



# Sparebanken Sør

Investor presentation Q1 2021

# Agenda

- **About Sparebanken Sør**
- **Highlights from the quarterly report**
- **Funding status**
- **Capital**
- **Sustainability**
- **New strategy plan 2021-2025**
- **Goals and expectations going ahead**



# Sparebanken Sør

## – Sørlandets ledende bankkonsern



Established in 1824,  
537 employees



177 000 retail  
customers



Financial Group with  
banking, securities and  
real estate brokerage



22 000 corporate  
customers



Publicly traded and  
Community-owned



Regional Branches  
& nationwide  
online services



- Total assets of NOK 139 bn
- Profit after tax amounted to NOK 274 million in Q1 2021
- Cost/income ratio of 42 percent.

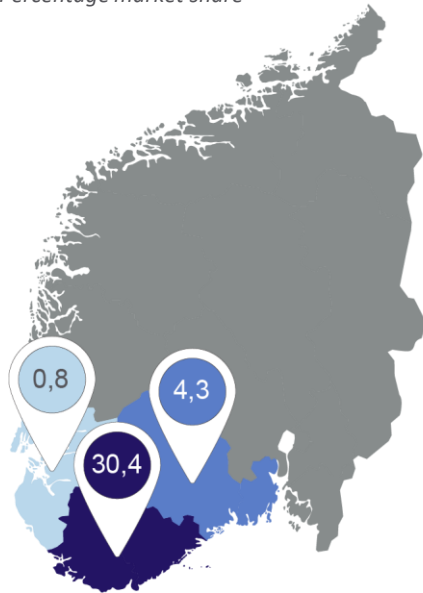


\* Marketshare retail customers (Source: Eiendomverdi AS, Markedsandelsrapporter)

# Strong position in the housing market

## Maintaining a strong market position

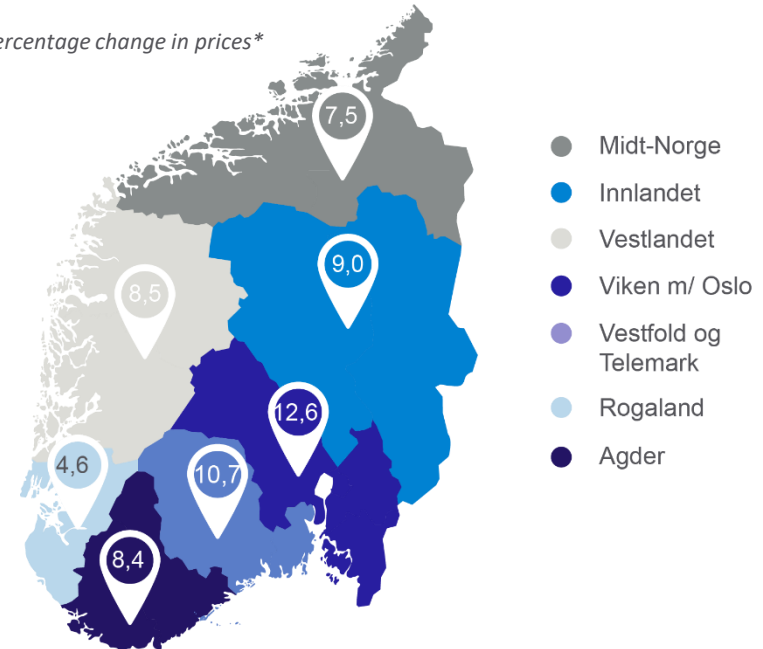
Percentage market share



**# 1 position in Agder, good position in Vestfold Telemark.  
Positive development in Rogaland.**

## Positive development in housing prices

Percentage change in prices\*



\*3 month moving average of  
12 month change

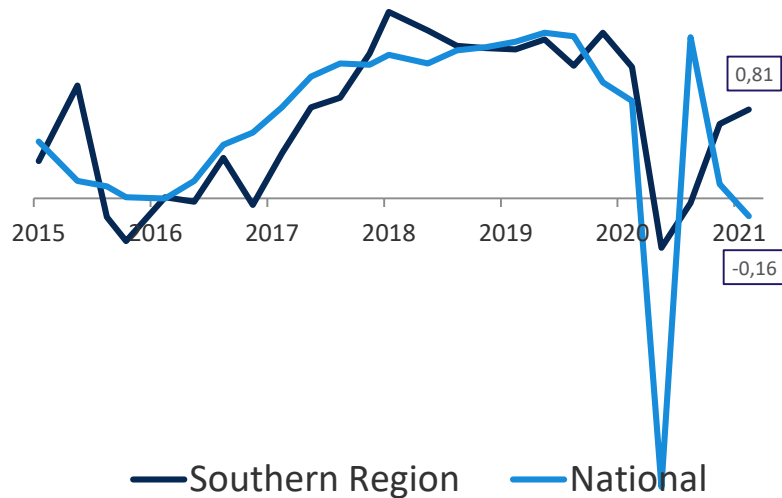


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# Positive development in production and investment in the quarter

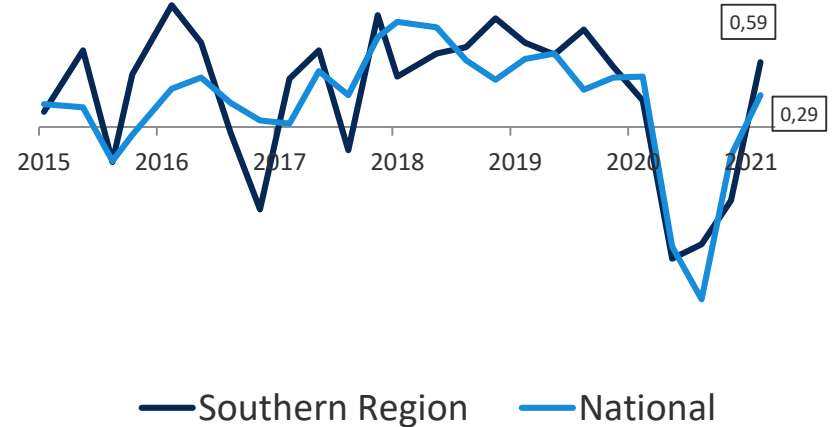
## Growth in production

Growth last 3 months



## Growth in investments

Expected development next 12 months

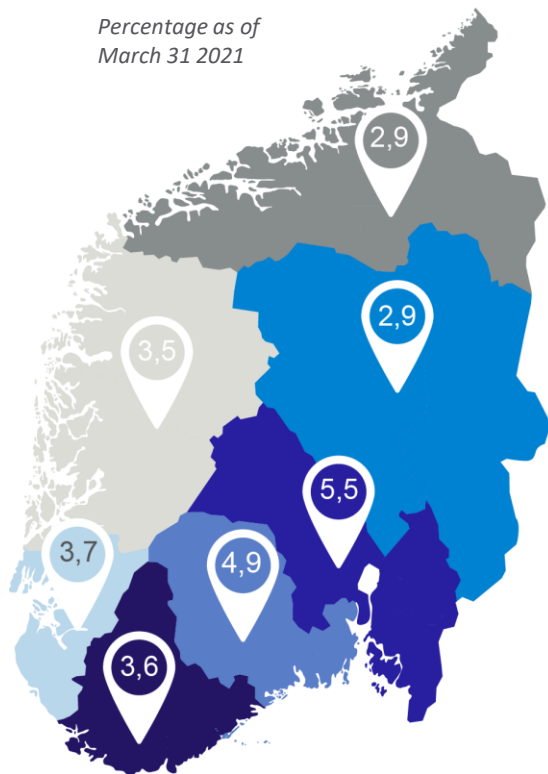


The index ranges from -5 to +5, where -5 indicates a large fall and +5 indicates strong growth. The index are compiled quarterly by Norges Bank through a regional network and show the development in the Southern region, which consists of Agder, Vestfold and Telemark.

# Utvikling i arbeidsmarkedet

## Unemployment

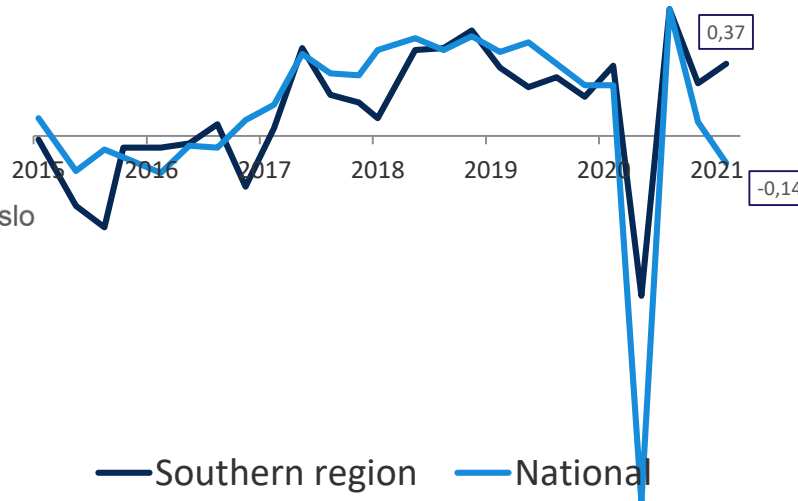
Percentage as of  
March 31 2021



## Development in employment

Percentage growth last 3 months

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



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, Vestfold and Telemark.



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# Highlights from the quarterly report



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# Highlights in Q1 2021

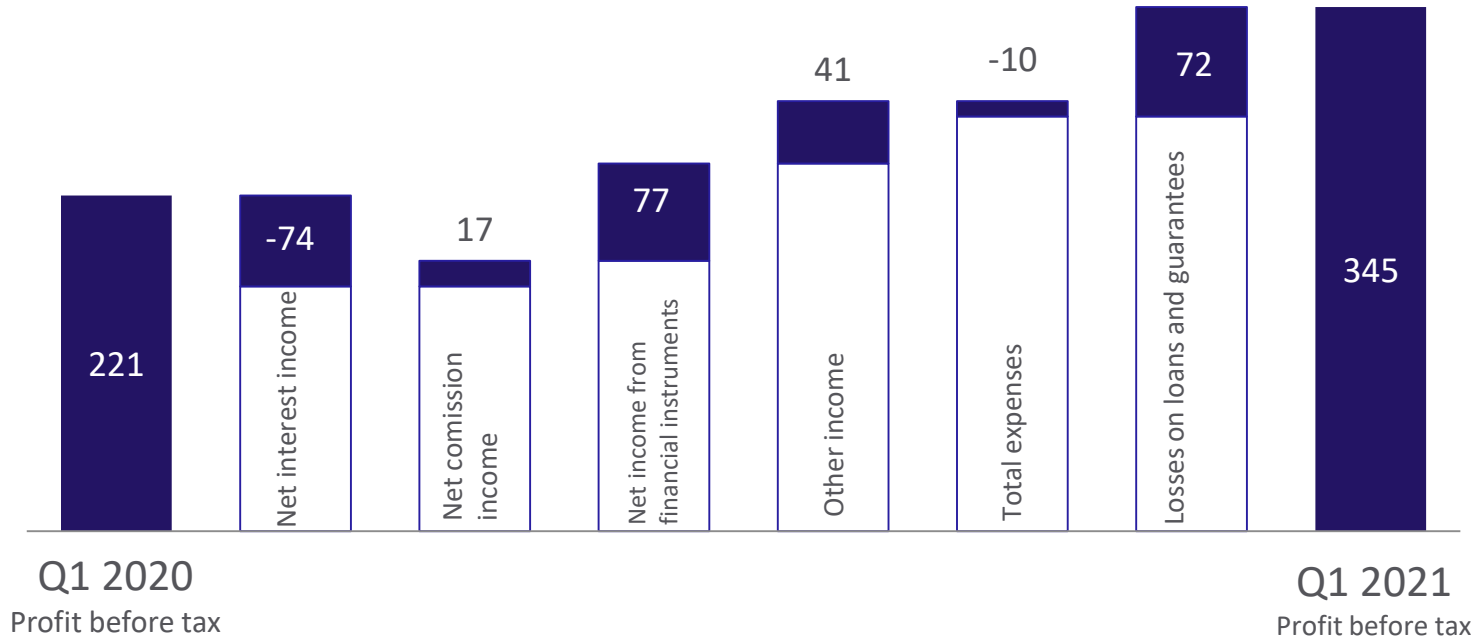
- Efficient operations and low costs
- Good results from Frende, Brage and Sørmeqleren
- Net entry on losses on loans
- Annualised growth in lending of 4.8
- Annualised growth in deposits of 5.5 percent
- Return on equity after tax of 8.4 percent
- Common equity tier 1 capital ratio of 15.8 percent and Leverage Ratio of 9.2 percent

NOK million	2021 Q1	2020 Q1	Change
Net interest income	451	525	-74
Net commission income	87	70	17
Net income from financial instruments	8	-69	77
Associated companies	29	-14	43
Other operating income	0	2	-2
Total income	575	515	60
Total expenses	242	232	10
<b>Profit before losses on loans</b>	<b>334</b>	<b>283</b>	<b>51</b>
Losses on loans, guarantees	-11	61	-72
<b>Profit before tax</b>	<b>345</b>	<b>221</b>	<b>124</b>
Tax expense	71	58	13
<b>Profit for the period</b>	<b>274</b>	<b>164</b>	<b>110</b>



# Development in profit before tax

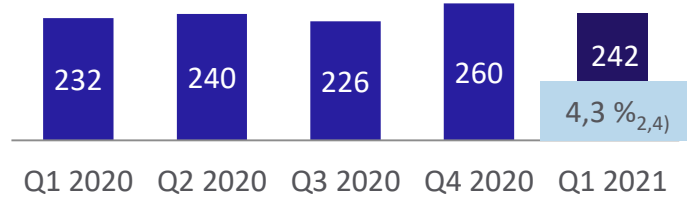
NOK million



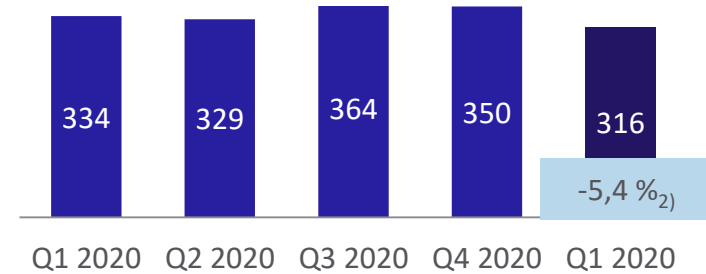
# Profit and returns

NOK millions

## Operating expenses

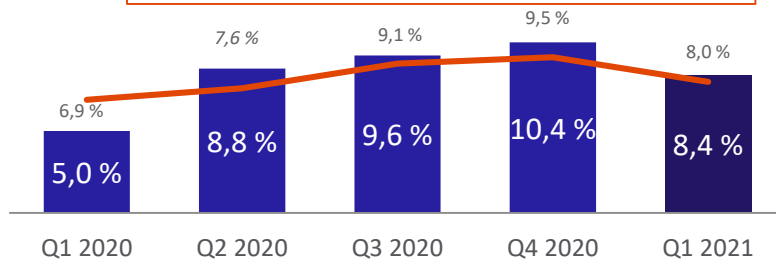


## Profit from ordinary operations<sup>1)</sup>



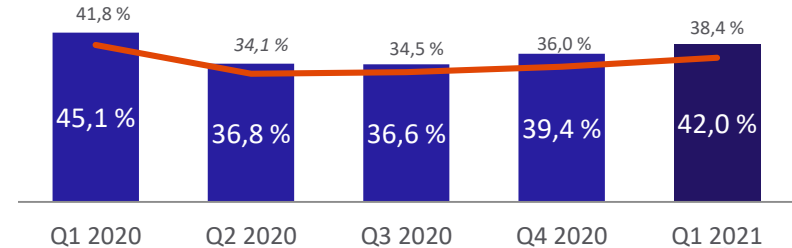
## Return on equity

Return on equity excl. Financial instruments and non-recurring events<sup>3)</sup>



## Cost to income ratio

Cost to income ratio for banking operations

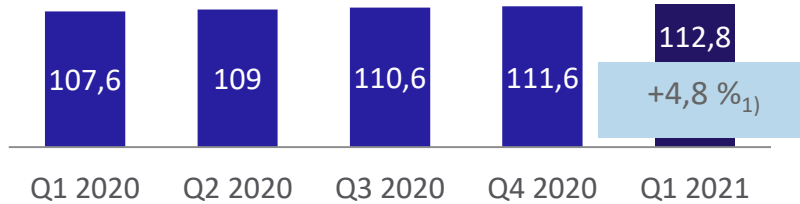


- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating expenses
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments and interest on hybrid capital.
- 4) Operating expenses in the banking operations unchanged from Q1 2020.

# Good growth in the quarter

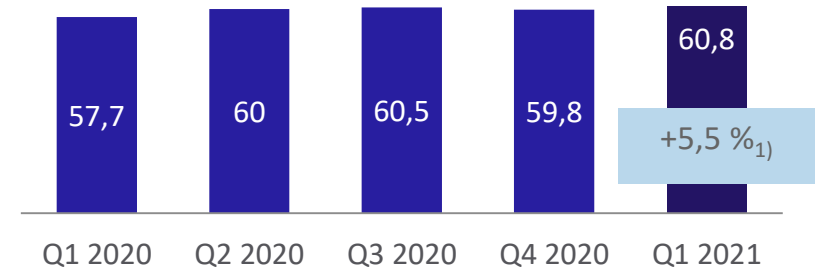
NOK billions

## Net loans



- 12-month growth of 4.8 %
  - 12-month growth in gross loans of 5.1 % for retail customers and corporate customers of 4.5
- Annualized growth in the quarter of 4.4 %
  - 3.9 % for retail customers and 5.1 % for corporate customers

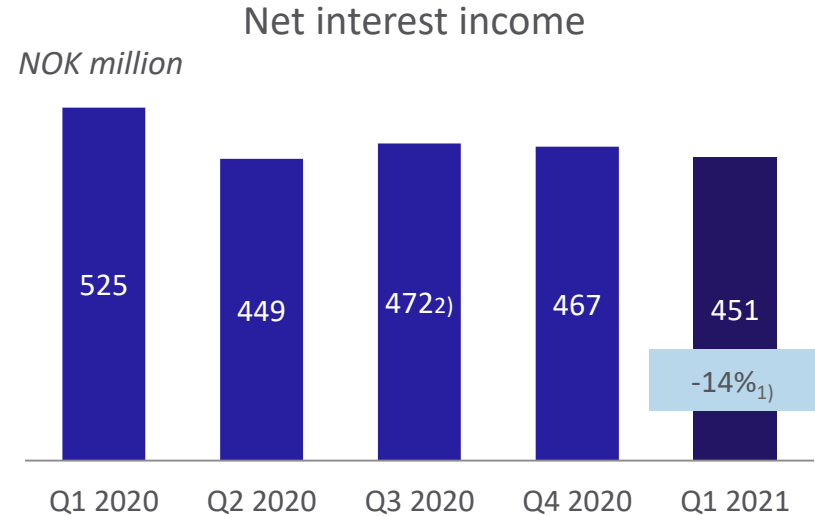
## Deposits



- 12-month growth of 5.5 %, of which retail customers 5.3% and corporate customers 6.3 %
- Change in deposit composition
- Deposit excl. capital market deposits showed growth of 8.8% for the group and 13.4% for corporate customers

# Development of net interest income

- Negative development in net interest income
- The interest margin (lending rate minus deposit rate) has decreased
- 2 fewer interest days in Q1, amounts to approximately NOK 10 million compared with Q4.
- The strong competitive pressure on lending rates in the retail market is somewhat decreased in Q1
- Refinancing of outstanding debt in Q1 2021 means lower financing costs going forward

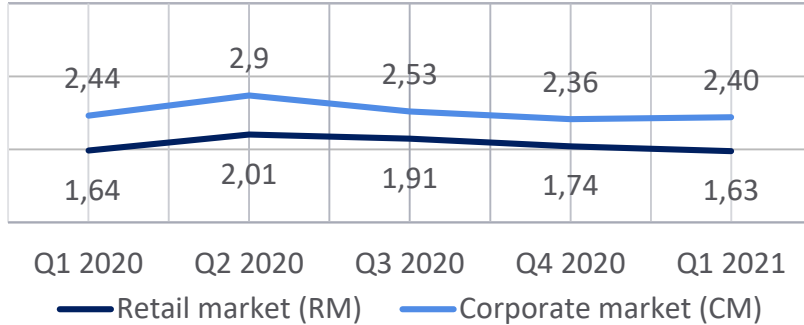


1) Changes from the corresponding prior-year period

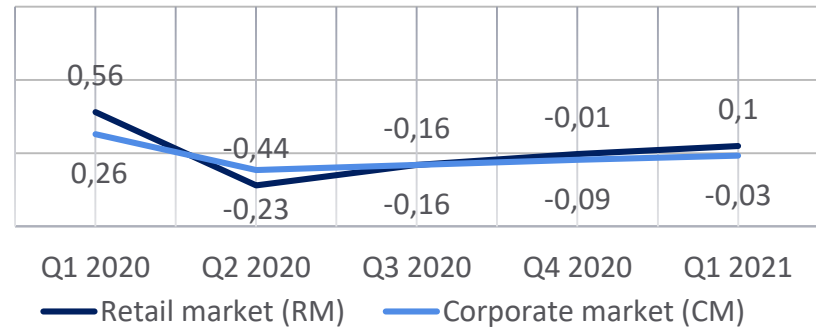
2) Shortened notice period reduced net interest income by approx. NOK 56 million in Q2

# Interest margin and NIBOR3M

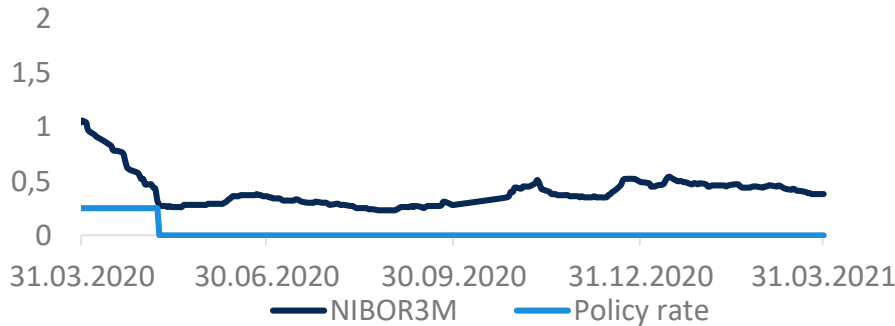
## Loan margins (%)



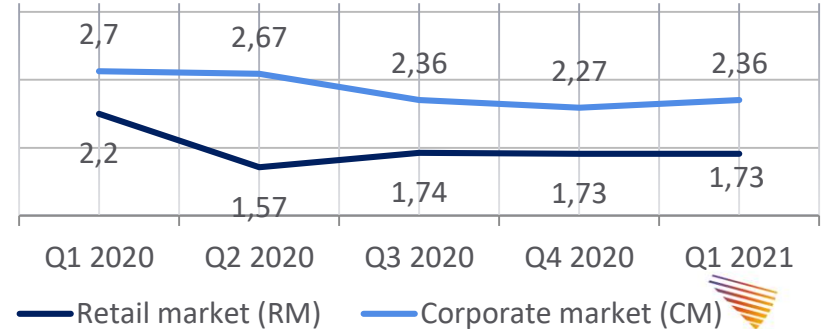
## Deposit margins (%)



## NIBOR3M



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

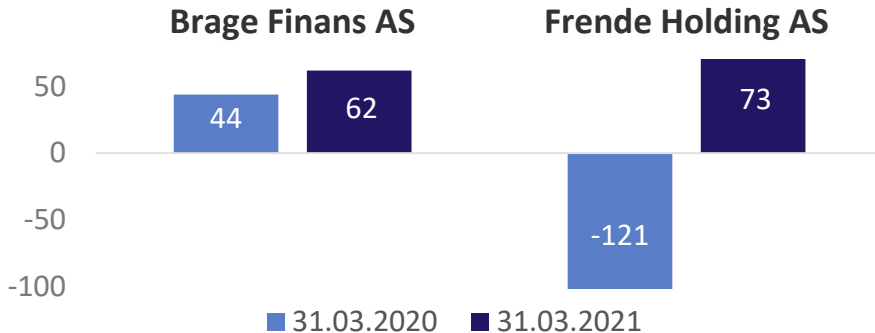


# Associated companies



## Profit before tax

NOK million



## Effect on results after consolidation

NOK million		Q1 2021	Q1 2020	31.12.2020
Frende forsikring* (21,0 %)	Share of profit	12,6	-21,9	116,2
	Amort.	-5,4	-5,0	-20,9
Brage finans (24,9 %)	Share of profit	10,9	5,7	32,7

Sparebanken Sør increased in February its ownership interest in Brage from 20.8 percent to 24.9 percent. The transaction did not have any effect on profit other than that a larger share of the result in Brage was recognized as income in the quarter.

A value adjustment of the shares in Vipps was carried out in the first quarter, which had a positive effect on the shares in Balder Betaling AS. The value adjustment amounted to NOK 11.1 million.

# Very good profit contribution from Sørmeglere

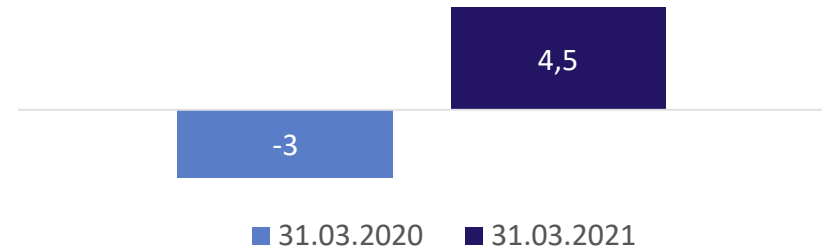
- The leading real estate agency in Southern Norway
- Brokers more than a third of housing in Southern Norway
- Strengthens position in Vestfold and Telemark with new offices in Kragerø and Sandefjord
- Investment in commercial property brokerage



**SØRMEGLEREN**

## Profit before tax

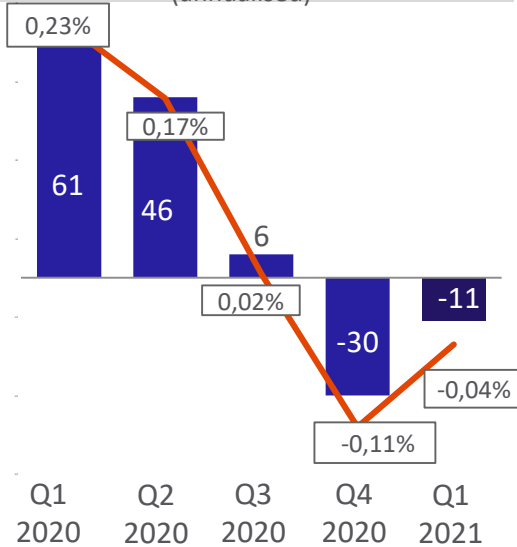
*NOK Million*



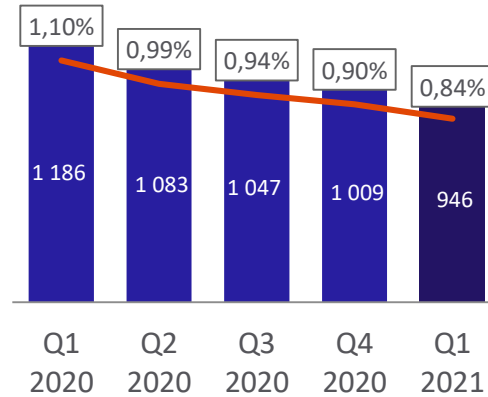
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# Non-performing loans

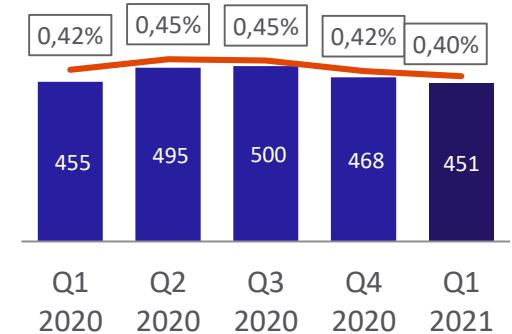
Development in losses in NOK million and as a percentage of gross loans (annualised)



Development in non-performing loans (IFRS 9, step 3) in NOK million Ans as a percentage of gross loans <sup>1)</sup>



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



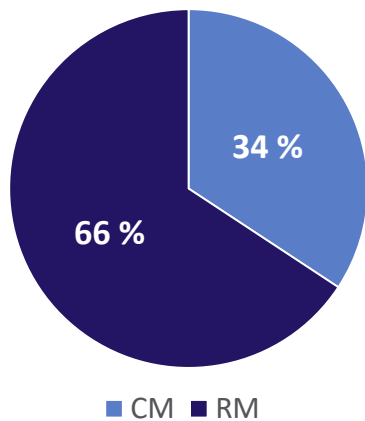
1) New definition of non-performing has been applied from 1 January 2021. Historical figures are not directly comparable.



# A diversified loan portfolio

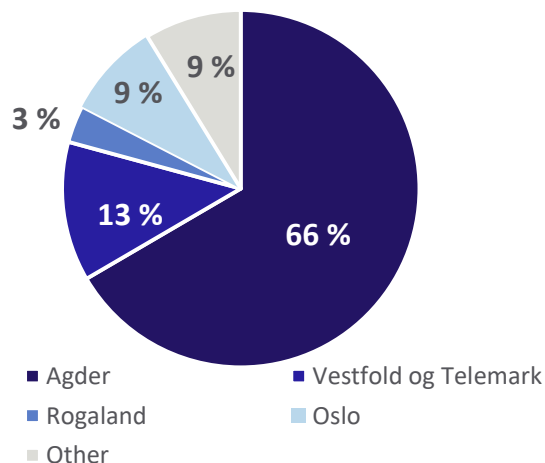
## RM/CM distribution

Gross loans

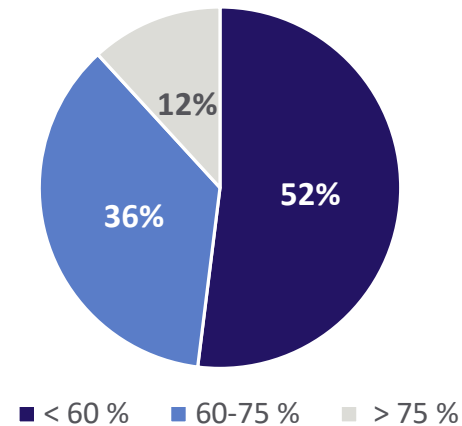


## Geographical distributions of loans

Gross loans



## Loan-to-Value (Group)

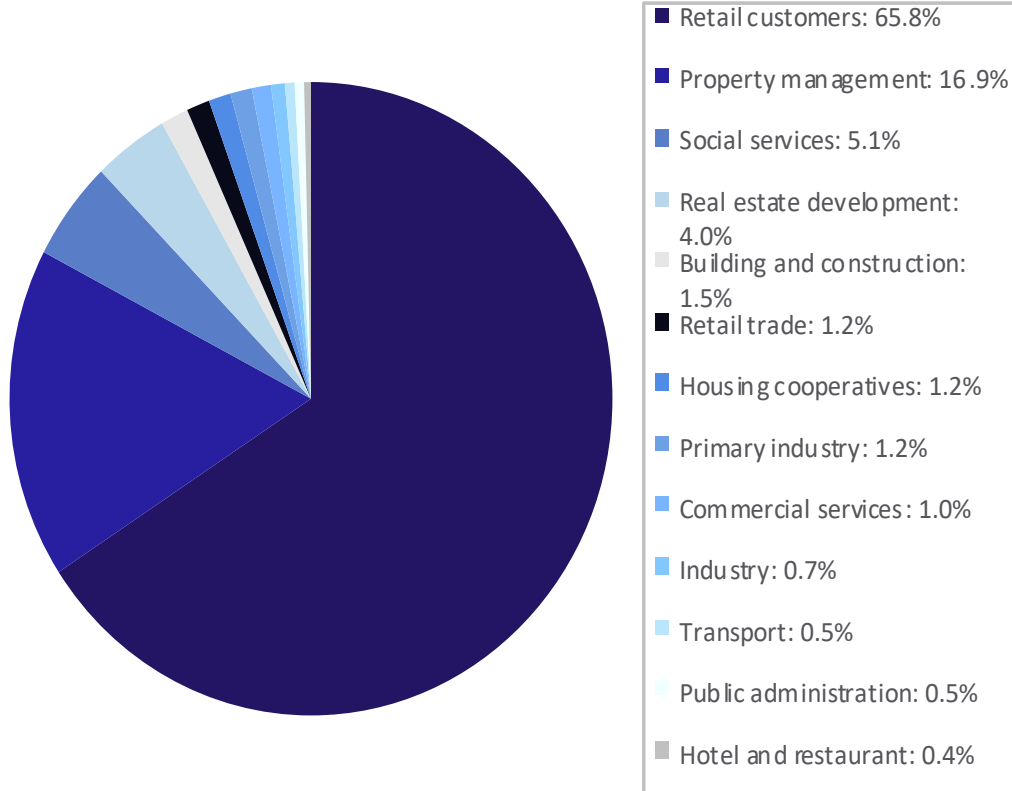


Average loan-to-value of approximately 56 percent for mortgages (group).

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

NOK 45.9 billion transferred to Sparebanken Sør Boligkreditt AS, equivalent to 61 percent of total loans to retail market

# Well-diversified loan portfolio

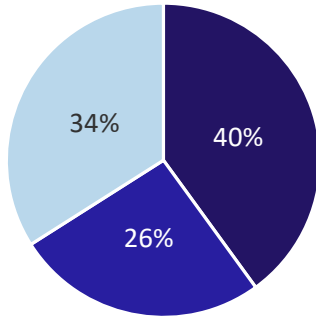


- Well diversified portfolio
- Close to none direct exposure to oil and oil service
- Very low indirect exposure to oil and oil service (tenants)

# Sparebanken Sør Boligkreditt

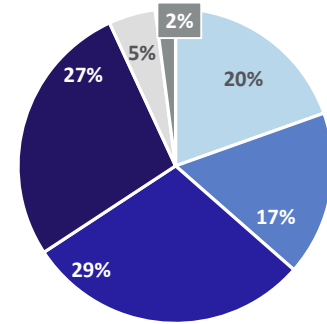
- Wholly owned by Sparebanken Sør

Sparebanken Sør Loan portfolio



■ Sparebanken Sør Boligkreditt AS ■ PM bank ■ BM

Sparebanken Sør Boligkreditt LTV distribution



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



■ Weighted avg LTV ■ Nominell OC



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# Summary after Q1 2021

## Results

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

## Funding and capital

Common equity tier 1 capital ratio of 15.8 percent and solid leverage ratio of 9.2 percent.  
Solid financing structure and good liquidity buffers.

## Growth

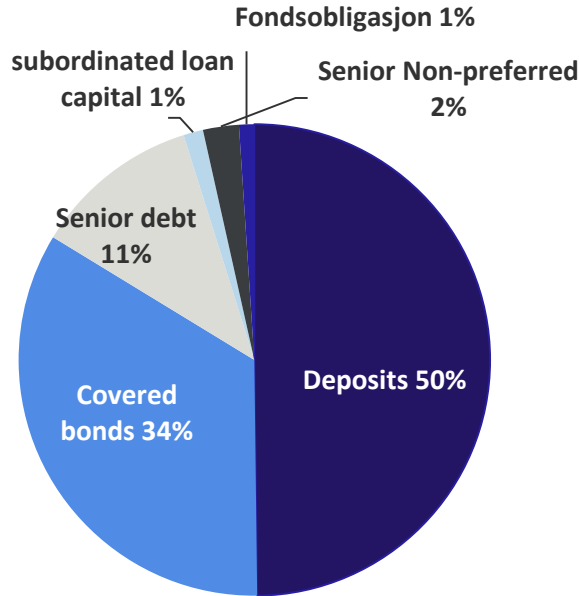
12-months growth in lending of 4.8 percent.  
12-months growth in deposits of 5.5 percent.

## Summary

Satisfactory underlying operations give a profit before tax of NOK 345 million in Q1 2021.

# Funding status

# Funding structure



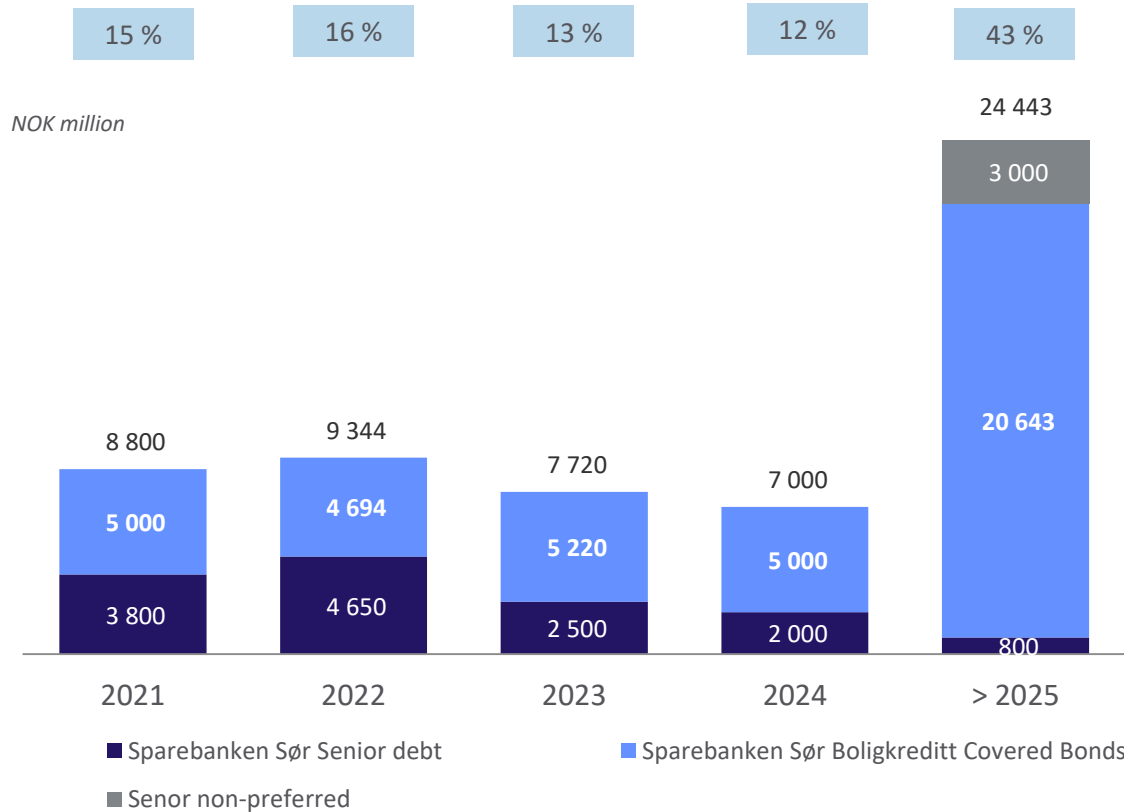
Deposits are a valuable source of funding.

- Deposits as a percentage of net loans at 53.9%.
- Reductions in capital market deposits have been replaced by stable 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 Q1 Sparebanken Sør Boligkreditt had issued EUR 2.5 bln. in euro covered bonds
- Sparebanken Sør has issued NOK 2 billion SNP in 2020, and a further NOK 1 billion SNP in 2021.
- In January 2021, Sparebanken Sør Boligkreditt issued EUR 500 million with a 7-year maturity on competitive terms, for refinancing of outstanding debt.
- Sparebanken Sør has a A1 rating
- Bonds issued by Sparebanken Sør Boligkreditt AS, are rated Aaa



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# Funding maturity



- The Group's total funding amounted to NOK 58.3 Bln
- Covered bonds amounted to NOK 41.4 billion
- Refinancing of outstanding debt in Q1 2021 means lower financing costs
- Long-term funding\* amounted to 83percent
- Average remaining maturity on long-term funding\* amounted to 3.9 years

\* Long-term funding: maturity > 1 year  
med forfall over 1 år



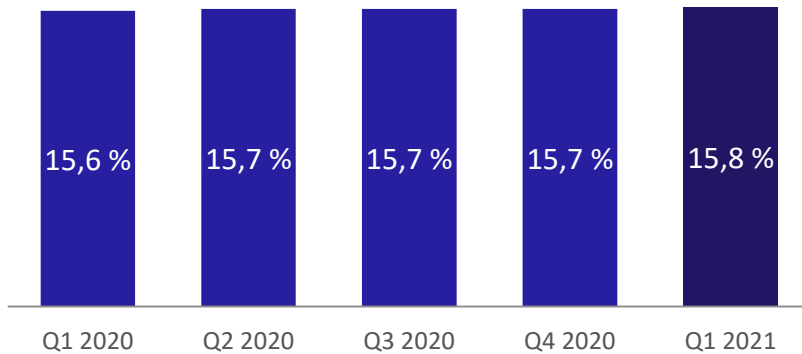
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# Capital

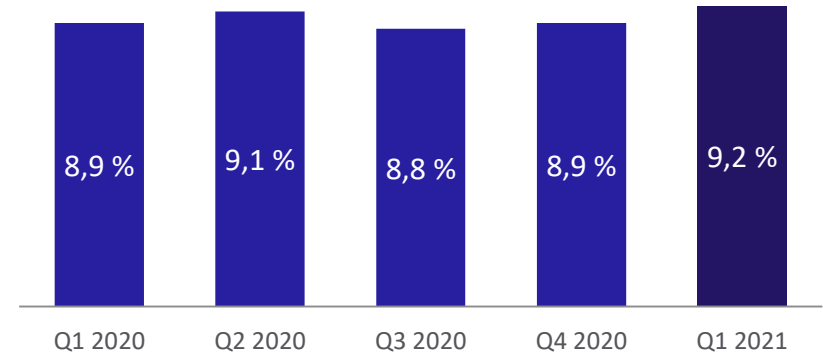


# Capital adequacy

## Common equity tier 1 capital ratio



## Leverage ratio



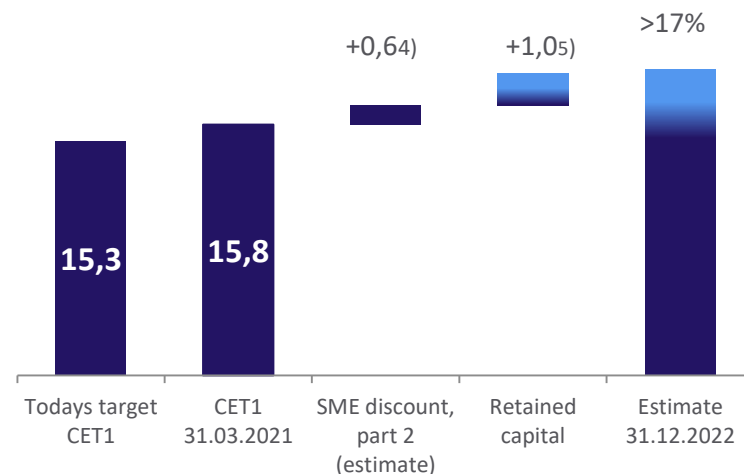
- Reduced requirement for countercyclical capital buffer from 2.5 to 1 percent.
- Well above the current capital requirement (CET1) of 13 percent.
- Assessments of Financial Supervisory Authority regarding commitments that are to be classified as high-risk have resulted in a reduction in common equity tier 1 capital adequacy of 0.3 percentage points.

# Good control of capital requirements

## Capital requirements

	Current requirement	Requirement 2022
Minimum Tier 1 capital requirements	4.5 %	4.5 %
Conservation buffer	2.5 %	2.5 %
Systemic risk buffer <sup>1)</sup>	3.0 %	4.5 %
Counter-cyclical buffer <sup>2)</sup>	1.0 %	1.5-2.5 %
Pillar 2 requirements <sup>3)</sup>	2.0 %	1.5 %
<b>CET1 requirements</b>	<b>13.0 %</b>	<b>14.5-15.5 %</b>

## Capital adequacy and target figures



1) The Ministry of Finance will lay down a transitional rule for banks that use the standard method, which means that the system risk buffer requirement will be increased from 3 to 4.5 per cent and will take effect from 31 December 2022.

2) countercyclical capital buffer may increase by 1.5 percentage points, expect it to increase by 0.5 percentage points in 2022.

3) Based on separate calculations, the pillar-2 requirement should not exceed 1.5 per cent of the risk-weighted balance sheet.

4) The SMB discount part 2 is estimated to amount to approx. 0.6 percent, uncertain when this will apply

5) Capital building based on retained capital

The effect of Finanstilsynet's interpretation related to high-risk commitments will reduce CET1 by approx. 0.3 percentage points

# Dividend

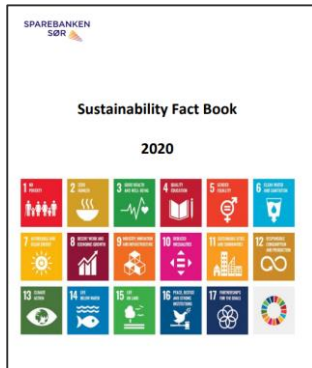
- Proposed dividend of NOK 14 per equity certificate in 2020.
- The application sent by Sparebanken Sør, regarding disposition from the equalization fund, was rejected by Finanstilsynet. Rejection was based on the uncertain macroeconomic outlook and that Finanstilsynet is generally reluctant to allow disposition from the equalization fund, cf. consultations regarding notice on fund issues in savings banks with equity certificates.
- The Bank has appealed the decision by The Norwegian Financial Supervisory Authority.
- A dividend of NOK 10.4 per equity certificate was paid out on April 8, 2021 as a result of rejection on the application.
- The Board of Director`s is authorized to decide additional dividend payment of maximum NOK 3.6 per equity certificate earliest on 30. September 2021. Use of the authorisation requires permission from Finanstilsynet, due to payment from the equalization.

**Sustainability**



# Extensive commitment to sustainability

- ✓ Comprehensive sustainability reporting
- ✓ Launch of TCFD report
- ✓ Complemented sustainability library



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## Sustainability strategy and guidelines

[Sustainability Strategy](#)

[Corporate Governance](#)

[Group Corporate Social Responsibility Policy](#)

[Ethics and Transparency](#)

[Anti-Money Laundering and Anti-Terrorism Financing Policy](#)

[Privacy Policy](#)

[Purchasing Policy](#)

[Guidelines for Responsible Purchasing – Supplier Declaration](#)

[Climate and Environment Policy](#)

[Policy Responsible Investment and Securities Trading](#)

[Policy Equality and Diversity](#)

[Policy Anti-Corruption and Bribery](#)

[Policy Employee and Human Rights](#)

[Responsible Lending Policy](#)

[Customer complaints procedure](#)

[Internal whistleblowing procedure](#)

[External whistleblowing procedure](#)

[Conflict of Interest document](#)

[Board Diversity Policy](#)

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## Sustainability reports

### Reports 2020

[Sustainability Fact Book 2020](#)

[TCFD Report 2020](#)

[GRI index 2020](#)

[Carbon Accounting Report 2020](#)

[PRB Reporting and Self-Assessment – Template 2020](#)

[Buildings Portfolio Climate Gas Emissions](#)

# Reduced climate emissions in line with the Paris Agreement

- from **513** tonnes in 2017 to **273** in 2020
- target 2030 - **230 tonnes**
- target 2050 – zero emissions



VÅR BÆREKRAFTSRAPPORT OG KLIMAREGNSKAP VISER:  
Sparebanken Sør sitt klimaavtrykk er redusert  
med **47%** siden 2017 = **240 tonn CO2**.



VÅR BÆREKRAFTSRAPPORT OG KLIMAREGNSKAP VISER:  
Utslipp fra tjenestereiser (fly og bil)  
er redusert med **67%** siden 2019.



VÅR BÆREKRAFTSRAPPORT OG KLIMAREGNSKAP VISER:  
Sparebanken Sør er **klimanøytral** gjennom  
kjøp av godkjente klimavoter.

# We develop biological bank cards

## Et lite kort – stort sprang for miljøet

Et bankkort veier ikke mer enn syv gram, men på grunn av strenge, tekniske kvalitetskrav brukes såkalt nyplast i dagens bankkort. TietoEVRY har i samarbeid med aktører i sin verdikjede testet ulike typer plast og funnet frem til et biologisk materiale som kan erstatte dagens plast. Gjennom en bestemt produksjonsprosess ivaretas de strenge tekniske og sikkerhetsmessige kvalitetskravene til bankkortet. Beregninger viser at Sparebanken Sør kan spare miljøet for 5,3 tonn plast i løpet av en tiårsperiode ved å bytte til disse miljøvennlige bankkortene.



– Sparebanken Sør har lang tradisjon som en ansvarlig samfunnsaktør, og har deltatt i utvikling av lokalsamfunn i bankens markedsområder i generasjoner. Arbeidet med bærekraft er en naturlig videreutvikling av den rollen banken har spilt gjennom snart 200 år, sier Geir Bergskaug, administrerende direktør i banken.

- Will reduce CO2 emissions by up to 75%
- Out with customers in January '22 - among the first in Norway and Europe



[Om oss](#) > [Om Sparebanken Sør](#) > [Nyheter](#) > [Skal tilby bærekraftige bankkort](#)

## Skal tilby bærekraftige kort

Sparebanken Sør vil være en av de første bankene i Norge og Europa som kan tilby bærekraftige betalingskort. Gjennom bruk av biologisk materiale vil CO2-utslippene knyttet til bankkort kunne reduseres med hele 75 prosent.



Sparebanken Sør har inngått et samarbeid med TietoEVRY om levering av nye biologiske bankkort til alle kunder i privatmarkedet. Bakgrunnen for dette initiativet er et felles fokus på bærekraft og bruk av teknologi for å skape ansvarlige banktjenester. De nye biologiske bankkortene er under utvikling, og de første kundene vil få slike kort allerede i januar 2022.

# New strategy plan 2021-2025





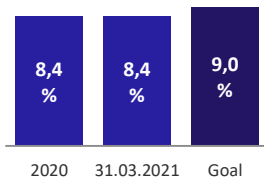


# Goals and expectations ahead

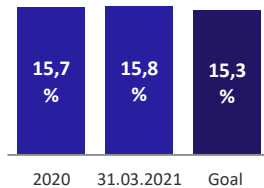


# Financial key variables and ambitions

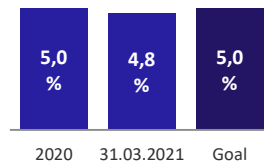
Return on equity<sub>1)</sub>



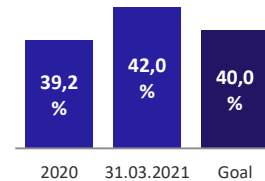
CET1 (Group)



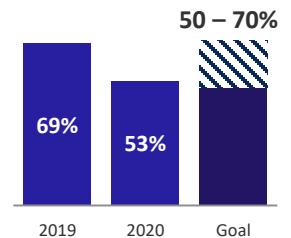
Gross loan growth<sub>2)</sub>



Cost to income



Dividend ratio<sub>3)</sub>



1) The group has a long-term ambition of return on equity of 10% within 2025.

2) The group has a long-term ambition of lending growth in excess of credit growth (K2 + 1%). K2 March 2021 was 4.9 for retail customers and 4.4 for non-financial corporations. The group's lending growth lat 12 months was 5.1 for retail customers and 4.5 for corporate customers.

3) The board has propose to the board of trustees to distribute a dividend for 2020 of NOK 14 which includes dividends of NOK 8 for 2019, and NOK 6 for 2020

# Outlook

## Macro

Extensive infection control measures from the authorities have had a negative effect on the economy in Norway and on our trading partners. The Government's monetary policy instruments appear to have had a good effect, and the situation in the Norwegian economy and financial markets has improved. Vaccines have arrived, but the rollout is taking time. Economic growth is expected to pick up during 2021, but the situation remains uncertain.

## The region

The economic outlook for the bank's market area is expected to develop in line with the rest of the Norwegian economy. House prices in the bank's main markets have had a positive but moderate development over several years. The statistics for the fourth quarter showed a very positive growth in house prices over the last 12 months.

## Funding and capital

Common equity tier 1 capital ratio of 15.8 percent and a solid leverage ratio of 9.2 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.

# Appendix



SPAREBANKEN SØR

# Equity certificate owners

20 largest equity certificate owners as of 31.03.2021

	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.	723.017	4,62	12	Ottersland AS	100.000	0,64
3	Arendal Kom. pensjonskasse	450.000	2,87	13	Investor AS	100.000	0,64
4	Pareto Invest AS	417.309	2,66	14	MP Pensjon PK	85.523	0,55
5	Glastad Capital AS	300.000	1,92	15	Lombard Int Assurance S.A	82.131	0,52
6	Wenaasgruppen AS	186.000	1,19	16	Apriori Holding AS	72.575	0,46
7	Hamjern Invest AS	179.388	1,15	17	Varodd AS	70.520	0,45
8	Gumpen Bileiendom AS	174.209	1,11	18	Gunnar Hillestad	67.425	0,43
9	Allumgården AS	151.092	0,96	19	Geir Bergskaug	66.239	0,42
10	Catilina Invest AS	105.872	0,68	20	Birkenes Sparebank	66.000	0,42
	<b>Total 10 largest owners</b>	<b>10.675.566</b>	<b>68,15</b>		<b>Total 20 largest owners</b>	<b>11.485.979</b>	<b>73,33</b>

- AS of 31 March 2021, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC amounted to NOK 2.7 in Q1 2021
- The ownership ratio 01.01.2021 was 16.1 percent

# SOR – share price and liquidity

## Change in share price at 31.03.2021

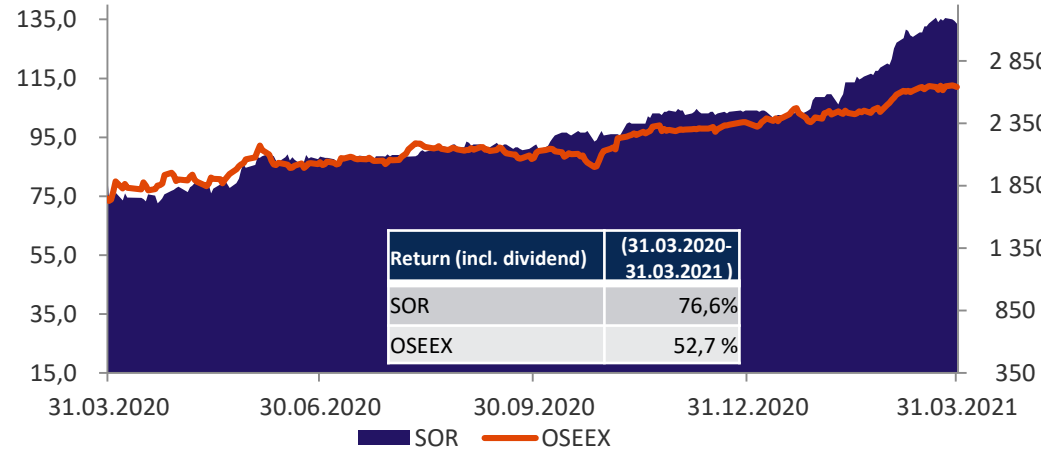
- The share price for SOR was NOK 131 and book value was NOK 130.7, amounting to a price-to-book ratio of 1.0.
- The equity certificates gave a return of 76.6% last 12 months
- Profit per equity certificates 31.03.2021 of NOK 2.7, which represents a P/E of 12.1

## Liquidity

- Turnover of 2.1 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.



## Daily turnover SOR

