

Sparebanken Sør

Norway

Key Data	
Ticker	Not listed
M Cap	-
Website	www.sor.no
Sector	Financial
Next report date (Q1)	16 May 2012

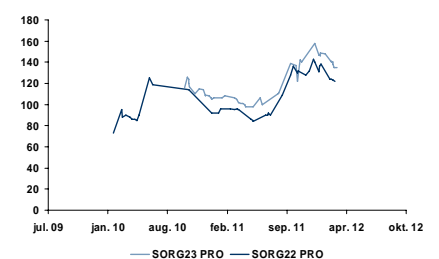
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Company Ratings	
Nordea	A
S&P	-
Moody's	A3 / Stable
Fitch	-

Largest Shareholders	



Bond Spreads (spread to swap)



Source: Nordea Markets

Weak quarter, but ample full year

SORG posted somewhat weak Q4 figures as net core banking income declined combined with increased operating expenses. In our view, SORG's credit metrics have developed positively during 2011, and this has solidified our A assessment of the bank.

Disappointing fourth quarter

SORG posted somewhat weak Q4 figures as net core banking income declined combined with increased operating expenses. Net interest income declined to NOK 153 m (Q3-11: NOK 162 m), resulting in a 7 bp decrease in the bank's 12m rolling interest margin to 1.59 %, whereas net fee and commission income increased to NOK 42 m (Q3-11: NOK 38 m). SORG's operating expenses increased significantly to NOK 139 m (NOK 115 m), as personnel expenses in the bank's retail division rose considerable compared to the previous quarter. Loan loss provisions declined to NOK 7 m, considerably below the levels seen in the first three quarters of 2011. Ultimately, pre-tax profits decreased to NOK 71 m, down from NOK 111 m in the previous quarter.

SORG's core tier 1 and tier 1 ratios increased considerably to 13.4 % and 14.3 % in the fourth quarter as retained earnings were included in the bank's capital base and the bank saw a moderate reduction in its RWAs. SORG continues to be one of the best capitalised regional savings banks.

Positive credit trend

In our view, SORG's credit metrics have developed positively during 2011, and this has solidified our A assessment of the bank. Profitability is sustained, whereas the bank's capitalisation and market position has improved. On the negative side, asset quality has weakened modestly, but remains at adequate levels.

Going forward

We expect improved financial performance by SORG in the coming quarters. The bank has re-priced both its retail and corporate lending portfolios, and this, combined with lower money market rates, should lead to an improvement in SORG's net interest income. Moreover, operating expenses should decline from this quarter's elevated level.

In our view, SORG senior bonds have traded at fair prices in the secondary market lately.

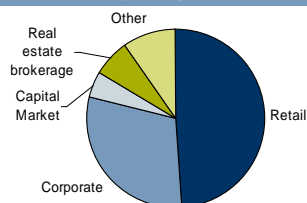
Company Data

CEO	Geir Bergskaug
CFO	Kjetil Korneliussen
Chairman	Torstein Moland
Employees	367

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 30 branches. The bank is also involved in real-estate brokerage with 12 locations in the southern county municipalities.

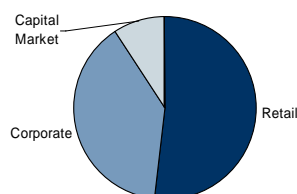
Revenue by Segment 2011



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 loan loss levels

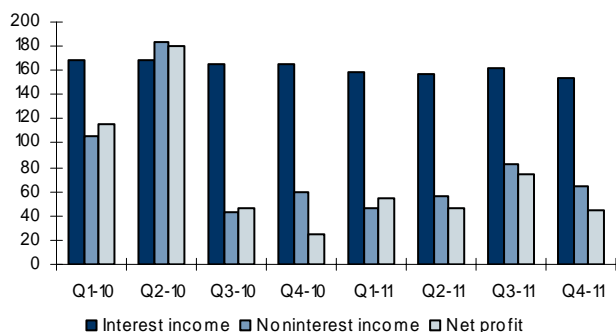
Ticker	Issuer	Bond	Issue	Maturity	Coupon	Size (m)
1061017	Sparebanken Sør	A	2011-05-16	2012-05-16	FRN	300
SORG17 PRO	Sparebanken Sør	A	2008-06-04	2012-06-04	FRN	865
1062292	Sparebanken Sør	A	2011-08-01	2012-08-01	FRN	200
SORG18 PRO	Sparebanken Sør	A	2008-06-25	2012-10-03	FRN	900
1063089	Sparebanken Sør	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	775
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	300
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	550
SORG08 PRO	Sparebanken Sør	A-	2006-09-20	2012-03-21	FRN	300
SORG24	Sparebanken Sør	BBB+	2010-12-08	2020-12-06	FRN	200

Financials

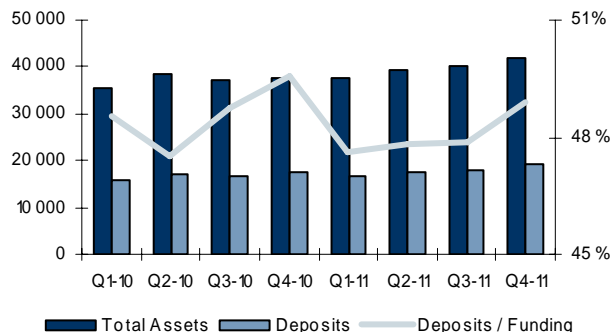
	NOKm	2006	2007	2008	2009	Q4-10	2010	Q1-11	Q2-11	Q3-11	Q4-11	2011
Income Statement												
Net Interest income		497	559	629	623	166	669	159	157	162	153	631
Operating noninterest income		241	270	57	176	59	391	46	56	82	64	248
Total expenses		-433	-480	-554	-482	-123	-464	-115	-114	-115	-139	-483
Profit before loan losses		305	349	132	317	102	596	90	99	129	78	396
Loan losses		1	-12	-114	-109	-65	-122	-12	-34	-18	-7	-71
Net profit for the period		218	238	-20	152	25	366	54	47	74	44	219
Interest margin (12m rolling)		2.08 %	1.98 %	1.97 %	1.81 %	1.83 %	1.83 %	1.80 %	1.67 %	1.66 %	1.59 %	1.59 %
Cost income ratio (12m rolling)		83.91 %	83.04 %	82.81 %	70.88 %	47.15 %	47.15 %	50.52 %	57.18 %	56.20 %	59.05 %	59.05 %
Balance Sheet												
Cash, money market instruments & Securities		3 105	3 637	4 514	5 452	6 214	6 214	5 804	6 748	6 913	7 688	7 688
Customer Loans		22 747	26 030	28 361	29 372	31 018	31 018	31 386	32 100	32 925	33 692	33 692
Earning assets		25 852	29 667	32 875	34 824	37 232	37 232	37 190	38 848	39 838	41 380	41 380
Other assets		375	511	800	516	502	502	492	509	510	489	489
Total assets		26 227	30 178	33 675	35 340	37 734	37 734	37 682	39 357	40 348	41 869	41 869
Total deposits		14 591	15 695	16 066	16 971	17 326	17 326	16 612	17 457	17 911	19 028	19 028
Other borrowings & liabilities		9 574	12 200	15 342	15 927	17 638	17 638	18 264	19 050	19 512	19 869	19 869
Total shareholders' equity		2 062	2 283	2 267	2 442	2 770	2 770	2 806	2 850	2 925	2 972	2 972
Growth %												
Net Interest income		5 %	12 %	13 %	-1 %	-11 %	7 %	-6 %	-7 %	-2 %	-8 %	-6 %
Total Income		5 %	12 %	-17 %	16 %	1 %	33 %	-25 %	-39 %	17 %	-4 %	-17 %
Total Expenses		8 %	11 %	15 %	-13 %	50 %	-4 %	26 %	-8 %	-9 %	13 %	4 %
Net profit		1 %	9 %	-108 %	860 %	-65 %	141 %	-53 %	-74 %	61 %	76 %	-40 %
Asset Quality												
Loan Loss Provisions / Total Loans		neg	0.05 %	0.40 %	0.37 %	0.84 %	0.39 %	0.15 %	0.42 %	0.22 %	0.08 %	0.21 %
Loan Loss Provisions / Total Income		neg	1.4 %	16.6 %	13.6 %	28.9 %	11.5 %	5.9 %	16.0 %	7.4 %	3.2 %	8.1 %
Impaired Loans / Total Loans		1.1 %	0.9 %	1.2 %	1.3 %	1.8 %	1.8 %	1.6 %	1.8 %	1.8 %	1.9 %	1.9 %
Net Impaired Loans / Total Loans		0.9 %	0.7 %	0.9 %	0.9 %	1.3 %	1.3 %	1.1 %	1.3 %	1.3 %	1.3 %	1.3 %
Loan loss reserves (LLR) to impaired loans		44.8 %	49.2 %	52.5 %	61.5 %	48.4 %	48.4 %	54.9 %	51.4 %	52.1 %	50.5 %	50.5 %
Impaired loans / Shareholders equity and LLR		11.6 %	10.0 %	13.9 %	13.8 %	18.9 %	18.9 %	16.6 %	18.7 %	18.8 %	19.2 %	19.2 %
Capital												
Core capital		2 032	2 251	2 198	2 392	2 717	2 717	2 717	2 715	2 716	2 904	2 904
Hybrid tier 1 capital		0	0	0	400	200	200	200	200	200	200	200
Tier 1 capital		2 032	2 251	2 198	2 792	2 917	2 917	2 917	2 915	2 916	3 104	3 104
Risk weighted assets		17 983	21 159	19 747	19 746	20 802	20 802	21 051	21 373	22 400	21 714	21 714
Core tier 1 ratio		11.30 %	10.64 %	11.13 %	12.11 %	13.06 %	13.06 %	12.91 %	12.70 %	12.13 %	13.37 %	13.37 %
Tier 1 ratio		11.30 %	10.64 %	11.13 %	14.14 %	14.02 %	14.02 %	13.86 %	13.64 %	13.02 %	14.29 %	14.29 %
Liquidity												
Loan to the public / Total Assets		87 %	86 %	84 %	83 %	82 %	82 %	83 %	82 %	82 %	80 %	80 %
Deposits / Total Funding		60 %	56 %	51 %	52 %	50 %	50 %	48 %	48 %	48 %	49 %	49 %
Deposits / Loan to the Public		64 %	60 %	57 %	58 %	56 %	56 %	53 %	54 %	54 %	56 %	56 %
Capital Market Funds / Total Assets		37 %	40 %	46 %	45 %	47 %	47 %	48 %	48 %	48 %	47 %	47 %

Nordea Credit Research adjusted figures & estimates

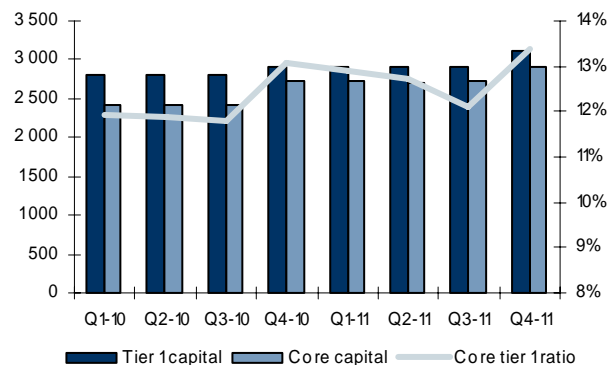
Income (NOKm)



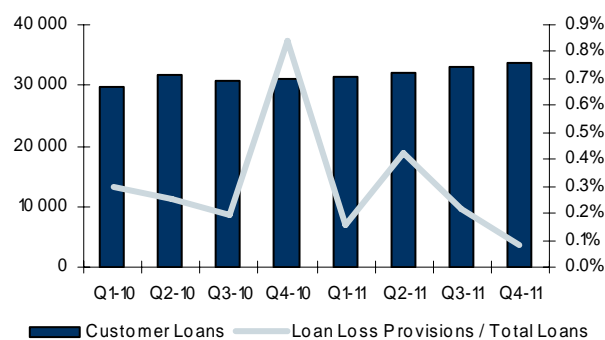
Assets (NOKm)



Capital (NOKm)



Loans (NOKm)



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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.

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

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Market perform	70	54
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Total	129	100

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