

Sparebanken Sør

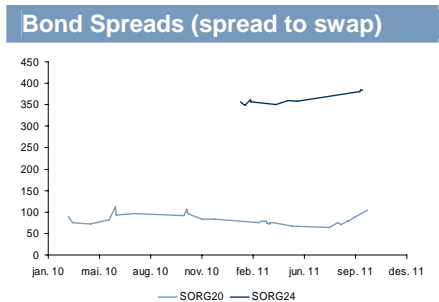
Norway

Key Data	
Ticker	Not listed
M Cap	-
Website	www.sor.no
Sector	Financial
Next report date (Q4)	na

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

Largest Shareholders	



Source: Nordea Markets

Ample profits

SORG posted ample profits for the third quarter, with increased earnings from core banking and reduced loan losses. The bank continues to expand its loan portfolio, especially in the local retail segment.

Q3 figures in line with our expectations

SORG posted ample profits for the third quarter, with increased earnings from core banking and reduced loan losses. Net interest income increased to NOK 162 m, up from NOK 157 m in the previous quarter. SORG's 12m rolling interest margin still decreased marginally to 1.66 %, but this is due to a strong quarter leaving the 12m window. Net commission income remained unchanged at NOK 38 m, whereas gains on financial items increased to NOK 37 m (Q2-11: NOK 14 m) as the effect of wider credit spreads on SORG's capital market debt more than offset adverse movements on the bank's securities portfolio. Operating expenses increased marginally to NOK 115 m, resulting in a 12m rolling cost-income ratio of 56.2 %. Loan loss provisions decreased to NOK 18 m, but remain at somewhat elevated levels compared to SORG's peers. Pre-tax profit increased to NOK 111 m, up from NOK 65 m in the previous quarter.

SORG increased its customer loans by approximately NOK 800 m during the third quarter, which corresponds to an annualised q-o-q growth rate of 10.2 %. During the same period, the bank's deposits increased by approximately NOK 450 m, leaving the bank's deposits-to-total loans ratio unchanged at 54 %.

Unchanged asset quality

At the end of the third quarter SORG had net impaired and doubtful loans amounting to NOK 415 m, slightly up from the second quarter. This resulted in a net impaired loans to total loans ratio of 1.25 %, which is fairly good, but not excellent compared to the bank's peers.

Going forward

We still expect a steady and sound development in SORG's financial performance in the coming quarters. The bank is focused on both reducing costs and transferring increased funding costs over to its customer, and we therefore expect to see an improved cost-income ratio.

SORG's Dec-20 tier 1 issue last traded in September @ 98.35 (spread +385), which we find to be expensive compared to similar bonds issued by the bank's peers.

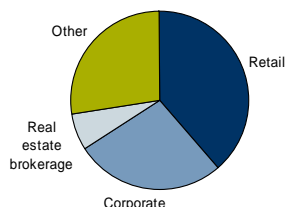
Company Data

CEO	Geir Bergskaug
CFO	Kjetil Korneliussen
Chairman	Torstein Moland
Employees	368

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.

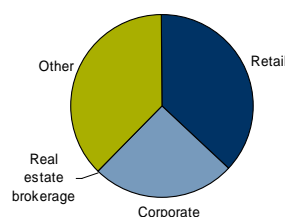
Revenue by Segment



Credit Supportive

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

Pretax profit by segment



Credit Concerns

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

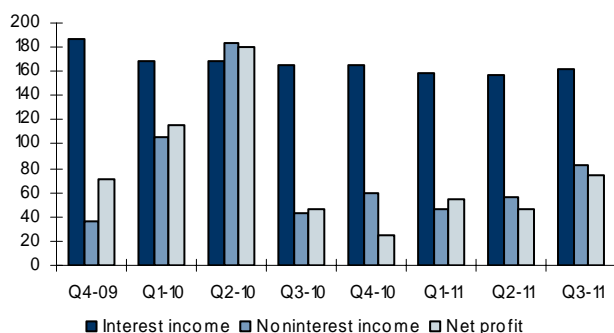
Ticker	Issuer	Bond	Issue	Maturity		Coupon		Size (m)
1062303	Sparebanken Sør	A	2011-08-02	2011-11-02	Zero	2.92 %	NOK	200
SORG11 PRO	Sparebanken Sør	A	2007-01-26	2012-01-26	Fixed	5.00 %	NOK	800
1061017	Sparebanken Sør	A	2011-05-16	2012-05-16	Zero	N3M+6	NOK	300
SORG17 PRO	Sparebanken Sør	A	2008-06-04	2012-06-04	FRN	N3M +69	NOK	865
1062292	Sparebanken Sør	A	2011-08-01	2012-08-01	Zero	N3M+5	NOK	200
SORG18 PRO	Sparebanken Sør	A	2008-06-25	2012-10-03	FRN	N3M +78	NOK	900
SORG07 PRO	Sparebanken Sør	A	2006-05-15	2013-05-15	Fixed	4.45 %	NOK	900
SORG19 PRO	Sparebanken Sør	A	2008-09-26	2013-09-26	Fixed	7.00 %	NOK	700
SORG20 PRO	Sparebanken Sør	A	2008-10-17	2014-02-17	FRN	N3M +215	NOK	900
SORG26 PRO	Sparebanken Sør	A	2011-01-28	2014-05-20	FRN	N3M +80	NOK	750
SORG21 PRO	Sparebanken Sør	A	2009-02-04	2014-09-17	Fixed	5.25 %	NOK	900
SORG22 PRO	Sparebanken Sør	A	2010-02-04	2015-02-04	FRN	N3M +55	NOK	900
SORG27 PRO	Sparebanken Sør	A	2011-03-04	2015-05-29	Fixed	5.00 %	NOK	550
SORG23 PRO	Sparebanken Sør	A	2010-09-15	2015-09-16	FRN	N3M +100	NOK	775
SORG06	Sparebanken Sør	A	2006-02-21	2016-02-19	Fixed	4.25 %	NOK	900
SORG28 PRO	Sparebanken Sør	A	2011-09-05	2016-09-05	FRN	N3M+140	NOK	300
SORG25 PRO	Sparebanken Sør	A	2011-01-20	2017-01-20	Fixed	5.00 %	NOK	700
SORG08 PRO	Sparebanken Sør	A-	2006-09-20	2012-03-21	FRN	N3M +42	NOK	300
SORG24	Sparebanken Sør	BBB+	2010-12-08	2020-12-06	FRN	N3M +360	NOK	200

Financials

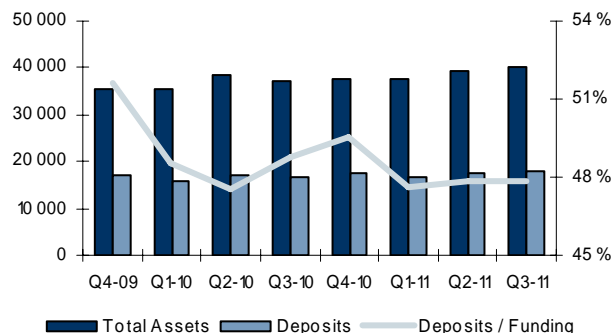
Income Statement	NOKm	2006	2007	2008	2009	Q3-10	Q4-10	2010	Q1-11	Q2-11	Q3-11
Net Interest income		497	559	629	623	166	166	669	159	157	162
Operating noninterest income		241	270	57	176	43	59	391	46	56	82
Total expenses		-433	-480	-554	-482	-126	-123	-464	-115	-114	-115
Profit before loan losses		305	349	132	317	83	102	596	90	99	129
Loan losses		1	-12	-114	-109	-15	-65	-122	-12	-34	-18
Net profit for the period		218	238	-20	152	46	25	366	54	47	74
Interest margin (12m rolling)		2.08 %	1.98 %	1.97 %	1.81 %	1.84 %	1.83 %	1.83 %	1.80 %	1.67 %	1.66 %
Cost income ratio (12m rolling)		83.91 %	83.04 %	82.81 %	70.88 %	45.14 %	47.15 %	47.15 %	50.52 %	57.18 %	56.20 %
Balance Sheet											
Cash, money market instruments & Securities		3 105	3 637	4 514	5 452	6 082	6 214	6 214	5 804	6 748	6 913
Customer Loans		22 747	26 030	28 361	29 372	30 753	31 018	31 018	31 386	32 100	32 925
Earning assets		25 852	29 667	32 875	34 824	36 835	37 232	37 232	37 190	38 848	39 838
Other assets		375	511	800	516	529	502	502	492	509	510
Total assets		26 227	30 178	33 675	35 340	37 364	37 734	37 734	37 682	39 357	40 348
Total deposits		14 591	15 695	16 066	16 971	16 877	17 326	17 326	16 612	17 457	17 911
Other borrowings & liabilities		9 574	12 200	15 342	15 927	17 741	17 638	17 638	18 264	19 050	19 512
Total shareholders' equity		2 062	2 283	2 267	2 442	2 746	2 770	2 770	2 806	2 850	2 925
Growth %											
Net Interest income		5 %	12 %	13 %	-1 %	-3 %	-11 %	7 %	-6 %	-7 %	-2 %
Total Income		5 %	12 %	-17 %	16 %	-1 %	1 %	33 %	-25 %	-39 %	17 %
Total Expenses		8 %	11 %	15 %	-13 %	14 %	50 %	-4 %	26 %	-8 %	-9 %
Net profit		1 %	9 %	-108 %	860 %	-26 %	-65 %	141 %	-53 %	-74 %	61 %
Asset Quality											
Loan Loss Provisions / Total Loans		neg	0.05 %	0.40 %	0.37 %	0.20 %	0.84 %	0.39 %	0.15 %	0.42 %	0.22 %
Loan Loss Provisions / Total Income		neg	1.4 %	16.6 %	13.6 %	7.2 %	28.9 %	11.5 %	5.9 %	16.0 %	7.4 %
Impaired Loans / Total Loans		1.1 %	0.9 %	1.2 %	1.3 %	1.5 %	1.8 %	1.8 %	1.6 %	1.8 %	1.8 %
Net Impaired Loans / Total Loans		0.9 %	0.7 %	0.9 %	0.9 %	1.2 %	1.3 %	1.3 %	1.1 %	1.3 %	1.3 %
Loan loss reserves (LLR) to impaired loans		44.8 %	49.2 %	52.5 %	61.5 %	48.9 %	48.4 %	48.4 %	54.9 %	51.4 %	52.1 %
Impaired loans / Shareholders equity and LLR		11.6 %	10.0 %	13.9 %	13.8 %	15.2 %	18.9 %	18.9 %	16.6 %	18.7 %	18.8 %
Capital											
Core capital		2 032	2 251	2 198	2 392	2 410	2 717	2 717	2 717	2 715	2 716
Hybrid tier 1 capital		0	0	0	400	400	200	200	200	200	200
Tier 1 capital		2 032	2 251	2 198	2 792	2 810	2 917	2 917	2 917	2 915	2 916
Risk weighted assets		17 983	21 159	19 747	19 746	20 450	20 802	20 802	21 051	21 373	22 400
Core tier 1 ratio		11.30 %	10.64 %	11.13 %	12.11 %	11.78 %	13.06 %	13.06 %	12.91 %	12.70 %	12.13 %
Tier 1 ratio		11.30 %	10.64 %	11.13 %	14.14 %	13.74 %	14.02 %	14.02 %	13.86 %	13.64 %	13.02 %
Liquidity											
Loan to the public / Total Assets		87 %	86 %	84 %	83 %	82 %	82 %	82 %	83 %	82 %	82 %
Deposits / Total Funding		60 %	56 %	51 %	52 %	49 %	50 %	50 %	48 %	48 %	48 %
Deposits / Loan to the Public		64 %	60 %	57 %	58 %	55 %	56 %	56 %	53 %	54 %	54 %
Capital Market Funds / Total Assets		37 %	40 %	46 %	45 %	47 %	47 %	47 %	48 %	48 %	48 %

Nordea Credit Research adjusted figures & estimates

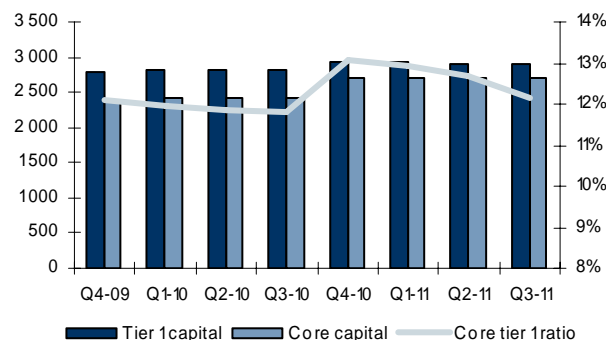
Income (NOKm)



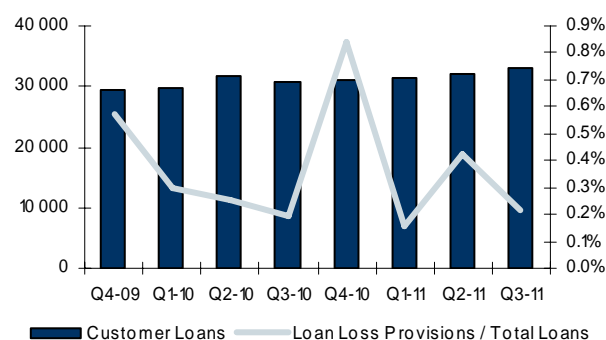
Assets (NOKm)



Capital (NOKm)



Loans (NOKm)



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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	20	11
Market perform	122	65
Underperform	46	24
Total	188	100

As of October 26, 2010

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