

# Sparebanken Sør

1<sup>st</sup> quarter 2017



# Sparebanken Sør

## Business

Sparebanken Sør is an independent financial group with activities within banking, securities and real estate brokerage.

## Balance

The sixth largest Norwegian bank with total assets of more than NOK 100 billions.

## Employees

431 employees and branch offices across the counties of Aust-Agder, Vest-Agder and Telemark.

## Products and services

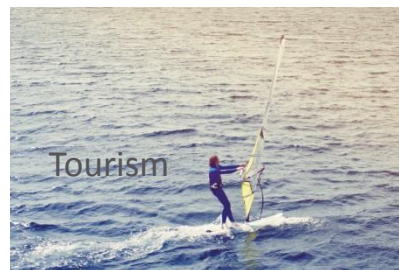
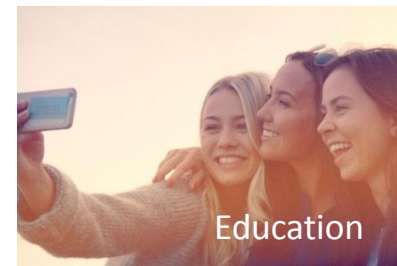
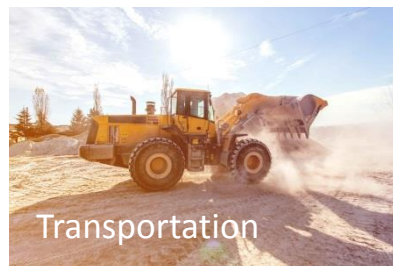
General banking services- and products, in addition to real-estate brokerage, life- and non-life insurance, stock brokerage and leasing through wholly- and partially owned subsidiaries and companies.

## Summary

As one of the largest regional banks, Sparebanken Sør is committed to further growth and development in the region.



# An important support in local business and industry



# Agder & Telemark

NUMBER OF RESIDENTS

**470 000**



- RM
- CM/RM

*A market with 470 000 people.  
No other bank covers this area as  
Sparebanken Sør. The bank has  
approximately 150 000 retail customers  
and 14 000 corporate customers.*

# A complete provider of financial services

Considerable product range - still potential for increased product sales

## Subsidiaries



- Sparebanken Sør Boligkreditt is a **wholly owned** subsidiary of Sparebanken Sør
- The subsidiary is licensed as a financial enterprise with the right to issue bonds, in which investors receive preferential coverage in home mortgages granted by the bank (covered bonds).
- Through the issuance of covered bonds, the Sparebanken Sør Group can offer mortgages with competitive terms to its customers



- Sparebanken Sør is a **90.1%-owner** in Sørmegleren Holding AS, which is the parent company of the real estate agency Sørmegleren AS
- Sørmegleren is represented with a total of 14 offices, with its headquarters in Kristiansand
- Convey about 2.200 homes a year, and is the regions largest real estate agency

## Business partners



- Sparebanken Sør entered in 2008 as a **10%-owner** in Frende Holding and is one of 15 independent savings banks with holdings
- Frende has 175 000 customers and offers insurance, both life and general, to corporate and retail customers.



- Brage Finans is a financing company owned by 10 independent savings banks, and Sparebanken Sør is a **15%-owner**
- The distribution of the company's products is done through the owners and through its own sales organization



- Sparebanken Sør became a **18%-owner** in Norne Sec. in 2008, and is one of 14 independent savings banks with holdings.
- Norne is a full service investment firm with corporate finance – services, analysis, and stock and bond brokerage.

## Suppliers



HolbergFondene



## Key features 1<sup>st</sup> quarter 2017

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- Good results from ordinary operations
- Positive development in net interest income
- Positive net income from financial instruments due to a positive change in the market value of bonds
- Costs under control
- Low loan losses
- Defaults on loans further reduced
- Loan growth of 3.8 percent during the last 12 months
- Deposit growth of 8.4 percent during the last 12 months
- Return on equity after tax of 8.7 percent
- **Common equity tier 1 capital ratio of 14.6 percent and leverage ratio of 8.9 percent, when including 80 percent of accrued profit**



## Income statement Sparebanken Sør

Profit before tax at the end of Q1 2017 amounted to NOK 276 million

The main features for Sparebanken Sør in Q1 2017:

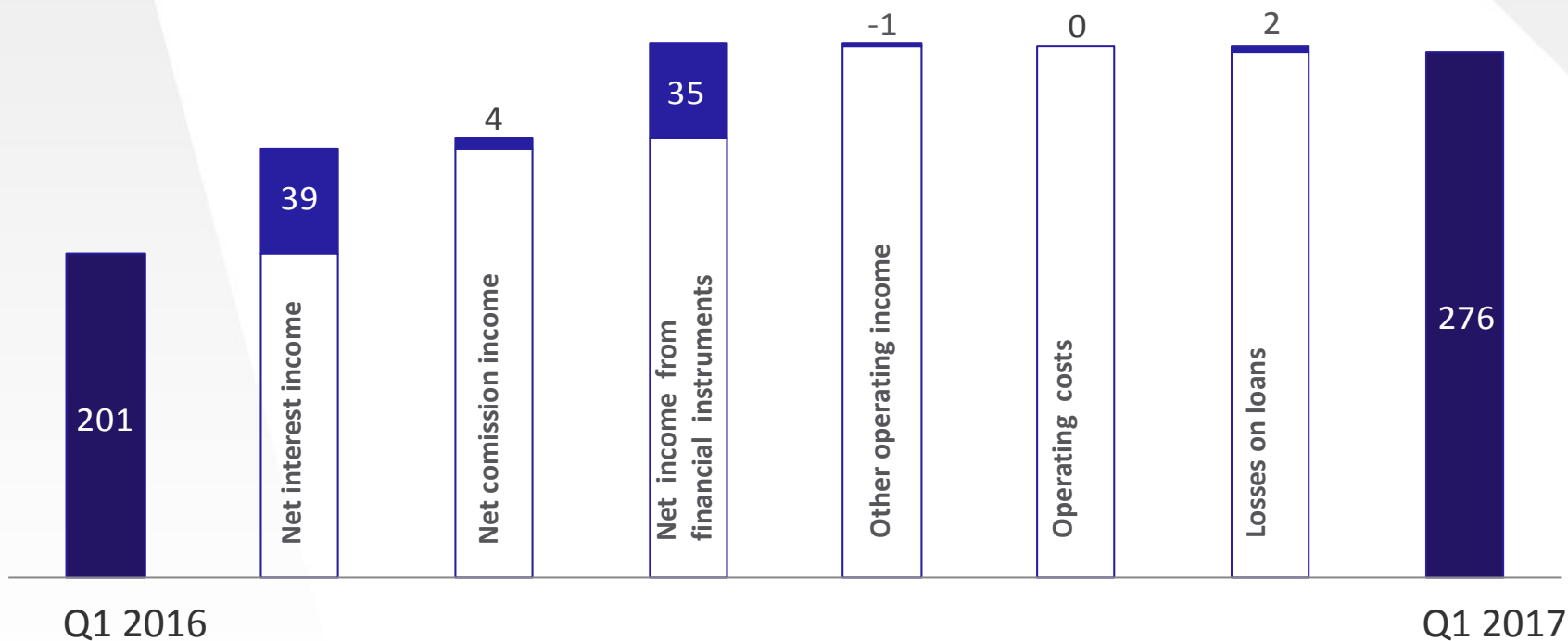
- Satisfactory development in net interest income
- Positive net income from financial instruments due to changes in the market value of bonds
- Costs under control
- Low losses on loans

The profit in Q1 2017 equals a return on equity after tax of 8.7 percent

NOK million	31.03.2017	31.03.2016	Change
Net interest income	401	362	39
Net commission income	71	67	4
Net income from financial instruments	14	-21	35
Other operating income	4	5	-1
Total income	490	413	77
Total expenses	199	199	0
<b>Profit before losses on loans</b>	<b>291</b>	214	<b>77</b>
Losses on loans, guarantees	15	13	2
<b>Profit before taxes</b>	<b>276</b>	201	<b>75</b>
Tax expenses	66	51	15
<b>Profit for the period</b>	<b>210</b>	150	<b>60</b>

# Improvement in profit before taxes, Q1 2016 – Q1 2017

NOK million

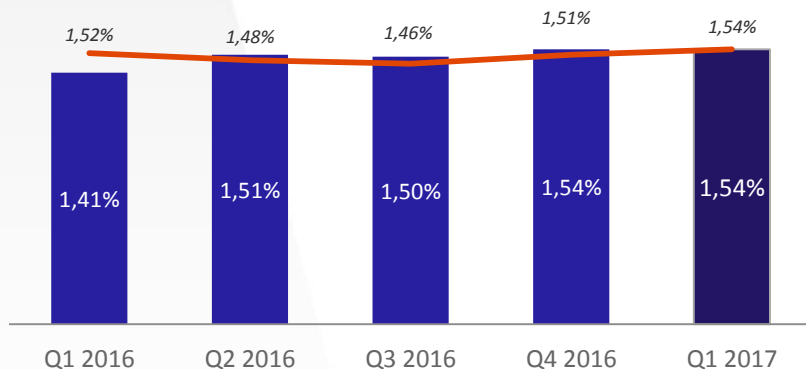




# Key figures – quarterly profit trend

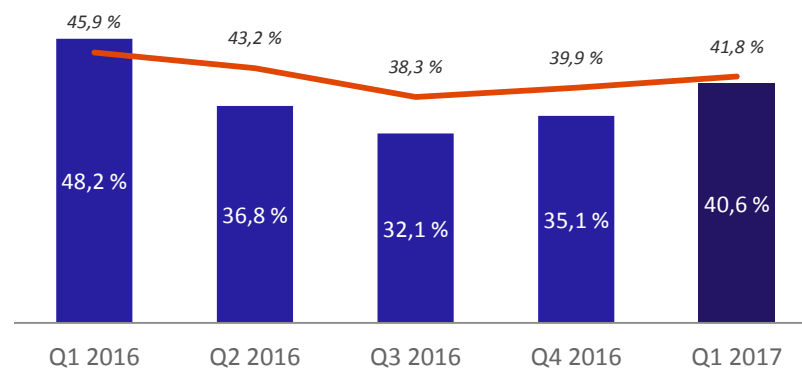
## Net interest income to total assets

Net interest income to total assets, adjusted for the fee to the Banks' Guarantee fund



## Costs Income Ratio

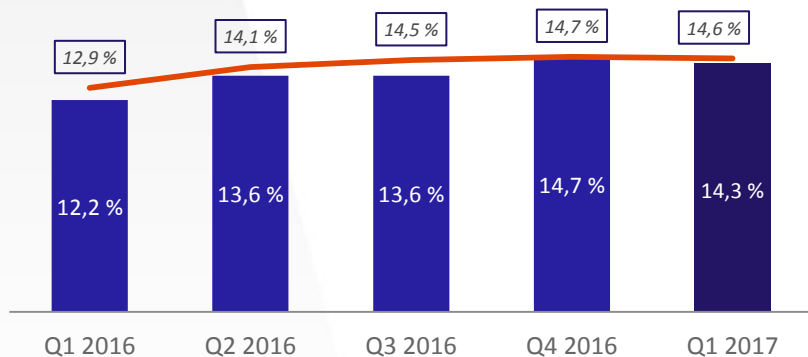
Cost income ratio excl. financial instruments



# Key figures – quarterly profit trend

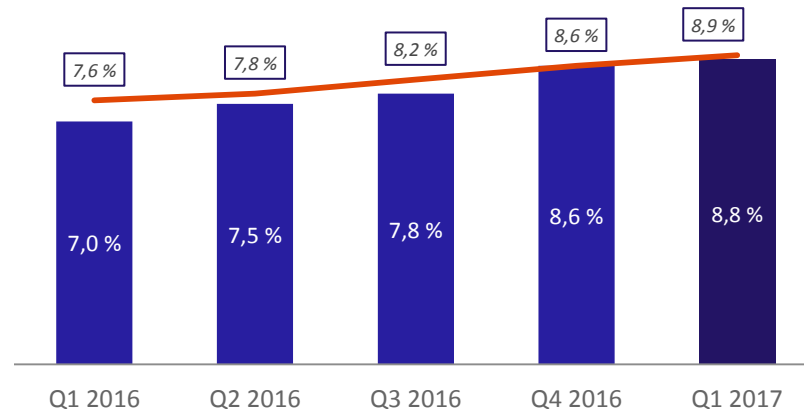
## Common equity tier 1 capital ratio

Common equity tier 1 capital ratio including 80 % of profit and equity issuance in Q2 2016



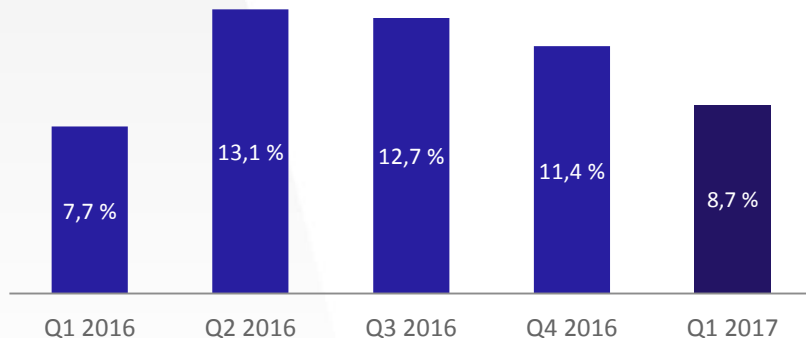
## Leverage ratio

Leverage ratio including 80 % share of profit and equity issuance in Q2 2016

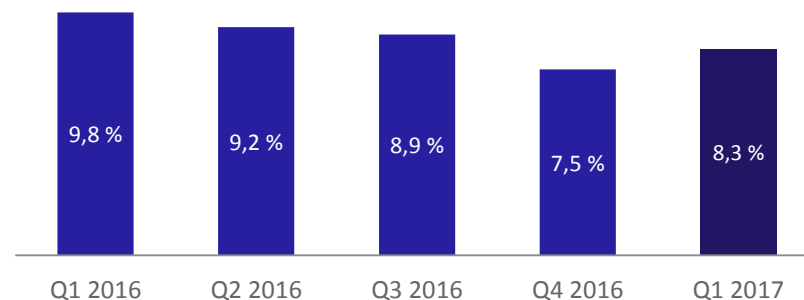


# Key figures – quarterly profit trend

Return on equity after tax<sub>1)</sub>



Return on equity after tax  
excl. financial instruments<sub>2)</sub>



1) ROE after tax =  $\frac{\text{Profit after tax} - \text{interest on hybrid capital}}{\text{Equity} - \text{hybrid capital}}$

2) ROE after tax excl. Financial instruments and accounting events =  $\frac{\text{Profit after tax, excl. financial instruments and accounting events}}{\text{Equity} - \text{hybrid capital}}$

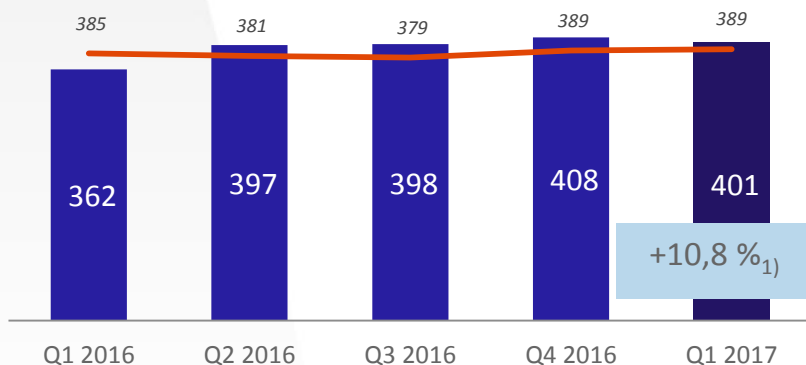


# Profit and loss

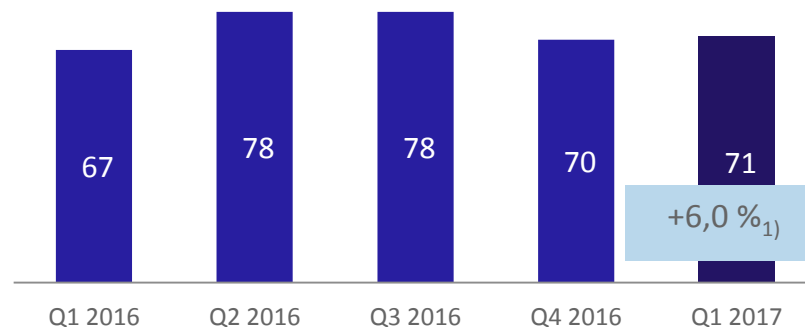
NOK million

## Net interest income

Net interest income, adjusted for the fee to the Guarantee Fund and interest on hybrid capital



## Net commission income

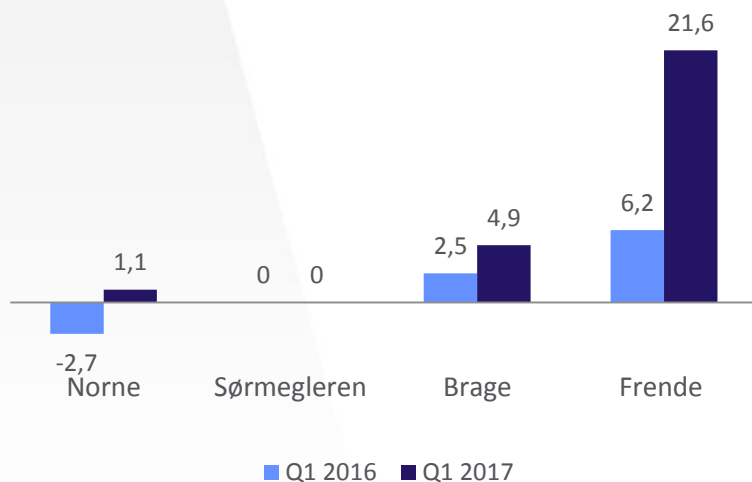


1) Changes from the same period in 2016.

# Profit contribution from affiliated companies

## The companies' profit before tax

NOK million

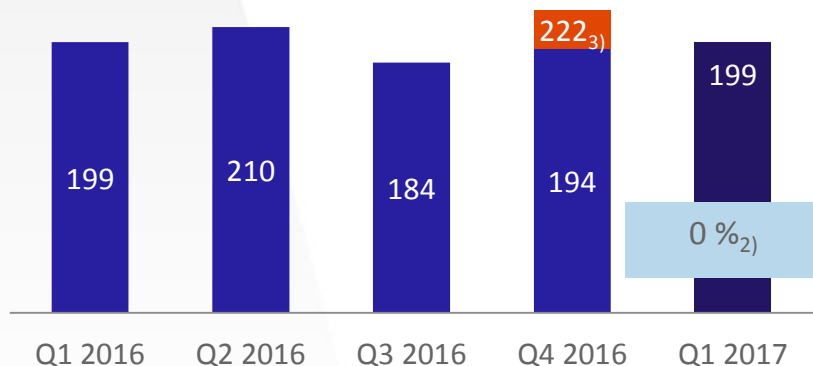


- There have been no value adjustments related to Frende, Brage or Norne in Q1 2017.

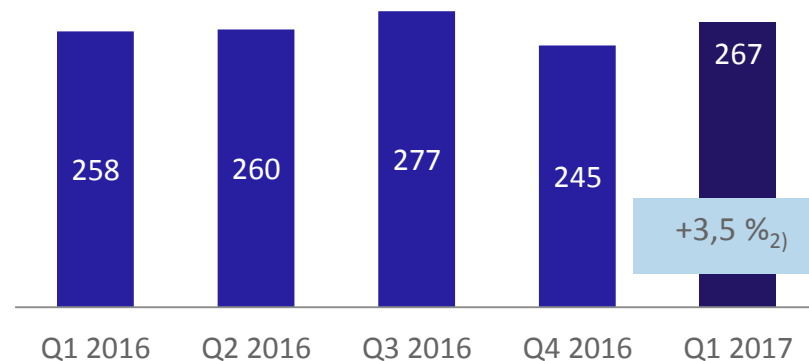
# Profit and loss

NOK million

## Operating expenses



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

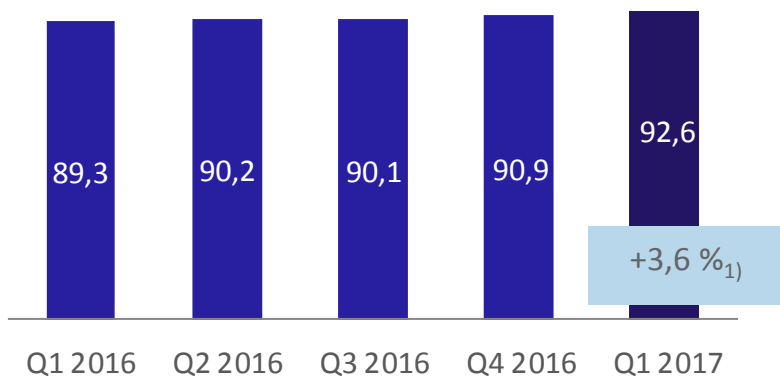


- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating costs, adjusted for the conversion of the pension scheme
- 2) Changes from the same accounting period in 2016
- 3) Included the accounting effect of NOK 42 million from the conversion of the pension scheme

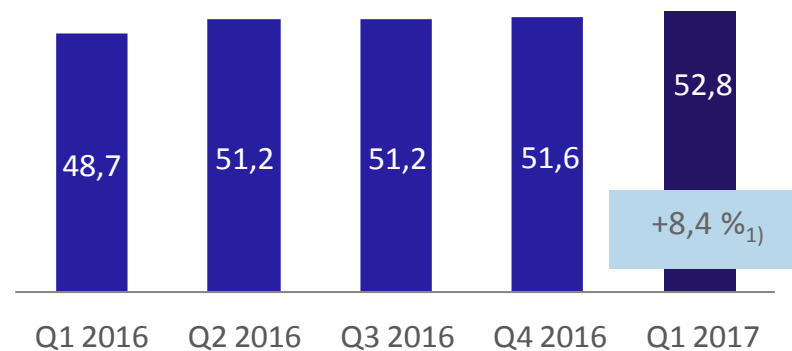
# Balance sheet items

NOK billion

## Loans



## Deposits



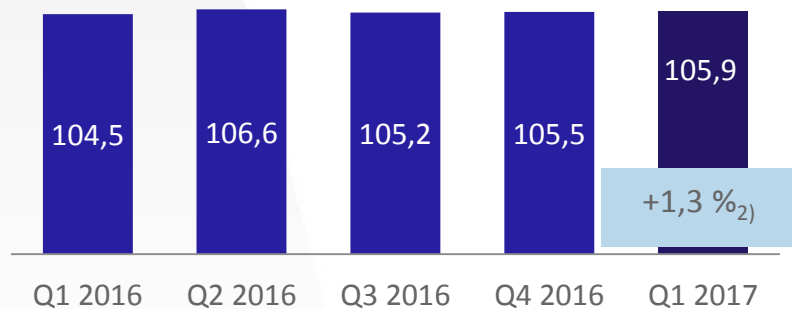
1) Changes from the same accounting period in 2016

2) Loan growth in Q1 2017 amounted to NOK 1.7 billion, equivalent to 7.5 percent, of which retail customers accounted for 3.2 percent and corporate customers 15.7 percent (annualized)

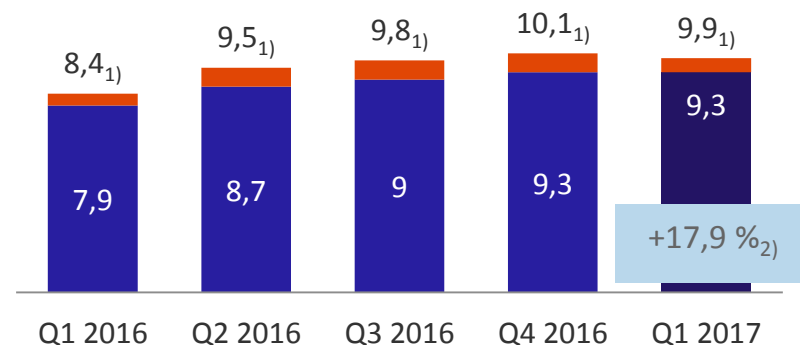
# Balance sheet items

NOK billion

## Total assets



## Equity



- 1) The equity incl. hybrid capital
- 2) Changes from the same accounting period in 2016



# Interest margin development

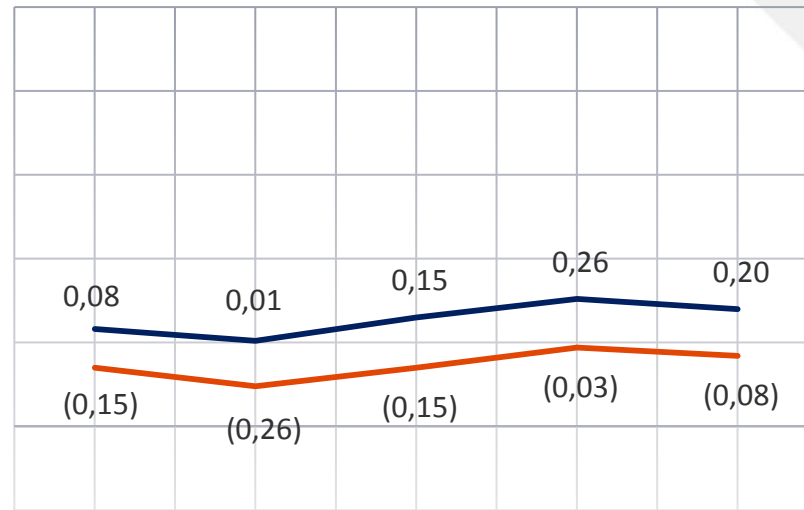
## Loans (%)



Q1 2016    Q2 2016    Q3 2016    Q4 2016    Q1 2017

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

## Deposits (%)



Q1 2016    Q2 2016    Q3 2016    Q4 2016    Q1 2017

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

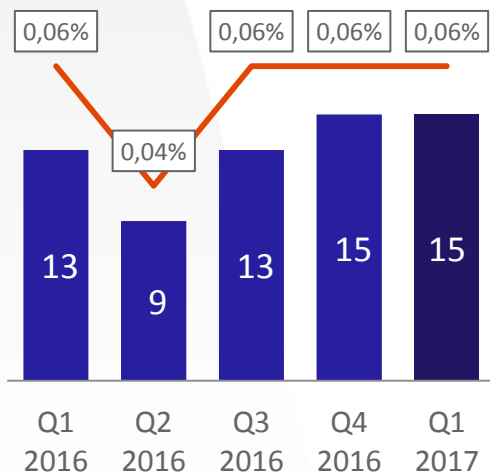
Loans: Average interest rates minus 3 month weighted average of 3 month NIBOR.

Deposits: 3 month weighted average of 3 month NIBOR minus average interest rates.

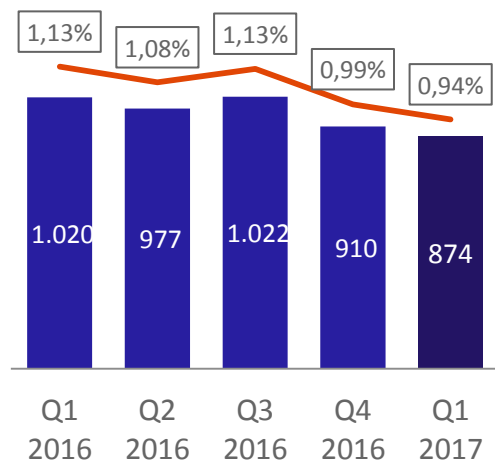
All numbers in % per annum.

# Losses and non-performing loans

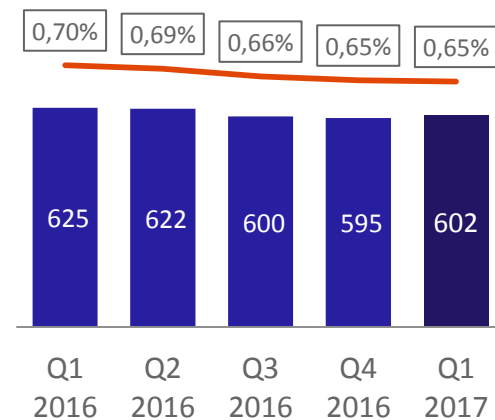
Development in losses in NOK million and as a percentage of gross loans



Development in non-performing loans in NOK million and as a percentage of gross loans



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

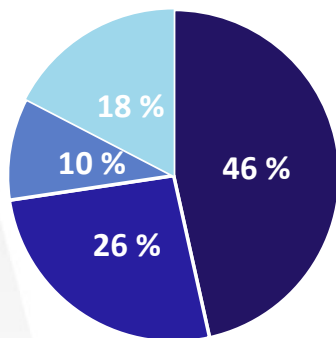


# A well diversified loan portfolio

High RM share and geographical diversification contribute to a balanced portfolio

Geographical distribution of loans

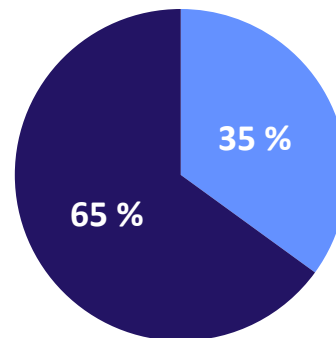
Gross loans



■ Vest-Agder ■ Aust-Agder ■ Telemark ■ Others

Distribution RM / CM

Gross loans



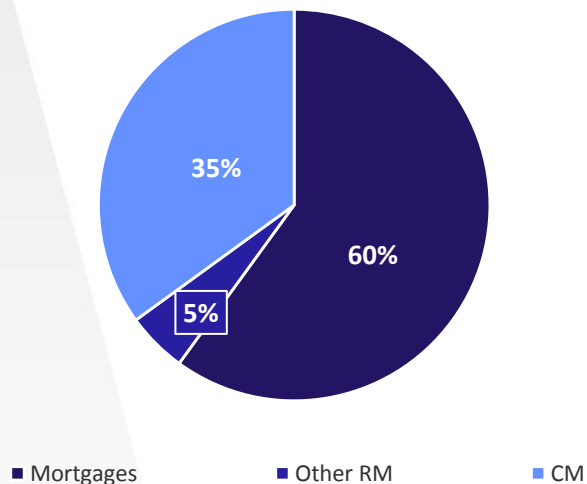
■ CM ■ RM

- # 1 position in Vest-Agder and Aust-Agder, # 3 position in Telemark.
- Close and long term cooperation with major firms/organizations in the region. The KNIF segment amounts to NOK 7.4 billion i loans to customers and NOK 4.5 billion in customer deposits. KNIF corporates constitute the biggest share with NOK 4.5 billion in loans and NOK 3.9 in deposits.
- Loans to customers are concentrated in the banks market area.
- High RM share is in itself risk reducing. Loans under NOK 2 million constitute a dominant portion (42 percent).

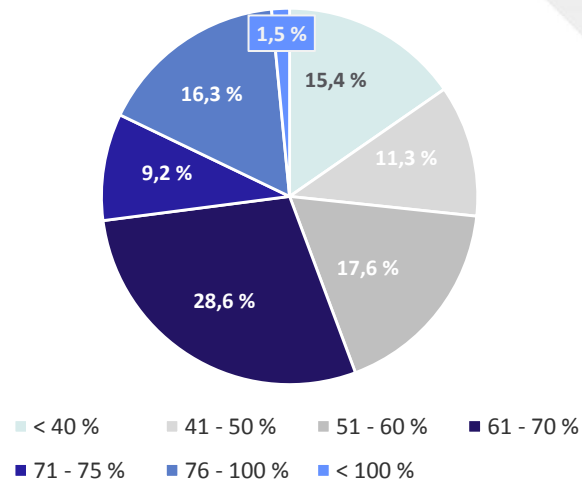
Note(\*): KNIF = Kristen-Norges interessefellesskap(Norwegian Christian interest organization) -> Consists of more than 70 national organizations

# Sparebanken Sør – Mortgages

The loan portfolio in Sparebanken Sør



Loan to Value (Group)



- Mortgages constitute a large part of the RM portfolio
- Loans with LTV (Loan to Value) below 75 percent constitute 82.1 percent

The LTV distribution is based on a distribution, of which the whole commitment is rated as the last part of the commitment.

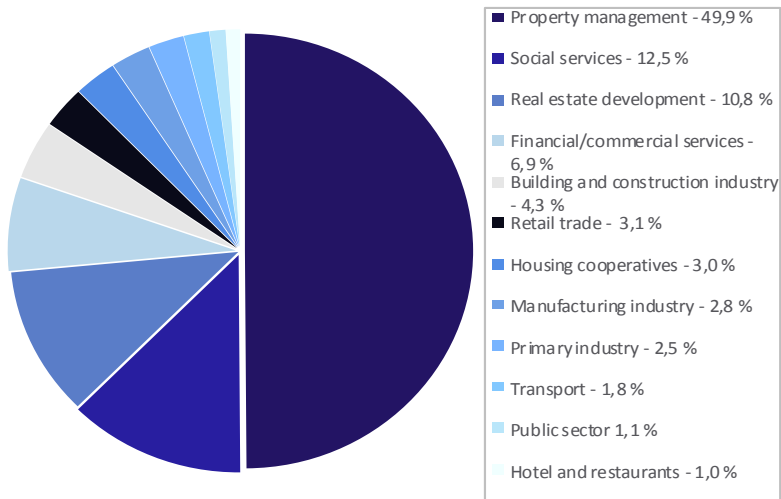
As a consequence the actual LTV-distribution will be lower than what is displayed in the table.



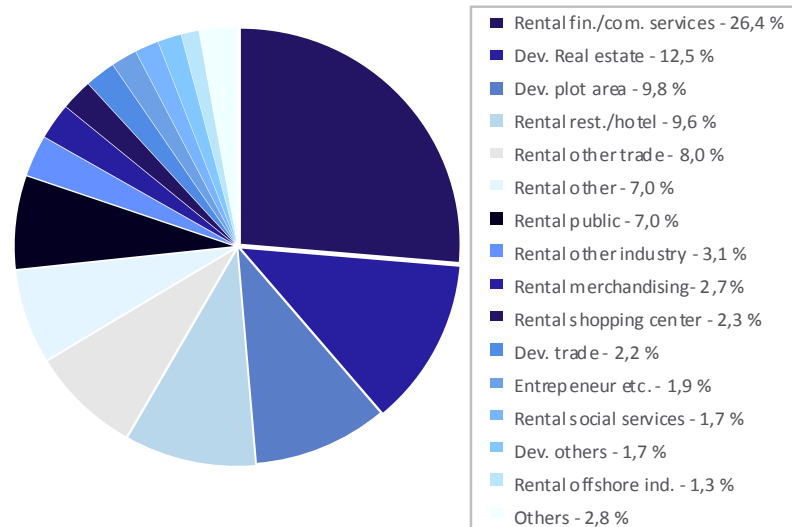
# A well diversified loan portfolio

CM portfolio with very low direct exposure to oil and oil service industry

Distribution Corporate Market (CM)



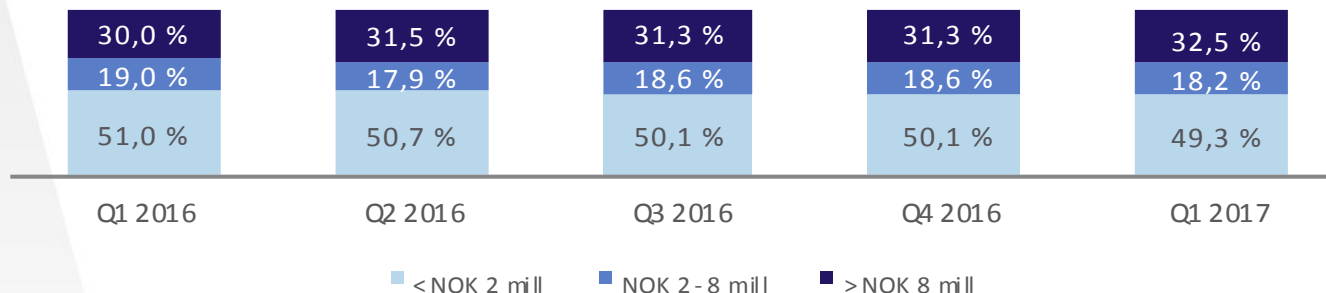
Tenant distribution<sup>1)</sup>: Property management (rental), real estate development and building and construction (Loan commitment > NOK 10 million)



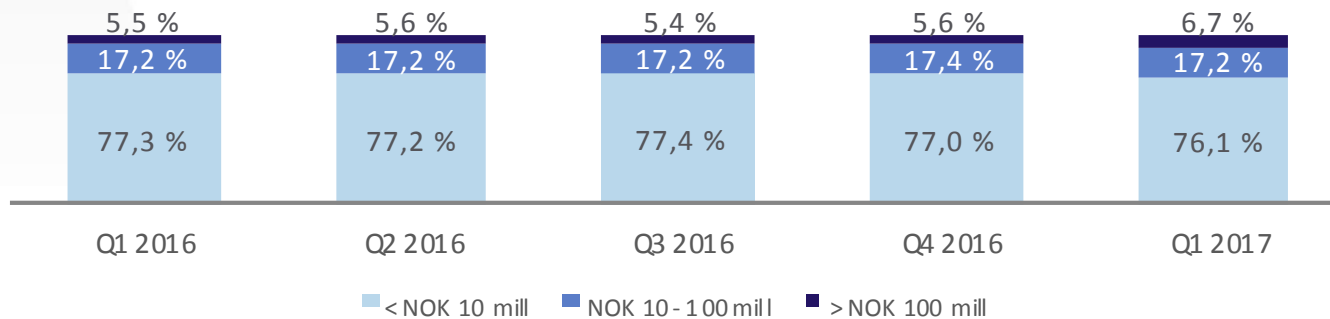
The CM loan portfolio reflects the business activity in the region with one major exception: Sparebanken Sør has a very low direct exposure to the oil and oil service industry.

# Portfolio

## Deposits distributed by size

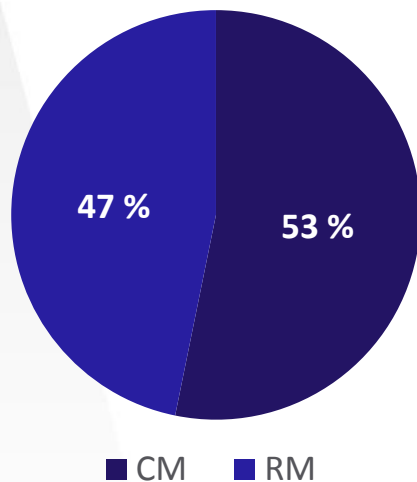


## Loans\* distributed by commitment size

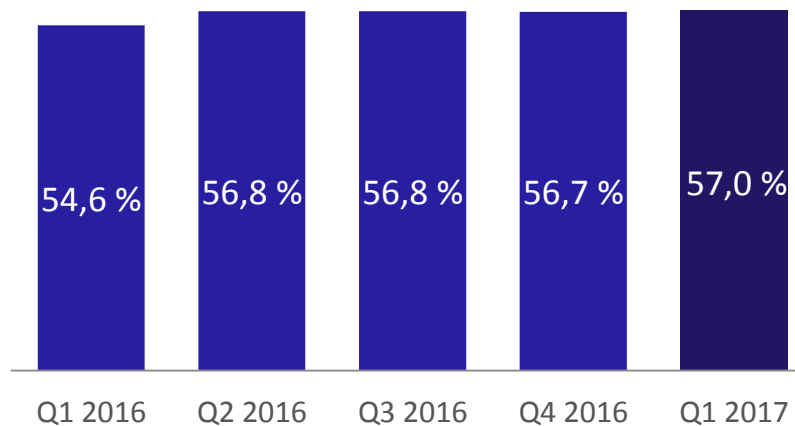


# Deposits

Distribution RM/CM



Deposit to net loans

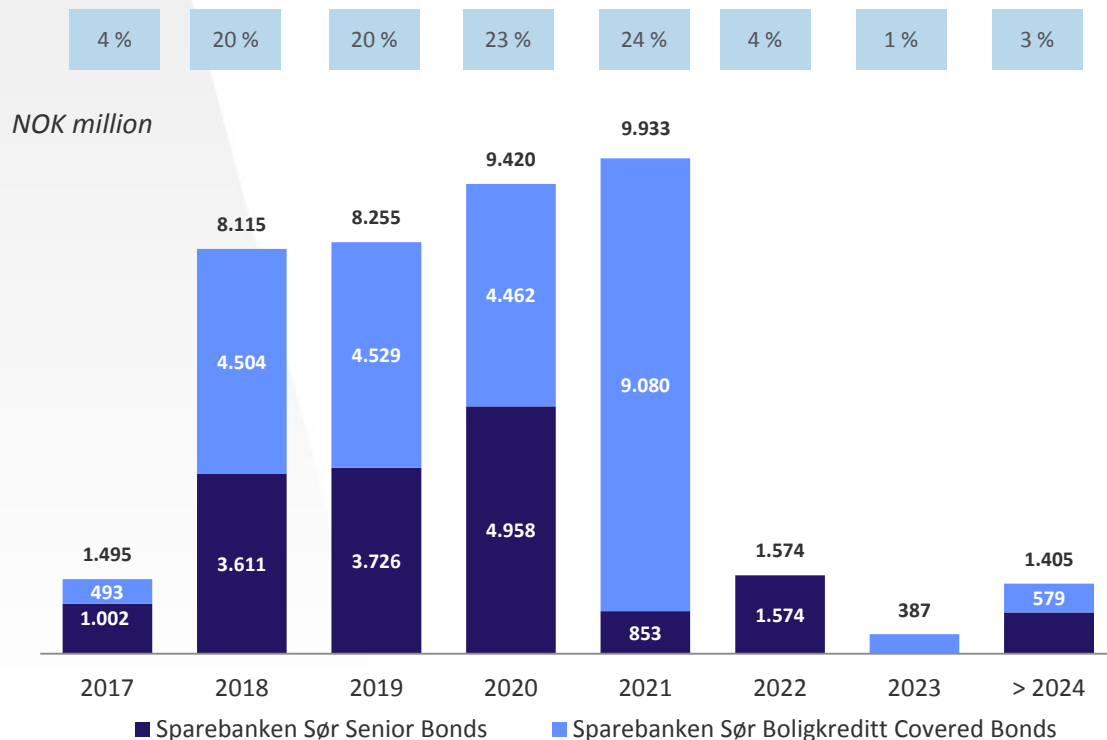


Deposits as a percentage of net loans have increased over the last 12 months, with a deposit growth of 8.4 percent

# Funding

Well diversified funding profile is a security net in case of market turmoil

Remaining maturity of outstanding wholesale funding

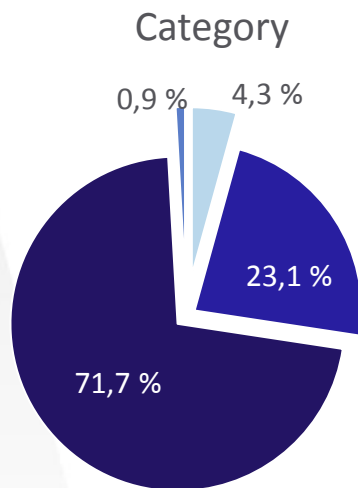


- Total funding for the Group amounted to NOK 40.6 bn, with NOK 24 bn issued as covered bonds as at 31 March 2016
- The bank has a reassuring maturity profile and limited maturities in 2017
- Funding with maturities after 2017 amounts to 96% of the portfolio
- Liquidity indicator 1 at 108%
- Average maturity at 3.1 years

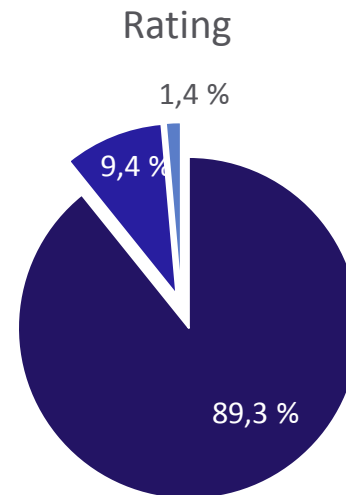




# Liquidity portfolio (Group)



- Norwegian government bonds
- 0 weighted bonds/gov. guarantees/owned AAA/AA
- Norwegian covered bonds/nordic/municipal
- Finance/power production/other



- AAA
- AA
- A
- < B (1)

- **Total liquidity portfolio of NOK 10.9 bn**
- **100 % investment grade and 100 % liquid instruments ( LCR eligible)**
- **Liquidity reserve (LCR) of 114 % for the Group**

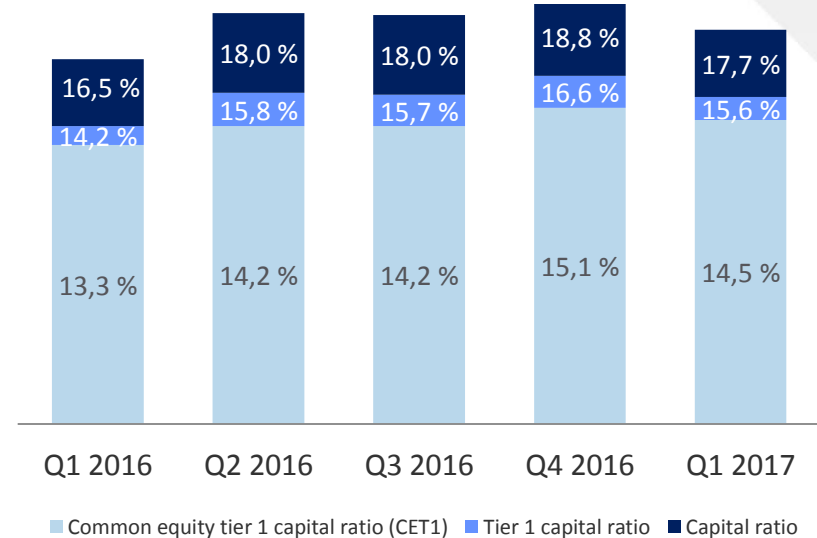
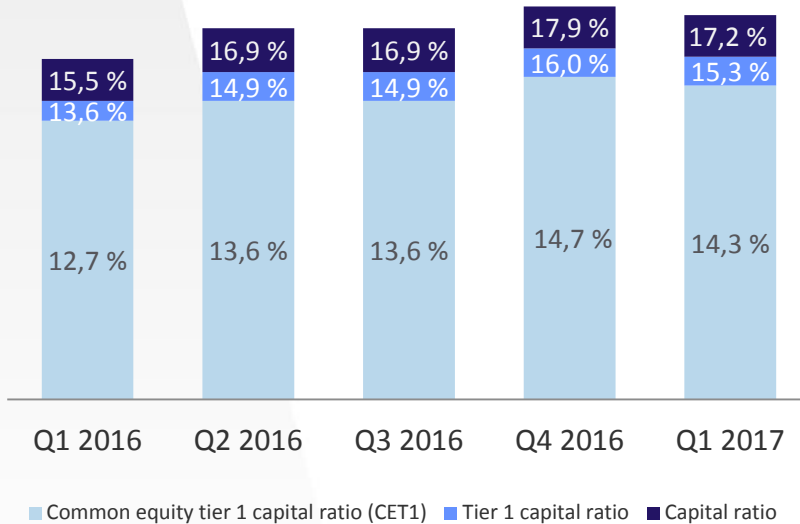
(1) Norwegian covered bonds without rating



# Capital adequacy

Group

Parent bank

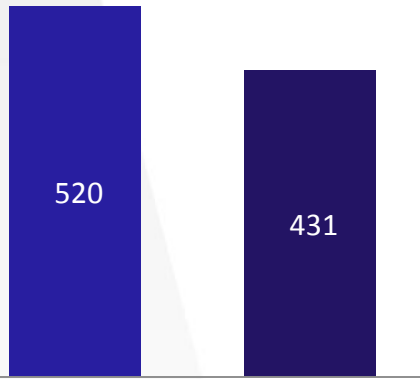


When including 80 of accrued profit, Common Equity Tier 1 capital ratio amounts to 14.6 percent and Leverage Ratio 8.9 percent for the group



# Restructuring and cost focus

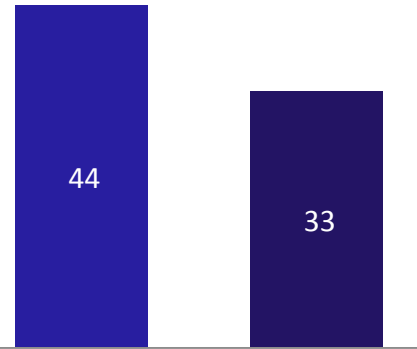
Number of employees



IB 2013

Status

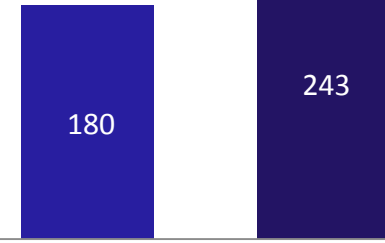
Number of offices



IB 2013

Status

Total assets in NOK million per employee



IB 2013

Status

Considerable potential has been realized – further efficiency improvements will take place as part of ongoing operations.  
The Group opened a new office in Jæren on 27 April 2017.

## Summary after Q1 2017

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### Result

Improved profit from ordinary operations, through positive growth, stable net interest income, combined with low costs and losses on loans

### Finance

Positive net income from financial instruments due to positive changes in the market value of bonds

### Capital

The Bank's financial strength is considered satisfactory in light of the current regulatory requirements. Included 80 percent of the profit, the common equity tier 1 capital ratio amounts to 14.6 per cent and the leverage ratio amounts to 8.9 percent.

### Capital

Loan growth of NOK 3.4 billion the last 12 months, corresponding to a 3.8 percent annual growth. The deposit growth of NOK 4.1 billion, or 6.6 percent the last 12 months.

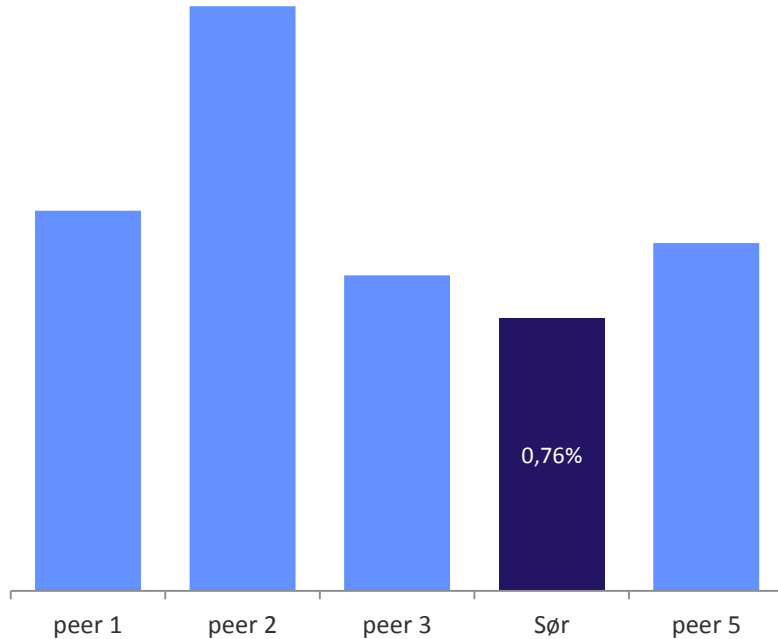
### Summary

Sound operations contribute to a pre-tax result of NOK 276 million in Q1 2017.



# Three strategic pillars

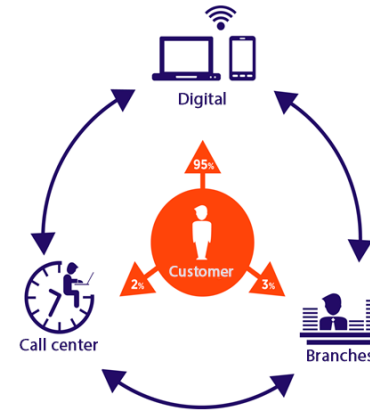
One of the most cost effective financial institutions<sub>1)</sub>



Strong customer relations

*The bank is customer relation oriented, with fast decisions based on local knowledge through closeness to customers and market*

Optimal channel interaction and digitalization



SPAREBANKEN SØR

# Our focus areas

Differentiated and high growth potential

Local, regional and national customer segments

Regional business



# Outlook

## Macro

Growth in the Norwegian economy has been low in recent years, and this is expected to continue in 2017. Future outlook is considered more positive.

## The region

The economic outlook for the bank's market area is considered positive. Housing prices have a positive development, and unemployment is falling.

## Capital requirements

The Bank has a common equity tier 1 capital ratio of 14.6 percent and leverage ratio of 8.9 percent. Along with a positive profit from ordinary operations, the opportunities for further growth are positive.

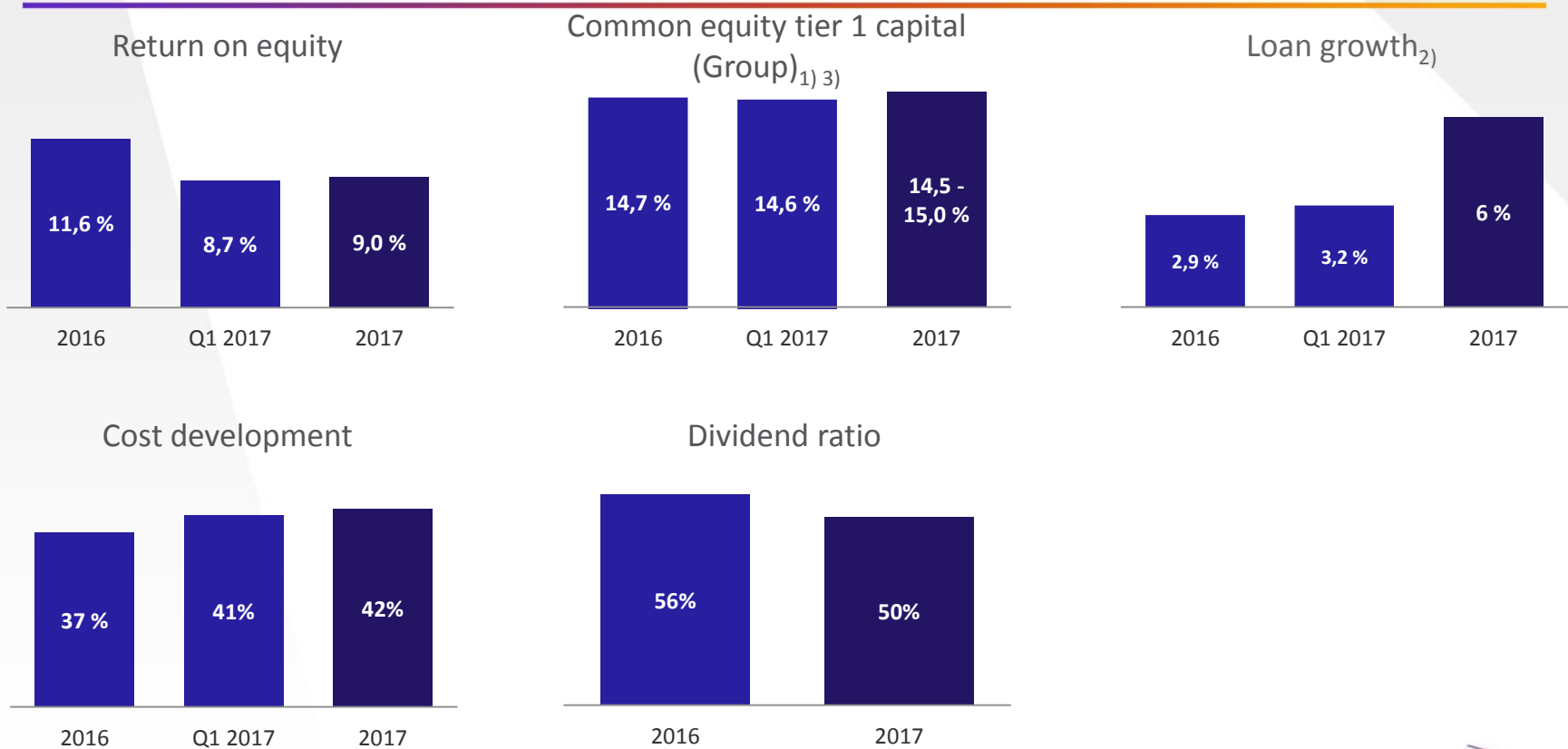
## Funding and liquidity

The Bank is well positioned to establish long-term funding from the Norwegian and the international financial market.

## Summary

Sparebanken Sør will contribute to further growth and development in the region. To fulfill this vision the bank will be a leading, solid and independent player in the Agder and Telemark counties.

# Financial key variables and ambitions



1) Incl. share of profit

2) Growth YTD annualized

3) Will be determined with regard to market expectations, the Financial Supervisory Authority recommendations and ICAAP



# Appendix



SPAREBANKEN SØR

# Equity certificate owners

## 20 largest equity certificate owners as at 31 March 2017

	Name	Number of ECs	Share of Ecs %		Name	Number of ECs	Share of Ecs %
1	Sparebankstiftelsen Sparebanken Sør	8.125.679	51,88	11	Allumgården AS	151.092	0,96
2	Bergen Kom. Pensjonskasse	500.000	3,19	12	Otterlei Group AS	123.500	0,79
3	Arendal Kom. pensjonskasse	449.825	2,87	13	MP Pensjon PK	107.173	0,68
4	Holta Invest AS	444.410	2,84	14	Ottersland AS	100.000	0,64
5	Pareto AS	417.309	2,66	15	Profond AS	97.115	0,62
6	Glastad Invest AS	387.467	2,47	16	Wenaas Kapital AS	90.350	0,58
7	Merrill Lynch	329.080	2,10	17	Artel Holding A/S	82.131	0,52
8	EIKA utbytte VPF c/o Eika kapitalforv.	278.432	1,78	18	Apriori Holding AS	72.575	0,46
9	Wenaasgruppen AS	186.000	1,19	19	Varodd AS	70.520	0,45
10	Gumpen Bileiendom AS	154.209	0,98	20	Birkenes Sparebank	66.000	0,42
	<b>Total 10 largest owners</b>	<b>11.272.411</b>	<b>71,96</b>		<b>Total 20 largest owners</b>	<b>12.232.867</b>	<b>78,08</b>

- As at 31 March 2017 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC as at 31 March 2017 amounted to NOK 2.4
- The board of Trustees decided on 30 March 2016 to issue 10 895 270 new ECs, the issuance was concluded 3 May 2016. At this point in time the ownership ratio increased from 13 percent to 19.8 percent. The ownership ratio for Q1 2017 was 18,7 percent



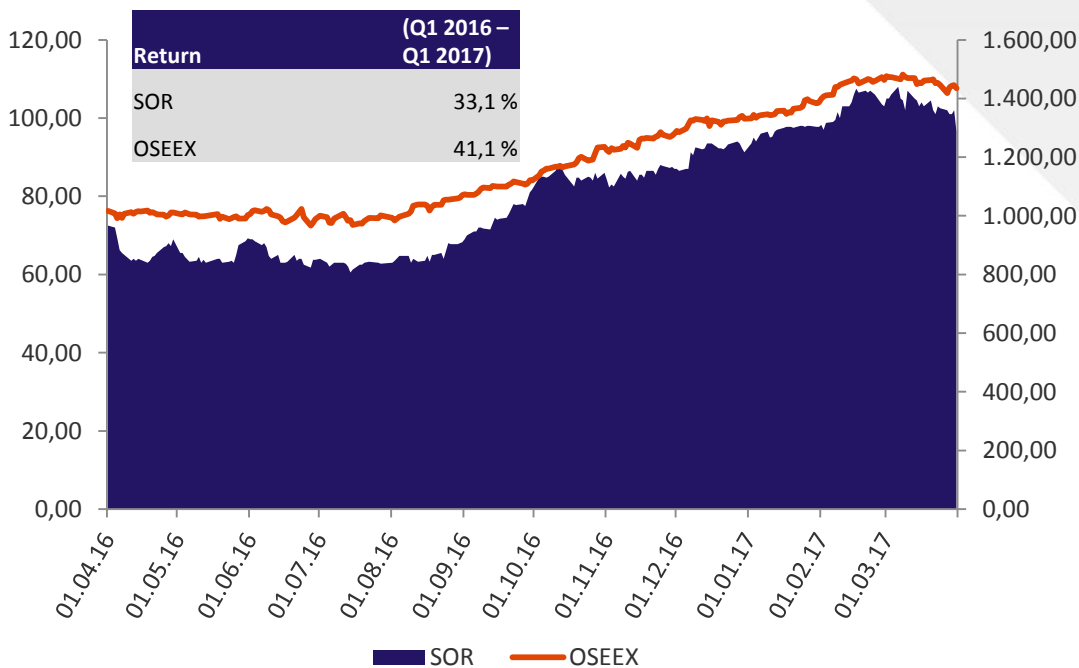
# SOR – stock price and liquidity

## Price development

- Equity Certificates with a return of 5.75 percent in Q1 2017
- The Stock price for SOR was NOK 96.50 as at 31.03.2017, which is 75 percent higher than the share issuance price (NOK 55)
- Buying SOR ECs the first trading day of 2016(NOK 140) and participating in the share issuance gave a return of 24 percent in 2016

## Liquidity

- A turnover of 483 832 equity certificates in Q1 2017, compared with 137 469 in Q1 2016
- In 2016 there was a turnover of 2.3 million equity certificates, compared with a turnover in 2014 and 2015 of 52 293 and 144 013 in respectively



**10**  
Days without  
turnover Q1 2016

**0**  
Days without  
turnover Q1 2017

**137k**  
Volume Q1 2016

**484k**  
Volume Q1 2017

# Dividend policy

50 percent of equity certificate capital's proportion 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 the equity certificate capital (equity certificate owners) and the primary capital in accordance with their proportion of the equity capital.
- When determining the annual dividend, Sparebanken Sør's capital needs, including regulatory requirements, expectations from investors and the bank's strategic targets will be taken into consideration.
- The ambition is that approximately half of the equity certificate capital's proportion of annual profits after tax should be paid as dividend.

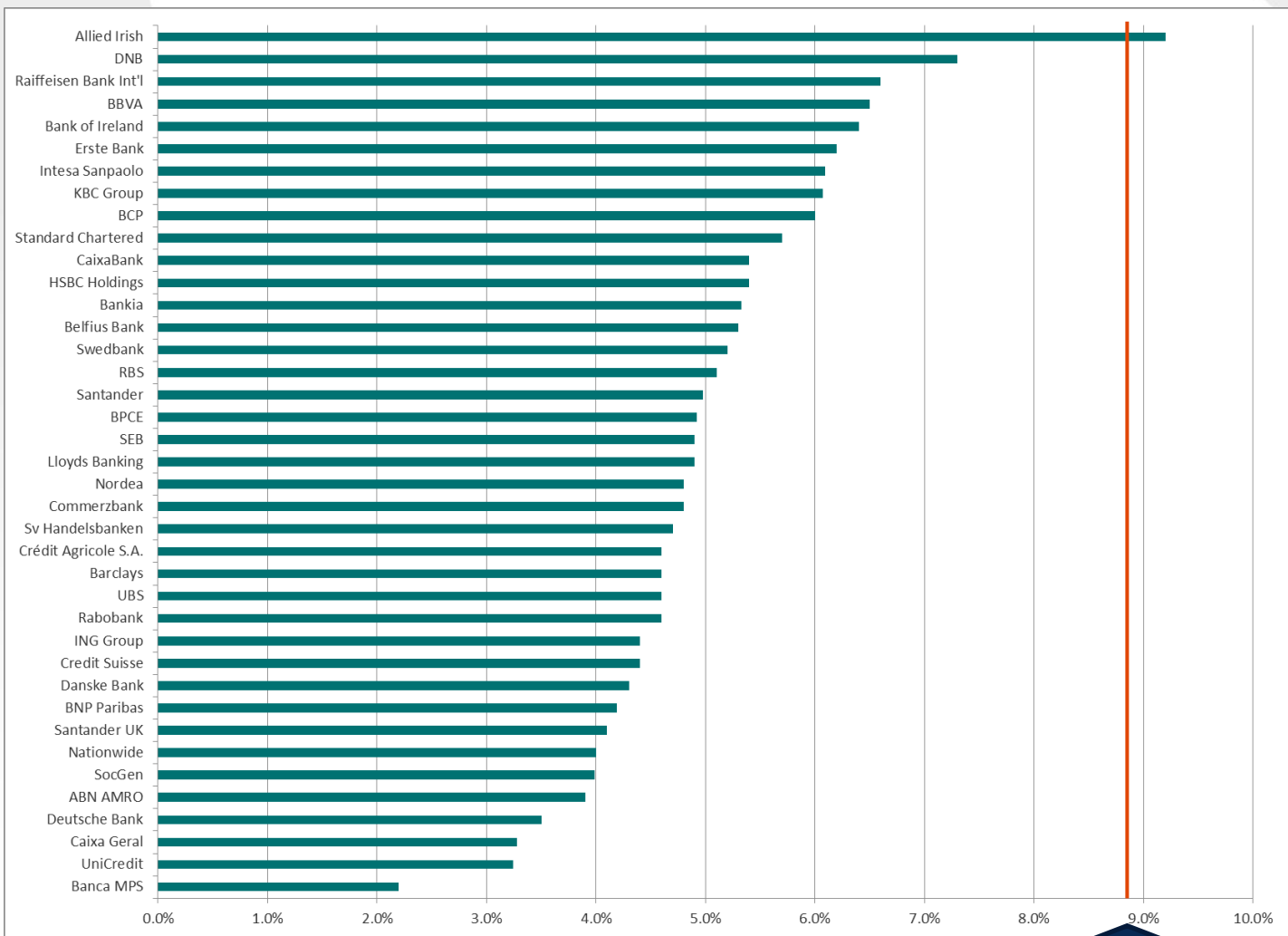


**SPAREBANKEN SØR**

# Capital assessment

31.03.2017	CET1	Leverage Ratio
Sør	14,30 %	8,80 %
Peer 1	14,70 %	8,60 %
Peer 2	14,80 %	7,40 %
Peer 3	14,70 %	7,10 %
Peer 4	14,40 %	7,10 %

- Sparebanken Sør has fulfilled the Financial Authorities' expectations of a 14,5 % common equity tier 1 (CET1) capital ratio
- Sparebanken Sør is the only of the large regional banks that uses the standard method in the capital adequacy calculations
- Sparebanken Sør is very solid, has a high CET1 capital and a very high Leverage ratio
- With a CET1 capital ratio of 14.3 percent, the bank has a considerable buffer beyond the regulatory requirements.
- Norwegian banks are well-capitalized compared to European banks



## Leverage ratio, Q4 2016

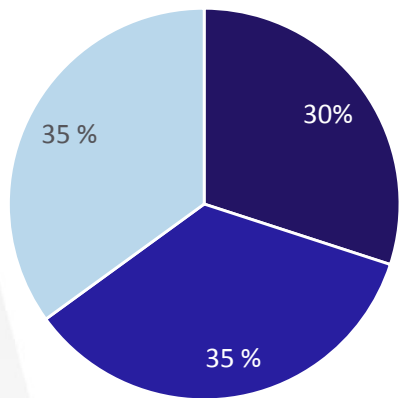
- Selected European banks

Sparebanken Sør Q1 2017: 8,9 %



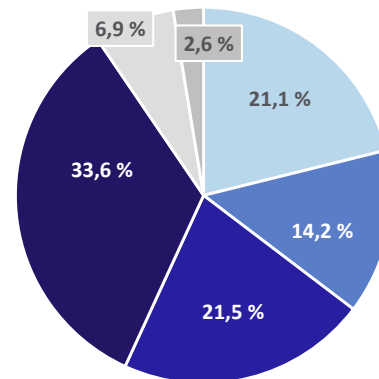
# Sparebanken Sør Boligkreditt AS – 100 % owned by Sparebanken Sør

The loan portfolio in Sparebanken Sør



■ Sparebanken Sør Boligkreditt ■ RM Bank ■ CM

LTV in Sparebanken Sør Boligkreditt



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

Stress test of cover pool

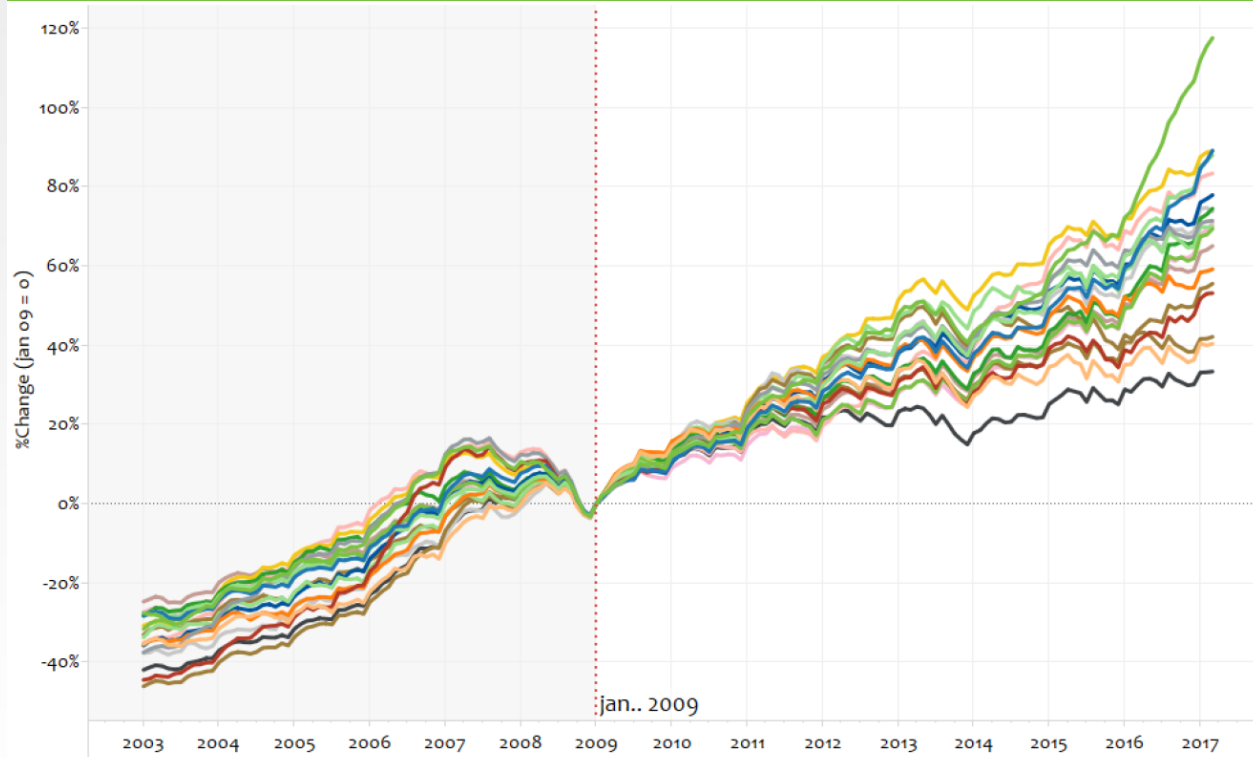


■ Weighted average LTV ■ Nominal OC



# House price development March 2017

## The Norwegian Housing Price Statistics by county



County										
Oslo	Buskerud	Hordaland	Nordland	Sogn & Fjordane	Troms	Østfold	Akershus	Finnmark	Møre & Romsdal	Oppland
Aust-Agder	Hedmark	Nord-Trøndelag	Rogaland	Telemark	Vest-Agder	Vestfold	Sør-Trøndelag			

Year over year :

Vest-Agder	+ 2,7 %
Aust-Agder	+ 2,1 %
Telemark	+ 8,4 %
Rogaland	- 0,6 %
Oslo	+ 22,4 %

February - March:

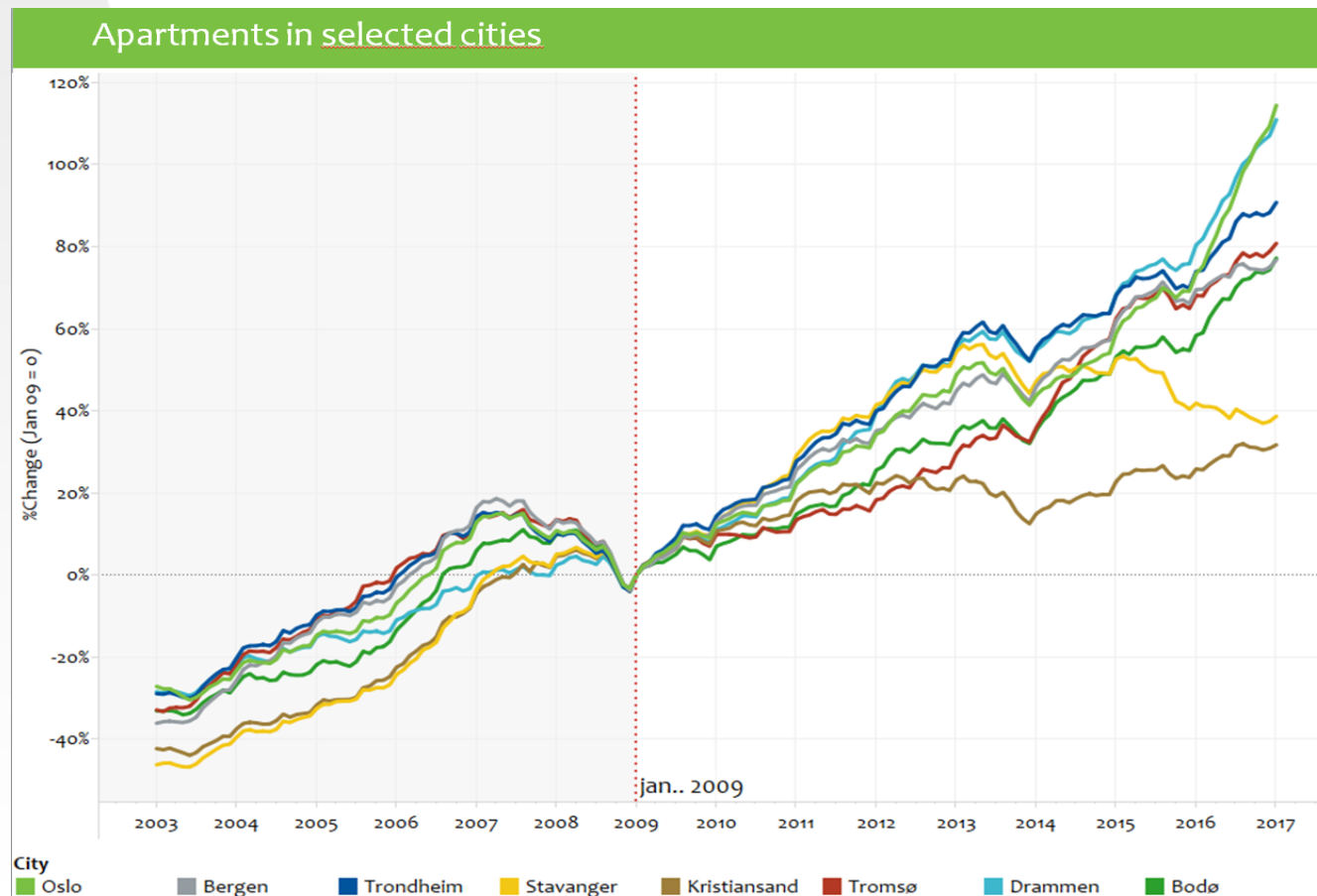
Vest-Agder	+ 0,1 %
Aust-Agder	+ 0,3 %
Telemark	+ 0,6 %
Rogaland	+ 0,3 %
Oslo	+ 1,0 %

Source: Eiendomsverdi AS





# Apartment price development March 2017



## Year over year:

Kristiansand	+ 3,6 %
Stavanger	- 1,5 %
Oslo	+ 22,7 %

## February - March:

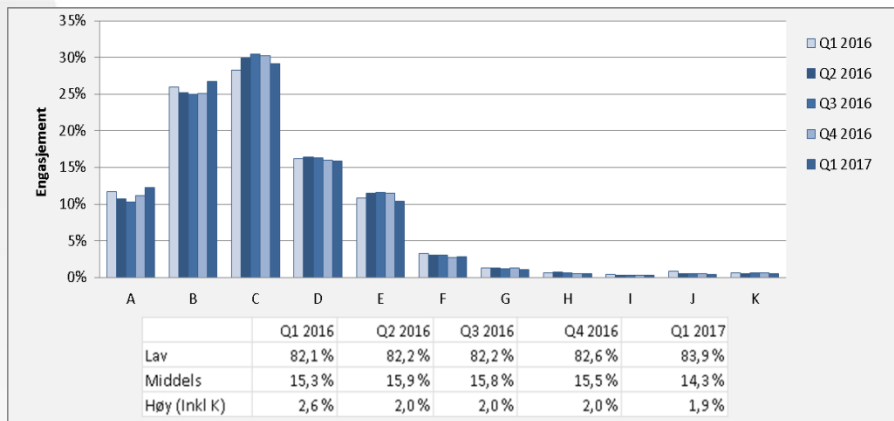
Kristiansand	- 0,5 %
Stavanger	- 0,2 %
Oslo	+ 0,9 %



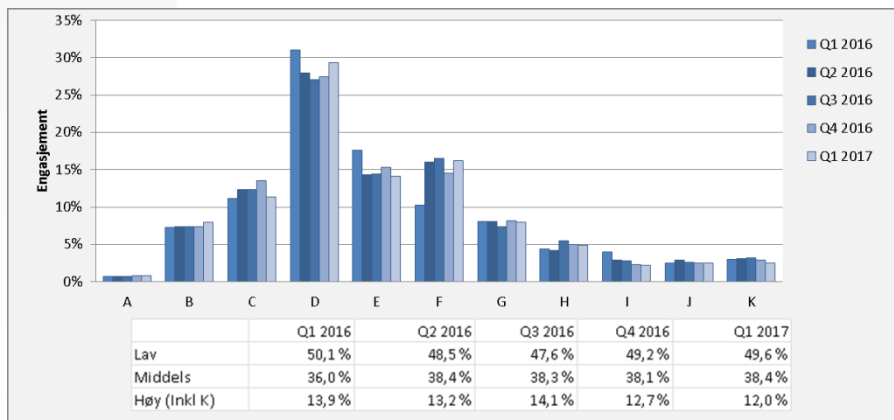
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## Portfolio quality - score (PD)

RM



CM



	Class	Lower border	Upper border
Low	A	0,00	0,10
	B	0,10	0,25
	C	0,25	0,50
	D	0,50	0,75
Medium	E	0,75	1,25
	F	1,25	2,00
	G	2,00	3,00
High	H	3,00	5,00
	I	5,00	8,00
	J	8,00	99,99
	K	100,00	

### Comment:

A small improvement in risk profile for RM and CM



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# Unemployment is now decreasing

## Key figures from the Norwegian labour market, April 2017

	Number of unemployd	As a percentage of the work force	Change from last year	Percentage change from last year	As a percentage of the work force, last year
I alt	78 212	2,8 %	-7 259	<b>-8 %</b>	3,1 %
Østfold	4 405	3,1 %	- 274	<b>-6 %</b>	3,3 %
Akershus	6 973	2,2 %	- 780	<b>-10 %</b>	2,5 %
Oslo	10 708	2,9 %	-1 663	<b>-13 %</b>	3,3 %
Hedmark	2 065	2,1 %	- 293	<b>-12 %</b>	2,4 %
Oppland	1 756	1,8 %	- 263	<b>-13 %</b>	2,1 %
Buskerud	3 804	2,6 %	- 331	<b>-8 %</b>	2,8 %
Vestfold	4 039	3,2 %	176	<b>5 %</b>	3,1 %
<b>Telemark</b>	<b>2 641</b>	<b>3,0 %</b>	<b>- 331</b>	<b>-11 %</b>	<b>3,4 %</b>
<b>Aust-Agder</b>	<b>1 833</b>	<b>3,2 %</b>	<b>- 339</b>	<b>-16 %</b>	<b>3,8 %</b>
<b>Vest-Agder</b>	<b>3 153</b>	<b>3,3 %</b>	<b>- 399</b>	<b>-11 %</b>	<b>3,7 %</b>
Rogaland	10 865	4,2 %	- 898	<b>-8 %</b>	4,5 %

## Development in net interest adjusted for changes in accounting principles

NOK million	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	401	408	398	397	362
Guarantee fund fee		-9	-9	-9	28
Net interest income, adjusted for the fee to the Banks' Guarantee Fund	401	399	389	388	390
In % of total assets	1,54 %	1,51 %	1,46 %	1,48 %	1,52 %

Net interest income adjusted for changes in the accounting of the fee to the Norwegian Banks' Guarantee Fund

# 190 years of development and renewal

Arendal Sparebank was founded in **1825** as one of the first savings banks in Norway.

**1973** The bank merged with 4 other savings banks in Aust-Agder, and formed Aust-Agder Sparebank.

Sparebanken Sør was established in **1984** after a merger between Aust-Agder Sparebank, 2 other savings banks in Aust-Agder and 9 from Vest-Agder

**1985** The bank entered for the first time Telemark, through a merger with Nissedal Sparebank and totals today 7 branches in the county, where the latest was the opening of an office in Skien in the fall of 2012.

**2014** Merger between Sparebanken Pluss and Sparebanken Sør and the new bank is named Sparebanken Sør.

The bank's history dates back to **1824** when Christianssand Sparebank was established as one of the first savings banks in Norway.

The bank's more recent history starts in **1984** when Sparebanken Agder was established through a merger between Christianssands Sparebank, Halse and Harkmark Sparebank, Iveland Sparebank, Oddernes Sparebank, Vennesla Sparebank and Øvrebo and Hægeland Sparebank.

Four savings banks in Telemark and Sparebanken Agder joined forces in **1987**. Through the merger the bank was named Sparebanken Agder and Telemark. In 1988 the name was changed to Sparebanken Pluss

In January **1997** Sparebanken Pluss and Sparebanken NOR agreed that Sparebanken NOR was to take over Sparebanken Pluss' branches in Telemark while Sparebanken Pluss was to take over Sparebanken Nor's office in Kristiansand. Through this deal the bank's business again was concentrated in the Agder counties.





SPAREBANKEN SØR