

ISSUER IN-DEPTH

9 June 2017

[Rate this Research](#) >>

RATINGS

Eika Boligkreditt AS

Domicile	Norway
Counterparty Risk Assessment	A3(cr)/P-1(cr)
Issuer Rating - Dom Curr	Baa1
Outlook	Stable

Source: Moody's Investors Services

Contacts

Melina Skouridou, 357-2569-3021
CFA
AVP-Analyst
melina.skouridou@moodys.com

Effie Tsotsani 4420-7772-1712
Analyst
effie.tsotsani@moodys.com

Louise Eklund 46-8-5025-6569
Associate Analyst
louise eklund@moodys.com

Tomas Rodriguez-Vigil 34-91-768-8231
Analyst
tomas.rodriguez-vigil@moodys.com

Jean-Francois Tremblay 44-20-7772-5653
Associate Managing Director
jean-francois.tremblay@moodys.com

Eika Boligkreditt AS

A leading Norwegian covered bond issuer owned by savings banks

On 2 June we assigned a first time issuer rating of Baa1 and a Counterparty Risk Assessment (CRA) of A3(cr)/Prime-1(cr) to [Eika Boligkreditt AS](#). Following this rating action, on 6 June we upgraded the [mortgage covered bonds](#) of Eika Boligkreditt AS to Aaa from Aa1.

Eika Boligkreditt is a credit institution that raises covered bond finance on the international debt markets on behalf of its owners, the 72 Norwegian regional savings banks that form the Eika banking alliance. The member banks ownership¹ of the institution is proportional to the funding they receive from it, and is rebalanced on an annual basis. The Eika alliance is the third largest banking group in Norway, with a 10.2% combined market share of retail lending, and a 6.5% share of total banking system assets.

This form of strategic alliance is common in the Norwegian banking sector due to the large number of savings banks that operate in the country. Most Norwegian savings banks are mutually-owned. They play an important role in supporting local communities, and have a long history and a strong sense of identity. Strategic alliances allow them to maintain their independence while benefiting from economies of scale and shared services.

Below we address some frequently-asked questions (FAQs) about Eika Boligkreditt and the Eika bank alliance.

1. What is the Eika alliance business model, and what benefits does it offer its members?

The Eika alliance brings together small banks so that they can purchase services, develop products, or raise debt more cheaply than would be possible individually. Member banks have similar characteristics and are predominantly focused on retail and small-and-medium enterprise (SME) lending. Retail loans account for 75% of their combined loan book (81% including loans transferred to Eika Boligkreditt).

Cost-sharing across the alliance unlocks economies of scale, allowing even very small savings banks to provide customers with highly sophisticated services, while maintaining their independence and local focus. Alliance members receive the following benefits:

- » **Infrastructure and IT.** The alliance provides strong operational support to its members by developing common IT systems and platforms. The Eika alliance has a joint platform supporting online banking, mobile banking and individual bank websites. Payment processing and digital services are also carried out on a centralised basis, making the banks more competitive.

- » **Credit Monitoring and Coordination.** Through common IT platforms, Eika ensures member banks comply with regulatory requirements. Risk policies and procedures are established centrally by the Eika alliance, which individual banks customise according to their risk preference. As a result, there is a standardized model for the banks' classification of customers by risk profile. Further support through back office functions such as auditing, financial reporting and regulatory reporting is also provided.
- » **Marketing.** The member banks share a logo and brand, strengthening their market recognition. They also centralise their marketing campaigns, with Eika acting as a support brand and concept and content provider to the local banks
- » **Financial Products and Services to Bank Clients.** Eika-owned companies provide asset management services (Eika Kapitalforvaltning AS), insurance products (Eika Forsikring AS), leasing, car financing and credit cards (Eika Kredittbank AS), as well as real estate products (Aktiv Eiendomsmegling AS) to the customers of the member banks.
- » **Covered Bond Funding.** Issuing covered bonds through Eika Boligkreditt gives member banks access to funding on similar terms to those available to larger Norwegian banks. Eika's funding is competitive in terms of loan tenure and depth of access, as well as pricing. This enhances Eika members' competitiveness.

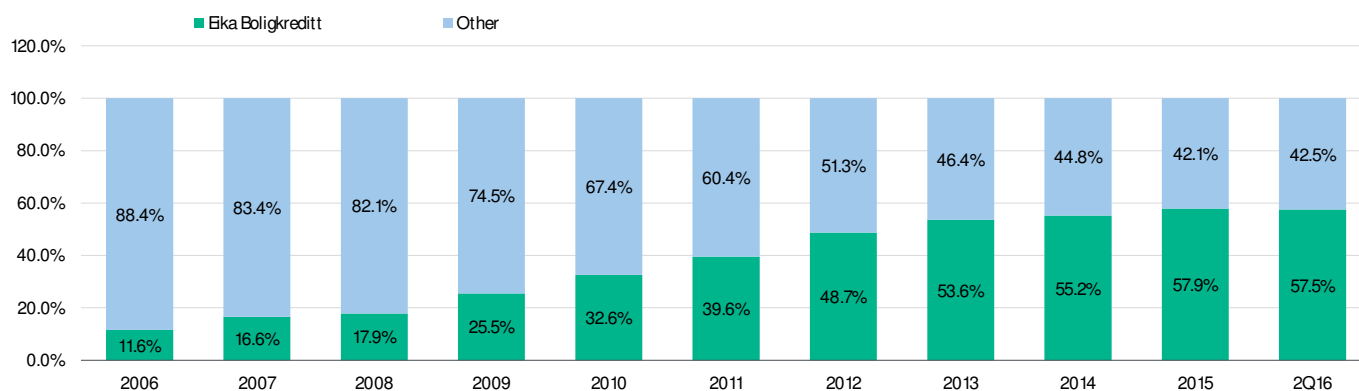
2. How has Eika Boligkreditt's role changed over time?

We believe that Eika Boligkreditt has become increasingly important to its member banks since the institution was established in 2006.

From a low base at inception, Eika Boligkreditt's contribution to its owner banks' external funding has risen steadily to almost 60% (NOK 73.4 billion as of March 2017). Customer deposits account for most of the remainder followed by senior and junior debt (see Exhibit 1). The share of covered bonds in the banks' total funding has stabilized in recent years, and we expect it to stay close to current levels going forward.

Exhibit 1

Eika Boligkreditt's share of total member bank funding has risen steadily



Source: Eika Boligkreditt

Eika Boligkreditt's underwriting criteria are generally more conservative than required under Norwegian regulations. The maximum loan to value of the loans making up the cover pool is 60% at the time of origination, below the 75% ceiling stipulated under Norwegian law. The asset pool is valued on a quarterly basis by an independent third party. As of 30 September 2016, residential mortgage loans and mortgage loans to housing cooperatives accounted for 74.3% and 11.2% of the covered pool respectively. The remaining 14.5% consisted of substitute assets. All properties serving as loan collateral are located in Norway¹.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

3. To what extent are member banks committed to supporting Eika Boligkredditt?

The owners banks are committed to providing Eika Boligkredditt with capital and liquidity support at all times, which is limited up to two times their current pro-rata funding allocation from the institution. As a result, more than half of the member banks would have to default before Eika Boligkredditt were unable to raise the required capital/liquidity.

This support obligation falls short of a full irrevocable and unconditional commitment of the kind which would allow an alignment of Eika's creditworthiness with that of its shareholders. Eika alliance banks' obligation to support Eika Boligkredditt is set out in the following agreements:

- » **Capital support agreement (Shareholders Agreement).** In a scenario where one member of the alliance defaults on its obligations to Eika Boligkredditt, the remaining shareholders are jointly liable for making up the resulting shortfall. However, their support commitment is limited to two times their current pro-rata funding allocation. Any member bank that failed to fulfil its obligation to contribute additional capital would be considered to be in default. In this scenario, the other members become liable for any sums owed by the defaulting bank to Eika Boligkredditt, such as past and future fees.
- » **Liquidity support agreement (Note Purchase Agreement).** The obligation to provide liquidity support to Eika Boligkredditt is proportional to each shareholder's pro-rata participation in each issuance. If a participating shareholder fails to purchase issuer notes, then the remaining shareholders must increase their purchase proportionally to their pro-rata allocation, but should not exceed twice the current funding allocation.
- » **Distribution Agreement.** Eika Boligkredditt and the owner banks also have a distribution agreement which provides Eika Boligkredditt with some protection from losses due to bad loans. These require member banks to cover 80% of any losses on loans transferred to the Boligkredit, subject to a cap set at 1% of the owner bank's total portfolio. For a 12-month period, Eika Boligkredditt has the right to deduct the remaining losses from the commissions paid to the banks. Eika Boligkredditt has to date never triggered these agreements, as banks have until now replenished non-performing loans. The transfer of member banks' loans to Eika Boligkredditt is considered a true sale. As a result, with the banks receiving fees based on the interest rates attached to the transferred loans. These are recognized in their income statements as fee income.

4. How would bank default or failure affect the alliance?

In a scenario where one or more members of the alliance faced failure or default, we believe the stronger members would support their weaker peers through capital injections, or by acquiring them. Although no legally binding mutual support commitment is in place, there are strong links between alliance members, giving them an incentive to assist each other if required.

Since the banks share operations, back office systems, and branding and logos, providing support to weaker members would reduce reputational risk for the alliance as a whole. The broad similarity between member banks' businesses also encourages mergers in a stress scenario, as merger partners would likely benefit from synergies via branch and headcount reductions. Disruption for clients would likely be minimal, since Eika alliance banks operate using the same back office operations and platforms.

There are a few recent clear examples of alliance members assisting each other, when Eika members provided capital support to weaker peers by participating in their rights issues. Some financially strong alliance members are currently in the process of merging with weaker ones.

In an extreme scenario of market stress affecting the banking sector as a whole, the member banks faced with default or failure would likely exit the alliance as there is no legal obligation for the other members to provide assistance. The lack of a legally binding agreement encourages member banks to protect their own interests, reducing the alliance's idiosyncratic risk.

A member bank can cancel its distribution agreement with Eika Boligkredditt with a three month notice period, while Eika Boligkredditt must provide 12 months' notice. However, Boligkredditt's minimum notice period falls to 3 months if it decides to cancel all current agreements with authorised distributors as a result of legal changes. During the notice period, all parties concerned must work actively to achieve an expiry that is to their mutual benefit, and to that of the mortgagees.

An example of distribution agreement cancellation occurred in January 2016, when alliance member OBOS Banken announced plans to set up its own wholly-owned covered bond company [OBOS-boligkredditt AS](#). The board of Eika Boligkredditt decided to cancel OBOS

Banken's distribution agreement in February 2016. Following the expiry of the 12 month notice period, OBOS Banken lost the right to transfer new mortgages to Eika Boligkreditt. OBOS Banken can not withdraw its existing portfolio at a rate quicker than the maturities of Eika Boligkreditt's funding, as per the provisions on the distribution agreement. A separate agreement for a planned run-off of was negotiated.

We believe the likelihood of government support for member banks in a stress scenario is low, given their small individual shares of the Norwegian market. In addition, Norway is in the process of transposing the EU Banking Resolution and Recovery Directive (BRRD), which restricts the use of public funds to rescue failing banks, into national legislation.

5. How does Eika Boligkreditt compare with other covered bond issuers in Norway?

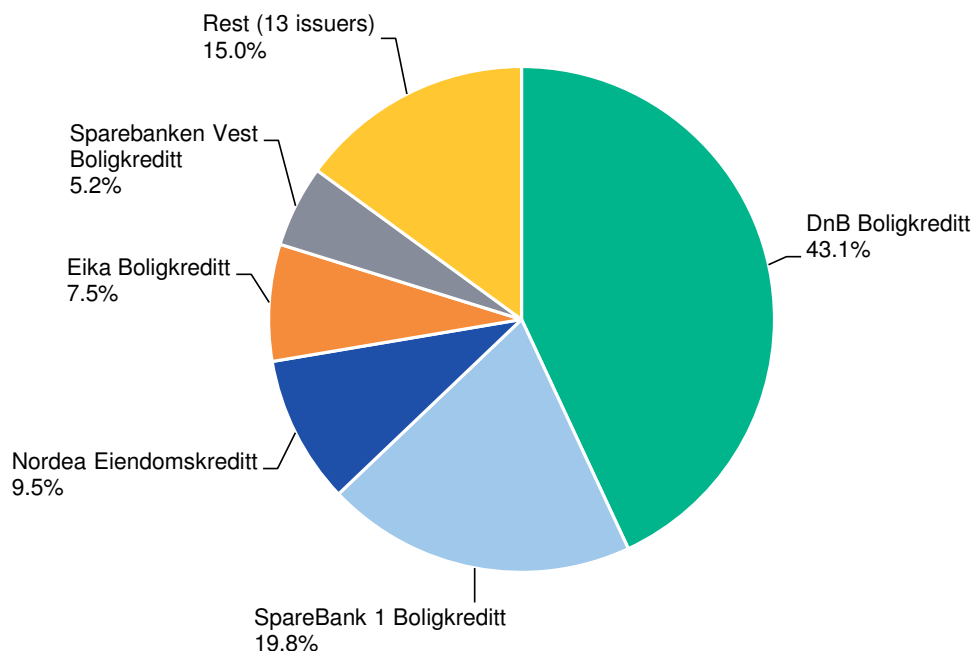
Eika Boligkreditt is one of the largest bond-issuing institutions in Norway, and plays an important role in supporting the Eika alliance banks by reducing their financing risk, and reinforcing their competitiveness (see Exhibit 2).

Through Eika Boligkreditt, Eika alliance banks have access to funding on similar terms to those offered to larger Norwegian banks. This ensures that their customers achieve competitive terms for their residential mortgages.

Covered bonds are widely used by Norwegian banks to cover their financing needs and are one of their primary debt instruments. As of end 2015, Norwegian outstanding covered bonds were equivalent to approximately 30% of Norway's GDP, equivalent to an outstanding amount of NOK 1 trillion (EUR 100 billion).

Exhibit 2

Eika Boligkreditt is one of the largest covered bond-issuing institutions in Norway Outstanding covered bonds rated by Moody's per issuer in percentage



Data as of Q3 2016

Source: Moody's Investors Service

Moody's Related Research

Credit Opinions:

- » [Eika Boligkreditt AS: First Time Rating](#)
- » [Obos-Banken AS: Semiannual update with year-end 2016](#)

Press Releases:

- » [Moody's Investors Services assigns Baa1 issuer rating to Eika Boligkreditt AS](#)

Banking System Outlooks:

- » [Norway](#)

Covered Bonds:

- » [Press Release: Moody's Upgrades Eika Boligkreditt's mortgage covered bonds](#)
- » [New Issuer Report: Eika Boligkreditt Mortgage Covered Bonds](#)
- » [Credit Opinion: OBOS Boligkreditt AS Mortgage Covered Bond Programme](#)
- » [Performance Review: Eika Boligkreditt AS - Mortgage Covered Bonds](#)
- » [Sector In Depth: Moody's Global Covered Bonds Monitoring Overview: Q3 2016](#)

Endnotes

- 1 [Eika Boligkreditt Mortgage Covered Bonds](#)

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

Contacts

Melina Skouridou, CFA 357-2569-3021
AVP-Analyst
 melina.skouridou@moodys.com

Louise Eklund 46-8-5025-6569
Associate Analyst
 louise eklund@moodys.com

Jean-Francois Tremblay 44-20-7772-5653
Associate Managing Director
 jean-francois.tremblay@moodys.com

Effie Tsotsani 4420-7772-1712
Analyst
 effie.tsotsani@moodys.com

Tomas Rodriguez-Vigil 34-91-768-8231
Analyst
 tomas.rodriguez-vigil@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454