

# Sparebanken Sør

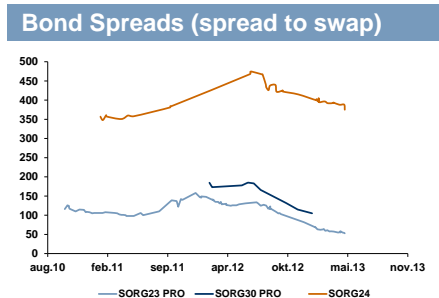
Norway

Key Data	
Ticker	Not listed
M Cap	-
Website	<a href="http://www.sor.no">www.sor.no</a>
Sector	Financial
Next report date (Q2)	14 Aug 2013

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

Largest Shareholders	
Sparebankstiftelsen	100%
Sparebanken Sør	



Source: Nordea Markets

## Proposed merger a credit positive

*SORG posted ample profits for the first quarter, in line with our expectations. We find the proposed merger with Sparebanken Pluss to be a clear credit positive, seeing how it will significantly strengthen Sparebanken Sør's market position in the South of Norway and ability to meet new regulatory requirements, and in the longer haul it should result in significant operational efficiency synergies.*

### Ample first quarter

SORG posted ample profits for the first quarter, in line with our expectations. Net interest income decreased to NOK 184 m (Q4-12: NOK 195 m), primarily as a result of a charge to the deposits guarantee scheme (amount undisclosed), leaving us to believe that the underlying trend was stable. Net fee and commission income declined during the quarter (NOK 34m vs NOK 53m in the previous quarter), and, as expected, the bank's financial items performed poorly with a NOK 35m loss. Operating expenses declined from the last quarter's elevated levels, and came in at NOK 124m (Q4-12: NOK 148m). Loan loss provisions declined to NOK 6m (Q4-12: NOK 23m), correspondent to an annualised loss rate of 6bp. Ultimately, pre-tax profits increased marginally to NOK 57 m (Q4-12: NOK 56 m), primarily due to significantly lower loans losses.

SORG's capitalisation ratios declined moderately during the first quarter, as the growth in lending led to increased RWAs. The core tier 1 and tier 1 ratio declined to 12.71% and 13.56% (Q4-12: 13.37% and 14.24%), respectively. In light of the newly proposed capital requirements, we find SORG to be well capitalised.

### Merger with Sparebanken Pluss a credit positive

In early March, Sparebanken Sør announced its intentions to merge with fellow regional savings bank Sparebanken Pluss. If the merger is completed, the new bank will be the fifth largest domestic savings bank with total assets amounting to approximately NOK 90bn. We find the proposed merger to be a clear credit positive, seeing how it will significantly strengthen Sparebanken Sør's market position in the South of Norway and ability to meet new regulatory requirements, and in the longer haul it should result in significant operational efficiency synergies. If all goes to plan, the merger agreement will be done by the summer, and the actual merger will come into effect from January 2014.

### Going forward

We expect improve financial performance by SORG in the coming quarter, seeing how the re-pricing of residential mortgages will come into effect as of May.

In our view, SORG's dec-20 hybrid tier 1 issue is still trading too expensive compared to similar bonds issued by the bank's peers. The bond last traded in late April at 99.07 (N3M+375).

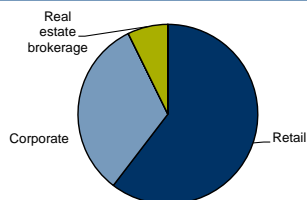
## Company Data

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.

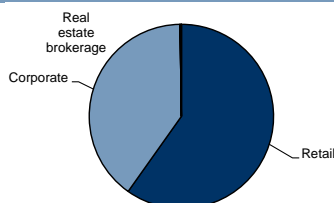
## Revenue by Segment 2012



## Credit Supportive

- Strong presence in the bank's local markets
- Increasing retail share in lending portfolio
- Solid capitalisation
- Planned merger with Sparebanken Pluss

## Pretax profit by segment 2012



## Credit Concerns

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

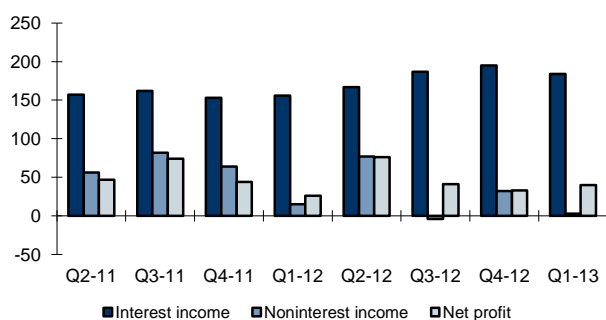
Ticker	Issuer	Bond	Issue	Maturity		Coupon		Size (m)
SORG07 PRO	Sparebanken Sør	A	2006-05-15	2013-05-15	Fixed	4.45%	NOK	900
1067350	Sparebanken Sør	A	2013-03-14	2013-06-14	Fixed	1.95%	NOK	220
SORG19 PRO	Sparebanken Sør	A	2008-09-26	2013-09-26	Fixed	7.00%	NOK	700
SORG20 PRO	Sparebanken Sør	A	2008-10-17	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	900
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	1 000
SORG33 PRO	Sparebanken Sør	A	2013-04-17	2019-06-17	Fixed	3.40%	NOK	400
SORG24	Sparebanken Sør	BBB+	2010-12-08	2020-12-06	FRN	N3M +360	NOK	200

## Financials

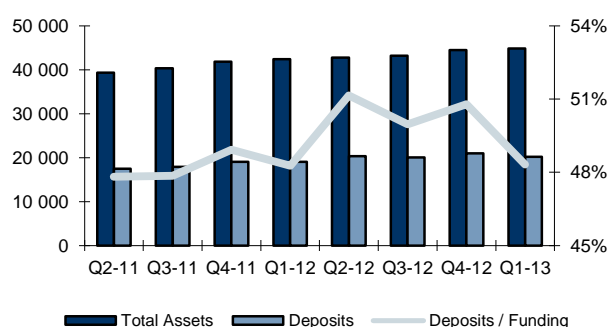
	2008	2009	2010	2011	Q1-12	Q2-12	Q3-12	Q4-12	2012	Q1-13
<b>Income Statement</b>										
Net Interest income	629	623	669	631	156	167	187	195	705	184
Operating noninterest income	57	176	391	248	15	77	-4	32	120	3
Total expenses	-554	-482	-464	-483	-121	-125	-119	-148	-513	-124
Profit before loan losses	132	317	596	396	50	119	64	79	312	63
Loan losses	-114	-109	-122	-71	-11	-12	-10	-23	-56	-6
Net profit for the period	-20	152	366	219	26	76	41	33	176	40
Interest margin (12m rolling)	197%	181%	183%	159%	157%	155%	159%	163%	163%	168%
Cost income ratio (12m rolling)	82.81%	70.88%	47.15%	59.05%	59.71%	60.39%	59.02%	56.31%	56.31%	55.36%
<b>Balance Sheet</b>										
Cash, money market instruments & Securities	4 514	5 452	6 214	7 688	7 562	6 693	6 434	6 994	6 994	6 801
Customer Loans	28 361	29 372	31 018	33 692	34 356	35 535	36 279	37 004	37 004	37 557
Earning assets	32 875	34 824	37 232	41 380	41 918	42 228	42 713	43 998	43 998	44 358
Other assets	800	516	502	489	506	524	509	481	481	477
Total assets	33 675	35 340	37 734	41 869	42 424	42 752	43 222	44 479	44 479	44 835
Total deposits	16 066	16 971	17 326	19 028	19 039	20 303	20 048	20 999	20 999	20 165
Other borrowings & liabilities	15 342	15 927	17 638	19 869	20 404	19 393	20 080	20 351	20 351	21 562
Total shareholders' equity	2 267	2 442	2 770	2 972	2 981	3 056	3 094	3 129	3 129	3 108
<b>Growth %</b>										
Net Interest income	13%	-1%	7%	-6%	-2%	6%	15%	27%	12%	18%
Total Income	-17%	16%	33%	-17%	-17%	15%	-25%	5%	-6%	9%
Total Expenses	15%	-13%	-4%	4%	5%	10%	3%	6%	6%	2%
Net profit	-108%	860%	141%	-40%	-52%	62%	-45%	-25%	-20%	54%
<b>Asset Quality</b>										
Loan Loss Provisions / Total Loans	0.40%	0.37%	0.39%	0.21%	0.13%	0.14%	0.11%	0.25%	0.15%	0.06%
Loan Loss Provisions / Total Income	16.6%	13.6%	11.5%	8.1%	6.4%	4.9%	5.5%	10.1%	6.8%	3.2%
Impaired Loans / Total Loans	12%	13%	18%	19%	17%	18%	17%	16%	16%	17%
Net Impaired Loans / Total Loans	0.9%	0.9%	1.3%	1.3%	1.1%	1.2%	1.2%	1.1%	1.1%	1.2%
Loan loss reserves (LLR) to impaired loans	52.5%	61.5%	48.4%	50.5%	54.9%	52.1%	52.2%	52.3%	52.3%	51.0%
Impaired loans / Shareholders equity and LLR	13.9%	13.8%	18.9%	19.2%	18.1%	18.7%	18.3%	17.4%	17.4%	18.4%
<b>Capital</b>										
Core capital	2 198	2 392	2 717	2 904	2 875	2 869	2 857	3 072	3 072	2 996
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	3 075	3 069	3 057	3 272	3 272	3 196
Risk weighted assets	19 747	19 746	20 802	21 714	22 386	23 150	23 191	22 976	22 976	23 563
Core tier 1 ratio	11.13%	12.11%	13.06%	13.37%	12.84%	12.39%	12.32%	13.37%	13.37%	12.71%
Tier 1 ratio	11.13%	14.14%	14.02%	14.29%	13.74%	13.26%	13.18%	14.24%	14.24%	13.56%
Capitalisation ratio	12.69%	15.78%	15.45%	15.70%	13.74%	13.26%	13.18%	14.24%	14.24%	13.56%
<b>Liquidity</b>										
Loan to the public / Total Assets	84%	83%	82%	80%	81%	83%	84%	83%	83%	84%
Deposits / Total Funding	51%	52%	50%	49%	48%	51%	50%	51%	51%	48%
Deposits / Loan to the Public	57%	58%	56%	56%	55%	57%	55%	57%	57%	54%
Capital Market Funds / Total Assets	46%	45%	47%	47%	48%	45%	46%	46%	46%	48%

Nordea Credit Research adjusted figures &amp; estimates

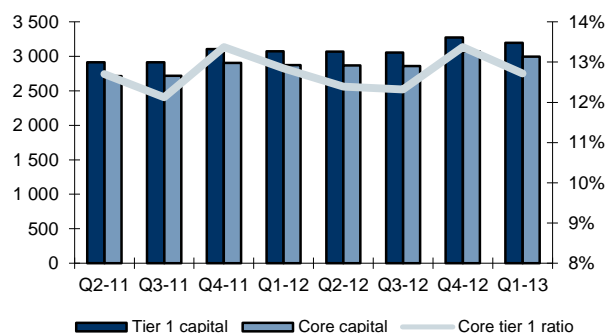
## Income (NOKm)



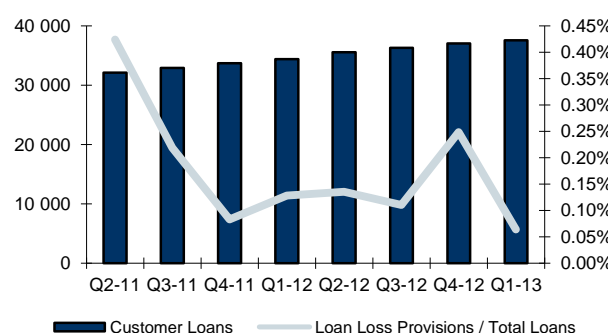
## Assets (NOKm)



## Capital (NOKm)



## Loans (NOKm)



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#### 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.

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

As of October 18, 2011

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