

Sparebanken Sør

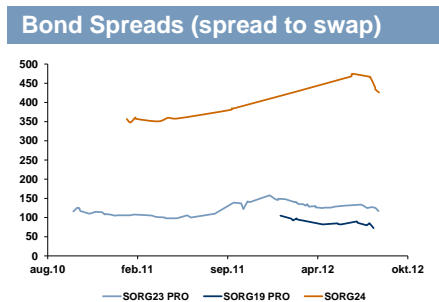
Norway

Key Data	
Ticker	Not listed
M Cap	-
Website	www.sor.no
Sector	Financial
Next report date (Q3)	7 Nov 2012

Nordea Markets – Analyst	
Lars Erichsen (primary)	+47 2248 7951
Senior analyst, Norwegian Financials	
lars.husby.erichsen@nordea.com	

Company Ratings	
Nordea	A
S&P	-
Moody's	A3 / Stable
Fitch	-

Largest Shareholders	



Source: Nordea Markets

Strong second quarter report

SORG posted Q2 figures above our expectations as core banking income generation improved. The bank's capitalisation and asset quality remains strong, despite marginally weakening in the second quarter.

Improved core banking income generation

SORG posted Q2 figures above our expectations as core banking income generation improved. Net interest income increased sizeably to NOK 167 m (Q1-12: NOK 156 m), and consequently the bank's annualized q-o-q interest margin rose to 1.63 % (Q1-12: 1.56 %). Moreover, net fee and commission income also increased and came in at NOK 45 m (Q1-12: NOK 37 m). Operating expenses rose marginally, due to higher personnel costs, to NOK 125 m (Q1-12: NOK 121 m), resulting in a slight increase in the bank's 12m rolling cost-income ratio to 60.4 % (Q1-12: 59.7 %). Loan loss provisions came in at NOK 12 m, and can be fully attributed to SORG's non-retail exposure. Ultimately, pre-tax profits increased considerably to NOK 107 m (Q1-12: NOK 39 m), as a result of increased core banking income and stronger performance by the bank's financial items.

The bank's asset quality weakened marginally during the second quarter, as SORG's net impaired loans to total loans ratio increased to 1.20 % (Q1-12: 1.14 %). However, this is still a solid level and on the strong side compared to the bank's peers.

Capitalisation strong, applying for IRB

SORG's core tier 1 and tier 1 ratio declined modestly to 12.39 % and 13.26 % (Q1-12: 12.84 % and 13.74 %), respectively, following an increase in the bank's risk weighted assets. We still assess the bank's capitalisation to be strong. The bank has begun preparing an application to the FSA, requesting the utilization of the IRB approach for calculating the capital requirements arising from the bank's credit risk.

Going forward

We expect a steady financial performance by SORG going forward, although we note that the somewhat surprisingly strong second quarter figures might prove hard to duplicate.

In our view, SORG's dec-20 hybrid tier 1 issue has traded quite expensively lately compared to similar bonds issued by the bank's peers.

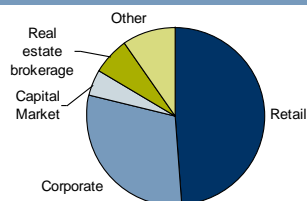
Company Data

CEO	Geir Bergskaug
CFO	Kjetil Korneliussen
Chairman	Torstein Moland
Employees	366

Company Profile

Sparebanken Sør (SORG) is one of the ten largest banks in Norway, headquartered in Arendal in the Aust-Agder county. The bank provides financial services, mainly to local retail and corporate customers, out of 29 branches. The bank is also involved in real-estate brokerage with 12 locations in the southern county municipalities.

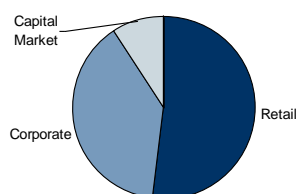
Revenue by Segment 2011



Credit Supportive

- Strong presence in the bank's local markets
- Increasing retail share in lending portfolio
- Solid capitalisation

Pretax profit by segment 2011



Credit Concerns

- Limited geographical diversification
- Relatively high exposure to the property management sector
- Moderate, albeit reduced, loan loss levels

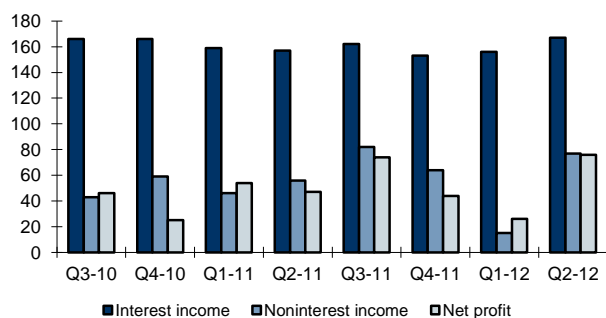
Ticker	Issuer	Bond	Issue	Maturity	Coupon	Size (m)
SORG18 PRO	Sparebanken Sør	A	2008-06-25	2012-10-03	FRN	900
1063089	Sparebanken Sør	A	2011-12-01	2012-11-30	FRN	300
SORG07 PRO	Sparebanken Sør	A	2006-05-15	2013-05-15	Fixed	900
SORG19 PRO	Sparebanken Sør	A	2008-09-26	2013-09-26	Fixed	700
SORG20 PRO	Sparebanken Sør	A	2008-10-17	2014-02-17	FRN	900
SORG26 PRO	Sparebanken Sør	A	2011-01-28	2014-05-20	FRN	750
SORG21 PRO	Sparebanken Sør	A	2009-02-04	2014-09-17	Fixed	900
SORG22 PRO	Sparebanken Sør	A	2010-02-04	2015-02-04	FRN	900
SORG27 PRO	Sparebanken Sør	A	2011-03-04	2015-05-29	Fixed	550
SORG23 PRO	Sparebanken Sør	A	2010-09-15	2015-09-16	FRN	825
SORG29 PRO	Sparebanken Sør	A	2012-11-23	2015-11-23	Fixed	300
SORG06	Sparebanken Sør	A	2006-02-21	2016-02-19	Fixed	900
SORG28 PRO	Sparebanken Sør	A	2011-09-05	2016-09-05	FRN	500
SORG25 PRO	Sparebanken Sør	A	2011-01-20	2017-01-20	Fixed	700
SORG30 PRO	Sparebanken Sør	A	2012-01-16	2017-03-16	FRN	700
SORG31 PRO	Sparebanken Sør	A	2012-01-26	2018-01-26	Fixed	900
SORG32 PRO	Sparebanken Sør	A	2012-06-11	2018-05-11	Fixed	450
SORG24	Sparebanken Sør	BBB+	2010-12-08	2020-12-06	FRN	200

Financials

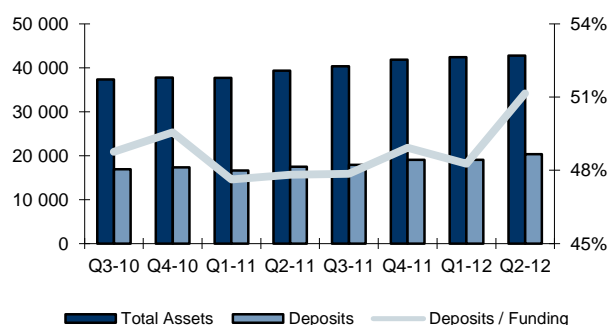
	2007	2008	2009	2010	Q2-11	Q3-11	Q4-11	2011	Q1-12	Q2-12
Income Statement										
Net Interest income	559	629	623	669	67	162	153	631	156	167
Operating noninterest income	270	57	176	391	56	82	64	248	15	77
Total expenses	-480	-554	-482	-464	-114	-115	-139	-483	-121	-125
Profit before loan losses	349	132	317	596	99	129	78	396	50	119
Loan losses	-12	-114	-109	-122	-34	-18	-7	-71	-11	-12
Net profit for the period	238	-20	152	366	47	74	44	219	26	76
Interest margin (12m rolling)	198%	197%	181%	183%	167%	166%	159%	159%	157%	155%
Cost income ratio (12m rolling)	83.04%	82.81%	70.88%	47.15%	57.18%	56.20%	59.05%	59.05%	59.71%	60.39%
Balance Sheet										
Cash, money market instruments & Securities	3 637	4 514	5 452	6 214	6 748	6 913	7 688	7 688	7 562	6 693
Customer Loans	26 030	28 361	29 372	31 018	32 100	32 925	33 692	33 692	34 356	35 535
Earning assets	29 667	32 875	34 824	37 232	38 848	39 838	41 380	41 380	41 918	42 228
Other assets	511	800	516	502	509	510	489	489	506	524
Total assets	30 178	33 675	35 340	37 734	39 357	40 348	41 869	41 869	42 424	42 752
Total deposits	15 695	16 066	16 971	17 326	17 457	17 911	19 028	19 028	19 039	20 303
Other borrowings & liabilities	12 200	15 342	15 927	17 638	19 050	19 512	19 869	19 869	20 404	19 393
Total shareholders' equity	2 283	2 267	2 442	2 770	2 850	2 925	2 972	2 972	2 981	3 056
Growth %										
Net Interest income	12%	13%	-1%	7%	-7%	-2%	-8%	-6%	-2%	6%
Total Income	12%	-17%	16%	33%	-39%	17%	-4%	-17%	-17%	15%
Total Expenses	11%	15%	-13%	-4%	-8%	-9%	13%	4%	5%	10%
Net profit	9%	-108%	860%	141%	-74%	61%	76%	-40%	-52%	62%
Asset Quality										
Loan Loss Provisions / Total Loans	0.05%	0.40%	0.37%	0.39%	0.42%	0.22%	0.08%	0.21%	0.13%	0.14%
Loan Loss Provisions / Total Income	1.4%	16.6%	13.6%	11.5%	16.0%	7.4%	3.2%	8.1%	6.4%	4.9%
Impaired Loans / Total Loans	0.9%	1.2%	1.3%	1.8%	1.8%	1.8%	1.9%	1.9%	1.7%	1.8%
Net Impaired Loans / Total Loans	0.7%	0.9%	0.9%	1.3%	1.3%	1.3%	1.3%	1.3%	1.1%	1.2%
Loan loss reserves (LLR) to impaired loans	49.2%	52.5%	61.5%	48.4%	51.4%	52.1%	50.5%	50.5%	54.9%	52.1%
Impaired loans / Shareholders equity and LLR	10.0%	13.9%	13.8%	18.9%	18.7%	18.8%	19.2%	19.2%	18.1%	18.7%
Capital										
Core capital	2 251	2 198	2 392	2 717	2 715	2 716	2 904	2 904	2 875	2 869
Hybrid tier 1 capital	0	0	400	200	200	200	200	200	200	200
Tier 1 capital	2 251	2 198	2 792	2 917	2 915	2 916	3 104	3 104	3 075	3 069
Risk weighted assets	21 159	19 747	19 746	20 802	21 373	22 400	21 714	21 714	22 386	23 150
Core tier 1 ratio	10.64%	11.13%	12.11%	13.06%	12.70%	12.13%	13.37%	13.37%	12.84%	12.39%
Tier 1 ratio	10.64%	11.13%	14.14%	14.02%	13.64%	13.02%	14.29%	14.29%	13.74%	13.26%
Capitalisation ratio	12.06%	12.69%	15.78%	15.45%	15.00%	14.32%	15.70%	15.70%	13.74%	13.26%
Liquidity										
Loan to the public / Total Assets	86%	84%	83%	82%	82%	82%	80%	80%	81%	83%
Deposits / Total Funding	56%	51%	52%	50%	48%	48%	49%	49%	48%	51%
Deposits / Loan to the Public	60%	57%	58%	56%	54%	54%	56%	56%	55%	57%
Capital Market Funds / Total Assets	40%	46%	45%	47%	48%	48%	47%	47%	48%	45%

Nordea Credit Research adjusted figures & estimates

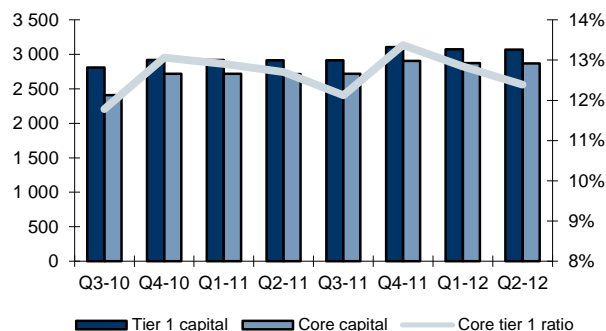
Income (NOKm)



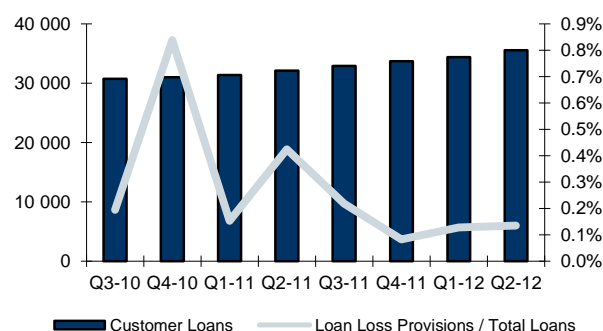
Assets (NOKm)



Capital (NOKm)



Loans (NOKm)



Disclaimer and legal disclosures

Disclaimer

Origin of the publication or report

This publication or report originates from: Nordea Bank AB (publ), Nordea Bank Danmark A/S, Nordea Bank Finland Plc and Nordea Bank Norge ASA (together the "Group Companies" or "Nordea Group") acting through their unit Nordea Markets.

The Group Companies are supervised by the Financial Supervisory Authority of their respective home countries.

Content of the publication or report

This publication or report has been prepared solely by Nordea Markets.

Opinions or suggestions from Nordea Markets may deviate from recommendations or opinions presented by other departments or companies in the Nordea Group. The reason may typically be the result of differing time horizons, methodologies, contexts or other factors.

Opinions and price targets are based on one or more methods of valuation, for instance cash flow analysis, use of multiples, behavioural technical analyses of underlying market movements in combination with considerations of the market situation and the time horizon. Key assumptions of forecasts, price targets and projections in research cited or reproduced appear in the research material from the named sources. The date of publication appears from the research material cited or reproduced. Opinions and estimates may be updated in subsequent versions of the publication or report, provided that the relevant company/issuer is treated anew in such later versions of the publication or report.

The report has been reviewed, for the purpose of verification of fact or sequence of facts, by the Issuers of the relevant financial instruments mentioned in the report prior to publication.

Validity of the publication or report

All opinions and estimates in this publication or report are, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report and are subject to change without notice.

No individual investment or tax advice

The publication or report is intended only to provide general and preliminary information to investors and shall not be construed as the basis for any investment decision. This publication or report has been prepared by Nordea Markets as general information for private use of investors to whom the publication or report has been distributed, but it is not intended as a personal recommendation of particular financial instruments or strategies and thus it does not provide individually tailored investment advice, and does not take into account the individual investor's particular financial situation, existing holdings or liabilities, investment knowledge and experience, investment objective and horizon or risk profile and preferences. The investor must particularly ensure the suitability of an investment as regards his/her financial and fiscal situation and investment objectives. The investor bears the risk of losses in connection with an investment.

Before acting on any information in this publication or report, it is recommendable to consult one's financial advisor.

The information contained in this publication or report does not constitute advice on the tax consequences of making any particular investment decision. Each investor shall make his/her own appraisal of the tax and other financial merits of his/her investment.

Sources

This publication or report may be based on or contain information, such as opinions, recommendations, estimates, price targets and valuations which emanate from:

Nordea Markets' analysts or representatives,
Publicly available information,
Information from other units of the Group Companies or other companies in the Nordea Group, or
Other named sources.

To the extent this publication or report is based on or contain information emanating from other sources ("Other Sources") than Nordea Markets ("External Information"), Nordea Markets has deemed the Other Sources to be reliable but neither the companies in the Nordea Group, others associated or affiliated with said companies nor any other person, do guarantee the accuracy, adequacy or completeness of the External Information.

The perception of opinions or recommendations such as Buy or Sell or similar expressions may vary and the definition is therefore shown in the research material or on the website of each named source.

Limitation of liability

Nordea Group or other associated and affiliated companies assume no liability as regards to any investment, divestment or retention decision taken by the investor on the basis of this publication or report. In no event will entities of the Nordea Group or other associated and affiliated companies be liable for direct, indirect or incidental, special or consequential damages resulting from the information in this publication or report.

Risk information

The risk of investing in certain financial instruments, including those mentioned in this document, is generally high, as their market value is exposed to a lot of different factors such as the operational and financial conditions of the relevant company, growth prospects, change in interest rates, the economic and political environment, foreign exchange rates, shifts in market sentiments etc. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. Past performance is not a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. When investing in individual shares, the investor may lose all or part of the investments.

Conflicts of interest

Companies in the Nordea Group, affiliates or staff of companies in the Nordea Group, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned in the publication or report.

To limit possible conflicts of interest and counter the abuse of inside knowledge, the analysts of Nordea Markets are subject to internal rules on sound ethical conduct, the management of inside information, handling of unpublished research material, contact with other units of the Group Companies and personal account dealing. The internal rules have been prepared in accordance with applicable legislation and relevant industry standards. The object of the internal rules is for example to ensure that no analyst will abuse or cause others to abuse confidential information. It is the policy of Nordea Markets that no link exists between revenues from capital markets activities and individual analyst remuneration. The Group Companies are members of national stockbrokers' associations in each of the countries in which the Group Companies have their head offices. Internal rules have been developed in accordance with recommendations issued by the stockbrokers associations. This material has been prepared following the Nordea Conflict of Interest Policy, which may be viewed at www.nordea.com/mifid.

Important disclosures of interests regarding this research material are available at:

http://www.nordea.com/sitemod/upload/Root/www.nordea.com%20-%20uk/AboutNordea/Markets_Discloser_Disclaimer.pdf

Distribution restriction

The securities referred to in this publication of report may not be eligible for sale in some jurisdictions. This research report is not intended for, and must not be distributed to private customers in Great Britain or the US.

This research report is intended only for, and may be distributed only to, accredited investors, expert investors or institutional investors in Singapore who may contact Nordea Bank, Singapore Branch of 3 Anson Road, #22-01, Springleaf Tower, Singapore 079909.

This publication or report may be distributed by Nordea Bank Luxembourg S.A., 562 rue de Neudorf, L-2015 Luxembourg which is subject to the supervision of the Commission de Surveillance du Secteur Financier.

This publication or report may be distributed by Nordea Bank, Singapore Branch, which is subject to the supervision of the Monetary Authority of Singapore.

This publication or report may not be mechanically duplicated, photocopied or otherwise reproduced, in full or in part, under applicable copyright laws.

Analyst shareholdings

Nordea Markets analysts do not hold shares in the companies that they cover.

No holdings or other affiliations by analysts or associates.

Recommendation definitions

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

Market-making obligations and other significant financial interest

Nordea Markets has market-making obligations in Affecto, Aspo Oyj, Biotie Therapies Oyj, Componenta, Eirikuva Digital Image Oyj Abp, Honkarakenne Oyj, IC Companys (*FROM 1 OCTOBER!!*) Lemminkäinen Oyj, Pandora, Pohjois-Karjalan Kirjapaino Oyj, Rapala VMC Oyj, Raute Oyj, SAV-Rahoitus Oyj, Suomen Säästäjien Kiinteistöt, Solar, Solteq, Talentum, Vaahto Group

In the derivatives markets, Nordea Markets has market-making obligations in Acergy, Norske Skog, OBX, Orkla, Tandberg ASA, Telenor, Tomra.

Nordea Markets has no market-making obligations in other companies in the coverage universe.

Corporate Finance transactions

Nordea Markets has no ongoing or completed public investment banking transactions with other companies in the coverage universe. In view of Nordea's position in its markets, readers should however assume that the bank may currently (or may in the coming three months and beyond) be providing or seeking to provide confidential investment banking services to the company/companies referred to in this report.

Nordea Markets has ongoing or completed public investment banking transactions with Archer, Bavarian Nordic, Basware, Biotie Therapies, Danisco, DLH, EDB Ergogroup, Eniro, Hexagon, ISS, Kværner ASA, Lemminkäinen, Nordea, Pacific Drilling, Pandora, Sanoma, Statoil Fuel & Retail, Tekla, TeliaSonera, Schibsted, Outokumpu, ThyssenKrup, Norwegian Car Carriers.

Material interest held by the issuer in shares issued by Nordea

Sampo currently owns 21% in Nordea (as of the end of August 2011).

Nordea Markets Credit Sales and Research

Institutional Sales Sweden

Ted Karlsson
Ted.karlsson@nordea.com
+46 8 614 7898

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

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

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

Martin Andersson
Martin.anderson@nordea.com
+46 8 614 8214

Philip Erlandsson
Philip.erlandsson@nordea.com
+46 8 614 6709

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

Patrik Grönfors
Patrik.gronfors@nordea.com
+358 9 396 50354

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

Danish & International Sales
Henrik Nielsen
henrik.nielsen@nordea.com
+45 3333 1637

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

Palle Lund Hansen
Palle.hansen@nordea.com
+45 3333 1635

Institutional Sales Norway

Julie Ellneby
julie.ellneby@nordea.com
+47 22 48 77 06

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

Espen Froyn
espen.froyn@nordea.com
+47 2248 7747

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

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

Petter Hermansen
petter.hermansen@nordea.com
+47 2248 7719

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

Morten Frimann-Dahl
morten.frimann-dahl@nordea.com
+47 2248 7784

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

Christian Malde
christian.malde@nordea.com
+47 2248 7863

Kristoffer Solem Sletten
Kristoffer.sletten@nordea.com
+47 2248 7950

Kristoffer Johansen
Kristoffer.johansen@nordea.com
+47 2248 7717

Credit Research

Ola Bååth
ola.baath@nordea.com
+46 8614 6759
Communications & Industrials

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

Riikka Tuominen
riikka.tuominen@nordea.com
+358 9 165 59126
Pulp & Paper

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

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

Nadia Bendriss
nadia.bendriss@nordea.com
+47 2248 7956
Offshore & Oil Services

Kristoffer B Pedersen
kristoffer.b.pedersen@nordea.com
+47 2248 7980
Offshore & Oil Services

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

Michael Sandfort
Michael.sandfort@nordea.com
+45 3333 1621
Financials

Nordea Markets is the name of the Markets departments of Nordea Bank Norge ASA, Nordea Bank Sverige AB (publ), Nordea Bank Finland Plc and Nordea Bank Danmark A/S.

Copyright Nordea Markets, 2001. Not approved for publication in the United States.

Nordea Markets is the name of the Markets departments of Nordea Bank Norge ASA, Nordea Bank AB (publ.), Nordea Bank Finland Plc and Nordea Bank Danmark A/S. This research report is not an offer to buy or subscribe for any security or other financial instrument and is being provided solely for the general information of investors, without regard to any particular investor's objectives, financial situation or needs. The securities referred to in this report may not be eligible for sale in some jurisdictions. This report is not intended for, and must not be distributed to private customers in the UK. This report may not be copied, published or reproduced or redistributed (in whole or in part) by any recipient for any purpose. The information contained in this report has been compiled from sources that Nordea Markets believe to be reliable, but no representation or warranty is made or guarantee given by Nordea Markets or by any other person as to its accuracy or completeness. Neither of the Nordea companies listed above nor others associated with it (together "Group Companies"), nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Nordea, Nordea Markets, affiliates or staff of Nordea, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of, any company mentioned in the report.

Nordea Markets is under supervision by the Financial Supervisory Authority in each of the countries in which the Nordea companies have their head offices. To limit possible conflicts of interest, the Nordea analysts are subject to internal rules on the management of inside information, handling of unpublished research material, contact with other departments in the bank and personal account dealing. The object of the internal rules is to ensure that no analyst will abuse or cause others to abuse confidential information. It is the policy of Nordea Markets that no link exists between revenues from capital markets activities and individual analyst remuneration. Nordea Markets is a member of national securities dealers associations in each of the countries in which the Nordea companies have their head offices. Internal rules have been developed in accordance with recommendations issued by these associations. Nordea, Markets Division