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CREDIT OPINION
25 August 2021

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

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) Assessment 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 the five largest 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 mortgages 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 Alliance 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 benign 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

» SpareBank 1 Boligkreditt direct exposure is exclusively to the Norwegian residential housing market and through the exposure of the individual owner banks there is a high concentration in the Norwegian housing and broader 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 largest owner banks' issuer ratings. The stable outlook balances the alliance banks' strong underlying financial fundamentals, 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 SpaBol's ratings in case of an improvement in credit quality of a majority of owner banks' credit profile. This improvement in risk profile will be evidenced by stronger asset quality and profitability metrics and reduced concentration levels.

Factors that could lead to a downgrade

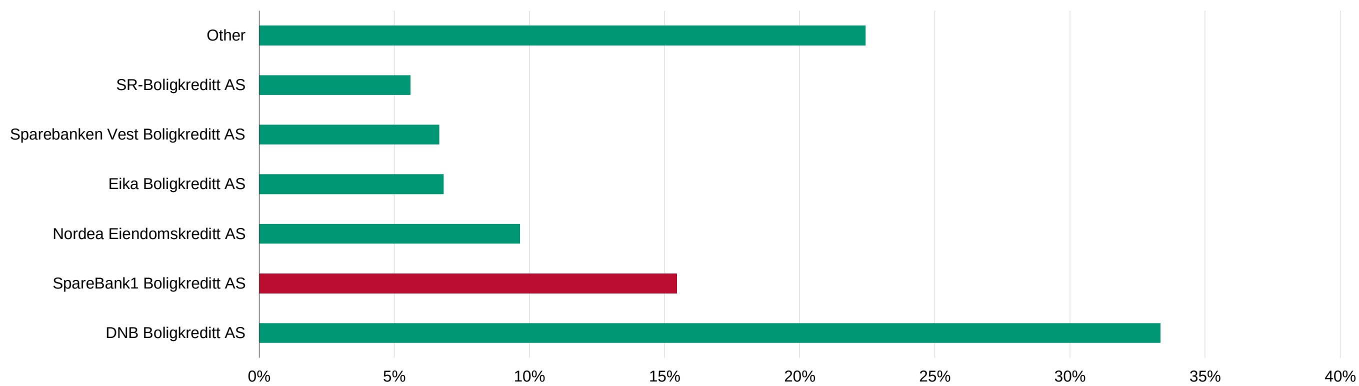
» The ratings of SpaBol would be downgraded if its credit profile or that of its bigger owner banks were to deteriorate significantly, on the back of worsening financial performance and asset quality and weakening capital metrics.

» 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 agreement and mechanism between SpaBol and the owner 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, 13 Norwegian savings banks belonging to the SpareBank 1 Alliance, the second largest banking group in Norway with around 22% reported combined market share in residential mortgages as of year-end 2020. Accordingly, SpareBank 1 Boligkreditt is the second biggest player in the Norwegian covered bond market, with an issuer volume market share of around 17% as of June 2021 (see Exhibit 1).

Exhibit 1
Norwegian Covered Bond market by issuer volume as of Q1 2021



Source: Finance Norway

Individual member banks operate independently from each other, but there are various benefits that the SpareBank 1 Alliance provides. Such benefits include shared information technology infrastructure, marketing and common non-core banking products/services through affiliate companies. We believe that these benefits act as incentives for member banks to remain part of the SpareBank 1 Alliance, and continue making use of SpaBol as well as the validity of their support commitment.

Recent developments

We expect significantly stronger global economic activity this year than last year, but the effects on individual businesses, sectors and regions continue to be uneven, and the COVID-19 crisis will endure as a challenge to the world's economies. Timing and pace of expansion is closely tied to continued progress with vaccinations which in Norway is broadly in line with the EU and appears close to breaking the cycle of infections.

We expect the Norwegian mainland economy (excluding any oil-related activity) to rebound by 3.5% in 2021 after contracting by 2.5% in 2020. Unemployment, which peaked in March 2020 at 10.6% according to the Norwegian Labour and Welfare Administration, has declined to 3.1% as of July 2021.

In April we changed our outlook on the Norwegian banking system to stable from negative. This reflects our expectation that the Norwegian economy will recover strongly in 2021 after a coronavirus-induced downturn last year, exacerbated by a fall in oil prices. Norwegian banks will maintain good asset quality, as well as strong capitalisation and solid profitability. Their dependence on market funding will remain high, although offset by ample liquidity.

Detailed credit considerations

Norway's 'Very Strong-' Macro Profile remains supportive towards the banks' stand alone credit profiles

SpaBol and its owner banks operate solely in Norway. We assign a Very Strong- Macro Profile to Norway given that its banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as a very low susceptibility to event risk. Norway has a diversified and growing economy, which demonstrated resilience to the past weakening in the oil sector.

The main risks to the system stem from a high level of household indebtedness, elevated real estate prices and domestic banks' reliance on market funding. However, these risks are mitigated by the strength of households' ability to service debt, banks' adequate capitalisation, and the relatively small size of the banking system compared to the total size of the economy.

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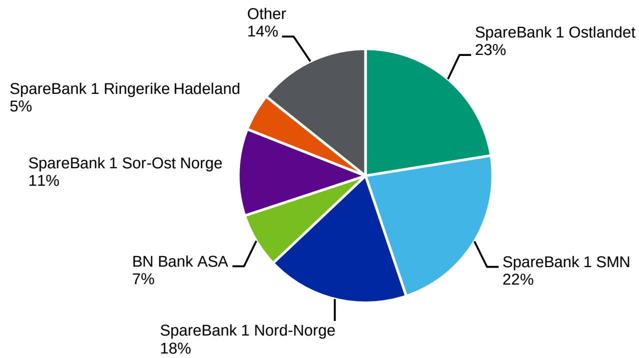
Healthy credit profiles across the Alliance banks drive SpaBol's ratings

The credit profiles of the top four owner banks in the Alliance (SpareBank 1 Ostlandet - 22.5%, SpareBank 1 SMN - 22.4%, SpareBank 1 Nord-Norge - 18.1%, and SpareBank 1 Sorost-Norge - 11.1%, as well as SpareBank 1 Ringerike Hadeland - 4.7% constitute the anchor point that drives the ratings assigned to SpareBank 1 Boligkreditt. These five Alliance banks had a joined ownership of almost 80% in SpareBank 1 Boligkreditt as of June 2021 (see Exhibit 3). SpareBank 1 SR-Bank had been gradually reducing its ownership in SpaBol in the last few years and by year-end 2020 has fully exited as a shareholder and has been increasingly leveraging its own covered bond company (SR-Boligkreditt AS).

Exhibit 2
SpareBank 1 Boligkreditt's Ownership as of June 2021



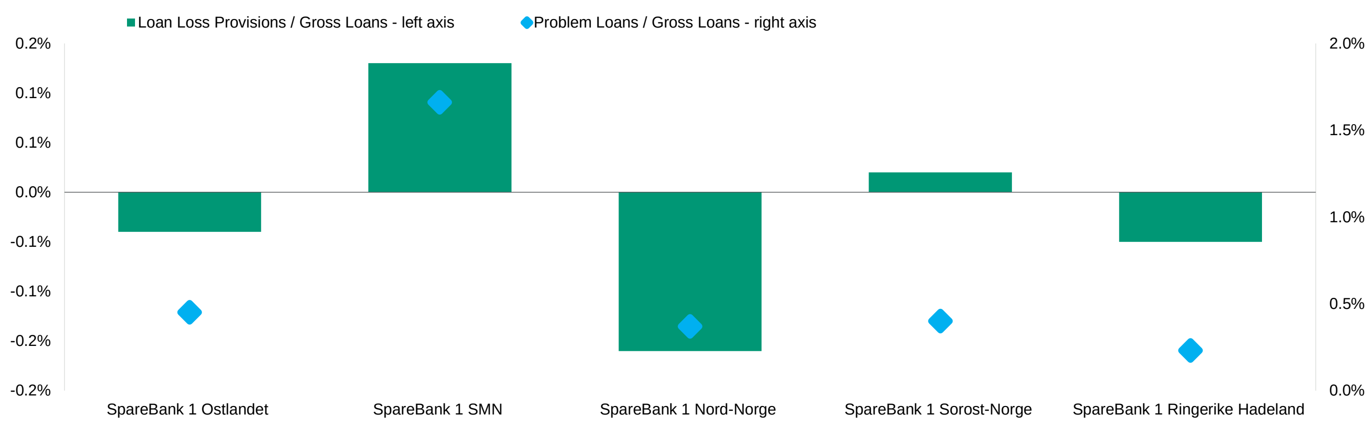
Note: "Other" includes other bank members of the Alliance with individual ownership below 5%
Source: SpareBank 1 Boligkreditt Q2 2021 report

These banks 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 into 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 and capacity to support SpaBol in case of need.

Strong overall asset quality metrics across the Alliance banks and SpaBol

The SpareBank 1 Alliance banks have generally strong individual asset qualities and transfer to SpaBol only well performing residential mortgages. These 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 above five SpareBank 1 Alliance banks was below 1% as of March 2021 (see Exhibit 4). The relatively low NPL ratio reflects the banks' high quality loan book, despite some sector and geographic concentrations at individual bank-levels. Accordingly, we do not foresee any significant downward pressure to SpaBol's ratings.

Exhibit 3
Good asset quality among SpareBank 1 Alliance banks despite high concentrations, March 2021



Source: Moody's Investors Service, Company reports

SpaBol reports a zero NPL ratio, while we expect its loan quality to remain excellent 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 are very low, and unemployment benefits and coronavirus related support measures remain generous.

SpareBank 1 Boligkreditt's residential mortgage portfolio is well diversified, with granular loan balances in the cover pool (average size of around NOK1.5 million). We note that the banks in the SpareBank 1 Alliance are required to keep reserves of eligible mortgages (i.e. cover pool pre-qualified) in order to provide replacement assets should this be needed. Such reserves in the banks are robust, and are tested regularly to ensure that a 30% decline in real estate prices can be handled, with sufficient qualifying reserves replenishing the cover pool.

During the coronavirus crisis, some mortgage holders applied for deferral of scheduled principal repayment. The outstanding full balance of such loans peaked in the first half of 2020 to around 9% of the mortgage portfolio that are repayment mortgages, with principal deferral for up to six months (interest continues to be serviced), however by year-end 2020 the outstanding balance dropped to pre-pandemic levels and remaining broadly unchanged as of end-March 2021.

Robust capital buffers across the Alliance banks and SpaBol

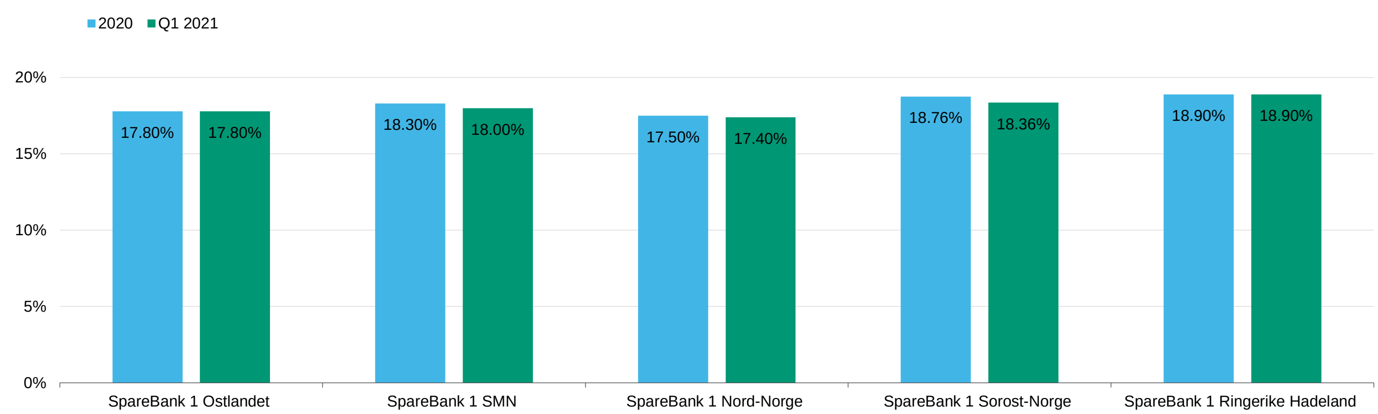
In response to the pandemic the Norwegian FSA revised banks' capital requirements during the first quarter of 2020 when the countercyclical capital buffer requirement was reduced by 150 basis points (bps) to 1.0% to allow banks more flexibility. In June 2021 it was announced that the countercyclical capital buffer will be increased by 50 bps as of June 2022 and we expect further increases in 2022 and 2023.

SpaBol's own common equity Tier 1 (CET1) ratio was at 18.3% as of June 2021, well above its regulatory requirement of 13.4%. Furthermore, the large SpareBank 1 Alliance banks are well capitalised, with an average Common Equity Tier 1 (CET1) ratio of around 18% as of March 2021 (see Exhibit 5), 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.

Exhibit 4

SpaBol's owner banks are well capitalised and able to provide support in case of need

CET1 capital ratios as of March 2021



Source: Moody's Investors Service, Company reports

Profitability at Alliance banks to remain strong

Our ratings take into account the robust profitability of the rated SpareBank 1 Alliance banks, and our expectation that banks will record lower provisioning expenses in 2021 relative to 2020. SpaBol and its parent banks have recorded a sharp decline in provisioning costs and losses on financial instruments during Q1 2021 and Q2 2021 and even some reversals as the economy continues to recover. This has resulted in an average return on equity (RoE) of around 12.8% as of March 2021, compared with just 4.1% as of March 2020 and 9.8% in December 2020.

Looking ahead, we expect that parent banks' profitability to improve in 2021 compared with 2020, when loan loss charges spiked in response to the coronavirus pandemic. Increased credit demand will support core revenues, although we expect sustained net interest margin pressure from low interest rates and stiff competition in the mortgage market. To date, profitability of the Alliance banks was supported by good loan growth and solid mortgage loan performance, which we expect to be maintained. 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.

High dependancy on market funding mitigated by strong liquidity

In terms of liquidity and funding, the five rated Alliance banks had an average ratio of Market Funds to Tangible Banking Assets of around 33% as of March 2021. This is relatively high due to the Alliance banks' predominant reliance on funding from covered bonds issued by SpaBol, a common funding source for most rated Nordic banks.

The high dependancy on market funding is partly mitigated by the good track record of access to capital markets and available liquidity. The average liquid banking assets to Tangible Banking Assets was 14.6% and the average Liquidity Coverage Ratio (LCR) was around 164% as of the same date.

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. Currently there are NOK36 billion of mortgages at Spabol that could qualify for green covered bond issuances. So far, Spabol has EUR2bn and SEK8.5bn green covered bonds outstanding.

We believe banks face moderate social risks. The most relevant social risks for banks arise from the way 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 and banks' long track record of handling sensitive client data. In addition, we regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. See our social risk heat map for further information. Overall, we consider SpaBol and its parent banks 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

SpaBol's A2 issuer rating is positioned one notch below the weighted average debt rating of the SpareBank 1 Alliance member banks (A1), reflecting our view of the likelihood that the owner banks will support it in case of need, as outlined in the Shareholders' Note Purchase Agreement (SNPA) and Shareholders' Agreement. The legal and publicly available agreements in place between the member banks and SpaBol, protect the later's access to liquidity and capital and stops short of a full guarantee of timely payment.

Specifically, the owner banks have agreed to maintain SpareBank 1 Boligkreditt's common equity Tier 1 (CET1) capital ratio (21.3% as of June 2020) above its regulatory requirement (currently at 13.4%), 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

No rated SpareBank 1 Alliance banks 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

SpaBol's CR Assessment is 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, as outlined in the 'Affiliate support' section above.

Counterparty Risk Rating

SpaBol's Counterparty Risk Rating is 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, as outlined in the 'Affiliate support' section above.

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

Moody's Banks Methodology (July 2021) 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 5

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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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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