



Sparebanken Sør

Investor presentation Q2 2022

Agenda

- **About Sparebanken Sør**
- **Highlights from the quarterly report**
- **Funding status**
- **Capital**
- **Equity and dividend policy**
- **Goals and expectations going ahead**



Sparebanken Sør

- a leading financial institution in Southern Norway



Established in 1824,
589 employees



182 000 retail
customers



Financial Group with
banking, securities and
real estate brokerage



22 000 corporate
customers



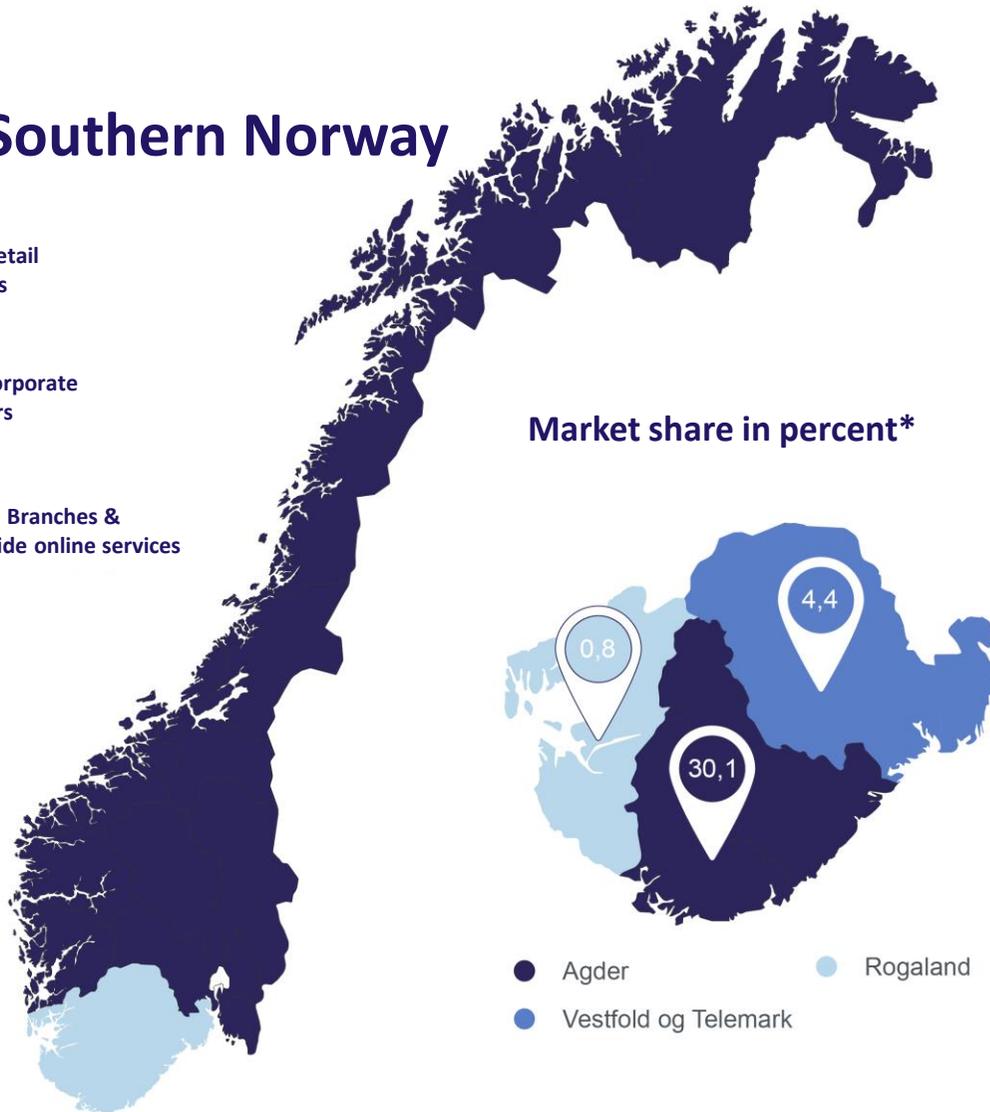
Publicly traded and
Community-owned



Regional Branches &
nationwide online services



- Total assets of NOK 152 bn
- Profit after tax amounted to NOK 273 million in Q2 2022
- Cost/income ratio of 44.8 percent.

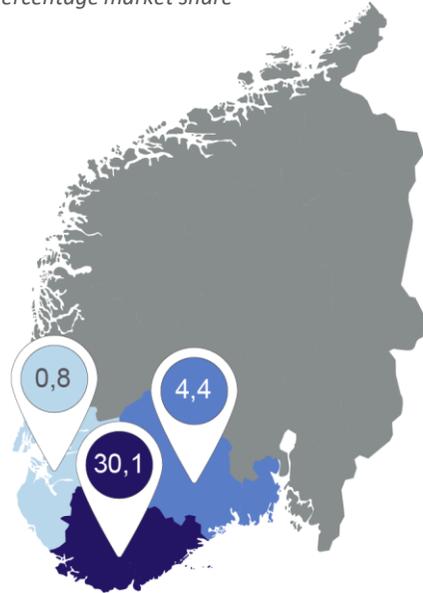


*Markedsandeler personmarked, i prosent. (Kilde: Eiendomverdi AS, Markedsandelsrapporter)

Strong position in the housing market

Maintaining a strong market position

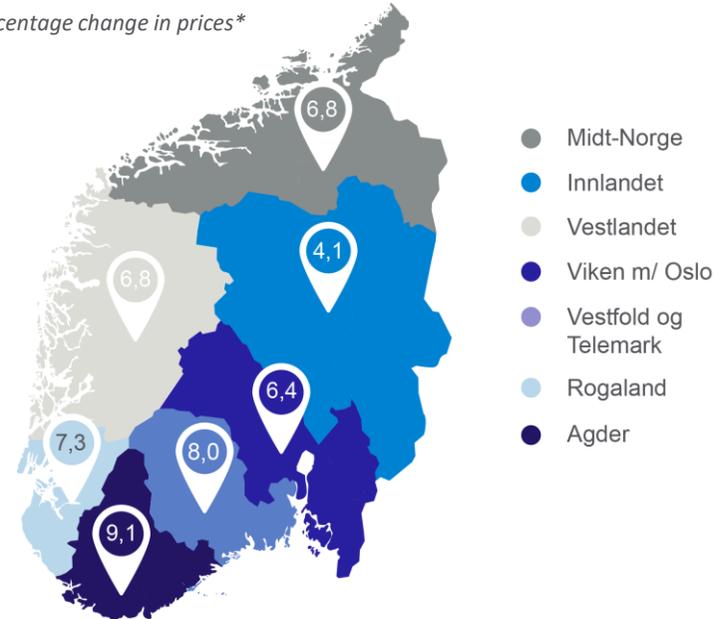
Percentage market share



1 position in Agder, good position in Vestfold og Telemark. Positive development in Rogaland.

Positive development in housing prices

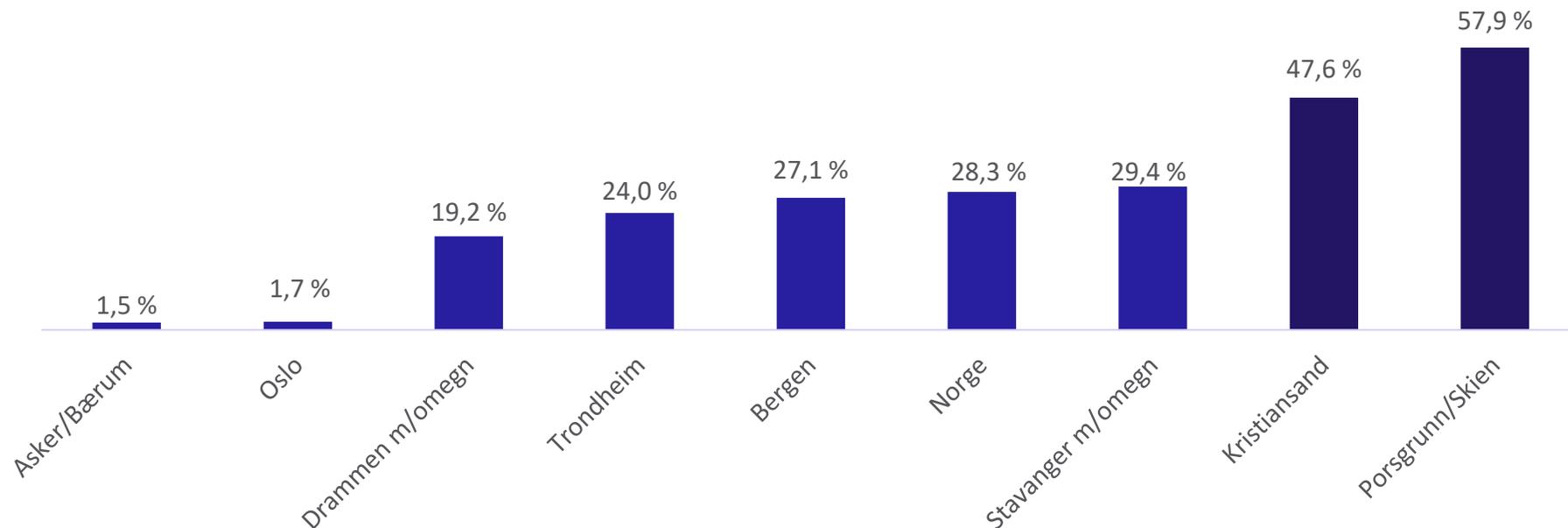
Percentage change in prices*



*3 month moving average of 12 month change

«The nurse index»

31.12.2021



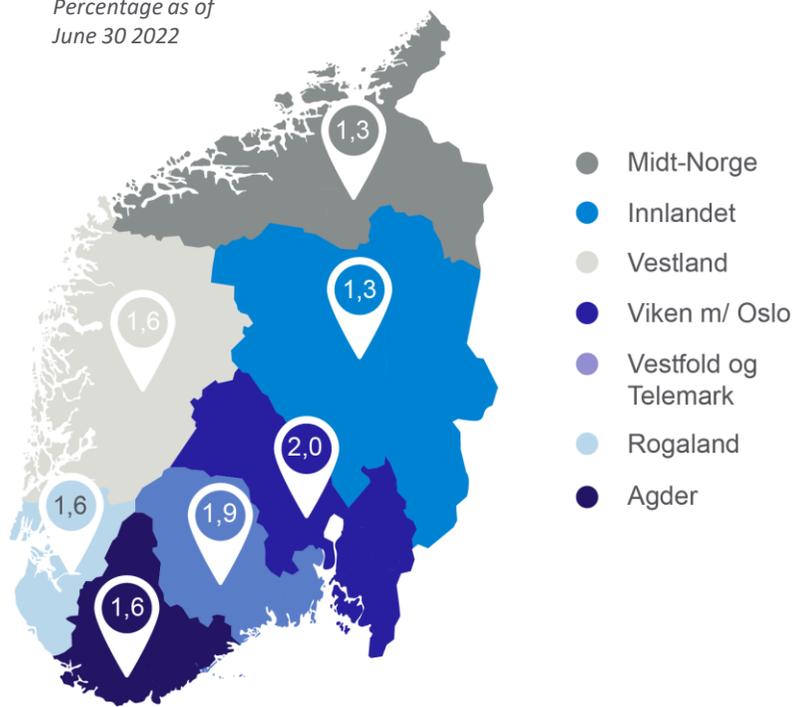
Source: Eiendomsverdi 2021

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

Regional labour market developments

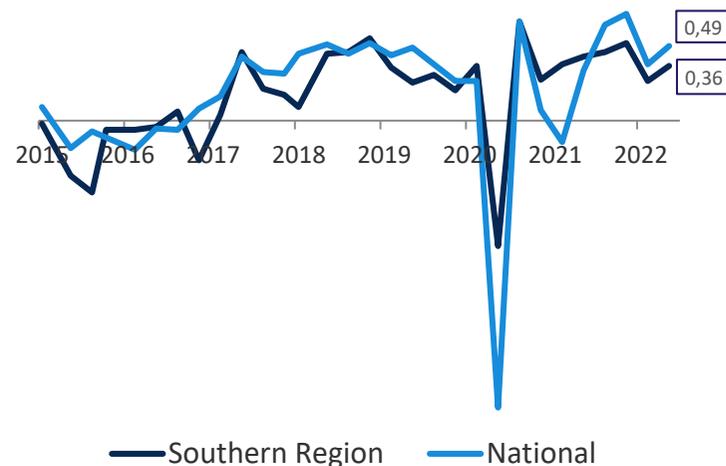
Unemployment rates

Percentage as of
June 30 2022



Employment growth

Percentage growth last 3 months

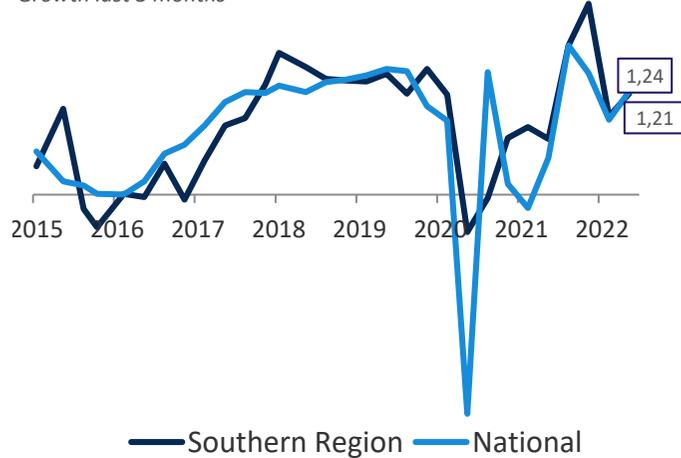


The index ranges from -5 to +5, where -5 indicates a large fall and +5 indicates strong growth. The index are compiled quarterly by Norges Bank through a regional network and show the development in the Southern region, which consists of Agder, Vestfold and Telemark.

Strong growth in production in the region

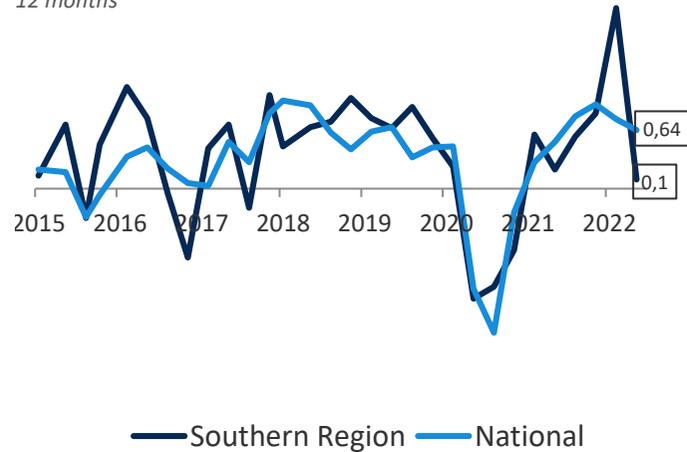
Growth in production

Growth last 3 months



Growth in investments

Expected development in the next 12 months



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



Highlights from the quarterly report



SPAREBANKEN SØR

Very good development in net interest income Q2 2022

- Very good lending growth in the quarter of 11.5 percent (annualised)
- Low losses on loans
- Negative profit contribution from the liquidity portfolio, though positive contribution from basis swaps under other comprehensive income
- One-off costs of NOK 15 million in the quarter
- Return on equity after tax of 7.2 percent
- Profit per equity certificate NOK 2.4
- The ownership ratio increased from 15 to 40 percent through conversion of primary capital
- Common equity tier 1 (CET1) ratio of 17.4 percent, up from 16.7 per cent last quarter. The effect of the banking package amounted to 1.0 percentage points
- Leverage Ratio of 9.0 percent

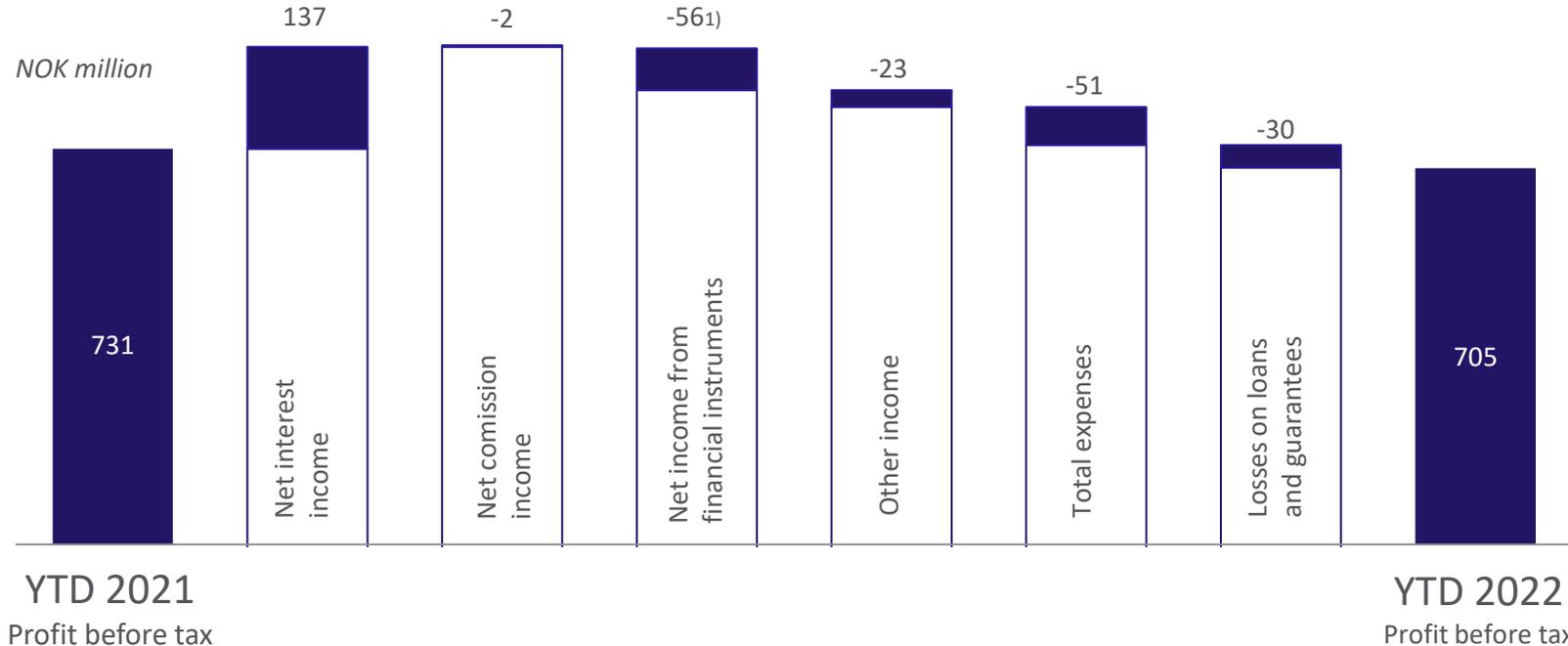
NOK million	2022 Q2	2021 Q2	Change
Net interest income	555	488	67
Net commission income	106	110	-4
Net income from financial instruments	-33	-11	-22
Associated companies	24	45	-21
Other operating income	1	2	-1
Total income	654	635	19
Total expenses	293	260	33
Profit before losses on loans	361	375	-14
Losses on loans, guarantees	11	-11	22
Profit before tax	351	386	-35
Tax expenses	77	77	0
Profit for the period	273	309	-36
Total OCI	11	-16	27
Comprehensive income for the period	284	293	-11

Very good development in net interest income 1st half 2022

- Low losses on loans
- Negative profit contribution from the liquidity portfolio, though positive contribution from basis swaps under other comprehensive income
- Cost increase of NOK 30 million related to strategic investments, of which NOK 15 million are one-off costs
- Return on equity after tax of 7.5 percent
- Profit per equity certificate NOK 5.0
- 12-month lending growth of 5.4 percent
- 12-month deposit growth of 1.8 percent

NOK million	30.06.2022	30.06.2021	Change
Net interest income	1 076	939	137
Net commission income	195	197	-2
Net income from financial instruments	-59	-3	-56
Associated companies	51	74	-23
Other operating income	2	2	0
Total income	1 266	1 210	56
Total expenses	552	501	51
Profit before losses on loans	714	709	5
Losses on loans, guarantees	8	-22	30
Profit before tax	705	731	-26
Tax expenses	157	148	9
Profit for the period	549	583	-34
Total OCI	97	-41	138
Comprehensive income for the period	646	541	105

Decomposition of changes in profit before tax

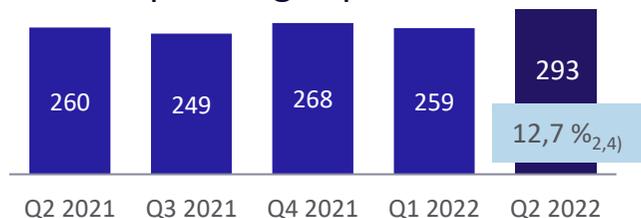


1) Positive results from basis swaps of NOK 129 million before tax are presented as other comprehensive income

Profit and returns

NOK millions

Operating expenses



Profit from ordinary operations¹⁾



Return on equity

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



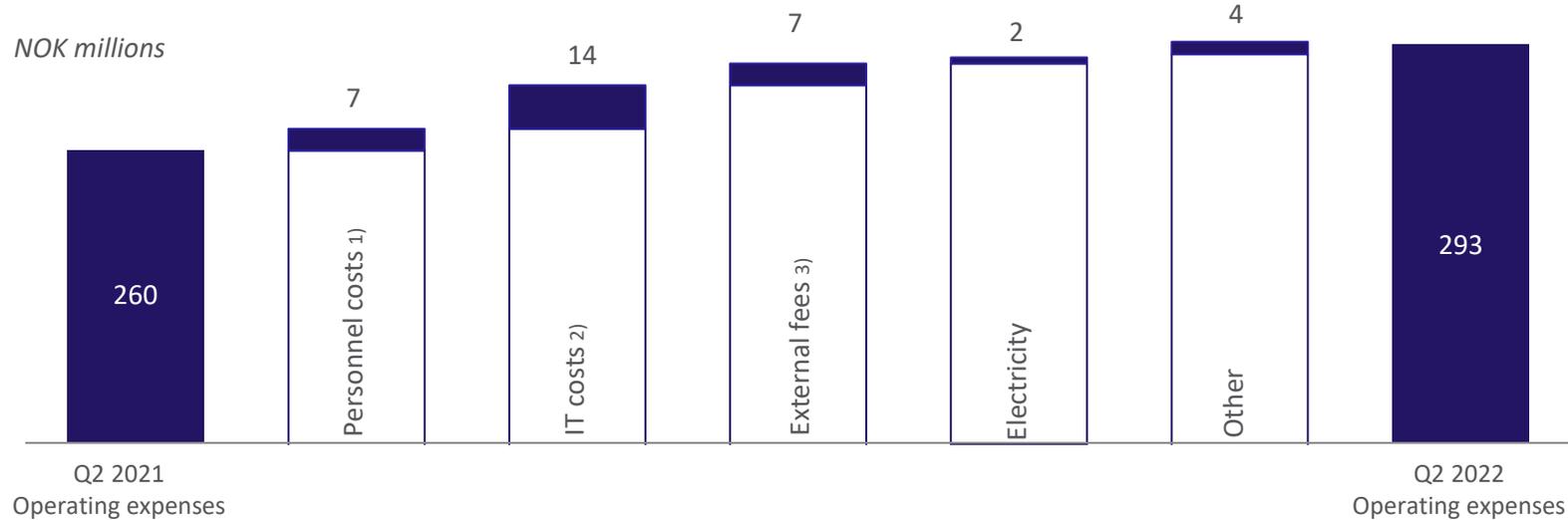
Cost to income ratio

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 11,2 % YTD compared to YTD last year, 7,7 % ex. one-off costs.

One-off costs of NOK 15 million in Q2



1) Personnel costs are increasing both in the bank and in the group and are due to strategic investments. The group has strengthened itself in analysis, risk management (IRB), compliance, and strengthened the sales force in insurance.

2) One-off costs of NOK 8 million are due to investments in IT, including a new computer platform. There is a clear ambition that it will result in future cost reductions through more efficient operations.

3) During the quarter, strategic projects were carried out which the bank has not been able to solve with internal resources. This is linked to prioritization related to the IRB program. The bank expects costs for external consultants to be reduced in Q3.

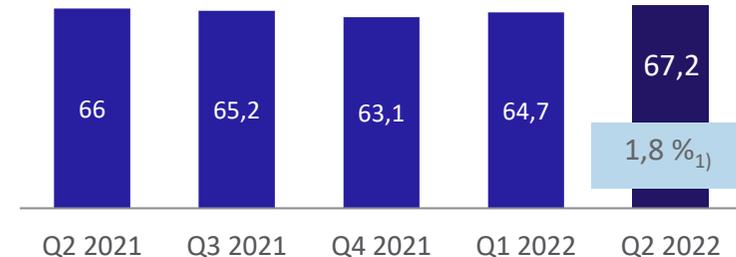
Strong lending growth in the quarter

NOK billions

Net loans



Deposits



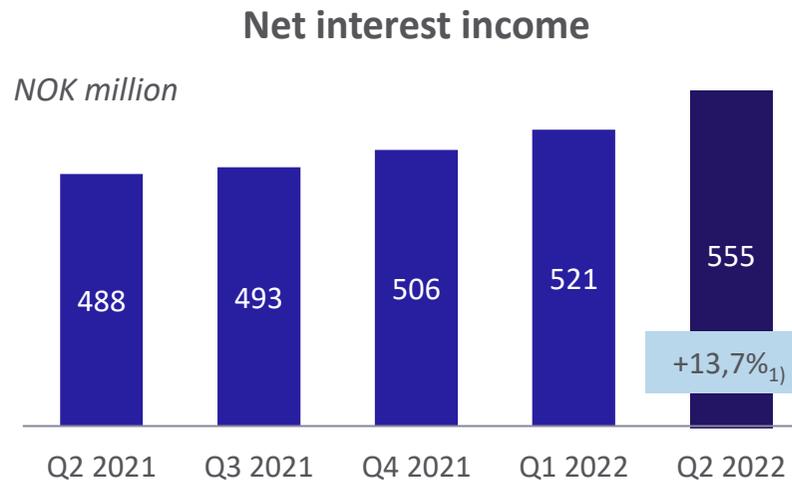
- **12-month growth of 5.4 %**
 - 12-month growth in gross loans of 4.9 % for retail customers and 5.9 % for corporate customers
- **Annualized quarterly growth of 11.5 %**
 - 7.7 % for retail customers and 18.4 % for corporate customers

- **12-month growth of 1.8 %**
 - 12-month growth in deposits for retail customers of 3.2 % and corporate customers of 0.3 %
- **Deposits as share of net loans of 55.4 %, down from 57.4 %**

1) Changes from the corresponding prior-year period

Very good development in net interest income

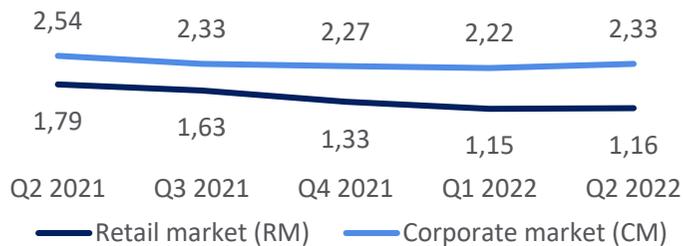
- Good deposit and lending growth
- Announced interest rate changes – estimated at NOK 100 million annually with effect from August 10, 2022. 2)



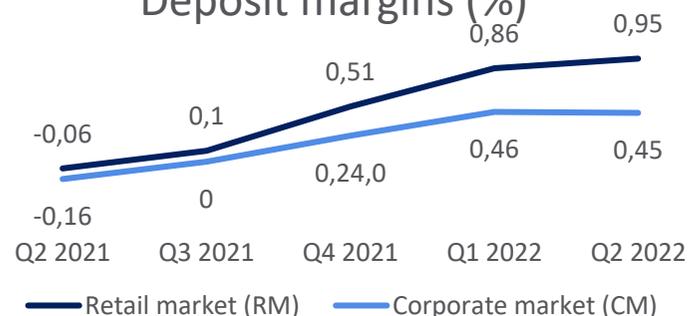
- 1) Changes from the corresponding prior-year period
- 2) Assumes that NIBOR increases as much as the policy rate

Increased NIBOR results in an increased deposit margins and reduced lending margins

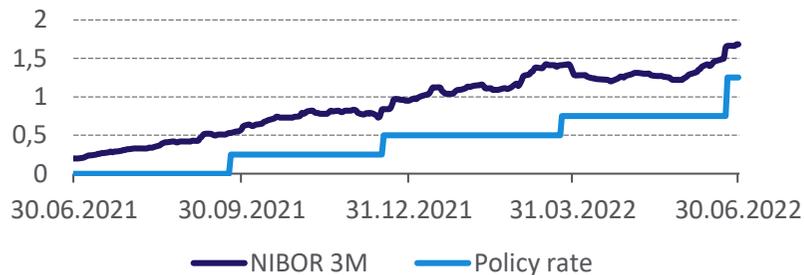
Loan margins (%)



Deposit margins (%)



NIBOR 3M development

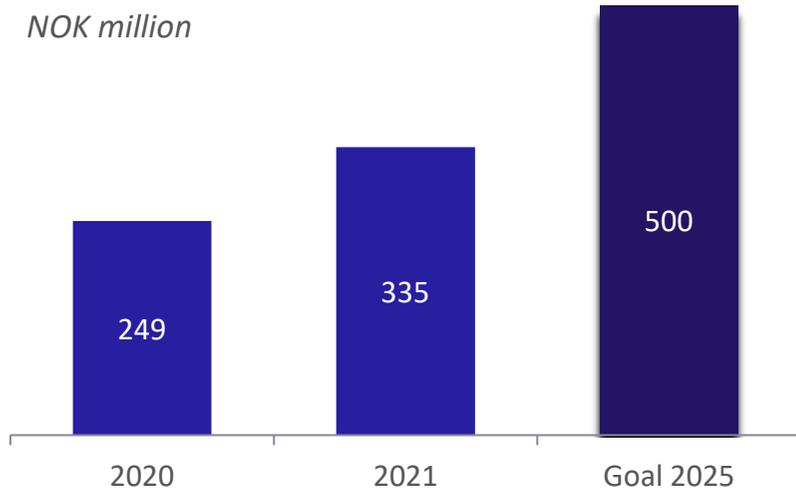


Interest margin¹⁾ (%)



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

Ambitions for increased other income



Other income	30.06. 2022	30.06. 2021	Change	Goal 2025
Insurance	25	16	9	65
Credit intermediation and leasing	3	3	0	20
Securities business 1)	36	31	5	100
Income from wholly and partly owned companies 2)	54	92	-38	315
Total	118	142	-24	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 12.7 percent for the quarter.
- Share of profit from Frende 1st half 2022 was strongly affected by a negative financial return as a result of market turmoil.

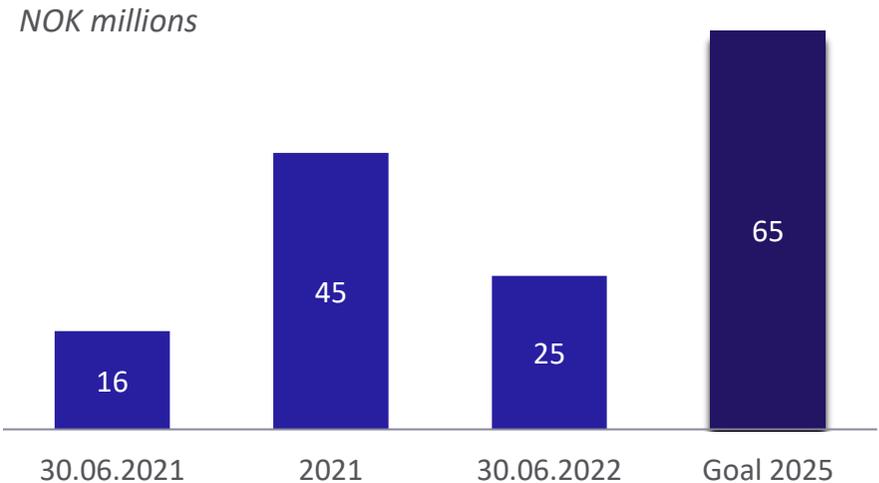
Effect on results after consolidation

NOK million		Q2 2022	Q2 2021	30.06.2022	30.06.2021
Frende forsikring* (21.0 %)	Share of profit	15.7	38.3	10.8	50.9
	Amort.	-5.4	-5.4	- 10.8	-10.8
	Sale			24.9	0
Brage Finans (20.8 %)	Share of profit	13.4	12.4	25.6	23.3
Balder Betaling (24.8 %)	Share of profit	0.2	0	0.2	11.1
Total		23.9	45.3	50.7	74.5

Strong development and increased investment in insurance

- 1 July, 2021, the bank acquired a 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 percent from 2020 to 2025

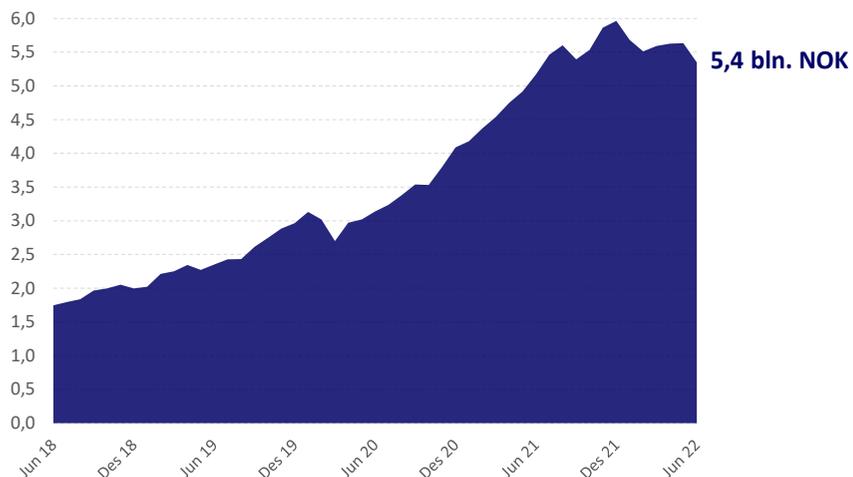
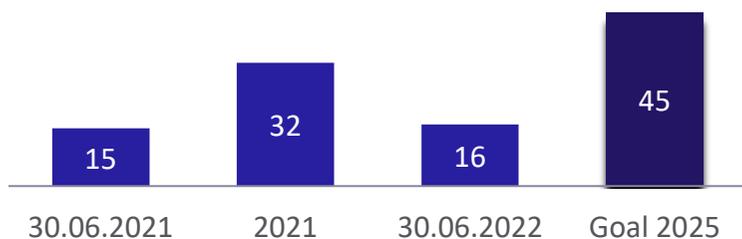
Commission income insurance



Good development in the savings area

Commission income from mutual funds

NOK millions



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



Very low losses and continued low level of non-performing loans

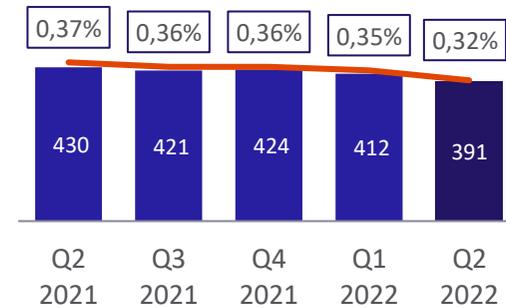
Development in losses in NOK million and as a percentage of gross loans (annualised)



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



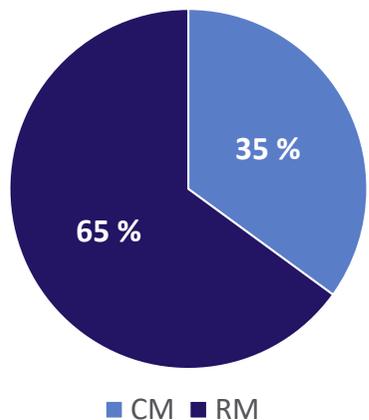
Development in loss provisions in NOK million and as a percentage of gross loans



A well-diversified loan portfolio with low risk

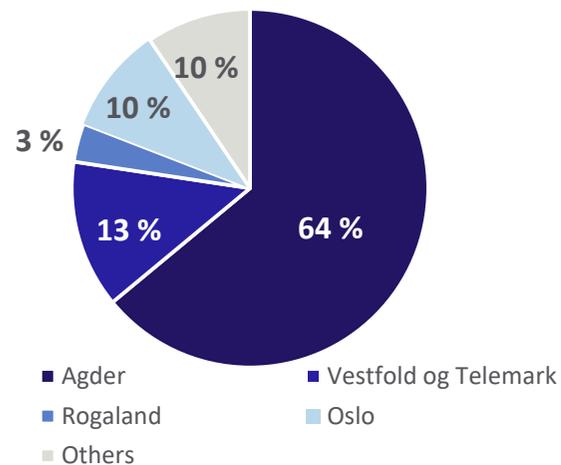
RM/CM distribution

Gross loans



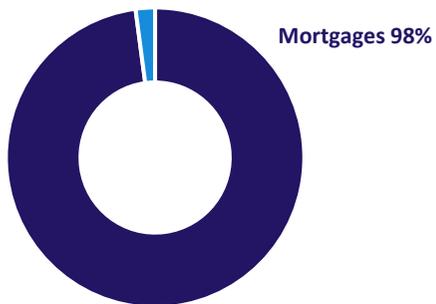
Geographical distribution

Gross loans

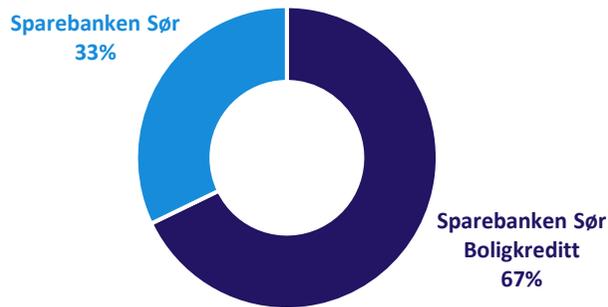


Retail loan book – 98% mortgages and low LTVs

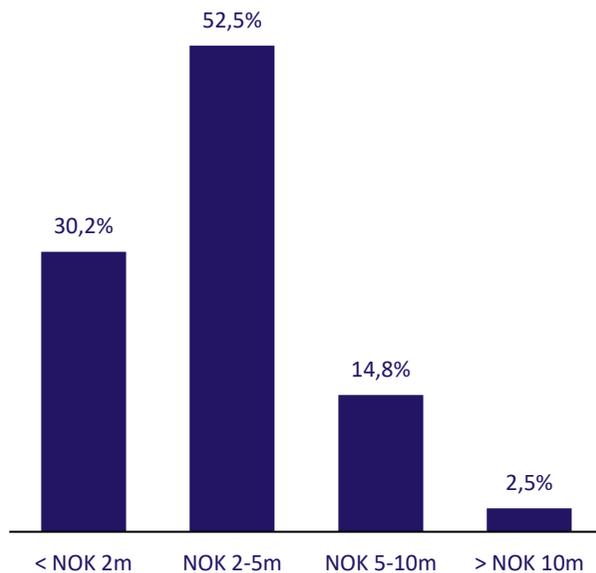
Share of mortgages



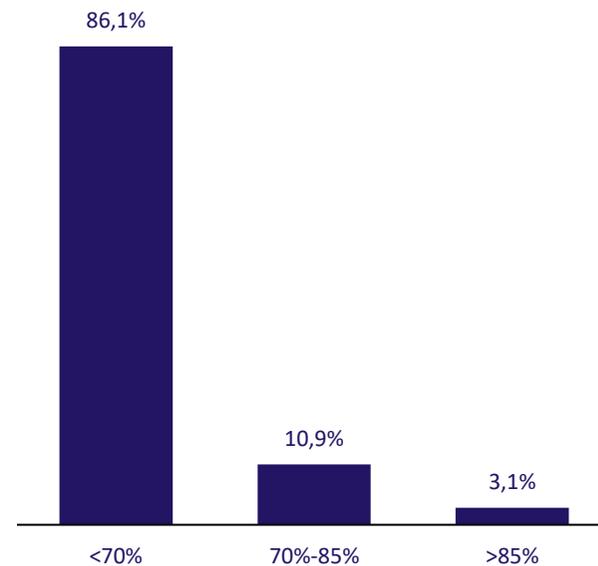
On balance vs. cov. bond transfers



Retail lending by size

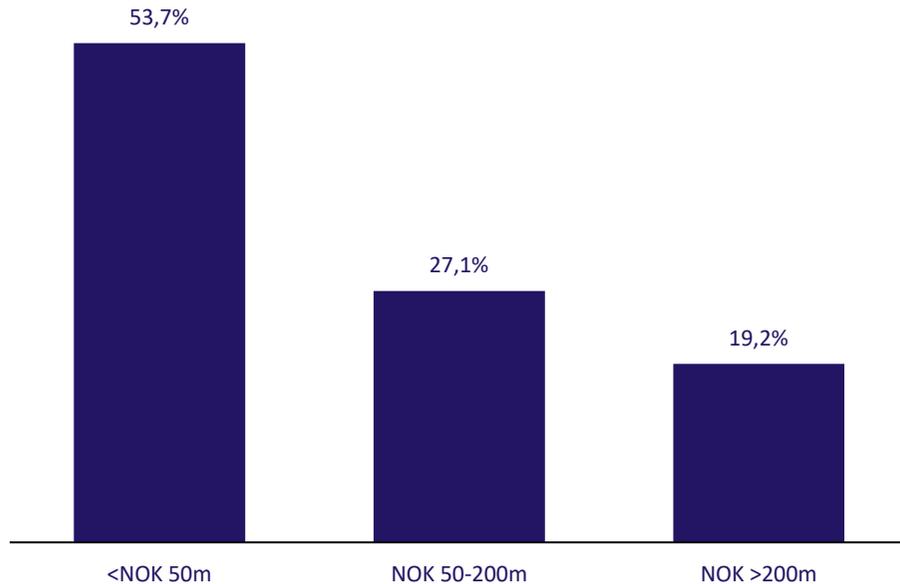


Retail lending by LTV

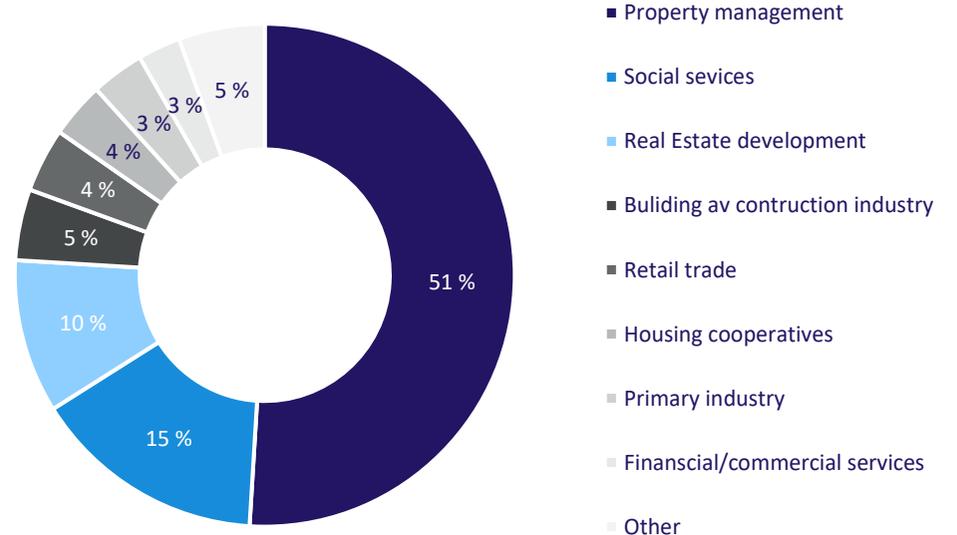


Corporate loan book – 51% property management and 54% < NOK 50m

Corporate lending by size

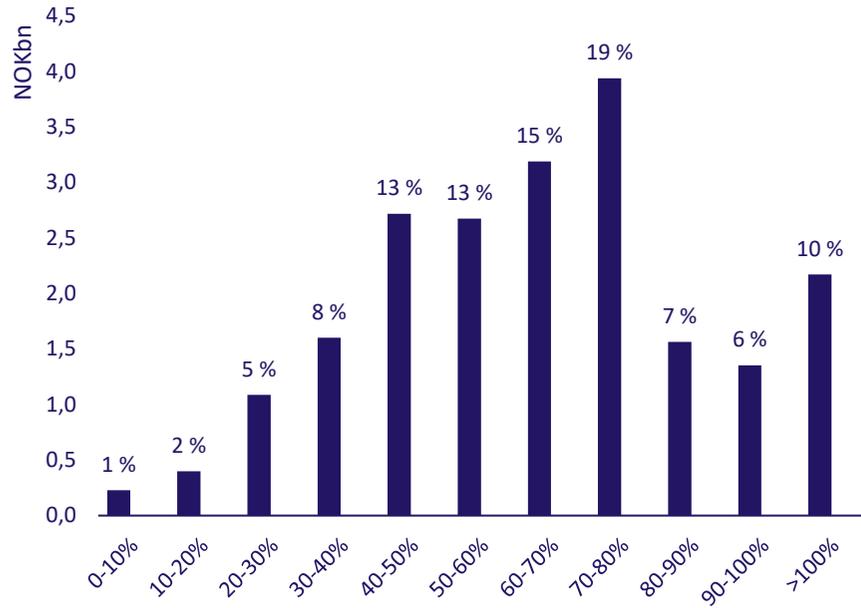


Sector distribution

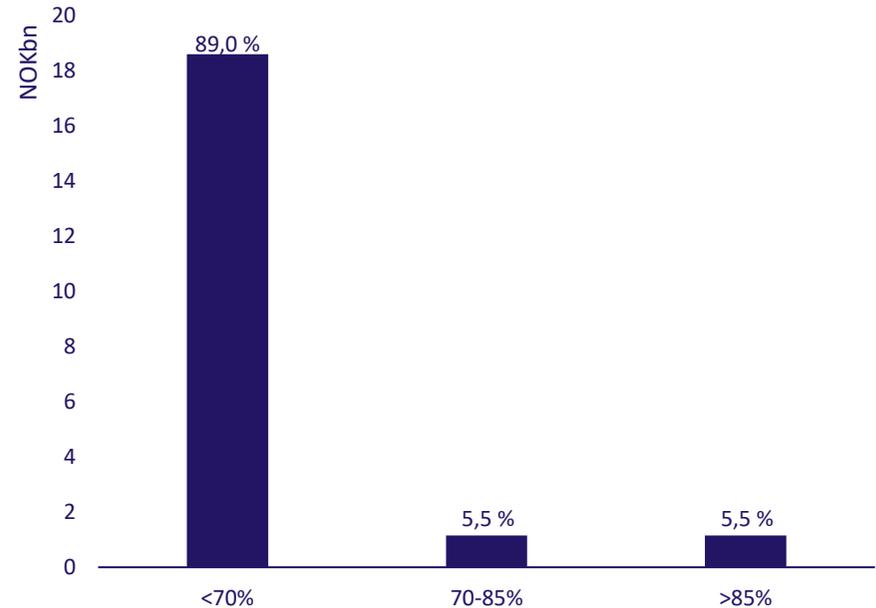


Solid asset backing in commercial real estate portfolio (property management)*

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

Summary Q2 2022

Results

Positive development in net interest income, good lending growth and low losses. Negative financial return as a result of market turmoil and one-off costs of NOK 15 million.

Funding and capital

Common equity tier 1 capital ratio of 17.4 percent and solid leverage ratio of 9.0 percent. Solid financing structure and good liquidity buffers.

Growth

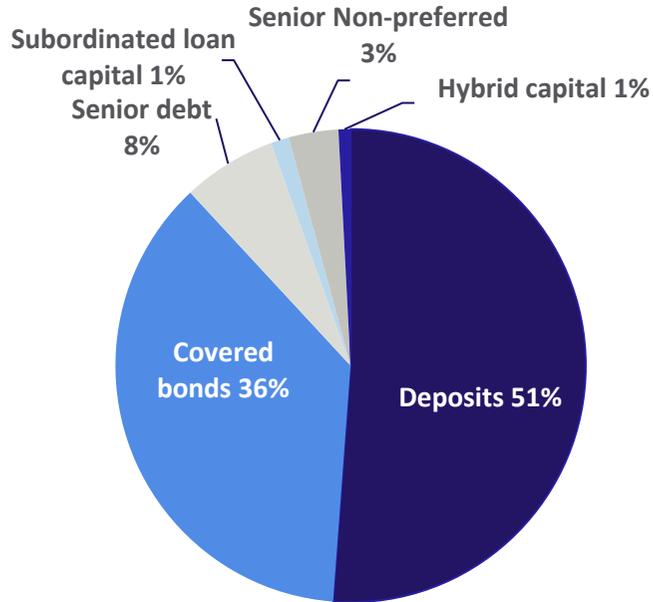
12-months growth in lending of 5.4 percent.
12-months growth in deposits of 1.8 percent.

Summary

Profit before tax of NOK 351 million presents a return on equity of 7.2 percent in Q2 2022.

Funding status

Solid and diversified financing structure



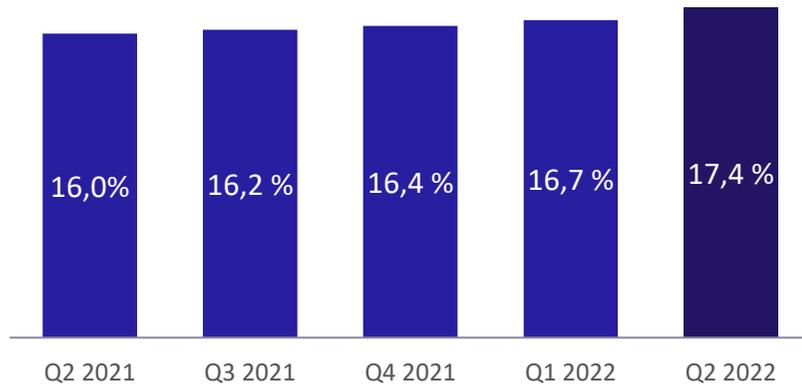
Deposits are a valuable source of funding

- Deposits/loans ratio at 55.4 percent
- Good access to funding from domestic and international funding markets
- More than 50 percent of the covered bonds are issued in EUR
- Sparebanken Sør has issued NOK 1.0 billion in SNP debt in Q2 2022
- Sparebanken Sør Boligkreditt has issued NOK 5.5 billion covered bonds in Q2 2022
- Sparebanken Sør is rated A1 by Moody's
- Sparebanken Sør Boligkreditt's covered bonds are rated Aaa by Moody's

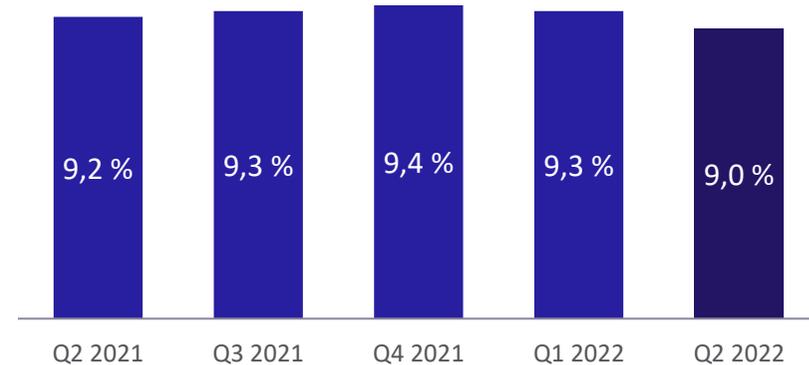
Capital

The bank is well capitalised with high leverage ratio

Common equity tier 1 capital ratio



Leverage ratio



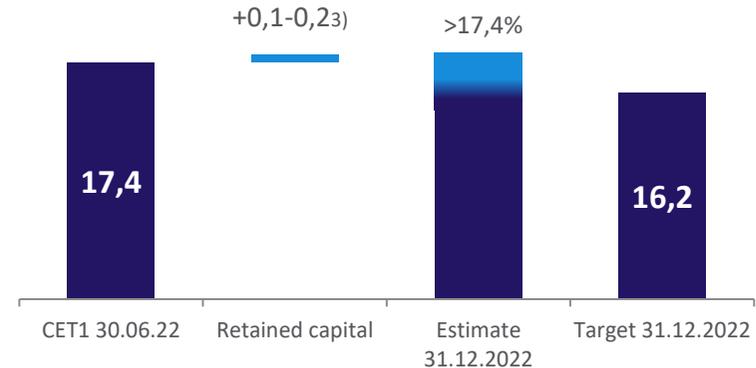
- Well above the current capital requirement (CET1) of 13.2 percent
- Common equity tier 1 (CET1) ratio of 17.4 percent, up from 16.7 percent last quarter. The effect of the banking package amounted to 1.0 percentage points. High lending growth in the quarter reduced CET1.

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⁾	1.5 %	2.0 %
Pillar-2 requirements	1.7 %	1.7 %
CET1 requirements	13.2 %	15.2 %
Pillar-2 Guidance	1.0 %	1.0 %
CET1 requirements Incl. P2G	14.2 %	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 percent from December 31, 2022

2) The Countercyclical Buffer will increase with 0.5 percentage points from 31.12.2022 and 0.5 percentage points in Q1 2023.

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

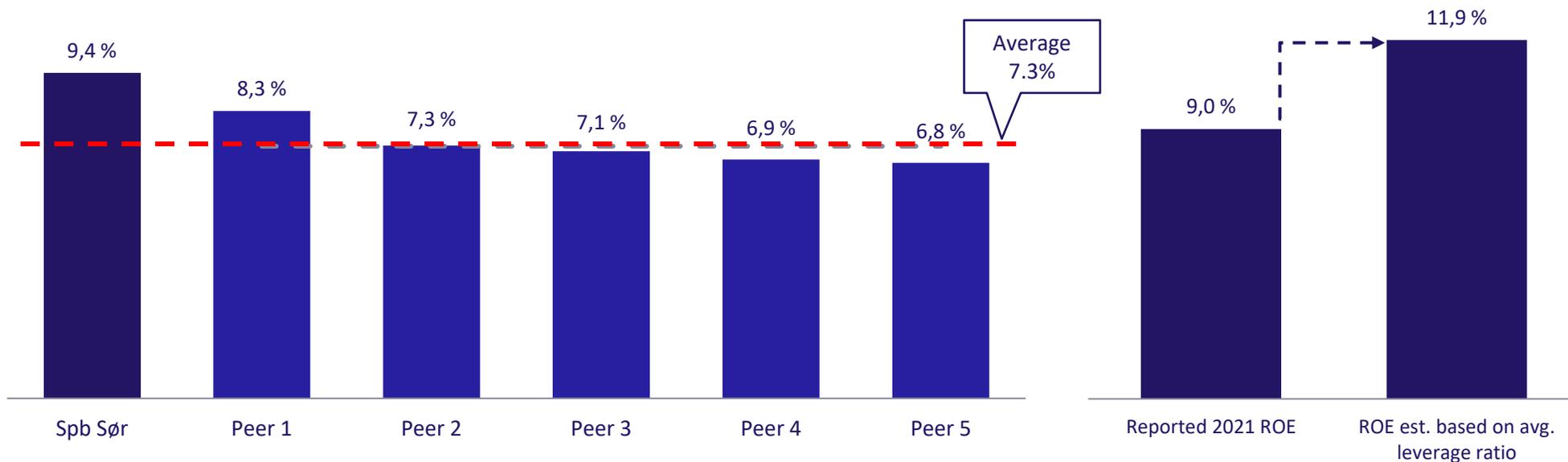
- Increased capability and competence through recruitment
- Internal upskilling in technology and financial regulations

Implement and apply IRB-F

ROE will increase on “normalised” leverage

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

...potential for increased ROE

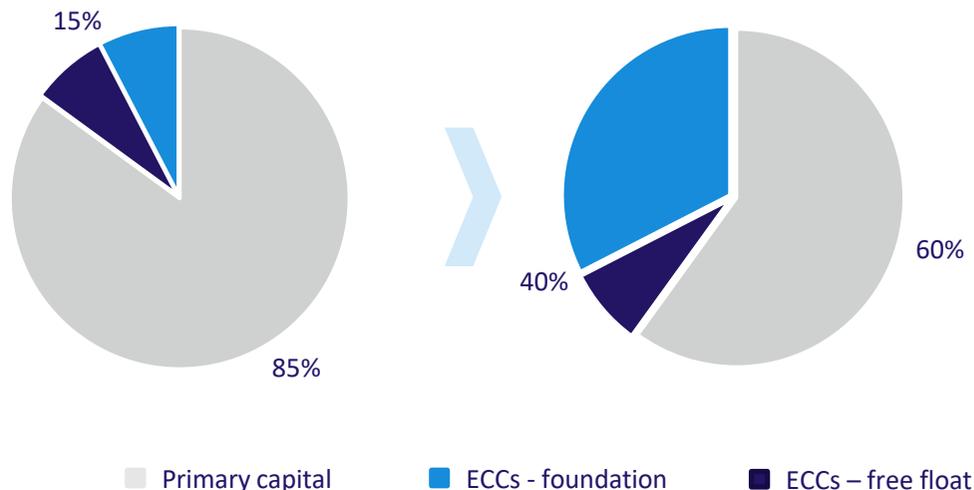


Equity and dividend policy

Conversion of primary capital

- In a meeting on 31 March 2022, the bank's Board of Trustees decided to raise the ownership ratio from 15 to 40 percent by converting primary capital.
- The Financial Supervisory Authority of Norway approved the conversion on 10 June 2022 and the new equity certificates were registered in Foretaksregisteret (Brønnøysund Business Register) on 14 June 2022.
- A total of 26 039 113 new equity certificates were issued , which has been transferred Sparebankstiftelsen Sparebanken Sør.
- Following the recent significant turbulence in financial markets the Foundation decided on 19 June 2022 not to carry through the planned secondary sale at this stage. The Foundation will follow the market development closely going forward and make a new assessment when market conditions prove right for a transaction.

Increased ECCs share of equity



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

Goals and expectations

Financial ambitions



Overriding target

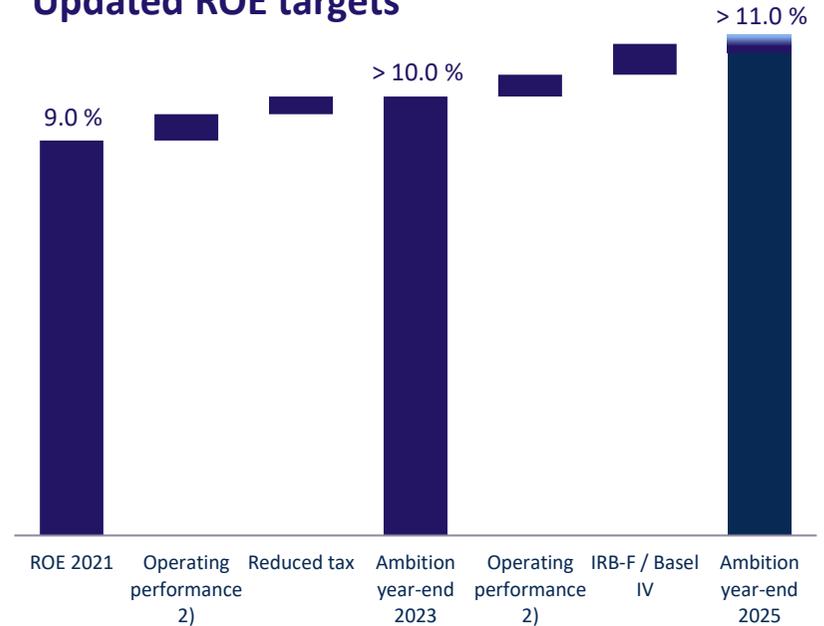
Return on equity > 11 % by end of 2025

> 16.2%₁₎
CET1 capital ratio*

< 40.0%
C/I ratio

40-50%
Pay-out ratio

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 30.06.2022

	Name	Number of Ecs	Share of Ecs %		Name	Number of Ecs	Share of Ecs %
1	Sparebankstiftelsen Sparebanken Sør	34.027.792	81,60	11	Ottersland AS	100.000	0,24
2	EIKA utbytte VPF c/o Eika kapitalforv.	730.097	1,75	12	DNB Luxembourg S.A	100.000	0,24
3	Pareto Invest AS	417.309	1,00	13	Lombard Int Assurance S.A	82.800	0,20
4	Drangslund Kapital AS	302.107	0,72	14	Geir Bergskaug	75.691	0,18
5	Glastad Capital AS	200.000	0,48	15	Gunnar Hillestad	74.006	0,18
6	Wenaasgruppen AS	186.000	0,45	16	Alf Albert	73.740	0,18
7	Hamjern Invest AS	180.099	0,43	17	Catilina Invest AS	73.237	0,18
8	Gumpen Bileiendom AS	174.209	0,42	18	Apriori Holding AS	72.575	0,17
9	KLP Gjensidige Forsikring	163.300	0,39	19	Varodd AS	70.520	0,17
10	Allumgården AS	151.092	0,36	20	K.T Brøvig Invest AS	68.000	0,16
	Total 10 largest owners	36.532.005	87.60		Total 20 largest owners	37.322.574	89.501

- AS of 30 June 2022, 41 703 057 ECs of NOK 50 each had been issued
- Profit (Group) per EC amounted to NOK 2.4 in Q2 2022 and NOK 12.2 per EC in 2021.
- The ownership ratio 30.06.2022 was 40.0 percent

SOR – share price and liquidity

Change in share price at 30.06.2022

- The share price for SOR was NOK 134.5 (excl. dividend) and book value was NOK 135.2, amounting to a price-to-book ratio of 1.0.
- The equity certificates gave a return of 13.3 % last 12 months
- Profit per equity certificates 30.06.2022 of NOK 5.0, which represents a P/E of 13.5

Turnover

- Turnover of 1.5 mill. equity certificates last 12 months.
- 41 703 057 total issued, and an EQ rate of 40.0 %.

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

