



DNB

Sparebanken Sør

DNB MARKETS CREDIT RESEARCH

BANK REPORT 1/2012

CREDIT ANALYSES ON NORWEGIAN BANKS – 22 MAY 2012

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Sparebanken Sør

Av. asset balance: 39,779m

Av. adj. assets¹: 39,779m

Equity Tier 1 cap./ adj. assets¹: 6.9%

Equity Tier 1 ratio: 13.3%

Rating order: 5 / 124

Size: 9 / 125

No alliance

Offices in Norway/ abr.: 29/ 0

DNB Markets' rating: A

Change: No

Main driver for change:

www.sor.no

Official ratings:

Moody's: A3

S&P:

Fitch:

Sparebanken Sør has 29 offices in the Agder region and parts of Telemark with their head office located in Arendal. The bank owns the real estate agent ABCenter AS. The other subsidiaries of the bank are mainly focused on the operation and investment of commercial real estate the bank operates from. Sparebanken Sør has access to financing through covered bonds issued by Sør Boligkreditt AS.

Sparebanken Sør has had a growth in lending to corporates of -1.0% on average the last 4 years, (low growth as a share of total adj. assets¹, with 0.2% growth on average the last 4 years, excluding years with negative growth). The total capital ratio is 15.6% (the median for banks with total assets over 5 bn is 14.7%). Book equity constitutes 7.1% of total assets. Sparebanken Sør has a very low share of net short funding, as debt² adjusted for liquid assets³ equal to 0.0% of total assets (median 5.4%) matures during the next 18 months. Non-performing and other doubtful commitments constitute 1.9% of adj. lending¹ (moderate share of non-performing loans). Individual and collective write-downs amount to NOK 319 million, equal to 50% of non-performing and other doubtful commitments.

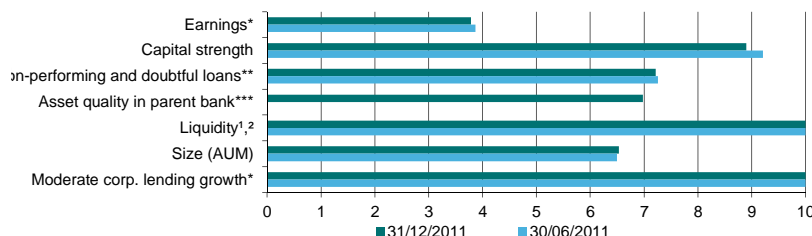


DNB Markets Credit Research Bank Rating Model score (10 is best score)

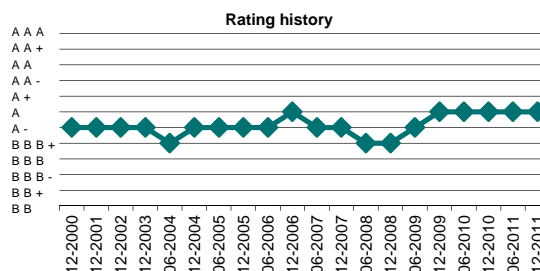
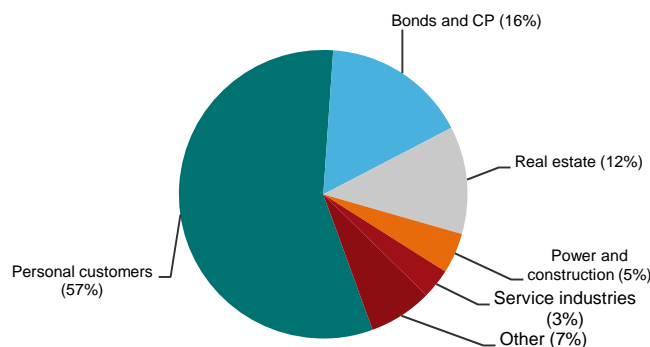
* 5-year history for earnings score and 4-year history for growth score

** non-performing and doubtful commitments, adj. for provisions

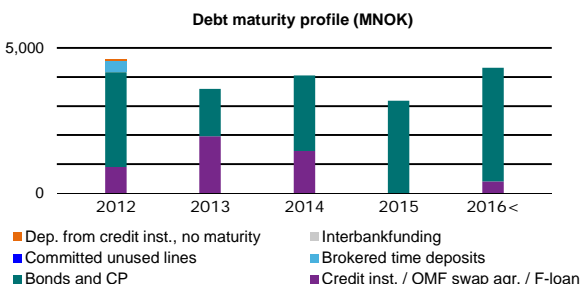
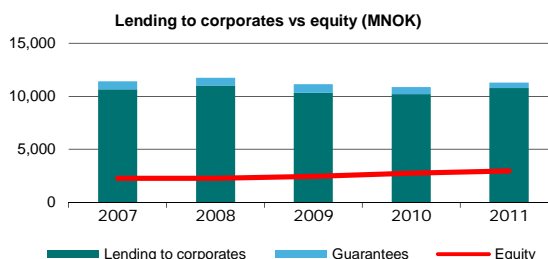
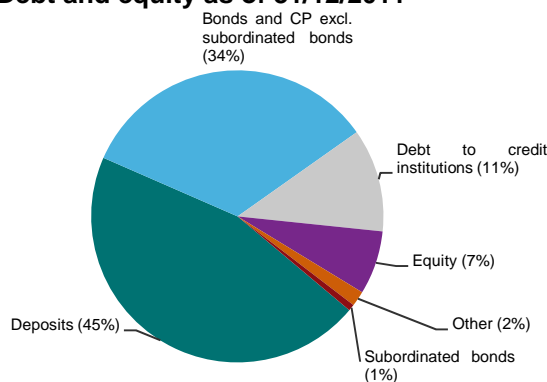
*** new factor, see introduction for explanation of DNB Markets' new model



Assets as of 31/12/2011



Debt and equity as of 31/12/2011



1) Including loans transferred to credit institutions

2) Debt maturing by 30/06/2013 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 30/06/2013.

Sparebanken Sør

Accounts for the bank group

Accounting standard:

IFRS

Income statement (MNOK, condensed)	2007	2008	2009	2010	2011
Net interest income and other credit income	559	629	623	668	631
Net other income and fees from banking	224	206	180	188	187
Total net recurring revenues	783	835	803	856	818
Operating expenses	-480	-554	-486	-498	-483
Total net recurring income before losses and	303	281	317	358	335
Credit losses on loans/guarantees (reversal)	12	114	109	122	71
Earnings before tax excluding valuation effects	291	167	208	236	264
Net valuation effects on bonds, stocks, curr. etc ¹	46	-149	-4	238	61
Earnings before tax	337	18	204	474	325
Tax	-99	-38	-56	-106	-106
Net income (loss) for the period	238	-20	148	368	219

Balance sheet	2007	2008	2009	2010	2011
Cash and deposits with central banks	543	975	479	429	543
Lending to and deposits with credit institutions	214	21	159	16	111
Gross lending to customers	25,934	28,519	29,440	31,264	33,900
Individual write-downs	118	88	113	155	195
Collective write-downs	0	91	114	124	124
Net lending to customers	25,816	28,340	29,213	30,985	33,581
Bonds and commercial paper	2,807	2,797	4,550	5,337	6,645
Shareholdings	222	221	336	350	337
Other holdings incl derivatives and fixed assets	538	1,255	537	559	625
Immaterial assets	38	66	66	21	18
Total assets	30,178	33,675	35,340	37,697	41,860

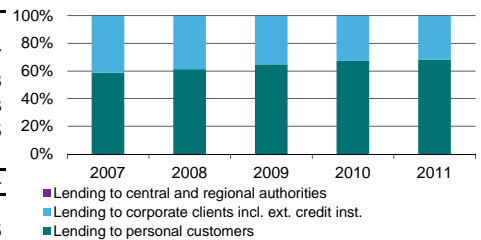
Loans and deposits from credit institutions	1,591	2,118	6,078	5,628	4,777
Deposits from customers	15,695	16,066	16,971	17,319	19,028
Debt securities issued(excl. sub. and hyb.)	9,711	11,882	8,664	11,034	14,090
Other liabilities incl derivatives	606	1,043	485	460	508
Subordinated debt(upper and lower Tier 2)	292	299	300	300	300
Hybrid Tier 1 securities	0	0	400	200	200
Equity	2,283	2,267	2,442	2,756	2,957
Total liabilities and equity	30,178	33,675	35,340	37,697	41,860

Lending outside of parent bank's bal. sheet	2007	2008	2009	2010	2011
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	0	4,000	5,860	7,983
Total adjusted assets (incl. loans in external c.i.)	30,178	33,675	35,340	37,697	41,860

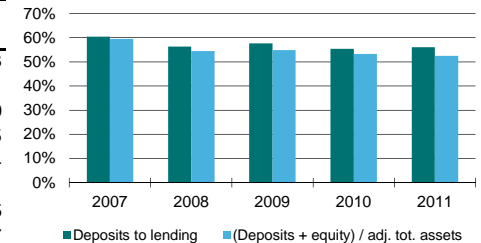
Other items regarding lending	2007	2008	2009	2010	2011
Lending to personal customers	15,209	17,453	19,104	21,020	23,108
Lending to personal customers incl ext. credit in:	15,209	17,453	19,104	21,020	23,108
Lending to corporate clients incl. ext. credit inst.	10,663	11,010	10,321	10,209	10,771
Corp.len. inc ext.cr.ins, unutilized comm, guar.	13,186	13,396	12,880	12,624	12,669
Lending to central and regional authorities	62	56	36	35	21
Gross non-performing commitments	106	161	238	414	339
Gross doubtful commitments	134	180	131	162	293

Key ratios	2007	2008	2009	2010	2011
Net interest income to average total assets (%)	1.98%	1.97%	1.81%	1.83%	1.59%
Net adj.interest income to ave. total adj.assets	1.98%	1.97%	1.81%	1.83%	1.59%
Cost/income excluding net valuation effects	61.3%	66.3%	60.5%	58.2%	59.0%
EBT excl net valuation effects/ave. total assets	1.03%	0.52%	0.60%	0.65%	0.66%
Adj. net income, excl.val. effects/ave. tot assets	0.76%	0.39%	0.45%	0.48%	0.49%
EBT excl net valuation effects/ave tot adj.assets	1.03%	0.52%	0.60%	0.65%	0.66%
Adj. net inc., excl.val. effects/ave. tot adj.assets	0.76%	0.39%	0.45%	0.48%	0.49%
Adj. net income, excl.val. effects/ave. equity	9.91%	5.43%	6.54%	6.72%	6.84%
Return on equity, book net income to ave equity	10.96%	-0.88%	6.29%	14.16%	7.67%
Loans transferred to credit inst / total adj. assets	0.0%	0.0%	11.3%	15.5%	19.1%
Residential loans trans. to cr.ins./adj. lend. to pe	0.0%	0.0%	20.9%	27.9%	33.5%
Gr. non-perf. and doubtful/gr. adj. lend.	0.93%	1.20%	1.25%	1.84%	1.86%
Write-downs/(gross non-perf. and other doubtful	49%	52%	62%	48%	50%
Credit losses/gross lending	0.05%	0.40%	0.37%	0.39%	0.21%
Cred. losses/net recurring inc. bef. losses, tax	4.0%	40.6%	34.4%	34.1%	21.2%
Deposits to lending	60.5%	56.3%	57.6%	55.4%	56.1%
Deposits to adj. lending	60.5%	56.3%	57.6%	55.4%	56.1%
(Deposits + equity) / tot. assets	59.6%	54.4%	54.9%	53.3%	52.5%
(Deposits + equity) / adj. tot. assets	59.6%	54.4%	54.9%	53.3%	52.5%
Book equity / total assets	7.6%	6.7%	6.9%	7.3%	7.1%
Equity Tier 1 cap./tot. adj. assets (unweighted)	na	na	na	na	6.9%
Equity Tier 1 ratio (risk-weighted, trans. rules)	na	na	na	na	13.3%
Tier 1 ratio (risk-weighted, transitional rules)	10.6%	11.1%	14.1%	14.0%	14.2%
Total cap. ratio (risk-weighted, transitional rules)	12.1%	12.7%	15.8%	15.5%	15.6%

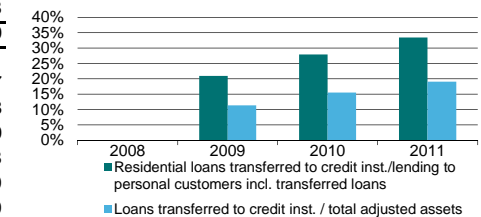
Lending distribution (simplified)



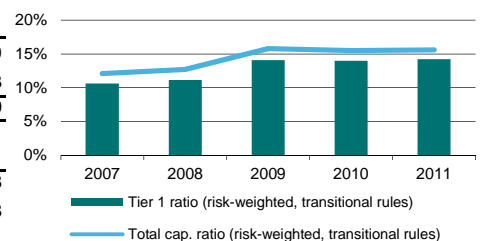
Deposit ratios



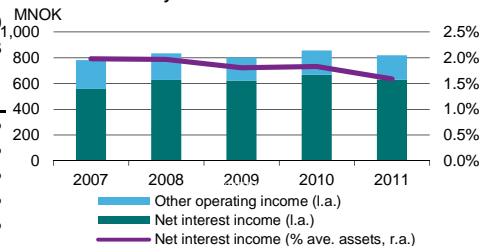
Loans transferred to credit institutions



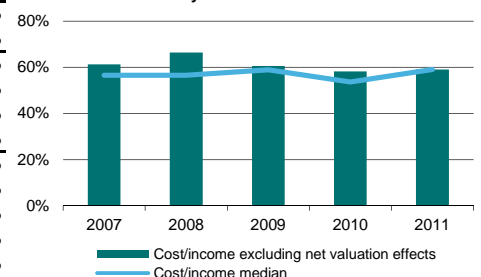
Capital ratios



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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Lillehammer	612 73209
Kristiansund	380 72862
Stavanger	518 40430
Tromsø	776 29580
Trondheim	739 93330
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Ålesund	738 46009

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