

An aerial night photograph of a city, likely in Norway, featuring a large bridge spanning a body of water. The city lights are reflected in the water, and the overall scene is bathed in a teal or cyan light. The DNB logo is overlaid on the right side of the image.

DNB

DNB MARKETS CREDIT RESEARCH

BANK REPORT 2015/2

CREDIT ANALYSIS ON NORWEGIAN BANKS – 3 DECEMBER 2015

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Sparebanken Sør

sor.no

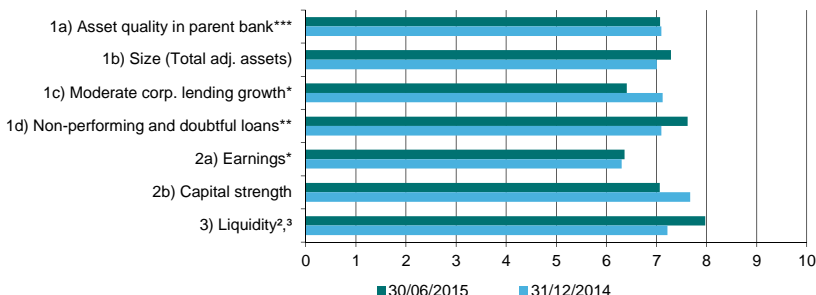
DNB Markets' bank rating:	A	Rating order:	8 / 120	Av. asset balance:	96,389m	Official ratings:	
Senior unsecured rating:	A	Bank rating change from previous:	No	Av. adj. assets ¹ :	96,389m	Moody's:	A1
Subordinated Tier 2 rating:	BBB+	Main driver for change:		Offices in Norway/ abr.:	40/ 0	S&P:	n.a.
Hybrid Tier 1 rating:	BBB-			No alliance		Fitch:	n.a.
Senior unsecured recovery interval given bail-in and depositor preference - see introduction (low - high) :						41% -	85%

On 1 January 2014, the two savings banks Sparebanken Pluss and Sparebanken Sør merged to form the "new" Sparebanken Sør. The historical figures are from Sparebanken Pluss, which is the continued bank. The "new" Sparebanken Sør is the largest bank in the Agder counties with 462 employees across 40 offices in Vest-Agder, Aust-Agder and Telemark. The main office is located in Kristiansand. The group includes the real estate agency Sørmeglere. Sparebanken Sør has access to financing through covered bonds issued by Sparebanken Sør Boligkreditt AS.

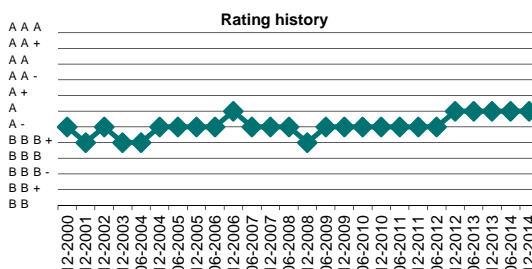
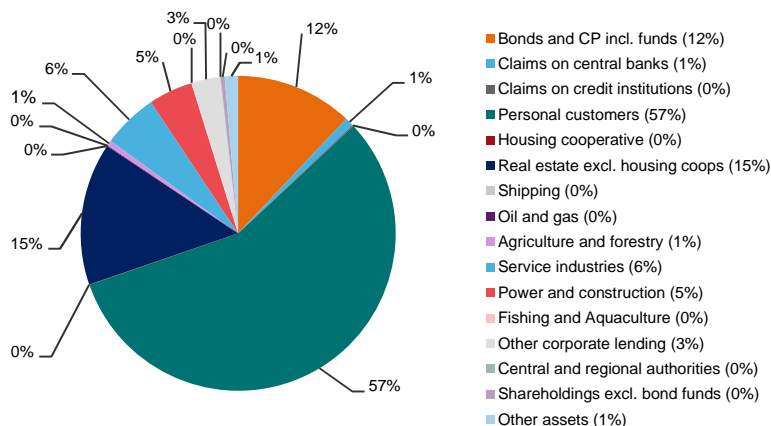
Sparebanken Sør has had an annualised growth in lending to corporates (incl. unutilized comm., guarantees) of 12.7% over the last 4 periods, (moderate growth as a share of total adj. assets¹, with 3.9% growth on average). The total capital ratio is 14.5% (the median for banks with total assets over 5 bn is 16.2%). Book equity constitutes 7.6% of total assets. Sparebanken Sør has a moderate share of net short funding, as debt² adjusted for liquid assets³ equal to 6.8% of total assets (median 1.3%) matures during the next 18 months. Non-performing and other doubtful commitments constitute 1.5% of adj. lending¹ (moderate share of non-performing loans). Individual and collective write-downs amount to NOK 695 million, equal to 53% of non-performing and other doubtful commitments.



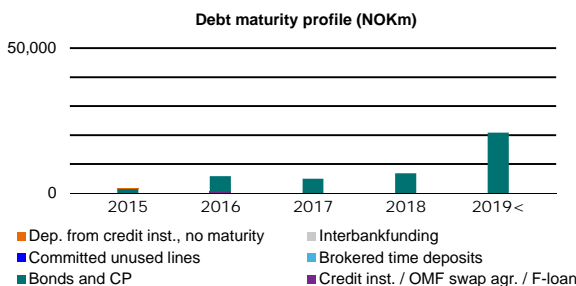
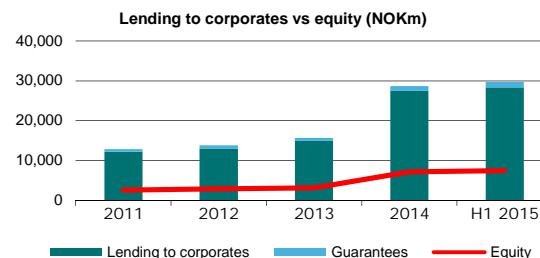
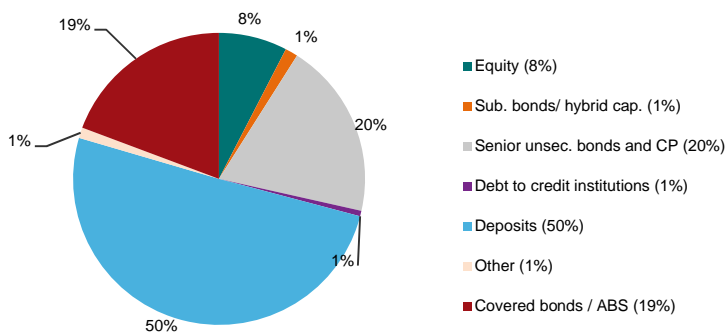
DNB Markets Credit Research Bank Rating Model score
 (10 is best score for all factors)
Main model categories: 1a-1d: Asset quality factors, 2a-2b: Loss absorption capacity factors, 3: Liquidity factor
 * 5-year history for earnings score and 4-year history for growth score
 ** non-performing and doubtful commitments, adj. for provisions
 *** see introduction for explanation of DNB Markets' model



Assets as of 30/06/2015



Debt and equity as of 30/06/2015



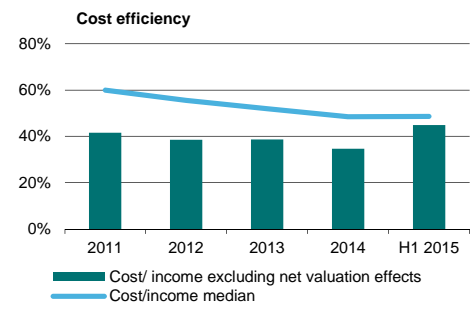
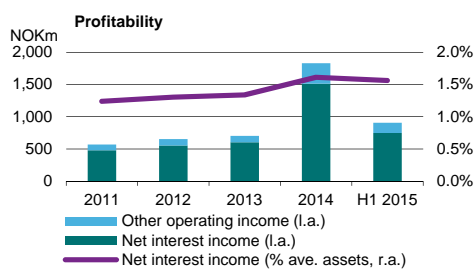
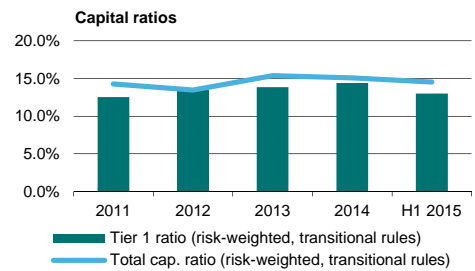
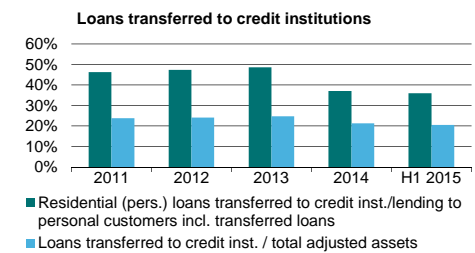
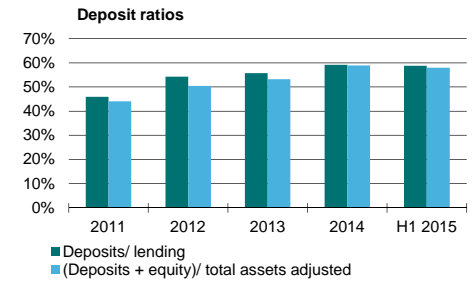
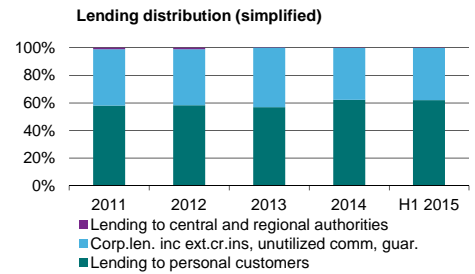
1) Including loans transferred to credit institutions
 2) Debt maturing by 31/12/2016 and 20% of deposits exceeding NOK2m adjusted for liquid assets
 3) Liquid assets: bond portfolio with 20% hair cut, in excess of the old liquidity reserve requirement (6% av total debt), claims on central banks and credit institutions, and back stop facilities maturing after 31/12/2016.

Sparebanken Sør

Accounts for the bank group

Accounting standard: IFRS

Income statement (NOKm, condensed)	2011	2012	2013	2014	H1 2015
Net interest income and other credit income	479	551	602	1,511	748
Net other income and fees from banking services	88	101	100	318	156
Total net recurring revenues	567	652	702	1,829	904
Operating expenses	-236	-251	-271	-634	-406
Total net recurring income bef. losses and tax	331	401	431	1,195	498
Credit losses on loans/guarantees (reversal)	20	21	28	268	32
Earnings before tax excluding valuation effects	311	380	403	927	466
Net valuation effect on bonds, stocks, curr. etc ¹	-30	23	10	173	34
Earnings before tax	281	403	413	1,100	500
Tax	-86	-113	-111	-215	-136
Net income (loss) for the period	195	290	302	885	364
Comprehensive income for the period	na	297	284	792	364
Balance sheet	2011	2012	2013	2014	H1 2015
Cash and deposits with central banks	568	475	1,340	595	894
Lending to and deposits with credit institutions	30	19	50	180	134
Gross lending to customers	33,276	35,717	38,155	81,628	84,637
Individual and collective write-downs	129	144	168	715	695
Net lending to customers	33,147	35,573	37,987	80,913	83,942
Bonds and commercial paper	5,918	7,156	5,783	10,359	11,968
Shareholdings/ other fin. investments/ instruments	206	213	98	445	423
Other holdings incl derivatives and fixed assets	641	686	500	1,533	1,332
Immaterial assets	1	0	2	37	22
Total assets	40,511	44,122	45,760	94,062	98,715
Loans and deposits from credit institutions	6,092	5,305	2,028	614	597
Deposits from customers	15,289	19,378	21,264	48,250	49,758
Debt securities issued (excl. sub. and hyb.)	15,167	15,377	17,935	35,775	38,325
-Of which covered bonds / ABS	na	na	0	18,414	19,045
Other liabilities incl derivatives	689	712	523	1,166	1,174
Subordinated debt (upper and lower Tier 2)	400	0	899	400	900
Hybrid Tier 1 securities	299	498	0	700	500
Equity	2,575	2,852	3,111	7,157	7,461
Total liabilities and equity	40,511	44,122	45,760	94,062	98,715
Lending outside of parent bank's balance	2011	2012	2013	2014	H1 2015
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	9,645	10,645	11,320	20,079	20,228
Total adjusted assets (incl. loans in external c.i.)	40,511	44,122	45,760	94,062	98,715
Other items regarding lending	2011	2012	2013	2014	H1 2015
Lending to personal customers	20,686	22,271	23,254	54,076	56,288
Lending to personal cust. incl ext. credit inst.	20,686	22,271	23,254	54,076	56,288
Lending to corporate clients	12,214	13,051	14,942	27,552	28,347
Lending to corporate clients incl. ext. credit inst.	12,214	13,051	14,942	27,552	28,347
Corp.len. inc ext.cr.ins, unutilized comm, guar.	14,548	15,451	17,514	32,589	34,328
Lending to central and regional authorities	376	395	3	22	30
Gross non-perf. and doubtful commitments	180	213	302	1,466	1,301
Key ratios	2011	2012	2013	2014	H1 2015
Net interest income to average total assets	1.24%	1.30%	1.34%	1.61%	1.56%
Net adj.interest income to ave. total adj.assets	1.24%	1.30%	1.34%	2.16%	1.56%
Cost/ income excluding net valuation effects	41.6%	38.5%	38.6%	34.7%	44.9%
EBT excl. net val effects/ave. tot. assets	0.80%	0.90%	0.90%	0.99%	0.97%
EBT excl. net val. effects/ave. tot. assets adj.	0.80%	0.90%	0.90%	1.33%	0.97%
Adj. net inc. excl.val. effects/ave. tot. assets adj.	0.59%	0.66%	0.66%	0.98%	0.72%
Adj. net income, excl.val. effects/ave. equity	9.26%	10.36%	10.00%	9.97%	9.51%
ROE, book net income to average equity	7.84%	10.69%	10.13%	12.86%	10.04%
Loans transferred to credit inst./ total assets adj.	23.8%	24.1%	24.7%	21.3%	20.5%
Resid. loans transf. to cr.inst/lend. to pers. adj.	46.3%	47.4%	48.7%	37.1%	35.9%
Gross non-perf. and doubtful/gr. lending adj.	0.54%	0.60%	0.79%	1.80%	1.54%
Write-downs/(gr. non-perf. and other doubtful)	71.7%	67.6%	55.6%	48.8%	53.4%
Credit losses/gross lending	0.06%	0.06%	0.07%	0.33%	0.08%
Credit losses/gross lending adjusted	0.06%	0.06%	0.07%	0.33%	0.08%
Credit losses/net recurring inc. bef. losses, tax	6.0%	5.2%	6.5%	22.4%	6.4%
Deposits/ lending	45.9%	54.3%	55.7%	59.1%	58.8%
Deposits/ adjusted lending	45.9%	54.3%	55.7%	59.1%	58.8%
(Deposits + equity)/ total assets adjusted	44.1%	50.4%	53.3%	58.9%	58.0%
LCR	na	na	na	na	na
REA/ total adjusted assets	56.6%	56.1%	56.5%	57.4%	59.0%
Book equity / total assets (unweighted)	6.4%	6.5%	6.8%	7.6%	7.6%
Com. Equity Tier 1 cap./tot. adj. assets (unweighted)	6.4%	6.5%	6.8%	7.5%	7.2%
Com. Equity Tier 1 ratio (risk-weighted, trans. rules)	11.2%	11.5%	12.0%	13.1%	12.2%
Tier 1 ratio (risk-weighted, transitional rules)	12.5%	13.5%	13.9%	14.4%	13.0%
Total cap. ratio (risk-weighted, transitional rules)	14.3%	13.5%	15.4%	15.1%	14.5%
Leverage ratio	na	na	na	na	na
Gap to CET1 5.125% AT1-trigger (% of adj. lending)	na	na	na	na	4.9%



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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