Sparebanken Sør

Conversion of capital, customer dividends and revised financial targets

March 2022

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Sparebanken Sør at a glance

The leading bank in Southern Norway

Established in 1824
579 employees

180,000 retail customers

Financial group with banking, securities brokerage and real estate brokerage

22,000 corporate customers

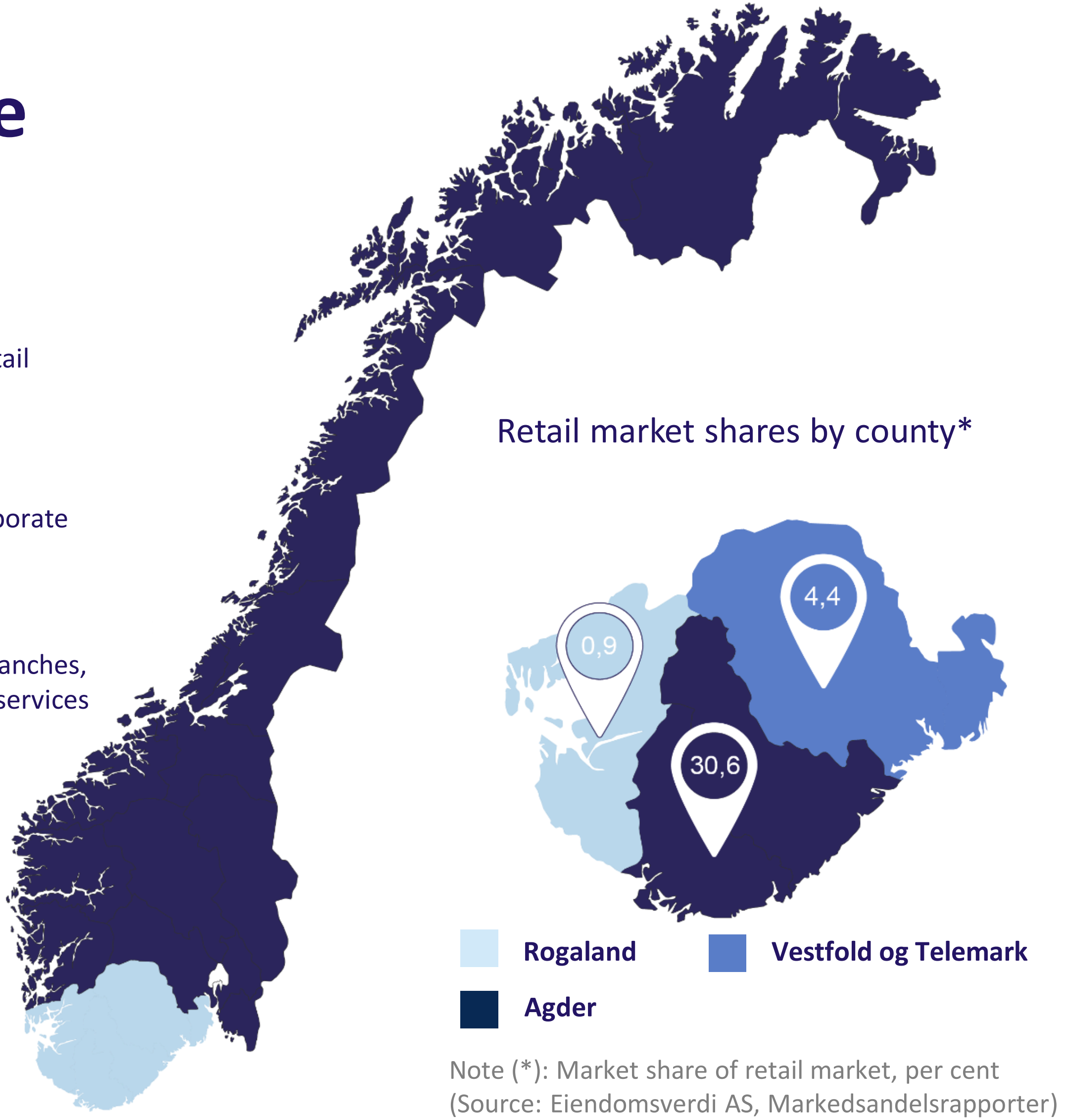
Publicly traded and community-owned

Regional branches, and online services

Total assets of NOK 144 billion

2021 profit after tax of NOK 1,226 million

Cost/income ratio of 39.9%



Note (*): Market share of retail market, per cent
(Source: Eiendomsverdi AS, Markedsandelsrapporter)

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
(21.0% ownership)
Insurance products to 159,000 retail and corporate customers

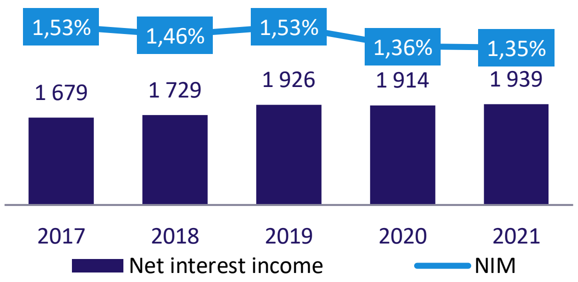
Brage Finans
(20.8% ownership)
Leasing and loans secured by purchased assets to retail and corporate customers

Norne Securities
(14.8% ownership)
Securities firm offering investment services to retail and corporate customers

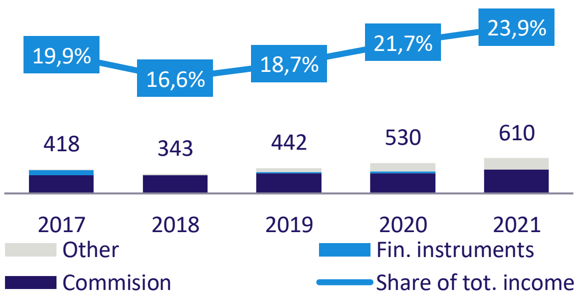
Balder Betaling
(24.8% ownership)
10.7% ownership in Vipps, Norway's largest payment app used by over 4 million

Stable financial performance

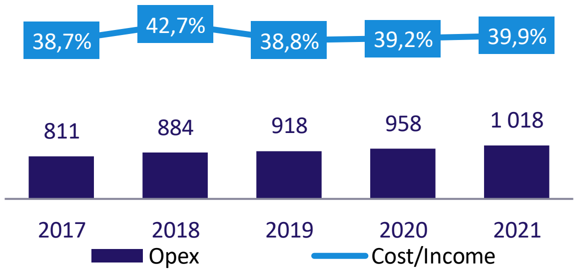
Net interest income



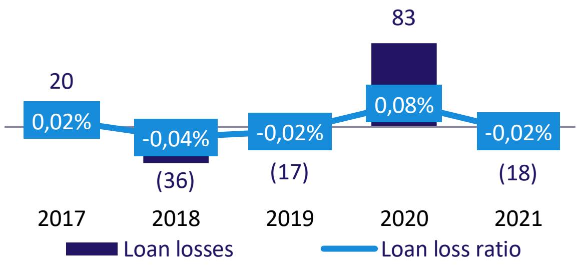
Net non-interest income



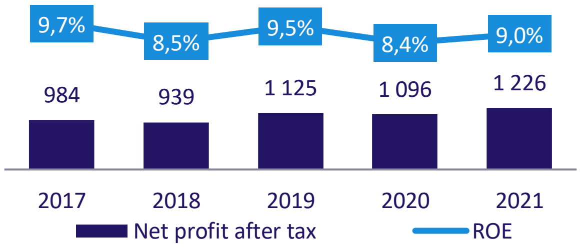
Operating costs



Loan losses



Net profit after tax



Key comments

- Focus on increasing non-interest income
- Low cost/income ratio
- Low loan losses over time – most 2020 losses related to IFRS 9 model
- YoY increase in bottom line of ~12% in 2021

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New strategic initiatives strengthening Sparebanken Sør

Conversion of primary capital to ECCs

Significantly increased market cap and improved liquidity

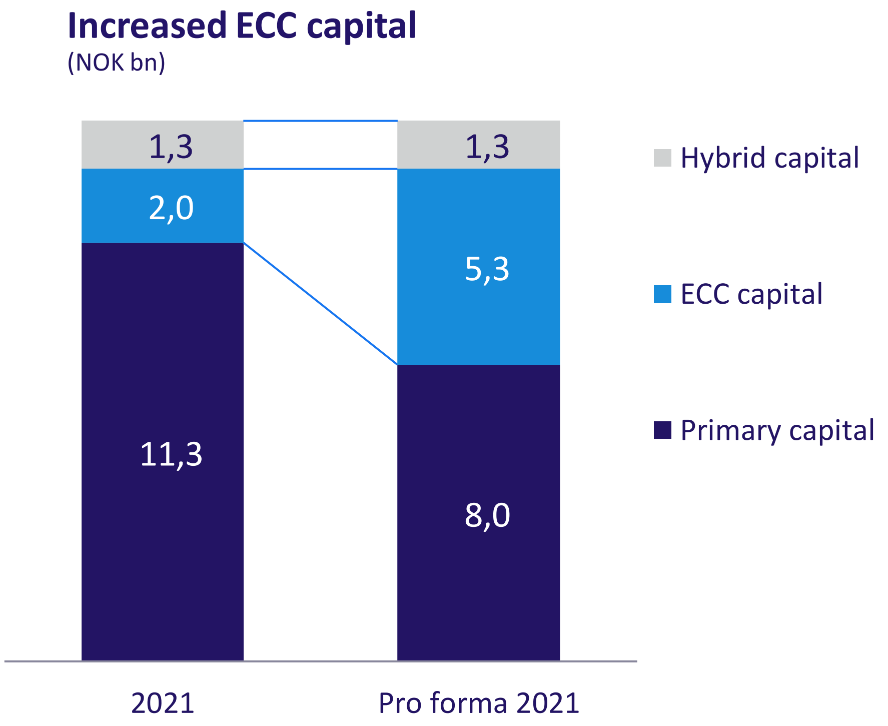
Introduction of customer dividend

New dividend policy

Revised financial targets

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
- To be resolved on General Assembly 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



Note (*): Book value group adjusted for 2021 dividend.

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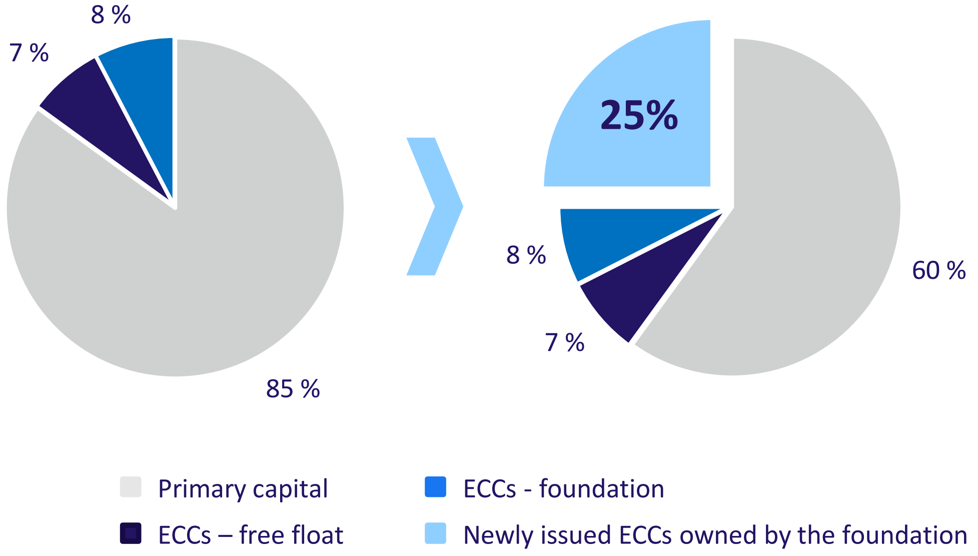
Significant increased ECC share of equity

- 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 will lower the minimum ownership 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
- A potential sale requires FSA approval

Increased ECCs share of equity



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Introduction of customer dividend with multiple benefits

- Intention to build loyalty 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, depends 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% 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:
NOK 1.0m*0.20% = **NOK 2,000**

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

The customer dividend would equal:
(NOK 4m + NOK 0.5m)*0.20% = **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

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Revised dividend policy

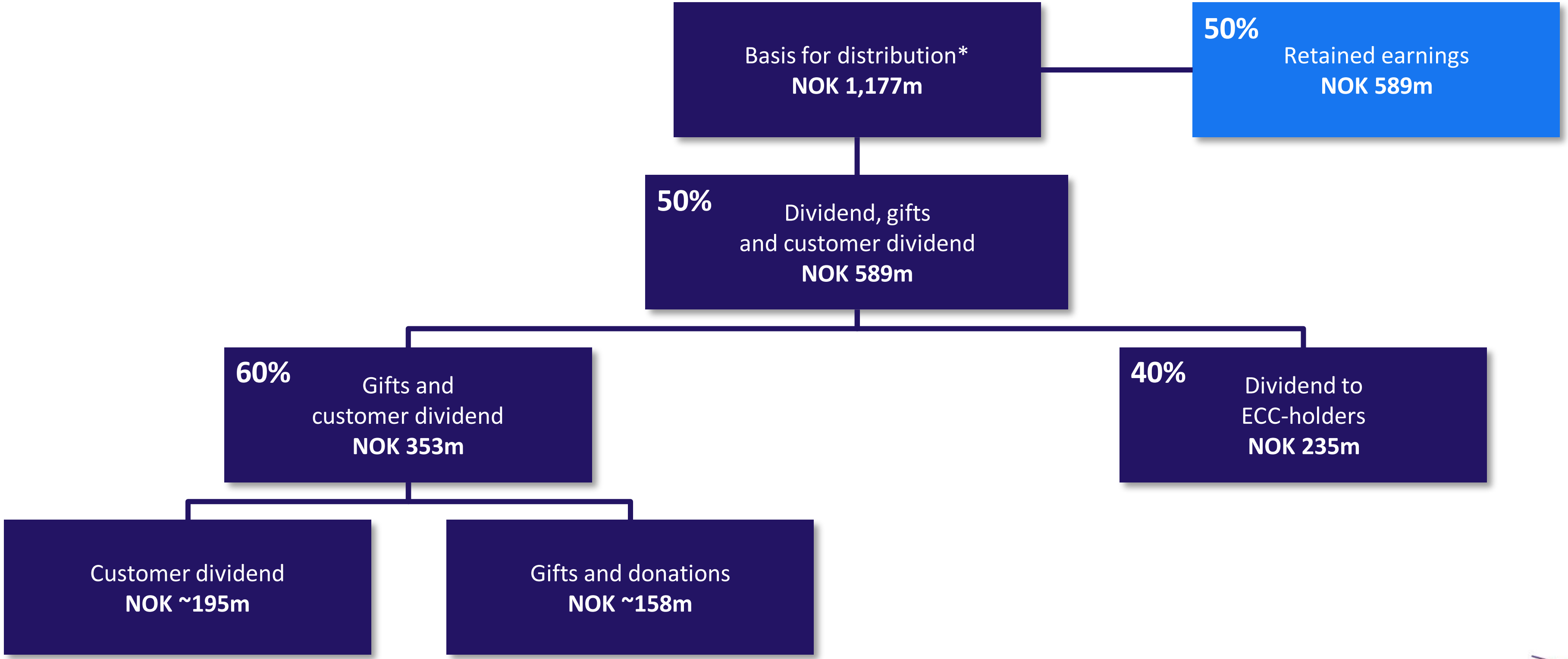
Equal
pay-out ratio

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

40-50%
pay-out ratio

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

Illustration of profit allocation with new structure



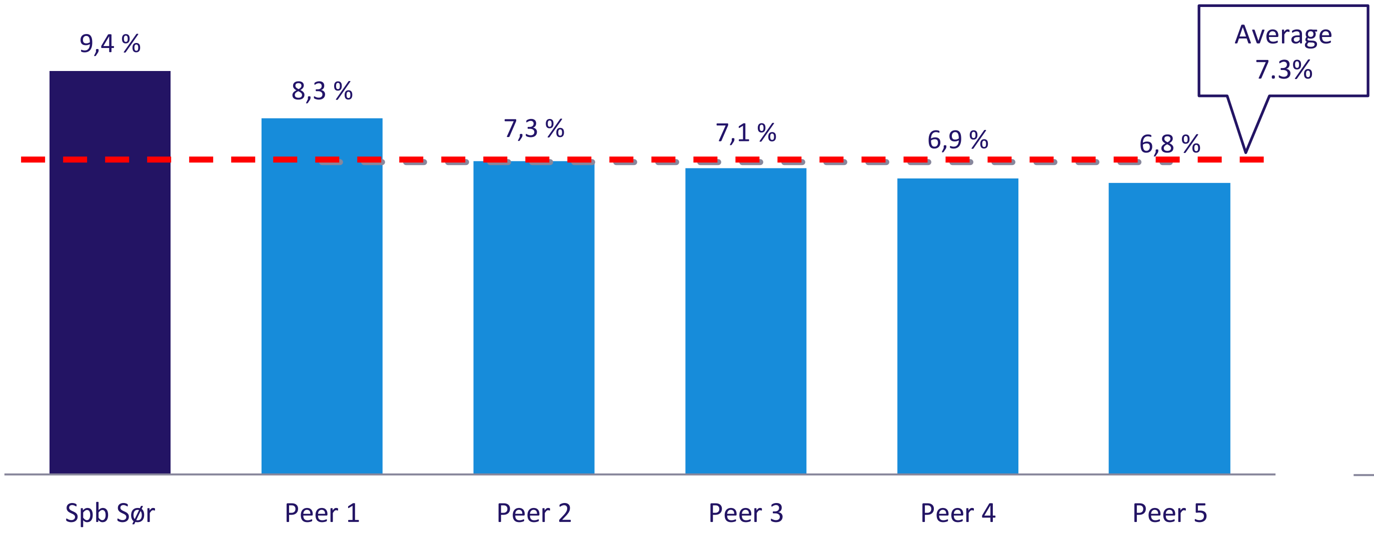
Note (*): Net profit in group attributable to ECC-holders and to the primary capital

Application for IRB approval to be sent by end-2023

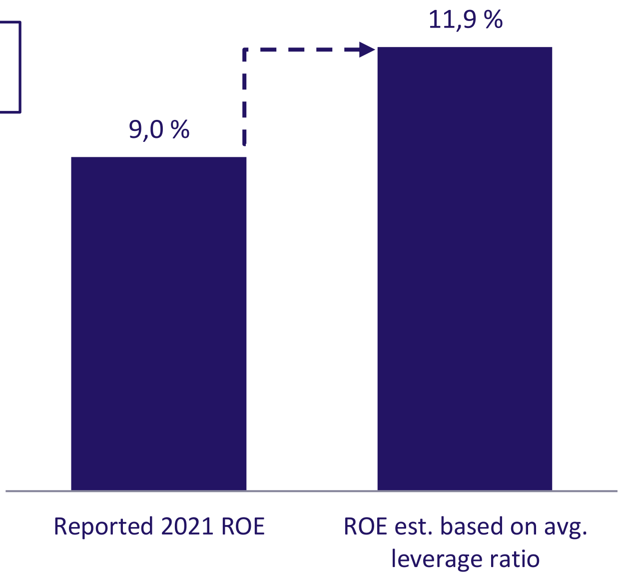
- Plan to submit an application for IRB-F approval by the end of 2023
- The Financial Supervisory Authority of Norway (FSA) expected to spend at least 1 year processing an application
- Significant project deliveries completed and implemented
- It is expected that the capital effects of IRB-F will have effects at the level of the new standard method. The effect of the new standard method is estimated to increase CET1 capital ratio in the range 2.0 - 2.5%
- IRB approval considered to be important to the bank's future development

ROE would increase on “normalised” leverage

Higher leverage than saving bank peers* with IRB…



…potential for increased ROE



Note (*): Peer group consisting of SpareBank 1 SR-Bank, SpareBank 1 SMN, SpareBank 1 Østlandet, Sparebanken Vest, SpareBank 1 Nord-Norge. All peer banks in the chart are using the IRB Advanced method

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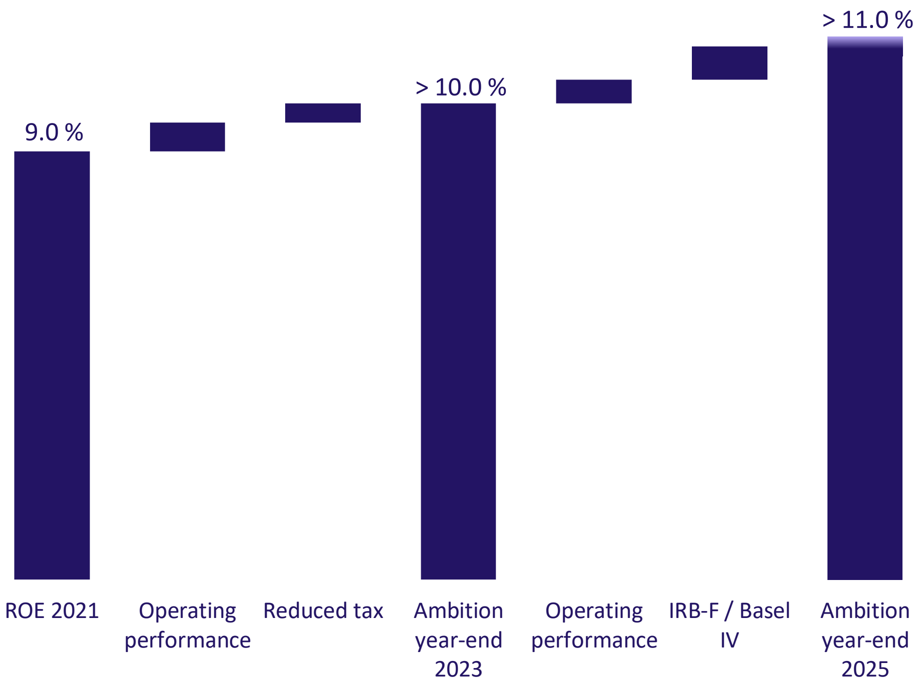
Increased ambition for return on equity

ROE (%)



ROE above 11% end of 2025

Increased profitability

- Profitable growth and better capital allocation
- Strengthening of non-interest income
- Customer dividends positive for net interest margin, customer loyalty 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 for IRB-F and/or Basel IV (revised standard method)

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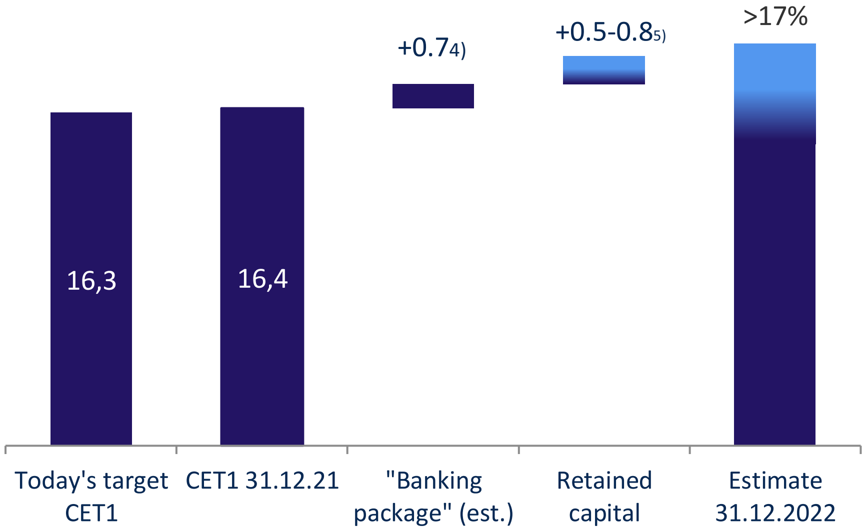
Well positioned for higher capital requirements

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 %
Counter-cyclical Buffer 2)	1.0 %	2.0 %
Pillar-2 requirements	2.0 %	1.8 %
CET1 requirements	**13.0 %**	**15.3 %**
Pillar-2 Guidance 3)	0%	1.0 %
CET1 requirements Incl. P2G	**13.0 %**	**16.3 %**

Capital adequacy and target figures



1. The Ministry of Finance has decided on a transitional rule on capital requirements for banks that use the Standardised Approach, resulting in an increase in the Systemic Risk Buffer from 3 to 4.5% from December 31, 2022.
2. The Counter-cyclical Buffer will increase with 1.0 percentage points in 2022 and might increase with a further 0.5 percentage points.
3. Preliminary assessment from FSA related to P2G
4. Estimated of effects of the «Banking package»
5. Capital building based on retained capital

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Financial key figures and ambitions

Overriding target

Return on equity > 11% end of 2025

> 16.3%	< 40.0%	40-50%
CET1 capital ratio*	C/I ratio	Pay-out Ratio

* 16.8 % if counter-cyclical capital buffer requirements increase from 2.0% to 2.5%

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Strategic priorities

Strategic priorities

- Strong increase in other income and customer share of wallet
- Increase digital competence and capabilities
- Enhancement of skill base
- Strengthening distribution efficiency and effectiveness
- Improve capital efficiency – implementing IRB

Financial

- Conversion of primary capital to ECCs
- Significantly increased market cap and improved liquidity
- Introduction of customer dividend
- New dividend policy
- Revised financial targets

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

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Indicative process timeline

March

March 10
The Board's recommendation to the General meeting

Application to FSA

March 31
Decision by the General meeting

May

May 6
1Q 2022

TBD

Institutional Roadshow

Retail Roadshow

Potential sale from the Foundation

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Q&A

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