



# Sparebanken Sør

Investor presentation Q4 2023

# Low risk and increasing ROE



Market leader in the region



Low risk loan book



Low complexity



Strong capitalisation



Increasing ROE



# All financial targets have been achieved in 2023

✓  
ROE target:  
>11% in 2023  
and  
>12% by end of  
2025

✓  
> 16.5%  
CET1 capital  
ratio

✓  
Dividend policy  
~50 percent

✓  
Cost/income  
<40%

# Highlights 2023

## Vil dele ut 226 millioner i kundeutbytte

Sparebanken Sør deler ut kundeutbytte for første gang. Totalt vil banken dele ut 226 millioner kroner av overskuddet til kundene.



## Millionsatsing på KI: – Vi får den desidert største regnekraften i Norge

UiA og Sparebanken Sør investerer 35 millioner kroner for å utvikle en ny og mer bærekraftig kunstig intelligens. Det kan utfordre de store tech-gigantene.



## 8300 personer ville sikre seg en del av Sparebanken Sør

Sparebankstiftelsen Sparebanken Sørs nedslag i Sparebanken Sør ble betydelig overtegnet.



## Sjeføkonom om renten: – Skuffende at de er beredt på å heve igjen

Mens én sjeføkonom er skuffet over at Norges Bank fortsatt ikke utelukker renteheving, mener en annen det ville vært utenkelig å la være.



## – Må ha bevissthet om hva vi setter i gang

Elisabeth Austad Asser har tidligere vært ansvarlig for markedsføring og digitale kampanjer i Sparebanken Sør. Hun har nå hatt forskningspermisjon i tre år for å ta en doktorgrad og forske på kunstig intelligens (KI) i møte med bankens kunder.

**Bevisst**  
– Kunnskap om regningen er viktig. Det er viktig å vite at de som er beredt på å heve renten, ikke er beredt på å heve renten. Men på den annen side, det er viktig å vite at de som er beredt på å heve renten, ikke er beredt på å heve renten.

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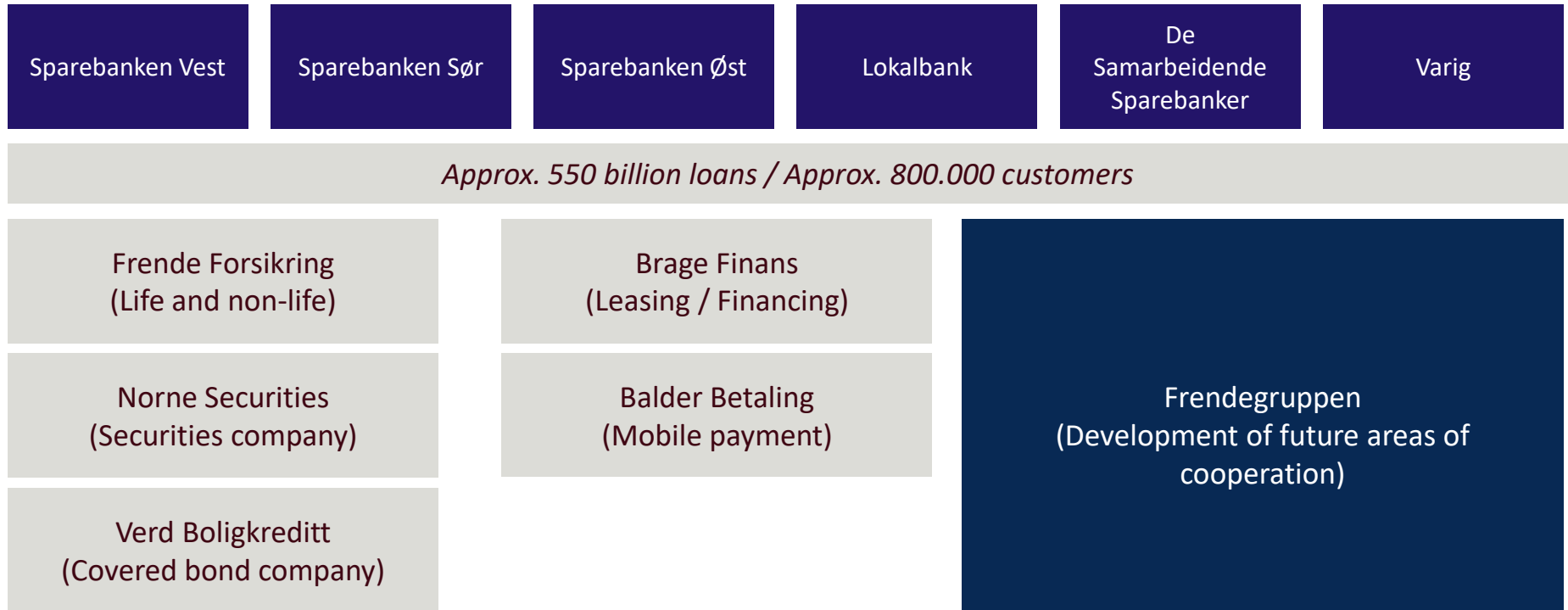


## Regjeringen endrer bankenes kapitalkrav

Finansdepartementet legger i dag frem en pakke med tiltak som vil bedre rammevilkårene for små og mellomstore banker i hele landet.



# Establishing Frendegruppen: Norway's second largest cooperation within banking and finance



# We have set three goals for the first phase

## 1. Technology cooperation

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Establish a basis for joint development of selected products and services for the participants



*Visible*

## 2. New product companies

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Establish new product companies that enables growth and profitability for the banks



*Represent*

## 3. New members

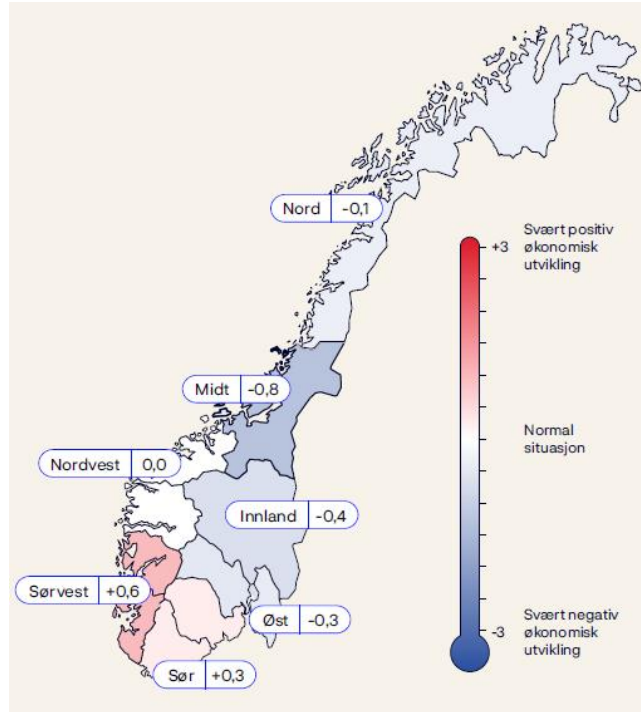
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Present ourselves as a credible and cost-effective partnership that has successfully recruited new members.



*Cooperate*

# Positive economic development in the region



**Housing price growth** in Kristiansand is the strongest in the country. So far this year, prices have increased by 5.8 %

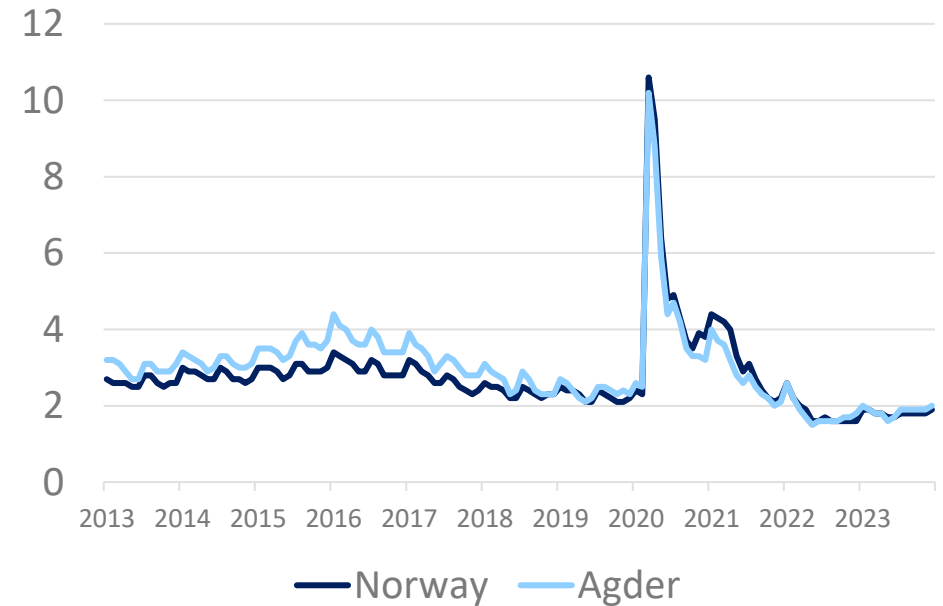
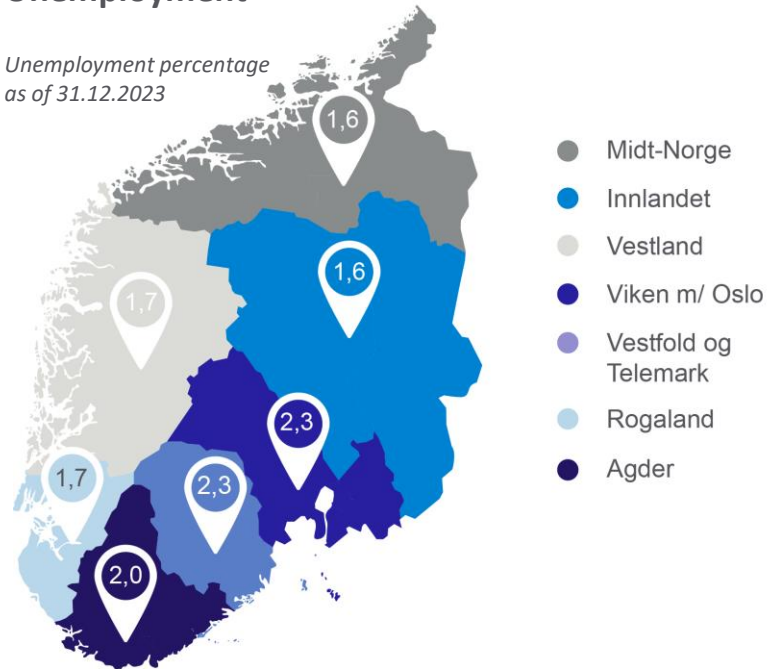
**The nurse index** shows that a single nurse can buy 46 % of the homes sold in Kristiansand, 63 % in Grenland and 64 % in Arendal.

**The economy** is affected by high activity and investment in the energy sector

# Continued strong labour market

## Unemployment

Unemployment percentage  
as of 31.12.2023

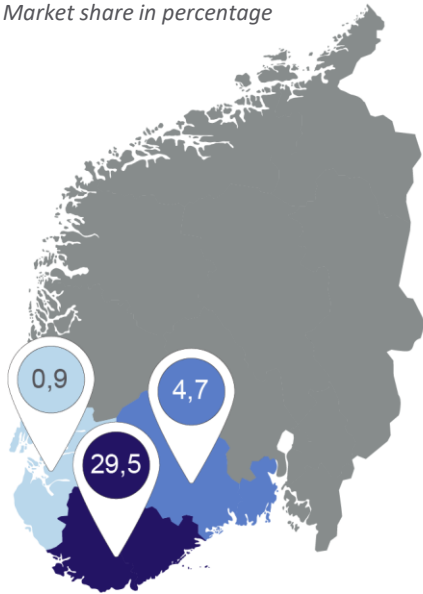




# Strong position in the housing market

## The bank maintains a strong market position

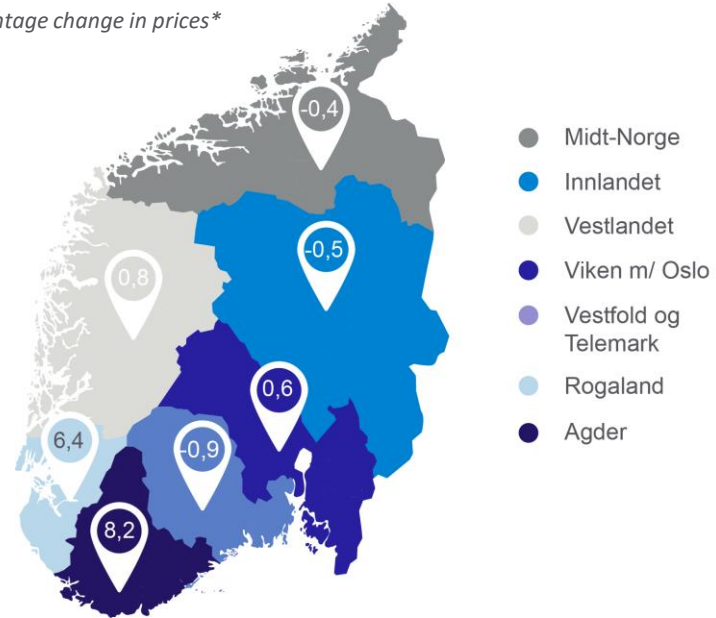
Market share in percentage



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

## Positive development in housing prices

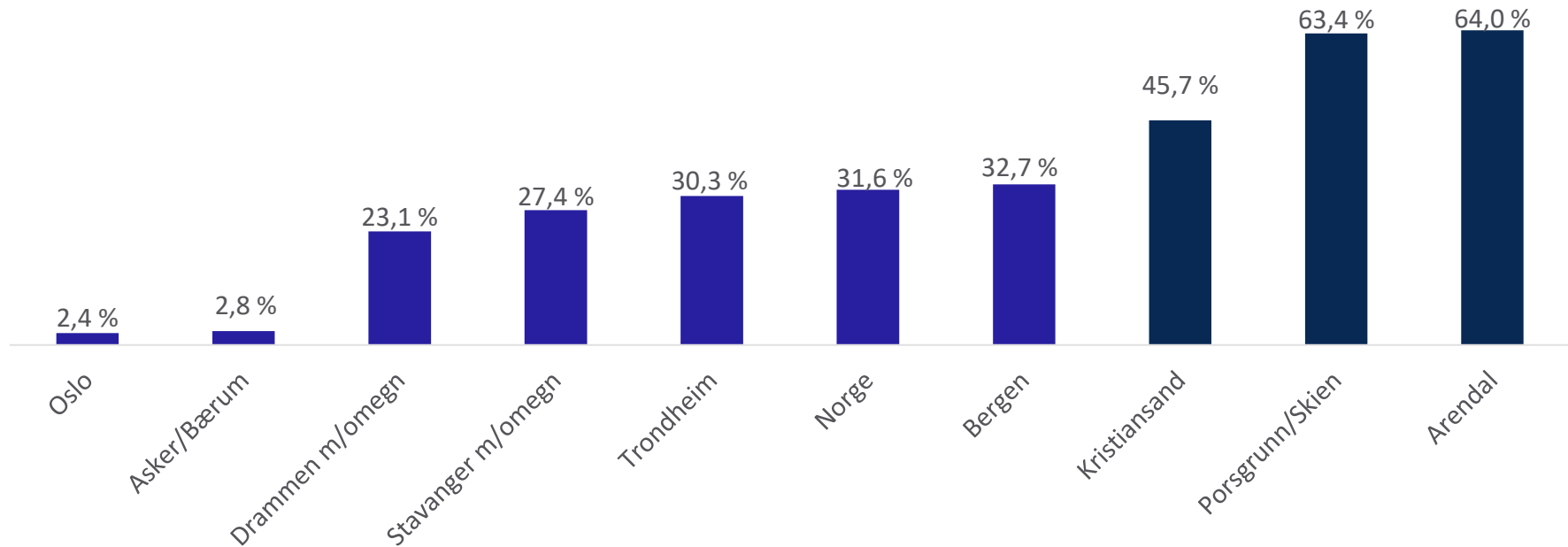
Percentage change in prices\*



\* 12-month change at 31.12.2023

# The nurse index: Good access to housing in the region's pressure areas

31.12.2023



Source: <https://eiendomnorge.no/getfile.php/1317748-1705410861/Bilder/Nyheter/2023/sykepleierindeks2023-2.pdf>

The nurse index shows the proportion of homes sold each year that a single nurse has the opportunity to buy (based on income and the lending regulations' assumptions)

**Q4 2023**

# Solid underlying operations in Q4

- Net interest income increased by 19 percent
- Satisfactory profit contribution from associated companies
- Negative financial income and one-time costs
- Low losses and defaults still at a historically low level
- Result per equity certificate (EC) of NOK 3.9 (NOK 4.5)
- return on equity of 10.5 percent
- Very successful sale of equity certificates from Sparebankstiltelsen Sparebanken Sør

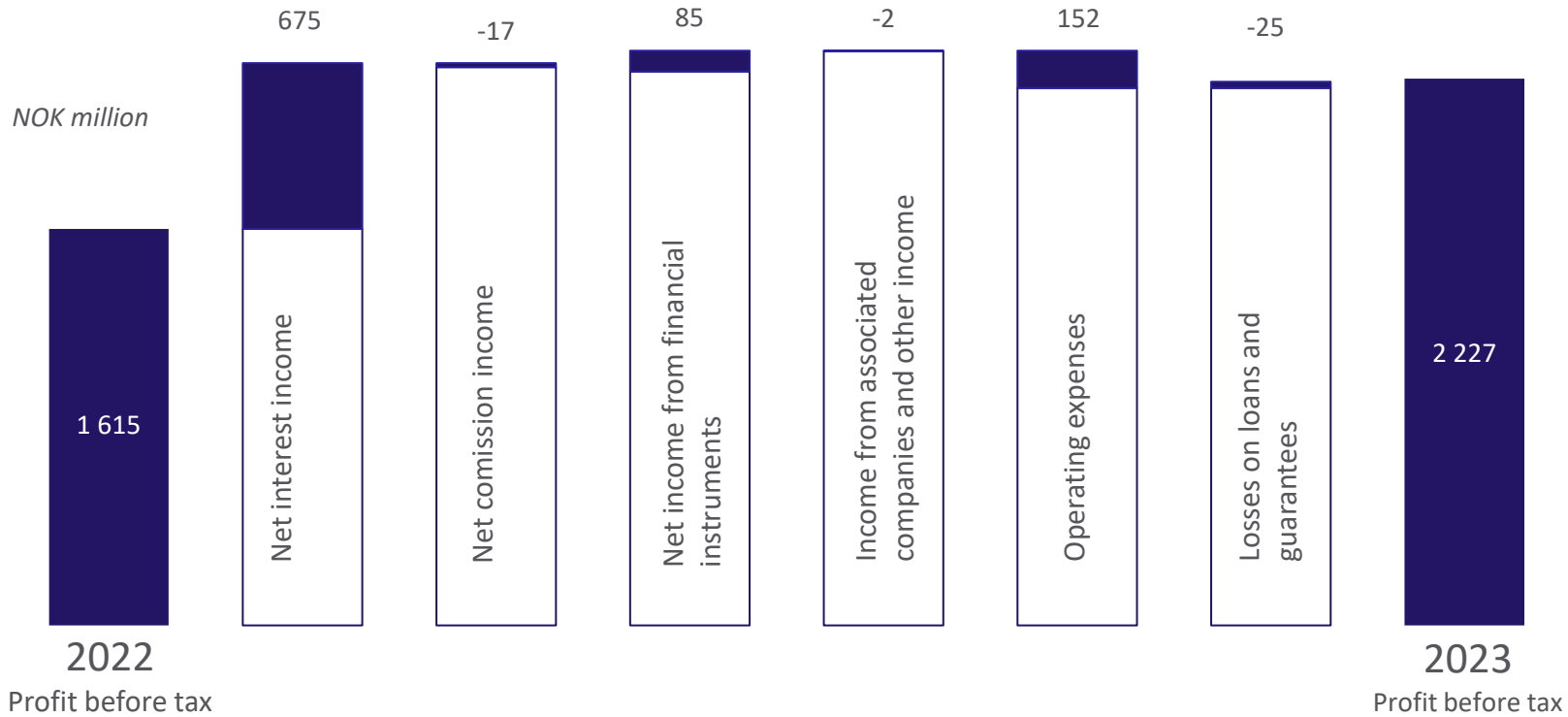
NOK million	2023 Q4	2022 Q4	Change
Net interest income	815	683	132
Net commission income	105	115	-10
Net income from financial instruments	-13	35	-48
Associated companies	33	46	-13
Other operating income	3	1	2
<b>Total income</b>	<b>943</b>	<b>892</b>	<b>51</b>
Total expenses	370	311	59
<b>Profit before losses on loans</b>	<b>573</b>	<b>581</b>	<b>-8</b>
Losses on loans, guarantees	31	15	16
<b>Profit before tax</b>	<b>543</b>	<b>566</b>	<b>-23</b>
Tax expenses	116	98	18
<b>Profit for the period</b>	<b>426</b>	<b>468</b>	<b>-42</b>

# Solid growth in profit

- Very good development in net interest income
- Lower losses on loans
- Solid return on equity after tax of 11.3 percent
- Low cost-income ratio of 36.3 percent
- Profit per equity certificate NOK 16.4 (NOK 11.9)
- 12-month lending growth of 3.0 percent
- 12-month deposit growth of 5.6 percent
- The Board will propose to distribute a dividend of NOK 10 per equity certificate, NOK 417 million in customer dividends and NOK 208 million in gifts

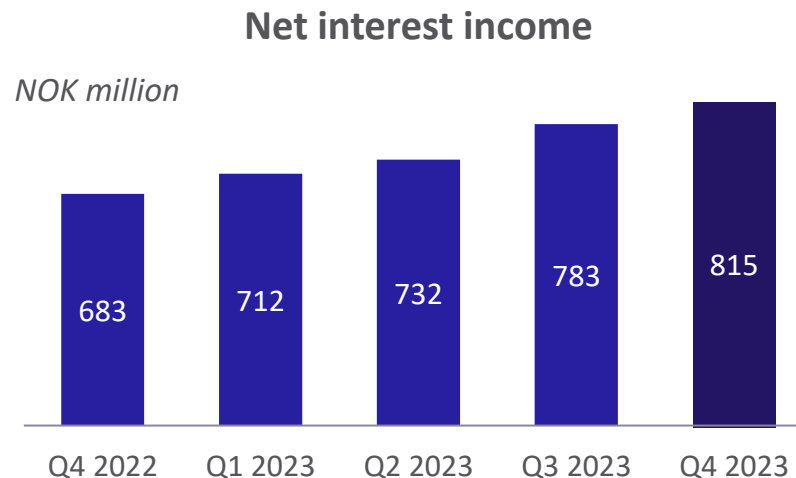
Millioner NOK	31.12.2023	31.12.2022	Change
Net interest income	3 043	2 368	675
Net commission income	400	417	-17
Net income from financial instruments	3	-82	85
Associated companies	99	125	-26
Other operating income	29	5	24
<b>Total income</b>	<b>3 573</b>	2 834	<b>739</b>
Total expenses	1 297	1 145	152
<b>Profit before losses on loans</b>	<b>2 276</b>	1 690	<b>586</b>
Losses on loans, guarantees	49	74	-25
<b>Profit before tax</b>	<b>2 227</b>	1 615	<b>612</b>
Tax expenses	454	332	122
<b>Profit for the period</b>	<b>1 773</b>	1 283	<b>490</b>

# Decomposition of changes in profit before tax



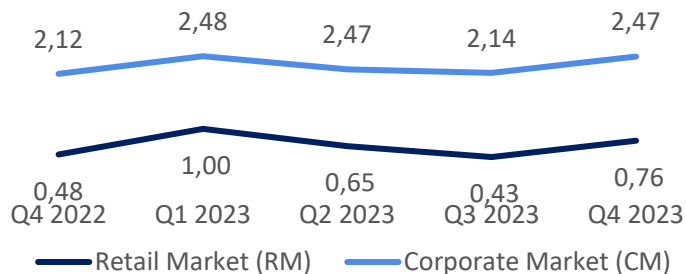
# Very strong growth in net interest income

- Increased interest margins for retail and corporate markets
- Positive deposit and lending growth in the last 12 months
- The announced changes in interest rate will additionally increase the net interest margin

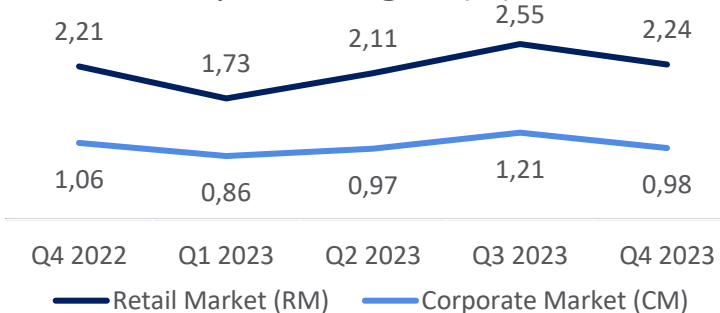


# The interest rate changes strengthen the interest margin over time

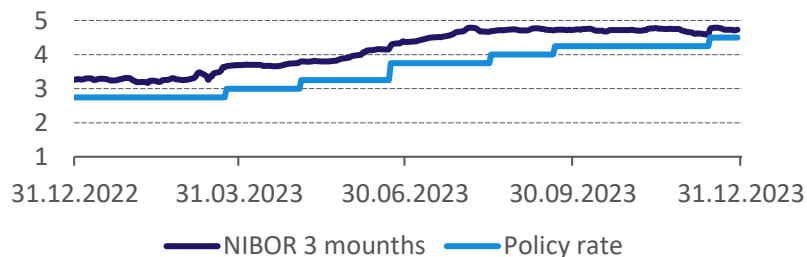
## Loan margins (%)



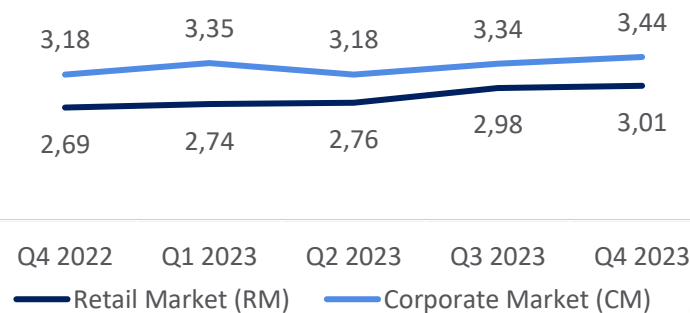
## Deposit margins (%)



## NIBOR 3M development



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



1) Interest margin is the average lending rate minus the average deposit rate



# Profit contributions from associated companies

- Good ROE from Brage with 11.2 percentage in 2023
- Share of profit from Frende in Q4 was positive, despite the fact that 2023 has been a challenging year for the non-life insurance business, characterized by natural damages and a relatively high number of large claims
- Increased holdings in Brage Finans to 27.6% in Q1 2024
- Increased holdings in Frende forsikring to 20.3% in Q1 2024

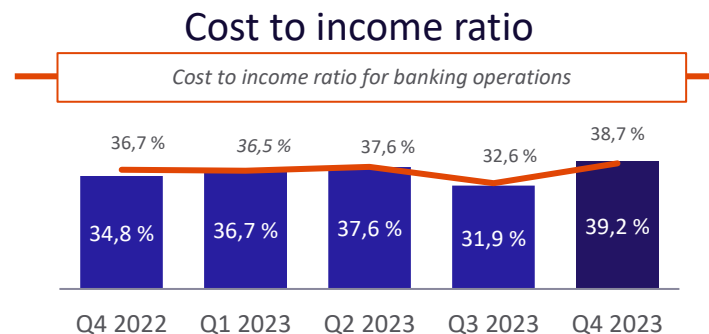
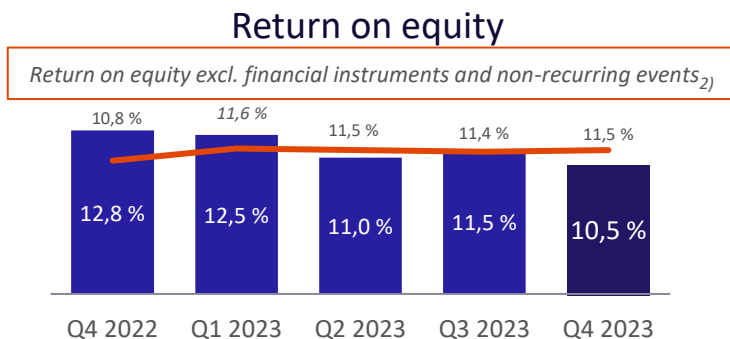
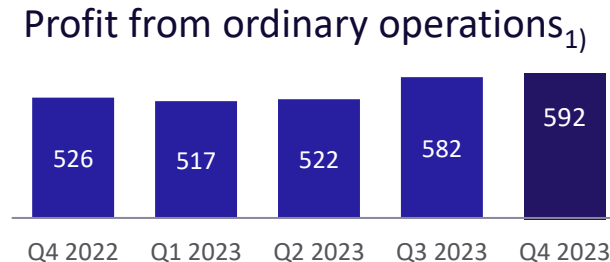


## Effect on results after consolidation

NOK million		Q4 2023	Q4 2022	31.12.2023	31.12.2022
Frende Forsikring* (19.9 %)	Share of profit	16,3	28,9	26,6	59,1
	Amort.	-5,5	-5,5	-22,0	-21,8
	Sale				24,9
Brage Finans (24.9 %)	Share of profit	22,3	20,4	82,9	60,1
Balder Betaling (23.0 %)	Share of profit	0	2,3	11,4	2,9
SUM		33,1	46,1	98,9	125,2

# Strong return on equity and low cost percentage

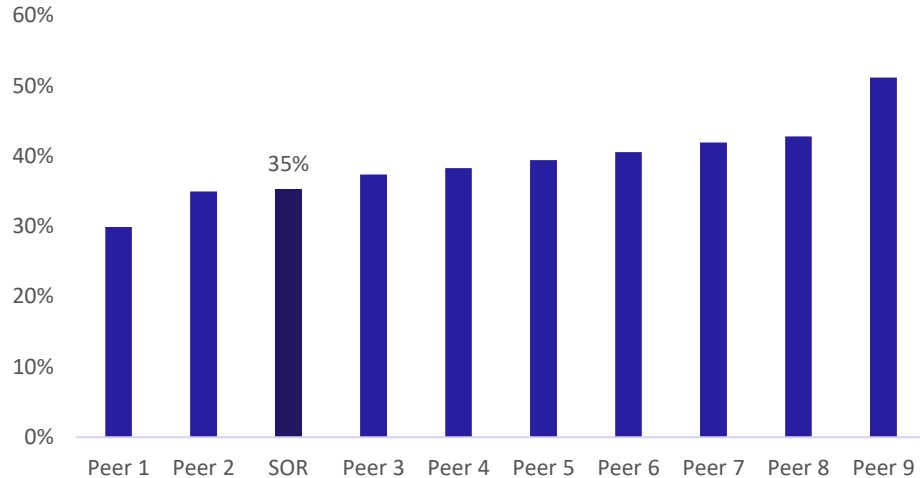
NOK million



- 1) Net interest income + Net commission income + Other operating income – Operating expenses +/- One-off items
- 2) Return on equity excl. accounting effects from financial instruments and one-off items and incl. interest on hybrid capital
- 3) One-time costs in Q4 2023 of NOK 15 million related to employee offers of the sale of equity certificates, as well as NOK 6.3 million related to the write-down of goodwill. Affects ROE negatively in the quarter by approximately 0.6 percentage points and the cost percentage negatively by 2.2 percentage points.

# Ambition for high cost-efficiency

Kostnad/Inntekt for Q1-Q3 2023 mot konkurrenter

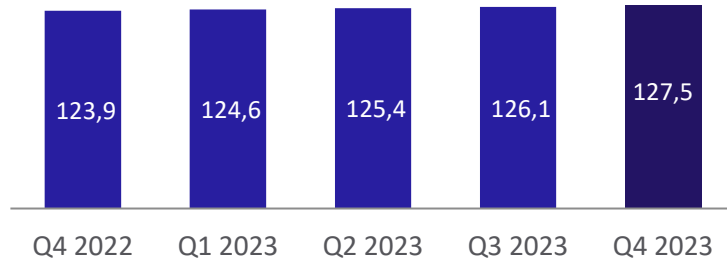


- Among the most cost-effective banks
- Ambition to continue to be among the most efficient banks going forward
- Ambition for cost growth at the level of inflation

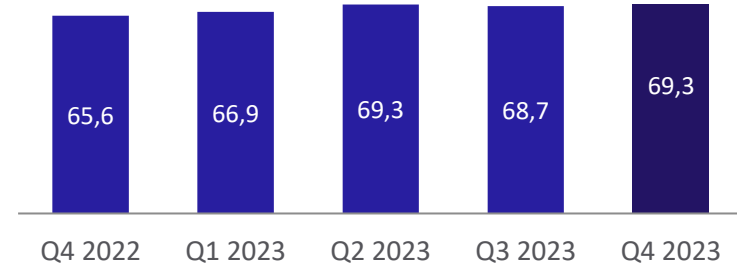
# Prioritise profitable growth

NOK billions

## Net loans



## Deposits

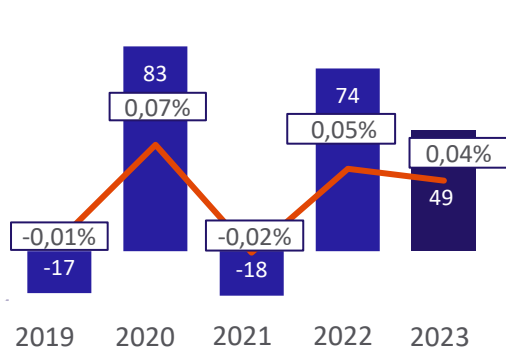


- **12 month growth of 3.0 %**
  - 12 month growth in gross loans of 2.1 % for retail customers and 5.4 % from corporate customers
- **Annualised quarterly growth of 4.6 %**
  - 1.5 % for retail customers and 10.4 % from corporate customers

- **12 month growth of 5.6 %**
  - 12 month growth in deposits from retail customers of 2.7 % and corporate customers of 8.1 %
- **Deposit coverage of 54.3 % (53.0 %)**

# Low losses and non-performing loans

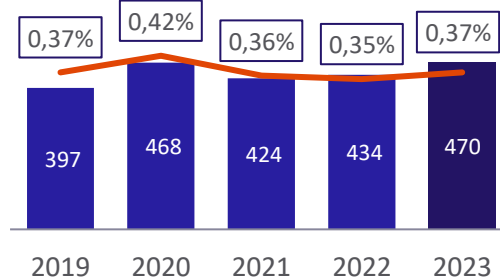
Development in losses in NOK million and as a percentage of gross loans (annualised)



Development in non-performing loans (IFRS 9, step 3) in NOK million And as a percentage of gross loans



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

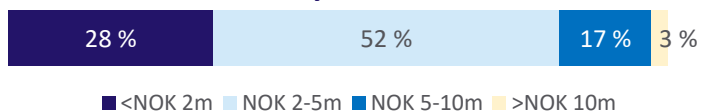


# Diversified loan portfolio with low risk

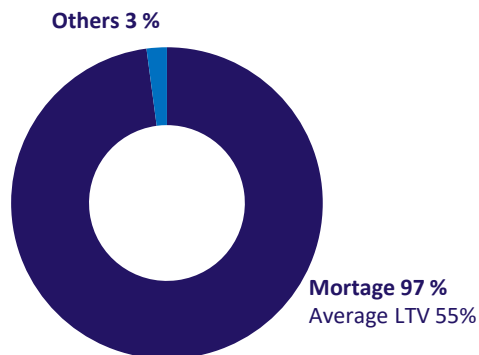
## Retail Market

64 % of the loan portfolio

### Distribution of loans by size

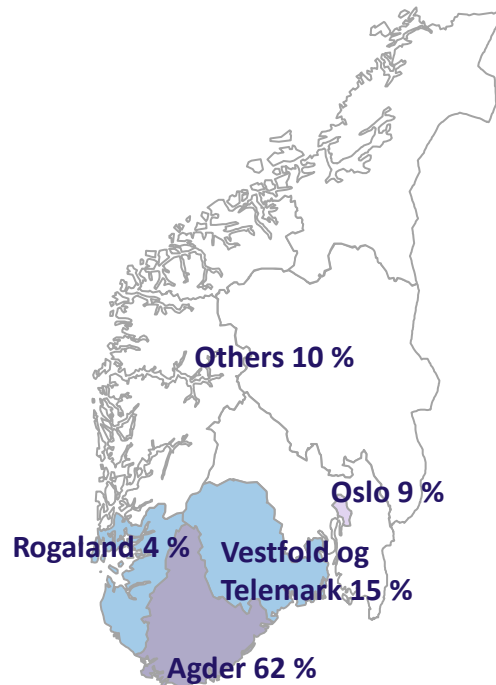


### Mortgage makes 97% of the loan portfolio



## Total

Geographical distribution of the overall lending portfolio



## Corporate Market

36 % of the loan portfolio

### Distribution of loans by size



### Sector distribution

#### Others, for example

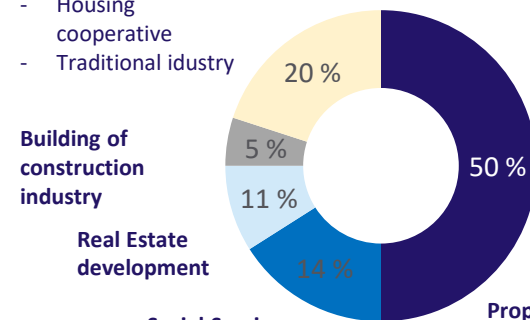
- Retail trade
- Primary industry
- Housing cooperative
- Traditional industry

#### Building of construction industry

#### Real Estate development

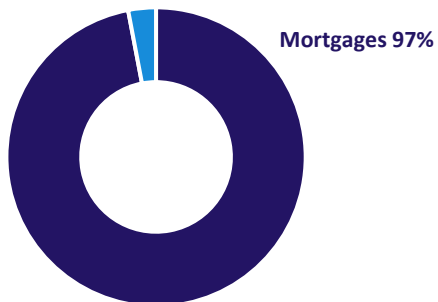
#### Social Services

#### Property management

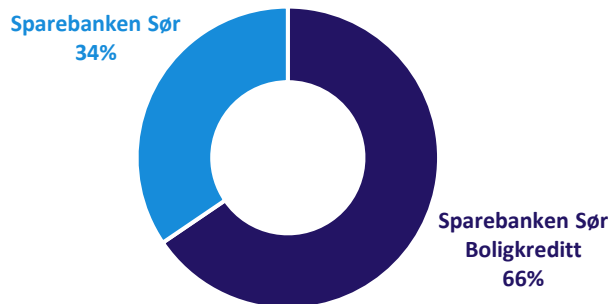


# Retail loan book – 97% mortgages and good security (low LTV)

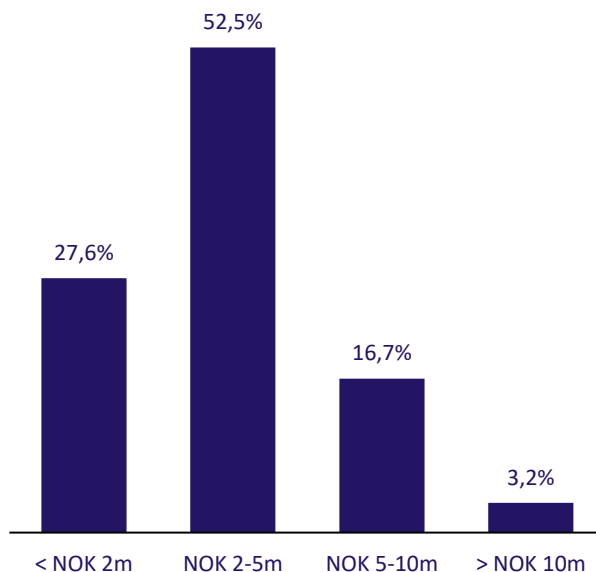
## Share of mortgages



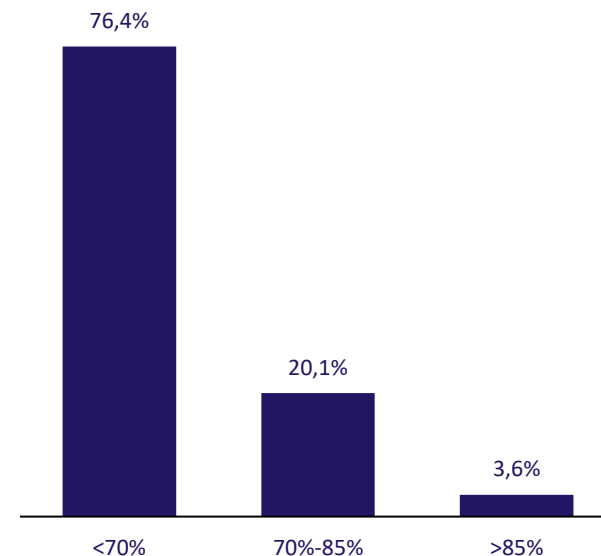
## On balance vs. covered bond transfers



## Retail lending by size

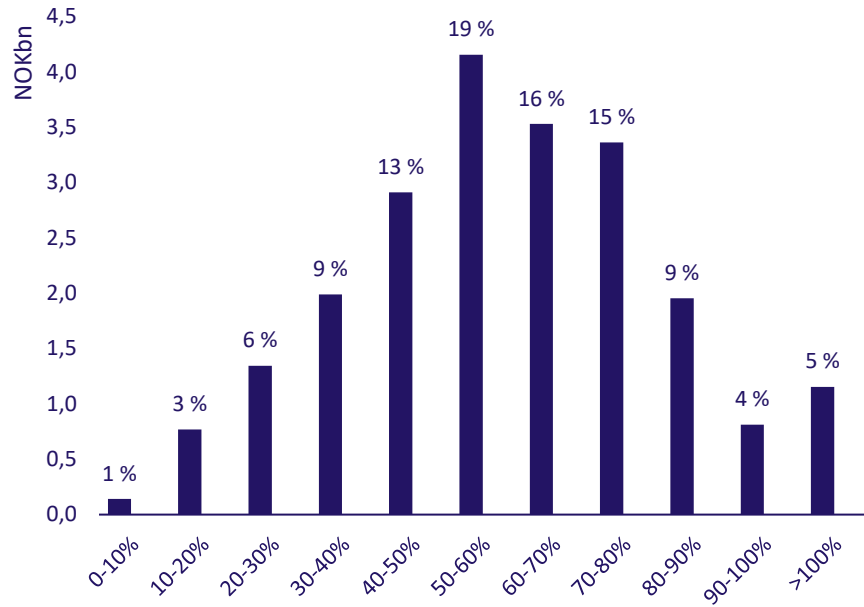


## Retail lending by LTV

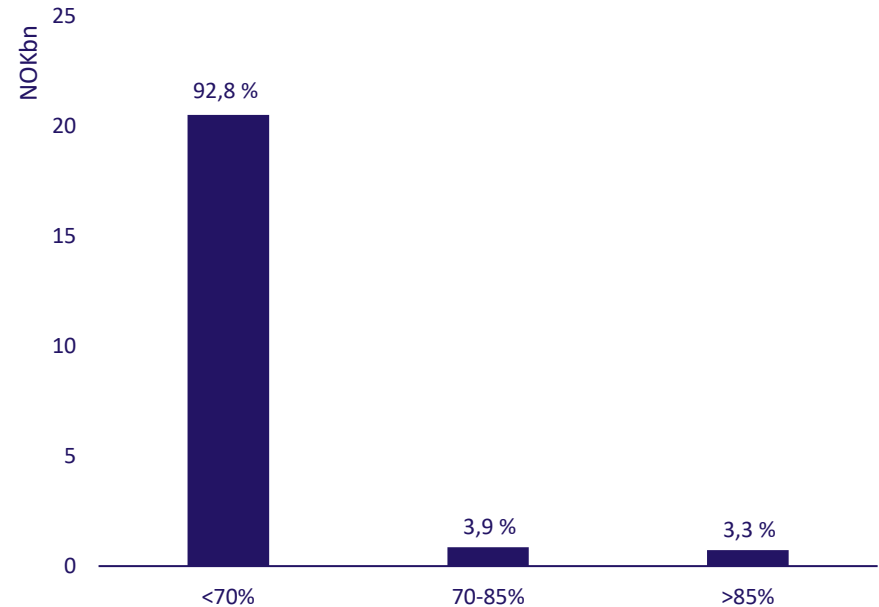


# Solid asset backing in commercial real estate portfolio (property management)\*

## LTV distribution – «whole-loan approach»



## LTV distribution – “loan-splitting approach”\*\*



\* Additional collateral for all above 80 %. Collateral in other types of pledged assets than real estate not taken into account (guarantees, equipment, receivables etc.)

\*\* Only the part of a loan exceeding a certain threshold of LTV is included in the next bracket of higher LTV ratio

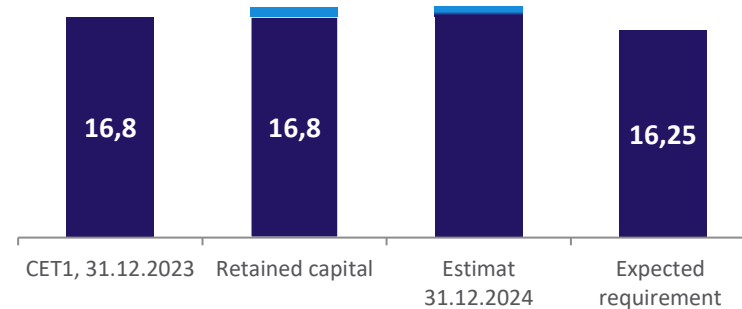


# Well positioned for higher capital requirements

## Capital requirement

	Current requirements	Expected requirements
Minimum Tier 1 Capital Requirements	4,5 %	4,5 %
Conservation buffer	2,5 %	2,5 %
Systemic Risk Buffer <sup>1)</sup>	4,5 %	4,5 %
Countercyclical Buffer	2,5 %	2,5 %
Pillar-2 requirements <sup>2)</sup>	1,0 %	1,0 %
<b>CET1 requirements</b>	<b>15,0 %</b>	<b>15,0 %</b>
Pillar-2 Guidance	1,0 %	1,25 %
<b>CET1 requirements Incl. P2G</b>	<b>16,0 %</b>	<b>16,25 %</b>

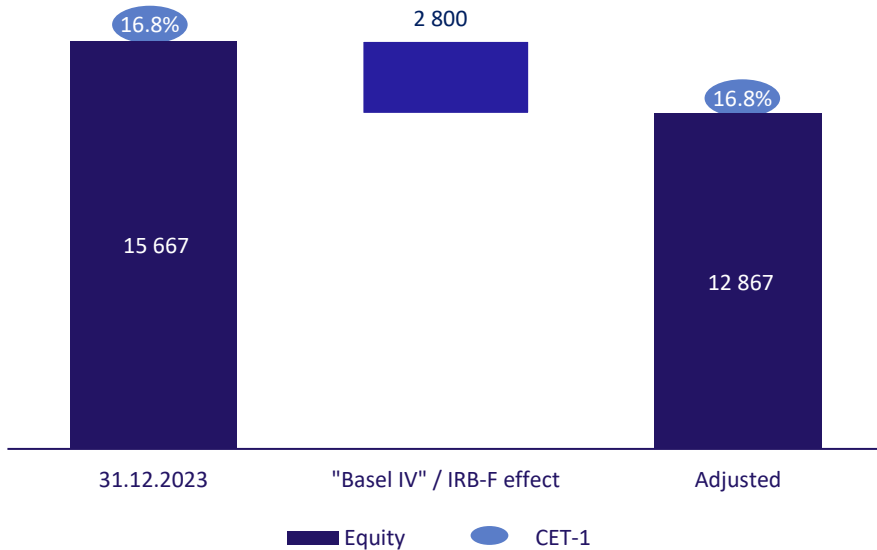
## Capital adequacy



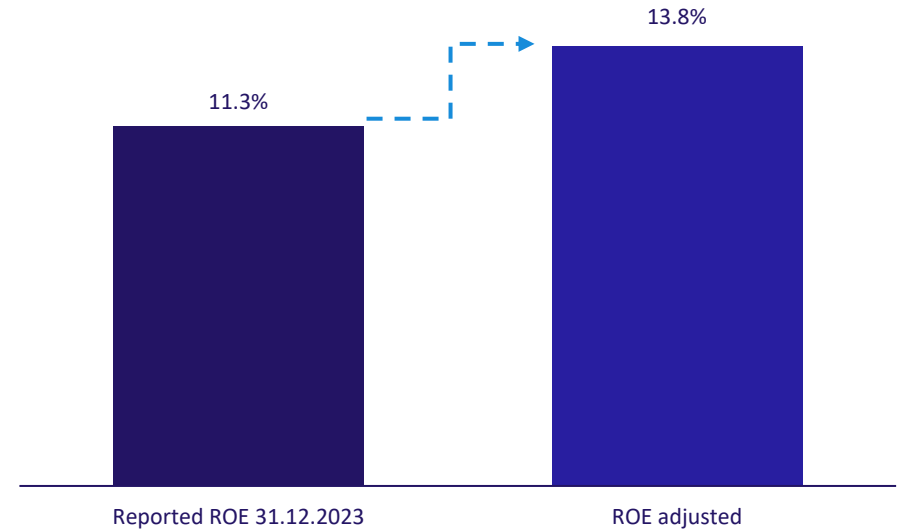
1) Based on preliminary SREP from the Norwegian Financial Supervisory Authority, Finanstilsynet

# Positive capital effects from "Basel IV" / IRB-F

Capital release from Basel IV / IRB (NOKm)\*



Higher ROE due to new capital regulations\*\*

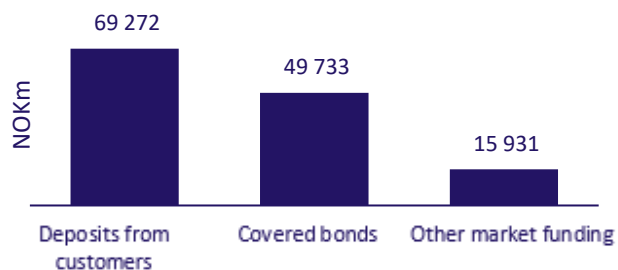


\*Expected capital effects of approx. 3.5 percentage points on CET-1 with either IRB-F or "Basel IV"

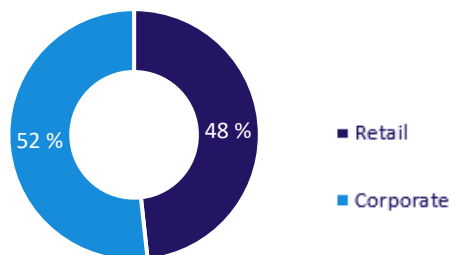
\*\* Assumes the same profit after tax and reduced equity as a result of "Basel IV"/IRB-F

# Diversified financing

## Funding split



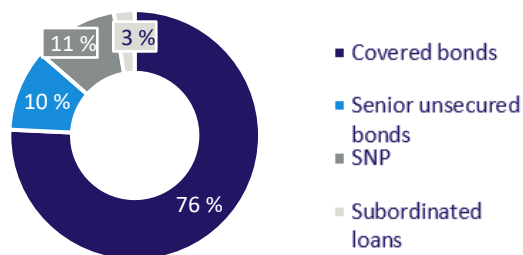
## Deposits split



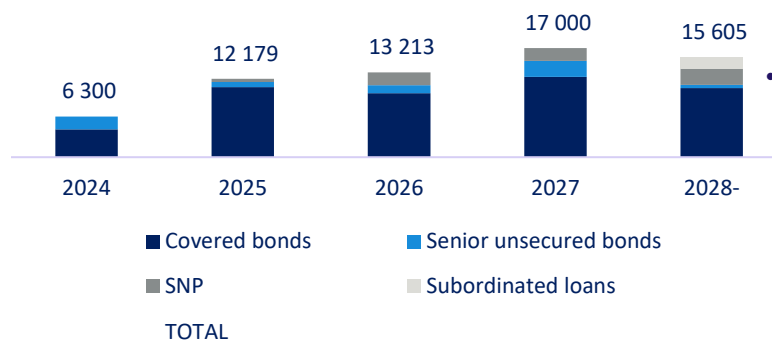
## Key comments

- Preominantly funded with customer deposits and covered bonds (OMF)
- NOK 69.3 bn in customer deposits – 48 % retail customers
- NOK 65.7 bn in capital market funding – ~50% maturing in 2027 and later
- Sparebanken Sør has an A1 rating, “stable outlook”
- Sparebanken Sør Boligkreditt AS received an A1 rating in June 2023, in line with the bank
- Bonds issued by Sparebanken Sør Boligkreditt AS is rated AAA

## Capital market funding split

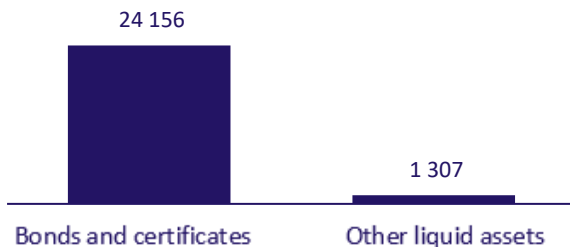


## Capital market maturity profile\*

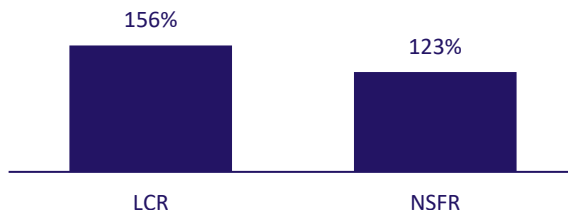


# Strong liquidity position

## Sources of liquidity



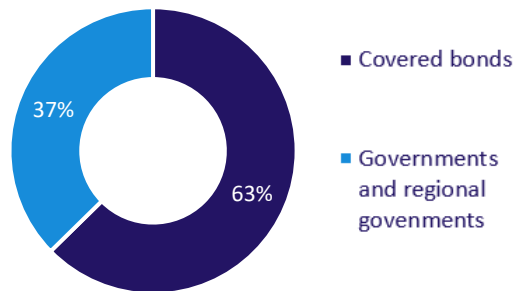
## Liquidity ratios



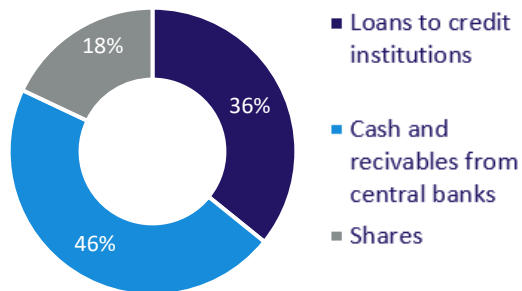
## Key comments

- Bonds and certificates constitute the majority of the liquidity portfolio
- Covered bonds make up for (OMF) 63% of all bonds and certificates
- Satisfying liquidity ratios – LCR ratio of 156 % and NSFR ratio of 123 %

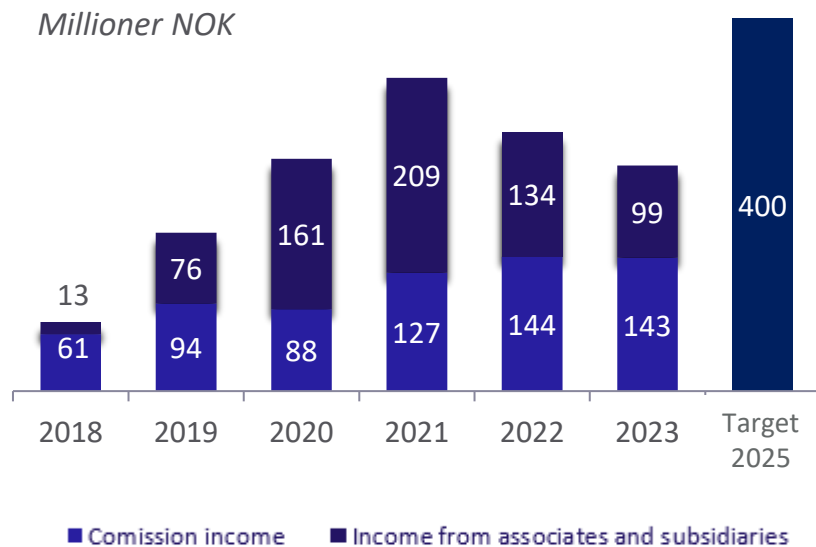
## Bonds and certificates split



## Other liquid assets split



# Ambitions for increased other income



Defined other income	31.12. 2023	31.12. 2022	Change
Insurance	53	64	-11
Credit intermediation	14	6	8
Securities activities 1)	76	74	2
Income from associated companies	99	134	-35
<b>Sum</b>	<b>242</b>	<b>279</b>	<b>-37</b>

1) Net commission income from securities trading and Sør Markets

# Allocation 2023 – 10.0 per Equity Certificate

**Group profit 2023 – NOK 1 711 mill.**

(Group profit after tax NOK 1 772 mill. – AT-1 capital NOK 61 mill.)

**60 %**

**40 %**

**Primary capital**

*NOK 1 027 mill.*

**Equity certificate owners**

*NOK 684 mill.*

**Customer dividends**

*NOK 417 mill.*

**Gifts**

*NOK 208 mill.*

**Increased Capital**

*NOK 401 mill.*

**Dividend**

*NOK 417 mill.*

**Increased Capital**

*NOK 267 mill.*

- ✓ Increased customer dividends and contributions to the local community
- ✓ The proposed dividend represent 61.0 percent of consolidated net profit for 2023

- ✓ Profit per equity certificate (Group) amounted to NOK 16.4
- ✓ Proposed dividend of 10.0 NOK per share correspond to 61.0 percent of earnings per share (Group)

# Positive future prospects

 Strong market position

 Low risk in the loan portfolio

 High cost efficiency and low complexity

 Introduced customer dividend

 Leader in ESG

 Measures to increase ROE in the future

# Appendix



# Equity certificate owners

20 largest equity certificate owners as of 31.12.2023

	Name	Amount EC	Share EC %		Name	Amount EC	Share EC %
1	Sparebankstiftelsen Sparebanken Sør	10.925.765	26.20	11	Verdipapirfondet Holberg Norge	510.000	1.22
2	J.P. Morgan Securities LLC	2.400.000	5.75	12	J.P. Morgan SE	350.848	0.84
3	Sparebanken Vest	2.400.000	5.75	13	U.S. Bank National Association	348.000	0.83
4	Geveran Trading Company LTd	1.800.000	4.32	14	Verdipapirfondet Fondsfians Norge	344.585	0.83
5	EIKA utbytte VPF c/o Eika kapitalforv.	1.277.637	3.06	15	Vpf Fondsfians Utbytte	304.521	0.73
6	Spesialfondet Borea Utbytte	1.033.537	2.48	16	Drangslund Kapital AS	302.107	0.72
7	Pershing LLC	1.020.000	2.45	17	State Street Bank and Trust Comp	286.121	0.69
8	Goldman Sachs & Co. LLC	1.015.323	2.43	18	Verdipapirfondet Nordea Norge Verd	280.902	0.67
9	Apollo Asset Limited	720.000	1.73	19	Vpf Dnb Norge Selektiv	270.101	0.65
10	KLP Gjensidige Forsikring	669.013	1.60	20	Hjellegjerde Invest AS	243.507	0.58
	<b>Sum 10 largest owners</b>	<b>23.261.275</b>	<b>55.78</b>		<b>Sum 20 larges owners</b>	<b>26.501.967</b>	<b>63.55</b>

- **41.703.057 equity certificates with a face value of NOK 50 each have been issued.**
- **The earnings (Group) for Q4 2023 amounted to 3.9 NOK per equity certificate, 16.4 NOK per equity certificate in 2023, and 11.9 NOK per equity certificate in 2022.**
- **The ownership fraction as of December 31, 2023 was 40 percent**

# SOR – share price and liquidity

## Share price development as of 31.12.2023

- The share price for SOR was NOK 144 and book value was NOK 149.9, equivalent to a P/B of 0.96
- The equity certificates gave a return of 15.8 % last 12 months
- Profit per equity certificates 31.12.2023 of NOK 16.4, representing a P/E 8.8.

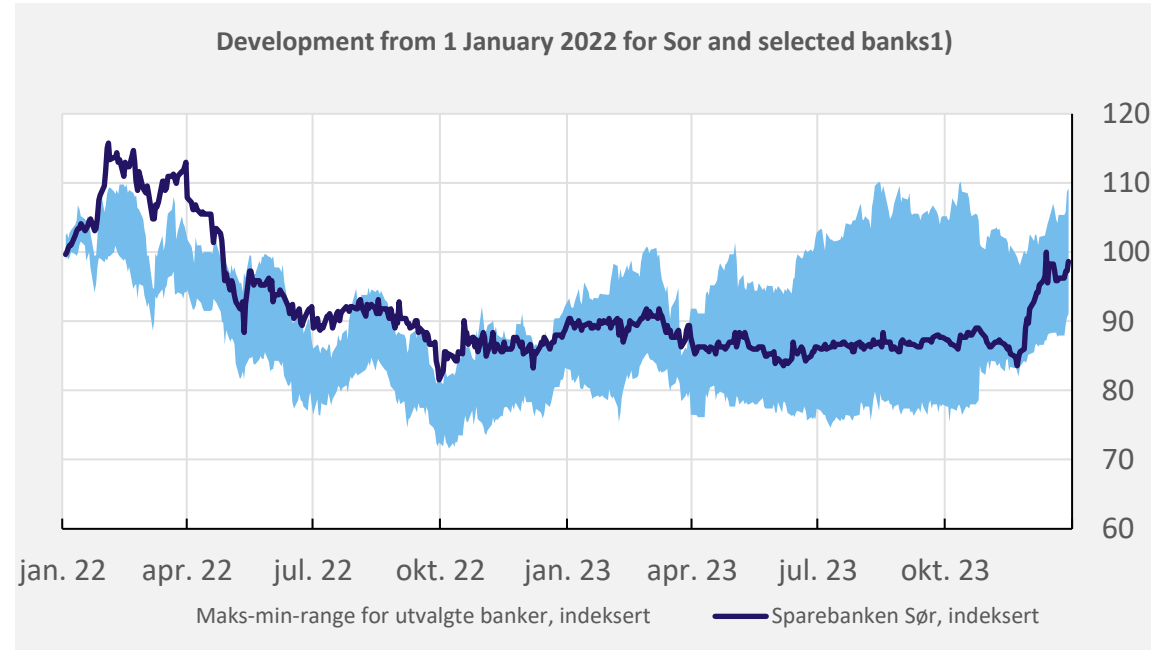
## Liquidity

- Significantly improved liquidity after the sale of equity certificates.
- Turnover of 33 mill. equity certificates last 12 months.
- 41 703 057 total issued, and an EQ rate of 40.0 %.

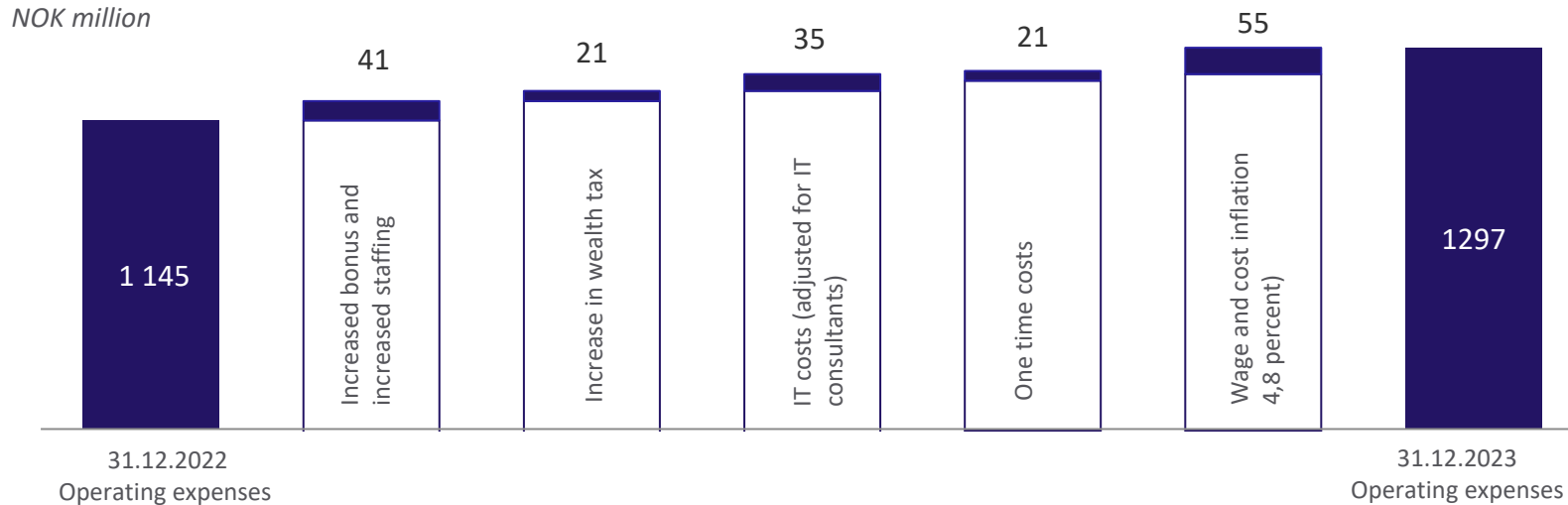
## Dividend

- A dividend of NOK 6 per equity certificate has been distributed for 2022
- The board will propose to distribute a dividend of NOK 10 per equity certificate for 2023.
- Goal to have ~ 50 % of the EC owners' share of the result should be paid out.
- The banks capital requirements will be taken into consideration when determining the annual dividend

1) Selected banks SVEG, SRBNK, SMN, MING, SPOL og SOON.



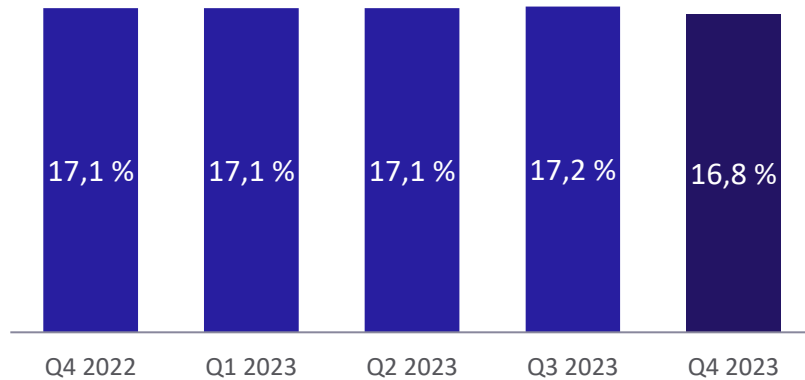
# Cost development



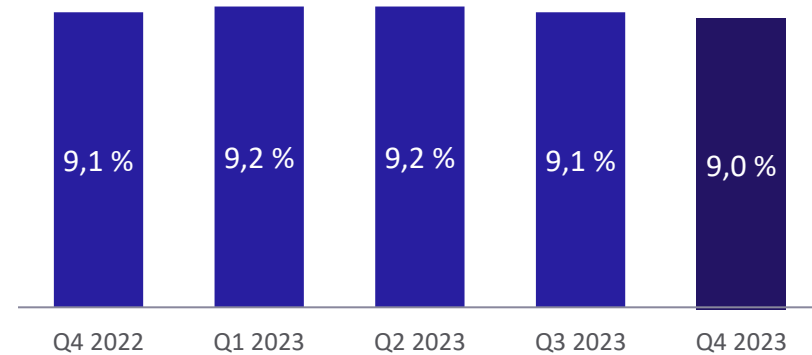
- Good results have led to higher bonus allocations for employees, as well as increased staffing
- Still heavily invested in technology (IT).
- Increased wealth tax
- One-time costs related to sale of equity certificates and impairment of goodwill

# Solid capital situation

## Common equity tier 1 capital ratio



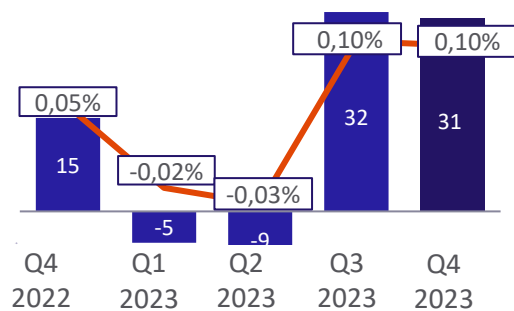
## Leverage ratio



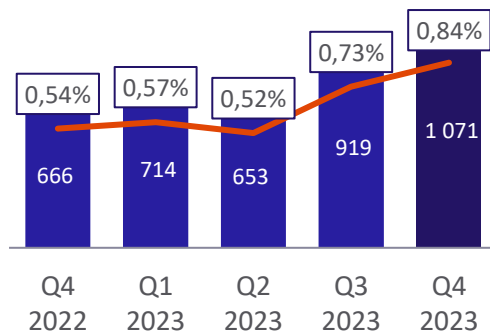
- Common equity tier 1 (CET1) well above the current capital requirement of 15,0 percent

# Low losses and non-performing loans

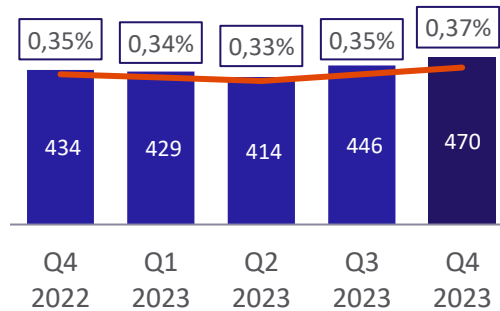
Development in losses in NOK million and as a percentage of gross loans (annualised)



Development in non-performing loans (IFRS 9, step 3) in NOK million And as a percentage of gross loans

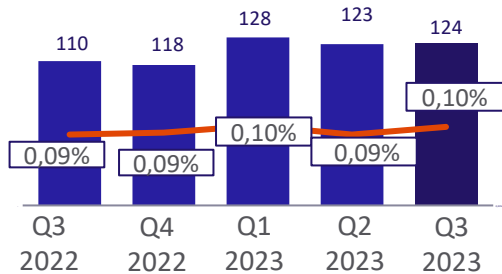


Development in loss provisions in NOK million and as a percentage of gross loans

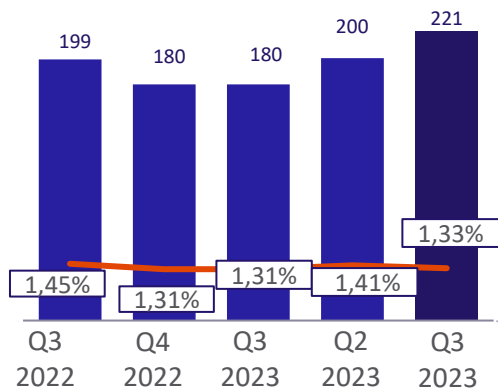


# Loss provisions divided into steps

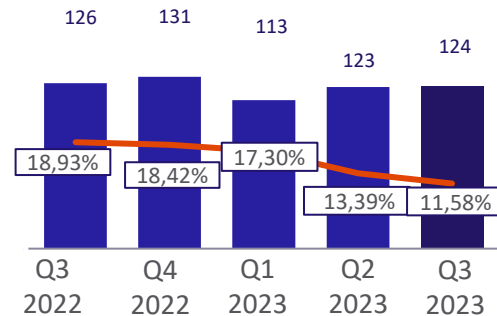
Provisions step 1  
and in % of engagement stage 1



Provisions step 2  
and in % of commitment stage 2

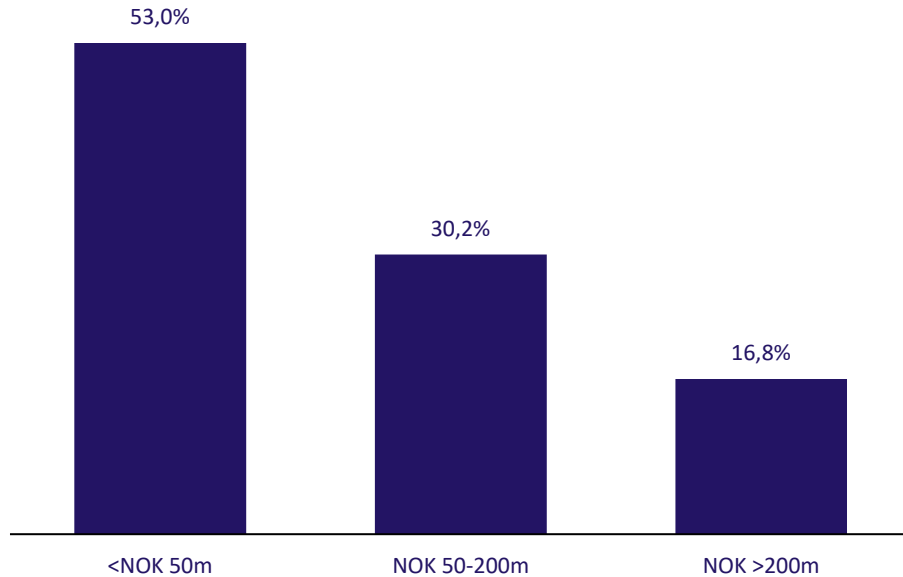


Provisions step 3  
and in % of commitment stage 3

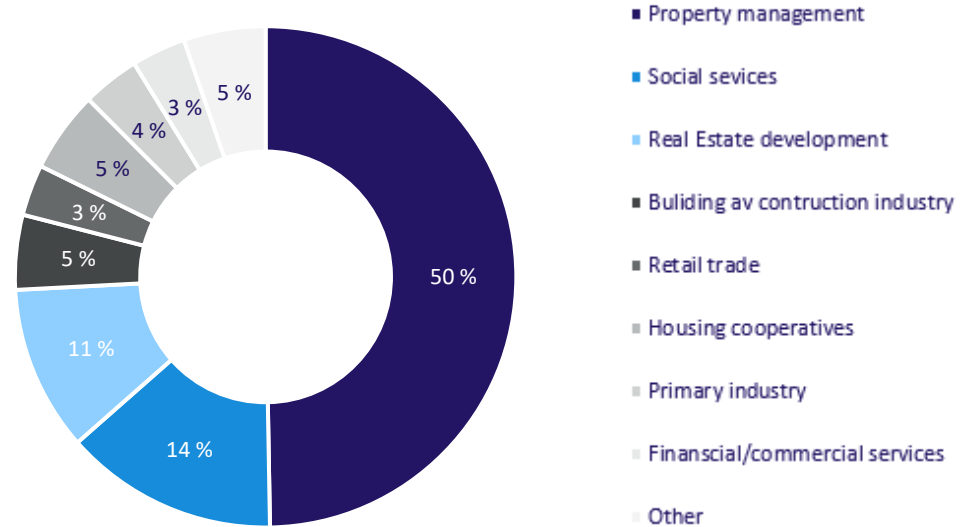


# Corporate loan book – 50% property management and 53% < NOK 50m.

## Corporate lending by size



## Sector distribution



# Capital measures: Implementation of IRB

The bank is planning to submit the IRB-F application during the second half of 2024, with an expected processing time of at least 1 year from Finanstilsynet. Significant project deliveries are completed and implemented.



## Next generation tools

- Data
- Modelling and analysis
- Decision tools
- Portfolio monitoring
- External reporting



## Improved credit management

- Improved credit strategy and policy
- More and better credit analyses
- Improved methodology for valuation of securities
- Increased focus on profitability



## Increased competence and capacity

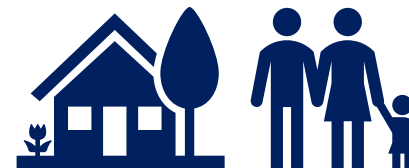
- IT architecture and data
- Modelling and analysis
- Credit management
- Risk and capital management
- Business development

**Analyses indicate expected capital effects of approximately 3.5 % on CET-1.**



# Significant regional differences

	KRISTIANSAND		OSLO	
	2021	2023	2021	2023
Housingprice	3.600.000	3.600.000	6.600.000	6.600.000
Loan (85%)	3.060.000	3.060.000	5.610.000	5.610.000
Income per month	100.000	108.000	100.000	108.000
Disposable income after tax	71.275	79.425	72.338	82.613
Household expenses (SIFO)	30.749	36.481	30.749	36.481
Interest and installments (2 %/6 %)	13.100	19.800	23.900	36.200
<b>Free liquidity</b>	<b>27.426</b>	<b>23.144</b>	<b>17.689</b>	<b>9.932</b>



## Average housing price<sup>1)</sup>

- Kristiansand – 3 600 000 kroner
- Oslo – 6 600 000 kroner

## 85 % Loan-to-value ratio – 25-year term

## SIFO-budget – minimum subsistence <sup>2)</sup>

- Family (20-30 years) with 2 children (10 and 8 years), an electric car
- Total annual income NOK 1 200 000 in 2021
- 8% wage growth in 2022 and 2023

**Loan interest 2.0 % in 2021 and 6.0 % in 2023**

1) <https://eiendomnorge.no/boligprisstatistikk/>

2) <https://www.oslomet.no/om/sifo/referansebudsjettet>