



Sparebanken Sør

DNB MARKETS CREDIT RESEARCH

BANK REPORT 2012/2

CREDIT ANALYSES ON NORWEGIAN BANKS

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Sparebanken Sør

www.sor.no

Av. asset balance: 42,306m
 Av. adj. assets¹: 42,306m
 Equity Tier 1 cap./ adj. assets¹: 6.7%
 Equity Tier 1 ratio: 12.4%

Rating order: 6 / 123
 Size: 9 / 124
 No alliance
 Offices in Norway/ abr.: 30/ 0

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

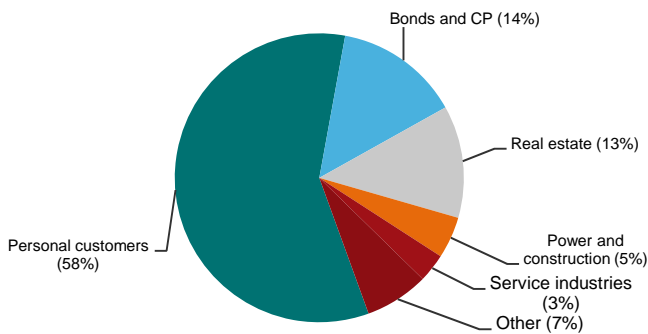
Official ratings:
 Moody's: A3
 S&P:
 Fitch:

Sparebanken Sør has 366 employees across 30 offices in the Agder region and parts of Telemark with its head office being located in Arendal. The bank owns the real estate agency ABCenter AS. The other subsidiaries are mainly focused on management of the properties of the bank. Sparebanken Sør has access to financing through covered bonds issued by Sør Boligkreditt AS.

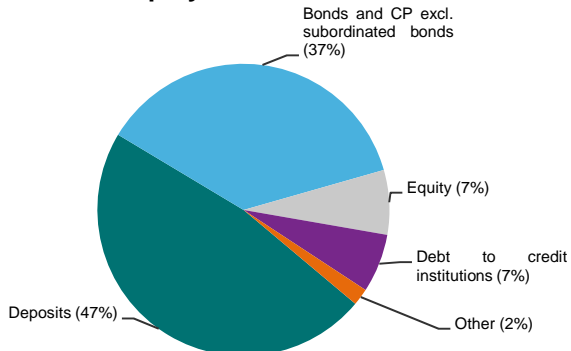
Sparebanken Sør has had a growth in lending to corporates of 0.2% on average the last 4 years, (low growth as a share of total adj. assets¹, with 0.6% growth on average the last 4 years, excluding years with negative growth). The total capital ratio is 13.3% (the median for banks with total assets over 5 bn is 14.2%). 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 4.8%) matures during the next 18 months. Non-performing and other doubtful commitments constitute 1.8% of adj. lending¹ (moderate share of non-performing loans). Individual and collective write-downs amount to NOK 330 million, equal to 52% of non-performing and other doubtful commitments.



Assets as of 30/06/2012

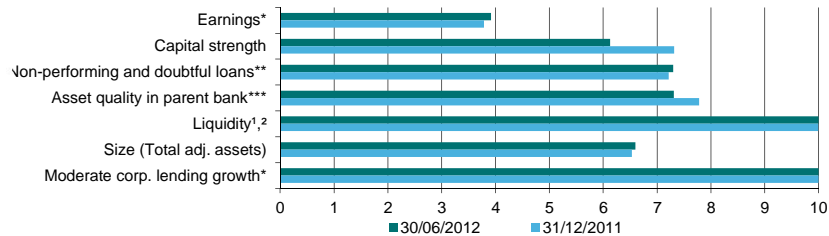


Debt and equity as of 30/06/2012

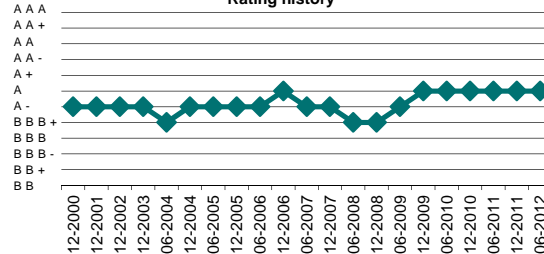


DNB Markets Credit Research Bank Rating Model score (10 is best score)

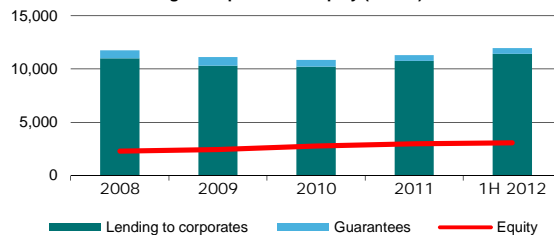
* 5-year history for earnings score and 4-year history for growth score
 ** non-performing and doubtful commitments, adj. for provisions
 *** see introduction for explanation of DNB Markets' model



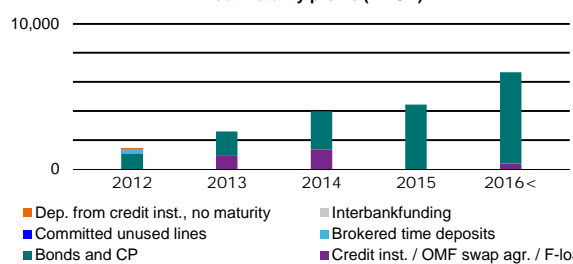
Rating history



Lending to corporates vs equity (MNOK)



Debt maturity profile (MNOK)



1) Including loans transferred to credit institutions

2) Debt maturing by 31/12/2013 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 31/12/2013.

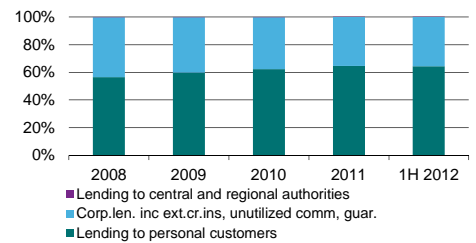
Sparebanken Sør

Accounts for the bank group

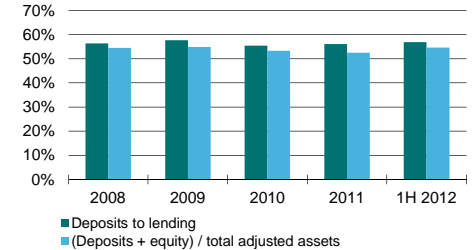
Accounting standard: IFRS

Income statement (MNOK, condensed)	2008	2009	2010	2011	1H 2012
Net interest income and other credit income	629	623	668	631	323
Net other income and fees from banking services	206	180	188	187	104
Total net recurring revenues	835	803	856	818	427
Operating expenses	-554	-486	-498	-483	-246
Total net recurring income bef. losses and tax	281	317	358	335	181
Credit losses on loans/guarantees (reversal)	114	109	122	71	23
Earnings before tax excluding valuation effects	167	208	236	264	158
Net valuation effect on bonds, stocks, curr. etc ¹	-149	-4	238	61	-12
Earnings before tax	18	204	474	325	146
Tax	-38	-56	-106	-106	-44
Net income (loss) for the period	-20	148	368	219	102
Comprehensive income for the period	na	na	na	na	102
Balance sheet	2008	2009	2010	2011	1H 2012
Cash and deposits with central banks	975	479	429	543	358
Lending to and deposits with credit institutions	21	159	16	111	129
Gross lending to customers	28,519	29,440	31,264	33,900	35,736
Individual write-downs	88	113	155	195	206
Collective write-downs	91	114	124	124	124
Net lending to customers	28,340	29,213	30,985	33,581	35,406
Bonds and commercial paper	2,797	4,550	5,337	6,645	5,822
Shareholdings	221	336	350	337	346
Other holdings incl derivatives and fixed assets	1,255	537	559	625	674
Immaterial assets	66	66	21	18	17
Total assets	33,675	35,340	37,697	41,860	42,752
Loans and deposits from credit institutions	2,118	6,078	5,628	4,777	2,784
Deposits from customers	16,066	16,971	17,319	19,028	20,303
Debt securities issued(excl. sub. and hyb.)	11,882	8,664	11,034	14,090	15,813
Other liabilities incl derivatives	1,043	485	460	508	596
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	3,056
Total liabilities and equity	33,675	35,340	37,697	41,860	42,752
Lending outside of parent bank's balance	2008	2009	2010	2011	1H 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	9,695
Total adjusted assets (incl. loans in external c.i.)	33,675	35,340	37,697	41,860	42,752
Other items regarding lending	2008	2009	2010	2011	1H 2012
Lending to personal customers	17,453	19,104	21,020	23,108	24,289
Lending to personal cust. incl ext. credit inst.	17,453	19,104	21,020	23,108	24,289
Lending to corporate clients incl. ext. credit inst.	11,010	10,321	10,209	10,771	11,432
Corp.len. inc ext.cr.ins. unutilized comm. guar.	13,396	12,880	12,624	12,669	13,456
Lending to central and regional authorities	56	36	35	21	15
Gross non-performing commitments	161	238	414	339	320
Gross doubtful commitments	180	131	162	293	314
Key ratios	2008	2009	2010	2011	1H 2012
Net interest income to average total assets	1.97%	1.81%	1.83%	1.59%	1.54%
Net adj.interest income to ave. total adj.assets	1.97%	1.81%	1.83%	1.59%	1.54%
Cost/income excluding net valuation effects	66.3%	60.5%	58.2%	59.0%	57.6%
EBT excl net valuation effects/ave. total assets	0.52%	0.60%	0.65%	0.66%	0.75%
Adj. net income, excl.val. effects/ave. tot assets	0.39%	0.45%	0.48%	0.49%	0.56%
EBT excl net valuation effects/ave tot adj.assets	0.52%	0.60%	0.65%	0.66%	0.75%
Adj. net inc., excl.val. effects/ave. tot adj.assets	0.39%	0.45%	0.48%	0.49%	0.56%
Adj. net income, excl.val. effects/ave. equity	5.43%	6.54%	6.72%	6.84%	7.84%
Return on equity, book net income to av. equity	-0.88%	6.29%	14.16%	7.67%	6.84%
Loans transferred to credit inst/ total adj. assets	0.0%	11.3%	15.5%	19.1%	22.7%
Resid. loans transf. to cr.inst/adj. lend. to pers.	0.0%	20.9%	27.9%	33.5%	38.6%
Gross non-perf. and doubtful/gr. adj. lending	1.20%	1.25%	1.84%	1.86%	1.77%
Write-downs/(gr. non-perf. and other doubtful)	52%	62%	48%	50%	52%
Credit losses/gross lending	0.40%	0.37%	0.39%	0.21%	0.13%
Cred. losses/net recurring inc. bef. losses, tax	40.6%	34.4%	34.1%	21.2%	12.7%
Deposits to lending	56.3%	57.6%	55.4%	56.1%	56.8%
Deposits to adj. lending	56.3%	57.6%	55.4%	56.1%	56.8%
(Deposits + equity) / total assets	54.4%	54.9%	53.3%	52.5%	54.6%
(Deposits + equity) / total adjusted assets	54.4%	54.9%	53.3%	52.5%	54.6%
Book equity / total assets	6.7%	6.9%	7.3%	7.1%	7.1%
Book equity / total adjusted assets	6.7%	6.9%	7.3%	7.1%	7.1%
Equity Tier 1 cap./tot. adj. assets (unweighted)	na	na	na	6.9%	6.7%
Equity Tier 1 ratio (risk-weighted, trans. rules)	na	na	na	13.3%	12.4%
Tier 1 ratio (risk-weighted, transitional rules)	11.1%	14.1%	14.0%	14.2%	13.3%
Total cap. ratio (risk-weighted, transitional rules)	12.7%	15.8%	15.5%	15.6%	13.3%

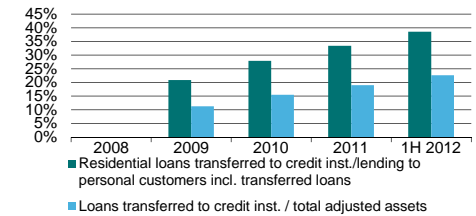
Lending distribution (simplified)



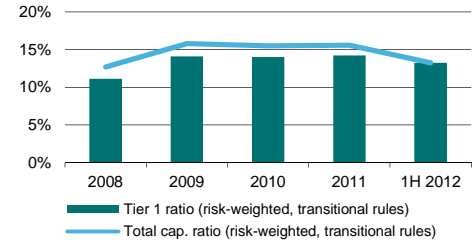
Deposit ratios



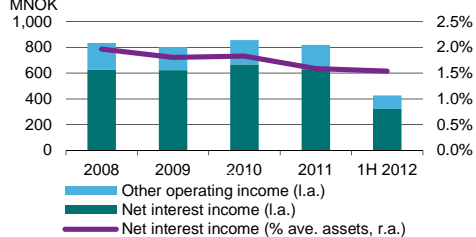
Loans transferred to credit institutions



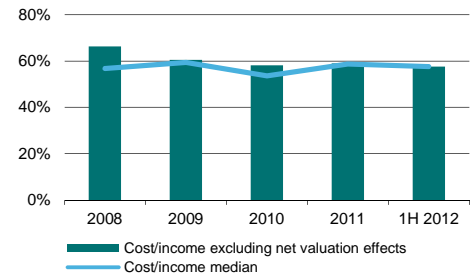
Capital ratios



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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