

Press release

From : Sparebanken Sør
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Third quarter report and accounts 2008

The Sparebanken Sør Group earned NOK 210 million for the first 9 months of 2008. This was NOK 53 million down on the corresponding interim period last year. The most important reason for the reduction is a NOK 37 million increase in net losses on corporate loans. The unsettled financial markets internationally have been affecting the Bank's overall results through higher funding loan costs and reduced access to new funding loans from the market, coupled with falling values of the securities in the Bank's portfolio. The Bank's liquidity situation is satisfactory, also when we look ahead to 2009. The establishment of a separate, wholly-owned house mortgage company shortly will improve the Group's overall access to long-term financing. Sør Boligkreditt AS will take over the funding of many of the Bank's housing loans.

The Group's pre-tax result totalled NOK 210 million, equivalent to 0.89 per cent of average assets. The corresponding figures 12 months ago were NOK 263 million and 1.28 per cent respectively. The result produced a 7.9 per cent after-tax return on equity capital.

Net interest income amounted to NOK 463 million, up by NOK 55 million on the first 9 months last year. In relation to average assets, this amounted to 1.97 per cent, which is at the same level as last year at the same time. Higher interest costs relating to the Bank's new funding loans in the market are to a large extent compensated for by increased emphasis on risk pricing of corporate loans.

Other (non-interest) operating income totalled NOK 162 million, compared to NOK 1299 million at the same time last year. The reduction is primarily ascribable to lower net income from financial instruments and lower commission income from the Group's real estate brokerage business. The applies market values when assessing financial instruments both on the asset- and liabilities side of the Bank's balance sheet, and the unsettled conditions in global financial markets have brought about big swings in the values involved.

Operating costs were up by NOK 34 million to NOK 375 million. However, in relation to average assets, there was a small improvement compared to the same interim period last year. The most important reasons for the increase in costs on a cash basis are related to the establishment of new branches in

Telemark, coupled with costs relating to the Bank's branch in Kristiansand moving into new, centrally located premises earlier this year.

At the end of the third quarter of 2008, NOK 40 million was charged to the profit and loss account in respect of net losses on loans, mainly relating to corporate customers. Of this amount, collective write-downs accounted for NOK 10 million. Net commitments in default totalled NOK 138 million at the end of the quarter, as against NOK 113 million 12 months ago. Net bad and doubtful commitments, but not in default, totalled NOK 228 million, up from NOK 78 million on the same time last year. As a result of weaker growth prospects within the Norwegian economy and the possibility of somewhat higher unemployment, the credit risk contained in the Bank's loan portfolio has increased somewhat in recent months. The Bank has tightened up on its lending terms and conditions, also increasing the risk margin added to the rate of interest for certain customer segments, for example within the commercial property sector. In the Board of Directors' opinion, the credit risk within the Bank's loan portfolio is under control, although the level of credit losses has increased somewhat.

During the last 12 months, aggregate assets expanded by 12.9 per cent to NOK 33.1 billion. Lending growth during the period was 11.6 per cent, the retail banking- and corporate banking sectors increasing by 15.6 and 6.0 per cent respectively. During the same period, deposits from customers increased by 3.1 per cent. At the end of the third quarter, the overall deposit coverage ratio was 54.9 per cent. At the present time, a particularly great deal of attention is being given to deposit development.

At the end of the third quarter of 2008, equity and related capital totalled NOK 2.7 billion, producing a capital adequacy ratio of 12.6 per cent; the core capital coverage ratio amounted to 11.1 per cent.

In the same way as other banks, Sparebanken Sør is being affected by the unsettled financial markets internationally. This is bringing about higher funding loan costs, and there is no easy access to long-term funding loans in the market. However, the Bank's liquidity situation remains satisfactory; in addition, the Bank has unutilised long-term committed drawings rights facilities of substantial amounts with Norwegian and foreign banks. The Bank's preparations for establishing its own house mortgage company are well advanced; this will become an important instrument for providing long-term financing. The Board of Directors expects that the remainder of 2008 will also be characterised by unsettled global financial markets, but hopes that the worst may be over, and that the Bank's revenue generation will therefore turn out to be acceptable.

Arendal, 22 October 2008
Sparebanken Sør

If you should require more information in this connection, please contact Morten Kraft, Chief Executive Officer, whose telephone number is 37 05 70 93.

This press release and the Bank's quarterly report and accounts will be posted on the Bank's home page, www.sor.no, and will also be available through the Oslo Stock Exchange, www.newsweb.no.