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22 October 2022

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RATINGS

SpareBank 1 Boligkreditt AS

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

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

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 outlook on the long-term issuer ratings is positive, in line with the rating outlook of SpareBank 1 SMN (A1, A1, positive, Baa1[1]), the second largest owner bank.

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 Positive outlook assigned to SpaBol's issuer rating is in line with the positive outlook assigned to SpareBank 1 SMN, which if upgraded would reflect an improvement in the weighted average credit profile of the owner banks.

Factors that could lead to an upgrade

» The ratings of SpaBol would be upgraded if the owner banks' weighted average credit profile strengthened. SpaBol's ratings could also be upgraded in case of increased likelihood of the owner banks supporting it.

Factors that could lead to a downgrade

» Given the positive outlook a downgrade is unlikely, but the outlook on the rating of SpaBol could return to stable if the credit profile of its bigger owner banks were to weaken.

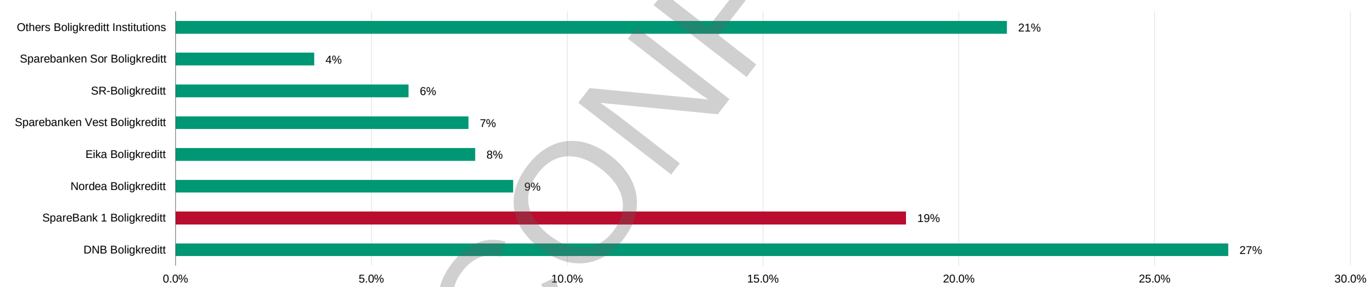
» SpaBol's ratings will also be downgraded in case of reduced likelihood of the owner banks supporting it, as indicated by a loosening in the support agreement and mechanism between SpaBol and the owner banks that are currently in place.

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 23.5% reported combined market share in residential mortgages as of year-end 2021. Accordingly, SpareBank 1 Boligkreditt is the second biggest player in the Norwegian covered bond market, with an issuer volume market share of around 19% as of Q2 2022 (see Exhibit 1).

Exhibit 1

Norwegian Covered Bond market by issuer volume as of Q2 2022



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 validate their support commitment.

Recent developments

Norway's operating environment continues to improve in 2022, supported by a strong economic recovery in 2021 after the coronavirus-induced downturn in 2020. The anticipated pace of recovery, faster than that of most European peers, reflects a combination of improving consumer demand as lockdown restrictions ease, continued government support, and rising oil prices.

We expect the Norwegian mainland economy (excluding any oil-related activity) to expand by 3.8% in 2022 up from 3.3% in 2021. Unemployment, which peaked in March 2020 at 10.6% according to the Norwegian Labour and Welfare Administration, has declined to 1.6% as of September 2022.

In April 2022 we changed our outlook on the Norwegian banking system to positive from stable. This reflects our expectation that the Norwegian economy will recover strongly over the next 12-18 months, as higher energy prices support revenues from oil and gas exports. At the same time, proactive interest rate increases by the central bank will partially offset inflationary pressure as a result of supply chain disruption and Russia's invasion of Ukraine. Increased government spending on the back of higher petroleum revenue will support the operating environment, counterbalancing any downturn in consumer spending. We expect Norwegian banks' profitability to improve, and that their asset quality and capitalization will hold steady.

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.

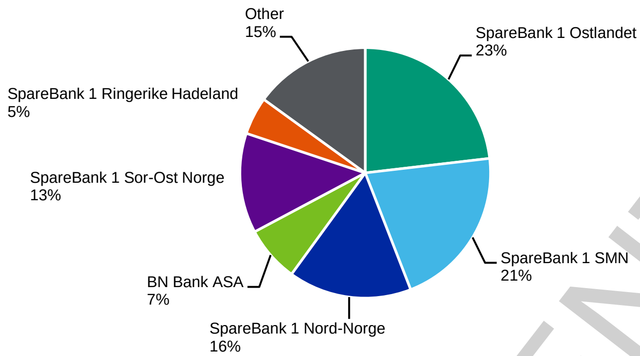
The main risks to the banking sector stem from its extensive use of market funding, and from Norway's high household indebtedness and elevated real-estate prices. However, the household sector's strong debt servicing ability, the Norwegian government's well coordinated monetary and regulatory policies, and the country's sizeable sovereign wealth fund, which supports the economy during crises, mitigate these risks.

A material increase in the rate of household debt accumulation, combined with high house price inflation, or a significant house price decline, would potentially put negative pressure on Norway's macro profile.

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

The credit profiles of the top five owner banks in the Alliance (SpareBank 1 Ostlandet - 23.2%, SpareBank 1 SMN- 20.9%, SpareBank 1 Nord-Norge - 15.9%, and SpareBank 1 Sorost-Norge - 12.9%, as well as SpareBank 1 Ringerike Hadeland - 4.9% constitute the anchor point that drives the ratings assigned to SpareBank 1 Boligkreditt. These five Alliance banks had a joined ownership of around 77.8% in SpareBank 1 Boligkreditt as of June 2022 (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 2022



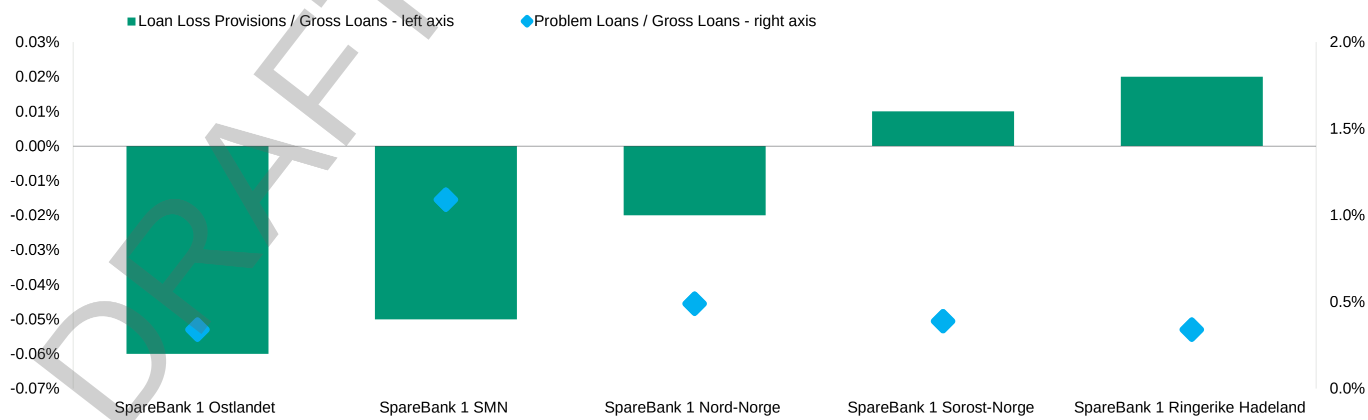
Note: "Other" includes other bank members of the Alliance with individual ownership below 5%
Source: SpareBank 1 Boligkreditt Q2 2022 report

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 June 2022 (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 4
Good asset quality among SpareBank 1 Alliance banks despite high concentrations, June 2022



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 even under rising interest rates supported by a strong labor market.

SpareBank 1 Boligkreditt's residential mortgage portfolio is well diversified, with granular loan balances in the cover pool (average size of around NOK1.6 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.

Robust capital buffers across the Alliance banks and SpaBol

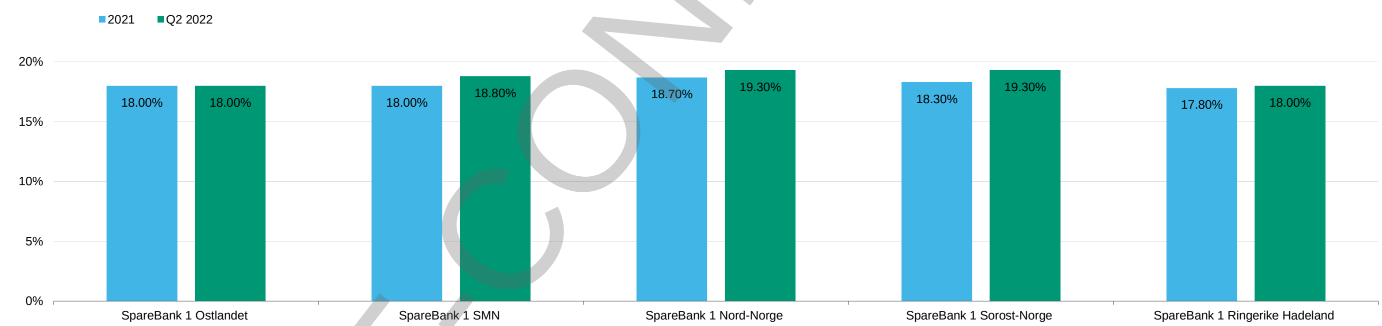
In response to the pandemic the Norwegian FSA revised banks' capital requirements during the first quarter of 2020 when the countercyclical capital buffer requirement was reduced by 150 basis points (bps) to 1.0%. Since then, the Ministry of Finance has decided to increase the countercyclical capital buffer requirement to 1.5% and that it shall be increased from 1.5% to 2.0% from end-December 2022 and to 2.5% by end-March 2023.

SpaBol's own common equity Tier 1 (CET1) ratio was at 19.0% as of June 2022, well above its regulatory requirement of 13.9%. Furthermore, the large SpareBank 1 Alliance banks are well capitalised, with an average Common Equity Tier 1 (CET1) ratio of around 19% as of June 2022 (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 5

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

CET1 capital ratios as of June 2022



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. Due to market turmoil and widening credit spreads the banks have recorded lower income from financial activities and received reduced commission income in 2022, which resulted in an average return on equity (RoE) of around 10.8% as of June 2022, compared with 12.6% as of June 2021 and 12.4% in December 2021. However, our expectation is that rate hikes by Norges bank in 2022, which we expect to continue in 2023, should have a positive effect on banks' net interest margin (NIM) and will support the bank's profitability.

Looking ahead, we expect the parent banks' profitability to improve in 2022 compared with both 2020 and 2021 mostly driven by increased interest rates that will support core revenue generation. To date, profitability of the Alliance banks was supported by good loan growth and solid mortgage loan performance, which we expect to be maintained, although a slight decline in loan growth is expected, compared to 2021 levels.

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 31% as of June 2022. 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 15.0% and the average Liquidity Coverage Ratio (LCR) was around 170% 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 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. 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 latter'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 (19.0% as of June 2022) above its regulatory requirement (currently at 13.9%), 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 6

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

Source: Moody's Investors Service

Endnotes

1 The bank ratings shown in this report are the banks' deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment

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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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