



Sparebanken Sør

Investor presentation Q3 2020

Agenda

- **About Sparebanken Sør**
- **Highlights from the quarterly report**
- **Funding status**
- **Capital**
- **Digital development**
- **Goals and expectations going ahead**

Sparebanken Sør - a leading financial institution in Southern Norway



Established in 1824,
550 employees



178 000 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 146 bn
- YTD profit after tax amounted to NOK 756 million after Q3 in 2020
- Cost/income ratio of 39.1 percent.



COVID-19 effects in 2020

Banking operations

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

Income

- Changes in interest rates leadsb to pressure on net interest income
- Lower currency exchange income due to travel restrictions
- Negative development in the bank's liquidity portfolio

Expenses

- No significant direct effects
- Good cost control

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

- Total assets has increased significantly as a result of received collateral
- 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

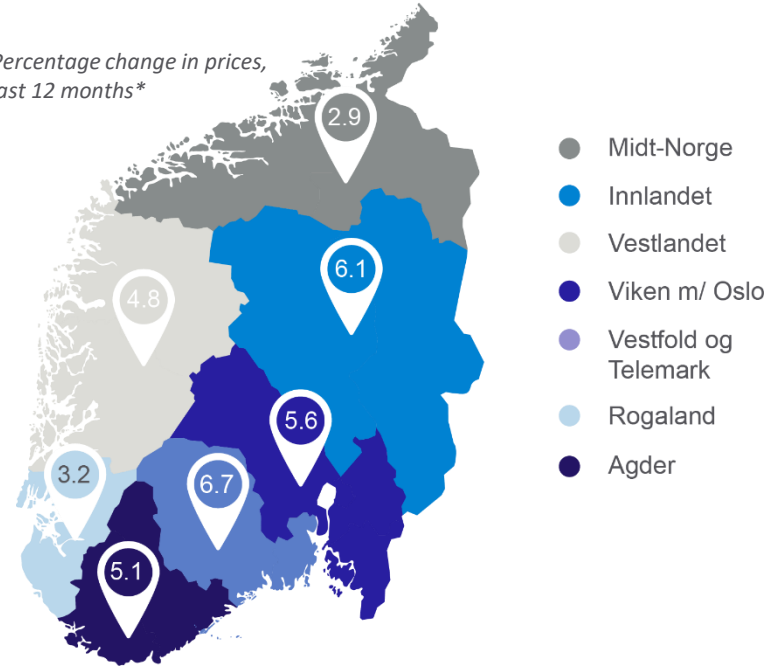
Percentage market share



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

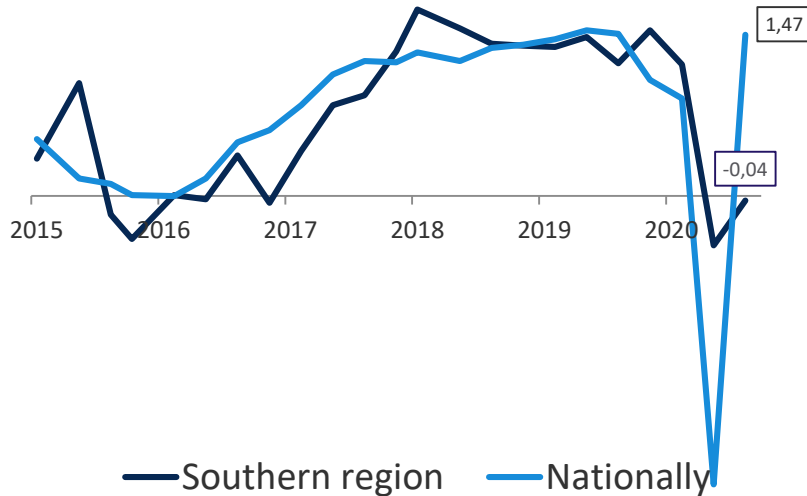


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Positive development in production and investment in the quarter

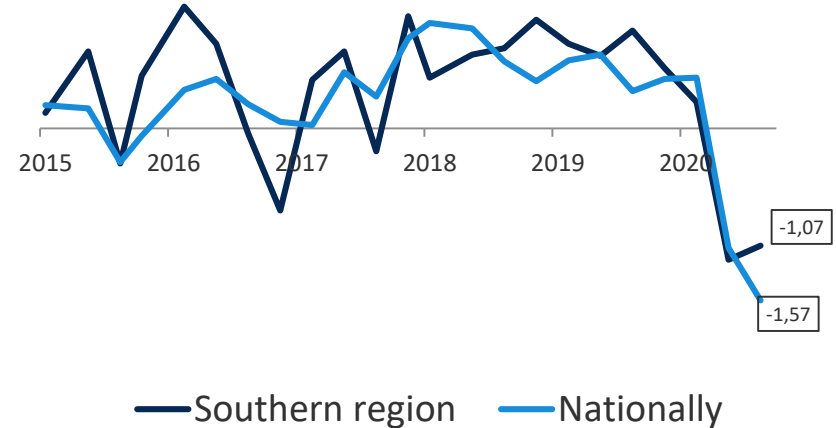
Growth in production

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

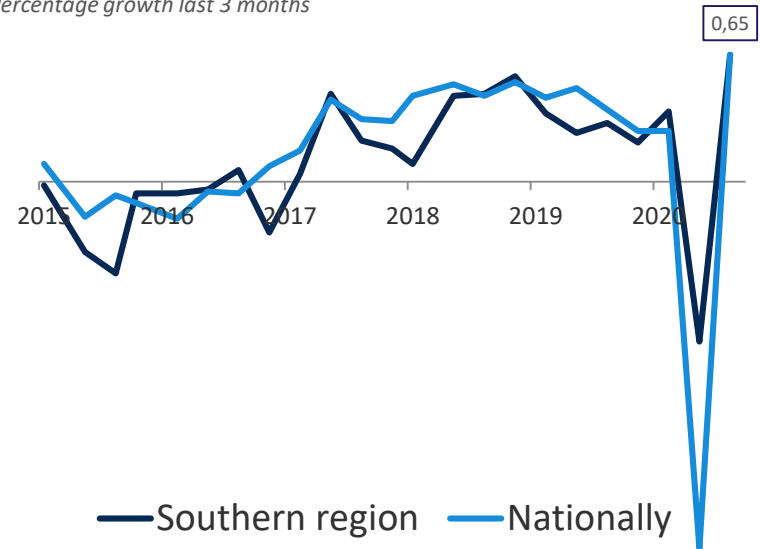
Unemployment

Percentage change last 12 months



Development in employment

Percentage growth last 3 months

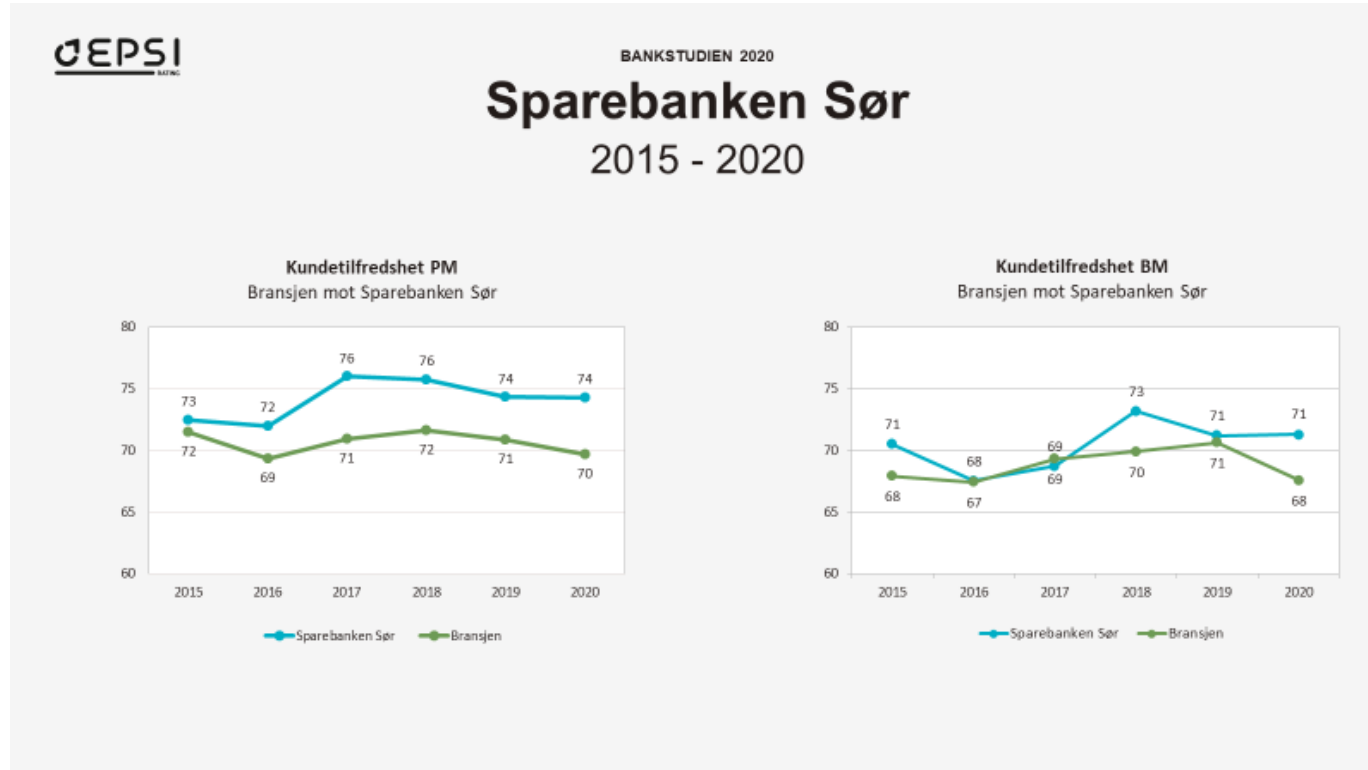


The index ranges from -5 to +5, where -5 indicates a large fall and +5 indicates strong growth. The index are compiled quarterly by Norges Bank through a regional network and show the development in the Southern region, which consists of Agder, Telemark and Vestfold.



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Customer satisfaction significantly higher than the industry average



Priority areas within sustainability

✓ ESG in credit processes in CM

✓ Green products

✓ TCFD reporting



Integrates own ESG module in the bank's lending system.
Maps climate emissions in the lending portfolio's real estate collateral.

Establishes a framework for green loans and green products.
Issues green bonds.

A framework for TCFD reporting with an approach to EU taxonomy is in development.



Highlights from the quarterly report



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Highlights in Q3 2020

- Good result from ordinary operations
- Efficient operations and low costs
- Very good results from Frende and Brage
- Solid result from Sørmeqleren
- Very low loan losses
- Return on equity after tax of 9.6 percent
- Annualised growth in lending of 5.5 percent (RM 5.6 and CM 5.3)
- Annualised growth in deposits of 2.9 percent
- Common equity tier 1 capital ratio of 15.7 percent and Leverage Ratio of 8.8 percent

NOK million	2020 Q3	2019 Q3	Change
Net interest income	472	499	-27
Net commission income	91	93	-2
Net income from financial instruments	14	31	-17
Associated companies	40	16	24
Other operating income	-1	1	-2
Total income	617	640	-23
Total expenses	226	226	0
Profit before losses on loans	391	414	-23
Losses on loans, guarantees	6	-19	25
Profit before tax	384	433	-49
Tax expense	80	102	-22
Profit for the period	304	331	-27

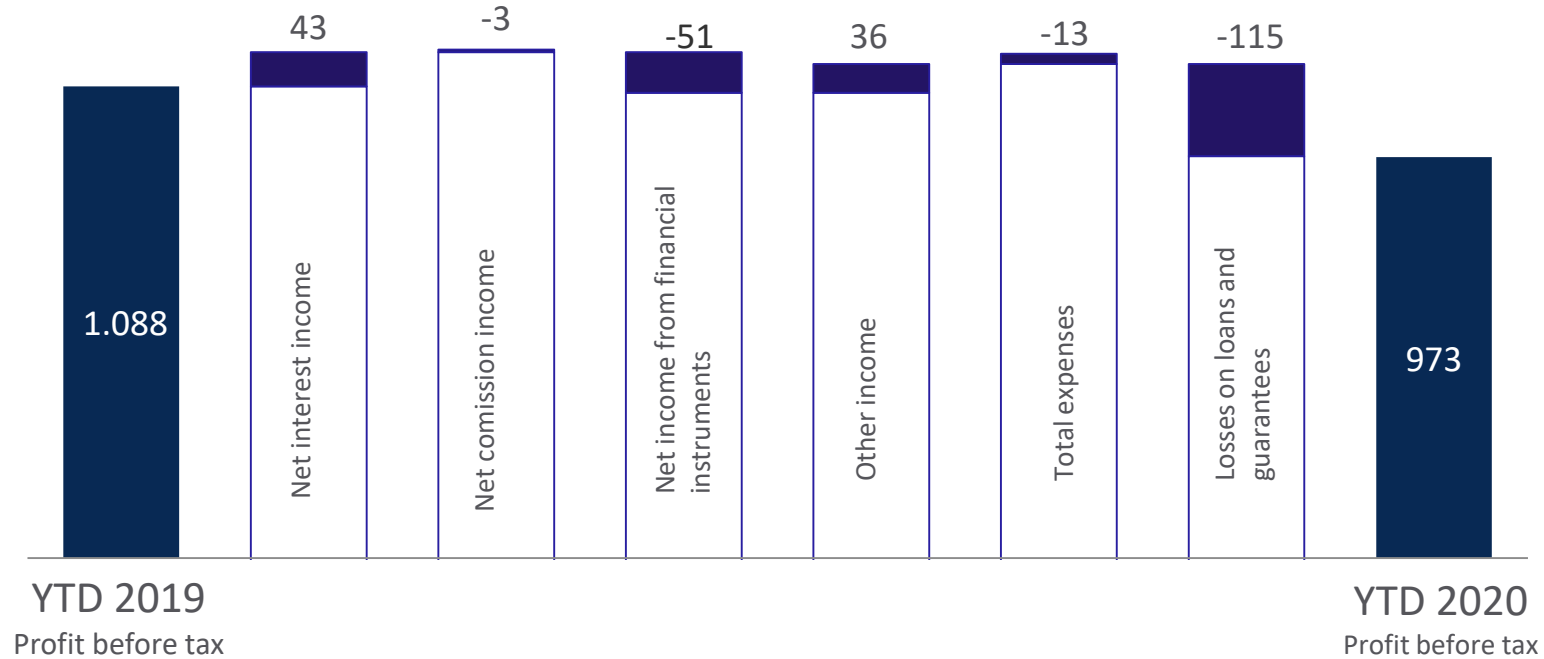
Highlights after 9 months

- Good result from ordinary operations
- Efficient operations and low costs
- Positive development in net interest income
- Good results from Frende, Brage and Sørmeqleren
- Increased model based losses on loans as a result of the Covid-19 pandemic
- 12-month lending growth of 4.6 percent
- 12-month deposit growth of 2.7 percent
- Return on equity after tax of 7.8 percent

NOK million	30.09.2020	30.09.2019	Change
Net interest income	1446	1403	43
Net commission income	250	253	-3
Net income from financial instruments	4	55	--51
Associated companies	79	43	36
Other operating income	5	5	0
Total income	1.785	1.759	26
Total expenses	698	685	13
Profit before losses on loans	1.087	1.074	13
Losses on loans, guarantees	114	-14	128
Profit before tax	973	1.088	-115
Tax expense	217	256	-39
Profit for the period	755	832	-77

Development in profit before tax

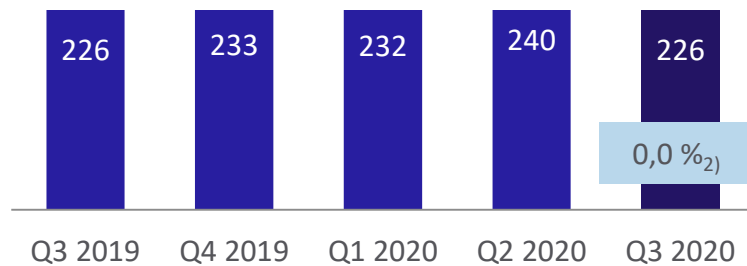
NOK million



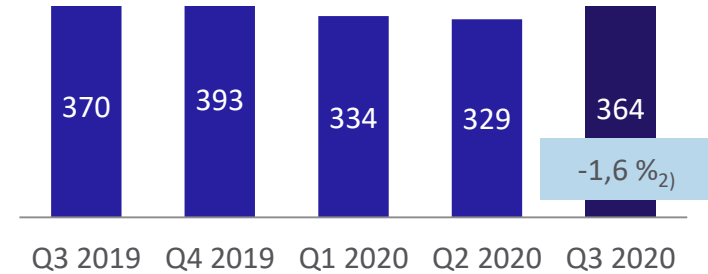
Profit and returns

NOK millions

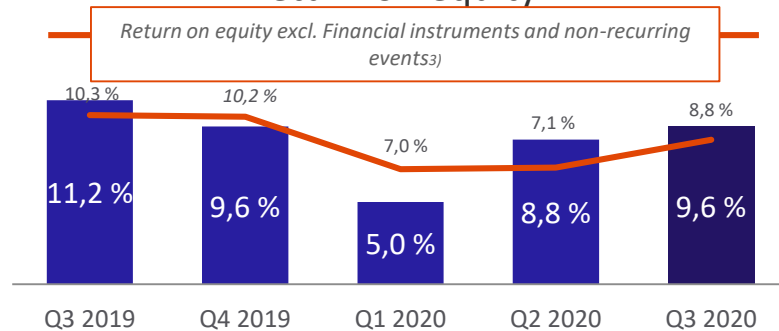
Operating expenses



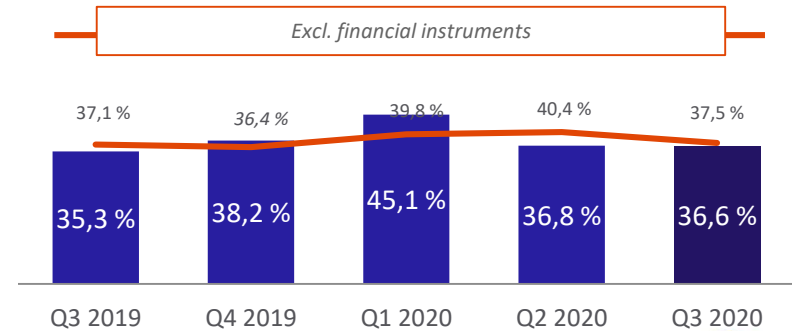
Profit from ordinary operations¹⁾



Return on equity



Cost to income ratio

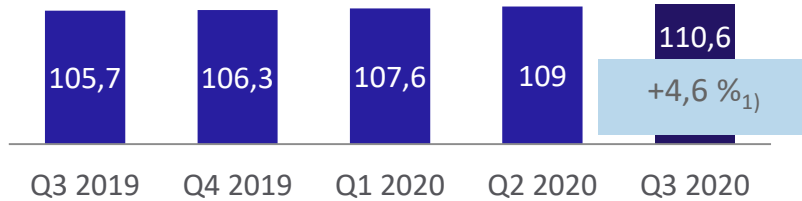


- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating expenses
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments and interest on hybrid capital.

Good growth in the quarter

NOK billion

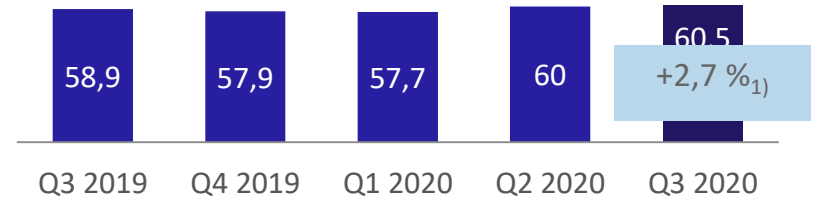
Net loans



- 12-month growth of 4.6%, of which retail customers 4.2% and corporate customers 5.7%
- Annualized growth in the quarter of 5.6% for retail customers and 5.3% for corporate customers

1) Changes from the corresponding prior-year period

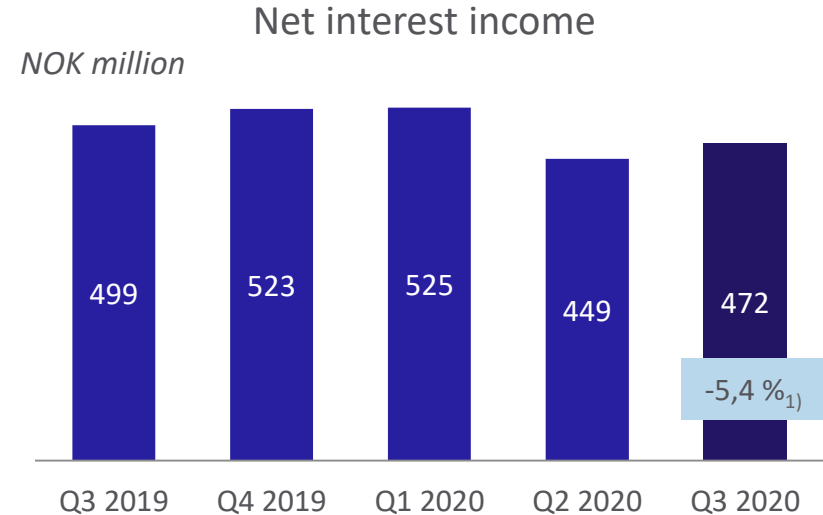
Deposits



- 12-month growth of 2.7%, of which retail customers 6.5% and corporate customers -0.4%
- Change in the deposit composition
- Growth in deposits from corporate customers excl. capital market deposits of 8.3%

Development of net interest income

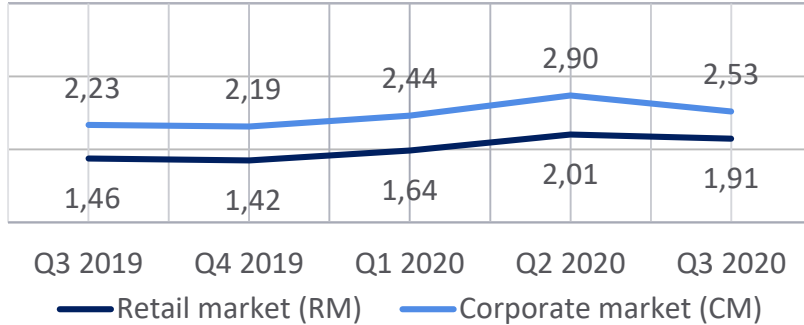
- Negative development in net interest income
- Shortened notice period reduced net interest income by approx. NOK 56 million in Q2.
- The interest margin (lending rate minus deposit rate) has decreased in Q3 2020.
- Strong competitive pressure on lending rates, especially in the retail market



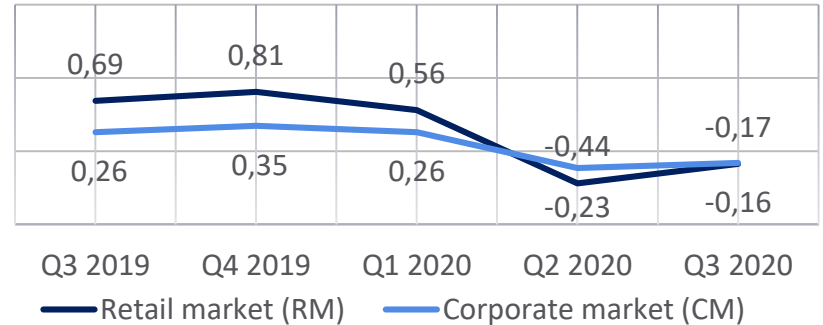
1) Changes from the corresponding prior-year period

Interest margin and NIBOR3M

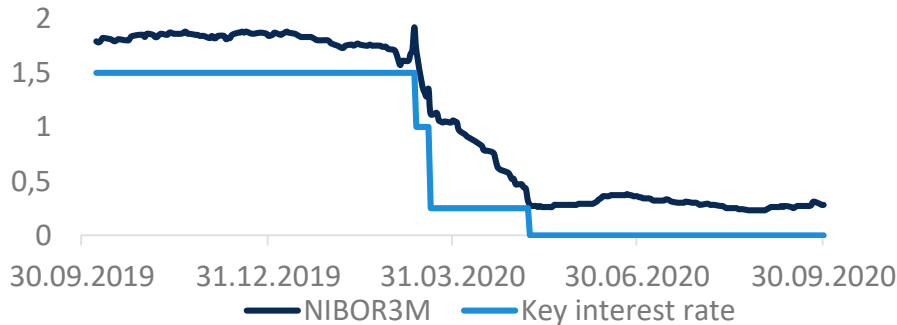
Loan margins(%)



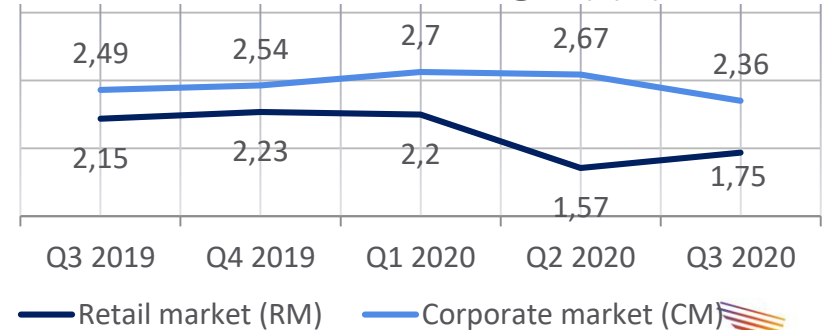
Deposit margins (%)



NIBOR3M



Interest margin1) (%)



Associated companies

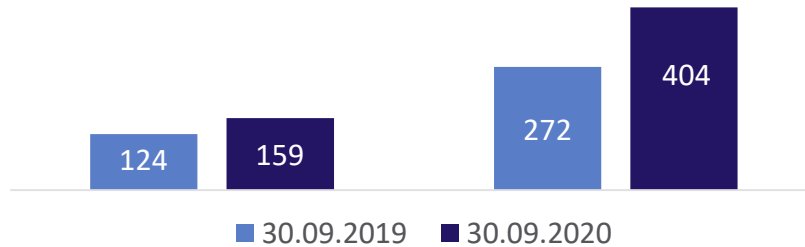


Profit before tax

NOK million

Brage Finans AS

Frende Holding AS



Effect on results after consolidation

NOK million		Q3 2020	Q3 2019	30.09.2020	30.09.2019
Frende forsikring* (21,0 %)	Res.andel	36,5	14,5	63,8	39,1
	Amort.	-5,4	-5,0	-15,4	-15
Brage finans (20,8 %)	Res.andel	9,3	6,8	22,9	19,2

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.

Very good profit contribution from Sørmeglere

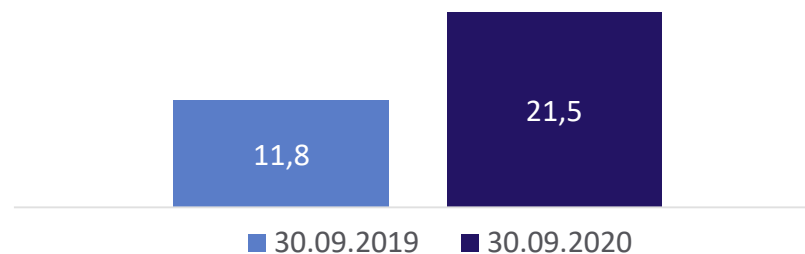
- The leading real estate agency in Southern Norway
- Brokers more than a third of housing in Southern Norway
- Strengthens position in Vestfold and Telemark with new offices in Kragerø and Sandefjord
- Investment in commercial property brokerage



SØRMEGLEREN

Profit before tax

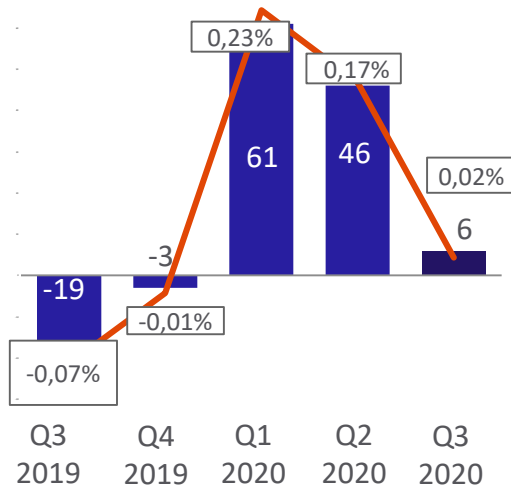
NOK million



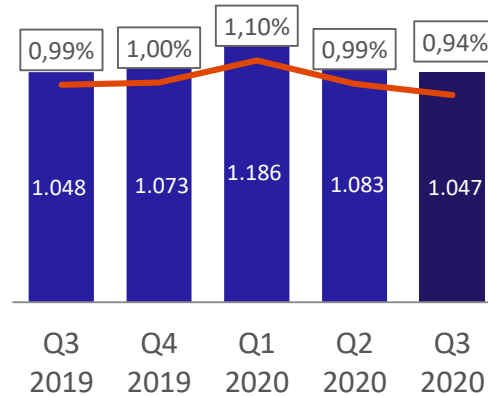
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Non-performing loans

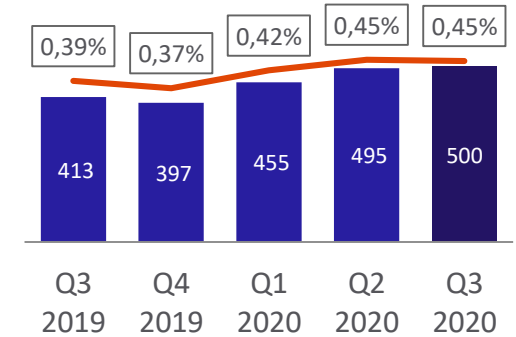
Development in losses in NOK million and as a percentage of gross loans (annualised)



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



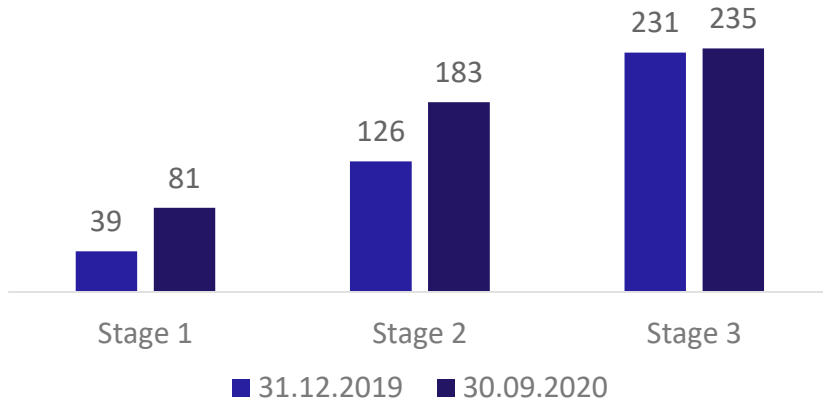
Development in loss provisions in NOK million and as a percentage of gross loans₁₎



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

Distribution of loss provision
(NOK million)

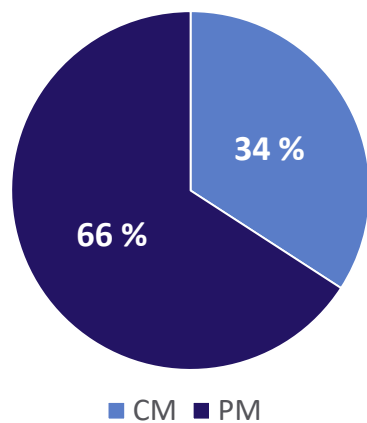


- Macro variables in the IFRS9 model have been adjusted*
- The effect of the crisis on model-calculated provisions amounts to approximately NOK 111 million
- Still low levels of defaults, bankruptcies and realised losses

A diversified loan portfolio

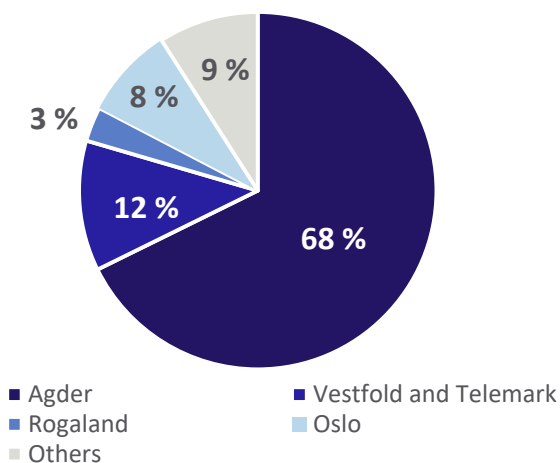
RM/CM distribution

Gross loans

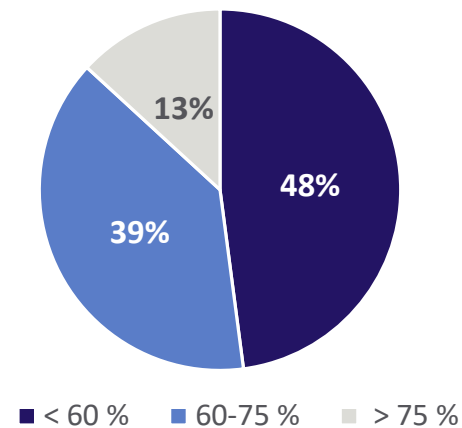


Geographical distributions of loans

Gross loans



Loan-to-Value (Group)

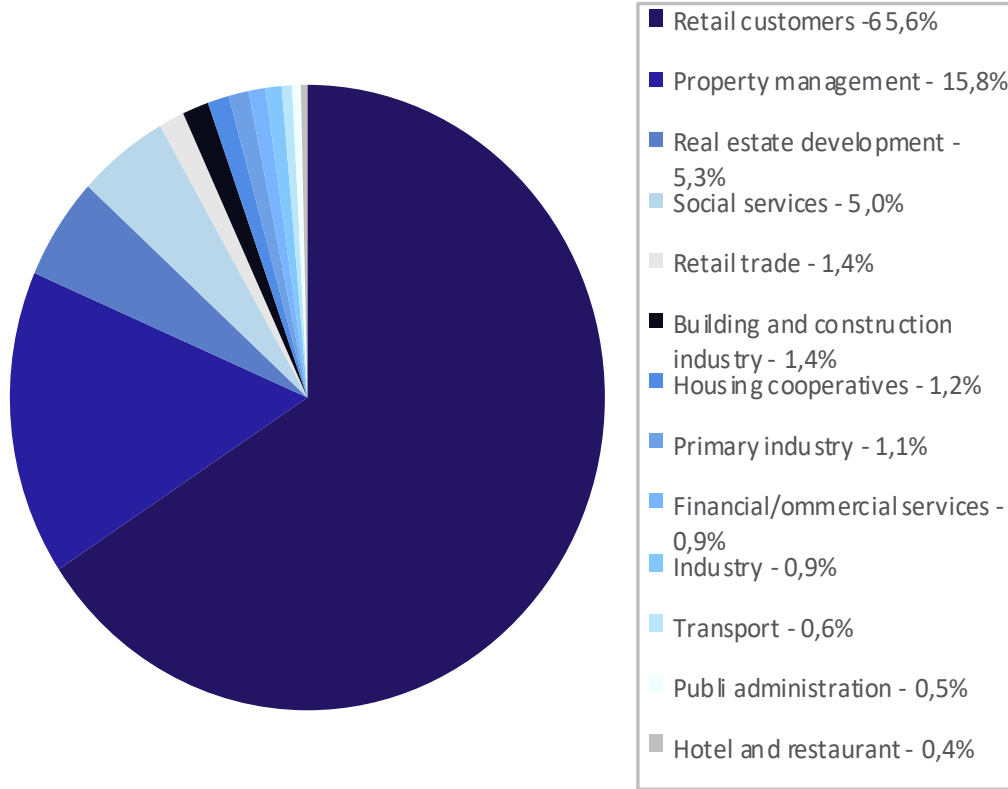


Average loan-to-value of approximately 57 percent for mortgages (group).

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

NOK 44,5 billion transferred to Sparebanken Sør Boligkreditt AS, equivalent to 60 percent of total loans to retail market.

Well-diversified loan portfolio

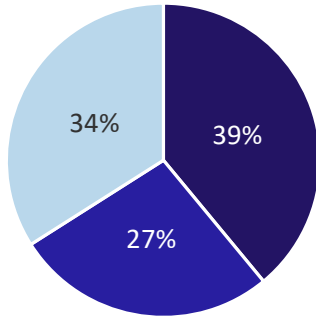


- Well diversified portfolio
- Close to none direct exposure to oil and oil service
- Very low indirect exposure to oil and oil service (tenants)

Sparebanken Sør Boligkreditt

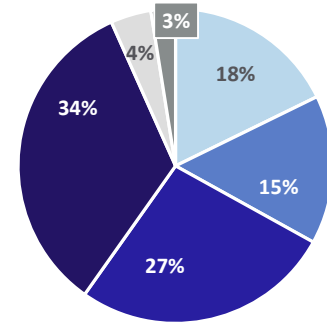
- Wholly owned by Sparebanken Sør

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 Q3 20

Decrease in house prices by 30 %

■ Weighted avg LTV ■ Nominal OC



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Summary after Q3 2020

Results

Pressure on net interest income, very good profit contributions from Frende, Brage and Sørmeglere. Low operating costs and low loan losses.

Funding and capital

Common equity tier 1 capital ratio of 15.7 percent and solid leverage ratio of 8.8 percent.
Solid financing structure and good liquidity buffers.

Growth

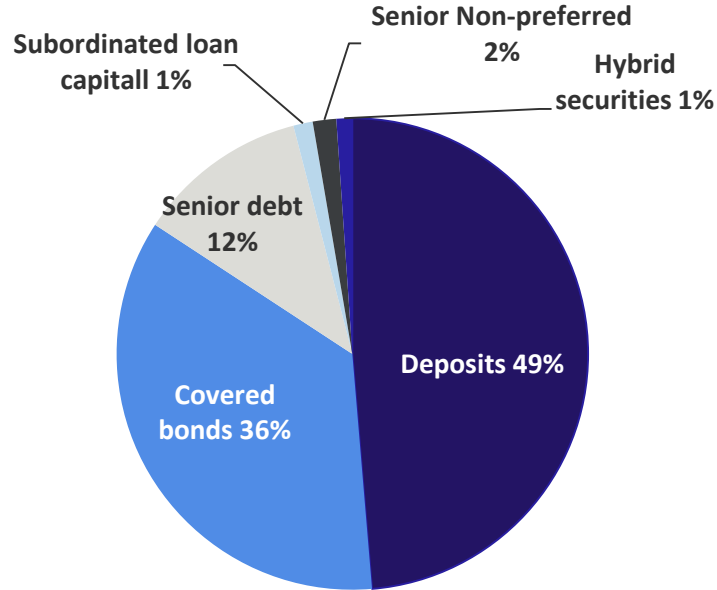
Annualised growth in lending of 5.5 percent (RM 5.6 and CM 5.3)
Annualised growth in deposits of 2.9 percent

Summary

Satisfactory underlying operations give a profit before tax of NOK 384 million in Q3 2020.

Funding status

Funding structure

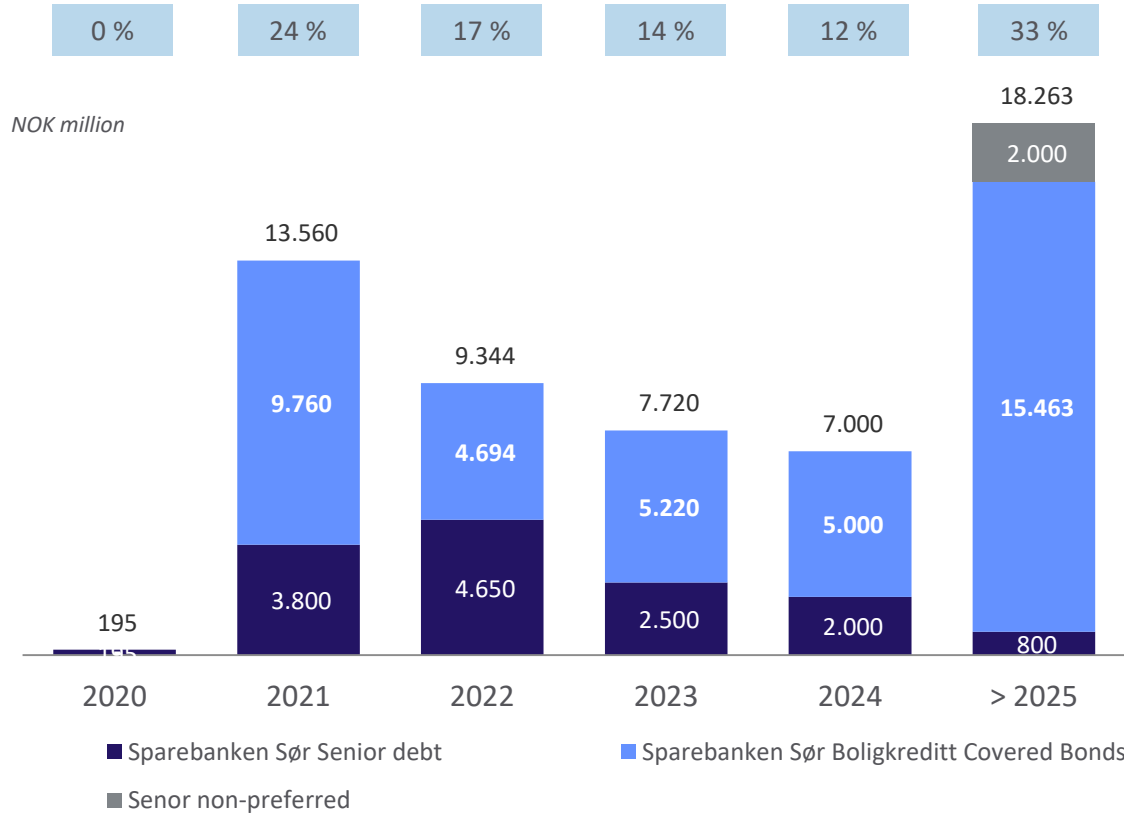


Deposits are a valuable source of funding.

- Deposits as a percentage of net loans at 54.5%
- The decrease in deposit to loan ratio is caused by a reduction in large corporate deposits. There has been a positive development in deposits from retail customers and small and medium sized enterprises.
- Good access to funding from both the domestic as well as from the bond market abroad.
- At the end of Q3 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



Funding maturity

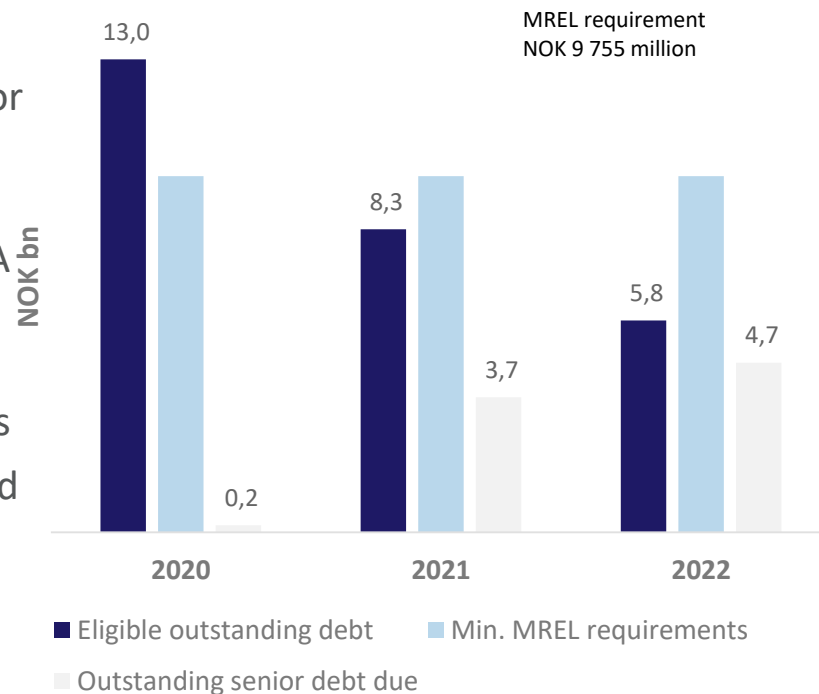


- The Group's total funding amounted to NOK 60,8 Bln
- Covered bonds amounted to NOK 44.2 billion
- Long-term funding* amounted to 86 percent
- Average remaining maturity on long-term funding* amounted to 3.6 years

* Long-term funding: maturity > 1 year

MREL phasing in

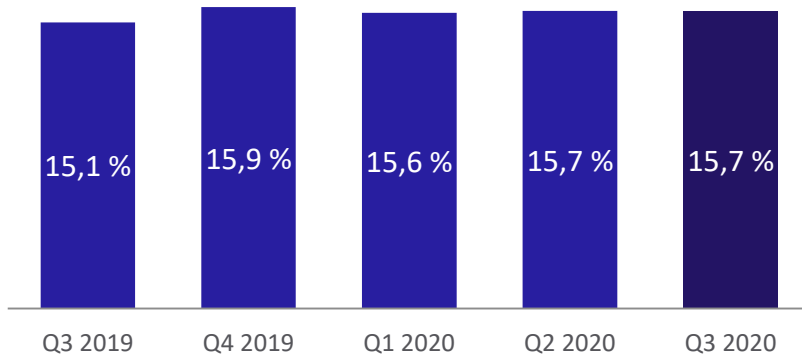
- First Norwegian bank with successful issuance of senior non-preferred debt, increased to 2 billion in Q3
- MREL requirements of minimum 32% of adjusted RWA for Sparebanken Sør
- Senior debt issued before January 2020 can be used as Senior Non-Preferred debt (Tier 3 Capital) until the end of 2022
- Requirement for Non-Preferred debt of NOK 9 755 million in 2020



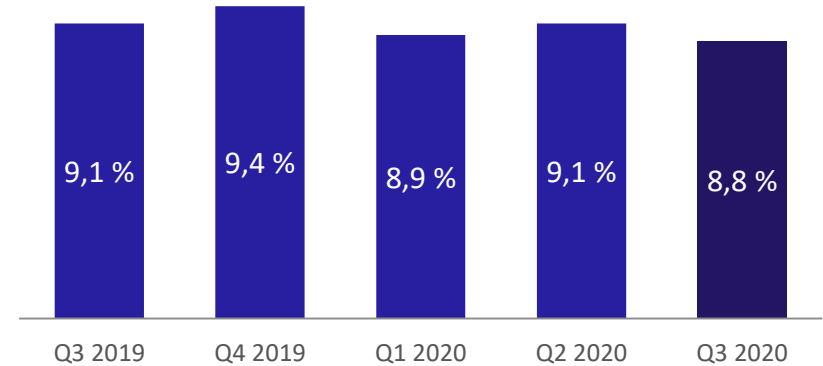
Capital

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.

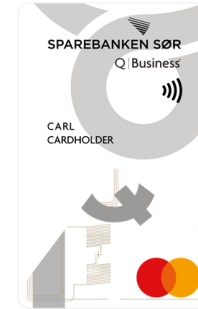
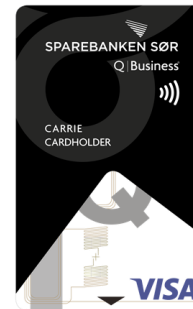
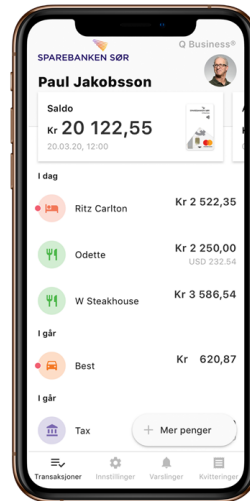
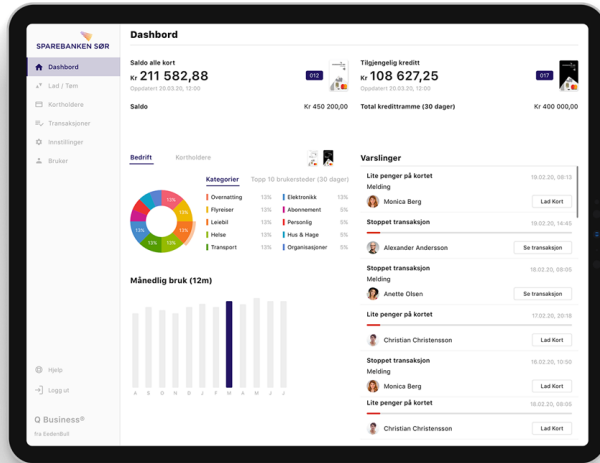
Dividend for 2019

- On 26 March 2020, in accordance with the proposal from the Board of Directors, the Board of Trustees decided not to distribute dividends for the equity certificates for 2019.
- The background for the decision was the expectations from the Ministry of Finance, FSA and ESA as a result of the potential consequences of the COVID-19 pandemic.
- Based on FSA statement on 2 September 2020, as well as a subsequent press release from the Ministry of Finance on September 9 2020, the situation is unchanged.
- The Board of Directors will continuously consider a foundation to a possible reallocation of the profit for 2019.
- If the circumstances allows, the Board of Directors will convene an extraordinary Board of Trustees meeting to consider the distribution of dividends.

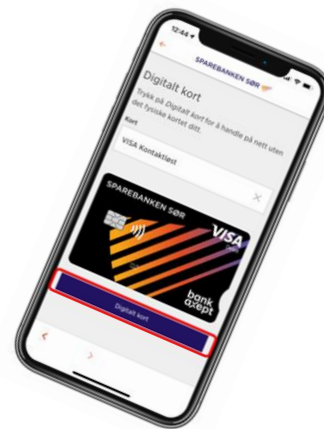
Digital development

New, market-leading solution within B2B payment - will change the company's handling and control

Q Business[®] is a solution for companies and organizations that want to manage and control the company's expenses in an efficient and simple way. Employees get more flexibility with smart credit or rechargeable cards, so that the administrator has full control over the company's finances at all times.



We are in the lead with the launch of a digital card - ready to use on your mobile in seconds!



www.sor.no

Netthandel uten fysisk kort

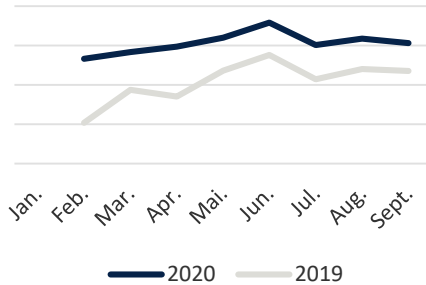
Sparebanken Sør lanserer digitalt kort. Er du godt plassert i sofaen, kan du nå handle på nett uten å måtte finne frem det fysiske kortet, men kun oppgi kortinfo fra det digitale kortet.

[Les mer om digitalt kort her](#)



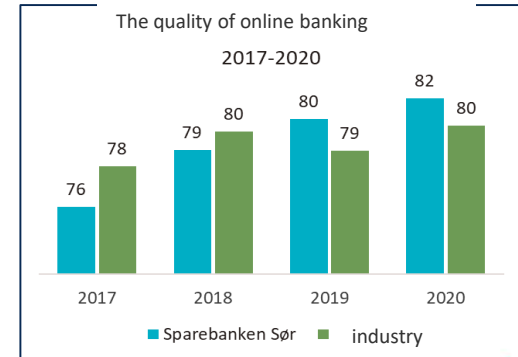
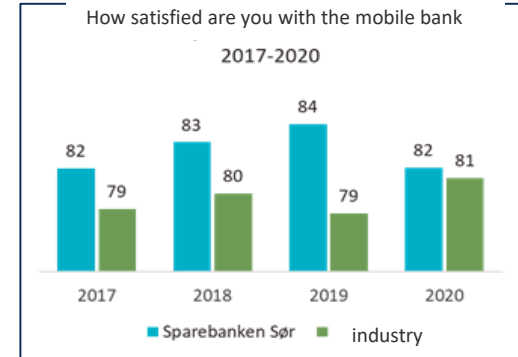
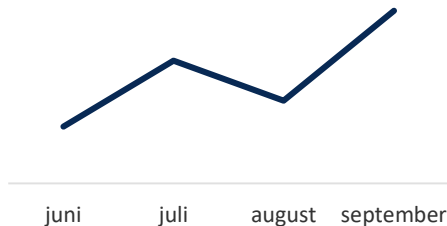
Satisfied customers become more digital - more services are used

Traffic mobile banking



- Mobile banking use among our customers still increasing
- Sustained customer satisfaction across the industry average in online and mobile banking

Digital mortgage applications



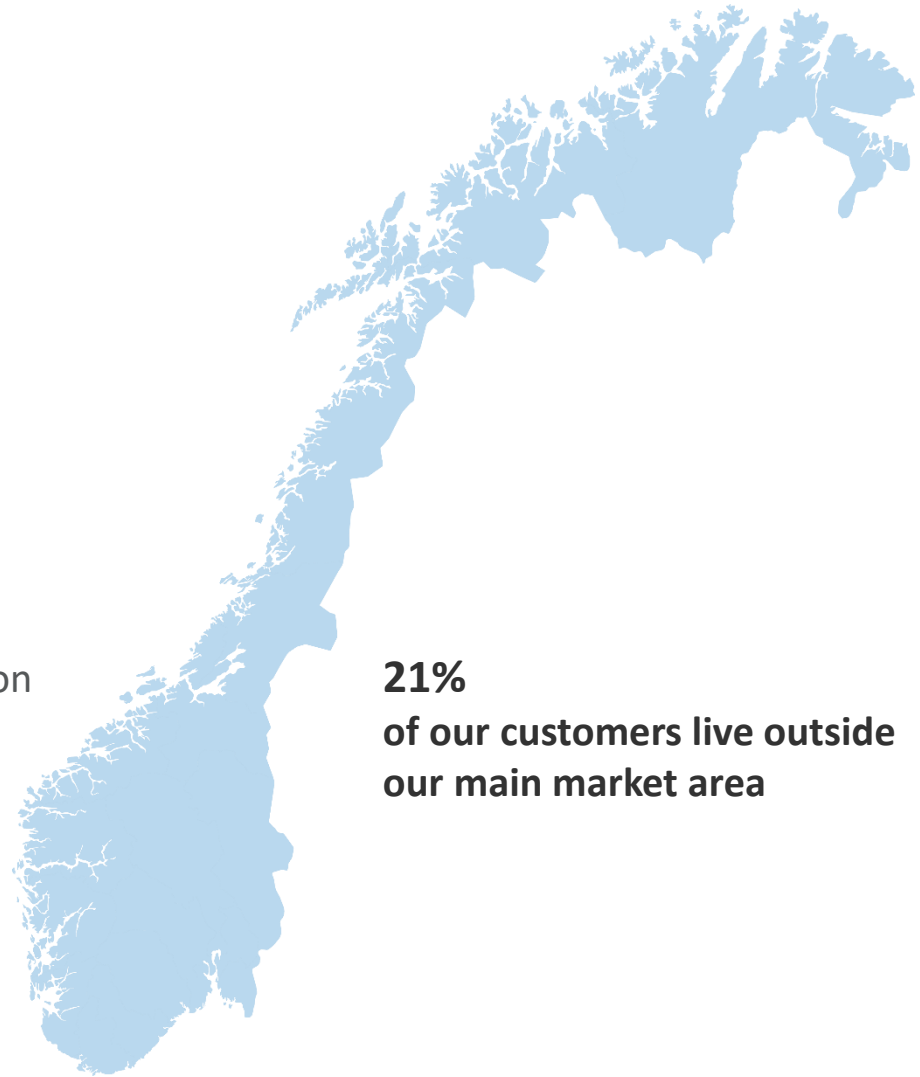
Nationwide footprint through digital initiative

Focus on better customer experiences in the digital customer solutions

- New, simpler solution for digital sales of insurance and funds will increase sales on mobiles
- Launches new, digital advisory solution for fund savings
- Good start-up for our all-digital mortgage solution

Measures for cost-effective and automated distribution

- Automated processes with data collection
- Cash services in stores



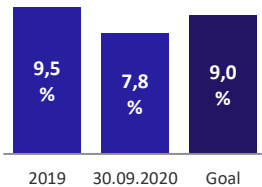
21%
of our customers live outside
our main market area

Goals and expectations ahead

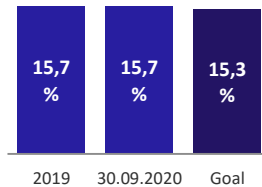


Financial key variables and ambitions

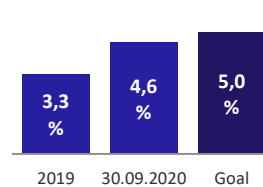
Return on equity



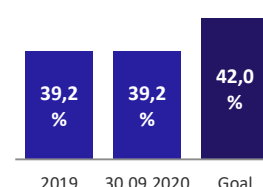
CET1 (Group)



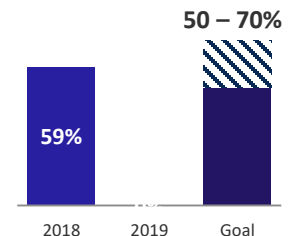
Loan growth¹⁾



Cost development
excl. finance



Dividend ratio



1) The group has a long-term ambition of lending growth in excess of credit growth (Q2). K2 August 2020 was 4.6 for retail customers and 3.9 for non-financial corporations. The group's lending growth in the last quarter was 5.6 for retail customers and 5.3 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 third 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 8.8 percent. The Bank is well positioned to establish long-term funding from the Norwegian and international financial markets.

Digital adjustment

Investments in digitization and new technological solutions has made the bank able to handle crises such as COVID-19, and provides the bank with opportunities for further improvements in 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, growth and profitability.

Vedlegg



SPAREBANKEN SØR

Equity certificate owners

20 largest equity certificate owners as of 30 September 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.	717.995	4,58	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	Varodd AS	70.520	0,45
7	Wenaasgruppen AS	186.000	1,19	17	Pak Invest AS	67.848	0,43
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	Profond AS	64.490	0,41
	Total 10 largest owners	10.779.230	68,82		Total 20 largest owners	11.553.956	73,76

- As of 30 September 2020, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC amounted to NOK 3,2 in Q3 2020 and 7,7 YTD
- The ownership ratio at the end of Q4 2019 was 17.2 percent

SOR – share price and liquidity

Change in share price at. 30.09.2020

- The share price for SOR was NOK 98.8 and book value was NOK 136,4, amounting to a price-to-book ratio of 0,75.
- The equity certificates gave a return of 8,47% last 12 months
- Profit per equity certificates of NOK 7,7, which represents a P/E of 10,0

Liquidity

- Turnover of 1,9 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).
- On 26 March 2020, the Board of Directors proposed to defer dividends for the equity certificate for 2019 to the bank`s board of trustees

