



Sparebanken Sør

Investor presentation Q2 2019

Sparebanken Sør

– A leading financial institution in Southern Norway



Established in 1824,
532 employees



180 000 retail
customers



Financial group with
banking, securities and
real estate brokerage



22 000 corporate
customers



Publicly traded and
community-owned



NOK 125.7 bn in total
assets

A market with 470 000 inhabitants. No other bank has as high presence in the region as Sparebanken Sør. The bank has approximately 175 000 retail customers and 23 000 corporate customers. New locations in Rogaland and Vestfold increases the marketpotential by 160 000.

Well positioned in a region with positive development

- Positive trend in labour market
- Rising house prices
- High customer satisfaction
- Strong market position
- Solid loan portfolio
- Long-term commitment to digitisation and data analysis



Strong position in the housing market

Maintaining a strong market position

Percentage market share



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

Positive development in housing prices

Percentage change in prices, last 12 months*

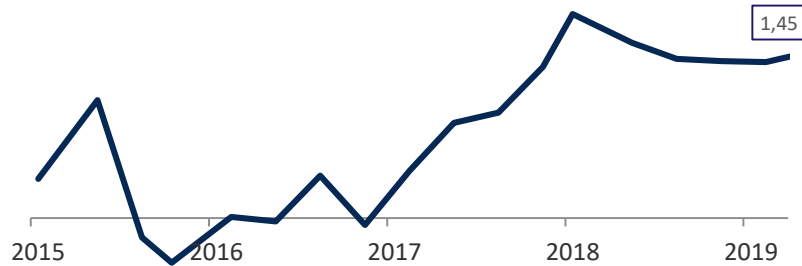


*3 month moving average of 12 month change

Growth in the Southern region

Increased production, Southern region

Growth last 3 months



Increase in investments, Southern region

Expected development next 12 months



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

Reassuring development in the labour market

Decrease in unemployed

Percentage change last 12 months



Increased employment rate, Southern region

Percentage growth last 3 months



Highlights from the quarterly report



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Highlights in Q2 2019

- Good results from ordinary operations
- Positive development in net interest income
- Good results from Frende and Brage
- Efficient operations and low costs
- Very low losses on loans
- Year-on-year loan growth of 4.4 percent
- Year-on-year deposit growth of 4.7 percent
- Return on equity after tax of 9.0 percent
- Common equity tier 1 capital ratio of 15.0 percent and leverage ratio of 9.0 percent

NOK million	2019 Q2	2018 Q2	Change
Net interest income	467	433	34
Net commission income	86	84	2
Net income from financial instruments	5	28	-23
Associated companies	23	18	5
Other operating income	2	3	-1
Total income	583	566	17
Total expenses	231	218	13
Profit before losses on loans	352	348	4
Losses on loans, guarantees	2	5	-3
Profit before tax	350	343	7
Tax expense	83	65	18
Profit for the period	267	278	-11

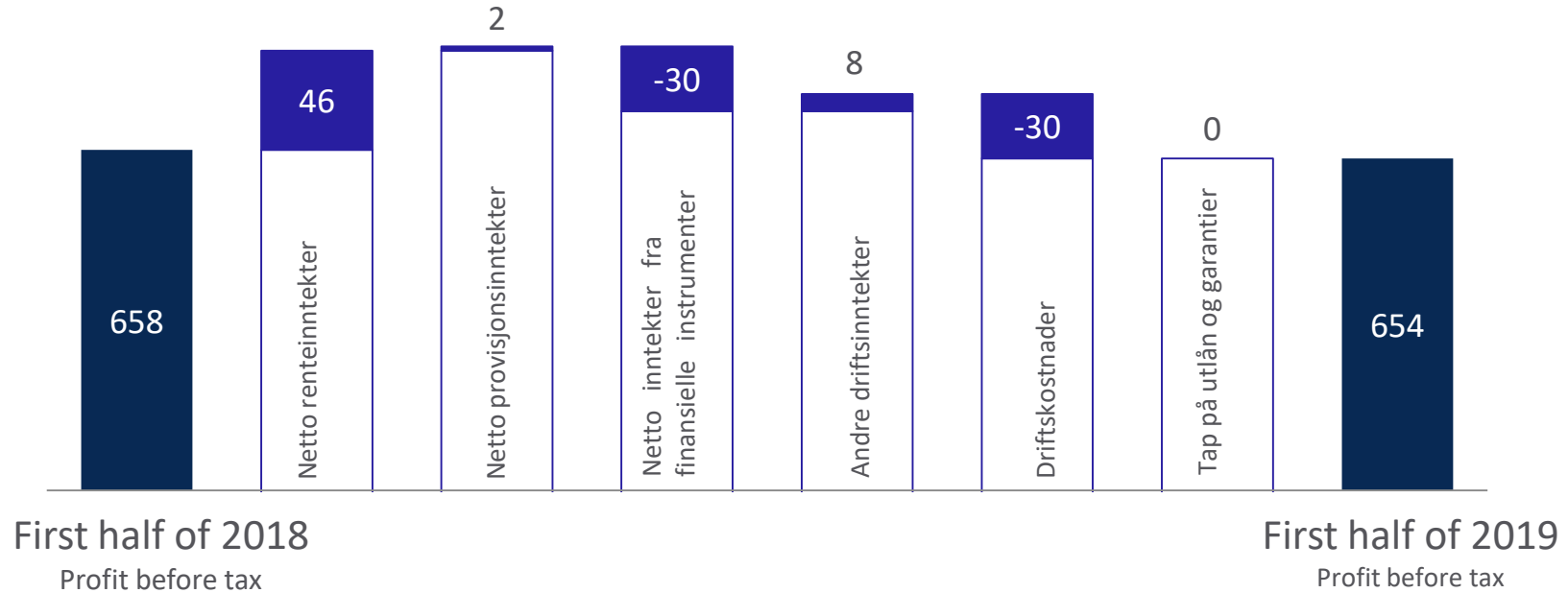
Highlights first half of 2019

- Good results from ordinary operations
- Positive development in net interest income
- Good results from Frende and Brage
- Efficient operations and low costs
- Very low losses on loans
- Return on equity after tax of 8.6 percent

NOK million	30.06.2019	30.06.2018	Change
Net interest income	904	858	46
Net commission income	160	158	2
Net income from financial instruments	24	54	-30
Associated companies	27	18	9
Other operating income	4	5	-1
Total income	1.119	1.093	26
Total expenses	460	430	30
Profit before losses on loans	659	663	-4
Losses on loans, guarantees	5	5	0
Profit before tax	654	658	1-4
Tax expense	154	142	12
Profit for the period	500	516	-16

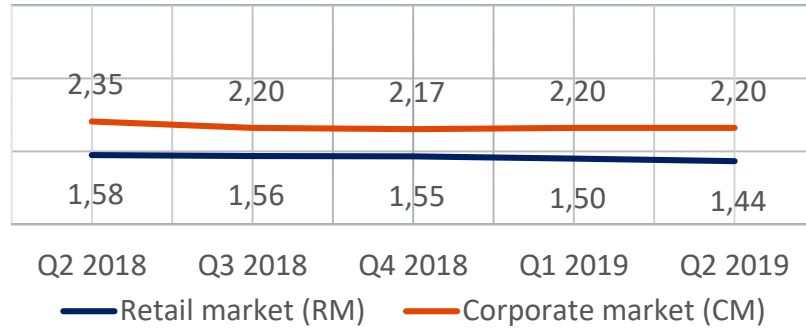
Developments in profit before tax

NOK million

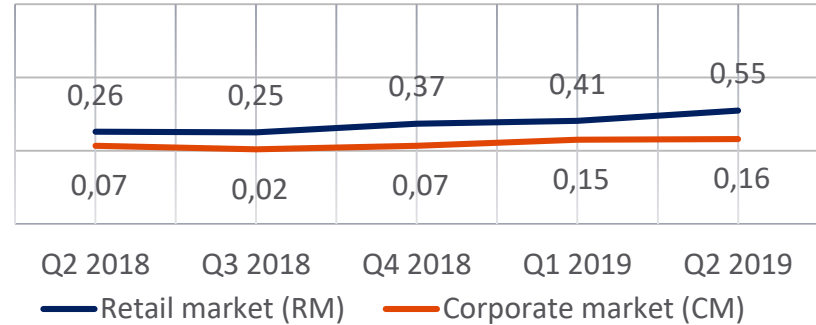


Interest margin and NIBOR3M

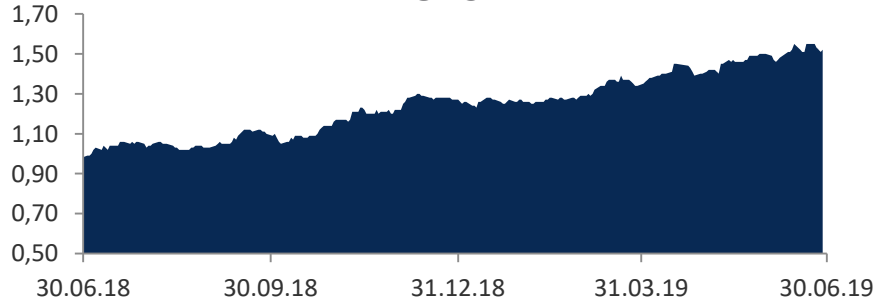
Loans (%)



Deposits (%)



NIBOR3M



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

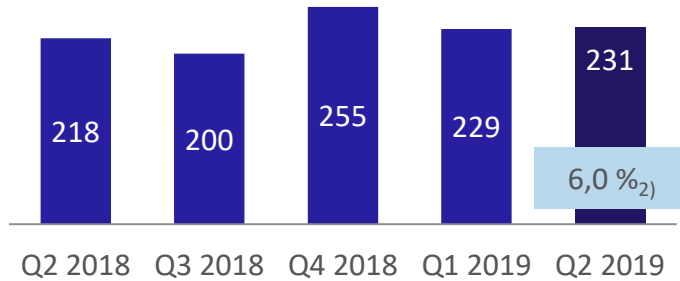
- Growth in total loans
- Interest rate changes on loans
- A CM loan portfolio which accounts for 35 percent of total loans (of which about 80 percent is linked to NIBOR)
- CM deposits linked to NIBOR



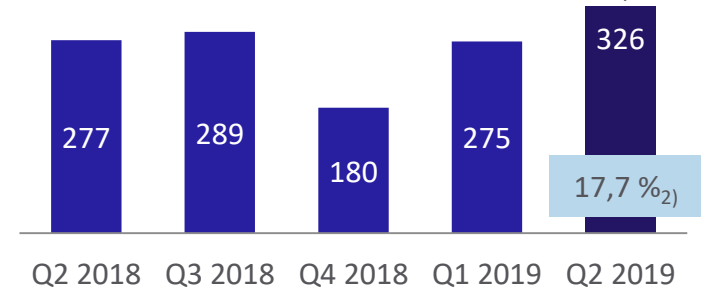
Profit and returns

NOK million

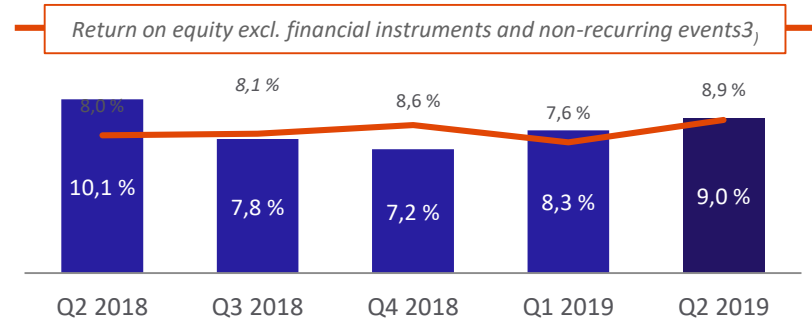
Operating expenses



Profit from ordinary operations¹⁾



Return on equity

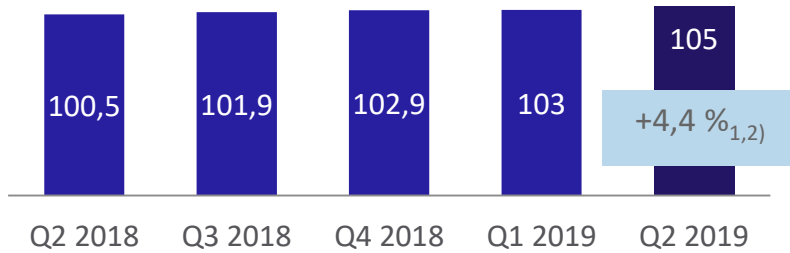


- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating expenses, adjusted for the conversion of the pension scheme
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments,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

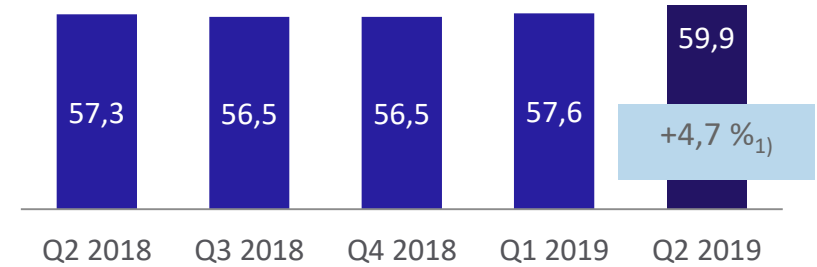
Balance sheet

NOK billion

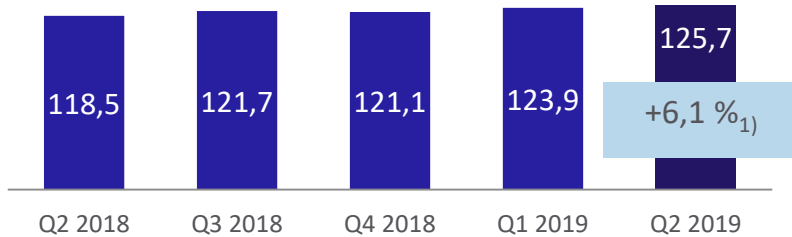
Net loans



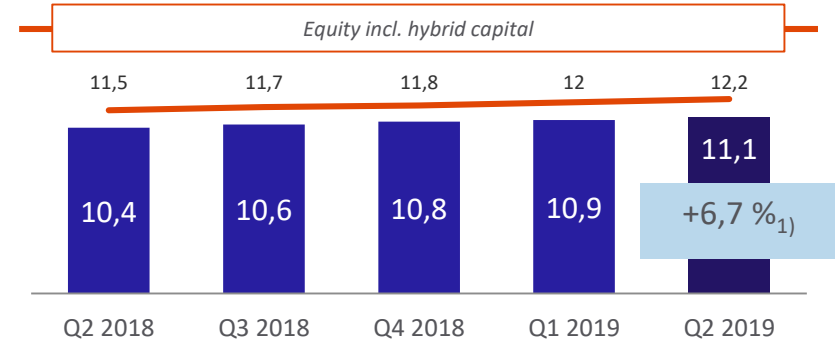
Deposits



Total assets



Equity

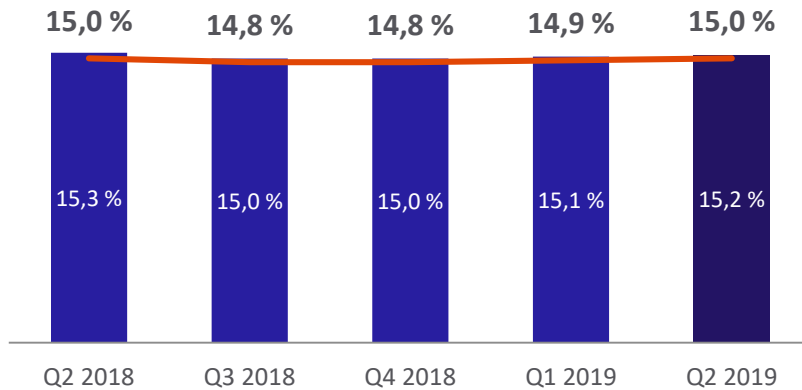


- 1) Changes from the corresponding prior-year period
- 2) Loan growth at the end of Q2 2019 amounted to NOK 4,5 billion, equivalent to 4.4 percent, which of retail customers accounted for 5.8 percent and corporate customers 1.3 percent

Capital adequacy

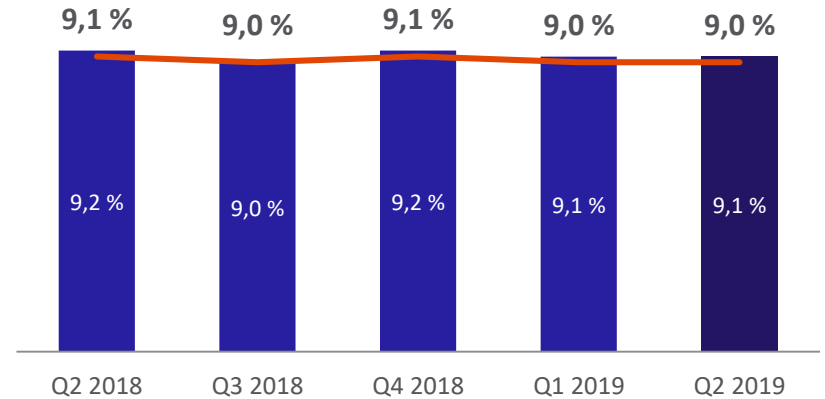
Common equity tier 1 capital ratio

Common equity tier 1 capital ratio with Brage Finans partially consolidated



Leverage ratio

Leverage ratio with Brage Finans partially consolidated



Associated companies

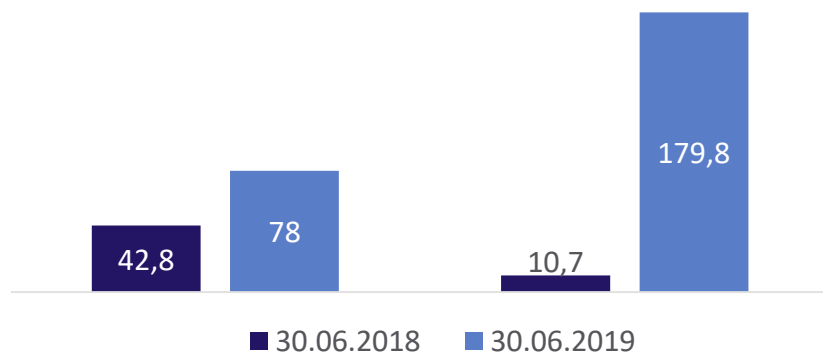


Profit before tax

NOK million

Brage Finans AS

Frende Holding AS



Effect on results when consolidating

NOK million		30.06.2019	30.06.2018
Frende forsikring (20.2 percent ownership)	Share of profit	29,7	0
	Amortizing	- 10,0	0
Brage finans (20.8 percent ownership)	Share of profit	12,4	0

Gross share of profit in first half of 2019 amounted to NOK 42.1 million and NOK 28.0 million in Q2 2019.

Frende had an extraordinary write-down related to IT systems in 2018. Sparebanken Sør's share of profit of NOK 5.8 million was accounted for in Q1 2019



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Summary after Q2 2019

Results

Stable profit from ordinary operations, through customised growth, increased net interest income, positive financial income and very low losses on loans.

Finance

Positive net income from financial instruments
Good results from both Frende and Brage

Capital

Common equity tier 1 capital ratio of 15.0* percent and solid leverage ratio of 9.0* percent.

Growth

Loan growth of NOK 4.5 billion in the last 12 months, corresponding to 4.4 percent annual growth. Deposit growth of NOK 2.7 billion, corresponding to 4.7 percent in the last 12 months.

Oppsummert

Sound operations contributed to a pre-tax profit of NOK 350 million in Q2 2019.

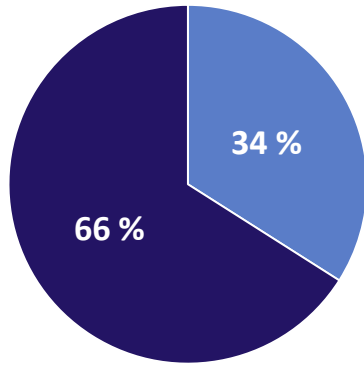


Loan portfolio and risk situation

A diversified loan portfolio

RM / CM distribution

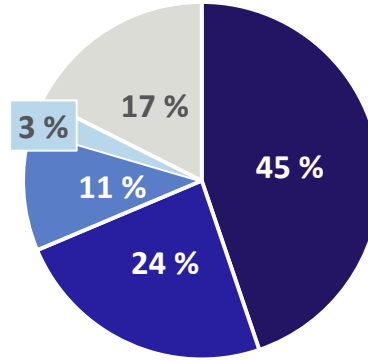
Gross loans



■ BM ■ PM

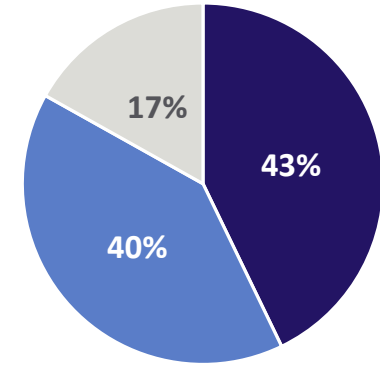
Geographical distribution of loans

Gross loans



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

Loan-to-Value (Group)



■ < 60 % ■ 60-75 % ■ > 75 %

Average loan-to-value of approximately 59 percent for mortgages (group).

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

NOK 38.9 billion transferred to Sparebanken Sør Boligkreditt AS, equivalent to 56 percent of total loans to retail market.

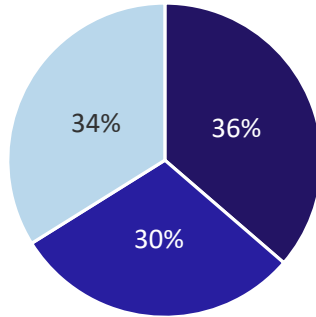


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Sparebanken Sør Boligkreditt

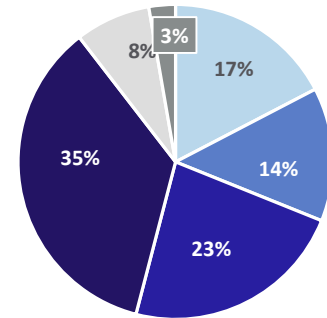
– Wholly owned by Sparebanken Sør

Sparebanken Sør Loan portfolio



■ Sparebanken Sør Boligkreditt AS ■ RM bank ■ CM

Sparebanken Sør Boligkreditt LTV distribution



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

Stress test of collateral



Status Q2 19

Decrease in housing prices by 30%

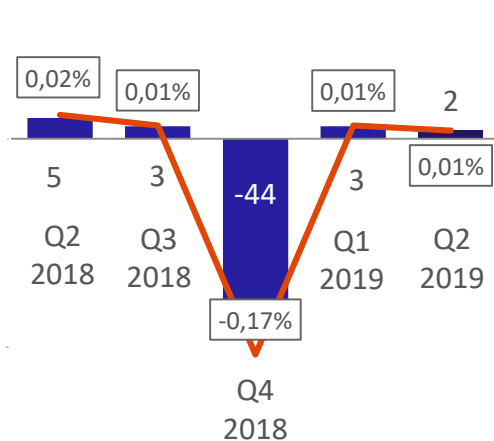
■ Weighted average LTV ■ Nominell OC



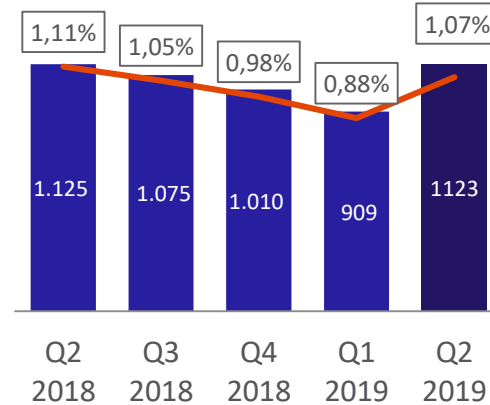
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Non-performing loans

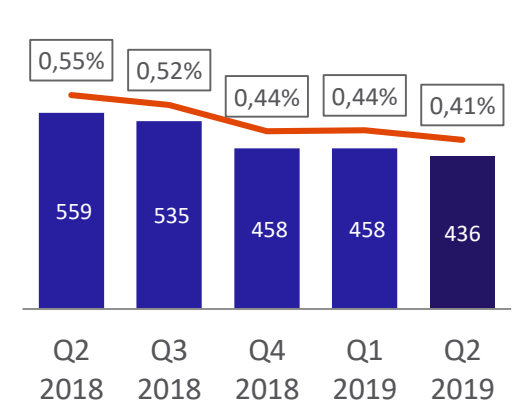
Development in losses in NOK million and as a percentage of gross loans (annualised)



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



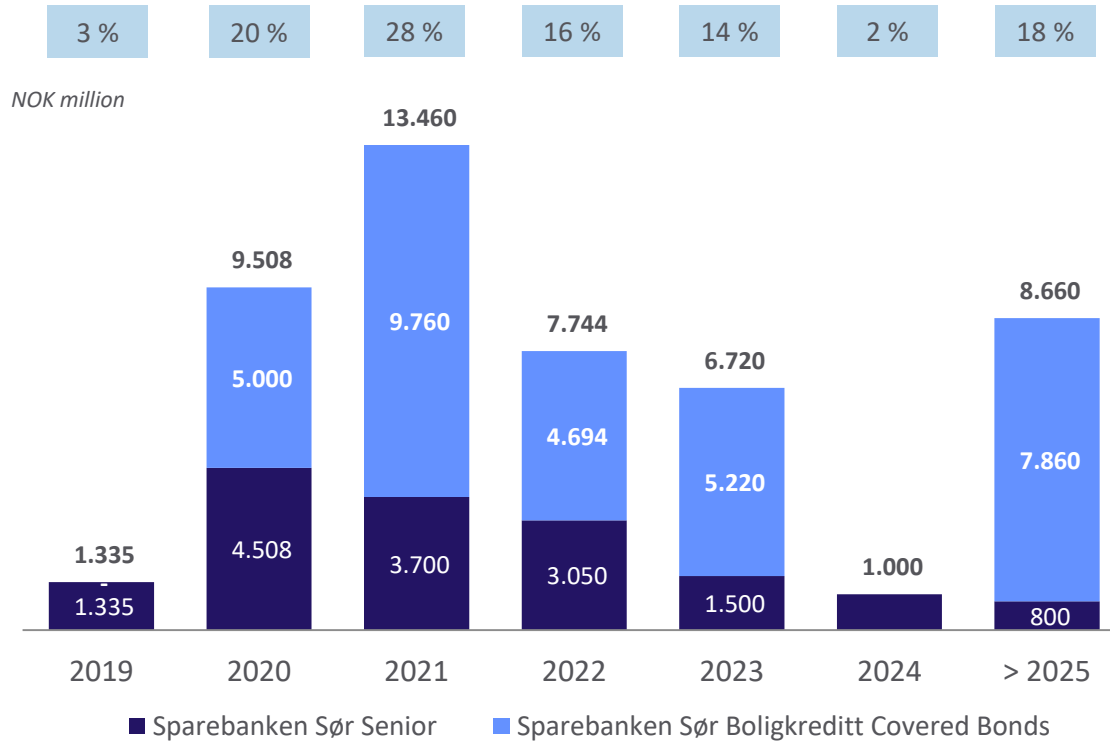
Development in loss provisions in NOK million and as a percentage of gross loans¹⁾



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

Funding status

Funding maturity



- The Group's total funding amounted to NOK 49.2 billion
- Covered bonds amounted to NOK 38.2 billion, of which NOK 2.5 billion was owned by the parent company
- Long-term funding* amounted to 83 percent
- Average remaining maturity on long-term funding* amounted to 3.7 years

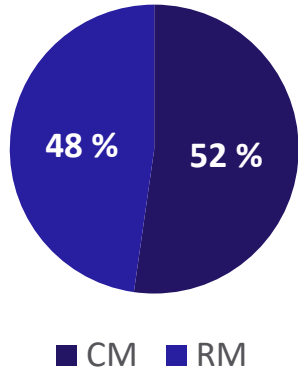
* Long-term funding: maturity > 1 year



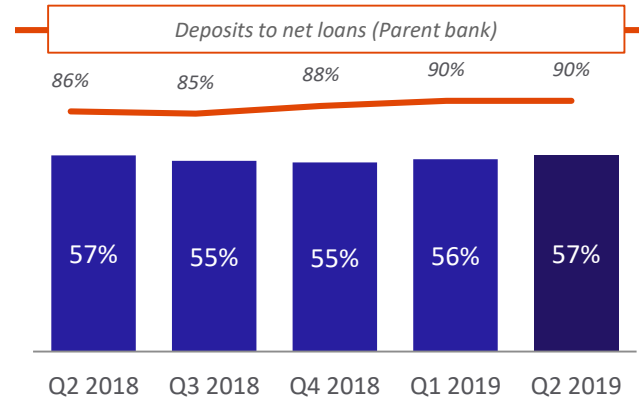
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Deposits

RM/CM distribution



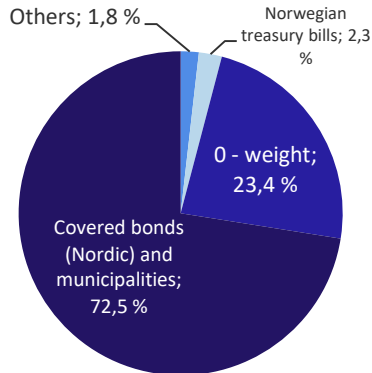
Deposits to net loans(Group)



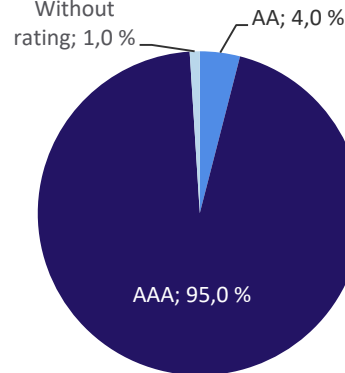
- Stable development in deposits the last 12 months, with a deposit growth of 4.7 percent

Liquidity portfolio

Kategori



Rating



- Total liquidity portfolio of NOK 17.1 billion
- 100 percent investment grade and 100 percent liquid instruments
- Liquidity credit ratio of 146 percent for the Group

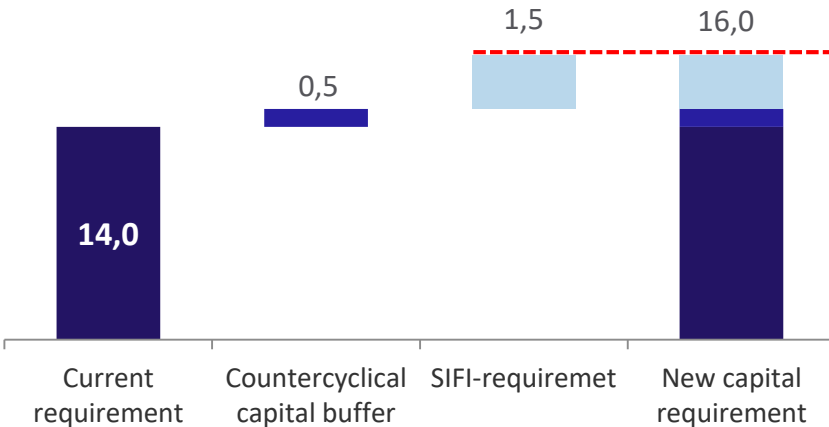


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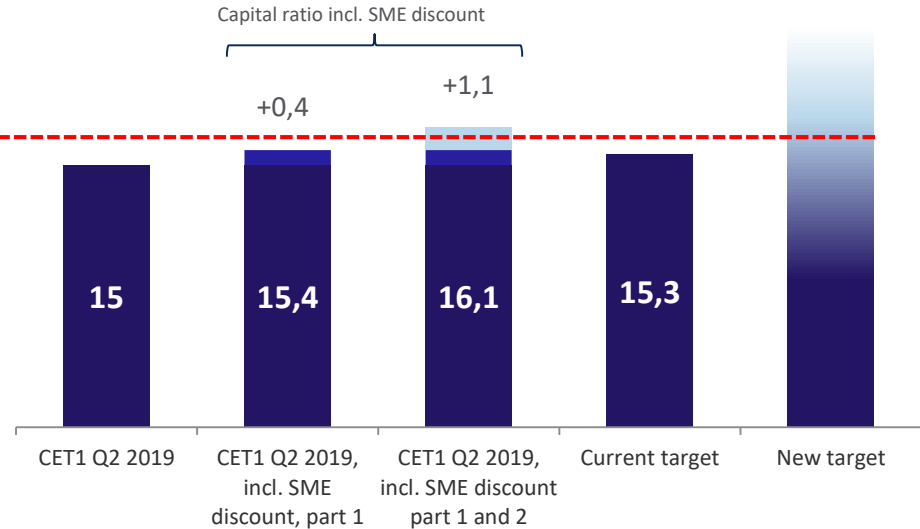
Capital

Changes in regulatory conditions

Capital requirements



Capital ratios and targets

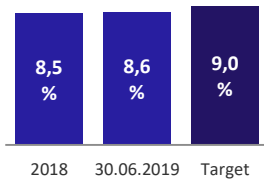


Goals and expectations ahead

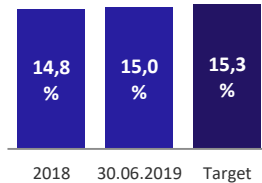


Financial key variables and ambitions

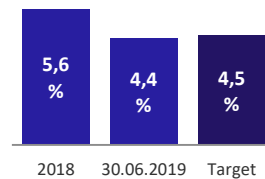
Return on equity



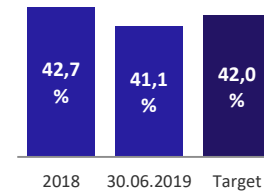
Common equity tier 1 capital (Group)



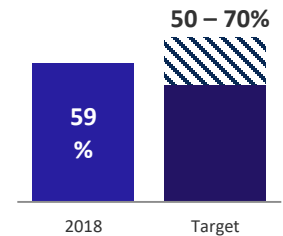
Loan growth¹⁾



Cost development



Dividend ratio



1) Ambitions are dependent on expected C2 Reduced growth in CM in 2019.

Outlook

Macro

The key interest rate increased on 20 June 2019 from 1.00 percent to 1.25 percent. Norges Bank has indicated that there most likely will be a further upward adjustment in the key interest rate within the next year.

The region

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

Capital requirements

The Bank has a common equity tier 1 capital ratio of 15.0* percent and a 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 placed to further develop its position as a leading customer relation-oriented bank, with high cost efficiency, good growth and profitability.

Appendix

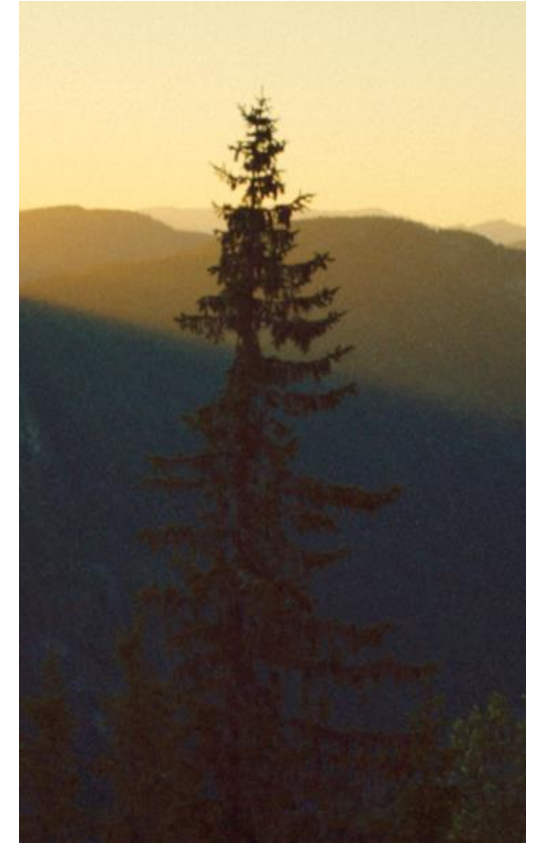


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Dividend policy

The bank aims to pay out 50-70% of the equity certificate capital's proportion of annual profits after tax as a dividend.

- 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 equity certificate capital (equity certificate owners) and primary capital in accordance with their proportionate share of the equity capital.
- Sparebanken Sør's capital needs, including regulatory requirements, investor expectations and the bank's strategic targets will be taken into consideration when determining the annual dividend.



SOR – share price and liquidity

Change in share price at 30.06.2019

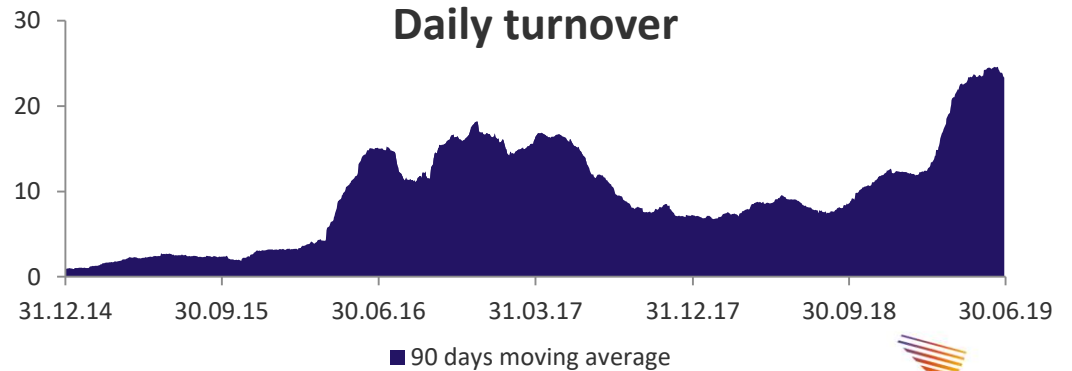
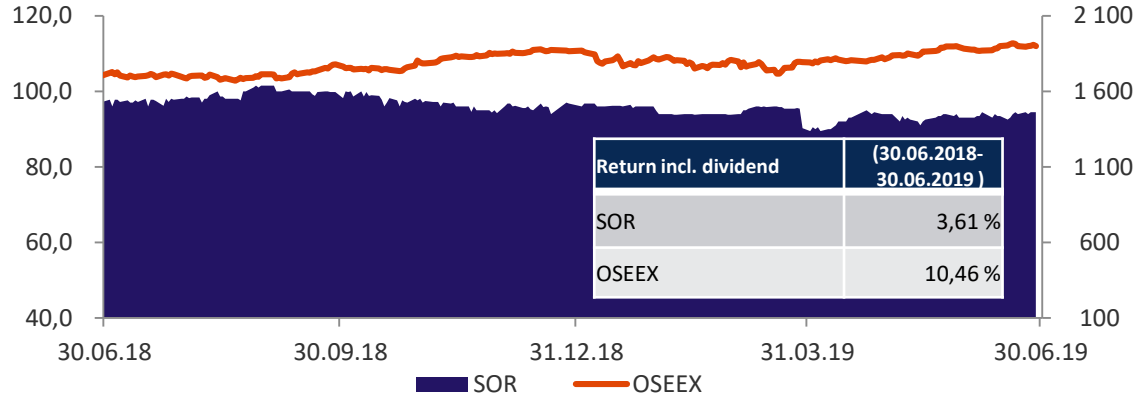
- The share price for SOR was NOK 95.0 and book value was NOK 122.2, amounting to a price-to-book ratio of 0.8.
- The equity certificates gave a return of 3.61%
- Profit per equity certificates of NOK 2.7, which represents a P/E of 8.8

Liquidity

- Turnover of 1.8 mill. equity certificates last 12 months.
- 15 663 944 total issued, and an EQ rate of 17.2%

Dividend

- 50-70% percent of equity certificate holders` share of annual profits
- Sparebanken Sør`s capital requirements will be taken into consideration when determining the annual dividend.
- Dividends for 2019 NOK 6,00 for each equity certificate, equivalent to a direct return of 6.3 percent (30.06.2019 share price).
- A dividend of NOK 6.00 was distributed in 2018, the same as in 2017.
- The equity certificate yielded a direct return of 6.2 percent in 2018 (5.8 percent in 2017).



Equity certificate owners

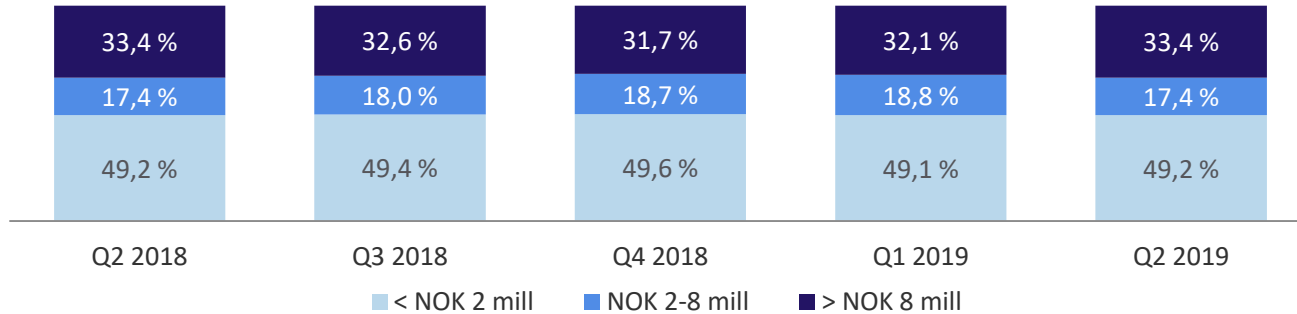
20 largest equity certificate owners as of 30 June 2019

	Name	Number of ECs	Share of ECs %		Name	Number of ECs	Share of ECs %
1	Sparebankstiftelsen Sparebanken Sør	7.988.679	51,00	11	Catilina Invest AS	114.558	0,73
2	EIKA utbytte VPF c/o Eika kapitalforv.	602.763	3,85	12	Svenska Handelsbanken AB	100.000	0,64
3	Arendal Kom. pensjonskasse	450.000	2,87	13	Ottersland AS	100.000	0,64
4	Pareto AS	417.309	2,66	14	MP Pensjon PK	85.523	0,55
5	Glastad Invest AS	368.765	2,35	15	Artel AS	82.131	0,52
6	Bergen Kom. Pensjonskasse	340.000	2,17	16	Profond AS	77.115	0,49
7	Otterlei Group AS	268.100	1,71	17	Apriori Holding AS	72.575	0,46
8	Wenaasgruppen AS	186.000	1,19	18	Varodd AS	70.520	0,45
9	Gumpen Bileiendom AS	174.209	1,11	19	Birkenes Sparebank	66.000	0,42
10	Allumgården AS	151.092	0,96	20	Brøvig Holding AS	65.639	0,42
	Total 10 largest owners	10 946 917	69,89		Total 20 largest owners	11.738 447	75,21

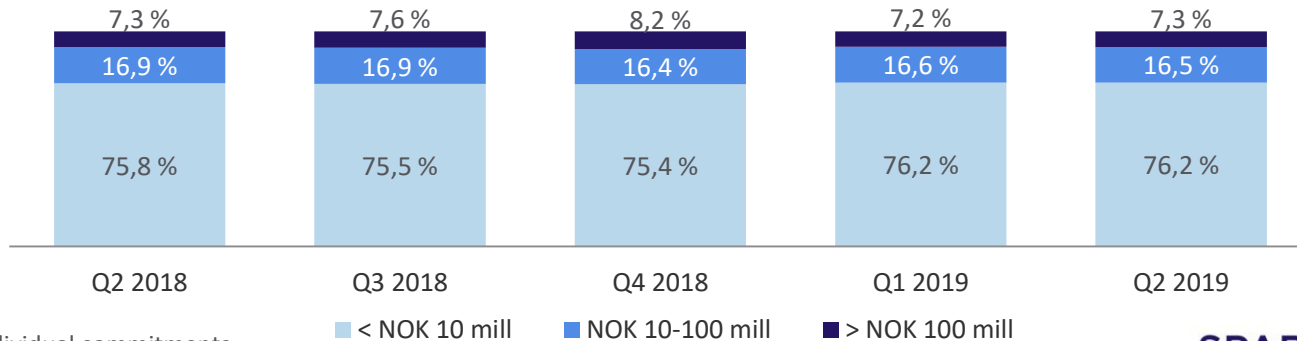
- As of 30 June 2019, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC as at Q2 2019 amounted to NOK 2.7
- The ownership ratio at the end of Q2 2019 was 17.2 percent

Portfolio

Deposits distributed by size

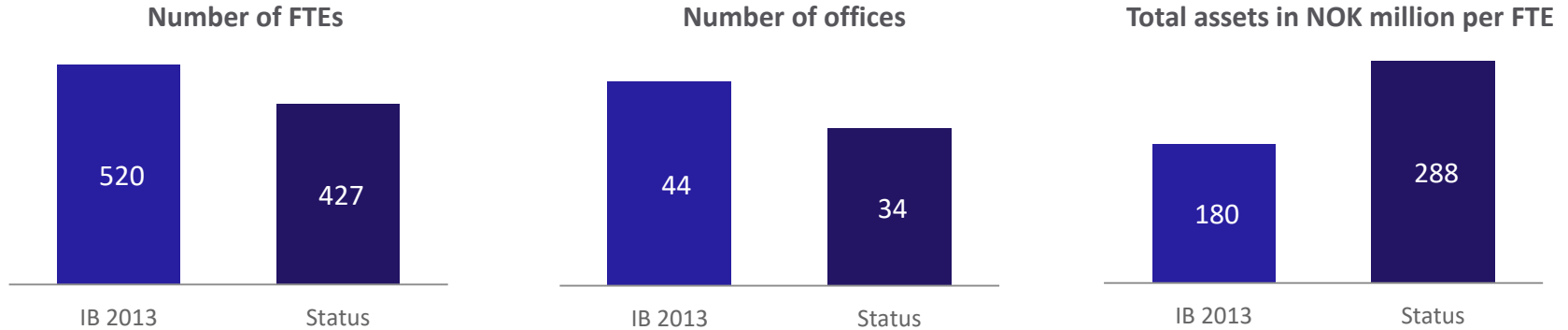


Loans* distributed by commitment size



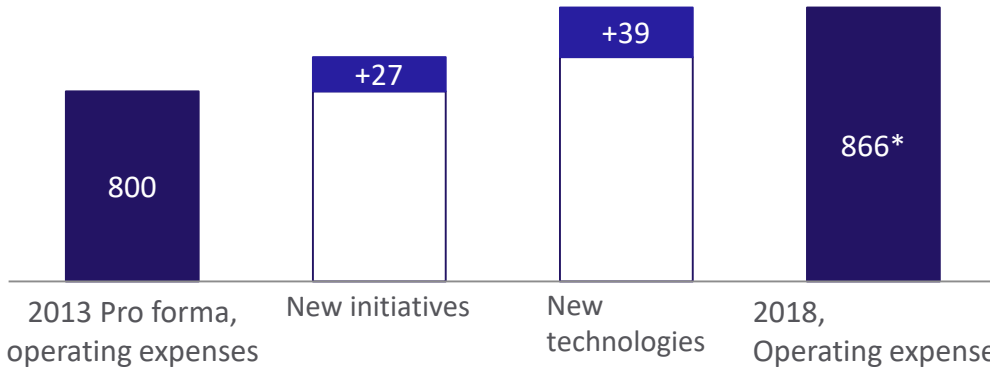
*Individual commitments

Structure and cost focus



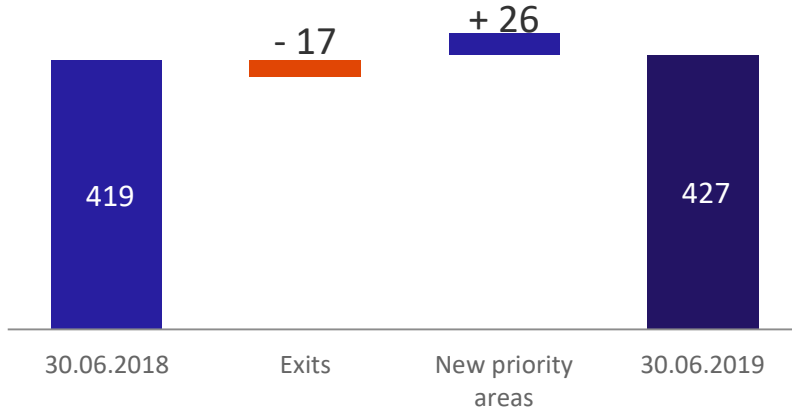
Considerable potential has been realised – further efficiency improvements is part of ongoing operations.

NOK million



New expertise will improve efficiency

Changes in employees



- There has been a significant decrease in FTEs in recent years
- 2018 represented a major shift in expertise
- Better positioned for growth through digital solutions

Crisis management and MREL

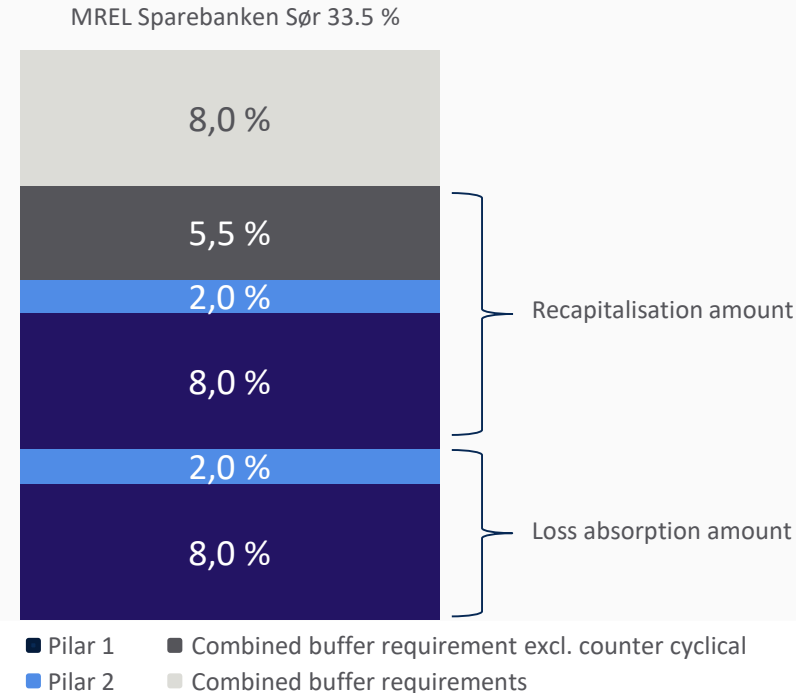
Minimum Requirement for own funds and Eligible Liabilities

- **The Bank Recovery and Resolution Directive (BRRD)**

- Implemented from 1 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 capital will be determined on an individual basis
- The largest and most complex banks will be assessed first. The aim is to do this during 2019.

- **Consequences for Sparebanken Sør**

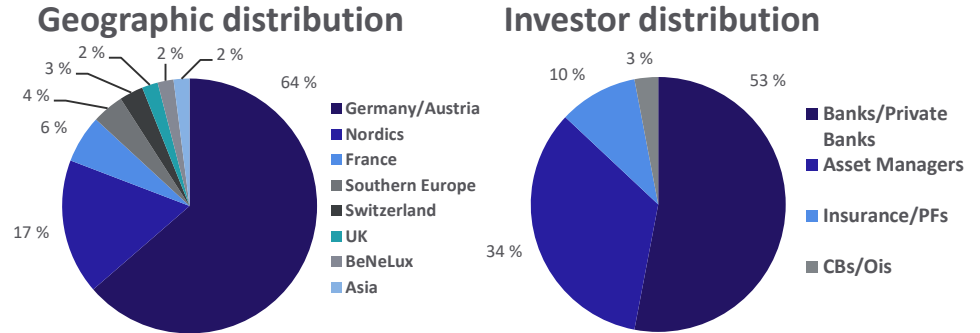
- Estimated Tier 3 (MREL capital) amounts to NOK. 10 billion
- The Bank has outstanding NOK 16 billion in senior debt. NOK 12.6 billion will fall due by 31.12.2022



Diversified funding

Successful issuance in February 2019 for Sparebanken Sør Boligkreditt:

- EUR 500 million 7-year Covered Bond.
- Fourth BM benchmark EURO transaction
- High investor interest



Transaction details

Issuer	Sparebanken Sør Boligkreditt AS
Issue rating (exp)	Aaa (Moody's)
Status	Norwegian Covered Bond
Launch date	30 January 2019
Settlement date	06 February 2019 (T+5)
Maturity	06 February 2026 (soft bullet)
Issue size	EUR 500mn (no grow)
Coupon	0.500%, act/act ICMA
Re-offer price / Spread	99.473% / MS + 19bps
Governing law	English law
ISIN	XS1947550403