Verd Boligkreditt AS

August 2024

18 owner banks - national mortgage portfolio

- Verd is one of several product companies connecting the new Frende group

- One of three jointly owned covered bond issuers in Norway (Sparebank 1 Boligkreditt & Eika Boligkreditt)
- Owned and used by two Norwegian savings bank associations: De Samarbeidende Sparebankene (DSS) and LOKALBANK (LBA)
- DSS and LBA to form a single alliance this year
- **Open IT platform and open for new entries, independent of core banking system and alliances**

History

- Established during the financial crisis to access government liquidity support. Most important funding instrument for 18 owner banks

2009

Verd was founded in a cooperation between Sparebanken Vest and the 8 banks who made up the DSS-alliance.

2018

Sparebanken Vest exited as shareholder.

2020

LOKALBANK (10 banks) signed intention agreement.

Sparebanken Vest stepped down as manager.

New administration hired to operate daily activites and handle onboarding of LOKALBANK

2021

LOKALBANK started transferring mortgages in Q4.

2022 -> 2026

AuM from NOK 10 bn. to 35+ bn.

2024

DSS and **LOKALBANK** merge. Two owner banks to join Eika alliance

LOKALBANK

- DSS and LBA form LOKALBANK (20 August 2024)

- 16 banks - 150 bn. AuM - 250.000 costumers
- Organisation based in Trondheim and Haugesund ~30 people
    - Procurement
    - Business development
    - Specialized competencies
    - Regulatory reporting
    - Loan services
    - Cash management
    - IT
    - Data warehouse
    - .....

Vision

We create the future collaboration for local banks and local communities.

Strategic Pillars

Autonomous and independent savings banks	*Competitive products and services for relationship banks*	*Shared technological platform, collaboration on expertise, and central shared services*

Values

Mutual trust through involvement
Good governance and equality among the participants

Frende group

- Norway's new bank and finance collaboration

Three party cooperation that leaves the banks in control

Main principle: Banks are best suited to manage their own assets – therefore, the most important decisions should be made by them

Banks

- Optimize the use of the bank's resources
- Make decisions around product companies with direct ownership

DSS / LBA

- Deliver shared services to the members where there are economies of scale
- Standardization where it's useful
- Be the single voice of the smaller banks in the Frende Group

Frende Group

- Develop a technology partnership
- Further develop the portfolio of product companies

Frendegruppen

Norway's second largest banking and finance collaboration

Sparebanken Vest	Sparebanken Sør	Sparebanken Øst	Lokalbank	De Samarbeidende Sparebanker	Varig

550 billion in loans / 800.000 customers

Frende Forsikring (Life and non-life insurance)	Brage Finans (Leasing / financing)	**Frende group** Development of future areas of cooperation
Norne Securities (Securities firms)	Balder Betaling (Mobile pay)	
Verd Boligkreditt (Covered bond company)	Borea Asset Management (Asset Management)	

3 goals for the first 3 years

1. Technology

➢ Established the basis for shared development of selected products and services for the members

2. New product companies

➢ Established new product companies to facilitate growth and profitability in banks

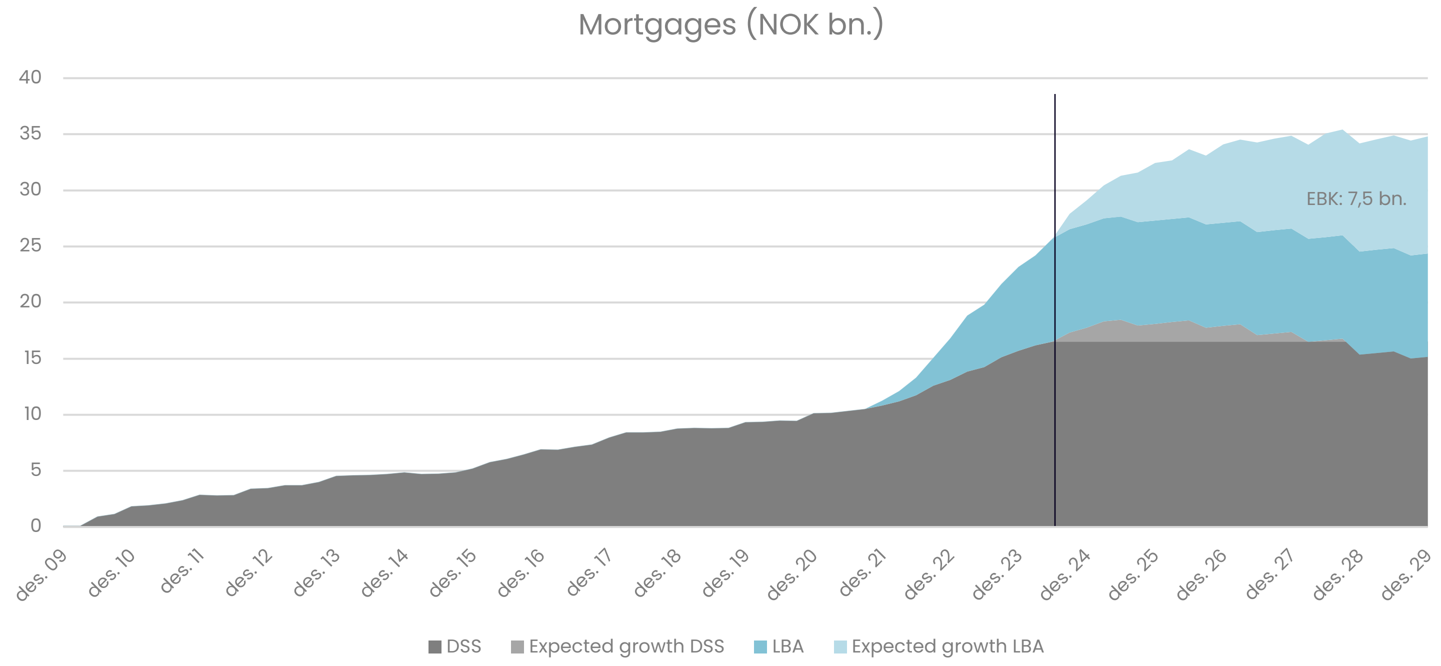
3. New members

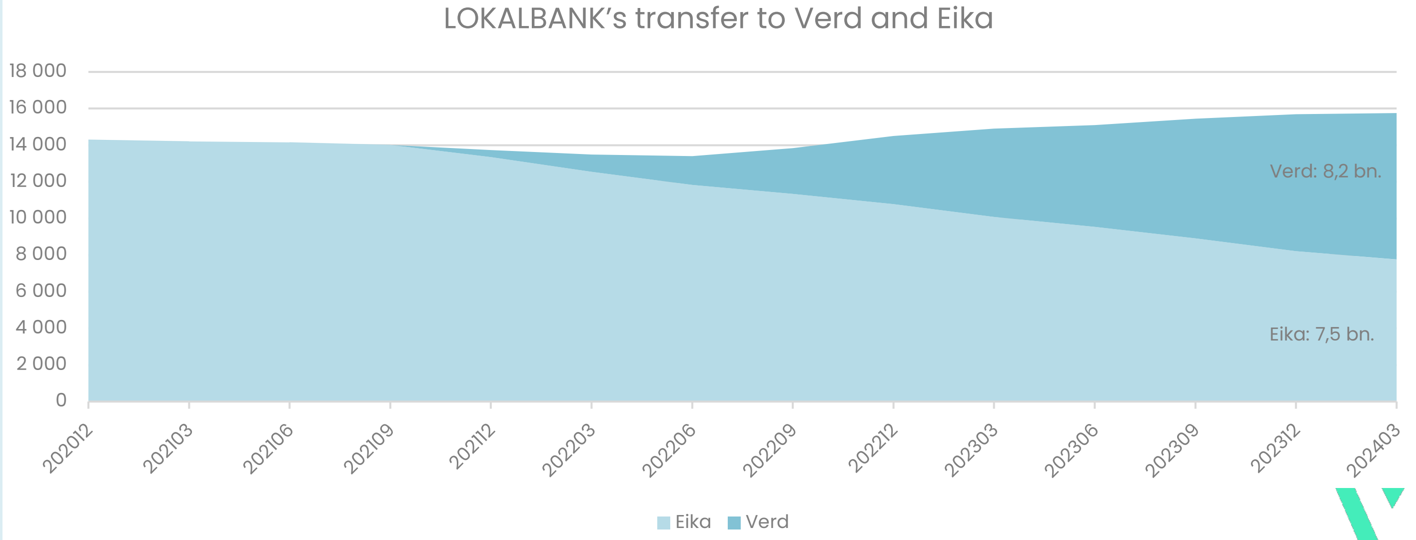
➢ Be a credible and cost-effective collaboration that has succeeded in recruiting new members

Continued growth

- Mainly driven by transfer from EBK, and increased funding needs from original owners

- Verd's strong growth continues. Verd is well ahead of the prognosis from when LOKALBANK entered
  - Drivers:
    - Credit spreads
    - Competition for deposits
    - Economies of scale
- Both alliances contribute to the growth
  - Increased transfer rate &
  - strong growth for most owner banks
- LOKALBANK still have 7,5 bn. left in Eika Boligkreditt (31/3-24)





Covered bond rating

- Aaa from 18 June 2024

- Verd Boligkreditt's covered bonds was first rated AAA by Scope Ratings 15 May 2019
- 18 June 2024 Verd Boligkreditt's covered bonds were assigned Aaa rating by Moody's Ratings
- Currently, Verd Boligkreditt has no public issuer rating
- Of the 18 owner banks Haugesund Sparebank (NCR:BBB+/Stable) and Askim & Spydeberg Sparebank (NCR:A-/Stable) are the only two with official ratings, with more expected to follow shortly.

CREDIT OPINION
18 June 2024

New Issue

Send Your Feedback

Closing date
June 2024

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Contacts

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Verd Boligkreditt - Mortgage Covered Bonds

New Issue – Norwegian covered bonds

Ratings

Exhibit 1

Cover Pool (NOK)	Ordinary Cover Pool Assets	Covered Bonds (NOK)	Rating
26,623,271,668	Residential mortgage loans and loans to housing co-operatives	24,500,000,000	Aaa

All data in the report is as of 31 December 2023 unless otherwise stated
Source: Moody's Ratings

Summary

CLOSING DATE WILL BE UPDATED TO RATING ASSIGMENT DATE

The covered bonds issued by Verd Boligkreditt AS (Verd BK or the issuer, not rated) under the Verd Boligkreditt - Mortgage Covered Bonds programme are full recourse to the issuer and are secured by a cover pool of assets consisting mostly of residential mortgage loans (85.9%) and mortgage loans to housing co-operatives (0.8%), backed by properties located in Norway, and supplementary assets (13.3%).

Credit strengths include the full recourse of the covered bonds to the issuer and support provided by Norway's covered bond legal framework, which provides for the issuer's regulation and supervision.

Credit challenges include the covered bonds' high level of dependency on the issuer. As with most covered bonds in Europe, there are a few restrictions on the future composition of the cover pool. The cover pool also has geographical concentration risks.

Our credit analysis takes into account the cover pool's credit quality, which is reflected in the collateral score of 4.0% (1.9% excluding systemic risk) and the current over-collateralisation (OC) of 17.0% (on a nominal basis) as of 31 December 2023 (the cut-off date).

In general, we consider environmental and governance credit risks to be low and social credit risks to be moderate for this transaction. Environmental credit risk is low in this programme as covered bondholders benefit from the cover pool's geographical diversification. Social credit risk is moderate in this programme, mainly because social issues that affect the originators can also affect the cover pool. Social credit risks are mitigated by the originators' and the issuer's primary responsibility for addressing them. Governance credit risk is low in this programme due to (i) The Norwegian covered bond legislation; and (ii) the fact that the issuer maintains the cover pool on its balance sheet, incentivising it to maximise cover pool value and aligning its interest with that of covered bond investors. For further details, please see "ESG Considerations" section below.

Framework

- Strong framework in place between Verd and owner banks. Focused on Verd and investors interests.

Shareholder's Agreement

Key elements:

Owner banks are required to fulfil Verds equity, T1 and T2 capital demands

Regulates entry and exit policies for owner banks

One year termination period. After that portfolios can be scaled down in accordance with the covered bond's maturity profile.

Limits owner banks to affiliation with only one covered bond institution

Sets out principles for rebalancing of owner shares to ensure that every owner bank capitalise their own mortgage portfolio

Loan Transfer and Servicing Agreement

Key elements:

Regulates asset quality

The owner banks most always maintain the agreed mortgage portfolio size, i.e continuously replace down payments and early redemptions.

The banks must fund 10% of loans sold to Verd. This secures Verd an OC of ~15%. Verd's alternative to doing senior preferred

Lists specific criteria for portfolio quality

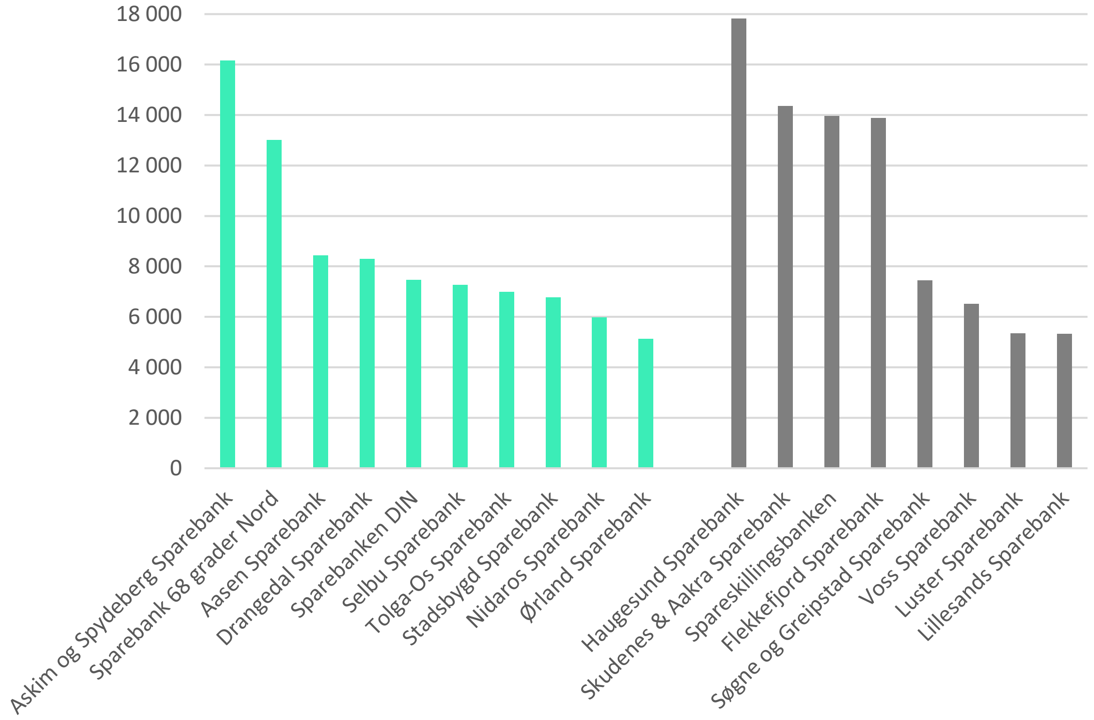
Specifies the owner banks duties to service the originated loans (transactions, refinancing, AML, …), which in turn gives the originator the right to commissions on loans transferred

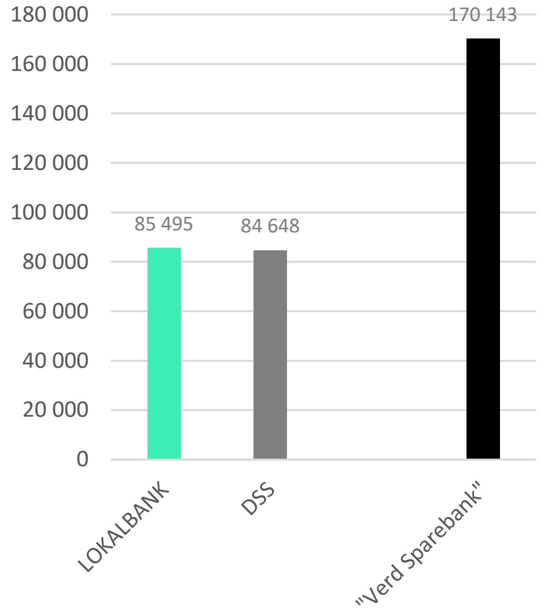
If the owner banks defaults on any of the terms Verd has the right to choose a different owner bank to service the defaulting bank's loans

Assets under management (inc. loans transferred to CB / 31 March 2024)

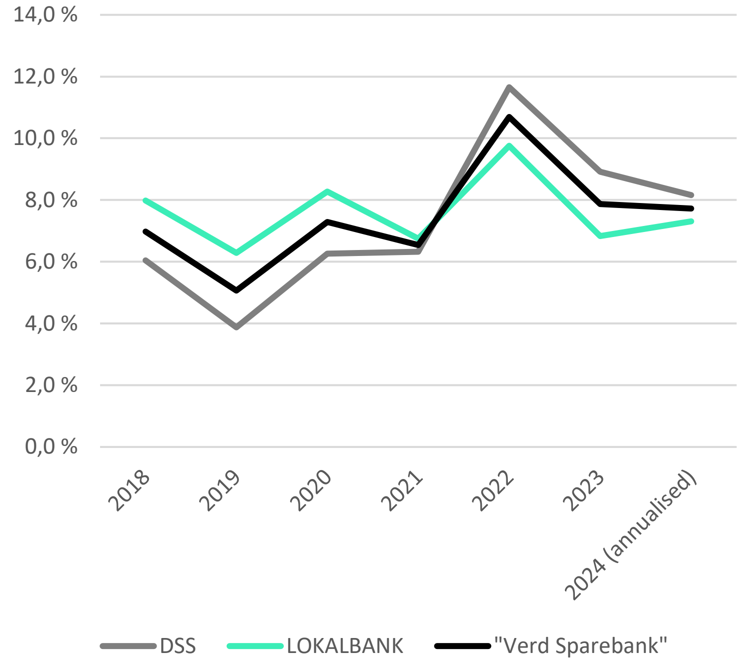
- Similar banks in size and business strategy. Owner banks above market growth since 2020

AUM (NOK 1.000)





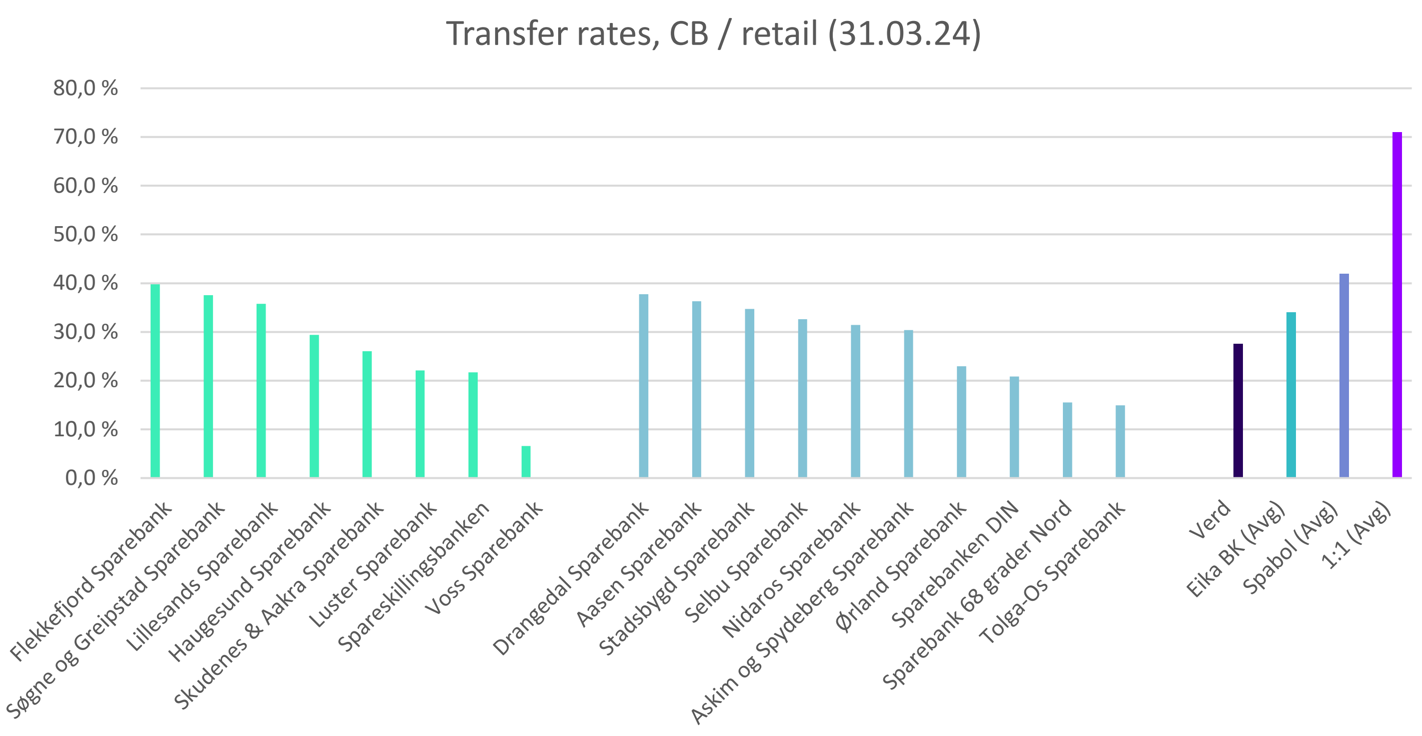
Growth AUM y/y

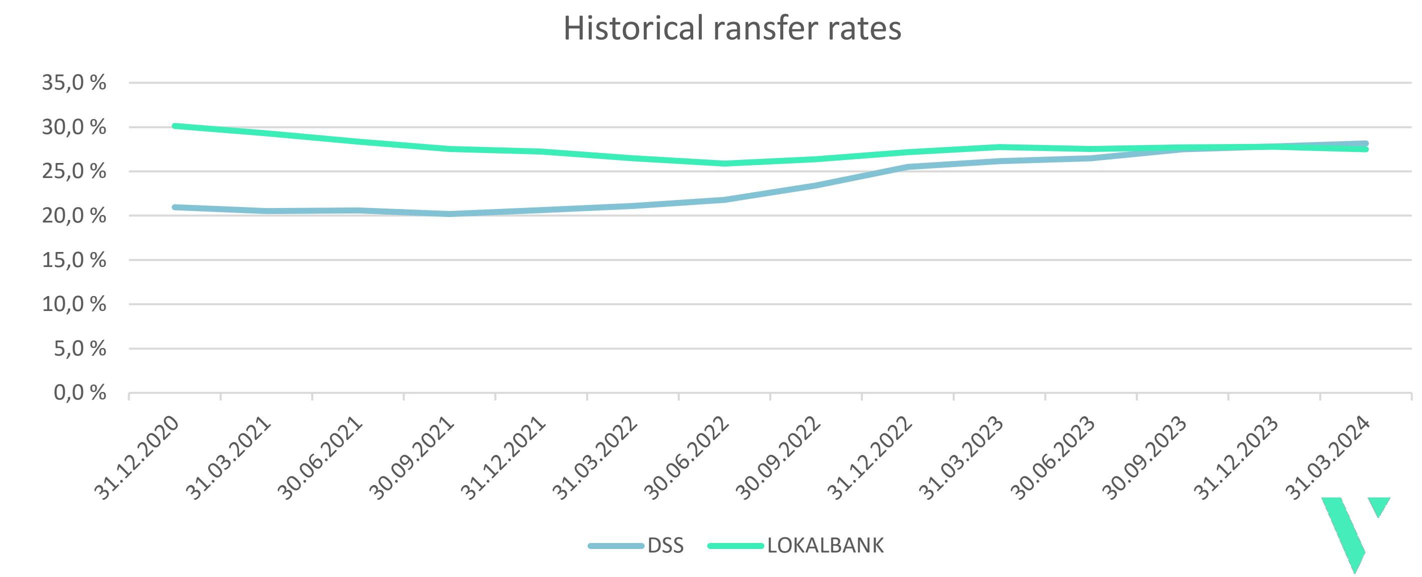


Mortgage transfer ratio

- Increasing, but lower than peers. Growth potential for Verd

- Verd is still well below Eika (34%) and Spabol (42%) averages
- Verd owner banks have higher deposit ratios and senior preferred than peers.
- Low transfer ratio gives the owner banks large reserves for central bank funding during market turmoil
- 1 pp increase in transfer rate is 1,1 bn. in extra assets for Verd

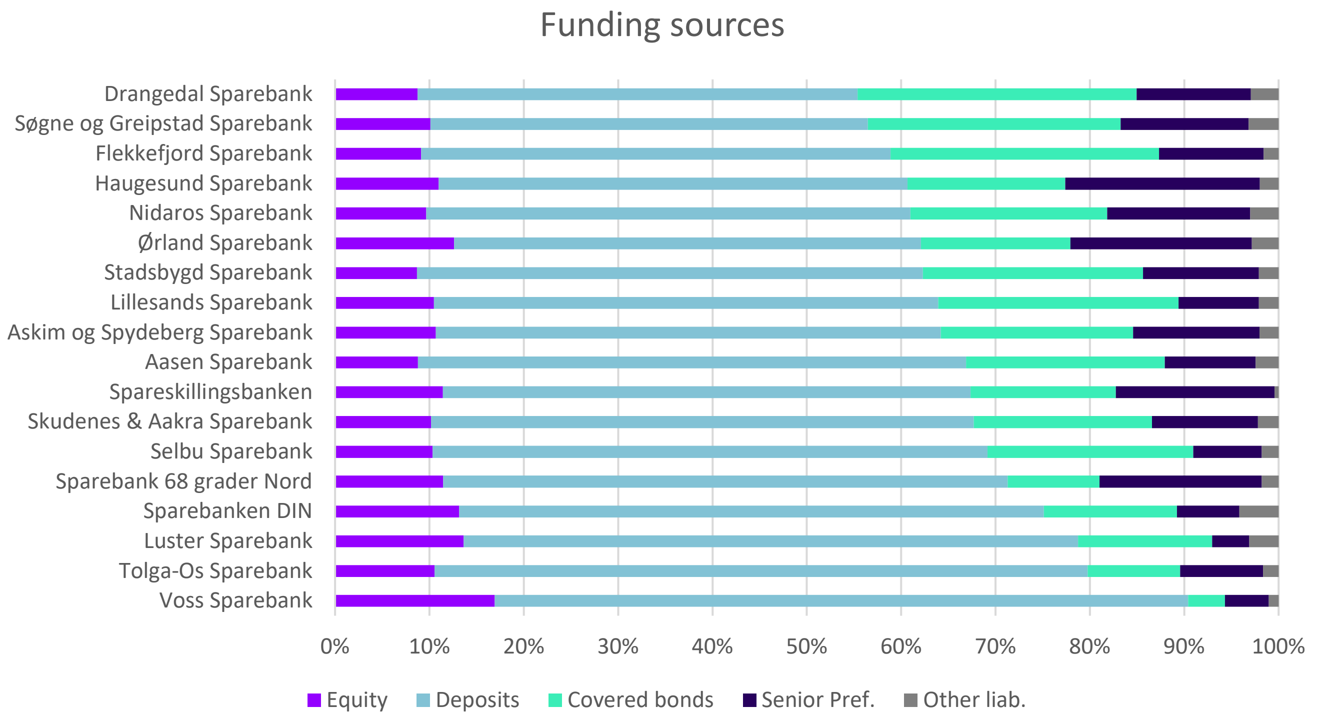


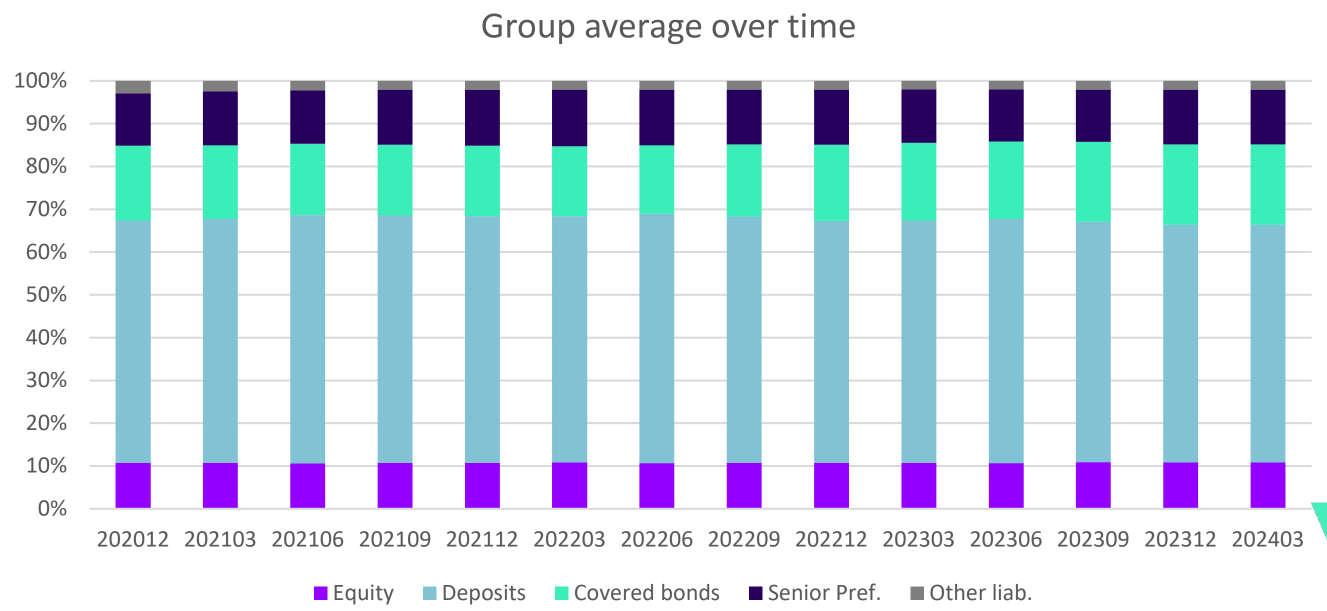


Funding profile

- *Deposits are the main source*

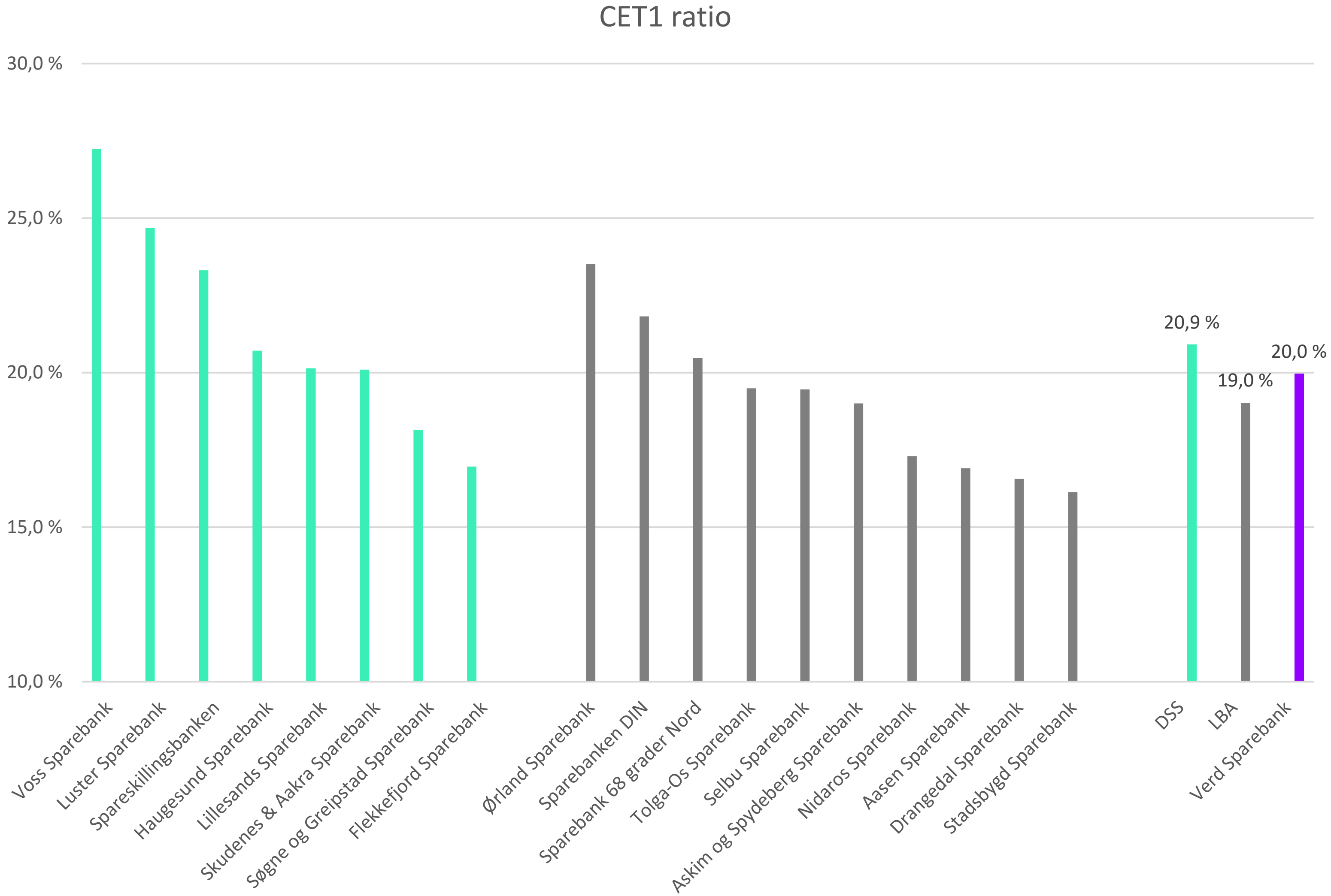
- Owner banks relies on deposits as their main funding source
- On average, the funding mix has stayed consistent over time
- Focus on customers with complete product portfolio (Mortgage, savings/checking, insurance)

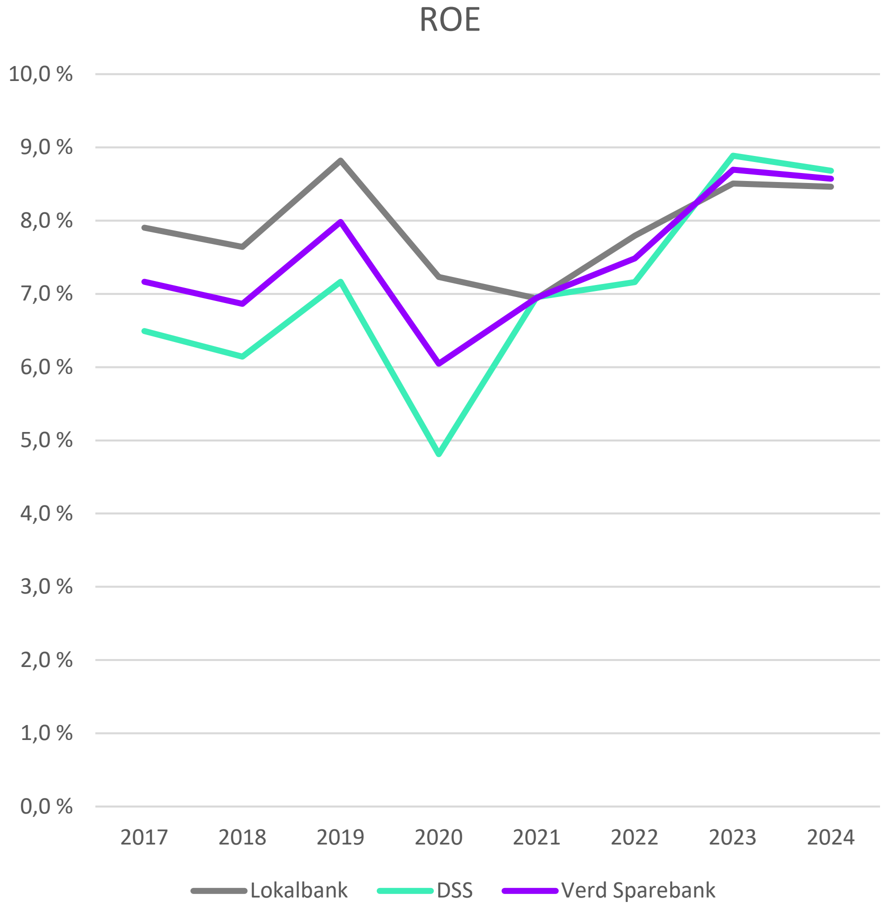




Capitalisation & profitability

- Well capitalised owner banks. ROE on the rice with higher interest rates. LOKALBANK eventually with reduced group costs

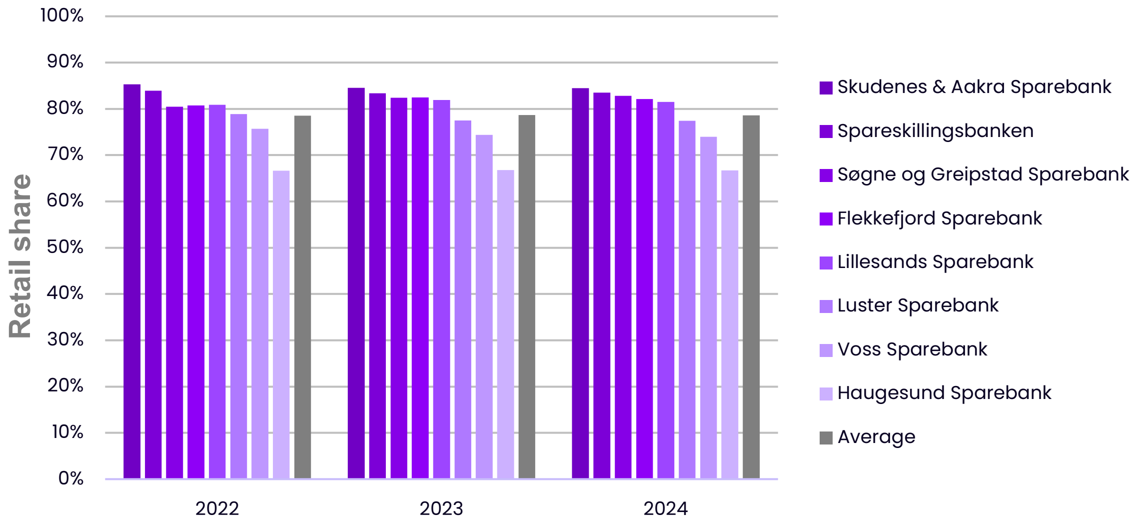




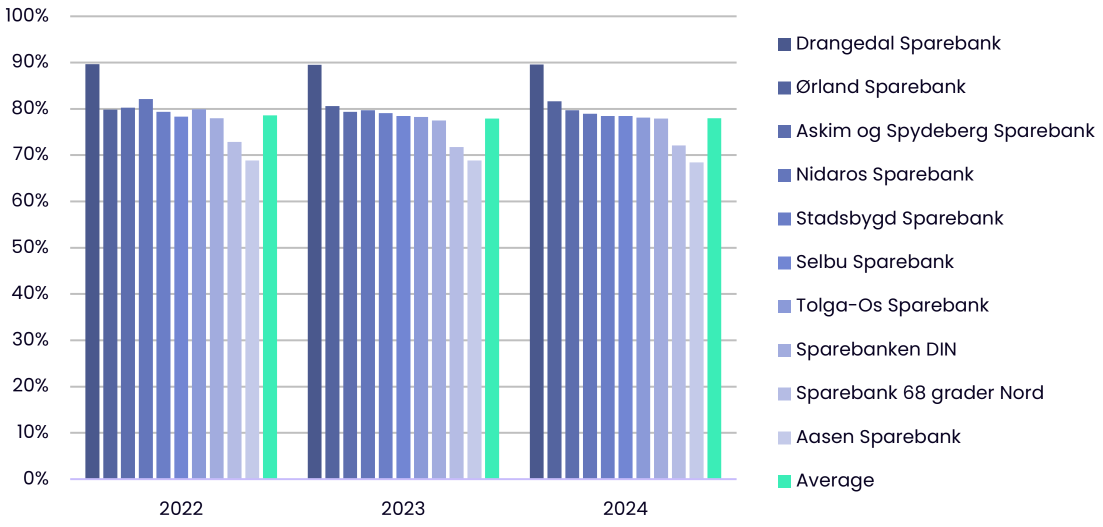
Owner banks: Retail vs corporate

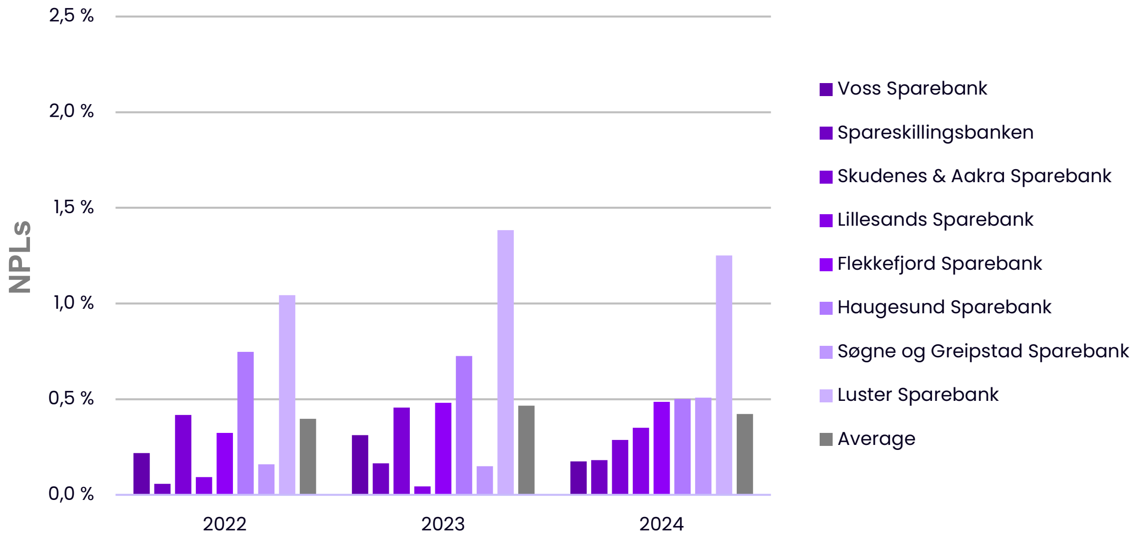
- Focused on retail. Low risk, low losses. Home/core market

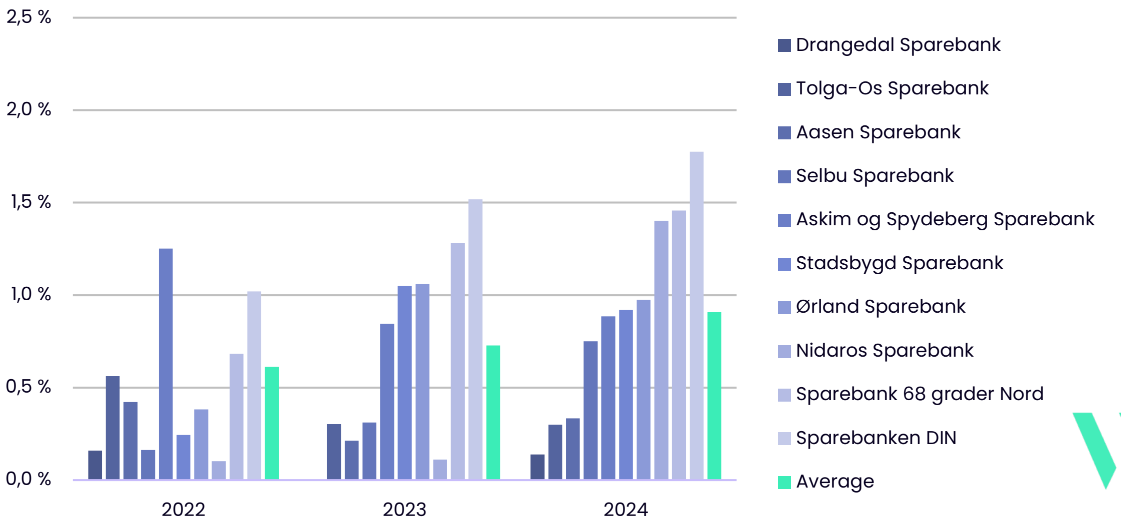
DSS



LOKALBANK







Cover pool composition

- First lien residential mortgages only

Residential mortgages and Collective loans

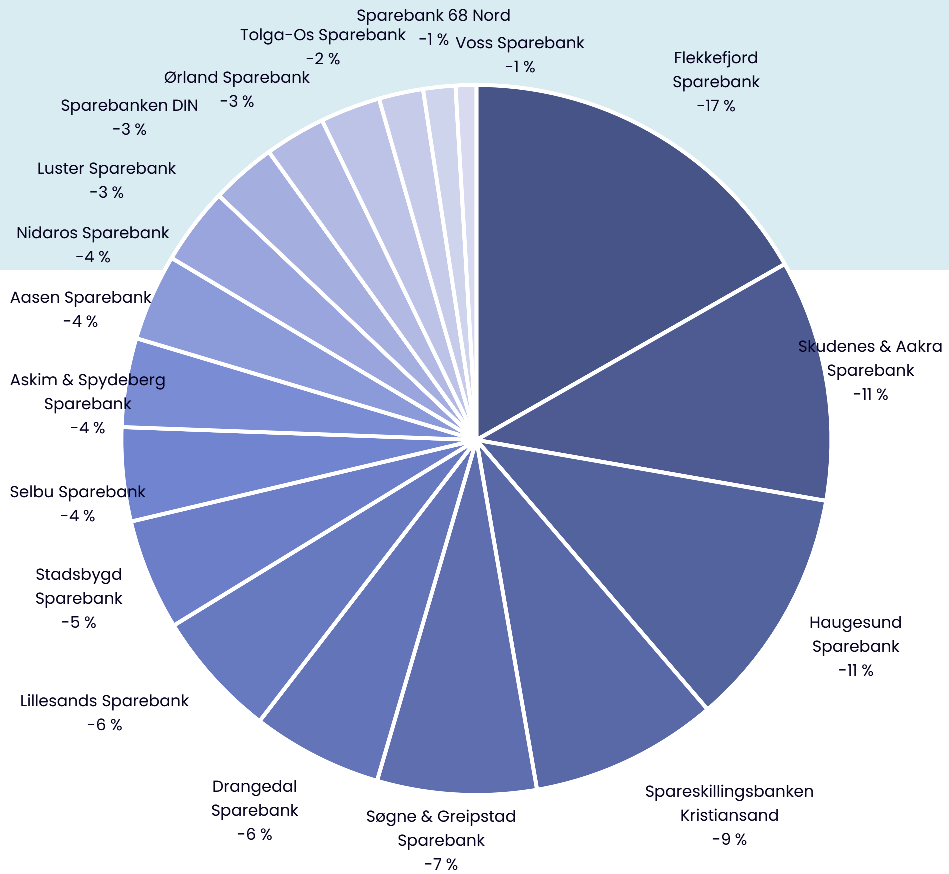
LTV < 75 %

1. lien

Loan size ≤ 6 mill. NOK

Floating rate

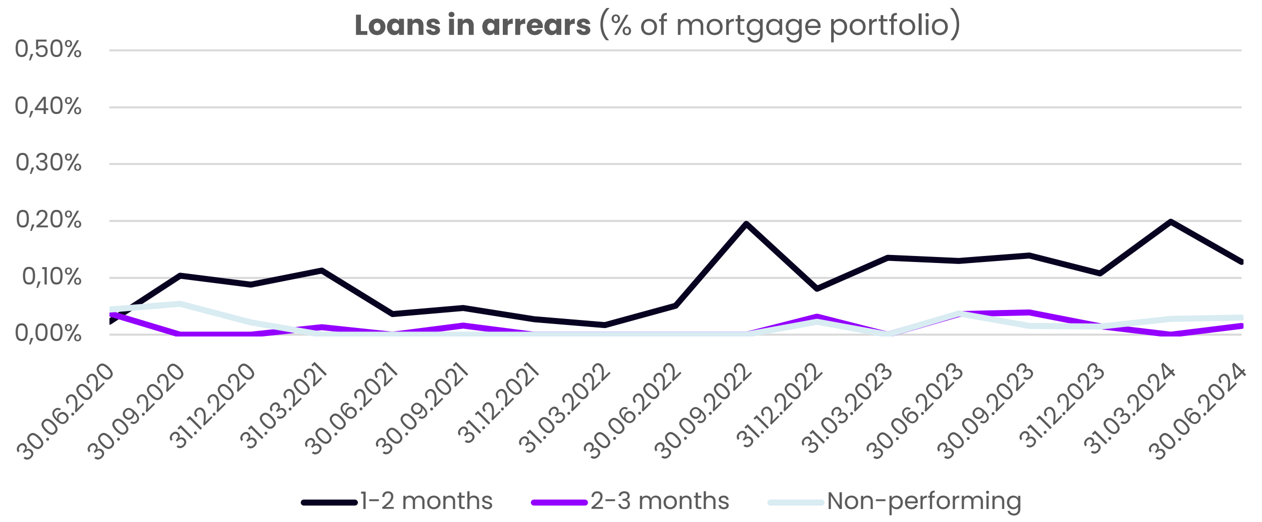
Portfolio by owner bank 30 June 2024

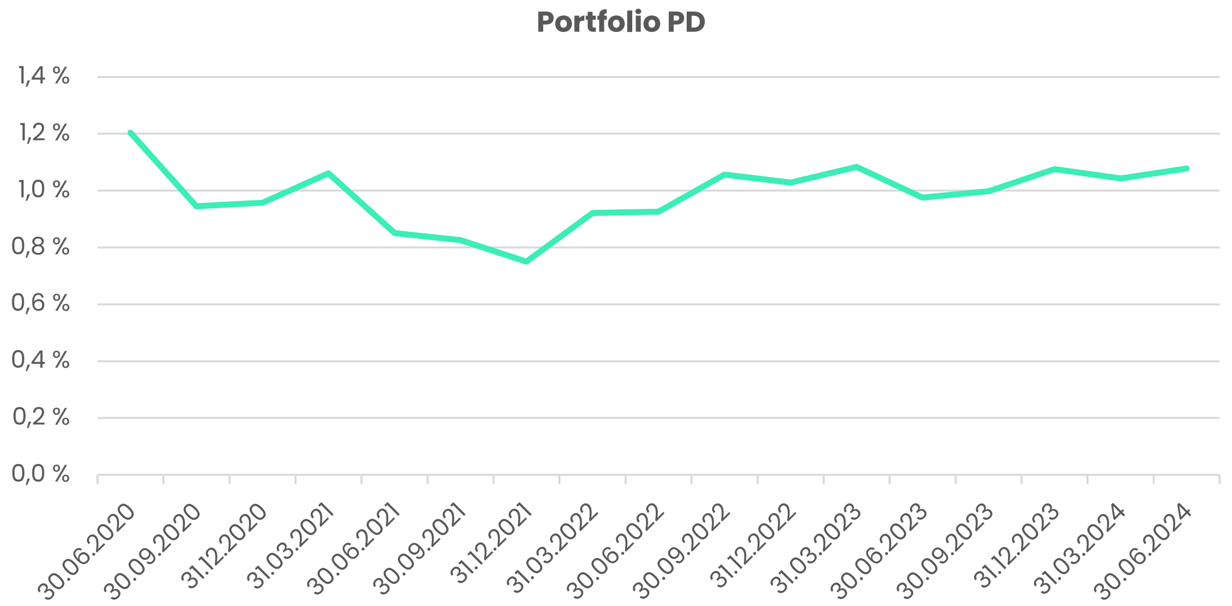


	31.12.2021	31.12.2022	31.12.2023	30.06.2024
Gross loans (mill.)	11 263	16 758	23 079	25 703
# of mortgages	7 068	9 449	12 469	13 463
# of costumers	6 999	9 360	12 288	13 172
Collective loans (Co-operatives)		91	225	244
Seasoning (years)	4,3	3,6	3,6	3,7
Average loan balance (mill.)	1,59	1,78	1,84	1,90
Loans w/floating rate	100 %	100 %	100 %	100 %
Revolving credits	14,1 %	12,2 %	10,4 %	10,1 %
- Undrawn amount on revolving credits (mill.)	637	790	999	1 028
Interest only loans	15,7 %	16,7 %	17,0 %	15,6 %
Substitute assets (mill.)	1 028	1 709	3 530	2 562

Asset quality
- Verd without losses since 2009

- Continuous monitoring of loans in arrears. Arrears are at a low and stable level.
- When mortgages with late payments are identified the owner bank who originated the mortgage is requested to buy it back from Verd (at par value). Although this is voluntarily for the owner banks, recalling such mortgages is consistent with Verds function as a funding facility for the owner banks, not a risk mitigator.
- Higher debt servicing cost have given a small increase in the portfolio's PD in recent years



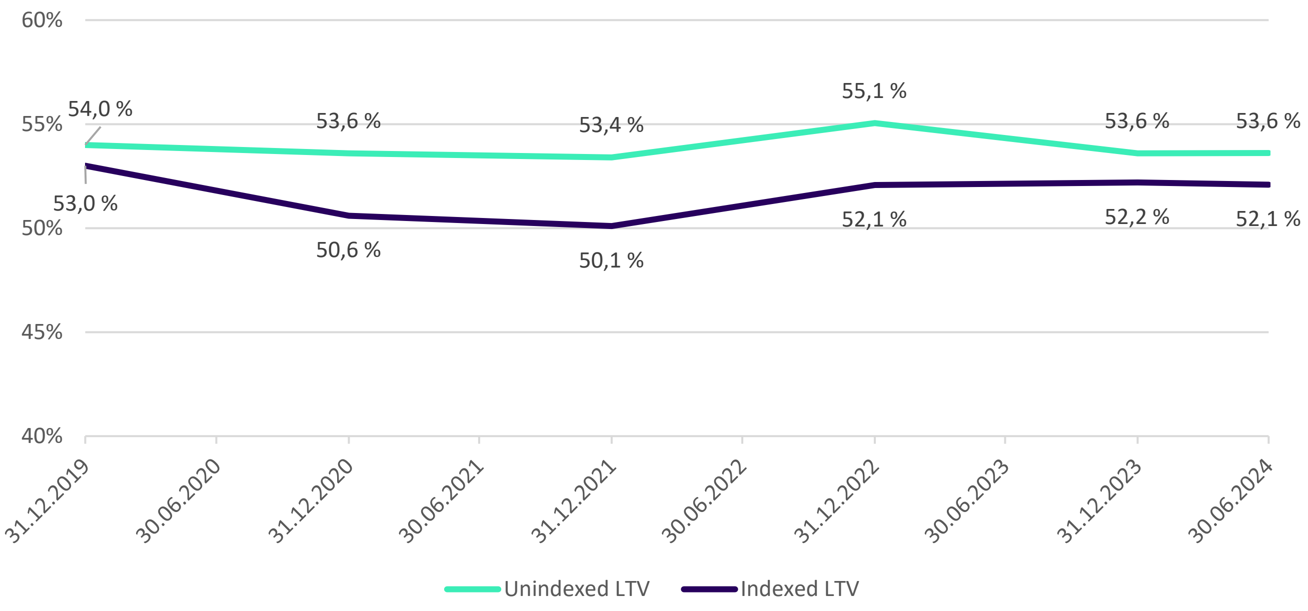


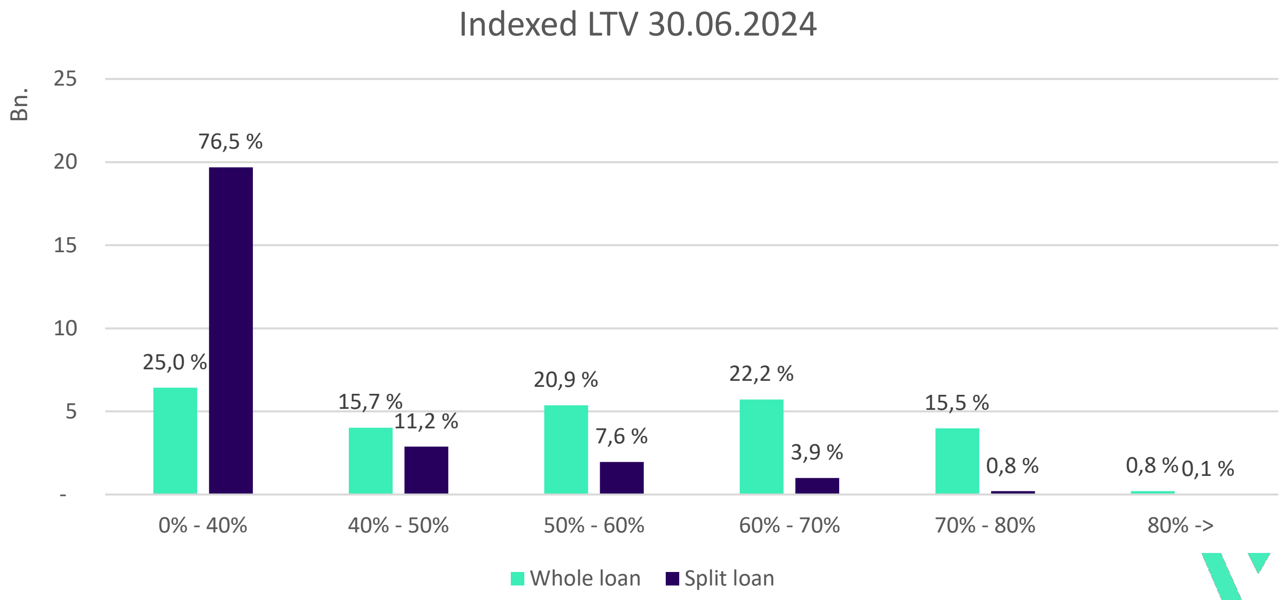
Loan-to-Value

- Low and stable

- The cover pool's low LTV is one of Verd's strengths
- Comfortable gap to legislative cap of 80% LTV
- Combined with high over-collateralisation, this gives the cover pool strong resilience against falling housing prices

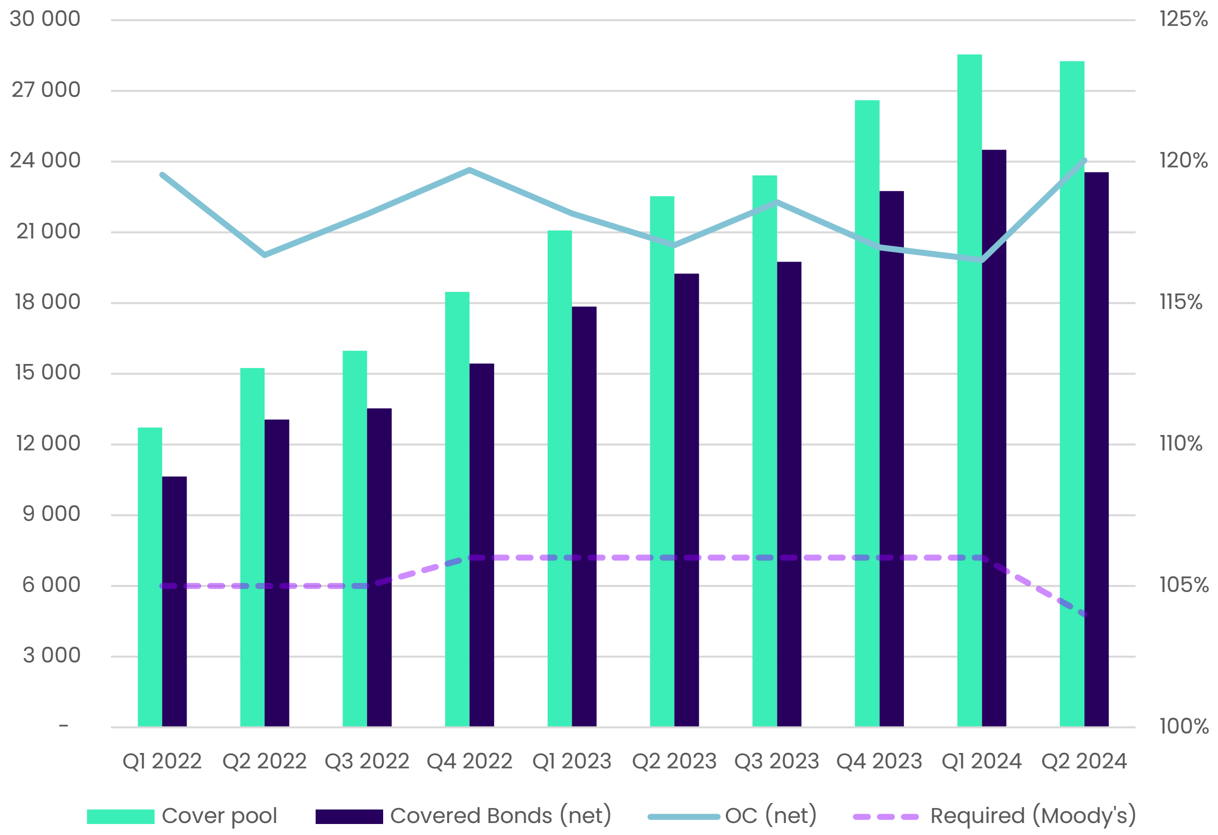
- LTV has remained low despite 1) strong growth and 2) increased policy rates
  - 1) Owner banks tend to sell newer mortgages, thus higher LTV than existing portfolio
  - 2) Increased policy rates should put housing markets under distress, but housing prices have remained stable

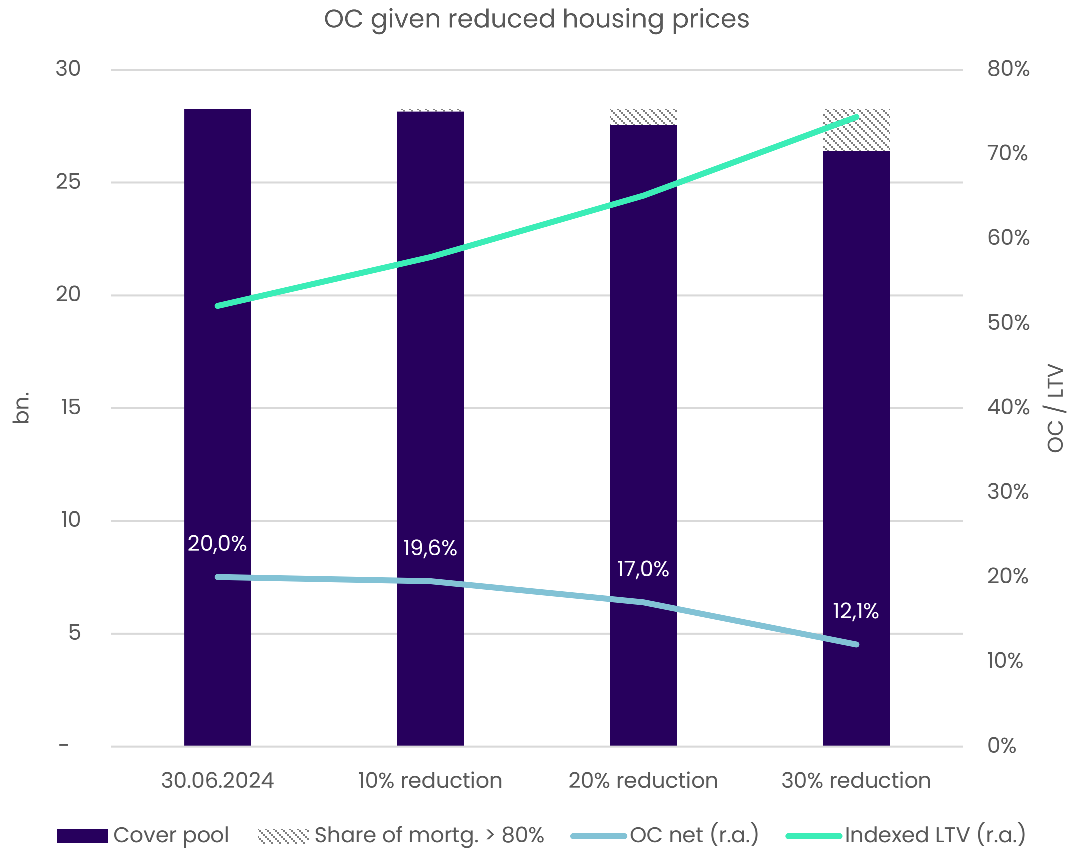




Over-collateralisation

- The combination of high OC and low LTV makes the cover pool highly resilient against reduced housing prices. Even after a 30% fall in housing prices, Verd would have a funding capability on behalf of the owner banks





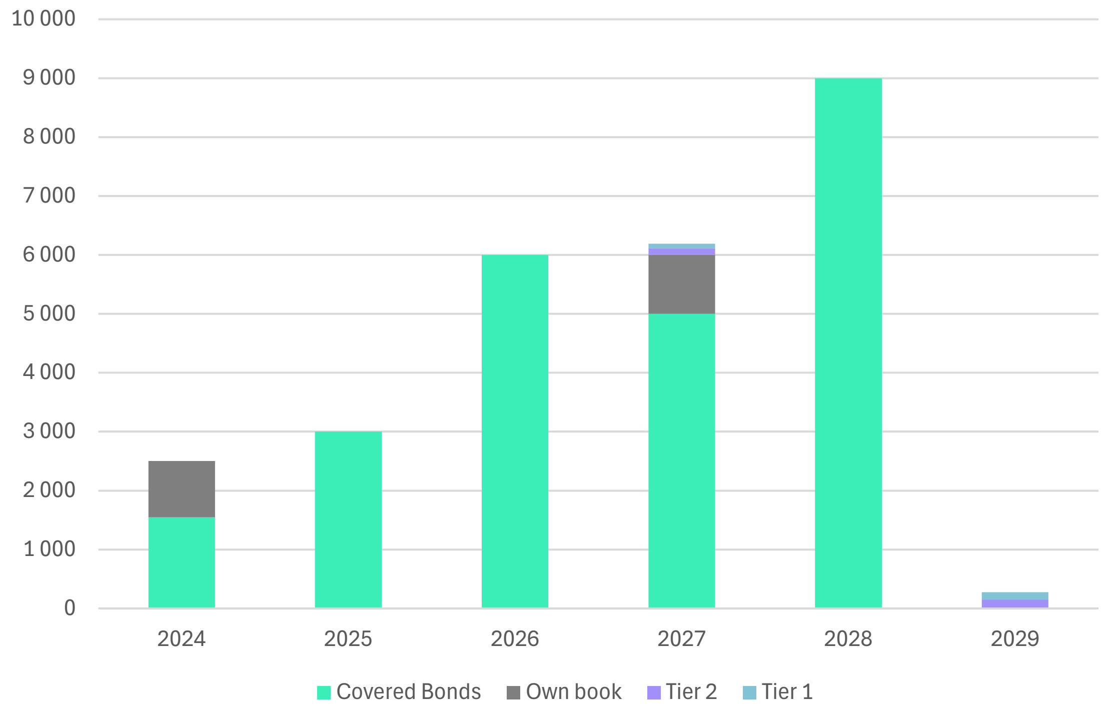
Funding

- LCR size series and diversified maturity profile. Increased duration

Securitised debt

ISIN	Ticker	Issue size	Own book	Maturity
NO0010864937	VEBK19	2 500	954	30.09.2024
NO0010893696	VEBK21	3 000		17.09.2025
NO0011151151	VEBK22	6 000		12.10.2026
NO0012548900	VEBK23	6 000	1 000	13.04.2027
NO0012832791	VEBK26	6 000		07.02.2028
NO0013048694	VEBK27 ESG	3 000		18.10.2028
Total Covered Bonds		**26 500**	**1 954**	
NO0012708785	Tier 1	75		27.12.2027
NO0013187955	Tier 1	125		25.06.2029
NO0012708793	Tier 2	115		27.12.2027
NO0012708793	Tier 2	150		26.06.2029
Total tier 1 and 2		**465**		

Debt distributed by maturity



Funding strategy

- Focus on increased investor base to facilitate balance growth

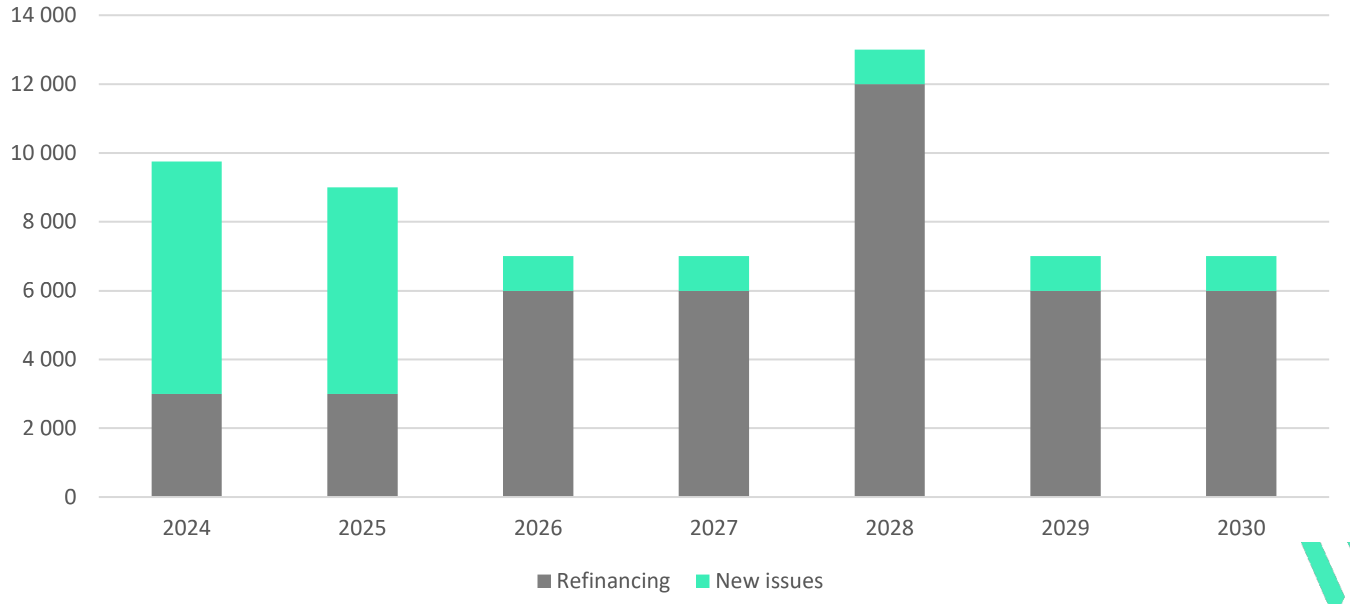
- Steps taken since 2020:
  - Moody's
  - Larger issuances
  - More syndicated deals
  - Green bond framework
  - Investor relations

- Issued 9,5 bn. NOK in 2023
- Expect 7-10 bn. annually over the next years

- NOK FRN LCR as main product

Example funding structure 2024-2025

Maturity →	30.09.2024	17.09.2025	12.10.2026	13.04.2027	07.02.2028	18.10.2028	15.06.2029	15.06.2030		
Time ↓	**VEBK19**	**VEBK21**	**VEBK22**	**VEBK23**	**VEBK26**	**VEBK27 ESG**	**New VEBK**	**New VEBK**	**Sum**	**Duration**
30.06.2024	1 546	3 000	6 000	5 000	6 000	3 000	-	-	24 546	2,70
30.09.2024	-	3 000	6 000	5 000	6 000	3 000	3 000	-	26 000	2,85
31.12.2024	-	3 000	6 000	6 000	6 000	3 000	6 000	-	30 000	2,78
31.03.2025	-	3 000	6 000	6 000	6 000	6 000	6 000	-	33 000	2,62
30.06.2025	-	3 000	6 000	6 000	6 000	6 000	6 000	-	33 000	2,37
30.09.2025	-	-	6 000	6 000	6 000	6 000	6 000	3 000	33 000	2,55
31.12.2025	-	-	3 000	6 000	6 000	6 000	6 000	6 000	33 000	2,63



Sustainability at Verd Boligkreditt

Verd's owner banks are savings banks with a strong focus on social responsibility on their operating area, and in the summer of 2023 Verd's board of directors decided that a sustainability strategy should be drawn up for the company. Sustainability is increasingly important for Verd's stakeholders, and expectations from Verd's owner banks, our joint customers, and perhaps especially debt investors are increasing. A conscious relationship with sustainability is also important for the company's risk management.

Link to the UN Sustainability Development Goals

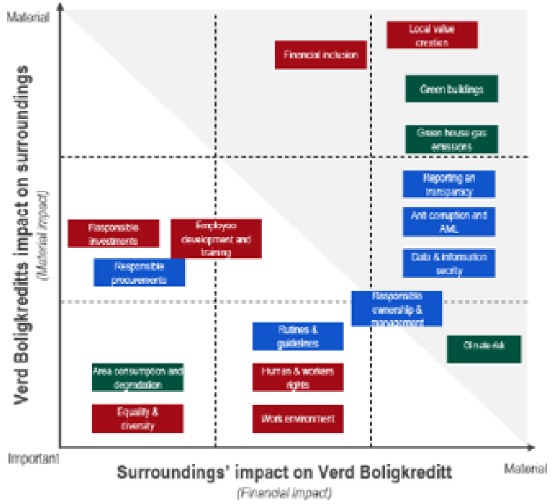
The savings bank model is founded on sustainability, and there is a clear red thread from the history of the savings banks and the sustainability strategy of Verd. Previously sustainability challenges were of a more local nature, while today such challenges are more global in nature. Therefore, we link our sustainability strategy to the UN's Sustainability Development Goals (SDGs).

Verd can influence several of the 17 SDGs, but have chosen to highlight two where we have the greatest influence in the direction of a more sustainable society:

11 SUSTAINABLE CITIES AND COMMUNITIES	**Target 11: Sustainable cities and communities**	Make cities and human settlements inclusive, safe, resilient, and sustainable
13 CLIMATE ACTION	**Target 13: Climate action**	Take urgent action to combat climate change and its impacts

Material sustainability topics

As part of the strategic analysis, Verd has carried out a double materiality analysis, in which several stakeholders from different parts of the value chain have been involved. The purpose is to map the areas where Verd affects its surroundings, as well as areas where Verd is affected. Topics such as *Local value creation*, *Green Buildings* and *GHG emissions* are assessed as most material in both dimensions:



Focus 1
Contribute to sustainable local communities

Focus 2
Reduce greenhouse gas emissions in our loan portfolio and manage the impact from climate change

Focus 3
Be a transparent and responsible actor with trust in the market, through good governance, orderly operations, and well-cared-for employees.

Action plan 2023-2024

- Improve data availability on climate risk and carbon footprint and enable owner banks to adapt
- Identify and report on scope 1 & 2 emissions by 2023. Scope 3 by 2024. Implement emissions cut target in 2024.
- Make routines and practices for regular sharing of ESG-data with owner banks
- Adopt green bond framework and issue green covered bond
- Actively seek representation in committees and organizations, i.e. promoting standardization in reporting
- Updated website with new identity
- Map stakeholder expectations for content and availability for governing document, and improve own publications
- Raise the owner banks awareness of climate risk in their climate assessment. Work out solution for financing of renovated buildings (30%)


VERD
boligkreditt