



SpareBank 1 Boligkreditt

SEK Green covered bond

May 25, 2020

SpareBank **1**

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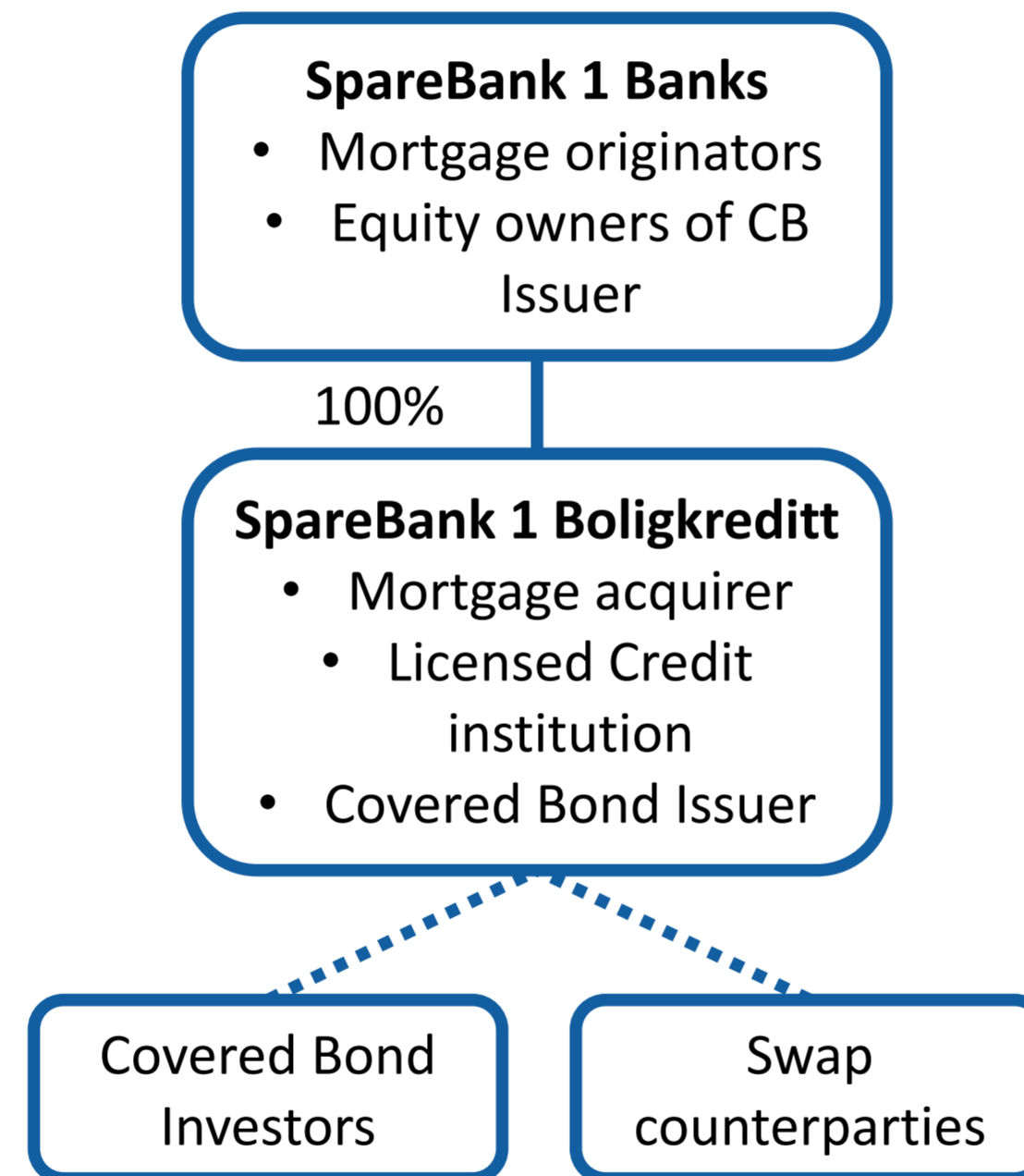
Boligkreditt

1st Quarterly Report 2020

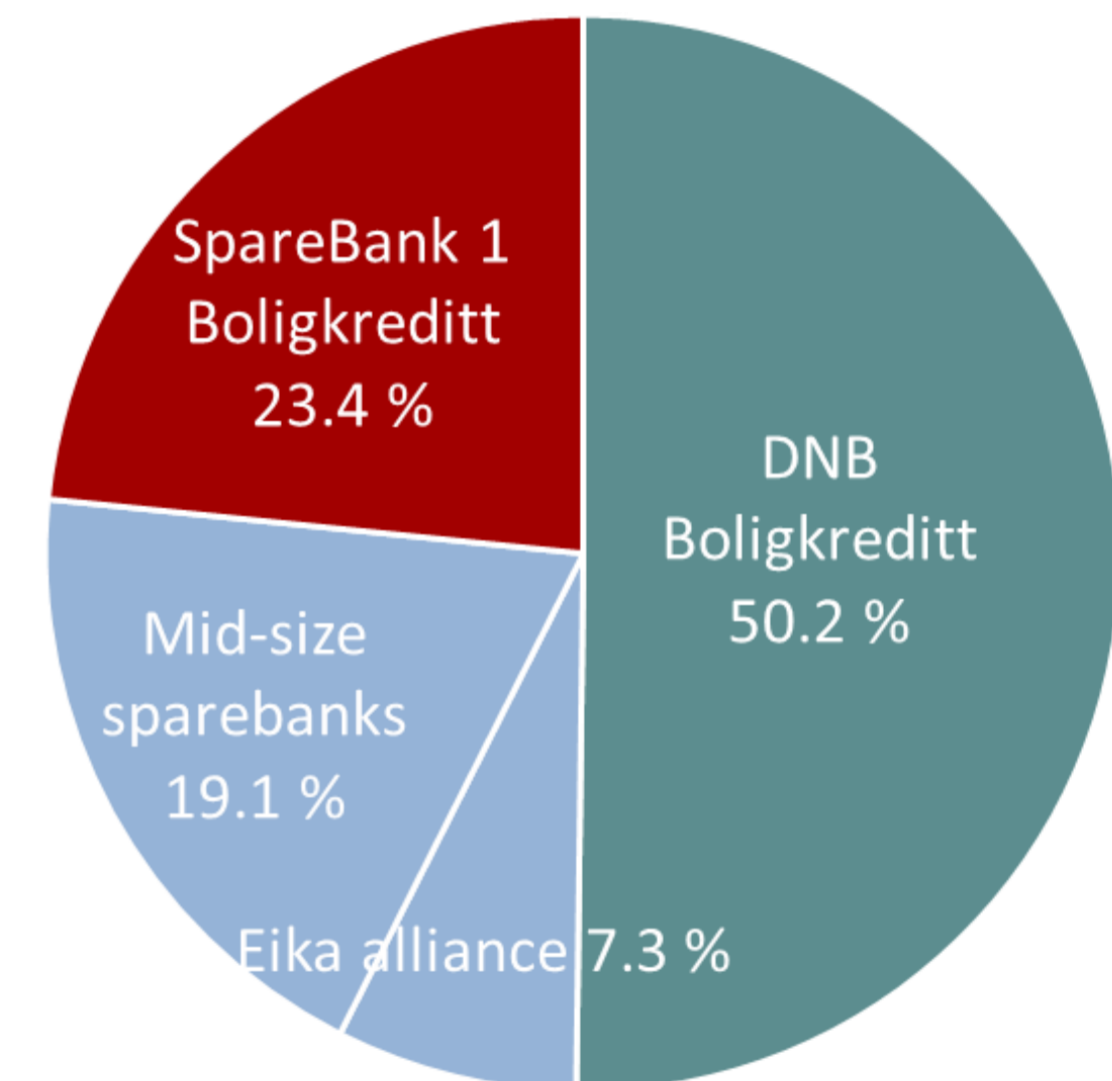
SpareBank 1 Boligkreditt

- 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:



EUR covered bond issuers' outstanding volume YE 2019



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 Q1 2020

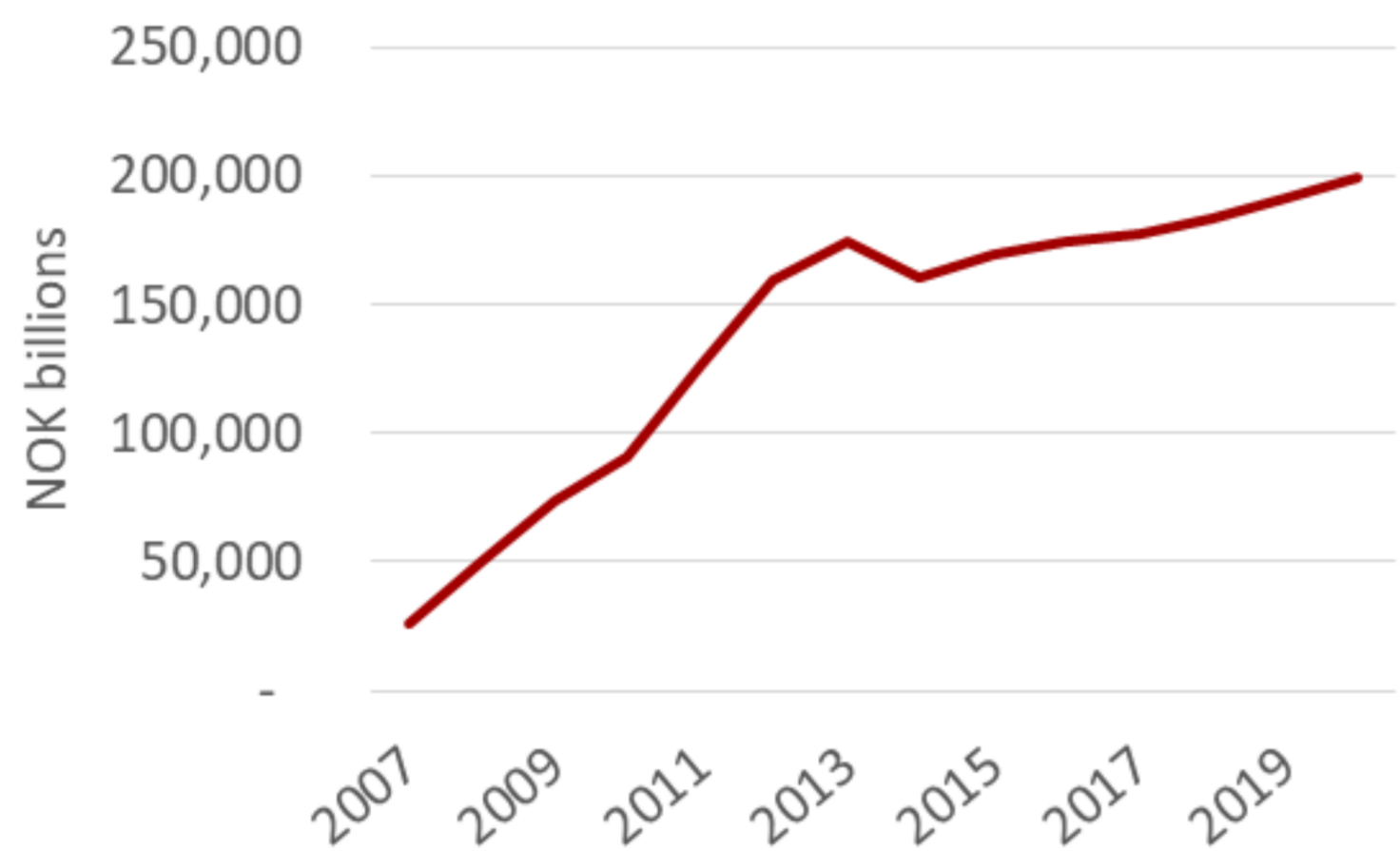
Type	Norwegian private residential mortgages for all types of residences
Number of mortgages	136,884 mortgages with a weighted average interest rate of 3.3%
Average mortgage balance	NOK 1.46 mill. Kroner (EUR 140-150,000)
Total balance mortgages	NOK 200 billion
Weighted average current LTV	53.2%
Cover pool	NOK 253 bn; Residential mortgages 79%, Liquid Assets 6%, 15% hedging swaps

- 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

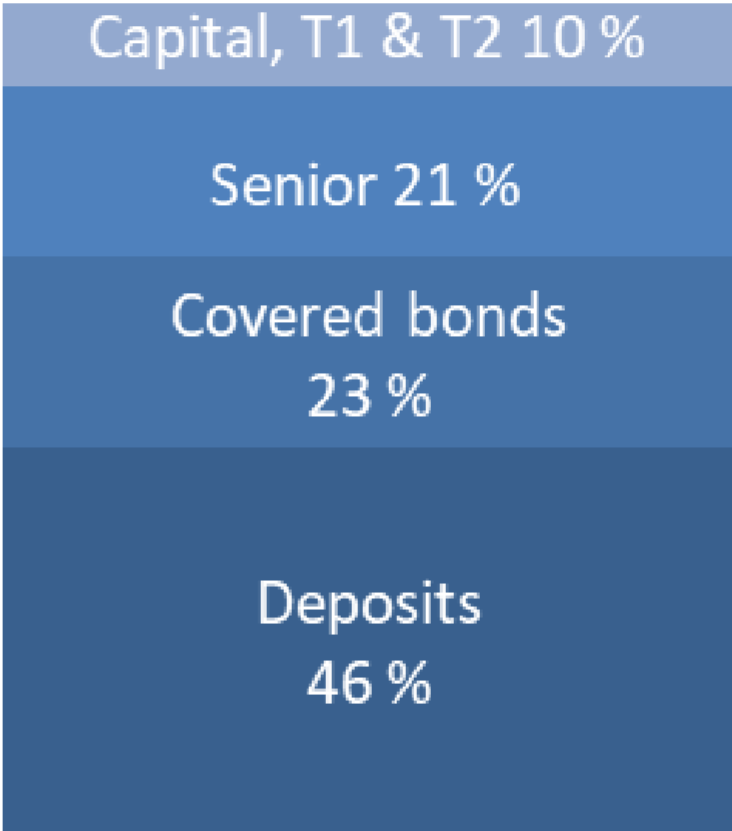
SpareBank 1 mortgage financing

Boligkreditt's mortgages financed through covered bonds

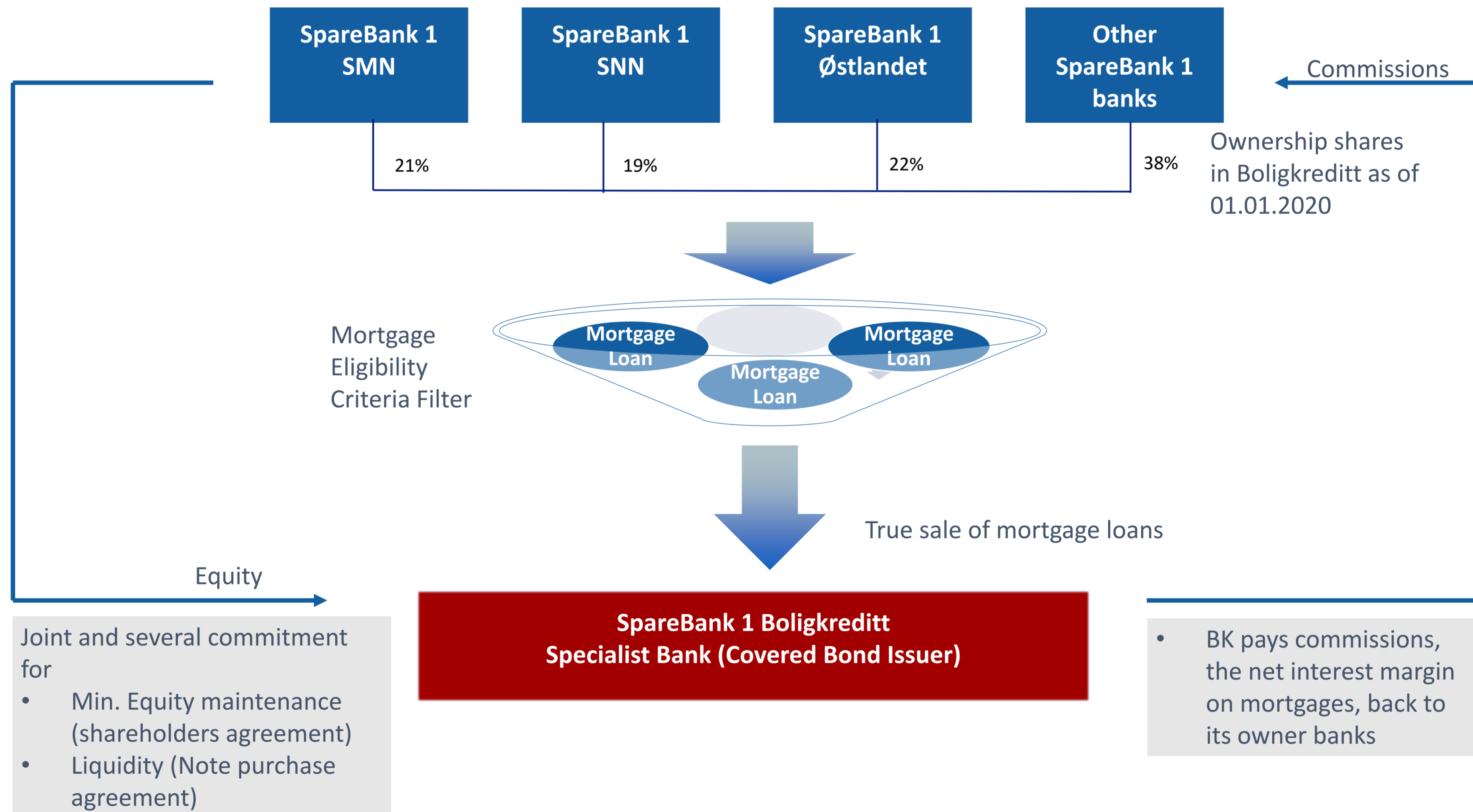


- Covered bond legislation implemented 2007 with first issuances the same year

SpareBank 1 Alliance Banks funding sources, YE 2019

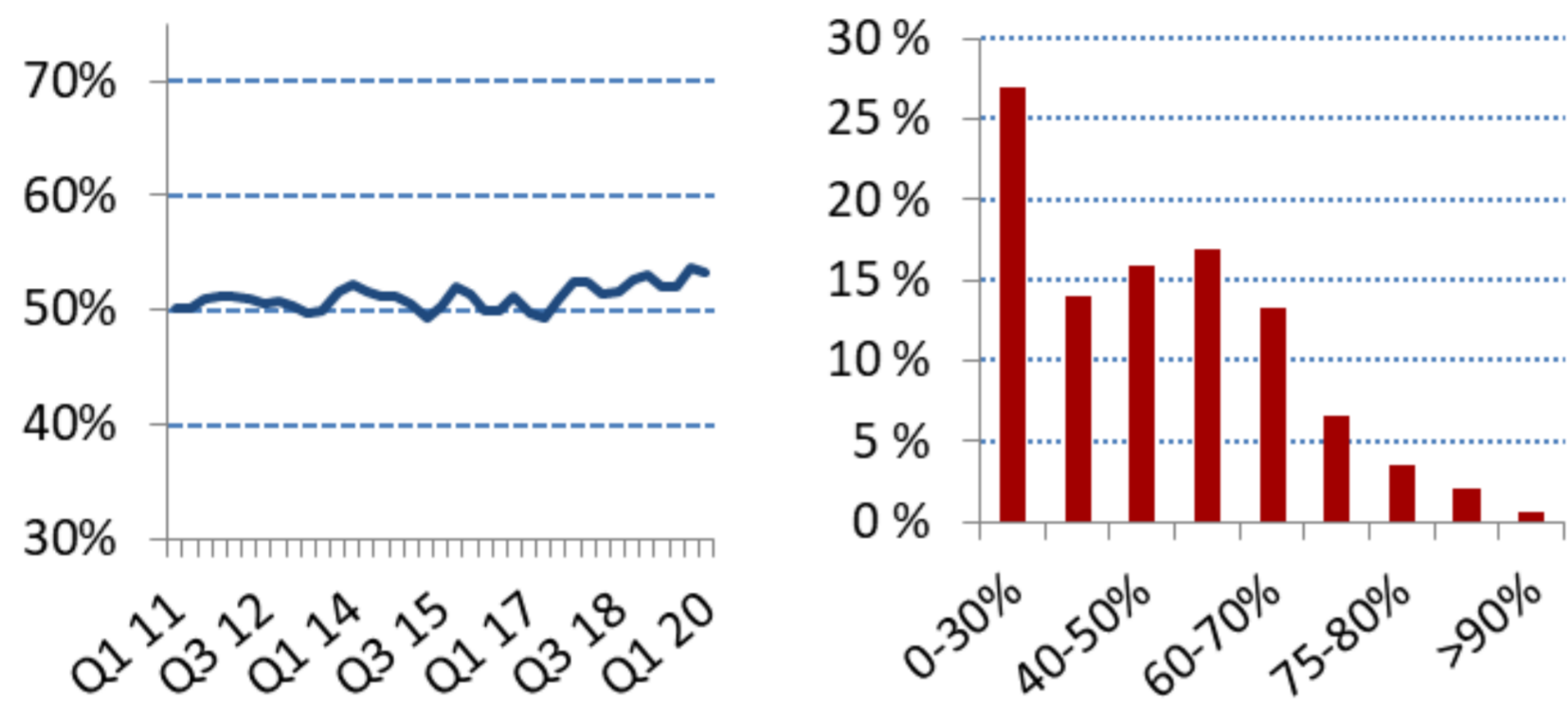


SpaBol structure and mortgage loans transfer

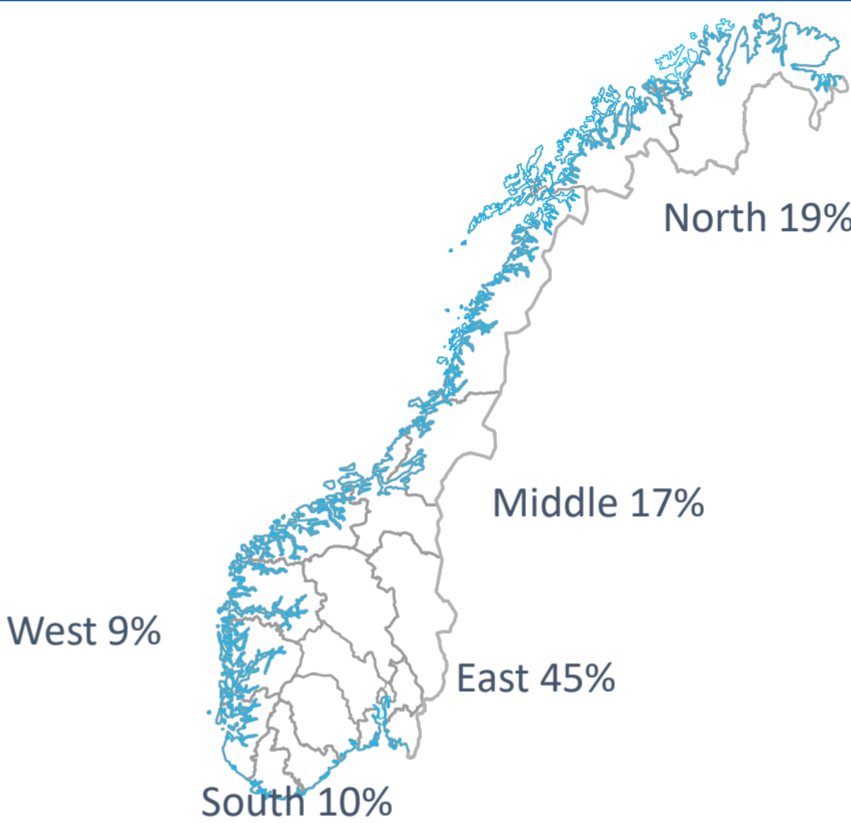


Cover pool mortgages of high quality

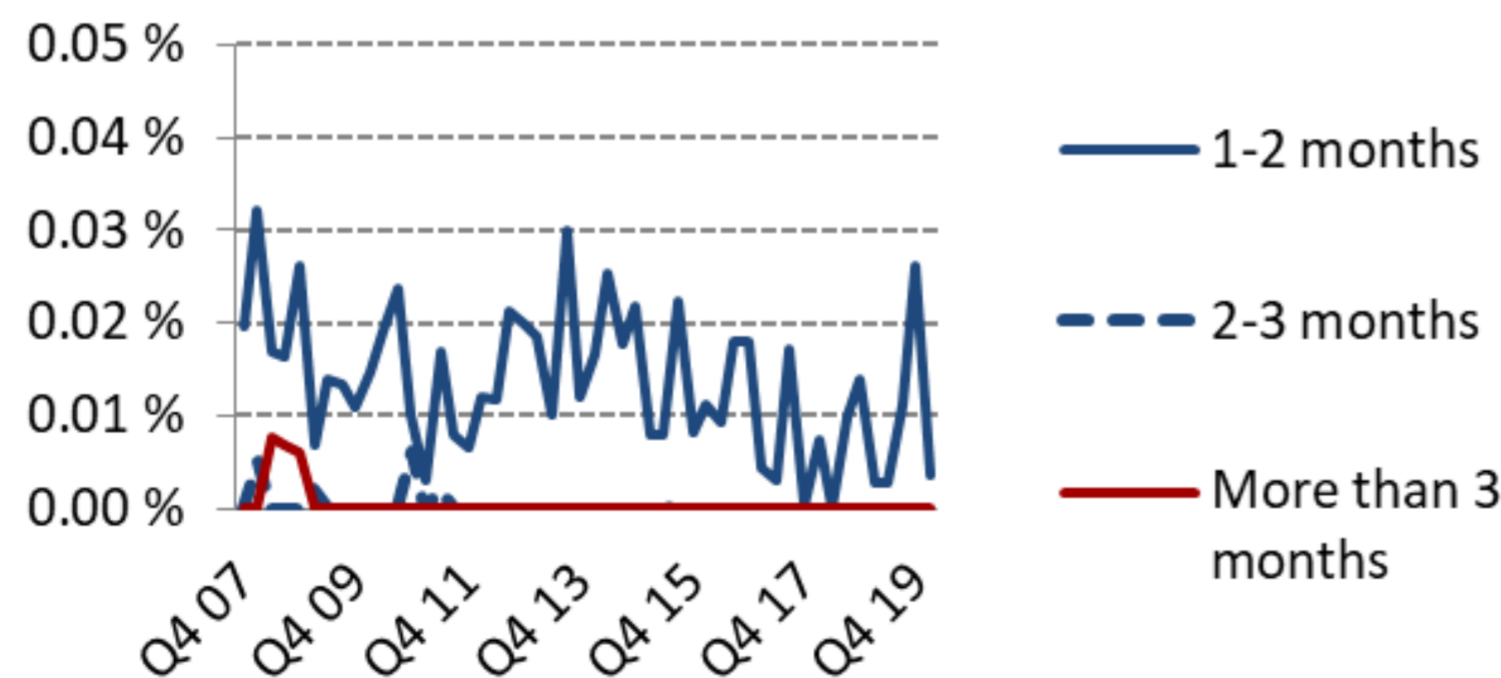
Pool mortgages current avg. LTV



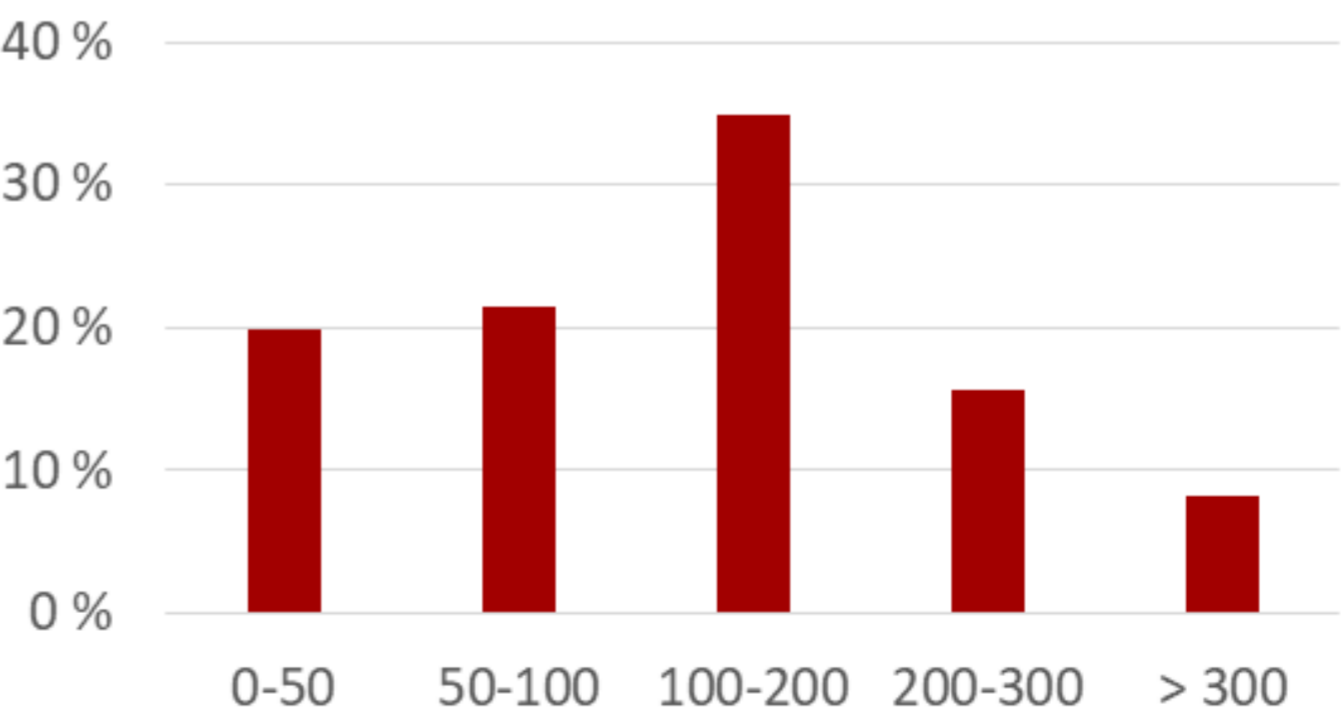
Geographical distribution



Mortgage loan arrears (in pct. of pool balance)



Granularity mortgages in cover pool (EUR in 1000)

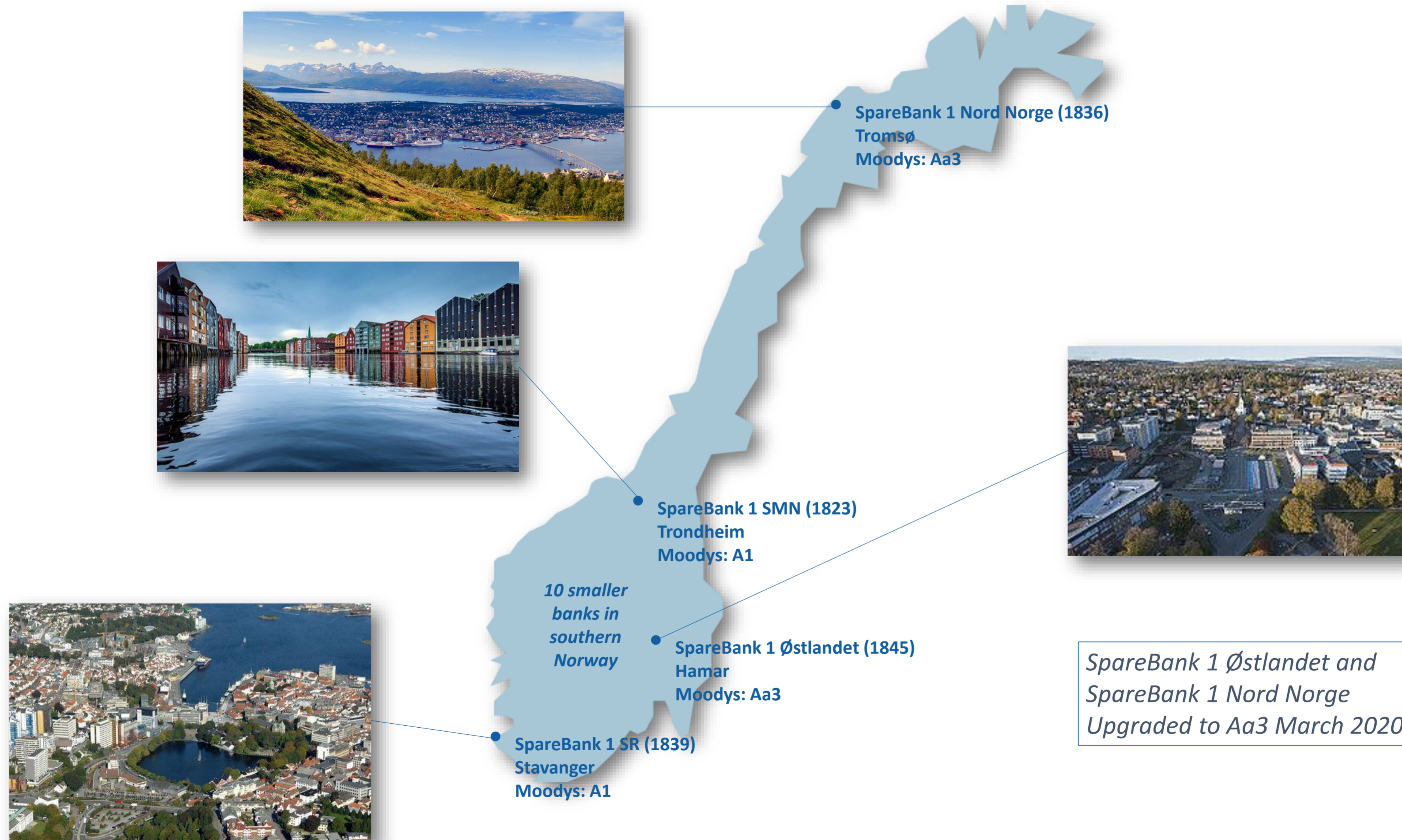


SpareBank 1 Alliance Banks

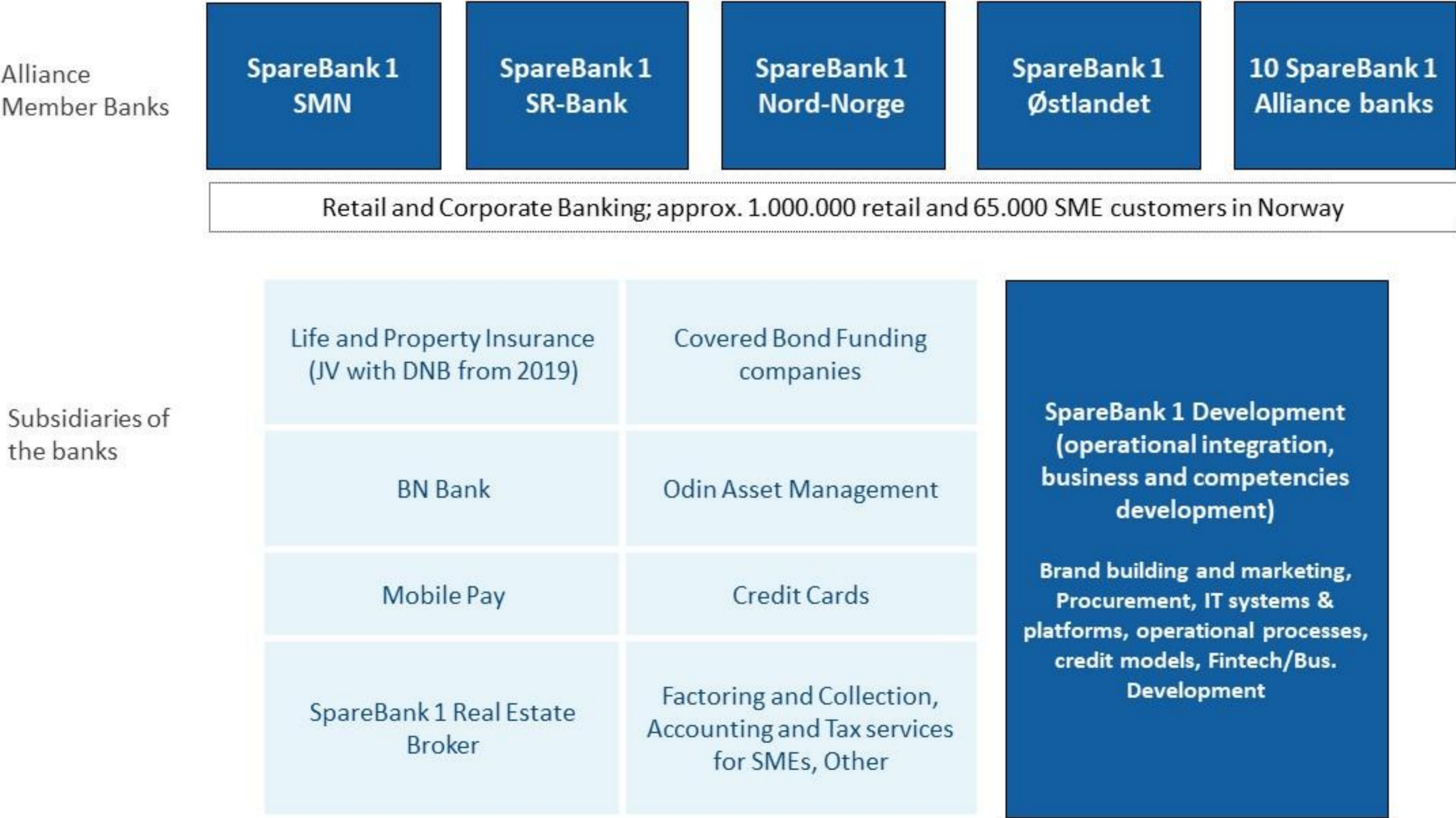


SpareBank 1 Alliance: Local presence, joint and collaborative platform

Alliance founded 1996; 14 Banks

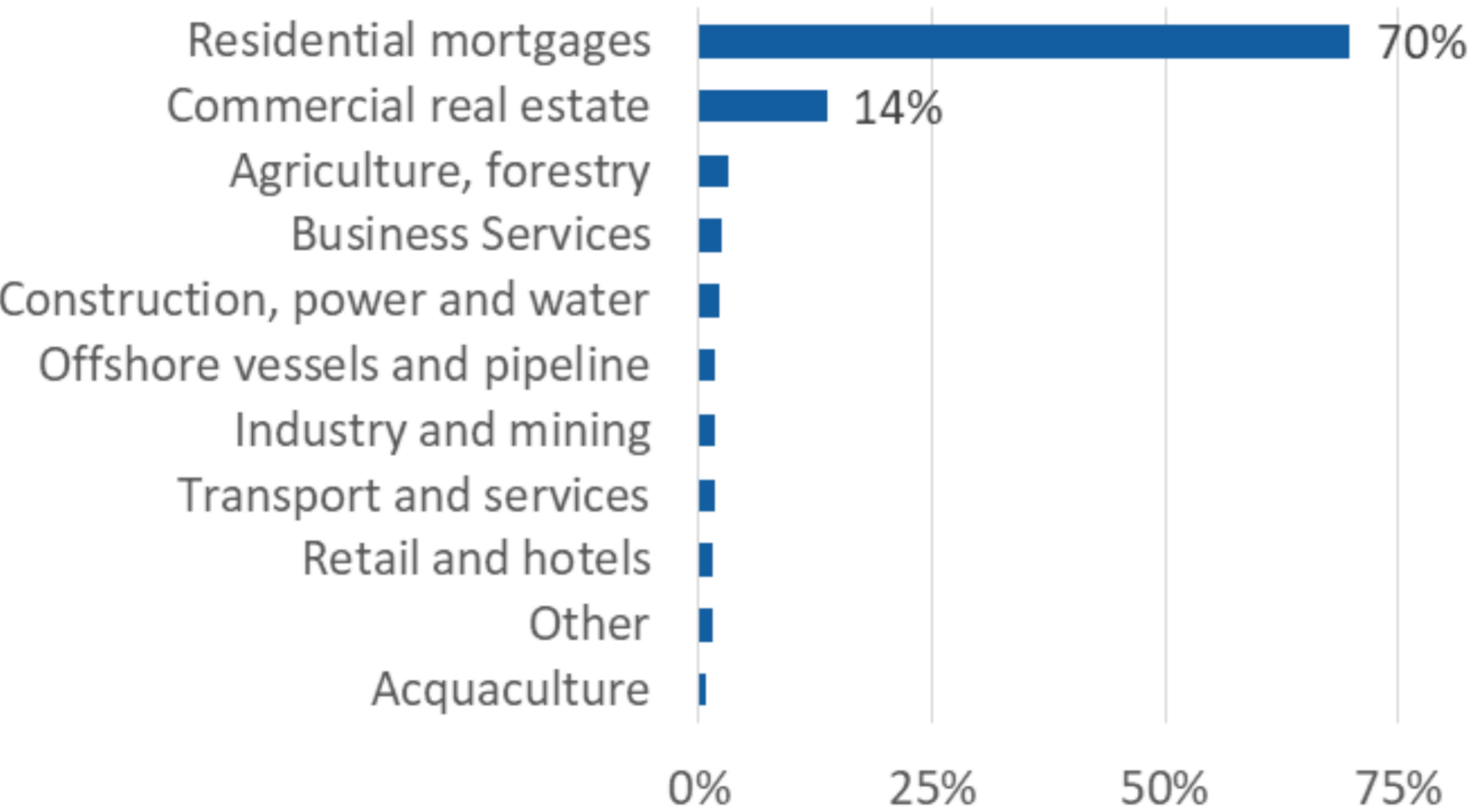


SpareBank 1 Alliance

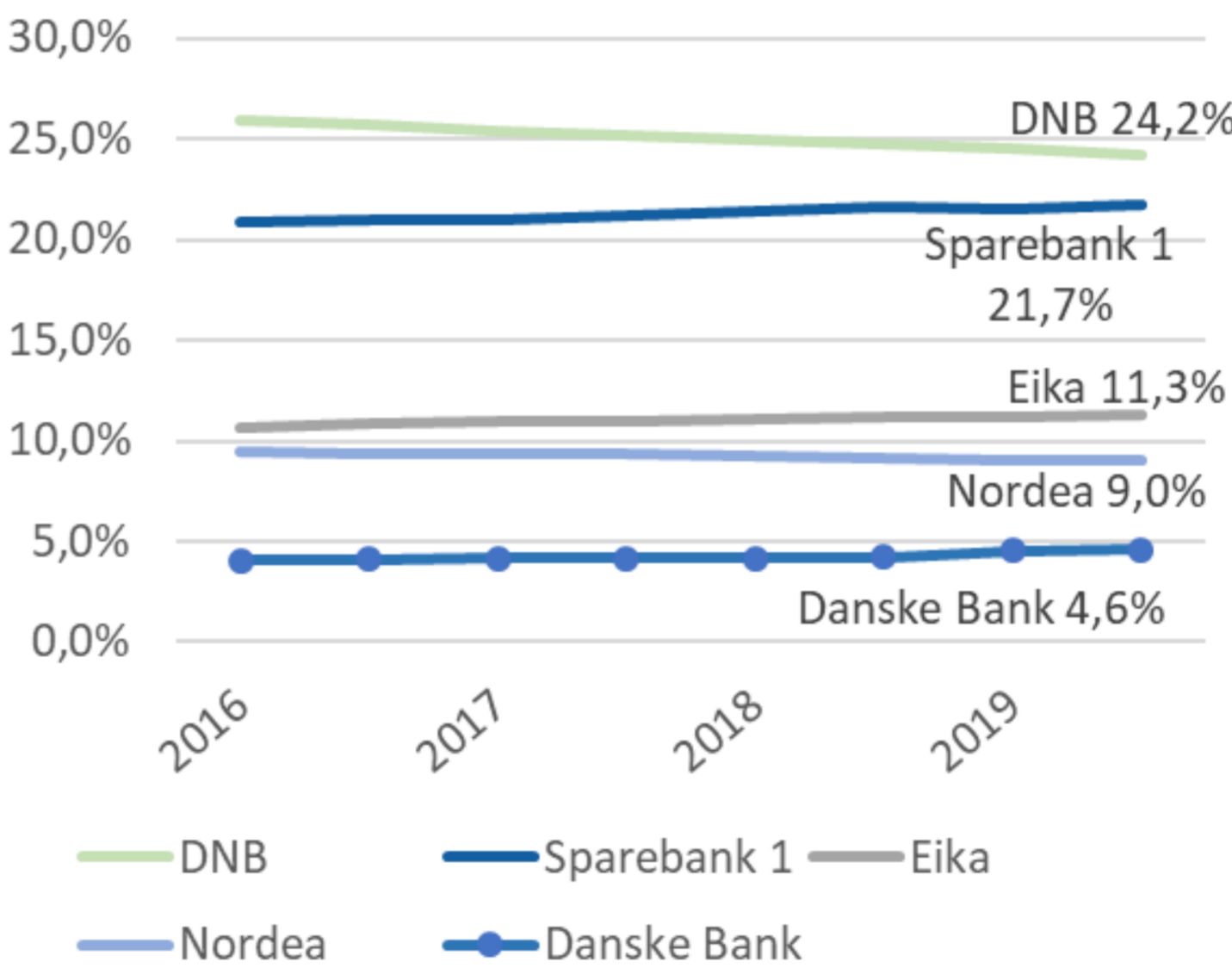


SpareBank 1 banks balance sheet and market share

SpareBank 1 banks aggregated balance sheet



Residential mortgage market share

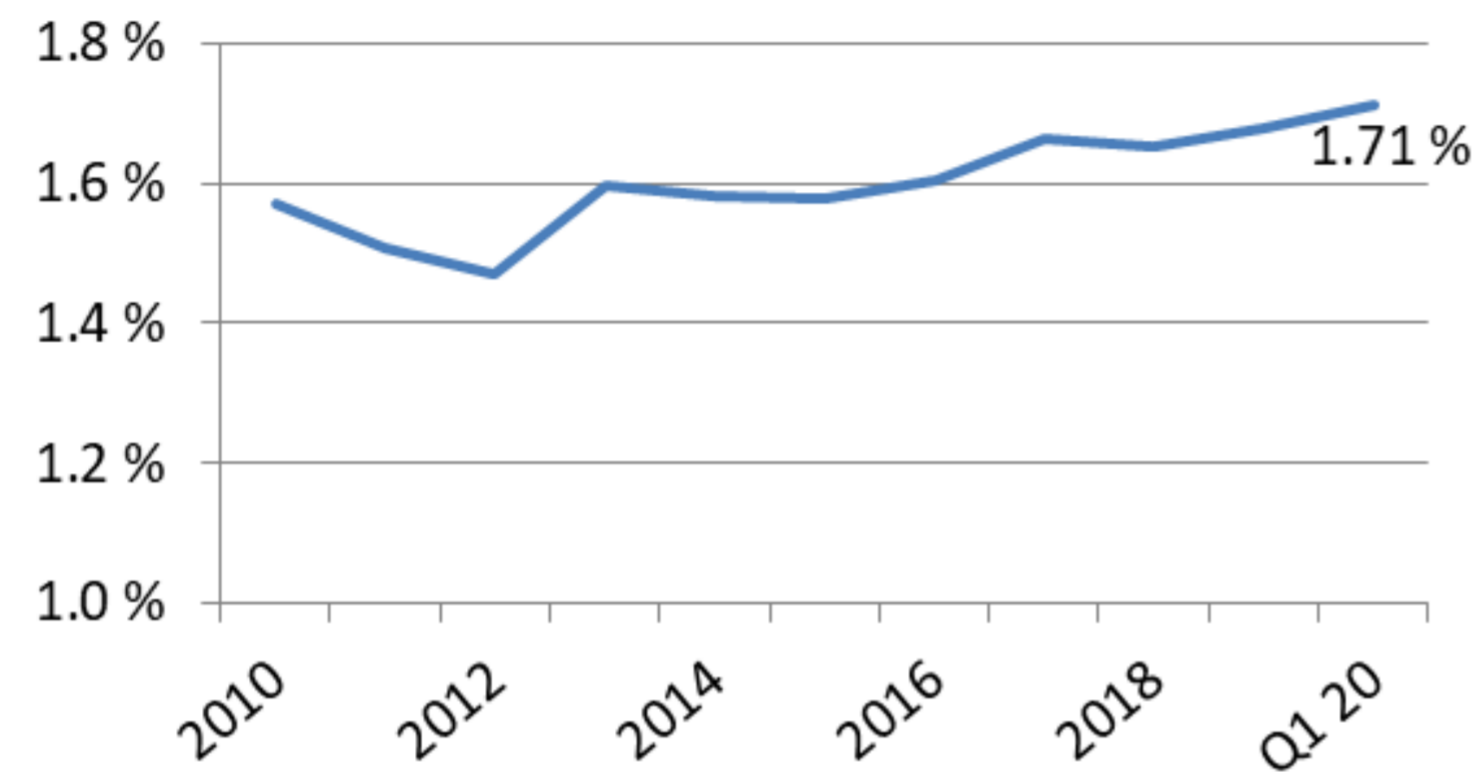


Source: Eiendomsverdi

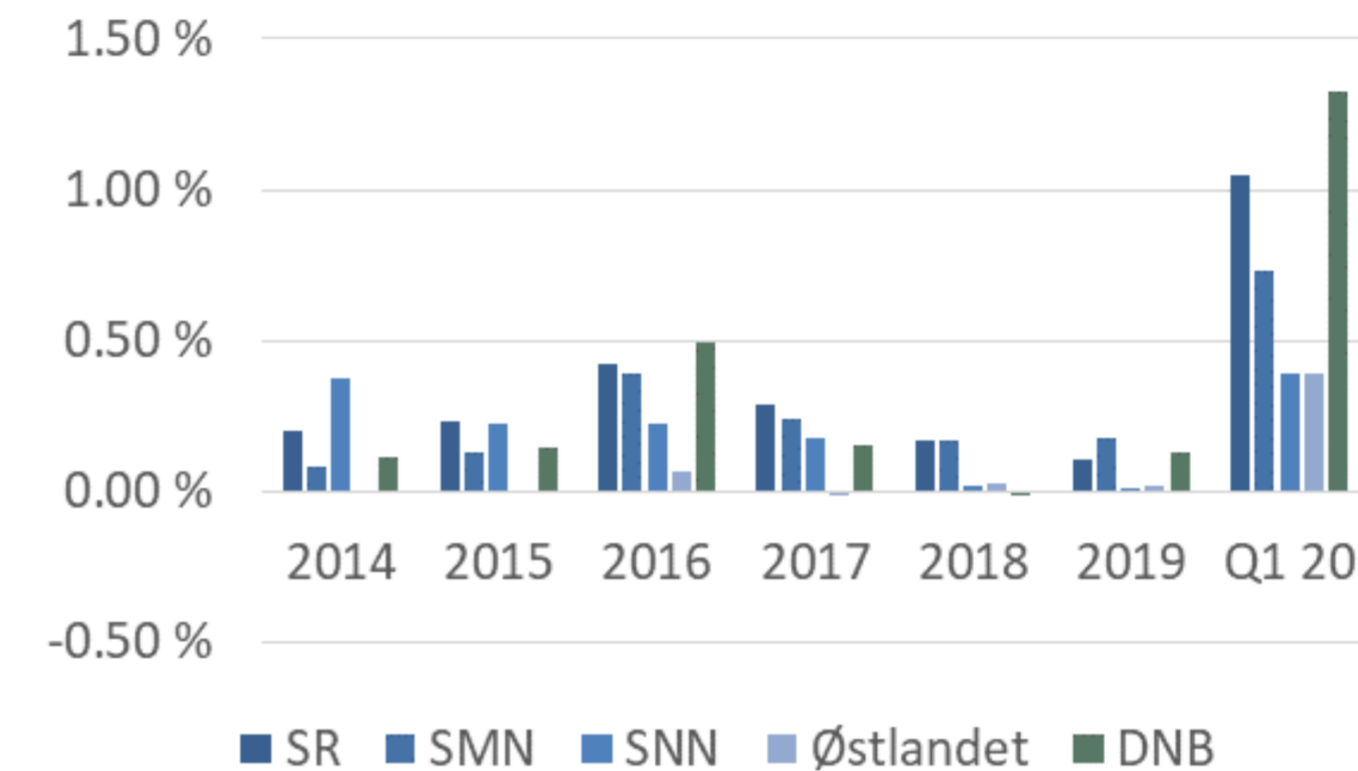
SpareBank 1 banks

Interest margin, credit loss charges and RoE

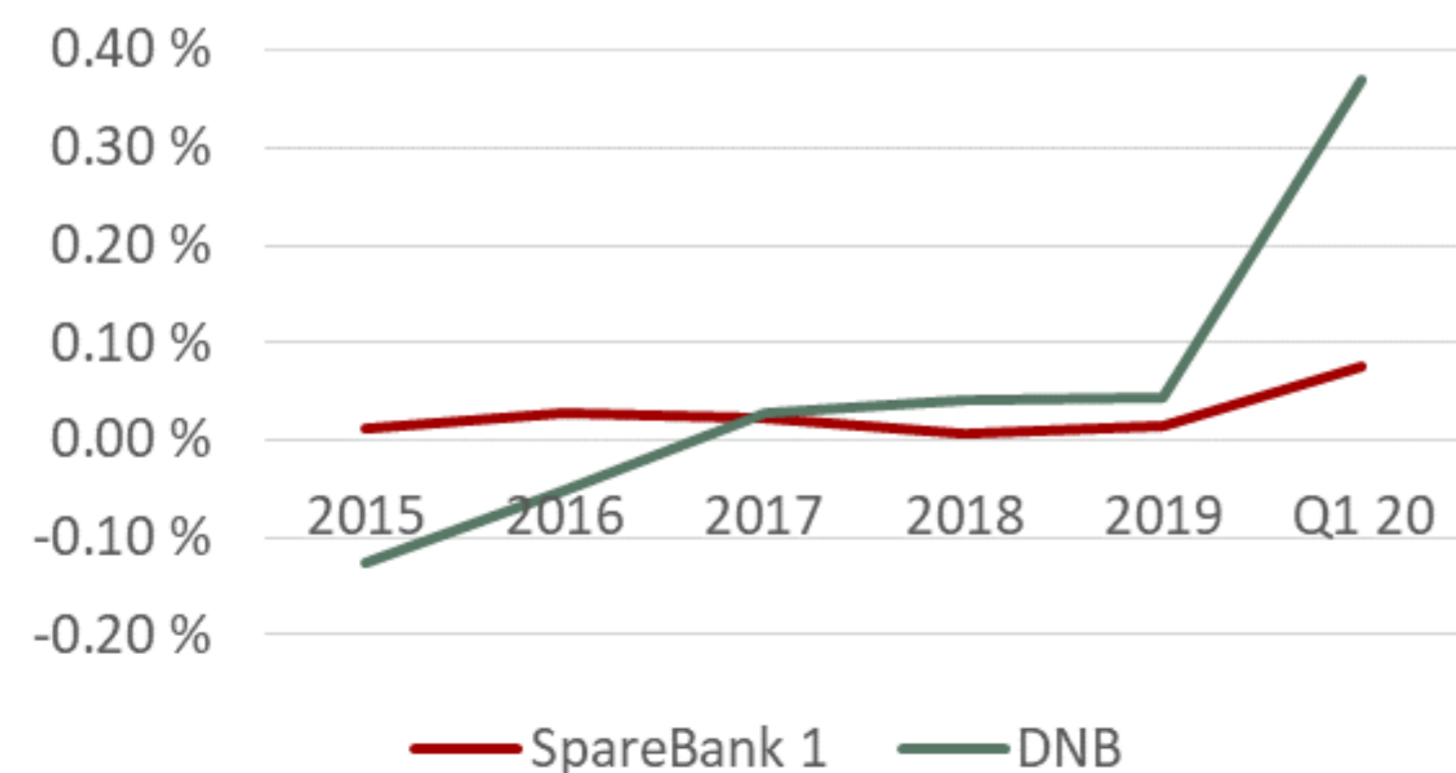
Net interest margin (households and companies combined)



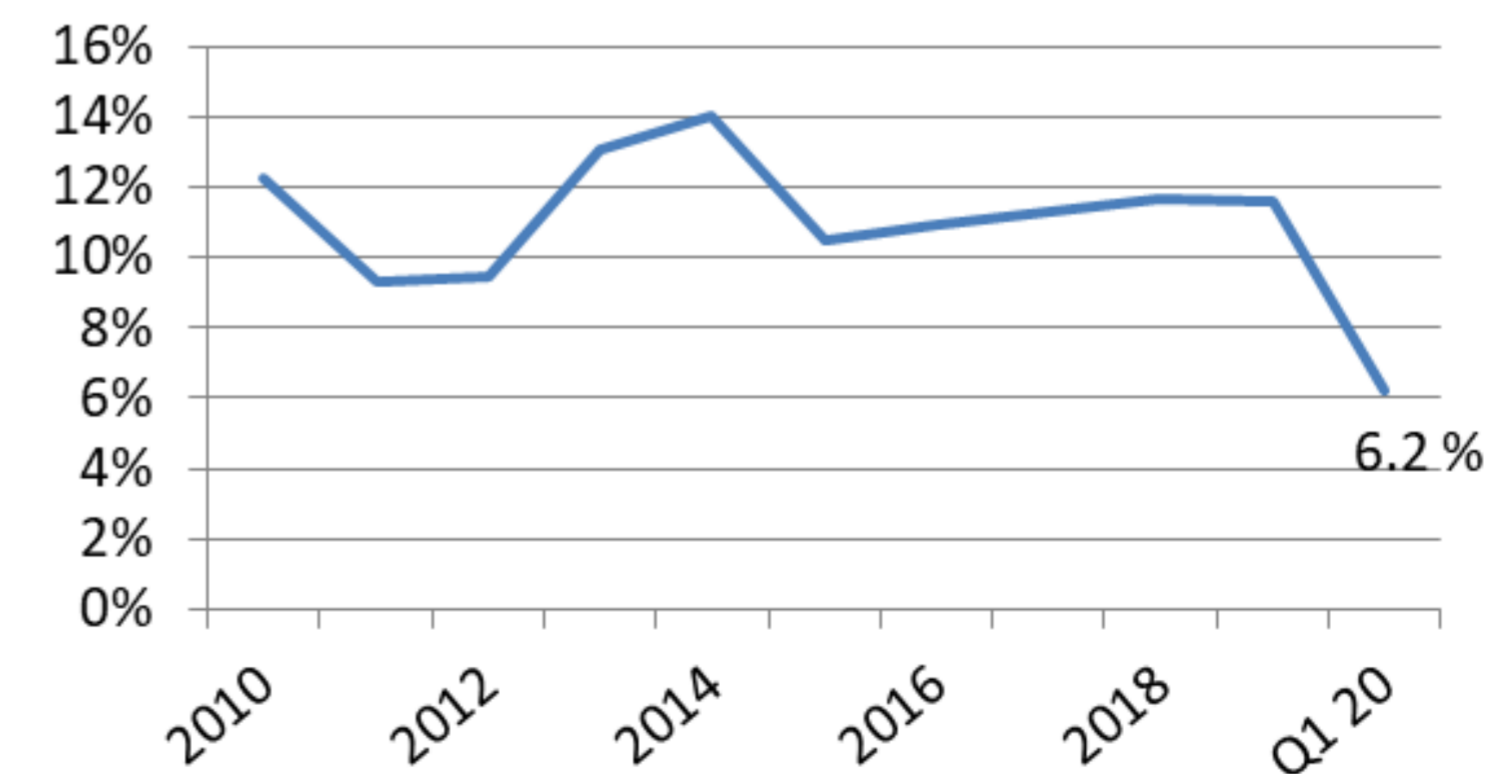
Period loan loss charges (1)



Period loan loss charges lending to households (1)



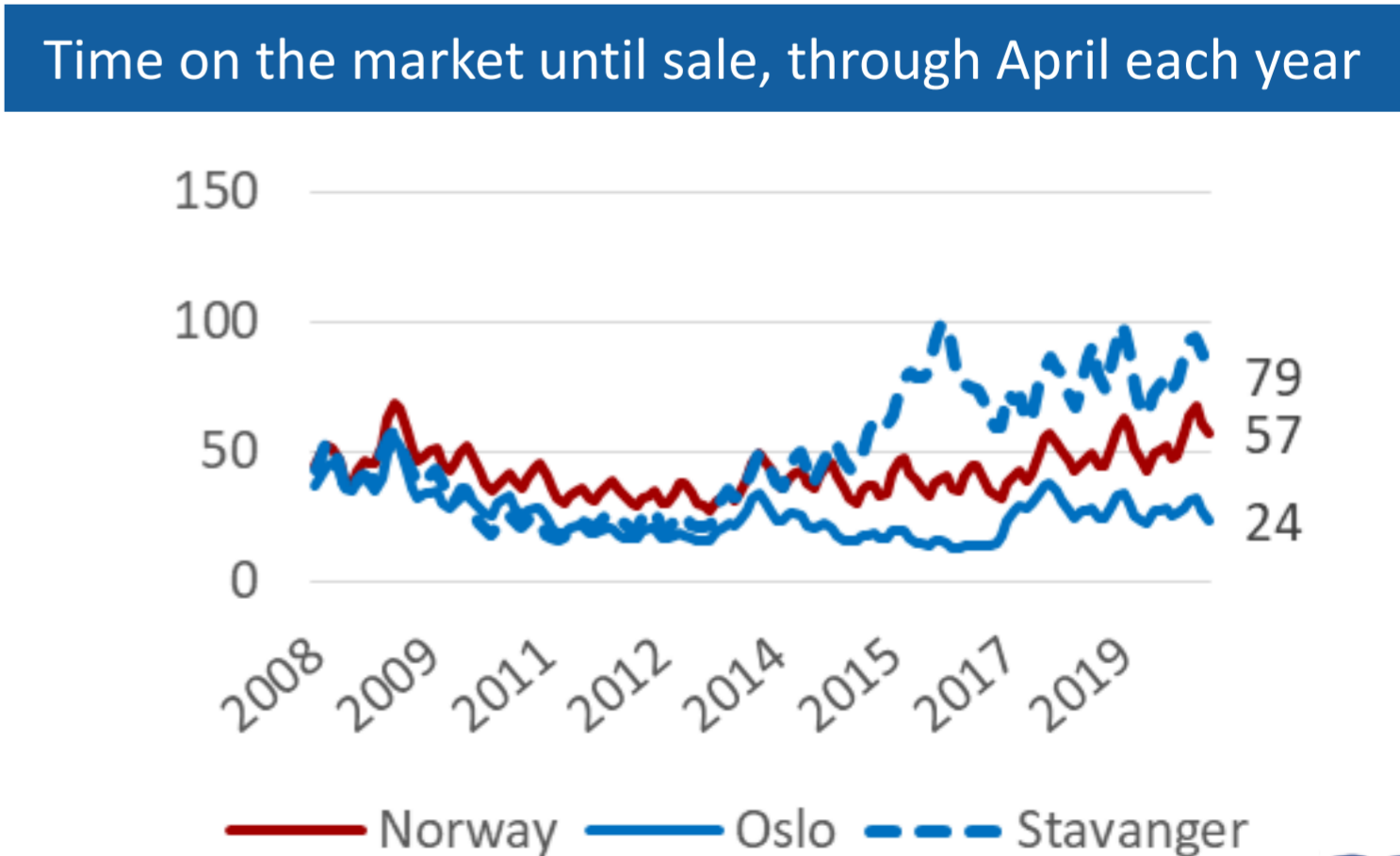
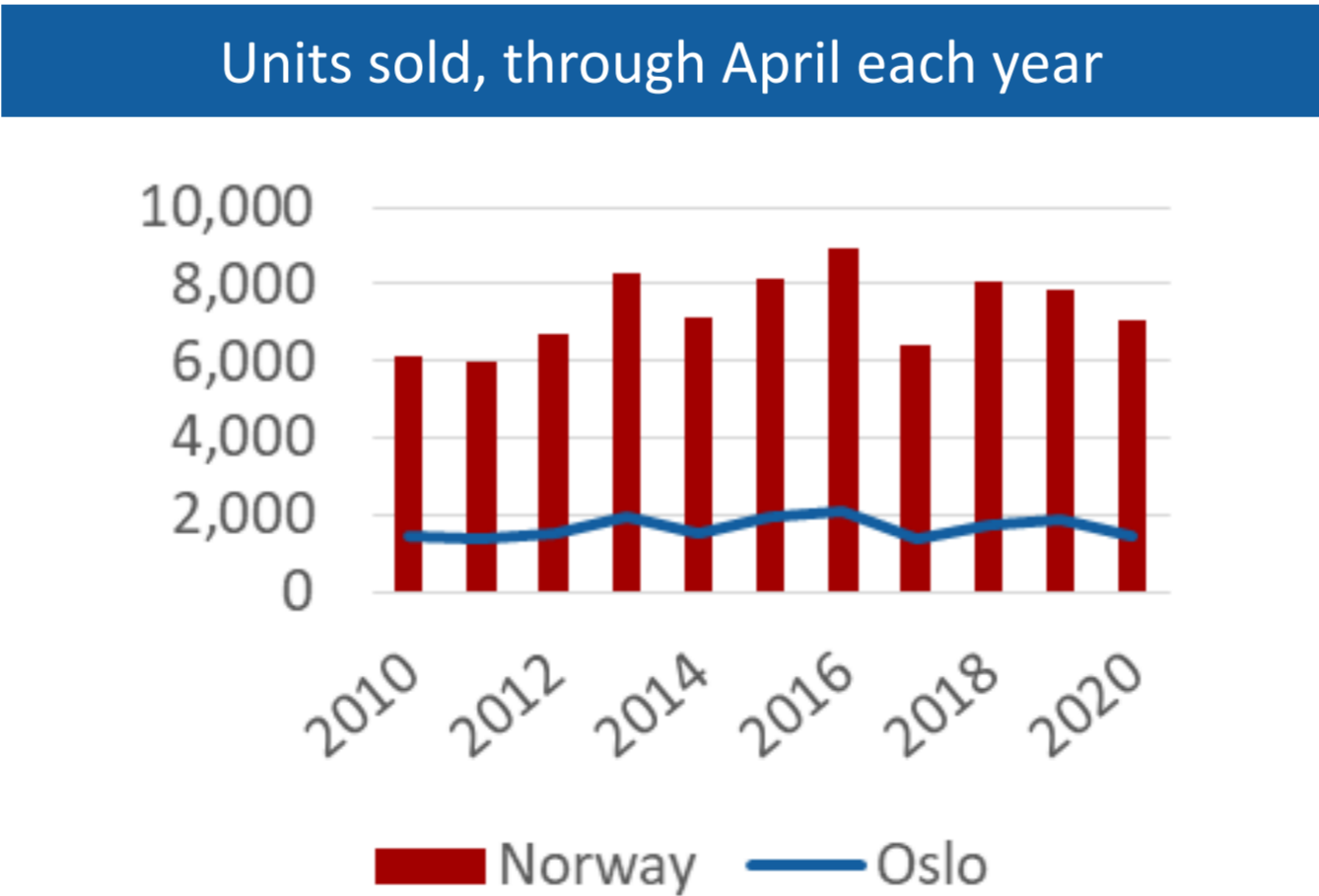
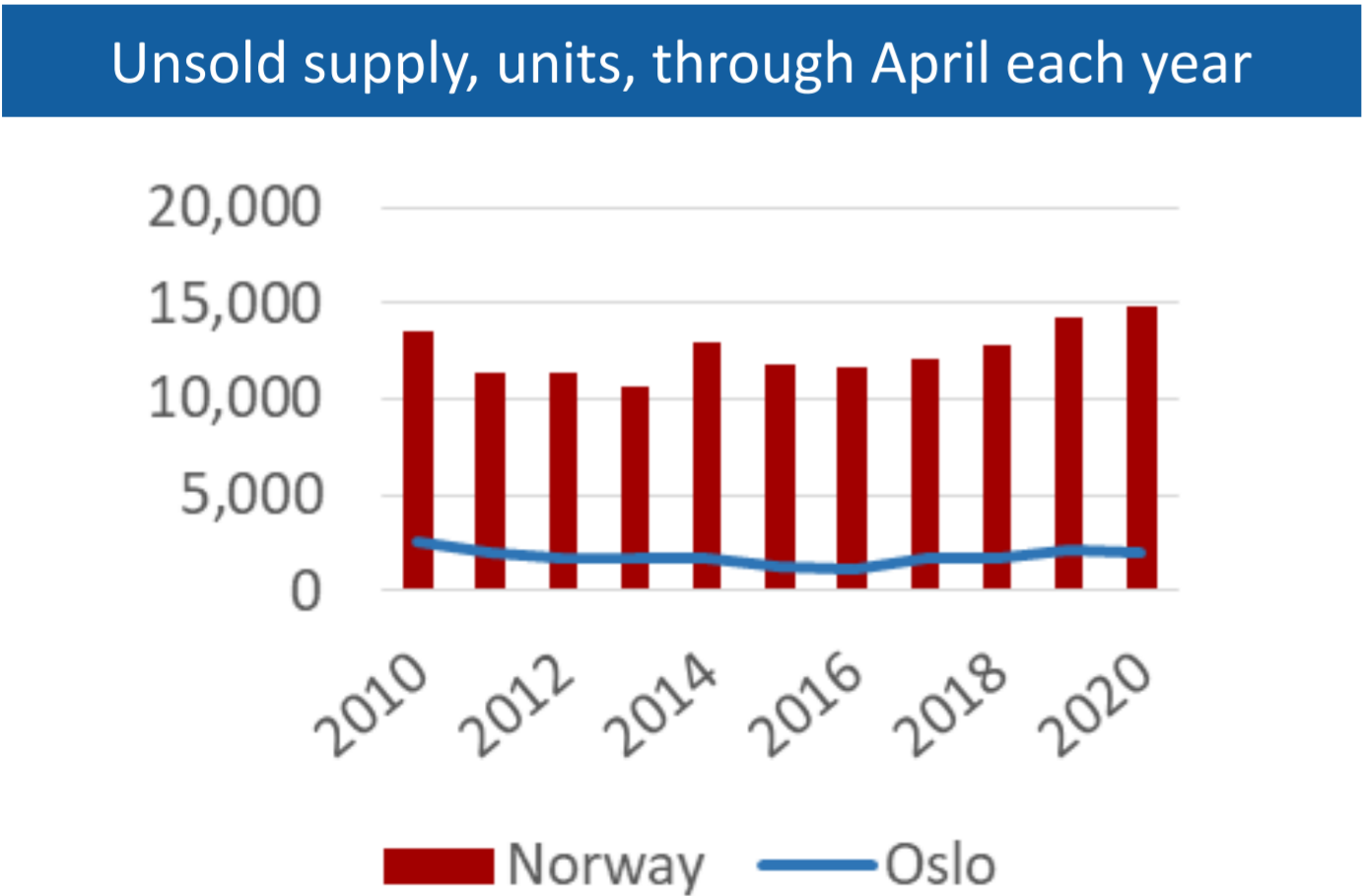
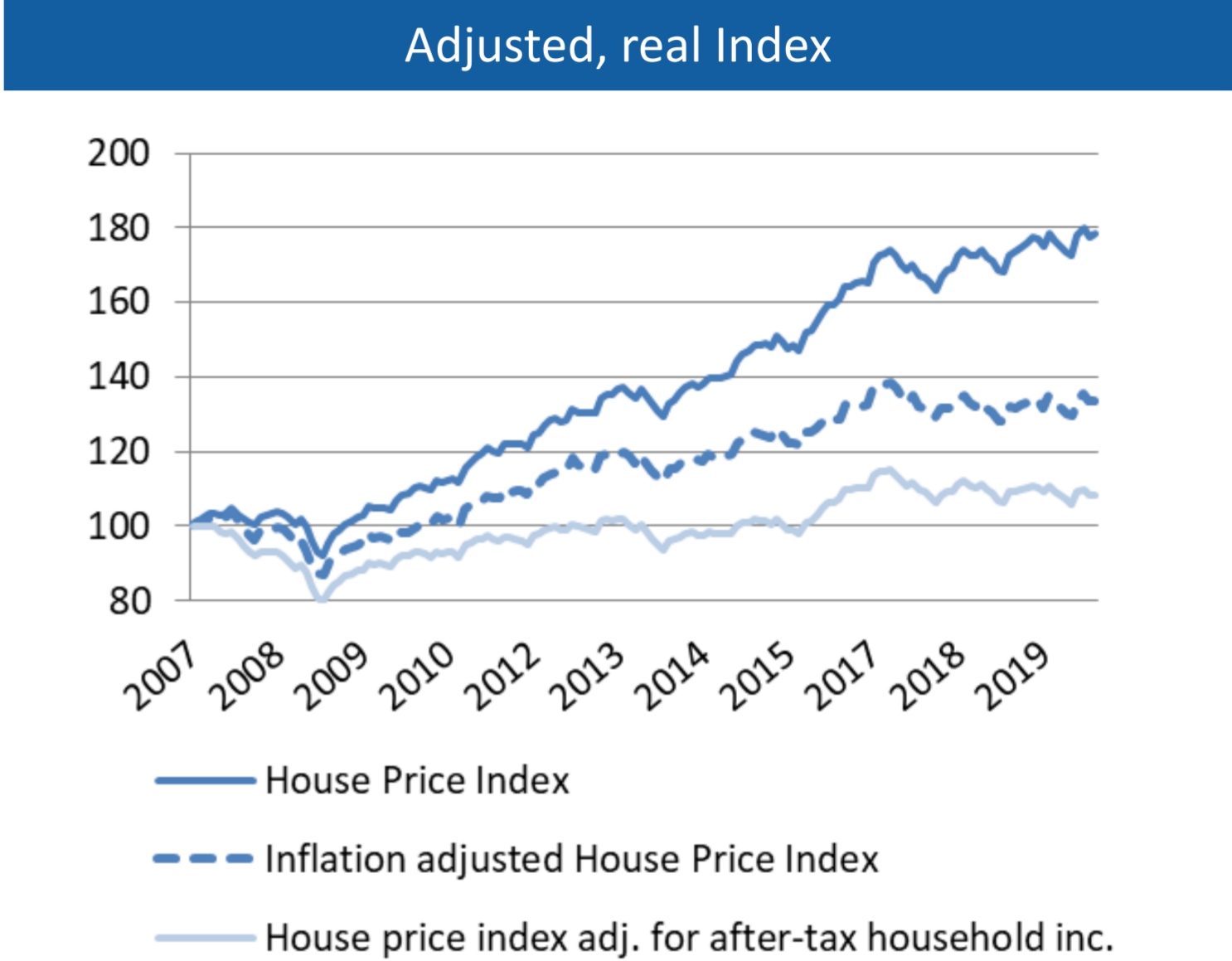
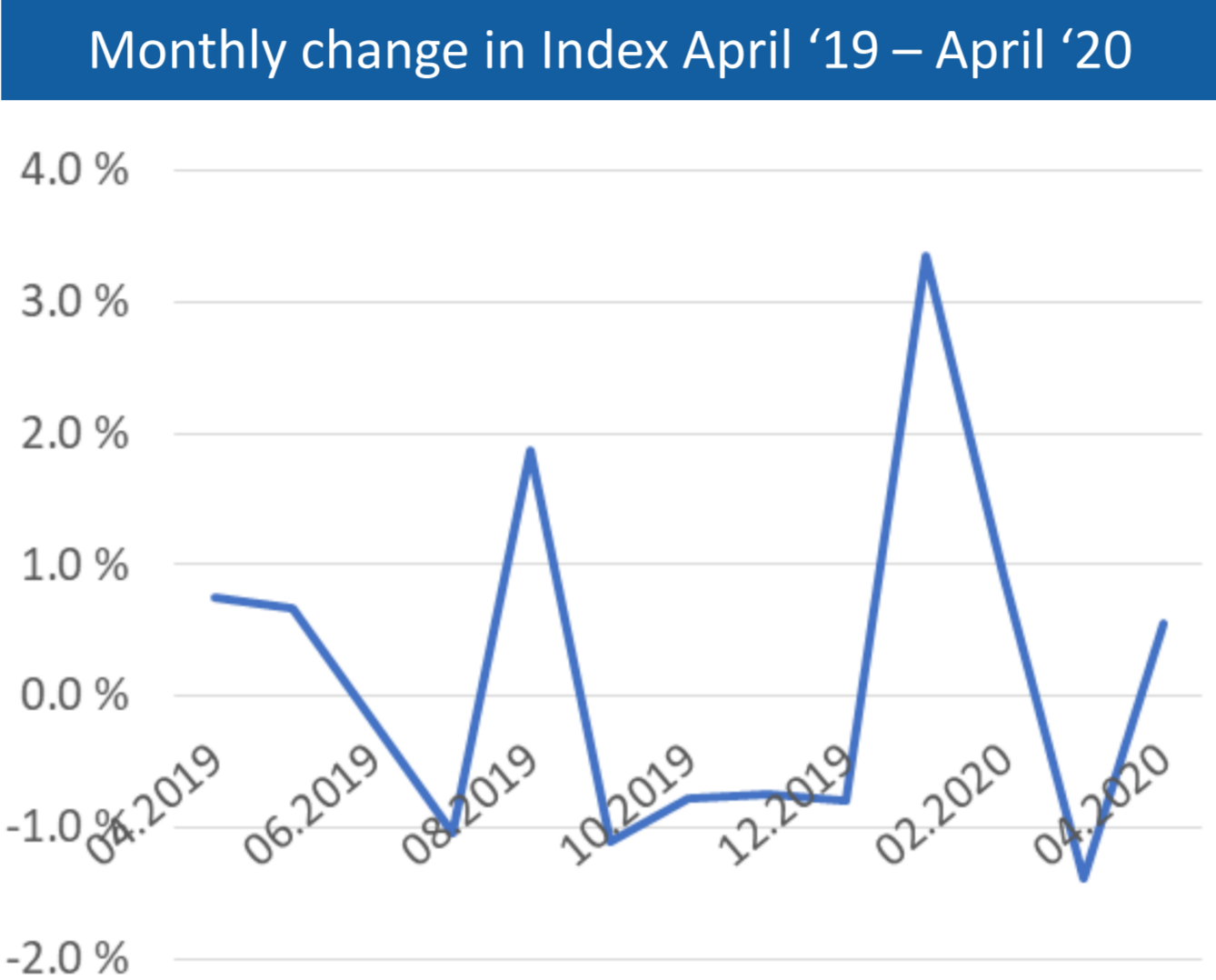
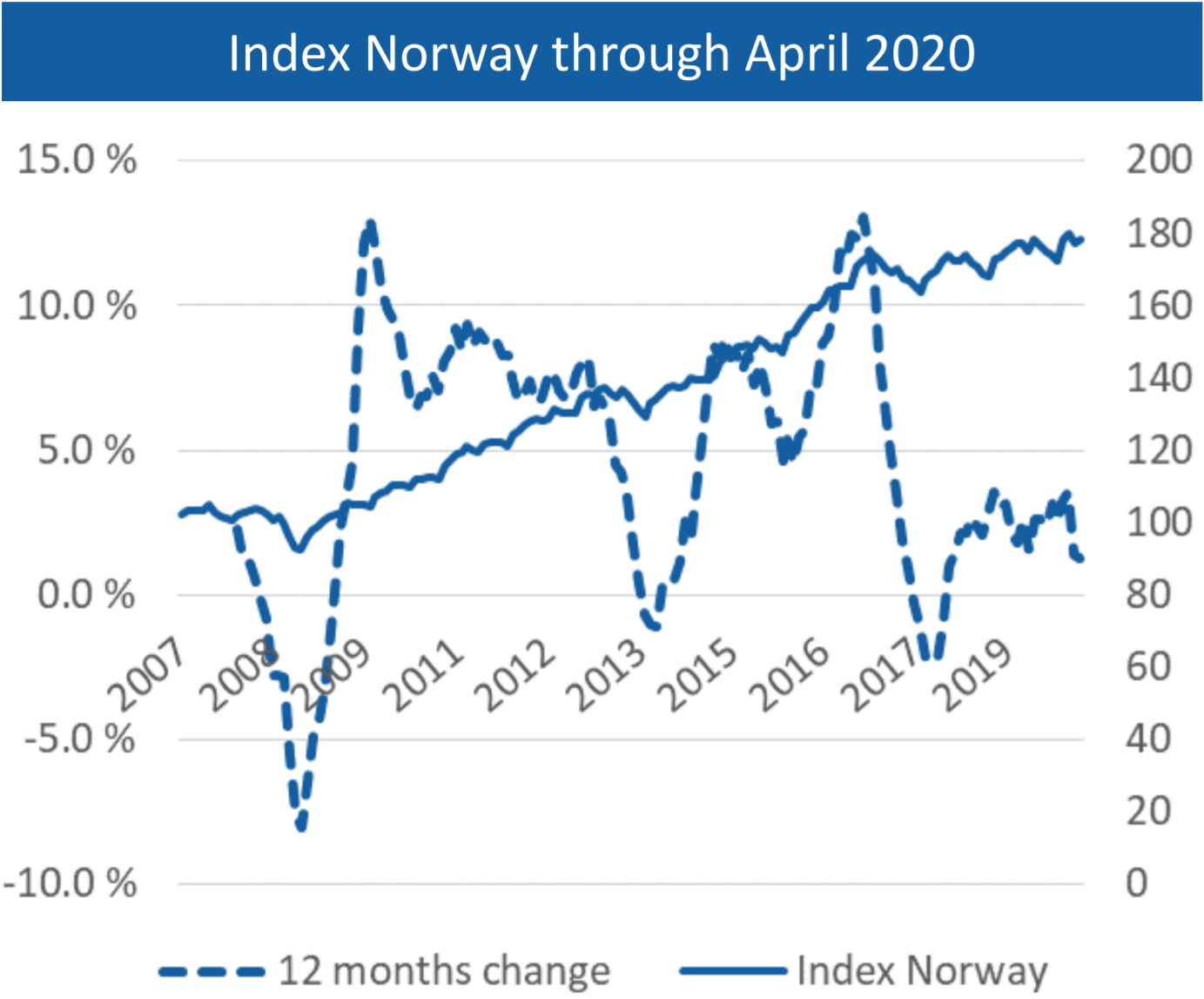
Return on Equity (annualized for Q1 2020)



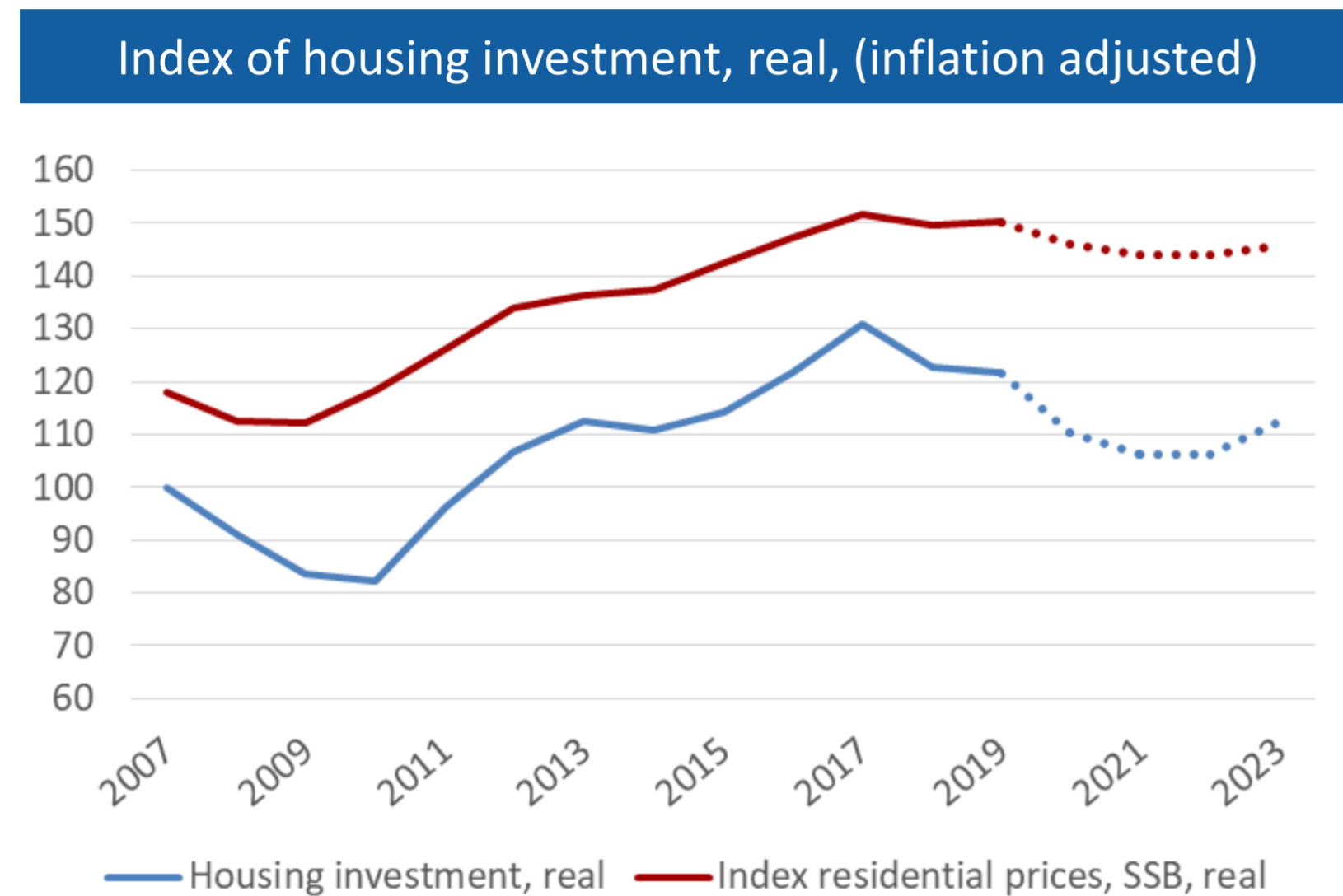
Residential real estate market



Residential real estate market



Residential real estate - investment



- Residential prices forecast to decline 2% in 2020 and 0.5% in 2021
- Low mortgage rates on the one hand is expected not to be sufficient to outweigh the effect of low real income growth, higher unemployment and economic uncertainty on the other
- With the contracting residential prices, investments are expected to be declining in 2020 and 2021; first indications of low building starts are present

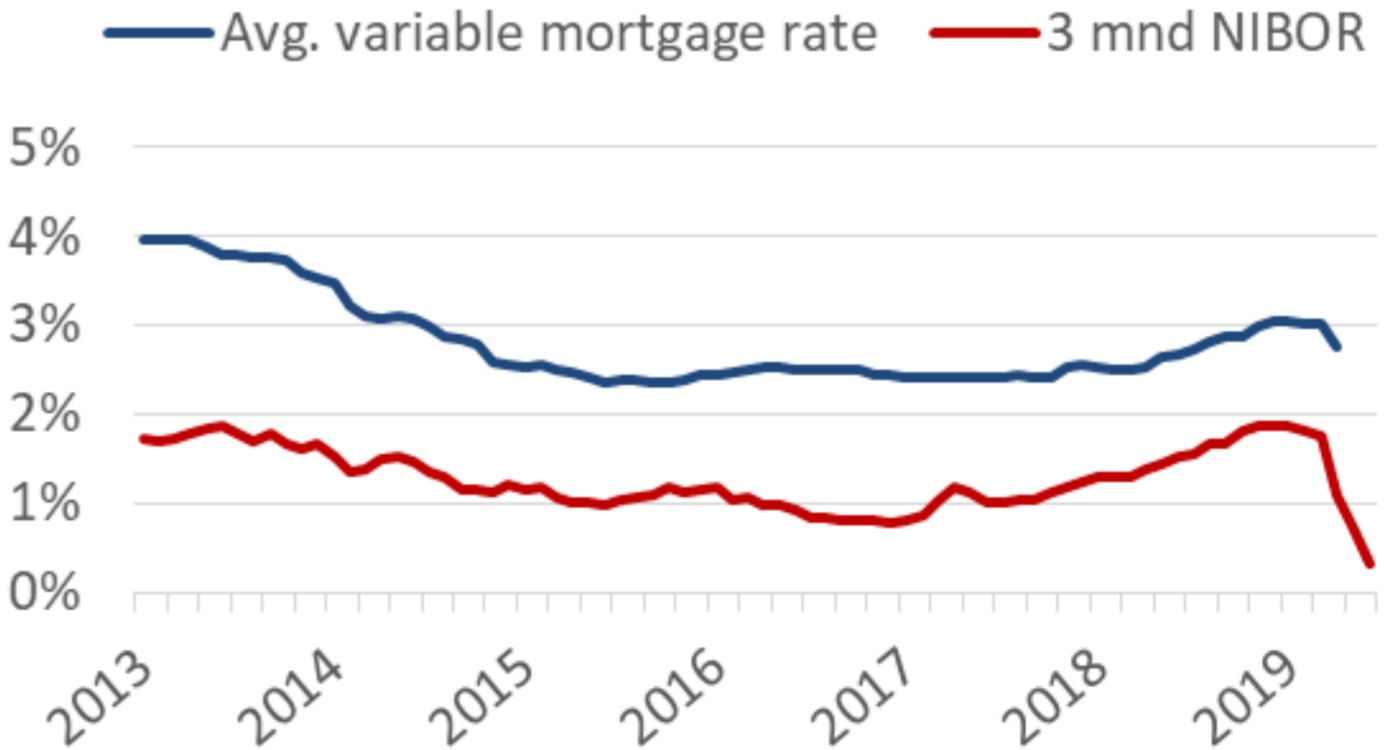
Mortgage market key characteristics

Mortgage Market	<ul style="list-style-type: none"> • Total size approximately NOK 3,250 billion YE 2019 (€330 bn) • Private banks (incl. savings banks) are the dominant suppliers of mortgages with over 95% market share • Scheduled repayment mortgages: ca.85% • Typical maturity: 25 years • First priority security market, thorough documentation
Home Ownership	<ul style="list-style-type: none"> • Over 80% of households owner occupied (little buy to let) • Between 50 and 60% are detached one-family houses
Social safety	<ul style="list-style-type: none"> • Unemployment benefits represents ca 60% of salary for 2 years
Personal Liability	<ul style="list-style-type: none"> • Borrowers are personally liable for their debt • Swift foreclosure regime upon non-payment • Transparent information about borrowers
Mortgage Market Regulation	<ul style="list-style-type: none"> • Loan to value: 85% (75% legal limit for cover pool) • Flexible repayment mortgages: max 60% LTV • 5% mortgage interest rate increase as stress test • Maximum 5x debt / gross income for borrowers • Repayment minimum 2.5% p.a. when LTV > 60% • Exemptions 10% / 8% for Oslo [increased to 20% in the Covid – 19 crisis]
Interest Payments	<ul style="list-style-type: none"> • 90-95% of mortgages are variable rate • Interest rates can be reset at the banks's discretion, by giving the debtor 6 weeks notice
Tax	<ul style="list-style-type: none"> • 22% of interest paid is tax deductible (equal to the basic rate of tax) • Owner occupied residence at 25% of market value for wealth tax

Household 12 month credit growth rate

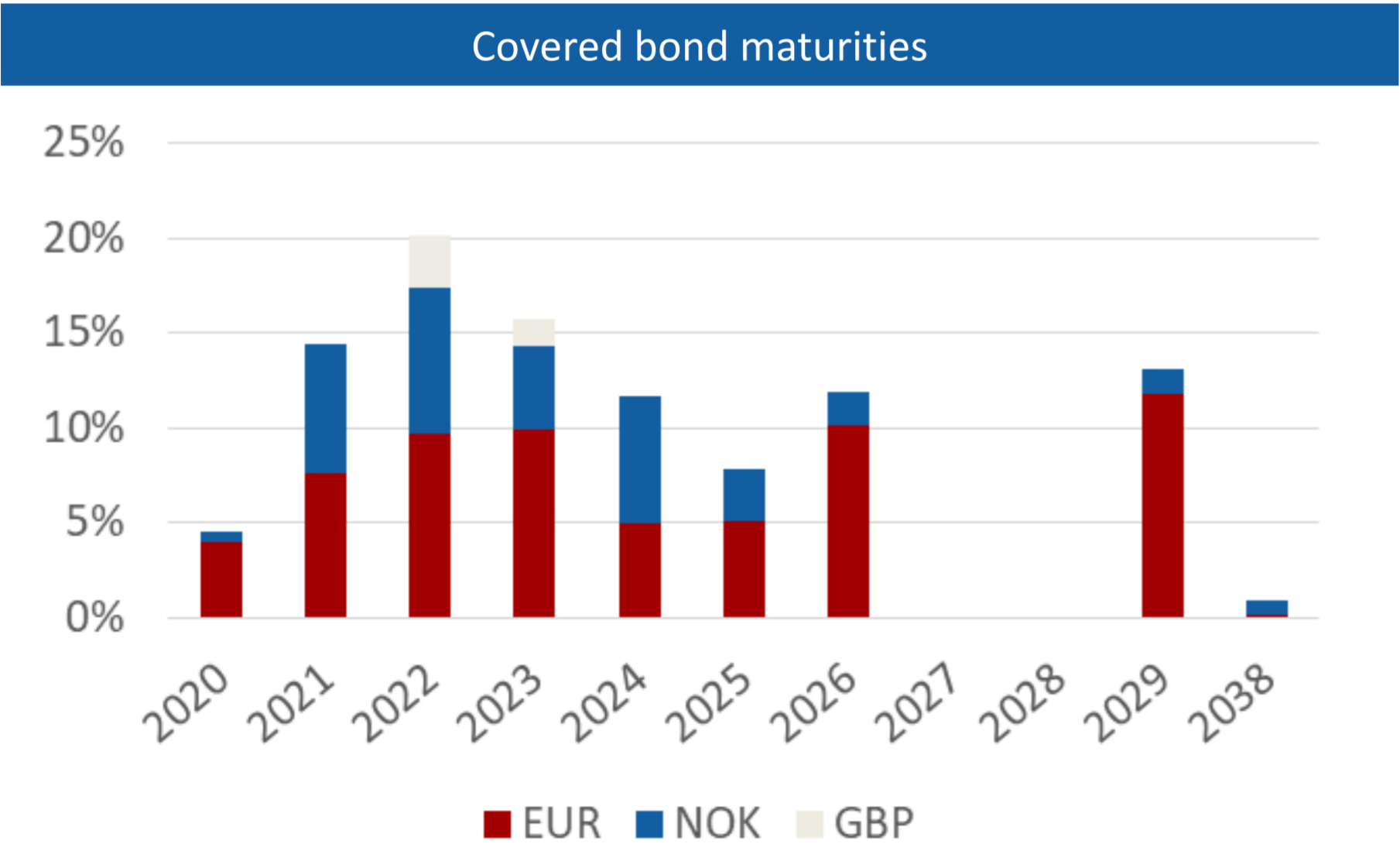
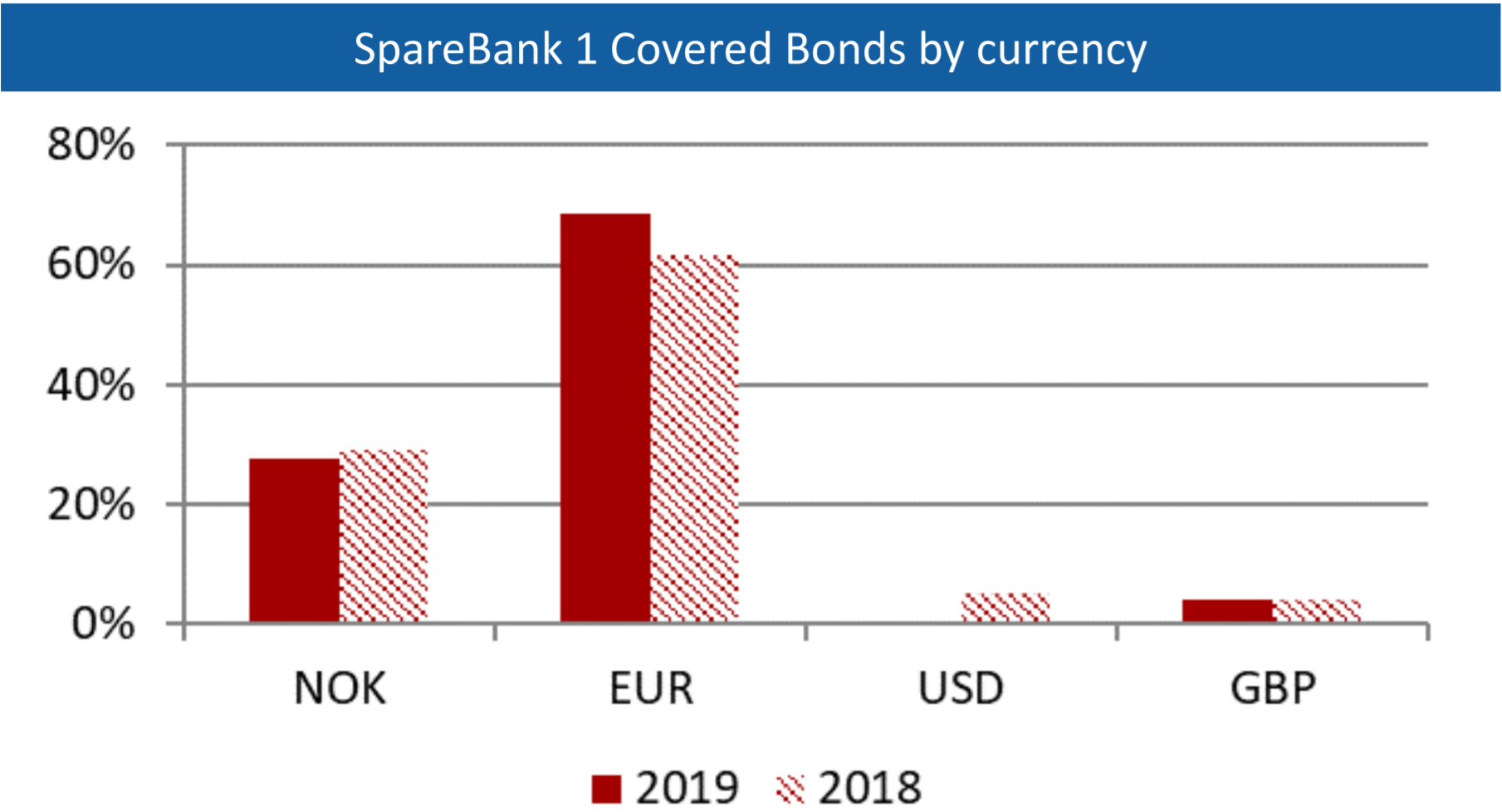


Interest rates



SpareBank 1 Boligkreditt Green Covered Bonds

SpareBank 1 Covered Bonds

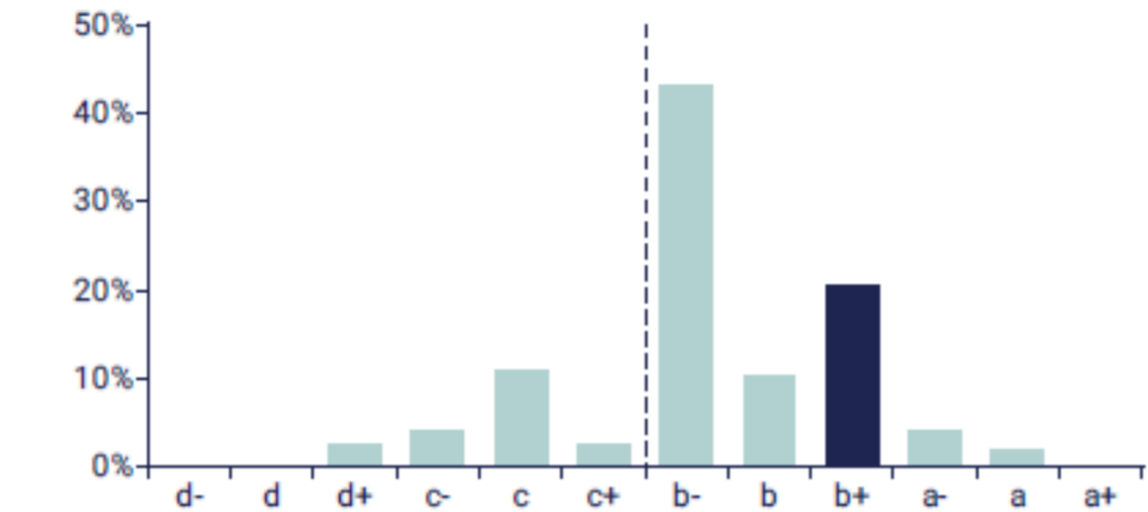


Issue Date	Size (mill)	Tenor (years)	Maturity	Spread at issue (basis points)
EUR (fixed rate)				EUR MS+
Feb 2011	1,000	10	2/2021	60
Sept 2011	1,000	10	9/2021	65
June 2013	1,000	7	6/2020	18
Aug 2015	1,000	7	9/2022	8
Mar 2016	1,000	7	3/2023	23
August 2016	1,000	10	8/2026	4
January 2017	1,000	5	1/2022	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

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 SPO and Green Bond details

Second-Party Opinion

SpareBank 1 Boligkreditt Green Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the SpareBank 1 Boligkreditt Green Bond Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible category for the use of proceeds is aligned with those recognized by the Green Bond Principles. Sustainalytics considers that the Eligible Green Loan Portfolio will lead to positive environmental impacts and advance the UN Sustainable Development Goals, Goal 7 and 11.



PROJECT EVALUATION / SELECTION SpareBank 1 Boligkreditt has established a Green Bond Committee which consists of members from SpareBank 1 Boligkreditt's board and management. The committee is responsible for managing the Framework, including the definition of eligible mortgages and any future updates to the document. All selected assets must follow national and regional regulations.



MANAGEMENT OF PROCEEDS SpareBank 1 Boligkreditt intends to manage green bond proceeds using a portfolio approach by allocating eligible loans to an Eligible Green Loan Portfolio. SpareBank 1 Boligkreditt expects full allocation upon issuance. However, if there should be any unallocated proceeds, these will be invested in the company's liquidated portfolio in money market instrument. This is in line with market practice.



REPORTING SpareBank 1 Boligkreditt intends to report both on the allocation and the impacts of the proceeds in an annual report, a quarterly statistical report, and on the SpareBank 1 Boligkreditt website. In addition, SpareBank 1 Boligkreditt is committed to reporting on the size and composition, as well as the energy use and CO₂ emission of the whole portfolio. Sustainalytics views SpareBank 1 Boligkreditt's allocation and impact reporting as aligned with market practice.

Evaluation date	16 September, 2019
Issuer Location	Stavanger, Norway

Report Sections

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Programme and bonds

Cover Pool Statistics

Financial Reports

Green Bonds

Home / Green Bonds

Sustainability in SpareBank 1 and Green Bonds

Sustainability has become increasingly important in SpareBank 1. The entities within the SpareBank 1 Alliance (14 banks, covered bond issuers and other financial services companies) operate exclusively in Norway. This means that the SpareBank 1 operating context is in a country which have strict rules and regulations and is quite advanced in many areas of ESG. Norway is a leader in working for environmental improvements internationally and is a Paris climate accord and Kyoto Protocol signatory. At home, the country has the world's highest

Green Bond Framework

- Green Bond Framework
- ESG policy in SpareBank 1 Boligkreditt

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

EU Taxonomy and Green Bond Standard



EU Taxonomy		Alignment
EU Environmental Objectives	<ul style="list-style-type: none">The sole UoP category addressed in SpaBol's Green Bond Framework is in line with EU Environmental Objective (1): Climate Change Mitigation	<p>Specifically, Objective 1.b:</p> <ul style="list-style-type: none">Substantial contribution to Climate Change Mitigation:<ul style="list-style-type: none">➤ <u>Improving energy efficiency in all sectors -> i.e. buildings</u>
Use of Proceeds	<ul style="list-style-type: none">SpaBol's eligibility criteria comply with the recommendation of the EU Taxonomy for the acquisition of/new buildings:<ul style="list-style-type: none">"considering as a minimum benchmark the <u>top performing 15% of the stock</u> as representative of the best level of energy and resource efficiency that can be achieved in a local context"	<ul style="list-style-type: none">➤ <u>CBI compliant methodology for the top 15% proxy in Norway</u> <div></div>
EU Green Bond Standards		Alignment
Green Bond Framework	<ul style="list-style-type: none">The role of the Green Bond Framework (GBF) is formalised:<ul style="list-style-type: none">Project selection in line with the EU TaxonomyRationale for issuing	<ul style="list-style-type: none">Taxonomy - compliant <u>top 15% threshold</u>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
Reporting	<ul style="list-style-type: none">Reporting at project-by-project or portfolio levelAllocation reporting: statement of alignment with EU-GBS (by verifier), breakdown per sector level, regional distributionImpact reporting: share of financing, breakdown per nature of expenditures	<ul style="list-style-type: none">SpaBol reports on allocation and impact after/at the time of new green bond issuanceAnnual auditor assurance on the green mortgage portfolio

Green assets criteria

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

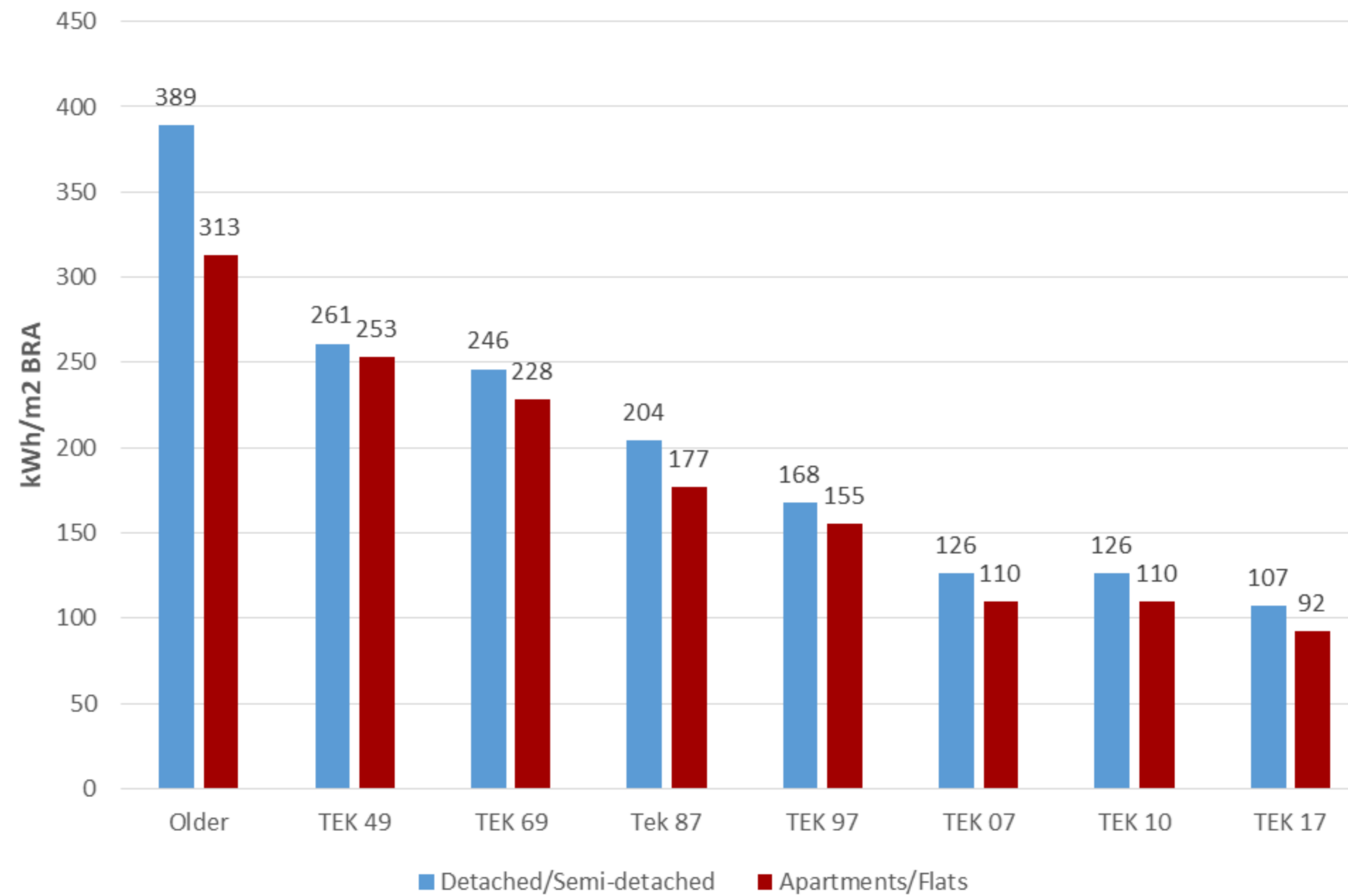
- **Criteria 2 may come into effect later**
- **Energy labels and building years selection should together represent top 15% of all properties**

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

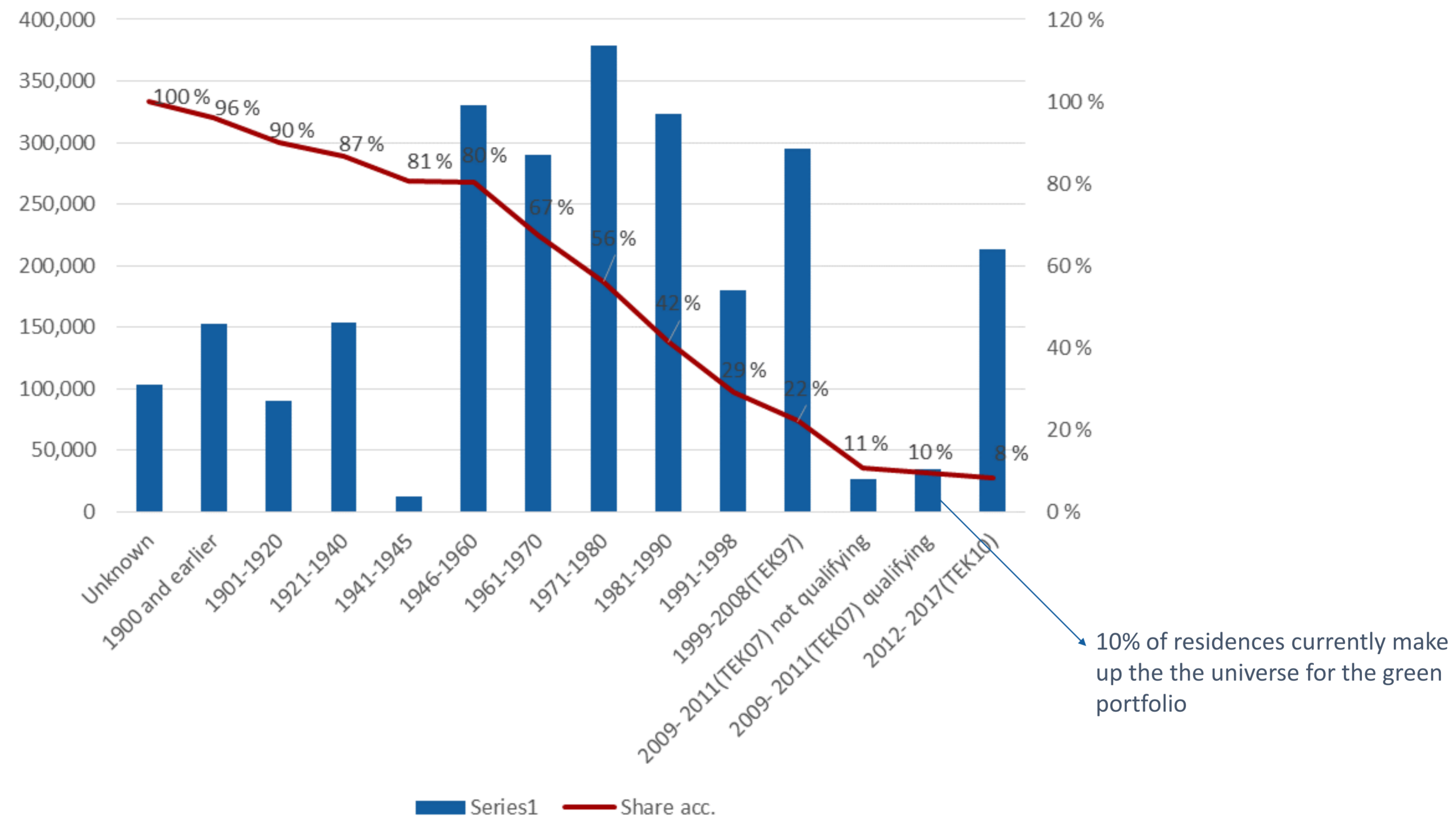
- **Criteria 3 is also in alignment with the EU taxonomy**

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

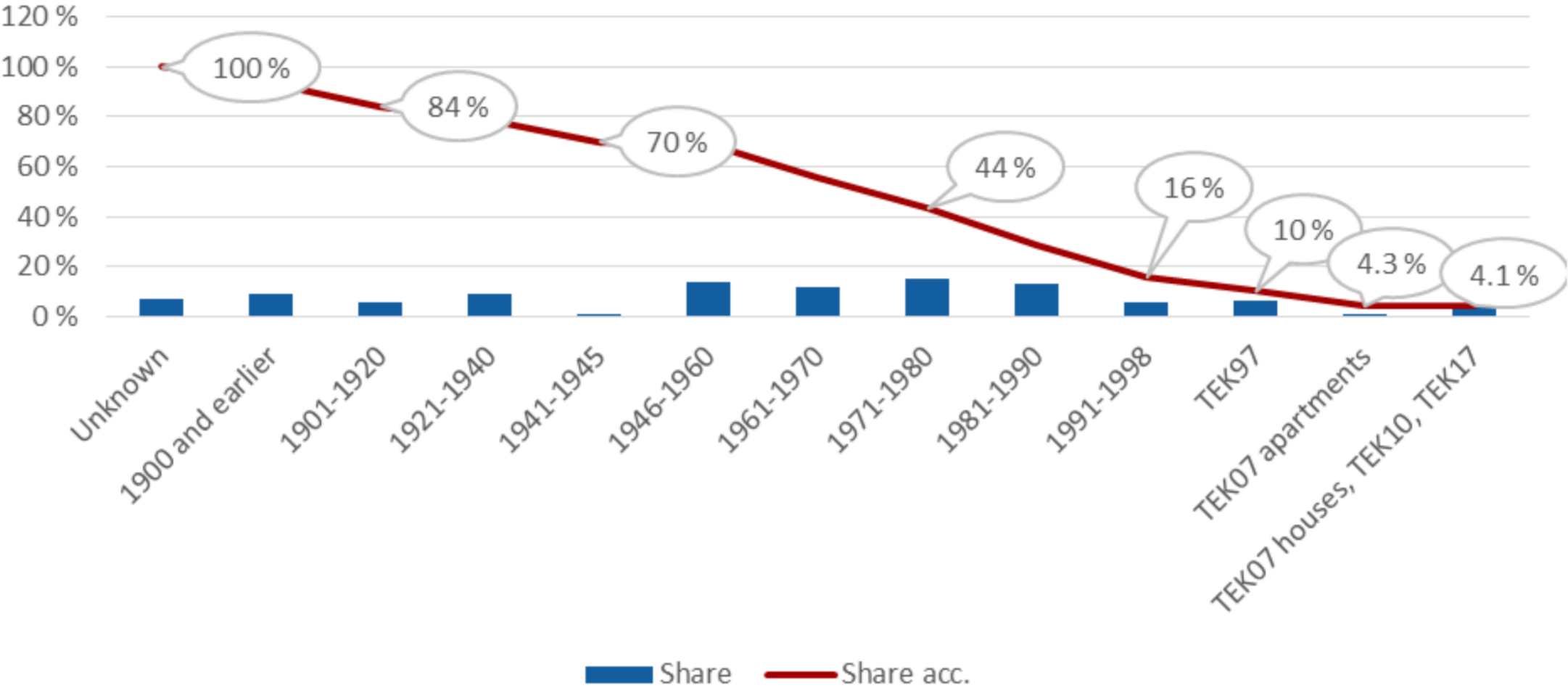


As of September 2019

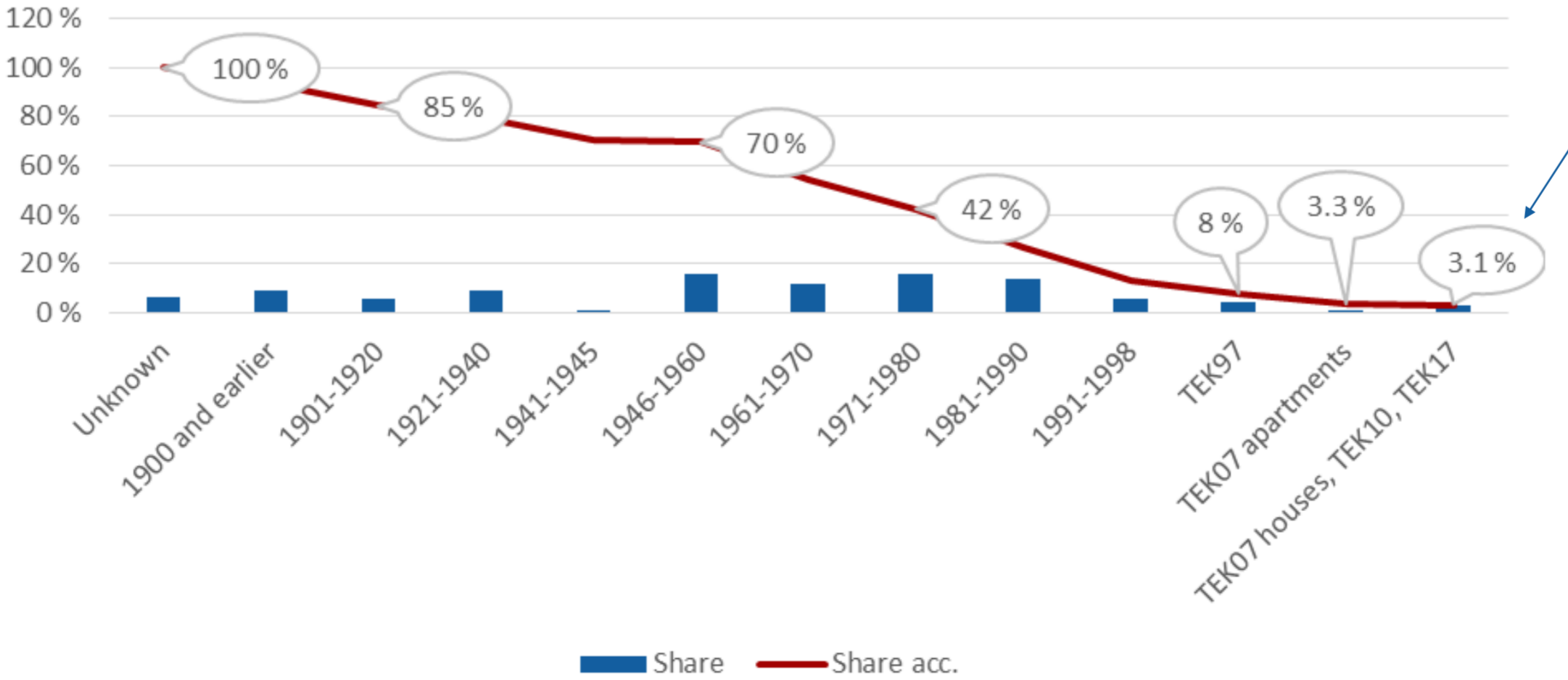
Source: Multiconsult

Building codes, energy use and Co2 emissions

Share of energy heating demand related to building year



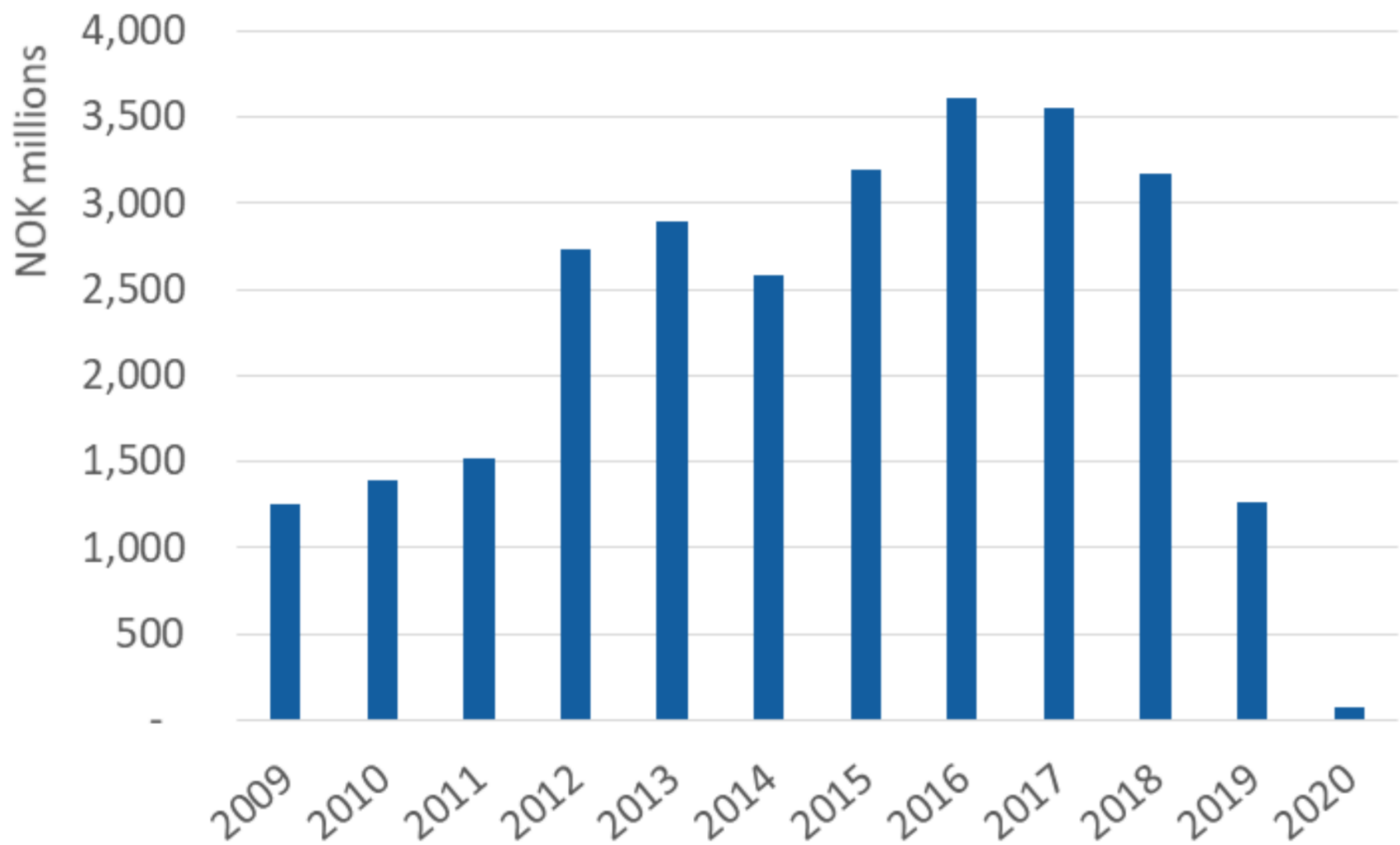
Share of Co2 demand related to building year



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

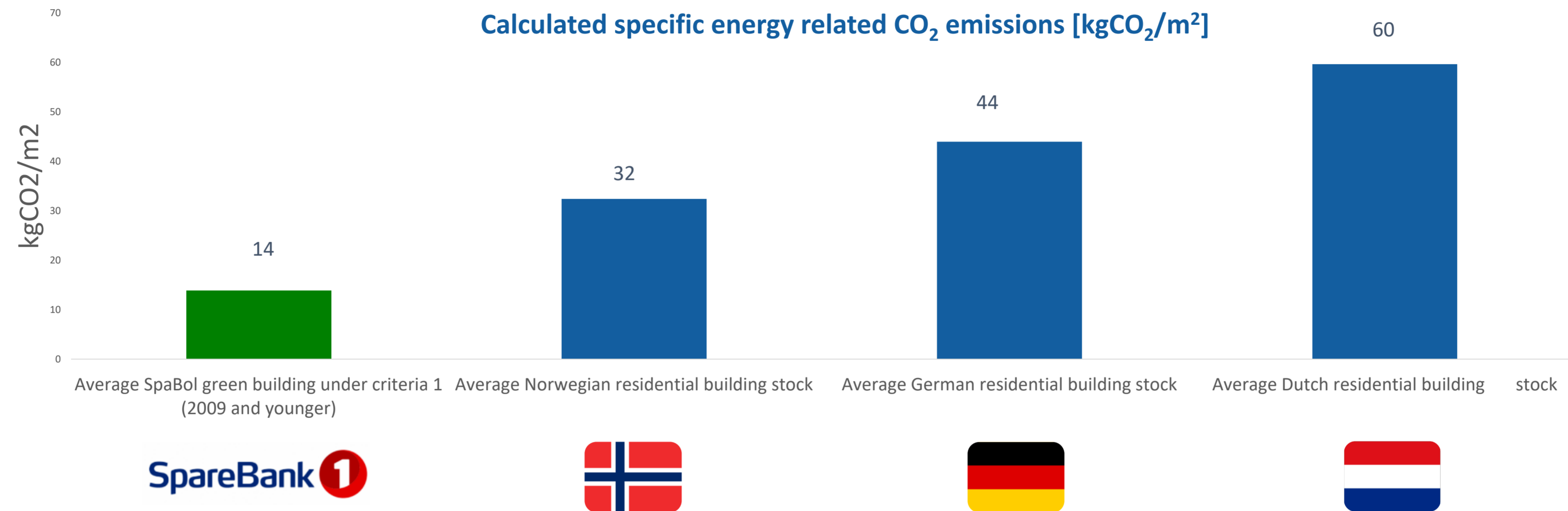
Spabol green mortgage portfolio

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 CO₂ than the average Norwegian residential building (saving of 26,558 tons CO₂)
- Green buildings under criteria 1 emit 73% less CO₂ than the average Western European¹ residential building (saving of 34,012 tons CO₂)

¹Average of German and Dutch figures

²<https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>

All figures are approximations

SpareBank 1 banks green mortgage products in Norway



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">Zero interest rate for a portion of the loanStep up in interest rate each year over 4 yearsSlightly below standard rate for remainder	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

Summary of Key provisions – Term Sheet

Issuer	• SpareBank 1 Boligkreditt AS ("SpareBank 1 Boligkreditt")
Expected issue rating	• Aaa (Moody's)
Documentation	• Under the Issuer's EUR35bn Global Medium Term Covered Note Programme dated 20 April 2020.
Use of preceeds	• Green Note. Issued amount is earmarked according to the Issuer's Green Bond Framework
Green Bond Second Opinion	• Sustainalytics
Currency	• Swedish Kronor ("SEK")
Issue size	• Benchmark
Type	• Fixed and/or Floating
Maturity	• 5yr
Extended Final Maturity Date:	• 5yr + 12 months
Redemption amount	• 100% of Nominal Amount
Clearing	• Norwegian Central Securities Depository (VPS)
Listing	• Oslo Stock Exchange
Governing Law	• English and Norwegian law
Denominations	• Minimum SEK 2,000,000 (and integral multiples of SEK 1,000,000 in excess thereof)

SpareBank 1 Boligkreditt

Webpage and contact info

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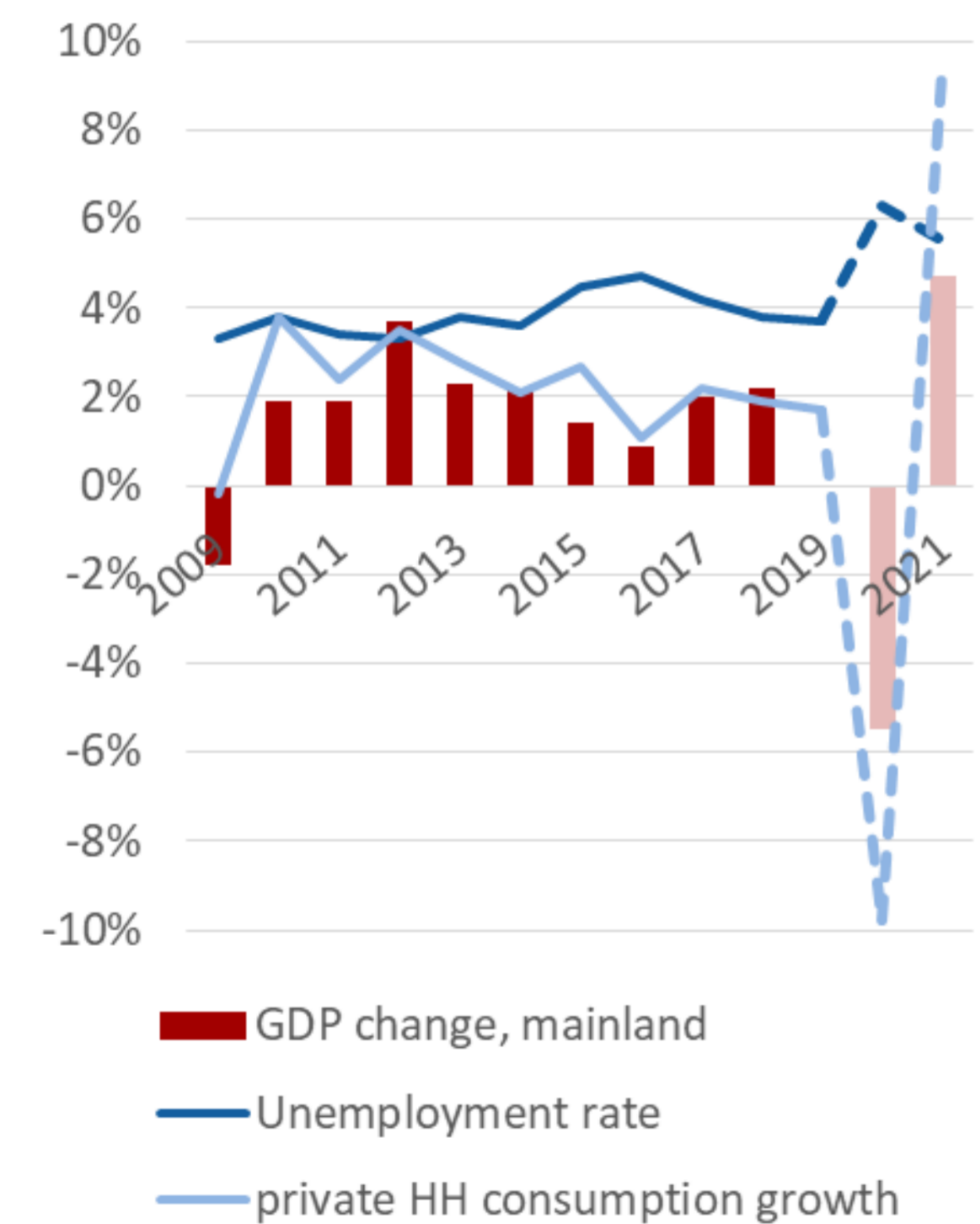
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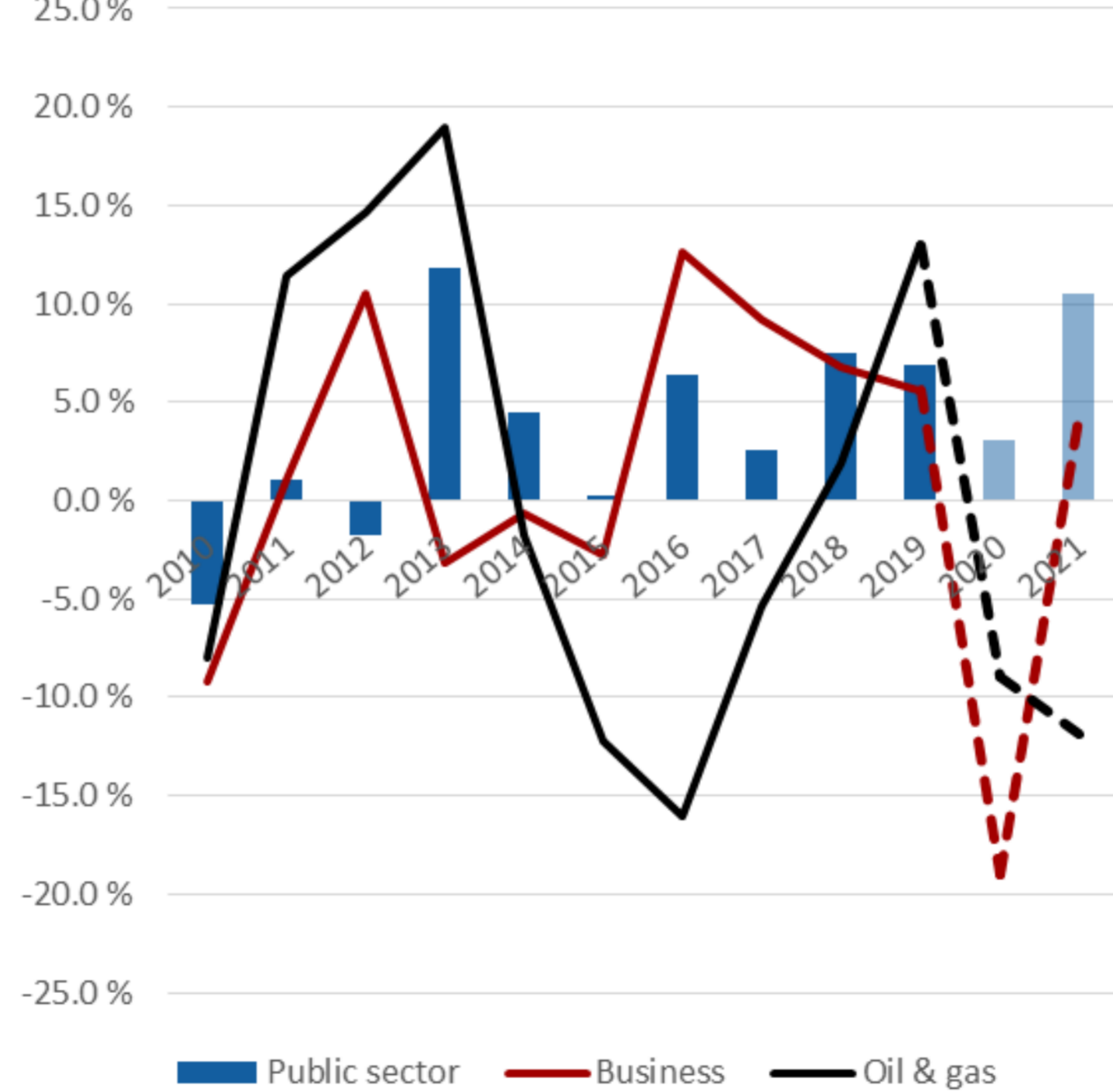
Appendix

Norwegian economy overview

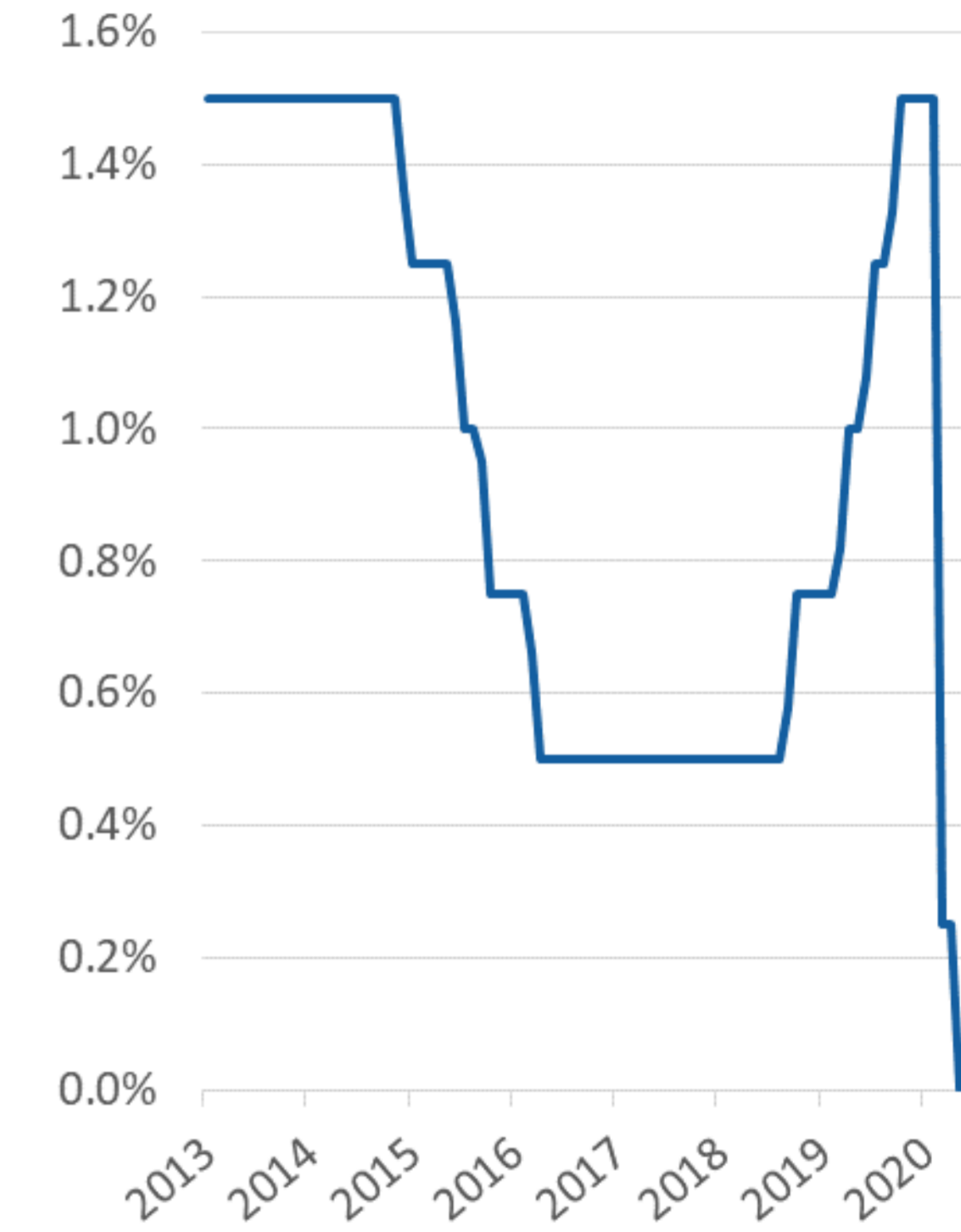
GDP change, unemployment, consumer



Gross capital investments, pct. change YoY

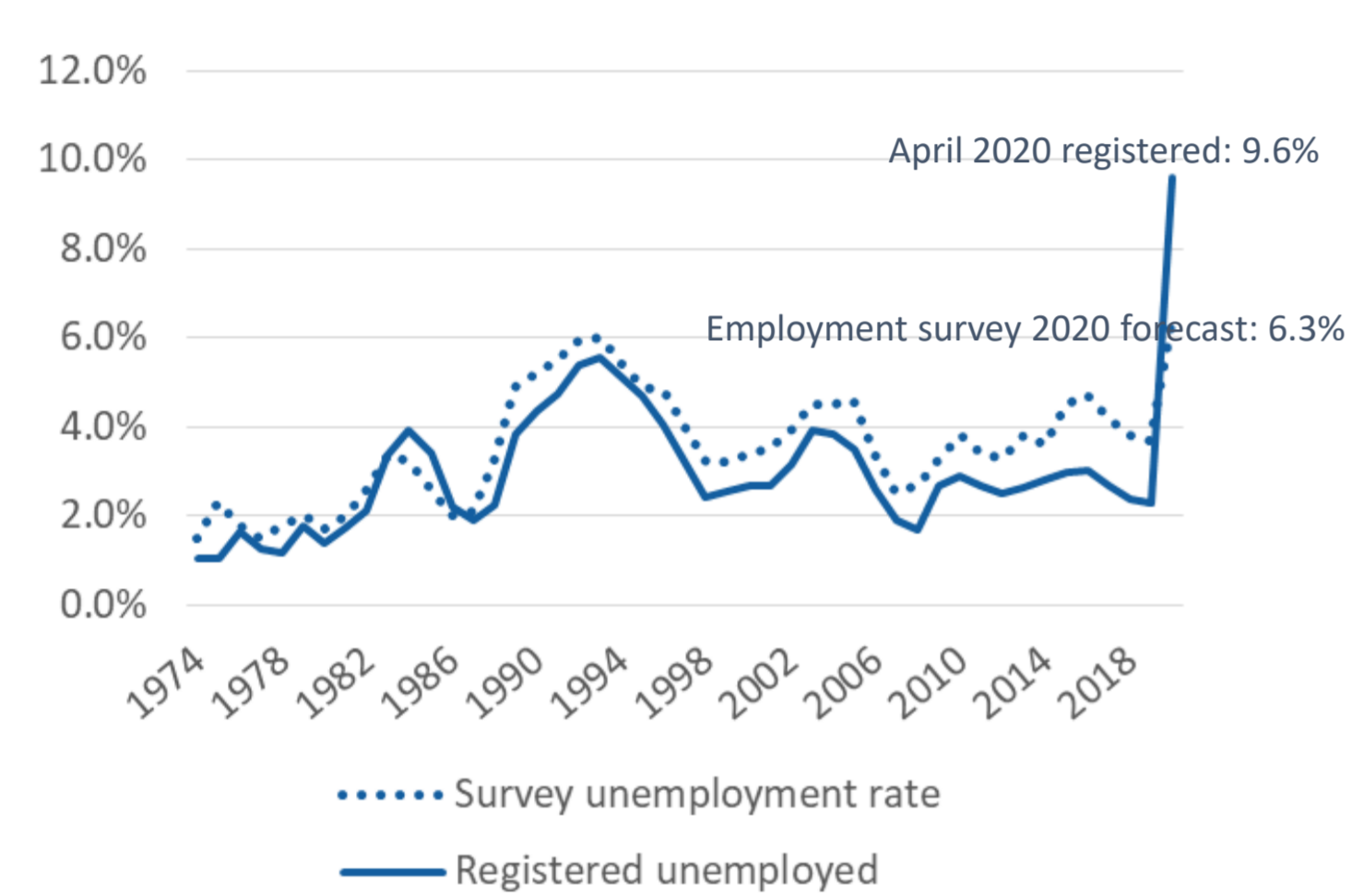


Central bank monetary policy rate

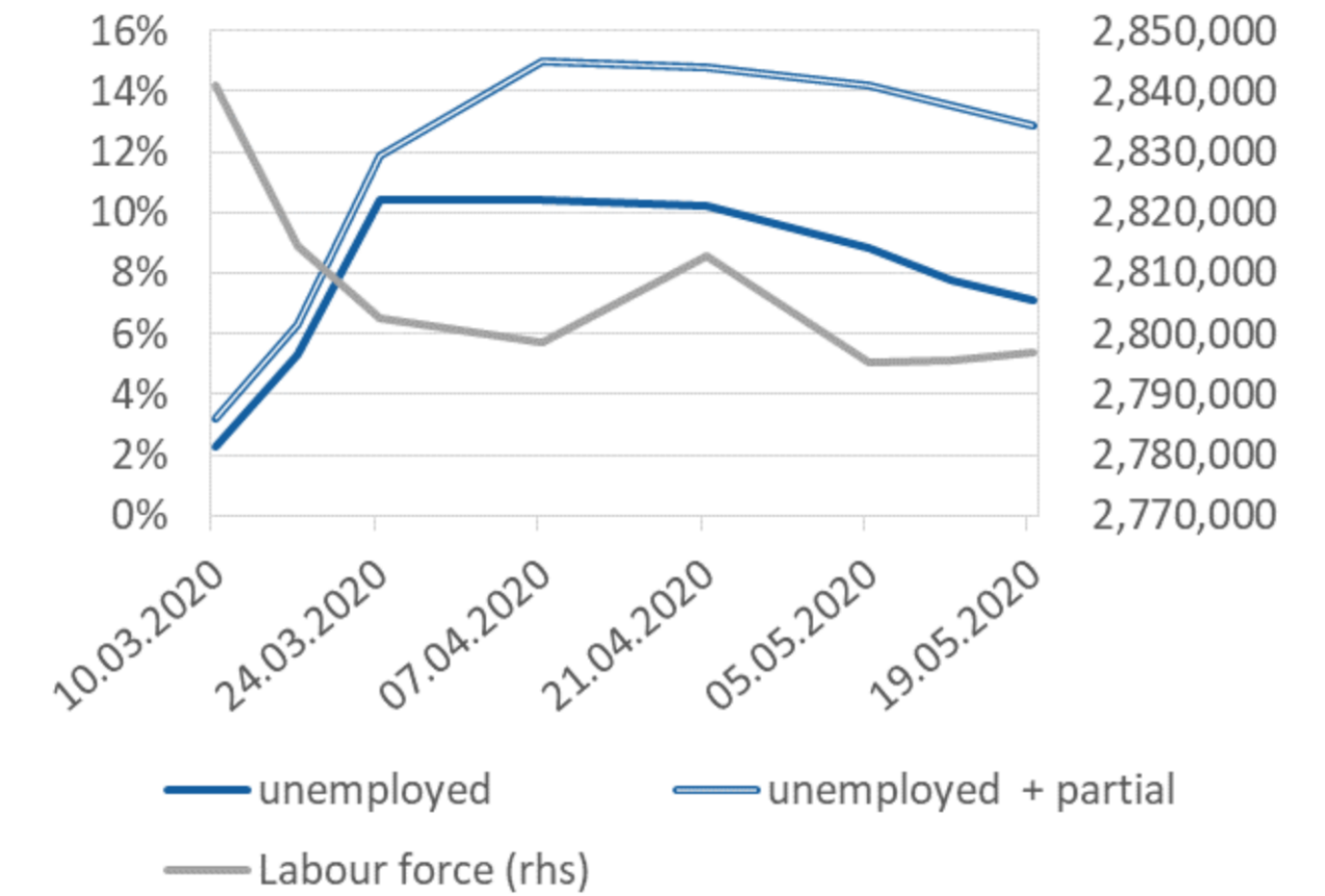


Employment

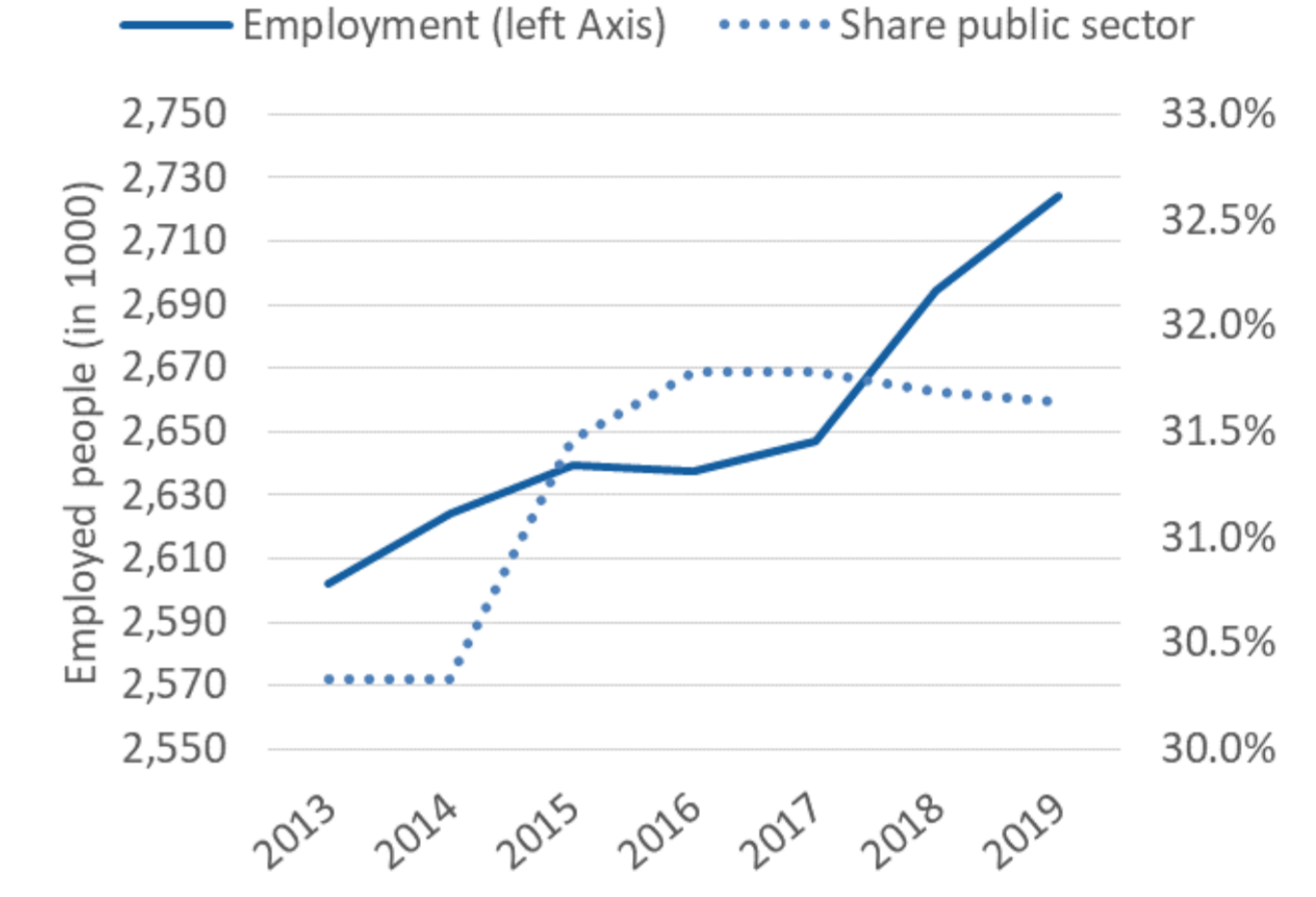
unemployment



Unemployment and labour force, weekly trend

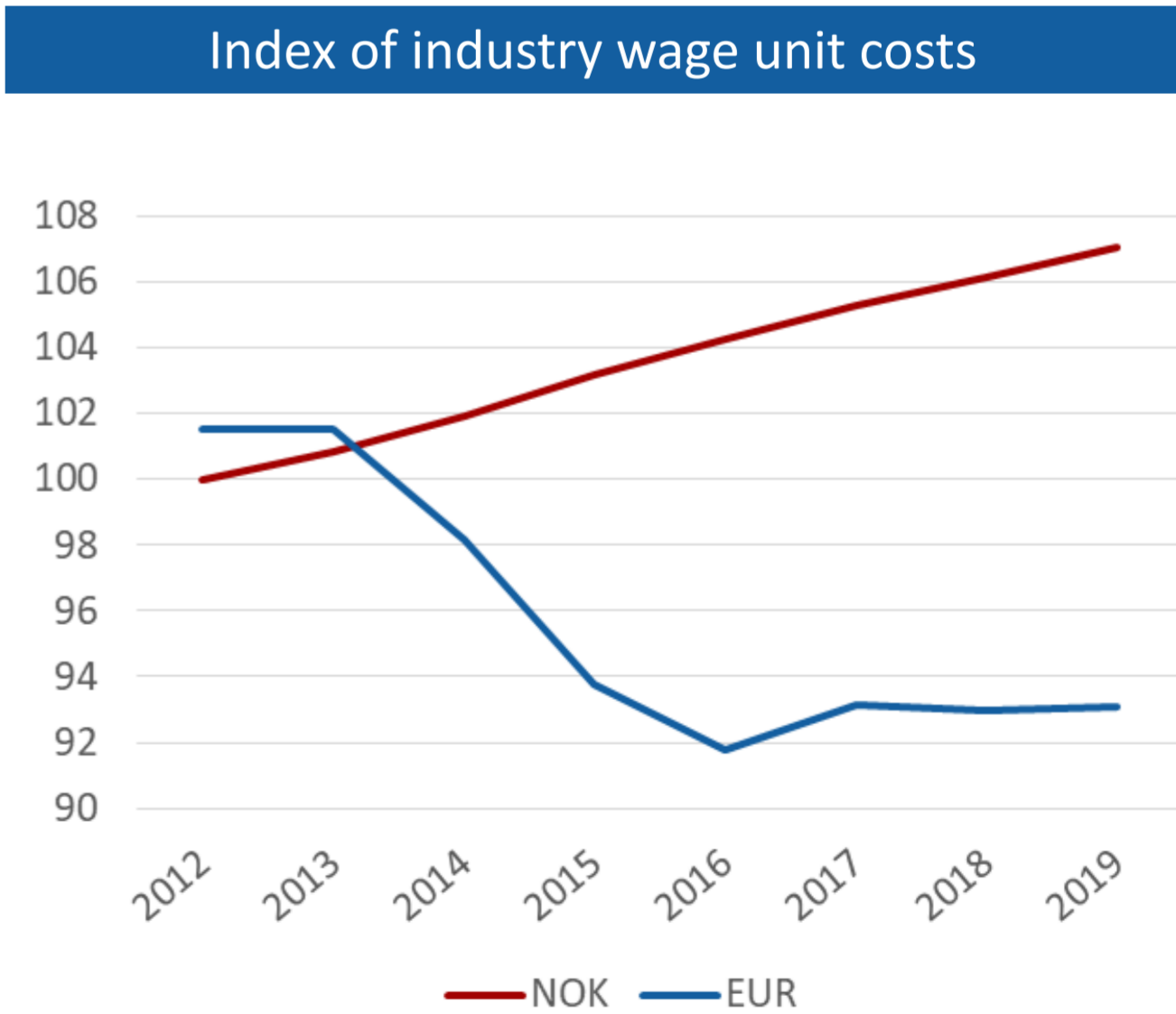
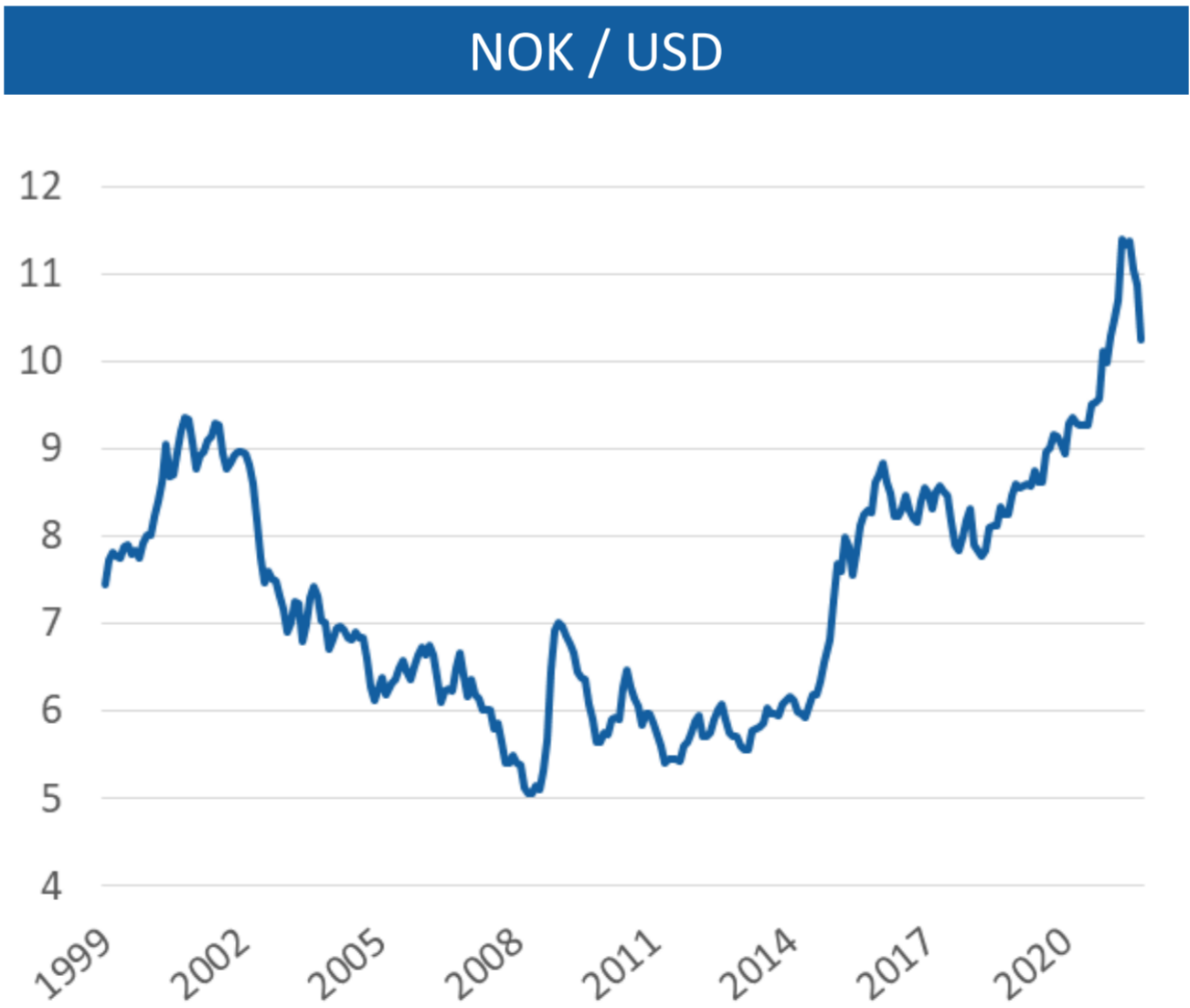
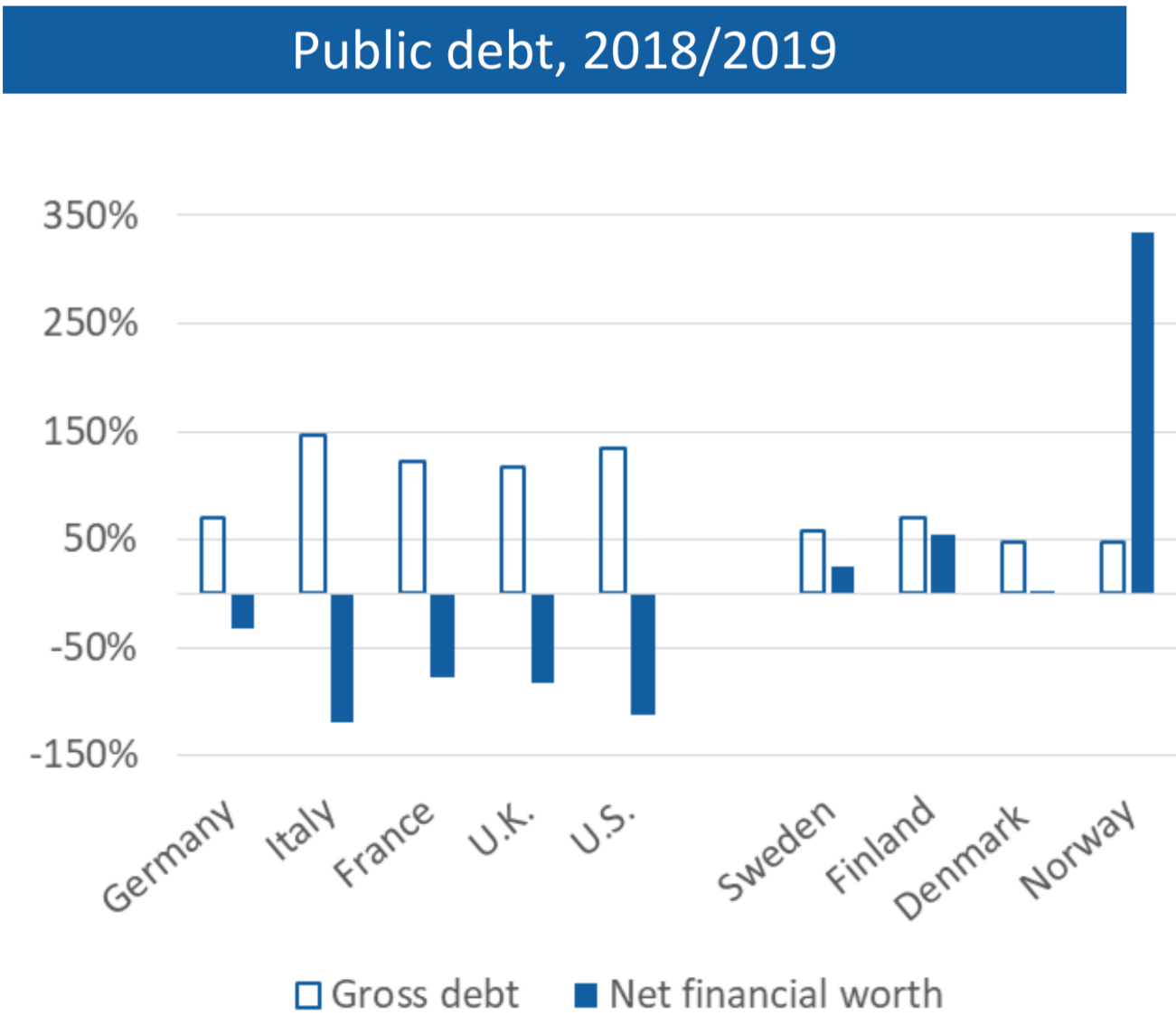


People in employment

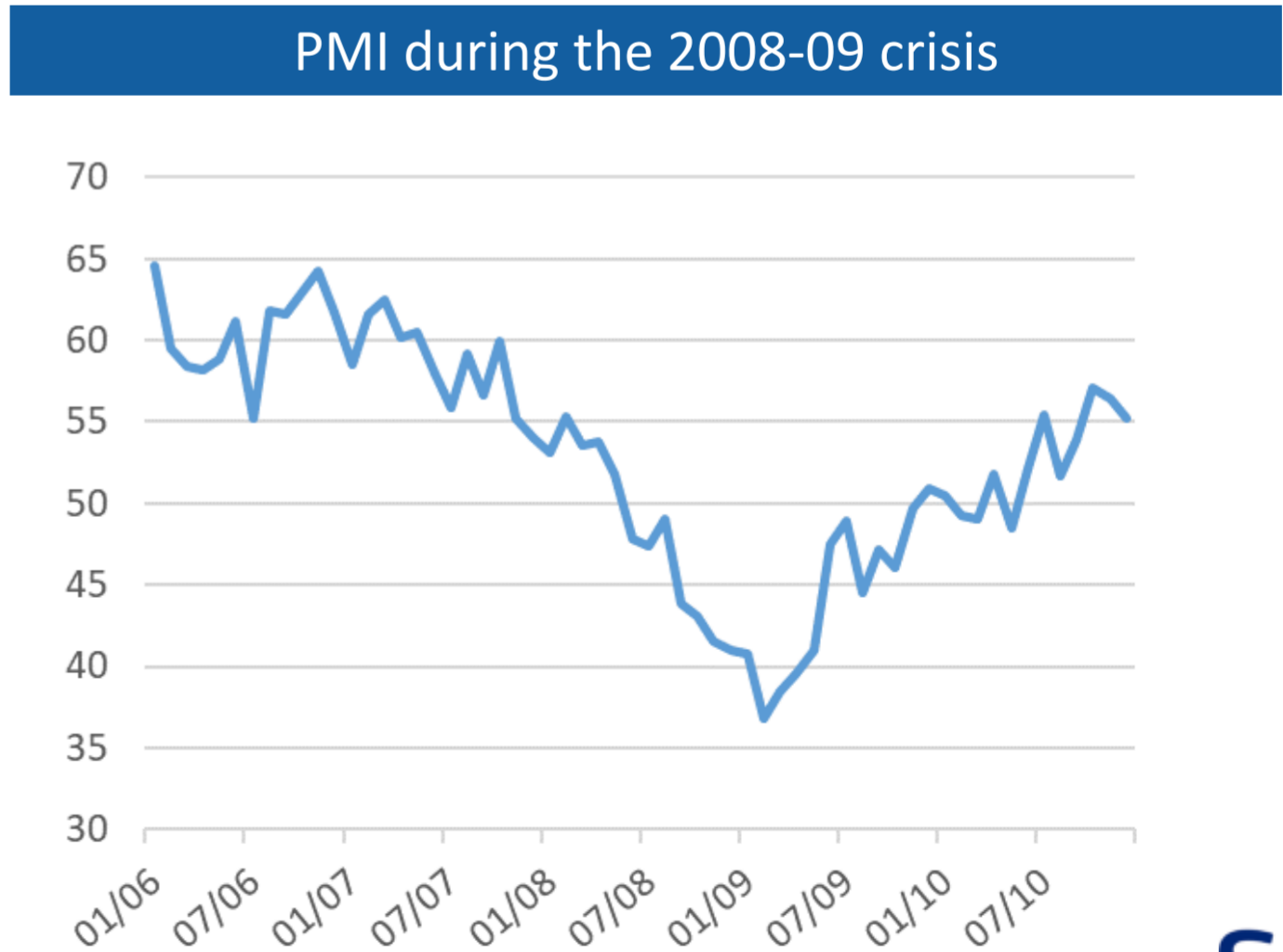
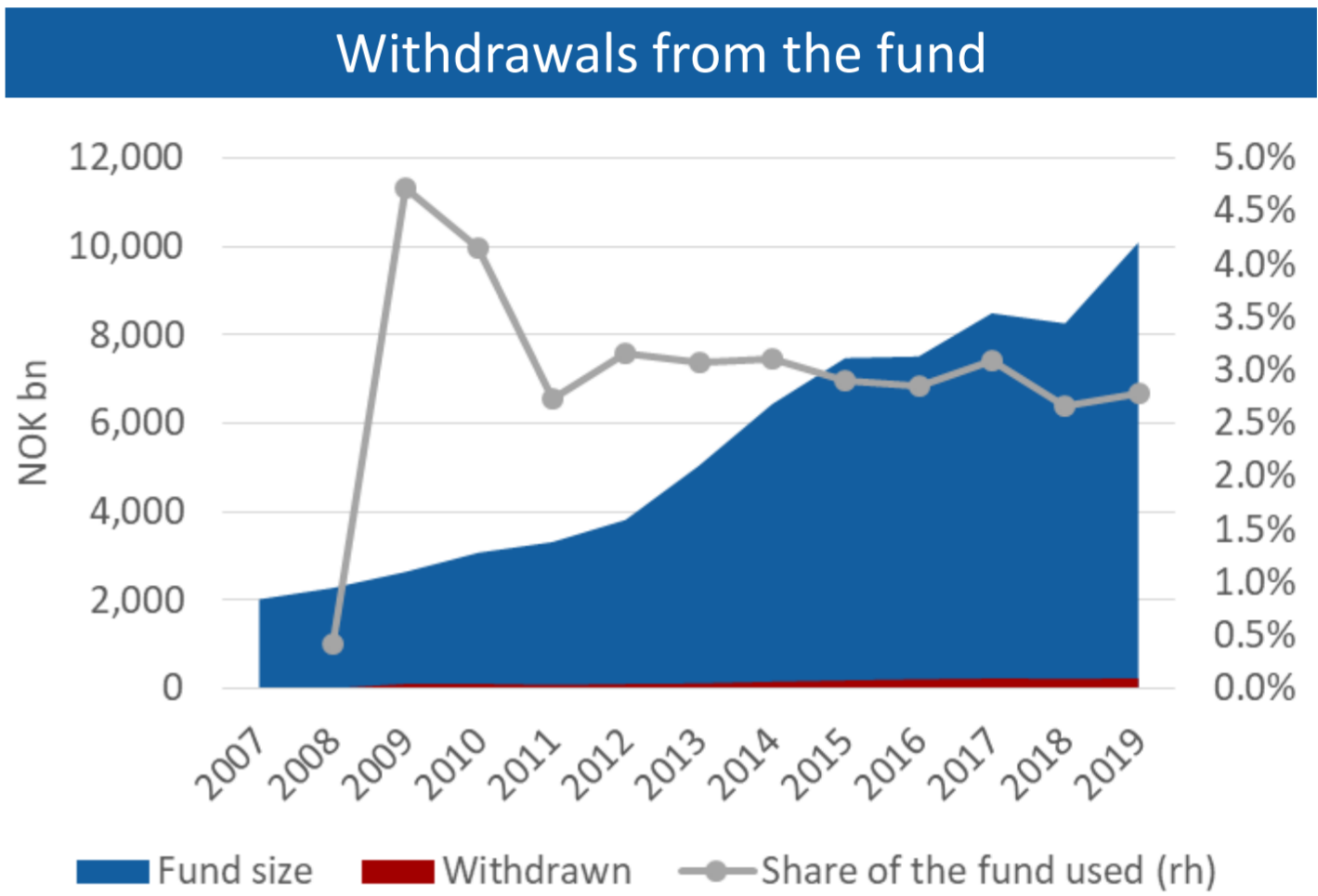
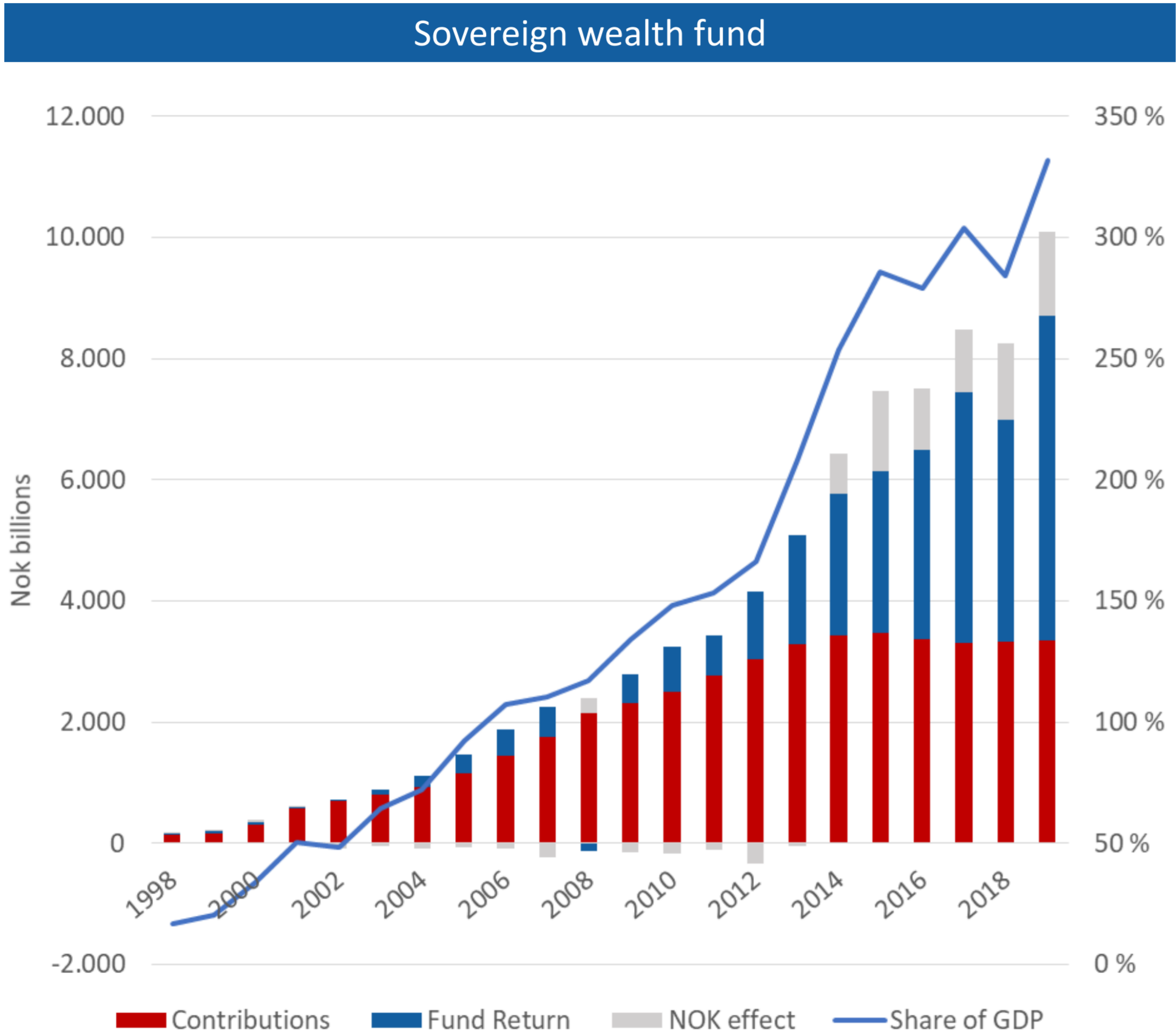


Norway has a good starting point for a crisis

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



Sovereign Wealth Fund



Which measures have been introduced to mitigate impact?



Unemployment: extended salary payments for 20 days ; afterwards unemployment benefits at 60% of pay (capped)
+ Banks granting automatic instalment deferrals



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



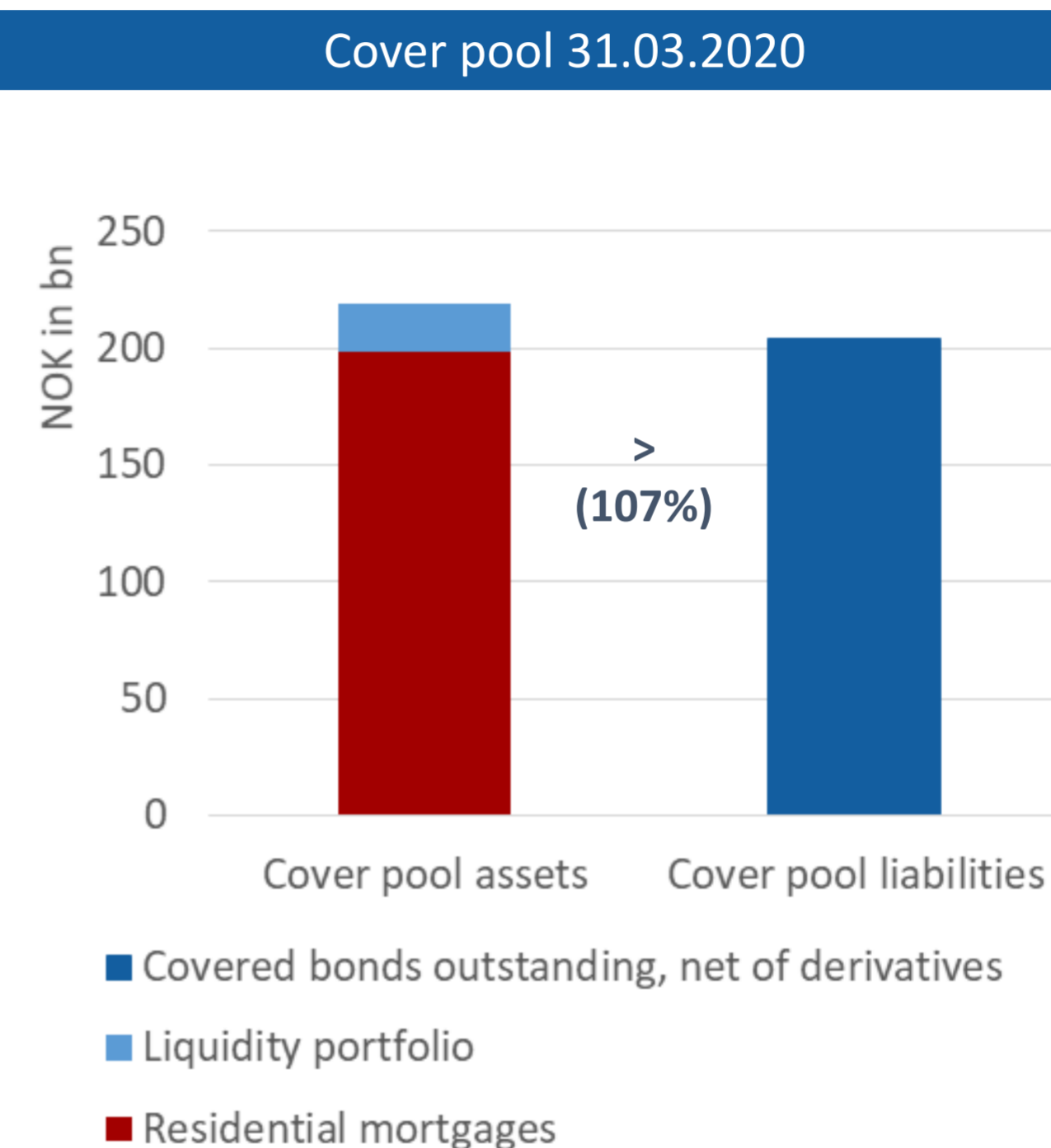
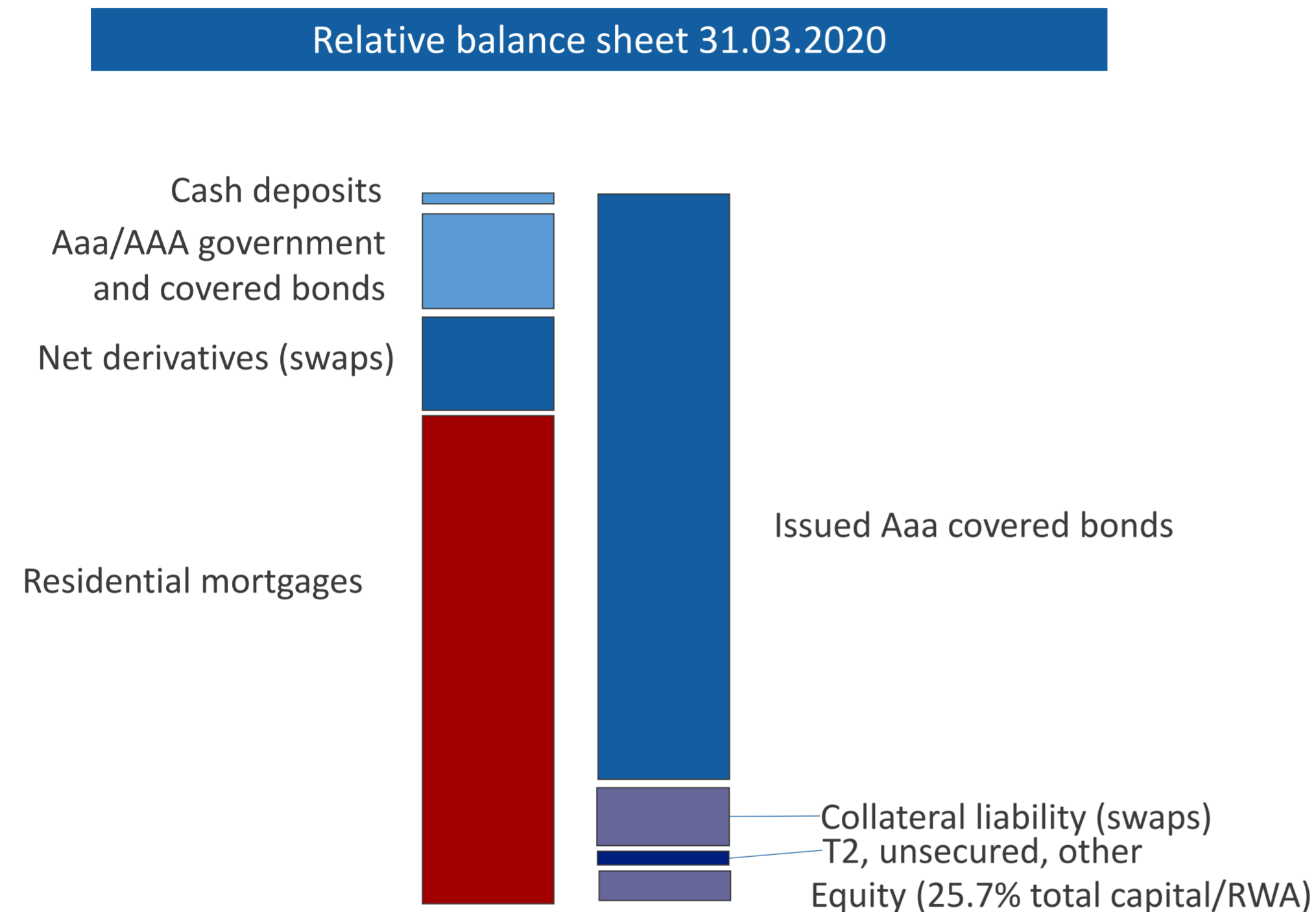
Government bond investment fund: Investment Grade and High Yield Bonds – last active during the 2008-09 financial crisis



Central bank

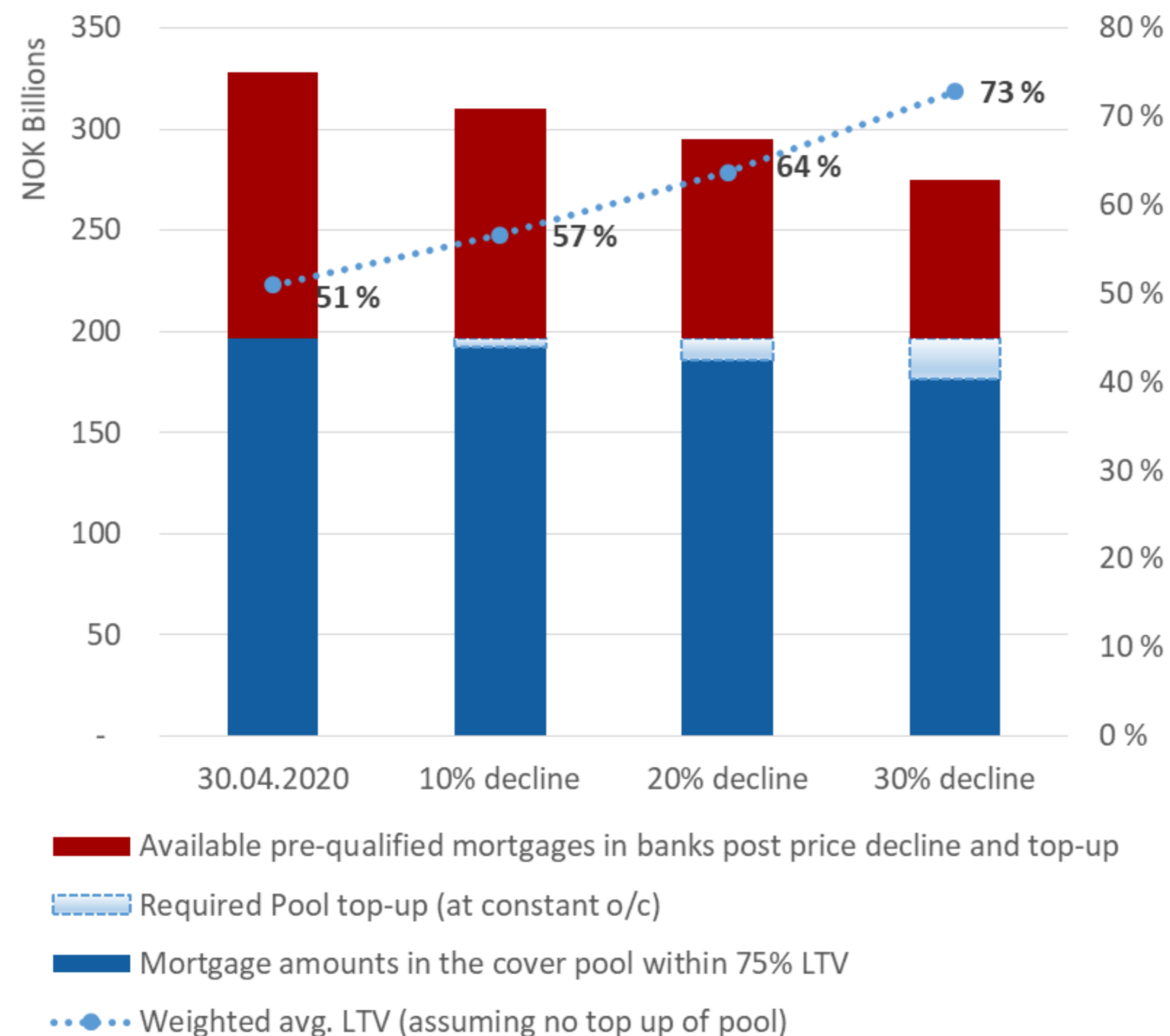
- 12 month tenor liquidity loans against covered bond collateral. 30 bps above policy rate, also available in USD. Unlimited.
- Policy rate 0% (from 1.5%)

SpaBol balance sheet and cover pool



- 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%

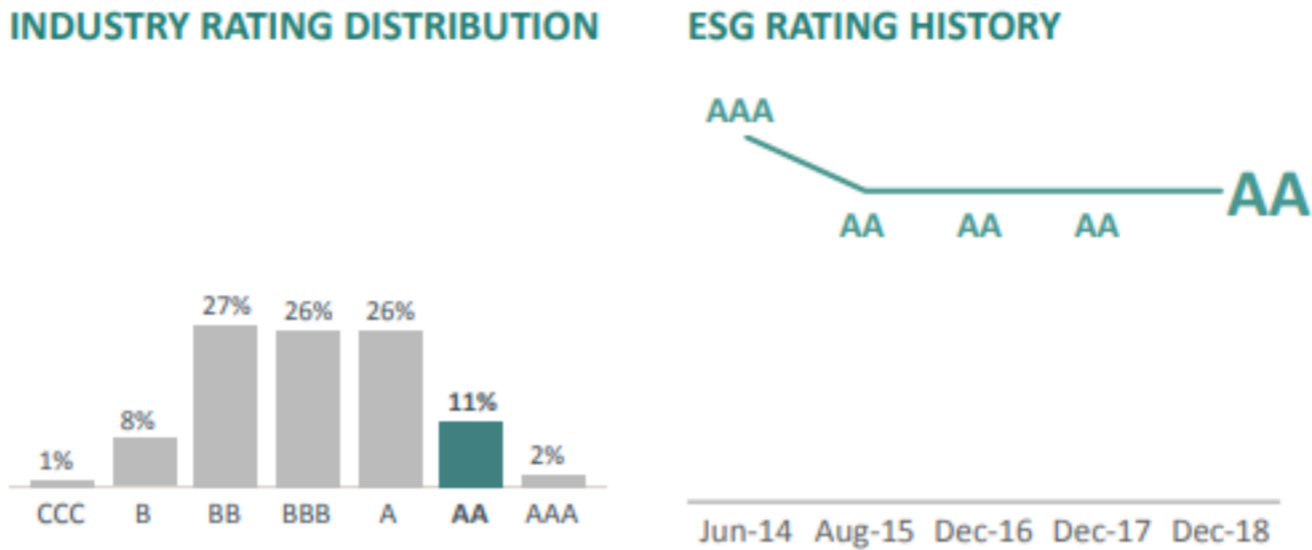
Stress Testing the cover pool – real estate valuation declines



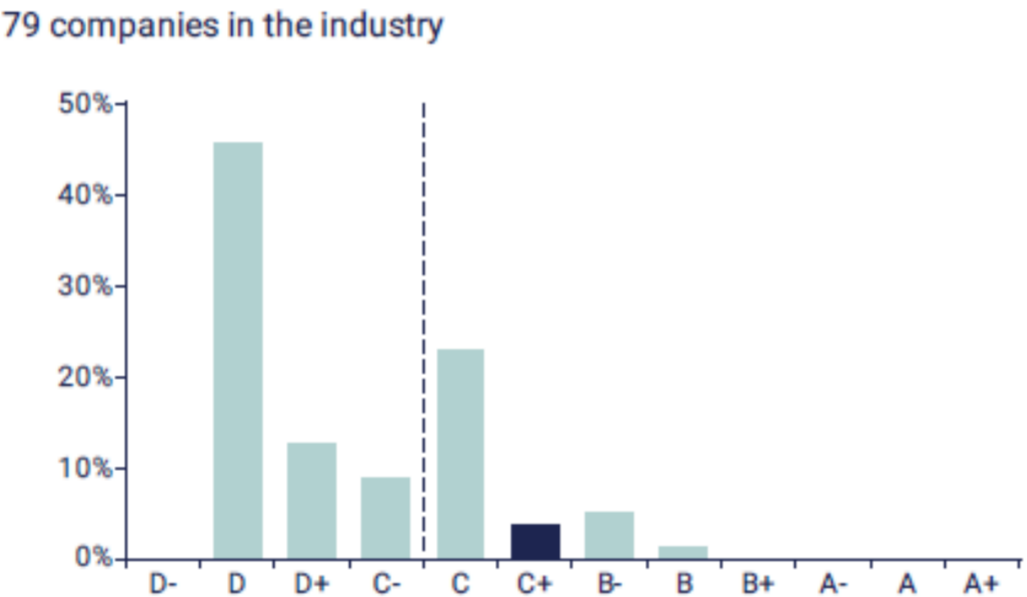
- In a scenario with declining real estate valuations, an increasing share of mortgages above the 75% legal limit become ineligible as cover assets
- Accordingly, mortgages need to be replaced, this is the 'required top-up' in the chart
 - *Parts of the mortgages in the highest LTV brackets needs replacing 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 Boligkreditt ESG Rating

MSCI ESG Rating



ISS – Oekom ESG Rating

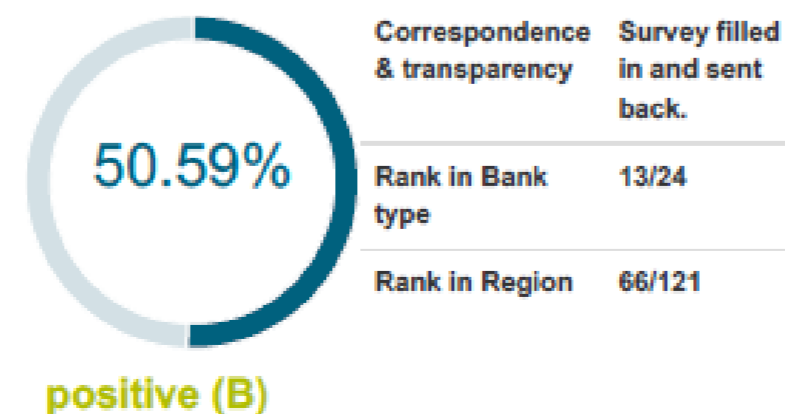


IMUG

Issuer Performance

Ranks based on Imug's sustainability strategy

Sustainability Rating



Bond Performance

Mortgage Covered Bonds

