



Sparebanken Sør

Investor presentation Q1 2022

Agenda

- **About Sparebanken Sør**
- **Financial highlights**
- **Funding status**
- **Capital**
- **New dividend policy**
- **Goals and expectations**



Sparebanken Sør

- a leading financial institution in Southern Norway



Established in 1824,
587 employees



181 000 retail
customers



Financial Group with
banking, securities and
real estate brokerage



22 000 corporate
customers



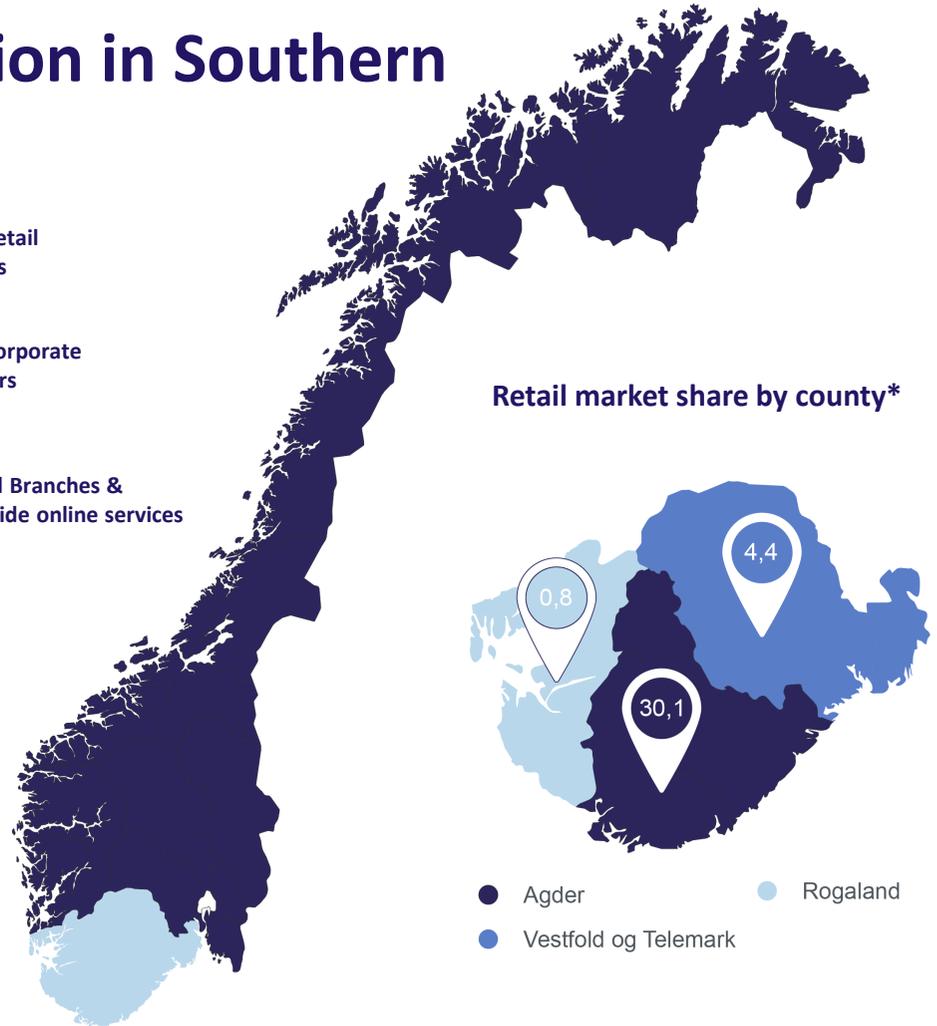
Publicly traded and
community-owned



Regional Branches &
nationwide online services



- Total assets of NOK 148 bn
- Q1-2022 profit after tax of NOK 276 million
- Cost-income ratio of 42.4%

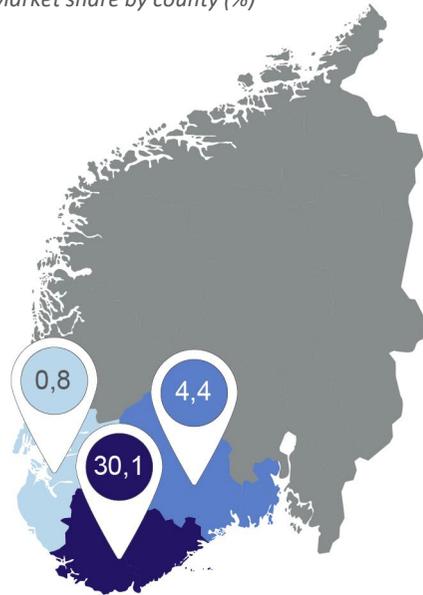


* Market share retail customers (Source: Eiendomverdi AS)

A leading mortgage lender in Southern Norway

Maintaining a 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*



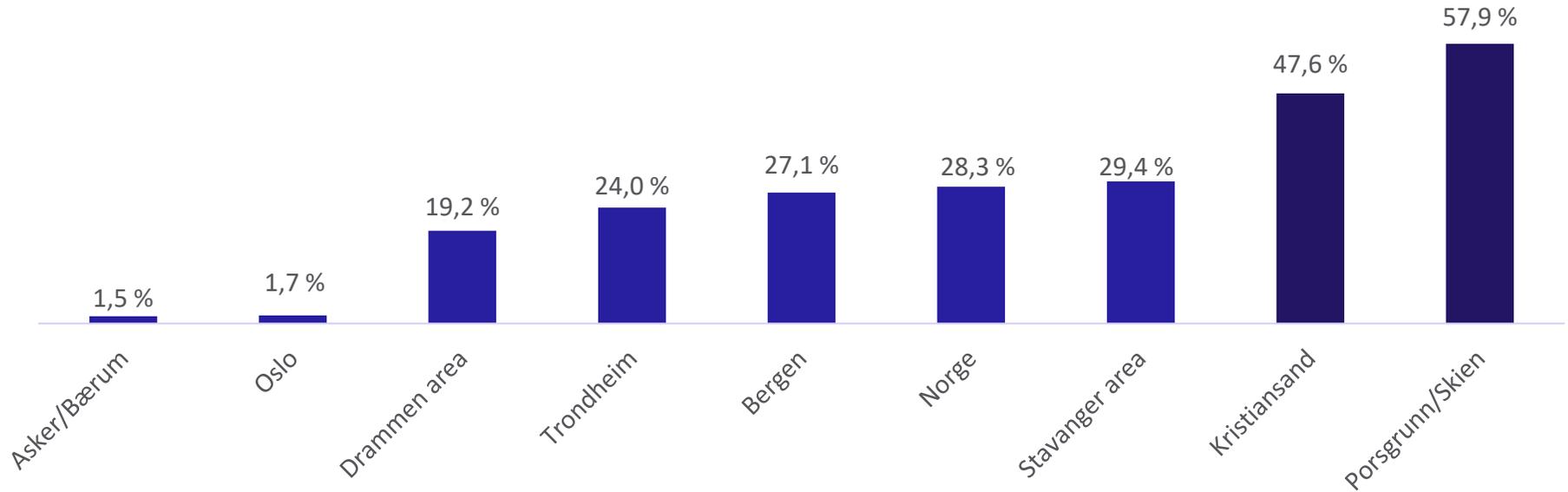
*3-month moving average of 12-month change



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«The Nurse Index»

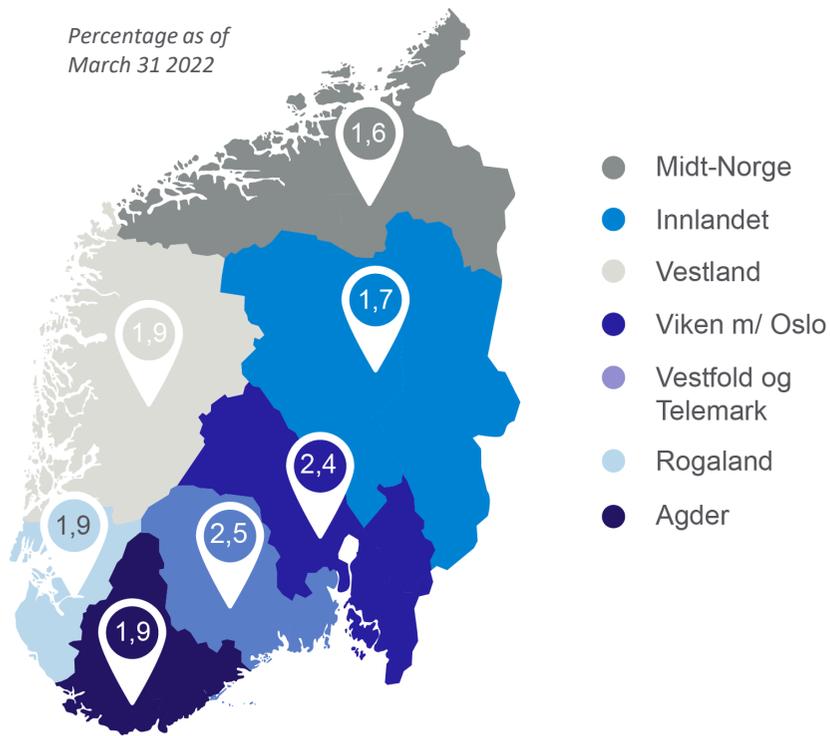
31.12.2021



Regional labour market developments

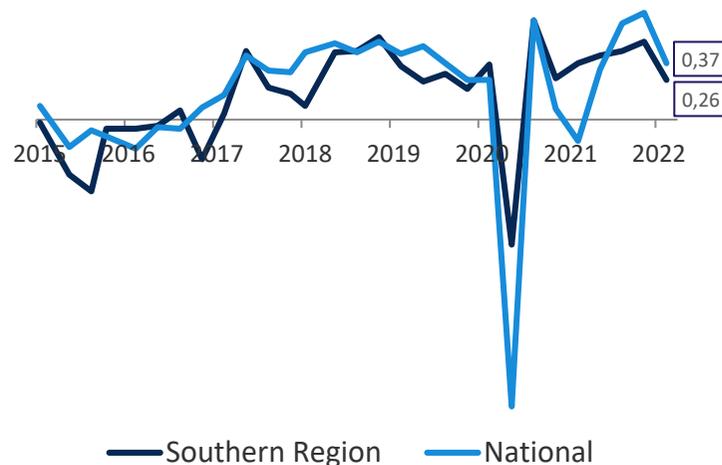
Unemployment rates

Percentage as of
March 31 2022



Employment growth

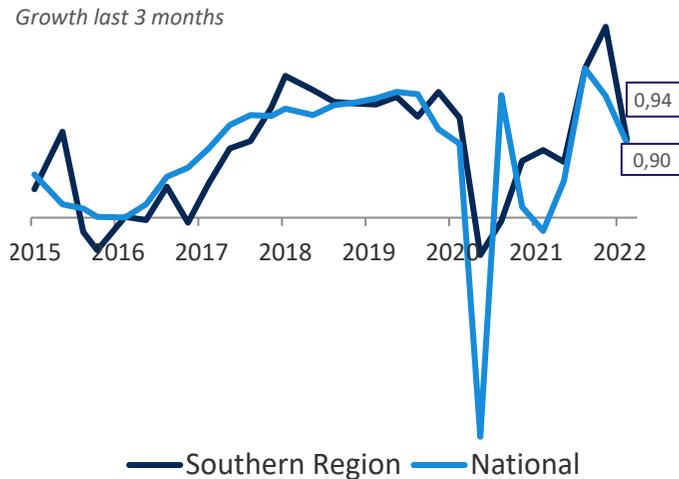
Percentage growth last 3 months



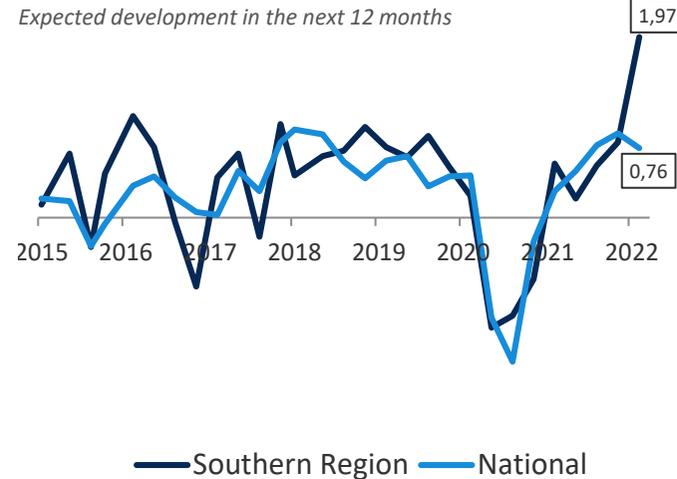
The index ranges from -5 to +5, where -5 indicates a large fall and +5 indicates strong growth. The index are compiled quarterly by Norges Bank through their regional network and shows the development in the Southern Region, which consists of Agder, Vestfold and Telemark.

Expects strong growth in investments in the region

Production growth



Investment growth



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

Financial highlights



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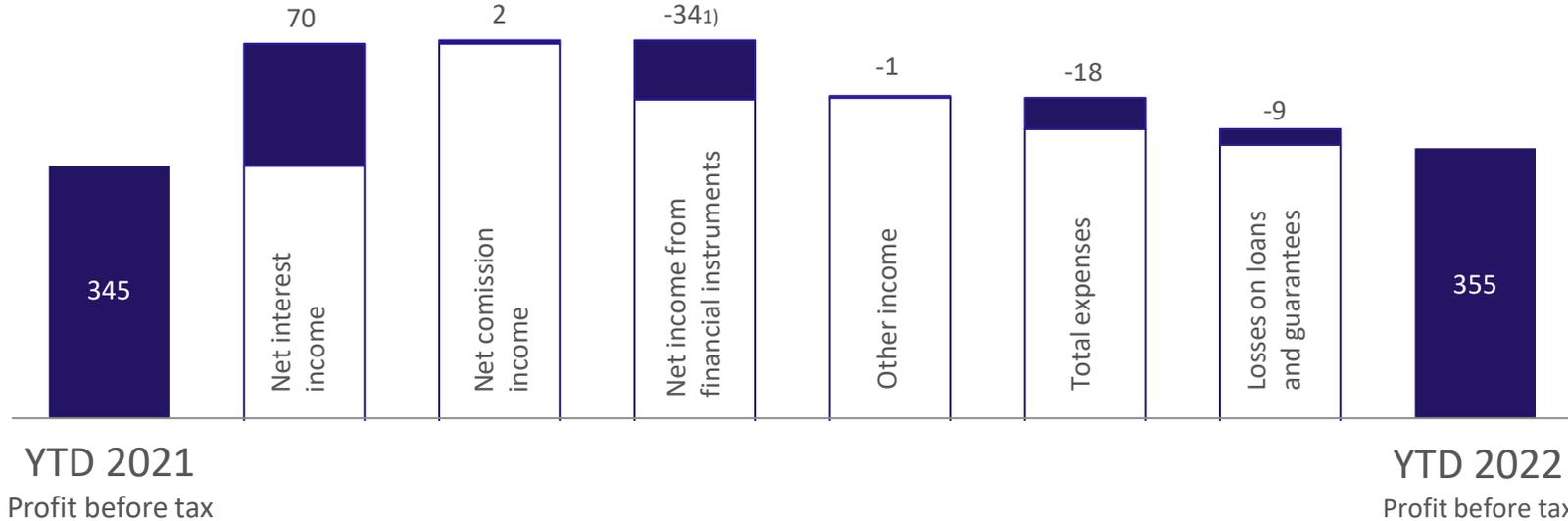
Strong growth in net interest income in Q1

- Strong growth in net interest
- Net entry on losses on loans
- Negative profit contribution from the liquidity portfolio, and positive results from basis swaps (OCI)
- Solid growth in profit from ordinary operations
- Return on equity after tax of 7.8 percent
- 12-month lending growth of 4.5 percent
- 12-month deposit growth of 6.4 percent.
- Common equity tier 1 (CET1) ratio of 16.7 percent
- Leverage Ratio of 9.3 percent

NOK million	2022 Q1	2021 Q1	Change
Net interest income	521	451	70
Net commission income	89	87	2
Net income from financial instruments	-26	8	-34
Associated companies	27	29	-2
Other operating income	1	0	1
Total income	612	575	37
Total expenses	259	242	18
Profit before losses on loans	352	334	19
Losses on loans, guarantees	-2	-11	9
Profit before tax	355	345	10
Tax expense	79	71	8
Profit for the period	276	274	2
Total OCI	86	-25	111
Comprehensive income for the period	362	249	113

Decomposition of changes in profit before tax

NOK million



1) Positive results from basis swaps of NOK 115 million before tax are presented as other comprehensive income

Profit and returns

NOK millions

Operating expenses



Profit from ordinary operations₁₎



Return on equity

Return on equity excl. financial instruments and non-recurring events₃₎



Cost to income ratio

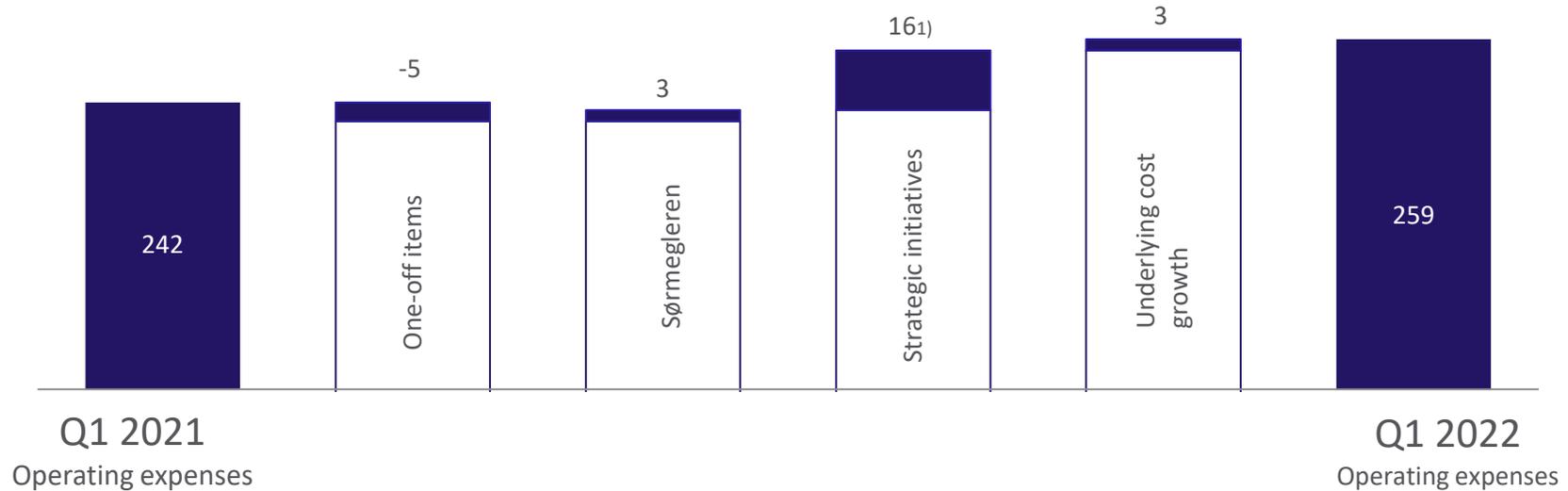
Cost to income ratio for banking operations



- 1) Net interest income + Net commission income + Other operating income – Operating expenses +/- One-off items
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments and one-off items and incl. interest on hybrid capital
- 4) Operating expenses in the banking operations increased by 7.5% YTD compared to YTD last year

Strategic initiatives affect the costs

NOK millions



1) Applies to costs related to IRB, investment in increased other income and compliance

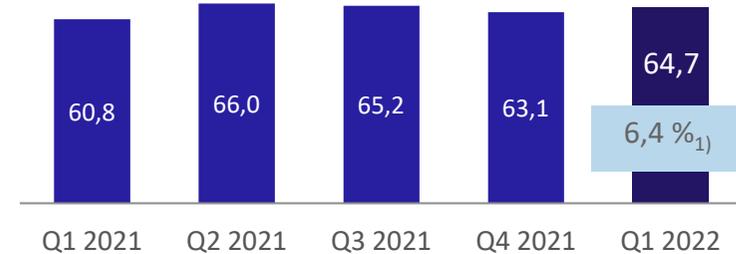
Lending and deposit growth

NOK billions

Net loans



Deposits

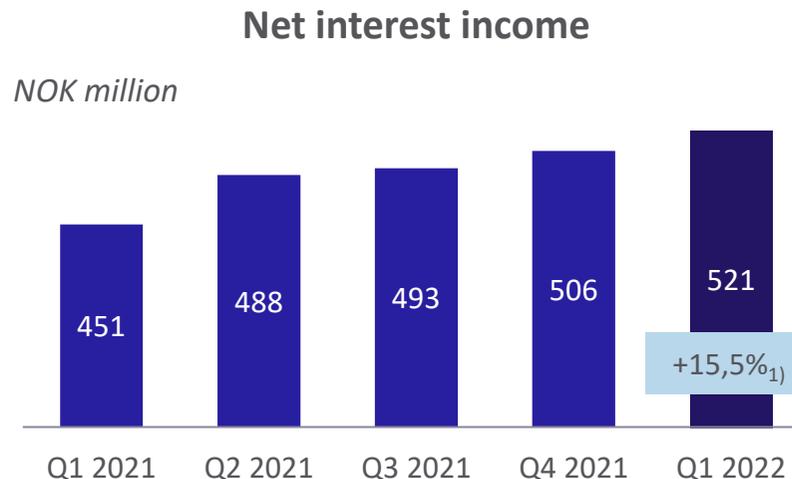


- **12-month growth of 4.5 %**
 - 12-month growth in gross loans of 5.0 % for retail customers and 3.4 % for corporate customers
- **Annualized quarterly growth of 4.3 %**
 - 2.8 % for retail customers and 7.0 % for corporate customers
- **12-month growth of 6.4%**
 - 12-month growth in deposits for retail customers of 5.9% and corporate customers of 7.0%
- **Deposits as share of net loans of 54.9%, up from 53.9 %**

1) Changes from the corresponding prior-year period

Very positive development in net interest income

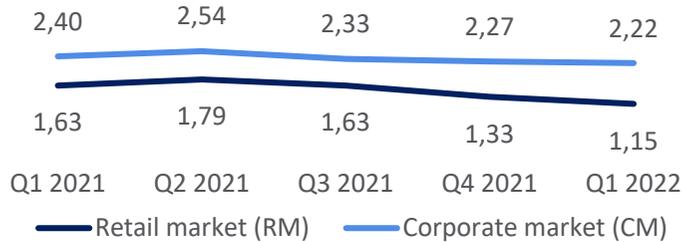
- Healthy deposit and lending growth
- Reprising of some deposit products
- Announced interest rate changes – estimated at NOK 85 million annually with effect from May 11, 2022. ²⁾



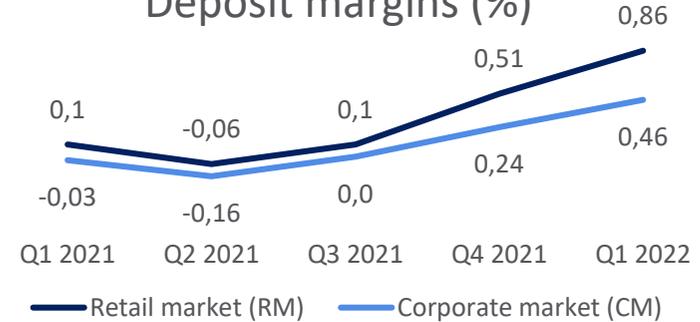
- 1) Changes from the corresponding prior-year period
2) Assumes that NIBOR increases as much as the policy rate

Increased deposit margins and reduced lending margins

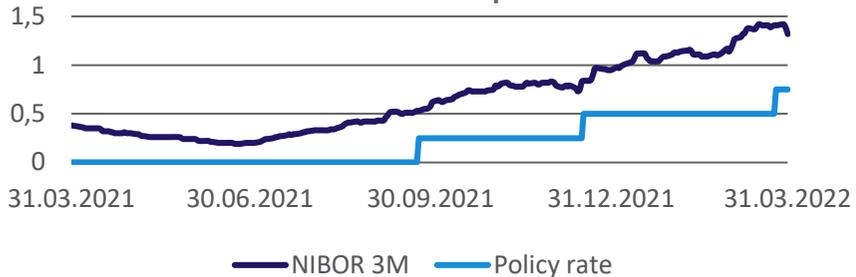
Loan margins (%)



Deposit margins (%)



NIBOR 3M development

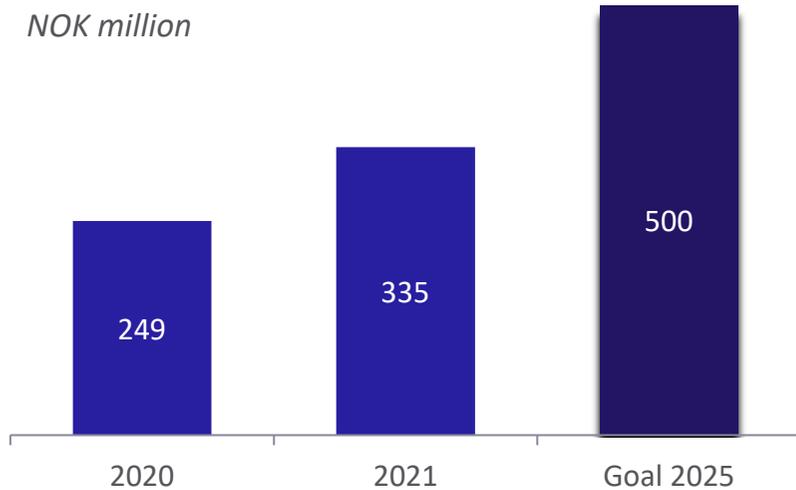


Interest margin¹⁾ (%)



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

Ambitions for increased other income



Other income	Q1 2022	Q1 2021	Change	Goal 2025
Insurance	12,0	8,3	3,7	65
Credit intermediation and leasing	1,6	1,5	0,1	20
Securities business ¹⁾	17,2	14,7	2,5	100
Income from wholly and partly owned companies ²⁾	24,3	33,1	-8,8	315
Total	55,1	57,6	-2,6	500

1) Net commission income from securities trading and Sør Markets

2) Increased investments will contribute approx. NOK 100 million

Positive profit contributions from associated companies



- Strong ROE from Brage with 11.1 percent for the quarter.
- Share of profit from Frende in the first quarter was strongly affected by a negative financial return as a result of market turmoil.
- Gain on sale is due to divestment in connection with 10 smaller savings banks joining the ownership side in Frende.

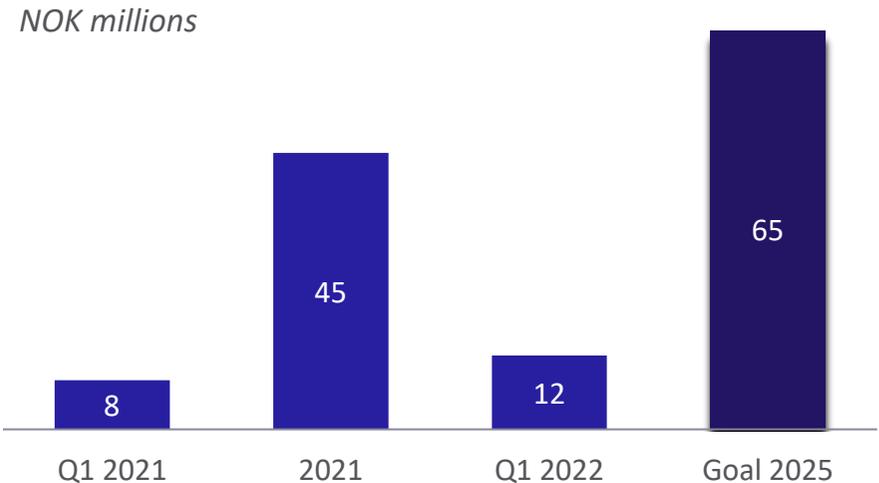
Effect on results after consolidation

NOK millions		Q1 2022	Q1 2021	Endring
Frende forsikring (19,8 %)	Share of profit	-4,9	12,6	-17,5
	Amort.	-5,4	-5,4	0
	Sale	24,9	0	24,9
Brage finans (20,8 %)	Share of profit	12,2	10,9	1,3
Balder Betaling (24,8 %)	Share of profit	0,2	11,1	-10,9
Total		27,0	29,2	-2,2

Strong development and increased investment in insurance

- 1 July, 2022 the bank acquired 78 percent ownership of Sørlandet Forsikringscenter AS, with an option to purchase the remaining shares
- Through the acquisition, the bank received 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% from 2020 to 2025

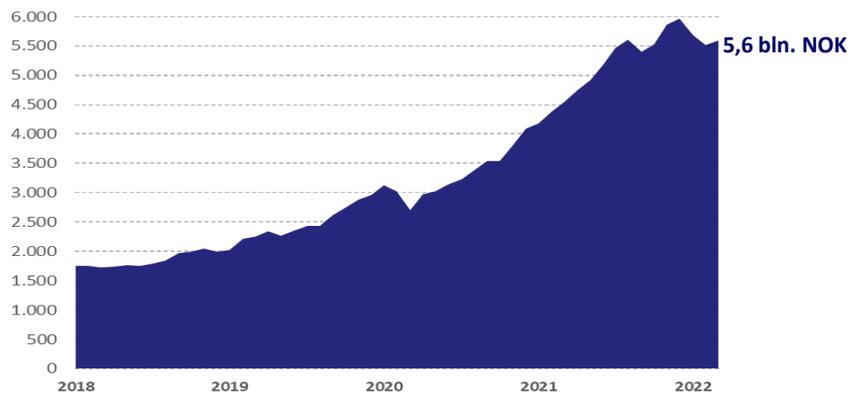
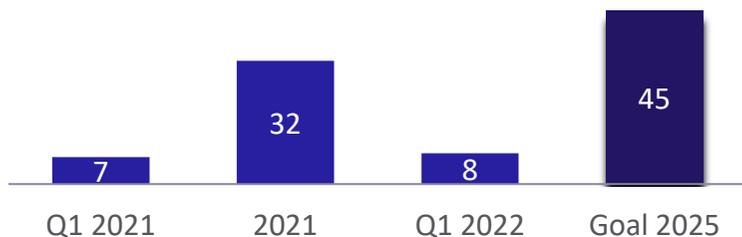
Commission income insurance



Savings agreements

Provisjonsinntekter verdipapirfond

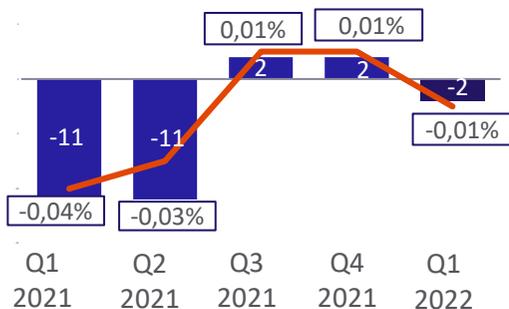
Millioner NOK



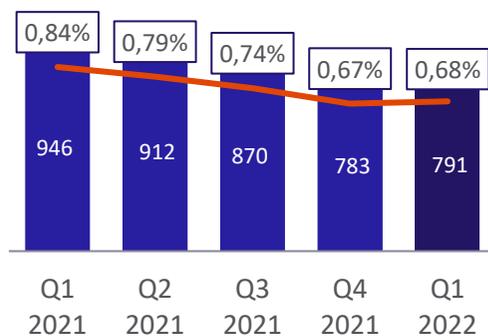
- Increased focus on Norne Fondsportal
- Strong growth both in the number of savings agreements, and the amounts saved through these agreements
- Portfolio growth of over 28% over the last 12 months.
- The ambition is to increase commission income from mutual funds by 100% in the period 2020-2025

Very low losses and continued low level of 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 loans¹⁾



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

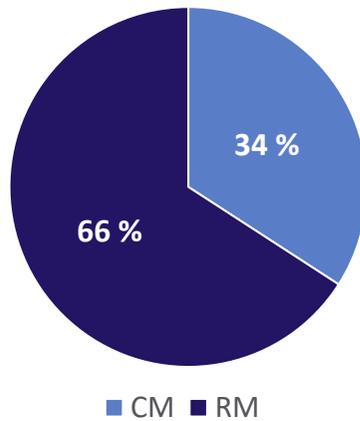


1) A new definition of non-performing has been applied from 1 January, 2021.

A well-diversified loan portfolio with low risk

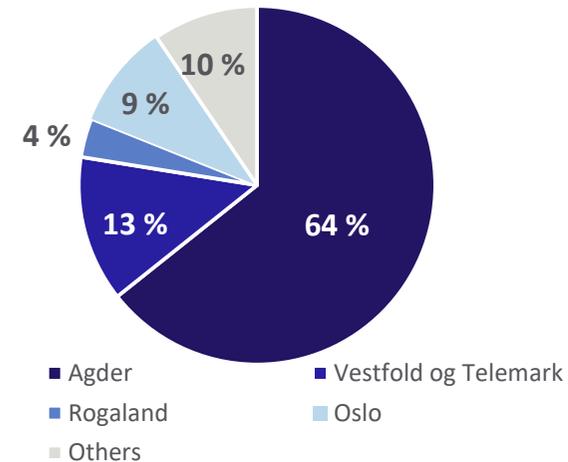
RM/CM distribution

Gross loans



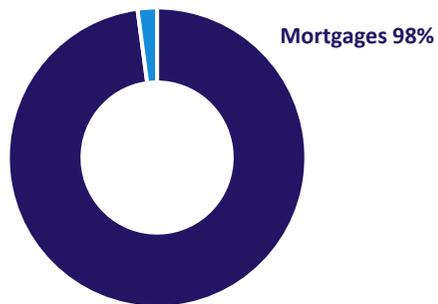
Geographical distribution

Gross loans

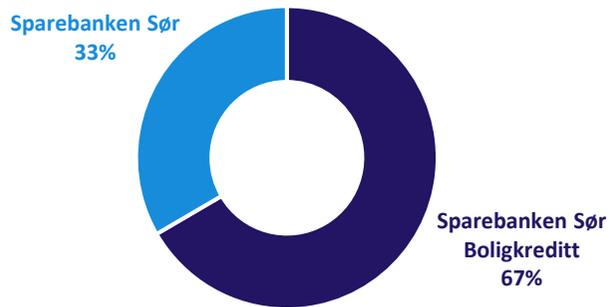


Retail loan book – 98% mortgages and low LTVs

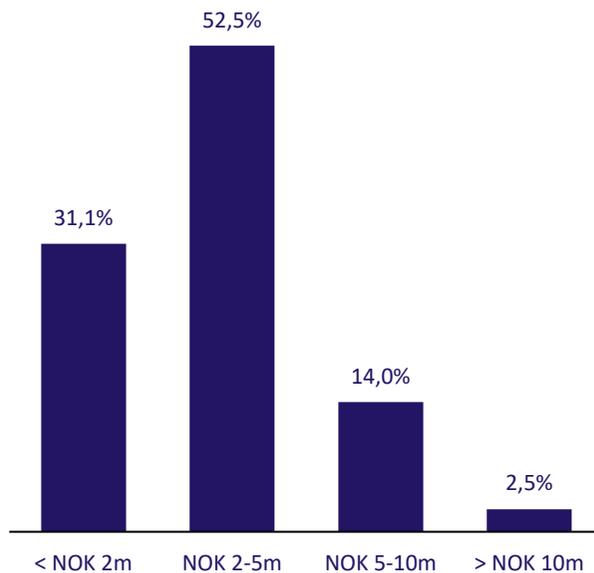
Share of mortgages



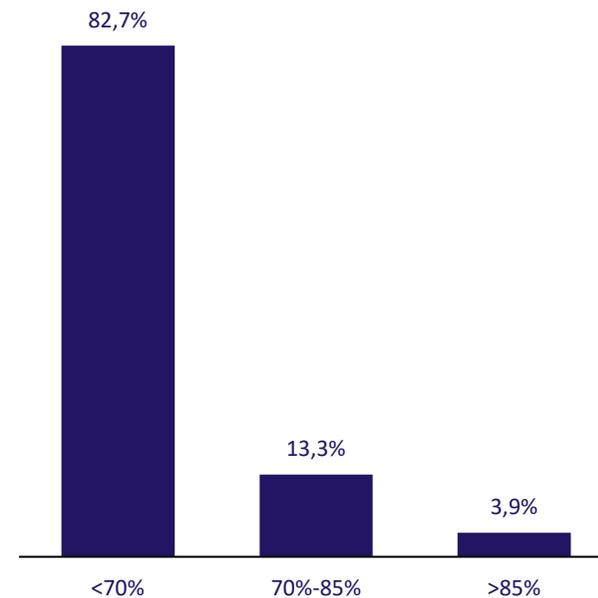
On balance vs. cov. bond transfers



Retail lending by size

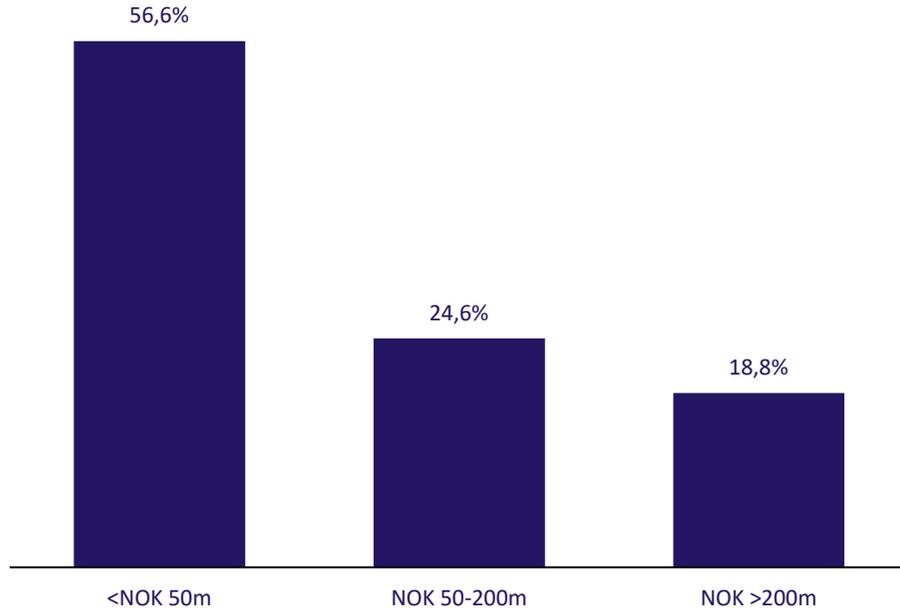


Retail lending by LTV

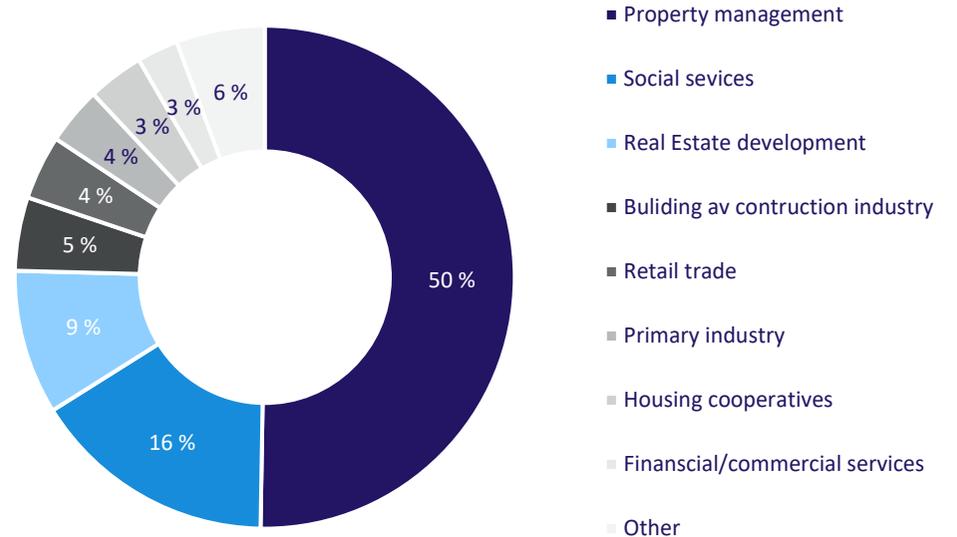


Corporate loan book – 50% property management and 55% < NOK 50m

Corporate lending by size

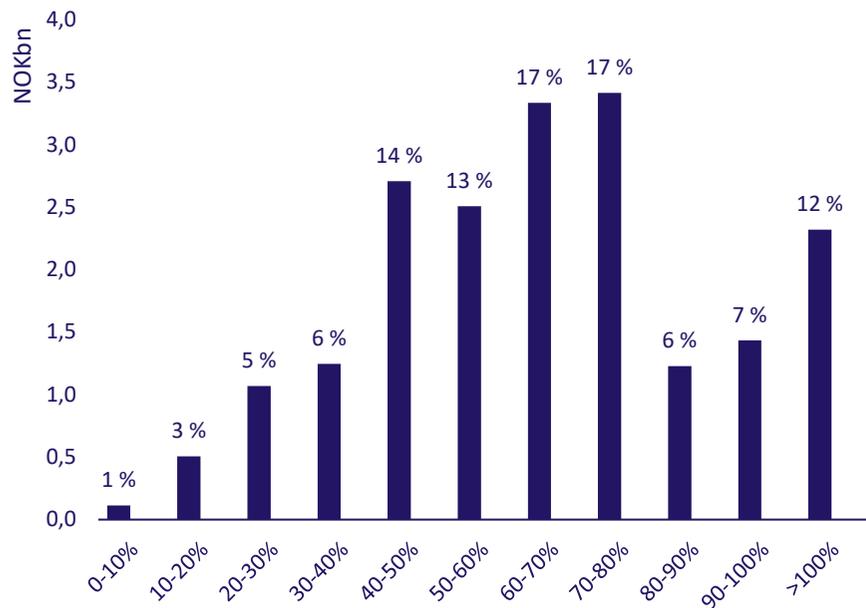


Sector distribution

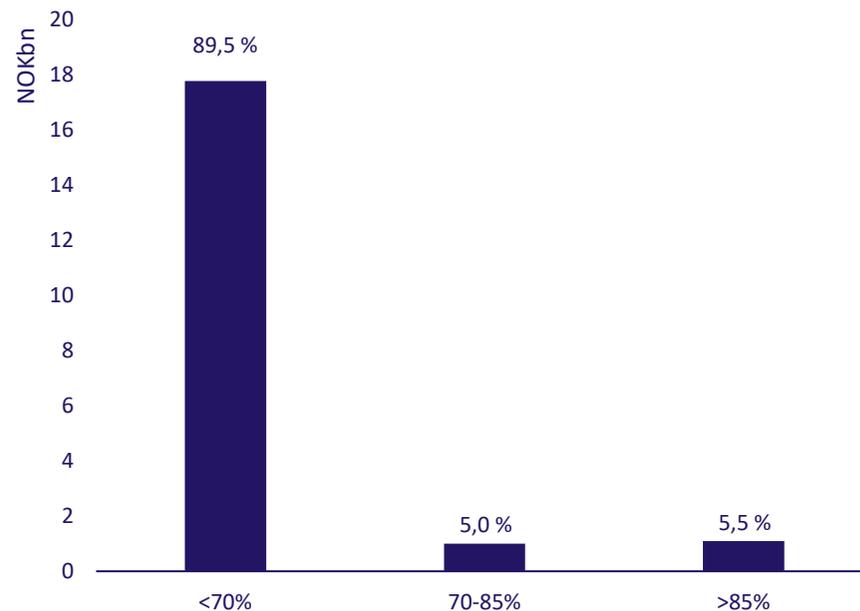


Solid asset backing in commercial real estate portfolio (property management)*

LTV distribution – whole-loan approach



LTV distribution – loan-splitting approach**



* 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



Good profit from ordinary operations in Q1

Results

Positive development in net interest income, positive profit contribution from associated companies and net entry on losses on loans. Negative profit contribution from the liquidity portfolio as a result of market turmoil.

Funding and capital

Common equity tier 1 capital ratio of 16.7 percent and solid leverage ratio of 9.3 percent. Solid financing structure and good liquidity buffers.

Growth

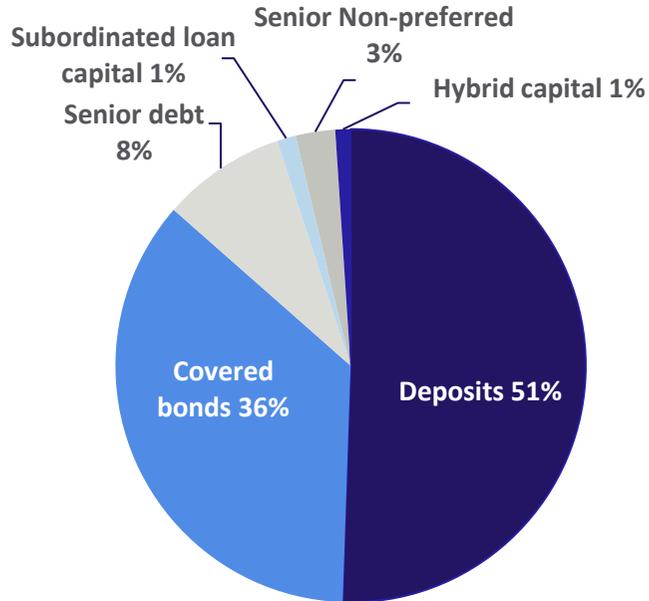
12-months growth in lending of 4.5 percent.
12-months growth in deposits of 6.4 percent.

Summary

Good profit from ordinary operations give a profit before tax of NOK 355 million and a return on equity of 7.8 percent in Q1 2022.

Funding status

Solid and diversified financing structure



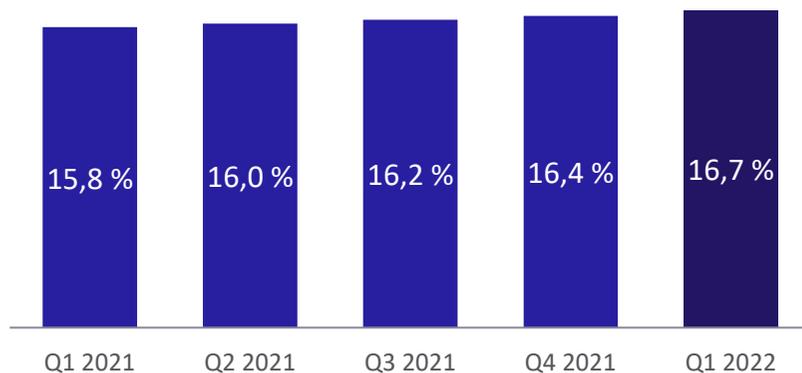
Deposits are a valuable source of funding

- Deposits/loans ratio at 54.9 percent
- Good access to funding from domestic and international funding markets
- More than 60 percent of the covered bonds are issued in EUR
- Sparebanken Sør has issued NOK 2.0 billion in a green senior bond debt in Q1 2022
- Sparebanken Sør is rated A1 by Moody's
- Sparebanken Sør Boligkreditt's covered bonds are rated Aaa by Moody's

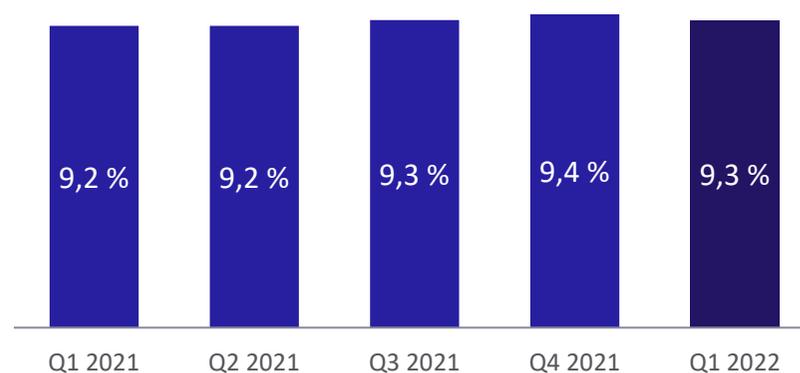
Capital

The bank is well capitalised with high leverage ratio

Common equity tier 1 capital ratio



Leverage ratio



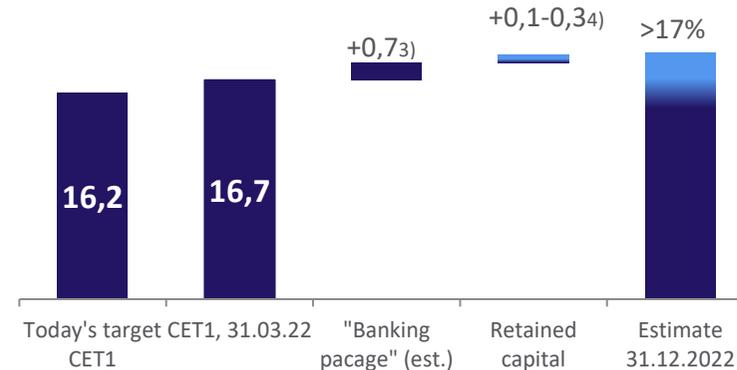
- Well above the current capital requirement (CET1) of 13 percent

Well positioned for higher capital requirements

Capital requirements

	Applicable requirements	Requirements 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 %
Countercyclical Buffer ²⁾	1,0 %	2,0 %
Pillar-2 requirements	2,0 %	1,7 %
CET1 requirements	13,0 %	15,2 %
Pillar-2 Guidance	0%	1,0 %
CET1 requirements Incl. P2G	13,0 %	16,2 %

Capital adequacy and target figures



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

2) The Countercyclical Buffer will increase with 1.0 percentage point in 2022 and 0.5 percentage points in Q1 2023

3) Estimated of effects of the «Banking package»

4) Capital building based on retained capital

Improve capital efficiency – implementing IRB

Plan to submit an application for IRB-F approval by end of 2023, with an expectation of at least 1 year processing from FSA. Significant project deliveries are completed and implemented.



Next generation data warehouse

- SAS data warehouse and risk solution
- Data availability
- Baseline for model development



Enhancing credit processes

- Implemented new definition of default
- Developed algorithms for LTV and security coverage
- Improved internal guidelines for collaterals
- Completed gap analysis for the credit process



Building competence and structure

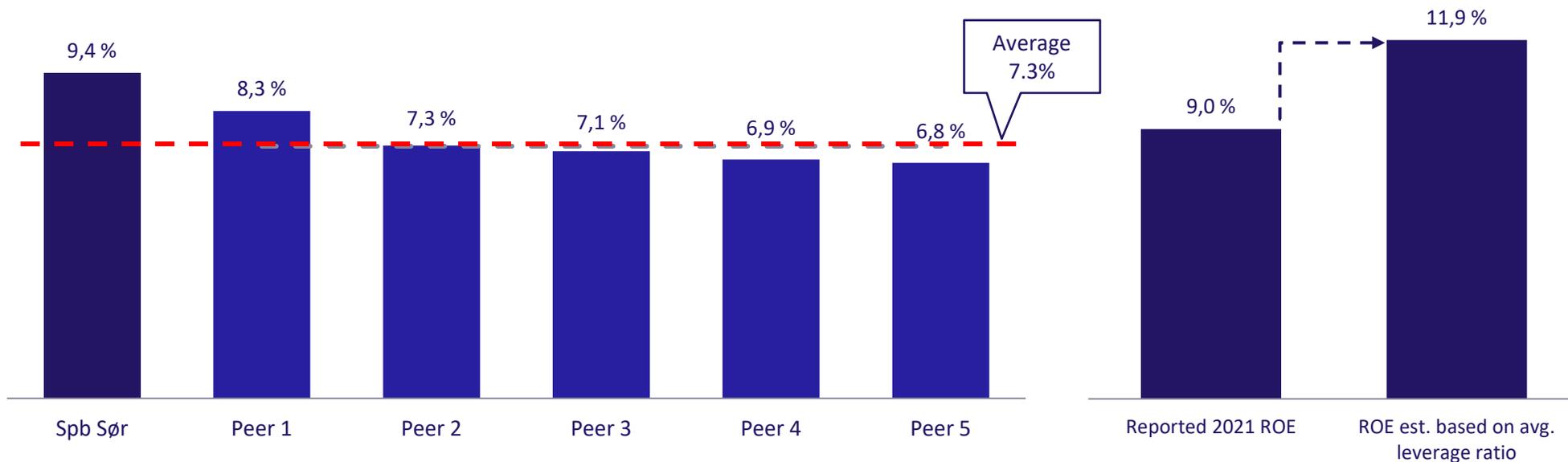
- Increased capability and competence through recruitment
- Internal upskilling in technology and financial regulations

Implement and apply IRB-F

ROE would increase on “normalised” leverage

Higher leverage than saving bank peers* with IRB... (31.12.2021)

...potential for increased ROE



New dividend policy

Introduction of customer dividend with multiple benefits

- Intention to strengthen satisfaction and increase attractiveness for customers
- Distribution enabled by the bank's equity structure
- In line with the values of being a savings bank
- To be paid directly from the bank – will depend on the profit of the bank and the customers' volume of loans and deposits
- Dividends to be paid for loans and deposits up to NOK 2m
- Both retail and corporate customers are eligible
- Corresponding to ~0.20% of loans and deposits up to NOK 2m based on 2021 earnings
- Will, under current tax regulation, improve the ROE of Sparebanken Sør by an estimated 0.4%-points

Examples – customer dividend*



Customer with loan of NOK 1,000,000

The customer dividend would equal:
 $\text{NOK } 1.0\text{m} \times 0.20\% = \text{NOK } 2,000$



Family with mortgage of NOK 4,000,000 and deposits of NOK 500,000

The customer dividend would equal:
 $(\text{NOK } 4.0\text{m} + \text{NOK } 0.5\text{m}) \times 0.20\% = \text{NOK } 9,000^{**}$

Note (*): Based on 0.20% of loans and deposits up to NOK 2m

Note (**): Assuming the partners having NOK 2m in mortgage each

Revised dividend policy

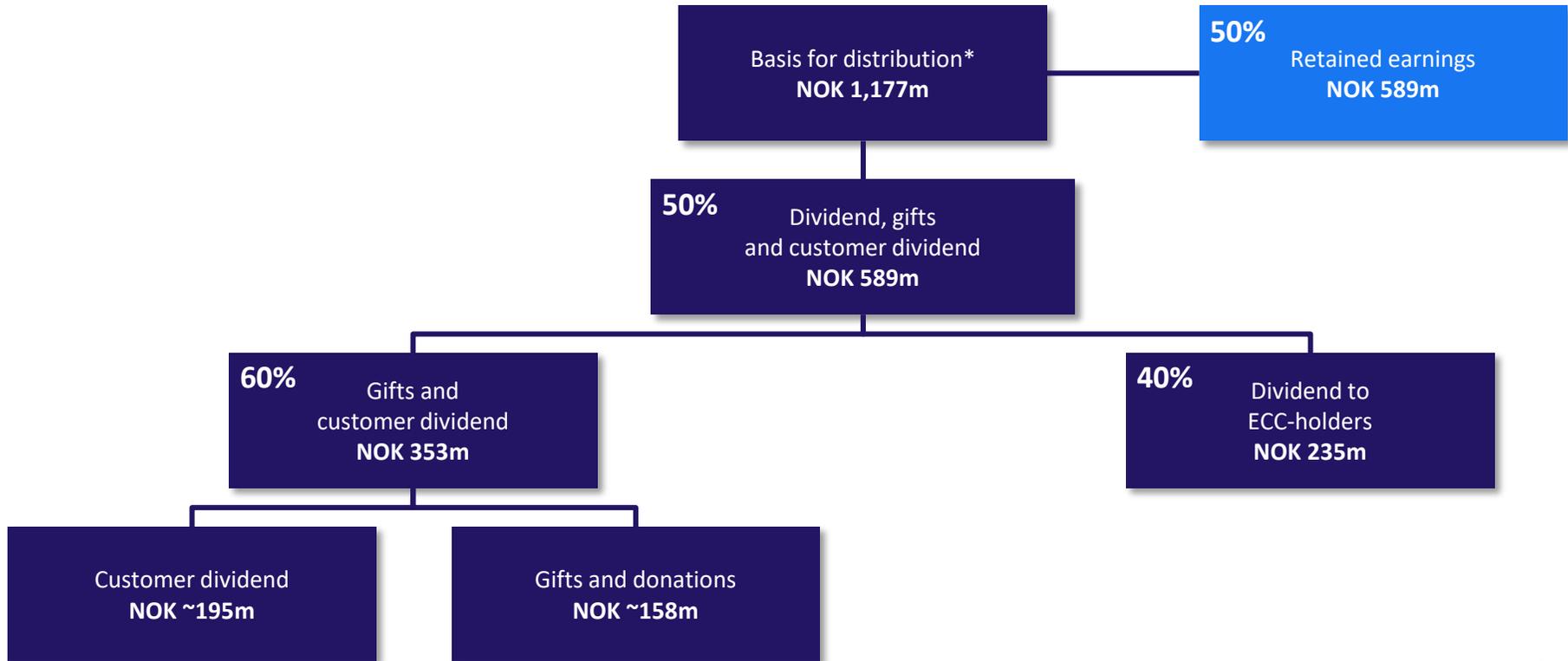
Equal
pay-out ratio

- The pay-out ratio will be applicable to both equity capital classes
- The equity certificate ratio will remain at 40% – no dilution through pay-out of dividends and gifts

40-50%
pay-out ratio

- The new dividend policy will facilitate expected growth and yield attractive direct returns to ECC holders
- 40-50% dividend pay-out ratio combined with 40% equity certificate ratio will allow for sufficient customer dividends as well as gifts and donations

Illustration of profit allocation with new structure



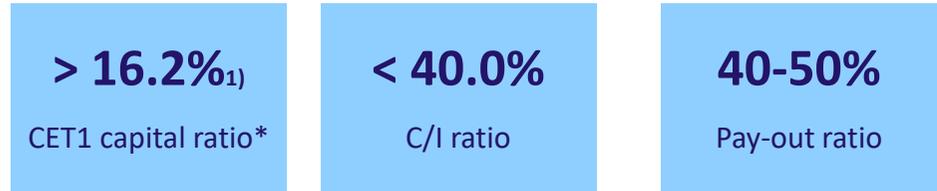
Goals and expectations

Financial ambitions

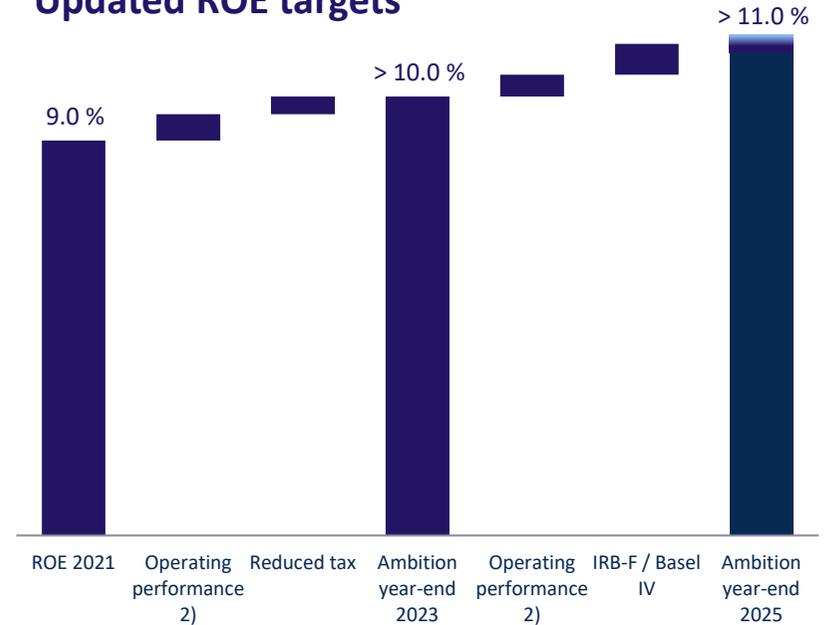


Overriding target

Return on equity > 11% by end of 2025



Updated ROE targets



Note (1): Capital target end of 2022

Note (2): Strengthening of non-interest income, profitable growth and better capital allocation, customer dividends positive for net interest margin, customer satisfaction and future growth and improved and more cost-effective distribution

Positive future prospects for Sparebanken Sør

Market leader in Southern Norway with high customer satisfaction and loyalty

Low risk loan portfolio

High cost efficiency and low complexity

ESG leadership

Introducing customer dividend

Measures implemented to further increase ROE

More attractive ECC



Appendix

Equity certificate owners

20 largest equity certificate owners as of 31.03.2022

	Name	Number of Ecs	Share of Ecs %		Name	Number of Ecs	Share of Ecs %
1	Sparebankstiftelsen Sparebanken Sør	7.988.679	51,00	11	Ottersland AS	100.000	0,64
2	EIKA utbytte VPF c/o Eika kapitalforv.	730.097	4,66	12	DNB Luxembourg S.A	100.000	0,64
3	Pareto Invest AS	417.309	2,66	13	Lombard Int Assurance S.A	82.131	0,52
4	Drangslund Kapital AS	302.107	1,93	14	Geir Bergskaug	75.691	0,48
5	Glastad Capital AS	200.000	1,28	15	Catilina Invest AS	73.237	0,47
6	Wenaasgruppen AS	186.000	1,19	16	Alf Albert	72.664	0,46
7	Hamjern Invest AS	180.099	1,15	17	Apriori Holding AS	72.575	0,46
8	Gumpen Bileiendom AS	174.209	1,11	18	Gunnar Hillestad	71.000	0,45
9	KLP Gjensidige Forsikring	163.300	1,04	19	Varodd AS	70.520	0,45
10	Allumgården AS	151.092	0,96	20	K.T Brøvig Invest AS	68.000	0,43
	Total 10 largest owners	10.492.892	66,99		Total 20 largest owners	11.279.379	72,01

- AS of 31 March 2022, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC amounted to NOK 2.6 in Q1 2022 and 12.2 NOK per EC in 2021
- The ownership ratio 31.03.2022 was 15.0 percent

SOR – share price and liquidity

Change in share price at 31.03.2022

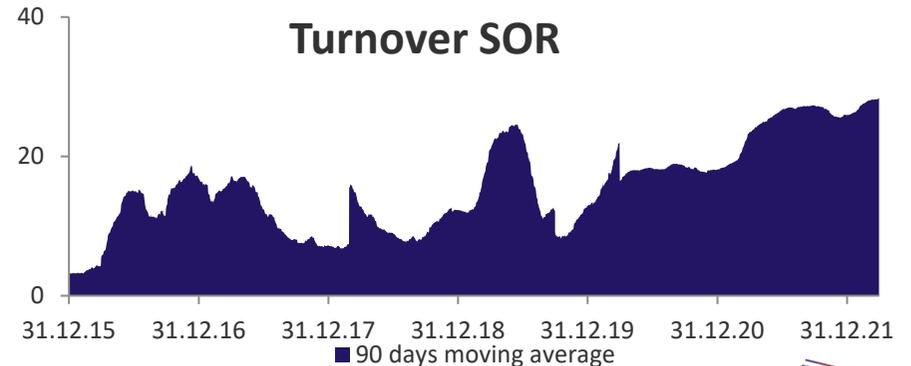
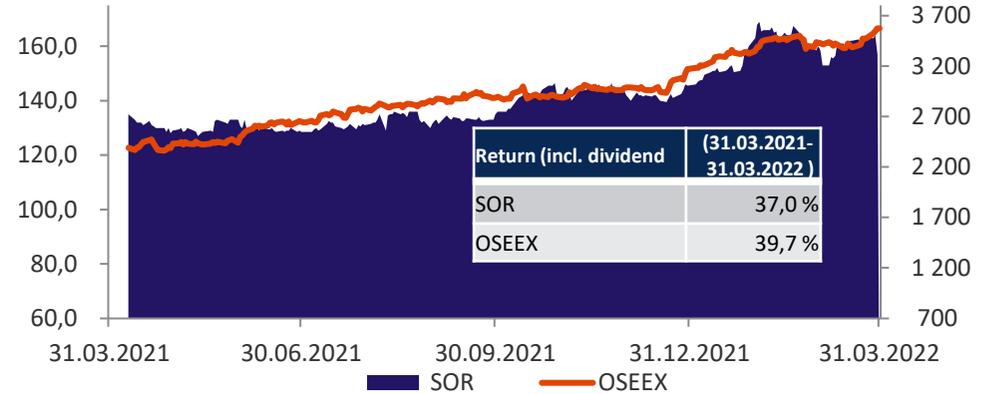
- The share price for SOR was NOK 157,0 (excl. dividend) and book value was NOK 132.7, amounting to a price-to-book ratio of 1.18.
- The equity certificates gave a return of 37.0 % last 12 months
- Profit per equity certificates 31.03.2022 of NOK 2.6, which represents a P/E of 15.0

Turnover

- Omsatt 1,8 mill. egenkapitalbevis siste 12 mnd.
- 15 663 944 totalt utstedt, og en eierbrøk på 15,0 %.

Dividend

- A dividend of NOK 8 per equity certificate has been distributed for 2021.
- 40-50% percent of equity certificate holders` share of annual profits
- Sparebanken Sør`s capital requirements will be taken into consideration when determining the annual dividend.

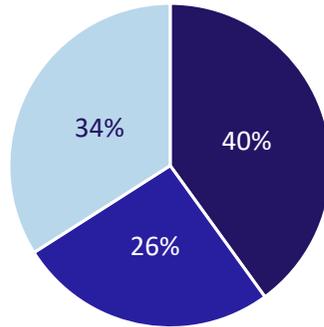


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Sparebanken Sør Boligkreditt

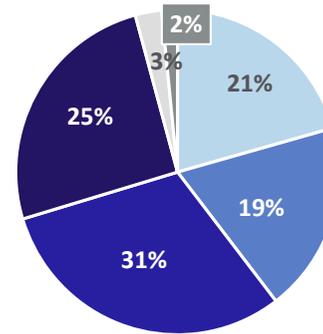
- Wholly owned by Sparebanken Sør

Loan portfolio in Sparebanken Sør



■ Sparebanken Sør Boligkreditt AS ■ RM bank ■ CM

Sparebanken Sør Boligkreditt LTV distribution



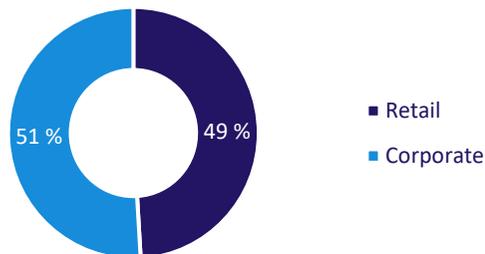
■ < 40 % ■ 41 - 50 % ■ 51 - 60 % ■ 61 - 70 % ■ 71 - 75 % ■ > 75 %



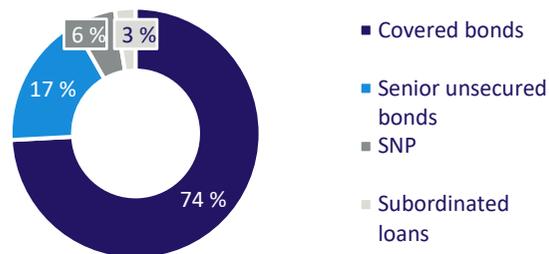
■ Weighted avg. LTV ■ Nominell OC

Diversified funding with long maturity

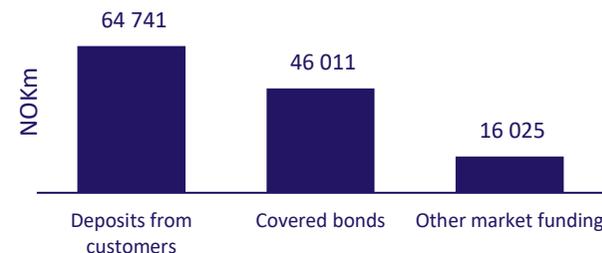
Deposits from retail and corporate



Capital market funding split



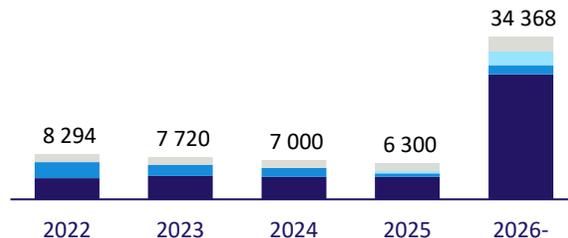
Capital market funding split



Corporate deposits split



Capital market maturity profile*



Key comments

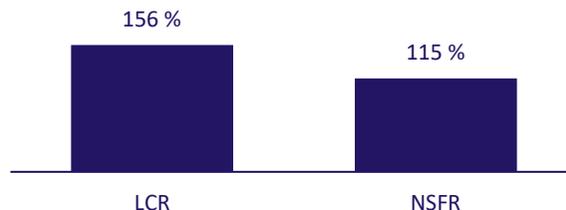
- Predominantly funded with customer deposits and covered bonds
- NOK 64.7bn in customer deposits – split 49/51 between retail and corporate
- NOK 63.7bn in capital market funding – ~54% maturing in 2026 and later

Strong liquidity position

Sources of liquidity



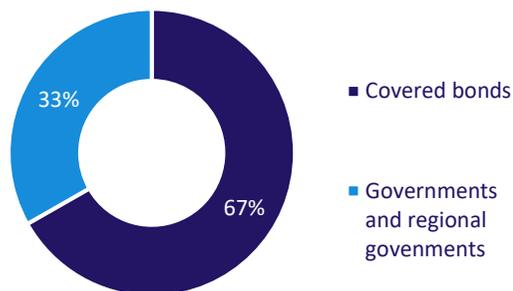
Liquidity ratios



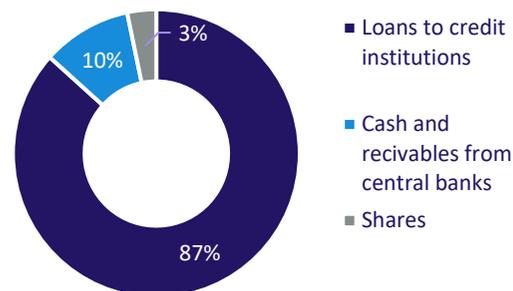
Key comments

- Bonds and certificates constituting the main part of the liquidity portfolio
- Covered bonds make up for 67% of all bonds and certificates
- Satisfying liquidity ratios – LCR ratio of 156% and NSFR ratio of 115%

Bonds and certificates split



Other liquid assets split



A high leverage ratio

31.12.2021

Leverage ratio

