



Skjærgårdsseminaret 2021

26 August 2021

Geir Bergskaug
CEO

Agenda

- **About Sparebanken Sør**
- **Financial Highlights, Q2-2021**
- **Strategy**
 - **A visible and sustainability-focused role in society**
 - **Capital and Funding**
- **Goals and Expectations**

Sparebanken Sør

- a leading financial institution in Southern Norway



- Established in 1824
- 549 employees



- 178 000 personal customers



- Financial group with banking, securities brokerage and real estate brokerage



- 22 000 corporate customers



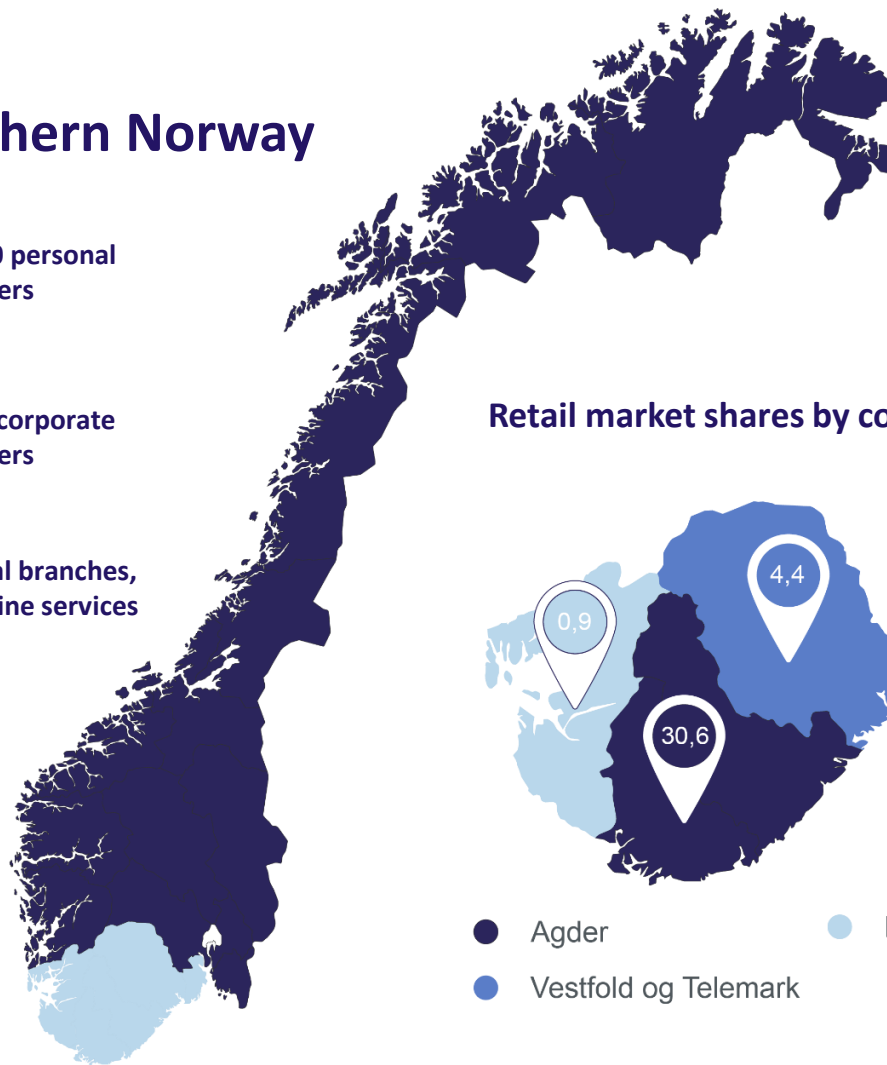
- Publicly traded and community-owned



- Regional branches, and online services



- Total assets of NOK 140 billion
- Q2-2021 profit after tax of NOK 308 million
- Cost-income ratio of 40.9%



Retail market shares by county*



- Agder
- Rogaland
- Vestfold og Telemark

* Market share of retail market, percent (Source: Eiendomverdi AS, Markedsandelsrapporter)

A complete provider of financial services

Sparebanken Sør



Retail banking

- Retail lending of NOK 78 bn (66% of total lending)
- 178 000 customers

Corporate banking

- Corporate lending of NOK 37 bn (34% of total lending)
- 22 000 customers

Subsidiaries

Sparebanken Sør Boligkreditt

- Issuer of the Group's covered bonds, and important funding instrument
- 49 bn NOK [in lending]
- 43 bn NOK total covered bond issuance



Sørmegleren

- The leading real estate broker in Southern Norway (Sørlandet), with a market share of ~30 per cent



Associated Companies

Frende Forsikring (21,0 %) FrendeForsikring

- Offers insurance products to retail and corporate customers
- 159 000 kunder

Brage Finans (20,8 %)

- Offers leasing and loans secured by purchased assets to retail and corporate customers

Norne Securities (14,8 %)

- Securities firm offering investment services to retail and corporate clients

Balder Betaling (22,2%)

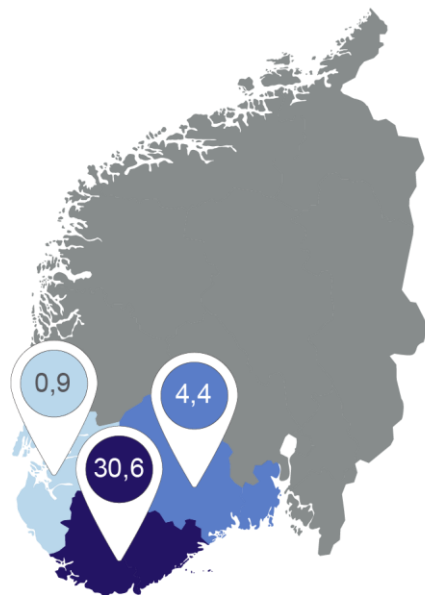
- 10.7% ownership of Vipps, Norway's largest payment app, used by 4 million Norwegians



A leading mortgage lender in Southern Norway

The bank maintains its high market share

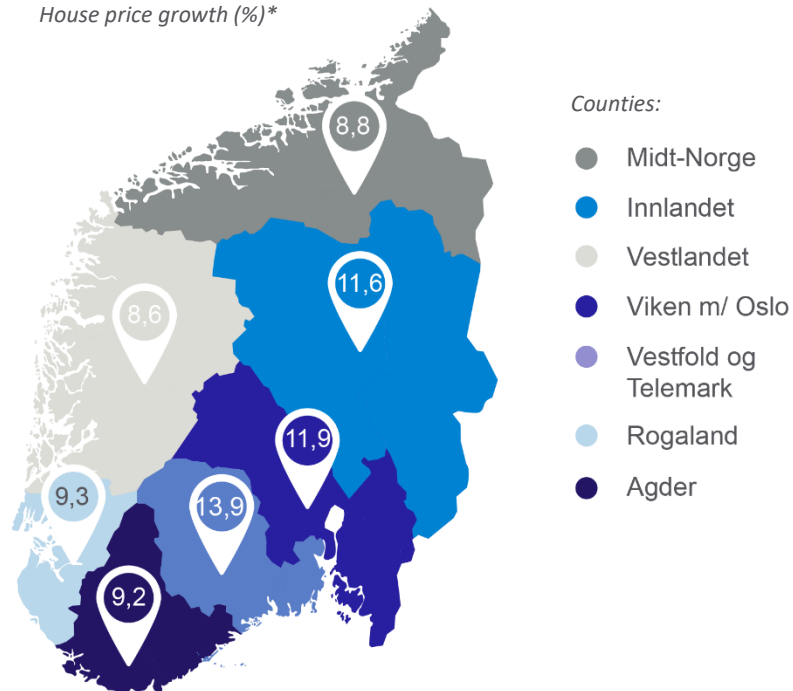
Market share by county (%)



The bank has maintained its # 1 position in Agder, and a strong position in Vestfold og Telemark. Market shares in Rogaland are increasing.

The increase in house prices has continued

House price growth (%)*



*3-month moving average of 12-month changes

Regional labour market developments

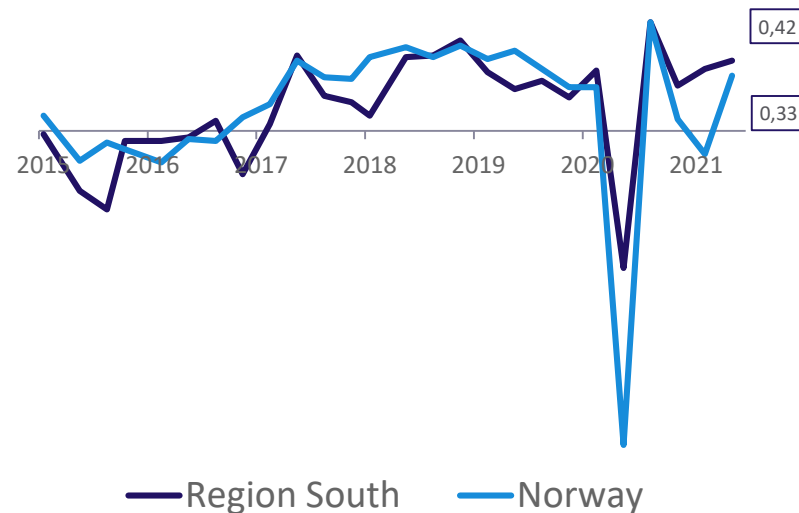
Unemployment rates

Percent unemployed as at
30 June 2021



Employment growth

3-month growth (%)



The employment indices ranges from -5 to +5, where -5 indicates a large fall in employment, and +5 indicates strong growth. The indices are quarterly indices, maintained by Norges Bank through its Regional Network. «Region South» is comprised of the counties Agder and Vestfold og Telemark.

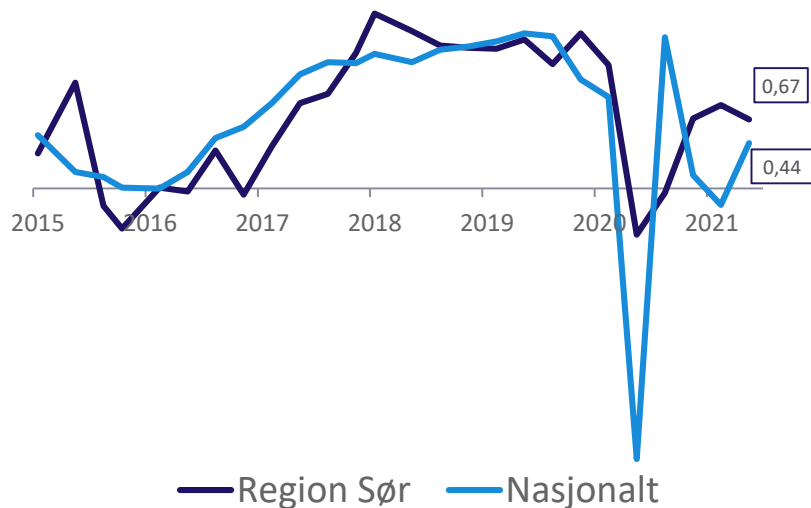


SPAREBANKEN SØR

Positive regional production and investment growth

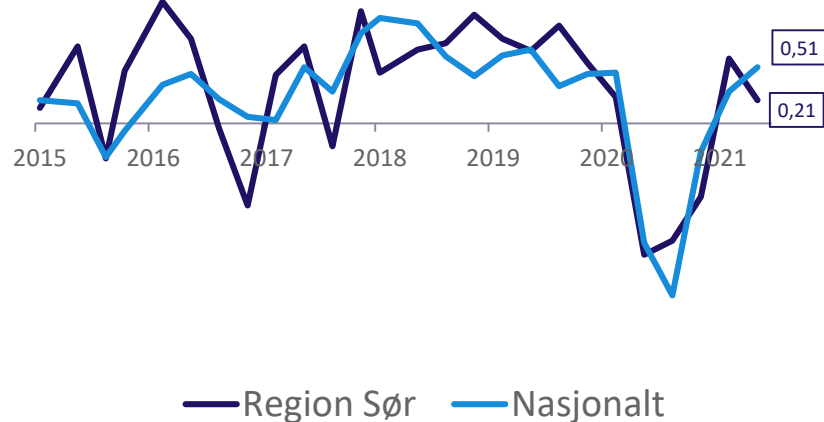
Production growth

3-month growth (%)



Investment growth

Expected development next 12 months



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

Financial highlights, Q2-2021



SPAREBANKEN SØR

Financial highlights, Q2-2021

- Efficient operations and low costs
- Solid profit contributions from Frende, Brage and Sørmeqleren
- Net entry on credit losses
- Annualised lending growth of 8.2 percent
- Annualised deposit growth of 34.3 percent
- Return on equity after tax of 9.0 percent
- Common Equity Tier 1 Capital Ratio of 16 per cent
- Leverage ratio of 9.2 per cent

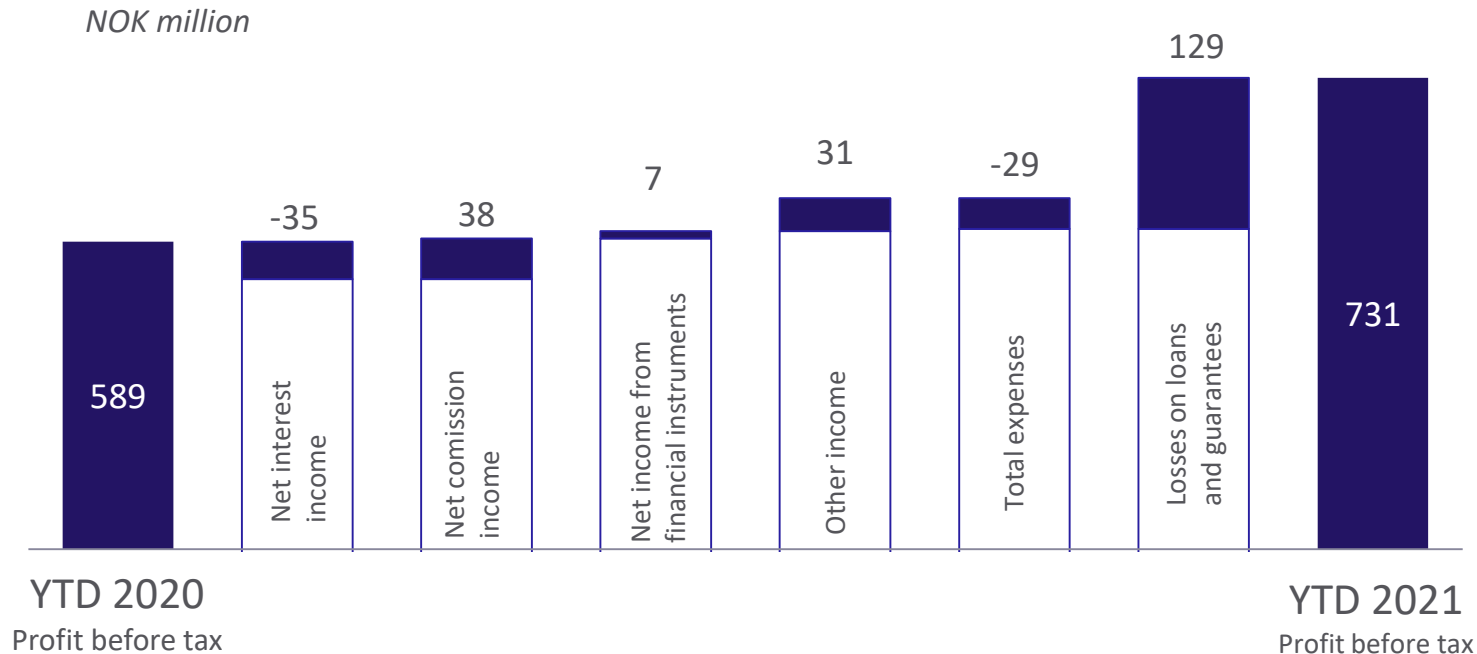
NOK million	2021 Q2	2020 Q2	Change
Net interest income	488	449	39
Net commission income	110	89	21
Net income from financial instruments	-11	59	-70
Associated companies	45	52	-7
Other operating income	2	4	-2
Total income	635	653	-18
Total expenses	260	240	20
Profit before losses on loans	375	413	-38
Losses on loans, guarantees	-11	46	-57
Profit before tax	386	367	19
Tax expense	77	79	-2
Profit for the period	309	288	21

Financial highlights, H1-2021

- Efficient operations and low costs
- Healthy profit contributions from subsidiaries Frende, Brage and Sørmeqleren
- Net entry on credit losses
- Annualised lending growth of 5.6 percent
- Annualised deposit growth of 10.0 percent
- Return on Equity After Tax of 8.7 percent

NOK million	30.06.2021	30.06.2020	Change
Net interest income	939	974	-35
Net commission income	197	159	38
Net income from financial instruments	-3	-10	7
Associated companies	74	39	35
Other operating income	2	6	-4
Total income	1 210	1 168	42
Total expenses	501	472	29
Profit before losses on loans	709	696	13
Losses on loans, guarantees	-22	107	-129
Profit before tax	731	589	142
Tax expense	148	137	11
Profit for the period	583	452	131

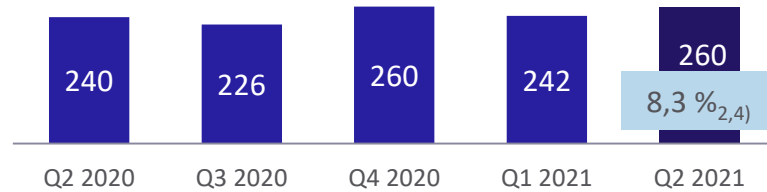
Decomposition of changes in profit before tax



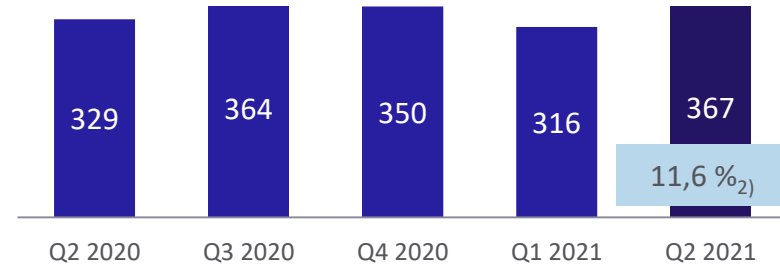
Profit and returns

NOK millions

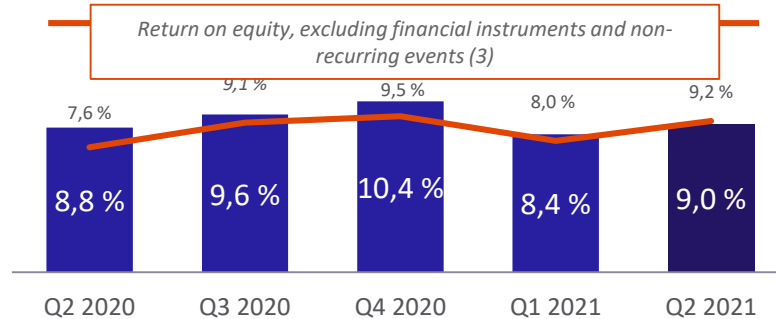
Operating expenses



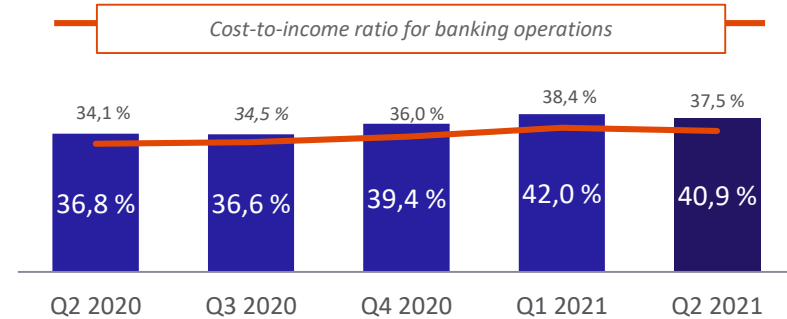
Profit from ordinary operations₁₎



Return on equity



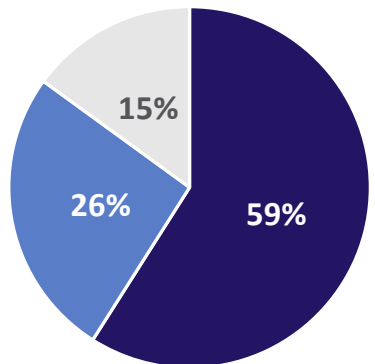
Cost-to-income ratio



- 1) Net interest income, adjusted for accounting changes + Net commission income + Other operating income – Operating expenses
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments and interest on hybrid capital
- 4) Operating expenses in the banking operations increased by 3.8% compared to Q2 2020.

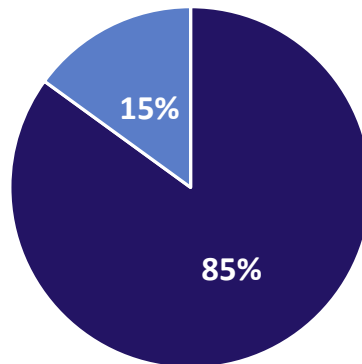
Staff changes and significant upskilling

Staff changes 2014-2021



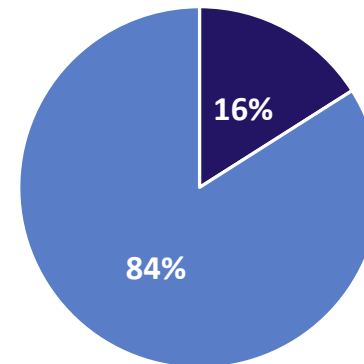
- Unchanged
- Upskilling and reskilling
- Downsizing

Leavers (2018-2021)



- Other
- Completed BSc/MSc

New joiners (2018-2021)

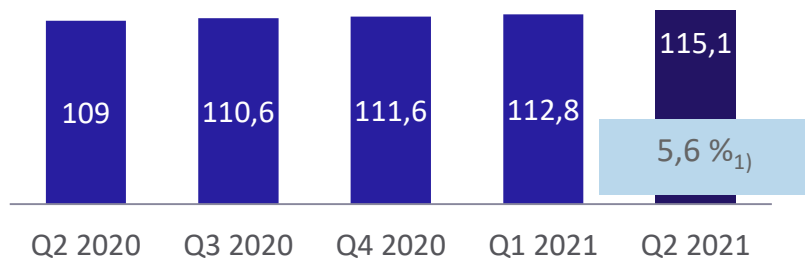


- Other
- Completed BSc/MSc

Solid lending and deposit growth in Q2

NOK billions

Net loans



Deposits



- **12-month growth of 5.6 %**

- 12-month growth in gross loans of 5.5 % for retail customers and corporate customers of 5.6 %

- **Annualized quarterly growth of 8.2 %**

- 7.8 % retail lending growth
- 8.8 % corporate lending growth

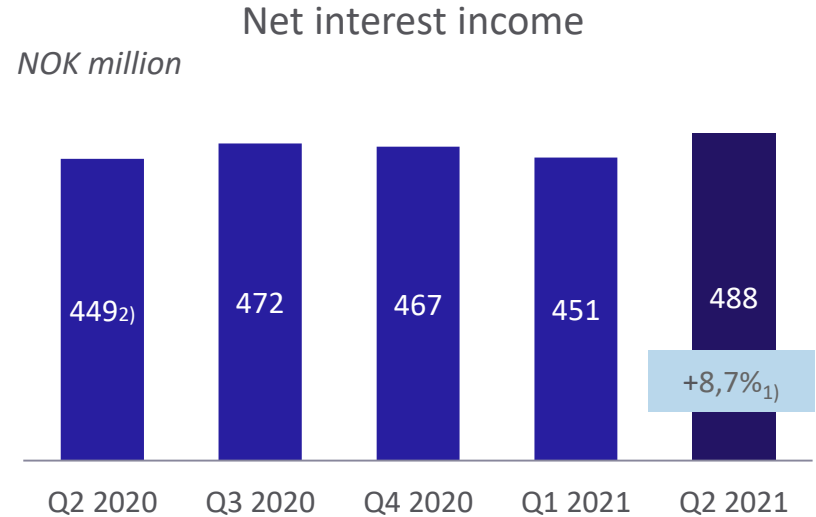
- **12-month growth of 10.0 %**

- 12-month retail deposit growth of 5.2 % and 15.5 % corporate deposit growth

- **Annualized quarterly growth of 34.3 %**

Higher net interest income

- Higher net interest income
- Healthy deposit and lending growth
- Competitive pressures in retail lending rates have subsided somewhat
- Financing costs fell due to refinancing of outstanding debt at lower costs, as well as lower money market rates (3-month NIBOR).



1) Changes from the corresponding prior-year period

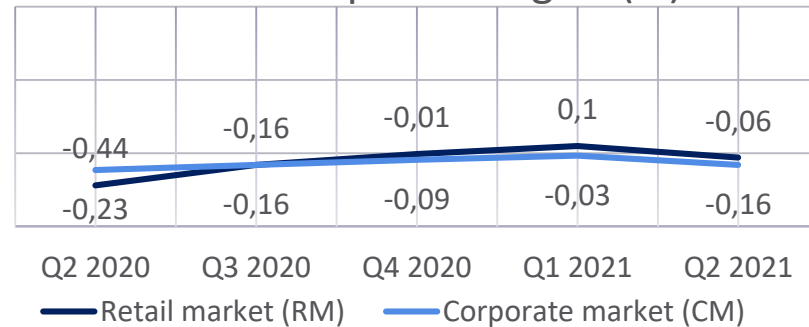
2) Shortened notice period reduced net interest income by approx. NOK 56 million in Q2

Margins

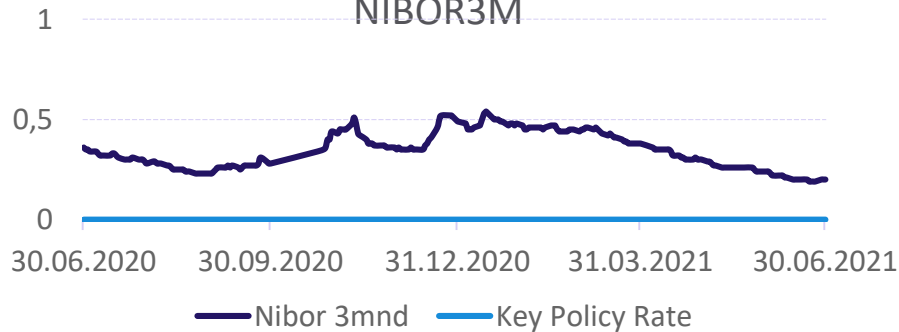
Loan margins (%)



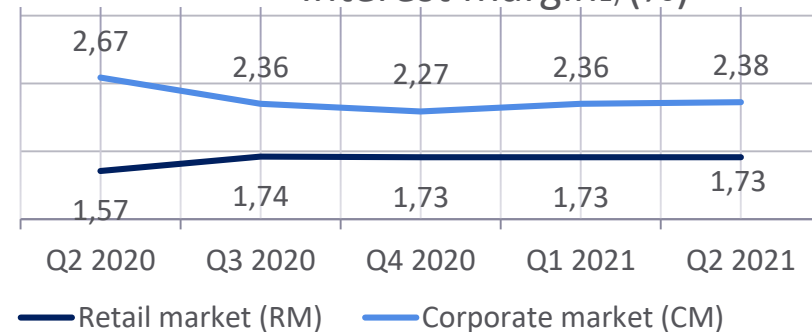
Deposit margins (%)



NIBOR3M



Interest margin¹⁾ (%)



Associated companies

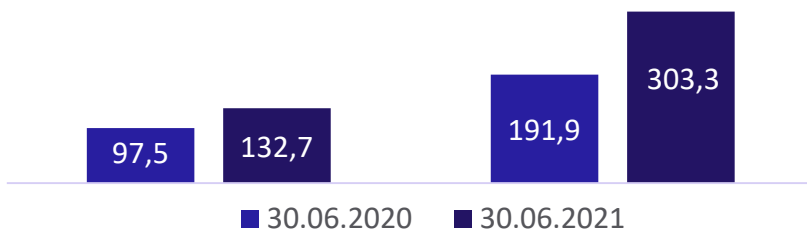


Profits before tax

NOK million

Brage Finans AS

Frende Holding AS



Consolidation effects

NOK million		Q2 2021	Q2 2020	30.06.2021	30.06.2020
Frende forsikring* (21,0 %)	Share of profit	38,3	49,3	50,9	27,4
	Amort.	-5,4	-5,0	- 10,8	-10,0
Brage finans (20,8 %)	Share of profit	12,4	7,9	23,3	13,6

In February 2021, the ownership share in Brage was temporarily increased from 20.8 percent to 24.9 percent. In June 2021, the bank resold the shares and reduced its ownership to 20.8 percent. The transaction did not have any effects on profit except that a larger share of the result in Brage was recognized as income in the quarter.

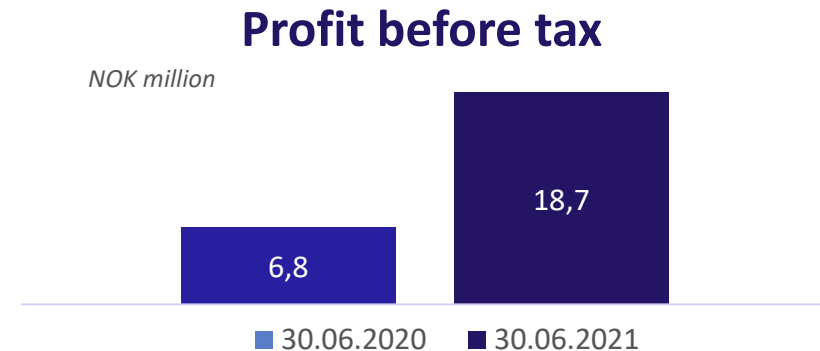
A value adjustment of the shares in Vipps was carried out in the first quarter, which had a positive effect on the shares in Balder Betaling AS. The value adjustment amounted to NOK 11.1 million. No value adjustment was made in the second quarter.

An excellent profit contribution from Sørmeglere

- The leading real estate broker in Southern Norway
- >30% market share of residential property transactions in Southern Norway
- Strengthened position in Vestfold og Telemark county, through opening of branches in the cities of Kragerø and Sandefjord.
- Push towards brokerage of commercial properties



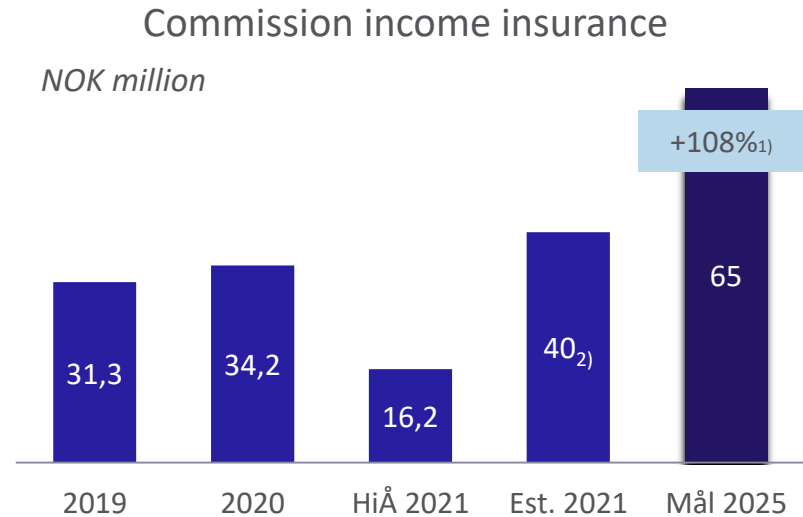
SØRMEGLEREN



SPAREBANKEN SØR

Increased efforts in insurance sales

- In July, the bank acquired 78 percent ownership of Sørlandets Forsikringscenter AS, with an option to purchase the remaining shares
- Through the acquisition, the bank obtained an insurance portfolio of NOK 110 million
- With this, the bank has strengthened the insurance sales force
- The ambition is to increase income from insurance by 100%, by end of 2025

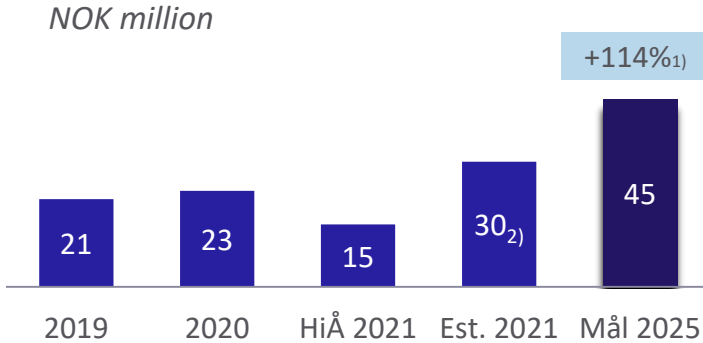


1) Increase from 2019 in the strategy period 2020-2025

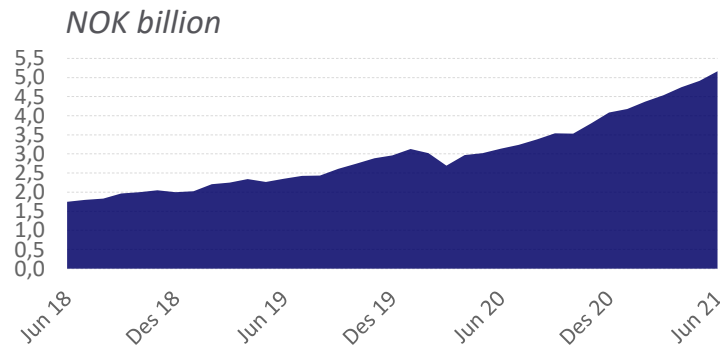
2) Estimate 2021 after purchase of portfolio

Savings agreements

Commission income from mutual funds



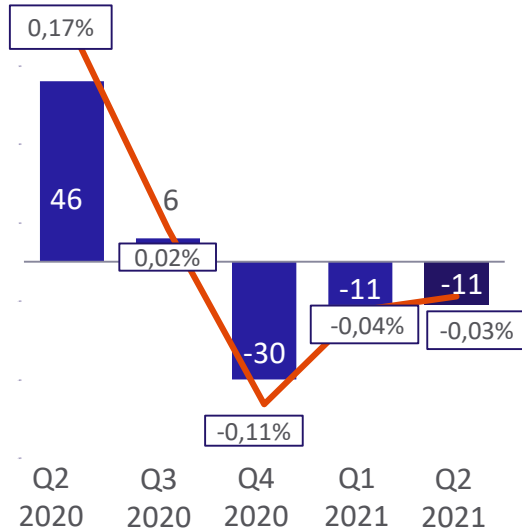
Savings agreements volumes



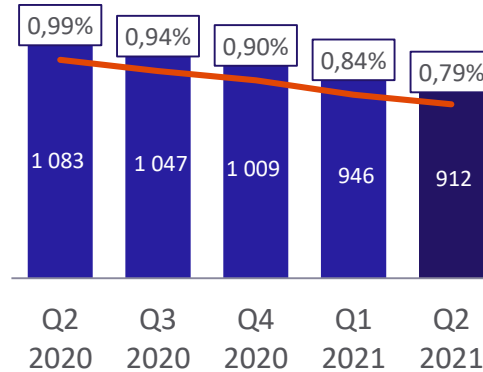
- The ambition is to increase commission income from mutual funds by 100% by end of 2025
- Strong growth both in the number of savings agreements, and the amounts saved through these agreements
- Digital savings assistant went live in 2020
- Focus on Norne Fondsportal
- Considerable growth potential

Non-performing loans

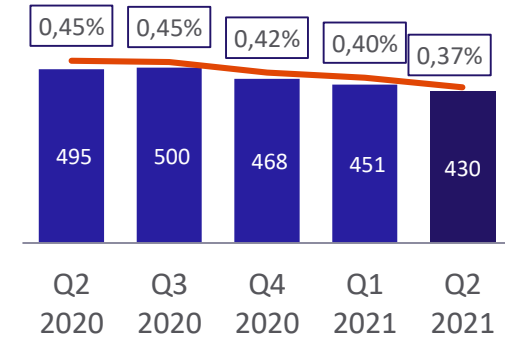
Development in losses in NOK million and as a percentage of gross loans (annualised)



Development in non-performing loans (IFRS 9, step 3) in NOK million, and as a percentage of gross loans ¹⁾



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

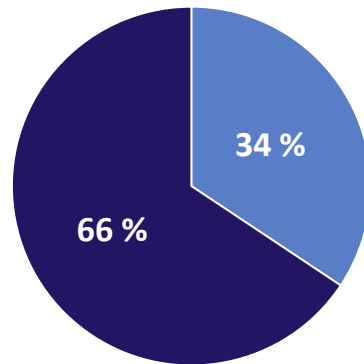


1) A new definition of non-performing has been applied from 1 January 2021. Historical figures are not directly comparable with current figures.

A well-diversified loan portfolio

RM/CM distribution

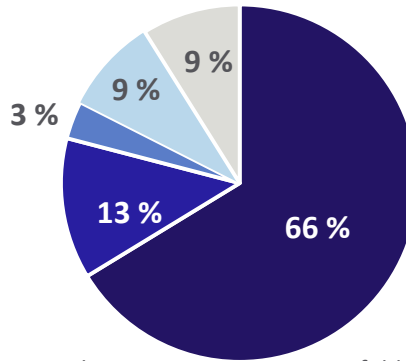
Gross loans



■ CM ■ RM

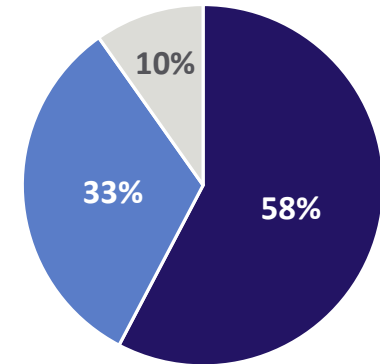
Geographical distributions of loans

Gross loans



■ Agder
■ Vestfold og Telemark
■ Rogaland
■ Oslo
■ Other

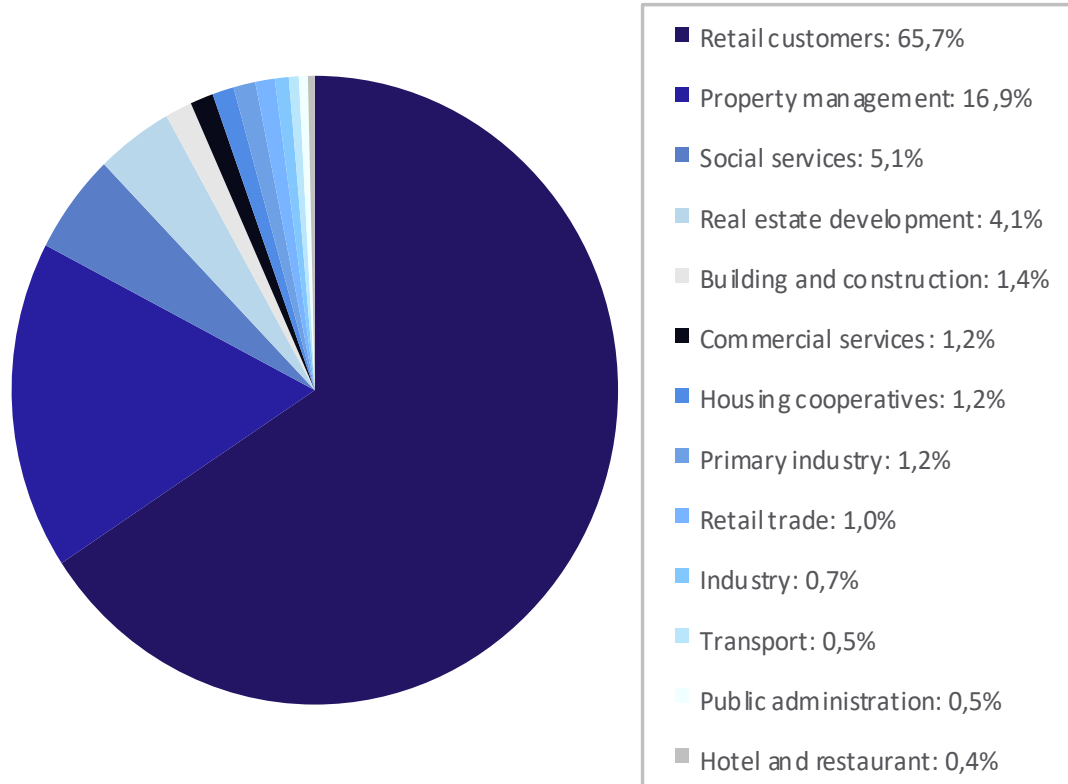
Loan-to-Value (Group)



■ < 60 % ■ 60-75 % ■ > 75 %

- Average mortgage loan-to-value of c.55 percent (group).
- 90 percent of mortgages are within 75 percent of loan-to-value.
- NOK 48.8 billion have been transferred to Sparebanken Sør Boligkreditt AS, equivalent to 64 percent of total loans to retail customers

A well-diversified loan portfolio



- Well diversified portfolio across sectors
- Virtually no direct exposure to oil and oil service
- Very low indirect exposure to oil and oil service (tenants)

Summary of Q2-2021

Results

- Positive development in net interest income, healthy profit contributions from Frende, Brage and Sørmeglaren. Low operating costs and net entry on losses on loans.

Funding and capital

- Common equity tier 1 capital ratio of 16.0 percent and solid leverage ratio of 9.2 percent
- Solid financing structure and good liquidity buffers

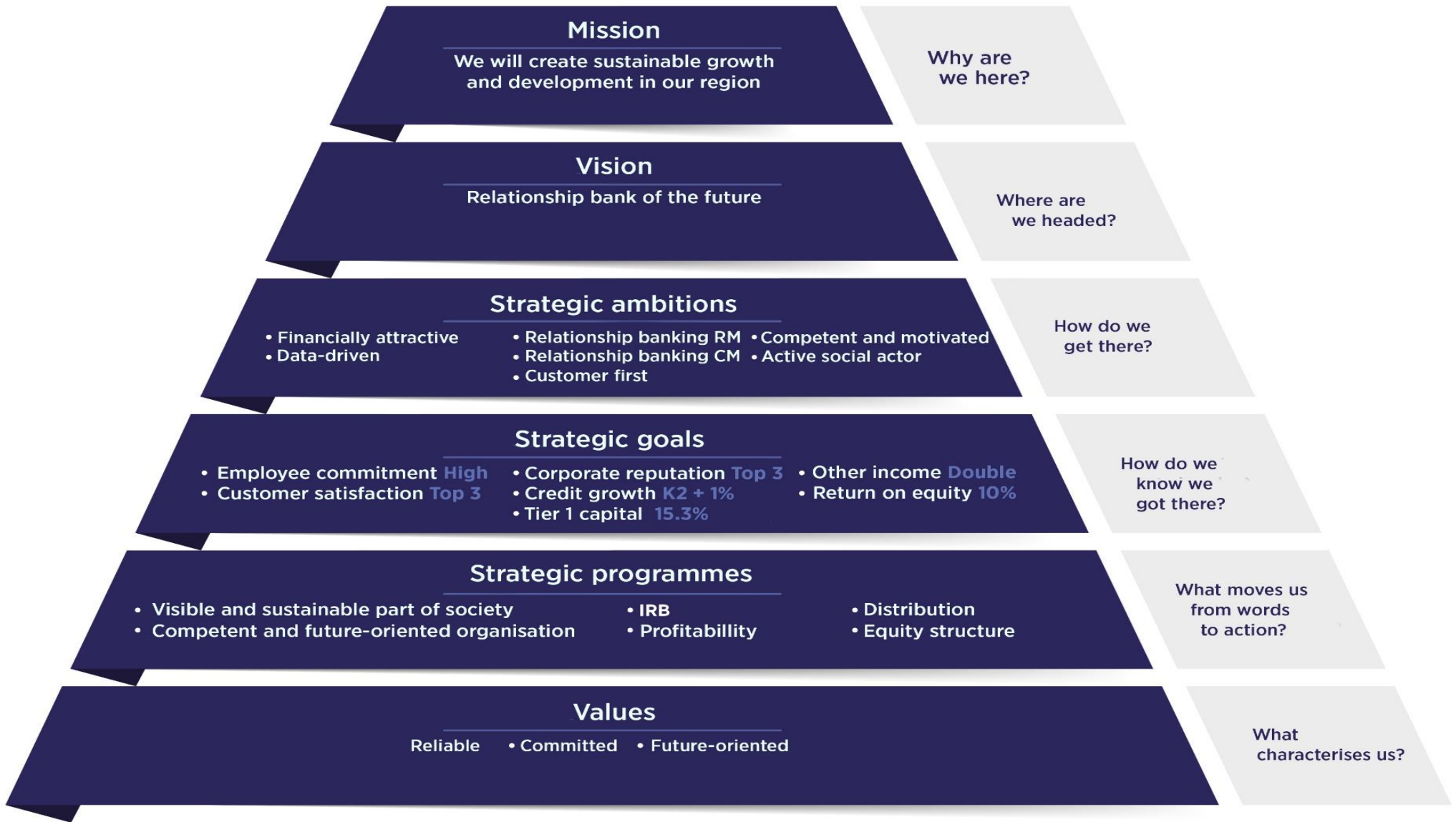
Growth

- 12-month lending growth of 5.6 percent
- 12-months deposit growth of 10.0 percent

Summary

- Satisfactory underlying operations gave a profit before tax of NOK 386 million in Q2 2021

Strategy



Mission

We will create sustainable growth and development in our region

Why are we here?

Vision

Relationship bank of the future

Where are we headed?

Strategic ambitions

- Financially attractive
- Data-driven
- Relationship banking RM
- Relationship banking CM
- Customer first
- Competent and motivated
- Active social actor

How do we get there?

Strategic goals

- Employee commitment **High**
- Customer satisfaction **Top 3**
- Corporate reputation **Top 3**
- Credit growth **K2 + 1%**
- Tier 1 capital **15.3%**
- Other income **Double**
- Return on equity **10%**

How do we know we got there?

Strategic programmes

- Visible and sustainable part of society
- Competent and future-oriented organisation
- IRB
- Profitability
- Distribution
- Equity structure

What moves us from words to action?

Values

Reliable • Committed • Future-oriented

What characterises us?

A visible and sustainability-focused role in society

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 per cent reduction in climate emissions by 2030
- Zero emission target by 2050
- ESG now integrated in credit processes for corporate loans
- Developing a new ESG-system with IT provider TietoEvy
- 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-Assessments 2020
- TFCDD report 2020

ESG included in credit risk assessments

Our portfolio has a low ESG risk profile

Sparebanken Sør compared to the «National Portfolio»

- Sparebanken Sør's lending constitutes 2% of total lending in Norway
- Emissions linked to our loan portfolio, however, is only 0.6% of the total emissions linked to Norwegian banks' loan portfolios

KPI	Norge (11/2020)		Sparebanken Sør (2020)	
	Utlån MNOK	CO 2 1000 tonn	Utlån MNOK	CO 2 1000 tonn
Personkunder (husholdninger)	3 699 110	4 917	73 662,0	97,9
Jordbruk og tilknyttede tjenester	66 171	4 914	801,0	59,5
Skogbruk og tilknyttede tjenester	5 915	36	158,0	1,0
Fiske og fangst	80 501	370	313,0	1,4
Bergverksdrift og utvinning	11 151	279		
Utvinning av råolje og naturgass	15 121	15 229		
Industri	90 850	11 933	861,0	113,1
El-, gass-, damp- og varmtvannsforsyning	49 486	1 699		
Vannforsyning, avløps- og renovasjon	13 915	1 499		
Utvikling av eiendom	135 751	1 301	4 104,0	39,3
Bygge- og anlegg	66 468	637	1 623,0	15,6
Varehandel	80 914	1 104	1 395,0	19,0
Sjøfart og lufttransport	79 392	20 815		
Transport land	80 699	2 087	590,0	15,3
Hotell og restaurant	20 475	133	399,0	2,6
Borettslag			1 281,0	0,2
Omsetning og drift av fast eiendom	793 389	122	19 303,0	3,0
Tjenesteyting og offentlig	246 362	1 670	7 369,0	50,0
Sum Bedriftsmarked	1 836 560	63 828	38 197,0	319,9
Sum Personmarked og Bedriftsmarked	5 535 670	68 745	111 859,0	417,8
Sør sin andel av Norge, %			2,0	0,6

ESG in our daily work

- The bank's lending shall be a driver for increased sustainability
 - We intend to realise this through guiding of and demands towards our customers
- Our green product taxonomy is in line with the EU's, and guides the bank's lending decisions

ESG-rating

- On 20 August 2021, ESG-ratings company Sustainalytics published the first official ESG rating of Sparebanken Sør
- We were awarded a «Low risk»-rating, and a score of 11.7, the best ranking of a Norwegian bank by Sustainalytics
- We achieved 4th place amongst regional banks and 313th place of all 13 519 firms ranked by Sustainalytics



ESG Risk Rating

11.7

Updated Aug 20, 2021

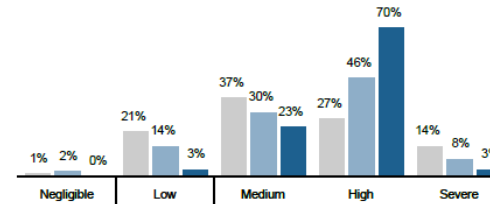
Not available

Momentum

Low Risk



ESG Risk Rating Distribution



Last Update: Aug 20, 2021

ESG Risk Rating Ranking

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

Second-Party Opinion
Sparebanken Sør Green & Sustainability
Bond Framework



ESG-rating

Why obtain an ESG-rating?

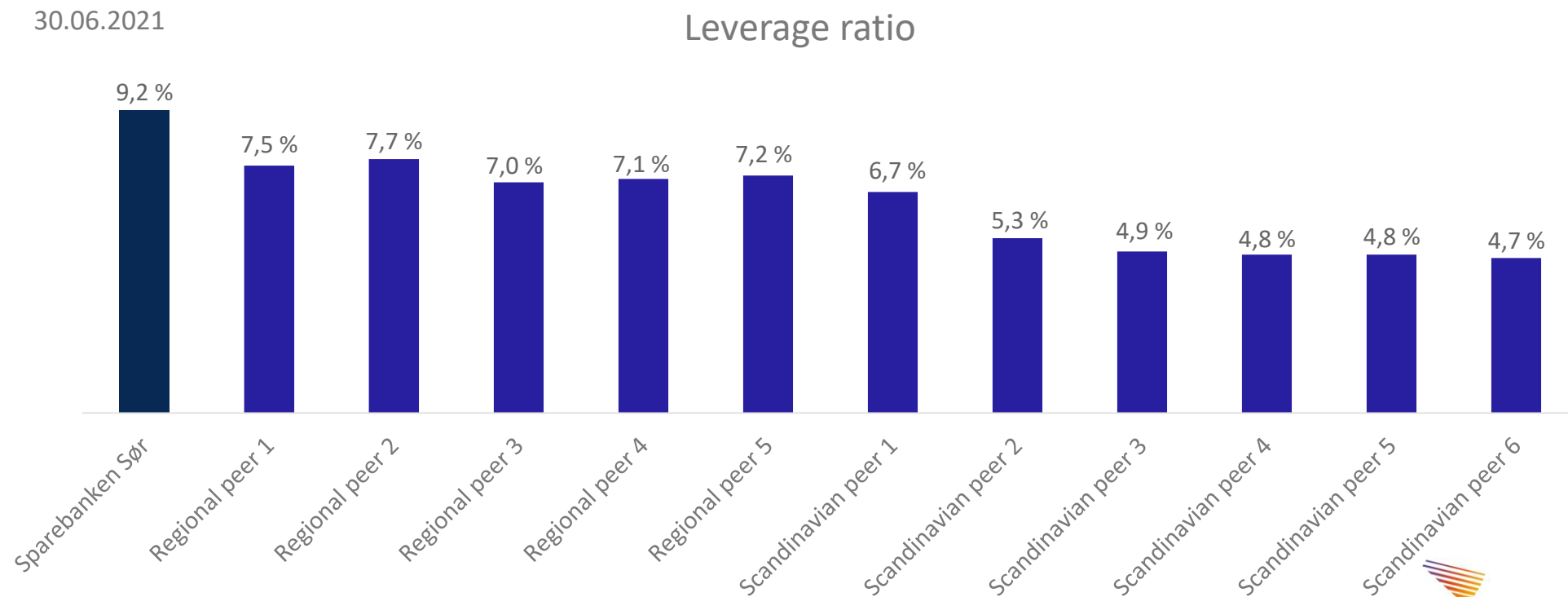
- Sparebanken Sør targets transparency – and this includes our sustainability efforts
- Clients, investors and lenders expects that the bank contributes towards a more sustainable economy
- Establishing an ESG rating highlights the bank's efforts and competence in this area, and increases awareness of our role in moving towards a more sustainable society

Why Sustainalytics?

- Sustainalytics is widely known for their ESG rating methodologies, and rates 13 593 firms, including approximately 1 000 banks
- Their methodology measures how firms proactively engages with their ESG impact
- Sparebanken Sør is evaluated on 58 ESG risk factors, as well as 45 corporate governance factors

Capital and funding

A strong capital position



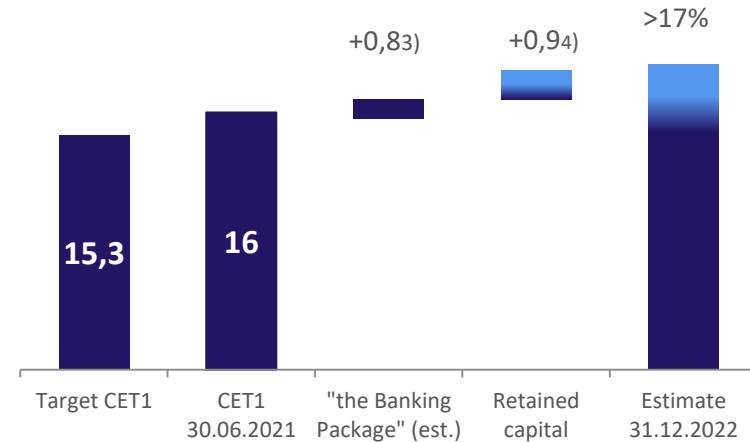
Capital requirements

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 ¹⁾	3.0 %	4.5 %
Counter-cyclical Buffer ²⁾	1.0 %	1.5-2.5 %
Pillar-2 requirements	2.0 %	1.0-2.0 %
Pillar-2 guidance	0%	0-1.0 %
CET1 requirements	13.0 %	14.0-17.0 %

- 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.
- 4) Capital building based on retained capital

Capital adequacy and targets



Anticipated changes in capital requirements will have a positive impact for Sparebanken Sør (CRR2)

Extended SME-discount (part 2)

Will impact loans to SMEs < 50 mn. EUR equivalents

- The discount for the lowest tier (23.81%) will be extended to apply also to SMEs with loans between 1.5 and 2.5 mn EUR-equivalents
- There will be a new discount of 15% on loan tranches exceeding 2.5 mn. EUR-equivalents.

Expected implementation: Late 2021 or early 2022

Estimated impact: An increase CET1 capital ratio by c.0.6 percentage points

Changes associated with Pillar 2

The bank is awaiting a new Pillar 2-decision from the Norwegian FCA (Finanstilsynet)

- Our own calculations suggest a markedly lower Pillar 2-requirement

Determination of capital adequacy margin (Pillar 2 guidance):

- Finanstilsynet may impose individual requirements for a capital adequacy margin, in addition to Pillar 2 requirements

Changes in type of capital instruments eligible for Pillar 2 requirements

- The changes will allow for covering parts of the Pillar 2 requirements with non-CET1 capital instruments.

Potential effect: Lower capital requirements under Pillar 2, but possibly higher requirements for the capital adequacy margin?

Infrastructure discount

There will be a new discount for capital adequacy of 25% for certain loans

- The intention behind introducing this rebate is that banks will have larger incentives to fund public infrastructure
- Firms who manages or finances infrastructure projects (essential public services), e.g. hospitals, schools etc.

Estimated impact: An increase of CET1 capital ratio by c. 0.2 percentage points

Introduction of cap of SNP coverage of MREL requirements

The Ministry of Finance's letter of 6 August 2021 to finance industry body Finans Norge

- Announces a cap for how much of the MREL requirements that shall be covered by senior non-preferred debt
- Assumes same understanding of the cap as other European countries
- There will be a markedly lower need for SNP also for Sparebanken Sør

Estimated impact: A reduction in SNP financing needs of 30-40 percent

Anticipated changes in capital requirements will have a positive impact for Sparebanken Sør (Basel IV)

New Standard Approach for credit risk

Main elements of the new approach:

- Increased granularity of residential and commercial mortgages
- Lowest risk weight for residential mortgages will be 20% (currently 35%)
- Lowest risk weight for commercial buy-to-let mortgages will be 70% (currently 100%)
- There will be a marked impact on our risk-weighted balance sheet

Estimated timing: Implementation expected in the EU from 1 January 2023

Før:	35 %	75 % / 100 %				
Risk weight table for residential real estate exposures						
(Repayment is not materially dependent on cash flows generated by property) Table 11						
	LTV ≤ 50%	50% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 90%	90% < LTV ≤ 100%	LTV > 100%
Risk weight	20%	25%	30%	40%	50%	70%

Før:	100 %		
Risk weight table for commercial real estate exposures			
(Repayment is materially dependent on cash flows generated by property) Table 14			
	LTV ≤ 60%	60% < LTV ≤ 80%	LTV > 80%
Risk weight	70%	90%	110%

- **Estimated impact** (based on certain assumptions regarding details of the implementation):
 - Impact on CET1 capital ratio from residential mortgages: c. 1.8 percentage points
 - Impact on CET1 capital ratio from commercial mortgages: c. 0.5 percentage points

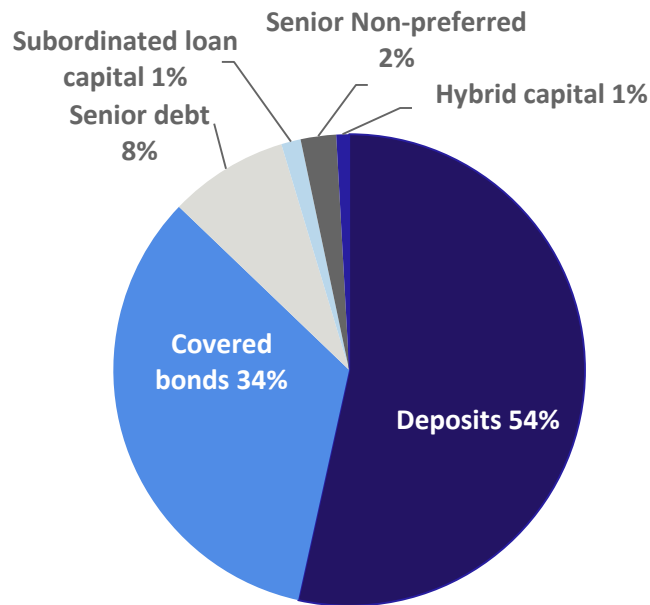
Why will Sparebanken Sør be benefitting from these changes?

- The bank has many customers that is anticipated to be eligible for the infrastructure discount (hospitals, schools, etc)
- The new Standard Approach will result in lower risk weights for some of the most important parts of the bank's loan portfolio:
 - The bank has a very large share of residential mortgages with low average loan-to-value
 - The bank has a relatively large share of commercial mortgages



SPAREBANKEN SØR

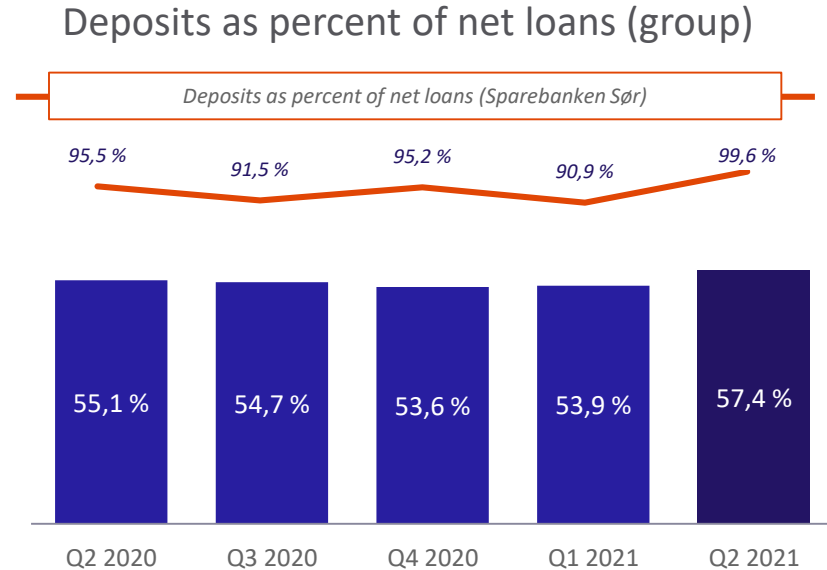
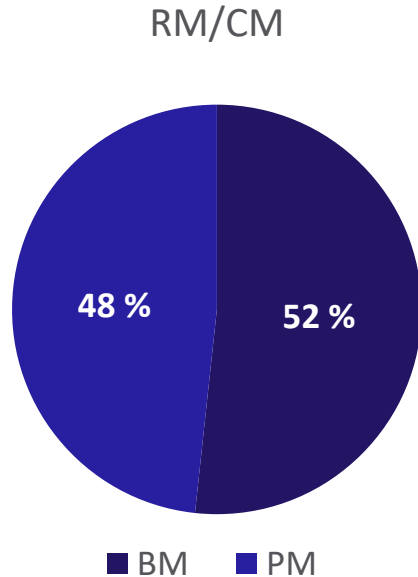
Funding structure



Deposits continue to be the most important source of funding

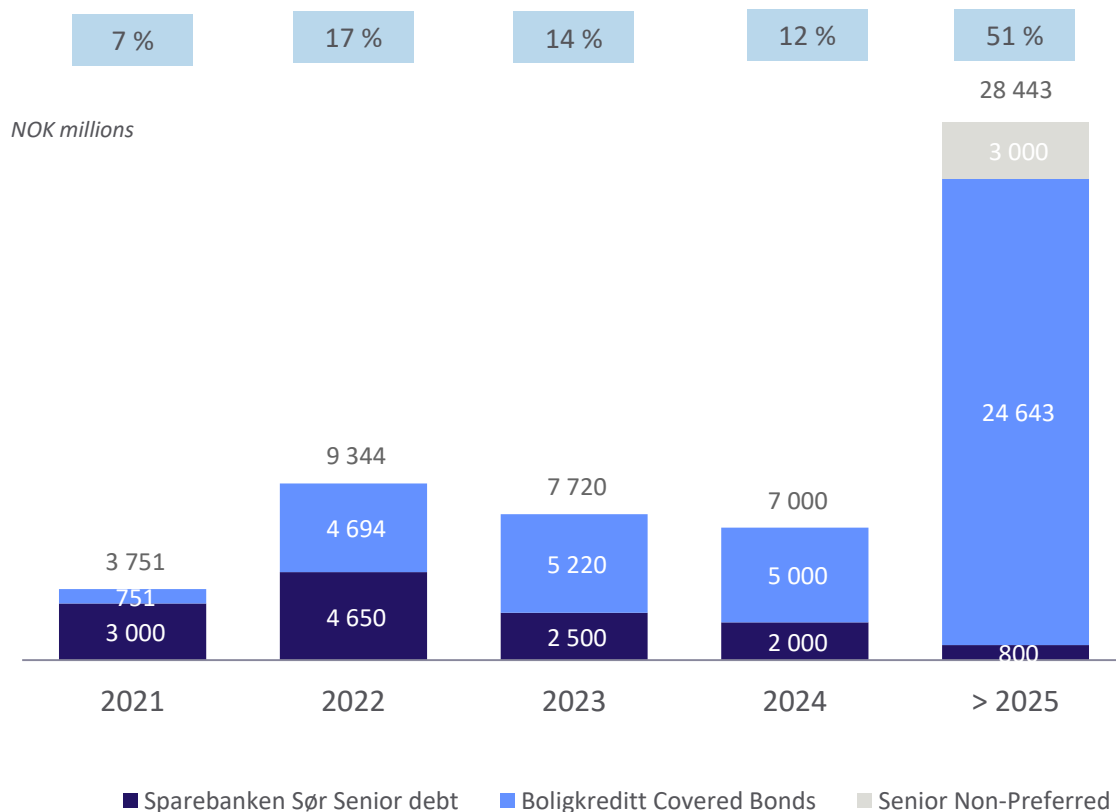
- Deposits as percentage of net loans stand at 57.4%
- The bank enjoys access to market funding both domestically and abroad
- Sparebanken Sør Boligkreditt has issued EUR 2.5 billion in covered bonds
- Sparebanken Sør issued NOK 2 billion of SNP in 2020, and NOK 1 billion in 2021.
- Sparebanken Sør has an A1 issuer rating by Moody's
- Covered bonds issued by Sparebanken Sør Boligkreditt are rated Aaa by Moody's
- In July, Sparebanken Sør's Senior Non-Preferred debt was upgraded from Baa1 to A3 by Moody's

Deposits



- Healthy increase in deposits, with a total growth of 10 percent over the last 12 months.
- Increased deposits may be seen in connection with changed customer behaviour as a result of restrictions imposed due to the ongoing pandemic
- Large corporate deposits have been reduced, and has been replaced with deposits with a broader commercial relationship to the bank

Debt maturity profile



- The Group's total debt funding was NOK 56.3 bn as at 30 June
- Covered bonds issued was equivalent to NOK 41.6 bn.
- The share of long-term funding* was 88%
- Average remaining maturity on long-term funding was 4.1 years

* Funding with remaining maturity greater than 12 months

Green financing options

Second-Party Opinion
Sparebanken Sør Green & Sustainability
Bond Framework

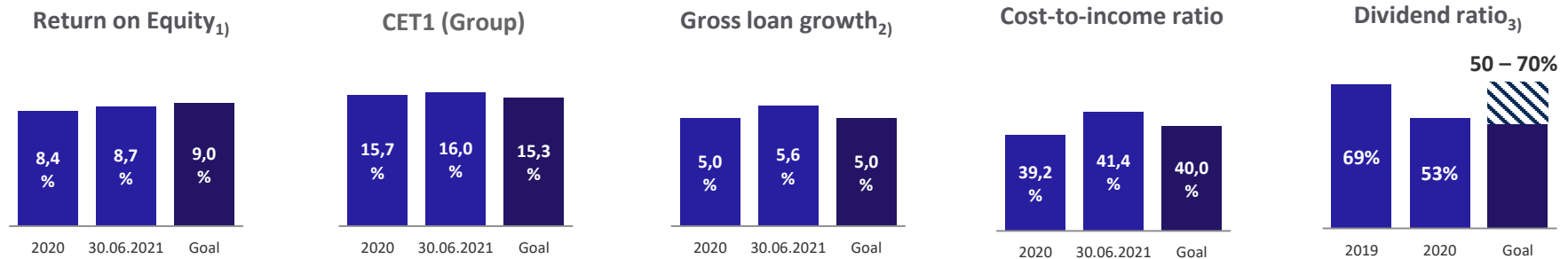


- The bank has a visible and sustainability-focused role in society and shall adapt to investor and customer ESG requirements
- There is a potential to issue bonds through our «Green and Sustainability Bond Framework»
- This framework also allows for issuance of senior debt
- We have good access to green loans also through our loans to the corporate sector
- Our customer products shall be compliant with our ESG requirements
- The bank's ESG efforts shall be acknowledged by one of the top ESG ratings

Goals and expectations



Financial key variables and ambitions



- 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 for June 2021 was 5.2 for retail customers and 4.4 for non-financial corporations. The group's lending growth the last 12 months was 5.5 for retail customers and 5.6 for corporate customers.
- 3) The board has proposed 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

Why Sparebanken Sør?



Strong and leading market position

Low risk and low complexity

High levels of customer satisfaction

Leading in cost efficiency

Strong digitalisation efforts

An attractive regional centre of competence

Increased product diversification

An ESG leader

Attractive dividend policy



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