



Sparebanken Sør

Company presentation

30 May 2022

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Table of contents

1. Introduction
2. The new SOR ECC
3. Strategic priorities
4. Attractive home region
5. Key financials
6. Loan book composition and quality
7. Capital and funding
8. Dividend policy
9. Financial ambitions and summary

Sparebanken Sør at a glance

The leading bank in Southern Norway



Established in 1824
564 FTEs



181,000 retail
customers



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



22,000 corporate
customers



Publicly traded and
community-owned

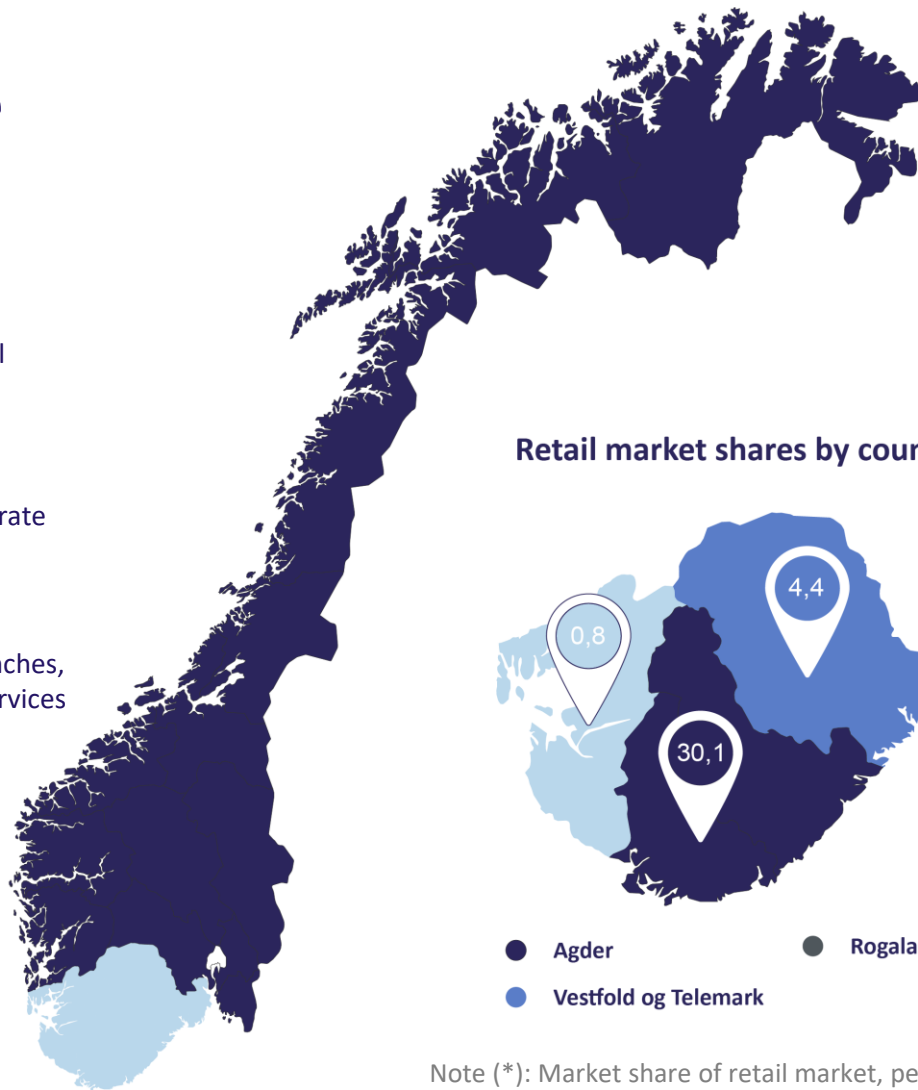


Regional branches,
and online services

Total assets of NOK 148 billion

Q1-2022 profit after tax of NOK 276 million

Cost/income ratio of 42.4%



Broad product offering to retail and corporate clients



Retail banking

66% of total loan book
98% residential mortgages

Corporate banking

34% of total loan book
63% real estate exposure

Sørmegleren (90.1%)

The leading real estate broker
in Southern Norway with a
market share of ~30%

Sparebanken Sør Boligkreditt (100%)

NOK 47bn in covered bond
issuance



Frende Forsikring

(19.8% ownership)

Insurance products to 159,000 retail and corporate customers



Brage Finans

(20.8% ownership)

Leasing and loans secured by purchased assets to retail and corporate customers



Norne Securities

(14.8% ownership)

Securities firm offering investment services to retail and corporate customers



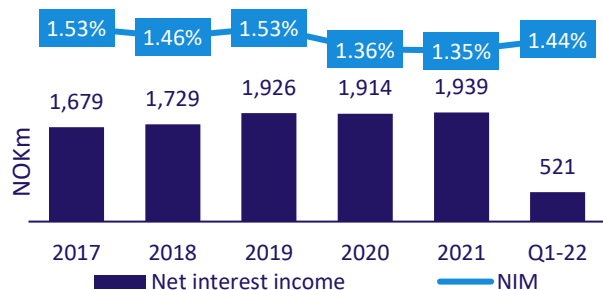
Balder Betaling

(24.8% ownership)

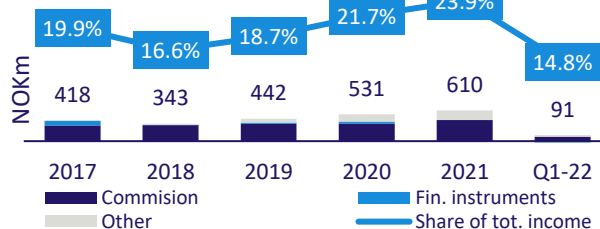
10.7% ownership in Vipps, Norway's largest payment app used by over 4 million

Stable financial performance and low loan losses

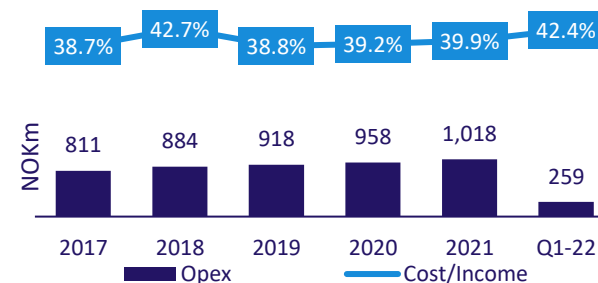
Net interest income



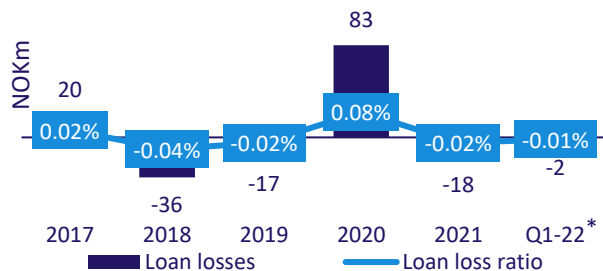
Net non-interest income



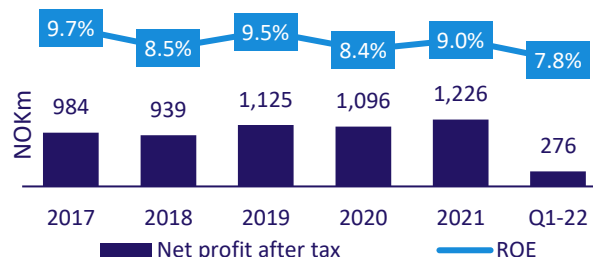
Operating costs



Loan losses



Net profit after tax



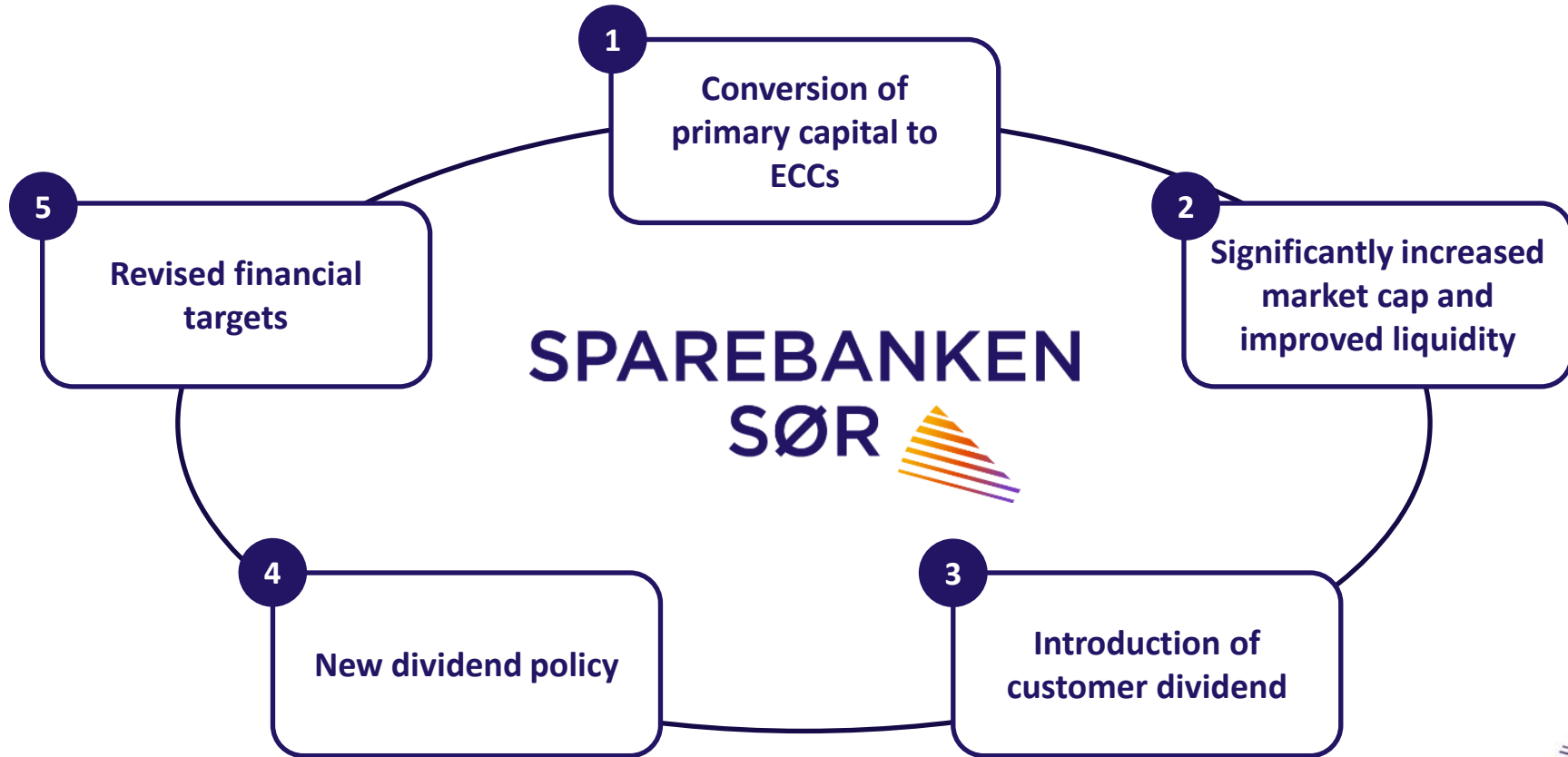
Key comments

- Increasing interest rates and lending growth is driving growth in NII
- Focus on increasing non-interest income. Adverse effects from financial markets in Q1-22
- Continuous low cost/income
- Very low loan losses. 2020 figures mainly model-based provisions

Table of contents

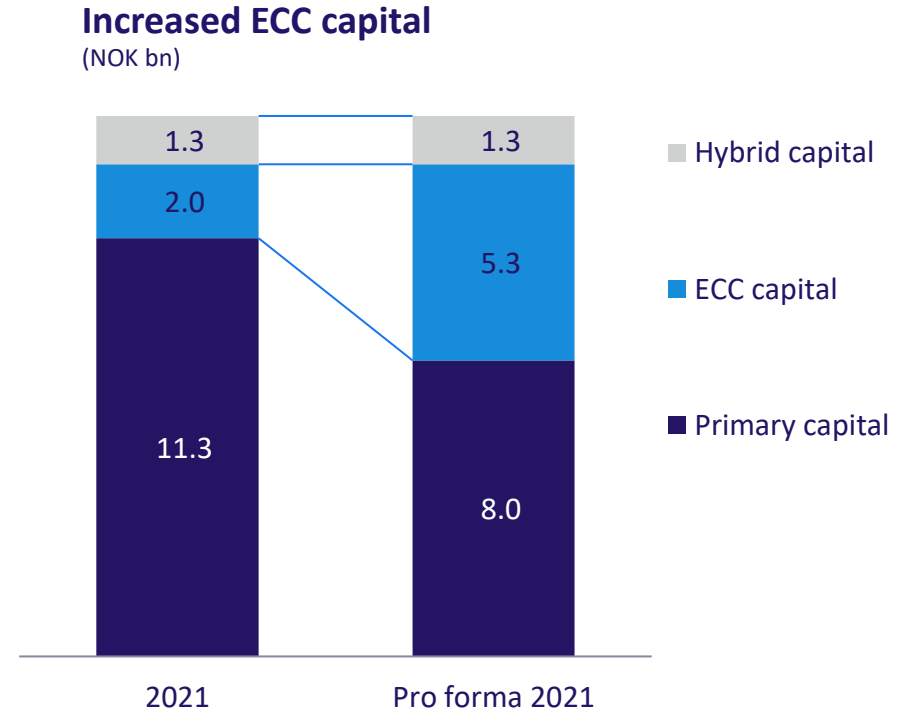
1. Introduction
2. **The new SOR ECC**
3. Strategic priorities
4. Attractive home region
5. Key financials
6. Loan book composition and quality
7. Capital and funding
8. Dividend policy
9. Financial ambitions and summary

New strategic initiatives



Conversion to increase market cap substantially

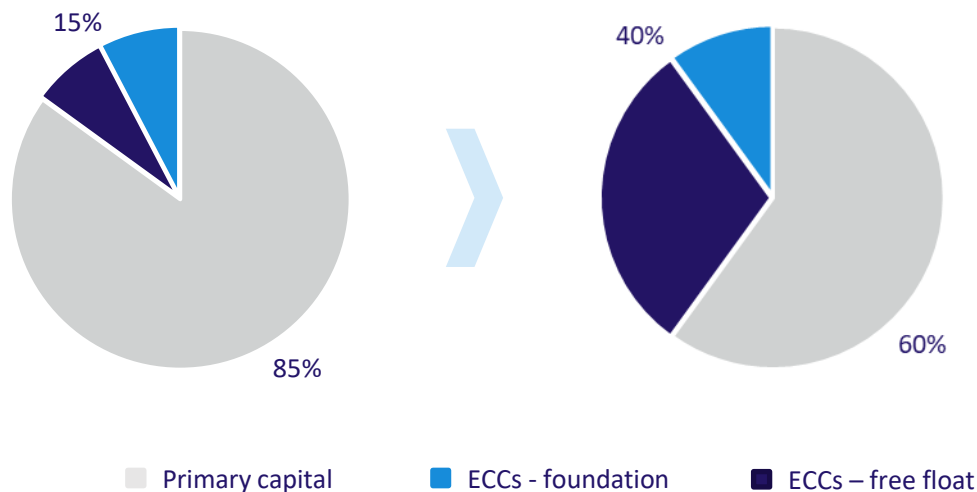
- Proposed conversion of about NOK 3.3bn from primary capital to ECCs*
- Book value of listed equity to increase from NOK 2.0bn to NOK 5.3bn
- Newly issued ECCs to be transferred to existing foundation Sparebankstiftelsen Sparebanken Sør
- Approved by the General Assembly on March 31, 2022
- The conversion requires FSA approval
- New ECCs are entitled to their share of earnings from January 1, 2022, and 2022 dividends in line with existing ECCs



Significantly increased ECC share of equity

- ECC share of equity will increase from 15% to 40%
- The Foundation intends to sell a significant part of the newly issued ECCs through a structured process
- The Foundation has lowered the minimum required ownership threshold from 35% to 25%
- The “free-float” market cap will increase significantly, improve liquidity and secure a broad-based, strong ownership
- The Foundation will be highly liquid and a solid capital base for the bank
- The transaction requires FSA approval

Increased ECCs share of equity



Revised dividend policy and introduction of customer dividend

Equal pay-out ratio of 40-50%

- The new dividend policy aims to facilitate expected growth and yield attractive direct returns to ECC holders as well as sufficient levels of gifts and customer dividends
- The pay-out ratio will be applicable to both equity capital classes – no dilution through dividends and gifts

Customer dividend* with multiple benefits

- Increased satisfaction and attractiveness for customers
- Distribution enabled by the bank's equity structure
- Corresponding to ~0.20% based on 2021 earnings
- Will, under current tax regulation, improve the ROE of Sparebanken Sør by an estimated 0.4%-points

Financial ambitions



Overriding target

Return on equity > 11% by end of 2025

> 16.2%

CET1 capital ratio*

< 40.0%

C/I ratio

40-50%

Pay-out ratio

Updated ROE targets

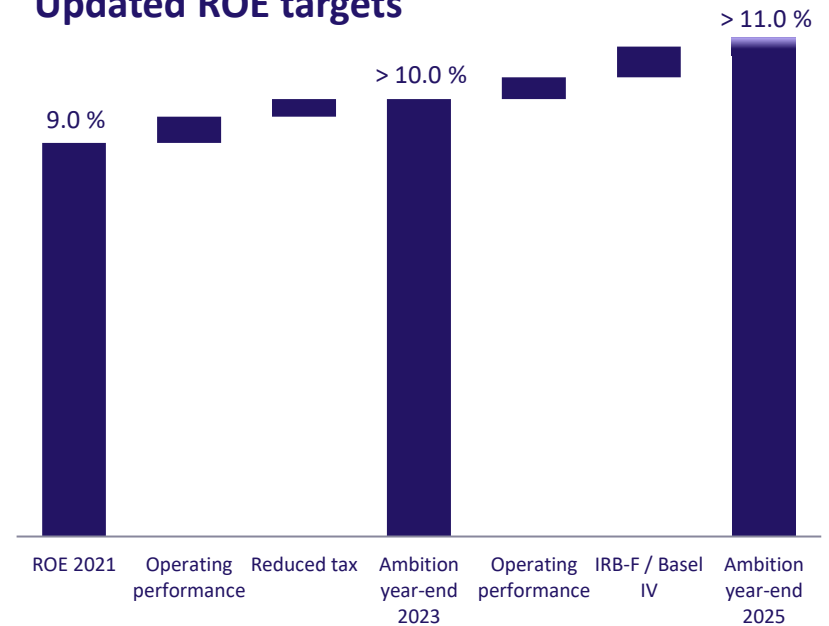


Table of contents

1. Introduction
2. The new SOR ECC
- 3. Strategic priorities**
4. Attractive home region
5. Key financials
6. Loan book composition and quality
7. Capital and funding
8. Dividend policy
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Mission

Create sustainable growth and development in our region

Vision

Relationship bank for the future

Values

Reliable

Committed

Future-oriented

Strategic priorities

1. Increase other income and share of wallet

2. Strengthen digital competence and capabilities

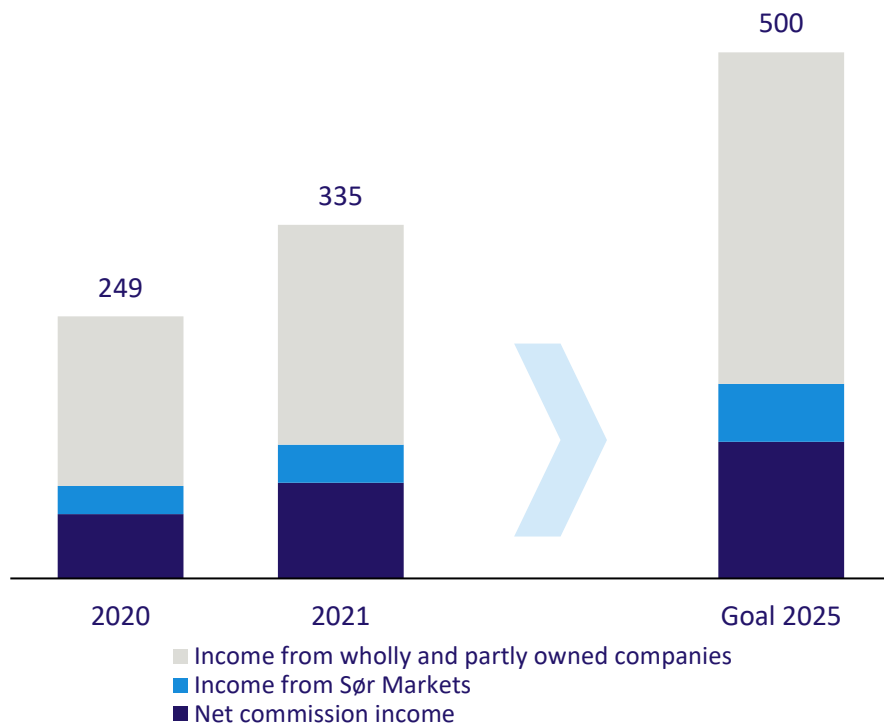
3. Enhance skill base

4. Strengthen distribution efficiency and effectiveness

5. Improve capital efficiency – implementing IRB

6. Remain ESG leader and create sustainable development in region

1. Increase other income and share of wallet



Implemented measures

- **Insurance:** Strengthened distribution channels of Frende products
- **Leasing:** Grow volumes from banking clients through Brage
- **Savings:** Digital savings portal, Norne Fondsportal
- **Real estate brokerage:** More branches, and extending to commercial property
- **Growth in revenues and net earnings contribution from these companies**

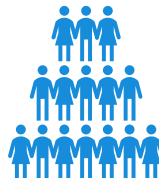
Other income	2020	2021	Goal 2025
Net commission income*	61	91	130
Income from Sør Markets	27	36	55
Income from wholly and partly owned companies	161	209	315
Sum	249	335	500

2. Strengthen digital competence and capabilities



Full service online solutions

- Digital self-service loan portal
- Success with digital savings robot
- Invoice scanner and ID check
- Access to tailored fund and insurance solutions in collaboration with Norne Securities and Frende Forsikring



Up- and re-skilling employees

- Fewer employees with traditional banking background and more with technical and analytical higher education
- Increased number of data scientists and IT specialists
- Development of customer and credit models



Regulations and security

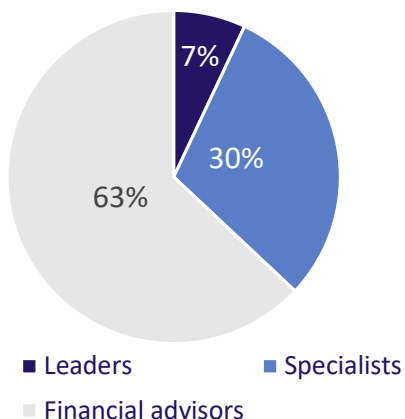
- ISMS: prevent, detect and act
- Competence development for customers
- Fast response to technological leaps
- Continuous and systematic processes on data quality

3. Enhance skill base

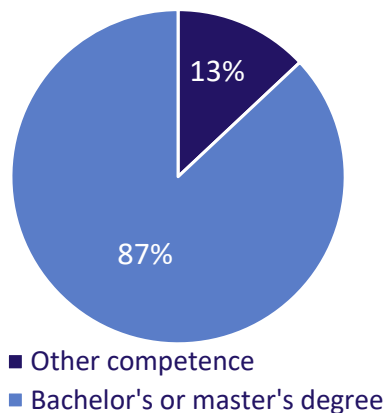
WHAT: A powerful shift in the skill composition, from general banking experience to more specialists and employees with higher education, within areas such as digitalisation, UX-design, compliance, AML, modelling and data analysis.

WHY: The need to enhance the digital customer services and provide more data driven solutions demands other types of competence and skills.

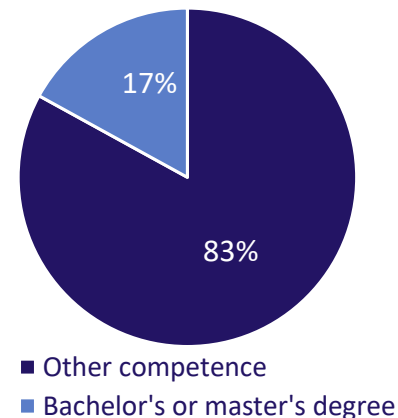
Employees started, positions*



Employees started, education*








Employees left, education*




4. Strengthen distribution efficiency and effectiveness

Retail market

- Digital self-service loan portal 
- Digital platform for fund savings 
- Self-service in all daily banking services 
- Aiming for cashless banking 
- Modernised retail branches 

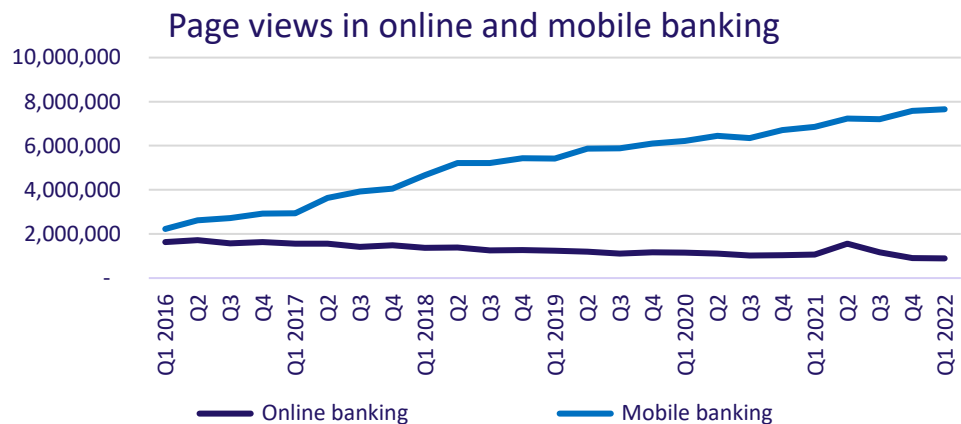
Corporate market

- Established a financial dashboard for corporate internet banking 
- Onboarding all customers to full-service online banking 
- New mobile bank launched in March 2022 
- Digitalised important customer processes 
- High-competence support centre 

Enhanced data platform and marketing automation system

4. Retail customers: Strong growth in mobile banking

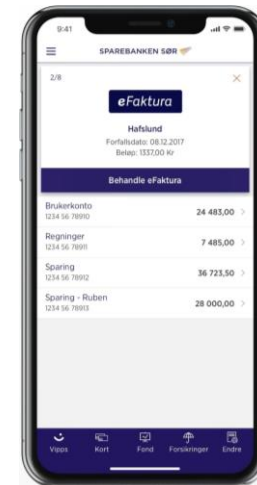
- ✓ 88% of active retail customers use online and mobile banking*
- ✓ Mobile banking accounts for 75% of total digital traffic
- ✓ 46% of digital customers use mobile bank only
- ✓ 28.8 logins in the mobile bank each month on average per customer



Mobile bank with excellent customer feedback

App Store 4.5 out of 5

Google Play 4.5 out of 5



Consistent stable high score in App Store and Google Play



5. 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

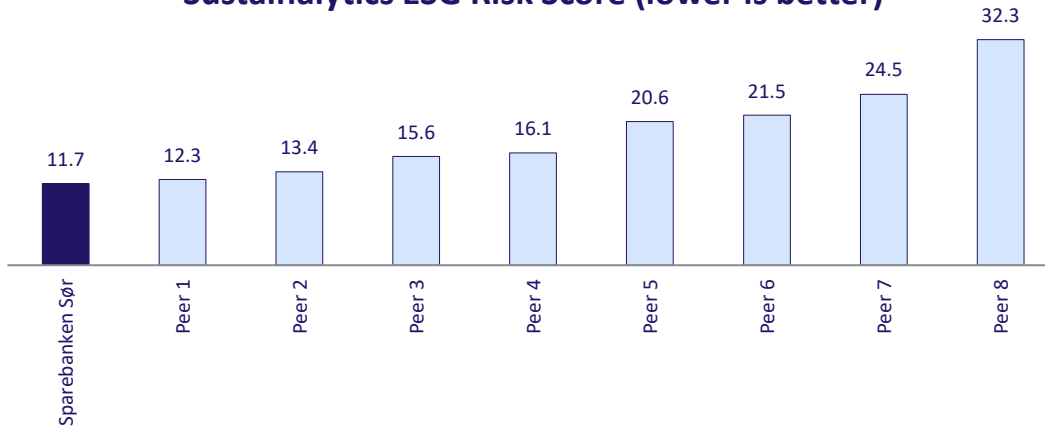
- Increased capability and competence through recruitment
- Internal upskilling in technology and financial regulations

Implement and apply IRB-F



6. Remain ESG leader and create sustainable development in region

Sustainalytics ESG Risk Score (lower is better)



- First Norwegian bank to receive *Gender Equality and Diversity* certification in 2018
- Financial reporting in line with TCFD (Task Force on Climate-Related Financial Disclosures)
- Transparent investor information through ESG library

Independent and transparent
ESG assessment

Requirements and
expectations from investors

Our own social responsibility

6. Aiming for zero carbon emissions



Carbon footprint:

55% reduction in climate emissions by 2030
Zero climate emissions by 2050



Donations:

Regional donations for sustainable and socially beneficial purposes



ESG in the credit process:

ESG as an integral part of the credit process
Improved ESG credit system with TietoEvry



Green and social bonds:

Green & Sustainability Bond Framework (2019/2022)



Emissions in loan portfolios:

40% reduction in emissions from lending and investments by 2030



A global perspective:

Adherence to global initiatives, frameworks and principles

Carbon emissions in tons of CO2

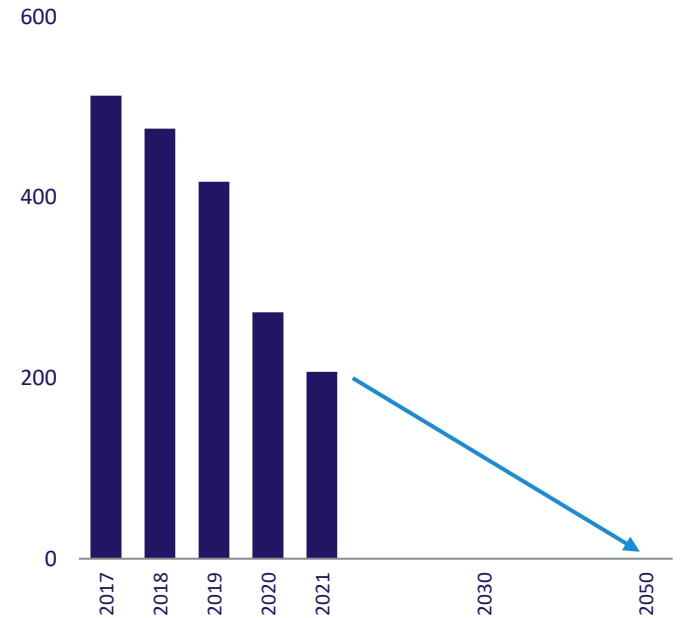


Table of contents

1. Introduction
2. The new SOR ECC
3. Strategic priorities
4. **Attractive home region**
5. Key financials
6. Loan book composition and quality
7. Capital and funding
8. Dividend policy
9. Financial ambitions and summary

From two local banks to regional market leader



Two of the first savings banks in Norway are established, creating the foundation for Sparebanken Sør.

Norwegian savings banks play an important role in the development of local communities.

Consolidation of ~40 savings banks. Sparebanken Sør and Sparebanken Pluss are established.

Sparebanken Sør and Sparebanken Pluss consolidate and become the largest bank in the region.

ECC share of equity increases from 15% to 40%. Customer dividends are introduced.

1824

Until 1970

1970-2000

2014

2022



SPAREBANKEN SØR

Expanding from a strong home region



Agder

- Population 310,000 (6% of national population)
- Positive housing price trend, Kristiansand reporting y/y growth rate of 7.7%.
- Diverse business sector, health and social sector also major employer
- Loan book exposure of 64%
- Initial home market with a #1 market position
- Head office in Kristiansand and 24 bank branches



Rogaland

- Population 485,000 (9% of national population)
- Stavanger is the main city: Stable growth in housing prices with y/y growth rate of 6.4%
- Leading position within energy industry
- Loan book exposure of 4%
- Targeted market with steadily increasing market share



Oslo

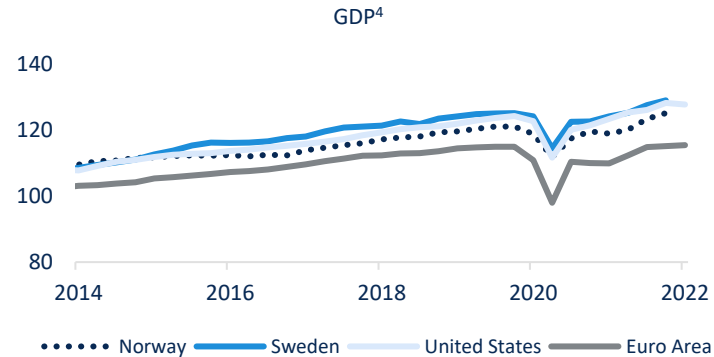
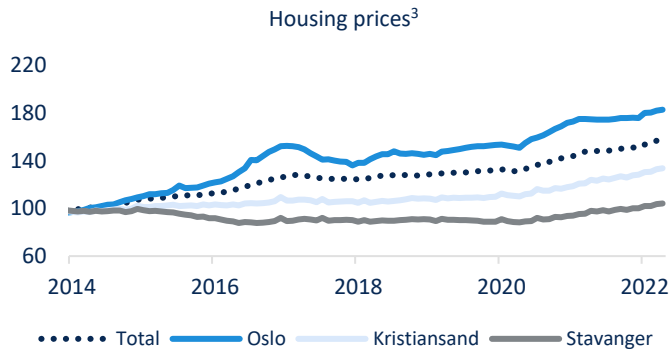
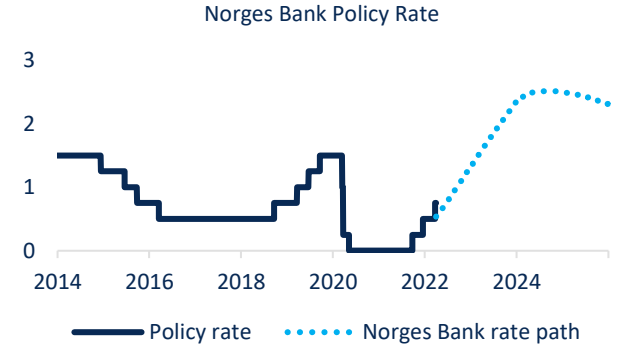
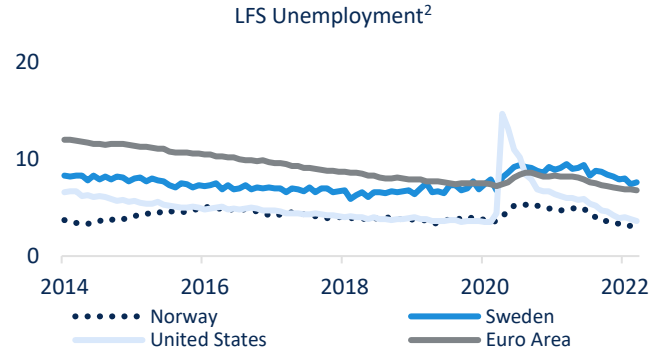
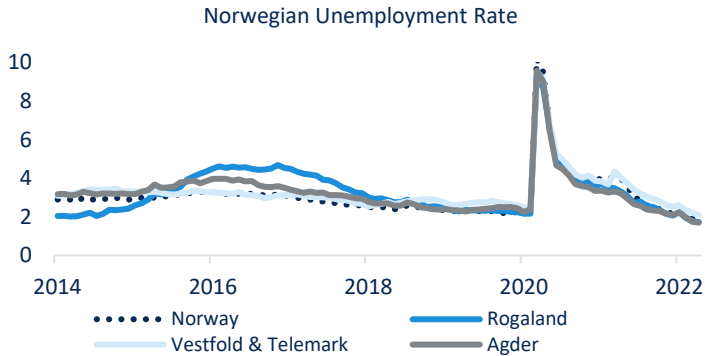
- Population 700,000 (13% of national population)
- Steady increase in housing prices over many years with y/y growth rate of 4.5%
- Capital, public sector and services dominate
- Loan book exposure of 9%



Vestfold and Telemark

- Population 425,000 (8% of national population)
- Strong growth in housing prices with y/y growth rate of 9.7%
- Diverse business sector, industry, agriculture
- Loan book exposure of 13%
- Eight bank branches

Positive outlook for the Norwegian economy



Macro comment

- Unemployment back at pre-pandemic levels
- Key policy rate currently at 0.75% with several rate hikes expected going forward
- Steady increase in housing prices across Norway
- GDP growth is picking up and illustrates strengthened economic conditions

Group management



Geir Bergskaug

CEO in Sparebanken Sør from 2010. Executive Vice President in Gjensidige (1999-2010) and Board Chair Gjensidige Bank. General Manager and Director in DNB (1988-1999). Master of Business and Economics from Norwegian School of Economics and Business Administration, MBA from INSEAD (France), GMP from Harvard Business School (USA). Board Chair Finance Norway, Deputy Chair Frende Insurance, Board member Norwegian Savings Bank Association, Board member Vipps



Steinar Vigsnes

CFO Sparebanken Sør from June 2022. Joined the bank in 2009 and previously held the position as Controller (2009-2013) and Head of Finance and Reporting (2014-2022). Also experience as an authorised auditor. Master of Business and Administration from the University of Agder



Marianne Lofthus

Capital Market Director from January 2014 and General Manager of Sparebanken Sør Boligkreditt. Previously CFO of Sparebanken Pluss (2003-2013) and has many years of experience from the financial operations at Sparebanken Pluss, Norsk Hydro and Sparebanken NOR. Master of Business and Economics from Norwegian School of Economics and Business Administration



Rolf H. Søraker

Group Support Director from January 2014. Previously Group Support Director of the "old" Sparebanken Sør (2009-2013) and has a wide range of experience from various roles at Sparebanken Sør from 1986. Additional experience from the educational system and the Norwegian Armed Forces. Education from the Norwegian Armed Forces, Telemark University College and BI, Master in Management



Gry Moen

Business Development Director from January 2014. Previously worked as Business Development Director at the "old" Sparebanken Sør (2011-2013). General Manager of ABCenter Holding (2009-2010) and Marketing Director of Sparebanken Sør (2006-2009). Has previous experience from Statoil, Telenor and LOS/Agder Energi. Education from Trondheim Business College/École Supérieure de Commerce Grenobles/Nantes



Lasse Kvinlaug

Deputy Chief Executive from January 2014 and Corporate Market Director. Master of Business and Economics. Formerly Deputy Chief Executive, Director and General Manager of Sparebanken Pluss (1997-2013). Also experience from Sparebanken NOR/Sparebanken ABC (1987-1997) as Assistant General Manager for corporate market in Kristiansand. Financial Consultant at Statoil (1984-1987)



Gunnar P. Thomassen

Retail Banking Market Director from January 2014. Previously worked at Sparebanken Sør as Director, Regional Director and Bank Manager (1999-2013). Experience from Ernst & Young Management Consulting and the Industrial Fund/SND. Graduate engineer in Industrial Economics from the Norwegian University of Science and Technology



Bjørn A. Friestad

Risk Management Director from January 2014. Responsible for credit and business development at Sparebanken Pluss (2001-2013). Has a wide range of experience from various business areas at Sparebanken Agder/Sparebanken Pluss since 1986. Master in Business and Economics and aut. Financial analyst (AFA) from the Norwegian School of Economics and Business Administration



Steinar Breen

Director of Strategy and Compliance from April 2020. Previously an Associate Partner with EYS consulting business for banking and finance. Additional experience from Accenture. Holds a Master's degree in economics, Cand. Oecon. Authorized financial analyst from Norwegian School of Economics



Eva Kvelland

Director of Marketing and Communications from August 2021. 20 years of experience from politics and organizations, as head of marketing and communication and communications adviser. Was political adviser to Agricultural Minister Lars Sponheim. Holds a Master's degree in public policy and management, UiA and a Bachelor's degree in political science, UiA

Board of directors



Knut Ruhaven Sæthre (Chair)

Chair of the board since 1 April 2022, member since 2020. Former permanent deputy member from 2018. Member of the Risk Committee. Master of Business Administration from Friborg (Switzerland) with a master's degree in strategic management from Norwegian School of Economics. CFO of BW Energy Limited. Former CFO of BW Offshore Limited and CFO of APL ASA



Erik E. Tønnesen

Member since 2020. Member of the Audit Committee and member of the Technology Committee. Master of Business Administration from BI Norwegian Business School. Managing Partner in Skagerak Maturø AS, former Executive Vice President Gjensidige, Regional Director Acta Asset Management and Bank Manager Sparebanken Sør. Chair of the Board of Skandia Green Power AS and Chair of the Board of Tønnesen Sko AS. Board member of Efferø AS, Innoventus Sør AS, Mandal Utvikling AS, Malmø Utvikling AS



Eli Giske

Member since 1 April 2022. Master of Business and Marketing, Finance and management from BI Norwegian Business School, Examen philosophicum, Philosophy from the University of Oslo. CEO of Giske Consulting and former CFO in Posten. Deputy chair of the board of Nye Veier AS, board member of Oslobygg KF, board member of Spordrift AS, board member of Sykehusapotekene HF. Leader of the nomination committee in Itera



Trond Randøy

Board member since 1 April 2022. Former permanent deputy member from 2018. Dr. oec. from the Norwegian School of Economics. Professor at the University of Agder and at the Copenhagen Business School (CBS). Former researcher at Agderforskning AS. Associate professor at Agder University College. Chair of the board of MTI Investment SE, Stockholm, chair of the board of Agder Aviation Tech Team AS, Kristiansand, chair of the board of Sørlandsforskning AS, board member of African Construction AS, Kristiansand, board member of Ecohomes Ltd. Dar es Salaam, Tanzania, Deputy Member of African FinTech AB, Stockholm



Mette Harv

Deputy chair of the board since 1 April 2022, member since 2018. Chair of the Audit Committee and member of the Remuneration Committee. Master of Business Administration from the Norwegian School of Economics. Executive Vice President Renewables and Aquaculture at Nekkar ASA. Former Executive Vice President TTS Energy in TTS Group ASA and Vice President Global Supply Chain & Logistics of National Oilwell Varco, Rig Systems. Chair of the board of Intellifit AS, board member of GCE NODE and Mechatronics Innovation Lab (MIL) and deputy member of Agder Energi ASA



Merete Steinvåg Østby

Member since 2020. Chair of the Technology Committee. Master of Science, University of Tromsø. Digital Manager, Yara Porsgrunn. Former Business Development Manager, Yara Porsgrunn and Section Manager, Financial Services, EVRY. Board member of the Port of Grenland IKS



Jan Erling Tobiassen

Employee member since 2016. Member of the Audit Committee, member of the Risk Committee and member of the Remuneration Committee. Certified Internal Auditor from The Institute of Internal Auditors (IIA). Chief employee representative in Sparebanken Sør. Former consultant at Sparebanken Sør and internal auditor at Sparebanken Sør



Gunnhild Tveiten Gold

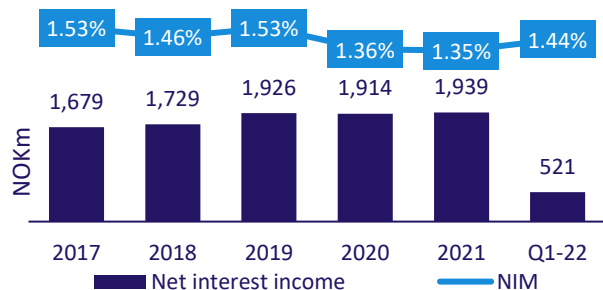
Employee member since 2017. Background: Bachelor of Economics, Buskerud University College, Kongsberg Department, Bachelor of Business Administration / Diploma in Economics and Bachelor of Real Estate from BI Norwegian Business School. Authorized financial advisor in Sparebanken Sør. Former authorized real estate agent in ABCenter Telemark AS and financial advisor in Storebrand Bank, Oslo

Table of contents

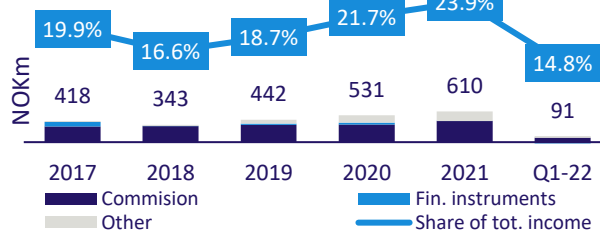
1. Introduction
2. The new SOR ECC
3. Strategic priorities
4. Attractive home region
5. **Key financials**
6. Loan book composition and quality
7. Capital and funding
8. Dividend policy
9. Financial ambitions and summary

Stable financial performance and low loan losses

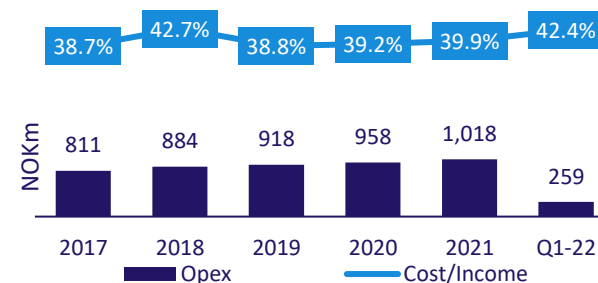
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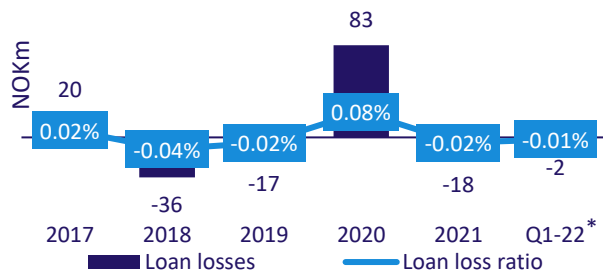
Net non-interest income



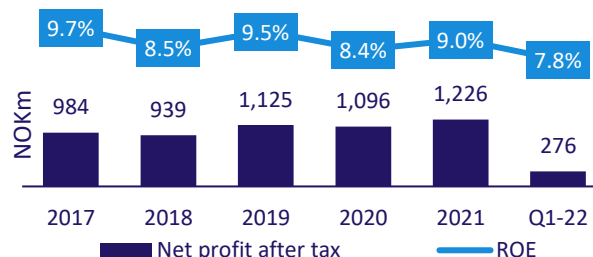
Operating costs



Loan losses



Net profit after tax



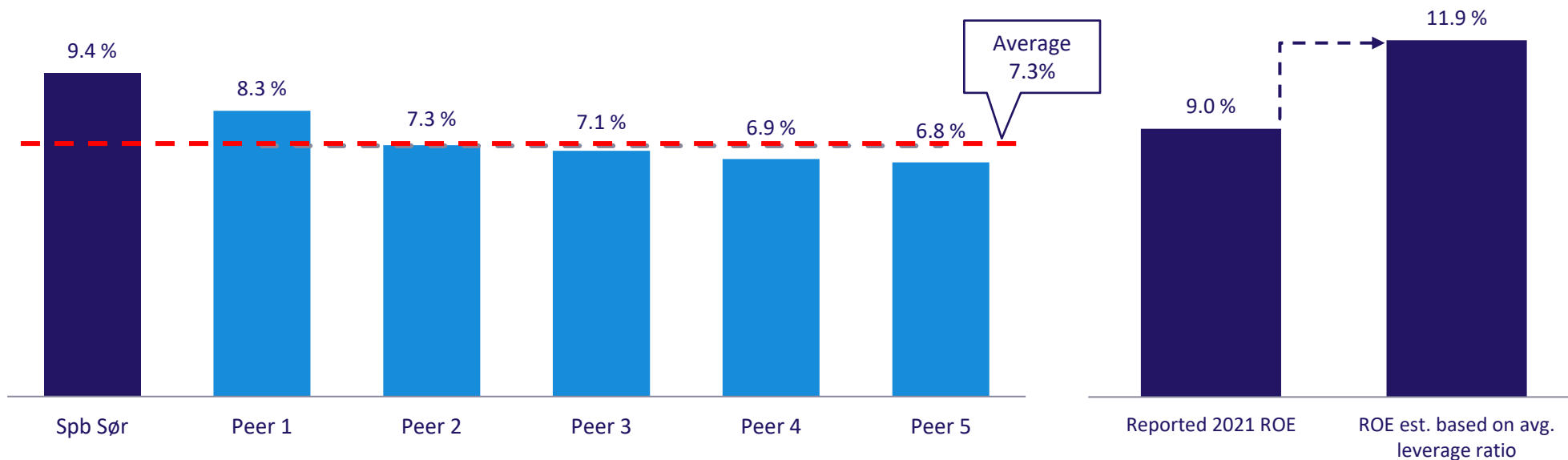
Key comments

- Increasing interest rates and lending growth is driving growth in NII
- Focus on increasing non-interest income. Adverse effects from financial markets in Q1-22
- Continuous low cost/income
- Very low loan losses. 2020 figures mainly model-based provisions

ROE would increase on “normalised” leverage

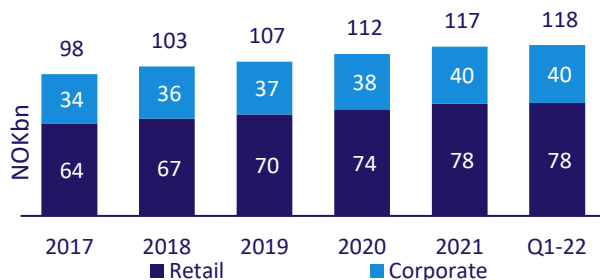
Higher leverage than savings bank peers* with IRB... (31.12.2021)

...potential for increased ROE

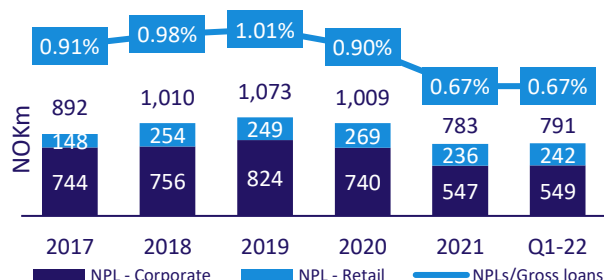


Low-risk loan book and well capitalised

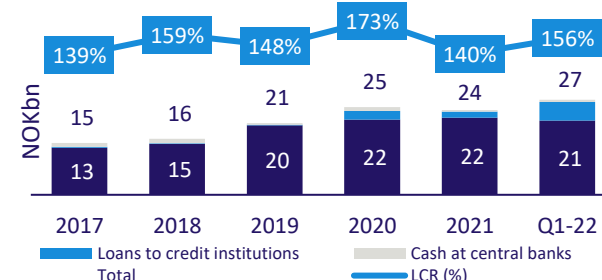
Gross lending



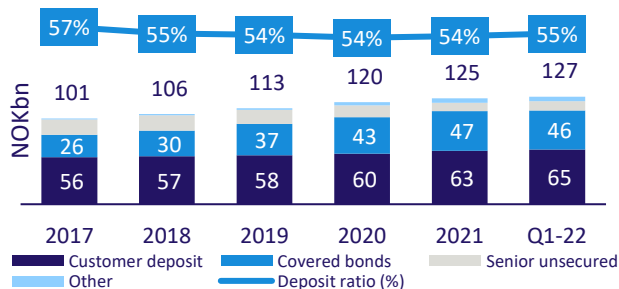
Loan book quality*



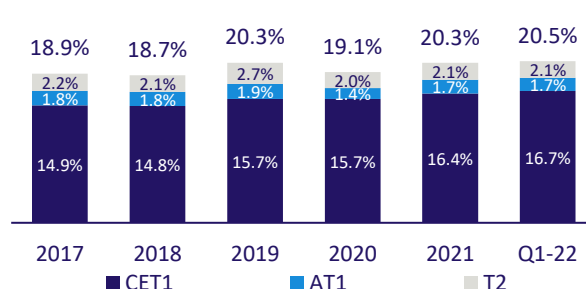
Liquidity



Funding



Capital adequacy

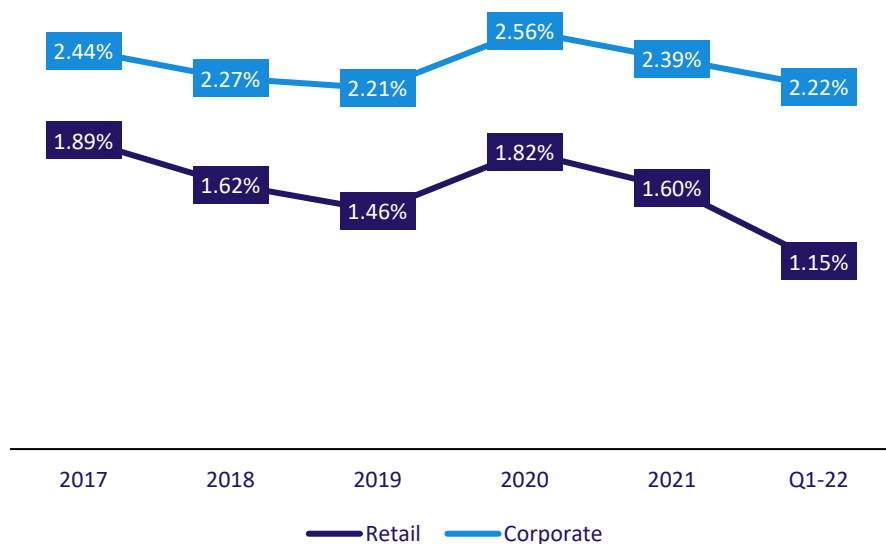


Key comments

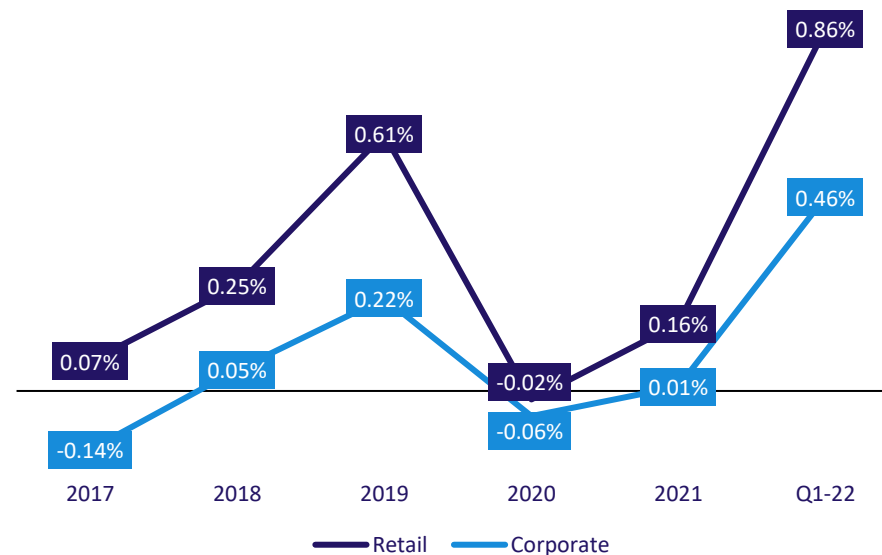
- Good capitalisation with 16.7% CET1 ratio at end of Q1-22
- Diversified funding with large share of deposits and covered bonds
- Very strong quality in loan book – few non-performing loans

Healthy margins

Loan margin development (over NIBOR 3M)

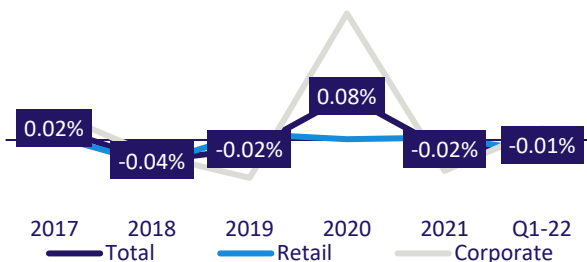


Deposit margin development (margin to NIBOR 3M)

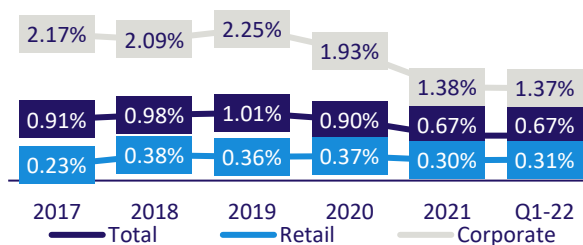


Robust provision levels and very limited loan losses

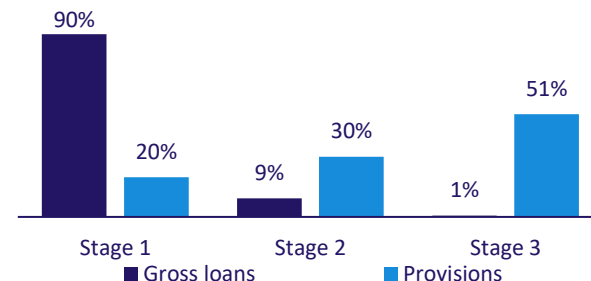
Loan losses ratios*



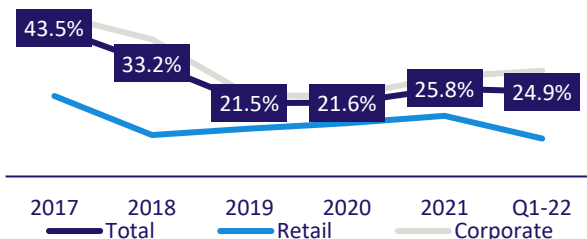
NPLs (stage 3)** / Gross loans



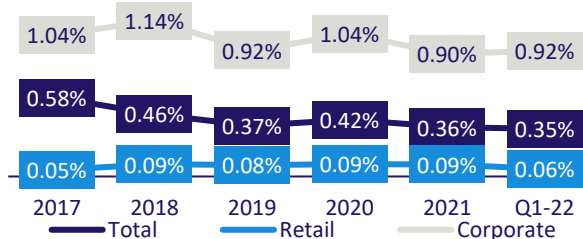
Split of gross loans and provisions



Stage 3 provisions** / NPLs**



Total provisions** / Gross loans

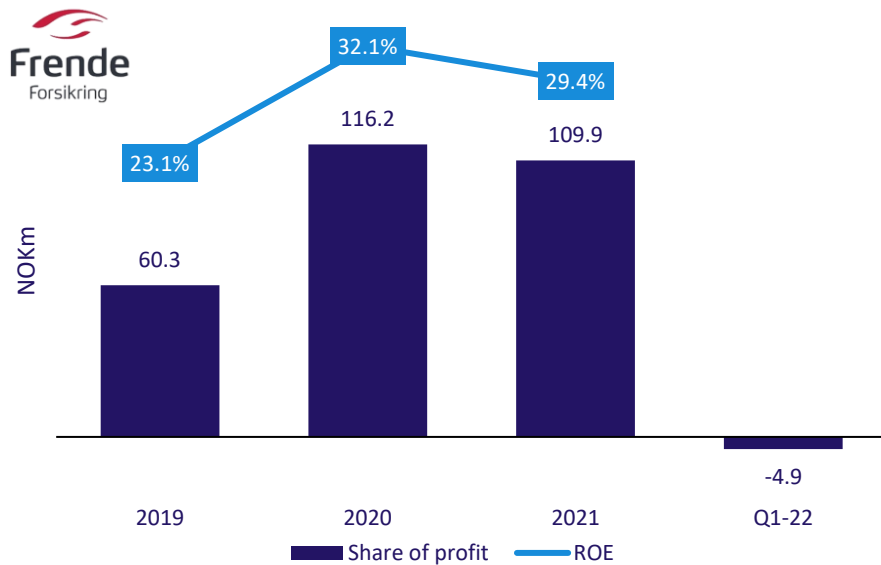


Key comments

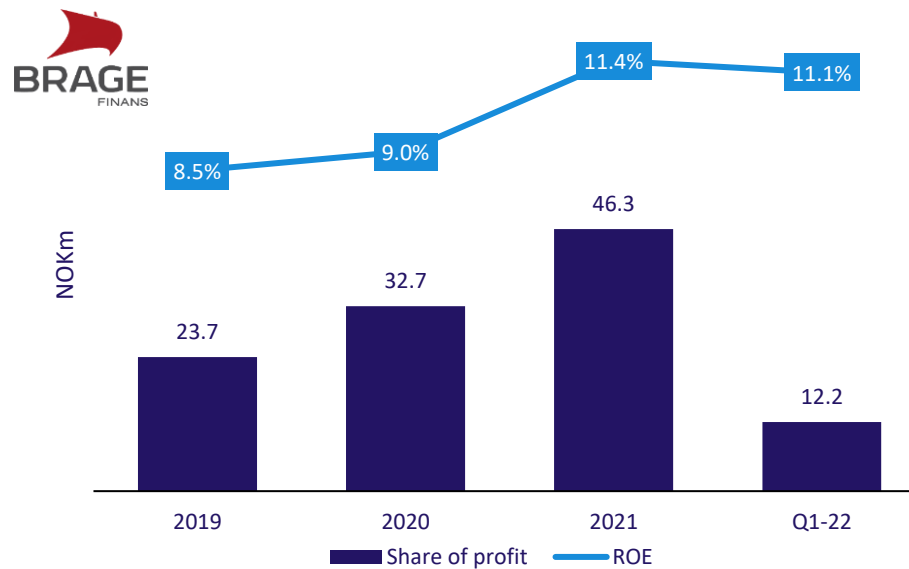
- Very low loan loss levels over time – accumulated losses since 2017 of NOK ~30m
- Stage 3 loans and commitments only amount to 0.67% of gross loans
- ~25% provision coverage on stage 3 loans and commitments

Strong return on equity from Frende and Brage

Frende Forsikring – Share of profit and ROE



Brage Finans – Share of profit and ROE



Share of ownership*

20.2%

21.0%

21.0%

19.8%

20.8%

20.8%

20.8%

20.8%

The share of profit from Frende in Q1-22 was strongly impacted by a negative financial return as a result of market turmoil

Source: Company information || Note (*): Divestment in Frende in Q1-22 due to 10 smaller savings banks joining the ownership side

Detailed financial figures – P&L statement

NOK million	2017	2018	2019	2020	2021	Q1-21	Q1-22
Interest income at amortised cost	2,614	2,778	3,305	2,833	2,494	600	751
Interest income from assets at fair value through profit and loss	339	367	487	434	326	88	103
Interest expenses	1,274	1,416	1,866	1,354	881	238	333
Net interest income	1,679	1,729	1,926	1,914	1,939	451	521
Commission income	370	380	403	409	484	103	108
Commission expenses	58	62	59	62	66	16	19
Net commission income	312	318	344	347	419	87	89
Dividend	15	7	6	25	7	1	-
Net income from other financial instruments	73	-5	18	15	-7	7	-26
Net income from financial instruments	88	2	24	40	0	8	-26
Income from associated companies		13	64	136	174	29	27
Other operating income	18	10	10	7	17	-	1
Total other income	18	23	74	143	191	29	28
Total net income	2,097	2,072	2,368	2,444	2,549	575	612
Wages and other personnel expenses	453	499	533	552	606	142	146
Depreciation, amortization and impairment of non-current assets	30	30	37	43	44	11	11
Other operating expenses	328	355	348	363	368	89	103
Total operation expenses before losses	811	884	918	958	1,018	242	259
Operating profit before losses	1,286	1,188	1,450	1,486	1,531	334	352
Losses on loans, guarantees and unused credit	20	-36	-17	83	-18	-11	-2
Profit before taxes	1,266	1,224	1,467	1,403	1,549	345	355
Tax expenses	282	285	342	307	323	71	79
Profit for the period	984	939	1,125	1,096	1,226	274	276
Minority interests	1	1	0	2	3	1	0
Majority interests	983	938	1,125	1,094	1,223	273	276
Attributable to additional Tier 1 Capital holders	47	56	60	69	46	10	12
Attributable to ECC-holders and to the primary capital	937	883	1,064	1,026	1,177	263	264
Profit for the period	984	939	1,125	1,094	1,223	273	276

- Steady growth in net interest income and net commission income over time
- Strong increase in income from associated companies over time
- Several years with net reversal of loan loss provisions
- 12-month lending growth of 4.5 percent
- 12-month deposit growth of 6.4 percent
- Return on equity of 9.0 percent in 2021 and 7.8 percent in Q1 2022

Detailed financial figures – Balance sheet statement

NOK million	31.12. 2017	31.12. 2018	31.12. 2019	31.12. 2020	31.12. 2021	31.03. 2022
Assets						
Cash and receivables from central banks	1,143	1,288	462	1,148	437	620
Loans to credit institutions	236	119	182	2,460	1,789	5,328
Net loans to customers	97,518	102,942	106,334	111,577	116,653	117,918
Bonds and certificates	13,468	14,598	19,916	21,543	22,062	21,245
Shares	572	370	190	166	193	201
Financial derivatives	754	619	757	3,415	1,104	856
Shareholding in group companies						0
Shareholding in associated companies	39	584	968	1,134	1,201	1,176
Intangible assets						67
Deferred tax asset	15	22	27	47	64	0
Property, plant and equipment	416	413	458	461	463	456
Other assets	149	171	205	174	218	206
TOTAL ASSETS	114,310	121,125	129,499	142,126	144,182	148,072

NOK million	31.12. 2017	31.12. 2018	31.12. 2019	31.12. 2020	31.12. 2021	31.03. 2022
Liabilities and equity						
Liabilities to credit institutions	902	1,918	1,793	6,435	2,627	2,551
Deposits from customers	55,580	56,537	57,949	59,833	63,146	64,741
Liabilities related to issue of securities	44,343	48,323	53,430	56,885	56,605	56,895
Financial derivatives	306	179	423	687	844	2,424
Payable taxes	299	309	361	373	310	71
Other liabilities	256	328	425	457	395	882
Provisions for commitments	87	61	43	38	135	125
Deferred tax	25	21	24	10	28	80
Senior non-preferred				2,002	3,499	3,487
Subordinated loan capital	1,404	1,604	1,971	1,653	1,654	1,654
Total liabilities	103,202	109,280	116,418	128,374	129,242	132,909
Equity certificate capital	1,575	1,603	1,623	1,694	1,575	1,752
Hybrid capital	1,075	1,075	1,375	1,075	1,335	1,335
Other equity	8,458	9,167	10,083	10,983	12,031	12,076
Total equity	11,108	11,845	13,081	13,752	14,941	15,163
TOTAL LIABILITIES AND EQUITY	114,310	121,125	129,499	142,126	144,182	148,072

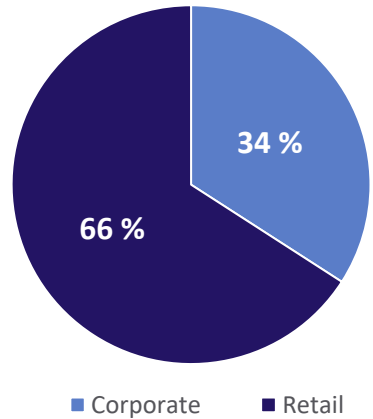
Table of contents

1. Introduction
2. The new SOR ECC
3. Strategic priorities
4. Attractive home region
5. Key financials
- 6. Loan book composition and quality**
7. Capital and funding
8. Dividend policy
9. Financial ambitions and summary

A well-diversified loan portfolio with low risk

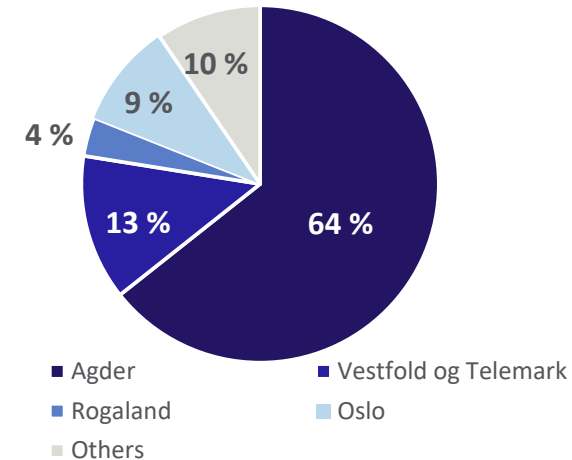
Corporate / retail distribution

Gross loans



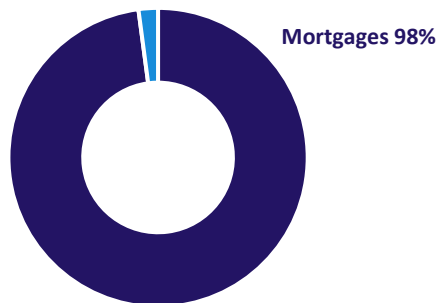
Geographical distribution

Gross loans

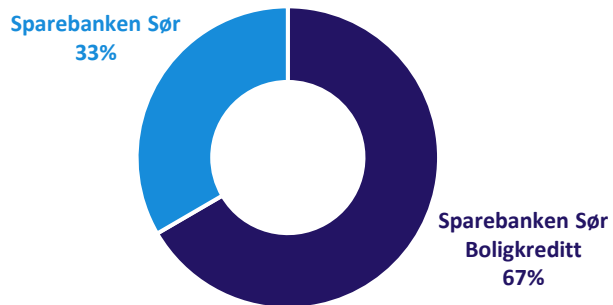


Retail loan book – 98% mortgages and low LTVs

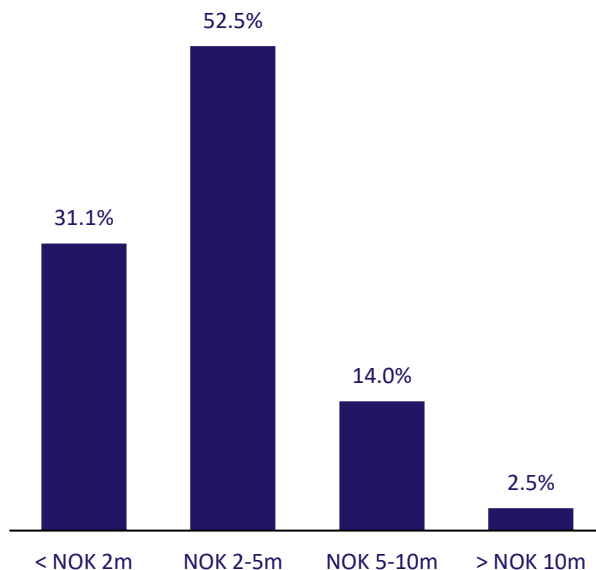
Share of mortgages



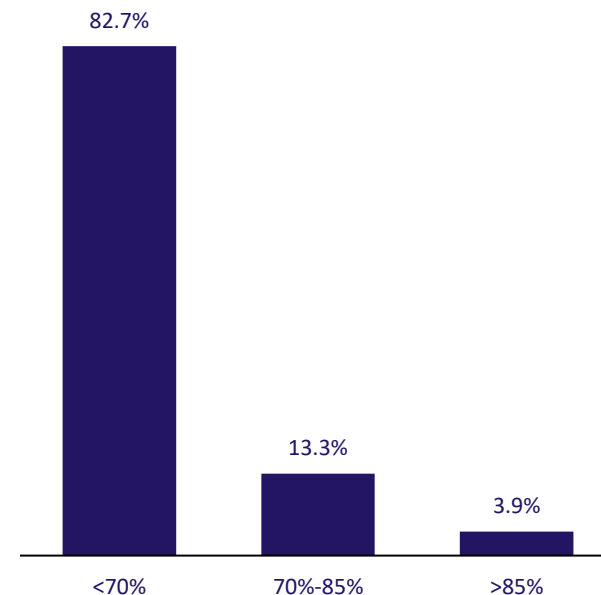
On balance vs. cov. bond transfers



Retail lending by size

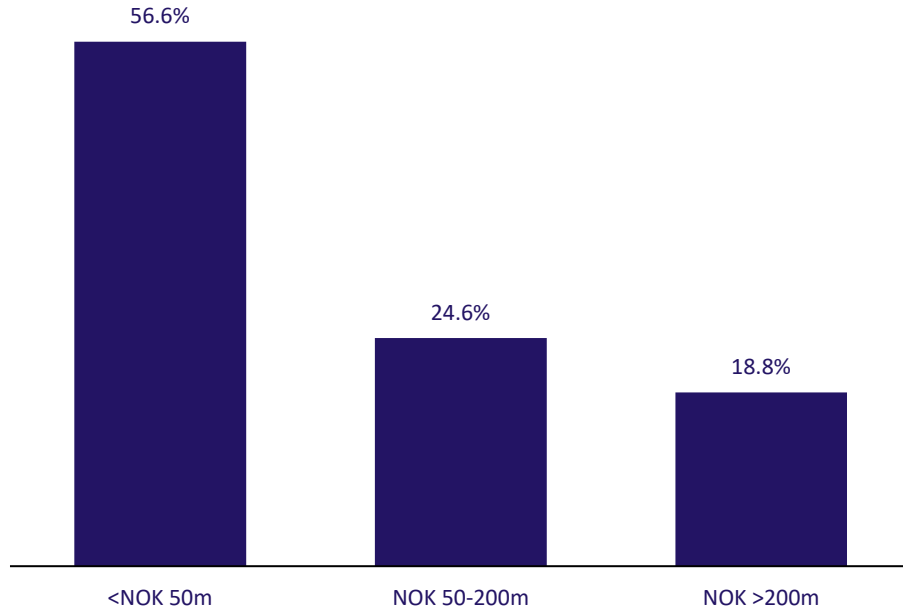


Retail lending by LTV

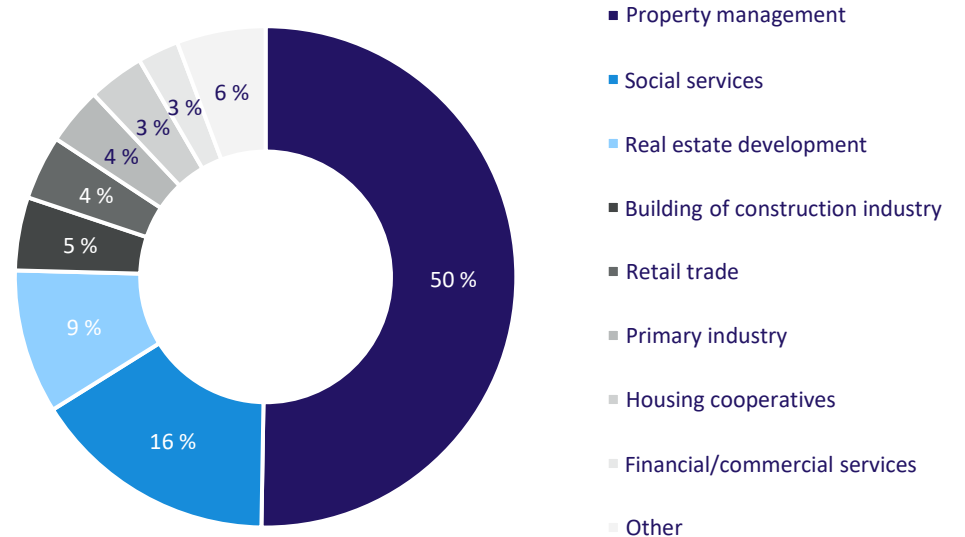


Corporate loan book – 50% property management and ~57% < NOK 50m

Corporate lending by size

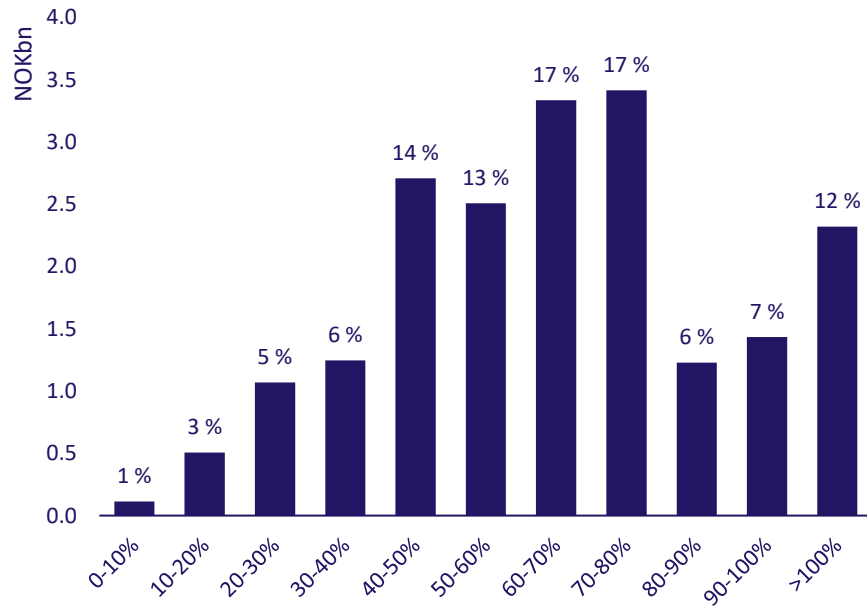


Sector distribution

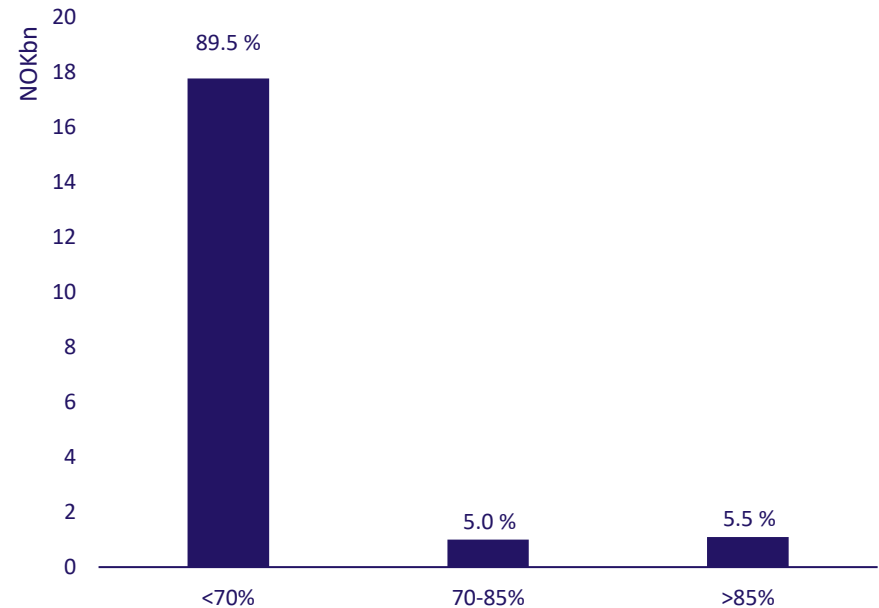


Solid asset backing in commercial real estate portfolio (property management)*

LTV distribution – whole-loan approach



LTV distribution – loan-splitting approach**



Source: Company information

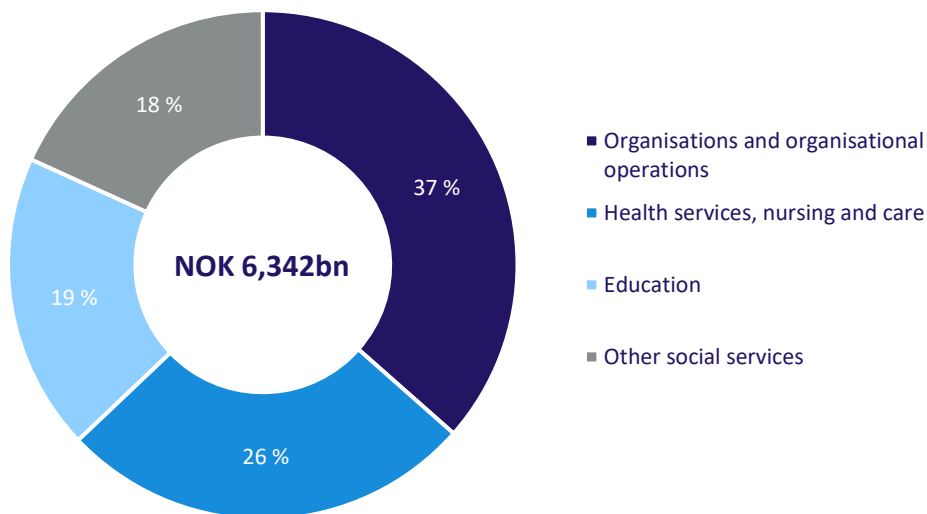
Note (*): Collateral in other types of pledged assets than real estate not taken into account (guarantees, equipment, receivables etc.)

Note (**): Only the part of a loan exceeding a certain threshold of LTV is included in the next bracket of higher LTV ratio



Social services portfolio – very limited risk

Split of social services segment

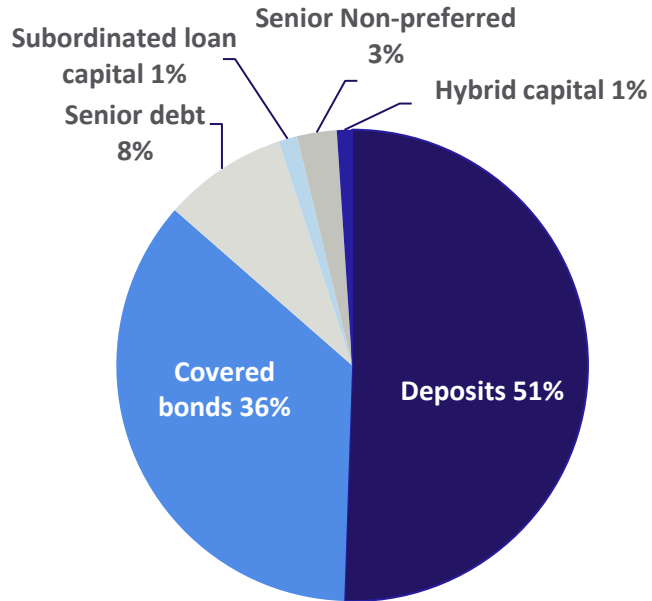


- Organisations and organisational operations include large and small organisations, the majority of which are linked to nationwide and well-known organisations with a long history and solid finances
- Health services, nursing and care include private hospitals that are mainly financed by the public sector, rehabilitation, substance abuse care and retirement homes
- Education includes colleges, high schools, primary schools, folk high schools and Bible schools
- Other social services are services such as doctors, dentists, physiotherapists etc.

Table of contents

1. Introduction
2. The new SOR ECC
3. Strategic priorities
4. Attractive home region
5. Key financials
6. Loan book composition and quality
- 7. Capital and funding**
8. Dividend policy
9. Financial ambitions and summary

Solid and diversified financing structure

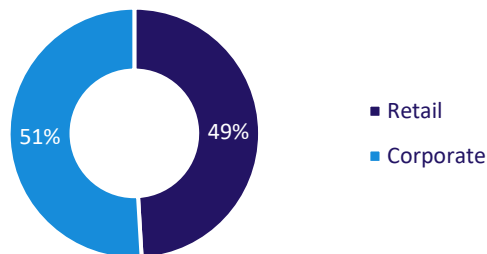


Deposits are a valuable source of funding

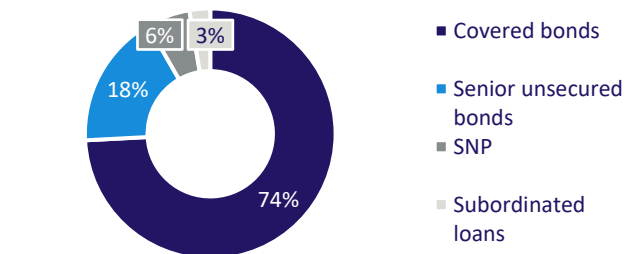
- Deposits/loans ratio at 54.9 percent
- Good access to funding from domestic and international funding markets
- More than 60 percent of the covered bonds are issued in EUR
- Sparebanken Sør has issued a total of NOK 3.5bn SNP
- Sparebanken Sør has issued NOK 2.0 billion in green senior bond debt in Q1 2022
- Sparebanken Sør is rated A1 by Moody's
- Sparebanken Sør Boligkreditt's covered bonds are rated Aaa by Moody's

Diversified funding with long maturity

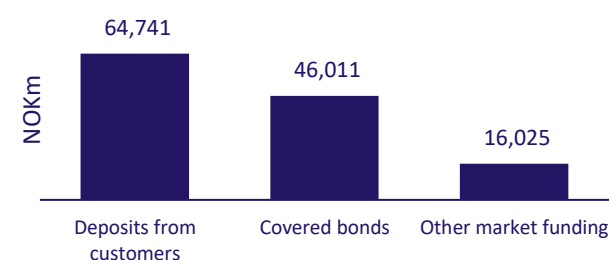
Deposits split



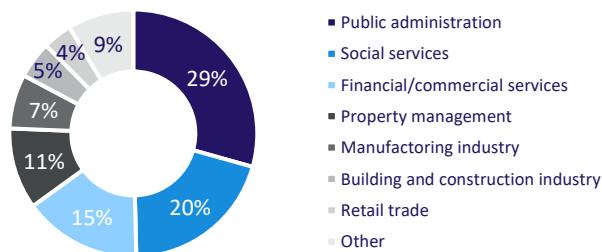
Capital market funding split



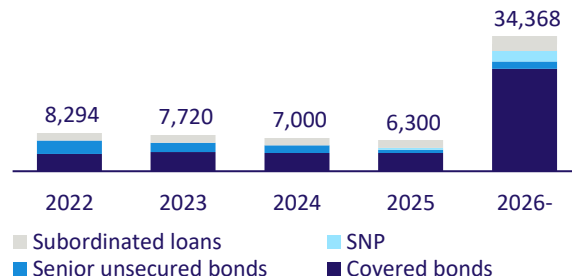
Funding split



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 62.0bn in capital market funding – ~54% maturing in 2026 and later

Issuer rating of A1 with stable outlook

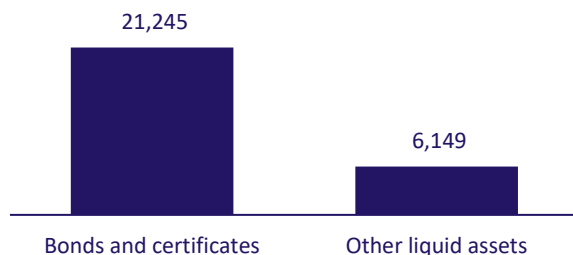
Credit rating by Moody's

Long-term issuer rating	A1 (stable outlook)
Long-term bank deposits	A1 (stable outlook)
Senior unsecured bonds	A1 (stable outlook)
Senior Non-Preferred	A3
Sparebanken Sør Boligkreditt – Covered bonds	Aaa

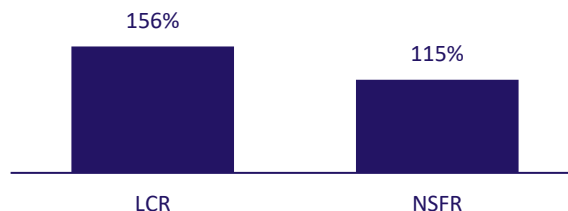
- Sparebanken Sør has official credit rating from Moody's
- In their rating reports (latest dated July 2021) Moody's highlights the following credit strengths:
 - Resilient asset quality with two thirds of lending to private mortgage borrowers and close to zero exposure to oil and offshore sectors
 - Strong capital levels with a robust leverage ratio
 - Large volume of deposits and debt combined with upcoming MREL eligible securities, result in three notches uplift to the deposit and issuer ratings
- Sparebanken Sør Boligkreditt also has official credit rating from Moody's, and the covered bonds are rated Aaa

Strong liquidity position

Sources of liquidity



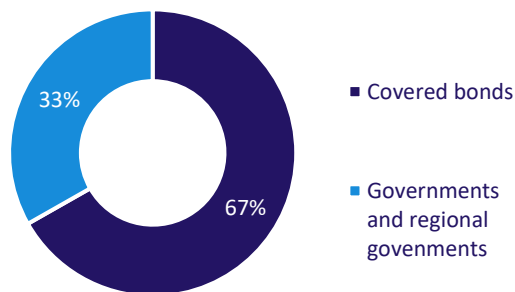
Liquidity ratios



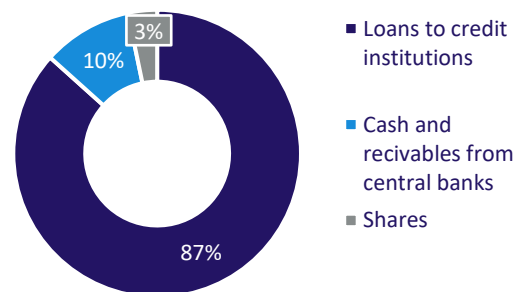
Key comments

- 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

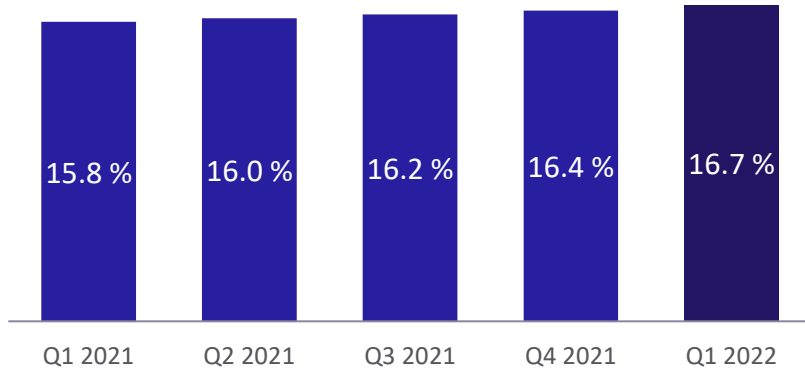


Other liquid assets split

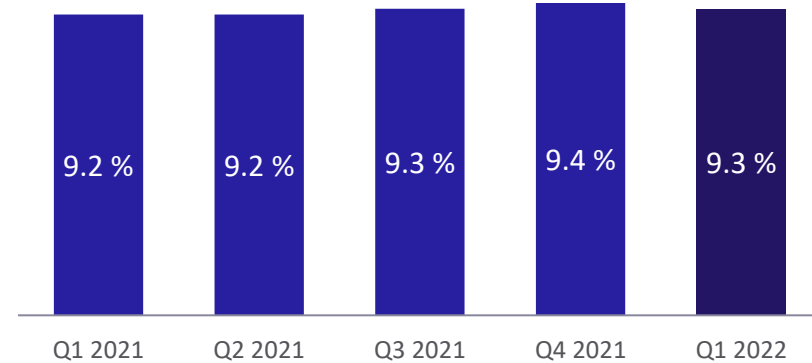


The bank is well capitalised with high leverage ratio

Common equity tier 1 capital ratio



Leverage ratio



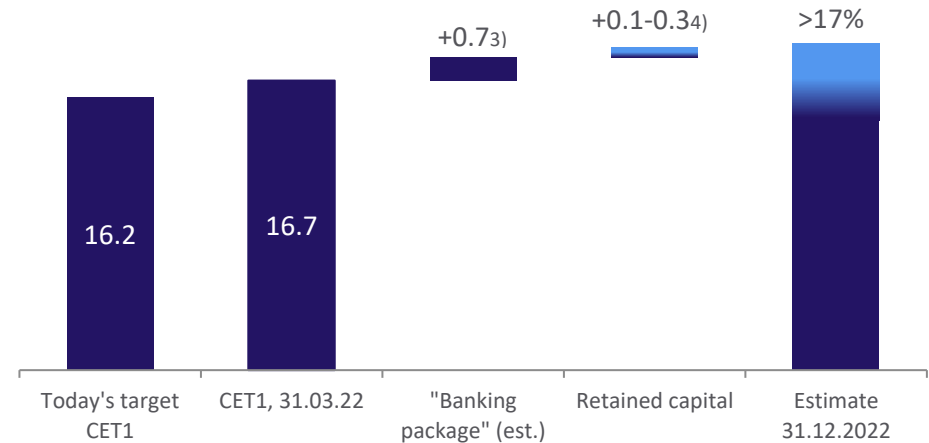
- Well above the current capital requirement (CET1) of 13 percent
- Based on the bank's estimates, it is expected that the new standard method will have a positive effect on CET1 in the range of 1.5-2.5 percentage points in 2025. The IRB application is expected to be sent by the end of 2023 and is expected to have an effect from 2025. The capital effects are expected to be at the same level as the new standard method

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

Equity capital certificates and the savings bank model

ECC banks have two types of equity capital:

- **Primary Capital (“ownerless”)**: Retained earnings built up over time
- **ECC Holders’ Equity**: Equity Certificate Capital and related equity reserves

Main ECC principles:

- Profits distributed proportionally based on total share of equity ownership
- Negative profits mainly absorbed by the Primary Capital
- Articles of Association predefine the influence of ECC owners in governing bodies

Equity structure and priority in ECC banks

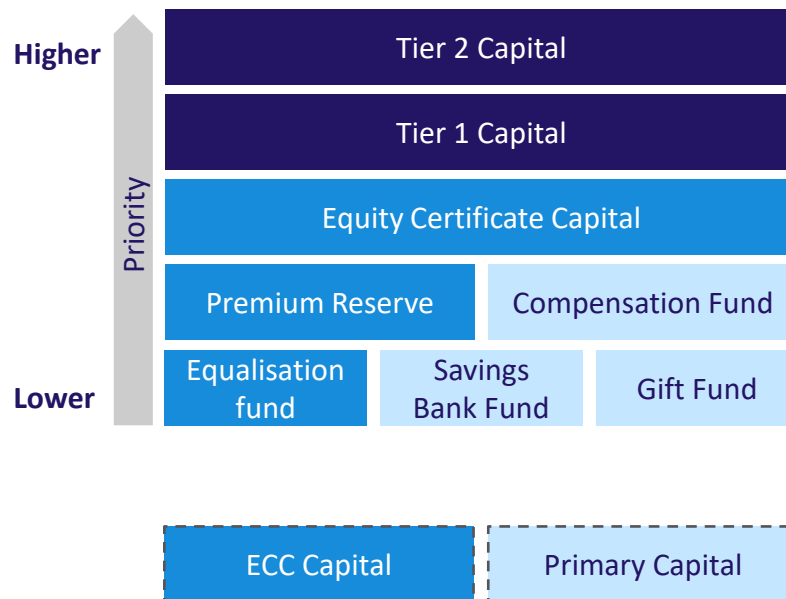


Table of contents

1. Introduction
2. The new SOR ECC
3. Strategic priorities
4. Attractive home region
5. Key financials
6. Loan book composition and quality
7. Capital and funding
- 8. Dividend policy**
9. Financial ambitions and summary

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 aims to 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

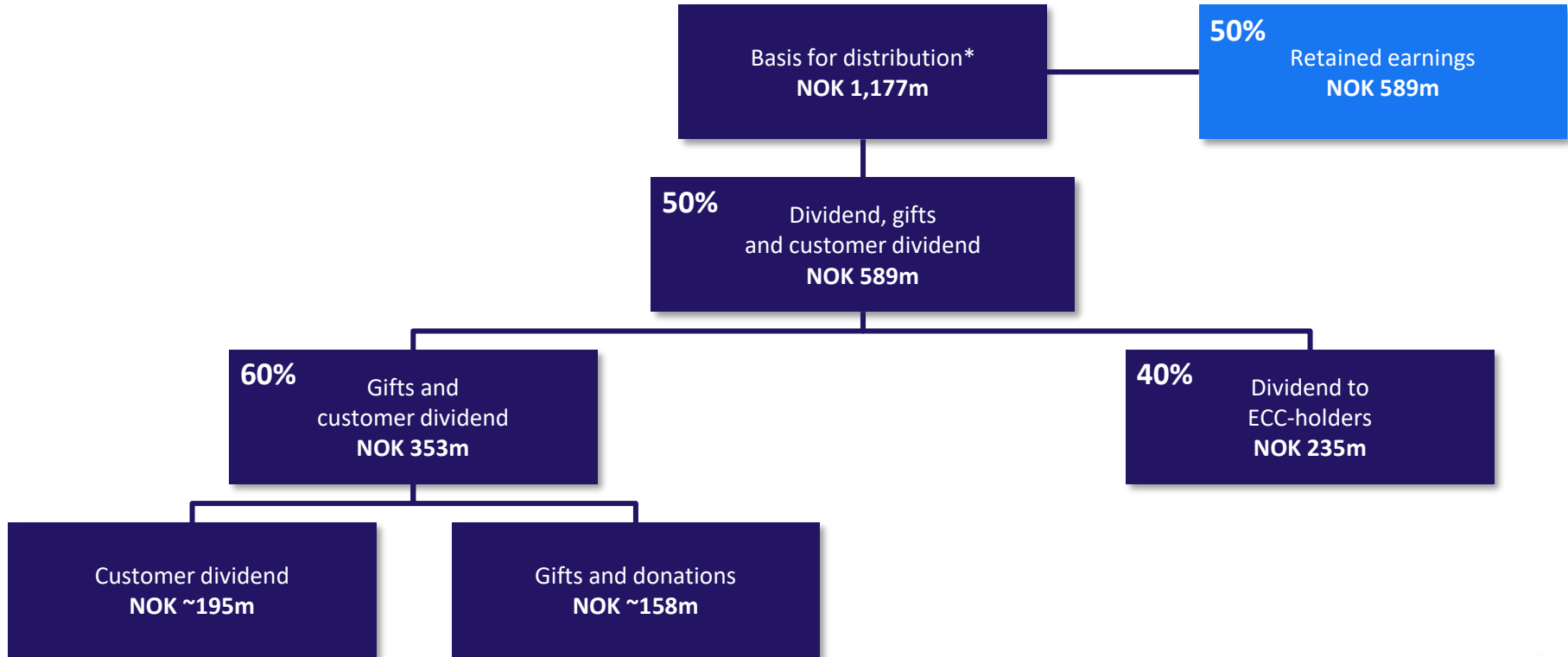
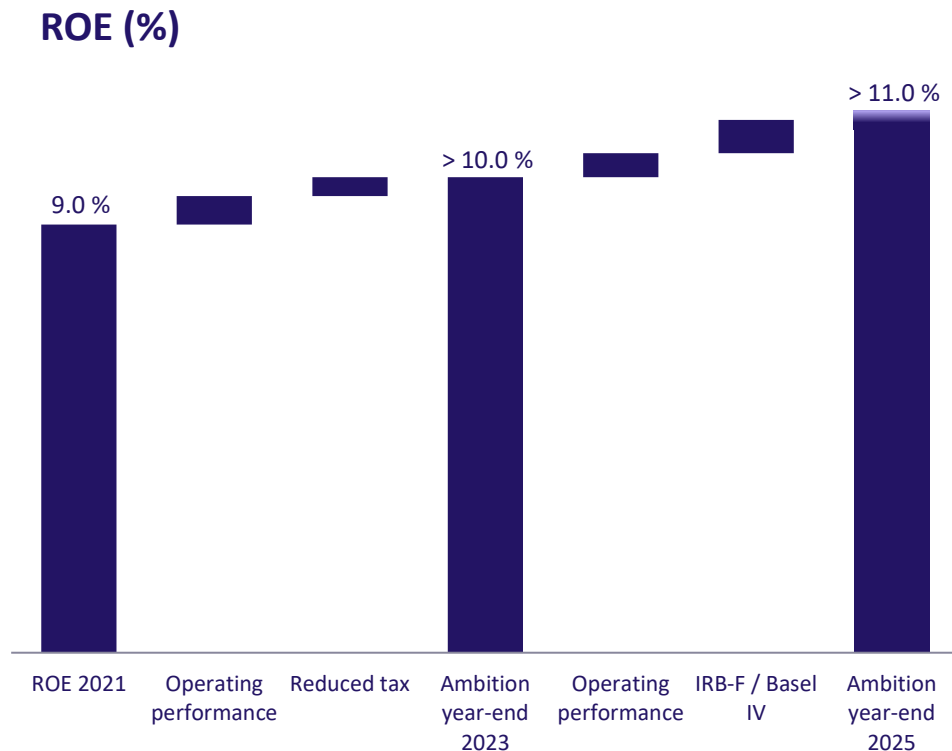


Table of contents

1. Introduction
2. The new SOR ECC
3. Strategic priorities
4. Attractive home region
5. Key financials
6. Loan book composition and quality
7. Capital and funding
8. Dividend policy
9. **Financial ambitions and summary**

Increased ambition for return on equity



ROE above 11% by end of 2025

Increased profitability

- Profitable growth and better capital allocation
- Strengthening of non-interest income
- Customer dividend will be positive for net interest margin, customer satisfaction and future growth
- Improved and more cost-effective distribution

Reduced tax

- Positive tax contribution of ~0.4%-points from customer dividend

IRB-F / Basel IV

- Estimated effect of IRB-F and/or Basel IV (revised standard method)

Why invest in 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



Q&A