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Announcement: Moody's assigns Green Bond Assessment (GBA) of GB1 to SpareBank 1 Boligkreditt AS's green mortgage covered bonds

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GBA assigned to SpaBol's €1 billion January 2018 issuance

New York, September 20, 2018 -- Moody's Investors Service ("Moody's") has today assigned a Green Bond Assessment (GBA) of GB1 (Excellent) to the €1 billion January 2018 issuance of green mortgage covered bonds by SpareBank 1 Boligkreditt AS (SpaBol). This is the first Moody's GBA globally assigned to a covered bond transaction.

The Series 2018-1 covered bonds, due January 2025, were issued under the issuer's €25 billion Global Medium Term Covered Note Programme. The transaction closed on January 30, 2018 and was listed on the Luxembourg Stock Exchange's Green Exchange.

"The GB1 assigned to SpaBol's debut green covered bond is underpinned by the full allocation of proceeds towards financing green mortgages for the top 15% of the most efficient buildings in Norway," said Matthew Kuchtyak, a Moody's analyst. "We expect the market for green covered bonds to continue growing in line with the broader green bond market, and perhaps even at a faster pace, and SpaBol's green bond offering represents an important step forward in this market."

ASSESSMENT RATIONALE

SpaBol's approach to issuing green bonds is codified in a detailed green bond framework developed for the issuance of its first green bond in January 2018. The framework describes the issuer's approach to key areas aligned with the recommendations under the Green Bond Principles, including (i) use of proceeds, (ii) process for project evaluation and selection, (iii) management of proceeds, (iv) reporting and (v) external reviews. In conjunction with the issuance of its debut green bond, SpaBol secured the Climate Bonds Certification under the Low Carbon Buildings criteria of the Climate Bonds Standard Version 2.1.

A dedicated green bond committee, originally established to create the green bond framework, oversees green bond project evaluation and selection. The committee is comprised of certain members of the SpaBol board, including CFOs of the SpareBank 1 Alliance members banks, as well as other members of SpaBol management. In conjunction with Multiconsult ASA (Multiconsult), an external green real estate consultant with extensive experience in the residential building sector in Norway, the green bond committee established the eligibility criteria for loans to be financed with green bond proceeds. The committee will monitor and potentially update or expand these criteria over time.

In accordance with its green bond framework, SpaBol allocated 100% of the net green bond proceeds to a loan portfolio of new and existing mortgages for energy efficient residential buildings throughout Norway. With Multiconsult's help, SpaBol utilized a series of proxies to identify the top 15% most sustainable residential buildings in Norway, a metric consistent with the eligibility criteria in the Climate Bonds Initiative's Climate Bonds Standard. The investments are also consistent with the taxonomy articulated in the Green Bond Principles, primarily through the energy efficiency and green buildings categories.

SpaBol has very strong disclosure on the use of green bond proceeds, supported by clear descriptions of the various eligibility criteria. In addition to these criteria descriptions, SpaBol has provided a summary of the portfolio of eligible assets, broken down by building value and residential area. As detailed in the portfolio summary, the aggregate value of the assets is roughly twice the size of the €1 billion green bond.

Green bond proceeds will be managed in a portfolio approach, whereby the current green bond proceeds will be added to any future green bond proceeds and compared against the total value of the identified green assets. At least annually, SpaBol's auditor will provide a limited assurance verifying that SpaBol has the green assets as described in its disclosures.

Management has committed to designate sufficient eligible loans in the green asset pool to ensure that the value of assets always exceeds the value of green bonds outstanding. Although SpaBol has not formally created a separate account or sub-account for the green bond proceeds, the issuer has established a clear earmarking process for green assets. Furthermore, there is a significant cushion of green assets compared to the value of the green bond, mitigating the need for a dedicated account at this time.

SpaBol has already published its first post-issuance report, which includes both allocation reporting and impact reporting, based on the portfolio as of 31 March 2018. The allocation reporting component of the report detailed the total value of green assets, broken down by new residential buildings or refurbished buildings, as well as the green bond amounts allocated. The report also covered the impact of the portfolio, disclosing estimated annual site energy savings and estimated annual CO_2 emissions avoided.

We note a slight weakness in the impact reporting around SpaBol's inability to provide actual environmental benefits being realized by the financed assets. With the very large number of loans and associated buildings, actual reporting on energy usage and associated energy savings and CO_2 emissions avoided is not possible. Technical consultant Multiconsult's calculations are based on a model for expected energy use based on the building code in effect and building traditions.

SpareBank 1 Boligkreditt AS (SpaBol), the issuer, is a separate legal entity wholly owned by certain savings banks (the shareholder banks) belonging to the SpareBank 1 Alliance, a Norwegian bank and banking product collaboration. The identity and shareholdings of the shareholder banks may vary from time to time.

SpaBol is considered to be a core part of the SpareBank 1 Alliance's strategy. The shareholder banks' goal for the issuer is to attain stable, long term and favorable funding. The issuer's objective is to acquire or purchase residential mortgages, and to finance these lending operations mainly by issuing covered bonds.

The principal methodology used in this analysis was Green Bonds Assessment (GBA) published in March 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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