



# SpareBank 1 Næringskreditt

Covered Bond Issuer

2H 2021

SpareBank **1**

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# SpareBank 1 Næringskreditt

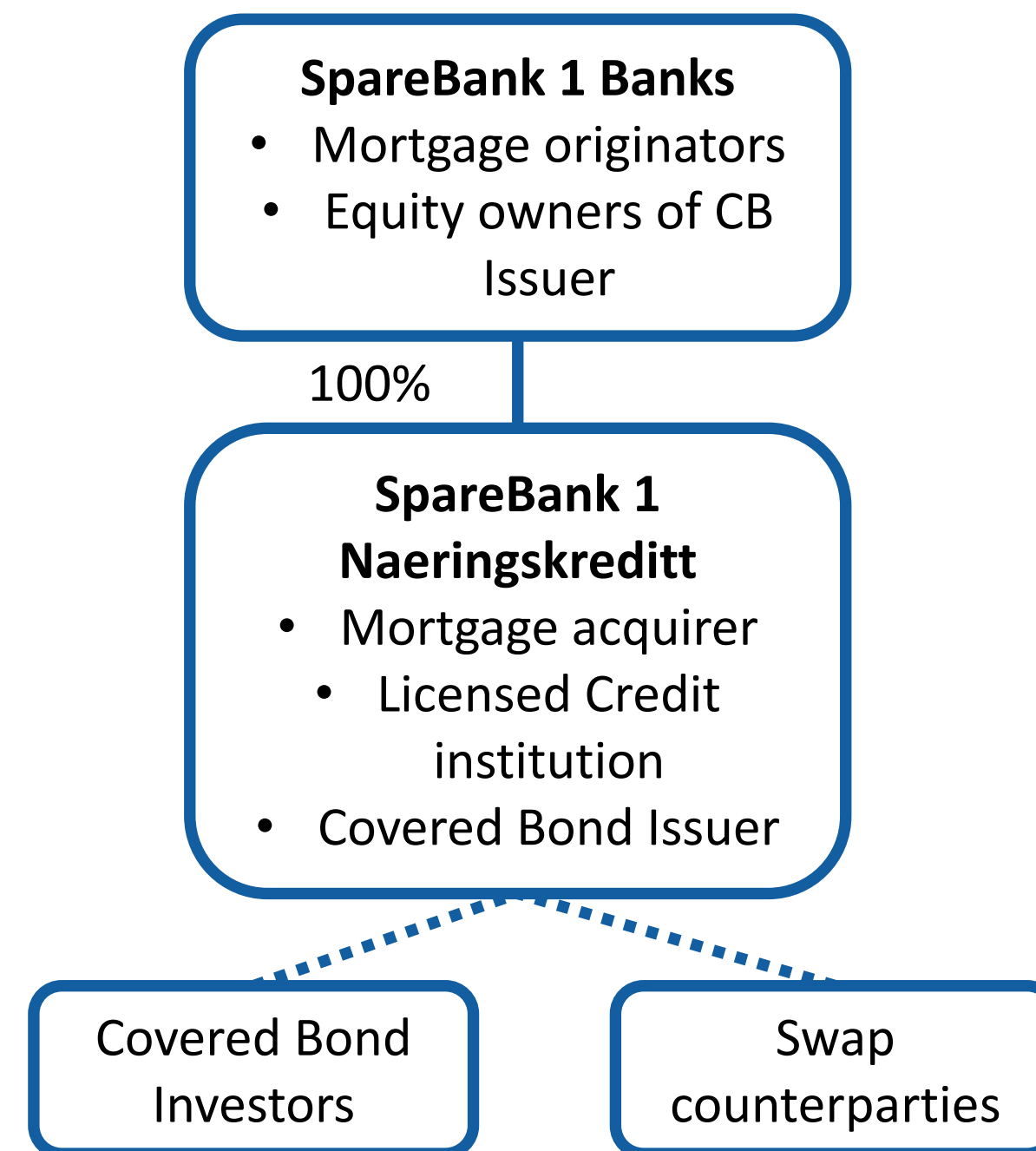




# SpareBank 1 Naeringskreditt

- 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)
<b>Aaa</b>	Not published	A1/Aa3*	Not published	Probable	2	13%

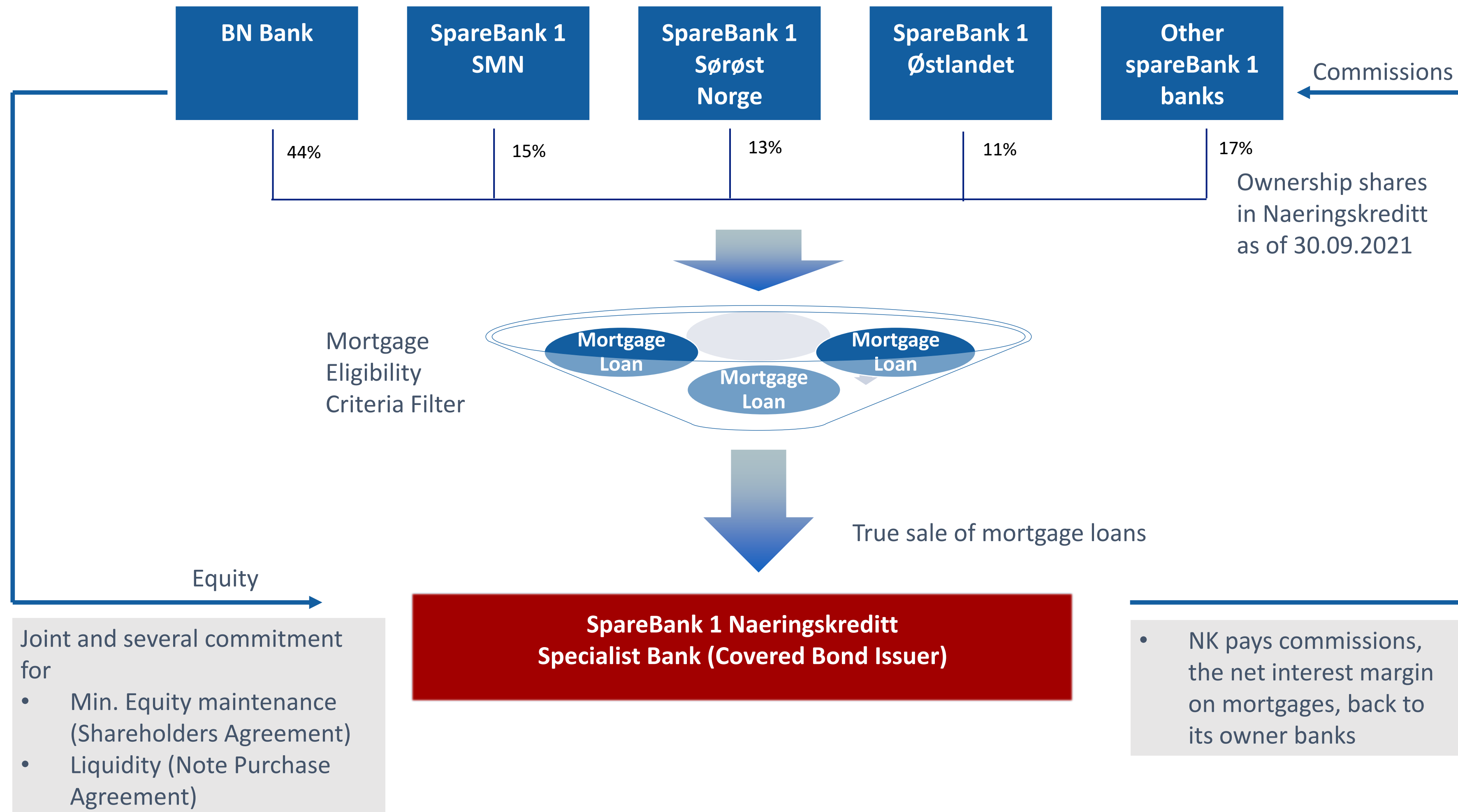
## SpareBank 1 Naeringskreditt Cover Pool overview Q3 2021

Type	5 categories of commercial and residential properties: office, logistics/warehouse, retail, hotel and large residential
Number of mortgages	221 mortgages with a weighted average interest rate of 2.3%
Average mortgage balance	NOK 43 mill. kroner (Approx. EUR 4.5 mill.)
Total balance mortgages	NOK 10 billion
Weighted average current LTV	42%
Cover pool	NOK 11,3 bn; mortgages 86%, Liquid Assets 9%, Market risk hedges 5%

- 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)

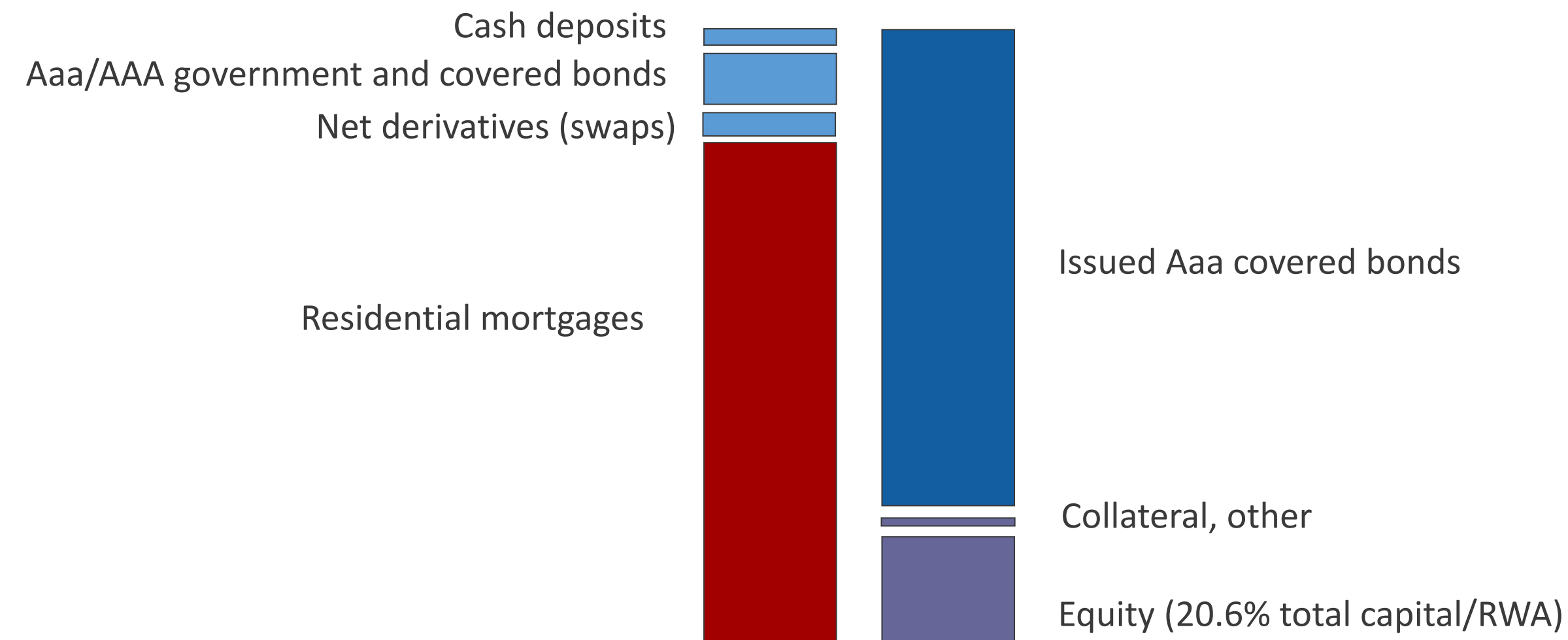
\*SpareBank 1 Østlandet and Nord-Norge: Aa3, SpareBank 1 SMN A1

# SpareBank 1 Naeringskreditt (SpaCom) mortgage loans transfer

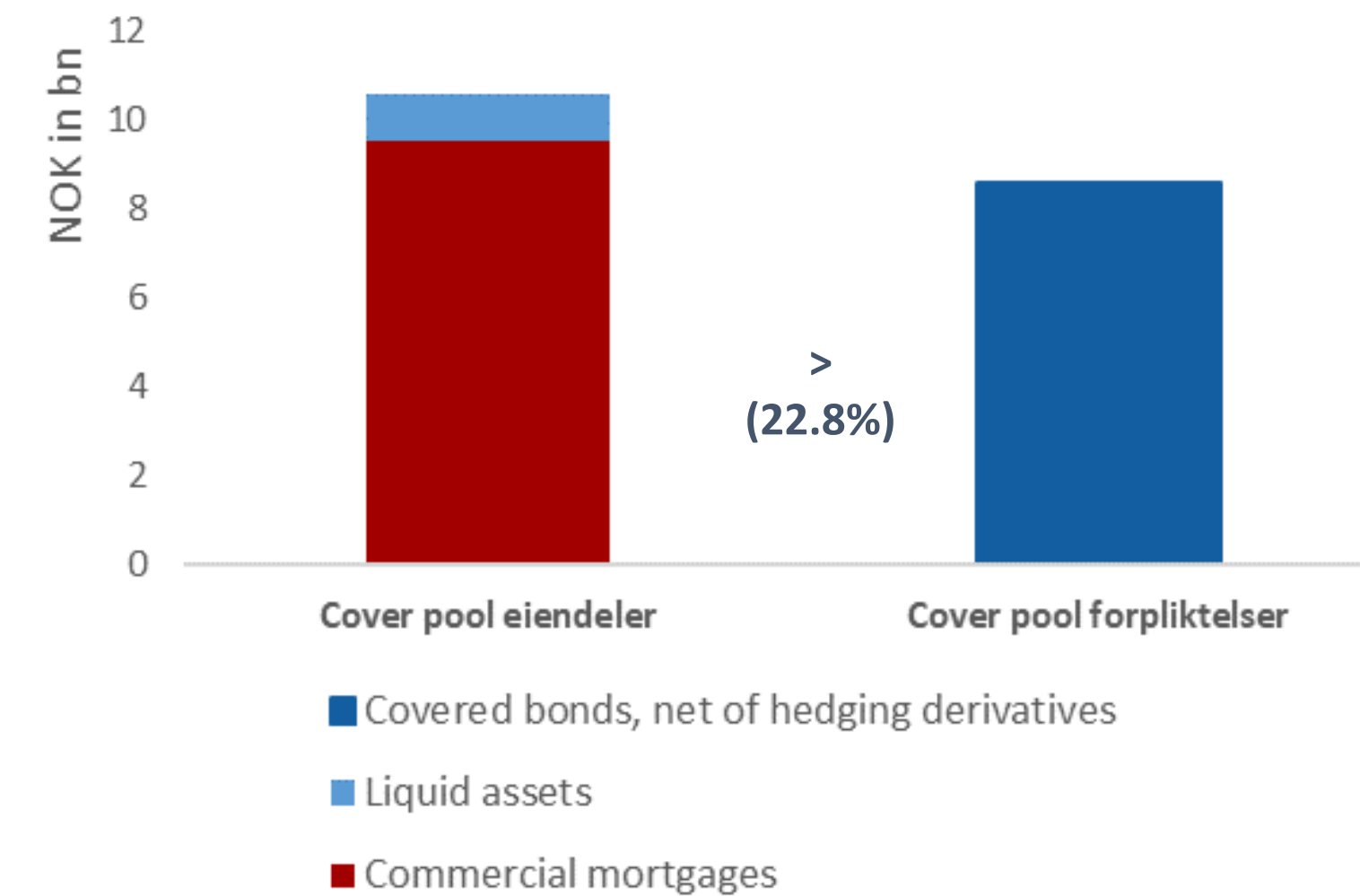


# SpaCom balance sheet and cover pool

Relative balance sheet 30.09.2021



Cover pool 30.09.2021



- 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%

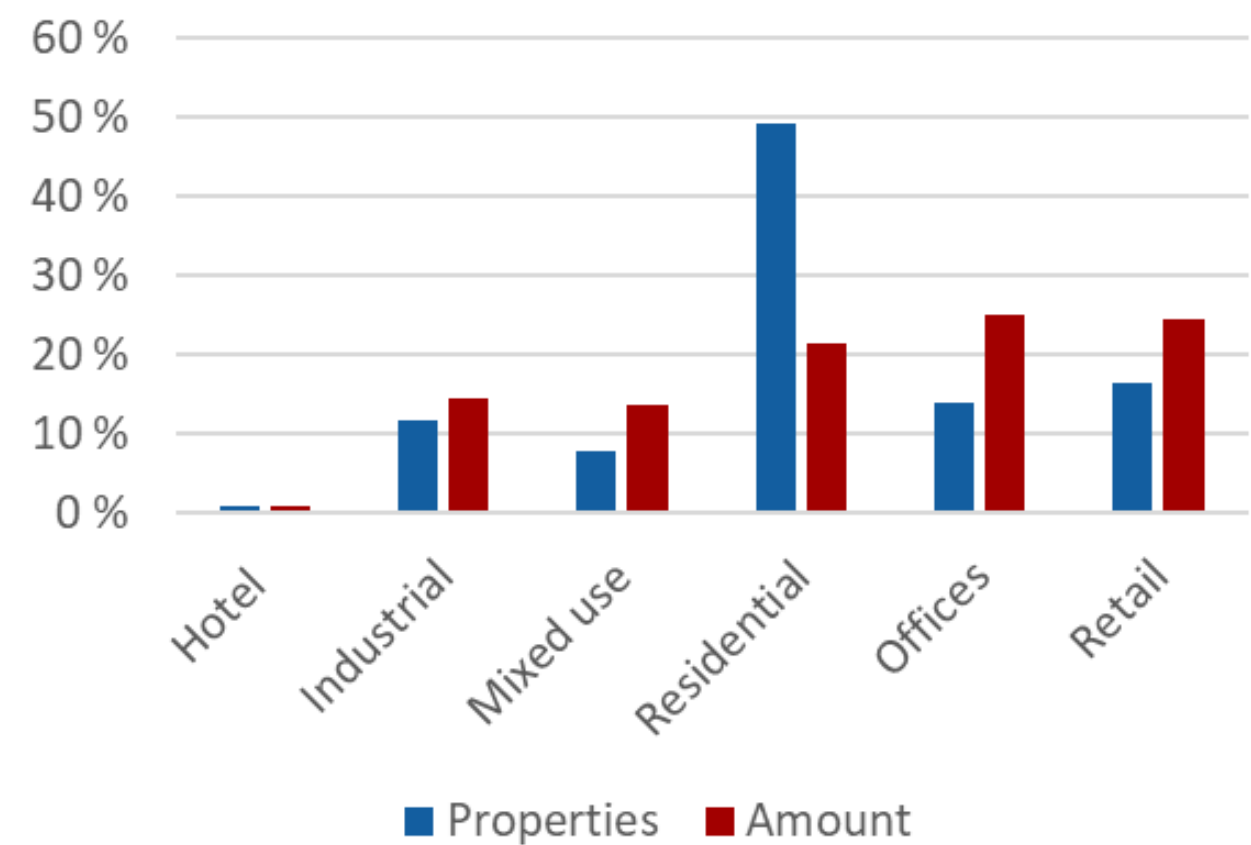
# Selection criteria for the Spacom cover pool

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

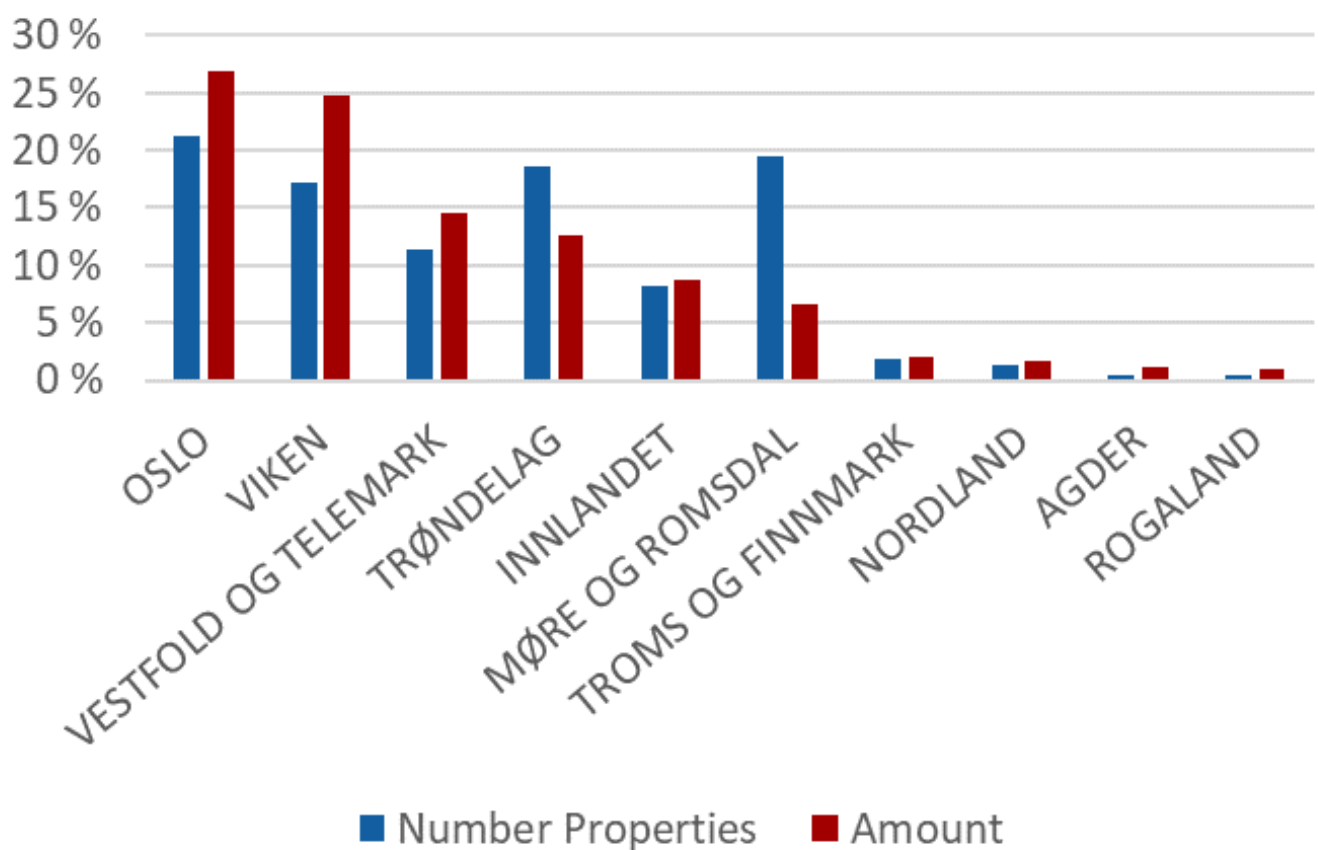


# SpaCom cover pool

Category of properties financed



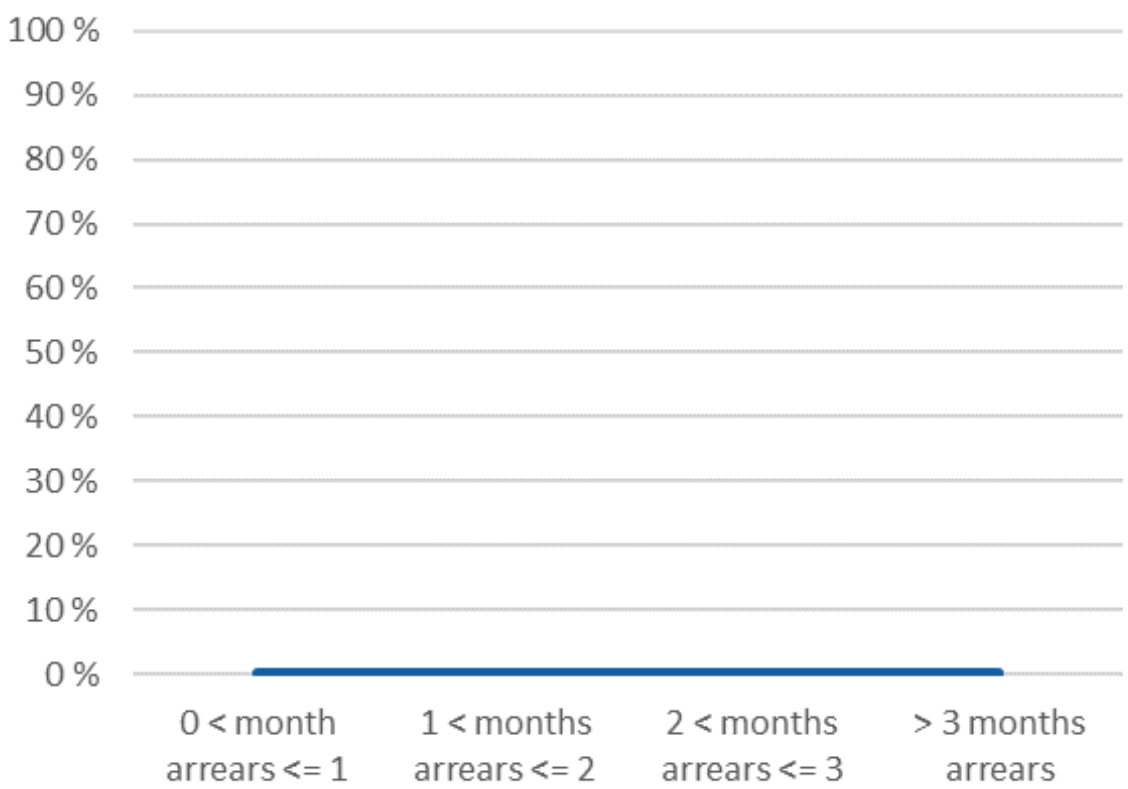
Geographical distribution (Norwegian counties)



Mortgages loan to value (LTV) range

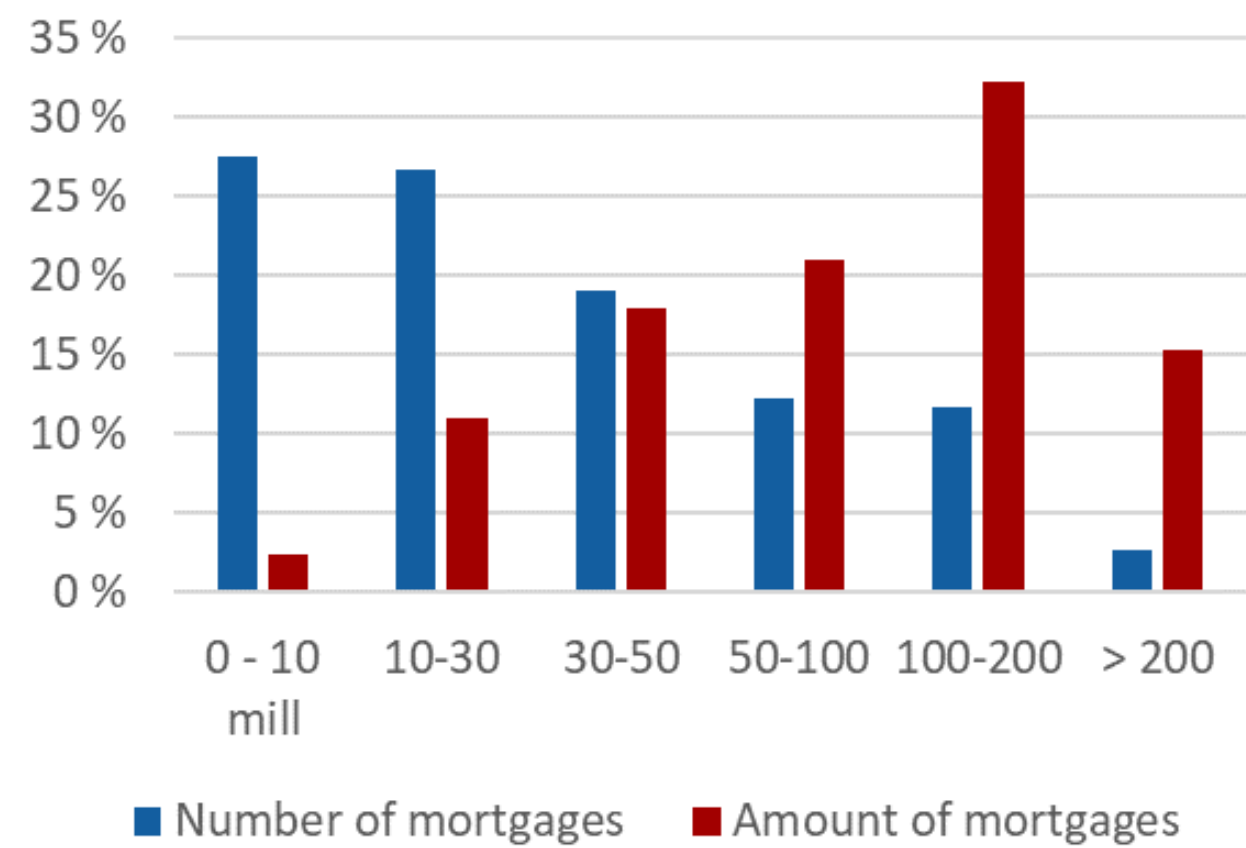


No mortgage arrears

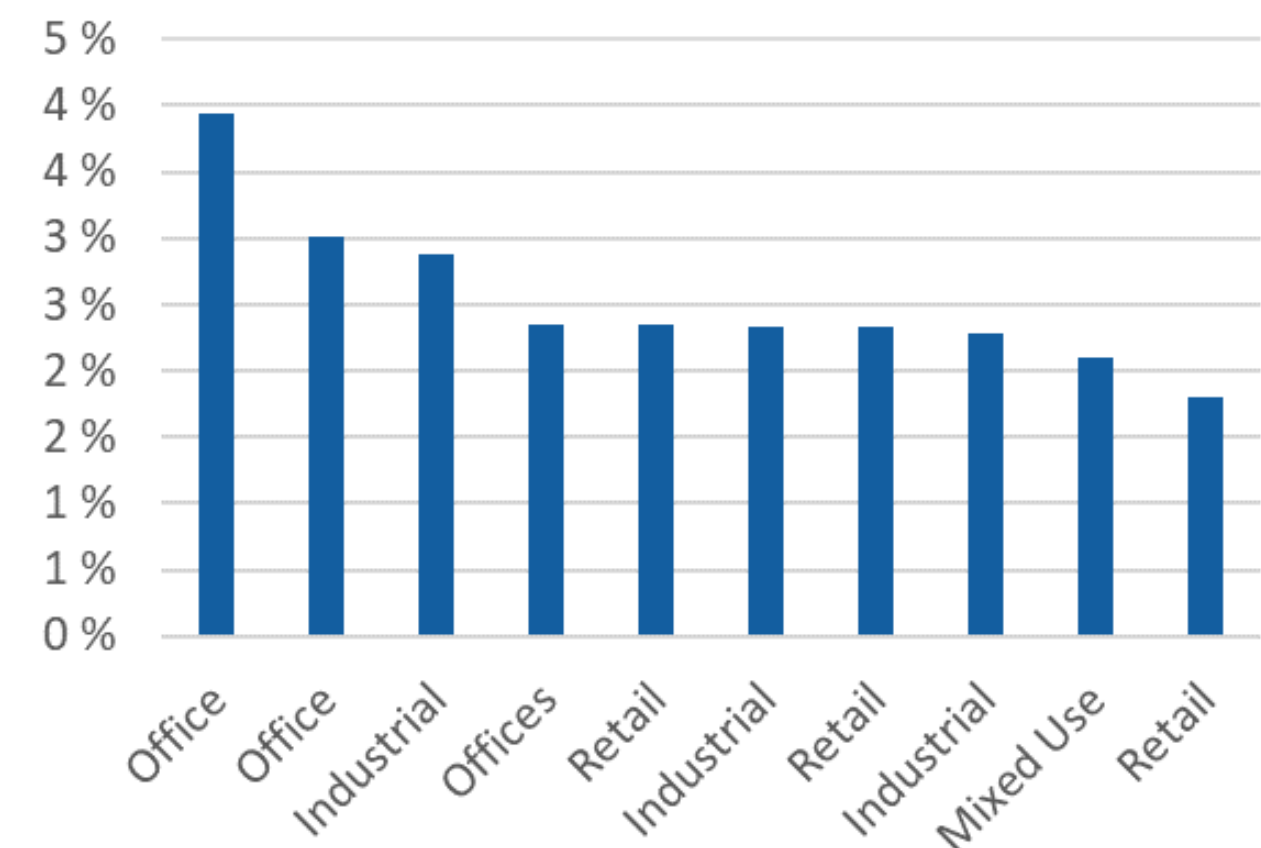


# SpaCom cover pool

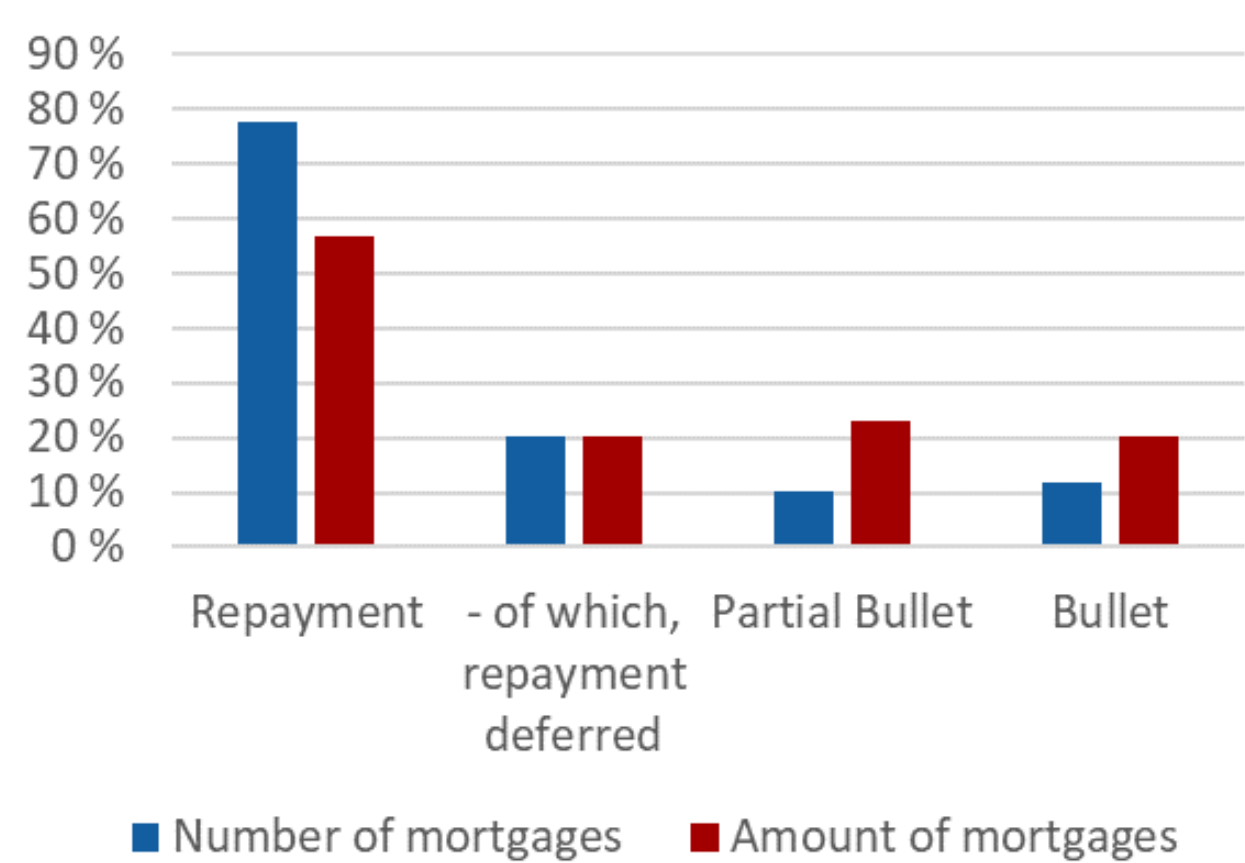
Mortgages by size range



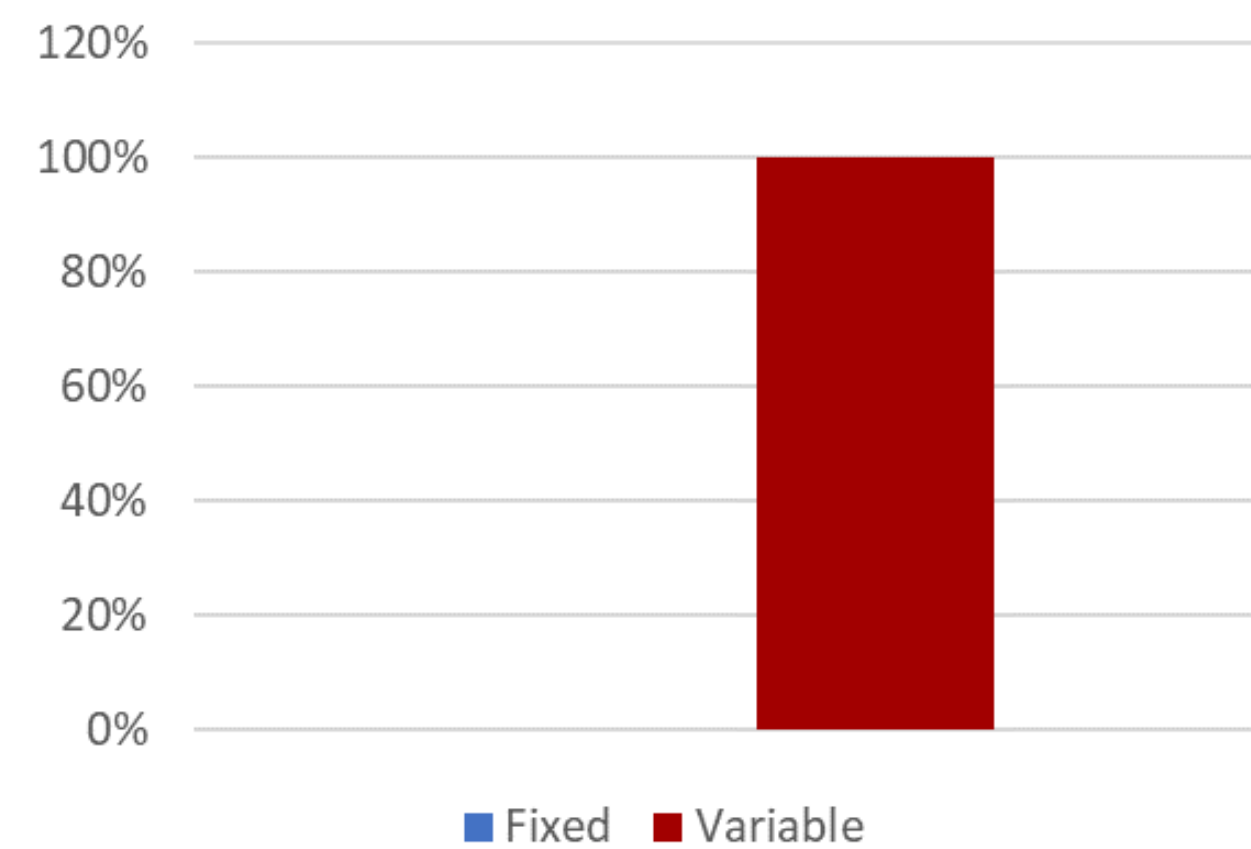
10 largest mortgages



Repayment structure



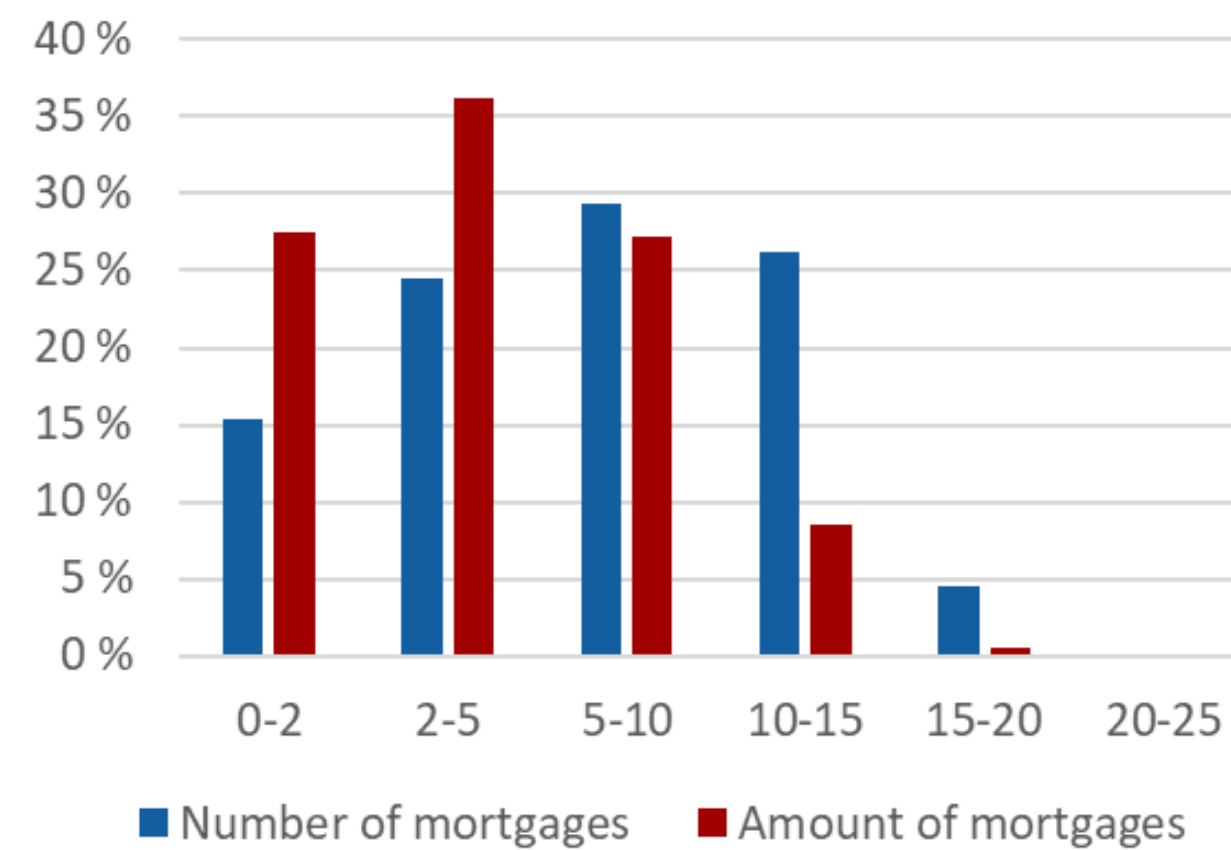
Interest rate



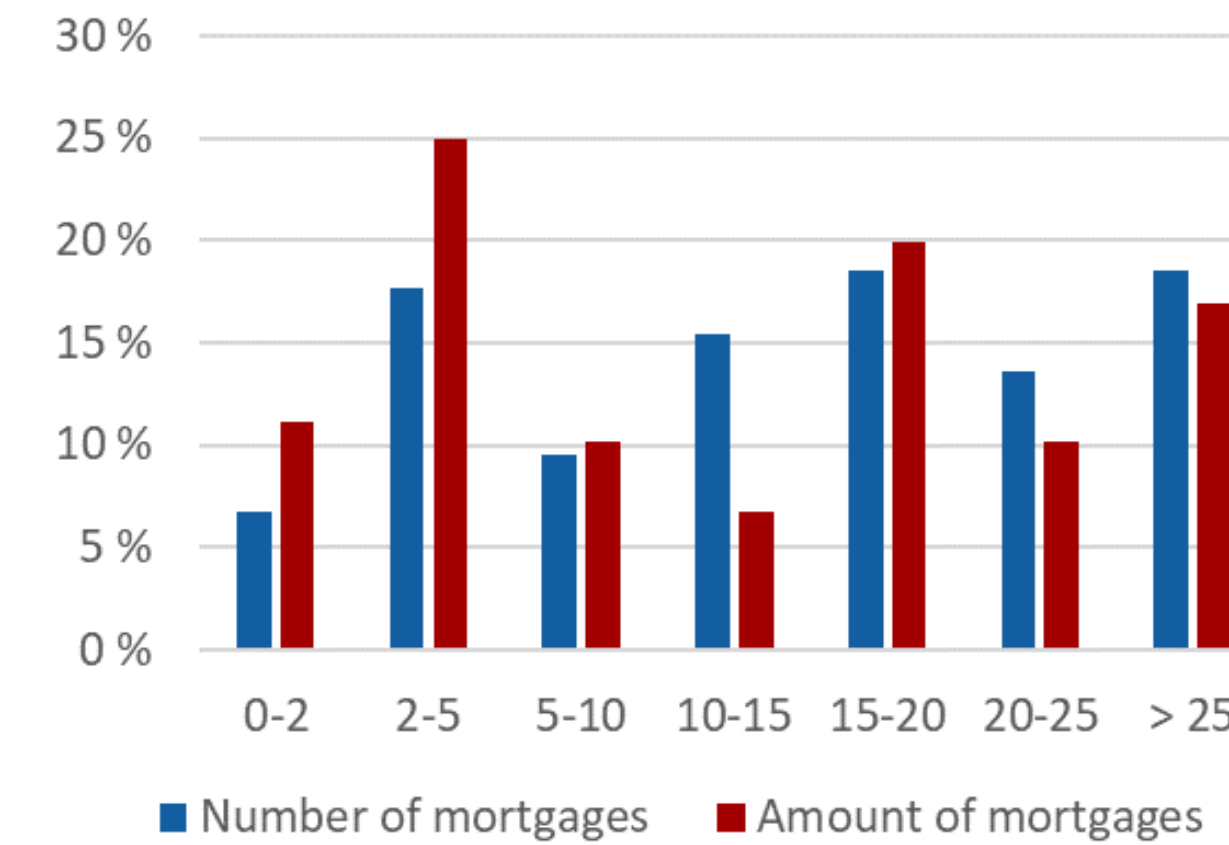


# SpaCom cover pool

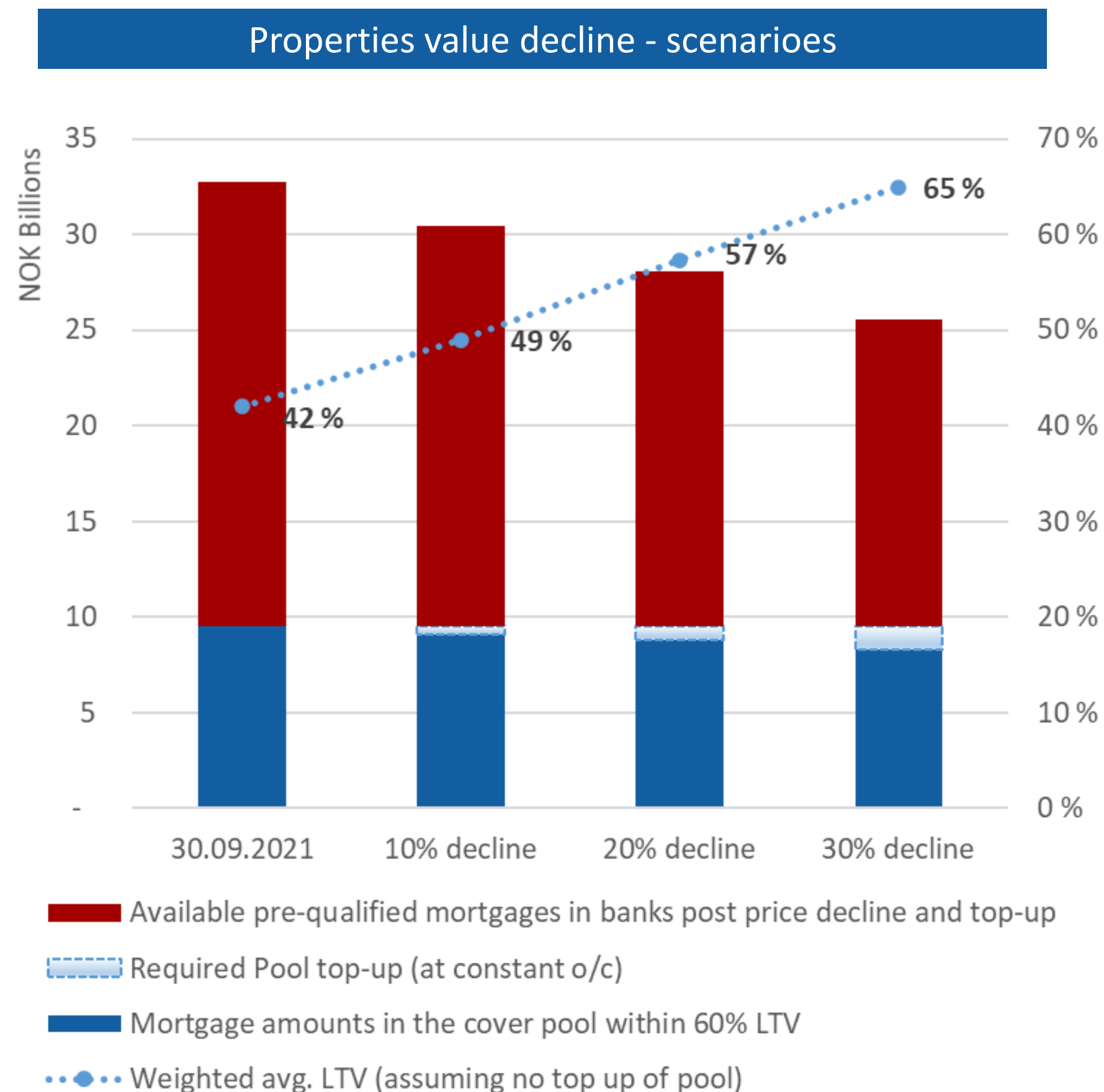
Seasoning in years



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



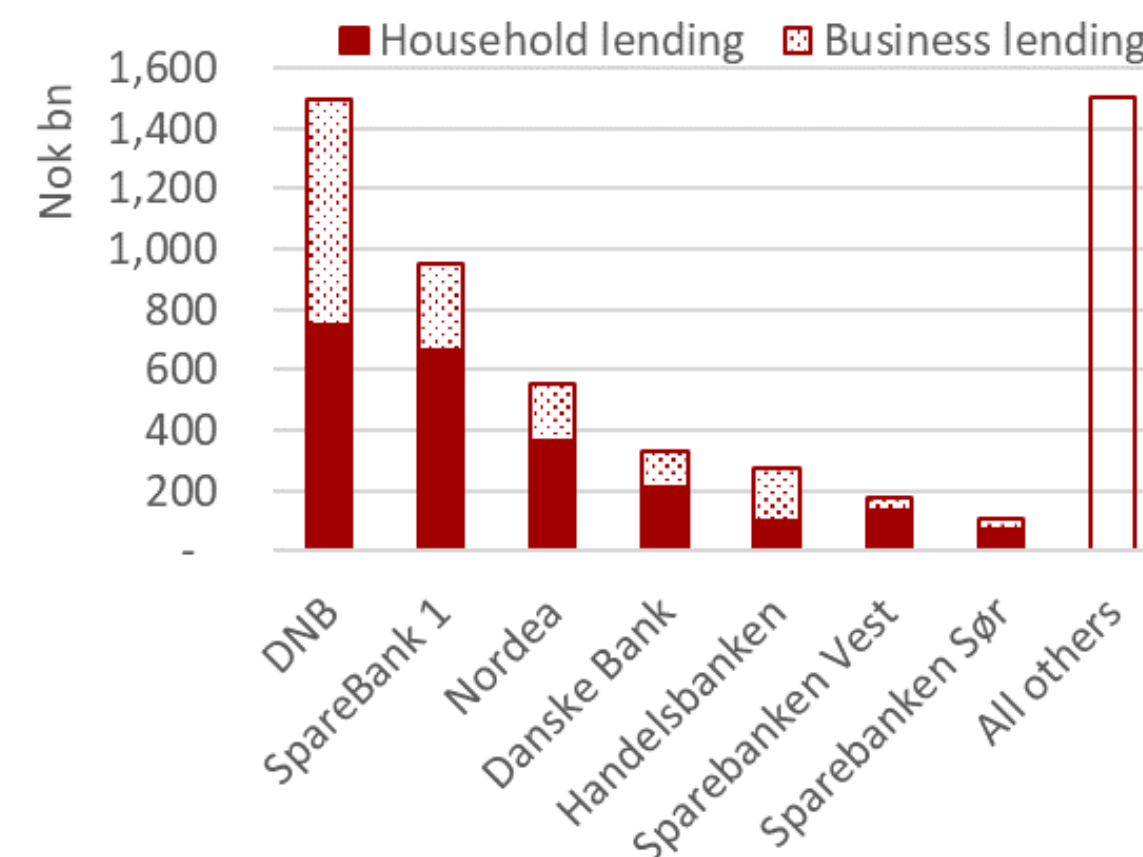
**Savings banks** (generic name: Sparebank):  
96 banks (2020), 2 alliances and independent banks



**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

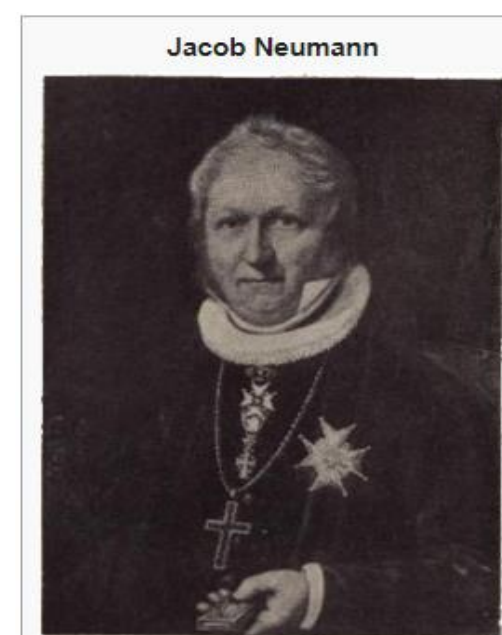
Largest banks by lending volume, Norway





# 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)





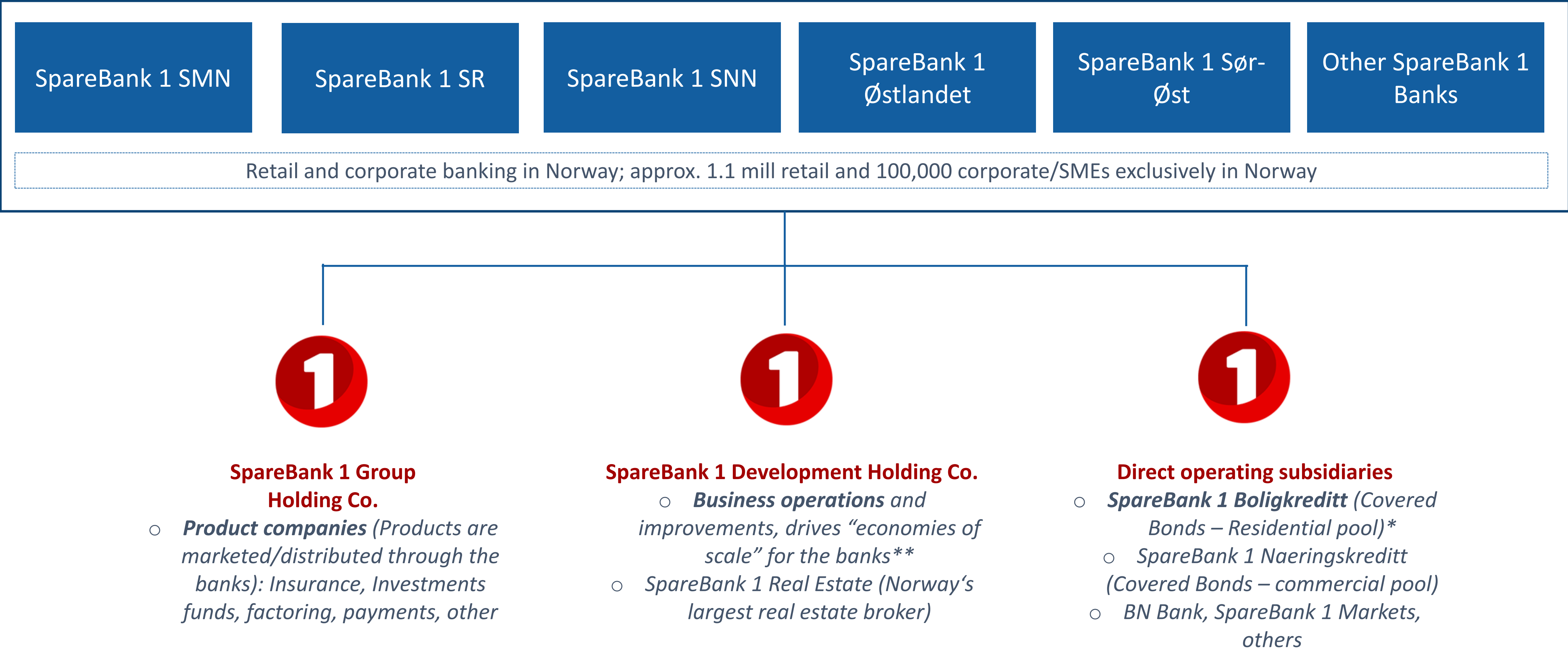
# SpareBank 1 Alliance Banks – local presence and national integration

*The Alliance was founded in 1996 and consist of 14 banks today*





# SpareBank 1 Alliance overview



\* SpareBank 1 SR-Bank is not an owner of SpaBol

\*\* Marketing and distribution, Procurement, credit risk models, IT systems, business development

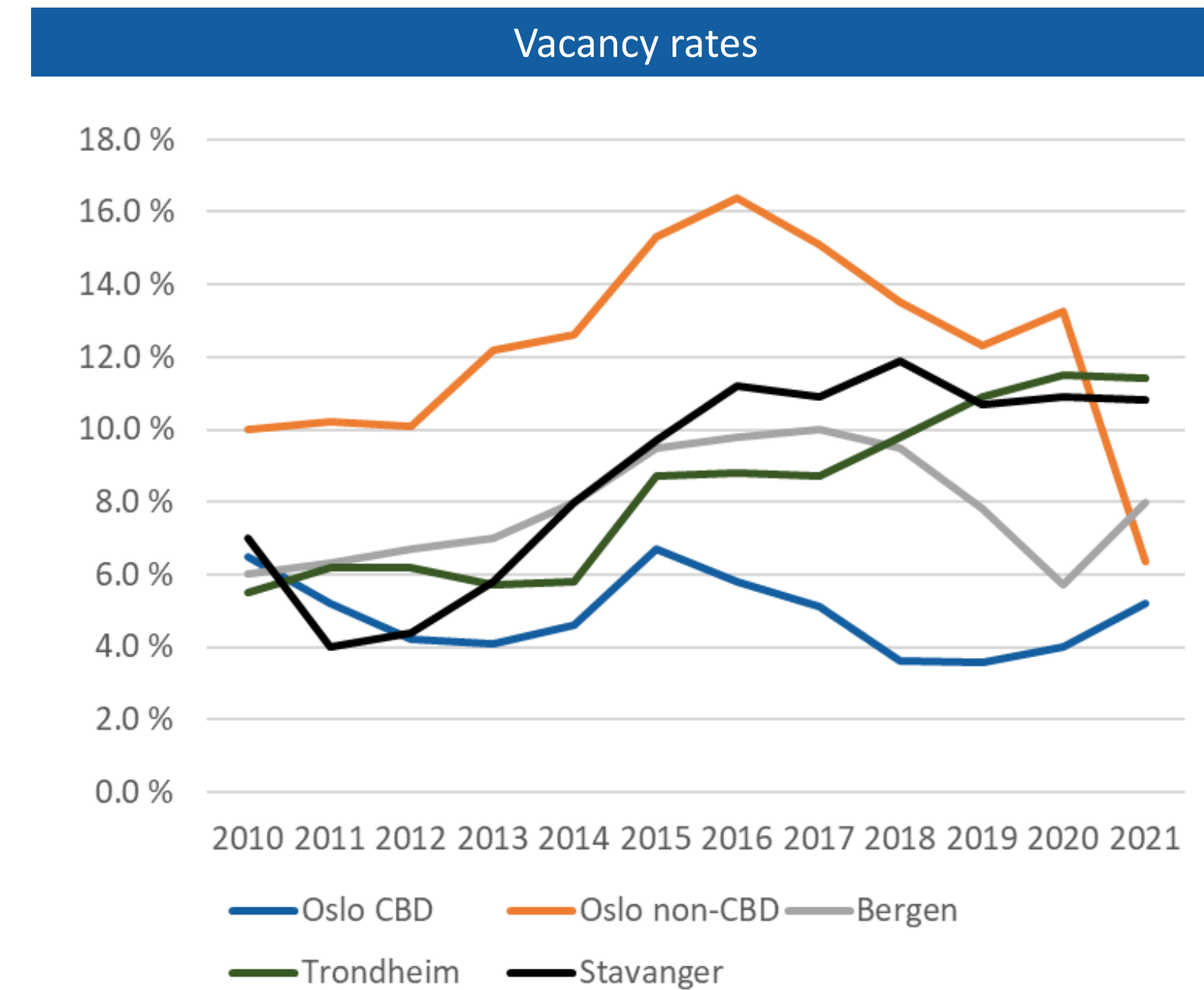
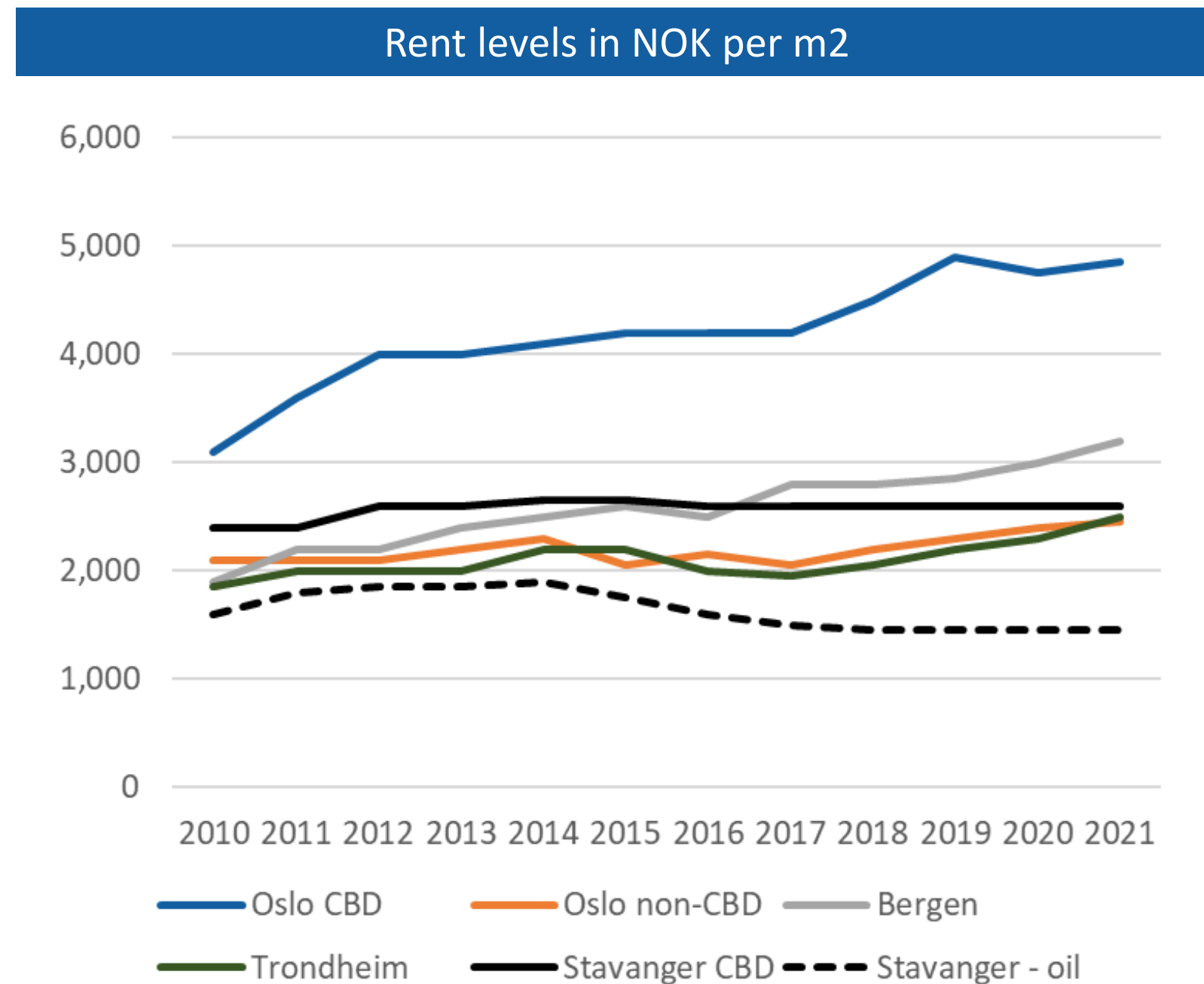


# Recent trends in the office property market





# Rent levels and vacancy in central office markets

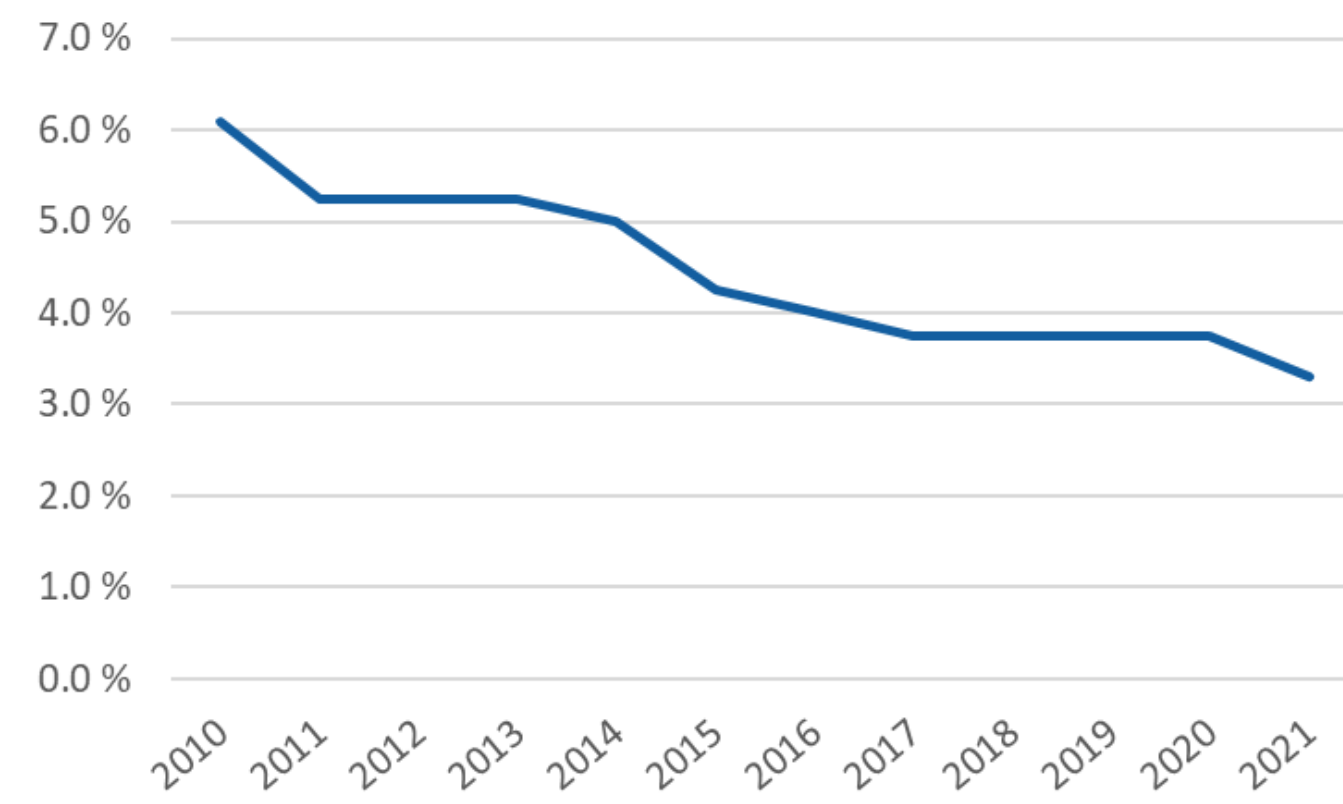


- Oslo remains sought after with low vacancy rate and high rent levels
- The oil price downturn from 2015 is visible in the vacancy levels in coastal towns outside of Oslo
- The 2020 pandemic has not changed the strength of the Oslo market

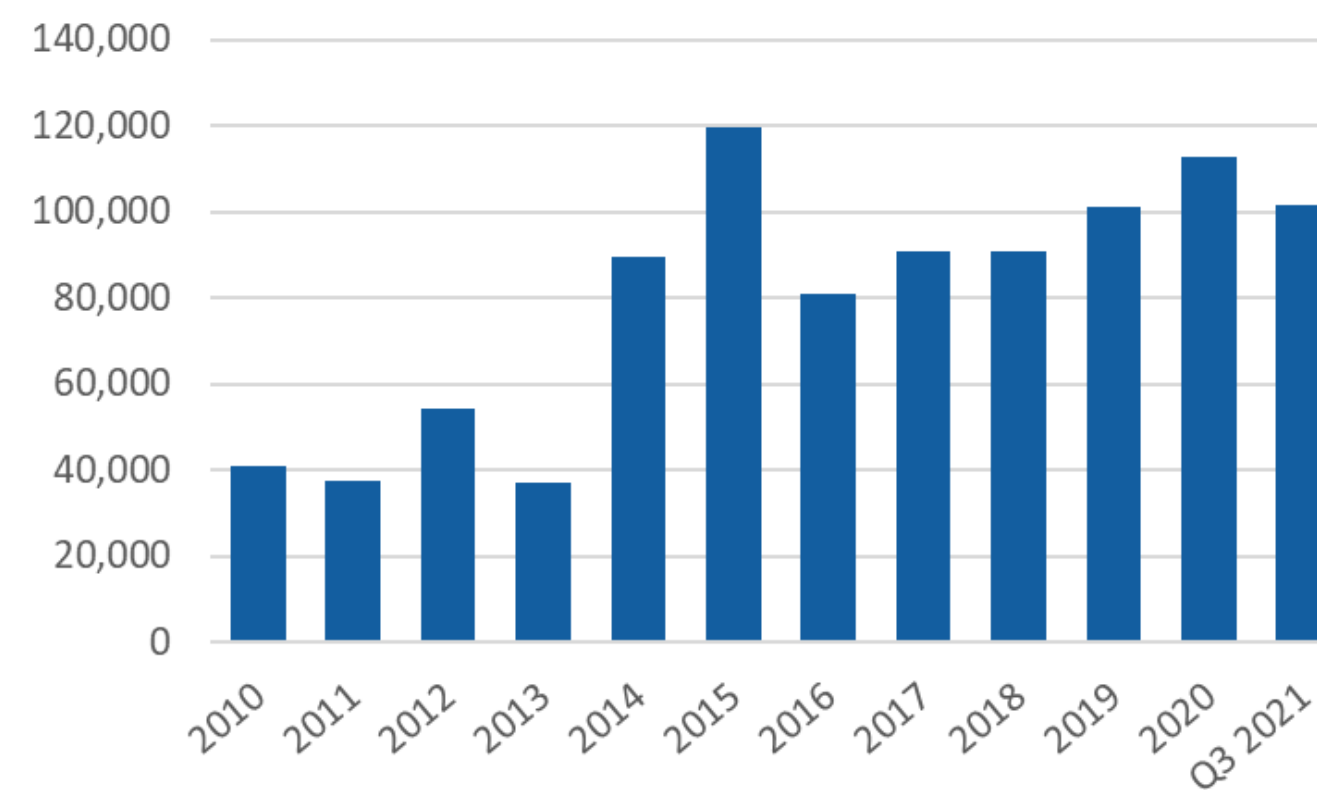


# Commercial property trends

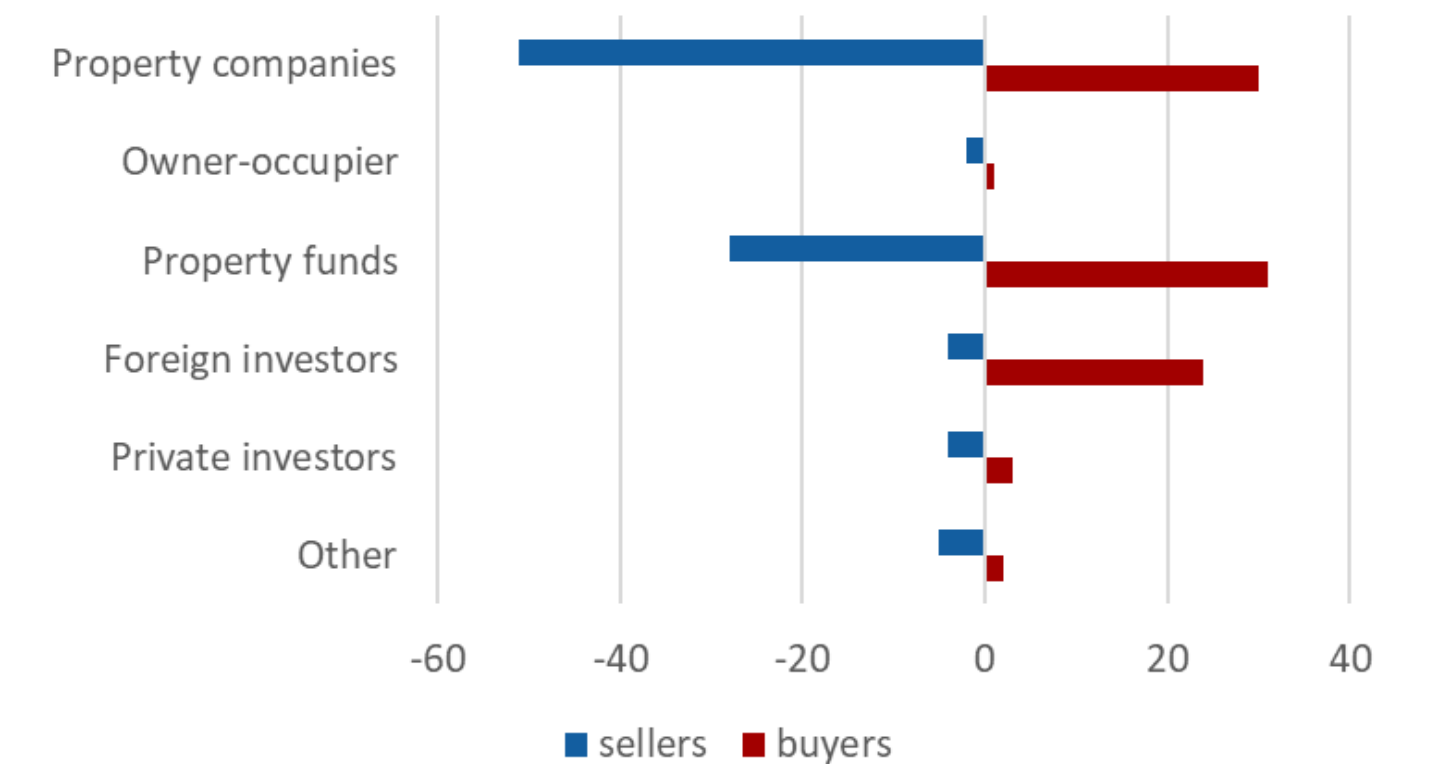
Yields prime Oslo office space



Transaction volume Norway, all commercial prop.



Buyers and sellers of commercial property 2021

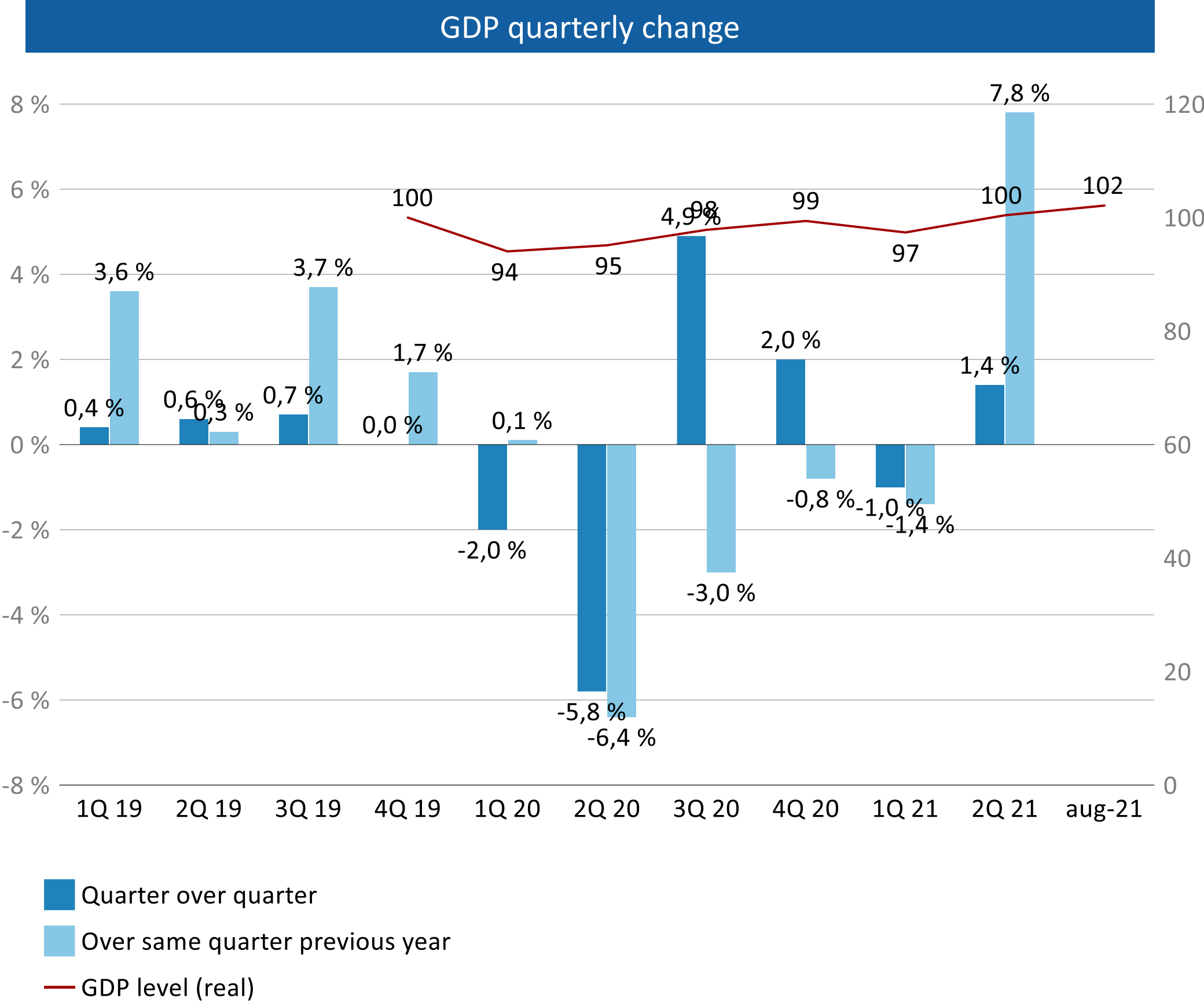
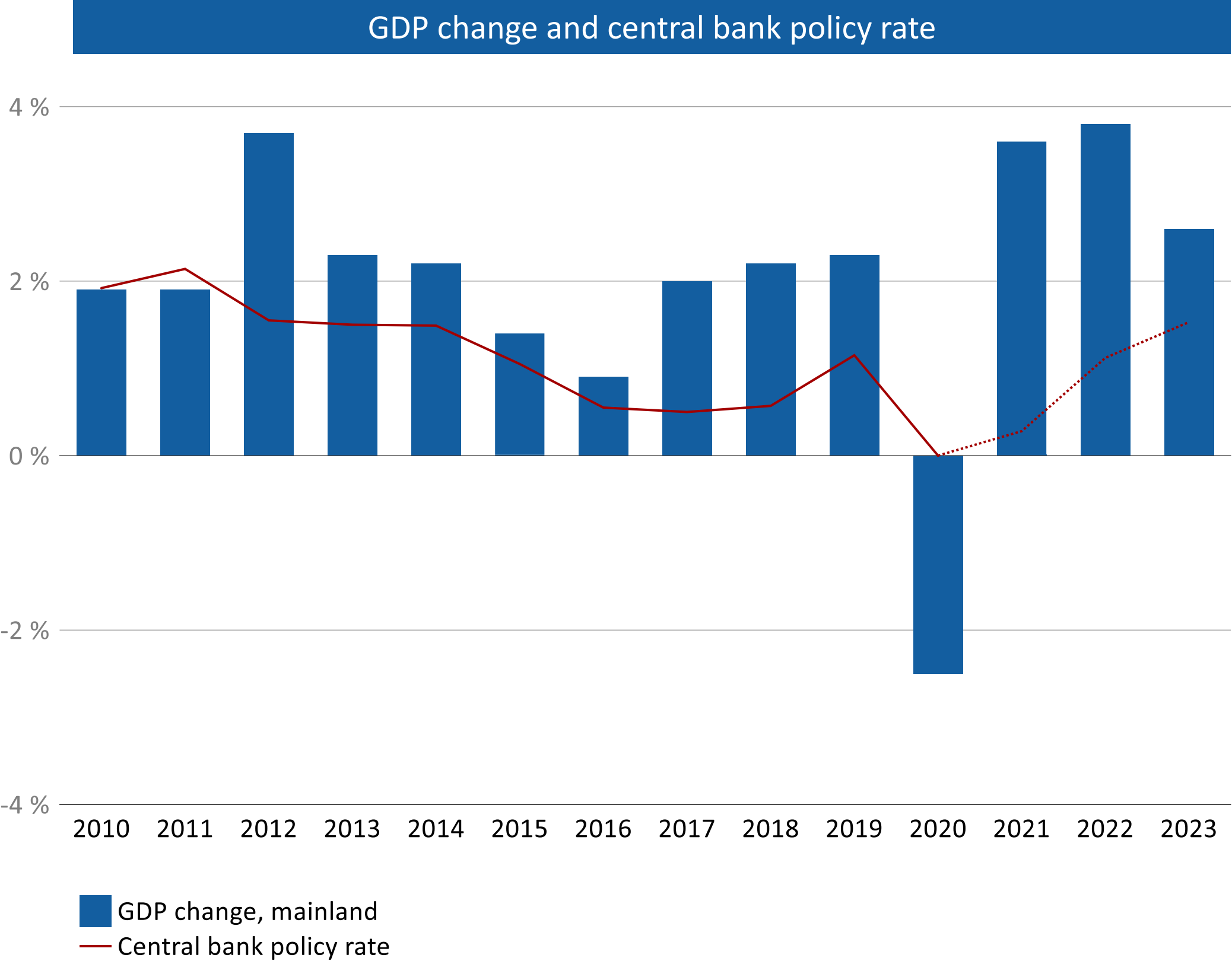




# Macroeconomic overview

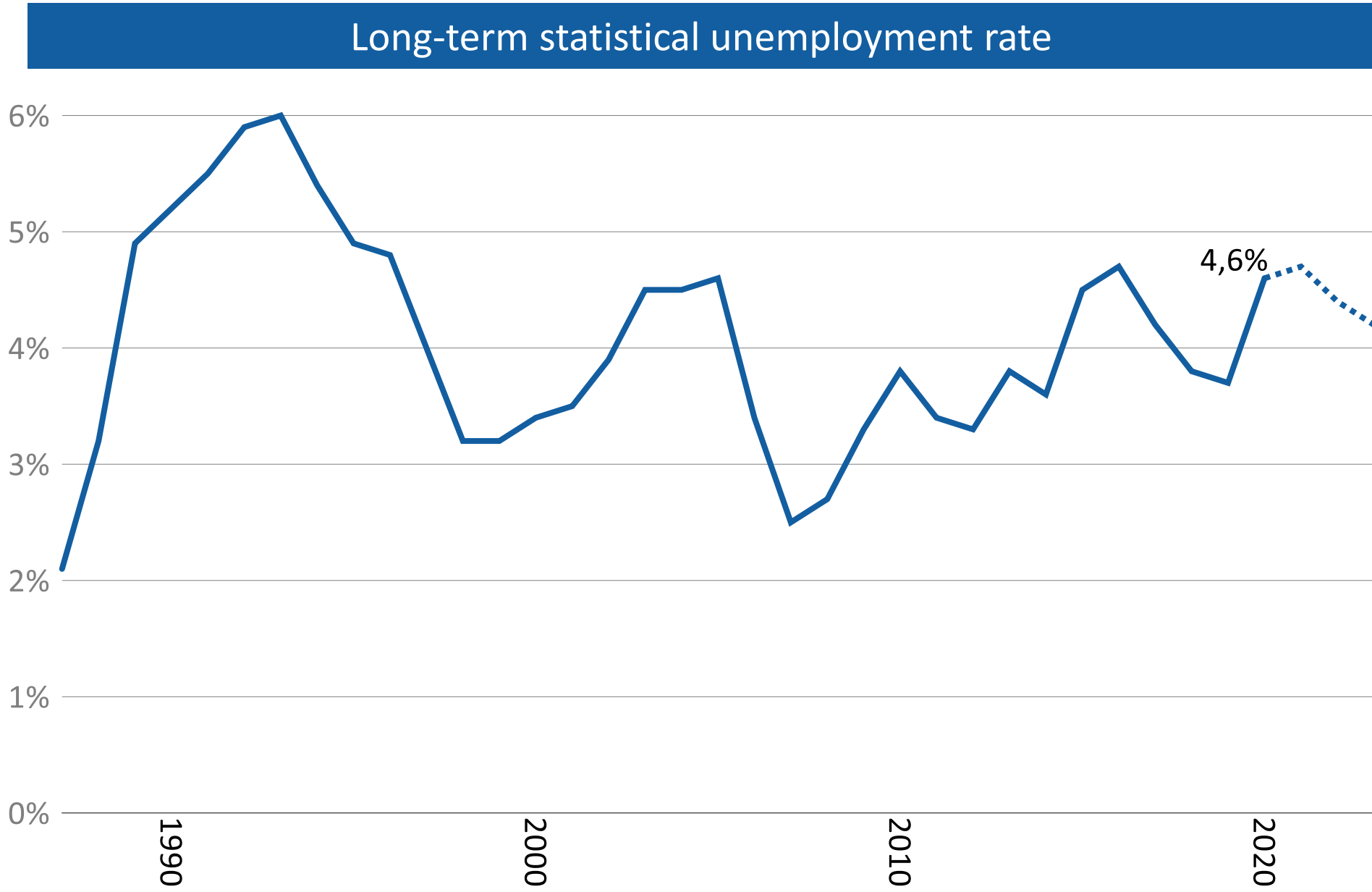
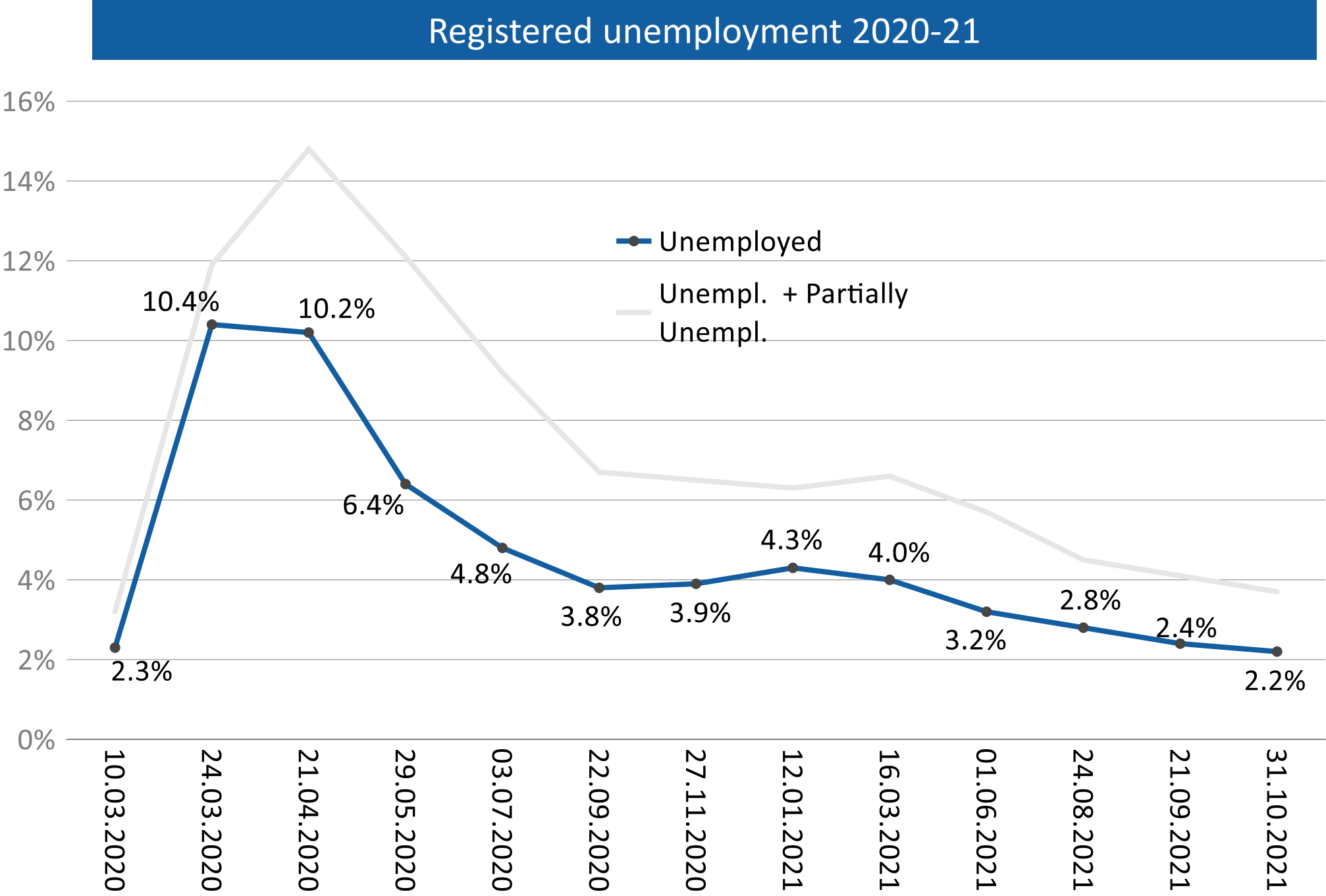


# GDP Change





# Labour Market



- The average unemployment rate is 4.6% for 2020, projected at the same for 2021 and 4.2% for 2022. Will probably be revised down for 2021-22
- The peak in the survey unemployment rate happened during the recession of the early 1990ies, while the oil price decline in 2014-16 and the pandemic caused tops



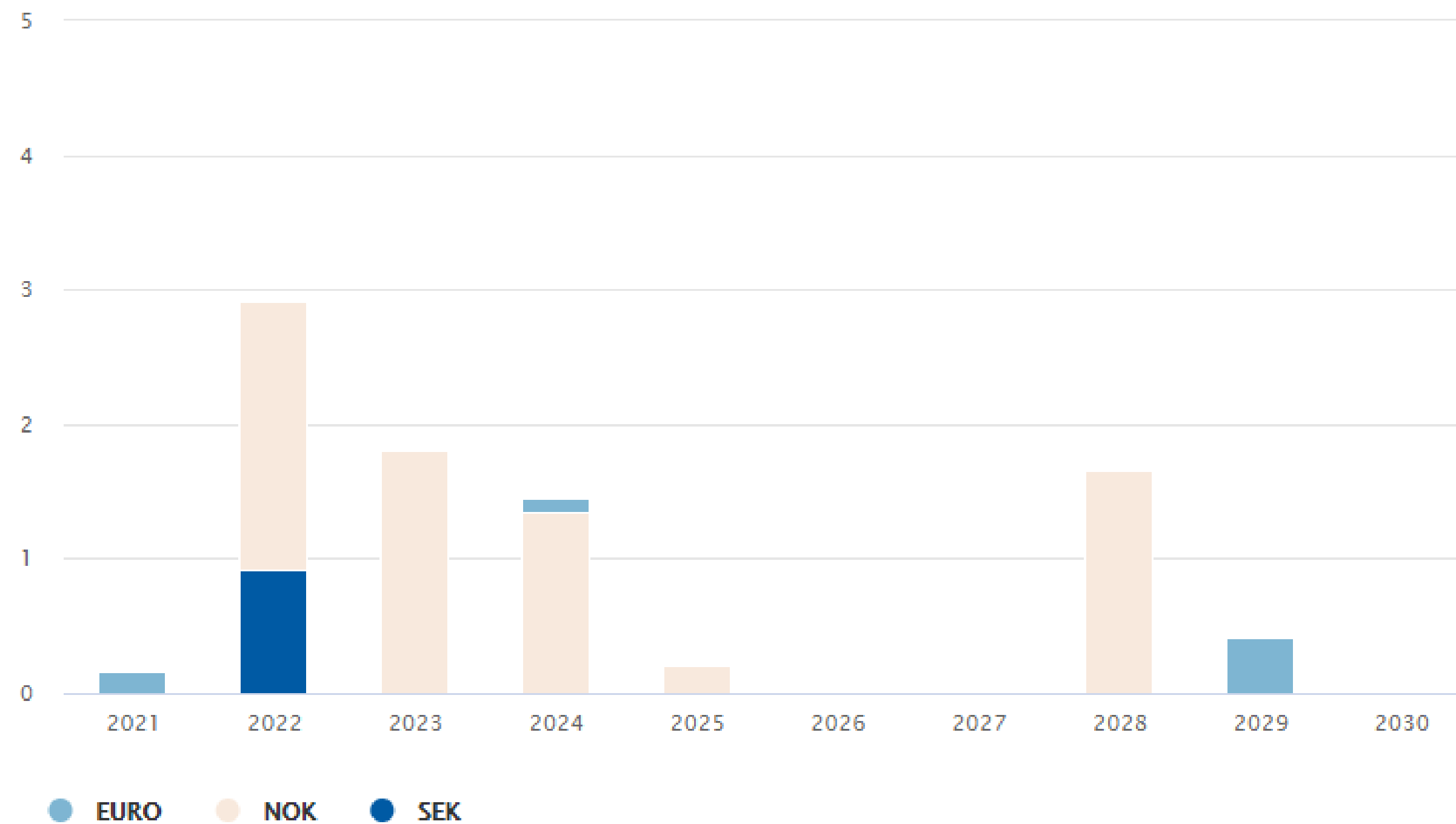


Funding



# SpaCom Covered Bonds

Balance in billions NOK



- 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



# SpareBank 1 Naeringskreditt

## Webpage and contact info

[www.spacom.no](http://www.spacom.no)

[eivind.hegelstad@sparebank1.no](mailto:eivind.hegelstad@sparebank1.no)  
Ph: +479541 3379