

# Sparebanken Sør

1<sup>st</sup> quarter 2015



SPAREBANKEN SØR

# Information

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The merger between Sparebanken Pluss and Sparebanken Sør 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 is a consequence of divergence between the value of net assets and the fee paid in the merger. To prevent dilution of the equity ratio, negative goodwill has been fully recognized immediately after completion of the merger and transferred directly to the dividend equalization fund. (see separate note on the merger). Negative goodwill has been excluded from both the actual accounting figures and the comparative figures.



## Sparebanken Sør current position

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<b>Business</b>	Sparebanken Sør is an independent savings bank offering its products and services to the retail banking market, corporate market and to the public sector.
<b>Size</b>	The fifth largest Norwegian bank with total assets of close to NOK 100 billions.
<b>Employees</b>	Some 450 employees in branch offices across the counties of Aust-Agder, Vest-Agder and Telemark.
<b>Products and services</b>	Traditional banking services- and products, in addition to real-estate agency, life- and non-life insurance, security trade services and leasing through wholly- and partially owned subsidiaries and companies.
<b>Summary</b>	With a strong and powerful ambition, Sparebanken Sør is committed to contribute to further growth and development in its region.

## Key features 1<sup>st</sup> quarter 2015

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- Underlying profit increased by NOK 17 million or 7.2 percent
- Net interest income reduced due to margin pressure, partially compensated by increase in net commission income
- Cost reduction of 5.2 percent
- Low quarterly loan losses
- 5.1 percent loan growth and 6.7 percent deposit growth
- Solid equity and core tier 1 equity ratio well above regulatory requirements
- Return on equity (post-tax) of 10.4 percent

## Income statement Sparebanken Sør

Pre-tax profit at the end of the 1<sup>st</sup> quarter 2015 amounted to NOK 254 millions.

Previous year figures include gain from sale of Nets with NOK 71 millions.

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

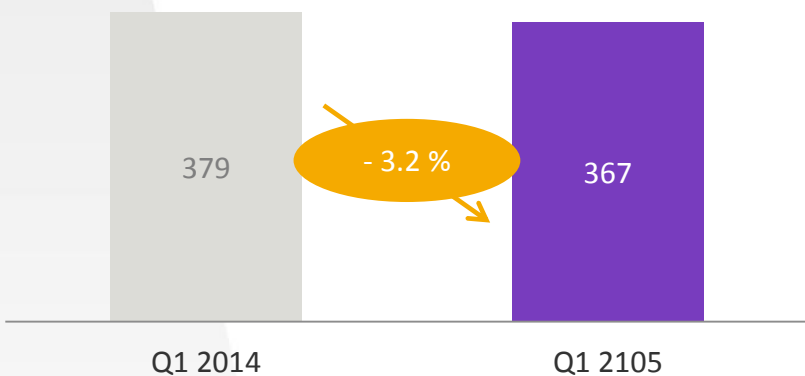
- Reduced net interest income due to margin pressure, compensated by an increase in net commission income.
- Cost reduction and low loan losses.

The results after the first quarter provides a post-tax RoE of 10.4 percent.

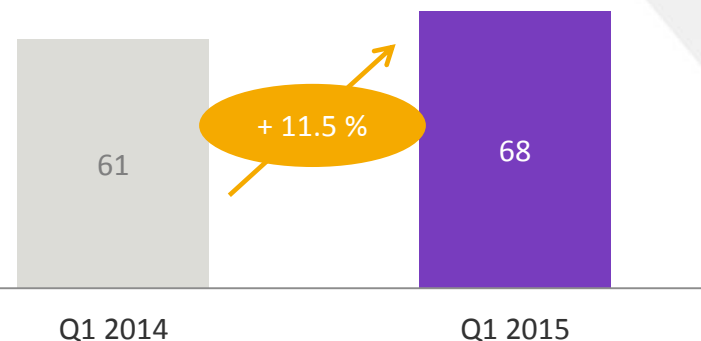
NOK millions	Q1 2015	Q1 2014	ex Nets
Net interest income	367	379	379
Net commission income	68	61	61
Net income from financial instruments	29	101	30
Other operating income	3	5	5
Total income	467	546	475
Total expenses	199	210	210
Profit before losses on loans	268	336	265
Losses on loans, guarantees	14	28	28
Profit before taxes	254	308	237
Tax expenses	69	66	66
Profit for the period	185	242	171

# Profit and loss items

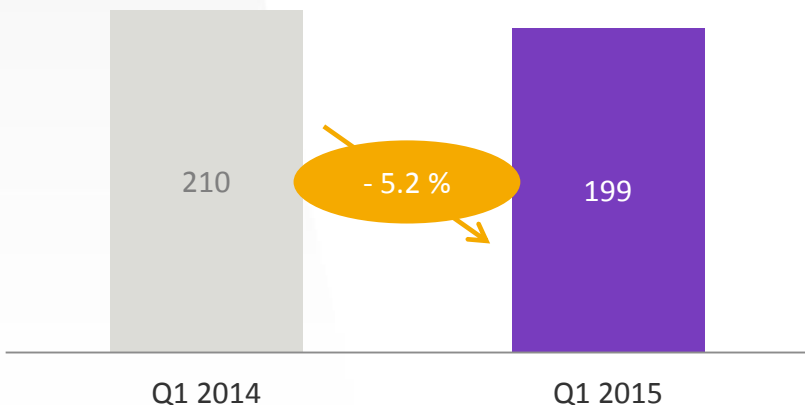
Net interest income



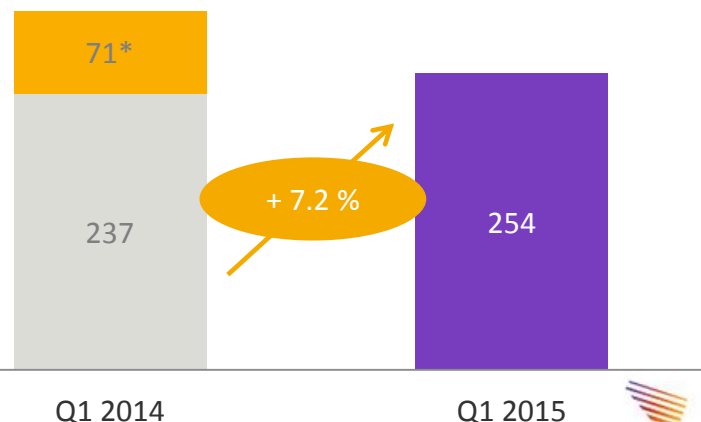
Net commission income



Operating expenses

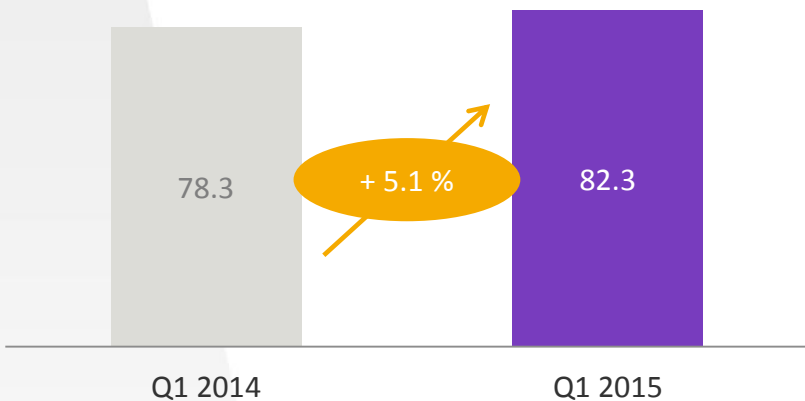


Profit before taxes

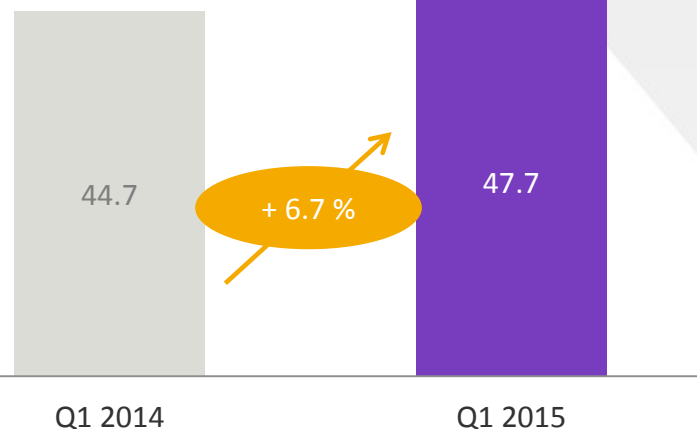


# Balance sheet items

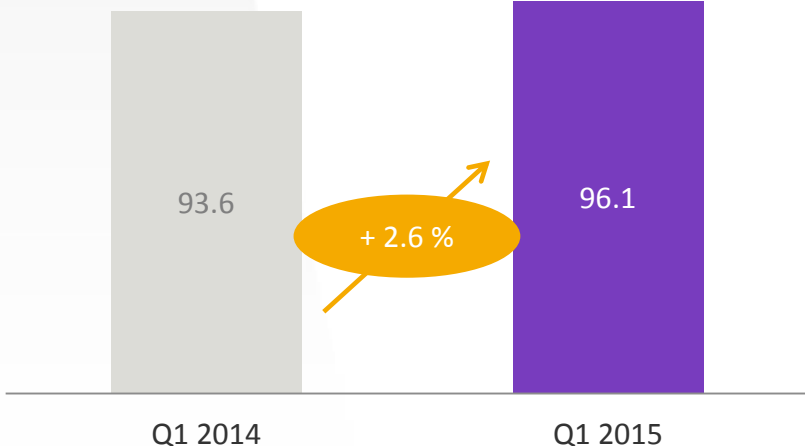
### Net loans



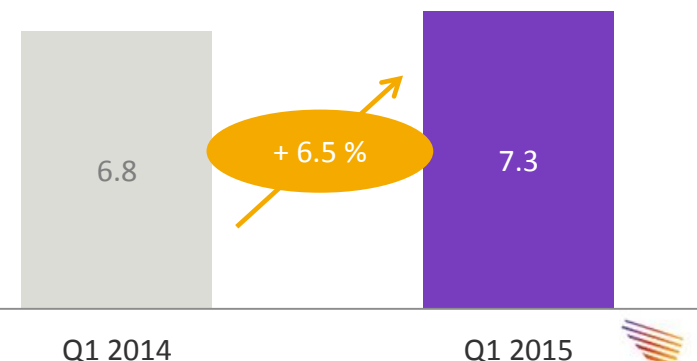
### Deposits



### Total assets



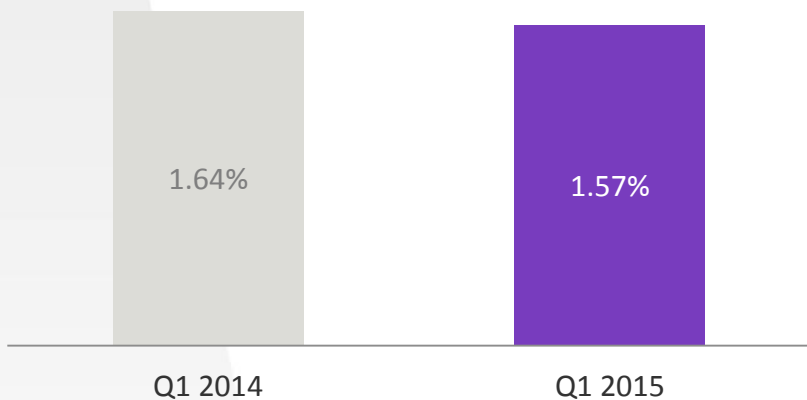
### Equity



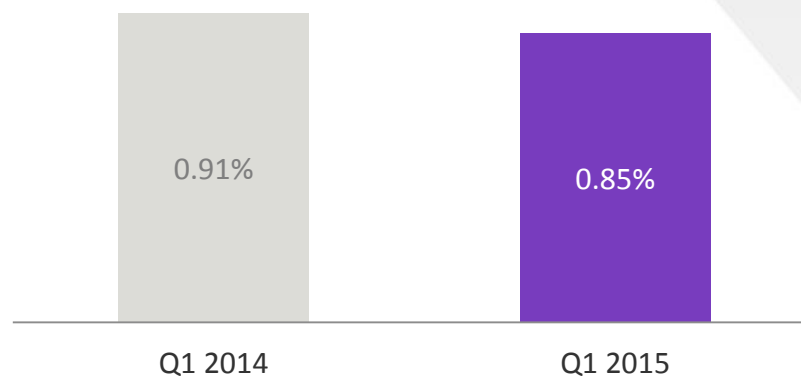


# Key figures

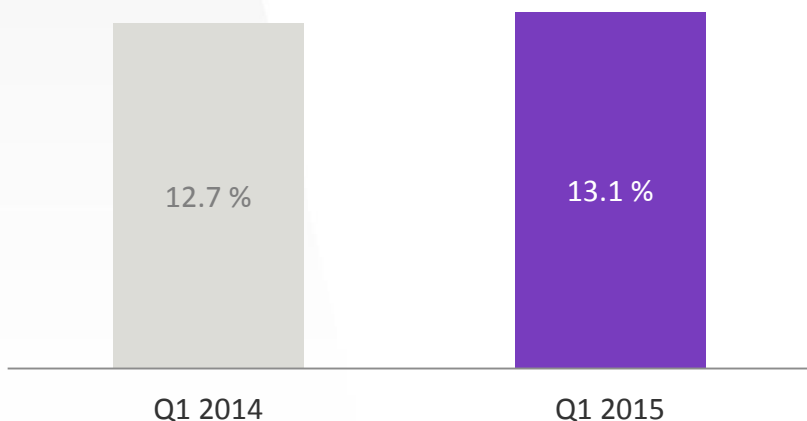
Net interest income as a percentage of average total assets



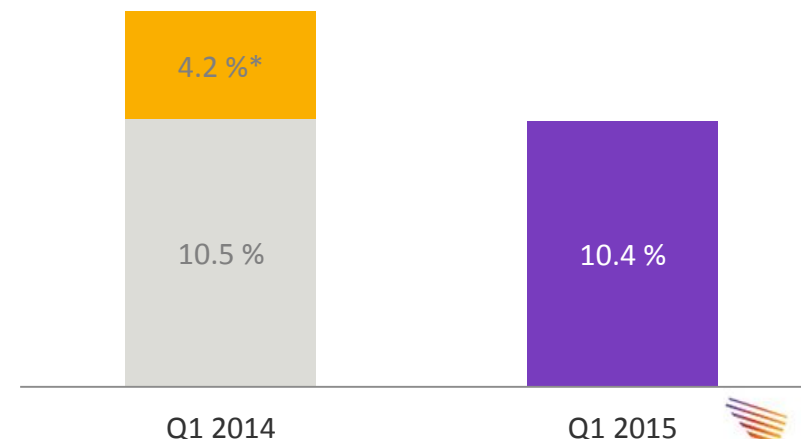
Total expenses as a percentage of average total assets



Core Equity Tier 1 capital ratio (CET1, incl. part of result)

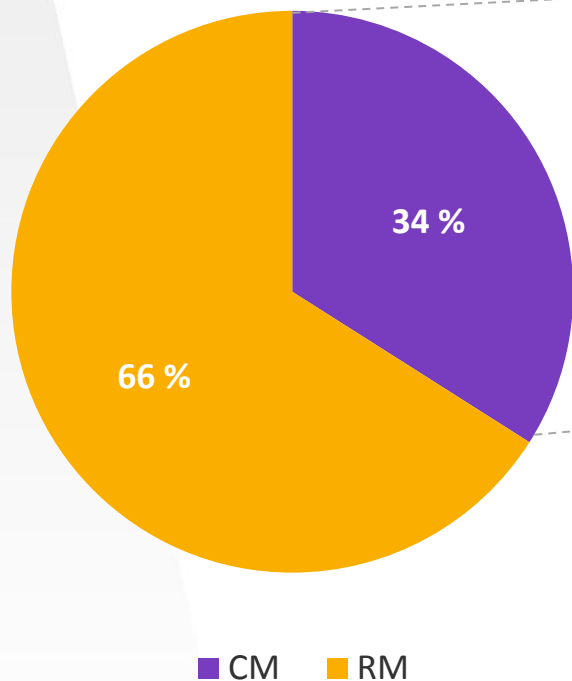


Post tax RoE

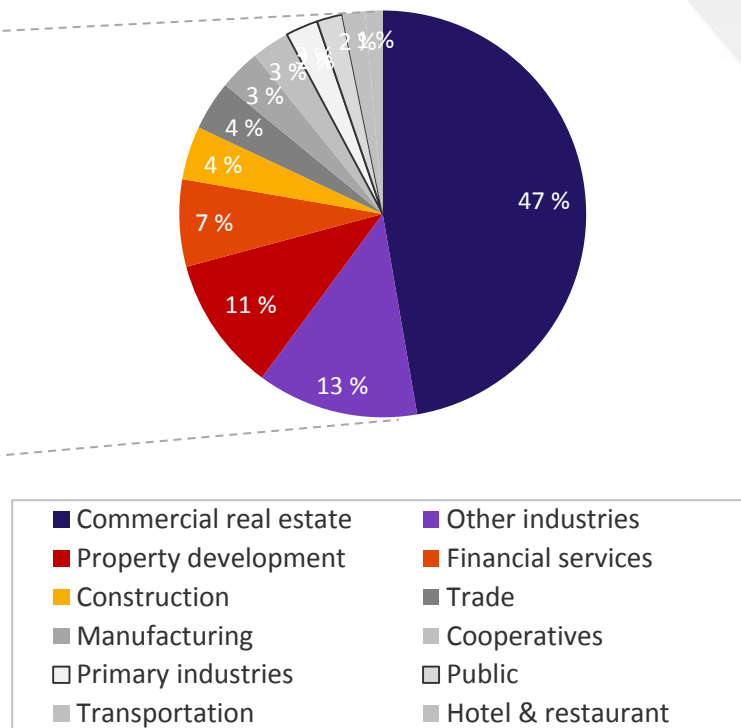


# Loans

## Distribution RM/CM



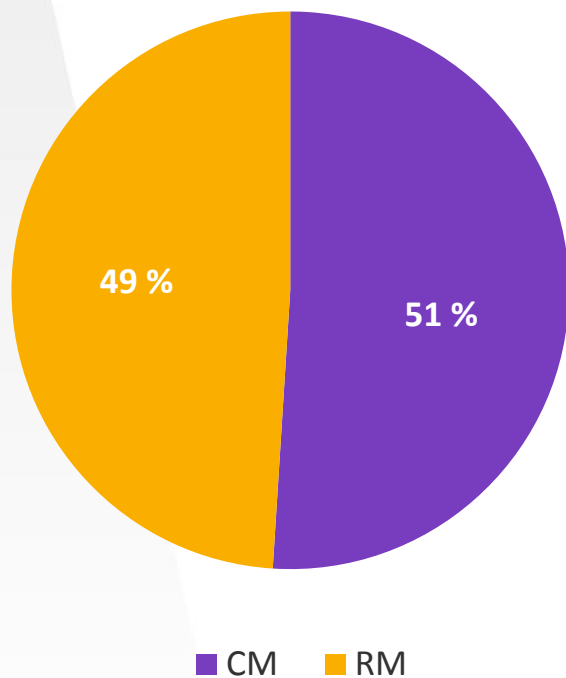
## Distribution Corporate Market



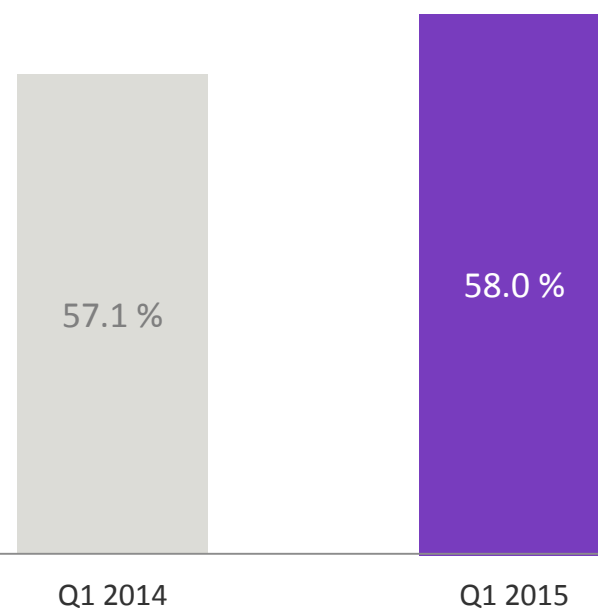
A well-diversified portfolio which reflects the business activity in the region

# Deposits

## Distribution RM/CM



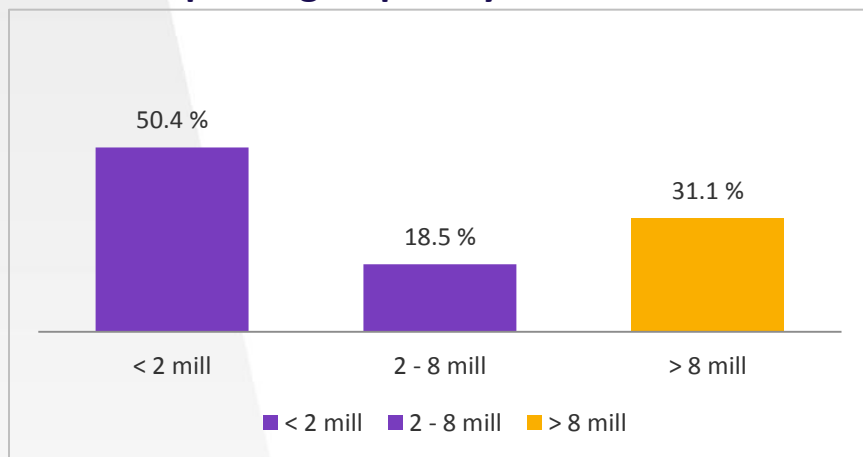
## Ratio of deposits to net loans



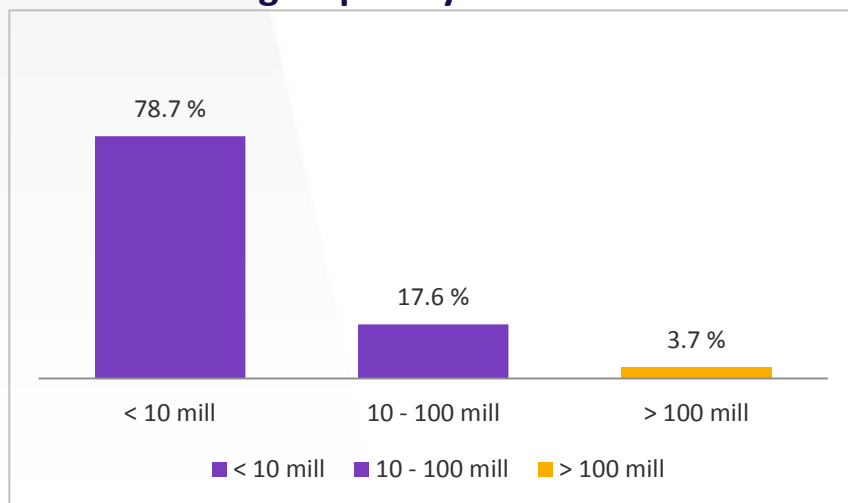
Still high deposit to net loans ratio

# Breakdown of deposits and loans

## Deposits grouped by individual size



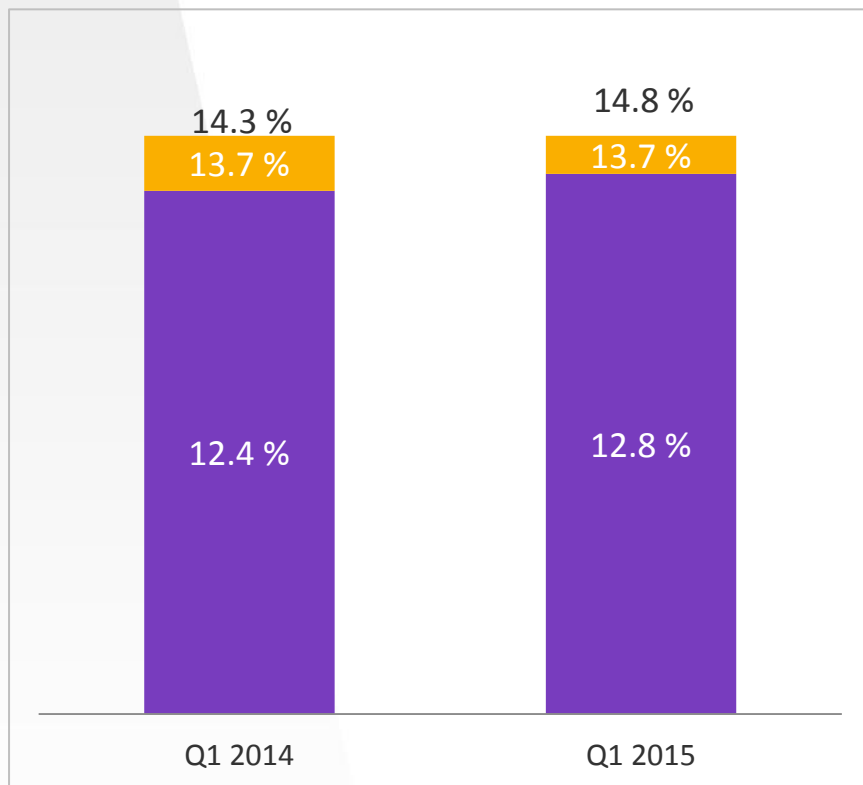
## Loans grouped by individual size



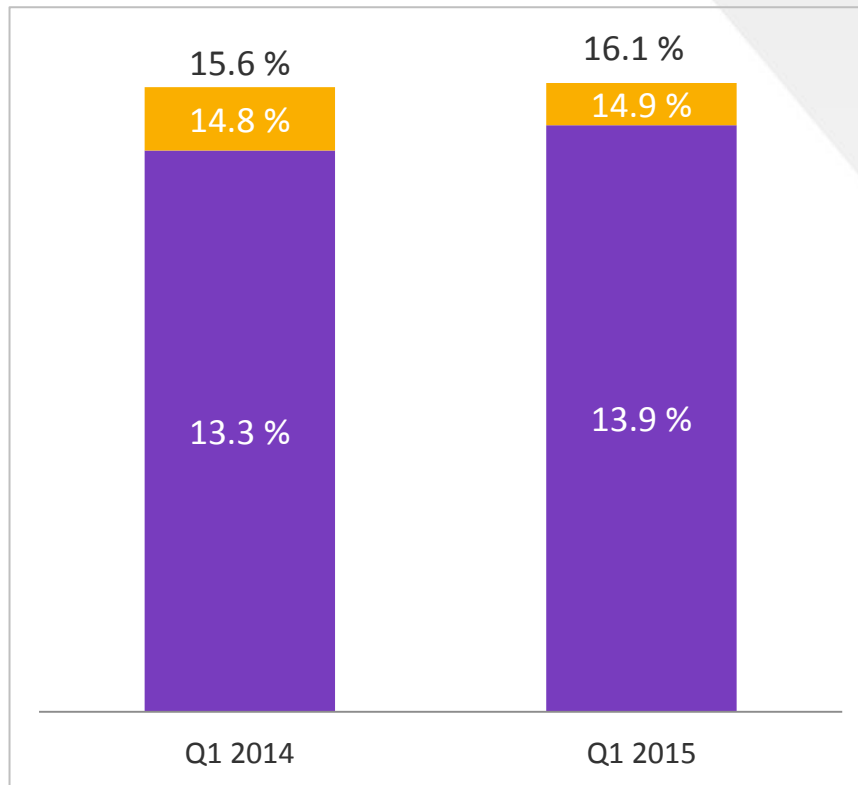
- Deposits with size below 2 MNOK constitutes 50.4 % of total deposits
- Deposits with size between 2 and 8 MNOK constitutes 18.5 %
- Deposits with size above 8 MNOK constitutes 31.1 % of total deposits
  
- Loans with size below 10 MNOK constitutes 78.7 % of total loans
- Loans with size between 10 and 100 MNOK constitutes 17.6 %
- Loans with size above 100 MNOK constitutes 3.7 % of total loans

# Capital adequacy

## Group



## Parent bank



- Core Equity Tier 1 capital of 13.1 percent, including part of 1. quarter result, compared to 12.7 percent by the end of 1<sup>st</sup> quarter 2014.

## Capital adequacy targets

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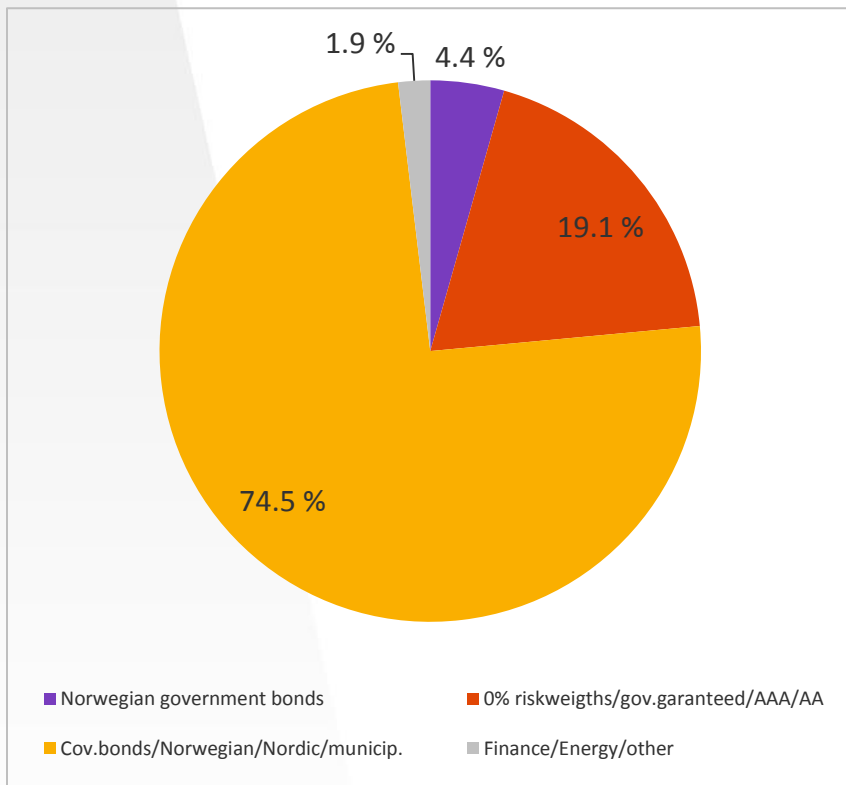
Sparebanken Sør aims to be well-capitalized. Core tier 1 equity ratio should be **above** the regulatory minimum requirements and should match relevant **peers**.

The groups long term target for core tier 1 equity ratio is currently at **14.0 percent**.

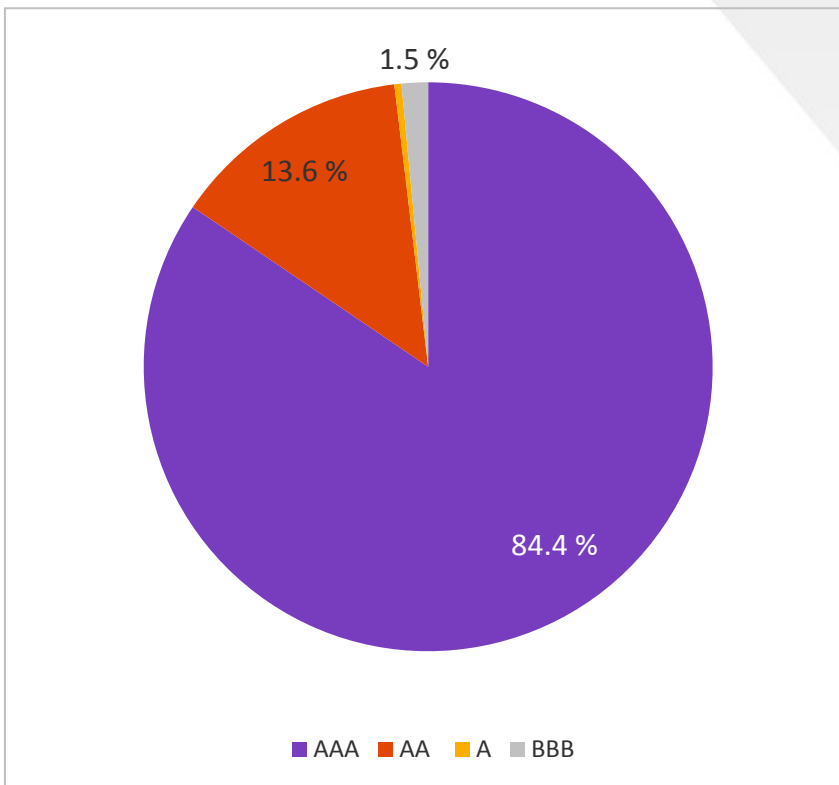
The banks capital structure is considered strong with regards to current regulatory requirements.

# Certificates and bonds

### Assets

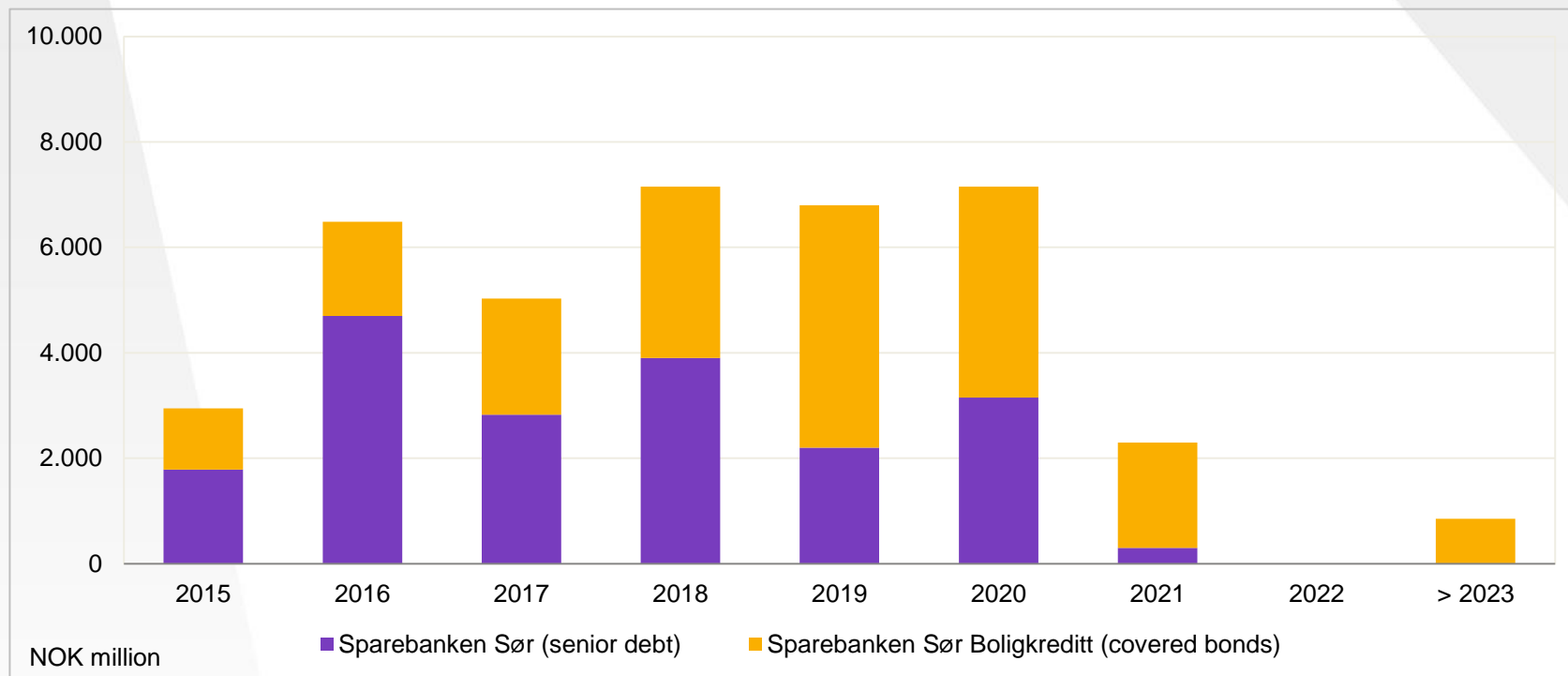


### Rating



- Total liquidity portfolio of NOK 11.3 billion
- 100 percent investment grade

# Funding

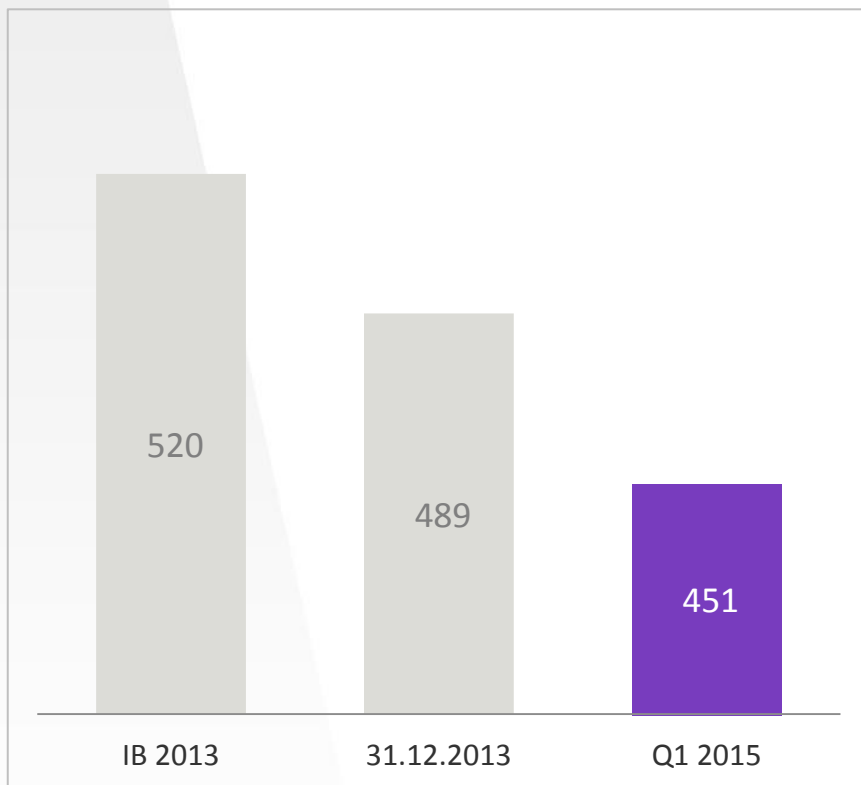


- Total funding of NOK 39 billion, with NOK 20 billion issued as covered bonds.
- Satisfactory access to new funding at reasonable market prices.
- Well diversified maturity structure, which reduces liquidity risk.
- Funding with maturities > 12 months constitutes 82.9 percent.
- Liquidity indicator above regulatory requirements.

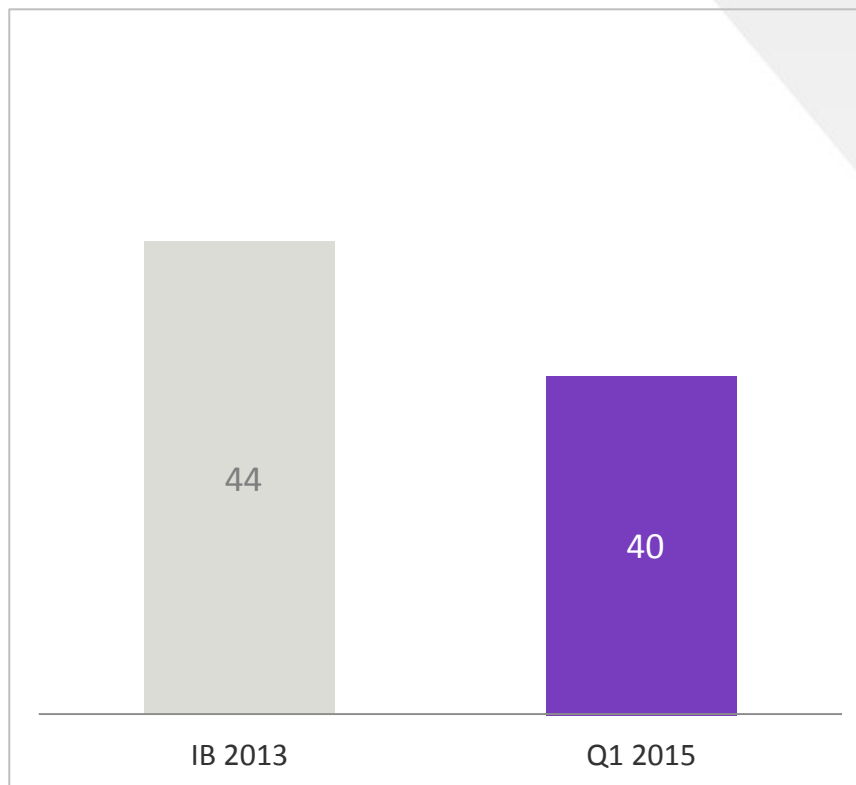


# Synergies from the merger

## Number of FTEs in the bank



## Number of branches



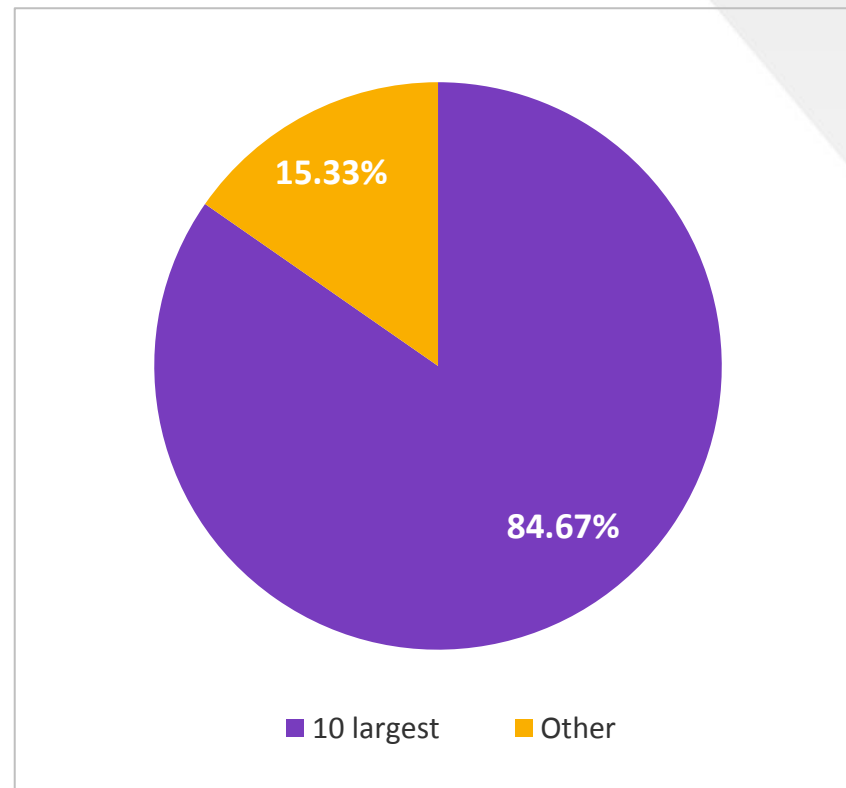
- Staff downsizing is being carried out faster than planned for, which reduces the cost base
- The branch structure is under consideration due to increase in use of digital channels

# Equity certificate owners

## 10 largest EC owners as of March 31<sup>st</sup> 2015

	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	90.000	1,89 %
4	Verdipapirfondet EIKA	84.271	1,77 %
5	Sparebankstiftelsen DnB	62.300	1,31 %
6	Brøvig Holding AS	34.800	0,73 %
7	Varodd AS	32.800	0,69 %
8	Gumpen Bileiendom AS	32.350	0,68 %
9	Sparebanken Sør	31.600	0,66 %
10	MP Pensjon PK	26.900	0,56 %
	<b>10 largest owners</b>	<b>4.037.845</b>	<b>84,67 %</b>

## 10 largest EC owners as a percentage of total



- As of March 31<sup>st</sup> 2015, 4,768,674 equity certificates are issued. The equity certificate ratio is 13.5 percent.
- Profit per equity certificate (Group) constitutes NOK 5.20.

## Dividend policy

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Sparebanken Sør will through sound, stable and profitable operations secure that it's equity certificate owners achieve a **competitive return** in terms of **dividend and appreciation** on their equity certificates.

**The surplus will be distributed** between the equity certificate capital and the primary capital in accordance with their share of the equity.

When determining the annual dividend, Sparebanken Sør's **capital accumulation plan** (including **regulatory requirements**), **expectations from investors** and the bank **strategic targets** will be taken into consideration.

It is our ambition that **approx. 50 percent** of the equity certificate capital share of annual profits after tax, should be cash dividend.

## Summary 1<sup>st</sup> quarter 2015

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<b>Merger</b>	One year of merger is behind us and the process with establishing “a bank for the future” is well on the way.
<b>Profit</b>	A solid result for the 1 <sup>st</sup> quarter is positively influenced by improvement in net commission income, costs and loan losses, but challenged by margin pressure.
<b>Rating</b>	The bank’s A2 rating from Moody's was under review for an upgrade. As of May 12 <sup>th</sup> 2015 the bank’s long-term deposit rating was confirmed A1.
<b>Growth</b>	Growth in deposits of NOK 3.0 billions or 6.7 percent and growth in total lending of NOK 4.0 billions or 5.1 percent.
<b>Summary</b>	Sound underlying operations in the 1 <sup>st</sup> quarter of 2015.

## 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>Regulations</b>	Possible change in regulatory framework could restrict Norwegian banks ability to achieve further growth in lending volumes going forward.
<b>Interest rates</b>	Continued pressure on mortgage rates and lower rates on deposits. Already low deposit rates limits the possibilities for further reductions and for compensating further pressure on lending rates.
<b>Funding</b>	Satisfactory access to new funding at reasonable market prices.
<b>Summary</b>	Continuous operational adaptations are implemented to secure a competitive and cost-effective bank going forward.



SPAREBANKEN SØR