Nordic Credit Rating

Norwegian bank outlook

Banks carry positive momentum into 2023

25 January 2023

Sean Cotten
Chief Rating Officer

Agenda

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1. **About Nordic Credit Rating**
2. Our view of Norwegian banks
3. 2023 banking market outlook
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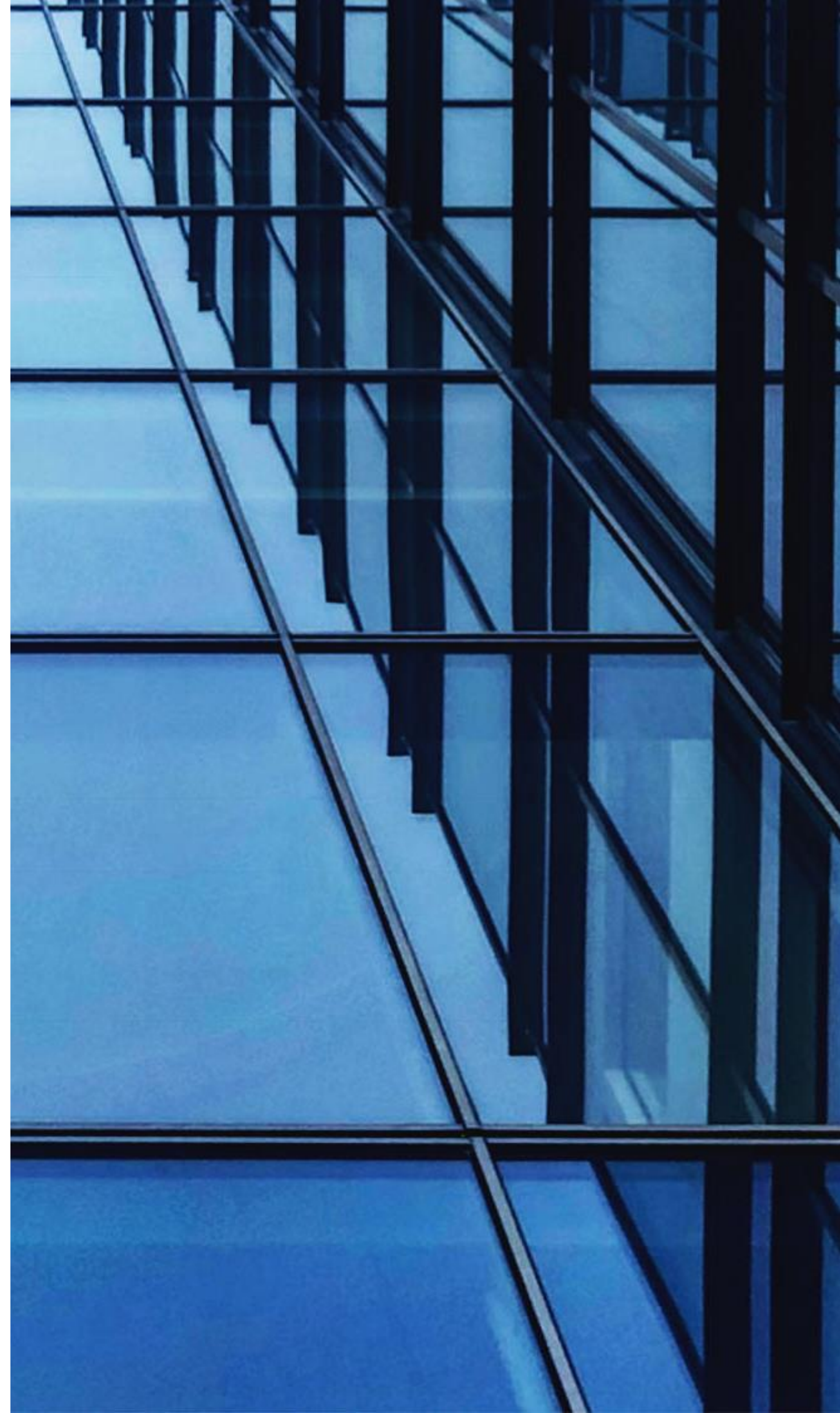


Nordic Credit Rating (NCR) at a Glance

We assign credit ratings to corporates and financial institutions in the Nordic region

Market role

- Established by Nordic instituitions as the local credit rating agency
- Fill the gap left after shadow ratings
- Act as a financial infrastructure company in the Nordics
- Lower the threshold for banks and corporates to obtain a rating (workload and costs)
- Provide excellent research based on local insight

Backed by strong and established Nordic institutions

- Broad institutional shareholders with no more than 5% ownership base ensures long-term perspective and stability

Shareholders

Nordenfjelske Bykreditts Stiftelse, storebrand, Danske Bank, Handelsbanken, KLP, Pareto, Nasdaq, eika., MP Pensjon, Alfred Berg, NordicTrustee, DKP, Bergen Kommunale Pensjonskasse, Swedbank, eika. Boligkreditt, PECUNIA, TDV, SpareBank 1, TrønderEnergi, DNB, Gjensidige, OSLO BØRS

August 2016
ESMA starts investigation into "shadow ratings" issued by banks

August 2016
NCR founded

May 2017
Shareholder structure established

H1 2018
ESMA registration process

July 2018
Approved by ESMA

October 2018
First rating published

April 2020
Included in Riksbank's purchase programme

January 2021
Rating scale mapped by EBA

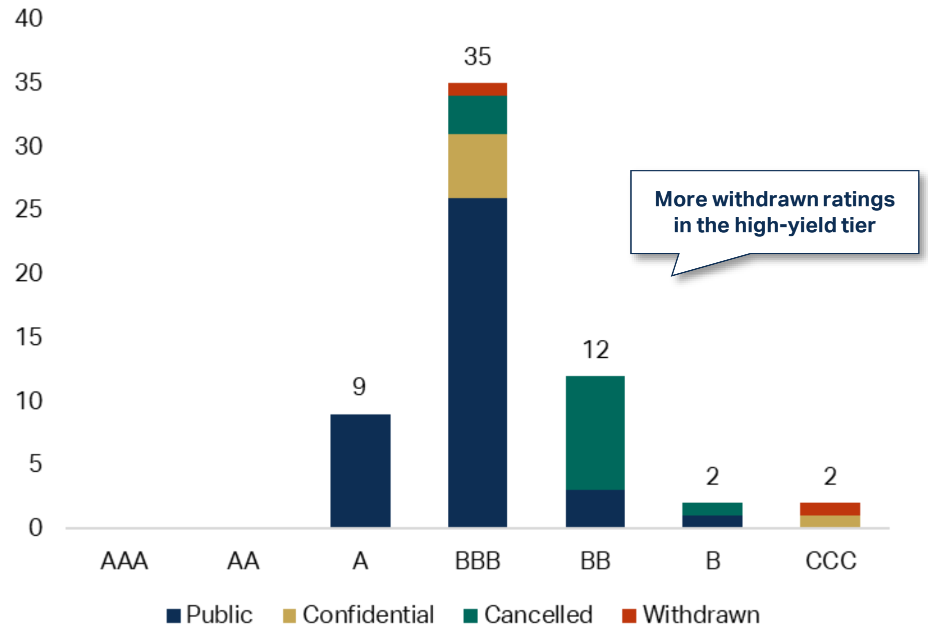
December 2022
39 public ratings

Current Rating Portfolio

NCR currently has 39 public ratings[1)]

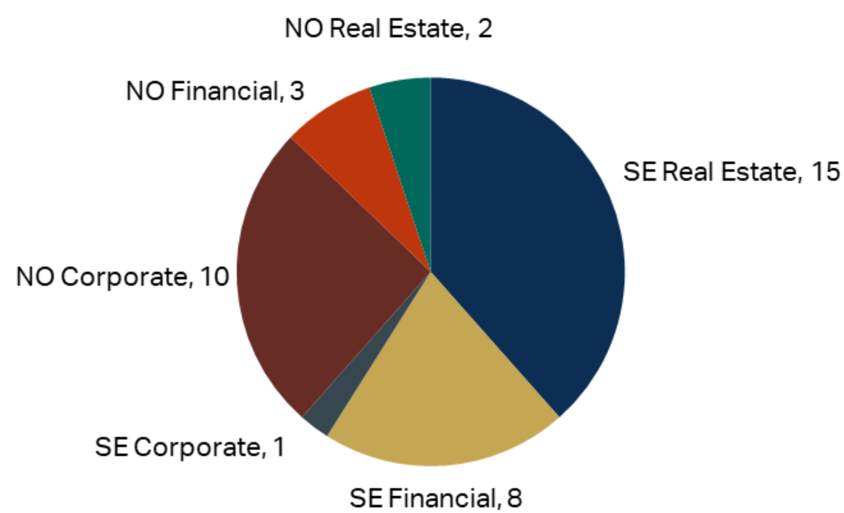
Rating distribution

- After an initial rating decision has been made, issuers can choose to either publish the rating, keep it confidential, or cancel it completely
- Issuers can choose to withdraw their rating at any time



Rating distribution per segment (public)

- Established track record from over 60 rating processes in a range of industries, of which 39 are currently public
- NCR has a strong position within the Swedish real estate sector with 15 public ratings



1) As of 2023-01-20.

Current Rating Portfolio

NCR currently has 39 public ratings[1)]

Real estate

Issuer	Rating	Outlook
Bane NOR Eiendom AS	A	Stable
Vacse AB (publ)	A-	Stable
Svensk FastighetsFinansiering AB (publ)	BBB+	Stable
Fastighets AB Stenvalvet (publ)	BBB+	Stable
Heba Fastighets AB (publ)	BBB+	Negative
Intea Fastigheter AB (publ)	BBB+	Negative
Axfast AB (publ)	BBB	Stable
Bonnier Fastigheter AB	BBB	Negative
CA Fastigheter AB	BBB-	Stable
Catena AB (publ)	BBB-	Stable
OBOS Eiendom AS	BBB-	Stable
Platzer Fastigheter Holding AB (publ)	BBB-	Stable
LSTH Svenska Handelsfastigheter AB (publ)	BBB-	Negative
NP3 Fastigheter AB (publ)	BB	Negative
Stenhus Fastigheter i Norden AB (publ)	BB	Negative
Stendörren Fastigheter AB (publ)	BB-	Stable
Studentbostäder i Norden AB (publ)	B+	Negative
Offentliga Hus i Norden AB (publ)	NR	-

Financial institutions

Issuer	Rating	Outlook
Danske Hypotek AB (publ)	A	Stable
SpareBank 1 Østfold Akershus	A	Stable
Jæren Sparebank	A-	Stable
Kredittforeningen for Sparebanker	A-	Stable
Sparbanken Rekarne AB (publ)	A-	Stable
Varbergs Sparbank AB (publ)	A-	Stable
Sparbanken Västra Mälardalen	BBB+	Stable
Sörmlands Sparbank AB (publ)	BBB+	Stable
Nordax Bank AB (publ)	BBB	Stable
Resurs Bank AB (publ)	BBB	Stable
Collector Bank AB (publ)	BBB-	Stable

Corporate

Issuer	Rating	Outlook
Kongsberg Gruppen ASA	A-	Stable
Jotun A/S	BBB+	Stable
Atea ASA	BBB+	Stable
Lerøy Seafood Group ASA	BBB+	Stable
NorgesGruppen ASA	BBB+	Stable
SalMar ASA	BBB+	Stable
Nordic Semiconductor ASA	BBB	Stable
Södra Skogsägarna ekonomisk förening	BBB	Stable
OBOS BBL	BBB-	Stable
Møller Mobility Group AS	BBB-	Stable
Nortura SA	BBB-	Negative
Cabonline Group Holding AB (publ)	NR	-

1) As of 2023-01-20.

Nordic Credit Rating Organisation

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Ragner Sjoner
Chair

Janne T. Thomsen
Independent Board Member

Leif Ola Rød
Board Member

Tobias Lindhe
Board Member

Peter Tuving
Independent Board Member

Analytical

Sean Cotten
Chief Rating Officer

Tommy Träsk
Head of Corporate Ratings

Geir Kristiansen
Senior Analyst

Yun Zhou
Analyst

Gustav Nilsson
Analyst

Ylva Forsberg
Analyst

Christian Yssen
Analyst

Elsa Persson
Student Intern

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Henrik Blymke
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Kristine Klyve Sunde
Commercial Manager

Christian Ringen
Compliance Officer

Petter Eilif de Lange
Review Officer

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Operations

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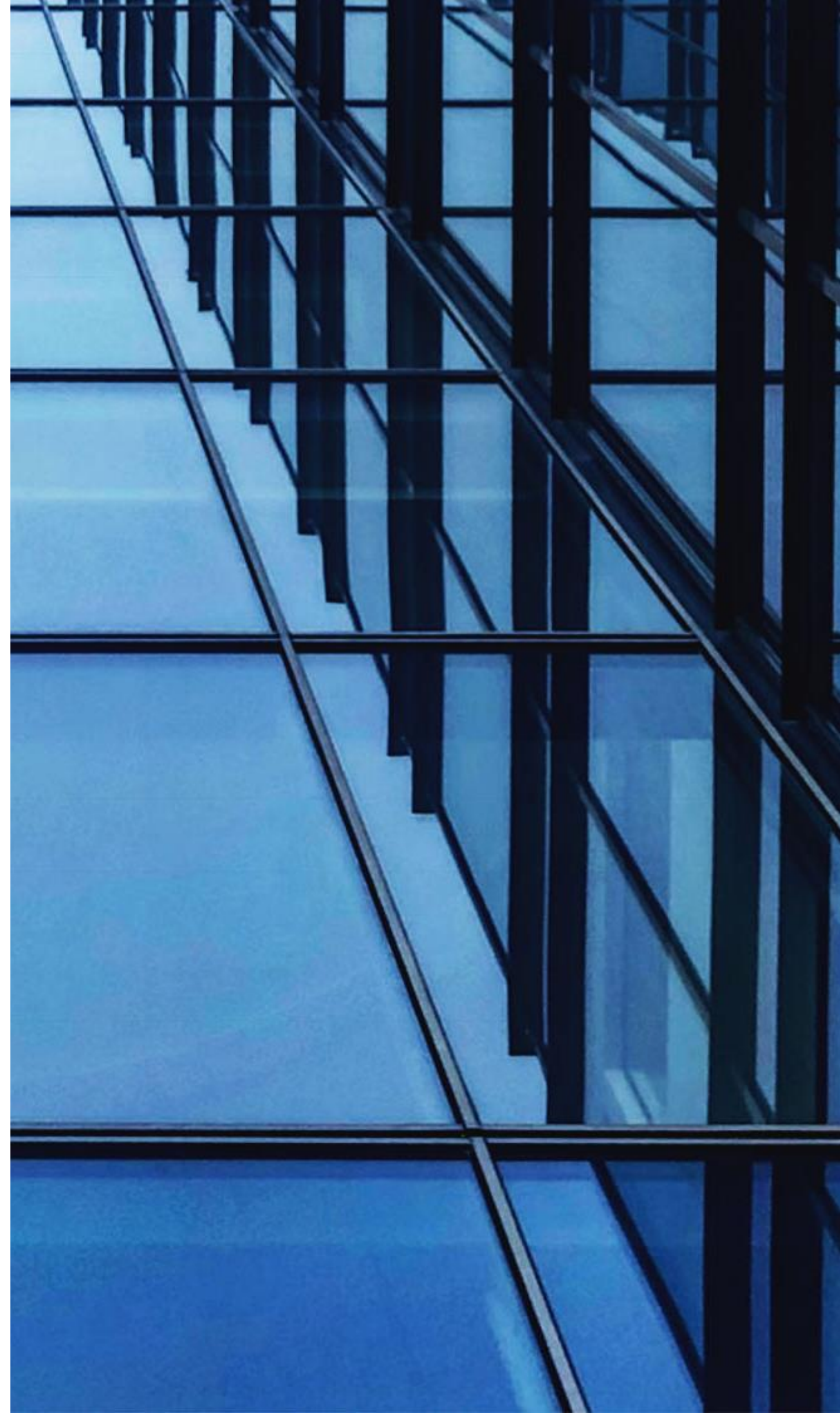
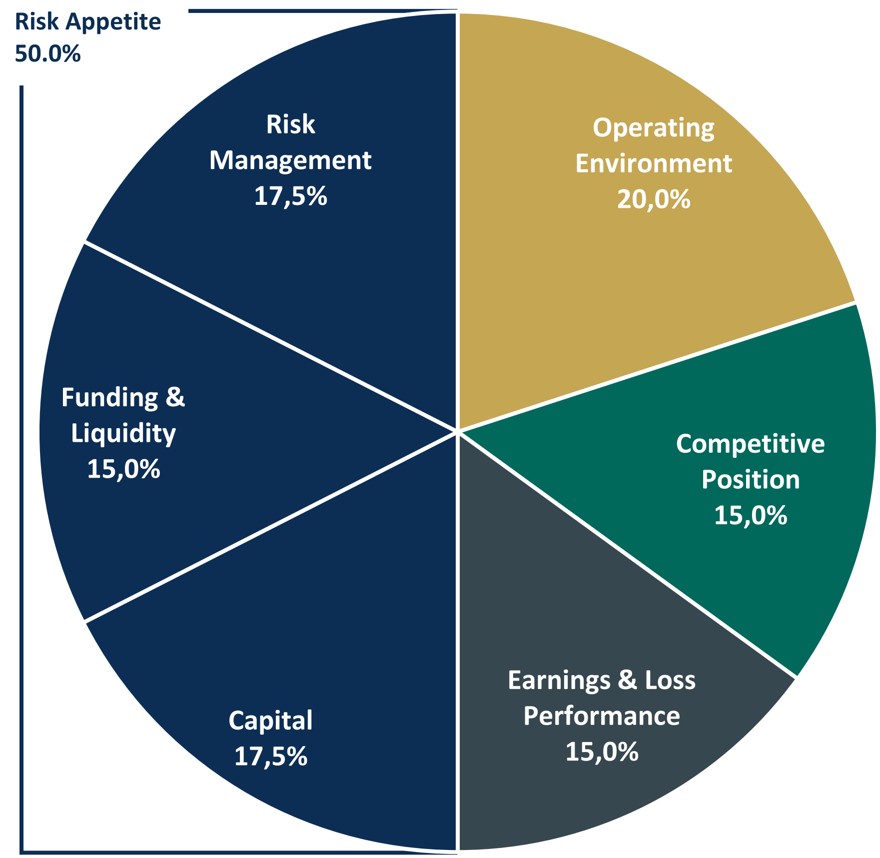


NCR view of Norwegian banks

- On the whole, we see Norwegian banks as having the strongest credit quality in the Nordics.
- We view risk appetite – including risk management, capital, funding and liquidity – as the backbone of Norwegian banks' credit quality advantage.
- Generally low, retail-focused risk profile.
- Strong capital buffers.
- Strong access to capital markets and retail deposit base.
- Stable operating environment supported by sovereign strength.
- Strong regional and local market positions, offering a variety of products due to national coalitions.
- Strong cost efficiency and earnings metrics with historically low losses outside of shipping and oil services.

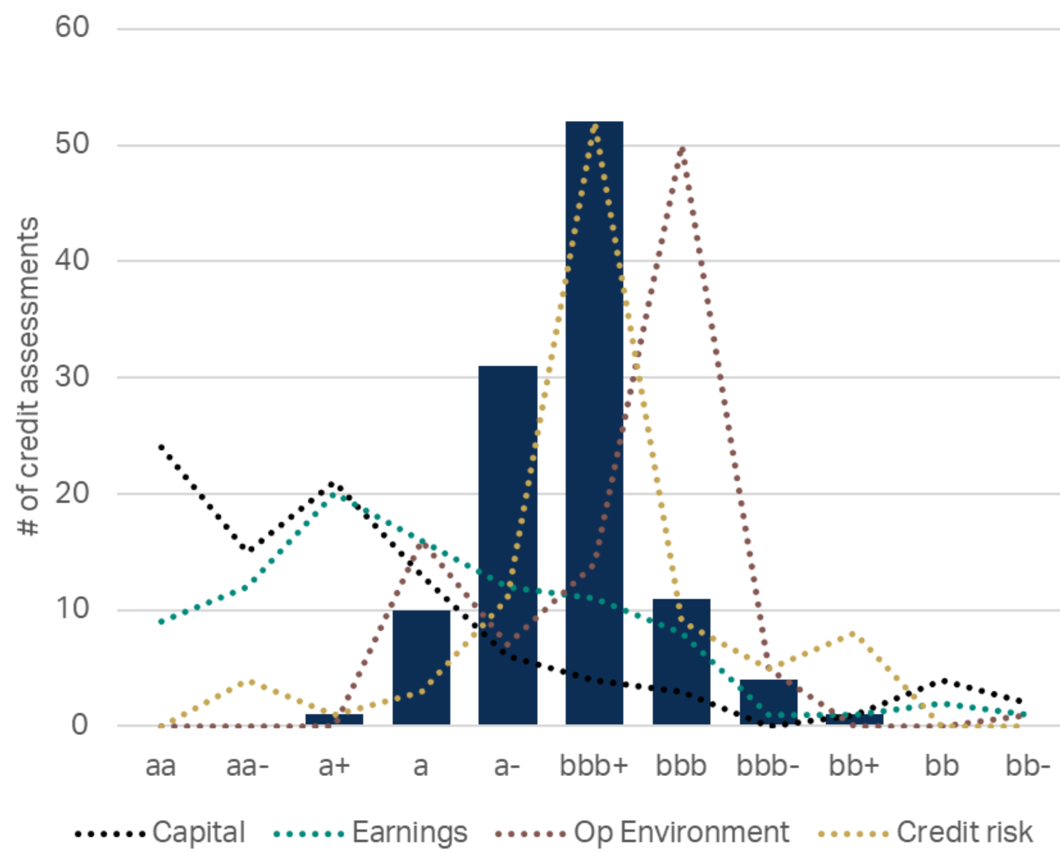
Factors and weightings in NCR's bank methodology



Our credit assessments of Norwegian banks

- The majority of our assessments are a-/bbb+, driven by the high volume of savings banks.
- The assessments are largely upheld by strong capital and earnings assessments.
- A high level of geographic concentration weighs on our modelled assessments of operating environment and credit risk for local banks.
- We anticipate that most assessments are within one grade from an actual rating outcome.
- Our assessments do not reflect potential support from senior non preferred instruments.

NCR credit assessment of Norwegian banks



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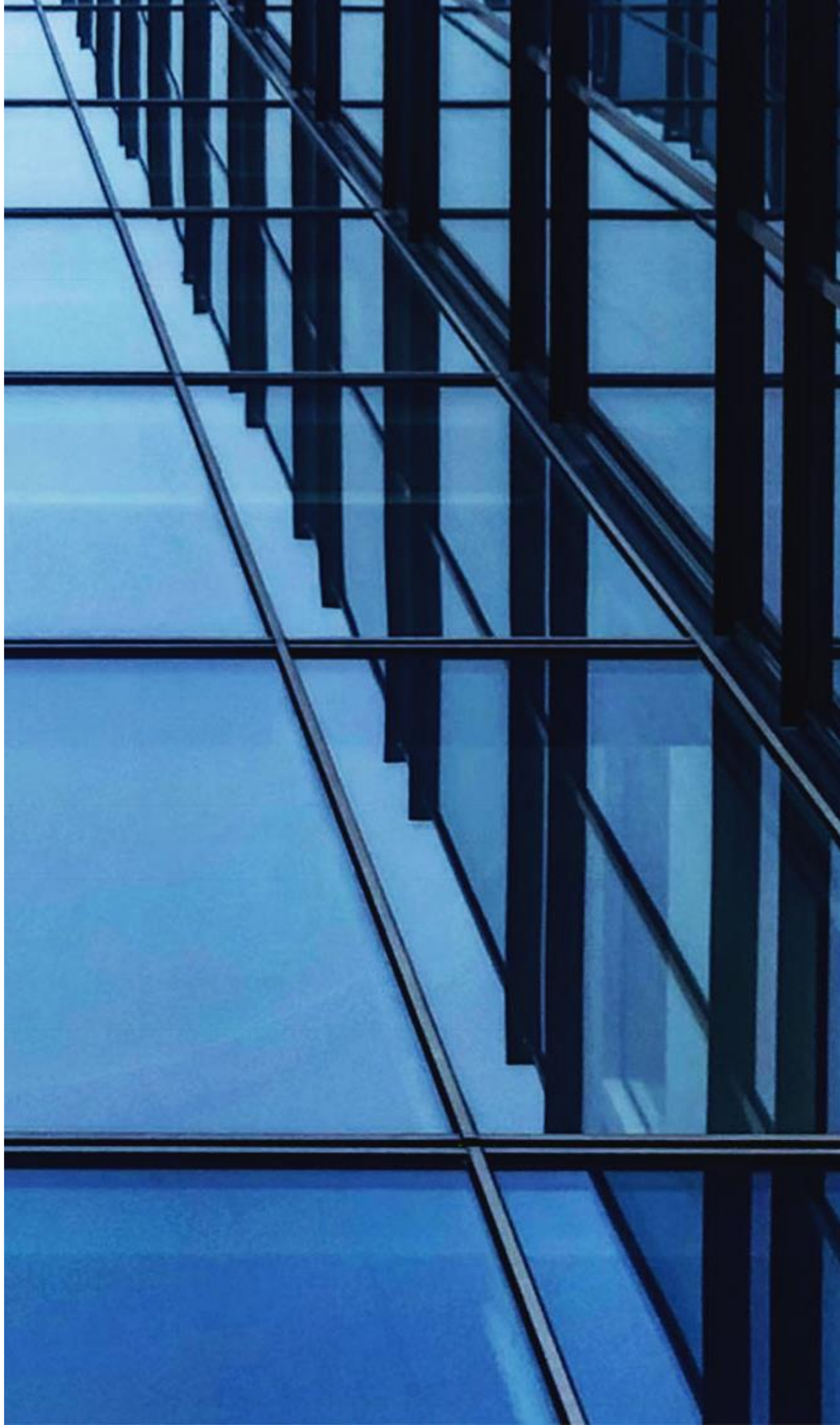
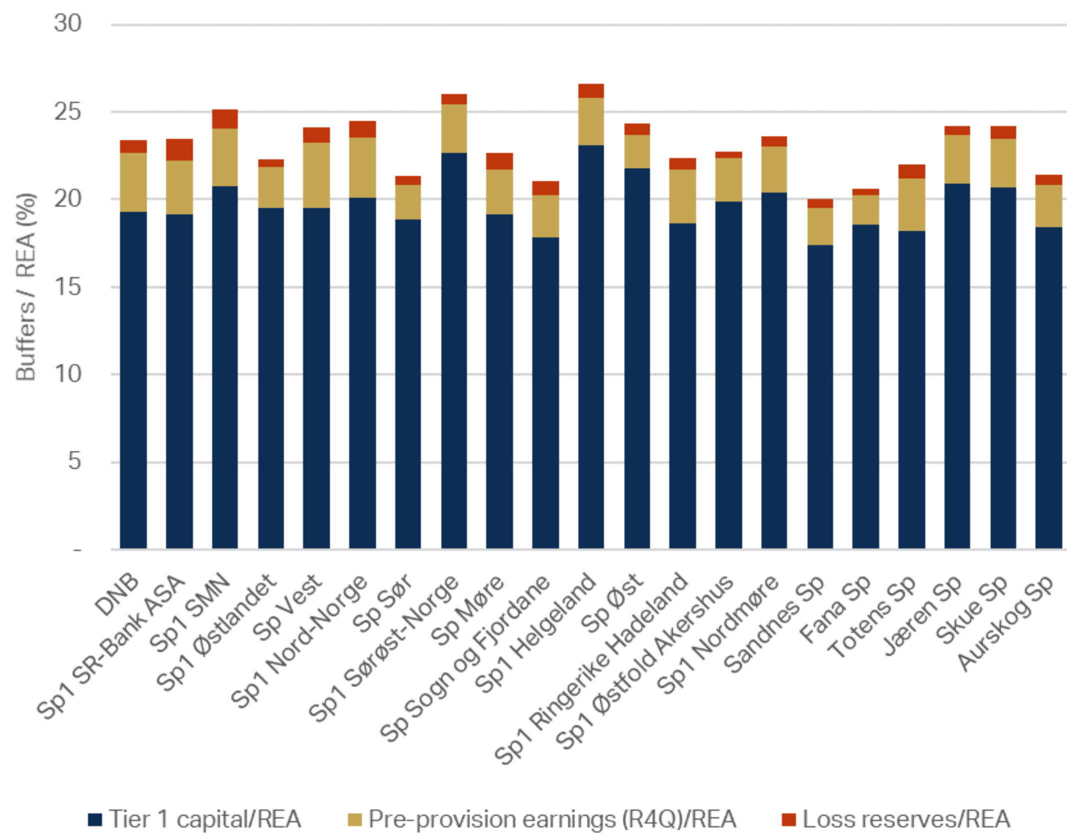


Norwegian banks well-prepared for 2023

- Despite a weakening economy, inflation risks and geopolitical concerns, we maintain our view that the Norwegian banking sector will perform well in 2023.
- We expect margin-driven earnings improvement to increase cost efficiency, growing pre-provision buffers for higher loss reserves.
- The SME rebate supported higher capital ratios in 2022, but will remain high due to stringent regulatory demands in Norway.
- Strong capital and earnings buffers allow banks to provide credit to the market even in light of turbulence.
- Losses and problem loans are expected to rise, but from very low levels.

Norwegian banks' capital, earnings and loss buffers, 2022 Q3

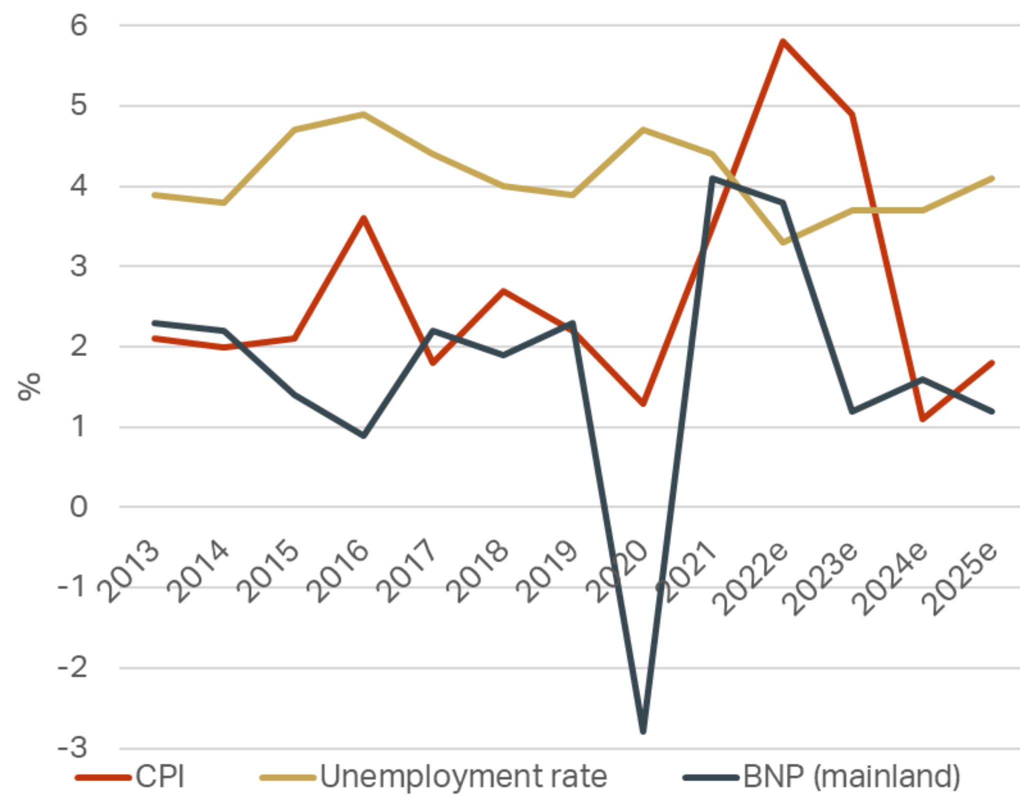


Source: bank reports. R4Q: rolling 4 quarters

Norwegian slowdown driven by weakening demand

- Consensus estimates are for an economic slowdown with a heightened risk of a technical recession in 2023.
- Norges Bank decision to maintain the policy rate at 2.75% reflects an increasing focus on the slowing economy and receding inflation rates.
- Credit demand from corporations increased sharply in the second half of 2022, but indicators of credit demand declined in recent months.
- Household credit decreased steadily as housing prices stumbled in the second half of the year and are expected to remain muted in 2023.

Consumer price index, BNP and unemployment, Norway 2013-2025e

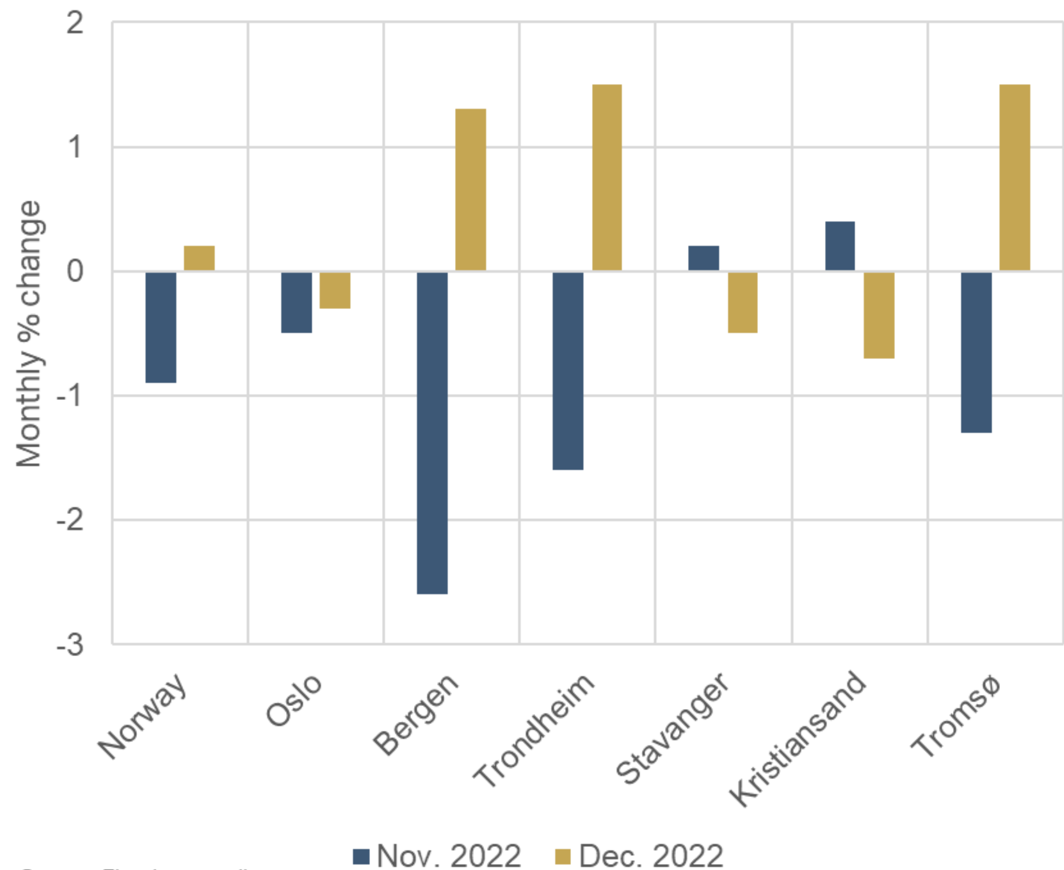


Source: Statistics Norway

Households remain resilient despite higher costs

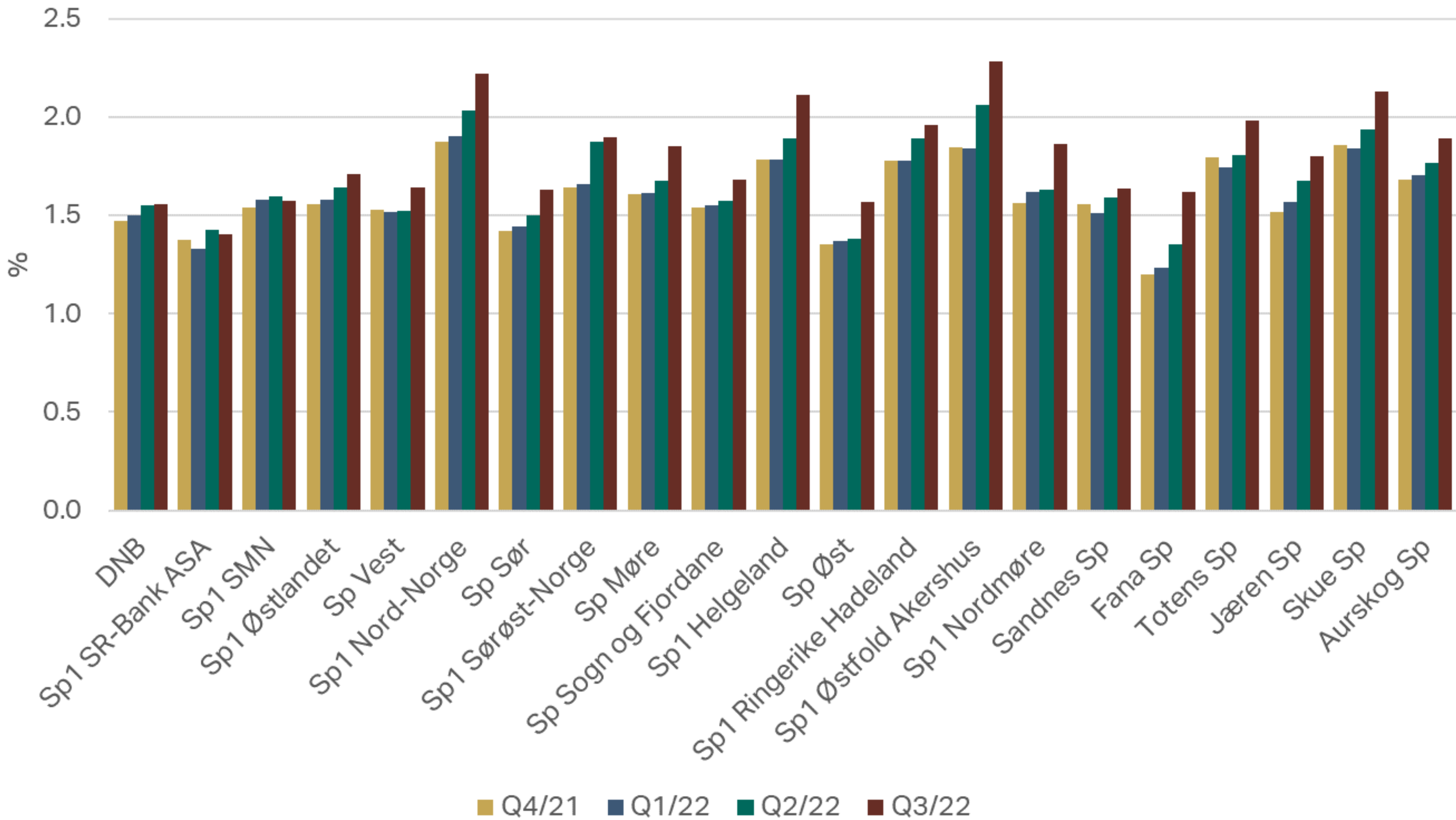
- Households remain strong in spite of rising costs of living, supported in part by electricity cost support.
- Unemployment rates are likely to increase, but from low levels and social safety mechanisms are world class.
- Reduction of high savings rates in 2020 and 2021 and reduced consumption serve as buffers.
- Norges Bank reported that 2.5% of HH loan debt likely to face servicing issues due to rising cost of living.
- Sign of housing price stability in December, lower rate trajectory could improve sentiment.
- Age of inventories and time on market are higher than 2020/2021 but otherwise in line with recent history.

Seasonally adjusted house price growth, Nov-Dec 2022



Source: Eiendomsverdi

Higher margins likely to continue into 2023

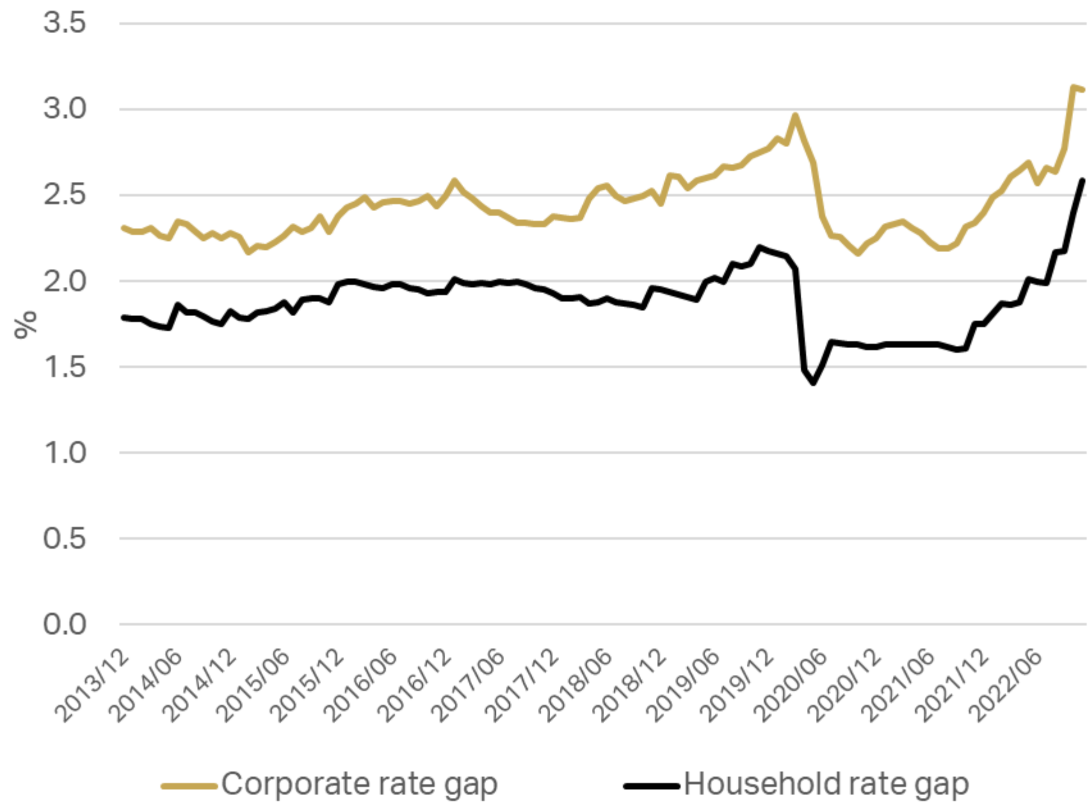


Source: bank reports

Margin pressure likely to return as rates steady

- We expect improved earnings to further improve cost efficiency, and strong pre-provision buffers
- Banks' lending rate hikes associated with the November and December policy rate increases will improve earnings in early 2023.
- Margins on household lending should come under pressure from lower credit growth and higher sensitivity to borrowing costs.
- Corporate lending increased in late 2022, generating higher income and improving lending margins.
- Market spreads have come down in early 2023 and a slowing economy should increase competition for strong customers.

Corporate and retail lending and deposit rate gap, 2013-Nov 2022

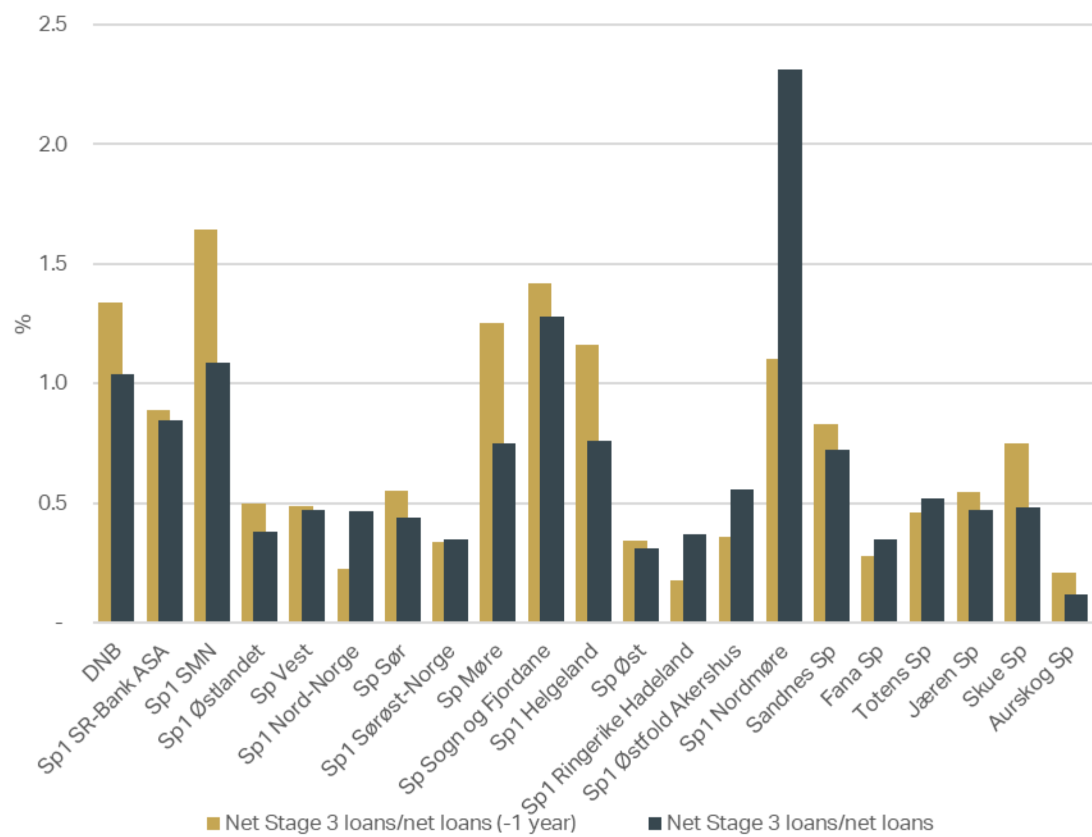


Source: Statistics Norway

Bank loans books have improved

- Banks non-performing loans have generally declined during over the last four quarters.
- Oil and gas price levels and strong investment indicate low expected losses for 2023 and potential reductions of existing reserves.
- Recovering supply chains support shipping and offshore exposures.
- We anticipate an increase in non-performing loans reflecting a decrease in economic activity, consumer demand and a higher cost of living.

Norwegian banks' net Stage 3 loans, 2022 Q3 vs 2021 Q3

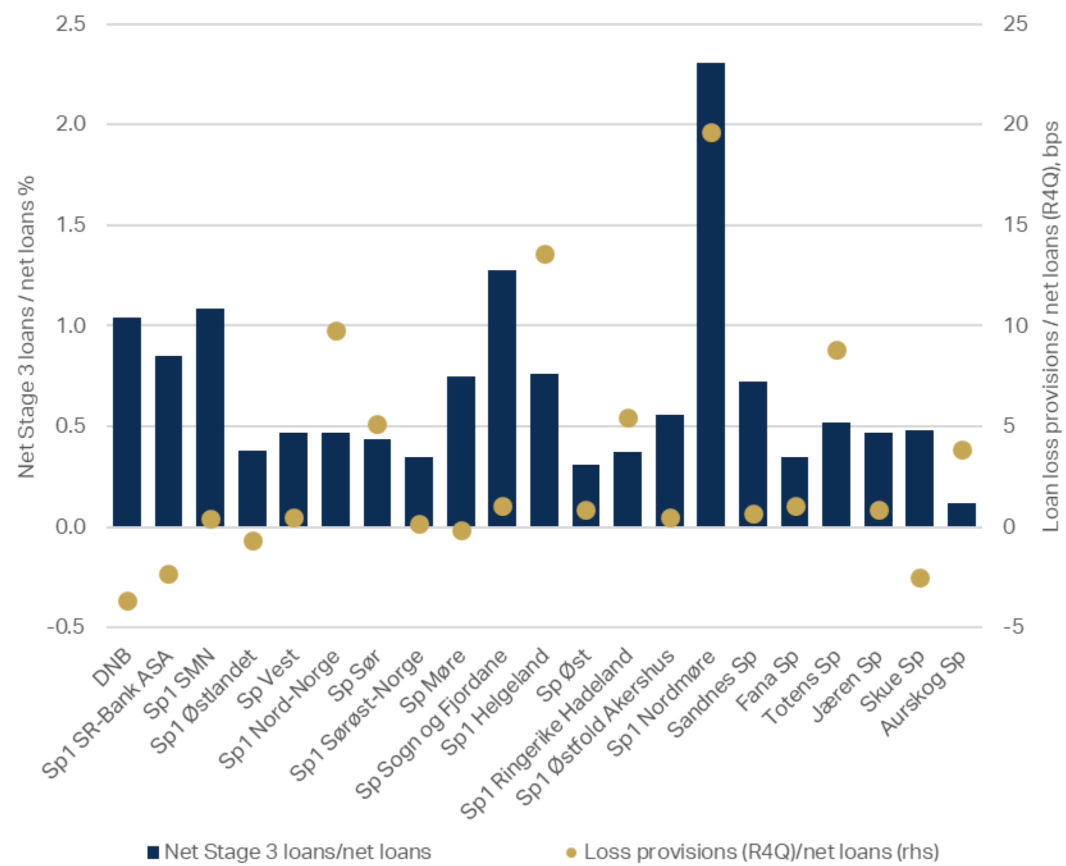


Source: bank reports.

Credit losses likely to increase

- We anticipate that loan loss reserves will increase toward long-term levels around 15-20bps in 2023.
- Banks use of IFRS 9 provisioning should drive modelled loss reserves.
- Corporate losses are expected to be modest though faltering demand and cost inflation could squeeze profits.
- Commercial real estate exposures are under increased cost and valuation pressure, with higher vacancy risk on the horizon.
- Credit risks for real estate development and construction exposures are rising.
- Household losses are expected to remain low given the high share of property collateral and low LTV levels.

Large Norwegian banks' asset quality metrics, 2022 Q3



Source: bank reports.

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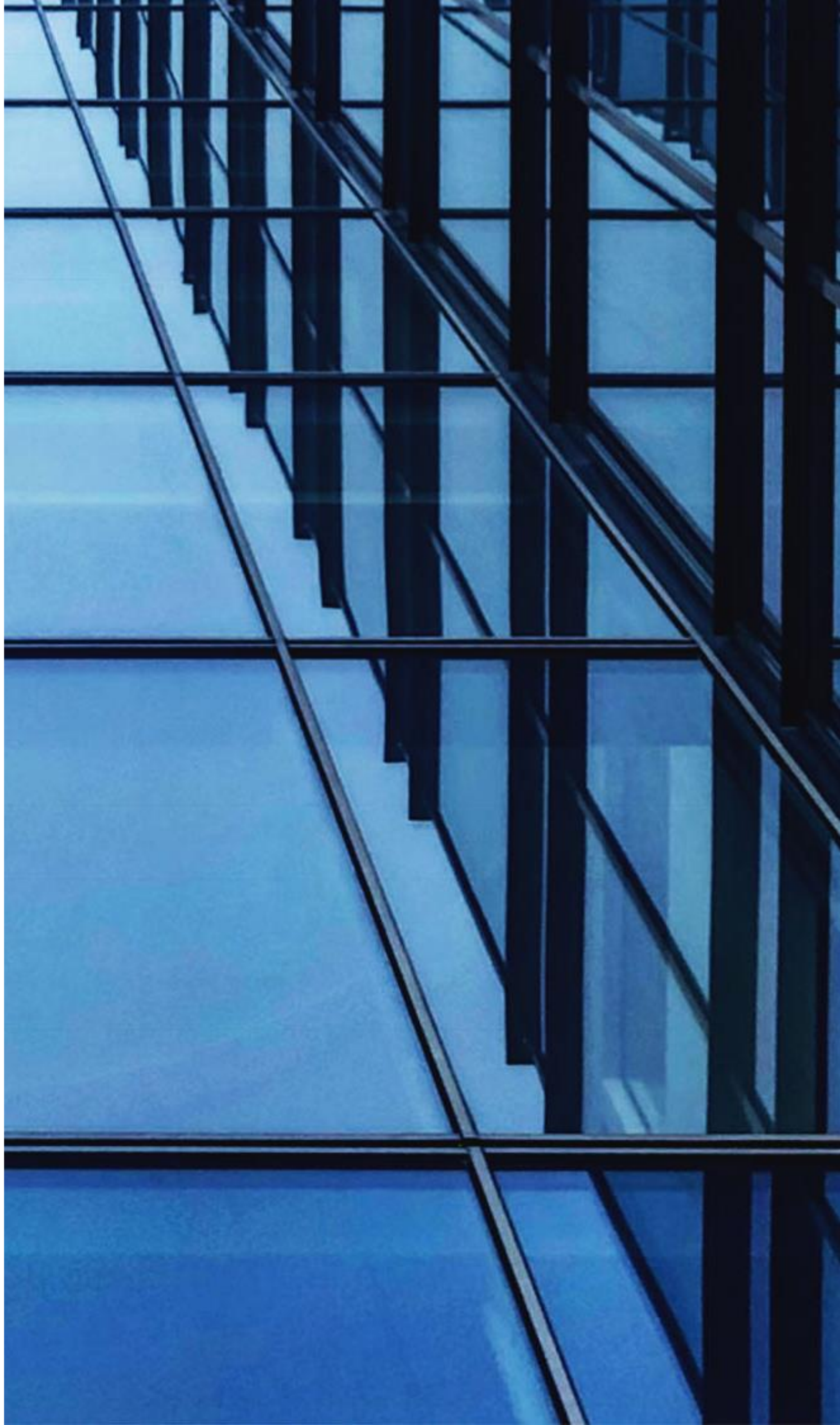
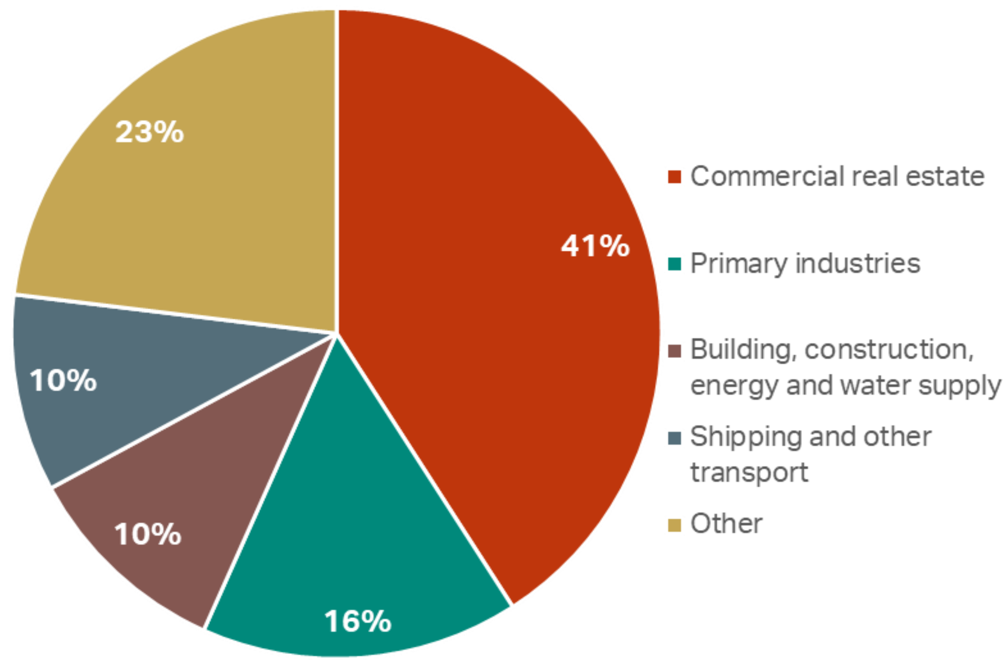


Banks' exposure to commercial real estate

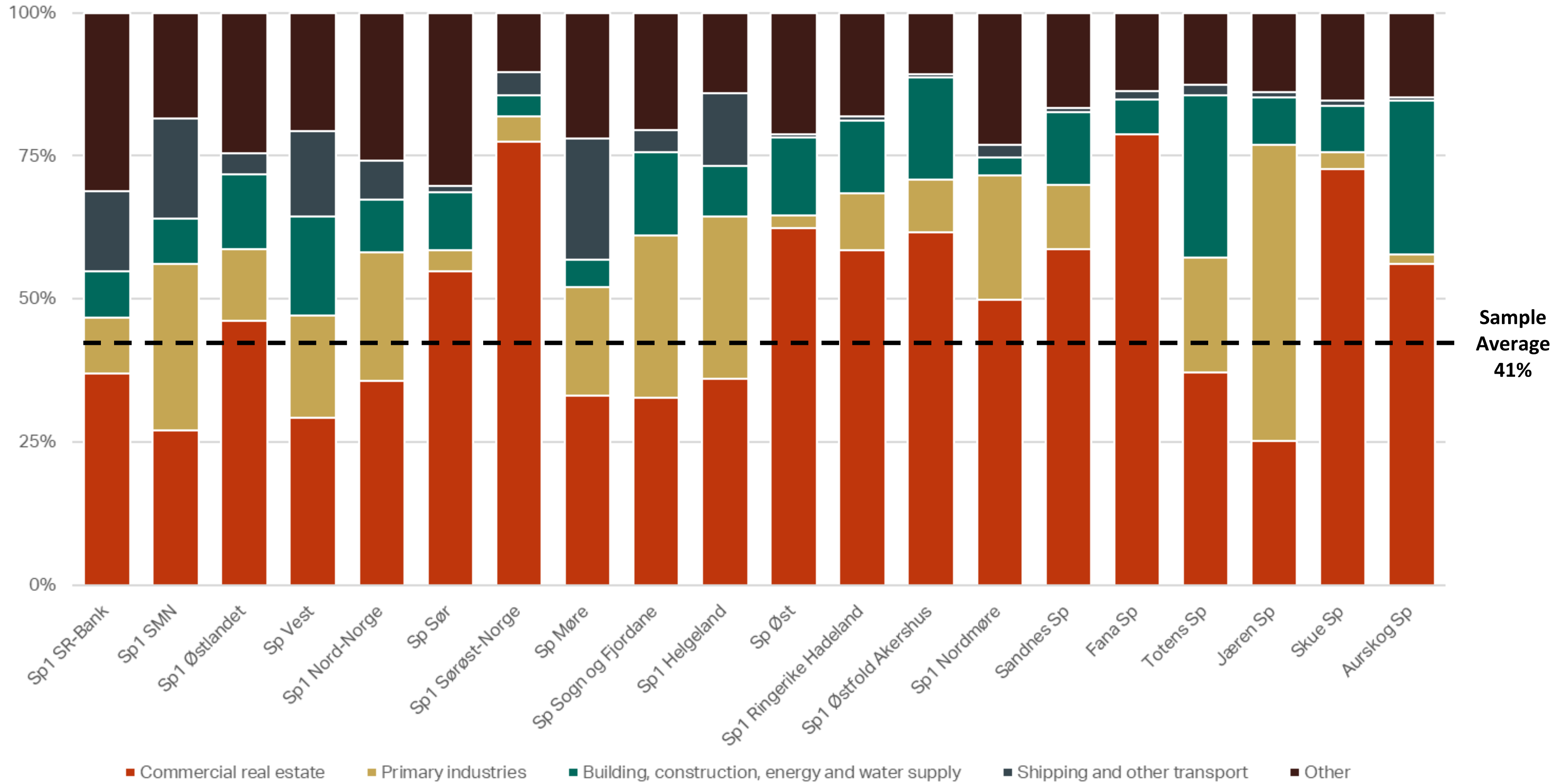
- A large share of Norwegian banks' corporate loans are associated with property-related lending.
- Savings banks' large exposure to regional property markets is a vulnerability in our view.
- On average, the top 20 savings bank have 41% of corporate exposures to commercial real estate (46% at national level).
- In addition, a portion of real estate loans are to multi-family housing and housing associations.
- Typically, savings banks in larger markets have a higher share of CRE loans, whereas smaller regional banks have significant exposure to primary industries.

Corporate exposure for 20 largest savings banks, 22 Q3



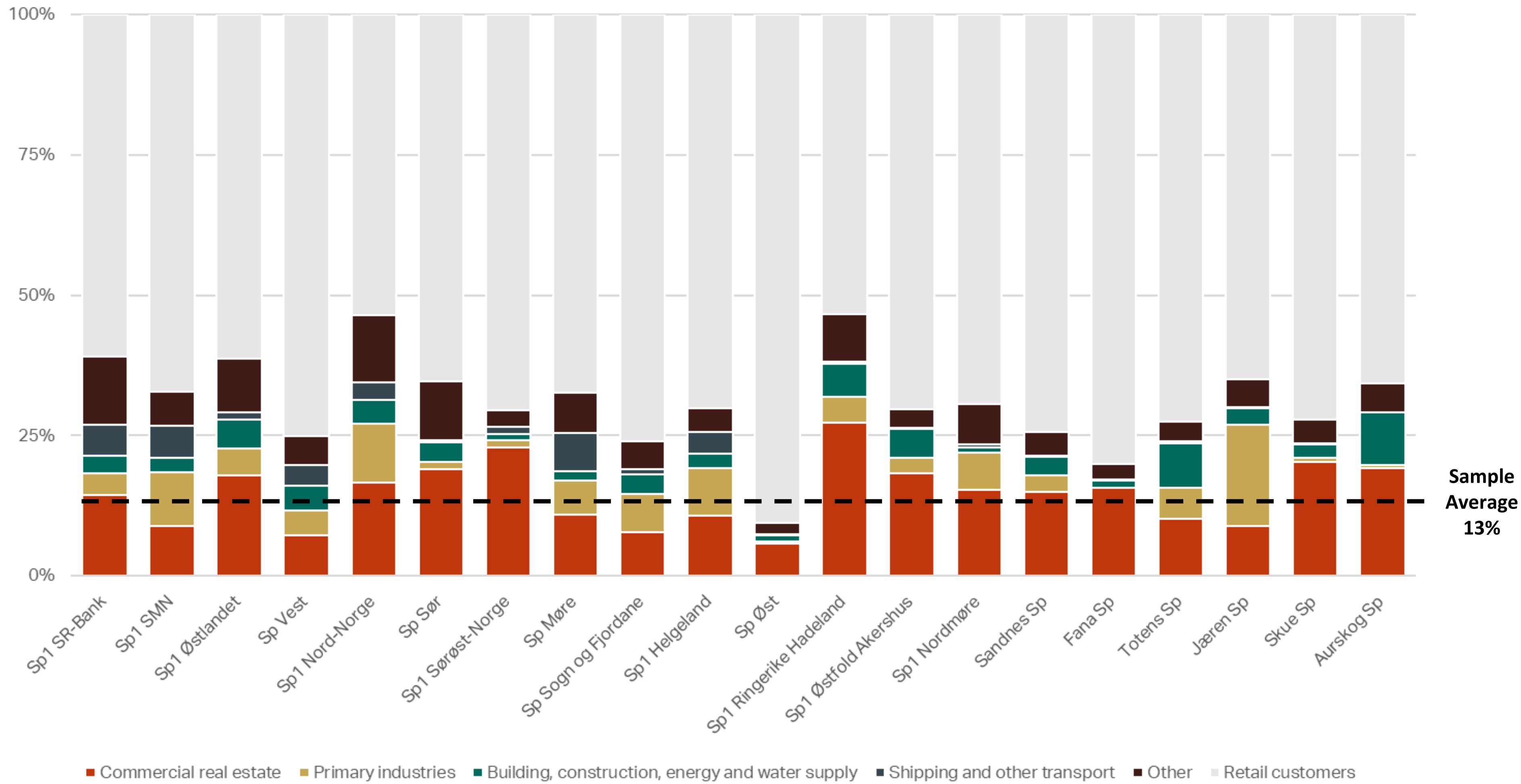
Source: bank reports.

The share of CRE exposure varies



Source: bank reports.

High share of retail reduces CRE-related concern

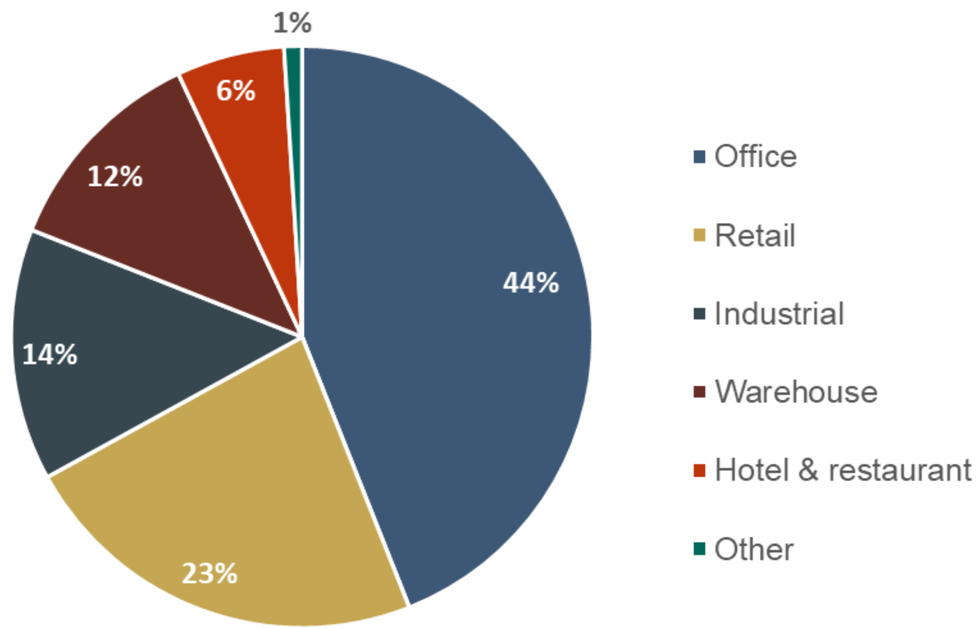


Source: bank reports.

Banks' CRE collateral by property type

- According to Norges Bank, 44% of the value of banks' CRE collateral is to office buildings, 23% to retail and 26% to industrial and logistics properties.
- The market values of office properties are heavily skewed due to higher valuations in the largest cities.
- Nearly half of the market value of banks' office exposure is in the Oslo region.
- As such, savings banks have a lower share of office and a higher share of retail and industrial collateral.

Estimated market value of CRE collateral by property type

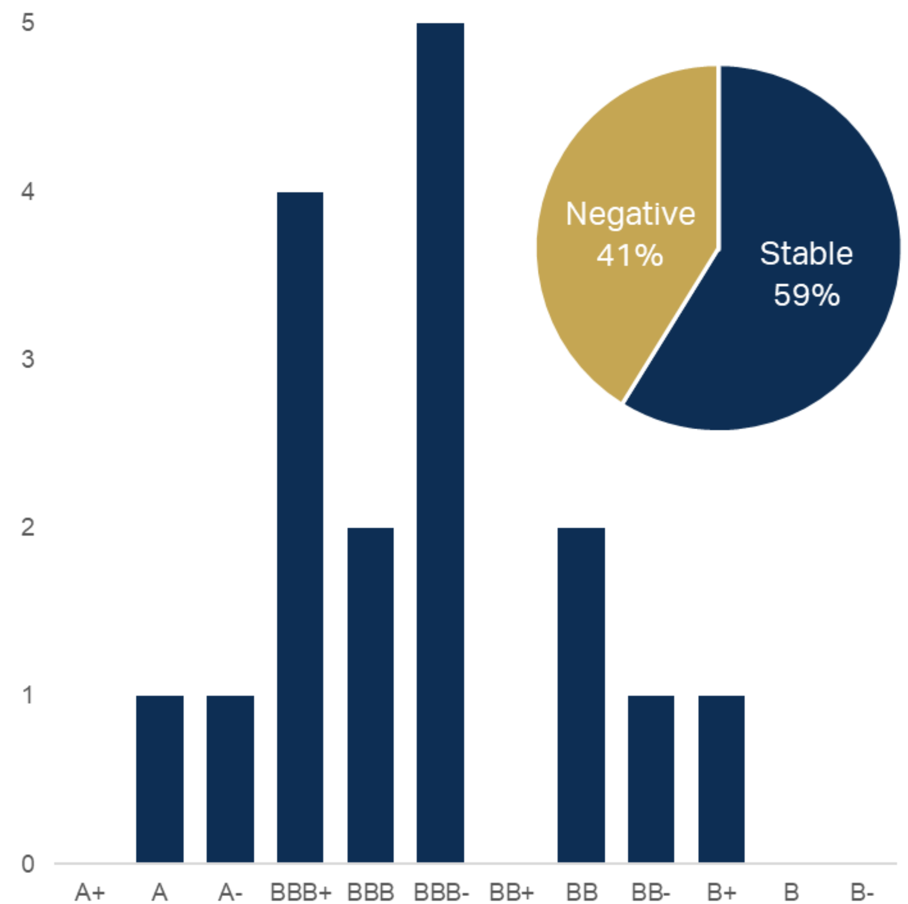


Source: Norges Bank (Staff memo Nr 6. 2022)

NCR's outlook for Nordic CRE market

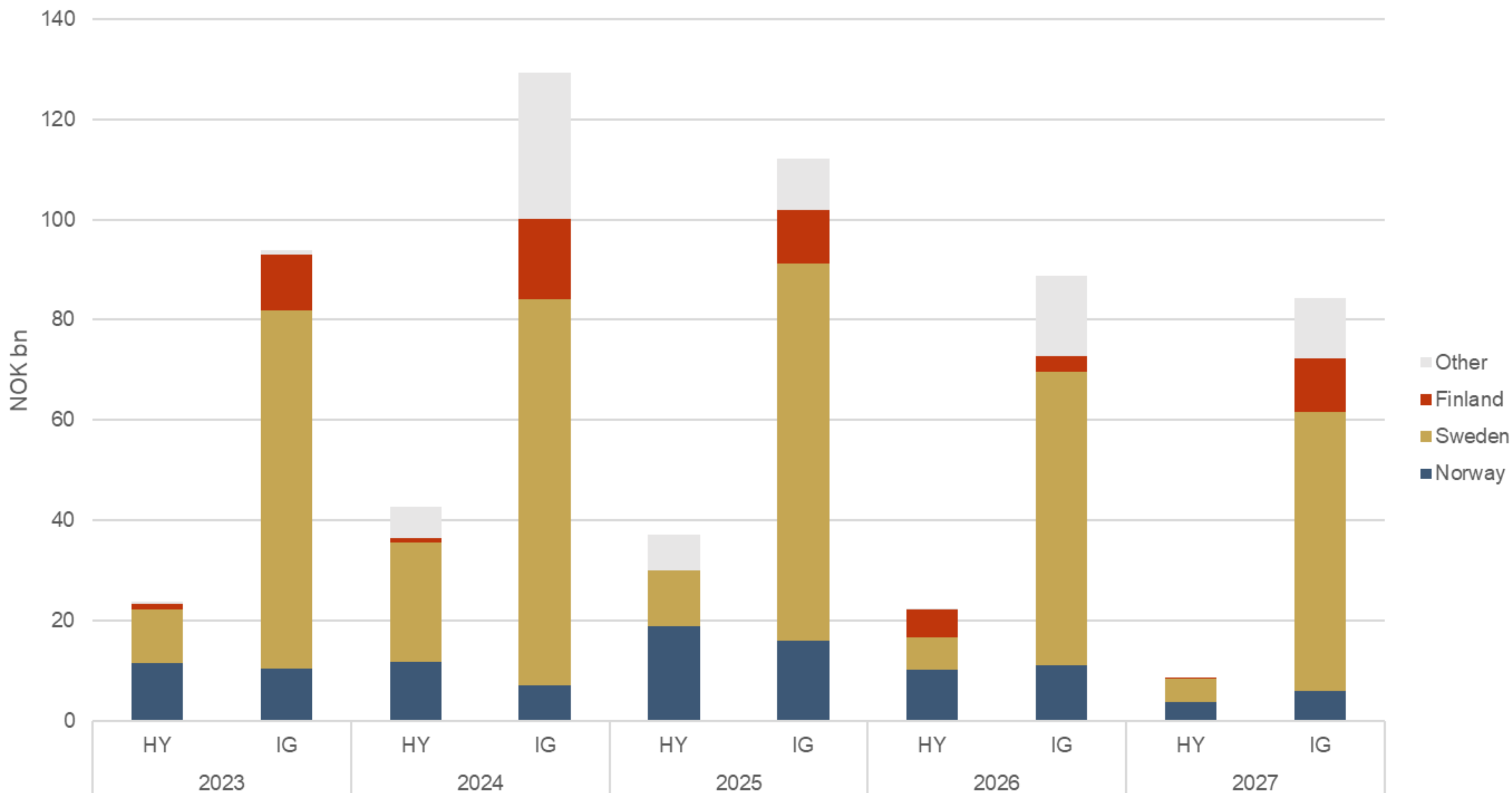
- We have negative outlooks on 41% of rated real estate issuers.
- Stable outlooks are driven by low financial gearing or strong ownership.
- Negative outlooks are primarily driven by the impact of market rates on interest rate coverage.
- We believe that yields have increased despite the lack of transactional evidence and most reported valuations given the 200-250bps increases in market rates.
- Our base case assumes property value declines driven by higher yields through 2024.
- Office properties are supported by index-linked rental rates, improving cash flows despite rising yields.
- The valuation impact on lower yielding residential properties is expected to be higher than commercial properties.

NCR public ratings and outlooks on real estate companies



Real estate company debt maturity profile

Material differences in capital markets financing of Norwegian RE companies



Source: Stamdata. Real estate industry and high yield (HY) vs investment grade (IG) status as defined by Stamdata.

Nordic Credit Rating

Thank you

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