



# Sparebanken Sør

Investor presentation Q2 2020

# Agenda

- **About Sparebanken Sør**
- **Highlights from the quarterly report**
- **Funding status**
- **Capital**
- **Change in customer behavior**
- **Goals and expectations going ahead**

# Sparebanken Sør - a leading financial institution in Southern Norway



Established in 1824,  
536 employees



177 000 retail  
customers



Financial Group with  
banking, securities and  
real estate brokerage



21 000 corporate  
customers



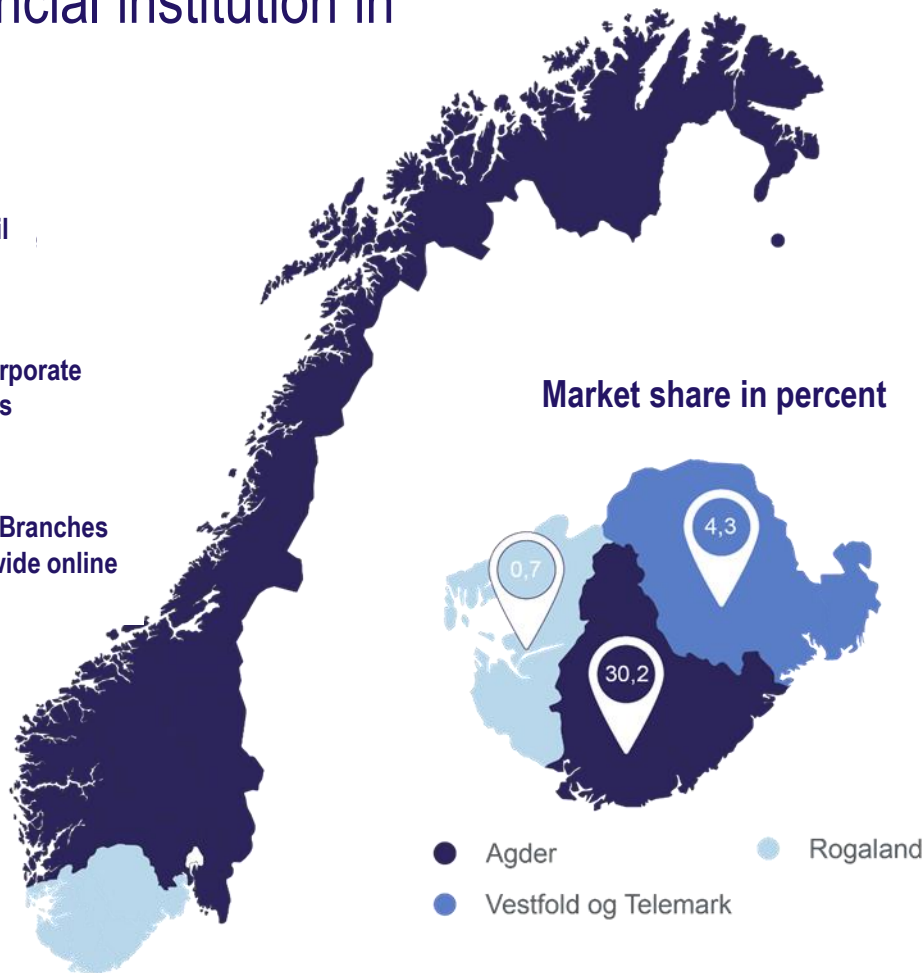
Publicly traded and  
Community-owned



Regional Branches  
& nationwide online  
services



- Total assets of NOK 142.0 bn
- Profit after tax amounted to NOK 452 million in 2020 Q2
- Cost/income ratio of 40.4 percent.



# COVID-19 effects in Q2

## Banking operations

- Banking operations work well digitally
- Close customer relationship highly valued during uncertain times

## Income

- Accelerated interest rate cuts on loans negatively affected net interest income Q2
- Positive development in net commission income, except for payment services
- Positive development in finance and good profit contributions from Frende and Brage

## Expenses

- Good cost control
- No significant direct effects

## Losses on loans

- Increased loss provisions as a result of model-based losses on loans
- Still low levels of defaults, bankruptcies and realised losses on loans
- Significant uncertainty

## Liquidity and funding

- Solid long-term financing
- Reassuring liquidity buffer

## Capital

- Countercyclical capital buffer reduced by 1.5 percentage points
- Good capital buffers, well above current regulatory requirements

# Strong position in the housing market

## Maintaining a strong market position

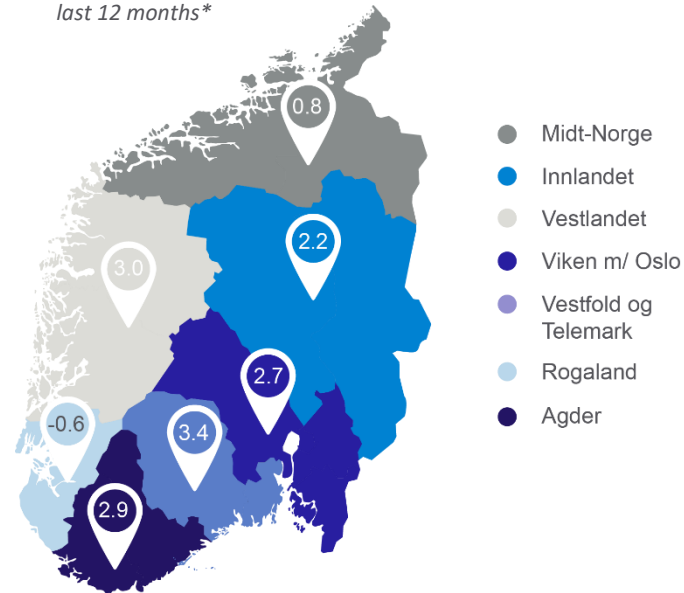
Percentage market share



# 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\*



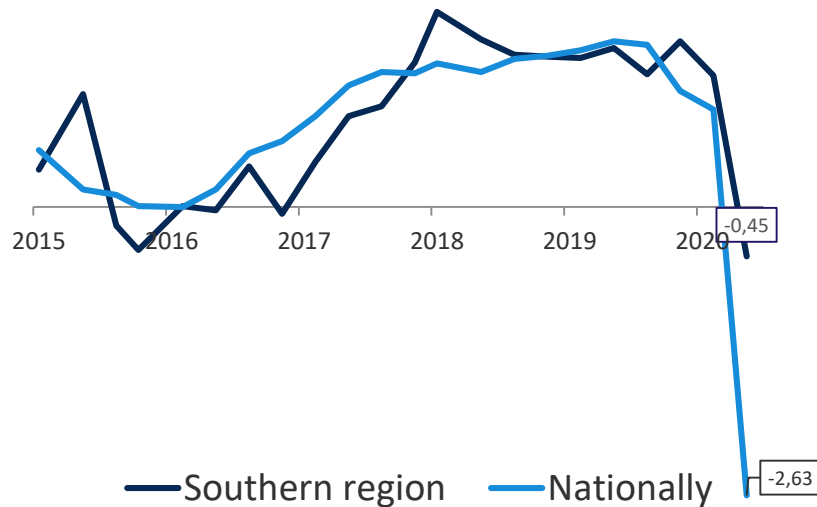
\*3 month moving average of 12 month change

- Midt-Norge
- Innlandet
- Vestlandet
- Viken m/ Oslo
- Vestfold og Telemark
- Rogaland
- Agder

# Decrease in production and investment as a result of COVID-19

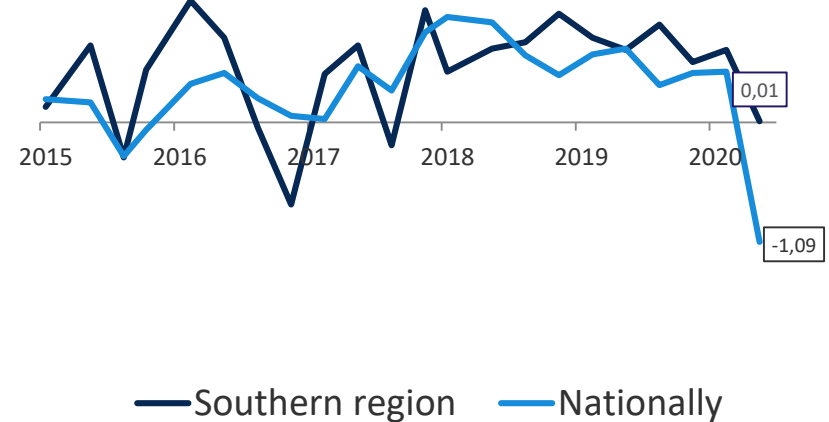
## Growth in production

Growth last 3 months



## Growth in investments

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 Agder, Telemark and Vestfold



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# Development in the labour market

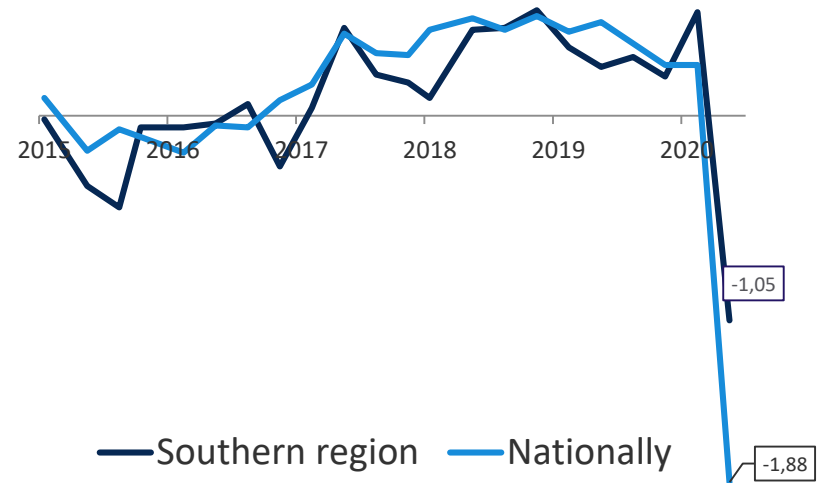
## Unemployment

Percentage change last 12 months



## Development in employment

Percentage growth last 3 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 Agder, Telemark and Vestfold.



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# Highlights from the quarterly report



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# Highlights Q2 2020

- Efficient operations and low costs
- Very good results from Frende and Brage
- Solid result from Sørmeqleren
- Negative development in net interest income due to interest rate reductions with effect from the quarter
- Increased model based losses on loans as a result of the Covid-19 pandemic
- Return on equity after tax of 8.8 percent
- Common equity tier 1 (CET1) capital ratio of 15.7 percent and leverage ratio of 9.1 percent

NOK million	2020 Q2	2019 Q2	Change
Net interest income	449	467	-18
Net commission income	89	86	3
Net income from financial instruments	59	5	54
Associated companies	52	23	29
Other operating income	4	2	2
Total income	653	583	70
Total expenses	240	231	9
<b>Profit before losses on loans</b>	<b>413</b>	<b>352</b>	<b>61</b>
Losses on loans, guarantees	46	2	44
<b>Profit before tax</b>	<b>367</b>	<b>350</b>	<b>17</b>
Tax expense	79	83	-4
<b>Profit for the period</b>	<b>288</b>	<b>267</b>	<b>21</b>

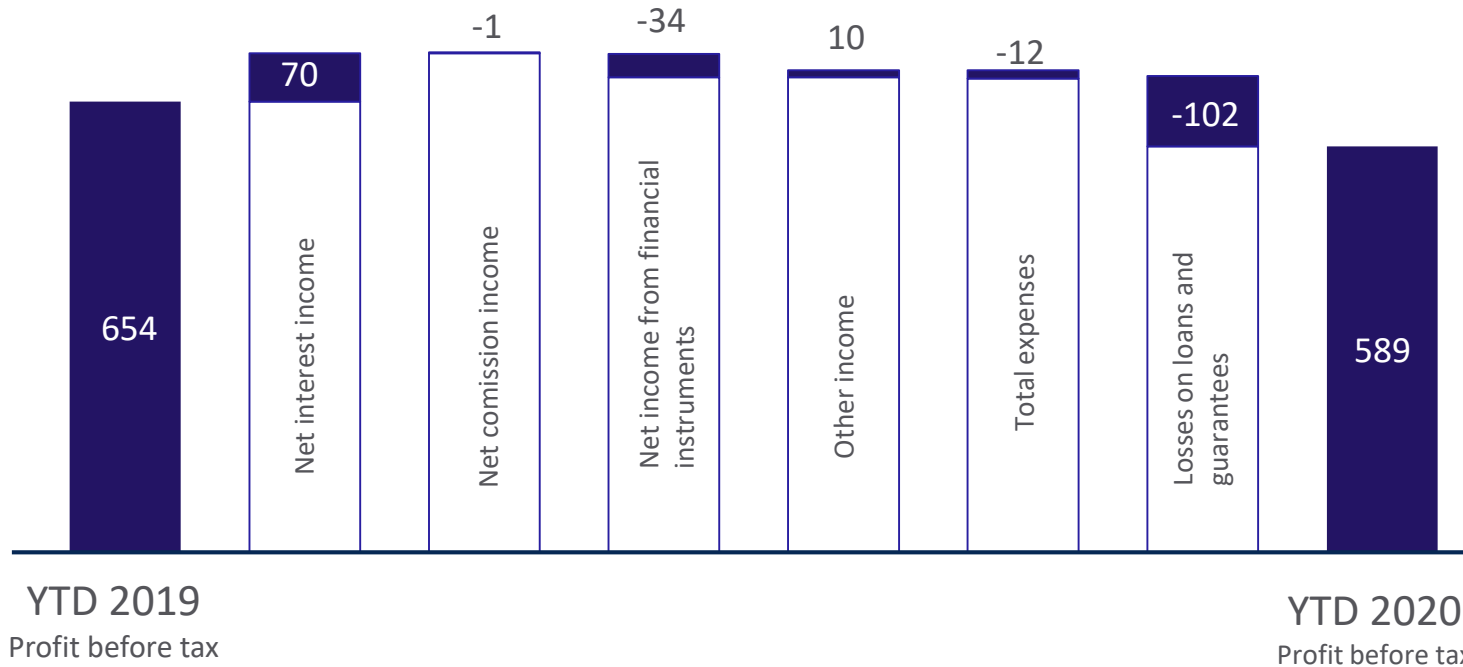
# Highlights first half of 2020

- Good result from ordinary operations
- Positive development in net interest income
- Good results from Frende, Brage and Sørmeqleren
- Efficient operations and low costs
- Increased model based losses on loans as a result of the Covid-19 pandemic
- Dividend decision has been postponed until autumn 2020 as a result of COVID-19
- Return on equity after tax of 6.9 percent

NOK million	30.06.2020	30.06.2019	Change
Net interest income	974	904	70
Net commission income	159	160	-1
Net income from financial instruments	-10	24	-34
Associated companies	39	27	8
Other operating income	6	4	2
Total income	1.168	1.119	49
Total expenses	472	460	12
<b>Profit before losses on loans</b>	<b>696</b>	659	37
Losses on loans, guarantees	107	5	102
<b>Profit before tax</b>	<b>589</b>	654	-65
Tax expense	137	154	-17
<b>Profit for the period</b>	<b>452</b>	500	-48

# Development in profit before tax

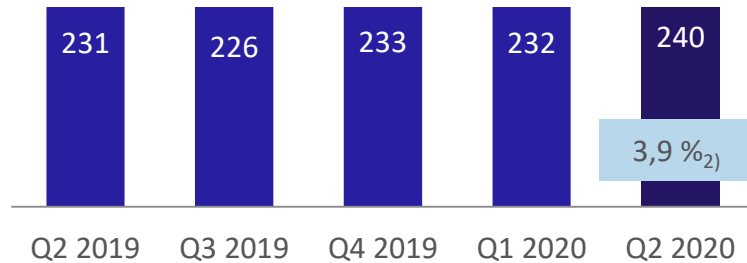
NOK million



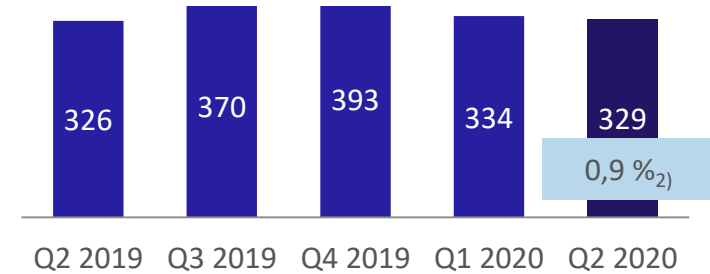
# Profit and returns

NOK millions

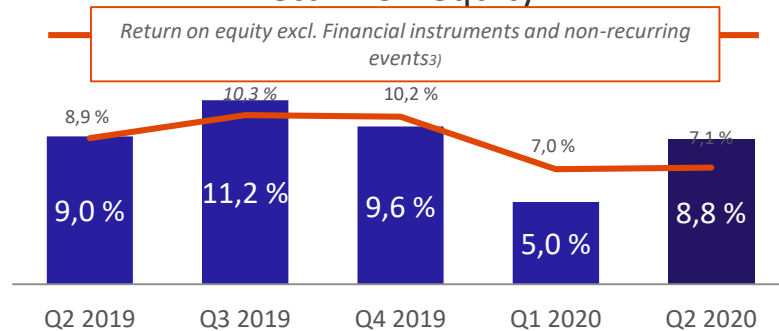
## Operating expenses



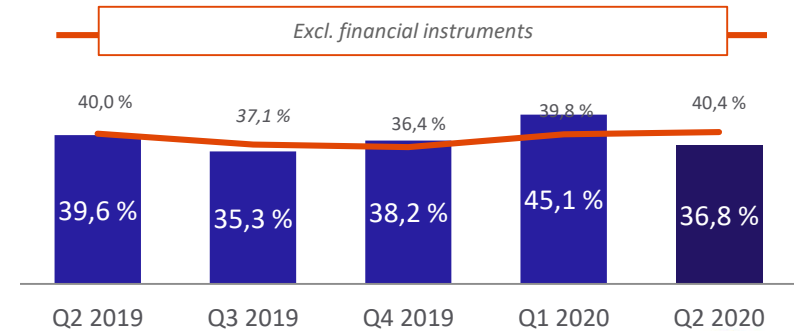
## Profit from ordinary operations<sup>1)</sup>



## Return on equity



## Cost to income ratio

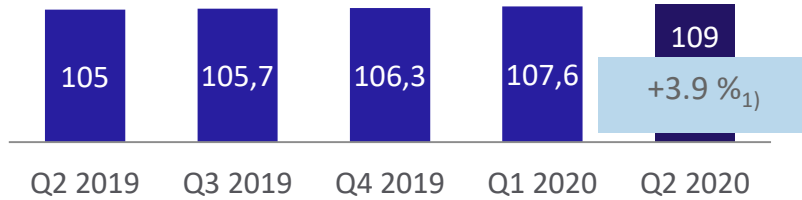


- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating expenses
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments and interest on hybrid capital.

# Strong growth in the quarter

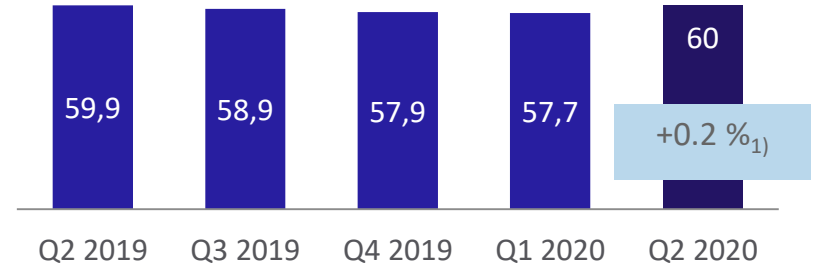
NOK billion

## Net loans



- 12 months growth of 3.9%, of which RM 3.4% and 5.1% CM
- Annualised growth of 5.4% in the quarter, of which RM 6.5% and CM 4.4%

## Deposits

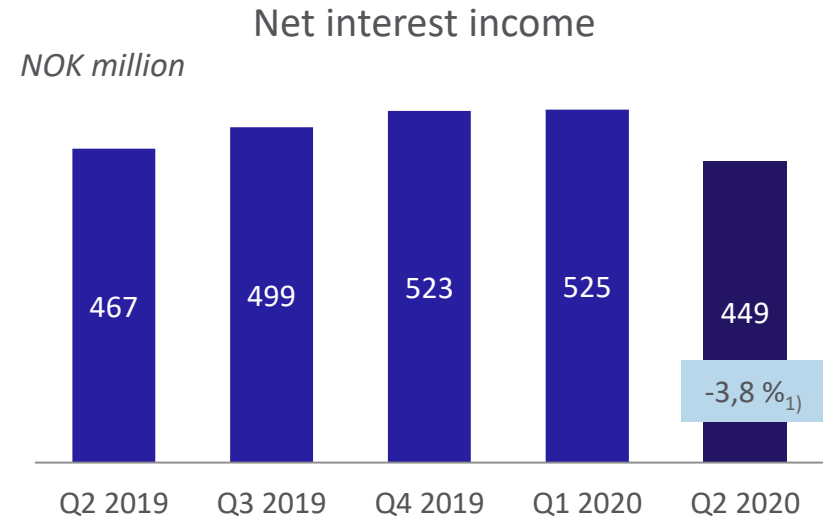


- 12 months growth of 0.2%, of which RM 6.2% and CM -5.4%
- Annualised growth of as much as 16.6% in the quarter, of which RM 29% and CM 31%
- Change in deposit composition

1) Changes from the corresponding prior-year period

# Development of net interest income

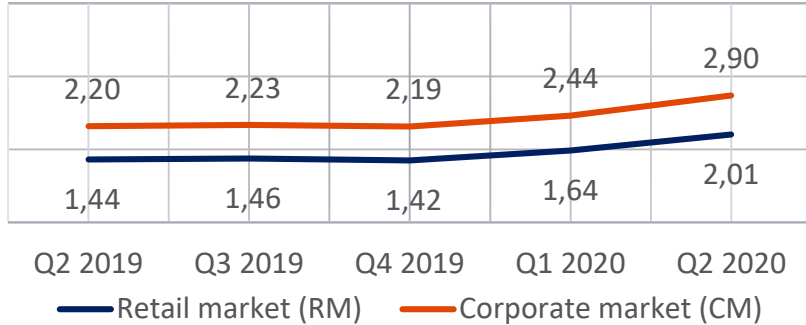
- Negative development in net interest income in Q2
- The non-recurring effect as a result of the for interest rate changes on loans amounted to approximately NOK 56 million in Q2
- Strong competitive pressure on lending rates, especially in the retail market



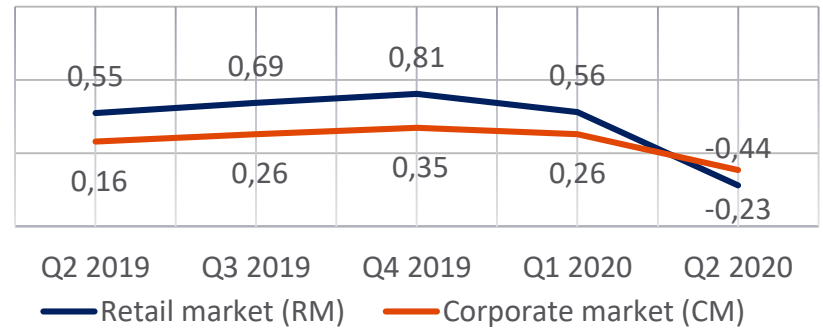
1) Endring i forhold til samme periode i fjor,

# Interest margin and NIBOR3M

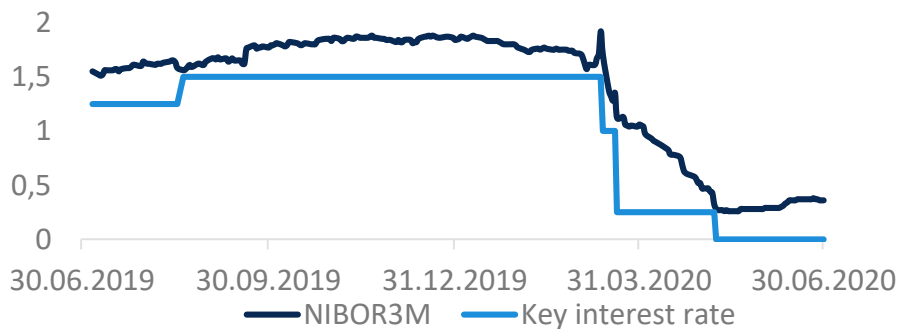
Loan margins(%)



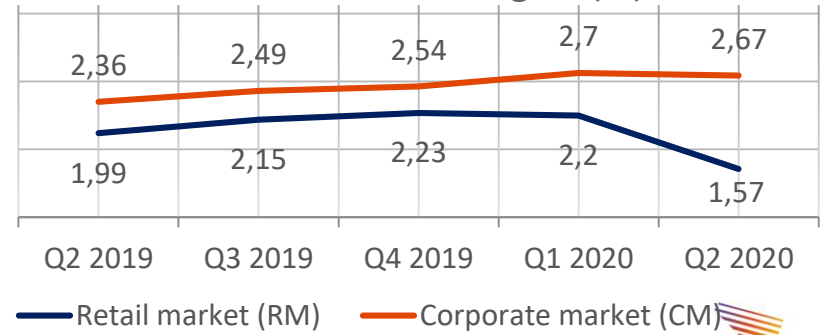
Deposit margins (%)



NIBOR3M



Interest margin<sub>1</sub> (%)



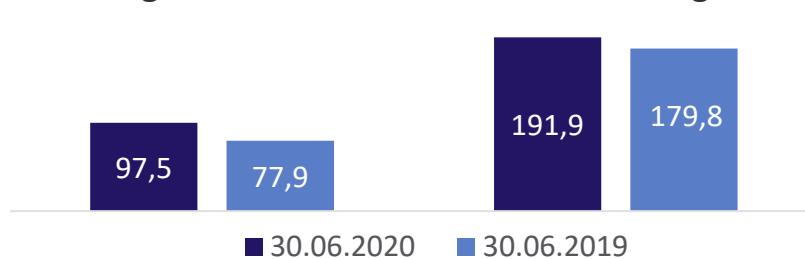
# Associated companies



## Profit before tax

NOK million

**Brage Finans AS**                      **Frende Holding AS**



## Effect on results after consolidation

NOK million		Q2 2020	Q2 2019	30.06.2020	30.06.2019
<b>Frende forsikring*</b> (21,0 %)	Share of profit	49,3	21,1	27,4	24,4
	Amortizing	-5,0	-5,0	- 10,0	-10,0
<b>Brage finans</b> (20,8 %)	Share of profit	7,9	6,9	13,6	12,4

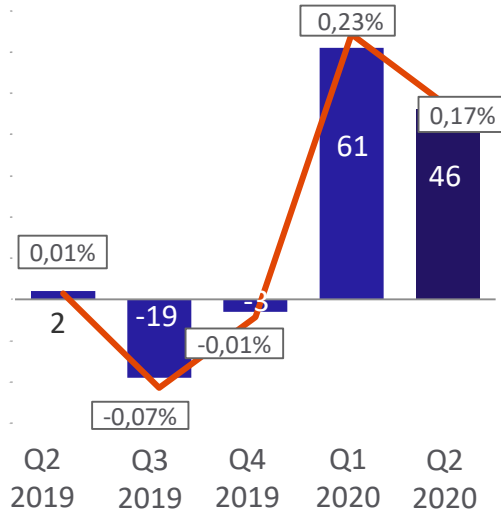
Sparebanken Sør increased its ownership interest in Frende from 20.2 percent to 21.0 percent in the second quarter. The transaction had no effect on the result in the second quarter as the shares are entered according to the equity method.

In the transaction, the company was valued at NOK 3.5 billion and Sparebanken Sør's ownership interest (21.0 percent) is valued at NOK 737 million. Book value after Q2 2020 NOK 486 million. The excess value in relation to book values amounts to NOK 251 million, corresponding to NOK 2.8 per ECs.

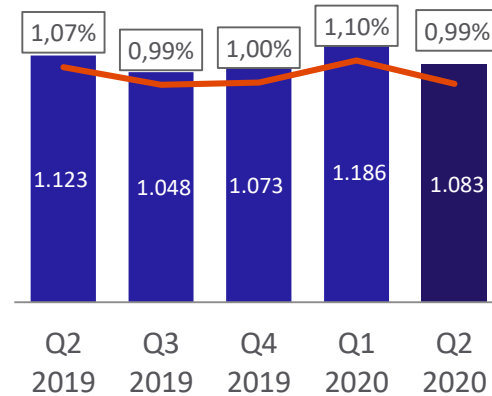


# Non-performing loans

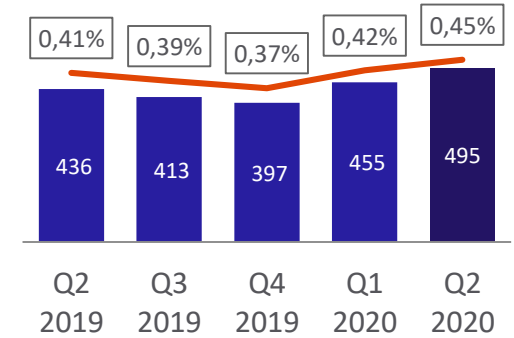
Development in losses in NOK million and as a percentage of gross loans (annualised)



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

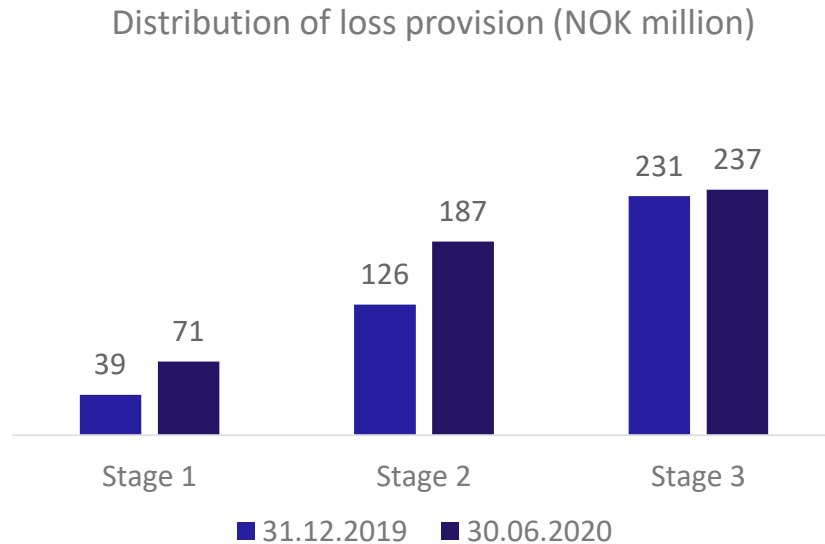


Development in loss provisions in NOK million and as a percentage of gross loans<sub>1)</sub>



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.

# Loss provision affected by COVID-19

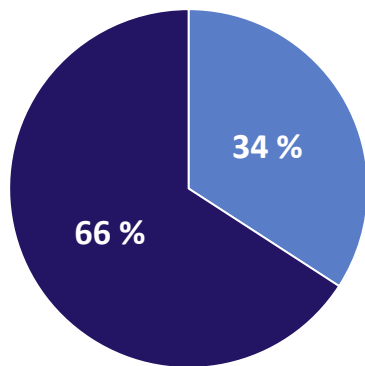


- Macro variables in the IFRS9 model are adjusted
- The effect of the crisis on model-calculated provisions amounts to approximately NOK 107 million
- Still low levels of defaults, bankruptcies and realised losses
- Override of NOK 75 million in Q1 was reversed in Q2

# A diversified loan portfolio

## RM/CM distribution

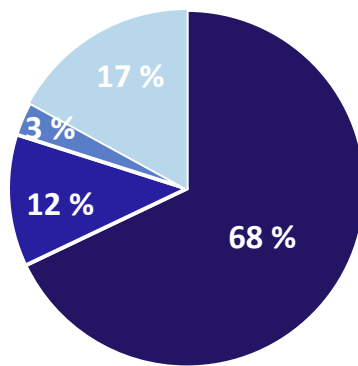
Gross loans



■ CM ■ RM

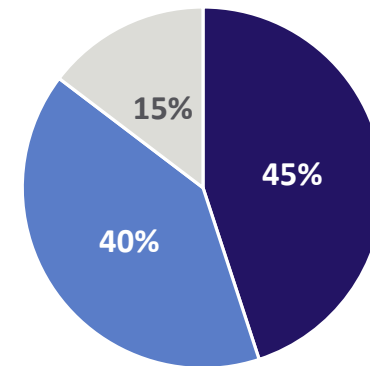
## Geographical distributions of loans

Gross loans



■ Agder ■ Vestfold og Telemark ■ Rogaland ■ Other

## Loan-to-Value (Group)



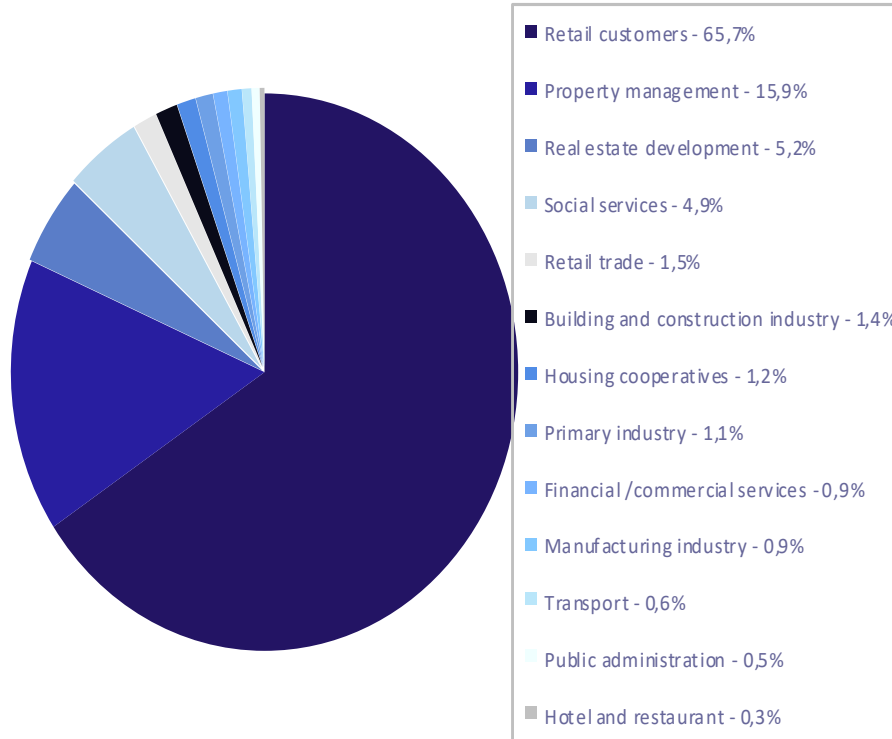
■ < 60 % ■ 60-75 % ■ > 75 %

Average loan-to-value of approximately 58 percent for mortgages (group).

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

NOK 46 billion transferred to Sparebanken Sør Boligkreditt AS, equivalent to 63 percent of total loans to retail market.

# Well-diversified loan portfolio

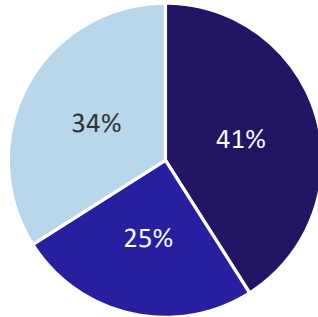


- Well diversified portfolio
- Close to none direct exposure to oil and oil service
- Very low indirect exposure to oil and oil service (tenants)

# Sparebanken Sør Boligkreditt

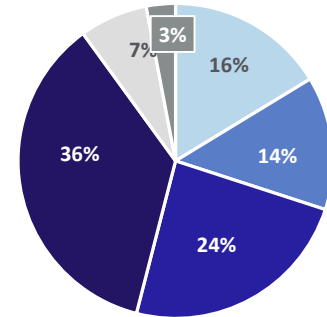
- Wholly owned by Sparebanken Sør

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%



Status Q2 20

Decrease in house prices by 30 %

■ Weighted avg LTV ■ Nominal OC



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# Summary after Q2 2020

## Results

Positive results from finance, good profit contributions from Frende, Brage and Sørmeglere, as well as low operating costs. Negative non-recurring effects related to premature interest rate cuts on loans, and increased model-based loss provisions.

## Funding and capital

Common equity tier 1 capital ratio of 15.7 percent and solid leverage ratio of 9.1 percent.  
Solid financing structure and good liquidity buffers.

## Growth

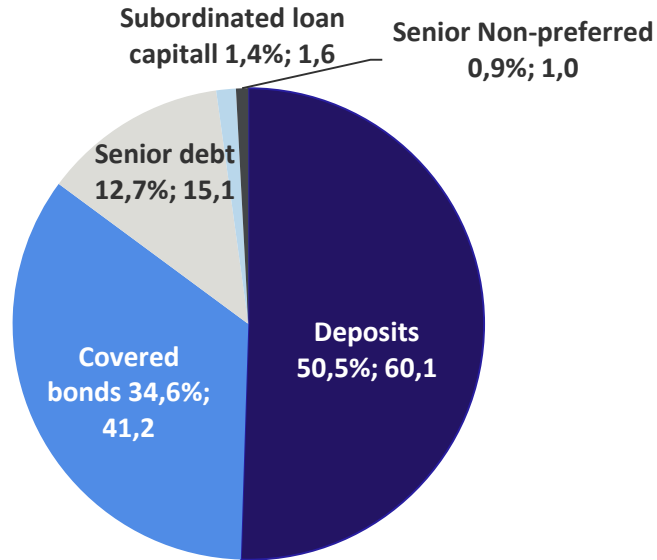
12 months lending growth of NOK 4.1 billion, corresponding to 3.9 percent.  
Annualised lending growth in the quarter of 5.2 percent in the quarter.  
12 months Deposit growth of NOK 1.1 billion, corresponding to 0.2 percent.  
Annualised deposit growth of 15.9 percent in the quarter.

## Summary

Satisfactory underlying operations give a profit before tax of NOK 367 million in Q2 2020.

# Funding status

# Funding structure



Deposits are a valuable source of funding.

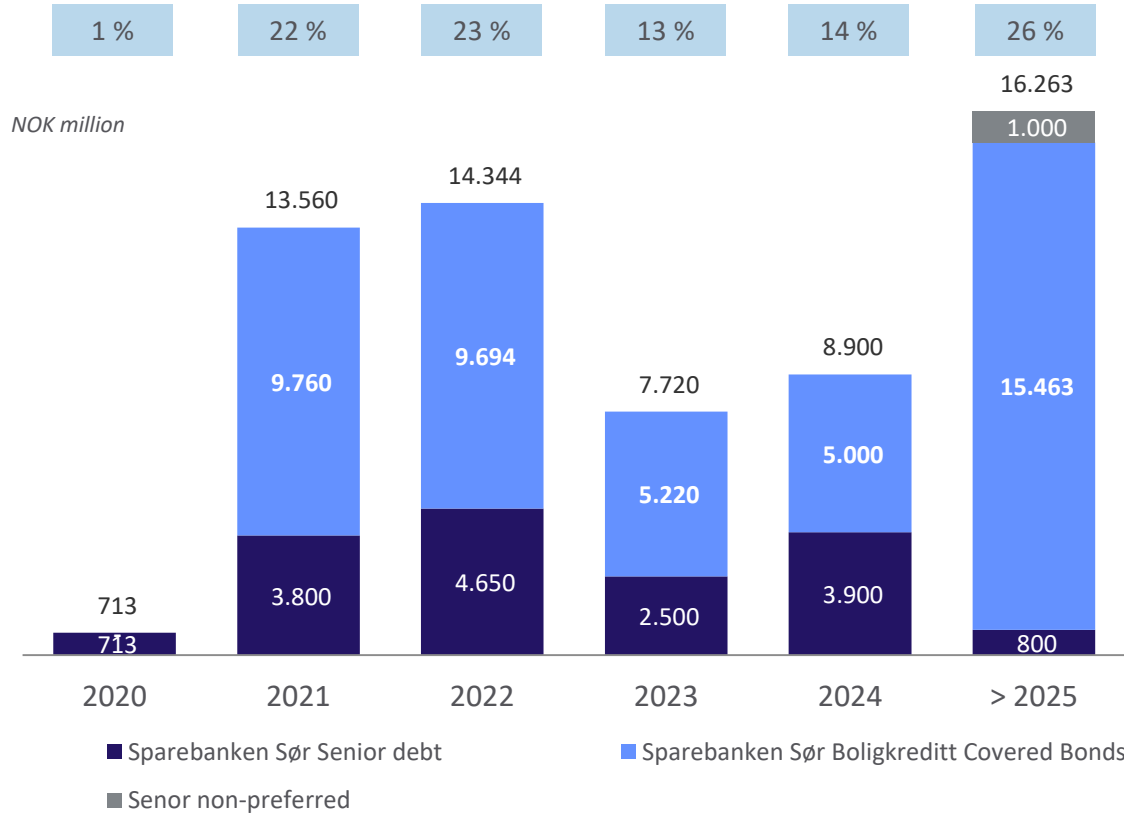
- Deposits in percent of net loans at 55.1 percent
- Deposit to loan ratio was lower, due to reduction in larger corporate deposits. Positive development in stable retail and SME deposits.
- Good access to funding from both the domestic as well as from the bond market abroad.
- At the end of Q1 Sparebanken Sør Boligkreditt had issued EUR 2.5 bln. in euro covered bonds.
- Sparebanken Sør has a A1 rating
- Bonds issued by Sparebanken Sør Boligkreditt AS, are rated Aaa
- In Q2, the covered bond company issued covered bonds of NOK 5 Bln, half of it has been purchased by the parent bank. The bonds are used as collateral for extraordinary F-loans.



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# Funding maturity

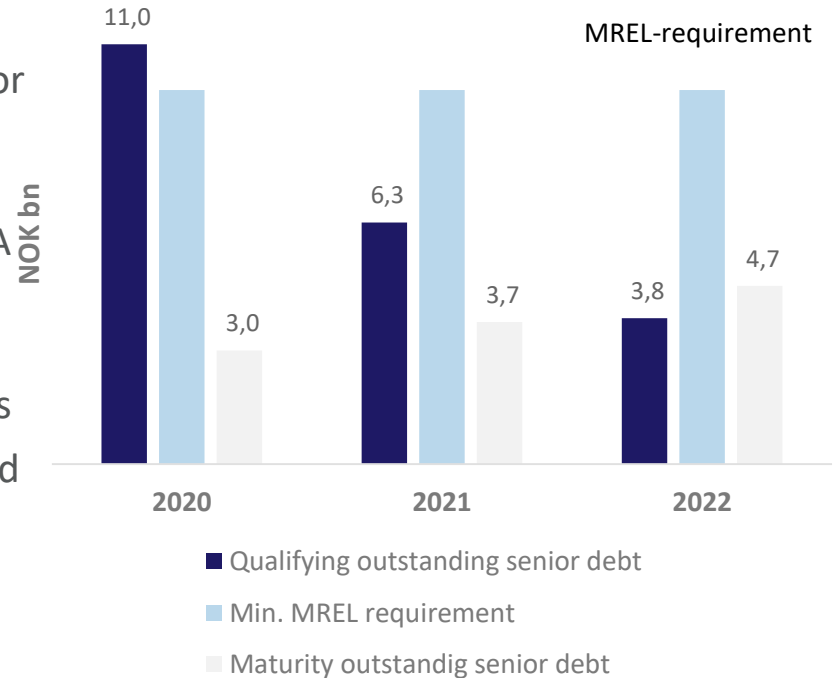


- The Group's total funding amounted to NOK 57.3 Bln
- Covered bonds amounted to NOK 48.7 Bln, of which the parent bank owns 7.5 billion
- Long-term funding\* amounted to 84 percent
- Average remaining maturity on long-term funding\* amounted to 3.3 years

\* Long-term funding: maturity > 1 year

# MREL requirement

- First Norwegian bank with successful issuance of senior non-preferred debt
- MREL requirements of minimum 32% of adjusted RWA for Sparebanken Sør.
- Senior debt issued before January 2020 can be used as Senior Non-Preferred debt (Tier 3 Capital) until the end of 2022
- Requirement for Non-Preferred debt of NOK 9,755 million in 2020



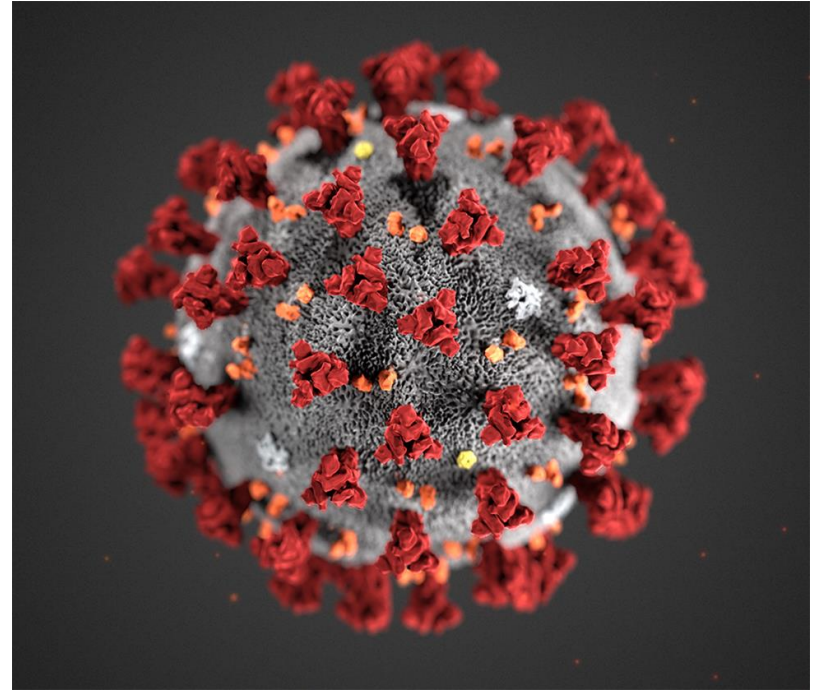
# Capital

# Postponed dividends

Norwegian authorities have expressed an expectation that financial institutions postponed the distribution of dividends due to the Covid-19 situation.

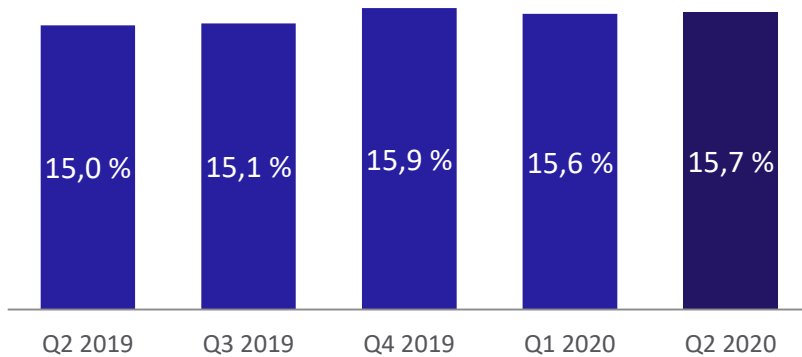
The Board of Directors has decided:

- Dividends are postponed
- NOK 60 mill allocated to gifts
- Decision on dividends is postponed until Autumn 2020

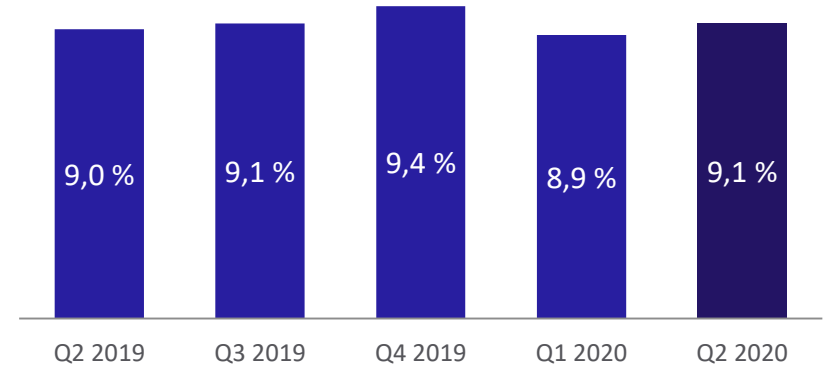


# Capital adequacy

## Common equity tier 1 capital ratio

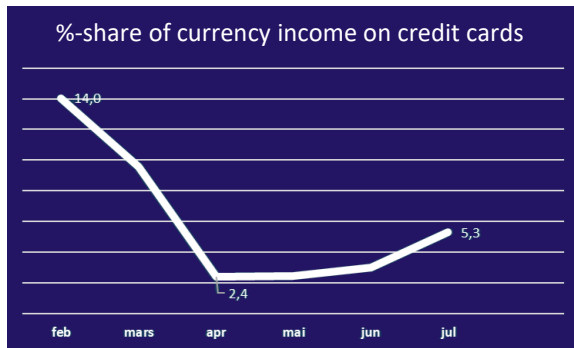


## Leverage ratio



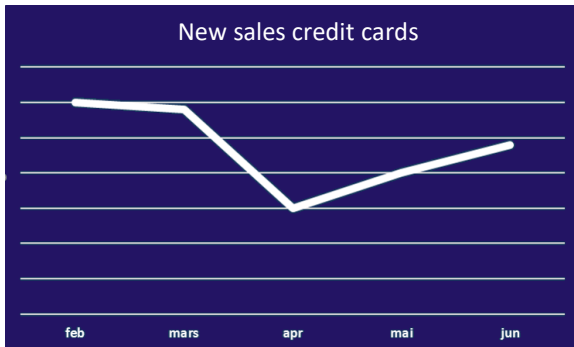
- Reduced requirement for countercyclical capital buffer from 2.5 to 1 percent.
- Well above the current capital requirement (CET1) of 13 percent.
- The SME- discount resulted in a reduced basis for calculations, amounted to NOK 1.9 billion and resulted in an improvement of 0.4 percentage points in CET1.

# Change in customer behavior

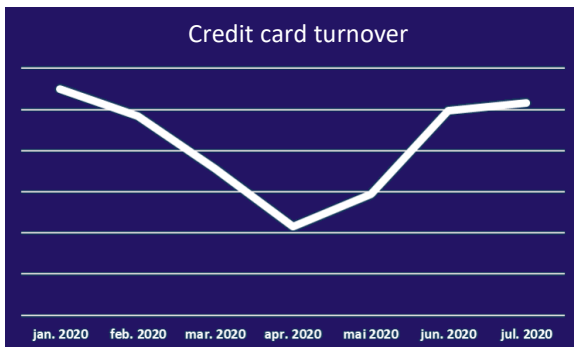


# Covid-19 effects in the card area

The share of currency trading on credit cards decreases as a result of restrictions from 14% to 2.5%. Weak positive development

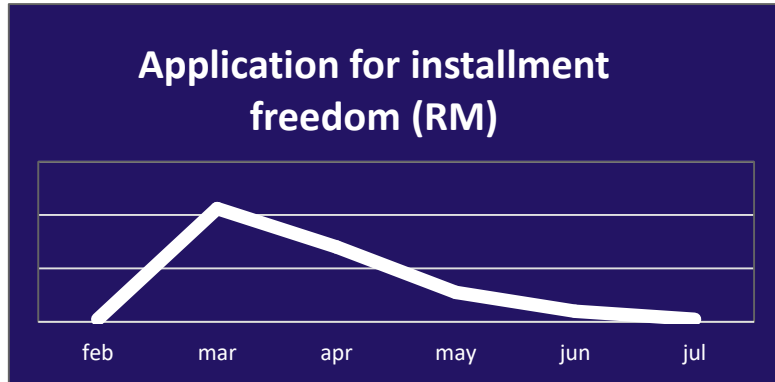


New sales credit cards reduced by 50 percent, but soon back to previous levels

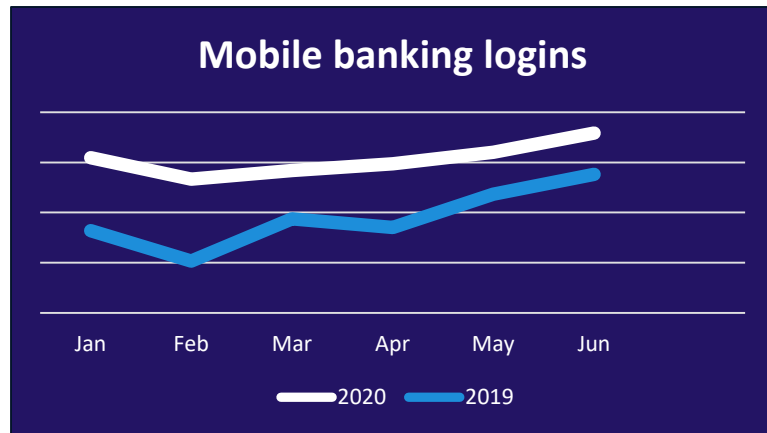


Credit card turnover fell by 30%, but has picked up again.

# Increased digital interaction with customers



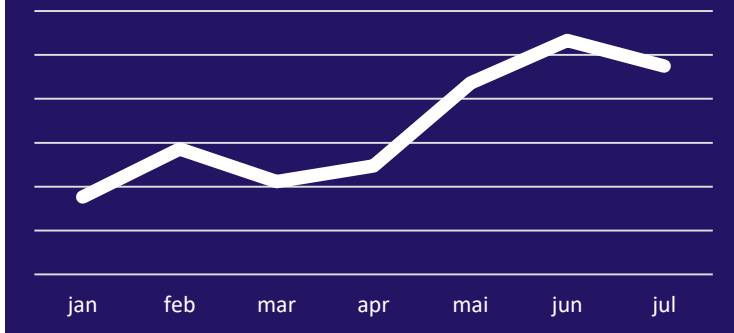
In-house developed digital trail to meet requests for installment freedom. Strongly declining inquiries after April.



Use of the mobile bank increases steadily with almost 2.3 million logins in June. This is a + 12% increase compared to the same period in 2019.



### Digitalt salg av bil- og båtlån



## Increased digital sales

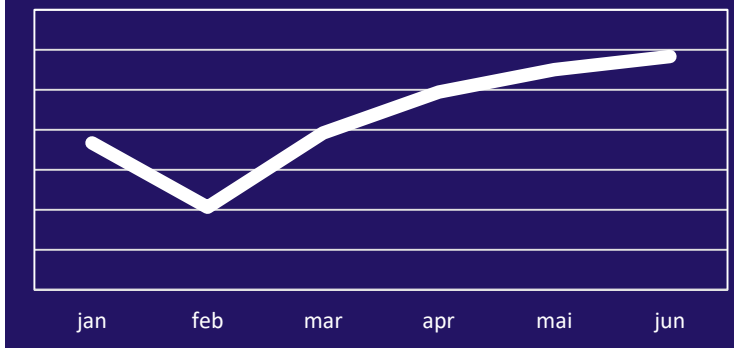
Car and boat loans + 168% first half year compared to the same period last year

The number of savings agreement by customers, increased by 13.7 percent in the first half of 2020.

The average saving agreement amount per customer, increased by 25% in the first half of 2020.

High share of digital sales - 90%

### Sparing i verdipapirfonds



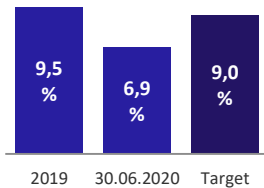
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# Goals and expectations ahead

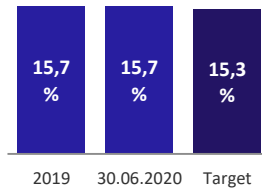


# Financial key variables and ambitions

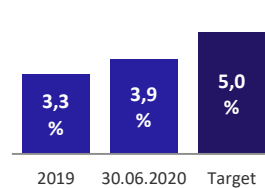
Return on equity



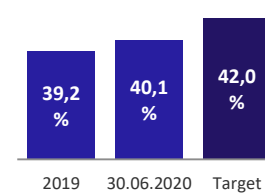
CET1 (Group)



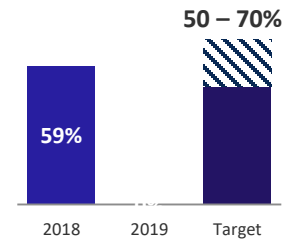
Loan growth<sup>1)</sup>



Cost development  
excl. finance



Dividend ratio



1) The group has a long-term ambition of lending growth in excess of credit growth (Q2). Q2 June 2020 was 4.4 for retail customers and 3.5 for non-financial corporations. The group's lending growth in the last quarter was 6.5 for retail customers and 4.4 for corporate customers.

# Outlook

## Macro

Extensive measures have been implemented by the authorities, both internationally and nationally, to prevent the spread of infection. This has had a negative effect on the economy in Norway and our trading partners. The Government's monetary policy instruments appear to have a good effect, and the situation in the financial markets has improved in Q2. The uncertainty in both the international and Norwegian economies remains significant.

## The region

The economic outlook for the bank's market area is considered uncertain for the rest of Norway. House prices in the bank's main markets have had a positive but moderate development over several years. The statistics for the second quarter showed a positive growth in house prices, but there is considerable uncertainty regarding future developments.

## Funding and capital

Common equity tier 1 capital ratio of 15.7 percent and a solid leverage ratio of 9.1 percent. The Bank is well positioned to establish long-term funding from the Norwegian and international financial markets.

## Digital adjustment

Investment in digitalisation and new technological solutions has given the bank a good ability to handle crises such as COVID-19, and gives the bank good opportunities to continue to improve customer experiences, market position and cost efficiency.

## Sustainability

Sustainability is a focus area for the bank and ESG is integrated in our business strategy.

## Summary

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

# Appendix



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# Equity certificate owners

20 largest equity certificate owners as of 30 June 2020

	Name	Number of ECs	Share of Ecs %		Name	Number of ECs	Share of Ecs %
1	Sparebankstiftelsen Sparebanken Sør	7.988.679	51,00	11	Carl Krogh Arnet	100.000	0,64
2	EIKA utbytte VPF c/o Eika kapitalforv.	708.151	4,52	12	Ottersland AS	100.000	0,64
3	Arendal Kom. pensjonskasse	450.000	2,87	13	MP Pensjon PK	85.523	0,55
4	Pareto Invest AS	417.309	2,66	14	Artel AS	82.131	0,52
5	Glastad Capital AS	300.000	1,92	15	Apriori Holding AS	72.575	0,46
6	Hamjern Invest AS	279.388	1,78	16	Park Invest AS	72.000	0,46
7	Wenaasgruppen AS	186.000	1,19	17	Varodd AS	70.520	0,45
8	Gumpen Bileiendom AS	174.209	1,11	18	Birkenes Sparebank	66.000	0,42
9	Allumgården AS	151.092	0,96	19	K.T. Brøvig Invest AS	65.639	0,42
10	Catilina Invest AS	114.558	0,73	20	Pico AS	64536	0,41
	<b>Total 10 largest owners</b>	<b>10.769.386</b>	<b>68,75</b>		<b>Total 20 largest owners</b>	<b>11.548.310</b>	<b>73,73</b>

- As of 30 June 2020, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC amounted to NOK 2.9 in Q2 2020 and 4.5 YTD
- The ownership ratio at the end of Q4 2019 was 17.2 percent

# SOR – share price and liquidity

## Change in share price at. 30.06.2020

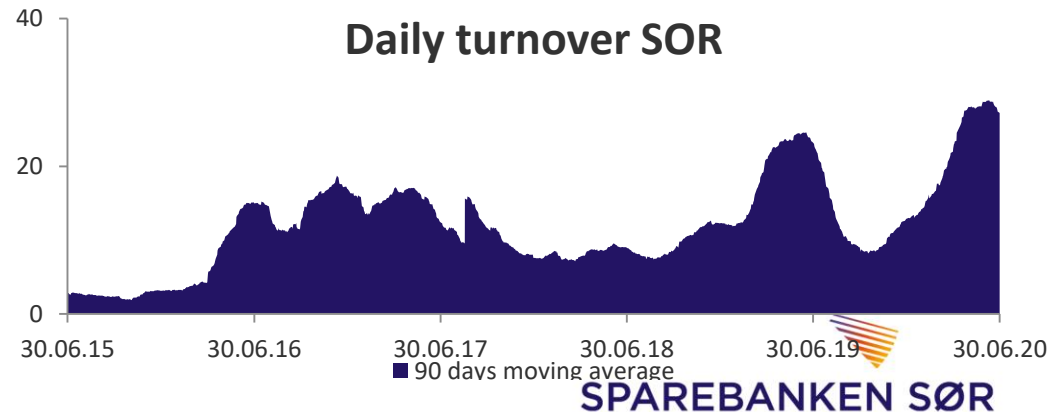
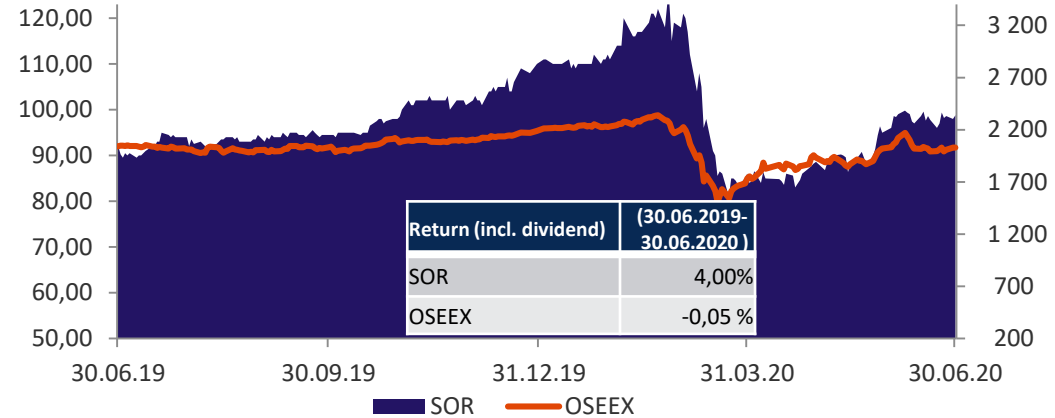
- The share price for SOR was NOK 98.8 and book value was NOK 133.3, amounting to a price-to-book ratio of 0.7.
- The equity certificates gave a return of 4.00% last 12 months
- Profit per equity certificates of NOK 4.5, which represents a P/E of 11.0

## Liquidity

- Turnover of 1.8 mill. equity certificates last 12 months.
- 15 663 944 total issued, and an EQ rate of 17.3%.

## Dividend

- 50-70% percent of equity certificate holders` share of annual profits
- Sparebanken Sør`s capital requirements will be taken into consideration when determining the annual dividend.
- The equity certificate yielded a direct return of 6.2 percent in 2018 (5.8 percent in 2017).
- The dividend decision for 2019 is postponed to autumn 2020 as a result of COVID-19.



# The bank continues to give gifts even in a difficult time

- 60 million has been set aside for gifts in 2020
- We prioritize children and young people
- Gifts are given to culture, competence, sports, society, associations and organizations in our local community



**Sparebanken Sør**  
2 355 følgere  
3md. • Redigert •

Personlig økonomi er en del av det å mestre livet. **Ungt Entreprenørskap Norge** setter viktige temaer som dette på timeplanen, og vi er med på laget. 10 000 skoleelever har hatt opplæring i personlig økonomi, blant annet av **Kenneth Sjøvåg** fra Sparebanken Sør.

Å kunne bidra til å øke kunnskapen om personlig økonomi blant de unge er et arbeid vi syntes er svært givende.  
Les mer om prosjektet her: <https://lnkd.in/gEHTMD>

#undervisning #skaperglede #fremtid

**UNGT ENTREPRENØRSKAP**

Det er svært viktig for utviklingen av landsdelen at vi har aktive næringsforeninger som støtter og løfter op næringslivet. Ikke minst gjelder det i tider hv ... se m

**NÆRINGSFORENING**  
Arendal Hand

25  
Lik  
Kommenter

Videovisninger 717



**Sparebanken Sør**  
2 355 følgere  
2md. •

Digitalt kompetanseløft i landsdelen!

Næringsforeningen i Kristiansandsregionen har sammen med University of Agder (UIA) utviklet et skreddersydd kurs som skal løfte den digitale kompetansen i landsdelen. Nå er to av fire moduler i kurset "Ledelse i en digital tid" gjennomført – og tilbakemeldingene fra næringslivet er svært gode.

#samarbeid #næringsliv #digital

2  
Lik  
Kommenter

Videovisninger 717



**Sparebanken Sør**  
Publisert av Ingvil Oda Kjørholt  
29. juni •

Vi heier på idrettsgleden og har delt ut stipend til 10 unge talenter!

Se hvem som vant vårt idrettstipend 2020: <https://www.sor.no/blogg/forfattere/ingvil-oda-kjorholt/idrettstipend-2020/>

141  
2 kommentarer 15 delinger

Liker  
Kommenter  
Del



# Focus on climate

- Sparebanken Sør is Eco-Lighthouse certified according to the head office model based on the new industry criteria for banking and finance
- We have established document Policy Climate and environment
- We prioritize sustainability goal 13, Stop climate changes
- We reduce annual climate emissions from our own operations
- We are climate neutral
- We set strict requirements for our procurement and suppliers in relation to climate and certification through the Procurement Policy



# Sustainability and social responsibility

UN Sustainable Development Goals



UN Global Compact



UN Environment Programme – Finance Initiative



Green House Gas protocol and Corporate Accounting and reporting standard



Roadmap for green competitiveness in the financial sector



Principles for Responsible Investments



Local Responsible and Sustainable Investments



# Focus on sustainability

## Green mortgages and bonds



## Climate neutral



## GRI Standard

