



# Sparebanken Sør

Investor presentation Q1 2024

# Low risk and increasing ROE



Market leader in the region



Low risk loan book



Low complexity



Strong capitalization



Increasing ROE



## Good for the Bank = Good for the region



**NOK 417 million**  
directly to  
customers in  
customer dividends



**NOK 208 million**  
for non-profit  
purposes in the  
region



**NOK 417 million**  
in dividends to  
owners of equity  
certificates



## Almost doubling the customer dividends



– Kundeutbyttet ga oss mer tid med familien

22. mars 2024

Asle Liland og Margrethe Hafte er fornøyde kunder i Sparebanken Sør.

I en travel hverdag som familiefar, lærer og fotballspiller har Asle Liland mange baller i luften. Han og Margrethe Hafte kan nå glede seg til en ferietur til sommeren, takket være kundeutbytte fra Sparebanken Sør.

Helt rått! For en familie for oss på 4 utgjør dette er så utrolig stor forskjell! At dere gjør dette + inviterer barna på 2 aktiviteter i familieparker i tillegg er 10/10. Dette er familiebanken nr1!

5 u Liker Svar 29

For en god nyhet 🎉🎉 Nå har jeg vært inne i mobilbanken og sjekka og ble gledelig overrasket 🥰🥰

5 u Liker Svar 3

Er dette en spøk? Eller får man faktisk utbetalt det beløpet som står der? 🤔

5 u Liker Svar Redigert

Forfatter  
Sparebanken Sør  
Det er faktisk helt sant 😊

5 u Liker Svar 2

Hurra for Sparebanken Sør 🎉🎉🎉 kunden i fokus = fornøyde kunder 🇳🇴

5 u Liker Svar

Topptilhenger  
Fantastisk 🥰 God påske 🌱🌱🌱 Da blir det elektriker og male badet 🌞 Takk

5 u Liker Svar



## Significant gifts to the region during the anniversary year

### Rekordgave til skolekorps som har søkt

Skolekorps fra Sandefjord til Bryne kunne søke om støtte fra Sparebanken Sør, som deler ut totalt 5,2 millioner til formålet.



### Får 15 millioner: – Vi så ganske dystert på fremtiden

Den 97 år gamle fullriggeren har manglet flere millioner til omfattende vedlikeholdsarbeid. Mandag kom beskjeden som snudde opp-ned på fremtiden til skoleskipet.

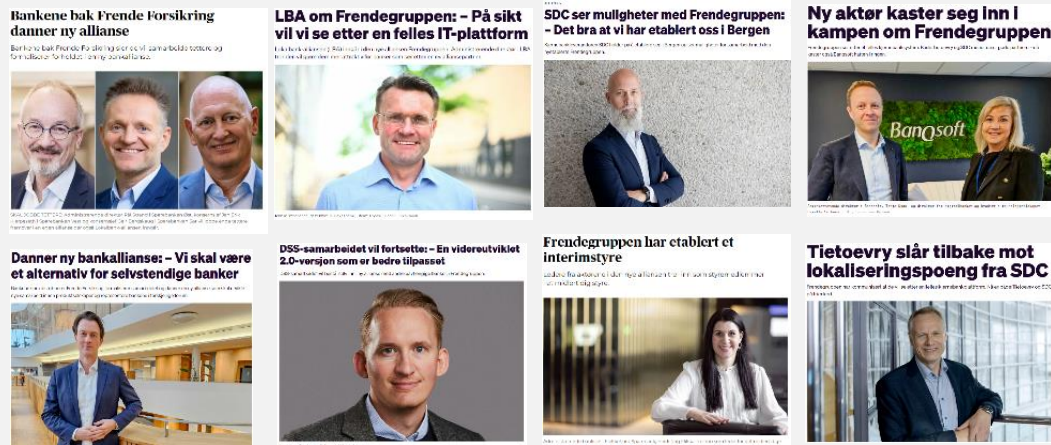


# Good start for Frendegruppen

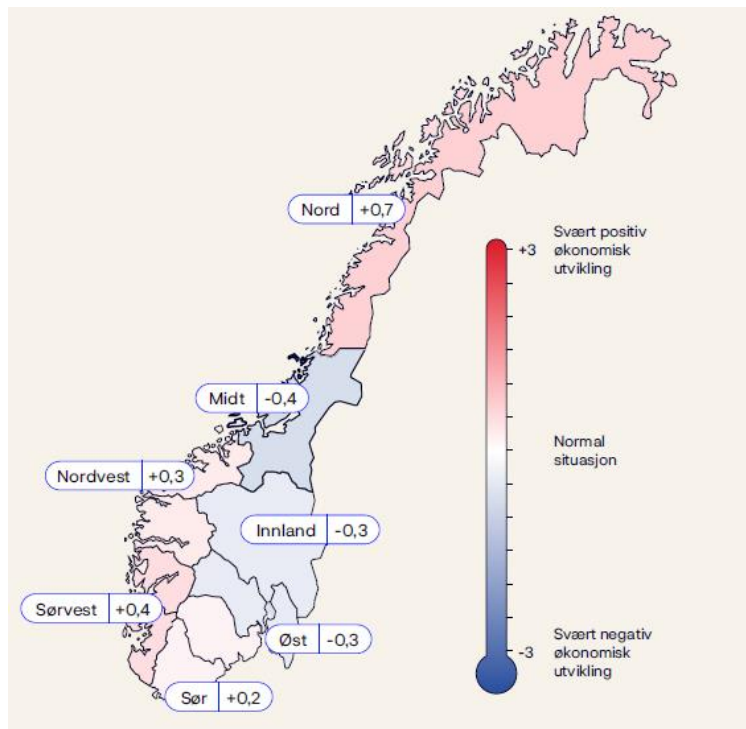
- The recruitment work for key positions has started and several very good candidates are in the process
- Started explorations related to a possible future collaboration on Technology
- We are working on a powerful investment within asset management



Frendegruppen shall be the preferred cooperation option for non-aligned banks



# Positive economic development in the region



**Housing price growth** in Agder is at 1.9% in the last 12 months and 1.2% in Norway

**The nurse index** shows that a single nurse can buy 46 % of the homes sold in Kristiansand, 63 % in Grenland and 64 % in Arendal.

**Unemployment** is slowly increasing, but is still at a low level. (2.0 per cent in Norway and 2.1 per cent in Agder)

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

**Q1 2024**

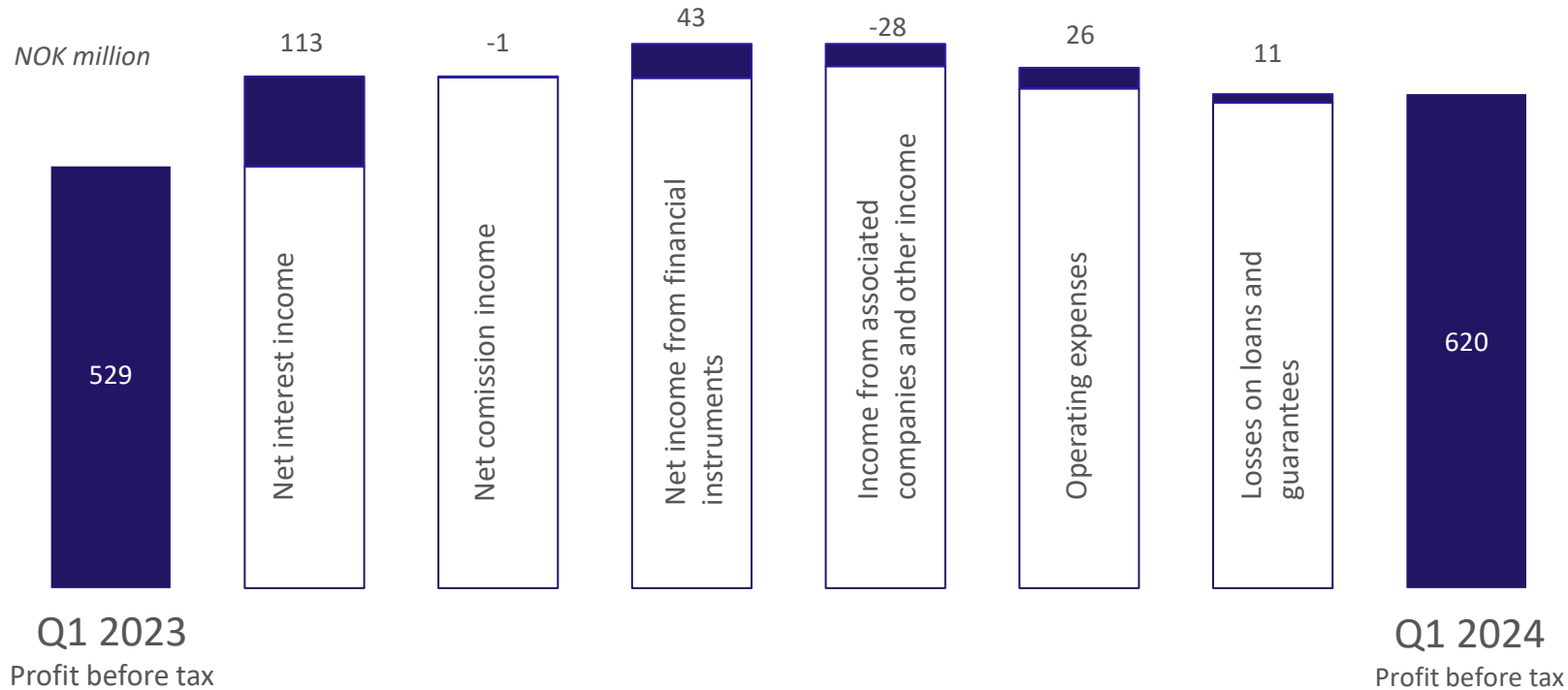


# A good start to 2024

- Net interest income increased by 16 percent
- Stable net commission income
- Positive financial income
- Lower profit contributions from associated companies
- Low losses and defaults still at a historically low level
- Result per equity certificate (EC) of NOK 5.3 (NOK 4.3)
- Return on equity of solid 14.4 percent (12.5 percent)

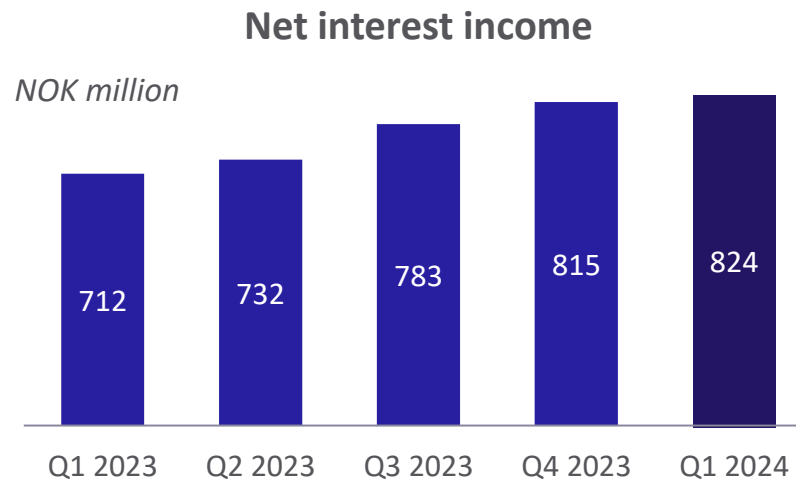
NOK million	2024 Q1	2023 Q1	Change
Net interest income	824	712	113
Net commission income	86	85	-1
Net income from financial instruments	39	-4	43
Associated companies	5	34	-30
Other operating income	3	1	2
<b>Total income</b>	<b>956</b>	<b>828</b>	<b>128</b>
Total expenses	330	304	26
<b>Profit before losses on loans</b>	<b>626</b>	<b>525</b>	<b>101</b>
Losses on loans, guarantees	6	-5	11
<b>Profit before tax</b>	<b>620</b>	<b>529</b>	<b>91</b>
Tax expenses	47	67	-20
<b>Profit for the period</b>	<b>573</b>	<b>462</b>	<b>111</b>

# Decomposition of changes in profit before tax



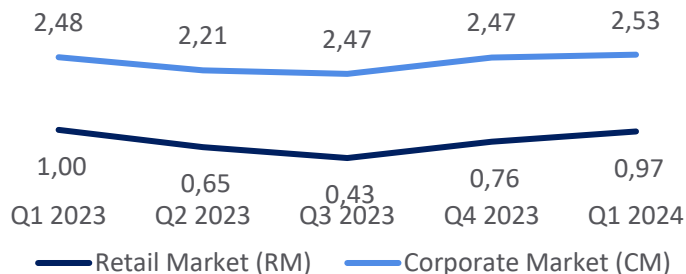
# Very strong growth in net interest income

- The interest rate changes have led to increased interest margins for both the retail and corporate markets
- Positive deposit and lending growth in the last 12 months
- Positive momentum into Q2

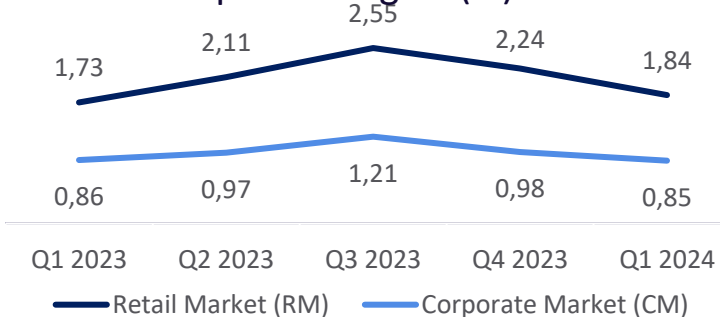


# Increased loan margins and falling deposit margins

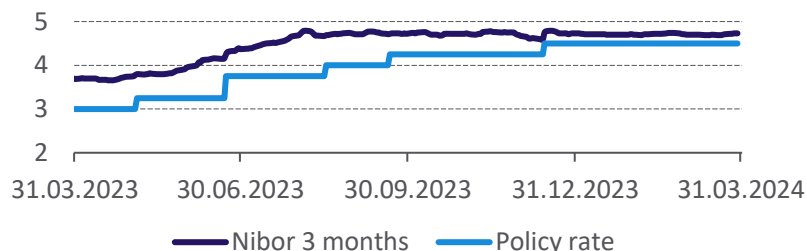
## Loan margins (%)



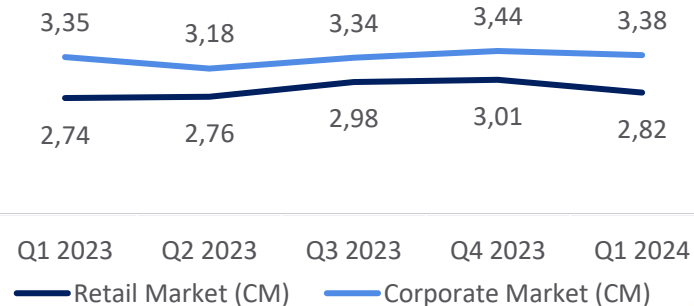
## Deposit margins (%)



## NIBOR 3M development



## Interest margin<sub>1</sub> (%)



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

# Profit contributions from associated companies

- The share of profit from Brage Finans in Q1 2024 was affected by a provision for losses linked to a single commitment, but the company can otherwise show a good quarter with growth in both income and portfolio.
- The share of profit from Frende in Q1 was negative, the start of 2024 has been challenging for the claims business, with results characterized by natural damages and a relatively high number of large claims
- Increased holdings in Brage Finans to 27.6% in Q1 2024
- Increased holdings in Frende Holding to 20.3% in Q1 2024

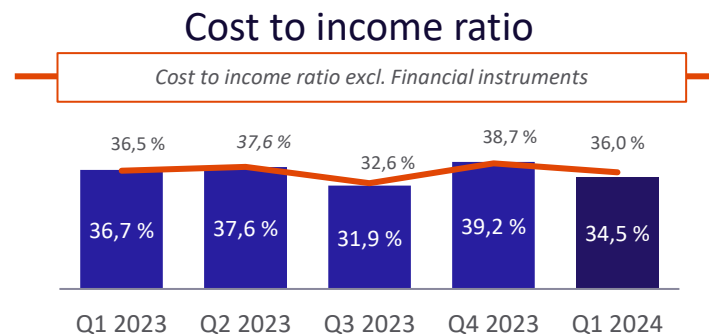
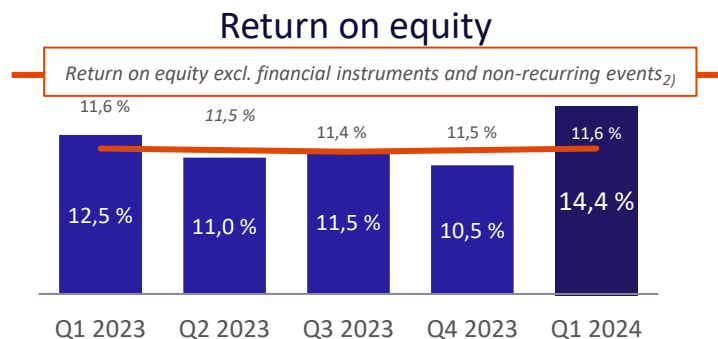
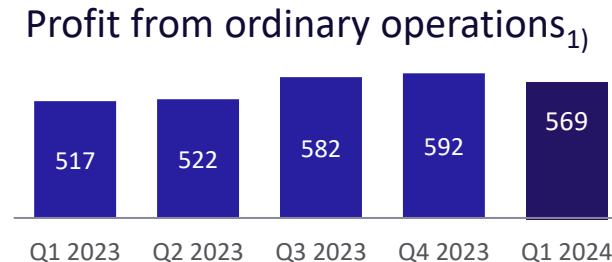
## Effect on results after consolidation

NOK million		Q1 2024	Q1 2023	Change
Frende Holding* (20,3 %)	Share of profit	-2	11	-12
	Amort.	-6	-6	0
	Sale			
Brage Finans (27,6%)	Share of profit	12	18	-6
Balder Betaling (23,0 %)	Share of profit	0	11	-11
SUM		5	34	-30



# Strong return on equity and low cost percentage

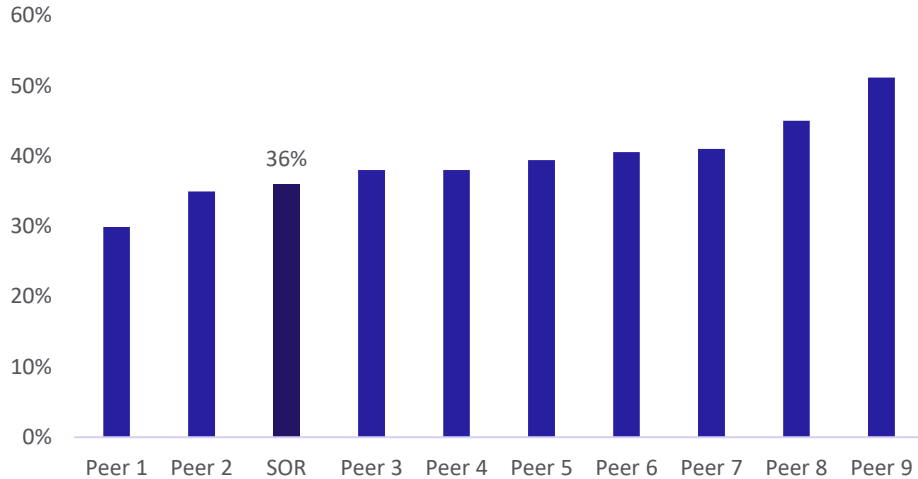
NOK million



- 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

# Ambition for high cost-efficiency

Cost/income 2023 SOR vs peers

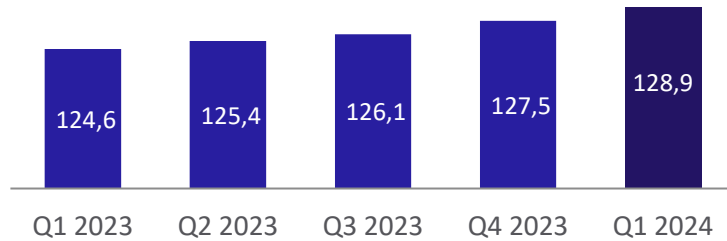


- Among the most cost-effective banks
- Ambition to continue to be among the most efficient banks going forward
- Ambition for cost growth at the level of inflation

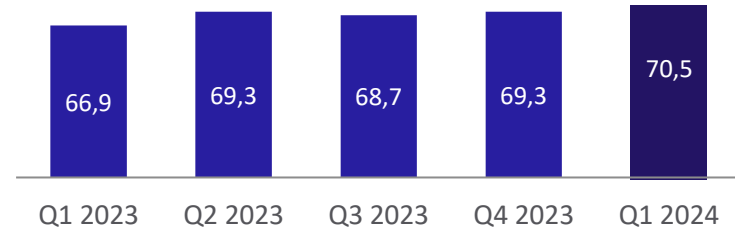
# Prioritise profitable growth

NOK billion

## Net loans



## Deposits

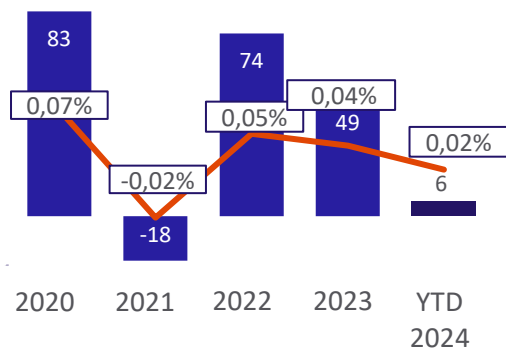


- **12 month growth of 3.5 %**
  - 12 month growth in gross loans of 2.1 % for retail customers and 6.0 % from corporate customers
- **Annualised quarterly growth of 4.2 %**
  - 1.1 % for retail customers and 9.8 % from corporate customers
- **12 month growth of 5.5 %**
  - 12 month growth in deposits from retail customers of 3.8 % and corporate customers of 6.5 %
- **Deposit coverage of 54.5 % (53.7 %)**

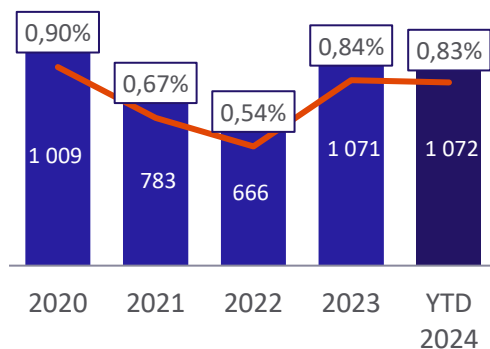


# Low losses and non-performing loans

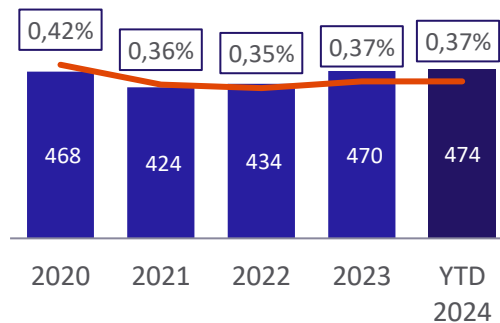
Development in losses in NOK million and as a percentage of gross loans (annualised)



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

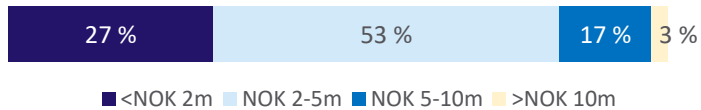


# Diversified loan portfolio with low risk

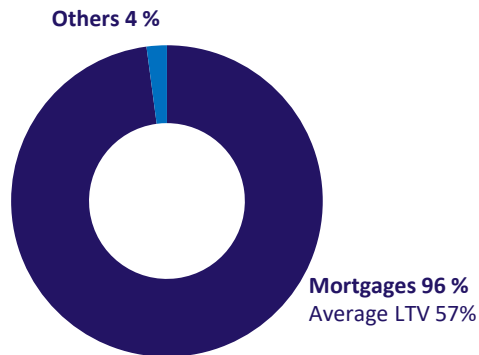
## Retail Market

64 % of the loan portfolio

### Distribution of loans by size

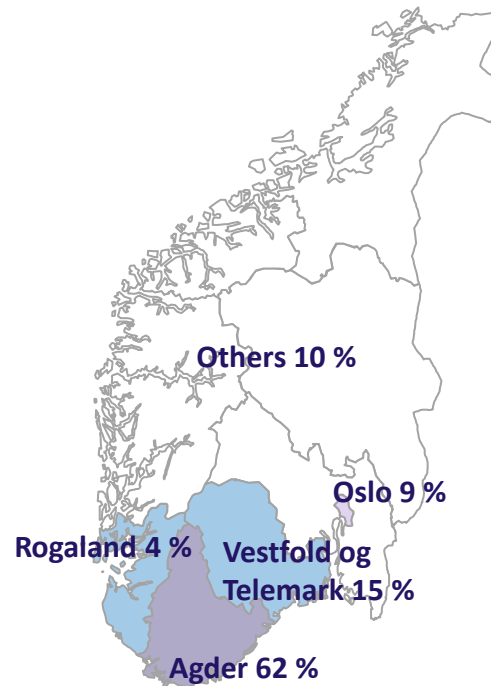


### Mortgage makes 96% of the loan portfolio



## Total

Geographical distribution of the overall lending portfolio



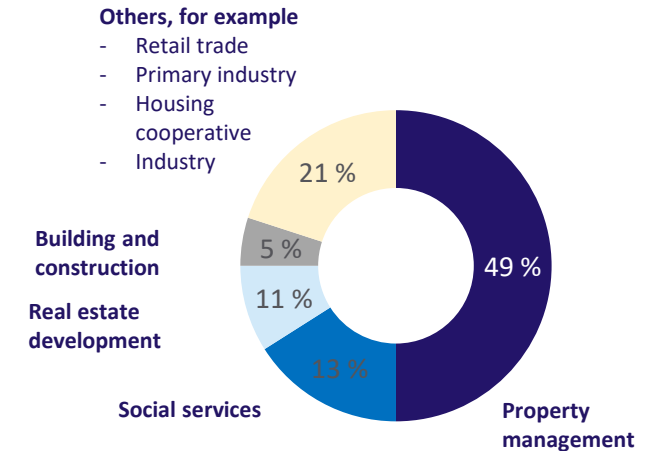
## Corporate Market

36 % of the loan portfolio

### Distribution of loans by size

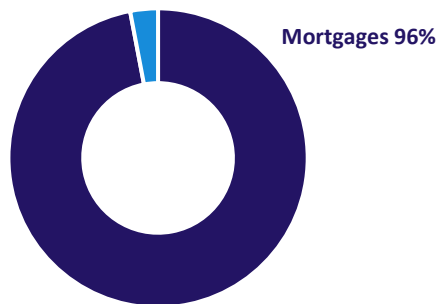


### Sector distribution

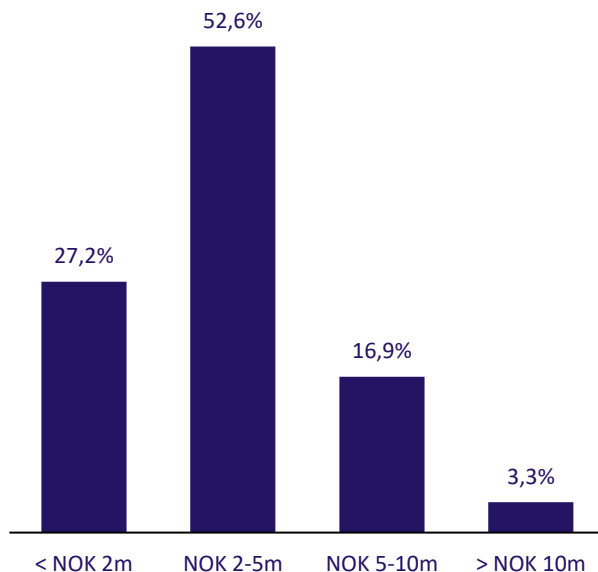


# Retail loan book – 96% mortgages and good security (low LTV)

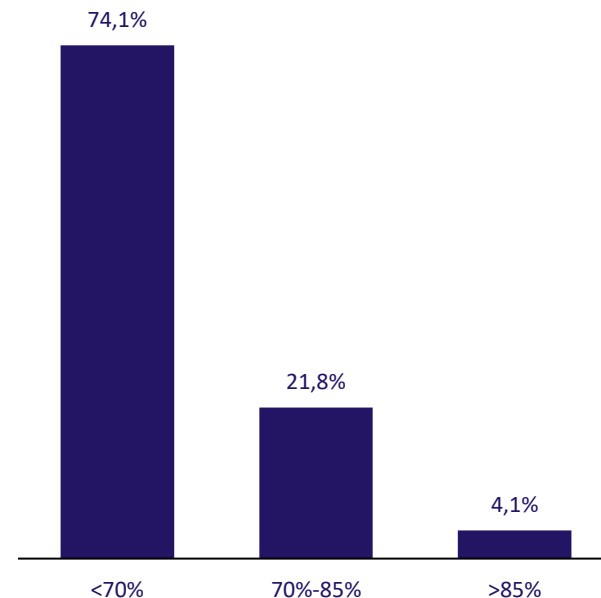
## Share of mortgages



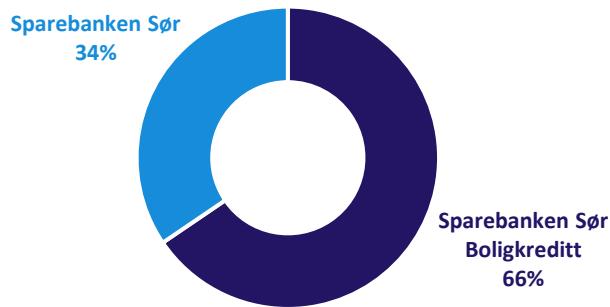
## Retail lending by size



## Retail lending by LTV

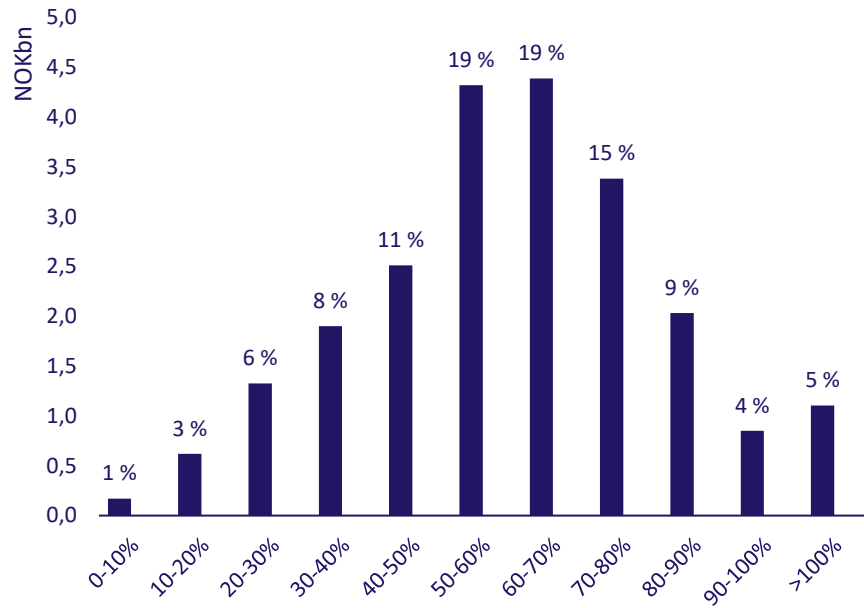


## On balance vs. covered bond transfers

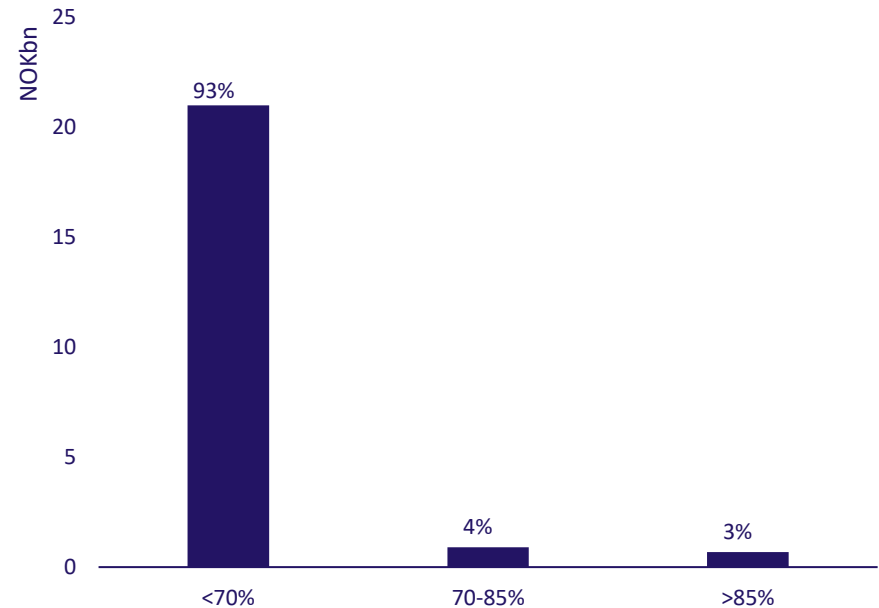


# Solid asset backing in commercial real estate portfolio (property management)\*

## 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.)

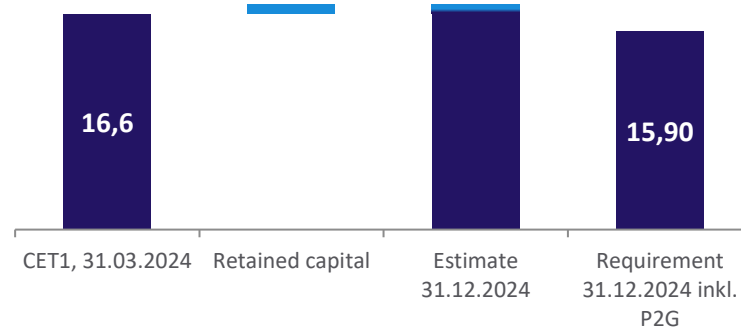
\*\* Only the part of a loan exceeding a certain threshold of LTV is included in the next bracket of higher LTV ratio

# Good margin for regulatory capital requirements

## Capital requirements

	Requirement 31.03.24	Requirement 31.12.24
Minimum Tier 1 Capital Requirements	4,5 %	4,5 %
Conservation buffer	2,5 %	2,5 %
Systemic Risk Buffer	4,5 %	4,5 %
Countercyclical Buffer	2,5 %	2,5 %
Pillar-2 requirements	1,0 %	0,9 %
<b>CET1 requirements</b>	<b>15,0 %</b>	<b>14,9 %</b>
Pillar-2 Guidance <sup>1)</sup>	1,0 %	1,0 %
<b>CET1 requirements Incl. P2G</b>	<b>16,0 %</b>	<b>15,9 %</b>

## Capital adequacy



1) The bank received final feedback on the SREP on April 30, 2024.

# IRB application during 2024

- 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.
- The database for defaults has been completed, and new PD models are in production internally during Q2.



## Next generation tools

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



## Improved credit management

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



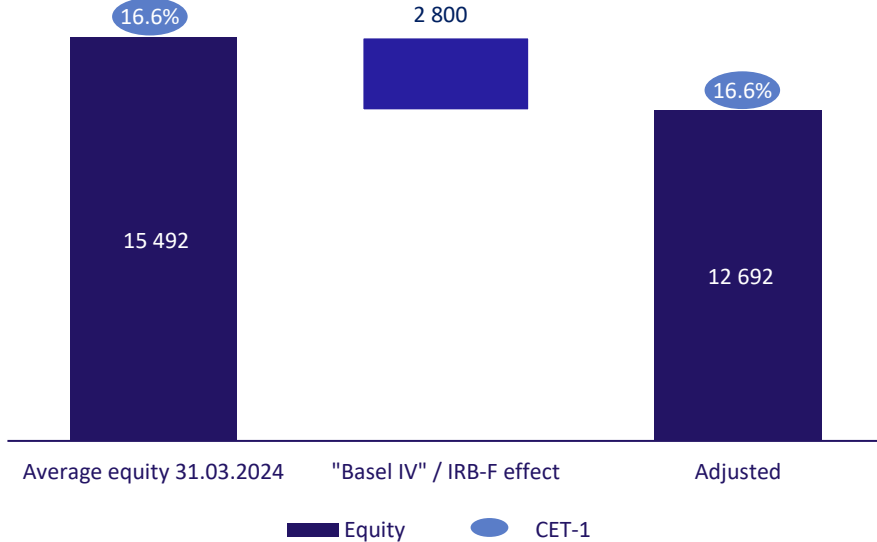
## Increased competence and capacity

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

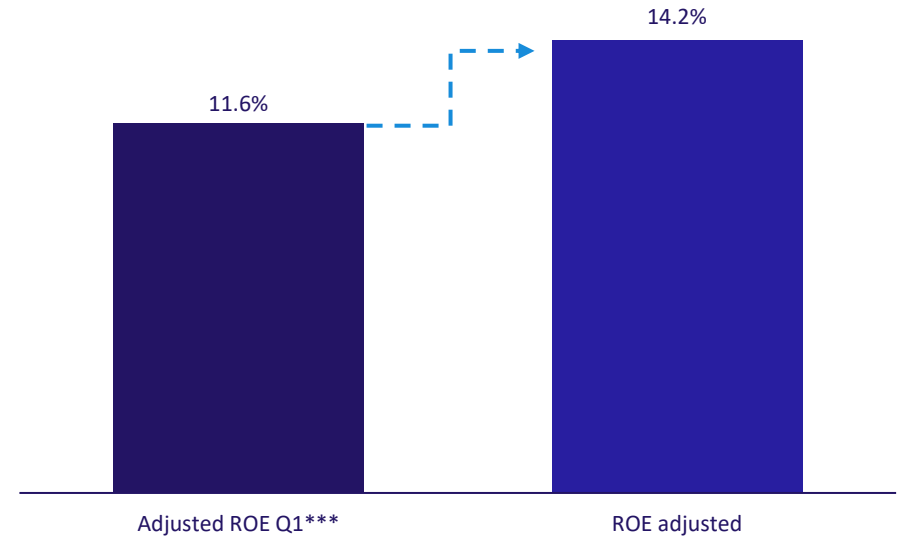
Analyses indicate expected capital effects of approximately 3.5 % on CET-1.

# Positive capital effects from "Basel IV" / IRB-F

## Capital release from Basel IV / IRB (NOKm)\*



## Higher ROE due to new capital regulations\*\*



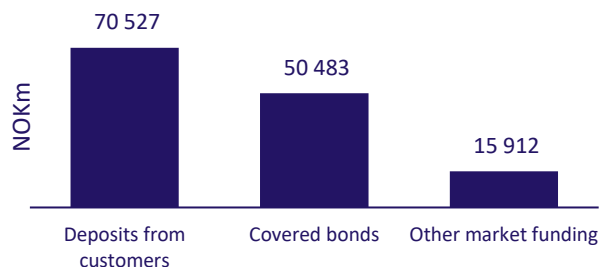
\*\*Expected capital effects of approx. 3.5 percentage points on CET-1 with either IRB-F or "Basel IV"

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

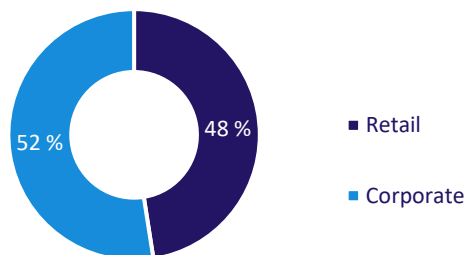
\*\*\*ROE adjusted for financial income and normalized tax rate

# Diversified financing

## Funding split



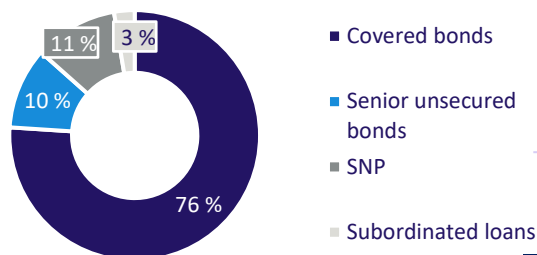
## Deposits split



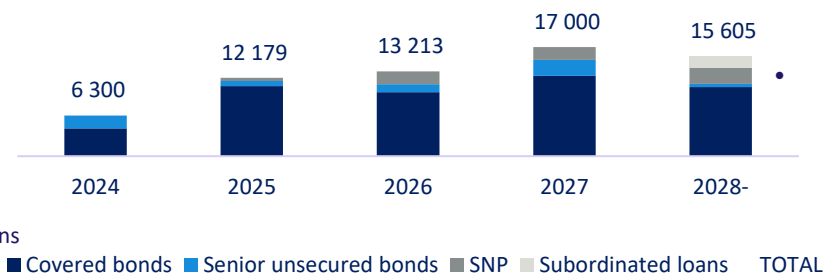
## Key comments

- Predominantly funded with customer deposits and covered bonds (OMF)
- NOK 70.5 bn in customer deposits – 48 % retail customers
- NOK 64.3 bn in capital market funding – ~24% maturing in 2028 and later
- Sparebanken Sør has an A1 rating, “stable outlook”
- Sparebanken Sør Boligkreditt AS received an A1 rating in June 2023, in line with the bank
- Bonds issued by Sparebanken Sør Boligkreditt AS is rated AAA

## Capital market funding split



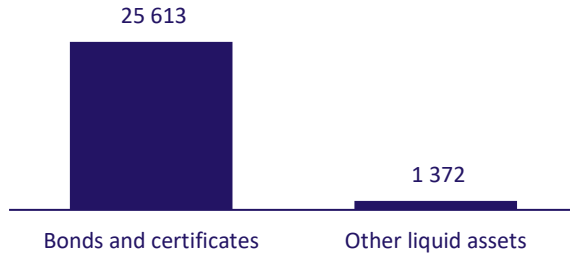
## Capital market maturity profile\*



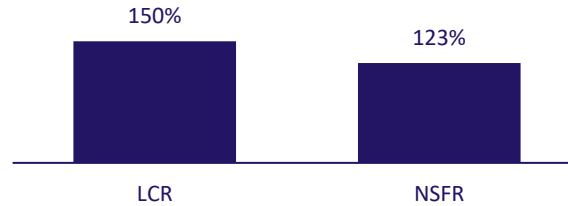


# Strong liquidity position

## Sources of liquidity



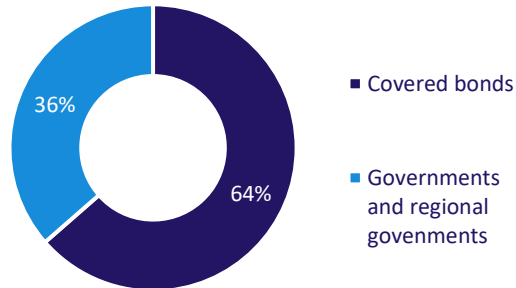
## Liquidity ratios



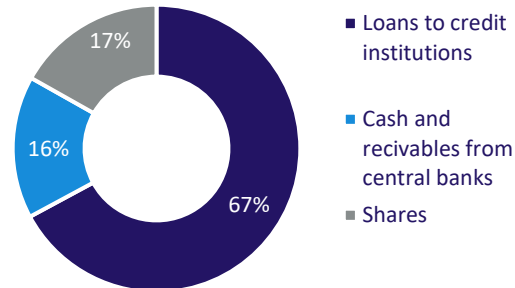
## Main features

- Bonds and certificates constitute the majority of the liquidity portfolio
- Covered bonds make up for (OMF) 64% of all bonds and certificates
- Satisfying liquidity ratios – LCR ratio of 150 % and NSFR ratio of 123 %

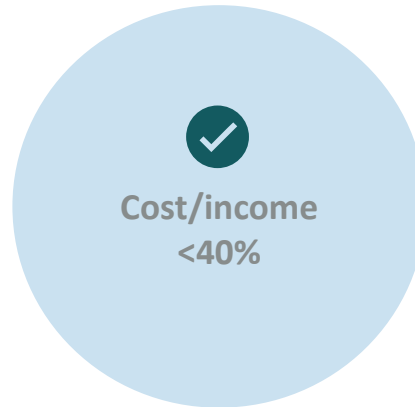
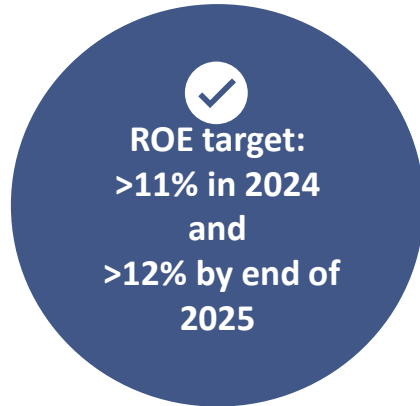
## Bonds and certificates split



## Other liquid assets split



## Delivers on the financial targets



# 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 31.03.2024

	Name	Amount EC	Share EC %		Name	Amount EC	Share EC %
1	Sparebankstiftelsen Sparebanken Sør	10.925.765	26,20	11	AF Capital AS	504.000	1,21
2	J.P. Morgan Securities LLC	2.400.000	5,75	12	Verdipapirfondet Fondsfinans Norge	364.585	1,11
3	Sparebanken Vest	2.400.000	5,75	13	Vpf Fondsfinans Utbytte	450.000	1,08
4	Geveran Trading Company LTd	1.800.000	4,32	14	J.P. Morgan SE	362.848	0,87
5	EIKA utbytte VPF c/o Eika kapitalforv.	1.426.319	3,42	15	U.S. Bank National Association	345.800	0,83
6	Spesialfondet Borea Utbytte	1.304.979	3,13	16	Drangslund Kapital AS	302.107	0,72
7	Pershing LLC	1.020.000	2,45	17	Verdipapirfondet Nordea Norge Verd	280.902	0,67
8	KLP Gjensidige Forsikring	869.013	2,08	18	State Street Bank and Trust Comp	266.729	0,64
9	Verdipapirfondet Holberg Norge	658.542	1,58	19	Hjellegjerde Invest AS	243.507	0,58
10	Goldman Sachs & Co. LLC	614.633	1,47	20	Pareto Invest Europa AS	240.000	0,58
	<b>Sum 10 largest owners</b>	<b>23.419.251</b>	<b>56,16</b>		<b>Sum 20 larges owners</b>	<b>26.879.729</b>	<b>64,46</b>

- 41.703.057 equity certificates with a face value of NOK 50 each have been issued.
- The earnings (Group) for Q1 2024 amounted to 5.4 NOK per equity certificate and 16.4 NOK per equity certificate in 2023
- The ownership fraction as of March 31, 2024 was 40 percent

# SOR – share price and liquidity

## Share price development as of 31.03.2024

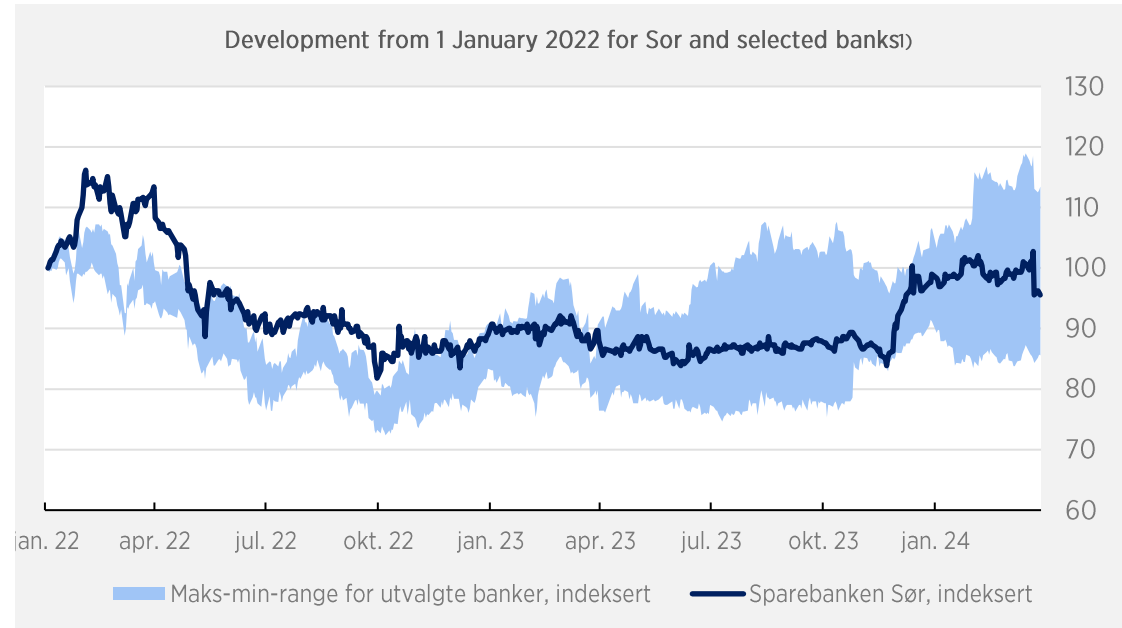
- The share price for SOR was NOK 139 and book value was NOK 145.2, equivalent to a P/B of 0.96
- The equity certificates gave a return of 16.4 % last 12 months
- Profit per equity certificates 31.03.2024 of NOK 5.3, representing a P/E 6.6.

## Liquidity

- Significantly improved liquidity after the sale of equity certificates.
- Turnover of 28 mill. equity certificates last 12 months.
- 41 703 057 total issued, and an EQ rate of 40.0 %.

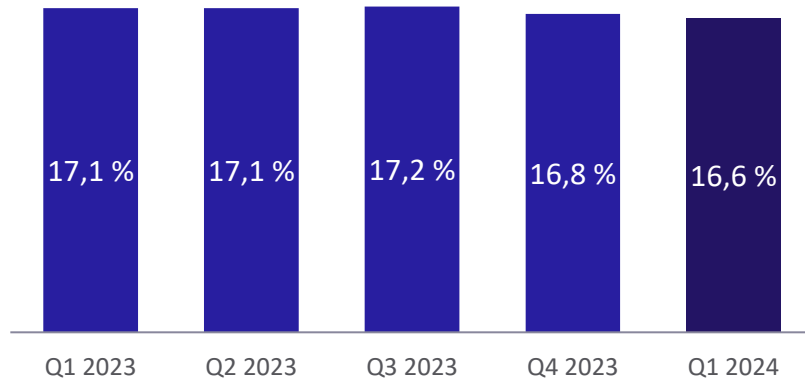
## Dividend

- A dividend of NOK 10 per equity certificate has been distributed for 2023.
- Goal to have ~ 50 % of the EC owners' share of the result should be paid out.
- The banks capital requirements will be taken into consideration when determining the annual dividend

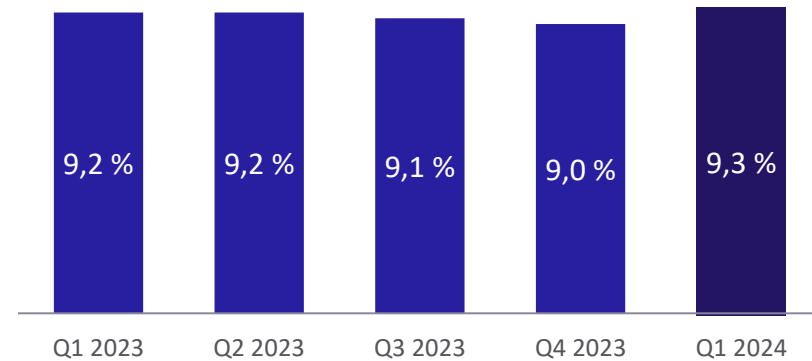


# Solid capital situation

## Common equity tier 1 capital ratio



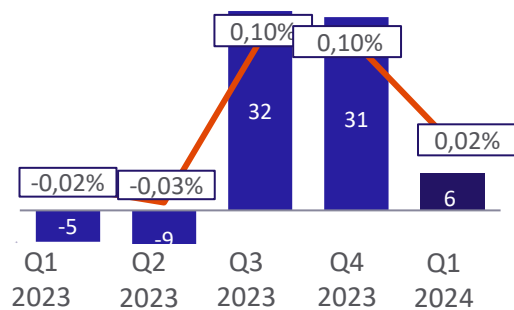
## Leverage ratio



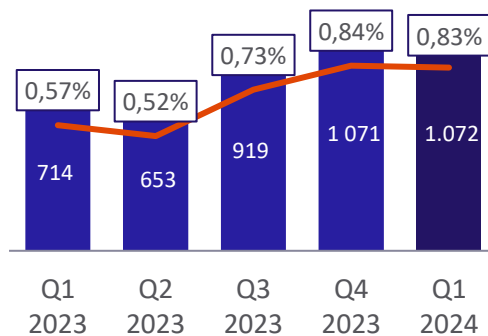
- Common equity tier 1 (CET1) well above the current capital requirement of 15,0 percent

# Low losses and non-performing loans

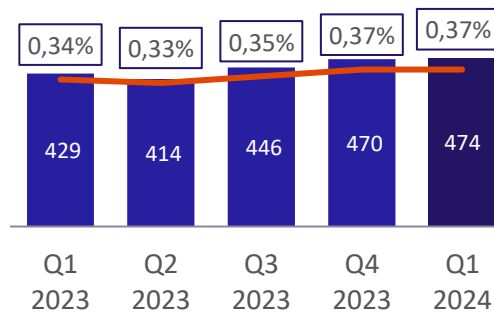
Development in losses in NOK million and as a percentage of gross loans (annualised)



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



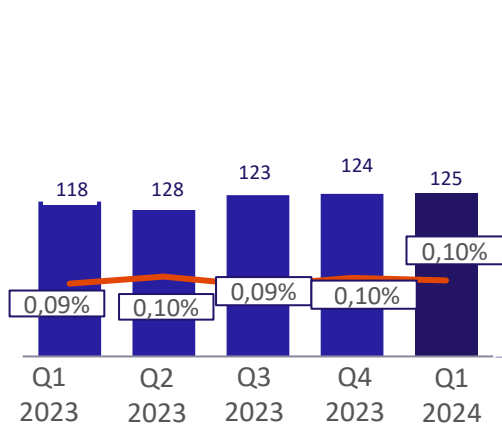
Development in loss provisions in NOK million and as a percentage of gross loans



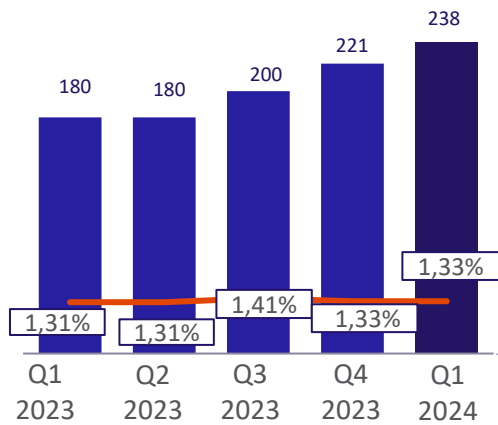


# Loss provisions divided into steps

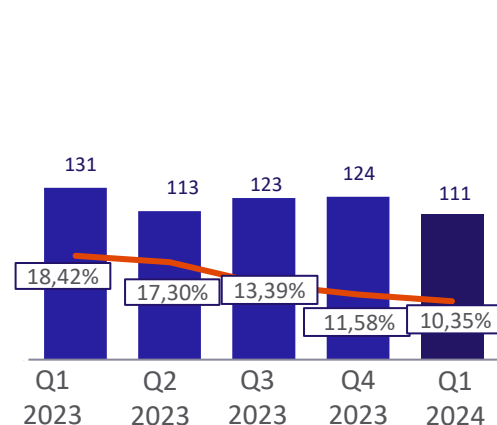
Provisions step 1  
and in % of engagement stage 1



Provisions step 2  
and in % of commitment stage 2

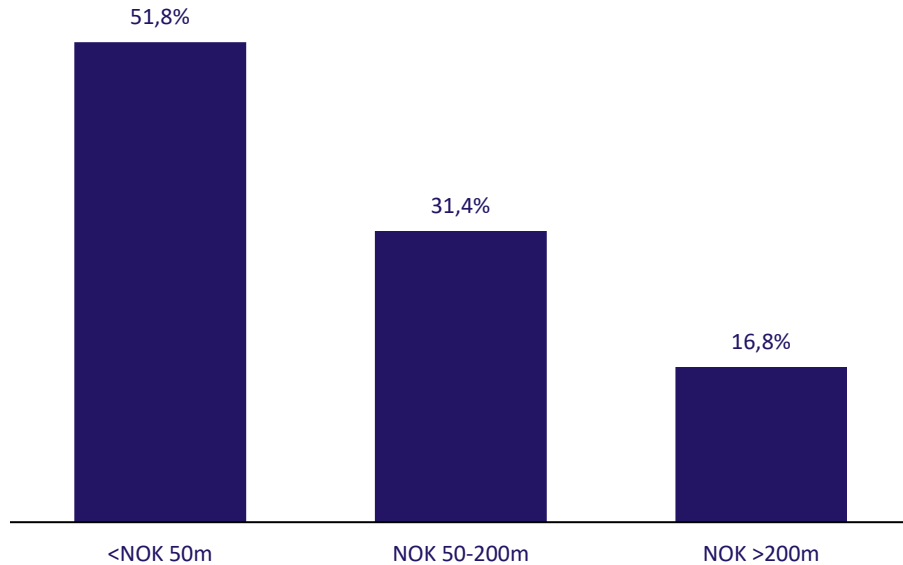


Provisions step 3  
and in % of commitment stage 3



# Corporate loan book – 49% property management and 52% < NOK 50m.

## Corporate lending by size



## Sector distribution

