



# Sparebanken Sør

Investor presentation Q3 2019

# Sparebanken Sør - a leading financial institution in Southern Norway



Established in 1824,  
529 employees



22 000 corporate  
customers



Financial group with  
banking, securities and  
real estate brokerage



180 000 retail  
customers

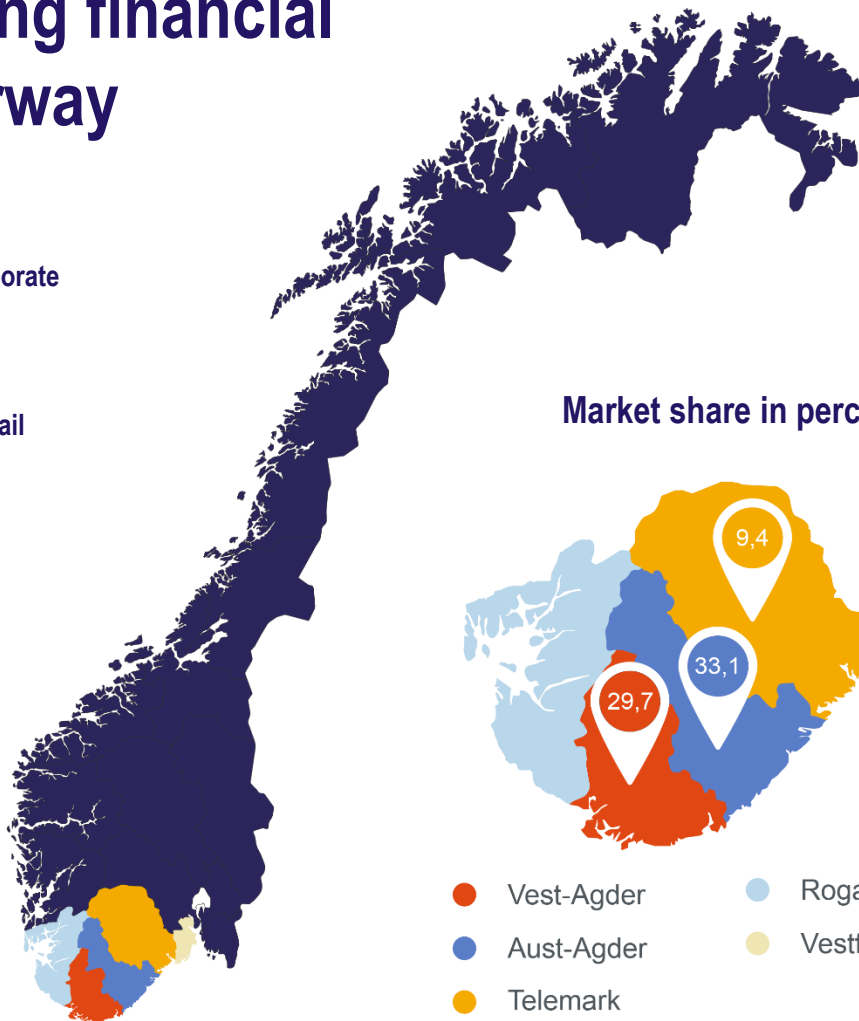


Publicly traded and  
community-owned



Total assets of  
NOK 125.8 bn

*Agder and Telemark is a market with 470 000 inhabitants. No other bank has as high presence in the region as Sparebanken Sør. Establishes of new branches in Rogaland and Vestfold increases the market potential with 160 000.*



# Digitisation and geographical area



# Solid bank in positive development

- Positive development in financial key figures
- Digital shift in competence
- Strong market position
- Solid loan portfolio
- ESG commitment

## Efficient operations

Cost as % of income of 38.9% after Q3.

## Low losses

Net entry on losses of NOK 14 million after 9 months, compared to net losses on loans of NOK 8 million in the same period last year.

## Strong liquidity and good solidity

Deposits as % of net loans of 55.7%, high LCR of 164% and a solid leverage ratio of 9.1%

## Positive development in net interest income

Increased by NOK 121 million after 9 months, compared to the same period last year.

## Increased profitability

Return on equity of 9.5% after 9 months.



# Strong position in the housing 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.**

## Stable development in housing prices

Percentage change in prices, last 12 months\*

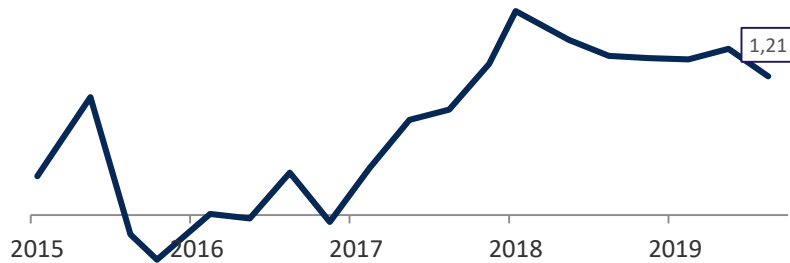


\*3 month moving average of 12 month change

# Growth in the Southern region

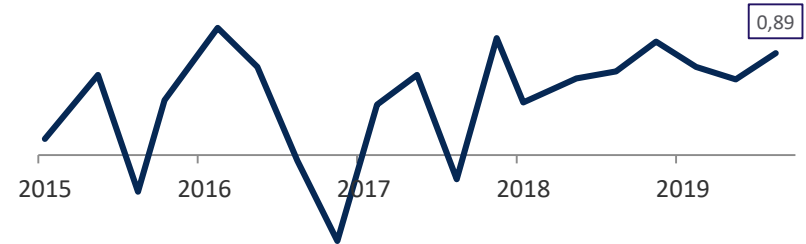
## Increased production, Southern region

*Growth last 3 months*



## Increase in investments, Southern region

*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 are compiled quarterly by Norges Bank through a regional network and show the development in the Southern region, which consists of Aust-Agder, Vest-Agder, Telemark and Vestfold.

# Reassuring development in the labour market

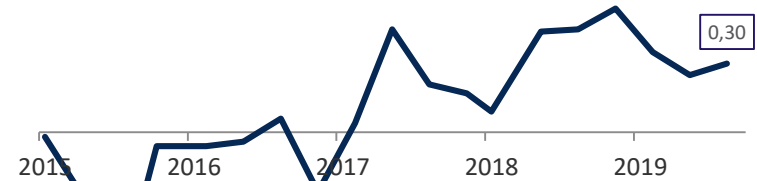
## Decrease in unemployed

Percentage change last 12 months



## Increased employment rate, Southern region

Percentage growth last 3 months



# Highlights from the quarterly report



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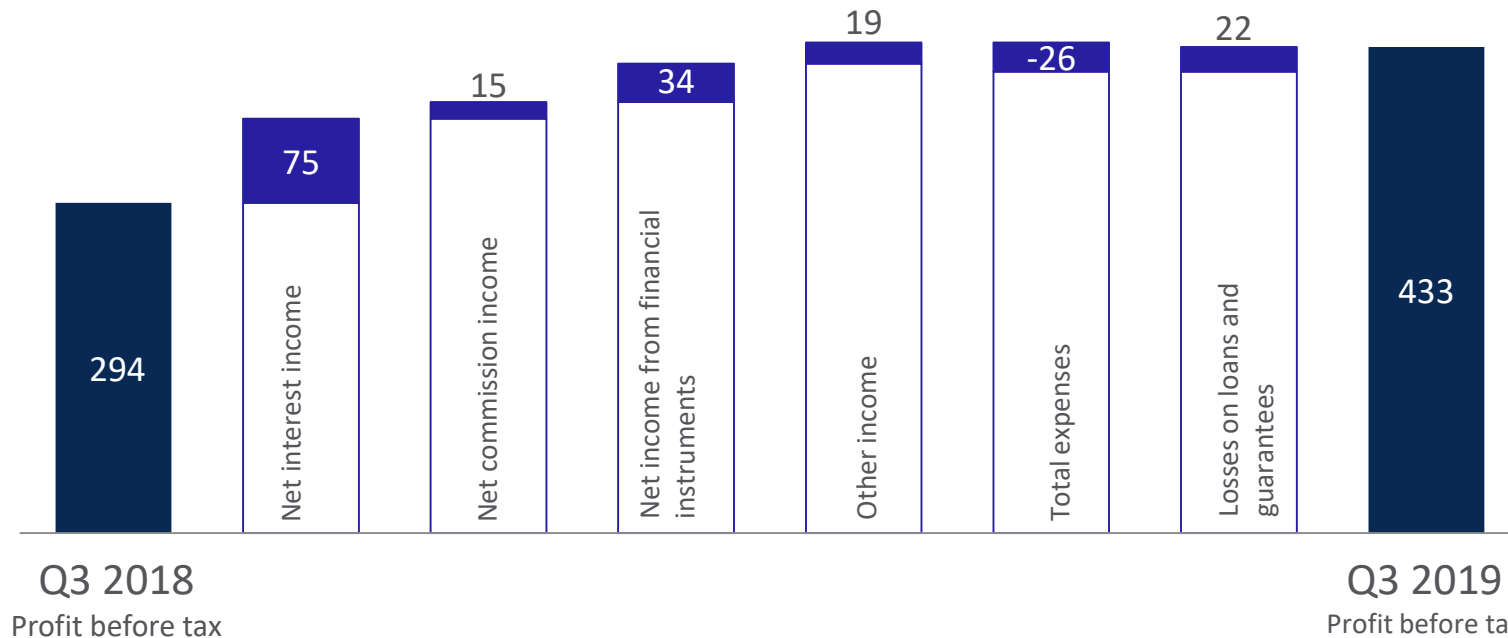
# Highlights in Q3 2019

- Good results from ordinary operations
- Positive development in net interest income
- Good results from Frende and Brage
- Efficient operations and low costs
- Net entry on losses on loans
- Year-on-year loan growth of 3.8 percent
- Year-on-year deposit growth of 4.3 percent
- Return on equity after tax of 11.2 percent
- Common equity tier 1 capital ratio of 15.1 percent and leverage ratio of 9.1 percent

NOK million	2019 Q3	2018 Q3	Change
Net interest income	499	424	75
Net commission income	93	78	15
Net income from financial instruments	31	-3	34
Associated companies	16	-1	17
Other operating income	1	-1	2
Total income	640	497	143
Total expenses	226	200	26
<b>Profit before losses on loans</b>	<b>414</b>	<b>297</b>	<b>117</b>
Losses on loans, guarantees	-19	3	-22
<b>Profit before tax</b>	<b>433</b>	<b>294</b>	<b>139</b>
Tax expense	102	75	27
<b>Profit for the period</b>	<b>331</b>	<b>219</b>	<b>112</b>

# Development in profit before tax

NOK million



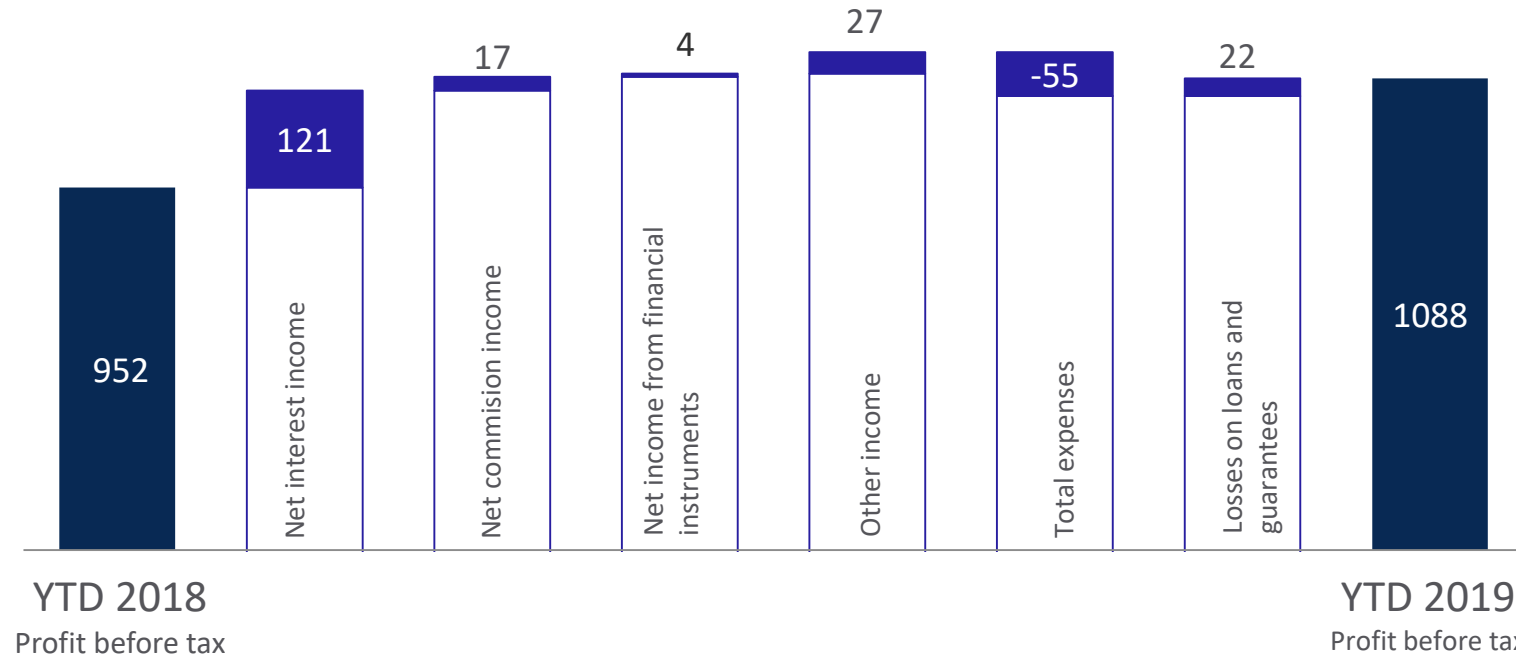
# Highlights after 9 months

- Good results from ordinary operations
- Positive development in net interest income
- Good results from Frende and Brage
- Efficient operations and low costs
- Net entry on losses on loans
- Return on equity after tax of 9.5 percent

NOK million	30.09.2019	30.09.2018	Change
Net interest income	1.403	1.282	121
Net commission income	253	236	17
Net income from financial instruments	55	51	4
Associated companies	43	17	26
Other operating income	5	4	1
Total income	1.759	1.590	169
Total expenses	685	630	55
<b>Profit before losses on loans</b>	<b>1.074</b>	960	<b>114</b>
Losses on loans, guarantees	-14	8	-22
<b>Profit before tax</b>	<b>1.088</b>	952	<b>136</b>
Tax expense	256	217	39
<b>Profit for the period</b>	<b>832</b>	735	<b>97</b>

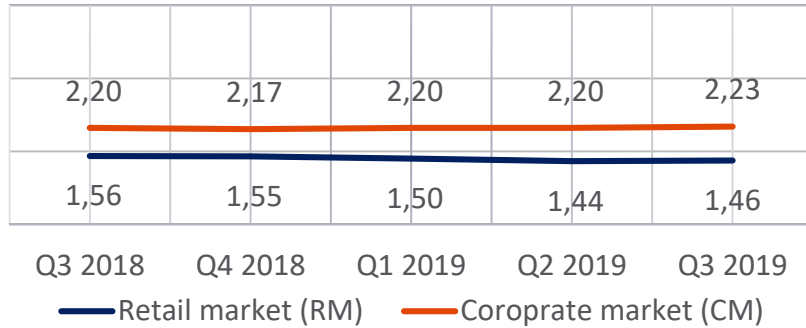
# Development in profit before tax

NOK million

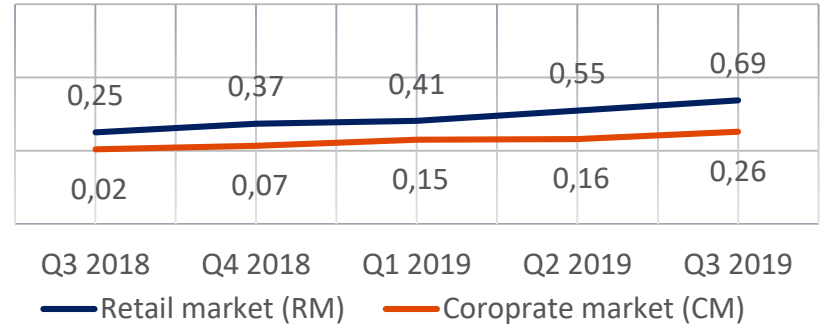


# Interest margin and NIBOR3M

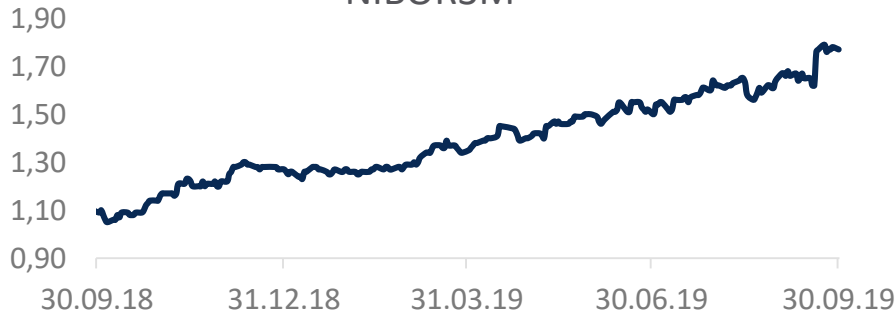
## Loans (%)



## Deposits (%)



## NIBOR3M



Even with a significantly higher NIBOR3M compared to the corresponding prior-year period, net interest income has steadily improved, primarily due to:

- Growth in total loans
- Interest rate changes on loans
- A CM loan portfolio which accounts for 34 percent of total loans (of which about 80 percent is linked to NIBOR)
- CM deposits linked to NIBOR

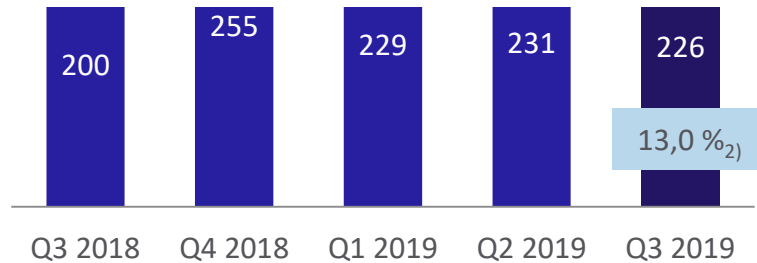


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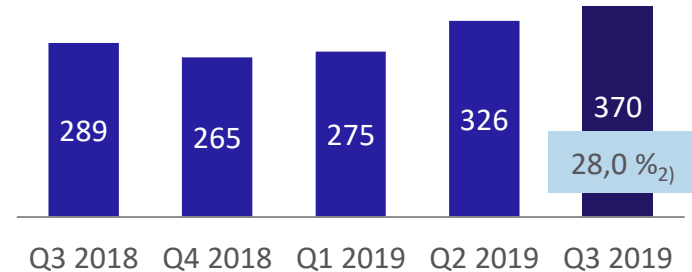
# Profit and returns

NOK million

## Operating expenses

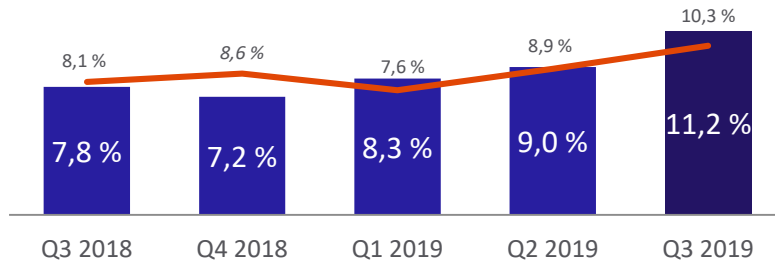


## Profit from ordinary operations<sub>1)</sub>



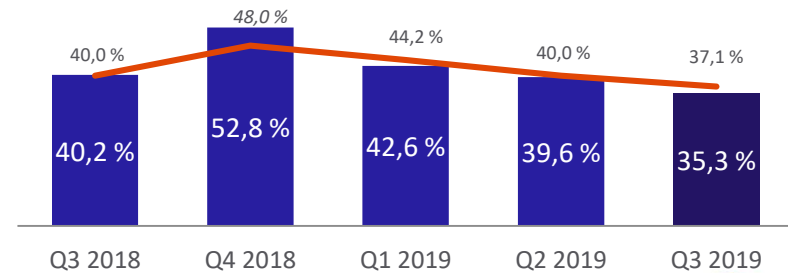
## Return on equity

Return on equity excl. financial instruments and non-recurring events<sub>3)</sub>



## Cost as % of income

Excl. financial instruments

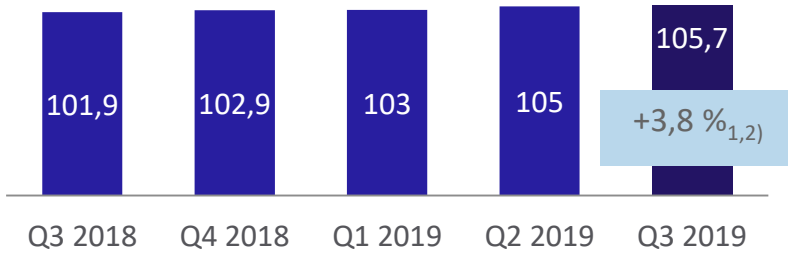


- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating expenses, adjusted for the conversion of the pension scheme
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments,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

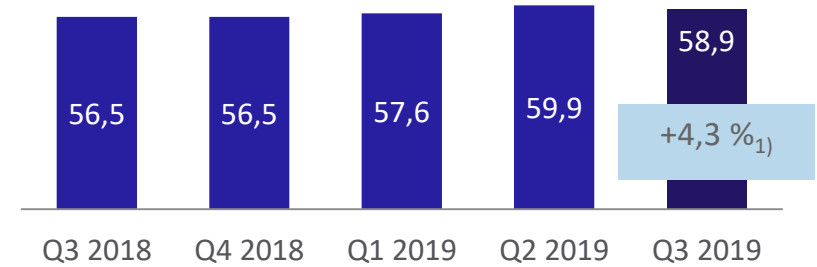
# Balance sheet

NOK billion

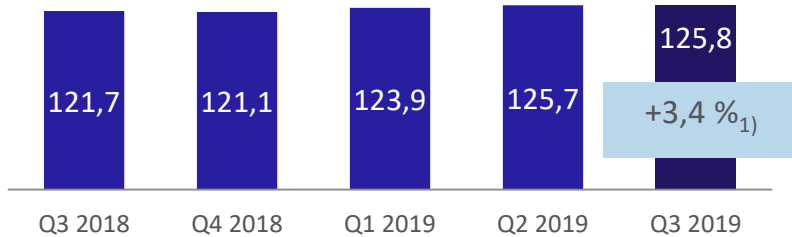
## Net loans



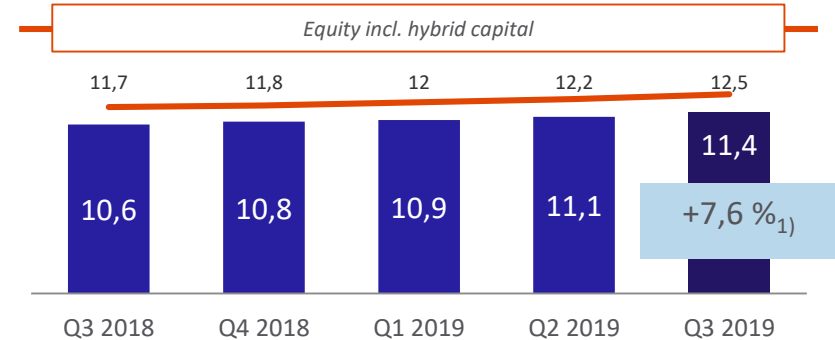
## Deposits



## Total assets



## Equity



- 1) Changes from the corresponding prior-year period
- 2) Loan growth at the end of Q3 2019 amounted to NOK 3.9 billion, equivalent to 3.8 percent, which of retail customers accounted for 5.1 percent and corporate customers 0.9 percent

# Associated companies

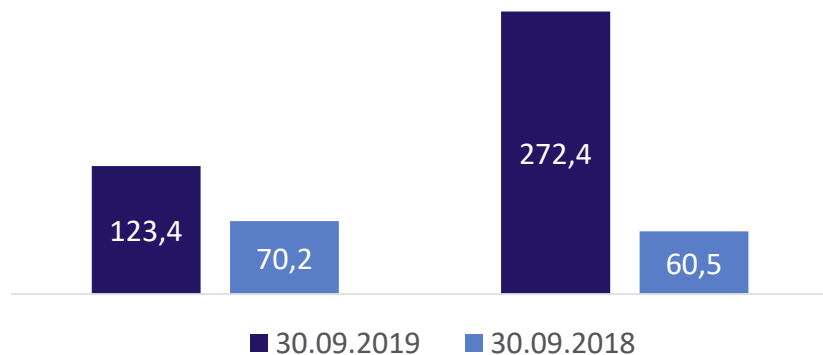


## Profit before tax

NOK million

### Brage Finans AS

### Frende Holding AS



## Effect on results when consolidating

NOK million		Q3 2019	Q3 2018	30.09.2019	30.09.2018
Frende forsikring (20,2 % ownership)	Share of profit	14,5	0	44,1	0
	Amortizing	-5,0	0	- 15,0	0
Brage finans (20,8 % ownership)	Share of profit	6,8	0	19,2	0



# Summary after Q3 2019

## Results

Stable profit from ordinary operations, through customised growth, increased net interest income, positive financial income and net entry on losses on loans.

## Finance

Positive net income from financial instruments  
Good results from both Frende and Brage

## Capital

Common equity tier 1 capital ratio of 15.1 percent and solid leverage ratio of 9.1 percent.

## Growth

Loan growth of NOK 3.9 billion in the last 12 months, corresponding to 3.8 percent annual growth. Deposit growth of NOK 2.4 billion, corresponding to 4.3 percent in the last 12 months.

## Summary

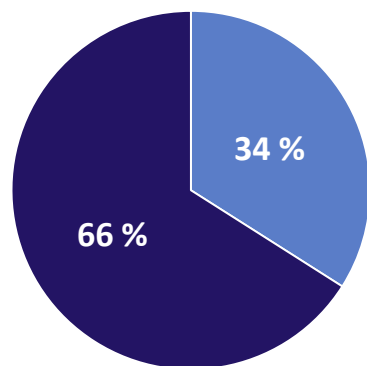
Sound operations contributed to a pre-tax profit of NOK 433 million in Q3 2019.

# Loan portfolio and risk situation

# A diversified loan portfolio

## RM / CM distribution

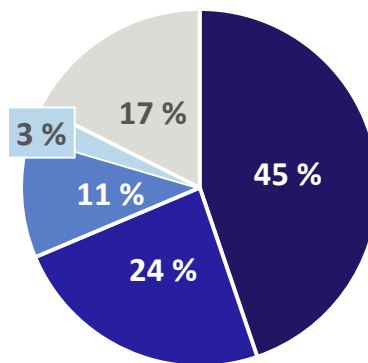
Gross loans



■ CM ■ RM

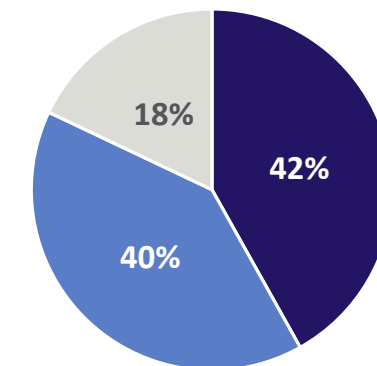
## Geographical distribution of loans

Gross loans



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

## Loan-to-Value (Group)



■ < 60% ■ 60-75% ■ > 75%

Average loan-to-value of approximately 60 percent for mortgages (group).

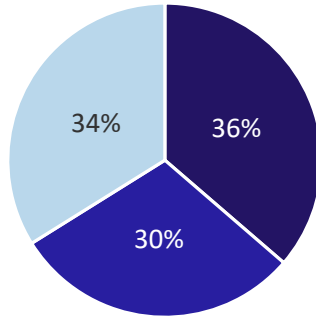
82 percent of mortgages within 75 percent of loan-to-value.

NOK 39 billion transferred to Sparebanken Sør Boligkreditt AS, equivalent to 56 percent of total loans to retail market.

# Sparebanken Sør Boligkreditt

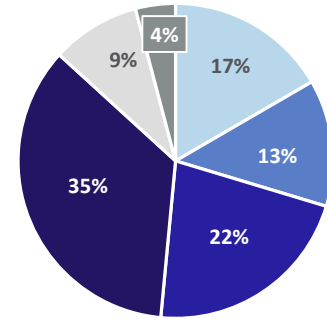
– Wholly owned by Sparebanken Sør

Sparebanken Sør Loan portfolio



■ Sparebanken Sør Boligkreditt AS ■ RM bank ■ CM

Sparebanken Sør Boligkreditt LTV distribution



■ < 40 % ■ 41 - 50 % ■ 51 - 60 %  
■ 61 - 70 % ■ 71 - 75 % ■ > 75 %

Stress test of collateral



Status Q3 19

Decrease in housing prices by 30%

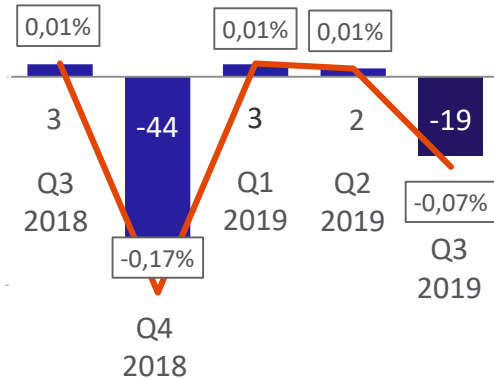
■ Vektet snitt LTV ■ Nominell OC



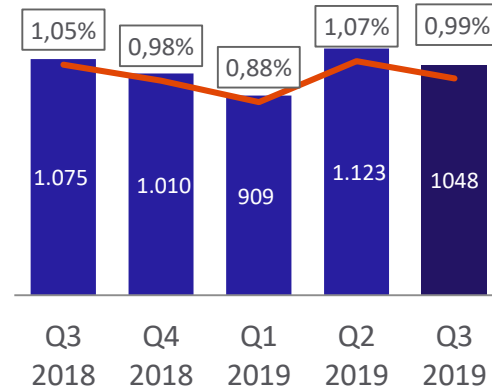
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# Non-performing loans

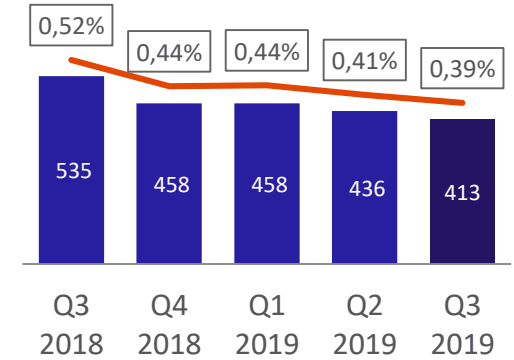
Development in losses in NOK million and as a percentage of gross loans (annualised)



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



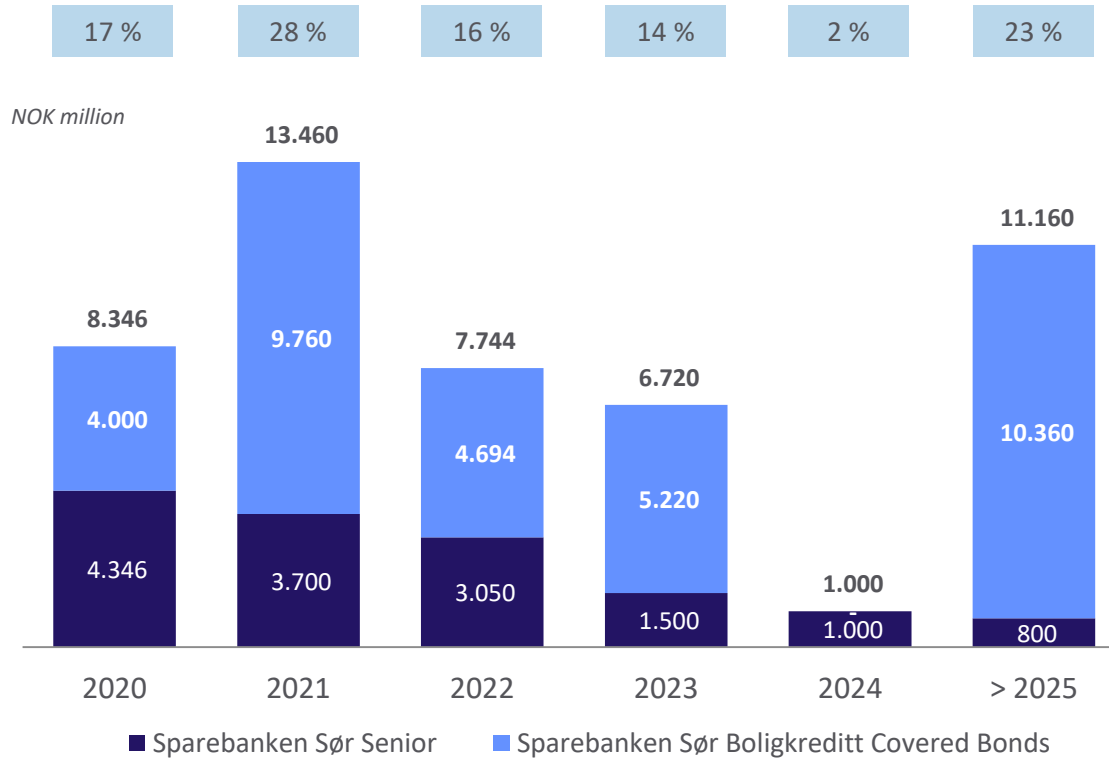
Development in loss provisions in NOK million and as a percentage of gross loans<sup>1)</sup>



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.

# Funding status

# Funding maturity



- The Group's total funding amounted to NOK 49.9 billion
- Covered bonds amounted to NOK 36.3 billion, of which NOK 1 billion was owned by the parent company
- Long-term funding\* amounted to 85 percent
- Average remaining maturity on long-term funding\* amounted to 3.5 years

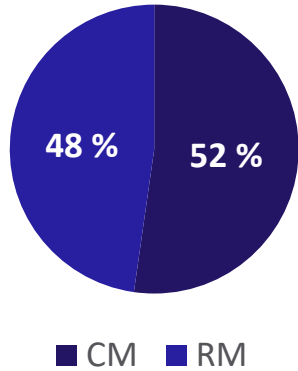
\* Long-term funding: maturity > 1 year



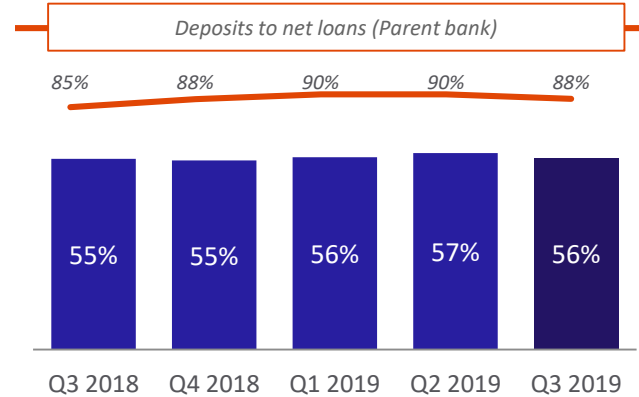
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# Deposits

## RM/CM distribution



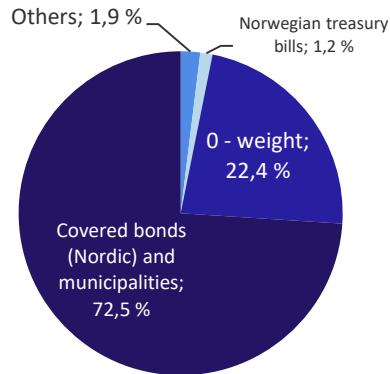
## Deposits to net loans(Group)



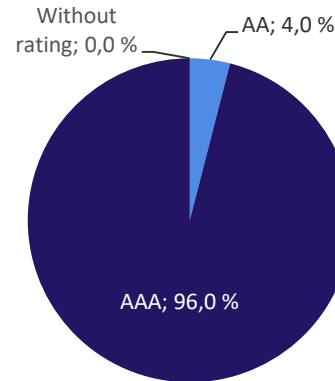
- Stable development in deposits the last 12 months, with a deposit growth of 4.3 percent

# Liquidity portfolio

## Kategori



## Rating



- Total liquidity portfolio of NOK 16.5 billion
- 100 percent investment grade and 100 percent liquid instruments
- Liquidity credit ratio of 164 percent for the Group

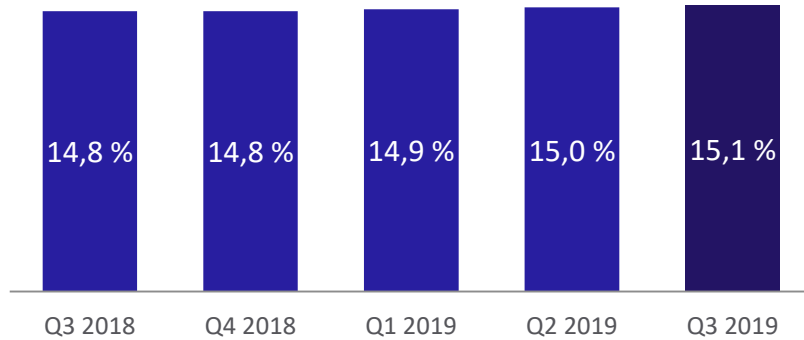




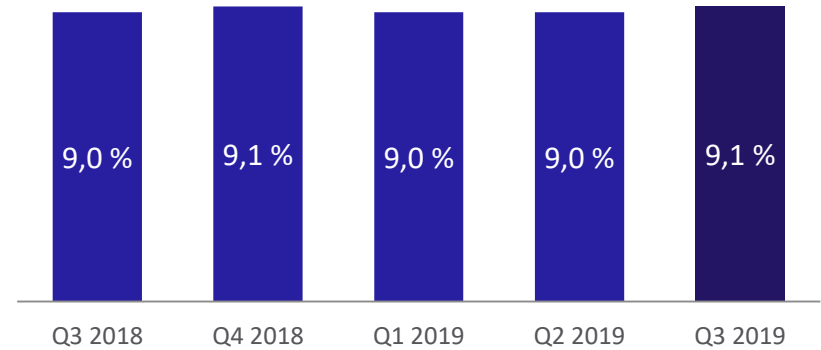
# Capital

# Capital adequacy

Common equity tier 1 capital ratio



Leverage ratio



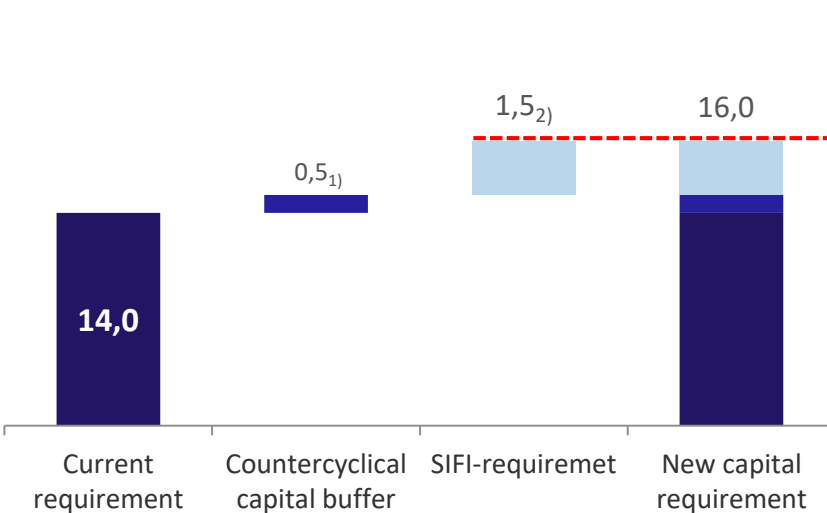
# IRB and capital effects

- IRB will provide positive capital effects
- Sparebanken Sør has good quality in its loan portfolio
- At the same time, Sparebanken Sør has a significantly higher Leverage Ratio
- Some effects are expected to occur after the transition to IRB-F, and additional effects are expected with IRB-A

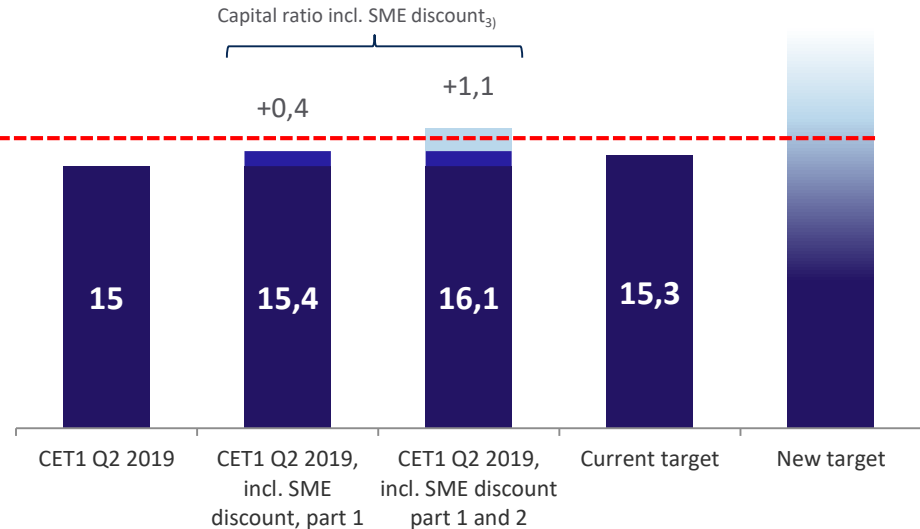
	Method used to calculate capital ratio	CET1*	Leverage Ratio*
Sør	Standard	15,1	9,1
Regional bank 1	IRB	14,2	7,5
Regional bank 2	IRB	15,9	7,9
Regional bank 3	IRB	15,1	7,4
Regional bank 4	IRB	16,7	7,4
Regional bank 5	IRB	14,7	7,1

# Changes in regulatory conditions

## Capital requirements



## Capital ratios and targets



1) Increase of 0.5 percentage points as of 31.12.2019, decided Dec. 2018 by the Ministry of Finance.

2) The Ministry of Finance has proposed an increase of the systemic risk buffer requirement of 1.5 percentage points in the period from 2019 to 2021 which of 0.5 percent points from 31.12.2019.

3) SME discount estimated to 1.1 percent, which of 0.4 percent is expected in 2019



# Sparebanken Sør

## - A forward-looking bank

# Development areas



**Card and payment**



**Streamlining  
through the use of  
new technology**



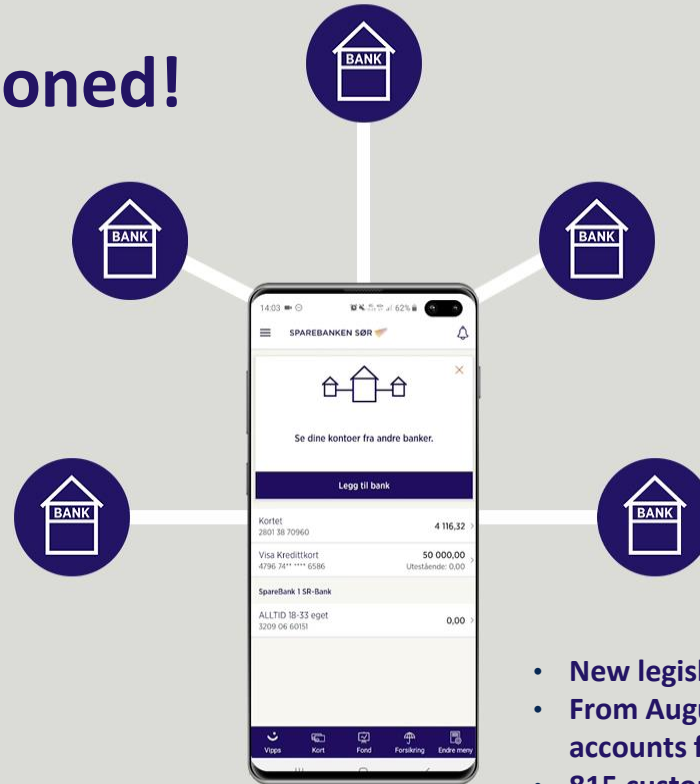
**Customer  
relationship and  
user experience**

**Mortgages**



**Savings**

# PSD2- Well positioned!



- New legislation implemented on September 14.
- From August 29, our customers were able to retrieve accounts from other banks
- 815 customers have so far retrieved accounts from other banks

**Get a complete overview of your finances!**

# Increased focus on savings products

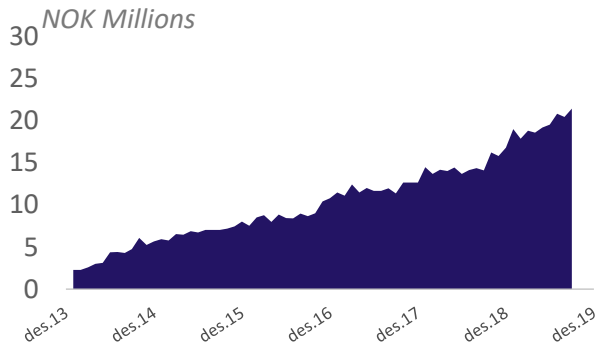
## Digitized investment services

87% of new agreements in fund-savings are entered digitally

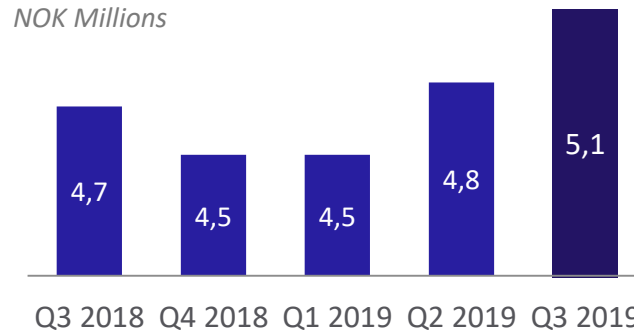
## Simplifies saving

More user-friendly digital sales lines  
Use of artificial intelligence and machine learning in the customer dialogue

### Payments from saving agreements (monthly)



### Investment portfolio income





# Sustainability

# Building blocks of Sparebanken Sør's ESG policy

UN Sustainable Development Goals



UN Global Compact



UN Environment Programme – Finance Initiative



Green House Gas protocol and Corporate Accounting and reporting standard

GREENHOUSE GAS PROTOCOL

Roadmap for green competitiveness in the financial sector



Principles for Responsible Investments



Local Responsible and Sustainable Investments



# ESG - Environmental Actions

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

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 Directors report. **Climate report available of the organization’s greenhouse gas emission.**

**Sustainable Credit Guidelines:** Strong commitment to contribute to social and industrial sustainable development. The bank has in place rules of awareness and self imposed guidelines.

Received **CEMAsys Climate Certificate™** due to purchased carbon credits for voluntary offsets of own greenhouse gas emissions (total amount of 222 tones CO2e)

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



# Green and sustainable bond framework

## Sparebanken Sør Boligkreditt

### Green Covered Bond

#### 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.

### 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:

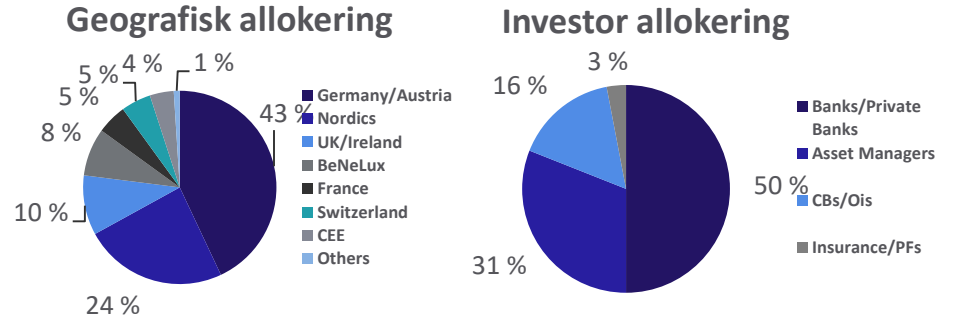
- Activities that expand the access to primary, secondary, adult and vocational education



# Diversified funding

## Successful issuance in October 2019 for Sparebanken Sør Boligkreditt:

- EUR 500 million 7-year Green Covered Bond
- Fifth CB benchmark EURO transaction
- High, diversified investor interest
- Orderbook of more than EUR 1 billion after re-offer



### Transaction details

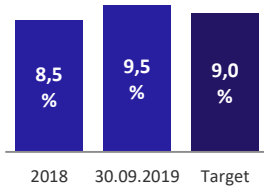
<b>Issuer</b>	Sparebanken Sør Boligkreditt AS
<b>Issue rating</b>	Aaa (Moody's)
<b>Status</b>	Norwegian Green Covered Bond
<b>Launch date</b>	17 October 2019
<b>Settlement date</b>	24 October 2019 (T+5)
<b>Maturity</b>	26 October 2026 (soft bullet)
<b>Issue size</b>	EUR 500mn (no grow)
<b>Coupon</b>	0.01%, act/act ICMA
<b>Re-offer price / Spread</b>	100.456% / MS + 11bps
<b>Governing law</b>	English Law
<b>ISIN</b>	XS2069304033

# Goals and expectations ahead

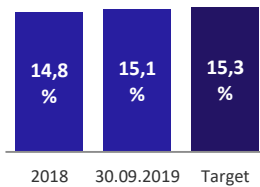


# Financial key variables and ambitions

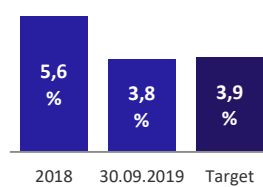
Return on equity



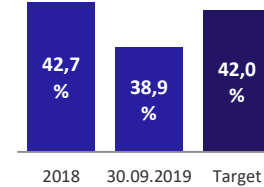
Common equity tier 1 capital (Group)



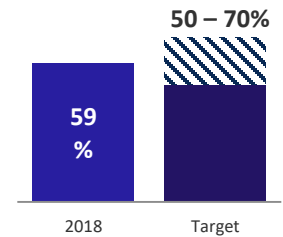
Loan growth<sup>1)</sup>



Cost development



Dividend ratio



1) Ambitions are dependent on expected C2 Reduced growth in CM in 2019.

# Outlook

## Macro

The key interest rate increased on 19 September 2019 from 1.25 percent to 1.50 percent. Norges Bank expects to keep the key interest rate unchanged in the near future.

## The region

The economic outlook for the Bank's market area is considered positive. House prices have returned moderate growth over time, and unemployment is falling.

## Capital requirements

The Bank has a common equity tier 1 capital ratio of 15.1\* percent and a leverage ratio of 9.1\*.

## Funding

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

## Digital development

Investments in digitalisation and new technological solutions give the bank good opportunities to further improve the customer experience and the bank's cost position.

## Summary

Sparebanken Sør is well placed to further develop its position as a leading customer relation-oriented bank, with high cost efficiency, good growth and profitability.



# Appendix

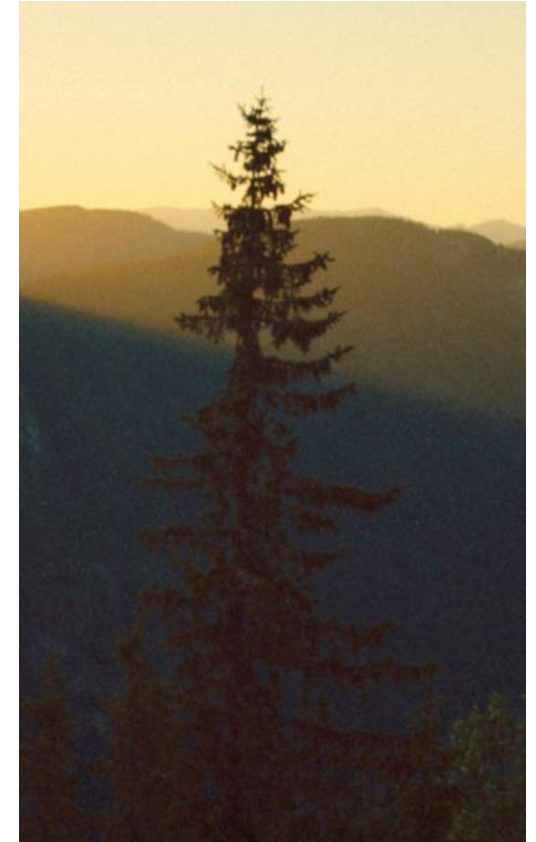


SPAREBANKEN SØR

# Dividend policy

The bank aims to pay out 50-70% of the equity certificate capital's proportion of annual profits after tax as a dividend.

- Sparebanken Sør will through sound, stable and profitable operations secure its equity certificate owners a competitive return in terms of dividend and return on their investments.
- The surplus will be distributed between equity certificate capital (equity certificate owners) and primary capital in accordance with their proportionate share of the equity capital.
- Sparebanken Sør's capital needs, including regulatory requirements, investor expectations and the bank's strategic targets will be taken into consideration when determining the annual dividend.



# SOR – share price and liquidity

## Change in share price at 30.09.2019

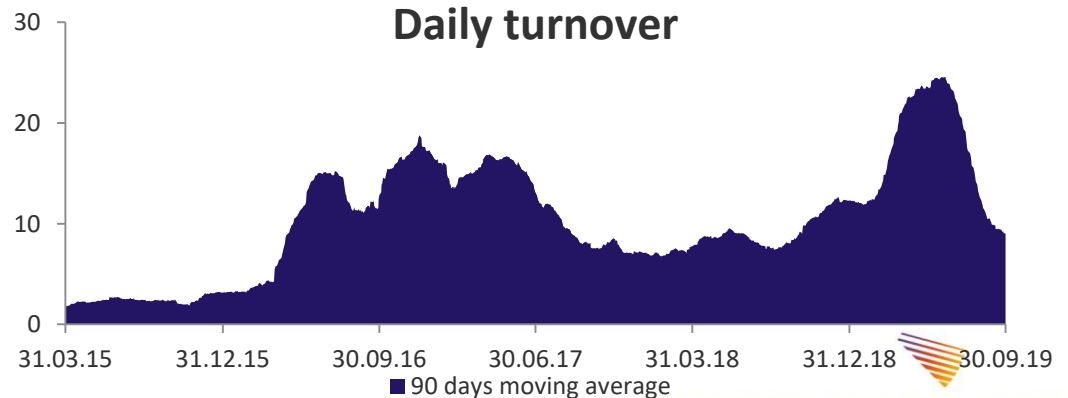
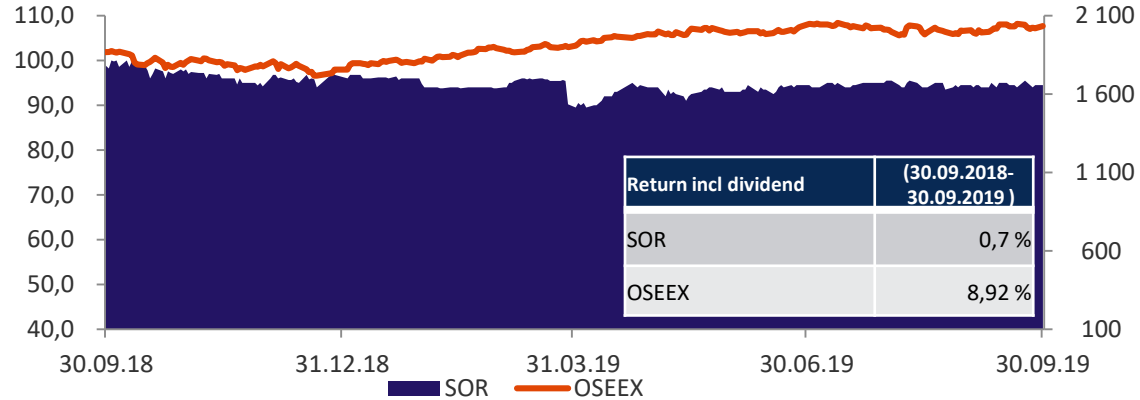
- The share price for SOR was NOK 94.5 and book value was NOK 125.6, amounting to a price-to-book ratio of 0.8.
- The equity certificates gave a return of 0.7%
- Profit per equity certificates of NOK 8,6, which represents a P/E of 8.2

## Liquidity

- Turnover of 1.7 mill. equity certificates last 12 months.
- 15 663 944 total issued, and an EQ rate of 17.2%

## Dividend

- 50-70% percent of equity certificate holders` share of annual profits
- Sparebanken Sør`s capital requirements will be taken into consideration when determining the annual dividend.
- The equity certificate yielded a direct return of 6.2 percent in 2018 (5.8 percent in 2017).



# Equity certificate owners

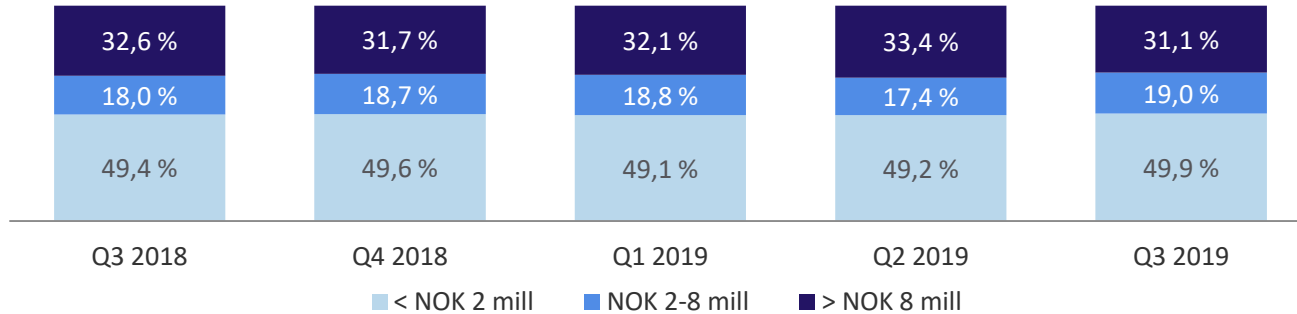
20 largest equity certificate owners as of 30 June 2019

	Name	Number of ECs	Share of ECs %		Name	Number of ECs	Share of ECs %
1	Sparebankstiftelsen Sparebanken Sør	7.988.679	51,00	11	Catilina Invest AS	114.558	0,73
2	EIKA utbytte VPF c/o Eika kapitalforv.	635.537	4,06	12	Svenska Handelsbanken AB	100.000	0,64
3	Arendal Kom. pensjonskasse	450.000	2,87	13	Ottersland AS	100.000	0,64
4	Pareto AS	417.309	2,66	14	MP Pensjon PK	85.523	0,55
5	Glastad Invest AS	368.765	2,35	15	Artel AS	82.131	0,52
6	Bergen Kom. Pensjonskasse	340.000	2,17	16	Profond AS	77.115	0,49
7	Otterlei Group AS	278.200	1,78	17	Apriori Holding AS	72.575	0,46
8	Wenaasgruppen AS	186.000	1,19	18	Varodd AS	70.520	0,45
9	Gumpen Bileiendom AS	174.209	1,11	19	Birkenes Sparebank	66.000	0,42
10	Allumgården AS	151.092	0,96	20	Brøvig Holding AS	65.639	0,42
	<b>Total 10 largest owners</b>	<b>10 989 791</b>	<b>70,16</b>		<b>Total 20 largest owners</b>	<b>11.823 852</b>	<b>75,48</b>

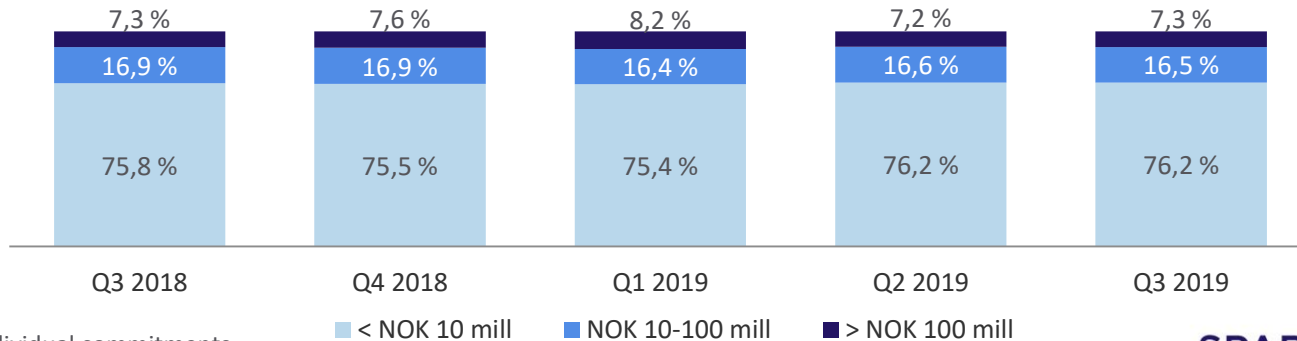
- As of 30 June 2019, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC amounted to NOK 3,5 in Q3 2019 and NOK 8,6 YTD.
- The ownership ratio at the end of Q3 2019 was 17.2 percent

# Portfolio

## Deposits distributed by size

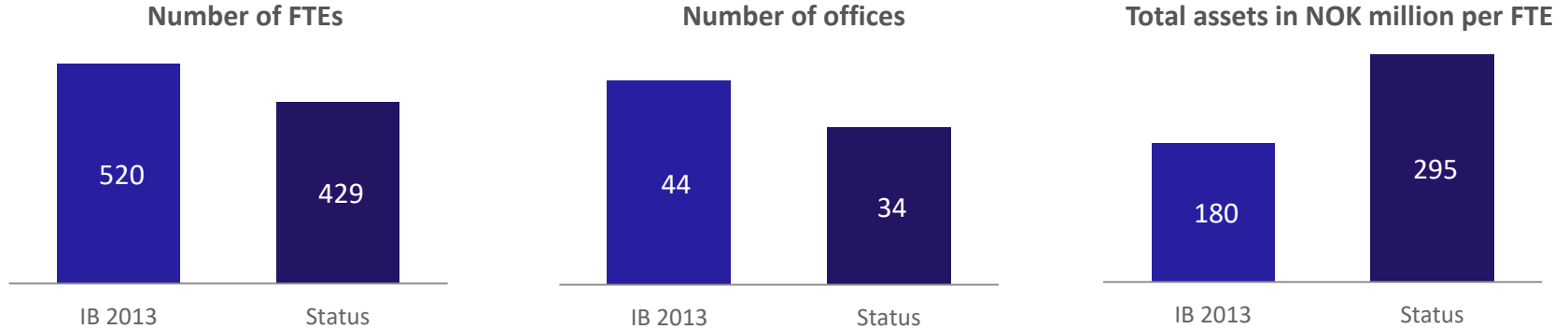


## Loans\* distributed by commitment size



\*Individual commitments

# Structure and cost focus



Considerable potential has been realised – further efficiency improvements is part of ongoing operations.

*NOK million*

