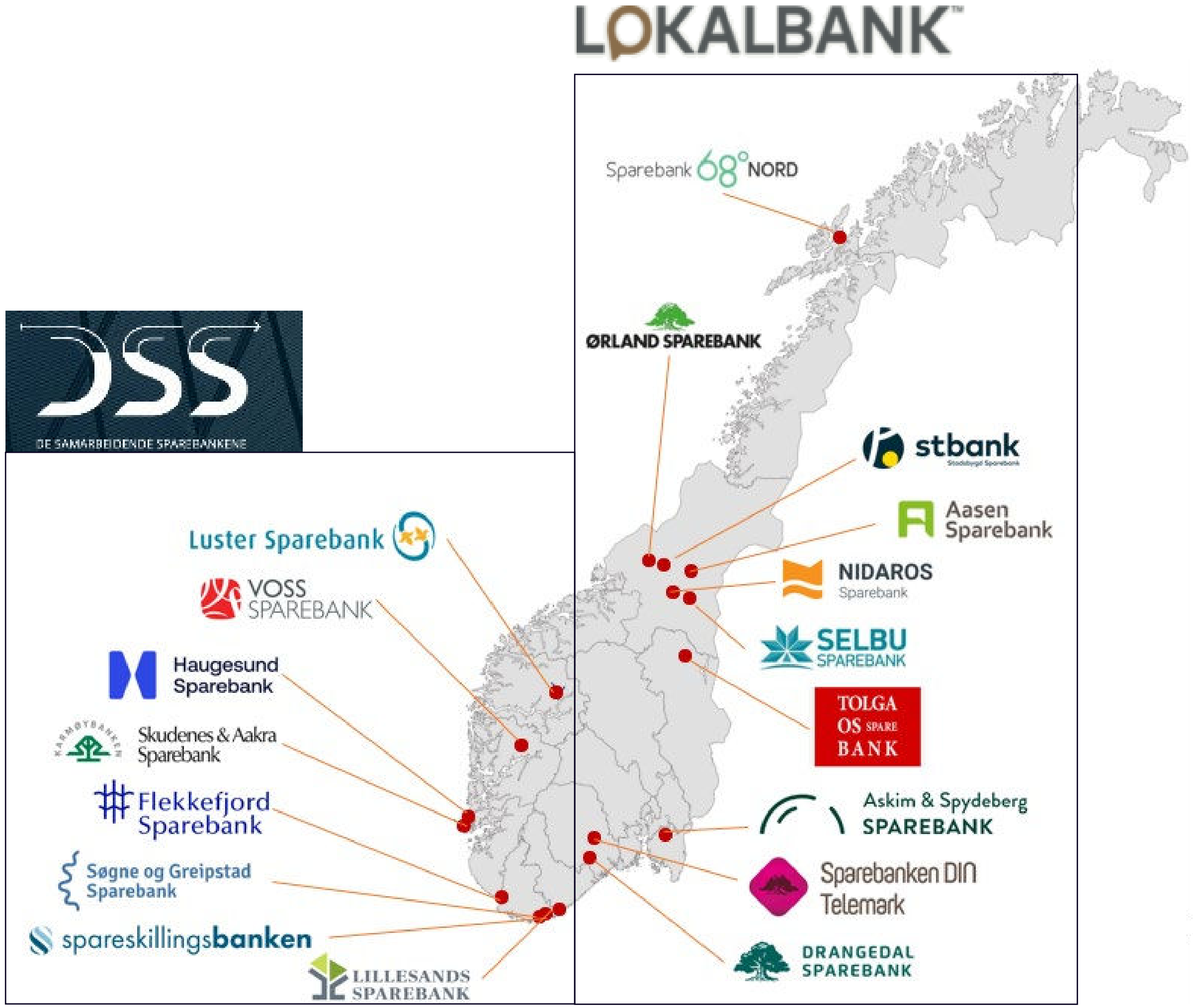
Verd Boligkreditt AS

February 2024

Owner banks with national coverage

- One of several product companies connecting the 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)
- 18 owner banks. 8 from DSS and 10 from LBA.
- Open solution and ready for new entries, compatible with all IT systems.

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. Voss Sparebank entered.

2020

LOKALBANK signed intention agreement.

Sparebanken Vest stepped down as manager.

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

2021

LOKALBANK in as shareholders. Started transferring mortgages late in Q4.

2022 –> 2026

AuM from NOK 10 bn. to 30+ bn.

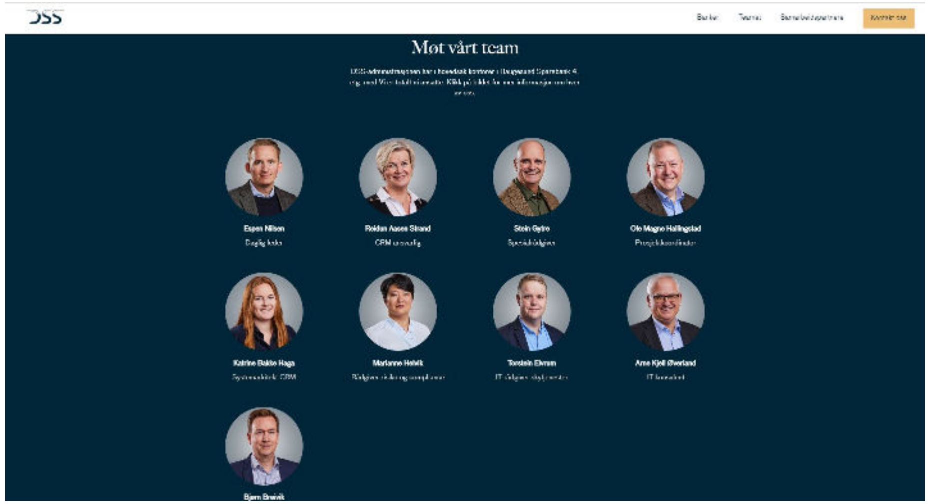
Alliances

- Owner banks from two different alliances. The alliances are equal in size and operating practices, but operate on different IT platforms

DSS

- 8 owner banks. All are Verd banks
- Established in 2008
- Based in Haugesund and Bergen
- 9 employees
- Mission:
  - Joint purchasing, mainly IT.
  - Working on standardisation for the owner banks

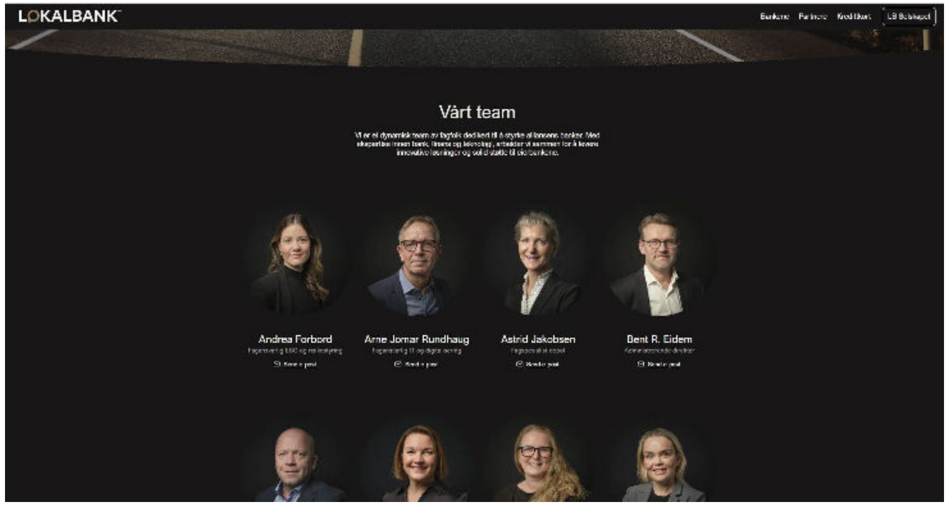
https://dssbank.no/



LOKALBANK

- 10 owner banks. All are Verd banks
- Established 2019
- Based in Trondheim
- 28 employees
- Mission:
  - Provide a broad scope of expertise for the owner banks. Risk, AML, IT, credit, reporting

https://www.lokalbank.no/lb-selskapet



Frende group

- Long history of cooperation. LOKALBANK joined from 2020.

- The "Frende group" is a "new" cooperative which consists of the following banks:
  - Sparebanken Vest
  - Sparebanken Sør
  - Sparebanken Øst
  - DSS (Now 7 Banks)
  - LOKALBANK-alliansen (10 Banks)

- Cooperation on product companies:
  - Frende Holding (Insurance)
  - Brage Finans (Leasing)
  - Norne Securities (Security and fund sales)
  - Balder Betaling (Vipps – Ownership)
  - Verd Boligkreditt (Covered bond)

- Sparebanken Sogn og Fjordane exited the group last year to join the Sparebank1- group (Access to IRB main motivation)
- Group AuM:
  - Sp1 – 1200 bn
  - Frende - 600 bn
  - Eika - 400 bn

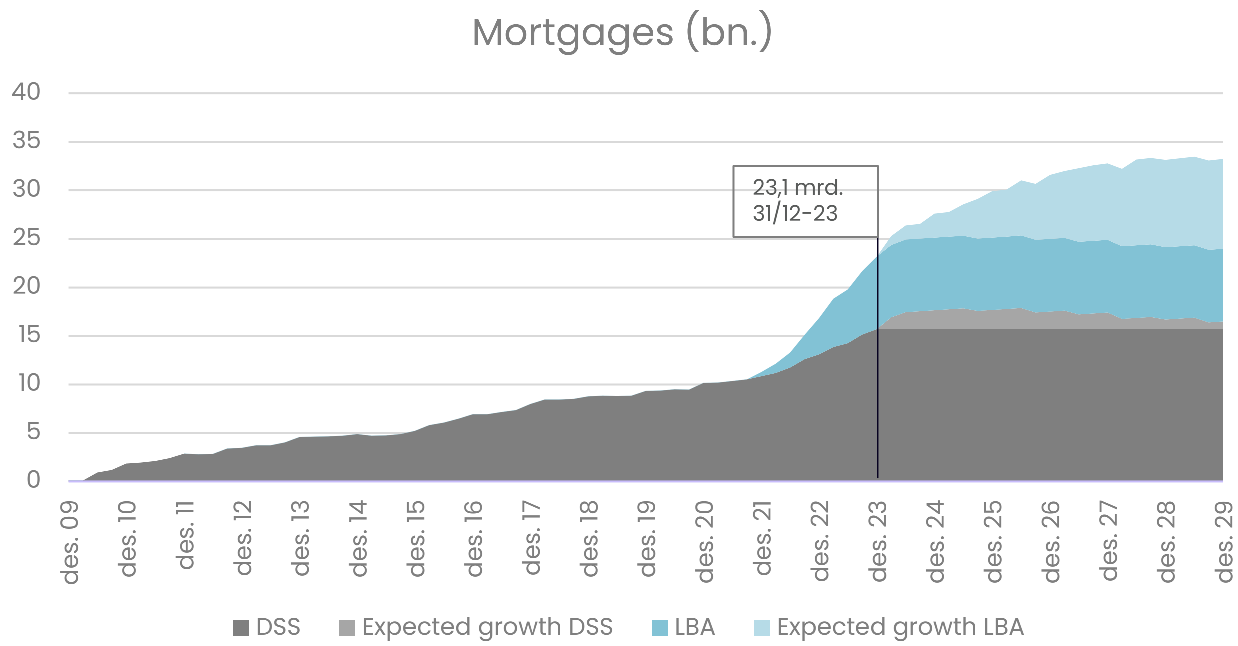
Continued growth

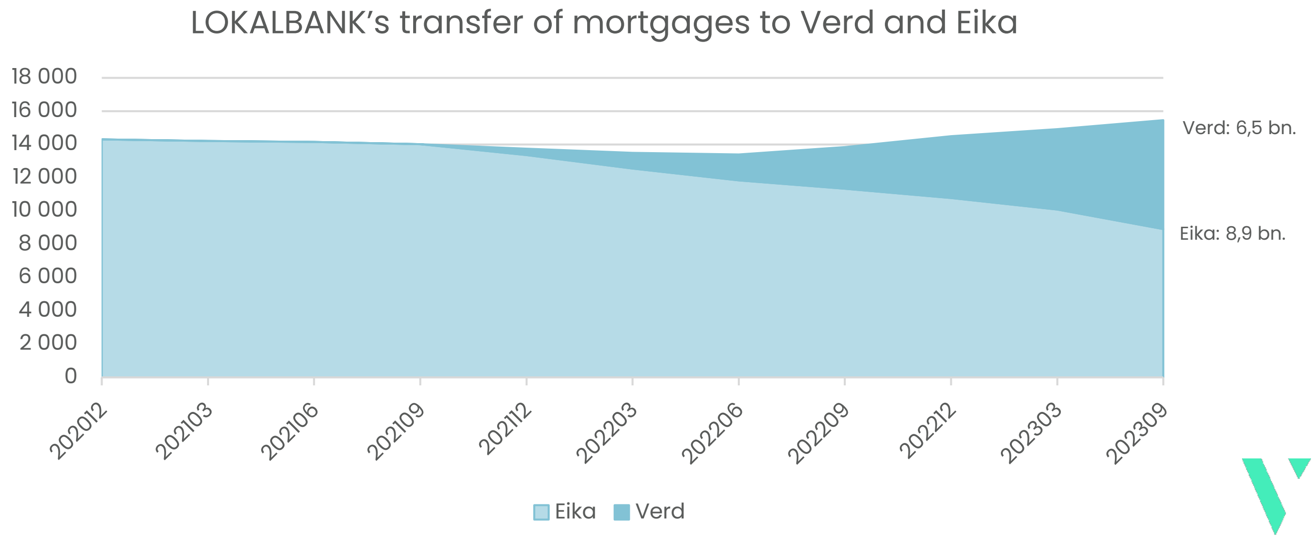
- Mainly driven by transfer from EBK, and increased funding needs from original owners

- 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 8,9 bn. left in Eika Boligkreditt (30/9-23)





Covered bond rating

- AAA/Stable from 5 Dec 2023

- Verd Boligkreditt's covered bonds have been AAA-rated by Scope Ratings since 15.05.2019
- The rating was last confirmed AAA/Stable on 5 Dec 2023

- Currently, Verd Boligkreditt has no public issuer rating
- None of the owner banks have official ratings

- On 4 Nov 2022, Scope rated bonds were included as approved securities as collateral for banks' loans in Norges Bank

Appendix II: Credit view on Verd Boligkreditt

Scope's credit view reflects Verd's low-risk business model as a funding vehicle for its owners, a group of Norwegian savings banks. Various aspects of the relationship between Verd and its owners support its credit profile.

As dictated by its legislative status and strategic purpose, Verd pursues a restricted and low-risk business. Through the issuance of covered bonds, Verd provides an important source of funding for its owners' lending activities. The mortgage assets backing the covered bonds must meet defined eligibility criteria, supporting Verd's sound asset quality. Following the establishment of a green covered bond framework, Verd is working on further incorporating climate considerations into its activities and encouraging its owners to do the same.

Verd's owners are savings banks with well-established positions in their local markets. Their focus on retail customers and residential mortgage lending underpins their good asset quality and reassuring prudential metrics. With the addition of banks from the LBA alliance operating in eastern and northern Norway, the assets of the cover pool are becoming more geographically diversified. The original owner banks that form the DSS alliance operate in southern and western Norway, regions more exposed to the cyclical oil and gas industry.

With consolidation increasing among Norwegian savings banks, Verd's ownership composition could change. Nevertheless, Scope expects the highly cooperative relationship and the agreements between Verd and its owner banks to remain intact, ensuring its solid financial profile.

Outlook and credit view change-drivers

The Stable Outlook reflects Verd's sound credit fundamentals and resilient business performance.

What could positively impact the credit view:

- Sustained high quality growth and diversification of the mortgage assets reflecting Verd's increasing relevance as a covered bond issuer in the Norwegian market

What could negatively impact the credit view:

- Evidence that the various agreements with the owner banks do not function as expected, potentially impacting Verd's financial profile and solvency position
- Deterioration in the credit quality of the mortgage assets, potentially stemming from a change in the composition of the owner banks

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/exit practices for owner banks

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:

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

The owner banks must, at all times, maintain the agreed amount of mortgages transferred to Verd. Down payments and early redemptions must be resupplied on monthly basis

Lists specific criteria for portfolio quality

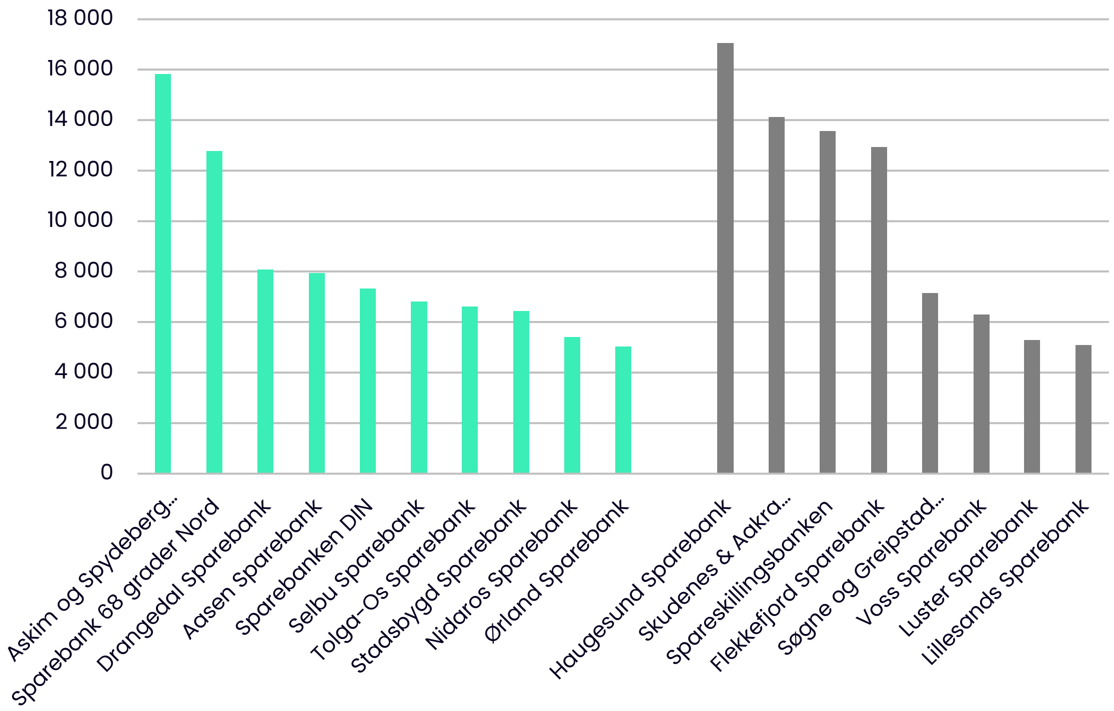
Specifies the owner banks duties to service the originated loans (transactions, refinancing, AML, …), which in turn gives the originator the right to commissions on loans transferred

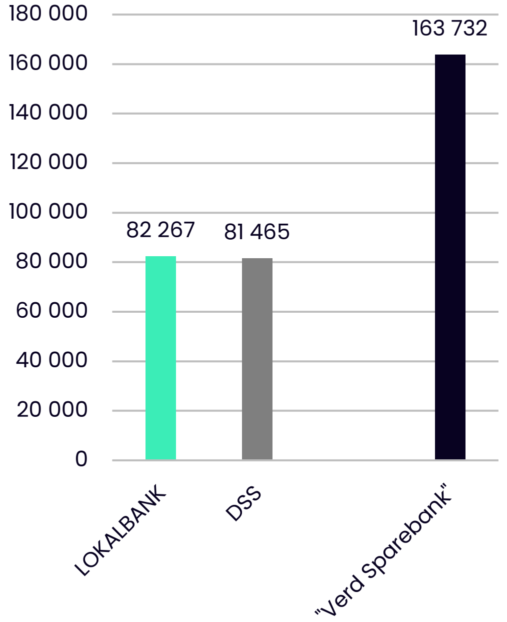
If the owner banks defaults on either of the agreements, Verd has the right to choose a different owner bank to service the defaulting bank’s loans

Assets under management (inc. loans transferred to CB / 30 Sep 2023)

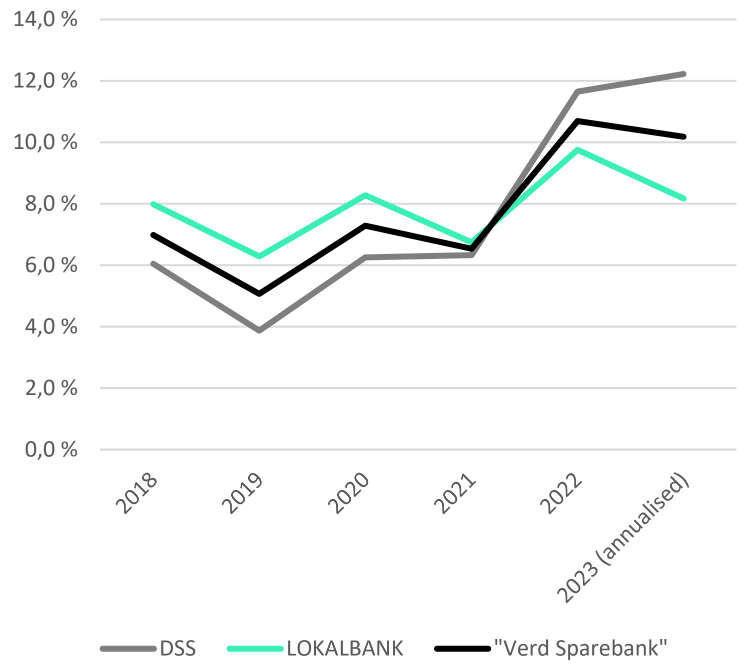
- Similar banks (same needs) and equal alliances. 2022 and 2023 saw solid growth in AuM

AUM (NOK 1.000)





Growth AUM y/y

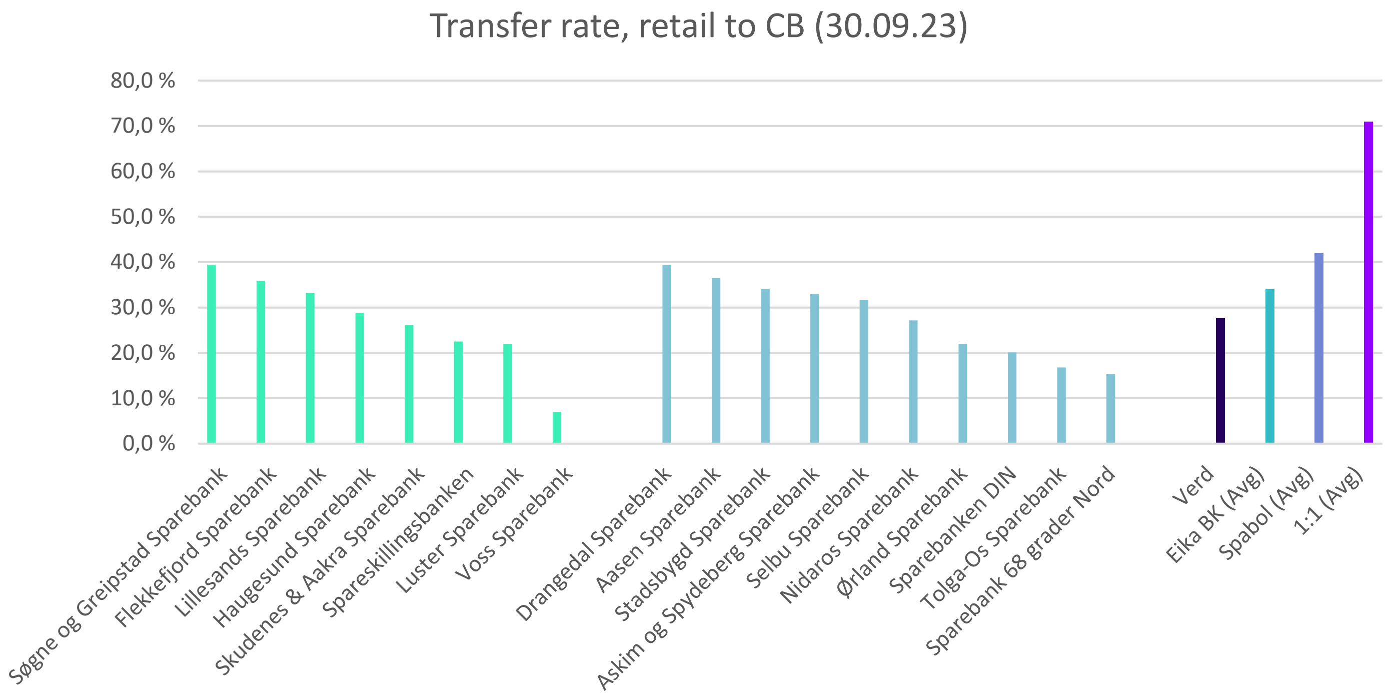


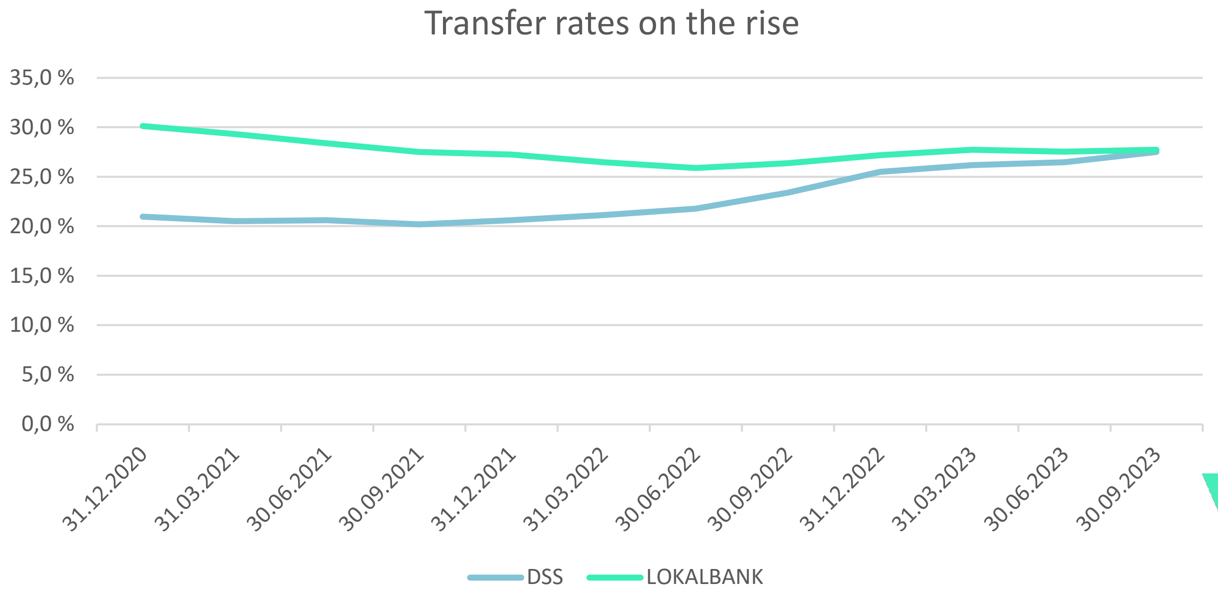
Mortgage transfer ratio

- Increasing, but lower than peers. Potential for Verd

<u>Transfer rate</u>

- DSS have closed the gap to LOKALBANK, both at 27,5%
- Verd is still well below Eika (34%) and Spabol (42%) averages
- 1 pp increase in transfer rate is 1,1 bn. in extra assets for Verd

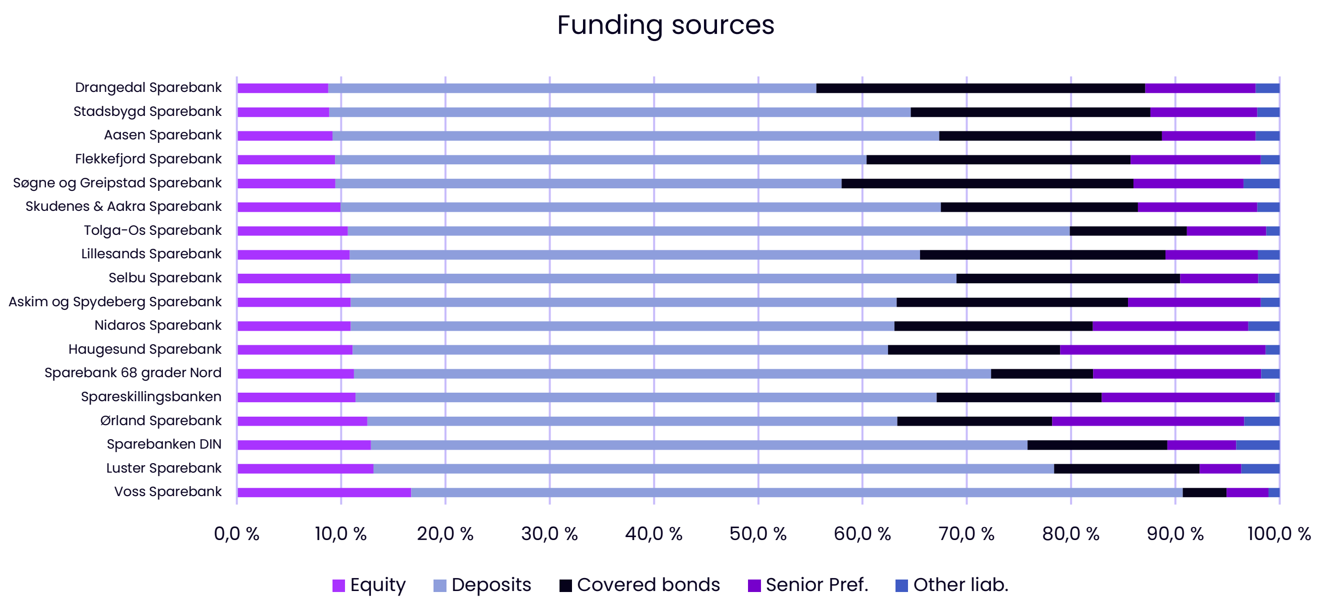


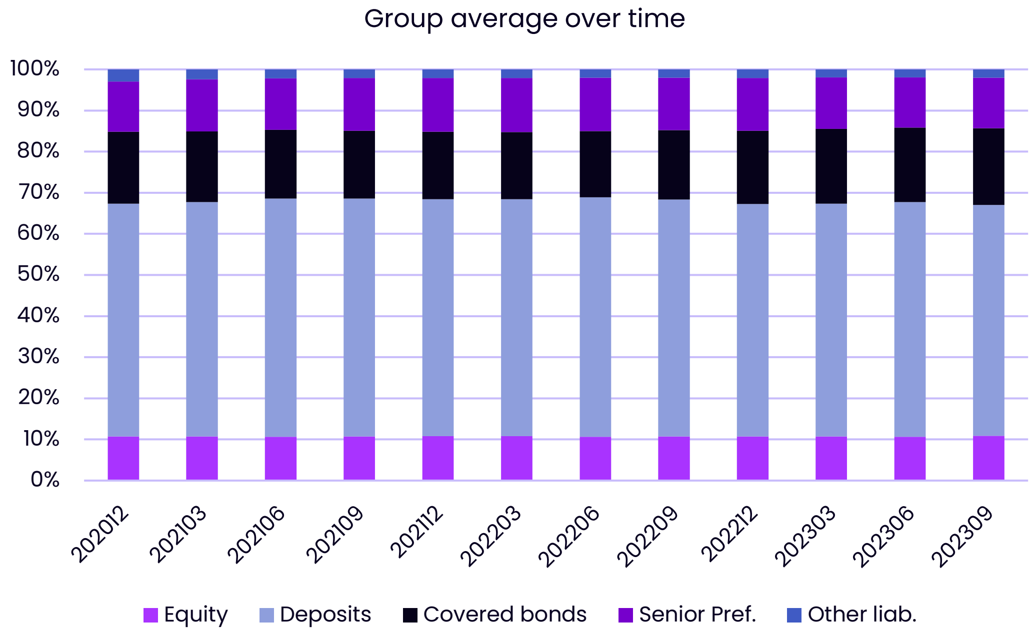


Funding profile

- *Deposits are the main source*

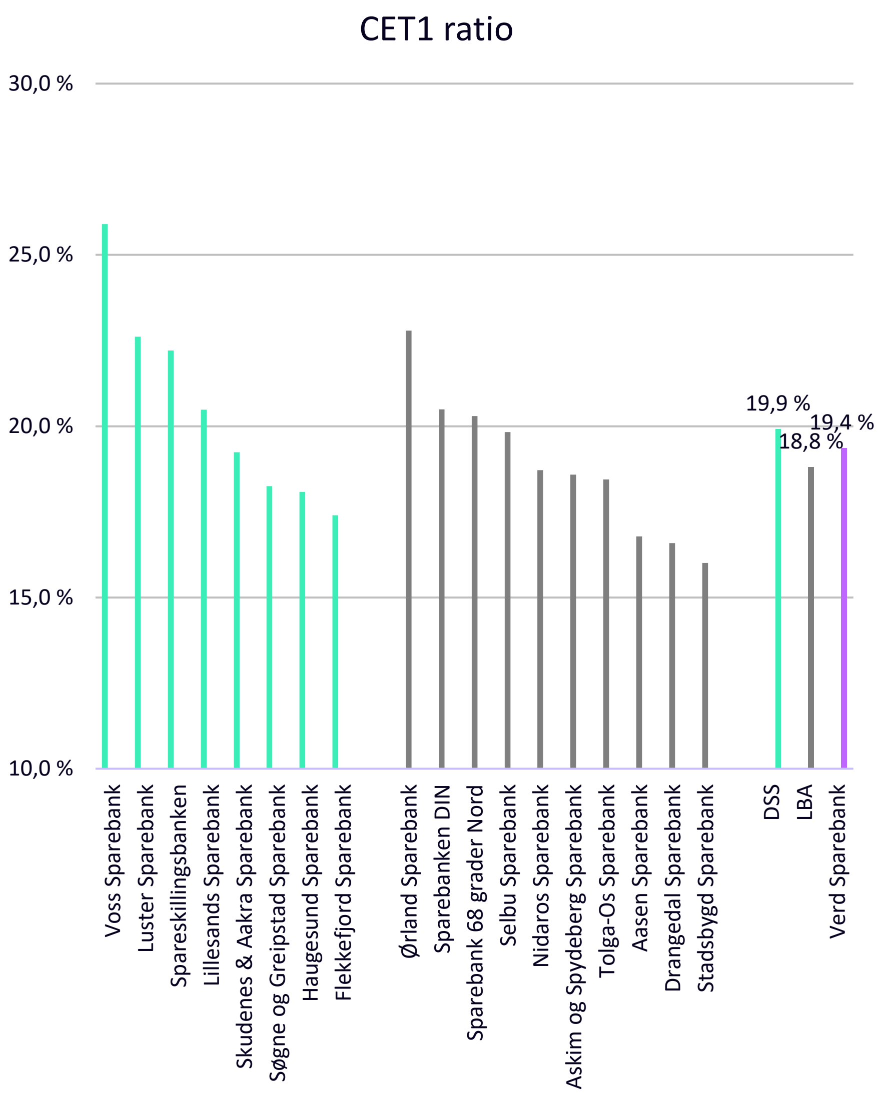
- Owner banks relies on deposits as their main funding source
- On average, the funding mix has stayed consistent over time
- Focus on customers with complete product portfolio (Mortgage, savings/checking, insurance)





Capitalisation

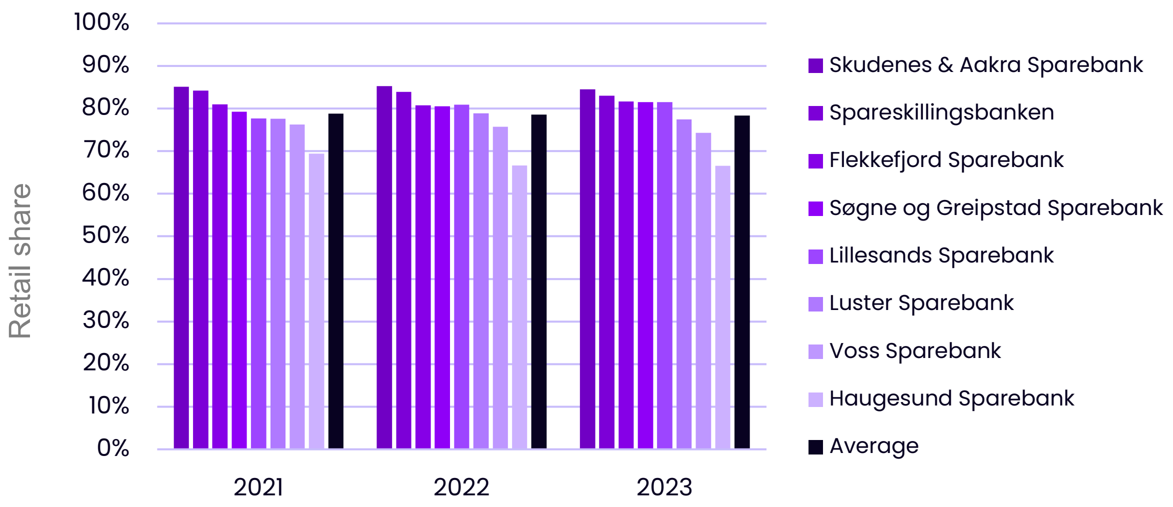
- Well capitalised owner banks. ROE on the rice with higher interest rates. LOKALBANK eventually with reduced group costs



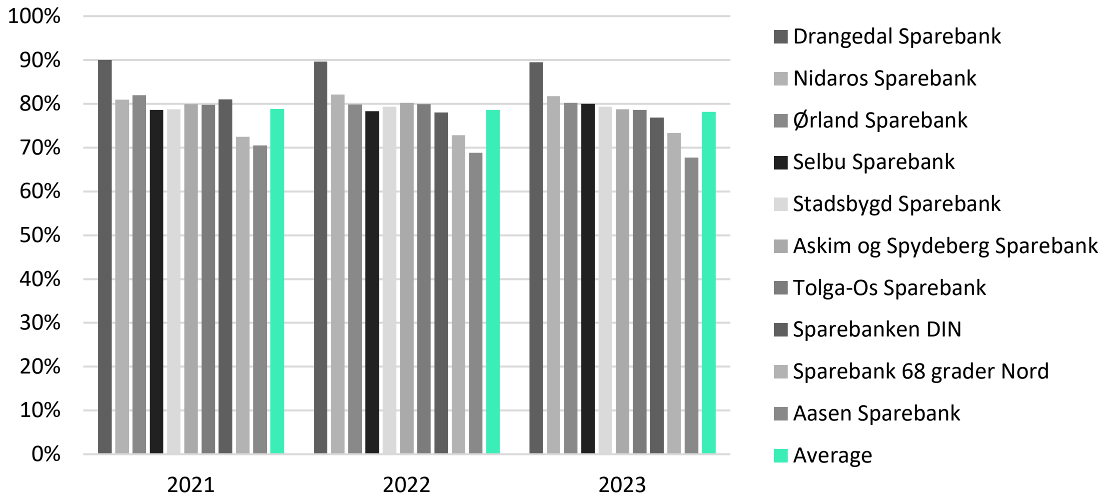
Owner banks: Retail vs corporate

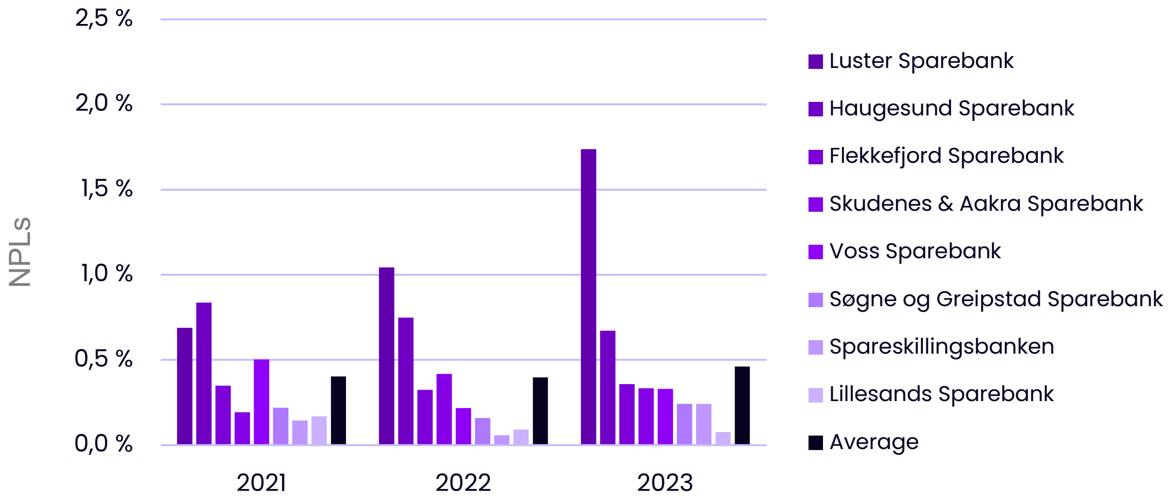
- Focused on retail. Low risk, low losses. Home/core market

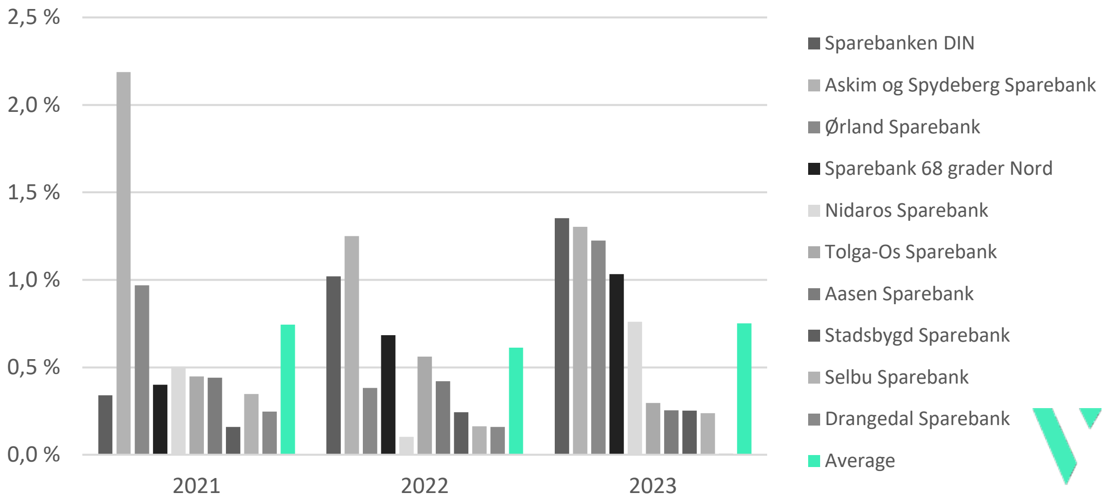
DSS



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*

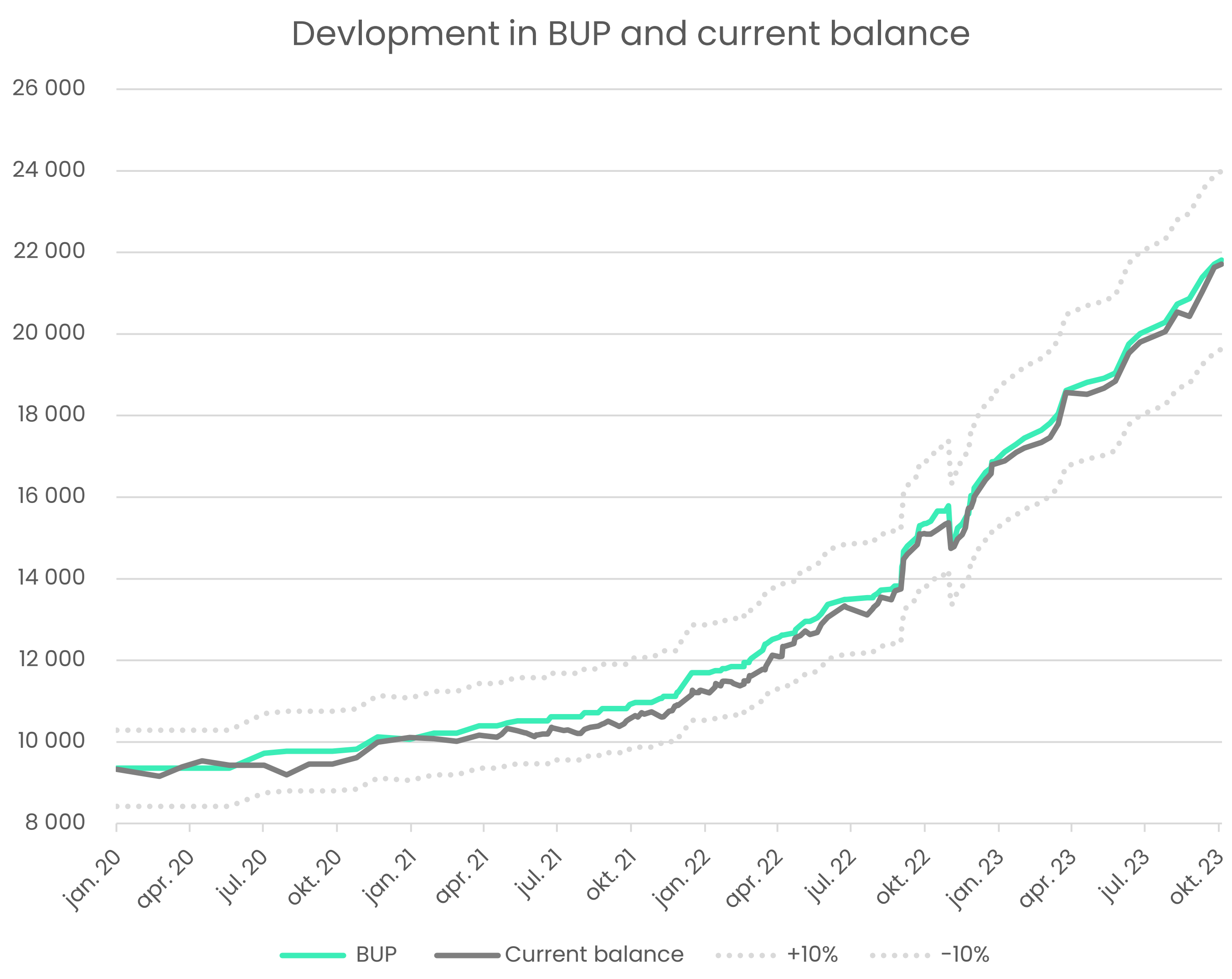
	31.12.2023	31.12.2022	31.12.2021	31.12.2020
Gross loans (mill.)	23 073	16 758	11 263	10 141
# of mortgages	12 469	9 449	7 068	6 666
# of costumers	12 288	9 360	6 999	6 592
Collective loans (Co-operatives)	225	91		
Seasoning (years)	3,2	3,6	4,3	4,3
Average loan balance (mill.)	1,84	1,78	1,59	1,54
Loans w/floating rate	100 %	100 %	100 %	100 %
Revolving credits	10,4 %	12,2 %	14,1 %	15,5 %
- Undrawn amount on revolving credits (mill.)	999	790	637	617
Interest only loans	17,0 %	16,7 %	15,7 %	17,2 %
Substitute assets (mill.)	3 562	1 709	1 028	745

- Collateral values are updated quarterly with estimates from Eiendomsverdi
- Down payments and early redemptions on mortgages go directly to a separate account belonging to the cover pool (currently in Sparebanken Vest)
- *Fixed rate mortgages, 3-10 years, included from 2023

Committed portfolios (BUP)

- Each bank is committed to its individual BUP. Low tolerance for deviation

- Once funded by Verd, a bank can't deviate from the agreed BUP.
- Verd receives quarterly budgets from owner banks which are used for equity and liquidity planning.
- BUP reduction possibilities are limited. Verd has at least six months to comply
- Increased BUP much more common but require equity.



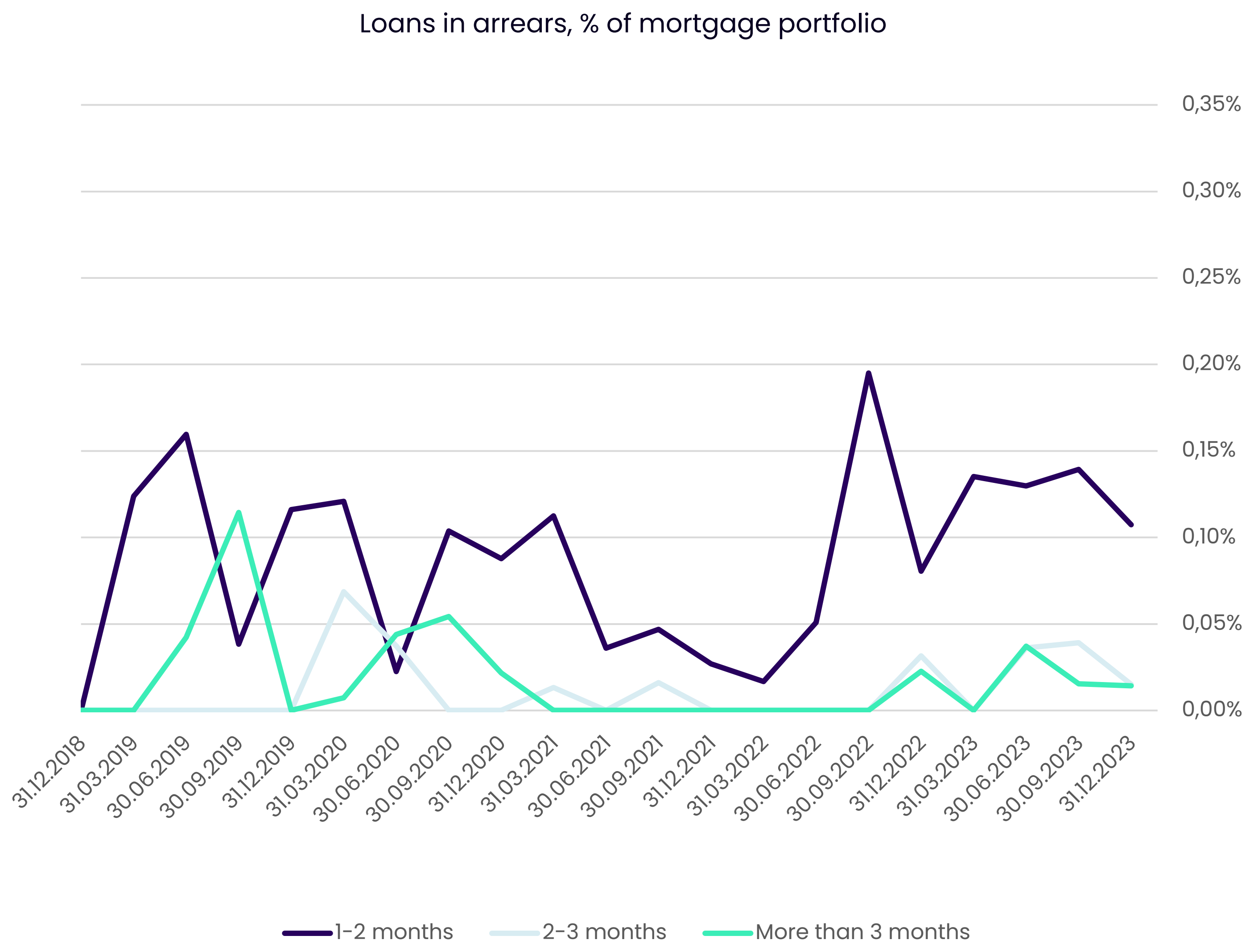
Arrears/NPL – more formalised policy

- Verd without losses since 2009

- Verd continuously monitor loans in arrears. Arrears are at a low and stable level.

- If we identify mortgages with late payments, we request the owner bank who originated the mortgage 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.

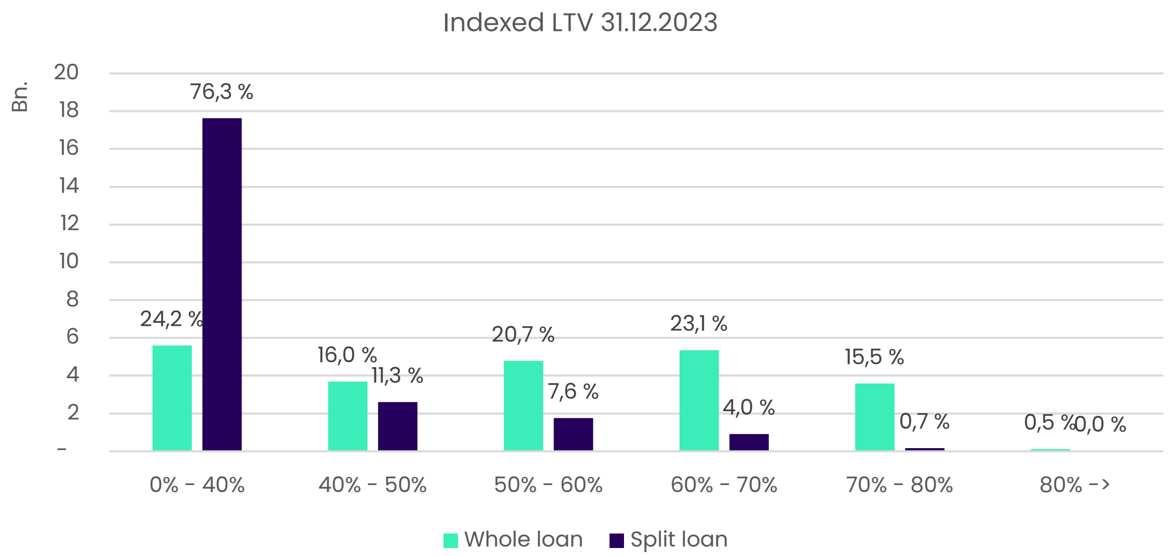
- Current practice is to request buy backs of mortgages as soon as the first payment is 30 days overdue. We have increased our focus on this practice over recent years.

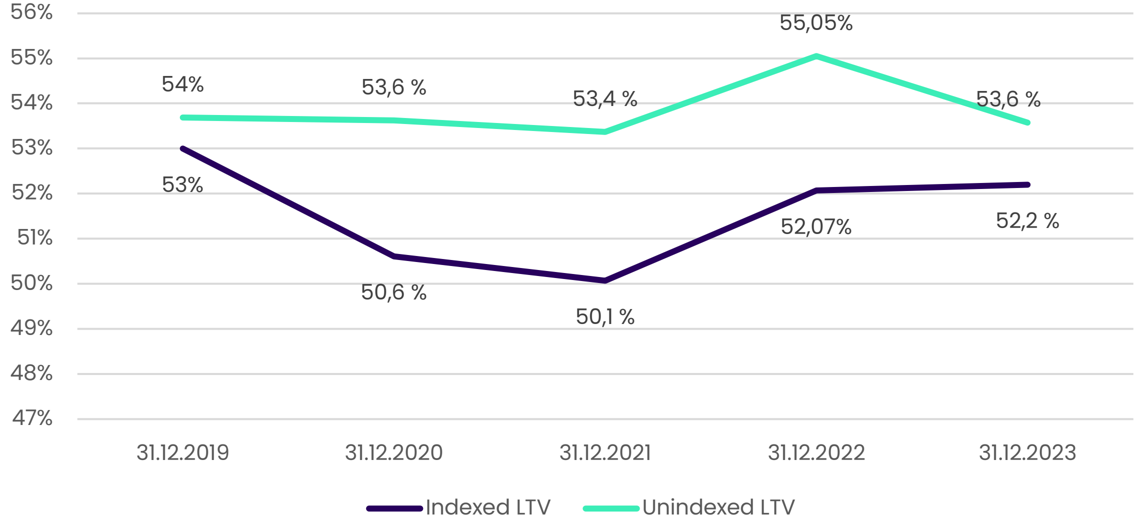


Loan-to-Value
- Low and stable

- 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

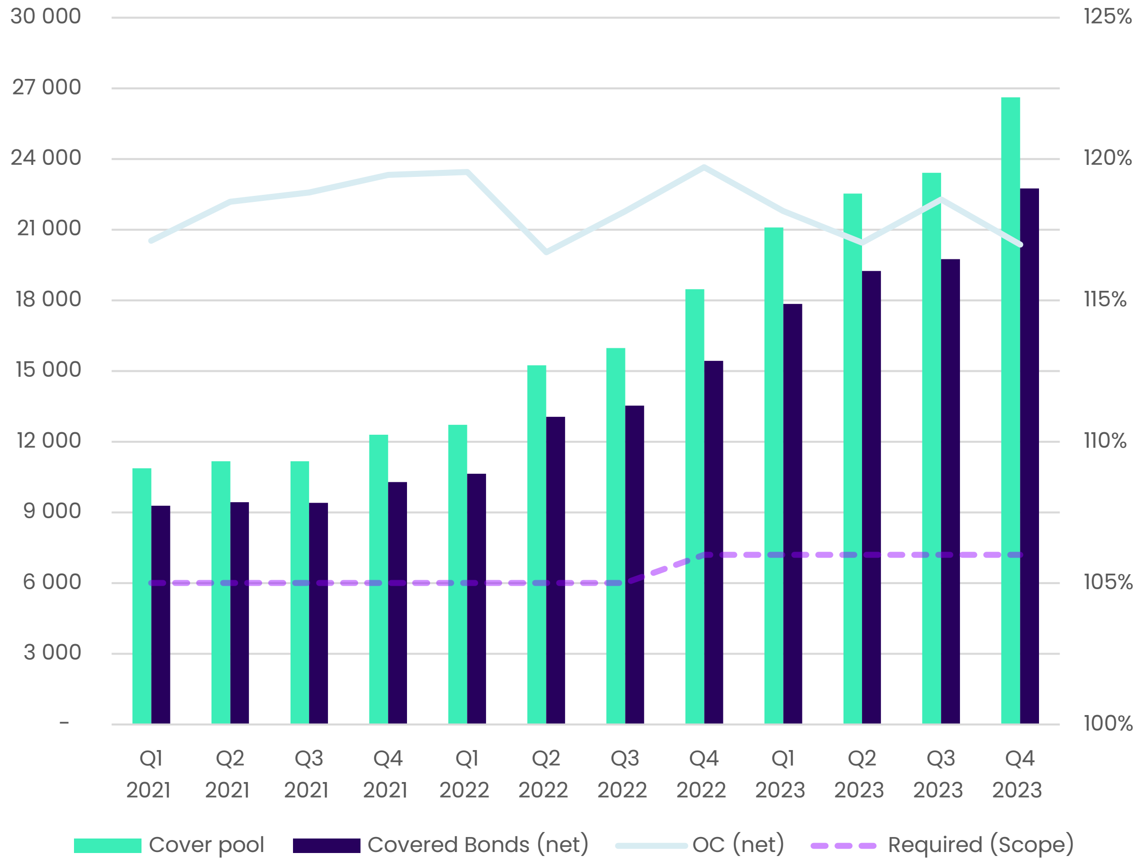
- LTV has remained low despite 1) high growth and 2) increased policy rates
  - 1) Owner banks tend to sell newer mortgages, thus higher LTV than existing portfolio
  - 2) Increased policy rates should but housing markets under distress, but housing prices have remained stable

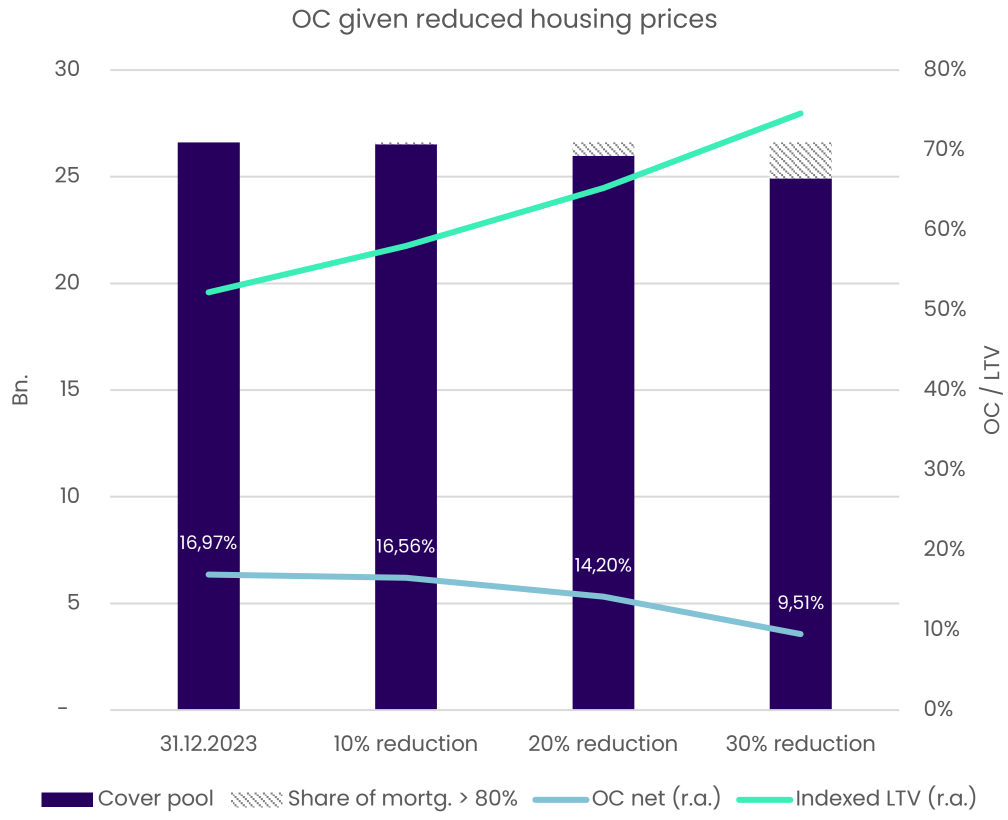




Over-Collateralisation

- The combination of high OC and low LTV make the cover pool resilient against reduced housing prices





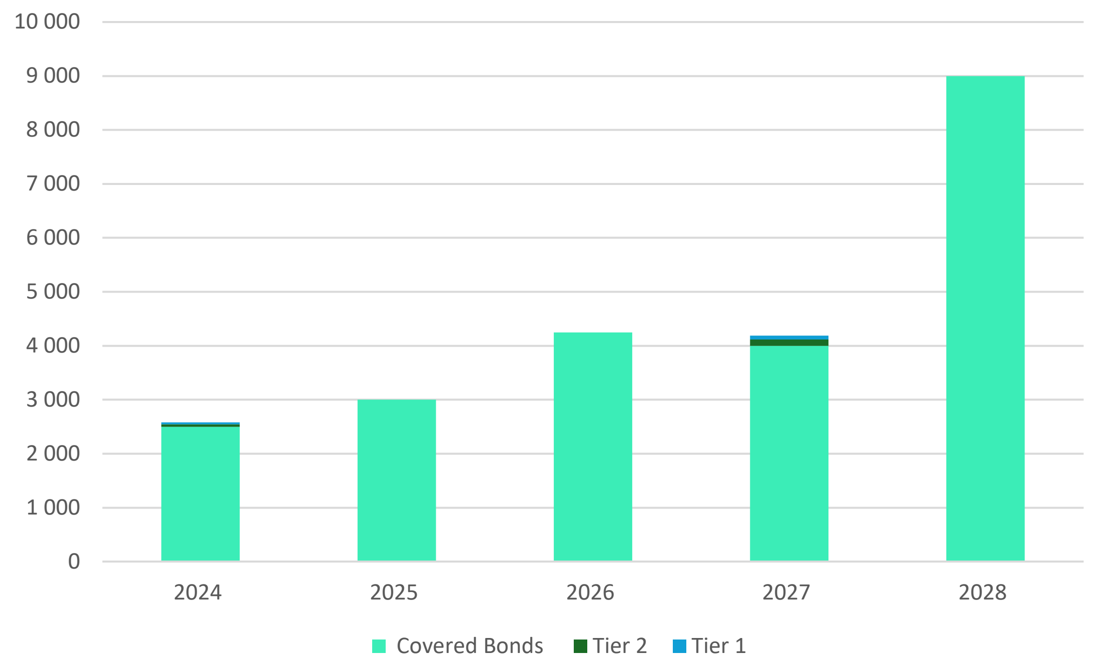
Funding

- LCR size series and diversified maturity profile. Increased duration

Securitised debt

ISIN	Ticker	Issue size	Own holdings	Maturity
NO0010864937	VEBK19	2 500		30.09.2024
NO0010893696	VEBK21	3 000		17.09.2025
NO0011151151	VEBK22	4 250	1 750	12.10.2026
NO0012548900	VEBK23	4 000		13.04.2027
NO0012832791	VEBK 26	6 000		07.02.2028
NO0013048694	VEBK27 ESG	3 000		18.10.2028
Total Covered Bonds		**22 750**		
NO0010852916	Tier 1	35		24.05.2024
NO0012708785	Tier 1	75		27.12.2027
NO0010852924	Tier 2	45		24.05.2024
NO0012708793	Tier 2	115		27.12.2027
Total tier 1 and 2		**270**		

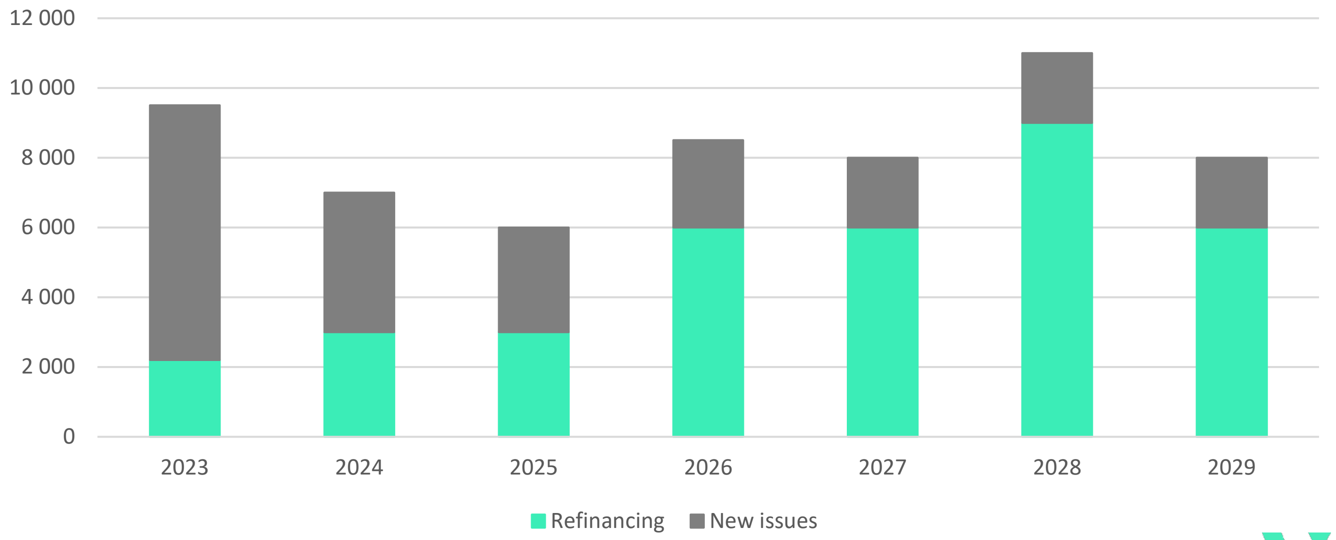
Debt distributed by maturity



Funding strategy
- Focus on increased investor base

- Issued 9,5 bn. NOK in 2023
- Increased series to 6 bn. Recent deals have been issued in syndicated format
- First Green Bond in 2023 (3 bn.)

Maturity →	30.09.2024	17.09.2025	12.10.2026	13.04.2027	07.02.2028	18.10.2028	15.06.2029		
Time ↓	**VEBK19**	**VEBK21**	**VEBK22**	**VEBK23**	**VEBK26**	**VEBK27 ESG**	**«VEBK28»**	**Total**	**Duration**
31.12.2023	2 500	3 000	4 250	4 000	6 000	3 000	-	22 750	3,12
31.03.2024	1 500	3 000	6 000	4 000	6 000	3 000	-	23 500	2,95
30.06.2024	1 500	3 000	6 000	6 000	6 000	3 000	-	25 500	2,70
30.09.2024	-	3 000	6 000	6 000	6 000	6 000	-	27 000	2,77
31.12.2024	-	3 000	6 000	6 000	6 000	6 000	-	27 000	2,51
31.03.2025	-	-	6 000	6 000	6 000	6 000	6 000	30 000	2,84



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

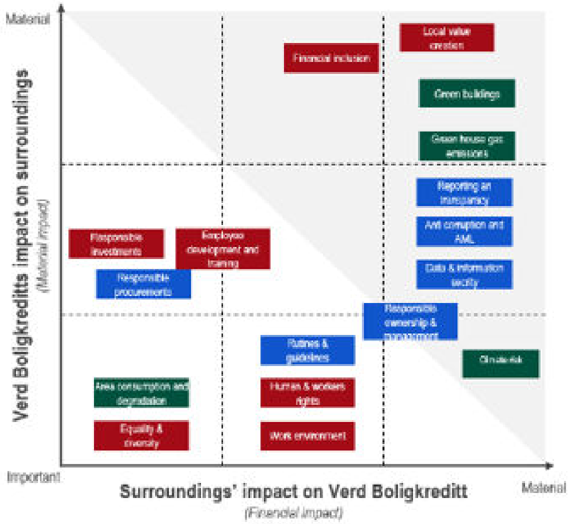
The savings bank model is founded on sustainability, and there is a clear red thread from the history of the savings banks and the sustainability strategy of Verd. Previously sustainability challenges were of a more local nature, while today such challenges are more global in nature. Therefore, we link 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:



VERD boligkreditt

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

Verd Boligkreditt

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