

# Sparebanken Sør

3<sup>rd</sup> quarter 2016



SPAREBANKEN SØR

# Sparebanken Sør today

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<b>Business</b>	Sparebanken Sør is an independent financial group with activities within banking, securities and real estate.
<b>Balance</b>	The fifth largest Norwegian bank with total assets of more than NOK 100 billions.
<b>Employees</b>	435 employees in branch offices across the counties of Aust-Agder, Vest-Agder and Telemark.
<b>Products and services</b>	General banking services- and products, in addition to real-estate agency, life- and non-life insurance, security trade services and leasing through wholly- and partially owned subsidiaries and companies.
<b>Summary</b>	As one of the largest regional banks, Sparebanken Sør is committed to further growth and development in the region.

# A broad geographical presence

An important contributor in Southern Norway: Aust-Agder, Vest-Agder and Telemark

Local relations and market proximity is essential for savings bank operations

Supporter of local business development



*A market with 470 000 people and approximately 9 percent of new business establishments in Norway. No other bank covers this area as Sparebanken Sør. The bank has approximately 150 000 retail customers and 14 000 corporate customers.*

**TRANSPORTATION**

**INDUSTRY**

**REAL ESTATE**

**TOURISM**

**HEALTH CARE**

**MERCHANDISING**

**AGRICULTURE**

**PUBLIC SECTOR**

**FINANCE**

**EDUCATION**

# Complete provider of financial services

Considerable product range - still potential for increased product sales

## Subsidiaries



- Sparebanken Sør Boligkreditt is a **wholly owned** subsidiary of Sparebanken Sør
- The subsidiary is licensed as a financial enterprise with the right to issue bonds where investors receive preferential coverage in home mortgages granted by the bank (covered bonds).
- With this way of funding, the Sparebanken Sør Group can offer mortgages with competitive terms to its customers



- ABCenter and Plussmegleren have merged into Sørmeglere
- Sparebanken Sør is a **91%-owner** in Sørmeglere Holding AS, which is the parent company of the real estate agency Sørmeglere AS
- Sørmeglere is headquartered in Kristiansand and has 9 branches in 9 other cities
- Convey about 2.200 homes a year, and is the regions largest real estate agency

## Business partners



- Sparebanken Sør entered in 2008 as a **10%-owner** in Frende Holding and is one of 15 independent savings banks with holdings.
- Frende has 175 000 customers and offers insurance, both life and general, to corporate and retail customers.



- Brage Finans is a financing company owned by 10 independent savings banks, and Sparebanken Sør is a **14%-owner**
- The distribution of the company's products is done through the owners and through its own sales organization



- Sparebanken Sør became a **18%-owner** in Norne Sec. in 2008, and is one of 14 independent savings banks with holdings.
- Norne is a full service investment firm with corporate finance – services, analysis, and stock and bond brokerage.

## Suppliers



HolbergFondene



## Key features 3<sup>rd</sup> quarter 2016

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- Positive profit from ordinary operations
- Net interest under pressure
- Stable commission income
- Positive net income from financial instruments due to changes in the value of bonds, stocks and fixed rate loans
- Good cost control
- Low losses on loans
- Return on equity after tax of 12.0 percent

**Common equity tier 1 capital ratio of 14.5 percent and leverage ratio of 8.2 percent, when adding 80 percent of accrued profits.**

## Key features after 9 months

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- Positive profit from ordinary operations
- Satisfactory development in net interest
- Stable commission income
- Positive net income from financial instruments due to changes in the value of bonds, stocks and fixed rate loans
- Good cost controll
- Low losses on loans
- Deposit growth of 4.7 percent during the last 12 months
- Loan growth of 5.5 percent during the last 12 months, reduced during 2016 to 2.5 percent(annualized)
- The bank has strengthened its equity through a share issuance, and is well positioned to meet both the markets and authorities capital requirements
- Return on equity after tax of 10.7 percent

## Income statement Sparebanken Sør

Profit before tax at the end of Q3 2016 amounted to NOK 929 million

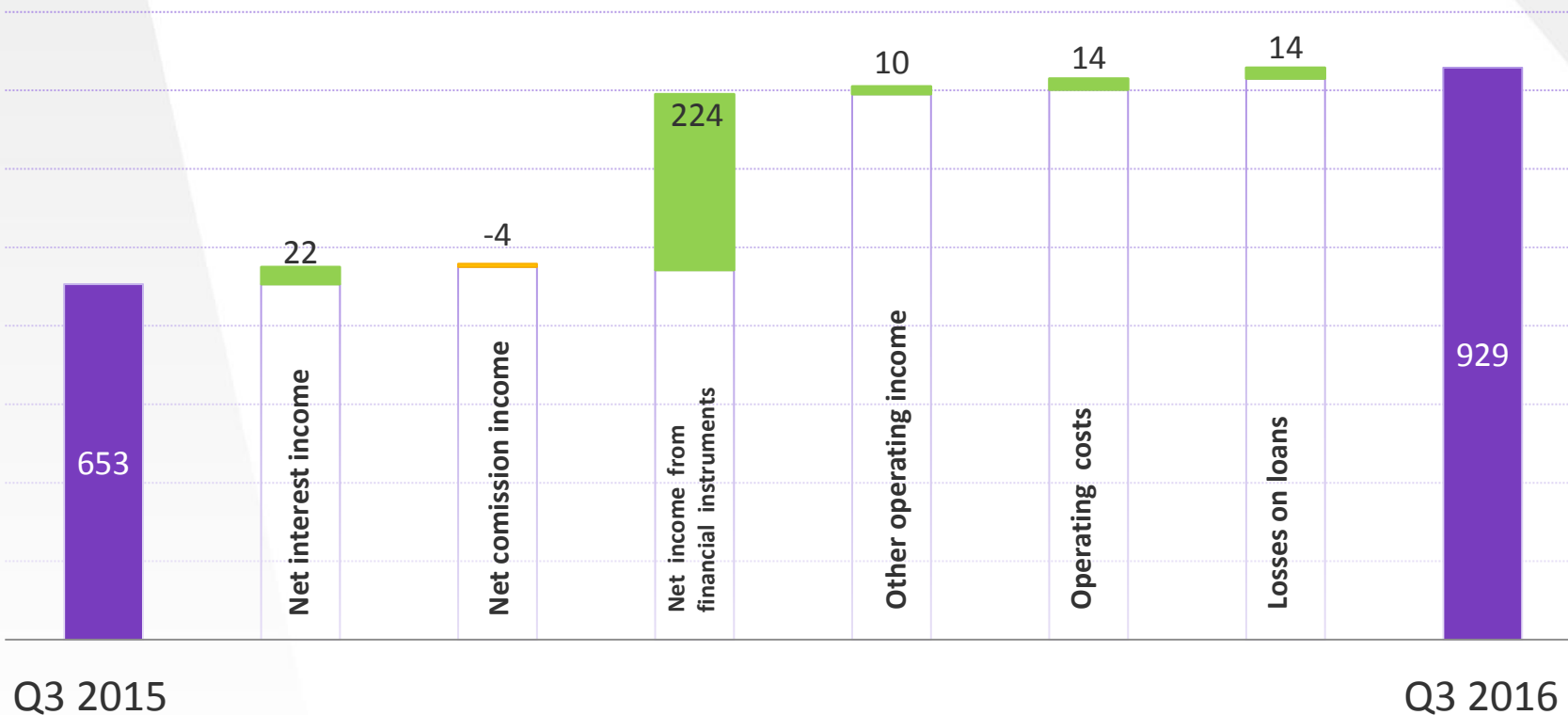
The main features for Sparebanken Sør in 2016:

- Satisfactory development in net interest income
- Positive net income from financial instruments due to changes in the value of bonds and equity shares
- Good cost control
- Low losses on loans

The profit in 2016 gives a return on equity after tax of 10.7 percent

NOK million	30.09.2016	30.09.2015	Changes
Net interest income	1157	1135	22
Net commission income	223	227	-4
Net income from financial instruments	157	-67	224
Other operating income	20	14	6
Total income	1557	1309	248
Total expenses	593	607	-14
Profit before losses on loans	964	702	262
Losses on loans, guarantees	35	49	-14
Profit before taxes	929	653	276
Tax expenses	221	178	33
Profit for the period	718	475	243

# Improvement in profit YTD 2015 - YTD 2016



NOK million



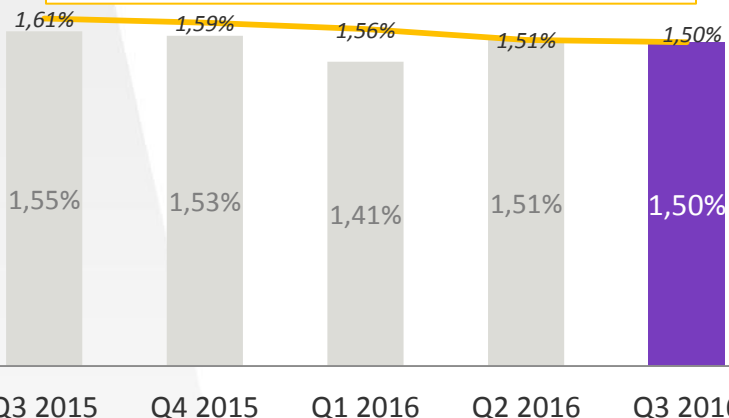
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# Key figures – quarterly profit trend

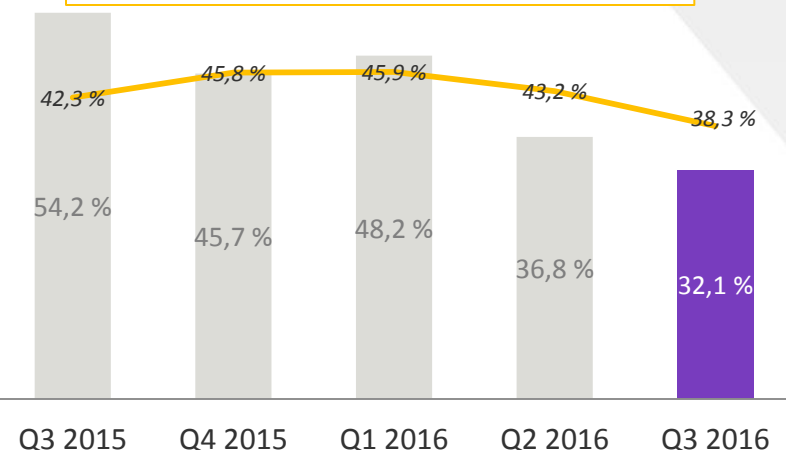
## Net interest income as a % of total assets

Net interest excl. fee to the Norwegian Banks` Gurarantee fund and interest on hybrid capital 1)



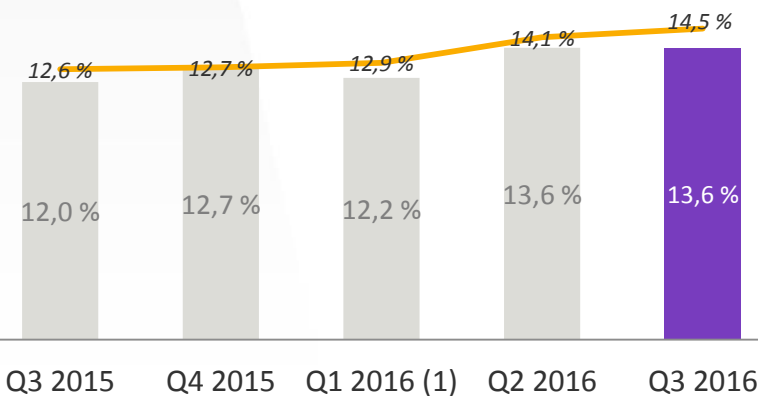
## Costs as a % of income analysis

Costs as a % of income excl. financial instruments



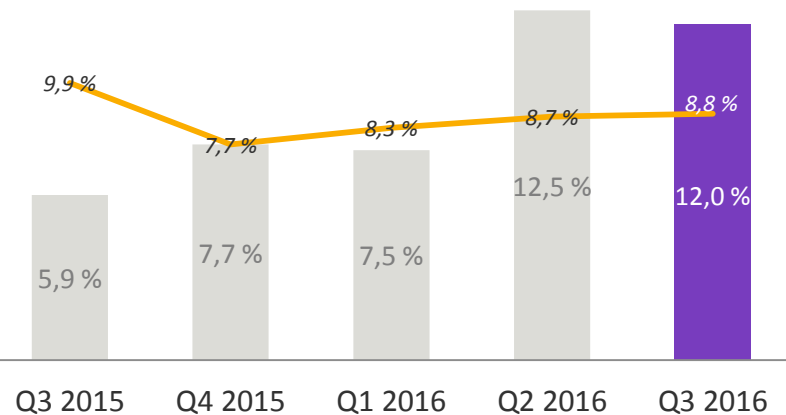
## Common equity tier 1 capital ratio

Common equity tier 1 capital ratio including 80 % of profit and share issuance in Q2

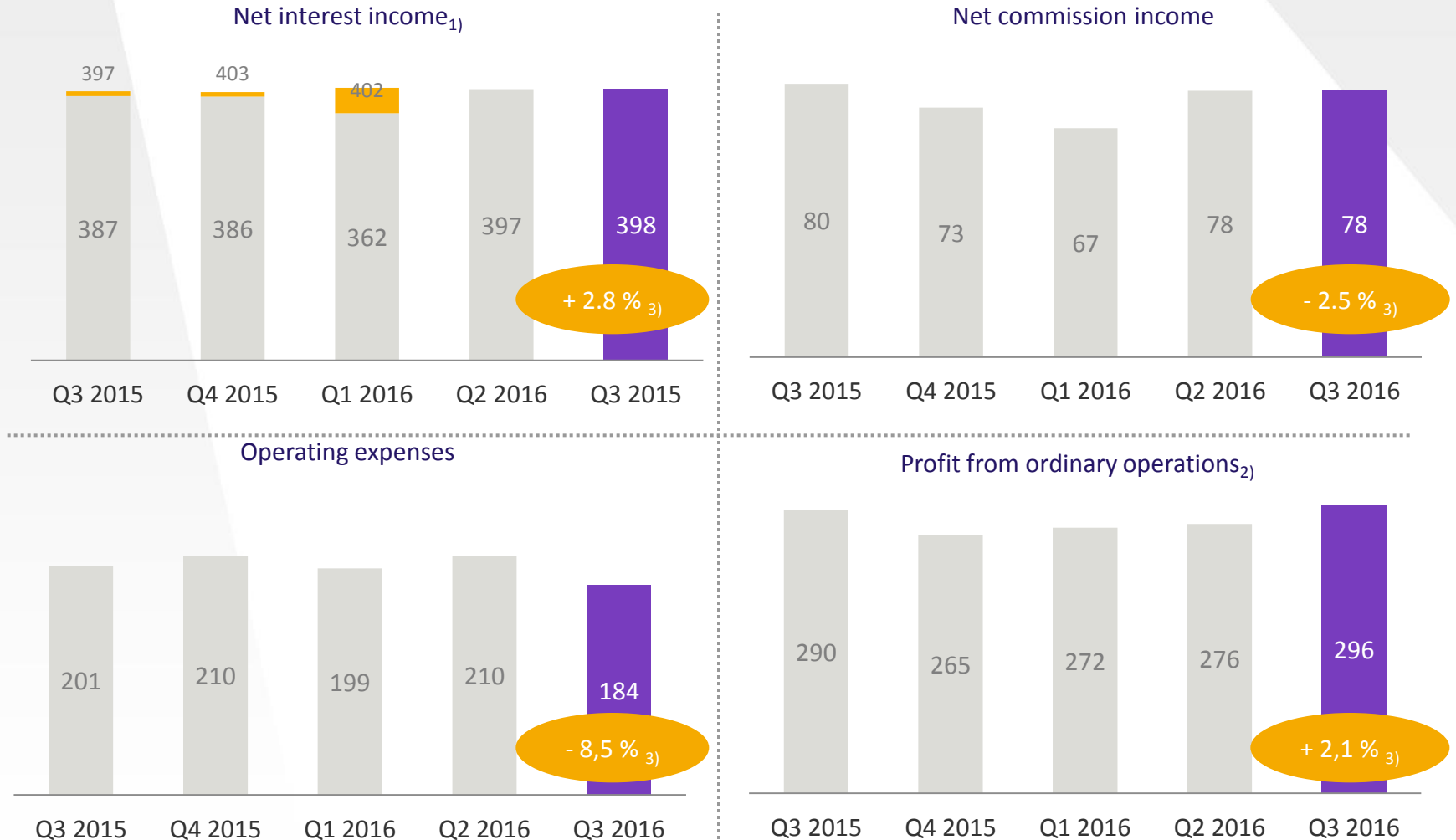


## Return on equity after tax

Return on equity after tax excl. financial instruments



# Profit and loss



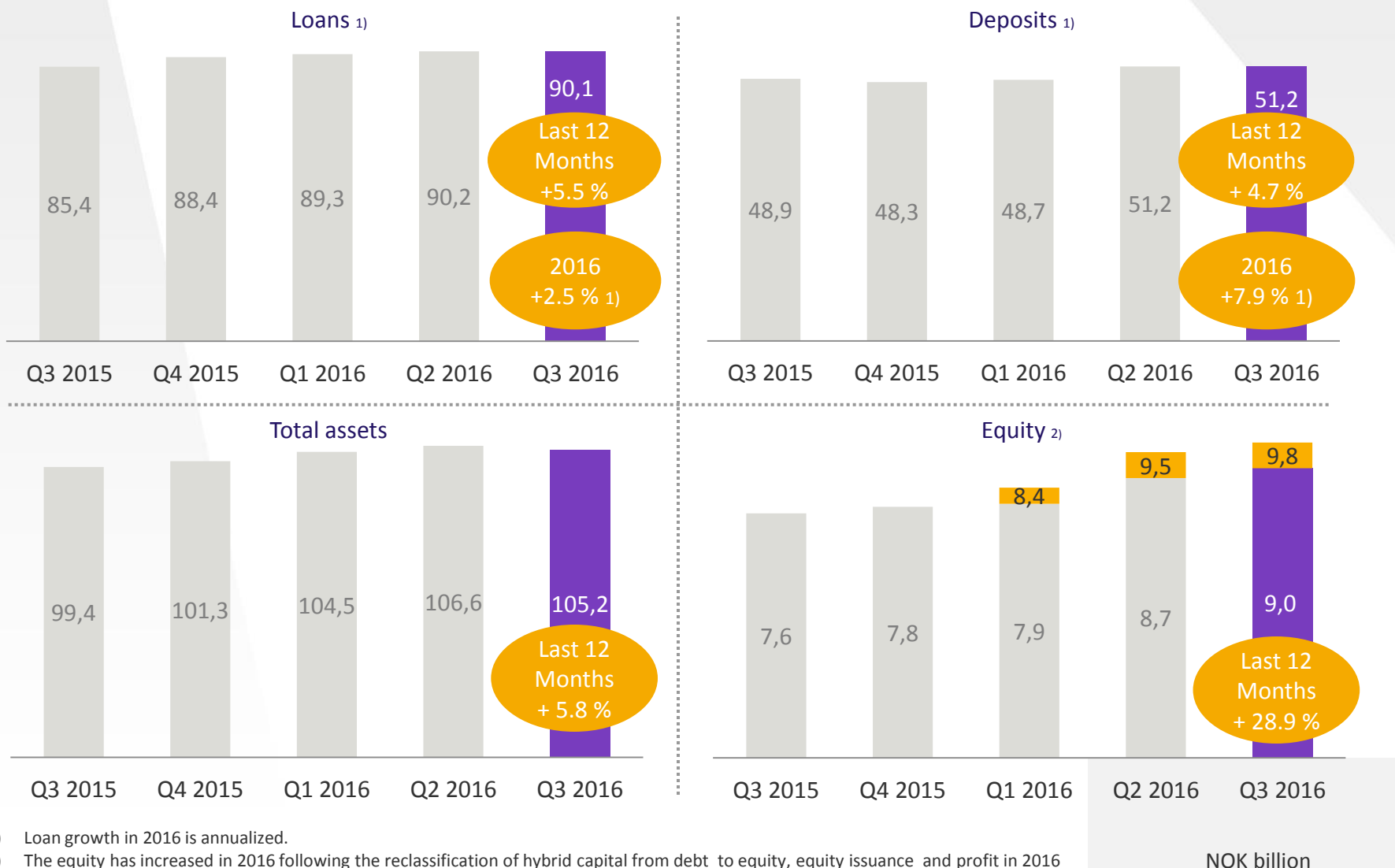
10 1) Net interest income, adjusted for the fee to the Guarantee Fund and interest on hybrid capital in earlier periods.

2) Profit before tax, excl. net income from financial instruments. Earlier periods are adjusted for the Guarantee Fund fee and interest on hybrid capital.

3) Changes from the same period in 2015.

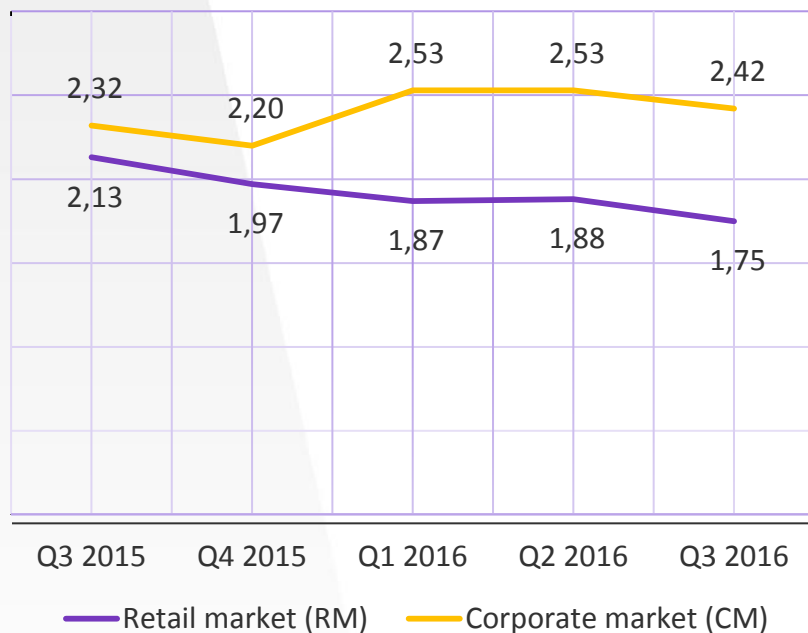
NOK million

# Balance sheet items

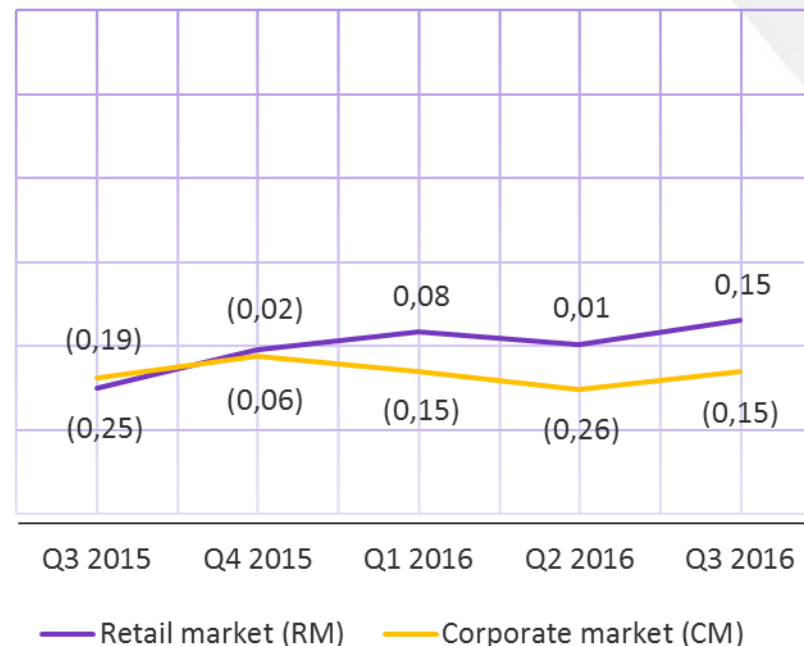


# Interest margin development

## Loans



## Deposits



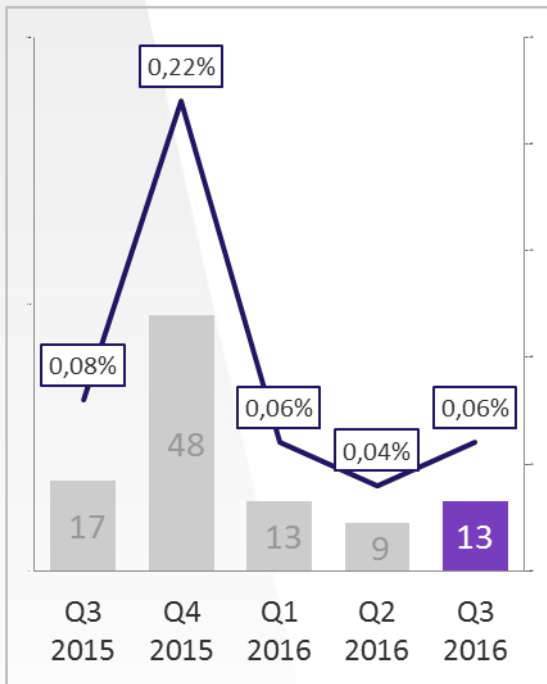
Loans: Average interest rates minus 3 month weighted average of 3 month NIBOR.

Deposits: 3 month weighted average of 3 month NIBOR average minus interest rates.

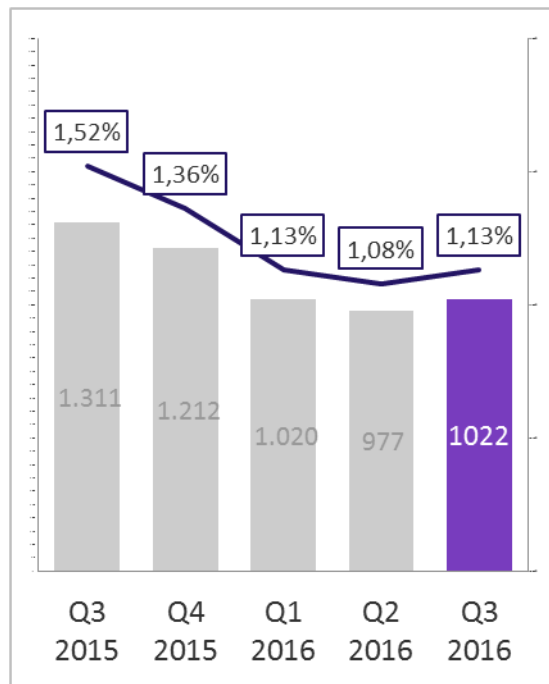
All numbers are in % per annum.

# Losses and non-performing loans

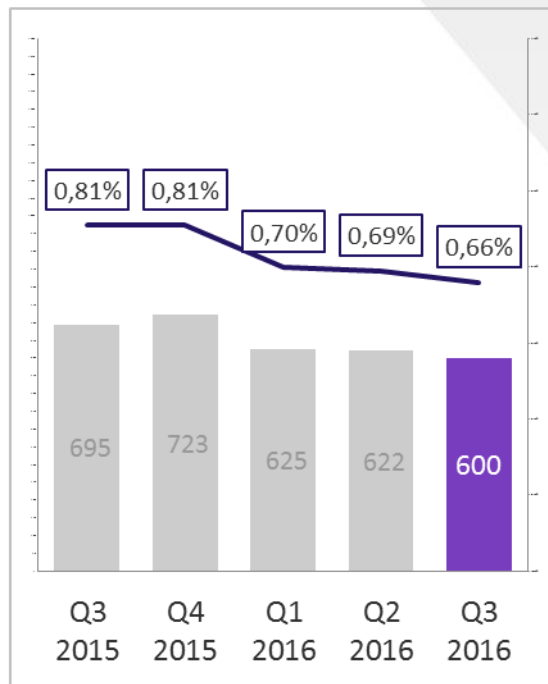
Development in losses and as a percentage of gross loans



Development in non-performing loans and as a percentage of gross loans



Development in loss provisions and as a percentage of gross loans



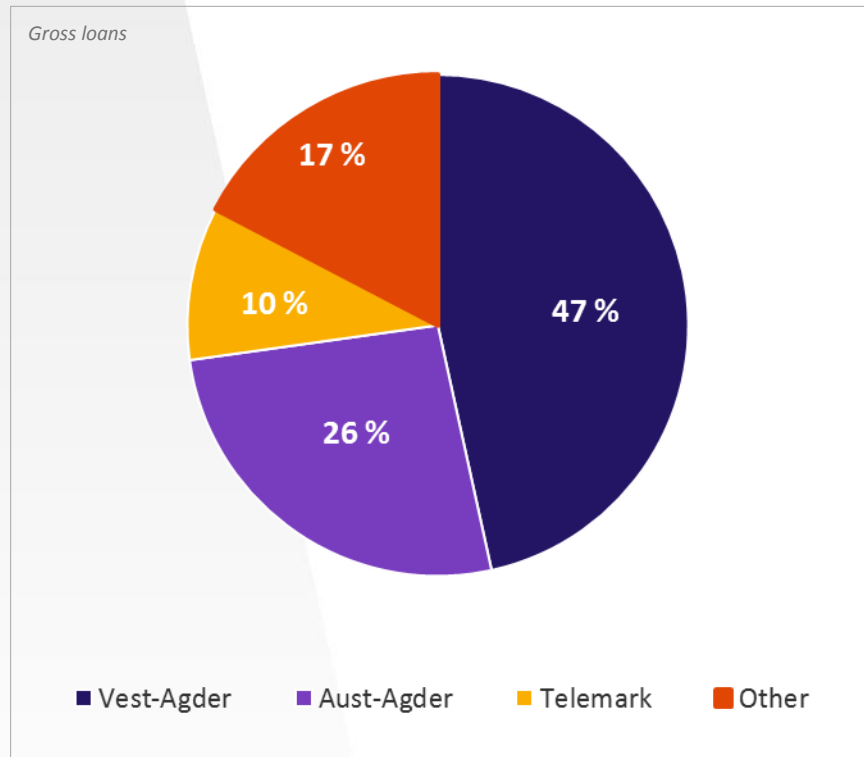
**Low losses, reduced non-performing loans and adequate loan provisions**

NOK million

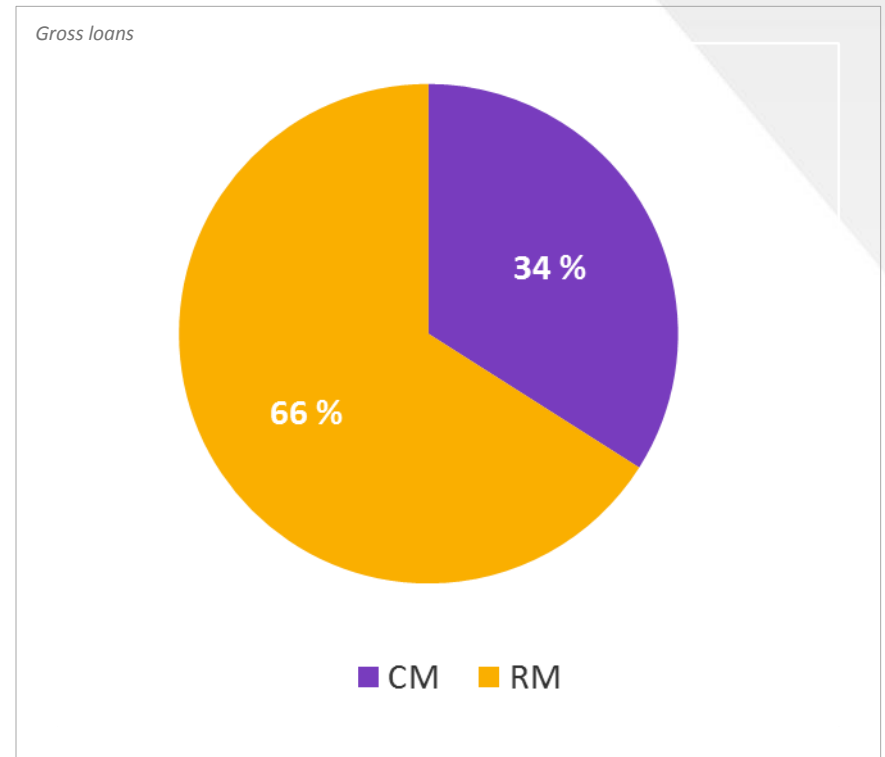
# Well diversified loan portfolio

High RM share and geographical diversification contributes to a balanced portfolio

Geographical distribution of loans



Distribution RM / CM



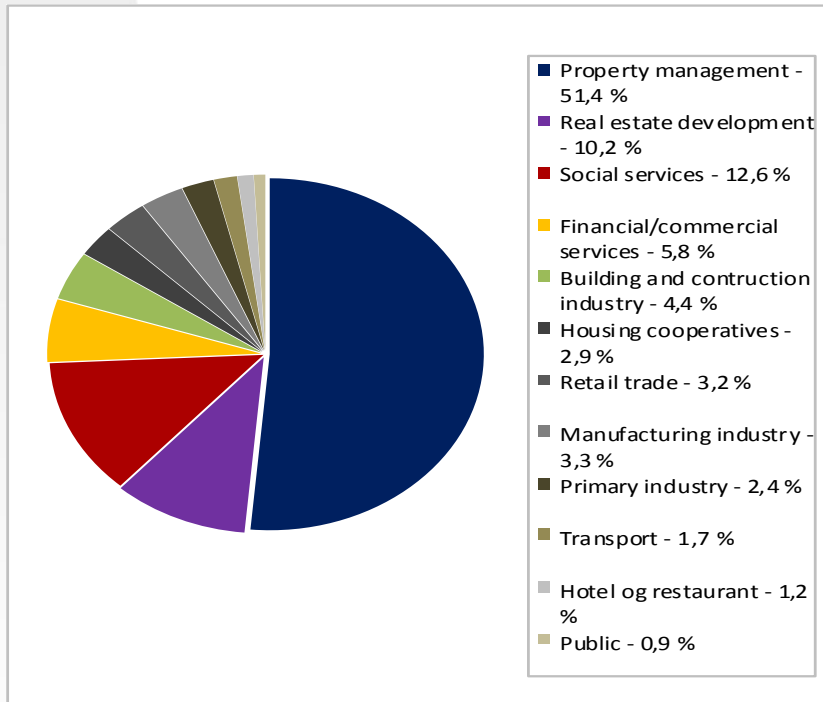
- # 1 position in Vest-Agder and Aust-Agder, # 3 position in Telemark.
- Close and long term cooperation with major firms/organizations in the region. The agreement with KNIF\* is a good example. Contributes to growth also outside our region. The KNIF segment amounts to NOK 7.1 billion i loans to customers and NOK 4.3 billion in customer deposits. KNIF CM has the biggest share with NOK 4.2 billion in loans and NOK 3.7 in deposits.
- Loans to customers are consentrated in the banks market areas, consentrated risk is low, significant diversification compared with other regions in Norway.
- High RM share is in itself risk reducing. Loans under NOK 2 million constitute a dominant portion (44 percent).

Note(\*): KNIF = Kristen-Norges interessefellesskap(Norwegian Christian interest organization) -> Consists of more than 70 national organizations

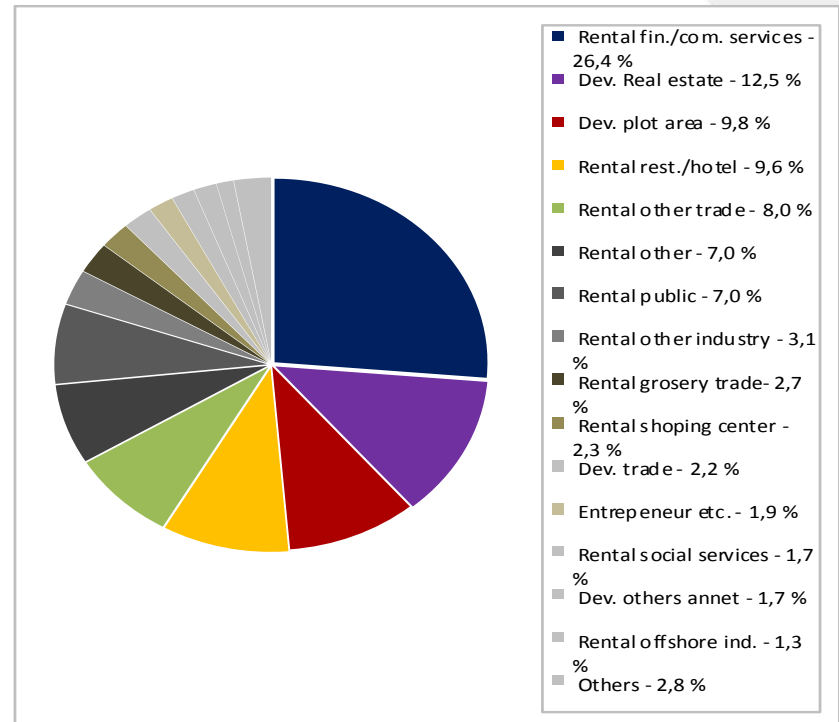
# Well diversified loan portfolio

CM portfolio with very low direct exposure to oil and oil service industry

Distribution CM



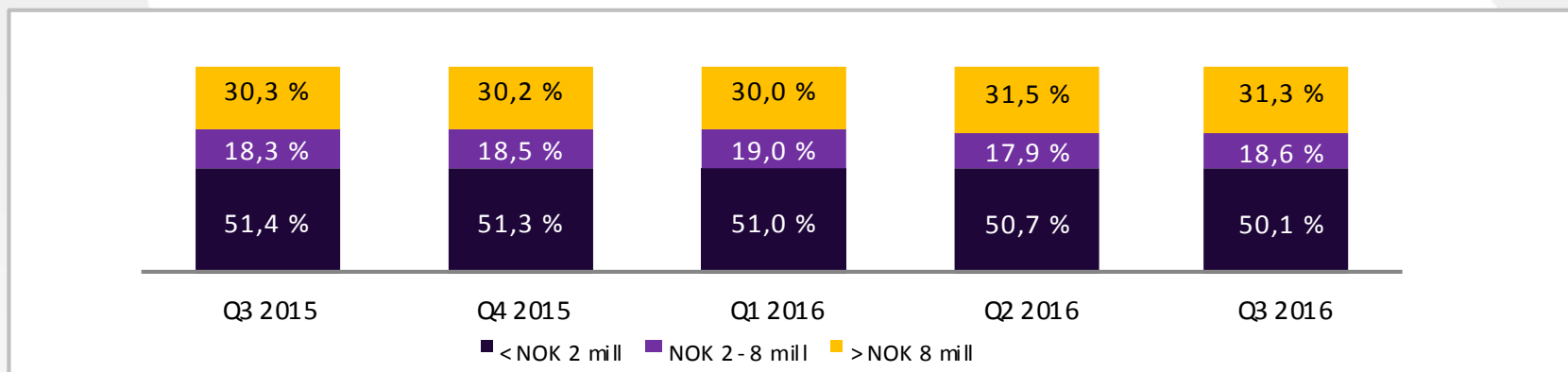
Tenant distribution: Property management (rental), real estate development and building and construction (Loan commitment > NOK 10 million)



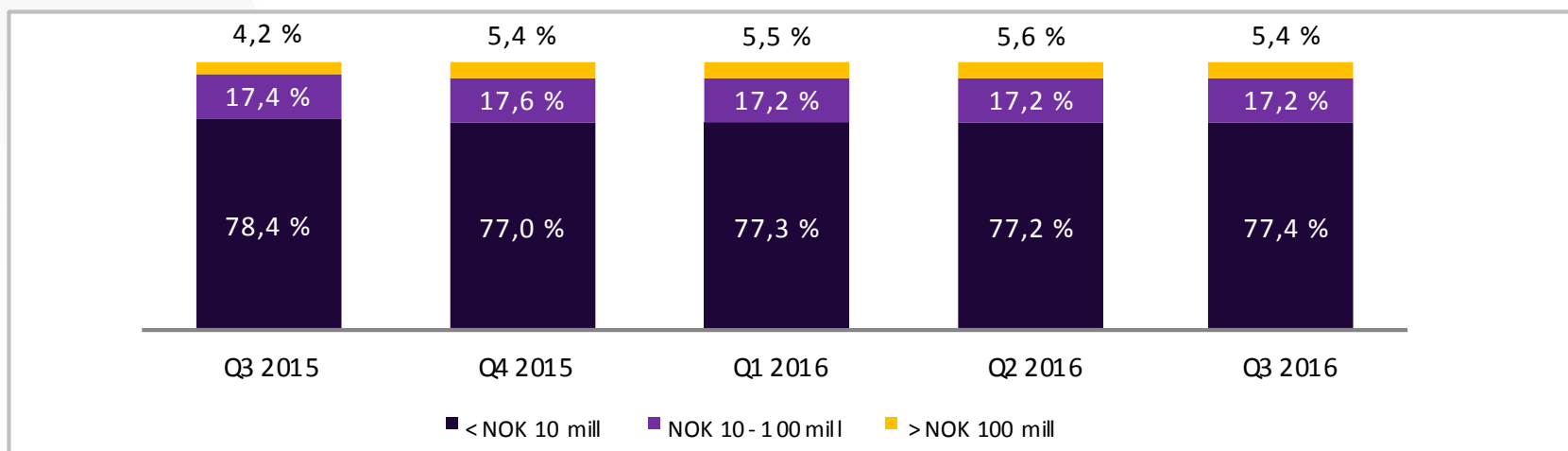
The CM loan portfolio reflects the business activity in the region with one major exception, Sparebanken Sør has a very low direct exposure to the oil and oil service industry.

# Portfolio

## Deposits distributed by size



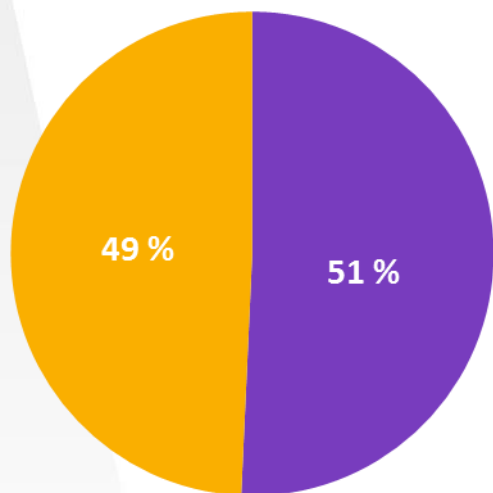
## Loans\* distributed by commitment size





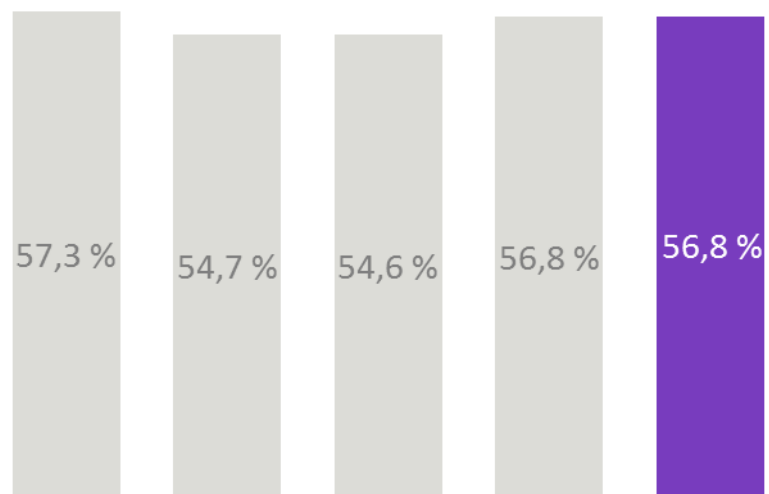
# Deposits

## Distribution RM/CM



■ CM ■ RM

## Deposit coverage ratio

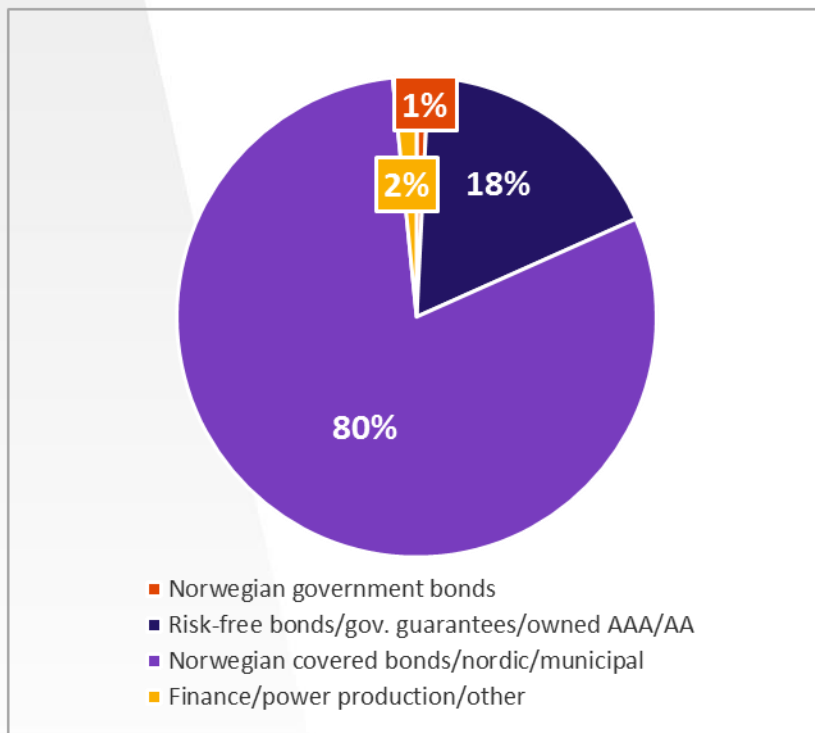


Q3 2015 Q4 2015 Q1 2016 Q2 2016 Q3 2016

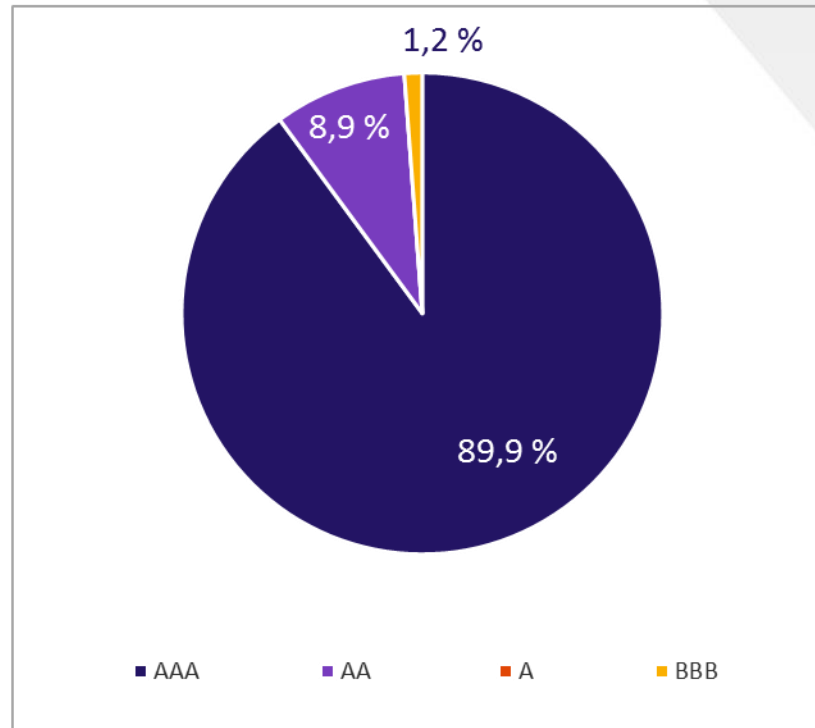
Stable development in deposits during 2016

# Liquidity portfolio

## Category



## Rating

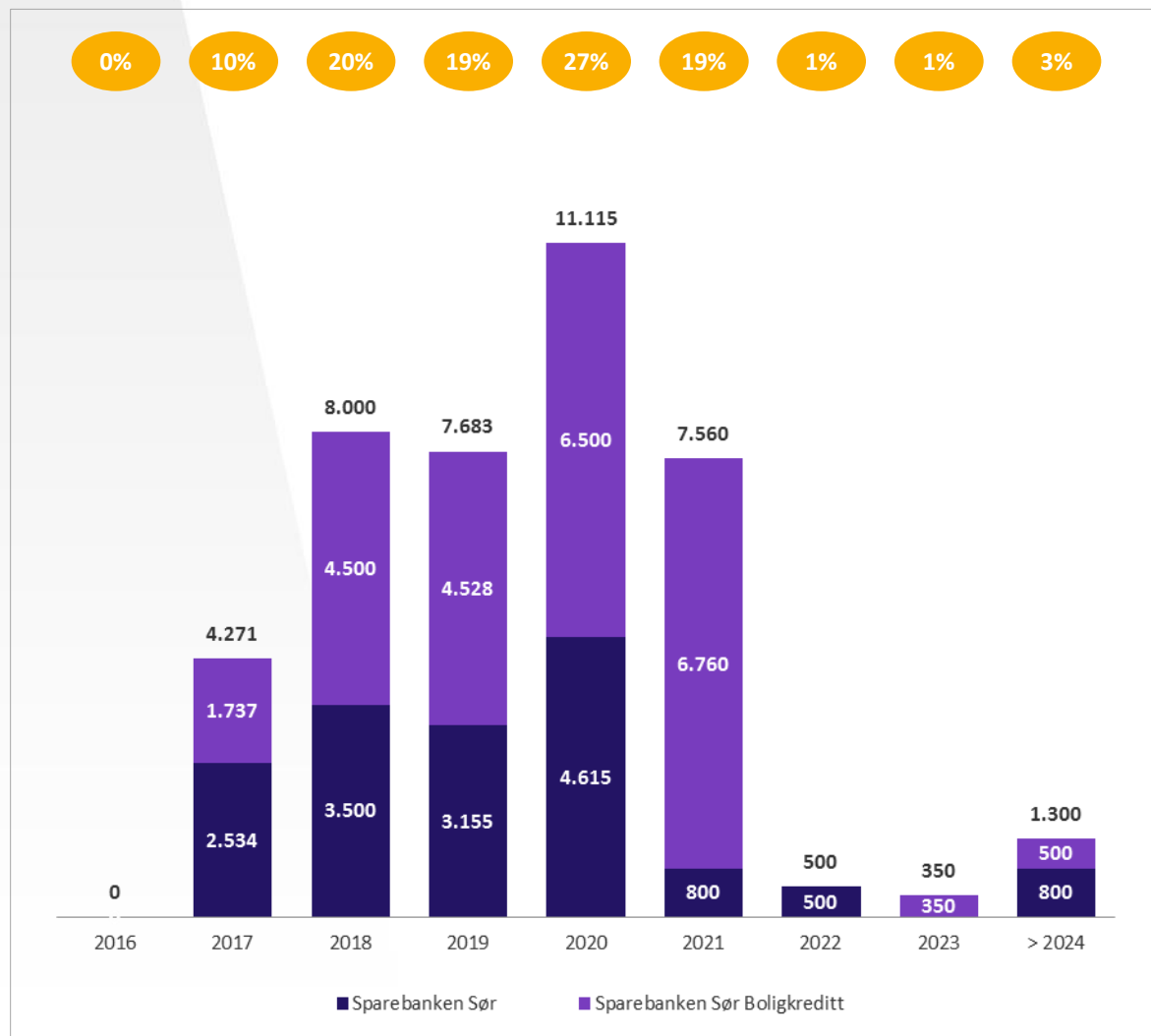


- Total liquidity portfolio of NOK 12,5 bn
- 100 % investment grade and 100 % liquid instruments
- Liquidity reserve (LCR) of 117 % for the Group

# Funding

Good maturity distribution is a security net in case of market turmoil

Remaining maturity of outstanding wholesale funding

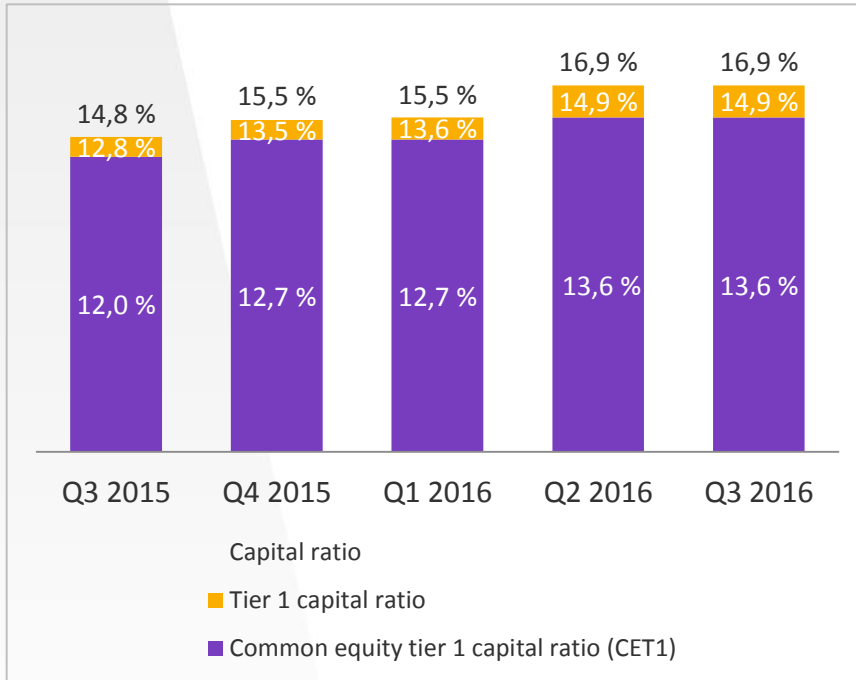


Key comments

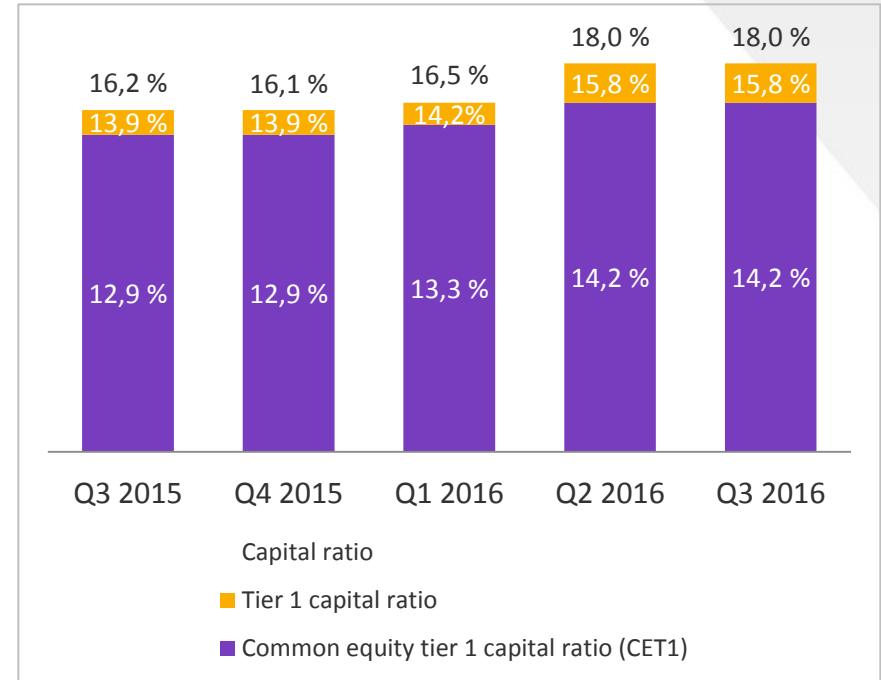
- Total funding amounted to NOK 42,9 bn, with NOK 25,2 bn issued as covered bonds as at 30 September 2016
- The bank has a reassuring maturity profile and limited maturities in 2016 and 2017
- Funding with longer maturity than 12 months to maturity at 92%
- Liquidity indicator 1 at 109%
- Average maturity at 3.4 years

# Capital adequacy

## Group



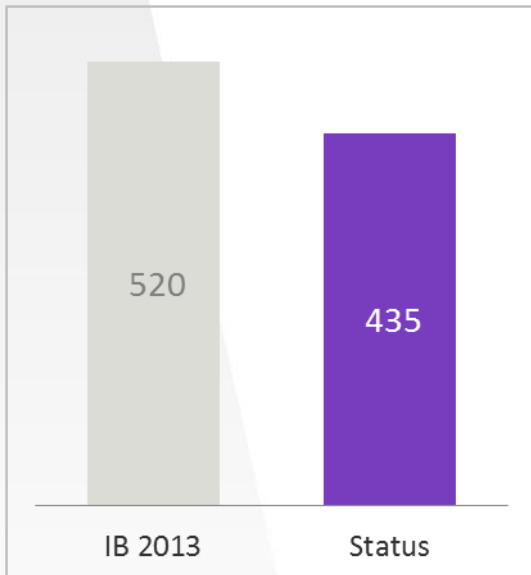
## Parent bank



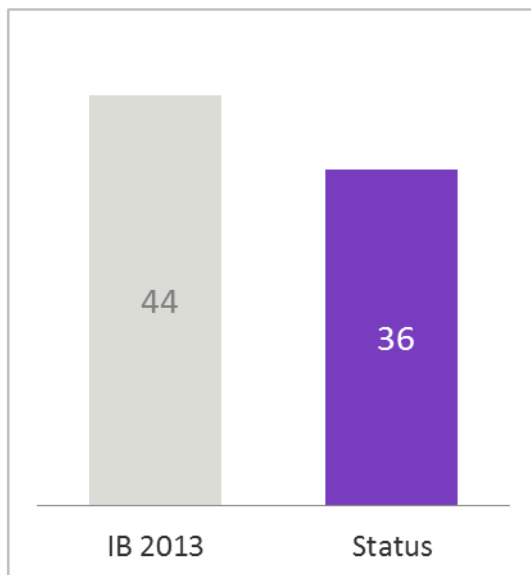
The common equity tier 1 capital ratio, including 80 percent of profit, amounts to 14.5 percent for the group

## Restructuring and cost focus

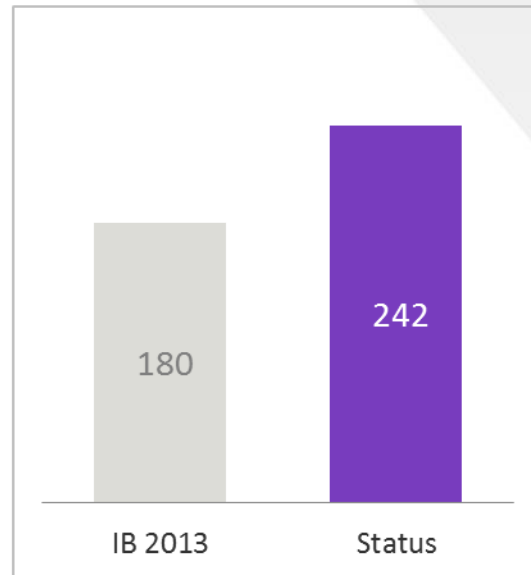
Number of employees



Number of offices



Total assets in NOK million per employee



Considerable potential has been realized – further efficiency improvements will take place as part of ongoing operations. Decision to open a new office at Jæren, planned opened in Q1 2017. 3 existing offices will be closed down by Q1 2017.

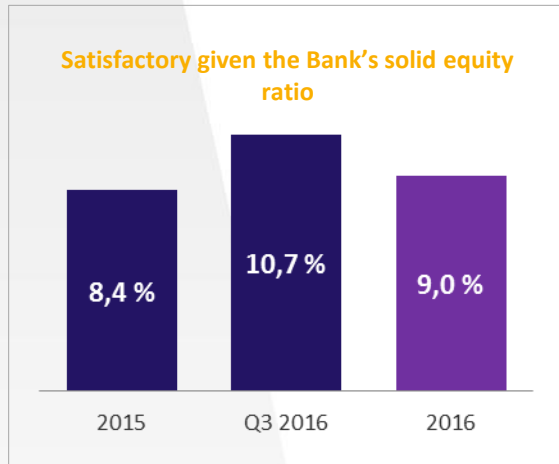
## Summary of the first 9 months of 2016

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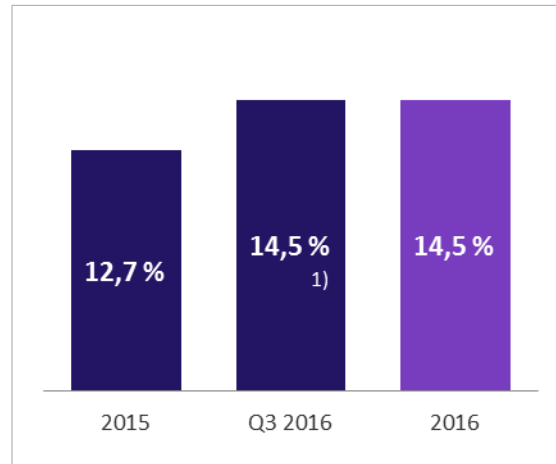
<b>Result</b>	Improved profit from ordinary operations, through positive growth, stable net interest income, combined with low costs and losses on loans
<b>Finance</b>	Positive net income from financial instruments due to changes in the value of bonds, fix rate loans and stocks
<b>Capital</b>	The Bank's financial strength is considered satisfactory in light of the current regulatory requirements. Included 80 percent of the profit, the common equity tier 1 capital ratio amounts to 14.5 per cent and the leverage ratio amounts to 8.2 percent.
<b>Growth</b>	Loan growth of NOK 4,7 billion the last 12 months, corresponding to a 5.5 percent annual growth. The loan growth is reduced the first half of the year to 2.5 percent (annualized). The deposit growth is NOK 2.3 billion, or 4.7 percent the last 12 months.
<b>Summary</b>	Sound operations contribute to a pre-tax result of NOK 929 million the first 9 months of 2016.

# Financial key variables and ambitions

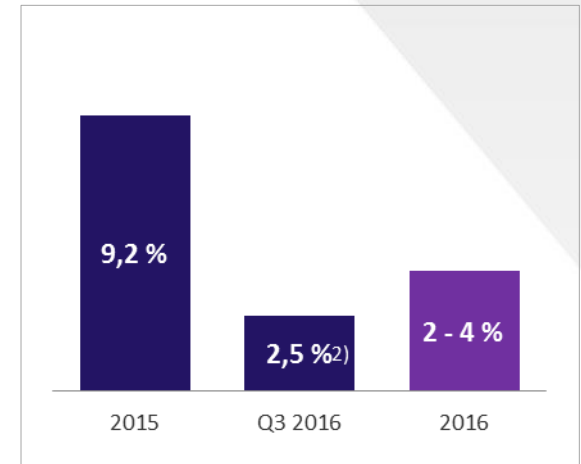
## Return on equity



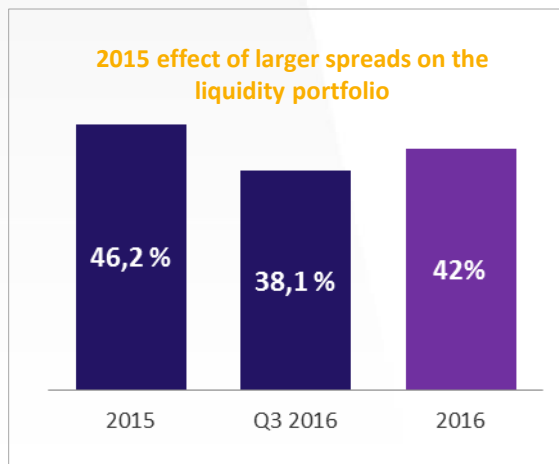
## Common equity tier 1 capital(Group)



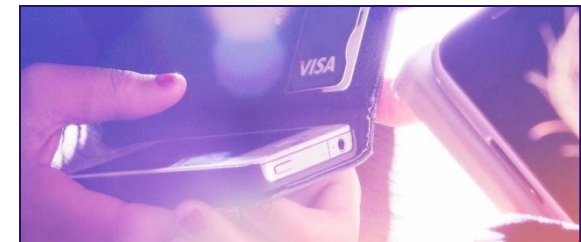
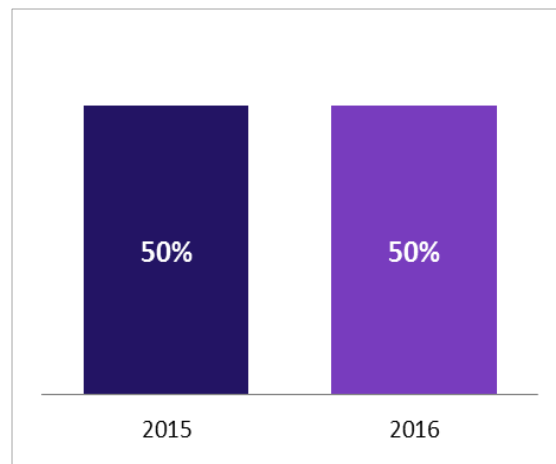
## Loan growth



## Cost development(banking operations)



## Dividend ratio



1) Added share of profit  
2) Growth YTD annualized

# Future prospects

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<b>Macro</b>	The Norwegian economy is in a recession, with continued low activity and dismissals within the oil industry. Still, there are positive economic trends nationally and in the region, with restructuring to activity in other industries.
<b>The region</b>	Sparebanken Sør has very limited direct exposure to the oil and oil service sector, but as the largest bank in the region it will be affected by the general economic development in the region.
<b>Capital requirements</b>	The Bank is in a good position, with common equity tier 1 capital ratio of 14,5 percent (including 80 percent share of profit). Along with a positive profit from ordinary operations, the opportunities for further growth are positive.
<b>Funding and liquidity</b>	The Bank is well positioned to establish long-term funding from the Norwegian and the international financial market.
<b>Summary</b>	Sparebanken Sør will contribute to further growth and development in the region. To fulfill this vision the bank will be a leading, solid and independent player in Agder and Telemark.



# APPENDIX



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## Development in net interest excl. the fee to the guarantee fund and interest on hybrid capital

NOK million	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Net interest income	398	397	386	387	381
Guarantee fund fee			37	9	9
Interest on hybrid capital				7	7
Net interest income, adjusted for changes in principles in Q1	398	397	402	403	397
In % of total assets	1,50 %	1,51 %	1,59 %	1,61 %	1,63 %

Net interest income adjusted for changes in the accounting of the fee to the Norwegian Banks' Guarantee Fund and reclassification of hybrid capital from debt to equity.

# Equity certificate owners

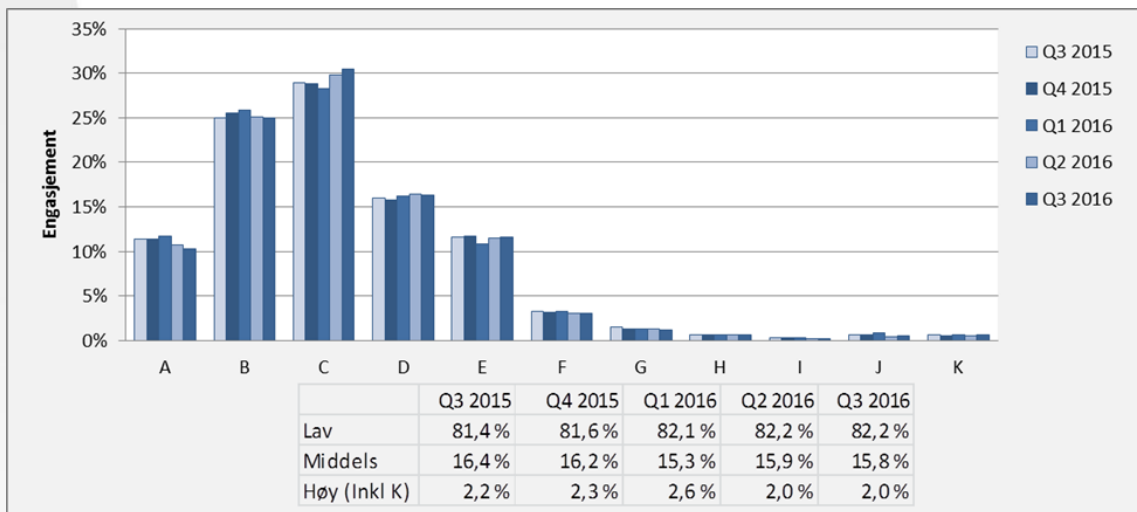
## 20 largest equity certificate owners as at 30 september 2016

	Name	Number of ECs	Share of ECs		Name	Number of ECs	Share of ECs
1	Sparebankstiftelsen Spb. Sør	8 125 679	51,88 %	11	Allumgården	151 861	0,97 %
2	Arendal Kommunale Pensjonskasse	450 000	2,87 %	12	MP Pensjon PK	112 733	0,72 %
3	HOLTA INVEST AS	444 410	2,84 %	13	Profond AS	101 331	0,65 %
4	Pareto AS	417 309	2,66 %	14	Ottersland AS	100 000	0,64 %
5	GLASTAD INVEST AS	387 467	2,47 %	15	Wenaas Kapital AS	90 350	0,58 %
6	Merrill Lynch	329 080	2,10 %	16	Sparekillingsbanken	87 780	0,56 %
7	EIKA utbytte VPF c/o Eika Kapital - forvaltning	313 609	2,00 %	17	Artel Holding AS	82 131	0,52 %
8	Bergen Kom. Pensjonskasse	300 000	1,92 %	18	Skandinaviska Enskilda Banken	80 650	0,51 %
9	Wenaasgruppen AS	186 206	1,19 %	19	Apriori holding AS	72 575	0,46 %
10	Gumpen Bileiendom AS	154 209	0,98 %	20	Varodd AS	70 520	0,45 %
	<b>Total 10 largest owners</b>	<b>11 107 969</b>	<b>70,91</b>		<b>Total 20 largest owners</b>	<b>12 057 900</b>	<b>76,97 %</b>

- As at 30 September 2016 15 663 944 ECs of NOK 50. each had been issued
- Profit(Group) per EC for the first 9 months of 2016 amount to NOK 7.4 mill
- The board of Trustees decided on 30 March 2016 to issue 10 895 270 new ECs, the issuance was concluded 3 May 2016. At this point in time the ownership ratio increased from 13 percent to 19.8 percent. Weighted average ownership ratio after Q3 was 16.7 percent.

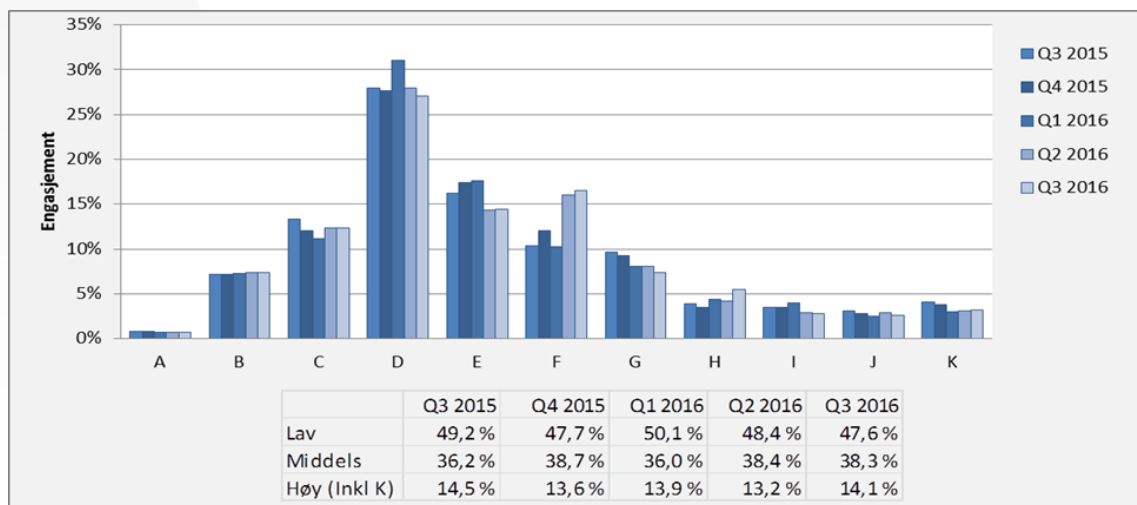
## Portfolio quality - score (PD)

RM



Class	Lower border	Upper border	
Low	A	0,00	0,10
	B	0,10	0,25
	C	0,25	0,50
	D	0,50	0,75
Medium	E	0,75	1,25
	F	1,25	2,00
	G	2,00	3,00
High	H	3,00	5,00
	I	5,00	8,00
	J	8,00	99,99
	K	100,00	

CM



### Commentary:

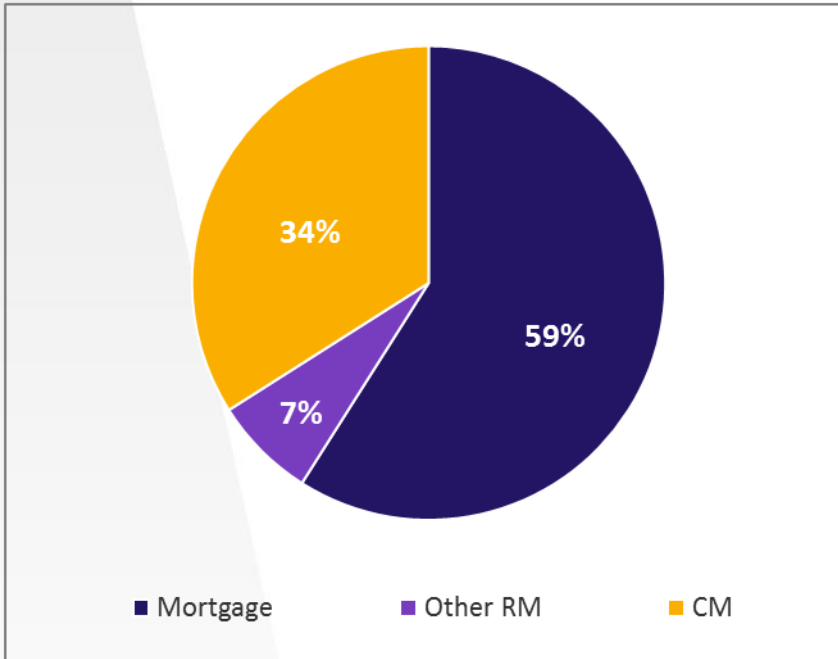
Small improvement in the retail market(RM) risk profile and virtually unchanged corporate market(CM) risk profile, taking into account migration between the different risk categories.



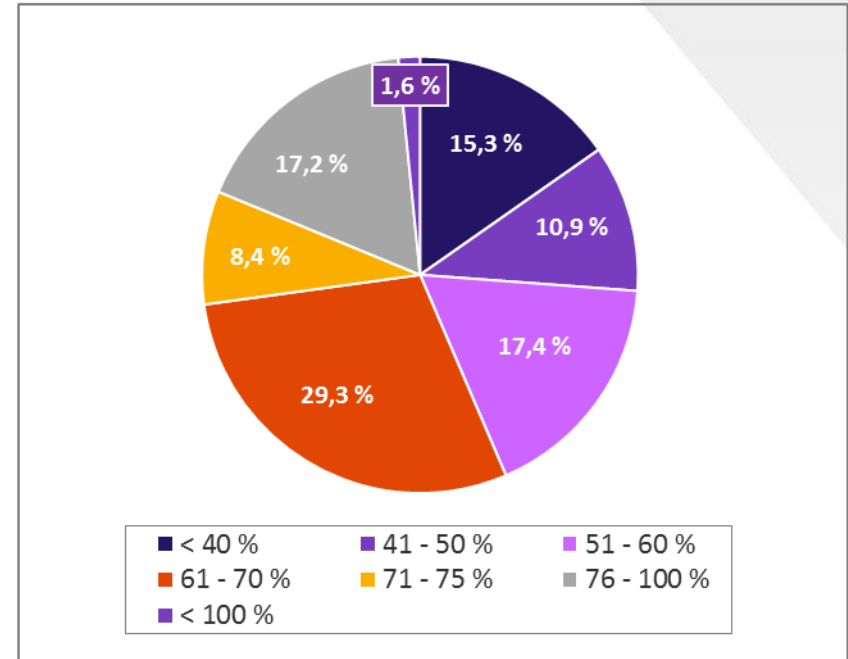
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# Sparebanken Sør – Mortgages

The loan portfolio in Sparebanken Sør (Gross loans)



LTV Loans



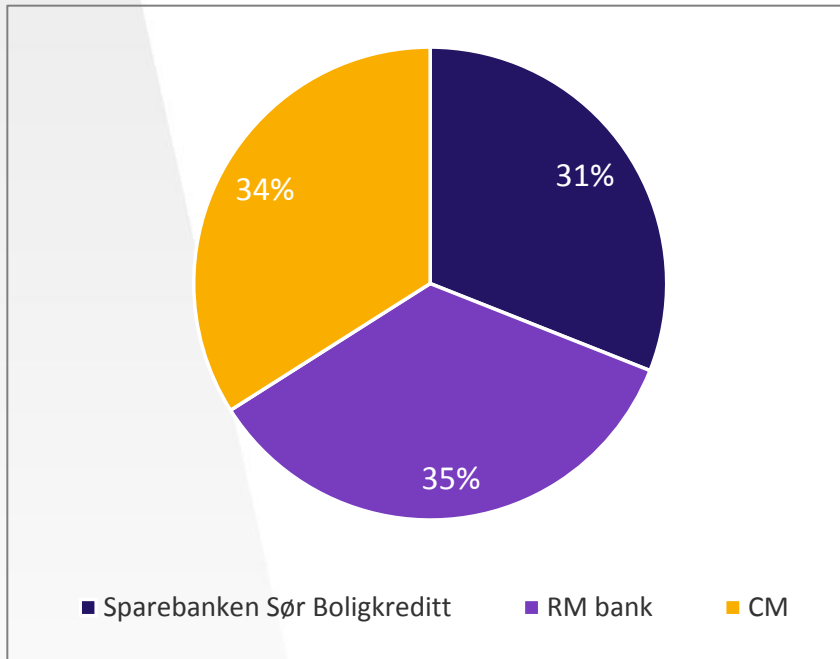
- Mortgages constitute a large part of the RM portfolio
- Only 1 percent of the mortgages has an LTV of more than 100 percent

The LTV distribution is based on a distribution where the whole commitment is rated as the last part of the commitment.

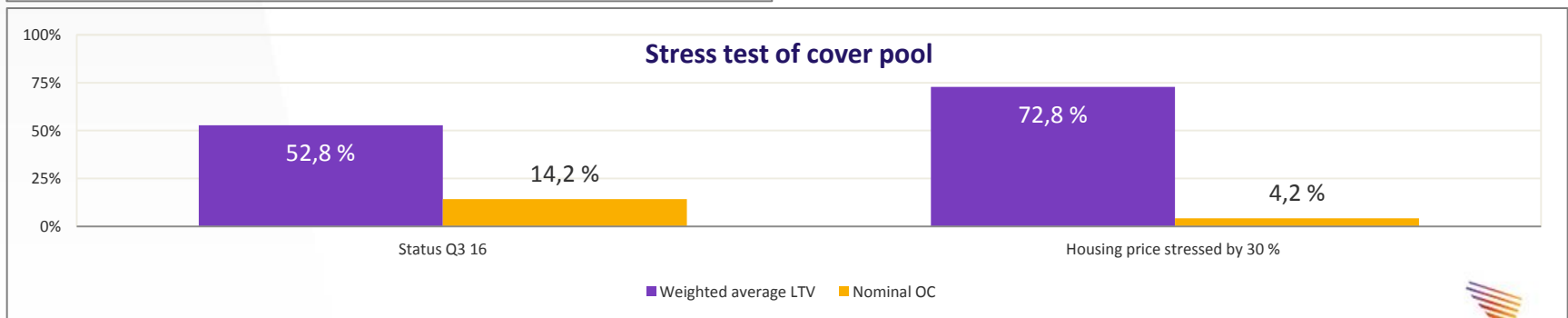
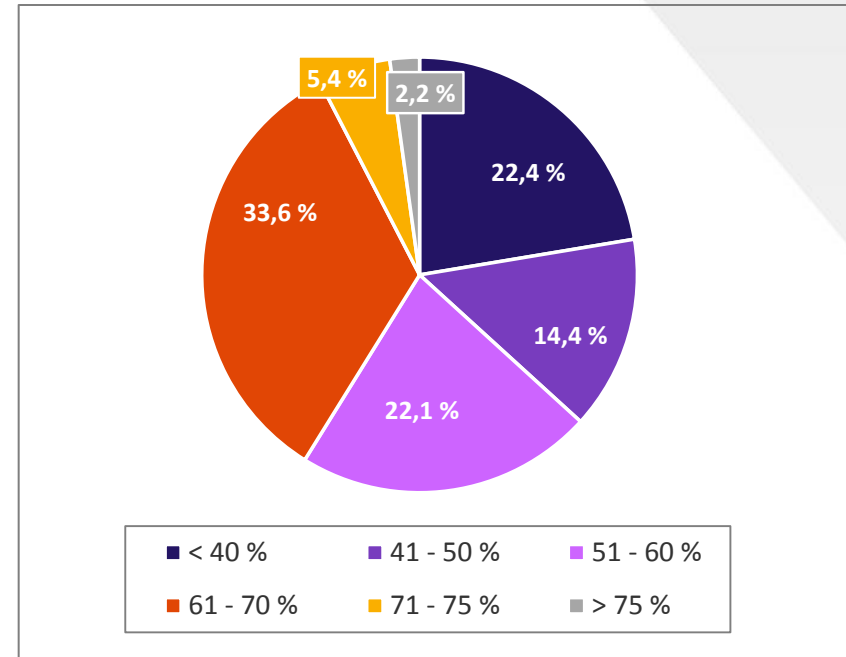
As a consequence the actual LTV-distribution will be lower than what is displayed in the table.

# Sparebanken Sør Boligkreditt AS – 100 % owned by Sparebanken Sør

The loan portfolio in Sparebanken Sør



LTV in Sparebanken Sør Boligkreditt



# Dividend policy

50 percent of equity certificate capital's proportion of annual profits

- Sparebanken Sør will through sound, stable and profitable operations secure its equity certificate owners a competitive return in terms of dividend and return on their investments.
- The surplus will be distributed between the equity certificate capital (equity certificate owners) and the primary capital in accordance with their proportion of the equity capital.
- When determining the annual dividend, Sparebanken Sør's capital needs, including regulatory requirements, expectations from investors and the bank's strategic targets will be taken into consideration.
- The ambition is that approximately half of the equity certificate capital's proportion of annual profits after tax should be paid as dividend.

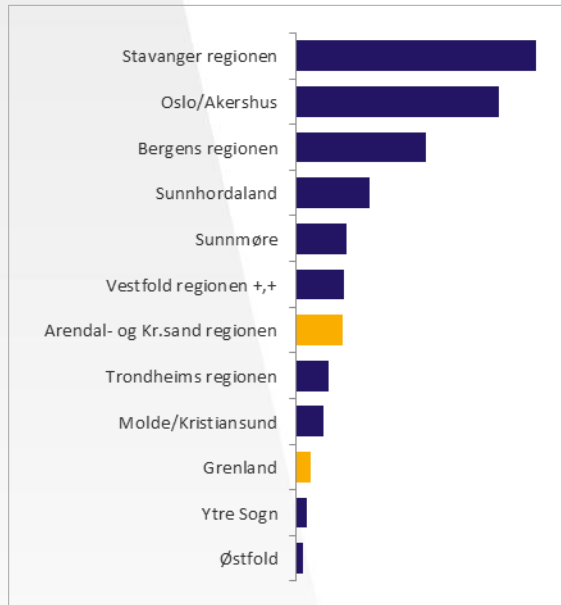


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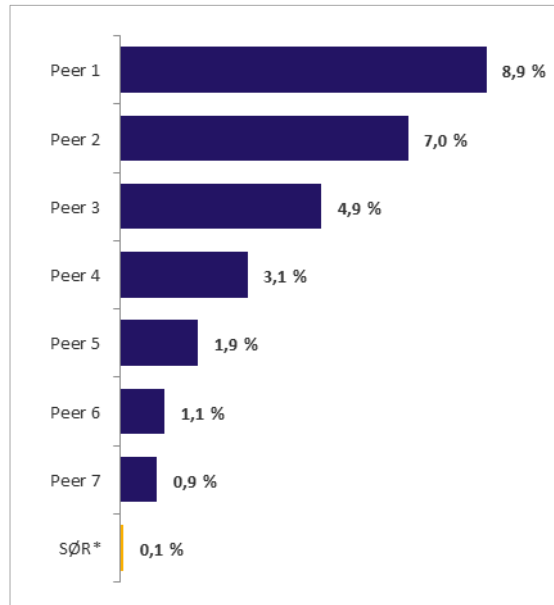
# Diversified loan portfolio

Low exposure to oil and offshore industry | Stable exposure to real estate

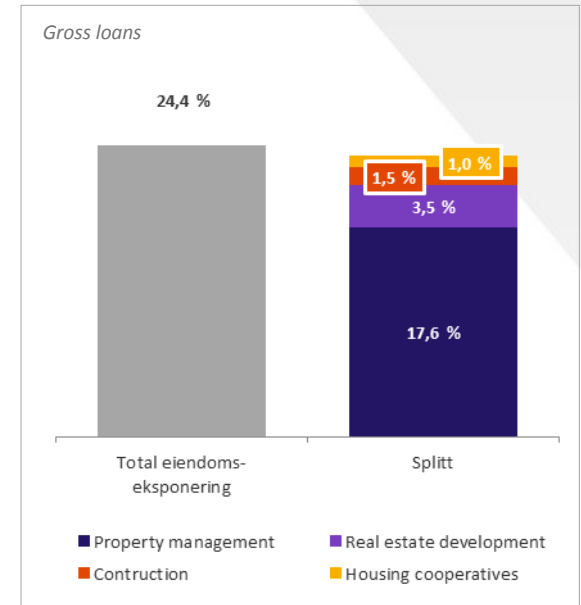
Norways largest petroleum counties



Exposure to oil- and oil service\*\*



Overall real estate exposure in the CM



- Sparebanken Sør has virtually no direct exposure to oil and offshore industry, a long term strategic choice from before the merger
- Even though Vest-Agder has a slightly above average exposure to oil, the Aust-Agder and Telemark counties ensure a total exposure under the average in Norway
- The banks overall exposure to real estate constitutes about 69 percent of the corporate market portfolio -> the CM portfolio constitutes only 24 percent of the total loan portfolio
- Large parts of the real estate exposure is related to commercial property (rental and coops). SØR has considerable expertise in this area, like its customers which operates very effectively with a persistent low unemployment
- Exposure to building and construction is low

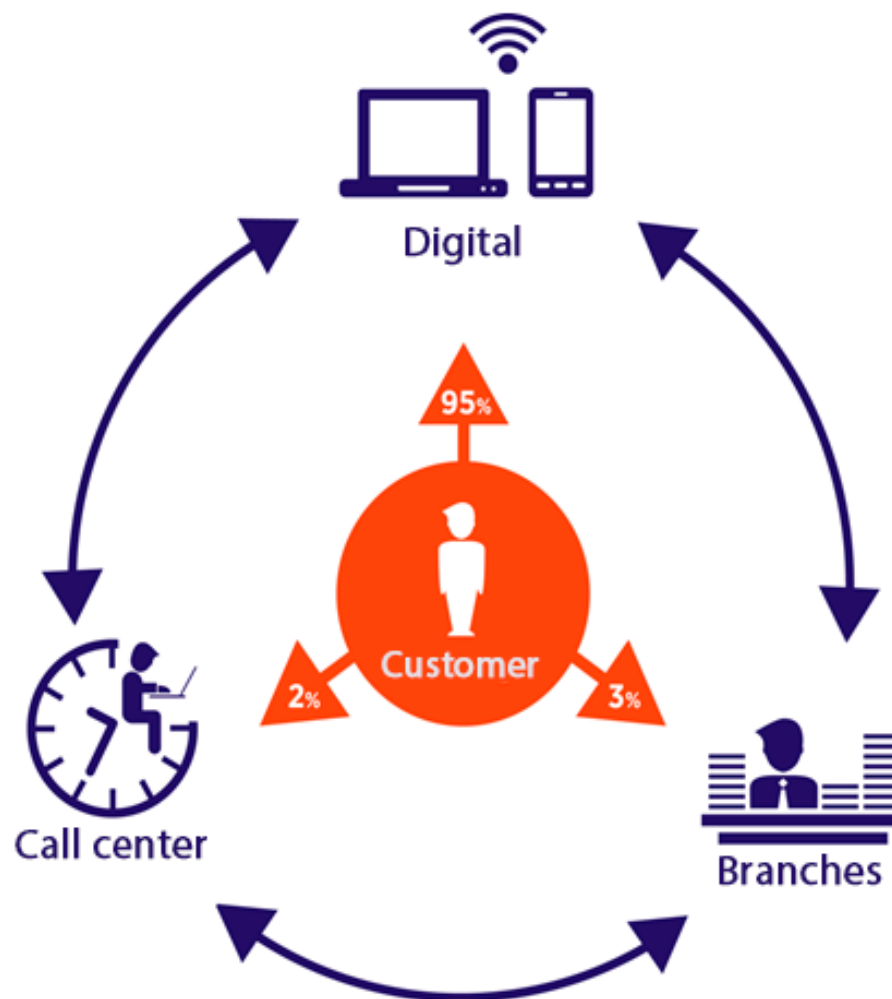


SPAREBANKEN SØR

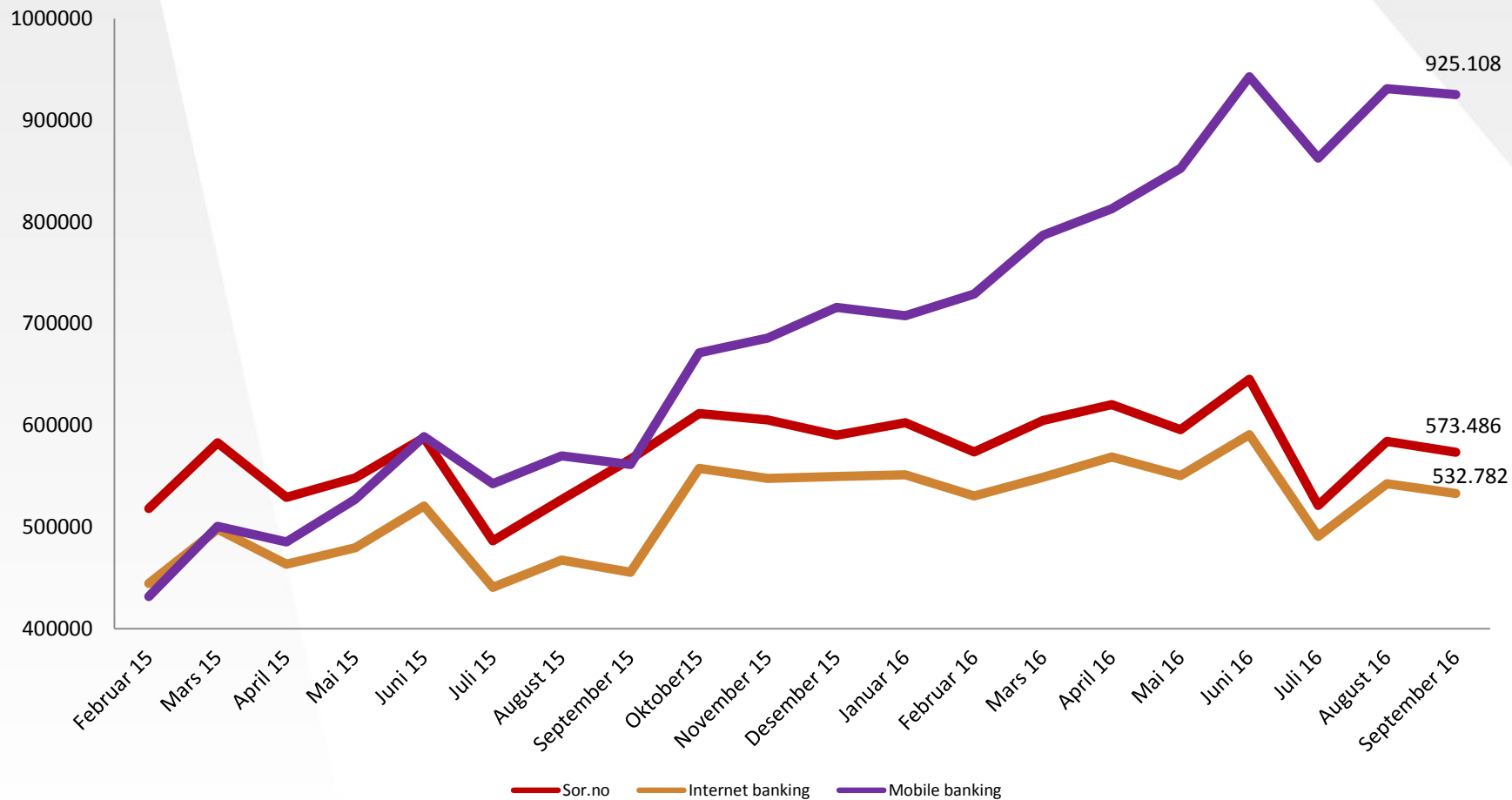
Note(\*): Industribyggerne 2015 - Rapport IRIS 2015/031 (Directly and indirectly employed in the petroleum industry) || Note(\*\*): Swedbank Research, EAD Oil and Oil service, except \* - in % of total lending



# Our Digital Services represents 95 % of customer interaction



# Mobile banking is growing



## Launched development projects

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### Deliveries:

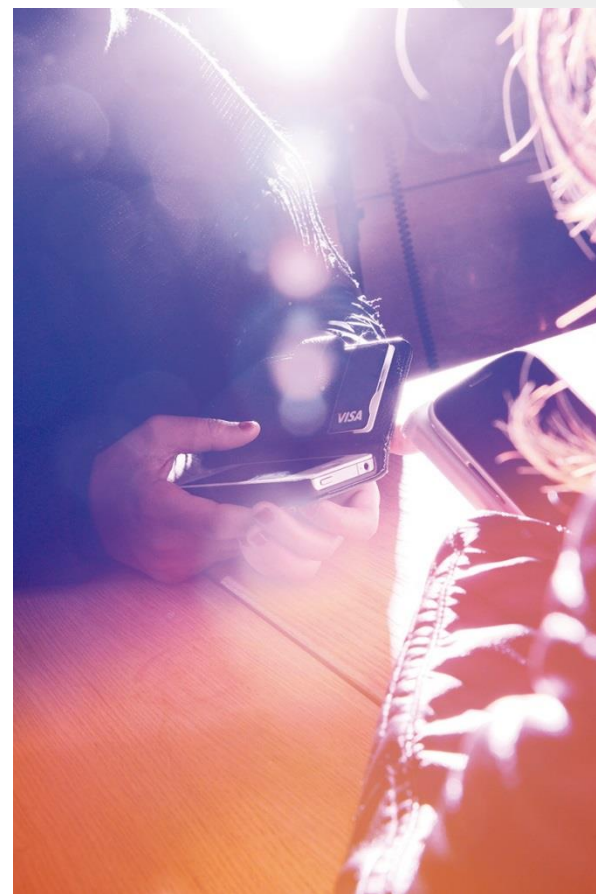
- New internet banking version
- Instant payment
- Quick transfer function in our mobile banking service
- New app - easier mobile banking for those under 18
- SPING, app for associations
- All cards with the possibility of contactless payments
- New VISA credit cards to 34 000 customers



## Development projects in progress

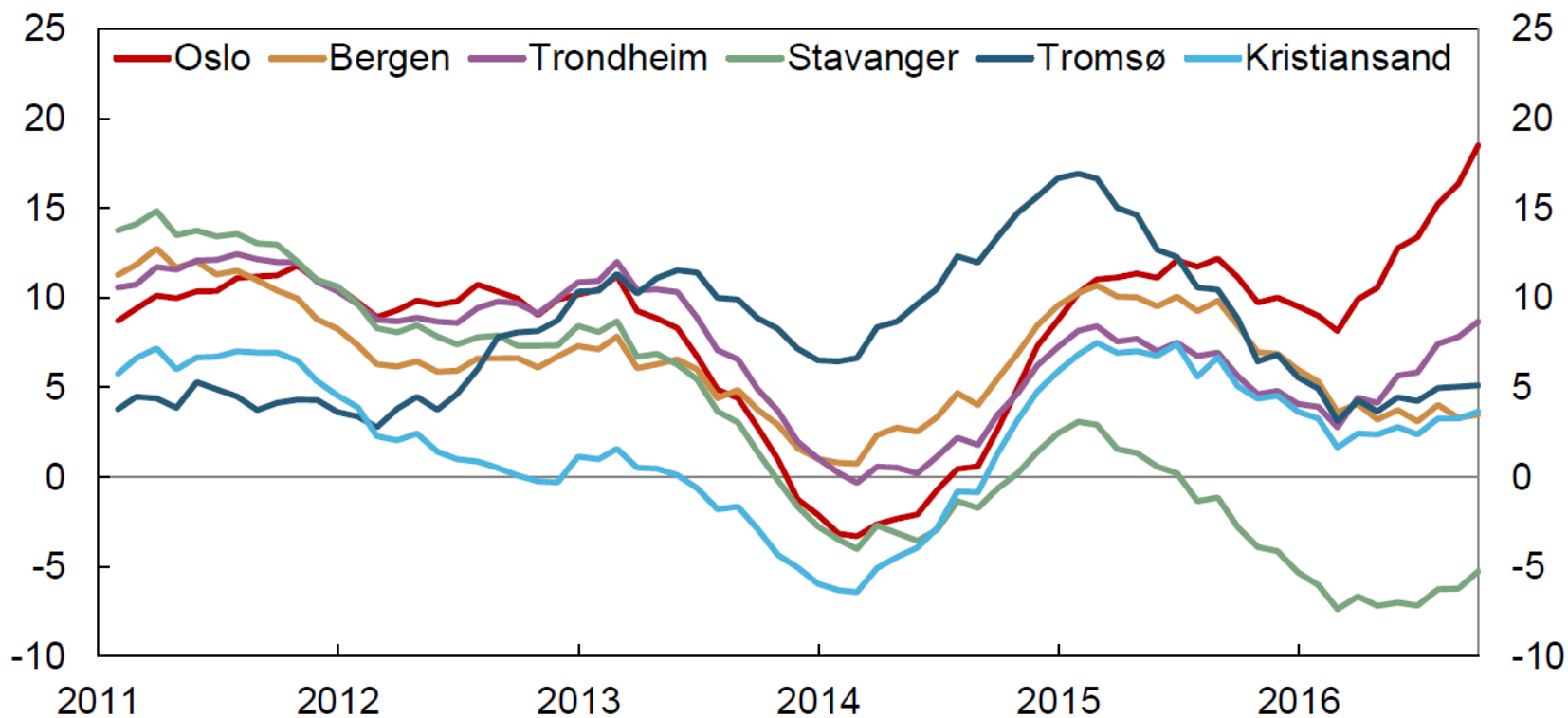
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- New mobile banking service with simpler sign-in and better functionality
- Debet card order function in our mobile banking service
- Secure digital mailbox for safe communication in internet and mobile banking
- Self-service deposit accounts
- Robots



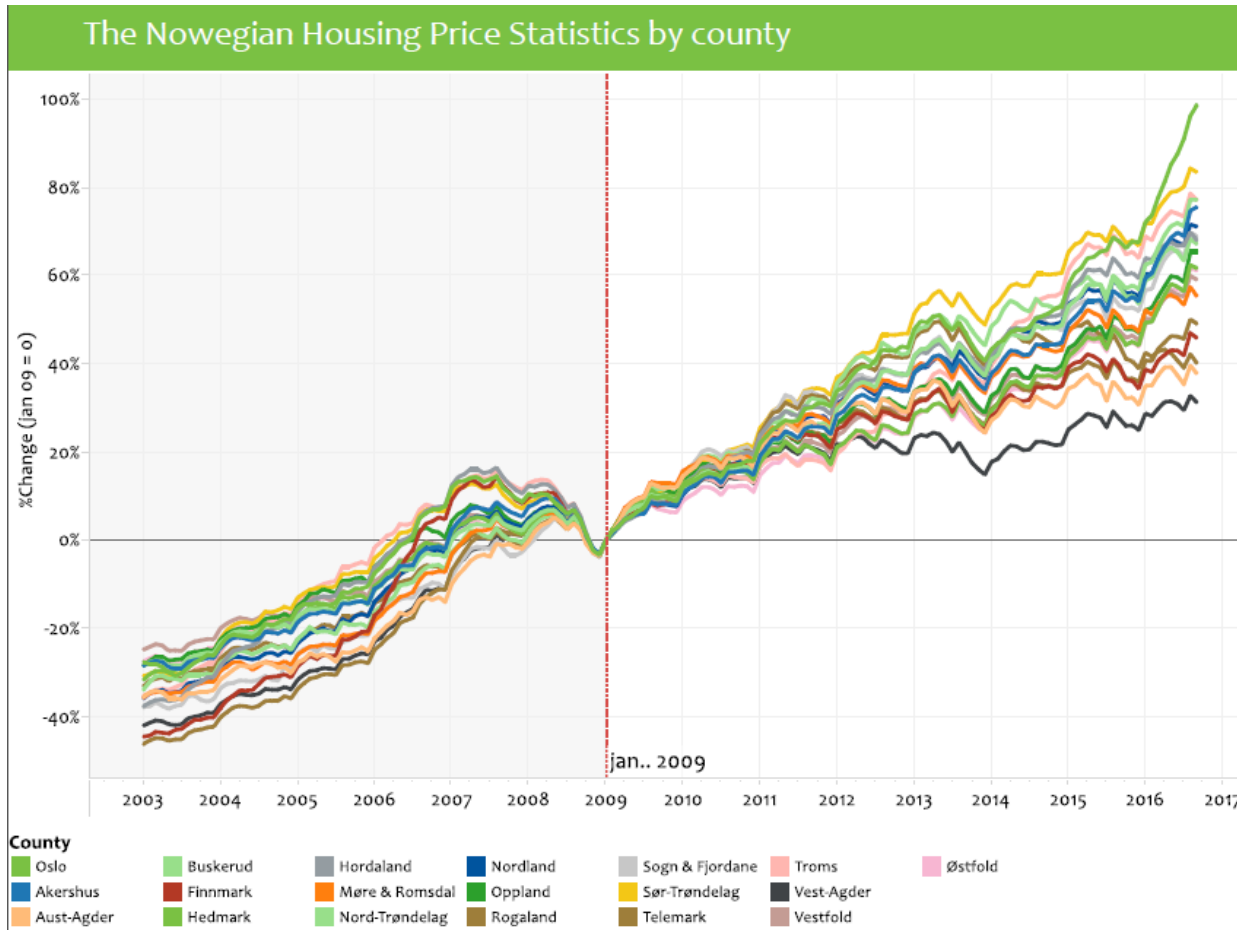
# House price development in the largest cities

12-month growth. Percent. January 2011 – september 2016



SPAREBANKEN SØR

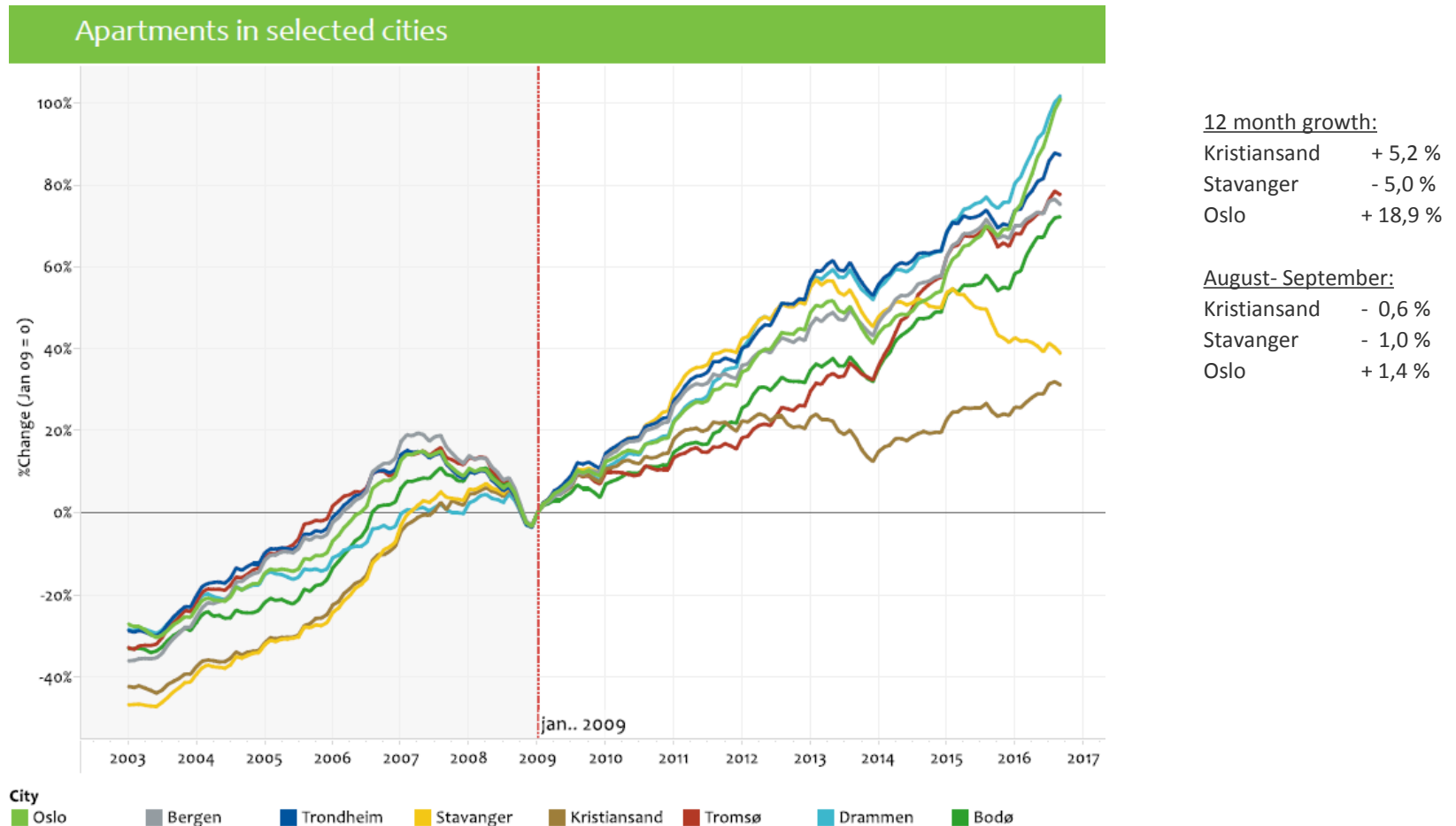
# Macro conditions and framework– House price development September 2016



12 month growth:  
 Vest-Agder + 3,0 %  
 Rogaland - 2,8 %  
 Oslo + 18,5 %

August - September:  
 Vest-Agder - 1,1 %  
 Rogaland - 1,4 %  
 Oslo + 1,3 %

## 2. Macro conditions and framework– Apartment price development September 2016



Source: Eiendomsverdi AS September 2016



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