



# Sparebanken Sør

Investor presentation Q3 2022

# Agenda

- Sparebanken Sør
- Customer satisfaction and loyalty increases
- Highlights from the quarterly report
- Funding status/financing status
- Capital
- Equity and dividend policy
- Goals and future expectations



# Sparebanken Sør

– a leading financial institution in Southern Norway



Established in 1824,  
589 employees



184 000 retail  
customers



Financial Group with  
banking, securities and  
real estate brokerage



22 000 corporate  
customers



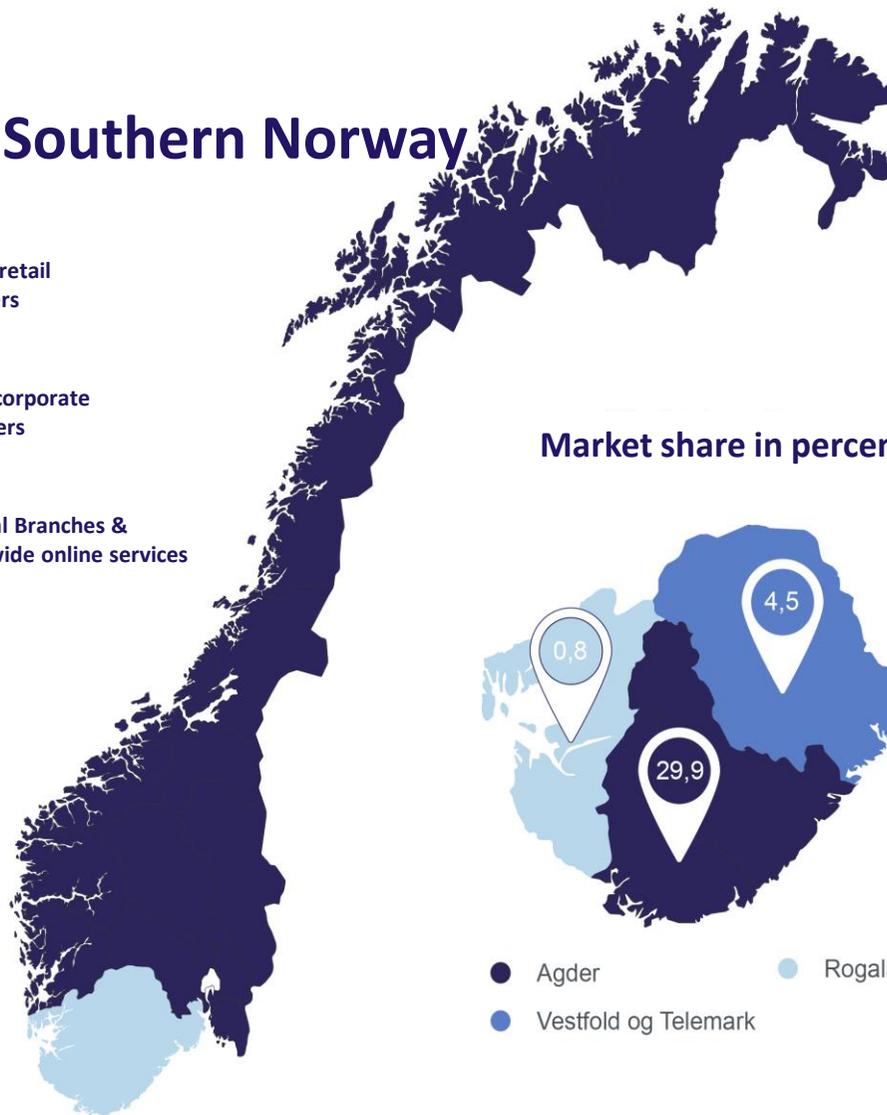
Publicly traded and  
Community-owned



Regional Branches &  
nationwide online services



- Total assets of NOK 151 bn
- Profit after tax amounted to NOK 267 million in Q3 2022
- Cost/income ratio of 41.6 percent.

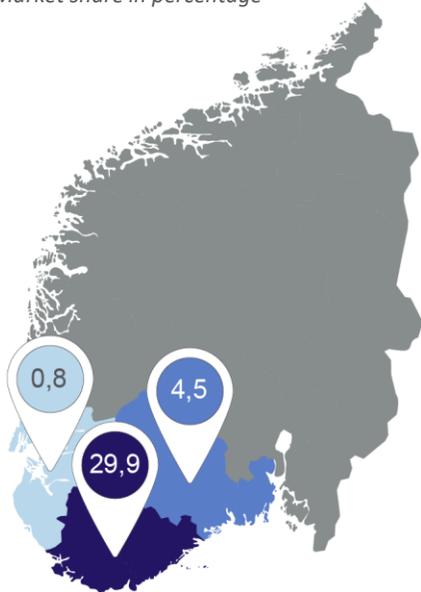


\* Market share retail customers, in percent. (Source: Eiendomverdi AS, Markedsandelsrapporter)

# Strong position in the housing market

## Maintaining a strong market position

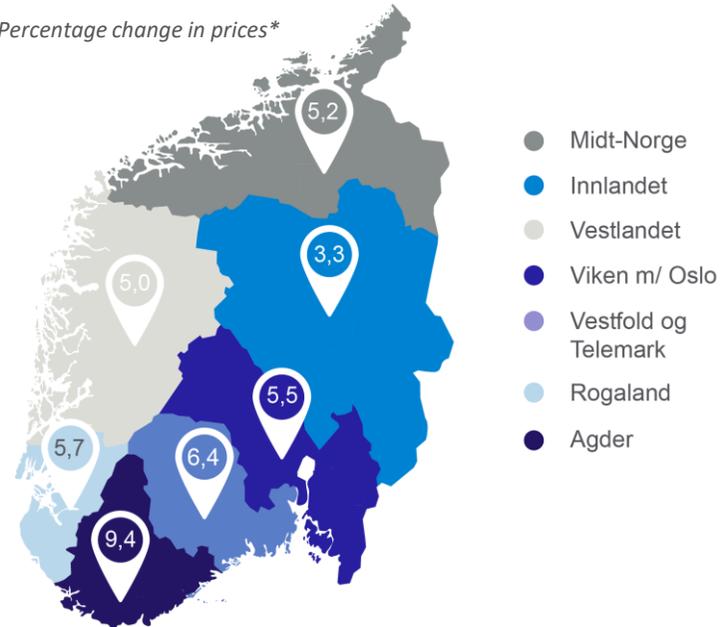
Market share in percentage



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

## Positive development in housing prices

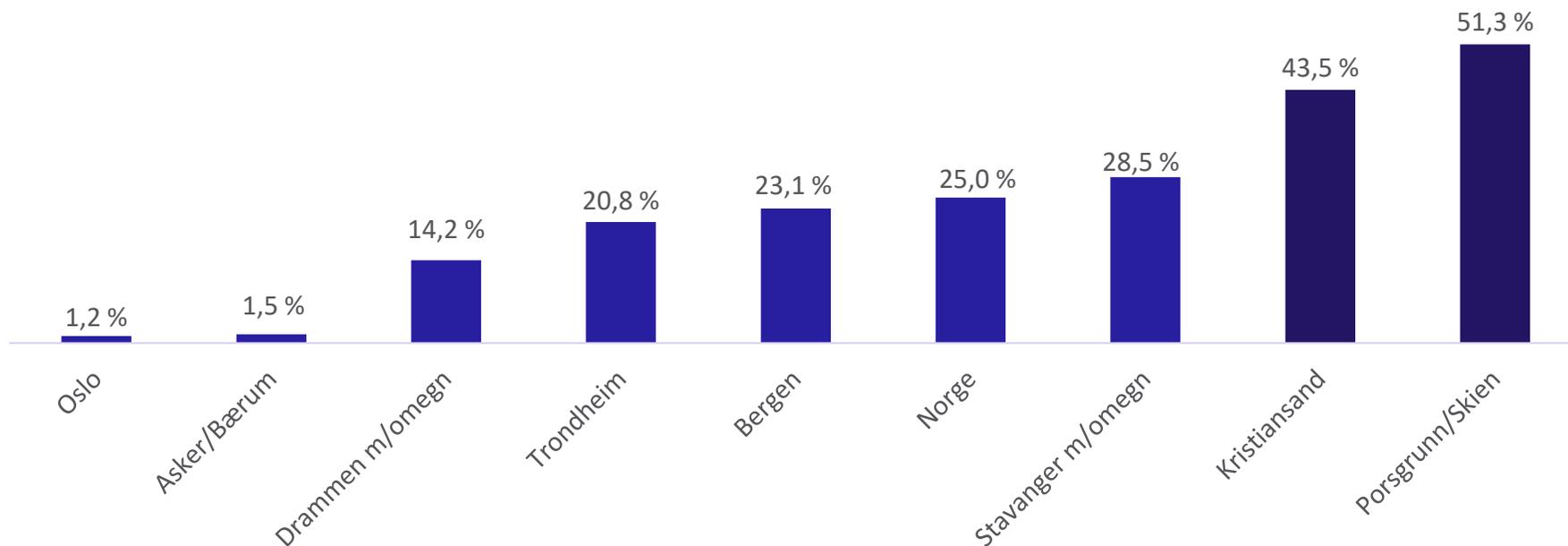
Percentage change in prices\*



\*3 month moving average of 12-month change

# “The nurse index”

30.06.2022



Source: <https://eiendomnorge.no/aktuelt/blogg/sykepleierindeksen-h1-2022>

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



**SPAREBANKEN SØR**

# Continued strong development in the labour market

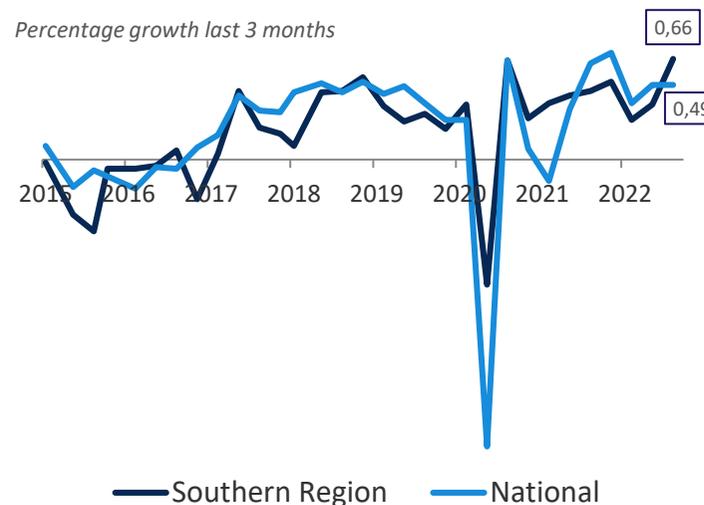
## Unemployment

Unemployment percentage  
as of 30.09.2022



## Employment growth

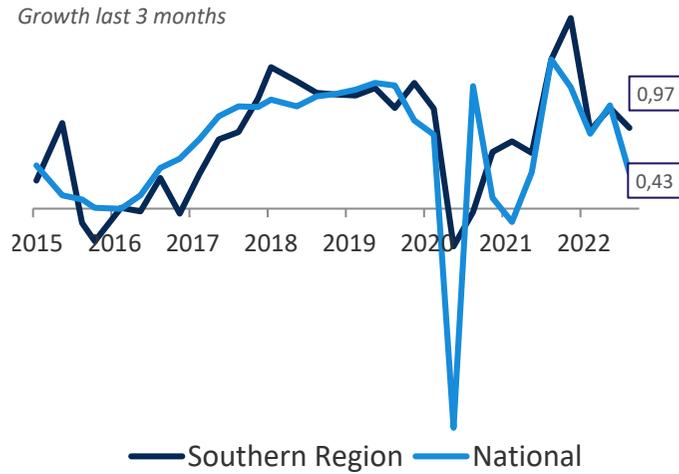
Percentage growth last 3 months



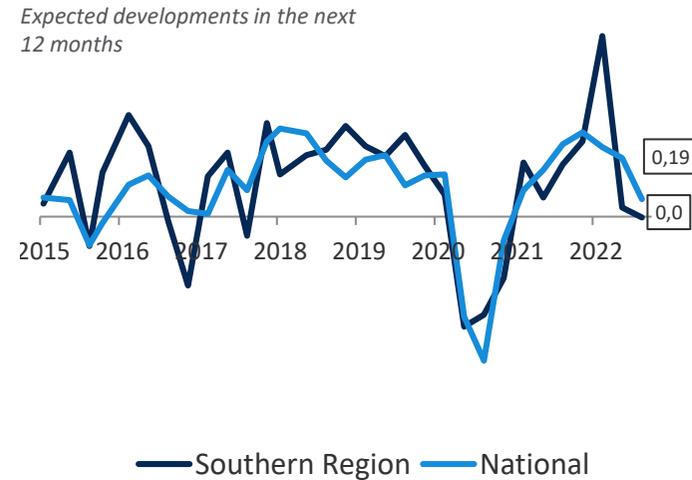
The index ranges from -5 to +5, where -5 indicates a large fall and +5 indicates strong growth. The index are compiled quarterly by Norges Bank through a regional network and show the development in the Southern region, which consists of Agder, Vestfold and Telemark.

# High growth in production in the region, however unexpected fall in investments

## Growth in production



## Growth in investments



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 Agder, Vestfold and Telemark.

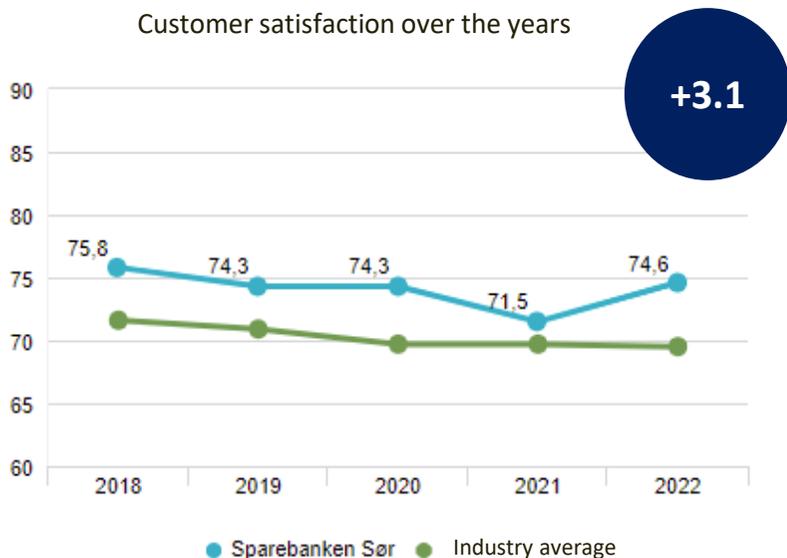


# Customer satisfaction and loyalty increase



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# Significant progress in customer satisfaction in the retail market

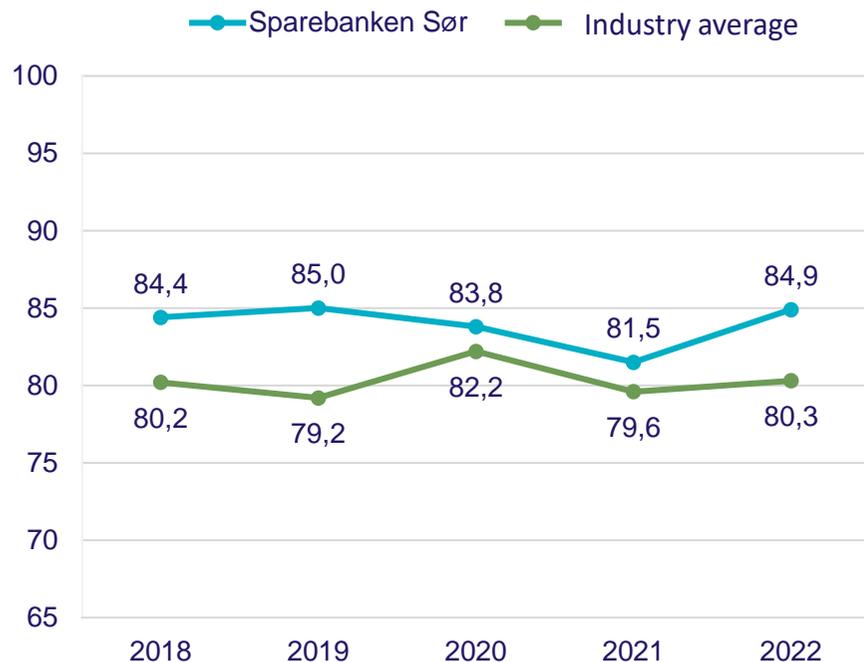


*"SR-Bank, Sparebanken Sør and Nordea can show good progress from last year. The common denominator for these is that they are more proactive, better in customer follow-up, and better in customer communication."*

# Customers recognise the “phygital” relationship banking

RM

Overall, how satisfied are you with your customer advisor?



Has the customer advisor taken initiative to contact you by themselves?

**+12.0**  
from 2021

Takes initiative and presents relevant advices and recommendations

**+5,8**  
from 2021

To what extent do you feel that Sparebanken Sør offers the services and solutions you need?

**+3.0**  
from 2021

# Constantly new functions and improvements in digital customer interfaces



**Chat in mobile and online banking** makes it easier for customers to get answers to their questions, and communication with the bank.



**Norne-sparing** has introduced a new service, which makes it easier for Norne-sparing customers to increase their existing agreement themselves or make one-time purchases.



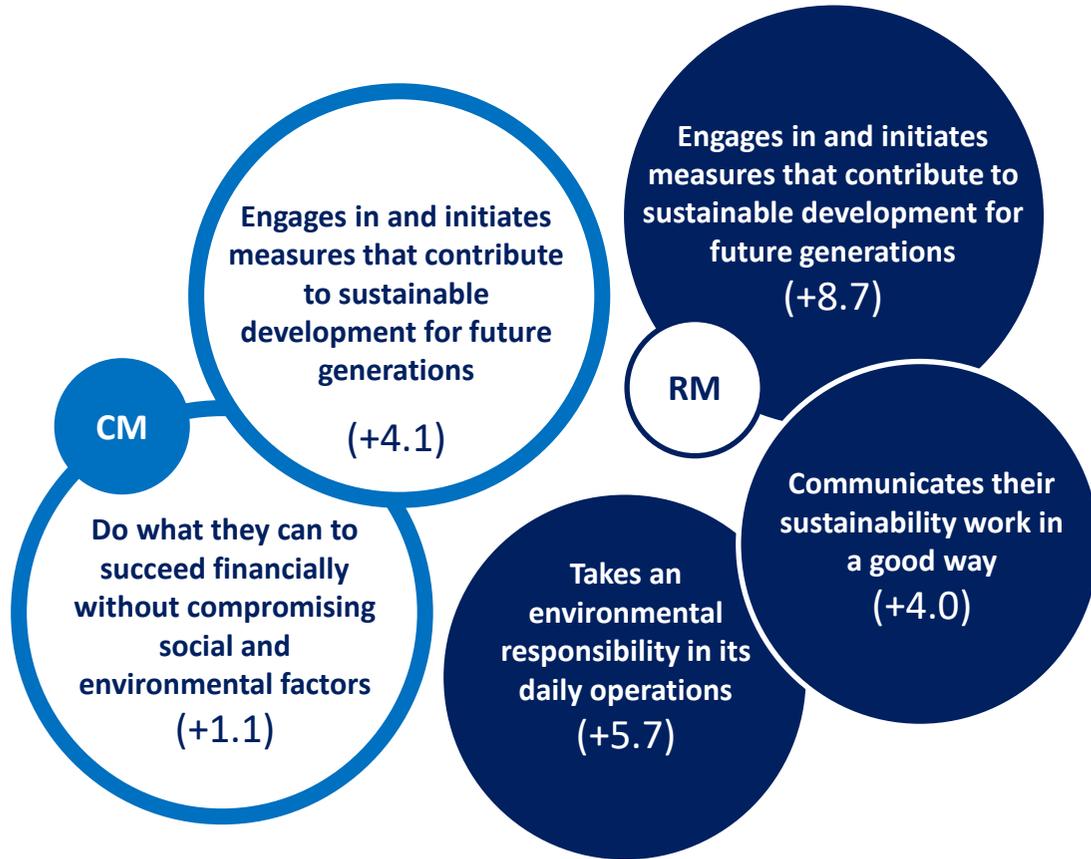
**Mobile banking for companies** was launched in 2022, it is constantly getting new functions and there is a sharp increase in usage with each passing month.



**Mobile banking young** allows children and young people to get an age appropriate version of the mobile bank and associated relevant communication.

Also we have **new main menu in mobile banking** and **mobile banking as an electronic ID** to log in to online banking if the BankID is unstable.

# Customers are noticing that we work with sustainability



# Highlights from the quarterly report



SPAREBANKEN SØR

# Strong development in net interest income 3. quarter

- Positive development in commission income
- Good lending growth in the quarter of 4.6 percent (annualised)
- Good profit contributions from affiliated companies
- Negative net financial income as a result of market turmoil, but positive contribution from basis swaps under expanded profit
- Increased model-based loss provisions
- Return on equity after tax of 7.1 per cent
- Result per equity certificate of NOK 2.5
- Common equity tier 1 (CET1) ratio of 17.5 percent
- Leverage Ratio of 9.2 percent

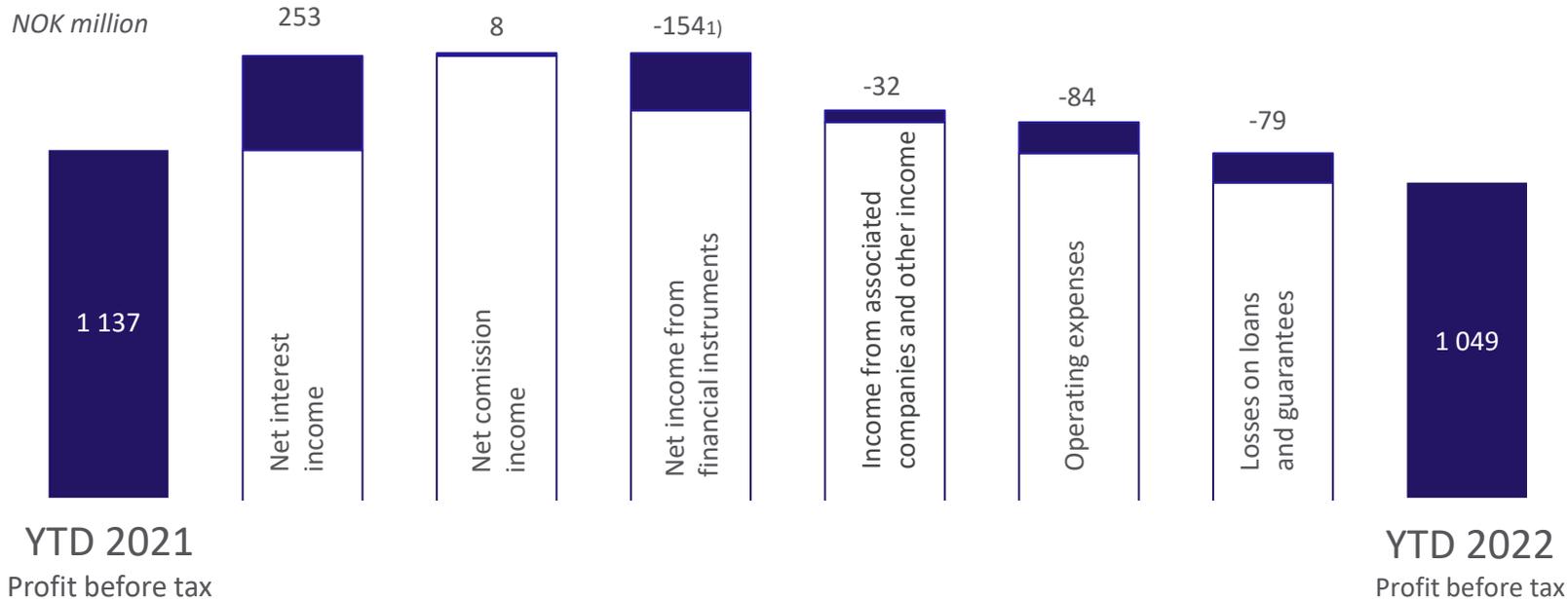
NOK million	2022 Q3	2021 Q3	Change
Net interest income	609	493	116
Net commission income	107	98	9
Net income from financial instruments	-69	29	-98
Associated companies	28	34	-6
Other operating income	1	4	-3
<b>Total income</b>	<b>677</b>	<b>658</b>	<b>19</b>
Total expenses	282	249	33
<b>Profit before losses on loans</b>	<b>395</b>	<b>409</b>	<b>-14</b>
Losses on loans, guarantees	51	2	49
<b>Profit before tax</b>	<b>344</b>	<b>407</b>	<b>-63</b>
Tax expenses	77	91	-14
<b>Profit for the period</b>	<b>267</b>	<b>315</b>	<b>-48</b>
Total OCI	95	18	77
<b>Comprehensive income for the period</b>	<b>362</b>	<b>334</b>	<b>28</b>

# Strong growth in net interest income until YTD

- Positive development in commission income
- Negative net financial income as a result of market turmoil, but positive contribution from basis swaps under expanded profit
- Cost increase of NOK 44 million related to strategic initiatives
- Equity return after tax of 7.4 per cent
- Result per equity certificate of NOK 7.4
- 12-month lending growth of 5.3 per cent
- 12-month deposit growth of 0.3 per cent
- Ownership increased from 15 to 40 per cent by conversion of basic capital

NOK million	30.09.2022	30.09.2021	Change
Net interest income	1 685	1 432	253
Net commission income	302	294	8
Net income from financial instruments	-128	26	-154
Associated companies	79	108	-29
Other operating income	4	7	-3
<b>Total income</b>	<b>1 942</b>	<b>1 867</b>	<b>75</b>
Total expenses	834	750	84
<b>Profit before losses on loans</b>	<b>1 108</b>	<b>1 117</b>	<b>-9</b>
Losses on loans, guarantees	59	-20	79
<b>Profit before tax</b>	<b>1 049</b>	<b>1 137</b>	<b>-88</b>
Tax expenses	234	240	-6
<b>Profit for the period</b>	<b>815</b>	<b>898</b>	<b>-83</b>
Total OCI	191	-41	232
<b>Comprehensive income for the period</b>	<b>1 007</b>	<b>874</b>	<b>133</b>

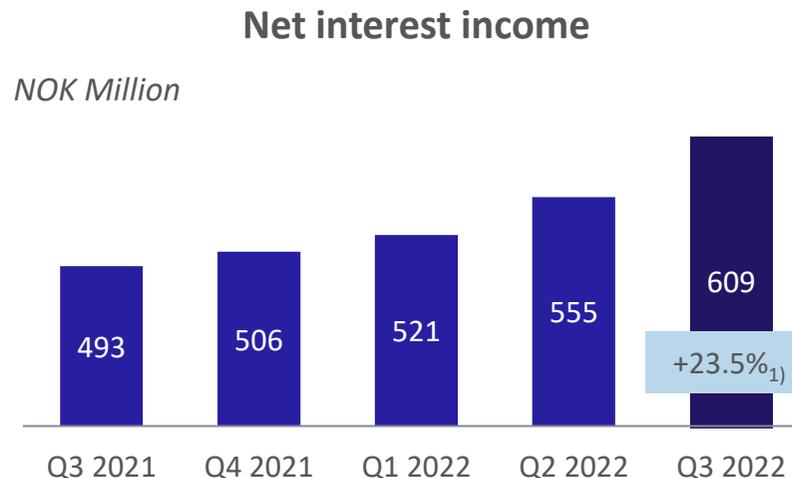
# Decomposition of changes in profit before tax



1) Positive results from basis swaps of NOK 255 mill. before tax are presented as other comprehensive income

# Exceptionally positive development in net interest income

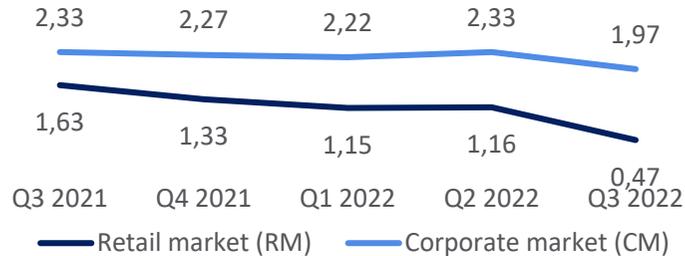
- Good deposit and lending growth
- Increased interest margins for private and corporate markets
- Announced interest rate changes in August and September will increase net interest income further in the next quarters (up to NOK 200 million in expected annual effect)



1) Changes from the corresponding period last year.

# Increased NIBOR results in an increased deposit margins and reduced lending margins

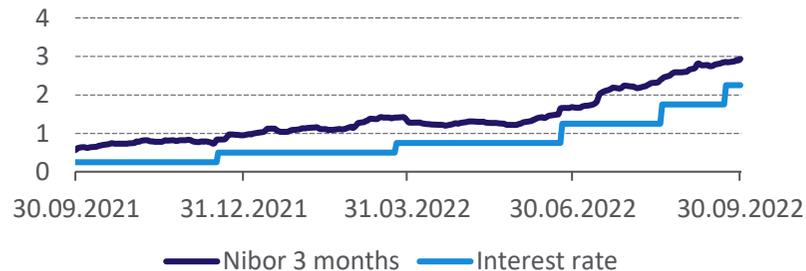
### Loan margins (%)



### Deposit margins (%)



### NIBOR 3M development

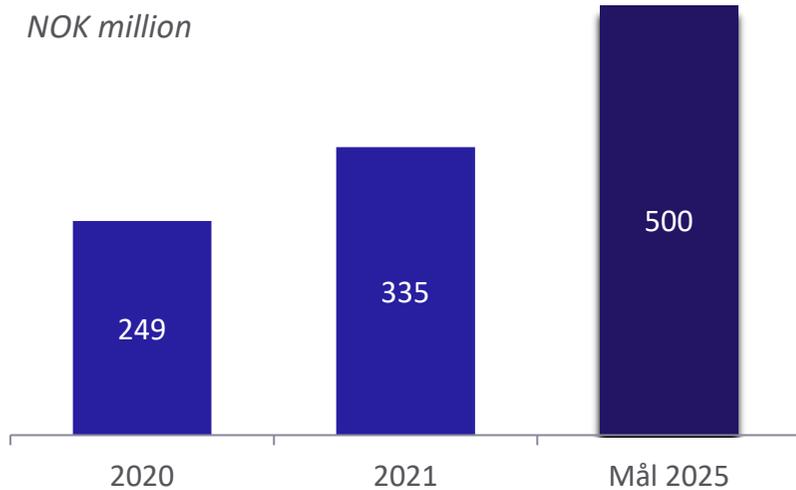


### Interest margin<sub>1</sub>) (%)



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

# Ambitions for increased other income



Defined other income	30.09. 2022	30.09. 2021	Endring	Mål 2025
Insurance	38	25	13	65
Credit intermediation	5	4	1	20
Securities business 1)	54	48	6	100
Income from wholly and partly owned companies 2)	91	138	-47	315
<b>Total</b>	<b>187</b>	<b>216</b>	<b>-29</b>	<b>500</b>

1) Net commission income from securities trading and Sør Markets

2) Increased investments will contribute approx. NOK 100 million

# Positive profit contributions from associated companies

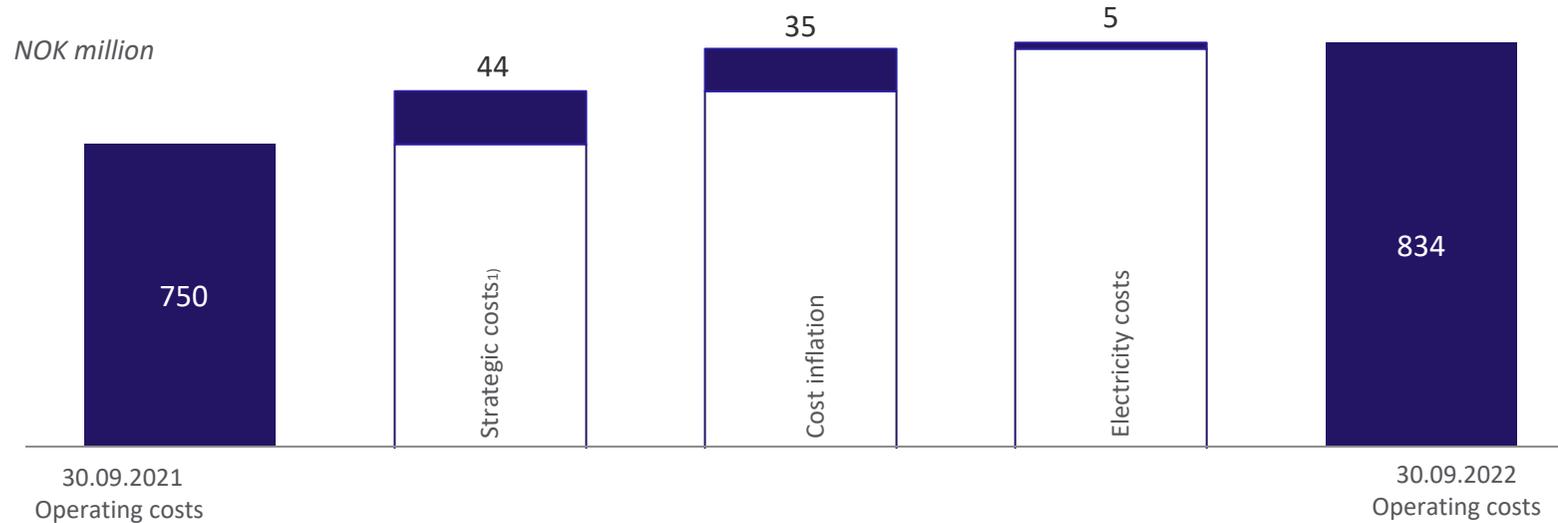


- Strong ROE from Brage with 12.0 percent for YTD (12.2 percent for the quarter).
- The share of profits from Frende so far this year is characterized by very good technical profit, which helped offset negative financial results due to market turmoil.

## Effect on results after consolidation

Millioner NOK		Q3 2022	Q3 2021	30.09.2022	30.09.2021
Frende forsikring* (19.9 %)	Share of profit	19.4	26.5	30.2	77.4
	Amort.	-5.5	-5.4	-16.3	-16.2
	Sale			24.9	0
Brage Finans (20.8 %)	Share of profit	14.1	12.4	39.7	35.7
Balder Betaling (26.7 %)	Share of profit	0.2	0	0.2	11.1
<b>SUM</b>		<b>28.3</b>	<b>33.5</b>	<b>78.8</b>	<b>108.0</b>

# Cost development



- 1) Strategic costs are linked to the bank's strong improvement in analysis, risk management (IRB) and a new data platform (NOK 15 million), compliance (NOK 7 million), strengthened the sales force in insurance (NOK 15 million), as well as other strategic projects (NOK 9 million)

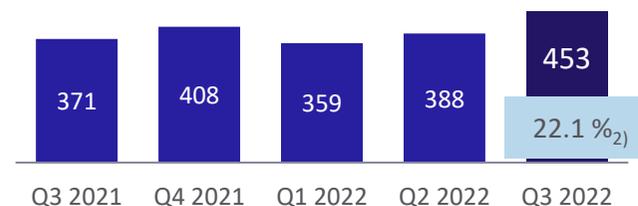
# Profit and returns

NOK millions

## Operating expenses



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



## Return on equity

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



## Cost to income ratio

Cost to income ratio for banking operations



- 1) Net interest income + Net commission income + Other operating income – Operating expenses +/- One-off items
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments and one-off items and incl. interest on hybrid capital

# Good lending growth

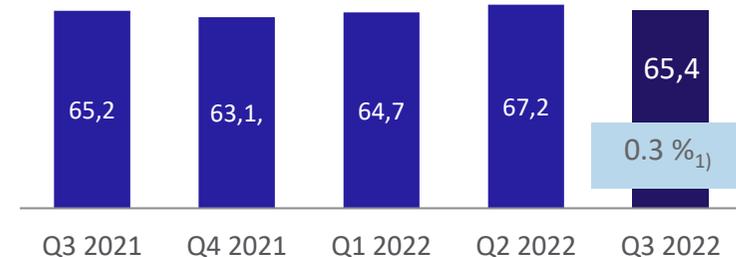
NOK billions

## Net loans



- **12 month growth of 5.3 %**
  - 12 month growth in gross loans of 4.4 % for retail customers and 6.8 % for corporate customers
- **Annualised quarterly growth of 4.6 %**
  - 3.0 % for retail customers and 7.5 % for corporate customers

## Deposits

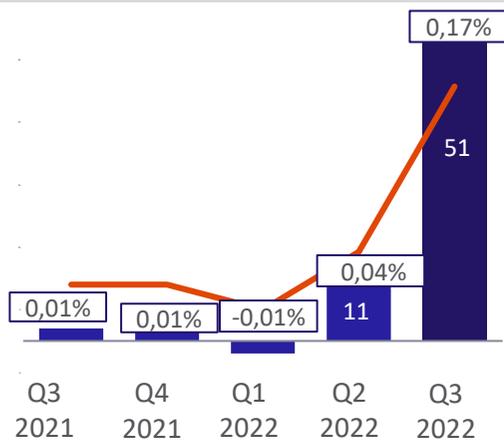


- **12 month growth of 0.3 %**
  - 12 month growth and loss in deposits for retail customers of 2.6 % and corporate customers of -2.2 % respectively
- **Deposits as share of net loans of 53.3 %, down from 55.9 % at the same time last year**

1) Changes from the corresponding period last year.

# Increased model-based provisions and continued low level of non performing loans

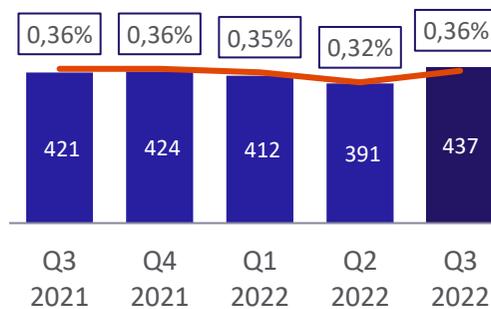
Development in losses in NOK million and as a percentage of gross loans (annualised)



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

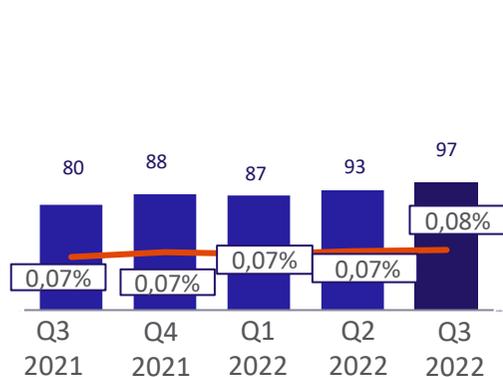


Development in loss provisions in NOK million and as a percentage of gross loans

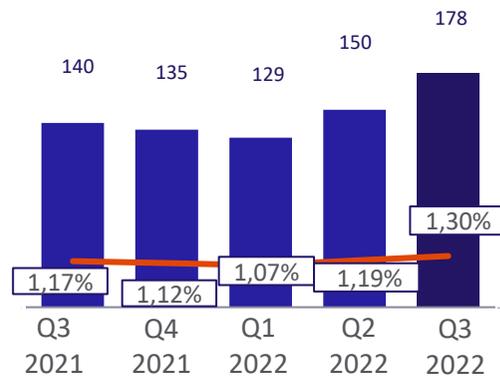


# Increased model-based provisions in a demanding macro environment

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

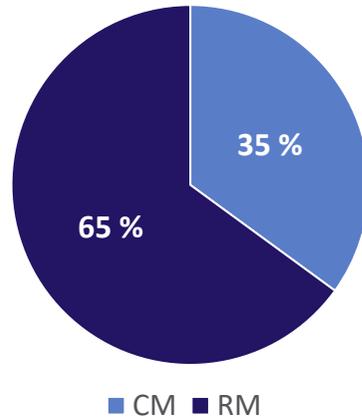


Provisions increase in all stages as a result of the macro picture

# Diversified loan portfolio with low risk

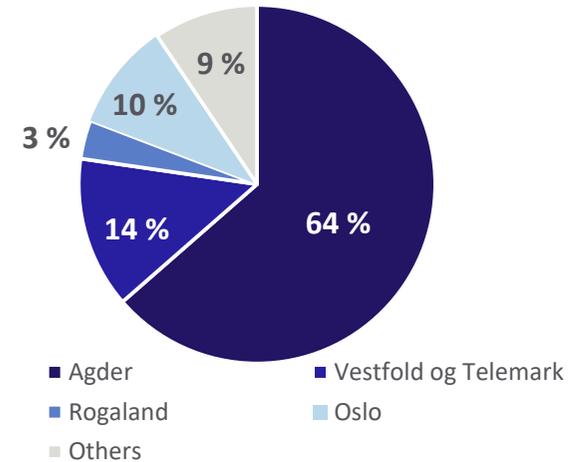
## CM/RM distribution

Gross loans



## Geographical distribution

Gross loans

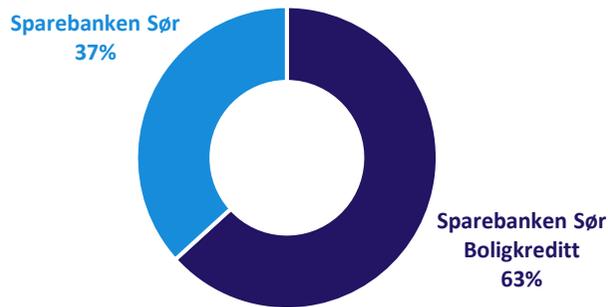


# Retail loan book – 98% mortgages and low LTVs

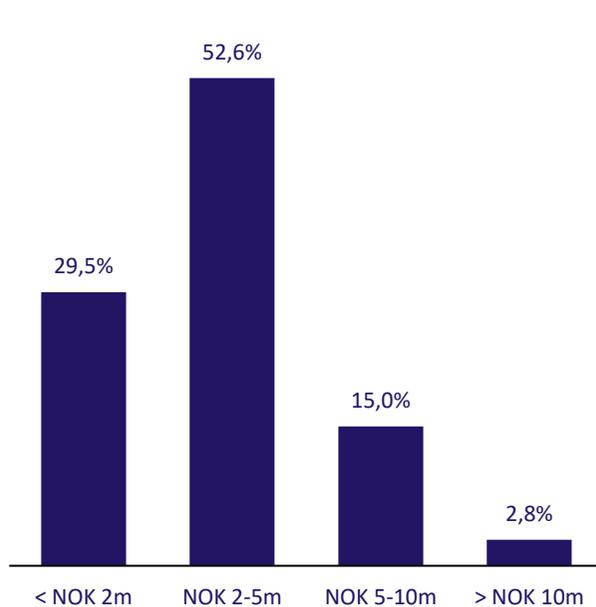
## Share of mortgages



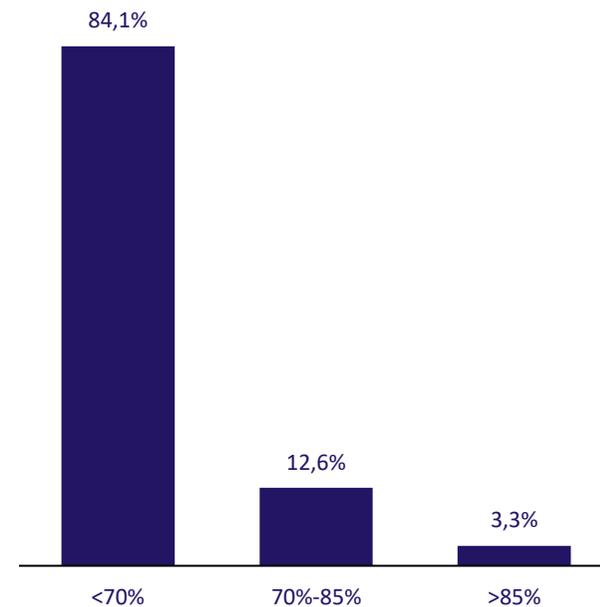
## On balance vs. cov. bond transfers



## Retail lending by size

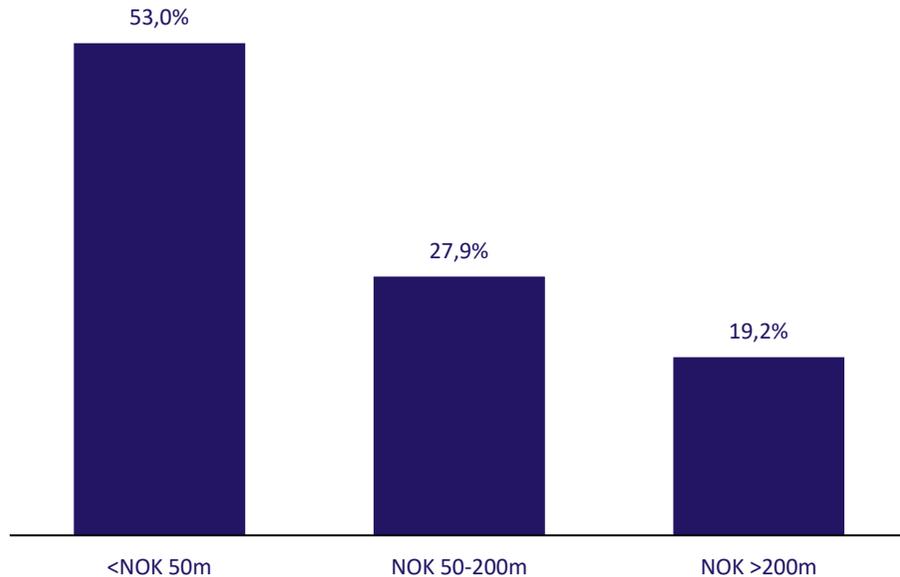


## Retail lending by LTV

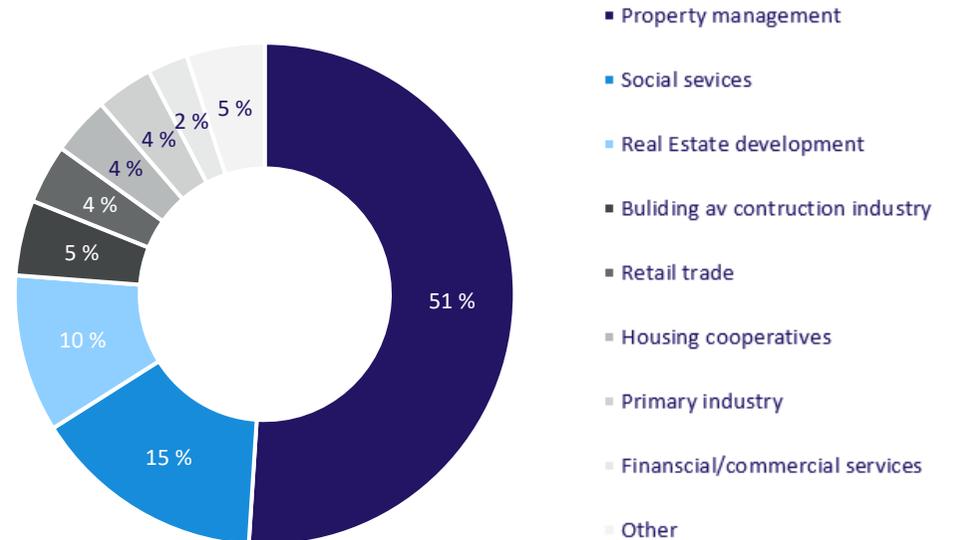


# Corporate loan book – 51% property management and 54% < NOK 50m

## Corporate lending by size

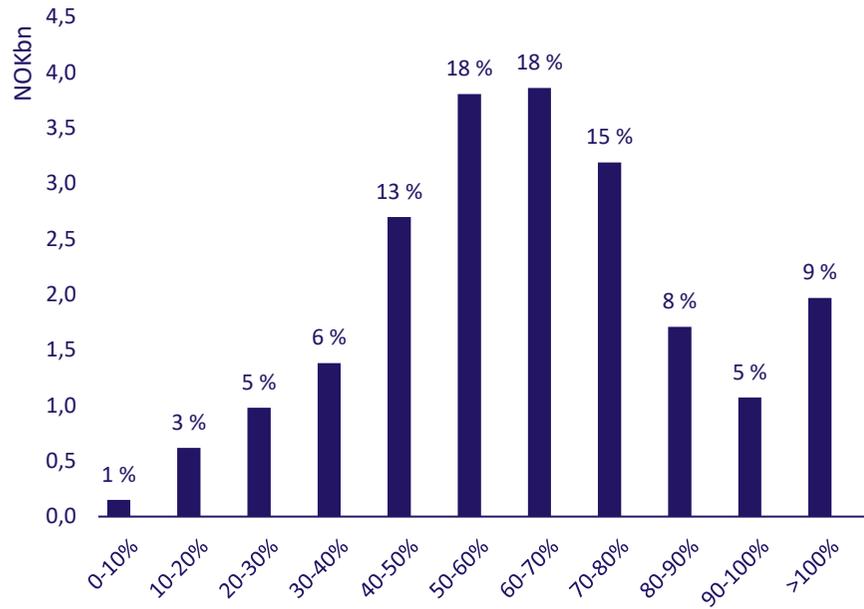


## Sector distribution

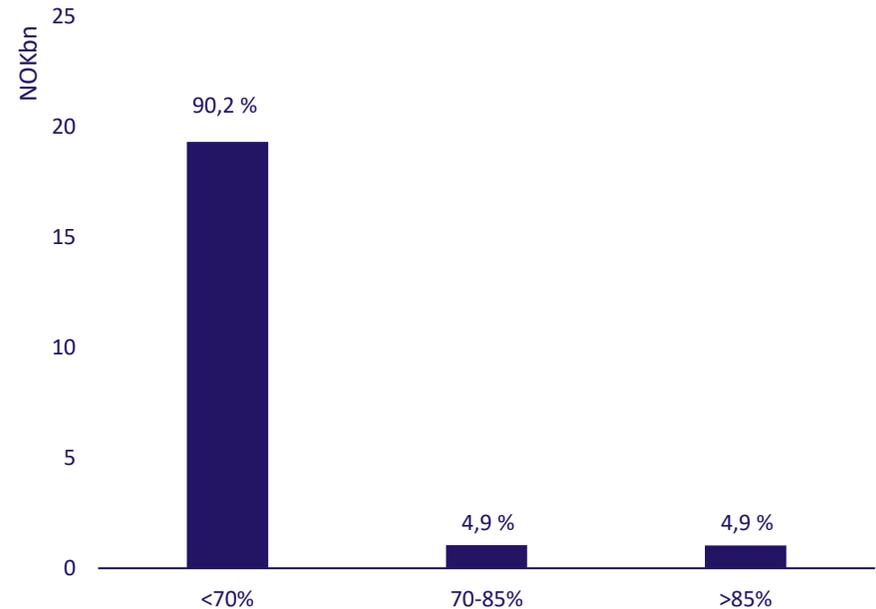


# Solid asset backing in commercial real estate portfolio (property management)\*

## LTV distribution – whole-loan approach



## LTV distribution – loan-splitting approach\*\*



\* 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

# Summary Q3 2022

## Results

Positive development in net interest income and good lending growth. Negative financial returns as a result of market turmoil, and increased model-based loss provisions as a result of the worsening macro picture.

## Financing/funding & capital

Common equity tier 1 capital ratio of 17.4 percent and solid leverage ratio of 9.0 percent.  
Solid financing structure and good liquidity buffers.

## Growth

12-months growth in lending of 5.3 percent.  
12-months growth in deposits of 0.3 percent

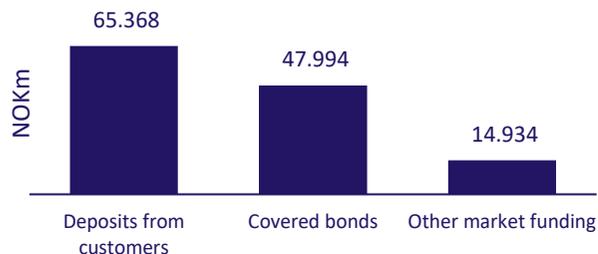
## Summary

Profit before tax of NOK 344 million gives a return on equity of 7.1 percent in Q3 2022.

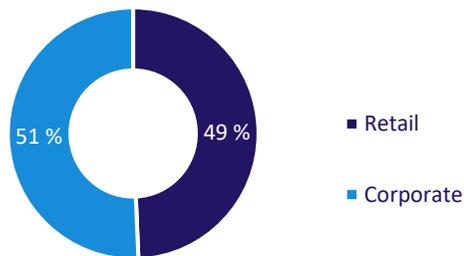
# Financing/funding status

# Diversified funding with long maturity

## Capital market funding split



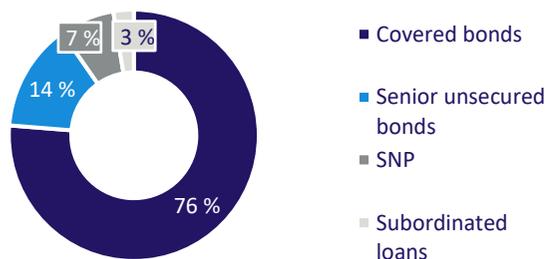
## Deposits from retail and corporate



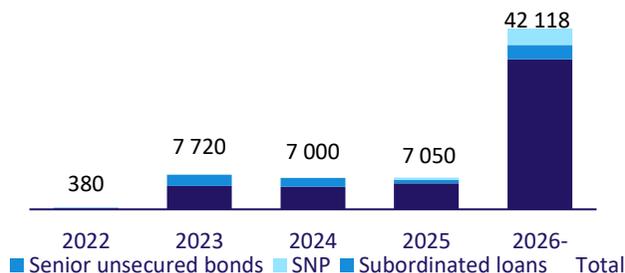
## Main feature

- The most important funding source is deposits and covered bonds (OMF)
- Customer deposits of NOK 65.4 billion – of which 49 percent from private customers
- Market financing of NOK 64.3 billion – ~66 percent maturing in 2026 or later
- In Q3, Sparebanken Sør issued Tier 1 bonds (AT1) in the amount of NOK 200 million and NOK 1.25 billion in senior debt
- Sparebanken Sør has an A1 rating. The rating outlook for the bank was modified from "stable outlook" to "positive outlook" in September
- Bonds issued by Sparebanken Sør Boligkreditt AS are rated Aaa

## Capital market funding split

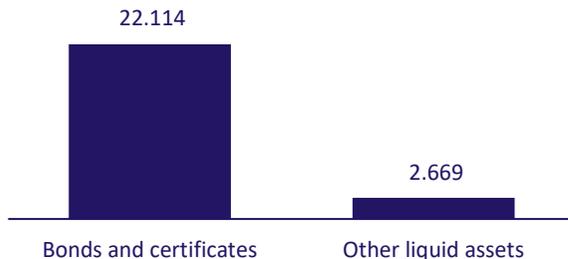


## Capital market maturity profile\*



# Strong liquidity position

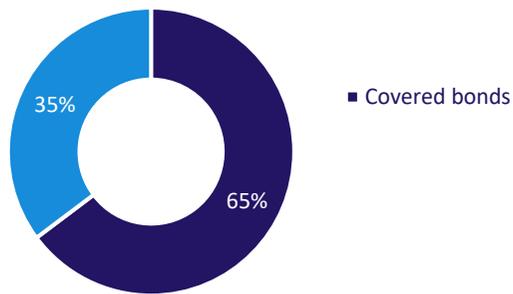
## Sources of liquidity



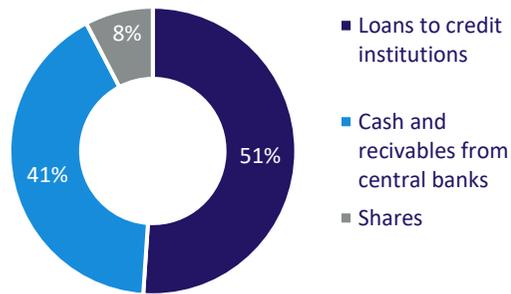
## Main feature

- Bonds and certificates imply the majority of the liquidity portfolio
- Covered bonds (OMF) represent 65% of the portfolio of bonds and certificates
- The liquidity indicator is satisfactory – LCR of 148 percent

## Bonds and certificates split



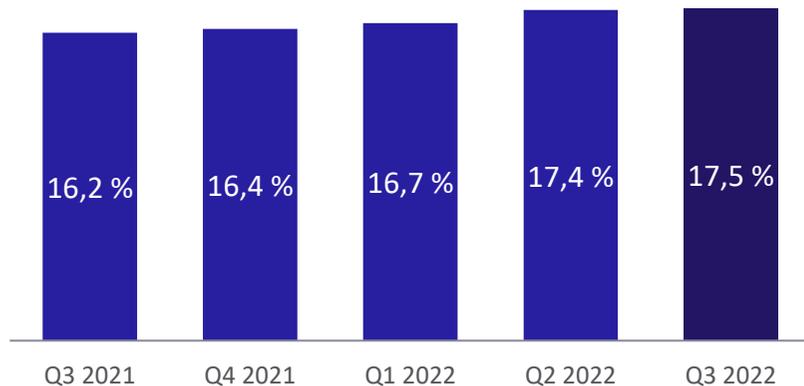
## Other liquid assets split



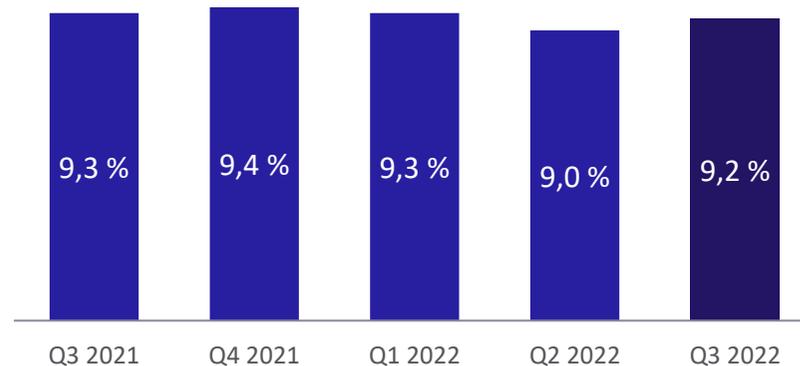
# Capital

# Solid capital

## Common equity tier 1 capital ratio



## Leverage ratio



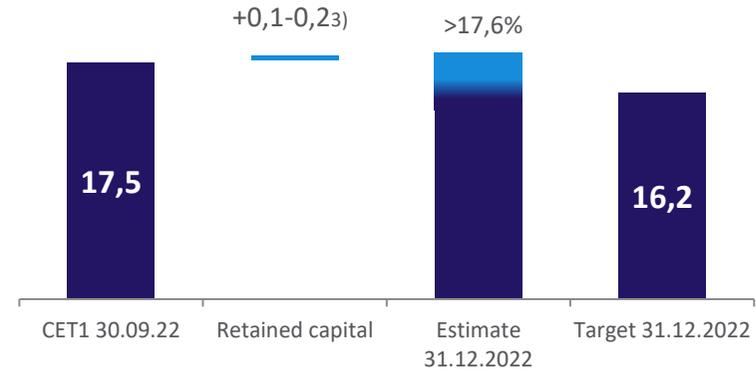
- Well above the current capital requirement (CET1) of 13.2 percent
- Common equity tier 1 (CET1) ratio of 17.5 percent, up from 0.1 percent last quarter. The effect of the banking package amounted to 1.0 percentage points (Q2 2022).

# Well positioned for higher capital requirements

## Capital requirements

	Applicable requirements	Requirements 31.12.2022
Minimum Tier 1 Capital Requirements	4.5 %	4.5 %
Conservation buffer	2.5 %	2.5 %
Systemic Risk Buffer <sup>1)</sup>	3.0 %	4.5 %
Countercyclical Buffer <sup>2)</sup>	1.5 %	2.0 %
Pillar-2 requirements	1.7 %	1.7 %
<b>CET1 requirements</b>	<b>13.2 %</b>	<b>15.2 %</b>
Pillar-2 Guidance	1.0 %	1.0 %
<b>CET1 requirements Incl. P2G</b>	<b>14.2 %</b>	<b>16.2 %</b>

## 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, 2022

2) The Countercyclical Buffer will increase with 0.5 percentage points from 31.12.2022 and 0.5 percentage points in Q1 2023.

3) Capital building based on retained capital

# Capital efficiency – implementation of IRB

The bank plans to submit an application for IRB-F approval by end of 2023, with an expectation of at least 1 year processing from FSA. Significant project deliveries are completed and implemented.



## Next generation tools

- Implemented SAS data warehouse and risk solutions
- Comprehensive database with good data quality
- Good foundation for model development



## Improved credit management

- Implemented new definition of default
- Developed algorithms for LTV and security coverage
- Improved credit framework
- Implemented measures identified through gap analysis



## Building competence and structure

- Increased skill capacity through recruitment
- Further developed internal expertise in data, analysis, regulations and credit management

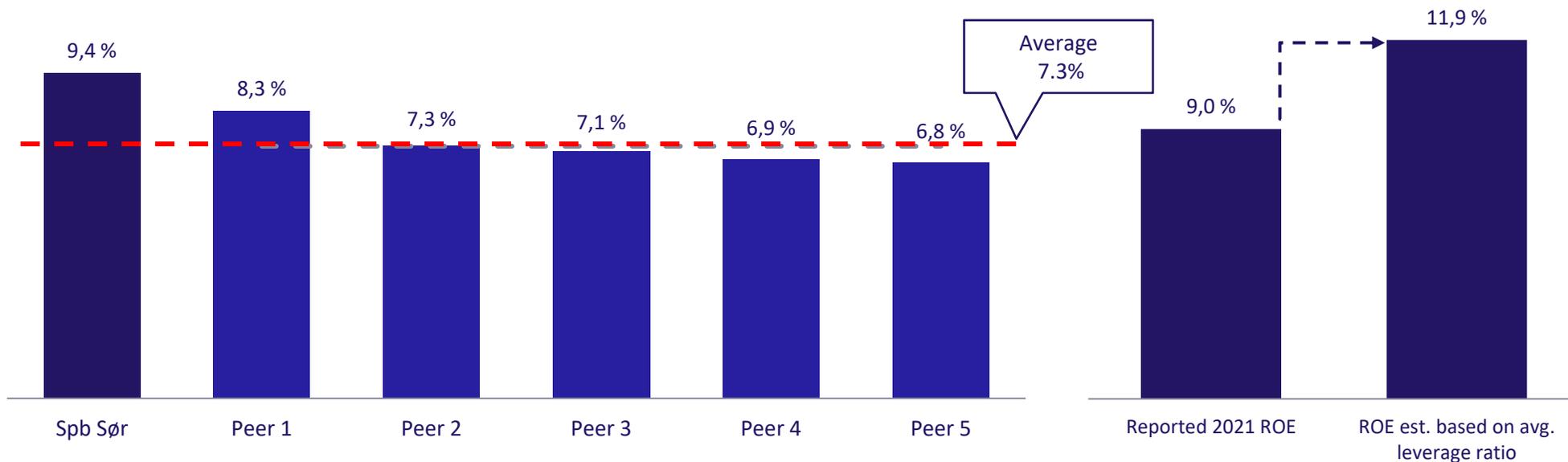
## Implement and apply IRB-F

**New analyzes show positive capital effects of around 3.5 percentage points on CET1**

# ROE will increase by “normalised” leverage ratio

Higher leverage ratio than peers with IRB (31.12.2021)\*

...potential for increased ROE



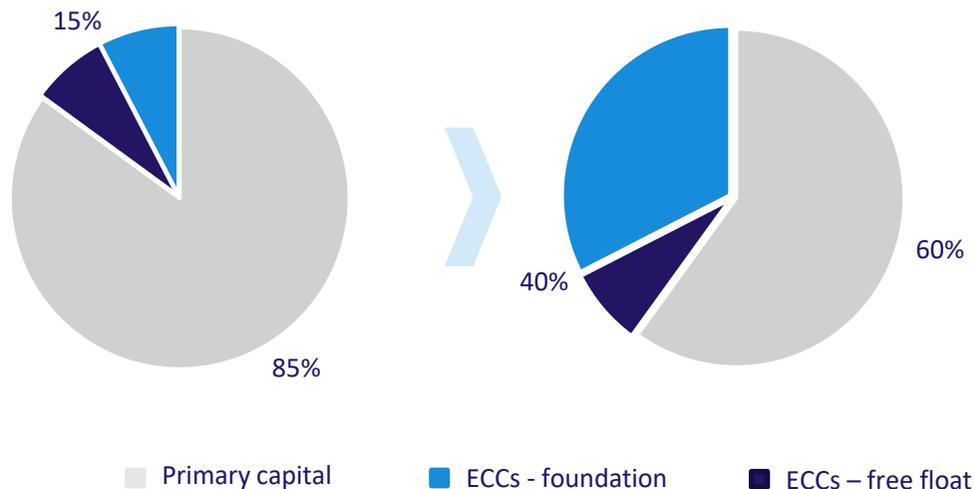
\* Peers consists of SpareBank 1 SR-Bank, SpareBank 1 SMN, SpareBank 1 Østlandet, Sparebanken Vest, SpareBank 1 Nord-Norge. Peers in the graph use IRB Advanced

# Equity

# Conversion of primary capital

- In a meeting on 31 March 2022, the bank's Board of Trustees decided to raise the ownership ratio from 15 to 40 percent by converting upon conversion of the primary capital.
- The Financial Supervisory Authority of Norway approved the conversion on 10 June 2022 and the new equity certificates were registered in Foretaksregisteret (Brønnøysund Business Register) on 14 June 2022.
- A total of 26 039 113 new equity certificates were issued , which has been transferred to Sparebankstiftelsen Sparebanken Sør.
- Following the recent significant turbulence in financial markets the Foundation decided on 19 June 2022 not to carry through the planned secondary sale at this stage. The Foundation will follow the market development closely going forward and make a new assessment when market conditions prove right for a transaction.

## Increased ECCs share of equity



# Goals and future expectations

# Financial ambitions



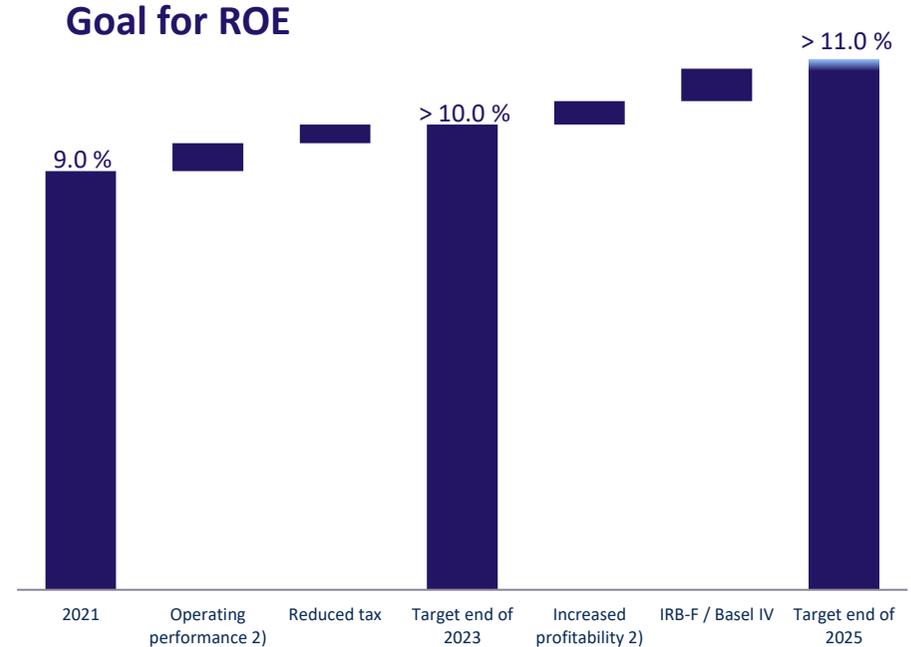
## Overriding target

Return on equity > 11 % by end of 2025

> 16.2%<sub>1)</sub>  
CET1 capital ratio\*

< 40.0%  
Costs in % of revenues

40-50%  
Pay-out ratio



1) Capital target end of 2022

2) Strengthening of non-interest income, profitable growth and better capital allocation, customer dividends positive for net interest margin, customer satisfaction and future growth and improved and more cost-effective distribution



# Positive fremtidsutsikter for Sparebanken Sør

Strong market position in an attractive region and high customer satisfaction

Low risk loan portfolio

High cost efficiency and low complexity

Leader in ESG

Introducing customer dividend

Measures implemented to further increase ROE

More attractive ECC

# Appendix

# Equity certificate owners

20 largest equity certificate owners as of 30.09.2022

	Navn	Antall EKB	Andel EKB %		Navn	Antall EKB	Andel EKB %
1	Sparebankstiftelsen Sparebanken Sør	34.027.792	81.60	11	Sparebanken Sør	132.272	0.32
2	EIKA utbytte VPF c/o Eika kapitalforv.	730.097	1.75	12	Ottersland AS	100.000	0.24
3	Pareto Invest AS	317.309	0.76	13	DNB Luxembourg S.A	100.000	0.24
4	Drangslund Kapital AS	302.107	0.72	14	MP Pensjon PK	85.523	0.21
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	Geir Bergskaug	75.691	0.18
7	Hamjern Invest AS	180.099	0.43	17	Gunnar Hillestad	74.438	0.18
8	Gumpen Bileiendom AS	174.209	0.42	18	Alf Albert	73.325	0.18
9	KLP Gjensidige Forsikring	163.300	0.39	19	Apriori Holding AS	72.575	0.17
10	Allumgården AS	151.092	0.36	20	K.T Brøvig Invest AS	72.000	0.17
	<b>Sum 10 største eiere</b>	<b>36.432.005</b>	<b>87.36</b>		<b>Sum 20 største eiere</b>	<b>37.300.539</b>	<b>89.44</b>

- As of 30. September 2022, 41 703 057 ECs of NOK 50 each had been issued
- Profit (Group) per EC amounted to NOK 2.5 in Q3 2022 and NOK 12.2 per EC in 2021
- The ownership ratio 30.09.2022 was 40.0 percent

# SOR – share price and liquidity

## Change in share price as of 30.09.2022

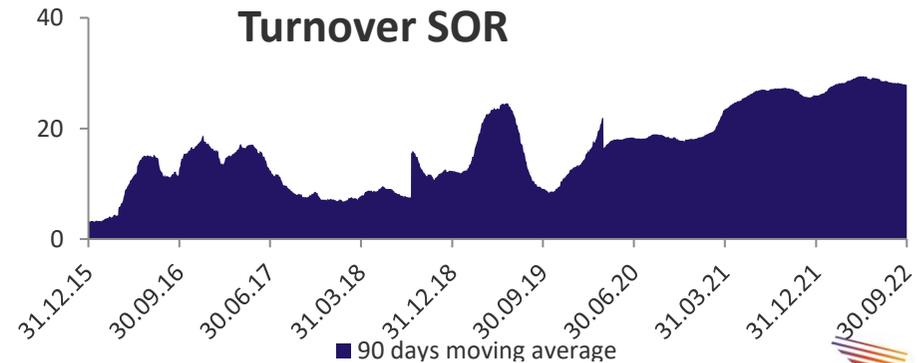
- The share price for SOR was NOK 119 (excl. dividend) and book value was NOK 138.6, amounting to a price-to-book ratio of 0.86
- The equity certificates gave a return of -1.8 % last 12 months
- Profit per equity certificates 30.09.2022 of NOK 7.4, which represents a P/E of 12.1

## Turnover

- Turnover of 1.4 mill. equity certificates last 12 months.
- 41 703 057 total issued, and an EQ rate of 40.0 %.

## Dividend

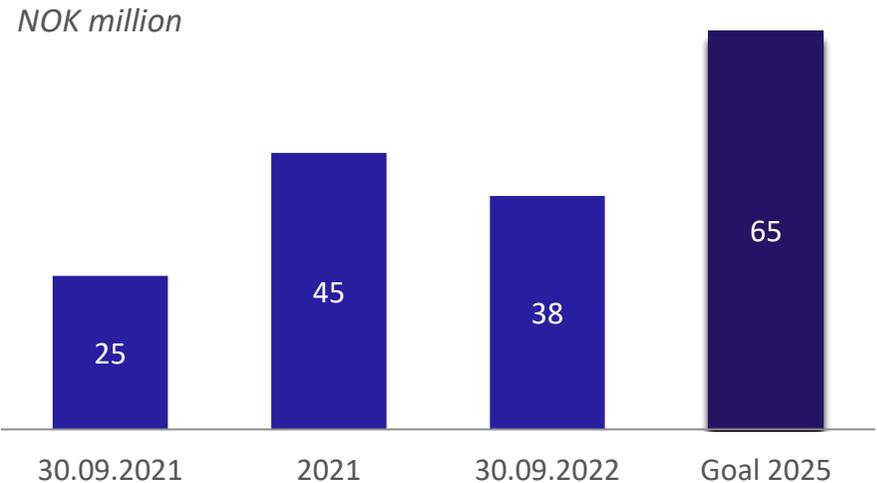
- A dividend of NOK 8 per equity certificate has been distributed for 2021.
- Goal is to have 40 – 50 % of the EK certificate owners' share of the result should be paid out from 2022
- Sparebanken Sør's capital requirements will be taken into consideration when determining the annual dividend



# Strong development and increased investment in insurance

- 1 July, 2021, the bank acquired a 78 percent ownership of Sørlandet Forsikringscenter AS, with an option to purchase the remaining shares
- Through the acquisition, the bank received an insurance portfolio of NOK 110 million
- The bank is strengthening the sales apparatus within insurance
- Goal of doubling income from insurance in the period 2020-2025

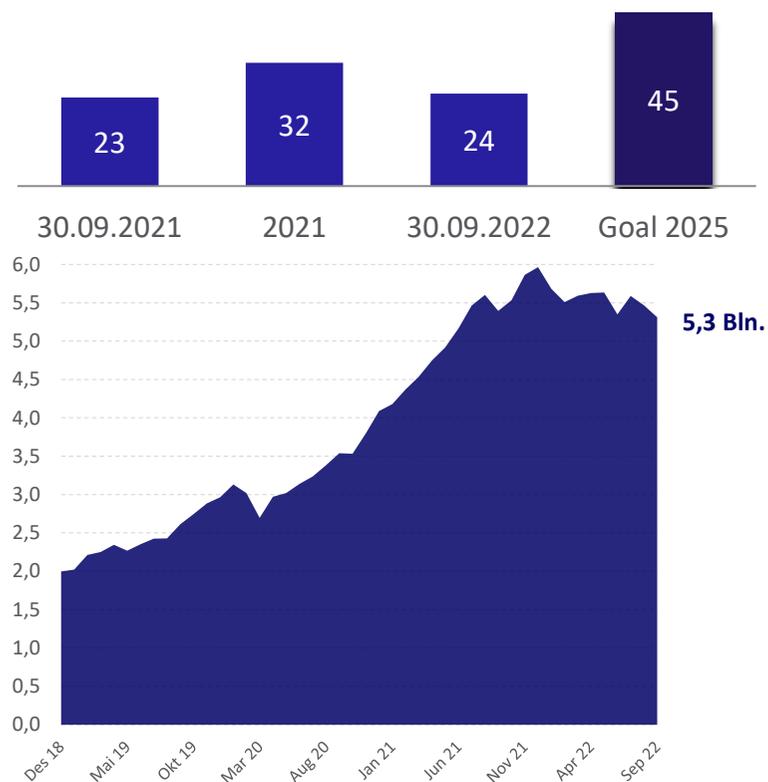
## Insurance commission income



# Good development in the savings area

## Commission income from mutual funds

NOK million



- Increased focus on Norne Fondsportal
- Growth in both the number of savings agreements and paid-in amounts from savings agreements
- The ambition is to increase commission income from mutual funds in the period 2020-2025