



SpareBank 1 Næringskreditt

Covered Bond Issuer

2H 2020

SpareBank **1**

Table of contents

SpareBank 1 Naeringskreditt

SpareBank 1 Alliance

Recent trends in the office property market

Macroeconomic outlook

Funding

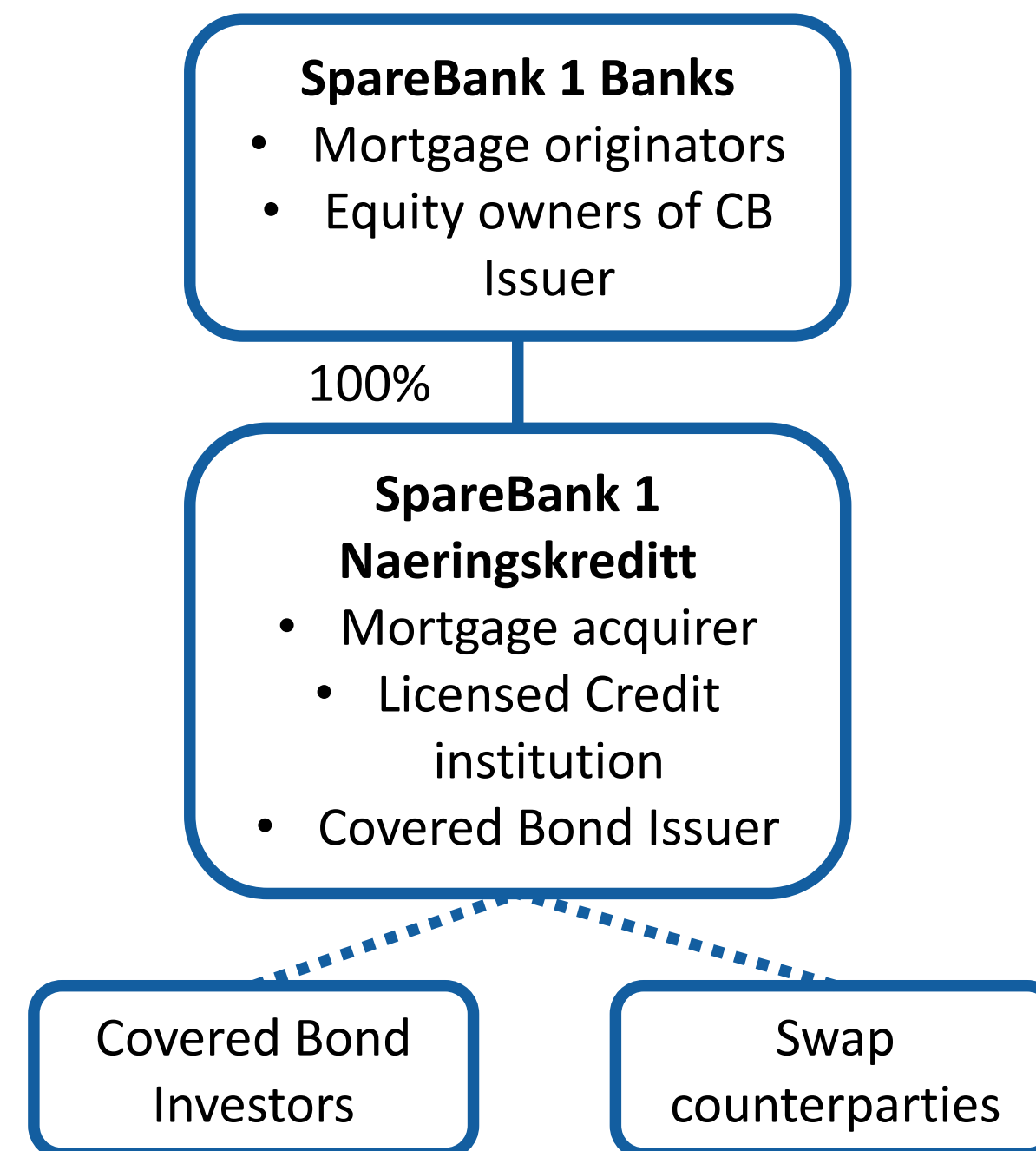
SpareBank 1 Naeringskreditt



SpareBank 1 Naeringskreditt

- Norway has specialized credit institutions issuing covered bonds under a CB law and regulations
- Issuers are called Boligkreditt or Naeringskreditt; this signals that cover bond collateral is residential mortgage loans only
- Other issuing models (i.e. direct bank issuance or bank issuance guaranteed by an SPV) are not in existence
- Swaps hedge FX and interest rate risk which are limited by law

The SpareBank 1 banks covered bond issuing model:



- SpareBank 1 Naeringskreditt is the only Norwegian specialized issuer of covered bonds with a commercial properties mortgage pool

Moody's credit ratings and cover pool overview

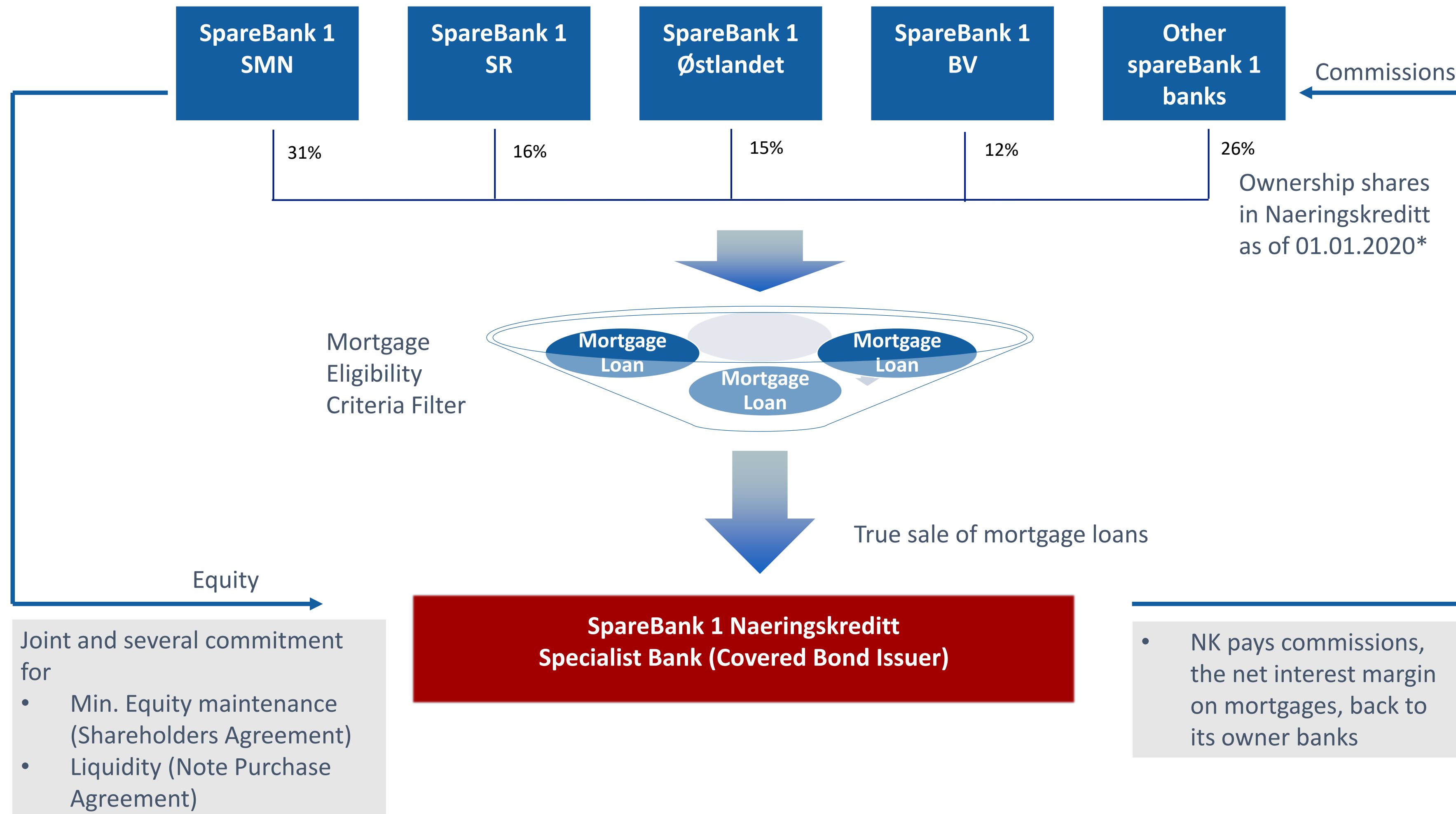
| Covered Bond rating | Issuer Rating | SpareBank 1 owner banks unsecured ratings | CB Anchor | Moody's Timely Payment Indicator (TPI) | TPI leeway | O/C requirement (Moody's) |
|---------------------|---------------|---|---------------|--|------------|---------------------------|
| Aaa | Not published | A1/Aa3* | Not published | Probable | 2 | 20% |

| SpareBank 1 Naeringskreditt Cover Pool overview Q2 2020 | |
|---|---|
| Type | 5 categories of commercial and residential properties: office, logistics/warehouse, retail, hotel and large residential |
| Number of mortgages | 233 mortgages with a weighted average interest rate of 2.8% ↓ |
| Average mortgage balance | NOK 44 mill. kroner (Approx. EUR 4.4 mill.) |
| Total balance mortgages | NOK 10 billion |
| Weighted average current LTV | 44.2% |
| Cover pool | NOK 10,8 bn; mortgages 91.6%, Liquid Assets 1.6%, Market risk hedges 6.8% |

- SpareBank 1 banks senior ratings of A1/Aa3 form the starting point for Naeringskreditt's Issuer rating at A2 (not published), which determines the CB Anchor of A1 (not published)
- The Timely Payment Indicator of "Probable" is determined by several factors, including type of assets, legal framework and type of risk mitigation (i.e swap agreements with external counterparties)

*SpareBank 1 Østlandet and Nord-Norge: Aa3, SpareBank 1 SMN A1

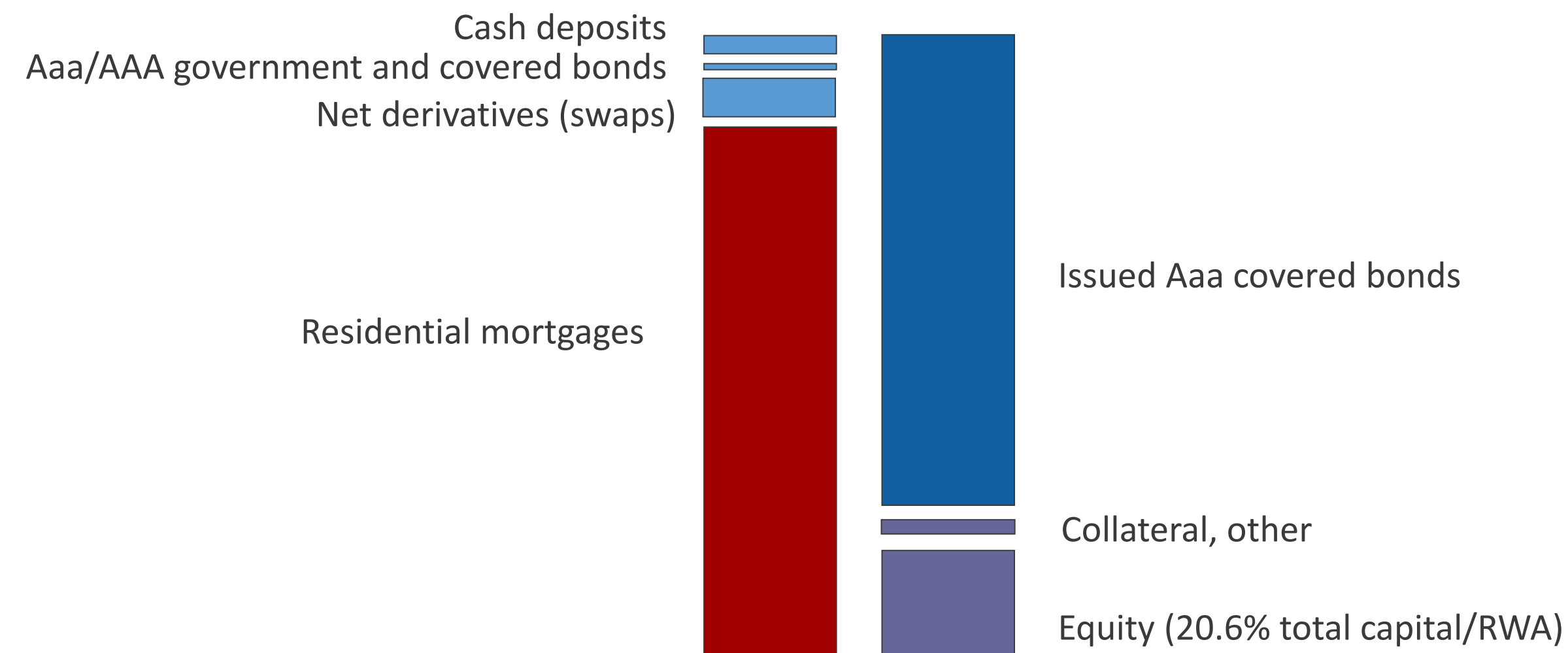
SpareBank 1 Naeringskreditt (SpaCom) structure and mortgage loans transfer



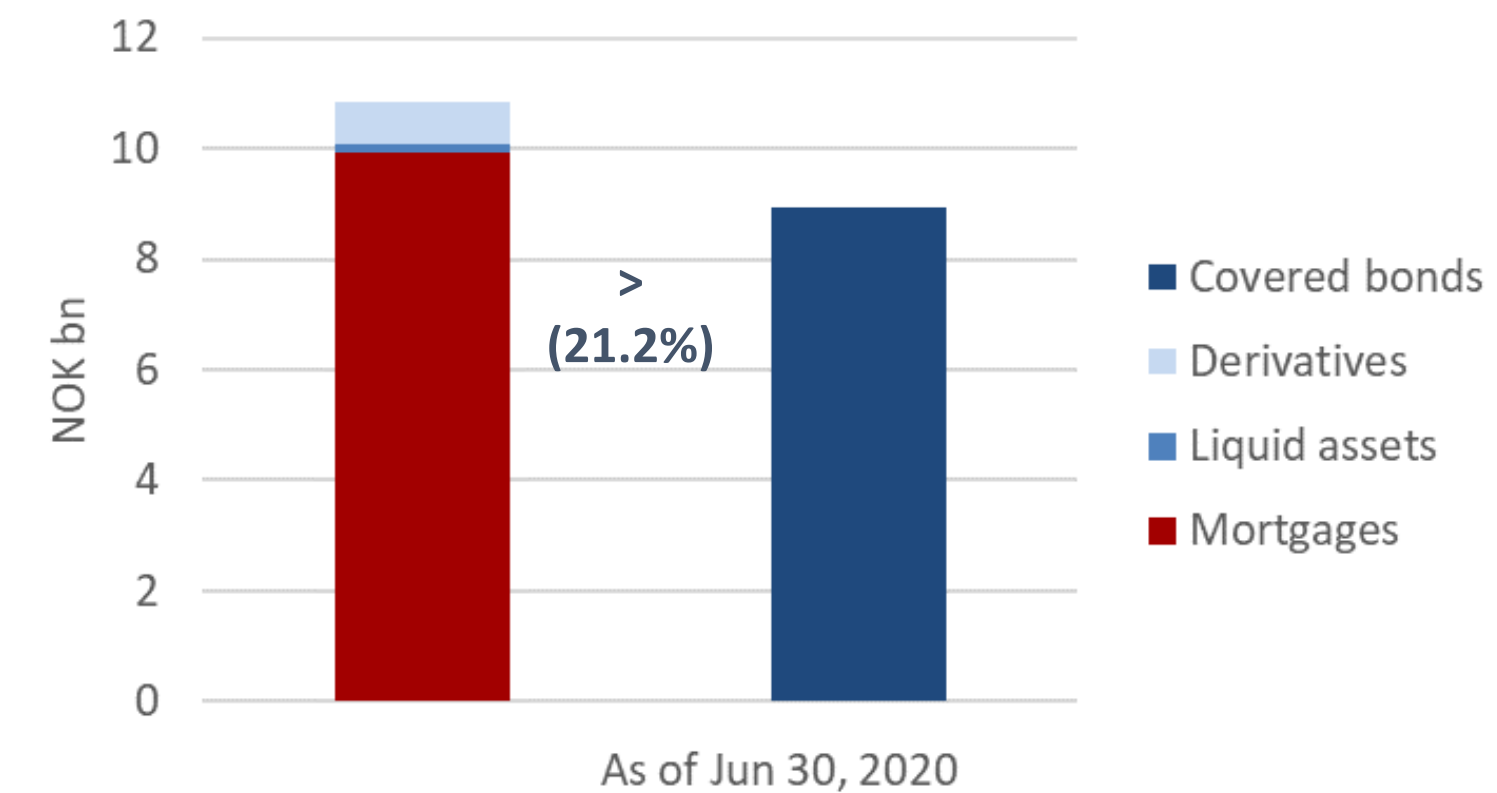
*There are 2 share classes A and B. B shares are capital injected by SpareBank 1 banks on behalf of their bank BN Bank, a larger contributor of mortgages, but itself not a SpaCom owner

SpaCom balance sheet and cover pool

Relative balance sheet 30.06.2020



Cover pool 30.06.2020



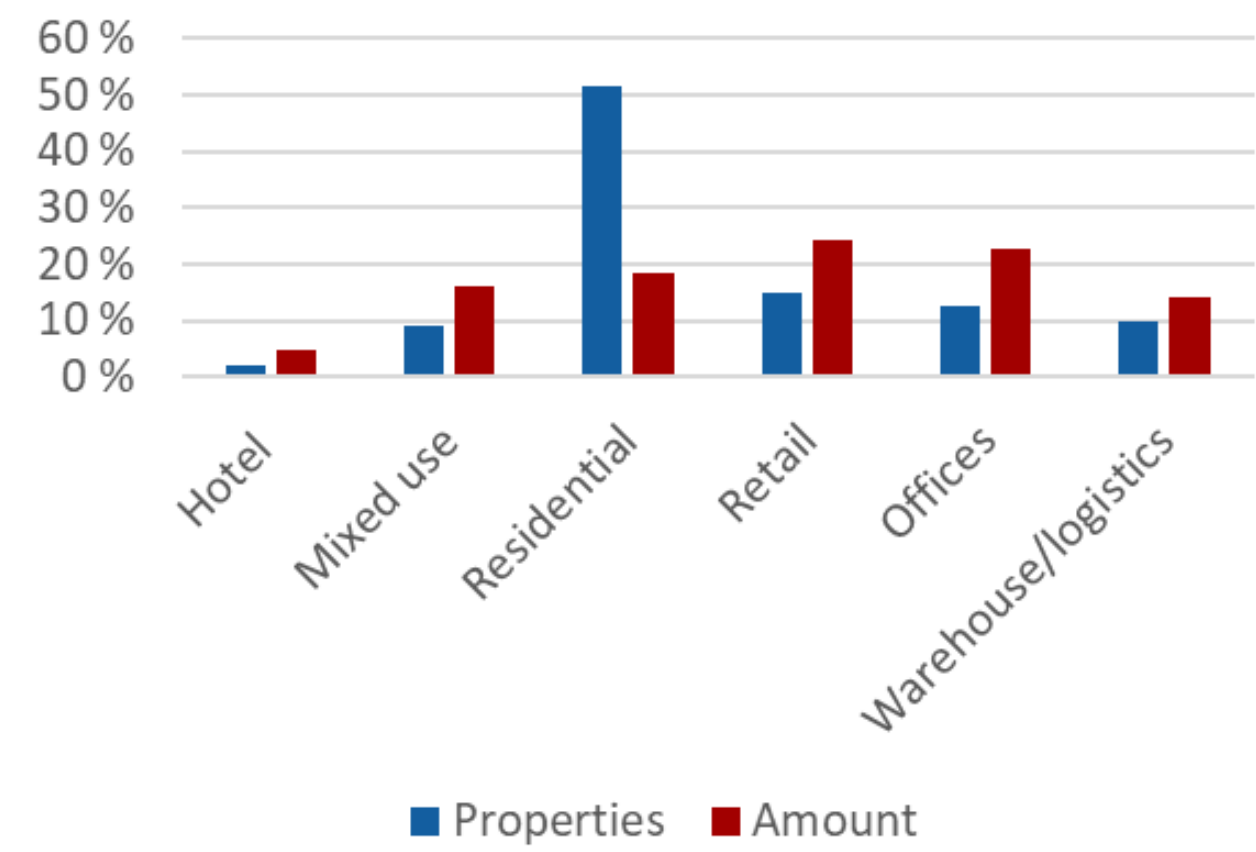
- The cover pool assets consist of mortgages and liquid assets
- Liquid assets are held for liquidity risk management purposes only – bonds are soft bullet, but liquidity managed according to expected maturities
- The minimum regulatory overcollateralization is 2%, while Moody's requirement is 20%

Selection criteria for the Spacom cover pool

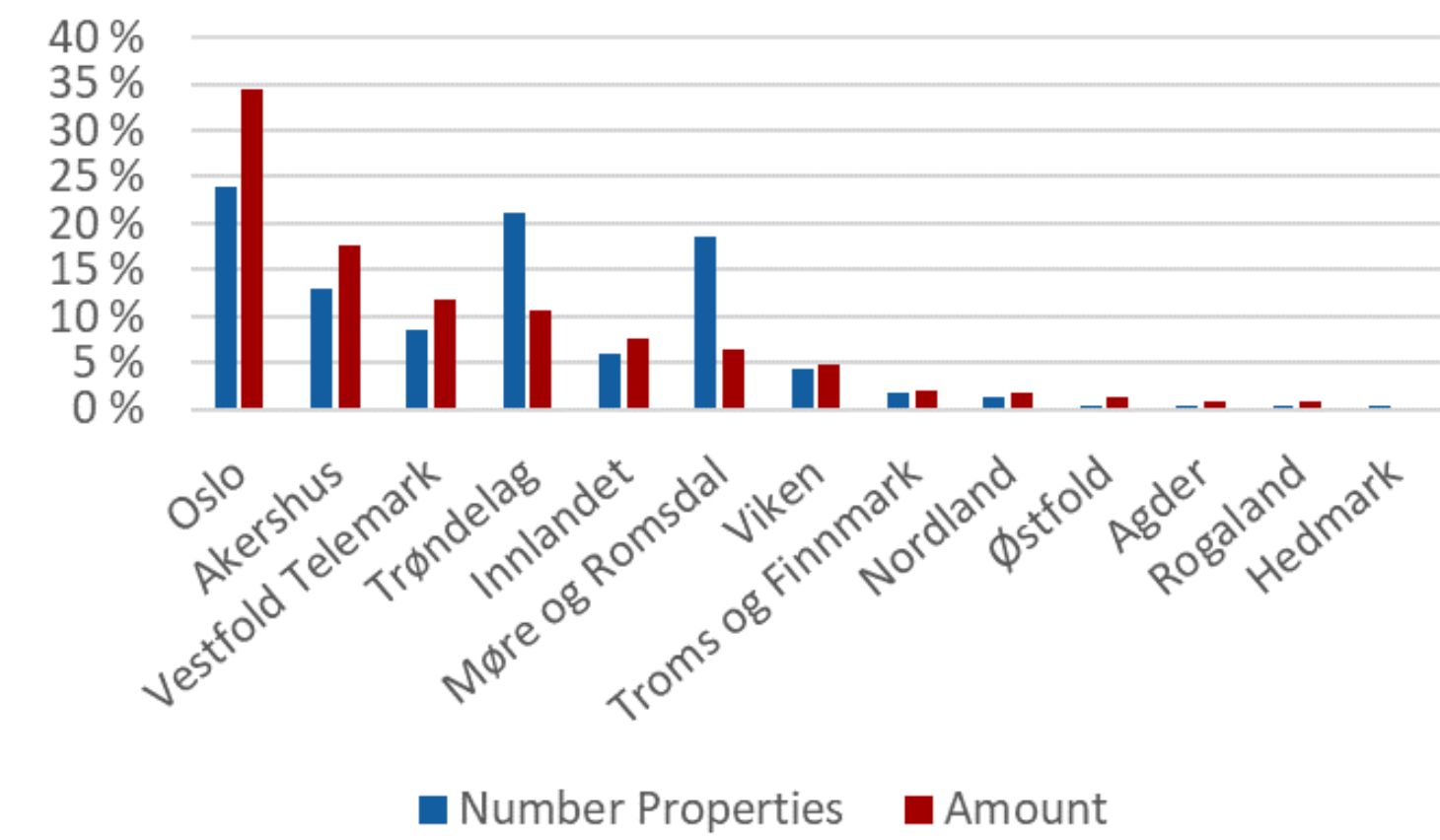
| | |
|-----------------------------|--|
| Loans and properties | <ul style="list-style-type: none">• Only commercial mortgages and large residential mortgages from SpareBank 1 banks• Properties located of linked to major norwegian towns• Principle of alternative possible use of the building• Categories of property: office, retail, hotel, logistics/warehouse, mixed use and residential |
| Credit assessment | <ul style="list-style-type: none">• Risk categories A to F (up to 2.5% probability of default - PD)• Total expected portfolio loss less than 0.2%• Credit committee to evaluate and approve larger exposures and exposures at the higher end of the PD range |
| Lending value | <ul style="list-style-type: none">• Up to 60% LTV• Valuation by external valuer, sales price or by cash flow model• First security priority only |
| Interest rate | <ul style="list-style-type: none">• Floating rate |
| Excluded Categories | <ul style="list-style-type: none">• Loans outside the above criteria• Limit of a single loan exposure to 5% of portfolio• Largest 20% lending exposures must be less than 50% of the portfolio |

SpaCom cover pool

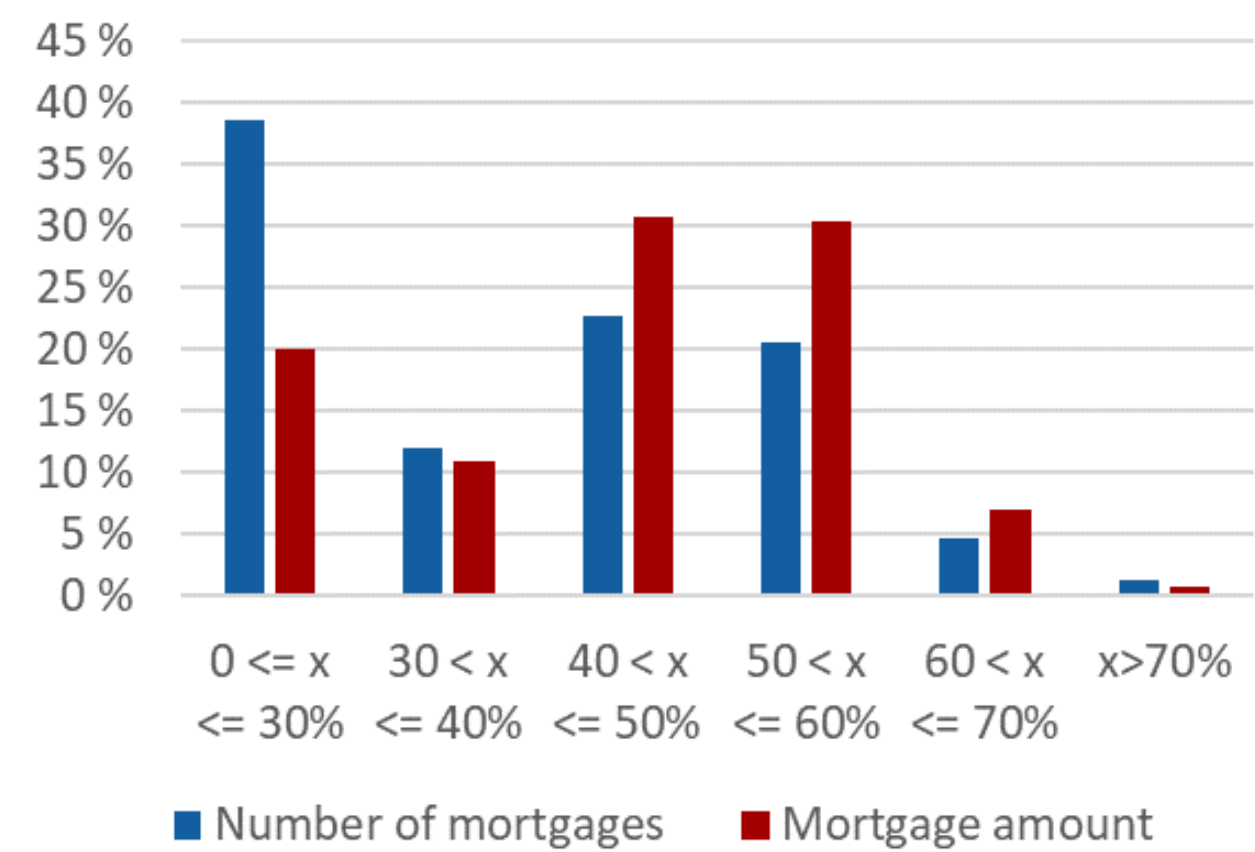
Category of properties financed



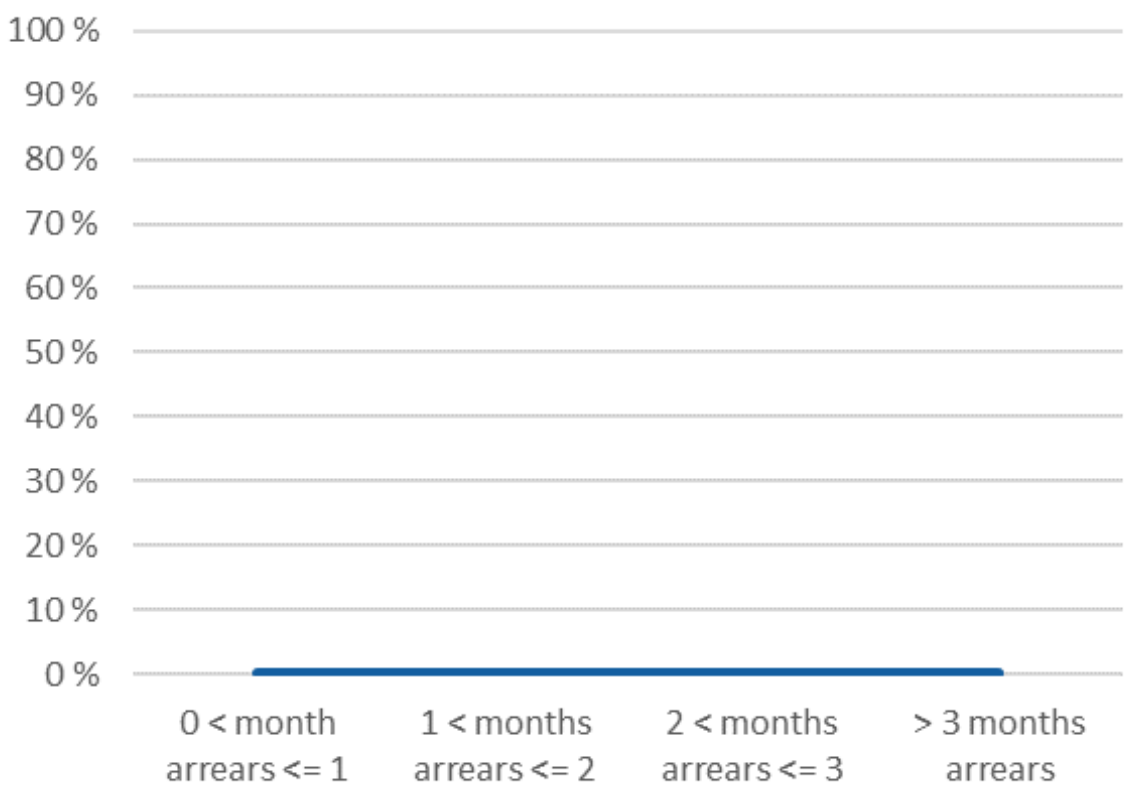
Geographical distribution



Loan to value range

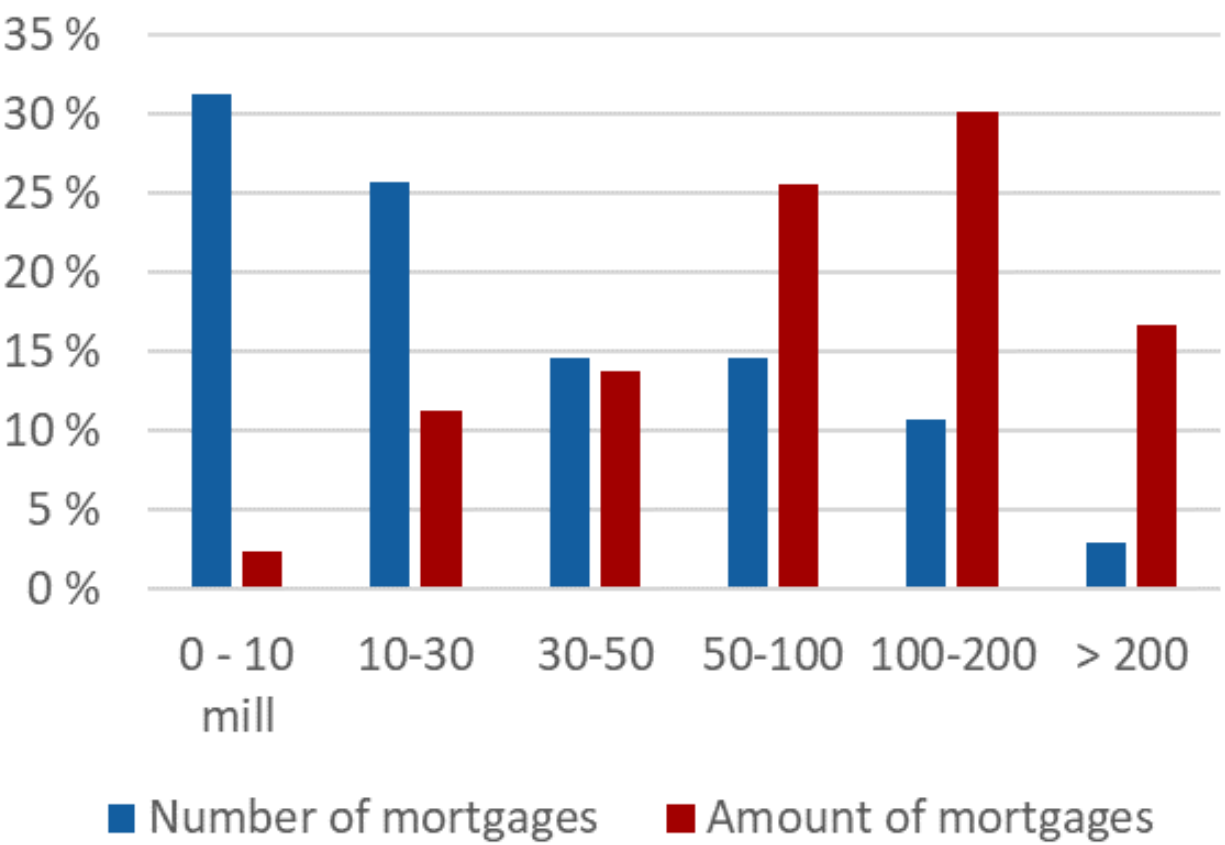


No arrears

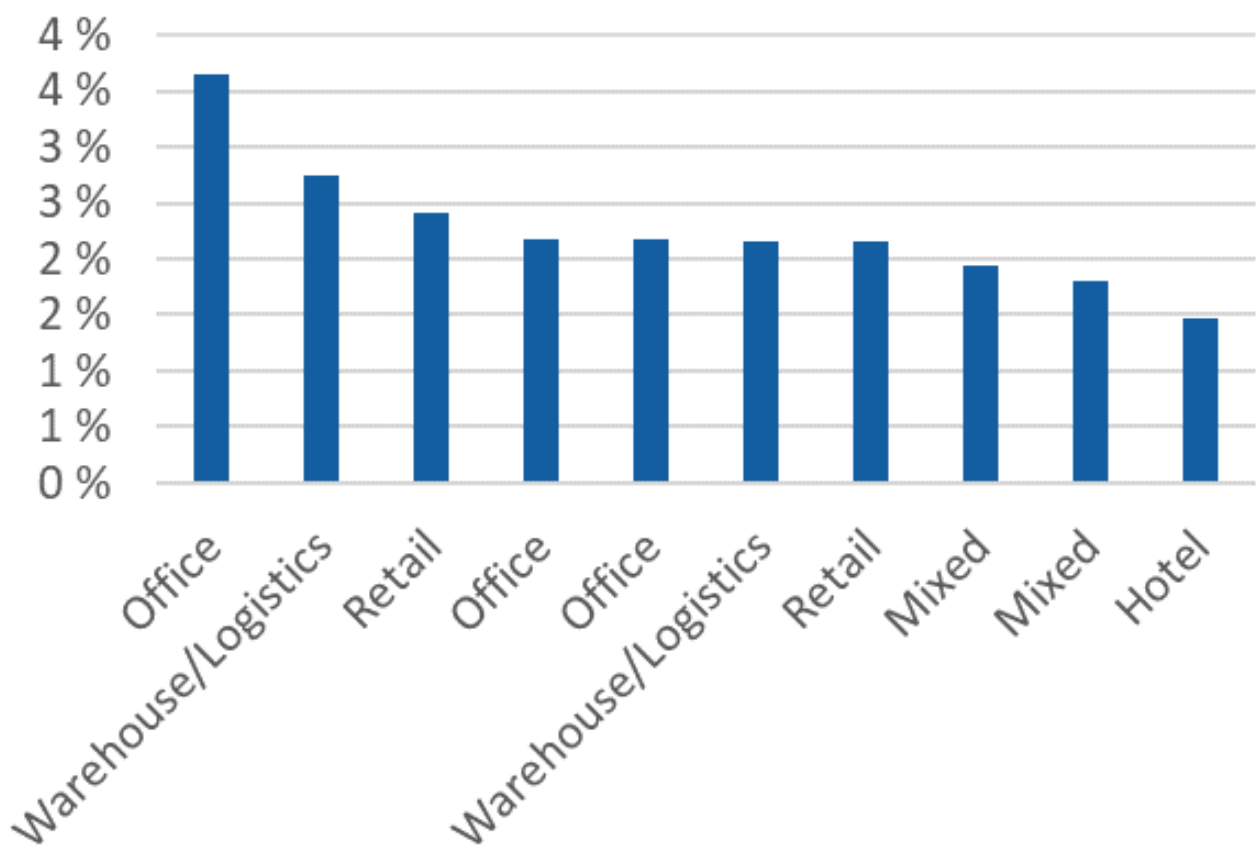


SpaCom cover pool

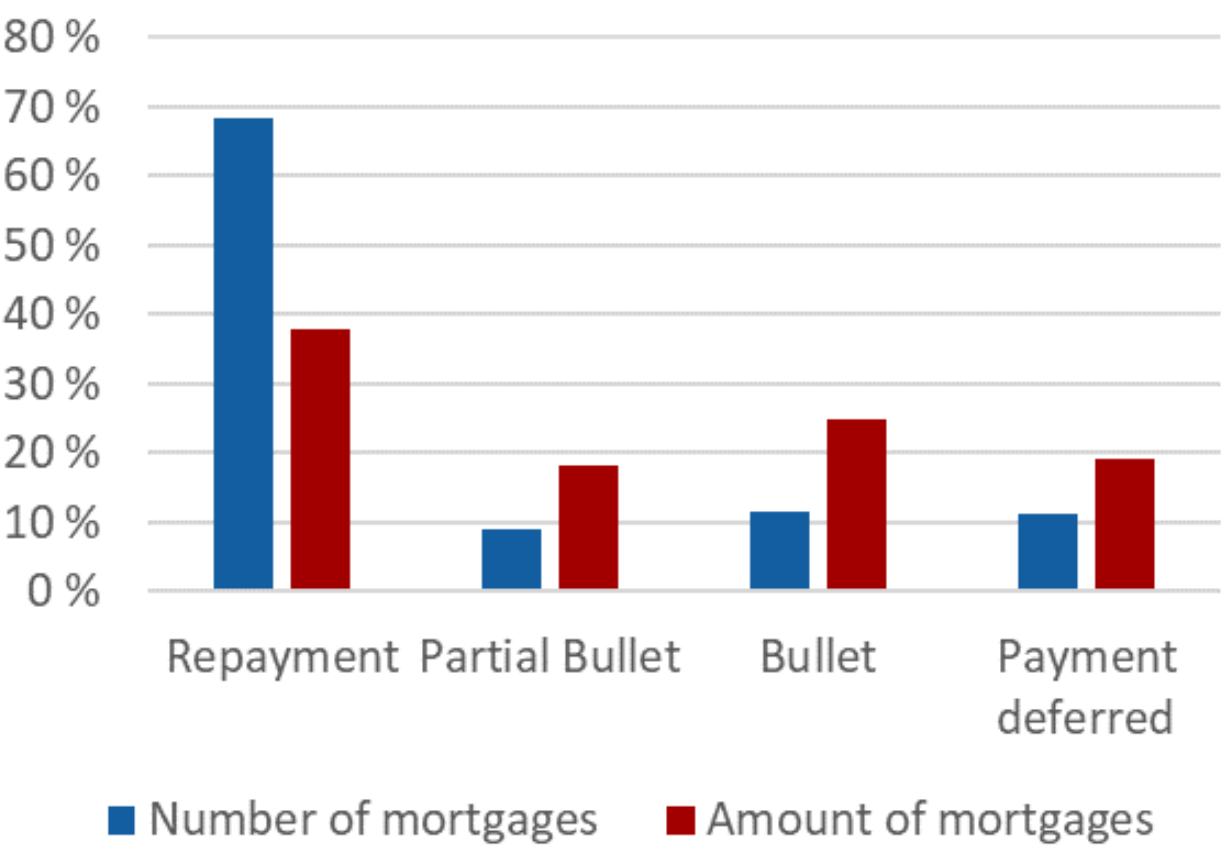
Mortgages by size range



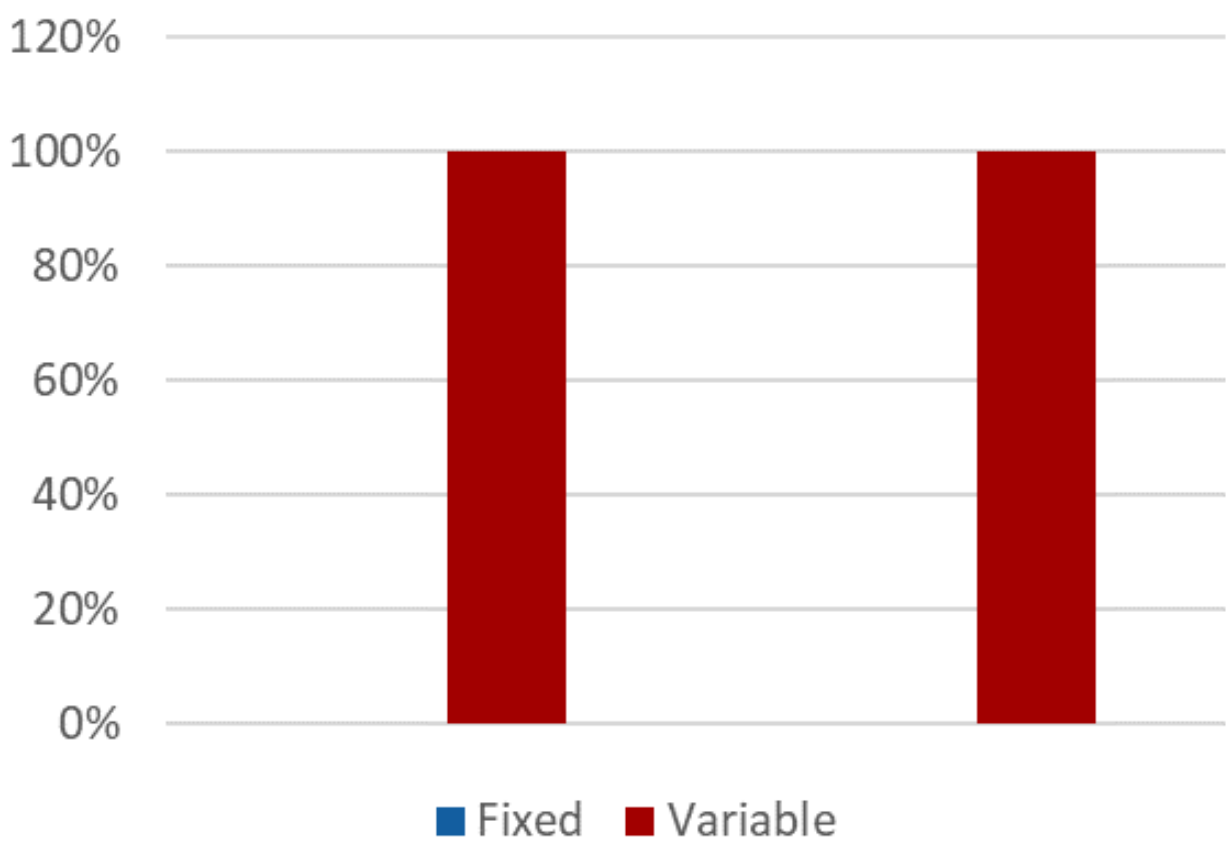
10 largest mortgages



Repayment structure

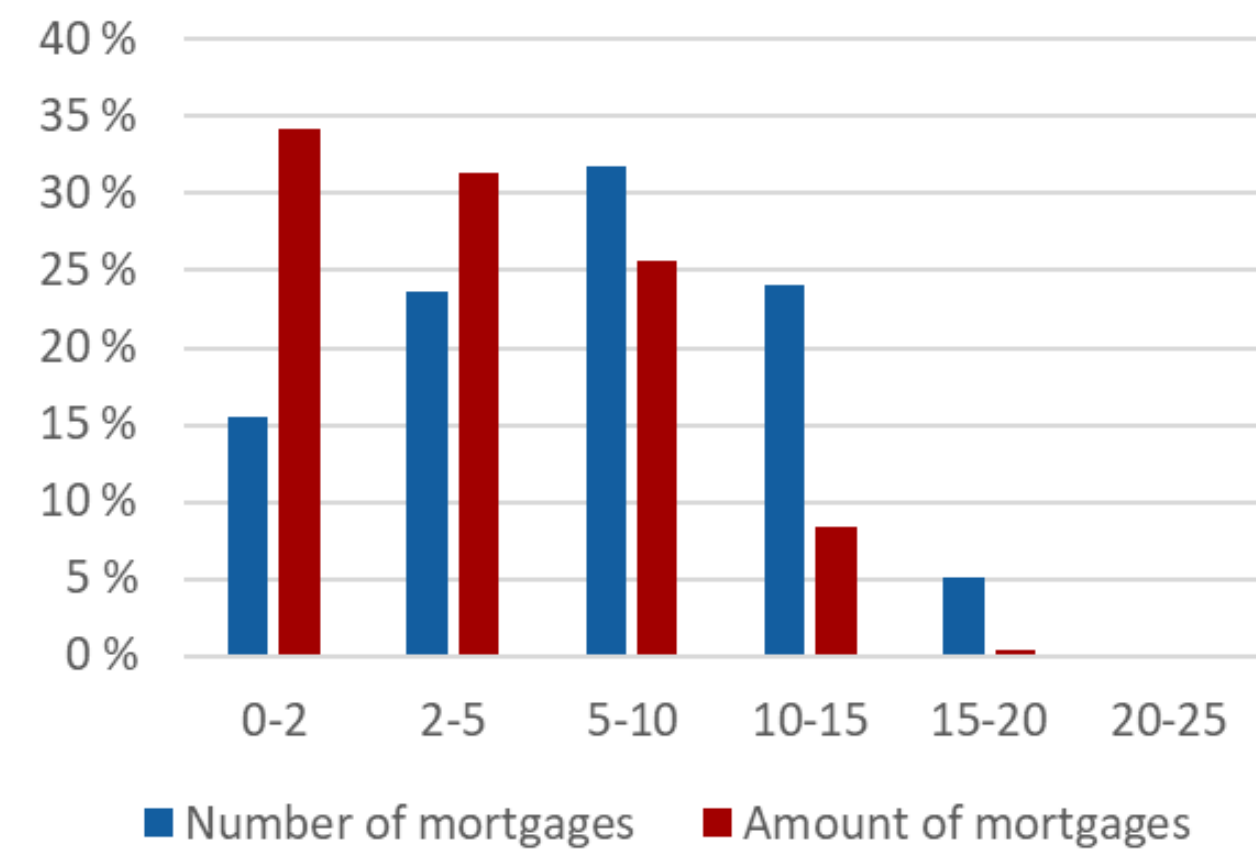


Interest rate

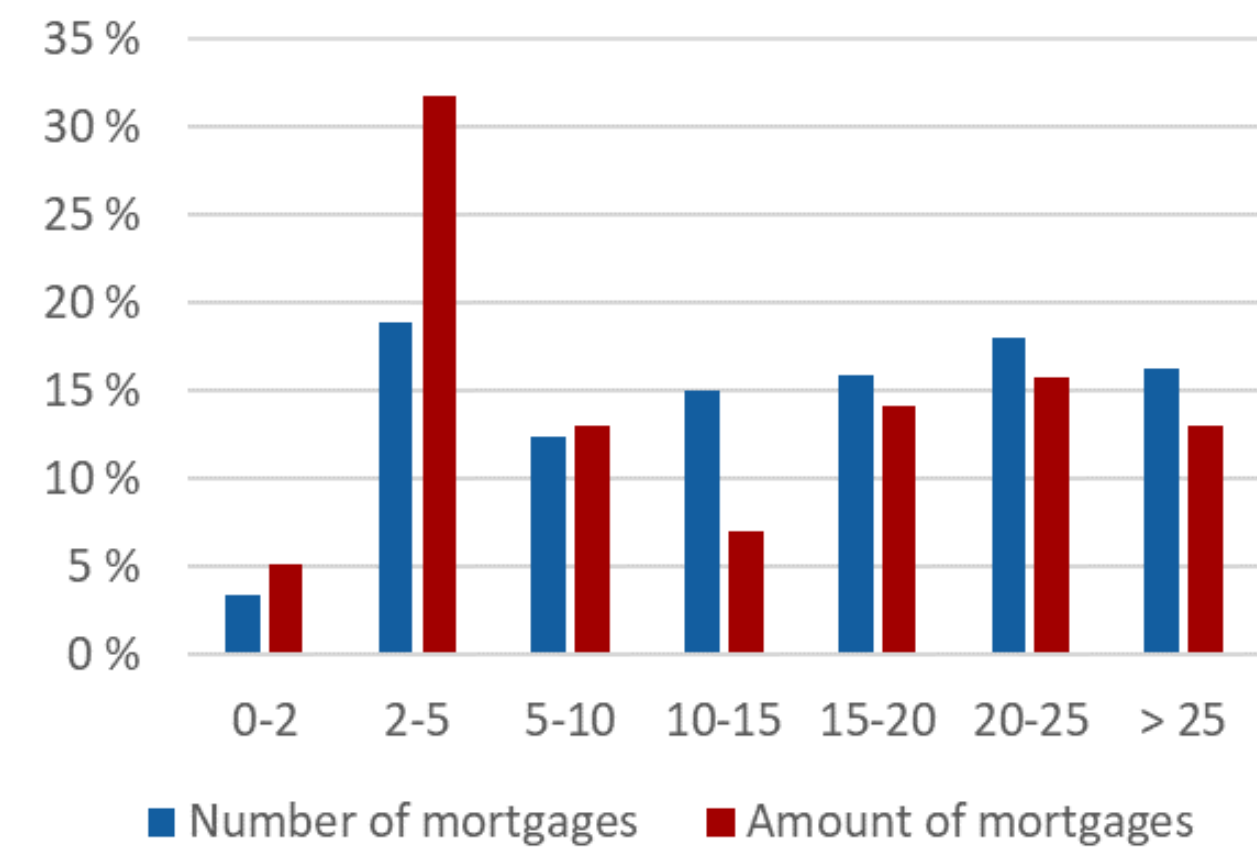


SpaCom cover pool

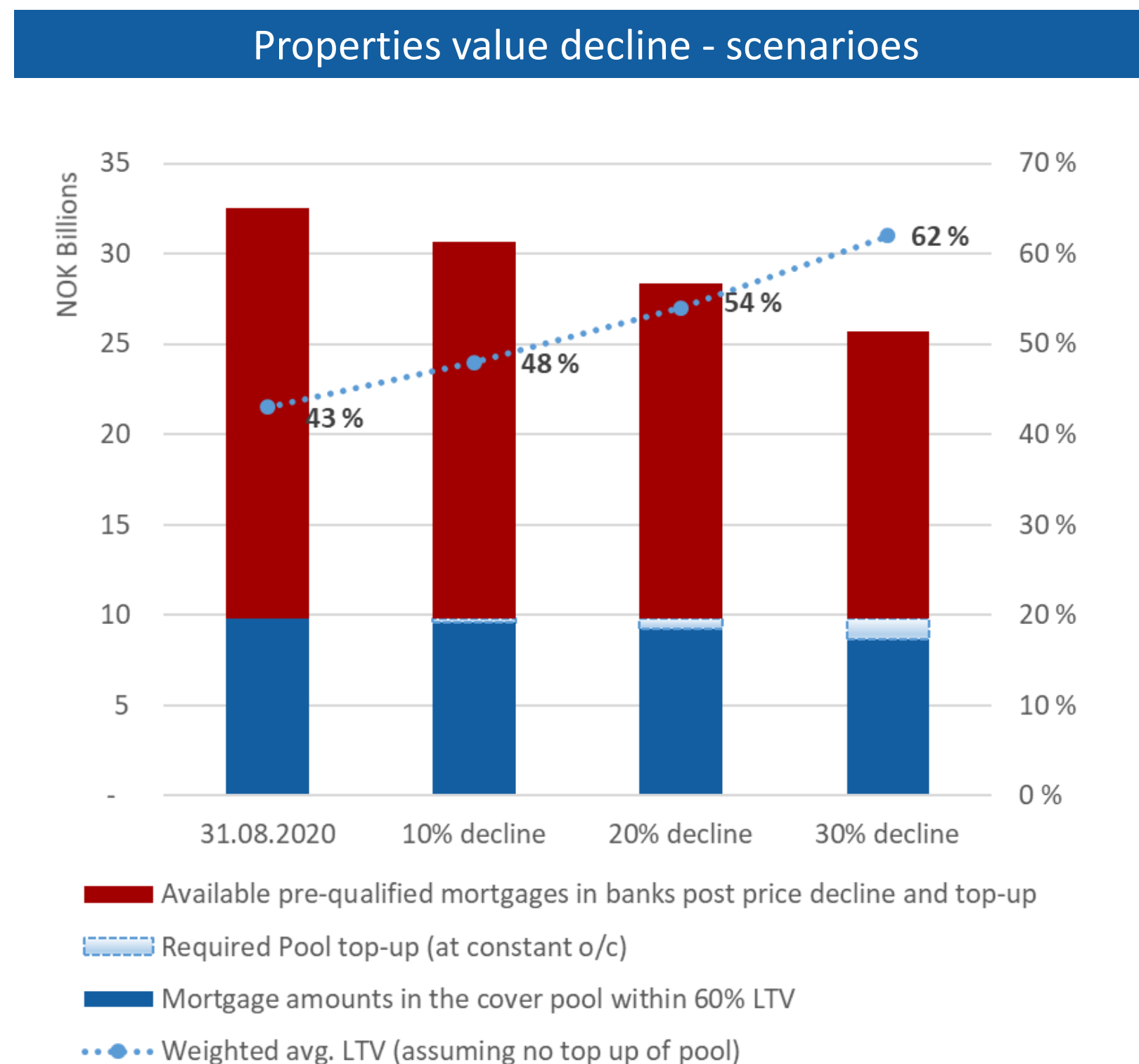
Seasoning in years



Remaining term in years



SpaCom cover pool – Stress test



- In a scenario with declining real estate valuations, an increasing share of mortgages above the 60% legal limit become ineligible as cover assets
- Accordingly, mortgages need to be replaced, this is the 'required top-up' in the chart
- Parts of the mortgages in the highest LTV brackets needs replacing as properties prices decline
- The reserve mortgages (red bars) in the banks which could be used in the SpaCom cover pool decline as their LTV increase and as the required top-up is provided to the cover pool
- The w.a. pool LTV shown in the chart is prior to the top-up, only considering the price declines based on the current pool mortgage balance

SpareBank 1 Alliance Banks



Banks in Norway



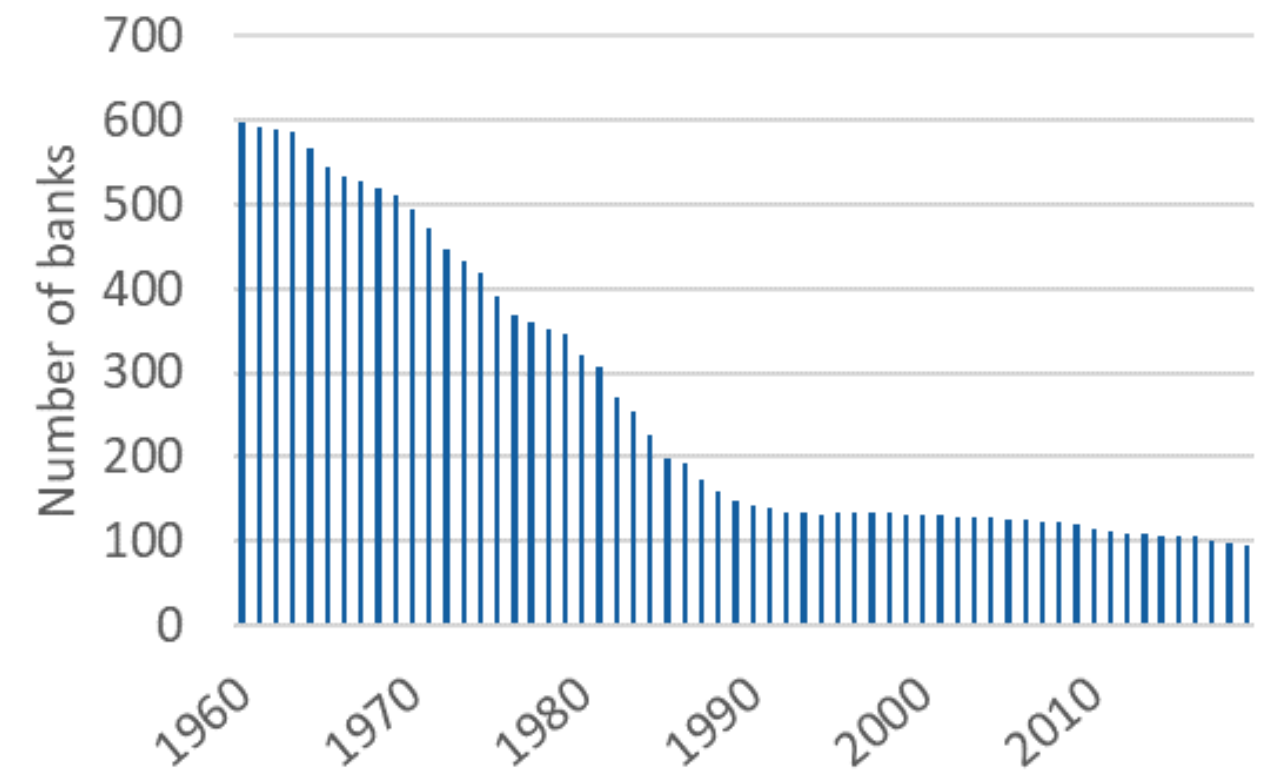
Savings banks (generic name: Sparebank):
96 banks (2020), 2 alliances and independent banks



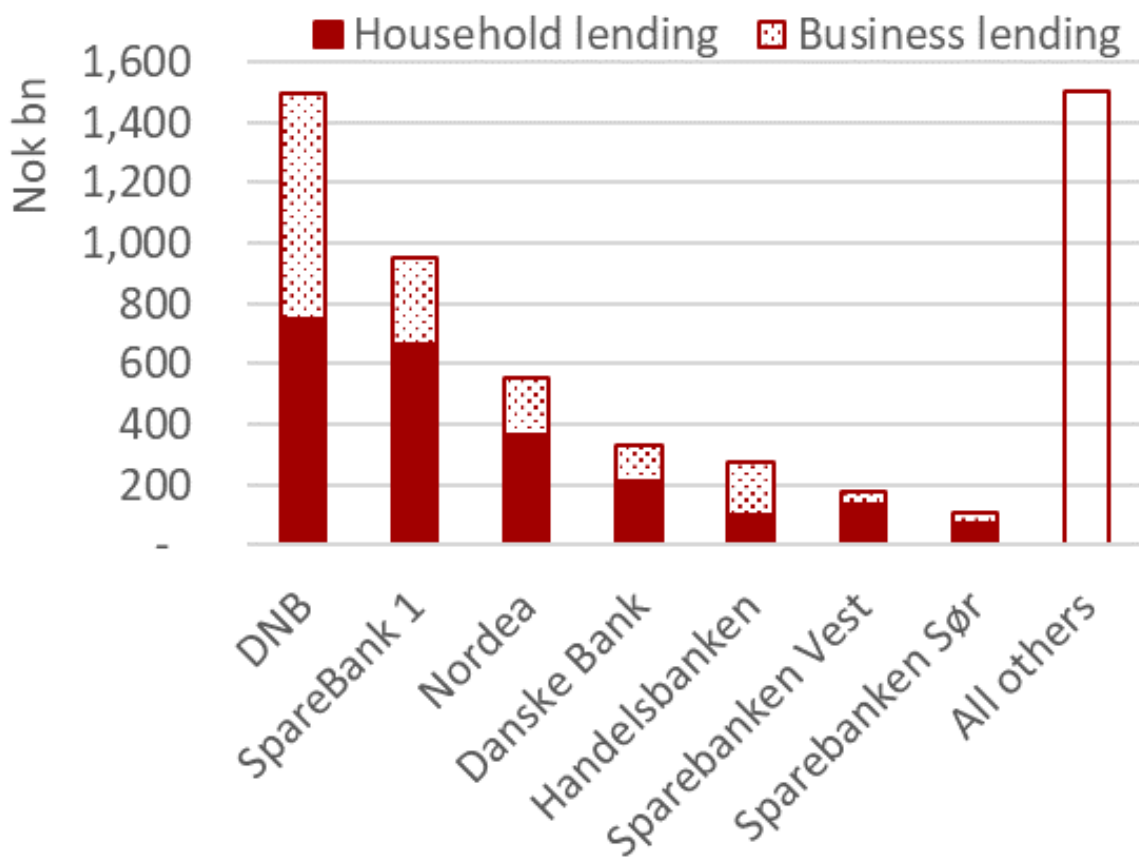
Commercial banks: larger Nordic banking groups
and smaller lenders (incl. consumer banks)

- Banks compete for the same customer base, with larger commercial banks focusing on larger corporations
- A savings bank's strength sits in its local or regional market and in the household and SME sector

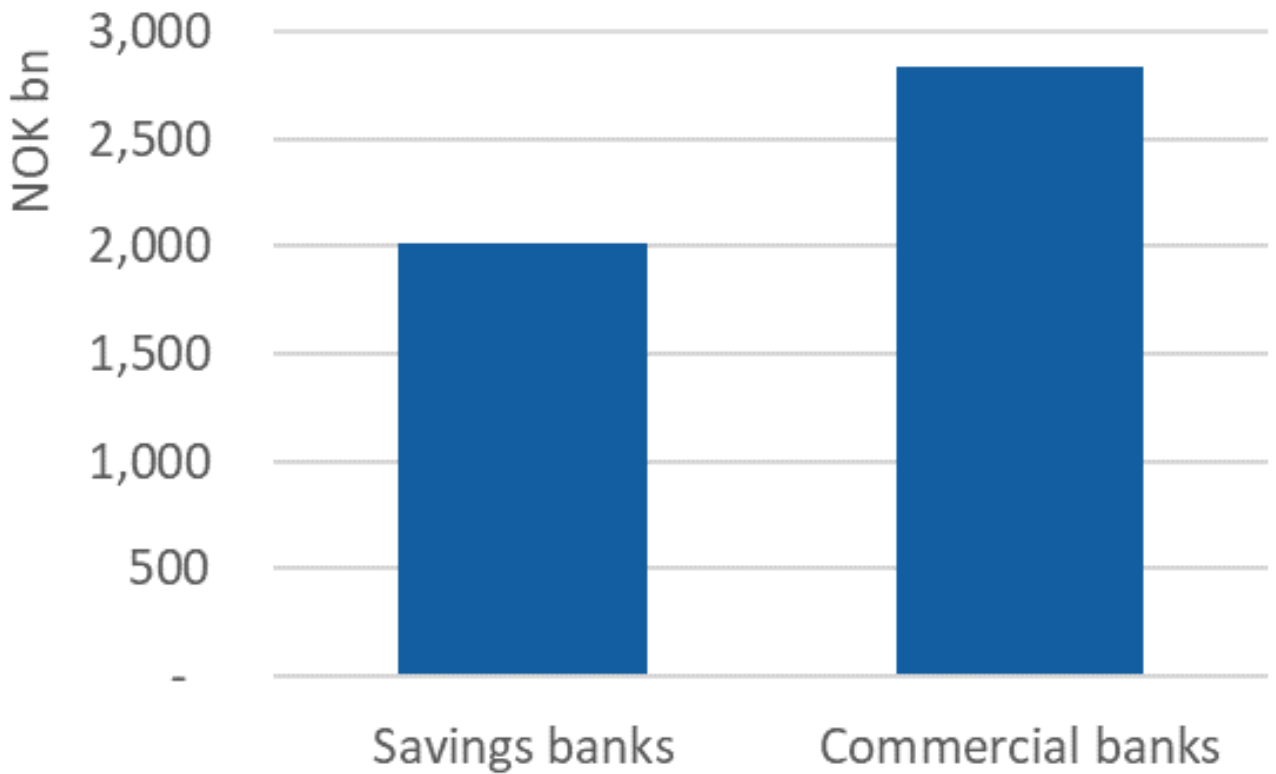
Savings banks consolidation



Largest banks by lending volume, Norway



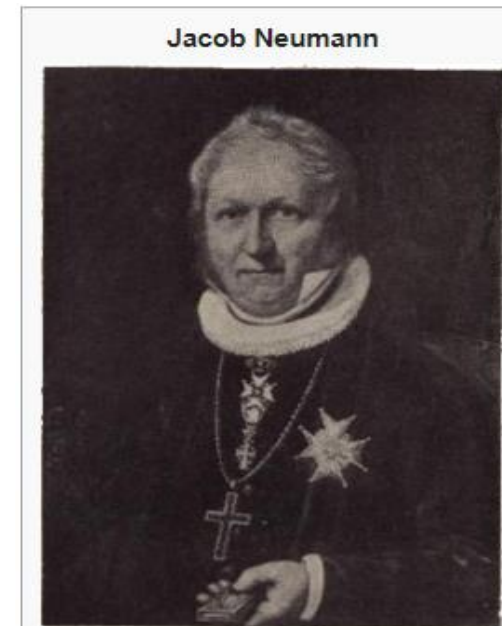
Lending by type of bank



Norwegian Savings Banks

Characteristics

- ▶ Norway's first type of bank, founded in the 1820ies, retains local and regional character
- ▶ Universal banks, but domestic lending only, concentrate on residential mortgage lending
- ▶ Savings banks are self-owned institutions, as well as investor owned
- ▶ All larger savings banks' equity (capital certificates) are listed on the Oslo stock exchange
- ▶ Share of profits provided as gift annually (society dividend)



SpareBank 1 Alliance: Local presence, joint and collaborative platform

Alliance founded 1996; 14 Banks

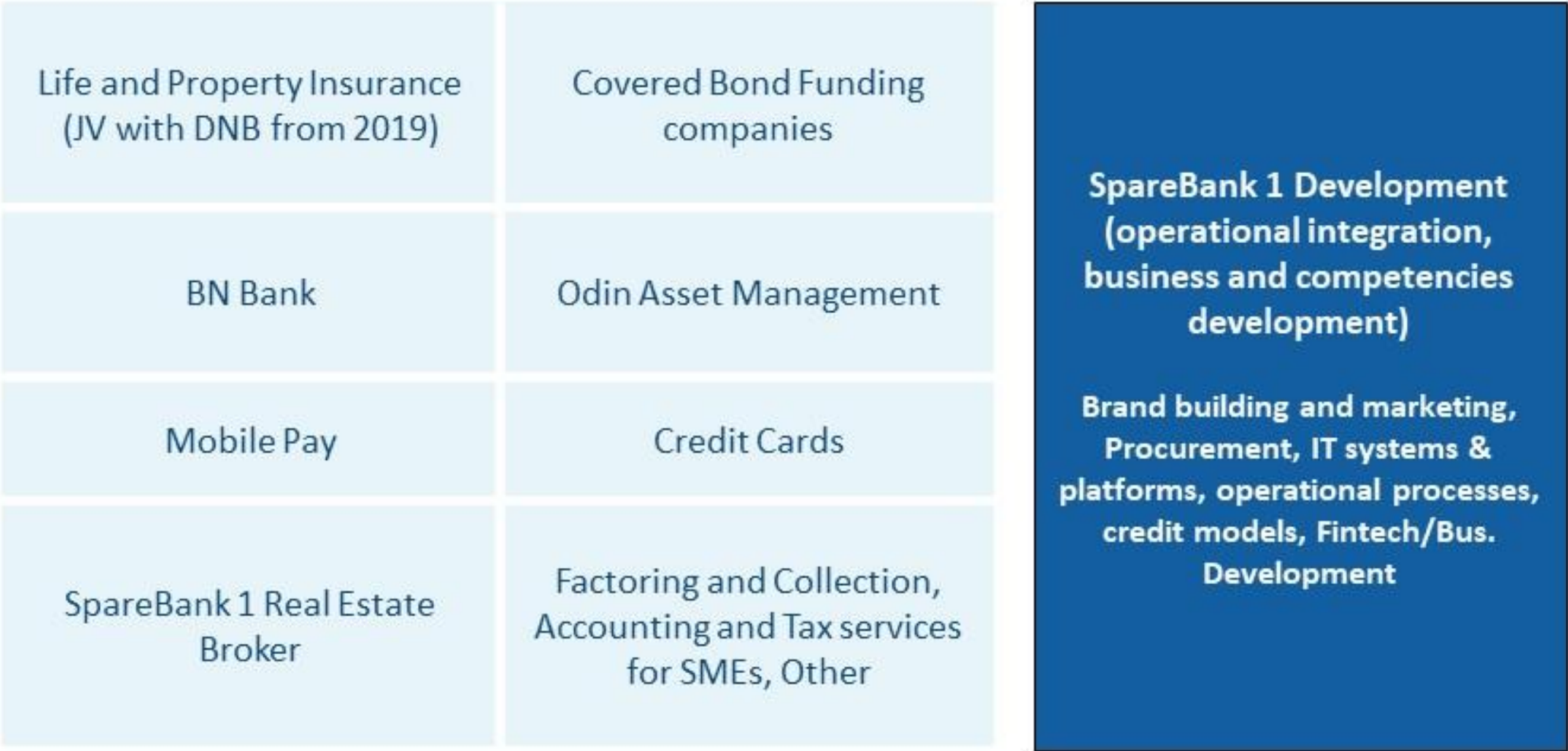


SpareBank 1 Alliance

Alliance
Member Banks

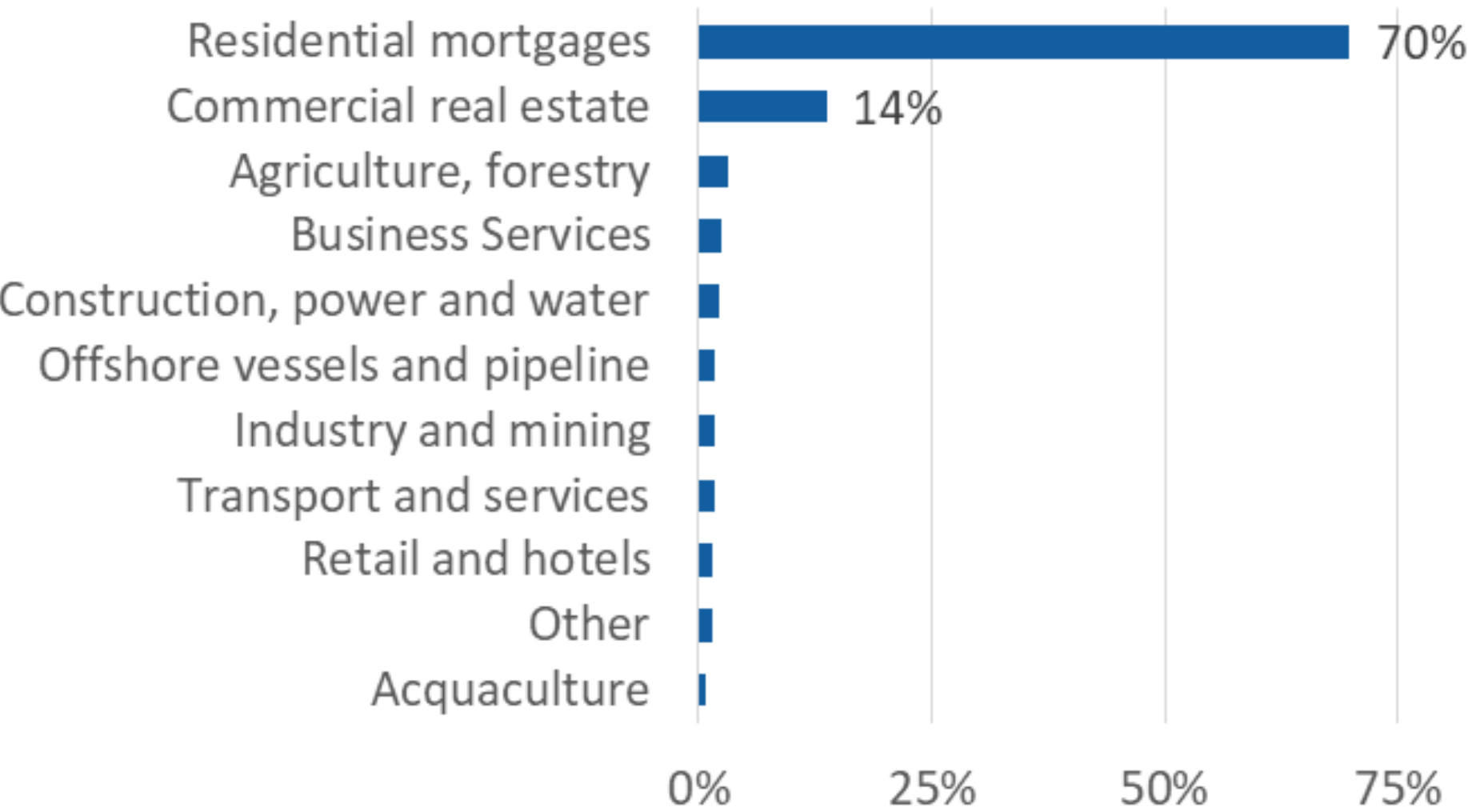


Subsidiaries of
the banks

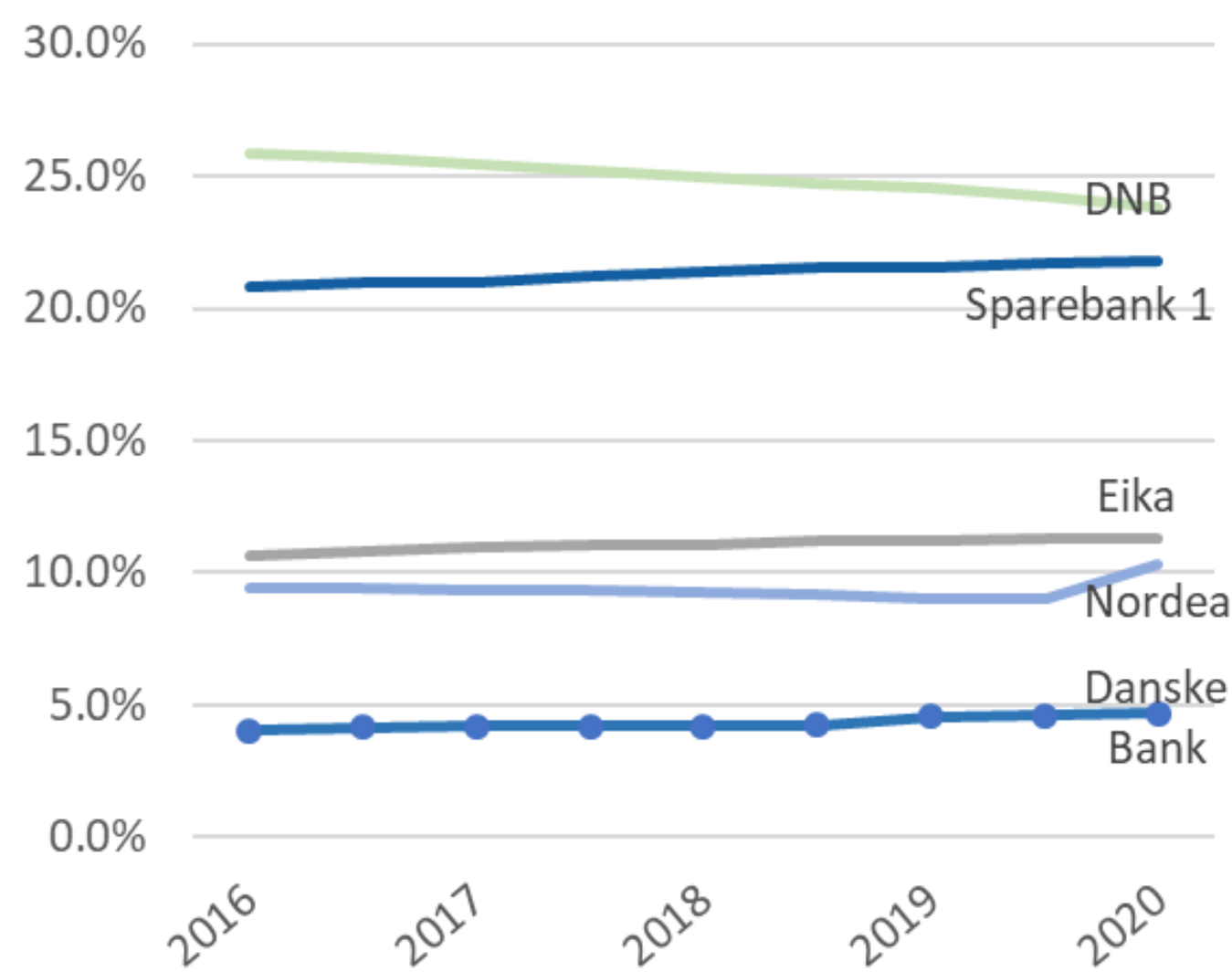


SpareBank 1 banks balance sheet and market share

SpareBank 1 banks aggregated balance sheet



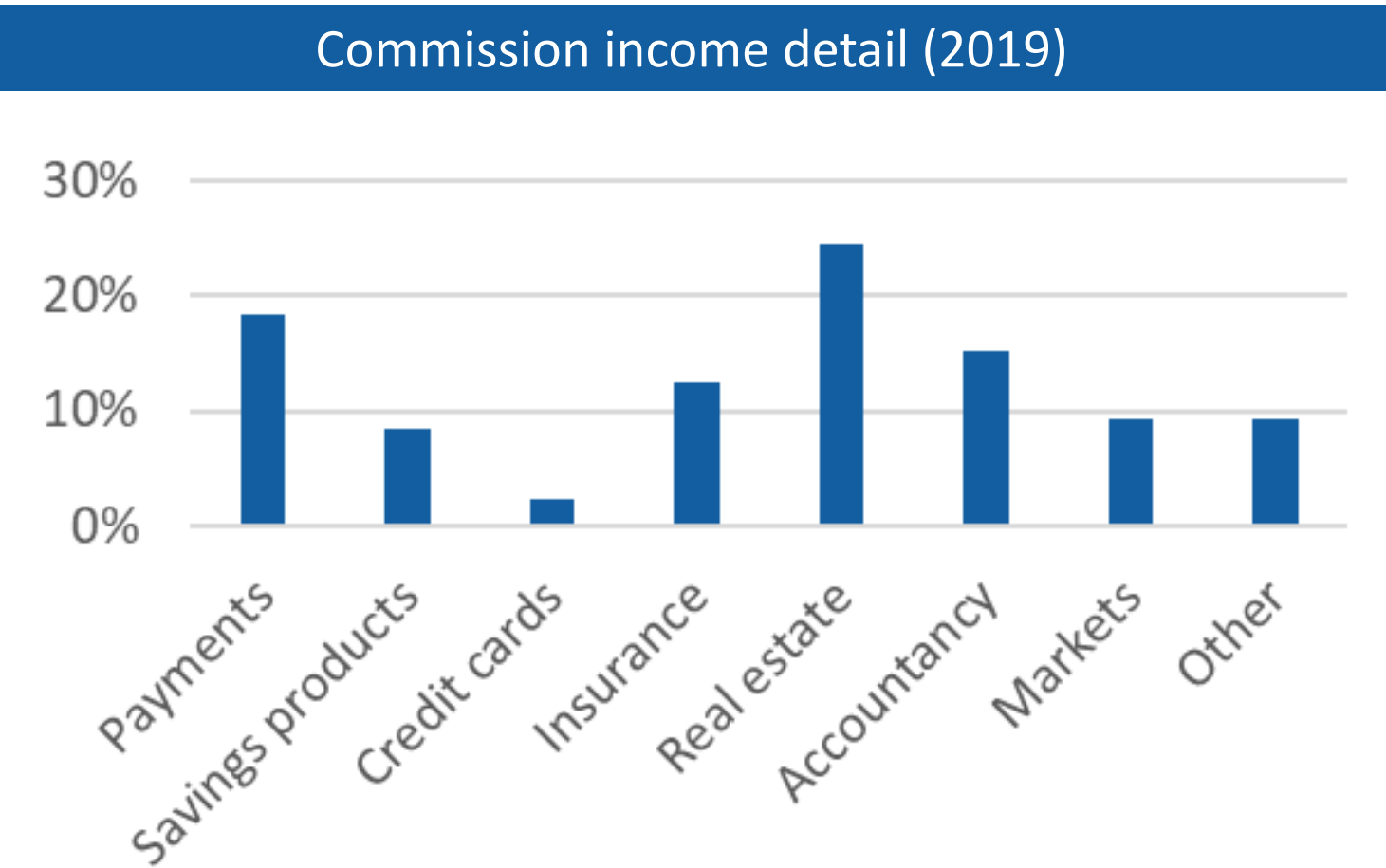
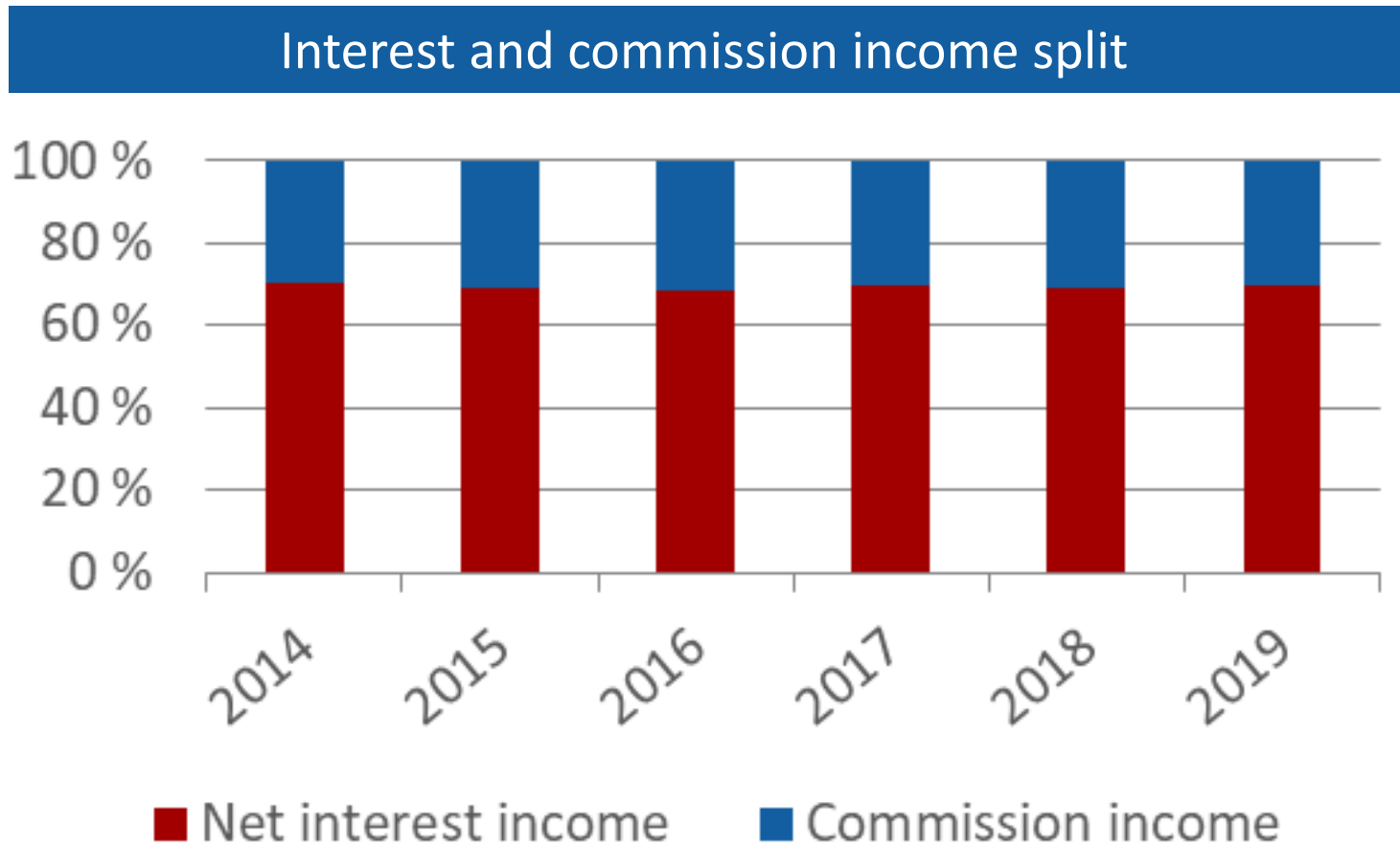
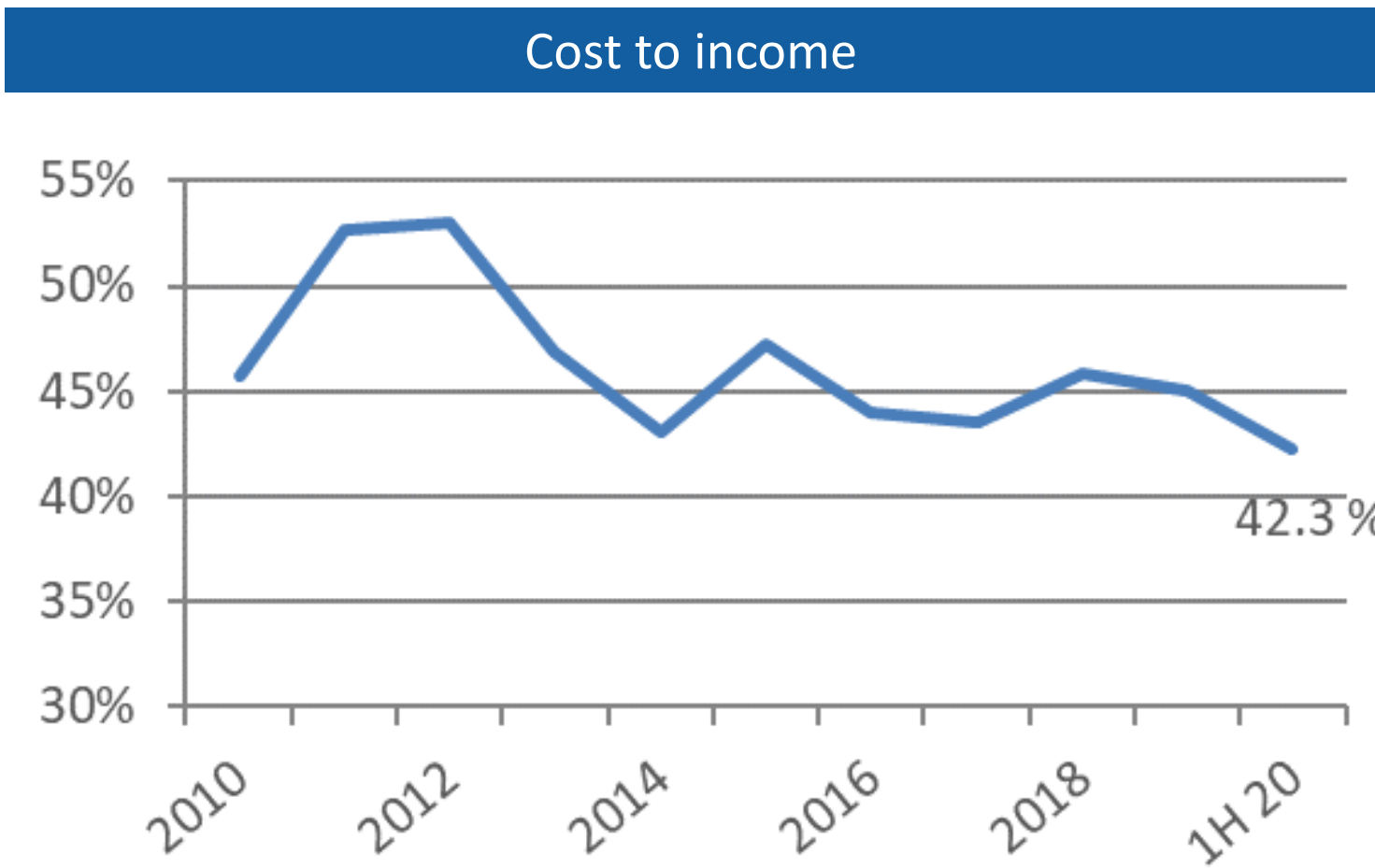
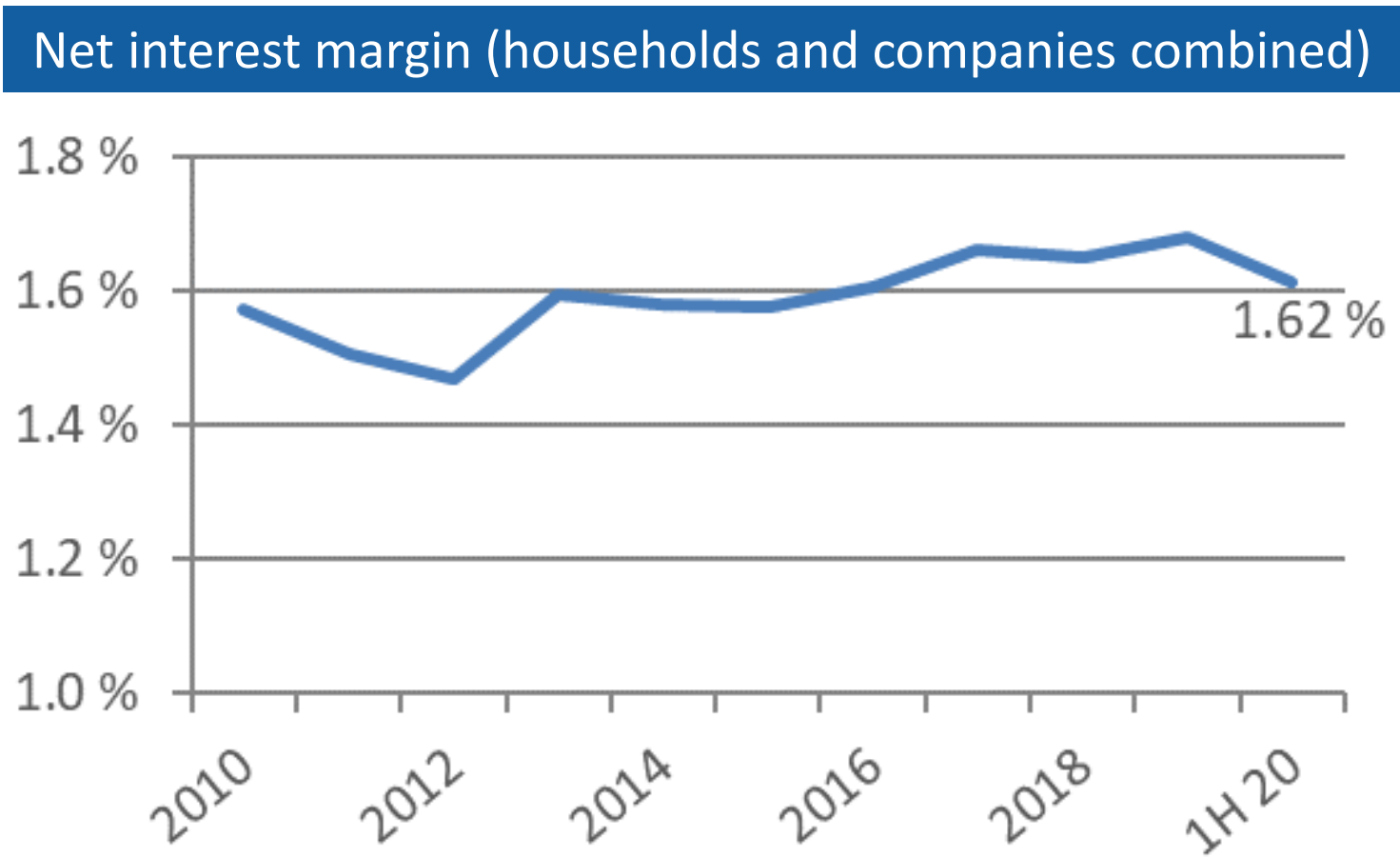
Residential mortgage market share



Source: Eiendomsverdi

SpareBank 1 banks

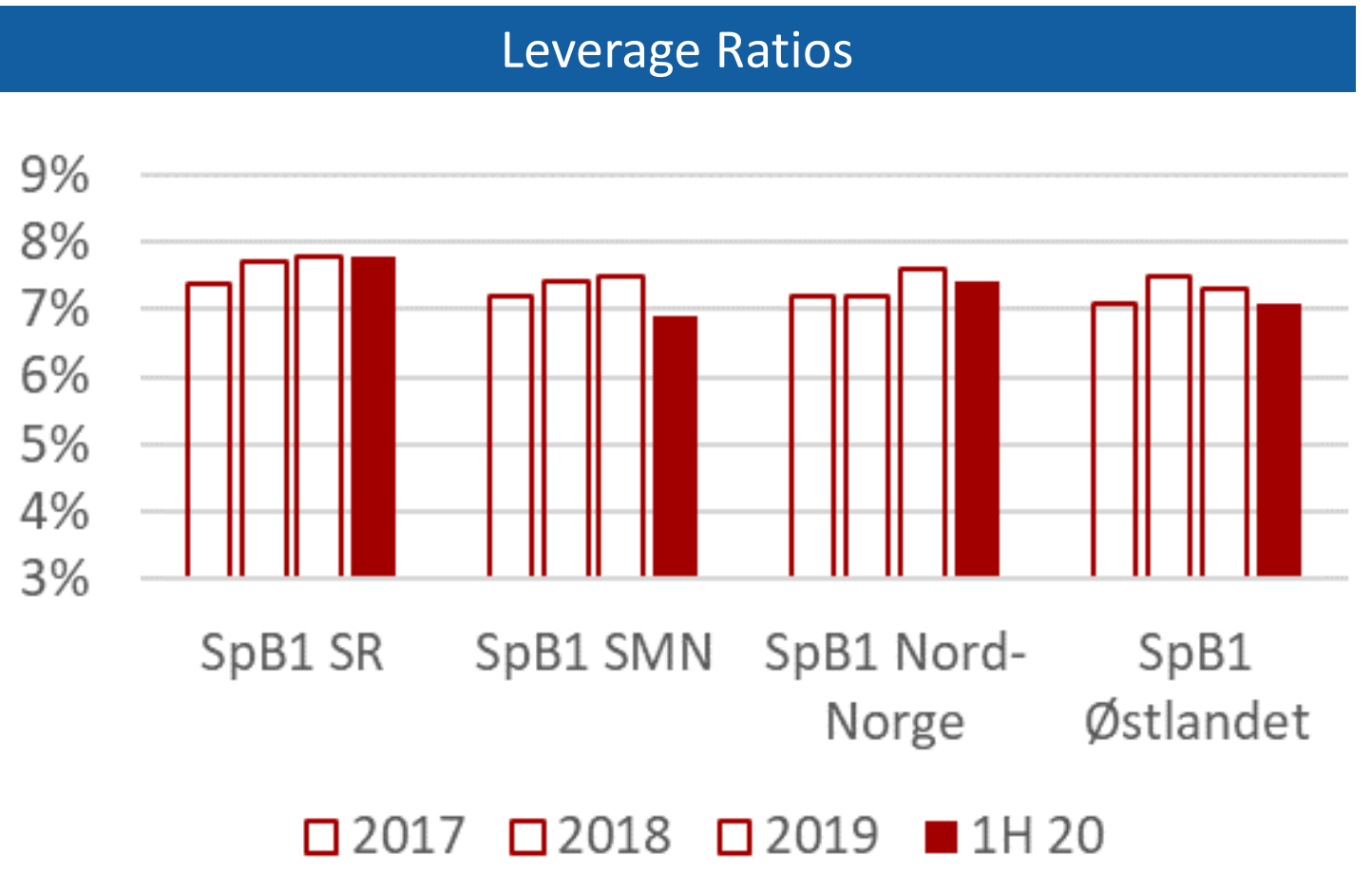
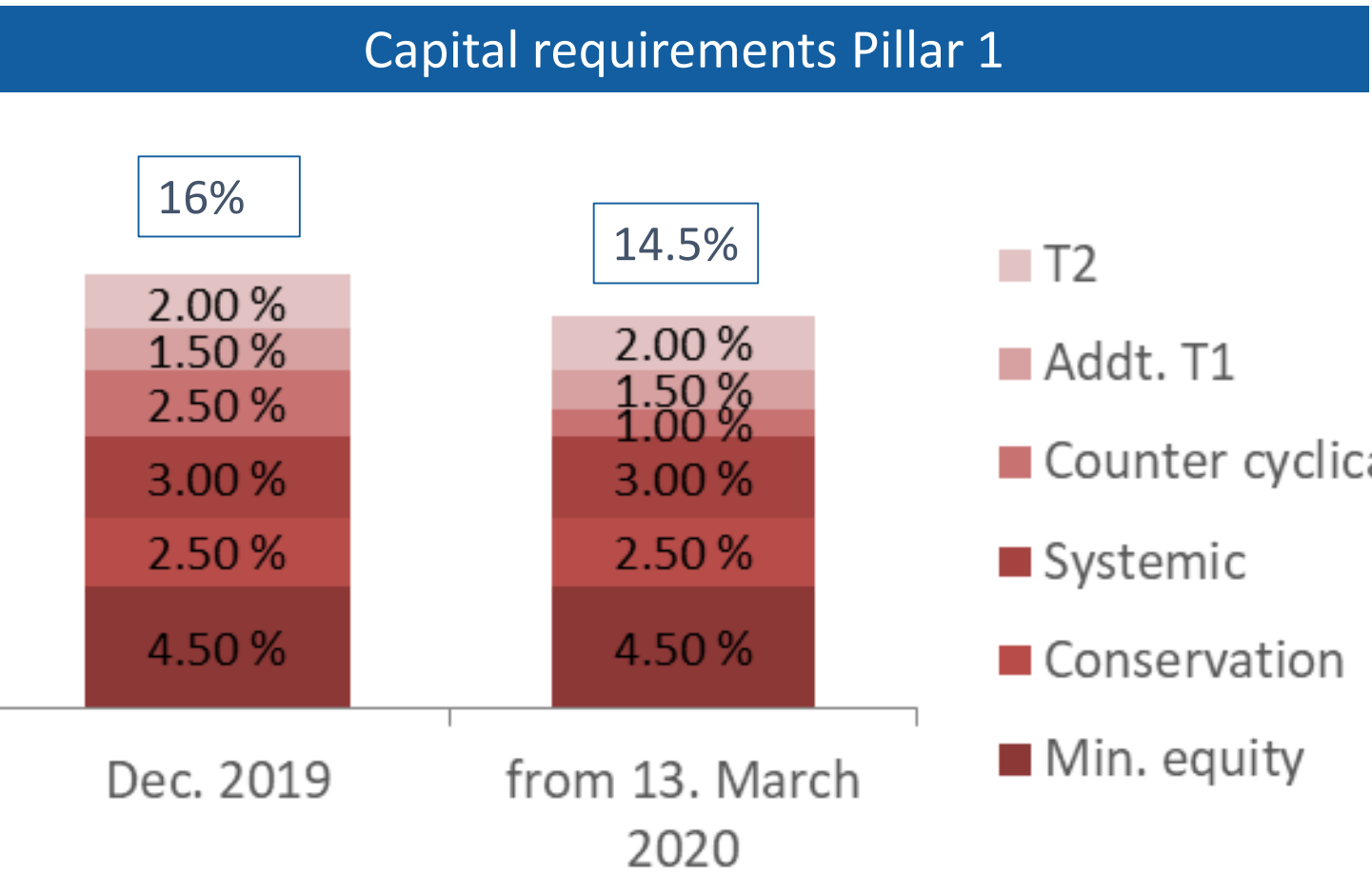
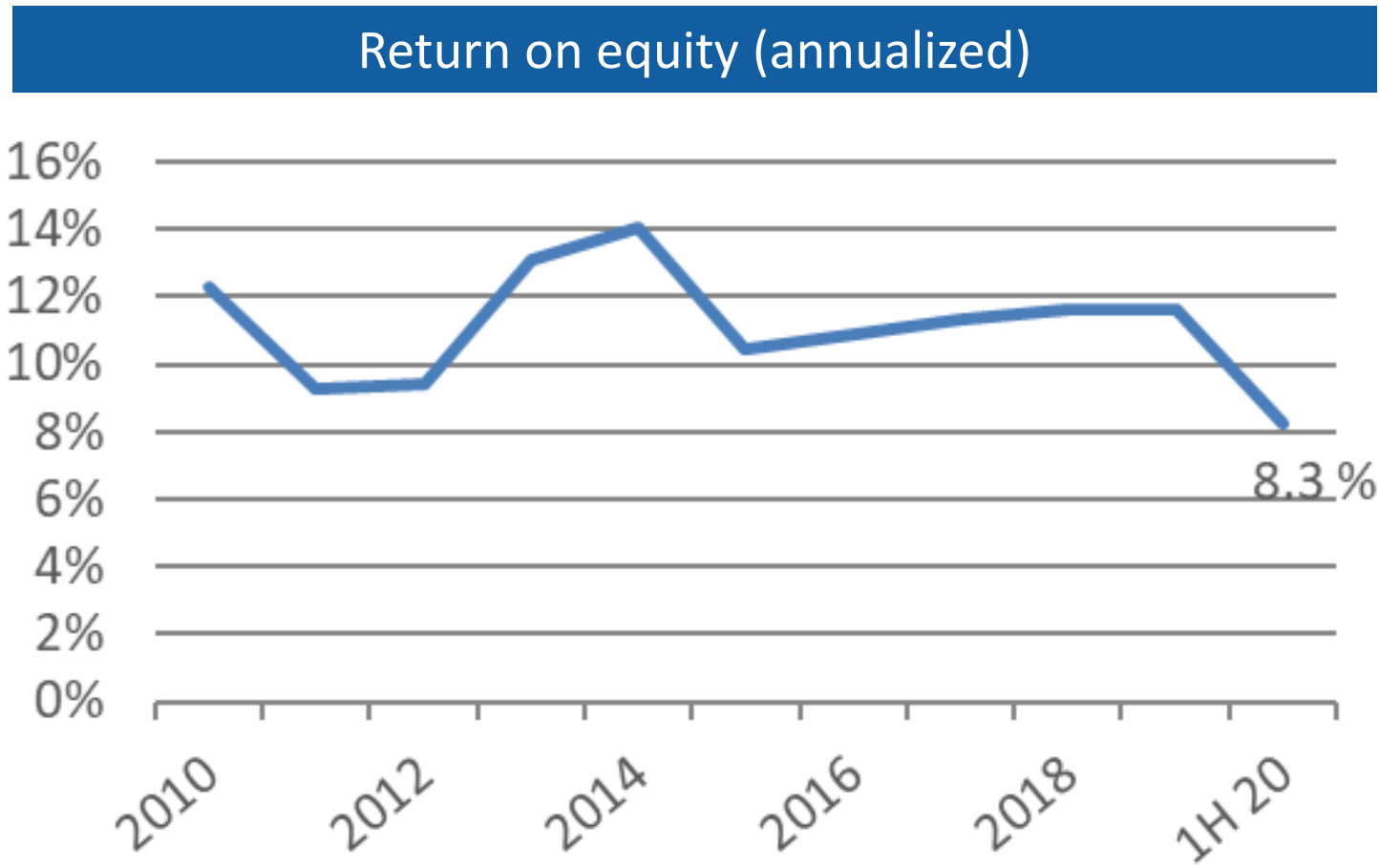
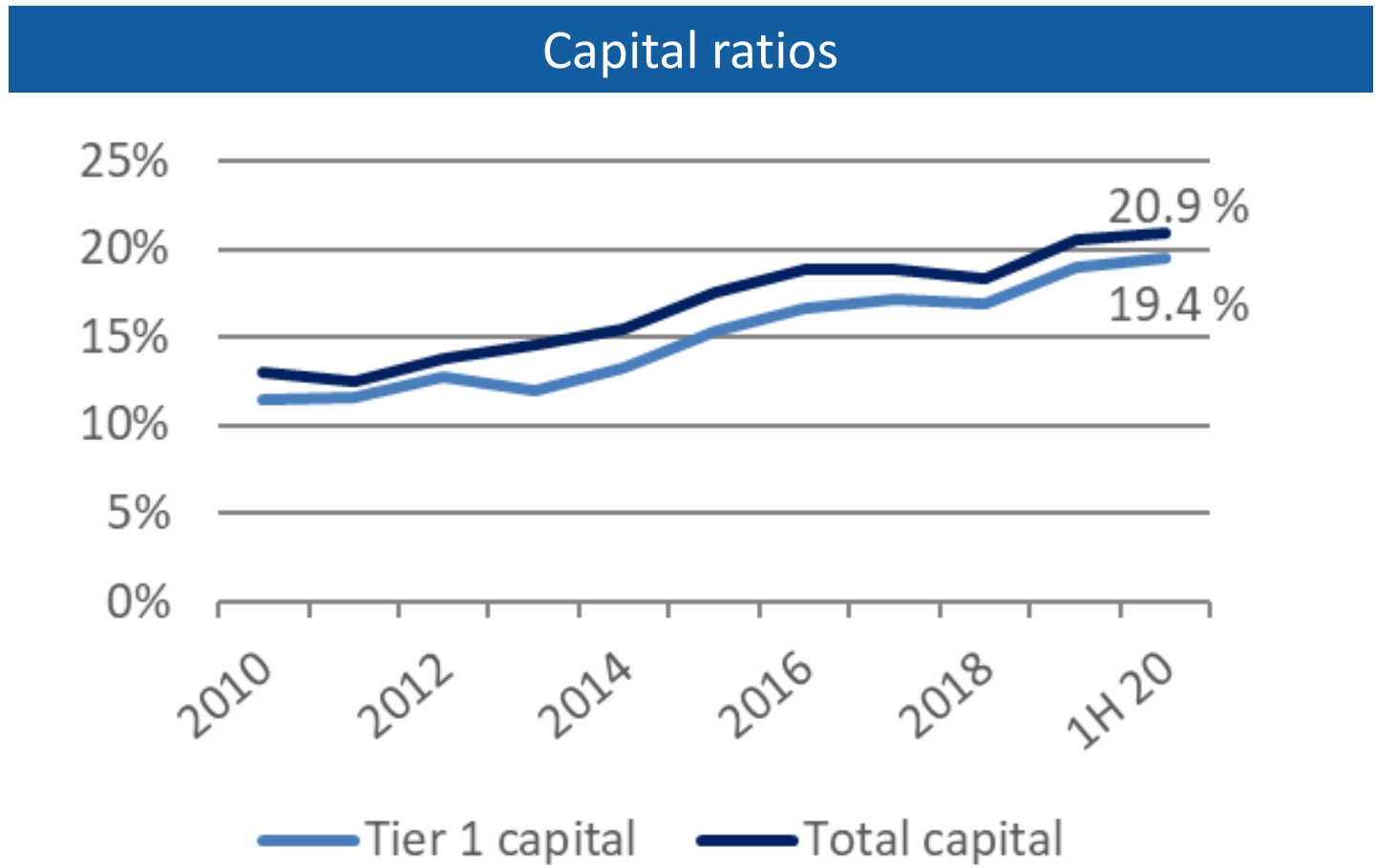
Income and costs



Source: SpareBank 1 banks financial reporting. Weighted averages.

SpareBank 1 banks

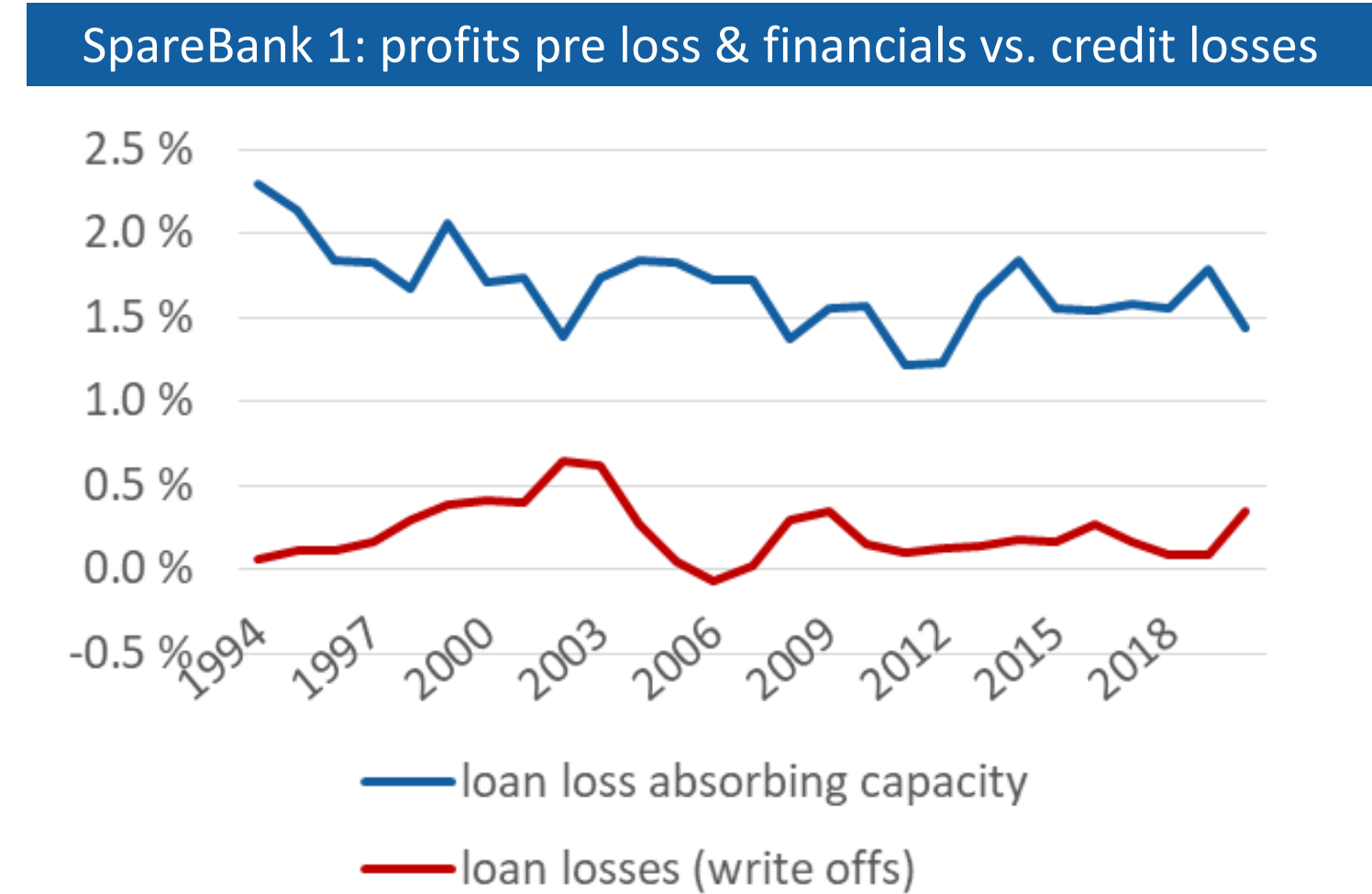
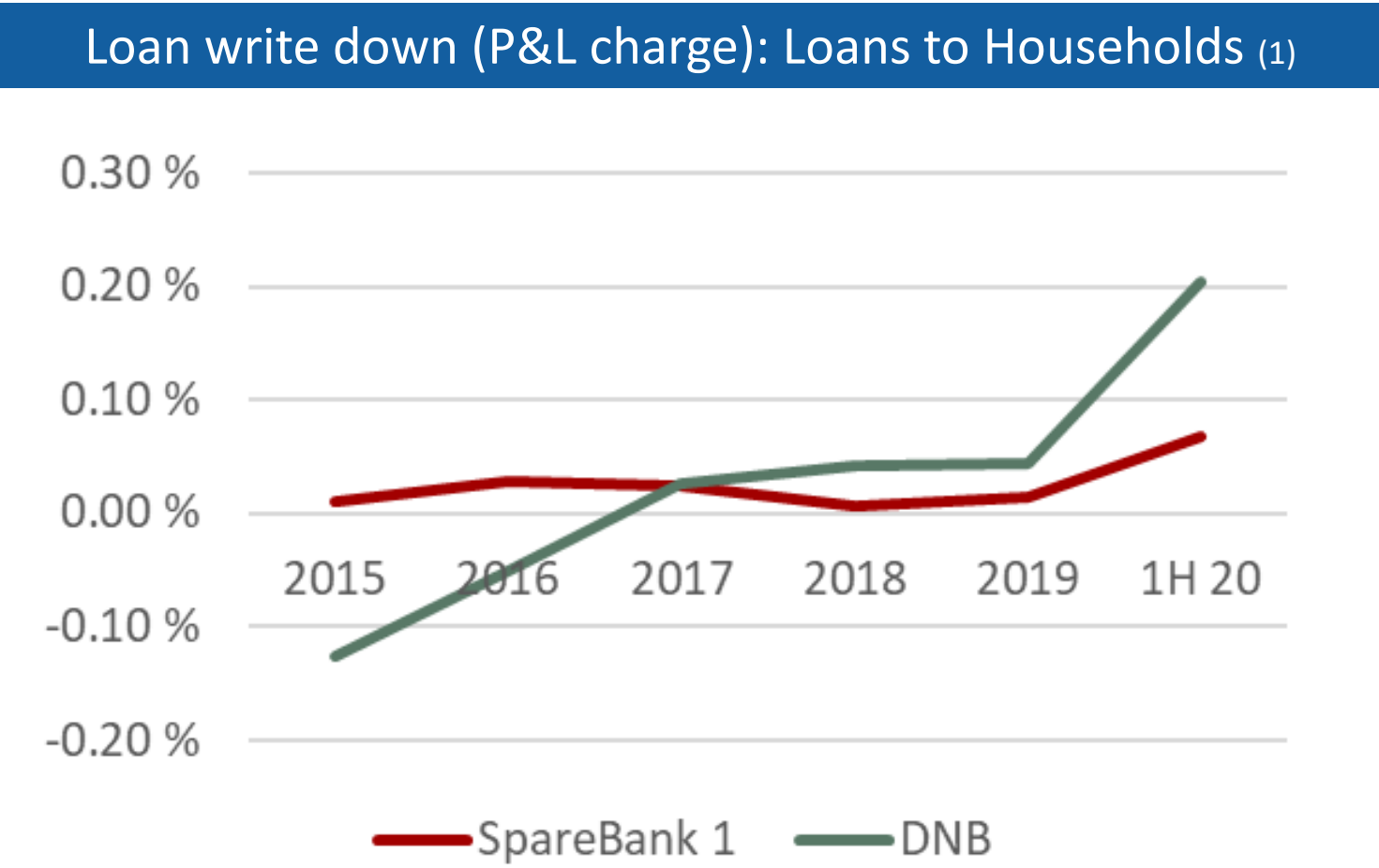
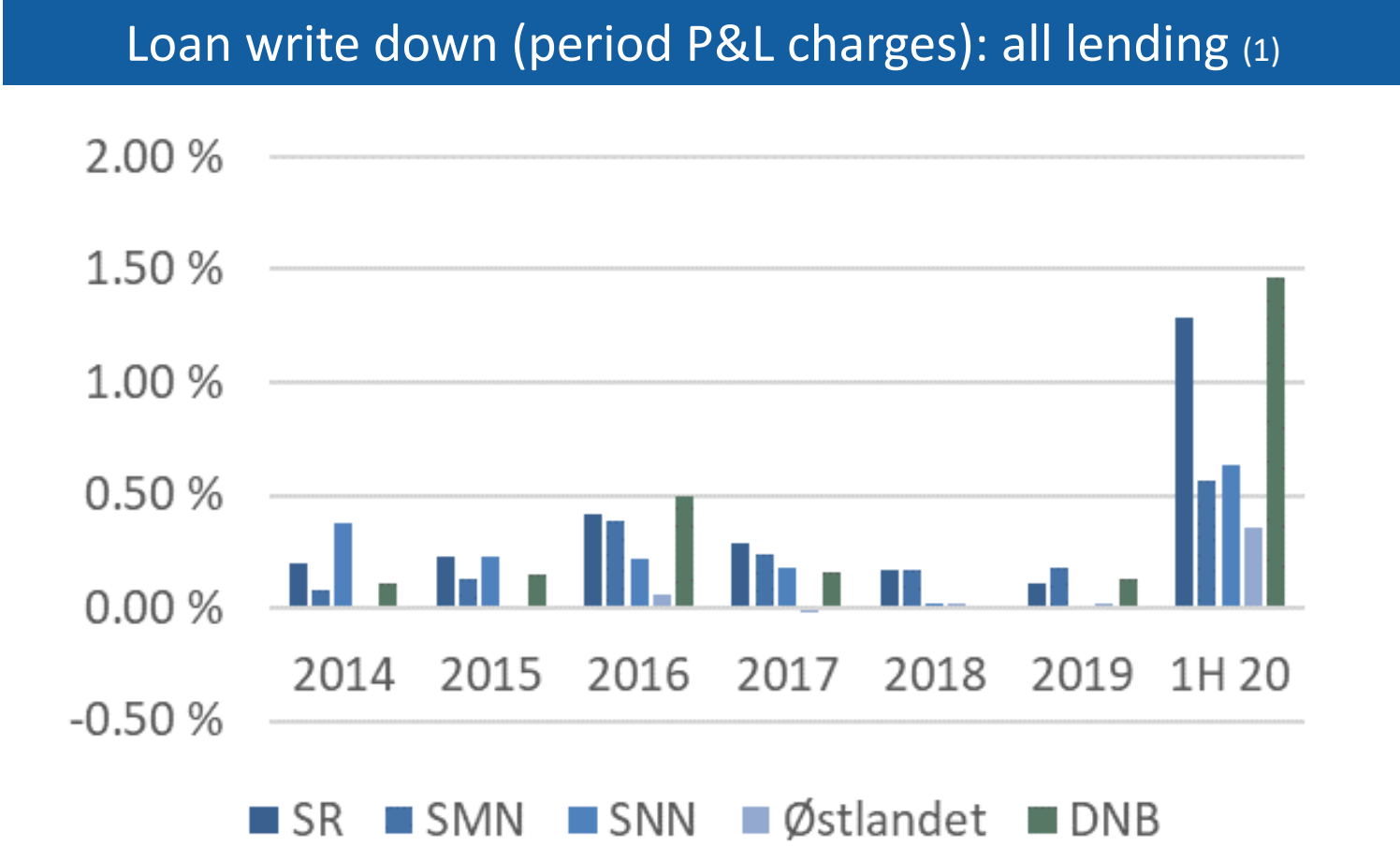
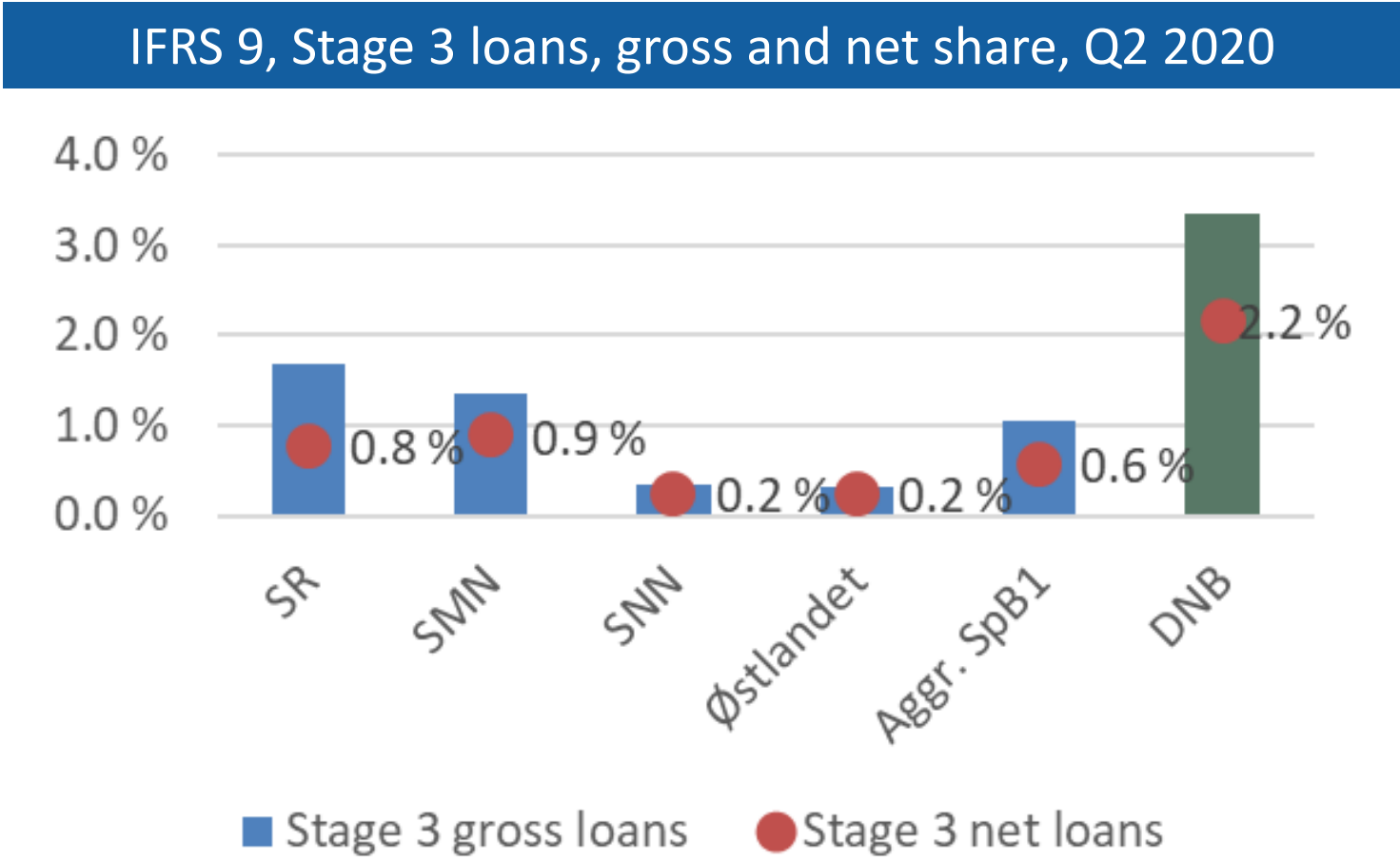
Capital and return



Source: banks financial reporting. Weighted averages.

SpareBank 1 banks

Credit quality



Source: banks financial reporting. Weighted averages.

(1) Denominator is total loans drawn. Quarterly period's losses are annualized

SpareBank 1 banks

Summary of Key figures for the Alliance banks

As of June 30, 2020

Figures in NOK mill.

| | Sparebank 1 SMN | Sparebank 1 SNN | Sparebank 1 Østlandet | Sparebank 1 SR | Sparebank 1 BV | All other SB1 banks | Alliance Aggregate |
|---|--------------------|--------------------|--------------------------|-------------------|-------------------|------------------------|-----------------------|
| Moodys' Issuer/Sr. rating | A1 | Aa3 | Aa3 | A1 | A2 | NR | |
| Total assets (incl. covered bond loans) | 234,957 | 155,632 | 192,772 | 282,913 | 53,934 | 253,701 | 1,173,909 |
| Gross loans | 175,100 | 126,184 | 157,956 | 218,630 | 45,601 | 214,102 | 937,573 |
| of which used in covered bonds | 44,473 | 37,310 | 45,575 | 81,191 | 13,440 | 71,363 | 293,352 |
| Deposits | 94,289 | 73,081 | 85,481 | 111,170 | 25,948 | 113,325 | 503,294 |
| NPLs | 2,370 | 440 | 826 | 3,649 | 247 | 1,094 | 8,626 |
| CET 1 Equity | 20,320 | 14,181 | 16,244 | 25,203 | 5,381 | 24,121 | 105,450 |
| CET 1 ratio | 18.9 % | 18.4 % | 18.2 % | 19.9 % | 20.3 % | 19.8 % | |
| Total capital ratio | 21.1 % | 20.2 % | 20.1 % | 21.8 % | 22.3 % | 21.6 % | |
| NPL ratio | 1.4 % | 0.3 % | 0.5 % | 1.7 % | 0.5 % | 0.5 % | |
| Cost to income ratio | 46.0 % | 39.2 % | 46.6 % | 37.9 % | 46.0 % | 44.0 % | |
| RoE | 10.3 % | 12.9 % | 11.0 % | 3.7 % | 9.8 % | 8.4 % | |

Notes

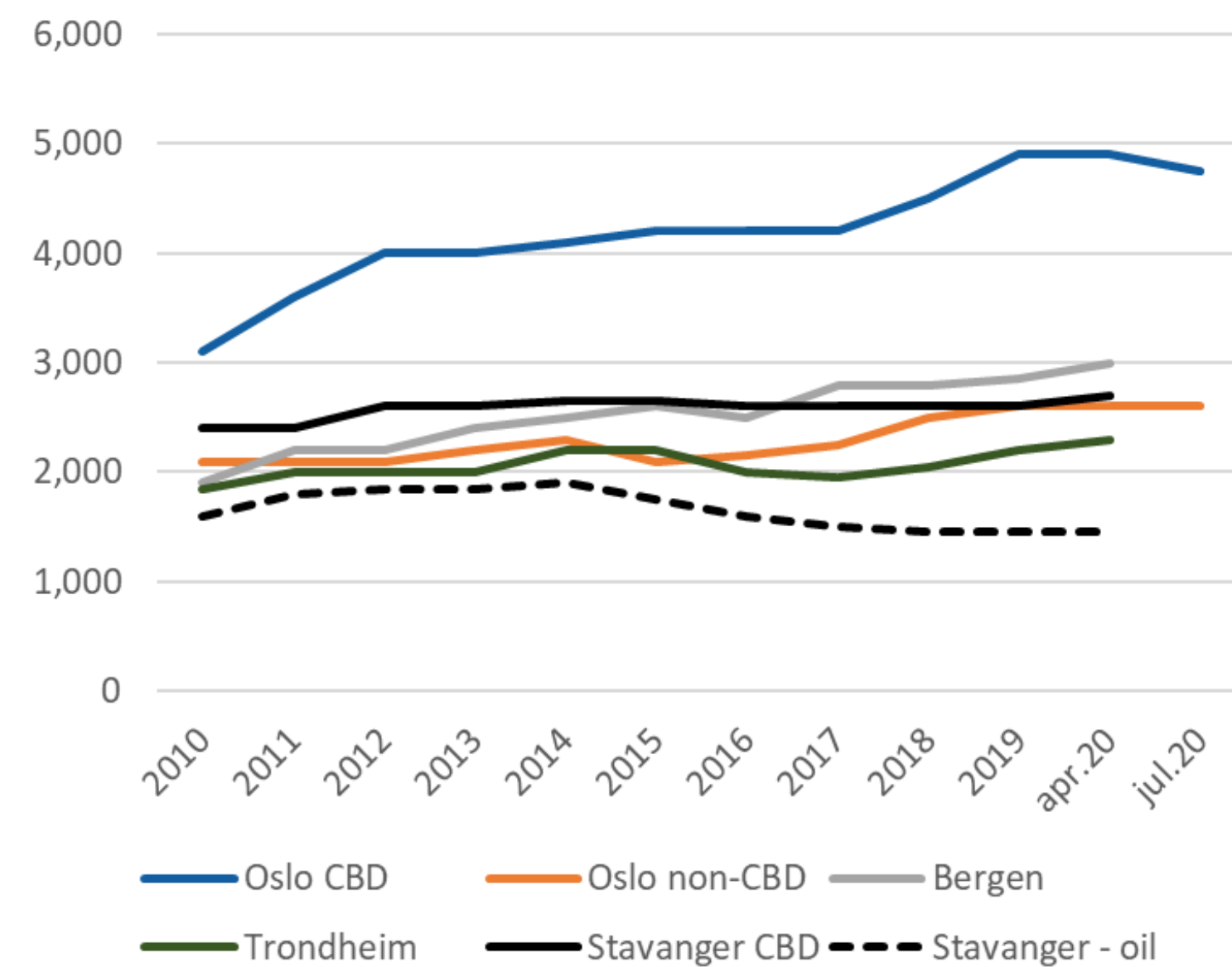
1. Covered bonds are issued through the Alliance's banks SpareBank 1 Boligkreditt and SpareBank 1 Naeringskreditt. The exception is SR bank, which uses its own issuer
2. NPL means loans in Stage 3, IFRS 9, which include payment defaulted and loans at risk of default
3. The ratios in the All other SB1 banks column are weighted averages

Recent trends in the office property market

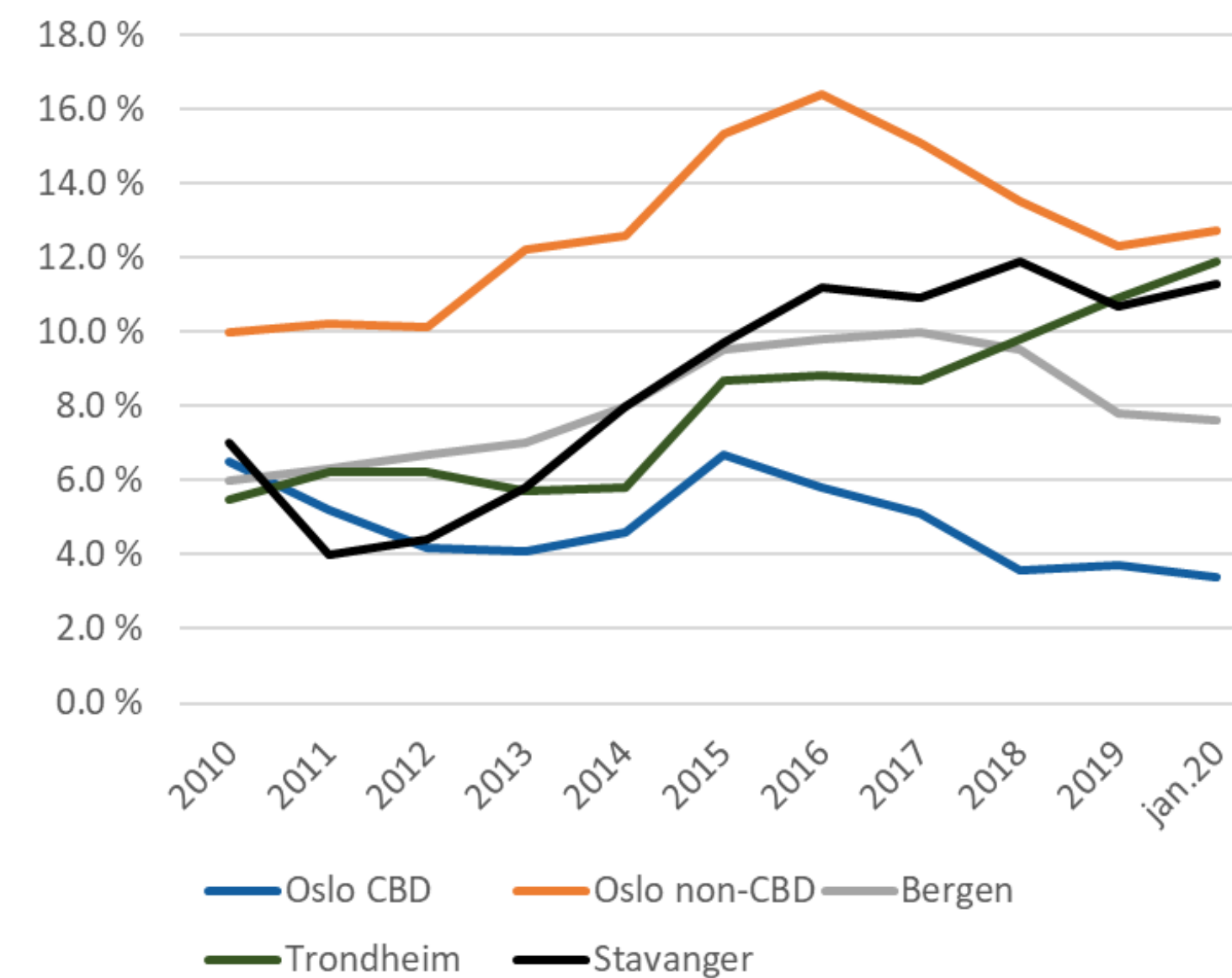


Rent levels and vacancy in central office markets

Rent levels in NOK per m2



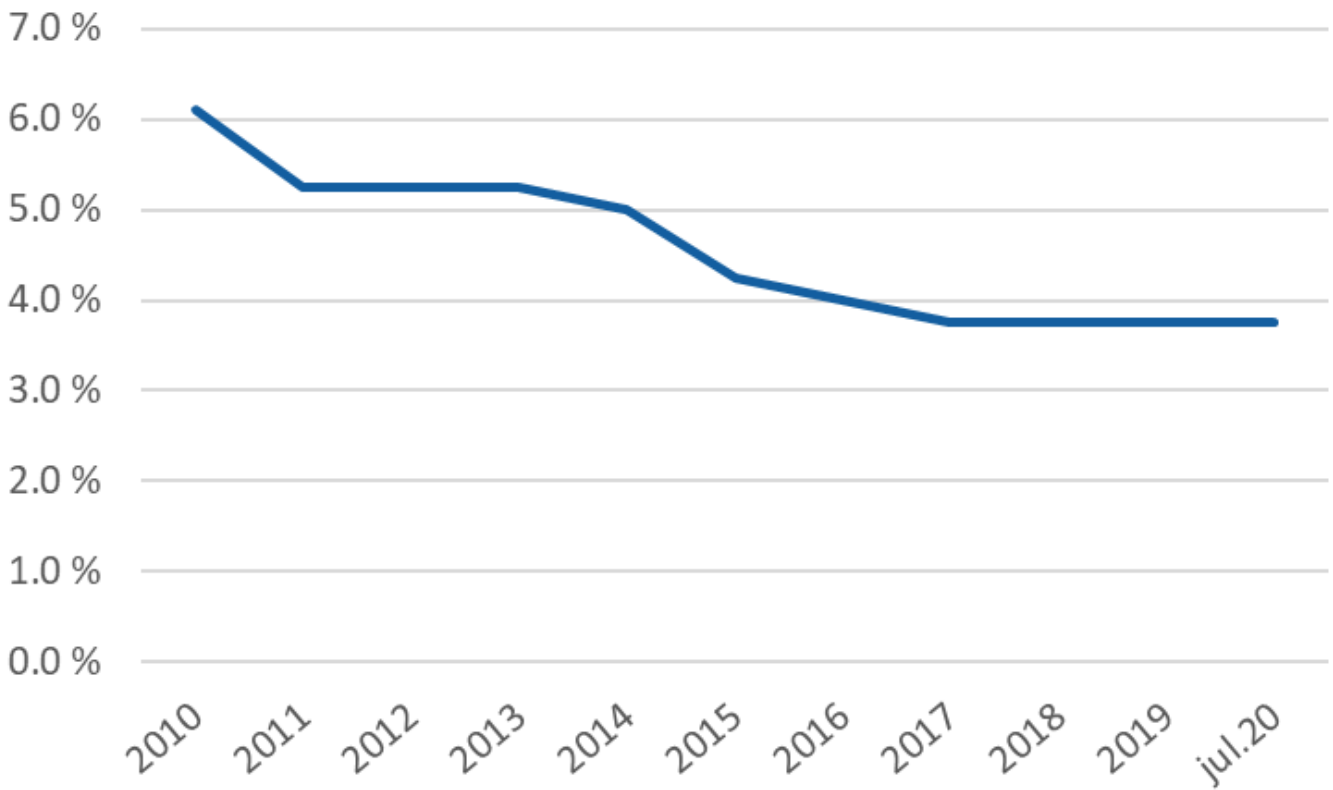
Vacancy rates



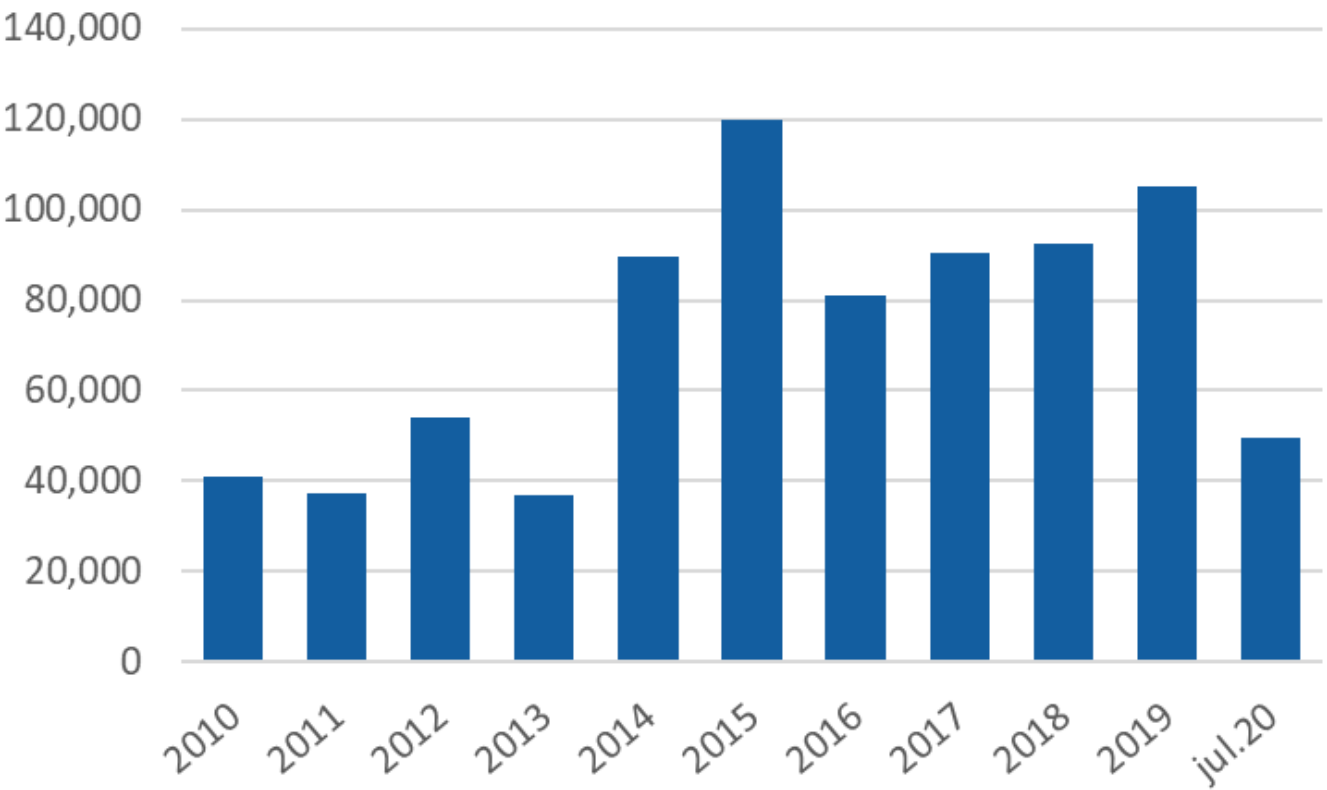
- Oslo remains sought after with low vacancy rate and high rent levels
- The oil price downturn from 2015 is visible in the vacancy levels in coastal towns outside of Oslo
- The 2020 pandemic has not changed the strength of the Oslo market

Commercial property trends

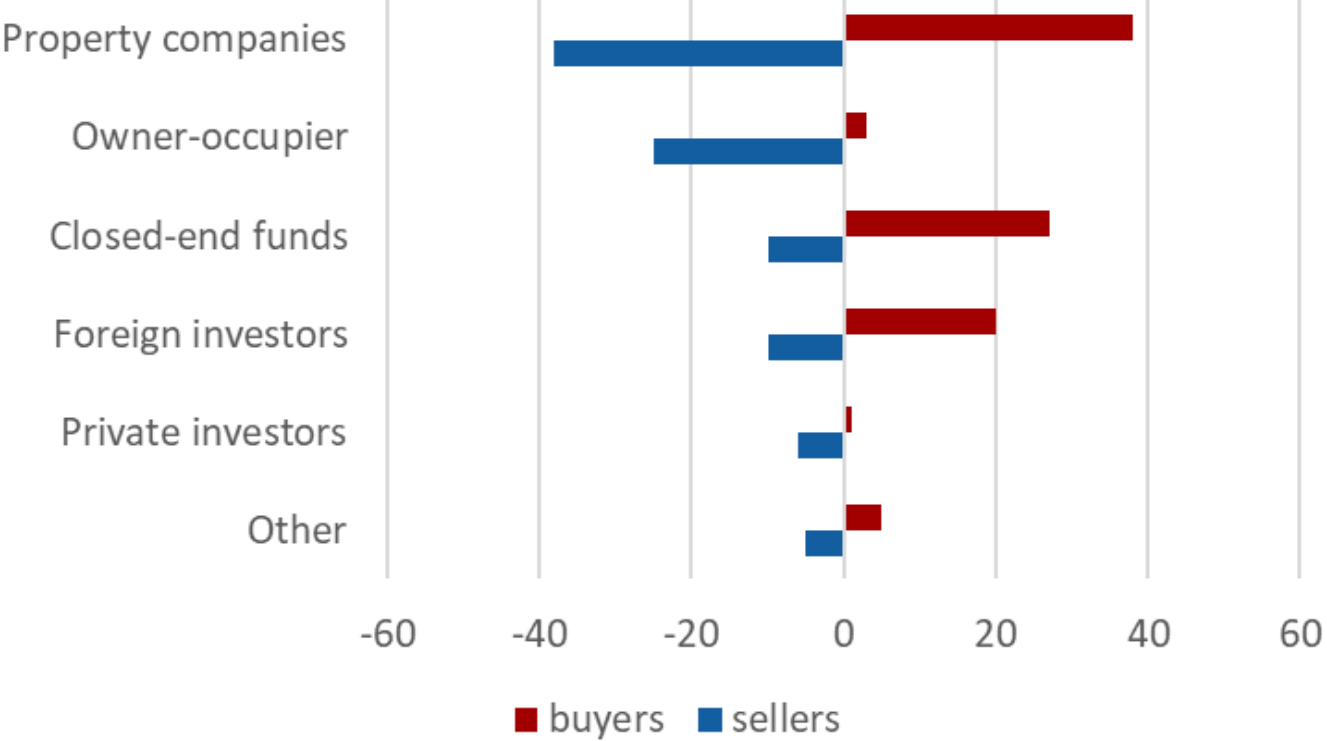
Yields prime Oslo office space



Transaction volume Norway, all commercial prop.



Buyers and sellers of commercial property 2020

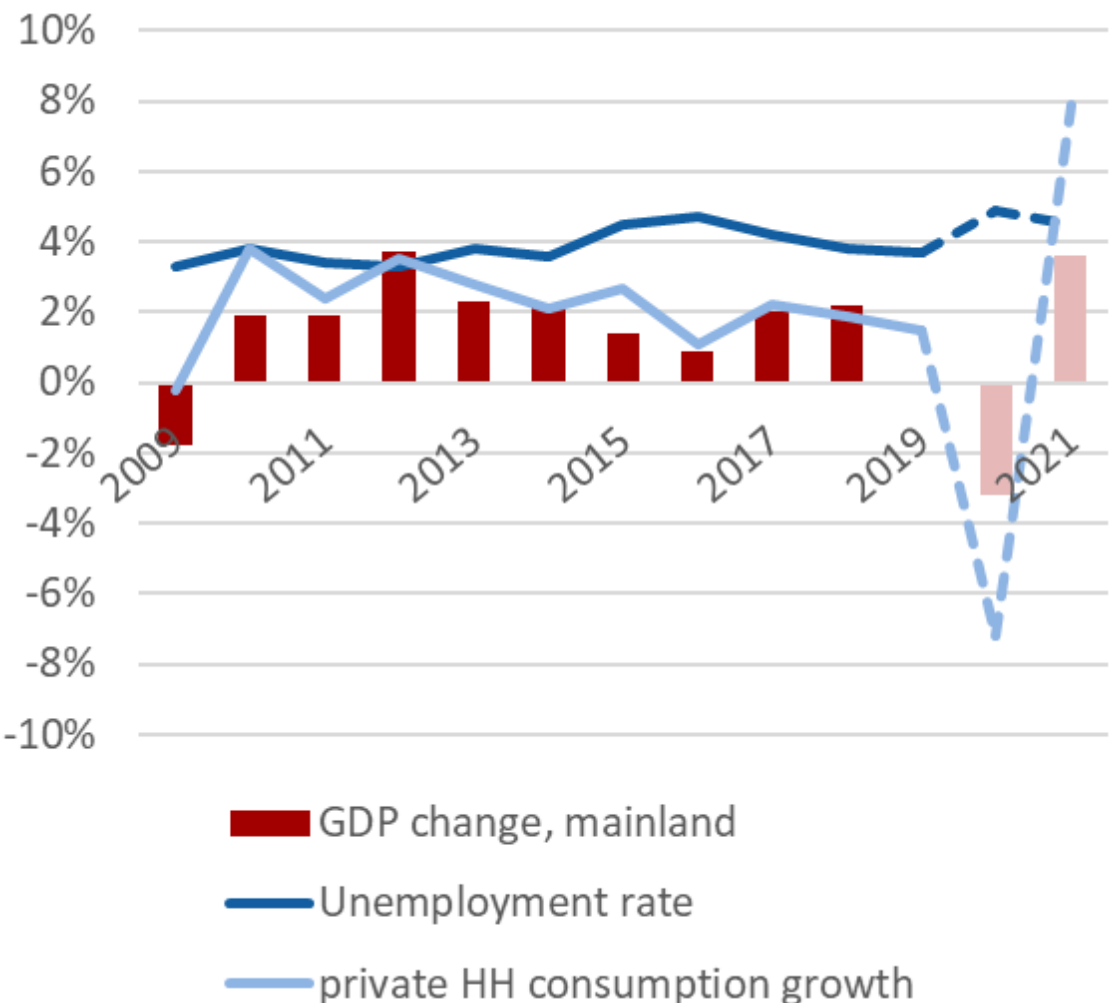




Macroeconomic overview

Norwegian economy overview

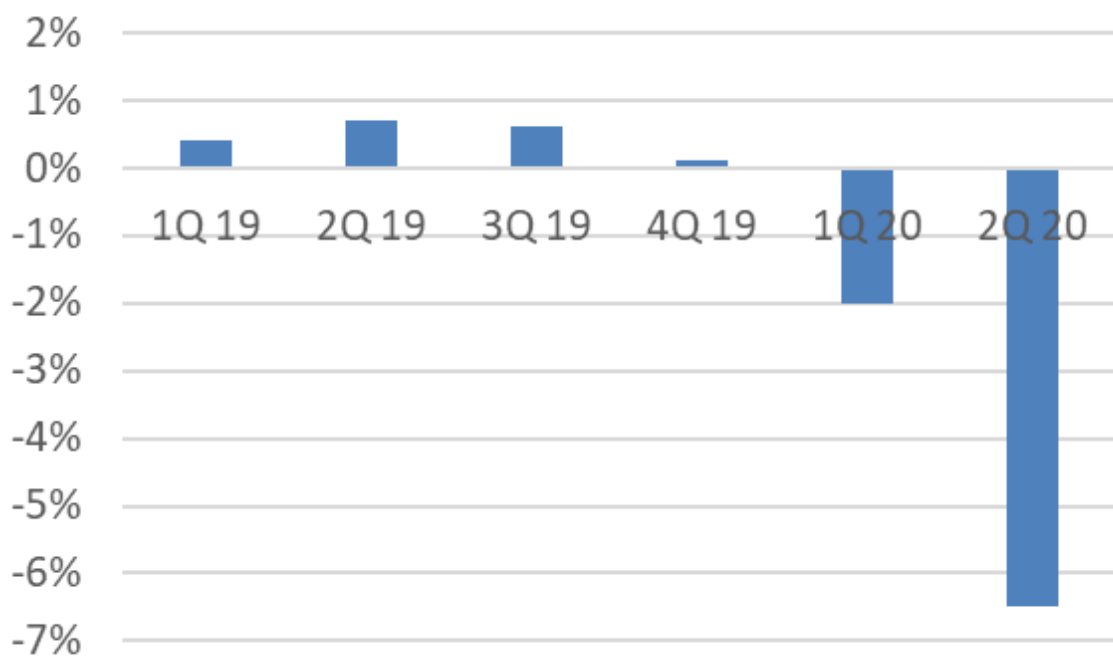
GDP change, unemployment, consumer



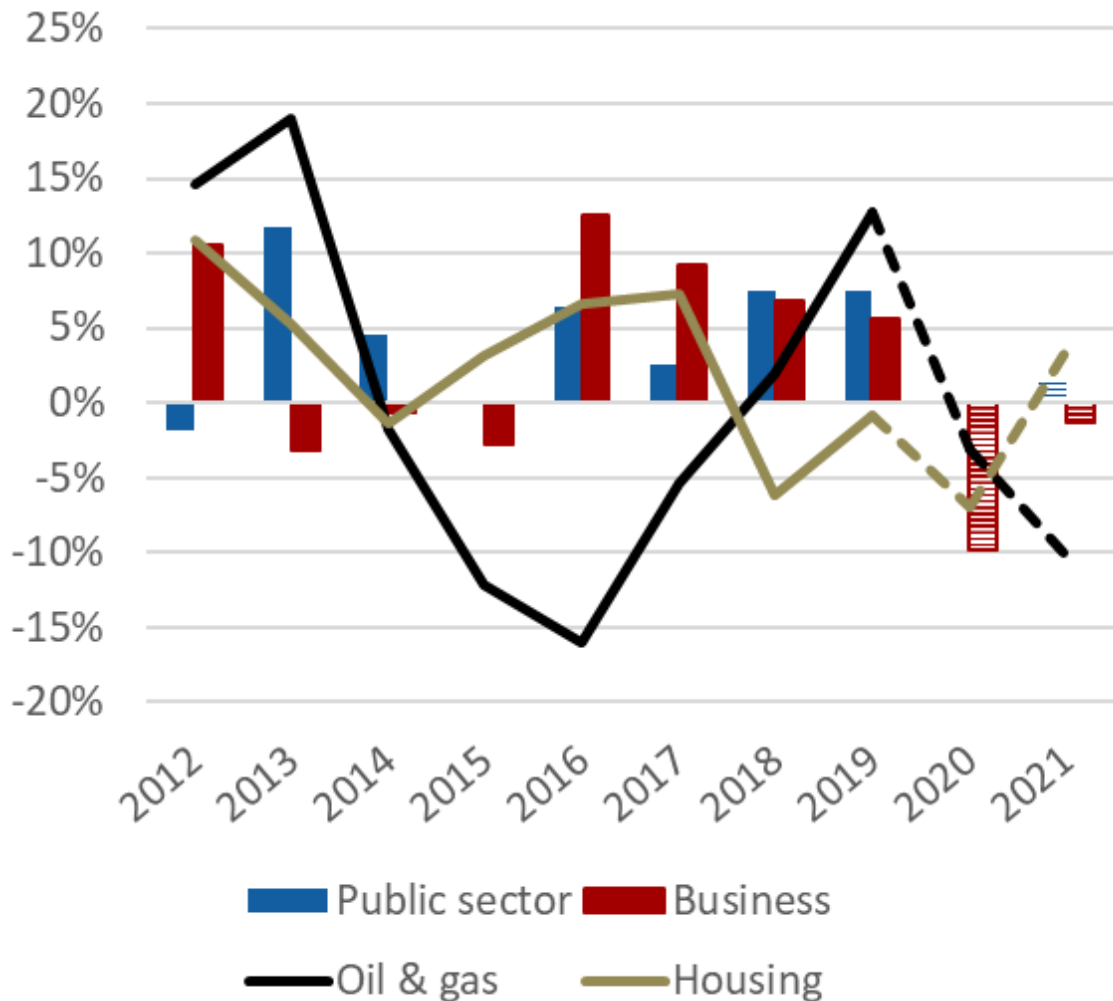
- **Investments**, which are 1/3 of GDP decline in 2020.
 - Housing investments, which have been negative for a few years has a recovery in 2021 (low interest rates and demand).
 - Business investments are still negative in 2021 after a number of prior strong years
 - Oil sector investments continue to drop in 2021
- **The public sector** is not expected to increase investments but is growing consumption and cash injections into the private sector

Source: Statistics Norway, Norges Bank

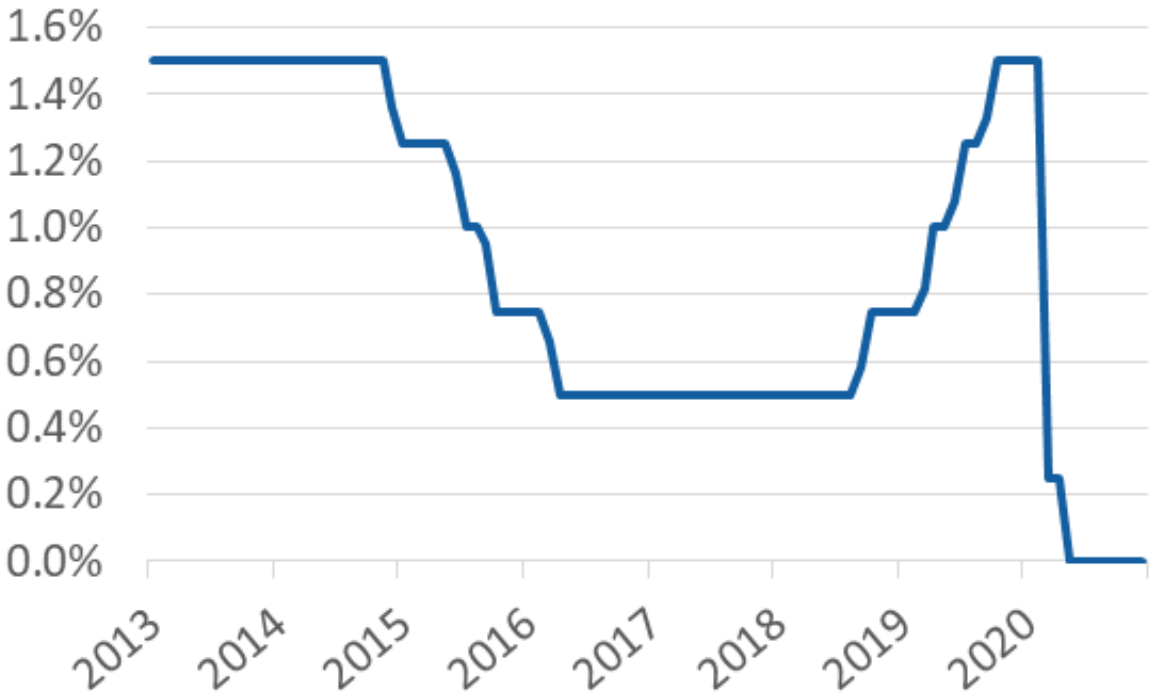
Quarter over quarter GDP change



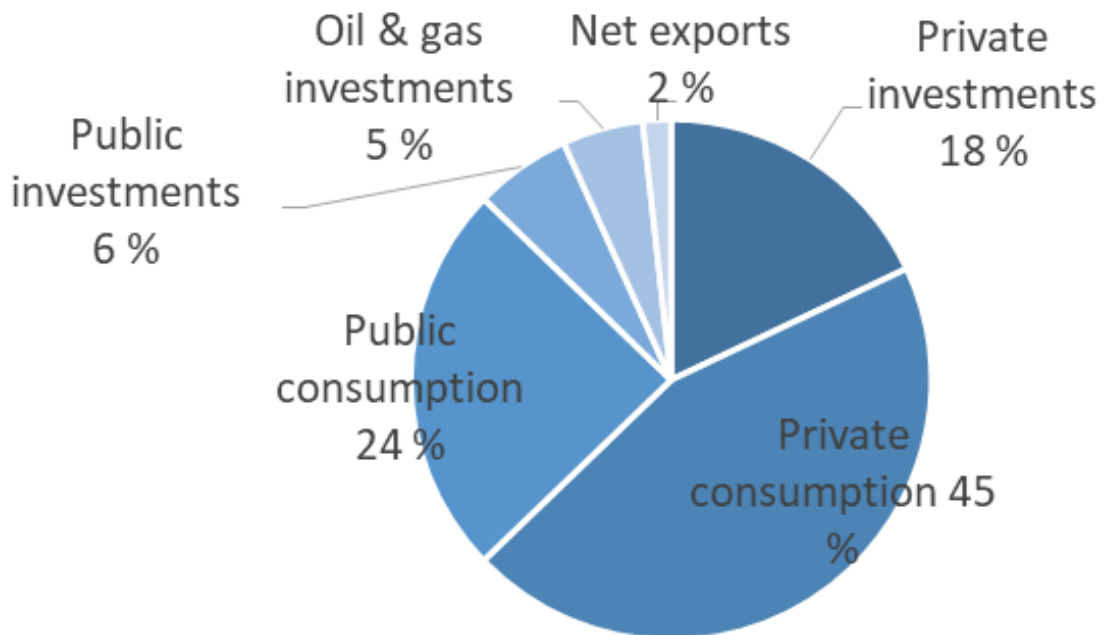
Gross capital investments, pct. change YoY



Central bank monetary policy rate

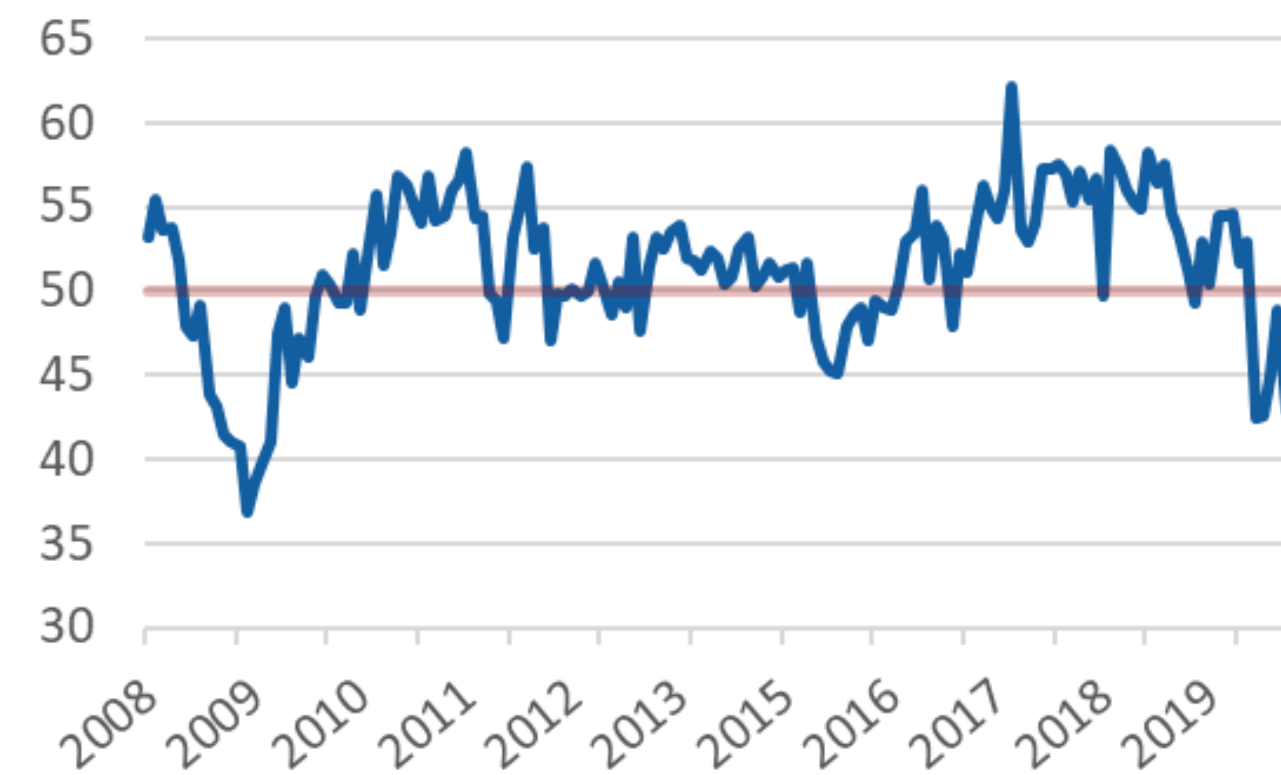


Norwegian economy structure (2019)

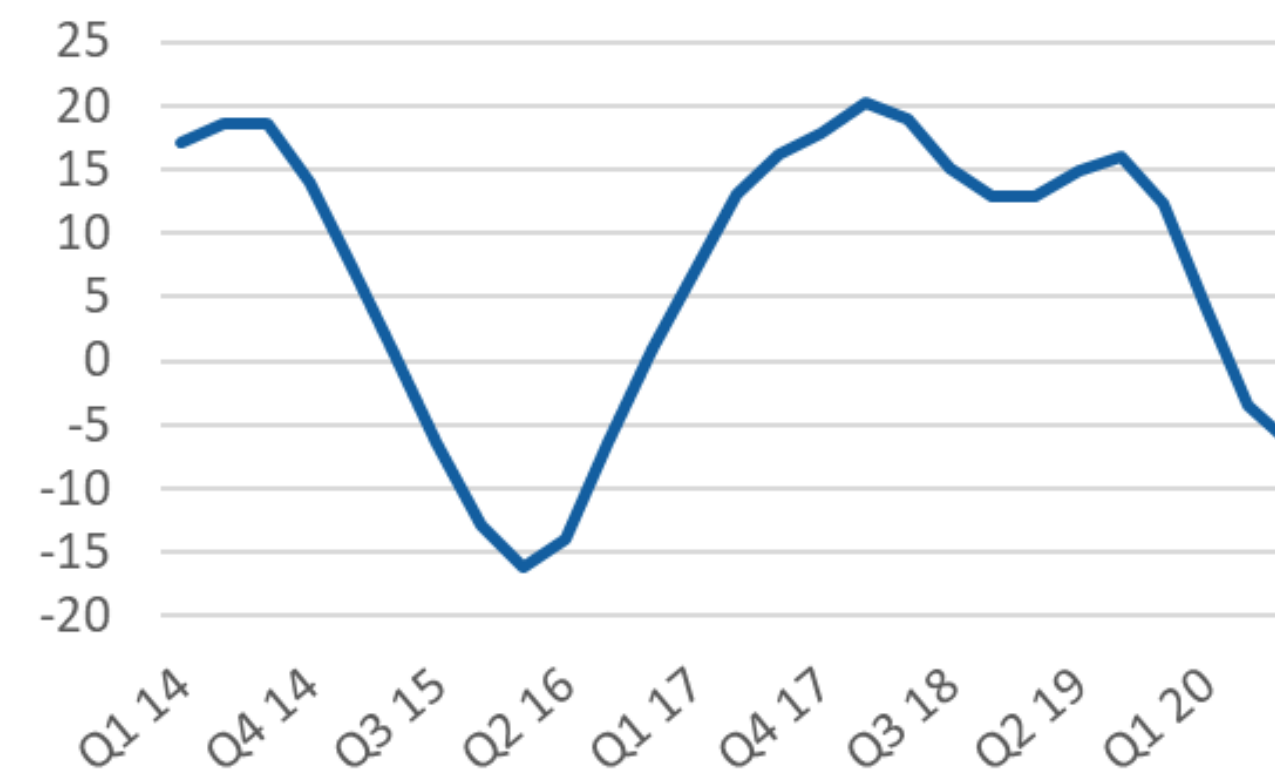


Outlook indicators

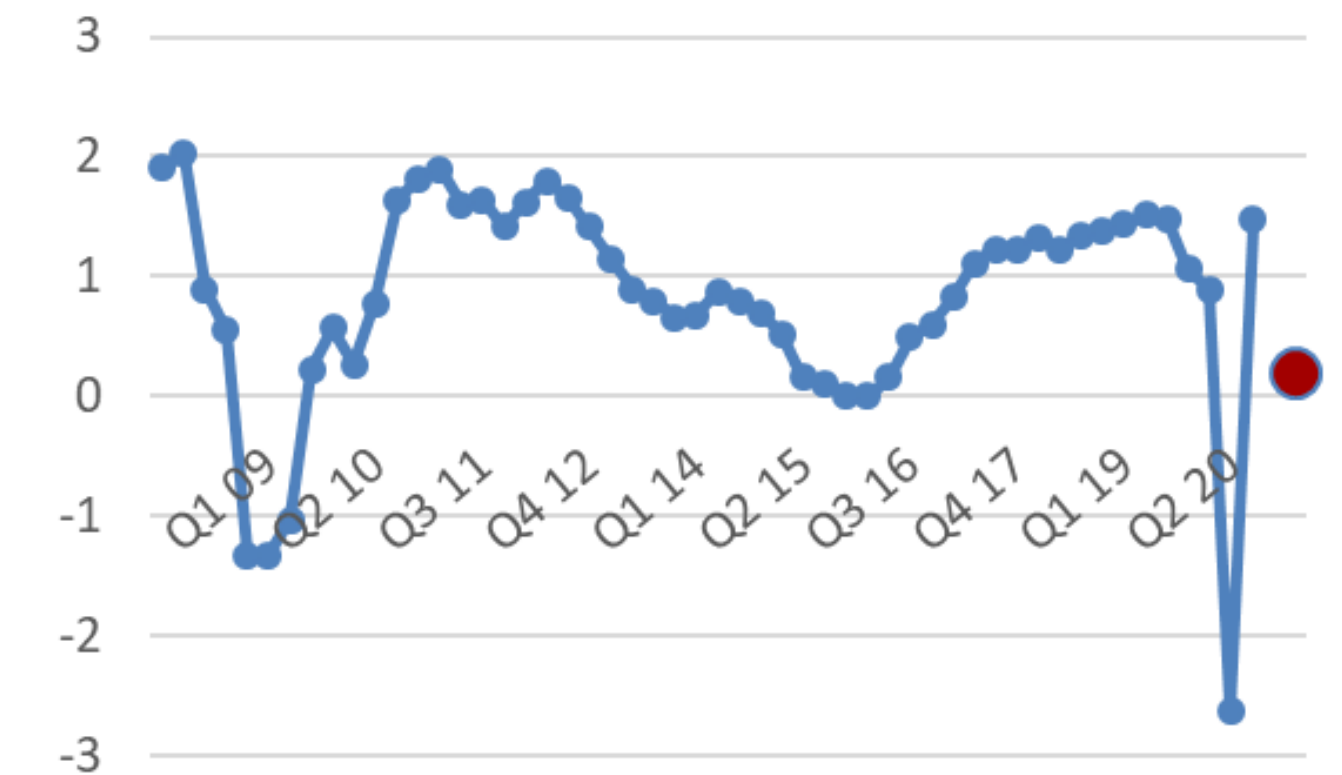
PMI (Aug 2020)



Consumer confidence (Q3, 2020)

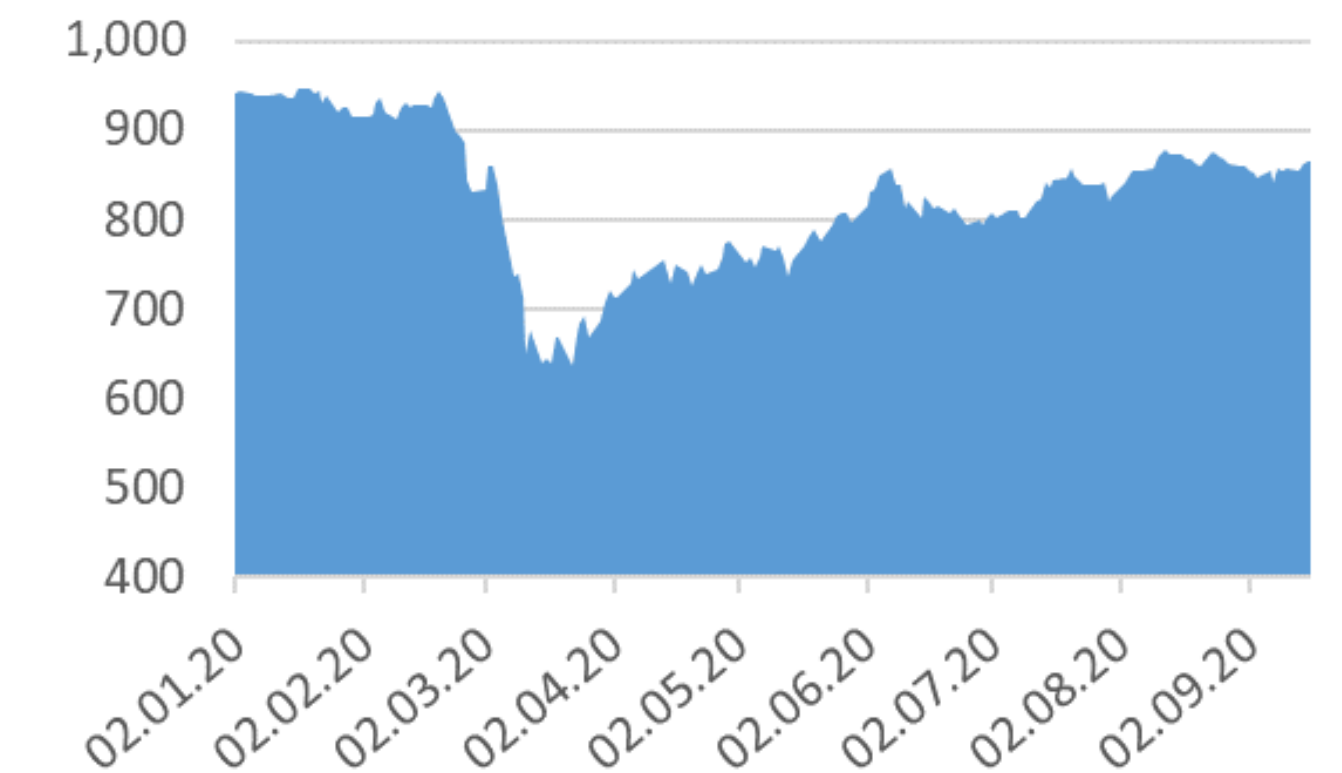


Central Bank business survey (Sept 15, 2020)



- PMI shows an ongoing negative sentiment in business
- Consumer confidence for Q3 2020 (published Aug 13) remains low
- The central bank business survey of industry shows actual growth the 3 months through August positive, while significantly less positive 6 months ahead

Oslo OSEBX main stock market index

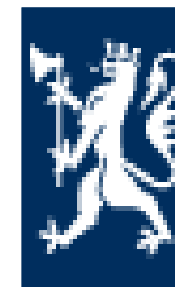


Which measures have been introduced to mitigate impact of the pandemic?



Unemployment: unemployment benefits extended; 60% of pay, capped

Extended 31.12.2020



Cost covering payments for companies that had to closed or lost revenue

Ends 1.9.2020



Tax measures (reductions, delays) for companies, people and municipalities



Government loan guarantees for companies of all size



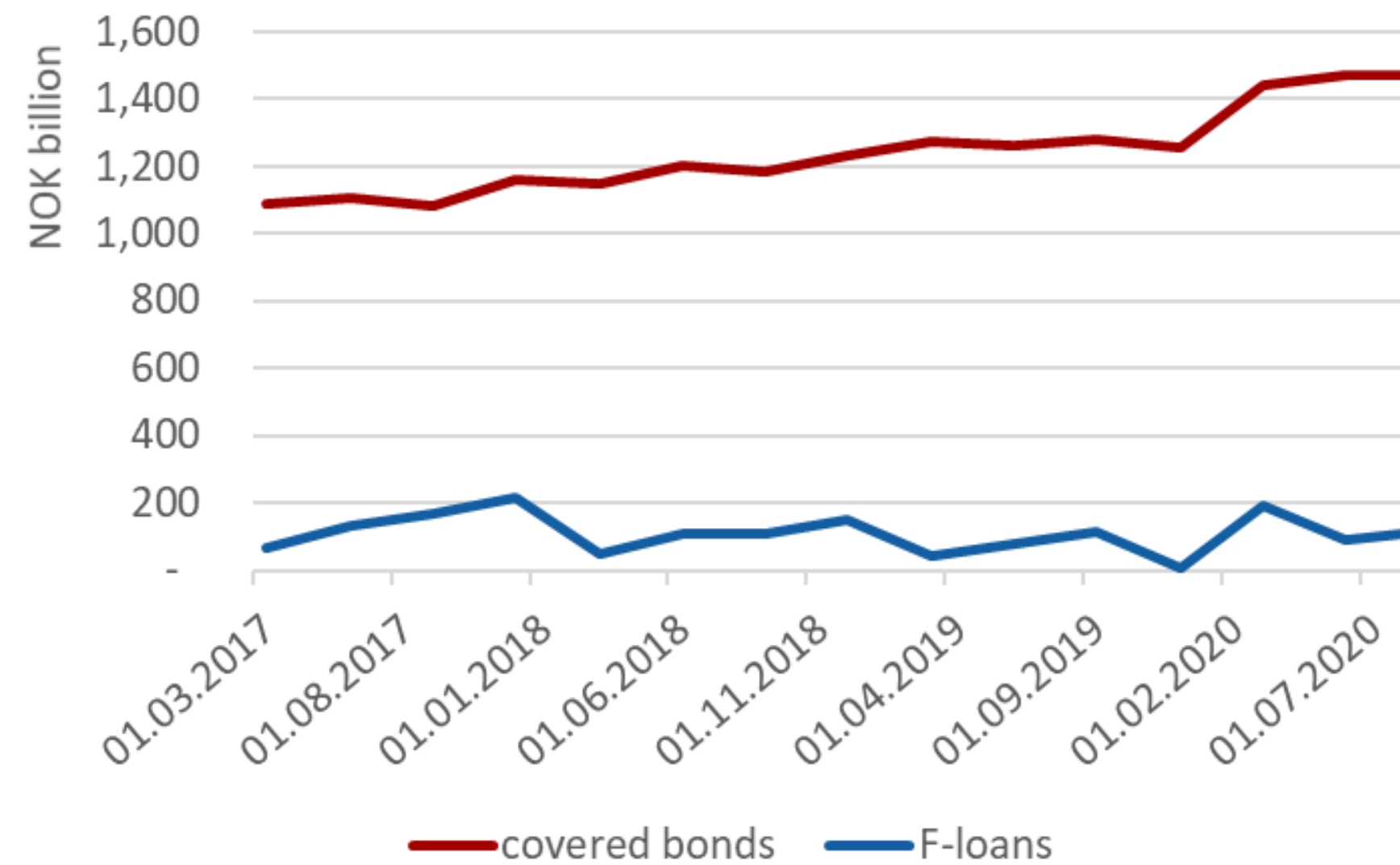
Government bond investment fund: Buying Investment Grade and High Yield Bonds – last active during the 2008-09 financial crisis



Central bank

- 12 month tenor liquidity loans against covered bond collateral. 30 bps above policy rate, also available in USD. Unlimited.
- Policy rate 0% (from 1.5%)

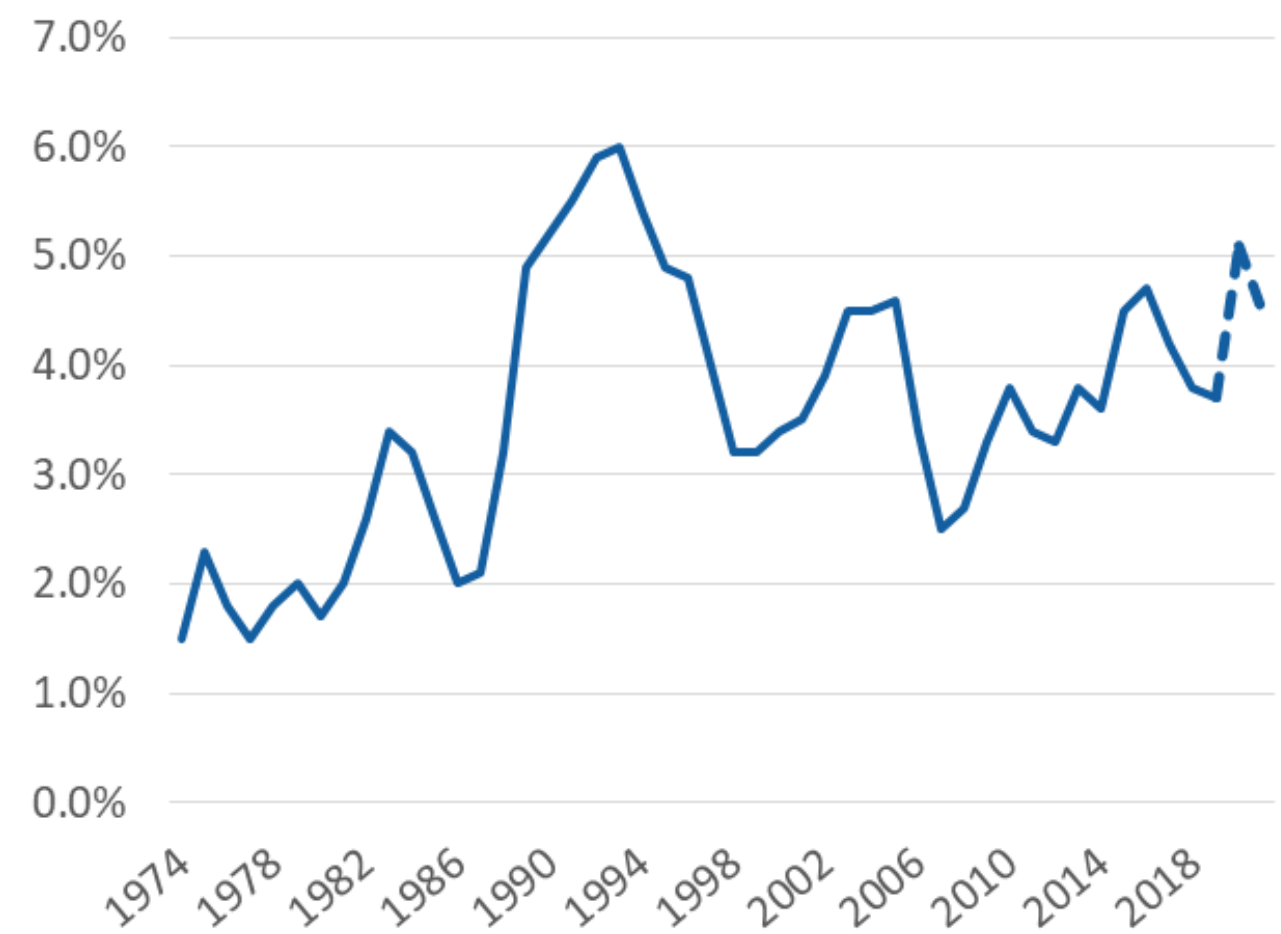
Take-up of central bank lending not material



- Take up of 12 months tenor central bank loans peaked at NOK 200 billion
- Outstanding covered bonds (market issuance) above NOK 1,400 bn
- SpareBank 1 Boligkreditt issued covered bonds of NOK 6.4 bn during Q1, and NOK 13.4 bn during Q2 and NOK 3.2 bn into the F-loans central bank facility

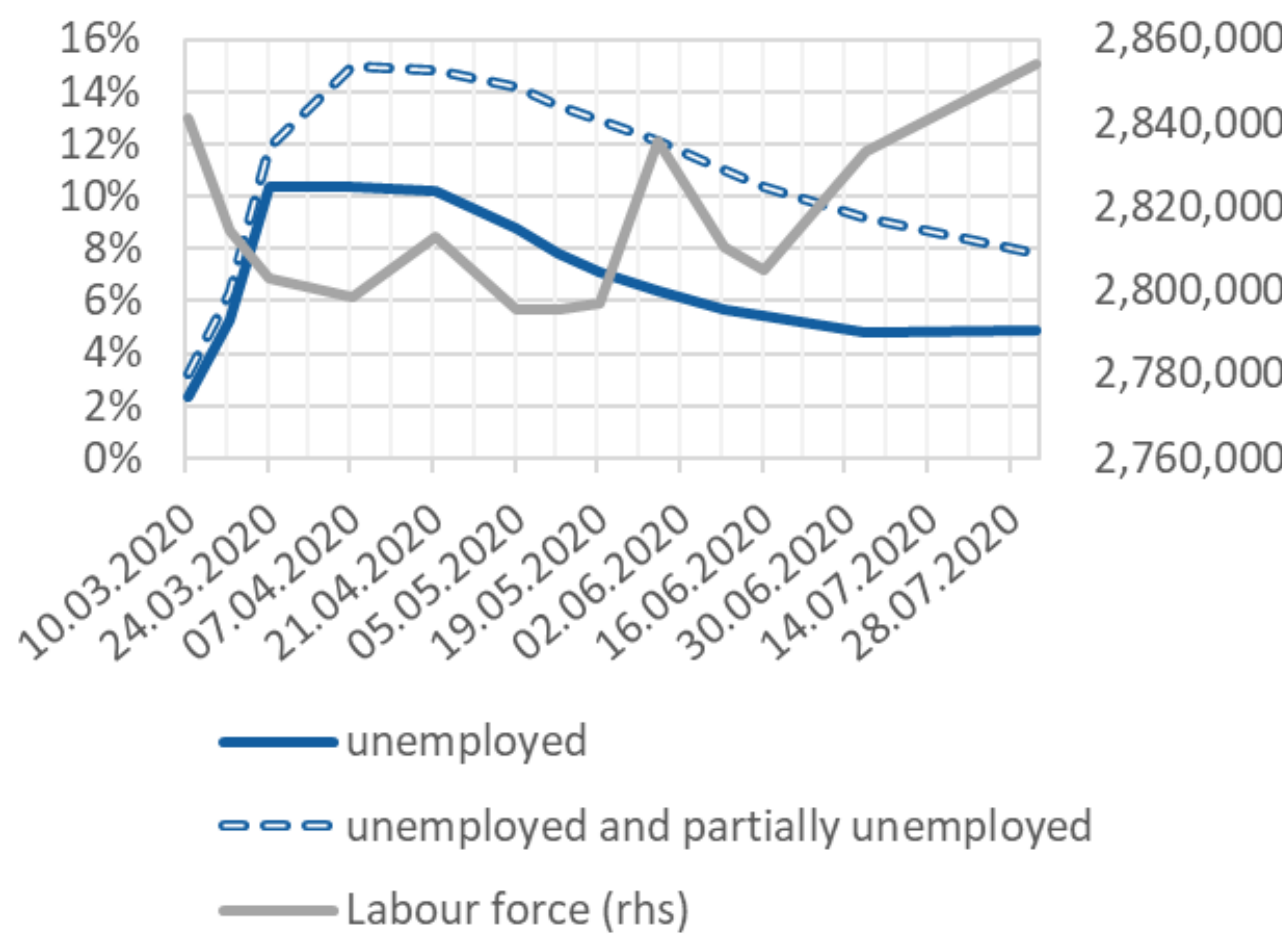
Employment

Long term, annual, unemployment rate



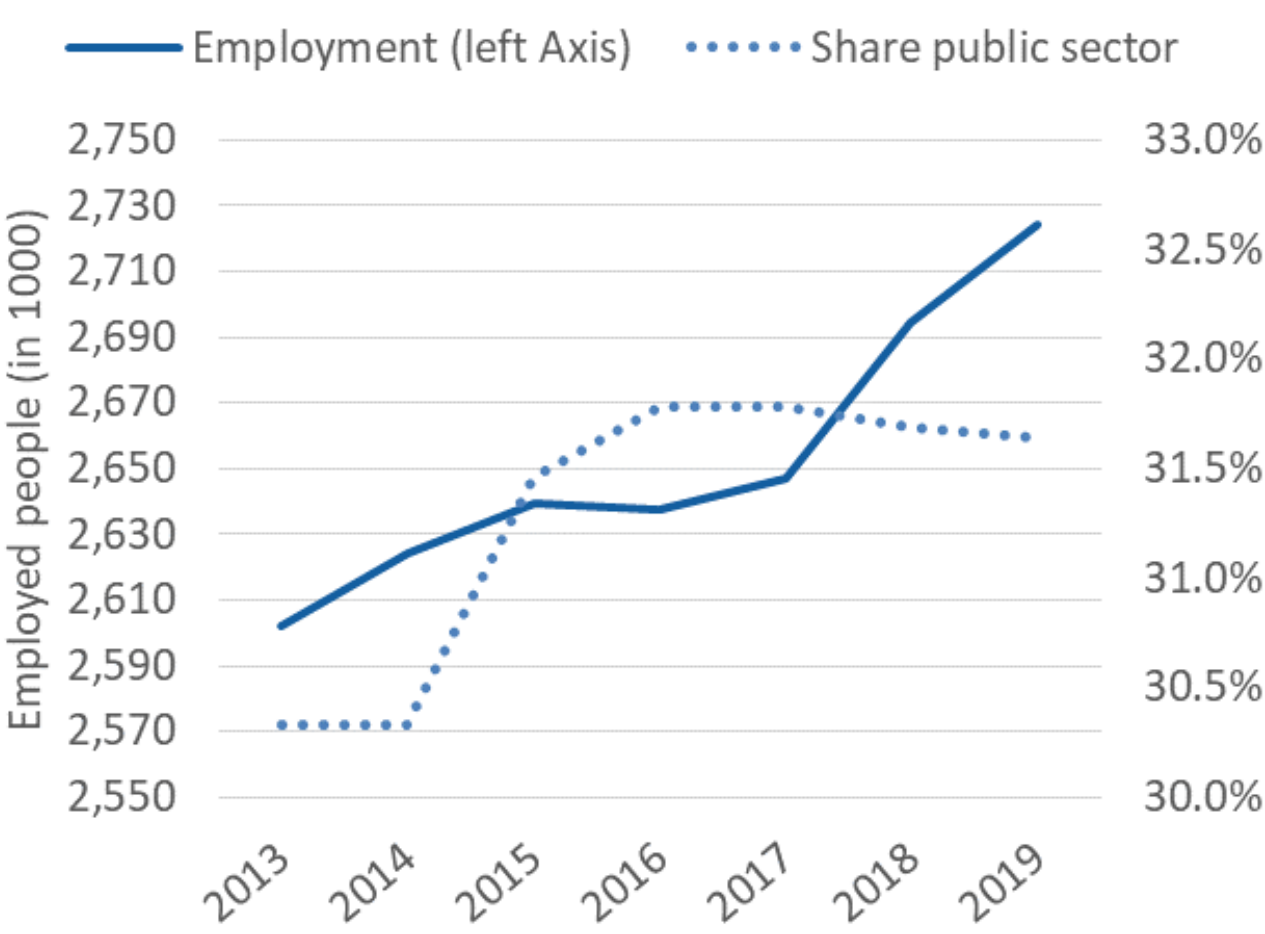
- SSBs forecast for the unemployment rate (unemployment survey) shows a 6.1% unemployment rate for 2020 and 4.5% for 2021
- This is a quicker recovery in the unemployment forecast for 2020 and 2021 than initially expected, and builds on the weekly statistics in the chart to the right

Unemployment and labour force



- The unemployment rate (registered employment seekers fully unemployed) went down from 10% in April to below 5% in July

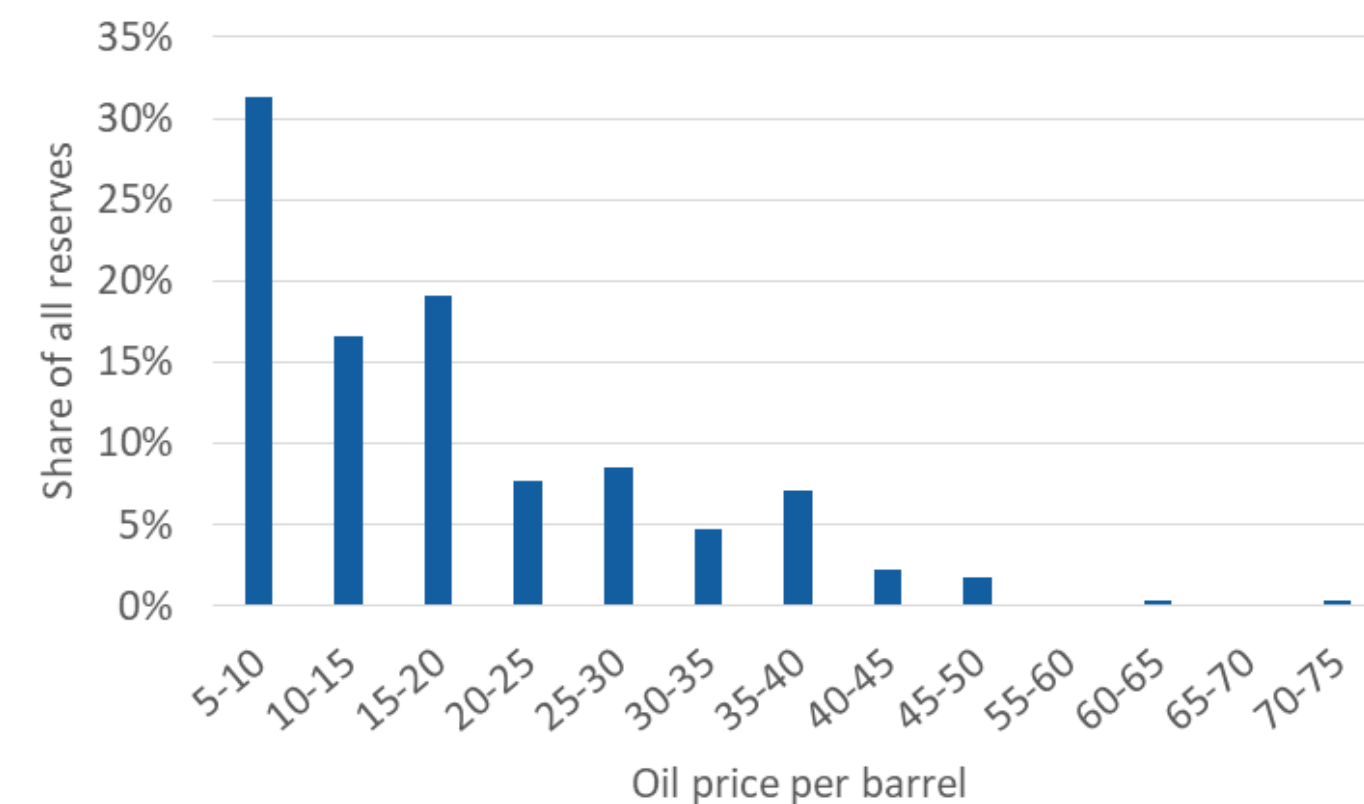
Sector employment



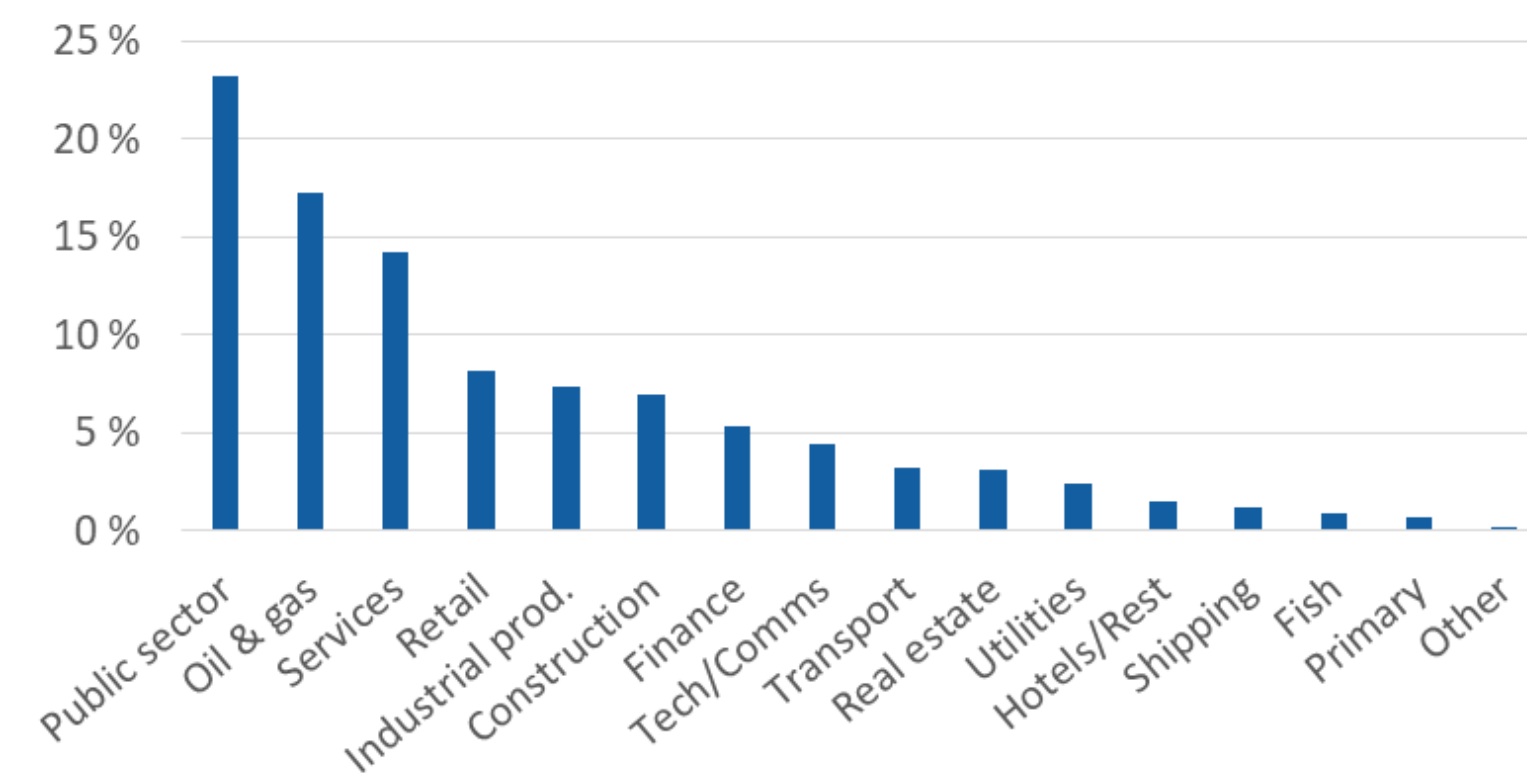
- The public sector is a large employer and absorbs employment in stressed times

Oil sector

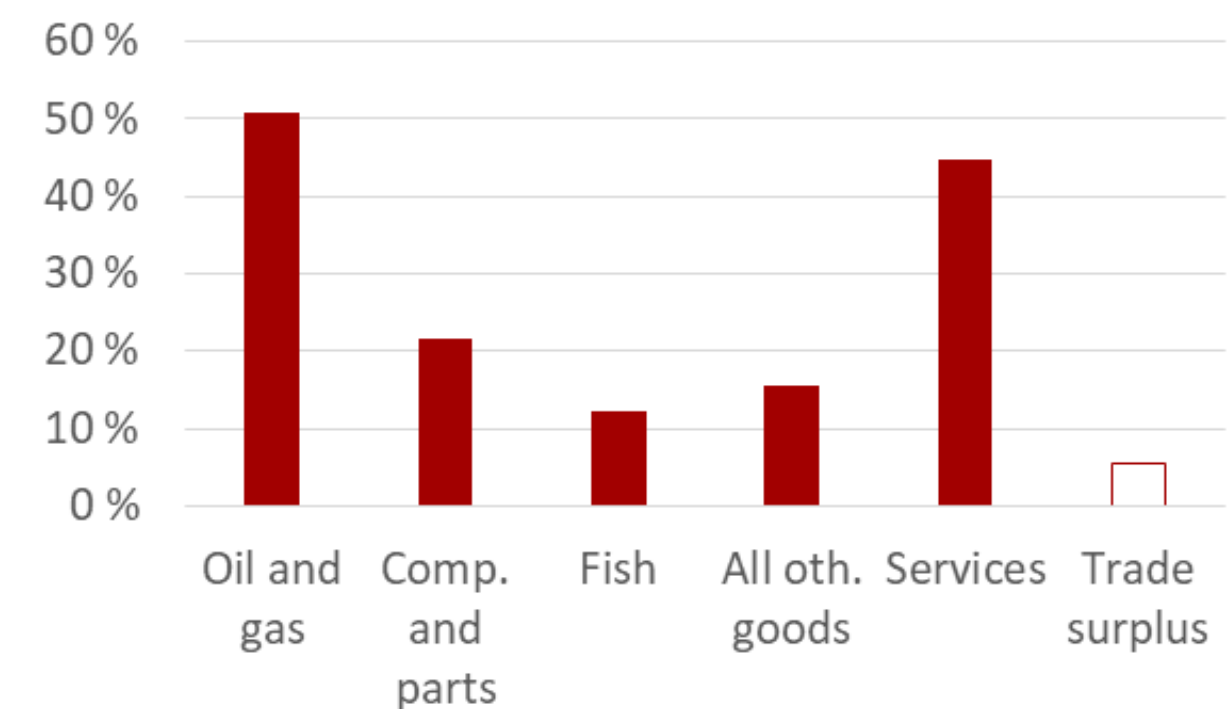
Break-even price running production



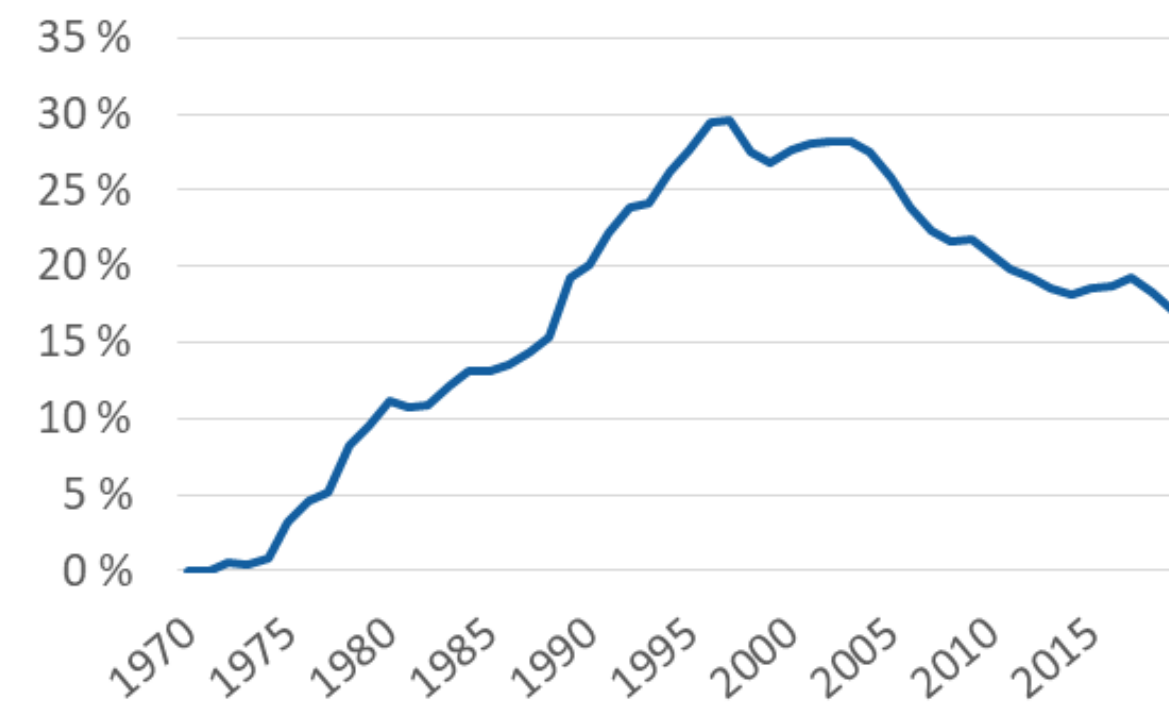
Norwegian gross product by industry ⁽¹⁾



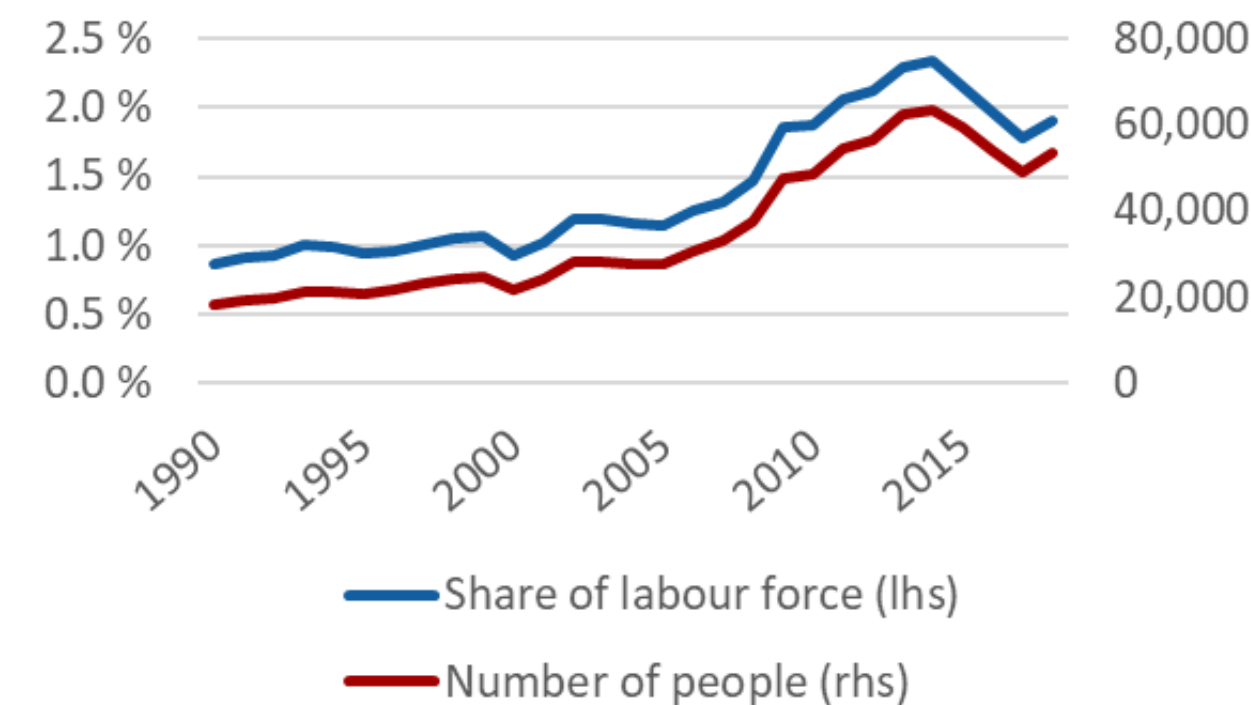
Norwegian Exports 2019



Lower oil and gas share of GDP (real terms) ⁽¹⁾



Direct employment in oil & gas

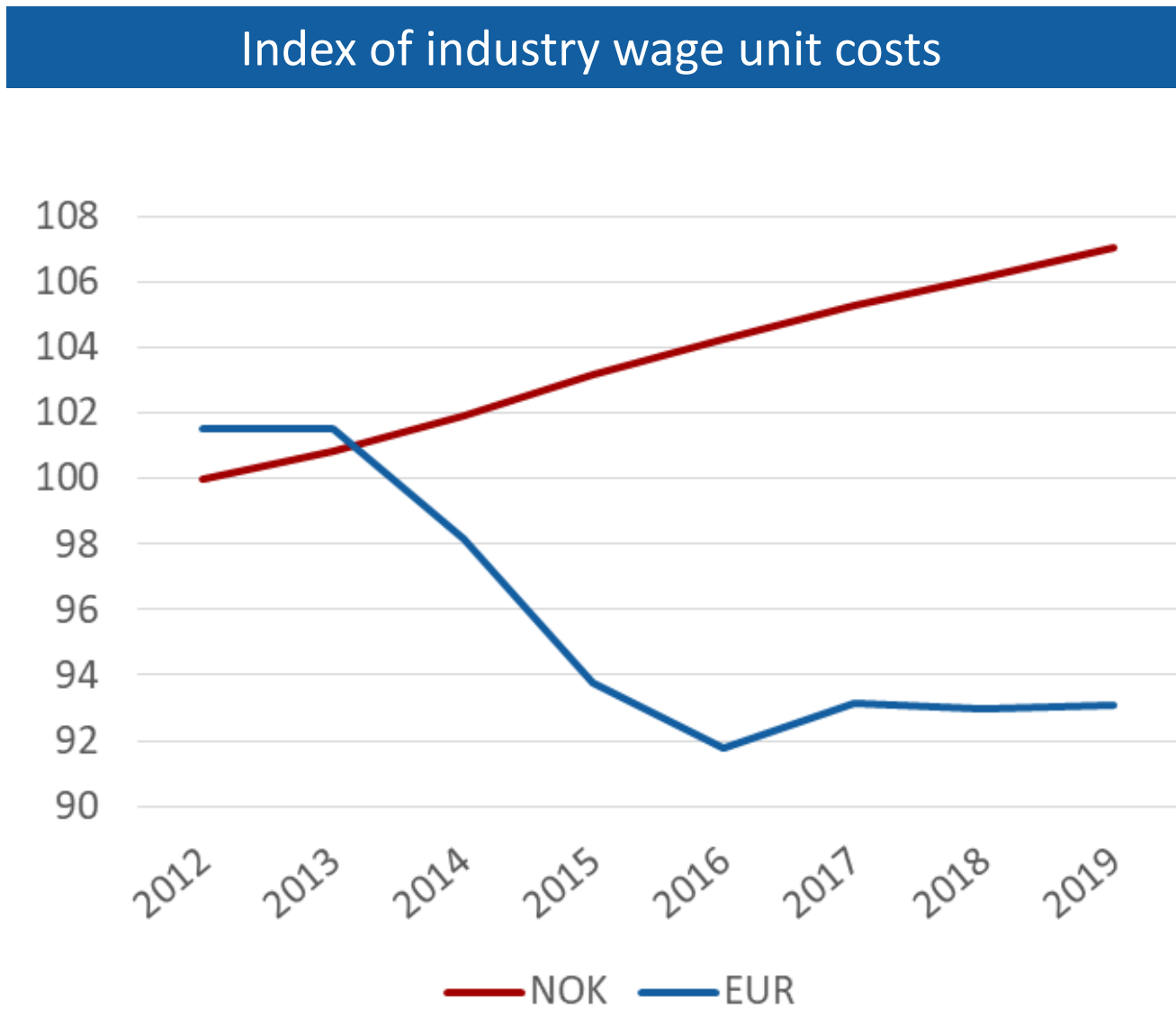
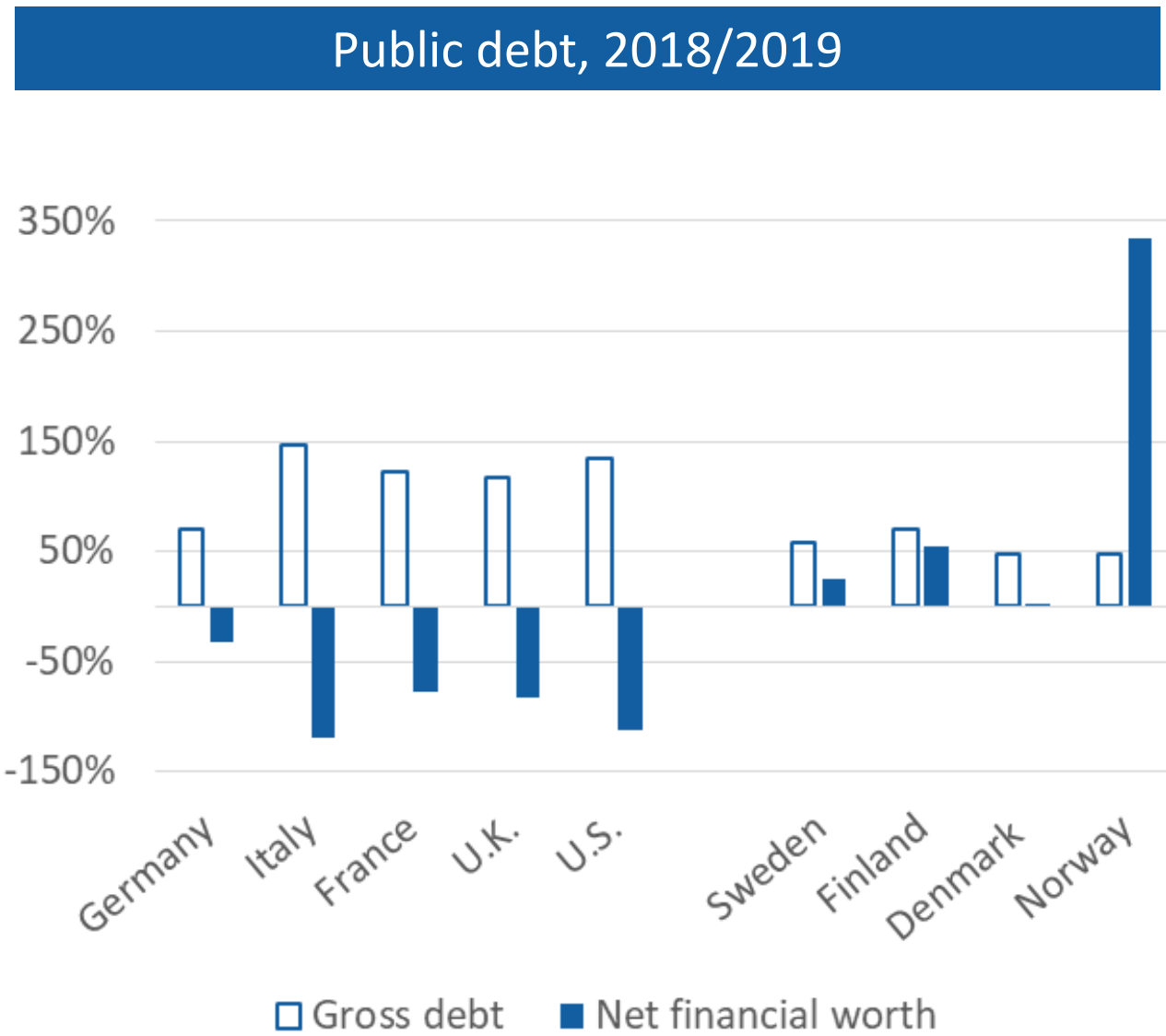


- 2/3 of all production is profitable at an oil price below USD 20 / barrel
- Oil & gas is an important industry, but has reduced in relative size as a share of gross product

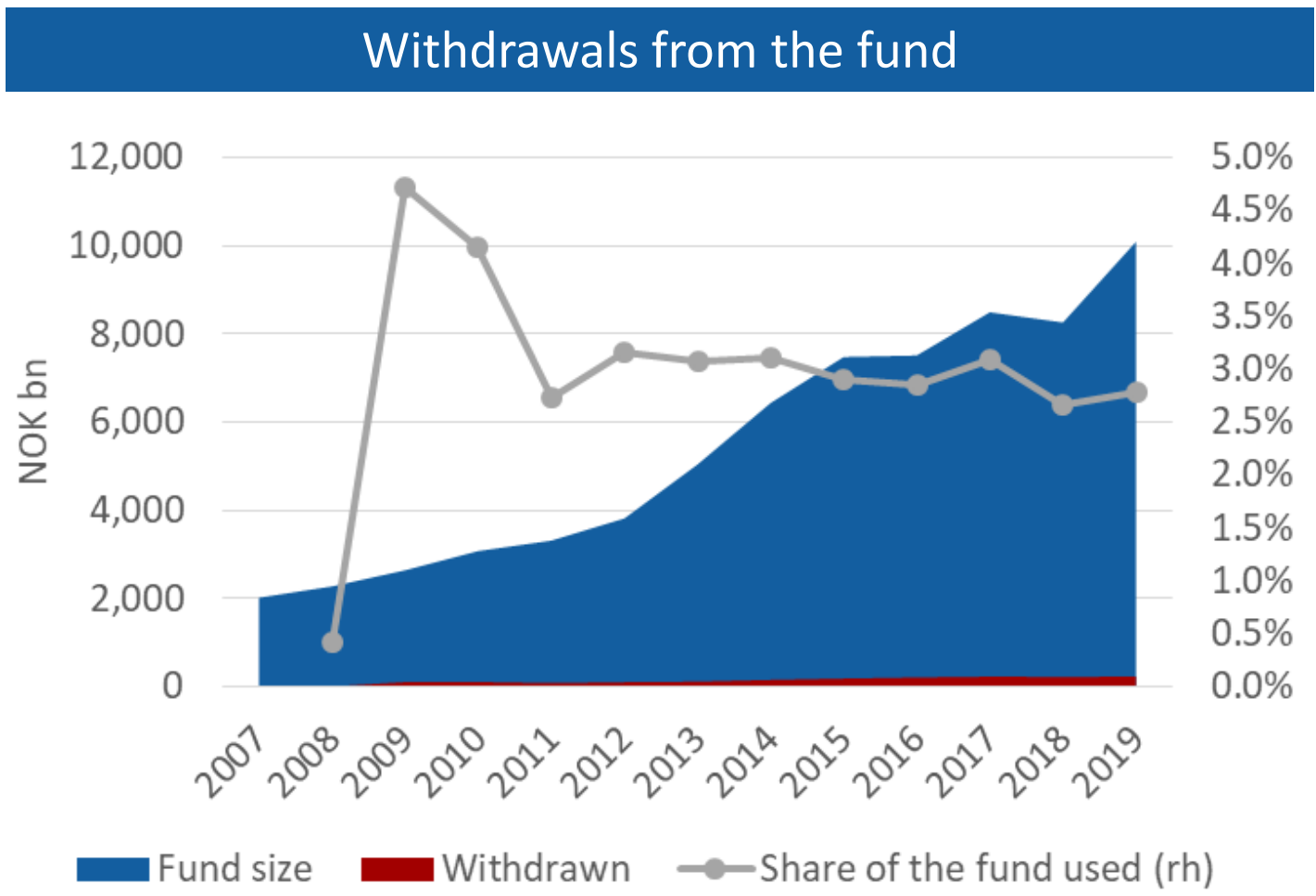
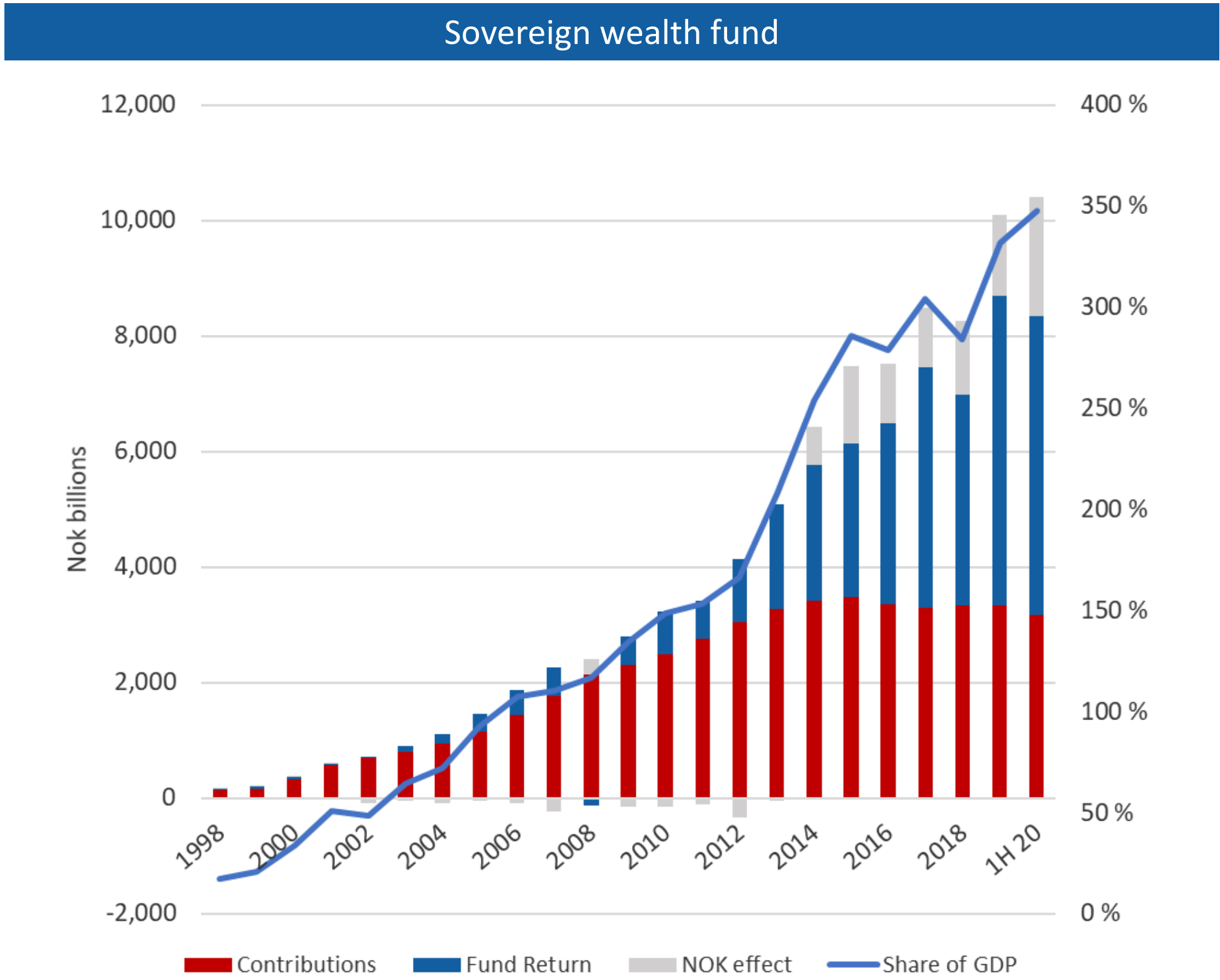
Sources: Rystad Energi, DN, SSB. ⁽¹⁾ Gross product in basic value (valued added, net of tax) at fixed prices

Norway has a good starting point for a crisis

- ▶ Sound public finances
- ▶ Low unemployment
- ▶ Floating exchange rate

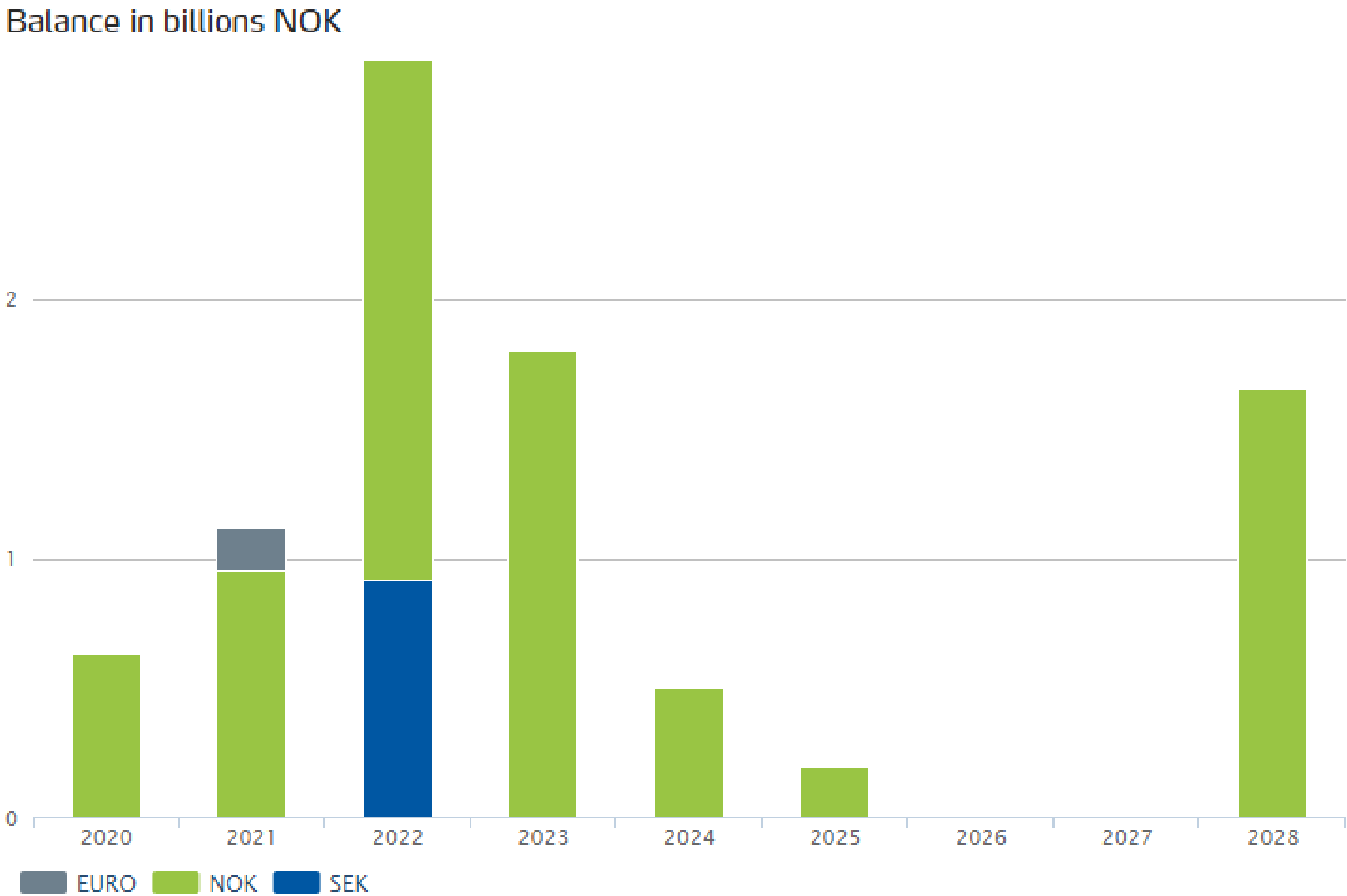


Sovereign Wealth Fund



Funding

SpaCom Covered Bonds



- Predominant NOK funding
- Goal to have series expanded to LCR 1 size
- Growth in funding dependent on mortgage volume transfer
- Taps and private placements usually open/available

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