



# Sparebanken Sør

Investor presentation Q1 2020

# Agenda

- **About Sparebanken Sør**
- **Highlights from the quarterly report**
- **Funding status**
- **Capital**
- **Digital development**
- **Goals and expectations going ahead**

# Sparebanken Sør - a leading financial institution in Southern Norway



Established in 1824,  
535 employees



177 000 retail  
customers



Financial group with  
banking, securities and  
real estate brokerage



21 000 corporate  
customers



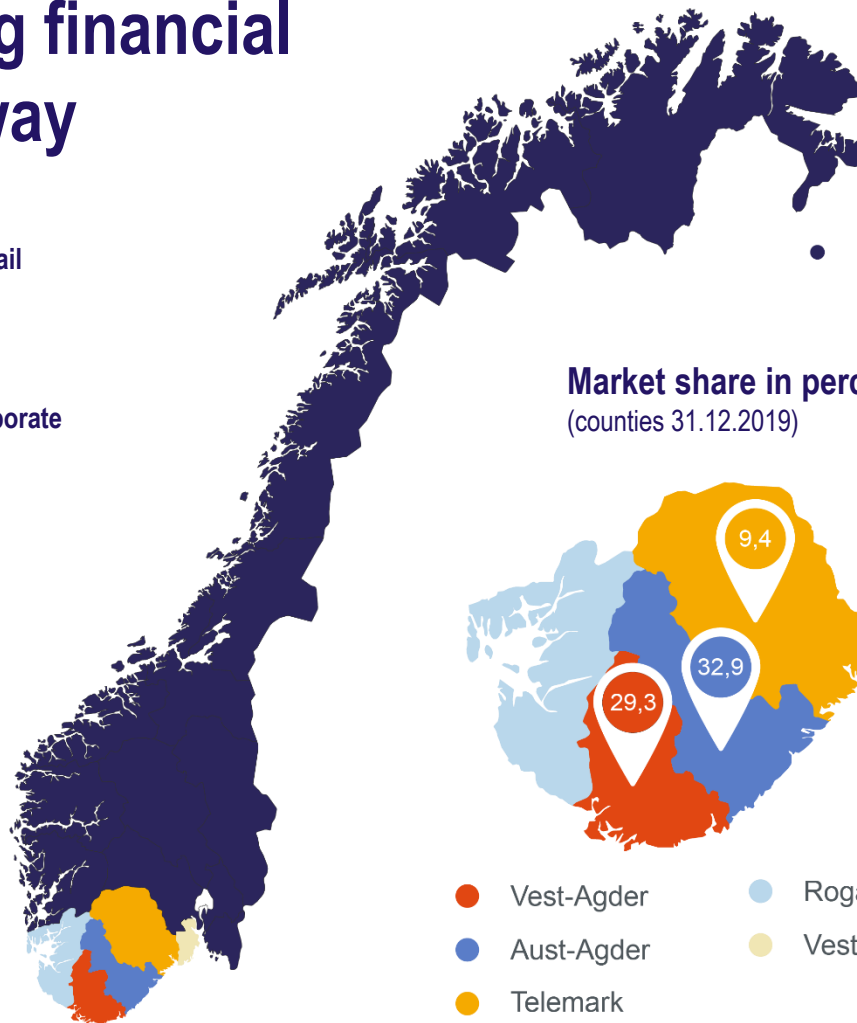
Publicly traded and  
Community-owned



Total assets of  
NOK 142.0 bn

Profit after tax Q1 2020 of 164  
NOK million

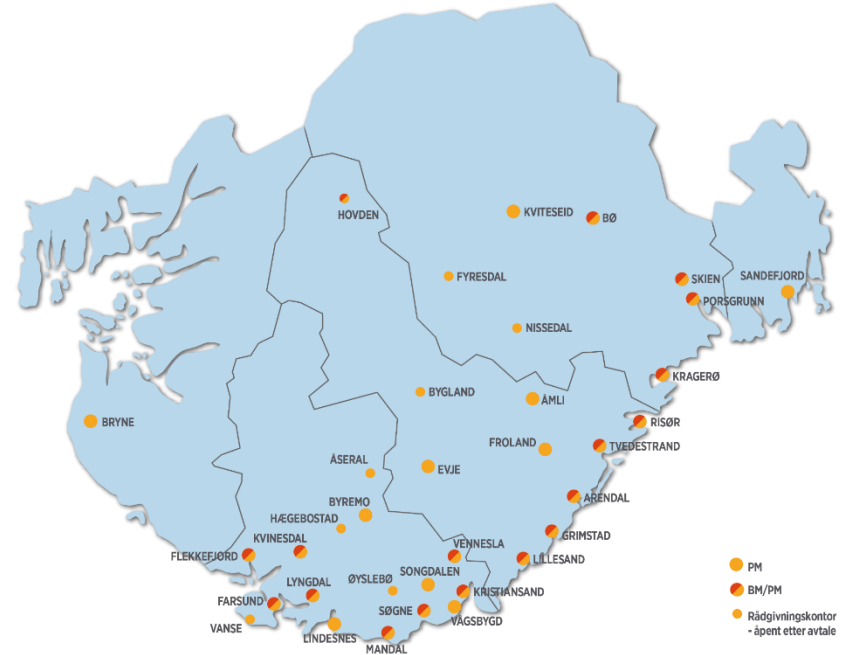
Cost as % of income of 39,8%



- Vest-Agder
- Aust-Agder
- Rogaland
- Telemark
- Vestfold

\* Marketshare retail customers

# Digitisation and geographical market area



# Impacts of COVID-19

## Banking operations

- All offices have been closed, most employees have been working from home offices
- Banking operations work well digitally
- Close customer relationship highly valued during these times

## Income

- Net interest income and commissions were virtually unaffected in Q1
- Accelerated interest rate cuts on loans will affect Q2
- Income from financials affected income negatively, stabilized in April

## Expense

- Good cost control
- No significant direct effects

## Losses on loans

- Significant uncertainty
- Negatively affected
- Positive effects from governmental measures

## Liquidity and funding

- Solid long-term financing
- Reassuring liquidity buffer

## Capital

- Countercyclical capital buffer reduced by 1.5 percentage points
- Good capital buffers, well above current regulatory requirements

# Measures from the Government and Norges Bank

## Businesses

- Government compensation scheme
- Government loan program of 50 Bln.
- 50 Bln. Bond Mandate delegated to the government pension fund Norway

## Individuals

- Improved social benefit schemes for unemployed/temporarily laid of personnel
- Support schemes for self-employed individuals

## Monetary measures

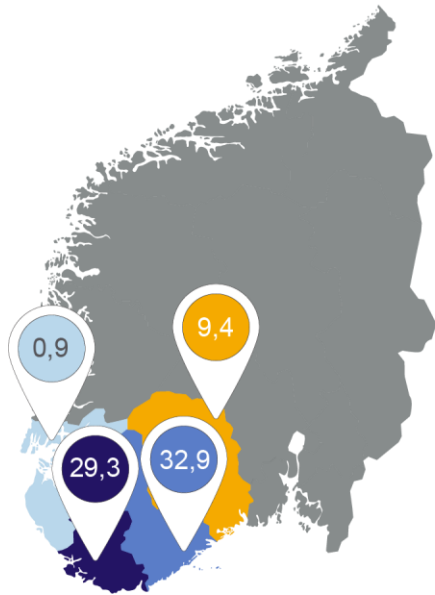
- Key interest rate lowered by 1.25 percentage points
- Countercyclical capital buffer reduced from 2,5 to 1 percent.
- Temporary changes in home mortgage regulations
- Extraordinary F-loans to banks



# Strong position in the mortgage market

## Maintaining a strong market position

Percentage market share



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

## Stable development in housing prices

Percentage change in prices last 12 months\*



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



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# Highlights from the quarterly report



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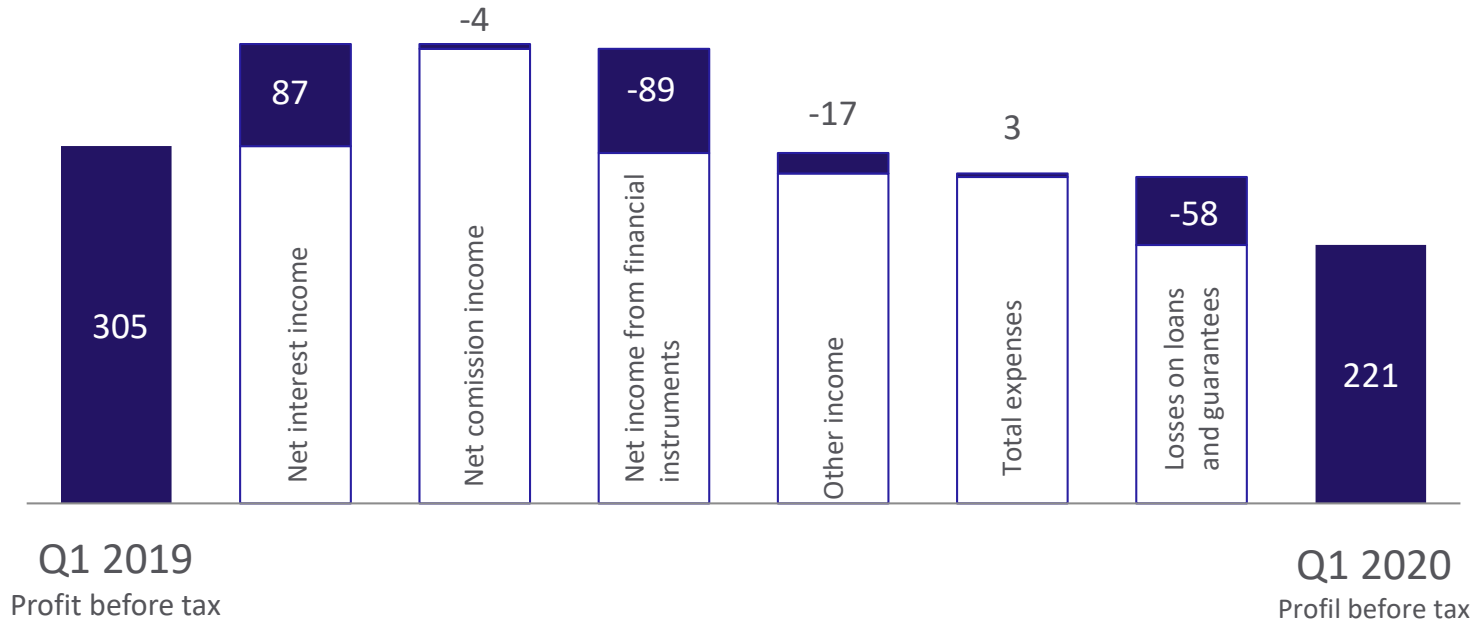
# Highlights Q1 2020

- Positive development in net interest income
- Negative contribution from financial instruments and associated companies as a result of COVID-19
- Efficient operations and low costs
- Good quality in the loan portfolio results in relatively low losses in a demanding situation
- Return on equity after tax of 5.0 percent
- Common equity tier 1 capital ratio of 15.6 percent and leverage ratio of 8.9 percent
- Dividend decision are postponed until autumn 2020 as a result of COVID-19

NOK million	2020 Q1	2019 Q1	Change
Net interest income	525	438	87
Net commission income	70	74	-4
Net income from financial instruments	-69	20	-89
Associated companies	-14	4	-18
Other operating income	2	2	0
Total income	515	537	-22
Total expenses	232	229	3
<b>Profit before losses on loans</b>	<b>283</b>	<b>308</b>	<b>-25</b>
Losses on loans, guarantees	61	3	58
<b>Profit before tax</b>	<b>221</b>	<b>305</b>	<b>-84</b>
Tax expense	58	71	-13
<b>Profit for the period</b>	<b>164</b>	<b>234</b>	<b>-70</b>

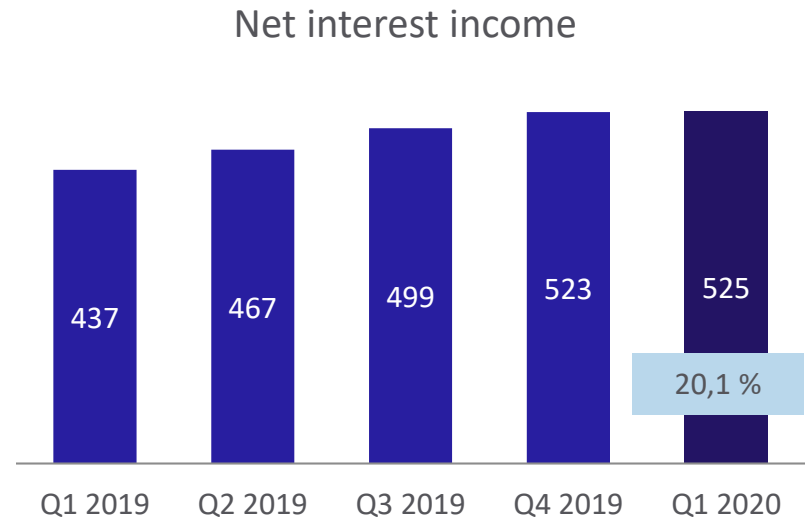
# Development in profit before tax

NOK million



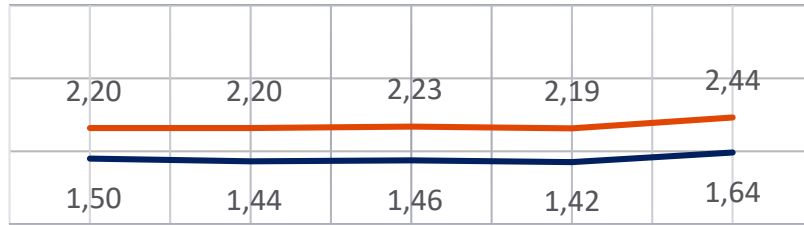
# Development in net interest income

- Positive development in net interest income
- More than 20% increase compared to the same period last year
- Lending volume is up by 4.5% in the same period
- Better margins during the period
- Interest rate cuts on loans accelerated to 31 March



# Interest margin and NIBOR3M

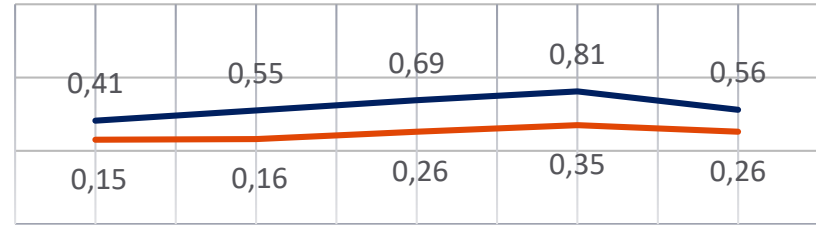
## Loans (%)



Q1 2019    Q2 2019    Q3 2019    Q4 2019    Q1 2020

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

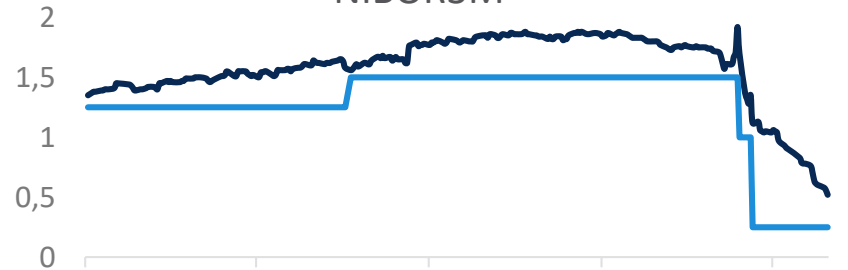
## Deposits (%)



Q1 2019    Q2 2019    Q3 2019    Q4 2019    Q1 2020

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

## NIBOR3M



31.03.2019    30.06.2019    30.09.2019    31.12.2019    31.03.2020

— NIBOR3M    — Key interest rate

**Positive development in net interest income compared to the same period last year, as a result of:**

- 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

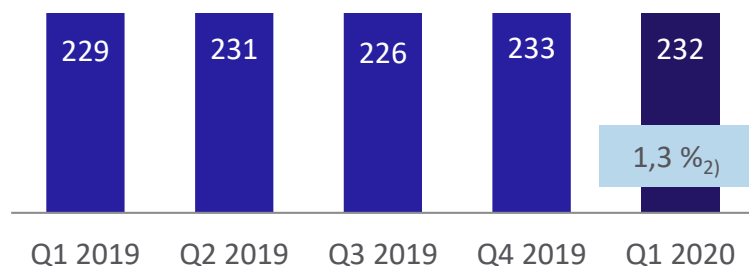


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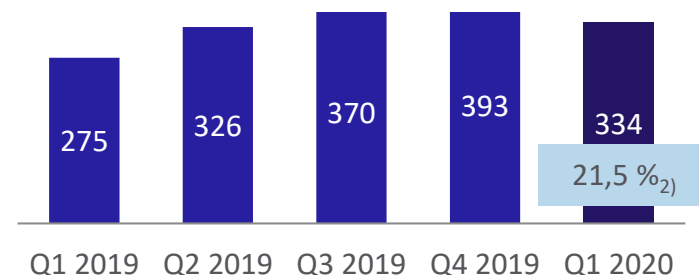
# Profit and returns

NOK million

## Operating expenses

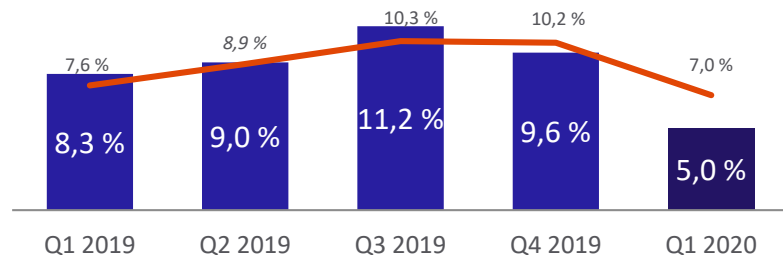


## Profit from ordinary operations<sub>1)</sub>



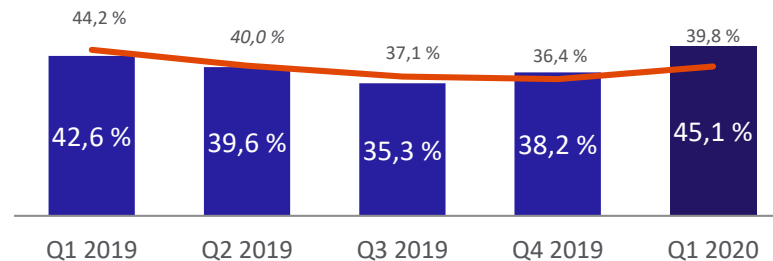
## Return on equity

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



## Cost to income ratio

Excl. financial instruments

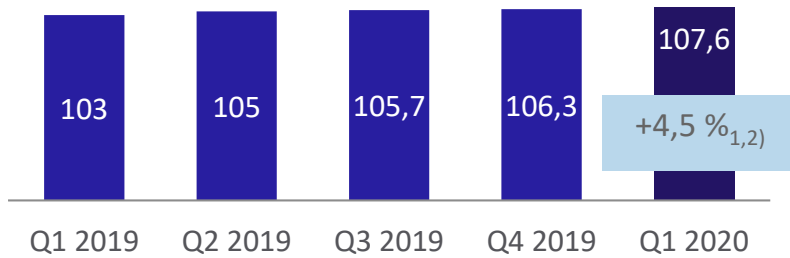


- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating expenses
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments and interest on hybrid capital.

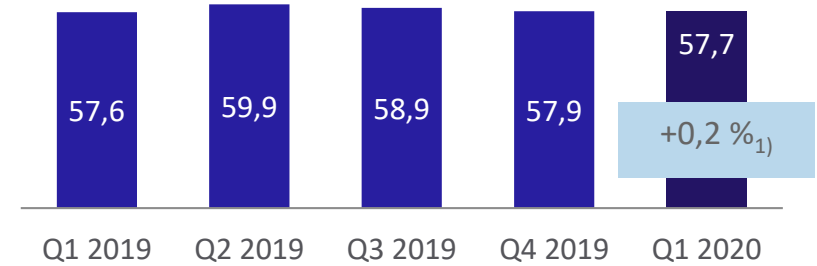
# Balance sheet

NOK billion

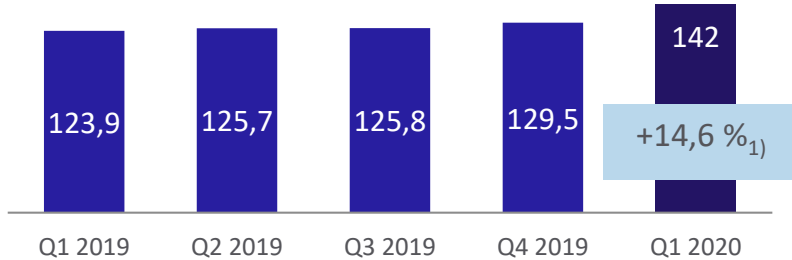
## Net loans



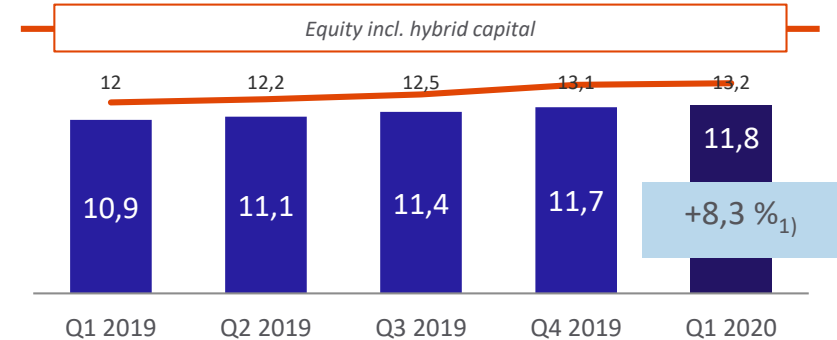
## Deposits



## Total assets



## Equity



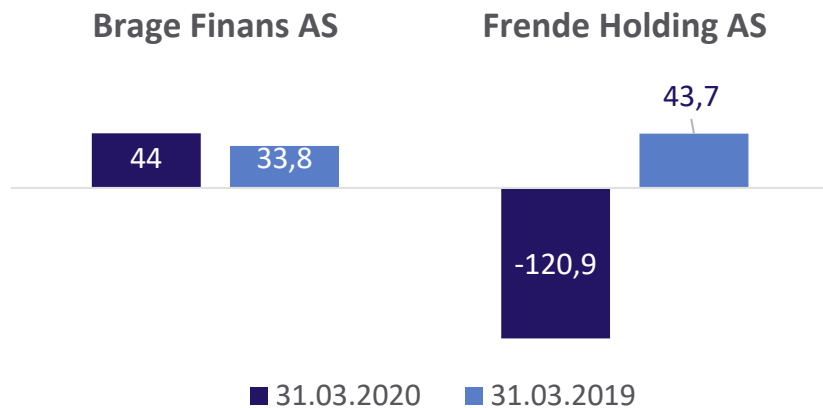
- 1) Changes from the corresponding prior-year period
- 2) Loan growth at the end of Q1 2020 amounted to NOK 4.6 billion, equivalent to 4.5 percent, of which retail customers accounted for 4.2 percent and corporate customers 4.9 percent

# Associated companies



## Profit before tax

NOK million



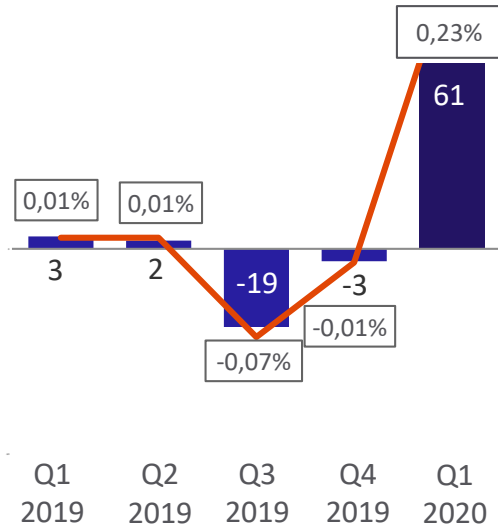
## Effect on results after consolidation

NOK million		Q1 2020	Q1 2019
Frende forsikring (20,2 %)	Share of profit	-21,9	8,6
	Amortizing.	-5,0	-5,0
Brage finans (20,8 %)	Share of profit	5,7	5,5

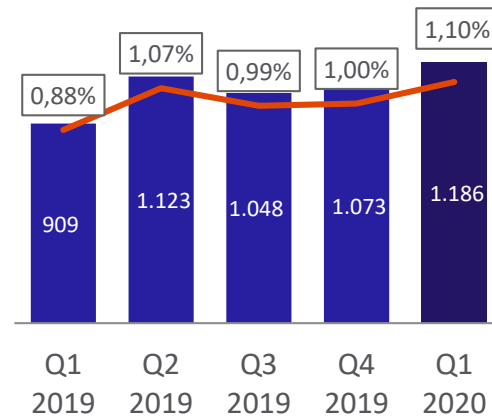


# Non-performing loans

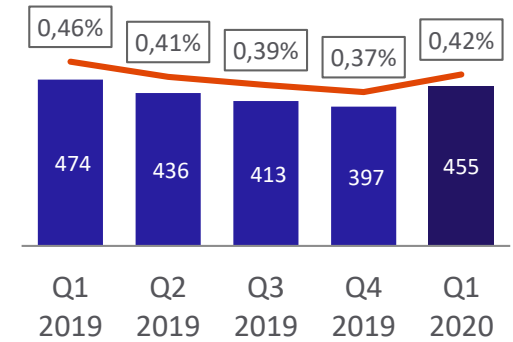
Development in losses in NOK million and as a percentage of gross loans (annualised)



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

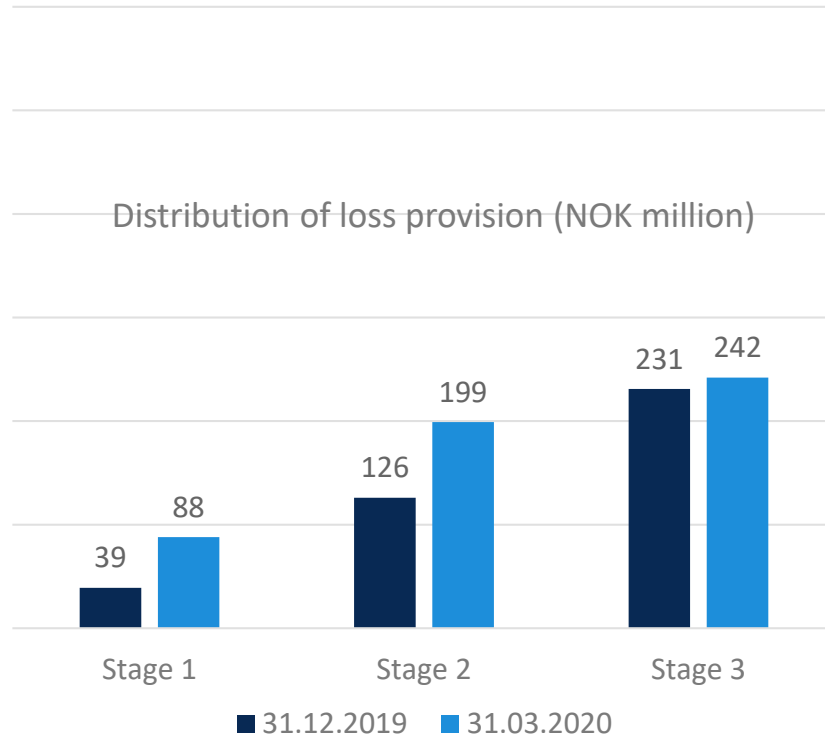


Development in loss provisions in NOK million and as a percentage of gross loans<sup>1)</sup>



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.

# Loss provision affected by COVID-19

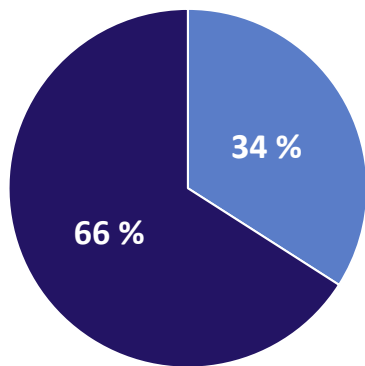


- Macro variables in the IFRS9 model are adjusted
- The effect of the crisis on model-calculated provision amounts to approximately NOK 70 million

# A diversified loan portfolio

## RM/CM distribution

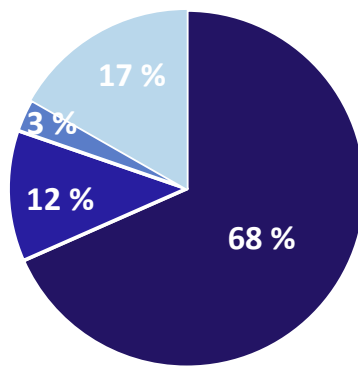
Gross loans



■ CM ■ RM

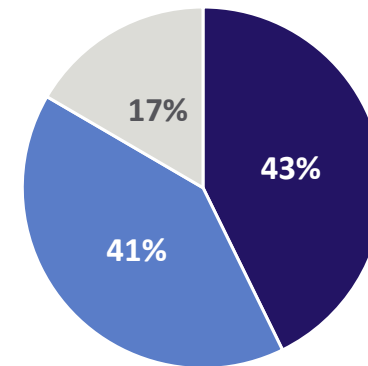
## Geographical distributions of loans

Gross loans



■ Agder ■ Vestfold og Telemark ■ Rogaland ■ Øvrige

## Loan-to-Value (Group)



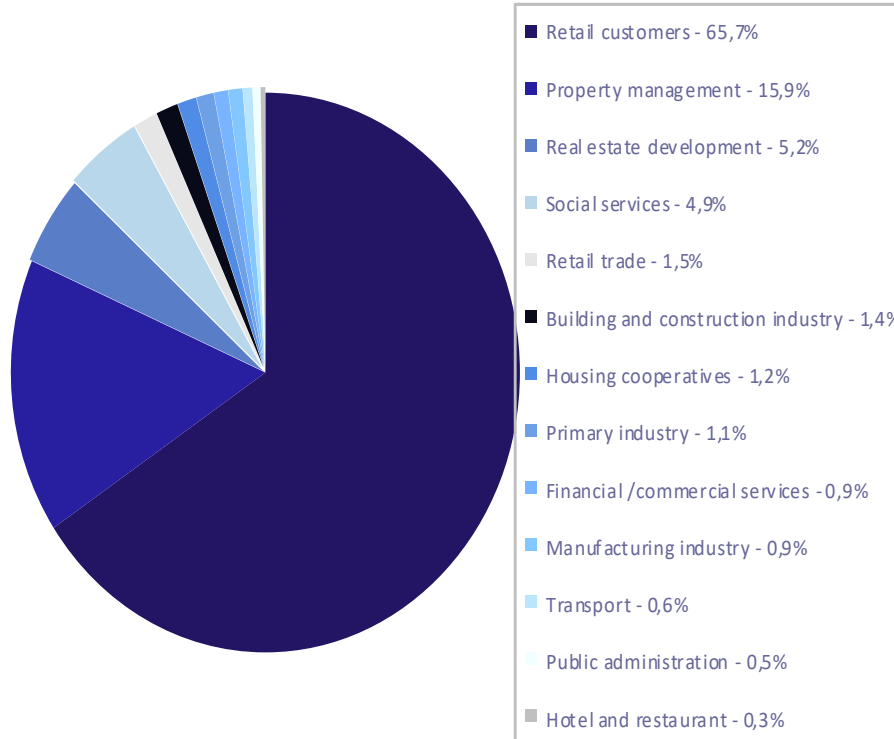
■ < 60 % ■ 60-75 % ■ > 75 %

Average loan-to-value of approximately 59 percent for mortgages (group).

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

NOK 44,6 billion transferred to Sparebanken Sør Boligkreditt AS, equivalent to 63 percent of total loans to retail market.

# Well-diversified loan portfolio

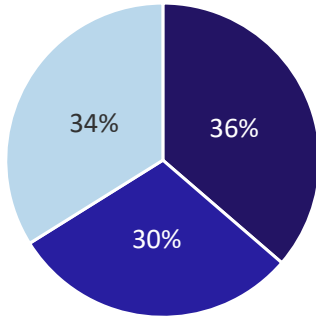


- Well diversified portfolio
- Close to no direct exposure to oil and oil service
- Very low indirect exposure to oil and oil service (tenants)

# Sparebanken Sør Boligkreditt

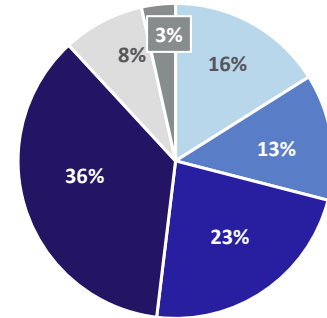
- Wholly owned by Sparebanken Sør

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 %



Status Q1 20

Decrease in house prices by 30 %

■ Weighted avg. LTV ■ Nominal OC



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# Summary after Q1 2020

## Results

The result is affected by negative effects related to the liquidity portfolio and to model-based losses. Result from underlying operations is good with positive development in net interest income, commission income and sustained low costs.

## Funding and capital

Common equity tier 1 capital ratio of 15.6 percent and solid leverage ratio of 8.9 percent.

Solid financing structure and good liquidity buffers.

## Growth

Loan growth of NOK 4.6 billion in the last 12 months, corresponding to 4.5 percent annual growth. Deposit growth of NOK 0.1 billion, corresponding to 0.2 percent in the last 12 months.

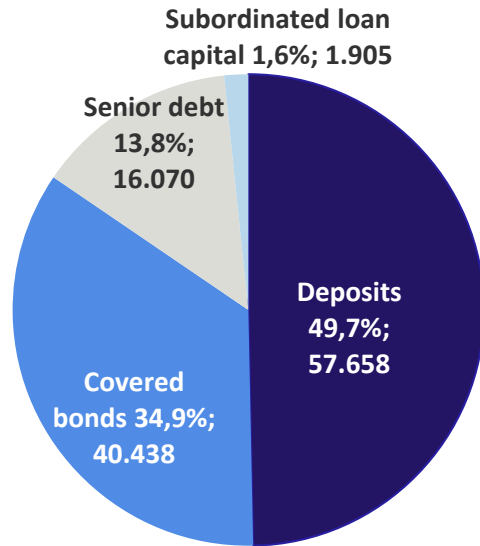
## Summary

Sound operations contributed to a pre-tax profit of NOK 221 million in Q1 2020.

# Funding status



# Funding structure

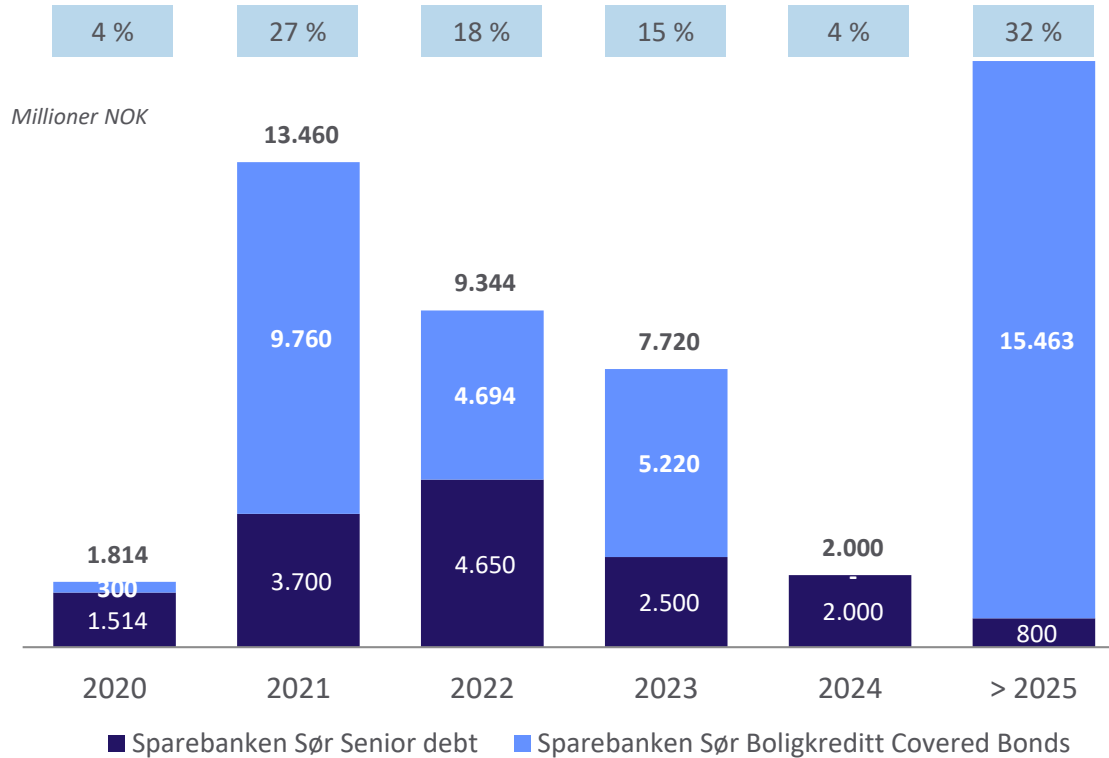


Deposits are a valuable source of funding.

- Deposits in percent of net loans at 53.6 percent
- Deposit to loan ratio was lower, due to reduction in larger corporate deposits. Positive development in stable retail and SME deposits.
- Good access to funding from both the domestic as well as from the bond market abroad.
- At the end of Q1 Sparebanken Sør Boligkreditt had issued EUR 2.5 bln. in euro covered bonds.
- Sparebanken Sør has a A1 rating
- Bonds issued by Sparebanken Sør Boligkreditt AS, are rated Aaa
- In Q1, the covered bond company issued covered bonds of NOK 5 Bln., which has been purchased by the parent bank. The bonds are used as collateral for extraordinary F-loans.



# Funding maturity



- The Group's total funding amounted to NOK 56.5 Bln
- Covered bonds amounted to NOK 45.5 Bln, of which the parent bank owns 5.1 billion
- Long-term funding\* amounted to 96 percent
- Average remaining maturity on long-term funding\* amounted to 3.7 years

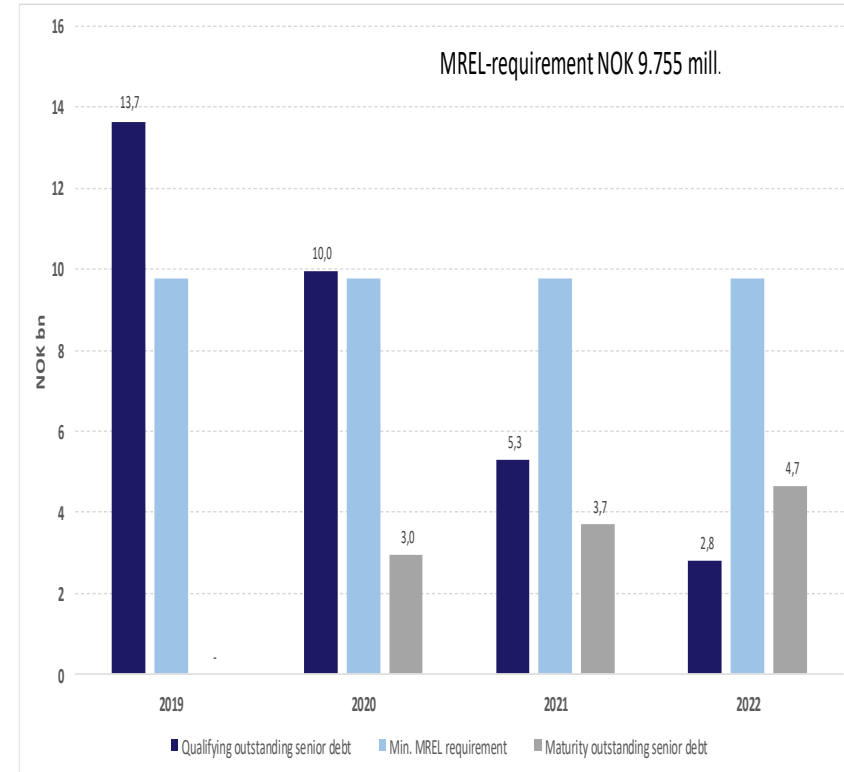
\* Long-term funding: maturity > 1 year



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# MREL requirement

- MREL requirements of minimum 32% of adjusted RWA for Sparebanken Sør.
- Senior debt issued before January 2020 can be used as Senior Non-Preferred debt (Tier 3 Capital) until the end of 2022
- Tier 3 capital will be issued during the period
- Requirement for Non-Preferred debt of NOK 9,755 million in 2020 (taking into account 33.5% of adjusted RWA)



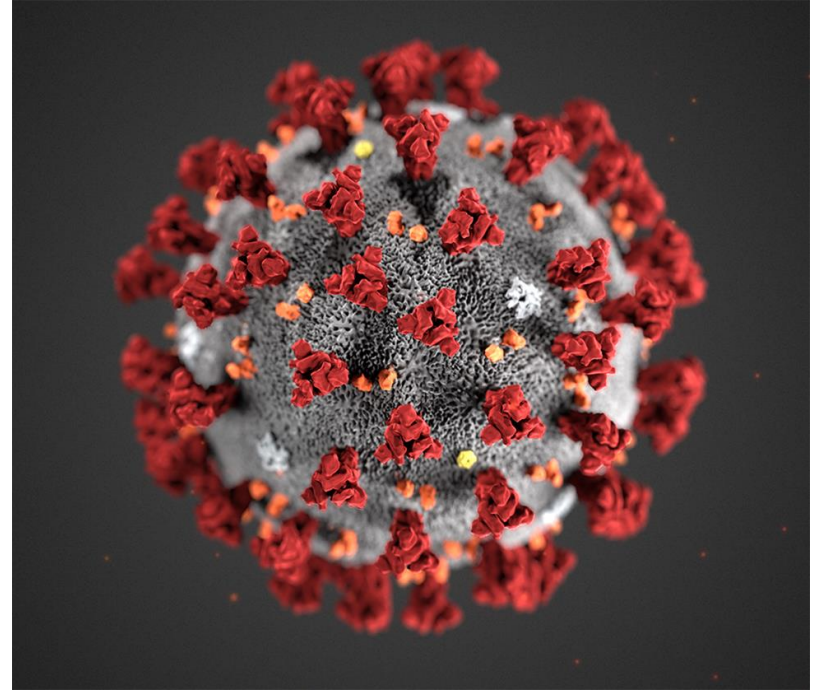
# Capital

# Postponed dividends

Norwegian authorities have expressed an expectation that financial institutions postponed the distribution of dividends due to the Covid-19 situation.

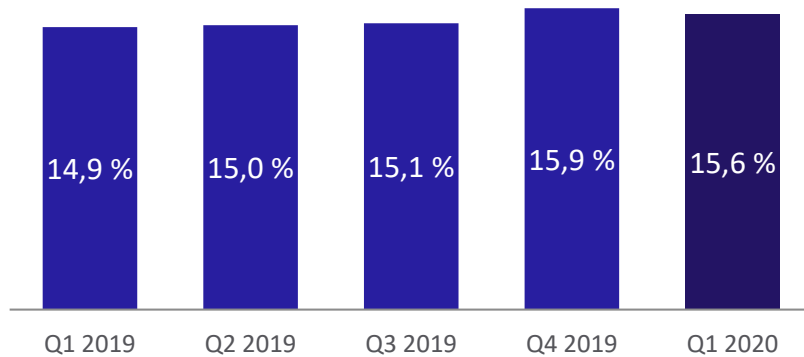
The Board of Directors has decided:

- Dividends are postponed
- NOK 60 mill allocated to gifts
- Decision on dividends is postponed until Autumn 2020

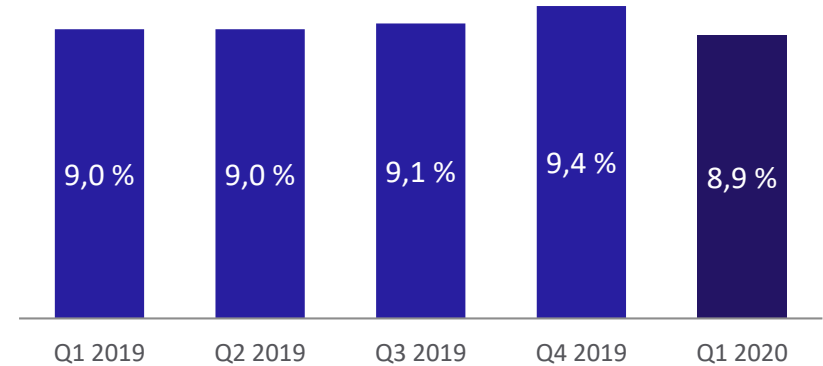


# Capital adequacy

Common equity tier 1 capital ratio

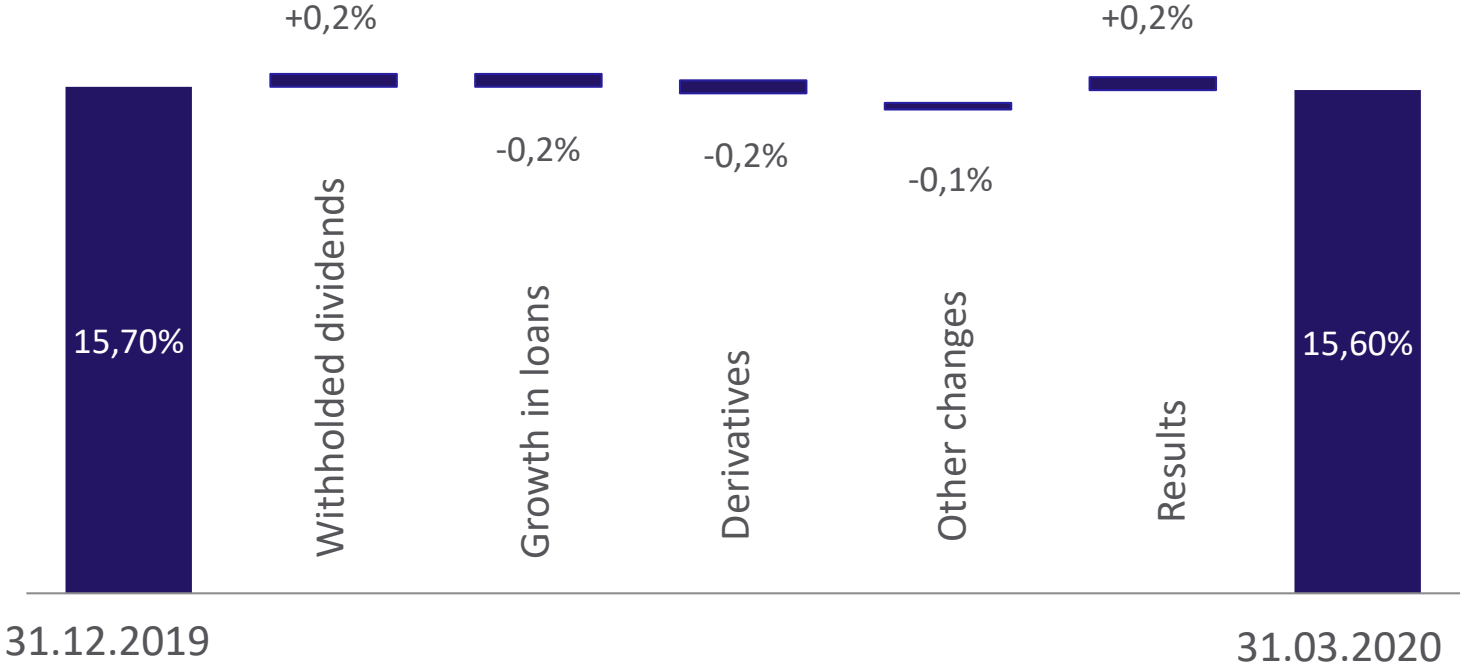


Leverage ratio



- Reduced requirement for countercyclical capital buffer from 2.5 to 1 per cent.
- Well above the current capital requirement (CET1) of 13 per cent.
- The SME- discount resulted in a reduced basis for calculations, amounted to NOK 1.9 billion and resulted in an improvement of 0.4 percentage points in CET1.

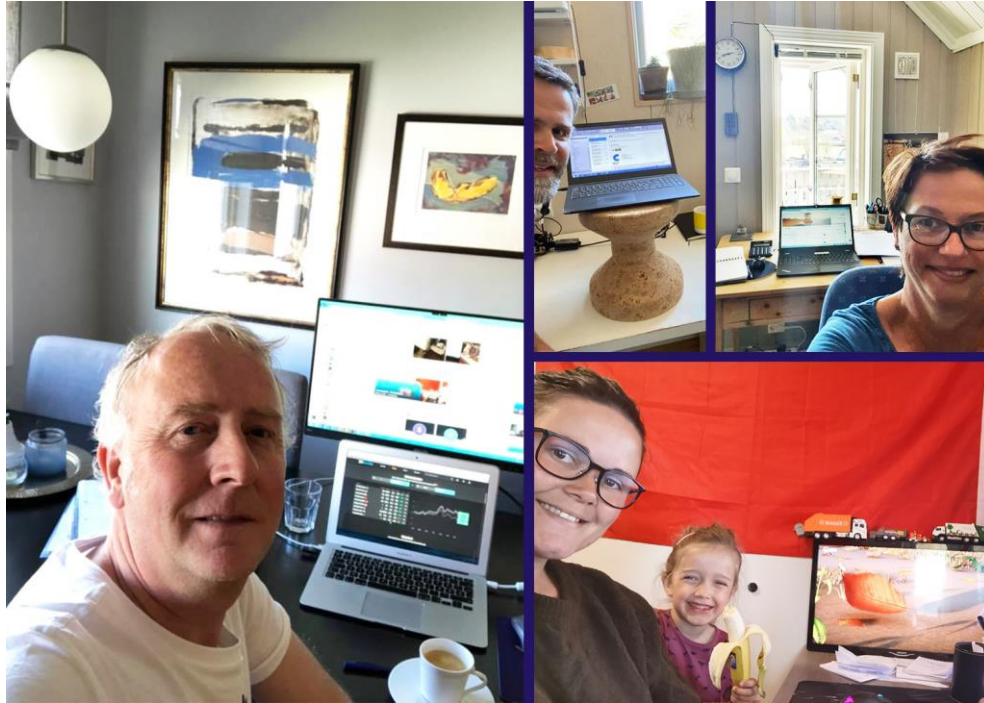
# Change in CET1





# Digital development

# Sound operations during the corona crisis

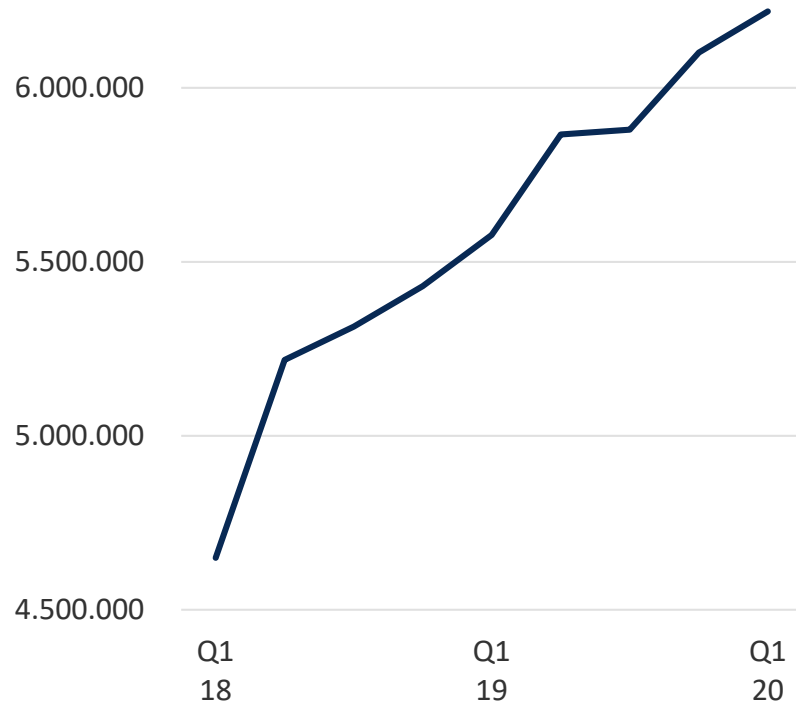



Customers interactions with the bank are increasingly digital.

Flexible staff, which is able and willing to change it's way of working from home offices and in digital interaction with customers.

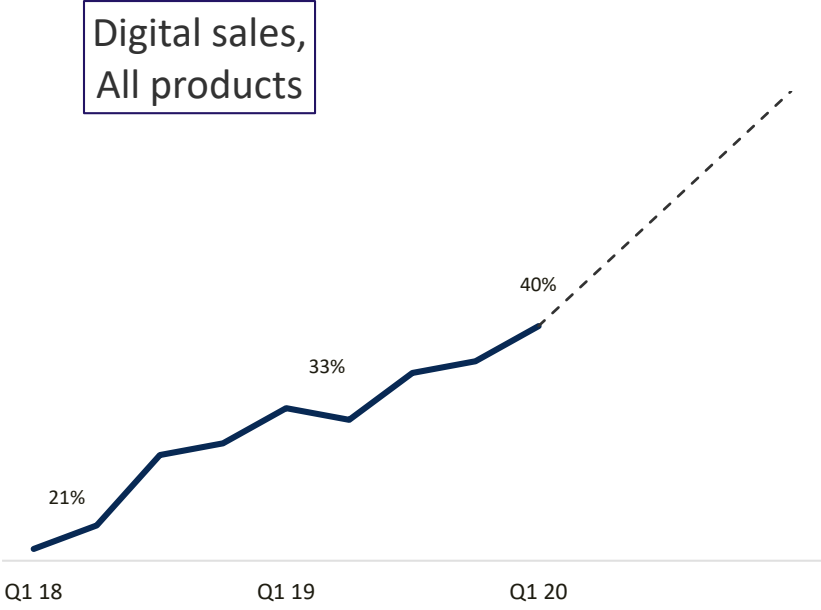
Digital solutions provide flexibility for quickly adapting new solutions.

# Mobile banking – still increasing

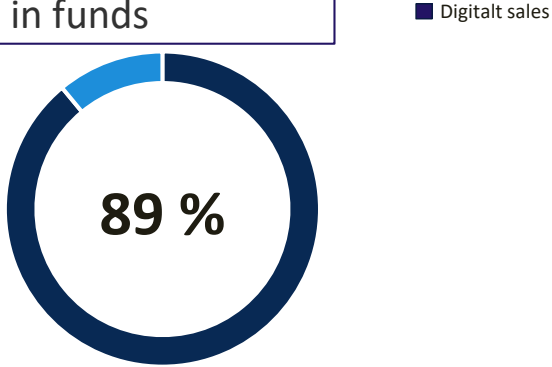


- 4,5 ★ ★ ★ ★ ☆ 
- Customers log in once a day on average
- 30 % increase last 24 months

# Share of digital sales has improved 100%



Example: Saving agreements in funds



# Several digital products will be launched during spring

## Mortgage

Customers are able to interact with the bank digitally:

- Funding certificate
- New, modern mortgage loan experience
- Electronic real estate sale and interaction with real estate agents

## Mobile banking

Online and mobile banking, which provides complete information on:

- Funds and shares (Norne Securities)
- Car loans and boat loans(Brage Finans)



# Several digital products will be launched during spring

## Savings

- New self-service digital savings solution for investing in funds  
Ambition: FinAut autorisation
- New ESG fund
  - Launched via Norne
  - Complementary to Norne Aksje

## Payment

- New launches in connection with our card program for corporate customers
- Cash in store
- Vipps QR



vipps  bankID™ 



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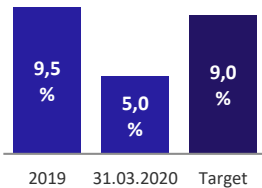
# Goals and expectations ahead



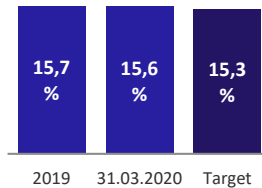


# Financial key variables and ambitions

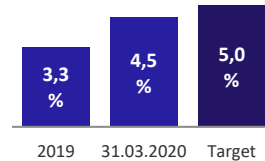
Return on equity



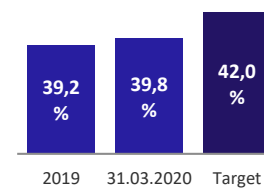
CET1 (Group)



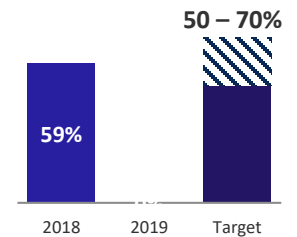
Loan growth<sup>1)</sup>



Cost development  
excl. finance



Dividend ratio



1) Ambitions are dependent on expected C2. Ambitions for CM slightly lower.

# Looking ahead

## Macro

Necessary measures taken to combat the coronary pandemic contribute to a significant weakening of the world economy. Norwegian authorities have implemented a number of measures to curb the consequences, however future prospects are more uncertain than it has been for a long time.

## The region

The financial prospects for the Bank's market area are considered uncertain, as for the rest of Norway. Housing prices in the Bank's main markets have had a positive but moderate development over several years. The statistics for Q1 showed a slight positive rise in house prices, but there is considerable uncertainty regarding future developments.

## Funding and capital

Common equity tier 1 capital ratio of 15.6 percent and a solid leverage ratio of 8.9 percent. The Bank is well positioned to establish long-term funding from the Norwegian and international financial markets.

## Digital adjustment

Investments in digital and new technological solutions enables the bank to further improve the customer experience and the Bank's cost position

## Sustainability

Sustainability is a focus area for the bank and ESG is integrated in our business strategy.

## Summary

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

# Appendix



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# Equity certificate owners

20 largest equity certificate owners as of 31 March 2020

	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.	649.610	4,15	12	Carl Krogh Arnet	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	300.000	1,92	15	Artel AS	82.131	0,52
6	Øyhovden Invest AS	257.900	1,65	16	Park Invest AS	72.942	0,47
7	Otterlei Group AS	240.642	1,54	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	K.T. Brøvig Invest AS	65.639	0,42
	<b>Total 10 largest owners</b>	<b>10.815.441</b>	<b>69,05</b>		<b>Total 20 largest owners</b>	<b>11.645.329</b>	<b>74,34</b>

- As of 31 March 2020, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC amounted to NOK 1.6 in Q1 2020.
- The ownership ratio at the end of Q4 2019 was 17.2 percent

# SOR – share price and liquidity

## Change in share price at 31.03.2020

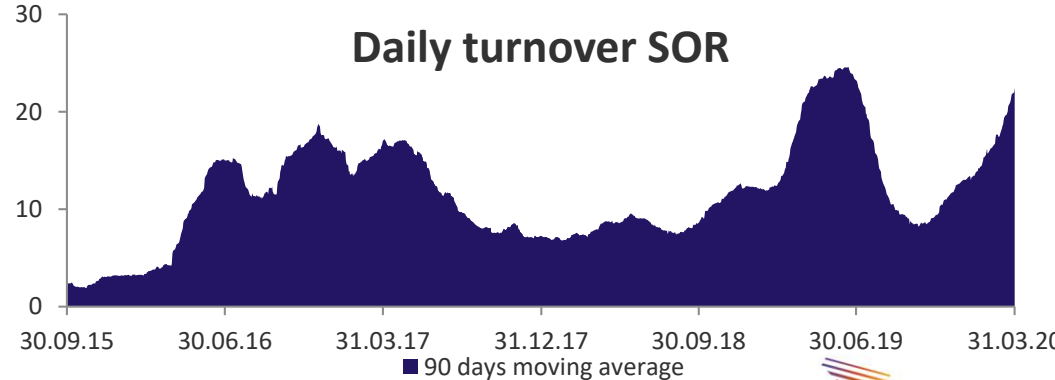
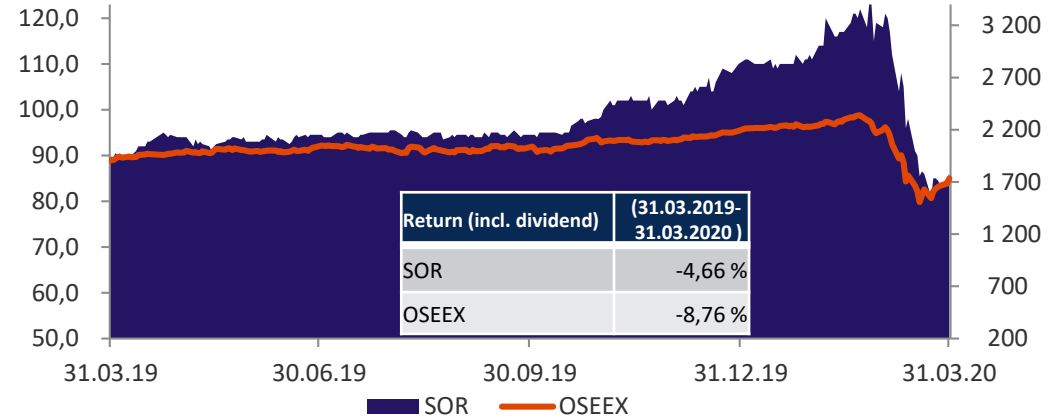
- The share price for SOR was NOK 86.0 and book value was NOK 130.2, amounting to a price-to-book ratio of 0.7.
- The equity certificates gave a return of -4.66% last 12 months
- Profit per equity certificates of NOK 1,6, which represents a P/E of 13.4

## Liquidity

- Turnover of 1.8 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).
- The dividend decision for 2019 is postponed to autumn 2020 as a result of COVID-19.



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