



Sparebanken Sør

Investor presentation Q3 2023

Low risk and increasing ROE



Market Leading



Low risk loan book



Low complexity



Strong capitalisation



Increasing ROE



Financial targets

✓
ROE target:
>11% in 2023
and
>12% by end
2025

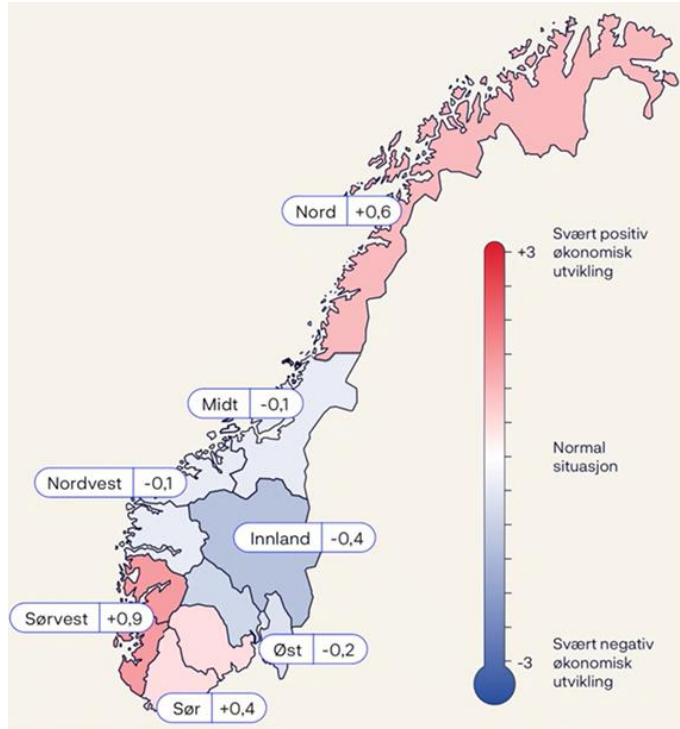
✓
> 16.5%
CET1 capital
ratio

✓
Dividend policy
~50 percent

✓
Cost/income
<40%



Positive economic development in the region



House price growth in Kristiansand is the strongest in the country. So far this year, prices have increased by 10.0%

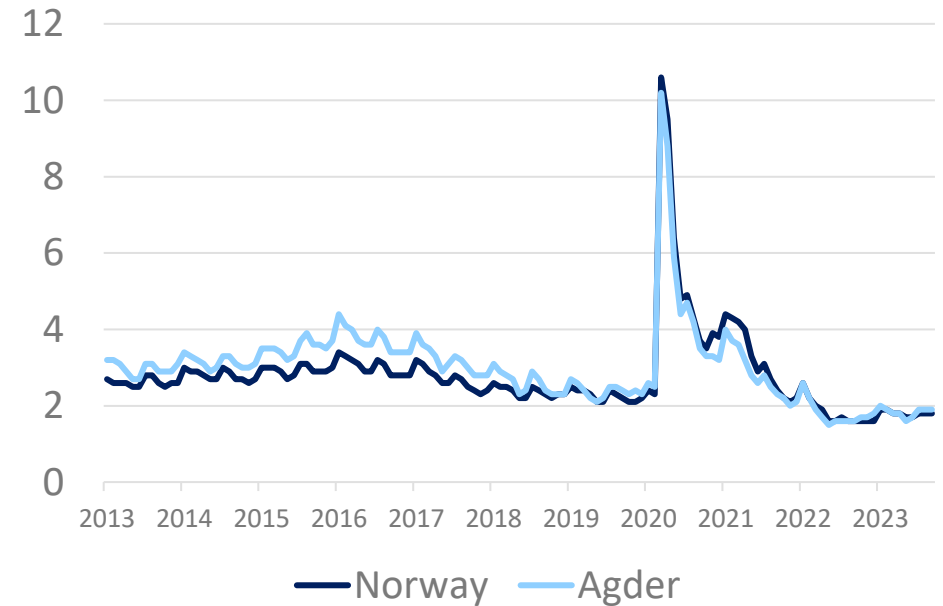
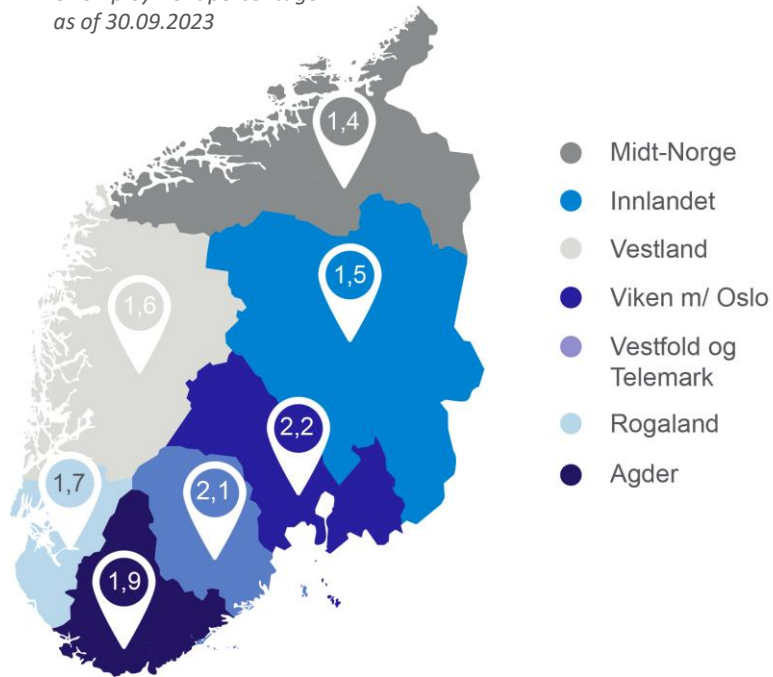
The nurse index shows that a single nurse can buy 42 % of the homes sold in Kristiansand and 62 % in Grenland.

The economy is affected by high activity and investment in the energy sector

Continued strong labour market

Unemployment

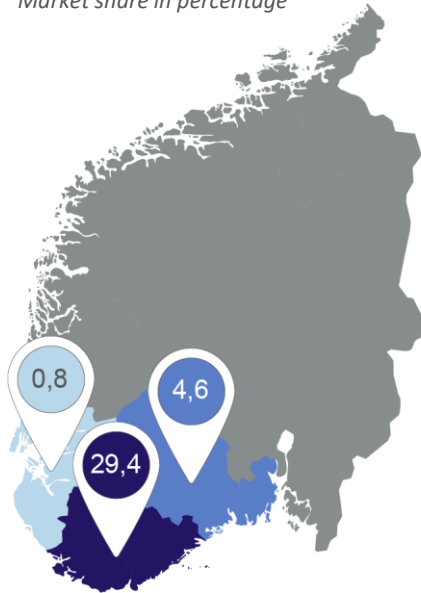
Unemployment percentage
as of 30.09.2023



Sterk posisjon i boligmarkedet

The bank maintains a strong market position

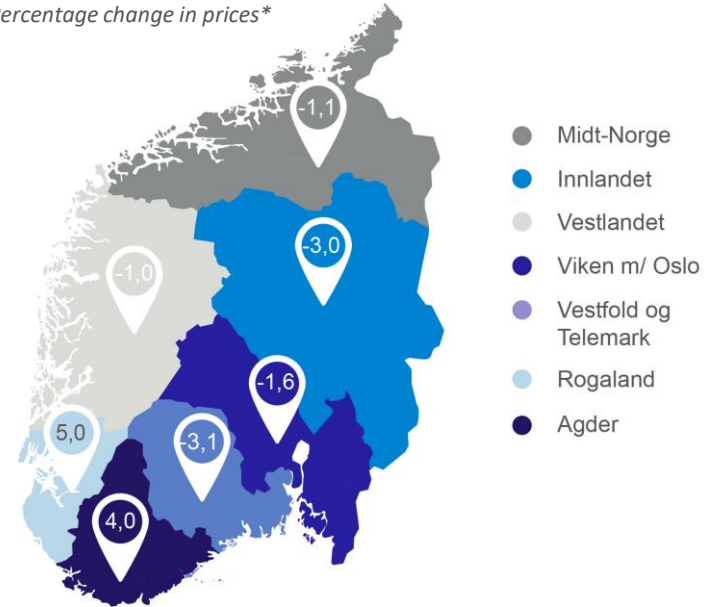
Market share in percentage



1 position in Agder, strong position in Vestfold Telemark. Positive development in Rogaland.

Positive development in housing prices

Percentage change in prices*

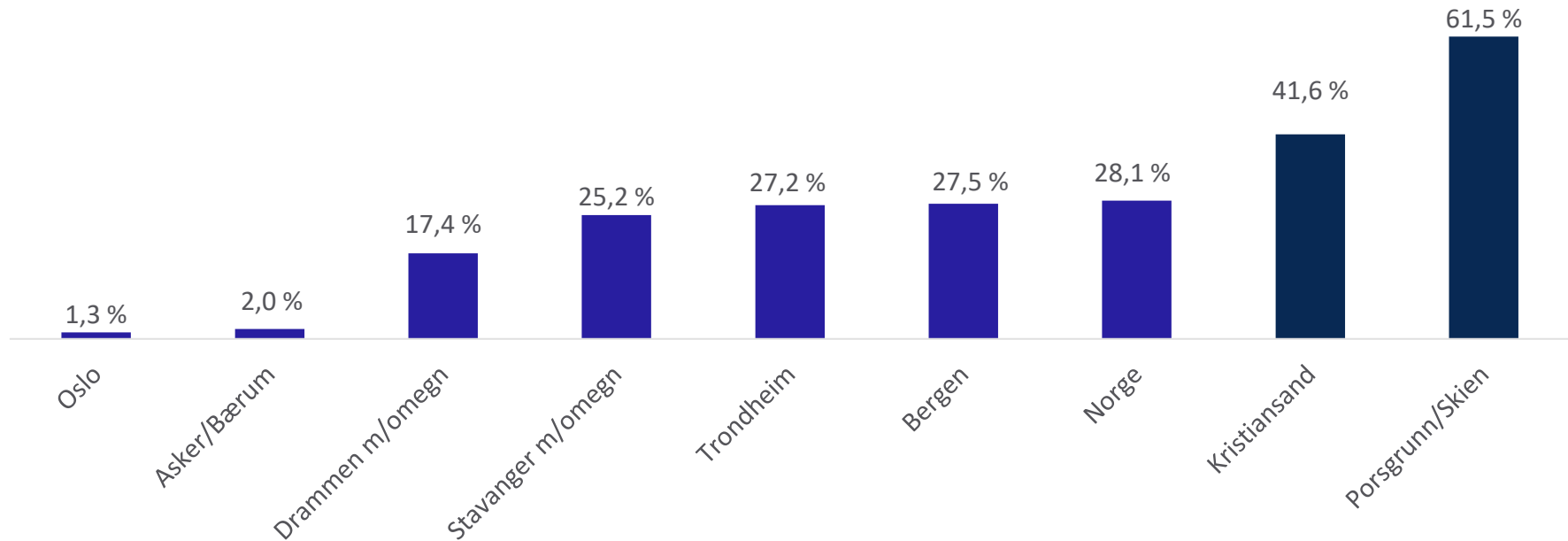


* 12-month change at 30.09.2023

- Midt-Norge
- Innlandet
- Vestlandet
- Viken m/ Oslo
- Vestfold og Telemark
- Rogaland
- Agder

The nurse index: Good access to housing in the region's pressure areas

30.06.2023



<https://eiendomnorge.no/getfile.php/1317016-1692013982/Bilder/Nyheter/2023/sykepleier-13.pdf>

The nurse index shows the proportion of homes sold each year that a single nurse has the opportunity to buy (based on income and the lending regulations' assumptions)

Q3 2023

Strong Quarterly Result

- Net interest income increased with 29 percent
- Low cost-income ratio of 31.9
- Low losses on loans and low defaults
- Result per equity certificate of NOK 4.2 (NOK 2.5)
- Strong return on equity of 11.5 percent

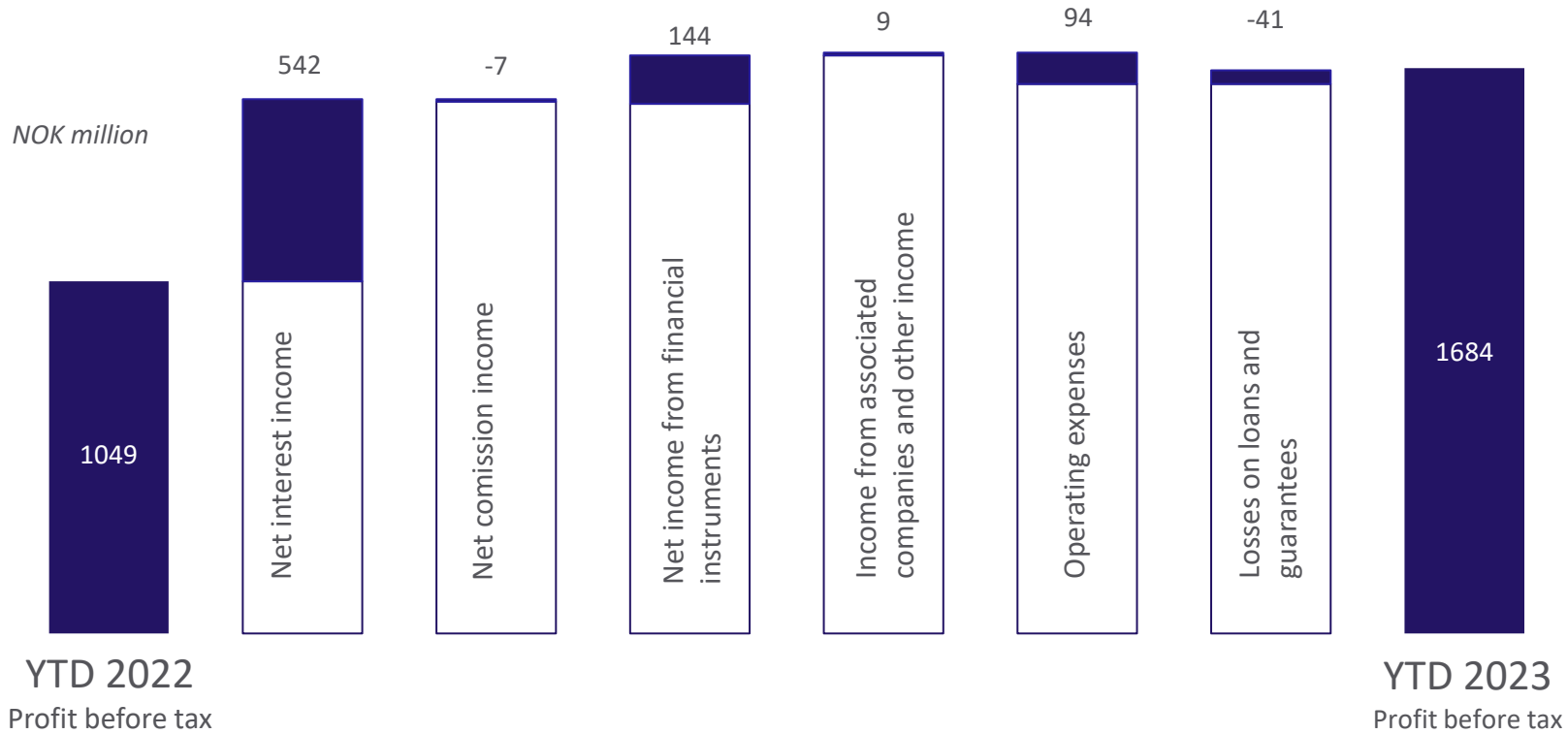
NOK million	2023 Q3	2022 Q3	Change
Net interest income	783	603	174
Net commission income	101	107	-6
Net income from financial instruments	20	-69	89
Associated companies	6	28	-22
Other operating income	23	1	22
Total income	935	677	258
Total expenses	298	282	16
Profit before losses on loans	637	395	242
Losses on loans, guarantees	32	51	-19
Profit before tax	605	344	261
Tax expenses	148	77	71
Profit for the period	457	267	189

Strong growth in net interest income

- Low losses on loans
- Strong return on equity of 11.6 percent
- Result per equity certificate of NOK 12.5 (NOK 7.4)
- 12-month lending growth of 2.8 percent
- 12-month deposit growth of 5.1 percent

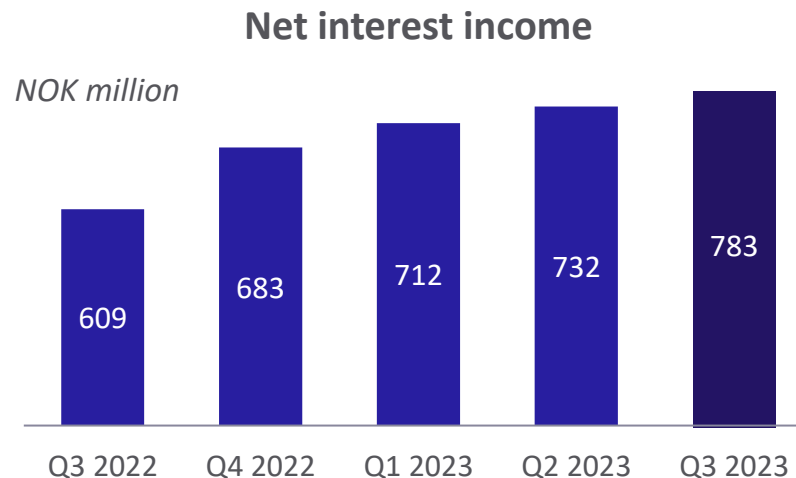
Millioner NOK	30.09.2023	30.09.2022	Endring
Net interest income	2 227	1 685	542
Net commission income	295	302	-7
Net income from financial instruments	16	-128	144
Associated companies	66	79	-13
Other operating income	26	4	22
Total income	2 630	1 942	688
Total expenses	928	834	94
Profit before losses on loans	1 702	1 108	594
Losses on loans, guarantees	18	59	-41
Profit before tax	1 684	1 049	635
Tax expenses	338	234	104
Profit for the period	1 346	815	531

Decomposition of changes in profit before tax



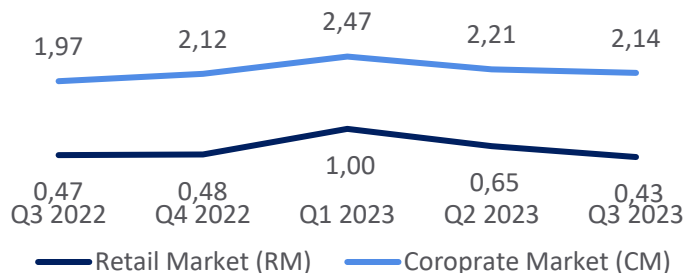
Very positive development in net interest income

- Increased interest margins for retail and corporate markets
- Positive deposit and lending growth in the last 12 months
- The announced changes in interest rate will additionally increase the net interest margin

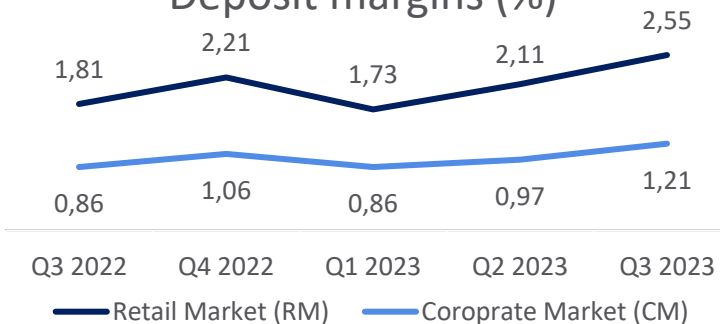


The interest rate changes strengthen the interest margin over time

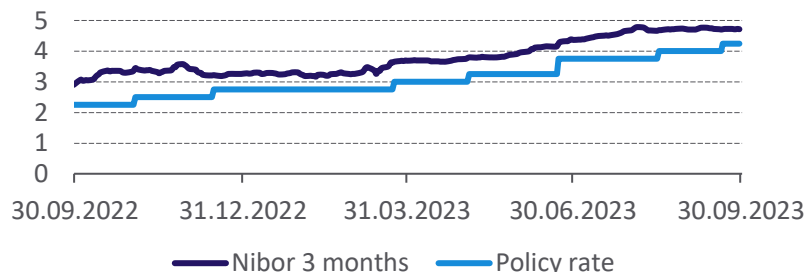
Loan margins (%)



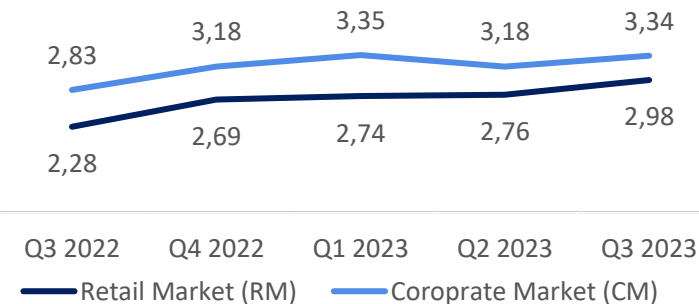
Deposit margins (%)



NIBOR 3M development



Interest margin₁ (%)



1) Interest margin is the average lending rate minus the average deposit rate

Profit contributions from associated companies

- Good ROE from Brage with 11.7 percentage so far this year
- Share of profit from Frende in Q3 2023 was negatively affected by natural damages, as well as a negative financial result

Effect on results after consolidation

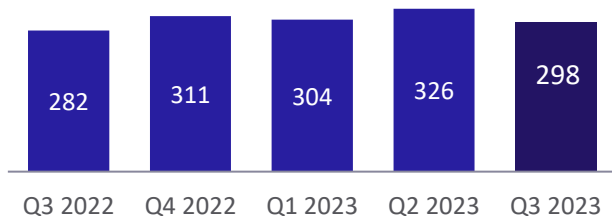
NOK million		Q3 2023	Q3 2022	30.09.2023	30.09.2022
Frende forsikring* (19,9 %)	Share of profit	-7,5	19,4	10,3	30,2
	Amort.	-5,5	-5,5	-16,5	-16,3
	Sale				24,9
Brage Finans (24,9 %)	Share of profit	19,5	14,1	60,6	39,7
Balder Betaling (23,0 %)	Share of profit	0	0,0	11,4	0,6
SUM		6,5	28,0	65,8	79,1



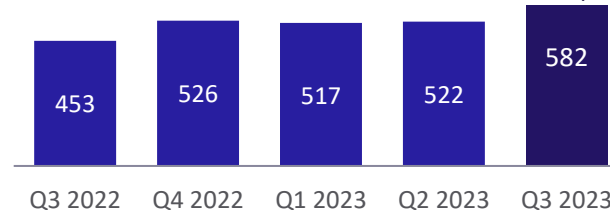
Strong return on equity and low cost percentage

NOK million

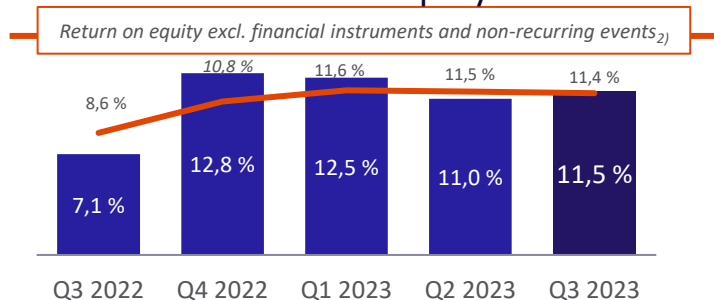
Driftskostnader



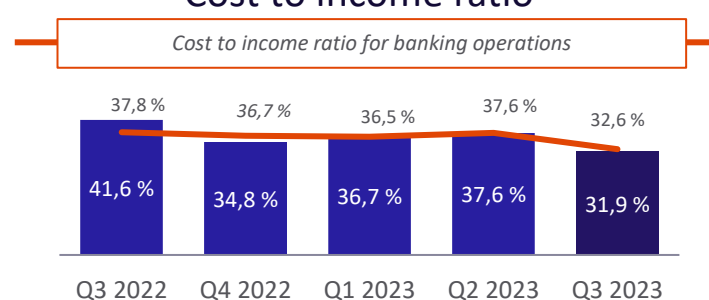
Profit from ordinary operations¹⁾



Return on equity



Cost to income ratio



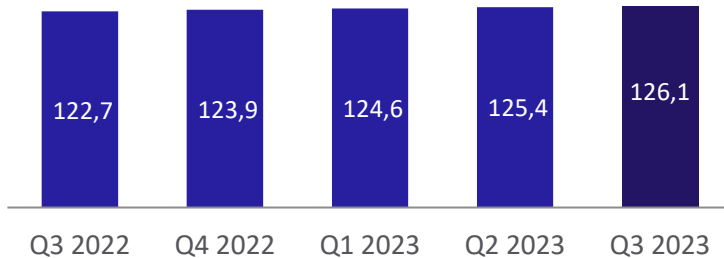
1) Net interest income + Net commission income + Other operating income – Operating expenses +/- One-off items

2) Return on equity excl. accounting effects from financial instruments and one-off items and incl. interest on hybrid capital

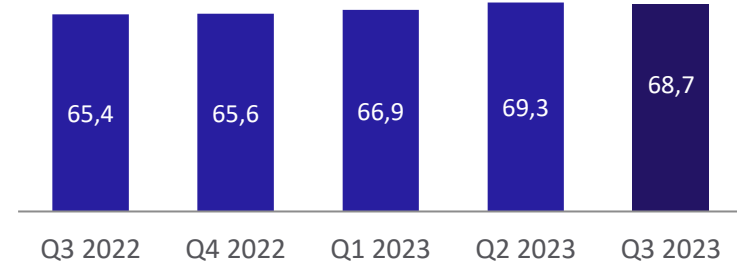
Prioritises profitable growth

NOK billions

Net loans



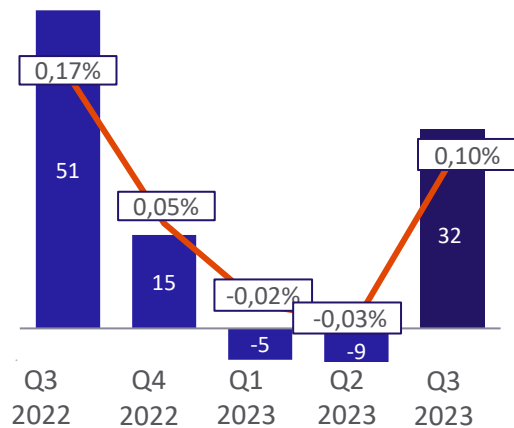
Deposits



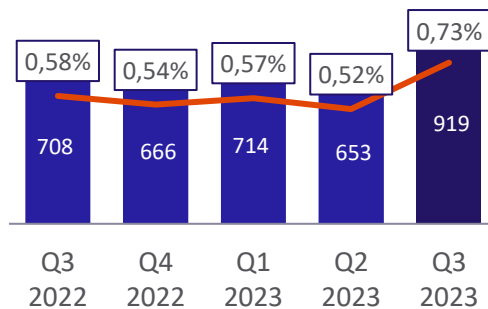
- **12 month growth of 2,8 %**
 - 12 month growth in gross loans of 2.4 % for retail customers and 4.1 % for corporate customers
- **Annualised quarterly growth of 2.1 %**
 - 3.1 % for retail customers and 0.7 % for corporate customers
- **12 month growth of 5.1 %**
 - 12 month growth in deposits for retail customers of 1.9 % and corporate customers of 6.3 %
- **Deposit coverage of 54.5 % (53.3 %)**

Low losses and non-performing loans

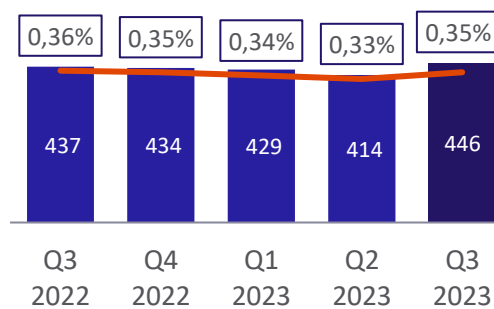
Development in losses in NOK million and as a percentage of gross loans (annualised)



Development in non-performing loans (IFRS 9, step 3) in NOK million And as a percentage of gross loans



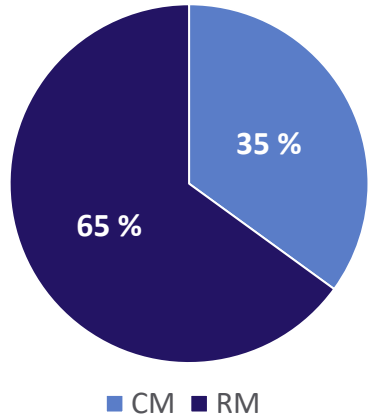
Development in loss provisions in NOK million and as a percentage of gross loans



Diversified loan portfolio with low risk

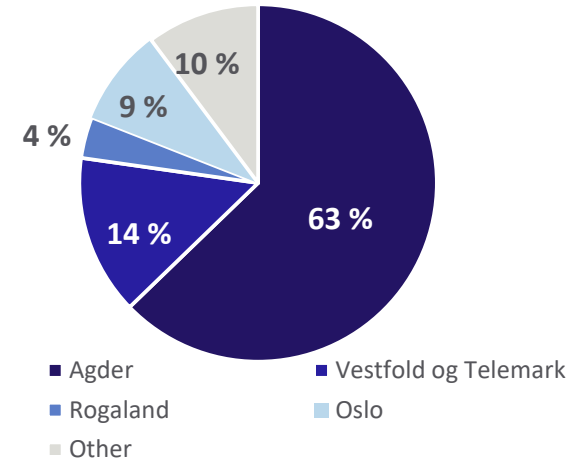
CM/RM distribution

Gross loans



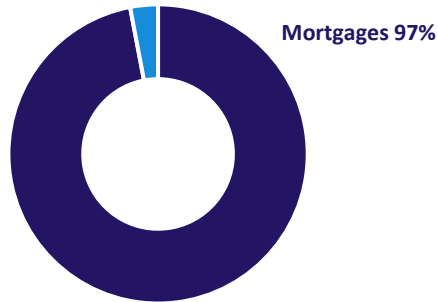
Geographical distribution

Gross loans

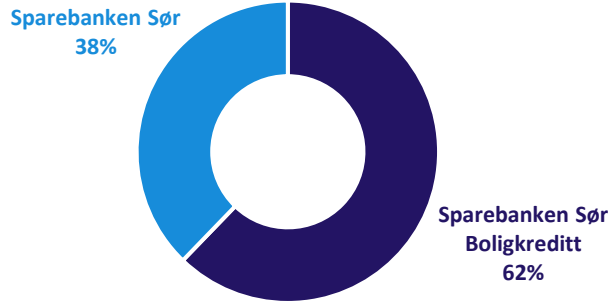


Retail loan book – 97% mortgages ang good security (low LTV)

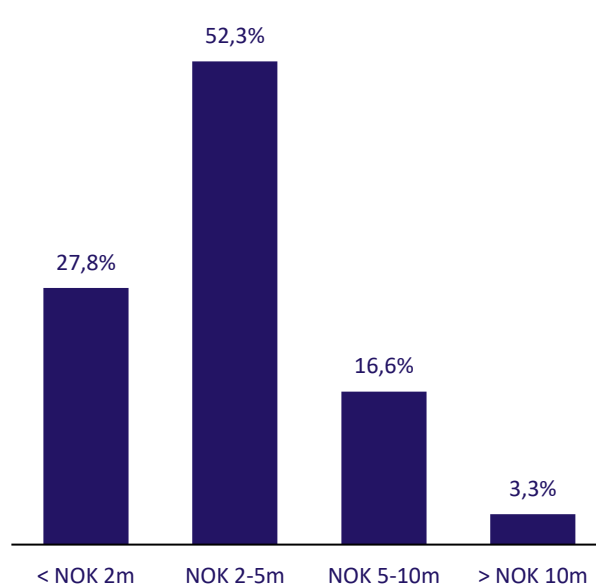
Share of mortgages



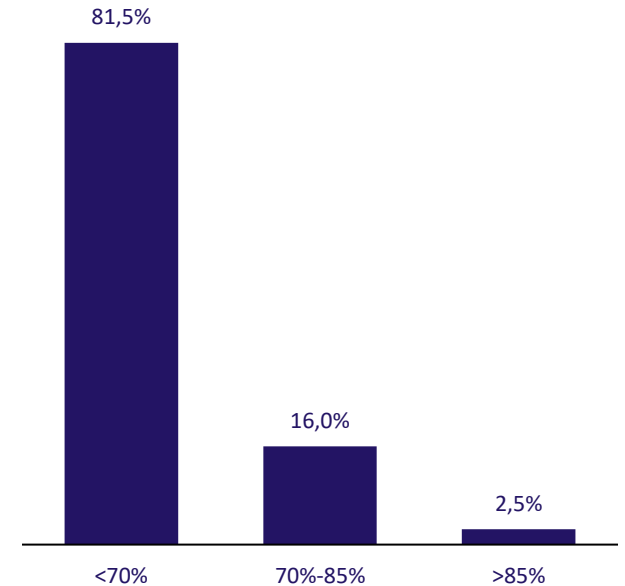
On balance vs. cov. bond transfers



Retail lending by size

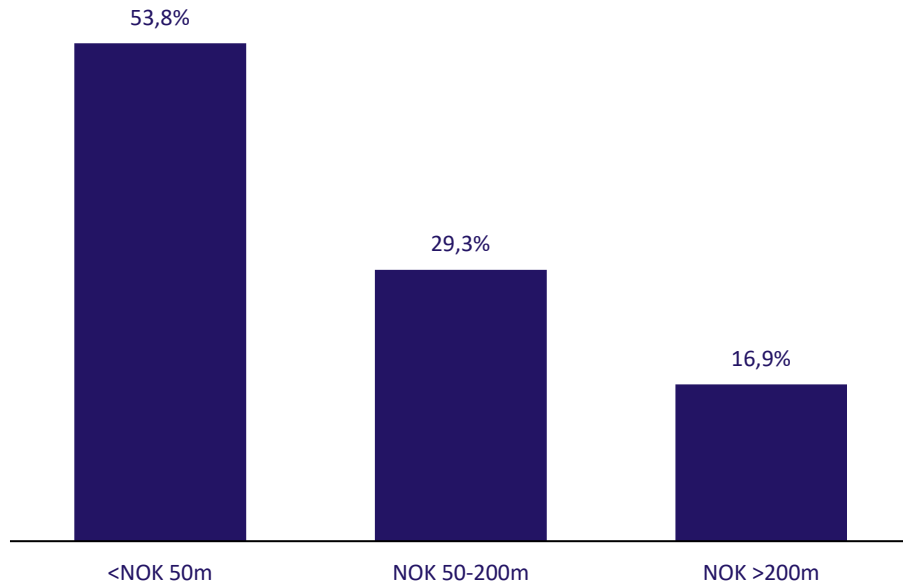


Retail lending by LTV

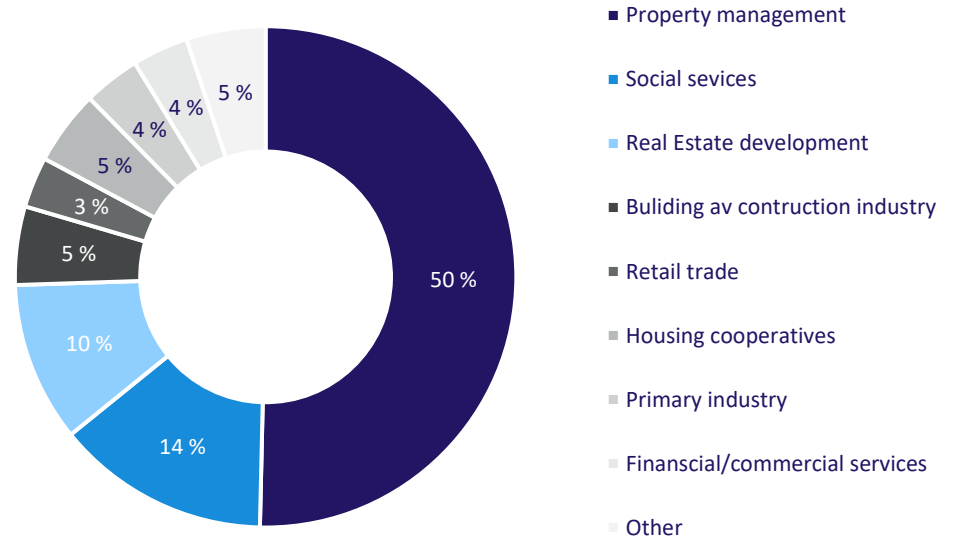


Corporate loan book – 50% property management and 54% < NOK 50m

Corporate lending by size

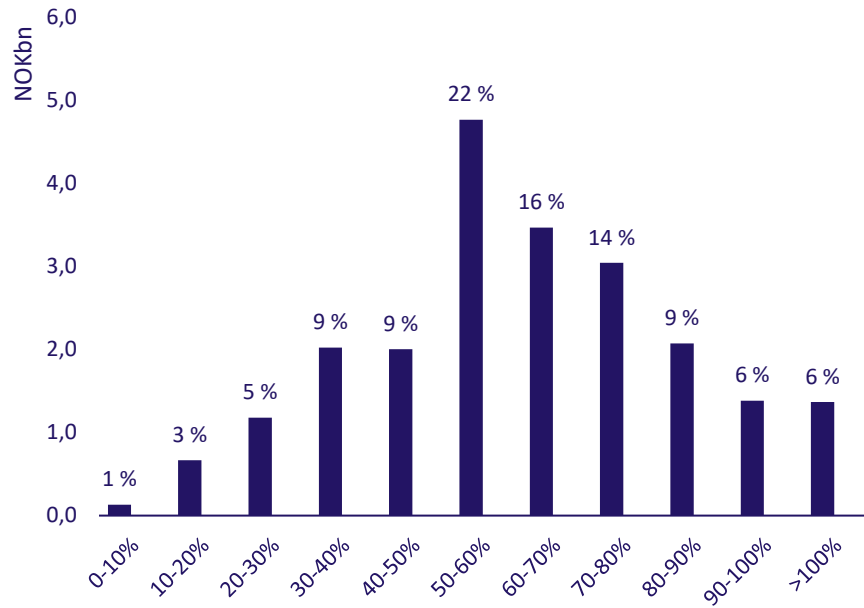


Sector distribution

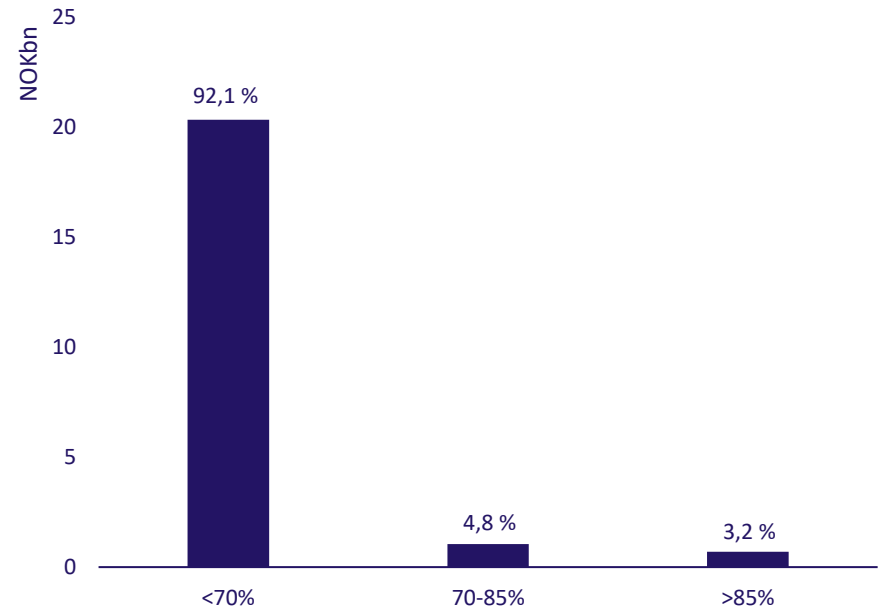


Solid asset backing in commercial real estate portfolio (property management)*

LTV distribution – «whole-loan approach»



LTV distribution – “loan-splitting approach”**



* Additional collateral for all above 80 %. Collateral in other types of pledged assets than real estate not taken into account (guarantees, equipment, receivables etc.)

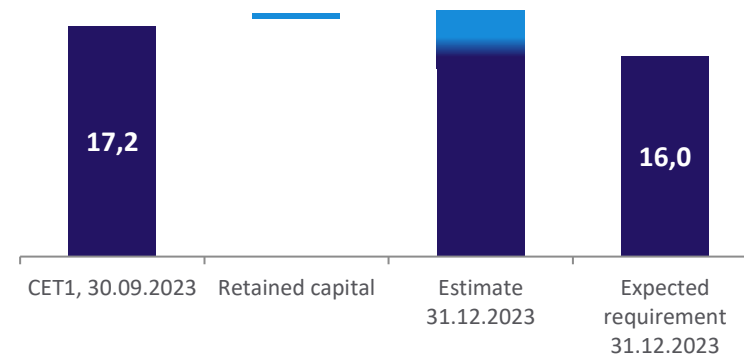
** Only the part of a loan exceeding a certain threshold of LTV is included in the next bracket of higher LTV ratio

Well positioned for higher capital requirements

Capital requirement

	Applicable requirements	Requirements 31.12.2023
Minimum Tier 1 Capital Requirements	4,5 %	4,5 %
Conservation buffer	2,5 %	2,5 %
Systemic Risk Buffer ¹⁾	3,0 %	4,5 %
Countercyclical Buffer	2,5 %	2,5 %
Pillar-2 requirements ²⁾	1,7 %	1,0 %
CET1 requirements	14,2 %	15,0 %
Pillar-2 Guidance	1,0 %	1,0 %
CET1 requirements Incl. P2G	15,2 %	16,0 %

Capital adequacy and target figures

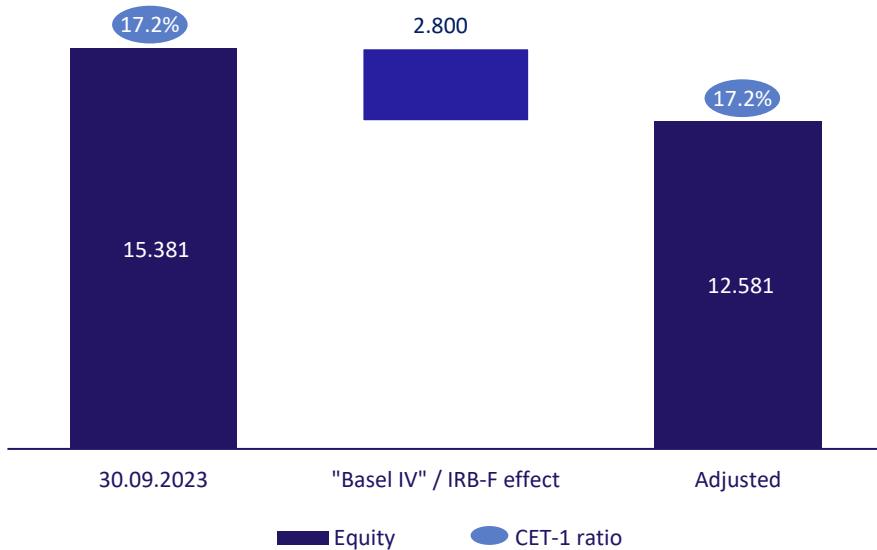


1)) The Ministry of Finance has decided on a transitional rule on capital requirements for banks that use the Standardized Approach, resulting in an increase in the Systemic Risk Buffer from 3 to 4.5 percent from December 31, 2023

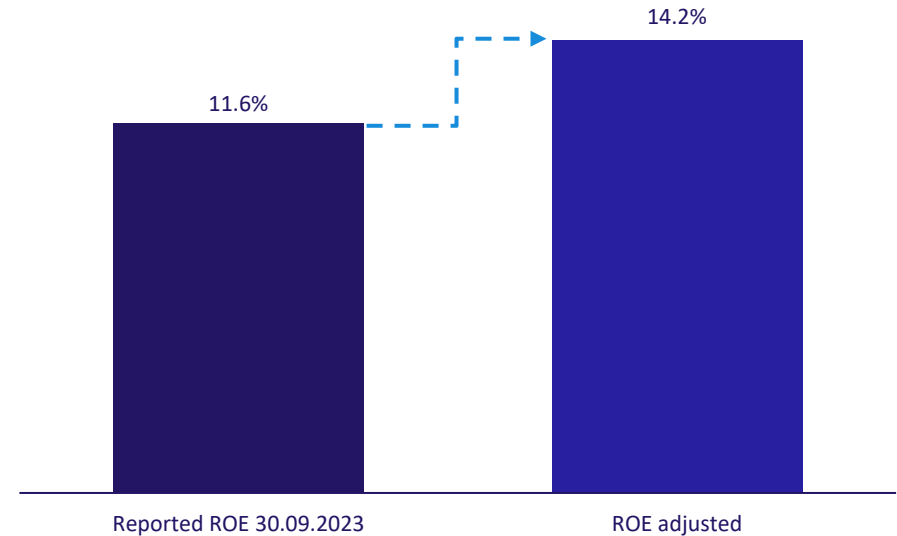
2) Current Pillar-2 requirements that must be covered by total common equity tier 1 capital based on a split (56.25 per cent).

ROE will increase with “Basel IV” / IRB-F

Capital release from Basel IV / IRB (NOKm)*



Higher ROE due to new capital regulations**



*Expected capital effects of approx. 3.5 percentage points on CET-1 with either IRB-F or “Basel IV”

23 ** Assumes the same profit after tax and reduced equity as a result of “Basel IV”/IRB-F

Capital measures: Implementation of IRB

The bank is planning to submit the IRB-F application during the second half of 2024, with an expected processing time of at least 1 year from Finanstilsynet. Significant project deliveries are completed and implemented.



Next generation tools

- Data
- Modelling and analysis
- Decision tools
- Portfolio monitoring
- External reporting



Improved credit management

- Improved credit strategy and policy
- More and better credit analyses
- Improved methodology for valuation of securities
- Increased focus on profitability



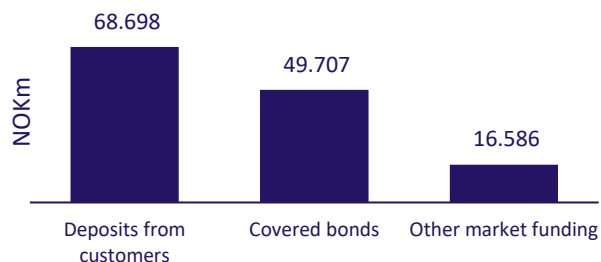
Increased competence and capacity

- IT architecture and data
- Modelling and analysis
- Credit management
- Risk and capital management
- Business development

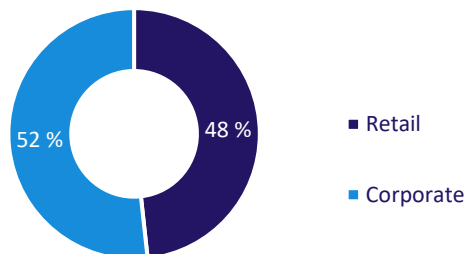
Analyses indicate expected capital effects of approximately 3.5 % on CET-1.

Diversifisert finansiering

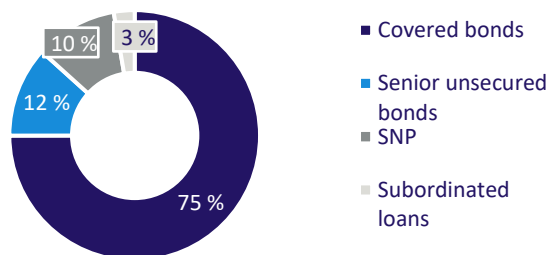
Funding split



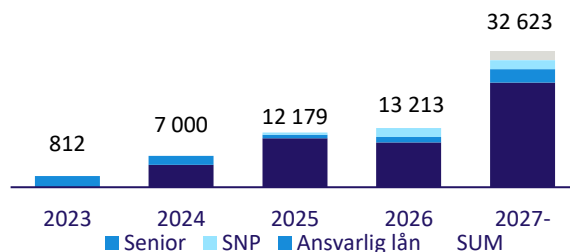
Deposits split



Capital market funding split



Capital market maturity profile*

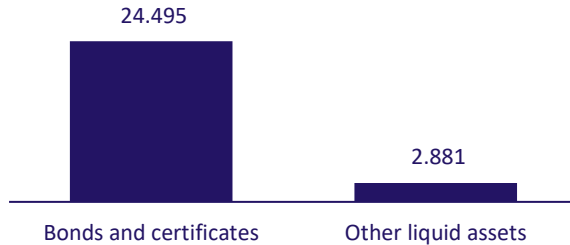


Key comments

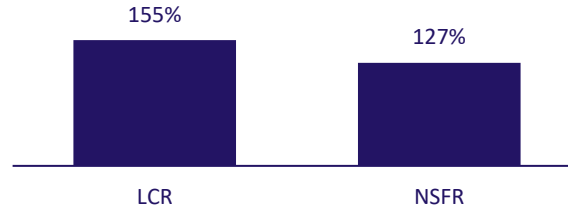
- Predominantly funded with customer deposits and covered bonds (OMF)
- NOK 68.7 bn in customer deposits – split 48/52 between retail and corporate
- NOK 65.8 bn in capital market funding – ~50% maturing in 2027 and later
- Sparebanken Sør has an A1 rating. The bank's rating outlook was changed from 'stable outlook' to 'positive outlook' in September
- Sparebanken Sør Boligkreditt AS Received an A1 rating in June 2023
- Bonds issued by Sparebanken Sør Boligkreditt AS is rated Aaa

Strong liquidity position

Sources of liquidity



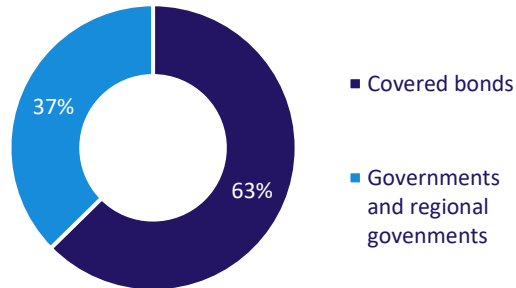
Liquidity ratios



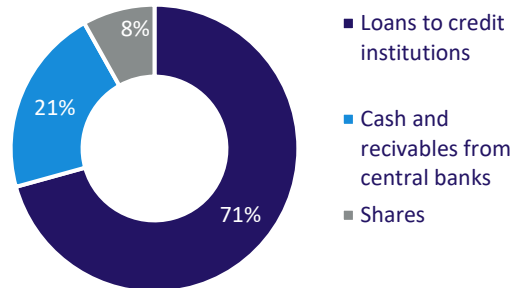
Key comments

- Bonds and certificates constituting the main part of the liquidity portfolio
- Covered bonds make up for (OMF) 63% of all bonds and certificates
- Satisfying liquidity ratios – LCR ratio of 155 % and NSFR ratio of 127 %

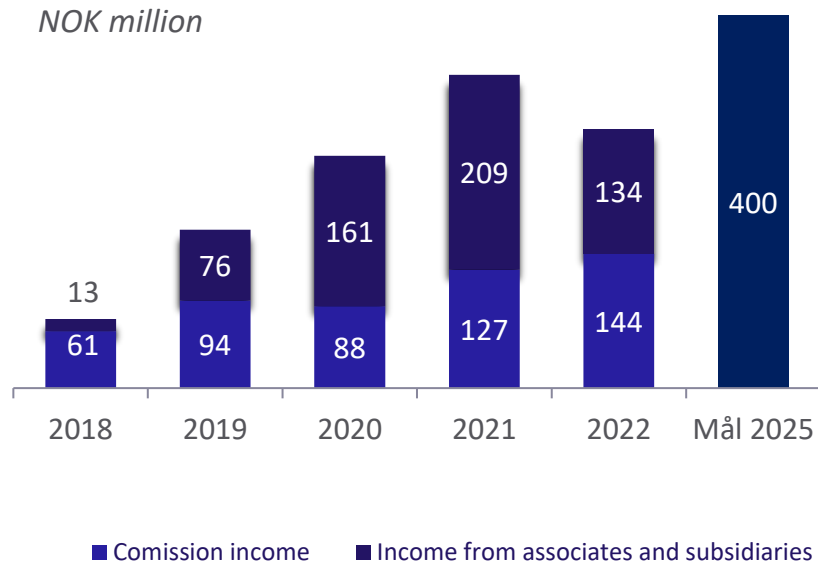
Bonds and certificates split



Other liquid assets split



Ambitions for increased other income



Other income	30.09. 2023	30.09. 2022	Endring
Insurance	39	38	1
Credit intermediation	5	5	0
Securities business 1)	58	53	5
Income from wholly and partly owned companies	75	91	-16
Sum	177	186	-9

1) Net commission income from securities trading and Sør Markets

Positive future prospects

 Strong market position

 Low risk in the loan portfolio

 High cost efficiency and low complexity

 Introduced customer dividend

 Leader in ESG

 Measures to increase ROE in the future

Appendix

Equity certificate owners

20 largest equity certificate owners as of 30.09.2023

	Name	Amount EC	Share EC %		Name	Amount EC	Share EC %
1	Sparebankstiftelsen Sparebanken Sør	34.027.792	81,60	11	Ottersland AS	100.000	0,24
2	EIKA utbytte VPF c/o Eika kapitalforv.	732.173	1,76	12	DNB Luxembourg S.A	100.000	0,24
3	Drangslund Kapital AS	302.107	0,72	13	MP Pensjon PK	85.523	0,21
4	Spesialfondet Borea Utbytte	290.527	0,70	14	Geir Bergskaug	83.203	0,20
5	Glastad Capital AS	200.000	0,48	15	Lombard Int Assurance S.A.	82.800	0,20
6	Wenaasgruppen AS	186.000	0,45	16	Gunnar Hillestad	75.000	0,18
7	Gumpen Bileiendom AS	174.209	0,42	17	Apriori Holding AS	72.575	0,17
8	KLP Gjensidige Forsikring	163.300	0,39	18	K.T. Brøvig Invest AS	72.000	0,17
9	Allumgården AS	151.092	0,36	19	Varodd AS	70.520	0,17
10	Sparebanken Sør	132.548	0,32	20	Catilina Invest AS	68.928	0,17
	Sum 10 largest owners	36.359.748	87,19		Sum 20 largest owners	37.170.297	89,13

- As of 30. September 2023, 41 703 057 ECs of NOK 50 each had been issued
- Profit (Group) amounted to NOK 4,2 kroner per EC Q3 2023. NOK 12,5 per EC YTD and NOK 11,9 per EC in 2022.
- The ownership ratio as of 30.09.2022 was 40.0 percent

SOR – share price and liquidity

Share price development as of 30.09.2023

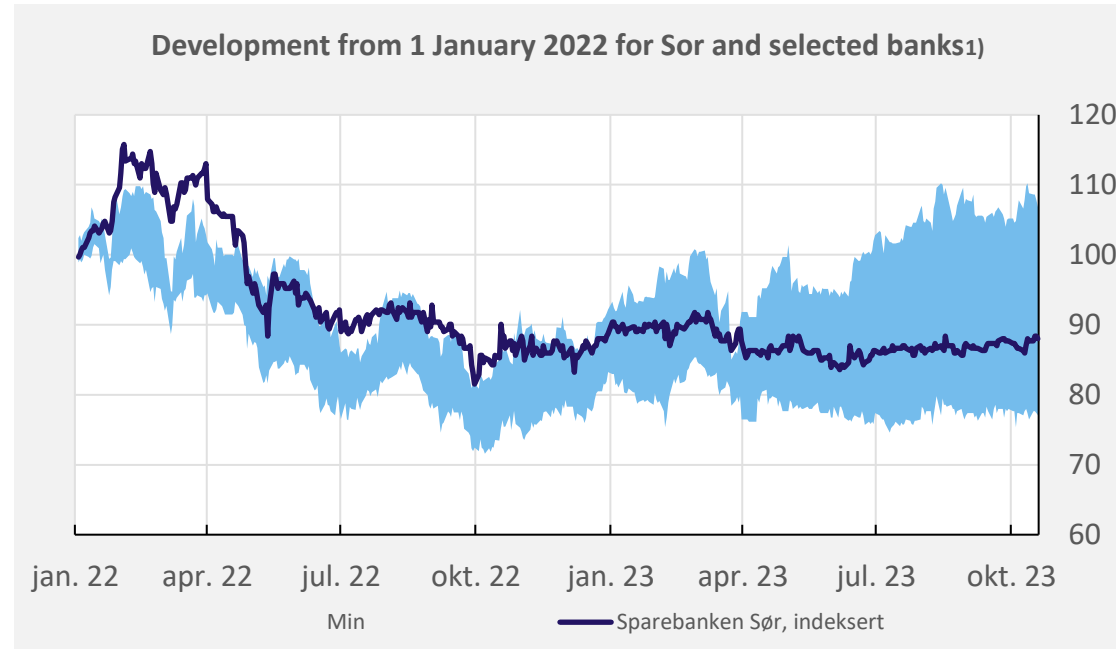
- The share price for SOR was NOK 126 and book value was NOK 146.5, amounting to a price-to-book ratio of 0.87
- The equity certificates gave a return of 2.4 % last 12 months
- Profit per equity certificates 30.09.2023 of NOK 12.6, which represents a P/E 7,6.

Liquidity

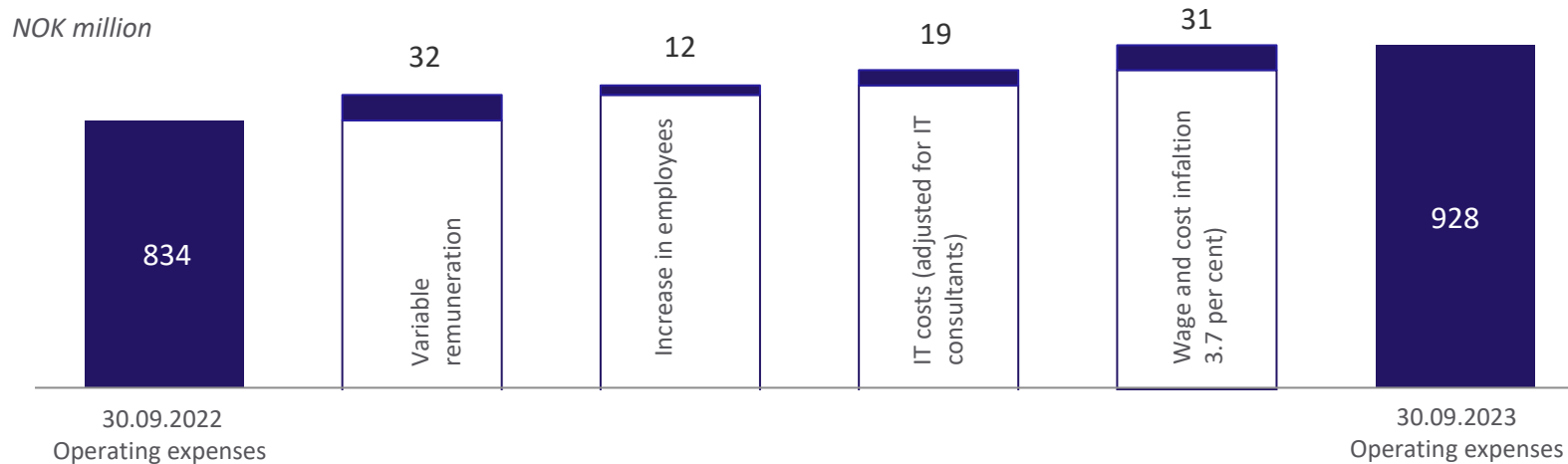
- Turnover of 1.2 mill. equity certificates last 12 months.
- 41 703 057 total issued, and an EQ rate of 40.0 %.

Dividend

- A dividend of NOK 6 per equity certificate has been distributed for 2022
- Goal to have ~ 50 % of the EK certificate owners' share of the result should be paid out from 2022
- The banks capital requirements will be taken into consideration when determining the annual dividend.



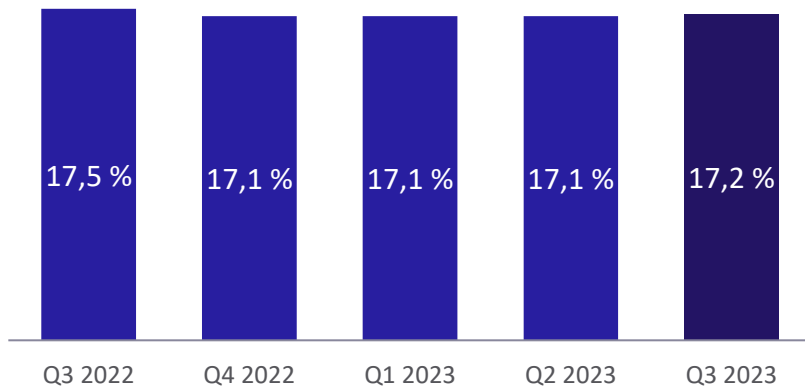
Cost development



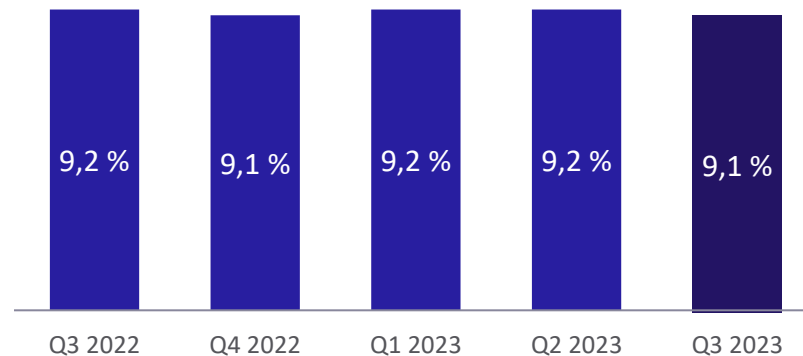
Has increased staffing and continued to invest in technology (IT).
Good results have resulted in higher variable remuneration for employees.
High underlying wage and cost inflation.

Solid capital situation

Common equity tier 1 capital ratio



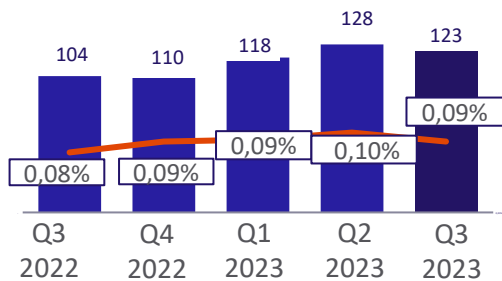
Leverage ratio



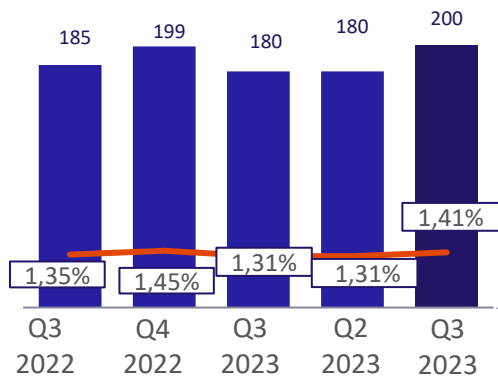
- Common equity tier 1 (CET1) well above the current capital requirement of 14,2 prosent
- CET1 ratio of 17.2 percent, increase of 0,1 compared to last quarter. . The effect of increased ownership in Brage amounted to -0.2 percentage points in Q4 2022.

Loss provisions divided into steps

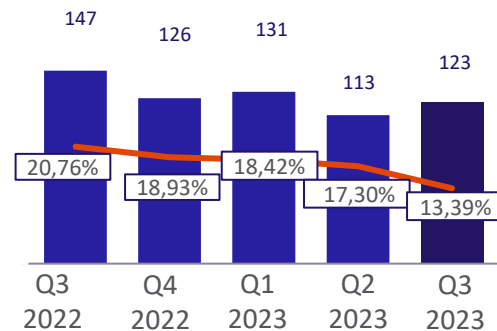
Provisions step 1
and in % of engagement stage 1

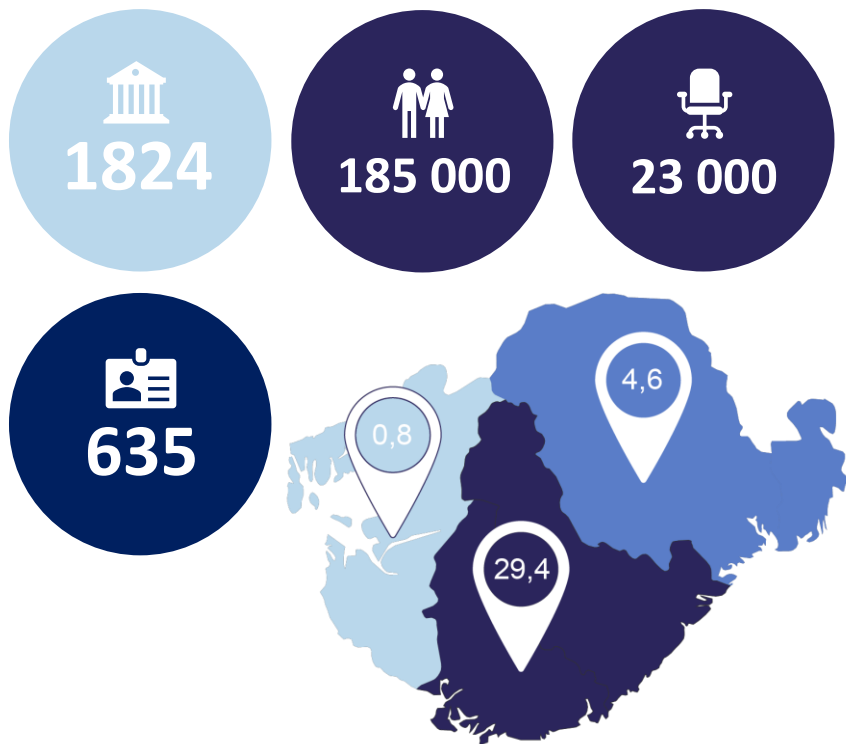


Provisions step 2
and in % of commitment stage 2



Provisions step 3
and in % of commitment stage 3





Steady, engaged and future-oriented
We will create sustainable growth and development for our part of the country

