

Annual Report *2000*



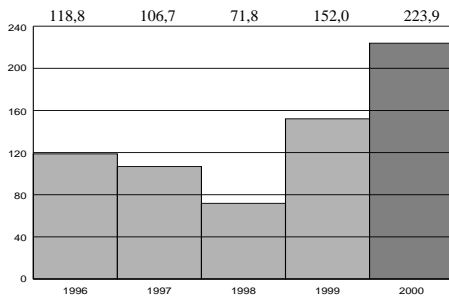
SPAREBANKEN  SØR



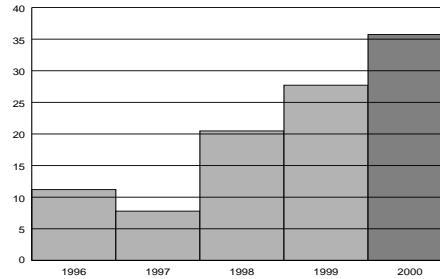
Frontpage: Lindesnes Lighthouse

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Result before tax



Credit Losses



Framework conditions and local background

At the start of 2000, the Norwegian economy was characterised by low growth and expectations of moderate overall development. However, these expectations failed to materialise; during the first half of the year, growth turned out to be substantially higher than anticipated. This is particularly due to the fact that private demand and investments in the mainland economy ended up higher than the levels which had been estimated. The international economic upturn also triggered significantly higher exports for Norwegian industry. As a result of this, Norges Bank followed up with four interest rate rises amounting to a total of 1.5 percentage point. The central bank's measures were introduced early enough for growth to ease off during the second half of last year and settle down at an acceptable level by the end of the year.

In 2000, fiscal policy was neutral and did not to any significant extent affect the way in which the Norwegian economy developed. Growth for the year finished up at about 2 per cent, as against a modest rate of 0.8 per cent in 1999. The consumer price index rose by 3.1 per cent, which was approximately 1 percentage point above that for the EU area. Throughout last year, the employment situation was good, even though some districts were affected by unemployment. The average jobless total was 3.4 per cent. Activity levels within offshore-related industry, building, construction and

shipbuilding picked up well as the year progressed, having earlier been low, following the fall in the oil price in 1998. The local government economy remained tight.

Against this background, the Bank's area of operations has been enjoying good overall development, both as far as retail banking and local commerce and industry are concerned. However, strong credit growth and tough competition in the credit market have brought about a marked shrinkage in banks' average interest margins. Sparebanken Sør's credit expansion within the sectors of public entities and private households, as well as regional commerce and industry, has been in line with the growth experienced by other financial institutions in the area.

The merger between the power companies in Agder into Agder Energi could become very important for the region. The question surrounding the county municipalities' future responsibilities will be creating uncertainty with regard to the public sector economy and its framework conditions. The infrastructure remains a question of considerable interest for the region. In particular, the network of trunk roads through the Agder counties, from Telemark to Rogaland, is a very important matter, as are the railway operations along the Sørlandet- and Arendal routes.

Result for the year and balance sheet

The annual accounts are based on the assumption of a going concern. The Bank's equity capital is at a reassuringly high level and, in the opinion of the Board of Directors, there are no circumstances which would suggest anything else than the Bank's continued operations.

Result for the year

Last year's NOK 224 million pre-tax result is the best since Sparebanken Sør was established in 1984. The good result is primarily ascribable to the sale of the Bank's shares in Fellesdata AS to EDB Business Partner AS; this transaction produced a NOK 84 million one-off gain for the Bank.

In relation to average assets, the result at this level was equivalent to 1.78 per cent, as opposed to 1.39 per cent in 1999. Other items contributing to the improvement in last year's result are increased net interest income and a modest rise in costs. On the other hand, securities had an adverse financial impact on overall revenue generation compared with the year before.

Net interest income and average interest margin

Interest income was up from NOK 351 million in 1999 to NOK 370 in 2000. In relation to average assets, this amounted to 2.94%, as opposed to 3.20% in 1999. Higher lending- and



Homborsund Lighthouse, near Grimstad

deposit volumes were important reasons for the increase - in cash terms - of net interest income. The shrinkage in the average interest margin is attributable to the competitive situation. Throughout the year, lending margins remained under downward pressure, as there are many providers of credit in the market, and as borrowers often obtain offers from several institutions. Competition within the Norwegian banking industry is likely to remain fierce, especially for housing loans. In the case of commercial and industrial loans, there appears to be a recent trend favouring pricing according to risk.

Other (non-interest) income

In 2000, total other income fell by NOK 15 million, ending up at NOK 89 million.

Last year's securities prices were undoubtedly the most important reason for the reduction in other income. In 1999, gains from securities made a positive contribution of NOK 26 million, whereas in 2000 there was a NOK 1 million negative impact. This is linked to the way in which domestic interest rates moved last year, coupled with securities prices. However, the average yield on the Bank's share portfolio ended up higher than Oslo Stock Exchange's total index.

Gains from foreign exchange also improved, primarily ascribable to higher transaction volumes.

Share dividends received were up by NOK 10 million to NOK 15 million in the last 12 months. The main reason for the large increase is an extraordinary dividend payment in connection with the Gjensidige NOR group's acquisition of NOR Forsikring AS.

However, the most important item under other income is income from banking services. This item posted a NOK 6 million increase, totalling NOK 83 million for 2000. There was significant growth in this area in the form of number of transactions etc. However, there has also been continued switching into automated services. As such services are generally provided at low prices, the increase in income in cash terms is moderate.

Costs

In 2000, costs totalled NOK 283 million compared with NOK 276 million in 1999. In relation to average assets, however, the ratio improved from 2.51% in 1999 to 2.25% in 2000. The increase in total costs in cash terms in 2000 was largely accounted for by two items: external electronic data processing and celebrations of the Bank's 175th anniversary. In addition, a substantial amount of maintenance- and modernisation work was done on the Bank's premises last year. This item ended up close to NOK 5 million larger than the year before.

Personnel costs were down on the year before. This was due to the full financial impact of the

Bank's planned shrinkage in overall manning levels - which was completed by the end of 1999 - which made a noticeable contribution to the Bank's overall result last year. Furthermore, expenditure relating to overtime and various projects decreased, as several larger projects were completed in 1999. On the other hand, provisions for holiday pay due to the introduction of a fifth holiday week were higher in 2000. Other operating costs remained largely unchanged from the year before.

Losses on loans and guarantees

An amount of NOK 36 million in respect of credit losses was charged to the profit and loss account last year, NOK 20 million of which was accounted for by an increase in non-specific loss provisions. Specific loss provisions allow for losses which have been identified in the case of particular customers at the end of the year. Non-specific losses include losses not yet identified but which might occur in the case of individual customers. In the opinion of the Bank's Board of Directors, losses are moderate and the loss provisions raised are deemed to be sufficiently large.

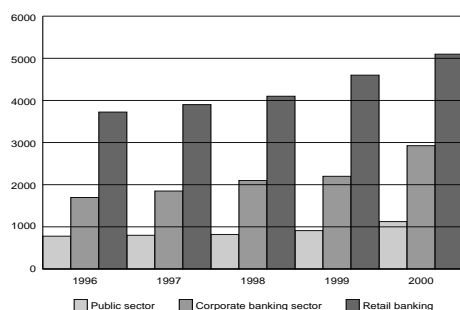
Balance sheet

Balance sheet total – loans and deposits

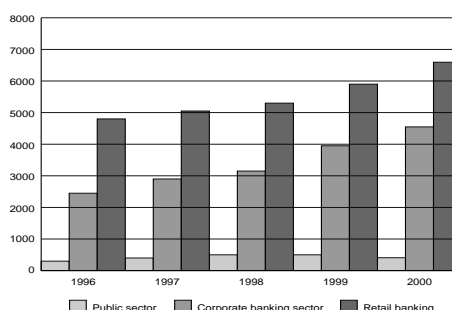
The Bank's assets grew by NOK 1.4 billion or 11.5 per cent, totalling NOK 13.3 billion at the end of the year under review.

The increase in assets during the last 12 months was largely due to lending growth.

Deposits



Lending



Gross loans to customers expanded by NOK 1.4 billion or 13.4 per cent.

The rate of lending growth eased off somewhat towards the end of the year, due to an increase in general interest rate levels during the same period.

Retail- and corporate banking customers borrowed 13.6 and 16 per cent more respectively. These two categories accounted for 57 and 39 per cent of the Bank's aggregate lending respectively, the public sector for 4 per cent.

At the end of 2000, the Bank's holdings of certificates and bonds were NOK 991 million, down by NOK 212 on the year before.

Most of this portfolio is earmarked to cover legal liquidity requirements, coupled with collateralised securities pledged as security for loans from the central bank.

The Bank's investment in shares was up on the year before but continues to be at a modest level.

Deposits from customers increased by NOK 1.6 billion or 21.5 per cent during the last 12 months. Deposits have generally improved throughout the year. Some larger single deposits made a special contribution to overall growth. The Bank's savings offer ('Jubilee Account') in connection with last year's 175th anniversary was well received by the market.

It would appear that the recent combination of higher interest rates and uncertainty relating to the securities market has made saving through banks attractive again.

Retail-, corporate- and public sector banking customers accounted for 56, 32 and 12 per cent of the Bank's total deposits.

Deposits amounted to 79 per cent of loans. The Board of Directors feels that the overall deposit coverage is good.

The funding required - in addition to the level provided by deposits and equity capital - is largely obtained on a short- and medium-term basis by raising bond loans, certificate loans and borrowings from other credit institutions.

In the opinion of the Board of Directors, the composition and mix of the Bank's balance sheet is satisfactory.

Equity and related capital - capital adequacy

At the end of the year, the Bank's equity and related capital totalled NOK 1.1 billion, consisting of core capital only.

In relation to a weighted asset calculation base of NOK 9.3 billion, the abovementioned equity and related capital produced a capital adequacy ratio of 11.7%. The capital adequacy ratio ended up a little higher than a year earlier. The Board of Directors considers the capital adequacy level to be good but will nevertheless focus more

strongly on the way in which the Bank's capital adequacy ratio develops in the near future.

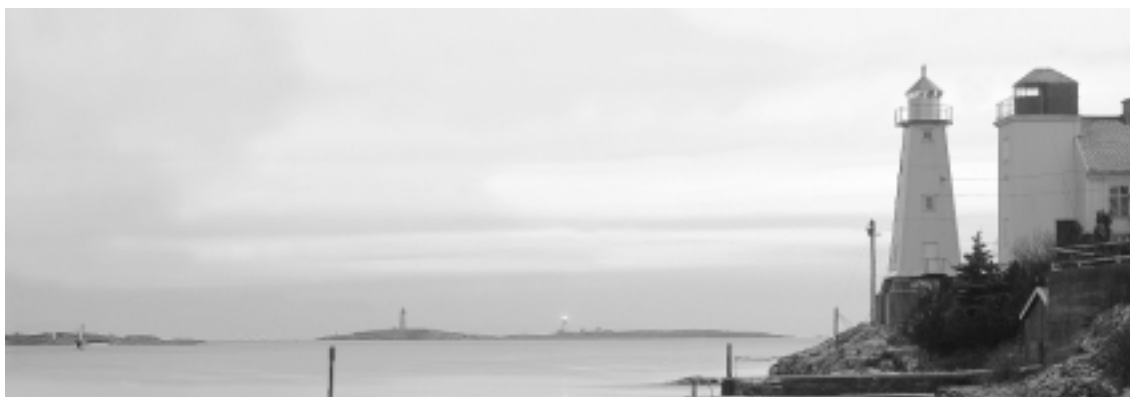
Continued strong growth could make it necessary to raise subordinated loan capital.

Allocation of profit for the year

In the opinion of the Board of Directors, the 2000 profit and loss account and balance sheet correctly present the Bank's overall position and results. Furthermore, the Board is not aware of any circumstances that have arisen after the turn of the year which would change their view in this respect.

It is proposed that the Bank's NOK 163.4 million result after tax is allocated in the following way:

Donations	NOK	2.5 million
Transferred from Fund for		
Evaluation Differences	NOK	- 3.7 million
Transferred to		
Savings Bank's Fund	NOK	164.6 million
Total allocations	NOK	163.4 million



Sandvigen Lighthouse, near Arendal

Management of risk

In the Board of Directors' opinion, it is important for the Bank to have a moderate risk profile, which, in addition, is adapted to capital adequacy- and competence levels. Throughout the year, the most important circumstances involving risk relating to the Bank's operations are subject to ongoing reporting and evaluation. According to the Board of Directors' assessment, the Bank's risk exposure is in line with the guidance lines which have been drawn up.

Strategic risk

Each year, the Board of Directors completes a strategic analysis of the planned overall choices in this connection. The examination is particularly linked to market development and revenue production as well as skills-, competence- and capacity levels in the Bank.

Credit risk

In 2000, the accounts included losses of NOK 36 million, of which NOK 20 million represented a boost to the Bank's non-specific loss provisions, standing at NOK 107 million at the end of the year. This is a cushion to enable the Bank to take care of future credit losses. Losses were somewhat higher than the preceding year, but remain at an acceptable level. Specific losses on individual customers totalled NOK 16 million on a net basis or 0.15 per cent of average lending volumes. According to the Bank's strategic plan, loan losses are not to exceed 0.5 per cent.

In the Board of Directors' opinion, the Bank's substantial credit growth during the last 12 months has not changed its overall credit risk exposure to any significant extent. Expansion has been based on realistic risk assessment and has taken place in commercial, industrial and other sectors which form part of the Bank's natural area of operations. During the course of last year, a complete and comprehensive assessment of the Bank's overall risk within the credit area was done. The Bank's top management team presented a report on this work which was discussed by the Board of Directors. The assessment concluded that the Bank's overall credit risk exposure is medium to low. In order to improve risk management further, the Bank has been strengthening its organisation in this area. Furthermore, ongoing efforts are being made to boost overall skills- and competence levels within the credit area.

Market risk

Market risk is related to the Bank's positions and business volumes in interest rate-, foreign exchange- and share markets. The Board of Directors has fixed exposure limits for different risk areas. Follow-up is done through ongoing reporting of portfolios and quantification of risk.

Interest rate risk is mainly related to the Bank's portfolio of interest-bearing securities. Fixed interest rate loans and deposits are normally managed in such a way that interest rate risk is hedged on an ongoing basis. The Bank's interest rate risk has been low

throughout the year; on average, well under half of the total limits has been utilised.

Foreign exchange risk is linked to call deposits with other banks and shares in foreign unit trusts. Other items in the balance sheet are hedged by contra entries in the same currencies or by entering into forward exchange contracts. The Bank is therefore only to a very small extent affected by movements in the foreign exchange markets.

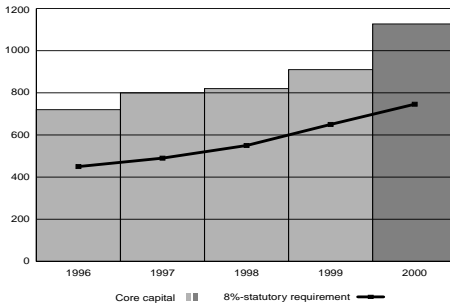
At the end of the year, the Bank's trading portfolio of shares amounted to NOK 141 million, consisting mainly of listed Norwegian shares. Exposure to the share market increased somewhat during the year, but is nevertheless modest in relation to the Bank's other operations. The financial impact on the Bank's overall result may nevertheless be fairly noticeable as the portfolio is carried in the balance sheet at market value.

Funding risk

The Bank has a satisfactory deposit coverage in relation to total loans; during the course of the year the ratio improved from 74 to 79 per cent. For the first time in many years, deposits from customers grew more than loans. This is due to general growth but also to some large customer deposits which are likely to decrease somewhat as time goes by.

Funding loans from the certificate- and bond markets totalled NOK 2.4 billion at the end of the year. The Bank has found that there is always a good supply of credit facilities available in the market as well as good access to

Capital adequacy ratio



funding loans – at terms and conditions which enable the Bank to be competitive as far as customers are concerned. Committed drawing rights at Norwegian and foreign banks amounted to the equivalent of NOK 1.2 billion at the end of the year. At the beginning of 2001, the Bank cancelled a NOK 300 million drawing rights facility with a relatively short remaining life.

Operational risk

The Board of Directors and top management team have been focusing increasingly on potential losses relating to the day-to-day operations of the Bank. This refers to situations such as failure or breakdown involving electronic- and telecommunication, systems and routines. In addition, errors may occur due to lack of control, insufficient competence and human errors. The Bank's system for internal control is an important tool in order to identify and improve deficient aspects also within this area.

Personnel and working environment

At the end of 2000, overall manning levels in the Bank amounted to 343 man-years and 24.8 man-years were accounted for by employees on special leave. In recent years, ongoing efforts have been made in order to reduce overall manning levels. This has been possible as a result of the introduction of new technology and new work processes. Operations are now being conducted in accordance with the man-year

targets fixed by the Board of Directors for the 2000-2002 strategy period.

In 2000, the Bank completed a job satisfaction survey which comprised all aspects of the Bank's operations. The survey, which was done in co-operation with Norsk Gallup, concluded that the Bank benefits from a good working environment and good levels of job satisfaction amongst its staff. However, several areas can be improved and in view of this, certain programmes have therefore been initiated which will hopefully produce positive results by the time the next survey is done.

The Working Environment Committee has done a great deal of work in connection with matters relating to structural alteration of bank premises, security, safety and general environment questions.

Absenteeism through illness amounted to 4.57 per cent, as against 4.63 per cent in 1999.

Vote of thanks

The Board of Directors would like to thank all staff for their unstinting efforts in 2000.

External environment

The Bank's operations do not produce any pollution of the external environment.

In connection with assessment of customers' overall circumstances, financing of projects, the granting of credits etc., customers' ability to adapt their business operations to currently valid laws, rules and regulations relating to the environment and pollution is treated as an important aspect of the credit handling process.

Donations during the Bank's Jubilee year

In connection with Sparebanken Sør's 175th anniversary in October 2000, the Bank set aside NOK 4 million in 1999 for various purposes. NOK 2 million was donated for a new building which will house a cultural centre in Arendal. In Vest-Agder, NOK 500,000 was given to the foundation, «Arkivet i Kristiansand», and NOK 500,000 to «Stiftelsen Lindesnes Fyr». In addition, NOK 300,000 went to a new health- and athletics study project in Arendal. An amount of NOK 350,000 was provided for Telemark, for donations within western Telemark, and NOK 300,000 was given to Kragerø.

Subsidiaries

For many years, the Bank conducted real estate brokerage business through its wholly-owned subsidiary, Sør Eiendom AS. Developments within this commercial sector persuaded the Bank to make a strategic choice: it was decided to invest more heavily in this sector in order to achieve sufficient overall business volumes and synergies. As a consequence of this, Sparebanken Sør acquired 80 per cent of the shares in ABCenter Holding AS. The Bank's equity stake, through a subsequent issue, increased to 85.5 per cent. The company with its subsidiaries was the region's largest real estate brokerage chain with branches in Telemark, Aust- and Vest-Agder and Rogaland. Furthermore, the Bank acquired another real estate brokerage firm in Mandal. With effect

from 1 January 2001, these companies have been merged, under the name of ABCenter Holding AS and today employs 60 staff in 11 different branches.

AS Eiendomsvekst is a fully-owned subsidiary of the Bank. The company owns a large industrial site at Longum Park in Arendal; the site has been prepared for commercial and industrial use. In addition, the Bank has a substantial equity stake in Longum Teknolog og Kompetansesenter II AS which has at its disposal some 2,500 square meters' of office floor space. Together, these two companies do a substantial amount of commercial and industrial development work. In order to enhance overall effectiveness, the two companies have now appointed a joint general manager who will be in charge of day-to-day operations.

The Bank is a main shareholder – 71 per cent - in Fyresdal Rekneskapskontor A/S; the company employs 5 staff. Furthermore, Group accounts also incorporate the companies,

Sparebankbygg AS at Kviteseid (100 per cent; no staff), Prosjektutvikling AS in Arendal (100 per cent; no staff) and Kviteseid Sparebankbygg ANS (79.75 per cent; no staff).

Future prospects

The Bank has a strong position in the market. Results from the customer satisfaction survey confirm that customers are very satisfied with the Bank. However, it is evident that people are in the process of changing the way in which they access banking services. As far as day-to-day banking transactions are concerned, more and more customers prefer using plastic cards, telebanks, the Internet etc. rather than visiting banks' premises. It has therefore become a challenge for the Bank to adapt to this development, by applying its strategy – 'to be local, competent and personal'.

The co-operation with Gjensidige NOR, both centrally and regionally, will be focused on in 2001. Today, the Bank's branches and Gjensidige NOR Forsikring share premises in many locations. A good basis has therefore been established for positive synergy effects, from which both institutions should be benefitting. This – coupled with the financial impact of the Bank's acquisition of the real estate brokerage company, ABCenter – has been factored into the budgets for 2001.

The Bank has decided to establish its own investment centre in Kristiansand. This is to become the Bank's leading department within the sale of funds, shares, savings-linked insurance etc. The investment centre will also strengthen the Bank's position in Kristiansand.

The Board of Directors is of the opinion that Sparebanken Sør has a good finance-, competence- and market-related basis for continued progress during 2001 too.

Arendal, 26 February 2001
Sparebanken Sør's Board of Directors

Tom F. Evensen
Chairman

Jostein Dalane
Deputy Chairman

Paul Georg Songe-Møller

Kristi Marie Tveit

Arnt Haddeland

Laila Øygarden

Tore Gysland

Atle Færevag

Gunnar Nesland

Hans A. Iversen
Managing Director

From Profit and Loss Account

	2000		1999	
	NOK m.	% of av. assets	NOK m.	% of av. assets
Interest- and credit commission income	947.6	7.52	852.9	7.78
Interest costs	577.2	4.58	502.3	4.58
Net interest- and credit commission inc.	370.4	2.94	350.6	3.20
Other operating income	89.2	0.71	104.6	0.95
Total income	459.6	3.65	455.2	4.15
Operating costs	283.4	2.25	275.5	2.51
Operating costs before losses	176.2	1.40	179.7	1.64
Losses on loans and guarantees	35.7	0.28	27.7	0.25
Gains from sale of fixed assets	83.4	0.66		
Result before tax	223.9	1.78	152.0	1.39
Tax payable on ordinary result	60.5	0.48	42.4	0.39
Result after tax	163.4	1.30	109.6	1.00
Average assets	12,595.0		10,967.0	

From Balance Sheet as at 31.12

	2000	1999	Change	
	NOK m.	NOK m.	NOK m.	%
Assets	13,255.5	11,893.6	1,361.9	11.5
Deposits from customers	9,147.4	7,527.0	1,620.4	21.5
Gross loans	11,550.5	10,186.3	1,364.2	13.4
Equity and related capital	1,086.0	909.6	176.4	19.4
Capital adequacy ratio	11.65%	11.31%		

Diverse

Number of branches and offices	39	38
Number of staff (man-year equivalent)	343	343

Profit and loss account

Amounts in NOK thousand

Parent Bank			Notes	Group	
2000	1999			2000	1999
		Interest- and similar income			
15,722	13,374	Interest- and similar income from loans to credit institutions		15,722	13,374
852,885	769,802	Interest- and similar income from loans to customers		849,690	769,700
78,982	69,682	Interest from certificates and bonds		78,982	69,632
947,589	852,858	Total interest- and similar income		944,394	852,706
		Interest- and similar costs			
9,089	15,038	Interest on debt to credit institutions		9,086	15,038
392,471	340,120	Interest on deposits from customers		389,672	339,650
173,276	142,312	Interest- and similar costs relating to securities issued		173,276	142,312
2,316	4,781	Other interest costs		2,282	4,770
577,152	502,251	Total interest- and similar costs		574,316	501,770
370,437	350,607	Net interest- and credit commission income		370,078	350,936
		Dividends and other income from securities with variable yield			
15,502	5,511	Income from shares, unit trusts and other securities with variable yield		15,502	5,511
614	104	Income from equity stakes in associated companies	6	614	104
-4,355	1,338	Income from equity stakes in Group companies	6		
11,761	6,953	Total dividends and other income from securities with variable yield		16,116	5,615
		Commissions and other income from banking services			
4,797	3,516	Guarantee commission		4,697	3,416
78,602	73,440	Other fee- and commission income	17	113,663	83,341
83,399	76,956	Total commissions and income from banking services		118,360	86,757
23,160	22,012	Commissions and other costs relating to banking services		23,160	22,012
		Net value change and gains/losses on foreign exchange and securities			
-1,630	4,730	Net value change and gains/losses on certificates and bonds		-1,630	4,730
272	21,125	Net value change and gains/losses on shares		272	21,124
5,885	4,748	Net value change and gains/losses on foreign exchange and fin. derivatives		5,885	4,748
4,527	30,603	Total net gains/losses on securities and foreign exchange		4,527	30,602
		Other operating income			
5,049	6,157	Operating income from real estate		4,590	5,798
7,609	5,953	Other operating income		7,535	5,806
12,658	12,110	Total other operating income		12,125	11,604
89,185	104,610	Net other operating income		127,968	112,566
459,622	455,217	Total net operating income		498,046	463,502

Amounts in NOK thousand

Parent Bank			Notes	Group	
2000	1999			2000	1999
		Wages, salaries and general administration costs			
108,085	111,367	Wages and salaries	12	127,245	117,969
11,117	11,071	Pensions	13	11,117	11,071
23,745	21,329	Social costs		23,670	21,329
81,214	74,897	Administration costs		97,900	77,204
224,161	218,664	Total wages, salaries and general administration costs		259,932	227,573
19,966	23,073	Depreciation of fixed- and intangible assets	8	24,580	23,575
		Reversal of write-down			-4,079
		Other operating costs			
14,608	9,404	Operating costs relating to real estate		14,692	8,925
24,679	24,382	Other operating costs		23,401	24,442
39,287	33,786	Total other operating costs		38,093	33,367
283,414	275,523	Total operating costs		322,605	280,436
176,208	179,694	OPERATING RESULT BEFORE LOSSES		175,441	183,066
		Losses on loans, guarantees etc.			
35,691	27,932	Losses on loans		35,691	30,932
39	-217	Losses on guarantees etc.		39	-217
35,730	27,715	Total losses on loans, guarantees etc.	2	35,730	30,715
		Write-downs and gains/losses on securities held on a long-term basis			
83,377	68	Net gains on securities	18	83,377	68
83,377	68	Total write-downs and net gains		83,377	68
223,855	152,047	RESULT BEFORE TAX		223,088	152,419
60,464	42,482	Tax payable on ordinary result	14	59,892	42,673
163,391	109,565	RESULT FROM ORDINARY OPERATIONS AFTER TAX		163,196	109,746
		Minority interests		-195	190
		Result for the accounting year after minority interests		163,391	109,556
163,391	109,565	Available for allocation			
		Allocation of profit for the year			
-2,500	-4,000	Donations			
	-3,070	Group contributions made			
3,741		Transferred from Fund for Evaluation Differences			
	-363	Transferred to Fund for Evaluation Differences			
-164,632	-102,132	Transferred to Savings Bank's Fund	9		
-163,391	-109,565	TOTAL ALLOCATIONS			

Balance sheet

ASSETS (Amounts in NOK thousand)

Parent Bank				Group	
31.12.00	31.12.99		Notes	31.12.00	31.12.99
154,781	200,454	Cash-in-hand and claims on central banks	10	154,781	200,454
		Loans to and claims on credit institutions			
41,485	33,285	Loans to/claims on cr. insts. - no agreed maturity or notice of withdr.		41,485	33,285
192,200	15,000	Loans to/claims on cr. insts. - agreed maturity or notice of withdrawal		192,200	15,000
233,685	48,285	Total loans to and claims on credit institutions	4,10	233,685	48,285
		Loans to and claims on customers			
661,625	588,702	Overdraft-, working capital- and similar facilities		661,625	588,702
301,482	184,676	Building loans		301,482	184,676
10,587,398	9,412,971	Repayment loans		10,543,067	9,399,472
11,550,505	10,186,349	Total loans before specific- and non-specific loss provisions		11,506,174	10,172,850
71,519	69,283	Specific loss provisions		70,908	67,172
107,000	87,000	Non-specific loss provisions		107,000	87,000
11,371,986	10,030,066	Total net loans to and claims on customers	2,4,7,10,12	11,328,266	10,018,678
1,541	1,541	Repossessed assets	2	1,541	1,541
		Certificates and bonds			
225,322	433,204	Certificates and bonds issued by public sector borrowers		225,322	433,204
765,333	769,413	Certificates and bonds issued by other borrowers		765,333	769,413
990,655	1,202,617	Total certificates and bonds	3,4,10	990,655	1,202,617
194,562	171,763	Shares and equity stakes in general partnerships	5	194,789	171,764
7,977	2,738	Equity stakes in associated companies	6	7,977	2,738
30,765	8,570	Equity stakes in Group companies	6		
		Intangible assets			
1,704	12	Deferred tax benefitv	14	3,587	236
3,617	2,647	Other intangible assets	8	33,703	4,009
5,321	2,659	Total intangible assets		37,290	4,245
		Fixed assets			
32,252	36,516	Machinery, fixtures and fittings, and transport equipment		35,449	37,039
95,910	104,692	Buildings and other real estate		118,501	117,760
128,162	141,208	Total fixed assets	8	153,950	154,799
5,188	4,438	Other assets		20,937	4,861
		Prepaid costs, not yet incurred; accrued income, not yet received			
104,022	61,823	Accrued income, not yet received		104,022	66,418
2,862	1,968	Prepaid costs, not yet incurred		2,862	1,968
23,953	15,484	Over-funding of pension liabilities	13	23,953	15,484
130,837	79,275	Total prepayments and accrued income		130,837	83,870
13,255,460	11,893,614	TOTAL ASSETS		13,254,708	11,893,852

ARENDAL, 31.12 2000

Tom F. Evensen
Chairman

Jostein Dalane
Deputy Chairman

Atle Færevaaag

Laila Øygarden

Gunnar Nesland

Adopted at Board of Trustees' meeting on 14 March 2001


LIABILITIES AND EQUITY CAPITAL (Amounts in NOK thousand)

Parent Bank				Group	
31.12.00	31.12.99		Notes	31.12.00	31.12.99
		LIABILITIES:			
		Liabilities to credit institutions			
1,083	16,597	Loans and deposits from cr. insts. - no agreed mat. or notice of withdr.		1,083	16,597
285,074	521,532	Loans and deposits from cr. insts. - with agreed mat. or notice of wdr.		285,074	521,532
286,157	538,129	Total liabilities to credit institutions	10,11	286,157	538,129
		Deposits from and liabilities to customers			
7,360,357	6,352,256	Deposits from and liabilities to customers without agreed maturity		7,345,434	6,347,723
1,787,088	1,174,715	Deposits from and liabilities to customers with agreed maturity		1,787,088	1,174,715
9,147,445	7,526,971	Total deposits from and liabilities to customers	7,10,11	9,132,522	7,522,438
		Borrowings through the issuance of securities			
1,285,000	1,200,000	Certificates and other short-term borrowings		1,285,000	1,200,000
1,125,000	1,400,000	Bond debt		1,125,000	1,400,000
	-4,979	Own, non-amortised bonds			-4,979
2,410,000	2,595,021	Total borrowings raised through the issuance of securities	10,11	2,410,000	2,595,021
158,740	153,454	Other liabilities	15	169,180	156,324
65,466	56,744	Incurred costs and prepaid income, not yet accrued		65,466	56,743
		Provisions against liabilities and costs			
35,951	33,349	Pension liabilities etc.	13	35,951	33,349
1,400	1,400	Specific provisions against guarantee liabilities		1,400	1,400
37,351	34,749	Total provisions against liabilities and costs		37,351	34,749
12,105,159	10,905,068	TOTAL LIABILITIES		12,100,676	10,903,404
		Minority interests		2,054	583
		EQUITY CAPITAL:			
		Retained earnings			
846	3,723	Fund for Evaluation Differences		2,098	860
1,149,455	984,823	Savings Bank's Fund		1,149,455	984,823
1,150,301	988,546	Total retained earnings		1,151,553	985,683
		Other reserves/equity capital - subsidiaries		425	4,182
1,150,301	988,546	TOTAL EQUITY CAPITAL	9	1,151,978	989,865
13,255,460	11,893,614	TOTAL LIABILITIES AND EQUITY CAPITAL		13,254,708	11,893,852
		OFF-BALANCE SHEET ACCOUNTING ITEMS			
		Contingent liabilities			
452,274	230,636	Guarantees	2	452,274	230,636
807,936	951,923	Book value of assets pledged as security for mortgage debt etc.	11	807,936	951,923
4,381	5,400	Other contingent liabilities		4,381	5,400
		Liabilities	16		

5.02.2001 – Sparebanken Sor



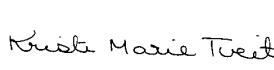
Tore Gysland



Paul Georg Songe-Møller



Arnt Haddeland



Kristi Marie Tveit


Hans A. Iversen
Man. Director

Cash flow statement

Amounts in NOK thousand

Parent Bank			Group	
2000	1999		2000	1999
905,390	857,548	Interest receivable	906,790	852,801
-567,511	-493,368	Interest payable	-564,675	-493,538
179,715	79,453	Other payments received	214,143	88,749
-271,115	-242,559	Payments made relating to operations	-305,690	-251,373
2,030	3,077	Recoveries from previous confirmed losses	2,030	3,077
-39	217	Losses on guarantees	-39	217
-38,656	-28,735	Tax paid	-39,321	-28,864
-3,070		Group contributions made	-70	
-4,085		Donations made	-4,085	
		Minority interests	195	-190
202,659	175,633	Net cash flow from operations	209,278	170,879
-1,379,641	-1,191,045	Incr. loans, adj. for conf. losses and repossessed assets	-1,348,809	-1,191,119
-750	1,374	Change in other assets	-16,076	2,653
211,934	-277,560	Change in certificates and bonds	211,934	-277,560
-185,400	203,419	Change in loans to other credit institutions	-185,400	203,419
-1,353,857	-1,263,812	Net cash flow from current financial operations	-1,338,351	-1,262,607
-11,576	-15,684	Invested in fixed assets	-56,432	-19,123
4,382	916	Sale of fixed assets	4,382	2,163
-57,201	-62,089	Change in shares and eq. stakes in subs.and ass. cos.	-31,116	-62,137
-64,395	-76,857	Net cash flow from investments	-83,166	-79,097
1,620,474	425,683	Increase in deposits from customers	1,610,084	426,143
-185,021	535,021	Change in borrowings through issuance of securities	-185,021	535,021
-251,972	264,663	Change in funding loans from credit institutions	-251,972	264,663
-13,561	53,716	Change in other liabilities	-6,525	59,045
1,169,920	1,279,083	Net cash flow from long-term funding activities	1,166,566	1,284,872
-45,673	114,047	Net change in liquid assets	-45,673	114,047
200,454	86,407	Liquid assets as at 1.1	200,454	86,407
154,781	200,454	Liquid assets as at 31.12	154,781	200,454

1. General accounting principles

The Bank's annual financial statement has been prepared in accordance with good accounting practice and currently valid laws, rules and regulations for savings banks.

Subsidiaries adhere to the same accounting principles as the Parent Bank.

All amounts are in NOK thousand unless specifically stated otherwise.

Consolidation

The Group accounts comprise the Bank and subsidiaries in which the Bank has an equity stake, either in its own right or together with other subsidiaries, in excess of 50 per cent, and/or has a deciding influence, and where such ownership interests are deemed to be permanent.

Internal transactions and intra-company items are netted out against each other in the Group accounts.

In the Bank's accounts, equity stakes in subsidiaries are included on the basis of the equity method of calculation.

A summary of the Bank's subsidiaries is included in Note 6.

Associated companies

Associated companies are defined as companies of which the bank owns between 20 and 50 per cent, and where such equity stakes involve influence and represent a long-term investment.

In the accounts, equity stakes are included on the basis of the equity method of calculation.

Pension costs

The accounting treatment of pension costs is based on the Norwegian Accounting Standard for Pension Costs.

Assessment of loans/outstanding commitments

Evaluation of outstanding commitments is based on BISC's rules and regulations and on the Bank's own guidelines in this respect. Corporate banking commitments are split into three risk categories according to the customer's financial strength and revenue generation. The two highest risk categories are reviewed 3-4 times a year. In addition, all larger retail banking commitments are examined in order to ascertain whether any loss provisioning ought to be raised.

A commitment is deemed to be in default whenever overdue payments/unauthorised overdrafts have been outstanding for more than 90 days. All outstanding commitments which have been in default for more than 90 days are looked at and assessed on a case-to-case basis.

Loans are shown in the accounts at nominal value, any loss provisioning having first been deducted. Loss provisioning is raised whenever the borrower is expected not to be able to meet his/her/its obligations, and if, in the event of a forced sale of the assets pledged as collateral security, the net proceeds thereof are unlikely to be sufficient to repay the outstanding loan. The value of the collateral security is calculated on the basis of the estimated price at which it may be sold, less sales costs. Interest receivable – on loans against which loss provisions have been made, or on

loans which are regarded as particularly doubtful – is not included as income in the profit and loss account.

A loss is classified as confirmed once it becomes evident that the measures which have been implemented in order to recover the outstanding amount in question have not been successful.

Reposessed property

Reposessed property represents assets which have been acquired in cases where the Bank wishes to protect and secure the outstanding commitment due. The accounting treatment in this respect is based on estimated realisation value at the time of repossession. Any subsequent write-down is shown under 'Losses on loans/guarantees' in the profit and loss account. Gains/losses from a later sale of the assets in question are similarly incorporated in the accounts. The extent of the Bank's reposessed asset involvement is very modest.

Evaluation of bonds and certificates

Market value of liquid government securities is based on bid prices on the Oslo Stock Exchange as at 31.12.2000. Assessed market value of other bonds and certificates is based on effective yield on government securities with corresponding maturities, to which is added a margin for the risk factor involved. This is deemed to be the actual value. These holdings, in their entirety, are incorporated in the Bank's trading portfolio.

Evaluation of shares

The overall market value of shares forming part of the Bank's trading portfolio is assessed at bid prices on the Oslo Stock Exchange as at 31.12.2000; this is deemed to be the actual value.

Other shares, except investment in associated companies or subsidiaries, are classified as fixed assets, valued at acquisition cost and not adjusted for any subsequent and ongoing price changes. However, the value of these shares would be written down if their market value were to fall significantly below book value, and if this were due to circumstances deemed not to be of a temporary nature.

Fixed assets

Real estate and other fixed- as well as intangible assets are shown in the balance sheet at acquisition cost, plus any write-ups, minus accumulated ordinary depreciation. Ordinary depreciation is based on cost price, to which are added any write-ups; depreciation is spread on a straight-line basis over the economic life of the assets in question.

The Bank applies the following rates of depreciation:

Machinery/IT equipment	20-33%
Fixtures and fittings	10-20%
Transport equipment	15-20%
Bank buildings/other real estate	2- 4%
Intangible assets	33%

Foreign exchange

At the end of the accounting year, assets and liabilities in foreign currencies are converted into Norwegian kroner at middle exchange rates between bid- and offer prices as at 31.12.2000. Income and costs are converted into NOK at the exchange rates ruling at the time of completing the transactions involved.

Liabilities

Customer deposits are valued at nominal amounts. Liabilities in foreign currencies are valued at middle exchange rates between bid- and offer prices as at 31.12.2000. Bond debt is valued at nominal amounts. No write-down or write-up is applied in relation to market value.

Tax

Tax is treated in the accounts in accordance with Provisional Norwegian Accounting Standard for Tax on Corporate Profit.

Financial instruments

Financial instruments comprise negotiable and tradeable financial assets and liabilities, as well as financial derivatives. Financial instruments in the balance sheet include certificates, bonds and shares. Financial derivatives are agreements entered into either with customers or financial institutions, fixing interest rate terms or foreign exchange rates at specific times in the future. Such agreements include forward exchange contracts, swaps, FRAs, securities transfers etc.

There are two main types of agreements: Those which are entered into as part of the Bank's trading on its own account, the purpose being to make a profit from any price differences and price changes, and those which form part of the Bank's ordinary banking business. Agreements within the first category represent the Bank's trading portfolio, whereas all other agreements relate to day-to-day banking activities (banking portfolio).

The banking portfolio's (hedging transactions) purpose is to neutralise any existing or anticipated interest rate- or foreign currency risks. A high degree of negative covariance is accordingly required as far as any value changes between the hedging agreements and the hedged items are concerned. Interest rate- and currency agreements used in order to hedge the Bank's balance sheet items or other financial instruments are evaluated in connection with the hedged items. Income and costs relating to these agreements are shown in the accounts in accordance with the hedged items.

Interest rate- and currency agreements which form part of the trading portfolio are marked to market as at 31.12.2000. Any changes in market value are shown on a net basis as net gains/losses in the profit and loss account.

Accrual accounting – income/costs

Interest and commissions are included in the profit and loss account as they accrue as income or are incurred as costs. Any substantial premium or discount, in relation to par price, occurring in connection with bond issues, is apportioned over the life of the bond and included in the profit and loss account as an adjustment to current interest costs. Prepaid income, and costs incurred, not yet paid, are subject to accrual accounting and shown under liabilities in the balance sheet.

Accrued income, not yet received, and prepaid costs are shown under assets in the balance sheet.

Dividends from shares and PCCs are booked as income during the year in which they are received.

Fees which represent direct payment for services rendered are taken into the profit and loss account as income when paid.

2. Loans, guarantees, repossessed assets, credit losses and commitments in default

Definitions

Commitments in default

A customer's total outstanding commitment to the Bank is deemed to be in default if, in the case of just one loan forming part of his/her/its borrowings etc., a payment or part payment has not been made within 90 days of the maturity date in question, or if any unauthorised overdraft in respect of a credit facility or an account has not been covered within 90 days.

Other doubtful commitments are commitments which are not yet in default, but where the customer's financial situation would suggest that a loss which has already been incurred is very likely to materialise at a later date.

Confirmed losses

Losses are deemed to be confirmed in the case of an officially declared composition with creditors, or bankruptcy, or when a legal levy made against the borrower's assets has not been successful, and in the case of a legally valid judgment having been obtained, or otherwise if the Bank has forgiven all or part of the indebtedness in question.

Specific loss provisioning

Specific loss provisions should cover expected losses on loans which have been identified as being in default or doubtful on the accounting day in question.

Non-specific loss provisioning

Non-specific loss provisions are earmarked to cover losses which are likely to occur on commitments which have not been identified and assessed according to the rules and regulations relating to specific loss provisioning.

Non-performing loans – non-accrual of interest

The inclusion of income in the accounts in respect of interest, commissions and fees relating to commitments in default or deemed to be doubtful is discontinued if such commitments are expected to end up as a loss for the Bank. At the same time, any income previously booked, relating to interest, commissions and fees not paid, is reversed in the accounts for the year under review.

Cancellation of doubtful loan status

This occurs when, in the case of a loan against which loss provisioning has previously been raised, that loan has subsequently been put in order, the applicable repayment plan having been reverted to and the commitment in question no longer being regarded as doubtful, and when it is also thought that the customer will continue to adhere to the agreed payment plan going forward. In addition, when earlier loss provisions are reversed in their entirety, the interest which was previously not booked as income is now included as interest income in the profit and loss account.

Guarantees break down as follows:

	2000	1999
Loan guarantees	977	1,780
Payment guarantees	72,934	87,629
Contract guarantees	275,530	106,140
Tax guarantees	691	666
Miscellaneous	102,142	34,421
Total	452,274	230,636

No part of the above total guarantee liability has been counter-guaranteed by other financial institutions.

Loans, guarantees, commitments in default etc., broken down by main business sectors

	Public sector admin.		Primary industry		Industry/ building/ transport		Trade/ hotels/ restaurants	
	2000	1999	2000	1999	2000	1999	2000	1999
Gross lending	407,857	459,907	319,070	309,407	1,147,879	1,100,140	933,340	887,221
Guarantees	150	73	901	626	129,878	148,882	192,838	49,665
Unutilised drawing rights	250	603	54,099	49,322	258,860	331,144	158,389	166,861
Commitments in default	0	0	9,915	6,643	35,743	32,235	20,342	13,095
Other bad and doubtful commts.	0	0	782	802	19,947	12,317	5,211	3,483
Specific loan loss provisions	0	0	752	752	12,531	17,031	6,240	5,675
Specific guarantee loss provisions	0	0	0	0	1,400	1,400	0	0

Loans, guarantees, commitments in default etc., broken down by main business sectors (continued)

	Financing							
	Property management		Ret. bkg. customers		Sundry		Total	
	2000	1999	2000	1999	2000	1999	2000	1999
Gross lending	1,799,184	1,352,485	6,624,746	5,832,157	318,429	245,032	11,550,505	10,186,349
Guarantees	113,745	17,903	8,605	9,634	6,157	3,853	452,274	230,636
Unutilised drawing rights	93,284	54,281	168,208	116,574	14,618	16,616	747,708	735,401
Commitments in default	123,148	41,799	117,438	98,648	17,210	10,911	323,796	203,331
Other bad and doubtful comms.	11,186	6,070	16,934	22,360	275	5,706	54,335	50,738
Specific loan loss provisions	20,799	12,709	29,524	29,577	1,673	3,539	71,519	69,283
Specific guarantee loss provisions	0	0	0	0	0	0	1,400	1,400

Loans and guarantees broken down by geographical areas

	2000		1999	
	Loans	Guarantees	Loans	Guarantees
Telemark	1,289,223	18,910	1,165,941	17,339
Aust-Agder	5,781,419	335,791	5,108,575	102,044
Vest-Agder	3,676,561	86,090	3,268,862	108,824
Øvrig	803,302	11,483	642,971	2,429
Total	11,550,505	452,274	10,186,349	230,636

Losses, commitments in default etc.

	2000	1999	1998	1997
Commitments in default	323,796	203,331	237,002	205,308
Loss provisions	58,887	54,454	58,845	50,489
Net commitments in default	264,909	148,877	178,157	154,819

	2000	1999	1998	1997
Bad and doubtful commitments	54,335	50,738	45,232	59,318
Loss provisions	14,032	16,229	16,914	23,010
Bad and doubtful commitments – on a net basis	40,303	34,509	28,318	36,308

Specific loss provisions

	Loans	Guarantees	Total
Specific loss provisions as at 1.1	69,283	1,400	70,683
Period's confirmed losses, for which specific loss provisioning has previously been made	12,635	0	12,635
+ Increased specific loss provisions during the period	2,328	0	2,328
+ New specific loss provisions during the period	23,165	0	23,165
- Reversal of specific loss provisions during the period	10,622	0	10,622
= Specific loss provisions as at 31.12	71,519	1,400	72,919

Uspesifisert tapsavsetning

Non-specific loss provisions as at 1.1	87,000	0	87,000
+ Period's non-specific loss provisions	20,000	0	20,000
= Non-specific loss provisions as at	107,000	0	107,000

Loss costs

Change in specific loss provisions during the period	2,236	0	2,236
+ Change in non-specific loss provisions during the period	20,000	0	20,000
+ Period's confirmed losses, against which specific loss provisions had previously been raised	12,635	0	12,635
+ Period's confirmed losses, against which no specific loss provisions had previously been raised	2,850	39	2,889
- Period's recoveries from previously confirmed losses	2,030	0	2,030
= Period's loss cost	35,691	39	35,730

Change in loan interest not booked as income

	2000	1999
Accrued interest – not yet booked as income – on loans as at 1.1	12,844	10,537
- Income – from earlier periods' loan interest – booked during the period	1,900	4,069
- Accrued interest, not yet booked as income, on loans removed from balance sheet	2,534	339
+ Period's accrued interest, not yet booked as income, on loans identified as bad/doubtful	10,419	6,715
= Accrued interest, not yet booked as income, on loans as at 31.12	18,829	12,844

Risk classification

In the case of risk classification, outstanding commitments are split into retail- and corporate banking commitments. Risk classification is an integrated part of the credit assessment process. Risk classification is based on assessment of the customer's financial position security or other circumstances which are important in risk context. Commitments are split into three different risk classes.

Corporate banking customers

Corporate commitments in excess of NOK 500,000 are subject to risk classification at least once a year. By the end of 2000, most corporate commitments had been classified according to risk. Corporate commitments not yet classified by risk have been apportioned within the different risk classes on a relative basis.

The classification showed the following breakdown at the end of last year:

	Low risk	Medium risk	High risk
Gross loans	2,274,183	2,363,195	288,381
Guarantees	183,366	231,993	28,310
Unutilised drawing rights	239,536	302,990	36,974
Specific loan loss provisions	430	6,367	35,198

Retail banking customers

Retail banking customers are now classified by risk when new loans are granted. Outstanding retail banking commitments established before the Bank had started using the new risk classification system are classified on the basis of security. In the table below, retail banking customers' outstanding commitments to the Bank have been classified according to the security pledged, in the following way:

Each customer's total outstanding commitment is secured within a certain percentage of a reasonable value basis:

	All within 60%	All within 80%	Parts over 80%
Gross loans	1,645,222	2,703,375	2,276,149
Guarantees	2,515	2,515	3,575
Unutilised drawing rights	41,774	68,641	57,793
Specific loan loss provisions	165	943	28,416

Of the total loans listed above, about NOK 5.4 billion is secured within 60 per cent of a reasonable value basis.

Some general aspects

Risk classification is a very important factor when pricing loans.

There were no significant shifts/changes between different risk classes last year.

The risk classification system is relatively new. In view of this, the Bank does not have a good enough basis on which to predict expected annual losses within each risk class. However, in its strategic plan, the Bank has stated that losses are not to exceed 0.5 per cent of gross lending. Annual losses have been significantly below this requirement; this is also expected to be the case in the future even though a downturn in the economy may bring about larger credit losses than the current level. Future losses are naturally likely to occur primarily within the groups of highest risk/least satisfactory security.

3. Certificates and bonds in the trading portfolio

Certificates/bonds issued by public sector borrowers

	Av. eff. yield	Acquisition cost	Marketvalue
Quoted		130,060	129,004
Unquoted		96,213	96,318
Total	7.82%	226,273	225,322

Certificates and bonds issued by others

	Av. eff. yield	Acquisition cost	Market value
Quoted		195,180	194,758
Unquoted		571,408	570,575
Total	7.88%	766,588	765,333

No certificates or bonds are in foreign currencies. Effective yield is calculated on the basis of effective yield on government securities with corresponding maturities, adding a margin for risk.

4. Subordinated loan capital in other companies

	2000	1999
Subordinated loan capital in other credit institutions	5,000	5,000
Subordinated loan capital shown under Bonds in the balance sheet	39,324	44,506
Subordinated loan capital shown under Loans in the balance sheet	20,856	5,000

5. Shares and other securities with variable yield

TRADING PORTFOLIO

Quoted companies

Name	No. of shares	Equity - %	Book value	Acquisition cost	Market value
Financial institutions					
Bolig og Næringsbanken	12,200	0.13	2,355	2,252	2,355
DnB Holding	100,000	0.01	4,750	2,797	4,750
Gjensidige Nor Sparebank	95,000	0.20	24,320	14,389	24,320
Sparebanken Midt-Norge	25,400	0.42	4,699	3,048	4,699
Sparebanken Møre	21,000	0.38	4,011	3,699	4,011
Sparebanken Pluss	31,600	2.53	4,614	4,108	4,614
Sparebanken Rogaland	25,000	0.33	6,100	3,000	6,100
Storebrand	350,000	0.13	22,050	3,877	22,050

	No. of shares	Equity - %	Book value	Acquisition cost	Market value
Other quoted companies					
Aker Maritime	6,000	0.01	414	978	414
Atlantic Containerline	20,000	0.15	1,900	2,583	1,900
Bergesen d.y A-aksjer	15,000	0.03	2,070	2,226	2,070
Ekornes	25,000	0.07	1,650	1,558	1,650
Elkem	25,000	0.05	3,500	3,109	3,500
Farstad Shipping	40,000	0.09	1,400	1,480	1,400
Fred Olsen Energy	35,000	0.06	2,205	2,694	2,205
Goodtech	17,400	0.23	85	1,505	85
Infocus Corporation	15,000	0.04	2,025	2,573	2,025
Jøtul	14,000	0.48	463	1,479	463
Merkantildata	40,000	0.02	1,372	4,385	1,372
Narvesen	3,000	0.03	825	521	825
Nera	10,000	0.01	385	414	385
Norsk Hydro	15,833	0.01	5,890	4,879	5,890
Norske Skogindustrier A-aksjer	10,000	0.03	3,705	3,449	3,705
Orkla	55,000	0.03	9,570	7,787	9,570
Petroleum Geo-Services	20,000	0.02	2,320	3,493	2,320
Prosafe	10,000	0.04	1,350	1,483	1,350
Rieber & Søn B-aksjer	40,000	0.10	1,800	1,810	1,800
Royal Caribbean Cruises	10,000	0.01	2,320	2,730	2,320
Stolt Offshore	10,000	0.04	930	970	930
Telenor	190,500	0.01	7,315	8,001	7,315
Visma	10,000	0.06	480	522	480
Unit trusts					
Avanse Europa	99,339		11,347	10,000	11,347
Fidelity Telecom	44,194		3,113	5,000	3,113
Total trading portfolio			141,333	112,799	141,333

OTHER SHARES/EQUITY PARTICIPATIONS (classified as fixed assets)

Unquoted

BBS/Bank Axept Holding	104,974	1.59	2,292	2,292	
Eksportfinans	2,011	1.56	36,198	36,198	
NorgesInvestor Value	100,000		10,000	10,000	
P-Hus Vest	60	15.79	3,000	3,000	
Andre selskaper			1,739	2,388	
Total			53,229	53,878	
Total shares and equity stakes in general partnerships			194,562	166,677	

Shares classified as fixed assets were subject to the following movements last year:

Opening balance		52,900	54,029
Bought		10,775	10,775
Sold		10,446	10,926
Write-down		0	0
Closing balance		53,229	53,878

6. Investment in Group companies and associated companies

Firm and registered office	Equity stake	Acq. cost	Equity capital at time of acq.	Op.bal.	Result	Other changes	Clo. Bal.
Subsidiaries:							
A/S Eiendomsvekst, Arendal	100%	1,500	1,500	1,079	-158	1,500	2,421
Fyresdal Rekneskapskontor A/S, Fyresdal	71%	100	100	616	37	-12	641
Kviteseid Sparebankbygg ANS, Kviteseid	78%	4,409		3,220	255	-178	3,297
Prosjektutvikling A/S, Arendal	100%	79	79	96	3		99
Sparebankbygg A/S, Kviteseid	100%	50	50	47	0		47
Sparebanken Sør Eiendom AS, Arendal	100%	500	500	3,513	-279	239	3,473
ABCcenter Holding AS	85%	25,000	6,373		-4,213	25,000	20,787
Total investment in Group companies		31,638		8,571	-4,355	26,549	30,765
Associated companies:							
Bankbygg A/S , Bygland	50%	50	50	0	0		0
Eikentunet A/S, Eiken	49%	328	328	486	64		550
Longum Teknologi- og Kompetansesenter II A/S, Arendal	48%	5,500	1,500	1,616	543	4,272	6,431
Mjåvann Industriområde AS, Kristiansand	33%	17	17	0	0		0
Søndeled Bygg A/S, Risør	29%	870	870	636	7	353	996
Total eq. stakes in associated companies		6,765	2,765	2,738	614	4,625	7,977

Equity stakes in the respective companies correspond to shares of voting capital.

7. Inter-company items – Group- and associated companies

	2000	1999
Group companies		
Loans	37,242	20,821
Deposits	73,373	12,373
Guarantees	10,000	10,000
Associated companies		
Loans	23,241	12,780
Deposits	2,403	150

8. Fixed- and intangible assets

	Machinery/Fixtures/ Transport equipment	Buildings	Intangible assets
Acquisition cost as at 1.1.00	128,555	163,338	9,823
Write-ups in previous years		29,500	
Additions in 2000	7,575	986	3,015
Disposals in 2000	4,725	5,279	1,154
Acquisition cost as at 31.12.00	131,405	188,545	11,684
Accumulated depreciation and write-downs	99,153	92,635	8,067
Book value as at 31.12.00	32,252	95,910	3,617
Ordinary depreciation	11,828	6,093	2,045
Losses on sales	11		
Gains on sales	198	507	

	Machinery/Fixtures/ Transport equipment	Buildings	Intangible assets
Fixed assets in Group accounts:			
Acquisition cost as at 1.1.00	130,156	184,562	11,424
Write-ups in previous years		29,500	
Additions in 2000	10,533	10,442	35,457
Disposals in 2000	4,725	5,279	1,154
Acquisition cost as at 31.12. 00	135,964	219,225	45,727
Accumulated depreciation and write-downs	100,515	100,724	12,024
Book value as at 31.12.00	35,449	118,501	33,703
Ordinary depreciation	12,289	6,446	5,845
Losses on sales	11		
Gains on sales	198	507	

Depreciation periods for the various categories of fixed assets have been determined in accordance with their anticipated economic life. Fixed assets are depreciated on a straight-line basis.

Most of the Bank's buildings are located within its own district and are used for the Bank's own business activities.

9. Equity capital and capital adequacy

Change in equity capital	Savings Bank's Fund	Fund for Evaluation Differences
Balance as at 31.12.99	984,823	3,723
Allocation of profit for the year	164,632	-3,741
Equity capital share in Group- and associated companies		864
Balance as at 31.12.00	1,149,455	846

Capital adequacy

The statutory minimum capital adequacy requirement is 8 per cent of a specific weighted asset base,

The bank's equity and related capital consists of core capital only.

	31,12,00	31,12,99
Core capital		
Savings Bank's Fund	1,149,455	984,823
-Over-funding of pension liabilities after deduction of deferred tax	-17,246	-11,148
-Intangible assets	-5,321	-2,659
Core capital	1,126,888	971,016
-Equity capital participations in other financial institutions	-40,861	-61,422
Net equity and related capital	1,086,027	909,594
Calculation basis for assets which do not form part of the trading portfolio	8,773,597	7,715,091
Calculation basis for off-balance sheet items which do not form part of the trading portfolio	210,097	120,895
Calculation basis for items which form part of the trading portfolio	562,655	430,583
-Equity stakes in other financial institutions	-40,861	-61,422
-Neutralisation effect of equity method of calculation	-846	-3,723
-Loss provisions	-179,914	-157,684
Total asset calculation base	9,324,728	8,043,740
Capital adequacy ratio	11.65%	11.31%

10. Remaining life for main Balance Sheet items – time periods until next interest rate refixing

Remaining life for main Balance Sheet items

Assets	Up to 1 month	1-3 mths	3 m.-1 year	1-5 years	Over 5 ys	No maturity	Total
Cash and claims on central banks	154,781						154,781
Loans to and claims on credit institutions	218,685			10,000	5,000		233,685
Loans to and claims on customers	898,294	142,858	954,070	2,918,452	6,458,312		11,371,986
Bonds and certificates	270,146	463,014		213,115	44,380		990,655
Other asset items	104,022					400,331	504,353
Total assets	1,645,928	605,872	954,070	3,141,567	6,507,692	400,331	13,255,460
of which in foreign currency	207,779		18,726	142,029	21,414		389,948
Liabilities and eq. cap	Up to 1 month	1-3 mths	3 m.-1 year	1-5 years	Over 5 ys	No maturity	Total
Liabs.to credit institutions	136,715	149,442					286,157
Depts. from/liabs to custs.	9,147,445						9,147,445
Borrowings through the issuance of securities	700,000	385,000	700,000		625,000		2,410,000
Other liabilities	148,919	13,000	62,200		37,438		261,557
Equity capital						1,150,301	1,150,301
Total liabs. and eq. capital	10,133,079	547,442	762,200		662,438	1,150,301	13,255,460
of which in foreign currency	53,525	149,442					202,967
Net liquidity exposure on balance sheet	-8,487,151	58,430	191,870	3,141,567	5,845,254	-749,970	0

Credit facilities are shown under 'Up to 1 month'. At the end of the year, facilities granted, not yet utilised, amounted to NOK 748 million.

Time periods until next agreed/probable interest rate refixing

Assets	Up to 1 month	1-3 mths	3 –12 mths	1-5 ys	Over 5 ys	No int. rate exp.	Total
Cash and claims on central banks	96,526					58,255	154,781
Loans to and claims on credit institutions	218,685	5,000		10,000			233,685
Loans to/claims on customers	777,491	10,101,470	4,916	469,195	18,914		11,371,986
Bonds and certificates	39,898	474,059	354,233	112,465	10,000		990,655
Non-interest-bearing assets						504,353	504,353
Total assets	1,132,600	10,580,529	359,149	591,660	28,914	562,608	13,255,460
of which in foreign currency	237,325	147,866	2,341			2,416	389,948
Liabs and equity capital	Up to 1 month	1-3 mths	3 –12 mths	1-5 ys	Over 5 ys	No int. rate exp.	Total
Liabs to credit institutions	136,715	149,442					286,157
Deposits from and liabilities to customers	8,397,076	176,582	567,696	6,091			9,147,445
Borrowings through the issue of securities	200,000	1,010,000	700,000	500,000			2,410,000
Non-interest-bearing debt						261,557	261,557
Equity capital						1,150,301	1,150,301
Total liabs and equity capital	8,733,791	1,336,024	1,267,696	506,091		1,411,858	13,255,460
of which in foreign currency	52,903	149,442				622	202,967

Net interest rate exposure on balance sheet	-7,601,191	9,244,505	-908,547	85,569	28,914	-849,250	0
Net off-balance sheet financial derivatives affecting interest rate exposure	-80,000	-1,091,980	110,000	90,000	-28,020	0	-1,000,000
Net interest rate exposure incl. off-balance sheet financial derivatives	-7,681,191	8,152,525	-798,547	175,569	894	-849,250	-1,000,000
Net interest rate exposure as a percentage of assets	-58.0%	61.5%	-6.0%	1.3%	0.0%	-6.4%	

At the end of the year, a 1 per cent shift in interest rates translated into a NOK 4.5 million interest rate risk on the balance sheet.

11. Average interest rates and special terms relating to liabilities items

Liabilities to credit institutions	Average interest rate
Loans and deposits from credit institutions with no agreed maturity	6.7%
Loans and deposits from credit institutions with agreed maturity	3.9%
Deposits from customers	
Deposits from customers with no agreed maturity	5.3%
Deposits from customers with agreed maturity	6.9%
Borrowings through the issuance of securities	
Certificates	6.8%
Bonds	6.7%

Average interest rate is calculated as a weighted average of actual interest rates as at 31.12.2000, defined as annual interest payable in arrears. Liabilities items are not subject to special terms and conditions.

Bonds and certificates of a NOK 808 million nominal amount have been pledged as collateralised security for day loans and so-called D-loans from Norges Bank. Such borrowings are to be fully secured by depositing securities at VPS.

12. Information regarding staff and elected representatives

Staff numbers

In 2000, on average, the Bank employed 399 people. This was equivalent to an average of 343 man-years.

Wages, salaries, fees and emoluments

Fees paid to elected representatives	868
- the sections below accounting for the following amounts:	
Board of Trustees	66
Board of Directors	541
Control Committee	261
Salary and other remuneration paid to Managing Director	1,093
Fees paid to external auditors	637
of which auditing services accounted for	430
of which advisory services accounted for	207

There are no special agreements for compensation payment on termination of employment, bonuses etc. for members of the Bank's top management team or the Board of Directors.

Loans and guarantees for staff and elected representatives

		Loans	Guarantees
Staff		170,093	0
The cost of interest rate subsidies for staff totalled NOK 3.8 million.			
Elected representatives		14,798	300
of which the following sectors accounted for:	Board of Trustees	10,274	300
	Board of Directors		2,664
	Control Committee		1,860

All loans have been granted either on general staff- or standard customer terms.

13. Pension liabilities relating to staff and elected representatives

Sparebanken Sør runs a group pension scheme for its employees, through a life assurance company. The Bank's liabilities in this respect comprise 449 staff and 67 retirees. These liabilities are shown in the Bank's accounts on the basis of the Norwegian Accounting Standard for Pension Costs, in accordance with which the Bank's pension scheme is to be treated as a contributory scheme.

The total amount of pension resources is assessed on the basis of its estimated value at the end of the applicable accounting period. The estimated value is adjusted each year in accordance with a statement provided by the life assurance company, setting out the transferable value of the pension resources.

Accrued pension liabilities are assessed on the basis of their estimated value at the end of the relevant accounting period. The amount is adjusted annually, according to a statement received from the life assurance company, detailing the accrued pension liabilities.

An actuarial valuation is done each year, based on information supplied by the Bank.

The valuation is based on the following assumptions:

Rate of discounting	6.0%
Wage- and salary adjustment	3.0%
Pension adjustment	2.0%
Voluntary retirement and natural wastage	2.5%
Expected rate of return	7.0%

Secured scheme

Pension costs for the period break down as follows:

Pensionable amounts accrued during the year	5,518
Interest costs relating to pension liabilities	7,034
Expected rate of return on pension resources	-8,322
Impact of changed estimates included in profit and loss account	314
Net pension costs	4,544

Included in balance sheet as at	31.12.00	31.12.99
Gross pension liabilities	-128,532	-119,078
Pension resources	132,460	113,852
Impact of changed estimates not included in profit and loss account	20,025	20,710
Net pension resources (over-funding) included in balance sheet	23,953	15,484

In 2000, the Bank contributed NOK 13.0 million towards pension resources; NOK 1.8 million employer's social security contributions were paid on this amount.

Net pension resources shown in balance sheet as at 31.12.99	15,484
Pension premium paid	13,013
Pension costs for the period	-4,544
Net pension resources as at 31.12.00	23,953

Unsecured scheme

For employees retiring before normal pensionable age, or for those who have not accumulated a full pension entitlement at the time of leaving the Bank, Sparebanken Sør provides an annual amount. This pension scheme is funded by a direct charge to the profit and loss account, comprising 11 former employees who have taken early retirement and who are now drawing such pensions, 26 old age pensioners who left the Bank at normal retirement time and are now receiving pensions, and 8 former members of staff benefitting from the statutory early retirement pension scheme (referred to elsewhere in the Bank's annual report as 'SERPS'). In addition, the Managing Director has entered into a separate agreement with the Bank, according to which he has the option of retiring at the age of 57. 'SERPS' has been established for 408 employees, all of whom have the option to retire at the age of 62. A separate arrangement has been provided for 27 managers, who will be able to leave the Bank subject to application; they would get a complimentary pension in addition to 'SERPS'. These arrangements have been incorporated in the Bank's accounts in accordance with the Norwegian Accounting Standard for Pension Costs. The assumptions which have been applied in this connection are identical to those pertaining to the fund-based scheme. In the case of 'SERPS', this scheme is based on the assumption that staff's average propensity to opt for this alternative is 40 per cent, whereas the ratio has been put at 100 per cent as far as the abovementioned arrangement for managers is concerned.

Breakdown of pension costs for the period:

Pension accruals during the year	1,730
Interest cost in respect of pension liabilities	2,502
Employer's social security contributions subject to accrual accounting	387
Financial impact of changed estimates, appropriately apportioned	104
Share – subject to accrual accounting – of future estimated pension liabilities	1,850
Net pension costs	6,573

Estimated pension liabilities as at 31.12.00	50,585
Impact of changed estimates not included in profit and loss account	-9,683
Share of future estimated pension liabilities not included in accounts	-4,950
Pension liabilities included in balance sheet as at 31.12.00	35,952

14. Accounting treatment of tax

Temporary differences as at	31.12.00	31.12.99	Change
Write-up of bank buildings	-8,246	-9,100	854
Pension resources	-23,953	-15,484	-8,469
Negative tax-related accelerated depreciation of fixed assets	25,924	18,530	7,394
Tax-related shortfall in market value of securities	-23,589	-27,252	3,663
Pension liabilities	35,951	33,349	2,602
Net temporary differences	6,087	43	6,044
Deferred tax benefit, at 28 per cent	1,704	12	
Deferred tax, net change	1,692	-3,547	

Taxation charge for the year	2000	1999
Result before tax	223,855	152,047
Permanent differences	-19,819	-5,050
Group contributions - subsidiaries	-1,500	-3,070
Share of result – subsidiaries and associated companies	3,995	-1,217
Temporary differences – net change	6,044	-12,667
Basis for tax payable	212,575	130,043
Income tax at 28 per cent	59,520	36,412
Wealth tax	3,980	3,588
Tax payable as shown in balance sheet	63,500	40,000
Settlement of tax payable from previous years	-1,344	-1,065
Deferred tax – net change	-1,692	3,547
Taxation charge for the year	60,464	42,482

15. Other liabilities

This section consists largely of short-term items relating to payments transmission services and tax payable.

16. Financial derivatives

	Nominal amount as at 31.12.00
Interest rate swaps	1,948,020
FRAs	1,000,000
Forward exchange contracts	644,232

Interest rate swaps:	agreements to swap interest rates for a nominal amount, for an agreed period
FRAs:	agreements fixing a rate of interest for a nominal amount, for an agreed period
Forward exchange contracts:	agreements to buy or sell an agreed currency amount at a certain future date at an agreed rate of exchange against another currency

Nominal amount is the agreement's underlying principal amount, which is shown on a gross basis.

In 2000, the Bank had no financial derivatives defined as trading portfolio. The Bank's financial derivatives represent hedging transactions which are valued in the same way as the accounting items hedged. Book value of hedging transactions is matched by corresponding countervalue of the balance sheet items involved; there are no isolated gains or losses on the Bank's financial derivatives.

17. Summary of fees and commissions

	Parent Bank		Group	
	2000	1999	2000	1999
Trading and management of securities	8,338	5,801	8,338	5,801
Payments transmission services	61,151	58,130	61,151	58,130
Insurance services	2,966	2,761	2,966	2,761
Real estate brokerage and management			33,539	8,682
Accountancy services for customers	14	631	1,536	1,902
Other activities	6,133	6,117	6,133	6,065
Total other fees and commissions	78,602	73,440	113,663	83,341

18. Larger individual transactions

Gain from the sale of the Bank's shares in Fellesdata AS – NOK 83.7 million – is included under this section.

Key figures 1996–2000

From Profit and Loss Account	2000	1999	1998	1997	1996
Interest- and credit commission income	947.6	852.9	699.1	553.3	590.1
Interest costs	577.2	502.3	385.6	254.9	289.7
Net interest- and credit commission income	370.4	350.6	313.5	298.4	300.4
Other operating income	89.2	104.6	53.1	75.9	61.0
Other operating costs	283.4	275.5	274.3	259.8	231.5
Operating result before losses	176.2	179.7	92.3	114.5	129.9
Gains from sale of fixed assets	83.4				
Losses on loans and guarantees	35.7	27.7	20.5	7.8	11.2
Result from ordinary operations	223.9	152.0	71.8	106.7	118.7
Tax	60.5	42.4	21.4	33.4	34.6
Result after tax	163.4	109.6	50.4	73.3	84.1
Results etc. as a percentage of assets					
Interest- and credit commission income	7.52	7.78	6.84	5.96	7.01
Interest costs	4.58	4.58	3.77	2.74	3.44
Net interest- and credit commission income	2.94	3.20	3.07	3.22	3.57
Other operating income	0.71	0.95	0.52	0.82	0.72
Other operating costs	2.25	2.51	2.69	2.80	2.75
Operating result before losses	1.40	1.64	0.90	1.24	1.54
Gains from sale of fixed assets	0.66				
Losses on loans and guarantees	0.28	0.25	0.20	0.08	0.13
Result from ordinary operations	1.78	1.39	0.70	1.16	1.41
Tax	0.48	0.39	0.21	0.36	0.41
Result after tax	1.30	1.00	0.49	0.80	1.00
Average assets	12,595.0	10,967.0	10,215.0	9,290.5	8,423.6
Return on equity capital	15.28%	11.69%	5.86%	9.50%	12.08%
From Balance Sheet					
Assets	13,255.5	11,893.6	10,481.3	9,722.4	8,731.5
Gross loans	11,550.5	10,186.3	9,010.0	8,336.1	7,582.1
Deposits from customers	9,147.4	7,527.0	7,101.3	6,703.7	6,199.3
Equity and related capital	1,086.0	909.6	849.5	780.7	733.1
Capital adequacy ratio	11.65%	11.31%	12.22%	12.41%	13.12%



Torungen Lighthouse, near Arendal

Auditor's report for 2000

Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of Sparebanken Sør of 2000, showing a profit of NOK 163,390,585 for the Bank and a profit of NOK 163,391,000 for the group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the group accounts. These financial statements and the Directors' report are the responsibility of the Bank's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by auditing standards and practices an audit also comprises a review of the management of the Bank's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion,

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Bank and of the Group as of December 31, 2000, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Bank's management has fulfilled its obligation in respect of registration and documentation of accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the profit is consistent with the financial statements and comply with the law and regulations.

Arendal, February 27, 2001

KPMG as

Terje H. Holst

State Authorised Public Accountant



Møkkalasset Lighthouse, near Tvedestrand

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