



DNB

Sparebanken Sør

DNB MARKETS CREDIT RESEARCH

BANK REPORT 2014/2

CREDIT ANALYSES ON NORWEGIAN BANKS – 26 NOVEMBER 2014

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Sparebanken Sør

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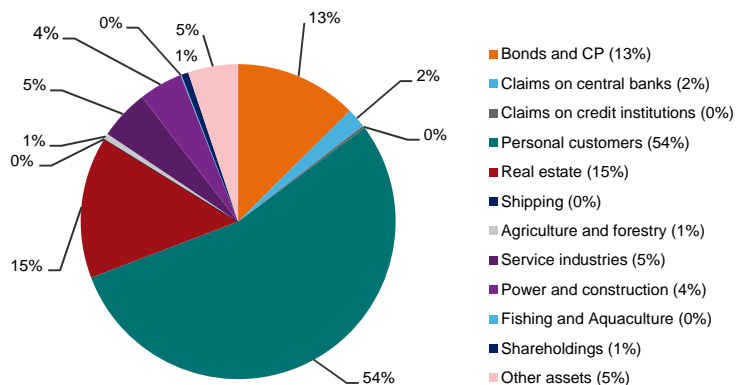
DNB Markets' bank rating:	A	Rating order:	7 / 120	Av. asset balance:	70,668m	Official ratings:	
Senior unsecured rating:	A	Bank rating change:	No	Av. adj. assets ¹ :	70,668m	Moody's:	A2 NEG
Subordinated Tier 2 rating:	BBB+	Main driver for change:		Offices in Norway/ abr.:	40/ 0	S&P:	n.a.
Hybrid Tier 1 rating:	BBB-			No alliance		Fitch:	
Senior unsecured recovery interval given bail-in and depositor preference - see introduction (low - high) :							47% - 87%

On 1 January 2014, the two savings banks Sparebanken Pluss and Sparebanken Sør merged to form the "new" Sparebanken Sør. However, 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 in Kristiansand. The group includes the real estate agency Sørmeglern. Sparebanken Sør has access to financing through covered bonds issued by Sør Boligkreditt AS.

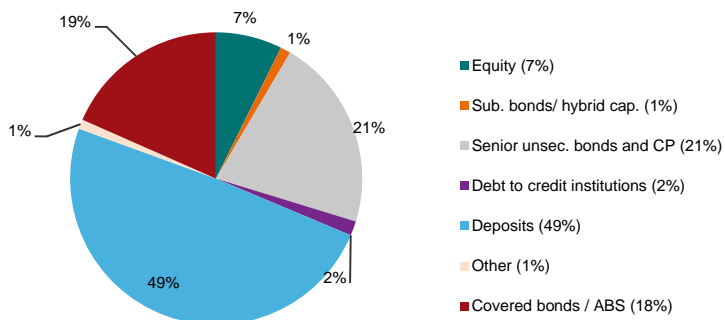
Sparebanken Sør has had an annualised growth in lending to corporates (incl. unutilized comm., guarantees) of 11.0% over the last 4 periods, (moderate growth as a share of total adj. assets¹, with 3.8% growth on average). The total capital ratio is 14.3% (the median for banks with total assets over 5 bn is 15.7%). Book equity constitutes 7.3% of total assets. Sparebanken Sør has a moderate share of net short funding, as debt² adjusted for liquid assets³ equal to 8.8% of total assets (median 1.2%) 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 582 million, equal to 46% of non-performing and other doubtful commitments.



Assets as of 30/06/2014



Debt and equity as of 30/06/2014



DNB Markets Credit Research Bank Rating Model score

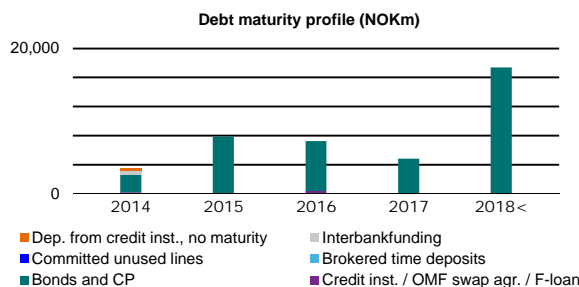
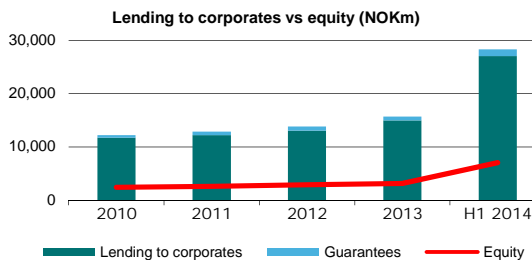
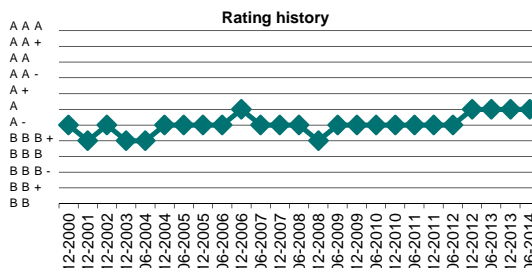
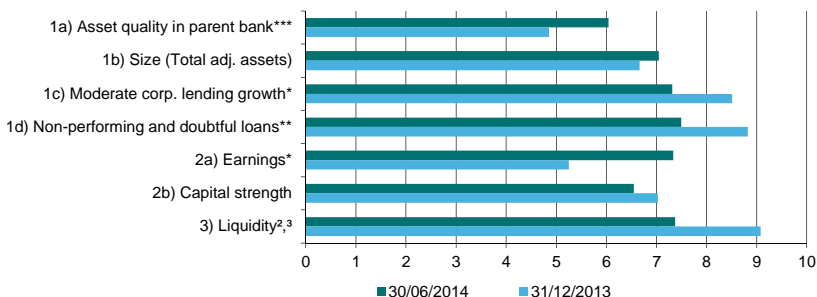
(10 is best score for all factors)

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



1) Including loans transferred to credit institutions

2) Debt maturing by 31/12/2015 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 31/12/2015.

Sparebanken Sør

Accounts for the bank group

Accounting standard: IFRS

Income statement (NOKm, condensed)	2010	2011	2012	2013	H1 2014
Net interest income and other credit income	451	479	551	602	758
Net other income and fees from banking services	90	88	101	100	150
Total net recurring revenues	541	567	652	702	908
Operating expenses	-218	-236	-251	-271	-226
Total net recurring income bef. losses and tax	323	331	401	431	682
Credit losses on loans/guarantees (reversal)	25	20	21	28	56
Earnings before tax excluding valuation effects	298	311	380	403	626
Net valuation effect on bonds, stocks, curr. etc ¹	55	-30	23	10	110
Earnings before tax	353	281	403	413	736
Tax	-96	-86	-113	-111	-120
Net income (loss) for the period	257	195	290	302	616
Comprehensive income for the period	na	na	297	284	616

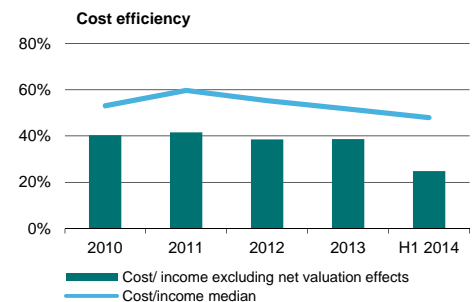
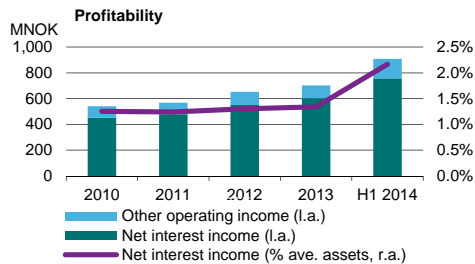
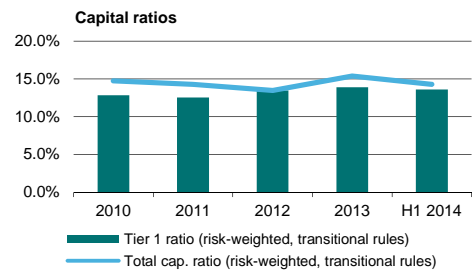
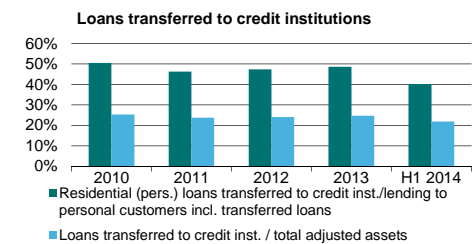
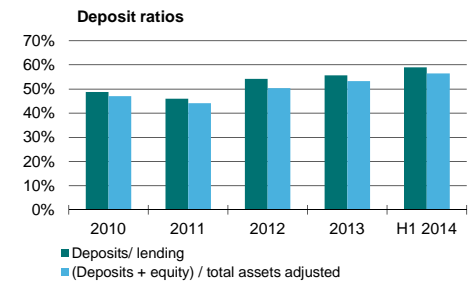
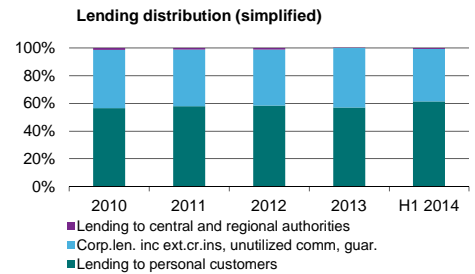
Balance sheet	2010	2011	2012	2013	H1 2014
Cash and deposits with central banks	1,191	568	475	1,340	1,950
Lending to and deposits with credit institutions	107	30	19	50	255
Gross lending to customers	30,652	33,276	35,717	38,155	80,240
Individual write-downs	57	37	52	76	388
Collective write-downs	92	92	92	92	194
Net lending to customers	30,503	33,147	35,573	37,987	79,658
Bonds and commercial paper	4,374	5,918	7,156	5,783	12,149
Shareholdings/ other fin. investments/ instruments	205	206	213	98	725
Other holdings incl derivatives and fixed assets	513	641	686	500	1,465
Immaterial assets	0	1	0	2	31
Total assets	36,893	40,511	44,122	45,760	96,233

Loans and deposits from credit institutions	6,152	6,092	5,305	2,028	1,541
Deposits from customers	14,963	15,289	19,378	21,264	47,325
Debt securities issued (excl. sub. and hyb.)	12,089	15,167	15,377	17,935	38,229
-Of which covered bonds / ABS	na	na	na	0	17,721
Other liabilities incl derivatives	594	689	712	523	1,004
Subordinated debt(upper and lower Tier 2)	400	400	0	899	400
Hybrid Tier 1 securities	298	299	498	0	700
Equity	2,397	2,575	2,852	3,111	7,034
Total liabilities and equity	36,893	40,511	44,122	45,760	96,233

Lending outside of parent bank's balance	2010	2011	2012	2013	H1 2014
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	9,349	9,645	10,645	11,320	21,126
Total adjusted assets (incl. loans in external c.i.)	36,893	40,511	44,122	45,760	96,233

Other items regarding lending	2010	2011	2012	2013	H1 2014
Lending to personal customers	18,527	20,686	22,271	23,254	52,553
Lending to personal cust. incl ext. credit inst.	18,527	20,686	22,271	23,254	52,553
Lending to corporate clients incl. ext. credit inst.	11,712	12,214	13,051	14,942	27,048
Corp.len. inc ext.cr.ins, unutilized comm, guar.	13,738	14,548	15,451	17,514	32,344
Lending to central and regional authorities	413	376	395	3	549
Gross non-performing commitments	200	125	116	213	488
Gross other doubtful commitments	96	55	97	90	783

Key ratios	2010	2011	2012	2013	H1 2014
Net interest income to average total assets	1.25%	1.24%	1.30%	1.34%	2.16%
Net adj.interest income to ave. total adj.assets	1.25%	1.24%	1.30%	1.34%	2.16%
Cost/ income excluding net valuation effects	40.3%	41.6%	38.5%	38.6%	24.9%
EBT excl. net valuation effects/ave. tot. assets	0.83%	0.80%	0.90%	0.90%	1.79%
EBT excl. net val. effects/ave. tot. assets adj.	0.83%	0.80%	0.90%	0.90%	1.79%
Adj. net inc. excl.val. effects/ave. tot. assets adj.	0.61%	0.59%	0.66%	0.66%	1.32%
Adj. net income, excl.val. effects/ave. equity	9.69%	9.26%	10.36%	10.00%	27.65%
ROE, book net income to average equity	11.29%	7.84%	10.69%	10.13%	36.77%
Loans transferred to credit inst./ total assets adj.	25.3%	23.8%	24.1%	24.7%	22.0%
Resid. loans transf. to cr.inst/lend. to pers. adj.	50.5%	46.3%	47.4%	48.7%	40.2%
Gross non-perf. and doubtful/gr. lending adj.	0.97%	0.54%	0.60%	0.79%	1.58%
Write-downs/(gr. non-perf. and other doubtful)	50.3%	71.7%	67.6%	55.6%	45.8%
Credit losses/gross lending	0.08%	0.06%	0.06%	0.07%	0.14%
Credit losses/gross lending adjusted	0.08%	0.06%	0.06%	0.07%	0.14%
Cred. losses/net recurring inc. bef. losses, tax	7.7%	6.0%	5.2%	6.5%	8.2%
Deposits/lending	48.8%	45.9%	54.3%	55.7%	59.0%
Deposits/ lending adjusted	48.8%	45.9%	54.3%	55.7%	59.0%
(Deposits + equity) / total assets adjusted	47.1%	44.1%	50.4%	53.3%	56.5%
Book equity / total assets (unweighted)	6.5%	6.4%	6.5%	6.8%	7.3%
Book equity / total adjusted assets (unweighted)	6.5%	6.4%	6.5%	6.8%	7.3%
Core Equity Tier 1 cap./tot. assets adj. (unweighted)	na	6.4%	6.5%	6.8%	6.8%
Core Equity Tier 1 ratio (risk-weighted, trans. rules)	na	11.2%	11.5%	12.0%	12.3%
Tier 1 ratio (risk-weighted, transitional rules)	12.8%	12.5%	13.5%	13.9%	13.6%
Total cap. ratio (risk-weighted, transitional rules)	14.7%	14.3%	13.5%	15.4%	14.3%



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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