

# Sparebanken Sør

3<sup>rd</sup> quarter 2014



SPAREBANKEN SØR

## Information – reminder...

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Sparebanken Pluss and Sparebanken Sør merged with effect from January 1<sup>st</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> 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.

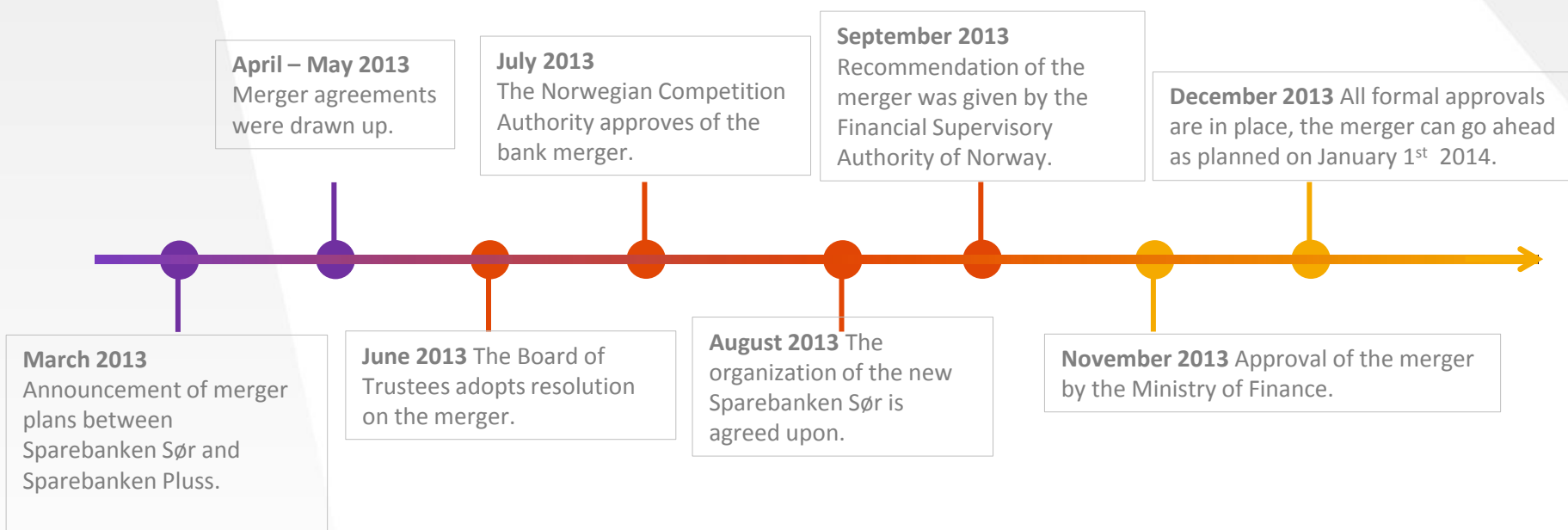
The bank's history dates back to **1824** when Christianssands Sparebank was established as one of the first savings banks in Norway.

The bank's 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 bank's business again was concentrated in the Agder counties.

# The merger – one year of work covered



## Key features 3<sup>rd</sup> quarter 2014

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- Stable and positive development in net interest income and net commission income
  - The bank revenue develops positive in the 3<sup>rd</sup> quarter
- Significant increase in loan losses reduces profit before taxes in the quarter
  - Due to increased loan loss provisions after a comprehensive review of loans to corporate customers
- Operating profit before taxes of NOK 859 million
  - Of which negative goodwill is NOK 200 million and Nets NOK 71 million
- Loan growth of 4.3 percent and growth in deposits of 10.7 percent after the third quarter
- Reduced nominal cost level in the quarter as a result of staff downsizing
  - Cost/income ratio in the quarter of 36.3 % and 38.0 % year to date adjusted for one-off merger costs
- Solid equity and core capital ratio well above regulatory requirements

## Income statement Sparebanken Sør

Pre-tax profit at the end of the third quarter constitutes NOK 859 million. Taking into account non-recurring items related to the merger, the profit constitutes NOK 659 million after the third quarter.

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

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

NOK million	9M 2014	9M 2013
Net interest income	1,136	442
Net commission income	206	59
Net income from financial instruments	166	7
Other operating income	14	9
Total income	1,522	517
Total expenses	414	202
Profit before losses on loans	1,108	315
Losses on loans, guarantees	249	17
Profit before taxes	859	298
Tax expenses	159	88
Profit for the period	701	210



## Income statement – pro forma (excl. negative goodwill)

Pre-tax profit of NOK 659 million, compared with NOK 635 million in 2013 (pro forma).

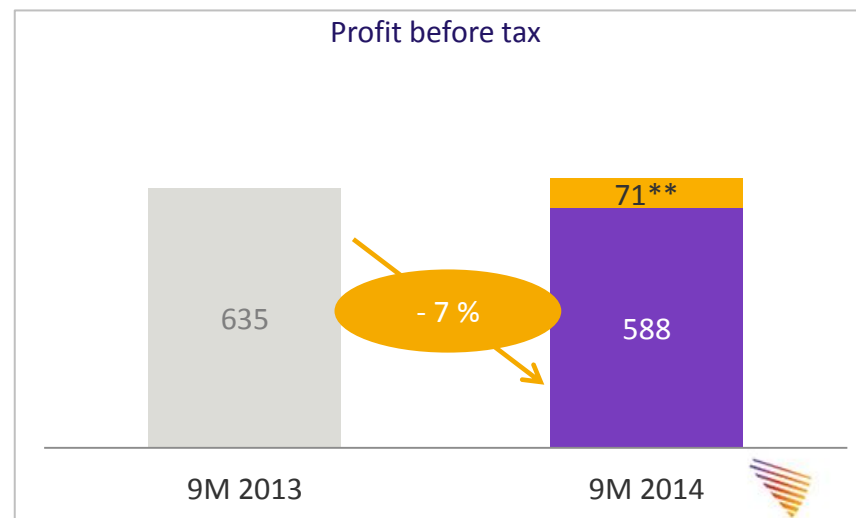
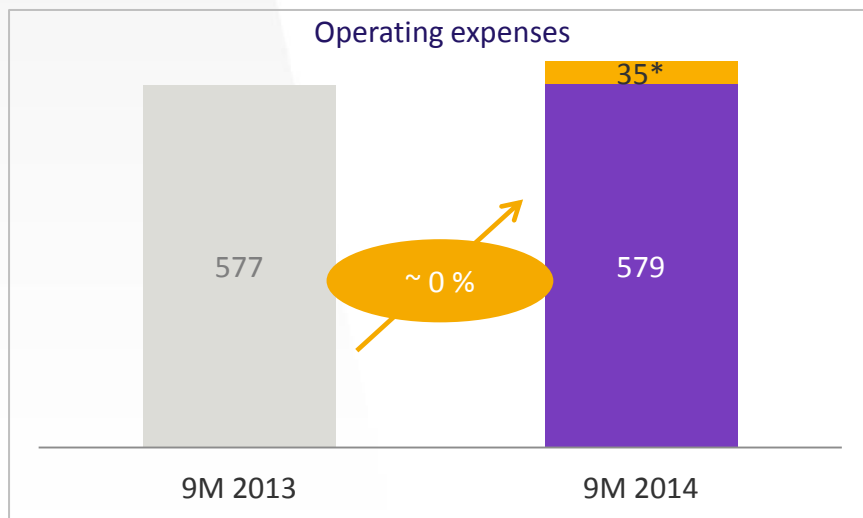
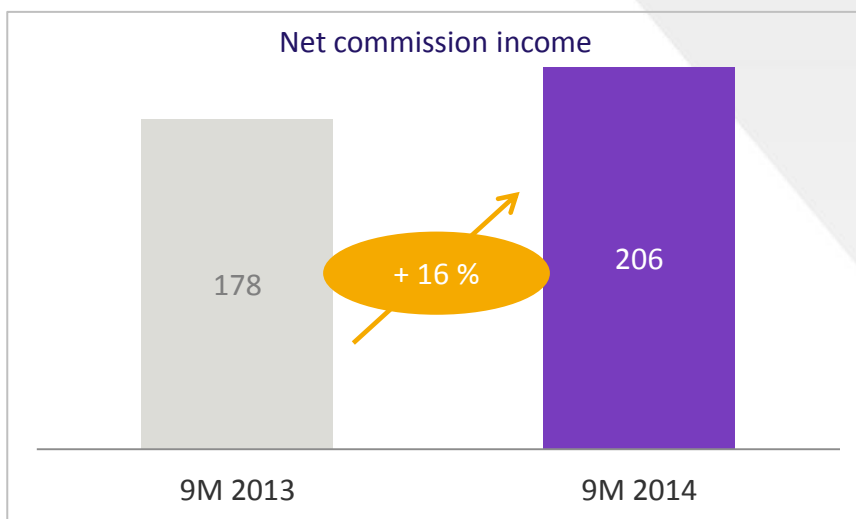
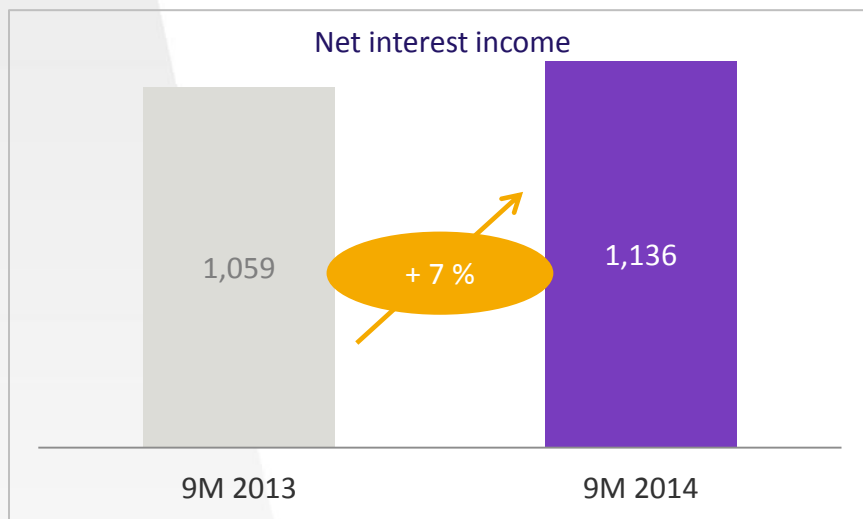
Key features from the business after the third quarter are as follows:

- Increase in revenues from net interest income and net commission income.
- Considerable increase in loan loss provisions on corporate portfolio.
- Net profit from sale of shares in 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 third quarter provides a post-tax RoE of 9.9 percent.

NOK million	9M 2014	9M 2013
Net interest income	1,136	1,059
Net commission income	206	178
Net income from financial instruments	166	25
Other operating income	14	19
Total income	1,522	1,281
Total expenses	614	577
Profit before losses on loans	908	704
Losses on loans, guarantees	249	69
Profit before taxes	659	635

# Pro forma profit and loss items

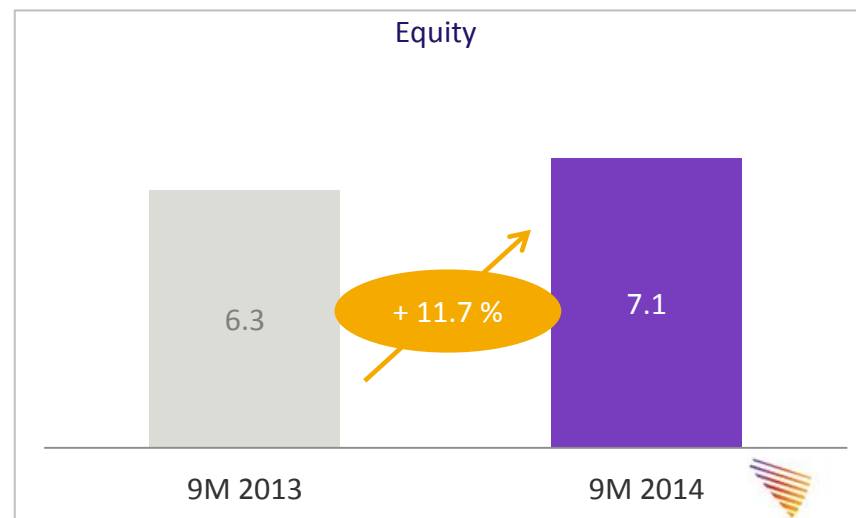
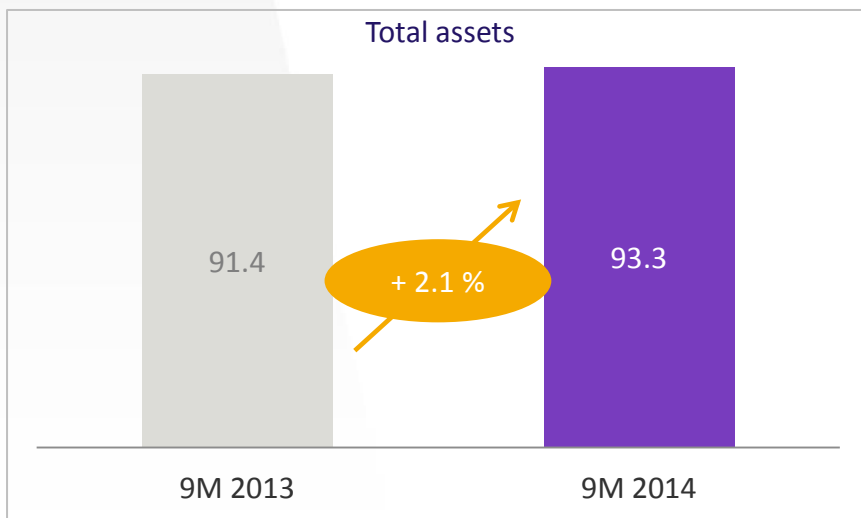
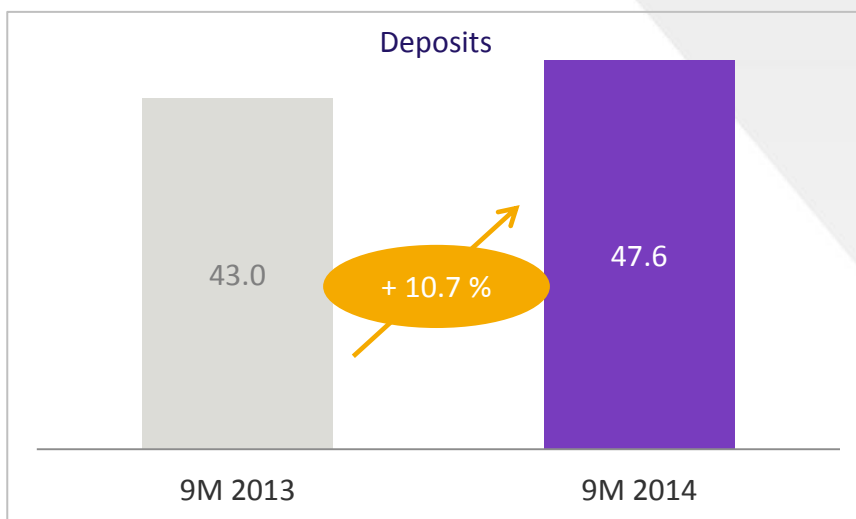
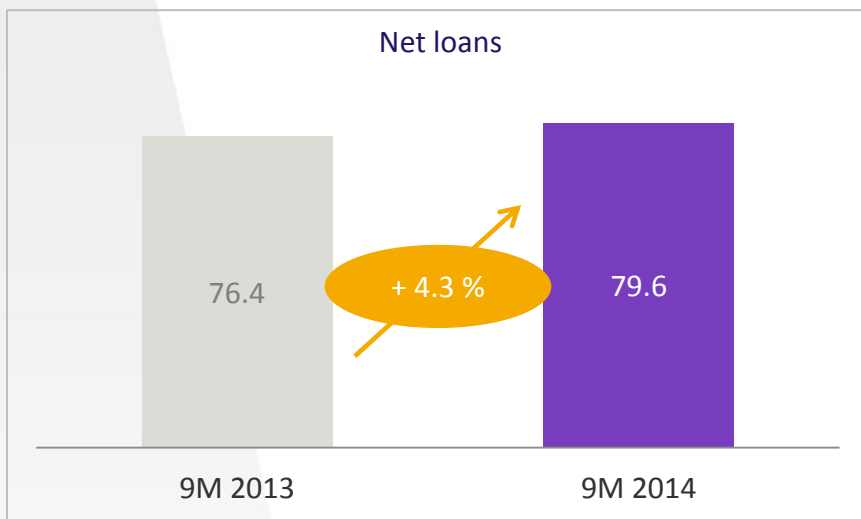


\* One-off merger cost

\*\* One-off net profit from sale of shares in Nets Holding  
NOK million

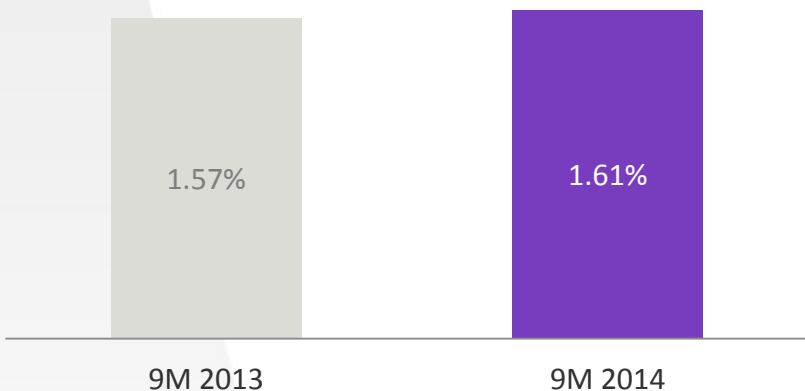


# Pro forma balance sheet items

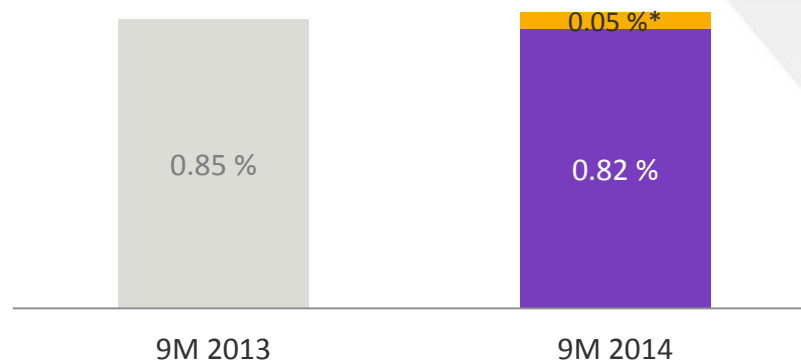


# Pro forma key figures

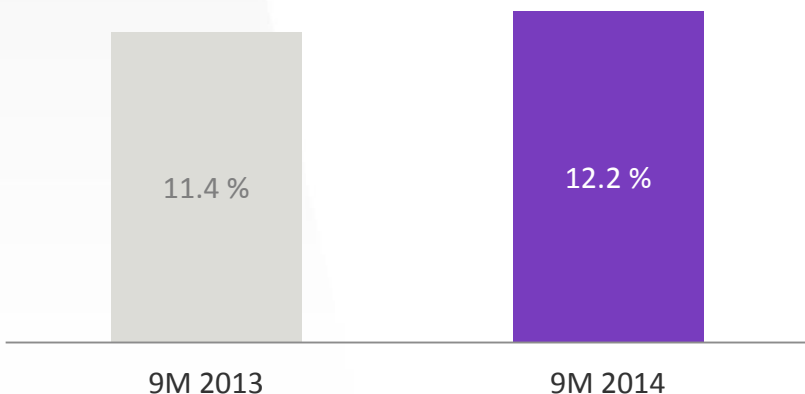
Net interest income as a percentage of average assets



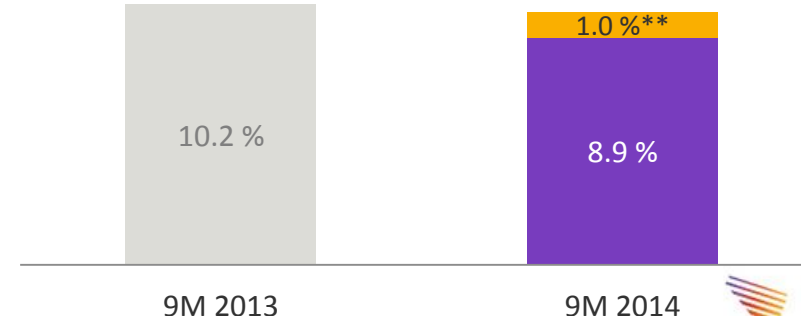
Total expenses as a percentage of average assets



Core Equity Tier 1 capital ratio (CET1)



Post tax RoE



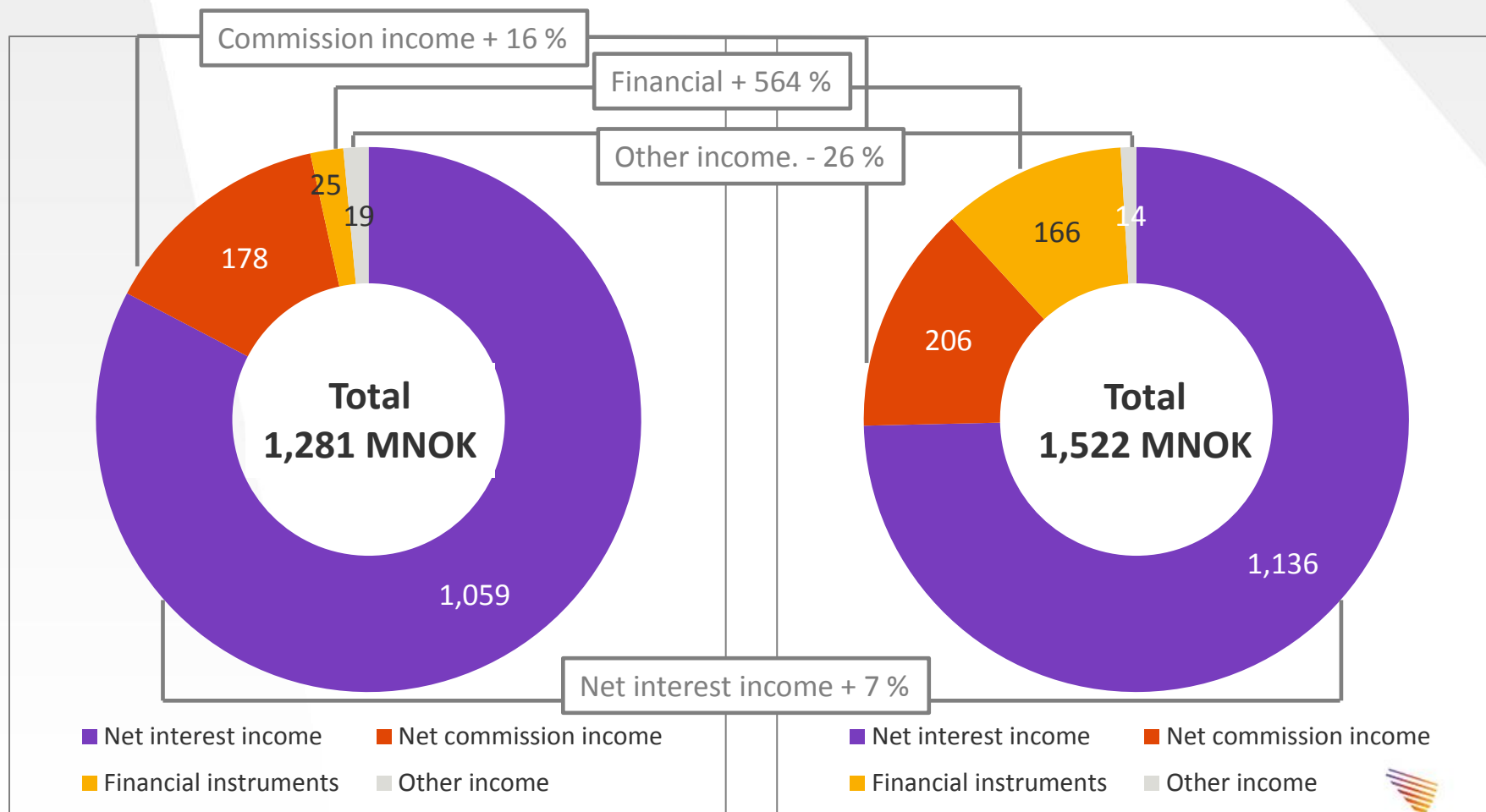
10 \* One-off merger cost

\*\* One-off net profit from sale of shares in Nets Holding

# Total income

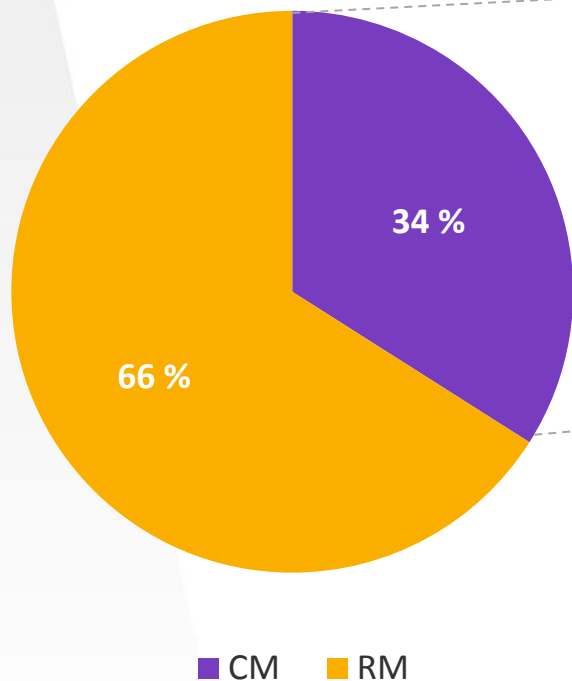
3<sup>rd</sup> quarter 2013

3<sup>rd</sup> quarter 2014

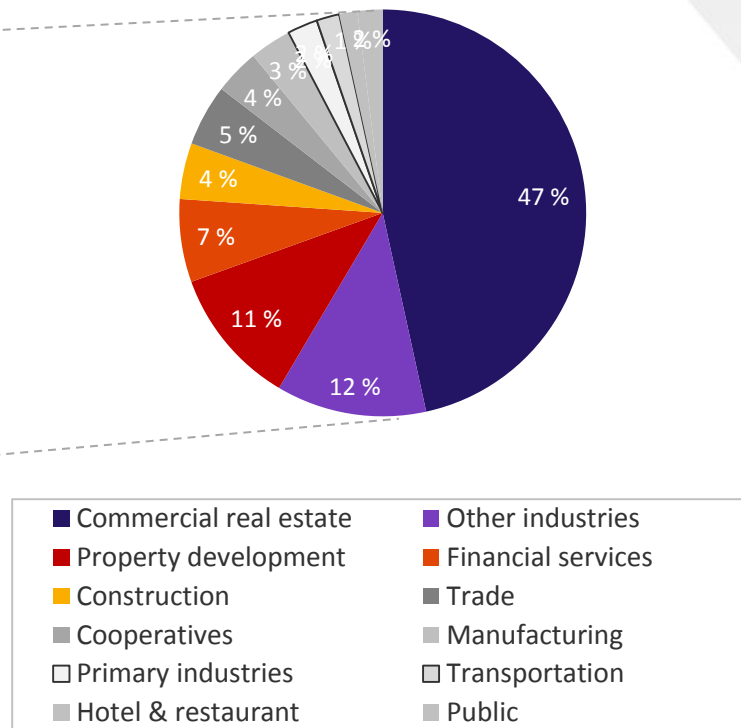


# Loans

## Distribution RM/CM



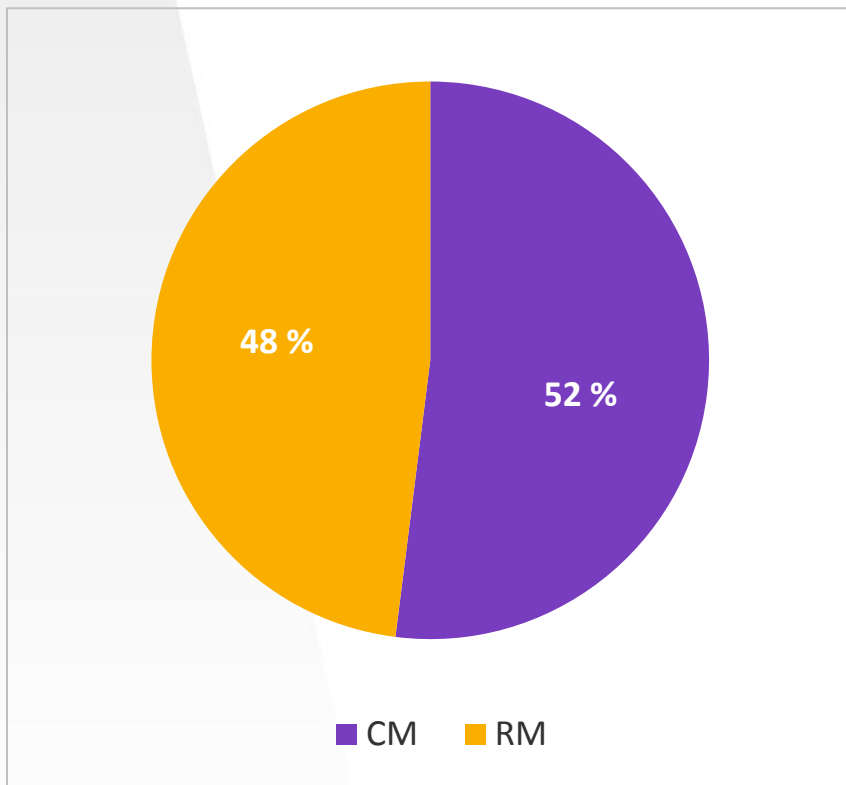
## Distribution Corporate Market



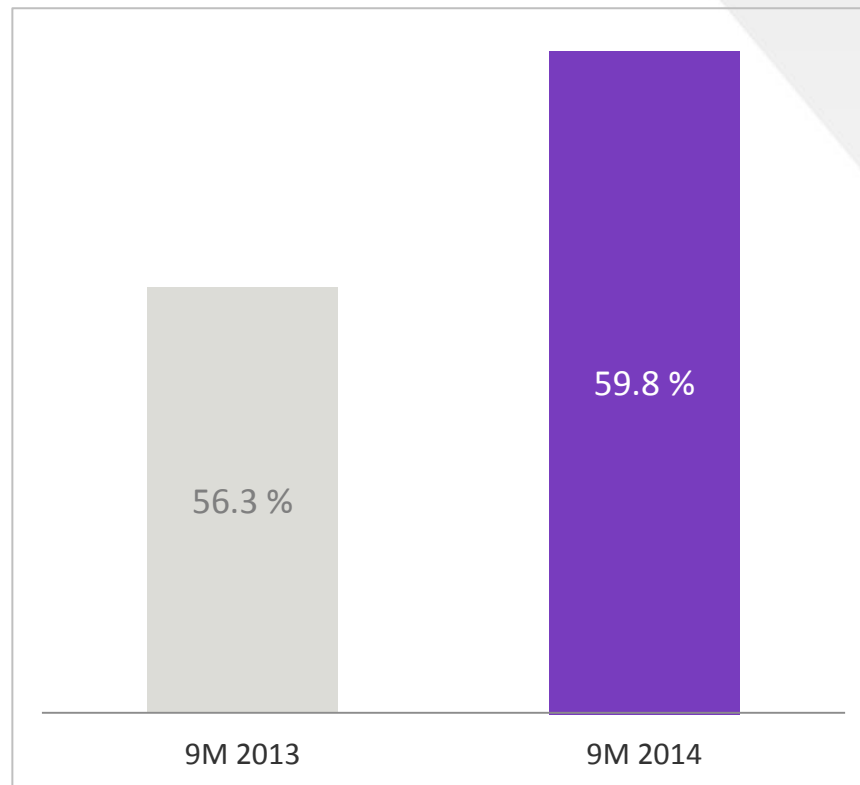
A well-diversified portfolio that reflects the business activity in the region

# Deposits

## Distribution RM/CM



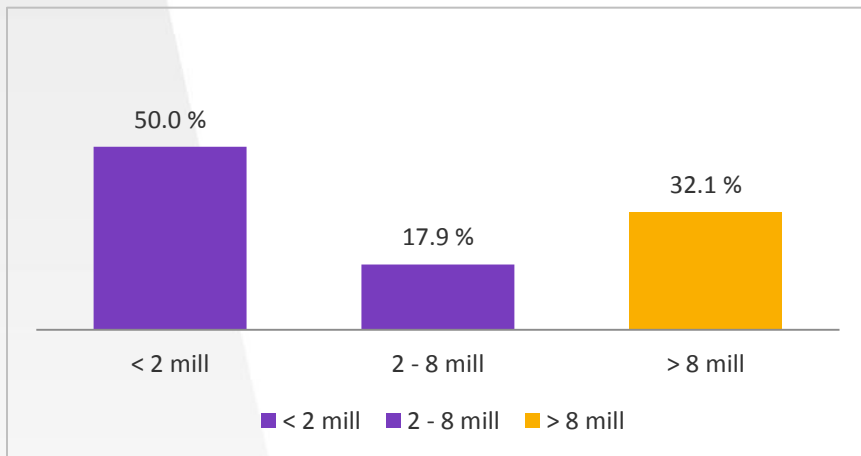
## Net deposit coverage



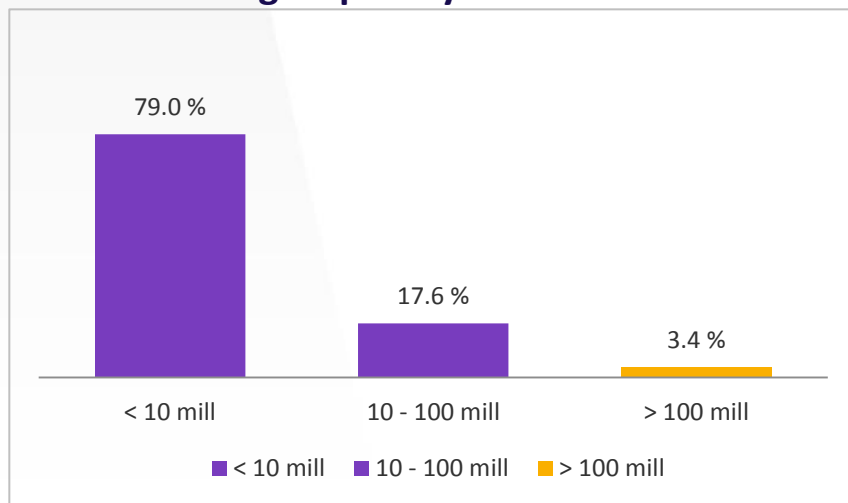
Increasing deposit coverage – focus on deposit growth

# Portfolio

## Deposits grouped by individual size



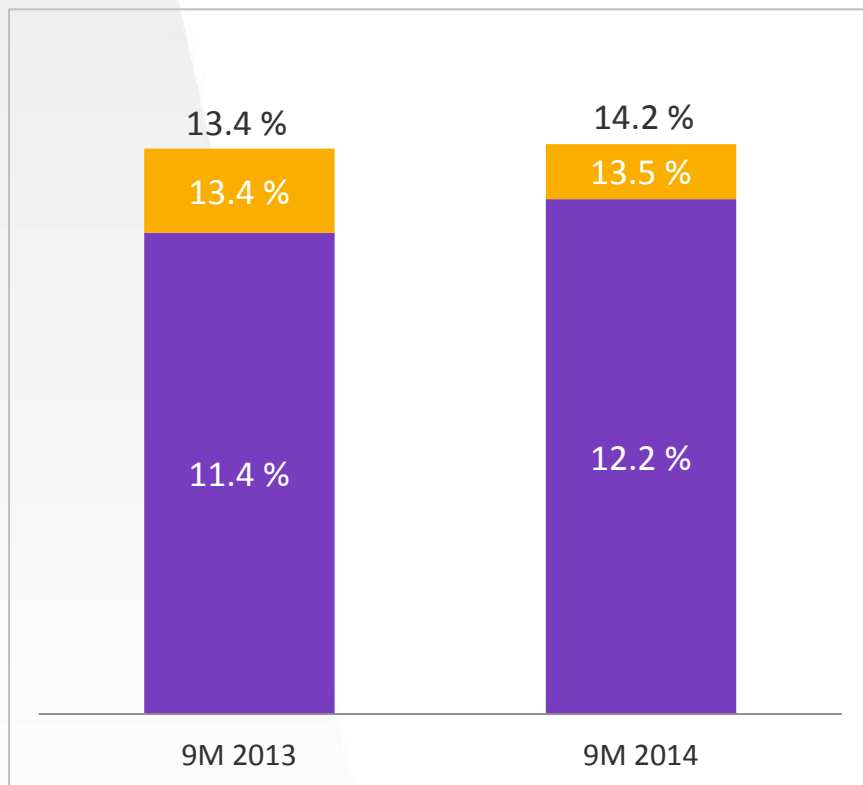
## Loans grouped by individual size



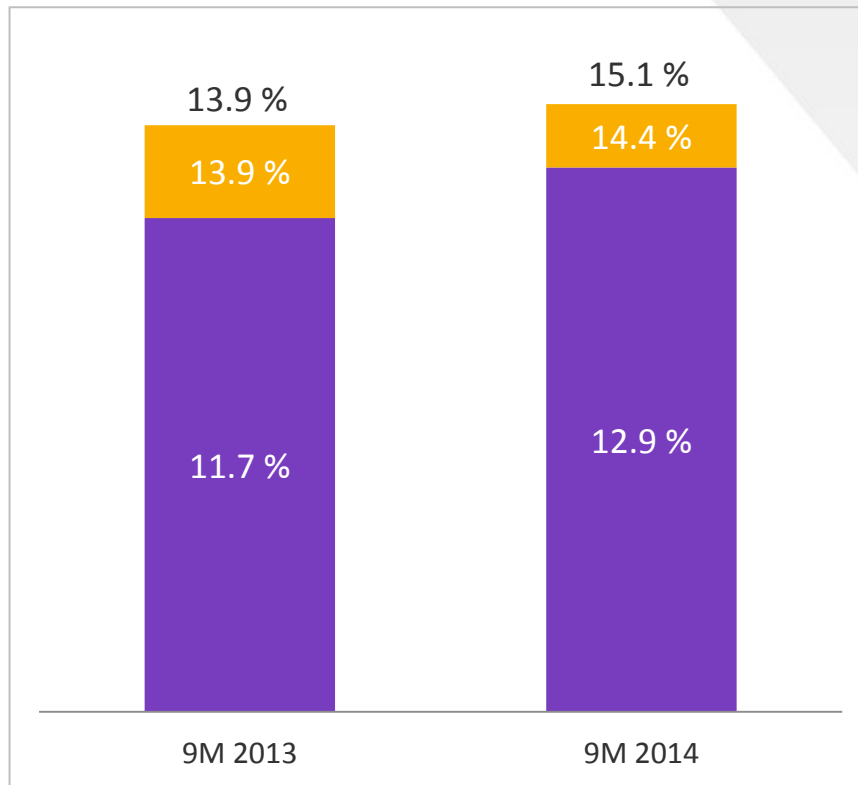
- Proportion of deposits below 2 MNOK constitutes 50 % of the total
- Proportion of deposits between 2 and 8 MNOK constitutes 17.9 %
- Proportion of deposits above 8 MNOK constitutes 32.1 %
  
- Proportion of loans below 10 MNOK constitutes 79 % of the total
- Proportion of loans between 10 and 100 MNOK constitutes 17.6 %
- Proportion of loans above 100 MNOK constitutes 3.4 %

# Capital adequacy

## Group



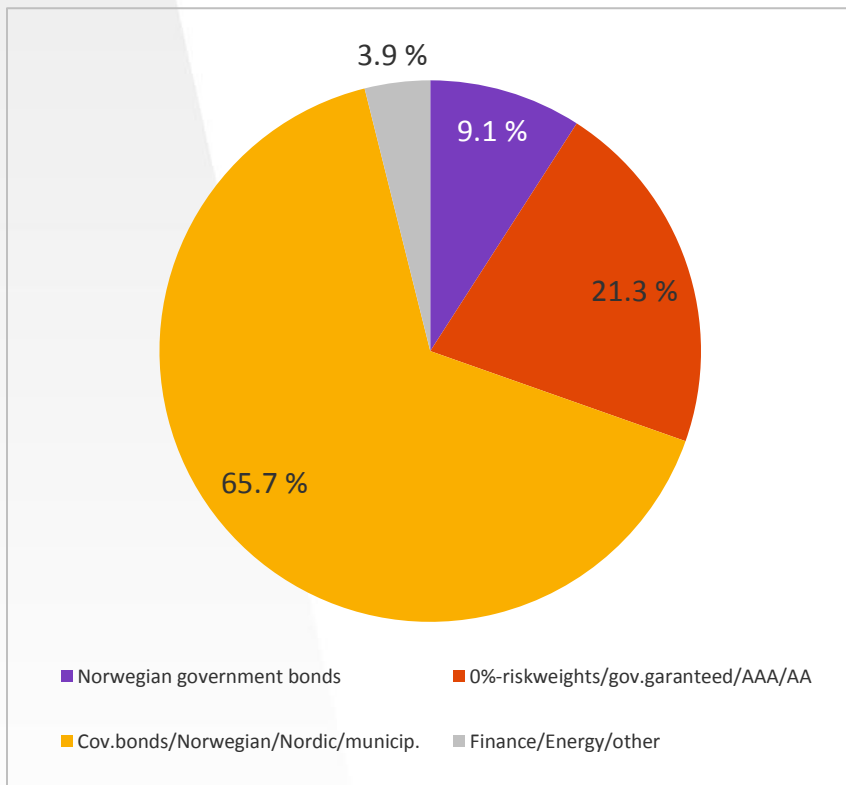
## Parent bank



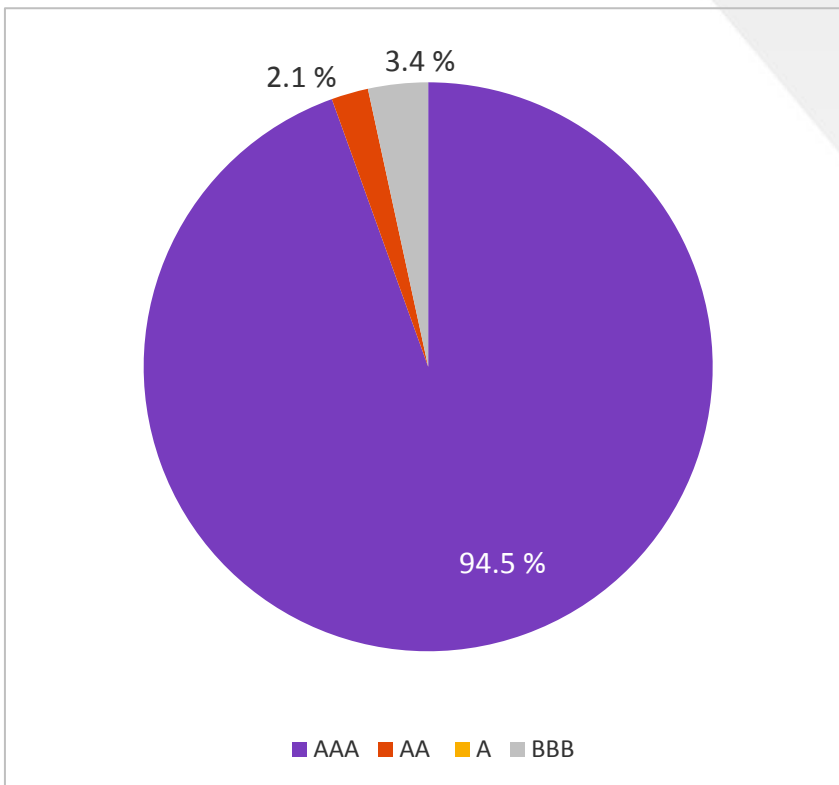
- Core Equity Tier 1 capital of 12.2 percent – regulatory requirement > 10 % as of July 1<sup>st</sup> 2014

# Certificates and bonds

### Assets



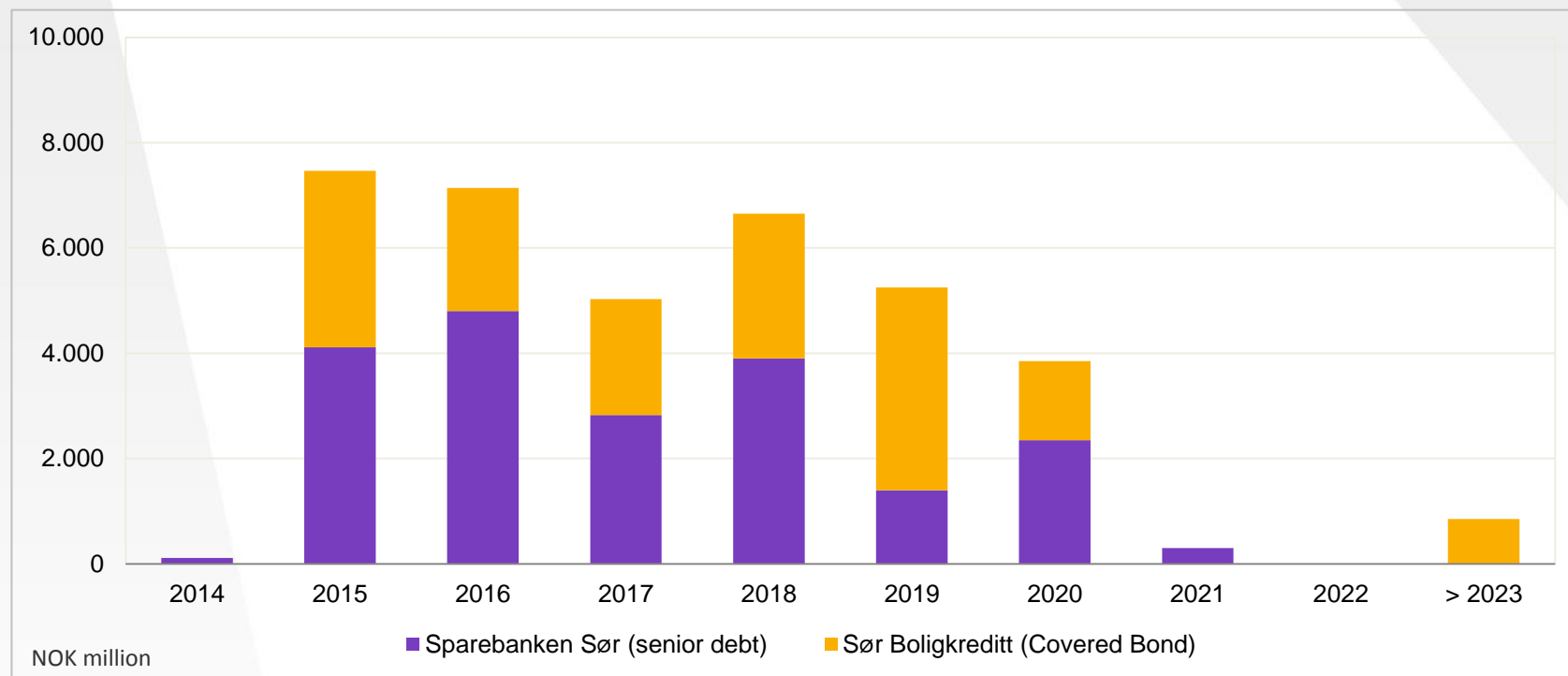
### Rating



- Total liquidity portfolio of NOK 10.9 billion
- 100 percent investment grade



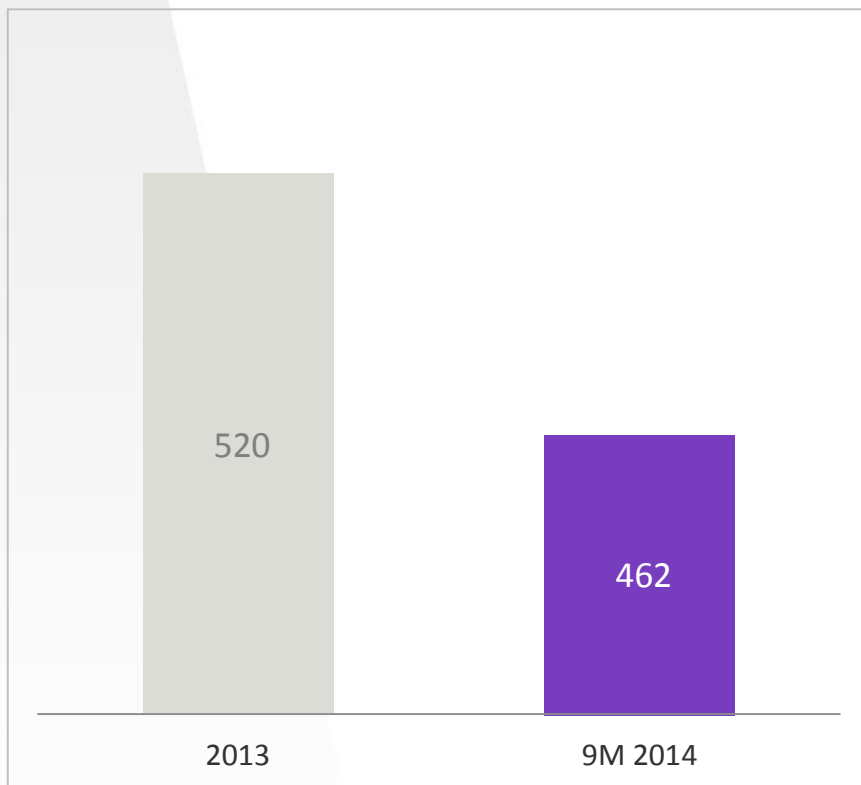
# Funding



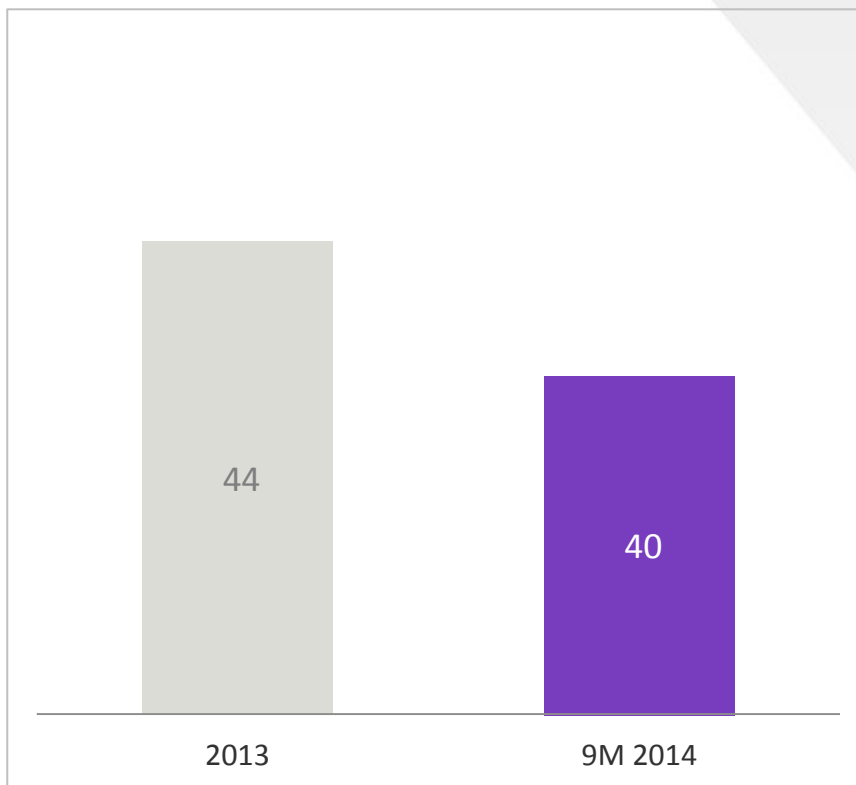
- Total funding of NOK 37 billion, with NOK 17 billion issued as covered bonds.
- Good access to new funding at reasonable market prices.
- Good maturity structure, provides greater security under volatile conditions.
- Funding > 12 months constitutes 81.2 percent.
- Increased duration on new funding.

# Synergies from the merger

Number of FTEs in the bank



Number of branches



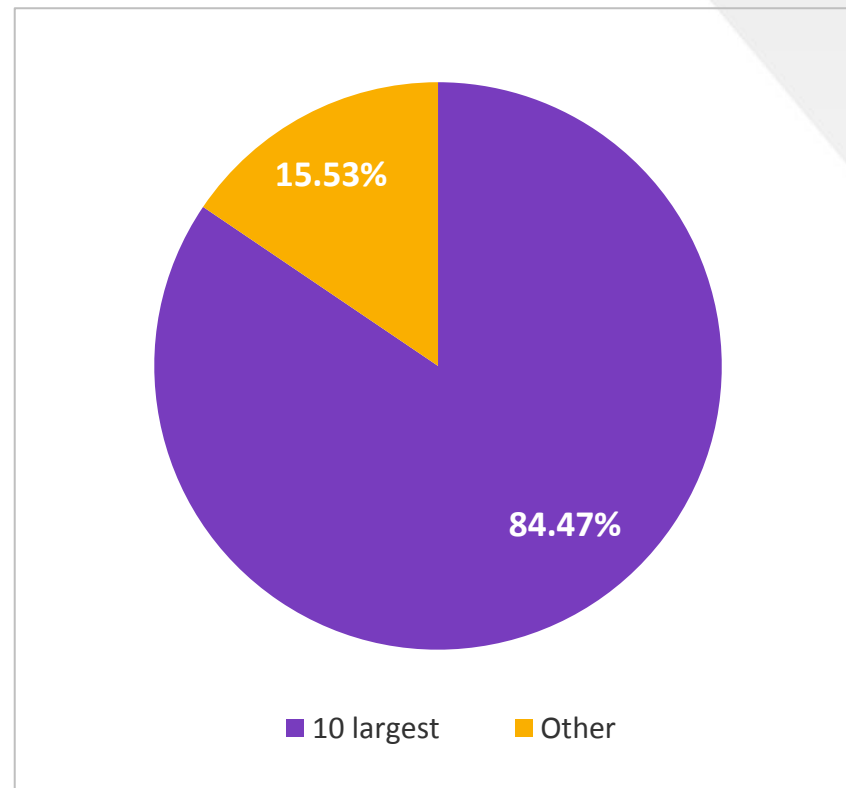
- Staff downsizing being carried out as planned, gives reduced cost base
- Collocation of staff carried out in the first half of 2014

# Equity certificate owners

## 10 largest EC owners as at Sept 30<sup>th</sup> 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	Verdipapirfondet EIKA	65,750	1.38 %
5	Sparebankstiftelsen DNB	62,300	1.31 %
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 %
	<b>10 largest owners</b>	<b>4,028,216</b>	<b>84.47 %</b>

## 10 largest EC owners as a percentage of total



- As at Sept 30<sup>th</sup> 2014, 4,768,674 equity certificates are issued. The equity certificate ratio is 14.1 percent, cf. note 13.
- Profit per equity certificate (Group) constitutes NOK 14.80. (excluding negative goodwill)

## Summary third quarter 2014

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<b>Merger</b>	Implementation of the merger completed, and positive effects are materializing.
<b>Profit &amp; loss</b>	Underlying sound operations, offset by loan loss provisions in the quarter.
<b>Equity</b>	The bank well positioned to meet new capital requirements and regulations.
<b>Customers</b>	High level of activity towards customers has secured solid growth on deposits and satisfactory growth on loans.
<b>Summary</b>	Sound operations in Sparebanken Sør

## Future prospects

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<b>Macro</b>	As a consequence of moderate growth in the Norwegian economy, the bank expects moderate to slower growth going forward.
<b>Margins</b>	Somewhat reduced margins going forward as a consequence of announced reduction in mortgage interest rates.
<b>Commissions</b>	Continued positive performance in the bank's real estate agency and partially owned subsidiaries, contributes to growth in net commission income.
<b>Funding</b>	Good access to new funding at reasonable market prices.
<b>Costs</b>	Further cost related synergies to be expected towards the end of 2014.



**SPAREBANKEN SØR**