

Sparebanken Sør

2nd 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 110 billion.

Employees

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

Products and services

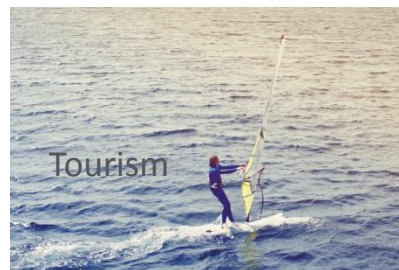
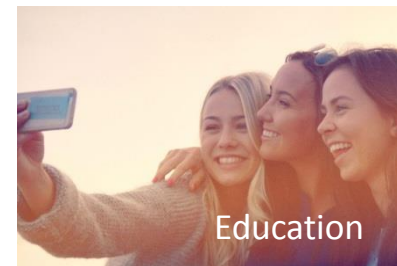
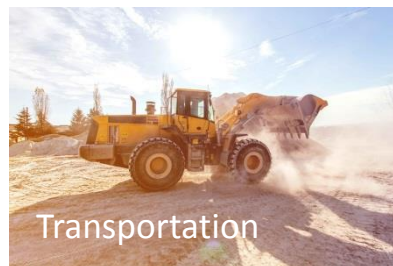
General banking services- and products, in addition to real-estate brokerage, life- and non-life insurance, stock brokerage and leasing through wholly- and partially owned subsidiaries and companies.

Summary

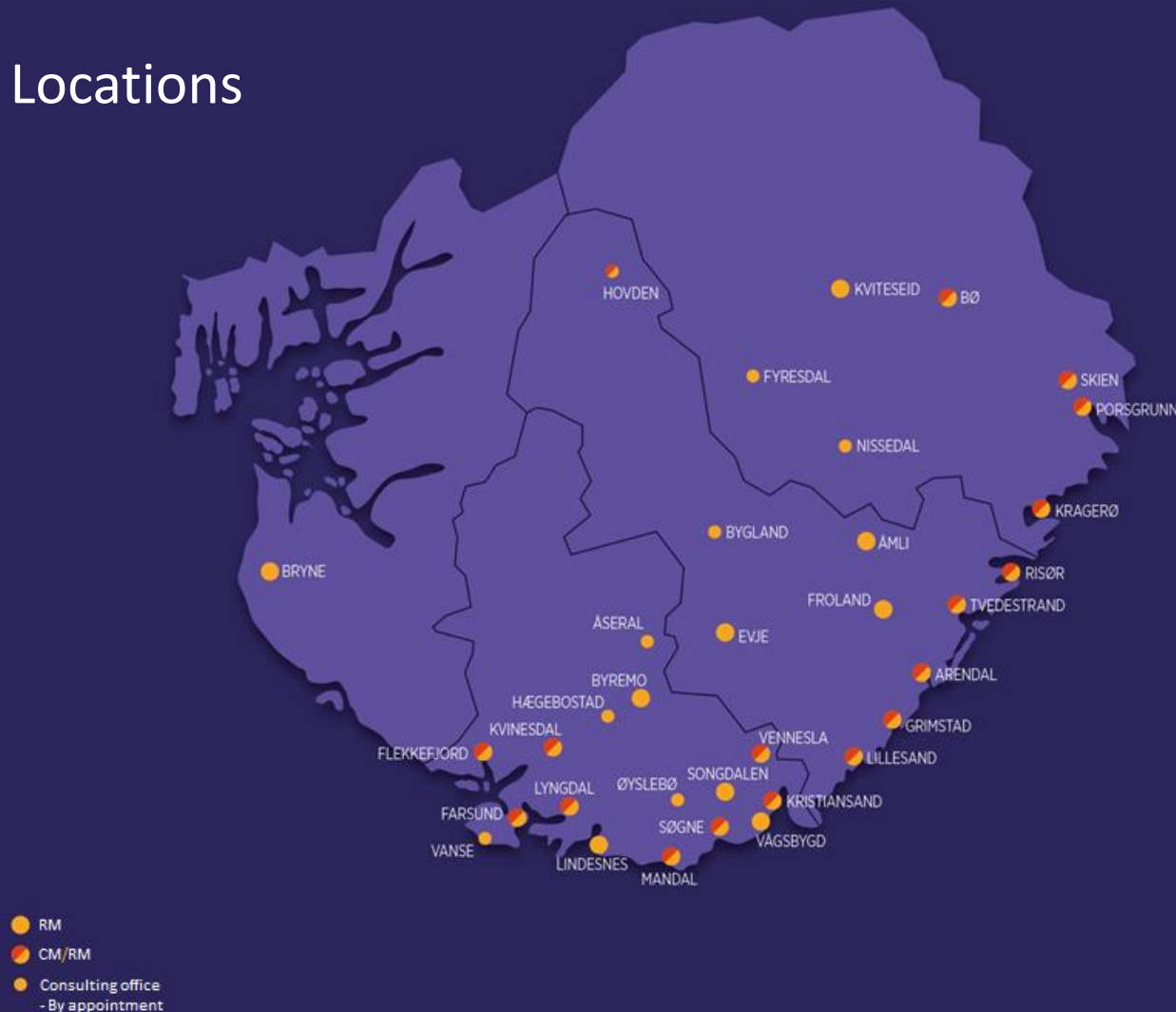
As one of the largest regional banks, Sparebanken Sør is committed to further growth and development in the region.



An important support in local business and industry



Locations



Agder and Telemark is 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

The bank has opened a new office at Bryne in Rogaland county with Jæren as main market. This creates new opportunities in a market with approx. 60 000 people.

**Hå, Klepp and Time municipality*

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
- 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 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 2nd quarter 2017

- Good results from ordinary operations
- Positive development in net interest income
- Increased commission income from the Groups' real estate agency, Sørmeglere
- Negative net income from financial instruments because of a negative developments in basis swaps and accounting expenses after buyback of own debt
- Efficient operations and low costs
- Low loan losses
- Few defaults
- Loan growth of 4.9 percent during the last 12 months
- Deposit growth of 8.7 percent during the last 12 months
- Return on equity after tax of 8.5 percent
- **Common equity tier 1 capital ratio of 14.6 percent and leverage ratio of 9.0 percent, with 80 percent of profit included**



Income statement Sparebanken Sør

Profit before tax after the 1st half of 2017 amounted to NOK 553 million

The main features for Sparebanken Sør in the 1st half of 2017:

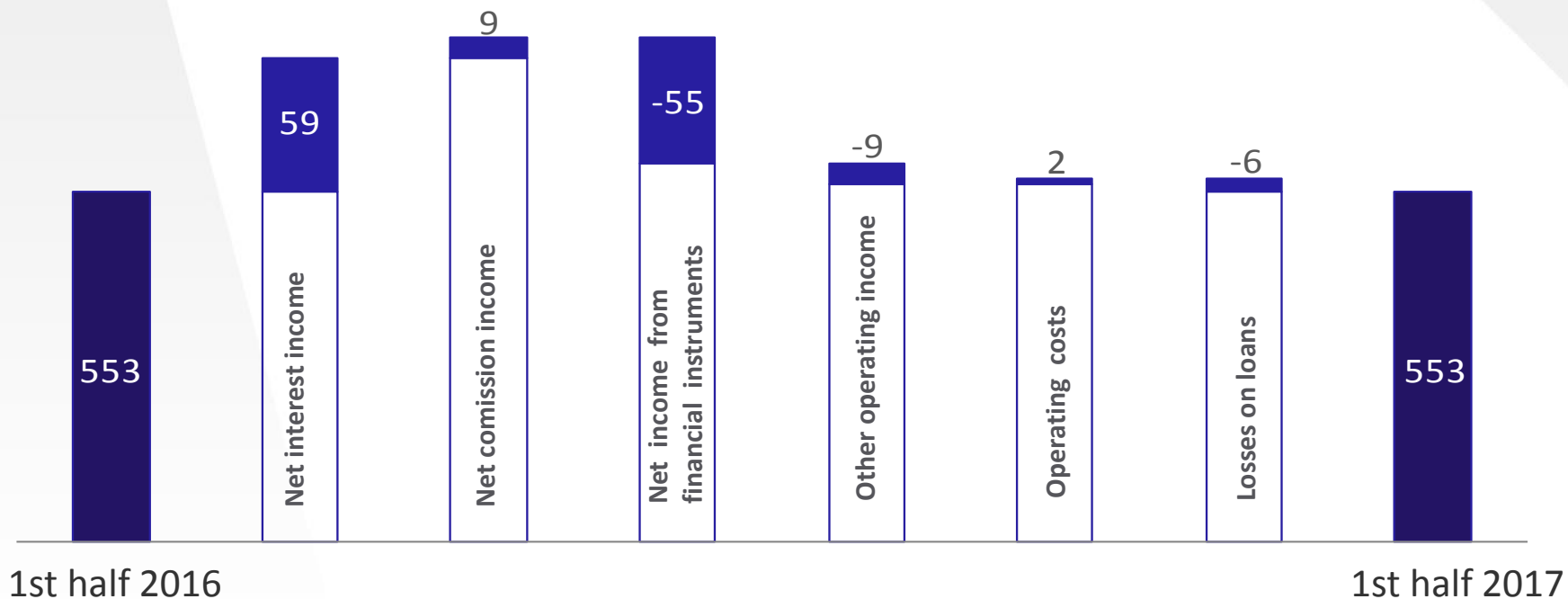
- Good results from ordinary operations
- Positive development in net interest income
- Increased commission income from the Groups' real estate agency, Sørmeqleren
- Lower net income from financial instruments
- Efficient operations and low costs
- Low loan losses

Profit after the 1st half of 2017 equals a return on equity after tax of 8.6 percent

NOK million	30.06.2017	30.06.2016	Change
Net interest income	818	759	59
Net commission income	154	145	9
Net income from financial instruments	9	64	-55
Other operating income	7	16	-9
Total income	988	984	4
Total expenses	407	408	-1
Profit before losses on loans	581	575	6
Losses on loans, guarantees	28	22	6
Profit before taxes	553	553	0
Tax expenses	128	126	2
Profit for the period	425	427	-2

Improvement in profit before taxes, 1st half 2016 – 1st half 2017

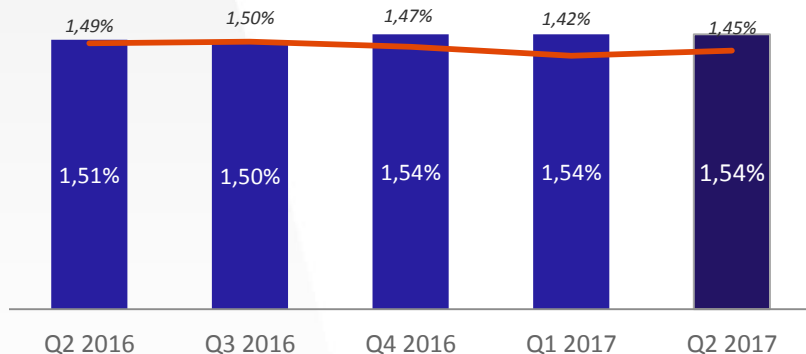
NOK million



Key figures – quarterly profit trend

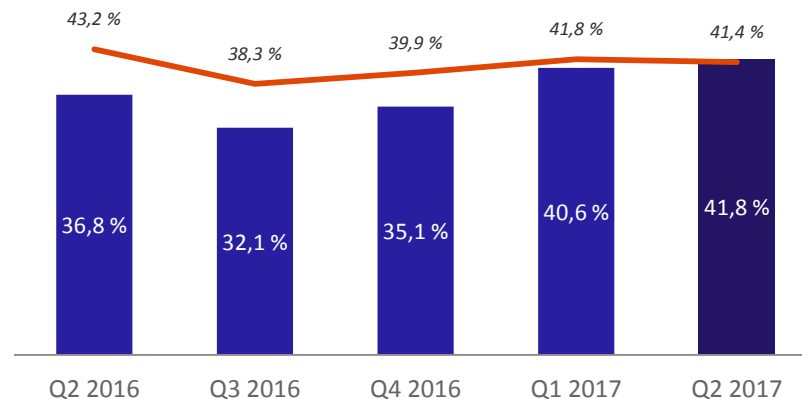
Net interest income to total assets

Net interest income to total assets, adjusted for changes in accounting principles



Costs Income Ratio

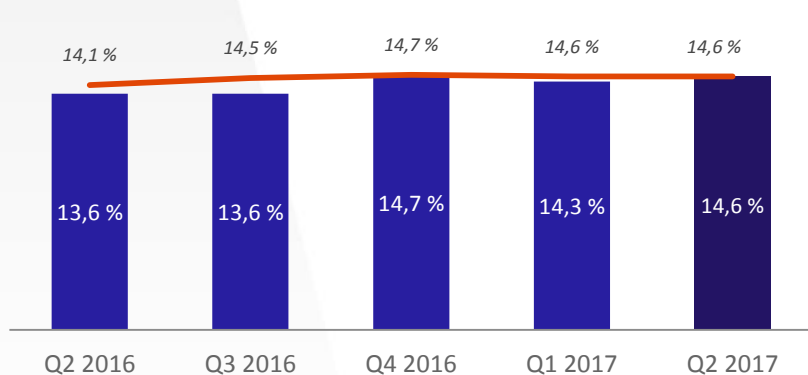
Cost income ratio excl. financial instruments



Key figures – quarterly profit trend

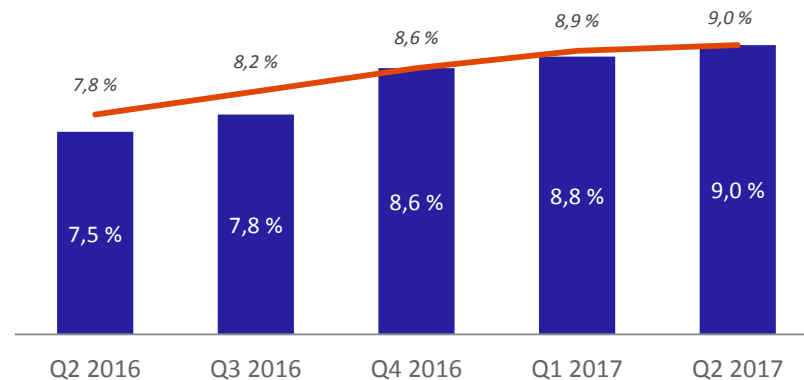
Common equity tier 1 capital ratio

Common equity tier 1 capital ratio including 80 % of profit



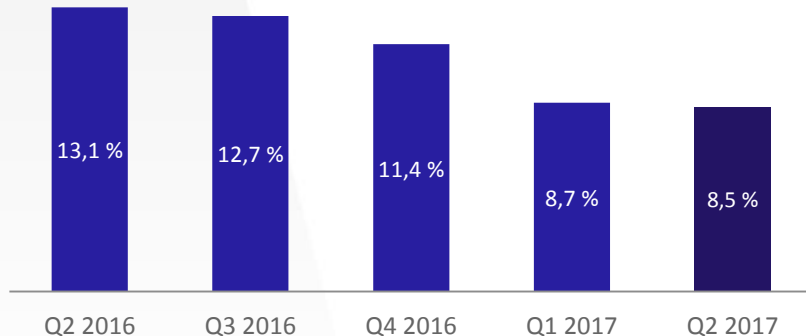
Leverage ratio

Leverage ratio including 80 % share of profit

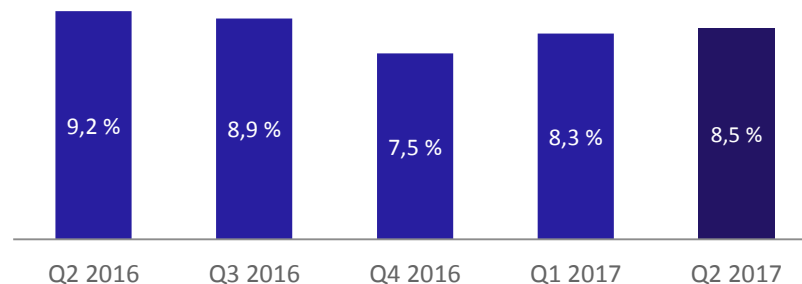


Key figures – quarterly profit trend

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

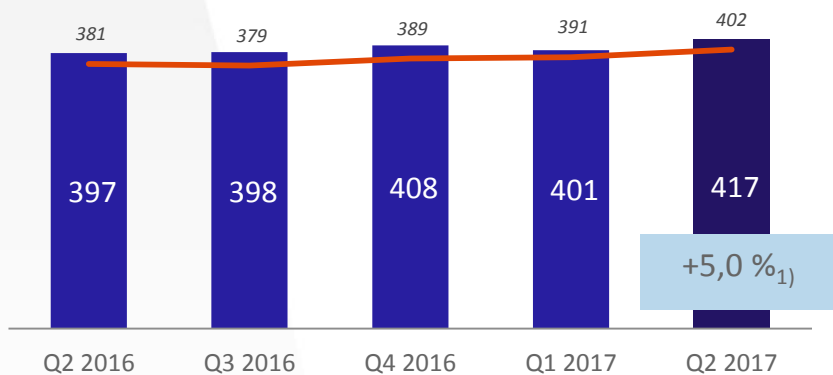


Profit and loss

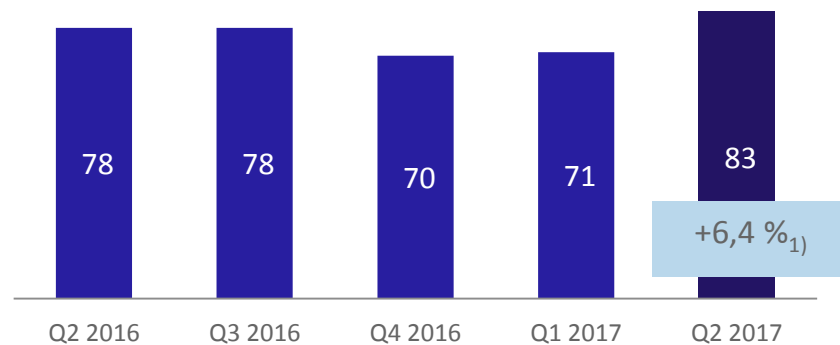
NOK million

Net interest income

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



Net commission income

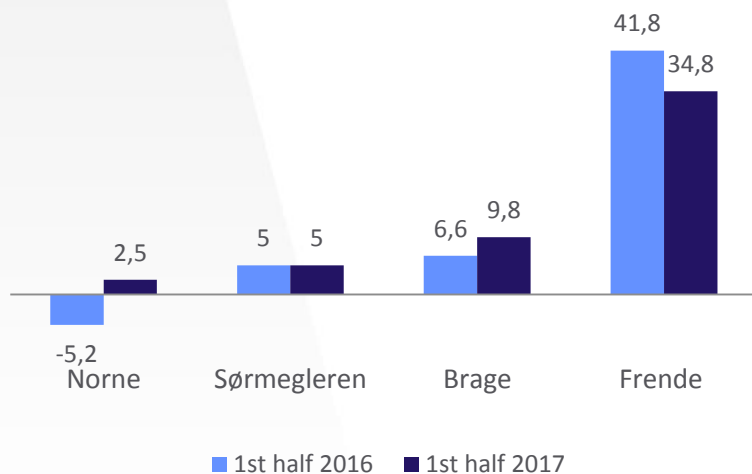


1) Changes from the same period last year.

Profit contribution from affiliated companies

The companies' profit before tax

NOK million

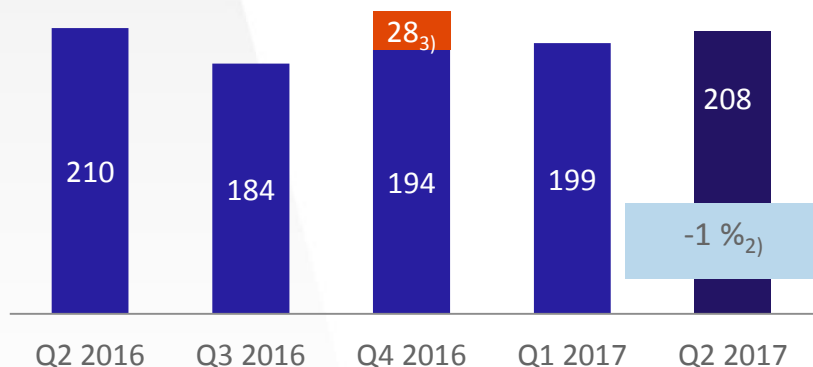


NOK million		30.06.2017	30.06.2016
Frende (10 percent owner)	Dividend	12	8
	Return	0	0
Brage (14 percent owner)	Dividend	0	0
	Return	0	0
Sørmeqleren (Consolidated – 90,1 percent owner)	Profit contribution	4	4

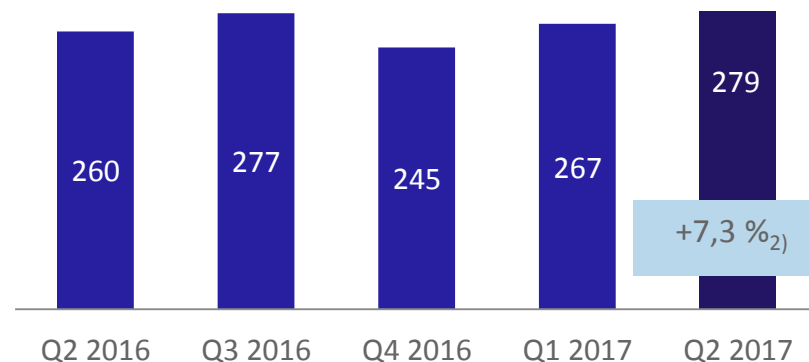
Profit and loss

NOK million

Operating expenses



Profit from ordinary operations¹⁾

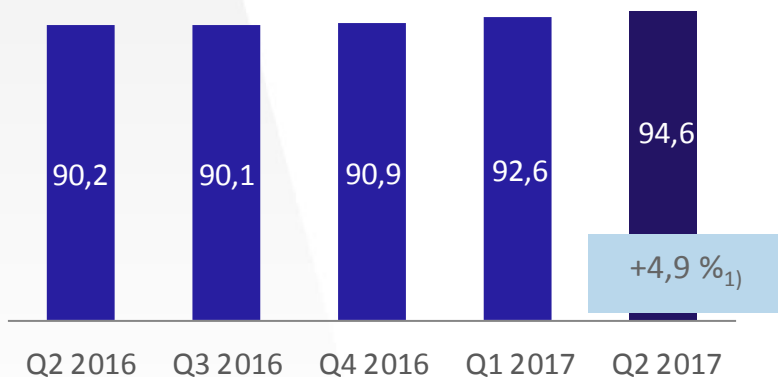


- 1) Net interest income, adjusted for changes in accounting principles + Net commission income + Other operating income – Operating costs, adjusted for the conversion of the pension scheme
- 2) Changes from the same period last year
- 3) Including the accounting effect of NOK 42 million from the conversion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

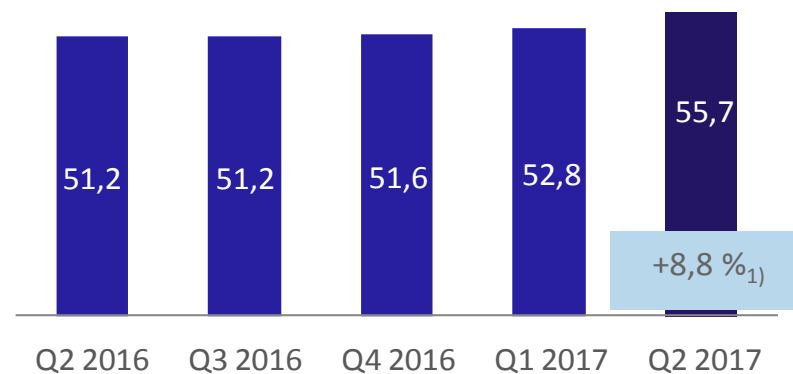
Balance sheet items

NOK billion

Loans



Deposits



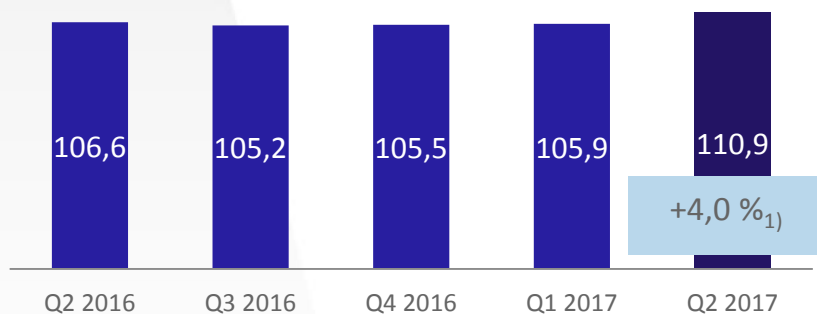
1) Changes from the same accounting period in 2016

2) Loan growth in the 1st half of 2017 amounted to NOK 3.7 billion, equivalent to 8.2 percent, of which retail customers accounted for 6.8 percent and corporate customers 10.7 percent (annualized)

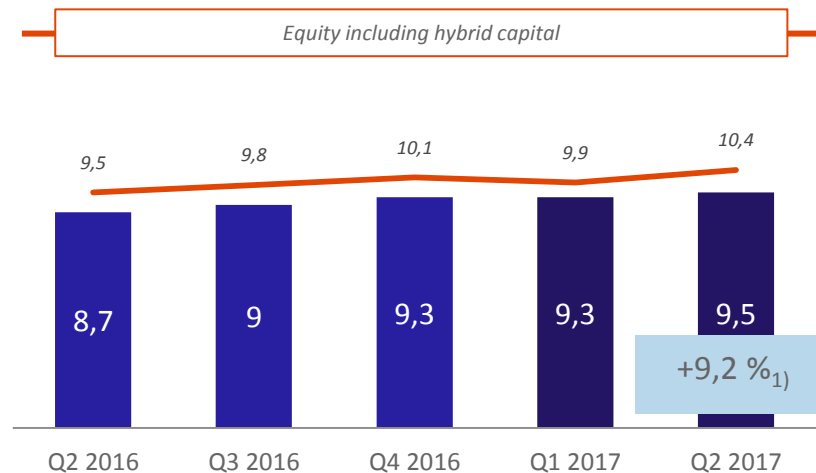
Balance sheet items

NOK billion

Total assets



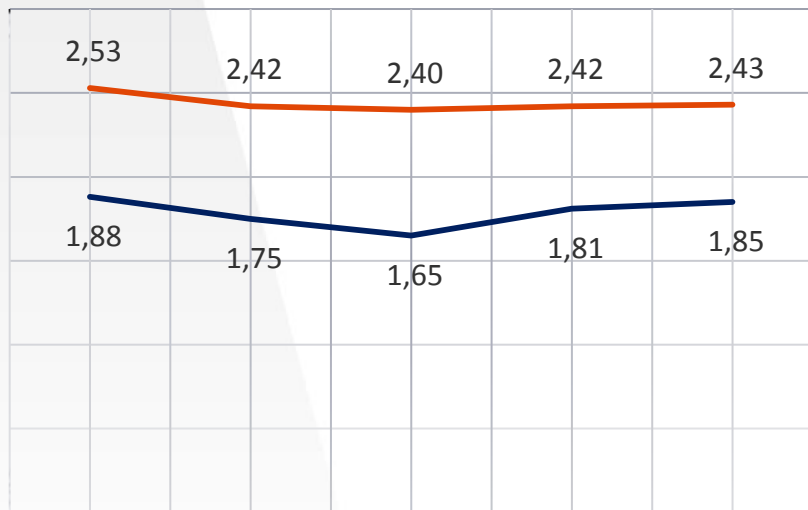
Equity



1) Changes from the same accounting period in 2016

Interest margin development

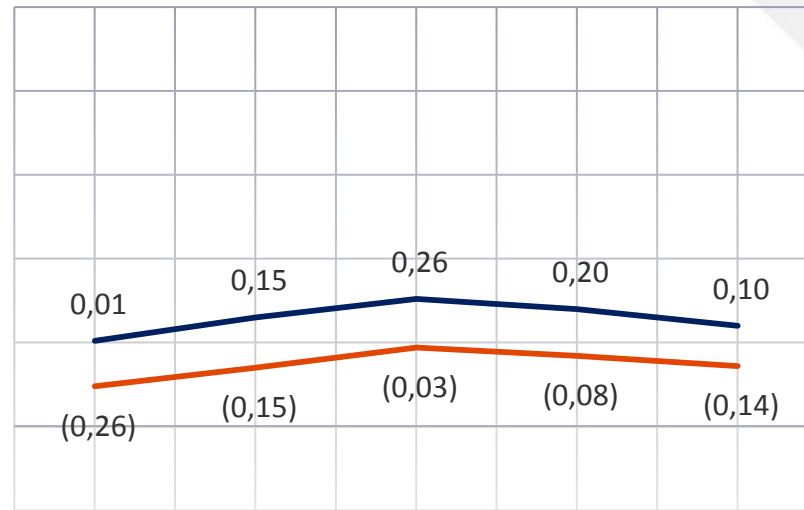
Loans (%)



Q2 2016 Q3 2016 Q4 2016 Q1 2017 Q2 2017

— Retail Market (RM) — Corporate Market (CM)

Deposits (%)



Q2 2016 Q3 2016 Q4 2016 Q1 2017 Q2 2017

— Retail Market (RM) — Corporate Market (CM)

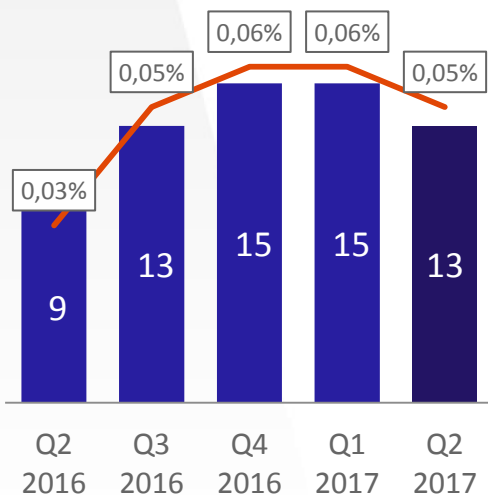
Loans: Average interest rates minus 3 month weighted average of 3 month NIBOR.

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

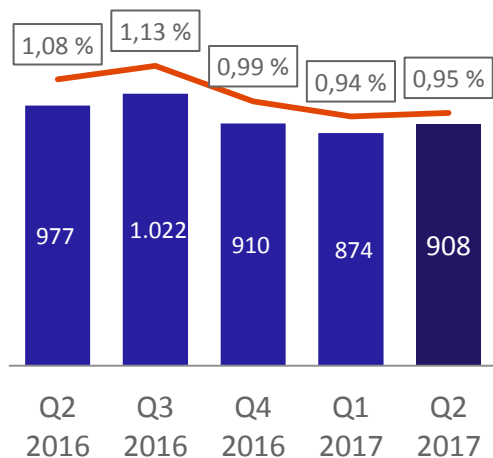
All numbers in % per annum.

Losses and non-performing loans

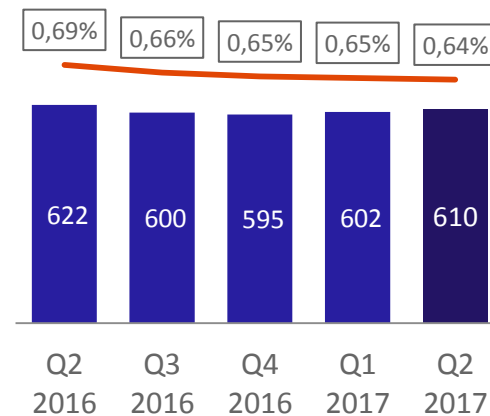
Development in losses in NOK million and as a percentage of gross loans



Development in problem loans and non-performing loans > 90 days in NOK million as a percentage of gross loans



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

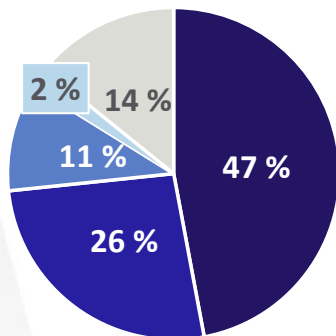


A well diversified loan portfolio

High RM share and geographical diversification contribute to a balanced portfolio

Geographical distribution of loans

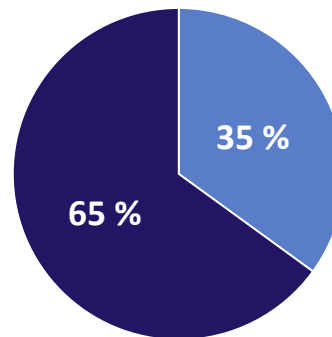
Gross loans



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

Distribution RM / CM

Gross loans



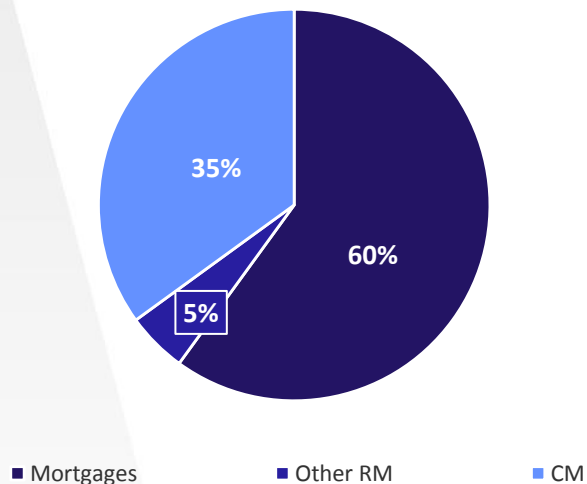
■ CM ■ RM

- # 1 position in Vest-Agder and Aust-Agder, # 3 position in Telemark. Positive development in Rogaland.
- Close and long term cooperation with major firms/organizations in the region.
- KNIF* contributes to growth also outside the region. The KNIF segment amounts to NOK 7.6 billion i loans to customers and NOK 4.6 billion in customer deposits. KNIF corporates constitute the biggest share with NOK 4.5 billion in loans and NOK 4.0 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 (42,6 percent).

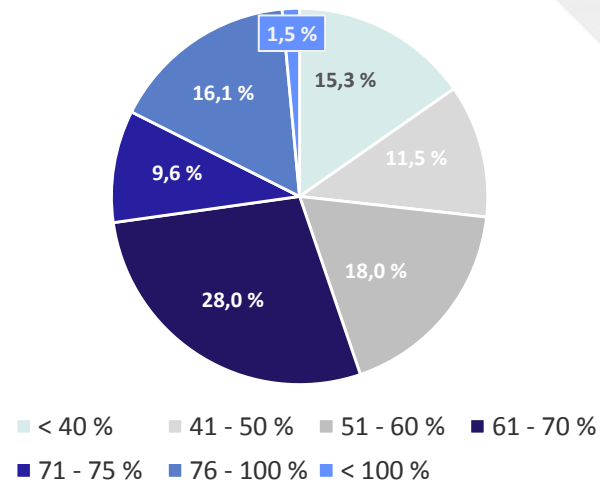
Note(*): KNIF = Kristen-Norges interessefellesskap(Norwegian Christian interest organization) -> Consists of more than 70 national organizations

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 82.4 percent

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

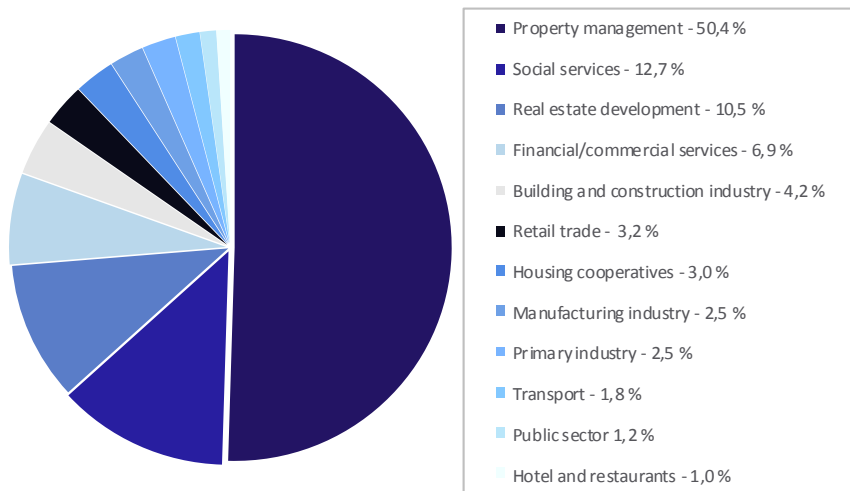
As a consequence the actual LTV-distribution will be lower than what is displayed in the table.



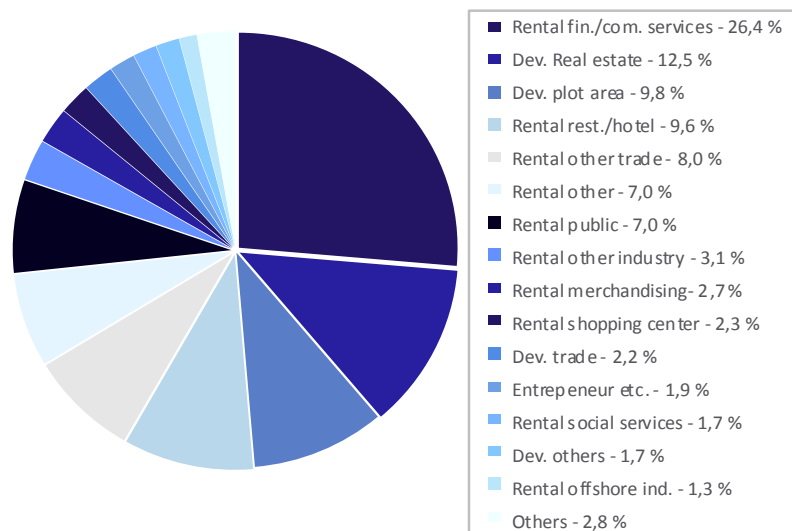
A well diversified loan portfolio

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

Distribution Corporate Market (CM)



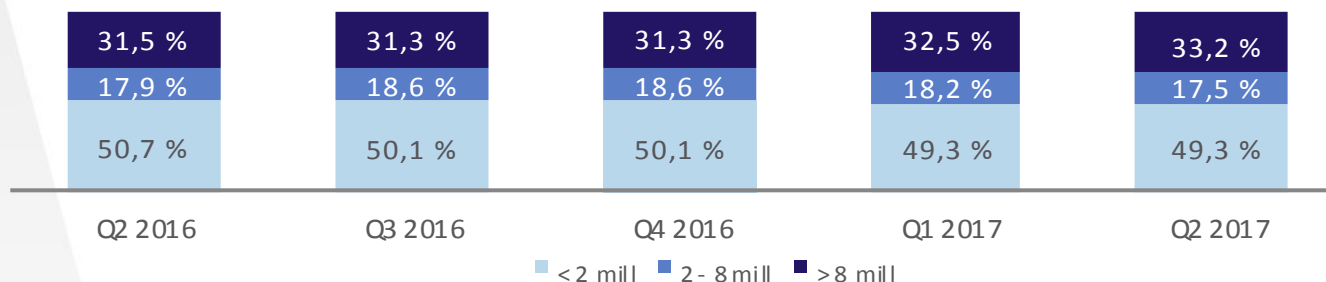
Tenant distribution₁₎: Commercial real estate (rental), real estate development and building and construction (Loan commitment > NOK 10 million)



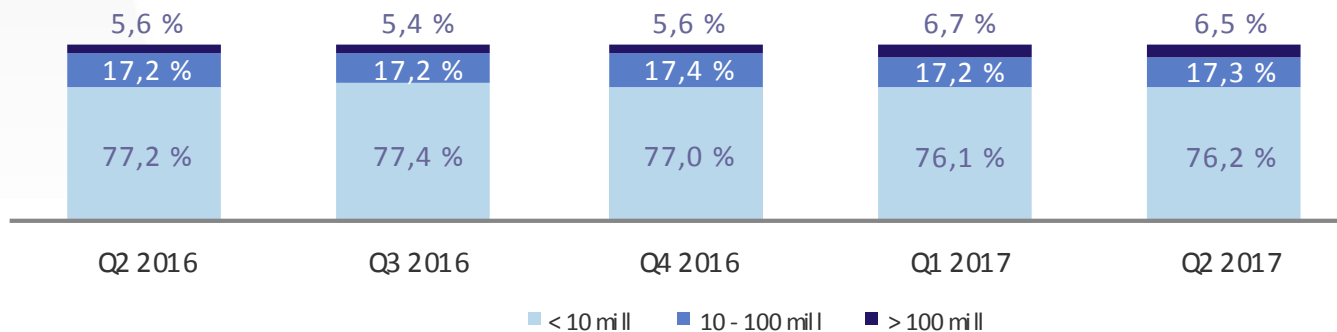
The CM loan portfolio reflects the business activity in the region with one major exception: Sparebanken Sør has a very low direct exposure to the oil and oil service industry.

Portfolio

Deposits distributed by size

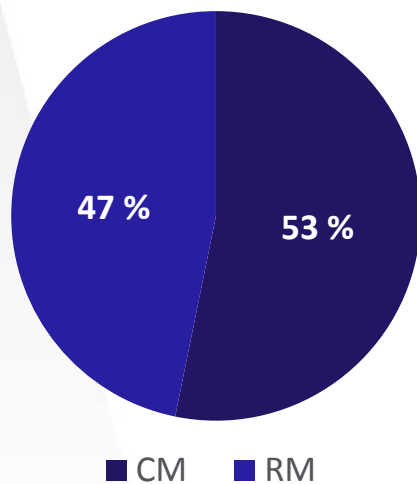


Loans* distributed by commitment size

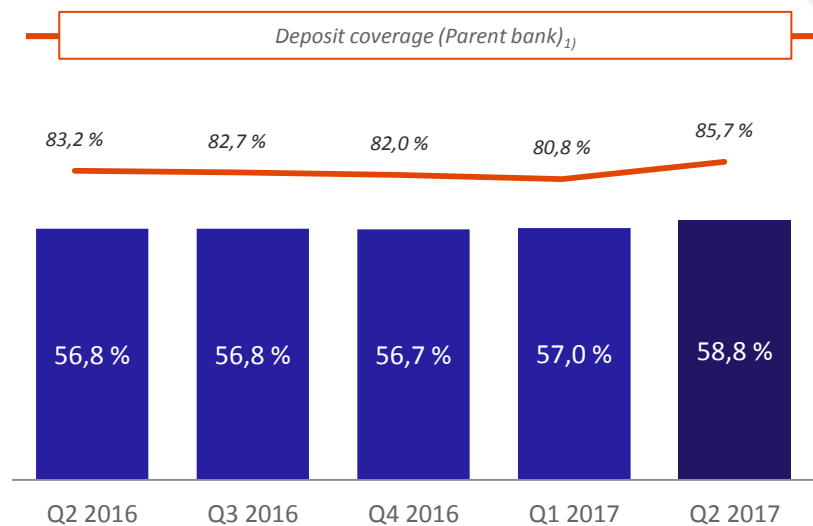


Deposits

Distribution RM/CM



Deposit coverage (Group)₁₎

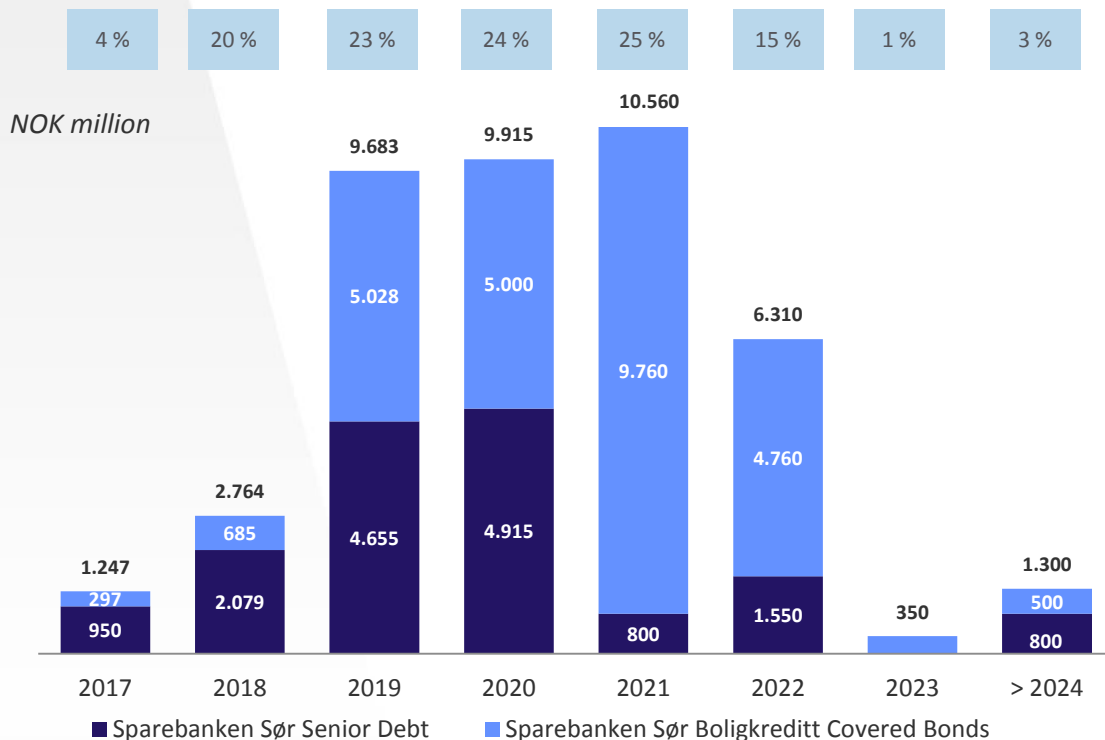


The deposit coverage₁₎ has increased by 8.7 percent over the last 12 months

Funding

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

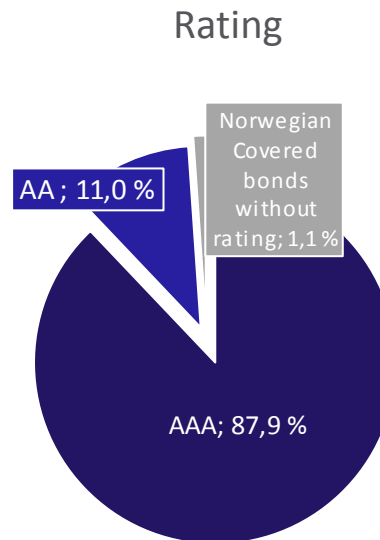
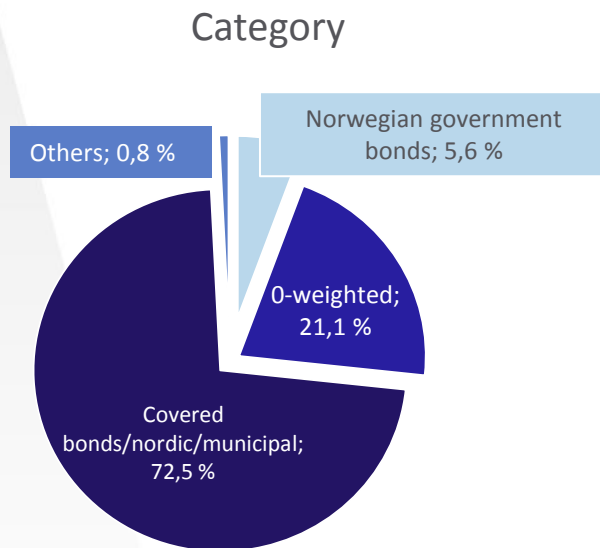
Remaining maturity of outstanding wholesale funding



- Total funding for the Group amounted to NOK 42.5 bn, with NOK 26.5 bn issued as covered bonds as at 30 June 2017
- The bank has a diversified maturity profile and limited maturities in 2017
- Funding with maturities after 2017 amounts to 97% of the portfolio
- Liquidity indicator 1 at 110%
- Average maturity at 3,3 years



Liquidity portfolio (Group)



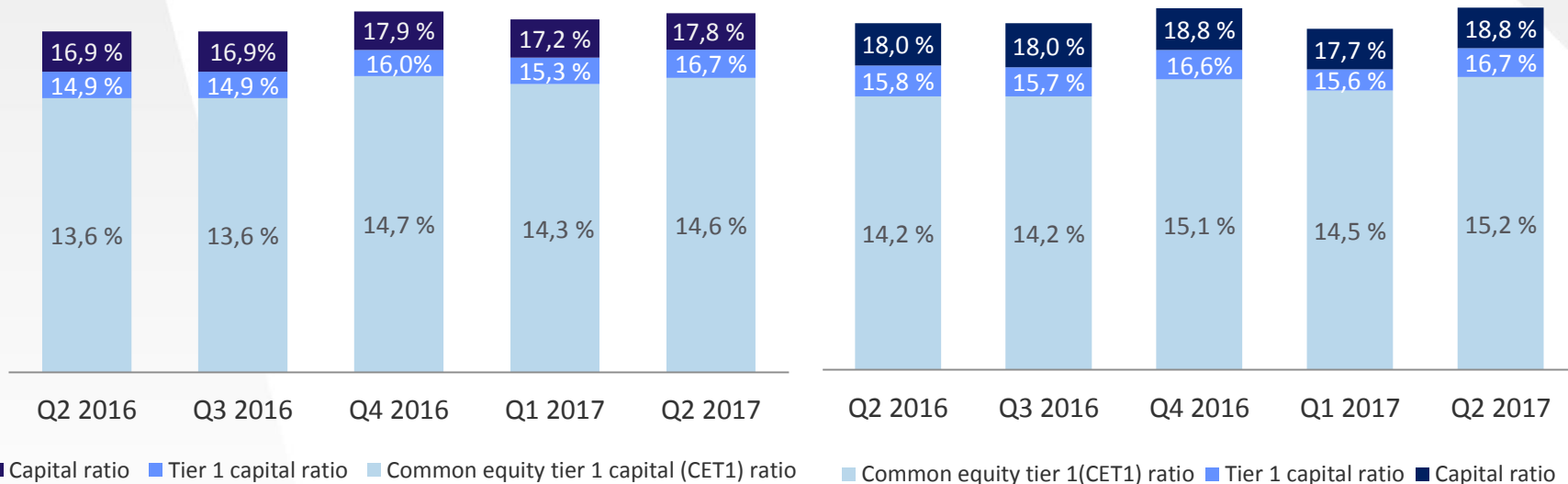
- Total liquidity portfolio of NOK 13.2 bn
- 100 % investment grade and 100 % liquid instruments (LCR eligible)
- Liquidity reserve (LCR) of 158 percent for the Group

(1) Norwegian covered bonds without rating

Capital adequacy

Group

Parent bank



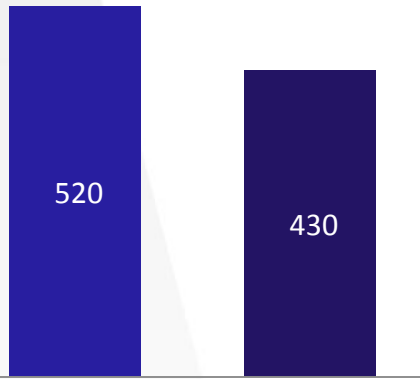
The CET1 ratio, when including the Group's cooperative companies¹⁾, amounts to 14,5 prosent. The tier 1 capital ratio amounts to 15,8 percent and the (total) capital ratio amounts to 17,6 percent.



1) Brage Finans, 15 percent ownership interest

Restructuring and cost focus

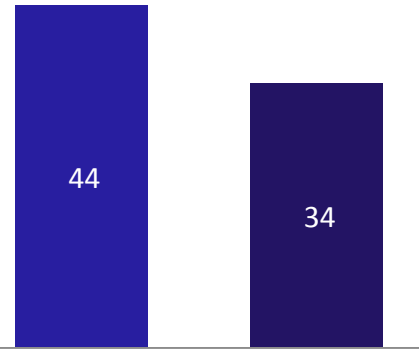
Number of employees



IB 2013

Status

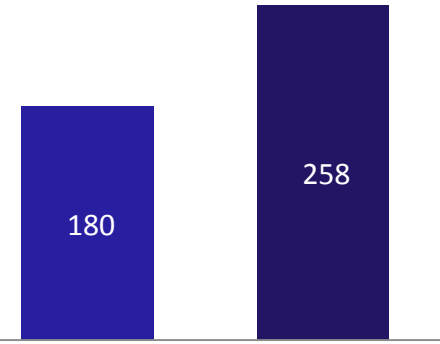
Number of offices



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 Q2 2017

Result

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

Finance

Negative net income from financial instruments, mainly caused by a negative development in basis swaps and accounting effects after buyback of own debt

Capital

Included 80 percent of profit, the common equity tier 1 capital ratio amounts to 14,6 percent. The leverage ratio amounts to a solid 9,0 percent.

Capital

Loan growth of NOK 4,5 billion the last 12 months, corresponding to a 4,9 percent annual growth. The deposit growth of NOK 4,5 billion, or 8,7 percent the last 12 months.

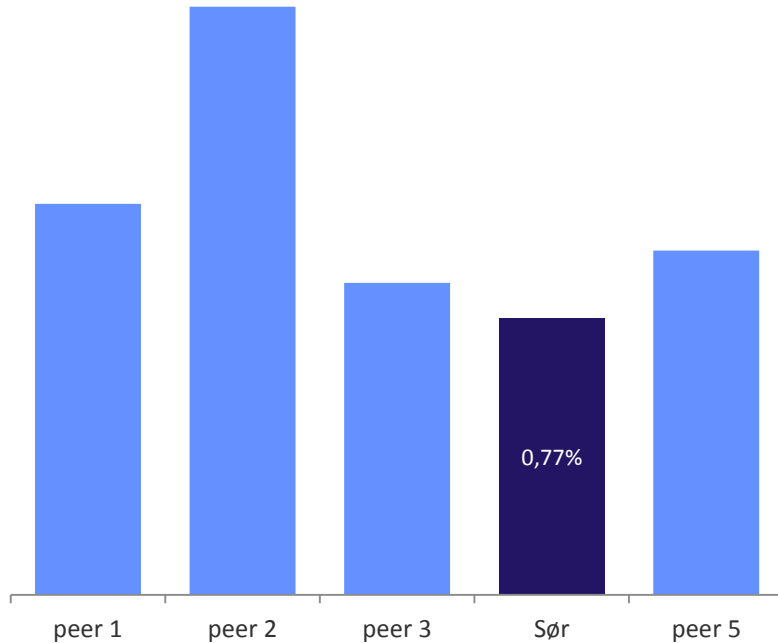
Summary

Sound operations contribute to a pre-tax result of NOK 277 million in Q2 2017.



Three strategic pillars

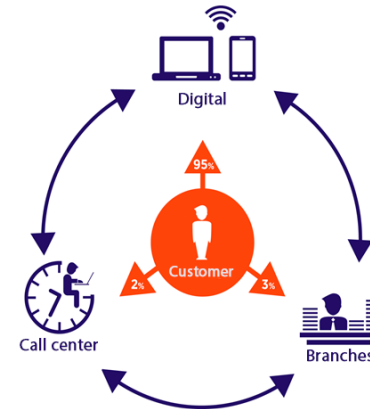
One of the most cost effective financial institutions¹⁾



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



Outlook

Macro

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

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 9,0 percent. Along with a positive profit from ordinary operations, the opportunities for further growth are positive.

Funding and liquidity

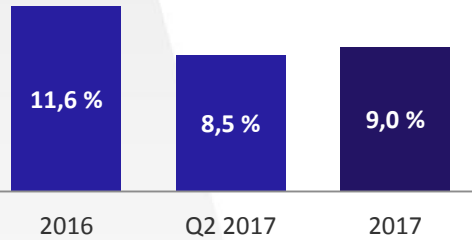
The Bank is well positioned to establish long-term funding from the Norwegian and the international financial market.

Summary

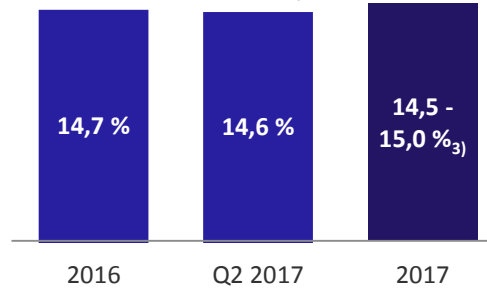
Sparebanken Sør will contribute to further growth and development in the region. To fulfill this vision the bank will be a leading, solid and independent player in the Agder and Telemark counties.

Financial key variables and ambitions

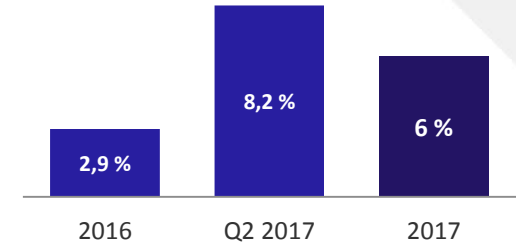
Return on equity



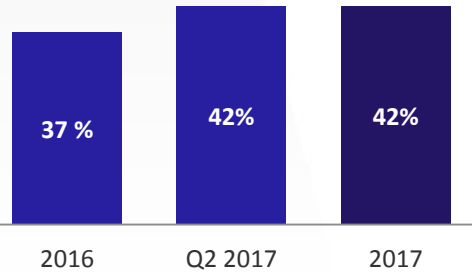
Common equity tier 1 capital (Group)¹⁾



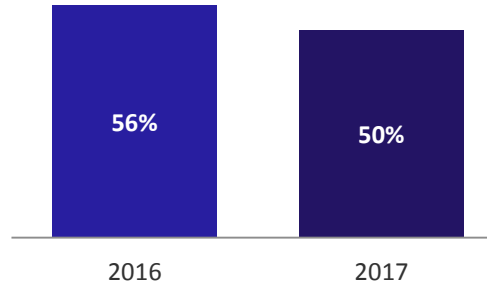
Loan growth²⁾



Cost development



Dividend ratio



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 30 June 2017

	Name	Number of ECs	Share of Ecs %		Name	Number of ECs	Share of Ecs %
1	Sparebankstiftelsen Sparebanken Sør	8.090.325	51,65	11	Allumgården AS	151.092	0,96
2	Bergen Kom. Pensjonskasse	500.000	3,19	12	Otterlei Group AS	140.000	0,89
3	Arendal Kom. pensjonskasse	450.000	2,87	13	Ottersland AS	100.000	0,64
4	Holta Invest AS	444.410	2,84	14	Wenaas Kapital AS	100.000	0,64
5	Pareto AS	417.309	2,66	15	Landkreditt Utbytte	100.000	0,64
6	Glastad Invest AS	387.467	2,47	16	MP Pensjon PK	85.523	0,55
7	Merrill Lynch	329.080	2,10	17	Artel Holding A/S	82.131	0,52
8	EIKA utbytte VPF c/o Eika kapitalforv.	317.808	2,03	18	Profond AS	77.115	0,49
9	Wenaasgruppen AS	186.000	1,19	19	Apriori Holding AS	72.575	0,46
10	Gumpen Bileiendom AS	154.209	0,98	20	Varodd AS	70.520	0,45
	Total 10 largest owners	11.276.608	71,98		Total 20 largest owners	12.255.867	78,22

- As at 30 June 2017 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC as at 30 June 2017 amounted to NOK 4,8
- The ownership ratio for Q2 2017 was 18,7 percent

SOR – stock price and liquidity

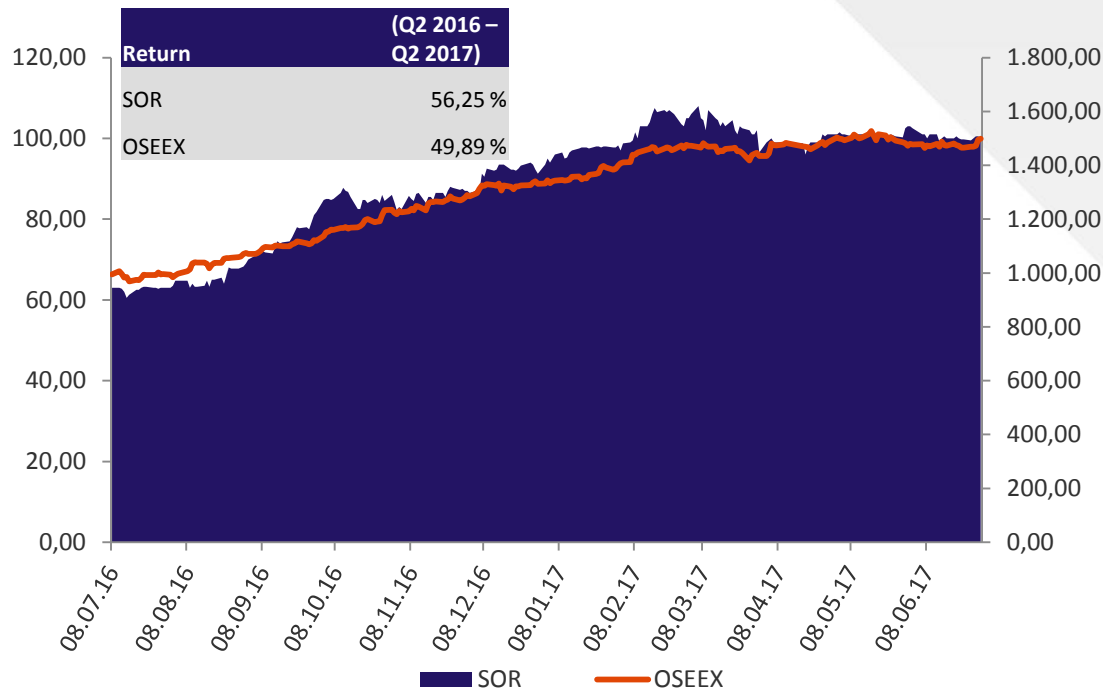
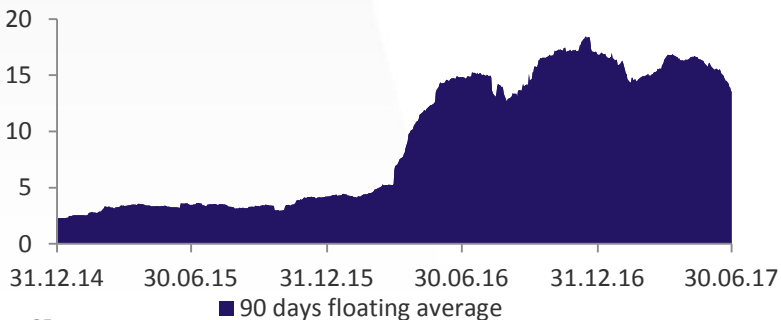
Price development

- Equity Certificates with a return of 3,6 percent in Q2 2017. The annualized return was 14,5 percent
- The Stock price for SOR was NOK 100 as at 30.06.2017, which is 81 percent higher than the share issuance price (NOK 55)

Liquidity

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

Daily turnover in SOR



1
Days without turnover Q2 2016

3
Days without turnover Q2 2017

817k
Volume Q2 2016

340k
Volume Q2 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.

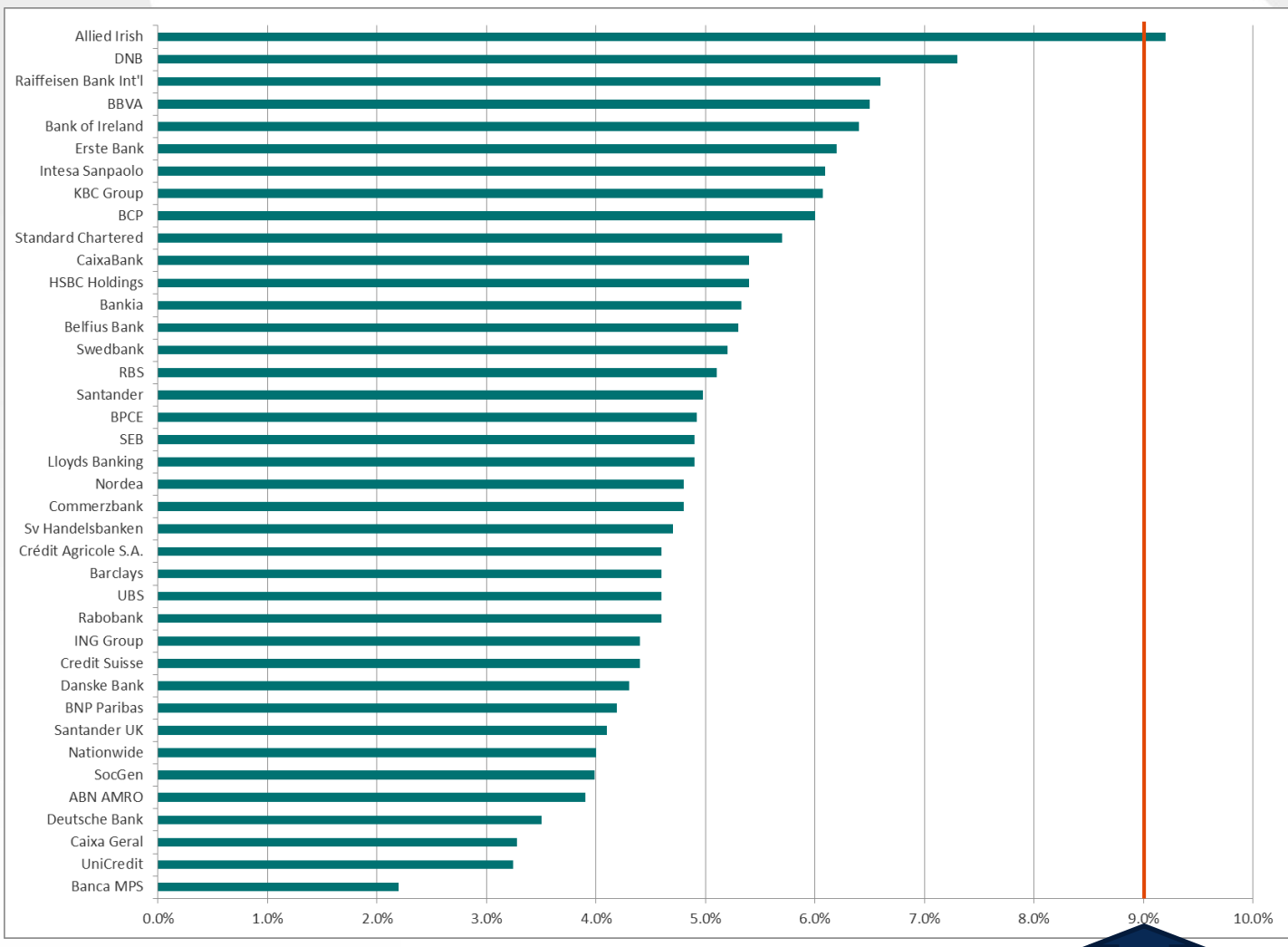


SPAREBANKEN SØR

Capital assessment

30.06.2017	CET1	Leverage Ratio
Sør	14,60 %	9,00 %
Peer 1	14,30 %	8,30 %
Peer 2	15,00 %	7,20 %
Peer 3	14,70 %	7,20 %
Peer 4	14,70 %	7,20 %

- 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 has a very high Leverage ratio
- Norwegian banks are well-capitalized compared to European banks



Leverage ratio, Q4 2016

- Selected European banks

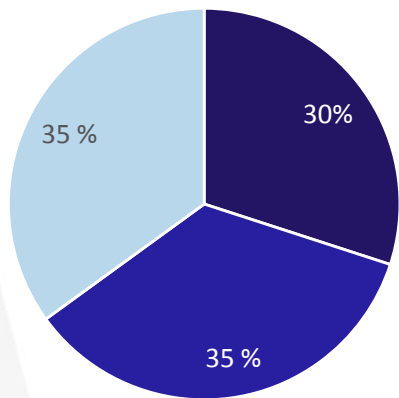


Sparebanken Sør Q2 2017: 9,0 % **SPAREBANKEN SØR**



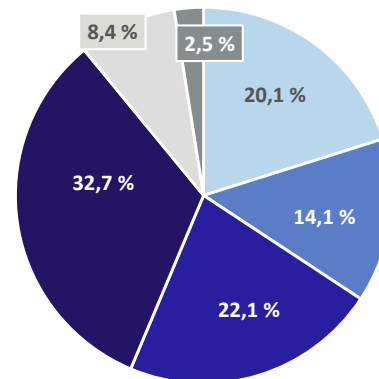
Sparebanken Sør Boligkreditt AS – 100 % owned by Sparebanken Sør

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

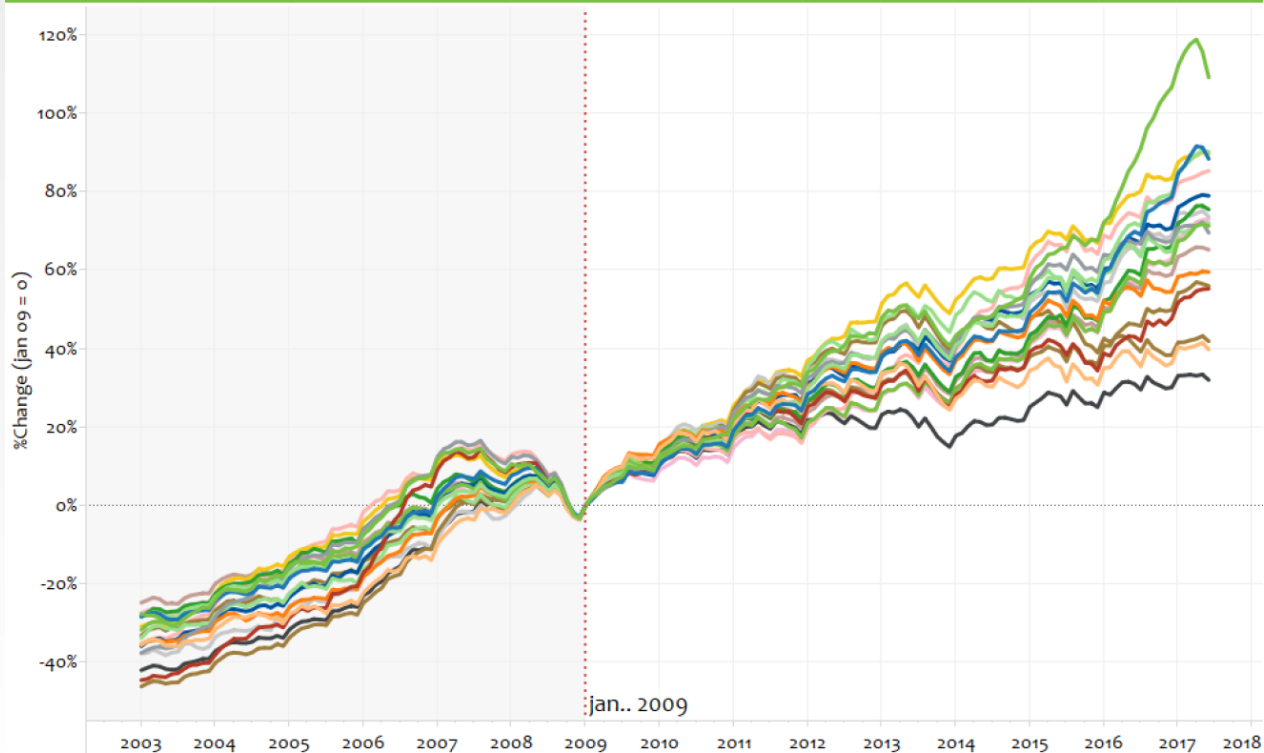


■ Weighted average LTV ■ Nominal OC



House price development June 2017

The Norwegian Housing Price Statistics by county



Year over year :

Vest-Agder	+ 0,8 %
Aust-Agder	+ 1,7 %
Telemark	+ 6,7 %
Rogaland	+ 0,8 %
Oslo	+ 11,5 %

May - June:

Vest-Agder	- 1,0 %
Aust-Agder	- 1,2 %
Telemark	- 0,3 %
Rogaland	- 0,9 %
Oslo	- 1,5 %

County

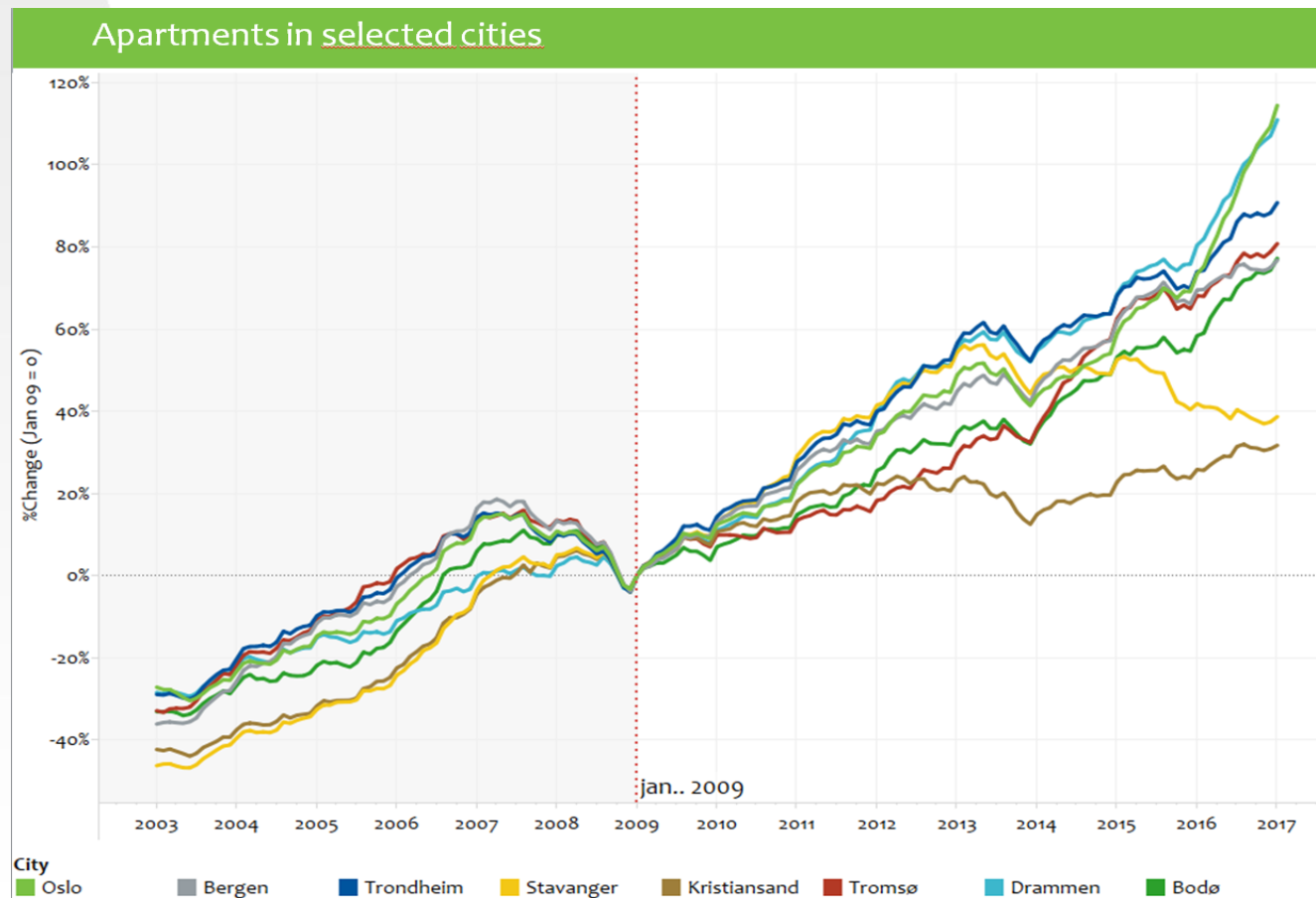
Oslo	Buskerud	Hordaland	Nordland	Sogn & Fjordane	Troms	Østfold
Akershus	Finnmark	Møre & Romsdal	Oppland	Sør-Trøndelag	Vest-Agder	
Aust-Agder	Hedmark	Nord-Trøndelag	Rogaland	Telemark	Vestfold	

Source: Eiendomsverdi AS



SPAREBANKEN SØR

Apartment price development June 2017



Year over year:

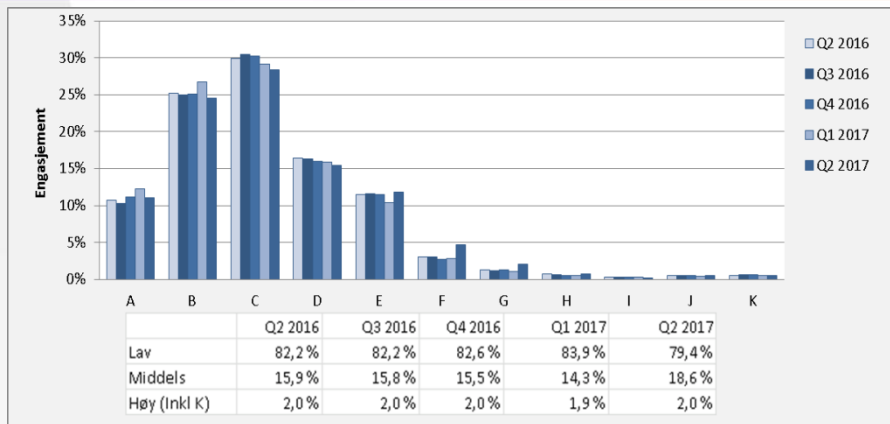
Kristiansand	+ 0,2 %
Stavanger	- 0,2 %
Oslo	+ 11,5 %

May - June:

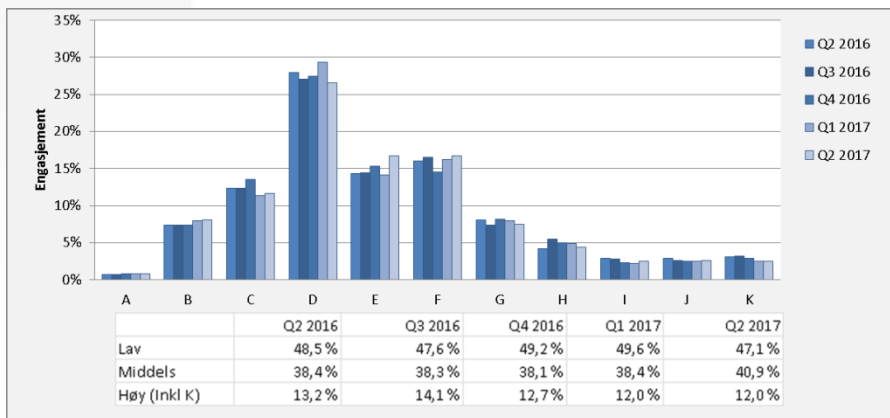
Kristiansand	- 0,9 %
Stavanger	- 0,8 %
Oslo	- 3,1 %

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 change from weak to medium risk profile for RM and CM



Unemployment is now decreasing

Key figures from the Norwegian labour market, June 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
Total	71 482	2,6 %	-9 483	-12 %	2,9 %
Østfold	4 038	2,8 %	- 565	-12 %	3,2 %
Akershus	6 640	2,1 %	- 765	-10 %	2,4 %
Oslo	10 181	2,7 %	-1 589	-14 %	3,2 %
Hedmark	1 842	1,9 %	- 326	-15 %	2,2 %
Oppland	1 524	1,5 %	- 251	-14 %	1,8 %
Buskerud	3 650	2,5 %	- 325	-8 %	2,7 %
Vestfold	3 673	2,9 %	- 83	-2 %	3,0 %
Telemark	2 407	2,8 %	- 252	-9 %	3,0 %
Aust-Agder	1 748	3,1 %	- 363	-17 %	3,7 %
Vest-Agder	2 861	3,1 %	- 550	-16 %	3,6 %
Rogaland	9 535	3,7 %	-1 753	-16 %	4,3 %

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