

Nes Prestegjelds Sparebank

Sector:	Financials
Industry:	Savings Banks
Market cap.:	116
Recommendation:	BUY
Risk:	LOW

NOKm	2009	2010E	2011E
Net int. income	84	88	96
Loan losses	17	11	11
EBT	37	34	43
EPS (NOK)	10,05	8,26	10,68

Ratios	2009	2010E	2011E
P/E	6,1	9,4	7,2
P/B	0,56	0,69	0,65
ROE	9,1%	7,5%	9,2%
Divid. yield	6,6%	5,3%	6,9%
Tier 1 ratio	12,6%	12,6%	12,8%

All key figures adjusted for non-recurring items
Book value does not include goodwill

Analyst

Aurelijus Burda

Position: Senior Analyst

E-mail: ab@terramarkets.no

Telephone: +370 52 46 19 67

**NESG is a market making client
of Terra Markets.**

**NESG is an indirect shareholder
of Terra Markets.**

**NESG's CEO is a board member of
Terra Markets.**

Please see complete disclosures
at the end of this report


Forgotten & too cheap

- We re-initiate coverage of Nes Prestegjelds Sparebank (NESG) – a Norwegian regional savings bank, which was founded in 1842. The bank operates through its 6 offices in Nesbyen, Drammen, Fla, Gol, Sigdal, Nore and Uvdal.
- The bank delivered a solid bottom line of NOK 26,2m in 2009, compared to losses of NOK 7,3 in 2008 m. In 2010, we anticipate a net profit of NOK 24,7m and a drop in the profitability compared to the 2009 result is mainly the result of expected lower gains on financial items. Please note that the bank has implemented costs cutting measures through reduced number of employees from 72 in 2008 to 60 in 2009 and sale as well as close-down of unprofitable subsidiaries. We expect the bank to reach 2010 return on equity (RoE) of 7,5%. However, already in 2011 we expect to see a RoE of 9,2%.
- In 2009, the bank strengthened its capital by injecting hybrid capital of NOK 70m and preferred capital of NOK 26,8m from the State Finance Fund. NESG ended 2009 having a core capital ratio of 12,6% and a capital adequacy ratio of 18,3%. We assume that hybrid capital will be repaid in 2014 and believe that preferred capital could be replaced with a rights issue in the coming 5 years. Given the conditions imposed by capital contribution from the State Finance Fund, the bank will be able to payout dividends not more than 50% of EC earnings and the maximum gift payout ratio should not exceed 10%. This will lead to a declining EC ratio.
- Our long-term DDM & EEV points to a fair value of NOK 117,1 per EC. However, we focus on the shorter term and set our 6-month forward target at NOK 103,00, which is derived from 12-month forward residual income approach. We find a justified 2010 P/B of 0,91 versus current 2010 P/B of 0,69. Please note that NESG underperformed its peers during the last 12 months as peers on averaged appreciated by 90%; meanwhile, NESG increased only by 32% during the same period. All in all, we issue a 6-month forward Buy recommendation

Conclusion

We re-initiate coverage of Nes Prestegjelds Sparebank, a Norwegian regional savings bank. We find the share undervalued given the 2010 P/B of 0,69 and our calculated justified P/B of 0,91. We issue a 6-month forward Buy recommendation under the target price of NOK 103,00 per EC.

Contents

Initiating coverage of Nes Prestegjelds Sparebank	3
Bank's profile	3
Balance sheet structure	4
Historical performance.....	5
Estimates	6
Net interest income is about to recover in 2010	6
Lower total operating income, but higher quality	8
Total operating expenses – down from the peak values	9
Loan quality has improved somewhat	9
Bottom line - the bright outlook.....	11
Solid capital base	11
EC ratio and dividends	12
Attractive valuation.....	13
Conclusion.....	14
Appendix.....	15
Recent insider trades.....	15
Peer comparison	15
Key assumptions	15
DDM & EEV	16
Description of the company	17
Annual estimates & key figures	18
Quarterly estimates & key figures.....	19
Shareholders	20
Disclosures.....	21



Initiating coverage of Nes Prestegjelds Sparebank

We re-initiate coverage of Nes Prestegjelds Sparebank (NESG) – a Norwegian regional bank, which was founded in 1842. Nes Prestegjelds Sparebank group is a supplier of financial products and services to both retail and corporate markets. The bank is a member of Terra Gruppen. Nes Prestegjelds Sparebank group consists of the bank and its wholly owned subsidiary Nes Eiendom AS, whose main activity are sales of apartments and rent of commercial properties/apartments.

Bank's profile

The bank operates through its 6 offices in Nesbyen, Drammen, Fla, Gol, Sigdal, Nore and Uvdal. The bank has 60 employees and serves about 15 500 customers.

The fourth oldest bank in Buskerud



	Population in 2009	Change from 2000
Nes	3 420	-3,1%
Fla	998	-9,4%
Nore og Uvdal	2 514	-9,0%
Gol	4 479	2,0%
Drammen	62 566	14,1%
Sigdal	3 514	-1,2%
...
Buskerud	257 673	8,8%

The bank's principal activity is the provision of savings accounts and comprehensive financial services to private customers, small and medium size businesses and public sector. The bank has a focus on the retail market, where approximately 57,4% of the total gross loan portfolio of NOK 3,8bn is exposed.

Nes Prestegjelds Sparebank's services include savings accounts, checking accounts, payment mediation services, credit cards, mortgages, personal loans, life assurance, asset insurance, investment funds, investments transaction services and pension services.

The bank gains in some areas by cooperating with other savings banks to develop infrastructure and financial products and is therefore a member of the banking alliance Terra Gruppen. NESG has a stake of 1,84% in the Terra Gruppen.

NESG is a member of Terra-Gruppen AS



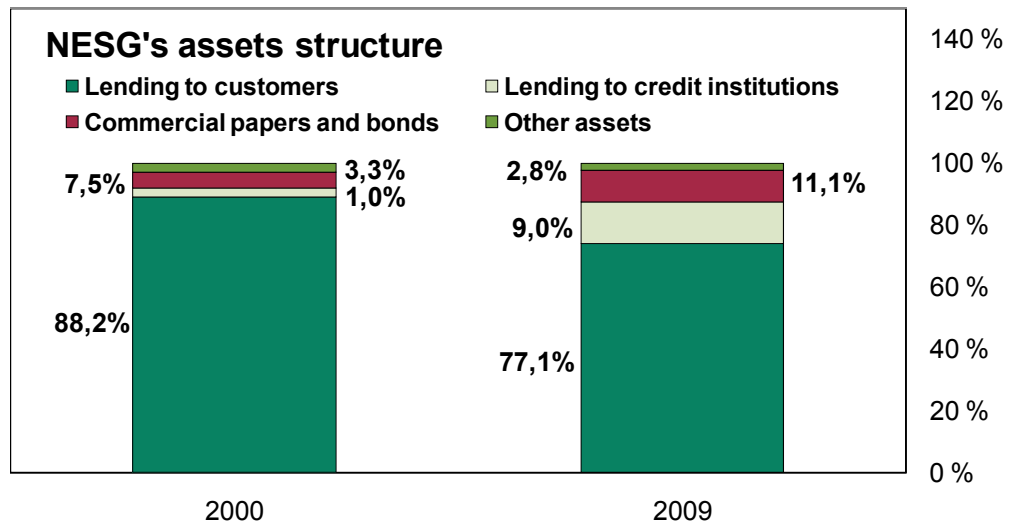
Terra Gruppen is owned by 78 independent and local anchored Norwegian savings banks and OBOS. Terra-Gruppen AS offers services such as security trading, fund management, insurance, leasing and real estate. The group is one of the largest players in the Norwegian banking with a strong position in the larger parts of rural Norway.

In terms of total assets, Terra Gruppen banks have a 6,8% share of the Norwegian banking market. The group and their shareholders make up one of the largest financial groups in Norway, with combined assets of about NOK 230bn, of which banks account for NOK 187bn. Terra Gruppen banks are ranked fourth in Norway for lending to the retail market, with a market share of approximately 10,6%. Terra Gruppen banks have a more modest market share for lending to the corporate market, but this is not surprising since the banks mainly focus on the retail market. Total lending by the shareholder banks exceeds NOK 153bn.

Balance sheet structure

Nes Prestegjelds Sparebank increased its total assets fourfold from NOK 1,24bn in 2000 to NOK 5,1bn in 2009. The underlying assets structure experienced some changes during this period: the bank's lending to credit institutions in percent of the total assets increased 9 times from negligible 1,0% in 2001 to 9,0% in 2009. The relative part of commercial papers and bonds increased by 3,6%, while lending to customers decreased from 88,2% in 2000 to 77,1% during the same period.

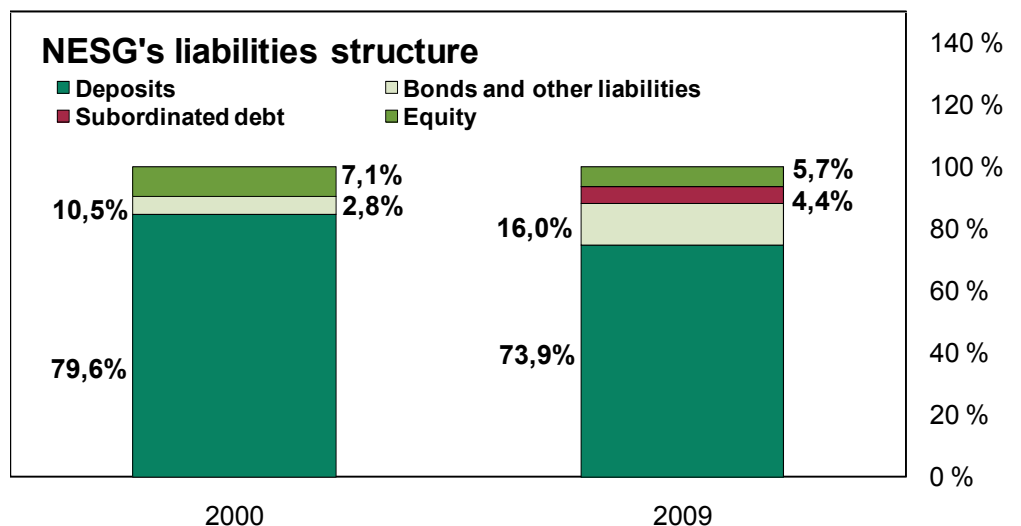
Assets increased fourfold from 2000 to 2009 and part of lending to customers had been replaced with lending to credit institutions and commercial papers



Source: Nes Prestegjelds Sparebank

On the liabilities side, one can observe a decreased proportion of the bank's financing from deposits: 73,9% in 2009 compared to 79,6% in 2000. Deposits from customers had been replaced with bonds, relative piece of which had been increased from 10,5% in 2000 to 16,0% in 2009. The underlying equity percentage had been decreased from 7,1% to 5,7% for the same period, which was offset by an increased proportion of subordinated debt from 2,8% to 4,4% during the same period of time.

On the liabilities side, the replacement of the deposits financing by bonds and other liabilities can be seen

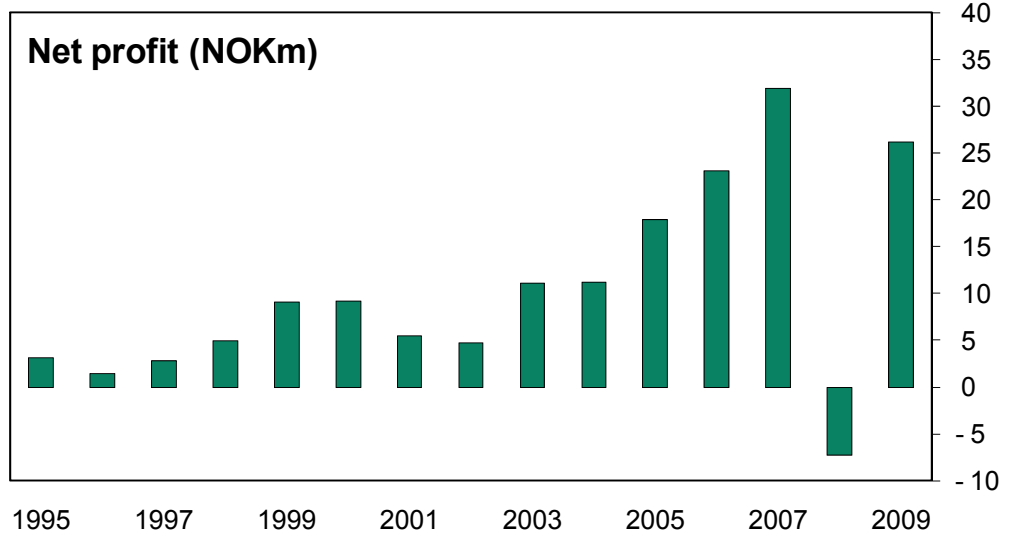


Source: Nes Prestegjelds Sparebank

Historical performance

Nes Prestegjelds Sparebank achieved a very steep growth of net profit from 2004 to 2007 with an average Y/Y increase of 42,8%. The plunge of the net profit in 2008 was mainly driven by losses on loans of NOK 22,4m and a loss on securities of NOK 18,5m. The bank got back on track already in 2009 and delivered a relatively solid bottom line.

Back on track already in 2009

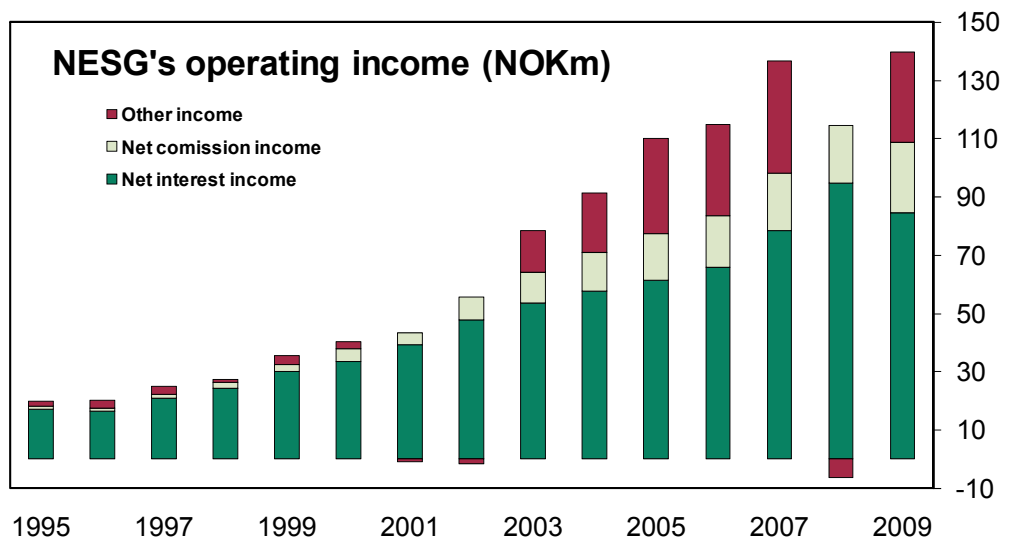


Source: Nes Prestegjelds Sparebank

The net interest income remained the largest part of the bank's operating income and on average accounted for 68,3% of the total operating income, which however dropped to 60,5% in 2009.

Over the years, the growth of the net commission income was even higher and on average accounted for 14,7% of the total operating income and went up to 17,2% in 2009. The variability of other income can be explained by a close dependence on gains/losses on securities and foreign exchange.

The net interest income on average accounted for 68,3% of the total operating income, but dropped to 60,5% in 2009



Source: Nes Prestegjelds Sparebank

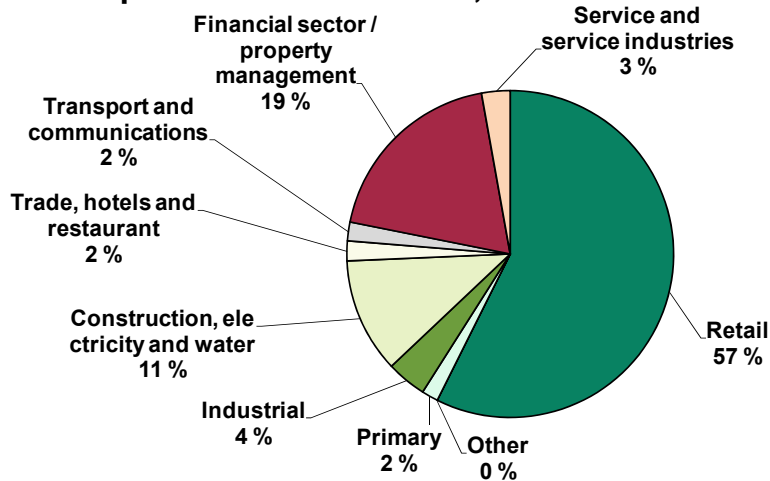
Estimates

Net interest income is about to recover in 2010

As of 2009 the largest exposure of total gross lending was attributable to the retail market, which accounted for 57% of the total gross loans. Please note that the bank's gross loan portfolio exposure to the retail market has dropped from its peak of 71% in 2004 to 57% in 2009. The underlying reason for such a drop was transfers of high quality mortgage loans to Terra Boligkreditt (TBK). As of 2009 the accumulated transfers to TBK amounted to NOK 721m, which accounted for 16% of the total gross loan portfolio.

57% of the loan's portfolio is exposed to the retail market

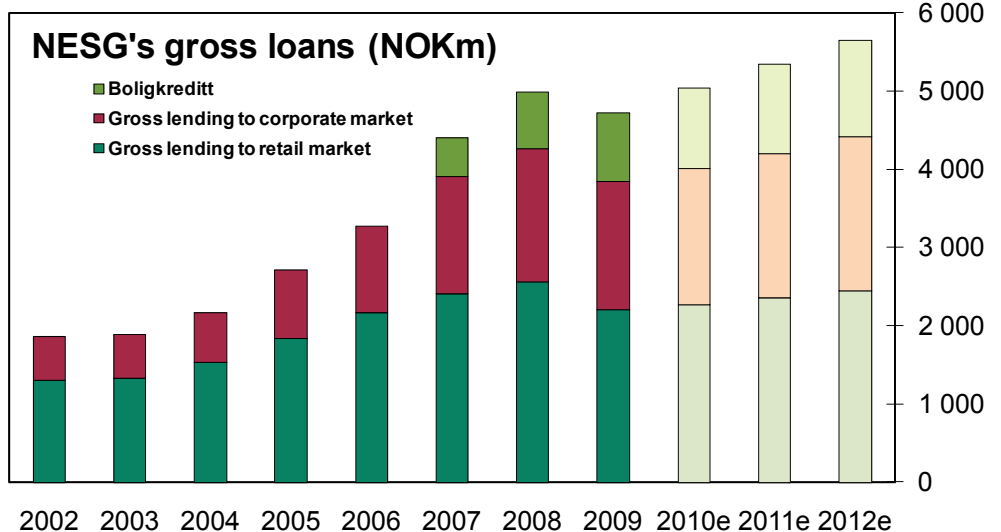
Loan portfolio's distribution, 2009



Source: Nes Prestegjelds Sparebank

Our base case scenario suggests that in 2010 the bank's total net loan portfolio excluding TBK will increase by 4,5% Y/Y; meanwhile, a 2010 net loan portfolio including TBK is expected to steep by 7,40% Y/Y. Corporate loans are expected to be the main driver of the net loan portfolio increase in 2010.

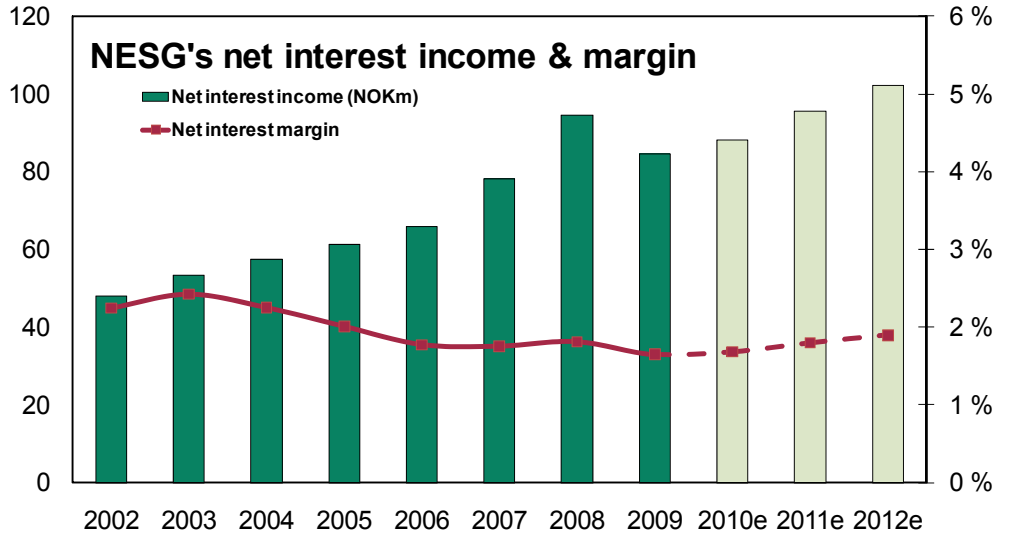
Net loan portfolio is expected to go up by 4,5% in 2010



Source: Nes Prestegjelds Sparebank, Terra Markets estimates

Net interest income is about to recover in 2010

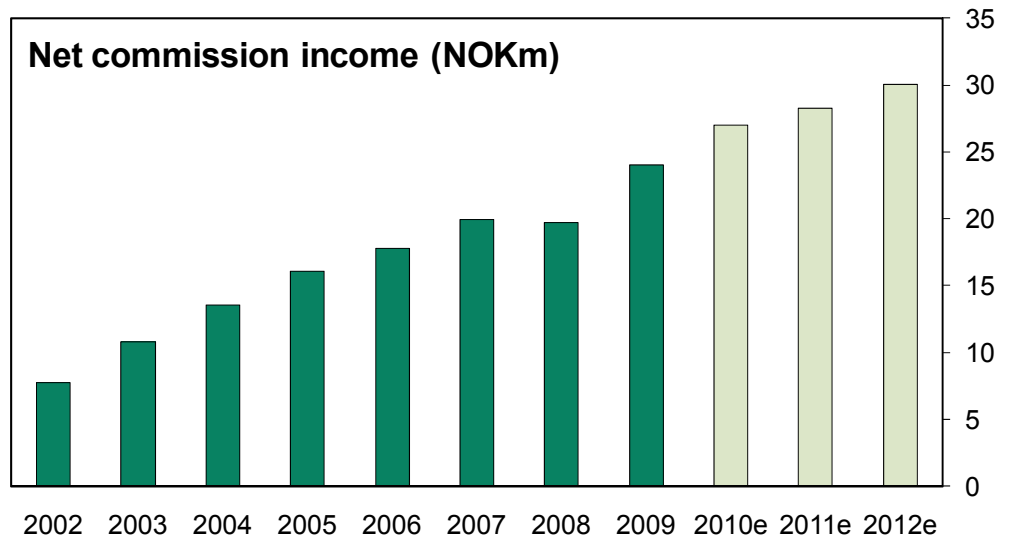
Underlying 2009 net interest income (NII) dropped by 10,6% Y/Y, driven primarily by a 2009 net lending decrease of 10,4% and the net interest margin pressure of 16bps. However, in 2010 NII is about to recover due to expected net lending growth of 4,5% and due to anticipated minor net interest margin recovery. All in all, we expect 2010 NII growth of 4,3%, while steeper growth of 8,6% Y/Y is expected in 2011.



Source: Nes Prestegjelds Sparebank, Terra Markets estimates

A higher net commission income contribution in % of the total bank's operating income is expected in the coming years

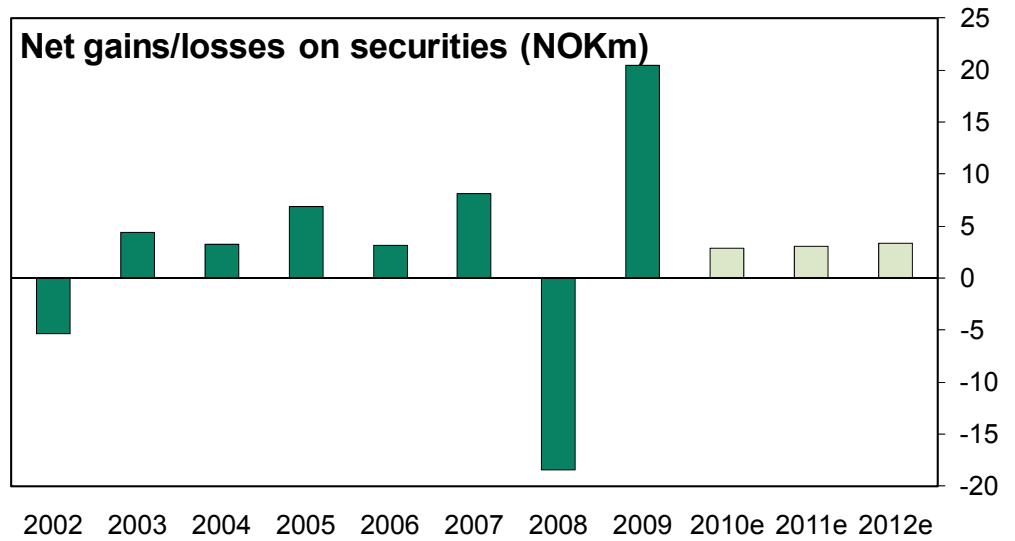
In 2009 there was a steep increase in the net commission income (NCI), which went up by 21,7%. The increase in 2009 NCI was primarily due to an increase in the commission income from investments sales and management. In 2010, we expect NCI steeping by 12,3% Y/Y, primarily due expected higher commission income from the TBK.



Source: Nes Prestegjelds Sparebank, Terra Markets estimates

The bank delivered a solid gain on financial items of NOK 20,5m in 2009, compared to losses of NOK -18,5m in 2008. Solid 2009 gains on financial items were the outcome of gains on bonds of NOK 10,5m and gains on currency and financial derivatives of NOK 8,3m. However, due to the bank's low exposure to the financial assets, we expect only a minor gain on financial items of NOK 2,9m in 2010.

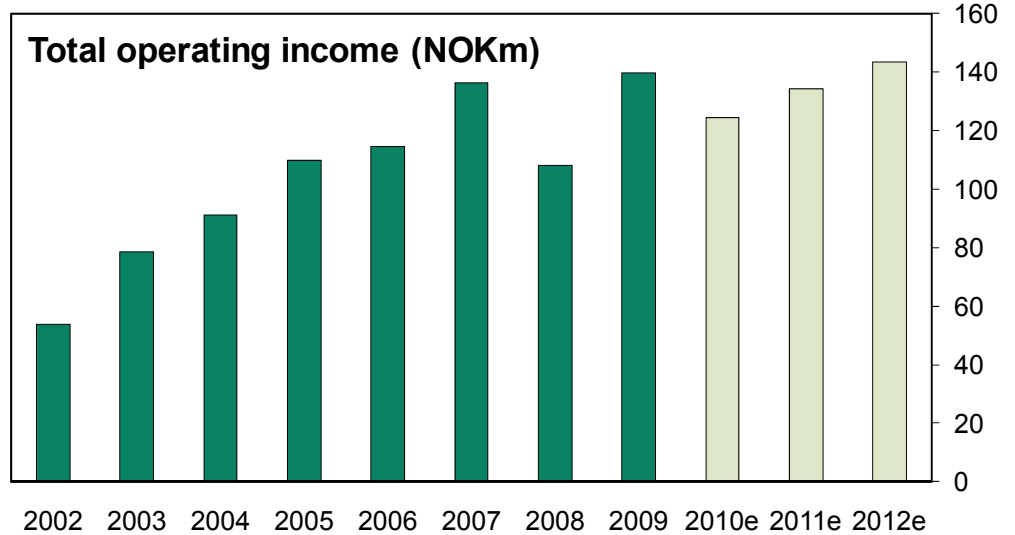
A substantial drop in gains on financial items is expected in 2010, compared to the 2009 result



Source: Nes Prestegjelds Sparebank, Terra Markets estimates

Lower total operating income, but higher quality

Underlying 2009 total operating income went up by 29,3% Y/Y, primarily due to solid gains on financial items. However, as we expect a substantial drop in 2010 gains on financial items, the total 2010 operating income is expected to decrease by 11,0% Y/Y. However, the quality of operating income is anticipated to improve given the expected increase in net interest income and net commission income.

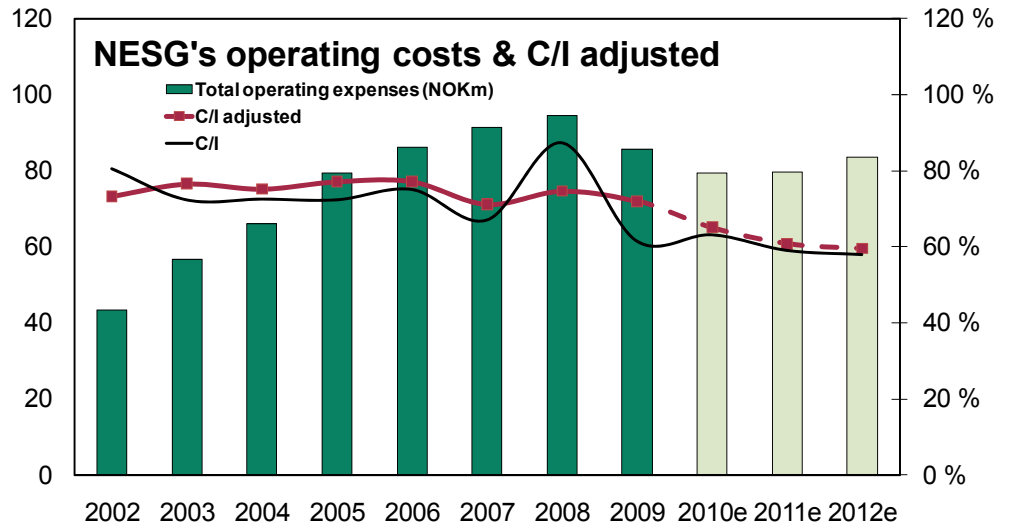


Source: Nes Prestegjelds Sparebank, Terra Markets estimates

Total operating expenses – down from the peak values

In 2009, the bank showed a tight costs control and managed to decrease operating expenses by 9,2% to NOK 85,8m. This was primarily the result of a 5,3% Y/Y reduction in personnel and administrative expenses. The underlying 2009 cost-to-income (C/I) ratio adjusted for gains on securities came in at 72,0%, compared to 2008 adjusted C/I of 74,7%.

The bank is targeting an adjusted C/I ratio below 62,0% by the end of 2011. We believe that this target is reachable due to implemented costs reduction measures through a decrease in the number of employees from 72 in 2008 to 60 in 2009 and sale as well as a close-down of unprofitable subsidiaries. We estimate C/I at 60,7% in 2011 and 59,0%-60% beyond.

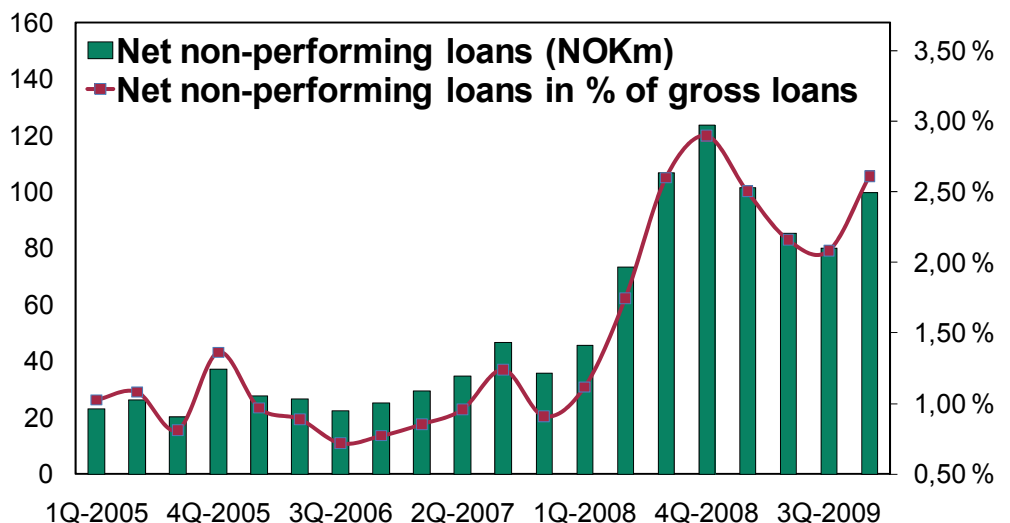


Source: Nes Prestegjelds Sparebank, Terra Markets estimates

Loan quality has improved somewhat

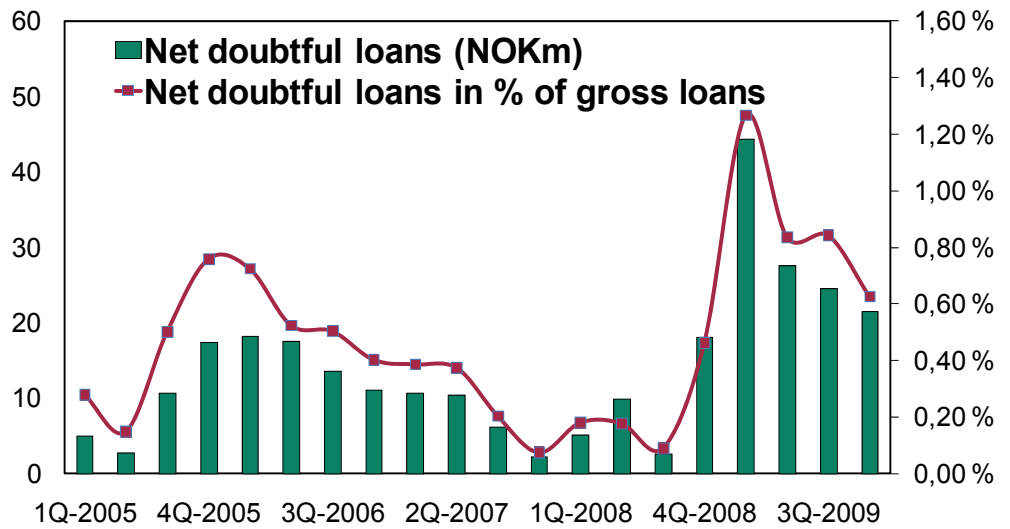
In 2009 the bank faced loan losses of NOK 17,3m, down from 2008 loan losses of NOK 22,4m. A closer look at loan losses distribution reveals that NOK 7,3m out of the 2009 loan losses were attributable to the retail market, followed by NOK 3,8m loan losses from hotel and restaurant industry. All in all, the 2009 loan loss ratio came in at 0,43%.

Somewhat decreasing net non-performing loans in conjunction...



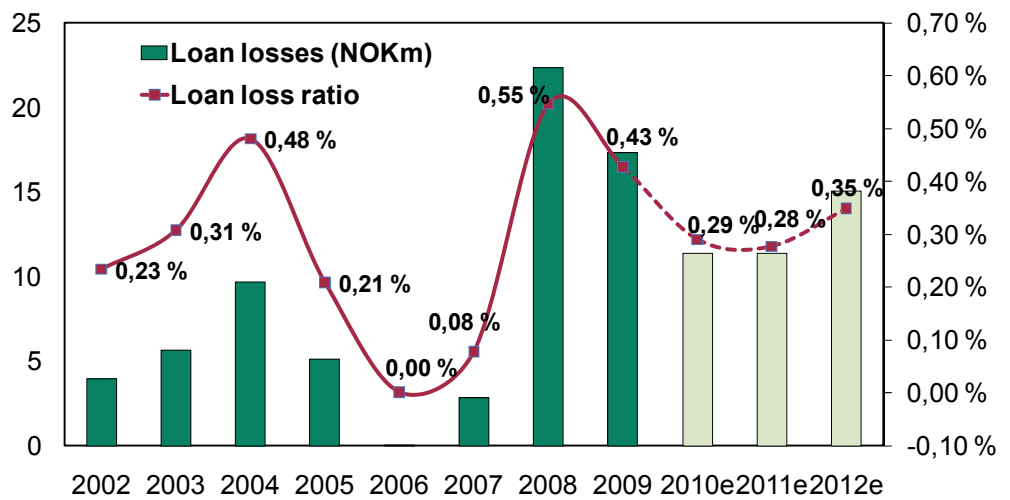
Source: Nes Prestegjelds Sparebank, Terra Markets estimates

... with a drop in net doubtful commitments...



Source: Nes Prestegjelds Sparebank, Terra Markets estimates

...are expected to result in loan losses reduction for 2010 and beyond

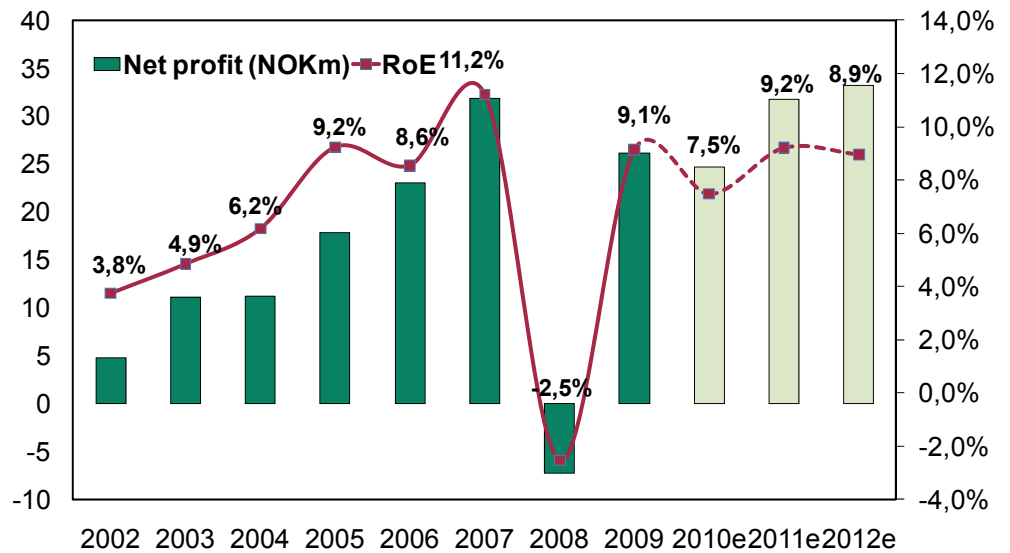


Source: Nes Prestegjelds Sparebank, Terra Markets estimates

We do expect loan losses of 0,29% for 2010 and 0,28% in 2010. The bank is targeting a loan loss ratio below 0,25%, however, we are a bit cautious about this target and believe that in the long run normalized loan loss ratio should be approximately 0,36%, mainly due to transfers of high quality loans to the TBK and expected increase exposure of corporate loans.

Bottom line - the bright outlook

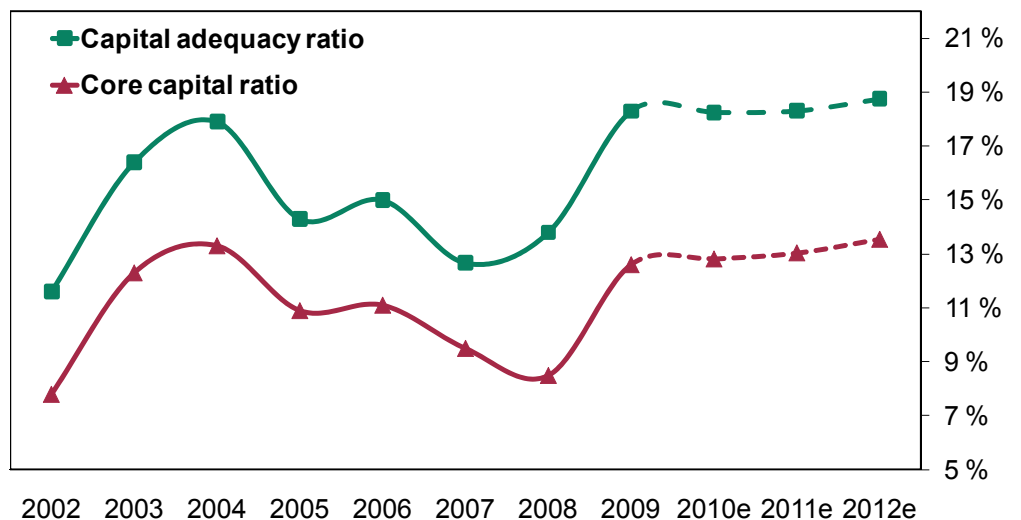
The bank delivered a solid bottom line of NOK 26,2m in 2009, compared to losses of NOK 7,3m. In 2010, we anticipate a net profit of NOK 25,9m and a drop in the profitability, compared to the 2009 result, is mainly the outcome of expected lower gains on financial items. The bank is expected to reach its targeted return on equity (RoE) above 8,0% in 2011.



Source: Nes Prestegjelds Sparebank, Terra Markets estimates

Solid capital base

In Q3 2009 the bank had a core capital ratio of 9,1% and overall capital adequacy of 14,1%. However, in Q4 2009 the bank strengthened its capital by injecting hybrid capital of NOK 70m and preferred capital of NOK 26,8m from the State Finance Fund. NESG ended 2009 having a core capital ratio of 12,6% and a capital adequacy ratio of 18,1%. We assume that hybrid capital will be repaid in 2014. Underlying preferred capital of NOK 26,8m could be converted to 0,9m equity certificates, which we find unfavourable to current equity certificate holders due to massive dilution. We believe that preferred capital could be replaced with a rights issue in the coming 5 years. Until the preferred capital is replaced or paid down we expect that the bank will pay annual dividends in the range of NOK 2,5-2,9m for the preferred capital for 2010-2013.



Source: Nes Prestegjelds Sparebank, Terra Markets estimates

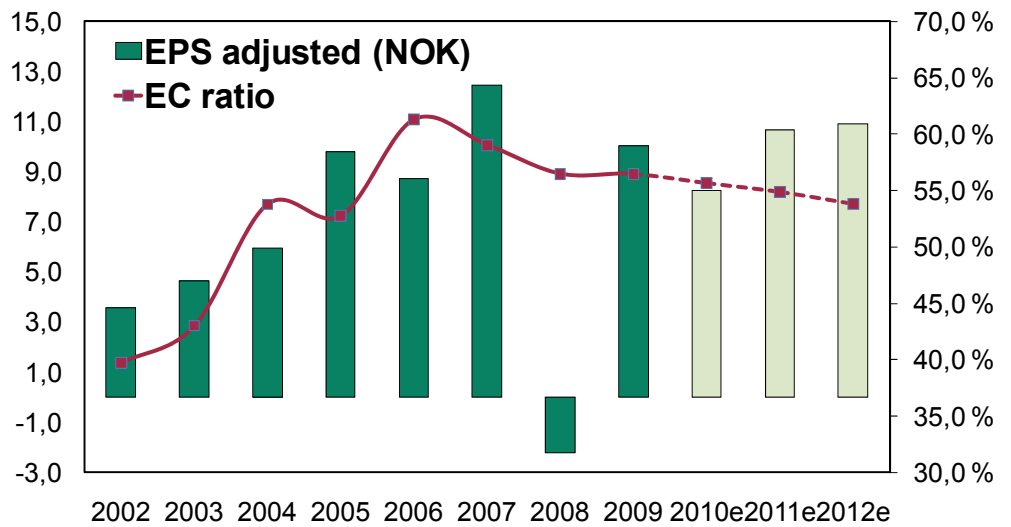
EC ratio and dividends

The bank aims to provide a competitive advantage to their equity capital owners and assign equity capital owners an amount of the annual surplus equivalent to equity capital owners' share of equity, given the conditions imposed by capital contribution from the State Finance Fund. The underlying conditions imply that the bank will be able to payout dividends not more than 50% of EC earnings and the maximum gift payout ratio should not exceed 10%. This will lead to a declining EC ratio.

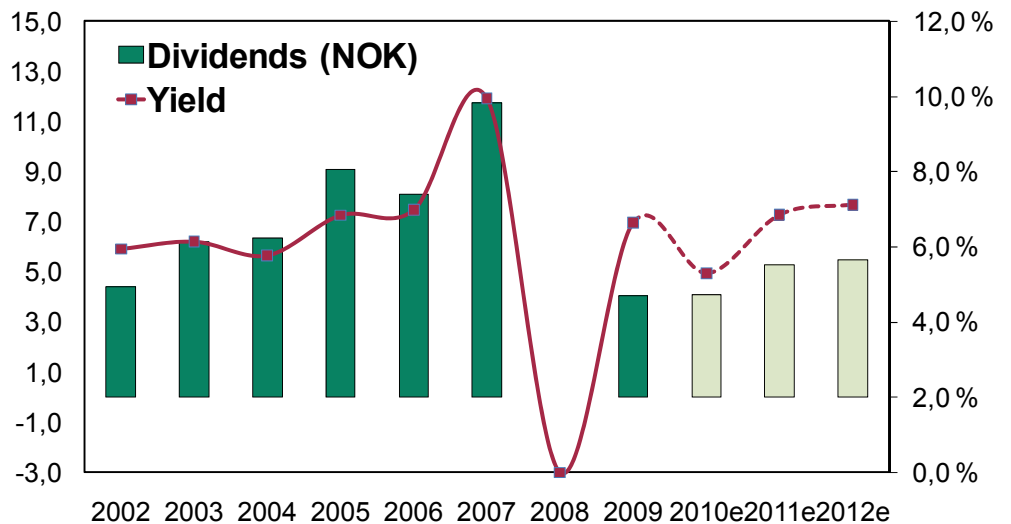
As of 2009 EC ratio was equal to 55,70% and we expect it to converge to 53,9% in 2013. Going further, if the bank decides not to issue rights but instead of it pay back preferred capital from the equity, the 2014 core capital will be approximately 11,0% and capital adequacy of 15,9%. All in all, the bank has room for manoeuvre.

The bank paid dividends of NOK 4,05 per EC for 2009 and we expect dividends of NOK 4,10 per EC and NOK 5,30 per EC for 2010 and 2011 respectively.

EC ratio is expected to drop somewhat



Source: Nes Prestegjelds Sparebank, Terra Markets estimates



Source: Nes Prestegjelds Sparebank, Terra Markets estimates

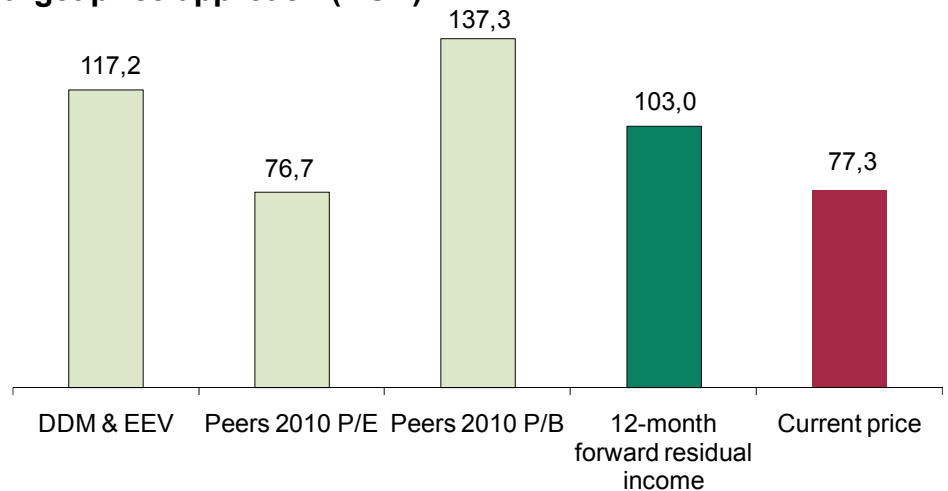
Attractive valuation

Our DDM & EEV approaches adjusted for dividends to the preferred capital and using the cost-of-equity of 8,60% imply an average fair value of NOK 117,1 per EC. A closer look at the peers reveals that NESG is traded in line with the peers on the 2010 P/E multiple. At the same time NESG is traded at an attractive 2010 P/B of 0,69, a 37,3% discount to the peers. The discount is partly justified due to NESG's low RoE. However, we believe that the savings banks industry is undervalued and NESG's peers 2010 P/B multiple is expected to converge to approximately 1,50. At the same time our 12-month forward residual income approach points to justified NESG's 2010 P/B multiple of 0,91 implying upside potential of 33,0%.

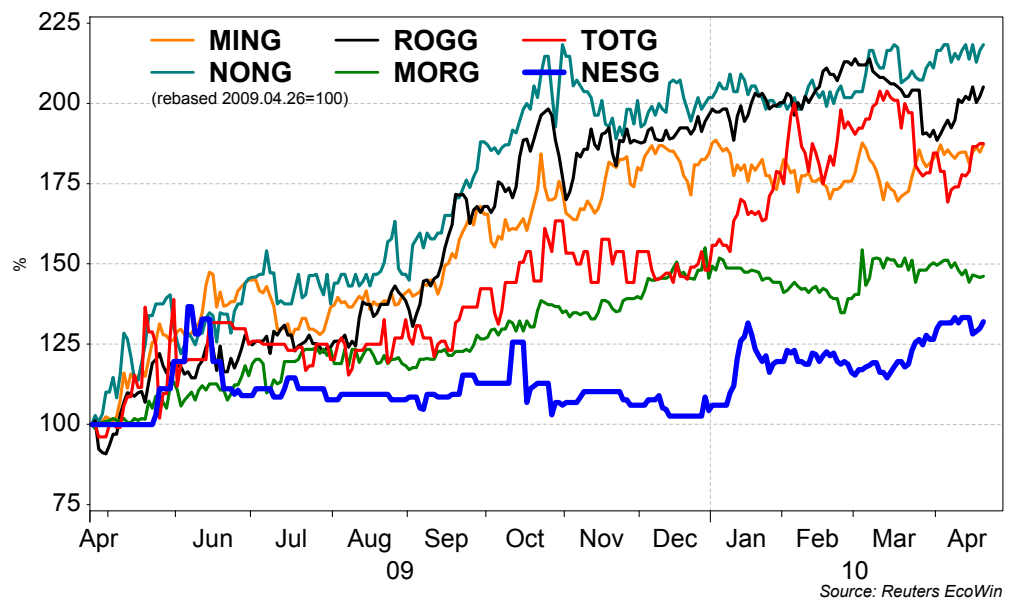
Although our long-term DDM & EEV points to a fair value of NOK 117,1 per EC, we focus on the shorter term and set our 6-month forward target at NOK 103,00, which is derived from 12-month forward residual income approach. We issue a 6-month forward Buy recommendation. Please note that NESG ECs underperformed its peers during the last 12-months as peers on average appreciated by 90%; meanwhile, NESG increased only by 32%.

We set a target price at NOK 103,00 per equity certificate (EC) and issue a Buy recommendation

Target price approach (NOK)



Source: Orion Securities estimates



Conclusion

We re-initiate coverage of Nes Prestegjelds Sparebank, a Norwegian regional savings bank. We find the share undervalued given the 2010 P/B of 0,69 and our calculated justified P/B of 0,91. We issue a 6-month forward Buy recommendation under the target price of NOK 103,00 per EC.

Appendix

Recent insider trades

Date	Name	Position	Action	Price	Value, NOK	Share	Comment
–	–	–	–	–	–	–	No recent insider trades

Note: only more than NOK 50 000 worth trades are included in the table

Peer comparison

NOKm	Esti- mates	P/E adjusted		P/B		RoE		Yield		Market Cap
		2010e	2011e	*	2010e	2010e	2011e	2010e	2011e	
Nes Prestegjelds Sparebank	Terra	9,4	7,2	0,73	0,69	7,5 %	9,2 %	5,3 %	6,9 %	116
Nordic Peers										
SpareBank 1 SR-Bank	Terra	9,2	8,8	1,26	1,14	12,9 %	12,4 %	4,4 %	4,6 %	6 319
Sparebanken Møre	Terra	9,3	8,8	1,20	1,06	11,8 %	11,9 %	5,4 %	5,7 %	1 509
SpareBank 1 Nord-Norge	Terra	8,4	8,0	1,25	1,12	13,7 %	13,1 %	6,0 %	6,2 %	2 132
SpareBank 1 SMN	Terra	9,5	8,3	1,23	1,11	11,6 %	11,6 %	5,3 %	6,0 %	4 660
Totens Sparebank	Terra	8,0	7,4	0,91	0,84	11,4 %	12,3 %	6,3 %	6,8 %	421
Median		9,2	8,3	1,23	1,11	11,8 %	12,3 %	5,4 %	6,0 %	
<i>Discount/premium to peers</i>		1,9 %	-12,9 %	-40,7 %	-38,4 %	-36,8 %	-25,2 %	-1,8 %	13,8 %	

*Calculated applying Q1 2010 book value and last Market Capitalization

Key assumptions

	1Q-2010e	2Q-2010e	3Q-2010e	4Q-2010e	2009	2010e	2011e	2012e
Loan growth Y/Y	1,4 %	1,0 %	1,0 %	1,0 %	-10,4 %	4,5 %	4,8 %	4,7 %
Net interest margin	1,56 %	1,70 %	1,76 %	1,81 %	1,65 %	1,68 %	1,80 %	1,89 %
Cost-to-income ratio	69,9 %	60,4 %	62,7 %	63,0 %	61,4 %	63,8 %	59,3 %	58,2 %
Loan losses (recoveries)	0,2 %	0,3 %	0,3 %	0,4 %	0,4 %	0,3 %	0,3 %	0,3 %
EC ratio	55,7 %	55,7 %	55,7 %	55,7 %	56,5%	55,7%	54,9%	53,9%
ROE	6,2 %	9,6 %	7,6 %	6,8 %	9,1 %	7,5 %	9,2 %	8,9 %
Dividend per share					4,1	4,1	5,3	5,5

DDM & EEV

Terminal value (TV) assumptions:	
Assumed long term growth rate	2,50 %
Assumed long term ROE	9,24 %

Inputs from forecasts:	2010e	2011e	2012e	2013e	2014e	TV
a) Total profit	24,7	31,8	33,2	33,9	34,9	
b) Dividends to preferred capital	2,5	2,6	2,8	2,9	0,0	
(a-b)*c Profit to EC (NOKm)	12,6	16,2	16,7	16,7	18,4	18,9
c) EC ratio	56,5 %	55,7 %	54,9 %	53,9 %	52,9 %	
Dividends paid (NOKm)	6,2	8,0	8,2	8,2	9,0	14
Retained earnings (NOKm)	6,4	8,2	8,5	8,5	9,4	
Equity attributable to ECs (NOKm)	154	169	179	187	195	205
ROE	8,19 %	9,62 %	9,33 %	8,91 %	9,45 %	9,24 %
Cost of Equity	8,60 %	8,60 %	8,60 %	8,60 %	8,60 %	8,60 %
Excess Equity Return (NOKm)	(1)	2	1	1	2	1

Discounted dividend valuation:	
NPV of dividends paid (NOKm)	31 17,0%
NPV TV (NOKm)	150 83,0%
Total value of ECs (NOKm)	180 100,0%
Number of ECs	1 500 000
Value per EC (NOK)	120,27
EC price (NOK)	77,25
Premium/(discount)	55,69 %

Current cost of equity:	
Risk free rate	3,80 %
Equity risk premium	6,00 %
Beta	0,80
Cost of equity	8,60 %

TV cost of equity assumptions:	
Risk free rate	3,80 %
Equity risk premium	6,00 %
Beta	0,80
Cost of equity	8,60 %

Excess equity valuation:	
Opening EC book value (NOKm)	154 89,7%
PV five year excess return (NOKm)	3 2,0%
PV TV (ex incremental investment) (NOKm)	10 5,9%
PV TV (incremental investment) (NOKm)	4 2,4%
Total value of ECs (NOKm)	171 100,0%
Number of shares	1 500 000
Value per EC (NOK)	114,07
EC price (NOK)	77,25
Premium/(discount)	47,66 %

Target price calculation	
Average value of DDM and Excess Equity valuation	117,2
Value per EC (NOK)	117,17
EC price (NOK)	77,25
Premium/(discount)	51,68 %

Sensitivity Analysis (Dividend Discount Valuation)						
Current cost of equity	7,5%	8,0%	8,6%	9,0%	9,50 %	10,0%
TV cost of equity	7,5%	8,0%	8,6%	8,1%	8,60 %	9,1%
NPV of dividends paid (NOKm)	31,7	31,3	30,8	30,4	30,0	29,6
NPV terminal value (NOKm)	192,1	170,6	149,7	165,1	149,7	136,4
Value of shareholders' funds	223,8	201,9	180,4	195,5	179,7	166,1
Value per share, NOK	149,21	134,61	120,27	130,32	119,77	110,70

Sensitivity Analysis (Excess Equity Valuation)						
Current cost of equity	7,5%	8,0%	8,6%	9,0%	9,50 %	10,0%
TV cost of equity	7,5%	8,0%	8,6%	8,1%	8,60 %	9,1%
Opening shareholders' funds (NOKm)	153,5	153,5	153,5	153,5	153,5	153,5
PV five year excess return (NOKm)	3,5	3,5	3,4	3,4	3,3	3,3
PV TV (ex incremental investment) (NOKm)	12,1	11,1	10,1	10,8	10,1	9,4
PV TV (incremental investment) (NOKm)	16,5	9,8	4,1	8,2	4,1	0,0
Total value of ECs (NOKm)	185,7	177,9	171,1	175,9	171,0	166,1
Value per share, NOK	123,80	118,61	114,07	117,28	114,00	110,75

Description of the company

Nes Prestegjelds Sparebank was founded in 1842. The bank is the fourth oldest bank in Buskerud and operates through its 6 offices in Nesbyen, Drammen, Fla, Gol, Sigdal, Nore and Uvdal. Nes Prestegjelds Sparebank group is a supplier of financial products and services to both retail and corporate markets. The bank is a member of Terra Gruppen and has 63 employees.

The bank's principal activity is the provision of savings accounts and comprehensive financial services to private customers, small and medium size businesses and public sector. In more detail, Nes Prestegjelds Sparebank's services include savings accounts, checking accounts, payment mediation services, credit cards, mortgages, personal loans, life assurance, asset insurance, investment funds, investments transaction services and pension services

Company data

Chief Executive Officer:
Chief Financial Officer:

Hans Kristian Glesne
Geir Hovden

Web:
Telephone:
Address:

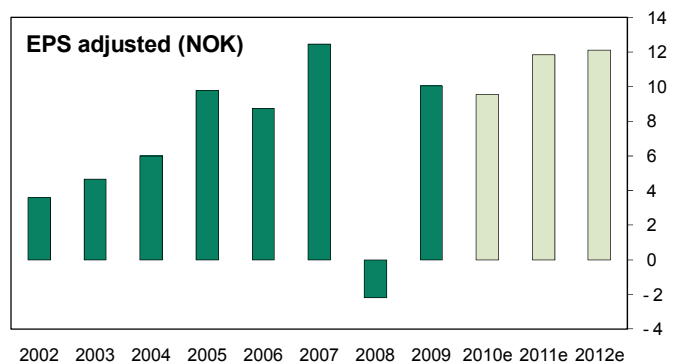
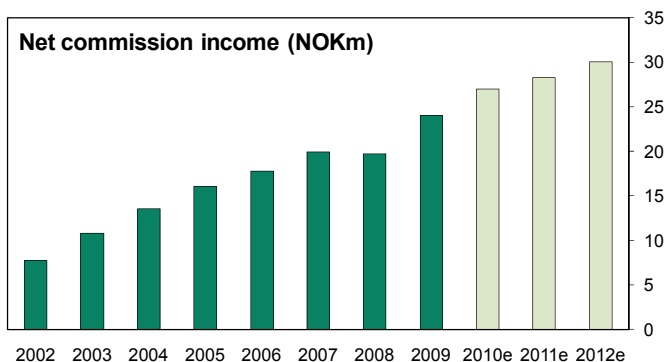
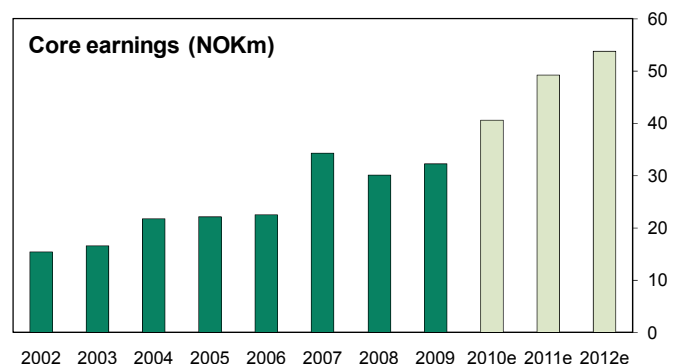
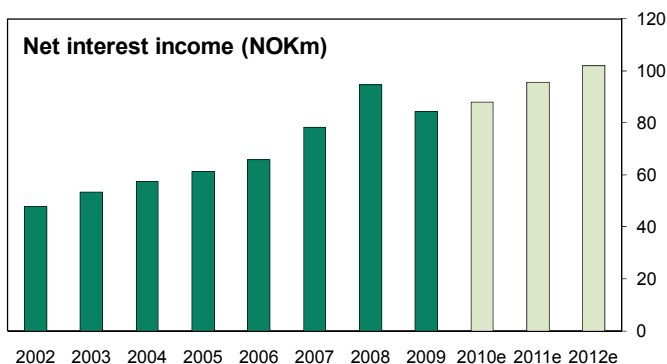
www.nesbanken.no
+47 32 07 22 00
Jordeshagen, Postbox 84,
Nesbyen 3541, Norway

Listing:
Number of shares:

Oslo Stock Exchange
1 500 000

News flow

Date	Event
12.05.2010	Q1 2010 report
12.08.2010	Q2 2010 report
05.11.2010	Q3 2010 report



Annual estimates & key figures

PROFIT & LOSS											
(NOKm)	2002	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Interest income	156	148	109	126	164	249	361	261	271	348	464
Interest expenses	108	95	52	65	98	171	267	176	183	252	362
Net interest income	48	53	57	61	66	78	95	84	88	96	102
Commissions and fees receivable	10	13	16	20	22	24	24	29	32	33	36
Commissions and fees payable	-2	-3	-3	-4	-4	-4	-4	-5	-5	-5	-6
Net commission income	8	11	14	16	18	20	20	24	27	28	30
Other income	-2	14	20	32	31	38	-6,3	31,2	10	10	11
Net other operating income	6	25	34	49	49	58	13	55	36	39	41
Total operating income	54	78	91	110	115	136	108	140	124	134	143
Personnel costs	32	39	33	40	42	44	49	46	41	43	46
Other operating costs	7	14	27	34	37	37	36	33	31	32	33
Depreciation and write-downs of fixed as	4	4	6	6	7	10	10	7	6	4	4
Non-recurring items	0	0	0	0	0	0	0	0	0	0	0
Operating profit	10	22	25	30	29	45	14	54	45	55	60
Core earnings	15	17	22	22	23	34	30	32	40	49	54
Net loss on loans, guarantees etc.	4	6	10	5	0	3	22	17	11	11	15
Net gain (loss) on long-term securities	0	-1	0	0	0	0	0	0	0	0	0
Pretax profit	6	15	15	25	29	42	-9	37	34	43	45
Tax	-1	-4	-4	-7	-5	-10	2	-10	-9	-11	-12
<i>Tax rate</i>	<i>21 %</i>	<i>22 %</i>	<i>28 %</i>	<i>29 %</i>	<i>19 %</i>	<i>24 %</i>	<i>17 %</i>	<i>28 %</i>	<i>26 %</i>	<i>26 %</i>	<i>26 %</i>
Profit after taxes	5	11	11	18	23	32	-7	26	25	32	33
Minority interest	0	0	0	0	0	0	0	0	0	0	0
Net profit	5	11	11	18	23	32	-7	26	25	32	33

BALANCE SHEET											
(NOKm)	2002	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Lending to credit institutions	76	143	151	48	112	263	372	687	633	497	347
Lending to customers	1 800	1 834	2 141	2 689	3 257	3 887	4 223	3 783	3 955	4 143	4 338
Commercial papers & bonds	134	129	173	201	214	190	453	491	494	518	542
Associated companies	0	0	0	0	0	0	0	0	0	0	0
Tangible assets	0	0	4	13	9	8	4	2	0	0	0
Other assets	123	95	83	104	121	117	167	156	159	161	163
Total assets	2 132	2 201	2 551	3 054	3 713	4 467	5 220	5 121	5 241	5 320	5 391
Shareholders' equity	126	178	189	199	275	290	264	318	307	328	349
Minority interest	0	0	0	0	0	0	0	0	0	0	0
Subordinated capital	60	60	99	99	139	139	216	286	286	286	286
Deposits	1 699	1 705	1 960	2 307	2 718	3 038	3 543	3 830	3 955	4 019	4 035
Certificates of deposits & bonds	13	16	19	47	35	42	77	65	72	21	55
Other liabilities	235	243	286	404	548	959	1 121	622	620	665	665
Equity and liabilities	2 133	2 202	2 552	3 055	3 715	4 468	5 220	5 121	5 241	5 319	5 391

KEY FIGURES											
(*NOK)	2002	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
EPS*	3,76	4,80	6,02	9,42	9,42	12,71	-2,78	9,87	8,26	10,68	10,91
EPS* (adjusted)	3,60	4,64	5,98	9,79	8,73	12,46	-2,21	10,05	8,26	10,68	10,91
Book value per share*	100,30	97,45	97,45	106,55	113,67	112,88	107,40	108,34	112,60	119,15	124,72
Dividends per share*	4,40	6,20	6,35	9,10	8,10	11,75	0,00	4,05	4,10	5,30	5,50
Dividend payout ratio	117 %	129 %	106 %	97 %	86 %	92 %	0 %	42 %	50 %	50 %	50 %
P/E	19,7	21,1	18,3	14,1	12,3	9,3	na	6,1	9,4	7,2	7,1
P/E (adjusted)	20,6	21,8	18,4	13,6	13,3	9,5	na	6,1	9,4	7,2	7,1
P/Book value	0,74	1,04	1,13	1,25	1,02	1,05	0,73	0,56	0,69	0,65	0,62
Dividend yield	5,9%	6,1%	5,8%	6,8%	7,0%	10,0%	0,0%	6,6%	5,3%	6,9%	7,1%
ROE	3,8%	4,9%	6,2%	9,2%	8,6%	11,2%	-2,5%	9,1%	7,5%	9,2%	8,9%
ROA	0,2%	0,5%	0,5%	0,6%	0,7%	0,8%	-0,2%	0,5%	0,5%	0,6%	0,6%
Cost/Income ratio	80,6%	72,3%	72,5%	72,3%	75,1%	67,0%	87,4%	61,4%	63,8%	59,3%	58,2%
Adjusted Cost/Income ratio	73,3%	76,6%	75,2%	77,2%	77,2%	71,2%	74,7%	72,0%	65,3%	60,7%	59,6%
Loss ratio	0,23 %	0,31 %	0,48 %	0,21 %	0,00 %	0,08 %	0,55 %	0,43 %	0,29 %	0,28 %	0,35 %
Net interest margin	2,2%	2,4%	2,3%	2,0%	1,8%	1,8%	1,8%	1,6%	1,7%	1,8%	1,9%
Operating margin	0,3%	1,1%	1,3%	1,6%	1,3%	1,3%	0,3%	1,1%	0,7%	0,7%	0,8%
Pretax margin	0,3%	0,7%	0,6%	0,8%	0,8%	0,9%	-0,2%	0,7%	0,6%	0,8%	0,8%
Growth of loans	17 %	2 %	17 %	26 %	21 %	19 %	9 %	-10,4%	4,5%	4,8%	4,7%
Growth of deposits	23 %	0 %	15 %	18 %	18 %	12 %	17 %	8 %	3 %	2 %	0 %
EPS adjusted growth	-22 %	29 %	29 %	64 %	-11 %	43 %	-118 %	-555 %	-18 %	29 %	2 %
Core capital	122	177	208	211	282	292	281	399	420	441	463
Tier 1 ratio	7,8%	12,3%	13,3%	10,9%	11,1%	9,5%	8,5%	12,6%	12,8%	13,0%	13,5%
Capital base	182	236	280	278	382	388	457	577	599	619	641
Capital adequacy	11,6%	16,4%	17,9%	14,3%	15,0%	12,7%	13,8%	18,3%	18,2%	18,3%	18,8%
Share price*	74,0	101,0	110,0	133,0	116,0	118,0	78,0	61,0	77,3	77,3	77,3
No. shares year-end	0,5	1,0	1,0	1,0	1,5	1,5	1,5	1,5	1,5	1,5	1,5
Market capitalisation*	37	101	110	133	174	175	116	90	116	116	116

**Adjusted for non-recurring items and goodwill amortisation/write-ups/-downs

Quarterly estimates & key figures

PROFIT & LOSS											
(NOKm)	2Q-2008	3Q-2008	4Q-2008	1Q-2009	2Q-2009	3Q-2009	4Q-2009	1Q-2010e	2Q-2010e	3Q-2010e	4Q-2010e
Interest income	89	99	93	78	68	59	55	62	66	68	75
Interest expenses	66	72	72	56	46	39	35	43	44	45	51
Net interest income	23	27	22	23	22	20	20	20	22	23	24
Commissions and fees receivable	5	5	8	5	5	11	8	8	8	8	8
Commissions and fees payable	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Net comission income	4	4	7	4	4	9	7	6	7	7	7
Other income	7	-1	-14	10	10	7	5	2	4	2	2
Net other operating income	12	3	-7	14	14	16	11	8	10	9	9
Total operating income	35	30	14	37	36	36	32	28	32	31	33
Personnel costs	10	10	17	13	11	11	10	10	10	11	11
Other operating costs	10	9	8	8	9	8	8	8	8	7	8
Depreciation and write-downs of fixed as:	2	2	4	2	2	2	2	2	2	2	2
Non-recurring items	0	0	0	0	0	0	0	0	0	0	0
Operating profit	13	9	-16	14	14	15	11	8	13	12	12
Core earnings	8	13	1	6	7	10	8	8	10	11	11
Net loss on loans, guarantees etc.	5	3	13	12	2	1	2	1	3	3	4
Net gain (loss) on long-term securities	22	21	30	23	22	21	21	20	19	20	21
Pretax profit	8	6	-29	2	12	13	9	7	10	9	8
Tax	-1	-1	6	-1	-3	-4	-2	-2	-2	-2	-2
Profit after taxes	7	5	-23	1	9	9	7	5	8	6	6
Minority interest	0	0	0	0	0	0	0	0	0	0	0
Net profit	7	5	-23	1	9	9	7	5	8	6	6

BALANCE SHEET											
(NOKm)	2Q-2008	3Q-2008	4Q-2008	1Q-2009	2Q-2009	3Q-2009	4Q-2009	1Q-2010e	2Q-2010e	3Q-2010e	4Q-2010e
Lending to credit institutions	241	423	372	501	631	443	687	614	620	627	633
Lending to customers	4 172	4 083	4 223	4 021	3 911	3 808	3 783	3 836	3 876	3 916	3 955
Commercial papers & bonds	201	271	453	530	502	494	491	479	484	489	494
Tangible assets	66	67	61	73	73	60	58	58	58	58	59
Other assets	78	79	109	128	129	132	101	99	99	100	100
Total assets	4 759	4 924	5 220	5 253	5 246	4 938	5 121	5 086	5 138	5 190	5 241
Shareholders' equity	283	287	264	264	274	283	318	296	304	310	307
Minority interest	0	0	0	0	0	0	0	0	0	0	0
Subordinated capital	139	213	216	216	215	215	286	286	286	286	286
Deposits	3 149	3 224	3 543	3 559	3 710	3 651	3 830	3 836	3 876	3 916	3 955
Certificates of deposits & bonds	1 083	1 049	1 107	1 088	891	621	608	607	607	611	607
Other liabilities	105	150	90	126	155	168	78	61	65	66	85
Equity and liabilities	4 759	4 924	5 220	5 253	5 246	4 938	5 121	5 086	5 138	5 190	5 241

KEY FIGURES											
(*NOK)	2Q-2008	3Q-2008	4Q-2008	1Q-2009	2Q-2009	3Q-2009	4Q-2009	1Q-2010e	2Q-2010e	3Q-2010e	4Q-2010e
EPS*	2,69	1,87	-8,77	0,27	3,54	3,58	2,49	1,66	2,58	2,10	1,92
EPS* (adjusted)	2,47	1,81	-8,02	0,63	3,31	3,68	2,44	1,66	2,58	2,10	1,92
Cost/Income ratio	63,1%	68,7%	208,8%	62,0%	60,9%	58,2%	64,9%	69,9%	60,4%	62,7%	63,0%
Adjusted Cost/Income ratio	68,9%	61,0%	100,8%	76,4%	75,0%	67,2%	69,5%	71,4%	62,1%	64,2%	64,4%
Loss ratio	0,44 %	0,30 %	1,25 %	1,18 %	0,19 %	0,15 %	0,23 %	0,15 %	0,30 %	0,30 %	0,41 %
Net interest margin	1,9%	2,2%	1,7%	1,7%	1,7%	1,6%	1,6%	1,6%	1,7%	1,8%	1,8%
Operating margin	2,9%	2,4%	1,1%	2,8%	2,7%	2,9%	2,5%	2,2%	2,5%	2,4%	2,5%
Pretax margin	0,7%	0,5%	-2,2%	0,2%	0,9%	1,1%	0,7%	0,6%	0,8%	0,7%	0,6%
Growth of loans	3,0%	-2,1%	3,4%	-4,8%	-2,8%	-2,6%	-0,7%	1,4%	1,0%	1,0%	1,0%
Growth of deposits	3,7%	2,4%	9,9%	0,5%	4,3%	-1,6%	4,9%	0,2%	1,0%	1,0%	1,0%
EPS adjusted growth	61 %	-27 %	-543 %	-108 %	423 %	11 %	-34 %	-32 %	55 %	-19 %	-9 %
Risk-weighted assets	3 175	3 219	3 297	3 269	3 225	3 127	3 155	3 146	3 190	3 236	3 281
Risk-weighted assets/ total assets	66,7 %	65,4 %	63,2 %	62,2 %	61,5 %	63,3 %	61,6 %	61,8 %	62,1 %	62,3 %	62,6 %
Core capital (Tier 1)	285	288	281	283	283	284	399	404	404	404	420
Tier 1 ratio	9,0 %	8,9 %	8,5 %	8,6 %	8,8 %	9,1 %	12,6 %	12,9 %	12,7 %	12,5 %	12,8 %
Capital base	385	462	457	458	458	459	577	583	583	583	599
Capital adequacy	12,1 %	14,4 %	13,8 %	14,0 %	14,2 %	14,7 %	18,3 %	18,5 %	18,3 %	18,0 %	18,2 %
Share price	104,0	98,0	78,0	58,5	63,8	66,0	61,0	74,0	77,3	77,3	77,3
No. shares quarter-end	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5
Market capitalisation*	154	145	116	87	94	98	90	110	116	116	116

**Adjusted for non-recurring items and goodwill amortisation/write-ups/-downs

Disclosures

This report has been prepared for information purposes only by Terra Markets, registered in Norway under number NO 980 874 907 (the Register of Business Enterprises), under supervision of the Financial Supervisory Authority of Norway (Finanstilsynet). This report is based on information obtained from public sources that Terra Markets believes to be reliable but has not independently verified, and Terra Markets makes no guarantee, representation or warranty as to its accuracy or completeness. Any opinions expressed herein reflect Terra Markets' judgment at the time of preparing the report and are subject to change without notice. This report is intended for use only by those investors to whom it is made available by Terra Markets and no part of this report may be reproduced in any manner or used other than as intended without prior written permission from Terra Markets.

The report is issued subject to the General Business Terms for Terra Markets, and information about the terms is available at www.terramarkets.no.

Terra Markets is a member of The Norwegian Securities Dealers Association, which has issued recommendations and market standards for security companies. This document has been prepared in accordance with these guidelines. The Association's website where the recommendations and market standards can be found is: www.nfmf.no.

This report is not an offer to buy or sell any security or other financial instrument or to participate in any investment strategy. No liability whatsoever is accepted for any direct or indirect loss or expense arising from the use of this report. Distribution of research reports or other investment advice is restricted by law in certain jurisdictions. Persons in possession of this report should seek further guidance regarding such restrictions before distributing this report.

Analyst certification

The analyst(s) who has (have) prepared this report, hereby certify that notwithstanding the existence of any such potential conflicts of interests referred to later in the disclaimer, the views expressed in this report accurately reflect our personal view about the Company covered by this report. I/we further certify that I/we have not been, nor are or will be receiving any direct or indirect compensation related to the specific recommendations or views contained in this report.

Recommendation history for NESG

Date	Recommendation	Target price (NOK)
26.04.2010	BUY	103,00

The table above shows current and previous recommendations given in company reports.

Planned updates

Terra Markets plans to update its recommendation on the company: 1) when new accounting figures are released, 2) if any material news on the company or industry is released, 3) in other important instances.

Was the company report presented to the issuer?

The company report was not presented to the issuer before dissemination.

Price target methodology and risks

The target price is calculated by using 12-month forward residual income valuation. The forecasts are subjected to forecasting risks in net interest and commission margins and operating costs.

Critical assumptions

The critical assumption in our model is the level of the loan losses. If the losses would be higher earnings and dividends may be substantially lower.

Information sources

Information source is the company's annual and interim reports, the company, Reuters, Infionals, Vikingen Børs, Statistics of Norway, and Central Bank of Norway.

Potential conflict of interests

Investors should assume that Terra Markets is seeking or will seek Corporate Finance or other business relationships with the company in this report. None of Terra Markets' employees are a representative of the Board or any other similar supervision body of the Company. Responsible analyst has not provided any investment banking services to the Company during the last 12 months. Terra Markets has not been giving any investment banking services or acted as financial advisor or manager/co-manager for the Company during the last 12 months. **Please note that Terra Markets operates as a market maker in the shares of NESG may have holdings for this purpose. Please note that NESG is indirect shareholder of Terra Markets. The CEO of NESG is a board member of Terra Markets.** Complete lists of corporate clients and updated share positions are available at www.terramarkets.no.

Share positions in the Company:

Responsible analyst(s)	0
Employees of Terra Markets AS	0
Terra Markets AS	0
Affiliated agents of Terra Markets AS	0

Analysts never hold any shares in companies they analyze. Positions of employees are based on lists updated each week. Holdings as a part of Terra Markets' investment services activities such as market making are not included.

Recommendation structure

Company reports

Terra Markets' recommendations are based on a six-month time horizon and on absolute performance adjusted for risk. Near term dividends are included into return. The table below shows our general guidelines for determining our recommendations:

Risk	Buy / Strong Buy	Hold	Reduce / Sell
Low	> 10%	2% - 10%	< 2%
Medium	> 15%	3% - 15%	< 3%
High	> 30%	5% - 30%	< 5%

The percentages are defined as an upside to our price target plus eventual dividends within six months. Whether a Buy or Strong Buy / Reduce or Sell recommendation is given, depends on analyst's conviction in the case. Our risk assessments range from high risk to medium risk and low risk and are based on a subjective assessment of the following factors: 1) volatility in the share price, 2) liquidity in the share, 3) strength of the balance sheet, 4) absolute earnings level and trend and 5) estimate risk.

Recommendation distribution as of April 8, 2010

Company reports	Strong Buy	Buy	Hold	Reduce	Sell
Total	5	75	27	9	4
% of total	4%	63%	23%	8%	3%
Corporate clients	1	20	4	0	0
% of total	4%	80%	16%	0%	0%

The table above shows recommendation distribution for all company reports issued during the last three months.

Weekly Casebook

Terra Markets provides an updated assessments for all the companies in its research universe on a weekly basis in the Weekly Casebook product. Recommendations in Weekly Casebook are based on a 2 to 8-week time horizon and an expected absolute share price performance. In Weekly Casebook, Terra-rating of +2 is defined as Strong Buy, +1 as Buy, 0 as Hold, -1 as Reduce and -2 as Sell. Buy or Strong Buy recommendation is given when the analyst believes the stock price will appreciate in the coming 2 to 8 weeks, Hold recommendation is given when the analyst believes the share price will be flat in the coming 2 to 8 weeks, Reduce or Sell recommendation is given when the analyst believes the share price will depreciate in the coming 2 to 8 weeks. Whether a Buy or Strong Buy / Reduce or Sell recommendation is given, depends on the analyst's conviction in the case. The recommendations in the Weekly Casebook may differ from the recommendations in the company reports due to different time horizons.

Recommendation distribution as of April 8, 2010

Weekly Casebook	Strong Buy	Buy	Hold	Reduce	Sell
Total	8	70	42	15	1
% of total	6%	51%	31%	11%	1%
Corporate clients	2	16	5	2	0
% of total	8%	64%	20%	8%	0%

The recommendation distribution above is based on Terra-rating in Weekly Casebook. Terra-rating of +2 is defined as Strong Buy, +1 as Buy, 0 as Hold. Terra-rating of -1 is defined as Reduce and -2 as Sell.

Trading recommendations

Terra Markets issues trading recommendations, Trading Buy and Trading Sell, which are based on a 1 to 5-day horizon. Trading Buy (Trading Sell) recommendation is given when the analyst believes the stock will rise (fall) on an absolute basis during a 1 to 5-day period. Trading Buy and Trading Sell recommendations may not coincide with our Buy and Sell recommendations given in the company reports on a six-month basis. There will not necessarily be any updates to the trading recommendations.

The selection of trading recommendations is based on the evaluation of short-term market fundamentals, performance of the peer stock prices, expected news flow as well as the companies' fundamental valuation. The comments given with the trading recommendations show the reasoning for them.

Historic and future returns

Please note that historic returns do not guarantee future positive returns from suggested trades. The client may not be able to achieve the same entry and exit prices for his positions. The client return will then deviate from the reported results of the trading. The commission and clearing cost will further reduce the return achieved by the client. Any trade can give a substantial negative result.

Information barriers

Confidentiality rules and internal rules restricting exchange of information between different parts of Terra Markets may prevent employees of Terra Markets who are preparing this report from utilizing or being aware of information available in Terra Markets which may be relevant to the recipients' decisions. Terra Markets has established internal rules and regulations in order to avoid any potential conflicts of interests.