

# Sparebanken Sør

2<sup>nd</sup> quarter 2016



SPAREBANKEN SØR

# Dagens Sparebanken Sør

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## Business

Sparebanken Sør is an independent savings bank offering its products and services to the retail banking market, corporate market and to the public sector.

## Balance

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

## Employees

432 employees in 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 agency, life- and non-life insurance, security trade services and leasing through wholly- and partially owned subsidiaries and companies.

## Summary

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

# A broad geographical presence

An important contributor in Southern Norway: Aust-Agder, Vest-Agder and Telemark

Local relations and market proximity is essential for savings bank operations

Supporter of local business development



*A market with 470 000 people and approximately 9 percent of new business establishments in Norway. No other bank covers this area as Sparebanken Sør.*

**TRANSPORT**

**INDUSTRY**

**COMMERCIAL**

**TOURISM**

**HEALTH CARE**

**RETAIL**

**AGRICULTURE**

**PUBLIC SECTOR**

**FINANCE**

**EDUCATION**

# 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 where investors receive preferential coverage in home mortgages granted by the bank (covered bonds).
- With this way of funding, the Sparebanken Sør Group can offer mortgages with competitive terms to its customers



- ABCenter and Plussmegleren have merged into Sørmeglere
- Sparebanken Sør is **91%-owner** in Sørmeglere Holding AS, which is the parent company of the real estate agency Sørmeglere AS
- Sørmeglere is headquartered in Kristiansand and has 9 branches in 9 other cities
- Convey about 2.200 homes a year, and is the regions largest real estate agency

## Business partners



- Sparebanken Sør entered in 2008 as 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 10%-owner
- The distribution of the company's products is done through the owners and through its own sales organization



- Sparebanken Sør became 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



SKAGEN

HolbergFondene



## Key features 2<sup>nd</sup> quarter 2016

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- Satisfactory progress in net interest income and income from ordinary operations
- Stable commission income
- Positive net income from financial instruments reduced due to changes in the value of bonds, fixed rate loans and equity shares.
- Good cost control
- Low losses on loans
- Return on equity after tax on 12.5 percent
- Issuance of equity certificates with net proceeds of NOK 584 million

March 30 has

**Common equity tier 1 capital ratio of 14.1 percent and leverage ratio of 7.8 percent, added 80 percent of accrued profit.**

## Key features 1<sup>st</sup> half of 2016

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- Satisfactory progress in net interest income and income from ordinary operations
- Increased interest margins in the corporate market
- Stable commission income
- Positive net income from financial instruments due to changes in the value of bonds and equity shares
- Good cost control
- Low losses on loans
- Deposit growth of 3.0 percent the last 12 months
- Loan growth of 7.4 percent the last 12 months, reduced first half of 2016 to 4 percent(annualized)
- Return on equity after tax of 10 percent

## Income statement Sparebanken Sør

Profit before tax at the end of Q2 2016 amounted to NOK 553 million

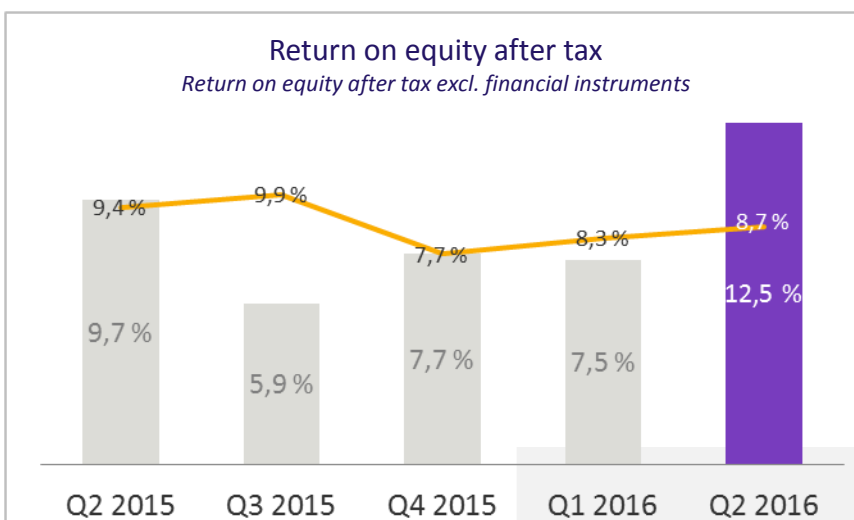
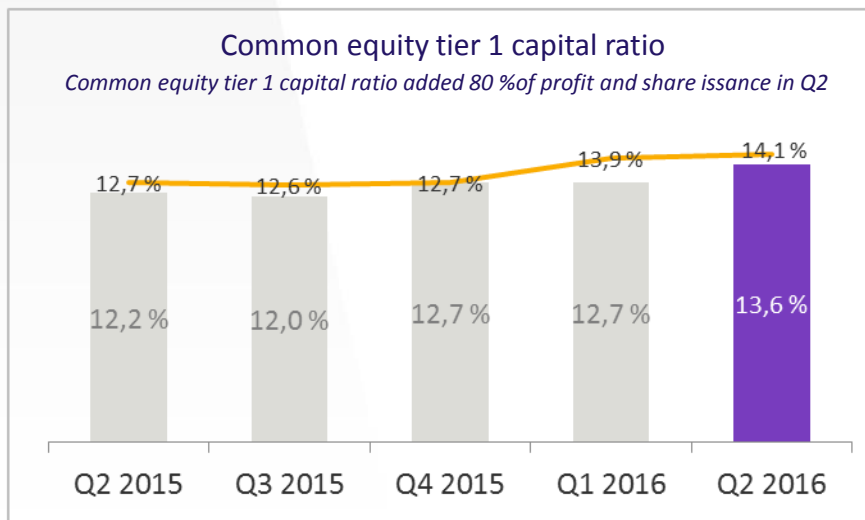
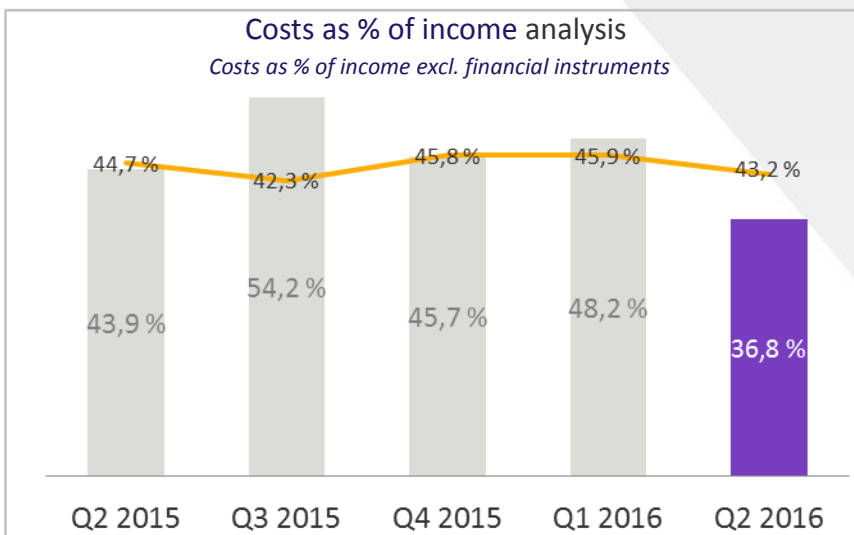
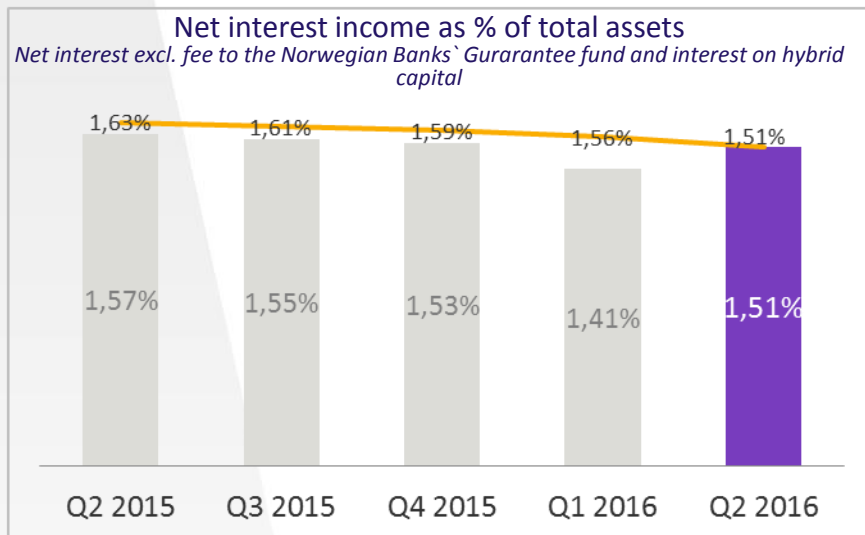
The main features for Sparebanken Sør in Q2 2016:

- Satisfactory development in net interest income and profit from ordinary operations
- Positive net income from financial instruments due to changes in the value of bonds and equity shares
- Good cost control
- Low losses on loans

Profit for the 1<sup>st</sup> half of 2016 gives a return on equity of 10 percent

NOK million	First half 2016	First half 2015	Changes
Net interest income	759	748	11
Net commission income	145	147	-2
Net income from financial instruments	64	37	27
Other operating income	16	6	10
Total income	984	938	46
Total expenses	409	406	3
Profit before losses on loans	575	532	43
Losses on loans, guarantees	22	32	-10
Profit before taxes	553	500	53
Tax expenses	126	136	-10
Profit for the period	427	364	63

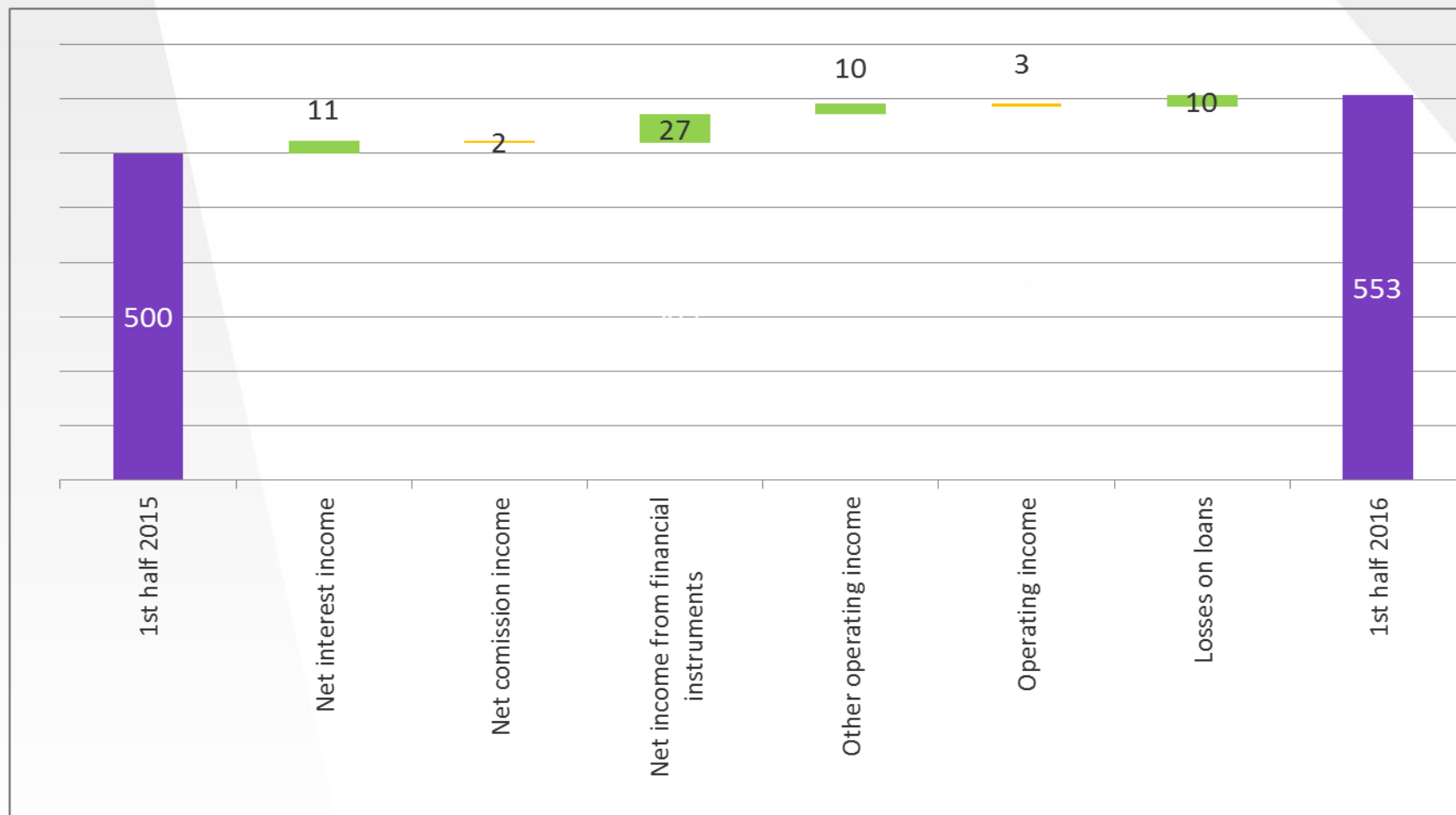
# Key figures – Quarterly profit trend



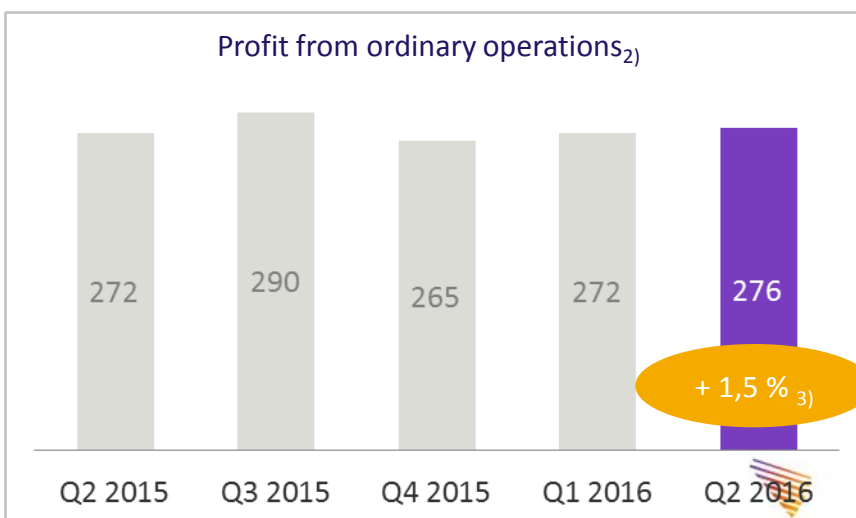
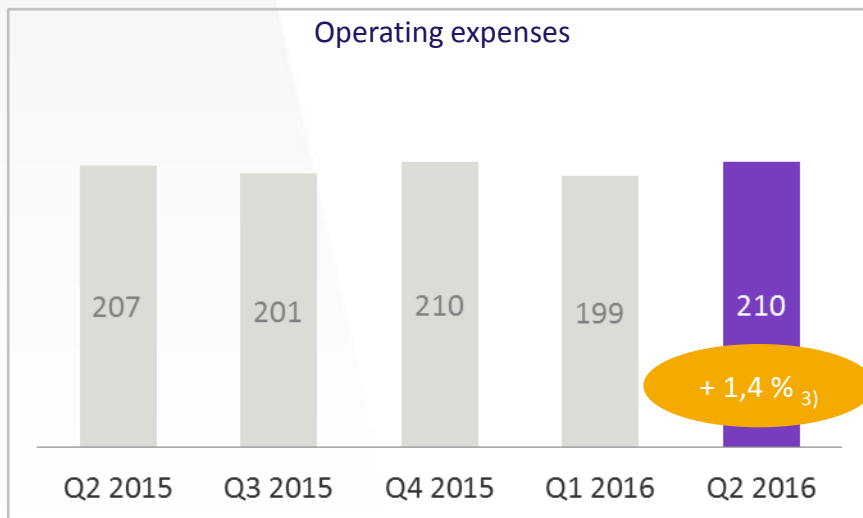
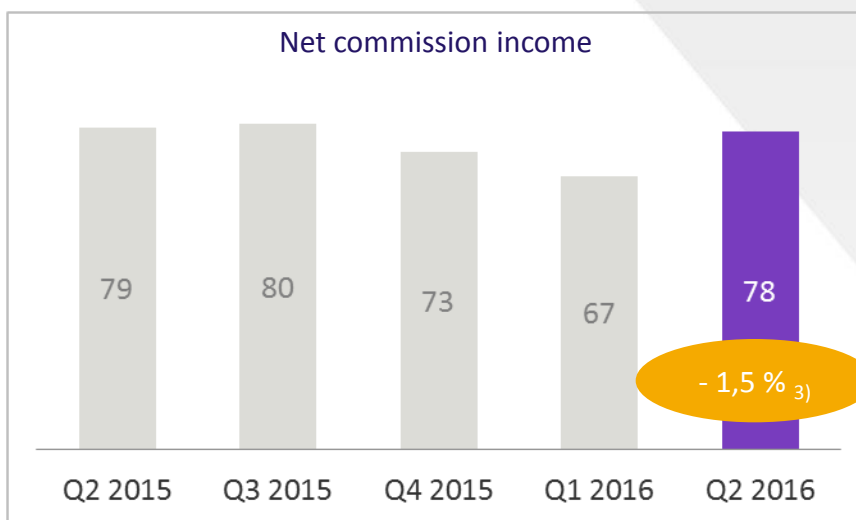
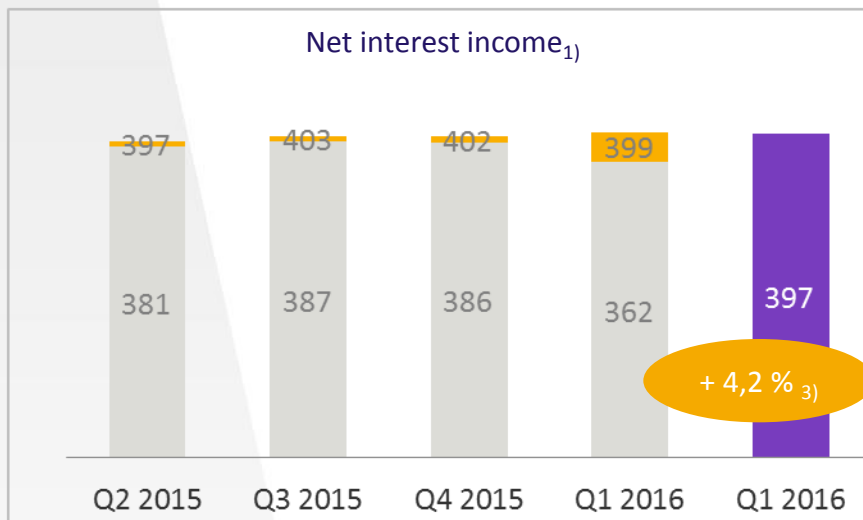
- 8 1) Added 80 percent of profit after tax. The share issuance was approved and added in Q1, while it was executed in Q2.  
 2) The fee to the Norwegian Banks' Guarantee Fund of NOK 37 million was expensed in full in Q1 2016.



## Change in profit 1<sup>st</sup> half 2015 - 1<sup>st</sup> half 2016



# Profit and loss

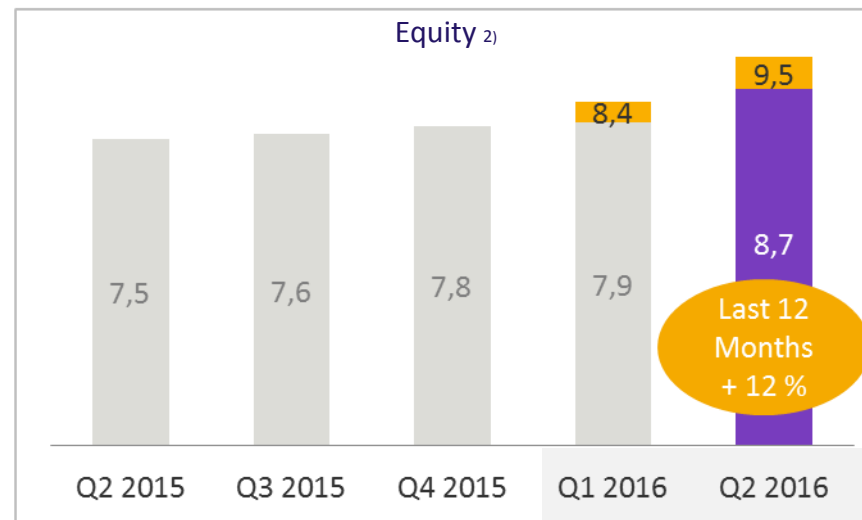
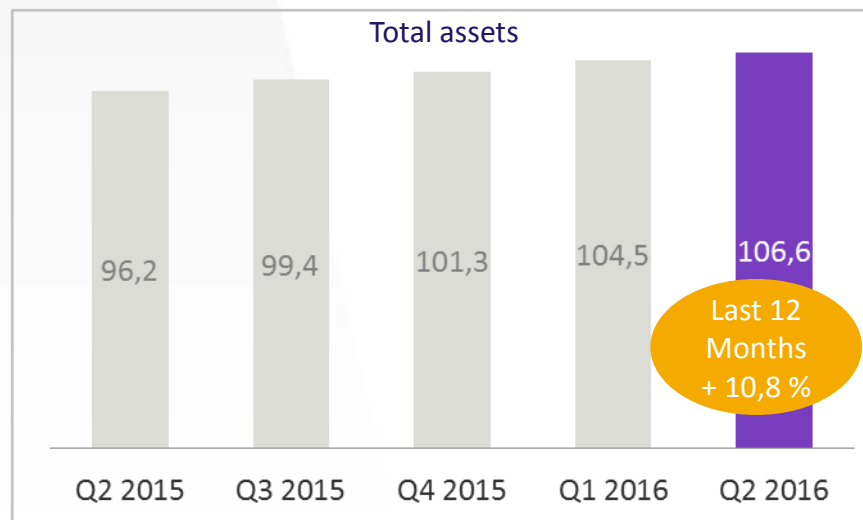
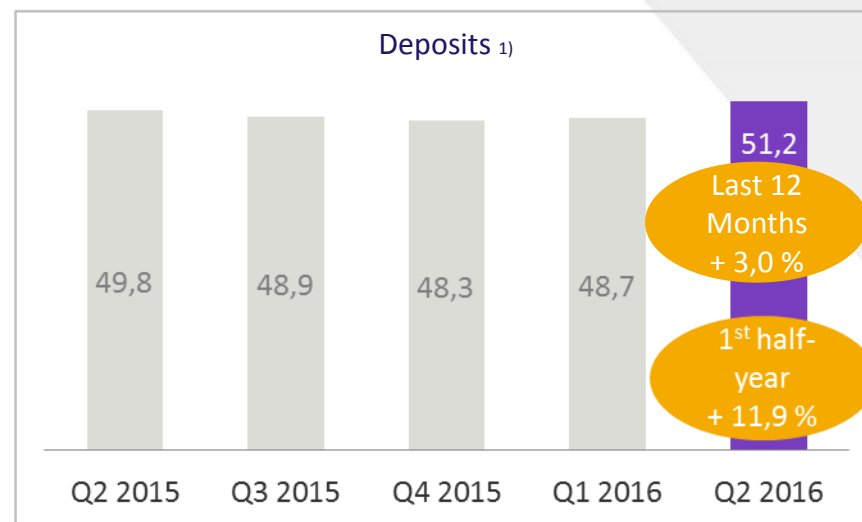
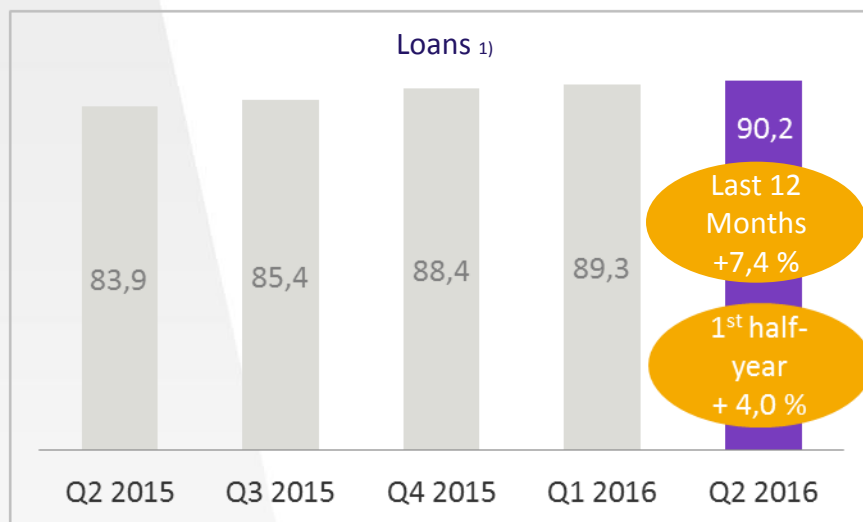


10 1) Net interest income, excl. Guarantee Fund fees of NOK 37 mill. in 2016 and NOK 9 mill. in 2015 and NOK 7 mill. in interest hybrid capital.

2) Profit before tax, excl. net income from financial instruments. Earlier periods are adjusted for the Guarantee Fund fee and interest on hybrid capital.

3) Changes from the same period in 2015.

# Balance sheet items

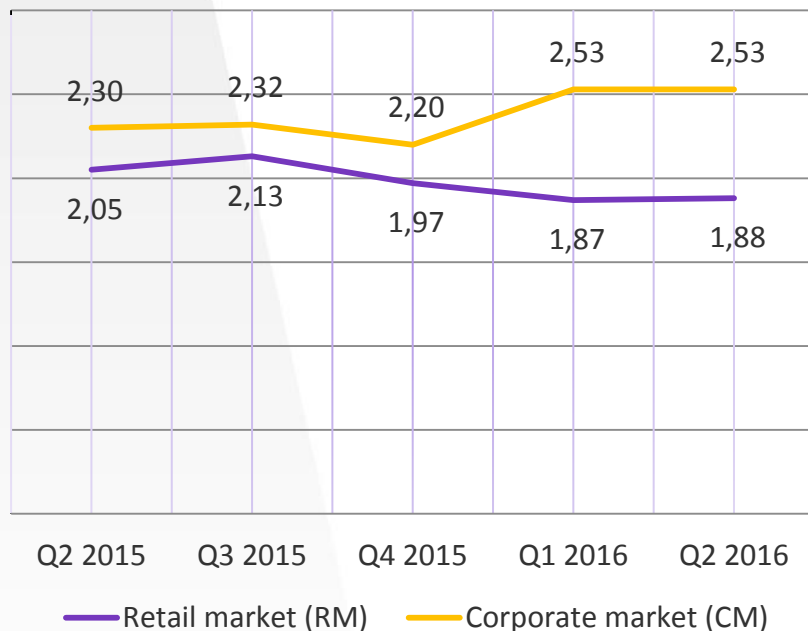


11 1) Loan growth for the 1<sup>st</sup> half of 2016 is annualized.

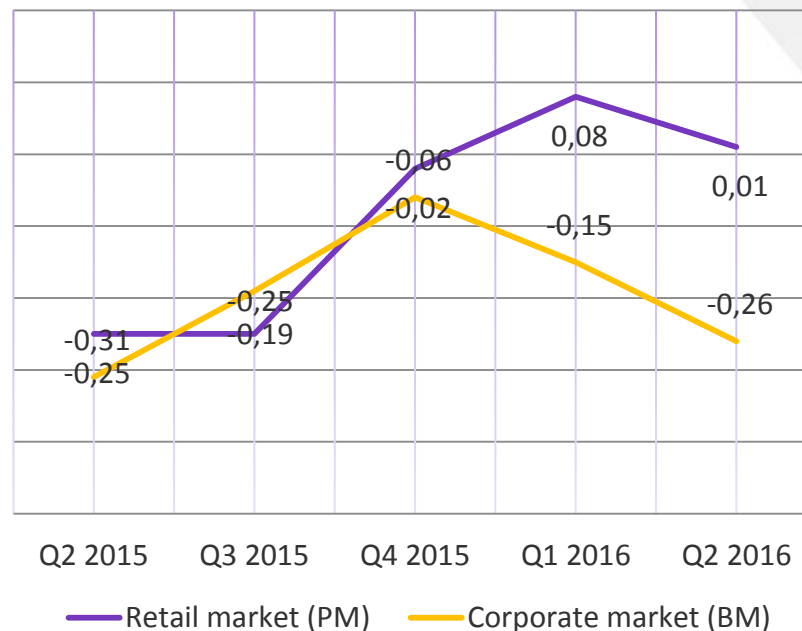
2) The equity has increased in 2016 following the reclassification of hybrid capital from debt to equity.

# Interest margin development

## Loans



## Deposits



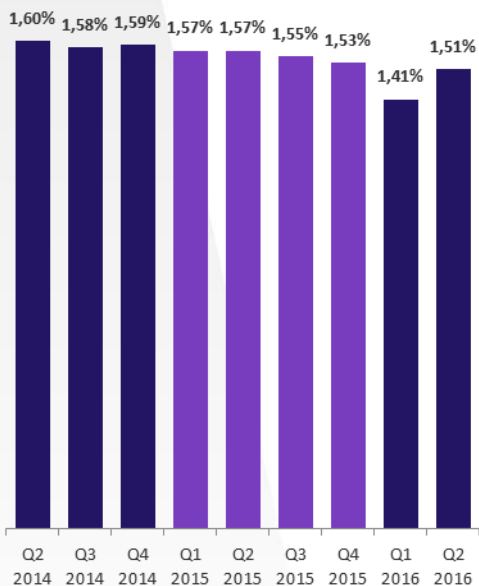
12 Loans: Average interest rates minus 3 month weighted average of 3 month NIBOR.  
Deposits: 3 month weighted average of 3 month NIBOR average minus interest rates.

# Operational effectivity

A low interest margin is compensated with good cost and loss rates

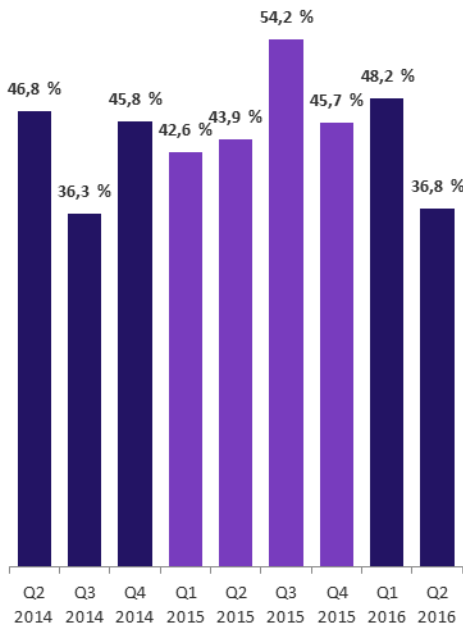
## Net interest margin\*

Net interest income/ average assets



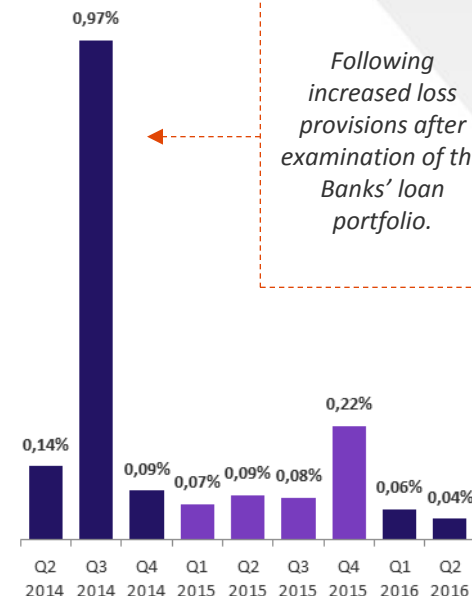
## Expense ratio

Operating costs before losses / net income



## Loss rate\*

Losses on loans and guarantees/average net loans to customers



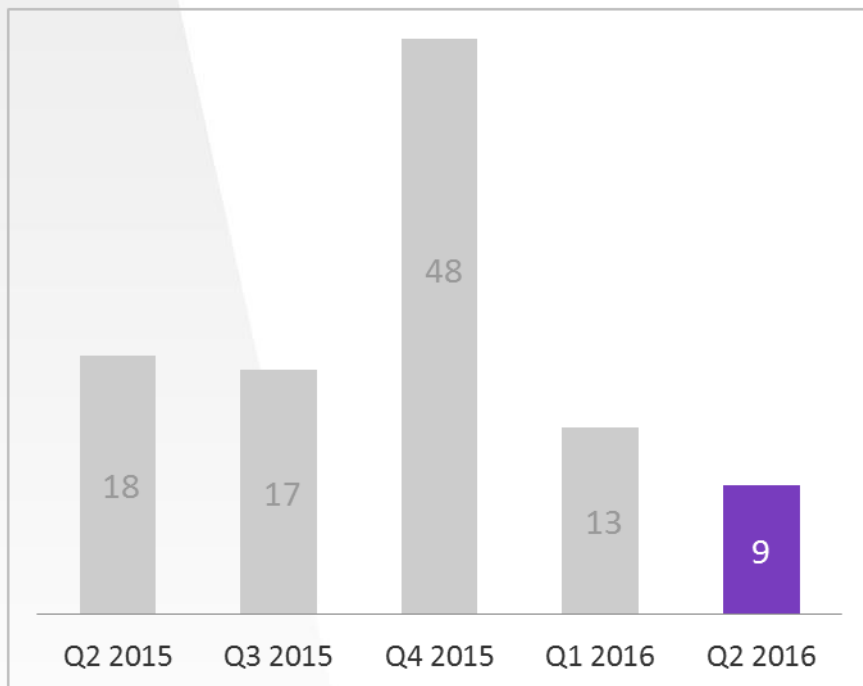
- Slightly decreasing net interest, but strong nominal development as a result of growth in volume
- One of the most cost effective banks in Norway
- Loss rate significantly reduced, after thorough examination of the CM-portfolio in 2014 with corresponding strengthening of loss provisions



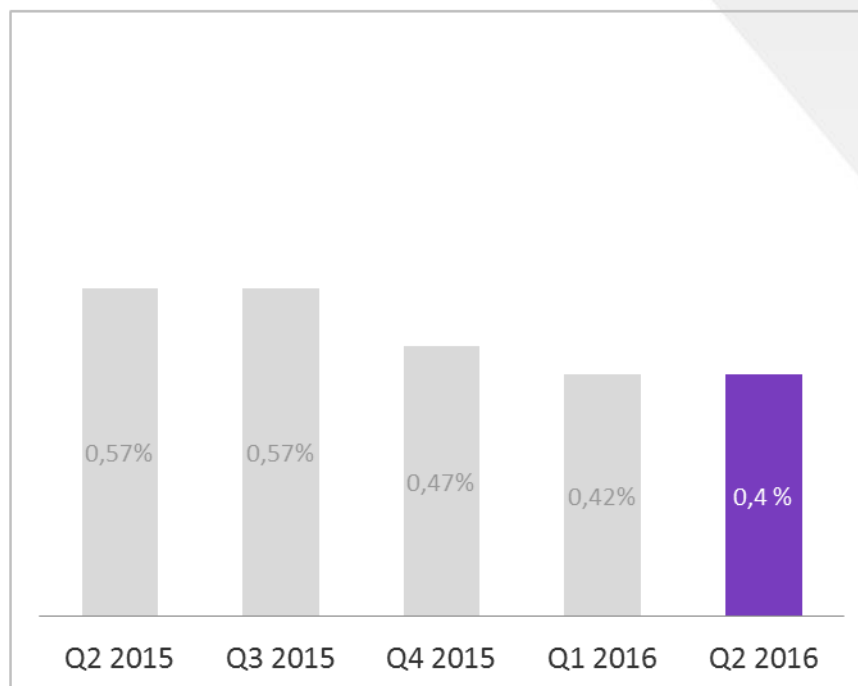
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# Losses and non-performing loans

## Development in losses



## Non-performing loans as a % of gross loans

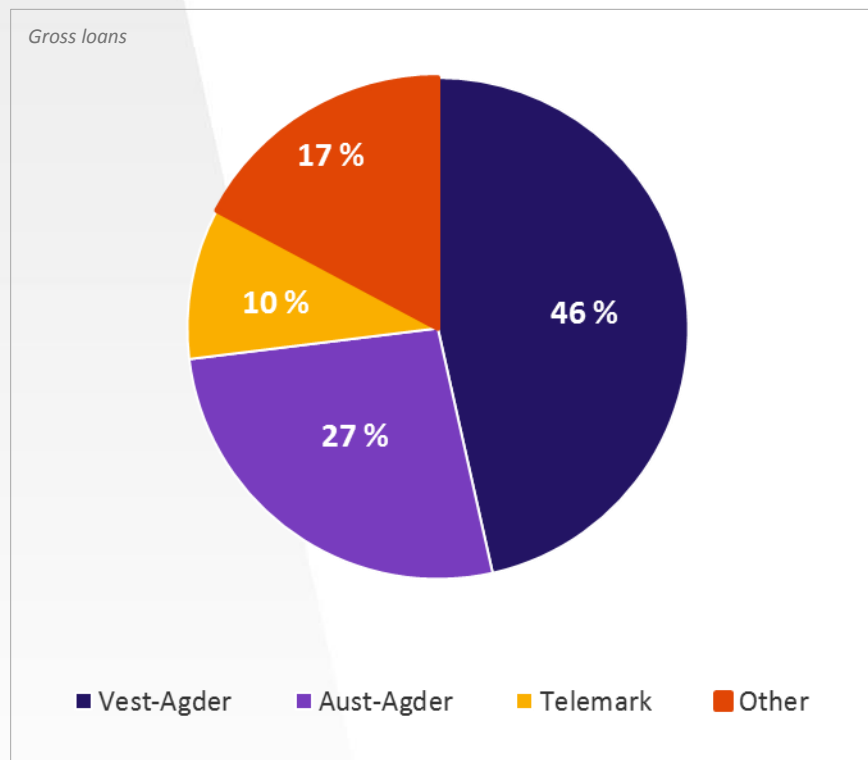


Low losses and reduced non-performing loans

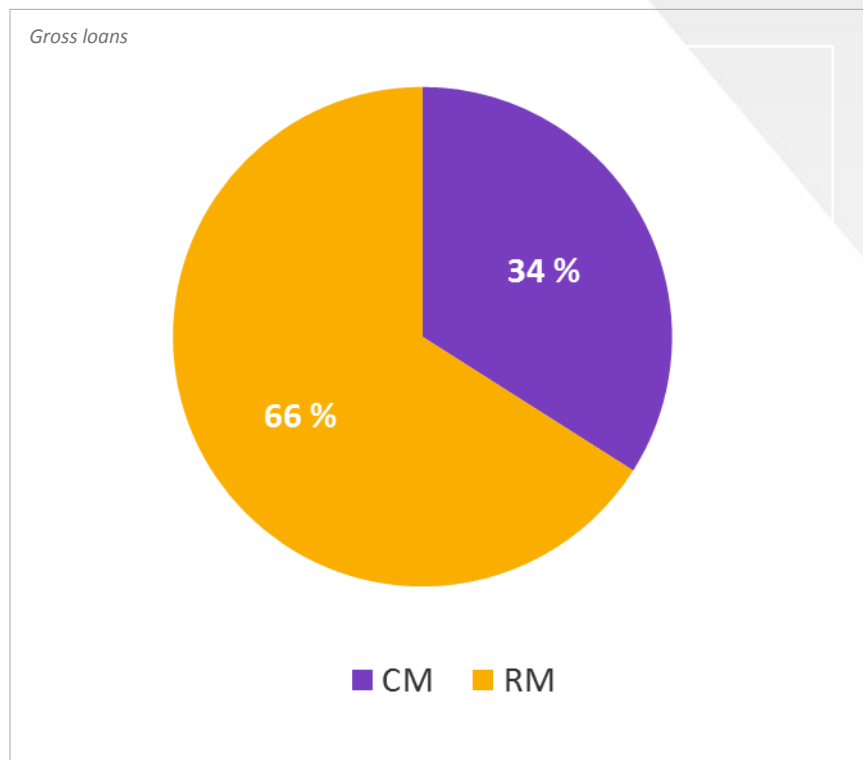
# Diversified loan portfolio

High RM share and geographical diversification contributes to a balanced portfolio

Loans geographically distributed



Distribution RM / CM



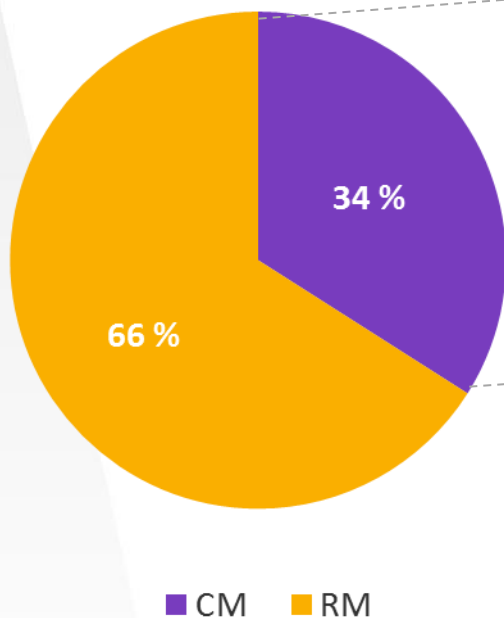
- # 1 position in Vest-Agder and Aust-Agder, # 3 position in Telemark.
- Close and long term cooperation with major firms/organizations in the region. The agreement with KNIF\* is a good example. Contributes to growth also outside our region
- Loans to customers is concentrated on the banks market areas, concentration risk is low, significant diversification compared with other regions.
- High RM share is in itself risk reducing. Combined with low average loan per customer (< 2 millions).



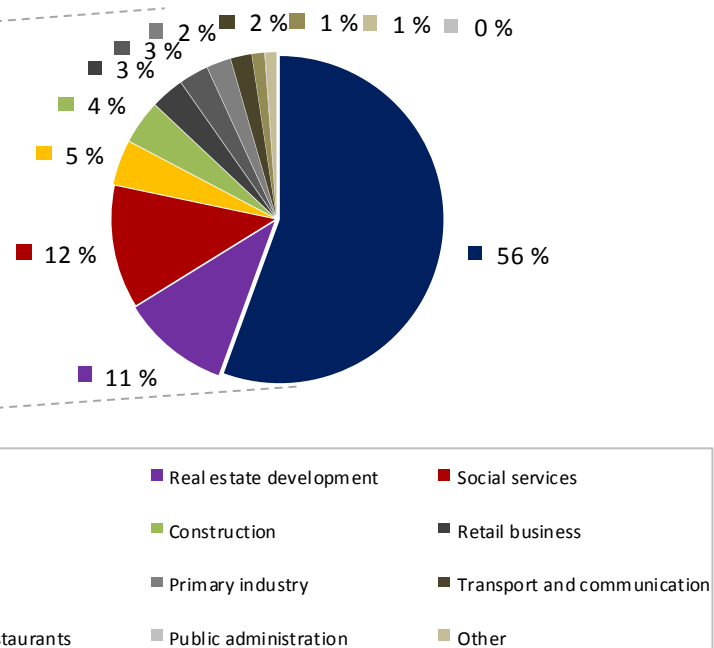
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# Diversified loan portfolio

Distribution RM/CM



Distribution by business sector

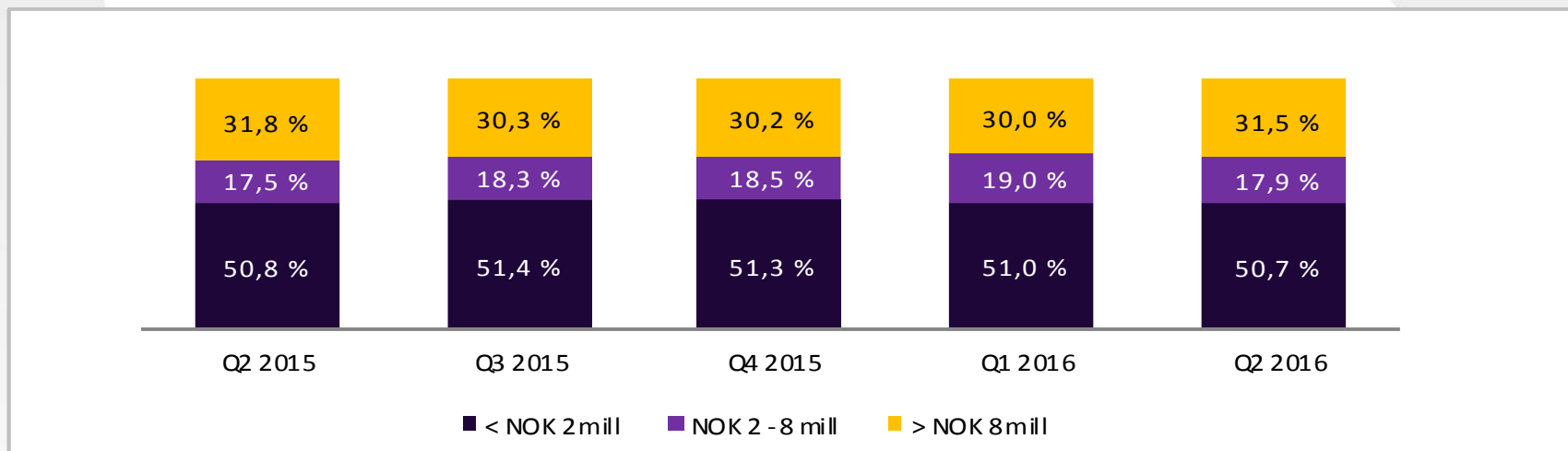


The CM loan portfolio reflects the business activity in the region with one major exception, Sparebanken Sør has a very low direct exposure to the oil and oil service industry.

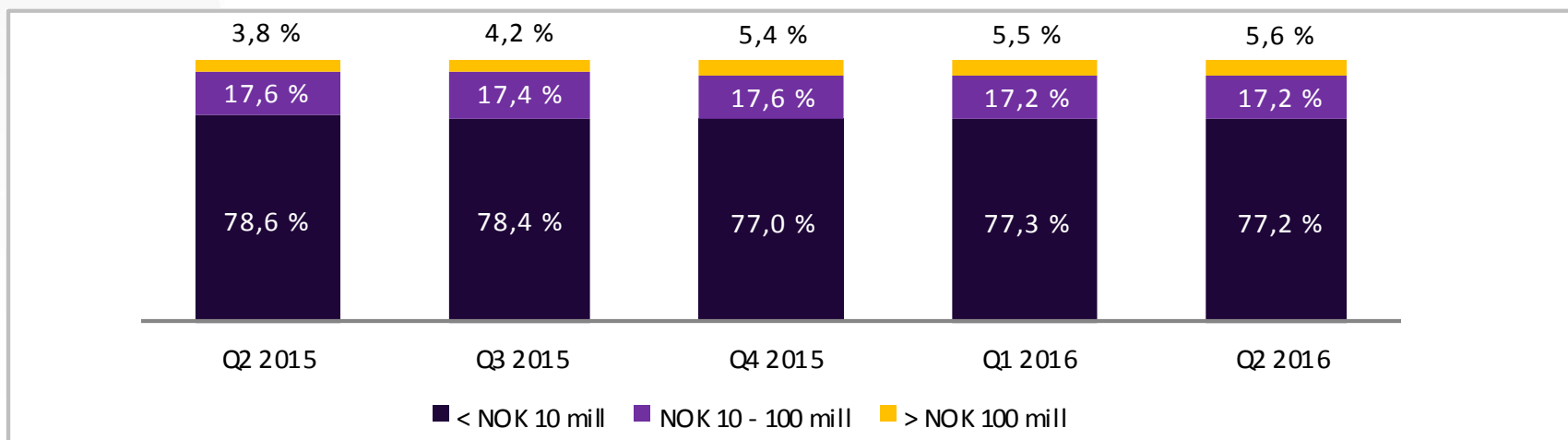


# Portfolio

## Deposits distributed by size

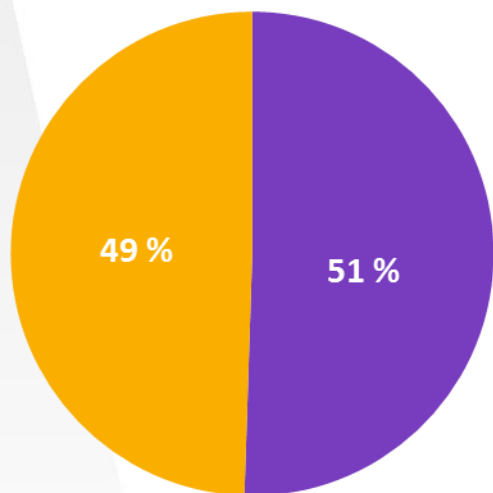


## Loans\* distributed by commitment size



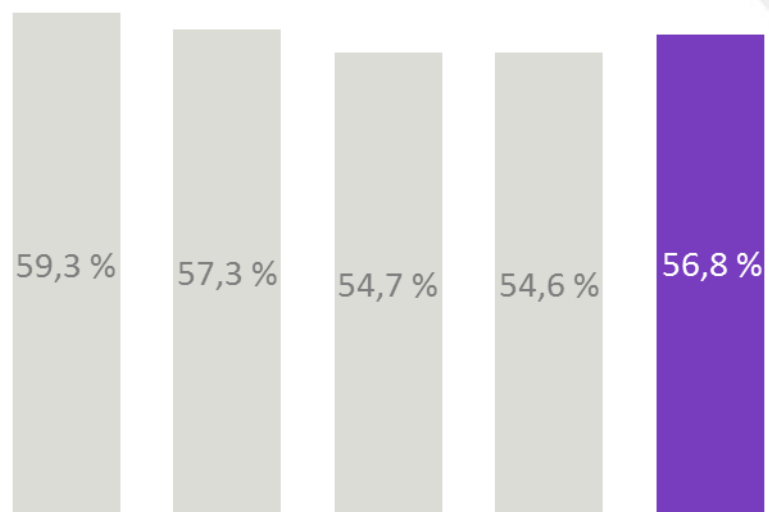
# Deposits

## Distribution RM/CM



■ CM ■ RM

## Deposit coverage ratio

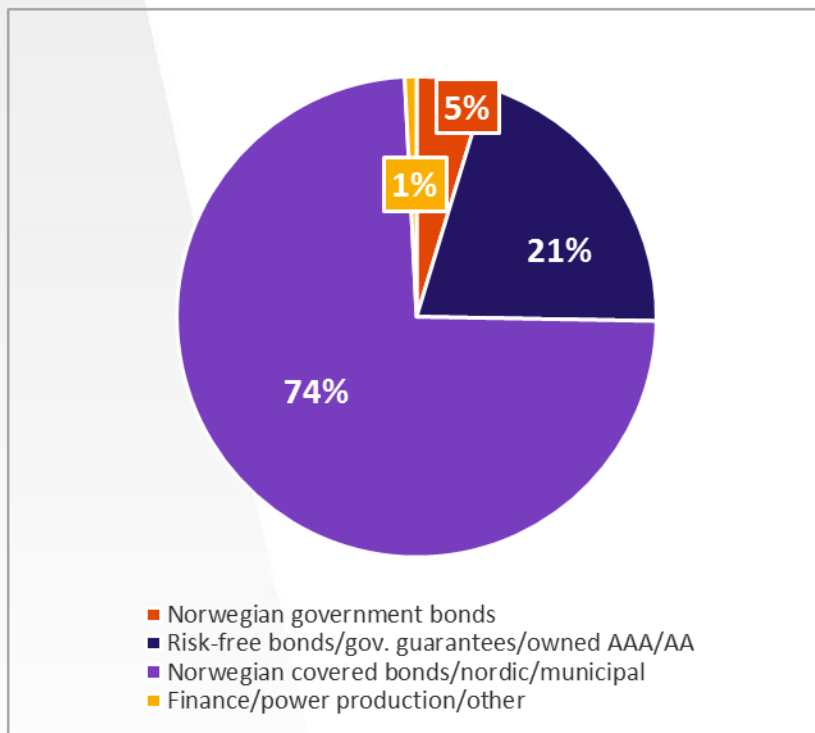


Q2 2015 Q3 2015 Q4 2015 Q1 2016 Q2 2016

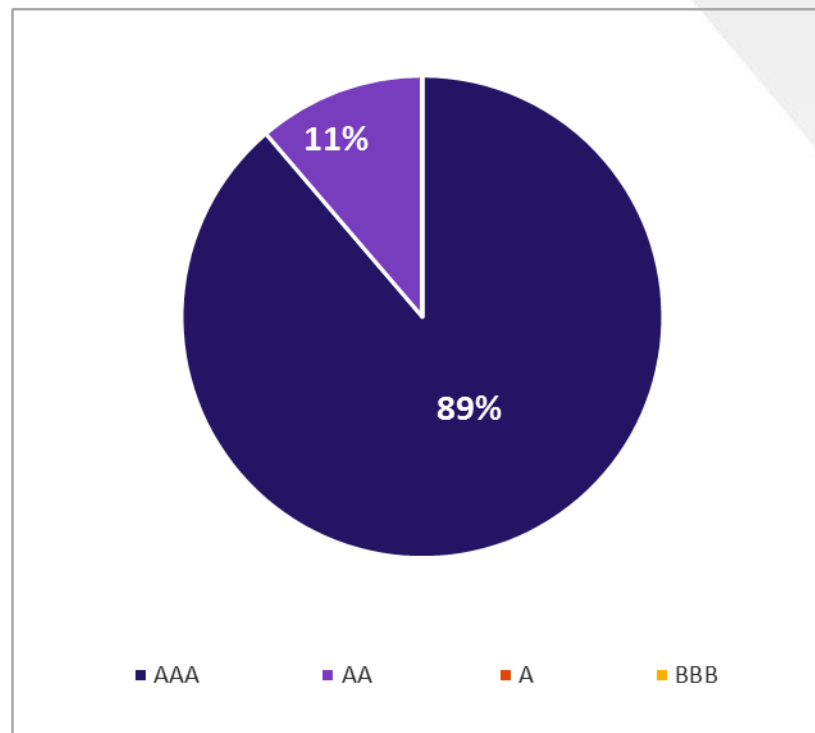
Stable development in deposits in 2016

# Liquidity portfolio

Category



Rating

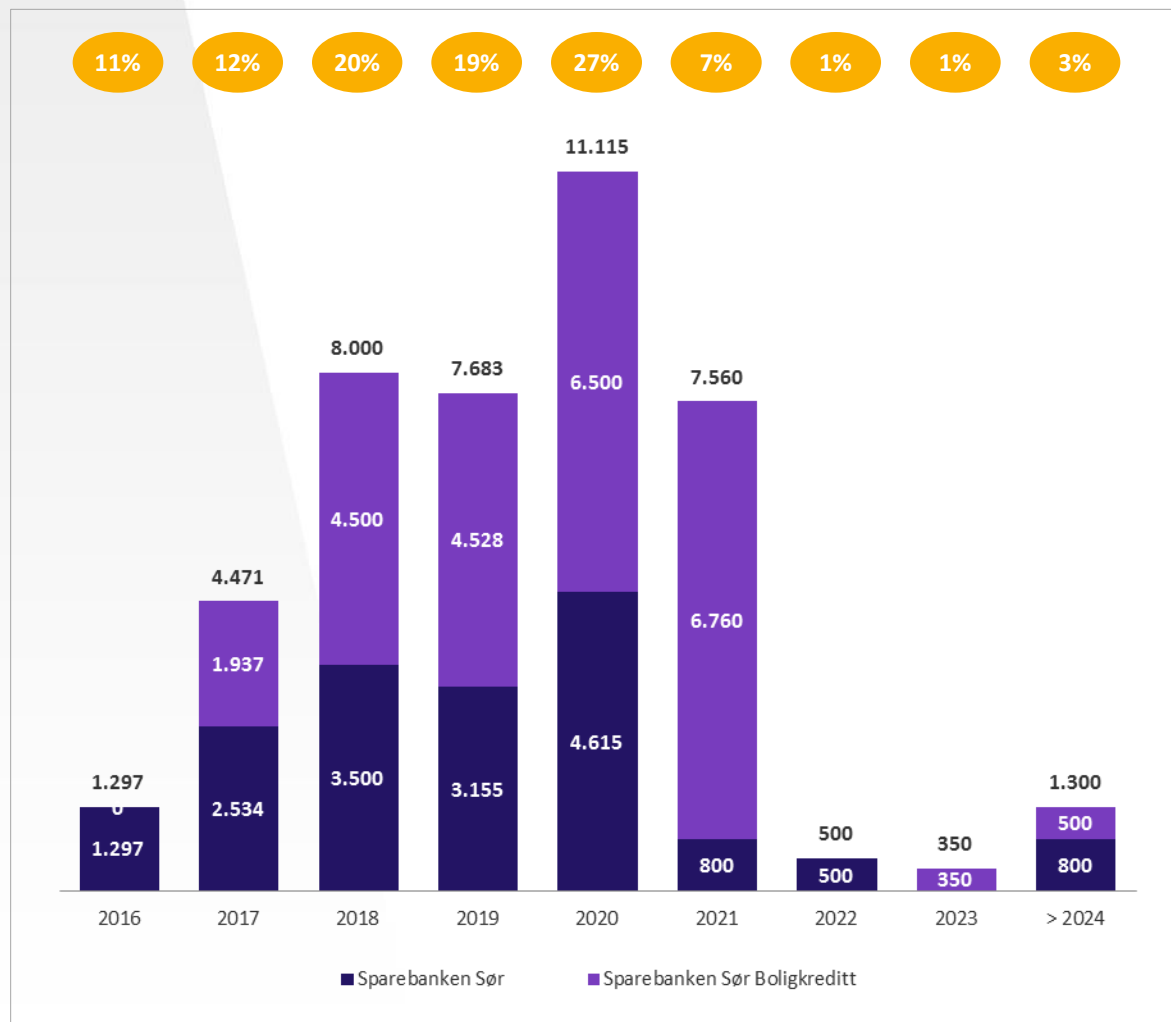


- Total liquidity portfolio of NOK 12,9 bn
- 100 % investment grade and 100 % liquid instruments
- Liquidity indicator of 109 % and liquidity reserve (LCR) of 153 %

# Funding

Good maturity distribution gives safety in case of market turmoil

Remaining maturity of outstanding wholesale funding



Key comments

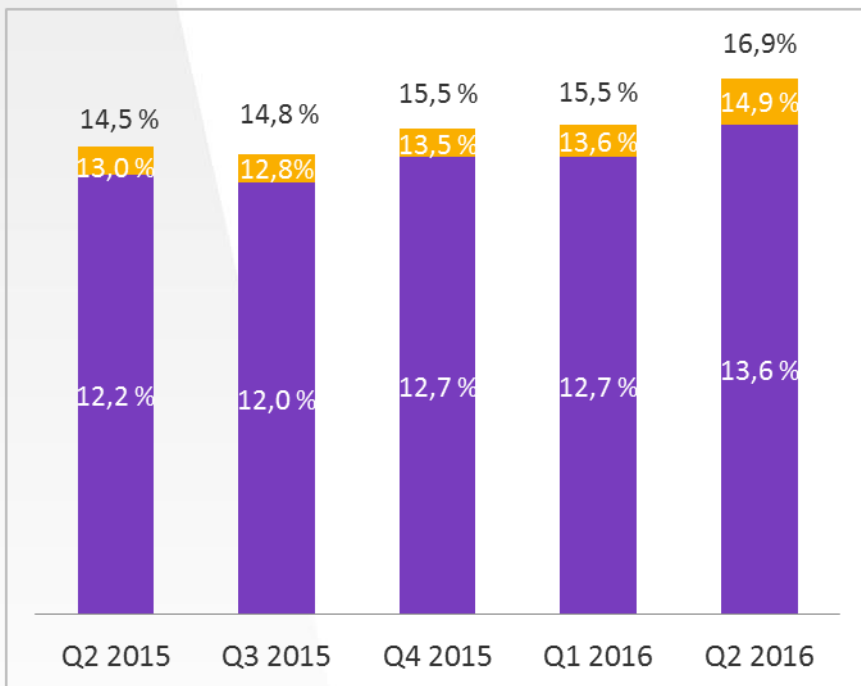
- Total funding amounted to NOK 42,9 bn, where NOK 25,2 bn was issued as covered bonds at 30 June 2016
- The bank has a reassuring maturity profile and limited maturities in 2016 and 2017
- Funding with over 12 month to maturity at 92%
- Liquidity indicator 1 at 109%
- Liquidity coverage ratio(LCR) at 137% for the group
- Average maturity at 3.4 years



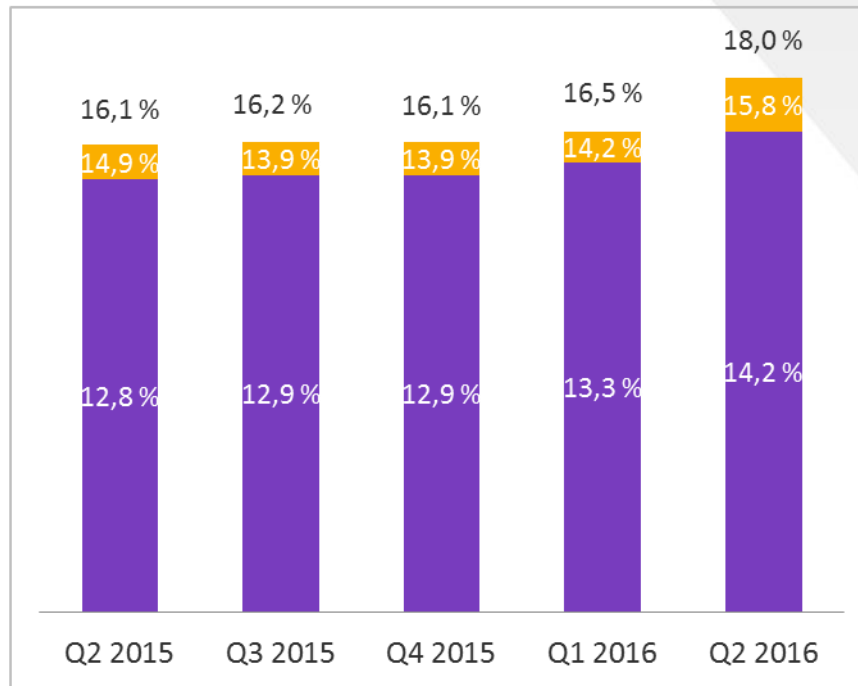
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# Capital adequacy

## Group



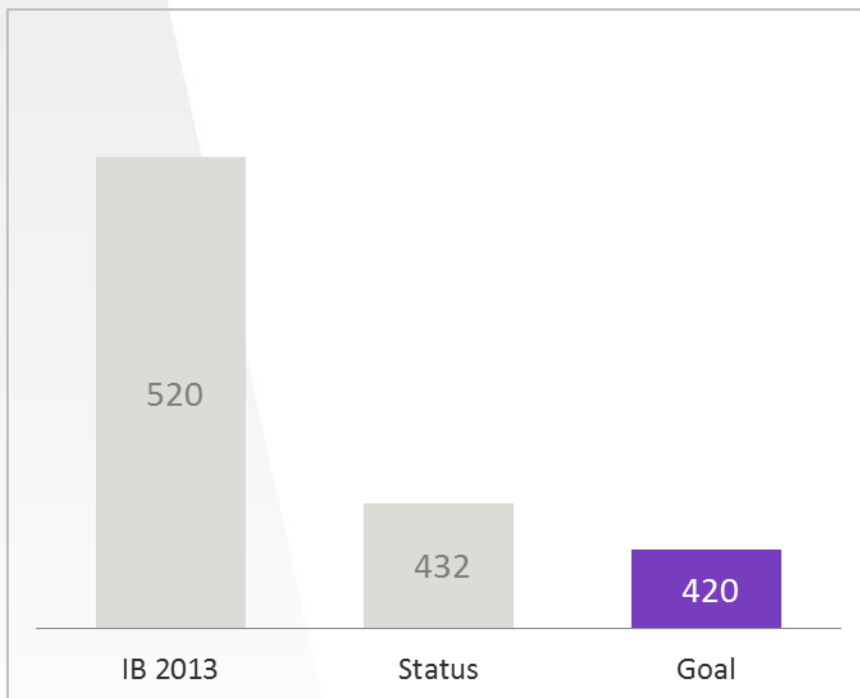
## Parent bank



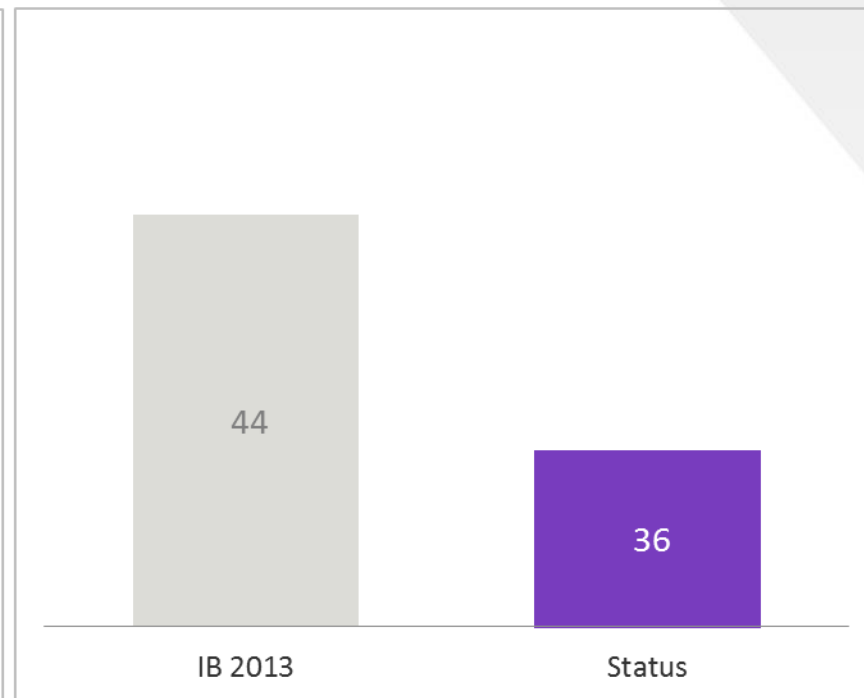
The common equity tier 1 capital ratio, added 80 percent of profit, amounts to 14.1 percent for the group

## Cost efficiency after the merger in 2013/14

### Number of employees



### Number of offices



Considerable potential is realized – further efficiency improvements are part of ongoing operations

# Summary 1<sup>st</sup> half 2016

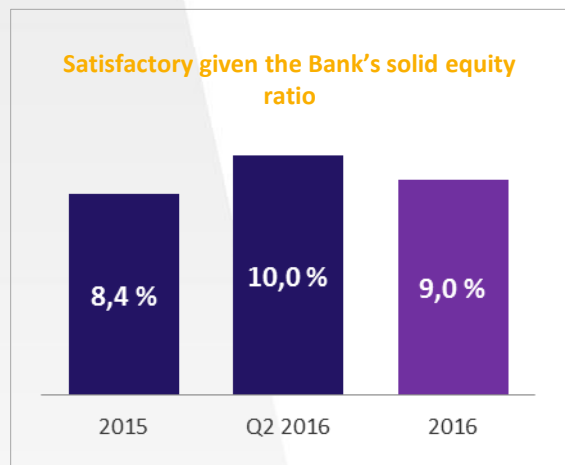
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<b>Result</b>	Improved profit from ordinary operations, trough good growth, stable net interest income, combined with low costs and losses
<b>Finance</b>	Positive net income from financial instruments in Q2 due to changes in the value of bonds, fix rate loans and equity shares
<b>Capital</b>	The Bank's financial strength is considered satisfactory in light of the current regulatory requirements. At the end of Q1 2016 the common equity tier 1 capital ratio was 14.1 per cent and the (total) capital ratio was 17.4 per cent.
<b>Growth</b>	Loan growth of NOK 6,2 billion the last 12 months, corresponding to a 7.4 percent growth. The loan growth is reduced the first half of the year to 4 percent(annualized. The deposit growth is NOK 1.5 billion, or 3 percent the last 12 months
<b>Summary</b>	Sound operations contributes to a pre-tax result of NOK 553 millions the 1 <sup>st</sup> half of 2016

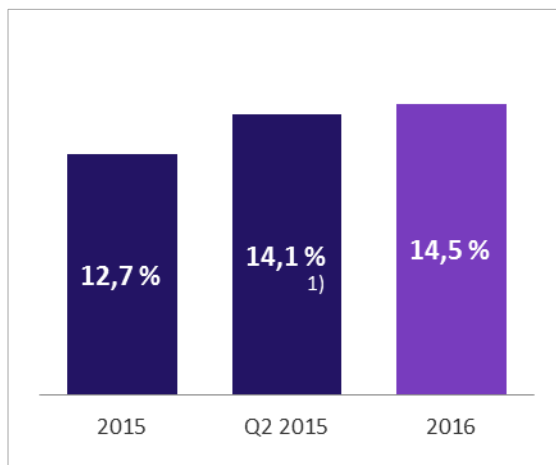
# Financial key variables in 2015 and ambitions for 2016

Operational measures are implemented ensuring the Bank's continued growth capacity in 2016

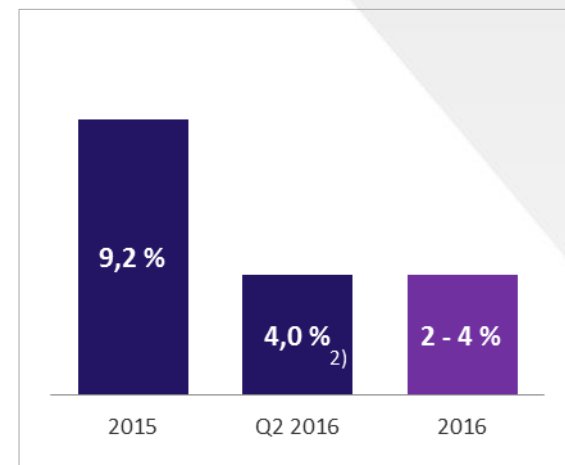
## Return on equity



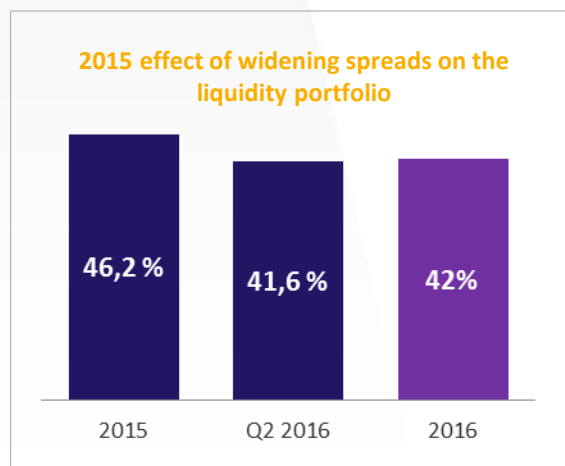
## Common equity tier 1 capital(Group)



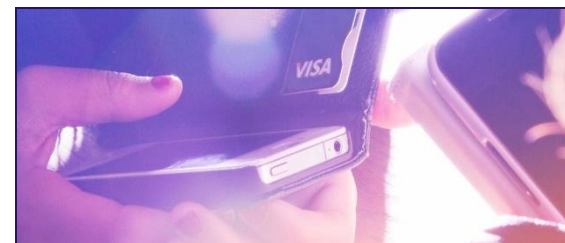
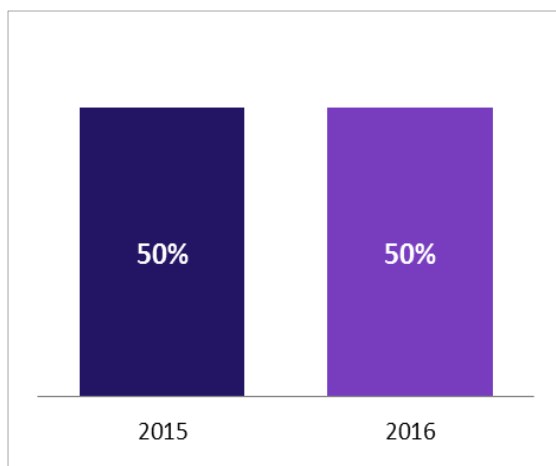
## Loan growth



## Cost development(banking operations)



## Dividend ratio



1) Added share of profit  
2) Growth YTD annualized



## Future prospects

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<b>Macro</b>	The growth in the Norwegian economy is moderate. Unemployment levels are increasing and the development in the oil industry will affect the growth rate.
<b>The region</b>	Sparebanken Sør has only marginal direct exposure to the oil and oil service sector, but as the largest bank in the region it will be affected by the general economic development in the region.
<b>Capital requirements</b>	The Bank is in a good position to reach the goal of a common equity tier 1 capital ratio of 14,5 percent through sound results from ordinary operations and reduced growth in risk weighted assets.
<b>Funding and liquidity</b>	The Bank is well positioned for long-term funding from the Norwegian and the international market.
<b>Summary</b>	Sparebanken Sør will contribute to further growth and development in the region. To fulfill this vision the bank will be leading, solid and independent with Agder and Telemark as its main market.

# APPENDIX



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## Development in net interest excl. the fee to the guarantee fund and interest on hybrid capital

NOK million	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Net interest income	397	362	386	387	381
Guarantee fund fee		37	9	9	9
Interest on hybrid capital			7	7	7
Net interest income, adjusted for changes in principles in Q1	397	399	402	403	397
In % of total assets	1,51 %	1,56 %	1,59 %	1,61 %	1,63 %

Net interest income adjusted for changes in the accounting of the fee to the Norwegian Banks' Guarantee Fund and reclassification of hybrid capital from debt to equity.

# Equity certificate owner

## 20 largest equity certificate owners at 30 June 2016

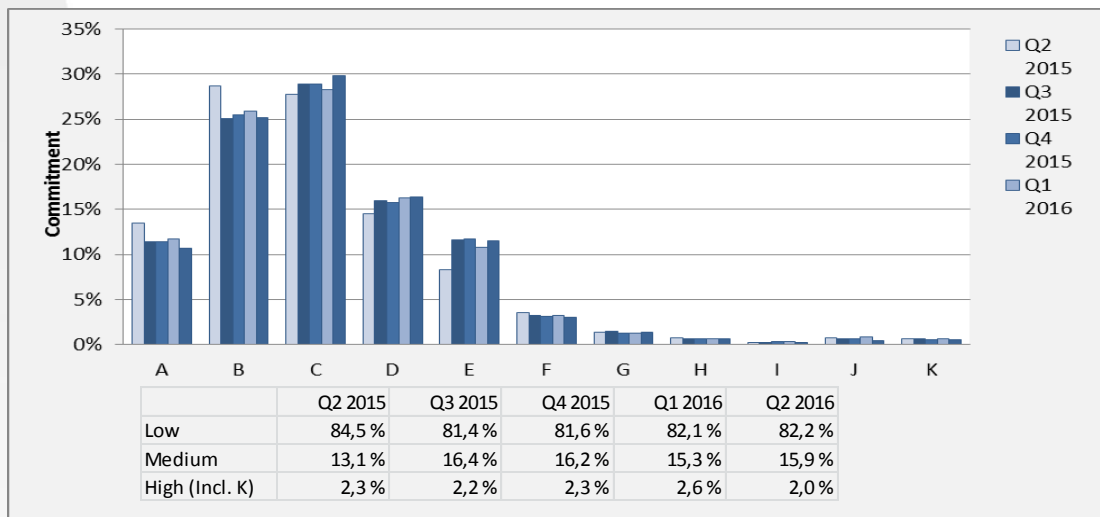
	Name	Number of ECs	Share of ECs		Name	Number of ECs	Share of ECs
1	Sparebankstiftelsen Spb. Sør	8 125 679	51,88 %	11	Allumgården	151 861	0,97 %
2	Arendal Kommunale Pensjonskasse	450 000	2,87 %	12	Sparebanken Vest Aksjer	145 634	0,93 %
3	HOLTA INVEST AS	444 410	2,84 %	13	MP Pensjon PK	112 733	0,72 %
4	Pareto AS	417 309	2,66 %	14	Profond AS	101 331	0,65 %
5	GLASTAD INVEST AS	387 467	2,47 %	15	Norgesinvestor Proto AS	101 252	0,65 %
6	Verdipapirfondet EIKA	329 988	2,11 %	16	Ottersland AS	100 000	0,64 %
7	Merrill Lynch	329 080	2,10 %	17	Wenaas Kapital AS	90 350	0,58 %
8	Bergen Kom. Pensjonskasse	250 000	1,60 %	18	Sparekillingsbanken	87 780	0,58 %
9	Wenaasgruppen AS	186 206	1,19 %	19	Artel Holding AS	82 131	0,52 %
10	Gumpen Bileiendom AS	154 209	0,98 %	20	Skandinaviska Enskilda Banken	80 650	0,51 %
	<b>Total 10 largest owners</b>	<b>11 074 348</b>	<b>70,70</b>		<b>Total 20 largest owners</b>	<b>12 128 070</b>	<b>77,43 %</b>

- At 30 June 2016 there was an issuance of 15 663 944 ECs of NOK 50. each
- Profit(Group) per EC for the 1st half of 2016 amounts to NOK 4
- The board of Trustees decided the 30 March 2016 for an issuance of 10 895 270 new ECs, the issuance was concluded at 3 May 2016. At this date the ownership ratio increased from 13 percent to 19.9 percent. Weighted average ownership ratio for the first half of 2016 was 15,2 percent.



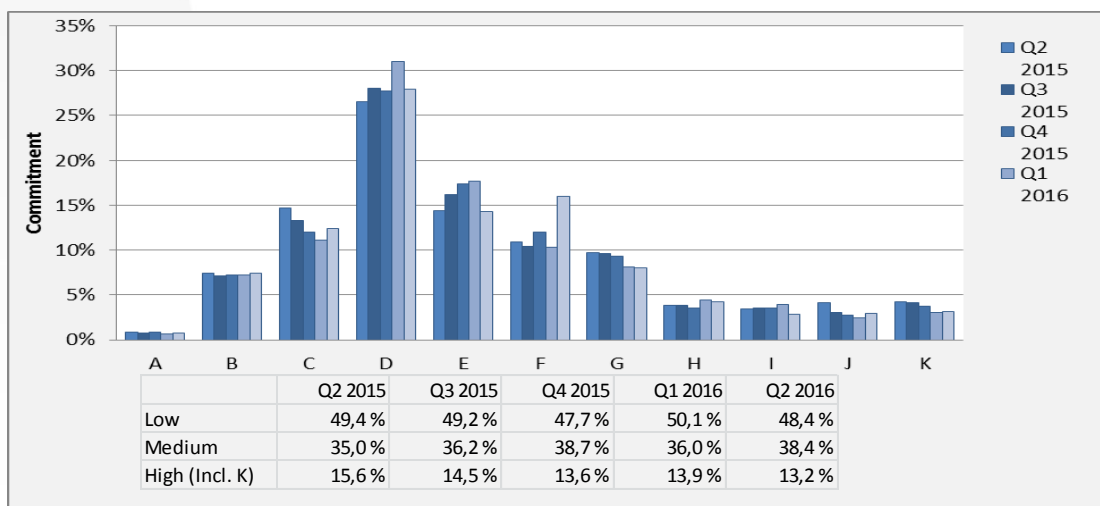
## Portfolio quality - score (PD)

RM



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	

CM



### Commentary:

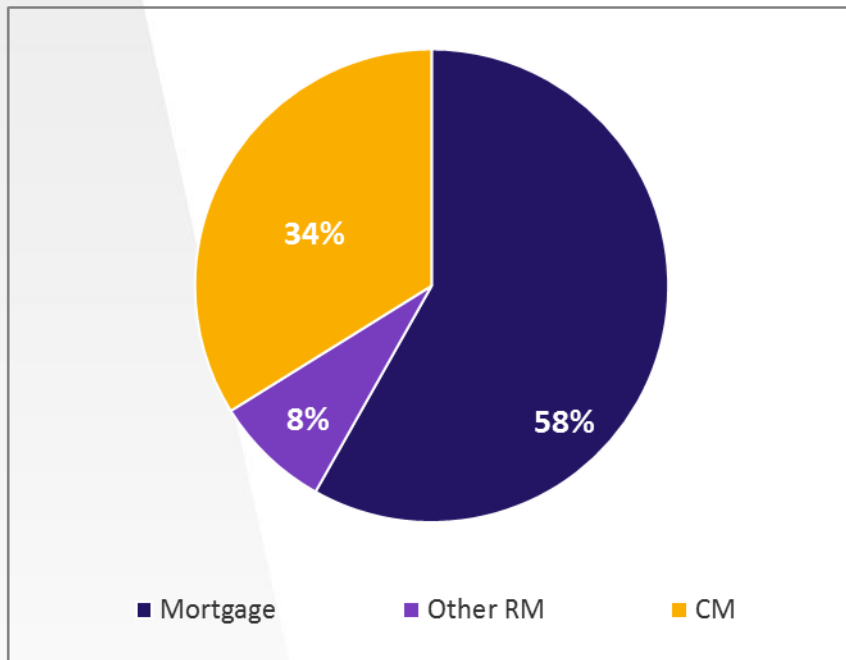
Weak improvement in the retail market(RM) risk profile and virtually unchanged corporate market(CM) risk profile taking into account migration between the different risk categories.



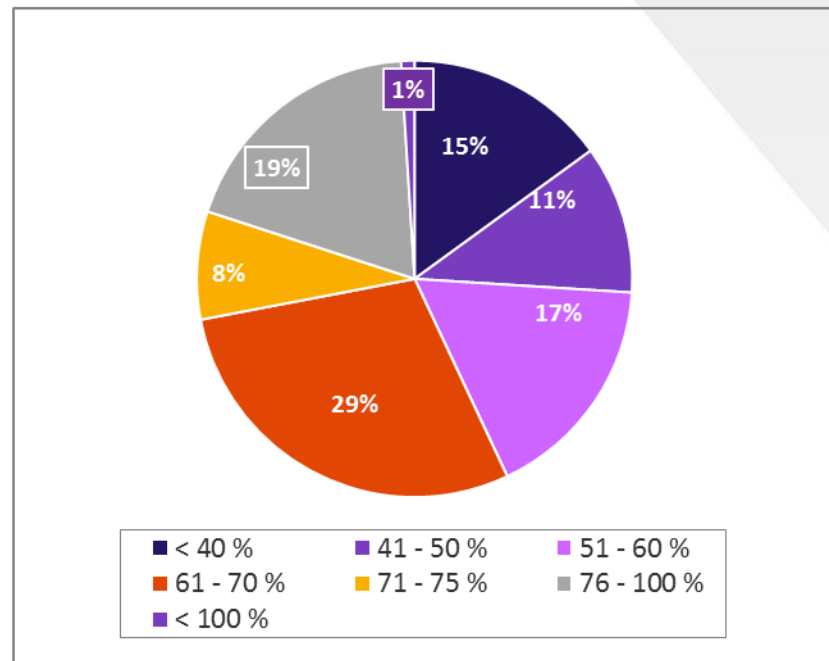
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# Sparebanken Sør – Pant i bolig

The loan portfolio in Sparebanken Sør



LTV Loans



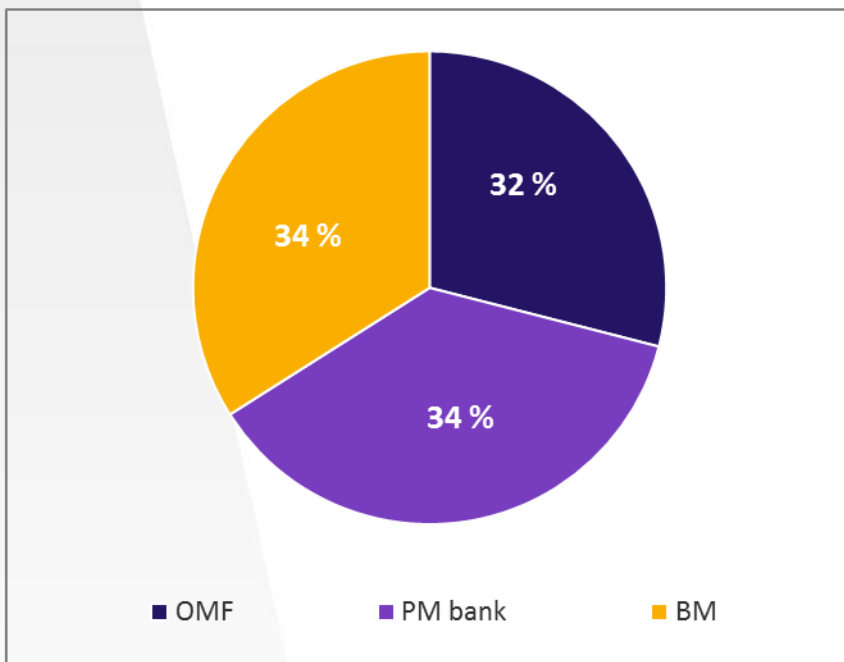
- Mortgages a large part of the RM portfolio
- Only 1 percent of the mortgages has an LTV of over 100 percent

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

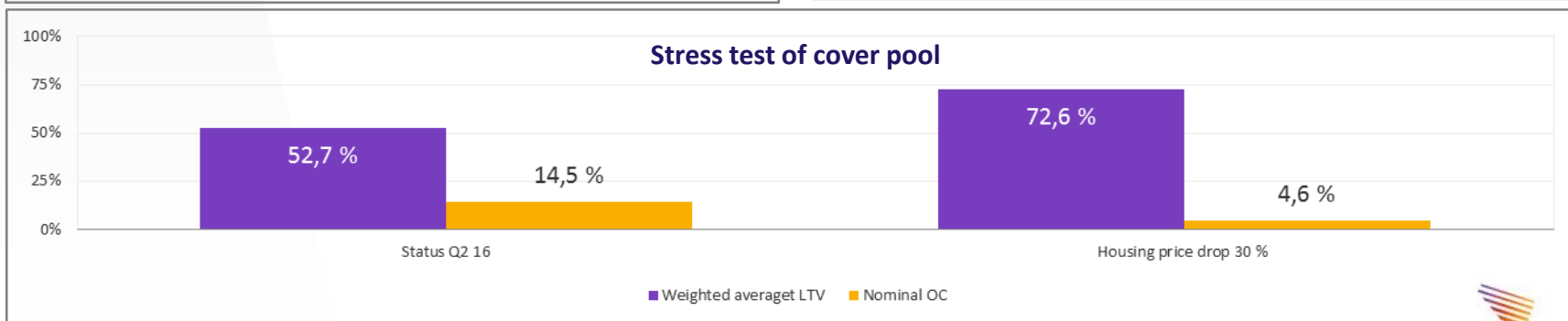
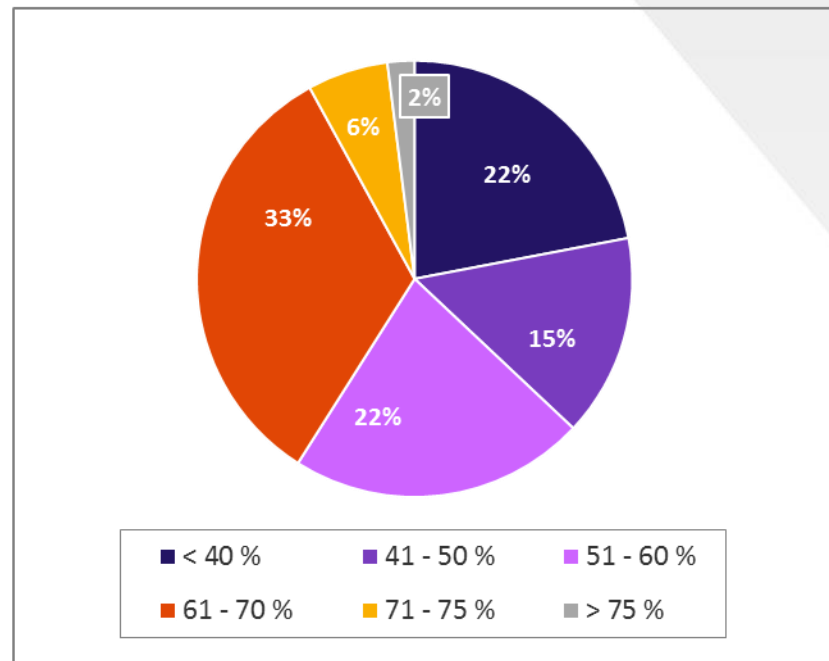
Because of this the actual LTV-distribution will be lower than what is displayed in the table.

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

The loan portfolio in Sparebanken Sør



LTV in Sparebanken Sør Boligkreditt



# Dividend policy

Target dividend at 50 percent of equity certificate 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** in their certificates.
- **The surplus will be distributed** between the equity certificate capital (equity certificate owners) and the primary capital in accordance with their share of the equity.
- When determining the annual dividend, Sparebanken Sør's need for capital, including regulatory requirements, expectations from investors and the bank's strategic targets will be considered.
- An ambition is that approximately half of the equity certificate capital share of annual profits after tax should be awarded as dividend.



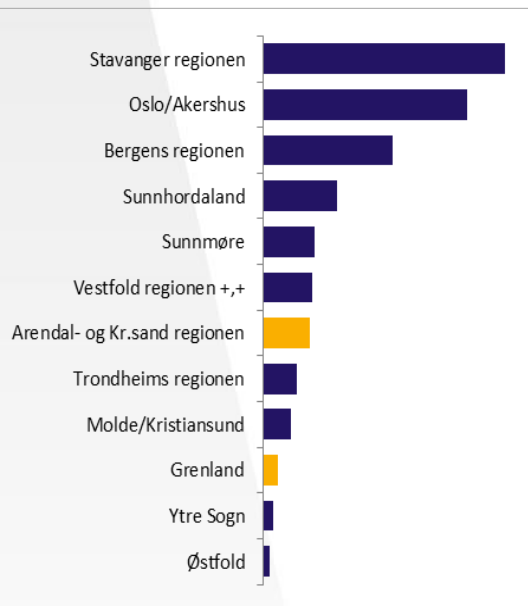
SPAREBANKEN SØR



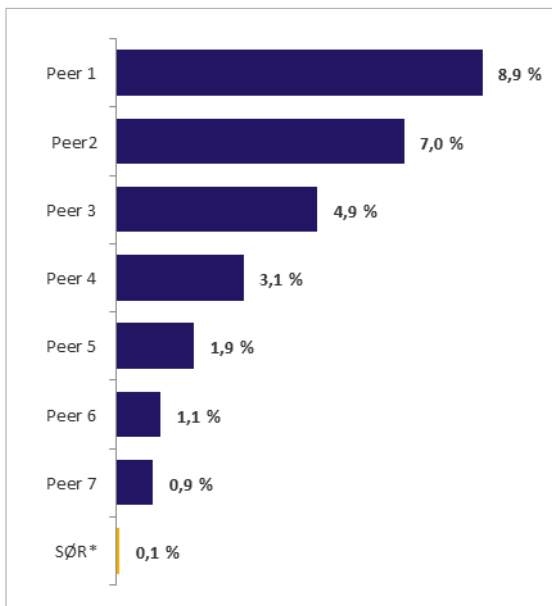
# Diversified loan portfolio

Low exposure to oil and offshore industry | Stable exposure to real estate

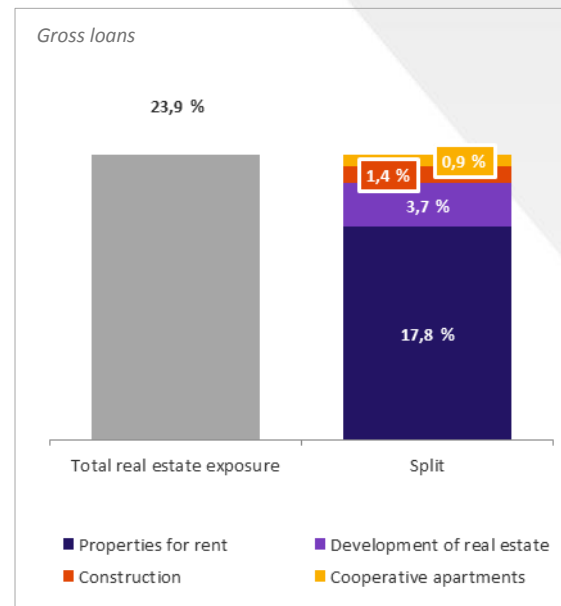
Norways largest petroleum counties



Exposure to oil- and oil service\*\*



Overall real estate exposure in the CM

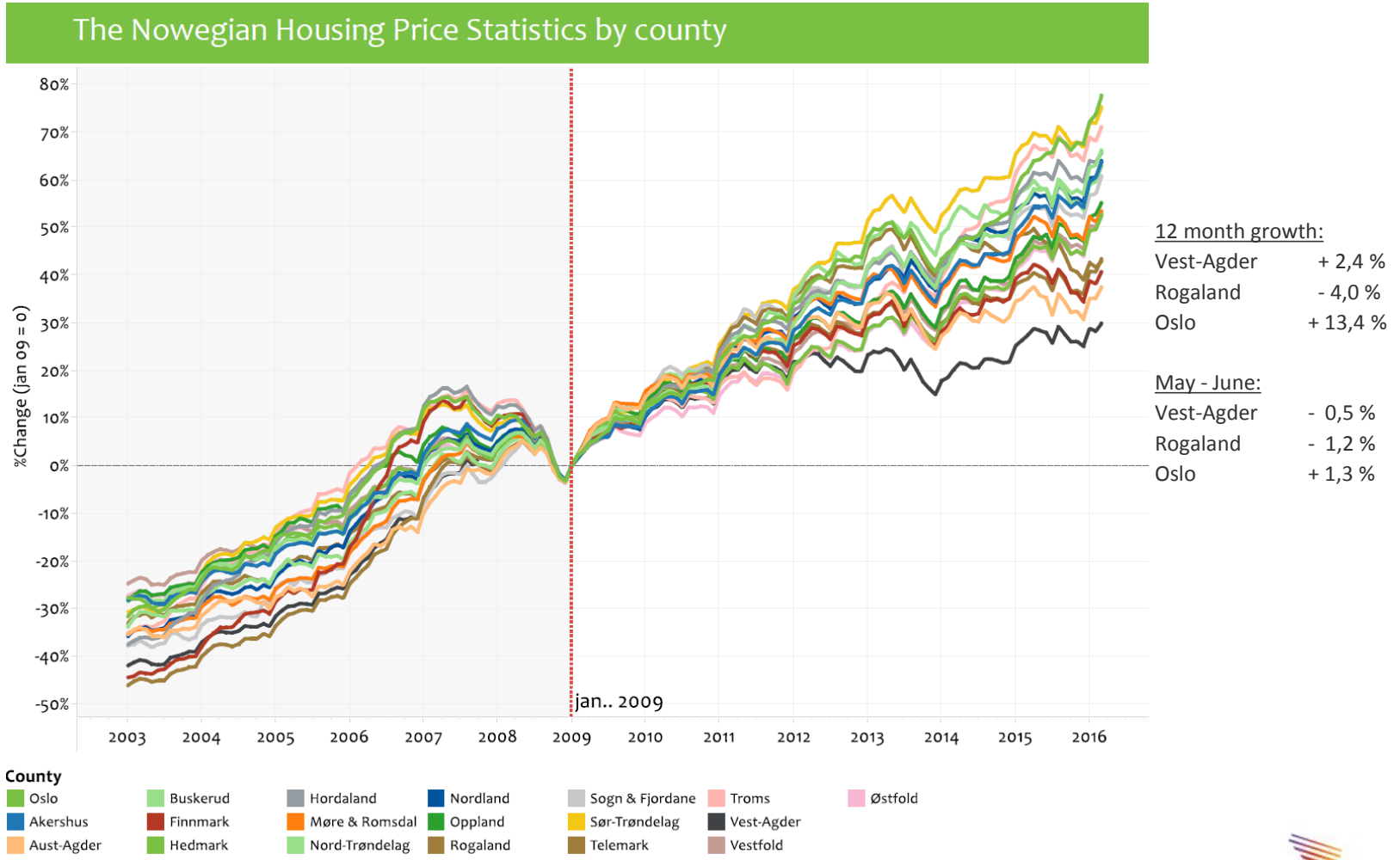


- Sparebanken Sør has virtually no direct exposure to oil and offshore industry, a long term strategic choice from even before the merger
- Even though Vest-Agder has a slightly above average exposure to oil, the Aust-Agder and Telemark counties ensure to a total exposure under the average in Norway
- The banks overall exposure to real estate constitutes about 72 percent of the corporate market portfolio -> the CM portfolio constitutes only 24 percent of the total loan portfolio
- Large parts of the real estate exposure is related to commercial property (rental and coops)
- Exposure to building and construction is low

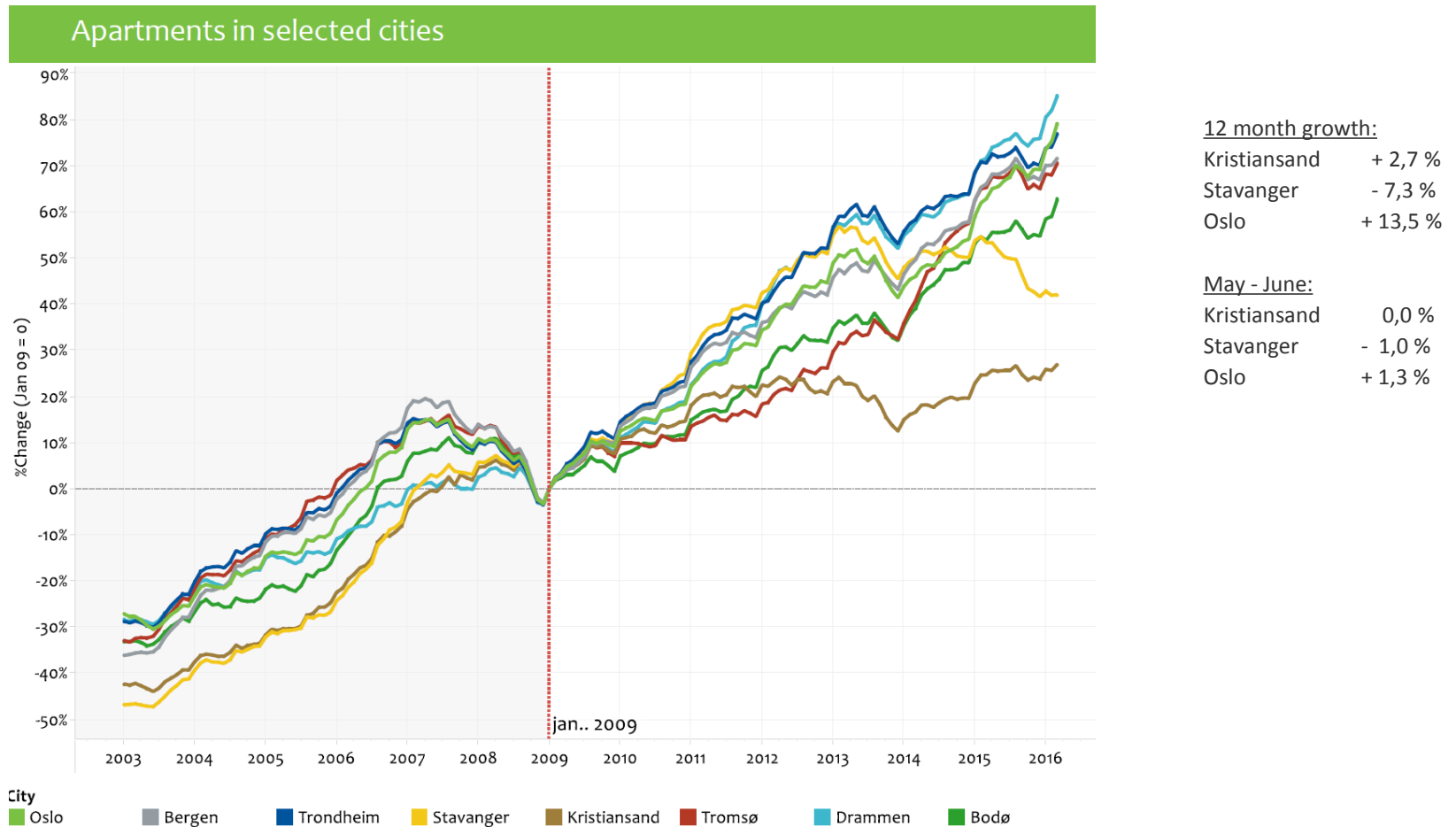


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# Macro conditions and framework– House price development June 2016



## 2. Macro conditions and framework– Apartment price development June 2016



Source: Eiendomsverdi AS March 2016



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