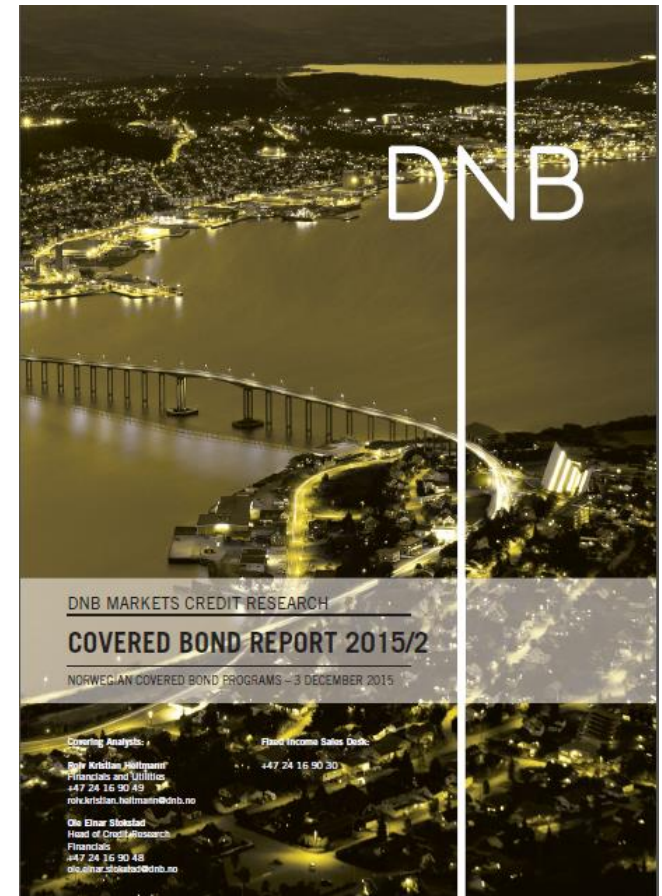


Norske OMF'er - Hva betyr mest for rating?

OMF-forum, Oslo, 20. januar 2016

Ole Einar Stokstad
Head of Credit Research
ole.einar.stokstad@dnb.no
+47 24 16 90 48

Rolv Kristian Heitmann
Credit Analyst, DNB Markets
rh@dnb.no
+47 24 16 90 49



DNB Markets Credit Research – Contact details

Ole Einar Stokstad

Head of Credit Research, Financials
+47 24 16 90 48
ole.einar.stokstad@dnb.no

Mikael Løkken Gjerding

High-Yield Oil/Offshore/Shipping
+47 24 16 90 47
mikael.lokken.gjerding@dnb.no

Knut Olav Rønningen

High Yield Corporates
+47 24 16 90 45
knut.olav.ronningen@dnb.no

Rolv Kristian Heitmann

Financials & Utilities
+47 24 16 90 49
rolv.kristian.heitmann@dnb.no

Thomas Larsen

High-Yield Oil/Offshore/Shipping
+47 24 16 90 44
thomas.larsen@dnb.no

Kristina Solbakken

Investment Grade and High-Yield Corporates
+47 24 16 90 51
Kristina.solbakken@dnb.no

Magnus Vie Sundal

Market analyst
+47 24 16 91 23
magnus.vie.sundal@dnb.no

Martin Børter

High-Yield Oil/Offshore/Shipping
+47 24 16 90 46
martin.borter@dnb.no

Erik Öberg

Investment Grade and High-Yield Corporates
+46 8 473 48 49
erik.oberg@dnb.se

Investment Grade**Ola Beinnes Fosse**

High-Yield Oil/Offshore/Shipping
+47 24 16 91 28
ola.beinnes.fosse@dnb.no

Simon Kjellström

High-Yield Corporates
+46 8 473 48 75
simon.kjellstrom@dnb.se

High Yield

Agenda

Hva betyr mest for rating?

Bond market update and outlook

Covered Bond Report 2015/2

Rating methodology updates

Oppsummering: Hva betyr mest for rating? – og litt om rapportering

Hva betyr mest for ratingen (1/3)

- Prinsippet er såkalt Dual Recourse
 - Krav mot utsteder basert på kobling mot bank/eier(e)
 - Krav mot sikkerhetsmassen
- I prinsippet burde sikkerhetsmassen veie tyngst, og det er klart at en solid og tilstrekkelig dekkende sikkerhetsmasse er avgjørende for OMF, men:
 - Utstederens rating betyr overraskende mye for programratingen på tross av at OMF er strukturert kreditt som får mye høyere rating enn utstederratingen
 - Link mellom bank/eier(e) og utsteder betyr mye (avtaleverk, felles eierskap, låneramme som binder dem sammen)
 - Bankens/utstederens OMF-ankerrating er blitt enda sterkere ettersom OMF er eksplisitt unntatt fra BRRD / Bail-in
 - For norske bolig-/næringseiendoms-/offentlig-OMF er sikkerhetsmassene så bra at det er TPI-rammeverket som begrenser ratingen*

* Moody's 2-trinnsprosess: 1) EL basert på utsteder PD og sikkerhetsmassen. 2) TPI-rammeverket

Hva betyr mest for ratingen (2/3) – TPI-rammeverk

- An 'A2/A' covered bond anchor with a 'High' TPI implies a TPI Cap 'Aaa/AAA' and 2 notches 'TPI leeway'

Rating Constraints (TPI Caps)						
CB reference	Timely payment indicator					
	Very improbable	Improbable	Probable	Probable-High	High	Very high
A1	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
A2	Aa1	Aa1	Aaa	Aaa	Aaa	Aaa
A3	Aa2	Aa2	Aaa	Aaa	Aaa	Aaa
Baa1	Aa3	Aa3	Aa1	Aa1	Aaa	Aaa
Baa2	A1	A1	Aa2	Aa2	Aa1	Aaa
Baa3	A3	A2	A1	Aa3	Aa2	Aa1
Ba1	Baa1 - Baa3	A3 - Baa2	A2 - Baa1	A1 - A3	Aa3 - A2	Aa2 - A1
Ba2	Baa2 - Ba1	Baa1 - Baa2	A3 - Baa2	A2 - Baa1	A1 - A3	Aa3 - A2
Ba3	Baa3 - Ba2	Baa2 - Baa3	Baa1 - Baa3	A3 - Baa2	A2 - Baa1	A1 - A3
B1	Ba1 - Ba3	Ba1 - Ba2	Baa3 - Ba2	Baa1 - Baa3	A3 - Baa2	A2 - Baa1
B2	Ba2 - B1	Ba1 - Ba3	Ba1 - Ba3	Baa2 - Ba1	Baa1 - Baa3	A3 - Baa2
B3	Ba3 - B2	Ba2 - B1	Ba1 - Ba3	Baa3 - Ba2	Baa2 - Ba1	Baa1 - Baa3

Sources: Moody's, DNB Markets

The TPI scores on Norwegian Residential mortgage-backed covered bond issuers range from 'Probable' to 'High'

The TPI scores on the two Norwegian Commercial mortgage-backed covered bond issuers are both 'Probable'

An issuer rating 'A' combined with a 'High' TPI implies a TPI cap 'AAA' and 2 notches 'TPI leeway'

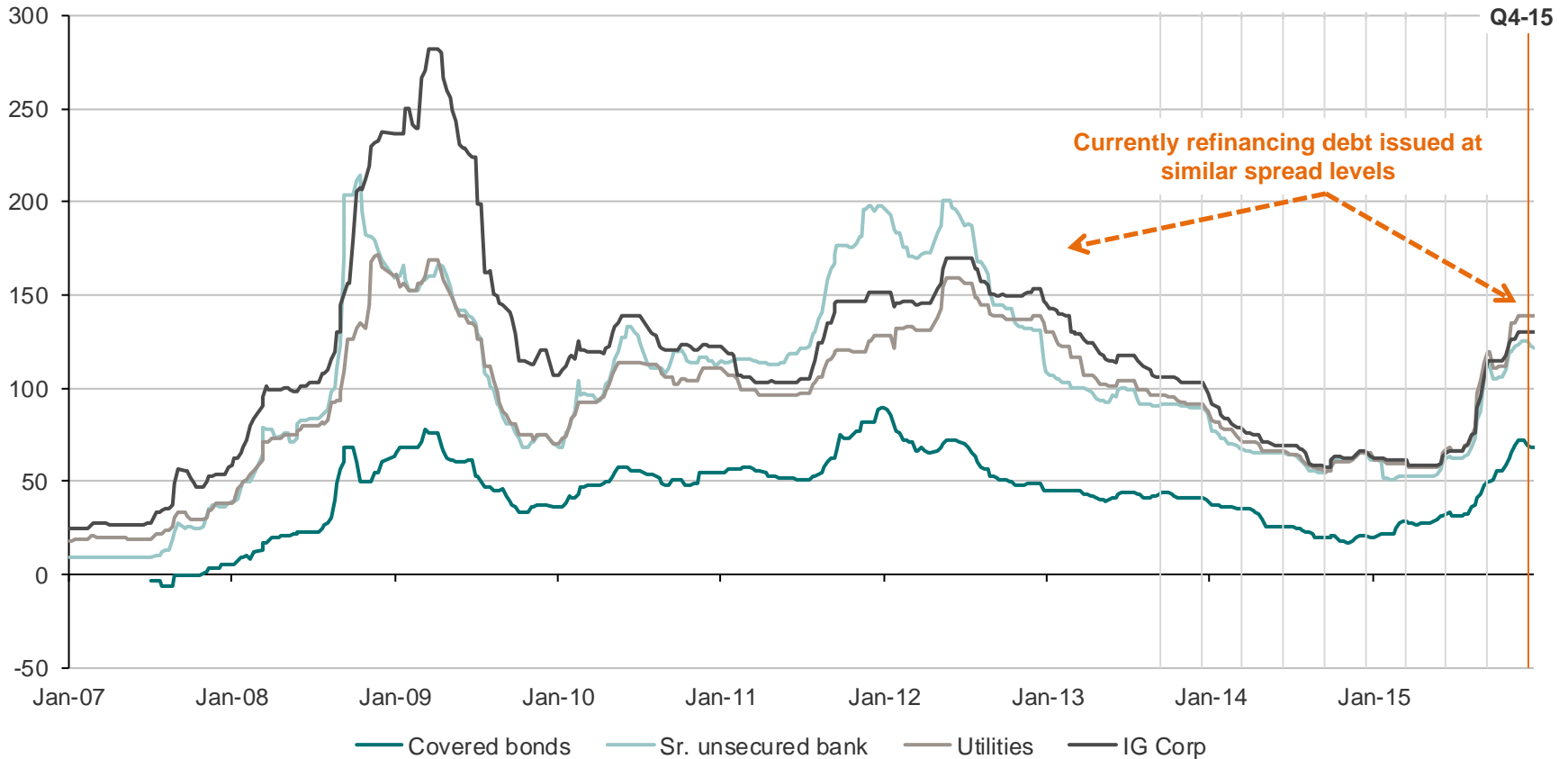
The 2 notches 'TPI leeway' suggests that the covered bonds can withstand a 2 notches downgrade on the issuer without being downgraded

Hva betyr mest for ratingen (3/3) -- TPI

- The timely payment indicator ('TPI') is included in the analysis as a measure for the likelihood that timely payments will be made to the covered bondholders following issuer default. The primary determinants for the TPI are:
 - Refinancing risk
 - Post issuer default, timely payment may depend on funds raised against the cover pool, and the achieved selling prices
 - Sovereign
 - Likelihood of government support or support from other financial institutions, depending on the ability (high credit rating?) and the assumed willingness to provide support of the respective governments
 - Legislation/ Contract
 - The strength of the valid covered bond law and the program specific contract terms
 - Hedging program
 - Hedging instruments can affect the TPI negatively or positively. Swaps are credit positive by providing predictability, but may not survive issuer default and if they do survive they can hinder the sale of assets or liabilities due to the possible dependence of approval from the swap counterparty
 - Type of assets
 - Certain assets are more liquid than others following issuer default and the type of collateral assets thus affect the TPI. In particular some assets can be supported by governmental guarantees
 - Type of liabilities
 - The type of the bonds issued will affect the TPI. Pass-through bonds may have a smaller refinancing risk than bullet bonds. Soft bullet bonds are in between
 - Other factors
 - Examples of factors to be included are timely payment arrangements, correlation between the issuer- and cover pool performance, additional over-collateralization, current credit position, etc.

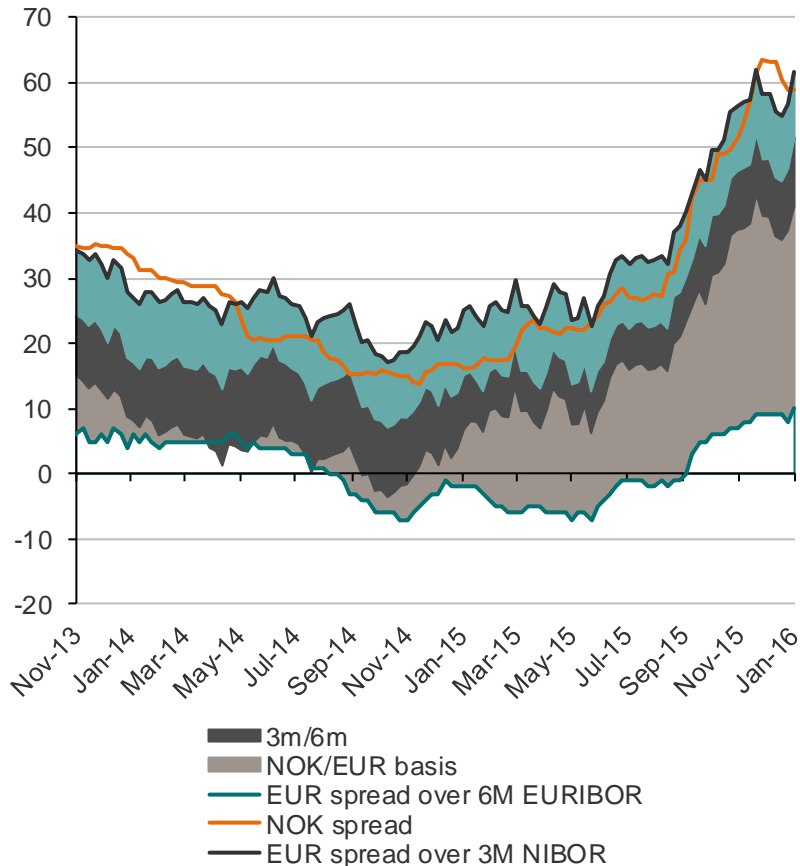
Spreads in the second half of 2015 widened the most since the Great Financial Crisis

5y spreads over 3m NIBOR

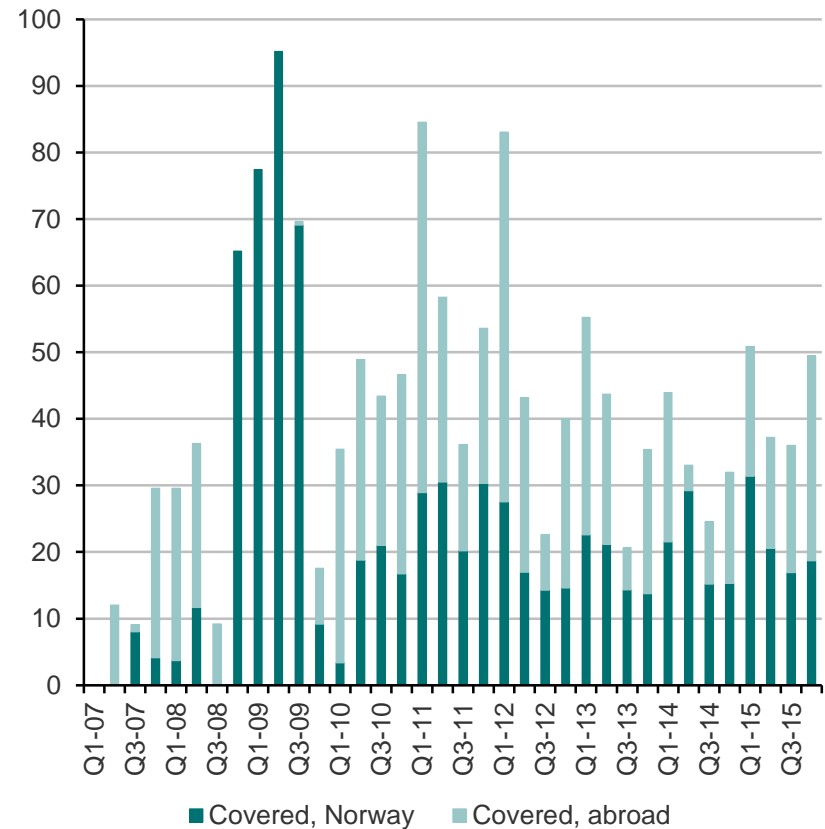


Wider EURNOK basis swap spreads led to higher relative funding cost abroad for covered bond issuers

Covered bond spreads (bp)

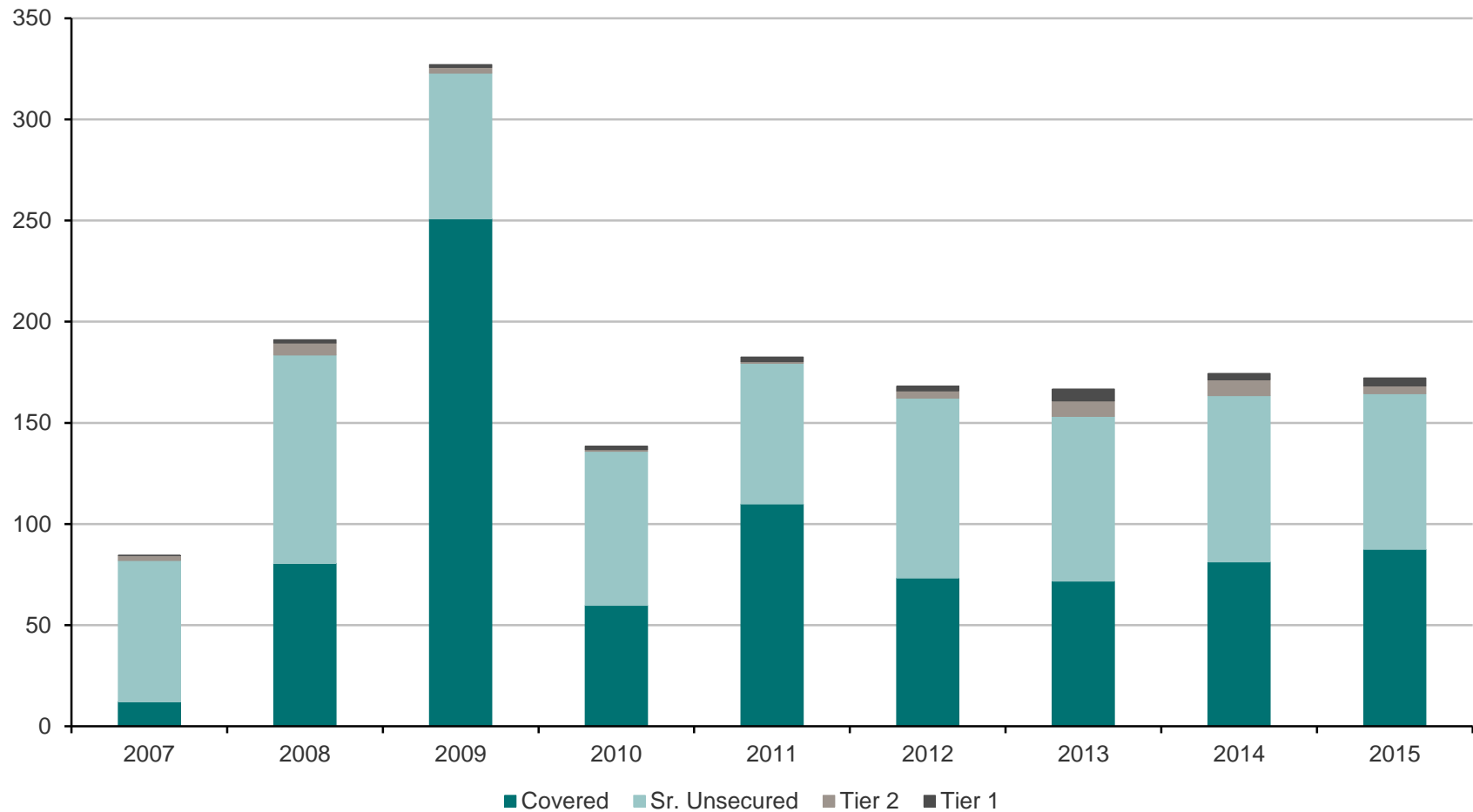


Norwegian covered bond issuance (NOKbn)



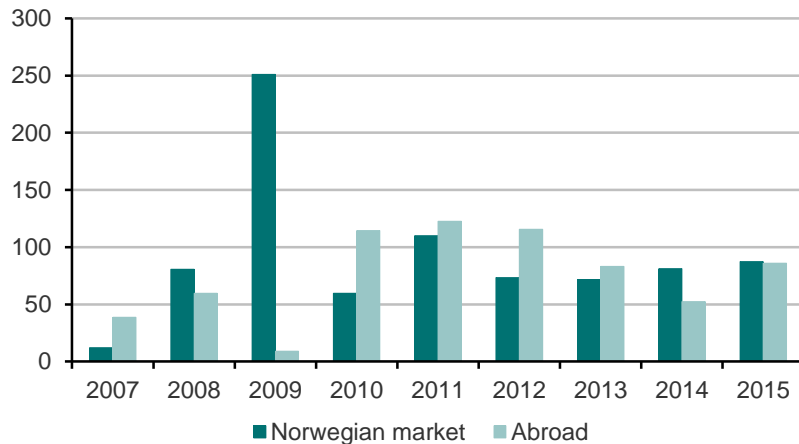
New issue volumes – Financials

– Norwegian bond market (NOKbn)

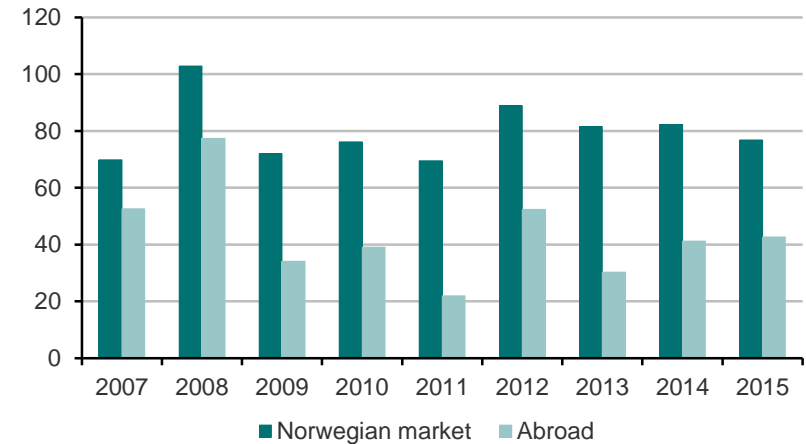


Norwegian financial issuers' new issue volumes – Home vs. abroad (NOKbn)

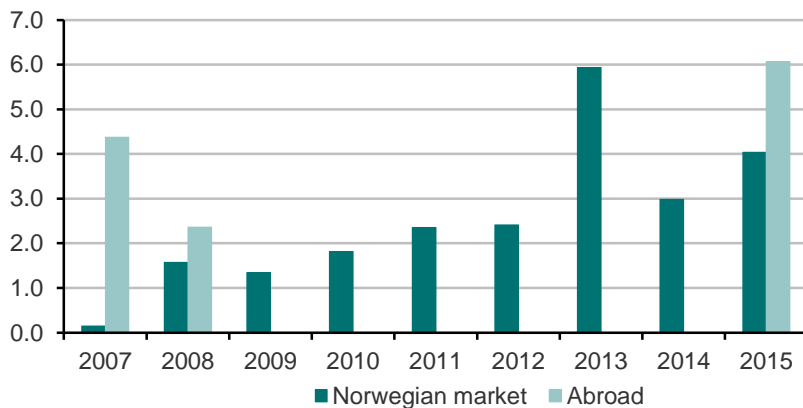
Covered bonds



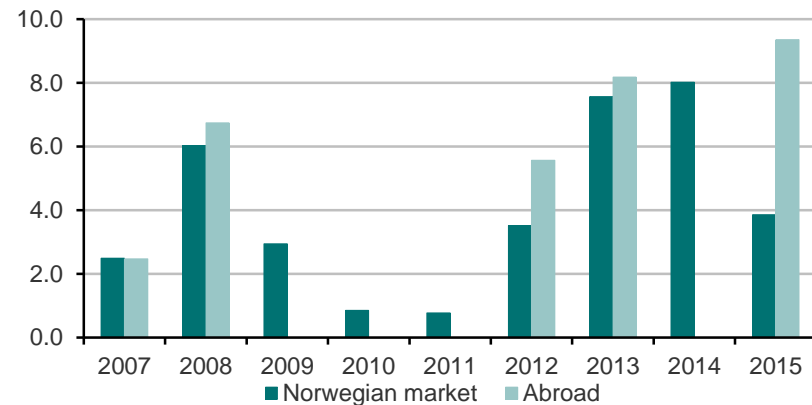
Sr. unsecured



AT1



Subordinated



The Covered Bond Report 2015/2

- The 5th covered bond report published by DNB Markets Credit Research since we initiated covered bond coverage in 2011
- Credit institutions contribute with information
- 26 Norwegian programs (that have considerable amount of covered bonds outstanding on the open market) included:
 - 23 residential mortgage-backed
 - 3 commercial mortgage-backed
 - 1 public sector program
 - 20 programs rated by Moody's, S&P and/ or Fitch
 - 4 programs assigned shadow rating by DNB Markets

Ratings on covered bonds – Norwegian programs

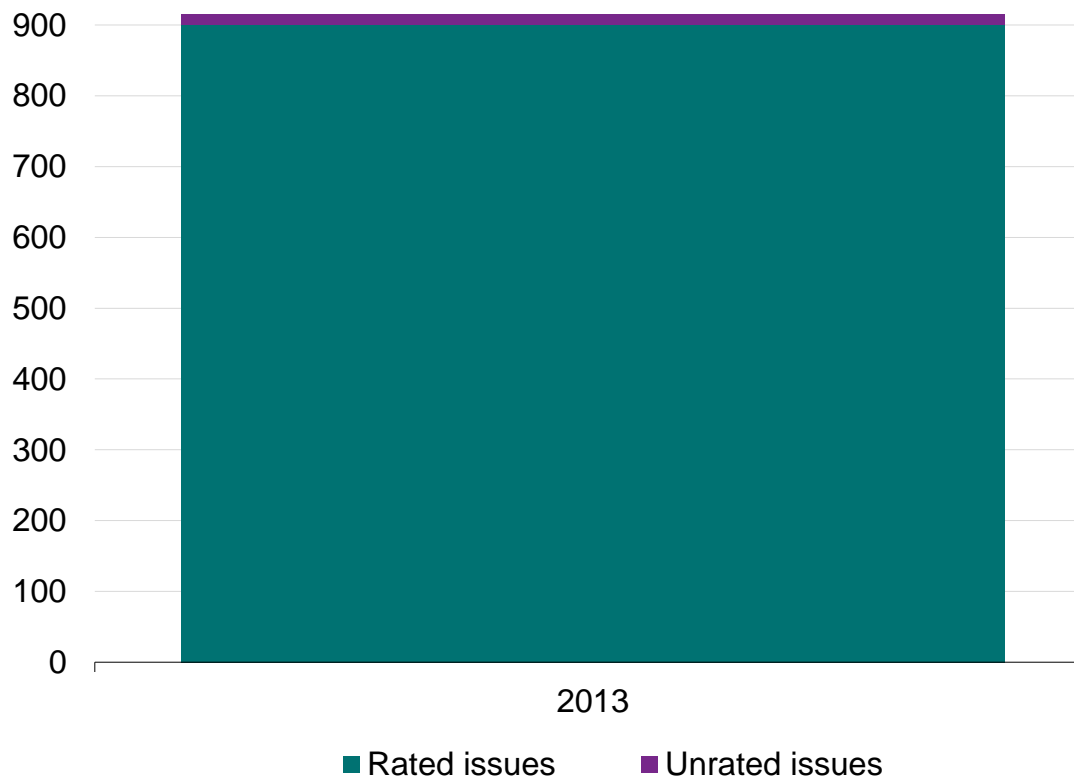
Covered Bond Program	Moody's					S&P			Fitch		DNB Markets		
	Rating	TPI ¹	TPI Leeway ²	Collateral score ³	Cover pool losses ⁴	Rating	JRL ⁵	Unused notches of uplift	Rating	D-Cap ⁶	Rating	Est. TPI	Est. TPI Leeway
Bustadkreditt Sogn og Fjordane AS	Aaa	High	4	5.0%	9.9%								
DNB Boligkreditt AS	Aaa	Probable	6	5.9%	14.8%	AAA	aa+	1					
DNB Næringskreditt AS	Aaa	Probable	4	22.1%	34.5%								
Eiendomskreditt AS - Bolighypotek											AAA	High	3
Eiendomskreditt AS - Eiendomshy.						AA+ (Neg)	a	0					
Eika Boligkreditt AS	Aa1	High	1	5.0%	10.1%								
Fana Sparebank Boligkreditt AS	Aaa	High	3	6.0%	10.4%								
Gjensidige Bank Boligkreditt AS						AAA	aa-	0					
Helgeland Boligkreditt AS	Aaa	High	3	5.0%	9.6%								
KLP Boligkreditt AS	Aaa	High		5.0%	9.0%								
KLP Kommunekreditt AS	Aaa	High		4.0%	9.3%				AAA	4			
Landkreditt Boligkreditt AS											AAA	High	2
Møre Boligkreditt AS	Aaa	High	4	5.0%	9.8%								
Nordea Eiendomskreditt AS	Aaa	Prob.-High	5	5.0%	11.0%								
Skandiabanken Boligkreditt AS	Aaa	High	4	5.0%	9.3%								
SpareBank 1 Boligkreditt AS	Aaa	High	4	5.0%	10.0%				AAA	4			
SpareBank 1 Næringskreditt AS	Aaa	Probable		16.5%	30.0%								
Sparebanken Øst Boligkreditt AS	Aaa	High	3	5.0%	10.0%								
Sparebanken Sør Boligkreditt AS	Aaa	High	5	5.0%	8.5%								
Sparebanken Vest Boligkreditt AS	Aaa	High	5	5.0%	9.7%								
SR-Boligkreditt AS	Aaa	Prob.-High	4	5.0%	9.1%								
SSB Boligkreditt AS									AA	4			
Storebrand Boligkreditt AS	Aaa	High	2	5.0%	9.4%								
Totens Sparebank Boligkreditt AS											AAA	High	2
Verd Boligkreditt AS											AA+	High	1

Sources: Moody's, S&P, Fitch, DNB Markets

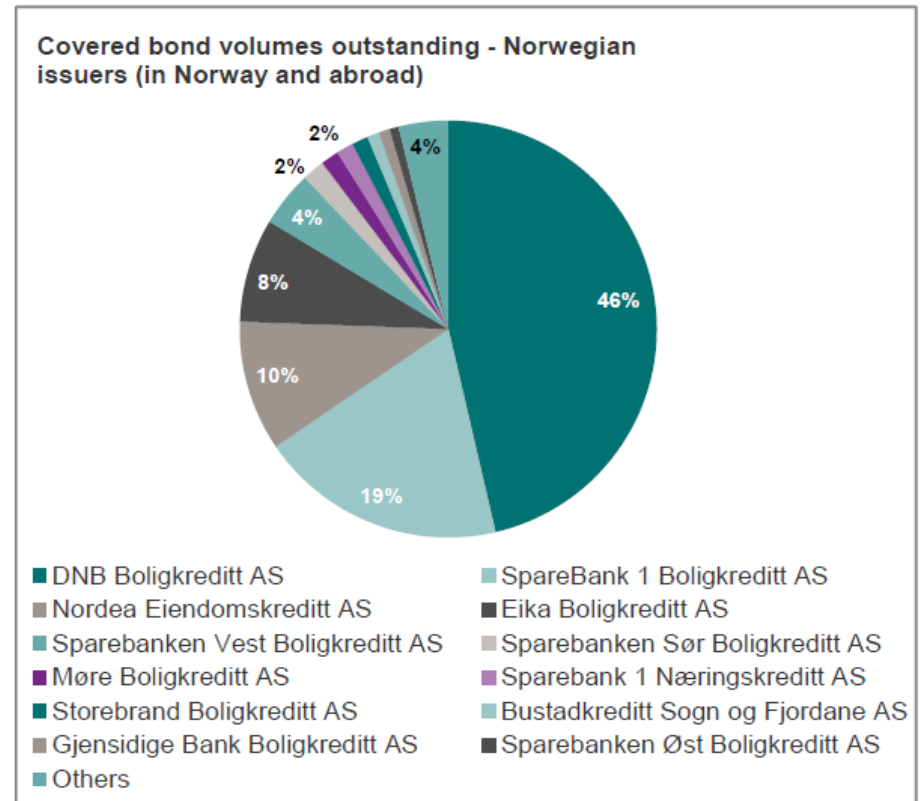
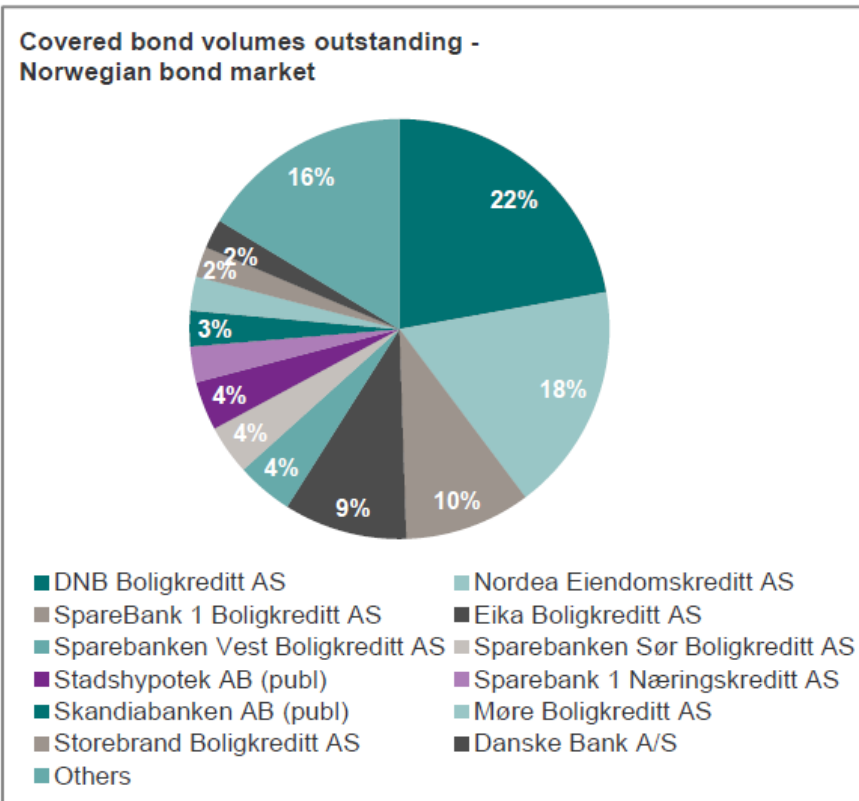
Official credit ratings on most Norwegian covered bonds outstanding

- 26 Norwegian programs:

Outstanding Norwegian covered bonds
(NOKbn)



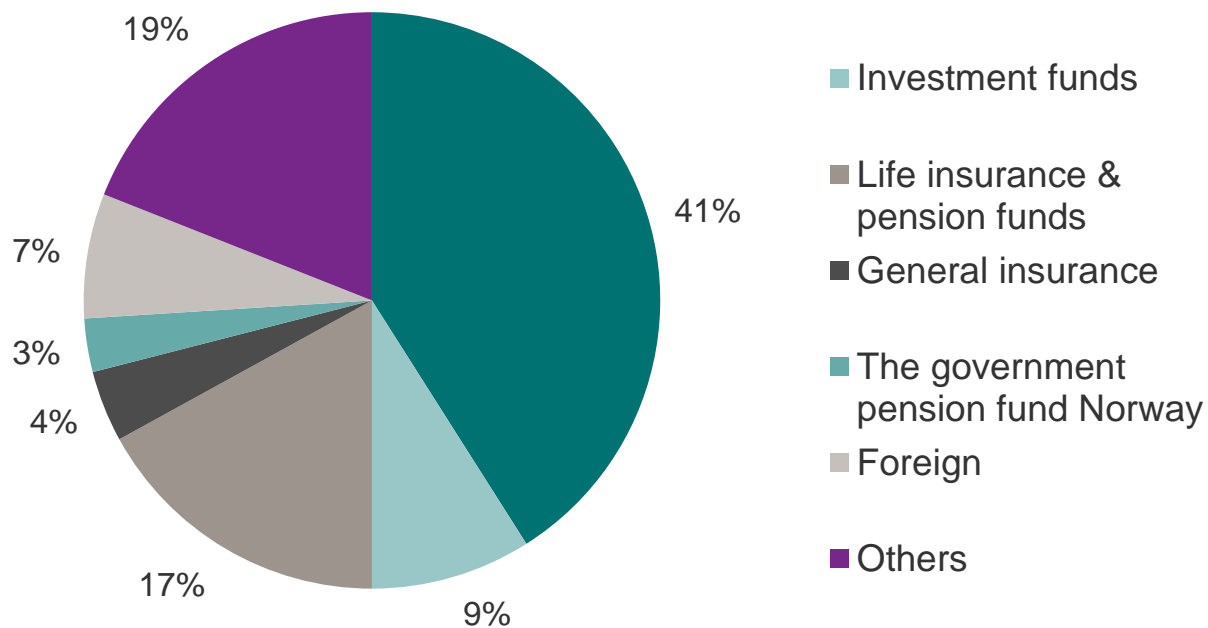
Largest Norwegian issuers



Sources: Stamdata, Bloomberg, DNB Markets

Investor base

Distribution of ownership, Covered bonds



Source: Statistics Norway

Latest development

Norwegian mortgage backed cover pools, sorted by LTV - Q1 2015

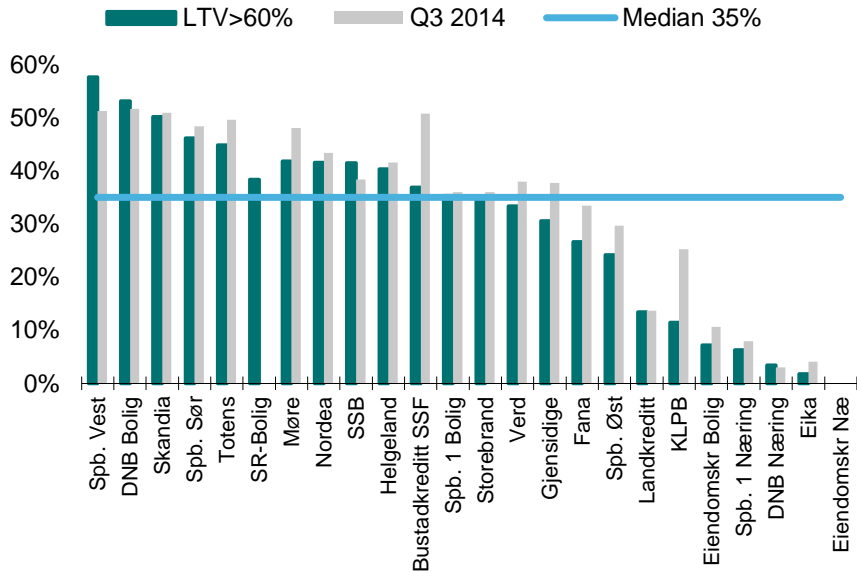
■ WA LTV ■ Q3 2014 — Median 51%



Source: DNB Markets, the Companies

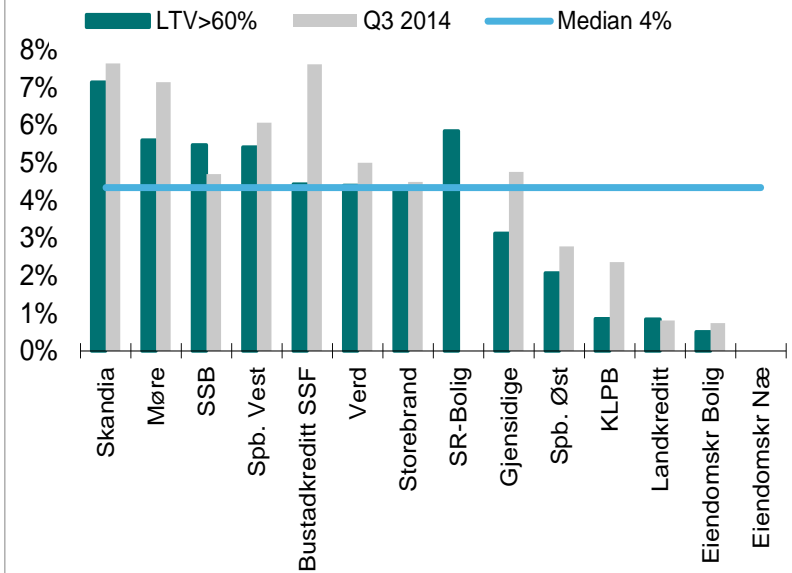
Latest development

Share of mortgages with loan-to-value exceeding 60% - Q1 2015 - whole loans



Source: DNB Markets, the Companies

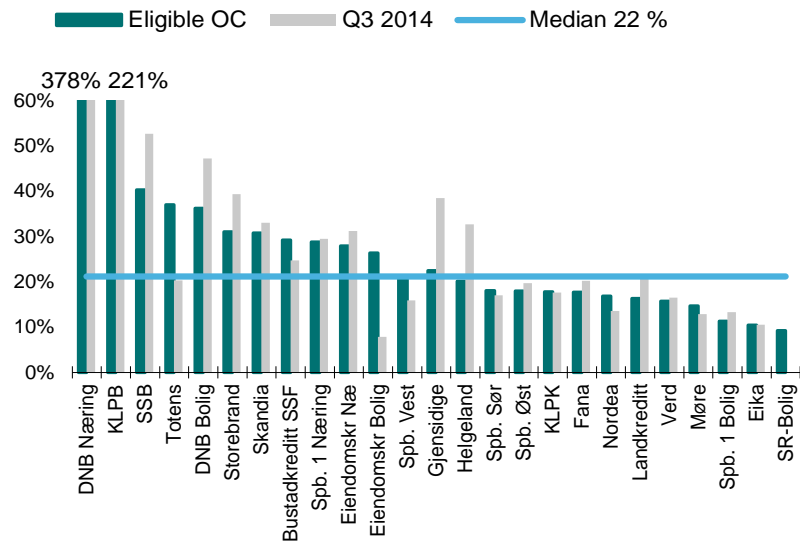
Share of mortgages with LTV exceeding 60% - Q1 2015 - split loans



Source: DNB Markets, the Companies

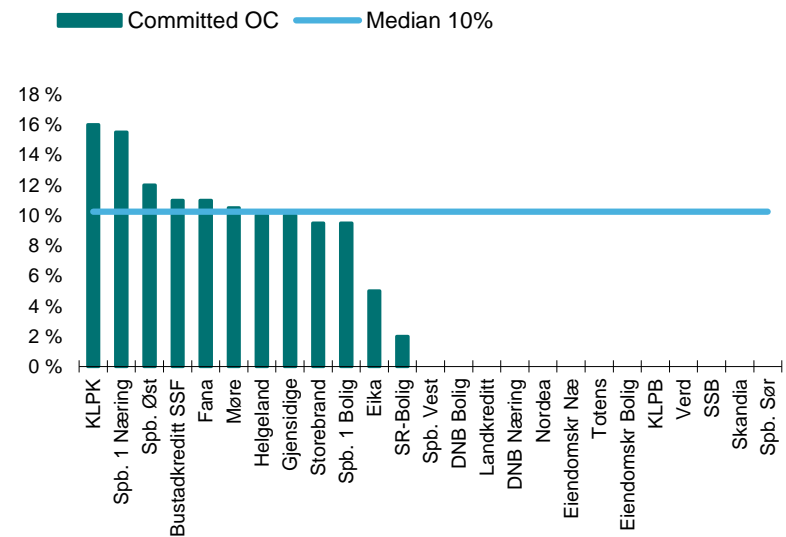
Latest development

Norwegian cover pools, sorted by Eligible OC - Q1 2015



Source: DNB Markets, the Companies

Norwegian cover pools, sorted by Committed OC - Q1 2015



Source: DNB Markets, the companies

Credit rating on covered bonds - pricing

- Official rating a significant factor
 - Rating difference not very influential (all ratings are high)
- Collateral type important
- Issue size more important as LCR regulations implemented

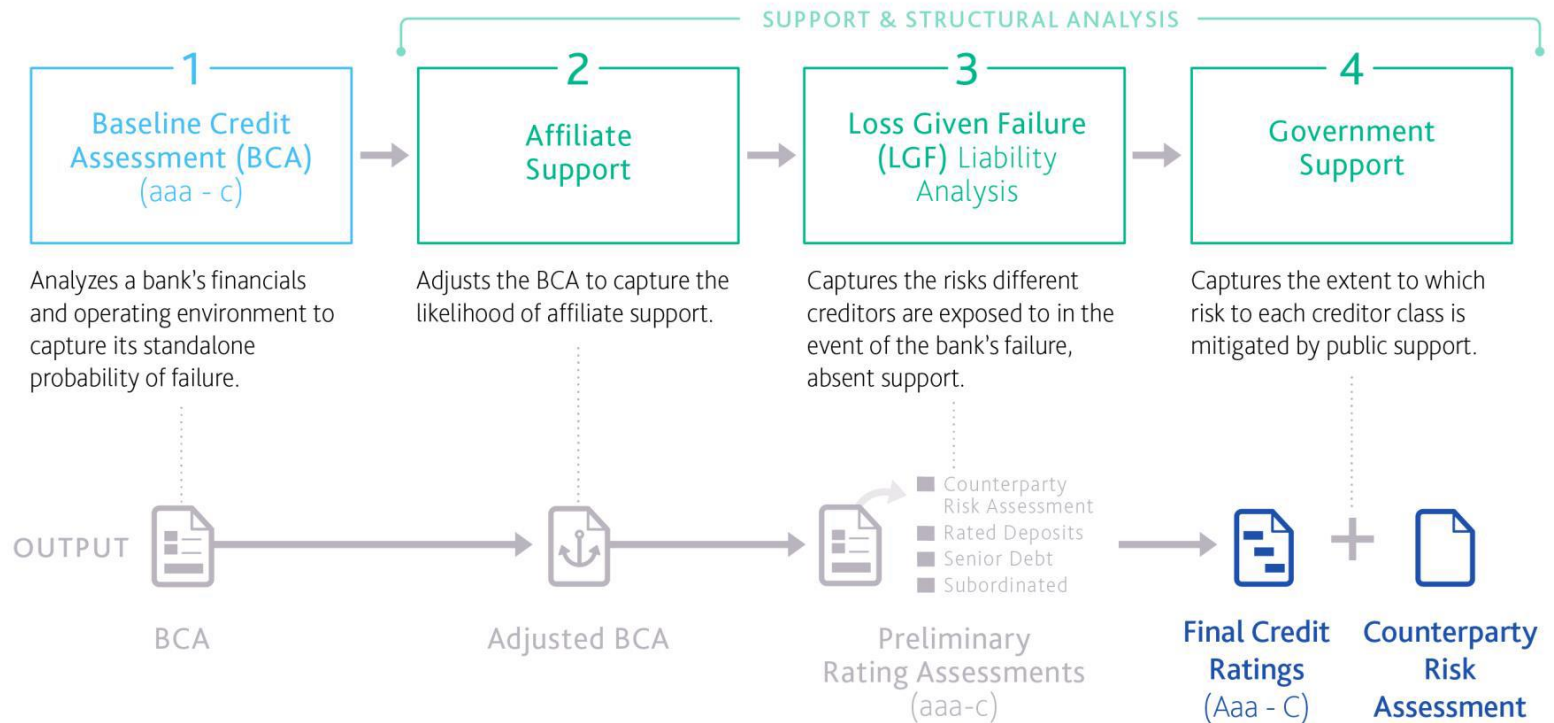
Covered Bond Programs	M / S&P / F	Note: CB ratings apply to issues - or programs - not to issuers							
Covered bond - Municipal (KLP Kommunekreditt)	Aaa / - / AAA	5	19	33	47	66	70	75	
Covered bond 1 - Benchmark	Aaa/AAA/ AAA	5	19	33	47	66	72	77	
Covered bond 2 - Highly liquid	Aa1-Aaa / - / -	8	21	37	53	72	78	83	
Covered bond 3 - Rated issuers > NOK2bn	Aaa / - / -	10	24	41	57	77	82	88	
Covered bond 4 - Rated issuers, NOK1-2bn	Aaa / - / AAA	14	29	45	62	82	87	93	
Covered bond 5 - Rated issuers < NOK1bn	Aaa / - / AA	16	34	50	68	90	95	100	
Covered bond 6 - Unrated residential	-	25	43	63	82	105	115	125	
Commercial covered bond 1 (AAA)	Aaa / - / -	15	30	48	66	88	92	96	
Commercial covered bond 2 (AA)	- / AA+ / -	25	40	60	78	100	108	115	

Summary

- Norwegian banks increasingly dependent on covered bonds as a funding source
- Covered bond ratings linked to healthy Norwegian banks
- Stable development in the aggregate of the Norwegian cover pools
- Regulatory changes favourable for covered bond ratings (at least compared to bank ratings)
 - Banks more solid, but assumed support decreases
- Expect increased margin pressure going forward
- Oil price effects expected

Moody's updated bank rating methodology

– 4 steps



Moody's Loss Given Failure (LGF)

- Assumptions:
 - 8% loss rate for EU banks with 'moderate' or better Macro Profile
 - 13% for other EU countries
 - Two scenarios weighted:
 - 25% probability of depositor preference
 - 75% probability de jure ranking in practice
- Possible rating uplift from BCA (baseline credit assessment)
 - CRA up to 3 notches above BCA from LGF analysis
 - Further Gov't support uplift possible for CRA after LGF analysis
 - Covered Bond anchor typically CRA + 1 notch in Europe

DE JURE		EU* DE FACTO	
1	PREFERRED DEPOSITS	1	PREFERRED DEPOSITS
2	COUNTERPARTY RISK ASSESSMENT	2	COUNTERPARTY RISK ASSESSMENT
3	JUNIOR DEPOSITS	3	JUNIOR DEPOSITS
3	SENIOR LONG-TERM DEBT (bank)	4	SENIOR LONG-TERM DEBT (bank)
5	SENIOR LONG-TERM DEBT (holding company)	5	SENIOR LONG-TERM DEBT (holding company)
6	DATED SUB. DEBT (bank)	6	DATED SUB. DEBT (bank)
6	DATED SUB. DEBT (holding co)	6	DATED SUB. DEBT (holding co)
8	JUNIOR SUB. (bank)	8	JUNIOR SUB. (bank)
8	JUNIOR SUB. (holding co)	8	JUNIOR SUB. (holding co)
10	PREFERENCE SHARES (bank)	10	PREFERENCE SHARES (bank)
10	PREFERENCE SHARES (holding co)	10	PREFERENCE SHARES (holding co)

Oppsummering (1/2) – Hva betyr mest for ratingen

- Prinsippet er såkalt Dual Recourse
 - Krav mot utsteder basert på kobling mot bank/eier(e)
 - Krav mot sikkerhetsmassen
- I prinsippet burde sikkerhetsmassen veie tyngst, og det er klart at en solid og tilstrekkelig dekkende sikkerhetsmasse er avgjørende for OMF, men:
 - Utstederens rating betyr overraskende mye for programratingen på tross av at OMF er strukturert kreditt som får mye høyere rating enn utstederratingen
 - Link mellom bank/eier(e) og utsteder betyr mye (avtaleverk, felles eierskap, låneramme som binder dem sammen)
 - Bankens/utstederens OMF-ankerrating er blitt enda sterkere ettersom OMF er eksplisitt unntatt fra BRRD / Bail-in
 - For norske bolig-/næringseiendoms-/offentlig-OMF er sikkerhetsmassene så bra at det er TPI-rammeverket som begrenser ratingen*

* Moody's 2-trinnsprosess: 1) EL basert på utsteder PD og Cover Poolen. 2) TPI-rammeverket

Oppsummering (2/2) – Hva vi ønsker oss fra rapporteringen:

- Konsistent bruk av «Norwegian Transparency Template»
- Få med følgende data som ikke alle oppgir:
 - Hvert lån splittet og fordelt på belåningsintervallene de dekker
 - Hensikt er å kunne sammenligne programmer basert på hvilken andel av sikkerhetsmassen som har LTV over eksempelvis 60%
 - Rammekreditt/fleksible lån
 - Forpliktet overpantsettelse med type binding: juridisk bindende = låneavtale/låneprogram eller lov-/forskriftsbestemt
 - Diverse presiseringer, f.eks:
 - Om verdsettelsesmetode hvis Eiendomsverdi: hvilket av verdianslagene benyttes?
 - Antall utlån og antall låntagere
 - Løpetid: Noen benytter durasjon (vektet på nåverdi og volum), mens andre benytter volumvektet gjenværende løpetid (bør ha samme prinsipp på begge sider av balansen, og gjerne opplyse om begge deler)
 - Seasoning / tid siden lånene ble innvilget (vektet snitt vs. intervaller)
 - For fremtiden: Belåningsgrad totalt for låntager (inkl andre lån)

Statement and disclaimer that affect your rights

IMPORTANT/DISCLAIMER

This note (the "Note") must be seen as marketing material and not as an investment recommendation within the meaning of the Norwegian Securities Trading Act of 2007 paragraph 3-10 and the Norwegian Securities Trading Regulation 2007/06/29 no. 876. The Note has been prepared by DNB Markets, a division of DNB Bank ASA, a Norwegian bank organized under the laws of the Kingdom of Norway (the "Bank"), for information purposes only. The Note shall not be used for any unlawful or unauthorized purposes. The Bank, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (individually, each a "DNB Party"; collectively, "DNB Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Note. DNB Parties are not responsible for any errors or omissions, regardless of the cause, nor for the results obtained from the use of the Note, nor for the security or maintenance of any data input by the user. The Note is provided on an "as is" basis. DNB PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE NOTE'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE NOTE WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall DNB Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Note, even if advised of the possibility of such damages. Any opinions expressed herein reflect the Bank's judgment at the time the Note was prepared and DNB Parties assume no obligation to update the Note in any form or format. The Note should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. No DNB Party is acting as fiduciary or investment advisor in connection with the dissemination of the Note. While the Note is based on information obtained from public sources that the Bank believes to be reliable, no DNB Party has performed an audit of, nor accepts any duty of due diligence or independent verification of, any information it receives.

Conflict of interest

Confidentiality rules and internal rules restrict the exchange of information between different parts of the Bank and this may prevent employees of DNB Markets who are preparing the Note from utilizing or being aware of information available in DNB Markets/the Bank that may be relevant to the recipients of the Note.

DNB Markets/DNB group may have its own portfolio of financial instruments issued by the companies.

The analyst(s) or any close associates may hold positions in financial instruments issued by the companies.

The Analyst(s) does not receive any compensation related to a specific assignment or credit research report.

DNB Markets may have carried out assignments for the issuers and received compensation during the last 12 months.

The Note is not an offer to buy or sell any security or other financial instrument or to participate in any investment strategy. Distribution of material like the Note is in certain jurisdictions restricted by law. Persons in possession of the Note should seek further guidance regarding such restrictions before distributing the Note.

The Note is for clients only, and not for publication, and has been prepared for information purposes only by DNB Markets - a division of DNB Bank ASA registered in Norway with registration number NO 984 851 006 (the Register of Business Enterprises) under supervision of the Financial Supervisory Authority of Norway (Finanstilsynet), the Monetary Authority of Singapore, and on a limited basis by the Financial Conduct Authority and the Prudential Regulation Authority of the UK, and the Financial Supervisory Authority of Sweden. Details about the extent of our regulation by local authorities outside Norway are available from us on request.

Information about DNB Markets can be found at dnb.no.

Additional information for clients in Singapore

The Note has been distributed by the Singapore Branch of DNB Bank ASA. It is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product referred to in the Note, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product.

You have received a copy of the Note because you have been classified either as an accredited investor, an expert investor or as an institutional investor, as these terms have been defined under Singapore's Financial Advisers Act (Cap. 110) ("FAA") and/or the Financial Advisers Regulations ("FAR"). The Singapore Branch of DNB Bank ASA is a financial adviser exempt from licensing under the FAA but is otherwise subject to the legal requirements of the FAA and of the FAR. By virtue of your status as an accredited investor or as an expert investor, the Singapore Branch of DNB Bank ASA is, in respect of certain of its dealings with you or services rendered to you, exempt from having to comply with certain regulatory requirements of the FAA and FAR, including without limitation, sections 25, 27 and 36 of the FAA. Section 25 of the FAA requires a financial adviser to disclose material information concerning designated investment products which are recommended by the financial adviser to you as the client. Section 27 of the FAA requires a financial adviser to have a reasonable basis for making investment recommendations to you as the client. Section 36 of the FAA requires a financial adviser to include, within any circular or written communications in which he makes recommendations concerning securities, a statement of the nature of any interest which the financial adviser (and any person connected or associated with the financial adviser) might have in the securities.

Please contact the Singapore Branch of DNB Bank ASA at +65 6212 0753 in respect of any matters arising from, or in connection with, the Note.

The Note is intended for and is to be circulated only to persons who are classified as an accredited investor, an expert investor or an institutional investor. If you are not an accredited investor, an expert investor or an institutional investor, please contact the Singapore Branch of DNB Bank ASA at +65 6212 0753.

We, the DNB group, our associates, officers and/or employees may have interests in any products referred to in the Note by acting in various roles including as distributor, holder of principal positions, adviser or lender. We, the DNB group, our associates, officers and/or employees may receive fees, brokerage or commissions for acting in those capacities. In addition, we, the DNB group, our associates, officers and/or employees may buy or sell products as principal or agent and may effect transactions which are not consistent with the information set out in the Note.

Additional Information, including for Recipients in the United States:

Credit-related analyses, including ratings, and statements in the Note are statements of opinion as of the date they are expressed, and DNB undertakes no responsibility to correct or otherwise revise such analyses after such date, and not statements of fact or recommendations or offers to purchase, hold or sell any securities, or to make any other investment decisions.