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CREDIT OPINION
10 March 2020

New Issue

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RATINGS

SpareBank 1 Boligkreditt AS

Domicile	Norway
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Issuer Rating	Not Available
Type	Not Available
Outlook	Stable

Please see the [*ratings section*] *at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

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SpareBank 1 Boligkreditt AS

Update to credit analysis following rating affirmation

Summary

SpareBank1 Boligkreditt's (SpaBol) A2 long-term issuer rating, A2/Prime-1 Counterparty Risk Rating and A2(cr)/Prime-1(cr) Counterparty Risk (CR) Assesment are derived from the weighted-average credit profile of the larger individual banks forming the SpareBank 1 Alliance in Norway. Accordingly, the ratings assigned to SpaBol take into consideration the ratings assigned to its top five rated owner-banks, as well as our assessment of the likelihood that these banks will support SpaBol in case of need. The assigned outlook on the issuer rating is stable, in line with the rating outlook assigned to the five largest owner banks.

The key drivers for SpaBol's long-term issuer rating of A2 are: 1) the relatively strong credit profiles of the larger banks that form the alliance, which is reflected in their assigned issuer ratings and the high quality assets they transfer to SpaBol and 2) our assessment of the probability that member banks would provide support to the covered bond entity, taking into account the balance of their obligations and incentives to do so under the SpareBank 1 structure.

Credit strengths

» The predominantly strong credit profiles of the banks that own SpareBank 1 Boligkreditt, which form the starting point for its ratings

» The strong operating environment in Norway where SpareBank 1 Boligkreditt and its alliance banks operate

» The member banks' commitment to safeguard SpareBank 1 Boligkreditt's access to sufficient liquidity and capital

Credit challenges

» High concentration of the individual banks and SpareBank 1 Boligkreditt in the Norwegian house and real-estate market

Outlook

The stable outlook attached to SpareBank 1 Boligkreditt's issuer rating is in line with the stable outlook for the five owner banks' issuer ratings. The stable outlook balances the alliance banks' strong financial performance, against their high reliance on market funding making them vulnerable to investor sentiment and risks stemming from some credit and regional concentrations. We expect that any future changes in outlooks or ratings of the Alliance banks, will drive SpaBol's outlook and ratings as well.

Factors that could lead to an upgrade

» Positive pressure would develop on the ratings following any improvements in the risk profile of the owner banks having a majority stake in SpaBol, as evidenced by stronger asset quality and profitability metrics and reduced concentration levels.

Factors that could lead to a downgrade

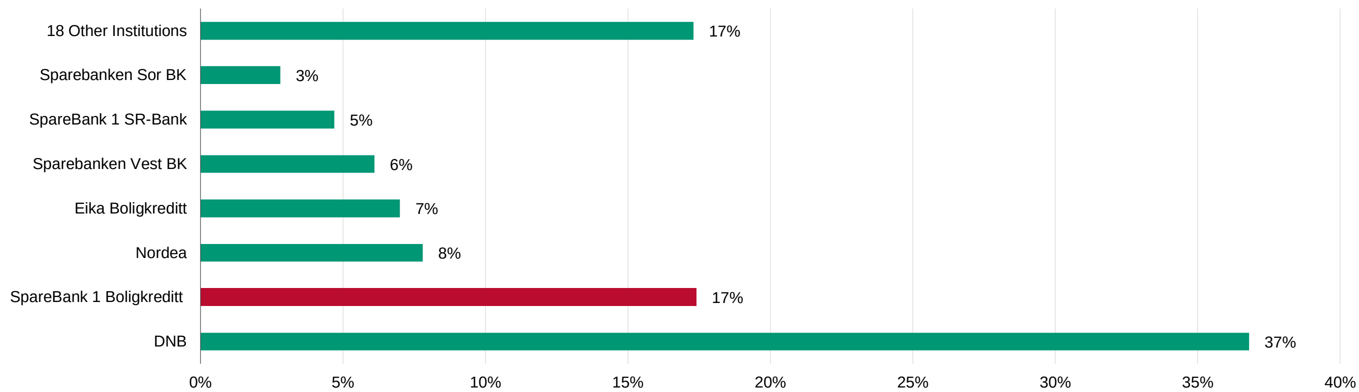
» The ratings would be downgraded if the credit profile of a significant portion of the banks weakens significantly, as evidenced by worsening financial fundamentals.

» SpaBol's ratings will also be downgraded in case of reduced likelihood of the owner banks supporting it, as indicated by a loosening in the support agreements between SpaBol and the banks that are currently in place.

Profile

SpareBank 1 Boligkreditt's primary business purpose is to provide access to the international covered bond markets to its owners, 14 Norwegian savings banks belonging to the SpareBank 1 Alliance, the second largest banking group in Norway with around 22% combined market share in residential mortgages as of 2019. Accordingly, SpareBank 1 Boligkreditt is the second biggest player in the Norwegian covered bond market, with an issuer volume market share of around 17% (see Exhibit 1).

Exhibit 1
Norwegian Covered Bond market by issuer volume



Source: SpareBank 1 Boligkreditt Investor Presentation (November 2019)

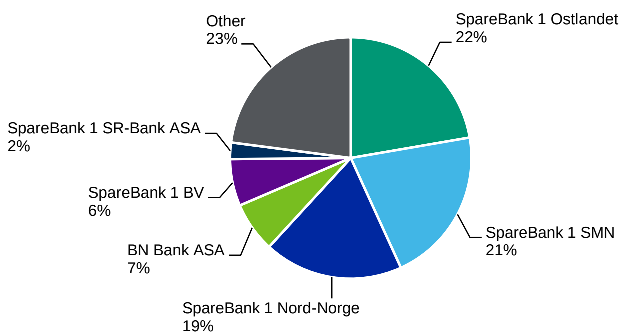
Individual members operate independently from each other, but there are various benefits that the SpareBank 1 Alliance provides such as shared information technology infrastructure, marketing and common non-core banking products/services through affiliate companies, which act as incentives for member banks to remain members of the SpareBank 1 Alliance, making use of SpaBol and continuing their support commitment.

Detailed credit considerations

Healthy credit profiles across the Alliance banks drive SpaBol's ratings

The credit profiles of the top five Alliance banks (SpareBank1 SR-Bank ASA, SpareBank 1 SMN, SpareBank 1 Ostlandet, SpareBank 1 Nord-Norge and SpareBank 1 BV) constitute the anchor point that drives the ratings assigned to SpareBank 1 Boligkreditt. These Alliance banks had a joined ownership of over 70% in SpareBank 1 Boligkreditt as of December 2019 (see Exhibit 3). They also maintain relatively strong financial fundamentals, with limited variations in overall credit quality amongst individual members. While most of them focus on residential mortgages and commercial real-estate lending in a relatively small geographic area, which typically translate in high concentration levels, they also tend to feature similar strengths, such as strong overall asset quality metrics and robust capital buffers. Accordingly, all five banks have currently a baseline credit assessment (BCA) of either a3 or baa1, reflecting their relatively solid financial position.

Exhibit 2
SpareBank 1 Boligkreditt's Ownership as of December 2019



Note: “Other” includes other bank members of the Alliance with individual ownership below 6.3%
Source: SpareBank 1 Boligkreditt 2019 Annual Report

Strong overall asset quality metrics and robust capital buffers across the Alliance banks

SpareBank 1 Alliance banks have strong individual asset qualities and transfer to SpaBol only well-performing residential mortgages. The banks are also incentivised, but are not obliged, to substitute the assets should their performance deteriorate or their loan-to-value (LTV) increase to more than the 75% legal limit for the cover pool. Concurrently, we note that the average nonperforming loans (NPL) ratio for the 5 largest SpareBank 1 Alliance banks was just below 1% as of December 2019. The relatively low ratio reflects the banks' high quality loan book, despite some sector and geographic concentrations at individual bank-levels.

Furthermore, SpaBol reports a zero NPL ratio, while we expect its loan quality to remain very strong over the next 12-18 months based on the Alliance banks' strong commitment and incentives to maintain SpaBol's loan book intact from any defaults. Additionally, we expect Norwegian households to continue to service their mortgages as interest rates still remain low, despite increases in 2019, and unemployment benefits remain generous.

In addition, the large SpareBank 1 Alliance banks are well capitalised, with an average Common Equity Tier 1 (CET1) ratio of around 17.3% as of September 2019, indicating their ability to absorb significant losses before any potential impact on their creditors. Such comfortable capital levels also allow these banks to support SpaBol on an on-going basis if needed. SpaBol's own common equity Tier 1 (CET1) ratio was at 20.6% as of December 2019, compared to a regulatory requirement of 14.8%, which the Alliance banks are committed to maintain at SpaBol.

Profitability at Alliance banks to remain robust, supported by strong loan growth

Our ratings also take into account the robust profitability of the top five rated SpareBank 1 Alliance banks, and our expectation that this will remain largely intact going forward.

These banks had an average return on equity (RoE) of around 13.5% as of December 2019, although including certain one-off capital gains during 2019. We expect the profitability of the Alliance banks to remain resilient in the next 12 months supported by good loan growth and solid mortgage loan performance. Furthermore, the Alliance banks benefit from a shared information technology platform, infrastructure, marketing and common non-core banking products and services which act as incentives for banks to remain in the Alliance and support SpaBol if needed.

In terms of liquidity and funding, the top five rated Alliance banks have an average Liquidity Coverage Ratio (LCR) of around 170% as of December 2019, and a Market Funds to Tangible Banking Assets ratio of around 35%, which is relatively high due to their predominant reliance on funding from covered bonds issued by SpaBol, a common funding source for Nordic banks.

SpareBank 1 Boligkreditt and the Alliance banks operate in a benign environment

The ratings assigned to SpaBol also take into consideration the fact that Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as very low susceptibility to adverse events. Overall the operating environment is supportive to banks, characterised by unique countercyclical mechanisms that will continue to help offset downside risks related to banks' relatively narrow geographic focus and high credit concentration in cyclical sectors.

The main risks to the banking sector stem from Norway's high household indebtedness, elevated real-estate prices, and extensive use of market funding by the domestic banks. However, these risks are mitigated by the household sector's strong ability to service debt and by the Norwegian government's well coordinated monetary and regulatory policies. Additional supporting factors are the country's sizeable sovereign wealth fund that is able to support the economy in the event of financial crisis.

The Macro Profile assigned to Norway is Very Strong-.

Environmental, social and governance considerations

In line with our general view of the banking sector, Sparebank 1 Boligkreditt has low exposure to Environmental risks and moderate exposure to Social risks. See our Environmental and Social risk heatmaps for further information.

Norway, similarly to the European Union, has policies in place that ensure new housing to be energy-efficient, which enables SpaBol to gather mortgages for asset pools to issue green bonds on behalf of parent banks. Such policies help limit environmental risks for Norwegian banks with large retail exposure and primarily mortgage lending activity, and thus help strengthen the parent banks' credit profile and mitigate potential environmental risks for SpaBol as a covered bond issuer. We note that buildings from 2009 (i.e. 10% of the housing stock), buildings finished before 2009 but with an EPC rating of A, B or C (2.6% of the housing stock) and refurbished buildings that have achieved a 30% energy efficiency improvement qualify for selection into SpaBol's green bond cover pools. In total approximately NOK23.2 billion worth of mortgages sold against properties built after 2009, compared to SpaBol's NOK252 billion of total assets, could be classified as green assets as of June 2019.

The most relevant Social risks for banks arise when they interact with their customers. Social risks are particularly high in the area of data security and customer privacy which is partly mitigated by sizeable technology investments. Fines and reputational damage due to product misselling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, increasing information technology cost, aging population concerns in several countries, impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base. Overall, we consider banks, including SpareBank 1 Boligkreditt and its parent, to face moderate social risks.

Governance is highly relevant for Sparebank 1 Boligkreditt and its parent banks, as it is to all players in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Corporate governance remains a key credit consideration and requires ongoing monitoring. However, we currently do not have any governance related concerns over SpareBank 1 Boligkreditt or its parent banks.

Support and structural considerations

Affiliate support

The A2 issuer rating, A2(cr) CR Assessment and A2 CRR assigned to SpaBol reflect our view of the likelihood that the owner banks will support it as outlined in the Shareholders' Note Purchase Agreement (SNPA) and Shareholder's Agreement. The legal and publicly available agreements in place between the banks and SpaBol protect the later's access to liquidity and capital.

Specifically, the owner banks have agreed to maintain SpareBank 1 Boligkreditt's common equity Tier 1 (CET1) capital ratio (20.6% as of December 2019) above its regulatory requirement (currently at 14.8%), and to subscribe to any new covered bond issues in case there is a disruption in the covered bond market. Moreover, in case one or more of owner banks are not able to provide their share of capital or liquidity, the remaining banks may be required by SpareBank 1 Boligkreditt to increase their contribution up to a maximum of twice their initial allocation.

Government support considerations

All rated SpareBank 1 Alliance banks do not benefit from any rating uplift from government support, due to the BRRD law implemented in Norway on 1 January 2019. Accordingly, government support is not incoprorated in SpaBol's issuer ratings.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default; and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

SpaBol's CR Assessment is positioned at A2(cr)/P-1(cr), one notch lower than the weighted-average long-term CR Assessment of A1(cr) of its majority owner-banks in the SpareBank 1 Alliance.

Counterparty Risk Rating

Counterparty Risk Ratings are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

SpaBol's Counterparty Risk Rating is positioned at A2/P-1, one notch lower than the weighted-average long-term CRR of A1 of its majority owner-banks in the SpareBank 1 Alliance.

Methodology used, source of facts and figures cited in this report

Moody's Banks Methodology (November 2019) was used in arriving at the SpareBank 1 Alliance banks' issuer ratings, while Appendix 1 of the same methodology referring to the Specialised Covered Bond Issuers (SCBI) was used in assigning SpaBol's ratings.

In arriving at SpaBol's ratings, the financial results of parent banks were taken into consideration. All information is available publicly at respective banks' websites. Moody's incorporates a series of standard and non-standard adjustments on Norwegian banks' financial statements in order to better reflect credit risks and implications (Moody's Standard Adjustments, Sparebank 1 banks illustrate Moody's approach to non-consolidated covered bonds).

Ratings

Exhibit 3

Category	Moody's Rating
SPAREBANK 1 BOLIGKREDITT AS	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A2

Source: Moody's Investors Service

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

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