



# Sparebanken Sør Q3 2018

# Solid bank in a region with positive development

- Positive development in the labor market
- Stable positive development in housing prices
- Low costs and efficient operations
- High customer satisfaction
- Digitalisation through reasonable choices



# Sparebanken Sør

- A leading financial institution in Southern Norway



Established in 1824,  
525 employees



178 000 retail  
customers



Financial group with  
banking, securities and  
real estate brokerage



23 000  
corporate customers



Publicly traded and  
community-owned



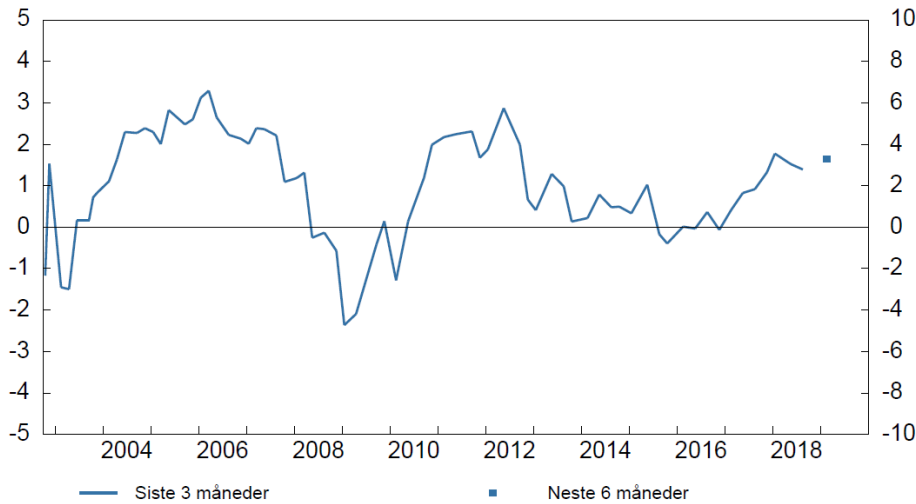
NOK 121.7 bn in total  
assets

*A market with 470 000 inhabitants. No other bank covers this area as Sparebanken Sør.*

# Developments

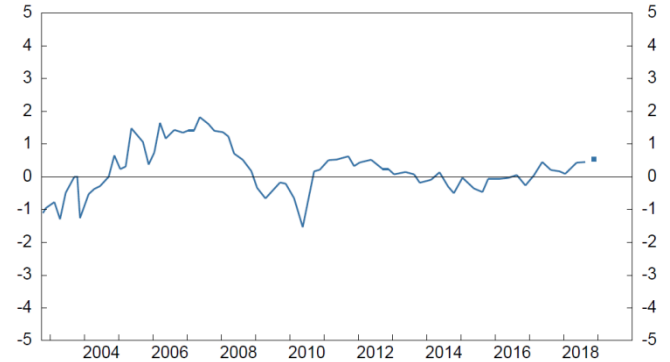
# Region South

## Increasing production

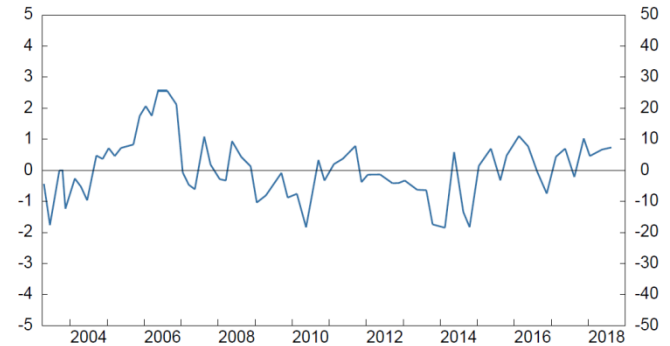


The indices are in the interval -5 to +5, where -5 means there is a high decrease and +5 means there is a high increase.

## Increasing employment



## Increasing investments



# Positive development in the region

## Change in housing prices, last 12 months

Percentages



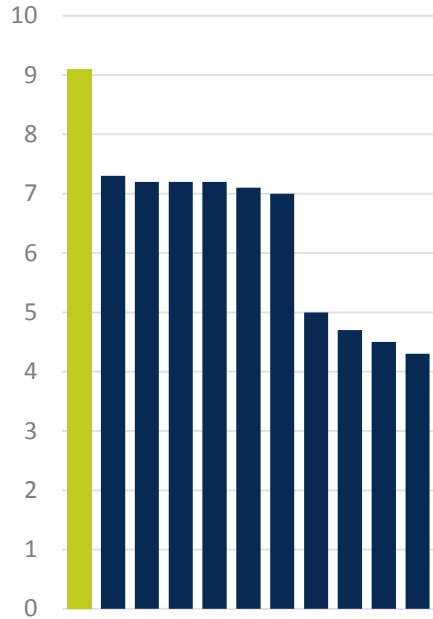
## Change in unemployment, last 12 months

Percentages

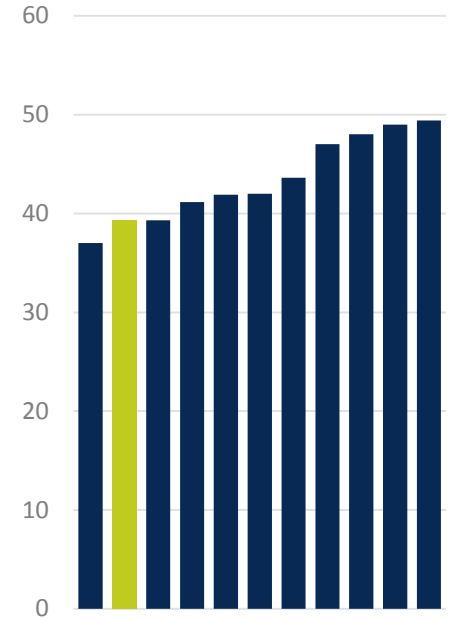


- Midt-Norge
- Innlandet
- Vestlandet
- Viken m/ Oslo
- Telemark
- Vestfold
- Rogaland
- Aust-agder
- Vest-agder

# Solid and cost efficient bank



Leverage ratio

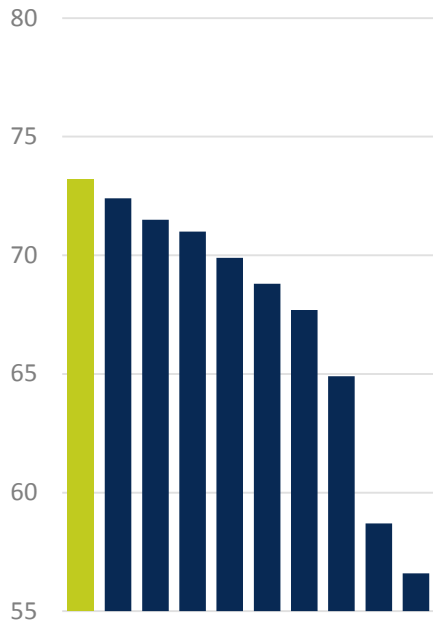


Cost-income ratio

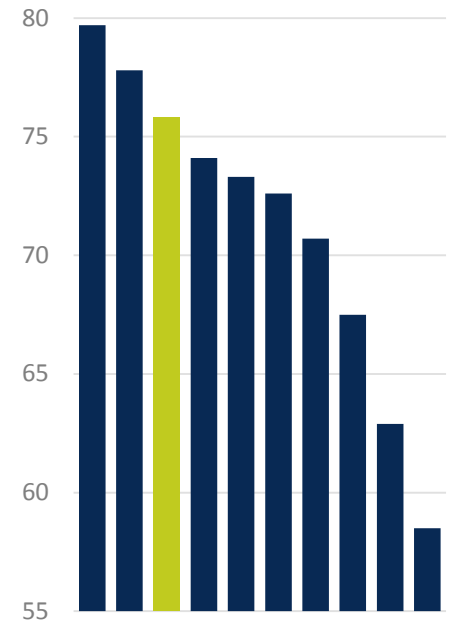
**Among the banks with highest leverage ratio as well as among the most cost efficient banks in the Scandinavian region**



# Customer experience – a deciding factor



Corporate market



Retail market

**Highest customer satisfaction rate of banks in the Scandinavian region**



# Easier to be a customer

## Synes du at det du bruker ofte på mobilen er godt gjemt?

Nå blir det mulig for deg selv å bestemme innholdet som skal ligge lett tilgjengelig

Legg det du bruker ofte inn i DIN personlige hurtigmeny



## Selvetjente prosesser på søknad om kredittkort og øking av kredittgrense



## Glemt passord?

Nå kan du selv åpne både nettbank og bankID uten å kontakte banken.

Tjenesten er åpen 24/7





## Sparebanken Sør first with Google Pay in Norway

- Launched 30 October 2018
- All debit and credit cards from Sparebanken Sør are compatible
- Google Pay enables easy payments by smartphone on payment terminals that are enabled for contactless payments

# Highlights from the quarterly report



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# Purchase of shares in Frende Holding AS

- Ownership interest in Frende increased from 9.99 percent to 20.10 percent.
- Share of profit will be included in the banks earnings as of Q4 2018
- Accounting loss of NOK 18.9 million in Q3
- Frende has been valuated to NOK 2.4 billion, equivalent to a P/B of 1.8



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FanaSparebank



FrendeForsikring

- Frende had a profit before tax of NOK 302.8 million and a return on equity of 20.1 percent in 2017.
- Profits so far in 2018 has been lower (NOK 60.5 million before tax), as a consequence of high replacement costs in 2018.

# Highlights in Q3 2018

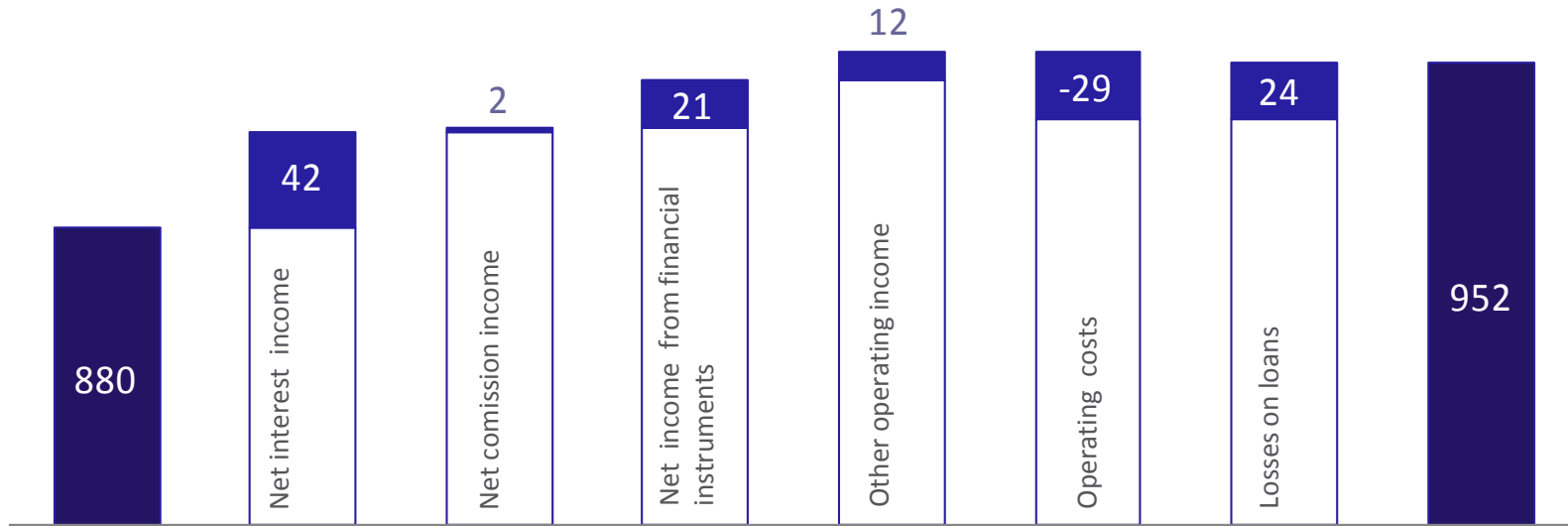
- Good results from ordinary operations
- Purchase of shares in Frende Holding AS
- Efficient operations and low costs
- Very low level of losses on loans
- Year-on-year loan growth of 6.1 percent
- Year-on-year deposit growth of 3.4 percent
- Return on equity after tax of 7.8 percent
- Common equity tier 1 capital ratio of 14.8 percent
- Leverage ratio of 9.0 percent

NOK million	Q3 2018	Q3 2017	Changes
Net interest income	424	422	2
Net commission income	78	80	-2
Net income from financial instruments	-3	21	-24
Other operating income	-2	2	-4
Total income	497	525	-28
Total expenses	200	194	6
<b>Profit before losses on loans</b>	<b>297</b>	<b>331</b>	<b>-34</b>
Losses on loans, guarantees	3	4	-1
<b>Profit before taxes</b>	<b>294</b>	<b>327</b>	<b>-33</b>
Tax expenses	75	80	-5
<b>Profit for the period</b>	<b>219</b>	<b>247</b>	<b>-28</b>



# Improvement in profit before taxes

NOK million



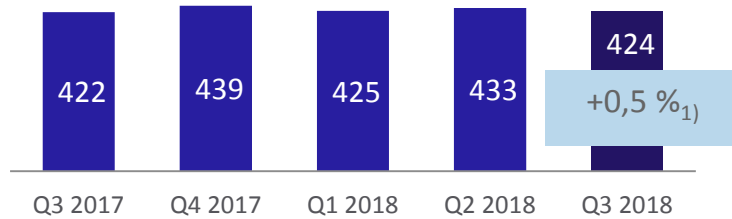
First 9 months, 2017

First 9 months, 2018

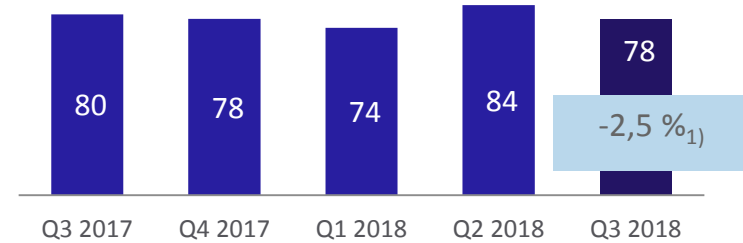
# Key figures – quarterly development

NOK million

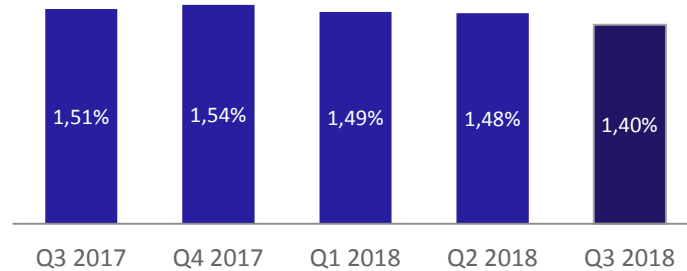
## Net interest income



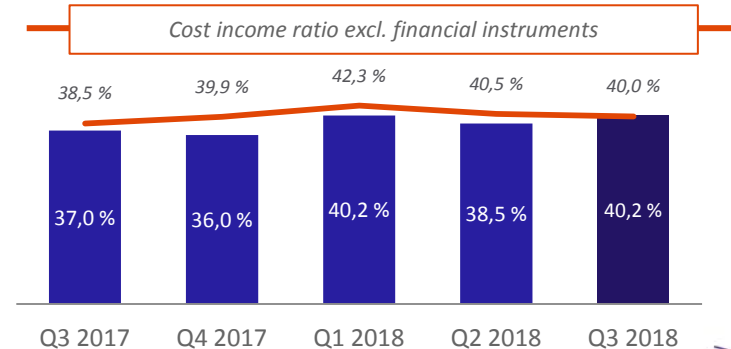
## Net commission income



## Net interest income to total assets



## Cost Income Ratio

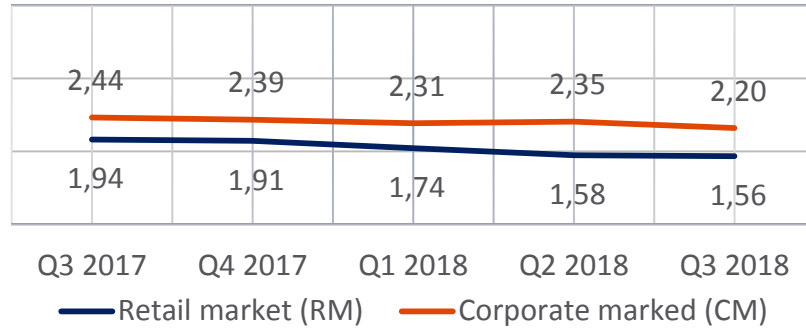


1) Changes from the prior-year corresponding period

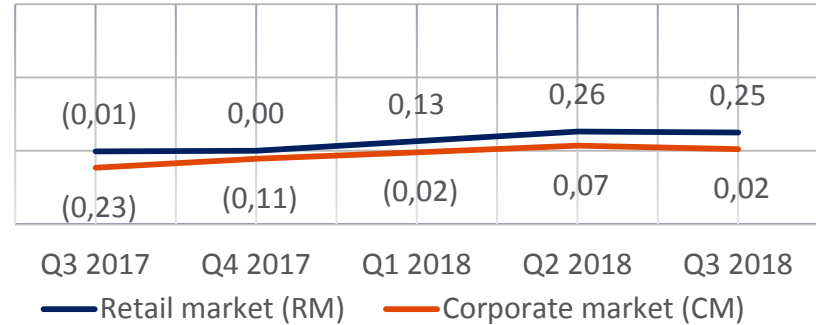


# Interest margin and NIBOR3M

## Loans (%)



## Deposits(%)



## NIBOR3M



Even with a NIBOR3M which is significantly higher than in the prior-year corresponding period, net interest income has shown a stable development. The stable development is, among others, caused by:

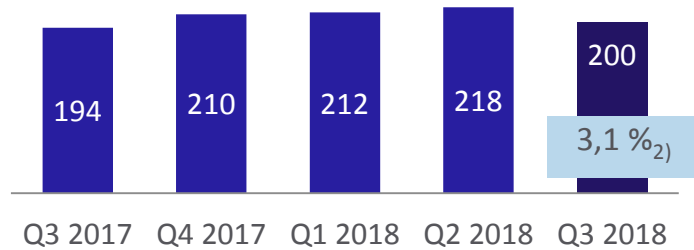
- Growth in total loans
- A CM loan portfolio which accounts for 35 percent of total loans (of which about 80 percent is linked to NIBOR)
- CM deposits linked to NIBOR



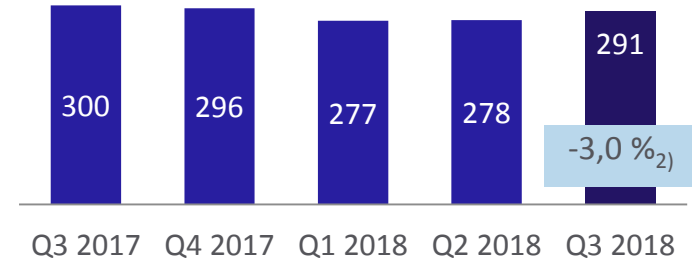
# Profit development and return

NOK million

## Operational costs

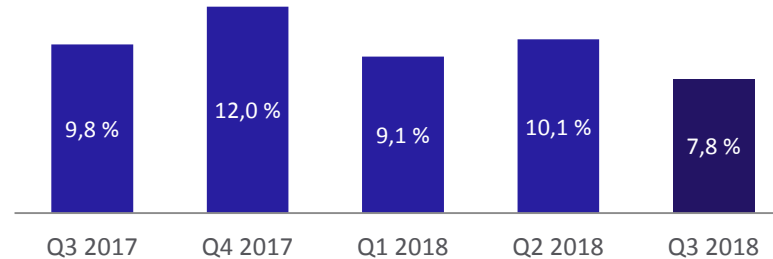


## Profit from ordinary operations<sub>1)</sub>



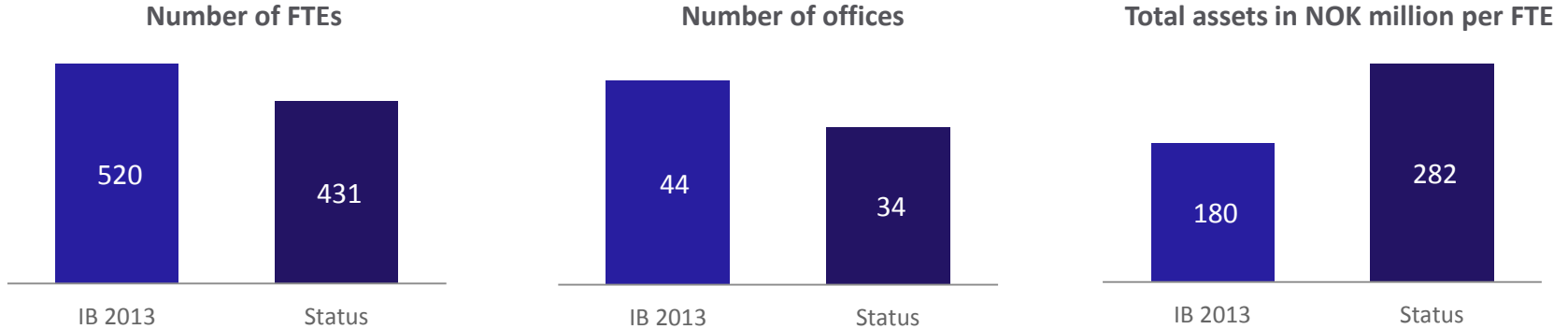
## Return on equity

Quarterly development based on profit after tax



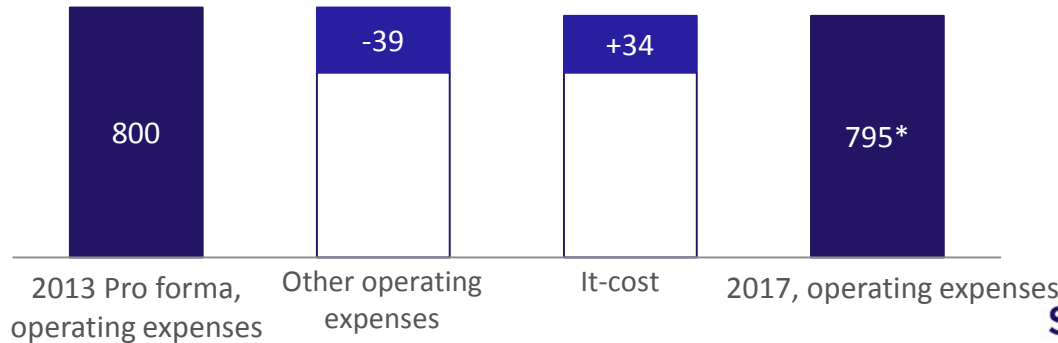
- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating costs, adjusted for the conversion of the pension scheme
- 2) Changes from the prior-year corresponding period

# Structure and cost focus



Considerable potential has been realized – further efficiency improvements is part of ongoing operations.

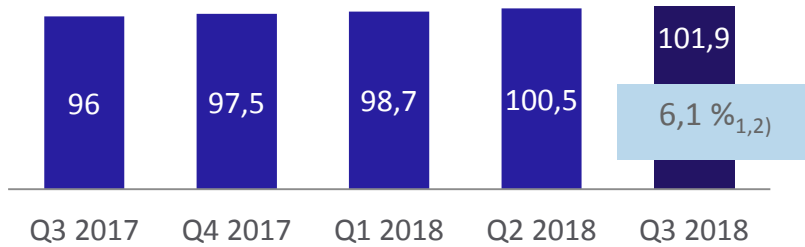
Millioner NOK



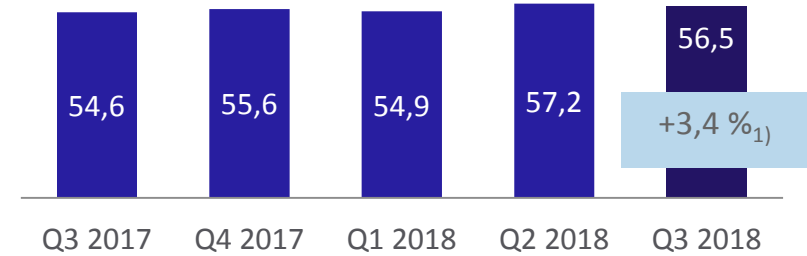
# Balance sheet items

NOK billion

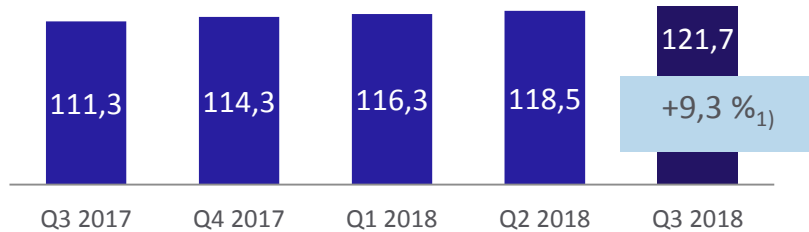
## Net loans



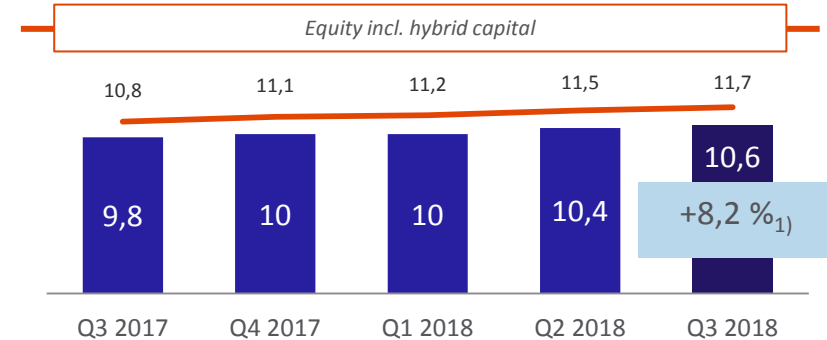
## Deposits



## Total assets



## Equity

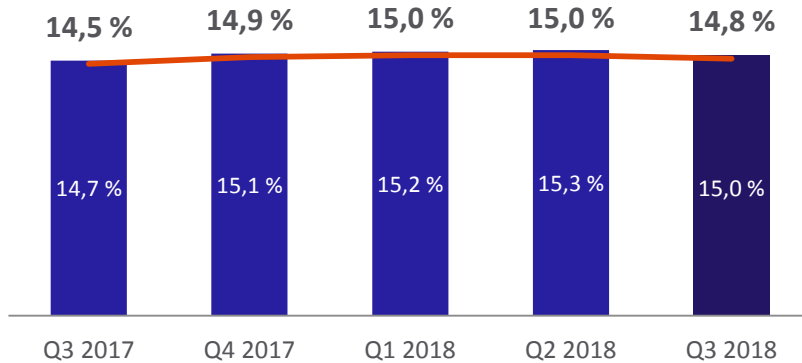


- 1) Changes from the prior-year corresponding period
- 2) Loan growth in Q2 2018 amounted to NOK 5,9 billion, equivalent to 6,1 percent, of which retail customers accounted for 5,6 percent and corporate customers 6,7 percent

# Capital adequacy

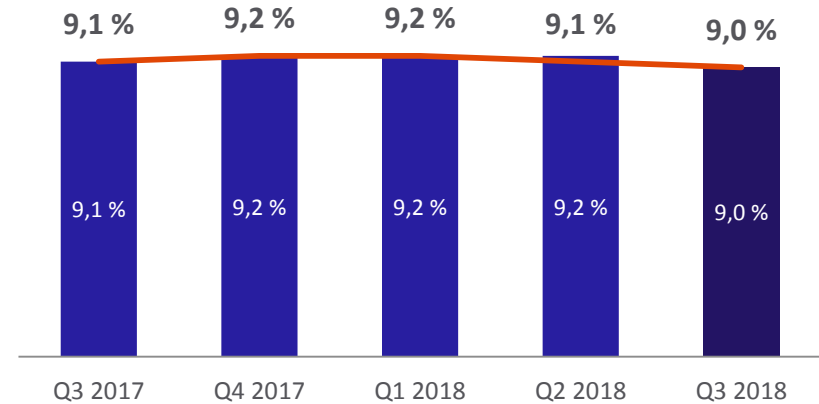
## Common equity tier 1 capital ratio

Common equity tier 1 capital ratio with Brage Finans partially consolidated



## Leverage ratio

Leverage ratio with Brage Finans partially consolidated



# Summary after Q3 2018

## Result

Stable profit from ordinary operations, through customised growth, stable commission income, good cost management and very low losses on loans.

## Finance

Negative net income from financial instruments, mainly due to a write-down of shares in Frende Holding AS.

## Capital

Common equity tier 1 capital ratio is 14,8\* percent and the leverage ratio is solid 9,0\* percent.

## Growth

Loan growth of NOK 5,9 billion in the last 12 months, corresponding to a 6,1 percent annual growth. Deposit growth of NOK 1,9 billion, corresponding to 3,4 percent in the last 12 months.

## Summary

Sound operations contribute to a pre-tax profit of NOK 294 million in Q3 2018.



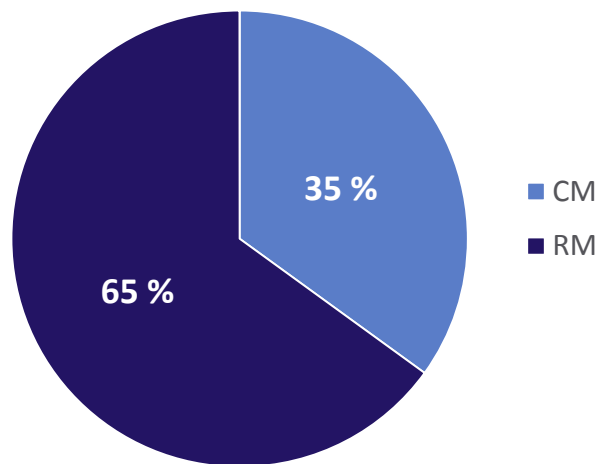
# Loan portfolio and risk situation



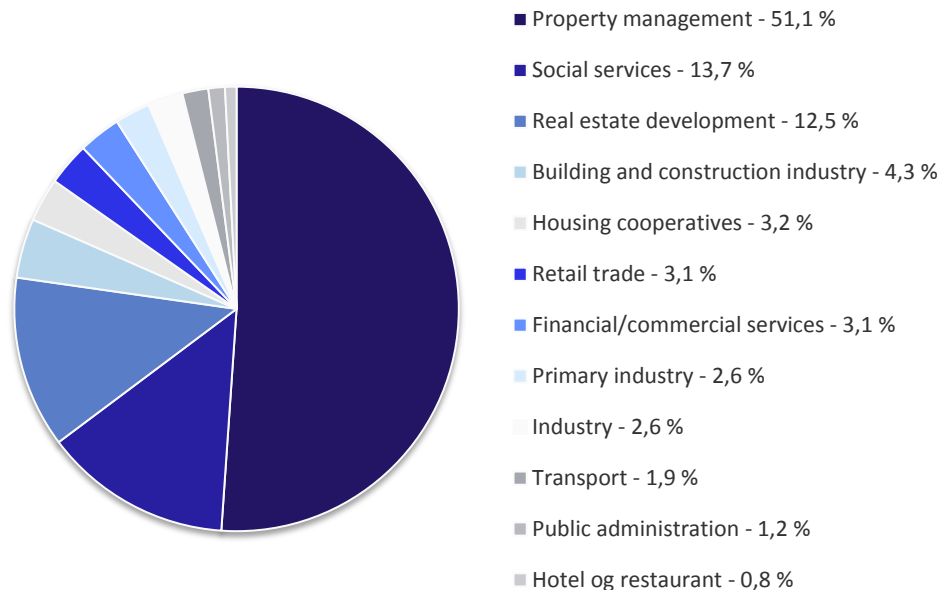
# A well diversified loan portfolio

## RM / CM distribution

Gross loans



## Distribution by sector in CM

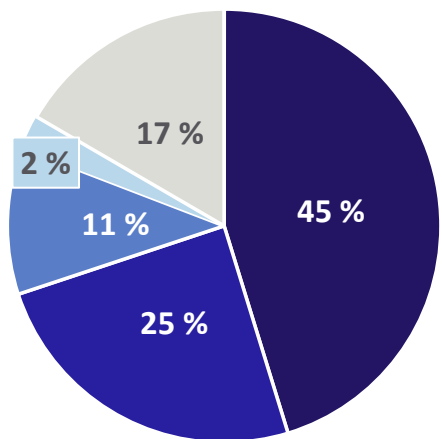


*Reflects the corporate market in the region, with low exposure to oil and shipping.*

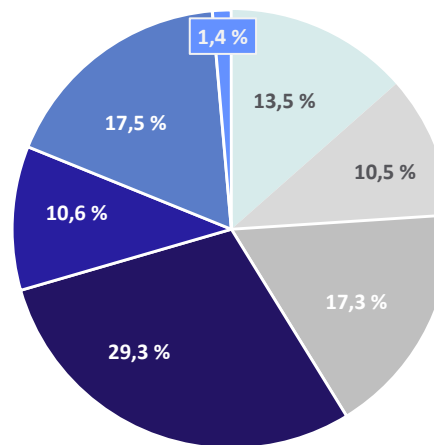
# A well diversified loan portfolio

## Geographical distribution of loans

Gross loans



## Loan to Value (Group)



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

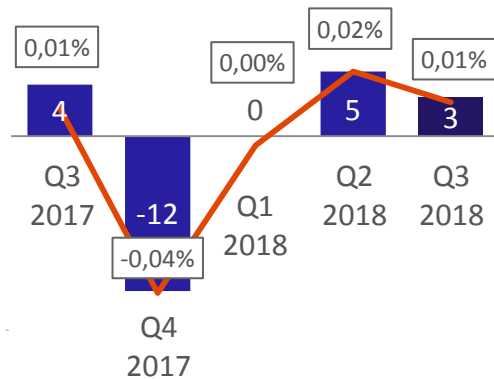
■ < 40 % ■ 41 - 50 % ■ 51 - 60 % ■ 61 - 70 %

■ 71 - 75 % ■ 76 - 100 % ■ > 100 %

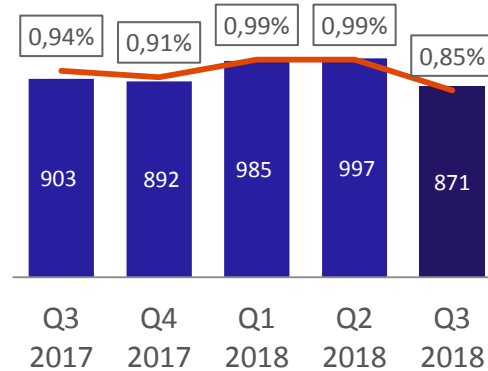
**# 1 position in Vest-Agder and Aust-Agder, # 3 position in Telemark. Positive development in Rogaland.  
81,1 % of mortgages has LTV (Loan To Value) below 75 %.**

# Losses and non-performing loans

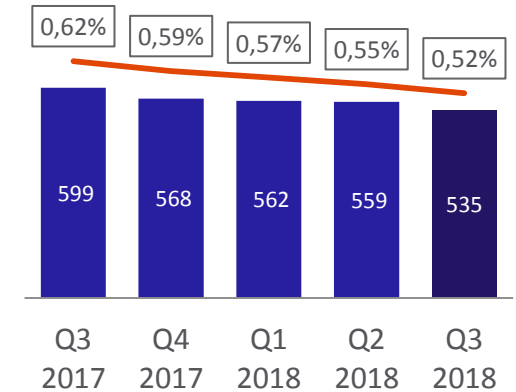
Development in losses in NOK million and as a percentage of gross loans (annualised)



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



Development in loss provisions in NOK million and as a percentage of gross loans<sup>1)</sup>



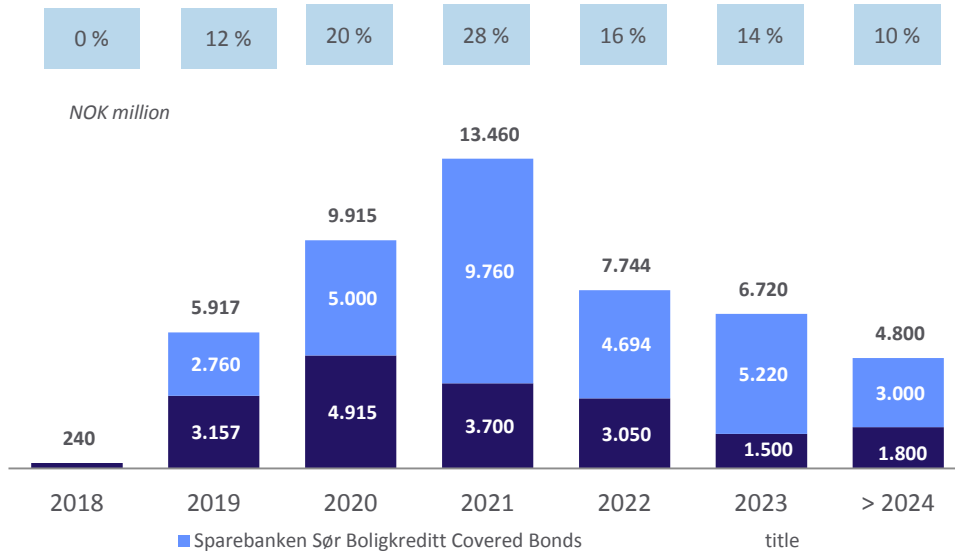
1) As of 1 January 2018, the Group implemented a new model for calculating expected losses on loans according to the new IFRS 9 standard, a standard which replaced IAS 39.



# Status funding

# Diversified funding

## Funding maturity

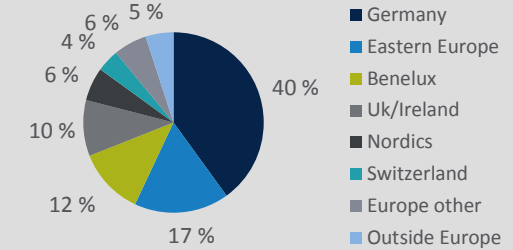


- Long term funding\* amounted to 88% of the portfolio
- Liquidity indicator 1 at 108%
- Average maturity on long term funding\* at 3.5 years

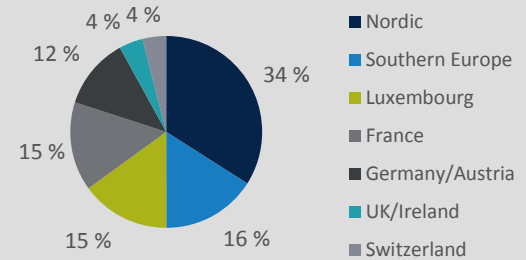
## EMTN Program

- 2 successful issuances in 2018

Euro 500 mill. Covered bond

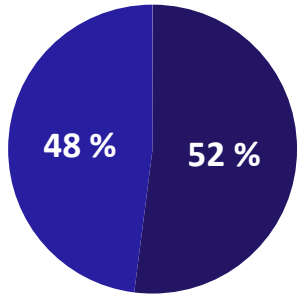


Euro 300 mill. Senior bond



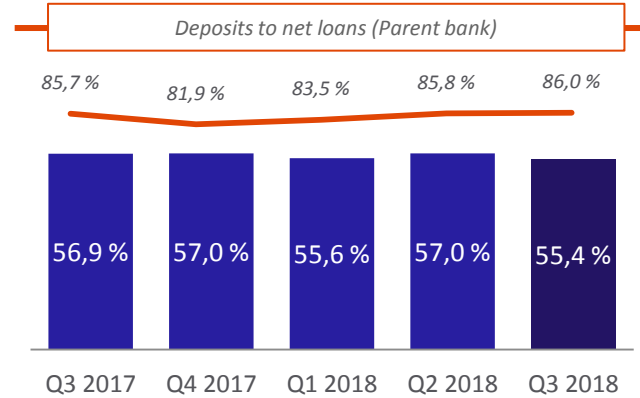
# Deposits

RM/CM distribution



■ CM ■ PM

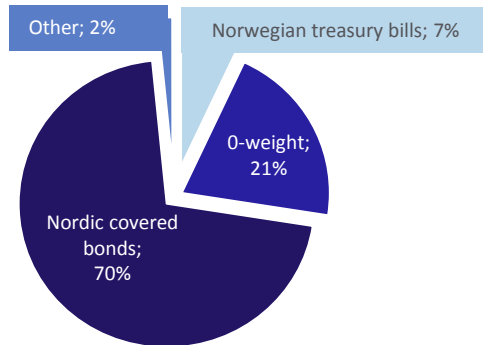
Deposits to net loans (Group)



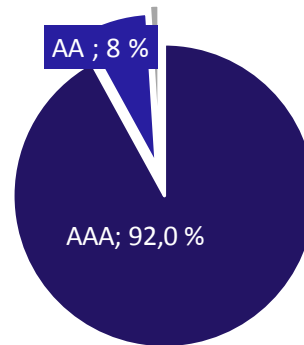
- Stable development in deposits to net loans during the last 12 months, with a deposit growth of 3.4 percent

# Liquidity portfolio

Category



Rating



- Total liquidity portfolio of NOK 16.1 bn
- 100 % investment grade and 100 % liquid instruments ( LCR eligible)
- Liquidity reserve (LCR) of 177 % for the Group



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# Capital strategy and development



# IRB and capital effects

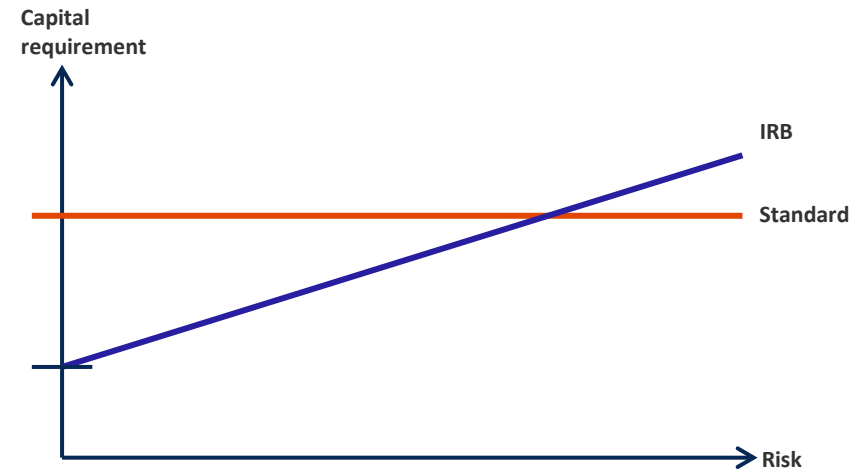
- IRB is not intended as a capital optimiser, but is expected to have some effects
- Sparebanken Sør has at least as good quality in its loan portfolio as comparable banks
- At the same time, Sparebanken Sør has a significantly higher Leverage Ratio
- It is therefore no reason to believe that the capital ratio in Sparebanken Sør will be less affected than in other banks, after the transition to IRB.
- Some effects are expected to occur after the transition to IRB-F, and additional effects is expected with IRB-A

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

# Risk averse adaptation to the capital requirements

- Sparebanken Sør has initiated an IRB-process to further strengthen the banks risk management
- Well functioning tools and risk management is the foundation of a more risk oriented approach
- Stage 1: Application for IRBF
- An application for IRBA can be a natural step in stage 2

Fundamental difference between IRB and the standard method



- *The Board of Directors decided in November 2017 to initiate the process of applying for the internal ratings based approach (IRBF). The bank aims to submit the application by the end of 2019.*

# Sparebanken Sør as systemically important financial institution(SIFI)

FSA recommends an amendment of the regulatory criteria regarding systemically important institutions

- **The amendment classifies Sparebanken Sør as systemically important**
  - Loan share in the corporate market of above 10 percent in the region (Sør: Aust-Agder, Vest-Agder, Telemark and Vestfold).
- **New buffer requirement**
  - Suggested to 2 percent of RWA
  - 1 percent buffer requirement on LR.
- **Implementation**
  - Possible amendment in 2018
  - Date of implementation not decided
- **Questions from Sparebanken Sør**
  - Clarify date of implementation (if the amendment is accepted)
  - Differentiation of buffer requirement?

Nyhet

## Finanstilsynet foreslår endringer i regelverket for identifisering av systemviktige finansforetak

PUBLISERT: 19. OKTOBER 2018

Etter gjeldende regelverk er DNB og Kommunalbanken identifisert som systemviktige foretak i Norge. De foreslåtte endringene vil medføre at flere banker skal anses som systemviktige og dermed pålegges et ekstra krav til kapital.

Utviklingen i markedet for utlån til bedrifter og innføringen av krisehåndteringsdirektivet i norsk regelverk, kan tilsa at det er grunnlag for å revurdere kriteriene for identifikasjon av systemviktige foretak.

Regelverket inneholder i dag to kriterier for identifisering av systemviktige finansforetak: forvaltningskapital som andel av fastlands-BNP og andel av samlede utlån til publikum.

Finanstilsynet foreslår å inkludere et tredje kriterium, slik at foretak som ved utgangen av foregående år hadde utlånsandel til bedriftsmarkedet på minst 10 prosent i én eller flere regioner, også skal anses som systemviktige.

Forslag til forskriftsendring er i dag sendt Finansdepartementet. Dersom forslaget følges opp og gjennomføres, kan dette medføre at flere regionbanker omfattes av forskriftens kriterier for å bli ansatt som systemviktige og dermed får et ekstra krav til ren kjernekapitaldeknning på 2 prosentpoeng og et ekstra krav til uvektet kjernekapitalandel på 1 prosentpoeng.

**Brev**  
Tilråding om endring av forskriftskriterier for systemviktige foretak (pdf) [↓](#)

**Pressekontakt**  
Pressetelefon: 40 90 03 50  
[info@finansstilsynet.no](mailto:info@finansstilsynet.no) →  
Pressekontakter →

**Nyhetsvarsel**  
Registrer deg her for å få nyhetsvarsel når Finanstilsynet publiserer saker du er interessert i.



**SPAREBANKEN SØR**

# Crisis management and MREL

## Minimum Requirement for own funds and Eligible Liabilities

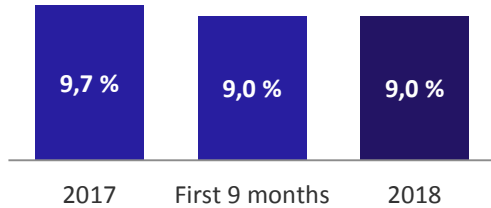
- **The Bank Recovery and Resolution Directive (BRRD)**
  - Will be implemented as of 1<sup>st</sup> January 2019.
  - The affected entities are expected to be in accordance with MREL as of 31 December 2022.
  - New requirements for convertible/ repayable debt (Tier 3)
- **Requirements for MREL will be individually determined**
  - Scope and extent of the new requirement is yet to be determined
  - MREL debt is expected to amount to NOK 9-10 billion
- **Adaptation by 31 December 2022 within reach**
  - Sparebanken Sør will gradually adapt to the new requirements
  - The bank has a total of NOK 18.4 billion in senior debt, of which NOK 15 billion matures within 31 December 2022



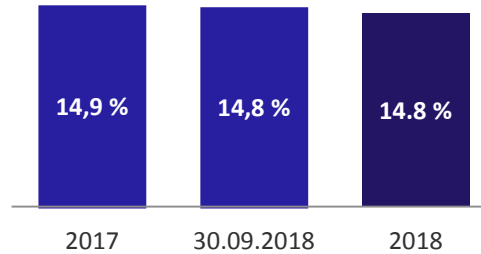
# Goals and Expectations ahead

# Financial key variables and ambitions

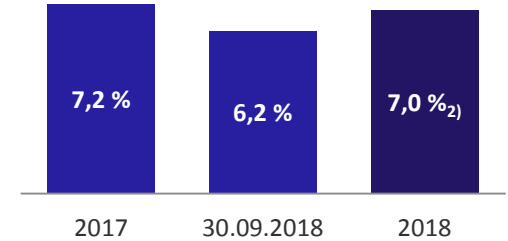
## Return on equity



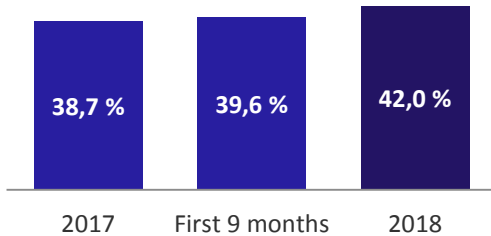
## Common equity tier 1 capital (Group)<sup>1)</sup>



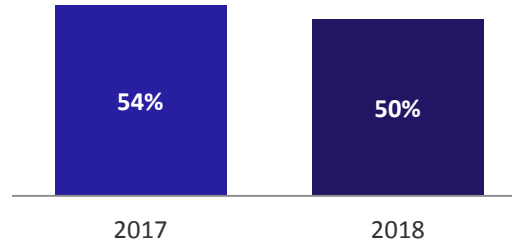
## Loan growth



## Cost development



## Dividend ratio



1) Incl. Share of profit

2) Overall credit growth + 1 percentage point

# Outlook

## Macro

Growth in the Norwegian economy has picked up after a weak growth in GDP over recent years. The weak NOK exchange rate, low interest rates and an expansive fiscal policy have produced positive growth impulses. This have contributed to higher growth in exports, lower unemployment and a higher private consumption.

## The region

The economic outlook for the bank's market area is considered positive. Housing prices have returned moderate growth over time, and unemployment is falling. Statistics for the first 9 months of 2018 reveals a slight increase in housing prices.

## Capital requirements

The Bank has a common equity tier 1 capital ratio of 14.8\* percent and leverage ratio of 9.0\*.

## Funding

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

## Digital development

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

## Summary

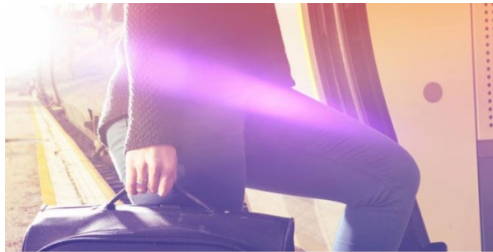
Sparebanken Sør is well positioned to further develop its position as a leading customer relation oriented bank, with high cost efficiency, good growth and profitability.



# Customer oriented business development

# Complete provider of financial services

*Considerable product range – still potential for increased product sales*



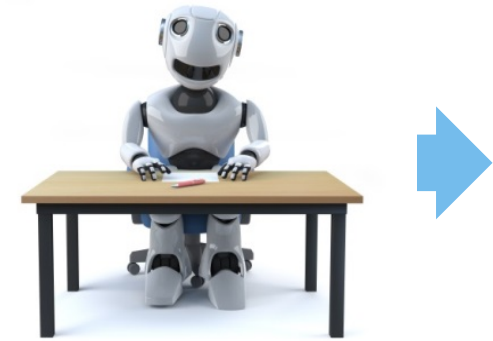
Kjøp forsikring på nett



# Payment services - increased competition and globalization



# Changes in customer behavior



«6 out of 10»

# Our development strategy

## By using technology, we shall:

- Improve the customer experience
- Increase sales
- Simplify workflows, and reduce process costs
- Increase quality

**Business value is prioritised in our efforts.**





# Early with digitalisation of cards in Norway

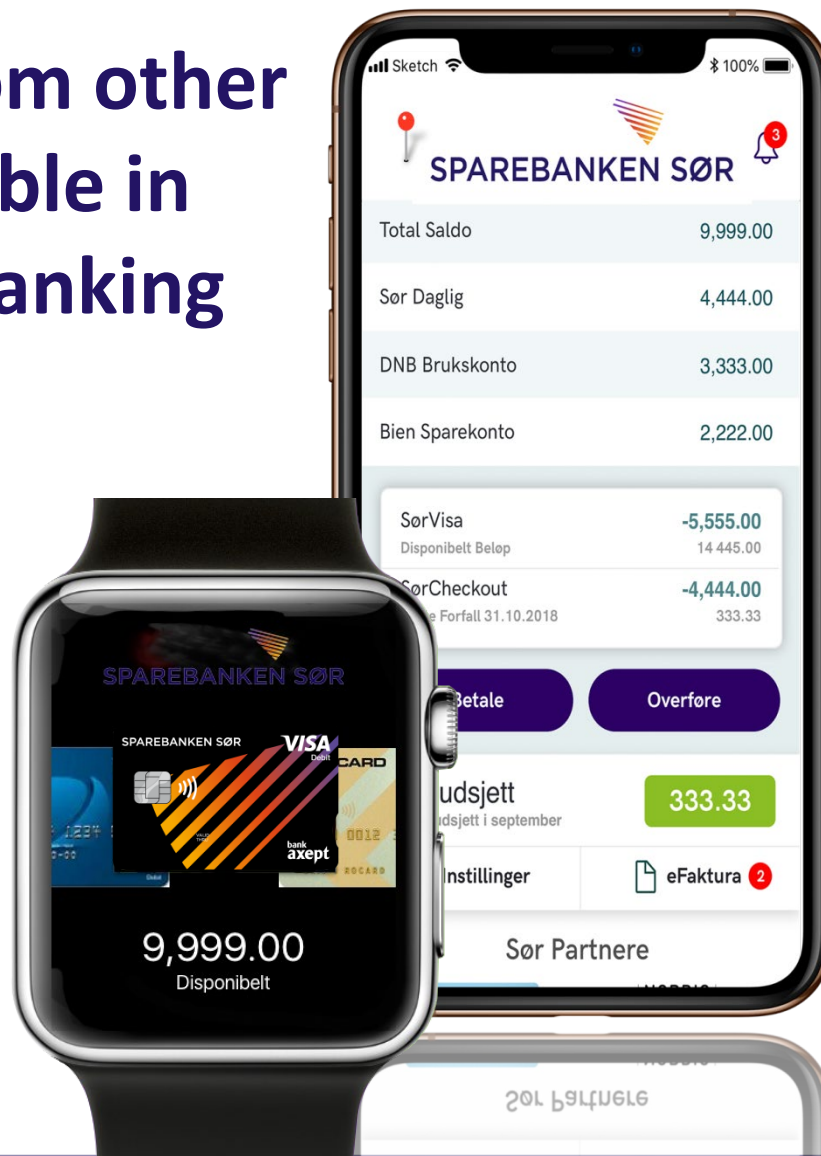
New technological platform established. The first product available to our customers was a payment solution utilising smart watches, in collaboration with



We are in position to take advantage of all the new payment solutions using digital payment cards.



# Accounts from other banks viewable in our online banking solutions



*Will be available during 2019*

# When you apply for a loan, we can collect information about taxes and income directly from Altinn

Skatteetaten, Brønnøysundregistrene,  
NAV, Politiet and the banks are in  
collaboration with digitising imporant  
processes in the community (the DSOP  
program)

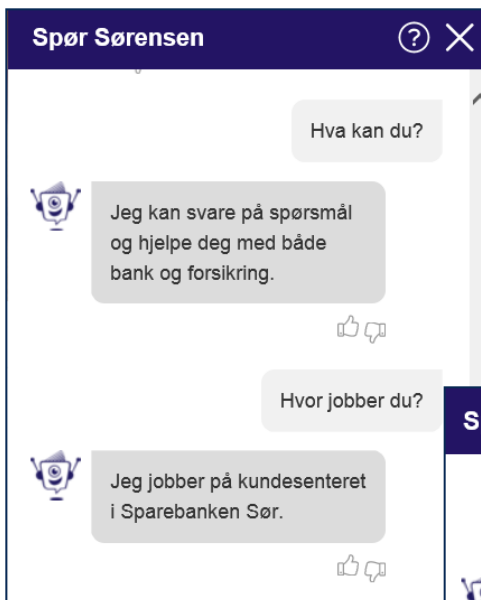
Saves the community large resources -  
estimated to NOK 40 billion







# Have you met Sørensen?



# New technology brings new opportunities

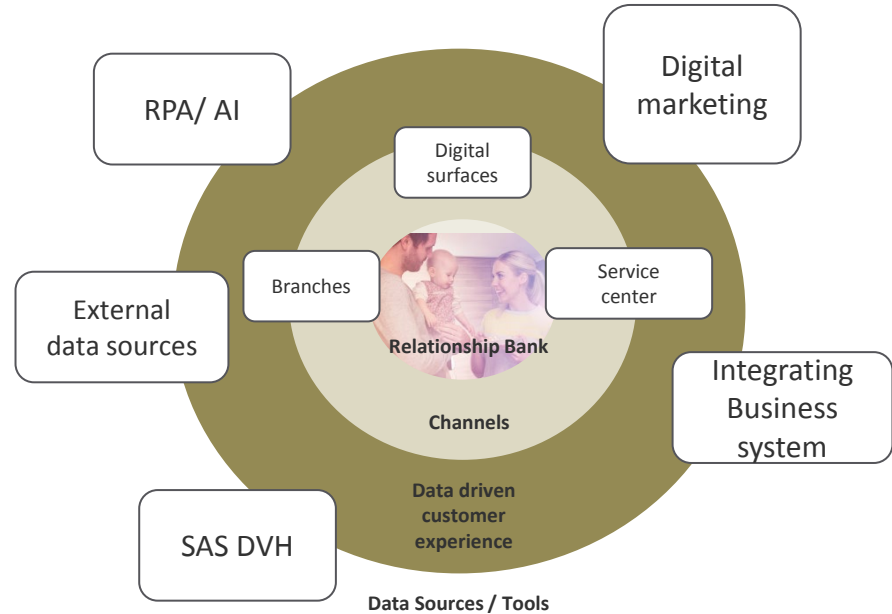
## Better risk management



## Increased efficiency



## Better customer experience



# Appendix



SPAREBANKEN SØR

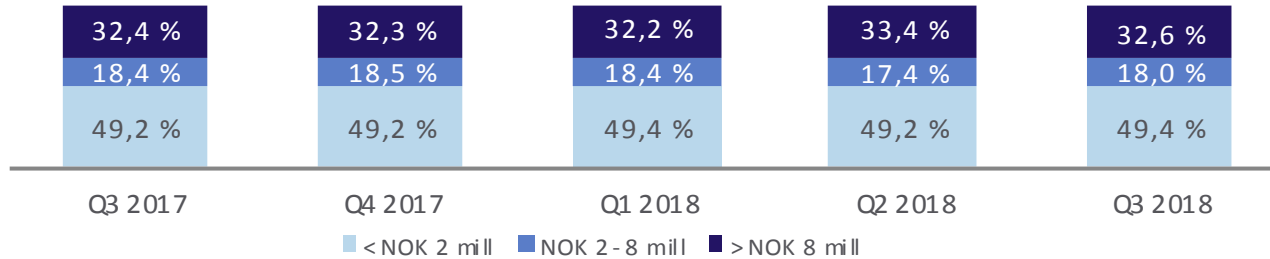
# Highlights after 9 months

- Good results from ordinary operations
- Positive development in net interest income
- Positive net income from financial instruments
- Efficient operations and low costs
- New model implemented for calculating impairment losses on loans
- Very low losses on loans
- Return on equity after tax of 9.0 percent

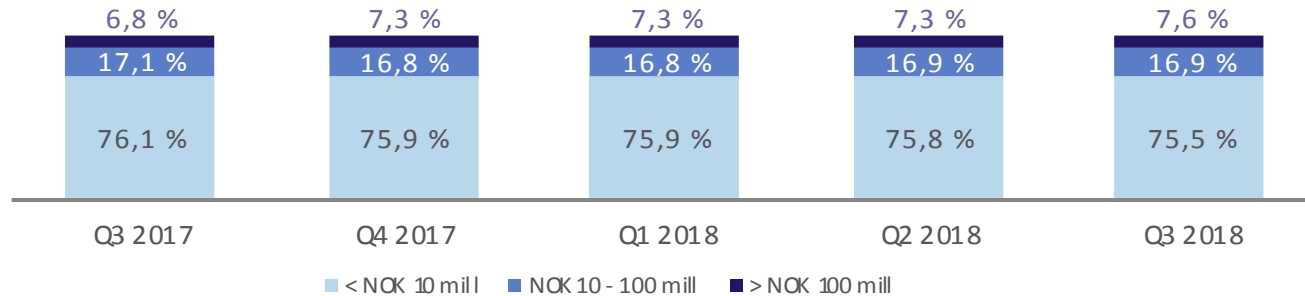
NOK million	30.09.2018	30.09.2017	Change
Net interest income	1.282	1.240	42
Net commission income	236	234	2
Net income from financial instruments	51	30	21
Other operating income	21	9	12
Total income	1.590	1.513	77
Total expenses	630	601	29
<b>Profit before losses on loans</b>	<b>960</b>	912	48
Losses on loans, guarantees	8	32	-24
<b>Profit before taxes</b>	<b>952</b>	880	72
Tax expenses	217	208	9
<b>Profit for the period</b>	<b>735</b>	672	63

# Portfolio

## Deposits distributed by size



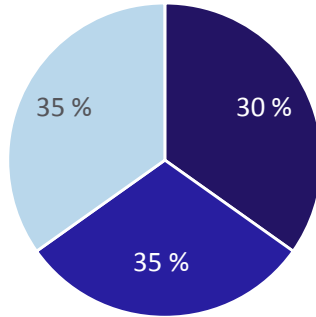
## Loans\* distributed by commitment size



# Sparebanken Sør Boligkreditt

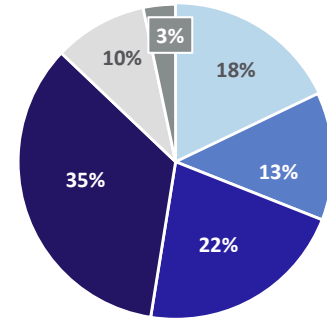
– Wholly owned by Sparebanken Sør

The loan portfolio in Sparebanken Sør



■ Sparebanken Sør Boligkreditt ■ RM bank ■ CM

LTV distribution in Sparebanken Sør Boligkreditt



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

Stress test of collateral



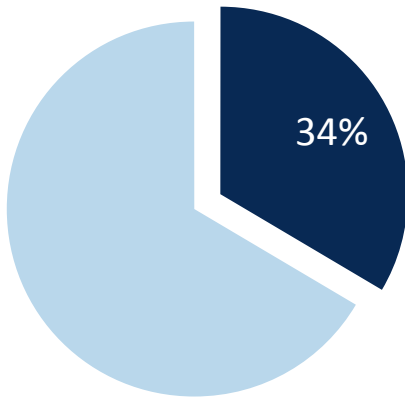
■ Weighted average LTV ■ Nominal OC



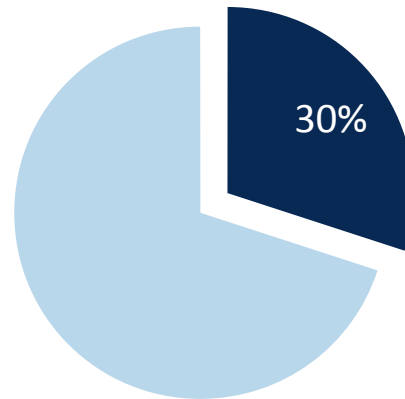
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# Share of total mortgages by county

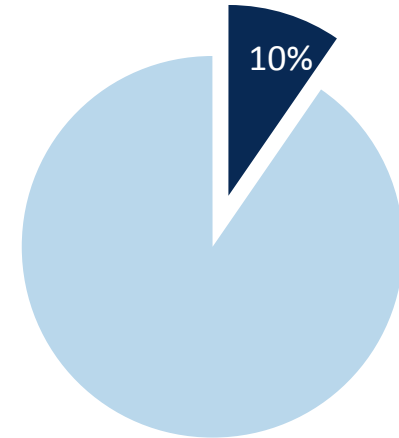
Aust – Agder



Vest - Agder



Telemark



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

Market shares are calculated on the basis of the number of houses, including holiday houses, of which each bank had as collateral for mortgages as at 30 September 2018.



# SOR – stock price and liquidity

## Price Development after 9 months

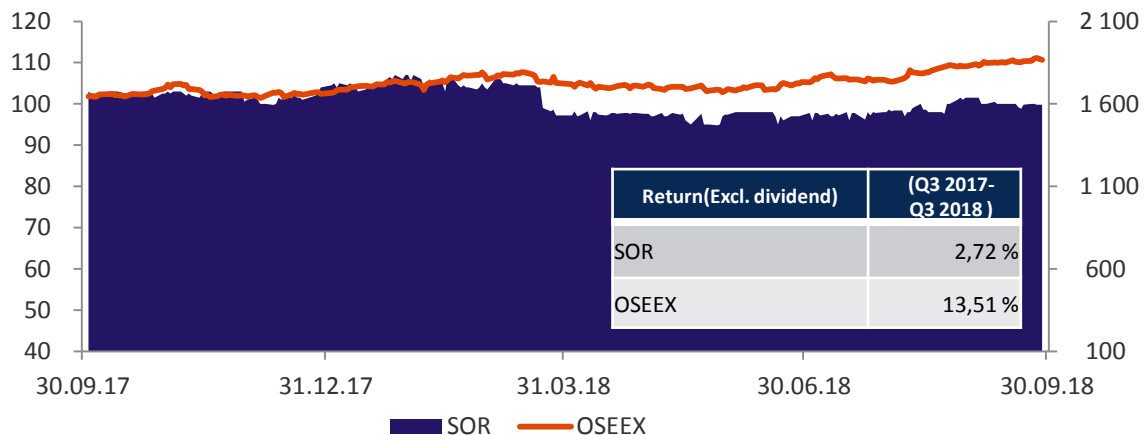
- The stock price for SOR was NOK 99.8 and book value was NOK 121.0, amounting to a price-to-book ratio of 0.82.
- The equity certificates gave a return of 2 %
- Profit per equity certificates of NOK 7.9, which represent a P/E of 9.5

## Liquidity

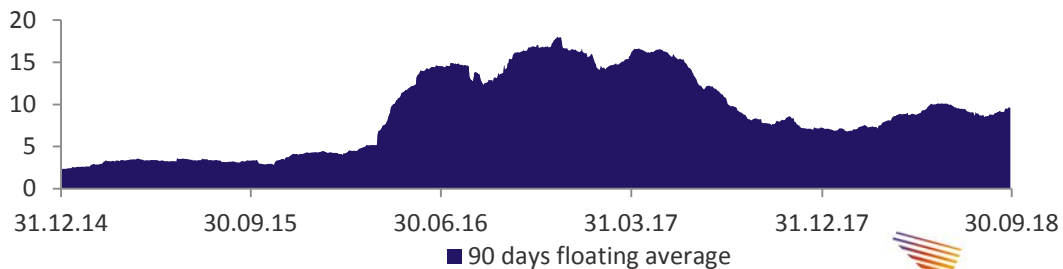
- Turnover of 663 025 equity certificates.
- 15 663 944 total issued, and an equity ratio of 17.9%.

## Dividend

- 50 percent of equity certificate holders` share of annual profits
- When determining the annual dividend, Sparebanken Sør`s capital requirements will be taken into consideration.
- A dividend of NOK 6,00 has been distributed in 2017, the same as in 2016.
- The equity certificate yielded a direct return of 5,8 percent in 2017 (6,6 percent in 2016)



## Daily turnover in SOR



# Equity certificate owners

20 largest equity certificate owners as of 30 September 2018

	Name	Number of ECs	Share of ECs %		Name	Number of ECs	Share of ECs %
1	Sparebankstiftelsen Sparebanken Sør	7 988 679	51.00	11	Gumpen Bileiendom AS	174 209	1.11
2	Arendal Kom. pensjonskasse	450 000	2.87	12	Allunggården AS	151 092	0.96
3	EIKA utbytte VPF c/o Eika kapitalforv.	423 351	2.70	13	Landkreditt Utbytte	140 000	0.89
4	Pareto AS	417 309	2.66	14	Ottersland AS	100 000	0.64
5	Holta Invest AS	378 765	2.42	15	Wenaas Kapital AS	94 585	0.60
6	Gladstad Capital AS	368 765	2.35	16	MP Pensjon PK	85 523	0.55
7	Bergen Kom. Pensjonskasse	376 231	2.40	17	Artel AS	82 131	0.52
8	Merrill Lynch	228 735	1.25	18	Profond AS	77 115	0.49
9	Otterlei Group AS	195 926	1.46	19	Apriori Holding AS	72 575	0.46
10	Wenaasgruppen AS	186 000	1.19	20	Varodd AS	70 520	0.45
	<b>Total 10 largest owners</b>	<b>11 013 170</b>	<b>70.30</b>		<b>Total 20 largest owners</b>	<b>12 060 920</b>	<b>76,97</b>

- As of 30 September 2018, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC as at 30 September 2018 amounted to NOK 7.9
- The ownership ratio at the end of Q3 2018 was 17,9 percent



SPAREBANKEN SØR