

Sparebanken Sør

Q4 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 above NOK 114 billion.

Employees

432 man years in the parent bank, in branches across the counties of Aust-Agder, Vest-Agder, Telemark and Rogaland.

Products and services

General banking services- and products targeting the retail- and corporate market, and 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 shall contribute to further growth and development in the region.



An important player in local business and industry



Sparebanken Sør – A leading savings bank in southern Norway



Established in 1824,
525 employees



175 000 retail
customers



Financial group with
banking, securities and
real estate brokerage



23 000
corporate customers



Publicly traded and
community-owned



Over NOK 114 bn in
total assets

A market with 470 000 inhabitants. No other bank covers this area as Sparebanken Sør. The bank has approximately 175 000 retail customers and 23 000 corporate customers.

In the second quarter of 2017, Sparebanken Sør opened a new office at Bryne in Rogaland. This opens up a market with approx. 60,000 people.

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 covered 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 Sørmeqleren Holding AS, which is the parent company of the real estate agency Sørmeqleren AS
- Sørmeqleren is represented with a total of 14 offices, with its headquarters in Kristiansand
- Conveys 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 12 independent savings banks, and Sparebanken Sør is a **15%-owner**
- The distribution of the company's products is handled through the ownerbanks through its own sales organization



- Sparebanken Sør is a **17.1%-owner** in Norne Sec. 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



- Together with 14 other savings banks within the Frende collaboration group, Sparebanken Sør has entered Vipps, through the newly established company, Balder Betaling AS
- Sparebanken Sør is a **22.4%-owner** of Balder Betaling AS, which is a 12%-owner of Vipps AS

Suppliers



Key features 4th quarter 2017

- Good results from ordinary operations
- Positive development in net interest income
- Increased commission income
- Efficient operations and low costs
- Positive net losses
- Return on equity after tax of 12 percent

NOK million	Q4 2017	Q4 2016	Change
Net interest income	439	408	31
Net commission income	78	70	8
Net income from financial instruments	58	67	-9
Other operating income	9	8	1
Total income	584	553	31
Total expenses	210	194	16
Profit before losses on loans	374	359	15
Losses on loans, guarantees	-12	15	-27
Profit before taxes	386	344	42
Tax expenses	74	73	1
Profit for the period	312	271	41

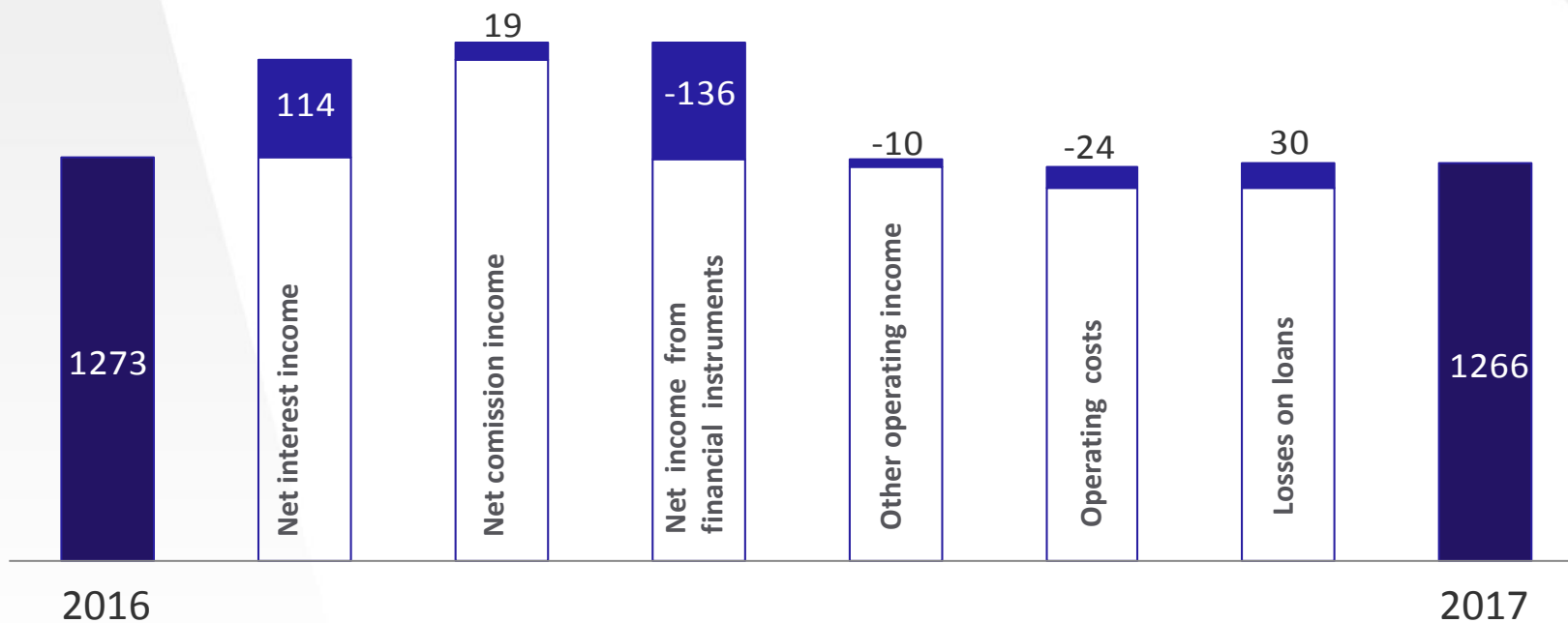
Key features in 2017

- Good results from ordinary operations
- Positive development in net interest income
- Increased commission income
- Efficient operations and low costs
- Very low loan losses
- Loan growth of 7.2 percent during the last 12 months
- Deposit growth of 7.8 percent during the last 12 months
- Successful opening of a new branch in Rogaland
- Return on equity after tax of 9.7 percent
- Common equity tier 1 capital ratio of 14.9 percent and leverage ratio of 9.2 percent
- The Board of Directors will propose a dividend for 2017 of NOK 6 per equity certificate to the Board of Trustees

NOK million	31.12.2017	31.12.2016	Change
Net interest income	1 679	1 565	114
Net commission income	312	293	19
Net income from financial instruments	88	224	-136
Other operating income	18	28	-10
Total income	2 097	2 110	-13
Total expenses	811	787	24
Profit before losses on loans	1 286	1 323	-37
Losses on loans, guarantees	20	50	-30
Profit before taxes	1 266	1 273	-7
Tax expenses	282	284	-2
Profit for the period	984	989	-5

Improvement in profit before taxes, 2016 –2017

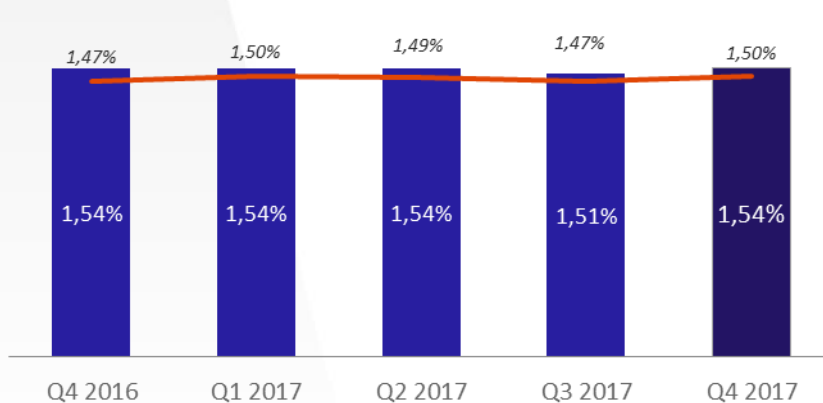
NOK million



Key figures – Quarterly development

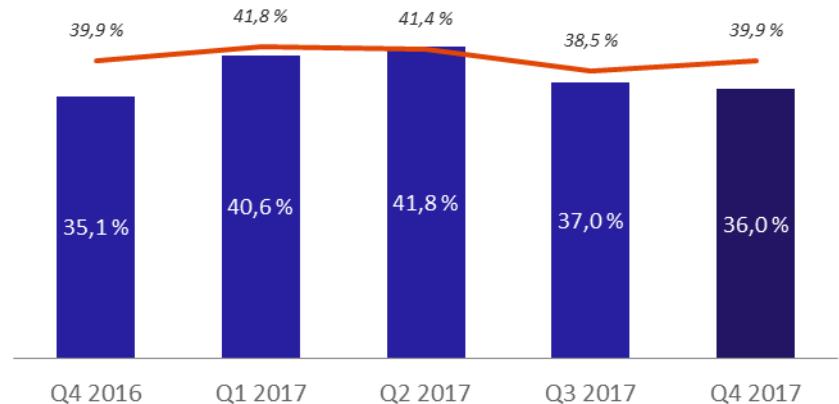
Net interest income to total assets

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



Costs Income Ratio

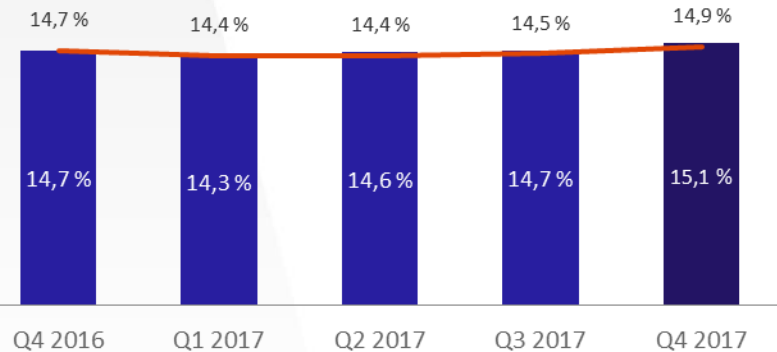
Cost income ratio excl. financial instruments



Key figures – Quarterly development

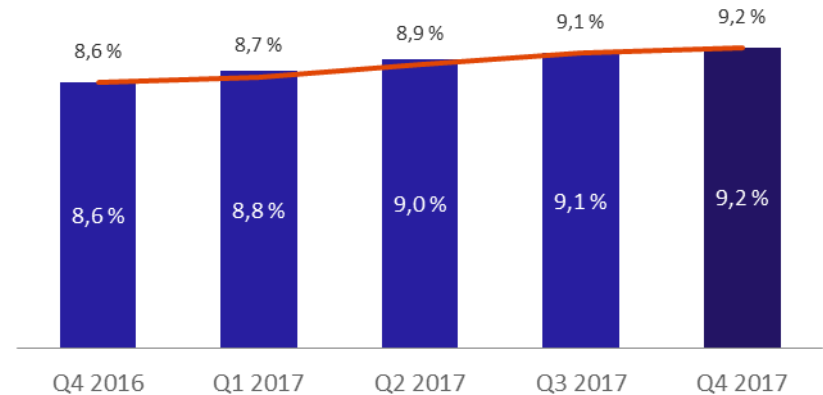
Common equity tier 1 capital ratio

Common equity tier 1 capital ratio with Brage partially consolidated



Leverage ratio

Common equity tier 1 capital ratio with Brage partially consolidated

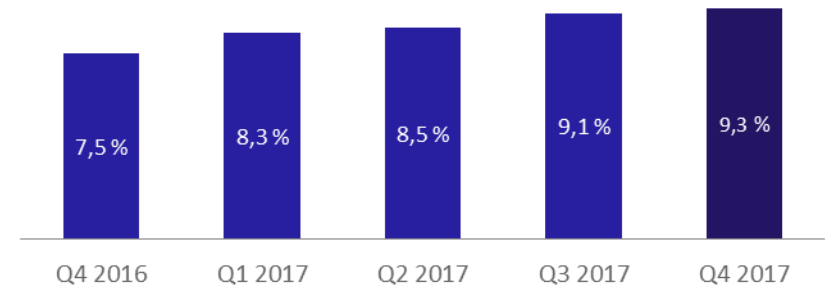


Key figures – quarterly development

Return on equity after tax₁₎



Return on equity after tax
excl. financial instruments₂₎



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

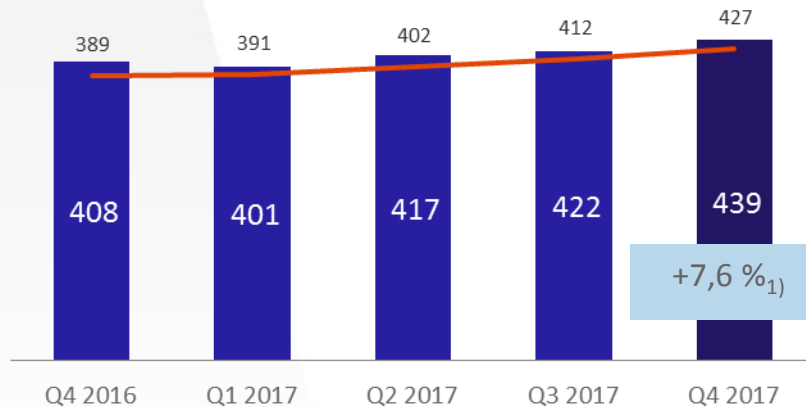
2) ROE after tax excl. Financial instruments and accounting events = $\frac{\text{Profit after tax, excl. financial instruments and accounting events}}{\text{Equity} - \text{hybrid capital}}$

Profit and loss – Quarterly development

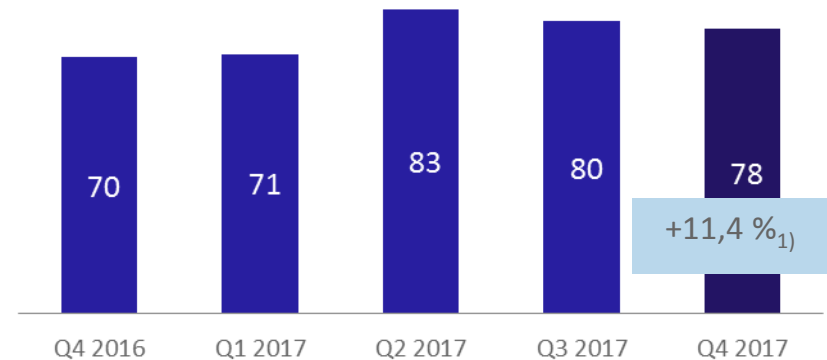
NOK million

Net interest income

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



Net commission income

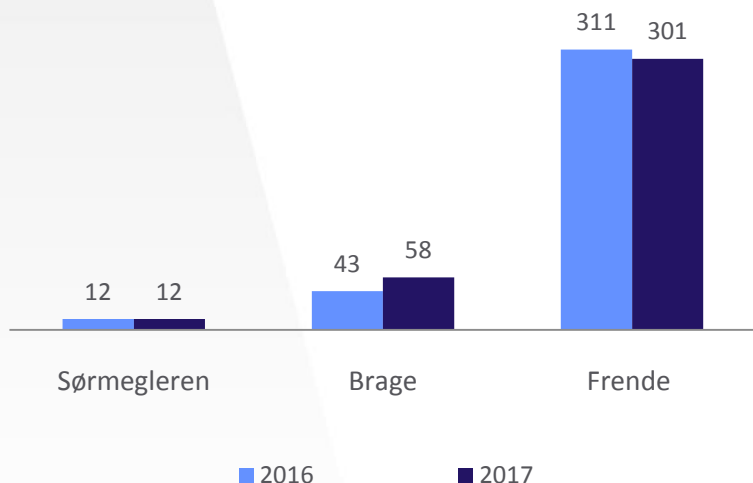


1) Changes from the same period in 2016.

Profit contribution from affiliated companies

The companies' profit before tax

NOK million

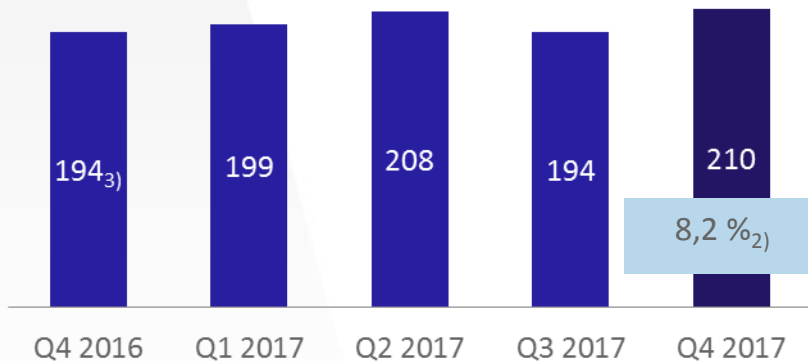


NOK million		31.12.2017	31.12.2016
Frende (10 percent owner)	Dividend	12	8
	Return	55	23
Brage (15 percent owner)	Dividend	0	0
	Return	0	25
Sørmeqleren (Consolidated – 90.1 percent ownership)	Profit contribution	9	9

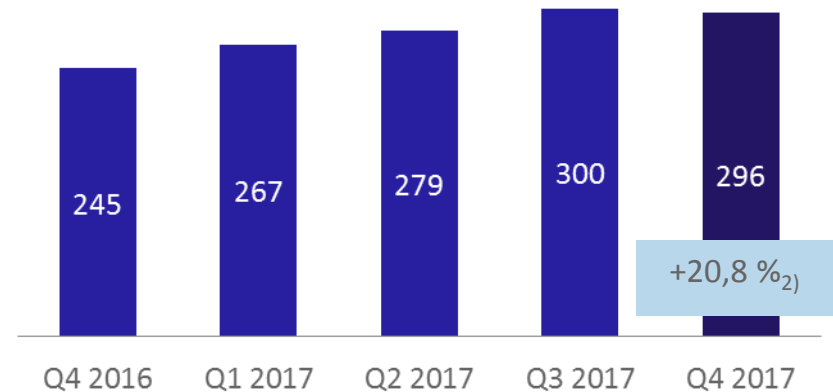
Profit and loss - Quarterly development

NOK million

Operating expenses



Profit from ordinary operations₁₎



- 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) Q4 2017 numbers are extraordinarily low because of the net accounting effect of NOK 28 million after the conversion of the pension scheme

Balance sheet items – Quarterly development

NOK billion

Loans



Deposits



- 1) Changes from the same accounting period in 2016
- 2) Loan growth in 2017 amounted to NOK 6.6 billion, equivalent to 7.2 percent, of which retail customers accounted for 6.7 percent and corporate customers 8.1 percent

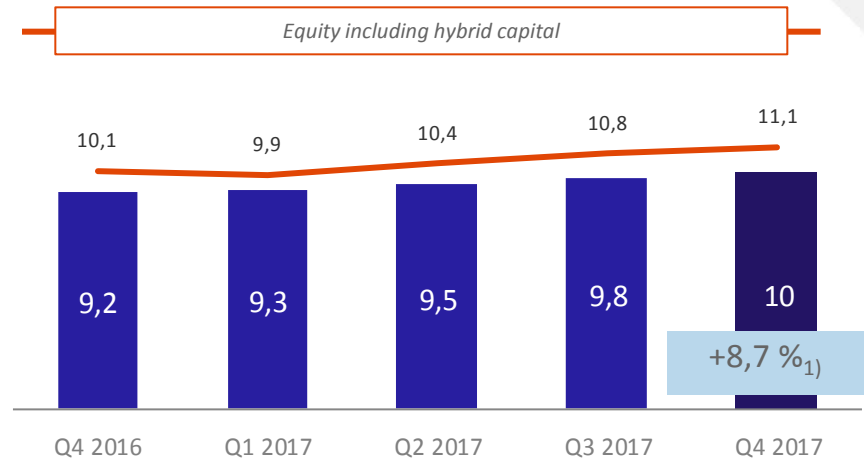
Balance sheet items – Quarterly development

NOK billion

Total assets



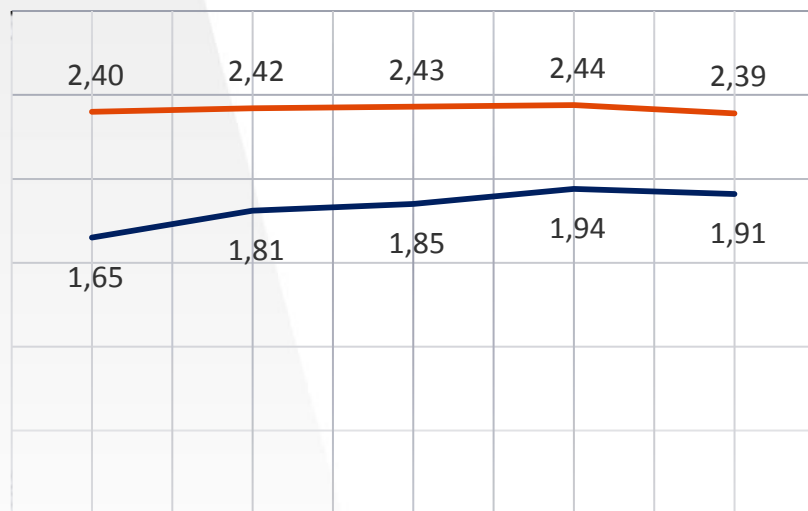
Equity



1) Changes from the same accounting period in 2016

Interest margin - Quarterly development

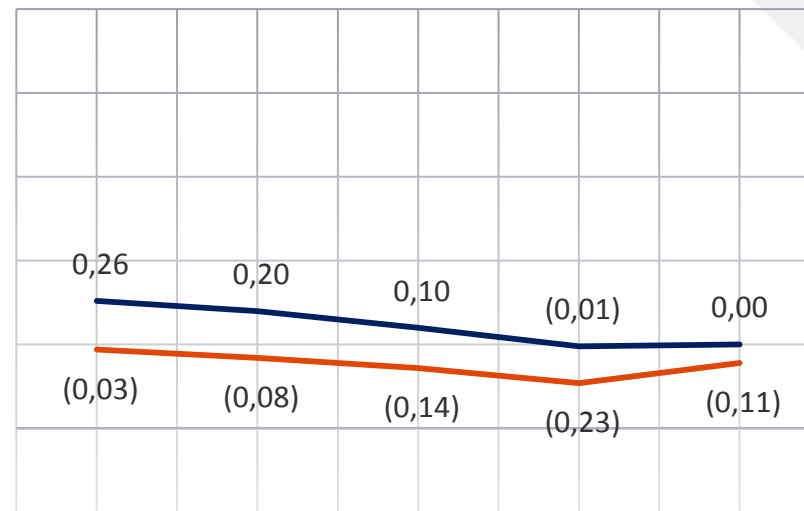
Loans (%)



Q4 2016 Q1 2017 Q2 2017 Q3 2017 Q4 2017

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

Deposits (%)



Q4 2016 Q1 2017 Q2 2017 Q3 2017 Q4 2017

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

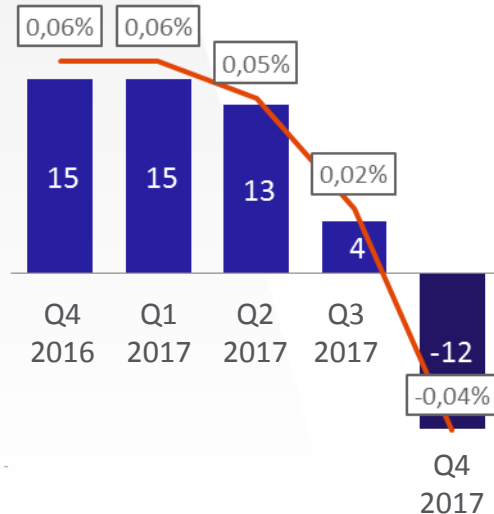
Loans: Average interest rates minus 3 month weighted average of 3 month NIBOR.

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

All numbers in % per annum.

Losses and non-performing loans – Quarterly development

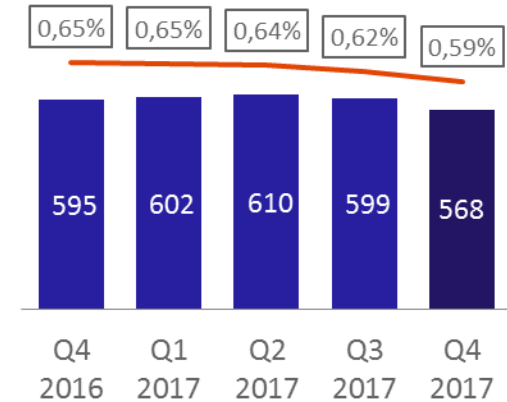
Development in losses in NOK million and as a percentage of gross loans



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

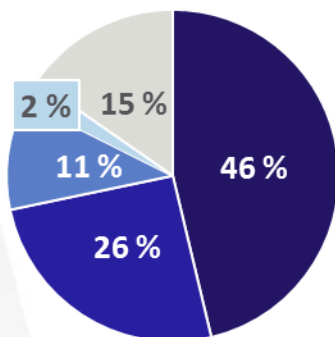


A well diversified loan portfolio

High RM share and geographical diversification contribute to a balanced portfolio

Geographical distribution of loans

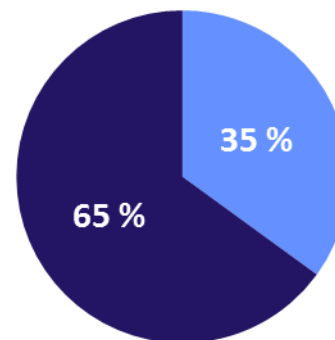
Gross loans



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

Distribution RM / CM

Gross loans



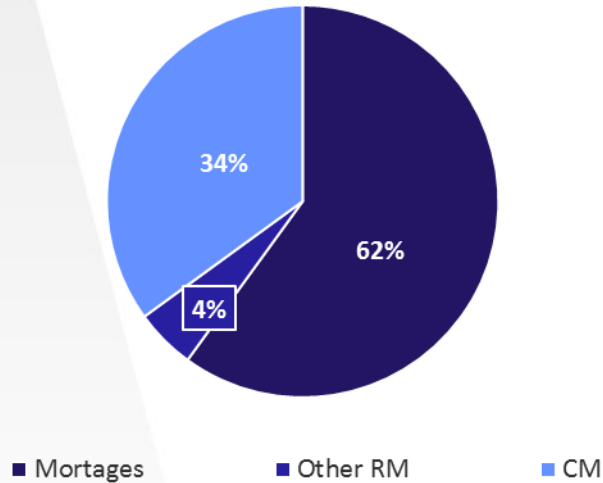
■ CM ■ RM

- # 1 position in Vest-Agder and Aust-Agder, # 3 position in Telemark. Strong growth in Rogaland
- Close and long term cooperation with major firms/organizations in the region. The KNIF* segment amounts to NOK 8.1 billion in loans to customers and NOK 4.6 billion in customer deposits. KNIF corporates constitute the biggest share with NOK 4.9 billion in loans and NOK 4 billion in deposits
- Loans to customers are concentrated in the banks market area
- High RM share is risk reducing.

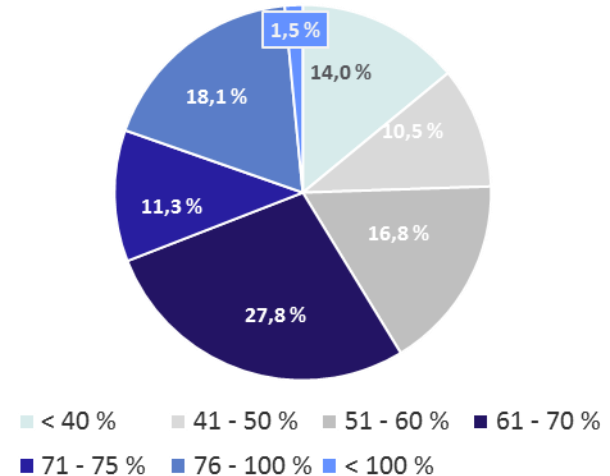
Note(*): KNIF = Kristen-Norges interessefellesskap (Norwegian Christian interest organization) -> Consists of more than 70 national organizations

Sparebanken Sør – Mortgages

The loan portfolio in Sparebanken Sør (Group)



Loan to Value (Group)



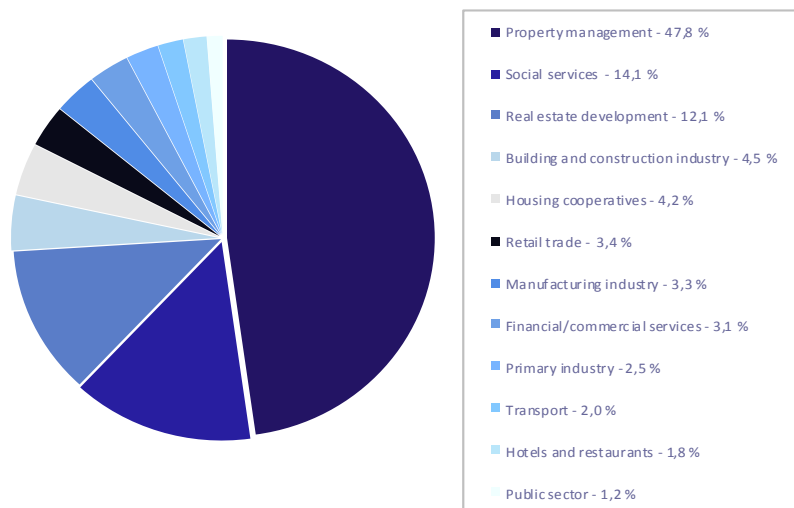
- Mortgages constitute a large part of the RM portfolio
- Loans with LTV (Loan to Value) below 75 percent constitute 80.4 percent

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

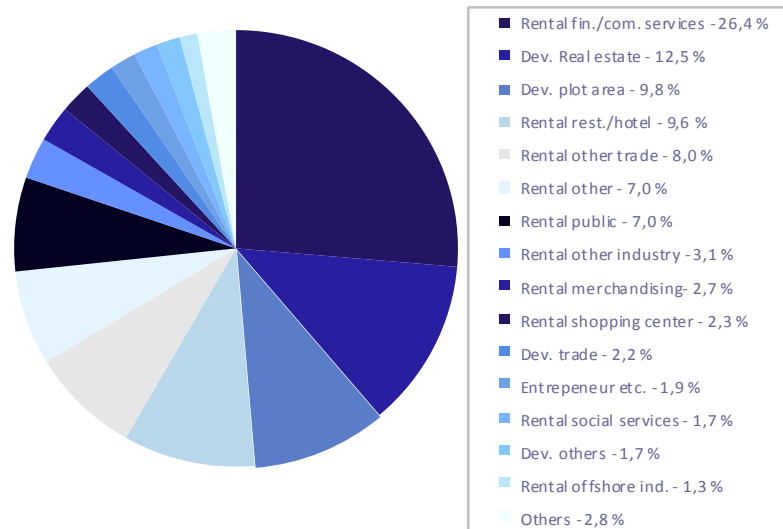
As a consequence the actual LTV-distribution will be lower than what is displayed in the table.

A well diversified loan portfolio

Distribution Corporate Market (CM)



Tenant distribution₁₎: Property management (rental), real estate development and building and construction (Loan commitment > NOK 10 million)

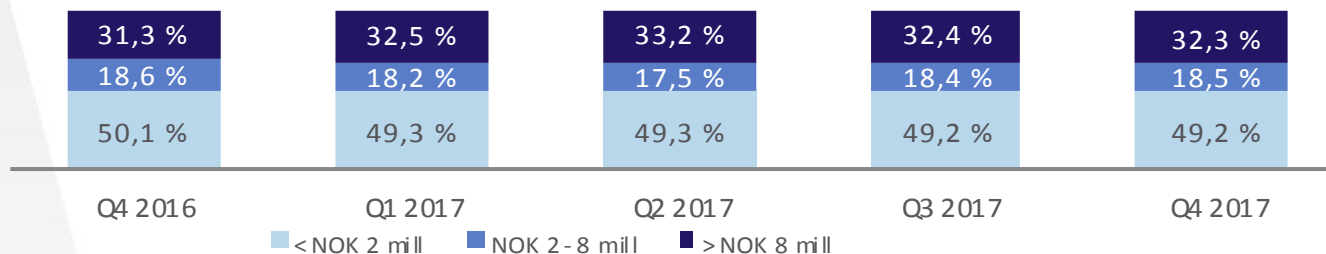


The CM loan portfolio reflects the business activity in the region with one major exception: Sparebanken Sør has a very low direct exposure to the oil industry (incl. oil service industry) and shipping.

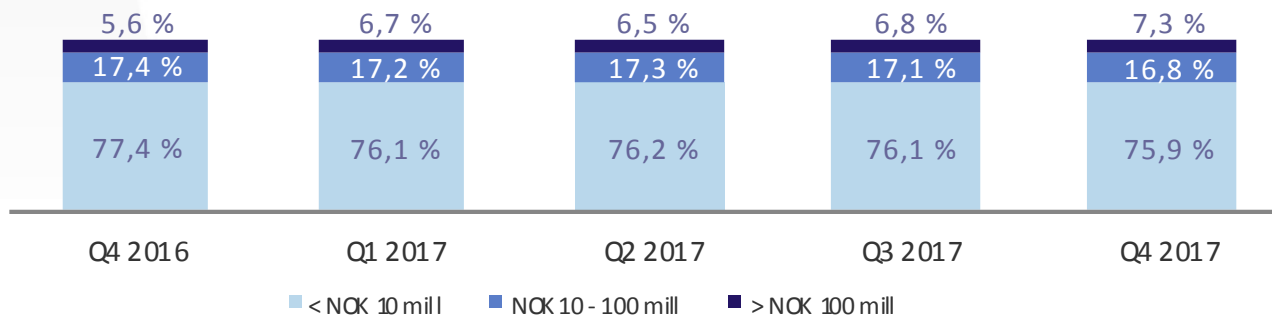
1) Updated Q3 2016

Portfolio

Deposits distributed by size

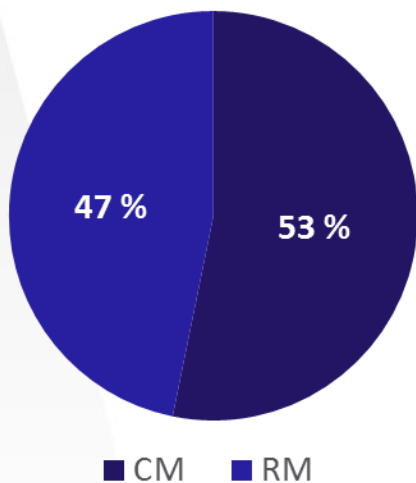


Loans* distributed by commitment size

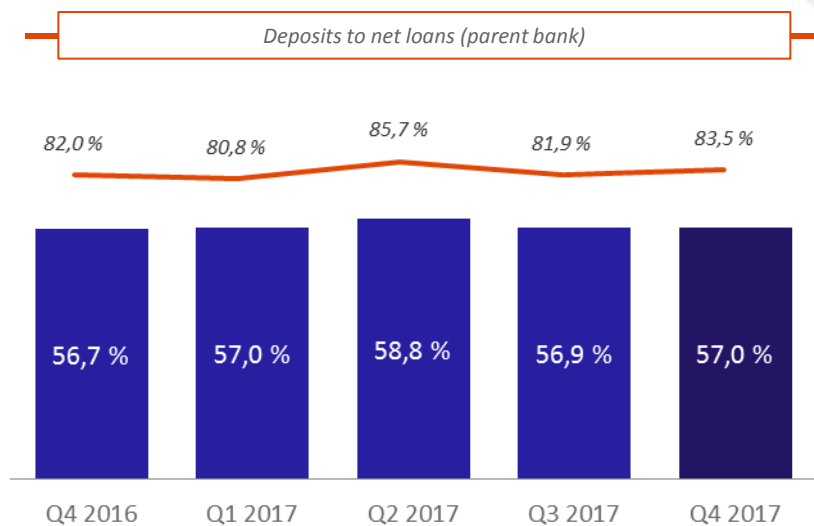


Deposits

Distribution RM/CM



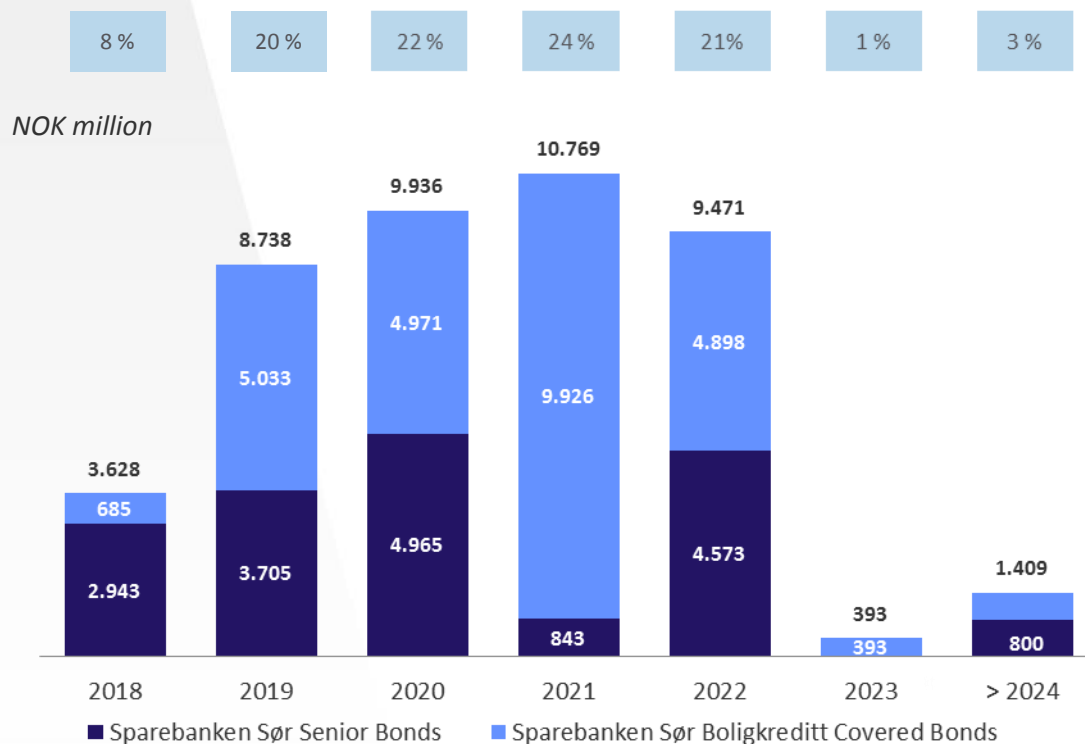
Deposit to net loans



Deposits as a percentage of net loans have increased over the last 12 months, with a deposit growth of 7.8 percent

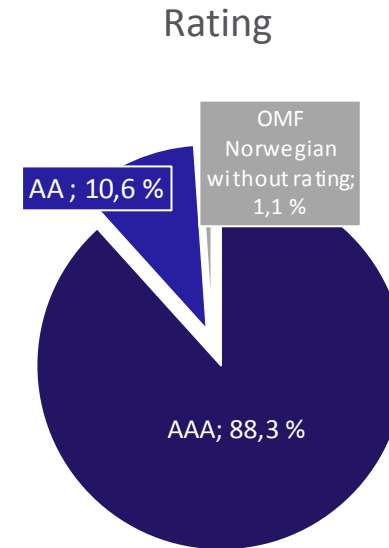
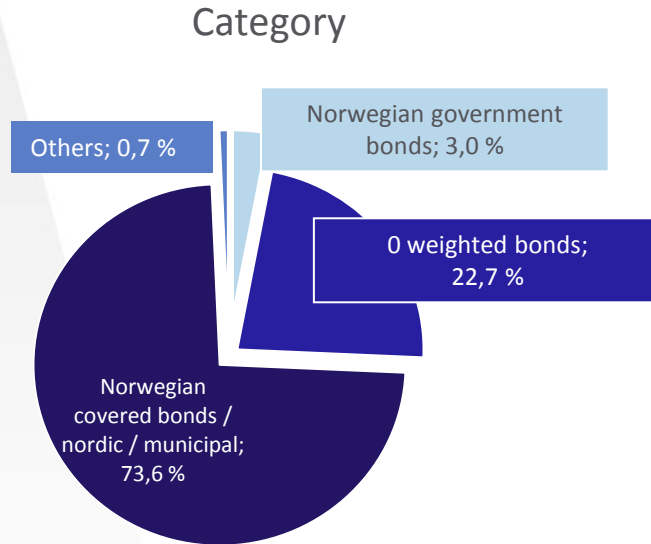
Solid financial base – Well diversified funding profile

Remaining maturity of outstanding wholesale funding



- Total funding for the Group amounted to NOK 44.3 bn, with NOK 26,5 bn issued as covered bonds as at 31 December 2017
- The bank has a reassuring maturity profile
- Funding with maturities after 2018 amounts to 92% of the portfolio
- Liquidity indicator 1 at 109%
- Average maturity at 3 years

Solid financial base – High liquid buffers to handle liquidity stress

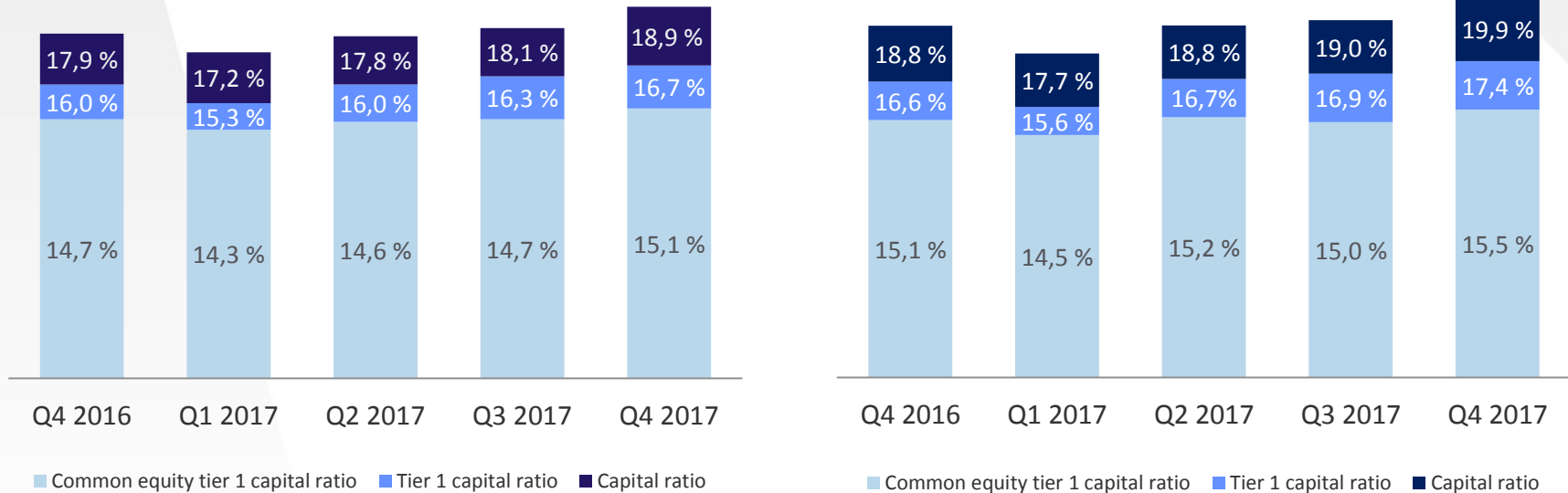


- Total liquidity portfolio of NOK 13.4 bn
- 100 % investment grade and 100 % liquid instruments (LCR eligible)
- Liquidity reserve (LCR) of 139 % for the Group

Capital adequacy

Group

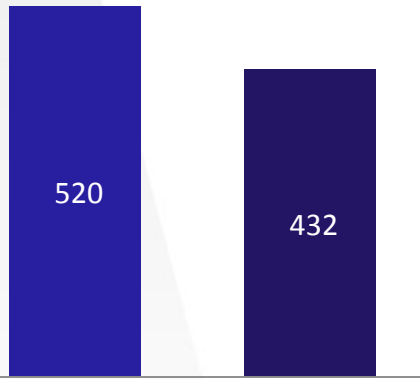
Parent bank



The CET1 ratio, when including the Group's cooperative companies¹⁾, is 14,9 percent. The tier 1 capital ratio is 14,9 percent and the (total) capital ratio is 18,7 percent.

Structure and cost focus

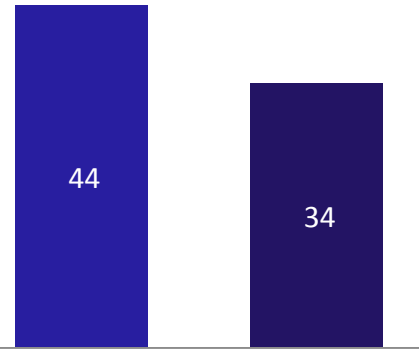
Number of employees



IB 2013

Status

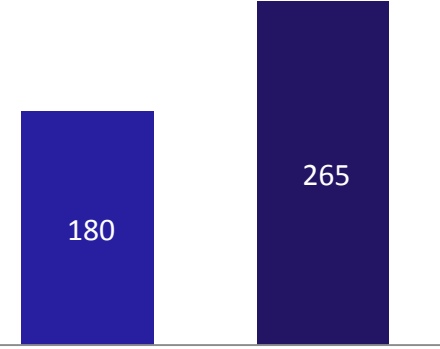
Number of offices



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.

Summary after Q4 2017

Result

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

Finance

Positive net income from financial instruments, mainly due to positive changes in the value of bonds and strategic holdings.

Capital

Common equity tier 1 capital ratio is 14.9 percent and the leverage ratio is solid 9.2 percent.

Growth

Loan growth of NOK 6.6 billion the last 12 months, corresponding to a 7.2 percent annual growth. Deposit growth of NOK 4.0 billion, or 7.8 percent the last 12 months.

Summary

Sound operations contribute to a pre-tax result of NOK 1266 million in Q4 2017.



Outlook

Macro

Growth in the Norwegian economy has picked up after weak growth in GDP over recent years, with higher growth in exports, reduced slowdown in oil investments, lower unemployment and higher private consumption.

The region

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

Capital requirements

The Bank has a common equity tier 1 capital ratio of 14.9 percent and leverage ratio of 9.2 percent. Along with a positive profit from ordinary operations, the opportunities for further growth are positive.

Funding

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

Digital development

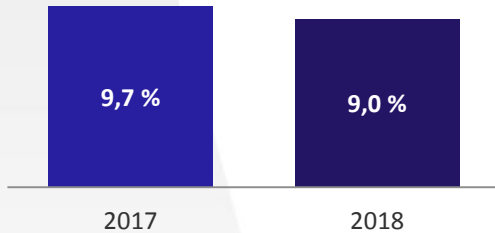
Investments in digitization and new technological solutions give the bank good opportunities to further improve the customer experience and the bank's cost position.

Summary

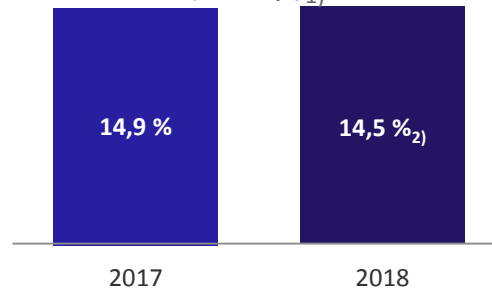
Sparebanken Sør is well positioned to further develop its position as a leading customer relation oriented bank, with high cost efficiency, good growth and profitability.

Financial key variables and ambitions

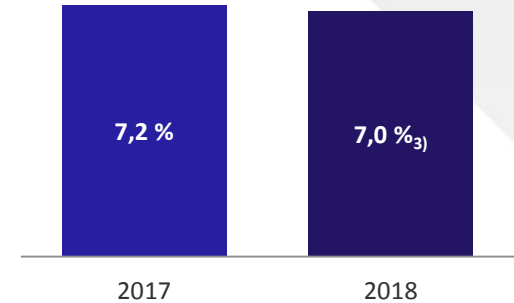
Return on equity



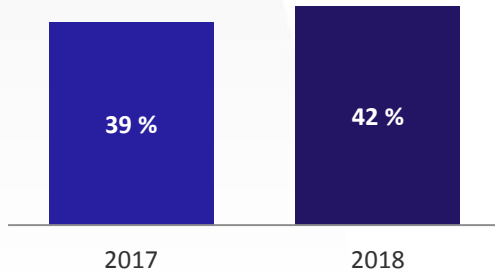
Common equity tier 1 capital
(Group)¹⁾



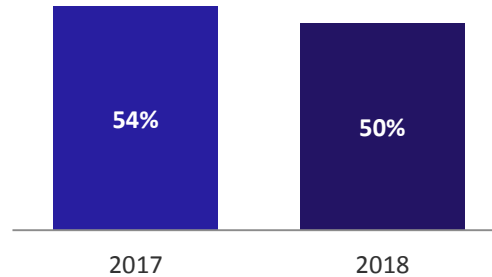
Loan growth



Cost development²⁾



Dividend ratio



1) Incl. Share of profit

2) Will be determined in ICAAP

3) Overall credit growth + 1 percentage point

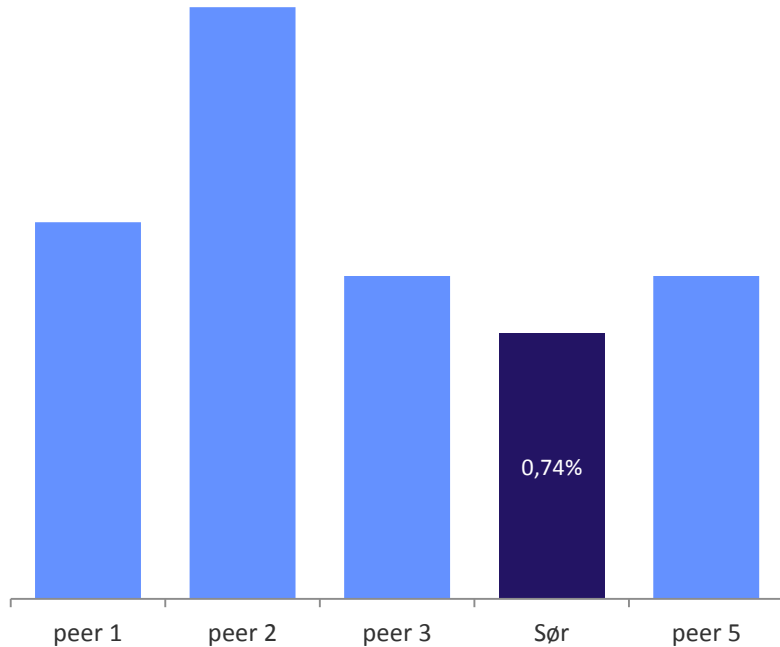
Appendix



SPAREBANKEN SØR

Three strategic pillars

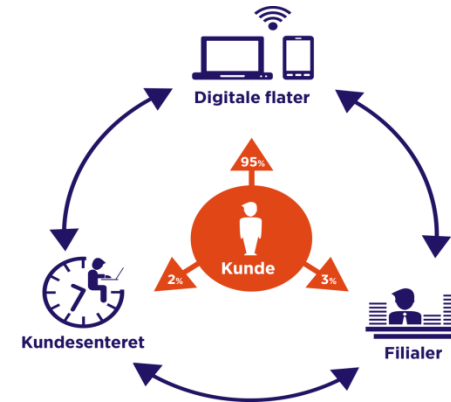
One of the most cost effective financial institutions₁₎



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

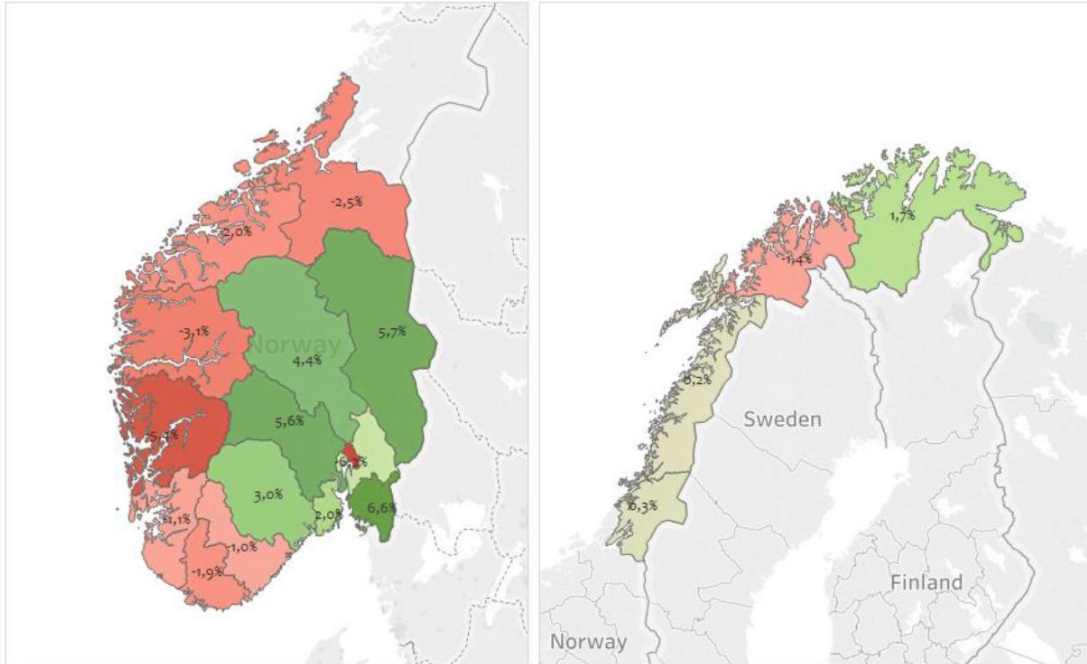
Local, regional and national customer segments

Regional business



Balanced development in the region

12 month price change counties - December



Unemployment, January 2018

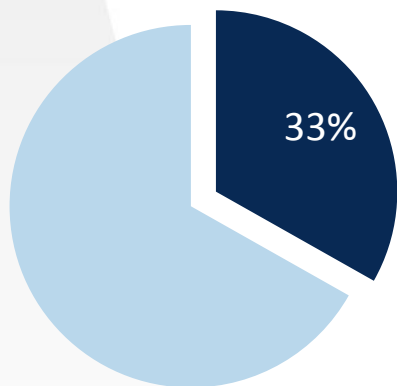
	Number of unemployed	Percentage of the workforce	Percentage change from last year
Total	71 849	2,6 %	-19 %
Østfold	4 402	3,1 %	-11 %
Akershus	6 671	2,1 %	-14 %
Oslo	10 238	2,7 %	-13 %
Hedmark	1 943	2,0 %	-10 %
Oppland	1 791	1,8 %	-10 %
Buskerud	3 642	2,5 %	-10 %
Vestfold	3 758	3,0 %	-15 %
Telemark	2 326	2,7 %	-23 %
Aust-Agder	1 913	3,4 %	-15 %
Vest-Agder	2 713	2,9 %	-25 %
Rogaland	8 797	3,4 %	-22 %

House price change

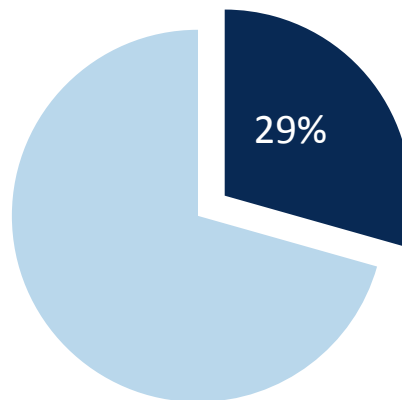
	12 month growth	Growth Sept. to Dec.
Vest-Agder	-1,9 %	-1,1 %
Aust-Agder	-1,0 %	-1,6 %
Telemark	3,0 %	-0,5 %
Rogaland	-1,1 %	-1,2 %
Oslo	-6,2 %	-1,0 %

Share of total mortgages by county

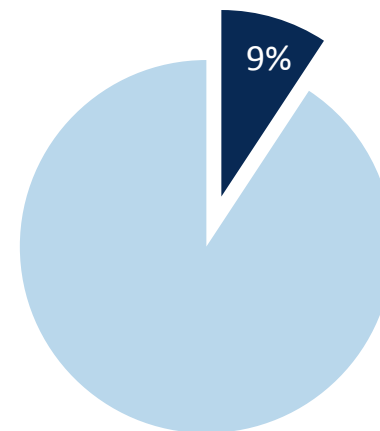
Vest - Agder



Aust - Agder



Telemark



1 position in Vest-Agder and Aust-Agder, # 3 position in Telemark. Positive development in Rogaland.

Market shares are calculated on the basis of the number of houses, including holiday houses, of which each bank had as collateral for mortgages as at 30 December 2017.

Equity certificate owners

20 largest equity certificate owners as of 31 December 2017

	Name	Number of ECs	Share of ECs %		Name	Number of ECs	Share of ECs %
1	Sparebankstiftelsen Sparebanken Sør	7.988.679	51,00	11	Gumpen Bileiendom AS	154.209	0,98
2	Arendal Kom. pensjonskasse	450.000	2,87	12	Allumgården AS	151.092	0,96
3	Pareto AS	417.309	2,66	13	Landkreditt Utbytte	150.000	0,96
4	Bergen Kom. Pensjonskasse	410.491	2,62	14	Ottersland AS	100.000	0,64
5	Holta Invest AS	405.700	2,59	15	Wenaas Kapital AS	100.000	0,64
6	EIKA utbytte VPF c/o Eika kapitalforv.	399.148	2,55	16	MP Pensjon PK	85.523	0,55
7	Glastad Invest AS	387.467	2,47	17	Artel AS	82.131	0,52
8	Merrill Lynch	329.080	2,10	18	Profond AS	77.115	0,49
9	Wenaasgruppen AS	186.000	1,19	19	Apriori Holding AS	72.575	0,46
10	Otterlei Group AS	168.200	1,07	20	Varodd AS	70.520	0,45
	Total 10 largest owners	11.142.074	71,12		Total 20 largest owners	12.185.239	77,77

- As of 31 December 2017, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC as at 31 December 2017 amounted to NOK 11,2
- The ownership ratio at the end of 2017 was 18,7 percent

SOR – stock price and liquidity

Price development

- The stock price for SOR was NOK 104 as at 31 December 2017. At the same time, book value was NOK 120, amounting to a price-to-book ratio of 0.87.
- The equity certificates gave a return of 1 percent in Q4 2017.
- Sparebanken Sør carried out a share issuance in 2016. The stock price as at 31.12.2017 was NOK 104, which is 89 percent higher than the share issuance price (NOK 55).

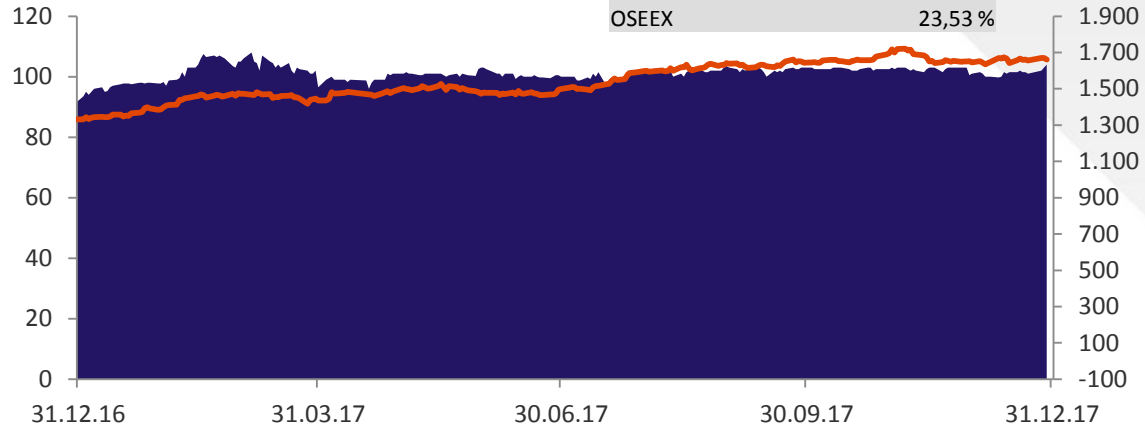
Liquidity

- There was a turnover of 1.3 million equity certificates in 2017, compared with 2.3 million in 2016. The turnover for 2014 and 2015 was 52 293 and 144 013 respectively.

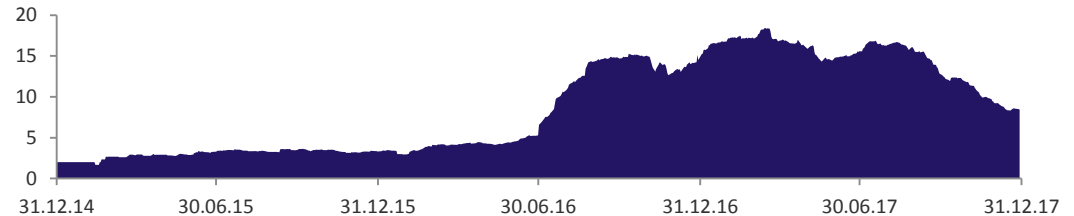
Dividend

- 50 percent of equity certificate holders` share of annual profits
- 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 Board of Directors will propose a dividend for 2017 of NOK 6 per equity certificate to the Board of Trustees
- Direct return of 5,8 percent (6,6 percent in 2016)

Return	(Q4 2016 – Q4 2017)
SOR	13,97 %
OSEEX	23,53 %



Daily turnover



■ 90 days floating average

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 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

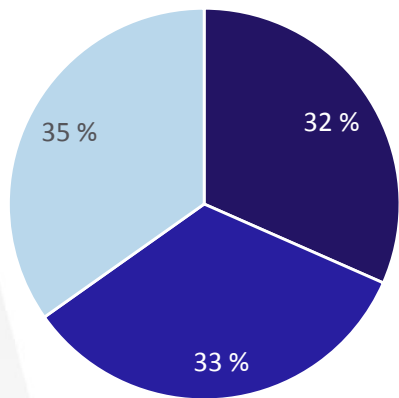
Capital assessments

31.12.2017	Method used when calculating capital ratio	CET1	Leverage Ratio
Sør	Standard	14,9	9,2
Regional bank 1	IRB	15,0	7,3
Regional bank 2	IRB	14,9	7,2
Regional bank 3	IRB	14,9	7,2
Regional bank 4	IRB	14,9	7,2
Regional bank 5	IRB	16,8	7,1

- Sparebanken Sør is the only of the large regional banks that uses the standard method in the capital adequacy calculations
- Sparebanken Sør has a very high Leverage ratio
- Sparebanken Sør decided in November to initiate the process of applying for approval from the Financial Authority to use the internal ratings-based approach (IRB). It is an ambition to send the application by the end of 2019.

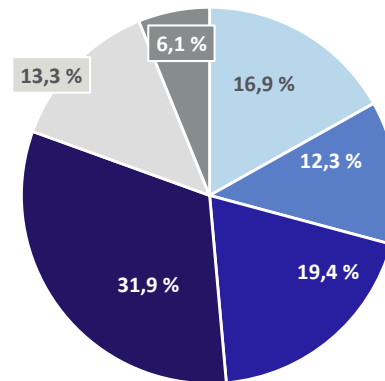
Sparebanken Sør Boligkreditt AS – 100 % owned by Sparebanken Sør

The loan portfolio in Sparebanken Sør



■ Sparebanken Sør Boligkreditt ■ RM Parent bank ■ CM

LTV distribution in Sparebanken Sør Boligkreditt



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

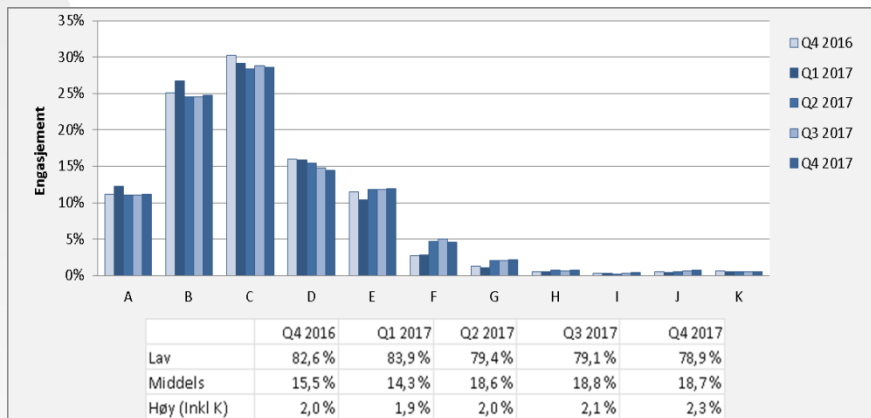
Stess test of the cover pool



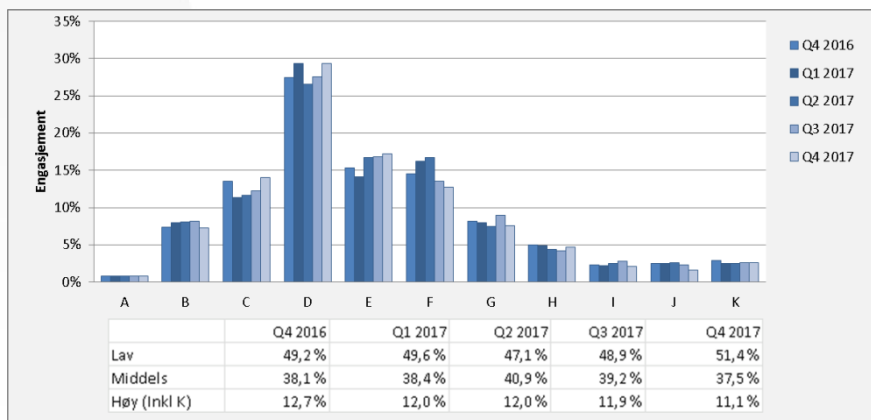
■ Weighted average LTV ■ Nominal OC

Portfolio quality – score (PD)

PM



BM



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 positive development with an increase of about 2.5 percent in low risk credit facilities, and a corresponding decrease in medium to high risk credit facilities.



SPAREBANKEN SØR

193 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