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Sparebanken Sør

DNB MARKETS CREDIT RESEARCH

BANK REPORT 2013/1

CREDIT ANALYSES ON NORWEGIAN BANKS – 26 APRIL 2013

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Sparebanken Sør

www.sor.no

Av. asset balance: 43,166m
 Av. adj. assets¹: 43,166m
 Core Equity Tier 1 cap./adj. assets¹: 6.9%
 Core Equity Tier 1 ratio: 13.3%

Rating order: 13 / 122
 Size: 8 / 123
 No alliance
 Offices in Norway/ abr.: 30/ 0

DNB Markets' rating: A
 Change: No
 Main driver for change:

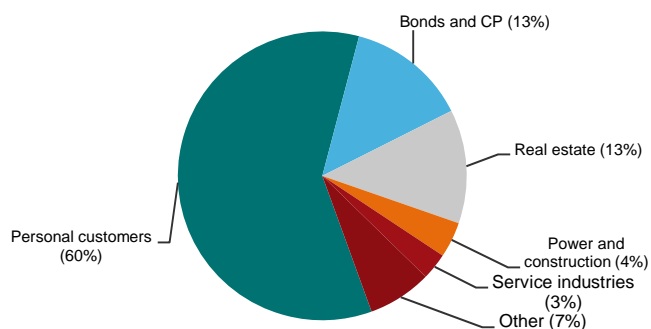
Official ratings:
 Moody's: A3
 S&P: n.a.
 Fitch:

On 12 March 2013, Sparebanken Pluss and Sparebanken Sør announced a possible merger between the two mid-sized savings banks in the southern part of Norway. Combined assets will be approximately NOK 90 billion, placing the new Sparebanken Sør as the fifth largest savings bank in Norway. Before the proposed merger, Sparebanken Pluss was rated A2 by Moody's and A- by DNB Markets, while Sparebanken Sør was rated A3 by Moody's and A by DNB Markets. We expect the new Sparebanken Sør to be rated A2 by Moody's, and the rating should be quite resilient against possible downgrades. Size and diversification matter. The decision to merge the two savings banks is expected to be taken in June, while the merger could be effective from 1 January 2014.

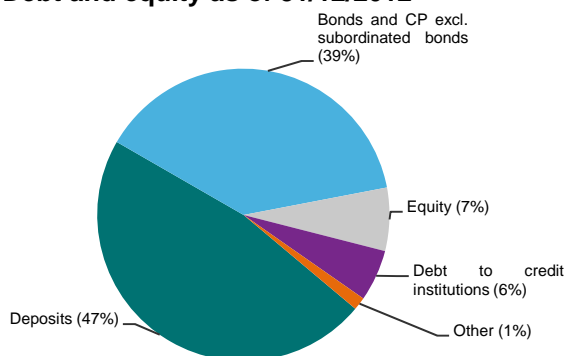
Sparebanken Sør has had a growth in lending to corporates of 0.0% on average the last 4 years, (low growth as a share of total adj. assets¹, with 0.5% growth on average the last 4 years, excluding years with negative growth). The total capital ratio is 14.1% (the median for banks with total assets over 5 bn is 15.1%). Book equity constitutes 7.0% of total assets. Sparebanken Sør has a relatively low share of net short funding, as debt² adjusted for liquid assets³ equal to 4.4% of total assets (median 5.8%) matures during the next 18 months. Non-performing and other doubtful commitments constitute 1.6% of adj. lending¹ (moderate share of non-performing loans). Individual and collective write-downs amount to NOK 318 million, equal to 53% of non-performing and other doubtful commitments.



Assets as of 31/12/2012

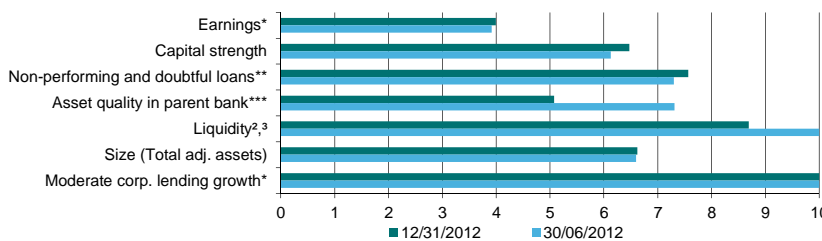


Debt and equity as of 31/12/2012

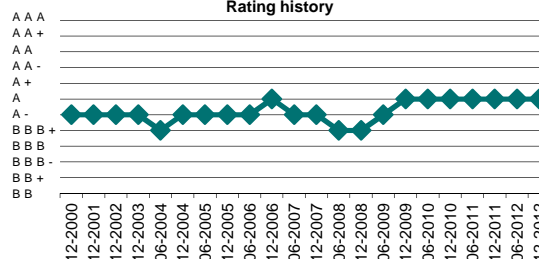


DNB Markets Credit Research Bank Rating Model score (10 is best score)

* 5-year history for earnings score and 4-year history for growth score
 ** non-performing and doubtful commitments, adj. for provisions
 *** see introduction for explanation of DNB Markets' model



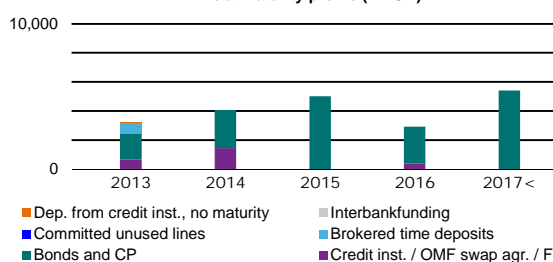
Rating history



Lending to corporates vs equity (MNOK)



Debt maturity profile (MNOK)



1) Including loans transferred to credit institutions

2) Debt maturing by 30/06/2014 and 20% of deposits exceeding MNOK 2 adjusted for liquid assets

3) Liquid assets: bond portfolio with 20% hair cut, in excess of the oldliquidity reserve requirement (6% av total debt), claims on central banks and credit institutions, and back stop facilities maturing after 30/06/2014.

Sparebanken Sør

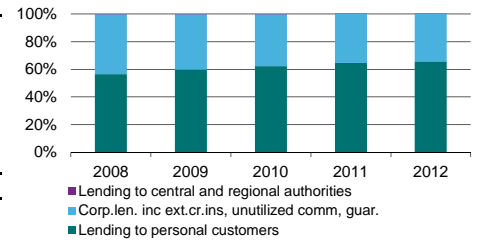
Accounts for the bank group

Accounting standard:

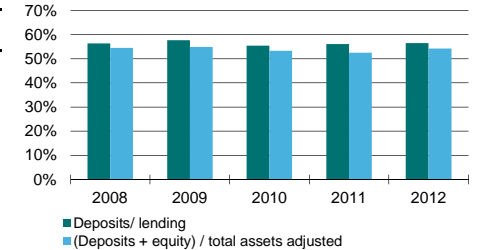
IFRS

Income statement (MNOK, condensed)	2008	2009	2010	2011	2012
Net interest income and other credit income	629	623	668	631	705
Net other income and fees from banking services	206	180	188	187	208
Total net recurring revenues	835	803	856	818	913
Operating expenses	-554	-486	-498	-483	-513
Total net recurring income bef. losses and tax	281	317	358	335	400
Credit losses on loans/guarantees (reversal)	114	109	122	71	61
Earnings before tax excluding valuation effects	167	208	236	264	339
Net valuation effect on bonds, stocks, curr. etc ¹	-149	-4	238	61	-88
Earnings before tax	18	204	474	325	251
Tax	-38	-56	-106	-106	-79
Net income (loss) for the period	-20	148	368	219	172
Comprehensive income for the period	na	na	na	na	168
Balance sheet	2008	2009	2010	2011	2012
Cash and deposits with central banks	975	479	429	543	581
Lending to and deposits with credit institutions	21	159	16	111	149
Gross lending to customers	28,519	29,440	31,264	33,900	37,168
Individual write-downs	88	113	155	195	190
Collective write-downs	91	114	124	124	128
Net lending to customers	28,340	29,213	30,985	33,581	36,850
Bonds and commercial paper	2,797	4,550	5,337	6,645	5,817
Shareholdings	221	336	350	337	359
Other holdings incl derivatives and fixed assets	1,255	537	559	625	703
Immaterial assets	66	66	21	18	12
Total assets	33,675	35,340	37,697	41,860	44,471
Loans and deposits from credit institutions	2,118	6,078	5,628	4,777	2,542
Deposits from customers	16,066	16,971	17,319	19,028	20,999
Debt securities issued (excl. sub. and hyb.)	11,882	8,664	11,034	14,090	17,195
Other liabilities incl derivatives	1,043	485	460	508	425
Subordinated debt(upper and lower Tier 2)	299	300	300	300	0
Hybrid Tier 1 securities	0	400	200	200	200
Equity	2,267	2,442	2,756	2,957	3,110
Total liabilities and equity	33,675	35,340	37,697	41,860	44,471
Lending outside of parent bank's balance	2008	2009	2010	2011	2012
Loans brokered for or sold to external cred. ins. ²	0	0	0	0	0
Loans transferred to the bank's own credit inst. ³	0	4,000	5,860	7,983	9,082
Total adjusted assets (incl. loans in external c.i.)	33,675	35,340	37,697	41,860	44,471
Other items regarding lending	2008	2009	2010	2011	2012
Lending to personal customers	17,453	19,104	21,020	23,108	25,781
Lending to personal cust. incl ext. credit inst.	17,453	19,104	21,020	23,108	25,781
Lending to corporate clients incl. ext. credit inst.	11,010	10,321	10,209	10,771	11,354
Corp.len. inc ext.cr.ins. unutilized comm. guar.	13,396	12,880	12,624	12,669	13,354
Lending to central and regional authorities	56	36	35	21	33
Gross non-performing commitments	161	238	414	339	281
Gross doubtful commitments	180	131	162	293	317
Key ratios	2008	2009	2010	2011	2012
Net interest income to average total assets	1.97%	1.81%	1.83%	1.59%	1.63%
Net adj.interest income to ave. total adj.assets	1.97%	1.81%	1.83%	1.59%	1.63%
Cost/ income excluding net valuation effects	66.3%	60.5%	58.2%	59.0%	56.2%
EBT excl. net valuation effects/ave. tot. assets	0.52%	0.60%	0.65%	0.66%	0.79%
Adj. net income, excl.val. effects/ave. tot assets	0.39%	0.45%	0.48%	0.49%	0.58%
EBT excl. net val. effects/ave. tot. assets adj.	0.52%	0.60%	0.65%	0.66%	0.79%
Adj. net inc. excl.val. effects/ave. tot. assets adj.	0.39%	0.45%	0.48%	0.49%	0.58%
Adj. net income, excl.val. effects/ave. equity	5.43%	6.54%	6.72%	6.84%	8.27%
ROE, book net income to average equity	-0.88%	6.29%	14.16%	7.67%	5.67%
Loans transferred to credit inst./ total assets adj.	0.0%	11.3%	15.5%	19.1%	20.4%
Resid. loans transf. to cr.inst/lend. to pers. adj.	0.0%	20.9%	27.9%	33.5%	34.1%
Gross non-perf. and doubtful/gr. lending adj.	1.20%	1.25%	1.84%	1.86%	1.61%
Write-downs/(gr. non-perf. and other doubtful)	52.5%	61.5%	48.4%	50.5%	53.2%
Credit losses/gross lending	0.40%	0.37%	0.39%	0.21%	0.16%
Cred. losses/net recurring inc. bef. losses, tax	40.6%	34.4%	34.1%	21.2%	15.3%
Deposits/lending	56.3%	57.6%	55.4%	56.1%	56.5%
Deposits/ lending adjusted	56.3%	57.6%	55.4%	56.1%	56.5%
(Deposits + equity) / total assets	54.4%	54.9%	53.3%	52.5%	54.2%
(Deposits + equity) / total assets adjusted	54.4%	54.9%	53.3%	52.5%	54.2%
Book equity / total assets (unweighted)	6.7%	6.9%	7.3%	7.1%	7.0%
Book equity / total adjusted assets (unweighted)	6.7%	6.9%	7.3%	7.1%	7.0%
Core Equity Tier 1 cap./tot. assets adj. (unweighted)	na	na	na	6.9%	6.9%
Core Equity Tier 1 ratio (risk-weighted, trans. rules)	na	na	na	13.3%	13.3%
Tier 1 ratio (risk-weighted, transitional rules)	11.1%	14.1%	14.0%	14.2%	14.1%
Total cap. ratio (risk-weighted, transitional rules)	12.7%	15.8%	15.5%	15.6%	14.1%

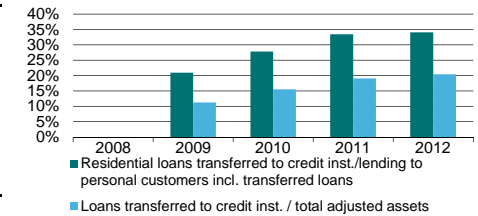
Lending distribution (simplified)



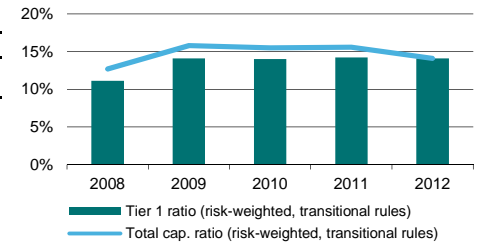
Deposit ratios



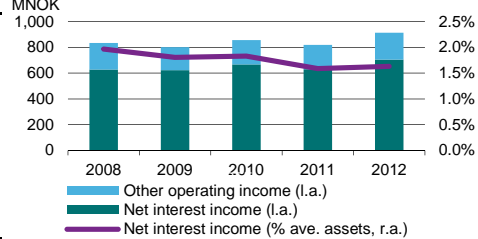
Loans transferred to credit institutions



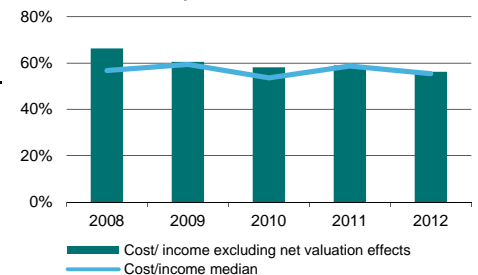
Capital ratios



Profitability



Cost efficiency



1) Including trading income and selected one-offs such as income from changes in pension regulation

2) Loans transferred to jointly owned credit instit. with the purpose of issuing covered bonds. Not on the group's balance sheet

3) Loans transferred to the bank's own credit instit. with the purpose of issuing covered bonds. Remains on the group's balance sheet

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