



# Sparebanken Sør

Investor presentation Q3 2021

# Agenda

- **About Sparebanken Sør**
- **Highlights from the quarterly report**
- **Funding status**
- **Capital**
- **Sustainability and digital investment**
- **Goals and expectations going ahead**

# Sparebanken Sør

- a leading financial institution in Southern Norway



Established in 1824,  
567 employees



179 000 retail  
customers



Financial Group with  
banking, securities and  
real estate brokerage



22 000 corporate  
customers



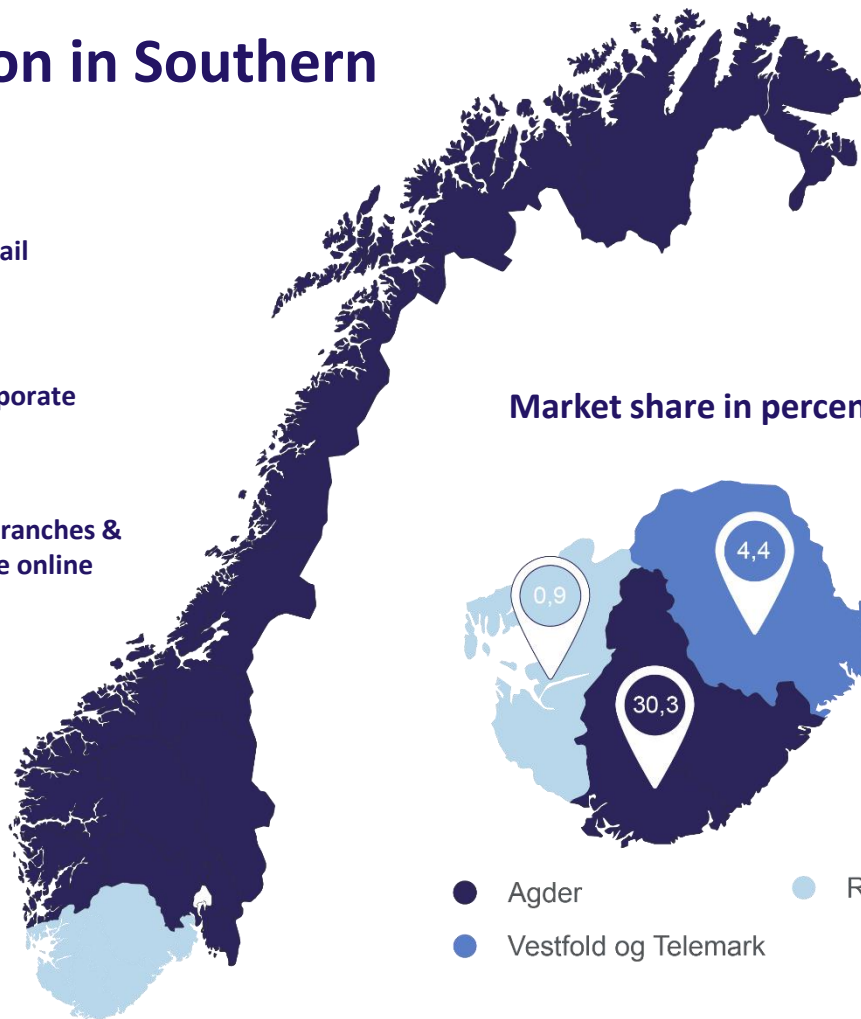
Publicly traded and  
Community-owned



Regional Branches &  
nationwide online  
services



- Total assets of NOK 145 bn
- Profit after tax amounted to NOK 315 million in Q3 2021
- Cost/income ratio of 37.9 percent.



Market share in percent\*

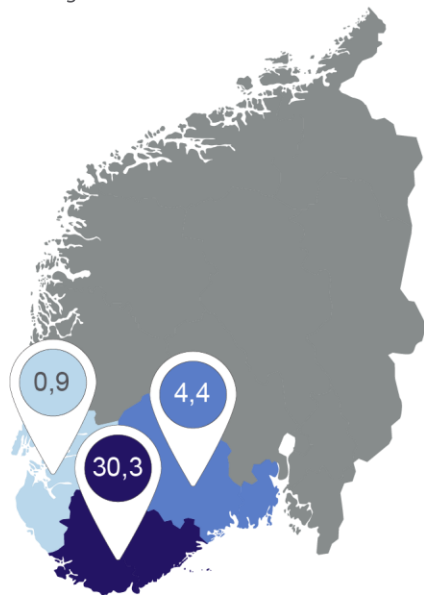
- Agder
- Rogaland
- Vestfold og Telemark

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

# Strong position in the housing market

## Maintaining a strong market position

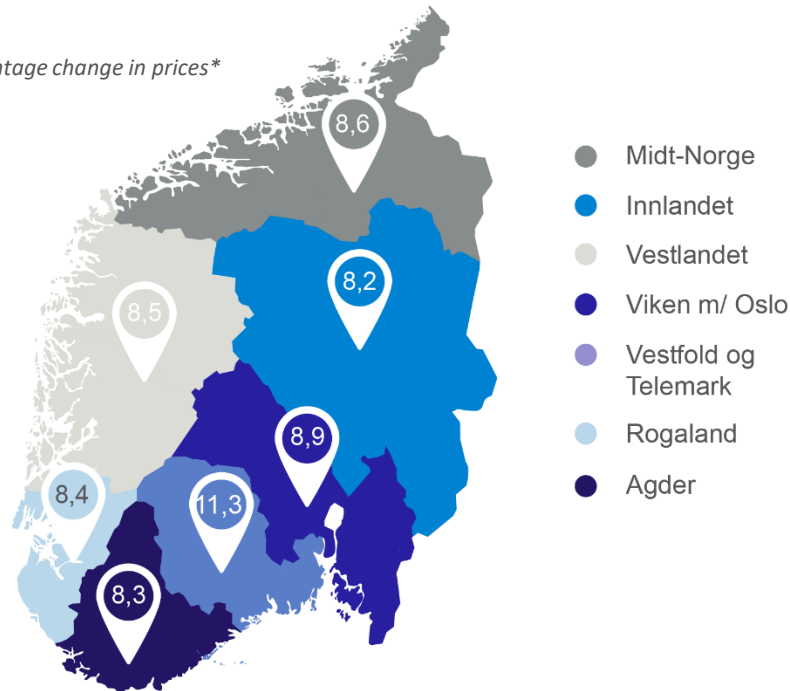
Percentage market share



**# 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*

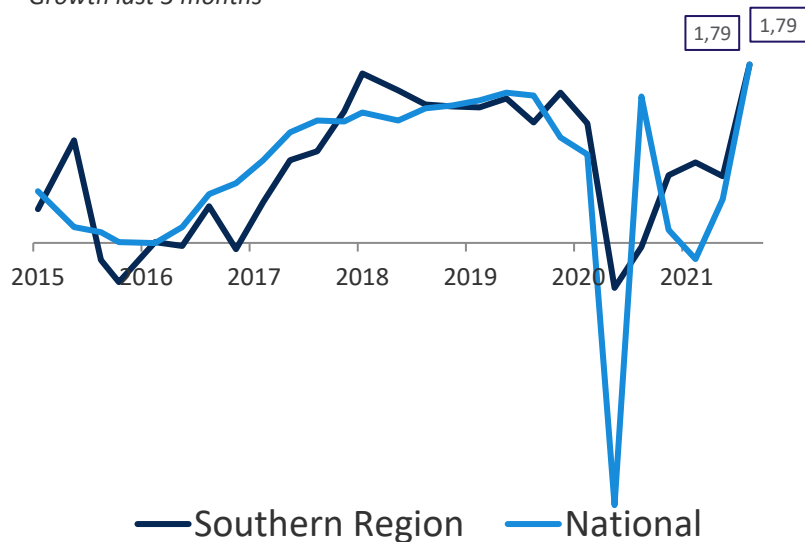


**SPAREBANKEN SØR**

# Positive development in production and investments in the quarter

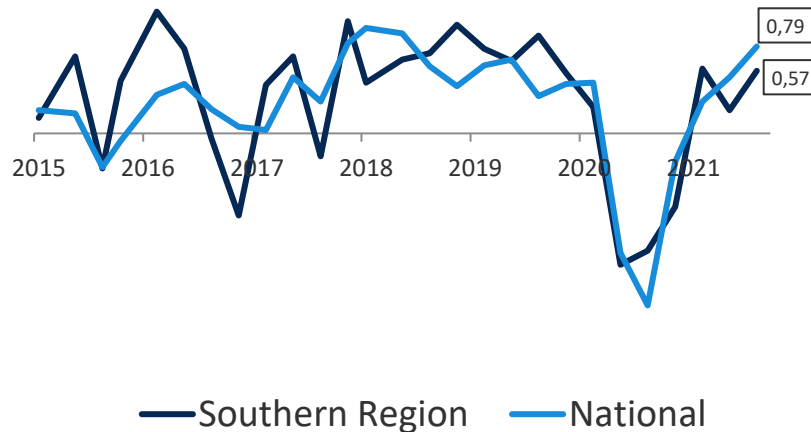
## Growth in production

Growth last 3 months



## Growth in investments

Expected development in the next 12 months

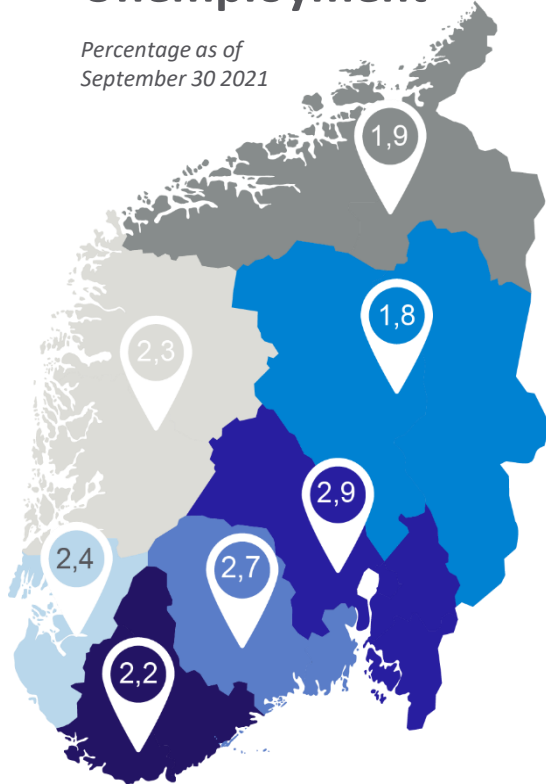


The index ranges from -5 to +5, where -5 indicates a large fall and +5 indicates strong growth. The index are compiled quarterly by Norges Bank through a regional network and show the development in the Southern region, which consists of Agder, Vestfold and Telemark.

# Labor market developments

## Unemployment

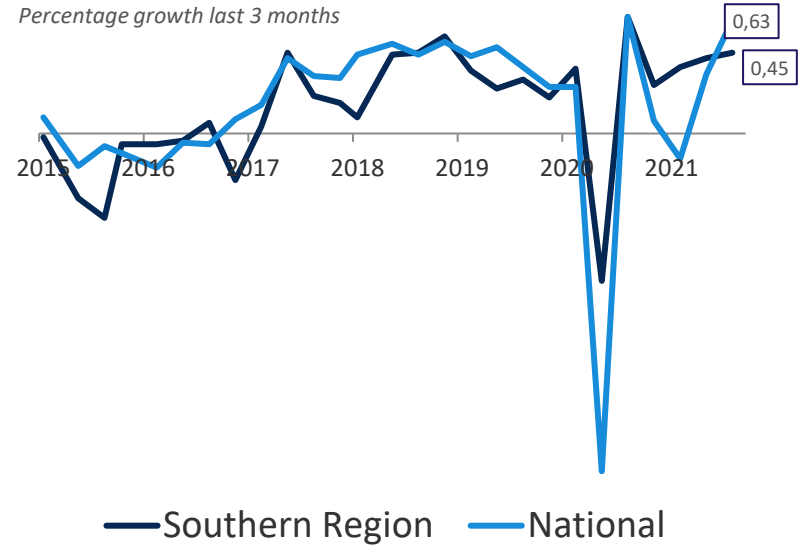
Percentage as of  
September 30 2021



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

## 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, Vestfold and Telemark.



**SPAREBANKEN SØR**

# Highlights from the quarterly report



SPAREBANKEN SØR



# Highlights in Q3 2021

- Efficient operations and low costs
- Good results from Frende, Brage and Sørmeqleren
- Still low losses on loans
- Annualised growth in lending of 5.0 percent
- Return on equity after tax of 9.2 percent
- Common equity tier 1 (CET1) ratio of 16.2 percent and Leverage Ratio of 9.3 percent
- The Board of Directors decided to pay a dividend of NOK 3.60 per equity certificate by authorization from the Board of Trustees

NOK million	2021 Q3	2020 Q3	Change
Net interest income	493	472	21
Net commission income	98	91	7
Net income from financial instruments	29	14	15
Associated companies	34	40	-6
Other operating income	4	-1	5
<b>Total income</b>	<b>658</b>	<b>617</b>	<b>41</b>
Total expenses	249	226	23
<b>Profit before losses on loans</b>	<b>409</b>	<b>391</b>	<b>18</b>
Losses on loans, guarantees	2	6	-4
<b>Profit before tax</b>	<b>407</b>	<b>384</b>	<b>24</b>
Tax expense	91	80	11
<b>Profit for the period</b>	<b>315</b>	<b>304</b>	<b>11</b>



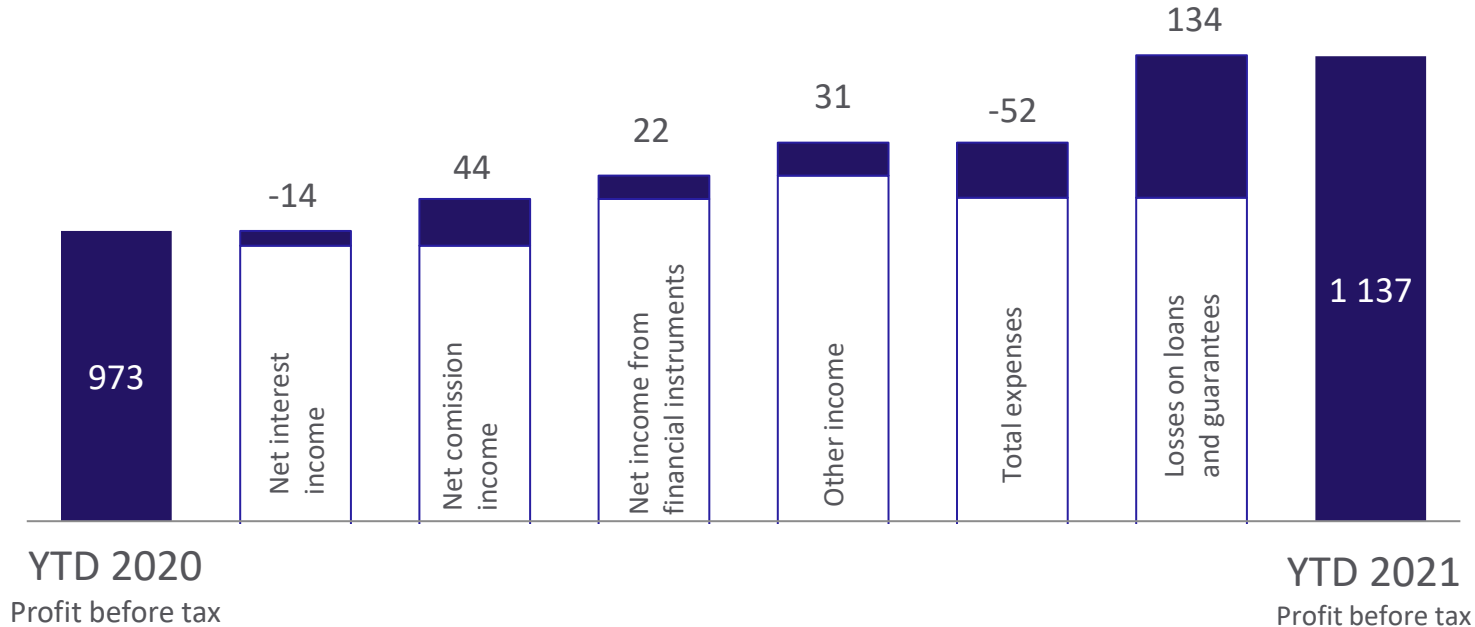
# Highlights after 9 months in 2021

- Efficient operations and low costs
- Good results from Frende, Brage and Sørmeqleren
- Net entry on losses on loans
- 12-month lending growth of 5.4 percent
- 12-month deposit growth of 7.8 percent.
- Return on equity after tax of 8.8 percent

NOK million	30.09.2021	30.09.2020	Change
Net interest income	1 432	1 446	-14
Net commission income	294	250	44
Net income from financial instruments	26	4	22
Associated companies	108	79	29
Other operating income	7	5	2
<b>Total income</b>	<b>1 867</b>	<b>1785</b>	<b>82</b>
Total expenses	750	698	52
<b>Profit before losses on loans</b>	<b>1 117</b>	<b>1 087</b>	<b>30</b>
Losses on loans, guarantees	-20	114	-134
<b>Profit before tax</b>	<b>1 137</b>	<b>973</b>	<b>164</b>
Tax expense	240	217	23
<b>Profit for the period</b>	<b>898</b>	<b>756</b>	<b>142</b>

# Development in profit before tax

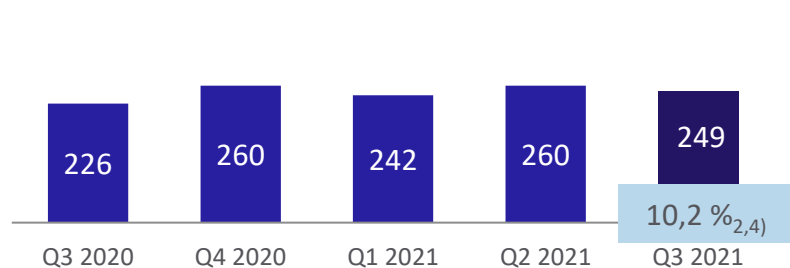
NOK million



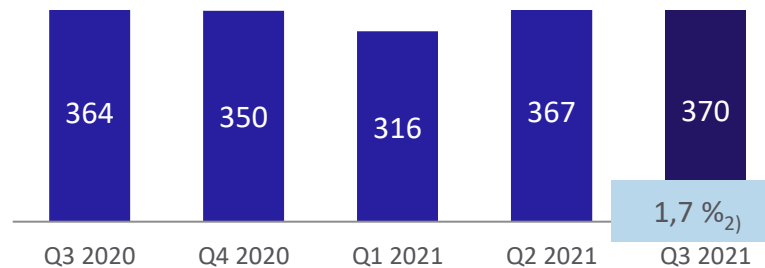
# Profit and returns

NOK millions

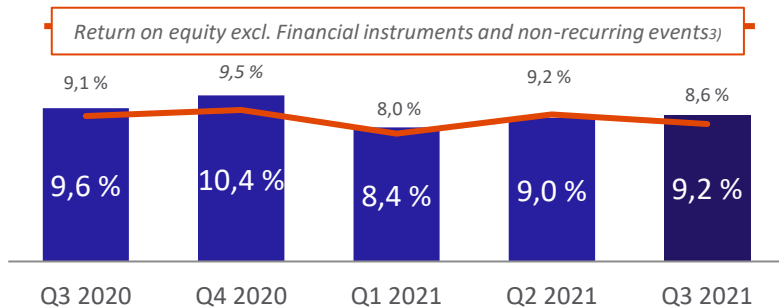
## Operating expenses



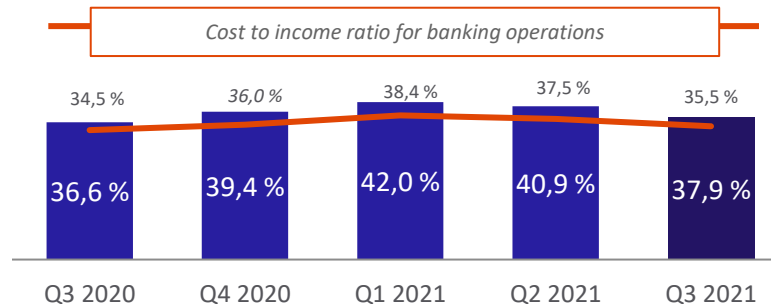
## Profit from ordinary operations<sub>1)</sub>



## Return on equity



## Cost to income ratio

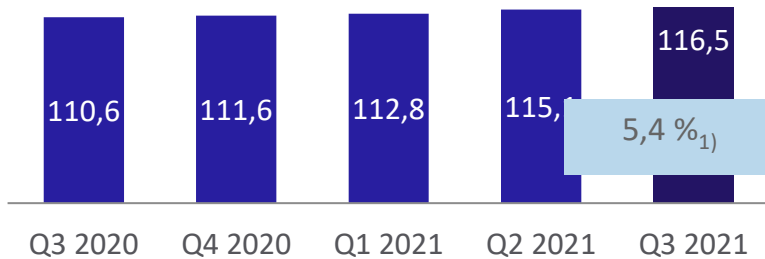


- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating expenses
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments and interest on hybrid capital
- 4) Operating expenses in the banking operations increased by 4.6% YTD compared to YTD last year

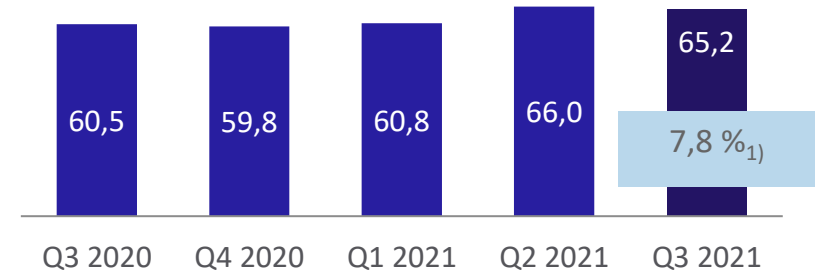
# Stable growth

NOK billions

## Net loans



## Deposits

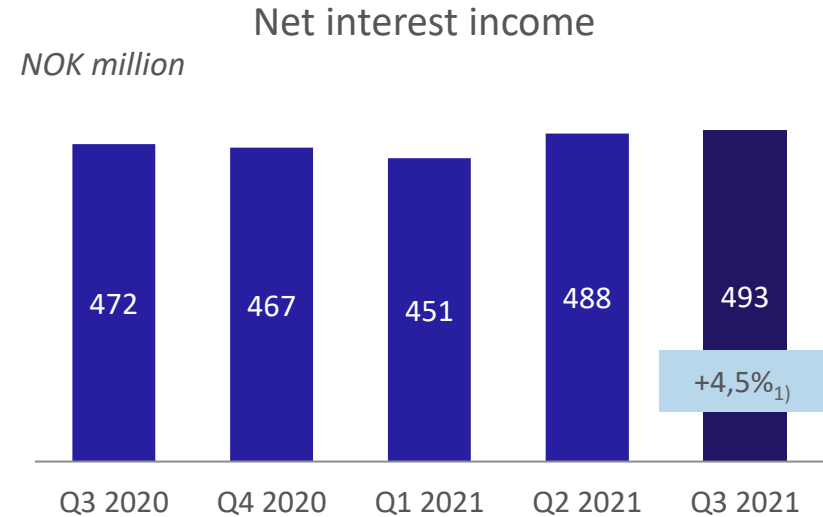


- 12-month growth of 5.4 %
  - 12-month growth in gross loans of 5.4 % for retail customers and corporate customers of 5.2 %
- Annualized growth in the quarter of 5.0 %
  - 5.3 % for retail customers and 4.0 % for corporate customers

- 12-month growth of 7.8 %
  - 12-month growth in deposits for retail customers of 4.9 % and corporate customers of 11.1 %
- Annualized growth in the quarter of 55.9 %, up from 54.7% at the same time last year

# Development of net interest income

- Positive development in net interest income
- Good deposit and lending growth
- Reprising of some deposit products
- Announced interest rate changes - estimated effect of NOK 135 million annually



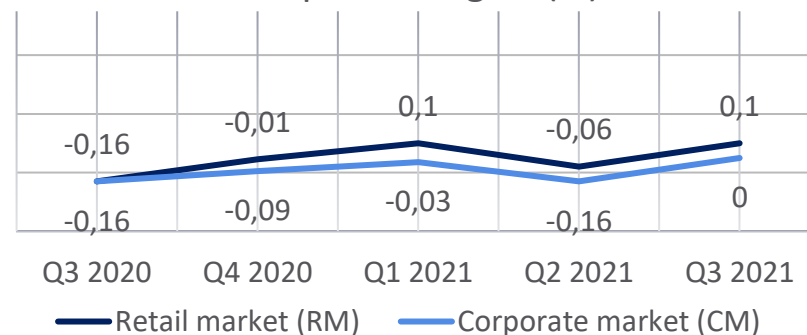
1) Changes from the corresponding prior-year period

# Interest margin and NIBOR 3M

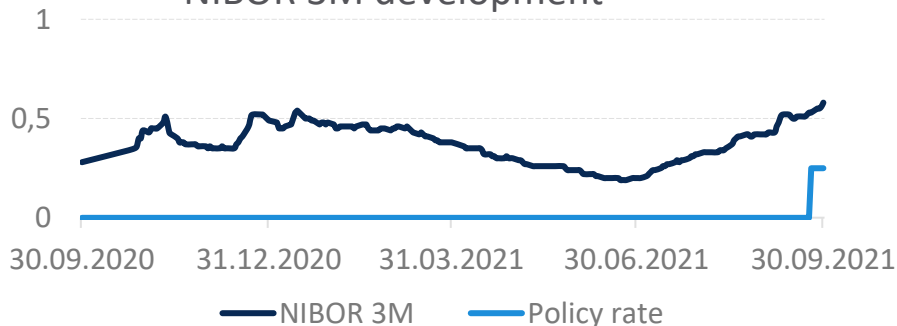
## Loan margins (%)



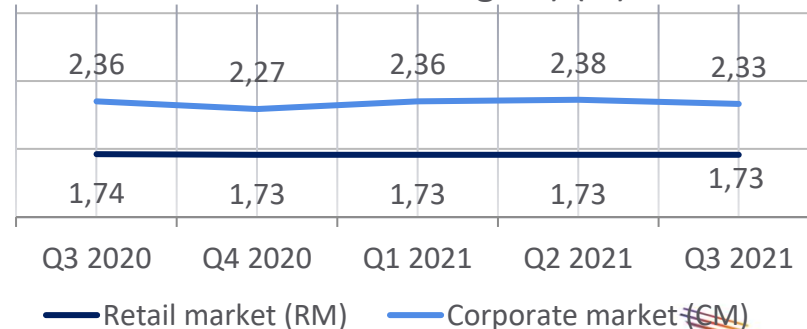
## Deposit margins (%)



## NIBOR 3M development



## Interest margin1) (%)



**SPAREBANKEN SØR**

# Associated companies

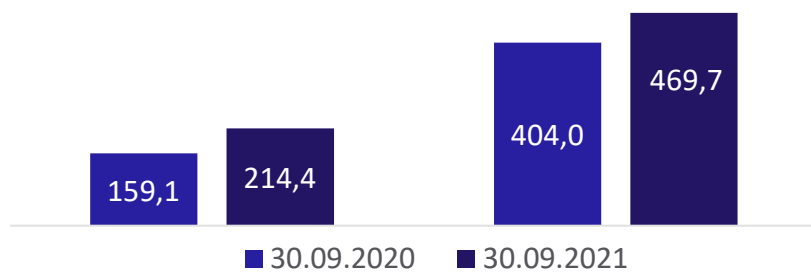


## Profit before tax

NOK millions

Brage Finans AS

Frende Holding AS



## Effect on results after consolidation

NOK million		Q3 2021	Q3 2020	30.09.2021	30.09.2020
Frende forsikring (21,0 %)	Share of profit	26,5	36,5	77,4	63,8
	Amort.	-5,4	-5,0	- 16,2	-15,4
Brage finans (20,8 %)	Share of profit	12,4	6,8	35,7	22,9

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. No value adjustment was made in the third quarter.



# Very good profit contribution from Sørmeglernen

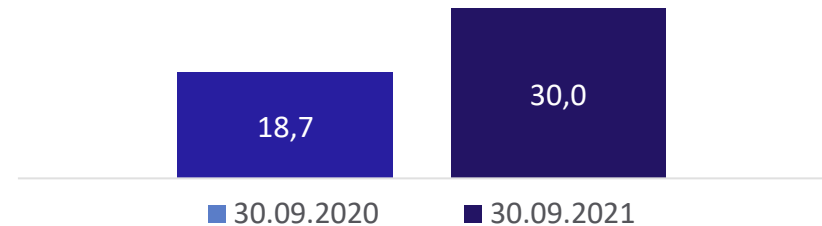
- The leading real estate agency in Southern Norway
- Brokers more than a third of housing in Southern Norway
- Strengthens position in Vestfold and Telemark with new offices in Kragerø and Sandefjord
- Investment in commercial property brokerage



**SØRMEGLEREN**

## Profit before tax

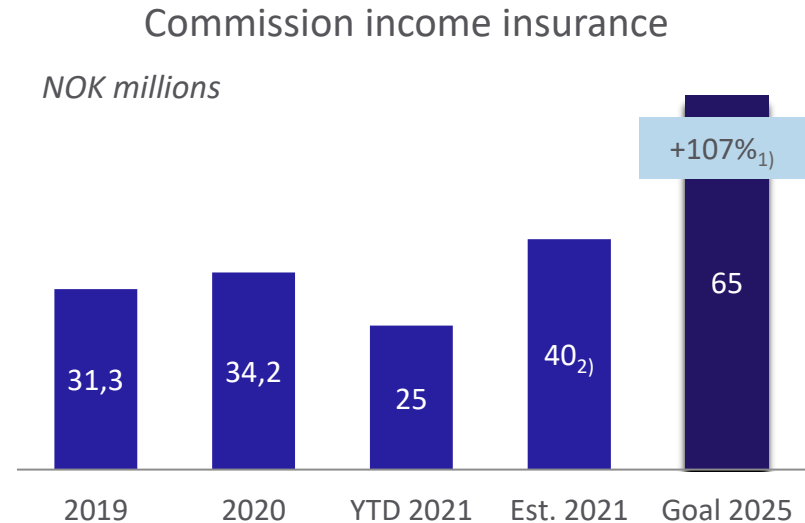
*NOK million*



**SPAREBANKEN SØR**

# Sørlandets Forsikringscenter

- The bank bought 78 percent of the shares in the company on 1 July 2021, with an option to purchase the remaining shares in the company
- In connection with the acquisition, the bank received an insurance portfolio of NOK 110 million
- The bank strengthens the sales force in insurance
- Ambition to double income from insurance in the period 2020-2025



1) Increase from 2019 in the strategy period 2020-2025

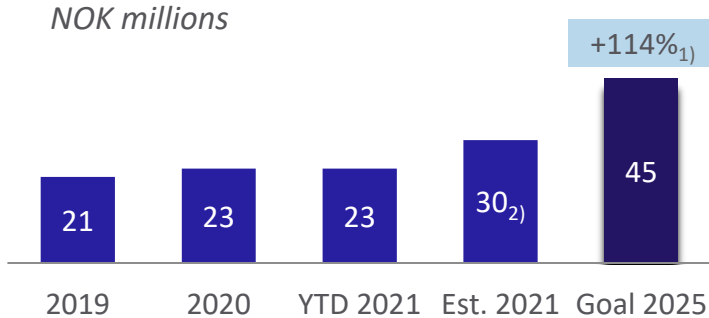
2) Estimate 2021 after purchase of portfolio



SPAREBANKEN SØR

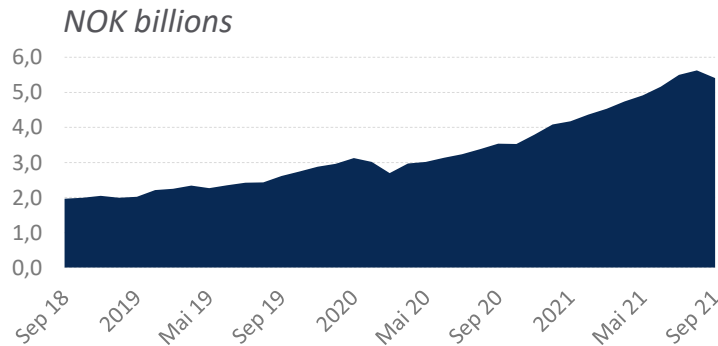
# Positive development in the area of savings

## Commission income funds



- Increased focus on Norne Fondsportal
- Strong growth in the number of savings agreements and amounts paid from savings agreements
- Portfolio growth of over 32 % YTD
- Ambition to double income from mutual funds in the period 2020-2025

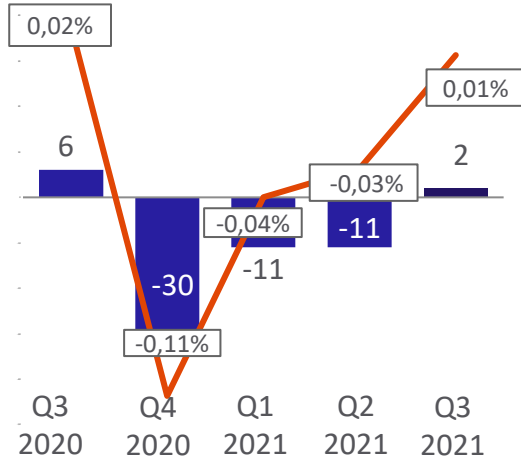
## Development portfolio



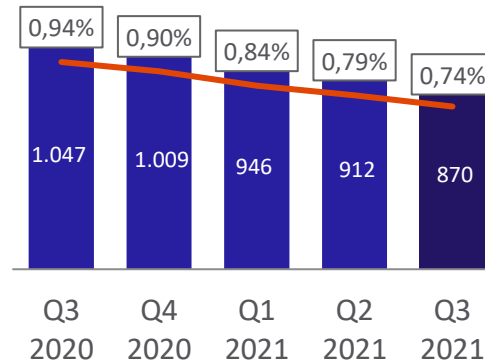
18 1) Increase from 2019 in the strategy period 2020-2025  
2) Estimated

# Non-performing loans

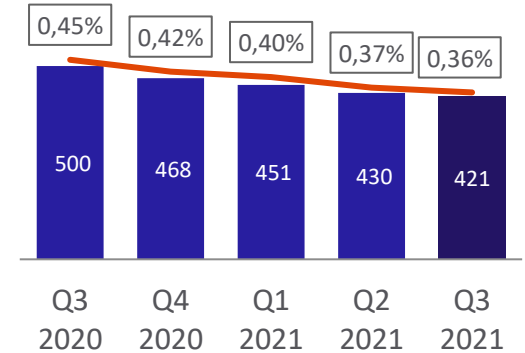
Development in losses in NOK million and as a percentage of gross loans (annualised)



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



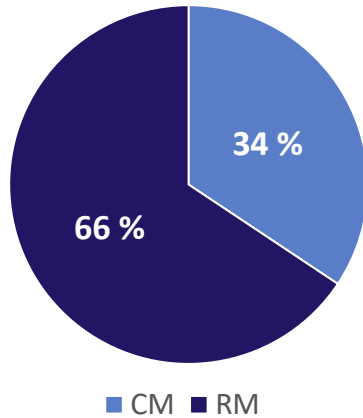
Development in loss provisions in NOK million and as a percentage of gross loans



# A diversified loan portfolio

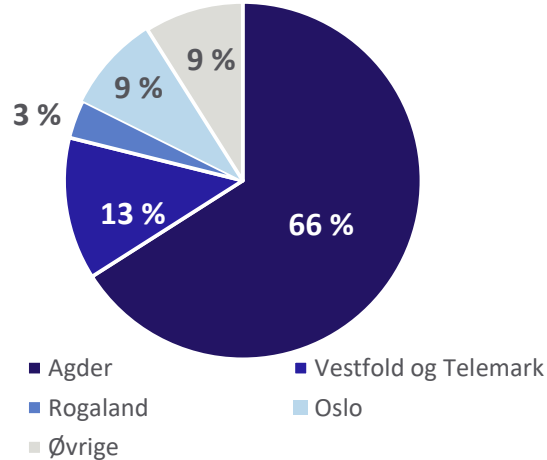
## RM/CM distribution

Gross loans

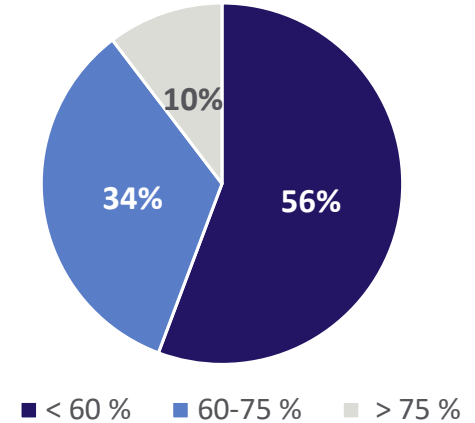


## Geographical distributions of loans

Gross loans



## Loan-to-Value (Group)

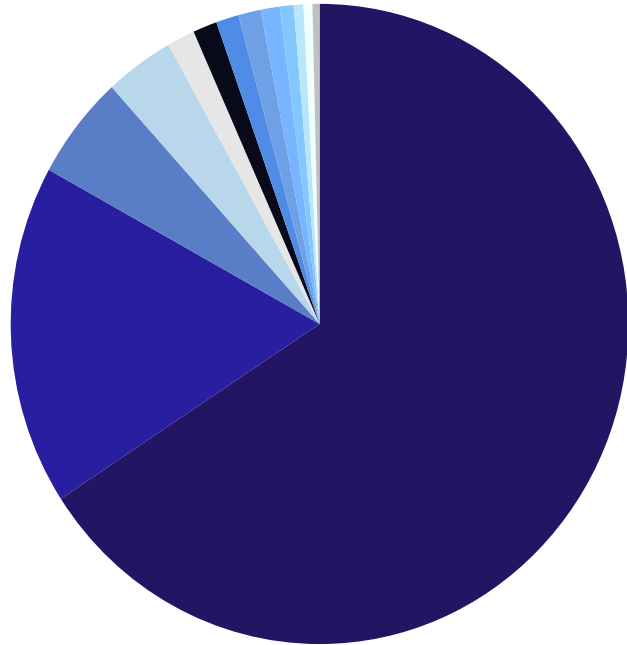


Average loan-to-value of approximately 55 percent for mortgages (group).

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

NOK 48.7 billion transferred to Sparebanken Sør Boligkreditt AS, equivalent to 62 percent of total loans to retail market

# Well-diversified loan portfolio

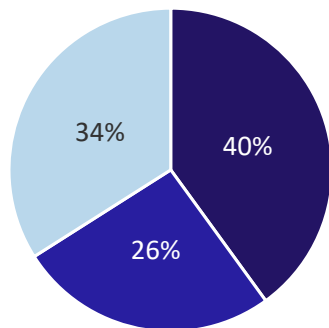


- Well diversified portfolio
- Close to none direct exposure to oil and oil service
- Very low indirect exposure to oil and oil service (tenants)

# Sparebanken Sør Boligkreditt

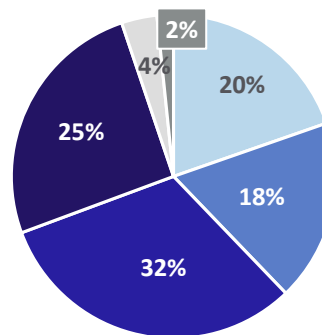
- Wholly owned by Sparebanken Sør

Wholly owned by Sparebanken Sør



■ Sparebanken Sør Boligkreditt AS ■ RM bank ■ CM

Sparebanken Sør Boligkreditt LTV distribution



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



■ Weighted avg. LTV ■ Nominell OC



**SPAREBANKEN SØR**



# Summary after Q3 2021

## Results

Positive development in net interest income, very good profit contributions from Frende, Brage and Sørmegleren. Low operating costs and low losses on loans.

## Funding and capital

Common equity tier 1 capital ratio of 16.2 percent and solid leverage ratio of 9.3 percent.  
Solid financing structure and good liquidity buffers.

## Growth

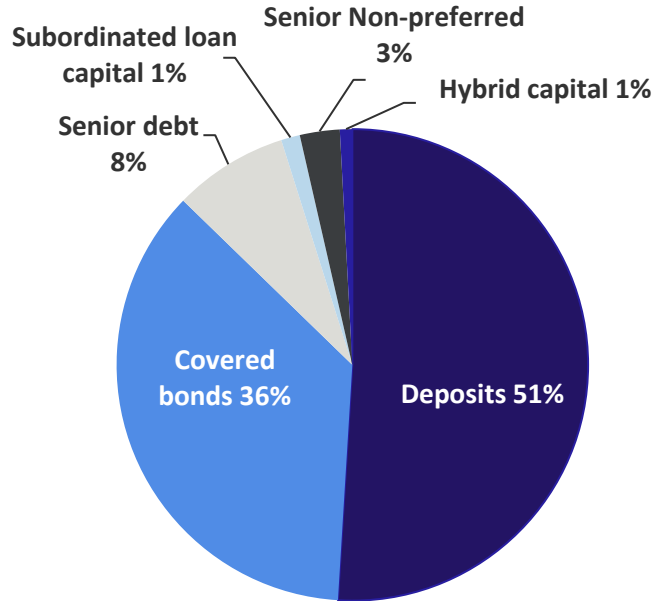
12-months growth in lending of 5.4 percent.  
12-months growth in deposits of 7.8 percent.

## Summary

Satisfactory underlying operations give a profit before tax of NOK 406 million in Q3 2021.

# Funding status

# Funding structure

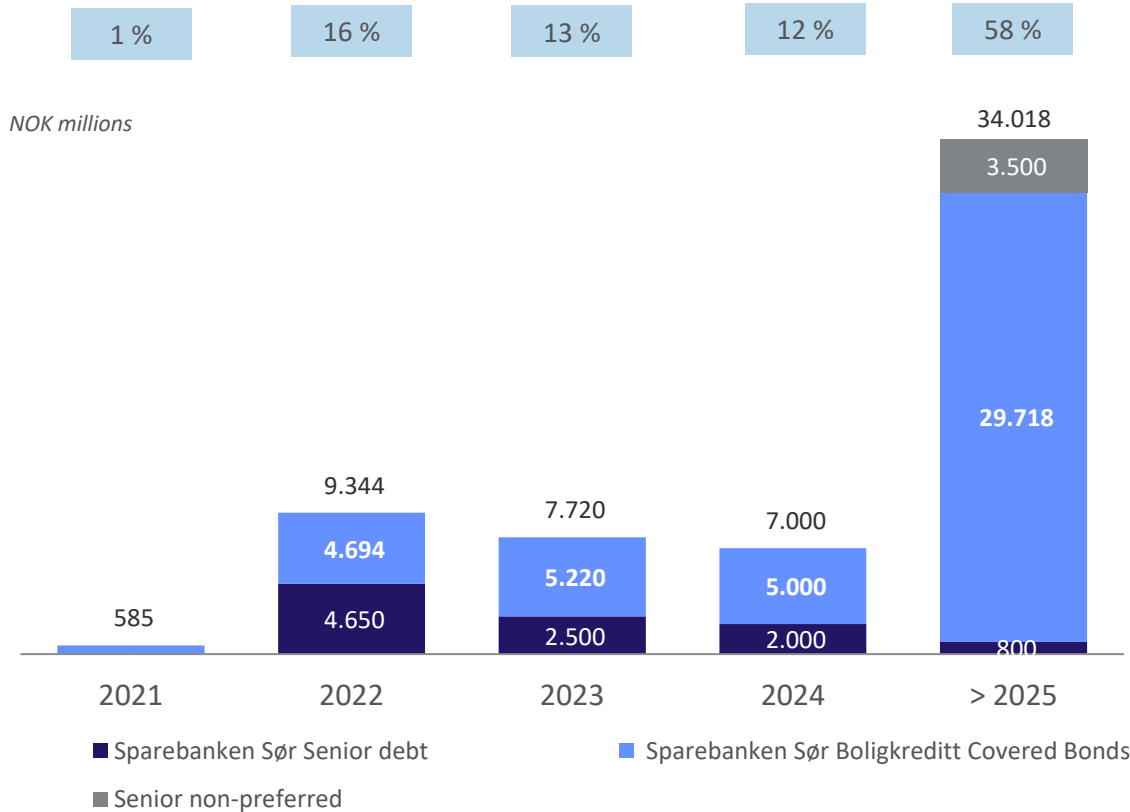


Deposits are a valuable source of funding.

- Deposits as a percentage of net loans at 55.9 %
- Good access to funding from both the domestic as well as from the bond market abroad
- More than 60 percent of the covered bonds are issued in euro
- Sparebanken Sør has issued NOK 2 billion SNP in 2020, and a further NOK 1.5 billion SNP in 2021
- Sparebanken Sør has an A1 rating
- Bonds issued by Sparebanken Sør Boligkreditt AS, are rated Aaa



# Funding maturity



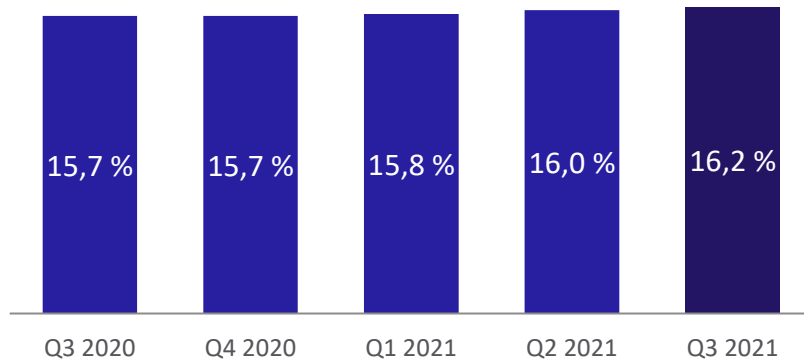
- The Group's total funding amounted to NOK 59.9 Bln
- Covered bonds amounted to NOK 46.4 billion
- Long-term funding\* amounted to 87%
- Average remaining maturity on long-term funding\* amounted to 4.1 years

\* Funding with a maturity of more than 1 year

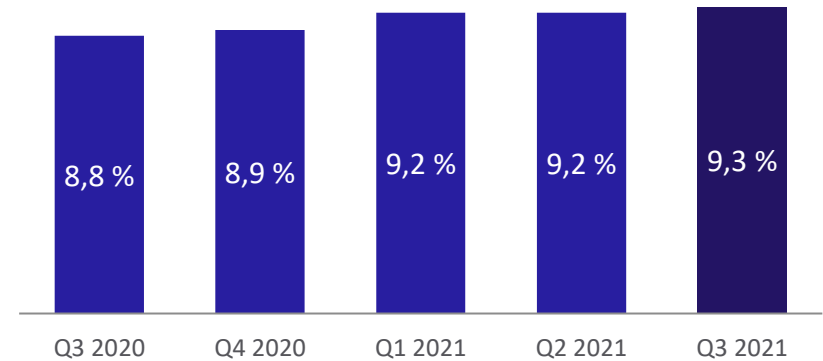
# Capital

# Capital adequacy

## Common equity tier 1 capital ratio



## Leverage ratio



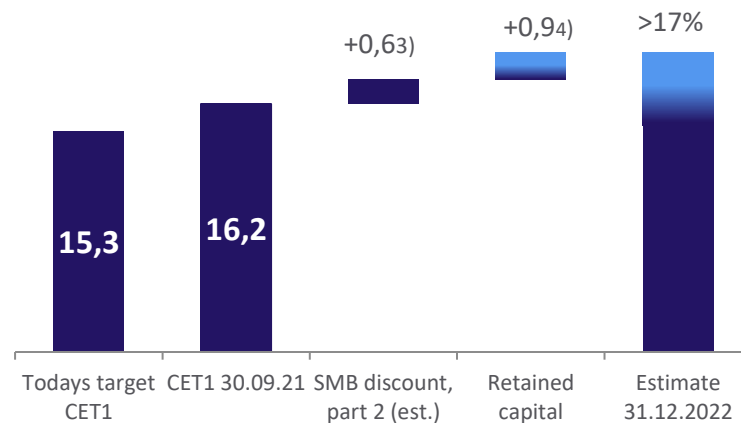
- Reduced requirement for countercyclical capital buffer from 2.5 to 1 percent.
- Well above the current capital requirement (CET1) of 13 percent.
- Based on the bank's estimates, it is expected that the new standard method will have a positive effect on CET1 in the range of 1.5-2.5 percentage points.

# Good control of capital requirements

## Capital requirements

	Current requirements	Requirements by 31.12.2022
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	2.0 %	1.0-2.0 %
Pillar-2 guidance	0%	0-1.0 %
<b>CET1 requirements</b>	<b>13.0 %</b>	<b>14.0-17.0 %</b>

## Capital adequacy and target figures



1) The Ministry of Finance has decided on a transitional rule on capital requirements for banks that use the Standardised Approach, resulting in an increase in the Systemic Risk Buffer from 3 to 4.5% from 31 December 2022.

2) The Counter-cyclical Buffer will increase with 0.5 percentage points in 2022, and might increase with a further 1.0 percentage points.

3) The SME discount part 2 is estimated to amount to c.0.6 percentage points, as well as an infrastructure rebate of c.0.2 percentage points.

29 4) Capital building based on retained capital





# Basel-IV and IRB

- The introduction of a new standard method entails a more risk-sensitive method for credit risk.
- Significant positive effects for the Bank. The new standard method is estimated to increase common equity tier 1 capital adequacy by 2.0 to 2.5 percentage points.
- The Bank conducts a thorough assessment of the effects of new regulations, in order to assess how this will affect the content of an IRB application.
- Basel-IV is not expected to be ready until 2023 at the earliest, and the Bank expects that important details in the regulations will not be clarified until close to the time of implementation.
- Based on these expectations, it is most likely that the Bank will submit an IRB application during 2023.
- Changes in estimates and determination of final regulations, may lead to adjustments in what will be an appropriate progress in an application process.

# Sustainability and digital investment

# Our ESG profile



1

Reduction of our carbon footprint

2

ESG included in credit processes

3

Evaluation of climate emissions in the loan portfolio

4

Green and social bonds

5

Sponsorships and donations targeting sustainability initiatives

6

A global perspective

- 55 percent reduction in climate emissions in 2030
- Zero climate emissions by 2050
- ESG now integrated in credit processes for corporate loans
- Developing a new ESG-system with IT provider TietoEvry
- CO2 emissions measured for c.60% mortgages (residential and commercial)
- Loan portfolio has lower emissions than the national average
- Green & Sustainable Bond Framework established in 2019
- 500 mill EUR inaugural green covered bond issued in 2019
- Yearly, NOK 50 mill are distributed in gifts and donations for sustainable and socially beneficial purposes
- UN Global Compact – CoP advanced 2020
- UNEP PRB – Reporting and Self-Assements 2020
- TFCFD report 2020



**SPAREBANKEN SØR**

# ESG-rating



- On 20 August 2021, ESG-ratings company Sustainalytics published the first official ESG rating of Sparebanken Sør

ESG Risk Rating

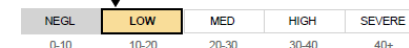
**11.7**

Updated Aug 20, 2021

Not available

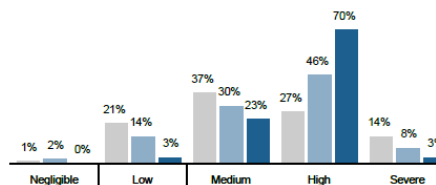
Momentum

**Low Risk**



- We were awarded a «Low risk»-rating, and a score of 11.7, the best ranking of a Norwegian bank by Sustainalytics

ESG Risk Rating Distribution



ESG Risk Rating Ranking

UNIVERSE	RANK	PERCENTILE
	(1 <sup>st</sup> = lowest risk)	(1 <sup>st</sup> = lowest risk)
Global Universe	313/13593	3rd
Banks INDUSTRY	31/1006	4th
Regional Banks SUBINDUSTRY	4/410	2nd

- We achieved 4th place amongst regional banks and 313th place of all 13 519 firms ranked by Sustainalytics

Second-Party Opinion  
Sparebanken Sør Green & Sustainability  
Bond Framework



# A small selection of good news for our customers

## Cash Services in Store

200 MNOK deposits and withdrawals for the first 12 months. 50% fewer ATMs

## Self-service refinancing in online banking from January

50% of the loan cases are refinancing.  
Better customer experience, great efficiency potential

## Invoice scanner will be launched in mobile bank RM in November

170,000 payments from mobile banking every month can now be made even easier

## New mobile banking for CM to be launched in January

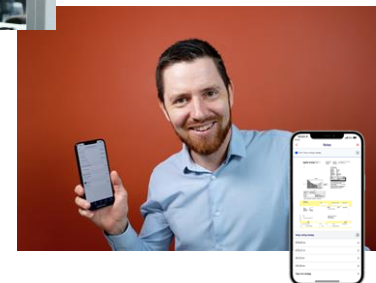
Control your company's finances from your mobile

## Sør Dashboard

Provides companies with a complete overview of cash flows

## Integration with most accounting systems

Integration with Fiken which makes it easy for 52K customers to choose us

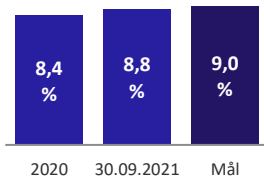


# Goals and expectations ahead

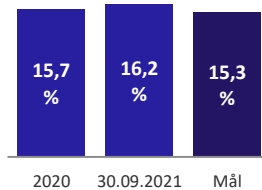


# Financial key variables and ambitions

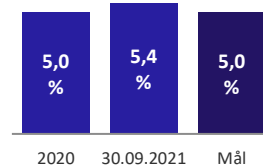
Return on equity<sub>1)</sub>



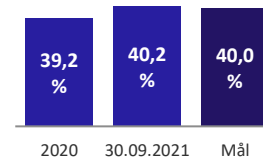
CET1 (Group)



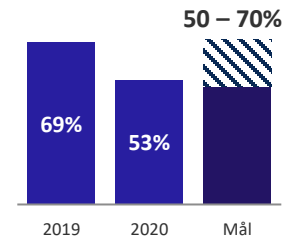
Gross loan growth<sub>2)</sub>



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 August 2021 was 5.2 for retail customers and 4.8 for nonfinancial corporations. The group's lending growth last 12 months was 5.4 for retail customers and 5.2 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

COVID-19 has affected society significantly since March 2020 and had a negative effect on the economy in Norway and for our trading partners. The reopening of society has given a upswing in the Norwegian economy, and activity level is now higher than before the corona pandemic. Normalisation of the economy implies a gradual normalization of the key policy rate in Norges Bank and it's expected a higher interest rate level going forward.

## 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 third quarter showed a strong positive growth in house prices over the last 12 months.

## Funding and capital

Common equity tier 1 capital ratio of 16.2 percent and a solid leverage ratio of 9.3 percent. The Bank is well positioned to establish long-term funding from the Norwegian and international financial markets.

## Digital development

Investments in digitization and new technological solutions 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 30.09.2021

	Name	Number of Ecs	Share of Ecs %		Name	Number of Ecs	Share of Ecs %
1	Sparebankstiftelsen Sparebanken Sør	7.988.679	51,00	11	Hamjern Invest AS	106.813	0,68
2	EIKA utbytte VPF c/o Eika kapitalforv.	733.932	4,69	12	Carl Krogh Arnet	101.461	0,65
3	Pareto Invest AS	417.309	2,66	13	Ottersland AS	100.000	0,64
4	Drangslund Kapital AS	302.107	1,93	14	MP Pensjon PK	85.523	0,55
5	Glastad Capital AS	266.348	1,70	15	Lombard Int Assurance S.A	82.131	0,52
6	Arendal Kom. pensjonskasse	250.000	1,60	16	Geir Bergskaug	75.239	0,48
7	Wenaasgruppen AS	186.000	1,19	17	Catilina Invest AS	73.237	0,47
8	Gumpen Bileiendom AS	174.209	1,11	18	Apriori Holding AS	72.575	0,46
9	Allumgården AS	151.092	0,96	19	Gunnar Hillestad	71.000	0,45
10	Sparebanken Sør	150.000	0,96	20	Alf Albert	70.033	0,45
	<b>Total 10 largest owners</b>	<b>10.619.676</b>	<b>67,80</b>		<b>Total 20 largest owners</b>	<b>11.458.340</b>	<b>73,15</b>

- **AS of 30 September 2021, 15 663 944 ECs of NOK 50 each had been issued**
- **Profit (Group) per EC amounted to NOK 3.2 in Q3 2021 and 9.0 NOK per EC YTD**
- **The ownership ratio 01.01.2021 was 16.1 percent**

# SOR – share price and liquidity

## Change in share price at 27.10.2021

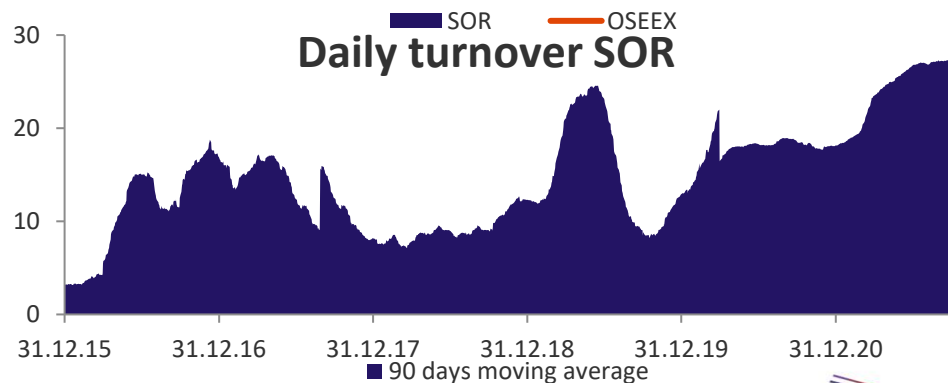
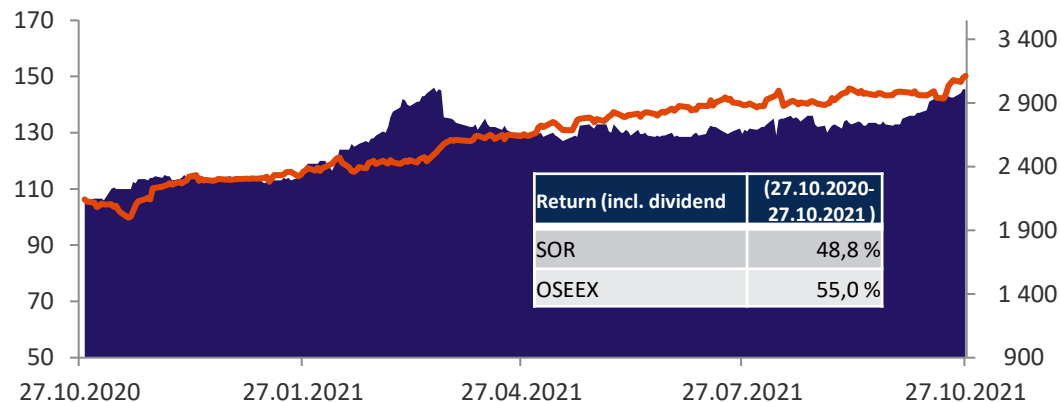
- The share price for SOR was NOK 145,5 and book value was NOK 137.3, amounting to a price-to-book ratio of 1.06.
- The equity certificates gave a return of 48.8 % last 12 months
- Profit per equity certificates 30.09.2021 of NOK 9.0, which represents a P/E of 12.1

## Turnover

- Turnover of 2.2 mill. equity certificates last 12 months.
- 15 663 944 total issued, and an EQ rate of 16.0%.

## 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.



SPAREBANKEN SØR