

Sparebanken Sør

Sparebanken Sør Boligkreditt AS

Investor Presentation
February 2018

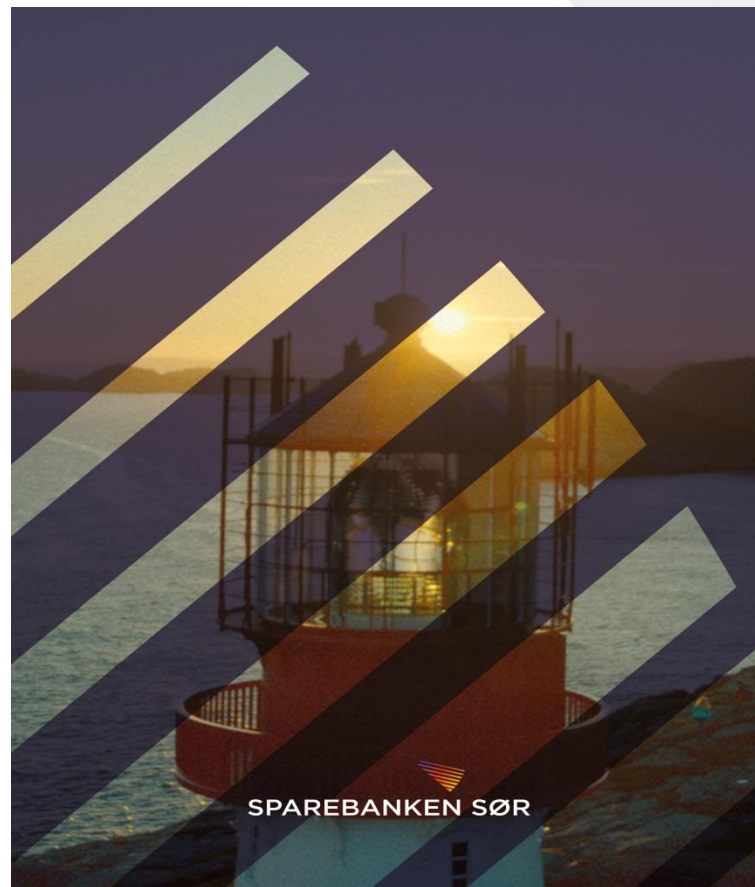


Executive summary

Sparebanken Sør	<ul style="list-style-type: none"> • The sixth largest savings bank in Norway with a strong market position in Southern Norway • High capitalization; Core Tier 1 ratio of 14.9 %, and leverage ratio of 9.2% as of December 31th 2017 • Rated A1 (negative outlook) by Moody's • Strong asset quality – 65 % of loan book to retail customers
Sparebanken Sør Boligkreditt	<ul style="list-style-type: none"> • 100 % owned and dedicated covered bond subsidiary of Sparebanken Sør • Cover pool consisting of prime Norwegian residential mortgages and highly liquid interest bearing bonds • High quality cover pool with weighted average LTV of 57.0 % • Covered bonds rated Aaa by Moody's with 5 notches of leeway • Strong legal framework for covered bonds in Norway with an LTV limit of 75 % for residential mortgages • Current OC of 19.3 %, of which 2.0 % is provided on a committed basis
Norwegian economy	<ul style="list-style-type: none"> • Economic growth in Norway has picked up and unemployment is falling • Growth is self- sustained and no longer in need of fiscal support • Oil investment is set to increase again after the sharp drop that followed the oil price collapse and a weak NOK and strong growth abroad support exports. An improving labour market supports private consumption. Mainland business investments are also on the rise • Only drag to growth is housing investment which will drop from a high level • Still large surplus on the current account and government budgets despite the drop in oil price
Southern region economy	<ul style="list-style-type: none"> • The Southern region is clearly less exposed to oil production than Western Norway • Registered unemployment in the Southern region remains below 4 % and has decreased at a higher pace than the national average • House price development over the past years has been more moderate than average in Norway

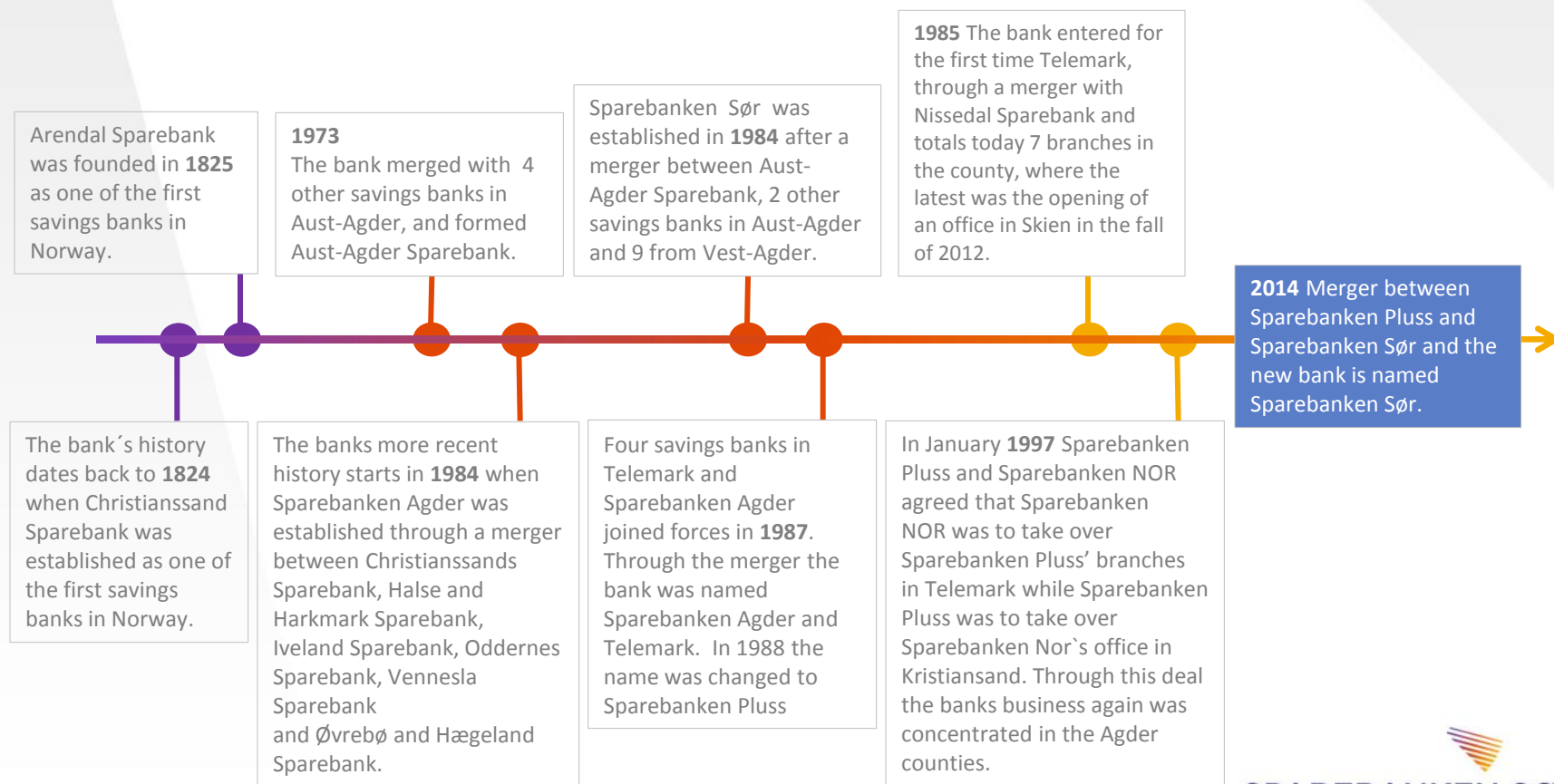
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Historical milestones

190 years of development and renewal



Sparebanken Sør

Business

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

Balance

The sixth largest Norwegian bank with total assets above NOK 114 billions.

Employees

432 employees in branch offices across the counties of Aust-Agder, Vest-Agder, Telemark and Rogaland

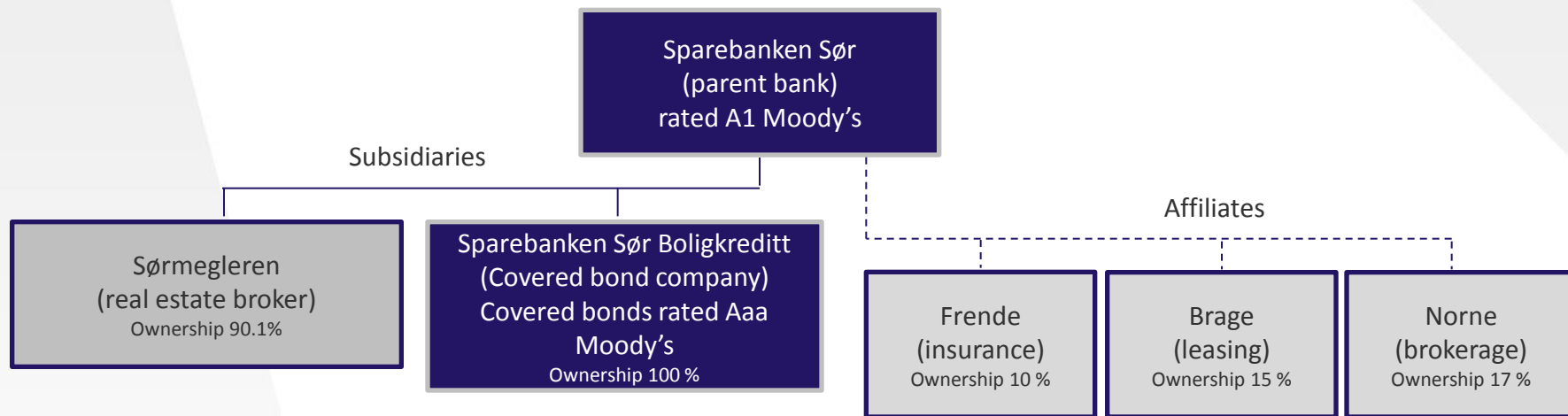
Products and services

General banking services- and products, 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, Sparebanken Sør is committed to further growth and development in the region

Company structure



A complete provider of financial services

Considerable product range - still potential for increased product sales

Subsidiaries



- Sparebanken Sør Boligkreditt is a **wholly owned** subsidiary of Sparebanken Sør
- The subsidiary is licensed as a financial enterprise with the right to issue covered bonds, in which investors receive preferential coverage in home mortgages granted by the bank (covered bonds)
- Through the issuance of covered bonds, the Sparebanken Sør Group can offer mortgages with competitive terms to its customers



- Sparebanken Sør is a **90.1%-owner** in Sørmeqleren Holding AS, which is the parent company of the real estate agency Sørmeqleren AS
- Sørmeqleren is represented with a total of 14 offices, with its headquarters in Kristiansand
- Conveys about 2.200 homes a year, and is the regions largest real estate agency

Business partners



- Sparebanken Sør entered in 2008 as a **10%-owner** in Frende Holding and is one of 15 independent savings banks with holdings
- Frende has 175 000 customers and offers insurance, both life and general, to corporate and retail customers



- Brage Finans is a financing company owned by 12 independent savings banks, and Sparebanken Sør is a **15%-owner**
- The distribution of the company's products is handled through the ownerbanks through its own sales organization



- Sparebanken Sør is a **17% co-owner** in Norne Sec. and is one of 14 independent savings banks with holdings
- Norne is a full service investment firm with corporate finance – services, analysis, and stock and bond brokerage



- Together with 14 other savings banks within the Frende collaboration group, Sparebanken Sør has entered Vipps, through the newly established company, Balder Betaling AS
- Sparebanken Sør is a **22.4%-owner** of Balder Betaling AS, which is a 12%-owner of Vipps AS

Suppliers



A map of Romsdal

Spanning 230 km

Legend: ● RM

Locations marked on the map:

- Bryne
- Hovden
- Kviteseid
- Bø
- Fyresdal
- Nissedal
- Skien
- Porsgrunn
- Kragerø
- Risør
- Tvedestrand
- Arendal
- Grimstad
- Lillesand
- Vennesla
- Songdalen
- Søgne
- Vågsbygd
- Kristiansand
- Mandal
- Lindesnes
- Vanse
- Farsund
- Flekkefjord
- Kvinesdal
- Hægebostad
- Byremo
- Aseral
- Evje
- Froland
- Amlø
- Bygland



A market with 470 000 inhabitants. No other bank covers this area as Sparebanken Sør. The bank has approximately 175 000 retail customers and 23 000 corporate customers.

In the first quarter of 2017, Sparebanken Sør opened a new office at Bryne in Rogaland. This opens up a market with approx. 60,000 people.

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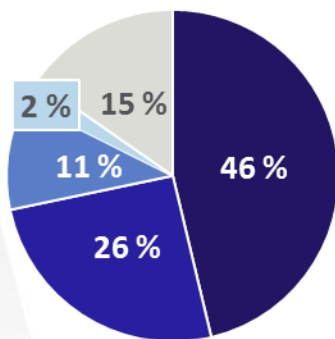


A well diversified loan portfolio

High RM share and geographical diversification contribute to a balanced portfolio

Geographical distribution of loans

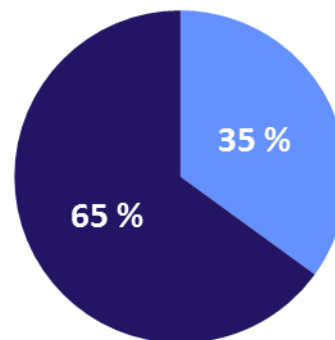
Gross loans



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

Distribution RM / CM

Gross loans



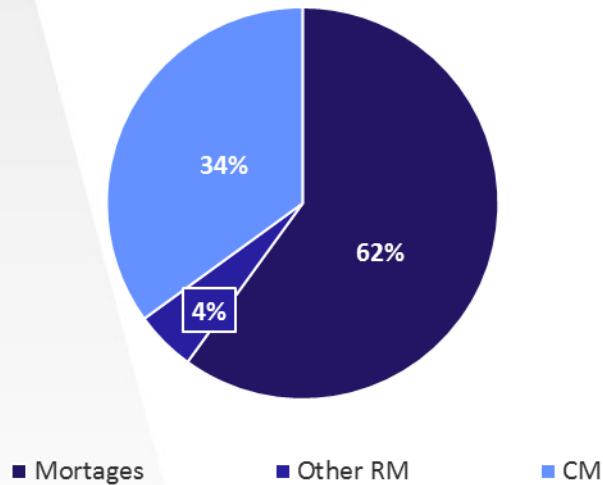
■ CM ■ RM

- # 1 position in Vest-Agder and Aust-Agder, # 3 position in Telemark. Strong growth in Rogaland
- Close and long term cooperation with major firms/organizations in the region. The KNIF* segment amounts to NOK 8.1 billion in loans to customers and NOK 4.6 billion in customer deposits. KNIF corporates constitute the biggest share with NOK 4.9 billion in loans and NOK 4 billion in deposits
- Loans to customers are concentrated in the banks market area
- High RM share is risk reducing.

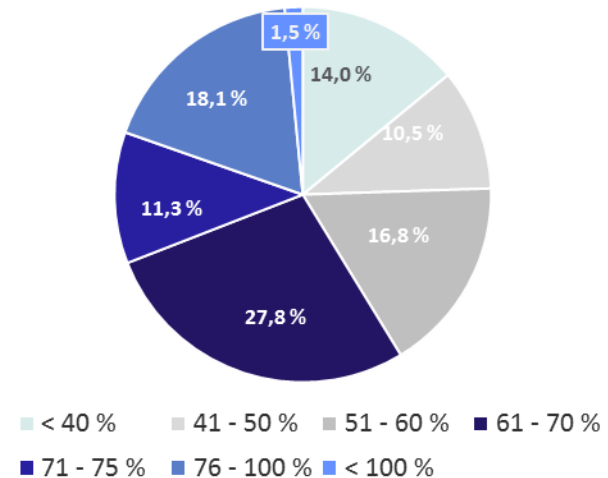
Note(*): KNIF = Kristen-Norges interessefellesskap (Norwegian Christian interest organization) -> Consists of more than 70 national organizations

Sparebanken Sør – Mortgages

The loan portfolio in Sparebanken Sør



Loan to Value (Group)



- Mortgages constitute a large part of the RM portfolio
- Loans with LTV (Loan to Value) below 75 percent constitute 80.4 percent

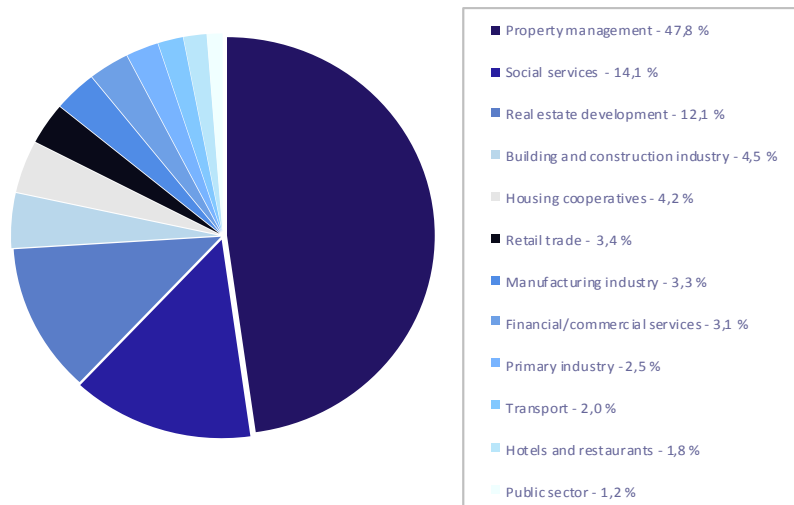
The LTV distribution is based on a distribution, of which the whole commitment is rated as the last part of the commitment.

As a consequence the actual LTV-distribution will be lower than what is displayed in the table.

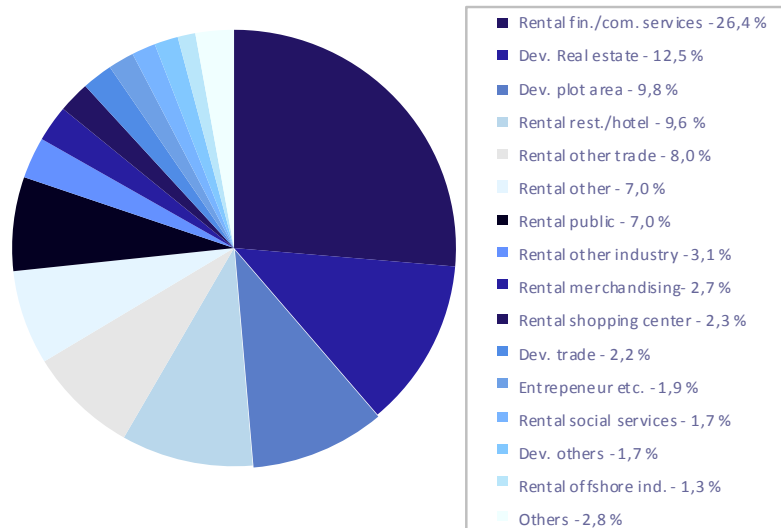
A well diversified loan portfolio

CM portfolio with very low direct exposure to oil and oil service industry

Distribution Corporate Market (CM)



Tenant distribution¹⁾: Property management (rental), real estate development and building and construction (Loan commitment > NOK 10 million)



The CM loan portfolio reflects the business activity in the region with one major exception: Sparebanken Sør has a very low direct exposure to the oil and oil service industry.

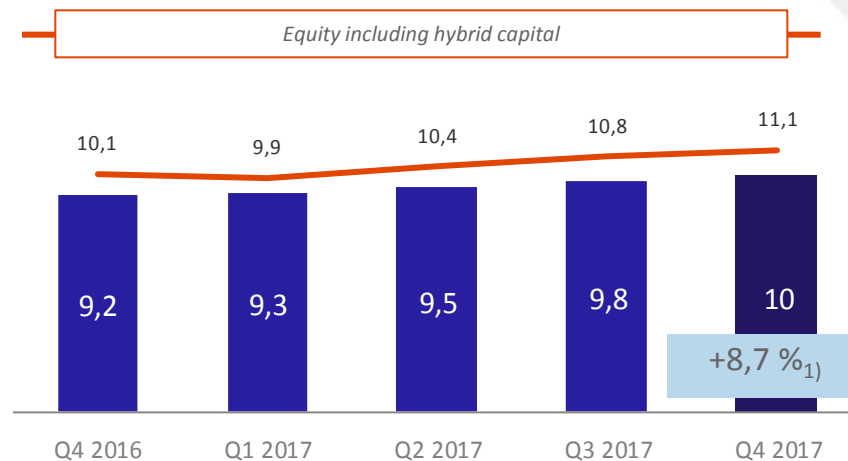
Balance sheet items – Quarterly development

NOK billion

Total assets



Equity



1) Changes from the same accounting period in 2016

Balance sheet items – Quarterly development

NOK billion

Loans



Deposits

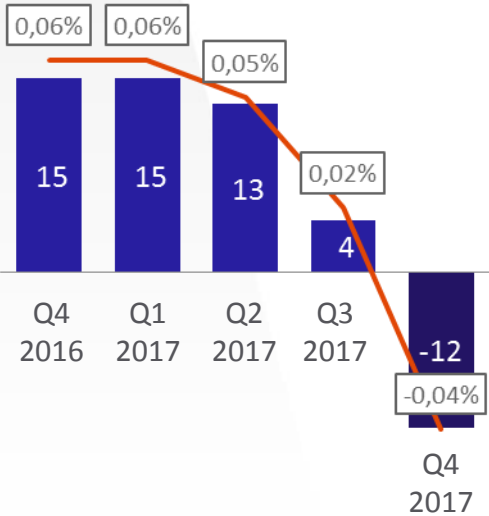


1) Changes from the same accounting period in 2016

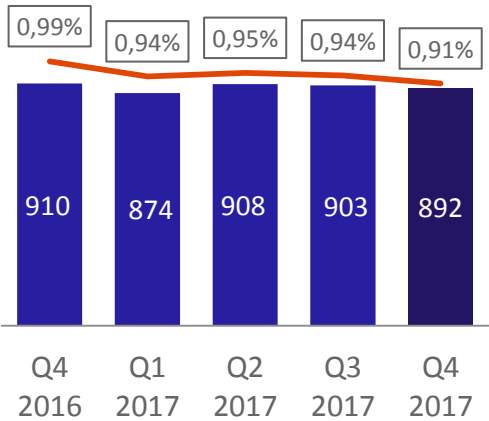
2) Loan growth in 2017 amounted to NOK 6.6 billion, equivalent to 7.2 percent, of which retail customers accounted for 6.7 percent and corporate customers 8.1 percent

Losses and non-performing loans – Quarterly development

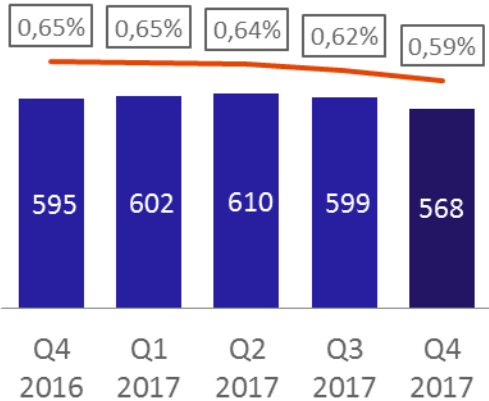
Development in losses in NOK million and as a percentage of gross loans



Development in non-performing loans in NOK million and as a percentage of gross loans



Development in loss provisions in NOK million and as a percentage of gross loans

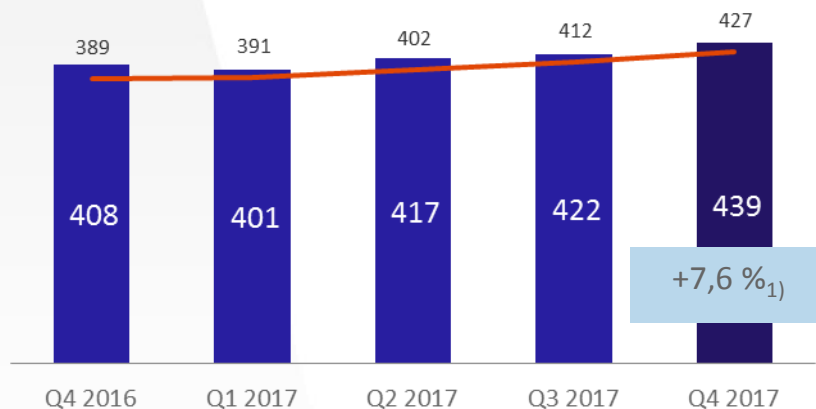


Profit and loss – Quarterly development

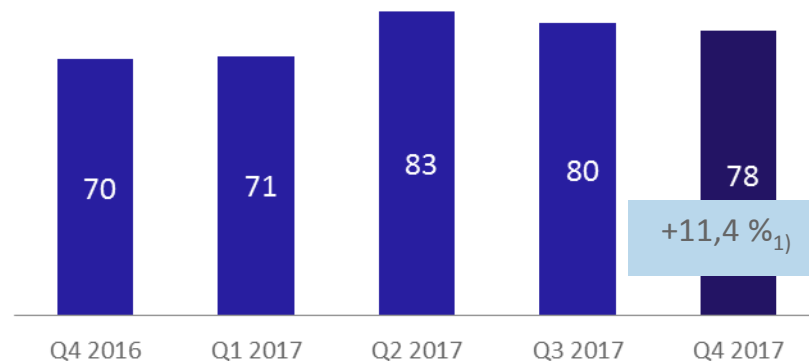
NOK million

Net interest income

Net interest income, adjusted for the fee to the Norwegian Banks' Guarantee Fund and interest on hybrid capital



Net commission income

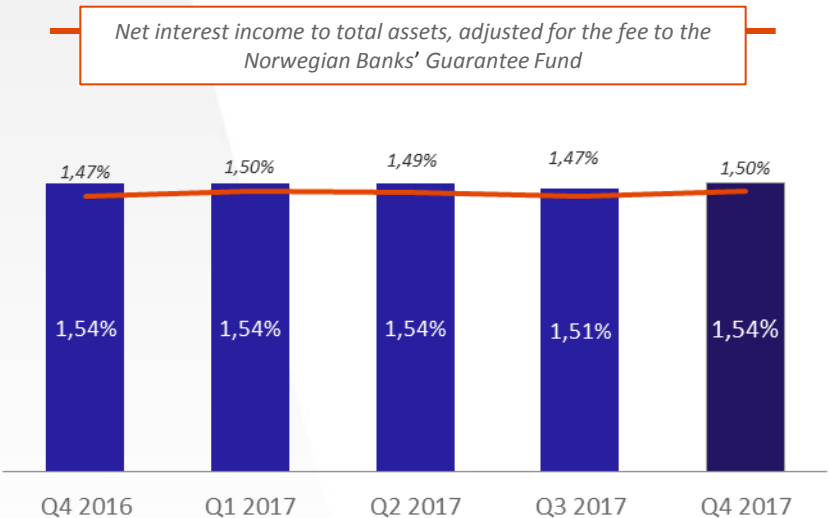


1) Changes from the same period in 2016.

Profit and loss – Quarterly development

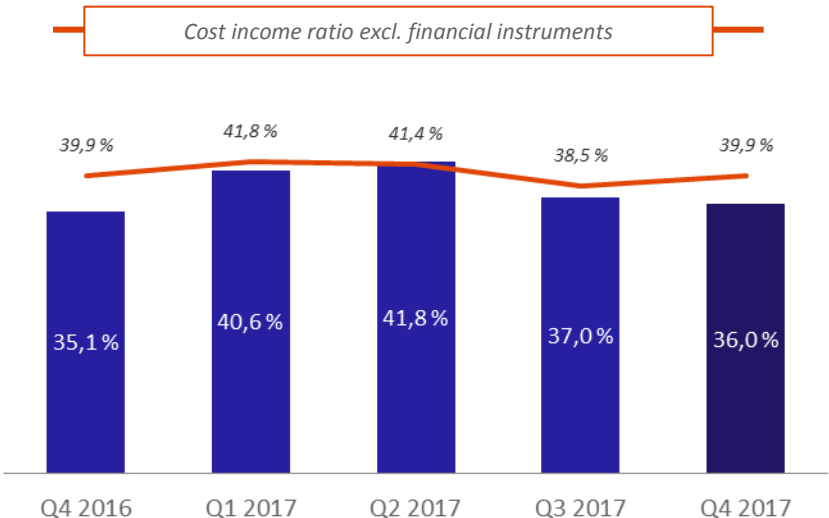
Net interest income to total assets

Net interest income to total assets, adjusted for the fee to the Norwegian Banks' Guarantee Fund



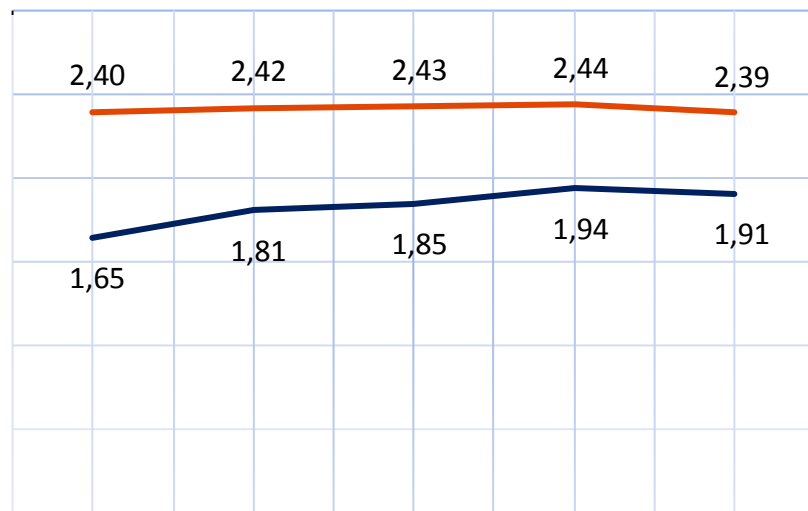
Costs Income Ratio

Cost income ratio excl. financial instruments



Interest margin - Quarterly development

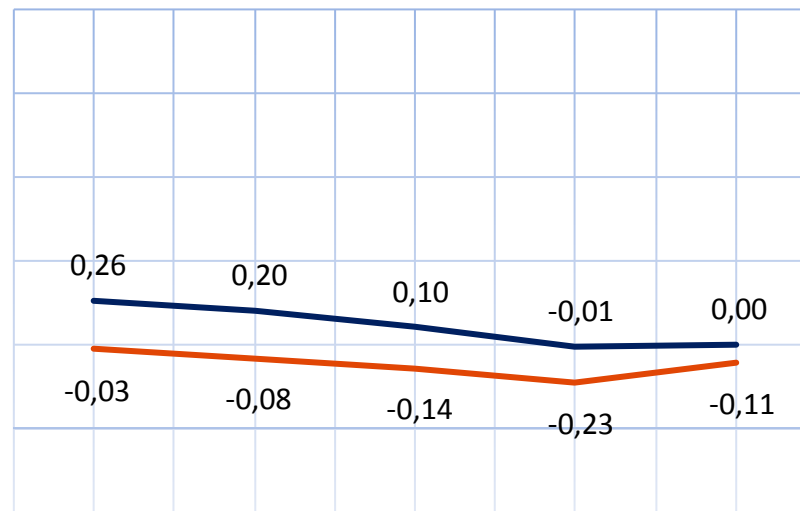
Loans (%)



Q4 2016 Q1 2017 Q2 2017 Q3 2017 Q4 2017

— Retail market (RM) — Corporate market (CM)

Deposits (%)



Q4 2016 Q1 2017 Q2 2017 Q3 2017 Q4 2017

— Retail market (RM) — Corporate market (CM)

Loans: Average interest rates minus 3 month weighted average of 3 month NIBOR.

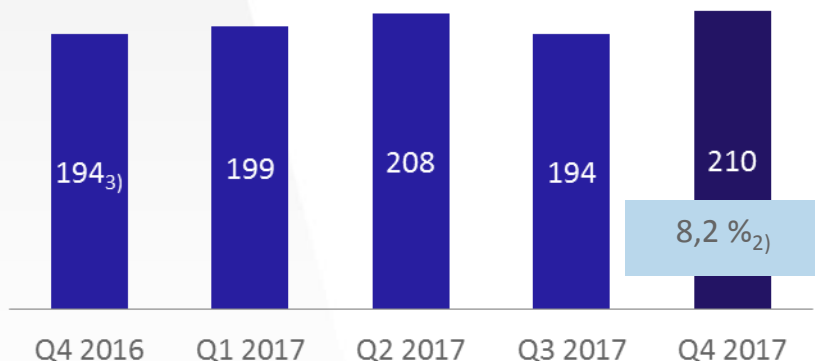
Deposits: 3 month weighted average of 3 month NIBOR minus average interest rates.

All numbers in % per annum.

Profit and loss - Quarterly development

NOK million

Operating expenses

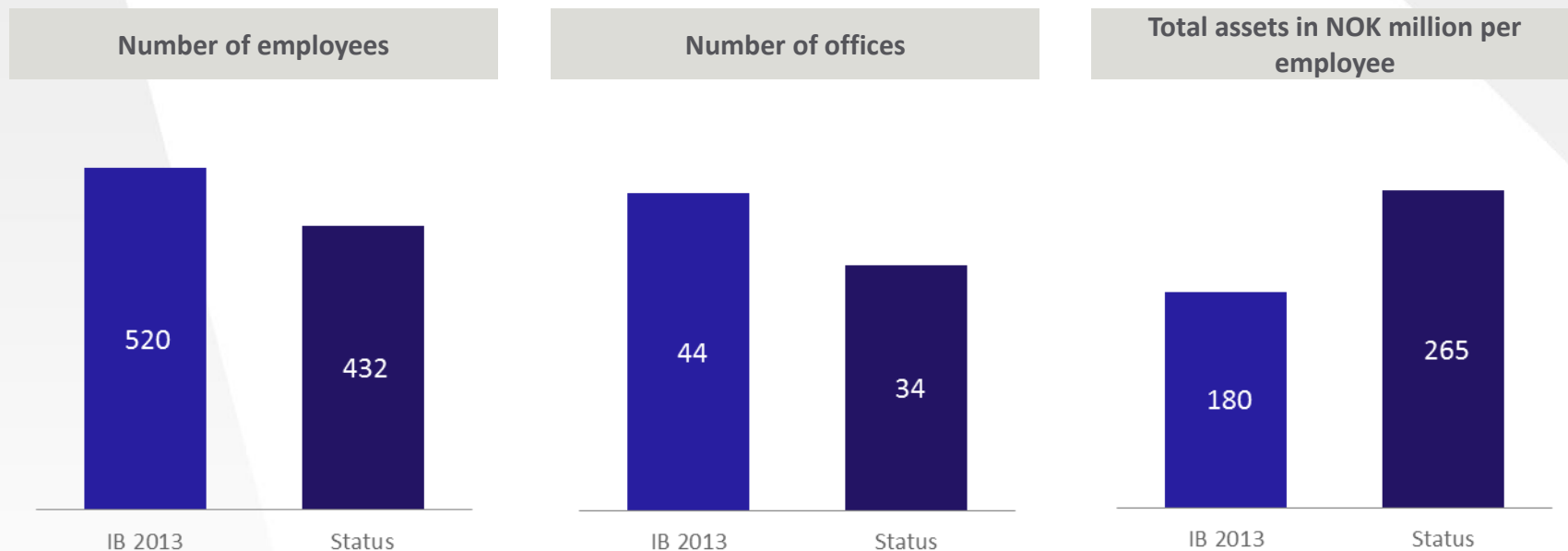


Profit from ordinary operations₁₎



- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating costs, adjusted for the conversion of the pension scheme
- 2) Changes from the same accounting period in 2016
- 3) Q4 2017 numbers are extraordinarily low because of the net accounting effect of NOK 28 million after the conversion of the pension scheme

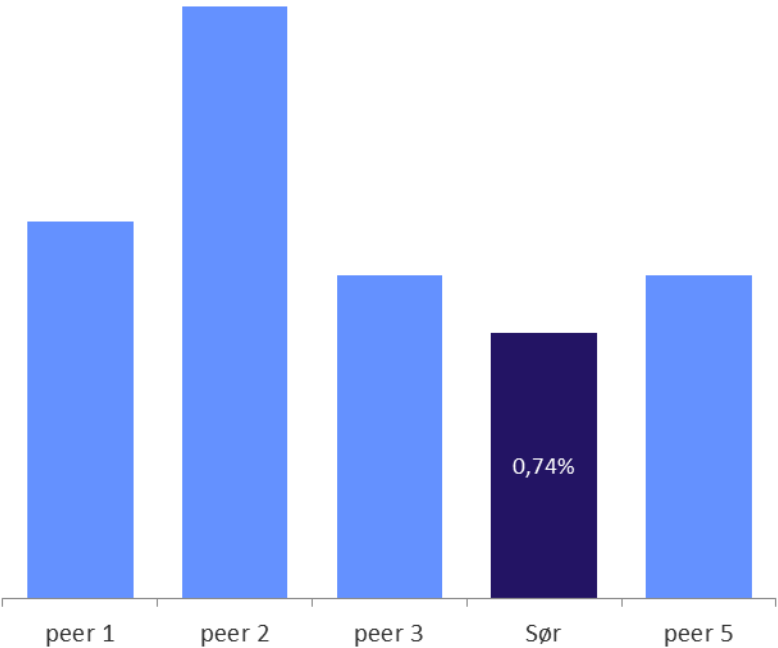
Restructuring and cost focus



Considerable potential has been realized – further efficiency improvements will take place as part of ongoing operations.
The Group opened a new office in Jæren on 27 April 2017.

Three strategic pillars

One of the most cost effective financial institutions¹⁾

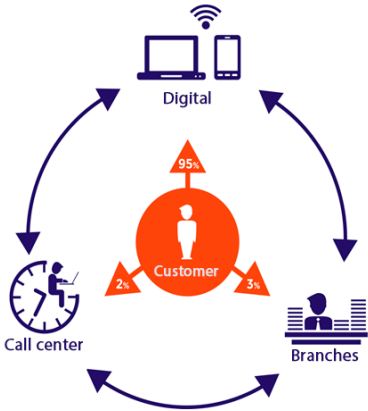


1) Costs as a percentage of total assets, Q4 2017

Strong customer relations

The bank is customer relation oriented, known for fast decisions based on local knowledge through closeness to customers and market

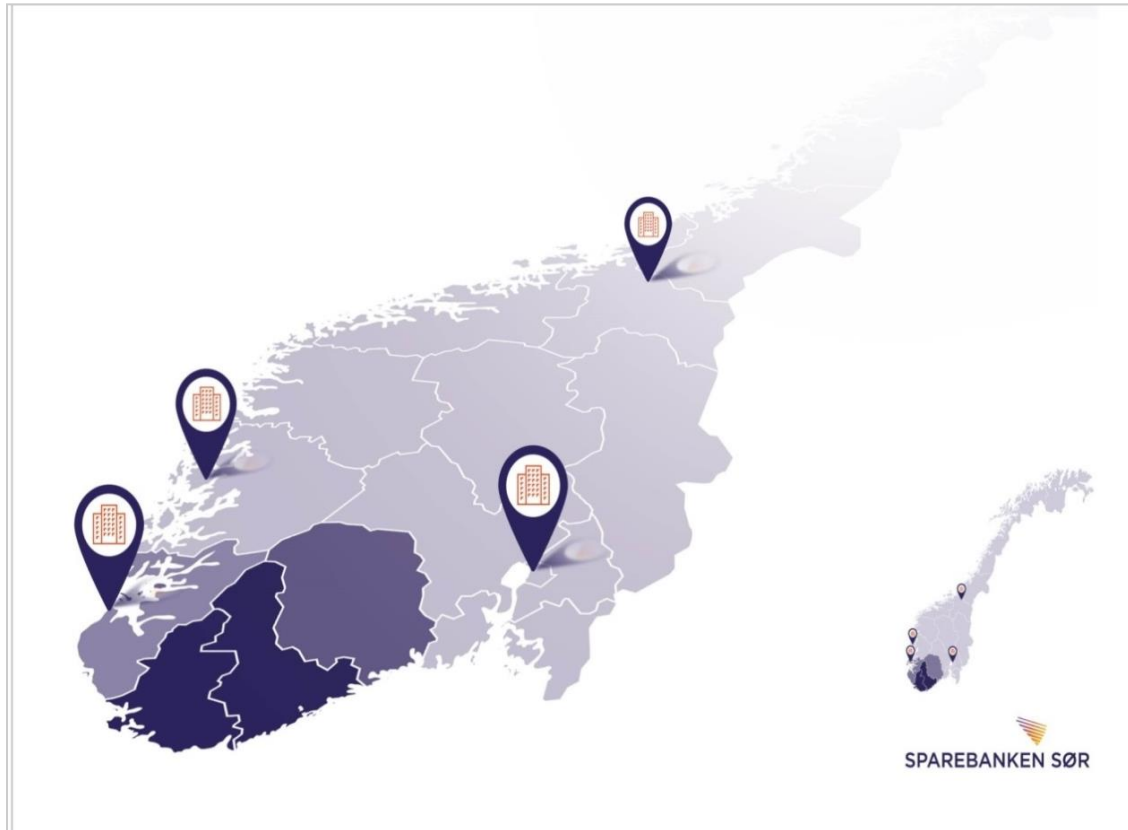
Optimal channel interaction and digitalization



Our focus areas

Differentiated and high growth potential

Local, regional and national customer segments



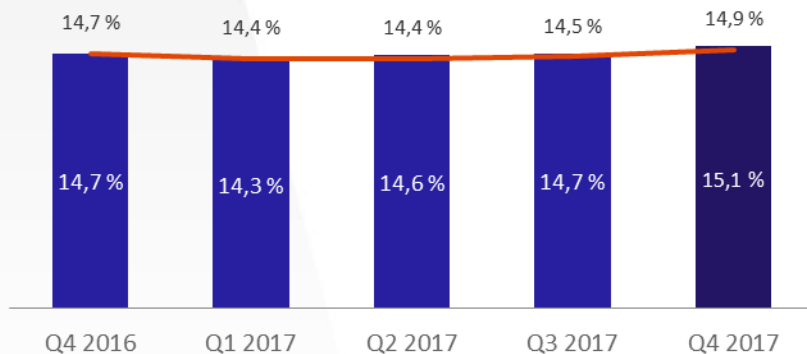
Regional business



Solid financial base – High capital ratios

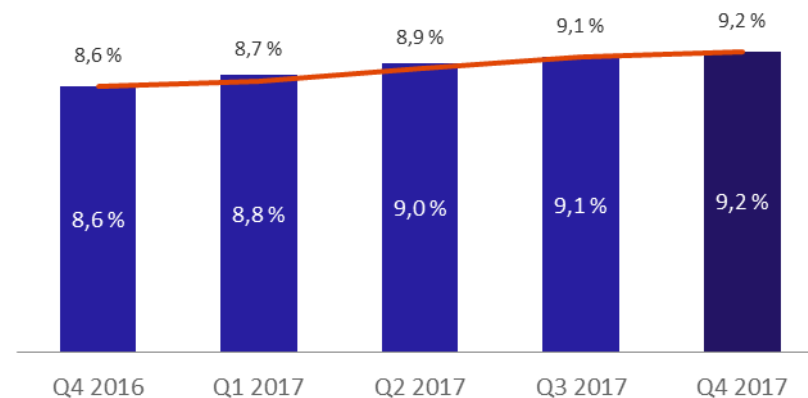
Common equity tier 1 capital ratio

Common equity tier 1 capital ratio with Brage partially consolidated



Leverage ratio

Common equity tier 1 capital ratio with Brage partially consolidated



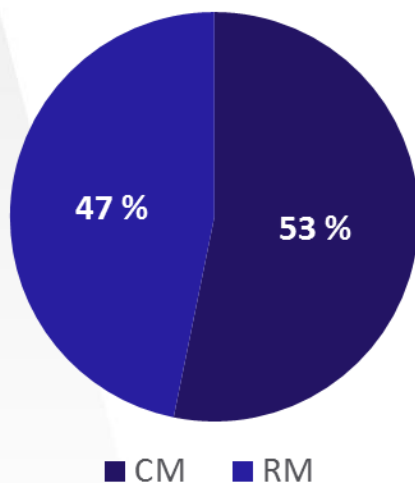
Capital ratio – Leverage ratio

31.12.2017	Metodebruk kapital-beregning	CET1	Leverage Ratio
Sør	Standard	14,9	9,2
Regionbank 1	IRB	15,0	7,3
Regionbank 2	IRB	14,9	7,2
Regionbank 3	IRB	14,9	7,2
Regionbank 4	IRB	14,9	7,2
Regionbank 5	IRB	16,8	7,1

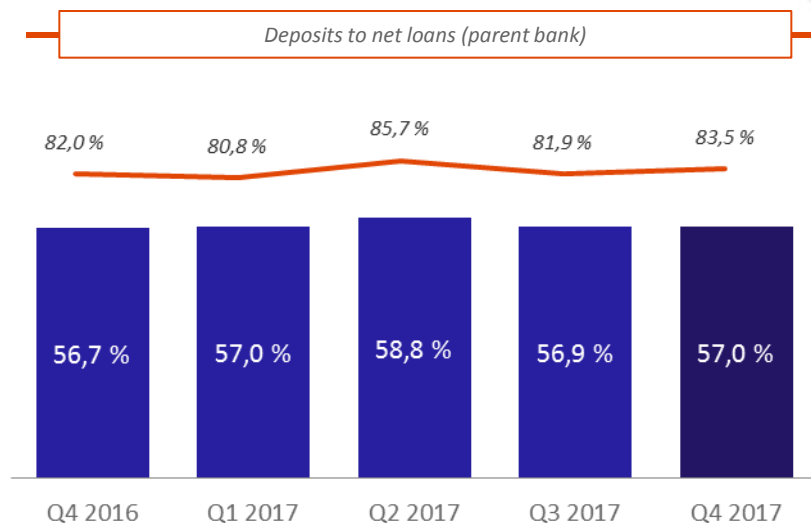
- Sparebanken Sør is very solid, has a high CET1 capital and a very high Leverage ratio
- Sparebanken Sør is the only large regional bank that use the standard method in the capital adequacy calculations
- In November 2017, the board decided to put in process an application to Finanstilsynet to be approved for IRB. The application is scheduled to be sent to Finanstilsynet by the end of 2019

Solid financial base - Deposits

Distribution RM/CM (31.12.17)



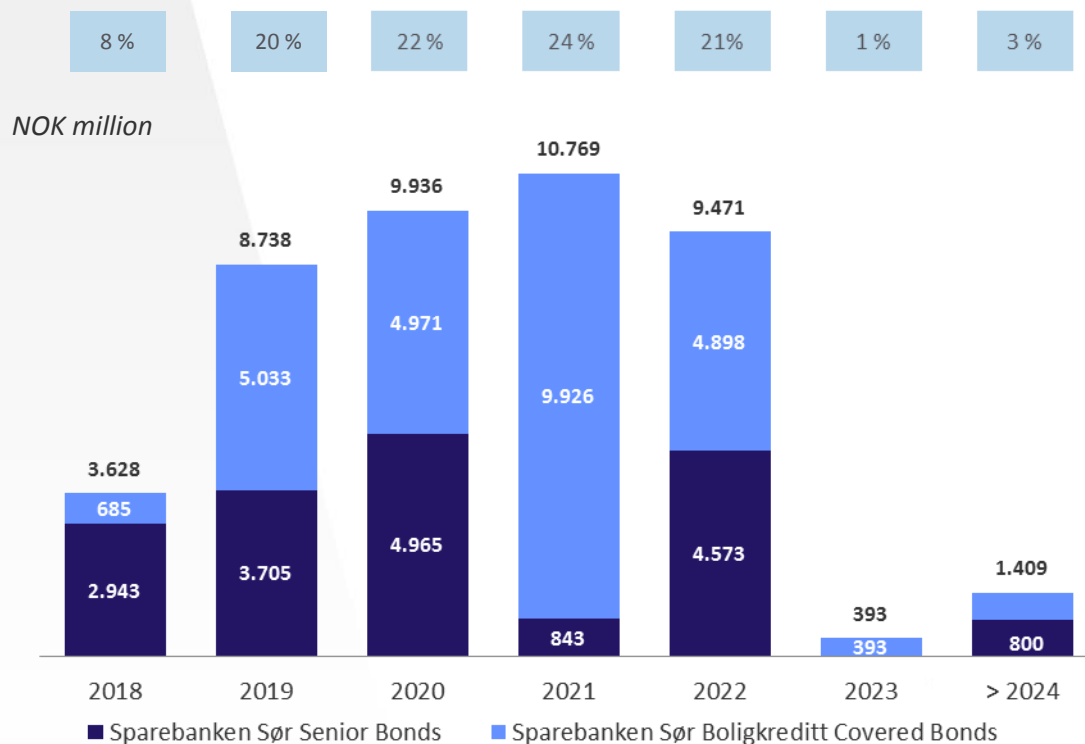
Deposit to net loans



Deposits as a percentage of net loans have increased over the last 12 months, with a deposit growth of 7.8 percent

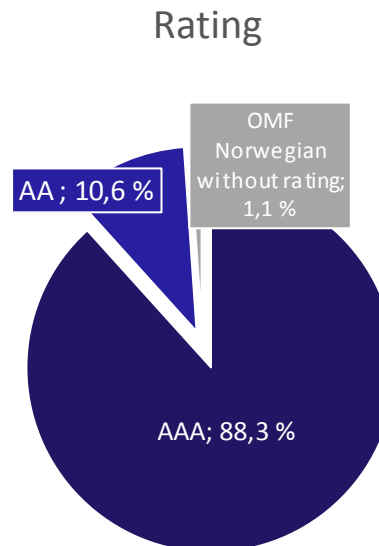
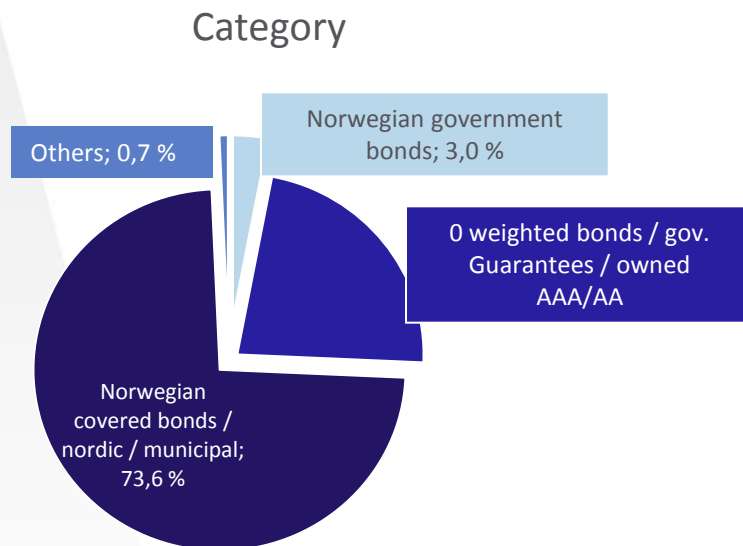
Solid financial base – Well diversified funding profile

Remaining maturity of outstanding wholesale funding



- Total funding for the Group amounted to NOK 44.3 bn, with NOK 26,5 bn issued as covered bonds as at 31 December 2017
- The bank has a reassuring maturity profile
- Funding with maturities after 2018 amounts to 92% of the portfolio
- Liquidity indicator 1 at 109%
- Average maturity at 3 years

Solid financial base – High liquid buffers to handle liquidity stress



- Total liquidity portfolio of NOK 13.4 bn
- 100 % investment grade and 100 % liquid instruments (LCR eligible)
- Liquidity reserve (LCR) of 139 % for the Group

Status as of 31 December 2017

Result

Improved profit from ordinary operations, through positive growth, stable net interest income, combined with low costs and losses on loans

Finance

Positive net income from financial instruments due to positive changes in the market value of bonds and strategic equity stakes in subsidiaries

Capital

Common equity tier 1 capital ratio amounts to 14.9 percent and the leverage ratio amounts to 9.2 percent

Capital

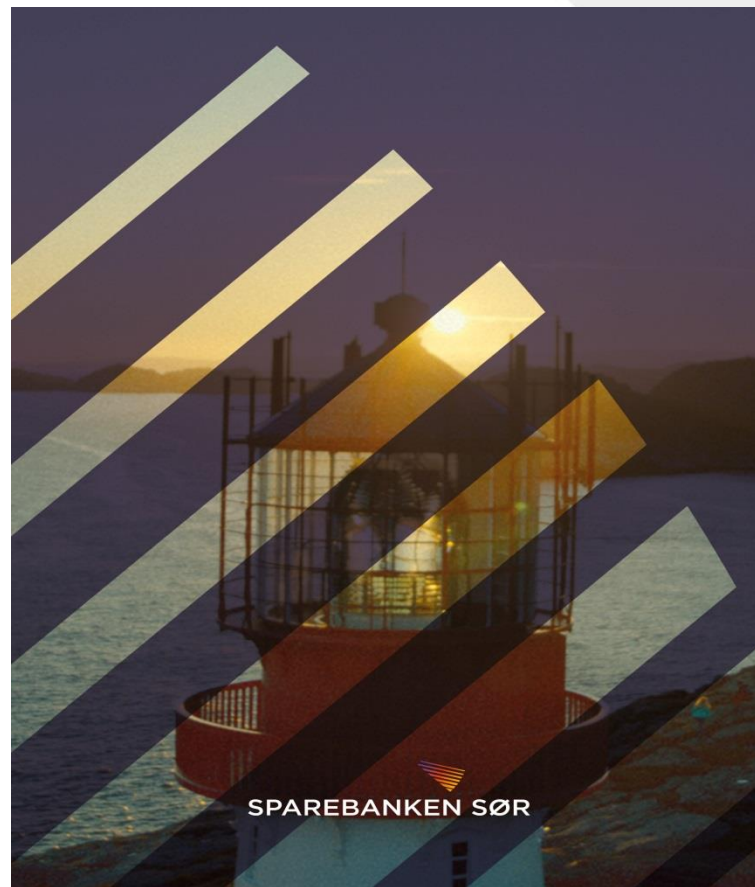
Loan growth of NOK 6.6 billion the last 12 months, corresponding to a 7.2 percent annual growth.
Deposit growth of NOK 4.0 billion, corresponding to a 7.8 percent annual growth.

Summary

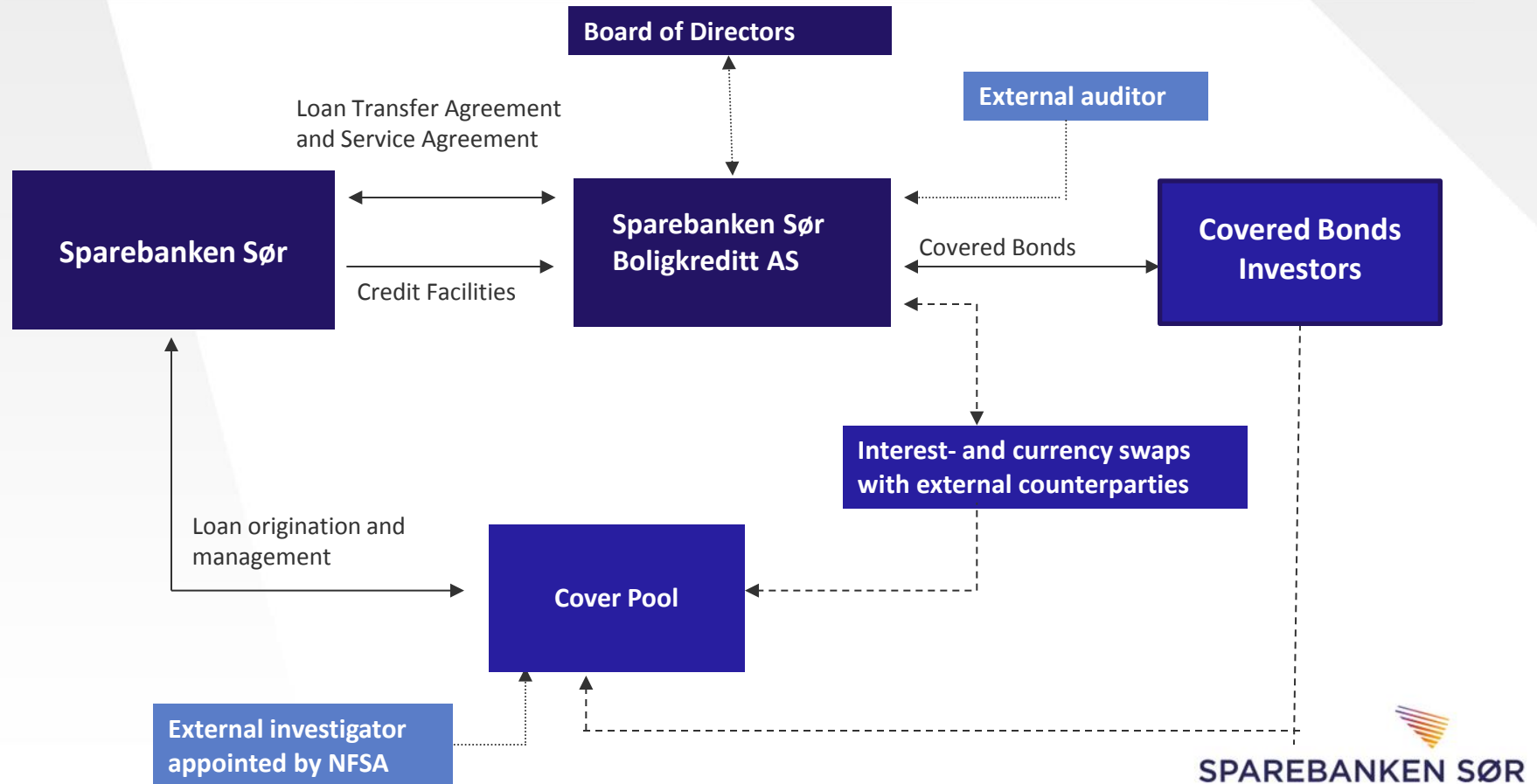
Sound operations contribute to a pre-tax result of NOK 1 266 million in 2017

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Business concept - governed by Norwegian covered bond legislation



Sparebanken Sør Boligkreditt AS

- Dedicated and integrated covered bond company wholly owned by Sparebanken Sør
- The covered bonds have full recourse to the issuer Sparebanken Sør Boligkreditt
- Sparebanken Sør Boligkreditt has established a revolving credit facility with Sparebanken Sør, which covers refinancing risk
- Overdraft facility with the bank to handle daily operations
 - Loans are originated by the bank and transferred to the CB company
- The cover pool consists of prime Norwegian residential assets (97.2 %) and interest bearing securities
- Low LTV of 57.0 % (indexed)
- No non-performing assets in the cover pool
- Current OC of 19.3 %, of which 2.0 % is provided on committed basis
- Cover pool exposure towards Southern Norway, where price development is rather stable
- CB issuances assigned Aaa long term rating by Moody's with a high TPI and 5 notches of TPI leeway, pointing to a significant buffer against potential downgrades

Eligibility criteria for cover pool mortgages

Type of properties	<ul style="list-style-type: none">• Residential Norwegian properties• Minor volumes of buy to let
Type of products	<ul style="list-style-type: none">• Mortgages with floating or fixed interest rates – p.t. only floating interest rate• Serial, annuity or non-amortizing loans
Credit criteria	<ul style="list-style-type: none">• No arrears• Borrowers probability of default $\leq 2\%$
Collateral	<ul style="list-style-type: none">• LTV limit of 75 % for residential mortgages• Quarterly valuation from independent third party (Eiendomsverdi)
Loan volume	<ul style="list-style-type: none">• Maximum loan per borrower of 12 MNOK (Euro 1,3 mill)

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 facility in place with the mother company

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
- P.t. only floating rate loans and floating funding base incl. swaps

Foreign exchange risk

- FX risk is fully hedged
- Long term FX funding is swapped into NOK
- Derivative contracts with external counterparties

Cover pool composition and OC as at 31.12.2017

NOK Thousand	Fair value	
	<u>31.12.2017</u>	<u>31.12.2016</u>
Loans secured by mortgages on residential properties (1)	30.967.963	28.125.467
Deduction of ineligible loans (2)	-87.624	-84.296
Pool of eligible loans	30.880.339	28.041.171
Sertificates and bonds	556.484	-
Receivables on derivatives	345.837	137.889
Total cover pool (1,2)	31.782.659	28.179.060
Debt incurred due to issuance of securities	26.645.880	24.746.000
Commitments on derivatives	-	236.201
Total commitments	26.645.880	24.982.201
Collateralisation ratio (OC)	19,3 %	12,8 %

	Nominal value	
	<u>31.12.2017</u>	<u>31.12.2016</u>
OC based on nominal value, eligibles only	19,0 %	14,5 %
OC based on nominal value	19,4 %	14,8 %

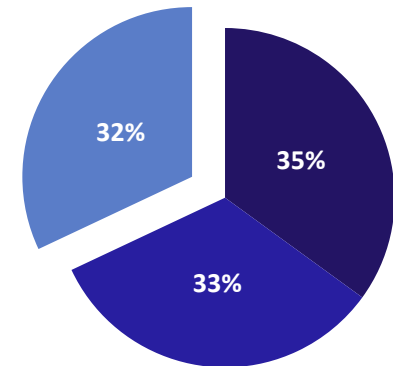
1) Cover pool composition is defined in the *Norwegian Financial Institution Act Section 11-8*.

2) Loans with LTV (loan to value) higher than 75 % is included in the cover pool. However, the part of the loan exceeding 75 % (ineligibles) is excluded when calculating the OC above. Assuming the ineligible is included, the OC would have been 19.6 % as at 31.12.2017 and 13.1 % as at 31.12.2016.

Additional cover pool details as at 31.12.2017

Average LOAN BALANCE	1.300.000
NO. OF LOANS	23.816
WA SEASONING (in months)	41
WA REMAINING TERM (in months)	200
NO. OF BORROWERS	21.860
NO. OF PROPERTIES	23.816
WA Indexed LTV (LOAN BALANCE/INDEXED valuation) (e.g. 85% or 0.85)	57,0 %
WA LTV(LOAN BALANCE/original valuation)(e.g. 85% or 0.85)	60,9 %
Percentage of VARIABLE MORTGAGES (S.Def.)	97,2 %
Loans in arrears > 90 days (e.g. 1% or 0.01)	0,0 %
Committed over collateralisation:	2,0 %

Sparebanken Sør (Group) total loan portfolio

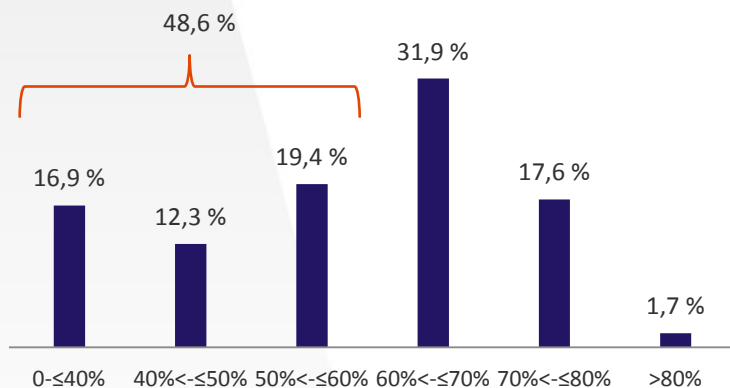


■ CM ■ RM ■ Cov.bond

Loans transferred to Sparebanken Sør Boligkreditt account for 32% of Sparebanken Sør's total loan portfolio

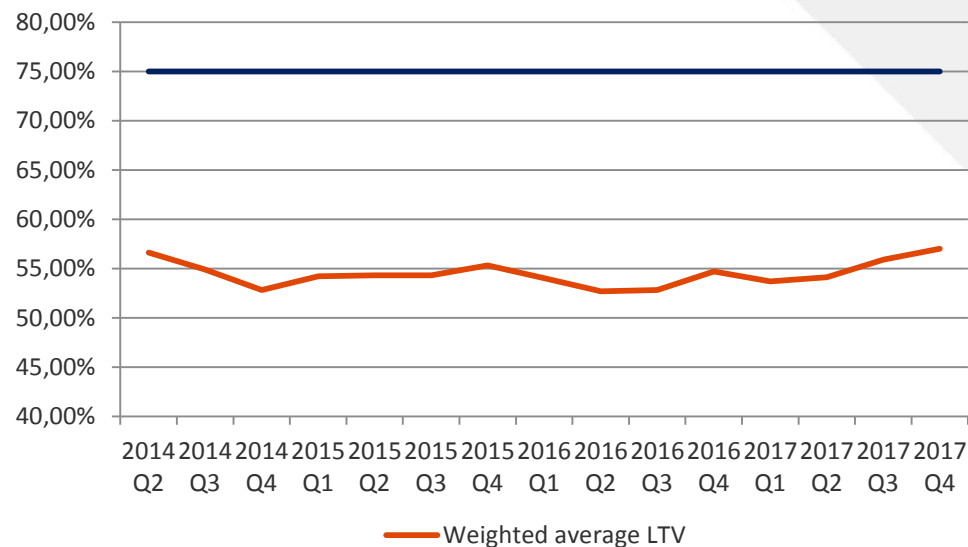
Cover pool characteristics

Current indexed LTV distribution



- The weighted average LTV is 57 % on an indexed basis
- Approx. 48,6 % of the cover pool has an LTV below 60%

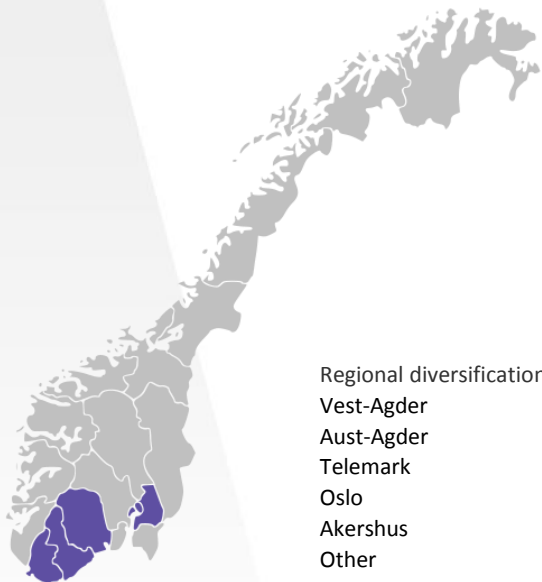
Historical development in weighted average indexed LTV



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

Cover pool characteristics

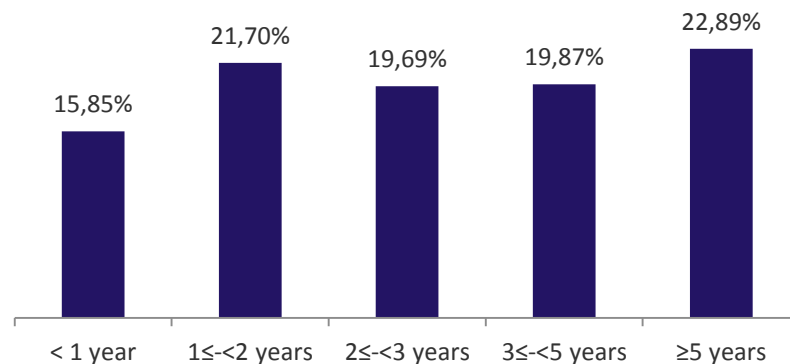
Cover pool geographic split



Regional diversification	
Vest-Agder	46,27 %
Aust-Agder	25,44 %
Telemark	10,69 %
Oslo	8,11 %
Akershus	2,44 %
Other	7,05 %

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

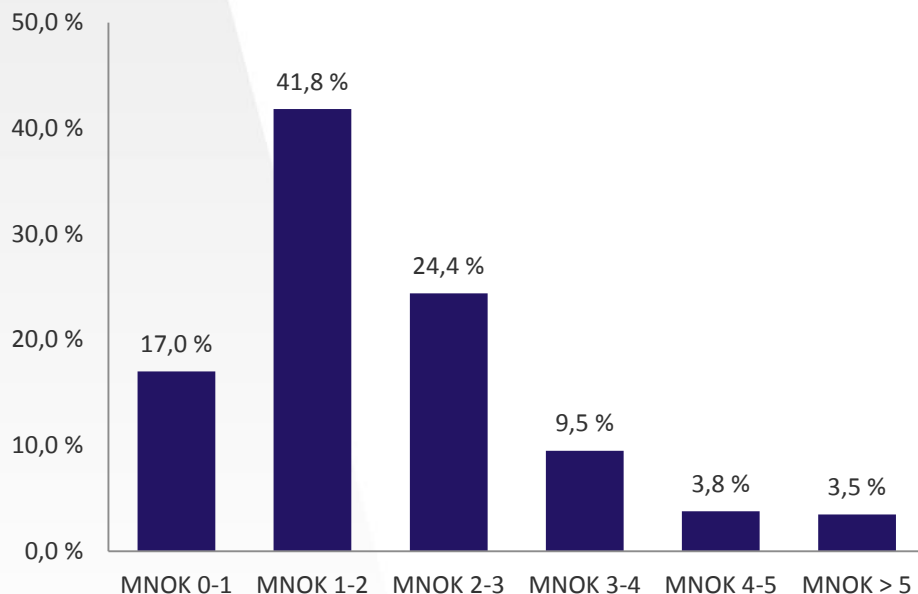
Seasoning of mortgages in the cover pool (in % of total loan balance)



- Weighted average seasoning is 3.4 years
- The cover pool is stable, as 84.2 % of mortgages have been included in the coverpool for more than 1 year

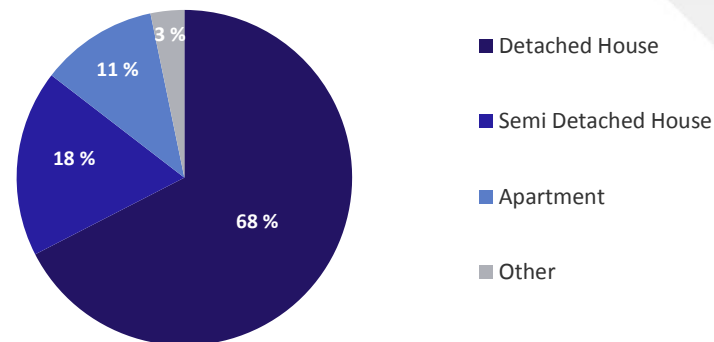
Cover pool characteristics

Pool notional

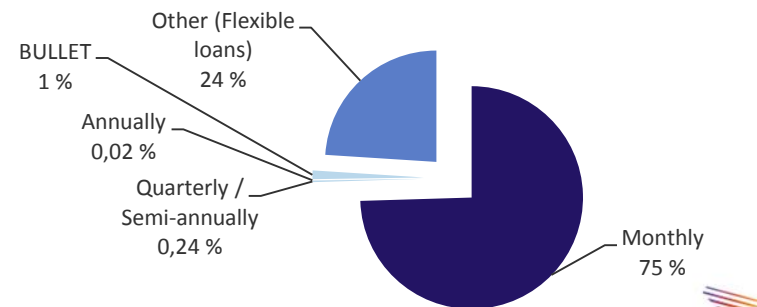


- Average loan value of NOK 1.3 million

Property type

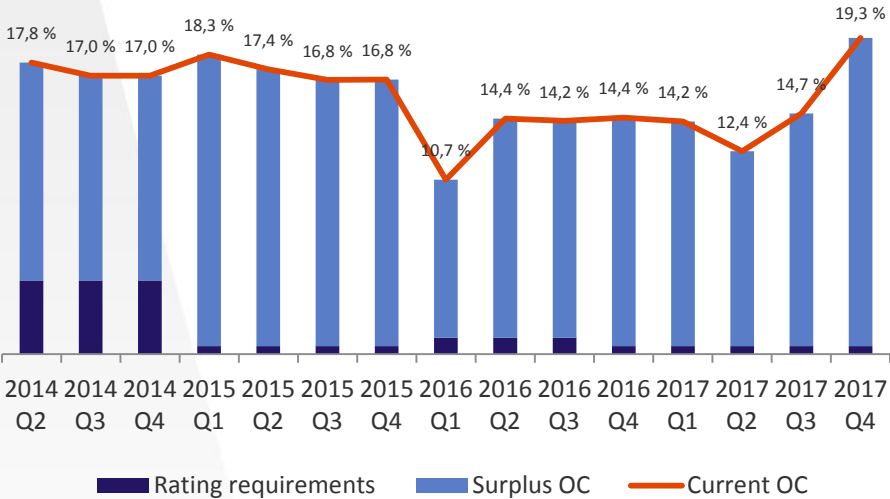


Principal payment frequency



Cover pool characteristics

Historical development in over collateralisation

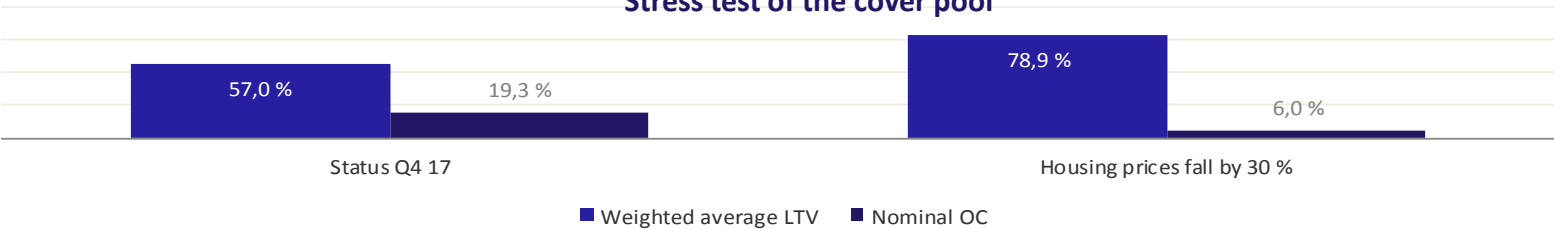


Current situation

- Committed OC: 2.0%
- OC consistent with current rating: 0,5%
- Current OC: 19.3%

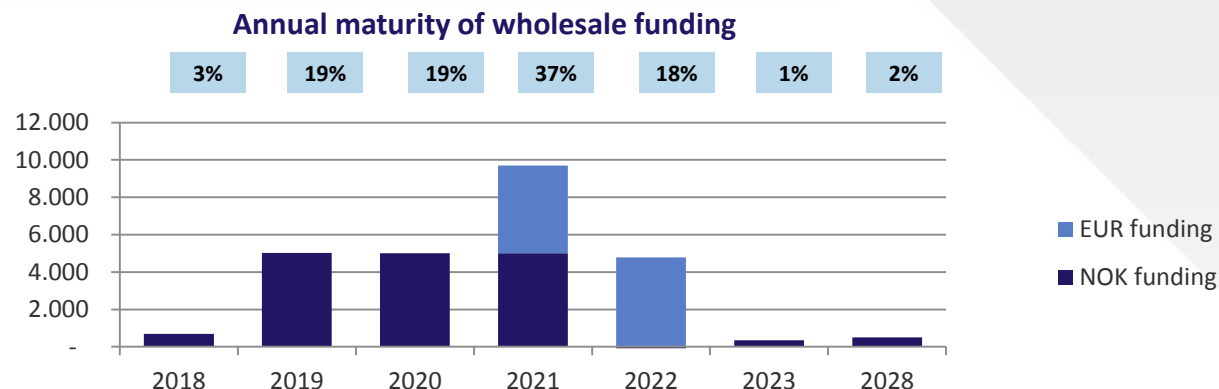
Committed OC: The minimum level of OC included in Sparebanken Sør Boligkreditt Covered bond program

Stress test of the cover pool



Funding as of 31.12.2017

- Total funding amounts to NOK 26 bn in issued covered bonds
- The company has a diversified maturity profile
- Funding > 12 months totalled 97 %
- Soft bullet structure on all outstanding bonds



Ticker	ISIN	Outstanding Amount	Issuance Date	Expected Maturity	Interest Rate Type	Coupon
SORB21	NO0010673296	NOK 685 million	14.03.2013	14.09.2018	Floating rate	Nibor 3 mnd + 46 bps
SORB10	NO0010679806	NOK 5000 million	22.05.2013	22.05.2019	Floating rate	Nibor 3 mnd + 44 bps
SORB07	NO0010664659	NOK 28 million	27.11.2012	27.11.2019	Floating rate	Nibor 3 mnd + 54 bps
SORB24	NO0010714058	NOK 5000 million	24.06.2014	24.06.2020	Floating rate	Nibor 3 mnd + 30 bps
SORB27	NO0010778954	NOK 5000 million	22.11.2016	22.11.2021	Floating rate	Nibor 3 mnd + 54 bps
SORB09	NO0010671597	NOK 350 million	13.02.2013	13.02.2023	Fixed rate	3,850 %
SORB08	NO0010670409	NOK 500 million	24.01.2013	24.01.2028	Fixed rate	4,000 %
-	XS1383921803	EUR 500 million	22.03.2016	22.03.2021	Fixed rate	0.250%
-	XS1622285283	EUR 500 million	30.05.2017	30.05.2022	Fixed rate	0.125%

Euro Medium Term Covered Note Programme

SPAREBANKEN SØR BOLIGKREDITT AS

(incorporated with limited liability in Norway)

€4,000,000,000

Euro Medium Term Covered Note Programme

Under the €4,000,000,000 Euro Medium Term Covered Note Programme (the Programme) described in this base prospectus (the Base Prospectus), Sparebanken Sør Boligkredit AS (the Issuer) may from time to time issue covered bonds issued in accordance with the Act (as defined in "Terms and Conditions of the Notes: other than VPS Notes" or "Terms and Conditions of the VPS Notes", as the case may be) (the Notes which term shall include, so far as the content permits, VPS Notes (as defined below)) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The Notes may be issued in bearer form or in uncertificated book entry form (the VPS Notes) settled through the Norwegian Central Securities Depository, the Verdipapircentralen ASA (the VPS).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €4,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Overview of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a Dealer and together the Dealers), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".

This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Directive (as defined below). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union (EU) law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on the regulated market (the Main Securities Market) of the Irish Stock Exchange plc (the Irish Stock Exchange) or another regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive or MiFID) and/or which are to be offered to the public in any Member State of the European Economic Area (the EEA).

Application has been made to the Irish Stock Exchange for Notes issued under the Programme to be admitted to the official list of the Irish Stock Exchange (the Official List) and to trading on the Main Securities Market. The Issuer has further requested that the Central Bank of Ireland send to the Norwegian Financial Supervisory Authority (Finanstilsynet) (the NFSA) in its capacity as the competent authority in Norway (i) a copy of this Base Prospectus and (ii) a certificate of approval pursuant to Article 18 of the Prospectus Directive attesting that the Base Prospectus has been drawn up in accordance with national law implementing the Prospectus Directive, for purposes of listing Notes on the Oslo Stock Exchange's Regulated Market.

Each of the Main Securities Market and the Oslo Stock Exchange's Regulated Market is a regulated market for the purposes of MiFID. References in this Base Prospectus to Notes being listed (and all related references) shall mean that such Notes have been either admitted (i) to the Official List and to trading on the Main Securities Market or (ii) to trading on the Oslo Stock Exchange's Regulated Market, as may be agreed between the Issuer and the relevant Dealer in relation to the relevant Series (as defined below).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined in "Terms and Conditions of the Notes: other than VPS Notes" or "Terms and Conditions of the VPS Notes", as the case may be) of Notes will be set out in a final terms document (the Final Terms) which will be delivered to the Central Bank of Ireland and the Irish Stock Exchange (if listed on the Irish Stock Exchange). Copies of the Final Terms in relation to the Notes to be listed on the Irish Stock Exchange will also be published on the website of the Irish Stock Exchange.

The Notes are expected to be assigned a "Aaa" rating by Moody's Investors Service Limited (Moody's). Moody's is established in the EU and is registered under Regulation (EC) No. 1060/2009 (as amended) (the CRA Regulation) and is included in the list of credit rating agencies registered under the CRA Regulation, which is available on the ESMA website (<http://www.esma.europa.eu/press/list-registered-and-certified-CRA>) (last updated on 29 March 2017).

Where a Tranche of Notes is rated, such rating will be disclosed in the applicable Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Arranger

Nordea

Dealers

Danske Bank
Landesbank Baden-Württemberg
SEB

UniCredit Bank

DNB Bank
Nordea
Swedbank

The date of this Base Prospectus is 30 June 2017

- Sparebanken Sør established a €4,000,000,000 Euro Medium Term Covered Note Program (EMTN) in the third quarter of 2015
- In the first quarter of 2016 the company issued covered bonds amounting to EUR 500 million under the program
- In the second quarter of 2017 the company issued covered bonds amounting to EUR 500 million under the program
- Sparebanken Sør Boligkredit AS plans to further acquire loans from Sparebanken Sør, and the company intends to issue new covered bonds towards investors in Norway and abroad



SPAREBANKEN SØR

Moody's Performance Overview as of 30 September 2017

- Published by Moody's 20 December 2017

I. Programme Overview

Overview

Year of initial rating assignment:		2011
Total outstanding liabilities:	NOK (Norway)	25,943,000,000
Total assets in the Cover Pool:	NOK (Norway)	29,329,016,800
Issuer name / CR Assessment:	Sparebanken Sør Boligkreditt AS / n/a	
Group or parent name / CR Assessment:	Sparebanken Sør / Aa3(cr)	
Main collateral type:	Residential	

Ratings

Covered bonds rating:	Aaa
Entity used in Moody's EL & TPI analysis:	Sparebanken Sør
CB anchor:	CR Assessment + 1 notch
CR Assessment:	Aa3(cr)
SUR:	A1
Unsecured claim used for Moody's EL analysis:	No

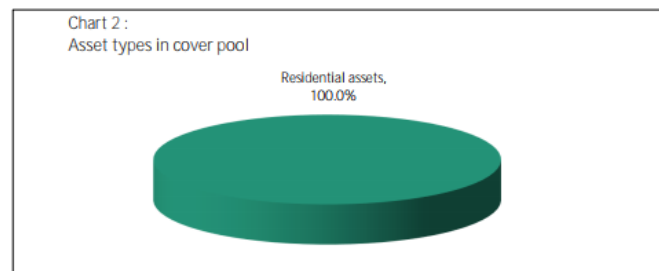
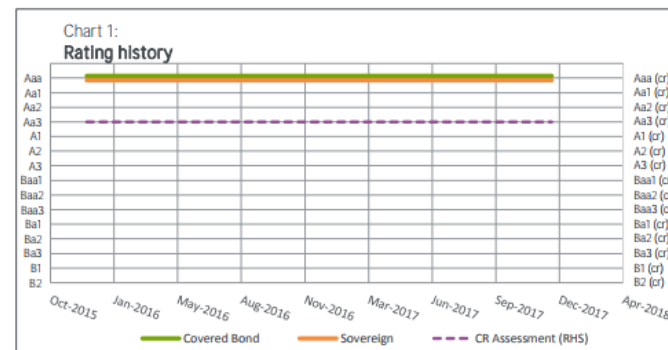
II. Value of the Cover Pool

Collateral quality

Collateral Score:	5.0%
Collateral Score excl. systemic risk:	4.2%

Cover Pool losses

Collateral Risk (Collateral Score post-haircut):	3.4%	39%
Market Risk:	5.3%	61%
	8.6%	(100%)



Looking ahead

Macro

Growth in the Norwegian economy has picked up after weak growth in GDP over recent years, with higher growth in exports, increasing investments in the oil sector, lower unemployment and higher private consumption.

The region

The economic outlook for the bank's market area is considered positive. Housing prices in Southern Norway have been fairly stable over a longer period of time, and unemployment is falling.

Capital requirements

Sparebanken Sør has a common equity tier 1 capital ratio of 14.9 percent and leverage ratio of 9.2 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

Sparebanken Sør Boligkreditt AS will further acquire mortgages from the bank to issue public covered bonds in Norway and abroad, primarily as benchmark issuances that are eligible to LCR requirements for level 1 assets

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Key indicators for the Norwegian economy

Healthy growth

In %	2015	2016	2017E	2018E	2019E
GDP growth, mainland	1.4	1.0	1.9	2.5	2.2
Core inflation	2.7	3.0	1.4	1.6	1.5
Unemployment rate registered	3.0	3.0	2.7	2.3	2.2
Key policy rate (Average)	1.05	0.6	0.5	0.5	0.8
Current account surplus / GDP	8.7	4.9	5.5	7.2	7.1
Sovereign wealth fund / GDP	240	241	247	N.A	N.A

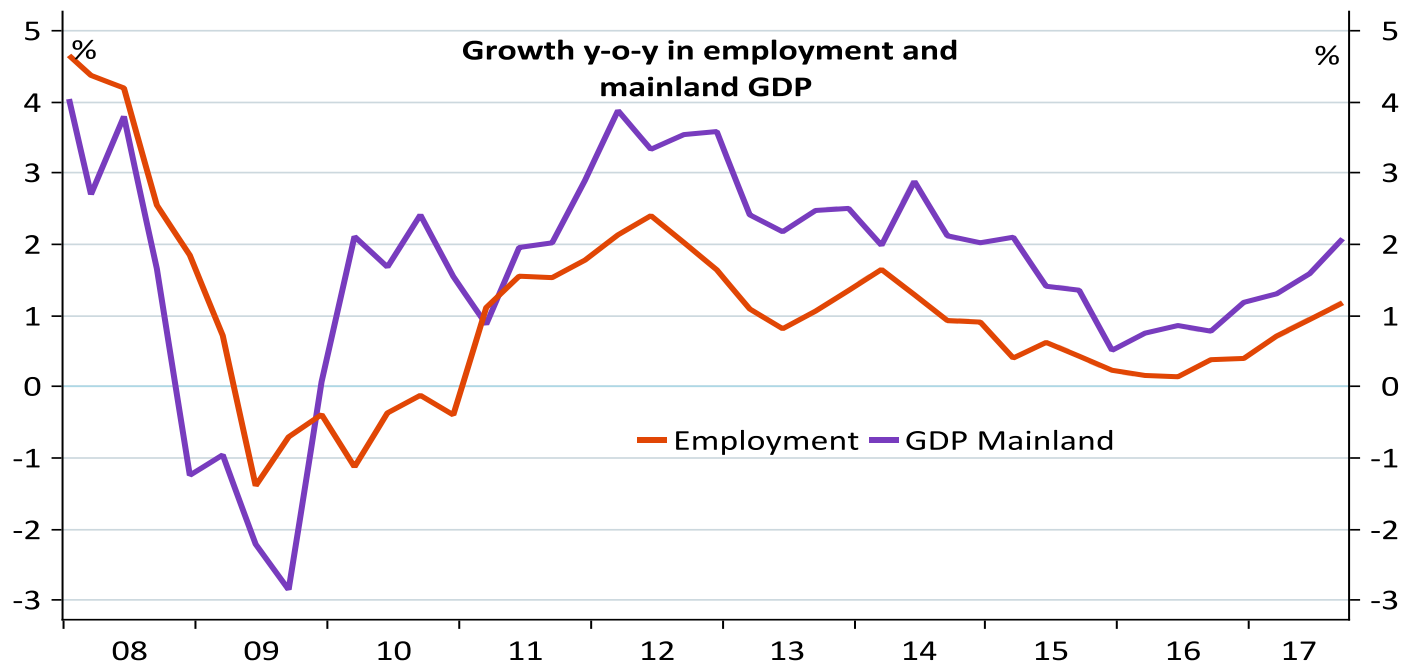
- Economic growth in Norway has picked up and unemployment is falling
- Growth is self- sustained and no longer in need of fiscal support
- Oil investment is set to increase again after the sharp drop that followed the oil price collapse and a weak NOK and strong growth abroad support exports. An improving labour market supports private consumption. Mainland business investments are also on the rise
- Only drag to growth is housing investment which will drop from a high level
- Still large surplus on the current account and government budgets despite the drop in oil price. The Sovereign wealth fund accounting nearly 250% of GDP.



SPAREBANKEN SØR

Growth has picked up

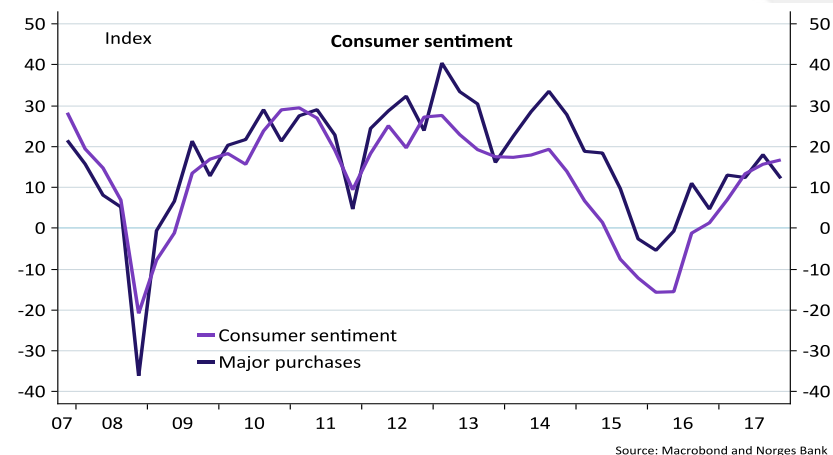
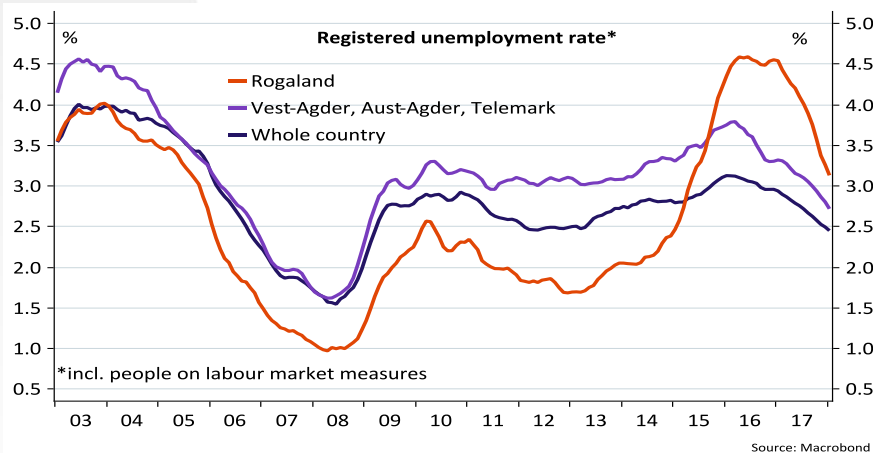
Growth in both production and employment on its way up



Source: Macrobond and Norges Bank

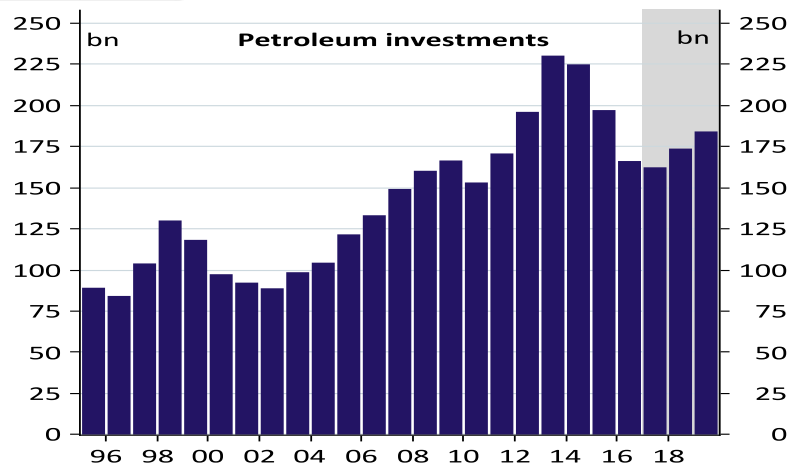
Unemployment is falling sharply and sentiment improving

- Especially in counties hit by the oil downturn

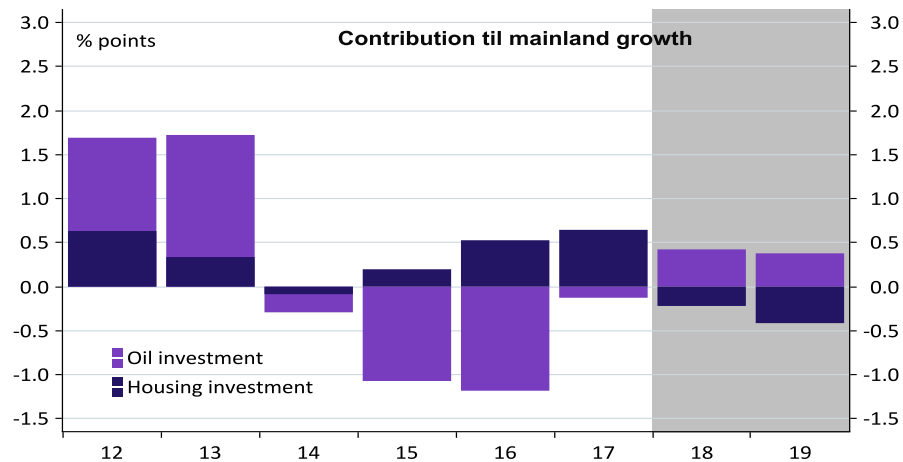


Growth in oil investment again

Counteracting the negative effect from lower house building.



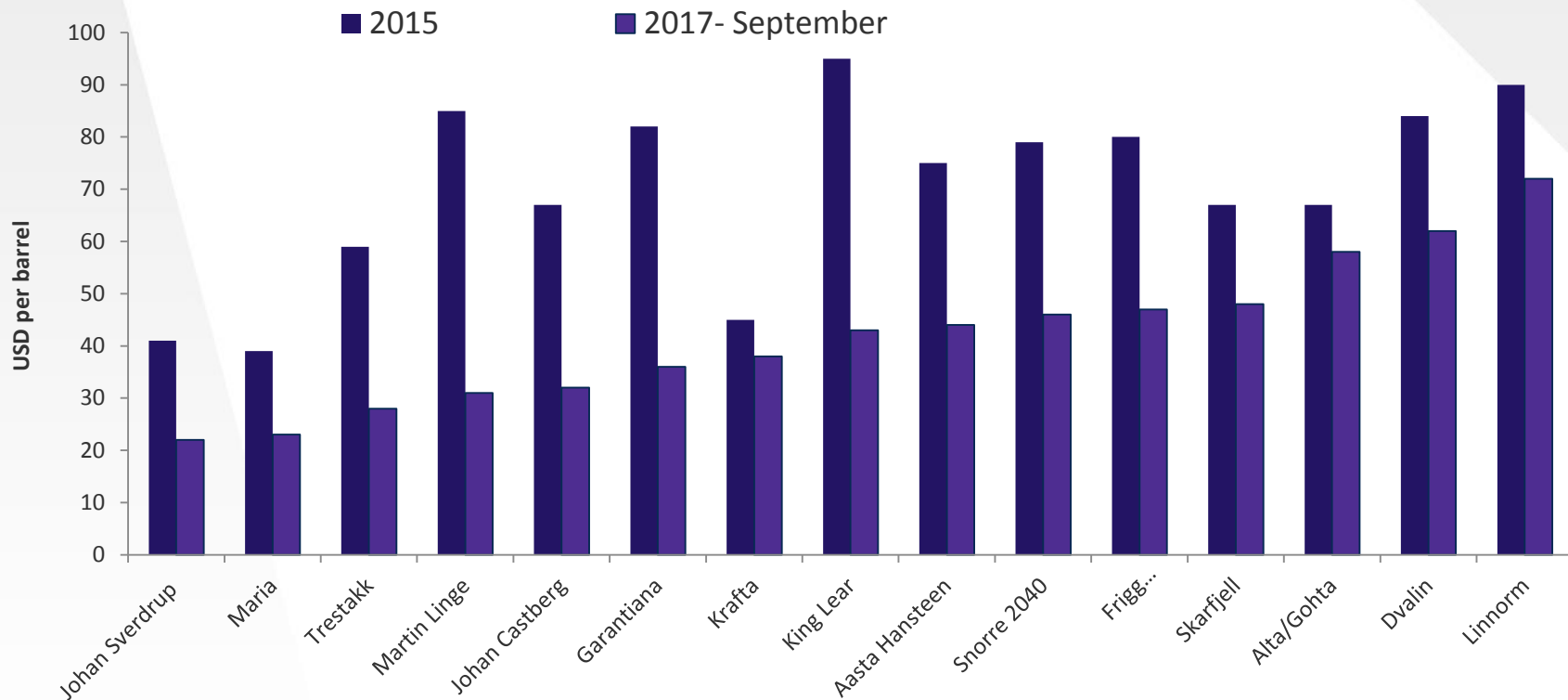
Source: Macrobond and Norges Bank



Source: Macrobond and Norges Bank

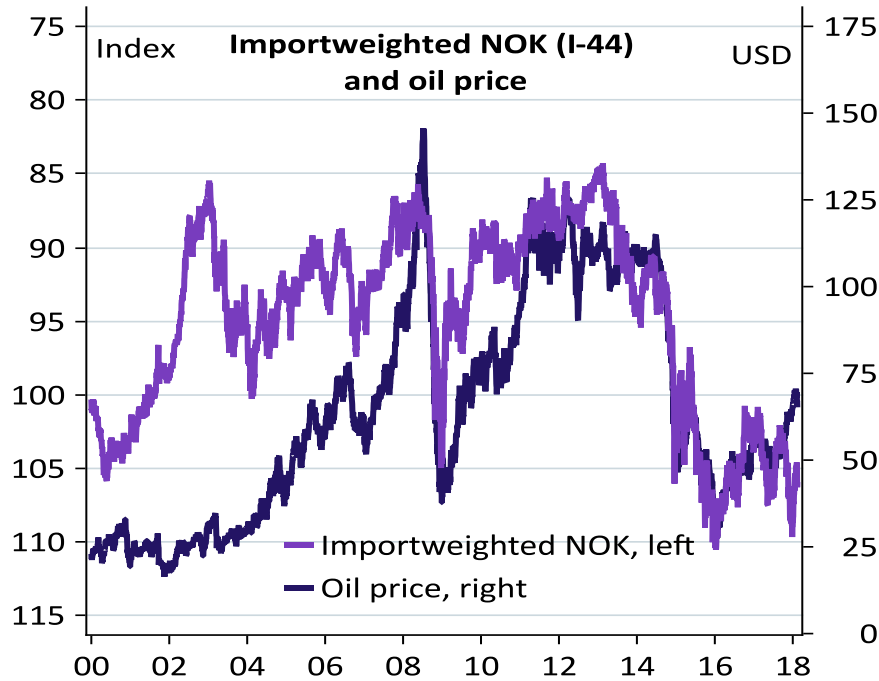
Cost cutting has made the oil companies more profitable

Break-even price on new fields brought down



NOK, oil price and competitiveness

We have benefitted from weak NOK and increased competitiveness



Source: Macrobond

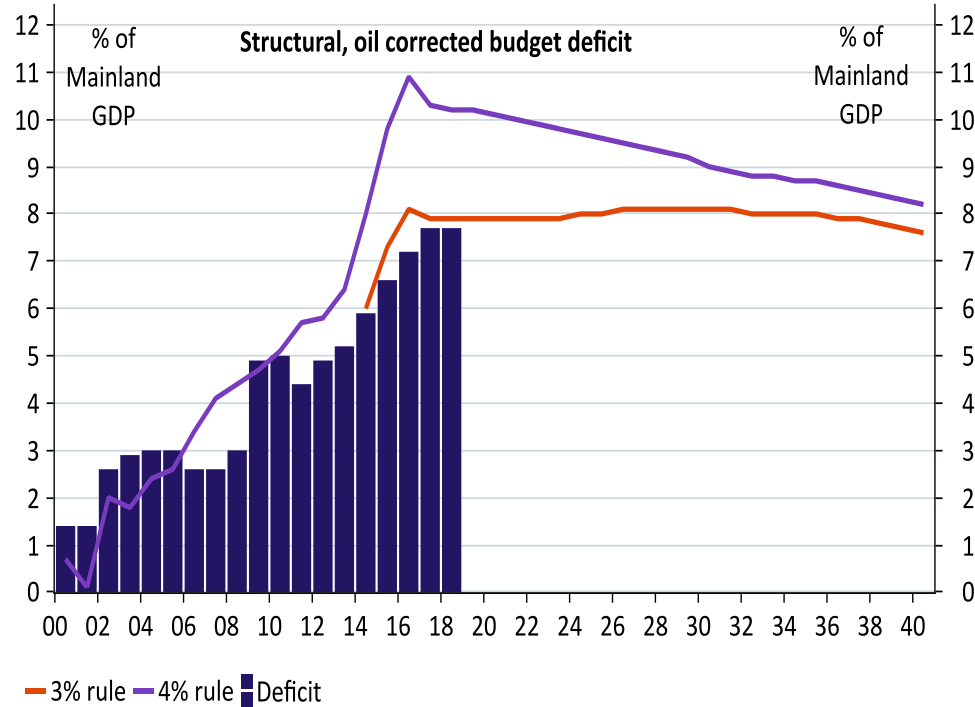


Source: Macrobond and Norges Bank

Strong public finances

Fiscal policy has supported the economy

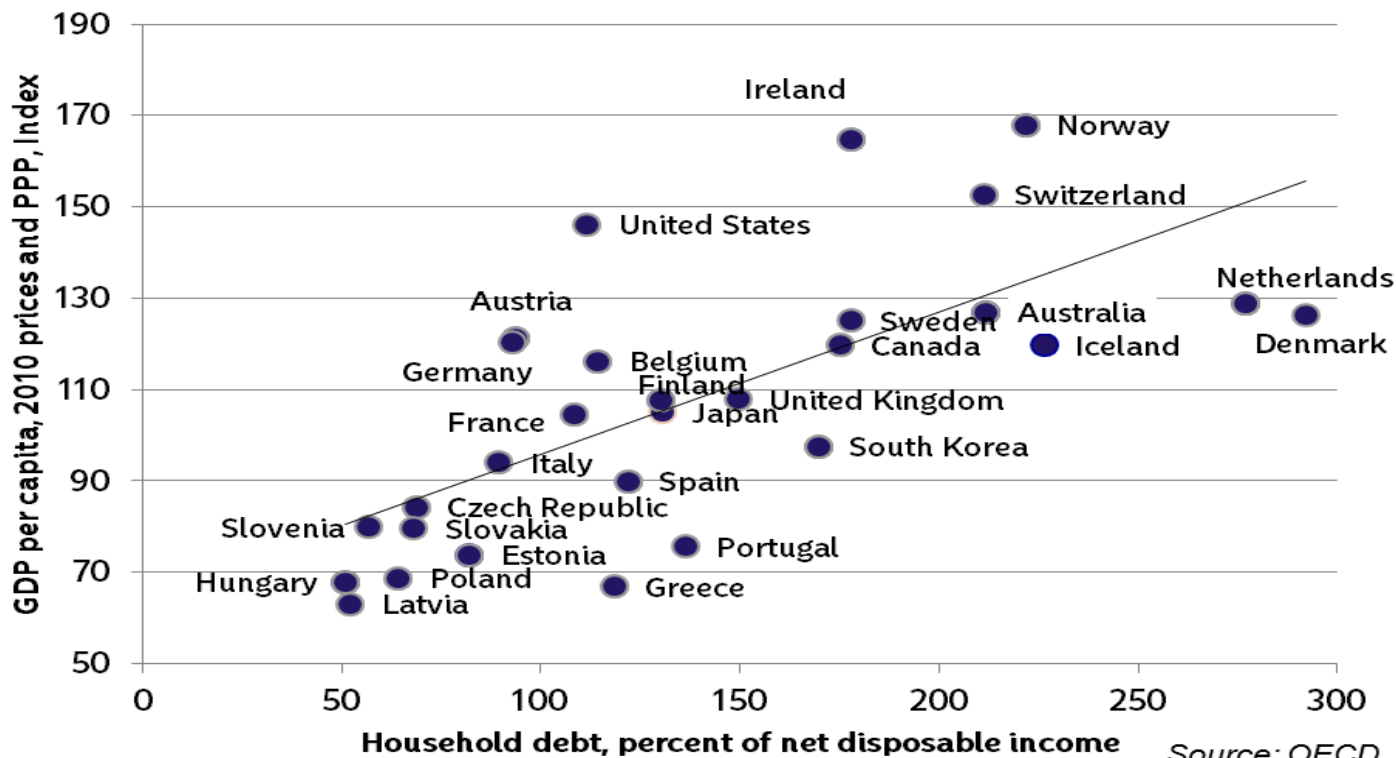
- The Government Pension Fund currently amounts to close to NOK 8,000bn (approx. EUR 850bn) which is near three times the size of Mainland GDP and equals six annual national budgets.
- The Fund and large petroleum revenues give the Norwegian government substantial economic leeway.
- The fiscal rule: 3% (previously 4%) of the fund's value can be used in the national budget (expected real return on the fund).
- The rule is to ensure that the fund itself would not be tapped. Thus the fiscal break even oil price is zero.
- In response to lower oil price public spending was increased, i.e. the deficit increased as a share of GDP. For 2018, fiscal policy is estimated to be close to neutral.



Source: Macrobond and Norges Bank

Debt and income

Rich countries have higher debt relative to income



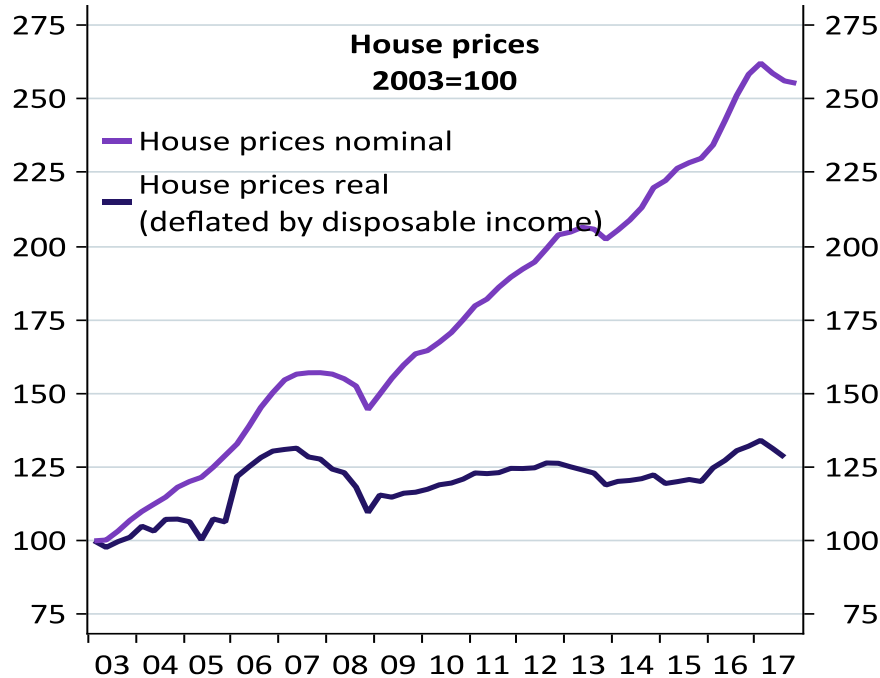
Source: OECD



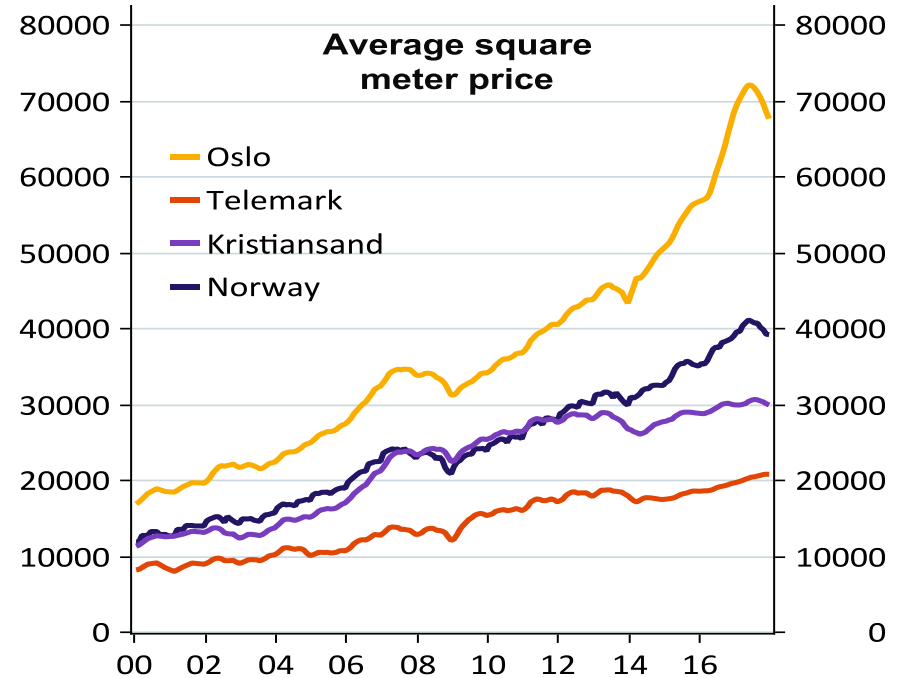
SPAREBANKEN SØR

Norwegian housing market

House prices have increased alongside income growth



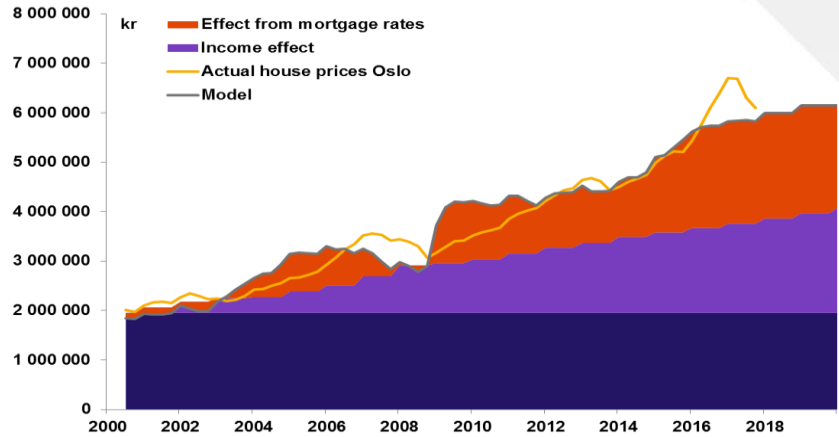
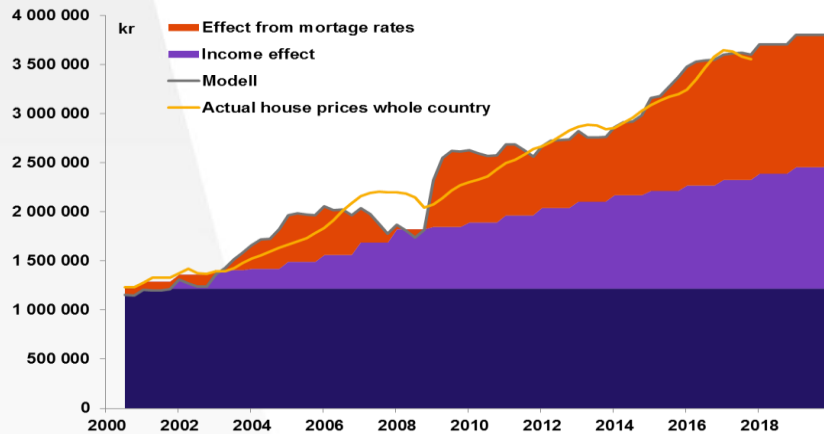
Source: Macrobond



Source: Macrobond and Norges Bank

How expensive is housing?

House prices have increased, but cost of serving has not



The model assumes that a constant share of income (equal to its average from 2000) is allocated to serve interest rate and downpayments from buying the average home for a nuclear family. 25 years downpayment period and loan to value of 85%.

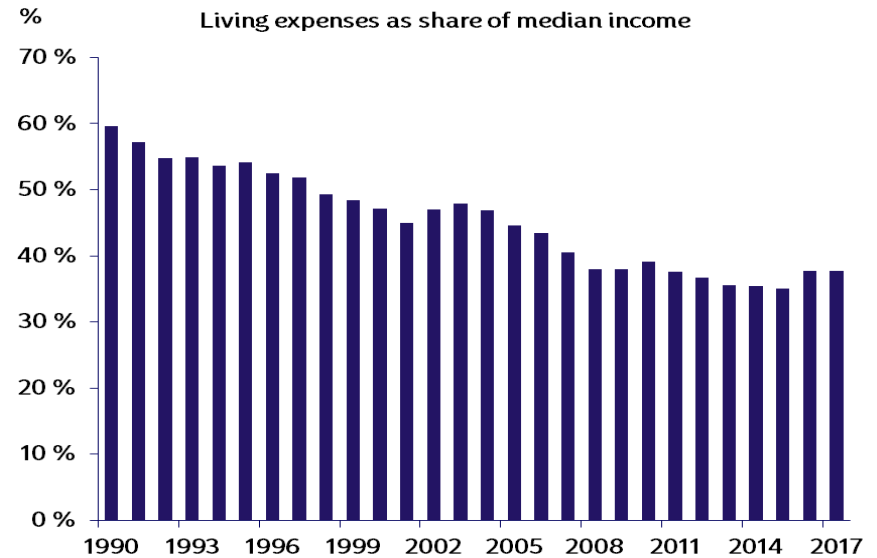
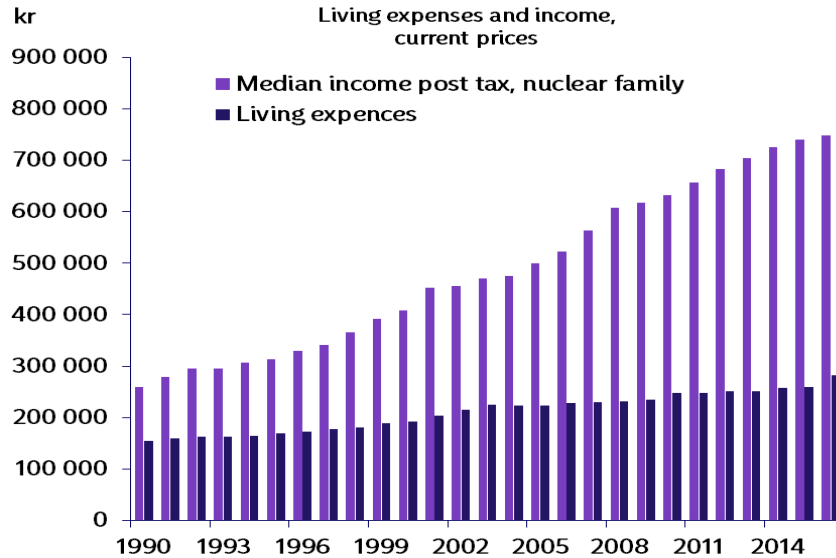
Sources: Statistics Norway, Real Estate Norway and Macrobond



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Income and living expenses

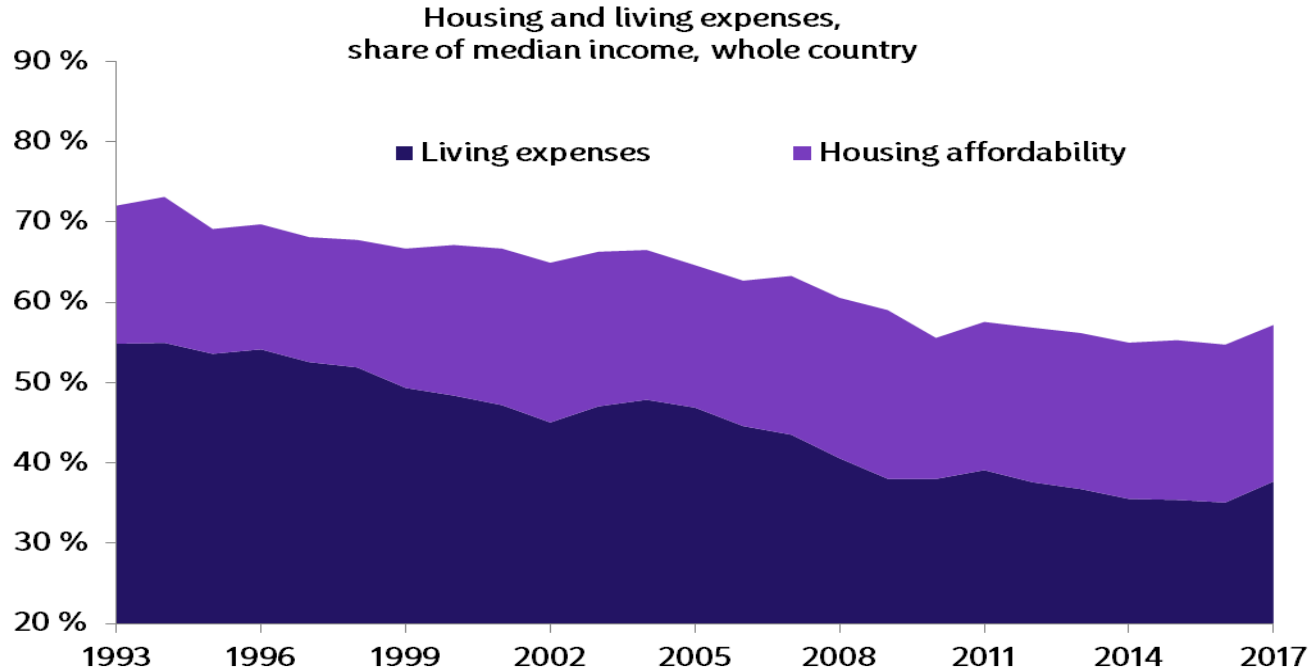
Income has increased a lot and households spend less on living expenses



Sources: Statistics Norway and National Institute for Consumer Research

Living and house expenses

Housholds have a record surplus after covering housing and living expenses



Sources: Statistics Norway, Real Estate Norway and National Institute for Consumer Research



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Norwegian housing market

Key characteristics

High home ownership	<ul style="list-style-type: none">• Around 80% of Norwegian households own their home which is among the highest home ownership ratios in the world. Hence, buy-to-let market is limited in Norway
Key features of residential mortgage loans in Norway	<ul style="list-style-type: none">• Residential mortgage loans are predominantly granted by banks and mortgage credit institutions (97% as of January 2015)• Lenders have access to wide range of information about borrowers before granting the mortgage (e.g. tax records for the last three years, any debt collection outstanding, any bankruptcies)• Properties are registered in a central register to which banks have direct access• Typical maturity of a new loan is 25 to 30 years• The majority of residential mortgage loans have a floating interest rate meaning that banks are allowed to increase the interest rate with a six weeks' notice• Borrowers are personally liable for their debt also after foreclosure or forced sale
Good tax incentives and supportive social security system	<ul style="list-style-type: none">• Borrowing costs on mortgages are tax deductible (the tax rate applied is 24%)• Tax valuation of dwellings is favourably treated in the wealth tax system• If a dwelling is occupied by the owner for a minimum of one year, capital gain is tax free when the dwelling is sold• Unemployment benefit equals approximately 62% of the previous calendar year's gross income and is paid for up to 104 weeks



SPAREBANKEN SØR

Contact details and website

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E-mail	marianne.lofthus@sor.no

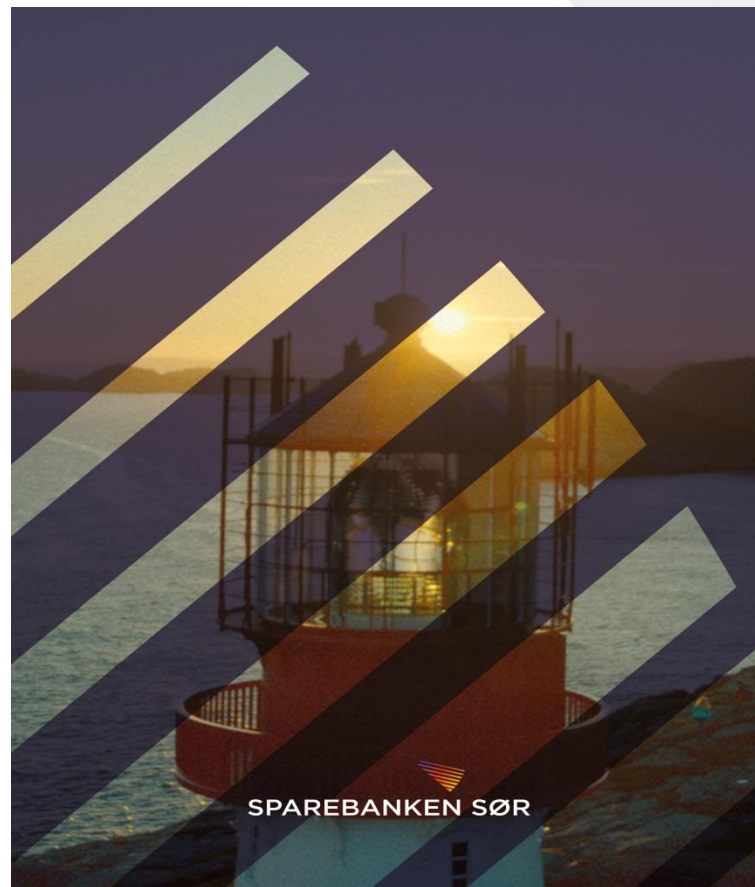
Bjørn Erik Kittelsen – Head of Treasury, Sparebanken Sør

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www.sor.no

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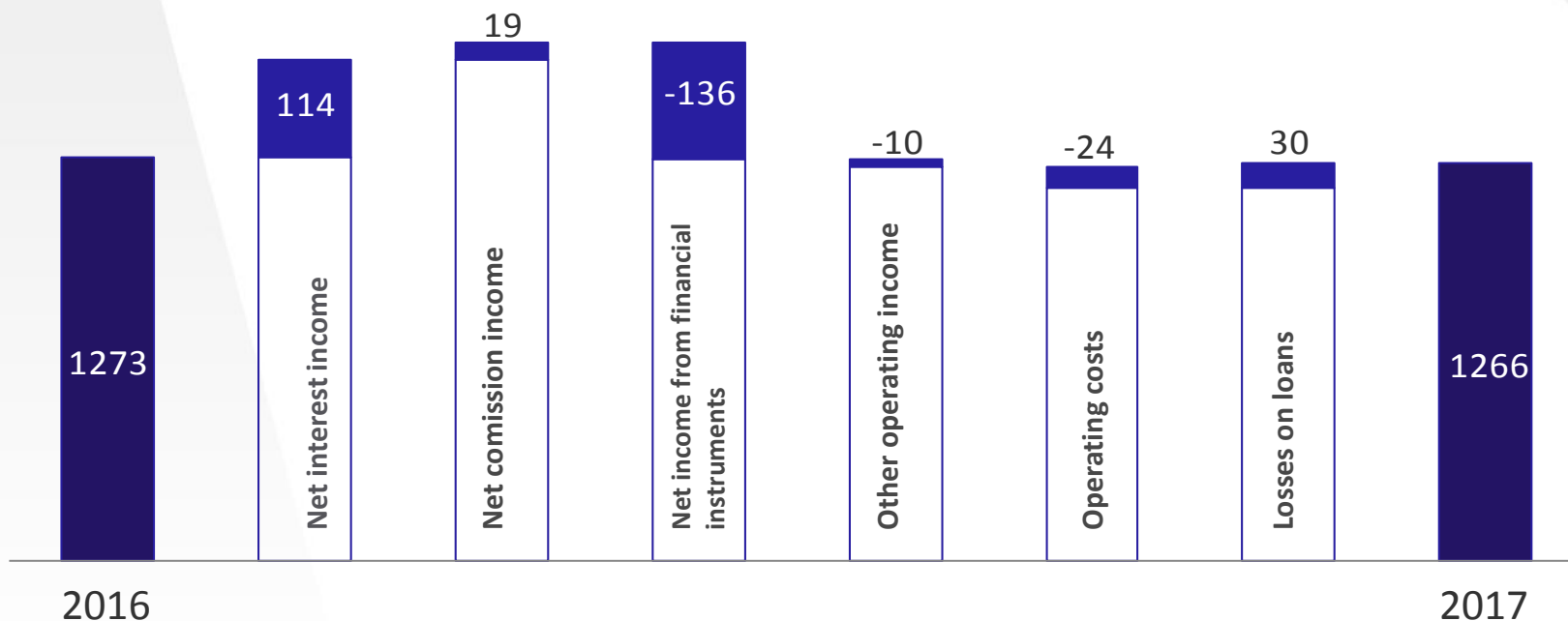
Income statement Sparebanken Sør

- Solid profits from ordinary operations
- Positive development in net interest income
- Improved net commission income
- Good cost control
- Low losses on loans
- 12 month loan growth, 7.2 percent
- 12 month deposit growth, 7.8 percent
- Successful launch of new a branch at Jæren
- Return on equity after tax of 9.7 percent
- Common equity tier 1 capital ratio, 14.9 percent
- Leverage ratio, 9.2 percent
- The board will suggest dividends for 2017 to be 6.00 NOK per Equity Certificate

NOK million	31.12.2017	31.12.2016	Change
Net interest income	1 679	1565	114
Net commission income	312	293	19
Net income from financial instruments	88	224	-136
Other operating income	18	28	-10
Total income	2 097	2 110	-13
Total expenses	811	787	24
Profit before losses on loans	1 286	1 323	-37
Losses on loans, guarantees	20	50	-30
Profit before taxes	1 266	1 273	-7
Tax expenses	282	284	-2
Profit for the period	984	989	-5

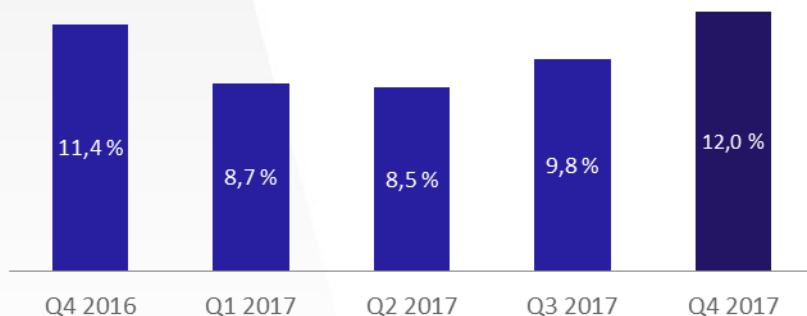
Change in profit before taxes, 2016 – 2017

NOK million

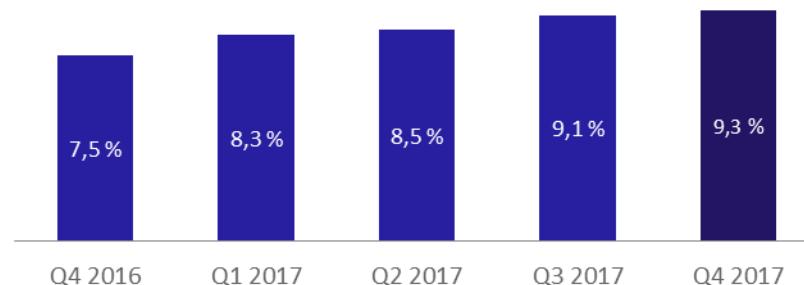


Key figures – quarterly development

Return on equity after tax₁₎



Return on equity after tax
excl. financial instruments₂₎

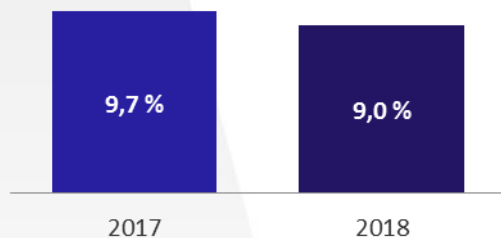


1) ROE after tax = $\frac{\text{Profit after tax} - \text{interest on hybrid capital}}{\text{Equity} - \text{hybrid capital}}$

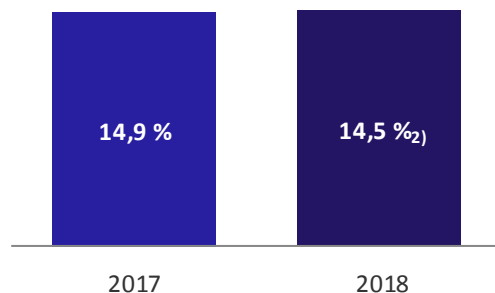
2) ROE after tax excl. Financial instruments and accounting events = $\frac{\text{Profit after tax, excl. financial instruments and accounting events}}{\text{Equity} - \text{hybrid capital}}$

Financial key variables and ambitions

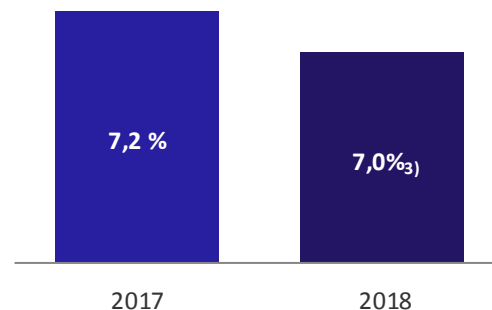
Return on equity



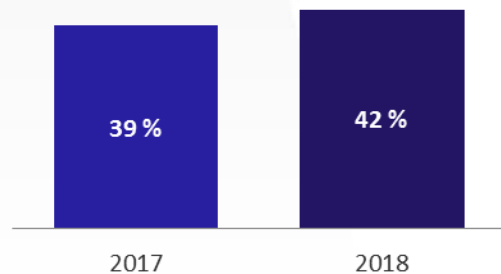
Common equity tier 1 capital¹⁾



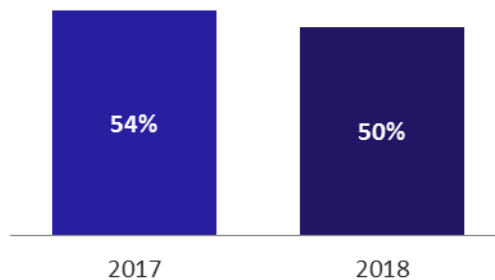
Loan growth



Cost development



Dividend ratio



1) Incl. share of profit

2) Will be determined with regard to market expectations, the Financial Supervisory Authority recommendations and ICAAP

3) Credit growth + 1 percentage point



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