

SpareBank 1 BV and Sparebanken Telemark plan to merge to form SpareBank 1 Sørøst-Norge

On 30 November 2020, the boards of SpareBank 1 BV and Sparebanken Telemark have signed a letter of intent with a view to a merger to form SpareBank 1 Sørøst-Norge. The letter of intent, which sets out the main principles for a possible merger, was unanimously approved by the boards of both banks.

Background and objectives

SpareBank 1 BV and Sparebanken Telemark are currently two strong and locally anchored savings banks with operations focused on Vestfold, Telemark and Nedre Buskerud. The region has some 750,000 inhabitants and a well-diversified business base. Both banks have issued equity capital certificates listed on the Oslo Stock Exchange and both are members of the SpareBank 1 alliance.

The banks are located in attractive market areas that border on each other, and have together identified a commercial basis for forming a larger and more powerful bank. A merger will, in particular, increase competitiveness in the corporate market, but also in the private market and in the capital market, as well as contributing to the development of the respective local communities.

The objectives of the merged bank are to:

- Be the market leader in its current market areas.
- Achieve profitable growth in the corporate market, as well as contributing to business development in the region.
- Be a customer-oriented bank with the best digital customer solutions, at the same time as providing personal and relevant customer advice.
- Achieve increased revenue through an expanded service offering and higher product sales.
- Be an attractive workplace with high employee satisfaction. The merger will contribute to more broadly based centres of expertise and provide greater opportunities for personal development and specialization for the employees.
- Achieve better terms in the capital market as a result of increased scale and improved profitability.

So far, the banks have identified NOK 75 - 120 million in annual synergies once fully phased in, evenly distributed between income and cost synergies. The banks expect these synergies, assuming the merger goes ahead, to be fully realized in 2024. Transaction costs and implementation costs to realize such synergies are expected to be incurred in 2021 – 2022 and are currently estimated to a total of NOK 110 – 130 million.

The new bank

Based on pro forma figures (unaudited) for total assets including loans transferred to SpareBank 1 Boligkreditt, the new bank will be the seventh largest savings bank in Norway.

Selected pro forma key figures (unaudited) based on figures from the accounts (consolidated) as at 30 September 2020 show (NOK bn.):

Total assets including loans transferred to SpareBank 1 Boligkreditt/Næringskreditt	93,1
Gross loans including loans transferred to SpareBank 1 Boligkreditt/Næringskreditt	82,3
Deposits	43,7
Total equity	8,7

Number of branches	17
Number of real estate agency offices	15
Number of accountancy services offices	5
Number of employees (FTEs)	520

Key points from the letter of intent

The letter of intent is based on the following overall principles

Supervisory Board	<p>It is proposed that the supervisory board of the merged bank shall consist of 24 members, with 9 depositor-elected, 9 equity capital certificate holder-elected and 6 employee-elected. At the first election, the members are to be elected as follows:</p> <ul style="list-style-type: none"> - Depositors in SpareBank 1 BV are to elect 5 members and depositors in Sparebanken Telemark are to elect 4 members - Of the members elected by equity certificate holders, 4 are to be elected by the savings bank foundations (1 from each foundation), while 5 members are to be elected from among other equity capital certificate holders. - The employees in each of the banks are to elect 3 members each. <p>At the first election, the Chair of the supervisory board is to be appointed by the supervisory board of SpareBank 1 BV, while the Deputy Chair is to be appointed by the supervisory board of Sparebanken Telemark.</p>
Nomination Committee	<p>It is proposed that the merged bank shall have a Nomination Committee consisting of 7 members, with 2 members from the depositors, 2 members from the savings bank foundations, 1 member from other equity capital certificate holders and 2 employee members. At the first election the members will comprise 1 depositor from each of the banks, 1 member from the savings bank foundations in SpareBank 1 BV, 1 member from the savings bank foundations in Sparebanken Telemark and 1 from other equity capital certificate holders, as well as 1 employee from each of the banks.</p> <p>At the first election, the members are to be appointed by the parties' respective supervisory boards, and the Chair is to be appointed by the supervisory board of Sparebanken Telemark.</p>
Board	<p>Upon completion of the merger the board will consist of 7 members, with 5 members to be elected by the supervisory board and 2 members to be</p>

	<p>elected by and from among the employees. At the first election of the board, the members will be proposed to be elected as follows:</p> <ul style="list-style-type: none"> - The Chair of the board and 2 members are to be appointed by the supervisory board of SpareBank 1 BV. It will be proposed that the current Chair in SpareBank 1 BV, Finn Haugan, will assume the role of Chair. - The Deputy Chair of the Board and 1 member are to be appointed by the Supervisory Board of Sparebanken Telemark. It will be proposed that the Deputy Chair is Anne Berg Behring, who is today the Chair of Sparebanken Telemark. - 1 employee is to be elected from each of the banks.
Management	<p>The parties agree that the CEO of the merged bank will come from Sparebanken Telemark and the Deputy CEO will come from SpareBank 1 BV. The current CEO in Sparebanken Telemark, Per Halvorsen, will be the Group CEO. The current CEO in SpareBank 1 BV, Rune Fjeldstad, will be a special adviser to the CEO and the board for 6-18 months after the completion of the merger. The remaining composition of the group management will be determined once the merger is implemented on the basis of objective and competence-based principles.</p>
Name and acquiring entity	<p>The new business will continue its profile and anchorage as a strong local savings bank. Under the letter of intent SpareBank 1 BV will formally be the acquiring bank and the name of the merged bank will be SpareBank 1 Sørøst-Norge. Its head office will be located at Fokserød/Torp outside Sandefjord. The letter of intent aims to continue a model that ensures strong centres of expertise throughout the bank's market area.</p>

Exchange ratio

The exchange ratio will first be determined at the time of conclusion of any final merger agreement. Discussion of the exchange terms shall be based on, among other things, financial and legal due diligence, book and value-adjusted equity, the banks' capitalization, profitability and market pricing, as well as the merger being one of equals.

Financial targets

SpareBank 1 Sørøst-Norge will target an annual return on equity of 11.0 per cent. The bank will have a CET1 capital ratio of at least 17.0 per cent by the end of 2022, based on current capital adequacy rules. It is envisaged that the annual dividend would be approximately 50 per cent of the annual result. In the interests of equal treatment of the capital classes and to counteract dilution of the equity capital certificate ratio, a corresponding distribution rate is planned for charitable purposes.

To preserve the interests of the local communities that have built up the primary capital in the two savings banks, SpareBank 1 Stiftelsen BV and Sparebankstiftelsen Telemark - Grenland respectively

will be allotted equity capital certificates in the merged bank by converting parts of the two respective banks' primary capital into equity certificate capital, with the equity capital certificates issued being transferred to these foundations. According to the letter of intent, the merged bank shall have a maximum equity capital certificate ratio of 60 per cent after conversion.

The savings bank foundations are important supporters of their communities and ambassadors for the banks. The return on the equity capital certificates allotted to the foundations will form the basis for charitable gifts in the two banks' original business areas. The foundations will continue the savings bank traditions with contributions and commitment to their local communities.

Effect for the employees

The employees of Sparebanken Telemark will be protected on the transfer to SpareBank 1 BV in accordance with the rules on business transfers in the Working Environment Act, chapter 16, and in accordance with other relevant legislation and the collective agreements applicable to the banks at any given time.

Timetable and prerequisites for implementation

According to the preliminary timetable, the banks will commence a mutual due diligence review and further negotiations on important terms. The banks' goal is for the banks' boards to sign the merger agreement at the end of February 2021. The agreement will then be submitted to the banks' supervisory boards for a decision at the end of March 2021. According to the preliminary timetable, implementation of the merger is planned for 1 June 2021.

The letter of intent regulates the main premises for a possible merger, which is conditional on, among other things:

- Satisfactory company due diligence reviews
- Agreement on the terms of the merger, including the exchange ratio, and conclusion of final agreements
- Approval of the merger plan and related agreements in the banks' respective boards and supervisory boards
- Necessary approvals from the authorities and contract parties on acceptable terms.

SpareBank 1 BV has retained SpareBank 1 Markets AS and Sparebanken Telemark has retained Arctic Securities AS as financial advisers in connection with the merger, while Advokatfirmaet Selmer AS has been retained as common legal adviser.

Contact persons:

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This information is disclosed pursuant to the requirements of the Securities Trading Act § 5-12.