



# Sparebanken Sør

Investor presentation Q1 2019

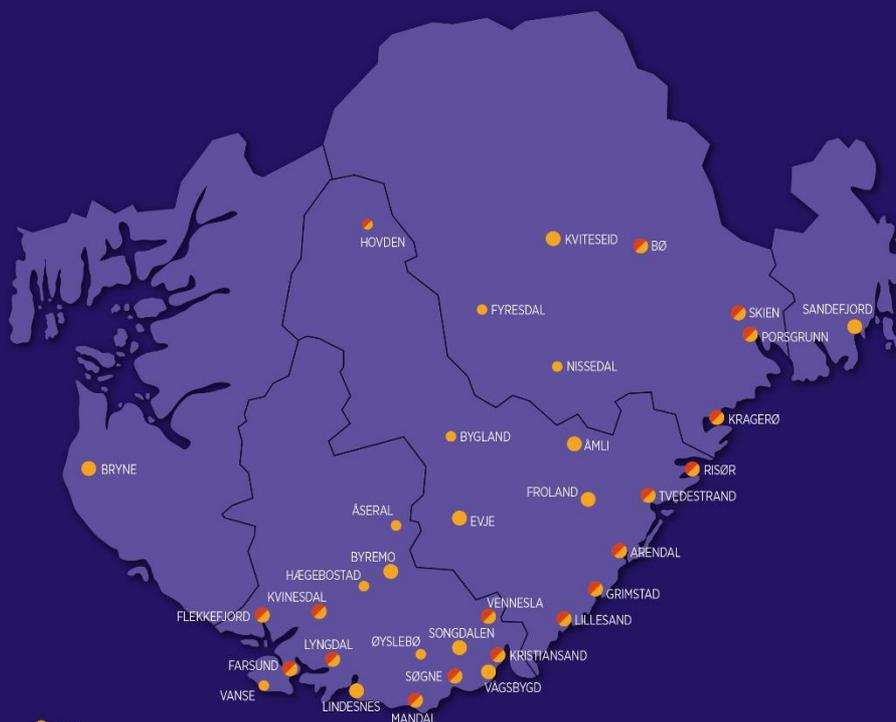
# Well positioned in a region with positive development

- Positive trend in employment market
- Rising house prices
- High customer satisfaction
- Strong market position
- Solid loan portfolio
- Long-term commitment to digitisation and data analysis



# Sparebanken Sør

– A leading financial institution in Southern Norway



- RM
- CM/RM
- Consulting office  
- By appointment



Established in 1824,  
530 employees



179 000 retail  
customers



Financial group with  
banking, securities and  
real estate brokerage



22 000 corporate  
customers



Publicly traded and  
community-owned



NOK 123.9 bn in total  
assets

*A market with 470 000 inhabitants. No other bank covers this area as well as Sparebanken Sør. New locations in Rogaland and Vestfold increases the marketpotential by 160 000.*

# Agenda

- Current trends
- Highlights from the quarterly report
- Loan portfolio and risk situation
- Funding status
- Capital strategy and regulatory changes
- Goals and expectations ahead
- Facing the future



# Current trends

# 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.**

## Positive development in housing prices

Percentage change in prices, last 12 months\*



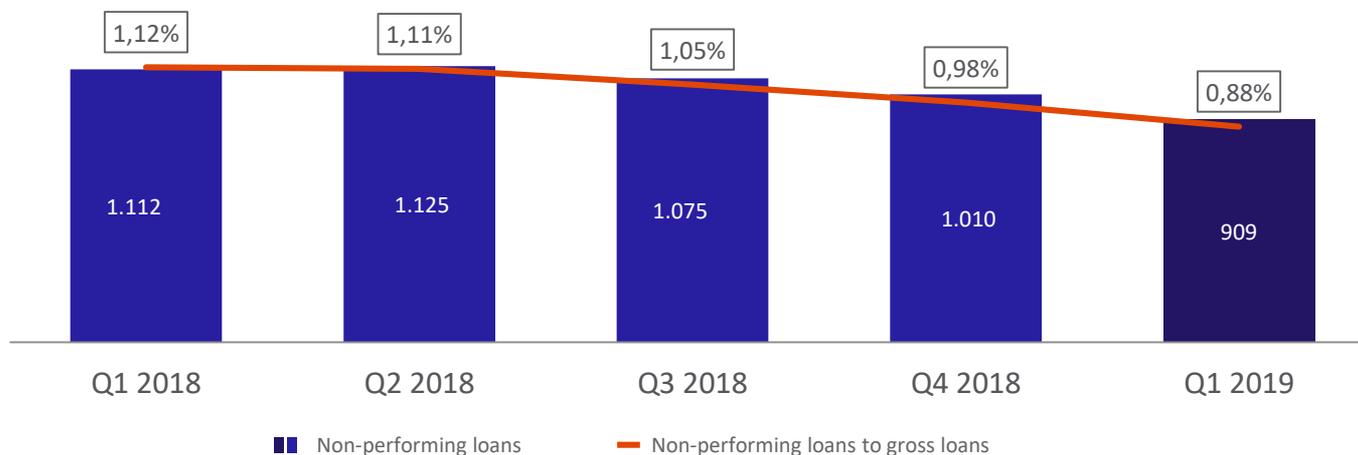
\*3 month moving average of 12 month change



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# Solid loan portfolio

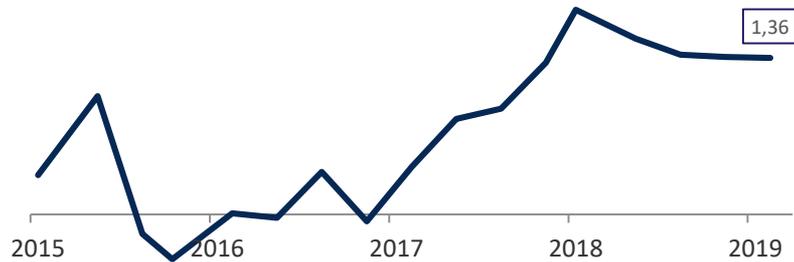
– Marked improvement in non-performing loans



# Growth in the Southern region

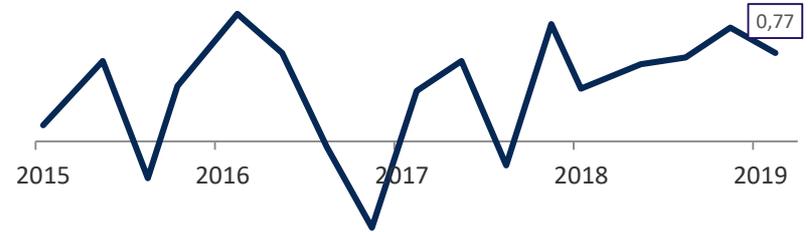
## Increased production, Southern region

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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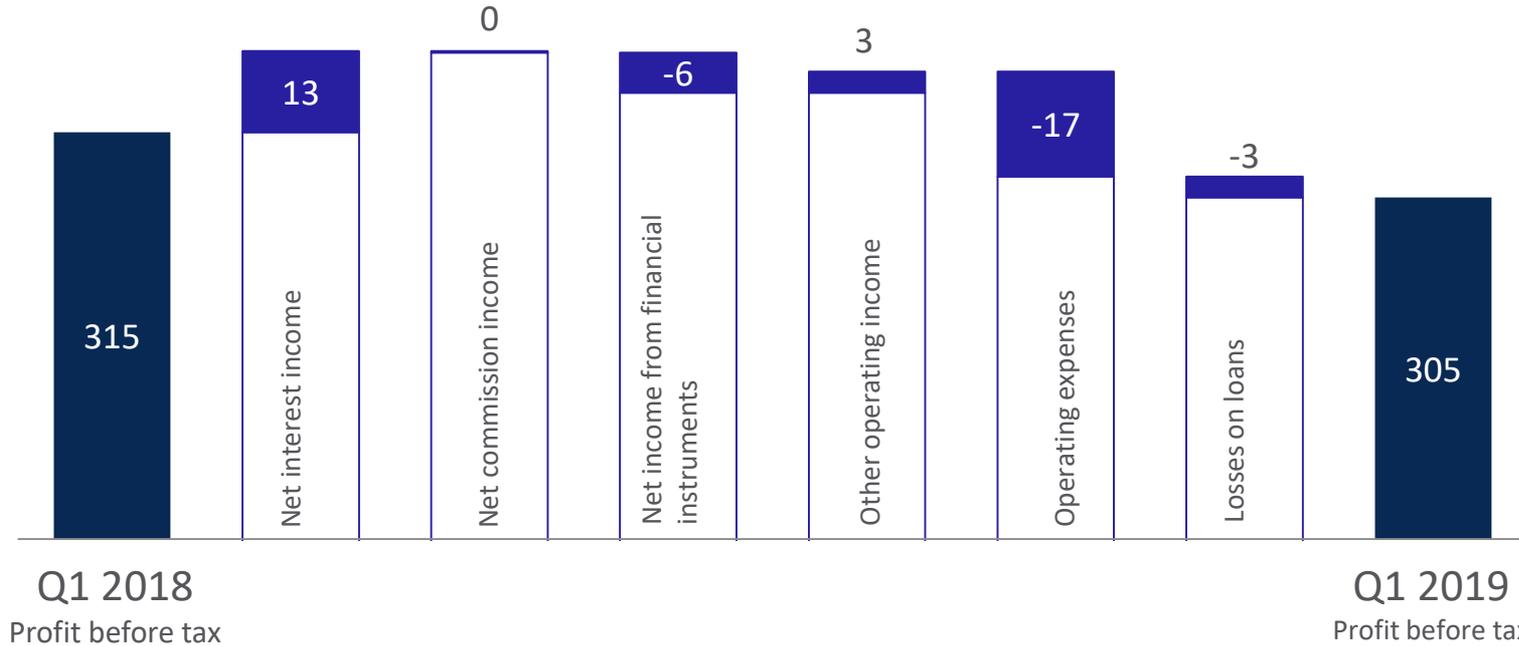
# Highlights in Q1 2019

- Good results from ordinary operations
- Positive development in net interest income
- Positive net income from financial instruments
- Acquisition of shares in Brage Finans AS
- Efficient operations and low costs
- Very low losses on loans
- Year-on-year loan growth 4.3 percent
- Year-on-year deposit growth of 4.9 percent
- Return on equity after tax of 8.3 percent
- Common equity tier 1 capital ratio of 14.9 percent and leverage ratio of 9.0 percent

NOK million	2019 Q1	2018 Q1	Change
Net interest income	438	425	13
Net commission income	74	74	0
Net income from financial instruments	20	26	-6
Other operating income	5	2	3
Total income	537	527	10
Total expenses	229	212	17
<b>Profit before losses on loans</b>	<b>308</b>	<b>315</b>	<b>-7</b>
Losses on loans, guarantees	3	0	3
<b>Profit before tax</b>	<b>305</b>	<b>315</b>	<b>-10</b>
Tax expense	71	77	-6
<b>Profit for the period</b>	<b>234</b>	<b>238</b>	<b>-4</b>

# Developments in profit before tax

NOK million



# Interest margin and NIBOR3M

## Loans (%)



Q1 2018 Q2 2018 Q3 2018 Q4 2018 Q1 2019

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

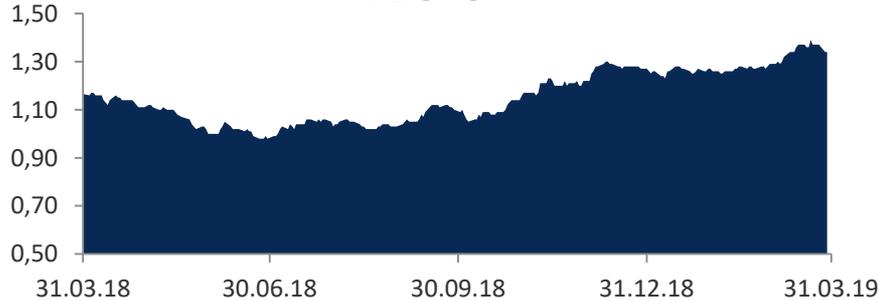
## Deposits (%)



Q1 2018 Q2 2018 Q3 2018 Q4 2018 Q1 2019

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

## NIBOR3M



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

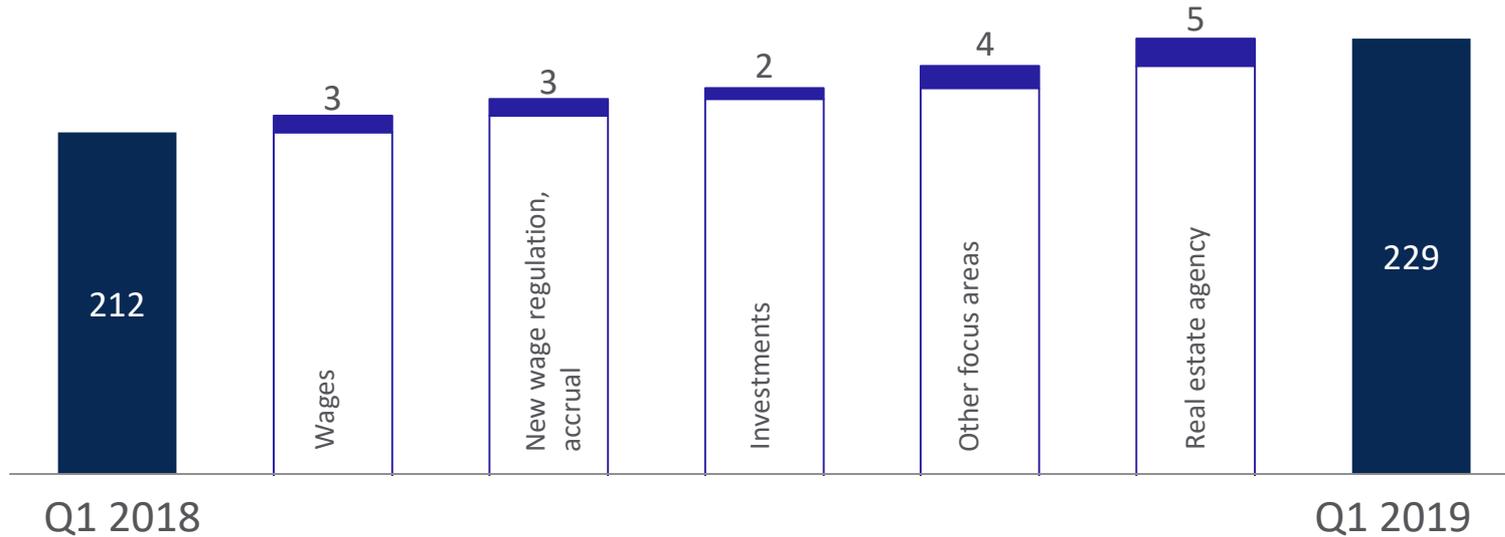
- Growth in total loans
- Notified interest rate change on March 22, 2019 (expected effect about 20 bp in RM, and about 10 bp in CM)
- A CM loan portfolio which accounts for 35 percent of total loans (of which about 80 percent is linked to NIBOR)
- CM deposits linked to NIBOR



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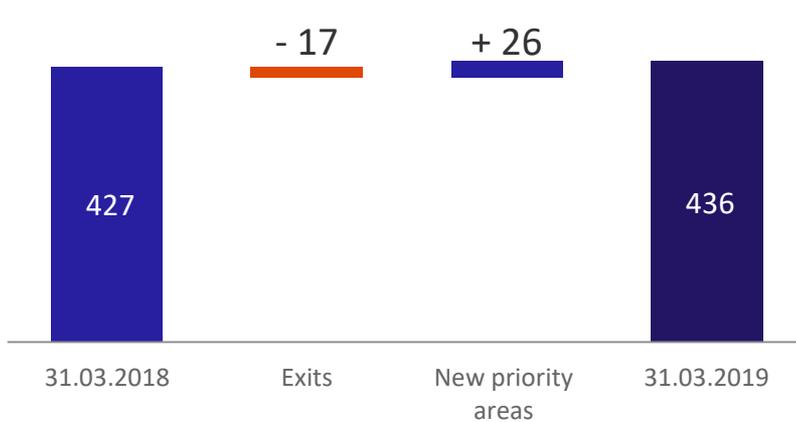
# Development in operating expenses

- Banking and real estate agency



# New expertise will improve efficiency

## Changes in employees

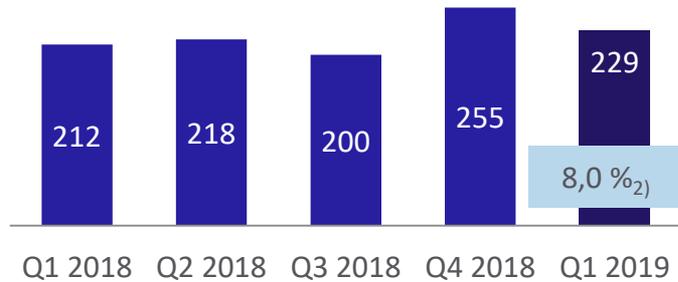


- There has been a significant decrease in FTEs in recent years
- 2018 represented a major shift in expertise
- Better positioned for growth through digital solutions

# Profit and returns

NOK million

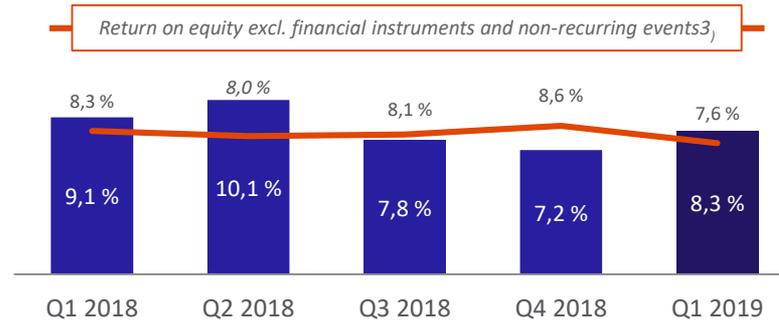
## Operating expenses



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



## Return on equity



- 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

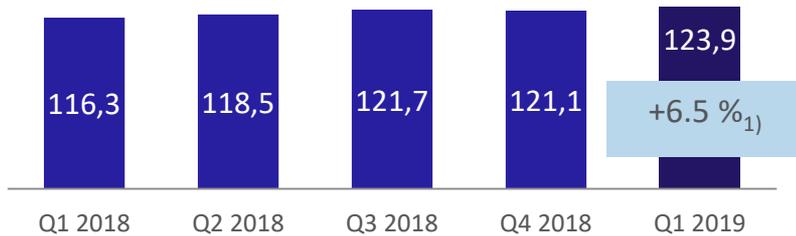
## Net loans



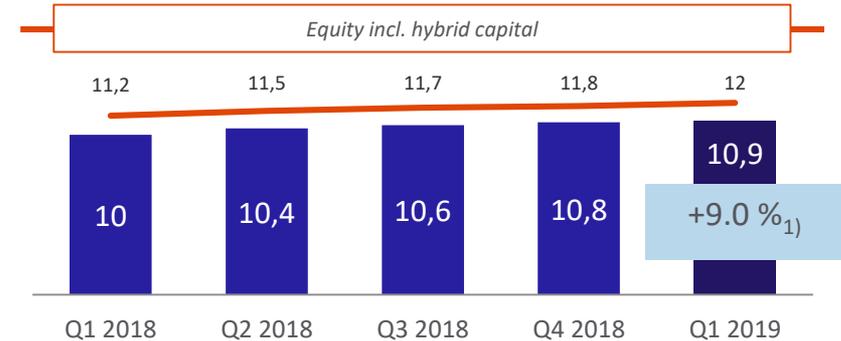
## Deposits



## Total assets



## Equity

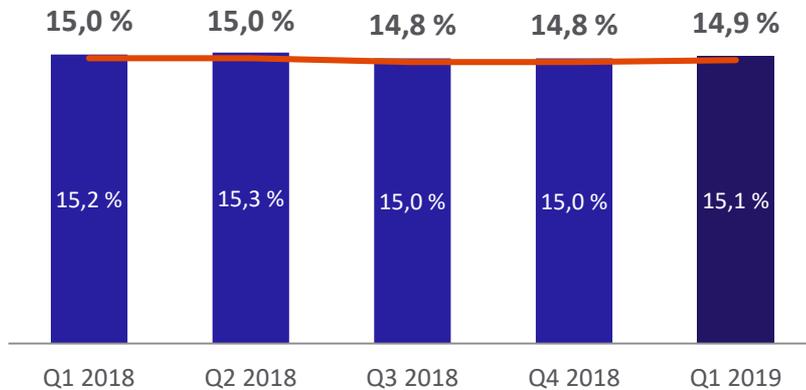


- 1) Changes from the corresponding prior-year period
- 2) Loan growth in Q1 2019 amounted to NOK 4,3 billion, equivalent to 4.3 percent, of which retail costumers accounted for 5.4 percent and corporate costumers 2.0 percent

# Capital adequacy

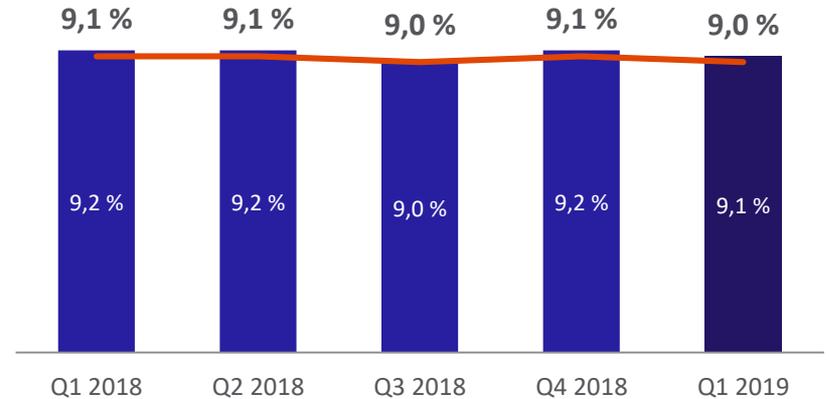
## Common equity tier 1 capital ratio

Common equity tier 1 capital ratio with Brage Finans partially consolidated



## Leverage ratio

Leverage ratio with Brage Finans partially consolidated

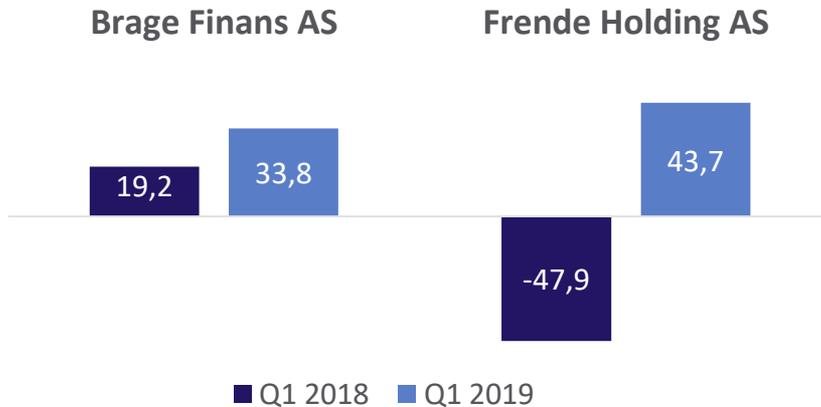


# Associated companies



## Profit before tax

NOK million



## Effect on results when consolidating

Millioner NOK		31.03.2019	31.03.2018
Frende forsikring (20.2 percent ownership)	Share of profit	8,6	0
	Amortizing	- 5,0	0
Brage finans (20.8 percent ownership)	Share of profit	5,5	0

Gross share of profit in Q1 2019 amounted to NOK 14.1 million

Frende had an extraordinary write-down related to IT systems in 2018. Sparebanken Sør's share of profit of NOK 5.8 million was accounted for in Q1 2019

# Summary after Q1 2019

## Results

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

## Finance

Positive net income from financial instruments as a result of a positive development in the Bank's liquidity, and reclassification of shares in Brage Finans AS.

## Capital

Common equity tier 1 capital ratio of 14.9\* percent and solid leverage ratio of 9.0\* percent.

## Growth

Loan growth of NOK 4.3 billion in the last 12 months, corresponding to 4.3 percent annual growth. Deposit growth of NOK 2.7 billion, corresponding to 4.9 percent in the last 12 months.

## Summary

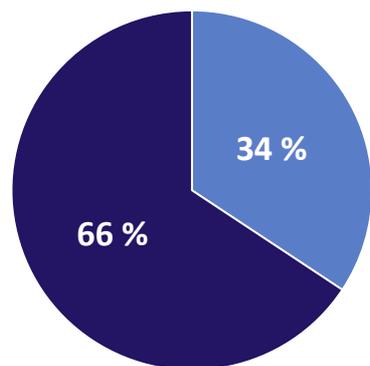
Sound operations contributed to a pre-tax profit of NOK 305 million in Q1 2019.

# Loan portfolio and risk situation

# A diversified loan portfolio

## RM / CM distribution

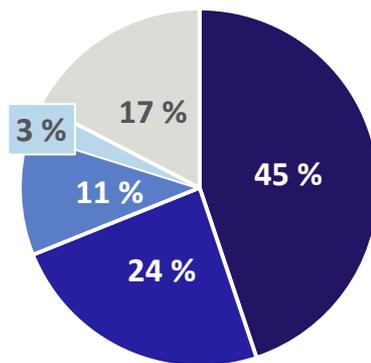
Gross loans



■ CM ■ RM

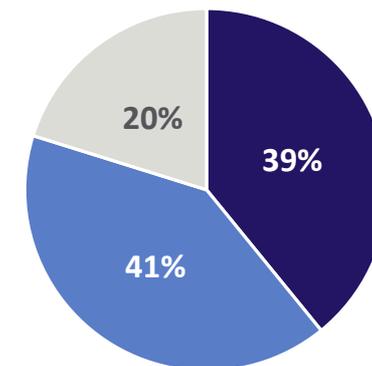
## Geographical distribution of loans

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).

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

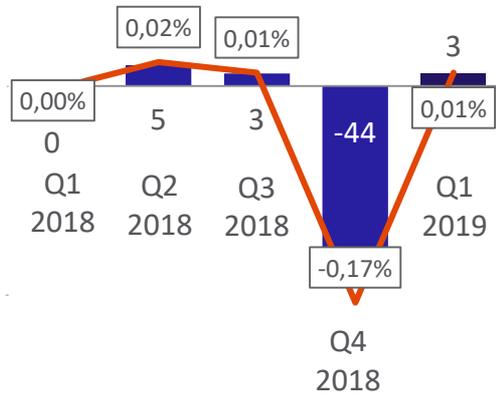
NOK 38.9 billion transferred to Sparebanken Sør Boligkreditt AS, equivalent to 56 percent of total loans to retail market.



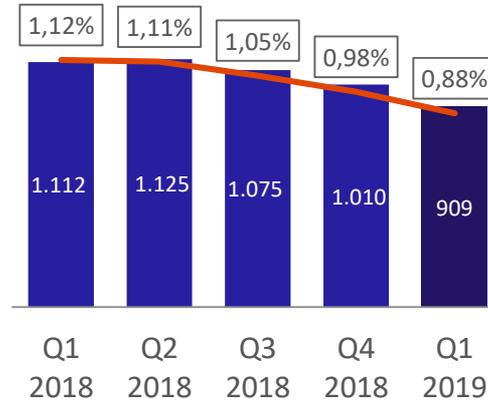
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# Non-performing loans

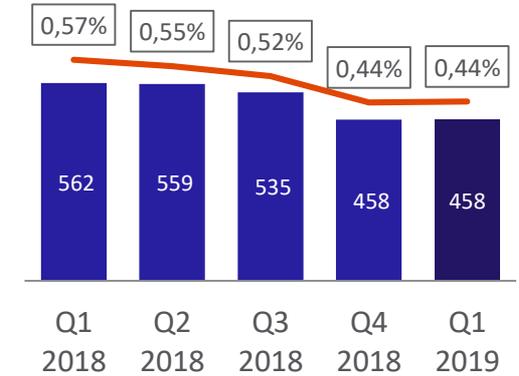
Development in losses in NOK million and as a percentage of gross loans (annualised)



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



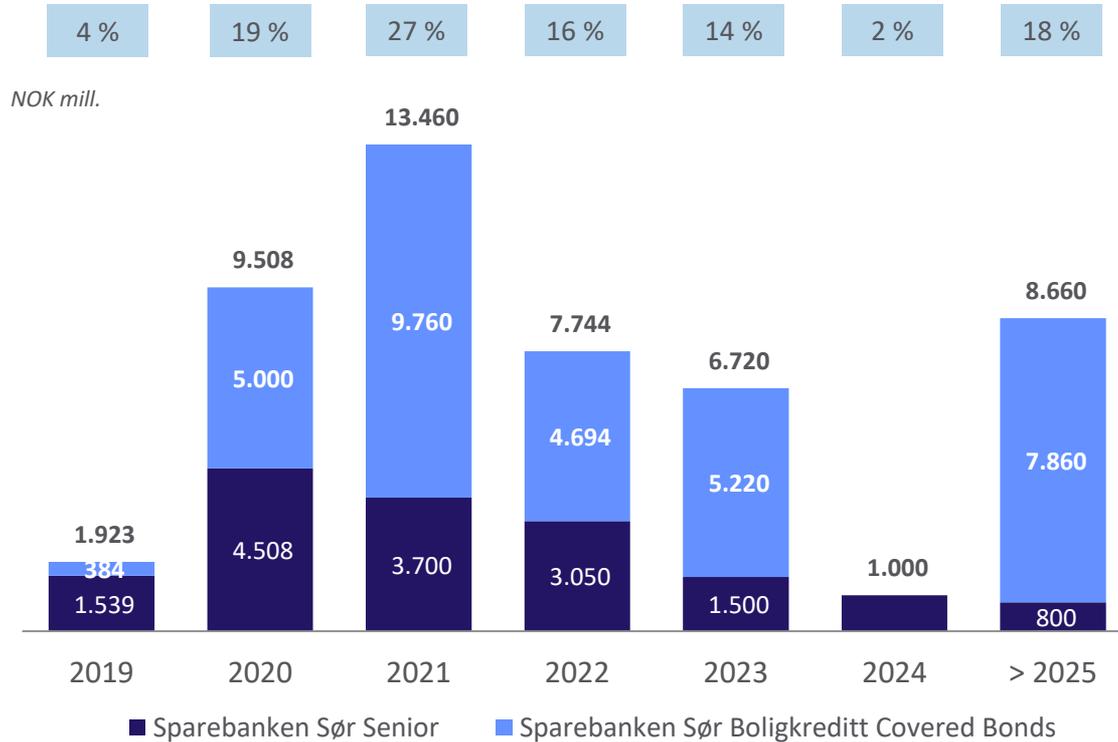
Development in loss provisions in NOK million and as a percentage of gross loans<sup>1)</sup>



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 49.6 billion
- Covered bonds amounted to NOK 35.9 billion, of which NOK 2.5 billion was owned by the parent company
- Long-term funding\* amounted to 93 percent
- Average remaining maturity on long-term funding\* amounted to 3.5 years

\* Long-term funding: maturity > 1 year

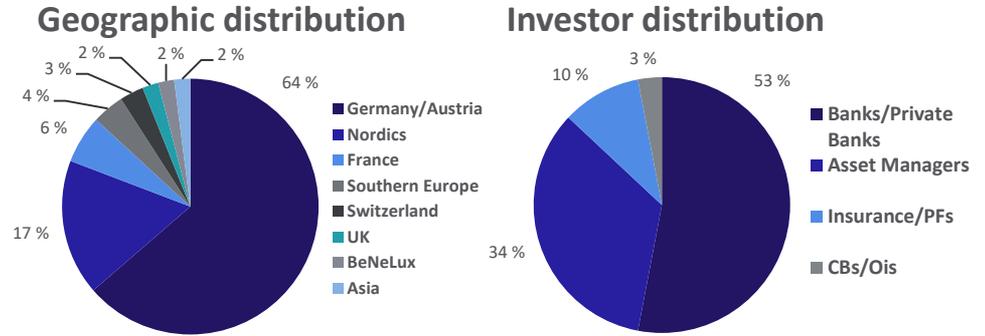


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# Diversified funding

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

- EUR 500 million 7-year Covered Bond.
- Fourth BM benchmark EURO transaction
- High investor interest

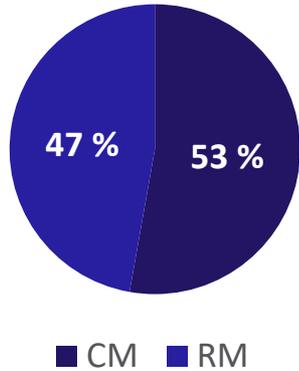


### Transaction details

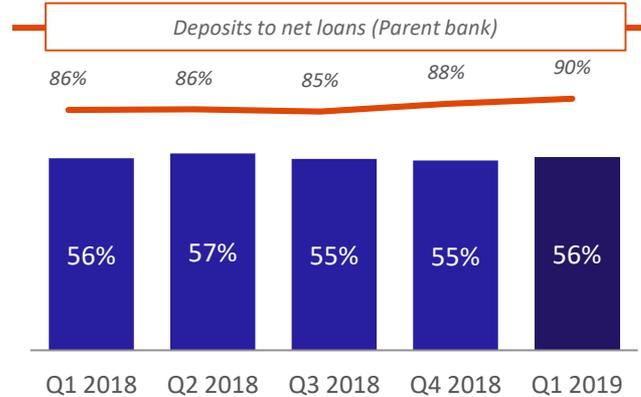
<b>Issuer</b>	Sparebanken Sør Boligkreditt AS
<b>Issue rating (exp)</b>	Aaa (Moody's)
<b>Status</b>	Norwegian Covered Bond
<b>Launch date</b>	30 January 2019
<b>Settlement date</b>	06 February 2019 (T+5)
<b>Maturity</b>	06 February 2026 (soft bullet)
<b>Issue size</b>	EUR 500mn (no grow)
<b>Coupon</b>	0.500%, act/act ICMA
<b>Re-offer price / Spread</b>	99.473% / MS + 19bps
<b>Governing law</b>	English law
<b>ISIN</b>	XS1947550403

# Deposits

RM/CM distribution



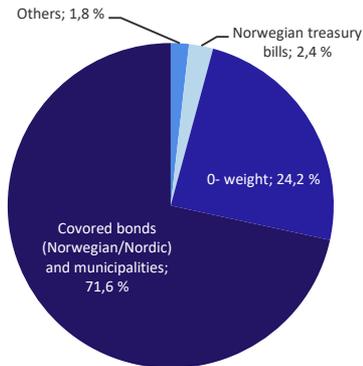
Deposits to net loans(Group)



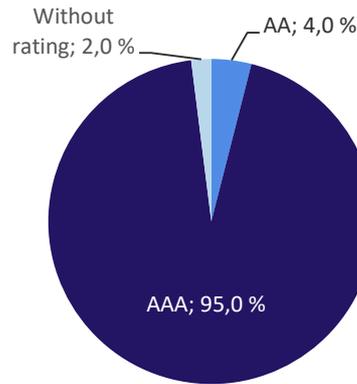
- Stable development in deposits the last 12 months, with a deposit growth of 4.9 percent

# Liquidity portfolio

Category



Rating

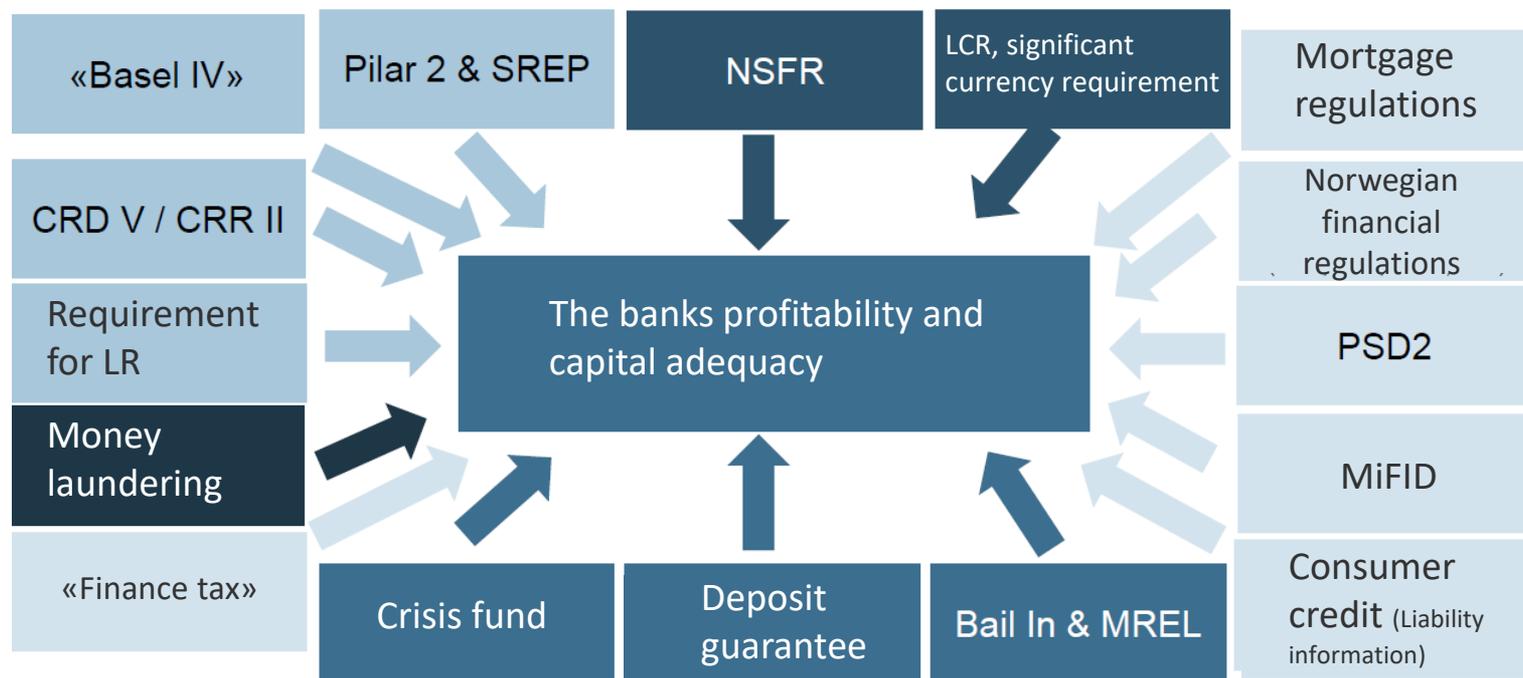


- Total liquidity portfolio of NOK 17 billion
- 100 percent investment grade and 100 percent liquid instruments
- Liquidity credit ratio of 180 percent for the Group



# Capital strategy and regulatory changes

# The regulatory framework are (always) changing



# IRB and capital effects

- IRB is not intended as a capital optimiser, but is expected to have some effects
- Sparebanken Sør has at least as good quality in its loan portfolio as comparable banks
- At the same time, Sparebanken Sør has a significantly higher Leverage Ratio
- There is therefore no reason to believe that Sparebanken Sør's capital ratio will be less affected than in other banks after the transition to IRB.
- Some effects are expected to occur after the transition to IRB-F, and additional effects are expected with IRB-A

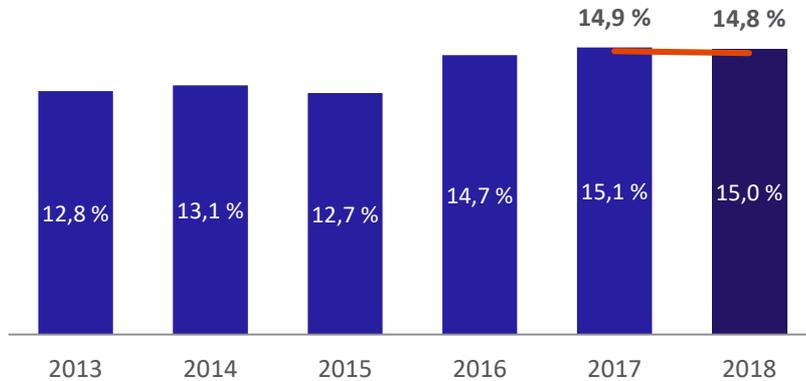
	Method used to calculate capital ratio	CET1*	Leverage Ratio*
Sør	Standard	14.9	9.0
Regional bank 1	IRB	14.7	7.7
Regional bank 2	IRB	14.9	7.1
Regional bank 3	IRB	14.6	7.4
Regional bank 4	IRB	14.5	7.2
Regional bank 5	IRB	16.8	7.2

*\*Comparable figures for other regional banks are from 31.12.2018*

# Strong increase in the Bank's equity

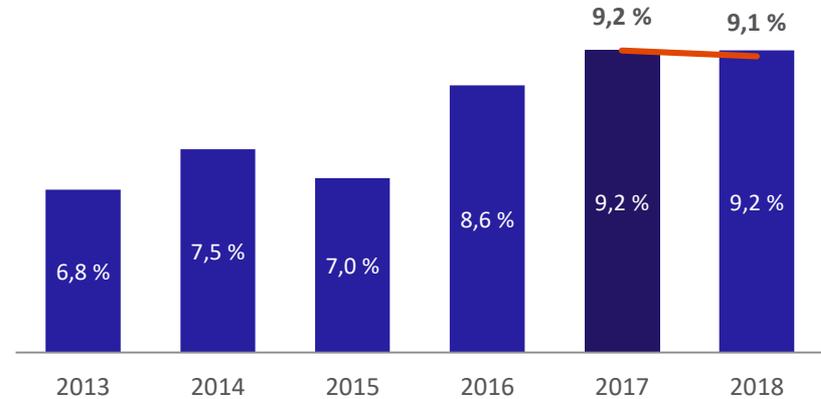
## Common equity tier 1 capital ratio

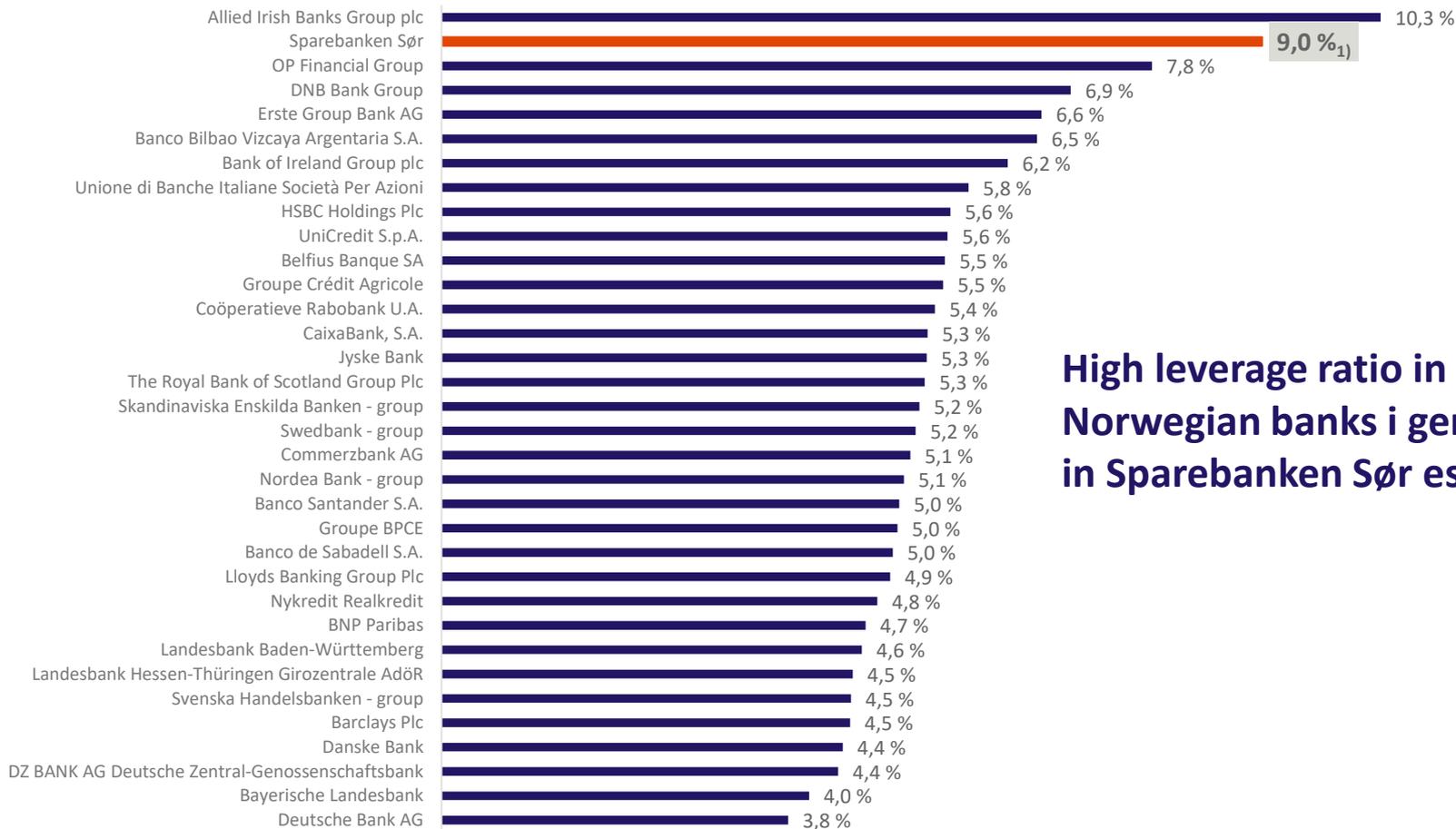
Common equity tier 1 capital ratio with Brage Finans partially consolidated



## Leverage ratio

Leverage ratio with Brage Finans partially consolidated





**High leverage ratio in Norwegian banks i general, and in Sparebanken Sør especially**

The chart shows leverage ratio for selected European banks, at 31.12.2017

1) Sparebanken Sør, leverage ratio at Q1 2019

# Sparebanken Sør as systemically important financial institution (SIFI)

## Basis for differentiation of the SIFI requirement

- **NFSA's proposal:**
  - Maximum SIFI requirement for Norwegian banks
  - An economy and banking system in crisis?
  - Counteracts the effects of the EEA adaption
    - Basel 1 floor for IRB banks to be phased out
    - SME discount
- **Relevance of the regional criterion?**
  - The regional criterion not necessarily an indicator of consequences for the national economy
  - Correct with a division by region/county?
- **Basis for differentiation**
  - Based on the EEA model, Sparebanken Sør is the least systemically important of Norwegian regional banks
  - Only one globally systemically important bank has a higher SIFI requirement (2.5 percent)
  - Banks with SIFI requirements between 1-2 percent are significantly larger than Norwegian regional banks
  - Differentiation common in other supervised areas
  - Sør uses the standard method and has a particularly high leverage ratio

**Nyhet**  
Finanstilsynet foreslår endringer i regelverket for identifisering av systemviktige finansforetak

PUBLISERT: 19. OKTOBER 2018

Etter gjeldende regelverk er DNB og Kommunalbanken identifisert som systemviktige foretak i Norge. De foreslåtte endringene vil medføre at flere banker skal anses som systemviktige og dermed pålegges et ekstra krav til kapital.

Utviklingen i markedet for utlån til bedrifter og innføringen av krisehåndteringsdirektivet i norsk regelverk, kan tilsi at det er grunnlag for å revurdere kriteriene for identifikasjon av systemviktige foretak.

Regelverket inneholder i dag to kriterier for identifisering av systemviktige finansforetak: forvaltningskapital som andel av fastlands-BNP og andel av samlede utlån til publikum.

Finanstilsynet foreslår å inkludere et tredje kriterium, slik at foretak som ved utgangen av foregående år hadde utlånsandel til bedriftsmarkedet på minst 10 prosent i én eller flere regioner, også skal anses som systemviktige.

Forslag til forskriftsendring er i dag sendt Finansdepartementet. Dersom forslaget følges opp og gjennomføres, kan dette medføre at flere regionbanker omfattes av forskriftens kriterier for å bli ansett som systemviktige og dermed får et ekstra krav til ren kjernekapitaldekning på 2 prosentpoeng og et ekstra krav til uvektet kjernekapitalandel på 1 prosentpoeng.

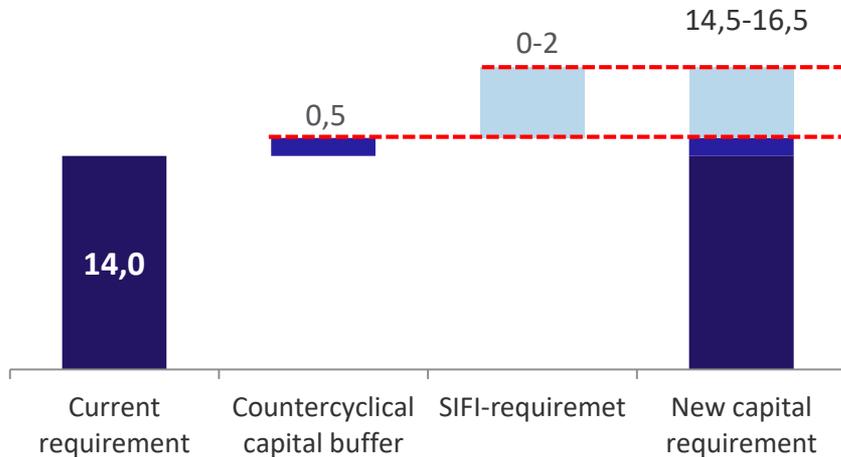
**Brev**  
Tilråding om endring av forskriftskriterier for systemviktige foretak (pdf)

**Pressekontakt**  
Pressetelefon: 40 90 03 50  
info@finansstilsynet.no →  
Pressekontakter →

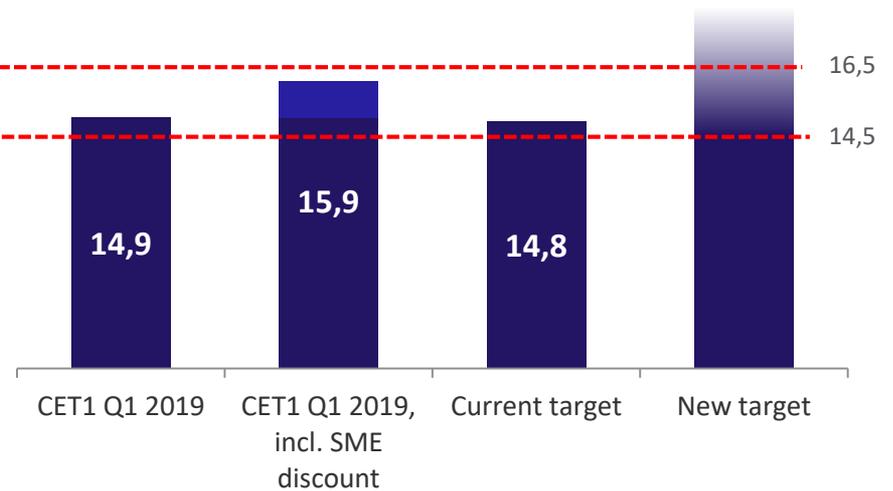
**Nyhetsvarsel**  
Registrer deg her for å få nyhetsvarsling når Finanstilsynet publiserer saker du er interessert i.

# Changes in regulatory conditions

## Capital requirements



## Capital ratios and targets



# Crisis management and MREL

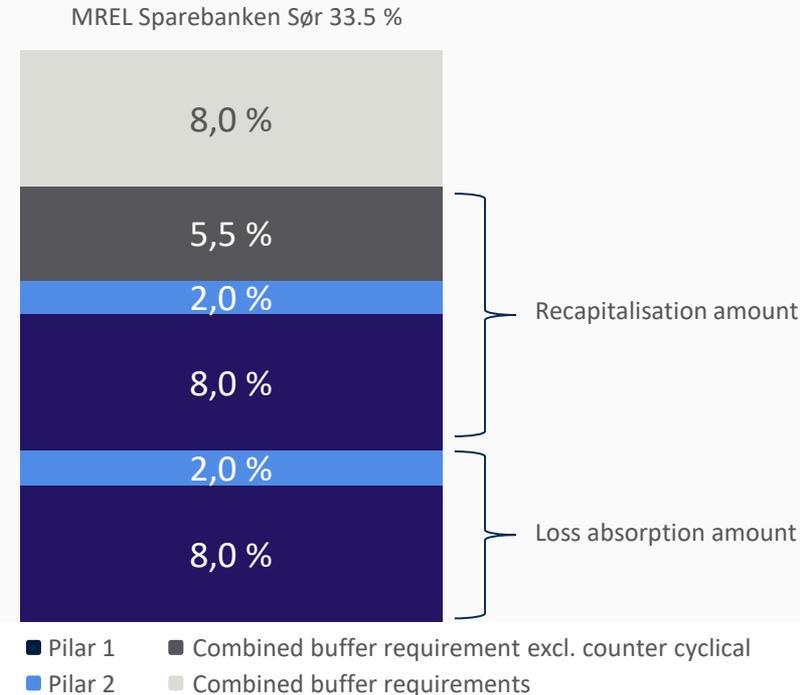
## Minimum Requirement for own funds and Eligible Liabilities

- **The Bank Recovery and Resolution Directive (BRRD)**

- Implemented from 1 January 2019. The affected entities are expected to be in accordance with MREL as of 31 December 2022.
- New requirements for convertible/repayable debt (Tier 3)
- Requirements for MREL capital will be determined on an individual basis
- The largest and most complex banks will be assessed first. The aim is to do this during 2019.

- **Consequences for Sparebanken Sør**

- Estimated Tier 3 (MREL capital) amounts to NOK. 10 billion
- Potentially higher MREL requirements if Sparebanken Sør is defined as systemically important.
- The Bank has outstanding NOK 16.2 billion in senior debt. NOK 12.8 billion will fall due by 31.12.2022

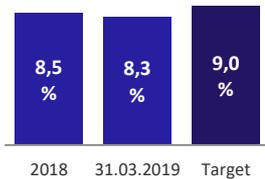


# Goals and expectations ahead

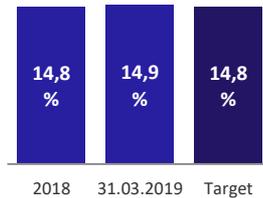


# Financial key variables and ambitions

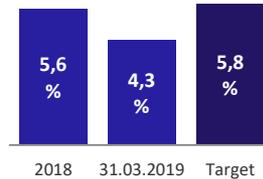
Return on equity



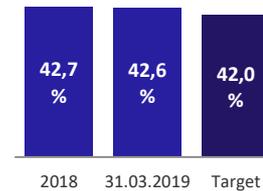
Common equity tier  
1 capital (Group)<sup>1)</sup>



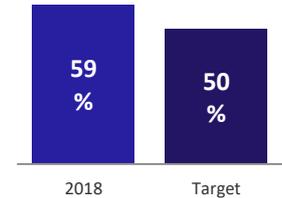
Loan growth<sup>2)</sup>



Cost development



Dividend ratio



1) Incl. share of profit

# Outlook

## Macro

The key interest rate increased on 20 March 2019 from 0.75 percent to 1.00 percent. Norges Bank has indicated that there most likely will be a further upward adjustment in the key interest rate within the next 6 months.

## 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 14.9\* percent and a leverage ratio of 9.0\*.

## 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.

# Facing the future

# Strategic platform

Customer relations



Digitisation and channel interaction



Cost efficiency



# Focus areas

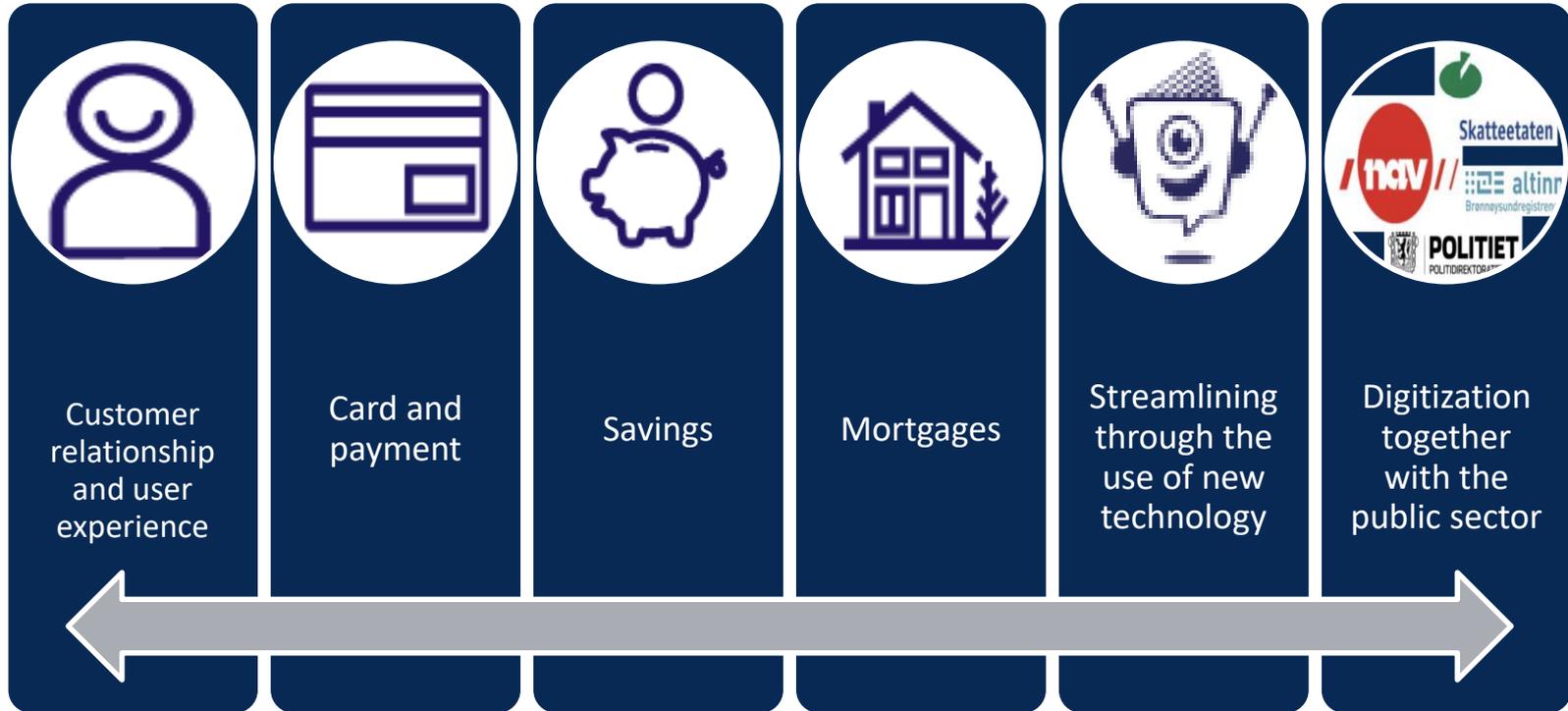


SPAREBANKEN SØR



SPAREBANKEN SØR

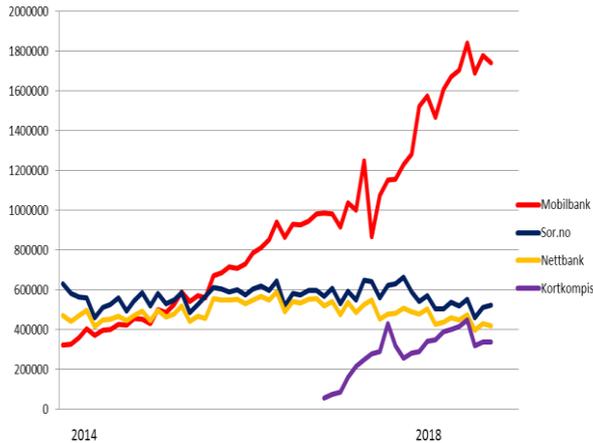
# Our priority development areas



# Investment in digital development

- good customer communication and good user experiences

## Mobile bank



20 mill. visits last years

## Social Media

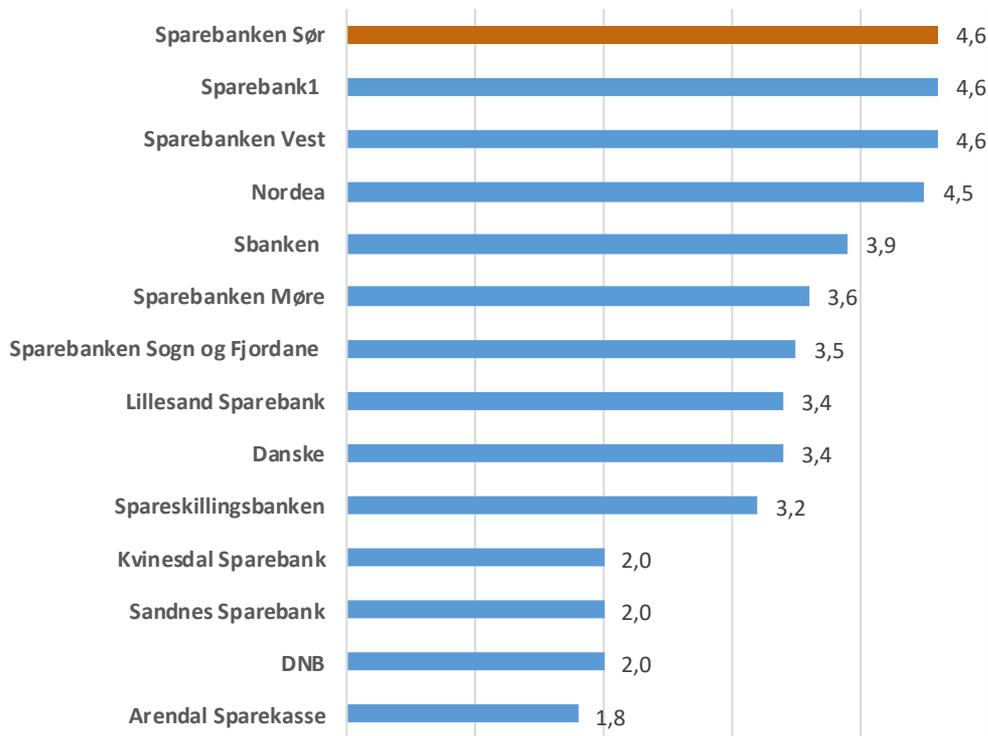
More than 30.000 followers on facebook

## Sor.no

Information on services, chat-bot

Approaching 40 mill. visits in 2019!

# Norway's best mobile banking app



The customers are very pleased with the user experience in our mobile bank

- Best in Norway
- Among the best in Europe

We are working to make it easier for the customer to buy all our products in the mobile bank.

Basert on rating in appstore

# CRM

Allows us to operate our three distribution channels professionally, strategically and systematically

- Gather all customer dialogue in one place - from my customer to our customer
- Ensures greater relevance in our customer communication
- Better knowledge on customer reactions to our market activities e.g price changes, marketing, new products
- Opportunity to exploit the sales potential to a greater extent
- Ensures compliance with GDPR



# Contactless payment

## – Norway's fastest growing payment method

Number of transactions

Number of terminals



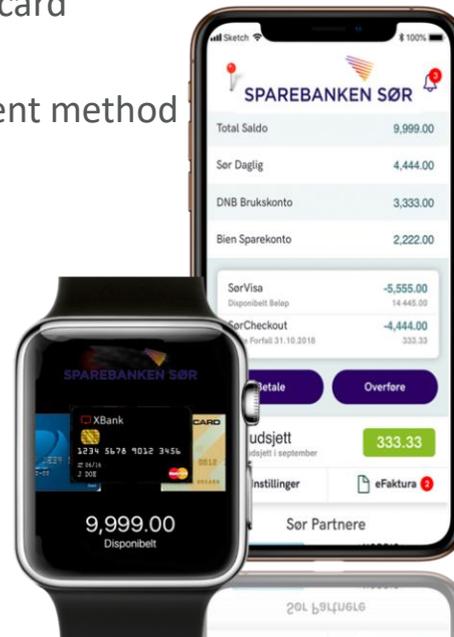
# «Tapping» - payment method for the future!

## Changes in customer behaviour?

- During 2019, all grocery stores will open for contactless payment, and you can pay with cards, clocks, mobile, etc.
- The limit for contactless payment by card increases to NOK. 400,
- «Tapping» - a faster and safer payment method with less exposure to the PIN.

We are well positioned for contactless payment with all our cards - digitized in May 2018

- DNB and SB1 launched payment with watch in December – 7 months later than us
- We expect DNB and SB1 to launch Google pay soon. We launched in October 2018.



# Savings

## New online service for mutual funds launched together with several banks

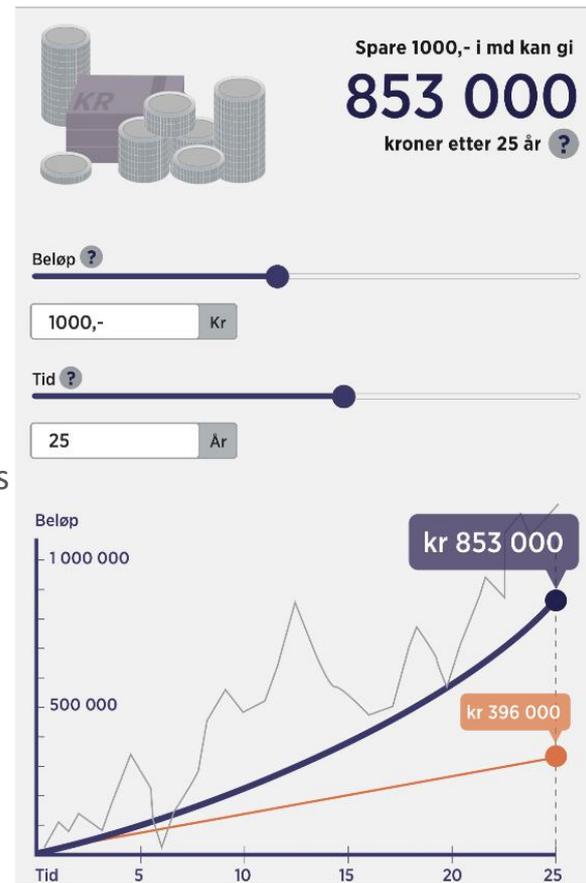
- Sør, Nørne and 13 other banks
- System management and further development are maintained by Sparebanken Sør, Sparebanken Sogn and Fjordane and Nørne

## Need for better sales lines on sor.no

- Sparebanken Sør further develops fully digitalized and optimized sales lines
- Good advisory practice is handled in the solutions
- All compliance requirements are met in the digital advisory

## Goal:

Inspire and motivate for long-term mutual fund savings!



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# Finance in cooperation with public sector regarding digitization

## Norwegian Mapping Authority

- Registrations
- Deletion

## Payrolldata and tax returns from Altinn

- Used on all loan applications
- Timesaving for both customer and advisor
- Ensures quality in data.
- Secure shipment

## Norwegian debt registry

- Credit card debt and consumer loans are collected in a common register
- Integrated into our professional systems

2017

2018

2019

## Control information

- Retrieving transaction and account date, annual tasks, etc.
- Fully digital self service for The Norwegian tax administration, NAV and Police

## Bankruptcy

- Fully digital self service for exchange of information between trustee and bank
- Concerns bankruptcies in companies, individual companies and personal bankruptcies



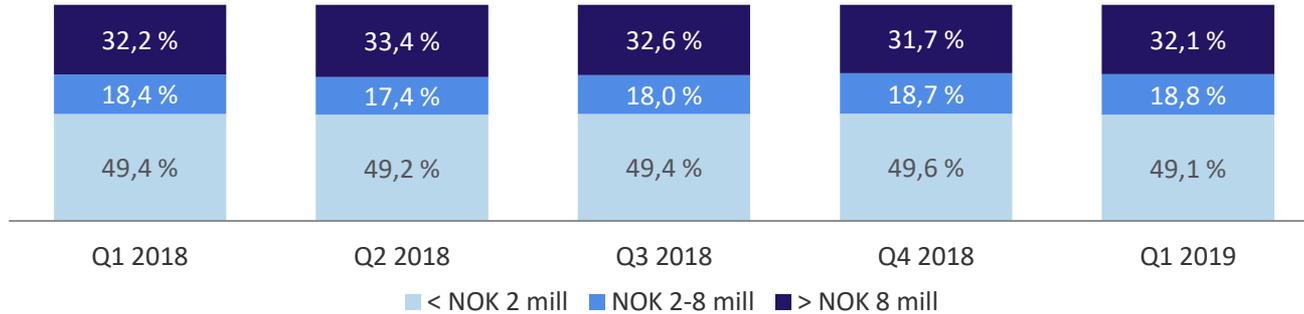
# Appendix



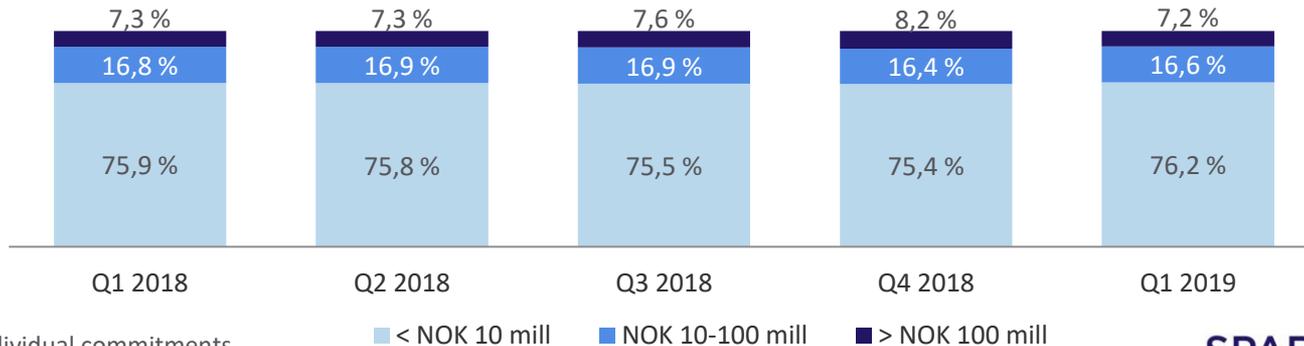
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# Portfolio

## Deposits distributed by size

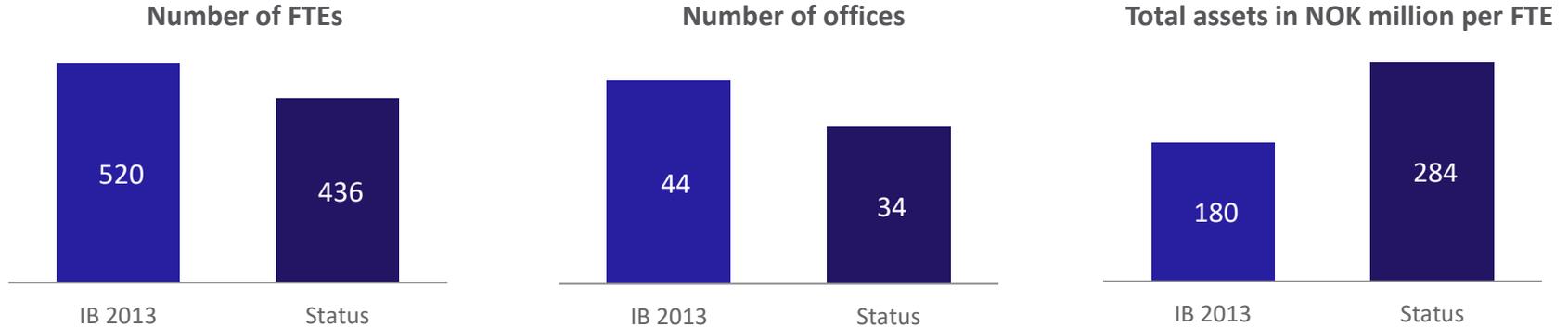


## Loans\* distributed by commitment size



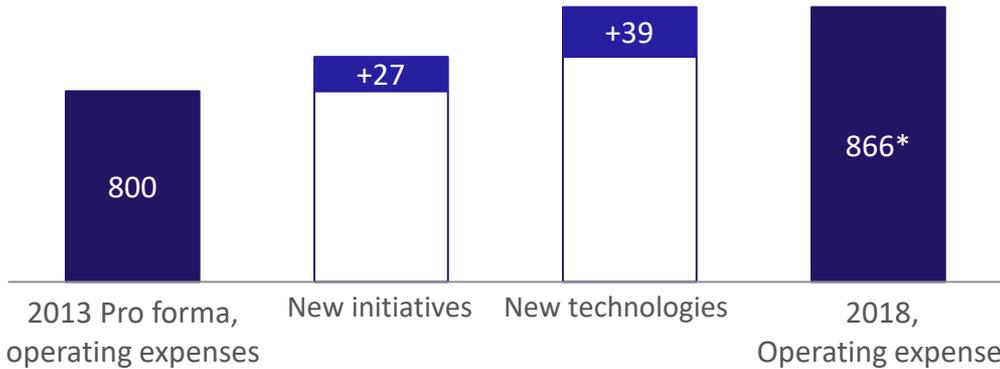
\*Individual commitments

# Structure and cost focus



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

*NOK million*



# SOR – share price and liquidity

## Change in share price at 31.03.2019

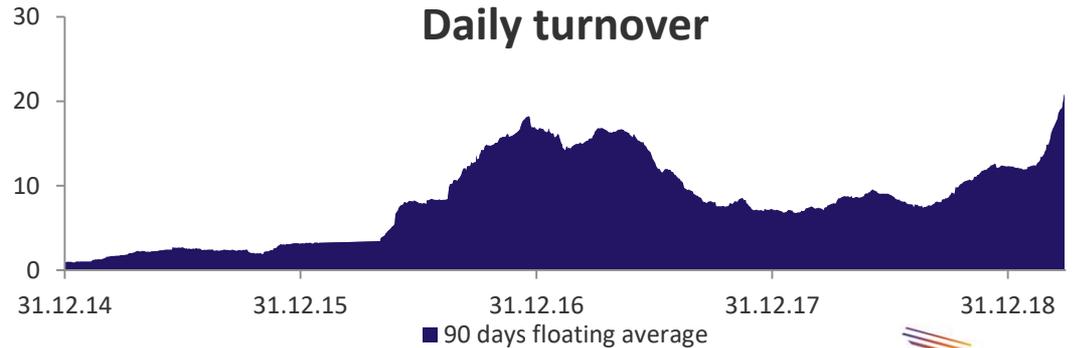
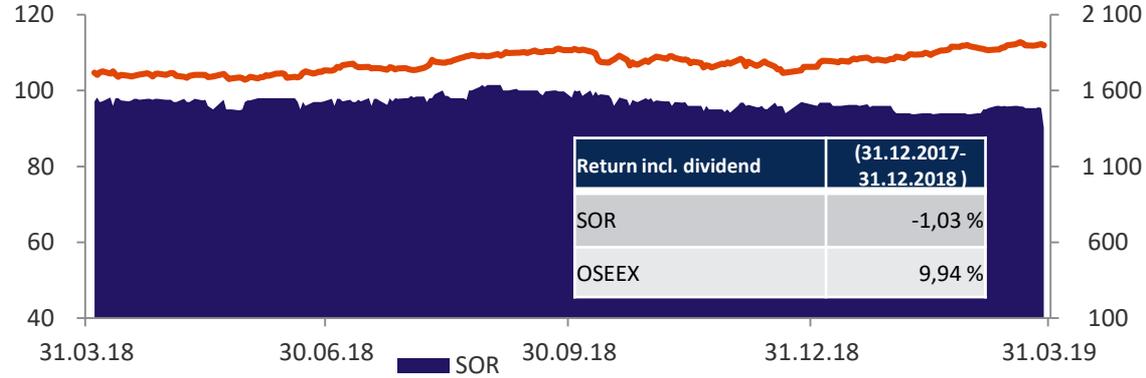
- The share price for SOR was NOK 90.2 and book value was NOK 119.4, amounting to a price-to-book ratio of 0.8.
- The equity certificates gave a return of -1.03%
- Profit per equity certificates of NOK 2.4, which represents a P/E of 9.4

## Liquidity

- Turnover of 1.5 mill. equity certificates last 12 months.
- 15 663 944 total issued, and an EQ rate of 17.2%

## Utbytte

- 50 percent of equity certificate holders` share of annual profits
- Sparebanken Sør`s capital requirements will be taken into consideration when determining the annual dividend.
- Dividends for 2019 NOK 6,00 for each equity certificate, equivalent to a direct return of 6.7 percent (31.03.2019 share price).
- A dividend of NOK 6.00 was distributed in 2018, the same as in 2017.
- The equity certificate yielded a direct return of 5.8 percent in 2018 (6.2 percent in 2017).

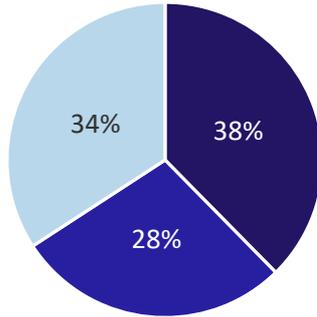


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# Sparebanken Sør Boligkreditt

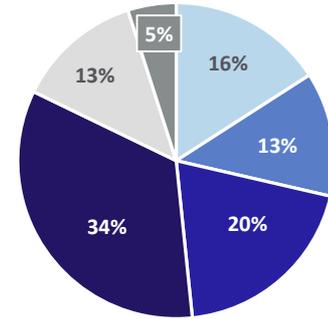
– Wholly owned by Sparebanken Sør

Sparebanken Sør Loan portfolio



■ Sparebanken Sør Boligkreditt AS ■ RM bank ■ BM

Sparebanken Sør Boligkreditt LTV distribution



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

Stress test of collateral



Status Q1 19

Decrease in housing prices by 30%

■ Weighted average LTV ■ Nominal OC

# Sustainable development goals will govern the priorities



- Certified for equality and diversity
- Management document for sustainable credit processes
- Launch of green mortgage loan
- In the long term, green bonds

# Equity certificate owners

20 largest equity certificate owners as of 31 March 2019

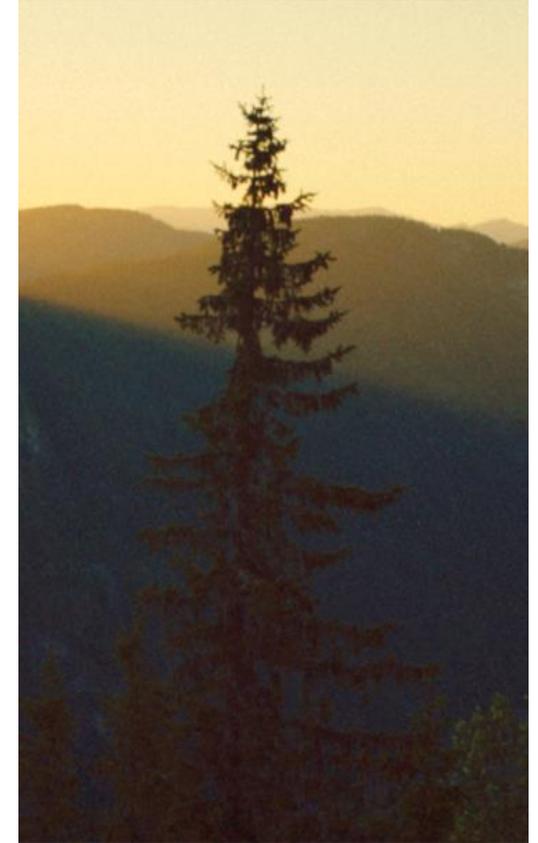
	Name	Number of ECs	Share of ECs %		Name	Number of Ecs	Share of Ecs %
1	Sparebankstiftelsen Sparebanken Sør	7 988 679	51,00	11	Holta Invest AS	131.602	0,84
2	EIKA utbytte VPF c/o Eika kapitalforv.	462.214	2,95	12	Catilina Invest AS	114.558	0,73
3	Arendal Kom. pensjonskasse	450.000	2,87	13	Svenska Handelsbanken AB	100.000	0,64
4	Pareto AS	417.309	2,66	14	Ottersland AS	100.000	0,64
5	Glastad Invest AS	368.765	2,35	15	MP Pensjon PK	85.523	0,55
6	Bergen Kom. Pensjonskasse	368.455	2,35	16	Artel AS	82.131	0,52
7	Otterlei Group AS	271.700	1,73	17	Profond AS	77.115	0,49
8	Wenaasgruppen AS	186.000	1,19	18	Apriori Holding AS	72.575	0,46
9	Gumpen Bileiendom AS	174.209	1,11	19	Varodd AS	70.520	0,45
10	Allumgården AS	151.092	0,96	20	Birkenes Sparebank	66.000	0,42
	<b>Total 10 largest owners</b>	<b>10 838 423</b>	<b>69,19</b>		<b>Total 20 largest owners</b>	<b>11.738 447</b>	<b>74,94</b>

- As of 31 March 2019, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC as at Q1 2019 amounted to NOK 2.4
- The ownership ratio at the end of Q1 2019 was 17.2 percent

# Dividend policy

50 percent of equity certificate holders' share of annual profits

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



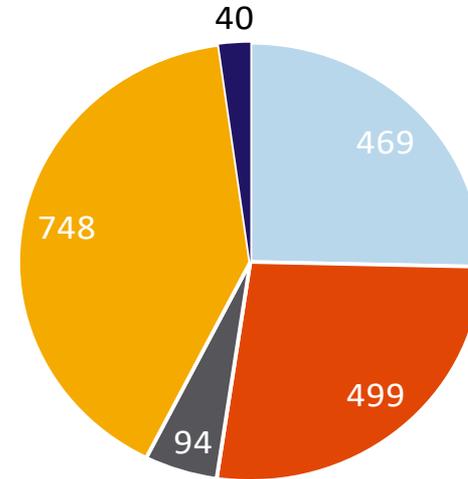
# NOK 1,85 billion value creation in 2018

Sigve Knutson

VINNER AV SPAREBANKEN SØR KUNSTNERPRIS 2018:

Sigve Knutson (1993), fra Lillesand, var på topp av en utvalg eller 100 som opppepperet for å vinne på et internasjonalt og nasjonalt nivå. Hans skulptur 'Sølvfinner' er gjorte i et materiale som er svært vanskelig å bearbejde, og som er en blanding av aluminium og stål. Han har også laget en rekke andre skulpturer og er nå på vei til å bli en av de mest kjente kunstnerne i Norge.

Prisen er utdelt ved utstilling og konsert i Oslo og vil utdeles til en kunstner i 2019. De tre første på lista ble utvalgt av juryen og de tre beste ble utvalgt av juryen og de tre beste ble utvalgt av juryen.



- Taxes and employer fee
- Wages/pension and other benefits
- Dividend Equity certificate owners
- Growth capital, withheld dividend
- Gifts



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