



# Sparebanken Sør

Roadshow Green Covered Bonds

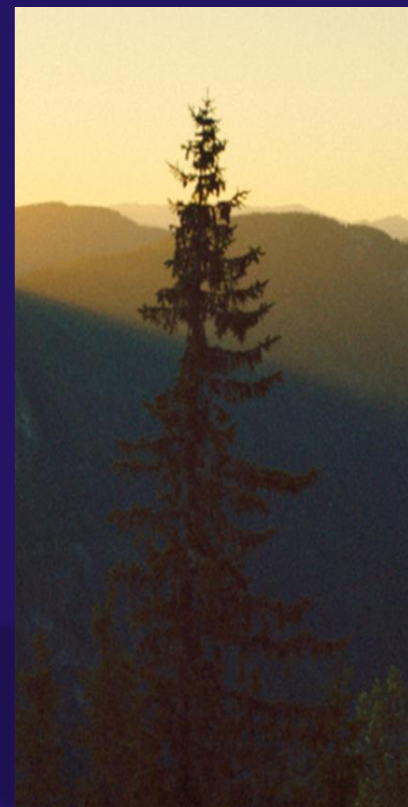
October 2019

# Executive summary

<b>Sparebanken Sør</b>	<ul style="list-style-type: none"> <li>▪ The sixth largest savings bank in Norway with a strong market position in Southern Norway</li> <li>▪ High capitalization; Core Tier 1 ratio of 15.0 % and leverage ratio of 9.0 % as at June 30<sup>th</sup> 2019</li> <li>▪ Rated A1 (stable outlook) by Moody's</li> <li>▪ Strong asset quality – 66 per cent of loan book to retail customers</li> <li>▪ Publicly listed on Oslo Stock Exchange and Irish Stock Exchange</li> </ul>
<b>Sparebanken Sør Boligkreditt</b>	<ul style="list-style-type: none"> <li>▪ 100 % owned and dedicated covered bond subsidiary of Sparebanken Sør</li> <li>▪ Cover pool consisting of 92 % prime Norwegian residential mortgages and LCR-compliant interest bearing securities</li> <li>▪ High quality cover pool reflected by the weighted average LTV of 55.2 %</li> <li>▪ Covered bonds rated Aaa by Moody's with 4 notches of "leeway"</li> <li>▪ Strong legal framework for covered bonds in Norway, with LTV limit of 75 % for residential mortgages</li> </ul>
<b>Norwegian economy</b>	<ul style="list-style-type: none"> <li>▪ Norwegian growth momentum keeps well up and more shielded from the more pronounced global slowdown</li> <li>▪ Unemployment has declined steadily since the downturn in the oil sector, to cyclical lows</li> <li>▪ Oil boosts economic growth this year, but are set to level more out next year</li> <li>▪ Other sectors are also growing steadily, most noticeable the service sector and within construction</li> <li>▪ Norges Bank has raised the interest rate four times over the past year, underscoring the solid momentum in the economy</li> <li>▪ Weak NOK has helped export businesses' margins, yet traditional export of goods are impacted by lower foreign demand</li> <li>▪ In case of need, Norway has ample fiscal room to counter economic headwinds</li> </ul>
<b>Southern region economy</b>	<ul style="list-style-type: none"> <li>▪ The Southern Region has witnessed solid growth over the past years, among the strongest developments in the country</li> <li>▪ Unemployment has declined steadily to now stand around 3 percent, the lowest level in ten years</li> <li>▪ The largest cities in the Region has seen steady, but gradual, house price increases over the past years and the market balance is good.</li> </ul>

# Agenda

- Sparebanken Sør introduction
- On the forefront of digital development
- Loan book and asset quality
- Capital position
- Sparebanken Sør Boligkreditt AS
- Environmental Social and Governance & Sustainability at Sparebanken Sør
- Green & Sustainability Bond Framework
- The Norwegian Economy



# Sparebanken Sør

<b>Business</b>	<p>Sparebanken Sør is an independent financial group with activities within banking, securities and real estate brokerage</p>
<b>Balance</b>	<p>The sixth largest Norwegian bank, with total assets of NOK 125.7 billions</p>
<b>Employees</b>	<p>436 FTEs in the parent bank, in branches across the counties of Aust-Agder, Vest-Agder, Telemark and Rogaland (Southern Norway)</p>
<b>Products and services</b>	<p>General banking products and services, supplemented by real-estate brokerage, life and non-life insurance, stock brokerage and leasing through wholly and partially owned subsidiaries and companies</p>
<b>Summary</b>	<p>As one of the largest regional banks in Norway, Sparebanken Sør is committed to further growth and development in the region</p>

# Sparebanken Sør

— A leading financial institution in Southern Norway



Established in 1824,  
532 employees



180 000 retail  
customers



Financial group with  
banking, securities and  
real estate brokerage



22 000 corporate  
customers



Publicly traded and  
community-owned

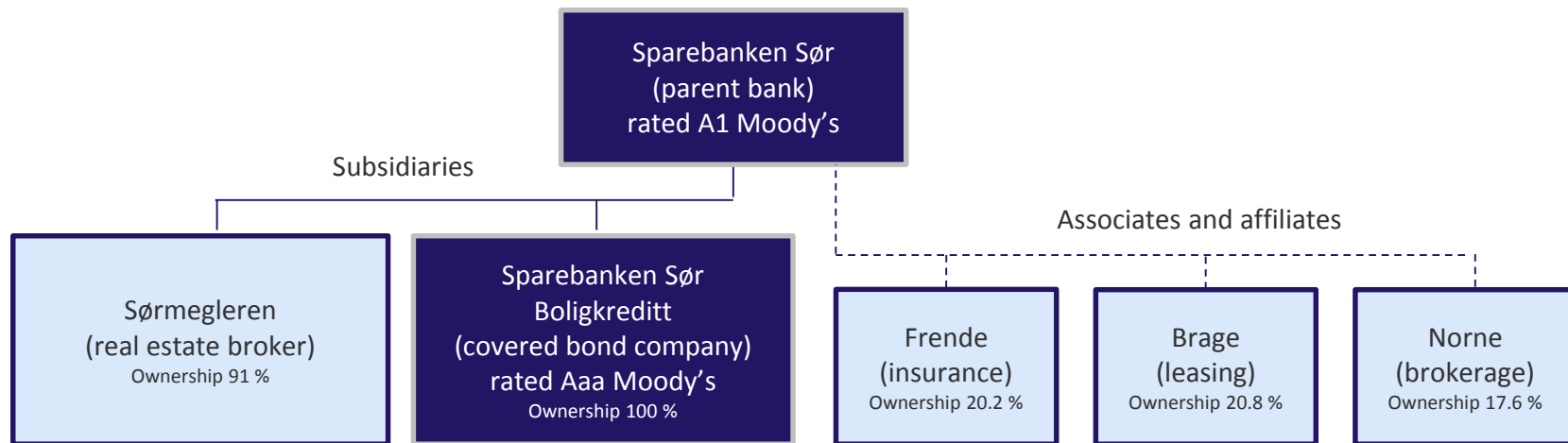


NOK 125.7 bn in total  
assets



*A market with 470 000 inhabitants. No other bank has as high presence in the region as Sparebanken Sør. New locations in Rogaland and Vestfold increase the market potential by 160 000 customers.*

# Company structure



# Well positioned in a region with positive development

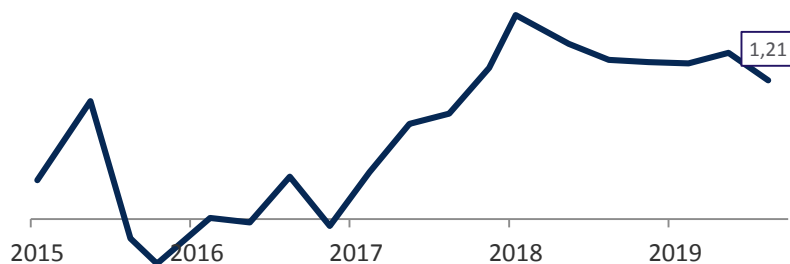
- Positive trend in the labour market
- Rising house prices
- High customer satisfaction
- Strong market position
- Solid loan portfolio
- Increased ownership in associate companies
- Long-term commitment to digitization and data analysis



# Growth in the Southern region

## Increase in production

*Growth last 3 months*



## Increase in investments

*Expected development next 12 months*

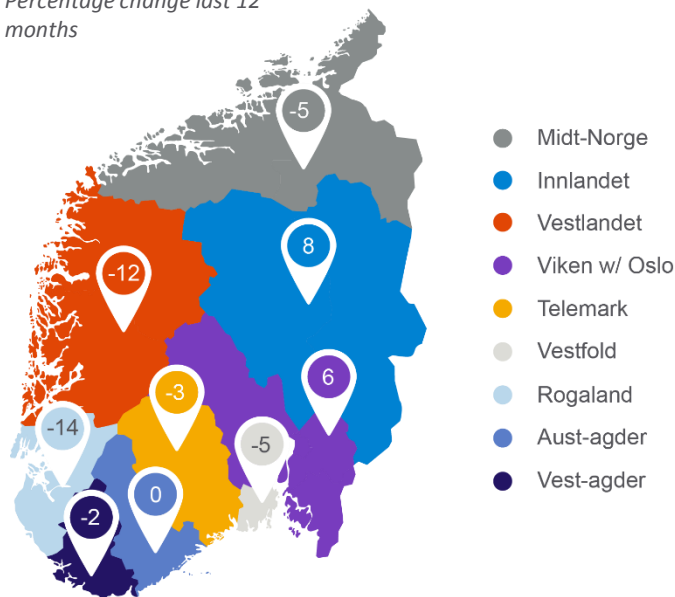


The index ranges from -5 to +5, where -5 indicates a large fall and +5 indicates strong growth. The index is compiled quarterly by Norges Bank through a regional network and shows the development in the Southern region, which consists of Aust-Agder, Vest-Agder, Telemark and Vestfold.

# Reassuring development in the labour market

## Decrease in unemployment

Percentage change last 12 months



## Increase in employment rate

Percentage growth last 3 months



# Strong position in the mortgage market

## Maintaining a strong market position

Percentage market share



**# 1 position in Vest-Agder and Aust-Agder, # 3 position in Telemark. Positive development in Rogaland.**

10

## Positive development in housing prices

Percentage change in prices, last 12 months\*



*\*3 month moving average of 12 month change*

# On the forefront of digital development

# Strategic platform

## Customer relations

### Well positioned towards customers

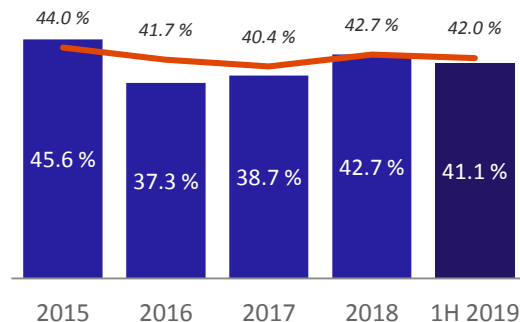
EPSI: Most satisfied corporate customers in 2018, and among the most satisfied retail customers!



## Cost efficiency

### Cost to income ratio

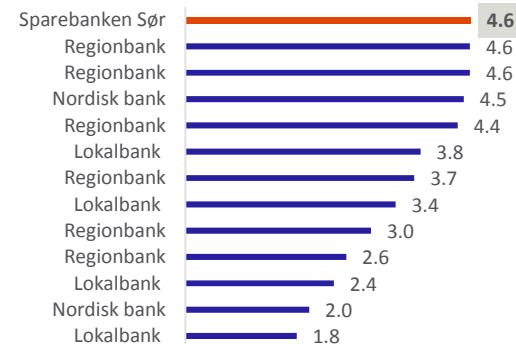
Cost to income ratio excl. financial instruments



## Digitization and channel interaction

### The best mobile banking service in Norway

- The customers have spoken!



Ratings in appstore august 2019

# Streamlining through use of new technology

## Robots

Continuous 2-3 processes  
in development



Over 50 processes in  
production



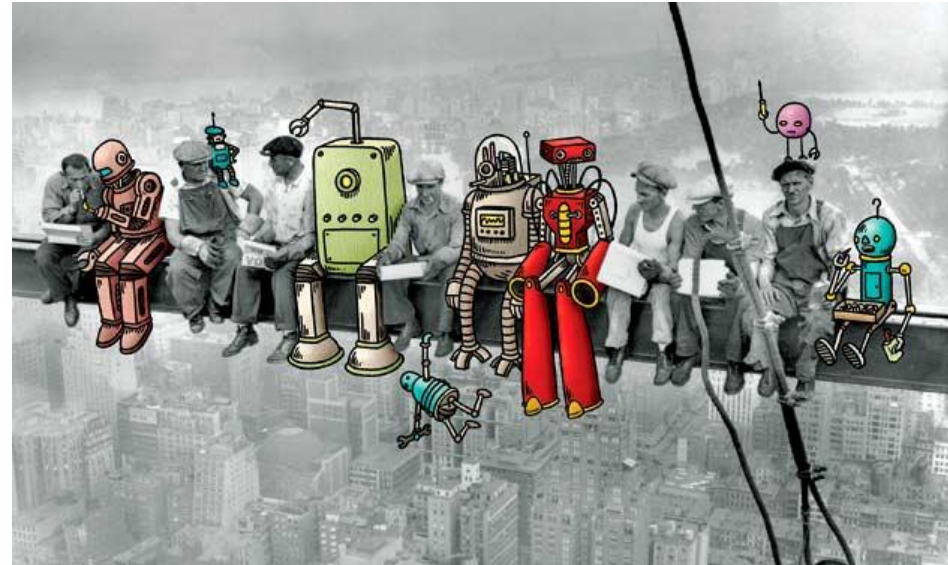
250 000 tasks has been  
done

## CRM

Relevant information at  
the right time  
(analytical CRM)

Promotional measures:  
large scale of  
one-to-one  
communication

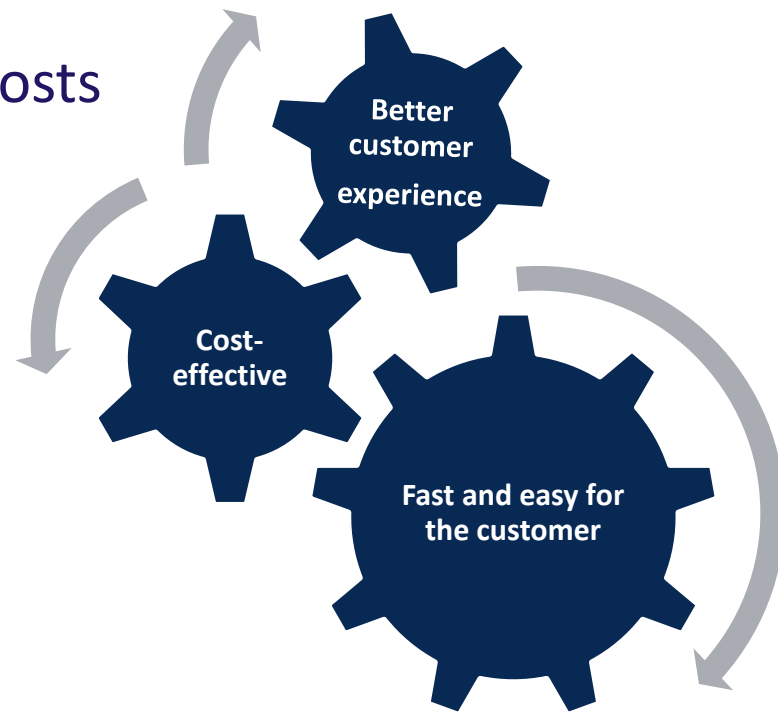
Effective portfolio  
management for bank  
advisers



# Mortgage digitization

- Increased volume without added costs

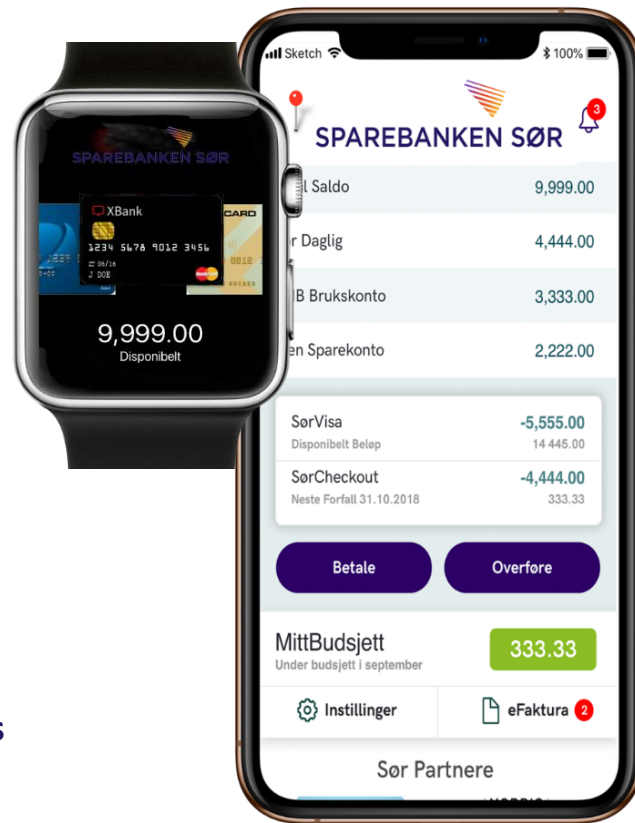
- **60 %** electronically signed
- **100 %** automatic feed of wage and tax data
- **100 %** automatic feed of consumer debt from debt registers



**100 % quality throughout the process**

# The PSD2 legislation came into force 14 September 2019

## - We are well positioned



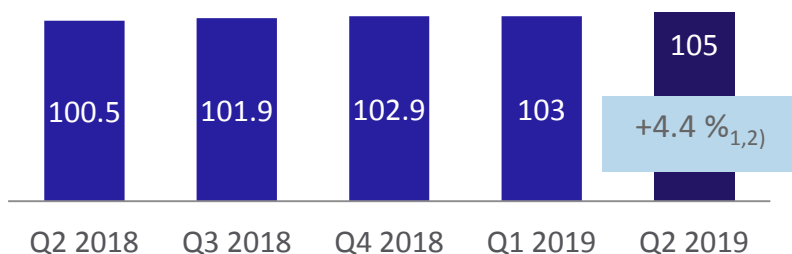
As of August 29th our customers can retrieve accounts from other banks to our online and mobile bank for both retail and corporate markets

# Loan book and asset quality

# Balance sheet

NOK billion

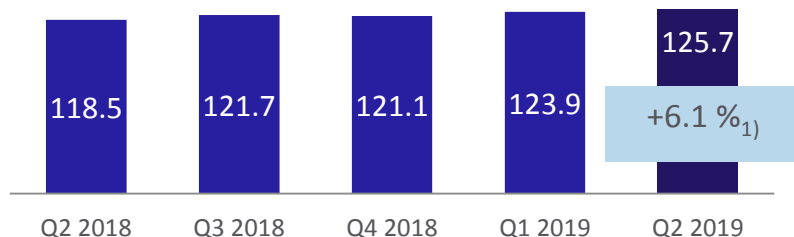
## Net loans



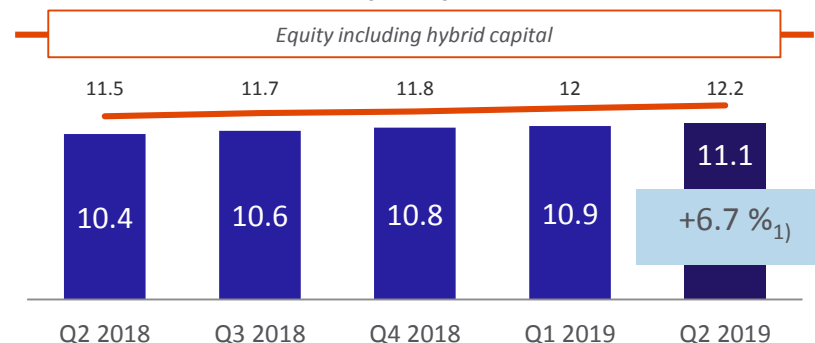
## Deposits



## Total assets



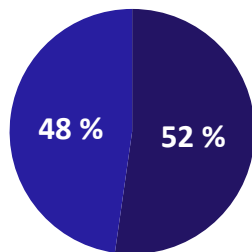
## Equity



- 1) Changes from the corresponding prior-year period
- 2) Loan growth at the end of Q2 2019 amounted to NOK 4.5 billion, equivalent to 4.4 percent, of which retail costumers accounted for 5.8 percent and coroprate costumers 1.3 percent

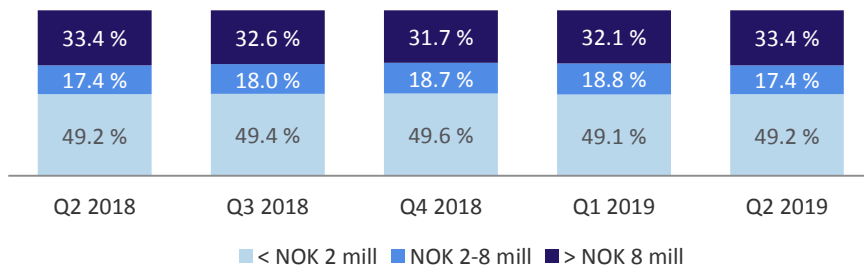
# Deposits

RM/CM distribution



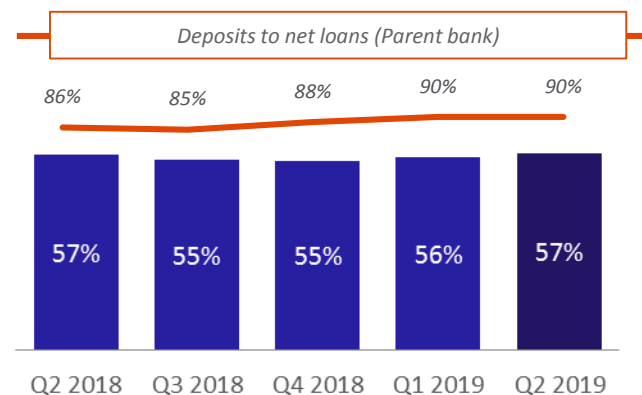
■ CM ■ RM

Deposits distributed by size



■ < NOK 2 mill ■ NOK 2-8 mill ■ > NOK 8 mill

Deposits to net loans(Group)

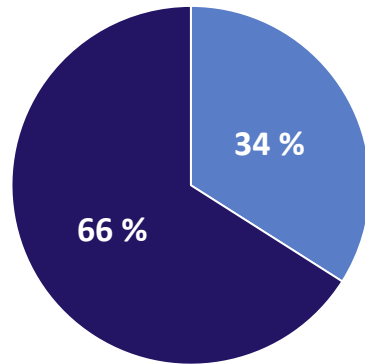


- Stable development in deposits the last 12 months, with a deposit growth of 4.7 percent

# A well diversified loan portfolio

RM / CM distribution

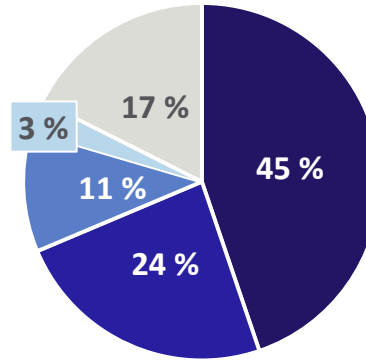
Gross loans



■ CM ■ RM

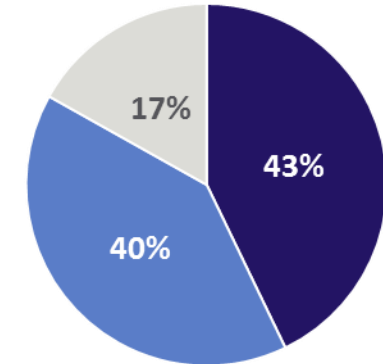
Geographical distribution of loans

Gross loans



■ Vest-Agder ■ Aust-Agder ■ Telemark  
■ Rogaland ■ Others \*

Loan-to-Value (Group)



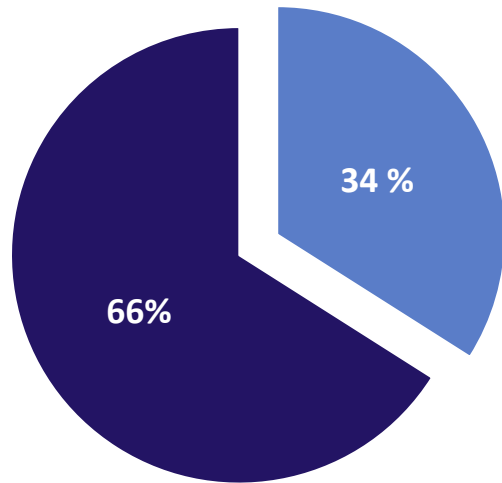
■ < 60 % ■ 60-75 % ■ > 75 %

- Average loan-to-value of approximately 59 percent for mortgages (group).
- 80 percent of mortgages within 75 percent of loan-to-value.
- NOK 38.9 billion transferred to Sparebanken Sør Boligkreditt AS, equivalent to 56 percent of total loans to retail market.
- \* Exposure outside of Agder, Rogaland and Telemark relates to KNIF



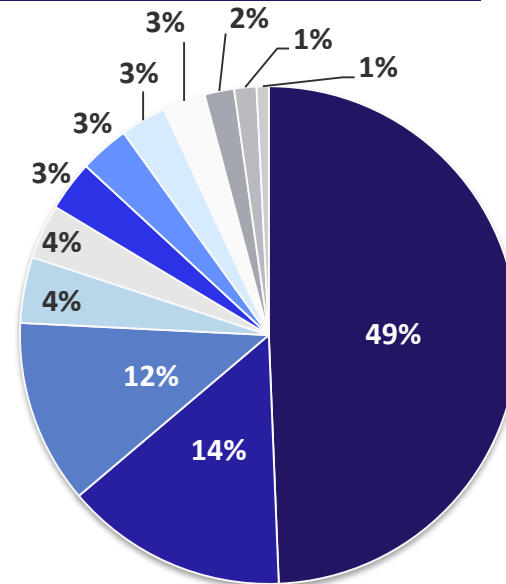
# A well diversified loan portfolio

RM/CM Distribution (Gross Loans)



■ CM ■ RM

Distribution by Sector in CM

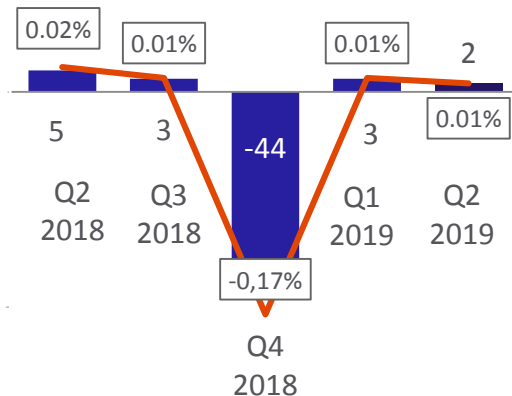


- Property management - 49,1 %
- Social services - 14,4 %
- Real estate development - 11,9 %
- Building and construction industry - 4,3 %
- Housing cooperatives - 3,5 %
- Retail trade - 3,2 %
- Financial/commercial services - 3,2 %
- Primary industry - 3,0 %
- Manufacturing industry - 2,8 %
- Transport - 1,9 %
- Public administration - 1,4 %
- Hotel og restaurant - 0,8 %

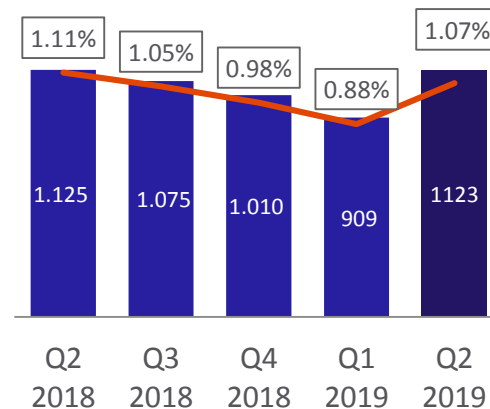
*Reflects the corporate market activities in the region, and the bank's low exposure to the oil and shipping sector*

# Positive development in non-performing loans

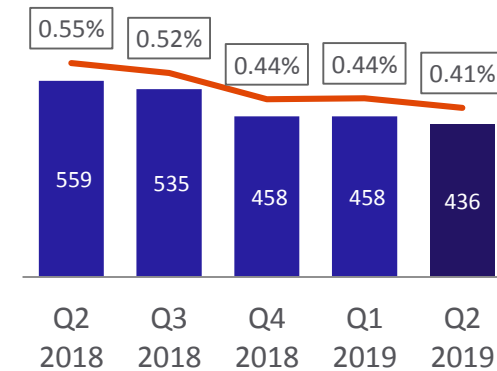
Development in losses in NOK million and as a percentage of gross loans (annualised)



Development in non-performing loans (IFRS 9 stage 3) in NOK million and as a percentage of gross loans



Development in loss provisions in NOK million and as a percentage of gross loans<sup>1)</sup>

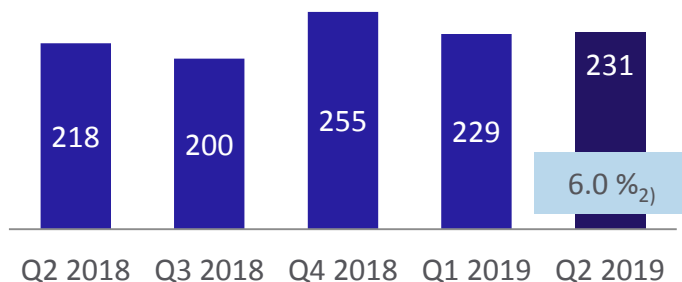


1) As of 1 January 2018, the Group implemented a new model for calculating expected losses on loans according to the new IFRS 9 standard, which replaced IAS 39.

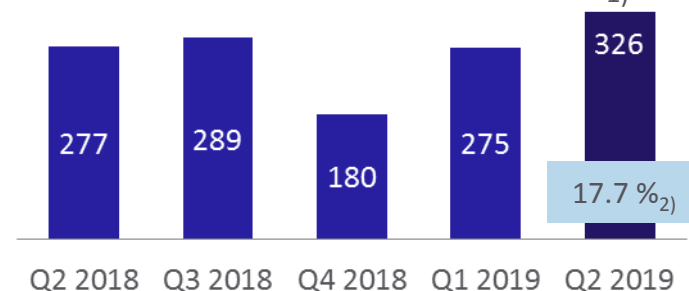
# Profits and return

NOK million

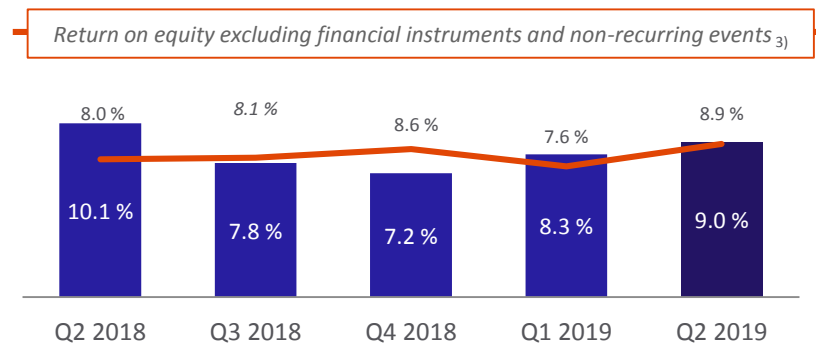
## Operating expenses



## Profit from ordinary operations<sub>1)</sub>



## Return on equity



- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating expenses, adjusted for the conversion of the pension scheme
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments, interest on hybrid capital, revaluation of Balder Betaling/Vipps and conversion of the pension scheme

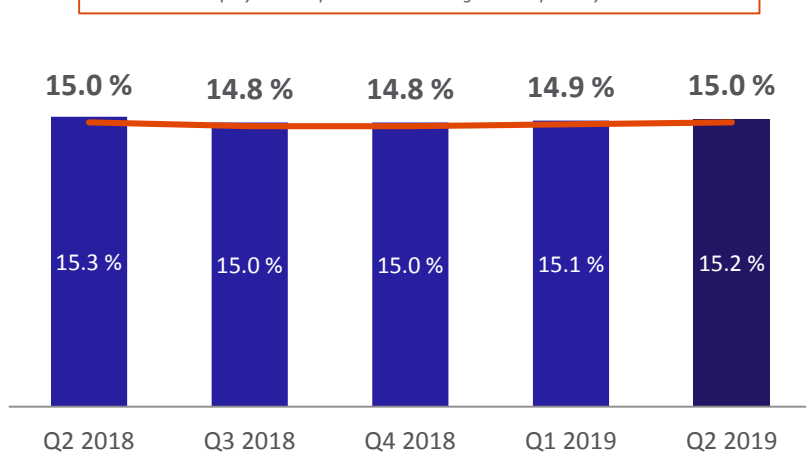
# Capital position

# Capital adequacy

## - With a high leverage ratio

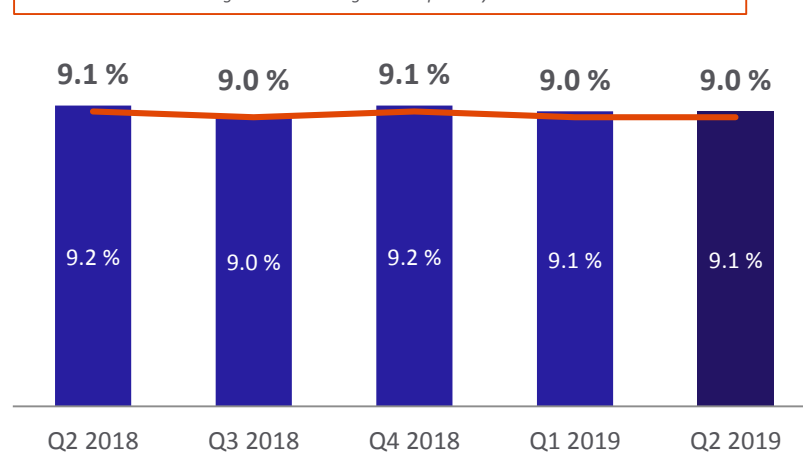
### Common equity tier 1 capital ratio

Common equity tier 1 capital ratio with Brage Finans partially consolidated



### Leverage ratio

Leverage ratio with Brage Finans partially consolidated

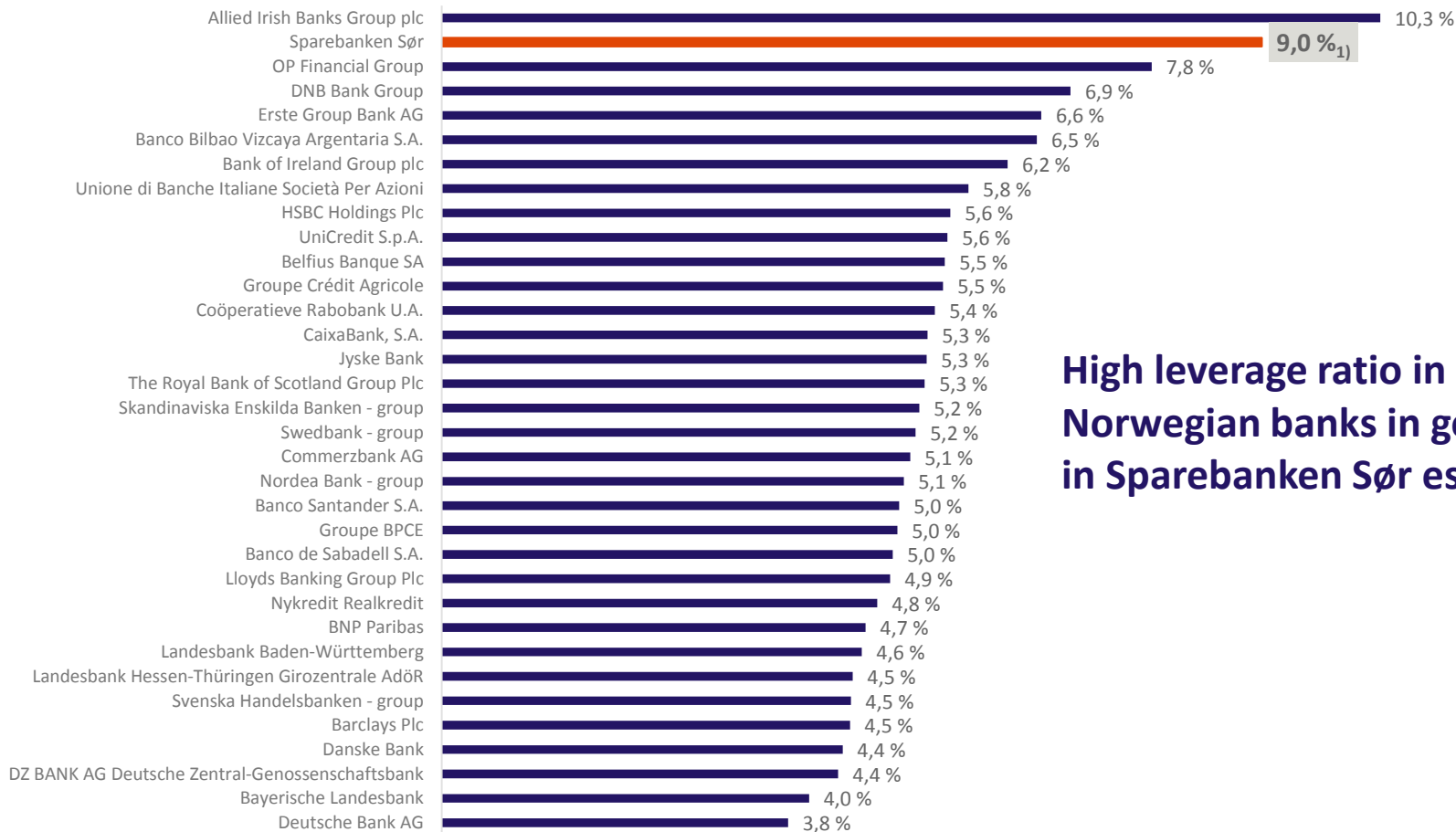


# Capital strategy

## - Transition into IRB

- IRB is expected to have positive effects
- Sør has a loan portfolio of high quality
- Leverage Ratio significantly higher than peers
- Some effects are expected to occur after the transition to IRB-F, and additional effects are expected with IRB-A

	Method for calculating RWA	CET1	Leverage Ratio
<b>Sør</b>	<b>Standard</b>	<b>14.9</b>	<b>9.0</b>
Regionbank 1	IRB	14.4	7.6
Regionbank 2	IRB	15.3	7.6
Regionbank 3	IRB	15	7.5
Regionbank 4	IRB	16.7	7.3
Regionbank 5	IRB	14.7	7.0



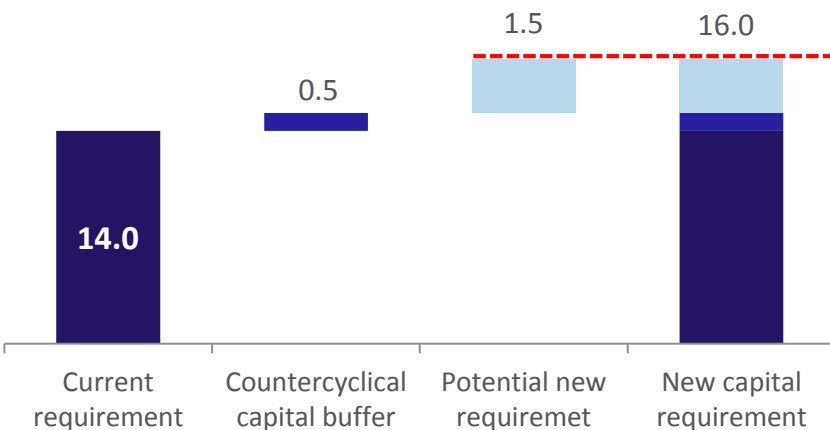
**High leverage ratio in  
Norwegian banks in general and  
in Sparebanken Sør especially**

The chart shows leverage ratio for selected European banks, as at 31.12.2017

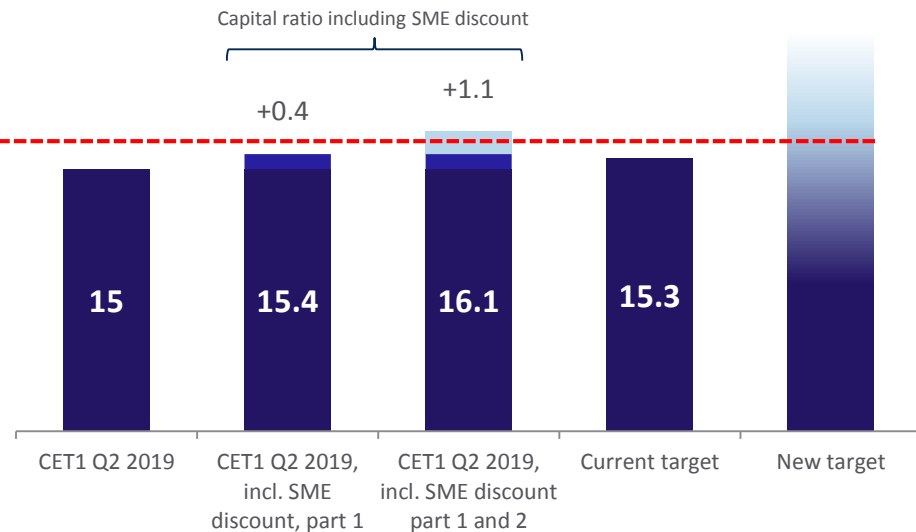
1) Sparebanken Sør, leverage ratio as at Q3 2019

# Further tightening of Norwegian regulatory requirements

## Capital requirements



## Capital ratios and targets



1) Increase of 0.5 percent as of 31 dec. 2019, decided in dec. 2019 by the Norwegian Ministry of Finance.

2) The Norwegian Ministry of Finance has suggested an increase of 1.5 percent in the systemic risk buffer requirement from 2019 to 2021.

3) The SMB discount is estimated to approx. 1.1 percent, whereof approx. 0.4 percent is expected in 2019.

# Minimum Requirement for own funds and Eligible Liabilities (MREL)

- **The Bank Recovery and Resolution Directive (BRRD)**
  - Implemented as of 1 January 2019.
  - The affected entities are expected to be compliant with MREL as of 31 December 2022
  - New requirements for convertible/repayable debt (Tier 3)
- **Requirements for MREL capital will be determined on an individual basis**
  - The largest and most complex banks will be assessed first (during 2019)
  - As at 30.09.19, Norwegian banks are yet to receive further information on the implementation of MREL capital



# Sparebanken Sør Boligkreditt AS

# Sparebanken Sør Boligkreditt AS

## **Mother company 100% owner**

A dedicated and integrated covered bond company, wholly owned by Sparebanken Sør

## **Dual recourse**

CB investors and derivative CPs have an exclusive, equal and preferential claim on the assets in the cover pool. Claims not covered by cover pool assets are unsecured claims ranking pari passu with all other unsecured unsubordinated claims against the issuer

## **Transfer of loans**

Loans are originated by the bank and transferred to the CB company.

## **Revolving credit & overdraft facility**

Sparebanken Sør Boligkreditt AS has established a revolving credit facility with Sparebanken Sør, which covers refinancing risk. Overdraft facility with the bank is in place to handle daily operations.

## **Norwegian residential**

The cover pool consists of prime Norwegian residential assets (92.0 %) and substitute assets (LCR-compliant interest bearing securities). Cover pool exposure towards Southern Norway where price development is rather stable.

## **No non-performing assets**

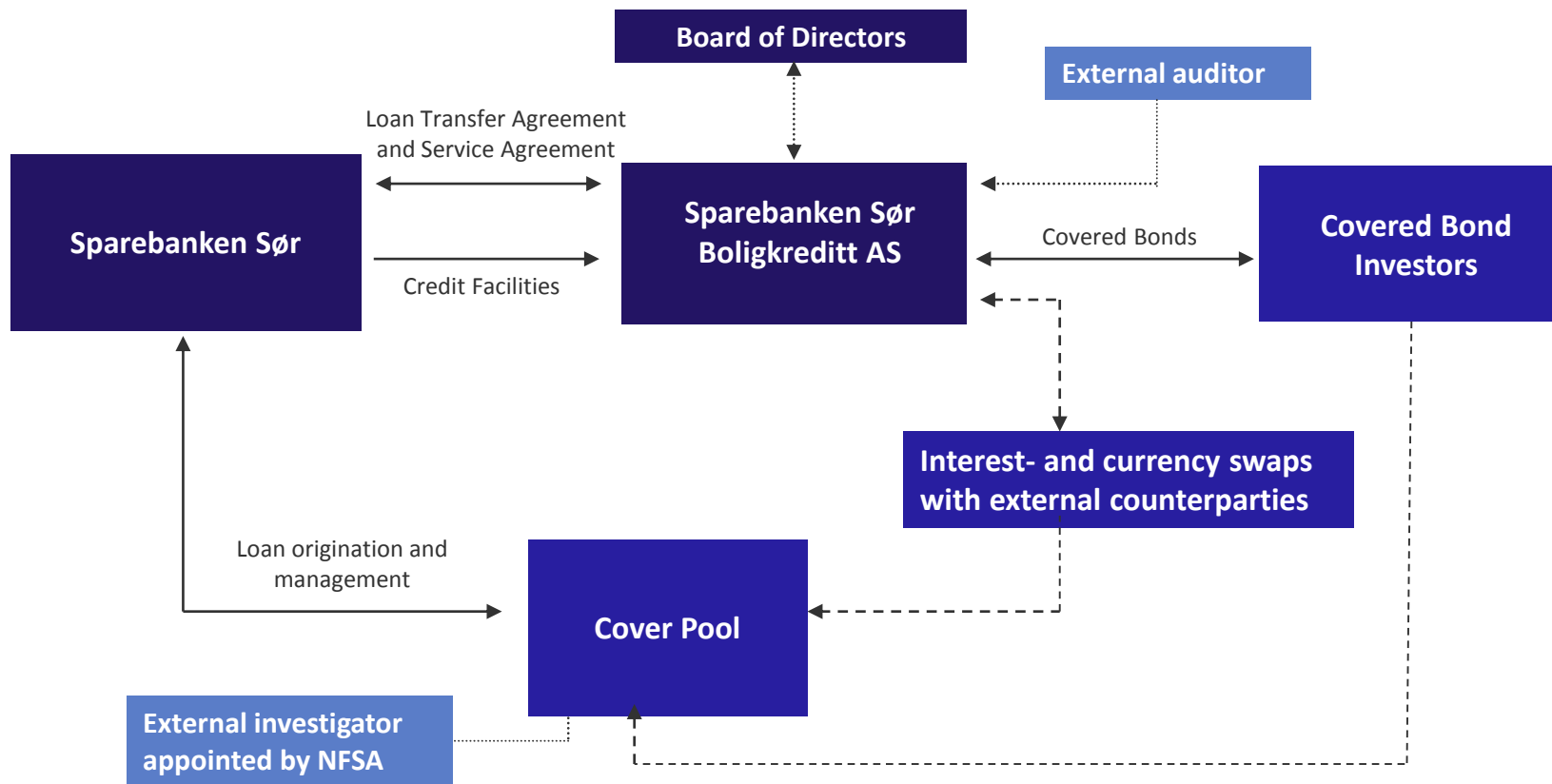
No non-performing assets in the cover pool

## **Moody's Aaa**

Covered Bonds rated Aaa by Moody's – four notches TPI leeway

# Business concept

## - Governed by Norwegian Covered Bond Legislation



# Eligibility criteria for cover pool mortgages

## Type of properties

- Residential Norwegian properties
- Limited volumes of buy to let

## Type of products

- Mortgages with floating or fixed interest rates – p.t. only floating interest rate
- Serial, annuity or non-amortizing loans

## Credit criteria

- No arrears
- Borrowers probability of default  $\leq 2\%$

## Collateral

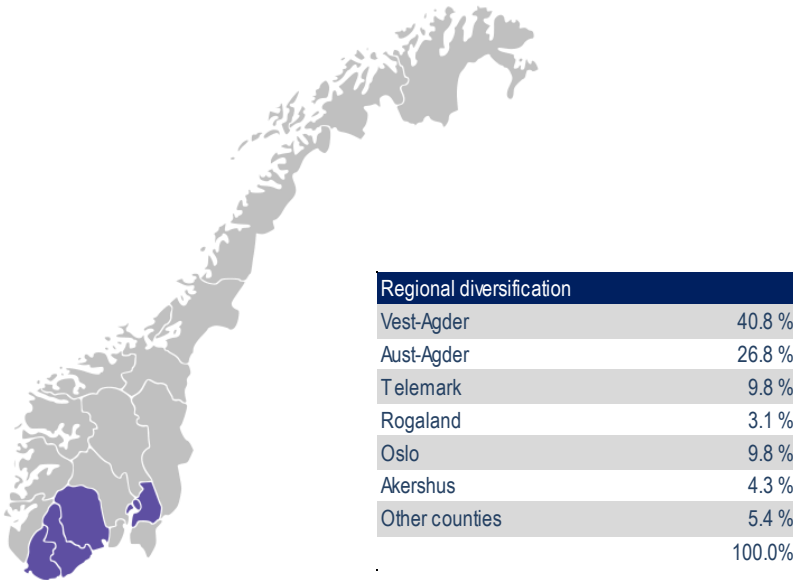
- LTV limit of 75 % for residential mortgages
- Quarterly verification from an independent third party (Eiendomsverdi)
- Annually external investigation

## Loan volume

- Maximum loan per borrower of 12 MNOK (EUR 1.3mn)

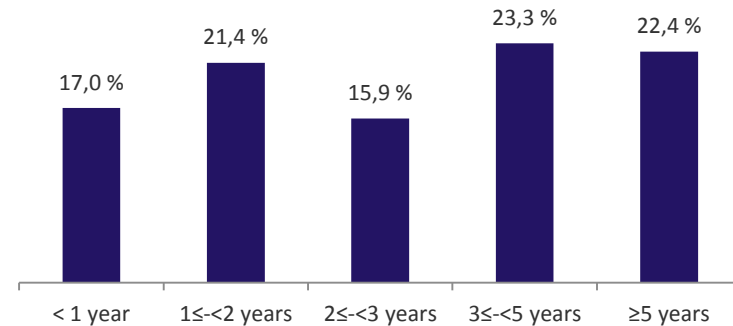
# Mortgage loans in the cover pool

Cover pool geographic split



- The cover pool is primarily exposed towards Vest-Agder and Aust-Agder and secondly to Telemark and Oslo
- Property price development in Vest-Agder and Aust-Agder has been modest compared to other Norwegian counties

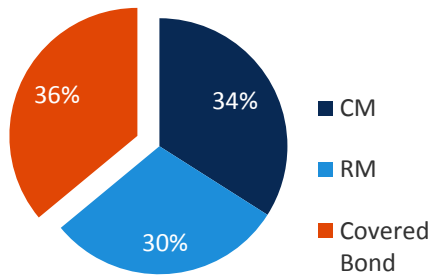
Seasoning of mortgages in the cover pool (in % of total loan balance)



- Weighted average seasoning is 3.5 years
- The cover pool is stable, as 83.0 % of mortgages has been included in the cover pool for at least 1 year

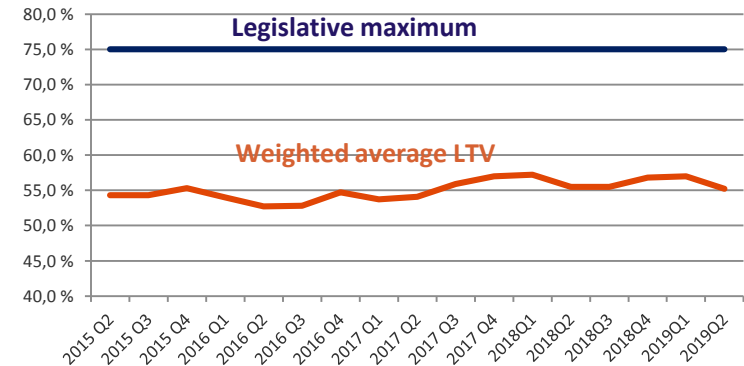
# Mortgage loans in the cover pool

Sparebanken Sør (Group) total loan portfolio

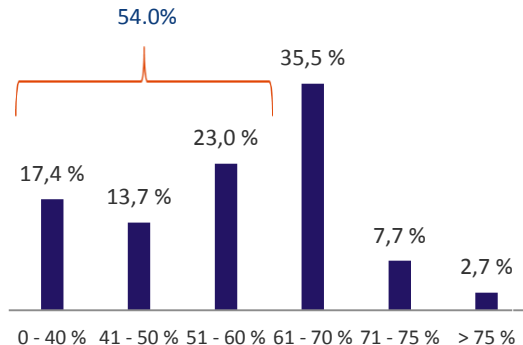


- Loans transferred to Sparebanken Sør Boligkreditt AS account for 36 % of Sparebanken Sør's total loan portfolio

Historical development in weighted average indexed LTV



Current indexed LTV distribution



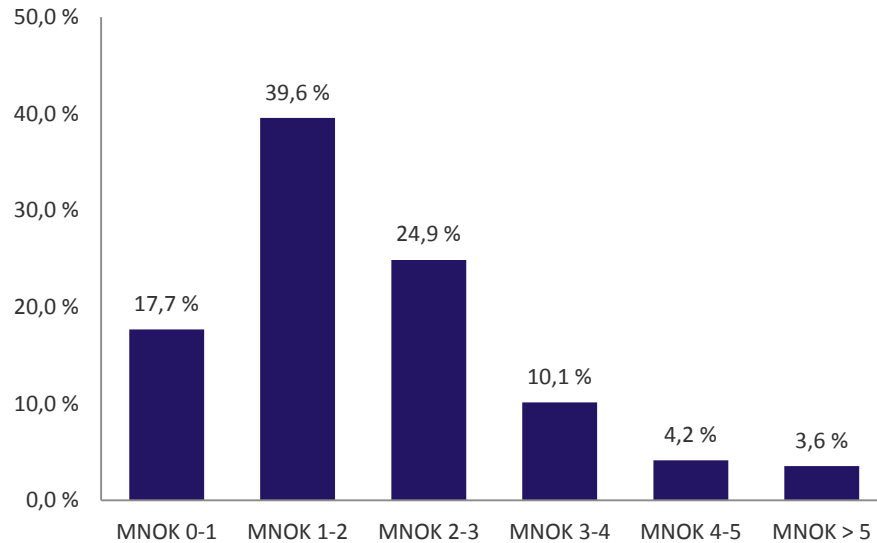
- The weighted average LTV is 55.2 % on an indexed basis
- 54.0 % of the cover pool has a LTV below 60%

- On a historical level the weighted average LTV is well below the legislative maximum of 75 % for residential mortgages

Legislative maximum

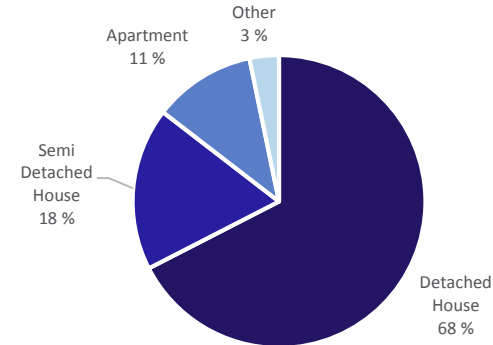
# Mortgage loans in the cover pool

Pool notional

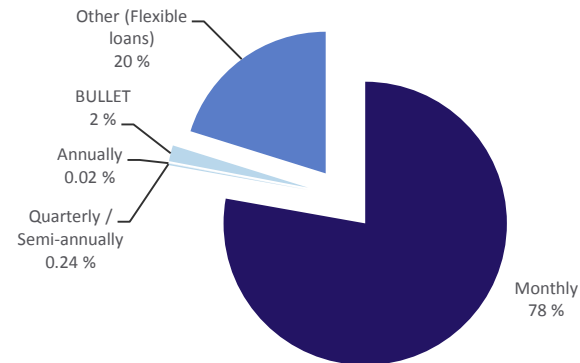


- Average loan value of NOK 1.25mn

Property type



Principal payment frequency



## The Norwegian Residential Mortgage Market

- Nearly 80 % of Norwegians own their home
  - Few mortgages are buy-to-let
- Norway is primarily a floating interest rate market
  - The large majority of mortgages originated by Sparebanken Sør are floating rate
  - Rates on floating rate mortgages can be reset at any time and the bank's own discretion, by giving debtors six weeks' notice
- Loans are normally underwritten with a term of 15-25 years
- In Norway, all borrowing costs are deductible from taxable income
  - Households are therefore better able to withstand an increase in interest rates

## Mortgage lending regulation

- Tightened regulation from January 2017 has impacted house price growth

- Max 5x gross income
- Max 85 % LTV
  - 60 % for secondary home in Oslo
- Debt servicing capacity
  - 5 percentage points interest rate increase
- Amortization requirement above 60 % LTV
  - 2.5 % of approved loan or principal payment as for 30 year annuity
- Banks have some flexibility
  - Banks can deviate in 10 % of mortgage applications each quarter
  - In Oslo this flexibility is limited to 8 %

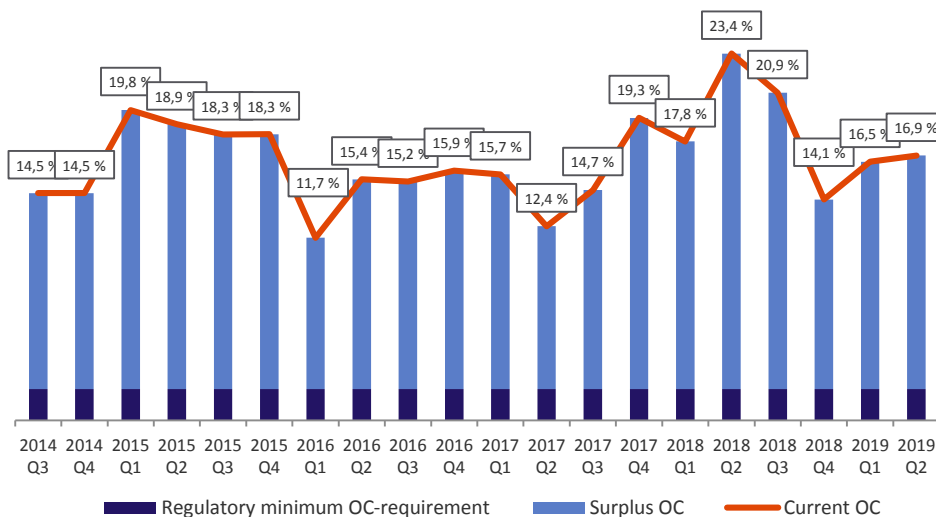
# Cover pool characteristics

Regulatory minimum OC-requirement: 2.0 %

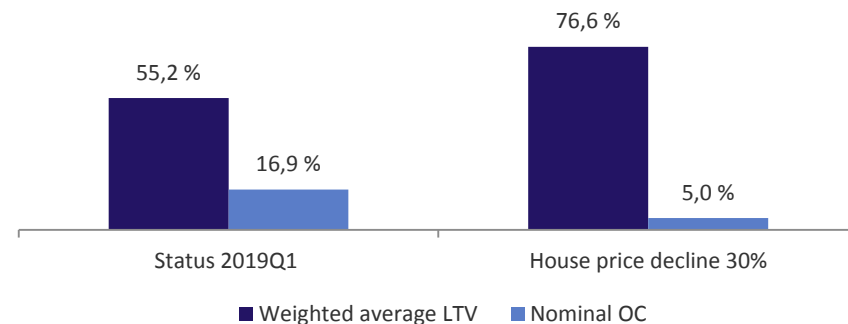


Strong current OC: 16.9 %

Historical development Over Collateralisation



Stress test of the cover pool



# Cover pool details as at 30.06.2019

## Composition and OC

	Fair value
Loans secured by mortgages on residential properties	38 276 640
Deductions of ineligible loans	-51 334
Pool of eligible loans	38 225 306
Certificates and bonds (Substitute assets)	2 968 092
Financial derivatives	347 513
<b>Total cover pool</b>	<b>41 540 911</b>
<b>Debt incurred due to issuance of securities</b>	<b>35 844 688</b>
<b>Collateralisation ratio (OC)</b>	<b>15.9 %</b>
	Nominal value
<b>OC based on nominal value – eligibles only</b>	<b>16.9 %</b>
<b>OC bases on nominal value – total loans</b>	<b>17.1 %</b>

## Additional details

<b>Average LOAN BALANCE</b>	1 252 451
<b>NO. OF LOANS</b>	30 538
<b>WA SEASONING (in months)</b>	42
<b>WA REMAINING TERM (in months)</b>	241
<b>NO. OF BORROWERS</b>	26 953
<b>NO. OF PROPERTIES</b>	30 358
<b>WA Indexed LTV (LOAN BALANCE/INDEXED valuation) (e.g. 85% or 0.85)</b>	55.2 %
<b>WA LTV (LOAN BALANCE/original valuation)(e.g. 85% or 0.85)</b>	60.9 %
<b>Percentage of VARIABLE MORTGAGES</b>	92.0 %
<b>Loans in arrears &gt; 90 days (e.g. 1% or 0.01)</b>	0.0 %
<b>Committed Over Collateralisation (OC):</b>	2.0 %

# Risk management

## Liquidity risk

- Payment flow from the cover pool is to meet the payment obligations to the covered bond holders and derivative counterparties
- Liquidity buffers in place (LCR, 180 days buffer)
- Revolving credit facility in place with the parent bank
- Soft bullet structure on all covered bonds issued

## Interest rate risk

- Interest rate risk measured on a 2 basis points parallel shift in the interest rate curve, alternatively including the effects of non parallel shifts
- Should not exceed NOK 100 million
- Currently only floating rate loans and floating funding base incl. swaps

## Market risk

- FX risk is fully hedged
- Long term FX funding is swapped into NOK
- Derivative contracts with external counterparties
- No investments/placements in “risky” assets; Norwegian government or high quality fixed income securities (currently only rated Norwegian covered bonds)

## RISK-WEIGHTING & COMPLIANCE WITH EUROPEAN LEGISLATION

- The legislation fulfils and is in compliance with the relevant EU legislation, i.e. the Capital Requirements Regulation (CRR) and in particular Article 52 (4) UCITS
- Norwegian covered bonds are eligible for reduced (10%) risk-weighting under the standard method for capital adequacy requirement
- They are also eligible as collateral in the ECB and qualify as liquid assets under the Liquidity Coverage Ratio (LCR) given fulfilment of the specific criteria defined in the Delegated Act
- <http://www.ecbc.eu/uploads/attachements/75/64/Norway%202018.pdf>

## Information on the cover pool

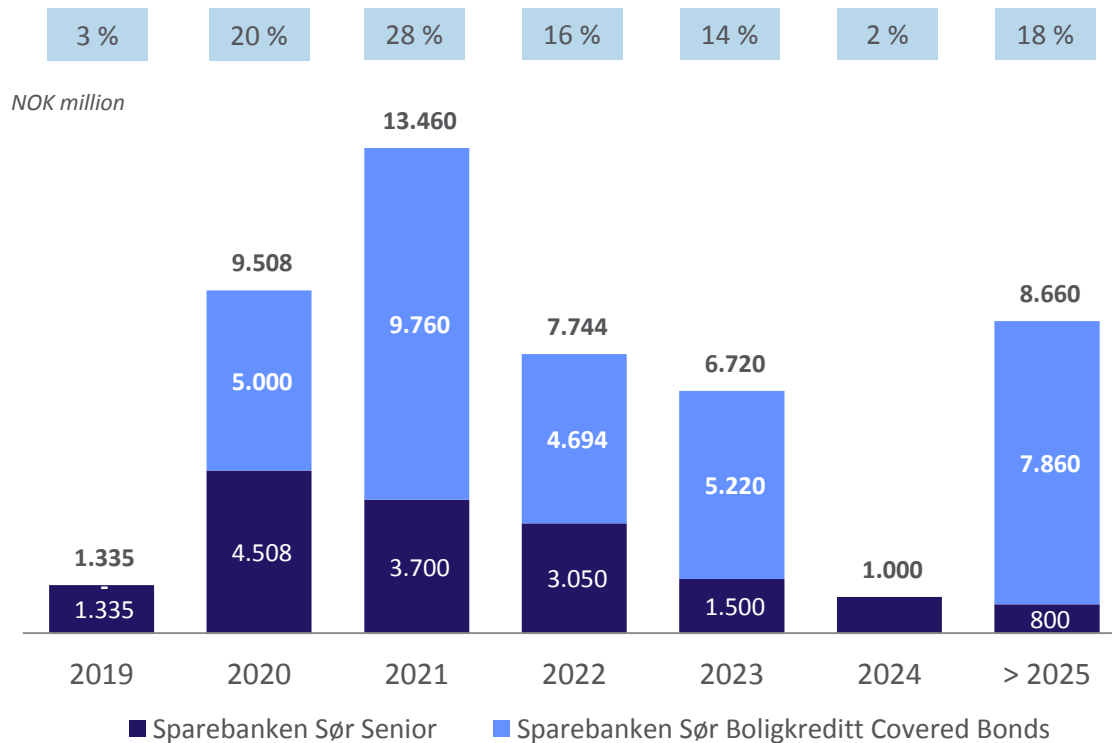
Sparebanken Sør has implemented the common **Harmonised Transparency Template** of the European Covered Bond Council

Information about the cover pool of SSBK may be accessed via:

<https://www.sor.no/felles/om-sparebanken-sor/sparebanken-sor-boligkreditt/cover-pool-information/>



# Funding maturity as at 30.06.2019

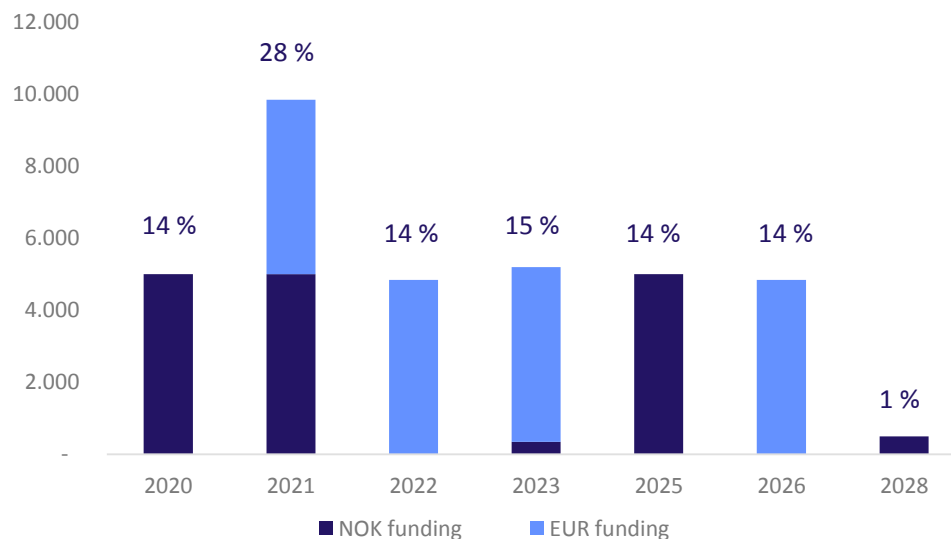


- The Group's total funding amounted to NOK 49.2 billion
- Covered bonds amounted to NOK 38.2 billion, of which NOK 2.5 billion was owned by the parent company
- Long-term funding\* amounted to 83 percent
- Average remaining maturity on long-term funding \* amounted to 3.7 years
- LCR Group 146 %
- NSFR Group 118.5 %

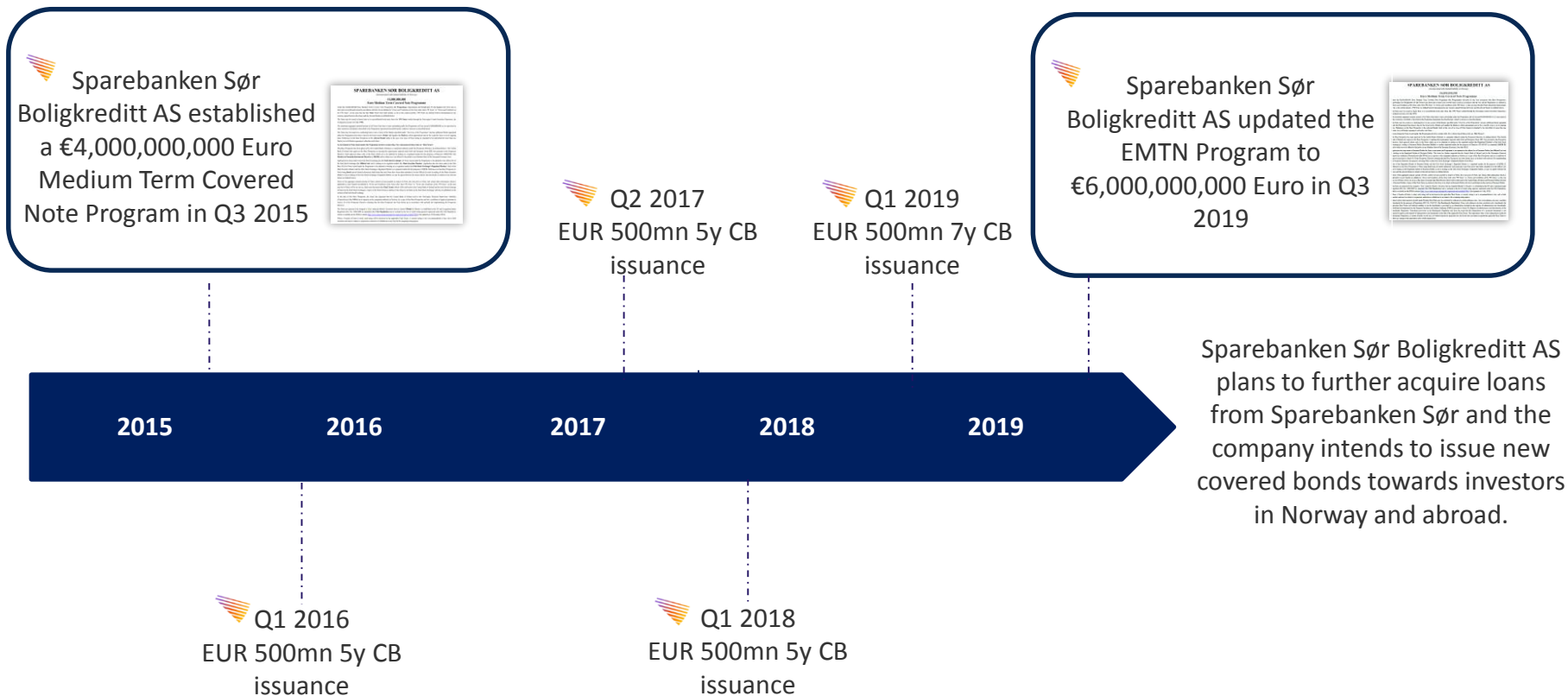
# Outstanding Covered Bonds as at 30.06.2019

Annual maturity of wholesale funding

- Total funding amounts to NOK 35.8bn in issued covered bonds
- The company has a diversified maturity profile
- Funding > 12 months totalled 85.8 %
- Soft bullet structure on all outstanding bonds
- Euro funding swapped back into NOK 3 months NIBOR



# History of the EMTN CB Programme

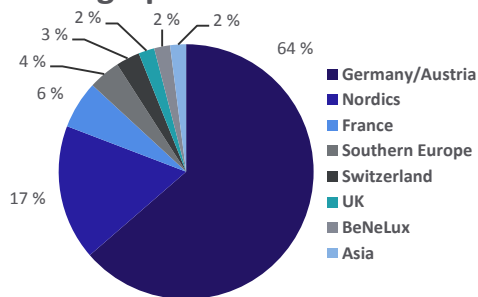


# Diversified funding

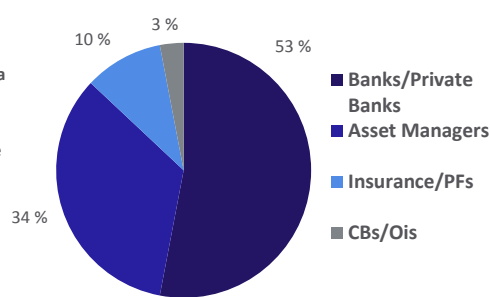
- An established issuer in the Euro Market

Successful issuance in February 2019  
for Sparebanken Sør Boligkreditt:

Geographic distribution



Investor distribution



Green & Sustainability Bond Framework  
established autumn 2019



# Environmental, Social and Governance & Sustainability at Sparebanken Sør

# Building blocks of Sparebanken Sør's ESG policy



# Sparebanken Sør ESG Guidelines



## Corporate Social Responsibility Policy

- Contribute to sustainable climate and environmental development
- Contribute to human rights and social equality
- ESG policy has been ratified by the Board of directors and is reported on regular basis
- Reporting standards secures transparency



## Equality and working in Sparebanken Sør

- Sparebanken Sør emphasize high importance to equality and diversity
- In spring 2018, Sparebanken Sør was the first Norwegian bank to be certified in the fields of equality and diversity



## Sustainable Credit Guidelines

- Strong commitment to contribute to social and industrial development
- Strong commitment to contribute and give impact on the local environment and community
- Rules of awareness and self imposed limits



## Anti Money Laundering & Anti Terrorist Financing

- Sparebanken Sør has established a detailed framework to detect and prevent unwanted activity from customers and suppliers
- AML guidelines are carefully managed in all business activities and supervised by compliance



## Ethics Guidelines

- We aim to communicate truthfully and transparently about our products & services
- Sparebanken Sør business is dependent on the trust from customers, the public, authorities and society as a whole



## Corporate Governance

- Safeguards value creation & protect all business activities from deviations from Guidelines and rule sets
- Safeguards rules of equality among stakeholders

# Sparebanken Sør Environmental Actions

*Protecting the environment is becoming increasingly important for Sparebanken Sør*

Establishing a **Green & Sustainable Bond Framework** is the first step to include covered bond funding in Sør's overall ESG approach.

Sparebanken Sør has launched **Green mortgages**. This sustainability approach applies to **saving products** as well. The portfolio managers of the funds we offer to our customers are members of NORSIF.

We encourage awareness and transparency. Sparebanken Sør reports on sustainable development and corporate social responsibility in the Annual report. **Climate report on the organization's greenhouse gas emission is available.**

Sparebanken Sør has made a strategic choice to **stay out of the oil and gas sector** and has **no exposure** to the oil and gas sector in respect of CO<sub>2</sub>/GHG emissions (GHG protocol).

Received **CEMASys Climate Certificate™** due to purchased carbon credits for voluntary offsets of own greenhouse gas emissions (total amount of 222 tones CO<sub>2</sub>e)

Office in **Arendal** is **certificated as "Eco lighthouse"**. In a process to get our head office in Kristiansand certified as "Eco Lighthouse".



# Sparebanken Sør Sustainable Credit Guidelines

*“For Sparebanken Sør Corporate Social Responsibility is a question of taking shared responsibility for the sustainable economic, social and environmental development of the regions where the Group operates.*

*The policy is intended to support employees and managers in their strategic decisions and day-to-day work and should be viewed in the context of the bank’s Code of Conduct and other internal governing documents.*

*The policy and associated guidelines apply to all Sparebanken Sør’s activities, regardless of market, geographical location or customer group.”*



## Awareness

**Particular awareness needs to be shown in respect of credit applications to following industries:**

- ✓ Agriculture and forestry
- ✓ Fisheries
- ✓ Industrials
- ✓ Energy
- ✓ Transport
- ✓ Real Estate

## Restriction

**The bank has set self-imposed restrictions and it is not desirable to give credit to in the following industries:**

- ✓ Pornography
- ✓ Weapons production and ammunition manufacturers/suppliers without government approval
- ✓ Tobacco

## Credit Strategy

**In addition the bank has set a strategy to stay out of the following industries:**

- ✓ Oil & Gas
- ✓ Shipping

# Sparebanken Sør Societal Engagement

*Sparebanken Sør actively contributes to the development of the society and the local community*



Sponsorships



Prizes



Crowd-funding



Scholarships

Sparebanken Sør wants to be a **responsible and enthusiastic contributor to the society**:

- The bank **supports projects in culture, sports and other areas** that help create a good atmosphere in our communities.
- The bank has an agreement with **KNIF** which enables contribution to social responsibility: by funding schools, healthcare and aid organizations



# Sparebanken Sør Sustainable Banking Products

*Sparebanken Sør's strong commitment towards sustainability is also proven by our Green Mortgage product*

## GREEN MORTGAGES

### What is a green mortgage?

- We offer green mortgages on mortgages secured by energy efficient housing with favorable loan interest.

### How does your house qualify for a green mortgage?

- Your home must have energy class A or B, or be built after 2012.

### What does it mean that the home has energy class A or B?

- Energy class A means that the dwelling has a heat pump or solar energy. In addition, it has better insulation in windows and walls. A passive house is also within energy class A
- Energy class B is a property with a heat pump or solar energy with highly insulated walls and windows

### Example of how a green mortgage works

Desired loan amount	<input type="text" value="2 000 000"/>	£
Desired downtime	<input type="text" value="25"/>	year
Lending rates	<input type="text" value="2,90"/>	%
	Rated Interest ?	

**To pay per month.**

**kr. 9 423**

Loan cost after tax: **kr. 8 372**

Effective interest rate: **2.98 %** ?

[Search with BankID](#)



### Benefits of a green mortgage

- The bank's best rate from 2.90%
- Loans up to 85% of the value of the home
- Also applies when refinancing or increasing the mortgage
- New product as of March 2019
- Volume of Green Mortgages as of 30.09.19 is approx. 680 million NOK

# Green & Sustainability Bond Framework

Sparebanken Sør & Sparebanken Sør Boligkreditt AS

# Green & Sustainability Bond Framework Overview

## Use of Proceeds

### Green Covered Bonds

- Green residential buildings

### Sustainability Senior Bonds

- Green commercial buildings
- Access to essential services

Aligned with the draft EU taxonomy



## Project Evaluation & Selection

The Green and Sustainability Bond Committee evaluate and selects loans based on compliance with the eligibility criteria



## Management of Proceeds

The green and sustainability bond proceeds will be managed by a **portfolio approach**



## Reporting

### Portfolio based reporting:

- Allocation reporting
- Impact reporting (aligned with ICMA)



## External Review

**Second party opinion** provided by Sustainalytics

**The framework is certified by CBI**

**Verification** on annual basis of proceeds allocation from external auditor



# Use of Proceeds: Green Covered Bond

## Sparebanken Sør Boligkreditt

### Green Covered Bond

#### Eligible green residential buildings



#### Criterion 1: New & existing residential buildings (built from 2009)\*

- Top 15% most energy efficient apartments (TEK10 & TEK17) & residential dwellings (TEK07, TEK10 & TEK17)

#### Criterion 2: Existing residential buildings (built before 2009)\*

- Top 15% most energy efficient apartments & residential dwellings with EPC-labels A, B & C

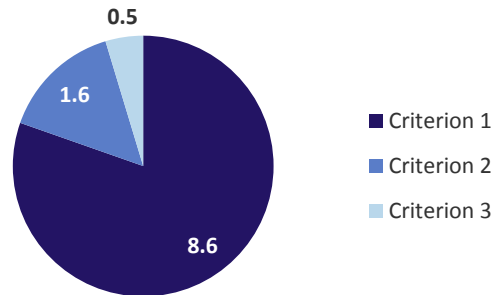
#### Criterion 3: Refurbished residential buildings

- ≥30% improvements in energy efficiency
- 2 step improvement in EPC label. Only labels of 'D' or better will be considered.

### Eligible Residential Green Buildings within Cover Pool

Eligible Project Category	Eligible portfolio	Share of Total Financing	Eligibility for Green Bonds	Reduced energy compared to baseline	Reduced CO2-emissions compared to baseline
Green Residential Buildings	~11NOKbn	100%	100%	118 GWh/year	14,400 tons CO2/year

### Green Loan Book (NOKbn): top 15% energy efficient residential mortgages, mostly in Southern Norway



Eiendomsverdi®

Multiconsult



# Use of Proceeds: Sustainability Senior Bond

Sparebanken Sør

## Sustainability Senior Bond

### Green commercial buildings



#### Criterion 1: New or existing commercial buildings\*

- Top 15% most energy efficient buildings

#### Criterion 2: New, existing or refurbished commercial buildings

- LEED "Gold", BREEAM or BREEAM-NOR "Excellent" (or equivalent or higher level of certification), Nordic Swan Ecolabel

#### Criterion 3: Refurbished commercial buildings

- ≥30% improvements in energy efficiency
- 2 step improvement in EPC label

### Access to essential services



#### Healthcare and social care:

- Activities that support public/free/subsidised health and social

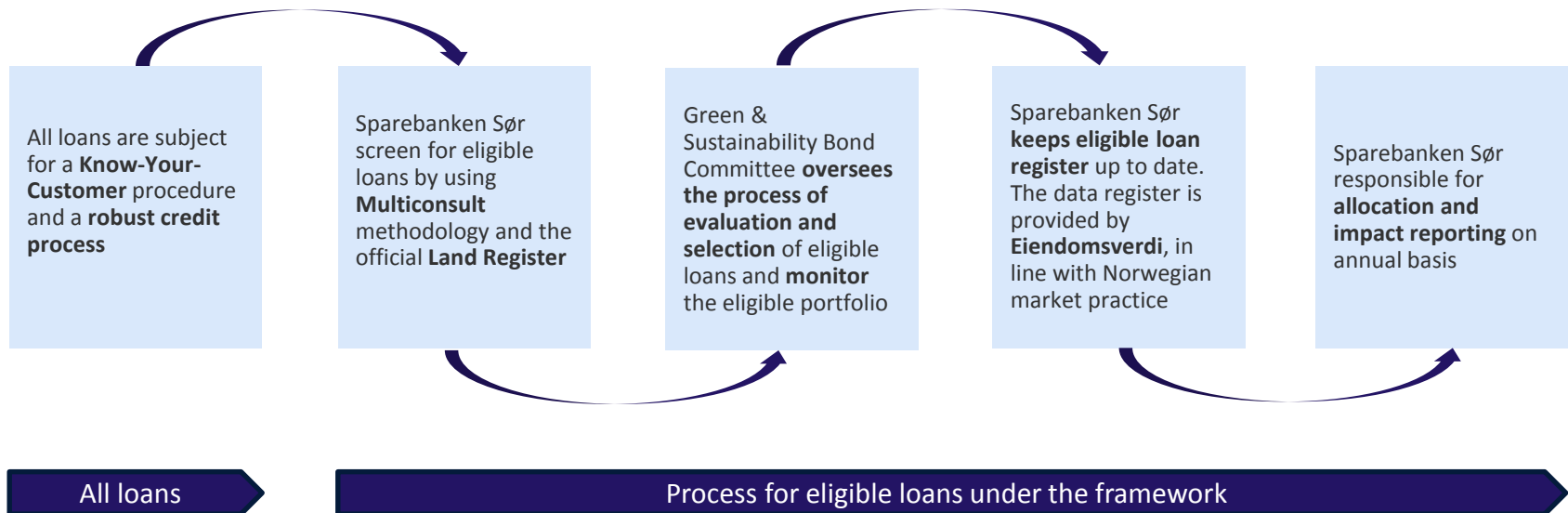
#### Education and vocational training:

- Activities that expand the access to primary, secondary, adult and vocational education



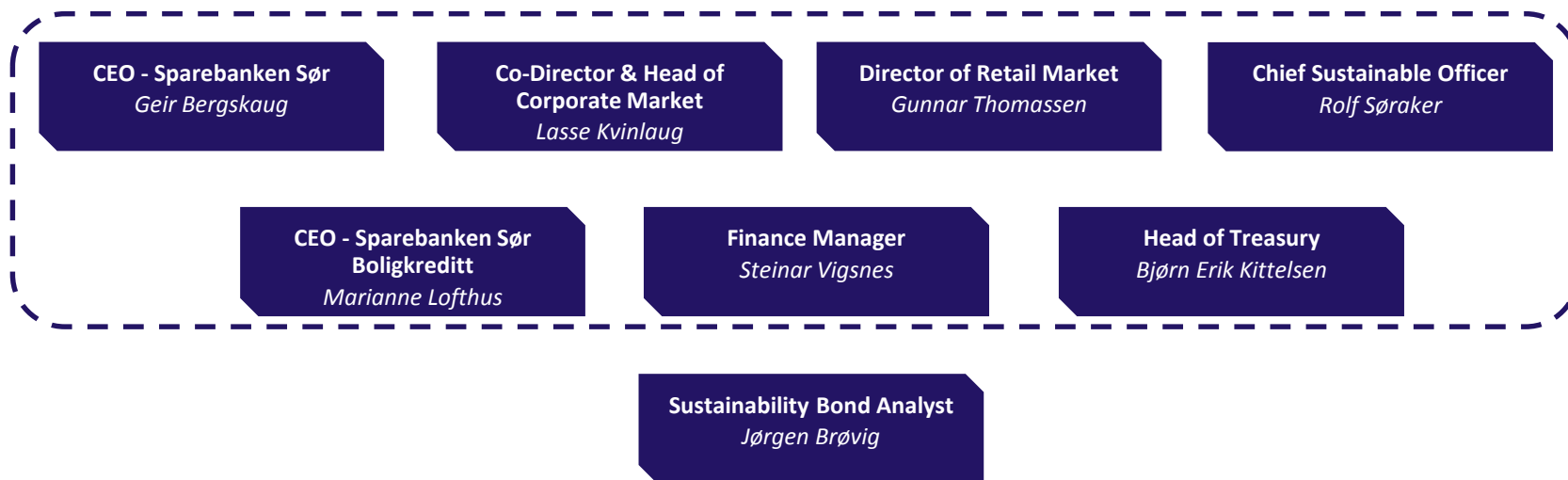
# Project Evaluation & Selection (1/2)

*Loans financed and refinanced through Green Covered Bonds/Sustainability Senior Bonds proceeds are evaluated and selected based on compliance with the eligibility criteria under Use of Proceeds and are aligned with Sparebanken Sør's strategic sustainability objectives.*



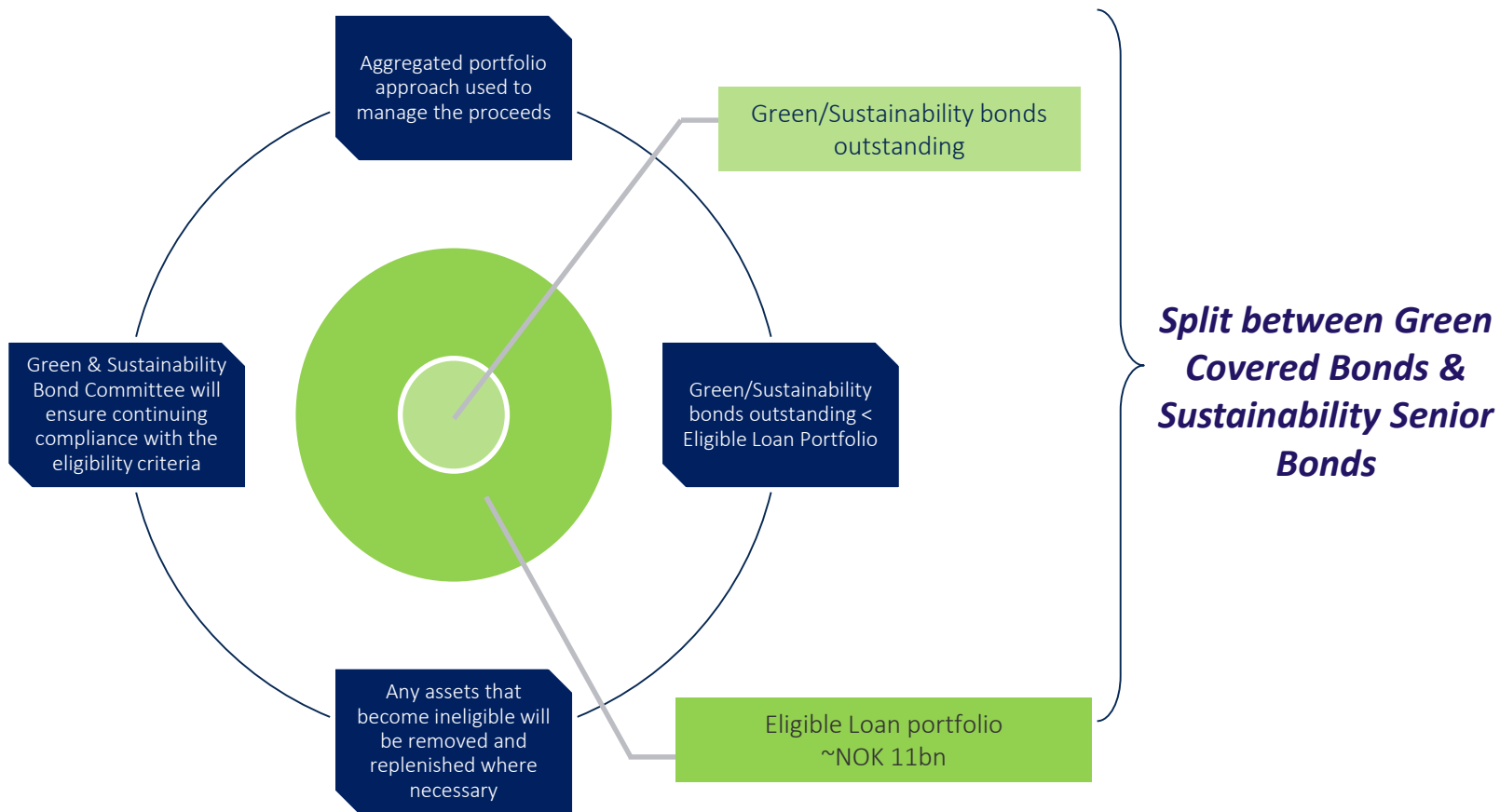
# Project Evaluation & Selection (2/2)

## Green & Sustainability Bond Committee



Screening for eligibility & continued robust follow up

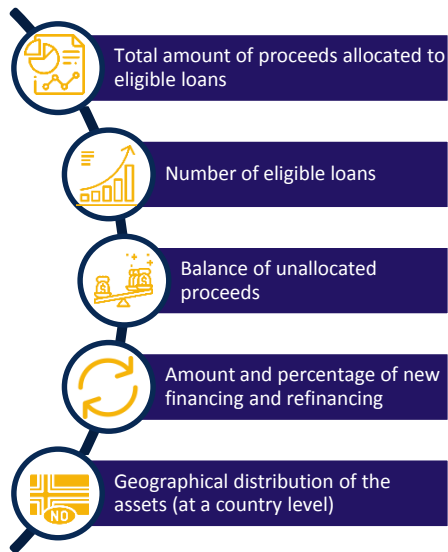
# Management of Proceeds



# Reporting

*In accordance with the ICMA GBP & SBP, Sparebanken Sør will provide allocation and impact reporting information to investors, annually until full allocation of the bond net proceeds*

## Allocation reporting



## Impact reporting



### Green buildings

- Reduction of energy consumption (GWh-equivalents)
- Ex-ante annual energy consumption in KWh/m<sup>2</sup> or energy savings in MWh
- Annual GHG emissions reduced/avoided in tons of CO<sub>2</sub>
- Environmental certification or EPC
- Number of buildings



### Access to essential services

- Number of hospitals, , nursing homes, rehabilitation centers, patients or beds, and/or population of regions where hospital projects are located
- Number of public education schools (including kindergarten, primary and/or secondary schools and universities) supported; and/or number of individuals benefiting from these schools

# External Review

## Pre Green & Sustainability Bond Framework

Sparebanken Sør has received a **second opinion review** from **Sustainalytics** and **CBI certification** for the Green & Sustainability Framework.

Use of  
proceeds



Project  
Selection &  
Evaluation



Management  
of proceeds



Reporting



## Post Green & Sustainability Bond Framework

Sparebanken Sør will, on an annual basis, request a **external verification concerning the allocation of the bond proceeds to eligible assets** from an external verifier.

One year after  
issuance

Until maturity or  
full allocation

# Summary of Sparebanken Sør Boligkreditt

Announcement (3 October 2019)

**Sparebanken Sør Boligkreditt AS** has mandated ING as Sole Green Bond Structuring Advisor and Commerzbank, ING, Natixis, SEB and Swedbank as Joint Lead Managers & Bookrunners to arrange a series of fixed income investor meetings across Europe for its inaugural Green Covered Bond.

Meetings will commence on October 10th and a 5 to 7 year Euro-denominated 500mm No-Grow Green covered bond may follow in the near future, subject to market conditions. The issue is expected to be rated Aaa by Moody's. FCA/ICMA stabilisation applies.

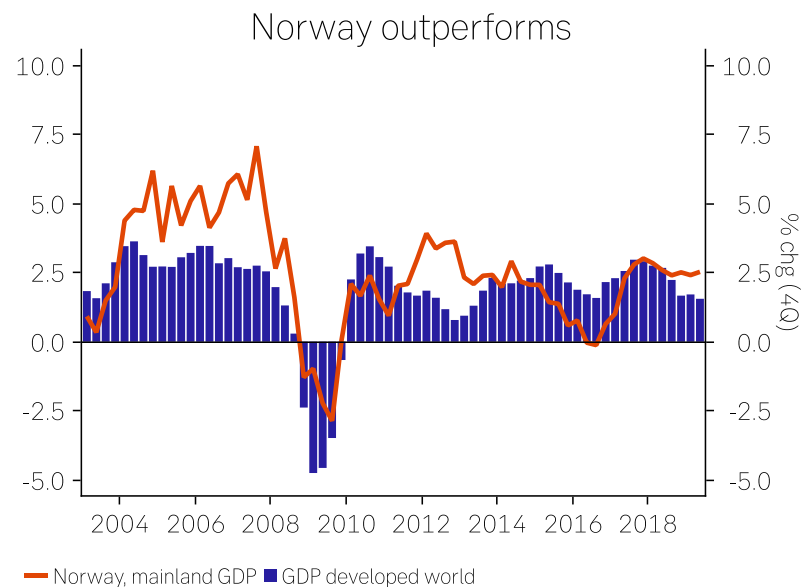
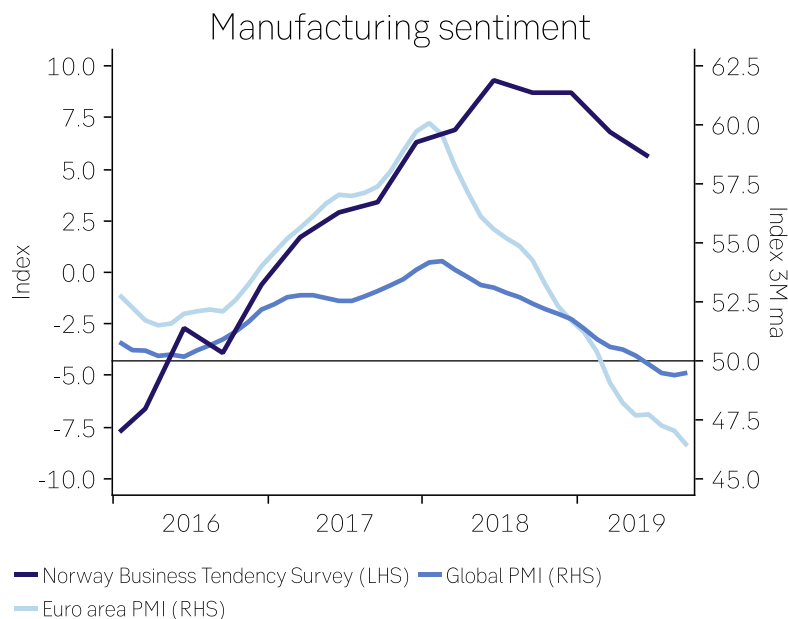
- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>▪ Sparebanken Sør - <b>solid credit</b>, with a <b>high leverage ratio</b>, <b>low cost</b> and <b>no credit losses</b></li> <li>▪ 100 % owned by Sparebanken Sør</li> <li>▪ Cover pool consisting of <b>prime Norwegian residential</b> mortgages and dual recourse</li> </ul> | <ul style="list-style-type: none"> <li>▪ Green Covered Bond is <b>expected to receive a Aaa rating</b> and to be <b>LCR 1b compliant</b></li> <li>▪ <b>Green &amp; Sustainability Bond Framework compliant</b> with the EU Taxonomy draft</li> <li>▪ <b>Green Covered Bond issue certified</b> by Climate Bonds Initiative</li> <li>▪ <b>Transparent reporting</b> according to The Green Bond Principles – Harmonized Framework for Impact Reporting</li> </ul> |
|--|--|

**Grateful to receive investor feedback for a potential 5-7y EUR500mn no-grow Green Covered Bond transaction**

# The Norwegian economy

# Norway defying the slowdown abroad

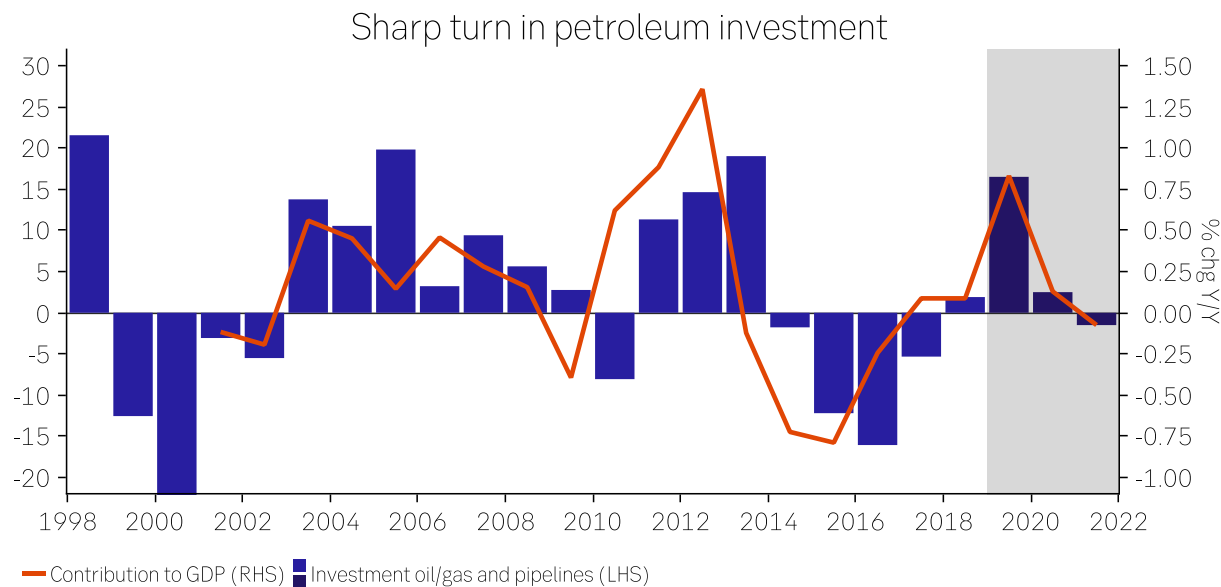
The economy continues to expand



Source: OECD, Macrobond, SEB

# Growth is fuelled by sharply higher oil investment

Stimulating domestic demand via employment and wages

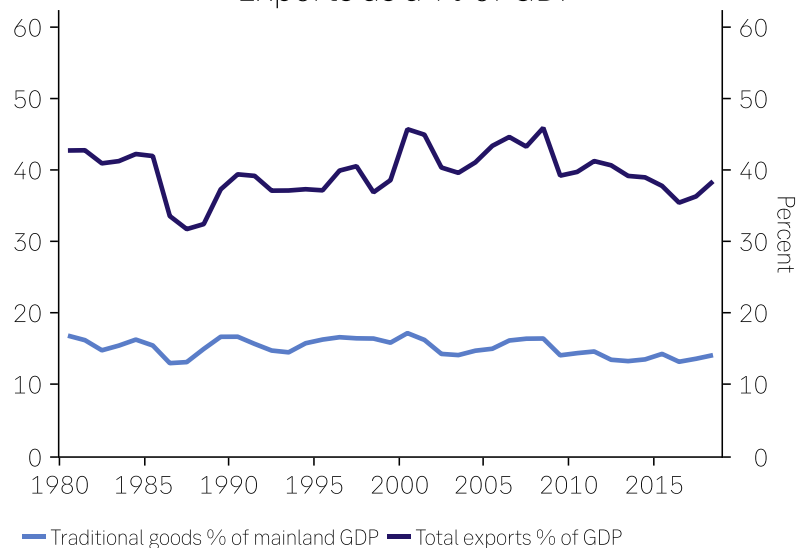


Source: Statistics Norway, Macrobond, SEB

# The mainland economy is less export-dependent

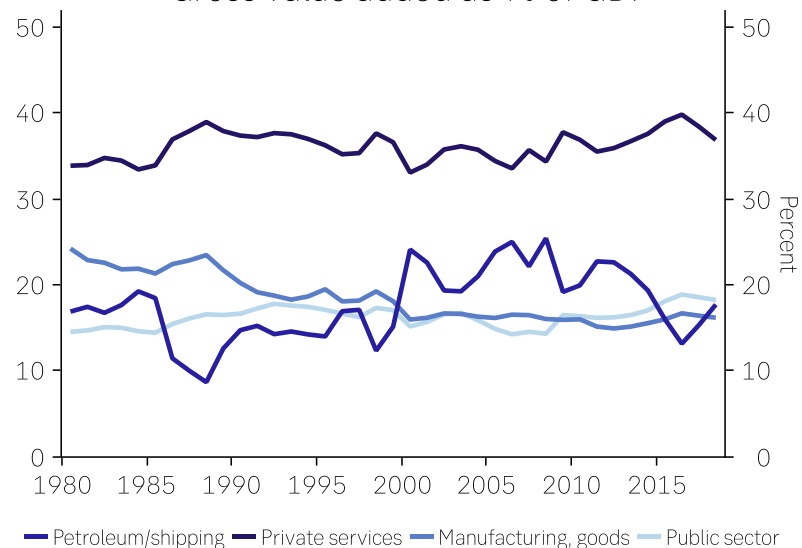
The private service sector is the largest contributor to growth

Exports as a % of GDP



Source: Statistics Norway, Macrobond, SEB

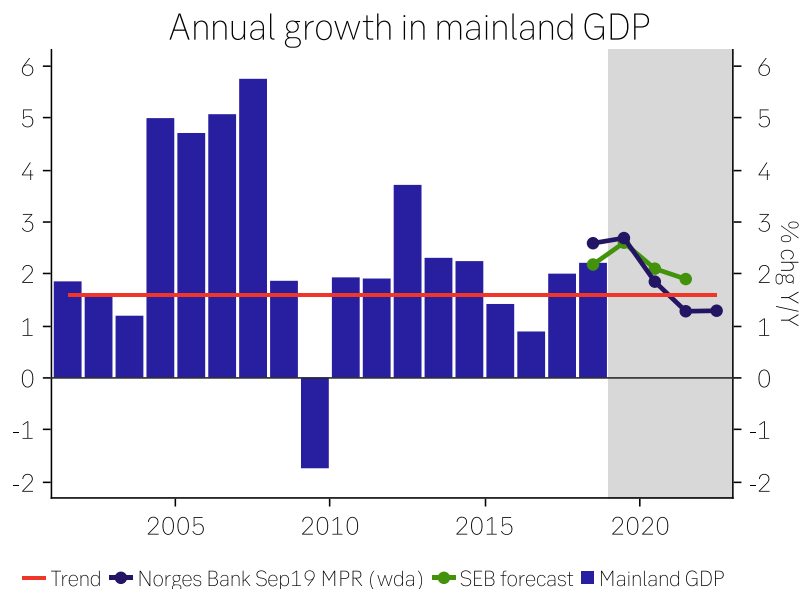
Gross value added as % of GDP



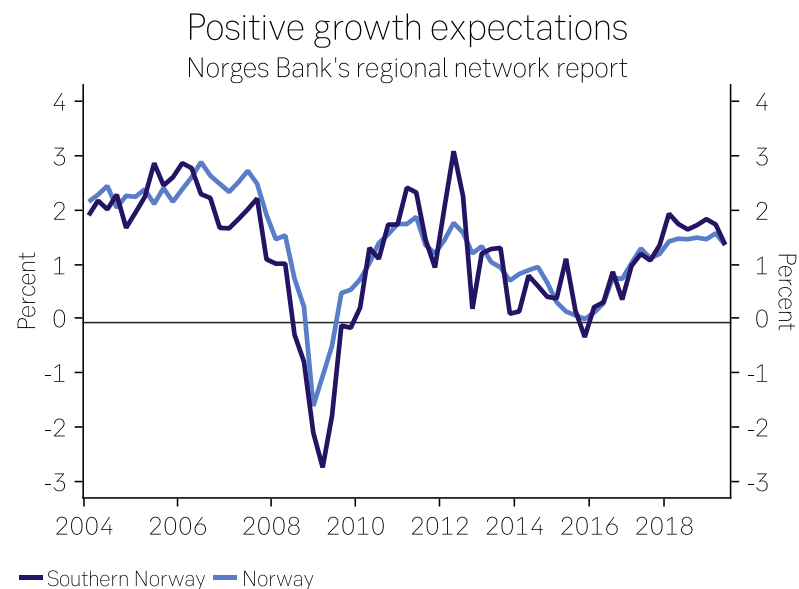
Source: Statistics Norway, Macrobond, SEB

# Growth moderating in coming years

The Southern region is seeing solid growth ahead



Source: Statistics Norway, Macrobond, SEB

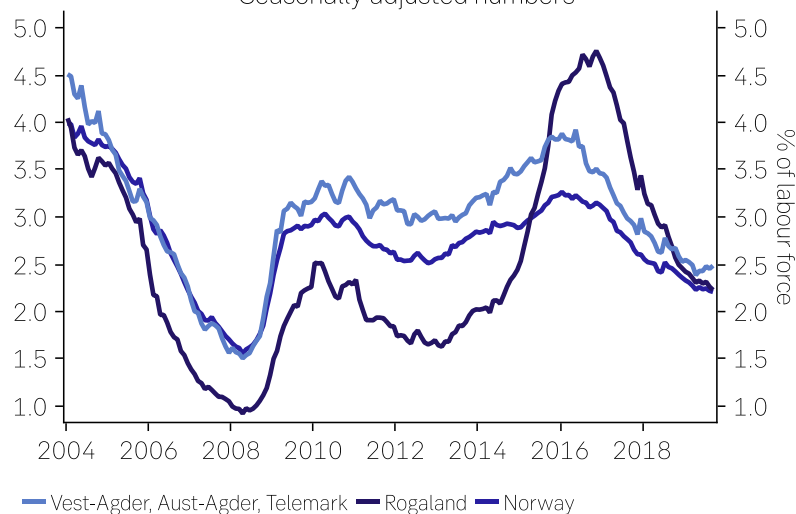


Source: Bank of Norway (Norges Bank), Macrobond, SEB

# Strong labour markets

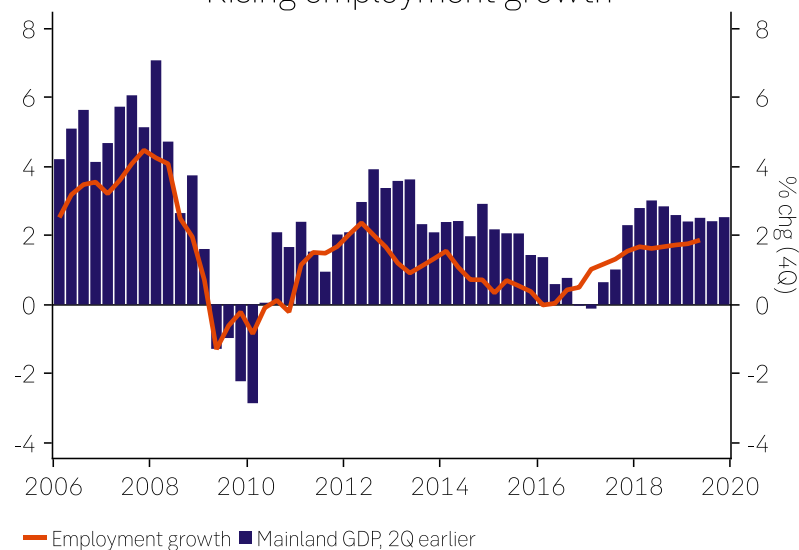
Driven by strong employment growth, especially in

Registered unemployment  
Seasonally adjusted numbers



Source: NAV, Macrobond, SEB

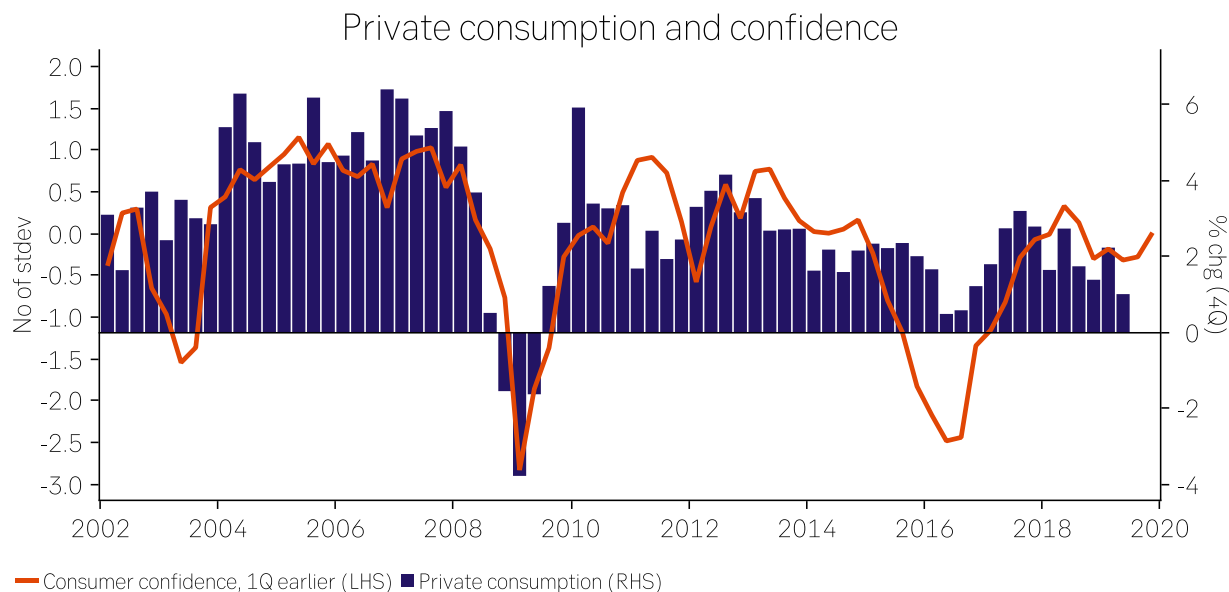
Rising employment growth



Source: Statistics Norway, Macrobond, SEB

# Solid consumer confidence

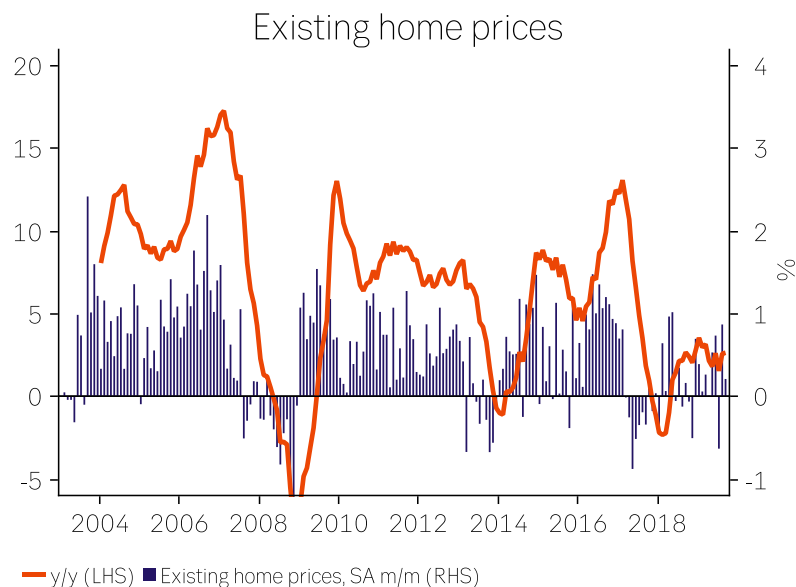
Low unemployment and rising real income will lift consumption



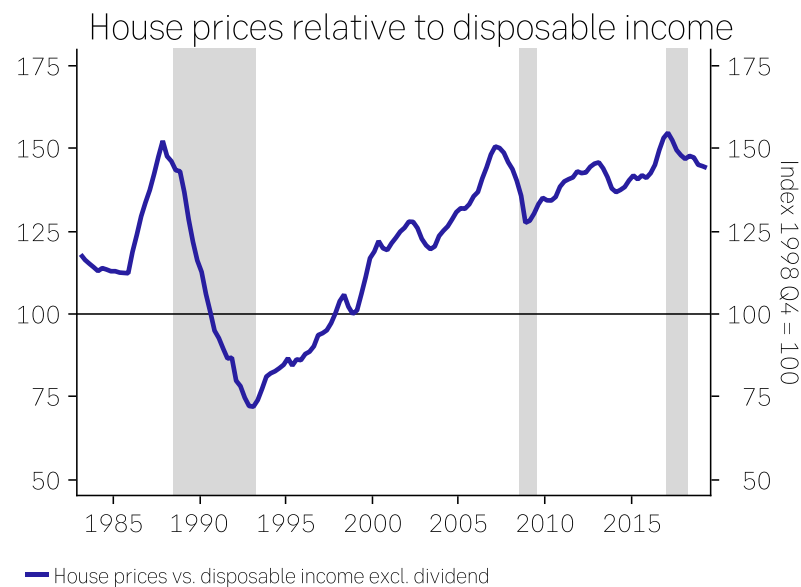
Source: Statistics Norway, Kantar TNS (Norway), Macrobond, SEB

# A short and shallow price correction

Home price inflation has increased along side income growth



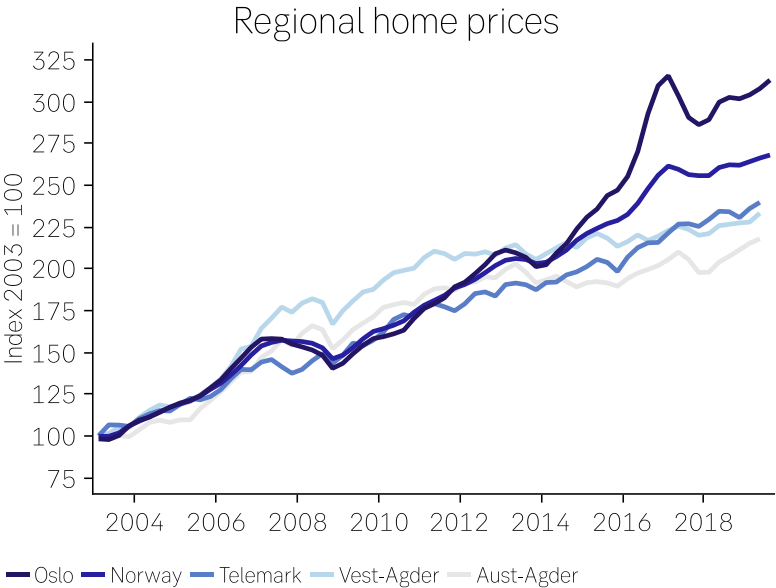
Source: Real Estate Norway (Eiendom Norge), Macrobond, SEB



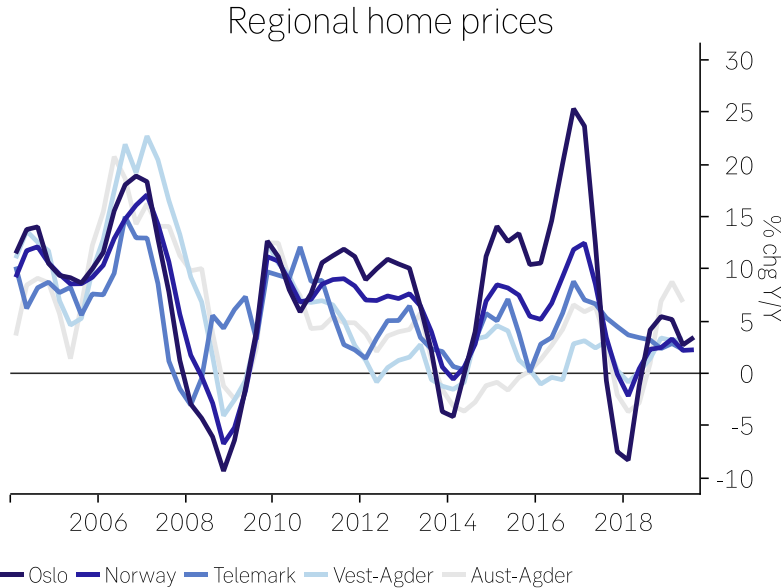
Source: Norges Bank MPR 3/19, Macrobond, SEB

# Strong developments in the region

## Solid house price developments in the Southern region



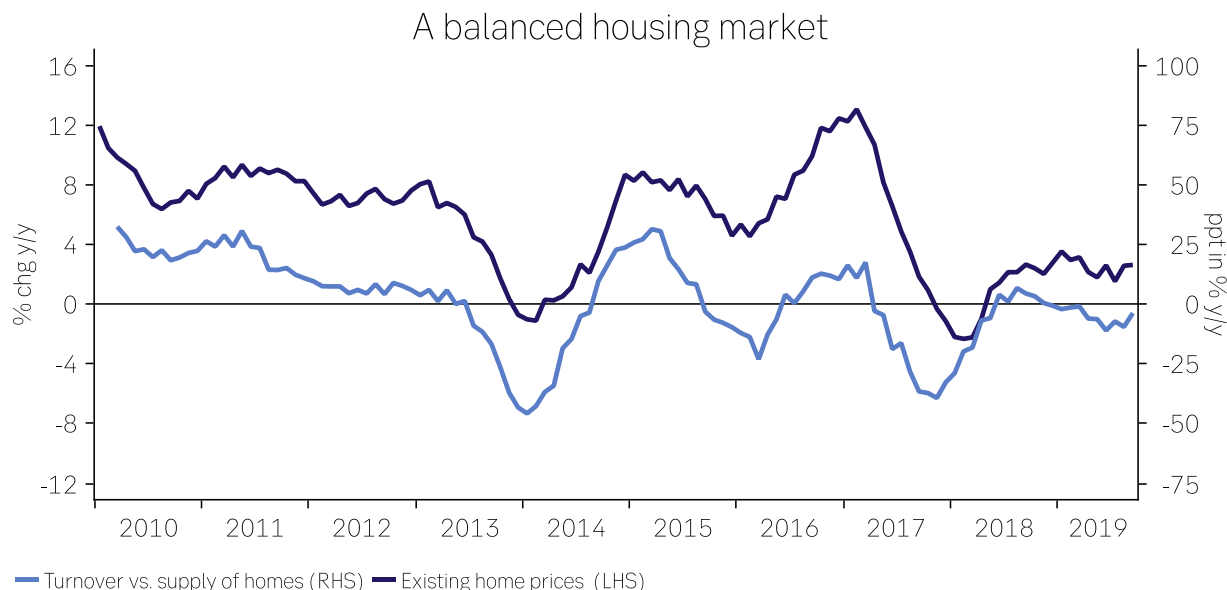
Source: Real Estate Norway (Eiendom Norge), Macrobond, SEB



Source: Real Estate Norway (Eiendom Norge), Macrobond, SEB

# A balanced housing market

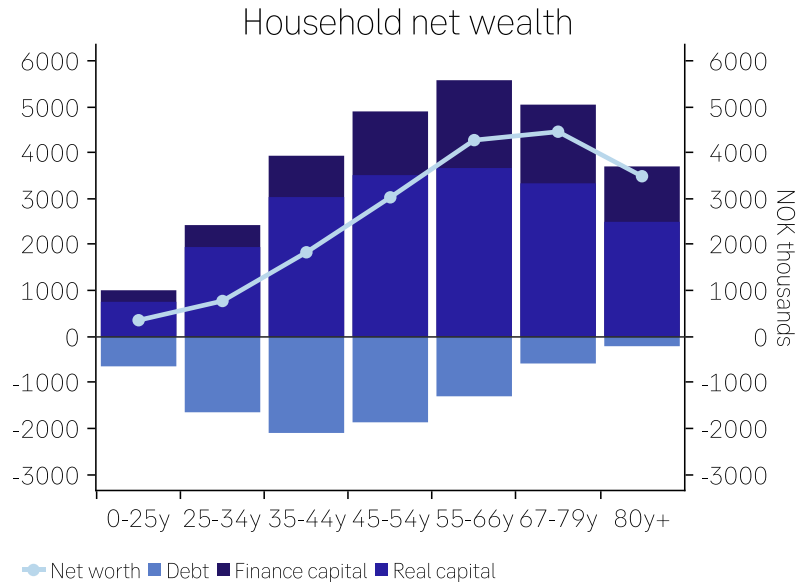
High number of home completions is absorbed by solid demand



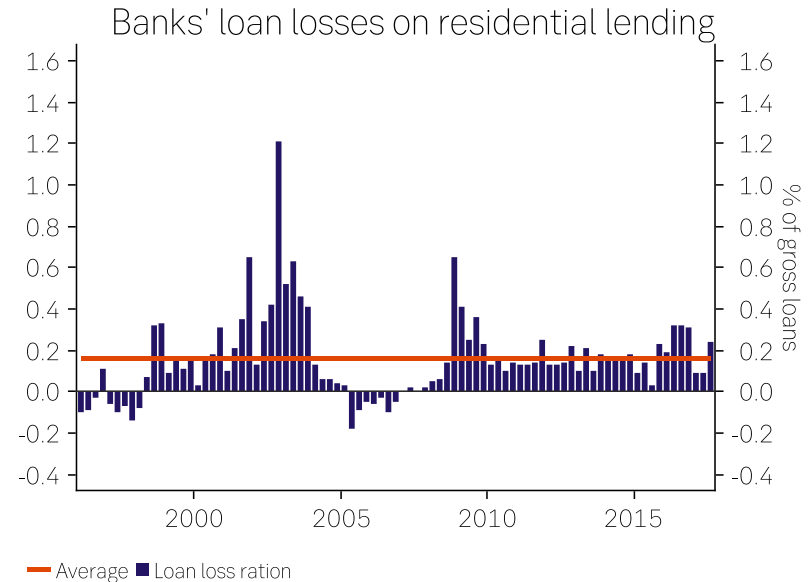
Source: Real Estate Norway (Eiendom Norge), Macrobond, SEB

# Households can service their debt

Low interest rates, positive net wealth and historically low loan losses



Source: Finanstilsynet, Macrobond, SEB



Source: Norges Bank FSR 2017, Macrobond, SEB

# Wages are rising

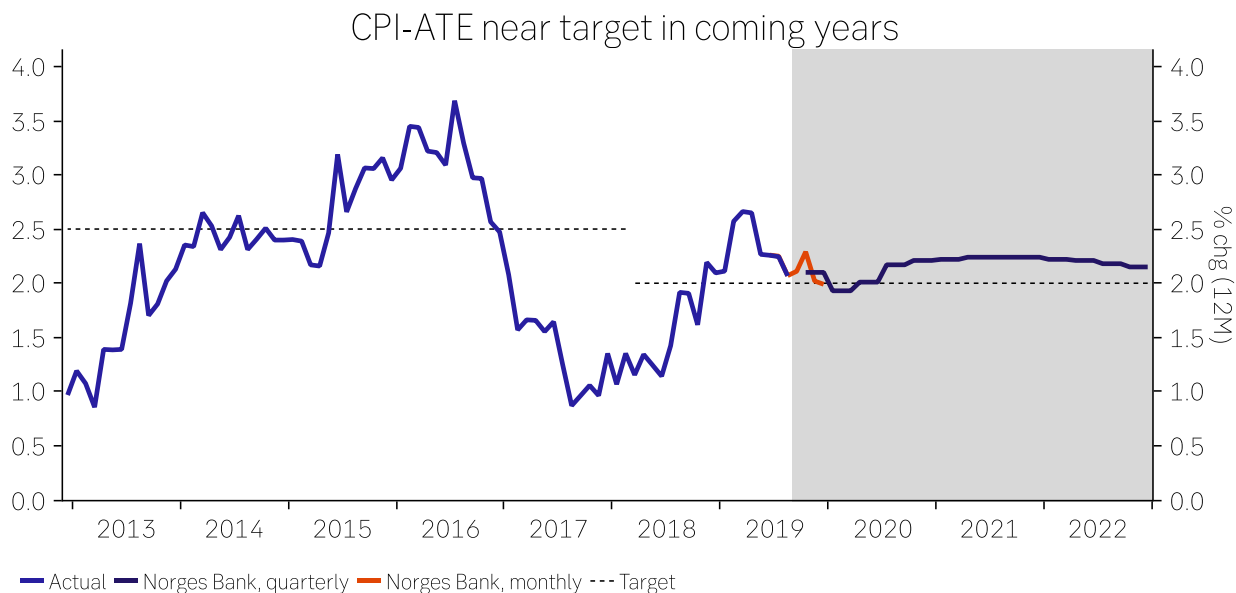
Adjusted for inflation, households' income will rise



Source: Statistics Norway, Macrobond, SEB

# Inflation is near the target

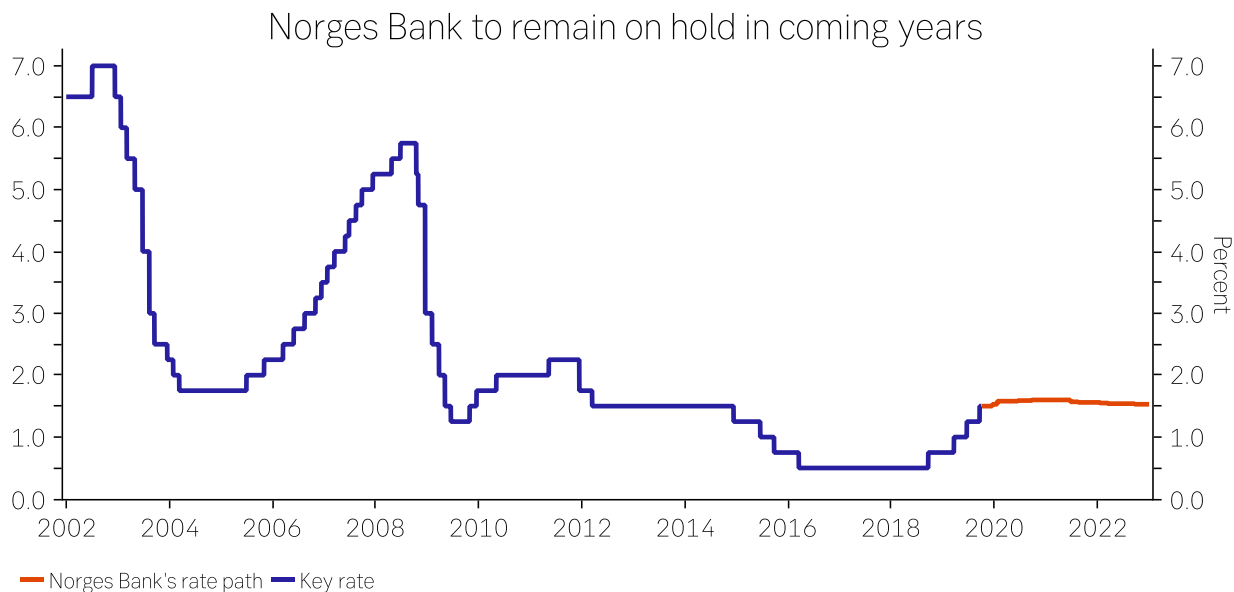
Strong economy, tight labour market and the weak NOK fuel inflation



Source: Bank of Norway (Norges Bank), Statistics Norway, Macrobond, SEB

# Norges Bank will remain on hold at 1.50%

With growth above trend, and inflation at target, a rate cut is distant

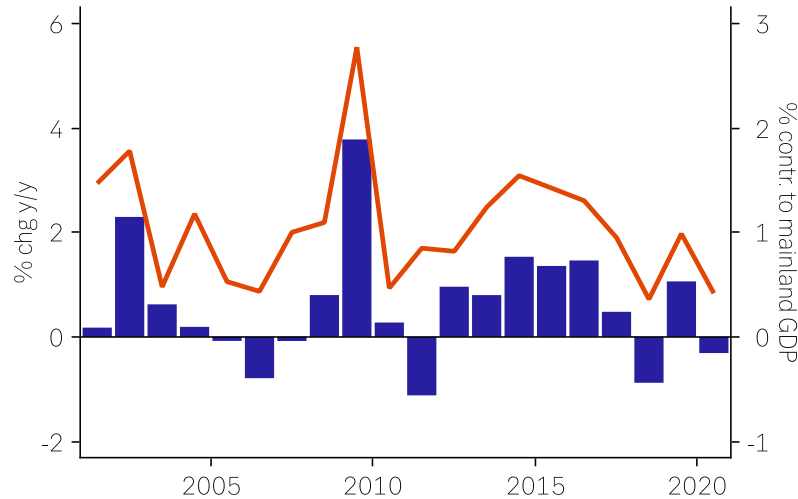


Source: Norges Bank, Macrobond, SEB

# A very solid fiscal position

Ample room to stimulate with fiscal and monetary policy if needed

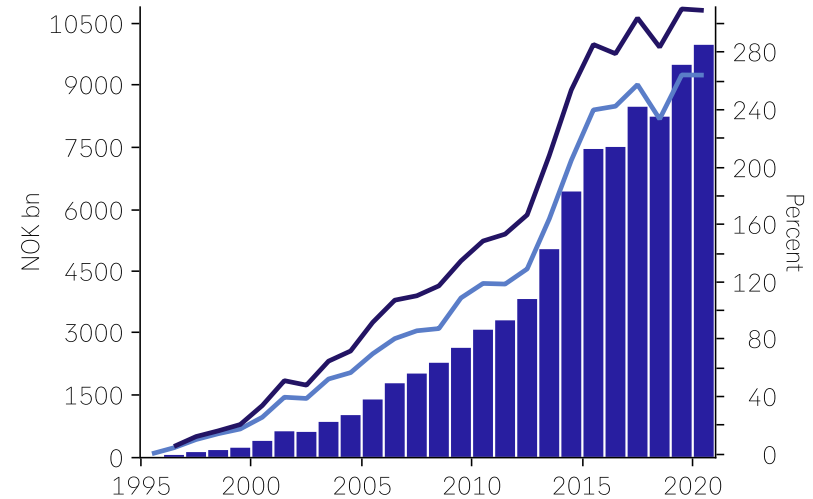
Potential for fiscal stimulus



— Real underlying spending (LHS) ■ Contribution to mainland GDP (RHS)

Source: Government budget, SEB

The Government Pension Fund Global



■ % of mainland GDP (RHS) — % of GDP (RHS) ■ Assets in the fund (LHS)

Source: Government 2018 budget, SEB

# Contact details

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[Green & Sustainability Bond Framework](#)

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