



# SpareBank 1 Boligkreditt

Covered Bond Issuer

January 2021

SpareBank 

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# Macroeconomic overview

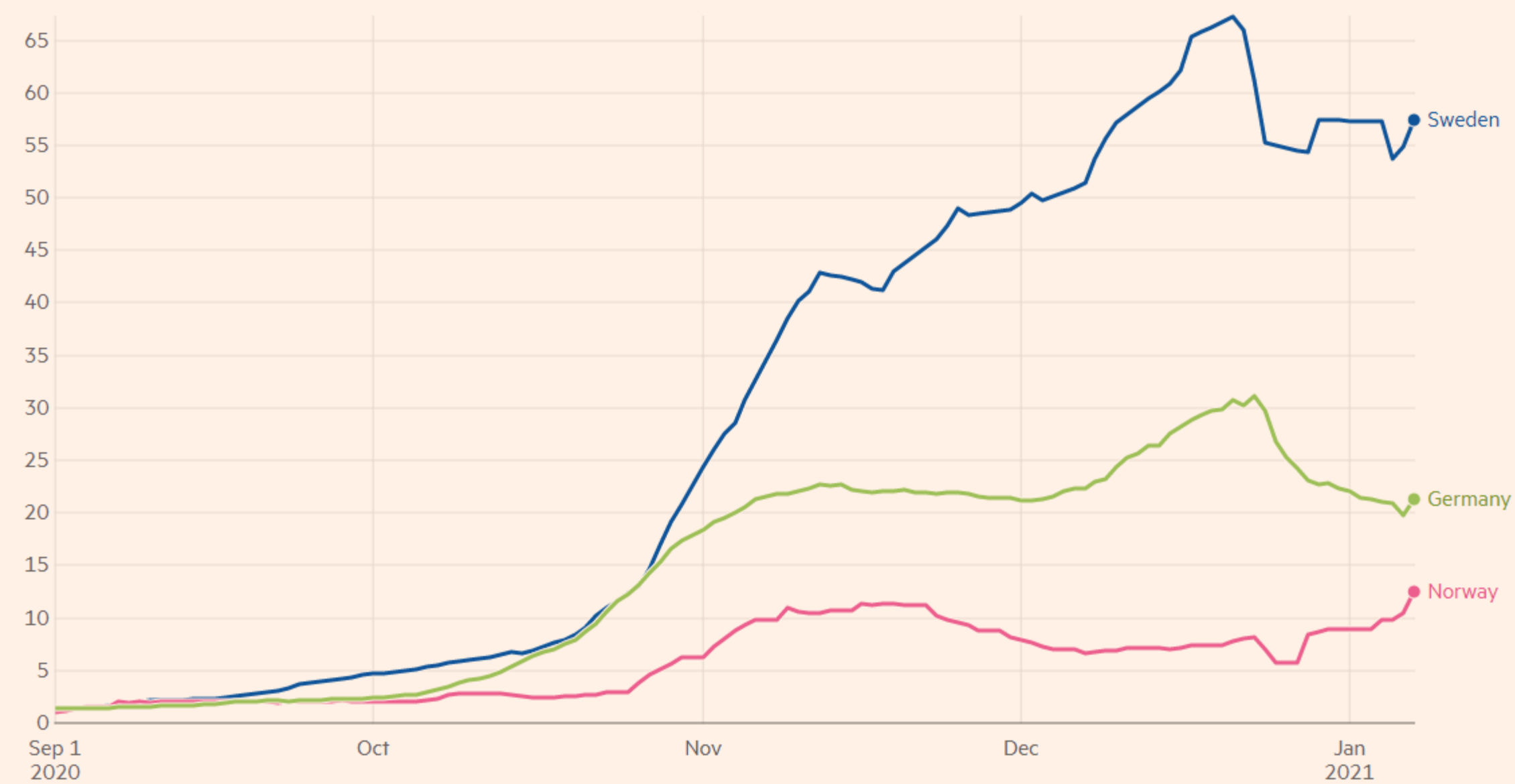




# Status of the pandemic

New confirmed cases of Covid-19 in Sweden, Norway and Germany

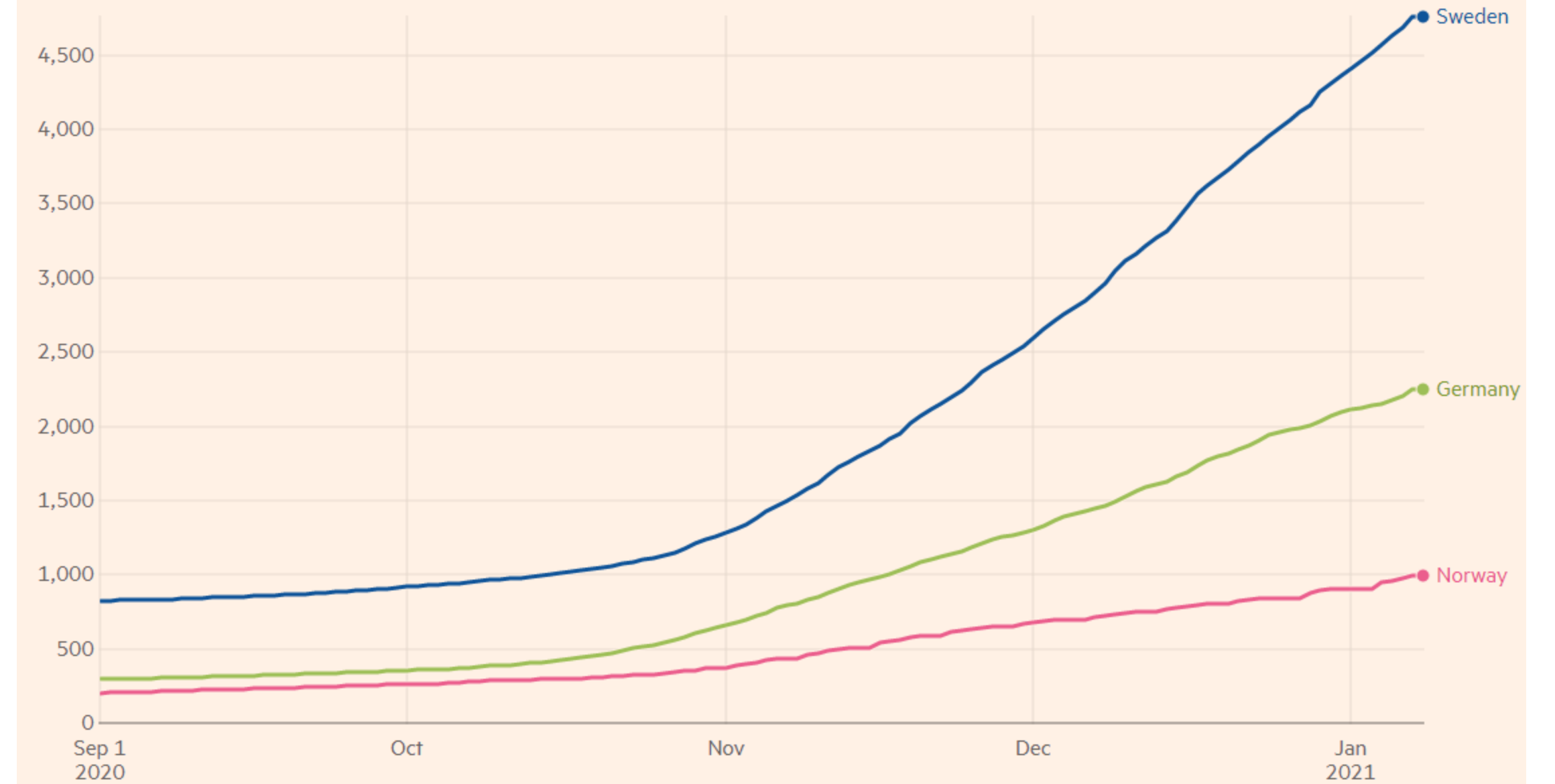
Seven-day rolling average of new cases (per 100k)



Source: Financial Times and the European Centre for Disease Prevention and Control, January 8, 2021

Cumulative confirmed cases of Covid-19 in Sweden, Norway and Germany

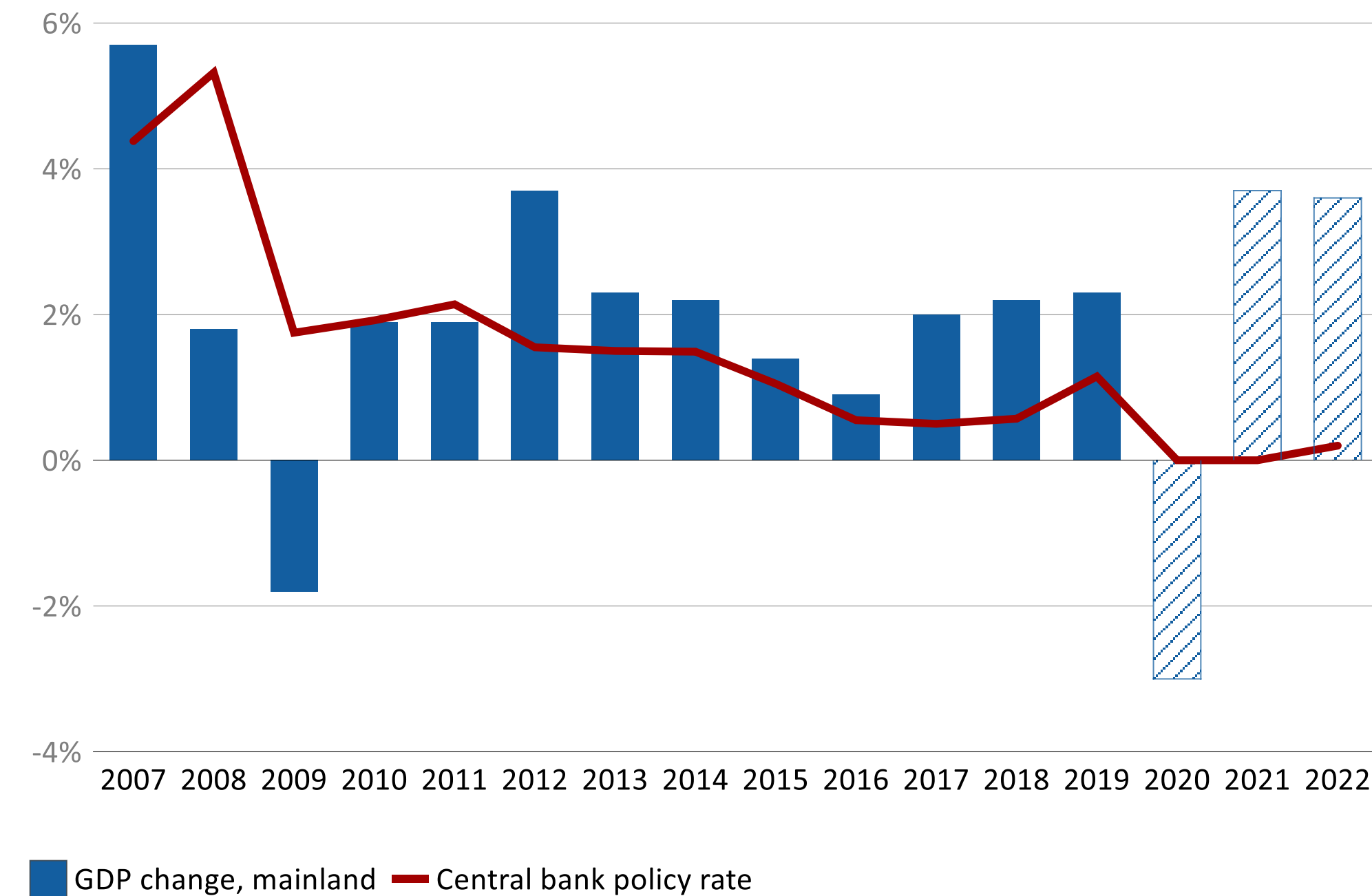
Cumulative cases (per 100k)



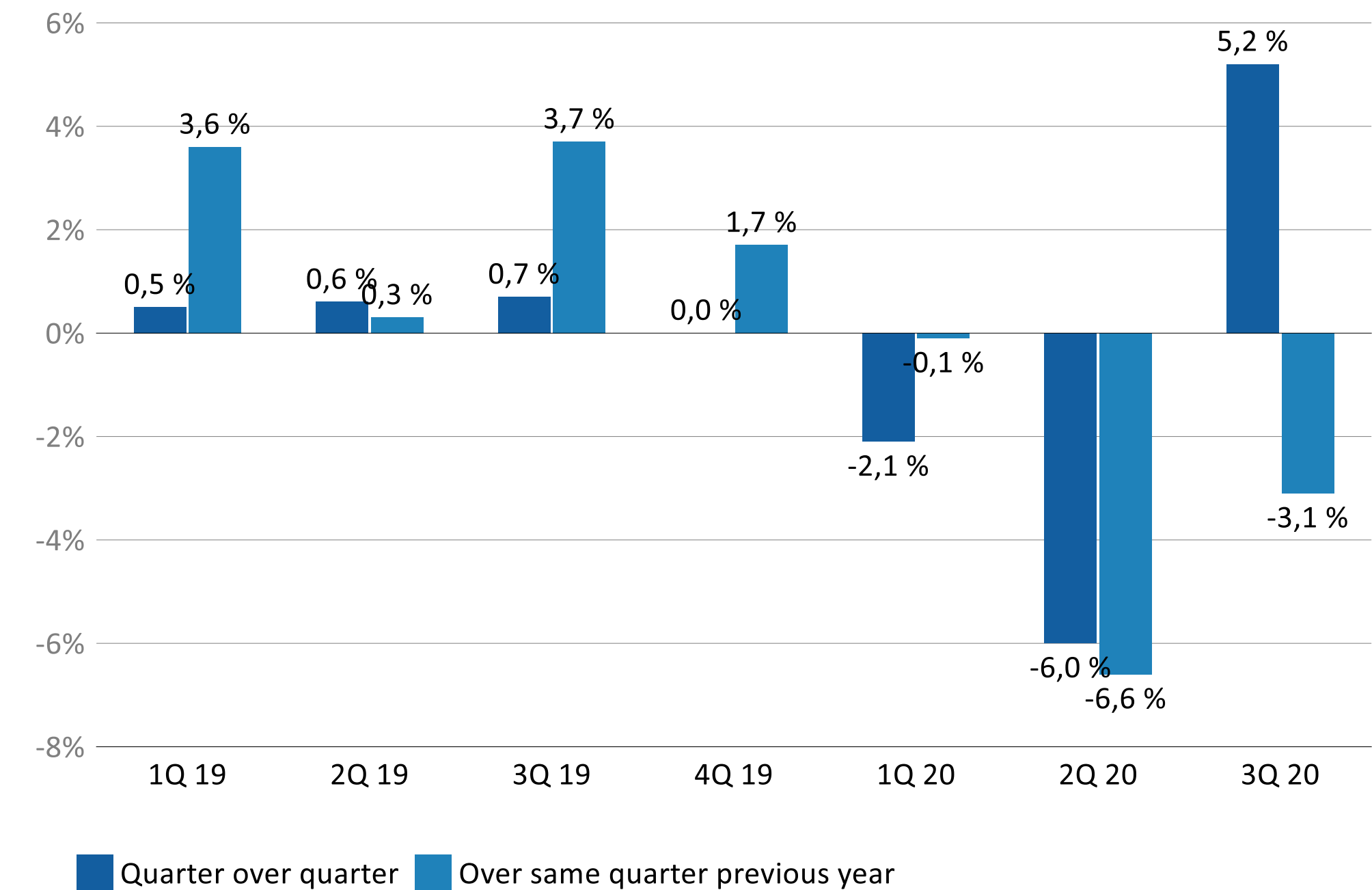
# Norwegian economy overview



GDP change and central bank policy rate



GDP quarterly change



# Which measures have been introduced to mitigate impact?



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



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



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

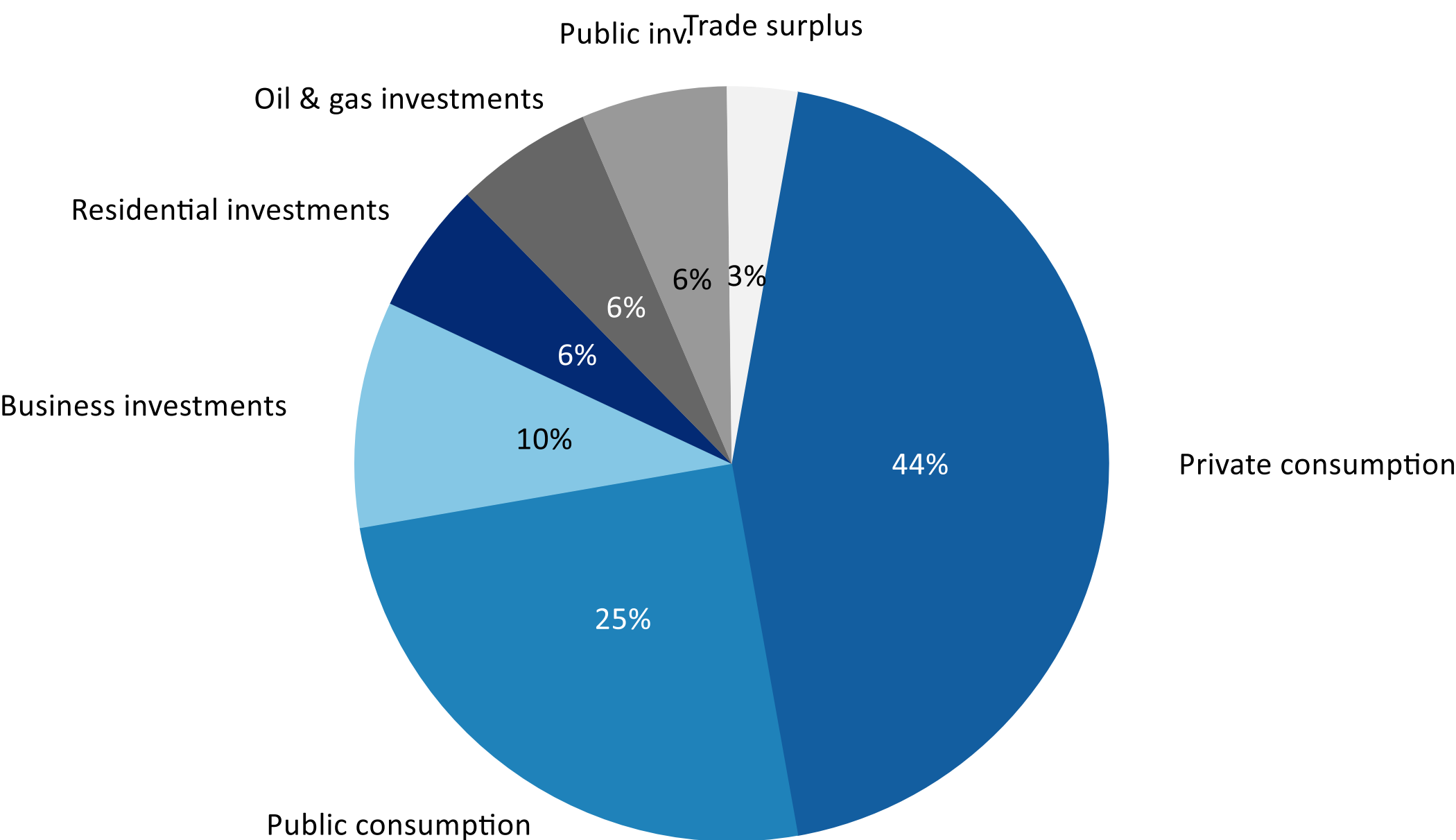


Central bank

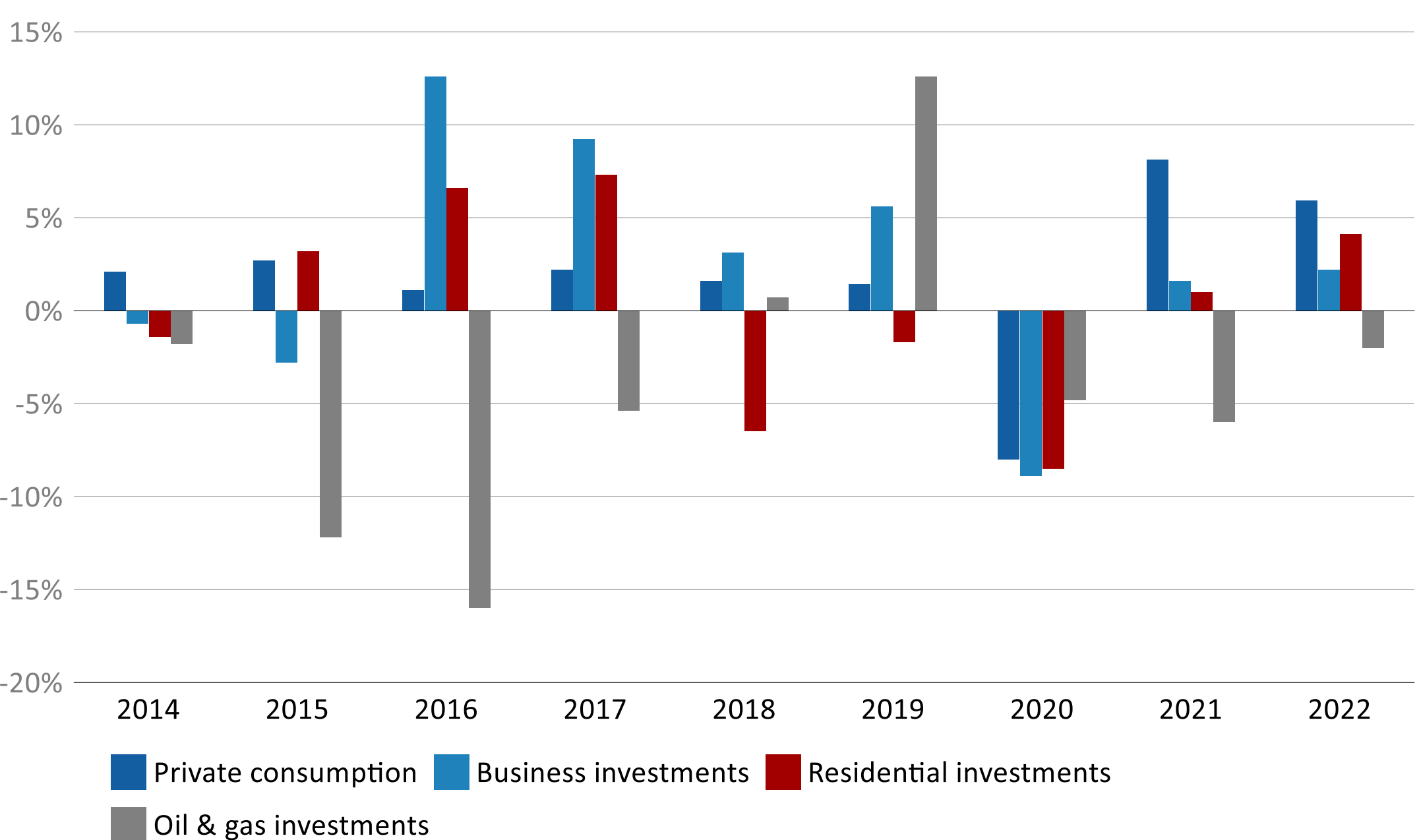
- 12 month tenor liquidity loans against covered bond collateral. 30 bps above policy rate, also available in USD. Unlimited.
- Policy rate 0% (from 1.5%)

# GDP components

GDP by expenditure



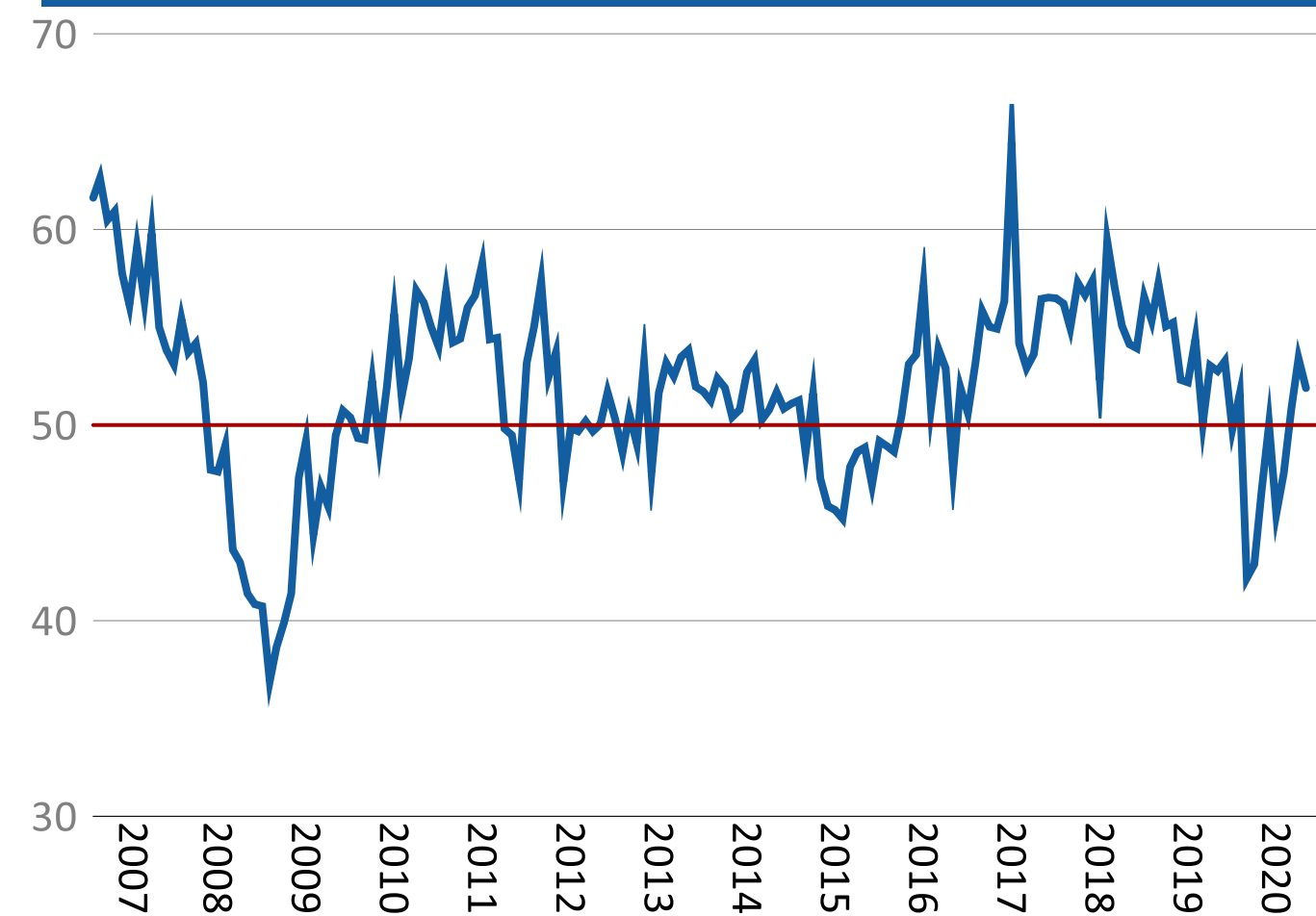
Change in selected GDP components



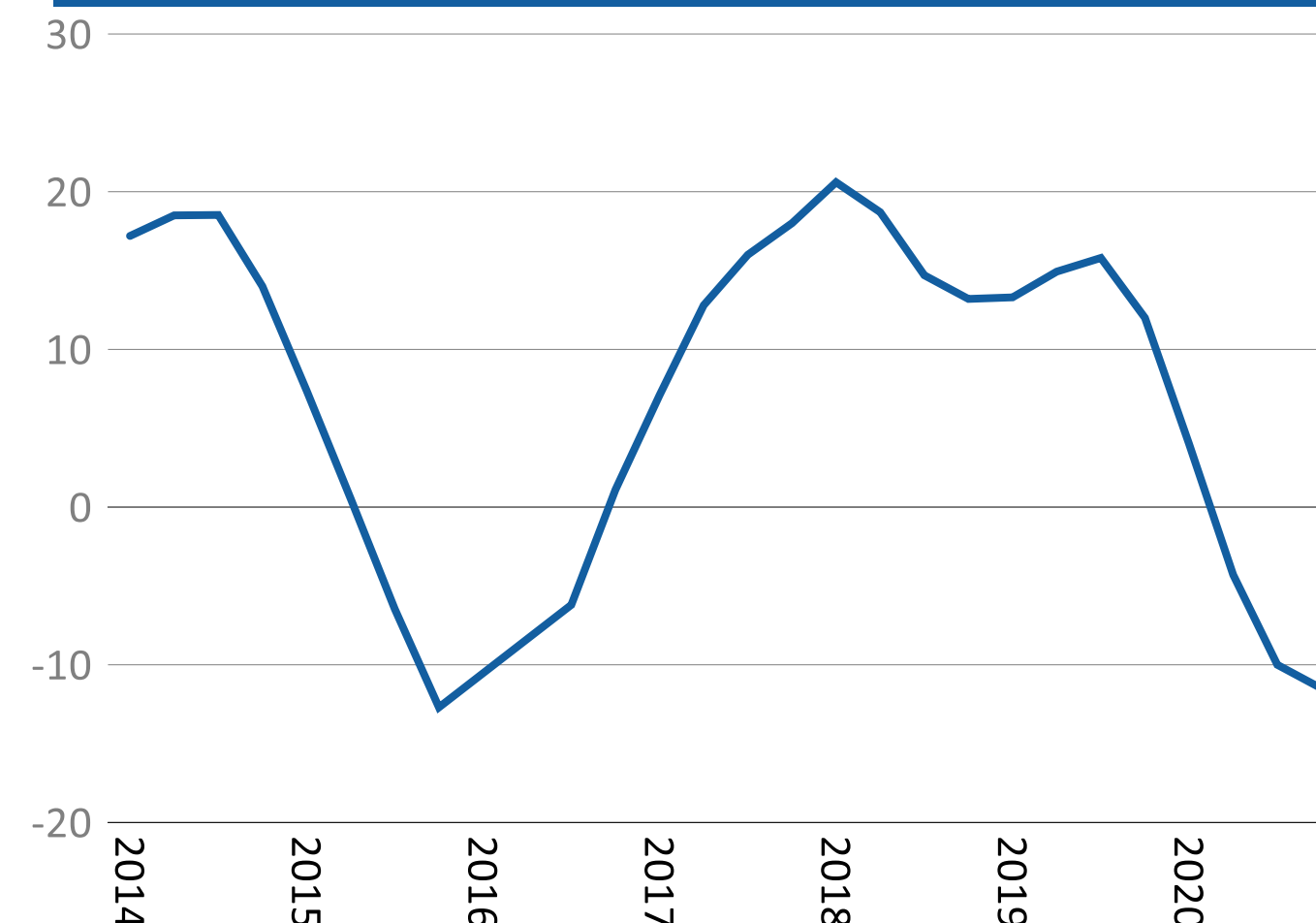
- The contraction in oil & gas investments caused overall GDP to grow more slowly in 2015-2016, and is causing headwinds also in 2021-2022
- Residential investments and private consumption contribute to 2021 recovery (alongside public expenditure)
- Business investments subdued in 2021, after strong gains pre-2020

# Outlook indicators

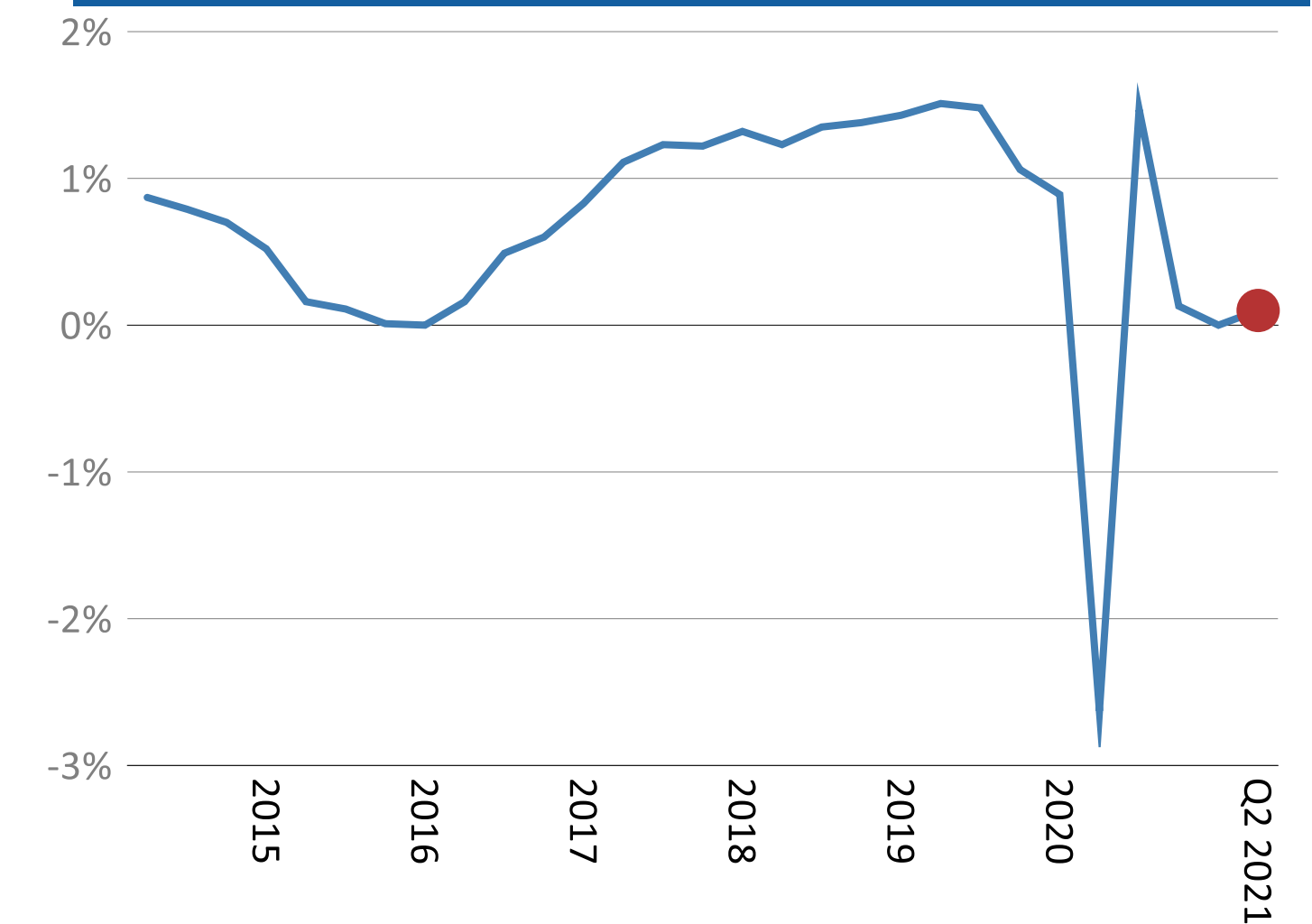
PMI (latest Nov 2020)



Consumer confidence (latest Q4, 2020)



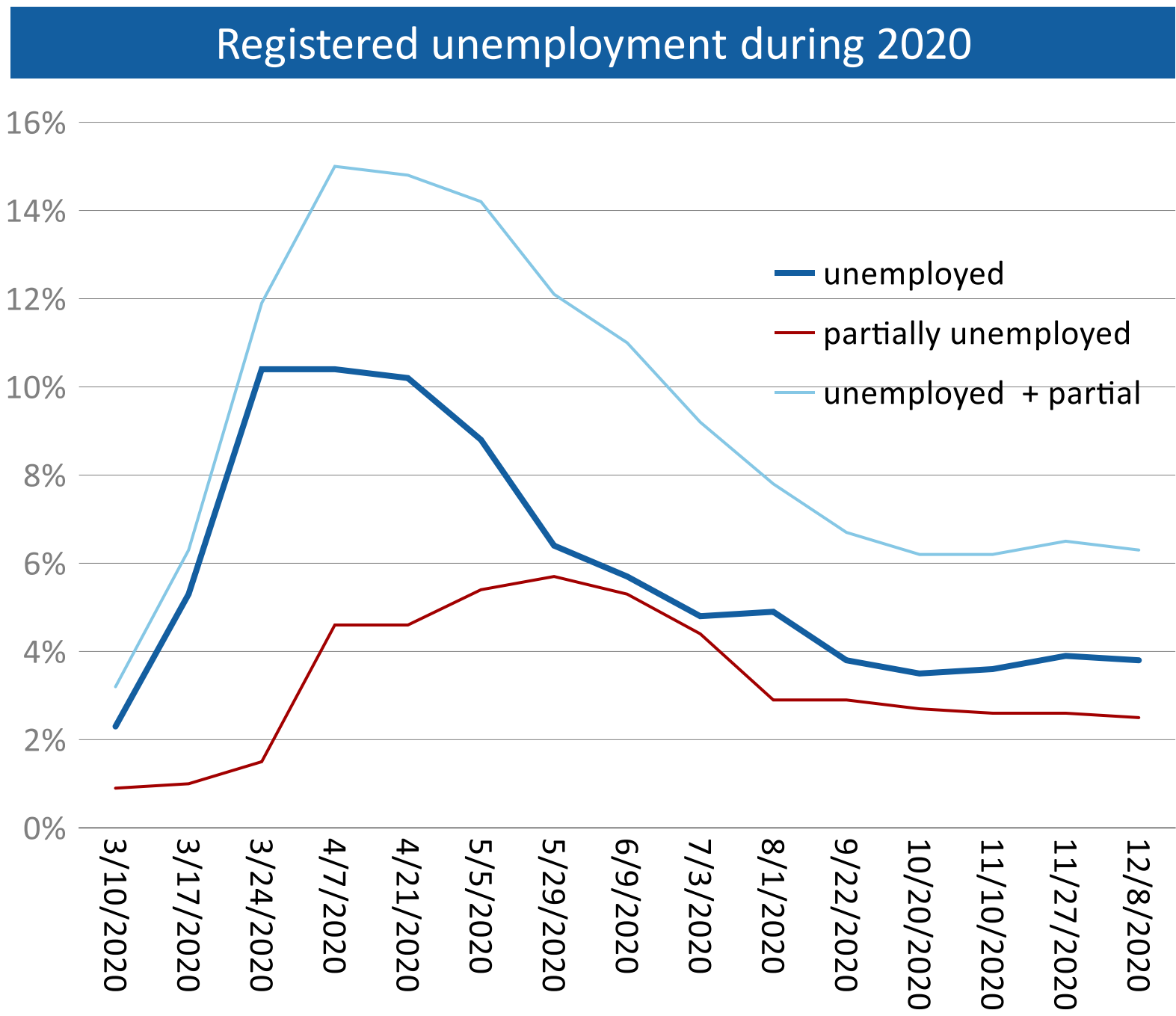
Central Bank business survey (latest Nov/Q4, 2020)



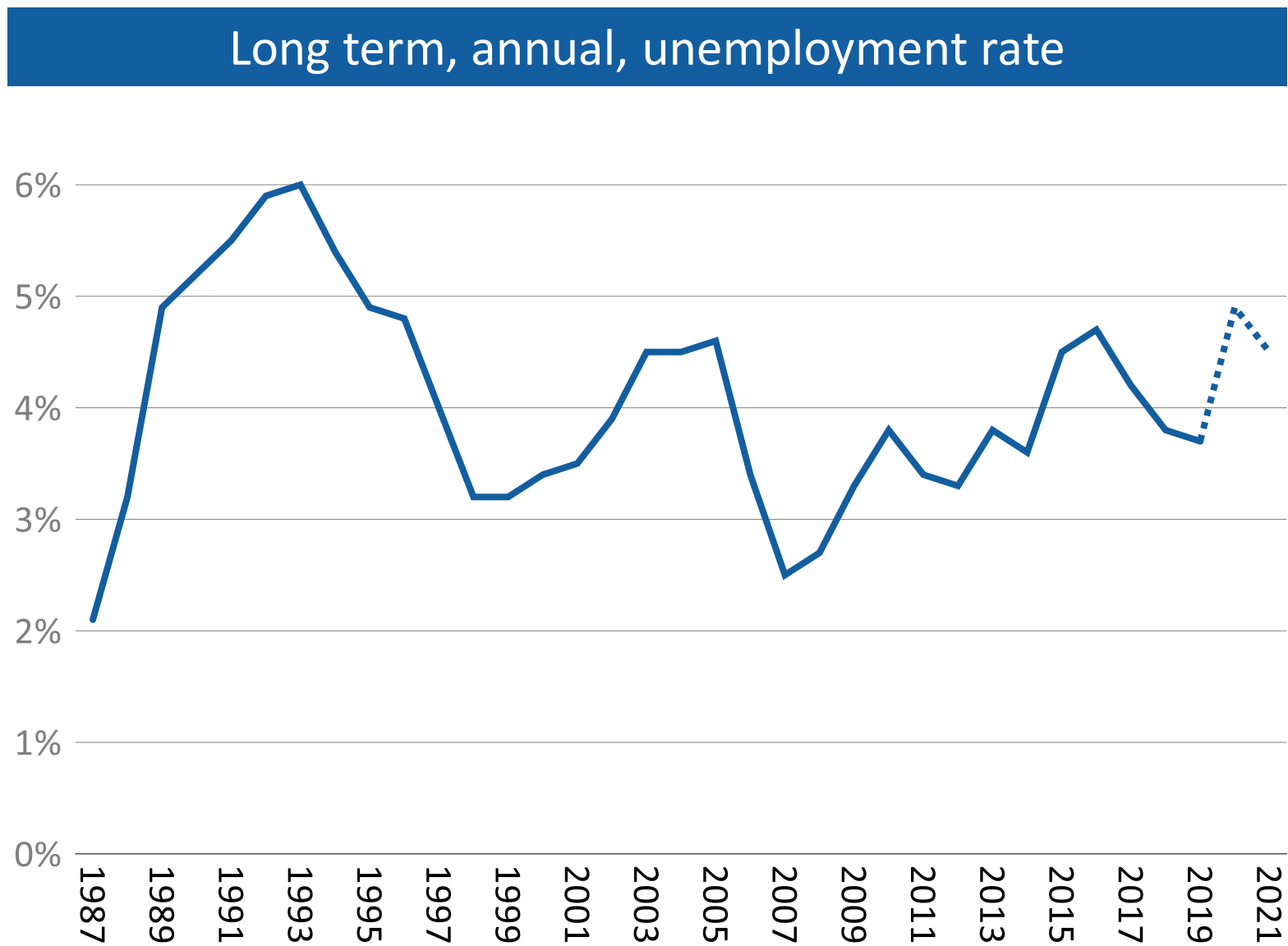
- The monthly PMI shows a recovery in sentiment in the late autumn 2020
- Consumer confidence for Q4 2020 remains low, reflecting the current restrictions / unemployment
- The central bank survey of business activity in industry shows a flat development looking ahead to May 2021, after rebound in Q3 2020



# Labour market



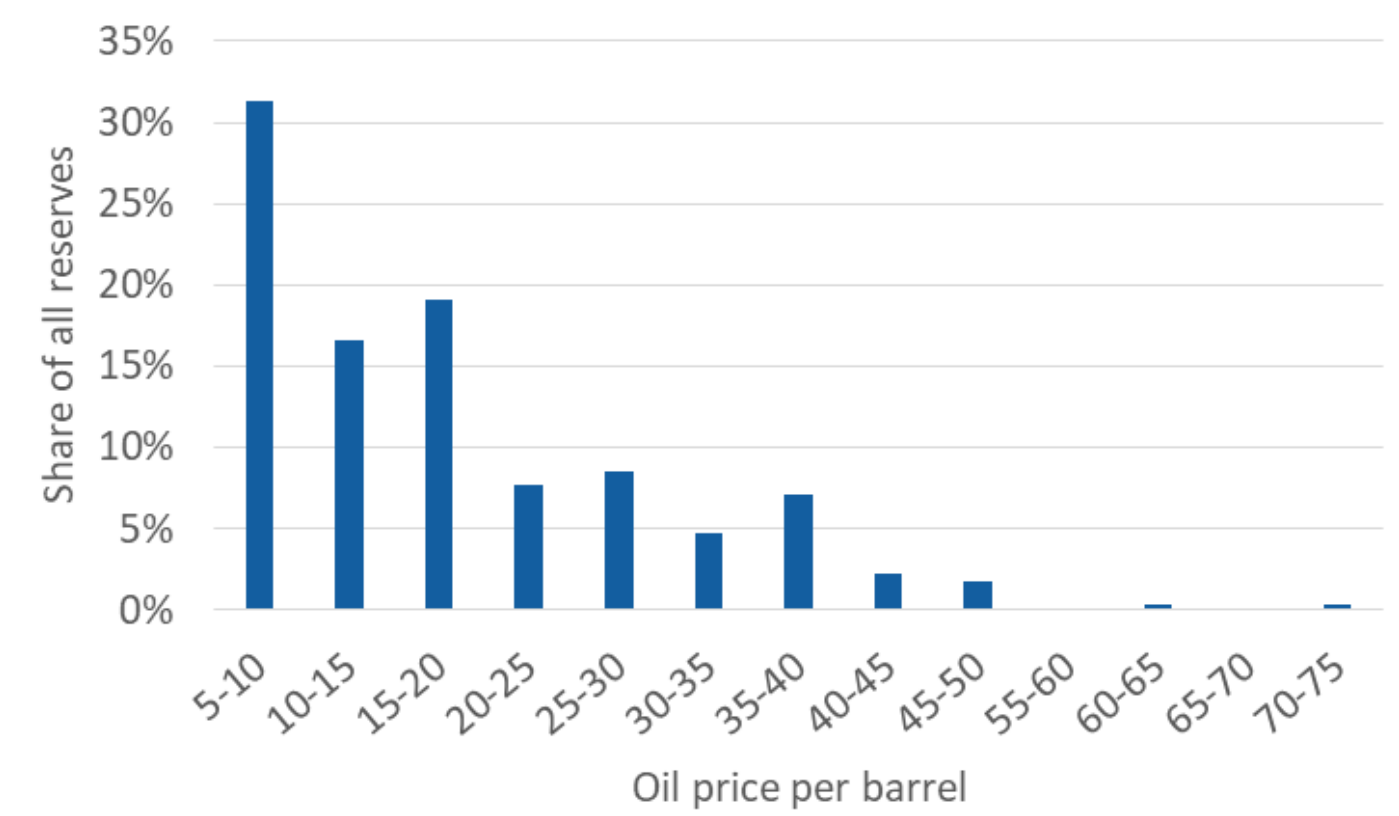
- The registered rate include temporary and permanently laid off workers



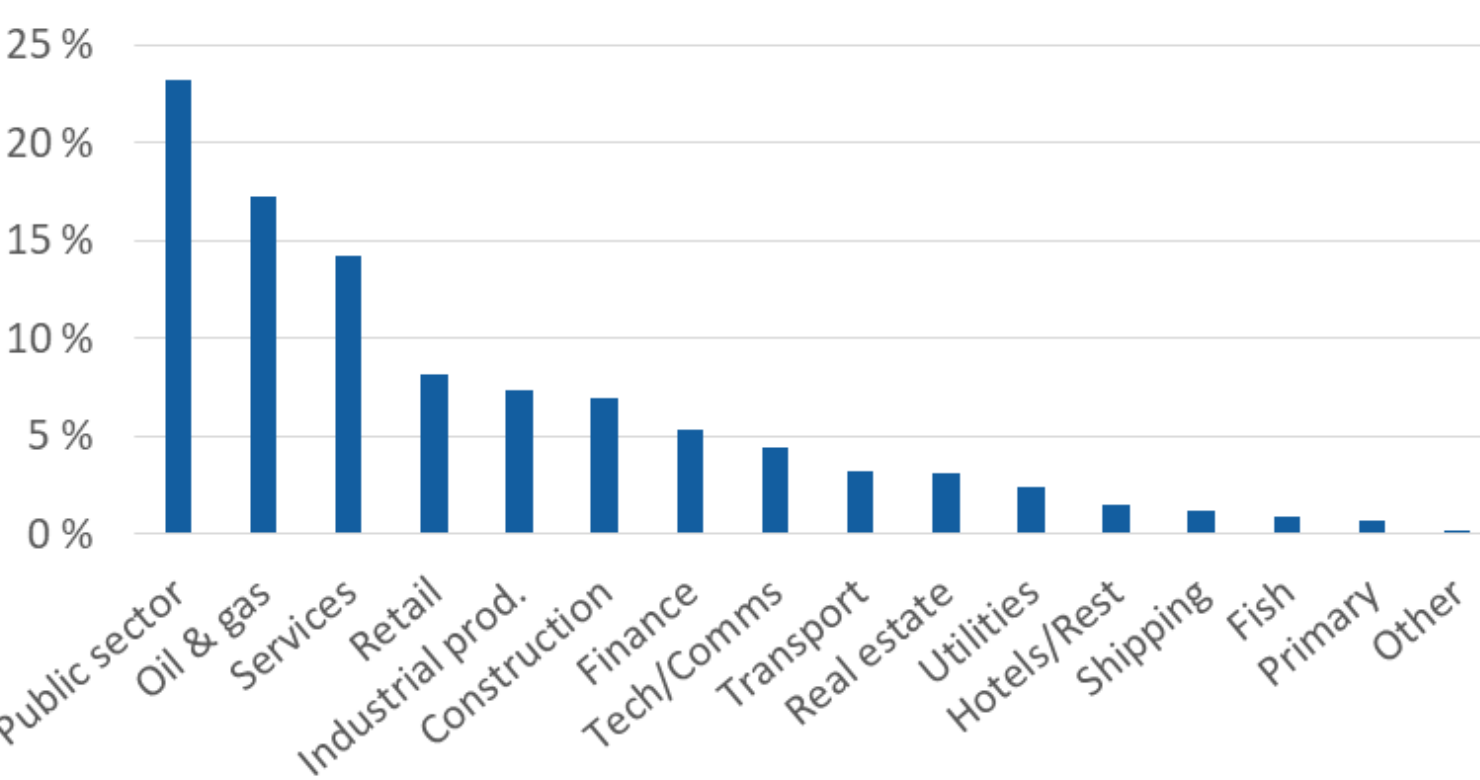
- Statistics Norway produces the unemployment survey. The projected unemployment rate is 4.9% rate for 2020 and 4.5% for 2021

# Oil sector

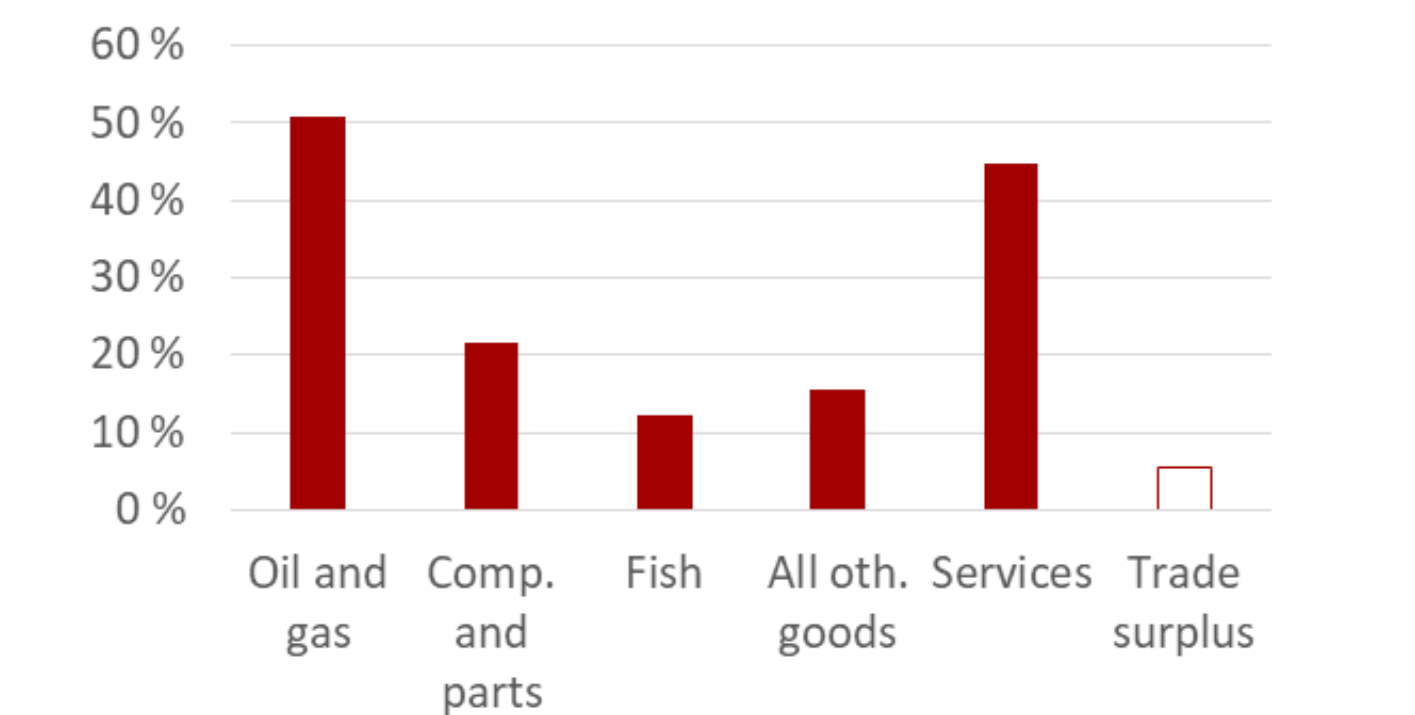
Break-even price running production



Norwegian gross product by industry <sup>(1)</sup>

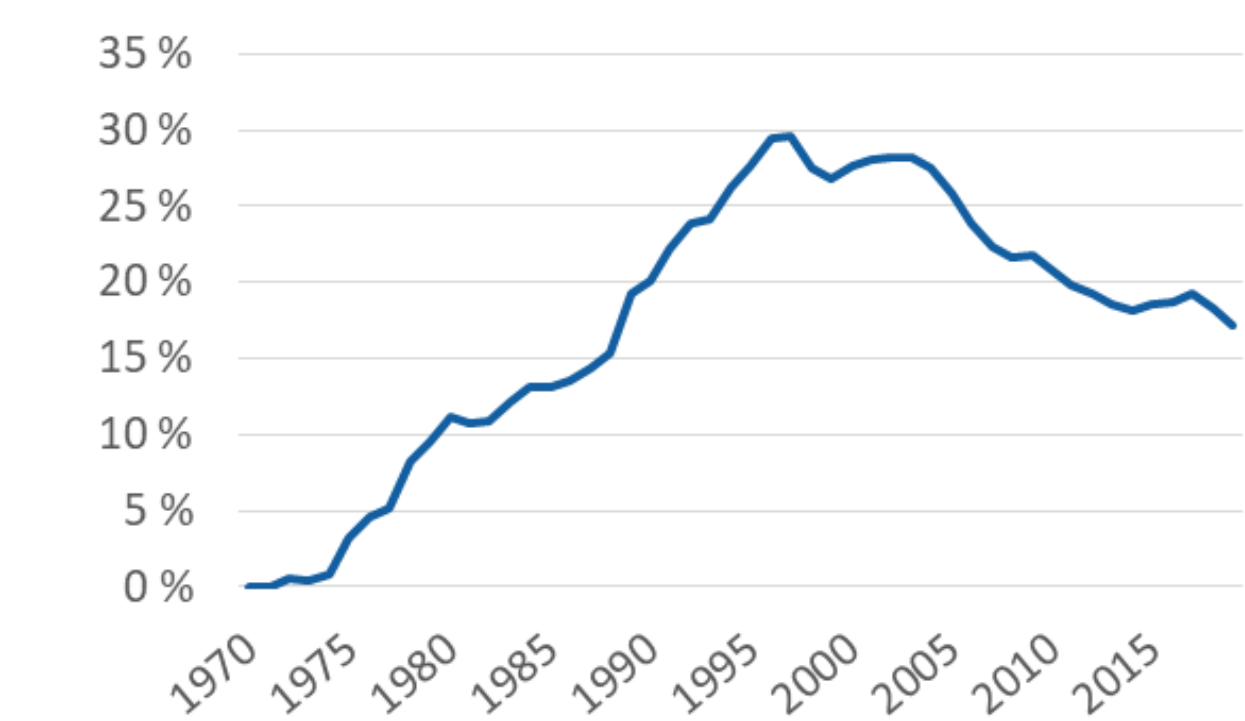


Norwegian Exports 2019

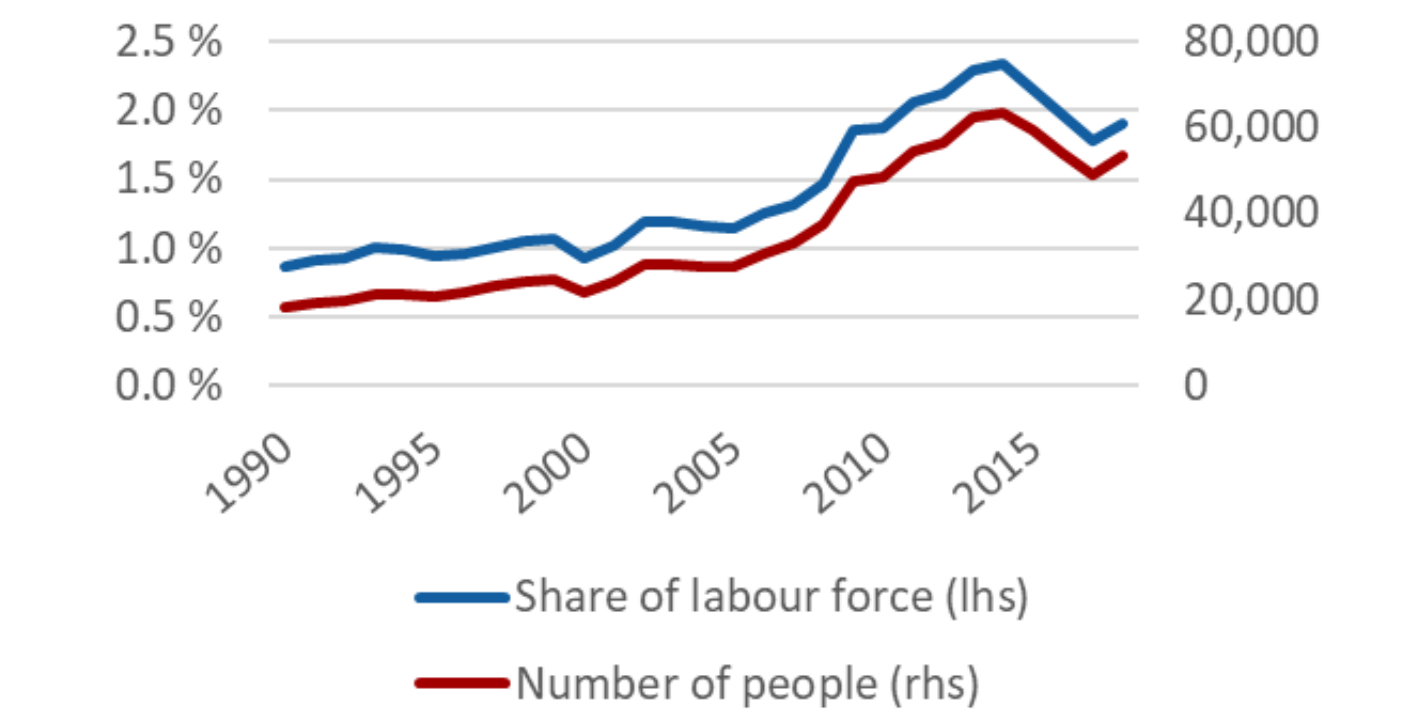


- 2/3 of all production is profitable at an oil price below USD 20 / barrel
- Oil & gas is an important industry, but has reduced in relative size as a share of gross product

Lower oil and gas share of GDP (real terms) <sup>(1)</sup>

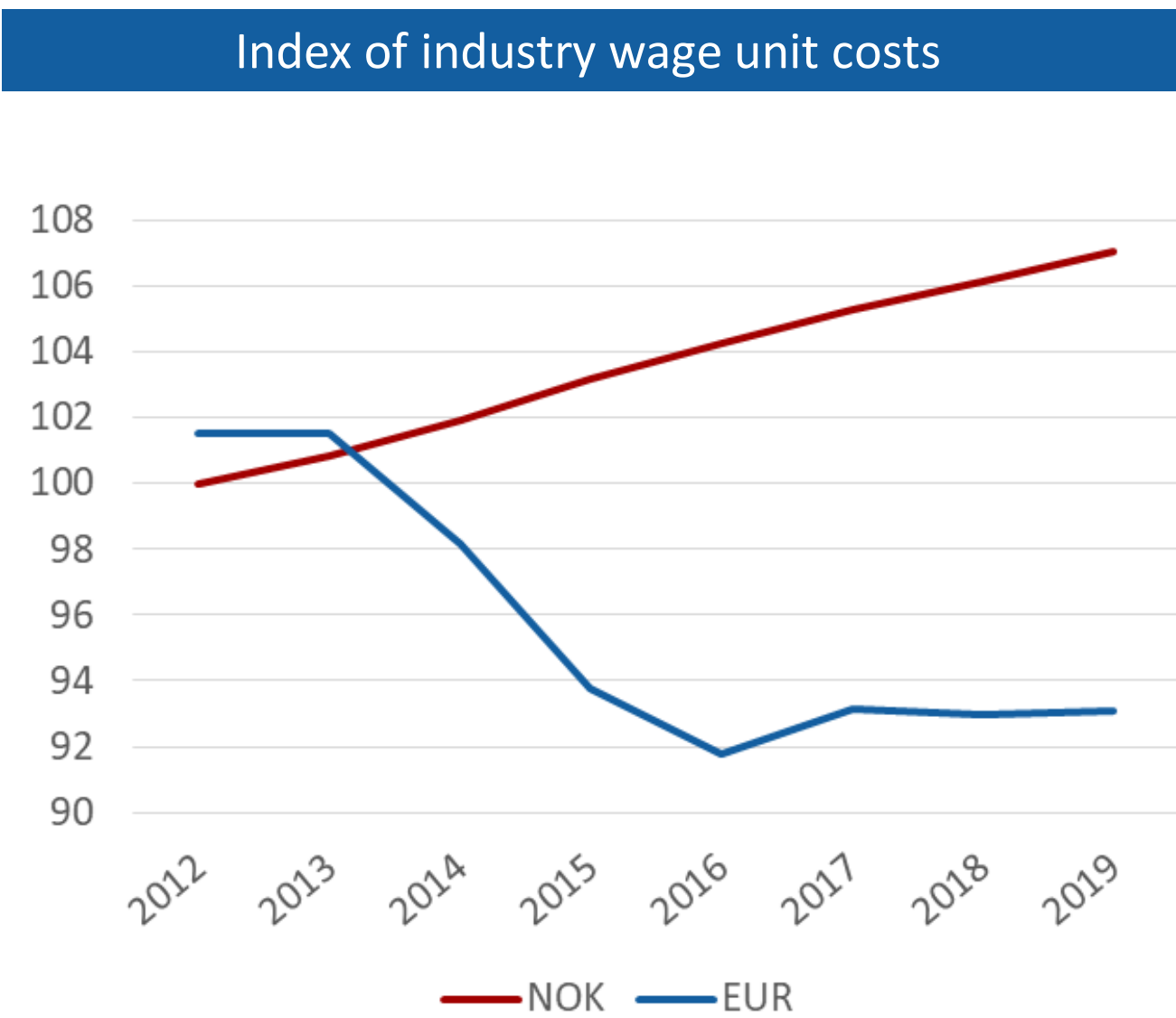
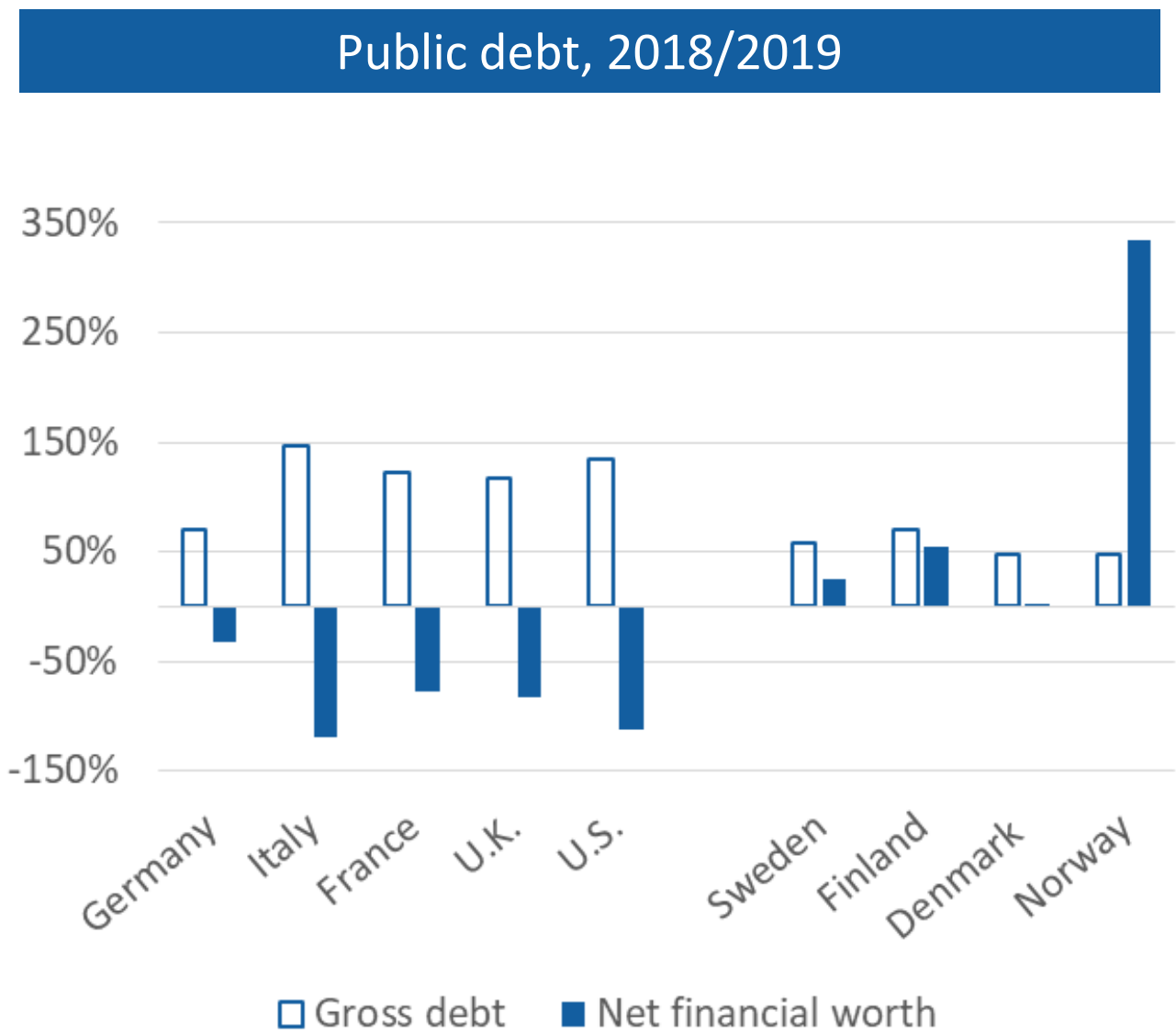


Direct employment in oil & gas



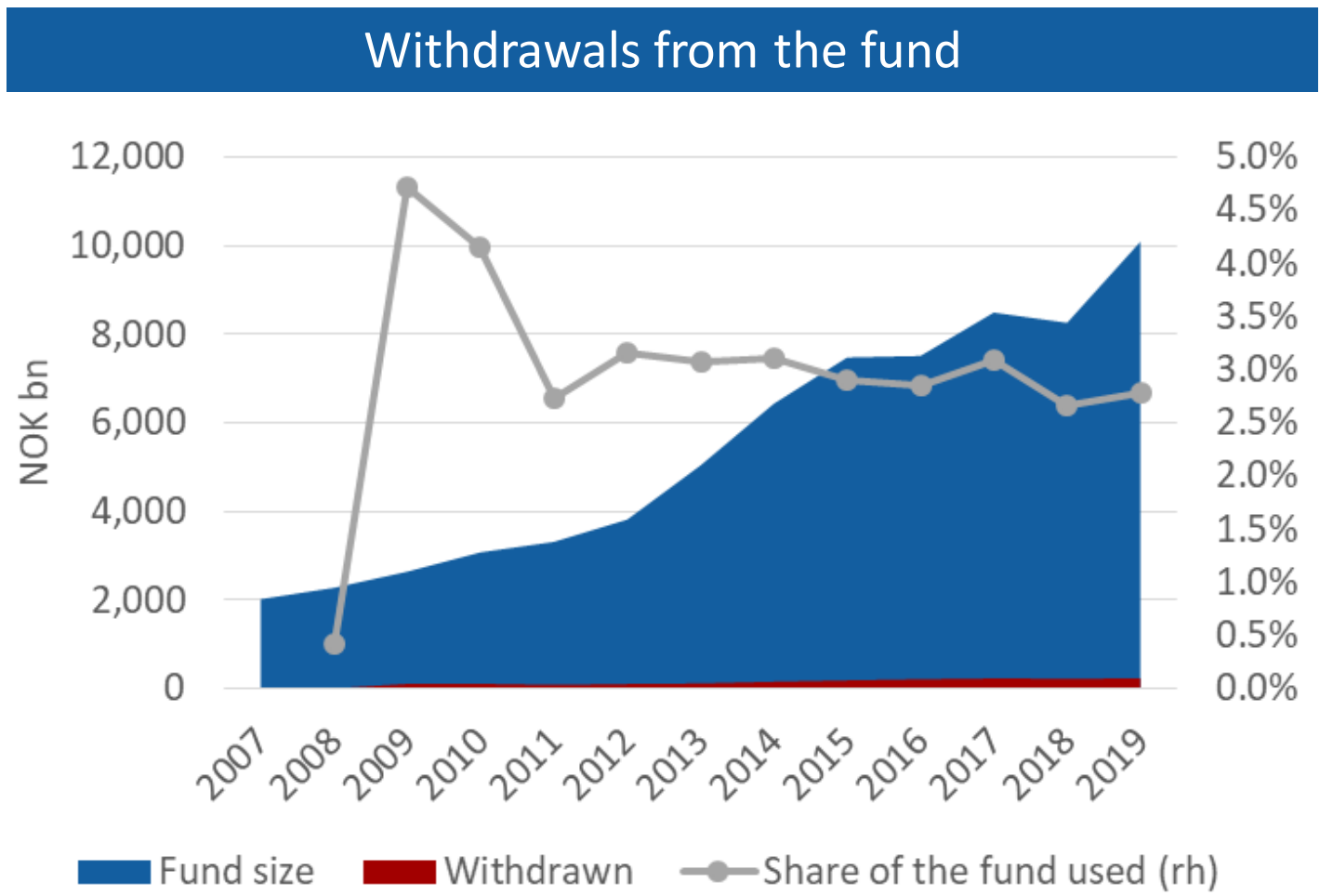
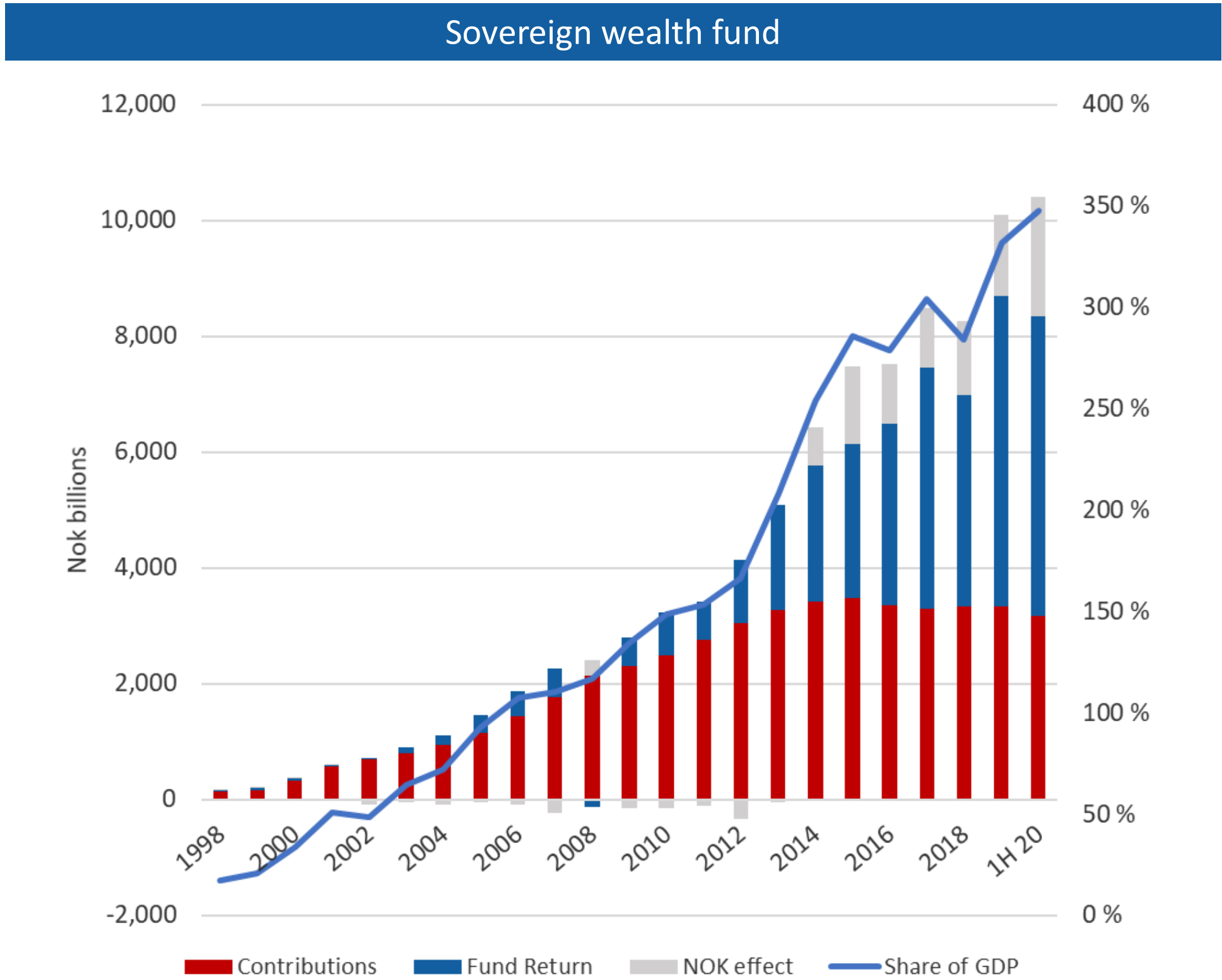
# Norway has a good starting point for a crisis

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





# Sovereign Wealth Fund





# SpareBank 1 Boligkreditt



Boligkreditt

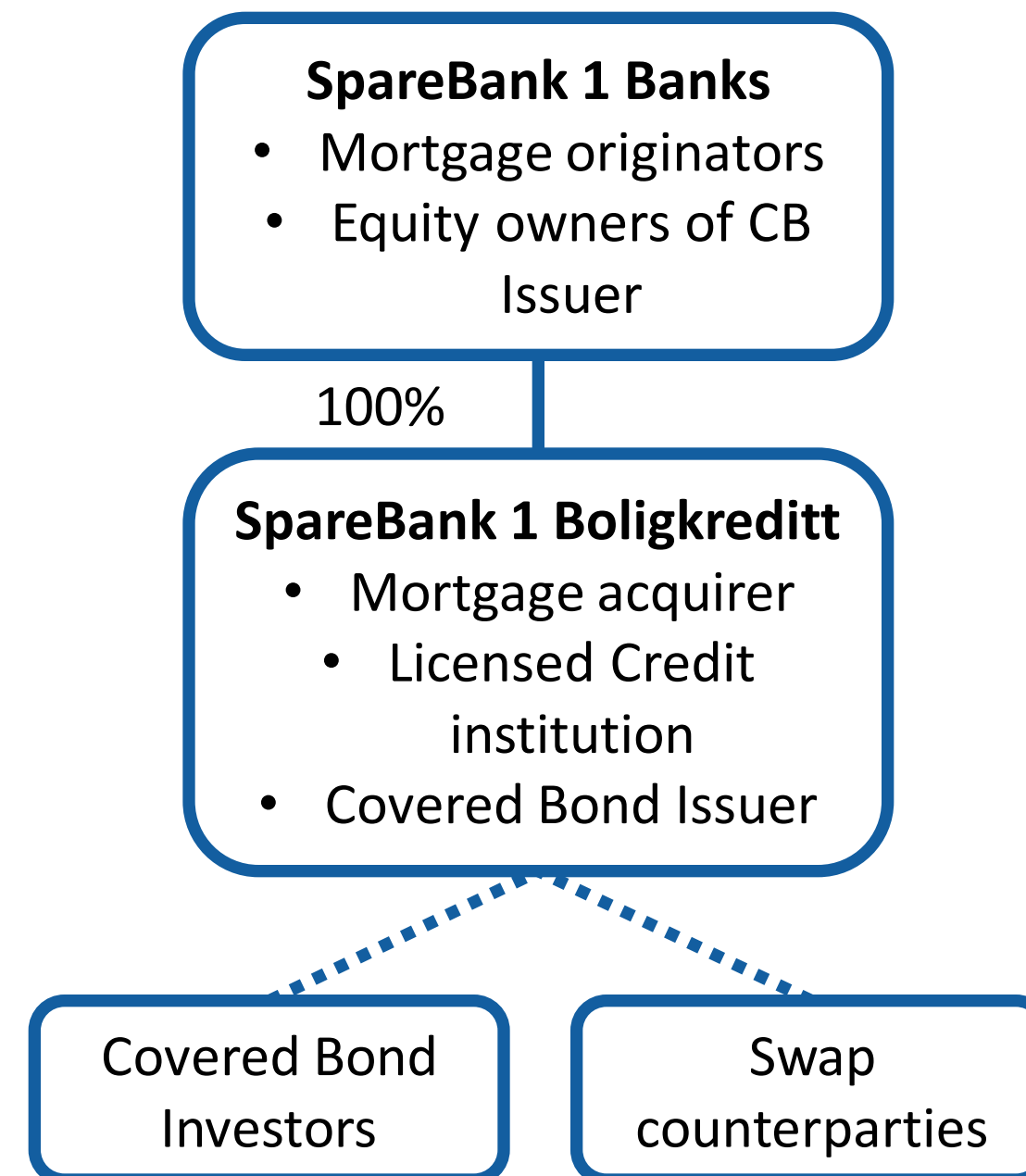
## 2nd Quarterly Report 2020



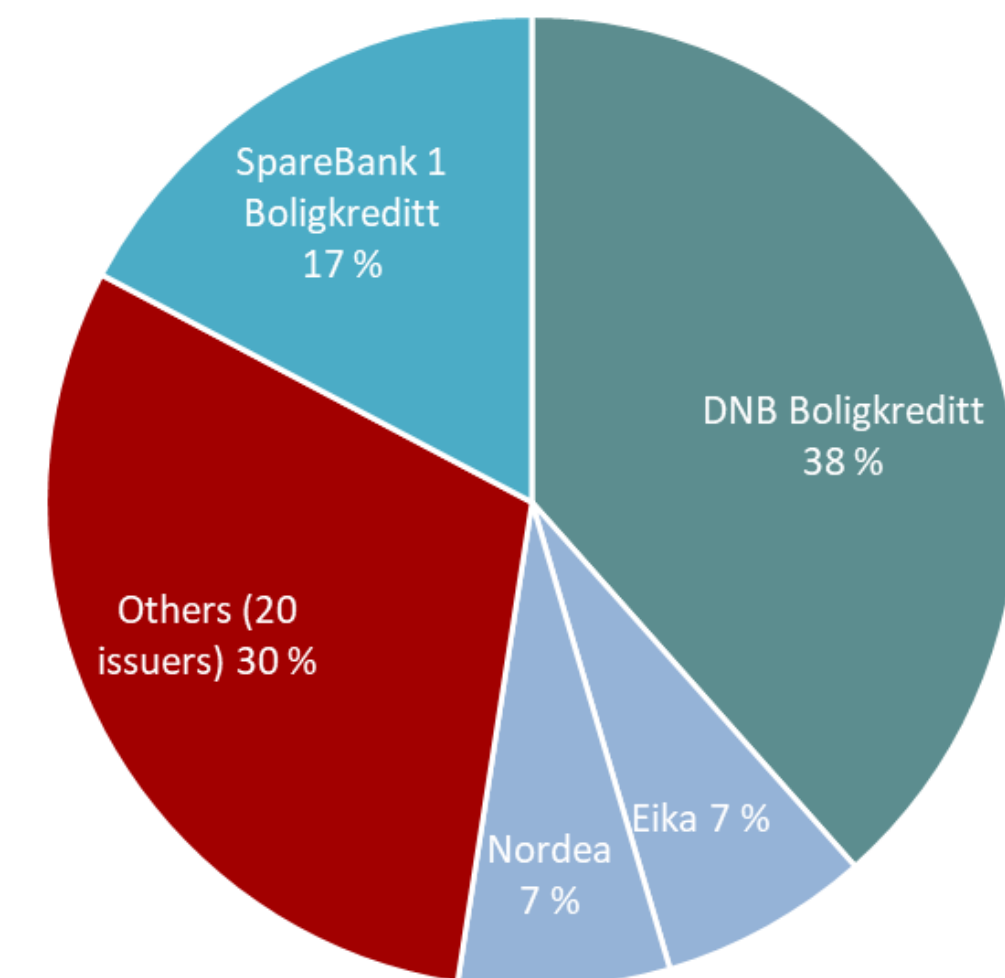
# SpareBank 1 Boligkreditt

- Norway has specialized credit institutions issuing covered bonds under a CB law and regulations
- Issuers are called Boligkreditt; 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:



Norwegian issuers outstanding volume 1Q 2020





# Moody's credit ratings and cover pool overview

SpareBank 1 Boligkreditt Covered Bond rating	SpareBank 1 Boligkreditt Issuer Rating	SpareBank 1 owner banks unsecured ratings	CB Anchor	Moody's Timely Payment Indicator (TPI)	TPI leeway
Aaa	A2	A1/Aa3*	A1	High	3

## SpareBank 1 Boligkreditt Cover Pool overview Q2 2020

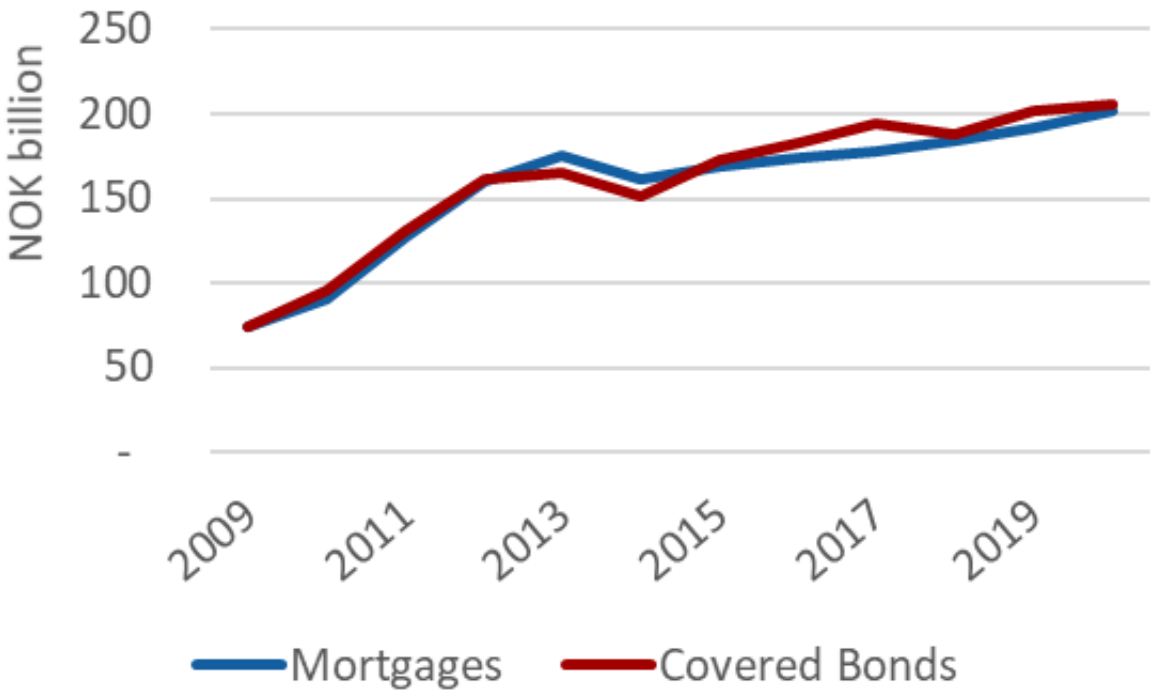
Type	Norwegian private residential mortgages for all types of residences
Number of mortgages	138,275 mortgages with a weighted average interest rate of 2.1% ↓
Average mortgage balance	NOK 1.49 mill. Kroner (EUR 140-150,000)
Total balance mortgages	NOK 206 billion
Weighted average current LTV	51.8%
Cover pool	NOK 259 bn; Residential mortgages 79%, Liquid Assets 9%, Swap hedges 12%

- SpareBank 1 banks senior ratings of A1/Aa3 form the starting point for Boligkreditt's Issuer rating, which determines the CB Anchor
- The Timely Payment Indicator of "High" is determined by several factors, including type of assets, legal framework and type of risk mitigation (i.e robust swap agreements with external counterparties)

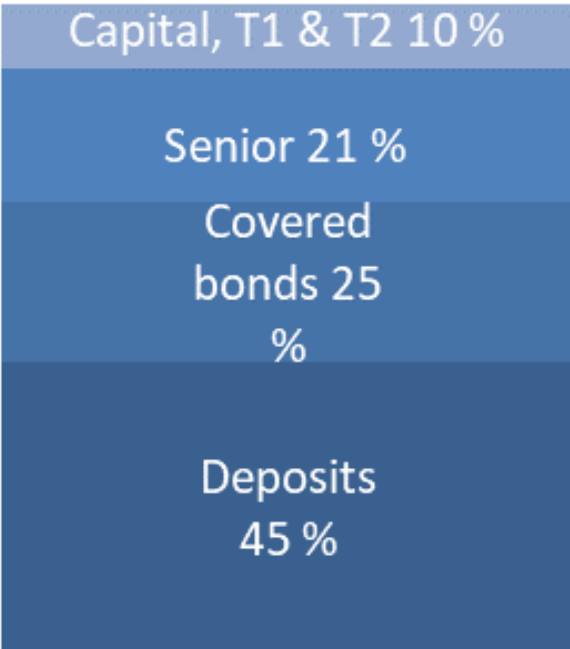
\*SpareBank 1 Østlandet and Nord-Norge: Aa3, SpareBank 1 SMN A1

# SpareBank 1 mortgages funding, loans & deposits

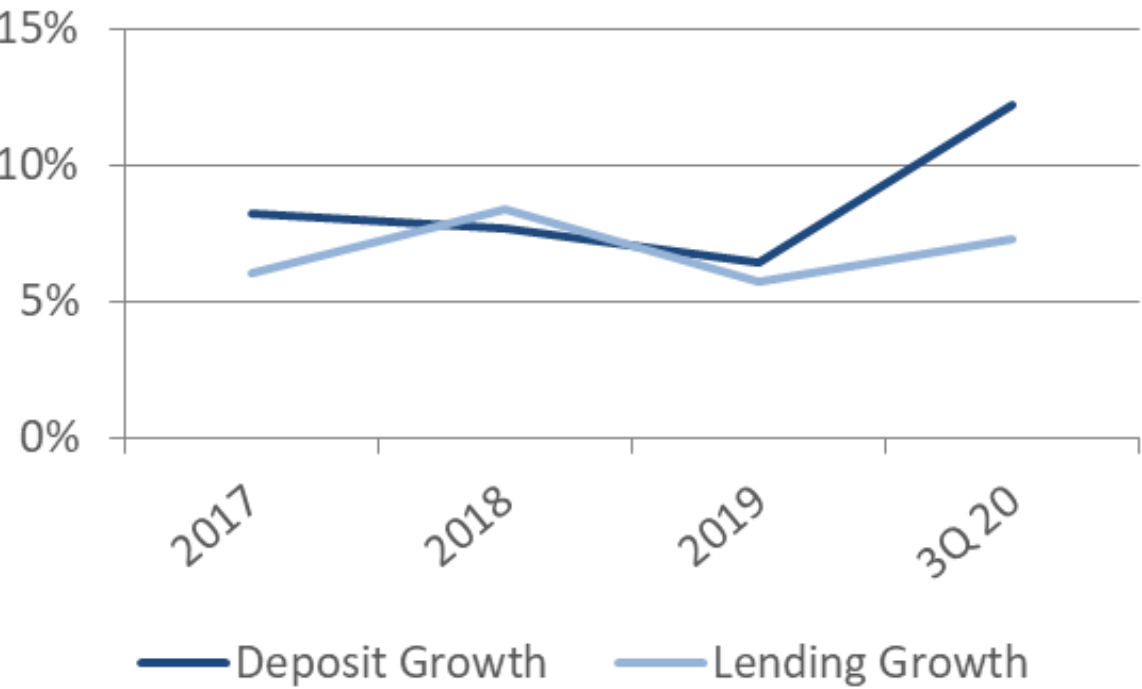
Boligkredit's mortgages financed through covered bonds



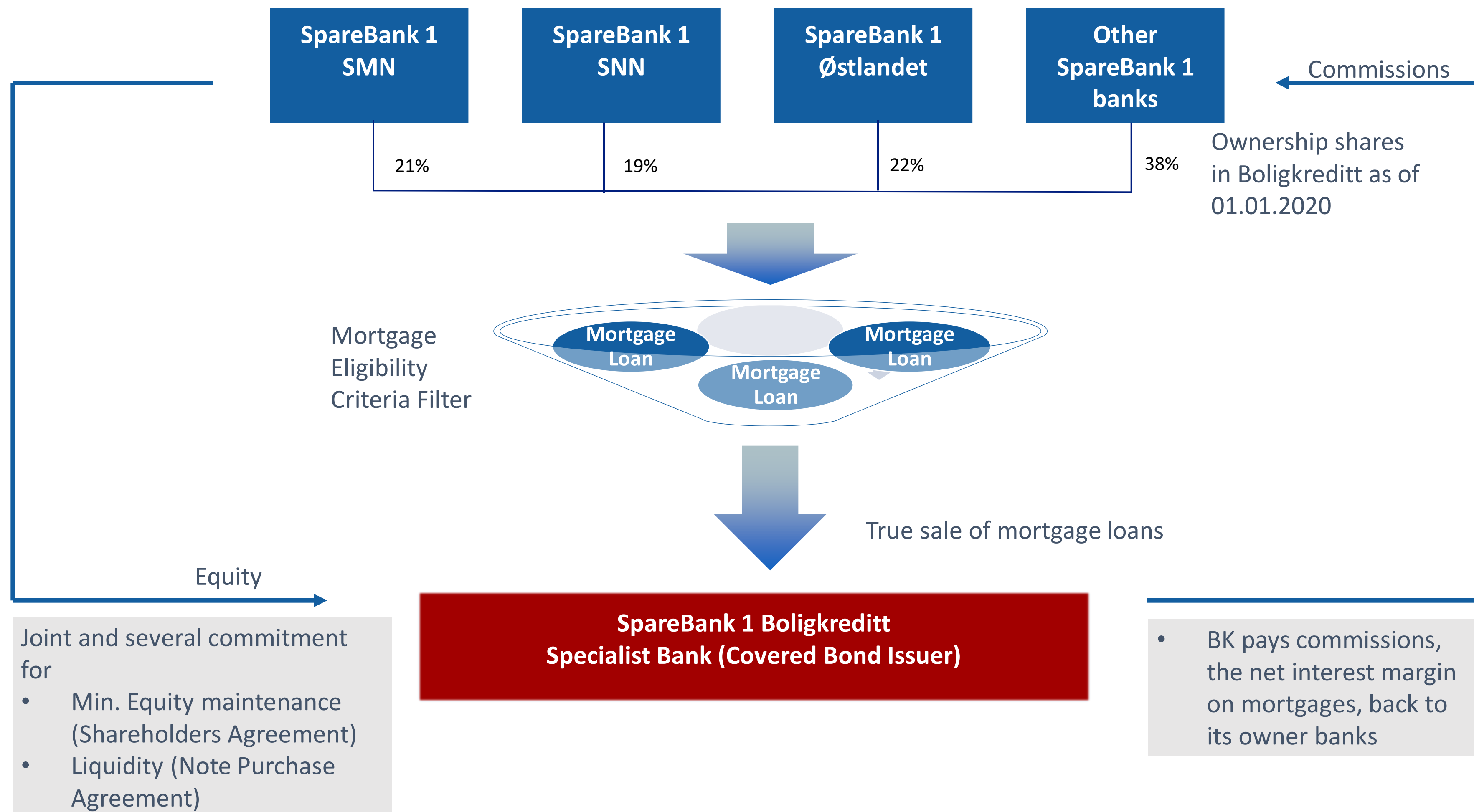
SpareBank 1 Alliance Banks funding sources



Alliance Banks lending and deposit growth



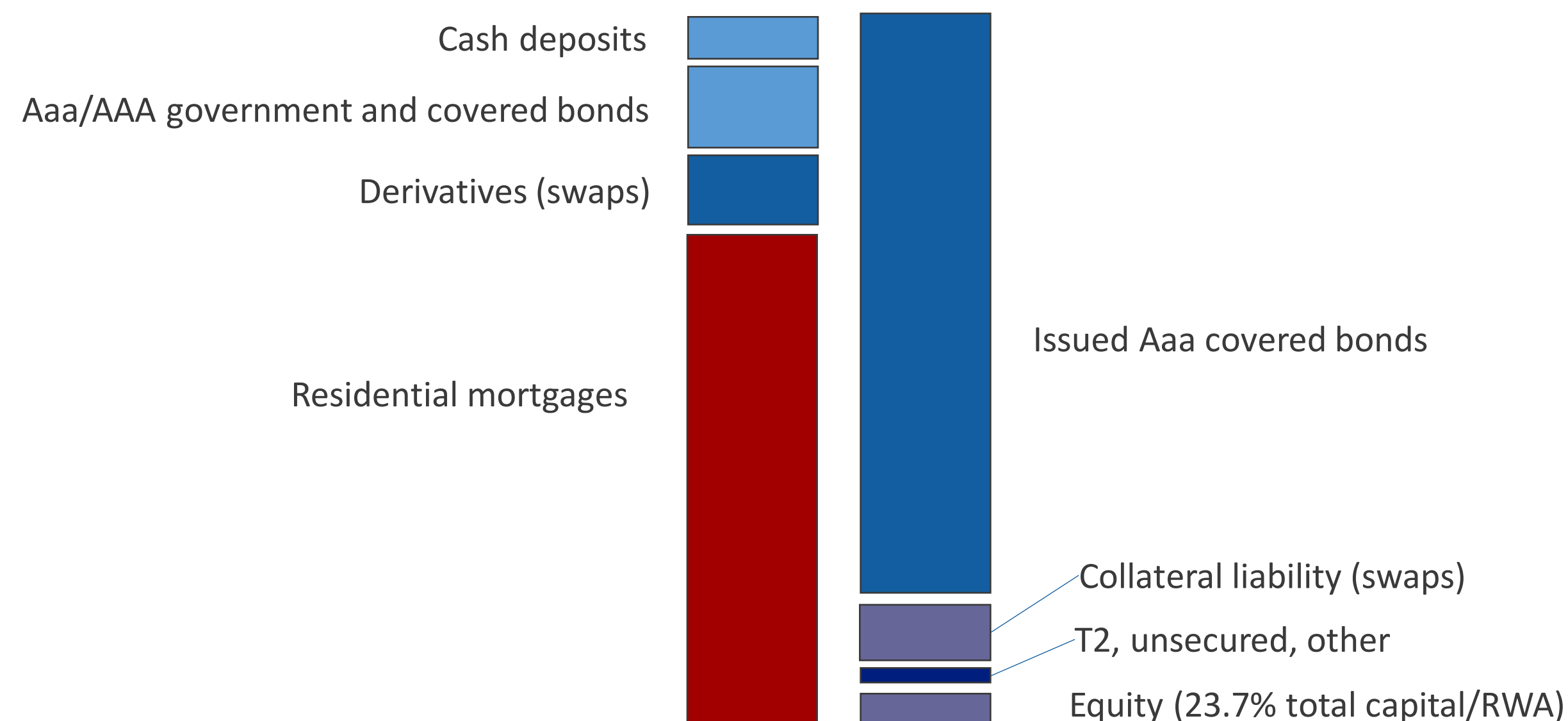
# SpaBol structure and mortgage loans transfer



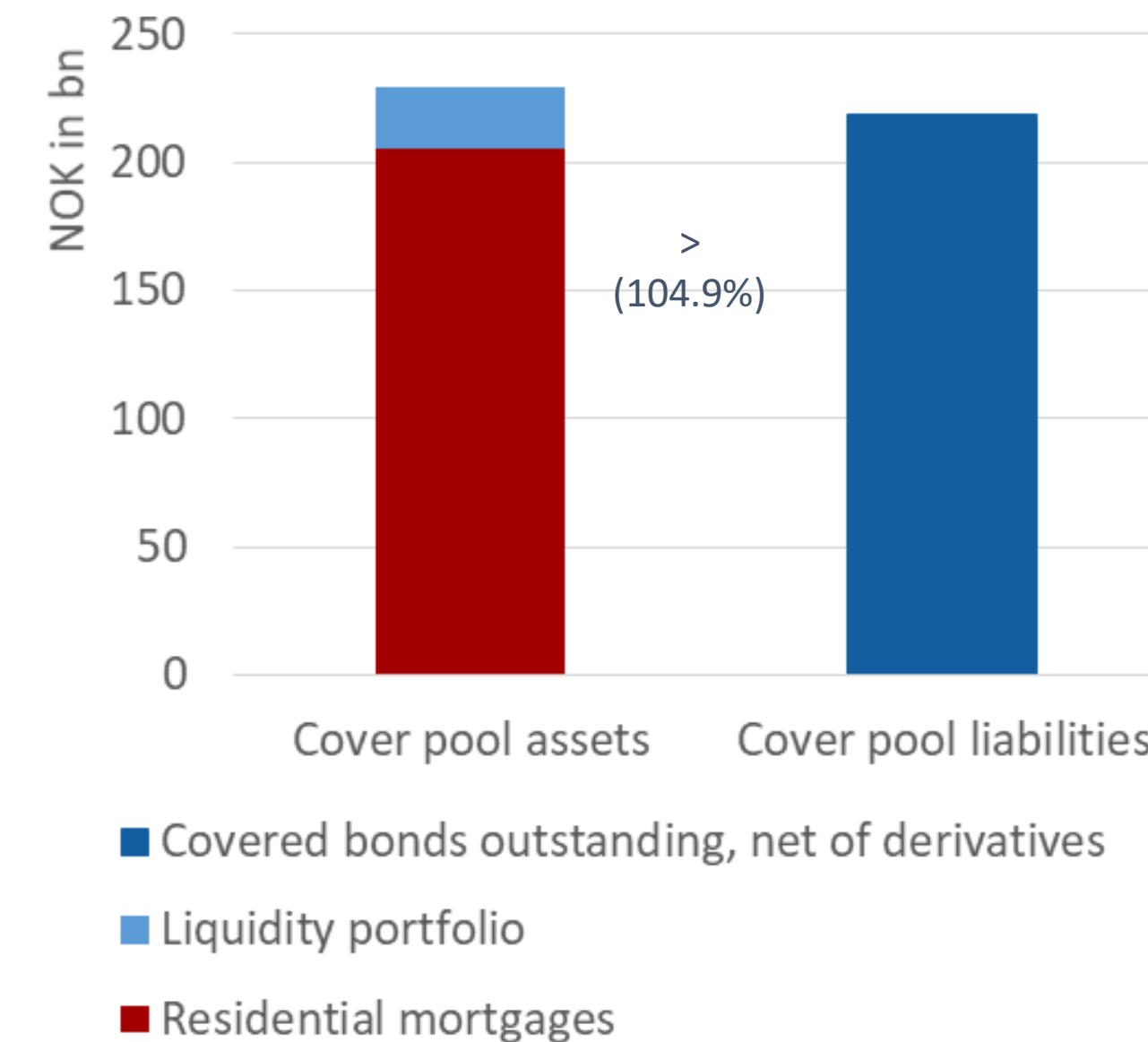


# SpaBol balance sheet and cover pool

Relative balance sheet 30.09.2020



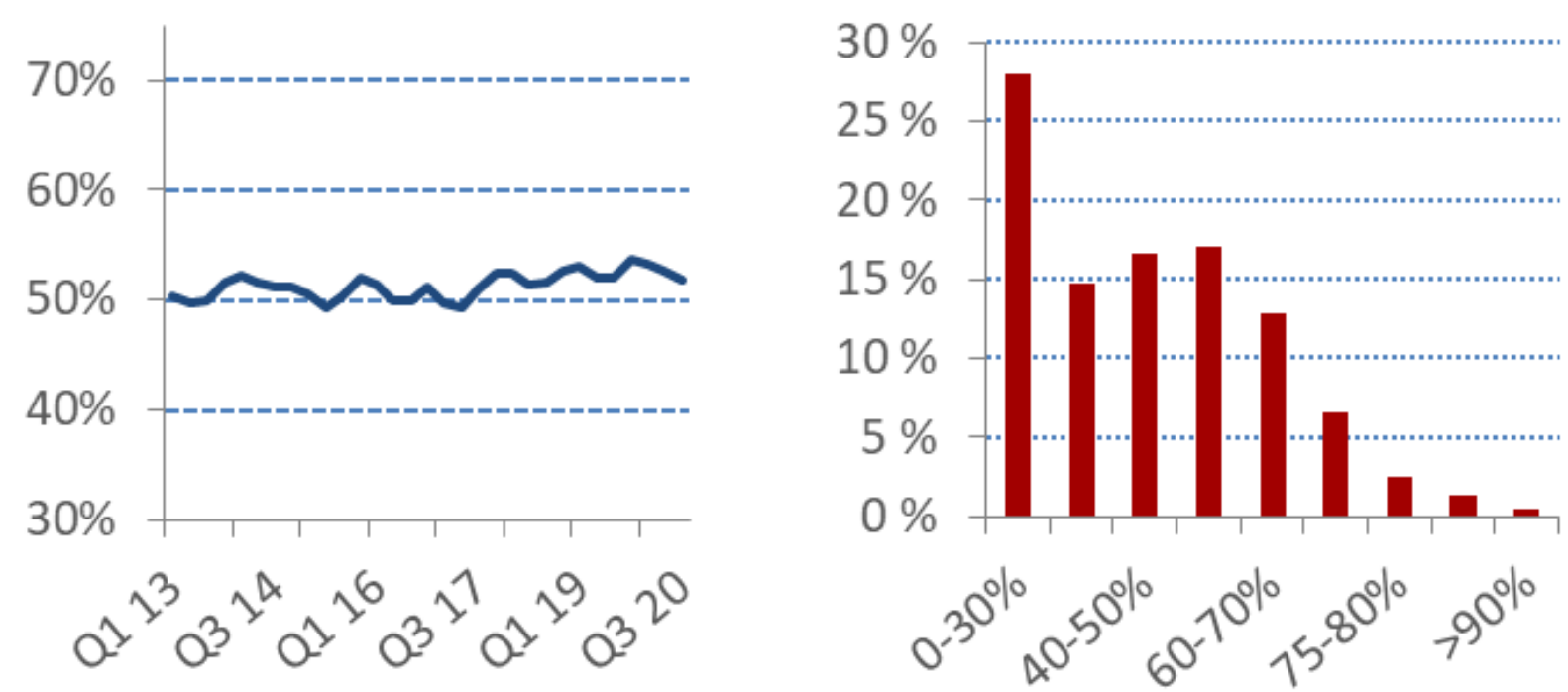
Cover pool 30.09.2020



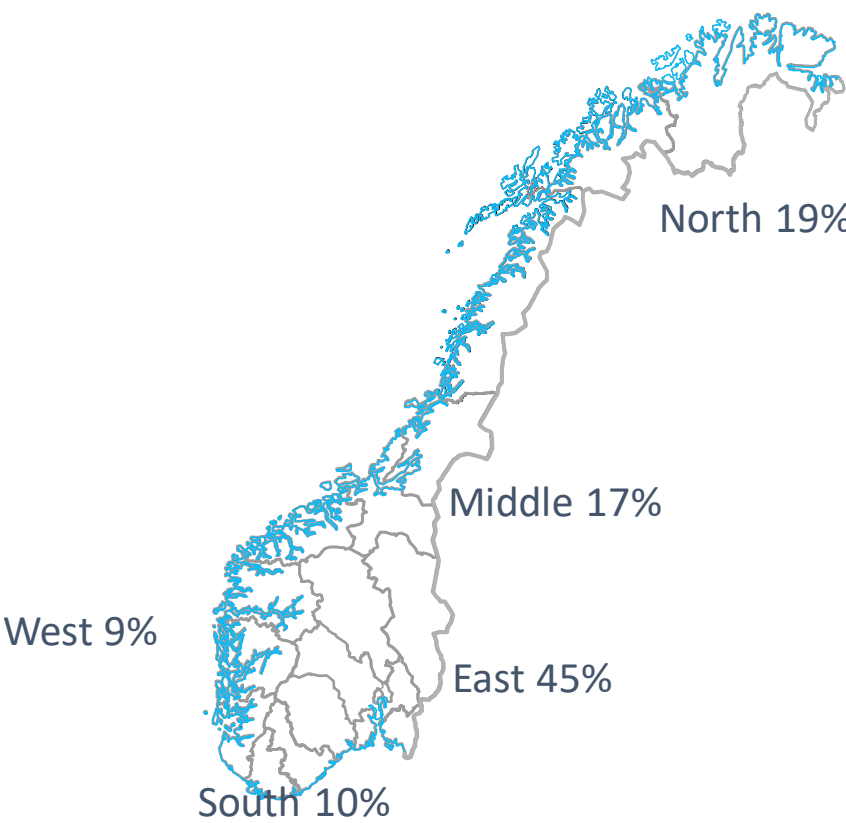
- The cover pool assets consist of mortgages and liquid assets
- Liquid assets are held for liquidity risk management purposes only – bonds are soft bullet, but liquidity managed according to expected maturities
- The minimum regulatory overcollateralization is 2%, while Moody's requirement is 2.5%

# Cover pool mortgages of high quality

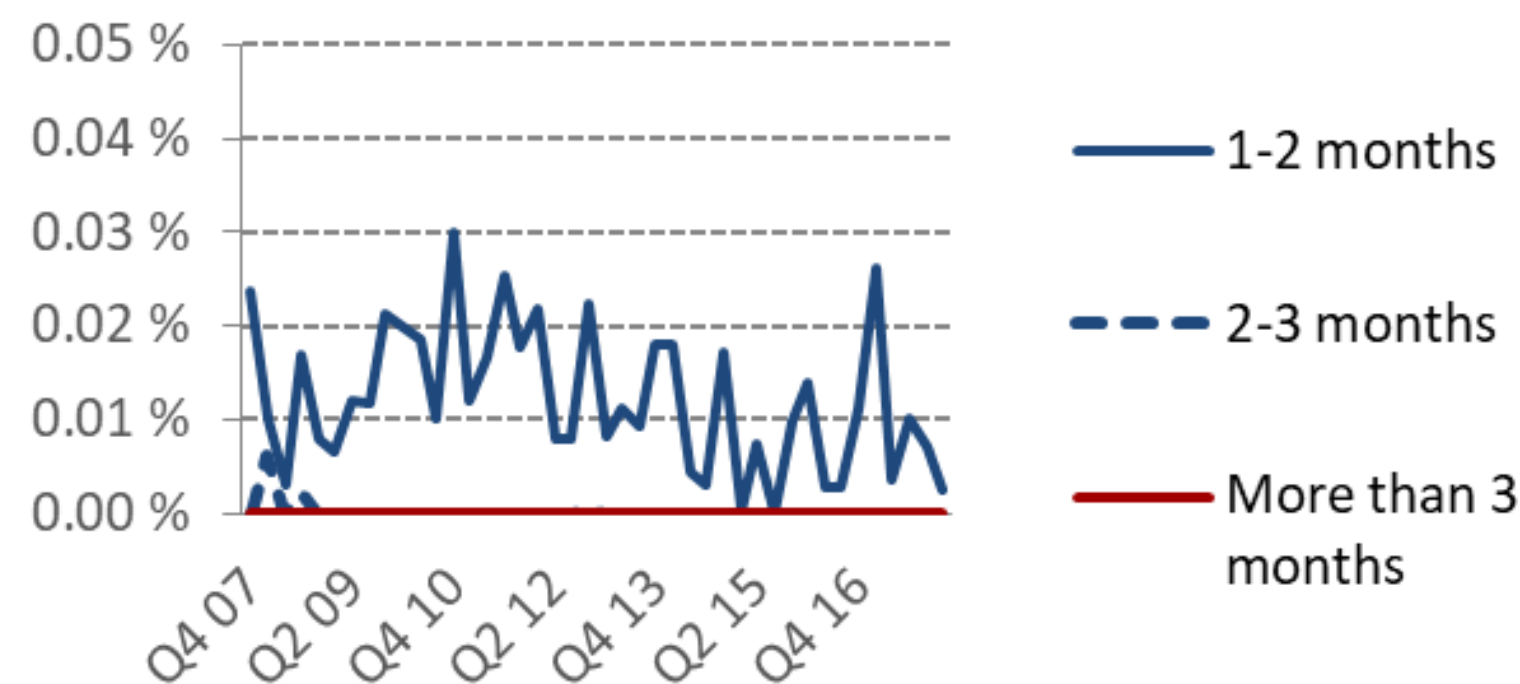
Pool mortgages current avg. LTV



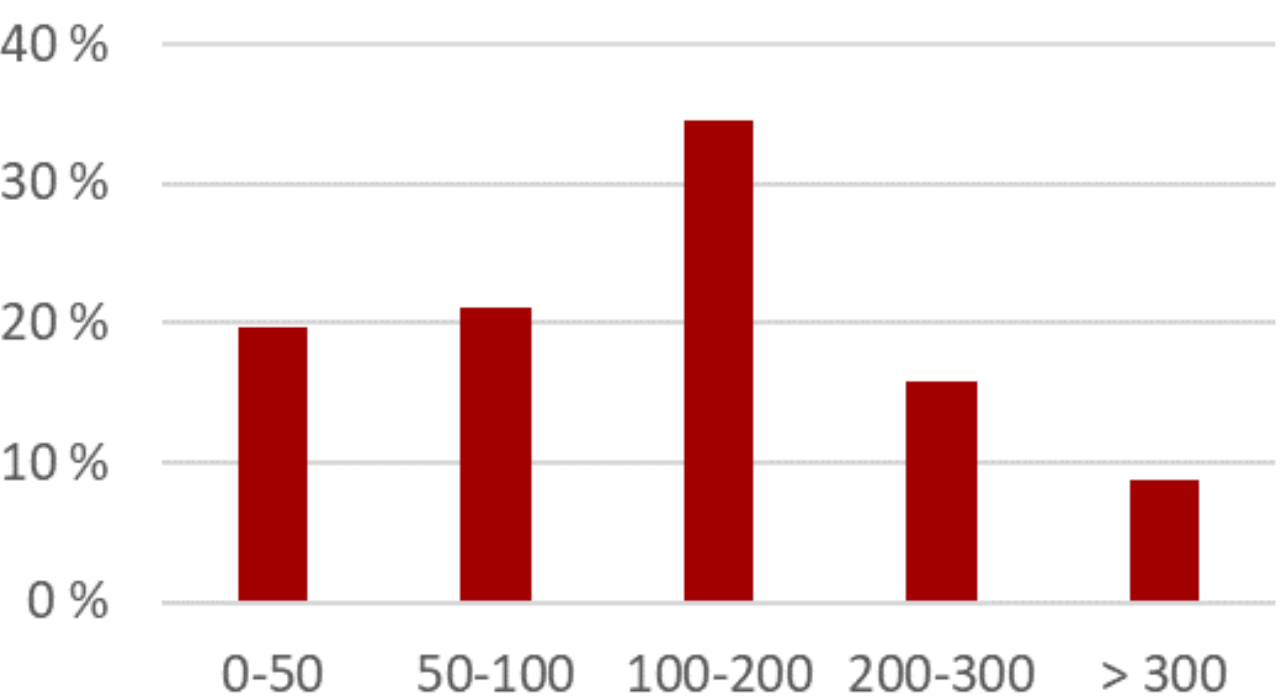
Geographical distribution



Mortgage loan arrears (in pct. of pool balance)

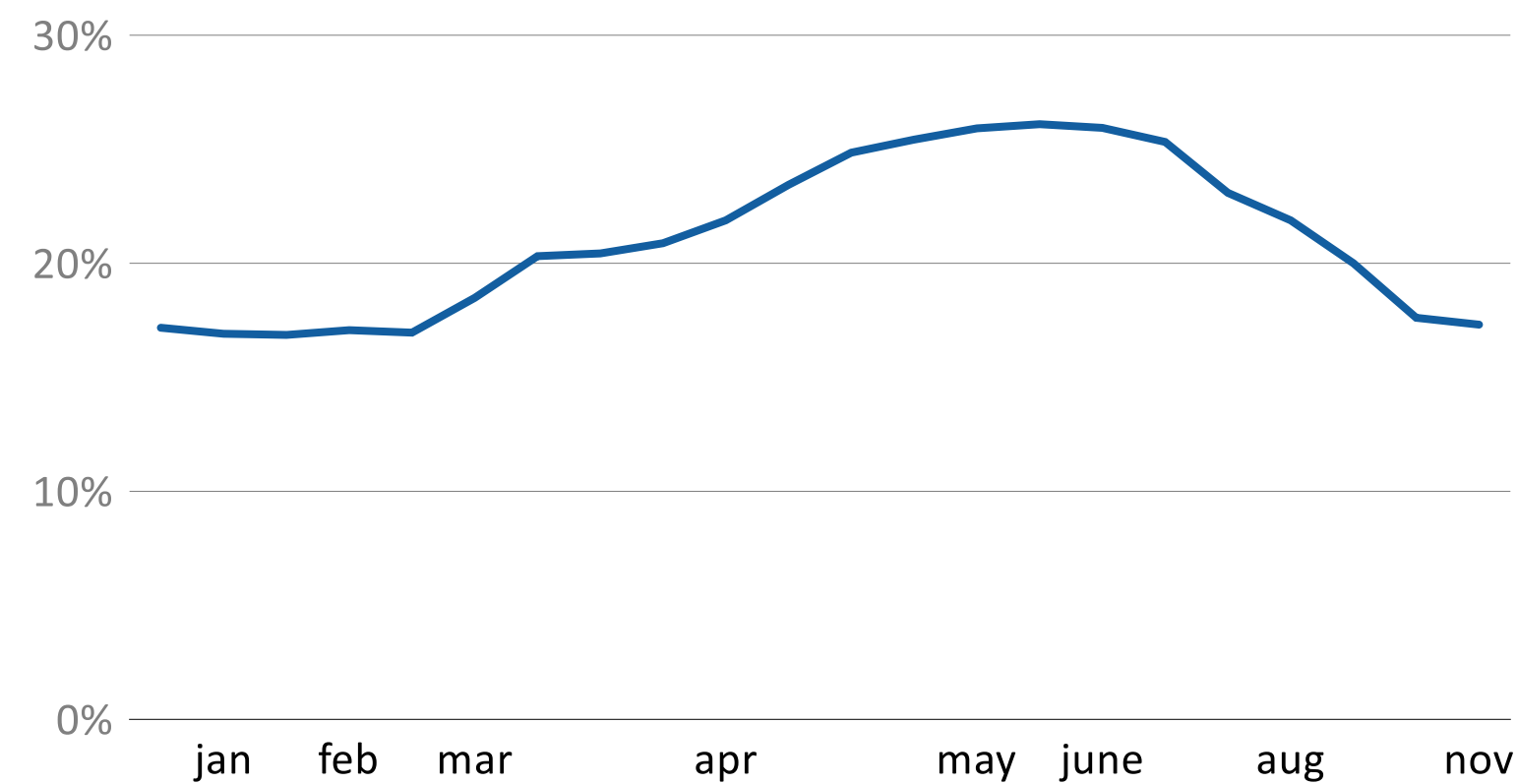


Granularity mortgages in cover pool (EUR in 1000)



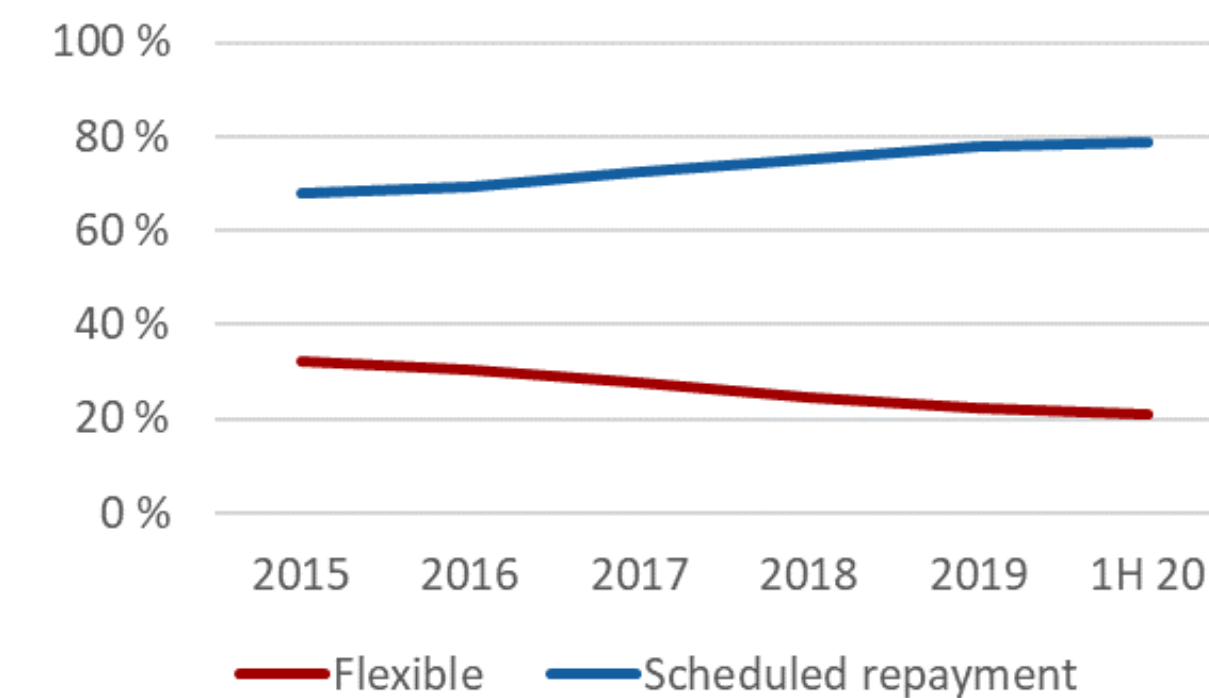
# SpareBank 1 Boligkreditt – Covid 19 impact

## Repayment mortgages with repayment hold during 2020



- The corona crisis increased the share of mortgages with a repayment deferral/pause
- Mortgage holders could easily request an instalment pause of up to 6 months on their bank's website, for principal payments, as unemployment rose in March (increases the remaining monthly instalment payments)
- Customers may have an instalment free period in regular times, provided their LTV is below 60% (mortgage market regulation)

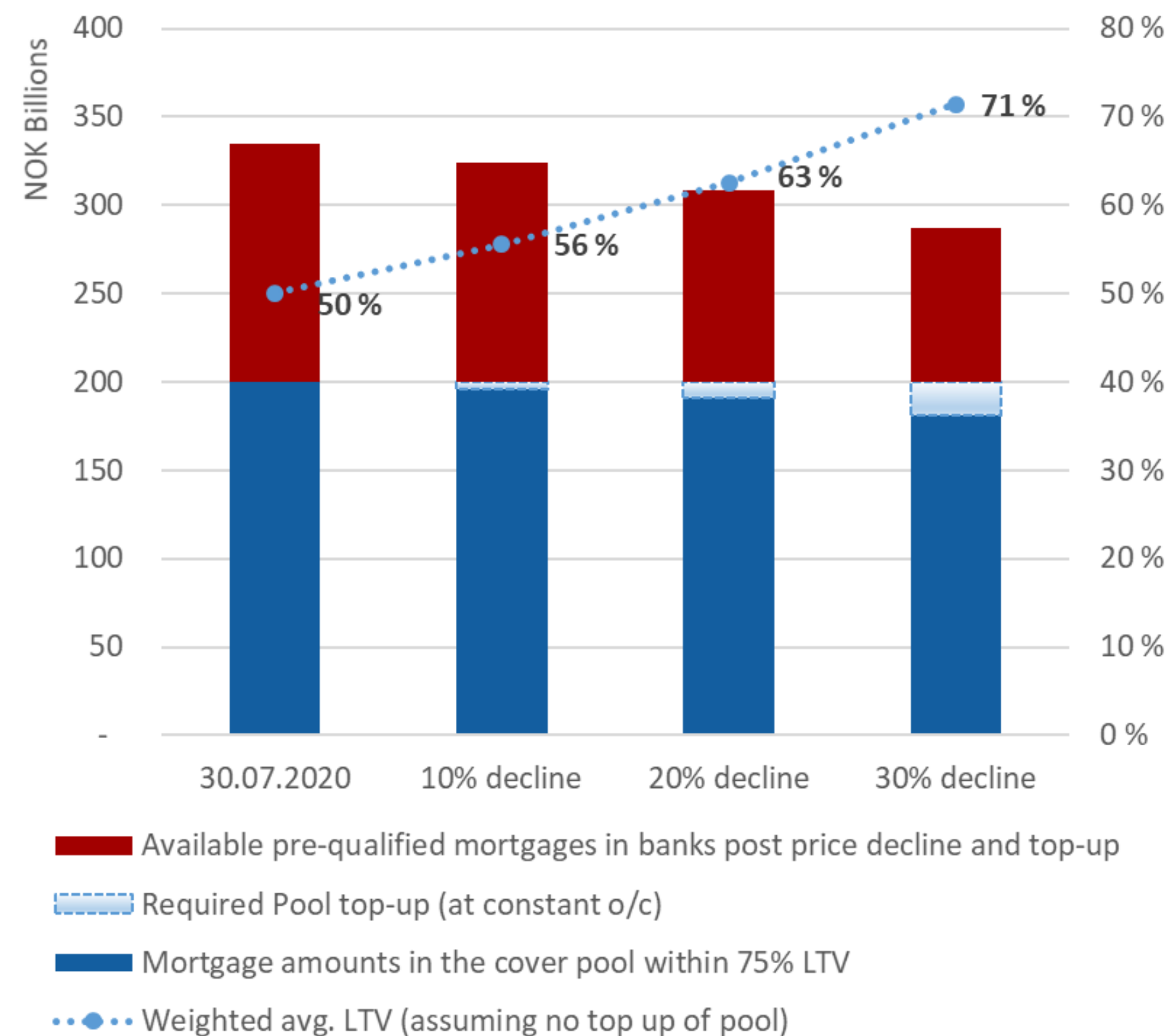
## flexible repayment and scheduled repayment mortgages



- Flexible repayment loans are permissible when the mortgage loan is below 60% LTV
- Granted to the lower risk / low PD customers



# Stress Testing the cover pool – real estate valuation declines



- In a scenario with declining real estate valuations, an increasing share of mortgages above the 75% 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 house prices decline*
- The SpareBank 1 mortgage reserve requirement calls for each bank to have non-zero, cover pool qualified, mortgage reserves after a 30% price decline scenario
- The qualified reserve mortgages (red bars) decline as their LTV increase and as the 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



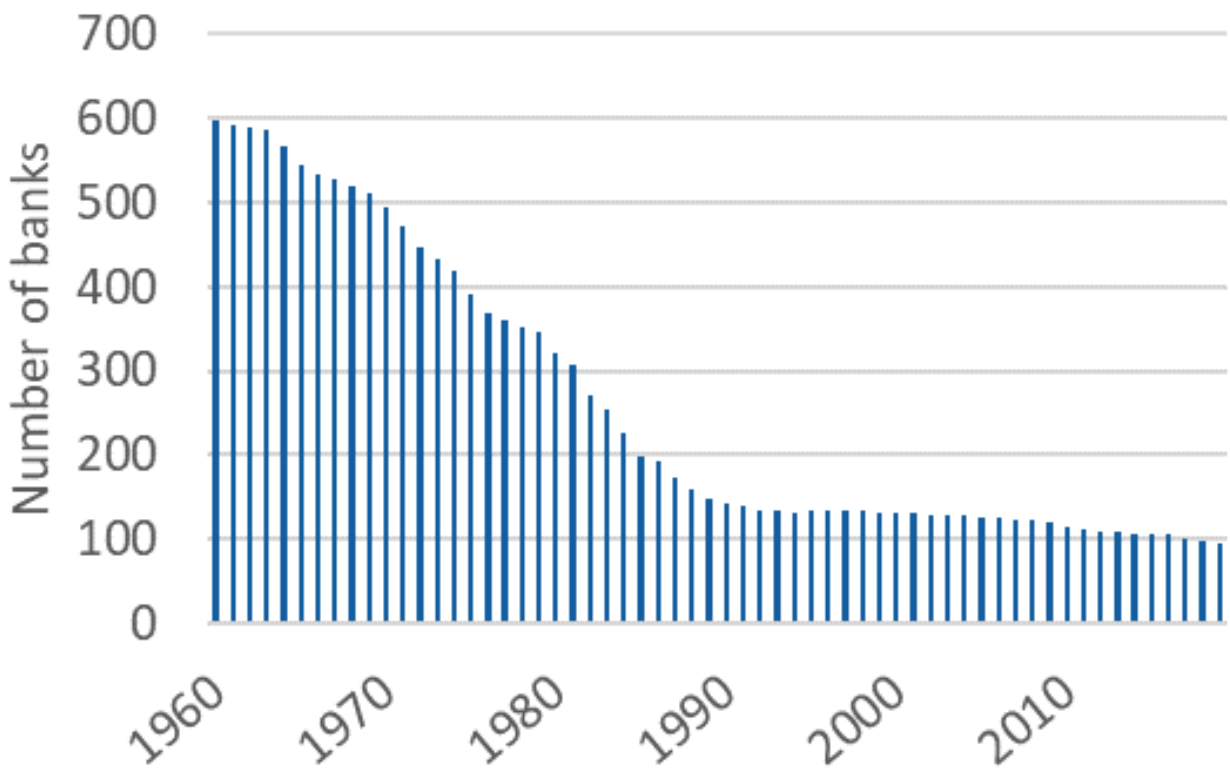
**Savings banks** (generic name: Sparebank):  
96 banks (2020), 2 alliances and independent banks



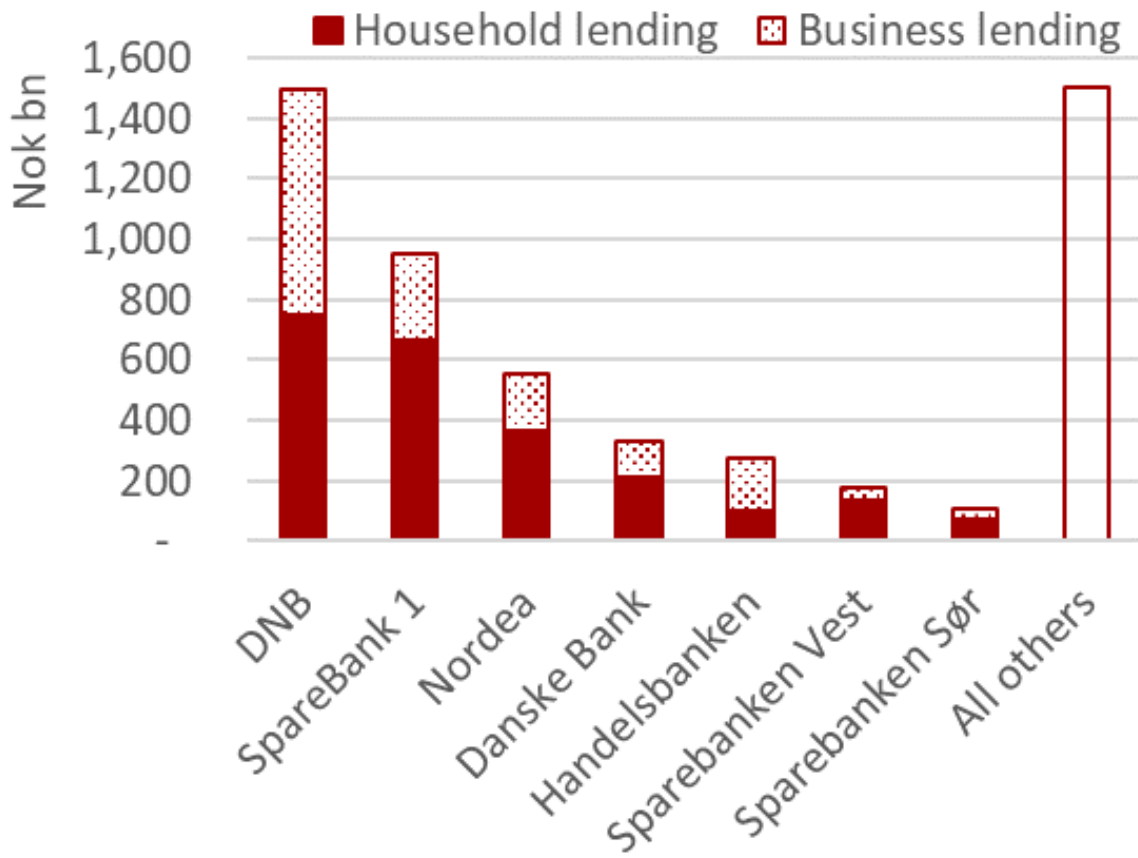
**Commercial banks:** larger Nordic banking groups and smaller lenders (incl. consumer banks)

- 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

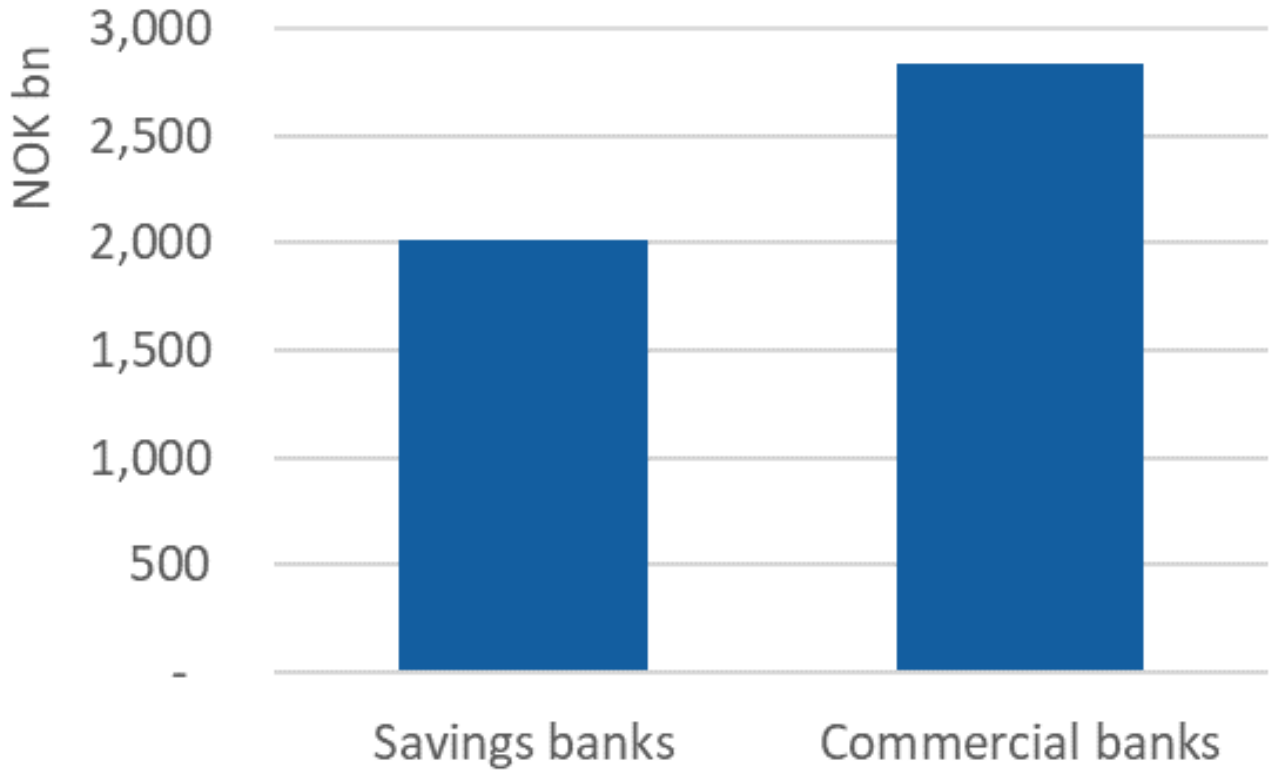
Savings banks consolidation



Largest banks by lending volume, Norway



Lending by type of bank

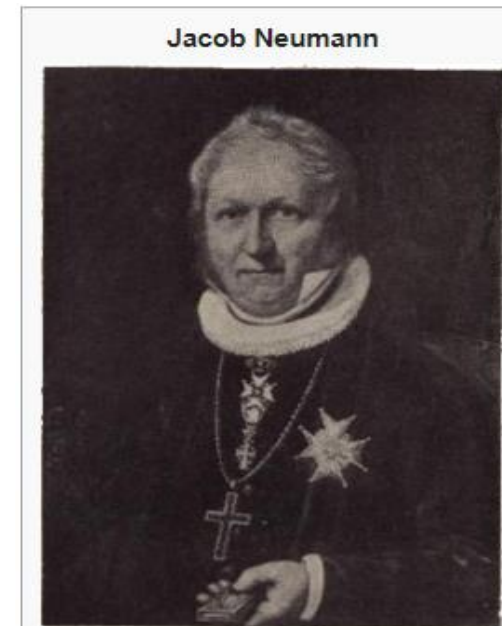




# Norwegian Savings Banks

## 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)





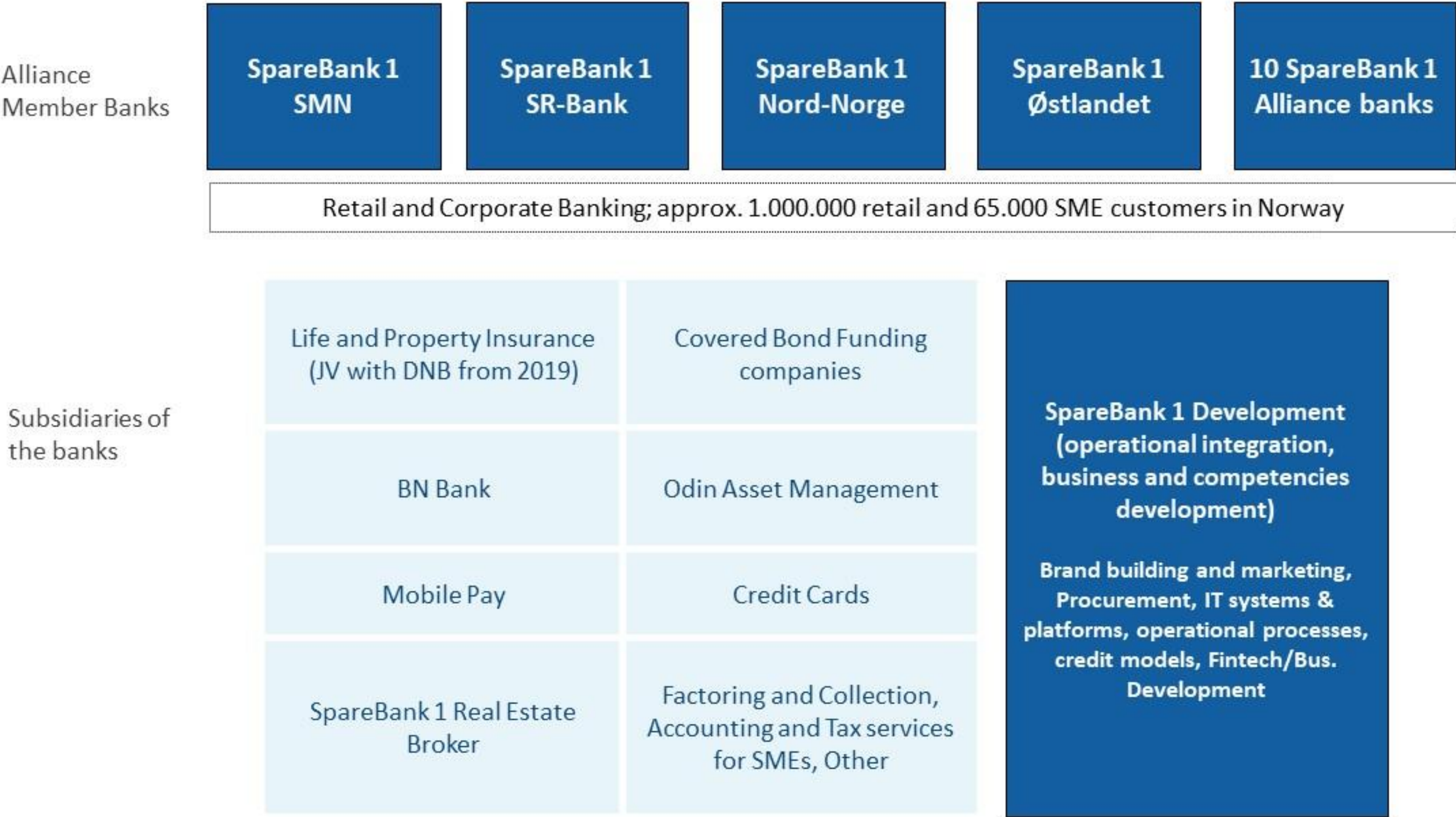
# SpareBank 1 Alliance: Local presence, joint and collaborative platform

Alliance founded 1996; 14 Banks

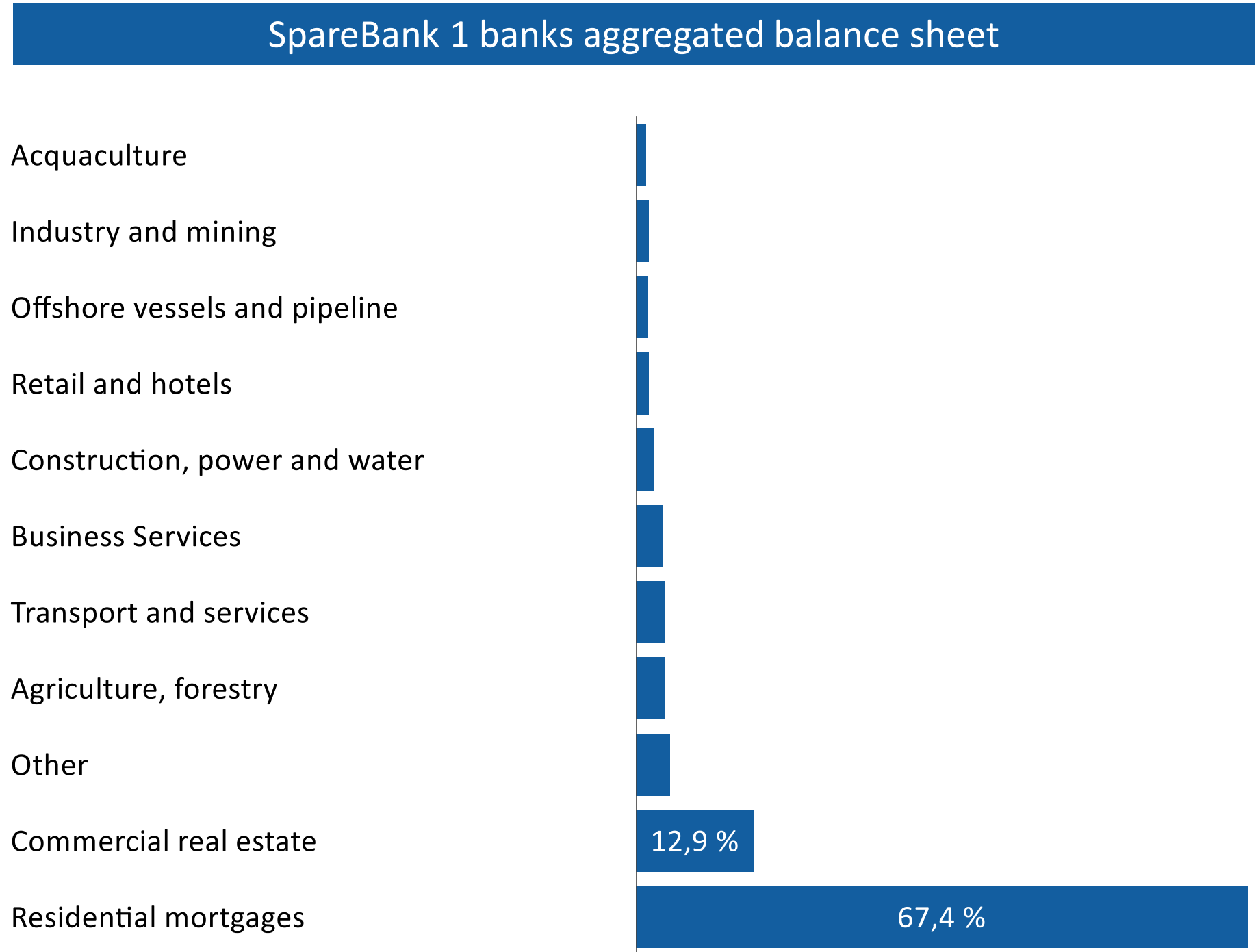




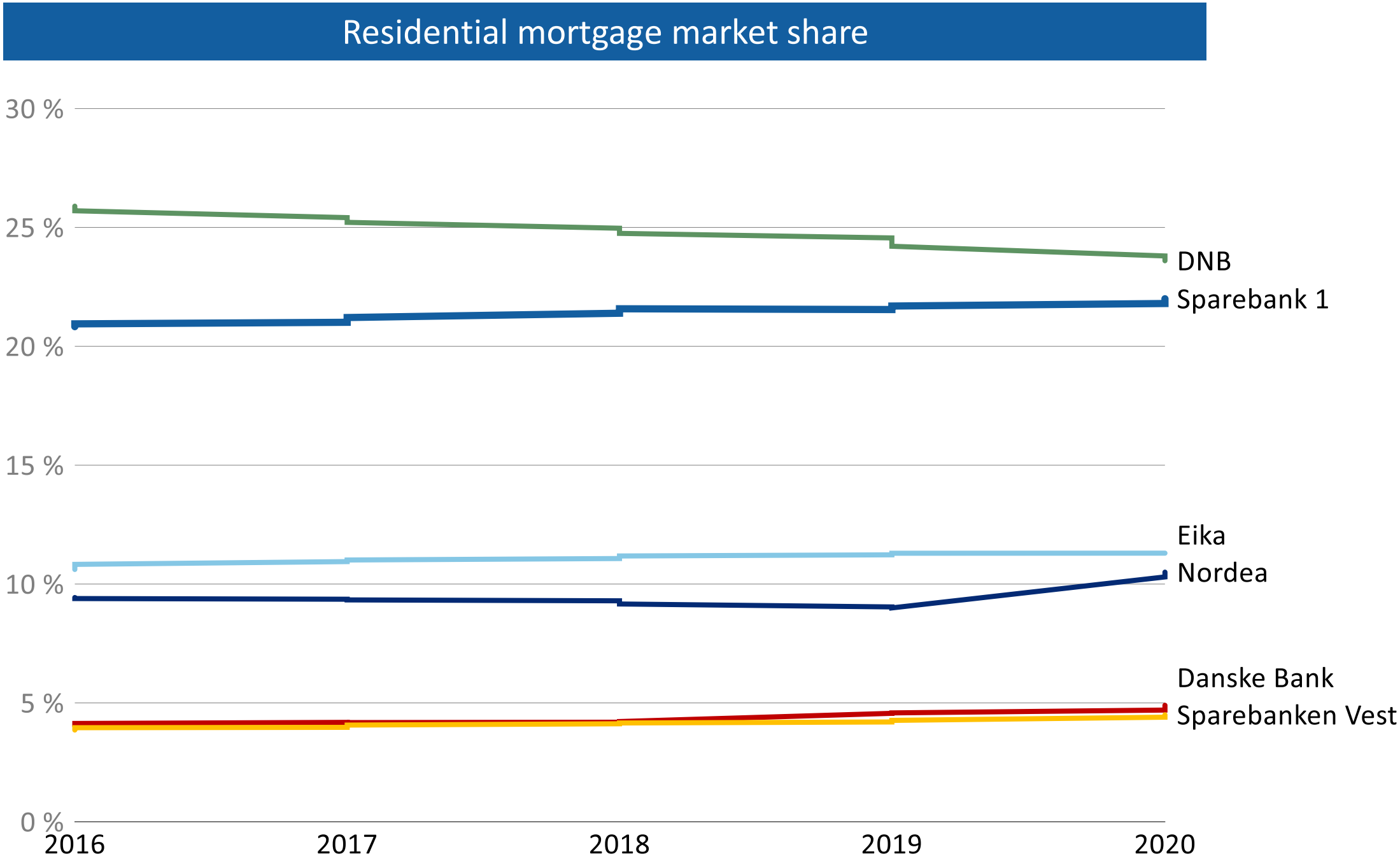
# SpareBank 1 Alliance



# SpareBank 1 banks balance sheet and mortgage market share



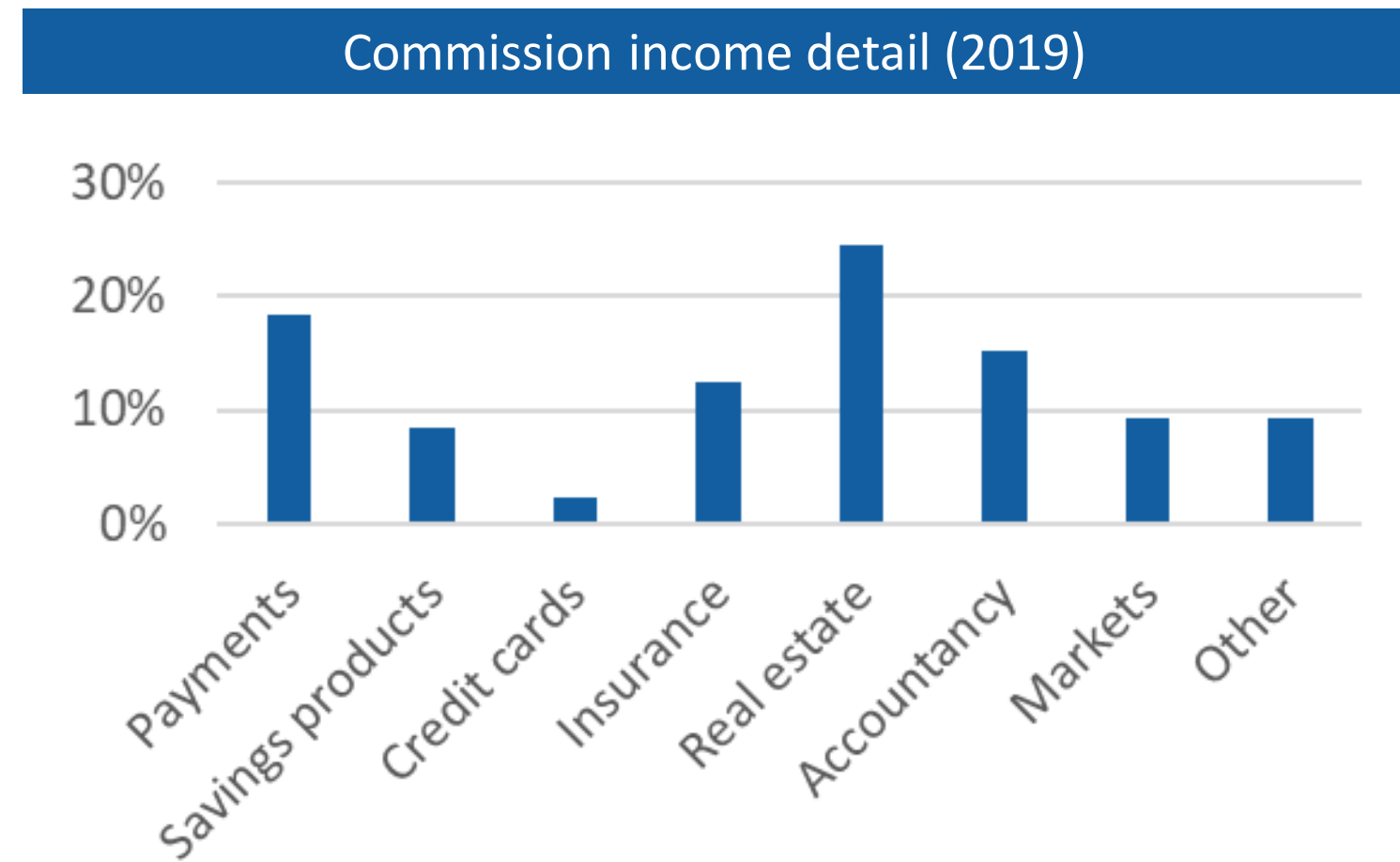
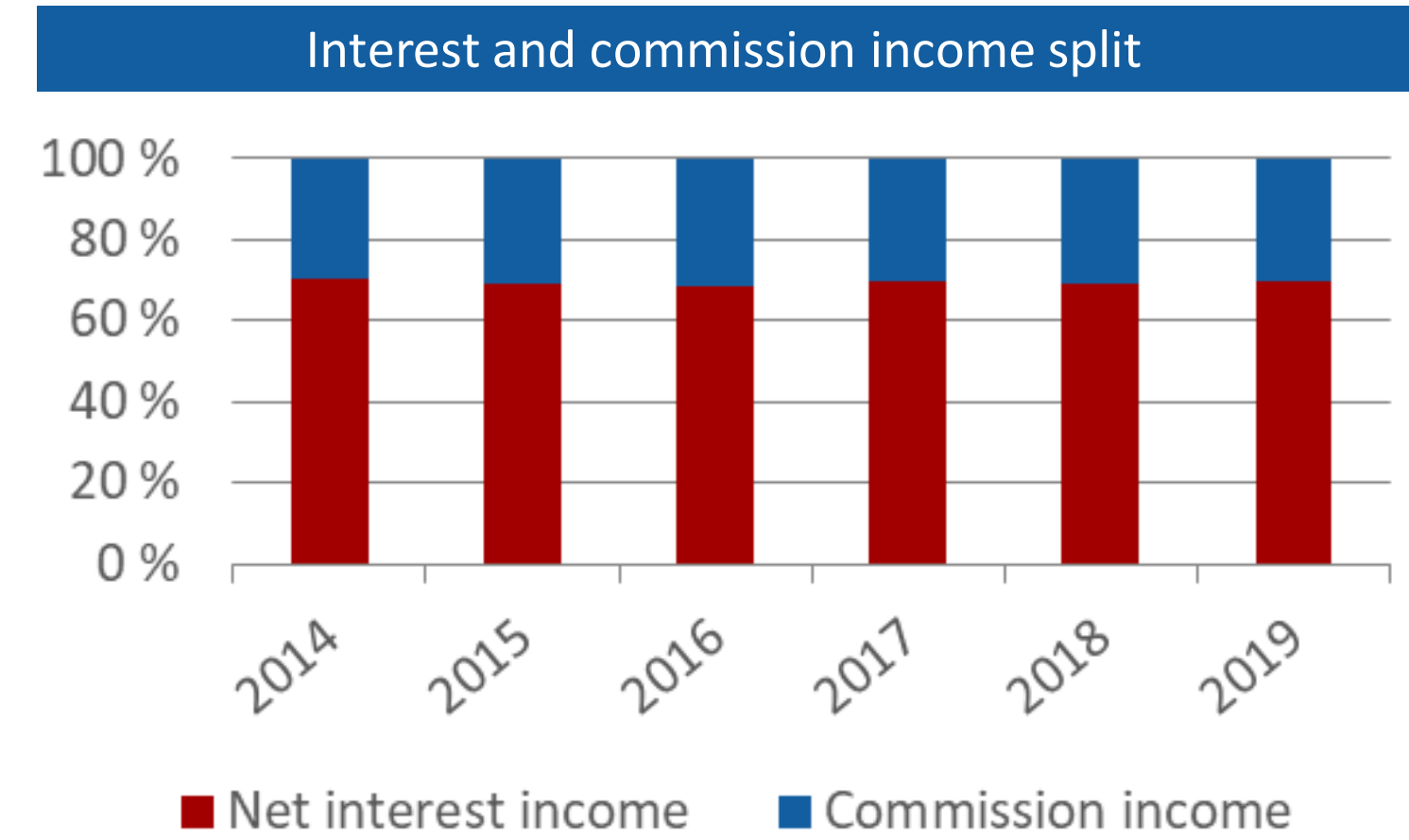
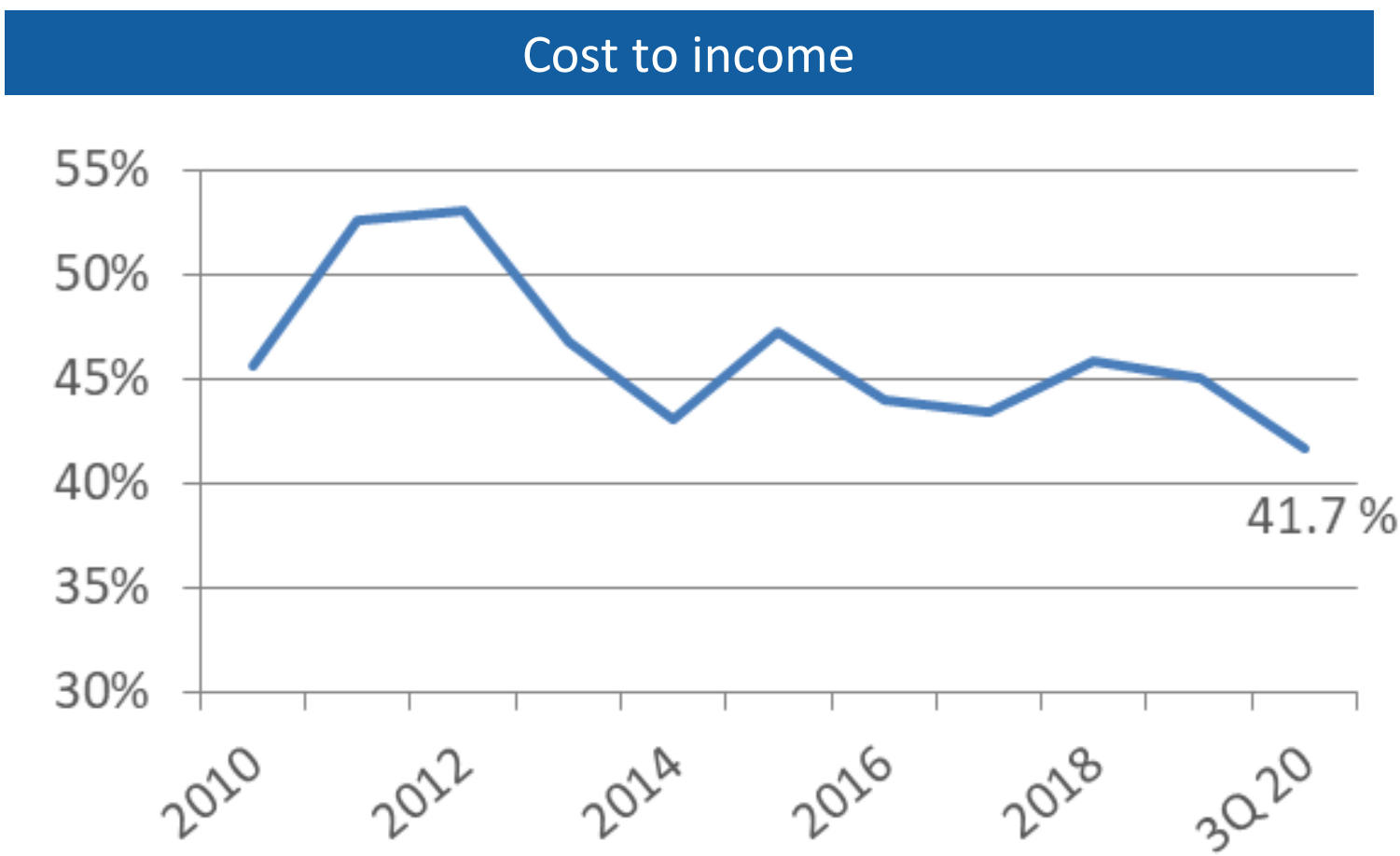
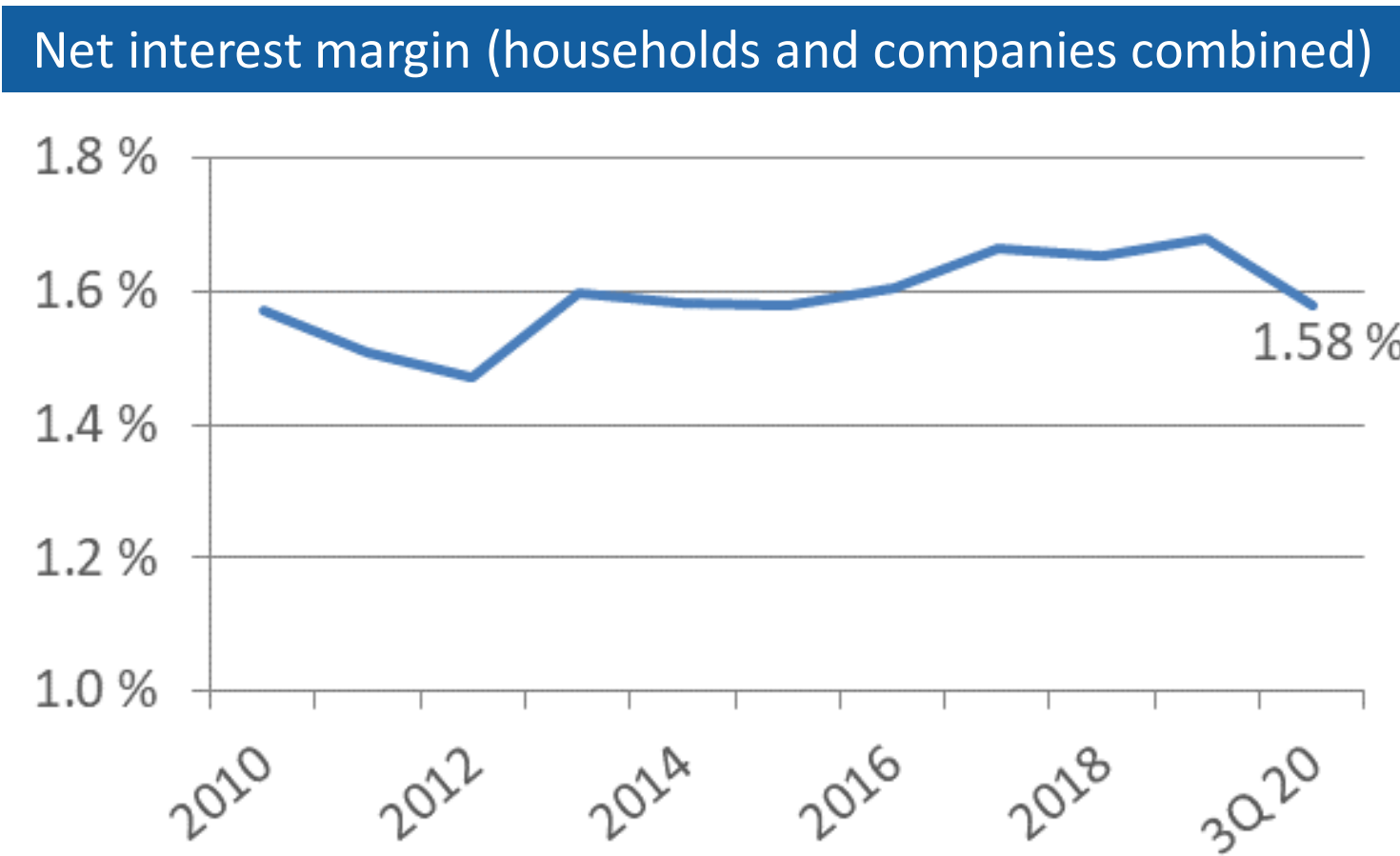
Source: SpareBank 1 banks financial reporting



Source: Eiendomsverdi

# SpareBank 1 banks

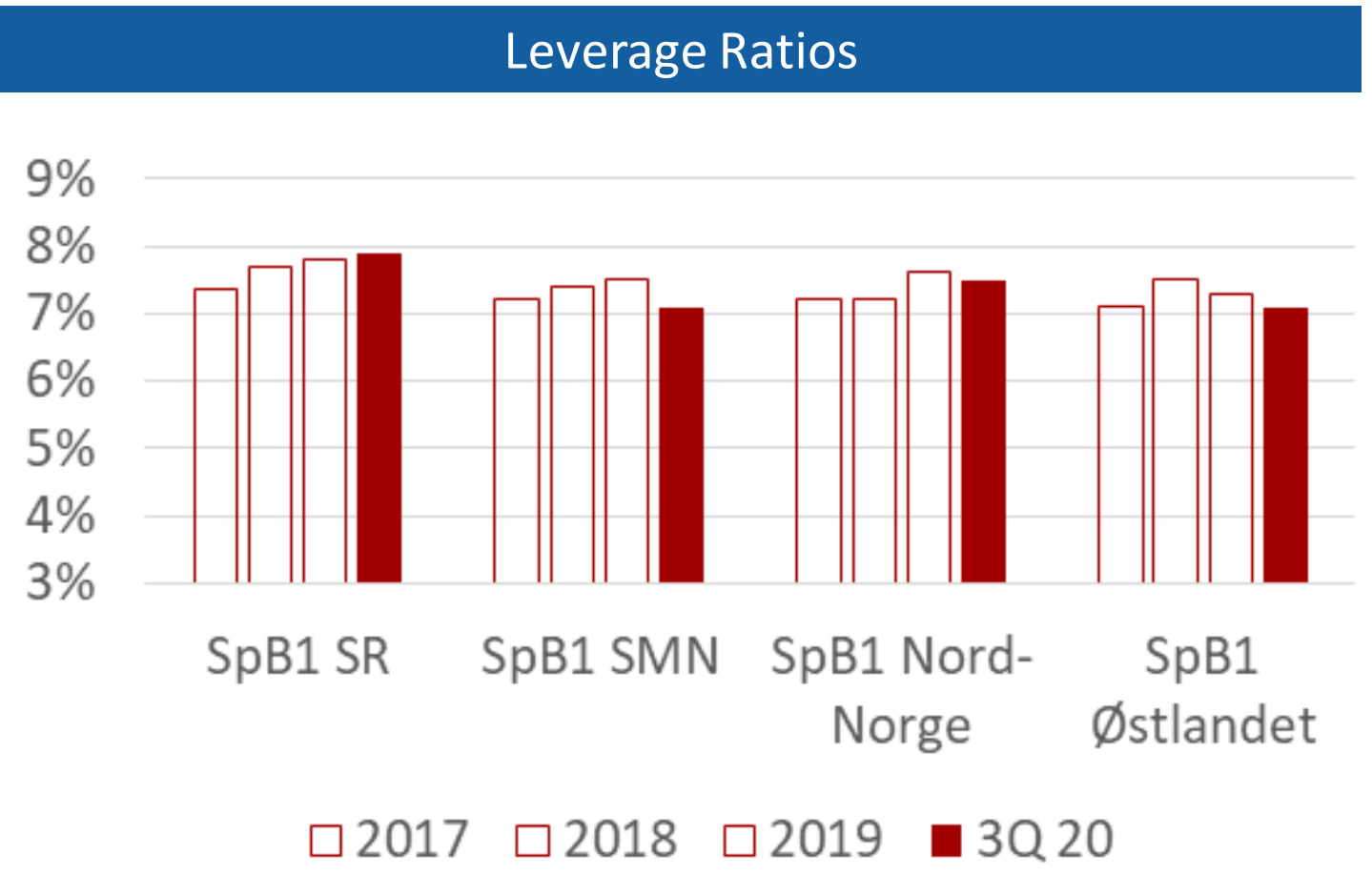
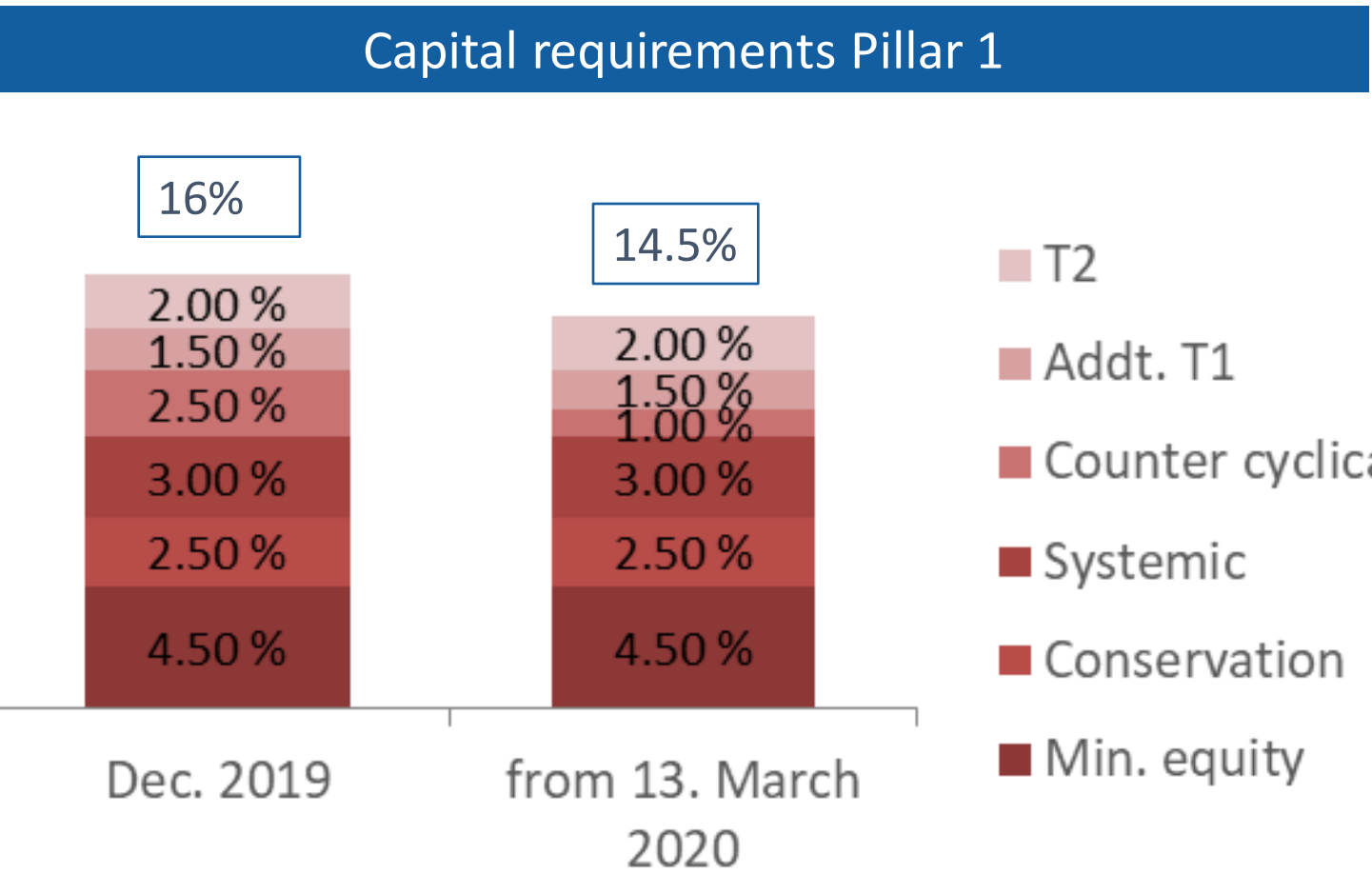
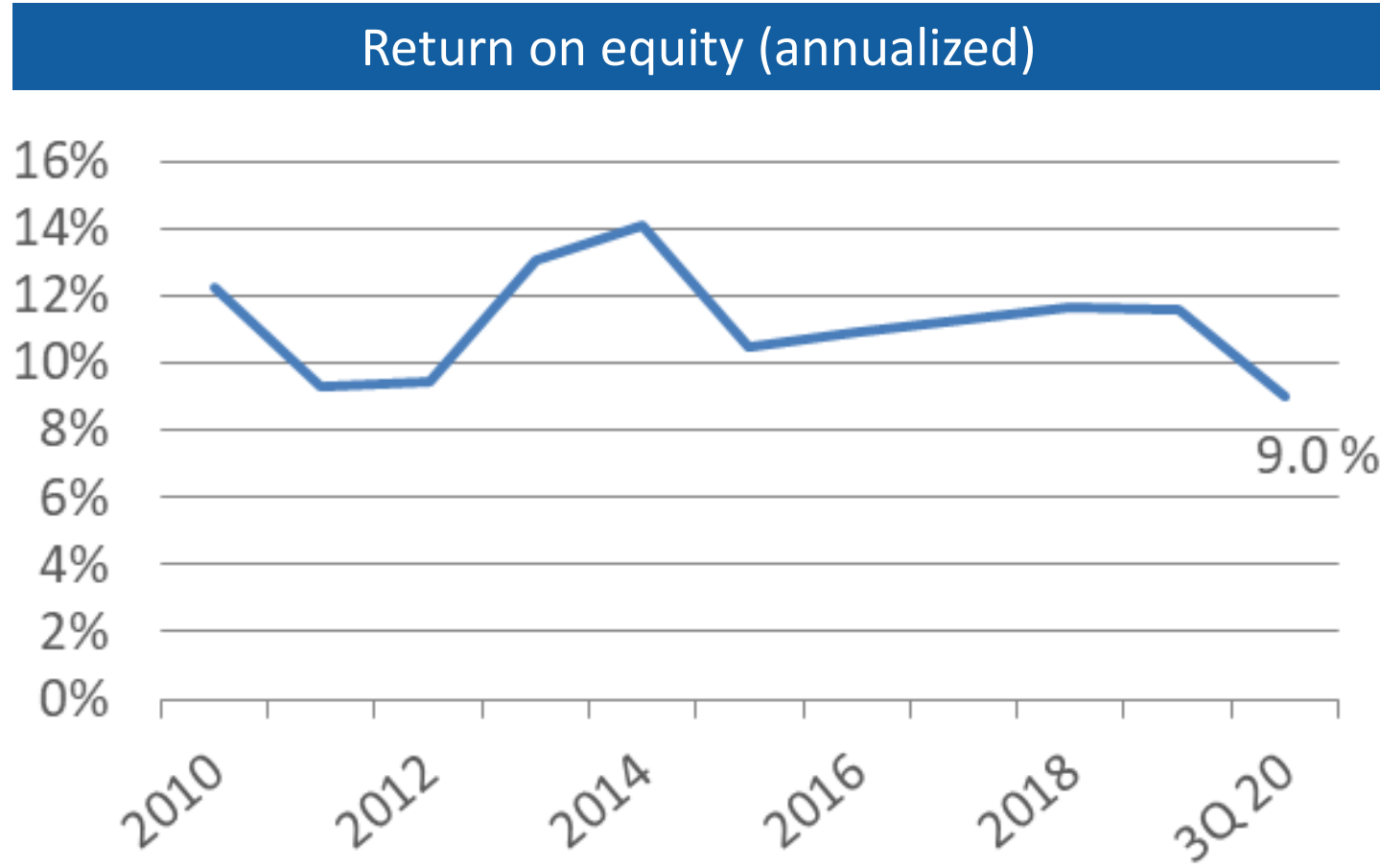
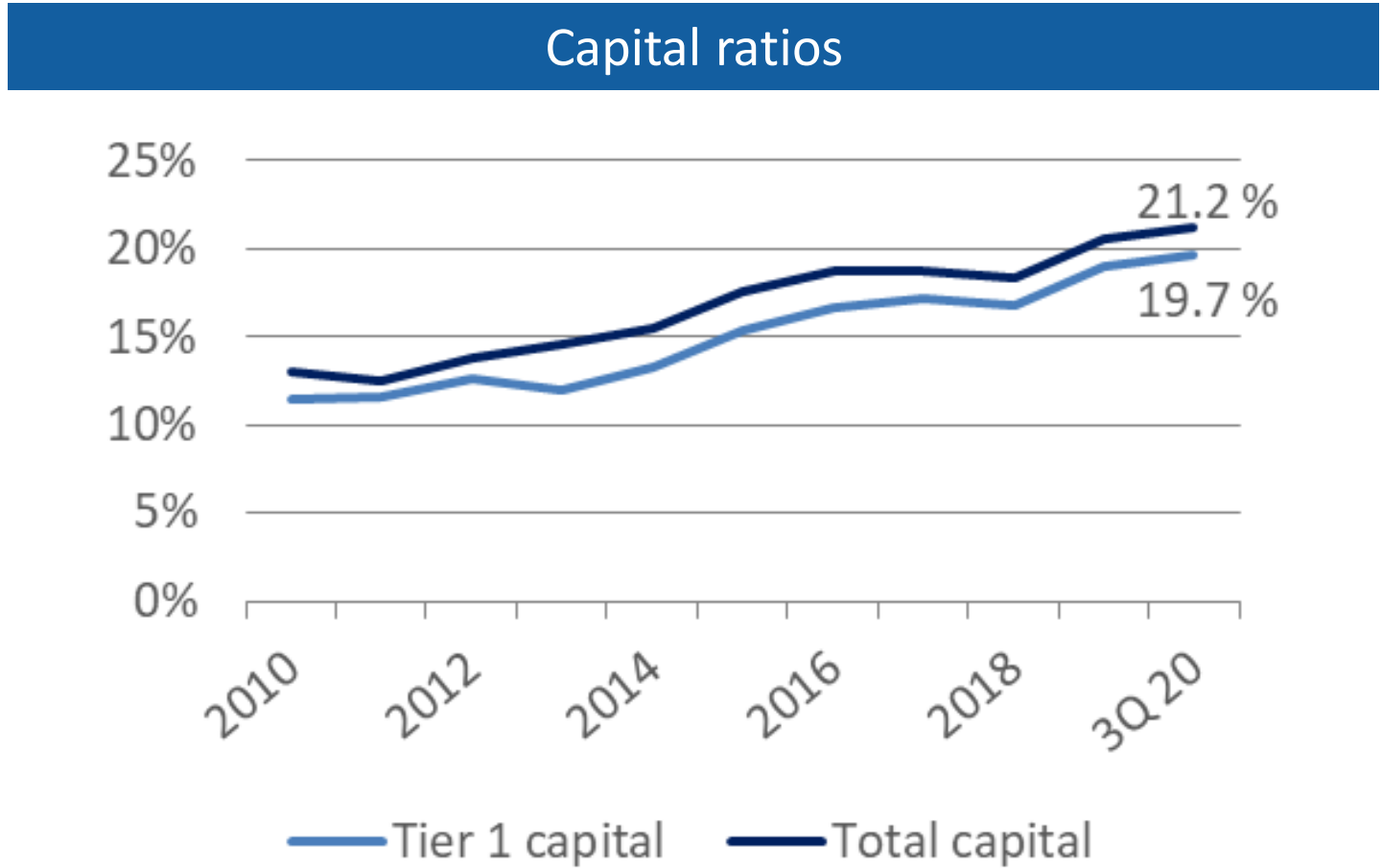
## Income and costs





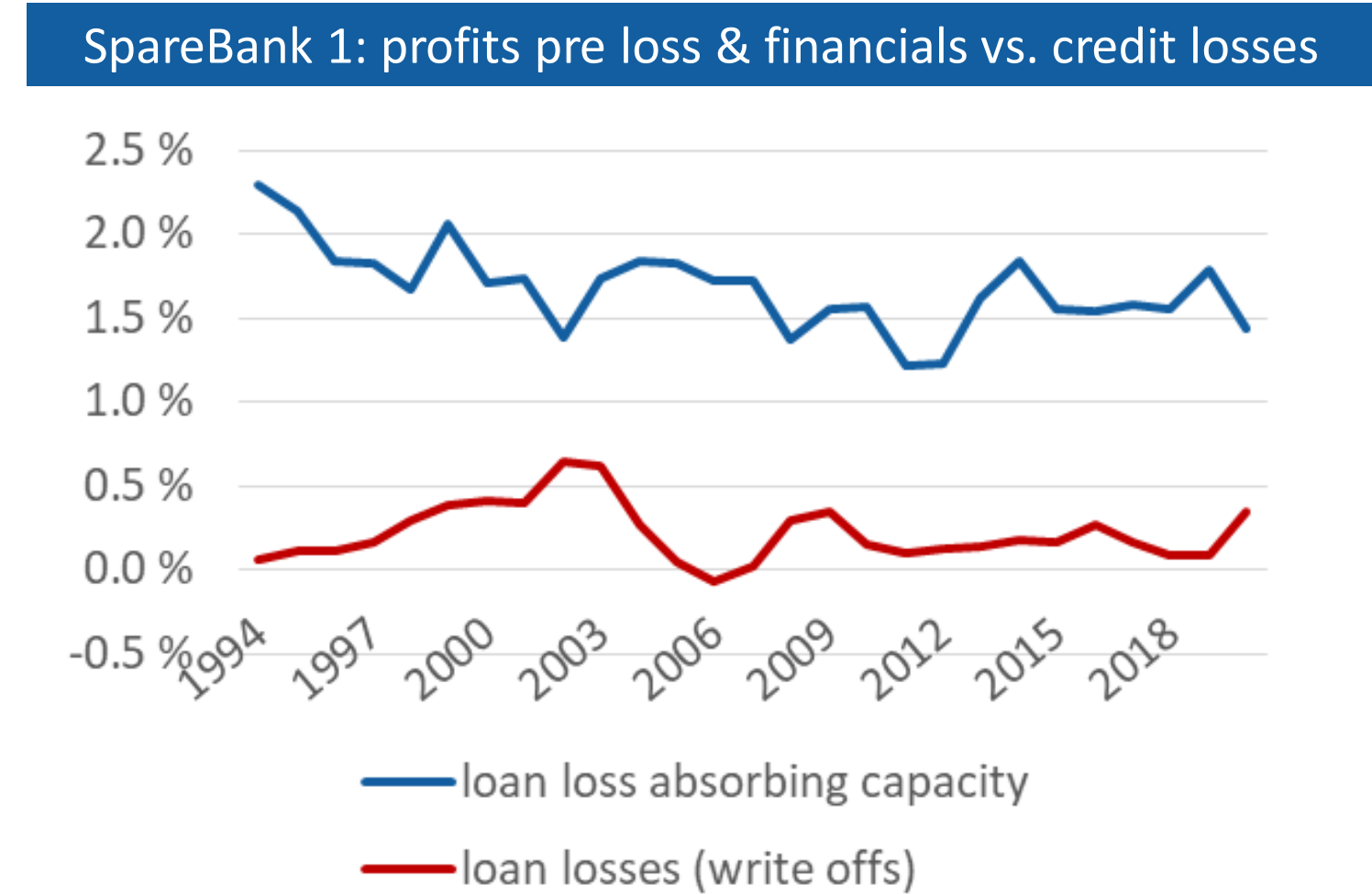
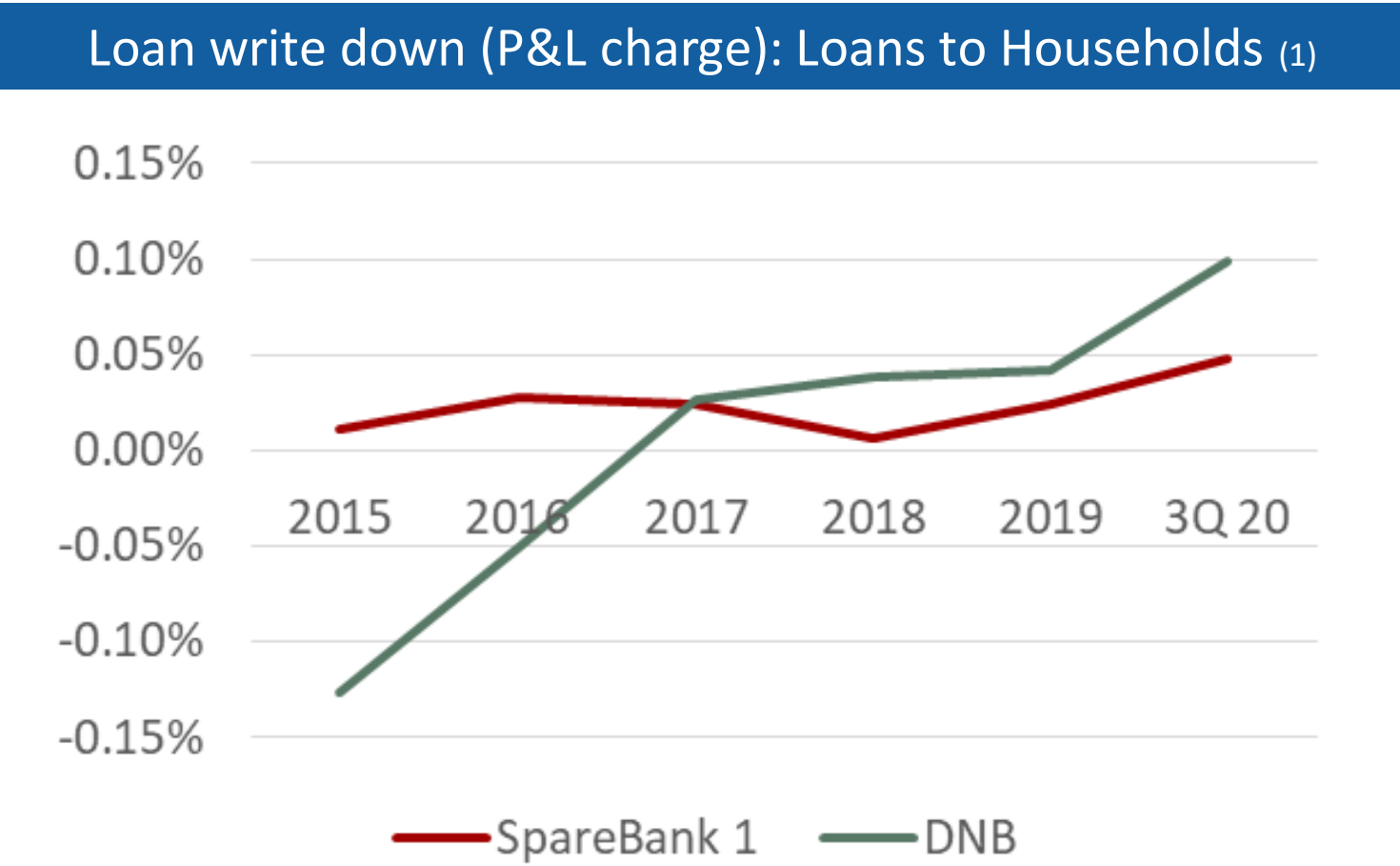
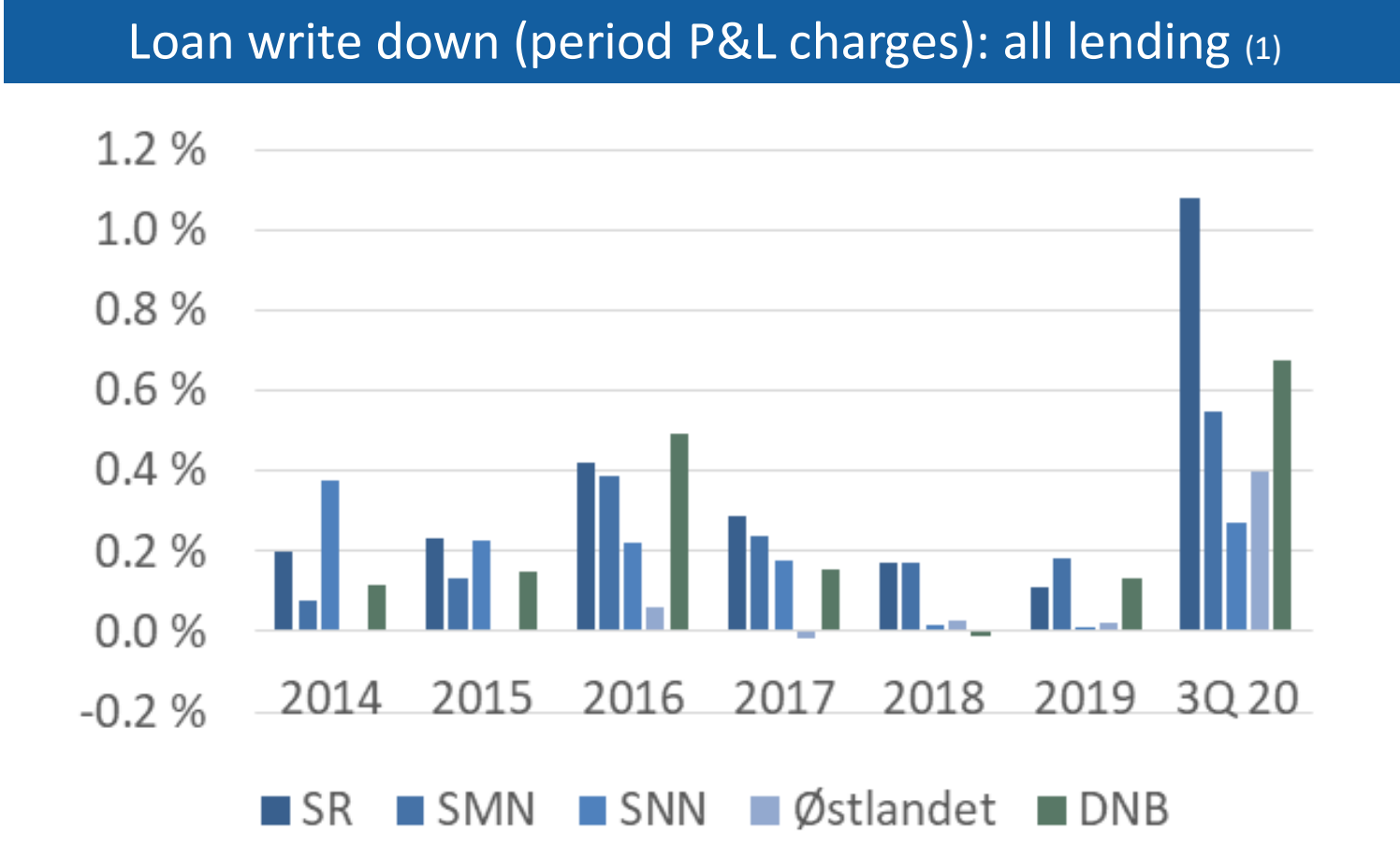
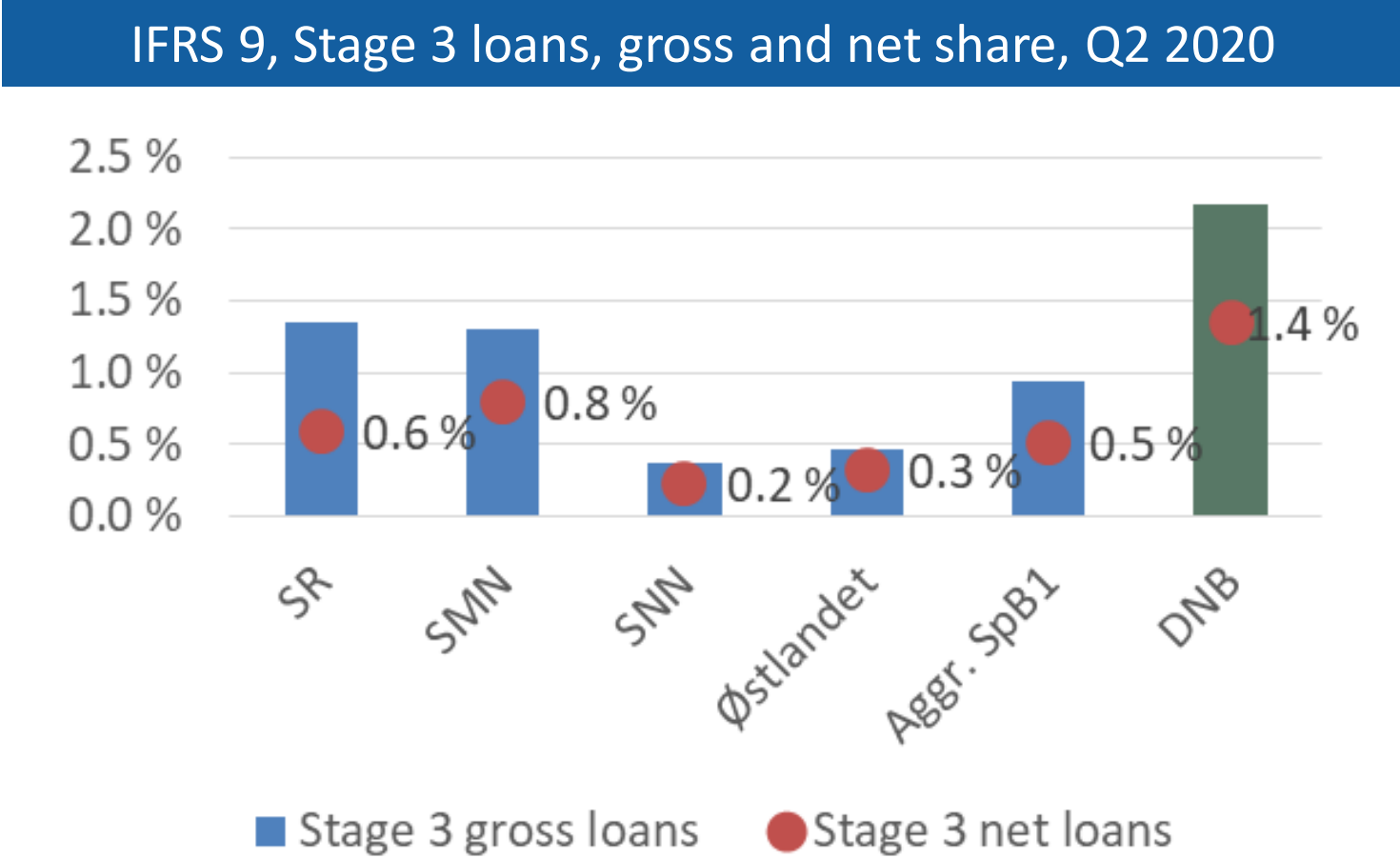
# SpareBank 1 banks

## Capital and return



# SpareBank 1 banks

## Credit quality



# 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



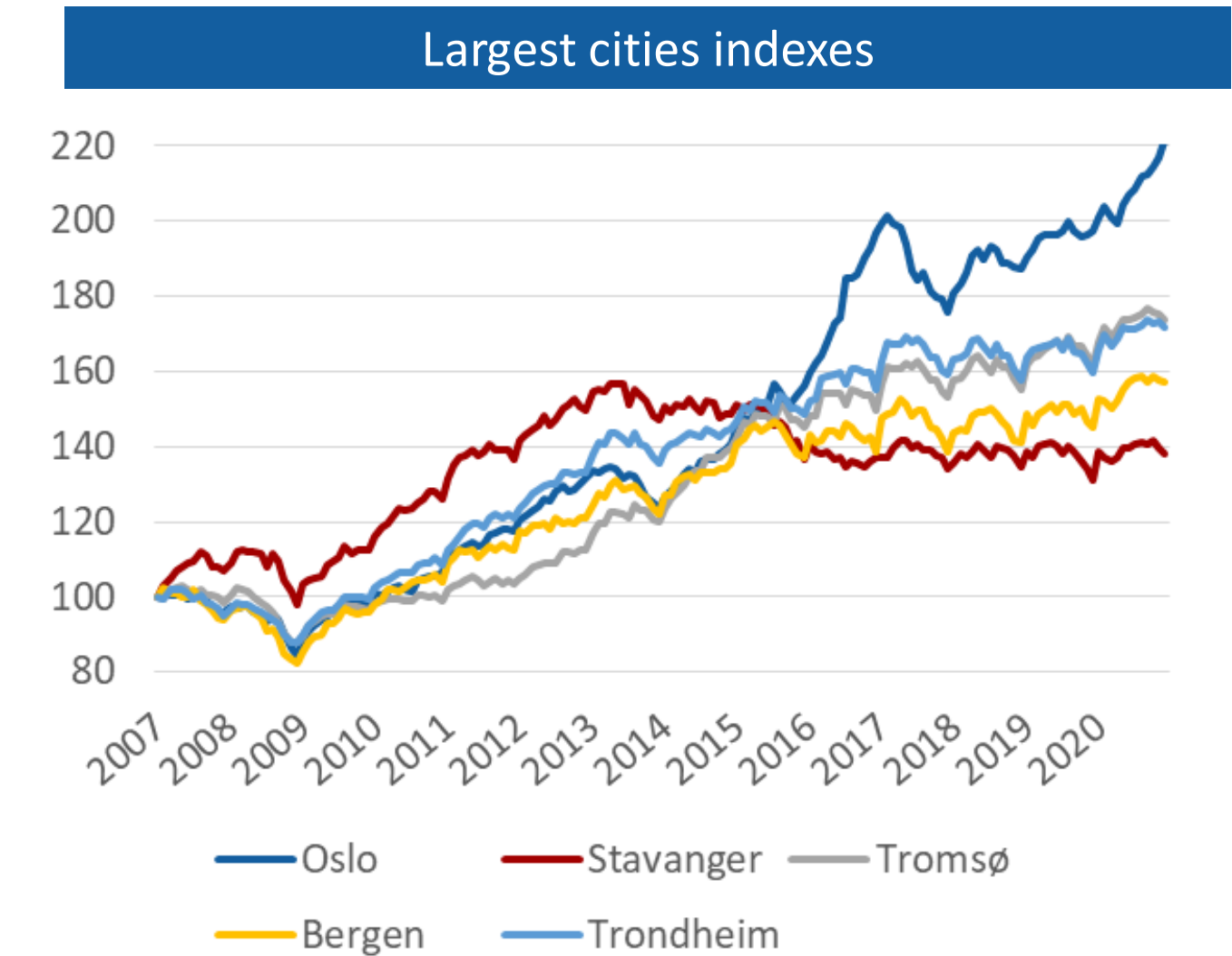
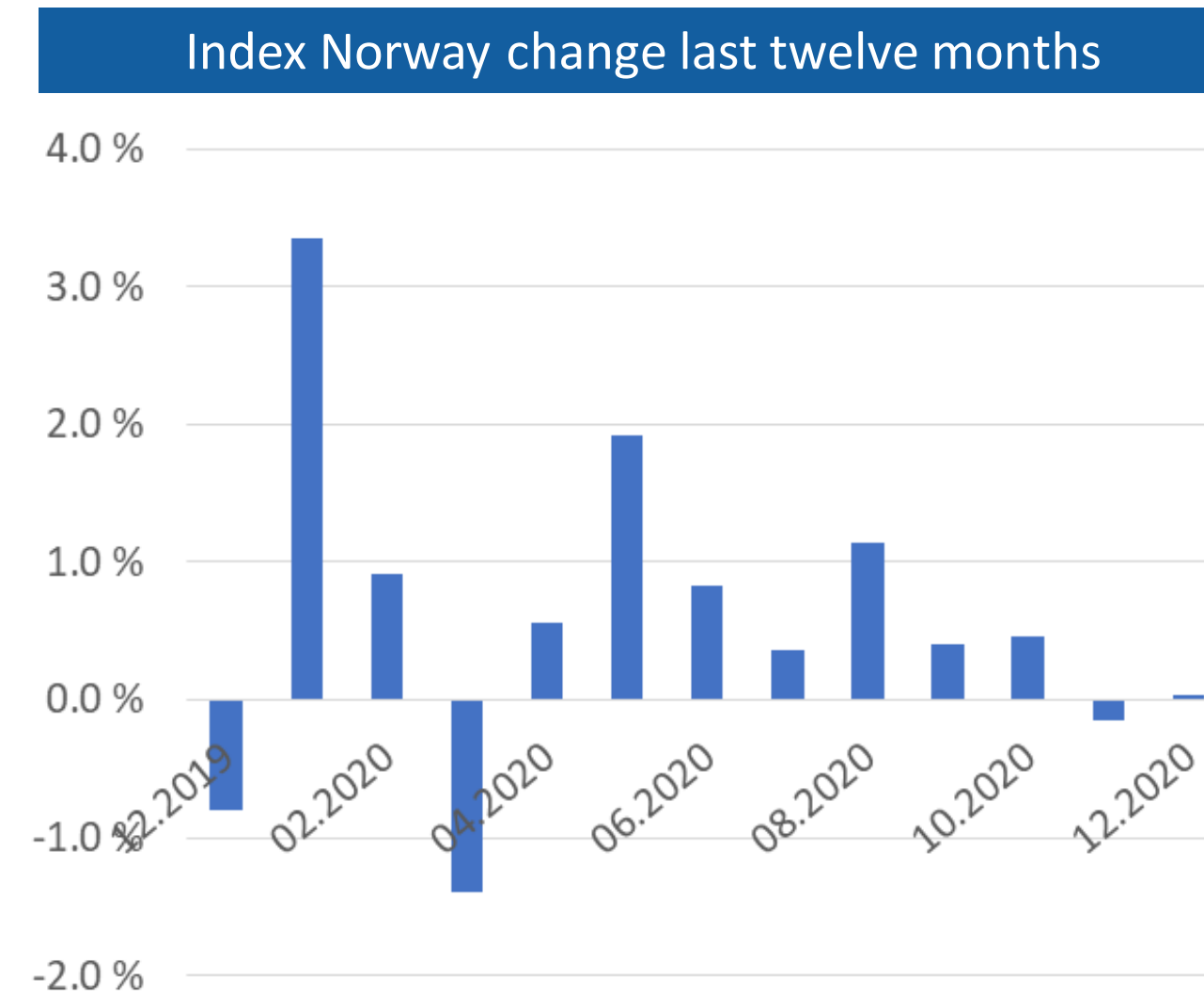
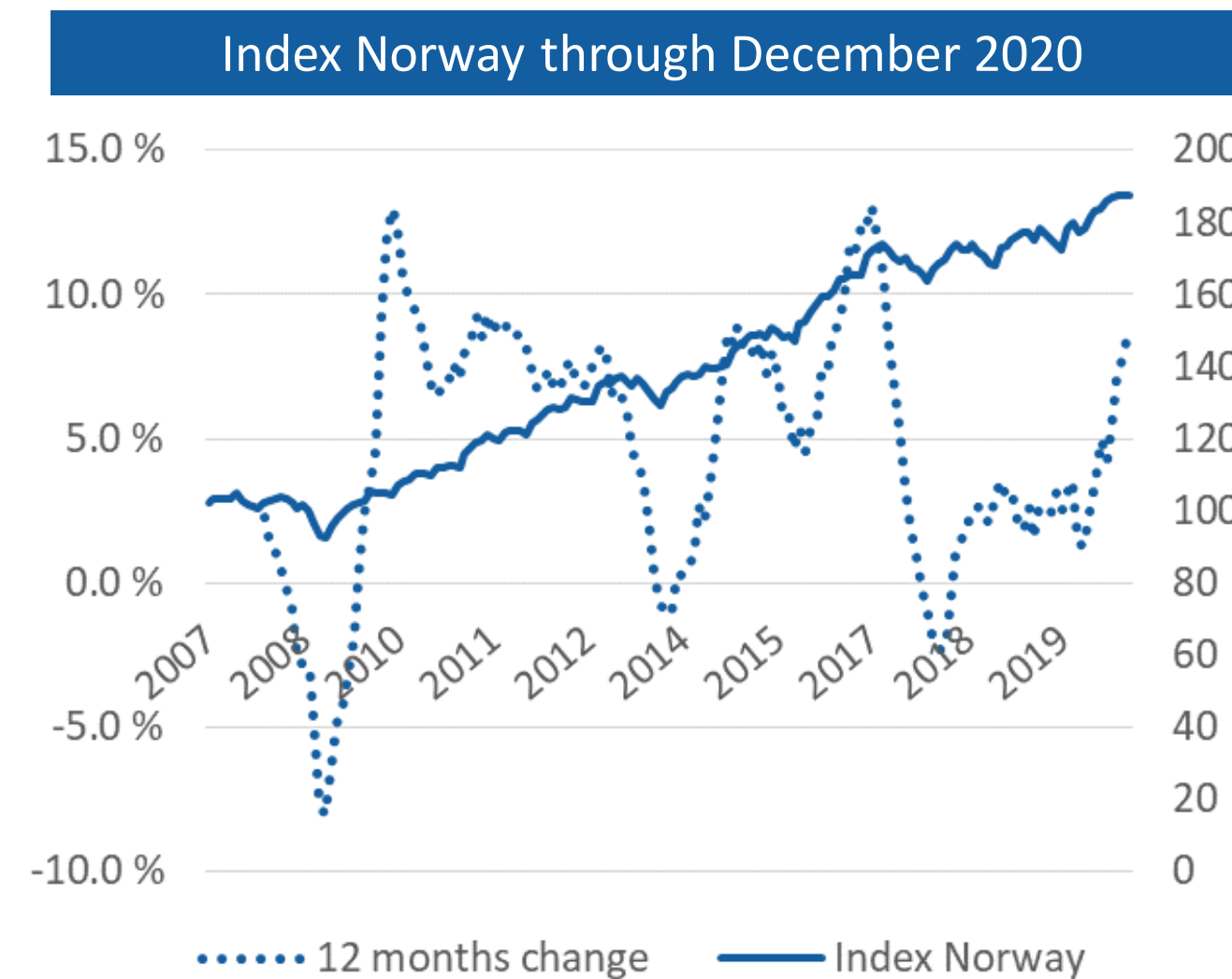
# Residential real estate market





# Residential real estate market

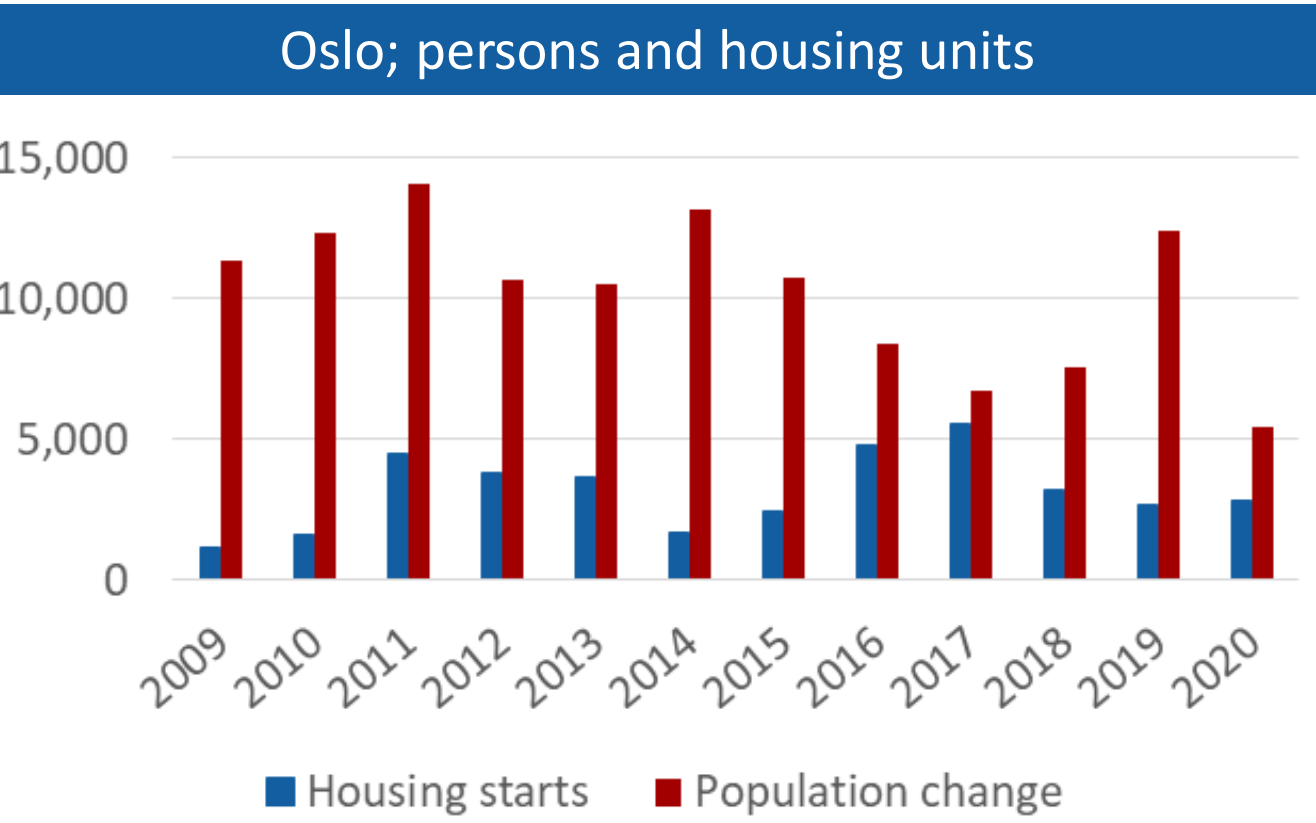
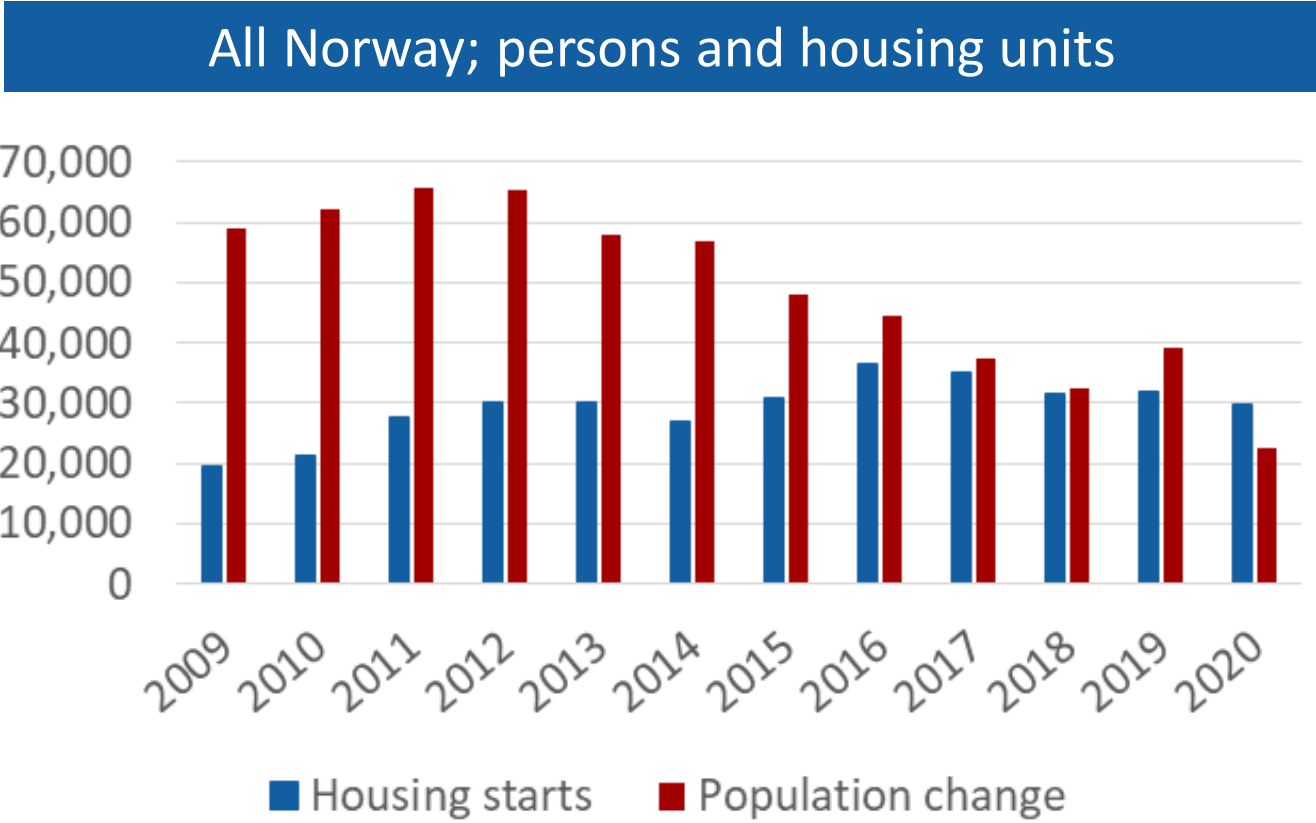
## Price development



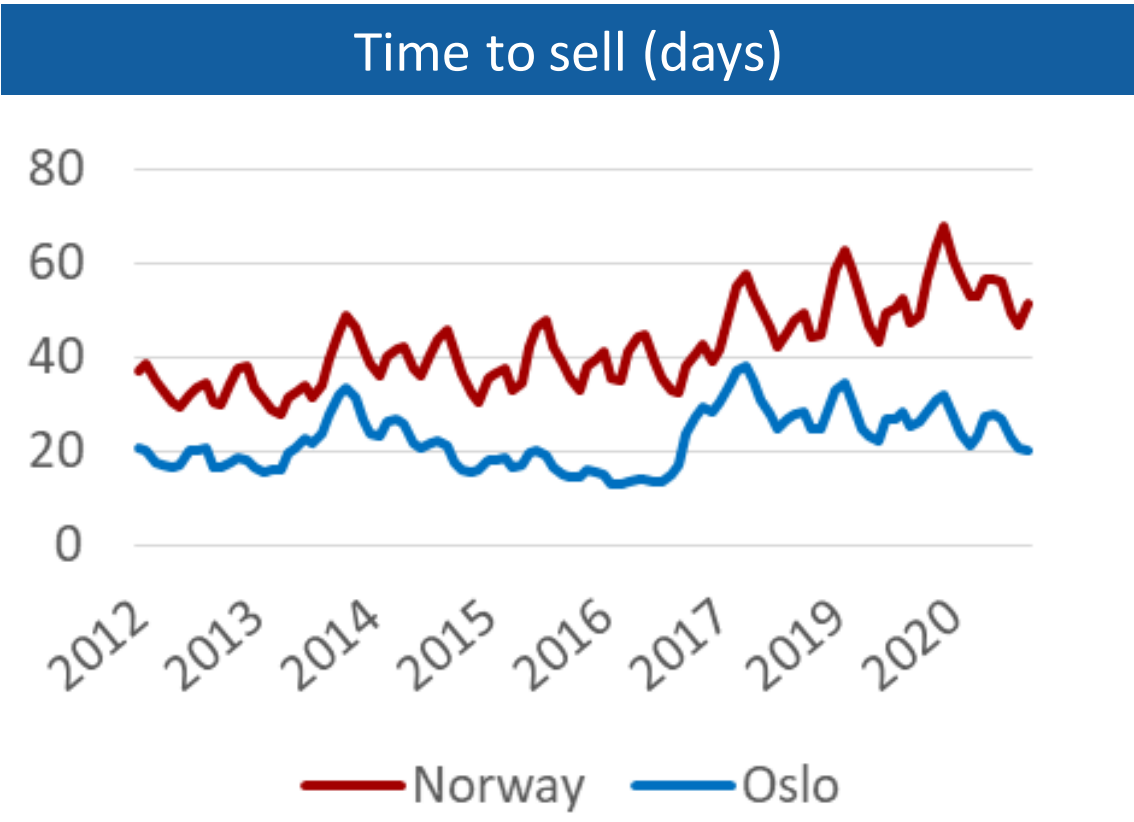
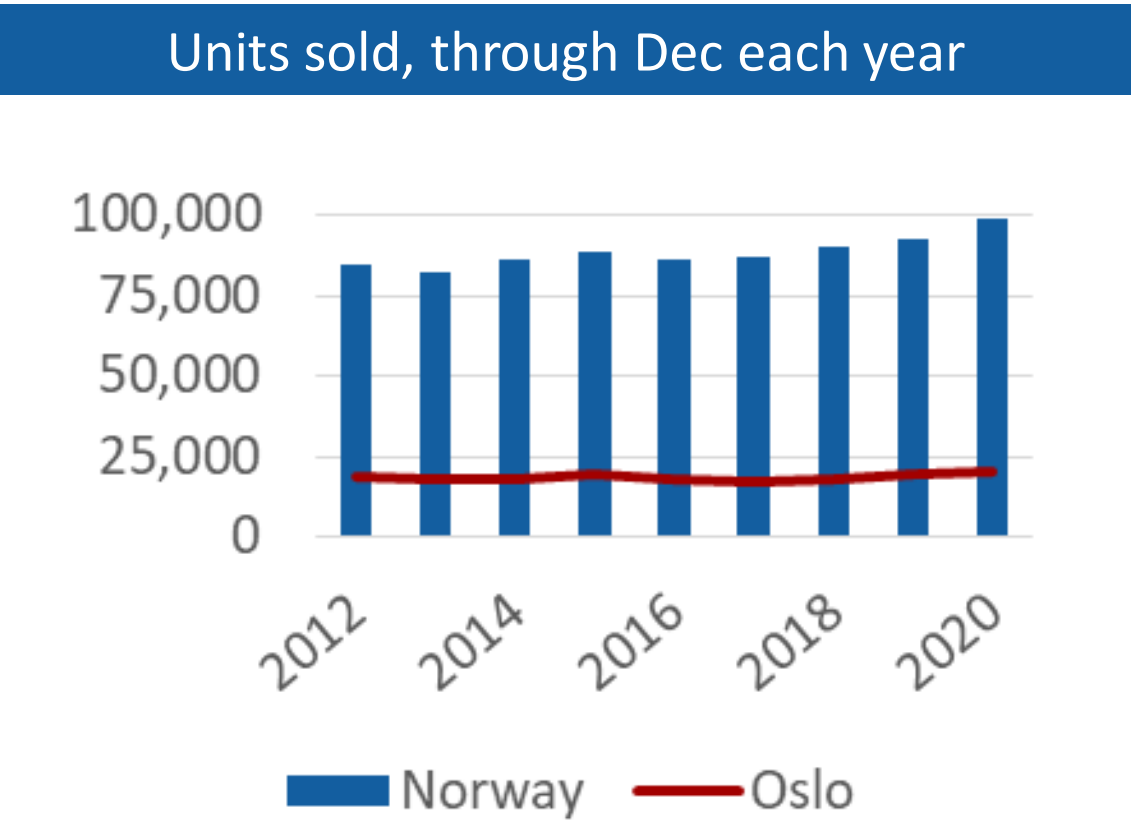
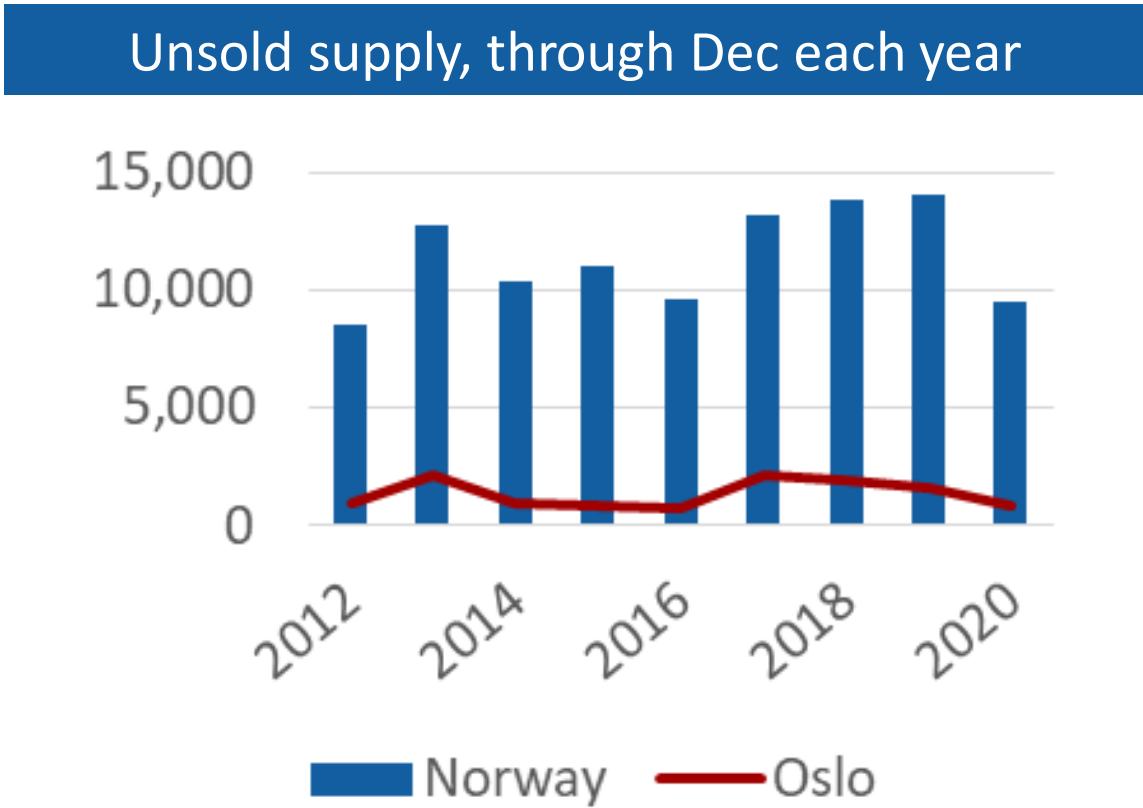
- House price index growth has been low/moderate 2017 – 2019
- The market has shown (surprising) strength through the Corona crisis in 2020
- Oslo (capital) continues to show price appreciation
- Oil-region around Stavanger relatively inexpensive, other main cities moderately up. The national index construction is influenced by the capital data (activity weighted index)

# Residential real estate market

## Transaction volumes



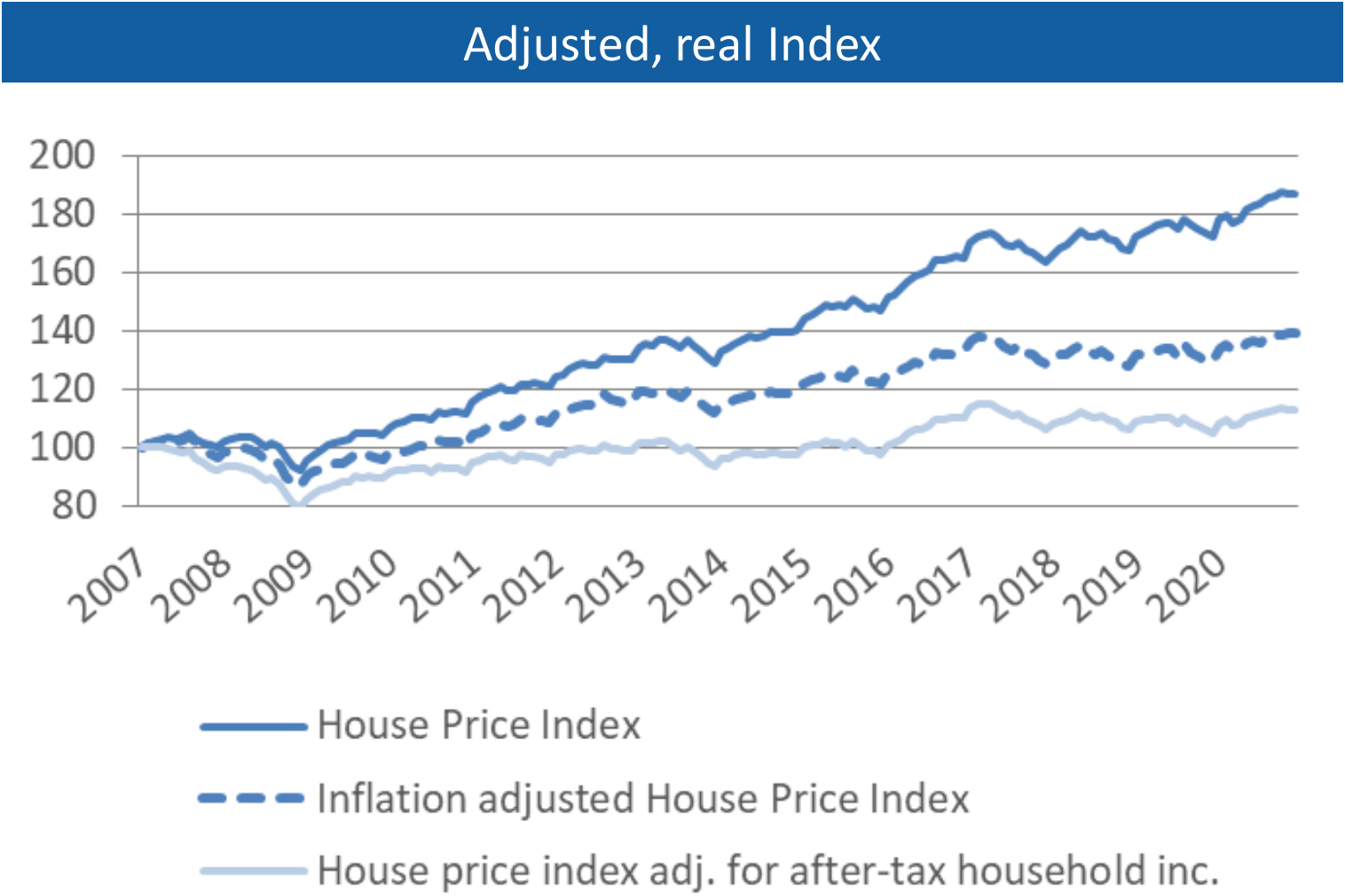
- Housing starts in Norway are high compared to population growth last few years
- Housing starts in Oslo have been low compared to population growth, this supports price growth in the capital
- Oslo, with 13% of Norway’s population, is the largest city, and a bellwether for the real estate market and the residential price index



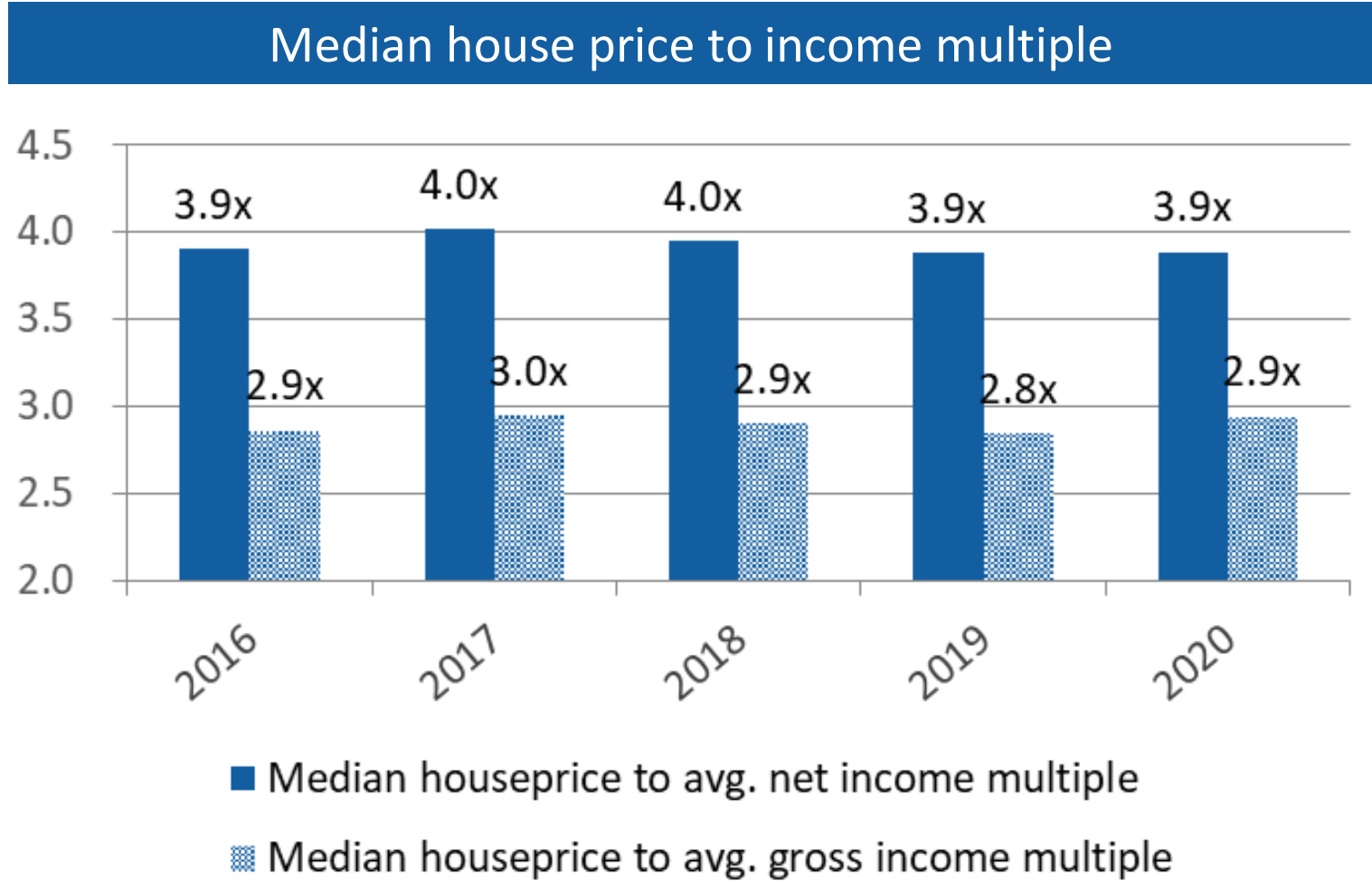


# Residential real estate market

## Affordability

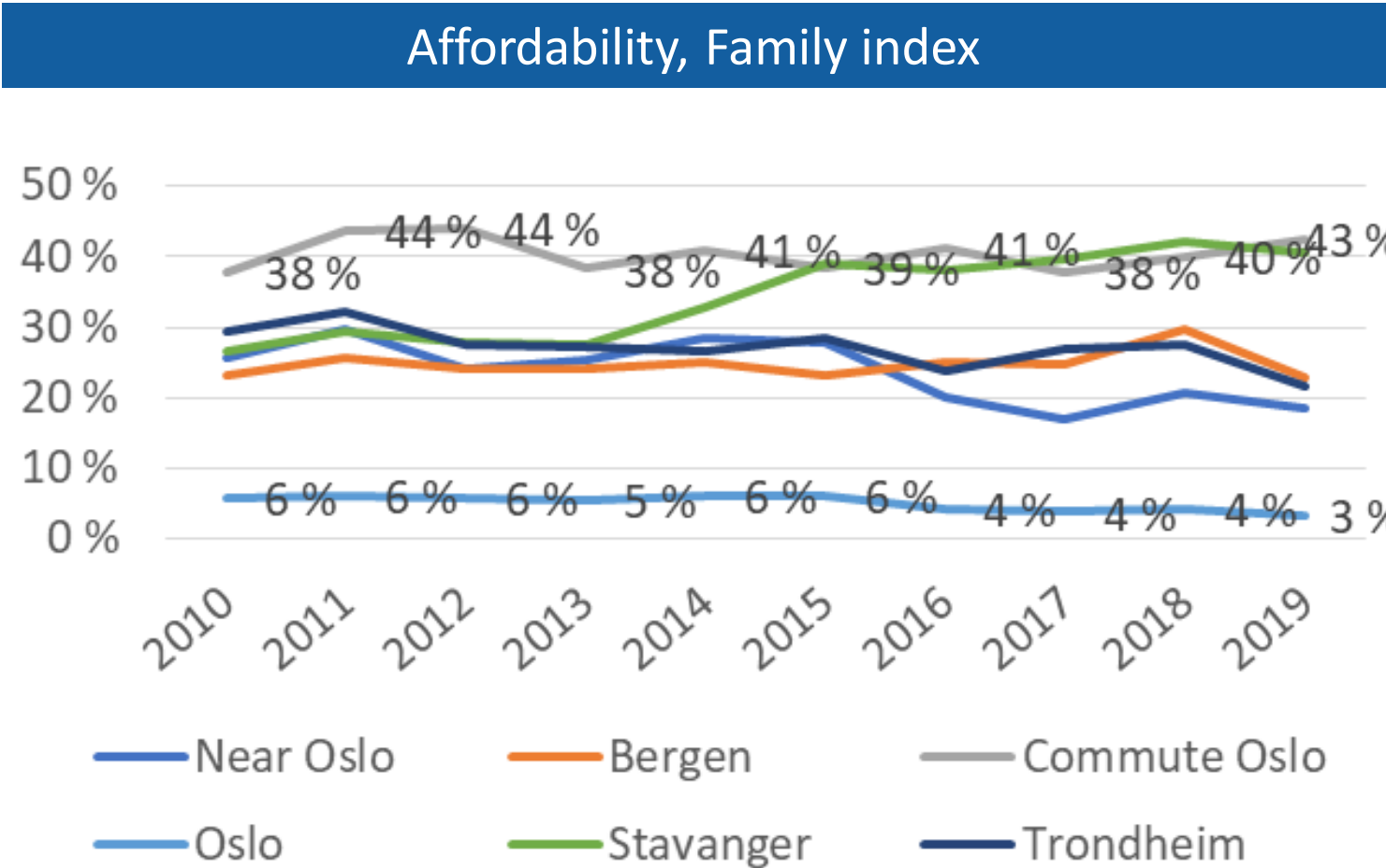


- Average real house prices for Norway, as adjusted by income growth are not much above 2007 levels
- Expressed in EUR, Norwegian real estate prices are affected by the floating FX rate

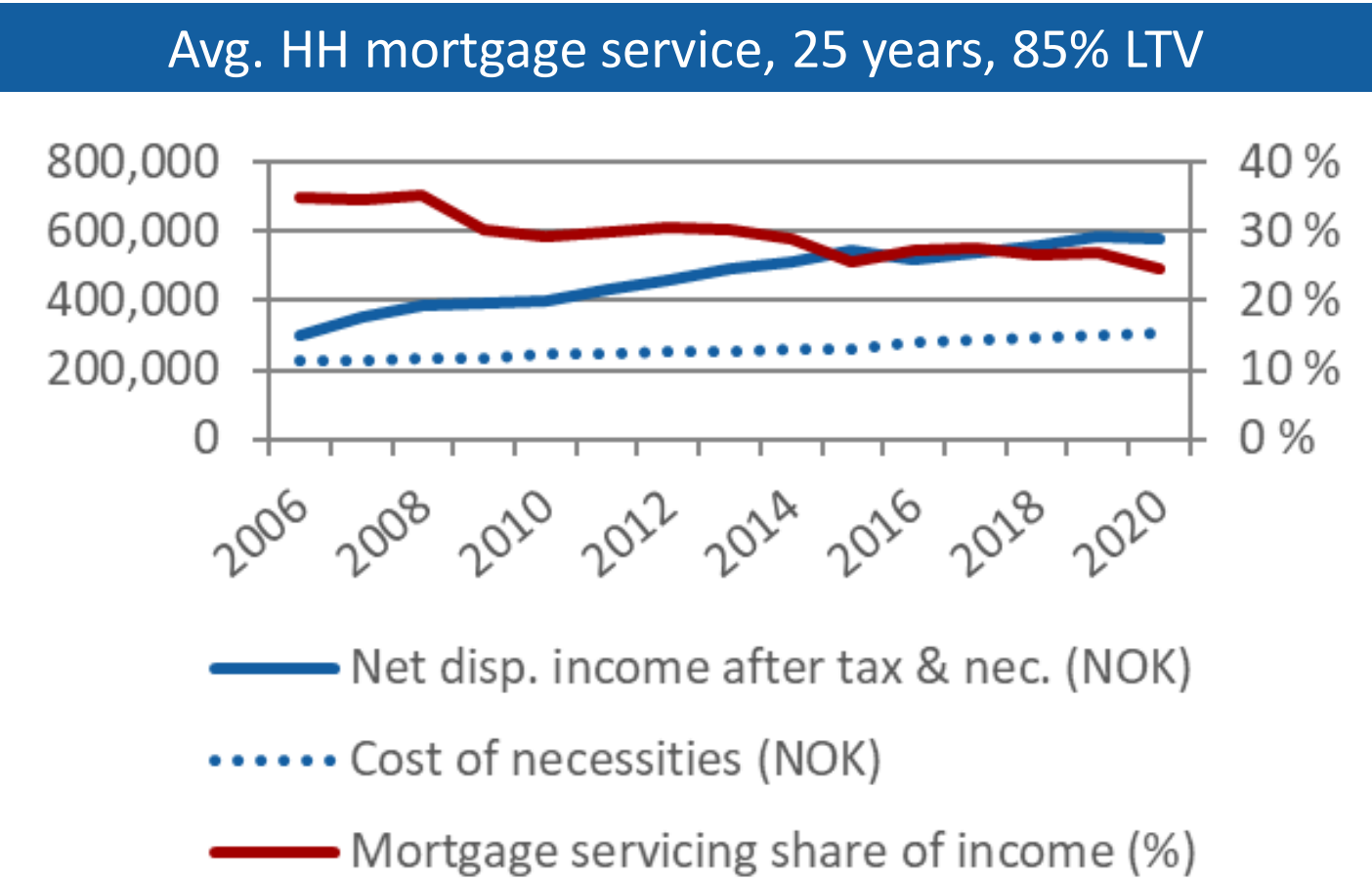


# Residential real estate market

## Affordability



- The Family index shows how many residential units are possible to buy for normal, working families middle-income, as a share of residential units offered for sale on the relevant market
- Mortgage service costs is between 20 and 30% of income after tax and necessities

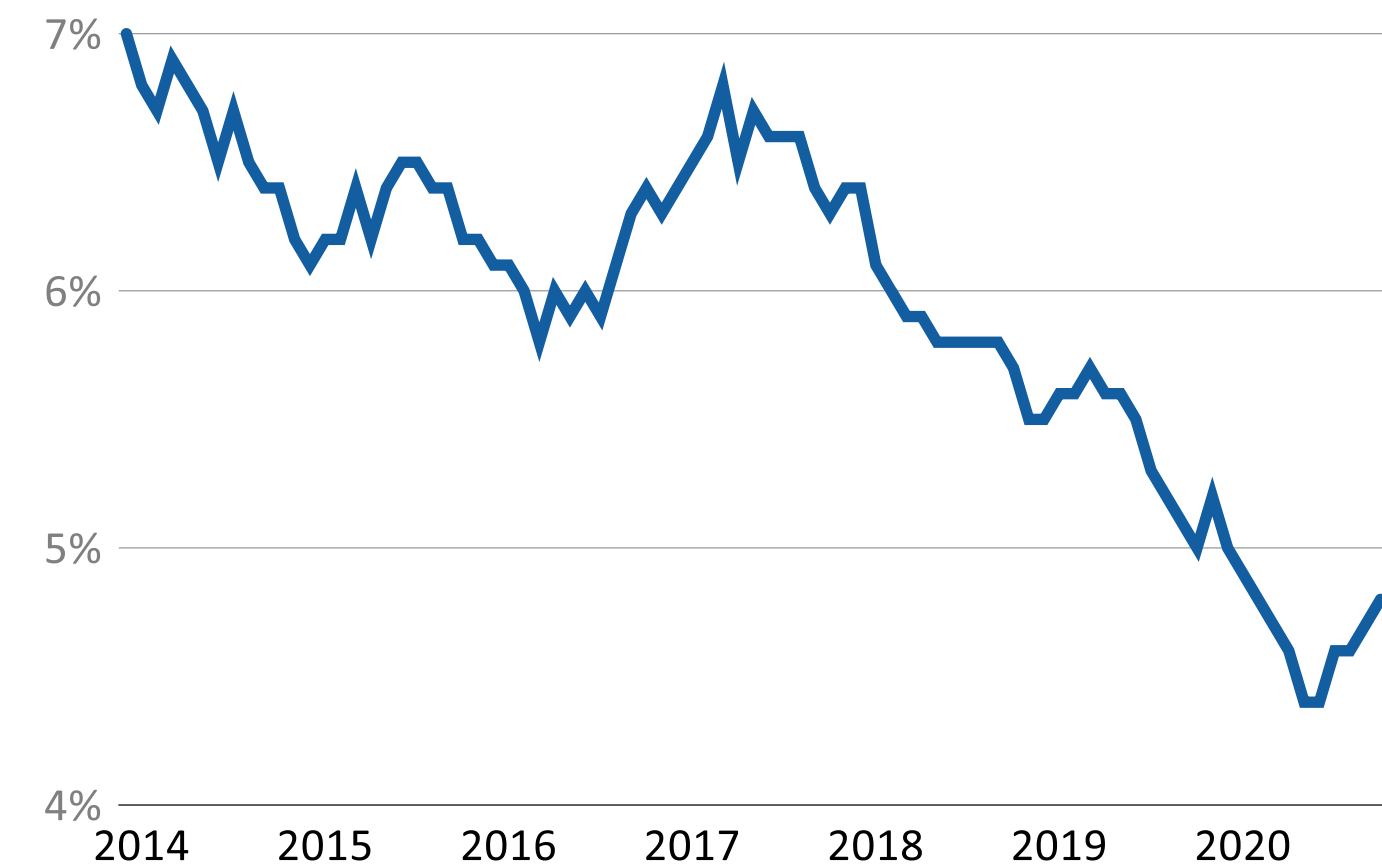




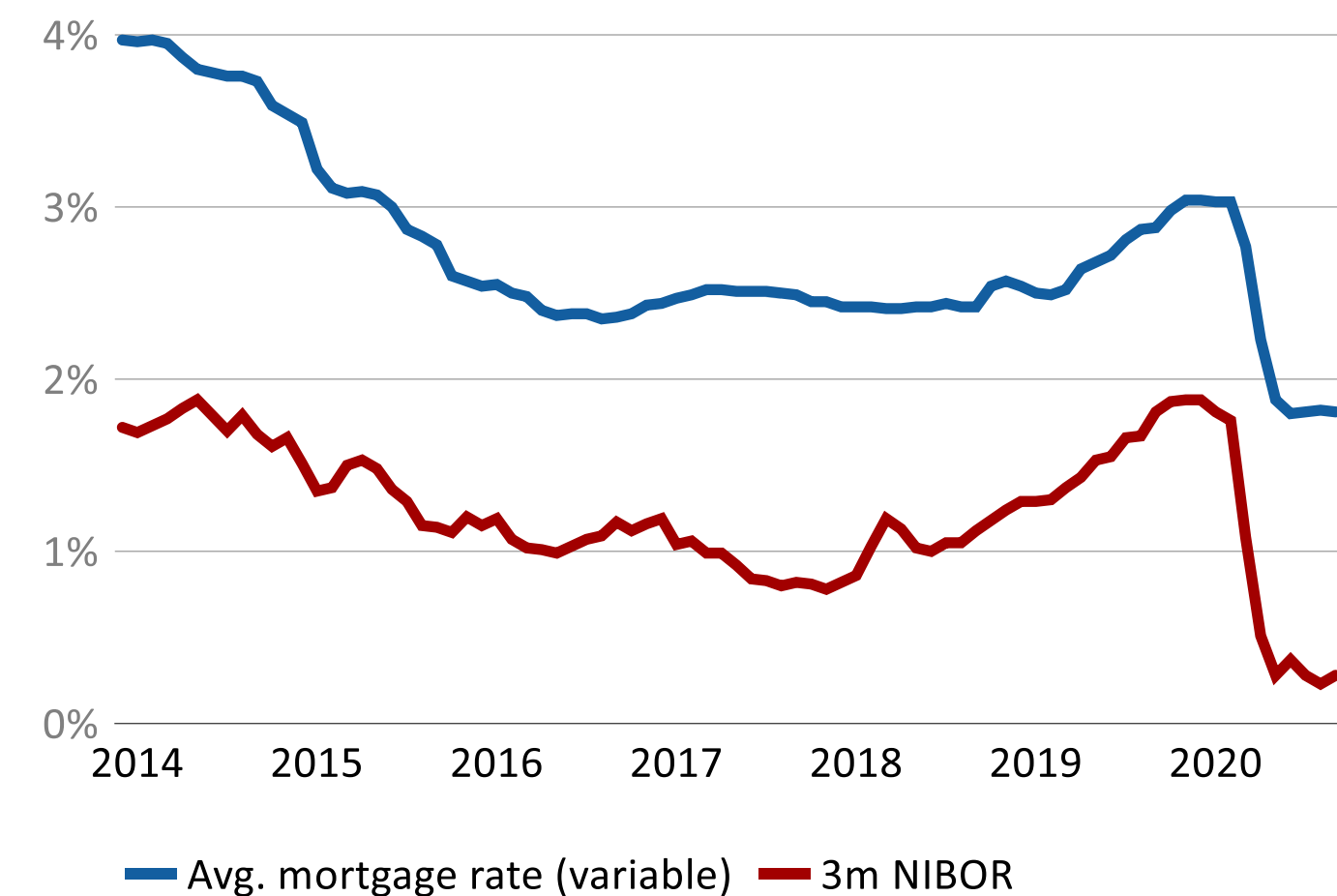
# Mortgage market key characteristics

Mortgage market	<ul style="list-style-type: none"> <li>Total size approximately NOK 3,250 billion YE 2019 (€330 bn)</li> <li>Private banks (incl. savings banks) are the dominant suppliers of mortgages with over 95% market share</li> <li>Scheduled repayment mortgages: ca.85%</li> <li>Typical maturity: 25 years</li> <li>First priority security market, thorough documentation</li> </ul>
Home ownership	<ul style="list-style-type: none"> <li>Over 80% of households owner occupied (little buy to let)</li> <li>Between 50 and 60% are detached one-family houses</li> </ul>
Social safety	<ul style="list-style-type: none"> <li>Unemployment benefits represents ca 60% of salary for 2 years</li> </ul>
Personal liability	<ul style="list-style-type: none"> <li>Borrowers are personally liable for their debt</li> <li>Swift foreclosure regime upon non-payment</li> <li>Transparent information about borrowers</li> </ul>
Current mortgage market regulation	<ul style="list-style-type: none"> <li>Loan to value: 85% (75% legal limit for cover pool)</li> <li>Flexible repayment mortgages: max 60% LTV</li> <li>5% mortgage interest rate increase as stress test</li> <li>Maximum 5x debt / gross income for borrowers</li> <li>Repayment minimum 2.5% p.a. when LTV &gt; 60%</li> <li>Exemptions 10% / 8% for Oslo</li> </ul>
Interest payments	<ul style="list-style-type: none"> <li>90-95% of mortgages are variable rate</li> <li>Interest rates can be reset at the banks's discretion, by giving the debtor 6 weeks notice</li> </ul>
Tax	<ul style="list-style-type: none"> <li>22% of interest paid is tax deductible (equal to the basic rate of tax)</li> <li>Owner occupied residence at 25% of market value for wealth tax</li> </ul>

Household 12 month credit growth rate



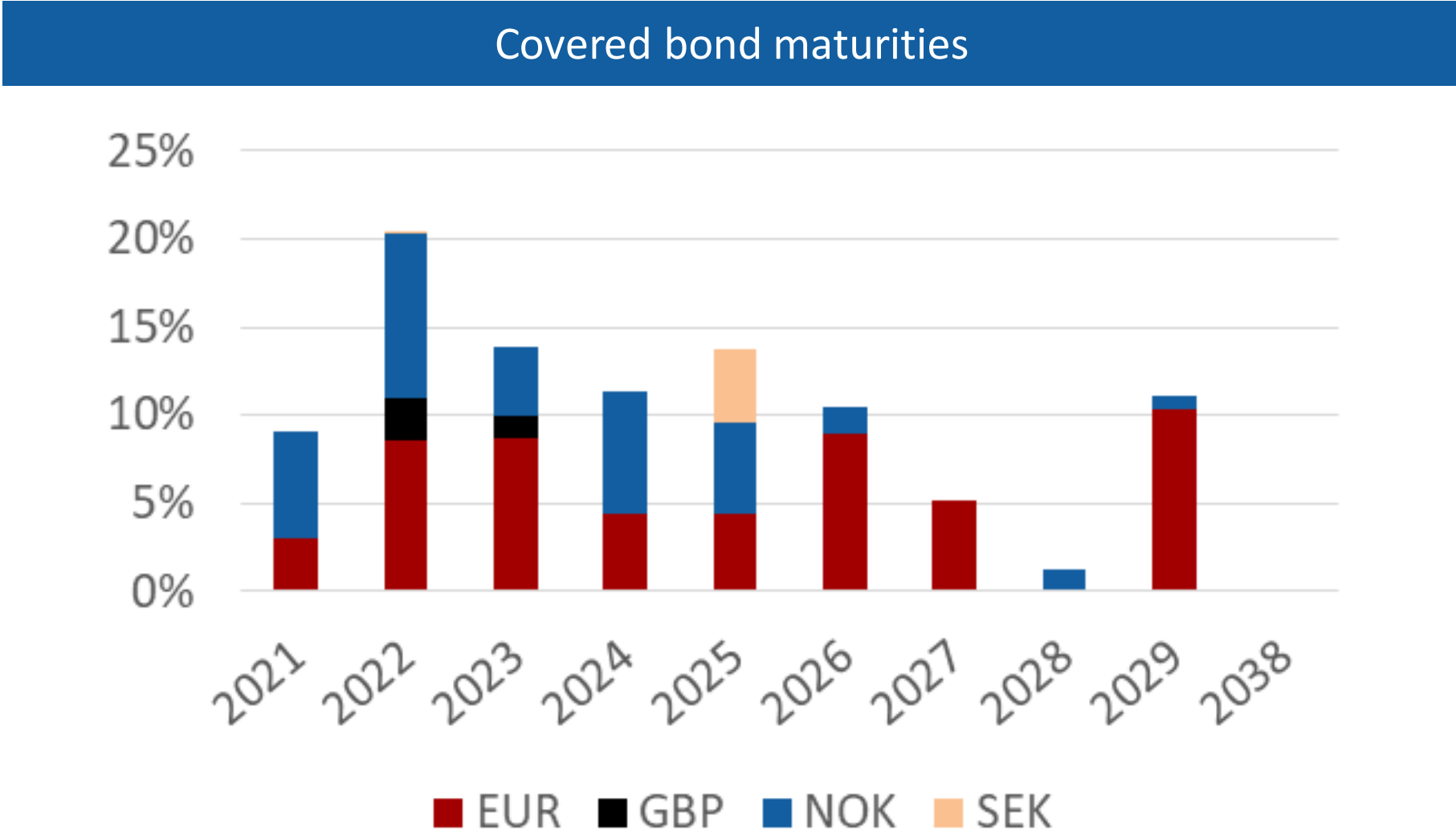
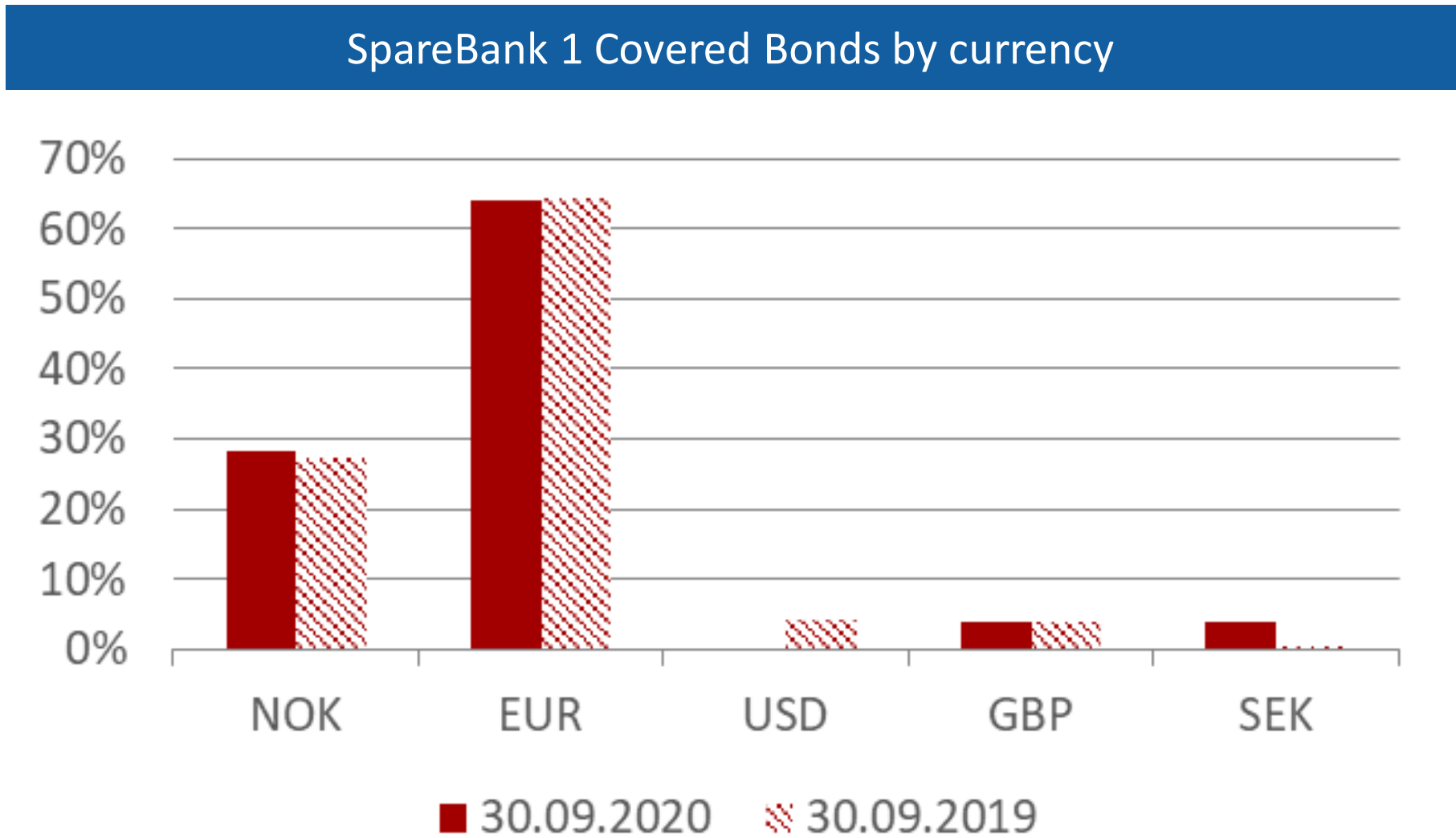
Interest rates



# Funding



# SpareBank 1 Covered Bonds



# Spabol EUR, GBP and SEK covered bonds

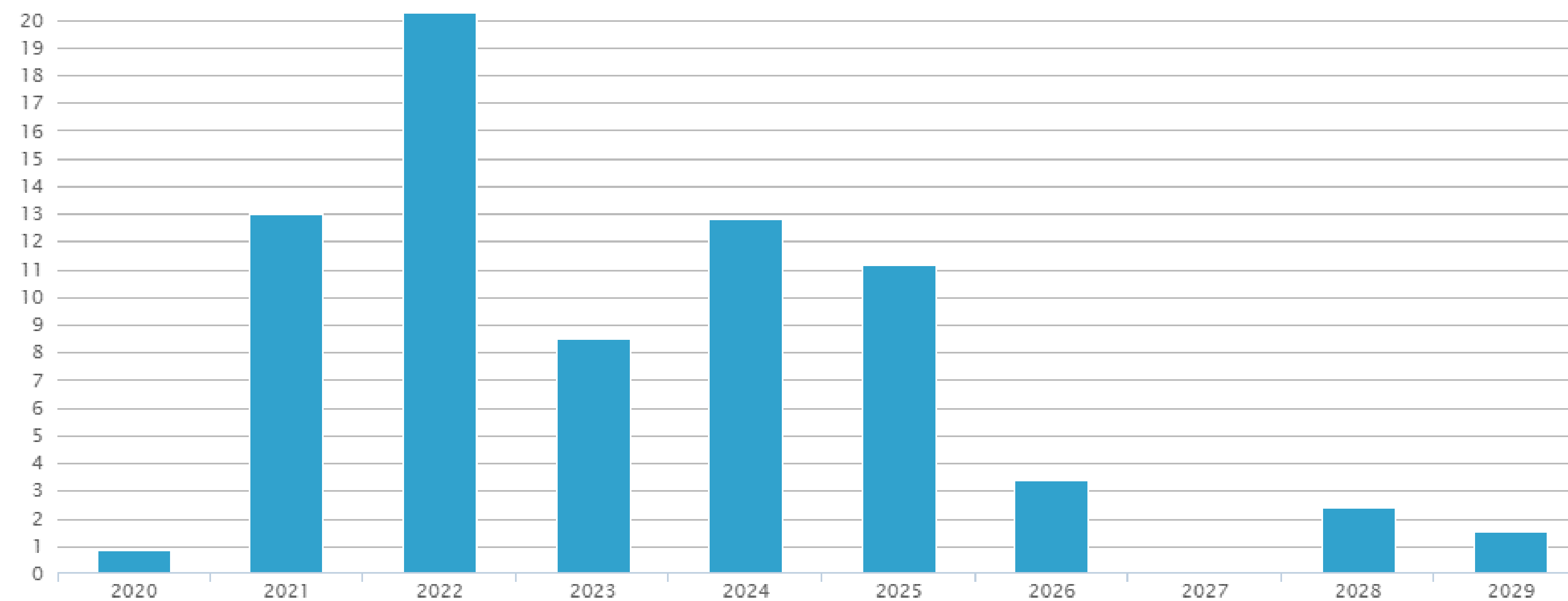
Issue Date	Size (mill)	Tenor (years)	Maturity	Spread at issue (basis points)
<b><u>EUR (fixed rate)</u></b>				<b>EUR fixed rate, issue MS+</b>
Feb 2011	1,000	10	2/2021	60
Sept 2011	1,000	10	9/2021	65
Aug 2015	1,000	7	9/2022	8
Mar 2016	1,000	7	3/2023	23
August 2016	1,000	10	8/2026	4
January 2017	1,000	5	1/2022	0
June 2017	1,000	7	6/2024	0
January 2018 (green bond)	1,000	7	1/2025	-6
June 2018	1,000	5	6/2025	2
Jan 2019	1,250	10	1/2029	23
May 2019	1,000	7	5/2026	2
November 2019	1,000	10	11/2029	10
September 2020 (green bond)	1,000	7	9/2027	7
<b><u>GBP</u></b>				<b><u>Sterling</u></b>
Nov 2017	500	5	11/2022	FRN L+27
April 2018	250	5.75	12/2023	Fixed issued L+33 bps
<b><u>SEK</u></b>				
June 2020 (green bond)	8,500	5	6/2025	FRN S+35 bps



# Spabol NOK covered bonds

- Bonds are regularly tapped to target LCR cat. 1 size
- Floating and fixed series available

Balance in billions NOK



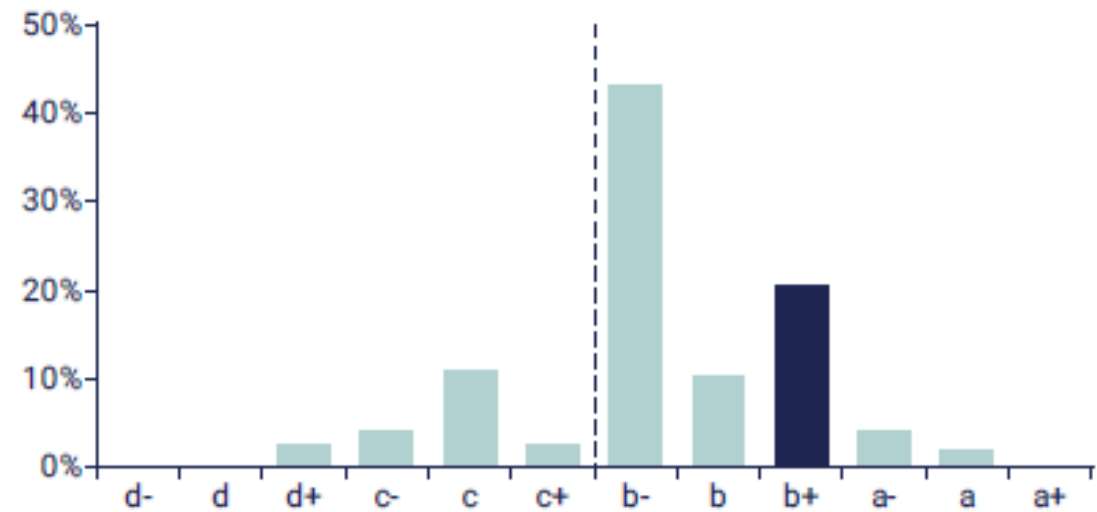
## Appendix: green covered bonds



# SpareBank 1 Boligkreditt Green Bond rating

## ISS – Oekom Green Bond Rating

492 bonds in total



## Strengths and Weaknesses

- + clear and conclusive eligibility criteria
- + comprehensive external assurance of bond framework
- + reasonable structures for the management of proceeds
- + clear sustainability strategy of the issuer
- no comprehensive approach regarding specific social risks of residential mortgages

## Moody's Green Bond Rating

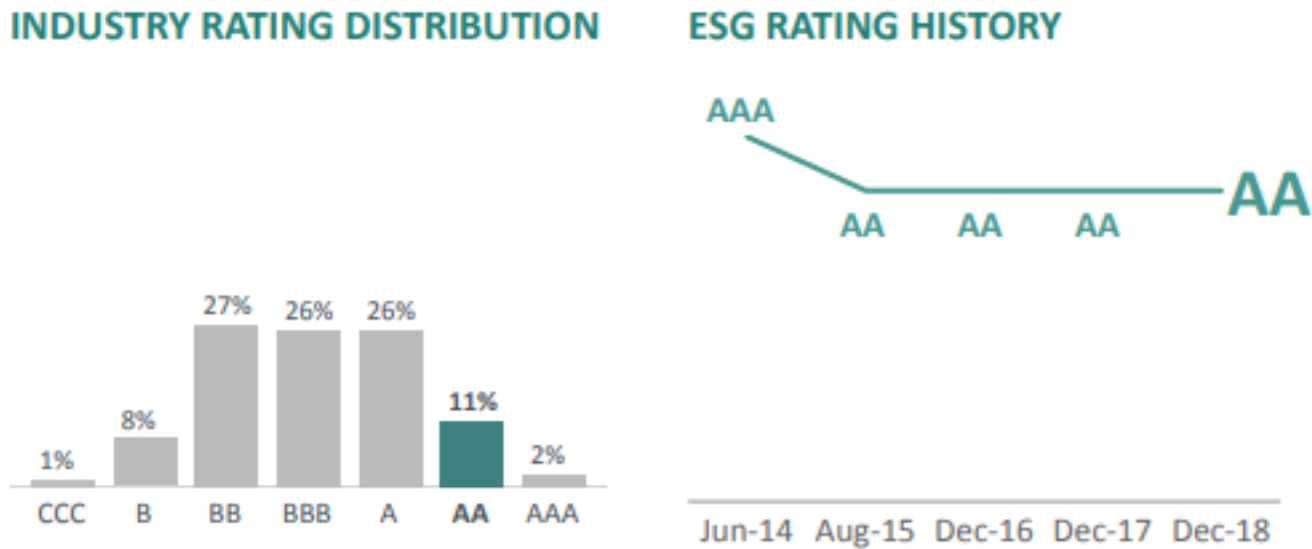
Green Bond Assessment - January 2018 issuance

### Summary analysis

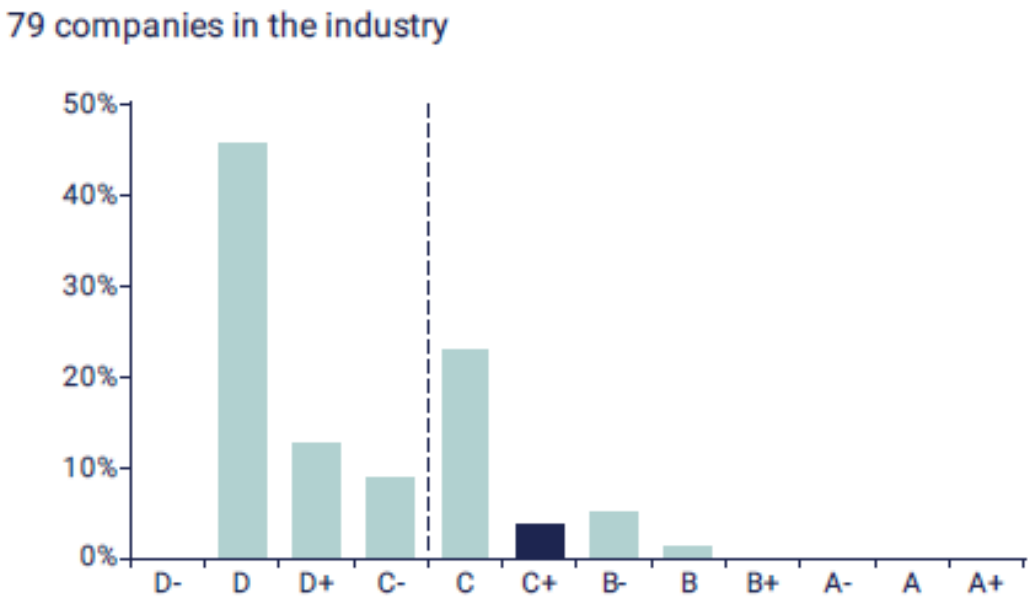


# SpareBank 1 Boligkreditt ESG Rating

## MSCI ESG Rating



## ISS – Oekom ESG Rating

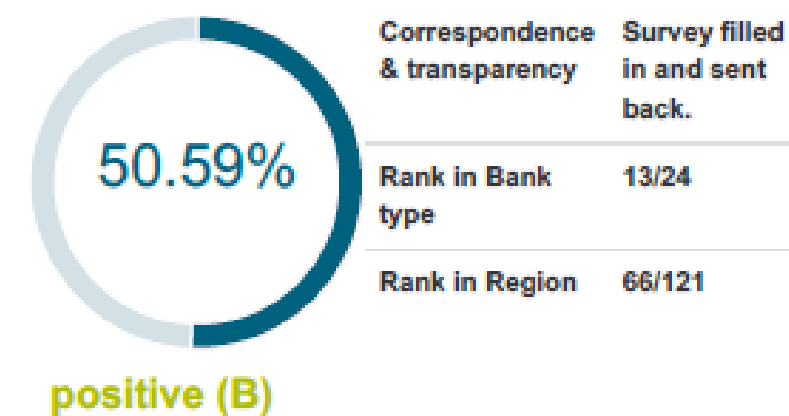


## IMUG

### Issuer Performance

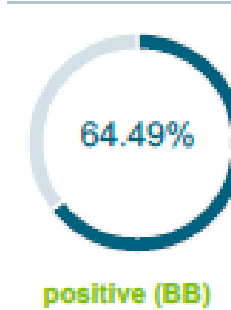
Ranks based on Imug's sustainability strategy

#### Sustainability Rating



### Bond Performance

#### Mortgage Covered Bonds





# ESG in SpareBank 1 banks

- Dedicated ESG department / function in each bank

Founding Signatory of:



- Signed UN Environmental Programme Principles of Responsible banking

- Reports on climate risk / produces Scope 3 climate accounts



- Comprehensive ESG strategy with goals and reporting; GRI reporting, Task force on climate related disclosures, integration of UN sustainability goals



- SpareBank 1 Judged by Norwegian consumers to be the leading bank in sustainability

- Green bonds and green mortgage programmes


# Draft EU-GBS and EU Taxonomy



## Alignment

Specifically, Objective 1.b:

- Substantial contribution to Climate Change Mitigation:
  - Improving energy efficiency in all sectors -> i.e. buildings
  - CBI compliant methodology for the top 15% proxy in Norway



EU Taxonomy

EU Environmental Objectives

- The sole UoP category addressed in SpaBol’s Green Bond Framework is in line with EU Environmental Objective (1): Climate Change Mitigation

Use of Proceeds

- SpaBol’s eligibility criteria comply with the recommendation of the EU Taxonomy for the acquisition of/new buildings:
  - “considering as a minimum benchmark the top performing 15% of the stock as representative of the best level of energy and resource efficiency that can be achieved in a **local context**”

EU Green Bond Standards

Green Bond Framework

- The role of the Green Bond Framework (GBF) is formalised:
  - Project selection in line with the EU Taxonomy
  - Rationale for issuing

Reporting

- Reporting at project-by-project or portfolio level
- Allocation reporting: statement of alignment with EU-GBS (by verifier), breakdown per sector level, regional distribution
- Impact reporting: share of financing, breakdown per nature of expenditures

Alignment

- Taxonomy - compliant top 15% threshold
- Rationale - SpaBol hopes to contribute to additionally via its green bond offerings, where green mortgage products are facilitated in part through green covered bond funding. This, as well as SpareBank 1’s broader commitment to sustainability and the green bond market, encompasses the main rationale for issuing green covered bonds

- SpaBol reports on allocation and impact after/at the time of new green bond issuance
- Annual auditor assurance on the green mortgage portfolio



# Evaluating and selecting eligible green assets

## Criteria 1: Building codes (building year as of 2009/2012)

- Residential buildings that have building codes of 2007 (TEK07), 2010 (TEK10) or 2017 (TEK17) have better energy standards and account for approx. 10% of the residential building stock
- A conservative two year lag between implementation of a new building code and the year of the building being built is assumed, hence buildings finished as of 2009 are eligible for the green portfolio
- Apartments are eligible with a building year from 2012 (TEK 10), houses from 2009 (TEK 07)

- **Currently Criteria 1 is in use**

## Criteria 2: EPC energy labels

- Properties with energy labels A, B and C are a smaller fraction of all residential properties

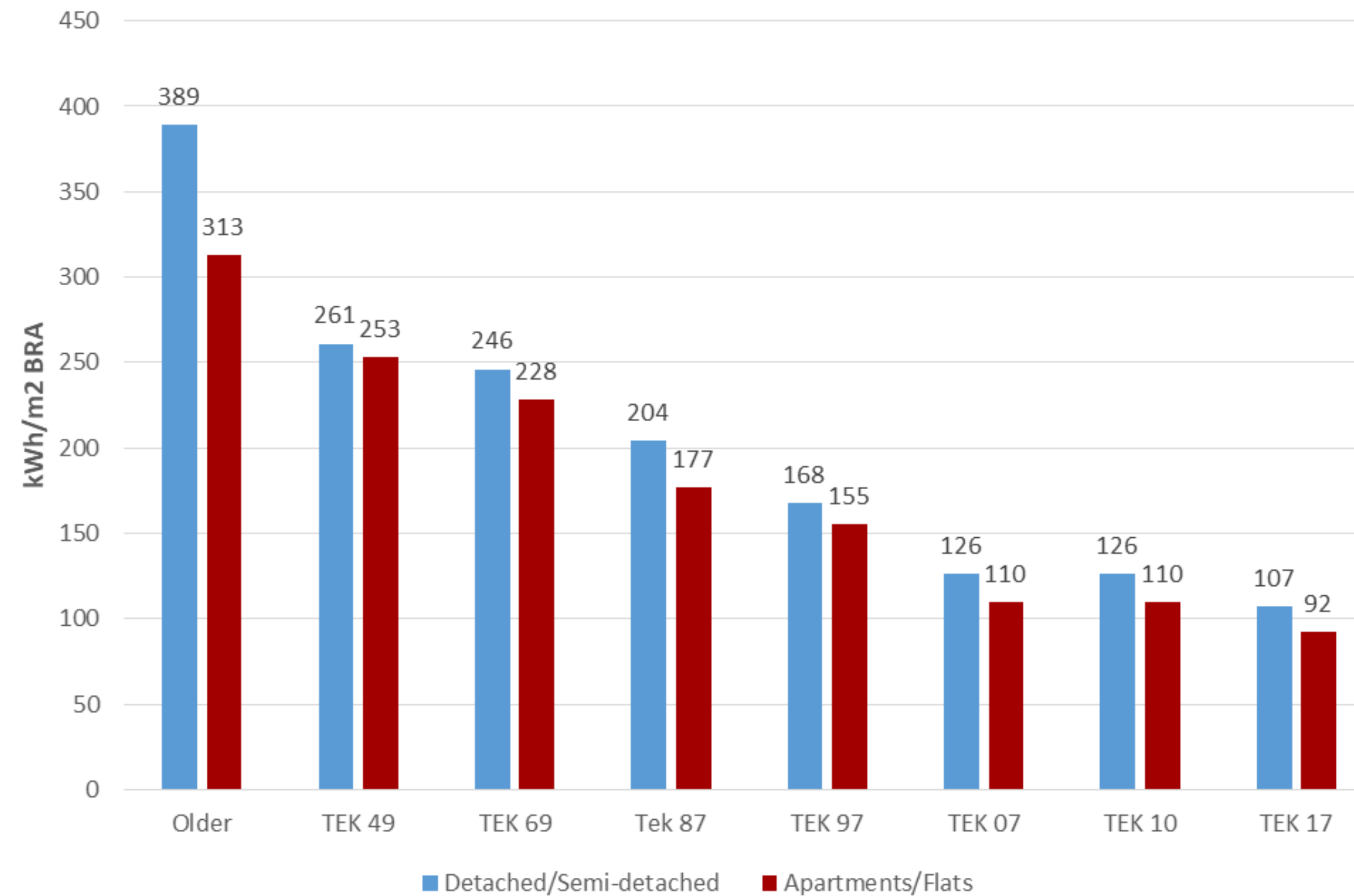
- **Criteria 2 may come into effect later**
- **Energy labels and building years must together not exceed 15% of all properties**

## Criteria 3: Refurbished buildings

- Additionally, homes that have realised a 30% energy efficiency improvement as a result of refurbishment will also qualify
- Multiconsult has calculated that a two step EPC label improvement indicates more than a 30% improvement in energy efficiency

- **Criteria 3 is also in alignment with the EU taxonomy**

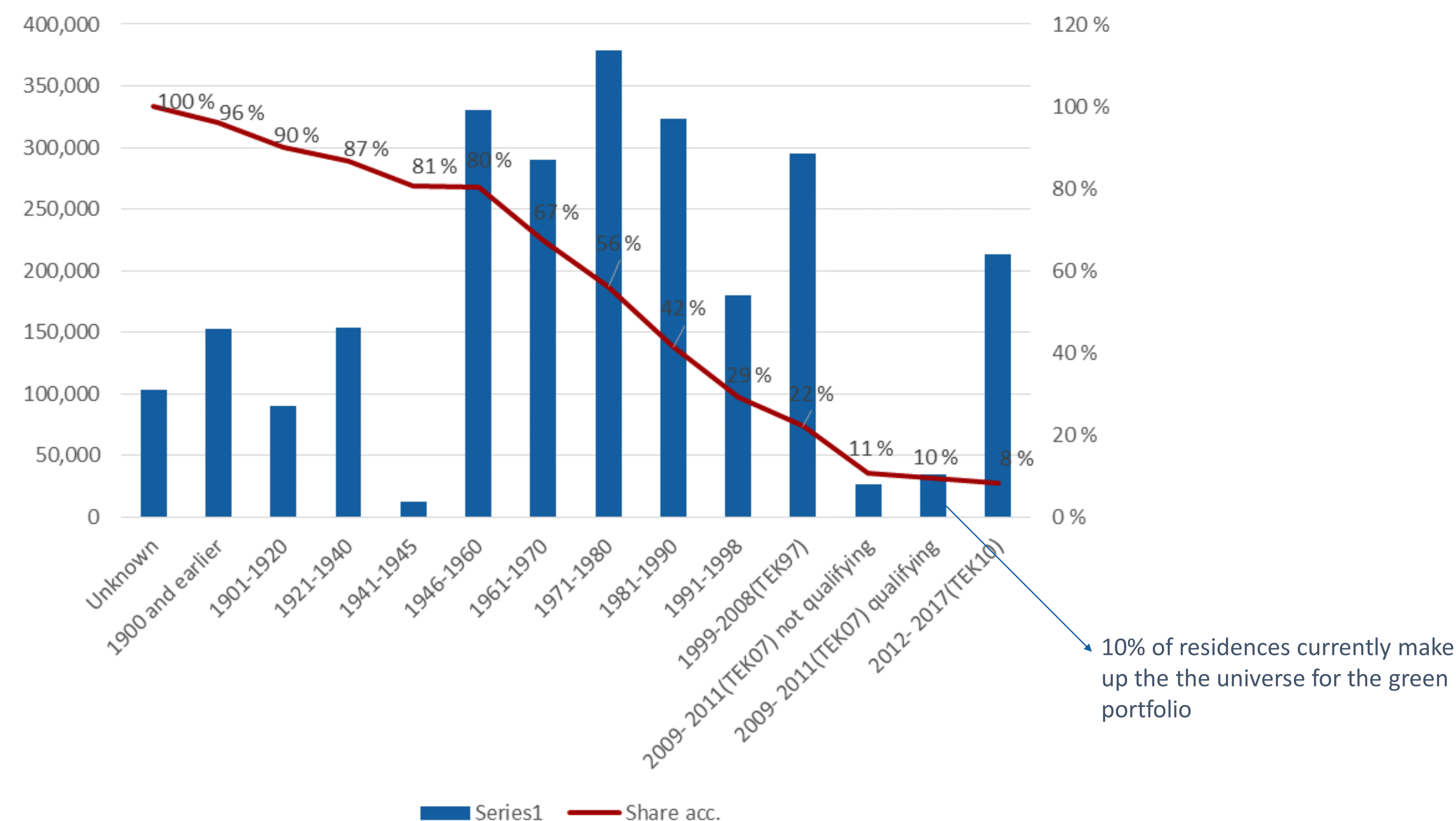
# Building codes and energy use



*Development in calculated specific net energy demand based on building code and building tradition, (Multiconsult, simulated in SIMIEN)*

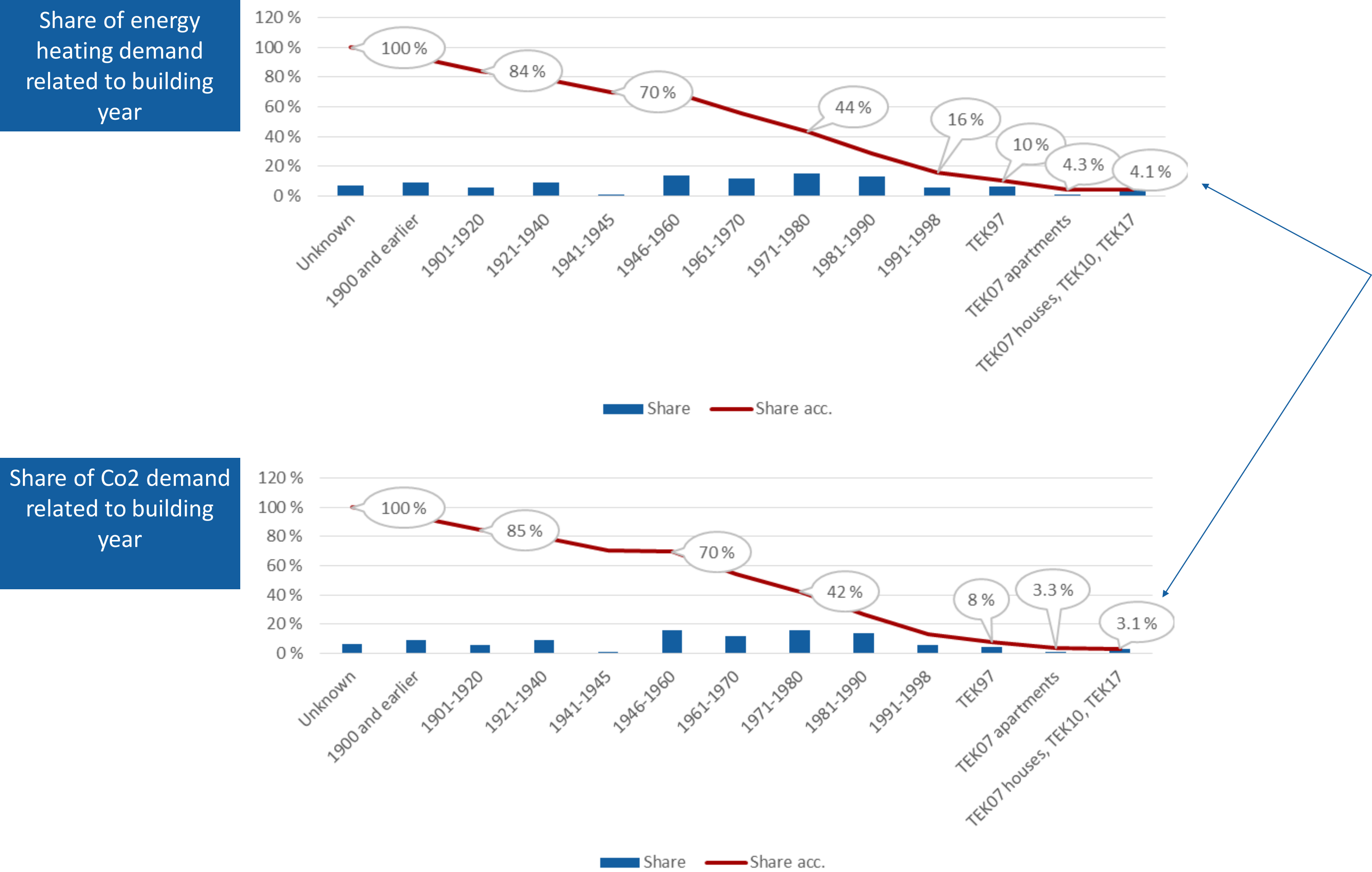


# Building stock share within criteria 1



As of September 2019

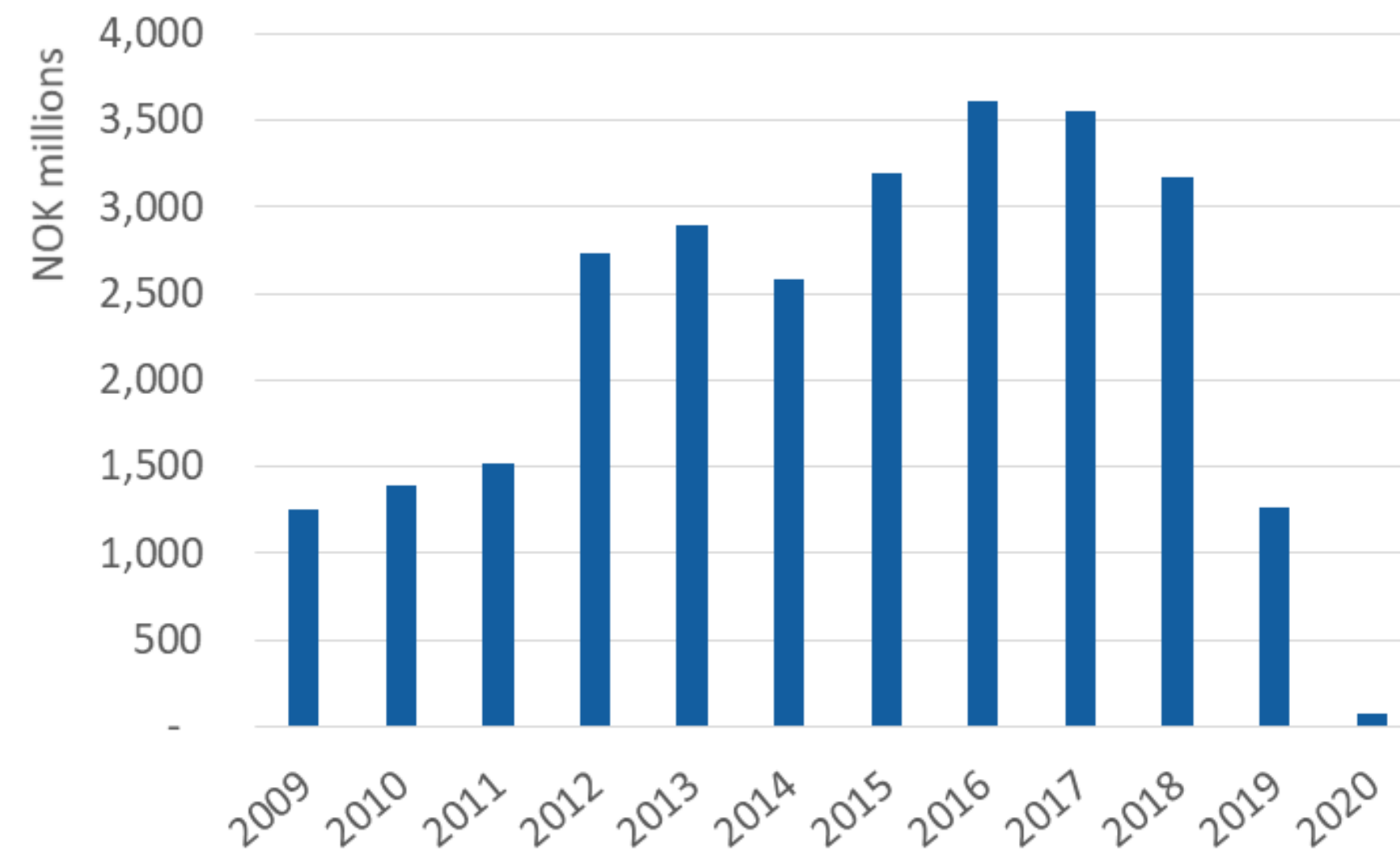
# Building codes, energy use and Co2 emissions



- The SpaBol green Portfolio eligible building stock is 10% of dwellings (previous page)
- 4.1% of energy use
- 3.1% of CO2 emissions

# Spabol green mortgage portfolio

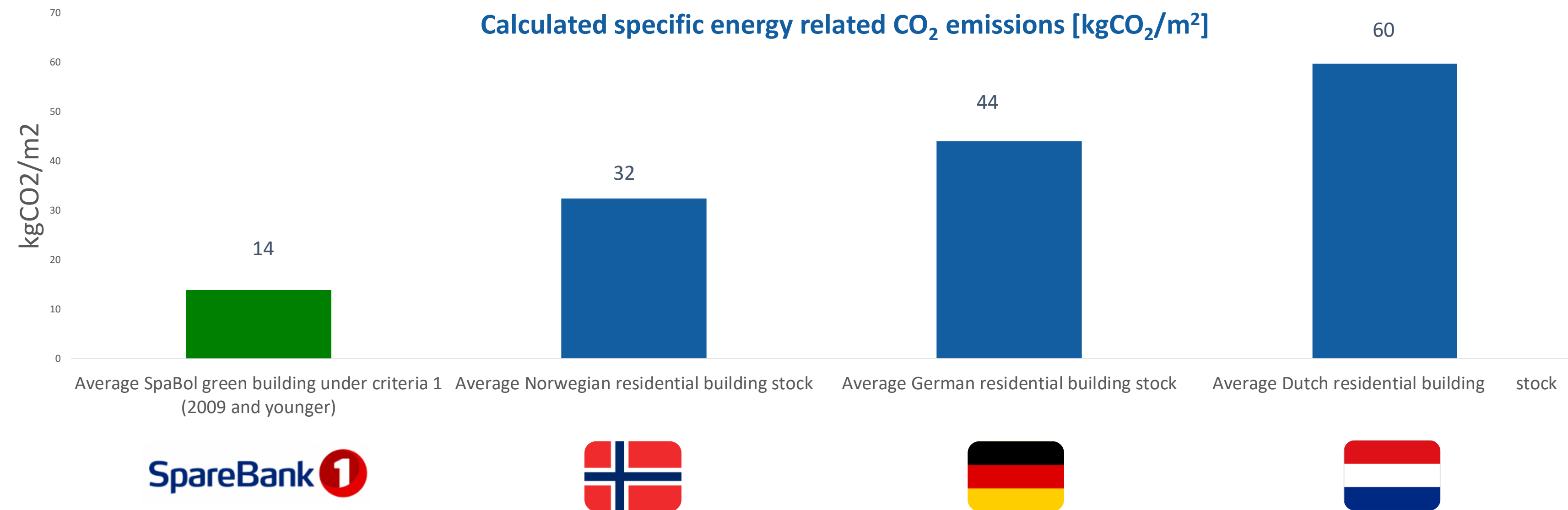
Mortgage volumes according to building completion year in mill. NOK



- In total there are approx. NOK 27.2 bn of mortgages within criteria 1 for green assets
- 1 bn EUR green covered bond outstanding



# Impact of the green covered bond



- Green buildings under criteria 1 emit 57% less CO<sub>2</sub> than the average Norwegian residential building (saving of 26,558 tons CO<sub>2</sub>)
- Green buildings under criteria 1 emit 73% less CO<sub>2</sub> than the average Western European<sup>1</sup> residential building (saving of 34,012 tons CO<sub>2</sub>)

# Example new green mortgage products



Bank	Terms	Criteria
SpareBank 1 SMN	30 bps reduction in standard interest rate	Energy label A, B, C for upgraded buildings, A and B for new buildings
SpareBank 1 Østlandet	<ul style="list-style-type: none"><li>Zero interest rate for a portion of the loan</li><li>Step up in interest rate each year over 4 years</li><li>Slightly below standard rate for remainder</li></ul>	Green loan criteria tied to those that are approved for ENOVA (gov. agency) grants
SpareBank 1 Hallingdal Valdres	Interest rate reduction (50, 40 or 30 bps)	Depends on Energy efficiency label A, B or C in association with building year
SpareBank 1 Ringerike	Interest rate reduction 40 bps	Energy label A, or, after upgrade, B

# SpareBank 1 Boligkreditt

## Webpage and contact info

### Eivind Hegelstad- Director, CFO / Investor Relations

Eivind Hegelstad is CFO and primarily responsible for Investor Relations at SpareBank 1 Boligkreditt.

Eivind Hegelstad, SpareBank 1 Boligkreditt (SpaBol)

SpaBol's parent banks in the SpareBank 1 Alliance are together Norway's second largest financial institution. The banks pursue their covered bond funding jointly through their wholly owned SparBank 1 Boligkreditt subsidiary, a specialist covered bond issuer, which is also a frequent issuer of covered bonds (<https://spabol.sparebank1.no>). Eivind joined SpareBank 1 in his current role in 2011 and worked previously at Citigroup Global Markets. Eivind is a graduate of Germany's Mannheim University Business School and is also a CFA charter holder. He is mainly responsible for investor relations and is also the chief financial officer at SpareBank 1 Boligkreditt.



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