

Sør Boligkreditt AS

Company Profile

Sør Boligkreditt AS (SOBK) is a wholly owned subsidiary of Sparebanken Sør (SORG). SOBK was established in 2008 with the sole purpose of issuing covered bonds backed by prime residential mortgages acquired from the parent bank. As of June 2011, SOBK had acquired residential mortgages amounting to NOK 6 bn from SORG, and issued NOK 5 bn worth of covered bonds, resulting in an OC level of 24 %. The mortgages have a weighted average indexed LTV of 49.8 %.

The parent bank, SORG is one of the ten largest savings banks in Norway. SORG is headquartered in Arendal, Agder, and is represented through 29 branches in the surrounding county municipalities. The bank provides financial services, mainly to the local retail customers and SMEs. Retail loans account for 67 % of the group's loan portfolio, which also has significant exposure to the local commercial property sector (15 %). By the end of 2010, the group's assets had grown to NOK 38 bn.

Credit Supportive

- Strong underlying credit quality of cover pool
- Overall robust macro economic situation of Norway
- Strong legal framework for Norwegian covered bonds
- Publicly rated parent bank

Credit Concerns

- Potential spill-over from macroeconomic instability in Europe
- Few restrictions or limitations on the future composition of the cover pool, which facilitates substitution risk
- Limited geographic diversity of cover pool
- Potential rating downgrade of parent bank

Our View

We see the quality of the cover pool of SOBK as strong as it consists of 97 % prime residential mortgages (3 % substitute collateral), with an weighted average LTV of 49.8 %, which is a considerable improvement from the recent years. The cover pool has a current OC level of 24 %, 11.5 % of which is considered to be committed. The pool did see an increasing trend in loans in arrears for more than 90 days (defined as defaulted) in the previous years, but as of June 2011 no loans were 90 days or more in arrears. The majority of loans are situated in the county municipalities of Aust- and Vest-Agder, a region characterized by average income levels and housing prices in a Norwegian perspective.

The parent bank, Sparebanken Sør, is rated A3 with stable outlook by Moody's, and obtains a A rating in Nordea Markets Bank Report 2011. SORG's commitment to the issuer is underlined through the range of functions it performs on behalf of the issuer, in addition to a NOK 2.5 bn credit facility in place.

The Norwegian economy has shown better performance than other European countries, however the macro economic outlook is uncertain and a potential contagion effect from the European mainland could arise, especially in from of a liquidity squeeze in the Norwegian banking system. We do not see the macroeconomic situation to be of such a character that it could impair the quality of the cover pool. We expect continued growth in the domestic housing prices in the short to medium term, given the current low interest rates and high employment rate in Norway.

Sør Boligkreditt AS

S&P	nr
Moody'	Aaa
Fitch	nr
Nordea	AAA

Sparebanken Sør

S&P	nr
Moody's	A3
Fitch	nr
Nordea	A

Key data

Ticker	Not listed
Sector	Covered bonds
Country	Norway
M Cap	-
Web	www.sor.no

Largest Shareholders

Sparebanken Sør	100%
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Lars Husby Erichsen

+47 2248 7951

lars.husby.erichsen@nordea.com

Lars Husby Erichsen holds no shares in Sør Boligkreditt AS

Cover pool data

Cover pool data			
mNOK			
Total loan balance	6 000	WA seasoning (months)	28
Average loan balance	0.887	WA remaining terms	218
# of loans	6 765	Variable rates	100 %
# of properties	na	Amortization %	100 %
OC level	24.1 %	# of defaults	0
WA indexed LTV	49.8 %	Total default value	0

Cover pool

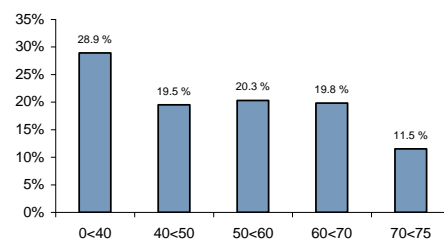
As of July 2010, the cover pool consist of 6 765 prime residential Norwegian mortgages, with an average LTV of 49.8 %. Approximately 31 % of the mortgages have an LTV that exceeds 60 %. The average loan size in the pool is NOK 0.887 m. About NOK 180 m of the mortgages are loans to self-employed customers.

The current OC level in the pool is 24 %, 11.5 % of which is considered to be committed. The weighted average seasoning is approximately two and a half years.

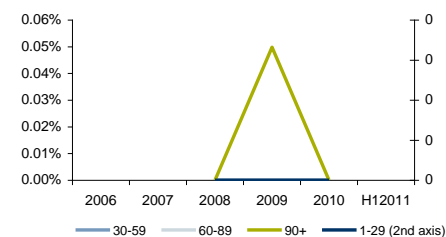
There has been some history of loans in SOBK's cover pool being more than 90 days in arrears. At year-end 2009, one or more mortgages amounting to NOK 5 m was in default, whereas NOK 2 m was in default one year ago. Currently, no loans are more than 90 days in arrears, whereas data on potential loans that are less than 90 days in arrears is not available.

The pool is mainly situated in the southern region of Norway, with about 76 % being located in the county municipalities of Aust- and Vest-Agder. Disposable income levels in both of these county municipalities are on the lower end of the scale, even though real growth has been positive over the last 4 years. Housing prices are just below the country average, but has seen above average growth rates.

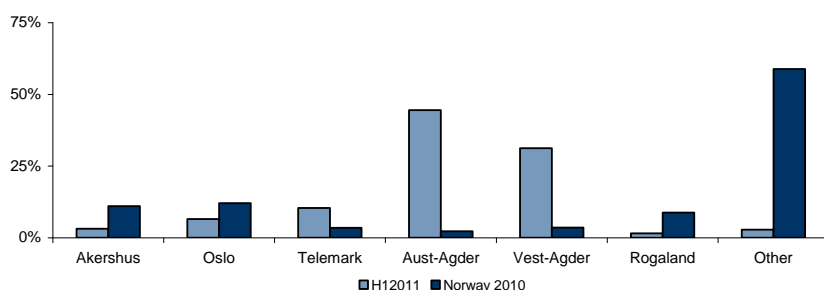
Indexed LTV distribution



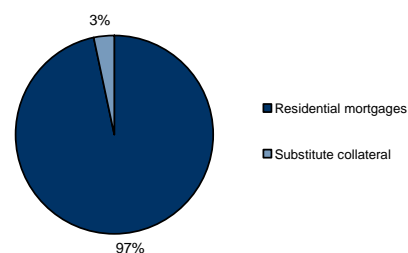
Loans in arrears



Geographical distribution of cover pool



Cover pool composition



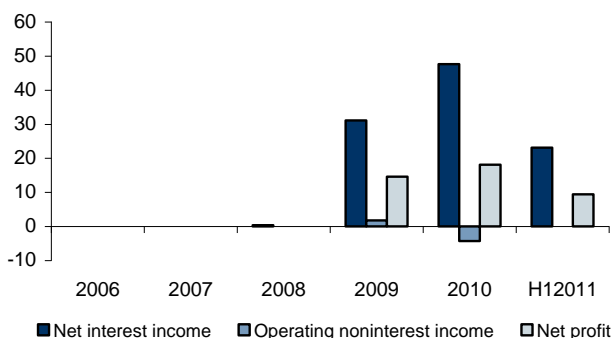
Ticker	Issuer	Issue	Maturity	Final Maturity	Coupon	Size (m)
1050844	Sør Boligkreditt AS	2009-04-24	2014-04-08	2015-04-08	FRN N3M +50	NOK 1 000
1051812	Sør Boligkreditt AS	2009-06-09	2015-07-02	2016-07-04	FRN N3M +55	NOK 1 000
SORB03	Sør Boligkreditt AS	2011-10-05	2015-10-05	2016-10-05	FRN N3M +53	NOK 500
1053616	Sør Boligkreditt AS	2009-09-01	2015-10-06	2016-10-06	FRN N3M +55	NOK 1 000
SORB01	Sør Boligkreditt AS	2011-06-29	2016-06-29	2017-06-29	FRN N3M +50	NOK 1 000
1053074	Sør Boligkreditt AS	2009-08-05	2016-10-06	2017-10-06	FRN N3M +60	NOK 1 000
SORB02	Sør Boligkreditt AS	2011-08-24	2017-08-24	2018-08-24	FRN N3M +53	NOK 550

Financials

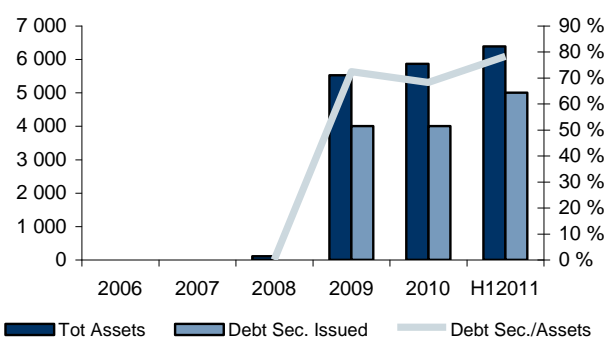
Income Statement, NOKm	2006	2007	2008	2009	2010	H12011
Net interest income			0	31	48	23
Operating noninterest income			0	2	-4	0
Total expenses			0	9	18	10
Profit before loan losses			0	20	25	13
Loan losses			0	4	0	0
Net profit			0	15	18	9
Balance Sheet						
Net loans to credit institutions			99	174	0	201
Net loans to the public			9	5 341	5 856	6 178
Total assets			108	5 523	5 865	6 387
Debt securities in issue			0	4 000	4 000	4 999
Subordinated loan capital			0	0	0	0
Total liabilities			10	5 309	5 632	6 145
Total shareholders' equity			100	215	233	242
Growth %						
Net interest income					53 %	-3 %
Net profit					25 %	4 %
Total assets					6 %	18 %
Total net lending					10 %	11 %
Asset quality						
Loan loss provisions / Loans to the public			0.00 %	0.07 %	0.00 %	0.00 %
Loan loss provisions / Total income			0.00 %	12.18 %	0.00 %	0.00 %
Impaired loans / Loans to the public			0.00 %	0.05 %	0.00 %	0.00 %
Capital						
Total capital				213	231	233
Risk-weighted assets				2 099	2 247	2 505
Tier 1 ratio				10.1 %	10.3 %	9.3 %
Capitalisation ratio				10.1 %	10.3 %	9.3 %
Profitability						
RoE			0.0 %	6.8 %	7.8 %	7.8 %
RoA			0.0 %	0.3 %	0.3 %	0.3 %
RoRWA			n.a.	0.7 %	0.8 %	0.8 %
Liquidity						
Net loans to the public/Total assets			8.0 %	96.7 %	99.8 %	96.7 %
Total liabilities / Total assets			9.3 %	96.1 %	96.0 %	96.2 %
Capital market funds / Total liabilities			0.0 %	75.3 %	71.0 %	81.3 %
Capital market funds / Total assets			0.0 %	72.4 %	68.2 %	78.3 %

Nordea Credit Research adjusted figures & estimates

Net interest income and profit



Debt securities issued to total assets



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Outperform

Over the next three months, the fixed income instrument's total return is expected to exceed the total return of the relevant benchmark.

Market perform

Over the next three months, the fixed income instrument's total return is expected to be in line with the total return of the relevant benchmark.

Underperform

Over the next three months, the fixed income instrument's total return is expected to be below the total return of the relevant benchmark.

All research is produced on an ad hoc basis and will be updated when the circumstances require it.

Distribution of recommendations

Recommendation	Count	% of total
Outperform	35	27
Market perform	70	54
Underperform	24	19
Total	129	100

As of October 18, 2011

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Nordea Markets Credit Sales and Research

Institutional Sales Sweden

Fredrik Fremberg
fredrik.fremberg@nordea.com
+46 8 614 7134

Gustaf Frithz
gustaf.frithz@nordea.com
+46 8 614 8376

Anders Göransson
anders.goransson@nordea.com
+46 8 614

Tomas Köhlberg
tomas.kohlberg@nordea.com
+46 8 614 6702

Johanna Norberg
johanna.norberg@nordea.com
+46 8 614 8394

Carl Martin Stille
Carl.martin.stille@nordea.com
+46 8 614 8107

Utta Wester
utta.wester@nordea.com
+46 8 614 6916

Cecilia Tannerfeldt
cecilia.tannerfeldt@nordea.com
+46 8 614 8753

Institutional Sales Finland

Tuomo Lehtovaara, Head
tuomo.lehtovaara@nordea.com
+358 9 369 50217

Esa Valio
esa.valio@nordea.com
+358 9 369 50221

Henrik Haakana
henrik.haakana@nordea.com
+358 9 369 50214

Samuli Korpinen
Samuli.korpinen@nordea.com
+358 9 369 50250

Markku Ahonen
markku.ahonen@nordea.com
+358 9 369 50213

Aki Pakarinen
aki.pakarinen@nordea.com
+358 9 396 50231

Kimmo Vuorinen
kimmo.vuorinen@nordea.com
+358 9 369 50222

Institutional Sales Norway

Erich Normann
erich.normann@nordea.com
+47 2248 7782

Kristian Sørensen
kristian.sorensen@nordea.com
+47 2248 7846

John Hoel
john.hoel@nordea.com
+47 2248 7785

Erik Alsaker
erik.alsaker@nordea.com
+47 2248 7864

Bandar Abdul Jauwad
bandar.abdul-jauwad@nordea.com
+47 2248 7771

Hege M. Schuessler
hege.schuessler@nordea.com
+47 2248 7806

Stein Morten Sæther
stein.morten.saether@nordea.com
+47 2248 7876

Danish & International Sales

Henrik Nielsen
henrik.nielsen@nordea.com
+45 3333 1637

Lisbeth Rosendal
lisbeth.rosendal@nordea.com
+45 3333 1869

Arina Trefova
Arina.trefova@nordea.com
+45 3333 1483

Credit Research

Ola Eriksson
ola.eriksson@nordea.com
+46 8614 6759
Communications & Industrials

Mark Schindele
mark.schindele@nordea.com
+46 8614 8201
Industrials

Lars Kirkeby
lars.kirkeby@nordea.com
+47 2248 4264
Norwegian Industrials

Lars Husby Erichsen
lars.husby.erichsen@nordea.com
+47 2248 7951
Financials

Anders Ellegard
anders.ellegaard@nordea.com
+45 3333 1616
Financials, Utilities & Danish Industrials

Morten Heiner Pedersen
morten.heiner.pedersen@nordea.com
+45 3333 4577
Credit Strategy

Peter Dabros
peter.dabros@nordea.com
+45 3333 4787
Credit Strategy

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