



Sparebanken Sør

Investor presentation Q4 2019

Sparebanken Sør - a leading financial institution in Southern Norway



Established in 1824,
529 employees



22 000 corporate
customers



Financial group with
banking, securities and
real estate brokerage



181 000 retail
customers



Publicly traded and
community-owned



Total assets of
NOK 129.5 bn

Agder and Telemark is a market with 470 000 inhabitants. No other bank has as high presence in the region as Sparebanken Sør. Establishes of new branches in Rogaland and Vestfold increases the market potential with 160 000.



Digitisation and geographical area



Solid bank in positive development

- Positive development in financial key figures
- Digital shift in competence
- Strong market position
- Solid loan portfolio
- ESG commitment

Efficient operations

Cost as % of income of 38.8%.

Low losses

Net entry on losses of NOK 17 million in 2019.

Strong liquidity and good solidity

Deposits as % of net loans of 55%, high LCR of 148% and a solid leverage ratio of 9.3%

Positive development in net interest income

Increased by NOK 197 million in 2019 compared 2018.

Increased profitability

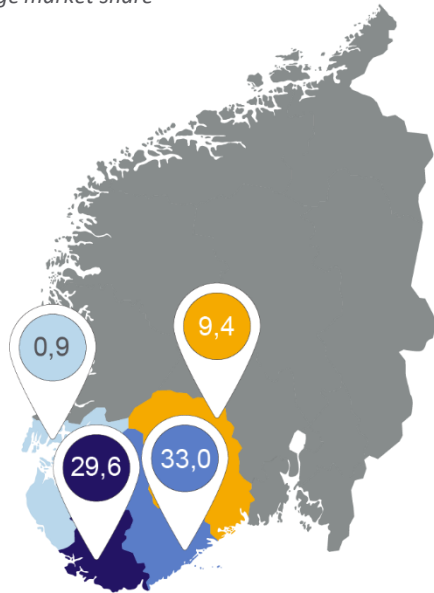
Return on equity of 9.5%



Strong position in the housing market

Maintaining a strong market position

Percentage market share



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

Stable development in housing prices

Percentage change in prices, last 12 months*

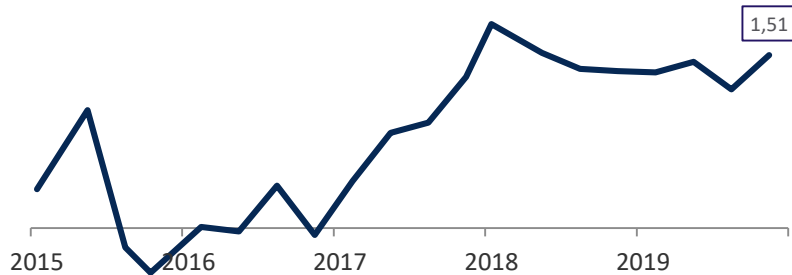


*3 month moving average of 12 month change

Growth in the Southern region

Increased production, Southern region

Growth last 3 months



Increase in investments, Southern region

Expected development next 12 months



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

Reassuring development in the labour market

Decrease in unemployed

Percentage change last 12 months



Increased employment rate, Southern region

Percentage growth last 3 months



Highlights from the quarterly report



SPAREBANKEN SØR

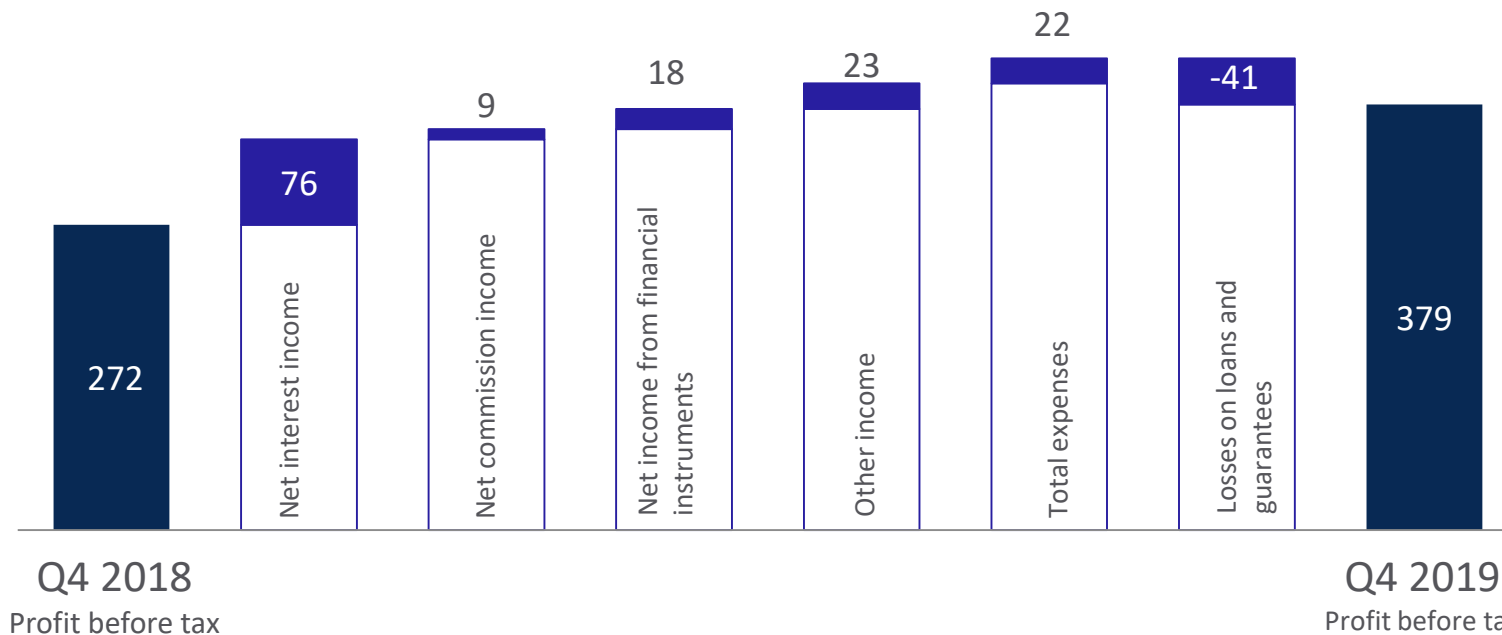
Highlights in Q4 2019

- Very good results from ordinary operations
- Positive development in net interest income
- Good results from Frende and Brage
- Efficient operations and low costs
- Net entry on losses on loans
- Year-on-year loan growth of 3.3 percent
- Year-on-year deposit growth of 2.5 percent
- Return on equity after tax of 9.6 percent
- Common equity tier 1 capital ratio of 15.7 percent and leverage ratio of 9.3 percent
- The Board will propose a dividend for 2019 of NOK 8.0 per equity certificate

NOK million	2019 Q4	2018 Q4	Change
Net interest income	523	447	76
Net commission income	91	82	9
Net income from financial instruments	-31	-49	18
Associated companies	21	-4	25
Other operating income	5	7	-2
Total income	609	483	126
Total expenses	233	255	-22
Profit before losses on loans	376	228	148
Losses on loans, guarantees	-3	-44	-41
Profit before tax	379	272	107
Tax expense	86	68	18
Profit for the period	293	204	89

Development in profit before tax

NOK million



Highlights 2019

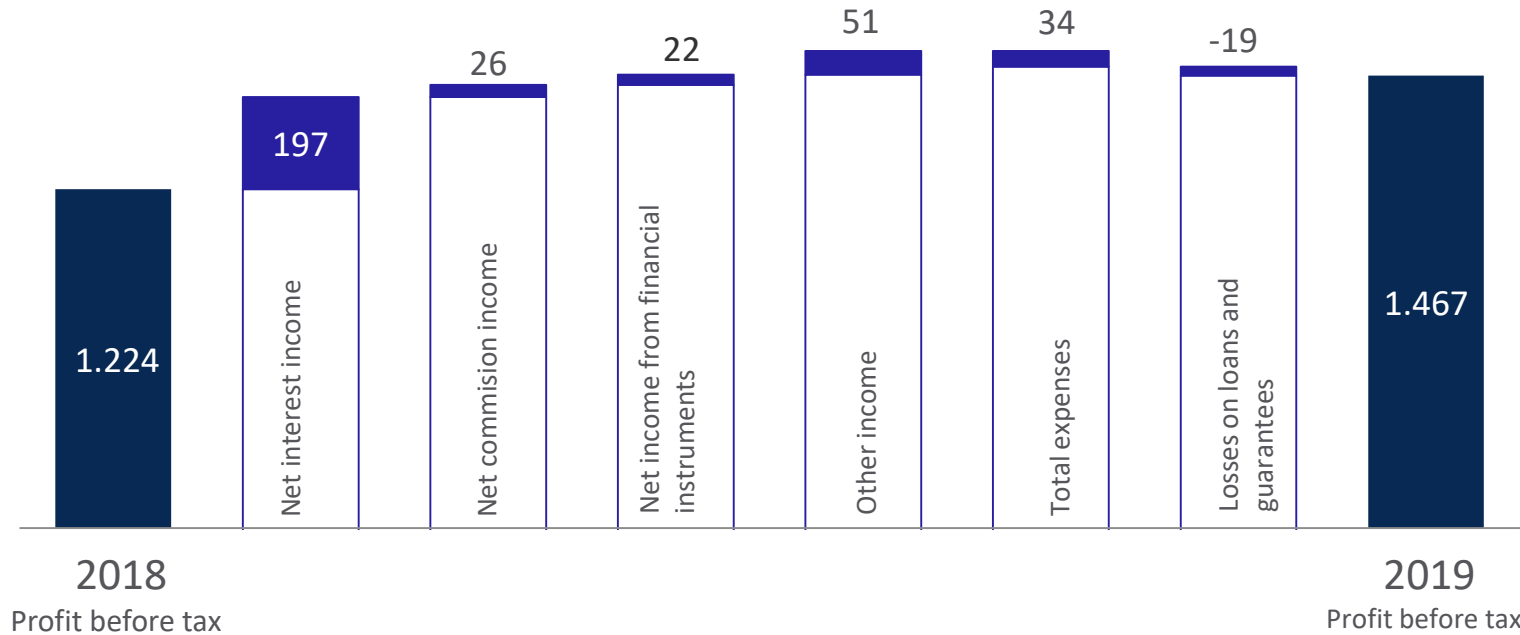
- Very good results from ordinary operations
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- Net entry on losses on loans
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NOK million	2019	2018	Change
Net interest income	1.926	1.729	197
Net commission income	344	318	26
Net income from financial instruments	24	2	22
Associated companies	64	13	51
Other operating income	10	10	0
Total income	2.368	2.072	296
Total expenses	918	884	34
Profit before losses on loans	1.450	1.188	262
Losses on loans, guarantees	-17	-36	-19
Profit before tax	1.467	1.224	243
Tax expense	342	285	57
Profit for the period	1.125	939	186



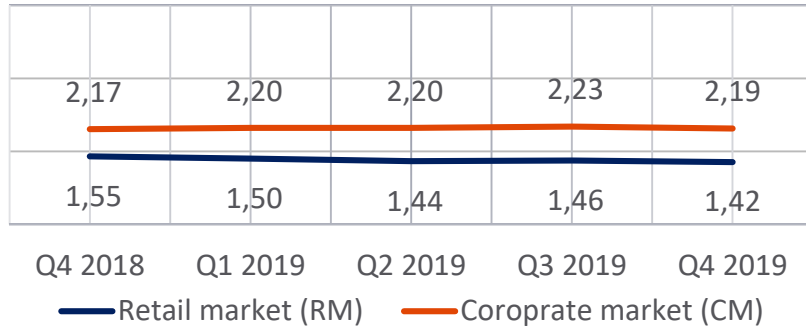
Development in profit before tax

NOK million

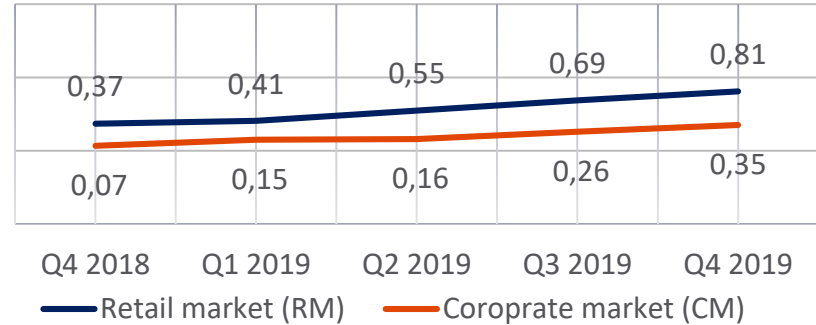


Interest margin and NIBOR3M

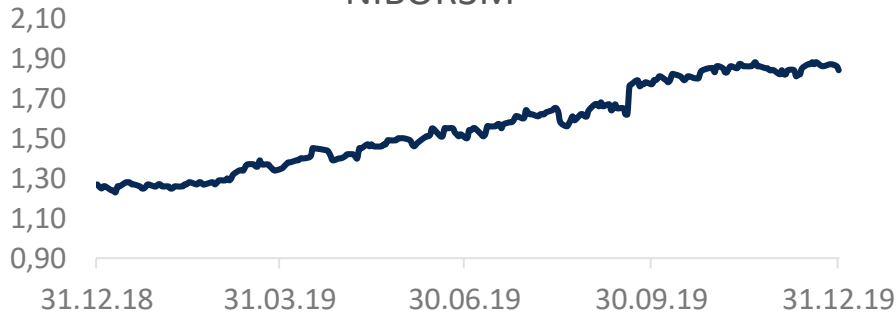
Loans (%)



Deposits (%)



NIBOR3M



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

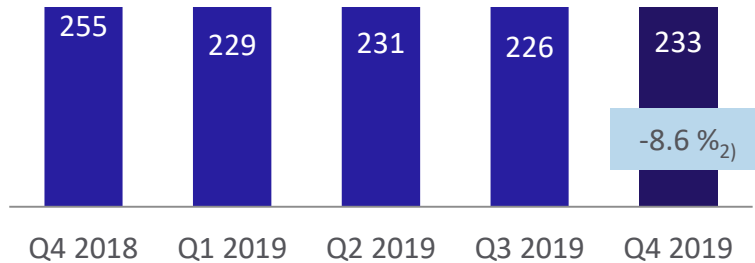
- Growth in total loans
- Interest rate changes on loans
- A CM loan portfolio which accounts for 34 percent of total loans (of which about 80 percent is linked to NIBOR)
- CM deposits linked to NIBOR



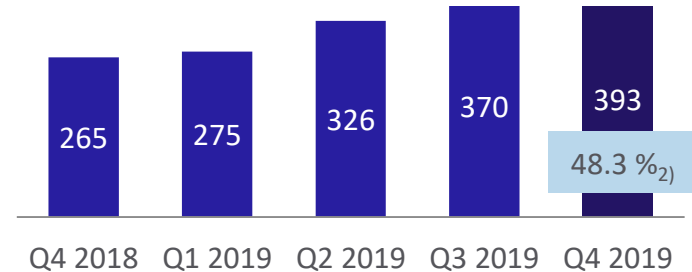
Profit and returns

NOK million

Operating expenses

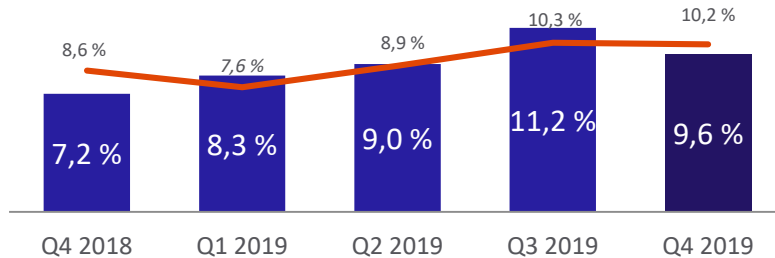


Profit from ordinary operations₁₎



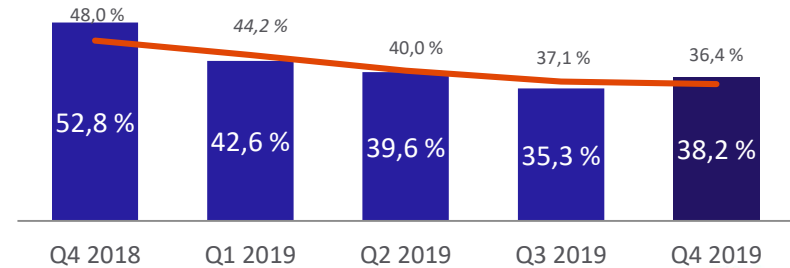
Return on equity

Return on equity excl. financial instruments and non-recurring events₃₎



Cost as % of income

Excl. financial instruments

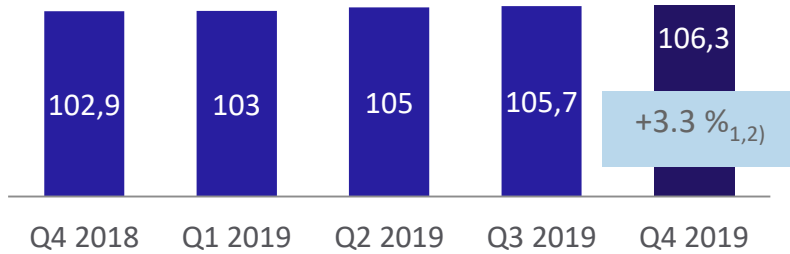


- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating expenses, adjusted for the conversion of the pension scheme
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments, interest on hybrid capital, revaluation of Balder Betaling/Vipps and conversion of the pension scheme

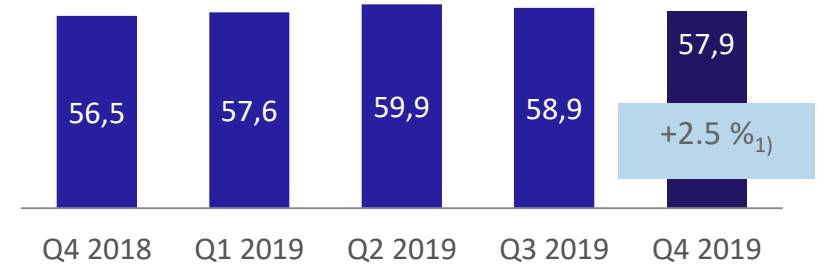
Balance sheet

NOK billion

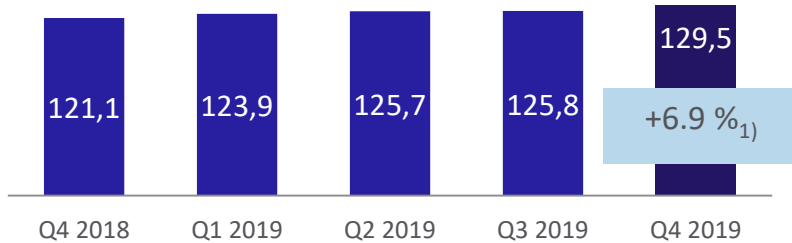
Net loans



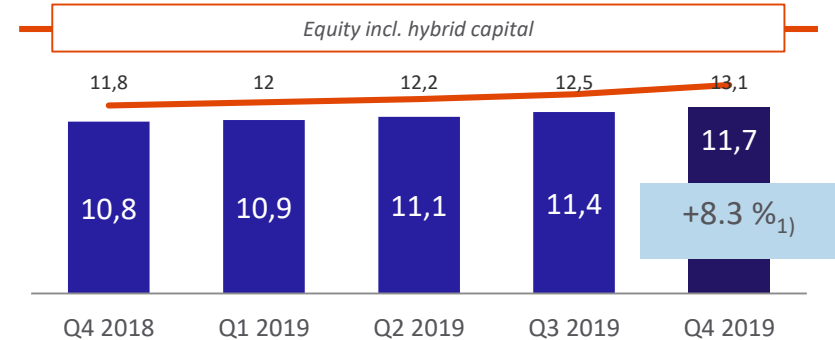
Deposits



Total assets



Equity



- 1) Changes from the corresponding prior-year period
- 2) Loan growth at the end of 2019 amounted to NOK 3.4 billion, equivalent to 3.3 percent, which of retail costumers accounted for 4.2 percent and coroprate costumers 1.1 percent

Associated companies

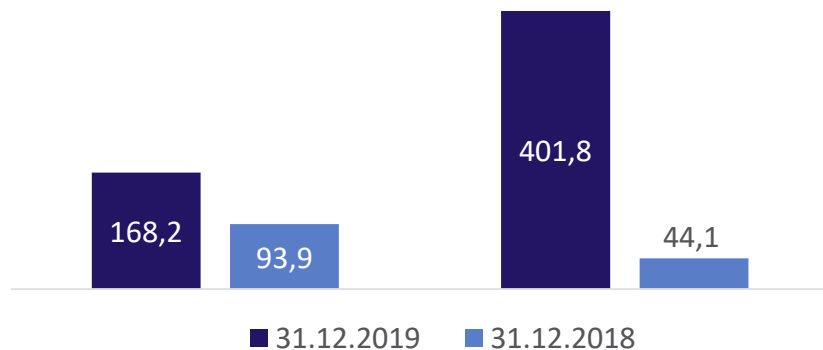


Profit before tax

NOK million

Brage Finans AS

Frende Holding AS



Effect on results when consolidating

NOK million		Q4 2019	Q4 2018	2019	2018
Frende forsikring (20,2 % ownership)	Share of profit	21,4	1,0	65,5	1,0
	Amortizing	-5,0	-5,0	- 20,0	-5,0
Brage finans (20,8 % ownership)	Share of profit	4,5	0	23,7	0

Summary after Q4 2019

Results

Positive development in profit from ordinary operations as a result of increased net interest income, increased contribution from associated companies, low costs and net entry on losses on loans.

Finance

Very good results from both Frende and Brage

Capital

Common equity tier 1 capital ratio of 15.7 percent and solid leverage ratio of 9.3 percent.

Growth

Loan growth of NOK 3.4 billion in the last 12 months, corresponding to 3.3 percent annual growth. Deposit growth of NOK 1.4 billion, corresponding to 2.5 percent in the last 12 months.

Summary

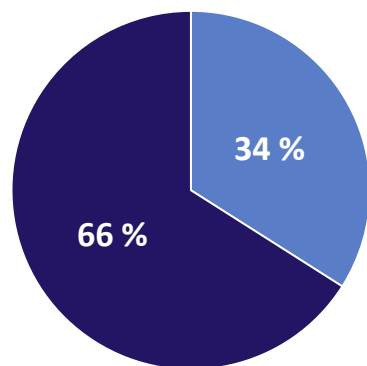
Sound operations contributed to a pre-tax profit of NOK 379 million in Q4 2019.

Loan portfolio and risk situation

A diversified loan portfolio

RM / CM distribution

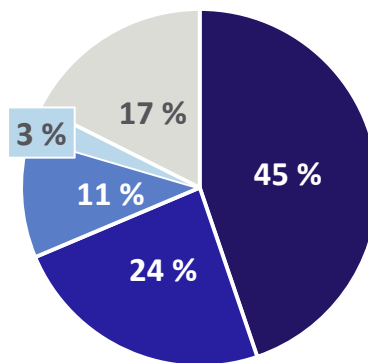
Gross loans



■ CM ■ RM

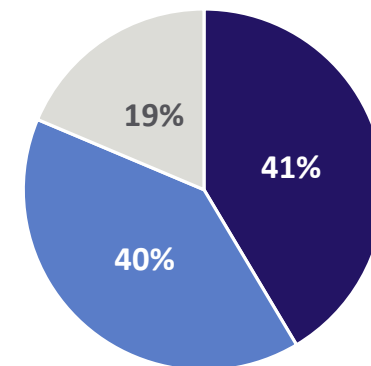
Geographical distribution of loans

Gross loans



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

Loan-to-Value (Group)



■ < 60% ■ 60-75% ■ > 75%

Average loan-to-value of approximately 60 percent for mortgages (group).

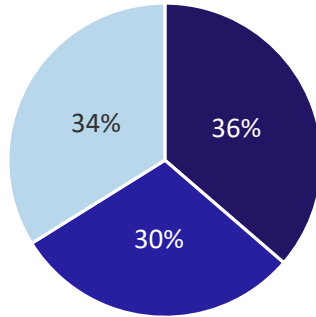
81 percent of mortgages within 75 percent of loan-to-value.

NOK 40 billion transferred to Sparebanken Sør Boligkreditt AS, equivalent to 57 percent of total loans to retail market.

Sparebanken Sør Boligkreditt

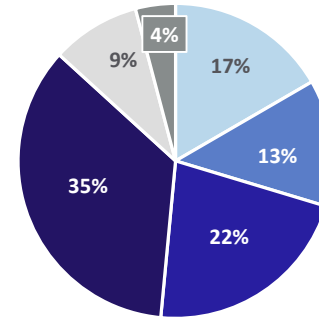
– Wholly owned by Sparebanken Sør

Sparebanken Sør Loan portfolio



■ Sparebanken Sør Boligkreditt AS ■ RM bank ■ CM

Sparebanken Sør Boligkreditt LTV distribution



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

Stress test of collateral



Status Q4 19

Decrease in housing prices by 30%

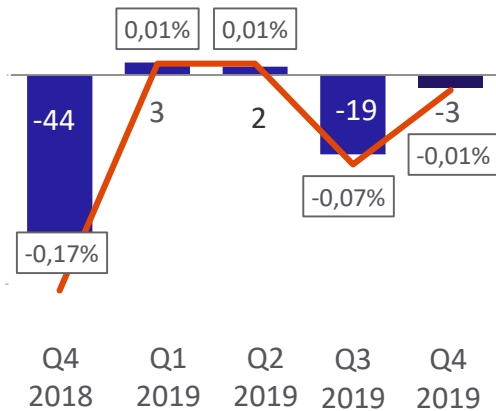
■ Vektet snitt LTV ■ Nominell OC



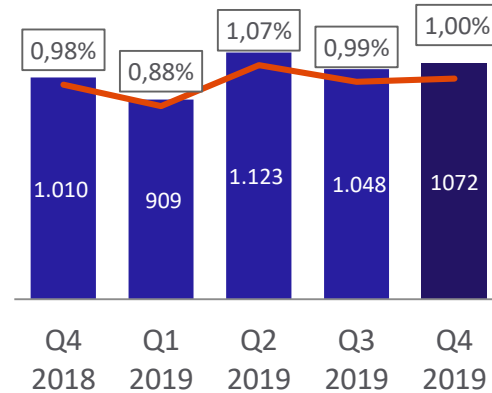
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Non-performing loans

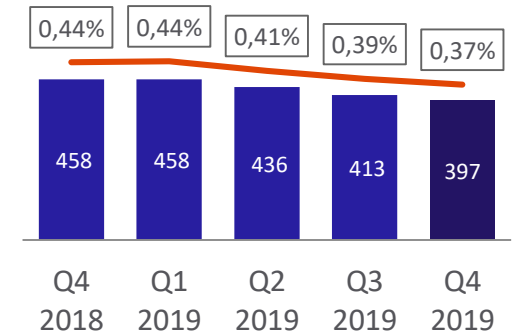
Development in losses in NOK million and as a percentage of gross loans (annualised)



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



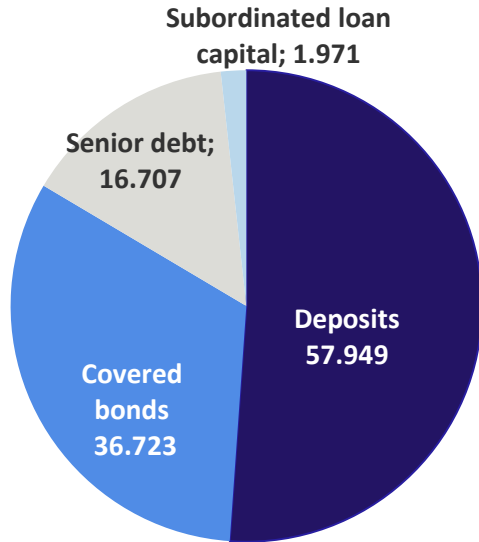
Development in loss provisions in NOK million and as a percentage of gross loans¹⁾



¹⁾ As of 1 January 2018, the Group implemented a new model for calculating expected losses on loans according to the new IFRS 9 standard, which replaced IAS 39.

Funding status

Market funding

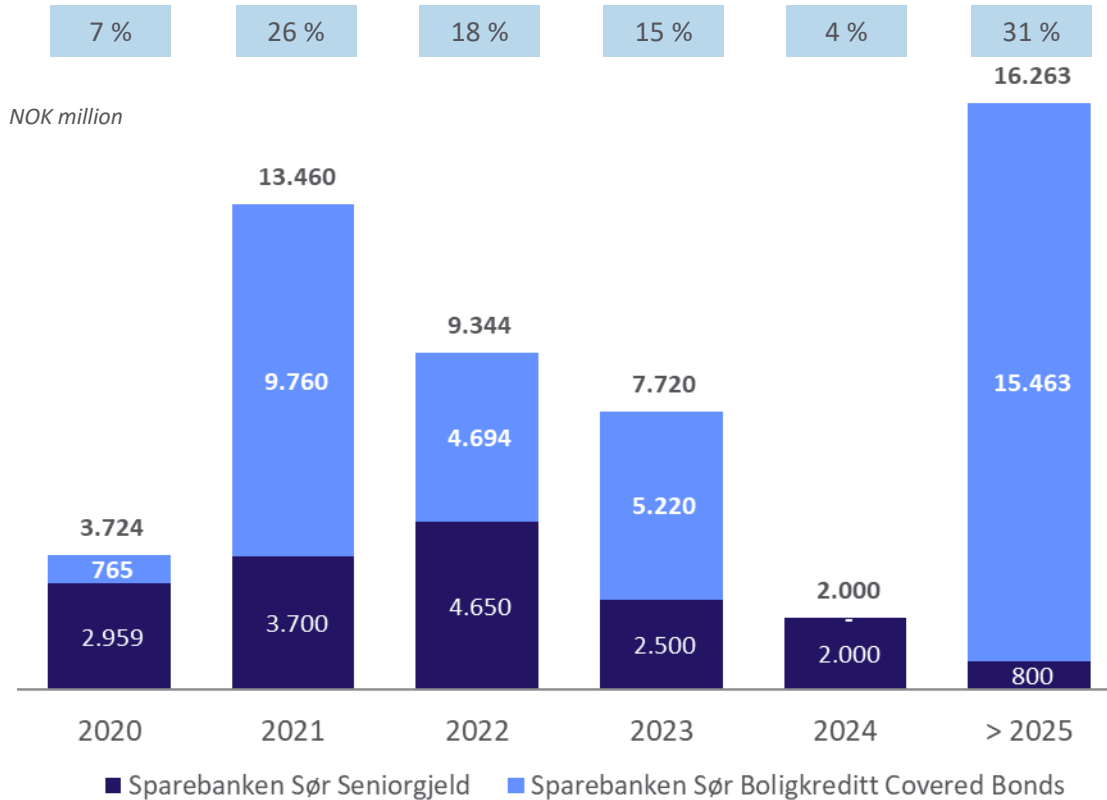


Deposits the most valuable source of funding.

- Deposits in percent of net loans were 54.5 percent
- Good access in both domestic and foreign markets regarding market funding.
- Year end Sparebanken Sør Boligkreditt has issued 2.8 billion euro in debt.
- Sparebanken Sør has a A1 rating
- Sparebanken Sør Boligkreditt AS has a triple A-rating (Aaa)



Funding maturity



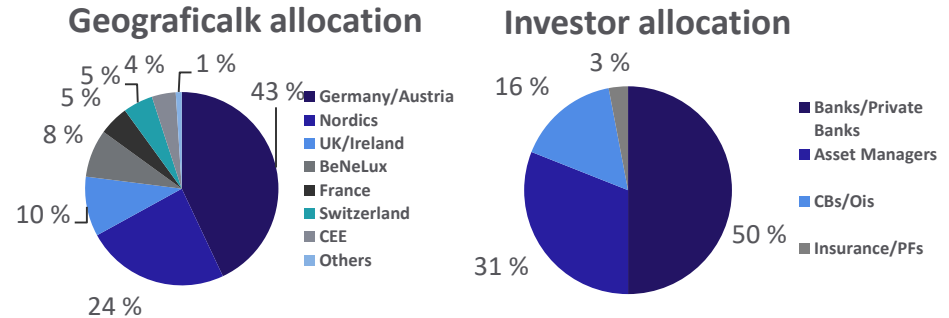
- The Group's total funding amounted to NOK 53.4 billion
- Covered bonds amounted to NOK 36.7 billion
- Long-term funding* amounted to 93 percent
- Average remaining maturity on long-term funding* amounted to 3.5 years

* Long-term funding: maturity > 1 year

Issuance of green covered bond - Euro benchmark

Successful issuance in Sparebanken Sør Boligkreditt October 2019:

- 7 year Green Covered Bond
- EUR 500 mill.
- Fifth CB Benchmark EURO transaction
- Large interest from a variety of investors
- Orderbook above EUR 1 billion after re-offer

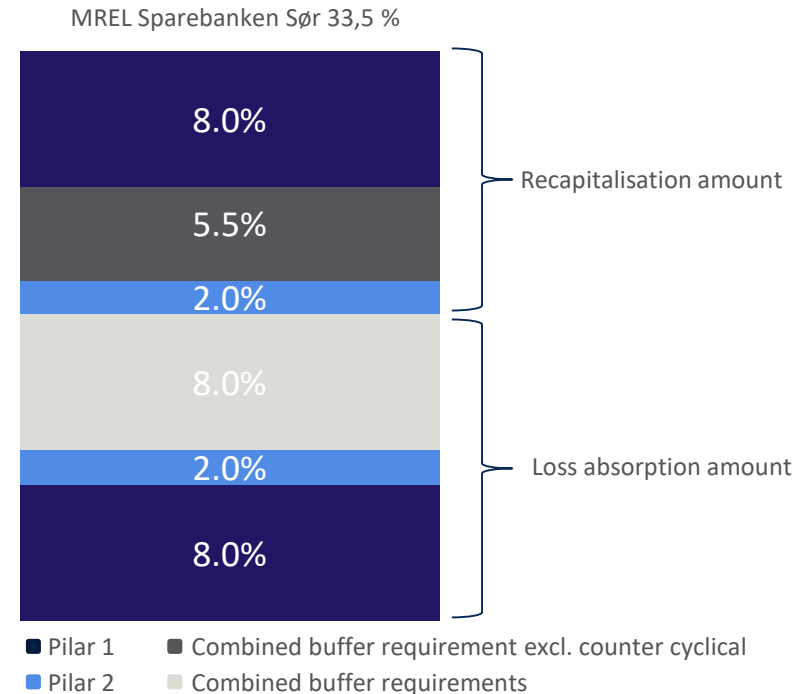


Transaction details

Issuer	Sparebanken Sør Boligkreditt AS
Issue rating	Aaa (Moody's)
Status	Norwegian Green Covered Bond
Launch date	17 October 2019
Settlement date	24 October 2019 (T+5)
Maturity	26 October 2026 (soft bullet)
Issue size	EUR 500mn (no grow)
Coupon	0.01%, act/act ICMA
Re-offer price / Spread	100.456% / MS + 11bps
Governing law	English Law
ISIN	XS2069304033

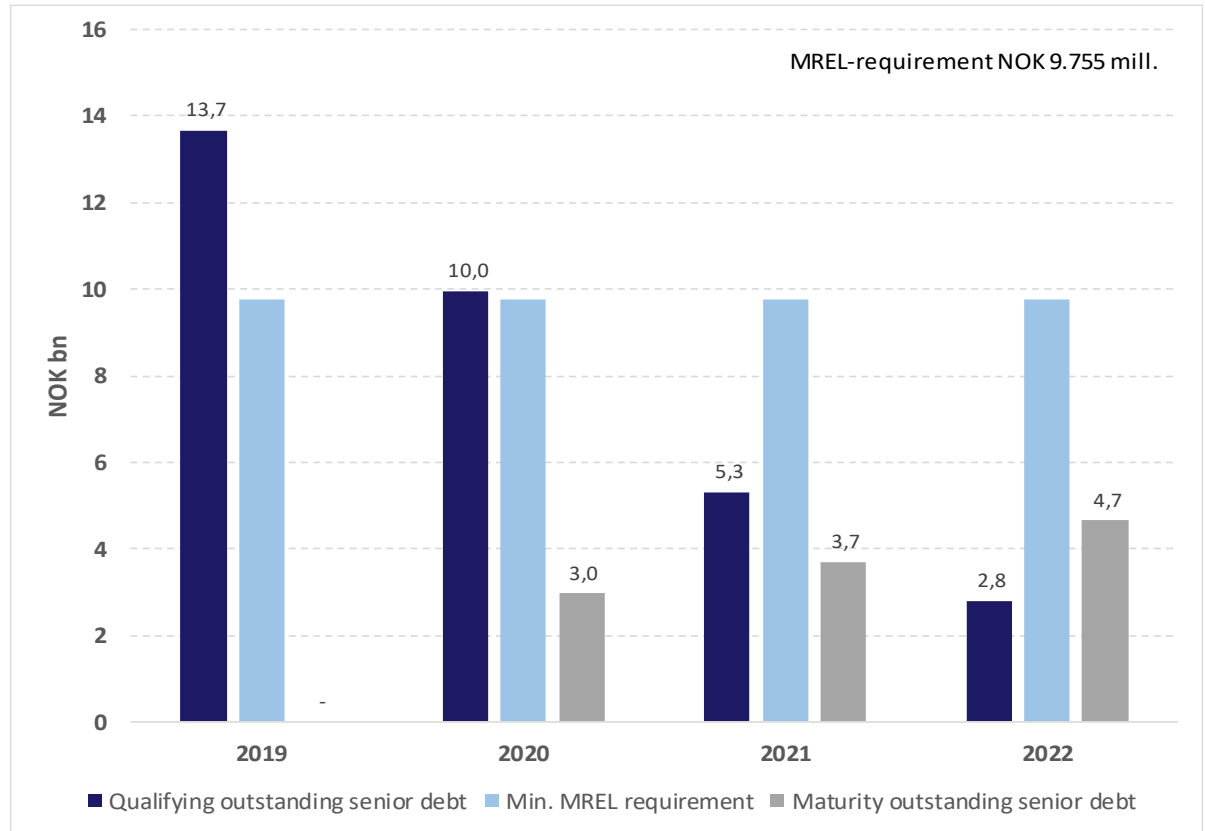
MREL

- MREL requirements of minimum 33.5% for Sparebanken Sør.
- The requirements are in effect from March 31, 2020. During the transition period (until year end 2022) the Bank may use senior debt issued before January 1, 2020 to meet the requirements.
- Requirement for convertible debt of NOK 9 755 million
- Introduction of BRRD2 may lead to changes in the MREL-requirements



MREL - maturity

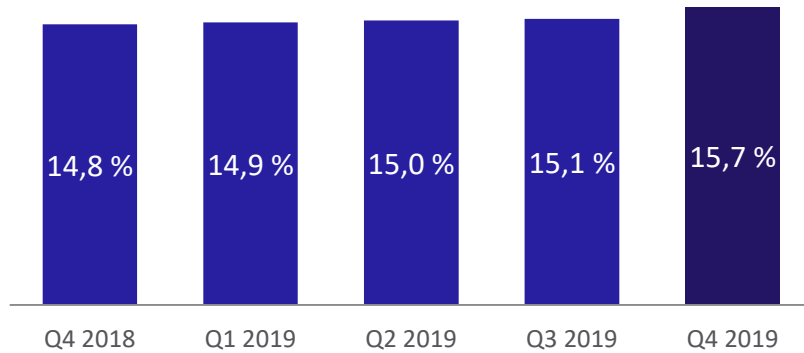
Well adjusted to new requirements



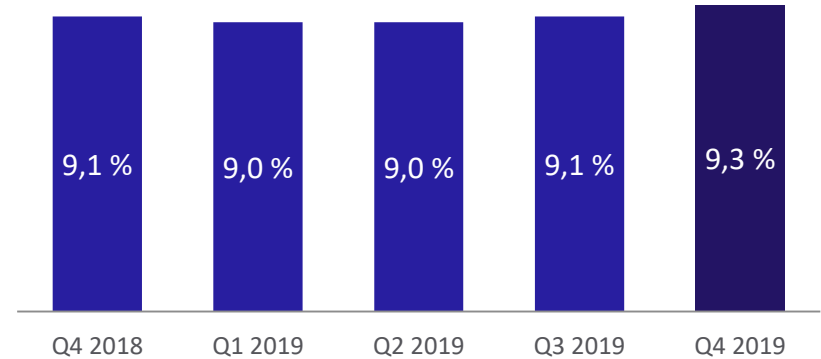
Capital

Capital adequacy

Common equity tier 1 capital ratio



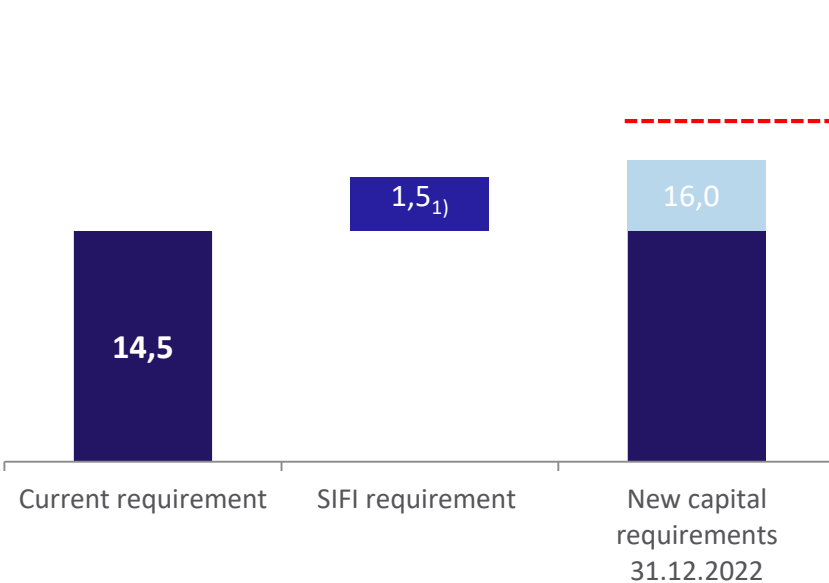
Leverage ratio



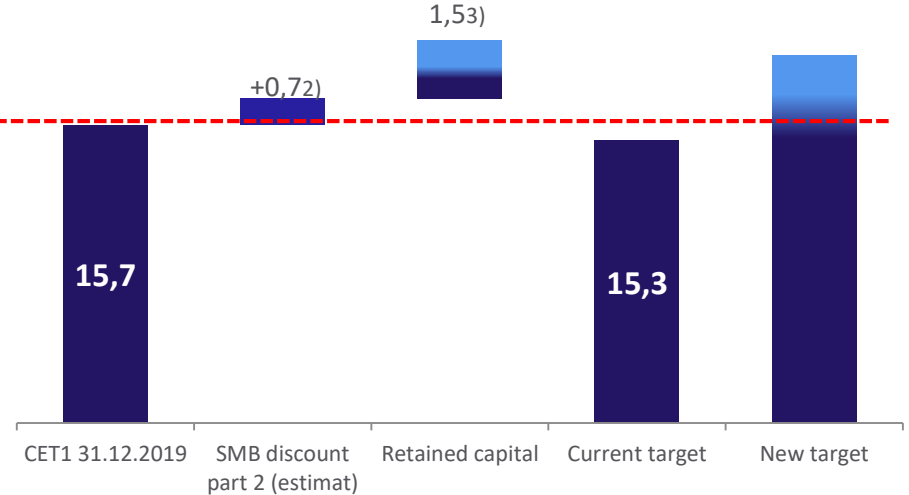
The SME- discount resulted in a reduced basis for calculations, amounted to NOK 1.9 billion and resulted in an improvement of 0.4 percentage points in CET1.

Changes in regulatory conditions

Capital requirements



Capital ratios and targets



1) The Ministry of Finance will establish a transitional rule for banks using the standard method or basic IRB, which means these banks must first meet an increased systemic risk buffer requirement from 3.0 to 4.5 percent for all loans with effect from 31 December 2022.

2) SME- discount part 2 is estimated to approximately 0.7 percent.

3) Building capitalis based on retained capital.



More comprehensive IRB process

- Comprehensive process
- Changed and increased demands from EBA, affecting development of models
- Area of priority an utmost importance
- Objective to submit the IRB application well in advance before the implementing of increased systemic risk buffer requirement in 2022.

The image is a screenshot of a news article from the Norwegian Financial Supervisory Authority (Finanstilsynet). The article is titled "EUs kapitalkravsregelverk CRR/CRD IV trer i kraft 31.12.2019" and is dated December 20, 2019. The text discusses the implementation of the EU Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) IV. It states that the Ministry of Finance has issued regulations that take effect on December 31, 2019. Companies must report on their IRB models for the 4th quarter of 2019. The article also mentions that companies using IRB should submit their reports by December 31, 2019. A sidebar on the right contains contact information for the press and a registration link for the news service.

Nyhet

EUs kapitalkravsregelverk CRR/CRD IV trer i kraft 31.12.2019

PUBLISERT: 20. DESEMBER 2019

Finansdepartementet har fastsatt forskrifter som setter EUs kapitalkravsregelverk CRR/CRD IV i kraft fra 31. desember 2019.

Foretakene skal fra og med rapporteringen for 4. kvartal 2019 ta hensyn til disse endringene.

Finanstilsynet ønsker informasjon om effektene på overgangstidspunktet og har meddelt at foretak som bruker IRB må sende inn rapportering av gulvkravet per 31.12.2019

Samarbeidende grupper som tidligere har levert forenklet rapportering på konsolidert basis, kan gjøre dette også for 4. kvartal 2019.

Les mer:

- [Forskrift om endring av CRR/CRD IV-forskriften mv. \(inkorporering av kapitalkravsforordningen\)](#)

Pressekon
Pressetelefor
Pressekontak

Nyhetsvar:
Registrer deg
nyhetsvarslin
Finanstilsynet
saker du er in
Meld deg på r

SOR – share price and liquidity

Change in share price at 31.12.2019

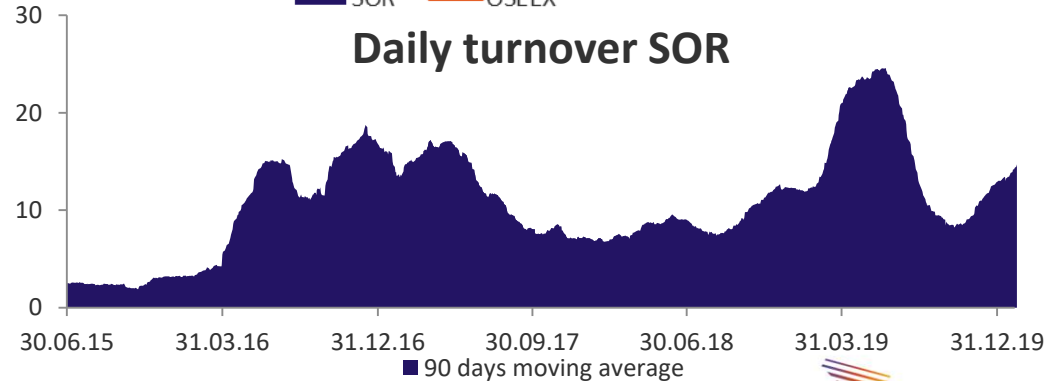
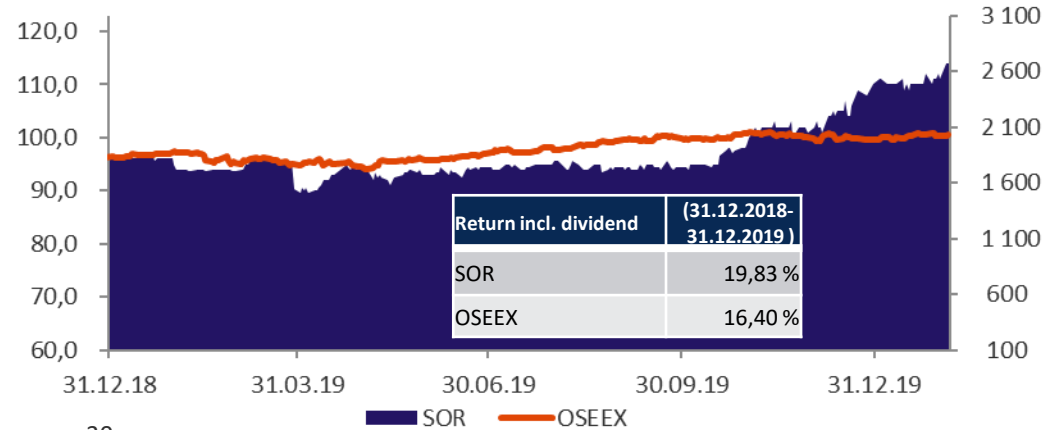
- The share price for SOR was NOK 110.0 and book value was NOK 128.5, amounting to a price-to-book ratio of 0.9.
- The equity certificates gave a return of 19.8%
- Profit per equity certificates of NOK 11.7, which represents a P/E of 9.4

Liquidity

- Turnover of 2.0 mill. equity certificates last 12 months.
- 15 663 944 total issued, and an EQ rate of 17.2%

Dividend

- 50-70% percent of equity certificate holders` share of annual profits
- Sparebanken Sør`s capital requirements will be taken into consideration when determining the annual dividend.
- The equity certificate yielded a direct return of 6.2 percent in 2018 (5.8 percent in 2017).
- The Board of Directors proposes a dividend for 2019 of NOK 8.0 per equity certificate, a direct return of 7.3 percent.



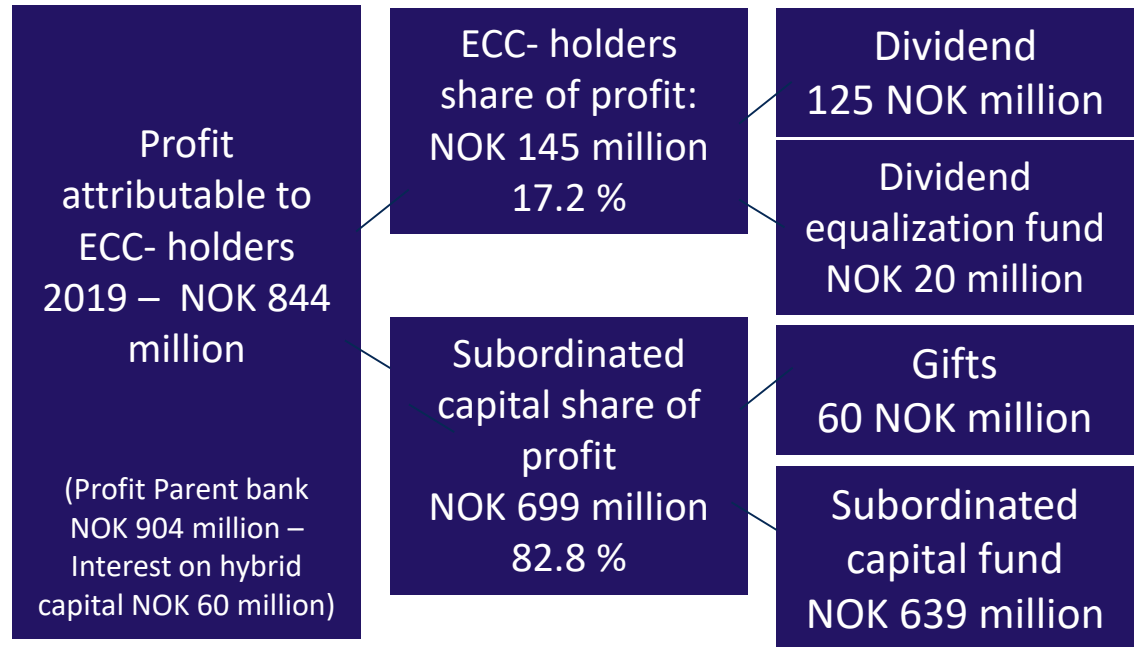
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PARENT BANK- PROPOSAL OF DISPOSAL 2019

Solid profit distributes a dividend of 8.00 NOK pr equity certificate, representing a return of 7.3 percent*

Proposed dividend amounts to 69 percent of earnings pr equity certificate. (Group)


Ownership ratio after disposal of 16.2 percent



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*) shareprice 110,00 NOK as of. 31.12.2019

Important strategic steps

A woman with long brown hair is smiling and looking at her smartphone. She is sitting at a table in a cafe or restaurant. On the table, there is a white coffee cup on a saucer, a glass of water, and a glass of beer. The background is slightly blurred, showing another person in a denim jacket. The overall atmosphere is warm and casual.

First out offering real-time payment to all customers!

Mobile banking in continuous development



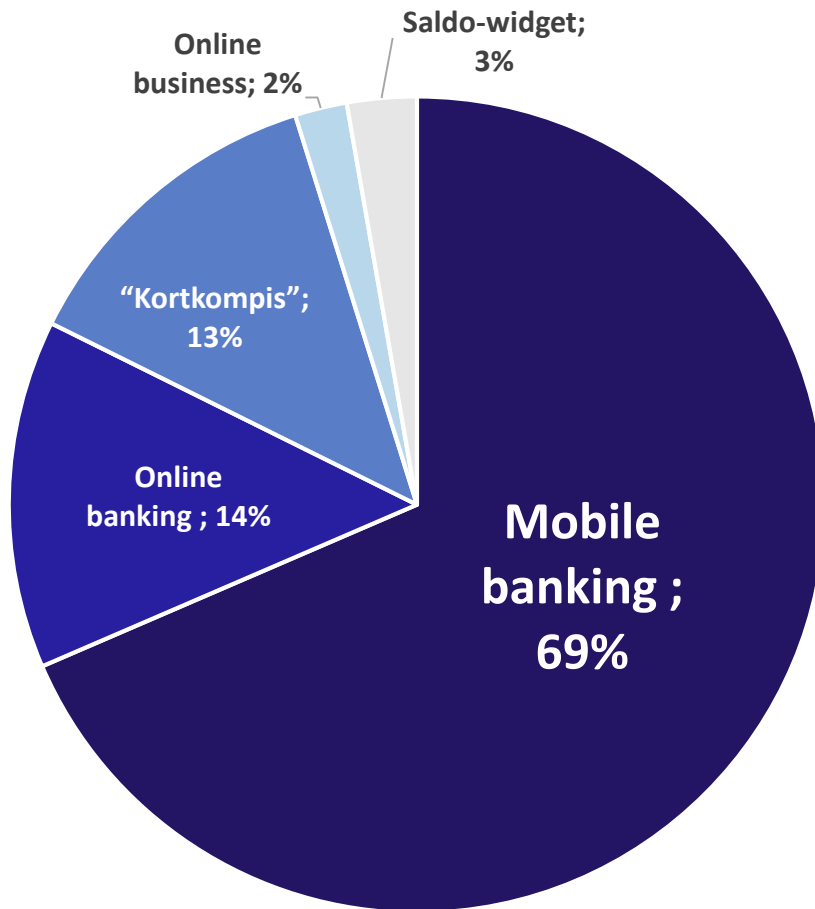
Increasing us of mobile banking!

Customers most satisfied with our mobile bank and their advisor.

2.150.000 visits during january, an increase of over 5% from december 2019

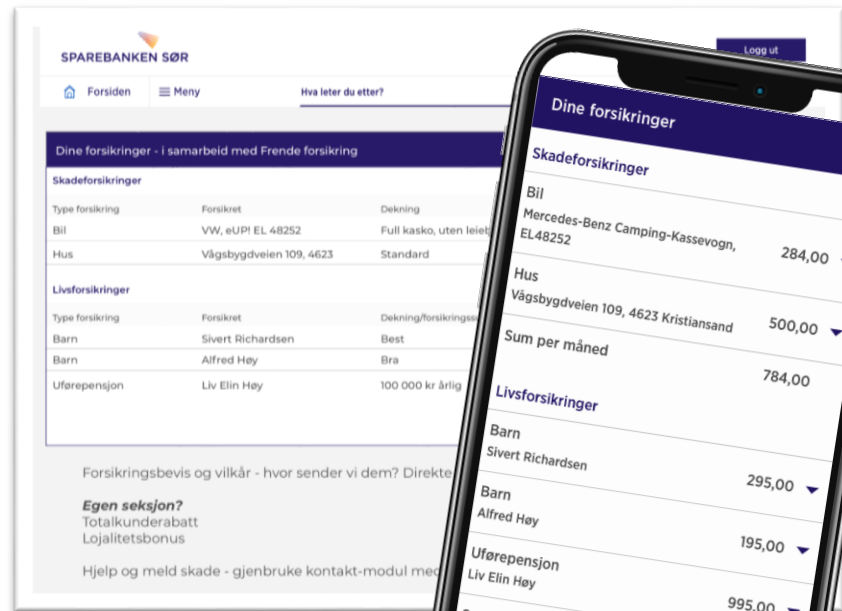
360° overview to the customers on their personal finances:

- Savings and loans
- Creditcard
- Stocks and funds
- Insurance



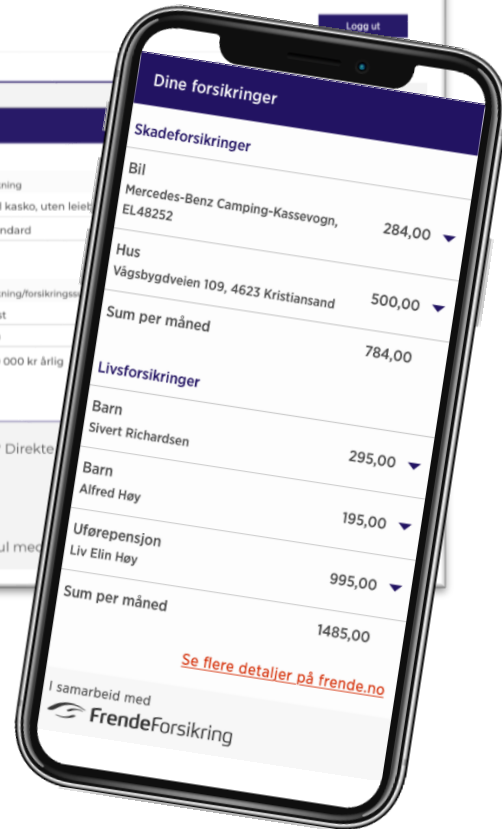
Total overview of products in mobile-/internet banking

- Open-banking approach
- Collects all products in mobile- and internet banking
- Good overview for the customer
- Promotion of third-party products
- Insurance, funds, shares and car loans planned for the first half of 2020.



The screenshot shows the 'Dine forsikringer' page on the Sparebanken Sør website. It displays a list of insurance products in two categories: Skadeforsikringer and Livsforsikringer. The table below summarizes the visible data.

Category	Type forsikring	Forsikret	Dekning	Price
Skadeforsikringer	Bil	VW, eUP! EL 48252	Full kasko, uten leiet	
	Hus	Vågsbygdveien 109, 4623	Standard	
	Mercedes-Benz Camping-Kassevogn, EL48252			284,00
Livsforsikringer	Barn	Sivert Richardsen	Best	
	Barn	Alfred Høy	Bra	
	Uførepensjon	Liv Elin Høy	100 000 kr årlig	
	Sum per måned			784,00



NORNE
SECURITIES

BRAGE
FINANS

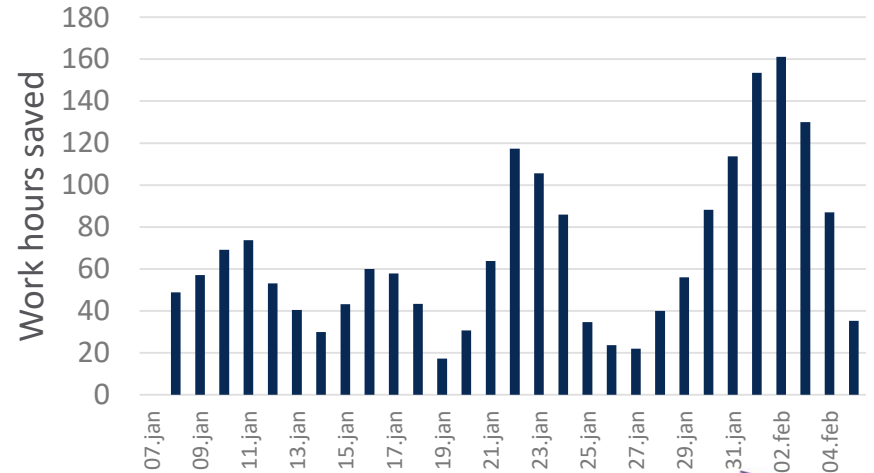
Frende
Forsikring

Robotics makes us more cost effective

- Continuous work on automation of processes
- New challenges are solved quicker and in a larger variety of cases than before.
- Sørensen becomes a CM employee.
- Example: Last 30 days our RPA-processes has performed tasks equivalent to 261 days of work

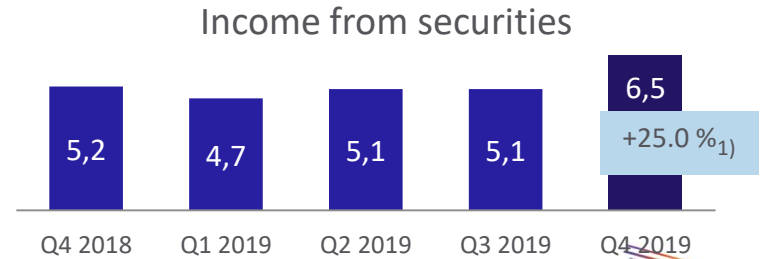
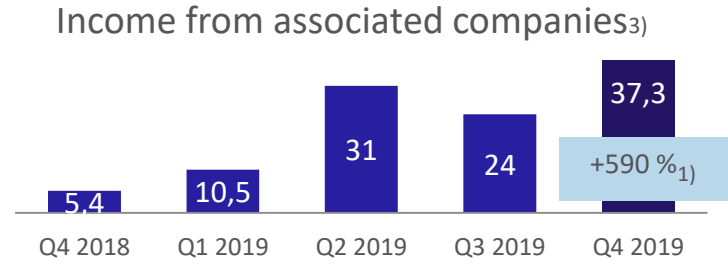
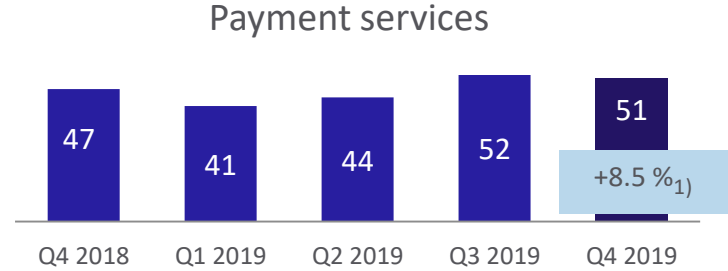
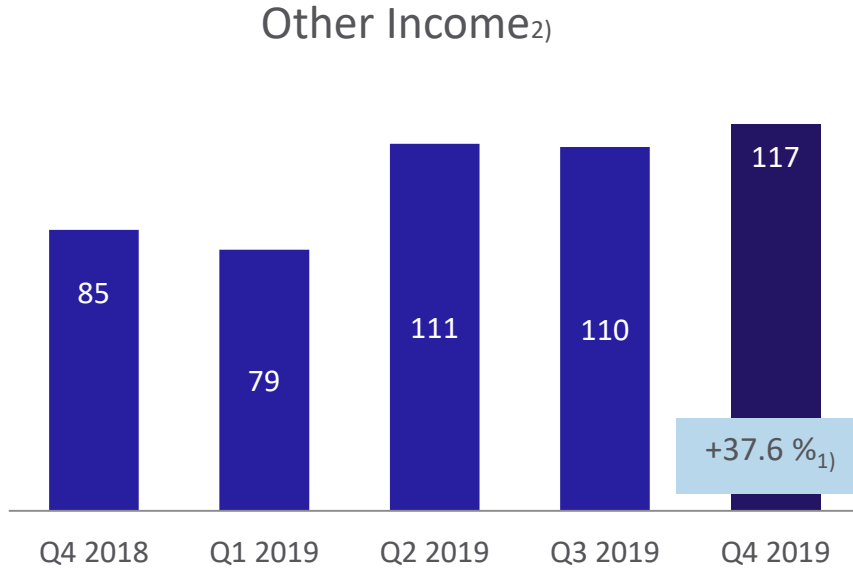


Streamlining - RPA



Broader income base

NOK Million



- 1) Change from same period previous year
- 2) Net commission income + total other income
- 3) Including commission income from associated companies

Sustainability



Building blocks of Sparebanken Sør's ESG policy

- UN Sustainable Development Goals
- UN Global Compact
- UN Environment Programme – Finance Initiative
- Green House Gas protocol and Corporate Accounting and reporting standard
- Roadmap for green competitiveness in the financial sector
- Principles for Responsible Investments
- Local Responsible and Sustainable Investments



Focus on sustainability

Green mortgages and bonds



Climate neutral



GRI Standard



Goals and expectations ahead



Financial key variables and ambitions



1) Ambitions are dependent on expected C2 Reduced growth in CM in 2019.
Little less regarding RM.

Outlook

Macro

Continued good growth for the Norwegian economy. Mainland GDP growth and statistics show increased employment rate. House prices have returned moderate growth over time, and market for houses have been stable.

The region

The economic outlook for the Bank's market area is considered positive. House prices have returned moderate growth over time, and unemployment is falling.

Capital requirements

Common equity tier 1 capital ratio of 15.7 percent and a solid leverage ratio of 9.3 percent.

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

Digital adjustment

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

Sustainability

Sustainability is a focus area for the bank and is an integral part of the bank's strategy.

Summary

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

Appendix



SPAREBANKEN SØR

Equity certificate owners

20 largest equity certificate owners as of 31 Desember 2019

	Name	Number of ECs	Share og ECs %		Name	Number of ECs	Share og ECs %
1	Sparebankstiftelsen Sparebanken Sør	7.988.679	51,00	11	Catilina Invest AS	114.558	0,73
2	EIKA utbytte VPF c/o Eika kapitalforv.	640.284	4,09	12	Svenska Handelsbanken AB	100.000	0,64
3	Arendal Kom. pensjonskasse	450.000	2,87	13	Ottersland AS	100.000	0,64
4	Pareto AS	417.309	2,66	14	Bergen Kom. Pensjonskasse	94.499	0,60
5	Glastad Invest AS	368.765	2,35	15	MP Pensjon PK	85.523	0,55
6	Otterlei Group AS	330.659	2,11	16	Artel AS	82.131	0,52
7	Øyhovden Invest AS	212.000	1,35	17	Profond AS	76.478	0,49
8	Wenaasgruppen AS	186.000	1,19	18	Apriori Holding AS	72.575	0,46
9	Gumpen Bileiendom AS	174.209	1,11	19	Varodd AS	70.520	0,45
10	Allumgården AS	151.092	0,96	20	Birkenes Sparebank	66.000	0,42
	Total 10 largest owners	10.918.997	69,71		Total 20 largest owners	11.781.281	75,21

- As of 31 Desember 2019, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC amounted to NOK 3.1 in Q4 2019 and NOK 11.7 YTD.
- The ownership ratio at the end of Q4 2019 was 17.2 percent