



Sparebanken Sør

Investor presentation Q4 2022

Sparebanken Sør took important measures in 2022



Conversion from primary capital to share capital and increased **stock market value**



Adjusted **dividend policy** to ~50 percent and stable **ownership ratio**



Increased target for the bank's **return on equity**



Significant **gift allocations** and introducing **customer dividends**



IRB according to the plan – application to be submitted in 2023



Strong Quarterly Result

- Net interest income increased with 35 percent
- Good profit contributions from affiliated companies and positive net financial income
- Strong return on equity in the quarter of 12.8 percent
- Low cost-income ratio of 34.8
- Low losses on loans (0.05 % of lending)
- Result per equity certificate of NOK 4.5 (NOK 3.2)

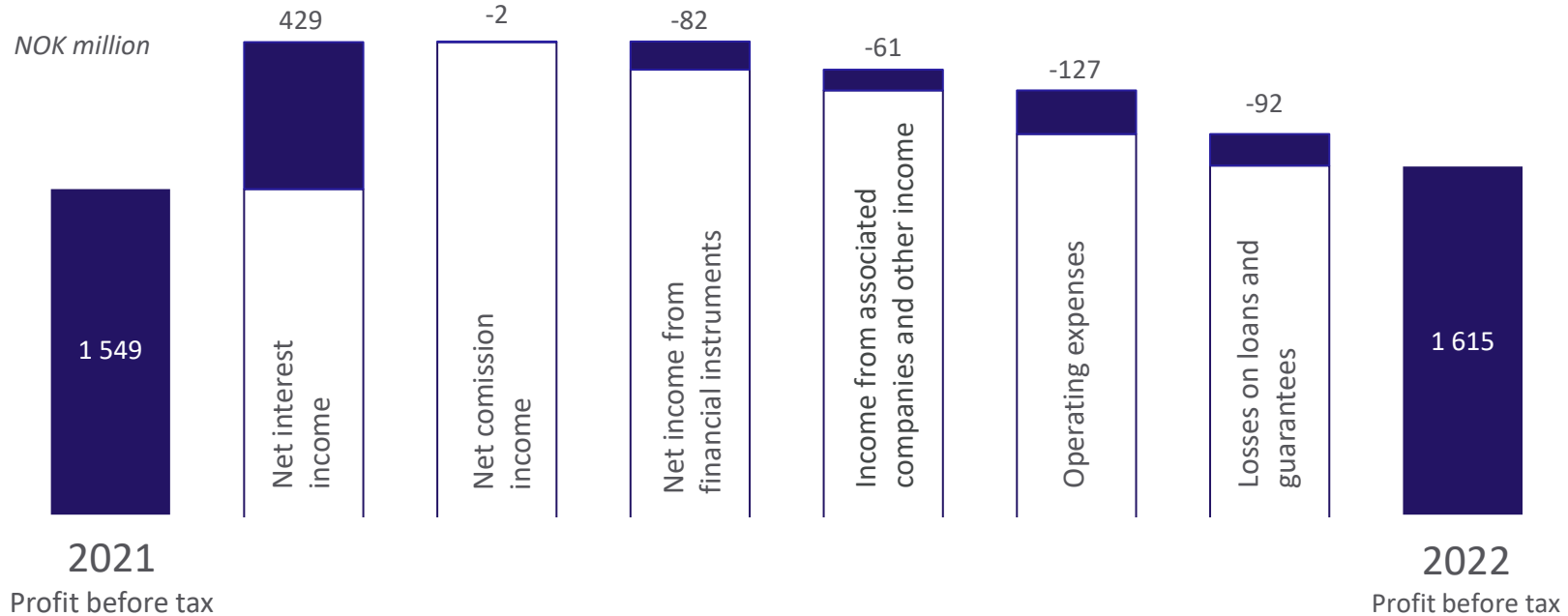
NOK million	2022 Q4	2021 Q4	Change
Net interest income	683	506	177
Net commission income	115	124	-9
Net income from financial instruments	46	-26	72
Associated companies	46	66	-20
Other operating income	1	10	-9
Total income	892	682	210
Total expenses	311	268	43
Profit before losses on loans	581	414	167
Losses on loans, guarantees	15	2	13
Profit before tax	566	412	154
Tax expenses	98	83	15
Profit for the period	468	328	140

Positive development in banking operations throughout the year

- Net interest income increased with 22 percent
- Net financial income affected by market turmoil
- Cost-income ratio of 40.4 (39.3 excluding finance)
- Low losses on loans (0.05% of lending) and non-performing loans in uncertain macro picture
- Return on equity after tax of 8.7 percent
- Result per equity certificate of NOK 11.9 (NOK 12.2)
- The board will propose to distribute a dividend of NOK 6.0 per equity certificate and NOK 226 million in customer dividends

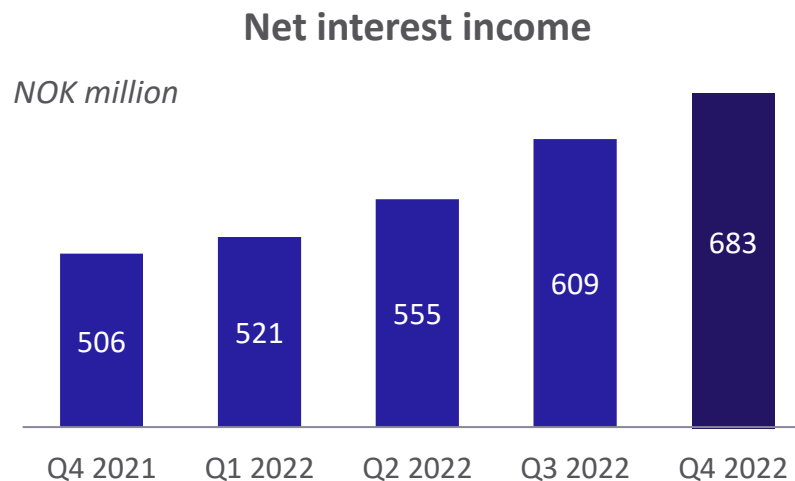
NOK million	31.12.2022	31.12.2021	Change
Net interest income	2 368	1 939	429
Net commission income	417	419	-2
Net income from financial instruments	-82	0	-82
Associated companies	125	174	-49
Other operating income	5	17	-12
Total income	2 834	2 549	285
Total expenses	1 145	1 018	127
Profit before losses on loans	1 690	1 531	159
Losses on loans, guarantees	74	-18	92
Profit before tax	1 615	1 549	66
Tax expenses	332	323	9
Profit for the period	1 283	1 226	57

Decomposition of changes in profit before tax



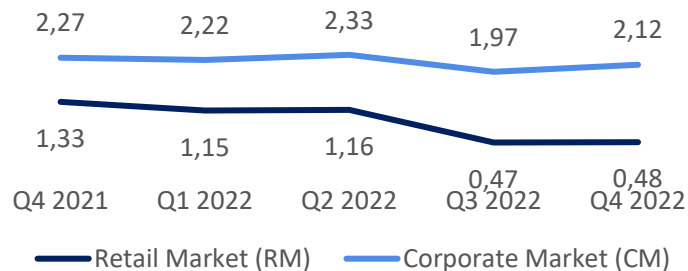
Very positive development in net interest income

- Good deposit and lending growth
- Increased interest margins for retail and corporate markets
- The announced interest rate changes will further increase net interest income and the bank has good momentum into 2023

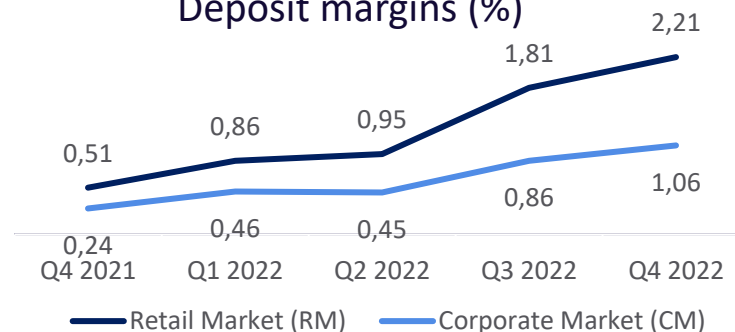


Increased NIBOR results in increased deposit margins and reduced lending margins

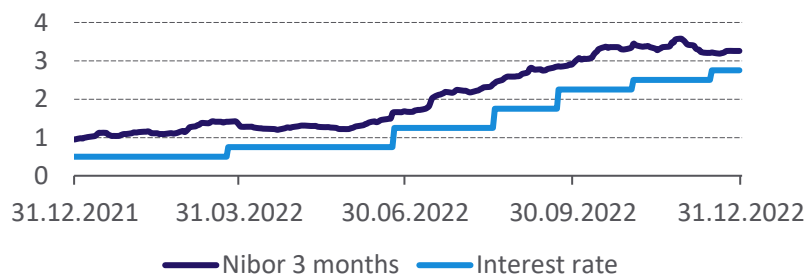
Loan margins (%)



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



Defined other income	31.12. 2022	31.12. 2021	Change	Goal 2025
Insurance	64	45	19	65
Credit intermediation	6	15	-9	20
Securities business 1)	74	67	7	100
Income from wholly and partly owned companies	134	209	-74	315
Total	279	335	-57	500

1) Net commission income from securities trading and Sør Markets

Positive profit contributions from associated companies

- Strong ROE from Brage with 12.0 percent for 2022 (12.3 percent for the quarter).
- Share of profit from Frende is characterised by very good insurance technical results, and negative financial results related to turmoil in the financial market.



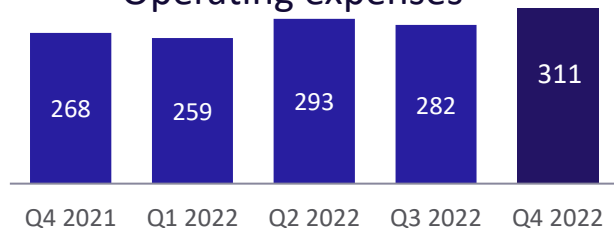
Effect on results after consolidation

NOK million		Q4 2022	Q4 2021	31.12.2022	31.12.2021
Frende forsikring* (19.9 %)	Share of profit	28.9	32.5	59.1	109.9
	Amort.	-5.5	-5.4	-21.8	-21.6
	Sale			24.9	
Brage Finans (24.9 %)	Share of profit	20.4	10.6	60.1	46.3
Balder Betaling (23.0 %)	Share of profit	2.3	28.7	2.9	39.8
TOTAL		46.1	66.4	125.3	174.3

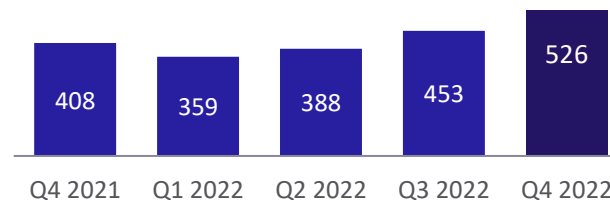
Strong return on equity and falling cost percentage

NOK million

Operating expenses

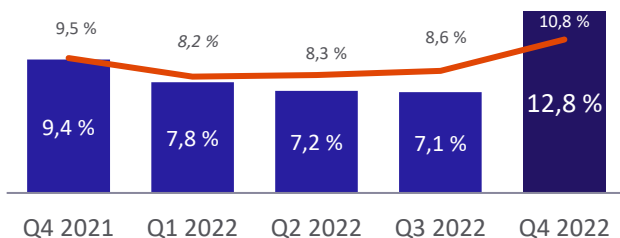


Profit from ordinary operations¹⁾



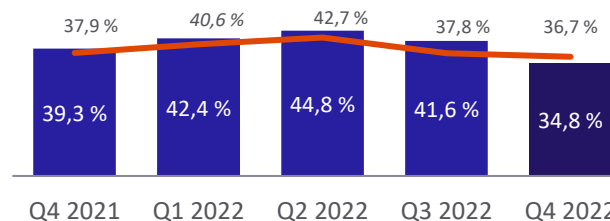
Return on equity

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



Cost to income ratio

Cost to income ratio for banking operations

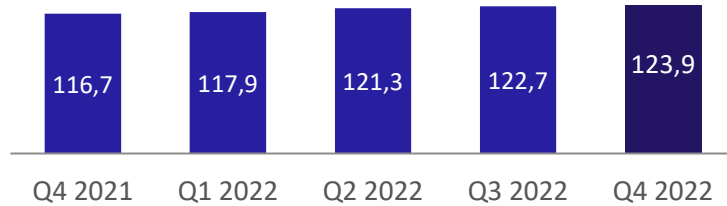


- 1) Net interest income + Net commission income + Other operating income – Operating expenses +/- One-off items
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments and one-off items and incl. interest on hybrid capital

Good lending growth

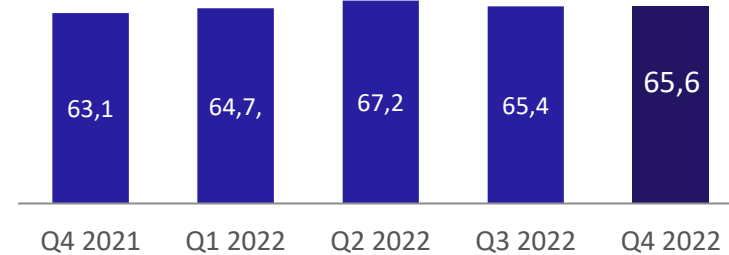
NOK billions

Net loans



- **12 month growth of 6.2 %**
 - 12 month growth in gross loans of 4.1 % for retail customers and 9.8 % for corporate customers
- **Annualised quarterly growth of 3.7 %**
 - 2.6 % for retail customers and 5.1 % for corporate customers

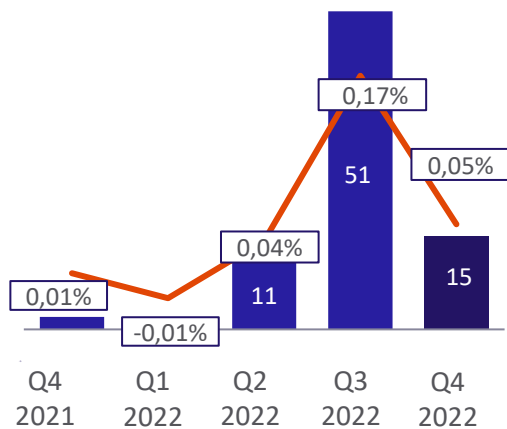
Deposits



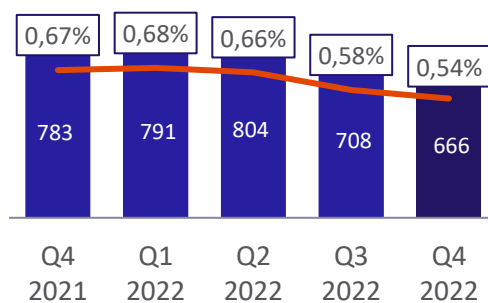
- **12 month growth of 3.9 %**
 - 12 month growth in deposits for retail customers of 3.1 % and corporate customers of 4.5 %
- **Deposit coverage of 53.0 % (54.1 %)**

Low losses and falling non-performing loans

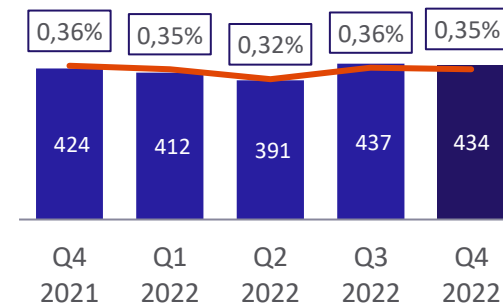
Development in losses in NOK million and as a percentage of gross loans (annualised)



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



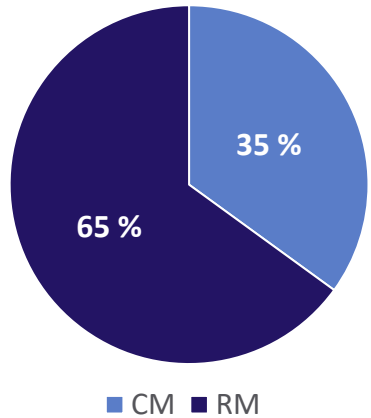
Development in loss provisions in NOK million and as a percentage of gross loans



Diversified loan portfolio with low risk

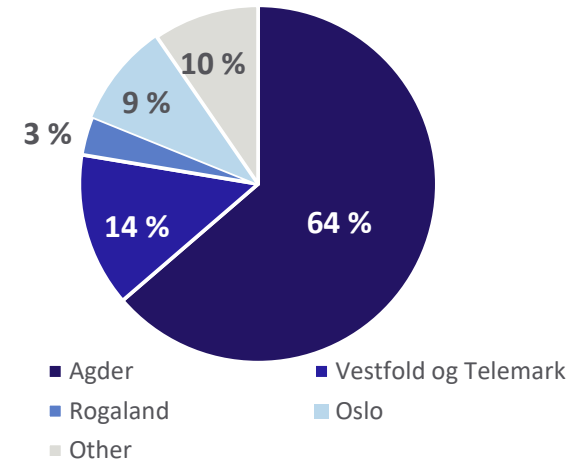
CM/RM distribution

Gross loans



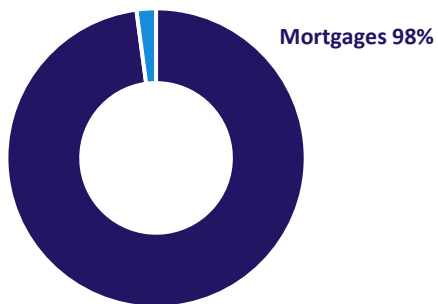
Geographical distribution

Gross loans

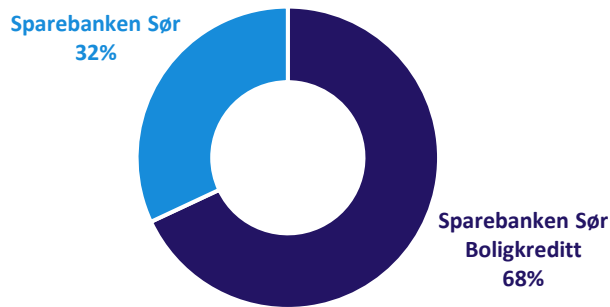


Retail loan book – 98% mortgages and low LTVs

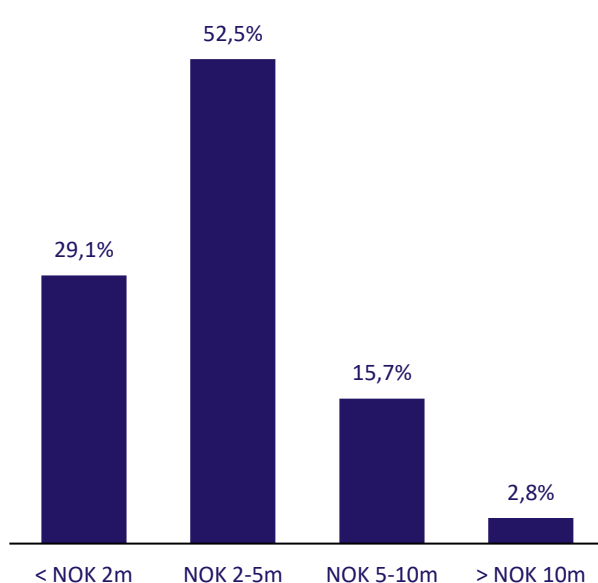
Share of mortgages



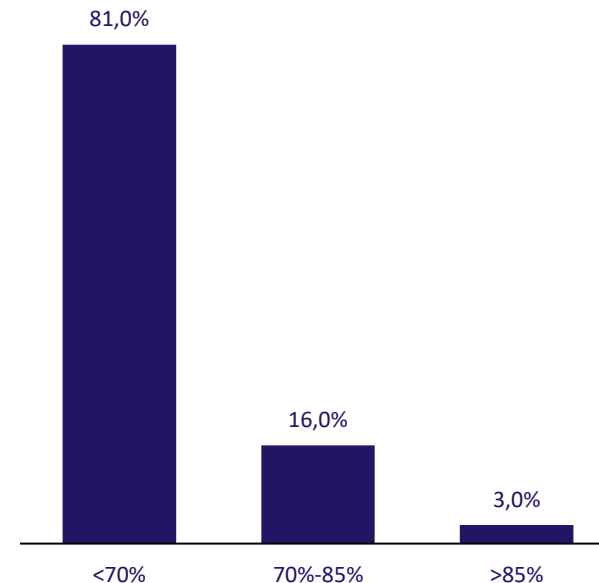
On balance vs. cov. bond transfers



Retail lending by size

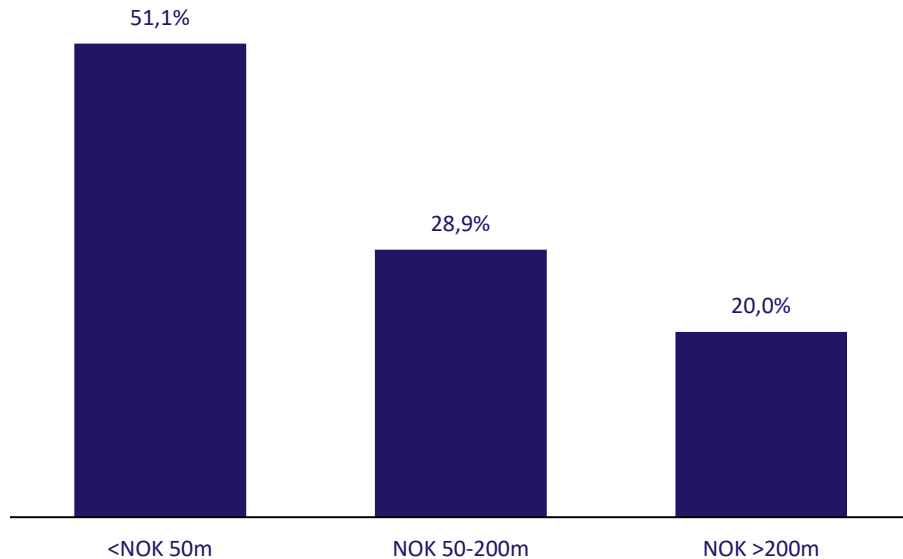


Retail lending by LTV

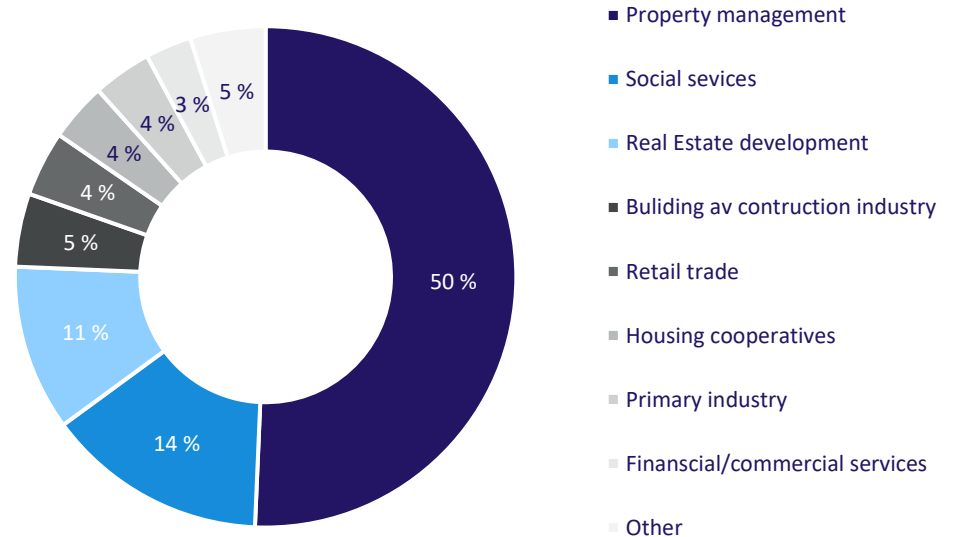


Corporate loan book – 50% property management and 51% < NOK 50m

Corporate lending by size

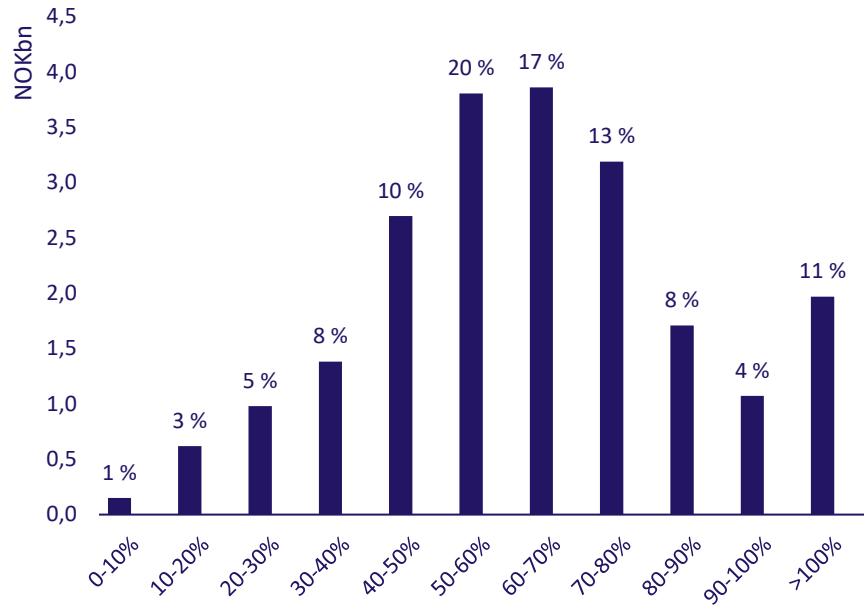


Sector distribution

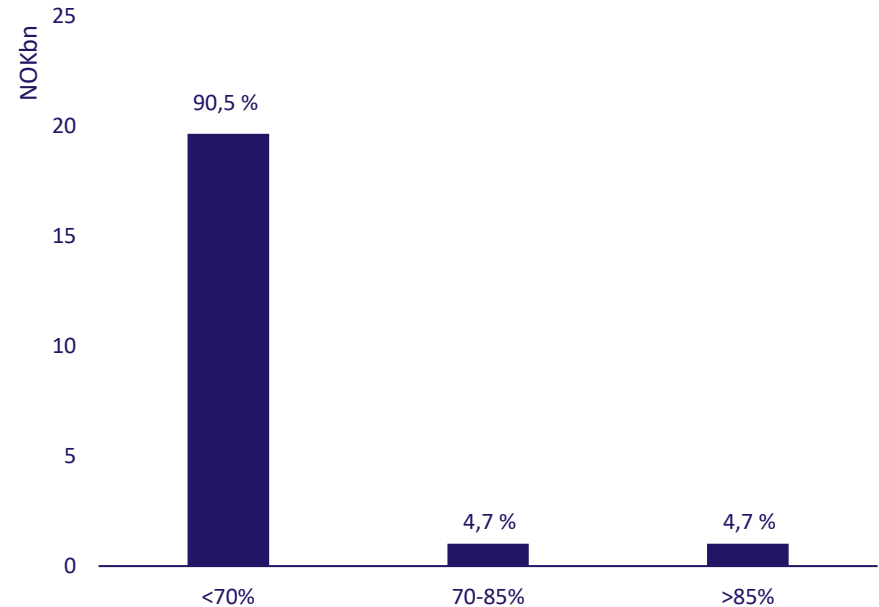


Solid asset backing in commercial real estate portfolio (property management)*

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.)

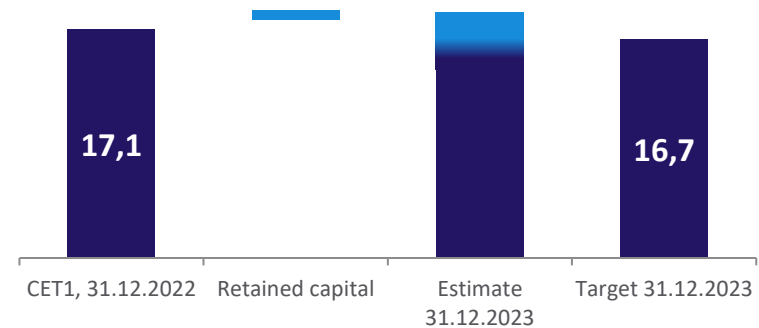
** Only the part of a loan exceeding a certain threshold of LTV is included in the next bracket of higher LTV ratio

Well positioned for higher capital requirements

Capital requirements

	Applicable requirements	Requirements 31.12.2023
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⁾	2.0 %	2.5 %
Pillar-2 requirements	1.7 %	1.7 %
CET1 requirements	13.7 %	15.7 %
Pillar-2 Guidance	1.0 %	1.0 %
CET1 requirements Incl. P2G	14.7 %	16.7 %

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, 2023

2) The Countercyclical Buffer will increase with 0.5 percentage points from 31.12.2023

Capital efficiency – implementation of IRB is going as planned

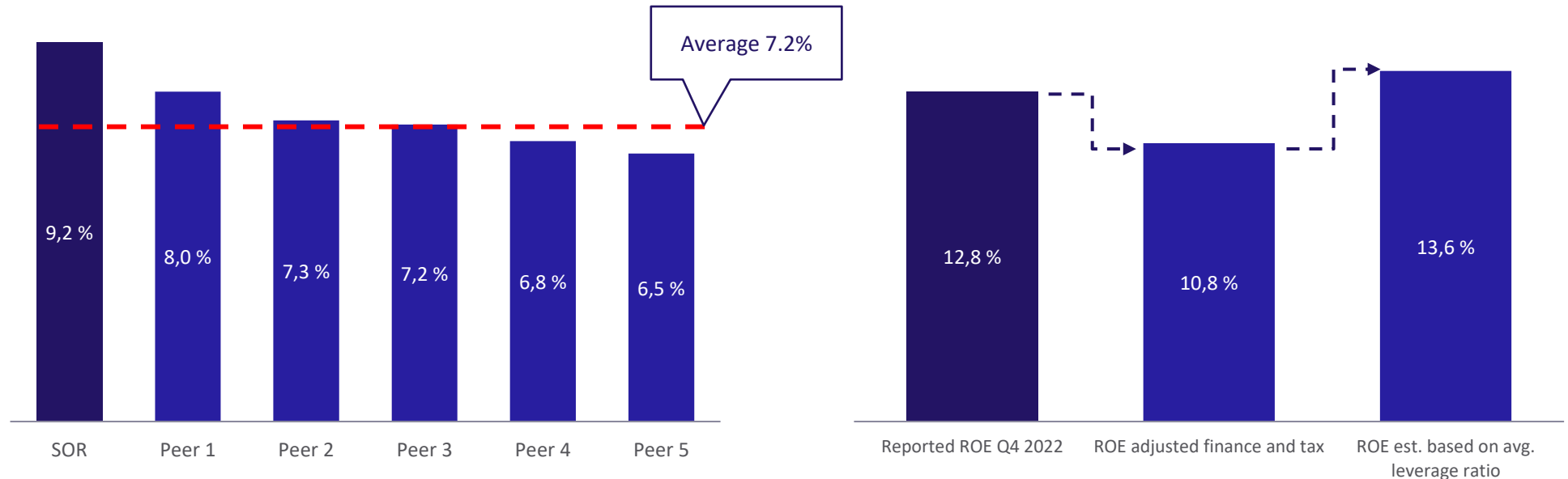
The bank plans to submit an application for IRB-F approval by the end of 2023, with an expectation of at least 1 year processing from FSA. Significant project deliveries are completed and implemented.



Analyzes show positive capital effects of around 3.5 percentage points on CET1

ROE will increase by “normalised” leverage ratio

Higher leverage ratio than peers with IRB (30.09.2022)*



* Peers consists of SpareBank 1 SR-Bank, SpareBank 1 SMN, SpareBank 1 Østlandet, Sparebanken Vest, SpareBank 1 Nord-Norge.

19 Peers in the graph use IRB Advanced

Distribution

The Board's recommendation for dividends 2022

Group dividend base 2022 – NOK 1 241 mill.

(Group profit NOK 1 283 mill. – interests on hybrid capital NOK 42 mill.)

60 %

40 %

Social capital
NOK 745 mill.

Equity certificate holders
NOK 496 mill.

Customer dividends
NOK 226 mill.

Gifts
NOK 149 mill.

Increased equity
NOK 370 mill.

Dividends
NOK 250 mill.

Increased equity
NOK 246 mill.

- ✓ Introducing customer dividends and increase provision for gifts
- ✓ Profit per equity certificate (group) amounted to NOK 11.9.
- ✓ Proposed dividend amounts to 50.5 percent of the group's profit for 2022
- ✓ Proposed dividend of NOK 6.0 corresponds to 50.5 percent of profit per equity certificate (group).

Proposed customer dividend for 2022

- ✓ Better customer experience
- ✓ Customers take part in the bank's value creation



Prøv kalkulatoren for kundeutbytte

Legg inn hvor mye du har i lån og innskudd, og se hvor mye kundeutbytte du kan få. Kalkulatoren baserer seg på et regneeksempel med 0,20 % kundeutbytte.

Antall låntakere: 1 låntaker 2 eller flere låntakere

Lån, inntil 2 mill.: 3 200 000 kr

Innskudd, inntil 2 mill.: 500 000 kr

Beregnet kundeutbytte: **7 400 kr ***

Minimum utbetaling er satt til 100 kroner. Du kan få utbytte av maks to millioner i lån i banken, og maks to millioner i innskudd i banken. Personer med felles lån kan få utbytte for inntil fire millioner kroner.

Goals and future expectations

Financial ambitions



Overriding target

Return on equity over 10 % in 2023 and over 11 % by the end of 2025

> 16,7%¹⁾

CET1 capital ratio

< 40,0%

Costs in % of revenues

~50%

Pay-out ratio



Positive future prospects for Sparebanken Sør

Strong market position in an attractive region and high customer satisfaction

Low risk loan portfolio

High cost efficiency and low complexity

Leader in ESG

Introducing customer dividend

Measures implemented to further increase ROE

More attractive ECC

Appendix

About the bank

Sparebanken Sør

– a leading financial institution in Southern Norway



Established in 1824,
626 employees



184 000 retail
customers



Financial Group with
banking, securities and
real estate brokerage



22 000 corporate
customers



Publicly traded and
community owned



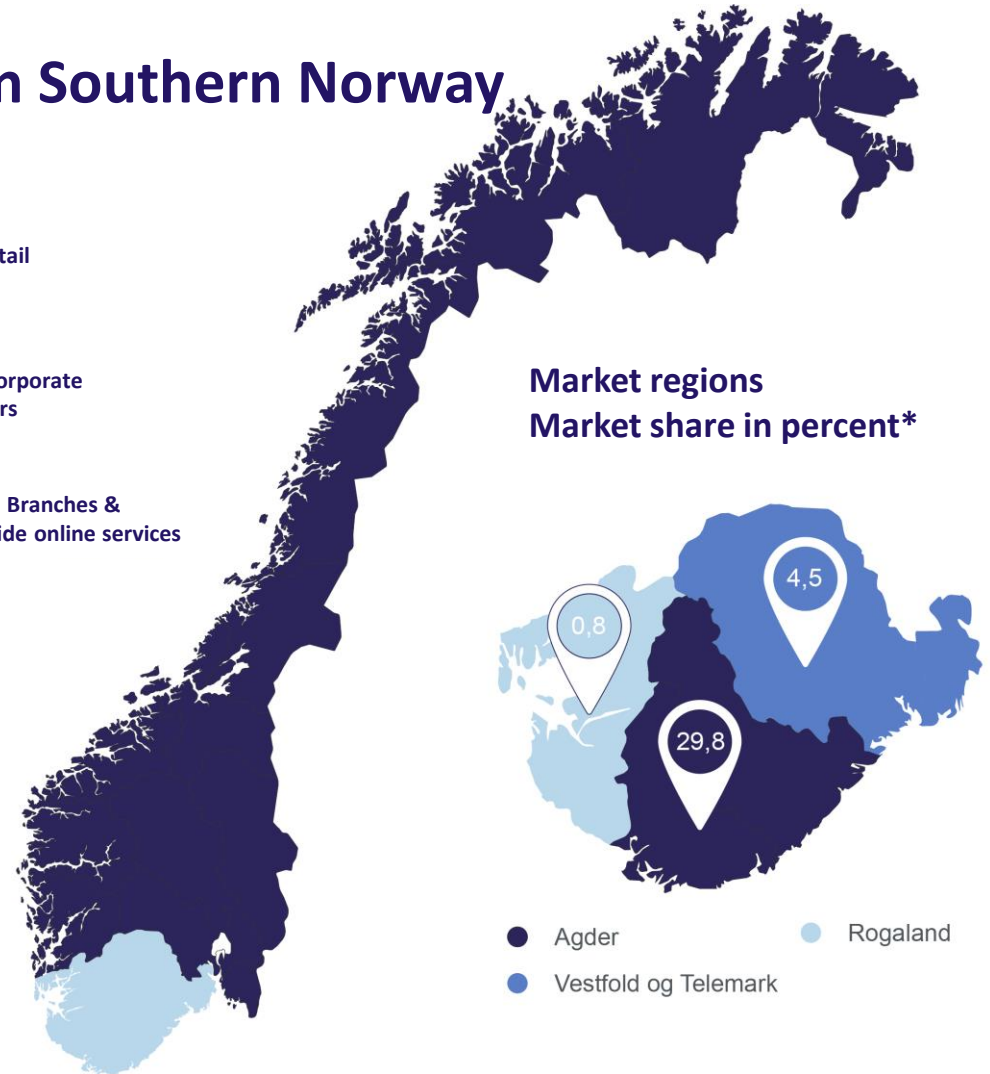
Regional Branches &
nationwide online services



Total assets of NOK 157 bn

Profit after tax amounted to
NOK 468 million in Q4 2022

Cost/income ratio of 34.8
percent

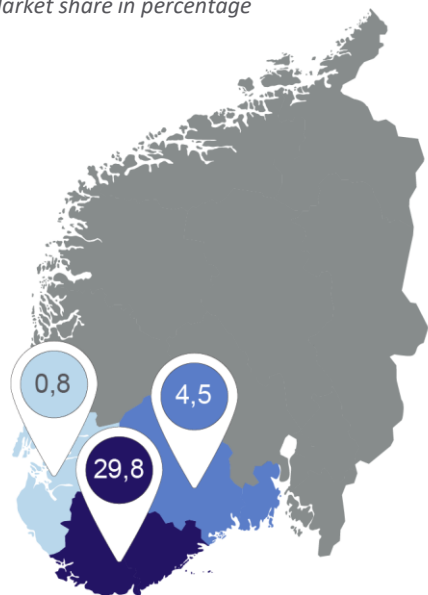


*Markedsandeler personmarked, i prosent. (Kilde: Eiendomverdi AS, Markedsandelsrapporter)

Strong position in the housing market

The bank maintains a strong market position

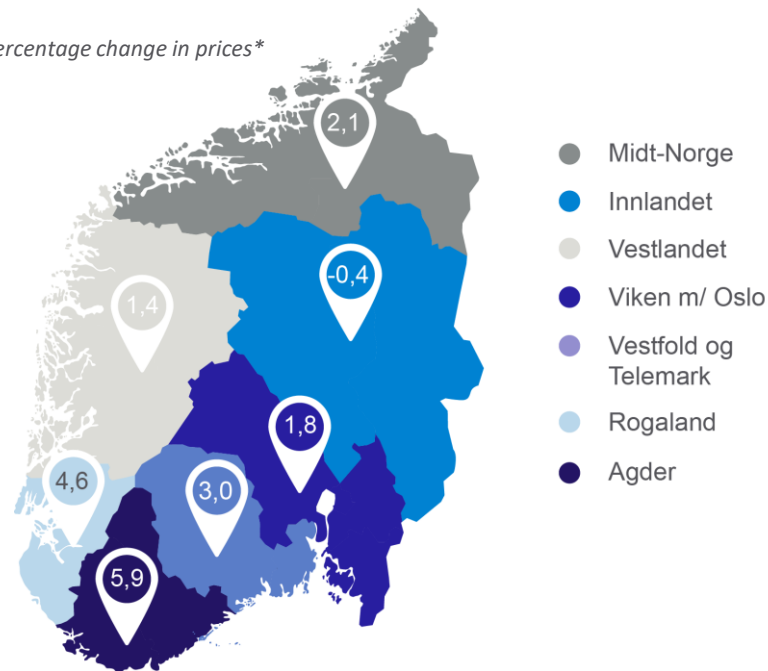
Market share in percentage



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

Positive development in housing prices

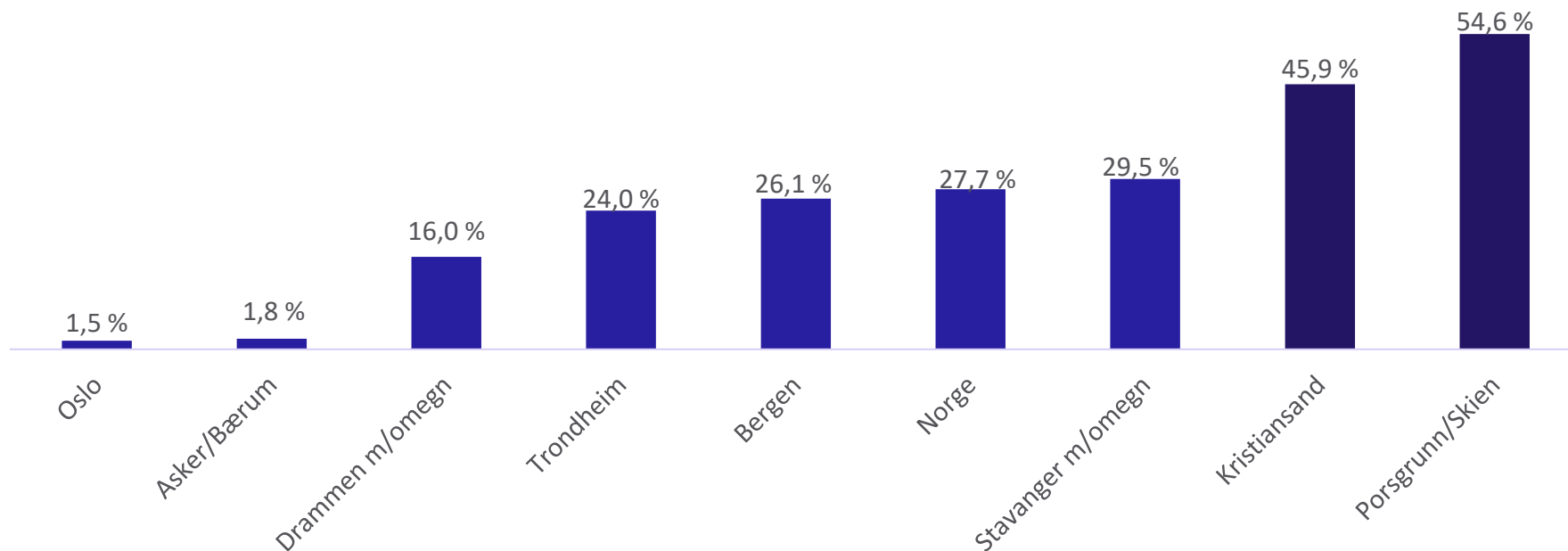
Percentage change in prices*



*3 month moving average of 12-month change

“The nurse index”

31.12.2022



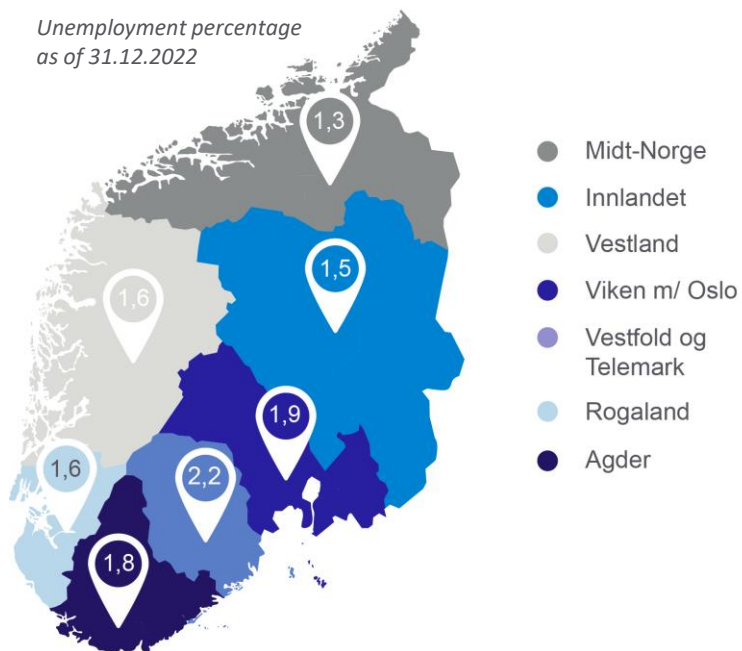
Source: <https://eiendomnorge.no/aktuelt/blogg/sykepleierindeksen-2022>

"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)

Strong labour market

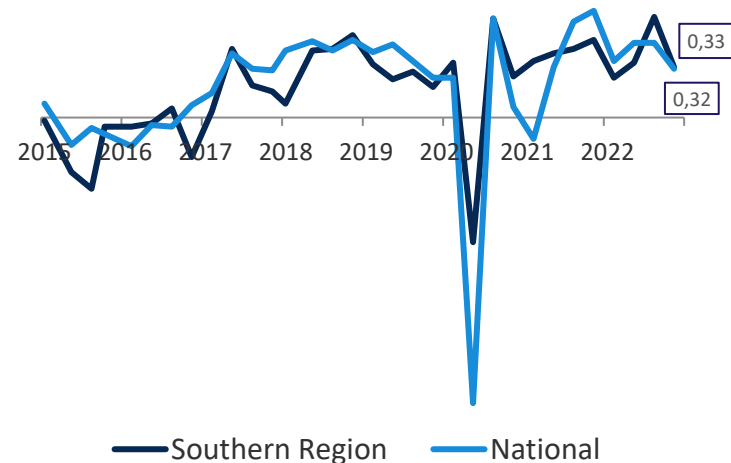
Unemployment

Unemployment percentage
as of 31.12.2022



Employment growth

Growth in percentage for last 3
months

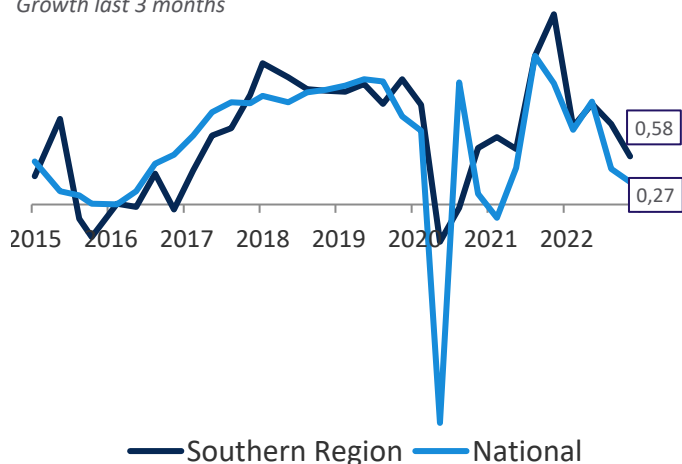


The index ranges from -5 to +5, where -5 indicates a large fall and +5 indicates strong growth. The index are compiled quarterly by Norges Bank through a regional network and show the development in the Southern region, which consists of Agder, Vestfold and Telemark.

Awaiting increased growth in investments in the region

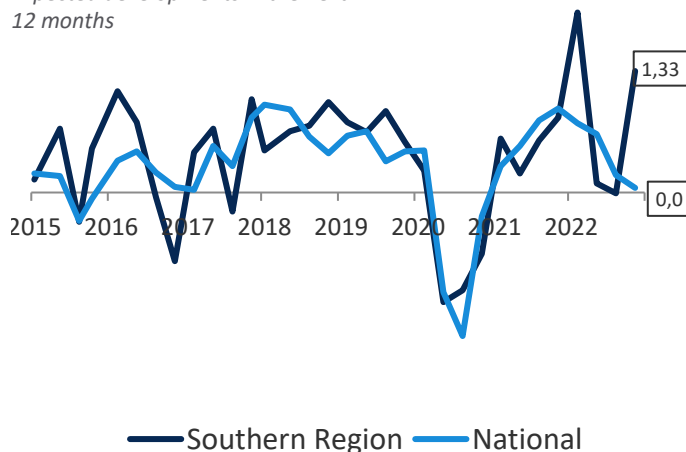
Growth in production

Growth last 3 months



Growth in investments

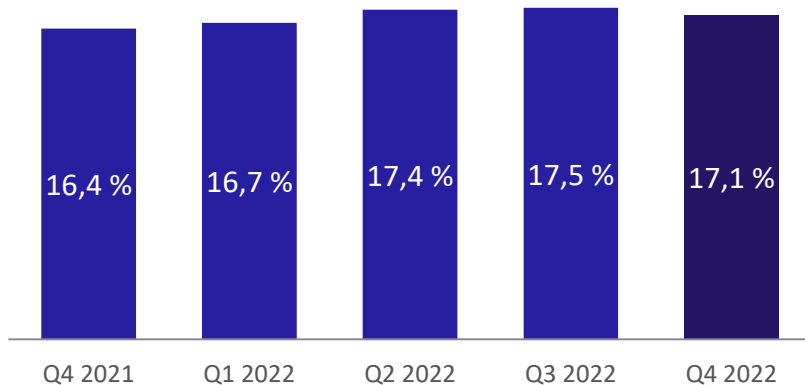
Expected developments in the next 12 months



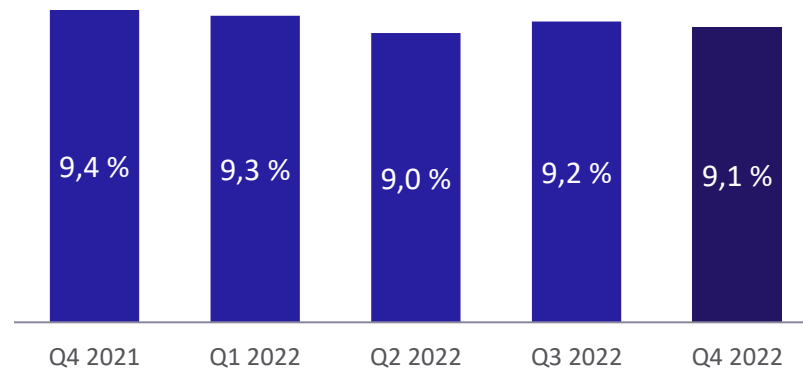
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Solid capital situation

Common equity tier 1 capital ratio



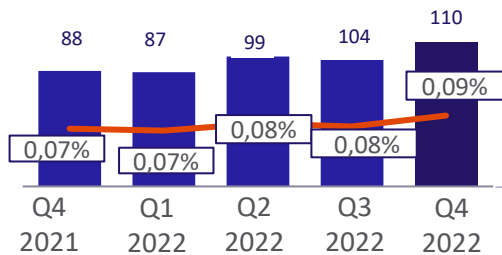
Leverage ratio



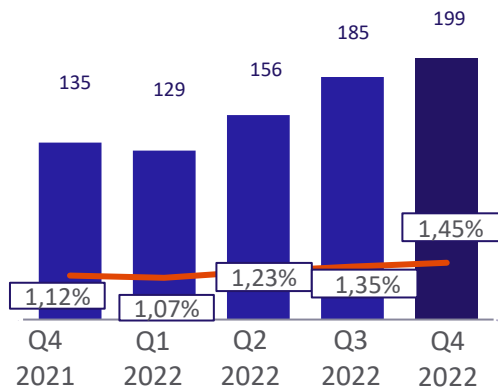
- Common equity tier 1 (CET1) well above the current capital requirement of 13.2 percent
- CET1 ratio of 17.1 percent, down 0.4 percent from last quarter. The effect of increased ownership in Brage amounted to -0.2 percentage points in Q4 2022.

Loss provisions divided into steps

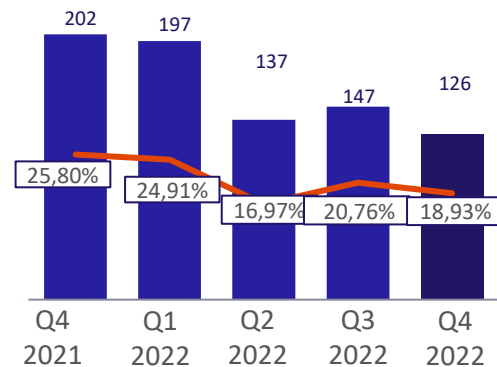
Provisions step 1
and in % of engagement stage 1



Provisions step 2
and in % of commitment stage 2



Provisions step 3
and in % of commitment stage 3



Equity certificate

Equity certificate owners

20 largest equity certificate owners as of 31.12.2022

	Name	Amount EC	Share EC %		Name	Amount EC	Share EC %
1	Sparebankstiftelsen Sparebanken Sør	34.027.792	81.60	11	Ottersland AS	100.000	0.24
2	EIKA utbytte VPF c/o Eika kapitalforv.	719.960	1.73	12	DNB Luxembourg S.A	100.000	0.24
3	Pareto Invest AS	317.309	0.76	13	MP Pensjon PK	85.523	0.21
4	Drangslund Kapital AS	302.107	0.72	14	Lombard Int Assurance S.A	82.800	0.20
5	Glastad Capital AS	200.000	0.48	15	Geir Bergskaug	76.203	0.18
6	Wenaasgruppen AS	186.000	0.45	16	Gunnar Hillestad	74.600	0.18
7	Hamjern Invest AS	180.099	0.43	17	Alf Albert	73.044	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	K.T Brøvig Invest AS	72.000	0.17
10	Allumgården AS	151.092	0.36	20	Varodd AS	70.520	0.17
	Sum 10 largest owners	36.421.868	87.34		Sum 20 largest owners	37.229.133	89.27

- As of 31. December 2022, 41 703 057 ECs of NOK 50 each had been issued
- Profit (Group) amounted to NOK 4.5. and NOK 11.9 per EC in Q4 2022 and 2022 respectively and NOK 12.2 per EC in 2021
- The ownership ratio as of 31.12.2022 was 40.0 percent

SOR – share price and liquidity

Share price development as of 31.12.2022

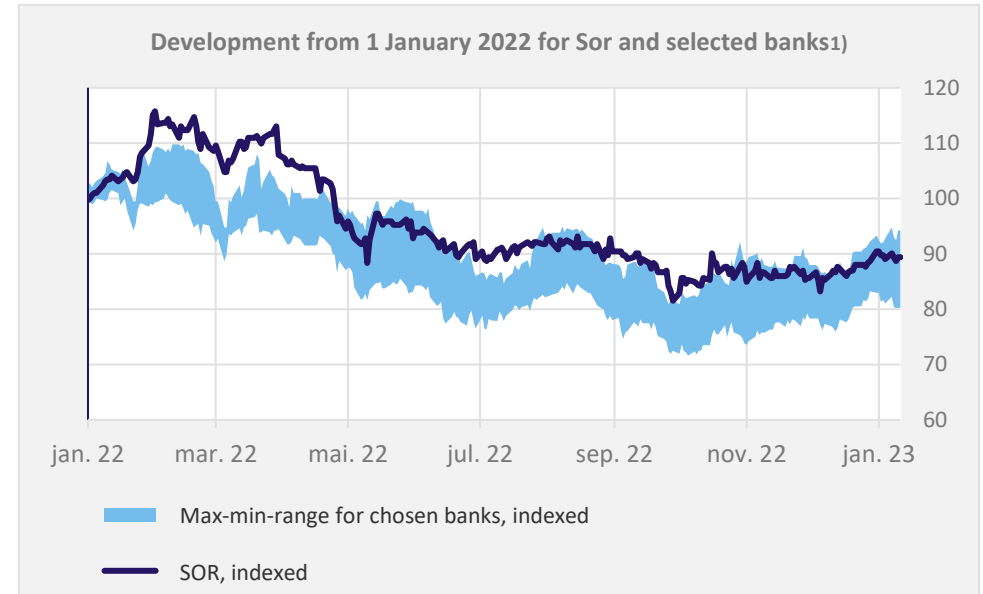
- The share price for SOR was NOK 129.5 (excl. dividend) and book value was NOK 141.0, amounting to a price-to-book ratio of 0.92
- The equity certificates gave a return of -5.8 % last 12 months
- Profit per equity certificates 31.12.2022 of NOK 11.9, which represents a P/E of 10.9

Turnover

- Turnover of 1.4 mill. equity certificates last 12 months.
- 41 703 057 total issued, and an EQ rate of 40.0 %.

Dividend

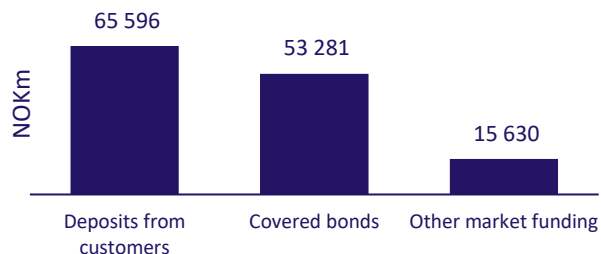
- A dividend of NOK 8 per equity certificate has been distributed for 2021
- The board will propose to distribute a dividend of NOK 6.0 per equity certificate for 2022.
- Goal to have ~ 50 % of the EK certificate owners' share of the result should be paid out from 2022
- The banks capital requirements will be taken into consideration when determining the annual dividend.



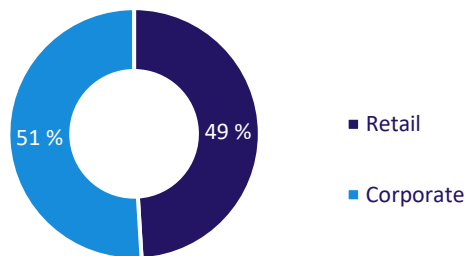
Financing and liquidity

Diversified funding

Sources of financing



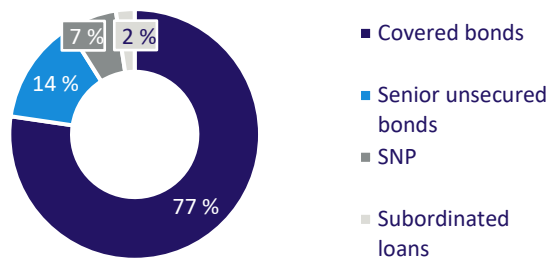
Deposits from retail and corporate



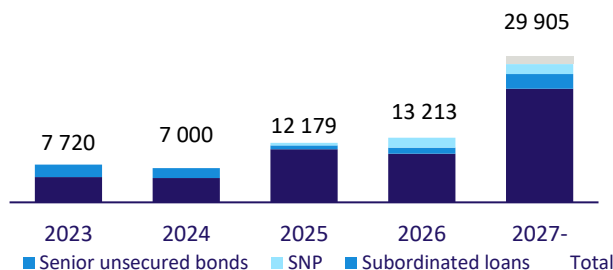
Main features

- The most important funding source is deposits and covered bonds (OMF)
- Customer deposits of NOK 65.6 billion – of which 49 percent from retail customers
- Market financing of NOK 70.0 billion – ~43 percent maturing in 2027 or later
- In Q4, the group issued OMF in the amount of EUR 500 million, subordinated bond loans in the amount of NOK 200 million and NOK 1.0 billion in senior debt on favorable terms
- Sparebanken Sør has an A1 rating. The rating outlook for the bank was modified from "stable outlook" to "positive outlook" in September
- Bonds issued by Sparebanken Sør Boligkreditt AS are rated Aaa

Market financing

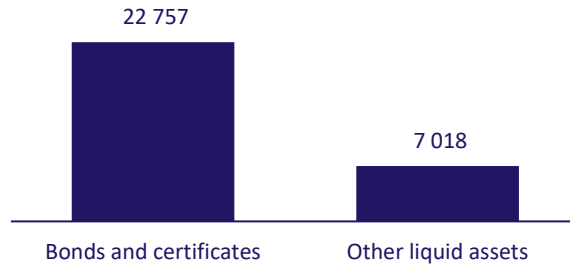


Capital market maturity profile*



Good liquidity position

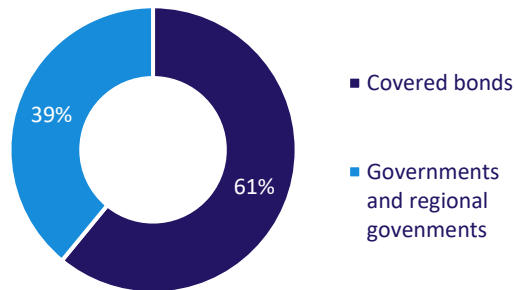
Sources of liquidity



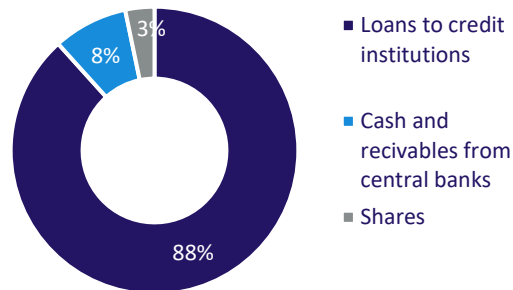
Main features

- Bonds and certificates imply the majority of the liquidity portfolio
- Covered bonds (OMF) represent 61% of the portfolio of bonds and certificates
- The liquidity indicator is satisfactory – LCR of 177 percent

Bonds and certificates



Other liquid assets



Sustainability and gift allocations

Sustainability: *obligatory, right and important*

OUR MISSION

We will create sustainable growth and development for our region



55 % reduction in **2030**
0 % emissions in **2050**



LOANS: ESG is a part of the credit process, and the portfolio has a low risk



INVESTMENTS: Policy for responsible investments



FINANCING: Green Bond Framework and green bonds



PRODUCTS: Green, social and sustainable product framework



PURCHASE: Policy for purchasing and follow-up of suppliers



GIFTS: Local gift fund for sustainable community development



Relevant sustainable rating with top results



Sparebanken Sør has been measured twice by renowned Sustainalytics, and the risk has now been reduced to the lowest category – “negligible risk”. We are the 7th best regional bank, and rank 34th out of a total of 1005 rated banks in the world.

Newsweek



Sparebanken Sør is in the 20th place out of the 175 banks rated in Newsweek’s survey of the **world’s most socially responsible banks**.



The board proposes to distribute NOK 149 millioner to the gift fund in 2023

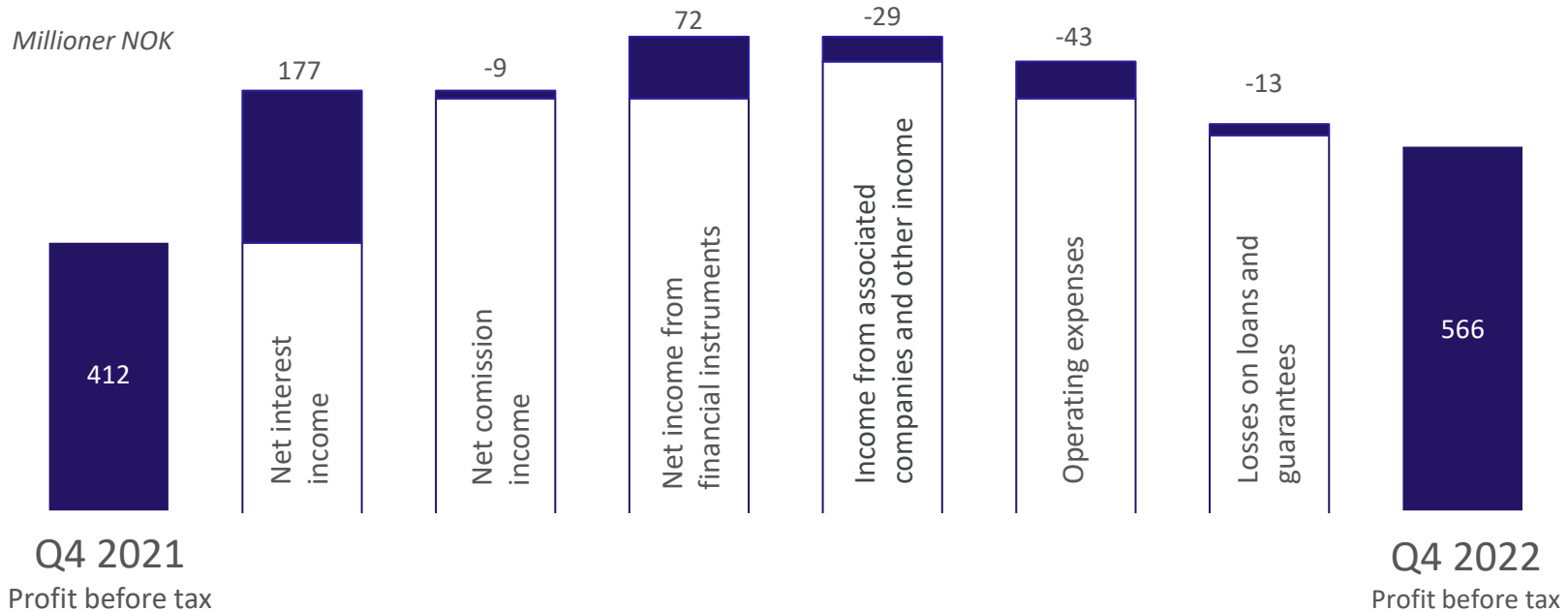


NOK 100 million to socially beneficial purposes in 2022

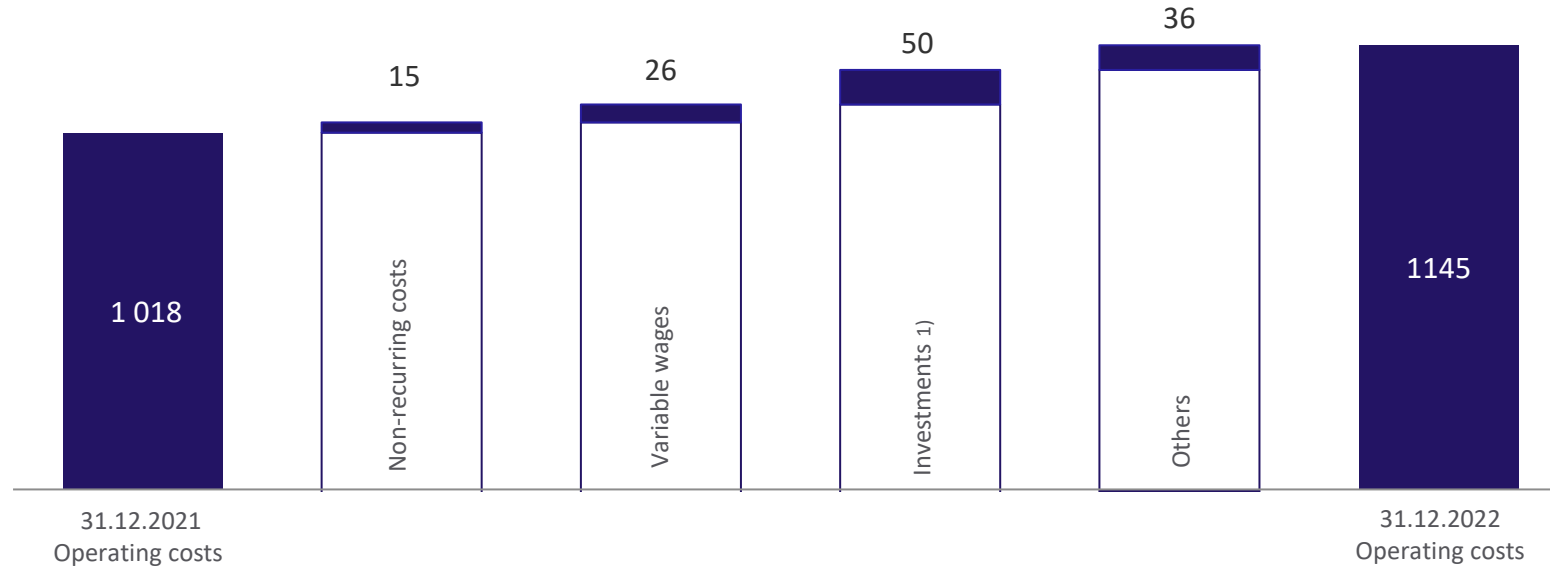


Trends in result

Decomposition of changes in profit before tax



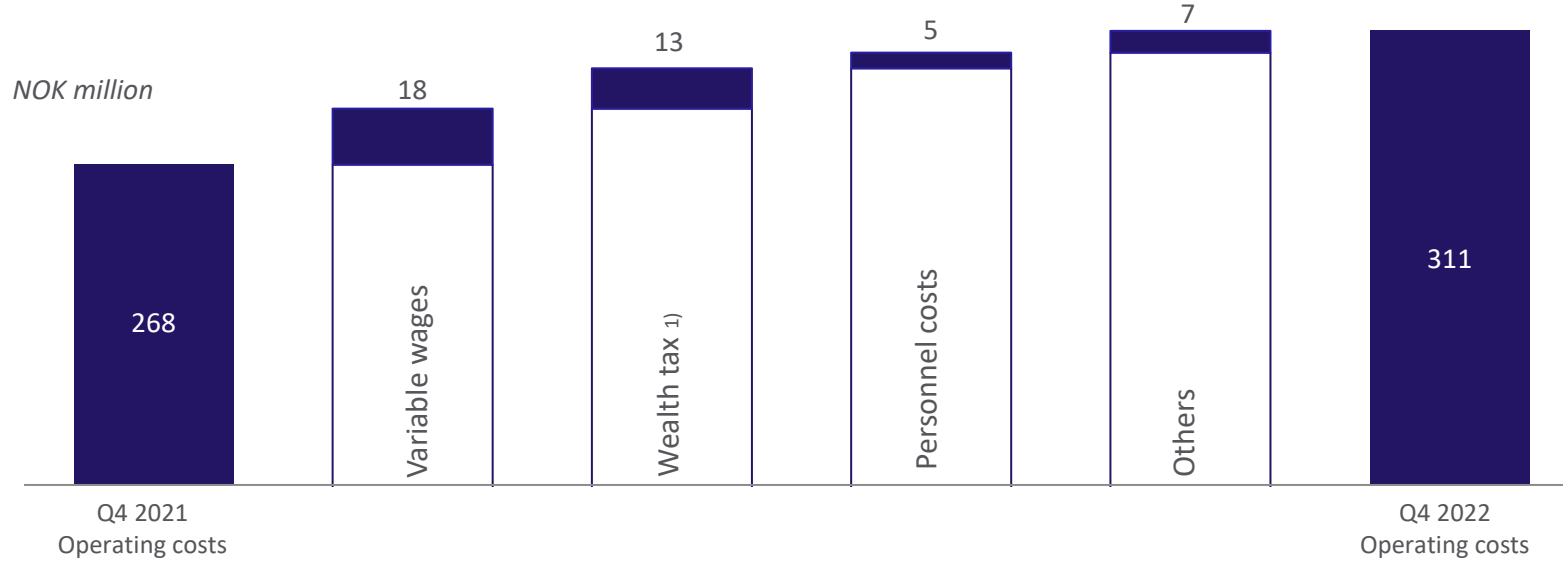
Cost development



The bank has made significant improvements in 2022 and expects growth in costs for 2023 to be at the same level as wage and price development.

1) Investments mainly relate to IRB, compliance, sales apparatus within insurance and a new data platform.

Cost development in the quarter



1) Exceptionally low wealth tax in Q4 2021