

Sparebanken Sør

2nd quarter 2014



SPAREBANKEN SØR

Information – reminder...

Sparebanken Pluss and Sparebanken Sør merged with effect from January 1st 2014. Sparebanken Pluss was the acquiring bank in the merger and was renamed Sparebanken Sør. As a result, all comparative figures in the financial statements are historical figures from Sparebanken Pluss.

As the official figures do not reflect the actual development during the period regarding the merged bank, pro forma figures have been used for information- and comparison purposes. **Pro forma financial information has been compiled in order to show the merged bank adjusted as if the transaction had been carried out with effect from January 1st 2013.** Pro forma financial information has solely been compiled for guidance purposes and there is greater uncertainty linked to pro forma financial information than the historical information.

In addition, the recognition of negative goodwill has been excluded in the key figures presented. The merger complies with the rules set out in IFRS 3 and has been executed as a transaction. Sparebanken Sør's net assets have been recognized in Sparebanken Pluss' balance sheet as of January 1st 2014. Negative goodwill has arisen as a result of the fact that the value of net assets does not correspond with the fee paid in the merger. To prevent dilution of the equity ratio, negative goodwill has been recognized in its entirety immediately after the merger was completed and transferred directly to the dividend equalization fund. (see the separate note on the merger). Negative goodwill has been excluded from both the actual accounting figures and the comparative figures.

190 years of development and renewal

Arendal Sparebank was founded in **1825** as one of the first savings banks in Norway.

1973 The bank merged with 4 other savings banks in Aust-Agder, and formed Aust-Agder Sparebank.

Sparebanken Sør was established in **1984** after a merger between Aust-Agder Sparebank, 2 other savings banks in Aust-Agder and 9 from Vest-Agder.

1985 The bank entered for the first time Telemark, through a merger with Nissedal Sparebank and totals today 7 branches in the county, where the latest was the opening of an office in Skien in the fall of 2012.

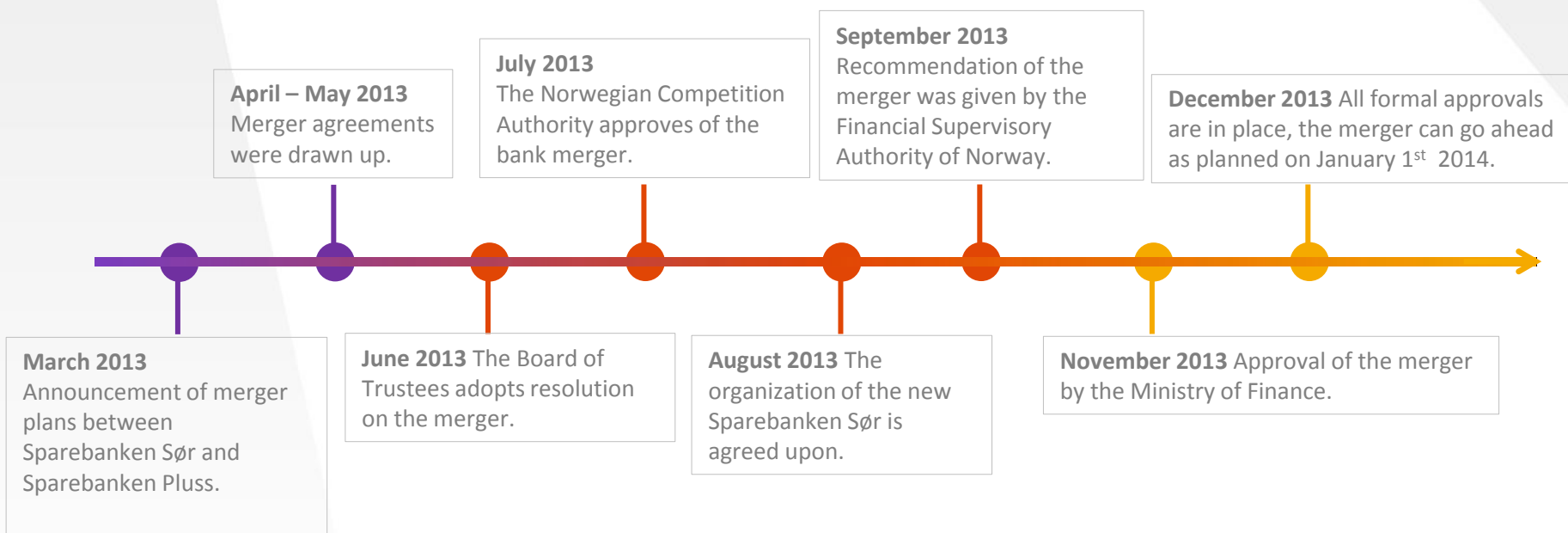
The banks history dates back to **1824** when Christianssands Sparebank was established as one of the first savings banks in Norway.

The banks more recent history starts in **1984** when Sparebanken Agder was established through a merger between Christianssands Sparebank, Halse and Harkmark Sparebank, Iveland Sparebank, Oddernes Sparebank, Vennesla Sparebank and Øvrebø and Hægeland Sparebank.

Four savings banks in Telemark and Sparebanken Agder joined forces in **1987**. Through the merger the bank was named Sparebanken Agder and Telemark. In 1988 the name was changed to SPAREBANKEN PLUSS

In January **1997** Sparebanken Pluss and Sparebanken NOR agreed that Sparebanken NOR was to take over Sparebanken Pluss' branches in Telemark while Sparebanken Pluss was to take over Sparebanken Nors office in Kristiansand. Through the deal the banks business again was concentrated in the Agder counties.

The merger – one year of work covered



Key features 1st half 2014

- Total income in the 1st half-year exceeded NOK 1 billion
 - On track to achieve the ambition of establishing a financial center in the region with capacity and competitive power
- Sound operating profit before tax of NOK 736 million
 - Of which negative goodwill is NOK 205 million and Nets NOK 71 million
- Growth over and above market growth in both deposits and loans
 - 12 months growth – deposits 8.6 % and loans 5.8 %
- Positive trend in commission income from the bank's real estate agency business – Sørmeglere
 - as a result of the merger of ABCenter and Plussmeglere
- Staff downsizing being carried out as planned, which will reduce the cost base
 - Costs as a percentage of average assets of 0.85%, adjusted for merger costs
- Solid equity and core capital ratio well above the regulatory requirements

Income statement Sparebanken Sør

Pre-tax profit at the end of the second quarter constitutes NOK 736 million. Considering in one-offs related to the merger, the profit constitutes NOK 531 million after the second quarter.

As Sparebanken Pluss was the acquiring bank in the merger, all comparative figures in the financial statements are historical figures from Sparebanken Pluss.

For information- and comparison purposes, pro forma figures have been compiled for the merged bank.

NOK million	1H 2014	1H 2013
Net interest income	758	283
Net commission income	133	37
Net income from financial instruments	118	8
Other operating income	9	5
Total income	1,018	334
Total expenses	226	136
Profit before losses on loans	792	199
Losses on loans, guarantees	56	12
Profit before taxes	736	187
Tax expenses	120	56
Profit for the period	616	131



Income statement – pro forma (excl. negative goodwill)

Pre-tax profit of NOK 531 million, compared with NOK 371 million in 2013 (pro forma).

Key features from the business after the second quarter are as follows:

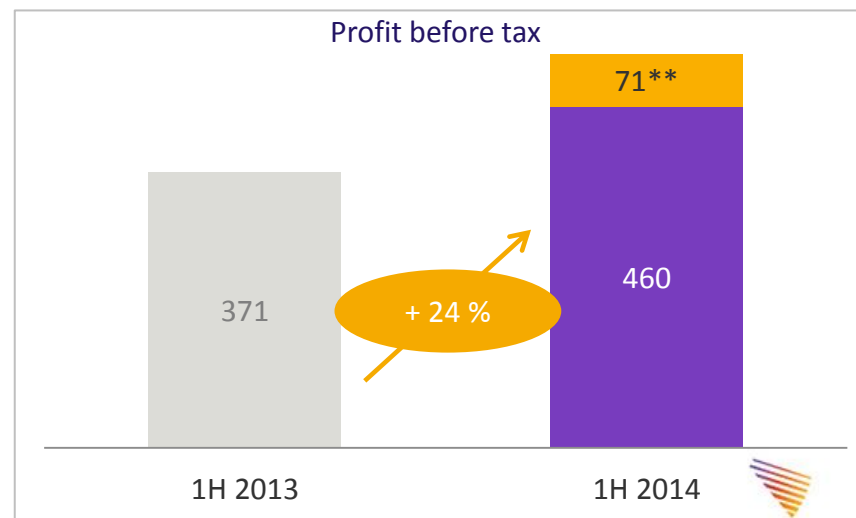
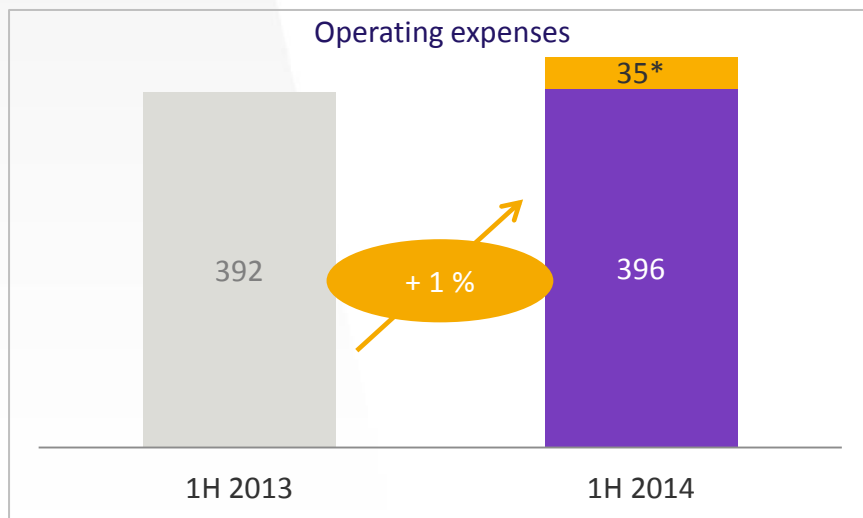
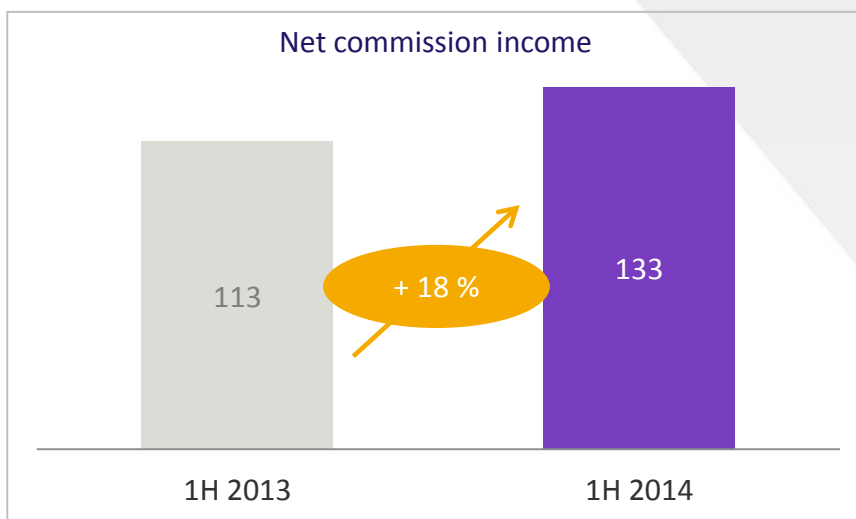
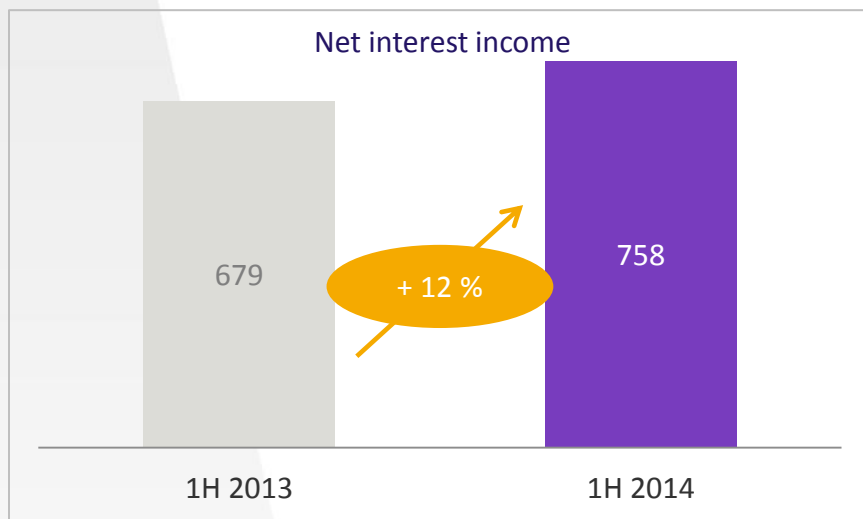
- Increased net interest income from volume and margin improvement.
- Increased net commission income from the banks merged real estate agencies.
- Adjustment in value of Nets Holding of NOK 71 million.
- Maintained nominal cost level adjusted for one off costs related to the merger of NOK 35 million.

The results after the second quarter provides a post-tax RoE of 12.3 percent.

NOK million	1H 2014	1H 2013
Net interest income	758	679
Net commission income	133	113
Net income from financial instruments	118	8
Other operating income	9	12
Total income	1,018	812
Total expenses	431	392
Profit before losses on loans	587	420
Losses on loans, guarantees	56	49
Profit before taxes	531	371



Pro forma profit and loss items

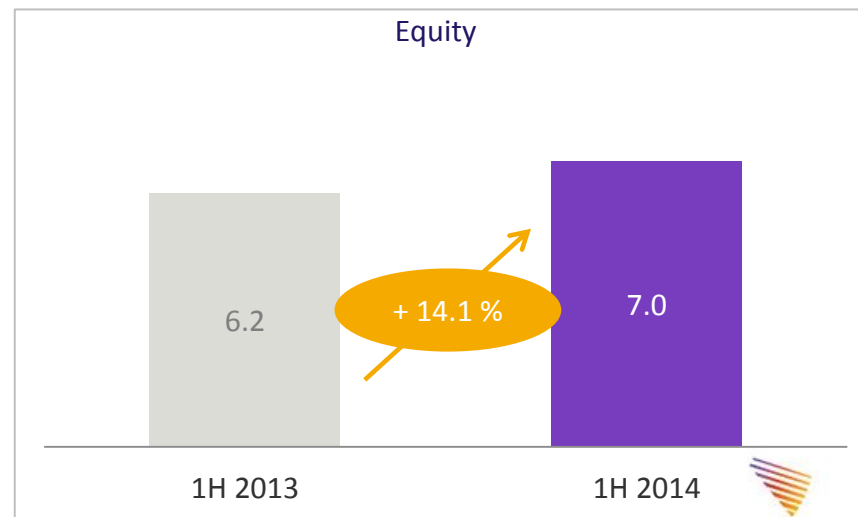
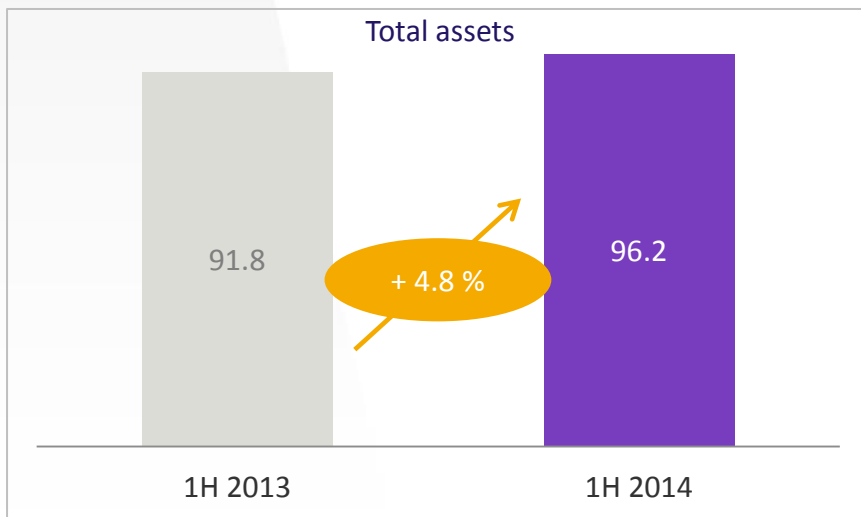
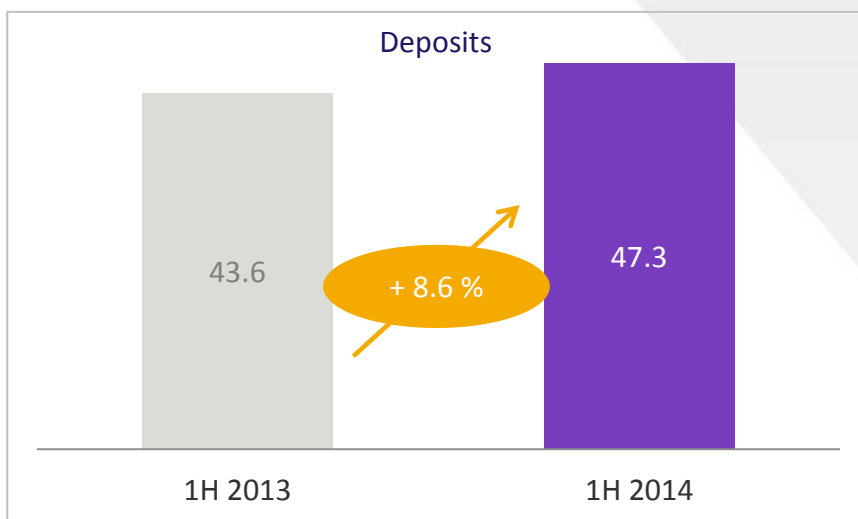
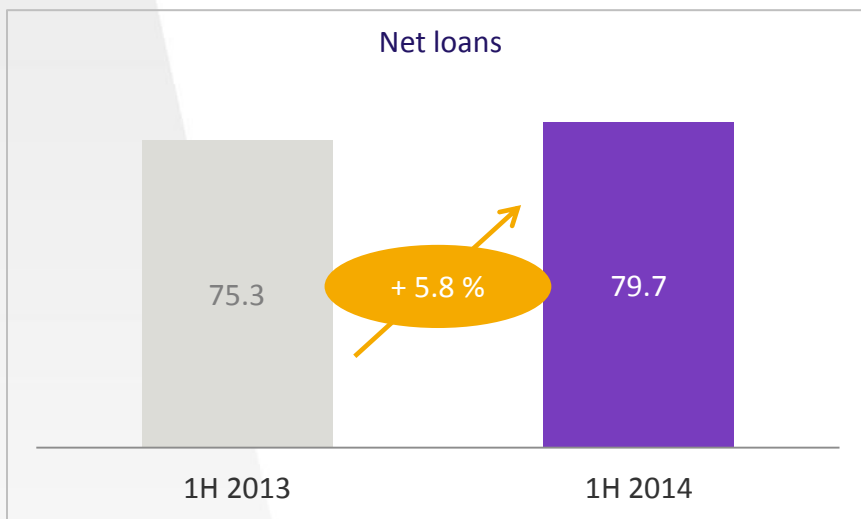


NOK million

* One-off merger cost

** One-off value adjustment Nets Holding

Pro forma balance sheet items



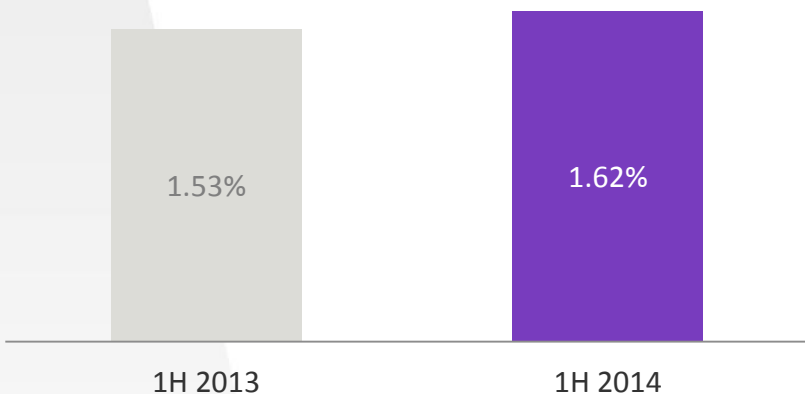
NOK billion



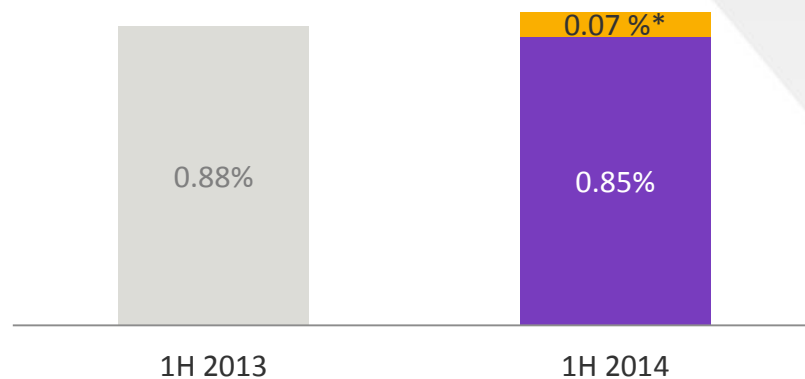
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Pro forma key figures

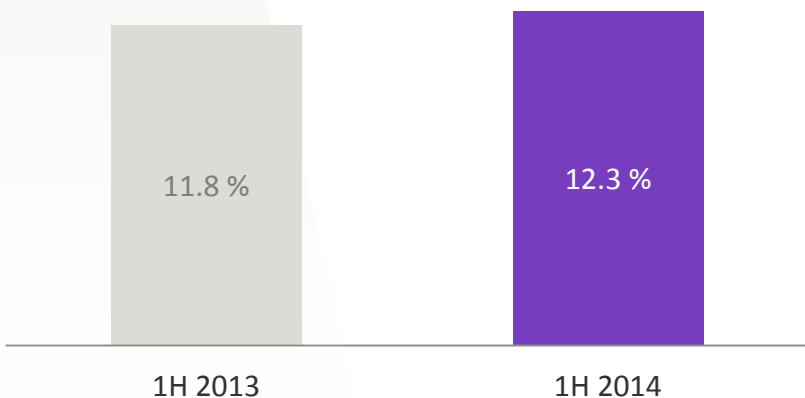
Net interest income as percentage of average assets



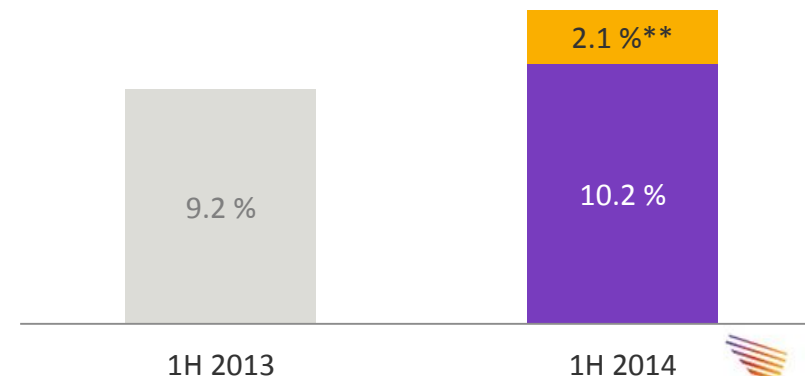
Total expenses as percentage of average assets



Core tier 1 capital ratio



Post tax RoE



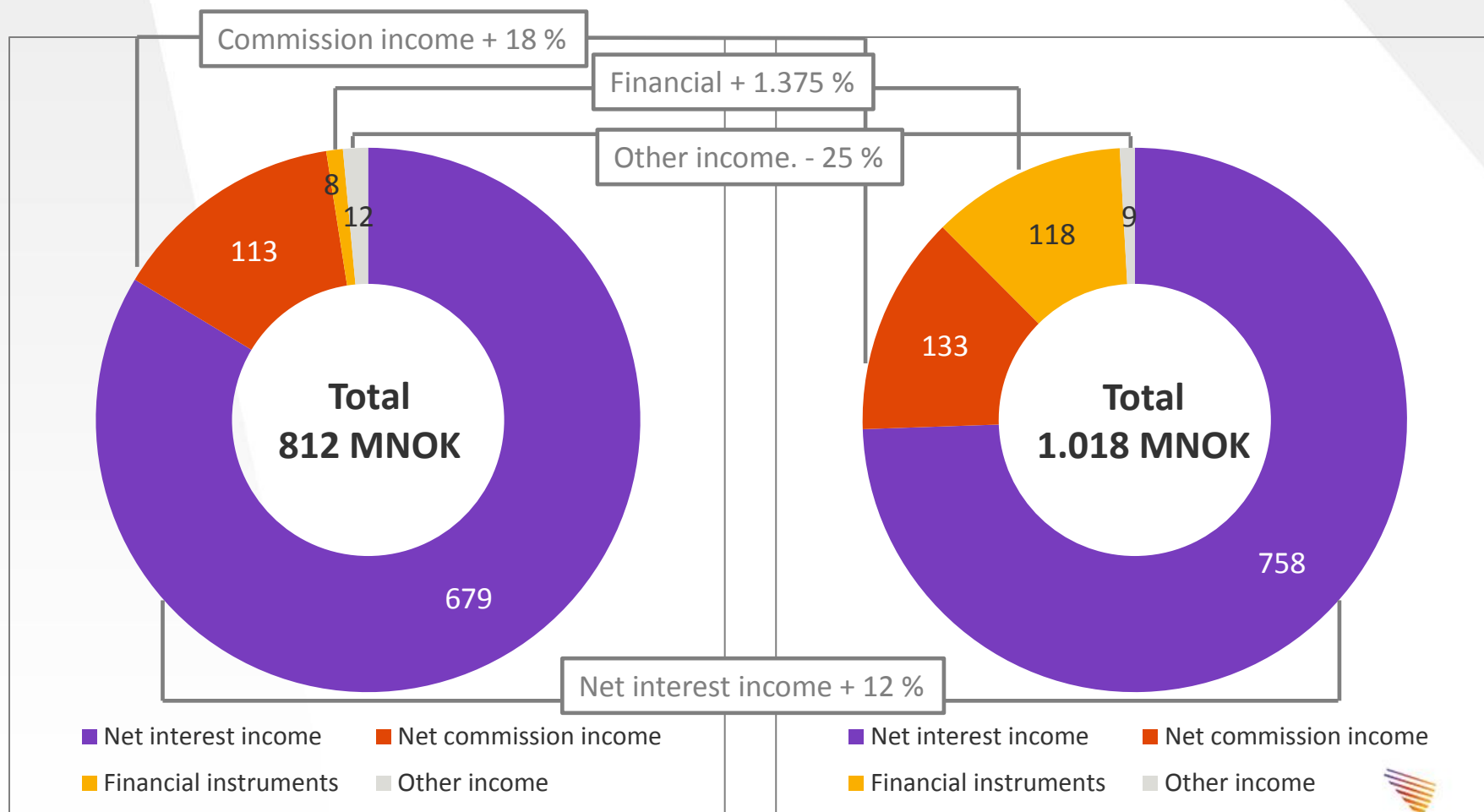
* One-off merger cost

** One-off value adjustment Nets Holding

Total income

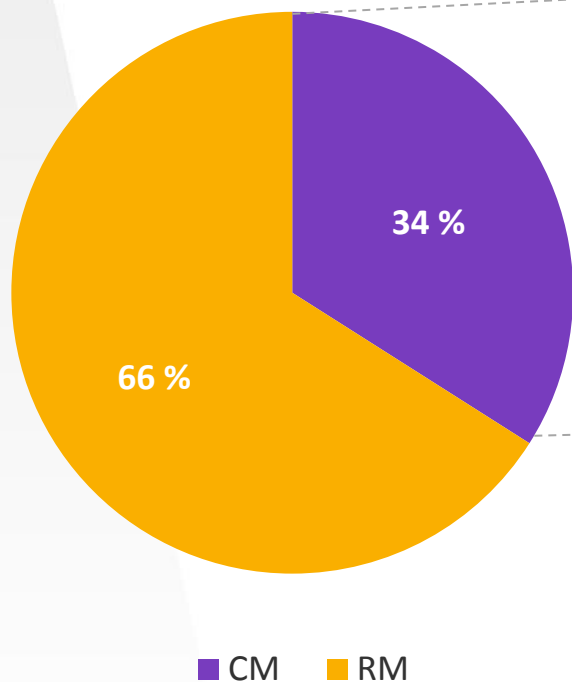
1st half 2013

1st half 2014

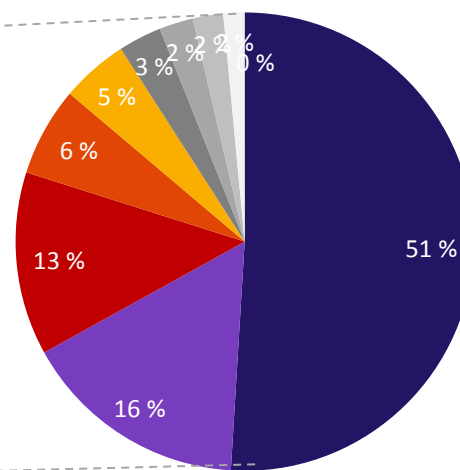


Loans

Distribution RM/CM



Distribution Corporate Market

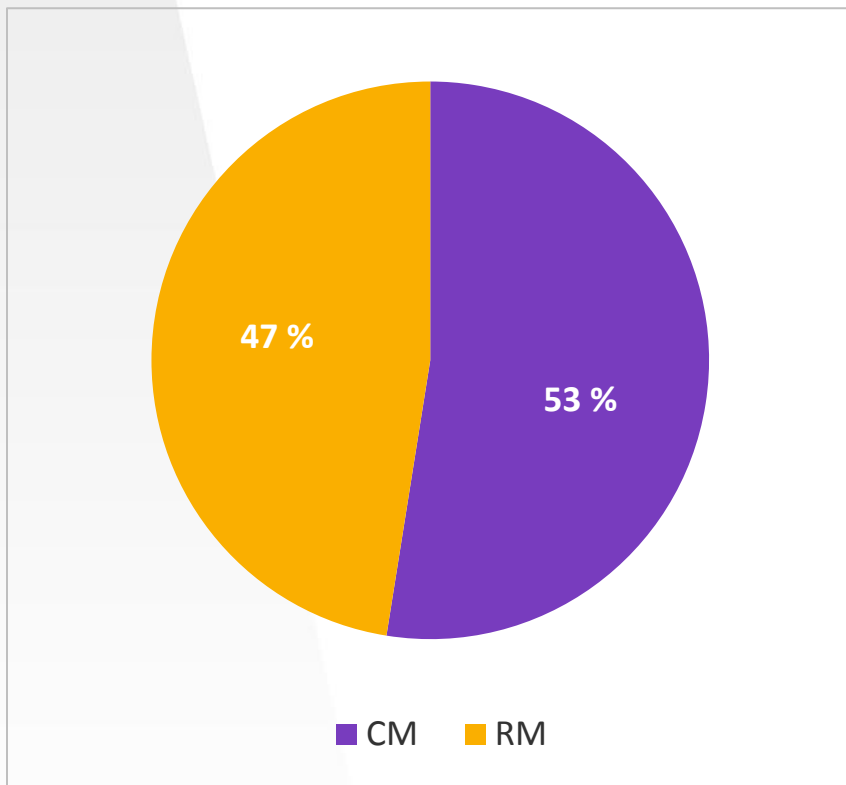


- Commercial real estate
- Construction
- Other industries
- Financial services
- Wholesale and retail trade
- Manufacturing
- Primary industries
- Transport
- Hotel and restaurant
- Public sector

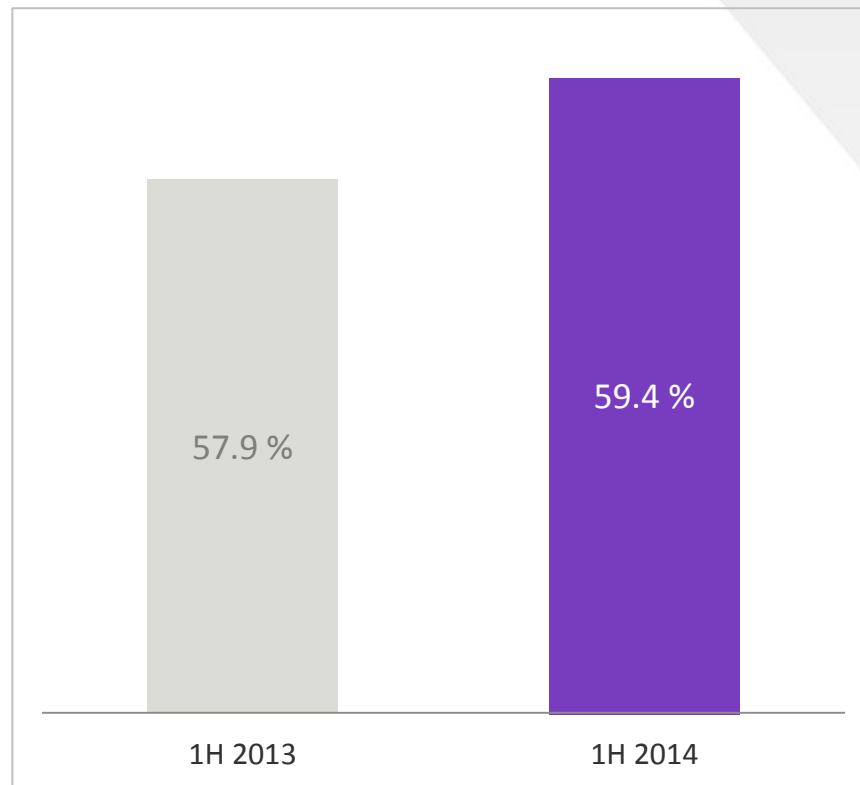
Well-diversified portfolio that reflects the business activity in the region

Deposits

Distribution RBM/CM



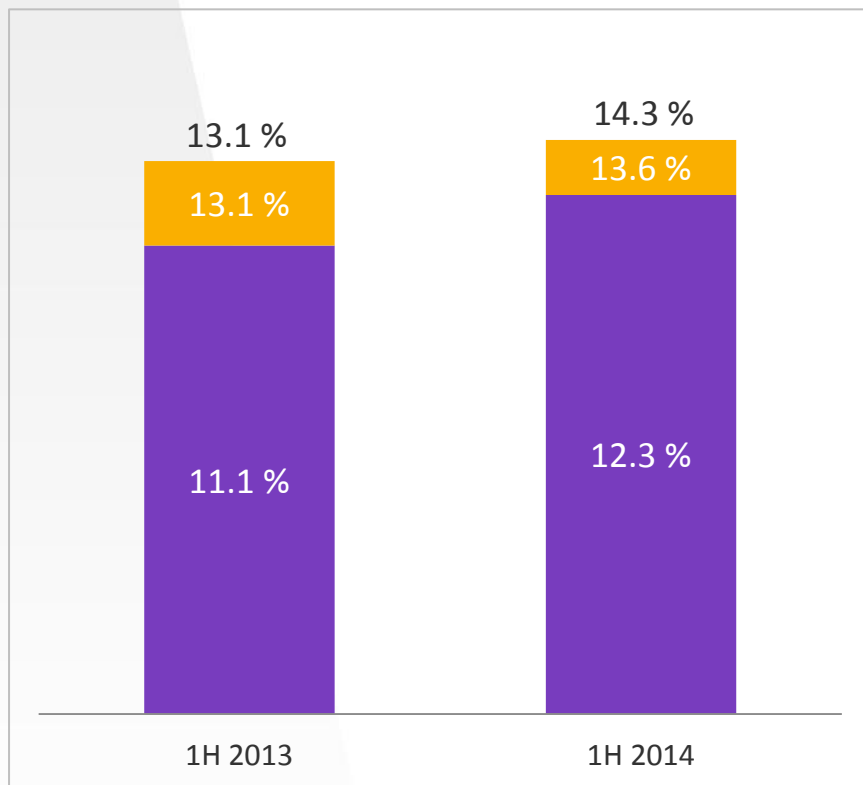
Net deposit coverage



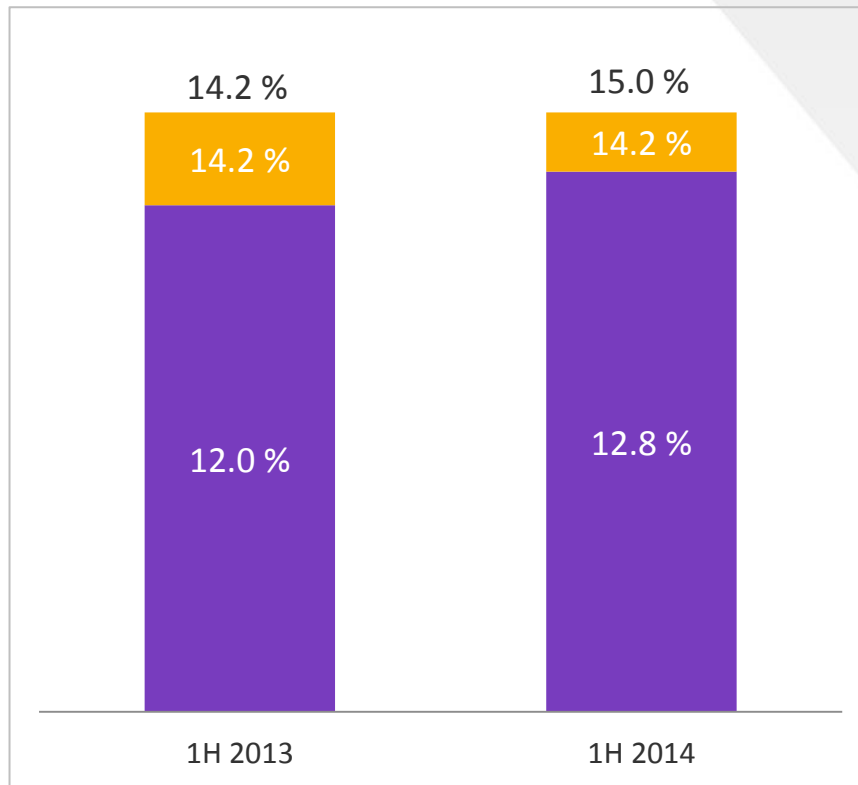
Increasing deposit coverage – focus on deposit growth

Capital adequacy

Group



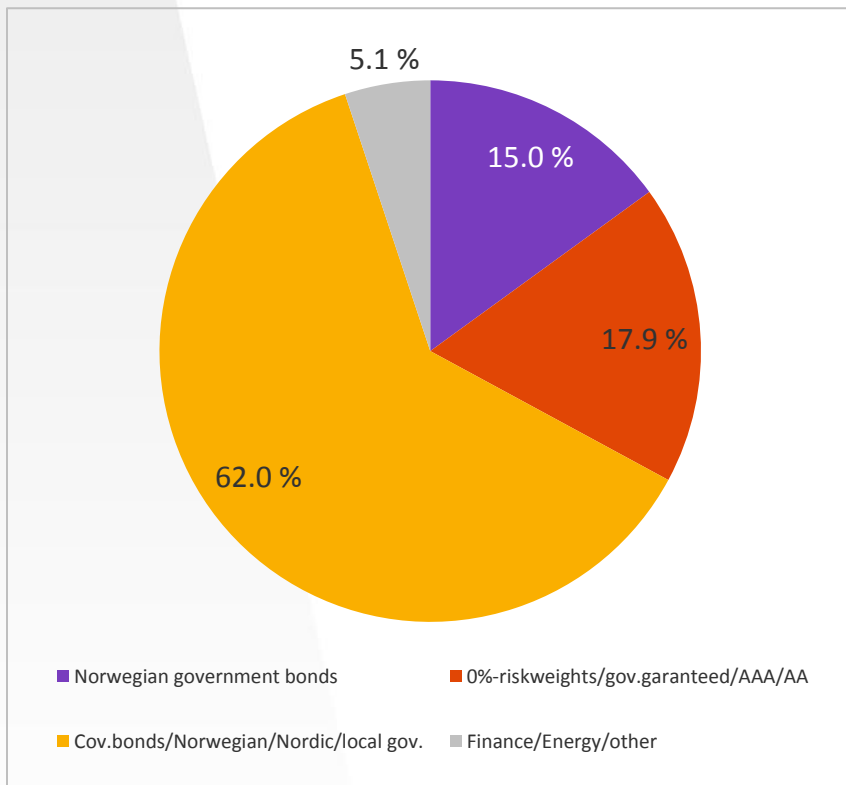
Parent bank



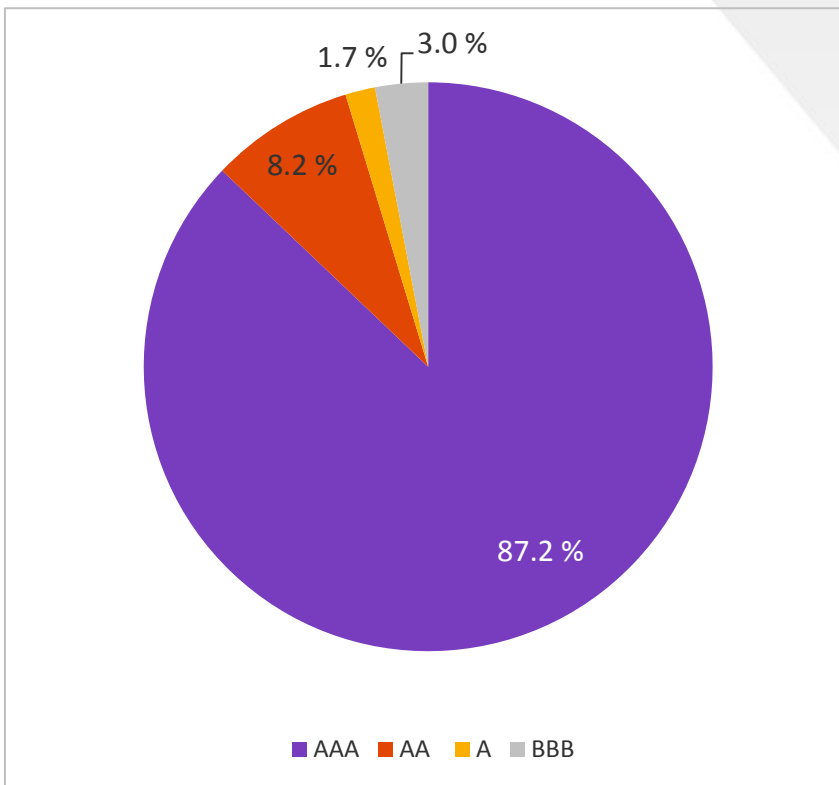
- Core Tier 1 capital of 12.3 percent – regulatory requirement > 10 % as of July 1st 2014
- Sparebanken Sør is not considered SIFI - gives increased flexibility

Certificates and bonds

Assets

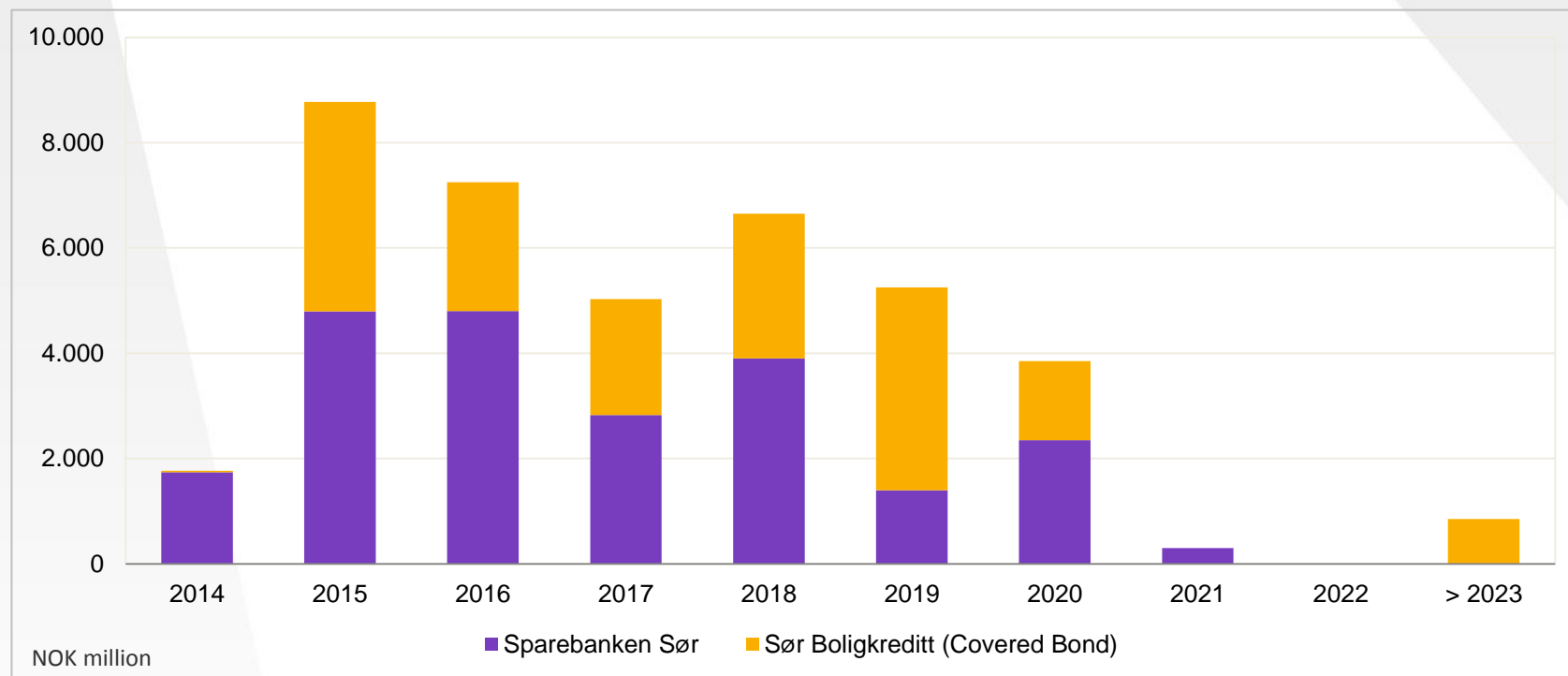


Rating



- Total liquidity portfolio of NOK 11.9 billion
- 100 percent investment grade

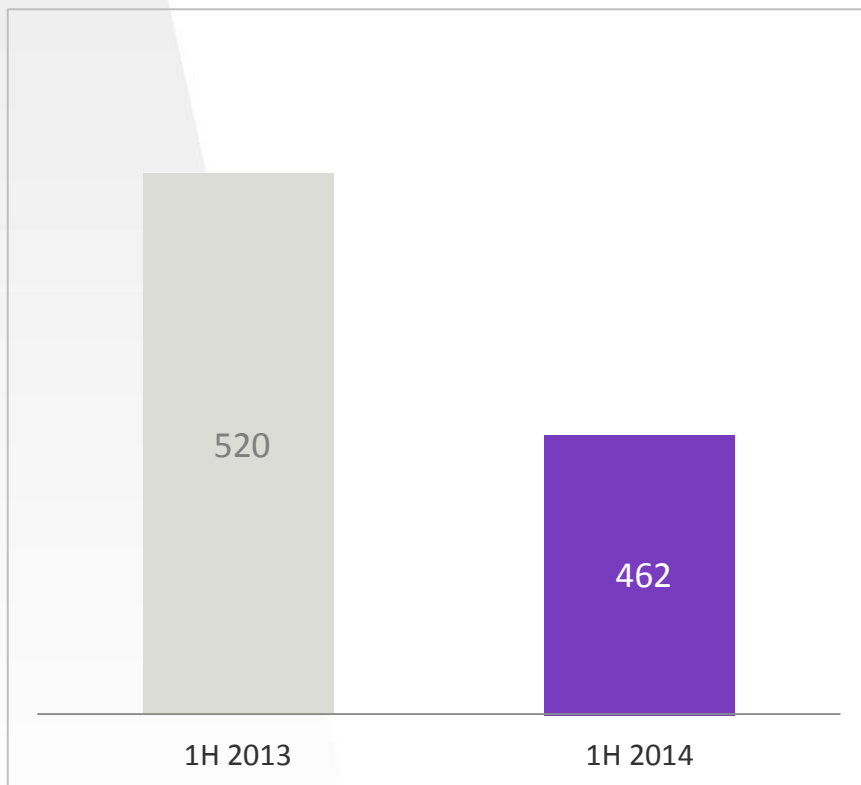
Funding



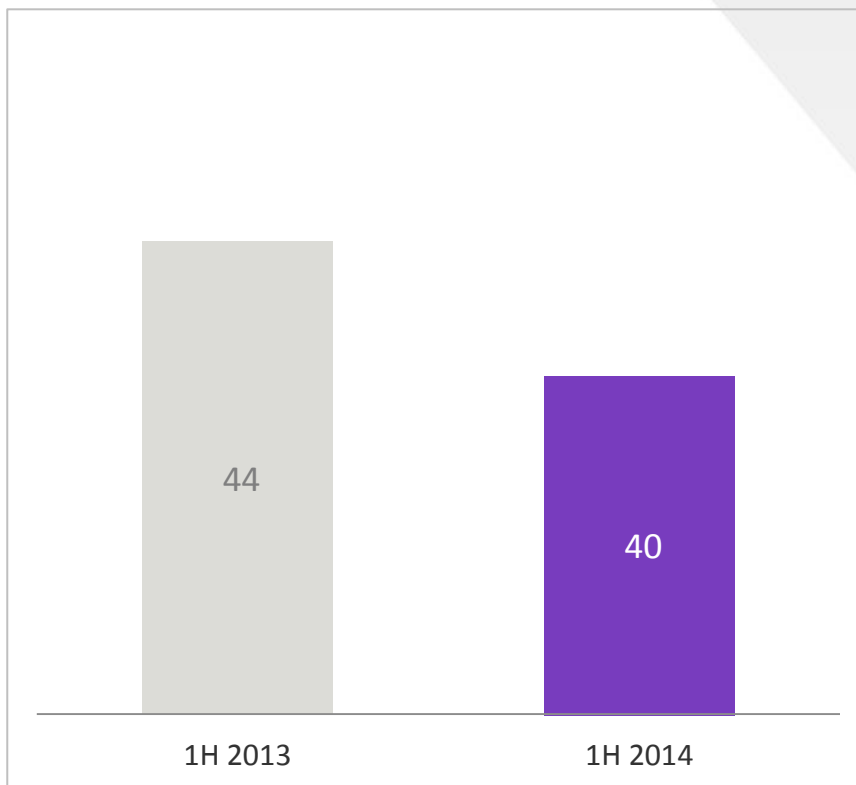
- Total funding of NOK 39,7 billion, with NOK 17,6 billion issued as covered bonds.
- Good access to new funding at reasonable market prices.
- Good maturity structure, provides increased security under volatile conditions.
- Funding > 12 months constitutes 84.8 percent.
- Increasing maturities on new funding.

Synergies from the merger

Number of FTEs in the bank



Number of branches



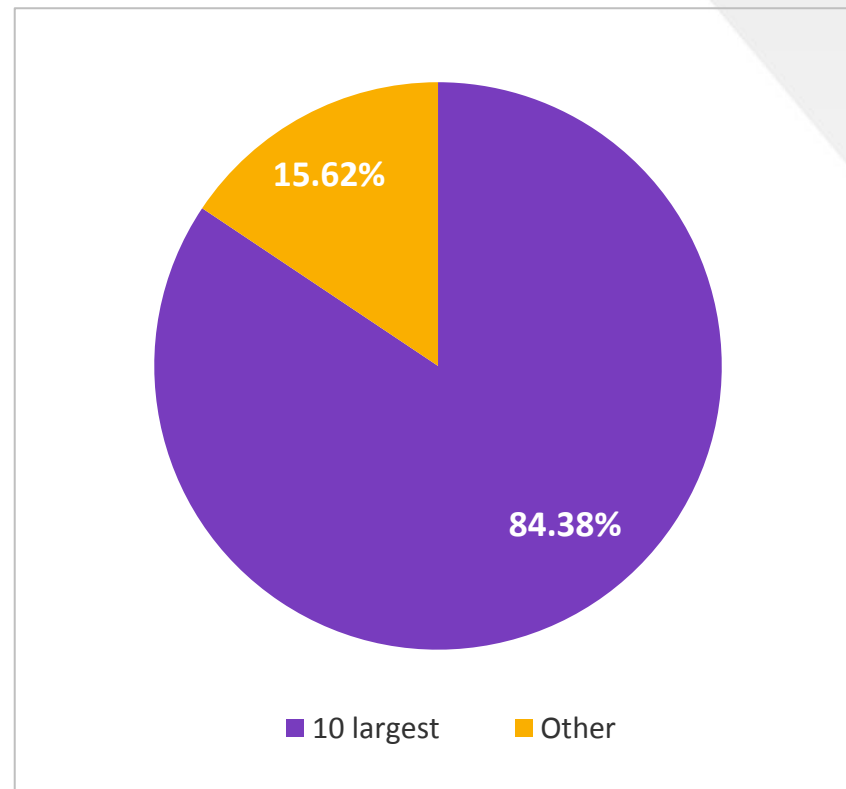
- Staff downsizing being carried out as planned, will reduce cost base over time
- Collocation of staff carried out in the first half of 2014

Equity certificate owners

10 largest EC owners as at June 30th 2014

	Name	Number of EC	Share of EC
1	Sparebankstiftelsen Spb. Sør	3,518,674	73.79 %
2	Pareto AS	124,150	2.60 %
3	Glastad Invest AS	91,250	1.91 %
4	Sparebankstiftelsen DNB	62,300	1.31 %
5	Verdipapirfondet EIKA	61,249	1.28 %
6	Brøvig Holding AS	34,800	0.73 %
7	Harald Espedal AS	34,542	0.72 %
8	Varodd AS	32,800	0.69 %
9	Gumpen Bileiendom AS	32,350	0.68 %
10	Sparebanken Sør	31,600	0.66 %
	10 largest owners	4,023,715	84.38 %

10 largest EC owners as a percentage of total



- As at June 30th 2014 it is issued 4,768,674 equity certificates. The equity certificate ratio is 14.1 percent, cf. note 13.
- Profit per equity certificate (Group) constitutes NOK 12.20. (excluding negative goodwill)

Summary second quarter 2014

Merger	Implementation of merger going ahead as planned, and positive effects are materializing.
Profit and loss	Solid underlying profit increase of NOK 89 million/ 24 percent if adjusted for negative goodwill and value adjustment Nets Holding.
Equity	SIFI clarification without practical impact other than increased flexibility for the bank.
Customers	High activity in the market have secured growth beyond market growth on both deposits and loans.
Summary	Good start for the new Sparebanken Sør !

Future prospects

Macro	Expectations of moderate growth going forward.
Margins	Somewhat reduced margins going forward as a consequence of implemented reduction in the mortgage interest rates.
Commissions	Improvement in the real estate market confirmed by positive development in the banks own real estate agency and in commission income.
Funding	Good access to new funding at reasonable market prices.
Costs	Further cost related synergies to be expected towards the end of 2014.



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