

Sparebanken Sør

4th 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 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.

Key features 2014

- A solid and strong first year of operation for the new Sparebanken Sør
 - Revenue develops positive and totaled more than NOK 2 billion for 2014
- Net interest income of NOK 1,511 million, an increase of 5 percent from 2013
- Nominal reduction in operating expenses adjusted for cost related to the merger
 - Cost/income ratio of 39.2 percent adjusted for merger cost
- Operating profit before taxes of NOK 900 million (excluding negative goodwill)
- Loan book totaled more than NOK 80 billion at year end 2014
 - 12 month growth of NOK 3.5 billion / 4.5 percent
- Deposit coverage increased from 56.5 to 59.5 percent
 - 12 month deposit growth of NOK 4.5 billion / 10.3 percent
- Solid equity and Core Equity Tier 1 ratio of 13.1 percent well above regulatory requirements
 - Post tax return on equity of 10.1 percent
- Board proposes dividend of NOK 10.00 per equity certificate

Income statement Sparebanken Sør

Pre-tax profit at the end of the fourth quarter constitutes NOK 1,100 million. Taking into account non-recurring items related to the merger, the profit constitutes NOK 900 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	2014	2013
Net interest income	1,511	602
Net commission income	284	80
Net income from financial instruments	184	19
Other operating income	23	11
Total income	2,002	712
Total expenses	634	271
Profit before losses on loans	1,368	441
Losses on loans, guarantees	268	28
Profit before taxes	1,100	413
Tax expenses	215	111
Profit for the period	885	302



Income statement – pro forma (excl. negative goodwill)

Pre-tax profit of NOK 900 million, compared with NOK 992 million in 2013 (pro forma). 2013 figures include value adjustment of NOK 188 million regarding shares in Nets and Frende.

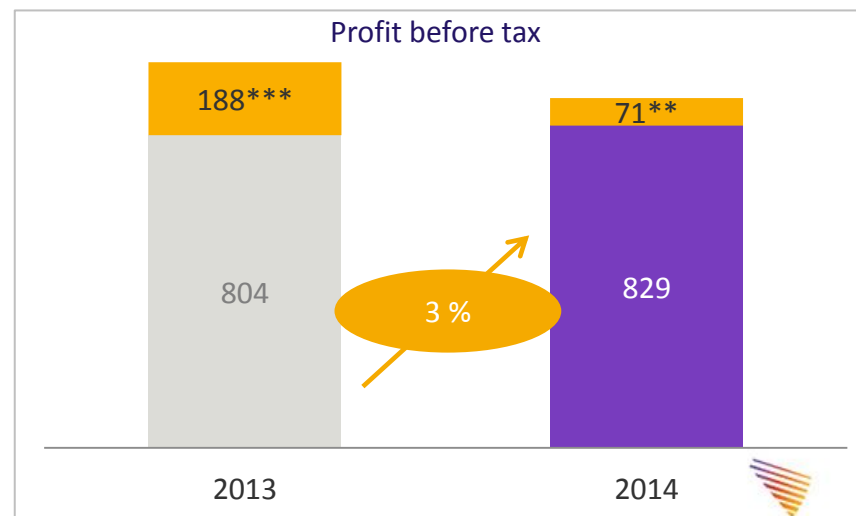
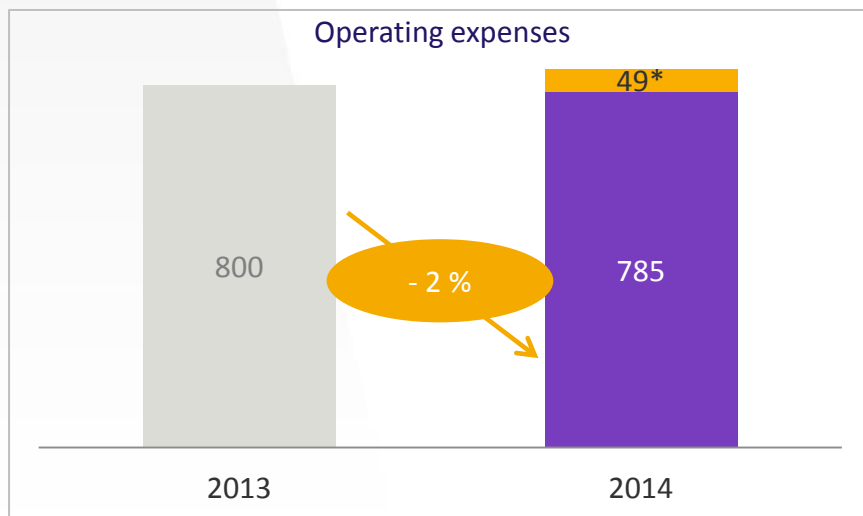
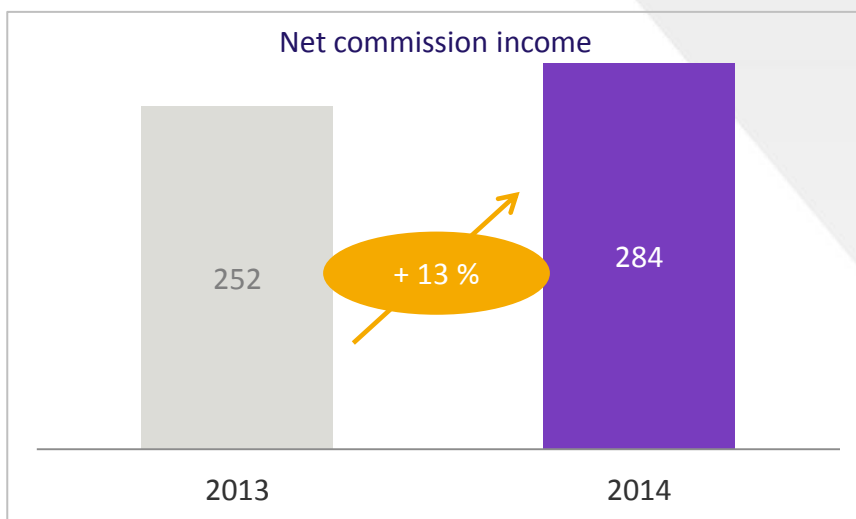
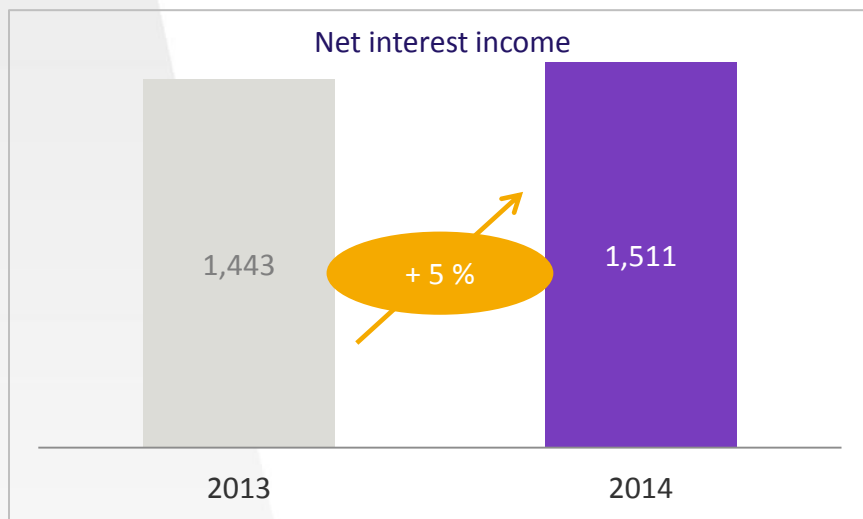
Key features from the business after the fourth quarter are as follows:

- Total income of more than NOK 2 billion due to increase in revenues from net interest income, net commission income and sale of Nets.
- Reduced nominal cost level adjusted for one off costs related to the merger of NOK 49 million.

The results after the fourth quarter provides a post-tax RoE of 10.1 percent.

NOK million	2014	2013
Net interest income	1,511	1,443
Net commission income	284	252
Net income from financial instruments	184	201
Other operating income	23	22
Total income	2,002	1,918
Total expenses	834	800
Profit before losses on loans	1,168	1,118
Losses on loans, guarantees	268	126
Profit before taxes	900	992

Pro forma profit and loss items



* One-off merger cost

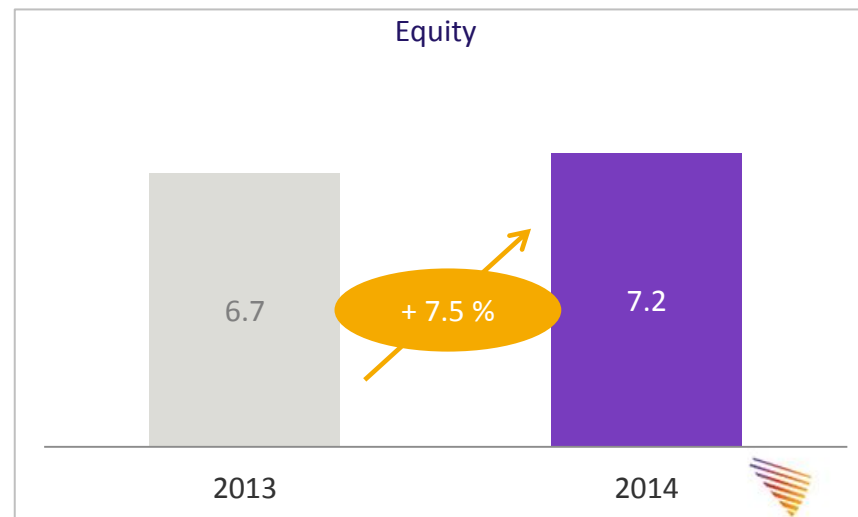
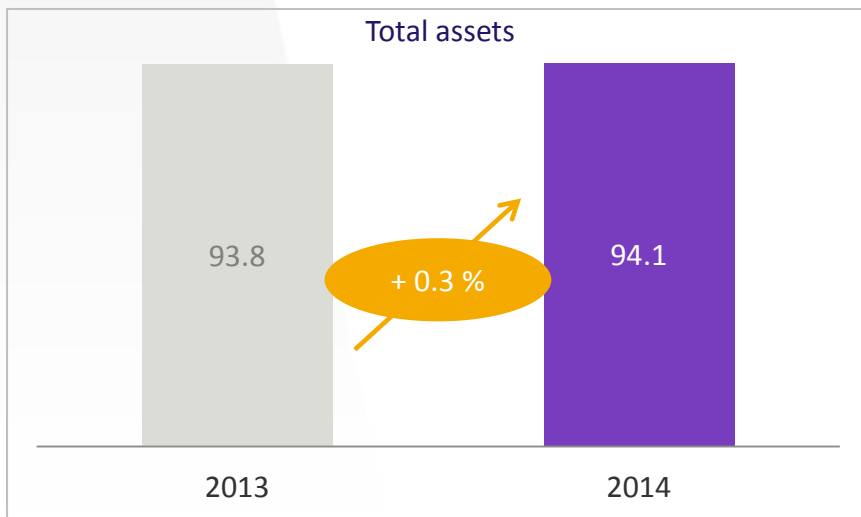
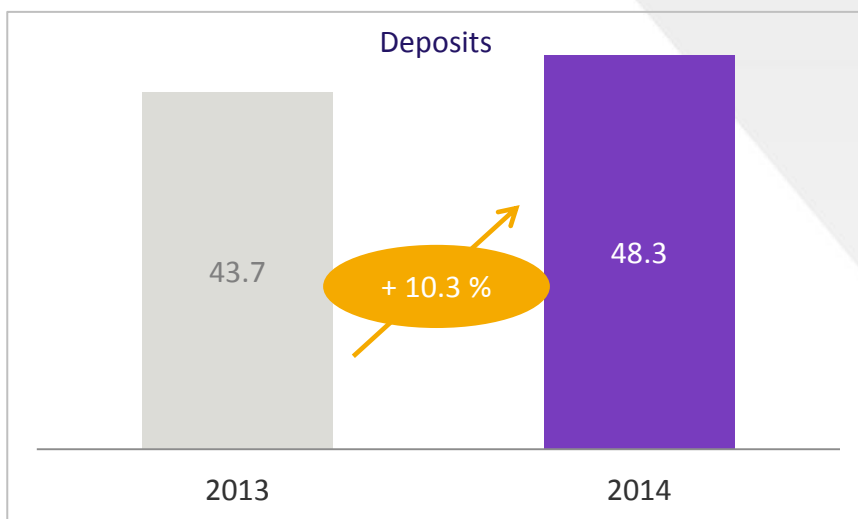
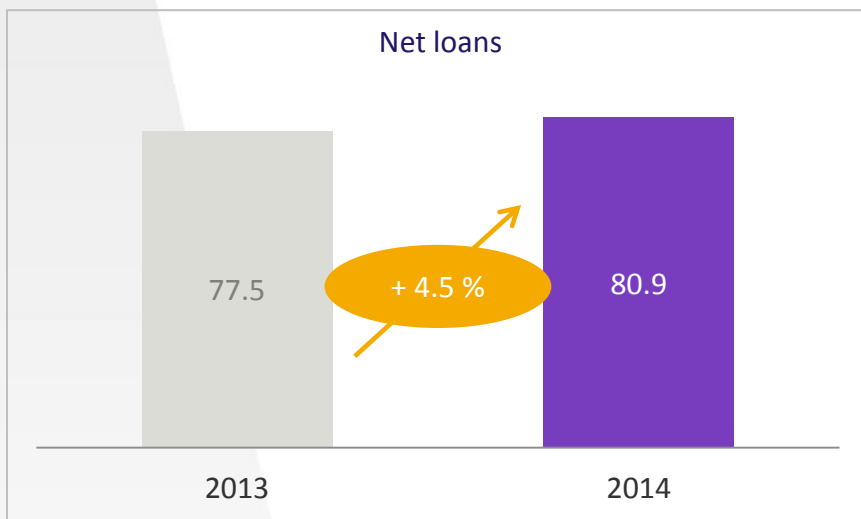
** One-off net profit from sale of shares in Nets Holding

*** Value adjustment Nets and Frende 2013

SPAREBANKEN SØR

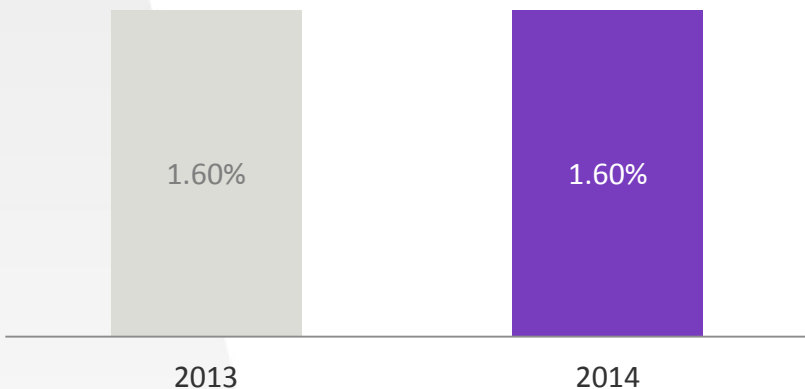
All figures NOK million

Pro forma balance sheet items

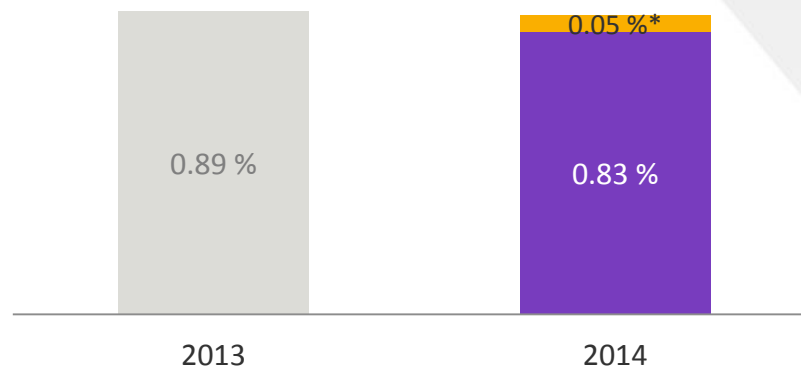


Pro forma key figures

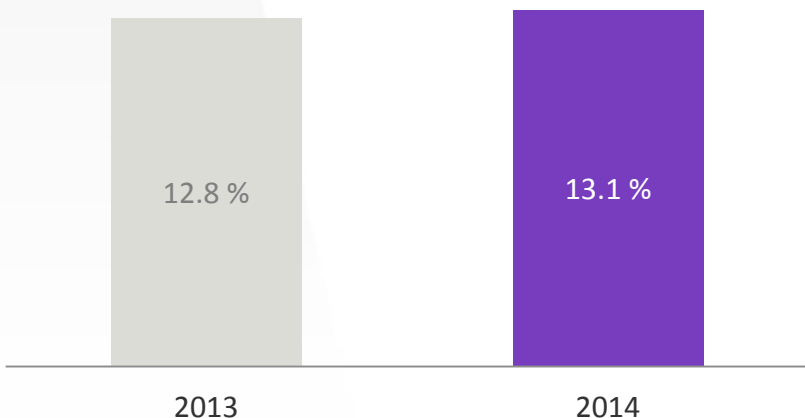
Net interest income as a percentage of average assets



Total expenses as a percentage of average assets



Core Equity Tier 1 capital ratio (CET1)



Post tax RoE



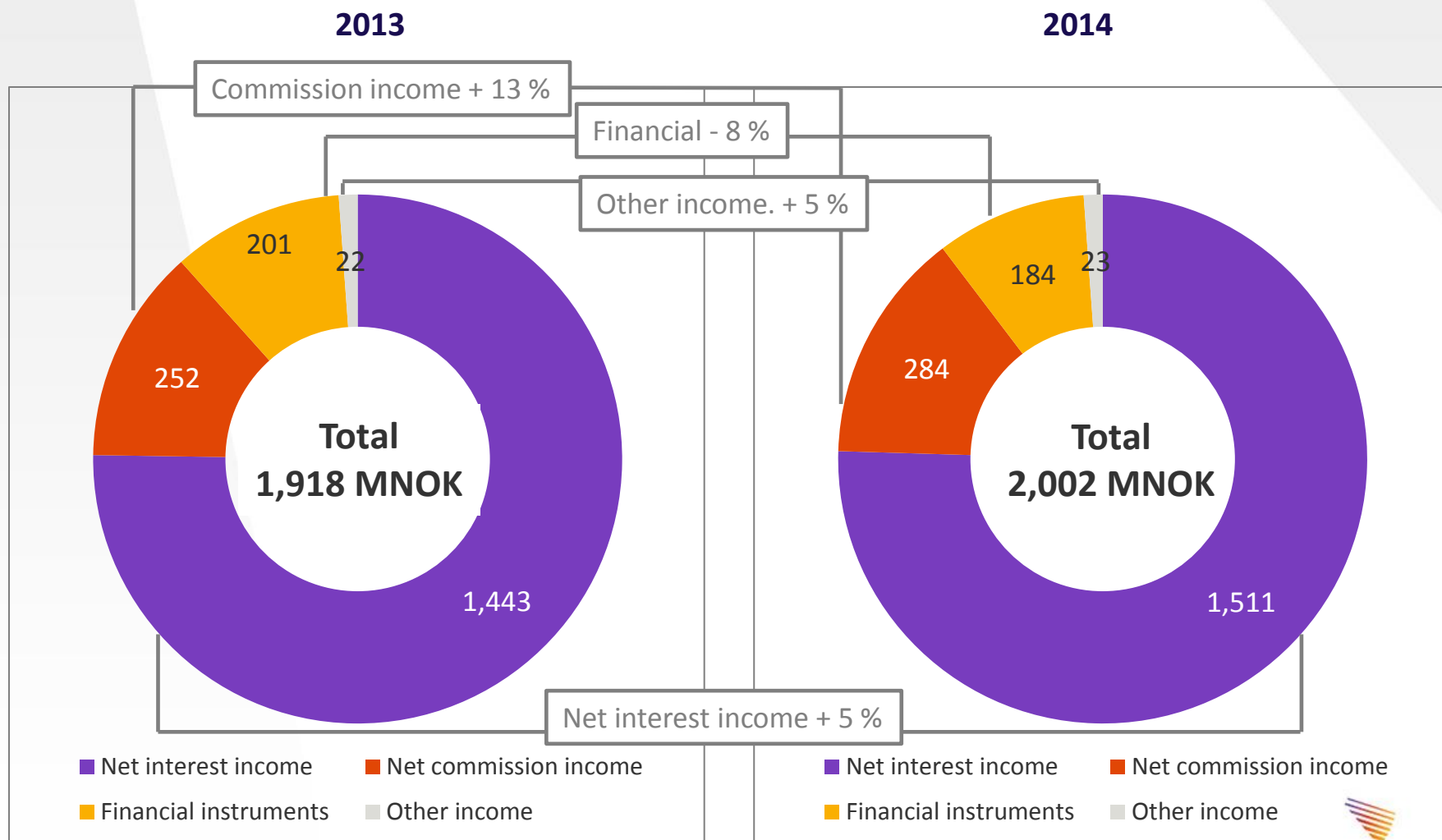
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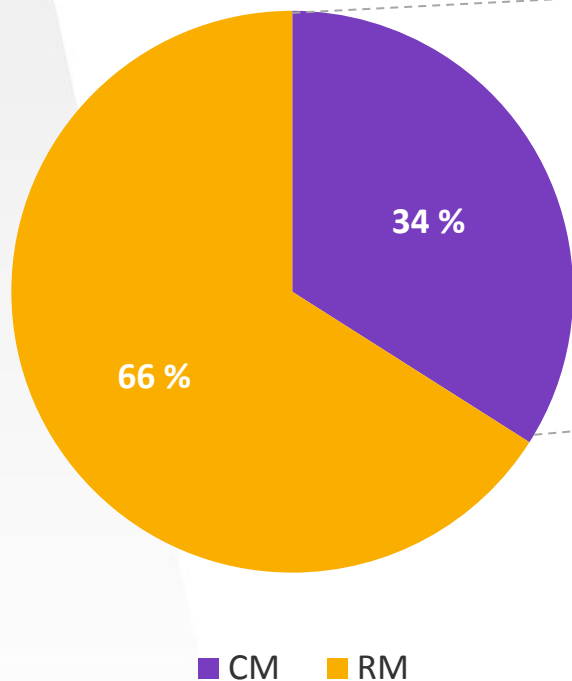


Total income

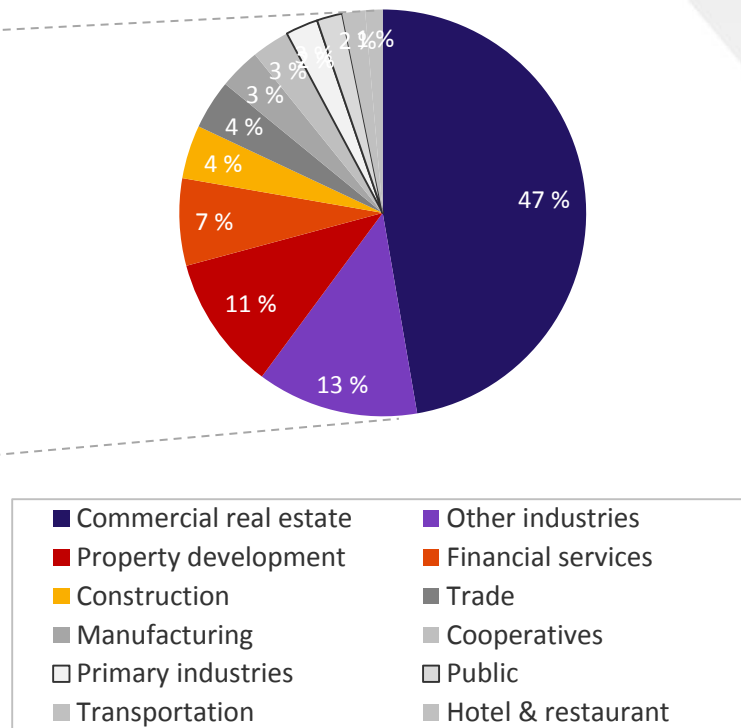


Loans

Distribution RM/CM



Distribution Corporate Market

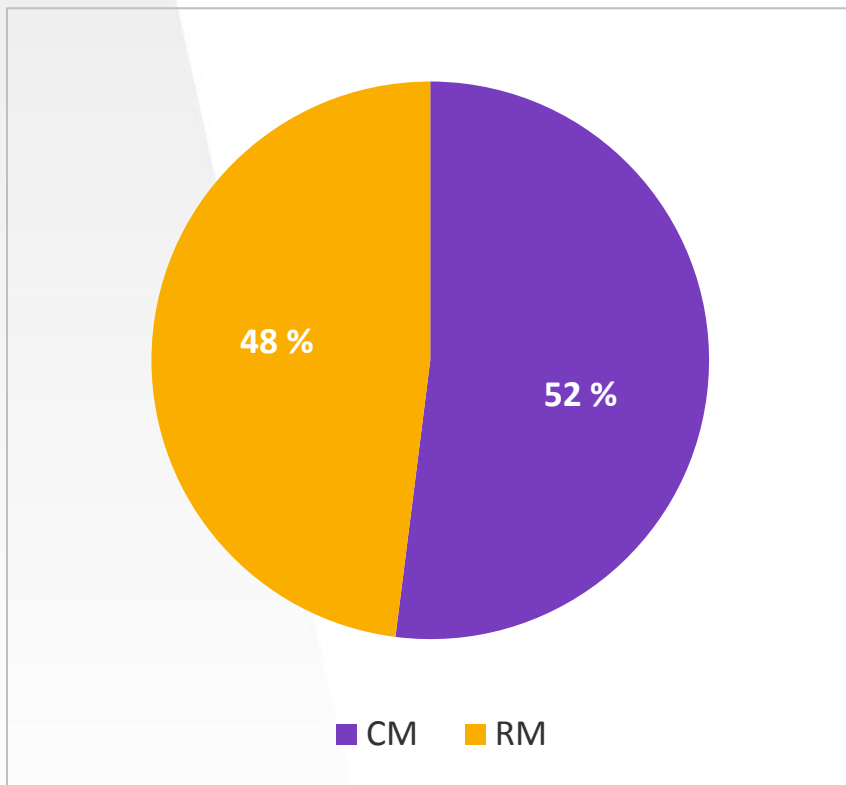


A well-diversified portfolio that reflects the business activity in the region

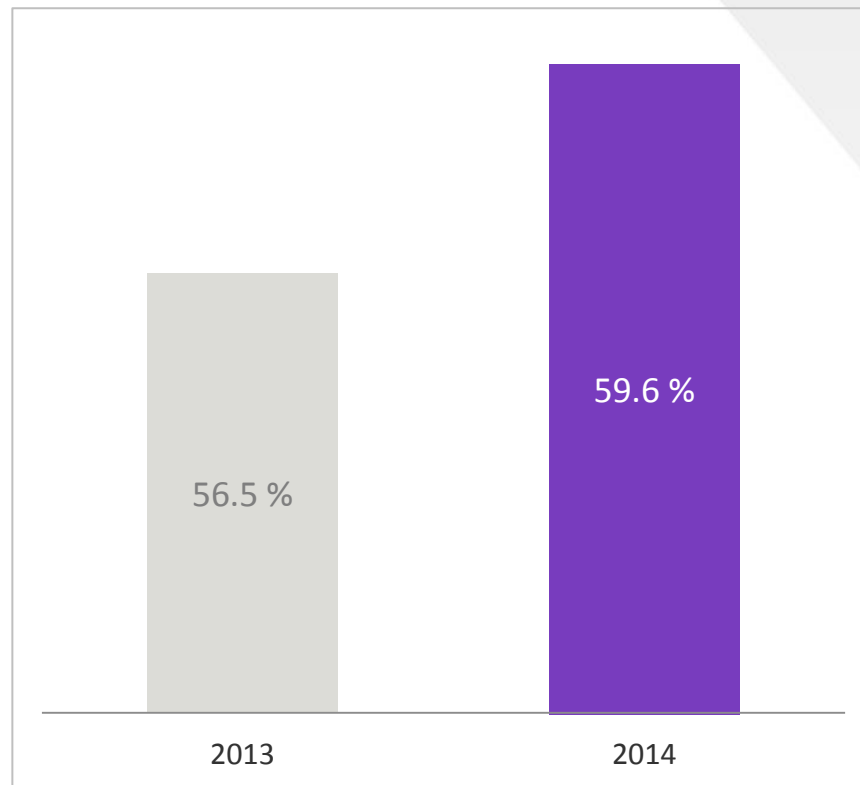


Deposits

Distribution RM/CM



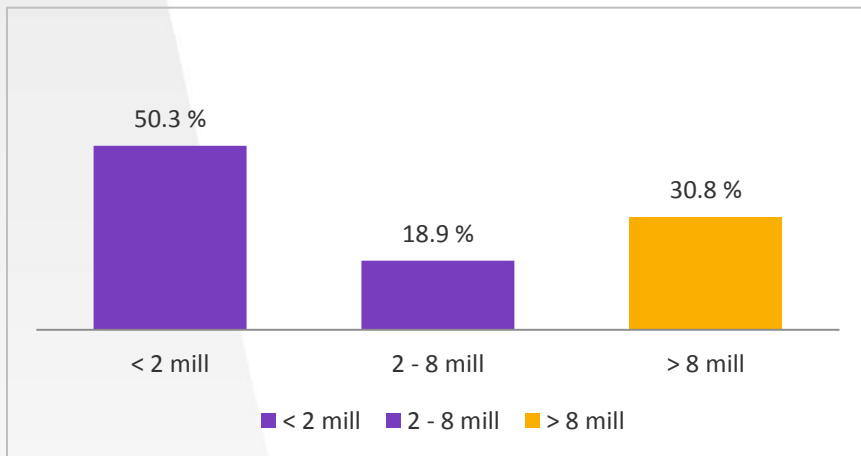
Net deposit coverage



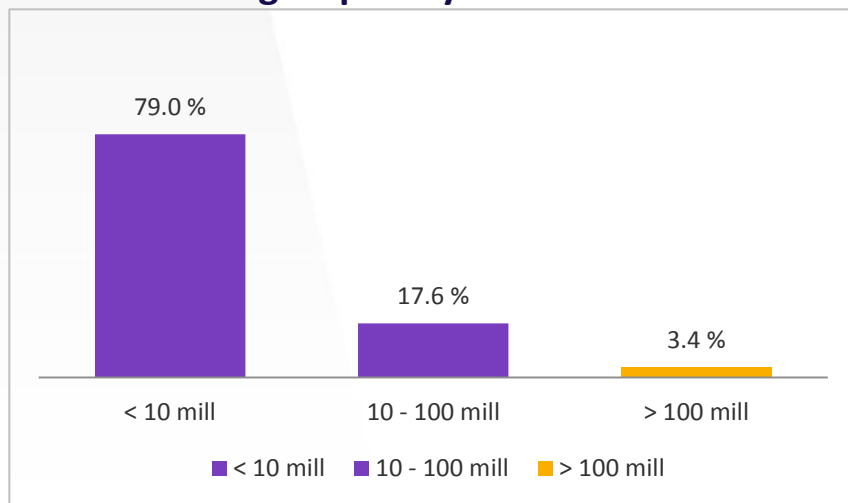
Increase in deposit coverage – focus on deposit growth

Portfolio

Deposits grouped by individual size



Loans grouped by individual size

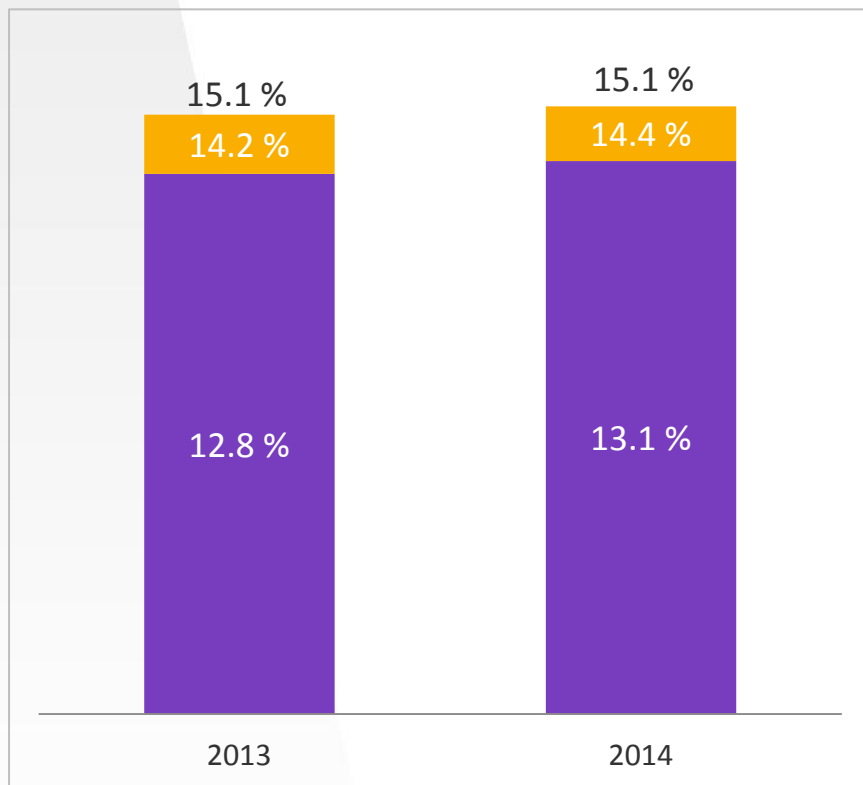


- Proportion of deposits below 2 MNOK constitutes 50.3 % of the total
- Proportion of deposits between 2 and 8 MNOK constitutes 18.9 %
- Proportion of deposits above 8 MNOK constitutes 30.8 %

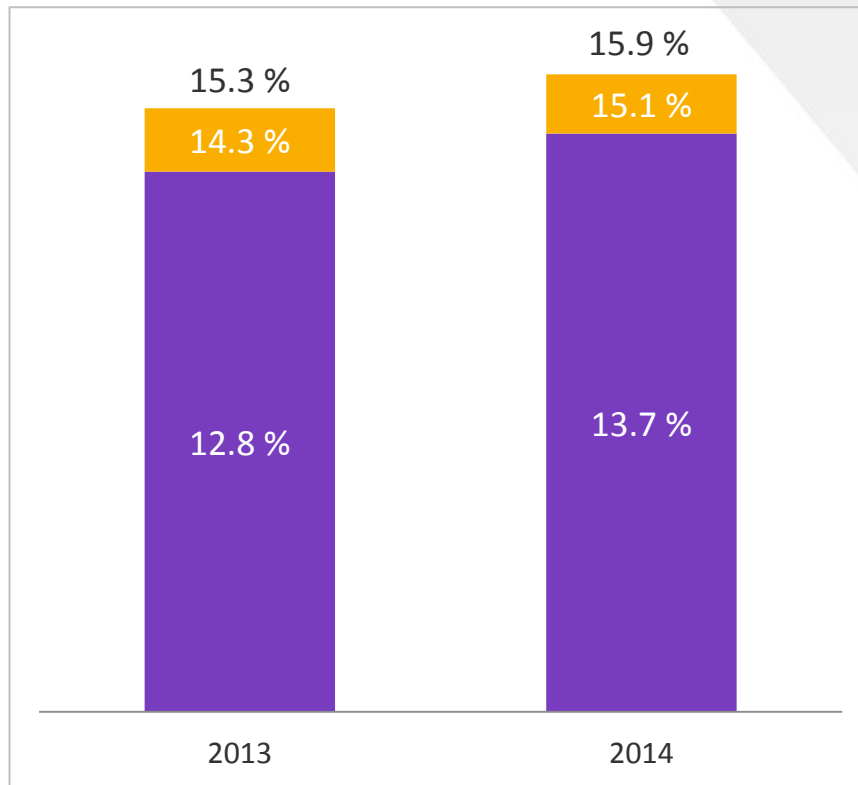
- Proportion of loans below 10 MNOK constitutes 79 % of the total
- Proportion of loans between 10 and 100 MNOK constitutes 17.6 %
- Proportion of loans above 100 MNOK constitutes 3.4 %

Capital adequacy

Group



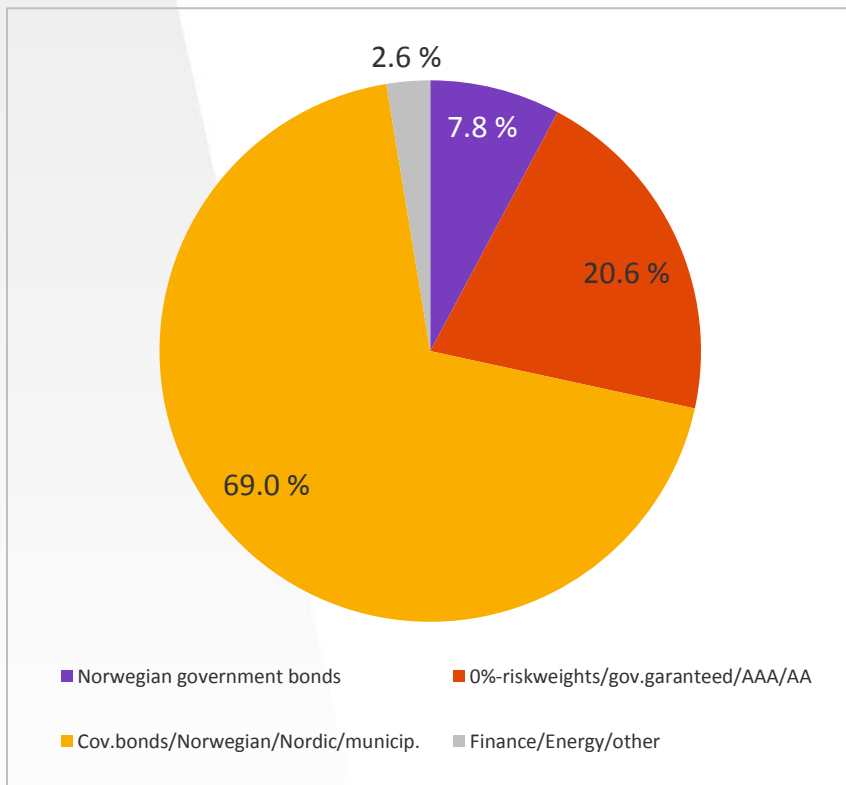
Parent bank



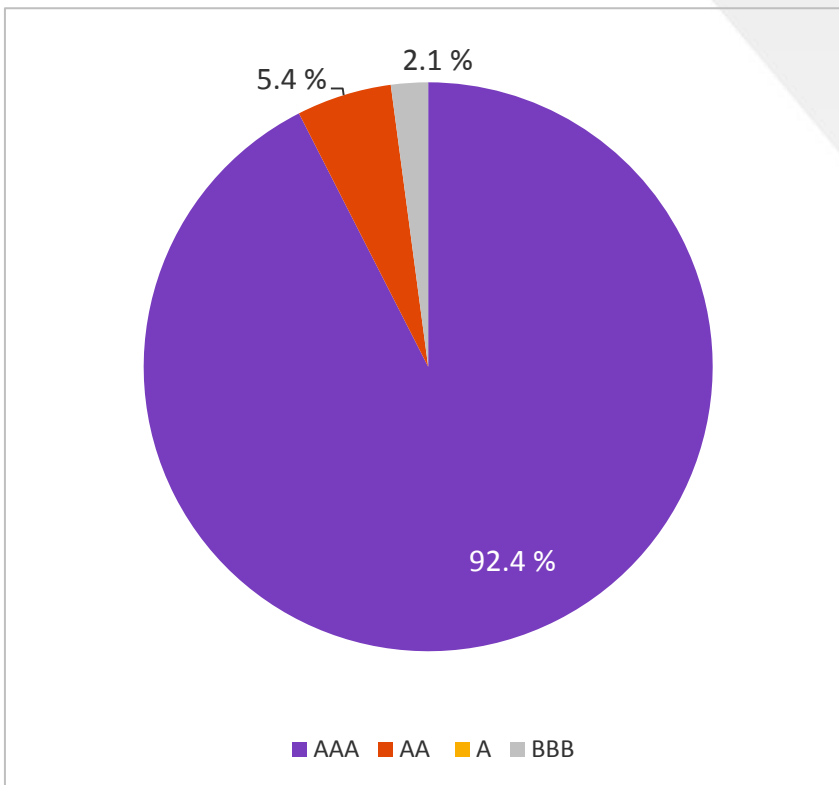
- Core Equity Tier 1 capital of 13.1 percent – regulatory requirement > 10 % as of July 1st 2014

Certificates and bonds

Assets

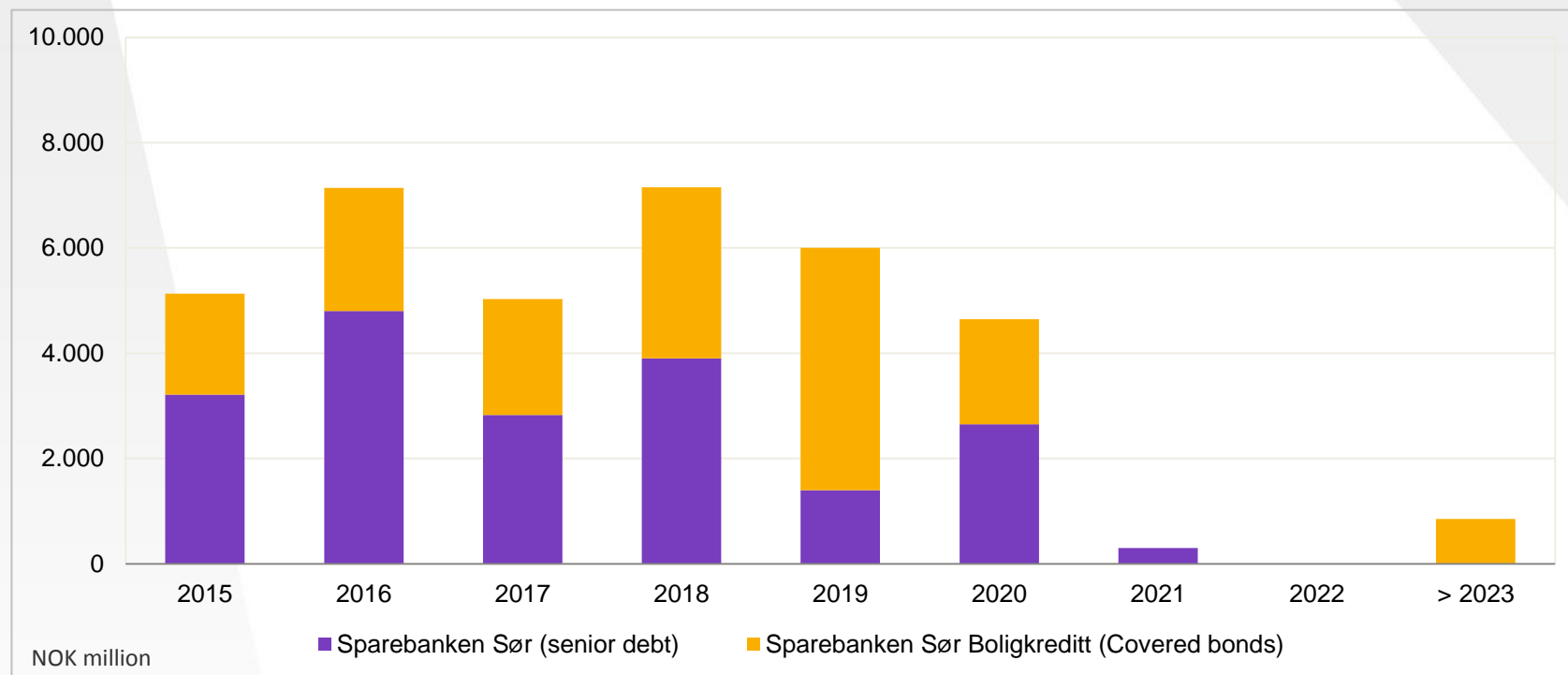


Rating



- Total liquidity portfolio of NOK 10.3 billion
- 100 percent investment grade

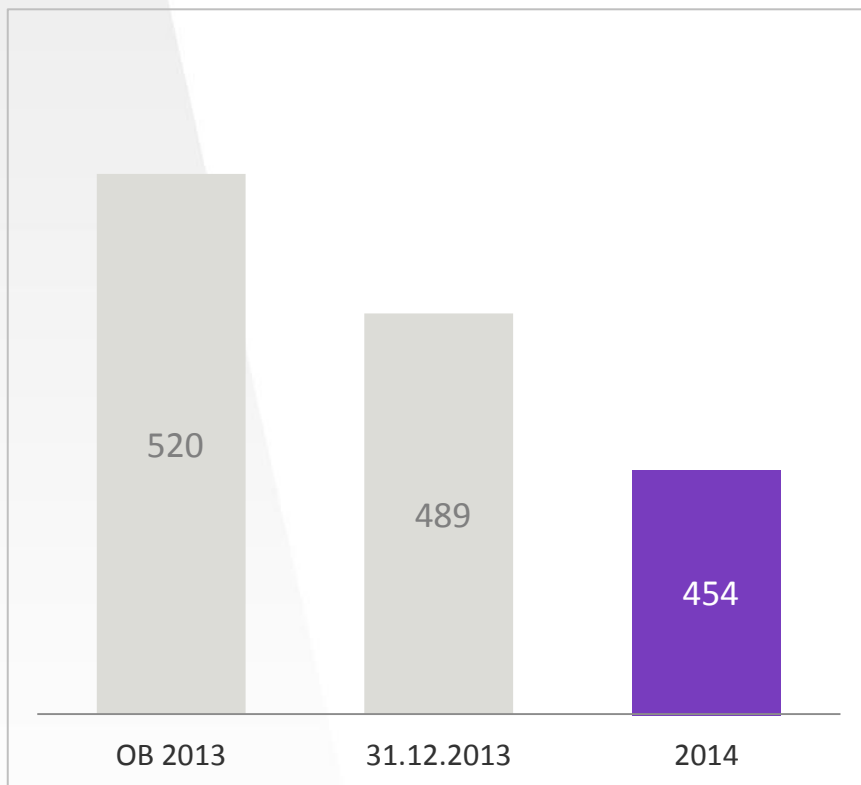
Funding



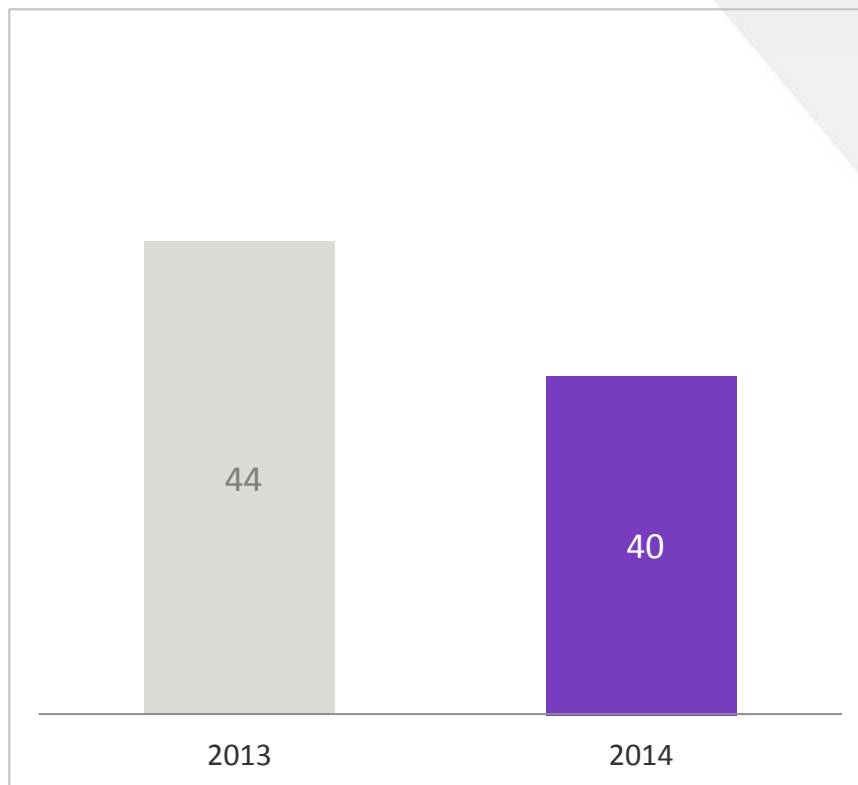
- Total funding of NOK 36 billion, with NOK 17 billion issued as covered bonds.
- Satisfactory access to new funding at reasonable market prices.
- Good maturity structure, provides greater security under volatile conditions.
- Funding > 12 months constitutes 85.8 percent.
- Increased duration on new funding.

Synergies from the merger

Number of FTEs in the bank



Number of branches



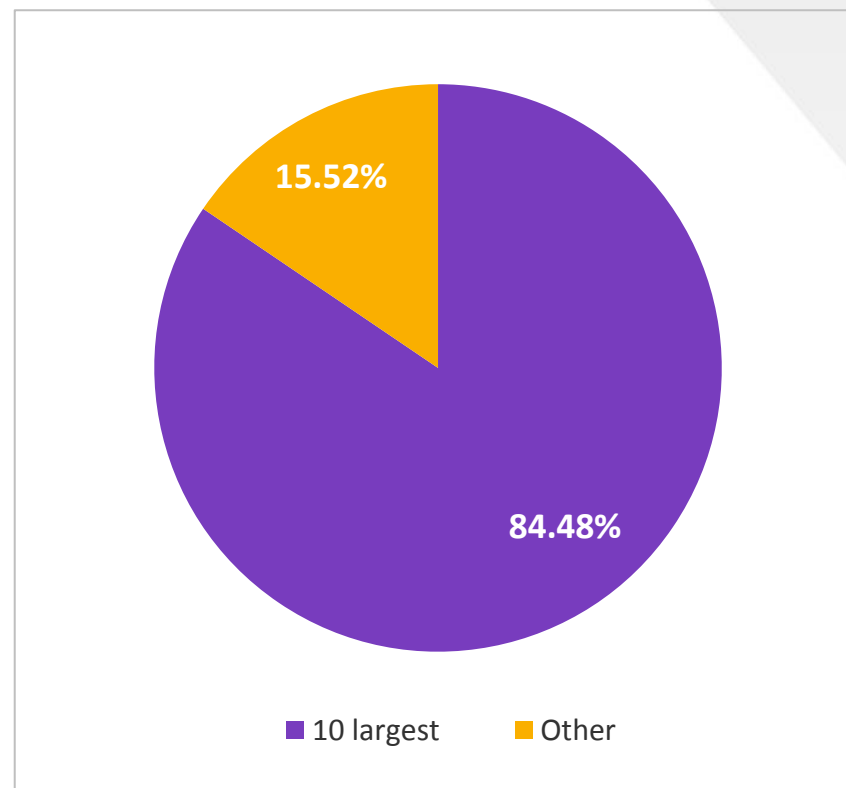
- Staff downsizing being carried out faster than planned, gives reduced cost base
- Collocation of staff carried out in the first half of 2014

Equity certificate owners

10 largest EC owners as at Dec 31th 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	66,460	1.39 %
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 %
	10 largest owners	4,028,926	84.48 %

10 largest EC owners as a percentage of total



- As at Dec 31th 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 20.30. (excluding negative goodwill)
- Dividend proposal from BoD of NOK 10.00 per equity certificate

Summary 2014

Merger	Implementation of the merger completed, and positive effects are materializing.
Results	A solid result for the year influenced positive by development in income and operating expenses and negative by loan loss provisions in the third quarter.
Equity	Solid equity and Core Equity Tier 1 ratio of 13.1 percent well above regulatory requirements.
Growth	Deposit growth of NOK 4.5 billion / 10.3 percent and loan growth of NOK 3.5 billion / 4.5 percent.
Summary	A strong first year of operations in Sparebanken Sør.

Future prospects 2015

Macro	As a consequence of moderate growth in the Norwegian economy, the bank expects moderate to slower growth going forward.
Oil	Limited direct exposure to sector gives bank marginal effect on short term (2015), but persistently low oil price might effect growth in region on longer term. (> 2015)
Interest	Announced reduction in rates on mortgages from March 2015 will be compensated with lower rates on deposits, and are expected to have neutral effect on banks net interest income.
Funding	Satisfactory access to new funding at reasonable market prices.
Summary	The bank is well positioned to deliver sound results going forward.



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