366 275
Growth in loans	2,7 %	2,3 %	1,7 %	2,2 %	1,4 %	1,2 %	0,7 %	2,7 %
Growth in loans incl. EBK	2,6 %	2,6 %	2,0 %	2,3 %	1,4 %	1,7 %	1,1 %	2,5 %
Growth in deposits	-0,2 %	1,6 %	1,2 %	4,3 %	-0,7 %	0,6 %	1,3 %	4,8 %

<i>Key figures</i>	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Deposit ratio	83,6 %	83,1 %	82,7 %	84,4 %	82,6 %	82,1 %	82,6 %	84,4 %
Deposit over total funding	79,1 %	78,9 %	78,3 %	78,6 %	78,3 %	77,6 %	77,8 %	78,0 %
(Market funding - Liquid assets)/Total assets	4,9 %	5,9 %	6,3 %	4,4 %	5,6 %	6,3 %	5,8 %	4,0 %
Liquid assets/Total assets	13,6 %	12,8 %	13,0 %	14,6 %	13,6 %	13,5 %	13,9 %	15,4 %
Market funds/Total assets	18,5 %	18,8 %	19,3 %	19,0 %	19,2 %	19,8 %	19,7 %	19,4 %
Equity ratio	10,2 %	10,3 %	10,3 %	10,3 %	10,5 %	10,6 %	10,6 %	10,5 %
Leverage ratio	9,4 %	10,1 %	9,8 %	9,6 %	9,5 %	10,2 %	10,1 %	9,7 %
Common Equity Tier 1 ratio (CET1)	16,4 %	17,8 %	17,1 %	17,0 %	16,8 %	18,0 %	17,5 %	17,2 %
Core capital ratio	17,5 %	18,9 %	18,5 %	18,2 %	18,0 %	19,3 %	19,0 %	18,7 %
Capital ratio	18,5 %	20,0 %	19,8 %	19,6 %	19,4 %	20,7 %	20,7 %	20,4 %
Loan loss provision ratio	0,16 %	0,11 %	0,04 %	0,12 %	0,07 %	0,12 %	0,05 %	0,06 %
Loan loss provision/Pre-provision income	11,4 %	9,4 %	3,8 %	6,3 %	5,1 %	9,2 %	3,9 %	3,2 %
Gross problem loans/Gross loans	1,35 %	1,13 %	1,14 %	1,08 %	1,02 %	0,96 %	1,08 %	1,03 %
Net problem loans/Gross loans	1,00 %	0,84 %	0,86 %	0,80 %	0,75 %	0,72 %	0,83 %	0,80 %
Loan loss reserves/Gross loans	0,71 %	0,64 %	0,63 %	0,63 %	0,61 %	0,59 %	0,57 %	0,55 %
Problem loans/(Equity + LLR)	10,5 %	8,7 %	8,9 %	8,3 %	7,7 %	7,3 %	8,1 %	7,7 %
Net interest income/total assets	1,87 %	1,88 %	1,83 %	1,85 %	1,88 %	1,90 %	1,80 %	1,78 %
Net commission incom/total assets	0,51 %	0,49 %	0,46 %	0,49 %	0,52 %	0,57 %	0,52 %	0,51 %
Loss provision ratio	0,16 %	0,11 %	0,04 %	0,12 %	0,07 %	0,12 %	0,05 %	0,06 %
Cost/income ratio	55,1 %	61,6 %	61,2 %	45,3 %	56,7 %	56,0 %	59,0 %	43,0 %
Cost/income ratio (adjusted for net finance)	58,1 %	63,7 %	63,6 %	46,2 %	57,5 %	56,9 %	59,4 %	43,7 %
Cost/income ratio (adj. for net finance and dividends)	58,7 %	64,4 %	64,8 %	57,1 %	57,7 %	57,6 %	60,3 %	53,7 %
Net profit in % of total assets	0,80 %	0,88 %	0,68 %	1,25 %	0,75 %	0,76 %	0,70 %	1,35 %
Net profit/average RWA	1,51 %	1,66 %	1,27 %	2,37 %	1,42 %	1,43 %	1,32 %	2,57 %
Pre-provision income/average RWA	2,16 %	1,80 %	1,78 %	3,07 %	2,02 %	2,11 %	1,84 %	3,12 %
Core earnings in % of average RWA	1,60 %	1,42 %	1,45 %	1,69 %	1,82 %	1,78 %	1,66 %	1,90 %
Return on equity	7,9 %	8,6 %	6,6 %	12,2 %	7,2 %	7,2 %	6,6 %	12,8 %

Source: Bank Analyst Eika

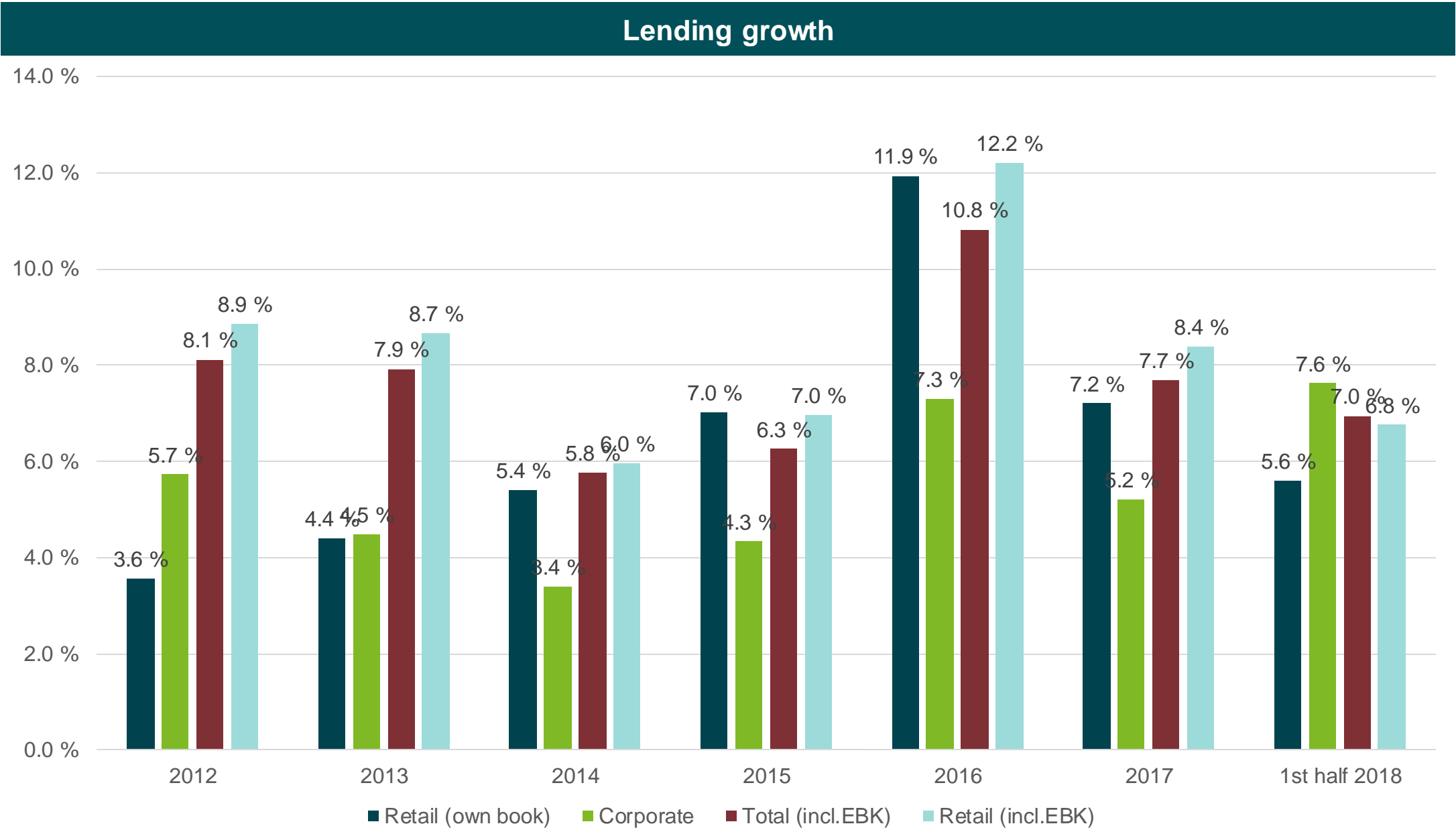


# Banks – transfer rate to Cov. Bond companies



Source: Bank Analyst Eika

# Eika banks - lending growth



Source: Bank Analyst Eika



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