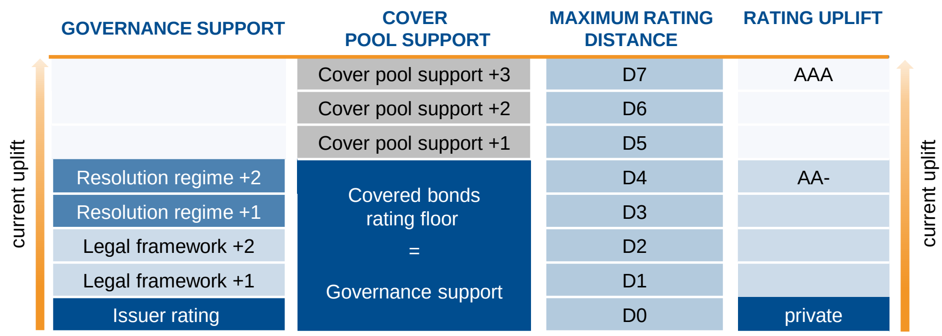
Verd Boligkreditt AS
Norwegian Covered Bonds – Performance Update

The AAA rating with a Stable Outlook assigned to the Norwegian mortgage-covered bonds issued by Verd Boligkreditt AS (Verd) is based on our view of the bank enhanced by seven notches of cover pool support. Four notches thereof reflect our assessment of the strong governance support provided by the Norwegian legal covered bond and resolution frameworks.

Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
30 Sep. 2022	NOK 15.98bn	Residential mortgage loans	NOK 13.53bn	AAA/Stable

Verd is a specialised credit institution dedicated to providing secured covered bond funding to its owners – 18 local banks in Norway (the owner banks). Verd's credit quality is based on the credit profiles of its owner banks, which are well-established in their local markets and maintain reassuring prudential metrics. Governance support factors from the Norwegian legal and resolution framework provide a four-notch uplift above our credit view on the bank. This forms a rating floor at AA-. The interplay between complexity and transparency is classified with a cover pool complexity (CPC) category of 'low', allowing the maximum uplift of up to three notches on top of the governance uplift. From this, the cover pool support enables the programme to be rated AAA. The programme does not benefit from a rating buffer against a deteriorating view on the issuer as the maximum theoretical uplift of seven notches is uses to reach the highest rating.



Stable Outlook

The Stable Outlook on the covered bond rating reflects our expectations that: i) the credit performance of Verd and its 18 member banks will continue to be stable; ii) the issuer will maintain its covered bond programme's prudent risk profile; and iii) both Verd's member banks and direct issuer will remain willing and able to provide sufficient overcollateralisation and equity to support the covered bonds' very high credit quality.

Changes since the last performance update

Since our last analysis in December 2021, Verd's mortgage assets have grown by 34%. New, additional Verd owners contributed a total of 16% of the cover pool balance. They are local saving banks organised under the LOKALBANK Alliance (LBA) that left the Eika alliance in 2021. As of September 2022, all ten LBA banks transferred assets to Verd, on average with slightly worse credit metrics compared to the portfolio average.

In February 2022, Etne Sparebank announced its intention to merge with Sparebanken Vest, a larger regional savings bank. The merger was completed on 1 December 2022, with Etne's ownership stake in Verd (6%) being distributed amongst the other owner banks. Etne's orderly exit follows the rules laid down in the shareholder's as well as the transfer and service agreement.

Ratings & Outlook

Issuer rating	**Not disclosed**
Outlook	Not disclosed
Covered bond	**AAA**
Outlook	Stable
Rating action	Affirmation
Last rating action	20 Dec 2022

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Related Research

Scope affirms AAA rating on Verd Boligkreditt's Norwegian mortgage-covered bonds, Outlook Stable, Dec 2021

Norway: sharp rise in revenues from oil and gas activities, lower risk of stranded assets, Dec 2022

Norway's residential housing boom is over: prices starting to fall, Nov 2022

Norway maintains strong covered bond framework following alignment with EU Directive, Sep 2022

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The issuer

Established in 2009, Verd is a covered bond issuer owned by 18 independent savings banks in Norway. The ownership structure is unusual as most covered bond issuers are owned by a single parent bank. The owner banks are part of De Samarbeidende Sparebankene (DSS) or LOKALBANK Alliance (LBA), both alliances that enhance negotiating power with suppliers, achieve operational efficiencies and enable expertise-sharing.

As seen throughout Norway, banking alliances are important for sustaining the efficiency and business franchises of the individual banks. This includes the shared ownership of companies offering a range of financial products such as insurance, leasing and securities services.

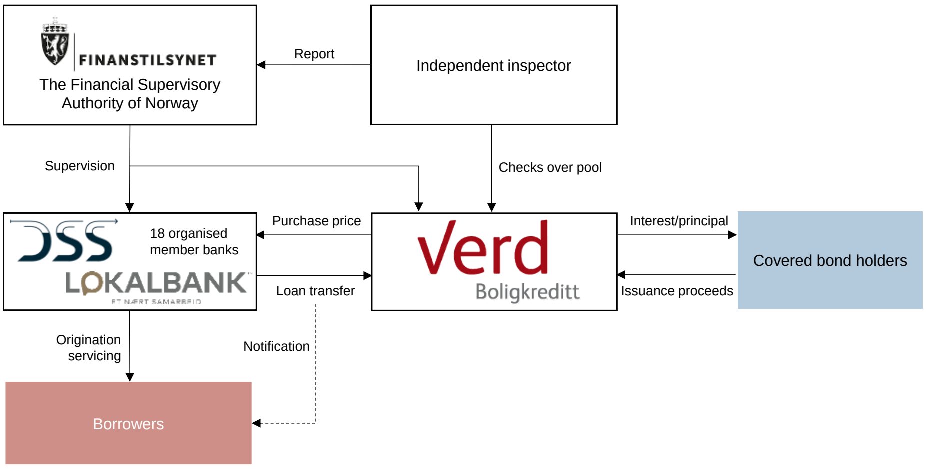
The DSS banks are concentrated in the southern and western part of the country in the counties of Rogaland, Agder and Hordaland. The LBA banks are concentrated in the eastern and middle part of the country in the counties of Trondelag, Vestfold and Telemark.

Programme structure

Specialised mortgage bank issuing covered bonds

The Norwegian legal covered bond framework is mainly based on the relevant section on covered bonds in the Financial Institutions Act together with a related regulation on mortgage credit institutions, both introduced in 2007. The act was amended to transpose the European Covered Bond Directive and came into force on 8 July 2022, the same day as the directive in the EU. Under this framework, issuance is permitted only through specialist covered bond issuers. Most issuers of covered bonds (called Boligkreditt, or specialised residential mortgage institutions) are subsidiaries that rely on loans originated by their respective parent banks. In contrast, Verd is a funding platform jointly owned by its owner banks. A Boligkreditt issues covered bonds whose proceeds are used to purchase mortgage assets from its parent bank(s), thereby financing the latter's lending business.

Current issuance structure



Source: Scope Ratings

Governance support analysis

Governance support factors enhance the covered bond rating by four notches above our credit view on Verd. This is based on our view of: i) Norway's covered bond legal framework; and ii) the resolution regime and systemic importance of Verd's covered bonds as well as the cohesiveness of its member banks.

Legal framework analysis

Two notches of uplift based on legal framework analysis

We consider the Norwegian covered bond framework to be one of Europe's strongest, meeting our criteria for protecting investors. Therefore, we assign the highest credit differentiation of two notches.

For more information on our view of the Norwegian legal framework, please refer to Legal framework analysis: Norway.

Resolution regime analysis

Two notches of additional uplift reflecting resolution regime

Verd's covered bonds benefit from an additional two-notch uplift reflecting a bail-in exemption and support from a strong external stakeholder community. The uplift is constrained by the combination of: i) the low likelihood that the covered bond issuer will be maintained in a resolution scenario; ii) the low visibility of Verd as a covered bond issuer; and iii) the support of the owner banks, which provide investors with only moderately documented or public commitments on minimum levels of liquidity or overcollateralisation. At the same time, the transfer and service agreements between the member banks and Verd is regularly updated and over time has strengthened the cohesiveness between the member banks.

We believe that the current capital structure would, in theory, allow regulators to restructure the bank using available resolution tools should the need arise. However, the most likely scenario would be a transfer or takeover by another bank. An orderly winddown is also a plausible scenario. The bank's size and setup as a joint issuance vehicle makes resolution less likely compared to a 100%-owned subsidiary should it or its shareholders fail. As a result, investors might not benefit from an issuer structure that may be maintained as a going concern.

We generally classify Norwegian covered bonds as a systemic refinancing product, particularly for residential mortgages. The covered bonds issuance in 2021 accounted for 32% of GDP. In Norway, 24 specialised covered bond issuers are active, issuing residential, commercial and public sector-backed covered bonds. Globally, Norway was the eighth largest issuer in 2021 and is the tenth largest issuer by total outstanding size.

In our view, Verd's covered bond issuing activities and market share only result in a low to moderate systemic importance. The bank only issues into the domestic market which should reduce negative repercussions on other issuers in the event of a failure. However, we also have taken into account that most of Norway's covered bond issuers are subsidiaries of similarly small to midsize banks. Even a failure of a covered bond issuer with the size and setup of Verd could thus result in contagion, effectively creating systemic problems for other issuers reliant on this refinancing channel for their core product, residential mortgage lending. This risk is reinforced within the DSS and LBA association because all member banks have a strong interest in maintaining this mutual funding platform.

For more information on our view of the Norwegian resolution regime, please refer to Legal framework analysis: Norway.

Cover pool characteristics

Reporting date	Sep 2022	Dec 2021
Balance (NOK bn)	15.98	12.29
Residential (%)	94.2	91.6
Substitute (%)	5.8	8.4

Property type (%)

Reporting date	Sep 2022	Dec 2021
Single-family house	78.1	78.8
Apartment	15.7	13.9
Others	6.2	7.3

General information

Reporting date	Sep 2022	Dec 2021
No. of loans	8,727	7,068
No. of obligors	8,608	6,972
Avg. size (NOK m)	1.7	1.6
Top 10 (%)	0.4	0.7
Remaining life (y)	21.1	18.1
LTV (%)	50.9	50.1

Interest rate type (%)

Reporting date	Sep 2022	Dec 2021
Floating	100.0	100.0
Fixed	0.0	0.0

Repayment type (%)*

Reporting date	Sep 2022	Dec 2021
Annuity	83.4	80.7
Flexible loan	16.3	18.8
Interest-only	0.3	0.4

*by max commitment

Cover pool analysis

Verd's mortgage-covered bond ratings are cover pool-supported, providing seven of the seven notches of uplift needed to achieve the highest rating. Governance support provides for a four-notch rating uplift and an effective floor against a deterioration in cover pool credit quality. Our assessment on the interplay between complexity and transparency translates into a CPC category of 'low', which allows for the maximum three-notch uplift on top of the governance uplift.

Verd's minimum supporting overcollateralisation (OC) needed to achieve our highest rating has increased to 6% (up from 5%) since our last report. The higher supporting OC requirement is driven by our increased risk scoring in light of the tense economic situation, more conservative value haircuts and higher than average loan-to-value and default scoring for loans added by shareholders from the LOKALBANK Alliance (LBA) alliance. The programme is still supported by the sound credit metrics of the cover pool and low market risks. Although there are maturity mismatches, market risks are low due to the bonds' soft-bullet structure.

Cover pool composition

The cover pool comprises granular, first-lien Norwegian residential mortgage loans denominated in Norwegian krone and further benefits from 5.8% of liquid, substitute assets, mainly comprising Norwegian mortgage covered bonds (64%) but also deposits with Sparebank Vest and other strong quality bonds.

As of September 2022, the loans were granted to 8,608 (up from 6,972) obligor groups. By balance, 16.3% (up from 3.9%) consist of mortgage loans originated by LBA. As of September 2022, all LBA banks contributed mortgage assets to the programme. Both the total share and number of contributors will further increase over time with new originations from LBA banks and from existing collateral released from maturing Eika covered bonds.

LBA loans transferred to Verd currently show slightly worse credit metrics compared to DSS. For instance, LTVs for LBA stands at 56.2% on average which compares to 48.3% for DSS. Also, internal risk scores imply that LBA loans are of lower quality given some concentrations in more risky classes. We will closely monitor if this trend increases further.

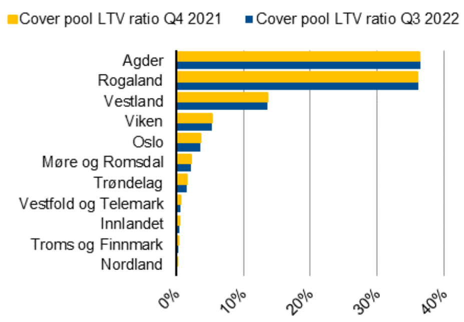
Region	Alliance	Loans transferred	LTV	Seasoning	Remaining term	Flexible
Haugesund Sparebank	DSS	16.5%	48.0%	5	21	21%
Flekkefjord Sparebank	DSS	16.4%	54.9%	2	22	4%
Skudenes & Aakra Sparebank	DSS	15.0%	49.3%	4	20	20%
Spareskillingsbanken Kristiansand	DSS	12.1%	43.6%	4	19	18%
Søgne & Greipstad Sparebank	DSS	6.4%	46.5%	4	21	17%
Etne Sparebank*	DSS	5.8%	49.4%	5	20	25%
Lillesands Sparebank	DSS	4.8%	43.8%	5	21	25%
Luster Sparebank	DSS	4.8%	41.6%	6	19	32%
Drangedal Sparebank	LBA	4.3%	62.6%	1	26	8%
Askim & Spydeberg Sparebank	LBA	2.7%	54.9%	3	25	11%
Aasen Sparebank	LBA	2.6%	53.3%	4	22	7%
Nidaros Sparebank	LBA	2.5%	49.3%	3	23	18%
Voss Sparebank	DSS	1.7%	45.9%	5	19	9%
Stadsbygd Sparebank	LBA	1.2%	57.2%	2	24	6%
Ørland Sparebank	LBA	1.2%	58.2%	4	24	4%
Sparebanken DIN	LBA	0.8%	56.9%	3	23	0%
Selbu Sparebank	LBA	0.5%	53.8%	2	24	6%
Tolga-Os Sparebank	LBA	0.3%	47.0%	10	18	8%
Sparebank 68 Nord	LBA	0.2%	57.5%	7	21	0%

***As of September 2022**. With the merger of Etne with Vest, Etne's share will be split amongst the other banks

The average loan size remains small at NOK 1.7m. The top 10 largest obligors account for 0.4%. The weighted average indexed whole LTV is 50.9% (up from 50.1% in September 2022). Re-drawable loans (flexible loans), make up around 16% (based on maximum balance), down from 19% in December 2021. Flexible loans have an embedded credit line that can be redrawn without a new credit approval. New flexible loans will only be granted if the loan's LTV does not exceed 60%. Existing flexible loans may only be drawn up to 60%. It is Verd's obligation to provide liquidity in case of a re-draw request from a mortgage borrower which could pressure the bank's liquidity position. Only 0.3% of the loans are paying interest only. The remaining loans are normal amortising loans.

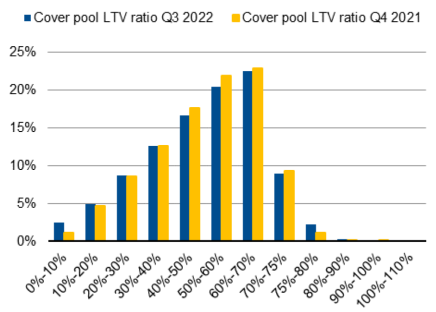
DSS loans are more concentrated in the Norwegian counties of Rogaland, Agder and Hordaland which are more exposed to the oil industry. Those counties are also home to diversified, export-oriented businesses and sectors like fisheries, shipbuilding, tourism and hydro power. The LBA banks are concentrated in the eastern and central part of the country in the counties of Trondelag, Vestfold and Telemark, but are still underrepresented in the total portfolio. Exposures outside of the core region of each saving bank are generally exceptions and are only granted to borrowers with above-average credit quality.

Figure 1: Regional distribution



Source: Scope Ratings, Verd

Figure 2: LTV distribution



Source: Scope Ratings, Verd

78% of the portfolio is made up of single-family and terraced houses, and 16% of apartments. The remainder includes holiday homes (2%) and other categories.

Asset risk analysis

Strong credit quality translates into low credit risk

The cover pool's credit quality remains strong. We assume an annual average default probability of 83 bps, which provides a comfortable cushion against the bank's internal point-in-time assessment. This assumption has been established by taking into account the issuer's risk scoring and our PD mapping benchmarked to that of other Norwegian residential mortgage lenders.

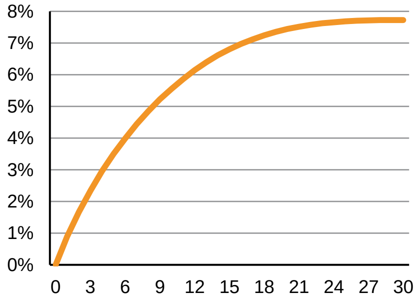
This translates into a cumulative term default rate of 7.7% (up from 6.0%). The higher term default reflects the increased risk scoring in light of the tense economic situation. The average borrower probability of default is commensurate with a BB+ rating.

We acknowledge cure rates ranging between 55-70% according to Verd's IFRS 9 reporting. While such rates are likely to impact our expected defaults, high cure rates are more unlikely under a stressed scenario. As a consequence, we do not give additional benefit to our term default rate from potential cures.

The legal amortisation profile was calculated assuming all flexible loans have an initial loan term equal to the average annuity loan but are expected to not amortise throughout their whole remaining life. Further, we assumed them to be fully drawn.

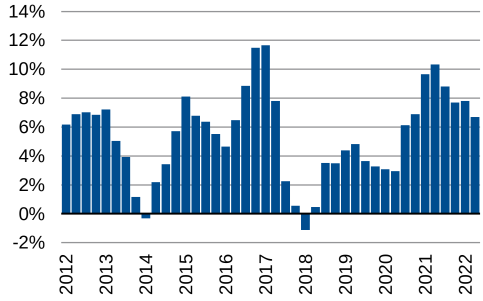
Our projection of default on mortgage loans uses an inverse Gaussian distribution, based on the available credit performance data provided. We have further maintained our assumption of a coefficient of variation of 55% for the mortgage assets. This factors in the higher sensitivity to economic shocks in the western regions of Norway but also considers the diversification within these areas compared to more concentrated peers.

Figure 3: Expected term defaults, cumulative



Source: Scope Ratings, Verd

Figure 4: House price growth Norway, annualised



Source: Scope Ratings, statOECD

Stressed recovery rates have dropped to 76.7% from 77.8% due to a slight increase in the portfolio LTV. The lower stressed recovery is also driven by more conservative value haircuts reflecting the extraordinary property value growth in the past few years. Norway's housing price growth has exceeded our expectations as it is has significantly exceeded its long-term sustainable growth of 3.0%. We have further increased our base market value haircuts by 5 pp to account for imminent value correction.

Figure 5: Norwegian Security Value Haircuts (SVH)

Region	Base MVD	Stressed MVD	Fire-sale Discount	Stressed TSVH
Oslo	5%	55.0%	25%	67.5%
South-Western	5%	42.5%	25%	55.0%
Rest of Norway	5%	42.5%	25%	57.5%

MVD: market value decline
TSVH: total security value haircut

Our base recovery expectation remains very strong at 98.5%. We have adjusted our base market value decline from 0% to 5% to account for imminent value correction.

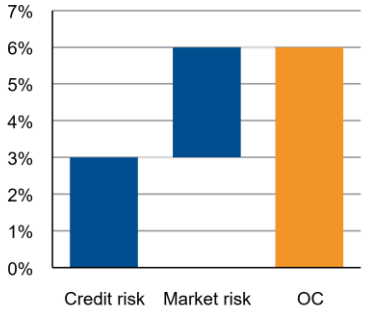
We keep the fire-sale discount unchanged at 25%. The fire-sale discount is applied to properties sold under non-standard market or distressed conditions. For Verd, we assume a higher discount than for Norwegian peers. This is justified by the bank's internal analysis (IFRS 9) and the fact that the member banks' core markets are in more rural parts of Norway, where liquidity may be lower. In our recovery analysis, we do further include 2.5% of variable costs and NOK 70,000 in fixed costs.

Due to the low number of substitute assets, we considered the sub-pool as a single exposure to a financial institution rated A- combined with a typical three-year maturity and a stressed recovery rate of 50%.

Cash flow risk analysis

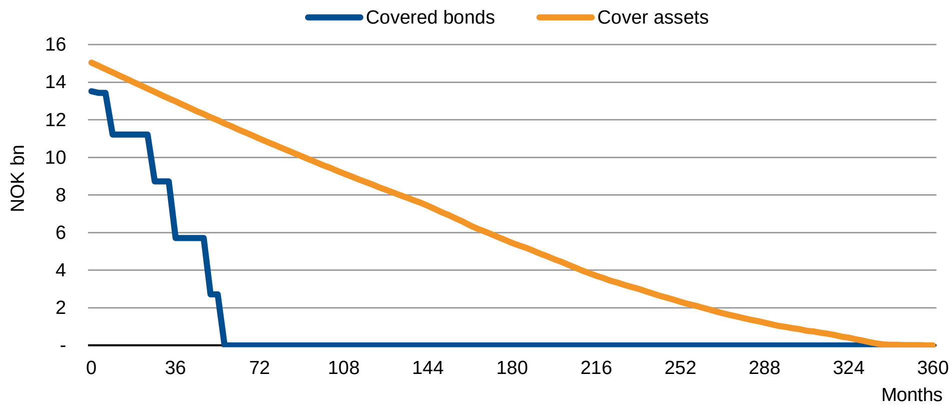
The rating-supporting OC of 6.0% increased since our last analysis by 1.0 pp. It equally reflects credit risk and the programme's asset-liability maturity mismatch risk. The latter, which is unchanged, contributes 3.0 pp to the supporting OC and is driven by the asset's slow scheduled amortisation against the faster redemption of the covered bonds, which creates a sensitivity of OC to low prepayments due to stressed asset sales.

Supporting OC breakdown



Source: Scope Ratings

Figure 6: Amortisation profile



Source: Scope Ratings, Verd

We have calculated asset margins based on the loan-by-loan data provided, resulting in a weighted average margin of 88 bps for the mortgage loans. This compares to 37 bps for the covered bonds.

In the event of recourse to the cover pool, we assume assets will be sold at a discount of up to 150 bps if the cash accumulated from cover pool amortisation is insufficient to pay timely interest and principal on the covered bonds. Currently, the cover pool does not include short-term substitute assets.

Asset-liability mismatches

	Assets	Liabilities
NOK	100%	100%
Fixed	0.0%	0.0%
Floating	100%	100%
WAL (years)	12.3	4.0*

*incl. one year extension

Other market risks are limited as cover assets and covered bonds are both floating rate with the fixed rate bond having matured. Also, there is no foreign exchange risk as both assets and liabilities are denominated in Norwegian krone. At this stage, we do not expect foreign currency-denominated issuances.

Credit risk accounts for a 3.0 pp (up from 2.0 pp) of the rating-supporting OC, reflecting the lifetime mean default rate of 7.7%, the unchanged coefficient of variation of 55% and a stressed recovery rate of 76.7%, together with the loan portfolio composition.

We have further assumed a recovery lag of 24 months reflecting Norway's lean and digital sale procedures as well as the more regional asset exposure.

We conservatively established the asset's amortisation profile assuming that all flexible lines were fully drawn. The bond's amortisation profile was calculated assuming the one-year maturity extension was executed.

We have tested the programmes resilience against high (15%) and low (1%) prepayments as well as a set of rising and declining interest rate scenarios. The covered bonds are most exposed towards a low prepayment scenario in combination with low interest rates.

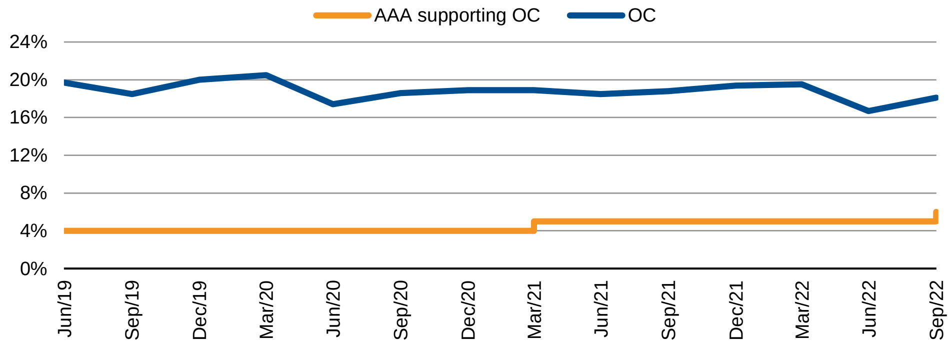
Further, we tested sensitivities to a 50% margin compression, frontloaded defaults, 25% prepayments and a liquidity premium up to 200 bps.

Availability of overcollateralisation

Overcollateralisation fully taken into account

Our current credit view of Verd allows us to fully account for the provided OC of 18.1% which is above the level of overcollateralisation supporting the programme's AAA rating. We are not aware of plans that would significantly change the risk profile or reduce available OC to levels that would no longer support the current rating uplift.

Figure 7: Available overcollateralisation versus current rating-supporting level



Source: Scope Ratings, Verd

Other risk considerations

Counterparty risk mitigated by alignment of interests

The rated covered bonds have counterparty exposures to the issuer, as well as to the issuer's parent as loan originator, servicer, bank account provider and paying agent. However, if a regulator were to intervene, we believe the strong alignment of interests between the bank and the covered bond holders would prevent any negative impact. We also view positively the fact that collections are generally made via direct debit, allowing for a relatively swift redirection of payments if necessary.

Sovereign risk does not affect the ratings

Sovereign risk does not limit the ratings of Verd's mortgage-covered bonds. We believe the risks of an institutional framework meltdown, legal insecurity or currency-convertibility problems are currently remote.

No impact from ESG

We have not directly included ESG aspects into the rating of the covered bonds issued by Verd. The issuer is planning to establish an ESG policy and a green bond framework with limited priority.

Owner banks shall be encouraged to finance green residential buildings through Verd. As of today, the share of loans with EPC-label information is limited. Based on building standards, more loans may become eligible as green collateral. Still, EPC-label information remains a limitation in regard to green collateral, but also as a quantitative basis to analyse its impact on performance.

Data constraints prevented us from performing a specific analysis of environmental or social factors or their impact on the cover assets' probability of default or recovery proceeds. At the same time, we have indirectly included environmental aspects in our analysis as collateral valuations reflect the condition of the collateral.

Sensitivity analysis

No buffer against potential change in issuer view

Verd's mortgage-covered bond ratings do not benefit from a buffer against an issuer downgrade as the maximum uplift of seven notches granted to the programme was needed to reach the rating. The covered bond ratings may be downgraded if: i) our view on the issuer deteriorates by one notch or more; ii) risk in the covered bond programme increases and the overcollateralisation provided no longer supports a seven-notch uplift; or iii) there is a deterioration in our view on the fundamental support factors relevant to the issuer and Norwegian mortgage-covered bonds in general.

Appendix I: Summary of covered bond characteristics

Reporting date	31 Sep 2022	31 Dec 2021	31 Dec 2020
Issuer name	Verd Boligkreditt AS		
Country	Norway		
Covered bond name	Obligasjoner med fortrinnsrett (Norwegian mortgage-covered bonds)		
Covered bond legal framework	Norwegian legal covered bond framework		
Cover pool type	Residential mortgage loans		
Composition	Residential = 94.2%	Residential = 91.6%	Residential = 93.1%
	Substitute = 5.8%	Substitute = 8.4%	Substitute = 6.9%
Issuer rating	Not disclosed	Not disclosed	Not disclosed
Current covered bond rating	AAA/Stable	AAA/Stable	AAA/Stable
Covered bond maturity type	Soft bullet	Soft bullet	Soft bullet
Cover pool currencies	NOK (100%)	NOK (100%)	NOK (100%)
Covered bond currencies	NOK (100%)	NOK (100%)	NOK (100%)
Fundamental support	4	4	4
Maximum additional uplift from CPC score	3	3	n/a
Maximum achievable covered bond uplift	7	7	7
Potential covered bond rating buffer	0	0	0
Cover pool (NOK bn)	15.98	12.29	10.89
thereof, substitute assets (NOK bn)	0.98	1.03	0.75
Covered bonds (NOK bn)	13.53	10.29	9.16
Overcollateralisation: current / legal minimum	18.1% / 5.0%	19.4% / 2.0%	18.9% / 2.0%
Overcollateralisation to support current rating	6.0%	5.0%	5.0%
Overcollateralisation upon a one-notch issuer downgrade	6.0% (AA+)	5.0% (AA+)	5.0% (AA+)
Weighted average life of assets	12.3 years	11.9 years	11.1 years
Weighted average life of liabilities [1]	4.0 years	3.7 years	3.6 years
Number of loans	8,727	7,068	6,666
Average loan size (NOK m)	1.7	1.6	1.5
Top 10 residential	0.4%	0.5%	0.5%
Interest rate type – assets	Floating 100%	Floating 100%	Floating 100%
	Fixed 0%	Fixed 0%	Fixed 0%
Interest rate type – liabilities	Floating 100%	Floating 100%	Floating 95.2%
	Fixed 0%	Fixed 0%	Fixed 4.8%
Weighted average LTV (indexed)	50.9%	50.1%	50.6%
Geographic split (top 3)	Rogaland = 32.8%	Vest-Agder = 36.3%	Rogaland = 42.0%
	Agder = 32.7%	Rogaland = 36.0%	Vest-Agder = 28.2%
	Vestland = 10.9%	Vestland = 13.6%	Hordaland = 9.7%
Default measure	Inverse Gaussian	Inverse Gaussian	Inverse Gaussian
Weighted average default rate (mortgage/substitute)	83bps / 7.7%	66bps / 6.0%	57bps / 10.5%
Weighted average coefficient of variation (mortgage/substitute)	55%	55%	55%
Weighted average recovery assumption (D0/D7)[2]	98.5% / 76.7%	98.3% / 77.8%	98.1% / 77.2%
Share of loans > three months in arrears (NPL)	0.0%	0.0%	0.0%
Interest rate stresses (max./min.; currency-dependent)	-1 to 10%	-1 to 10%	-1 to 10%
FX stresses (max./min.; currency-dependent)	n/a	n/a	n/a
Max liquidity premium	150bps	150bps	150bps
Average servicing fee	25bps	25bps	25bps

[1] Including the 12-month extension
[2] D0 and D7 denote the stresses commensurate with the rating distance between our credit view on the issuer and the covered bond ratings.

Appendix II: Summary of credit view on Verd Boligkreditt

Our credit view reflects Verd's low-risk business model as a funding vehicle for its owners, a group of 18 Norwegian savings banks.

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 certain eligibility criteria, supporting Verd's sound asset quality profile.

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

The ten-plus year relationship between Verd and its original owner banks has been highly cooperative and successful. This has ensured that Verd suffers no credit losses and maintains a sound financial profile. The various support mechanisms as well as the DSS and LBA alliances, however, have yet to be tested under more difficult conditions.

Outlook and credit view change-drivers

The Stable Outlook reflects Verd's ongoing resilient operating performance.

What could positively impact the credit view:

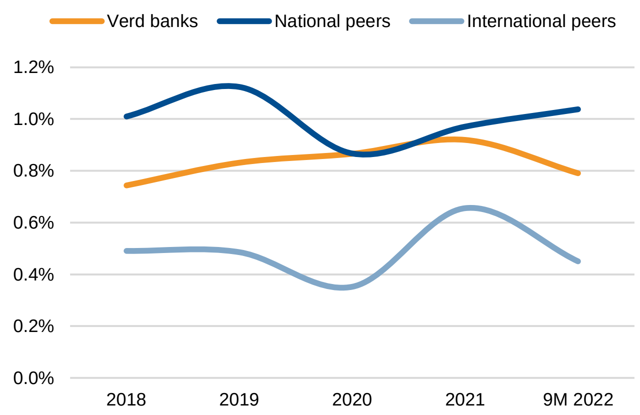
- Sustained high quality diversification of the mortgage assets reflecting Verd's greater systemic importance as a funding vehicle

What could negatively impact the credit view:

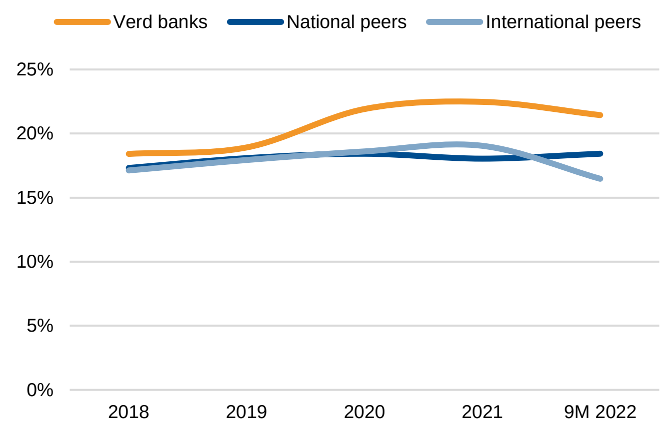
- Evidence that the various agreements with the owner banks do not function as expected
- Deterioration in the credit quality of the mortgage assets, potentially stemming from a change in the composition of the owner banks

Appendix III: Peer comparison – Verd owner banks vs national and international peers

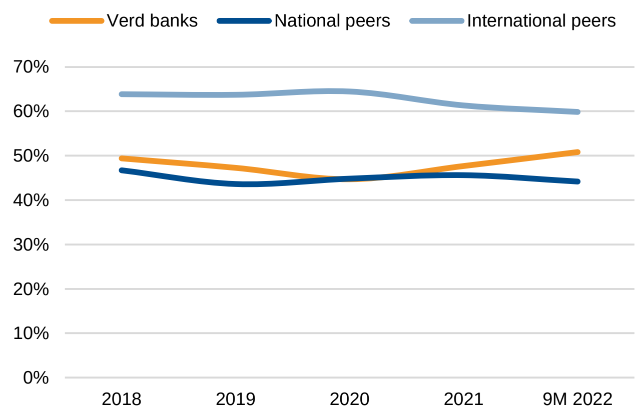
Return on average assets (%)



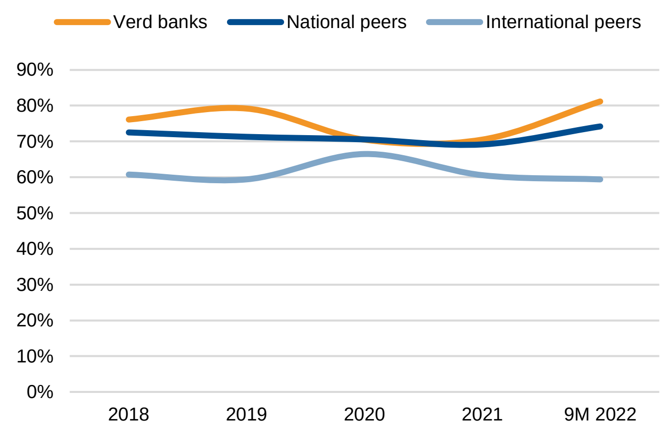
CET1 ratio (%)



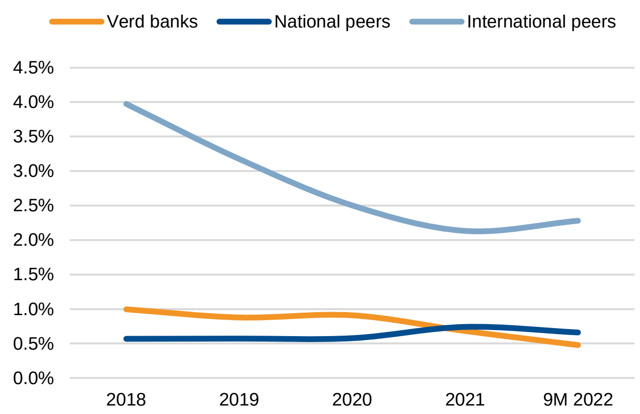
Cost/income ratio



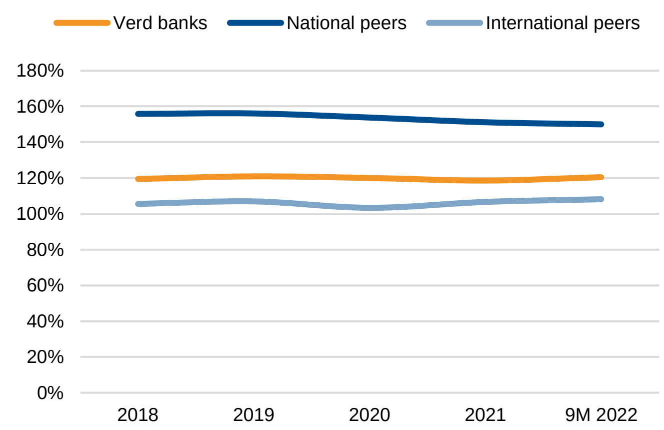
Net interest income (% of revenues)



Problem loans (% of gross customer loans)



Net loans (% of deposits)



National peers: BN Bank, Sparebanken More, Jaeren Sparebank, Sparebank 1 SMN, Landkreditt Bank, Sandnes Sparebank, Totens Sparebank, Sparebank 1 Nordmore.
International peers: Oberbank, Bausparkasse Wustenrot, Banca Popolare di Sondrio, Credito Emiliano, Kutxabank, Unicaja, Principality Building Society, Sparebanken Skane AB.
Note: Figures for the Verd banks are weighted averages based on each bank's ownership interest in Verd as of December 2022.

Appendix IV: Selected financial information – Verd Boligkreditt AS

	2018	2019	2020	2021	9M 2022
Balance sheet summary (NOK m)					
Assets					
Cash and interbank assets	163	205	161	221	136
Total securities	282	414	589	806	839
of which, derivatives	3	0	5	0	0
Net loans to customers	8,772	9,335	10,141	11,265	15,124
Other assets	0	0	0	2	4
Total assets	**9,216**	**9,954**	**10,892**	**12,295**	**16,103**
Liabilities					
Interbank liabilities	838	946	997	1,132	1,410
Senior debt	7,758	8,290	9,157	10,291	13,526
Derivatives	2	3	0	0	0
Deposits from customers	0	0	0	0	0
Subordinated debt	76	82	70	70	173
Other liabilities	19	22	26	29	33
Total liabilities	**8,693**	**9,343**	**10,250**	**11,522**	**15,142**
Ordinary equity	470	558	589	720	845
Equity hybrids	53	53	53	53	116
Minority interests	0	0	0	0	0
Total liabilities and equity	**9,216**	**9,954**	**10,892**	**12,295**	**16,103**
Core tier 1/ common equity tier 1 capital	*445*	*525*	*557*	*677*	*815*
Income statement summary (NOK m)					
Net interest income	91	94	116	137	89
Net fee & commission income	-39	-41	-51	-60	-37
Net trading income	-11	0	-8	-9	-4
Other income	0	0	0	0	0
Operating income	**41**	**53**	**56**	**68**	**49**
Operating expenses	7	9	11	13	9
Pre-provision income	**34**	**44**	**45**	**55**	**40**
Credit and other financial impairments	0	0	2	1	1
Other impairments	0	0	0	0	0
Non-recurring income	NA	NA	NA	NA	NA
Non-recurring expense	NA	NA	NA	NA	NA
Pre-tax profit	**34**	**44**	**43**	**54**	**39**
Income from discontinued operations	0	0	0	0	0
Income tax expense	8	9	9	11	8
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	0	0	0	0	0
Net profit attributable to parent	**26**	**35**	**34**	**43**	**31**

Source: SNL

	2018	2019	2020	2021	9M 2022
Funding and liquidity					
Net loans/ deposits (%)	NA	NA	NA	NA	NA
Liquidity coverage ratio (%)	NA	NA	NA	NA	NA
Net stable funding ratio (%)	NA	NA	NA	NA	NA
Asset mix, quality and growth					
Net loans/ assets (%)	95.2%	93.8%	93.1%	91.6%	93.9%
Problem loans/ gross customer loans (%)	0.0%	0.1%	0.1%	0.0%	0.2%
Loan loss reserves/ problem loans (%)	NA	0.0%	19.7%	104.5%	13.0%
Net loan growth (%)	9.9%	6.4%	8.6%	11.1%	45.7%
Problem loans/ tangible equity & reserves (%)	0.0%	1.8%	1.7%	0.4%	3.1%
Asset growth (%)	8.7%	8.0%	9.4%	12.9%	41.3%
Earnings and profitability					
Net interest margin (%)	1.0%	1.0%	1.1%	1.2%	0.8%
Net interest income/ average RWAs (%)	2.9%	2.8%	3.2%	3.5%	2.4%
Net interest income/ operating income (%)	220.3%	177.1%	206.4%	200.6%	183.9%
Net fees & commissions/ operating income (%)	-93.7%	-76.7%	-91.7%	-87.8%	-76.0%
Cost/ income ratio (%)	18.1%	17.3%	19.9%	19.2%	18.4%
Operating expenses/ average RWAs (%)	0.2%	0.3%	0.3%	0.3%	0.2%
Pre-impairment operating profit/ average RWAs (%)	1.1%	1.3%	1.2%	1.4%	1.1%
Impairment on financial assets / pre-impairment income (%)	0.0%	0.0%	4.9%	1.8%	1.6%
Loan loss provision/ average gross loans (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Pre-tax profit/ average RWAs (%)	1.1%	1.3%	1.2%	1.4%	1.0%
Return on average assets (%)	0.3%	0.4%	0.3%	0.4%	0.3%
Return on average RWAs (%)	0.8%	1.0%	0.9%	1.1%	0.8%
Return on average equity (%)	5.1%	5.9%	5.4%	6.5%	4.9%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	13.5%	14.9%	14.5%	15.6%	14.3%
Tier 1 capital ratio (%, transitional)	15.2%	16.4%	15.9%	16.8%	16.3%
Total capital ratio (%, transitional)	17.3%	18.4%	17.7%	18.4%	19.4%
Leverage ratio (%)	5.3%	5.7%	5.5%	5.8%	5.7%
Asset risk intensity (RWAs/ total assets, %)	35.7%	35.4%	35.2%	35.4%	35.4%
Market indicators					
Price/ book (x)	NA	NA	NA	NA	NA
Price/ tangible book (x)	NA	NA	NA	NA	NA
Dividend payout ratio (%)	NA	NA	NA	NA	NA

Source: SNL

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