



# SPAREBANKEN SØR BOLIGKREDITT AS



Investor presentation Q1 2023



SPAREBANKEN SØR

# Sparebanken Sør Boligkreditt AS

## Mother company 100% owner

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

## Full recourse

Norwegian law is fully compliant with dual recourse requirement. 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

## Credit & overdraft facilities

Sparebanken Sør Boligkreditt AS has established an overdraft facility with Sparebanken Sør in order to handle operations on a daily basis. In addition, the company has as short-term credit facility with a notice of 31 days with the bank, and a revolving multicurrency loan facility, which covers refinancing risk

## Norwegian residential

The cover pool consists of prime Norwegian residential assets (94.1 percent) 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 – 4 notches TPI leeway  
Covered Bond anchor: Sparebanken Sør rated A1 Positive outlook



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# Sparebanken Sør

## Business

Sparebanken Sør is an independent financial group with activities within banking, securities and real estate brokerage

## Balance

The fifth largest Norwegian bank with total assets of NOK 154 billions

## Employees

636 employees in branches across the counties of Agder, Rogaland, Vestfold and Telemark

## Products and services

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

## Summary

As one of the largest regional banks in Norway, Sparebanken Sør is committed to further sustainable growth and development in the region



**SPAREBANKEN SØR**

# Sparebanken Sør - a leading financial institution in Southern Norway



Established in 1824,  
636 employees



183 000 retail  
customers



Financial group with  
banking, securities and  
real estate brokerage



23 000 corporate  
customers



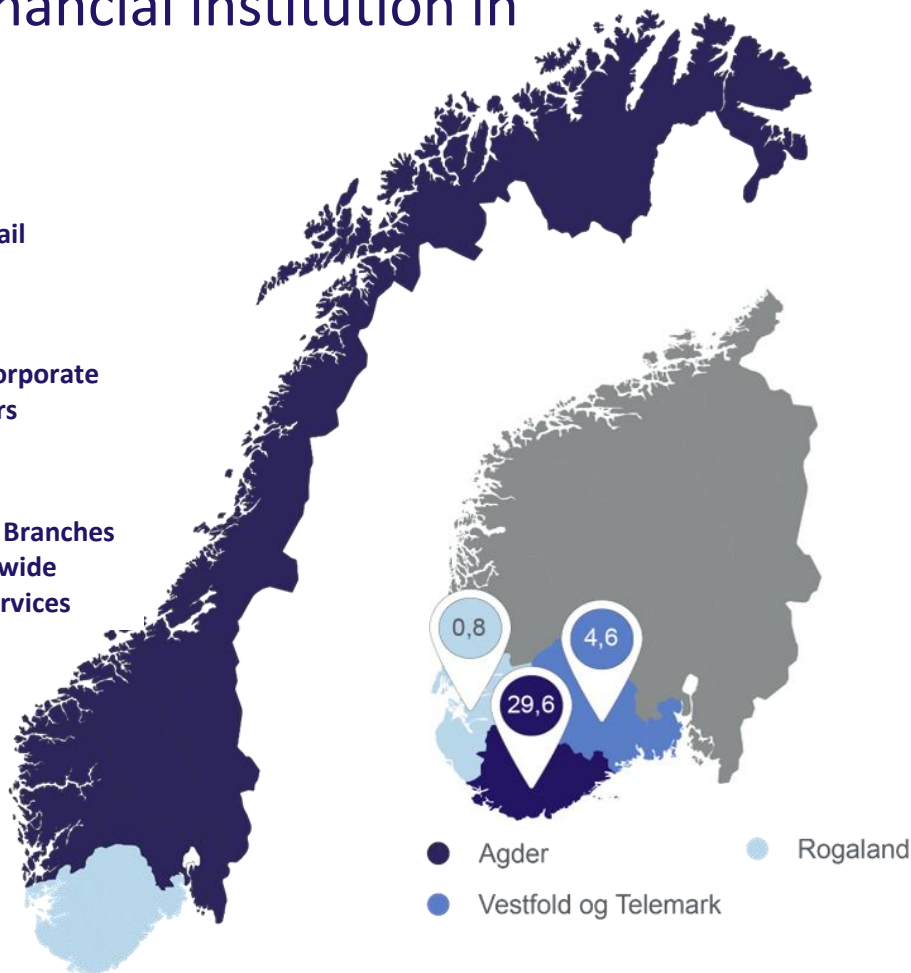
Publicly traded and  
Community-owned



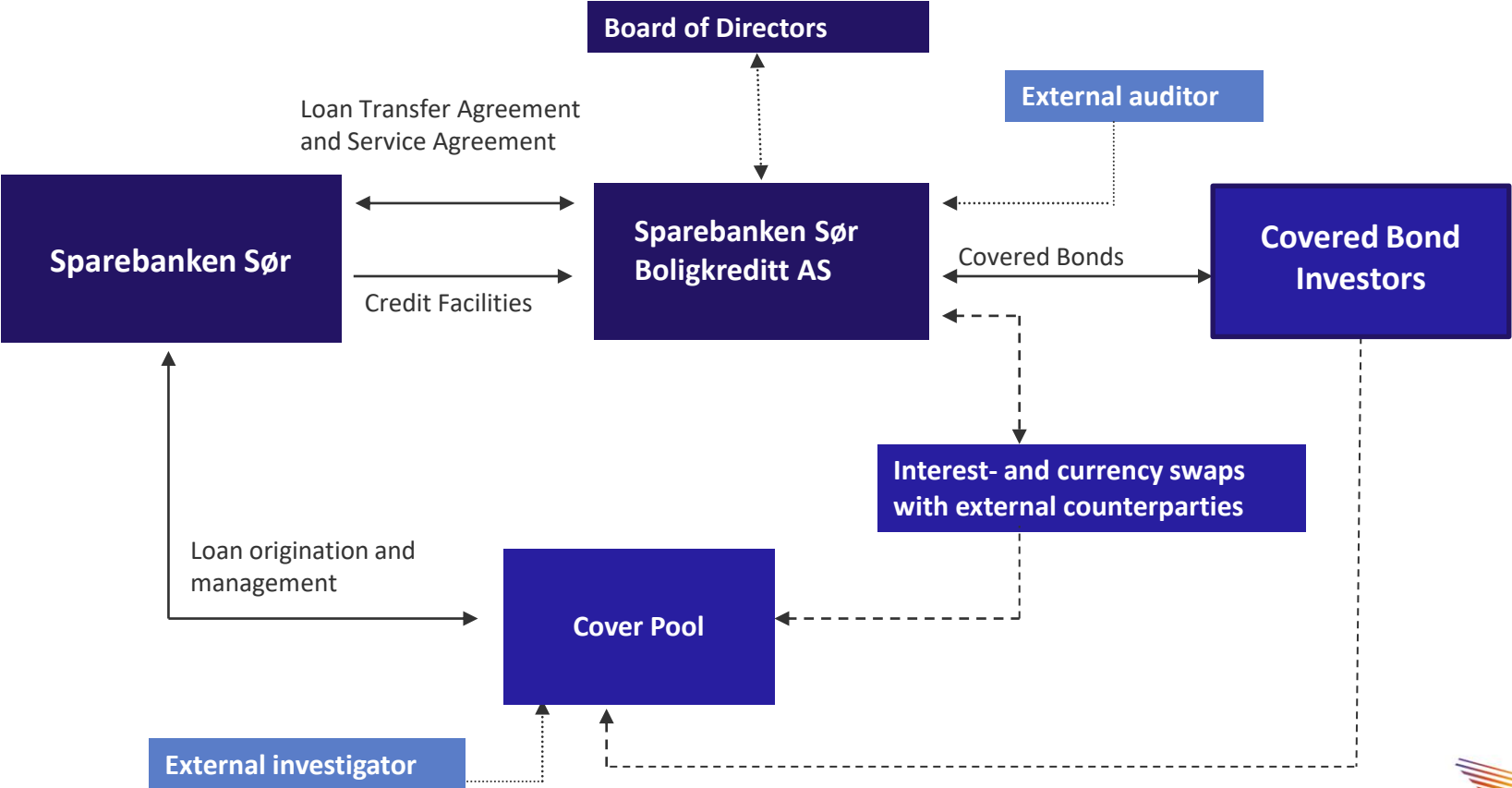
Regional Branches  
& nationwide  
online services



- Total assets of NOK 154 bn
- Profit after tax amounted to NOK 462 million in Q1 2023
- Cost/income ratio of 36.7 percent.



# Business concept



# Eligibility criteria for cover pool mortgages

Type of properties	<ul style="list-style-type: none"><li>•Residential Norwegian properties</li><li>•Minor volumes of buy to let</li></ul>
Type of products	<ul style="list-style-type: none"><li>•Mortgages with floating or fixed interest rates</li><li>•Serial, annuity or non-amortising loans</li></ul>
Credit criteria	<ul style="list-style-type: none"><li>•No arrears</li><li>•Borrowers probability of default <math>\leq 3\%</math></li></ul>
Collateral	<ul style="list-style-type: none"><li>•LTV limit of 80 % for residential mortgages (changed from 75 % in Q4 2022)</li><li>•Quarterly valuation from an independent third party (Eiendomsverdi)</li></ul>
Loan volume	<ul style="list-style-type: none"><li>•Maximum loan per borrower of 20 MNOK (Euro 2 mill)</li></ul>

# The Norwegian Residential Mortgage Market

Apr. 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 at the bank's own discretion, by giving debtors 8 weeks' notice

Loans are normally underwritten with a term of 15-25 years

In Norway, all borrowing costs are deductible from taxable income at the current rate of 22 %

- Households are therefore better able to withstand an increase in interest rates

# Mortgage lending regulation

Max 5x gross income

Max 85 % LTV

Debt servicing capacity

- Stress test of 3 percentage points interest rate increase, stress test floor 7 percent

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

# Risk management

## Liquidity risk

- Payment flow from the cover pool is to meet the payment obligations to the covered bond holders and derivative counterparties
- Revolving credit facilities 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, and include the effects of non parallel shifts
- Limited to NOK 100 million
- Currently only floating rate loans and floating funding base incl. swaps

## Market risk

- FX risk is hedged
- Long term FX funding is swapped into NOK
- Derivative contracts with external counterparties
- Highly liquid liquidity portfolio





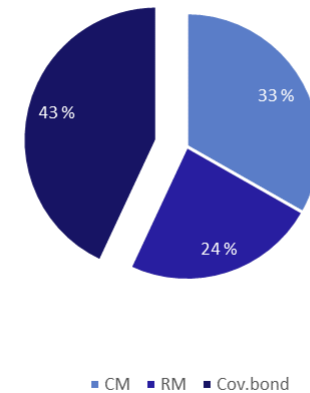
# Cover pool composition and OC as at 31.03.2023

Nominal value	NOK Thousand
Loans secured by mortgages on residential properties	53 756 209
Deductions on ineligible loans	-250 512
Pool of eligible loans	53 505 967
Certificates and bonds	3 365 000
<b>Total cover pool</b>	<b>56 870 697</b>
Debt incurred due to issuance of securities	49 096 750
<b>Total liabilities</b>	<b>49 096 750</b>
<b>Collateralisation ratio (OC)</b>	<b>15.8 %</b>
<b>Collateralisation ratio (OC) including ineligibles</b>	<b>16.3 %</b>

# Additional cover pool details as at 31.03.2023

Average loan balance	NOK 1 417 427
No. of loans	37 929
WA seasoning (in months)	43.9
WA remaining term (in months)	196
No. of borrowers	31 421
No. of properties	33 854
WA Indexed LTV (Loan balance/indexed valuation)	51.8 %
WA LTV (Loan balance/original valuation)	60.9 %
Total non-performing loans	0.4 %
Committed Over Collateralisation (OC)	5.0 %

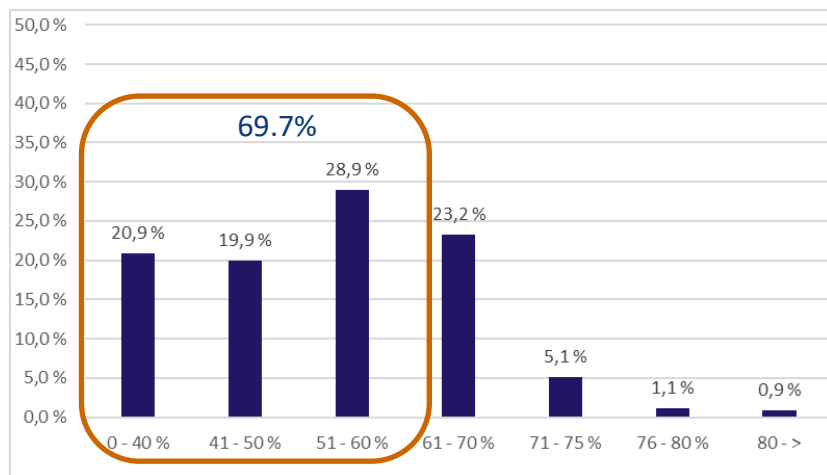
Sparebanken Sør (Group) total loan portfolio



Loans transferred to Sparebanken Sør Boligkreditt AS account for 43 % of Sparebanken Sør's total loan portfolio

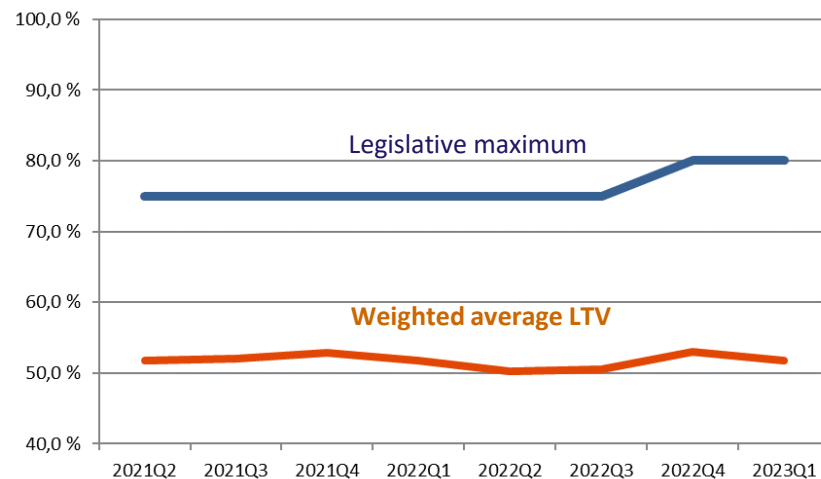
# Cover pool characteristics

## Current indexed LTV distribution



- The weighted average LTV is 51.8 % on an indexed basis
- 69.7 % of the cover pool has a LTV below 60%

## Historical development. Weighted average indexed LTV



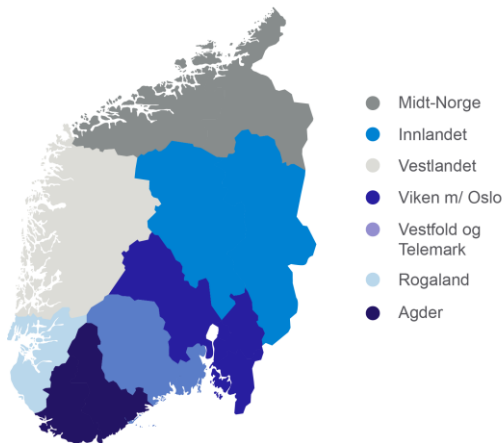
- The weighted average LTV is well below the legislative maximum for residential mortgages. A change in legislative maximum was introduced in 2022 (an increase from 75 to 80 %) and implemented in the company as from Q4 2022.

# Cover pool characteristics

## Cover pool broken down by counties

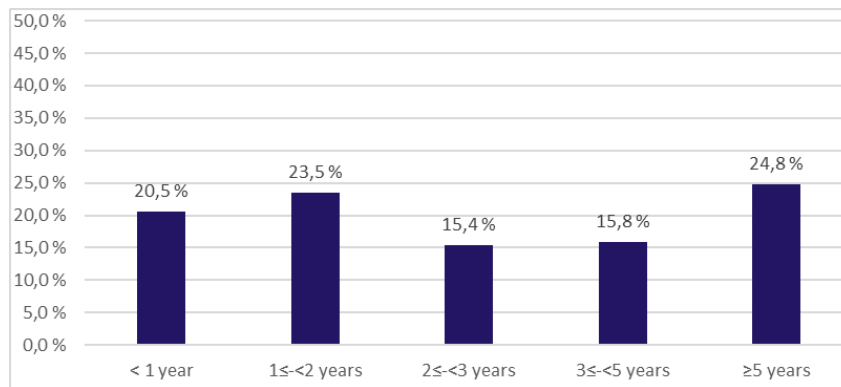
### Cover pool broken down by counties

Agder	64,6 %
Vestfold og Telemark	12,6 %
Oslo	9,4 %
Viken	7,0 %
Rogaland	3,8 %
Other counties	2,7 %
Total	100,0 %



- The cover pool is primarily exposed towards Agder and secondly to Vestfold and Telemark.

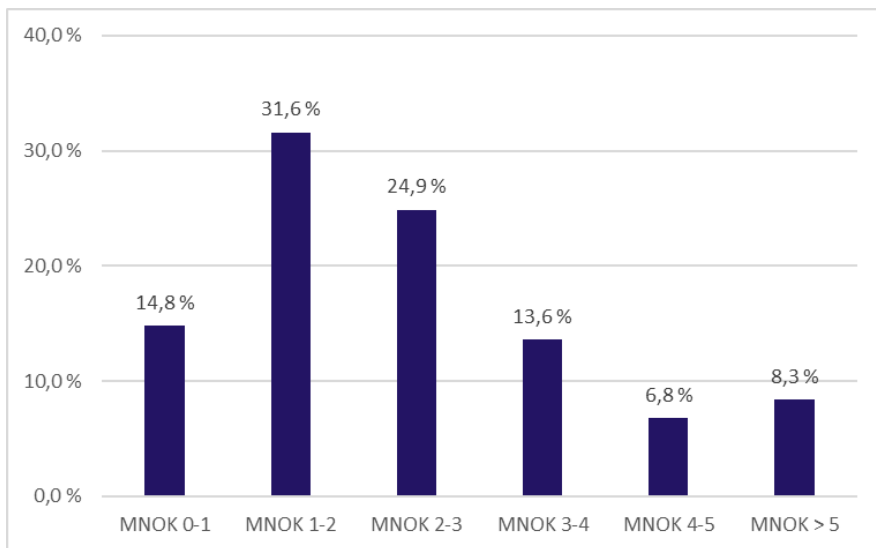
## Seasoning of mortgages in the cover pool (in % of total loan balance)



- Weighted average seasoning is 3.7 years
- The cover pool is stable, as 79.5 % of mortgages has been included in the cover pool for at least 1 year

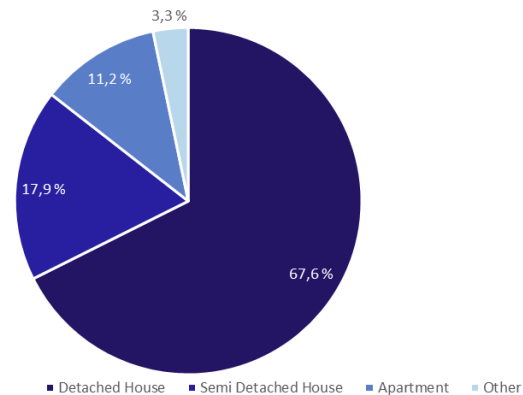
# Cover pool characteristics

Cover pool broken down by intervals of loan balance

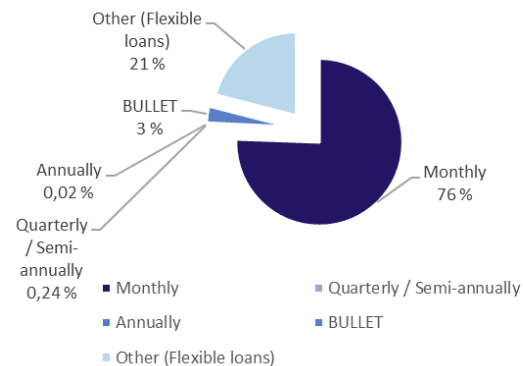


- Average loan value of NOK 1.4 million

Property type



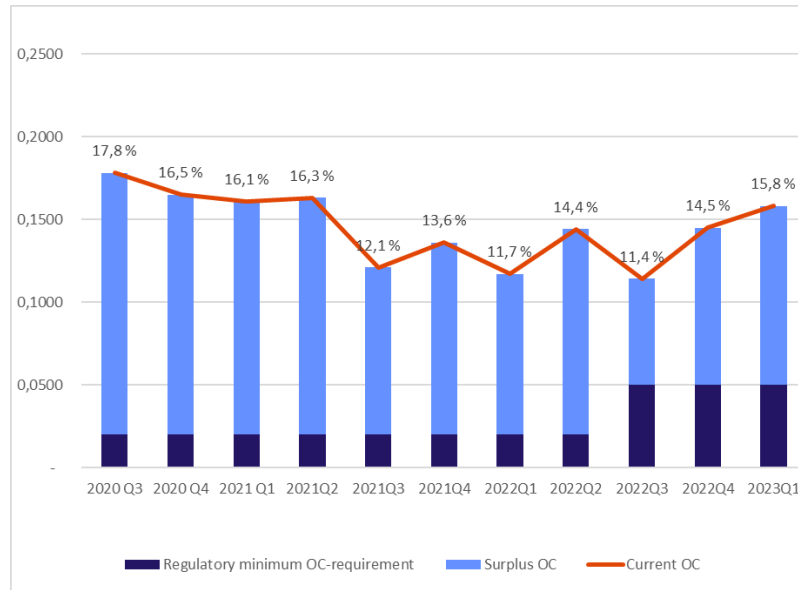
Principal payment frequency



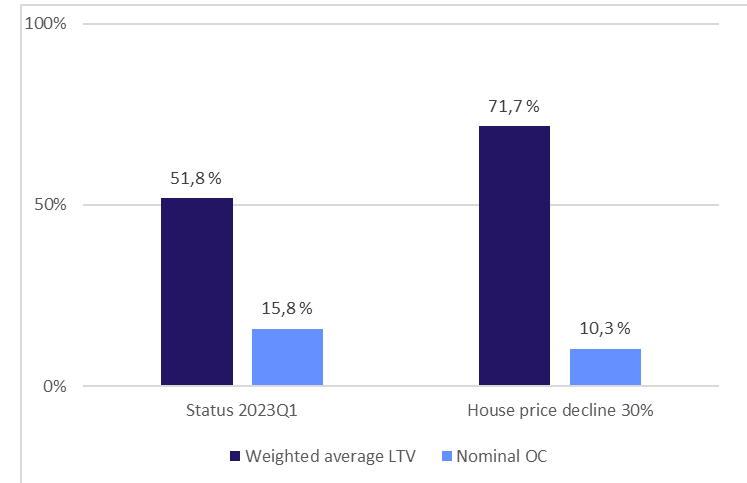
# Cover pool characteristics

Regulatory minimum OC-requirement: 5.0 % - Current OC: 15.8 %

## Historical development Over Collateralisation



## Stress test of the cover pool



# Balanced development in the region

Changes in housing prices (percent), last 12 months

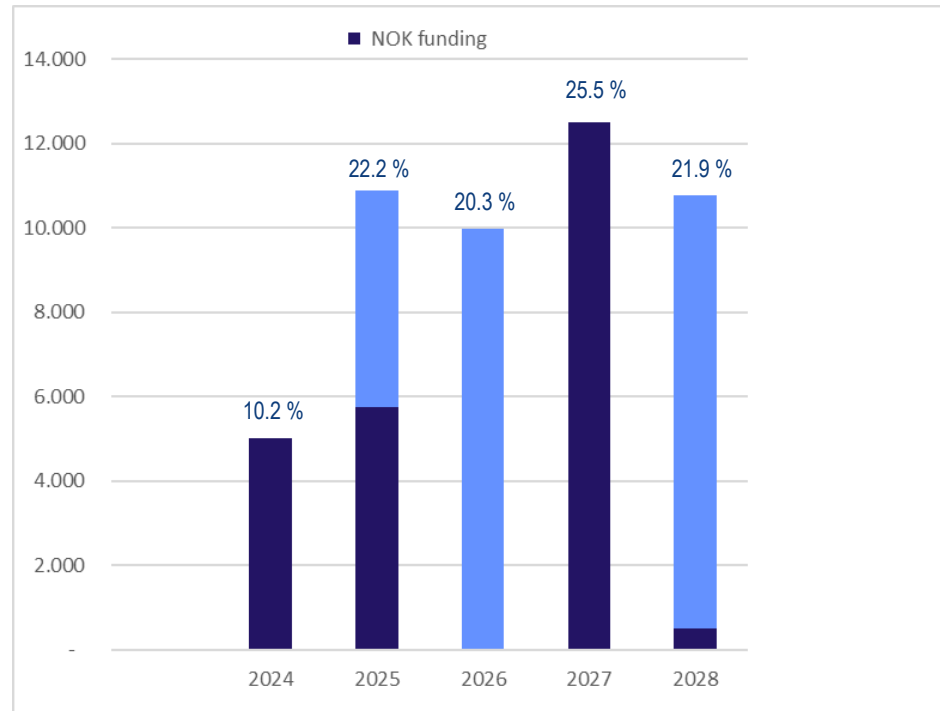


Unemployment (percent)



# Funding as at 31.03.2023

Annual expected maturity of wholesale funding



- Total funding amounts to NOK 49.7 bn in issued covered bonds
- The company has a diversified maturity profile
- Funding > 12 months totalled 100.0 %





# A well established International CB Issuer

## Debt securities issued as at 31.03.2023

Figures stated in NOK Thousand

ISIN	TICKER	CURRENCY	NOM . VALUE	INTEREST		DUE DATE	BOOK VALUE	FAIR VALUE
NO0010882632	SORB30	NOK	5 000 000	Floating	3M Nibor	19.11.2024	5 022 866	5 032 506
NO0010832637	SORB28	NOK	5 750 000	Floating	3M Nibor	24.09.2025	5 761 788	5 769 270
XS2555209381		EUR	500 000	Fixed	0.313%	14.11.2025	5 706 862	5 706 052
XS1947550403		EUR	500 000	Fixed	0.5%	06.02.2026	5 465 536	5 243 397
XS2069304033		EUR	500 000	Fixed	0.01%	26.10.2026	4 812 012	5 056 610
NO0012535824	SORB32	NOK	5 500 000	Floating	3M Nibor	31.05.2027	5 511 934	5 525 447
NO0011002529	SORB31	NOK	7 000 000	Floating	3M Nibor	20.09.2027	7 155 520	7 072 996
NO0010670409	SORB08	NOK	500 000	Fixed	4.00 %	24.01.2028	508 785	507 800
XS2291901994		EUR	500 000	Fixed	0.01%	28.01.2028	4 904 196	4 860 617
XS2389362687		EUR	500 000	Fixed	0.01%	25.09.2028	4 807 264	4 759 642
<b>TOTAL</b>							<b>49 656 761</b>	<b>49 534 335</b>

# SPAREBANKEN SØR BOLIGKREDITT AS

*(Incorporated with limited liability in Norway)*

**€8,000,000,000**

## **Euro Medium Term Covered Note Programme**



With reference to Article 10(1)(f) of the LCR-regulation, Sparebanken Sør Boligkreditt AS (SSBK) confirms the following:

- SSBK gives the information required in Article 129(7) of CRR to its investors
- Covered bonds issued by SSBK are assigned a credit assessment by a nominated ECAI which is at least credit quality step 1 in accordance with Article 129(4) of CRR, and the equivalent credit quality step in the event of short term credit assessment
- The cover pool does at all times meet an asset coverage requirement of at least 5 % in excess of the amount required to meet the claims attaching to the covered bonds issued by SSBK
- Covered bonds issued by Sparebanken Sør Boligkredit after 8 July 2022 are "covered bonds", as defined in point (1) of Article 3 of Directive (EU) 2019/2162, and are entitled to use the label "European Covered Bond (Premium)". Covered bonds issued by Sparebanken Sør Boligkredit before 8 July 2022 fulfill the requirements set out set out in Article 52(4) of Directive 2009/65/EC and are eligible for preferential treatment under CRR article 129(4) and (5) until their maturity, cf. article 129(7)

## **Information on the cover pool**

Sparebanken Sør Boligkreditt AS 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//>

Sparebanken Sør Boligkreditt AS is a member of the ECBC Covered Bond Label initiative  
<https://www.coveredbondlabel.com/issuer/122-sparebanken-sor-boligkreditt-as>



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# Green & Sustainability Bond Framework 2022

- Update from the 2019 framework (for new issues):
  - Tightening of green criteria in line with best market practice
  - EU Taxonomy alignment
- Well established Green and Social project categories: Green buildings, healthcare and education
- Following the 2021 ICMA Green Bond Principles, Social Bond Principles and the Sustainability Bond Guideline

## Positive Second Party Opinion from Sustainalytics:

*“Sustainalytics is of the opinion that the Sparebanken Sør Green & Sustainability Bond Framework is credible and impactful, and aligns with the four core components of the GBP, SBP and SBG”.*

*“Sustainalytics has assessed the Sparebanken Sør Green & Sustainability Bond Framework for alignment with the EU Taxonomy, and is of the opinion that the Framework’s green eligibility category (which maps to one EU activity) aligns with the applicable technical screening criteria (TSC) in the EU Taxonomy, and aligns with the do no significant harm (DNSH) criteria.”*

<https://www.sor.no/felles/om-sparebanken-sor/about/investor-relations/green-and-sustainability-bond-framework/>

### Green & Sustainability Bond Framework

Through issuing Green & Sustainability Bonds, Sparebanken Sør intends to contribute to the development of the green & sustainability bond market while highlighting its Sustainability Strategy to capital markets participants. In addition, Green/Sustainability Bonds will help to diversify Sparebanken Sør’s investor base and to broaden dialogue to existing investors.

This Green & Sustainability Bond Framework is based on the Green Bond Principles, Social Bond Principles as well as Sustainability Bond Guidelines, all published by the International Capital Markets Association in their most recent iteration (2021). The framework enables Sparebanken Sør and the independent covered bond institute Sparebanken Sør Boligkreditt to issue a variety of bond formats, including, but not limited to Senior Preferred Bonds, Senior Non-Preferred Bonds and Covered Bonds. These and other formats can be issued as different bond types, such as Green or Sustainability Bonds. The variety of different formats and types will be referred to as Green & Sustainability Bonds throughout this document.

#### EU taxonomy alignment

Sparebanken Sør welcomes the increased clarity and structure which the EU taxonomy and related regulations bring to the sustainable finance market. Appreciating the comprehensive scope of current and upcoming EU regulation within the space of sustainable finance, the bank has decided to be an early adopter and to align this framework with the EU Taxonomy to the degree feasible.

The alignment of the framework with the EU taxonomy has been assessed by Sustainalytics. The framework is found to be:

- ✓ Aligned with relevant Technical Screening Criteria
- ✓ Aligned with relevant Do No Significant Harm criteria
- ✓ Aligned with Minimum Social Safeguards



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# Future prospects

## Macro

Activity in the Norwegian economy is high, with little spare capacity. Unemployment has fallen to a low level, and the labour market is tight. Price inflation is markedly above target according to Norges Bank, and key policy rate forecasts indicate that a further rise in interest rates during 2023 is needed to curb inflation. Uplifts in interest rates may lead to lower consumption and investments. The turbulence in the US and Swiss banking sector has led to a considerable financial market volatility and uncertainty.

Residential property prices in the Bank's main markets have shown positive, though moderate, growth over several years. Activity in the housing market in the region has been high and with inflated house prices during 2021 and 2022. House price inflation is projected to fall into 2023, owing to higher lending rates and a lower demand of mortgages. A strong labour market and wage growth will on the other hand have a positive effect on house prices.

## Capital requirements

Sparebanken Sør Boligkreditt AS has a common equity tier 1 capital ratio of 20.4 percent and leverage ratio of 7.2 percent. Along with a positive profit from ordinary operations, the opportunities for further loan growth are positive.

## Funding and liquidity

The Group is well positioned to establish long-term funding from the Norwegian and the international financial market.

## Sparebanken Sør Boligkreditt AS

Sparebanken Sør Boligkreditt AS will further acquire mortgages from the parent Bank to issue public covered bonds in Norway and abroad.



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