

Sparebanken Sør

Norway

Key Data	
Ticker	Not listed
M Cap	-
Website	www.sor.no
Sector	Financial
Next report date (Q1)	25 Apr 2013

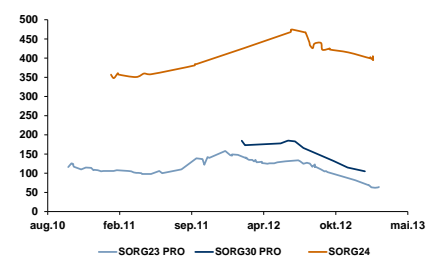
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Company Ratings	
Nordea	A
S&P	-
Moody's	A3 / Stable
Fitch	-

Largest Shareholders	
Sparebankstiftelsen	100%
Sparebanken Sør	



Bond Spreads (spread to swap)



Source: Nordea Markets

Stable credit trend

SORG posted somewhat mixed numbers for the fourth quarter, as the bank's core banking income generation continued to strengthen, whereas profits were hampered by higher expenses and loan losses. Based on the preliminary 2012 figures, we maintain our A rating of the bank.

Mixed bag for the fourth quarter

SORG posted somewhat mixed numbers for the fourth quarter, as the bank's core banking income generation continued to strengthen, whereas profits were hampered by higher expenses and loan losses. Net interest income increased to NOK 195 m (Q3-12: NOK 187 m), which led to a 4bp increase in the bank's 12m rolling net interest income to 1.63 %. Moreover, net fee and commission income increased to NOK 53m (Q3-12: NOK 40m). Operating expenses increased considerably to NOK 148m (Q3-12: NOK 119m), as a result of higher personnel costs, most likely due to performance based pay. Loan loss provisions increased to NOK 23m (Q3-12: NOK 10m), and can largely be attributed to the bank's non-retail exposure. Ultimately, pre-tax profits increased marginally to NOK 56 m (Q3-12: NOK 54 m), helped by less adverse performance by the bank's financial items.

The inclusions of the 2012 retained profits accompanied by a minor reduction in RWA led to a significant increase in SORG's capitalisation ratios. The core tier 1 ratio and tier 1 ratio increased to 13.37% and 14.24% (Q3-12: 12.32% and 13.18%), respectively. SORG is well positioned to meet the new capital requirements.

Stable credit trend, maintain our A rating

Based on the preliminary 2012 figures, we maintain our A rating of the bank. SORG credit metrics have developed steadily with minor improvements in core banking profitability, asset quality and the bank's funding mix. The bank's capitalisation is unchanged during the year, whereas asset encumbrance has risen marginally.

Going forward

We expect a stable financial performance by SORG going forward. This quarter's net interest appear to be somewhat elevated and not related to improved margins in the retail and corporate segment, leading us to believe that a general increase in lending margins might not affect SORG's figures as much. Tighter credit spreads in Q1 will negatively affect SORG's non-core profits in the next report.

In our view, SORG's dec-20 hybrid tier 1 issue is trading too expensive compared to similar bonds issued by the bank's peers. The bond last traded in late January at 97.80 (N3M+395).

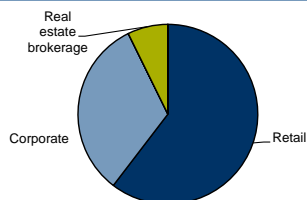
Company Data

CEO	Geir Bergskaug
CFO	Kjetil Korneliussen
Chairman	Torstein Moland
Employees	375

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.

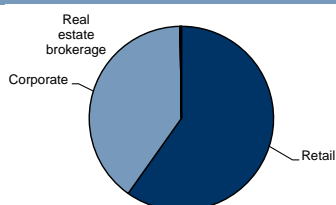
Revenue by Segment 2012



Credit Supportive

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

Pretax profit by segment 2012



Credit Concerns

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

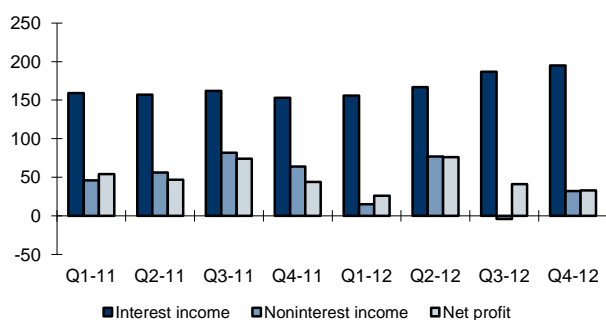
Ticker	Issuer	Bond	Issue	Maturity		Coupon		Size (m)
1066780	Sparebanken Sør	A	2012-12-11	2013-03-11	Fixed	2.20%	NOK	200
SORG07 PRO	Sparebanken Sør	A	2006-05-15	2013-05-15	Fixed	4.45%	NOK	900
SORG19 PRO	Sparebanken Sør	A	2008-09-26	2013-09-26	Fixed	7.00%	NOK	700
SORG20 PRO	Sparebanken Sør	A	2008-10-17	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	825
SORG29 PRO	Sparebanken Sør	A	2012-11-23	2015-11-23	Fixed	4.30%	NOK	300
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	700
SORG25 PRO	Sparebanken Sør	A	2011-01-20	2017-01-20	Fixed	5.00%	NOK	700
SORG30 PRO	Sparebanken Sør	A	2012-01-16	2017-03-16	FRN	N3M+190	NOK	700
SORG31 PRO	Sparebanken Sør	A	2012-01-26	2018-01-26	Fixed	4.95%	NOK	900
SORG32 PRO	Sparebanken Sør	A	2012-06-11	2018-05-11	Fixed	4.65%	NOK	550
SORG24	Sparebanken Sør	BBB+	2010-12-08	2020-12-06	FRN	N3M +360	NOK	200

Financials

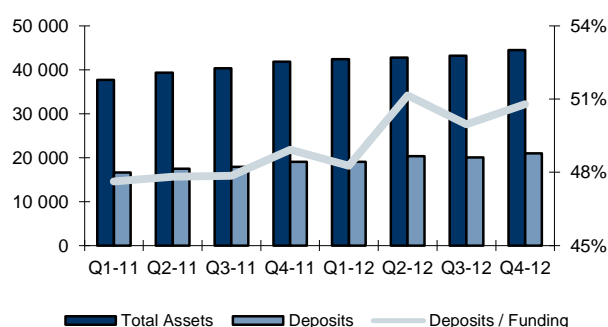
	2008	2009	2010	Q4-11	2011	Q1-12	Q2-12	Q3-12	Q4-12	2012
Income Statement										
Net Interest income	629	623	669	153	631	156	167	187	195	705
Operating noninterest income	57	176	391	64	248	15	77	-4	32	120
Total expenses	-554	-482	-464	-139	-483	-121	-125	-119	-148	-513
Profit before loan losses	132	317	596	78	396	50	119	64	79	312
Loan losses	-114	-109	-122	-7	-71	-11	-12	-10	-23	-56
Net profit for the period	-20	152	366	44	219	26	76	41	33	176
Interest margin (12m rolling)	197%	181%	183%	159%	159%	157%	155%	159%	163%	163%
Cost income ratio (12m rolling)	82.81%	70.88%	47.15%	59.05%	59.05%	59.71%	60.39%	59.02%	56.31%	56.31%
Balance Sheet										
Cash, money market instruments & Securities	4 514	5 452	6 214	7 688	7 688	7 562	6 693	6 434	6 994	6 994
Customer Loans	28 361	29 372	31 018	33 692	33 692	34 356	35 535	36 279	37 004	37 004
Earning assets	32 875	34 824	37 232	41 380	41 380	41 918	42 228	42 713	43 998	43 998
Other assets	800	516	502	489	489	506	524	509	481	481
Total assets	33 675	35 340	37 734	41 869	41 869	42 424	42 752	43 222	44 479	44 479
Total deposits	16 066	16 971	17 326	19 028	19 028	19 039	20 303	20 048	20 999	20 999
Other borrowings & liabilities	15 342	15 927	17 638	19 869	19 869	20 404	19 393	20 080	20 351	20 351
Total shareholders' equity	2 267	2 442	2 770	2 972	2 972	2 981	3 056	3 094	3 129	3 129
Growth %										
Net Interest income	13%	-1%	7%	-8%	-6%	-2%	6%	15%	27%	12%
Total Income	-17%	16%	33%	-4%	-17%	-17%	15%	-25%	5%	-6%
Total Expenses	15%	-13%	-4%	13%	4%	5%	10%	3%	6%	6%
Net profit	-108%	860%	141%	76%	-40%	-52%	62%	-45%	-25%	-20%
Asset Quality										
Loan Loss Provisions / Total Loans	0.40%	0.37%	0.39%	0.08%	0.21%	0.13%	0.14%	0.11%	0.25%	0.15%
Loan Loss Provisions / Total Income	16.6%	13.6%	11.5%	3.2%	8.1%	6.4%	4.9%	5.5%	10.1%	6.8%
Impaired Loans / Total Loans	12%	13%	18%	19%	19%	17%	18%	17%	16%	16%
Net Impaired Loans / Total Loans	0.9%	0.9%	1.3%	1.3%	1.3%	1.1%	1.2%	1.2%	1.1%	1.1%
Loan loss reserves (LLR) to impaired loans	52.5%	61.5%	48.4%	50.5%	50.5%	54.9%	52.1%	52.2%	52.3%	52.3%
Impaired loans / Shareholders equity and LLR	13.9%	13.8%	18.9%	19.2%	19.2%	18.1%	18.7%	18.3%	17.4%	17.4%
Capital										
Core capital	2 198	2 392	2 717	2 904	2 904	2 875	2 869	2 857	3 072	3 072
Hybrid tier 1 capital	0	400	200	200	200	200	200	200	200	200
Tier 1 capital	2 198	2 792	2 917	3 104	3 104	3 075	3 069	3 057	3 272	3 272
Risk weighted assets	19 747	19 746	20 802	21 714	21 714	22 386	23 150	23 191	22 976	22 976
Core tier 1 ratio	11.13%	12.11%	13.06%	13.37%	13.37%	12.84%	12.39%	12.32%	13.37%	13.37%
Tier 1 ratio	11.13%	14.14%	14.02%	14.29%	14.29%	13.74%	13.26%	13.18%	14.24%	14.24%
Capitalisation ratio	12.69%	15.78%	15.45%	15.70%	15.70%	13.74%	13.26%	13.18%	14.24%	14.24%
Liquidity										
Loan to the public / Total Assets	84%	83%	82%	80%	80%	81%	83%	84%	83%	83%
Deposits / Total Funding	51%	52%	50%	49%	49%	48%	51%	50%	51%	51%
Deposits / Loan to the Public	57%	58%	56%	56%	56%	55%	57%	55%	57%	57%
Capital Market Funds / Total Assets	46%	45%	47%	47%	47%	48%	45%	46%	46%	46%

Nordea Credit Research adjusted figures & estimates

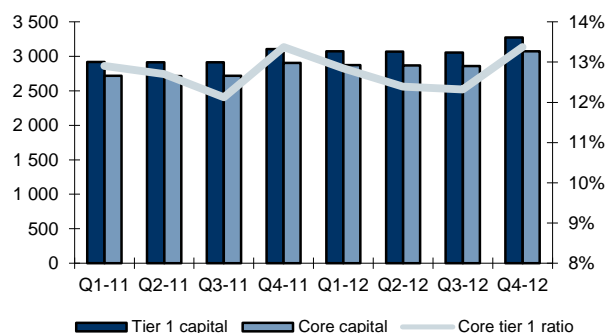
Income (NOKm)



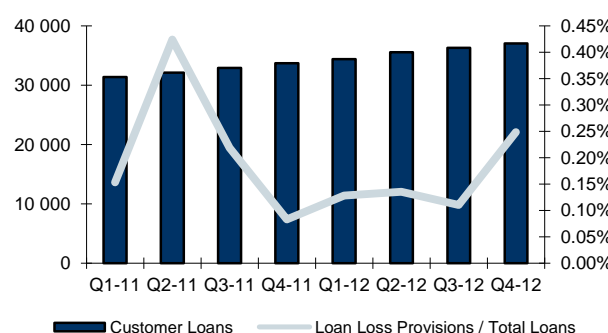
Assets (NOKm)



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
Underperform	24	19
Total	129	100

As of October 18, 2011

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