

ANNUAL REPORT 2002





Local commerce and industry as well as entrepreneurial spirit are important aspects for a bank with strong local roots. In this connection, we would like to point out that Norway's greatest entrepreneur of all times, Sam Eyde, came from Arendal. The meeting between Sam Eyde and Kristian Birkeland – which is portrayed on this 200 kroner note – turned out to be the start of Norway's biggest industrial adventure: Norsk Hydro. This is a brilliant example of how the combined forces of creativity, competence, business flair and financial muscle can create something of very great importance.

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FROM THE BOARD OF DIRECTORS

FRAMEWORK CONDITIONS

In 2002, the Norwegian economy was characterised by high domestic interest rates and a strong krone. In addition, the generous annual wage settlements since 1996 have weakened Norway's competitive position in relation to its trading partners by about 15 per cent during these years. There has also been a downturn in the global economy. The persistent balance of payments deficit and big financial scandals in USA, stagnation within the EU, coupled with faltering economies in many important Asian countries, have all contributed to make 2002 one of the worst years for stock markets for a long time, prices on the Oslo Stock Exchange plummeting by 31.1 per cent. For mainland Norway, growth ended up at a lacklustre 1.25 per cent. Overall, these various developments have brought about a significant deterioration in the framework conditions for Norwegian commerce and industry and in particular for businesses exposed to international competition. The level of bankruptcies in Norway increased by 25 per cent compared with the year before. The shrinkage of Norwegian industry, through plant and factory closures, bankruptcies and the moving of some businesses abroad, has happened more quickly than expected by the authorities. Norway now has some 80,000 unemployed, equivalent to 3.4 per cent of the workforce.

This is nevertheless low in European context.

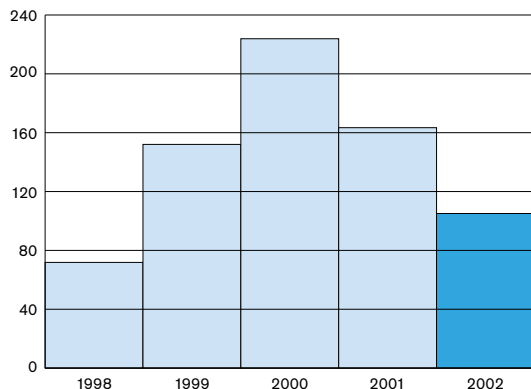
Parts of households' savings have been adversely affected through losses incurred on shares and unit trusts. The growth in private property wealth has diminished. During the first half of the year, the levels of households' spending and credit demand were relatively high but the general economic background contributed to reduced activity towards the end of the year. High electricity prices also resulted in a reduction in purchasing power. The uncertainty surrounding the stock market has triggered higher levels of saving through banks, which is seen as a safe investment alternative. The households' wealth situation is still sound.

Norges Bank (Bank of Norway) stimulated the economy by an interest rate reduction at the beginning of 2002 but had to reverse this in July due to the fact that the high wage settlement and increased demand for credit would have meant that the rate of inflation would have exceeded 2.5 per cent, which represents Norges Bank's target rate. Norway's economic policy has been a difficult balancing act between two evils: on the one hand, high interest rates and a strong krone and, on the other hand, the question of inflation. The fiscal policy has been very tight; in particular, the financial

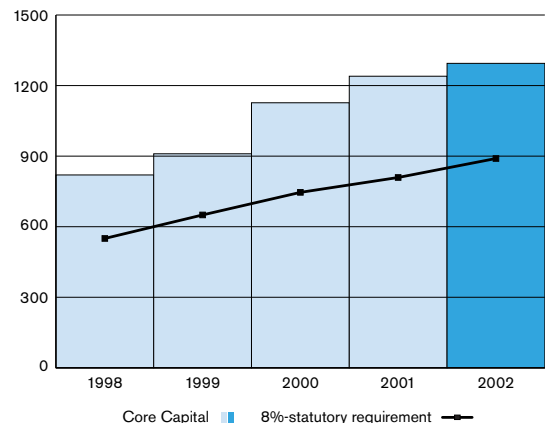
situation of Norway's municipalities has been difficult. Gaining acceptance for the tight economic policy has been a big challenge for the authorities, as Norway has a very favourable balance of trade and great oil wealth, coupled with the fact that there are obvious needs for more investment within different areas of the economy.

The situation in Norway's financial markets is still characterised by strong competition. The high level of domestic interest rates puts pressure on banks' overall margins. The difference between Norwegian and foreign interest rates has been large and demand for foreign currency financing has been increasing. There have been some important changes within the savings bank sector. Gjensidige NOR, having received the necessary licence from the authorities, has completed its conversion to a limited company. Sparebanken Vest's decision to withdraw from SpareBank 1 Gruppen is another event which attracted attention in the market. In addition, Nordlandsbanken ASA and some smaller savings banks and commercial banks experienced problems in 2002. The financial markets also had problems, especially in connection with certain niche companies. The Finance Credit scandal towards the end of the year has shaken the entire financial services industry.

Result before tax



Capital adequacy ratio



LOCAL BACKGROUND

Aust-Agder posted the highest increase in unemployment in Norway. Jobless levels were up by 43 per cent, compared with 20 per cent for the country as a whole. High unemployment is particularly prevalent in the eastern region. Within the other parts of the county, highly qualified IT experts also represent a new group of unemployed. Vest-Agder's jobless levels rose by 24 per cent. The reduction in the number of people working in the county is related to larger businesses within traditional industry, as well as the building- and construction sector. In Telemark, unemployment was up by 25 per cent. In this county too, the biggest increase in jobless levels has occurred within traditional industry and the building- and construction sector. However, the biggest problem with unemployment is found outside the Bank's market areas in Telemark, but the Kragero region has, and will experience, a difficult labour market, particularly due to the situation at Tangen Verft.

The rate of increase in the number of bankruptcies within the Bank's region is significantly lower than for the rest of the country. In Aust-Agder the rate of increase was 11 per cent, in Vest-Agder 3 per cent, whereas Telemark posted a reduction in the number of bankruptcies of 1 per cent. It would therefore seem as if commerce and industry in our region, and in particular smaller businesses, have managed to cope with the more difficult overall conditions by embracing change and restructuring. Various sectors of local industry have been most exposed, especially oil-related operations, the processing industry, textile industry, the building- and construction sector and engineering industry. The IT sector, service-related operations and property management in the Bank's region have also been experiencing increasing problems. Overall, firms in the tourism sector have managed quite well.

The restructuring process within the public sector has continued. The establishment of Helse Sør (a regional health authority) has brought about substantial changes for the counties and municipalities involved; certain big tasks and the financial resources previously earmarked for this have been removed from these organisations. The

question of a merger between the two Agder counties has been discussed. In this connection, Aust Agder has also been looking at the alternative of the two Agder counties joining forces with Telemark. The merger of Agder's three police districts has resulted in the centralisation of more power within Kristiansand's police district. The sale of the shares in Agder Energi to Statskraft provided those municipalities which had agreed to sell all or part of their shareholdings with more than NOK 4 billion new capital at the end of the year. Most of these funds have been deposited with banks or invested in a similarly safe manner. It is now up to each of these municipalities to decide how these funds should be used in the long run. In general, however, the financial position of our local municipalities is very tight.

The road toll ring around Kristiansand finances the new state highway – E-18/E-39 – through the city and this project will have been completed during the course of 2004. A new road toll project has started in Aust-Agder in order to partly finance the building and development of E-18 through the county, whereas the toll station at Grenland in Telemark has been shut down. New road toll projects in Setesdal and at Kvinesheia have already been planned. It is crucial for the development of the region's commerce and industry that work on the local infrastructure is intensified.

The establishment of Statens Vegvesen's (the state highway department) regional office in Arendal is seen as a positive factor for the area. In addition, Post- and Teletilsynet (the post- and telecommunications inspection authority) will be relocating to Lillesand. UN's environment foundation, Grid, in Arendal, has been awarded status as a UN university, and the work with a view to converting Høgskolen i Agder into a university is continuing.

In the opinion of the Board of Directors, 2002 was the most difficult year for a long time for private persons, commerce and industry and the public sector in our region. However, there are also many positive events and opportunities which should help develop our region further.

Sparebanken Sør continues to have a strong position in the region and has further consolidated its position as an important and solutions-orientated financial partner within the sectors of public enterprises and institutions, retail banking as well as commerce and industry. The Board of Directors is pleased that the Bank's core operations are doing well, but is not satisfied with the annual result after losses on loans and securities.

RESULT FOR THE YEAR

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

The pre-tax result for the year, NOK 105 million, is NOK 58 million lower than the year before. Measured as a percentage of average assets, the 2002 pre-tax result is equivalent to 0.68 per cent, as against 1.16 per cent in 2001. The return on equity capital amounted to 5.6 per cent. The lower result is primarily ascribable to losses on shares following generally plunging prices on the Oslo Stock Exchange. In addition, the 2001 accounts incorporated a NOK 35 million gain from the sale of long-term shareholdings. If these factors are adjusted for, the result, both before and after loan losses, involved improvement. The Board of Directors is pleased that the Bank's core operations recorded another good performance in spite of a generally difficult year for the Norwegian banking industry.

Net interest income and average interest margin

Net interest income totalled to NOK 441 million, up by NOK 34 million on 2001. In relation to average assets, this amounted to 2.87 per cent, as against 2.92 per cent the year before. Throughout the year under review, the Bank paid a great deal of attention to margins and this has helped us maintain overall margins at about the same level as in 2001. This, coupled with higher loan- and deposit volumes, has contributed to an improvement in net interest income in cash terms.

Towards the end of the year, the Bank entered a period with strong signals of a falling level of domestic interest rates, which should continue during 2003. This, in addition to the competitive situation, will put continued, strong pressure on loan- and deposit margins, making it more difficult for the Bank to maintain its revenue generation basis.

Other (non-interest) income

Total other income was down from NOK 77 million in 2001 to NOK 45 million in 2002. The reduction in income is principally attributable to losses on shares triggered by plummeting prices on the Oslo Stock Exchange. An amount of NOK 39 million was charged to the profit and loss account in respect of losses on shares. Even though these circumstances have had an adverse impact on the Bank's overall result, the abovementioned losses on shares are nevertheless modest in relation to the Bank's equity capital and level of operations.

The level of share dividends received was down on 2001, largely due to the fact that in that year the Bank benefitted from extraordinary dividends. However, earnings from the Bank's foreign exchange operations made good progress as a result of higher activity levels.

The most important item under other income is income from banking services. There was still some progress even though certain activities, for example the sale of unit trusts, were hampered by the generally weak securities markets. On the other hand, as was the case in recent years, higher activity

levels within the payments transmission services area made a positive contribution to the Bank's overall revenue generation. Automated services account for an increasingly large part of total business volumes, representing 91 per cent of the total number of transactions in 2002.

Costs

In 2002, costs amounted to NOK 303 million, up by NOK 6 million or 1.8 per cent on the year before. The increase in costs is regarded as very modest. However, in relation to average assets the ratio improved from 2.13 per cent in 2001 to 1.97 per cent in 2002. Another positive feature was provided by a shrinkage in the overall cost ratio (costs as a percentage of income, excluding losses on securities) from 59.8 per cent in 2001 to 57.6 per cent in 2002.

The rise in total costs in cash terms is primarily ascribable to the general increase in wages and prices. The level of building work in 2002 has been lower than in recent years. Costs relating to electronic data processing remain a key factor, but have not risen significantly this year. The same applies to other costs.

In spite of this, however, the Bank must continue to make every effort to enhance overall effectiveness levels during the next few years. The Bank's level of costs is still high in relation to many comparable banks.

Losses on loans and guarantees NOK 78 million in respect of credit losses was charged to the profit and loss account in 2002, which was NOK 19 million up on

2001. It should be pointed out in this connection, however, that this year's boost to non-specific loss provisions accounted for NOK 18 million, the remaining difference of NOK 60 million representing net losses on specific customers. At the end of the year currently under review, non-specific loss provisions totalled to NOK 150 million, equivalent to 1.06 per cent of aggregate loans; this amount should cover credit losses which may be contained in the Bank's lending portfolio but which have not yet been identified. In 2002, specific losses amounted to 0.42 per cent of total loans. Although this represents a significant increase in the level of credit losses in comparison with 2001 and the previous 10-year period, the Board of Directors is of the opinion that these losses are within an acceptable range. Loan losses have to be viewed over a period of time and represent a part of the Bank's operations. The specific losses involved are mainly related to corporate banking commitments, reflecting the Bank's involvement in the financing of the region's commerce and industry and the problems faced by local businesses last year.

BALANCE SHEET

Assets, loans and deposits

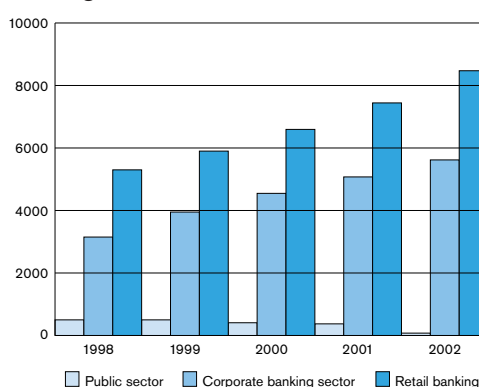
The Bank's aggregate assets stood at NOK 16.3 billion at the end of the year, up by NOK 1.9 billion or 12.9 per cent during the last 12 months. The increased level of assets is mainly due to lending growth.

Gross loans totalled NOK 14.2 billion, up by NOK 1.3 billion or 9.9 per cent since 2001.

Deposits



Lending



Retail banking- and corporate banking customers accounted for 13.8 and 10.7 per cent respectively of total lending growth. Public sector entities borrowed less, partly due to the restructuring taking place within the health sector and the strained financial situation in the municipal sector. A breakdown of loans according to different customer groups is shown in Note 2 under Notes to the Accounts.

Deposits from customers still represent the Bank's most important source of funding. At the end of 2002, customer deposits totalled NOK 10.4 billion, up by NOK 1.2 billion or 12.8 per cent during the last 12 months. There was a large increase in the level of deposits towards the end of the year following the sale of shares in Agder Energi by several municipalities. Retail banking-, corporate banking- and public sector customers account for 59, 24 and 17 per cent respectively of the Bank's aggregate deposits. The Bank's deposit coverage ratio is good. At the end of the year, deposits represented 73 per cent of loans, whereas a ratio of minimum 60 per cent has been factored into the Bank's funding strategy.

The Bank's funding requirements – over and above the level covered by customer deposits – are largely covered on a short- and medium-term basis through borrowings in the bond- and certificate markets. Partly due to its strong equity capital base, Sparebanken Sør enjoys high creditworthiness in the markets, ensuring that the Bank is able to raise this type of funding loans at favourable terms.

At the end of 2002, the Bank's portfolio of certificates and bonds amounted to NOK 1.6 billion. A substantial part of this portfolio is earmarked to cover statutory liquidity reserve requirements and collateral assets which have to be pledged as security for any borrowings from the central bank.

The Bank's investment in shares continues to be at a very modest level in relation to the rest of its operations, amounting to NOK 144 million or 0.9 per cent of the Bank's assets in 2002. At the end of the year, the total market value of the trading portfolio was NOK 76 million, most of which consisted of quoted Norwegian shares

Equity and related capital - capital adequacy

At the end of 2002, the Bank's equity and related capital totalled NOK 1.3 billion, consisting of core capital (the Savings Bank's Fund) only. In relation to a weighted asset calculation base of NOK 11.1 billion, the capital adequacy ratio at the end of the year amounted to 11.6 per cent, a little lower than a year earlier, due to the fact that asset growth has been somewhat higher than revenue generation.

The Board of Directors monitors the Bank's capital adequacy very closely and considers the current level to be good – and a good basis for the Bank's further development and progress.

ALLOCATION OF PROFIT FOR THE YEAR

In the opinion of the Board of Directors, the 2002 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 which have arisen after the turn of the year which would change its view in this respect.

It is proposed that the Bank's NOK 71 million after-tax profit for the year is allocated as follows:

Donations	NOK	2.0 million
Transferred to the Savings Bank's Fund	NOK	69.0 million
Total allocations	NOK	71.0 million

RISK MANAGEMENT

There were no significant changes in the Bank's overall risk profile during the year under review. In accordance with the aim of the Board of Directors, the overall risk shall be adapted according to the Bank's financial strength and employees' levels of professional skills at all times. During the course of the year, a new strategy plan for the period 2002-2004 was devised. The main target of the part dealing with risk in the plan is a capital adequacy ratio of 13 per cent. Funding- and credit risk also represent particularly important areas of the work done by the Board of Directors in connection with the level of risk. During the course of the

year, improved procedures relating to internal control have been implemented. In 2002, the Board of Directors decided on somewhat lower lending growth, focusing on revenue generation within the Bank's core operations.

Credit risk

Credit risk is defined as the risk of losses being incurred if customers fail to repay loans and credits extended to them by the Bank. The Board of Directors has introduced a target ratio for credit risk – losses from customers must not exceed 0.5 per cent of gross loans over a period of time. Specific losses in 2002 – at 0.42 per cent – accordingly ended up below this defined limit, although the Board of Directors is not happy about the increase in loss levels from the year before.

The losses involved are mainly related to a few corporate commitments. The Bank's aim has been to take an active part in the financing of local commerce and industry. The Bank's credit losses reflect the problems experienced by some of the businesses in the region in 2002. So far, there has been no significant increase in losses within the retail banking market, but the Board of Directors realises that rising unemployment levels in the region may lead to higher credit losses in due course. Sparebanken Sør has good advisory services staff who work with the Bank's private customers with a view to finding mutually beneficial solutions.

Skills-enhancing measures have been implemented for all customer-related staff within the corporate banking area, concentrating on the identification of, and work with problem commitments. Group staff dealing with corporate loans has been strengthened and new guidelines relating to the handling of problem commitments have been introduced. The Bank's lending growth has been reduced by 1.7 percentage point compared with 2001 and the Board of Directors feels that this is helping to reduce the total level of credit risk involved.

Following an overall assessment, the Board of Directors is of the opinion that the level of credit risk has been adapted to the Bank's capital strength and staff's professional competence levels; however, the Board will

continue to monitor closely the development of losses and commitments in default and to assess on a continuing basis the need for any further measures to be initiated. In this connection, reference is made to Note 2 in Notes to the Accounts where the change in the Bank's credit risk profile and expectations with regard to the level of any future losses are mentioned.

Market risk

Market risk is mainly related to the Bank's positions and business volumes in interest rate- and share markets. The Board of Directors has fixed exposure limits for these 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 fixed rate deposits are normally managed in such a way that interest rate risk is hedged on an ongoing basis. The Board of Directors has fixed a NOK 20 million limit for total interest rate risk, measured by the impact on the Bank's overall result of a 1 percentage point shift in the level of interest rates. The Bank's interest rate risk has been low throughout the year; at the end of the year, approximately 15 per cent of the agreed limit had been utilised.

The Bank is only affected to a small extent by fluctuations in the foreign currency markets. The main foreign currency assets in the balance sheet are hedged by funding loans in the same currencies or by forward contracts.

At the end of the year, the Bank's trading portfolio of shares amounted to NOK 76 million, consisting mainly of listed Norwegian shares. In view of the difficult stock markets in 2002, the portfolio was reduced throughout the year and remains modest in relation to the Bank's other operations. The impact on the Bank's result can be substantial as the portfolio is assessed at market value. In order to reduce the risk, a system of stop loss limits for shares in the Bank's trading portfolio has been introduced.

Funding risk

Deposits from customers represent the Bank's most important and stable source of

funding. The Board of Directors attaches a great deal of importance to the ratio between deposits from and loans to customers being satisfactory and has instituted a minimum deposit coverage ratio of 60 per cent. At the end of 2002, the ratio was 73.2 per cent, up from 71.3 per cent the year before.

Funding loans raised in the certificate- and bond markets totalled NOK 3.9 billion at the end of 2002, NOK 747 million up on a year earlier. The Bank has been benefitting from good access to funding in the market – at favourable terms and conditions.

Furthermore, Sparebanken Sør has committed, long-term drawing rights facilities with other banks, amounting to the equivalent of some NOK 1.1 billion, of which EUR 10 million was utilised at the end of the year.

In order to reduce the overall funding risk, the Bank applies diversification with regard to different markets, sources of funding loans, instruments and maturities. According to the Bank's funding strategy, maximum NOK 750 million of funding sources other than customer deposits should have maturities of up to 7 days, whereas volumes in excess of NOK 1.5 billion must have maturities of at least 3 months.

Operational risk

The Bank's operational risk is related to possible losses which may be incurred as a result of failure/s occurring in the Bank's day-to-day operations, such as breakdown in electronic- and telecommunications, routines or other systems – additional factors being insufficient levels of professional skills or human errors. In order to keep the Bank's operational risk to a minimum, tests of the internal control are done on an annual basis. In addition, certain new internal control measures were implemented during the course of 2002 in order to further minimise operational risk. In the opinion of the Board of Directors, the overall operational risk is at a satisfactory level.

PERSONNEL AND WORKING ENVIRONMENT

At the end of 2002, overall manning levels at the Bank amounted to 351 man-years; 22 man-years were accounted for by employees

on special leave. There were no significant changes relating to the Bank's workforce situation during the year. The Bank's operations are conducted in accordance with the man-year limits fixed by the Board of Directors for the period between 2002 and 2004.

Each year, the Bank completes a job satisfaction survey in co-operation with Norsk Gallup. The result for 2002 confirmed that progress had been made compared with the year before; the survey concluded that the Bank benefits from a generally good working environment.

In 2002, a new bonus system – a supplement to the Bank's ordinary salary system – was introduced. The Board of Directors feels that this has helped all staff to focus more on the Bank's total wealth creation and that the new system has therefore had a positive impact on the Bank's results.

The Working Environment Committee has – in addition to looking at certain aspects of the abovementioned job satisfaction survey – worked on matters relating to safety and security, structural alterations of the Bank's premises and general environment questions. In 2002, the Bank entered into a co-operation agreement with the local social security office with a view to promoting a more 'inclusive' approach to the quality of life in the workplace'. The agreement is based on a Letter of Intent signed by the parties representing workers/staff and the authorities.

Absenteeism through illness amounted to 5.38 per cent in 2002, as opposed to 4.89 per cent in 2001.

VOTE OF THANKS

The Board of Directors would like to thank all staff for their sterling efforts in 2002.

EXTERNAL ENVIRONMENT

The Bank's operations do not produce any pollution of the external environment. The Bank regards environmental questions as an important part of the credit handling process relating to the financing of different customers and projects.

DONATIONS

For 2001, NOK 2.5 million was set aside for donations benefitting a variety of important projects throughout the region's various local communities .

SUBSIDIARIES AND ASSOCIATED COMPANIES

Sparebanken Sør owns 87.74 per cent of the shares in the region's largest real estate brokerage firm, ABCenter AS. The company sells residential property and holiday homes in Agder, Telemark and Rogaland as well as holiday homes in Spain. Sparebanken Sør acquired the company in 2000 and regards it as an important partner with a view to realising the Bank's corporate vision of being the leading financial institution in the region. Working together with ABCenter AS has extended the Bank's range of contacts within the retail banking market, providing many opportunities of selling more housing loans.

2002 was a difficult year for the real estate brokerage sector. High domestic interest rates and general uncertainty have been two main features affecting the housing market. The company has maintained its market position despite turnover being down and the number of unsold properties having increased. Sparebanken Sør still incorporates large amounts of depreciation relating to goodwill in connection with its acquisition of the company in its accounts.

AS Eiendomsvekst is a wholly-owned subsidiary of Sparebanken Sør. The company owns a large industrial estate at Longum in Arendal. Efforts are being made with a view to attracting further commercial- and industrial development into the area, which would create opportunities for selling the company's sites. The location – to be decided by the local environment foundation, Grid – of the UN university to be established is awaited with particular interest.

The Bank has a 48.3 per cent equity stake in Longum Teknolog- og Kompetansesenter II AS, which owns the building and rents out some 6,000 square meters' of office premises at Longum. The floor space involved has been rented out on long-term contracts to IT-related businesses. The company is currently having a new commercial building added to its property portfolio. The building – which will provide 2,700 square meters' of floor space for letting out – is scheduled for completion in June 2003. The company's financial results are satisfactory.

The Bank's other subsidiaries are small and of no importance for the Bank's total operations and may therefore be ignored when assessing the Bank's overall position. Further information may be found in Note 6 in Notes to the Accounts.

FUTURE PROSPECTS

Sparebanken Sør enjoys a strong position in

the market, results from our customer surveys confirming that our customers are very satisfied with the Bank.

It is noticeable that bank customers are in the process of changing the way in which they access and use banking services. More and more people choose to use Internet-related banks, telebanks etc. for their day-to-day banking transactions. Against this background, as part of its strategy plan for the period between 2002 and 2004, the Bank has decided to make an analysis of its branch network with a view to a possible market- and cost-related adjustment.

The Bank's results for 2002 showed higher loan losses than the level which has been normal in recent years. There is reason to believe that the banking- and financial services industry is entering a period of larger loan losses. The Board of Directors will therefore be paying particular attention to this side of the Bank's operations during 2003.

In spite of this, the Board of Directors feels that there is reason for optimism with regard to future developments and opportunities for local commerce and industry in our region and also as far as private customers are concerned.

In the opinion of the Board of Directors, Sparebanken Sør has a strong financial-, skills- and market-related basis for continued progress in 2003 too.

Arendal, 21 February 2003

Tom F. Evensen

Jostein Dalane
Deputy Chairman

Sidsel Schwabe-Hansen

Kristi Marie Tveit

Arnt Haddeland

Laila Øygarden

Sigmund Pollestad

Atle Færevaa

Kirsti Aatangen

Hans A. Iversen
Managing Director

MAIN FIGURES (Parent Bank)

From Profit and Loss Account

	2002	2001				
			Mill. kr	% av gj.sn. forv.kap.	Mill. kr	% av gj.sn. forv.kap.
Interest- and credit commission income			1,216.6	7.91 %	1,163.8	8.35 %
Interest costs			775.2	5.04 %	756.1	5.43 %
Net interest- and credit commission income			441.4	2.87 %	407.7	2.92 %
Other operating income			44.6	0.29 %	77.3	0.55 %
Total income			486.0	3.16 %	485.0	3.47 %
Operating costs			302.7	1.97 %	297.2	2.13 %
Operating result before losses			183.3	1.19 %	187.8	1.34 %
Losses on loans and guarantees			78.3	0.51 %	59.4	0.43 %
Gains from the sale of long-term shareholdings			0.0	0.00 %	35.0	0.25 %
Result from ordinary operations			105.0	0.68 %	163.4	1.16 %
Tax payable on ordinary result			34.0	0.22 %	47.1	0.34 %
Result after tax			71.0	0.46 %	116.3	0.82 %
Average assets			15,384.0		13,936.6	

From the Balance Sheet, as at 31.12

	2002	2001	Ending	
	Mill. kr.	Mill. kr.	Mill. kr.	%
Assets	16,257.9	14,401.6	1,856.3	12.9 %
Deposits from customers	10,363.4	9,188.5	1,174.9	12.8 %
Gross lending	14,165.9	12,888.3	1,277.6	9.9 %
Equity and related capital	1,292.6	1,212.4	80.2	6.6 %
Capital adequacy ratio	11.6 %	12.0 %		

Key ratios etc.

	2002	2001
Costs as % of income, excluding securities	57.60 %	59.82 %
Losses as percentage of gross lending	0.55 %	0.47 %
Deposits as percentage of loans	73.16 %	71.29 %
Return on equity capital	5.62 %	10.10 %
Number of branches	40	40
Number of man-years worked at the Bank	351	356

PROFIT AND LOSS ACCOUNT

Amounts in NOK thousand

Parent Bank				Group	
2002	2001		Notes	2002	2001
		Interest receivable and similar income			
9,730	12,849	Interest- and similar income from loans to credit institutions		9,730	12,849
1,124,727	1,062,971	Interest- and similar income from loans to customers		1,119,057	1,058,364
82,175	87,964	Interest from certificates and bonds		82,175	87,964
1,216,632	1,163,784	Total interest receivable and similar income		1,210,962	1,159,177
		Interest payable and similar costs			
11,394	19,912	Interest payable on liabilities to credit institutions		11,394	19,912
515,536	512,226	Interest payable on deposits from customers		511,434	508,563
236,724	213,310	Interest- and other costs payable on securities issued		236,724	213,310
11,509	10,642	Other interest costs		11,509	10,642
775,163	756,090	Total interest payable and other costs		771,061	752,427
441,469	407,694	Net interest- and credit commission income		439,901	406,750
		Dividends and other income from securities with variable yield			
6,996	14,302	Income from shares, unit trusts and other securities with variable yield		6,996	14,302
100	171	Income from equity stakes in associated companies	6	100	171
-9,430	-8,204	Income from equity stakes in Group companies	6		
-2,334	6,269	Total dividends and other income from securities with variable yield		7,096	14,473
		Commissions and other income from banking services			
7,066	5,723	Guarantee commissions		7,066	5,723
85,737	81,425	Other fees and commissions	17	132,884	138,068
92,803	87,148	Total commissions and fees from banking services		139,950	143,791
25,713	23,940	Commissions payable and other costs relating to banking services		25,713	23,940
		Net value change and gains/losses on foreign exchange and securities			
-484	392	Net value change and gains/losses on certificates and bonds		-484	392
-39,009	-12,190	Net value change and gains/losses on shares		-39,009	-12,190
5,157	5,951	Net value change and gains/losses on f/x and financial derivatives		5,157	5,951
-34,336	-5,847	Total net gains/losses on securities and foreign exchange		-34,336	-5,847
		Other operating income			
5,622	5,193	Operating income from real estate		5,622	5,193
8,579	8,496	Other operating income		8,579	8,496
14,201	13,689	Total other operating income		14,201	13,689
44,621	77,319	Net other operating income		101,198	142,166
486,090	485,013	Total net operating income		541,099	548,916

Amounts in NOK thousand

Parent Bank				Group	
2002	2001		Noter	2002	2001
		Wages, salaries and general administration costs			
118,678	114,418	Wages and salaries	12	144,492	141,648
10,208	10,484	Pensions	13	10,208	10,484
24,314	23,108	Social costs		24,314	23,108
87,447	84,037	Administration costs		108,419	111,466
240,647	232,047	Total wages, salaries and general administration costs		287,433	286,706
16,191	18,771	Depreciation of fixed- and intangible assets	8	25,342	28 797
		Other operating costs			
15,939	18,290	Operating costs relating to real estate		15,974	17,783
29,935	28,081	Other operating costs		29,935	28,501
45,874	46,371	Total other operating costs		45,909	46,284
302,712	297,189	Total operating costs		358,684	361,787
183,378	187,824	OPERATING COSTS BEFORE LOSSES		182,415	187,129
		Losses on loans, guarantees etc.			
77,934	58,950	Losses on loans		77,934	58,950
398	508	Losses on guarantees etc.		398	508
78,332	59,458	Total losses on loans, guarantees etc.	2	78,332	59,458
		Write-downs and gains/losses on long-term securities holdings			
30	35,022	Net gains on securities		30	35,022
30	35,022	Total write-downs and net gains		30	35,022
105,076	163,388	RESULT BEFORE TAXATION CHARGE		104,113	162,693
34,061	47,095	Tax payable on ordinary result	14	33,281	46,286
71,015	116,293	RESULT FROM ORDINARY OPERATIONS AFTER TAX		70,832	116,407
		Minority interests		-183	114
		Result for the accounting year after minority interests		71,015	116,293
71,015	116,293	Available for allocation			
		Allocation of profit for the year			
-2,000	-2,500	Donations			
	846	Transferred to Fund for Evaluation Differences			
-69,015	-114,639	Transferred to Savings Bank's Fund	9		
-71,015	-116,293	TOTAL ALLOCATIONS			

BALANCE SHEET

ASSETS (Amounts in NOK thousand)

Parent Bank				Group	
31.12.02	31.12.01		Noter	31.12.02	31.12.01
271,869	114,014	Cash-in-hand and claims on central banks	10	271,869	114,014
		Loans to and claims on credit institutions			
37,878	62,300	Loans to and claims on cr. insts. - no agreed maturity or notice of w.		37,878	62,300
30,046	23,778	Loans to and claims on cr. insts. - with agreed mat. or notice of w.		30,046	23,778
67,924	86,078	Total loans to and claims on credit institutions	4,10	67,924	86,078
		Loans to and claims on customers			
828,257	734,078	Overdraft-, working capital- and similar facilities		828,257	734,078
308,430	353,310	Building loans		308,430	353,310
13,029,198	11,800,863	Repayment loans		12,993,835	11,769,689
14,165,885	12,888,251	Total loans before specific and non-specific loss provisions		14,130,522	12,857,077
106,752	88,341	Specific loss provisions		106,752	88,341
150,000	132,000	Non-specific loss provisions		150,000	132,000
13,909,133	12,667,910	Total net loans to and claims on customers	2,4,7,10,12	13,873,770	12,636,736
7,111	641	Repossessed assets		7,111	641
		Certificates and bonds			
51,303	60,993	Certificates and bonds issued by public sector borrowers		51,303	60,993
1,507,437	1,011,224	Certificates and bonds issued by other borrowers		1,507,437	1,011,224
1,558,740	1,072,217	Total certificates and bonds	3,4,10	1,558,740	1,072,217
143,868	183,002	Shares and equity stakes in general partnerships	5	143,976	183,055
11,177	8,148	Equity interests in associated companies	6	11,177	8,148
11,263	22,811	Equity interests in Group companies	6		
		Intangible assets			
12,670	5,845	Deferred tax benefit	14	19,088	11,105
1,308	2,699	Other intangible assets	8	16,277	25,308
13,978	8,544	Total intangible assets		35,365	36,413
		Fixed assets			
29,214	31,146	Machinery, fixtures and fittings, and transport equipment		32,828	34,959
84,947	86,030	Buildings and other real estate		105,615	108,814
114,161	117,176	Total fixed assets	8	138,443	143,773
23,223	12,399	Other assets		38,246	27,662
		Prepaid costs, not yet incurred; accrued income, not yet received			
85,575	83,712	Accrued income, not yet received		85,575	83,712
5,026	3,038	Prepaid costs, not yet incurred		5,026	3,038
34,844	21,953	Over-funding of pension liabilities	13	34,844	21,953
125,445	108,703	Total prepayments and accrued income		125,445	108,703
16,257,892	14,401,643	TOTAL ASSETS		16,272,066	14,417,440

ARENDAL, 31 December 2002 -

Tom F. Evensen
Chairman

Jostein Dalane
Deputy Chairman

Atle Færevaaag

Laila Øygarden

Sidsel Schwabe-Hansen

Adopted at Board of Trustee's meeting on 19 March 2003

LIABILITIES AND EQUITY CAPITAL (Amounts in NOK thousand)

Parent Bank				Group	
31.12.02	31.12.01		Noter	31.12.02	31.12.01
LIABILITIES:					
Liabilities to credit institutions					
795	527	Loans and deposits from credit insts. - no agreed mat./notice of w.		795	527
419,172	553,600	Loans and deposits from credit insts. - with agr. mat./notice of w.		419,172	553,600
419,967	554,127	Total liabilities to credit institutions	10,11	419,967	554,127
Deposits from and liabilities to customers					
9,971,065	8,845,542	Deposits from and liabs. to customers - no agreed mat./notice of w.		9,969,746	8,840,825
392,314	342,984	Deposits from and liabs. to customers - agreed mat./notice of withdr.		392,314	342,984
10,363,379	9,188,526	Total deposits from and liabilities to customers	7,10,11	10,362,060	9,183,809
Borrowings raised through the issuance of securities					
1,798,117	1,534,903	Certificates and other short-term borrowings		1,798,117	1,534,903
2,104,385	1,620,252	Bond debt		2,104,385	1,620,252
3,902,502	3,155,155	Total borrowings raised through the issuance of securities	10,11	3,902,502	3,155,155
100,357	127,124	Other liabilities	15	113,629	144,557
99,731	70,108	Costs incurred; income received, not yet accrued		99,731	70,229
Provisions against liabilities and costs					
38,259	41,104	Pension liabilities etc.	13	38,259	41,104
588	1,405	Specific provisions against guarantee liabilities		588	1,405
38,847	42,509	Total provisions against liabilities and costs		38,847	42,509
14,924,783	13,137,549	TOTAL LIABILITIES		14,936,736	13,150,386
		Minority interests		419	1,283
EQUITY CAPITAL:					
Retained earnings					
		Fund for Evaluation Differences		2,370	2,269
1,333,109	1,264,094	Savings Bank's Fund		1,333,109	1,264,094
1,333,109	1,264,094	Total retained earnings		1,335,479	1,266,363
		Equity capital - subsidiaries		-568	-592
1,333,109	1,264,094	TOTAL EQUITY CAPITAL	9	1,334,911	1,265,771
16,257,892	14,401,643	TOTAL LIABILITIES AND EQUITY CAPITAL		16,272,066	14,417,440
OFF-BALANCE SHEET ACCOUNTING ITEMS					
Contingent liabilities					
514,292	532,191	Guarantees	2	514,292	532,191
1,098,948	969,259	Book value of assets pledged as security for mortgage debt etc.	11	1,098,948	969,259
4,334	5,009	Other contingent liabilities		4,334	5,009
		Liabilities	16		

18 February 2003 – Sparebanken Sør

Sigmund Pollestad

Kirsti Aatangen

Arnt Haddeland

Kristi Marie Tveit

 Hans A. Iversen
 Managing Director

CASH FLOW STATEMENT

Amounts in NOK thousand

Parent Bank			Group	
2002	2001		2002	2001
1,214,769	1,184,094	Interest receivable	1,209,099	1,179,487
-751,976	-754,317	Interest payable	-747,874	-750,654
91,997	119,489	Other payments received	139,144	174,623
-297,810	-268,572	Payments made relating to operations	-344,751	-323,023
2,366	2,851	Recoveries from previous confirmed losses	2,366	2,851
-398	-508	Losses on guarantees	-398	-508
-50,485	-62,236	Tax paid	-51,445	-62,276
-600	-1,500	Group contributions made		
-1,643	-1,263	Donations made and paid for	-1,643	-1,263
		Minority interests	183	-114
206,220	218,038	Net cash flow from operations	204,681	219,123
-1,327,993	-1,356,825	Incr. loans, adj. for conf. losses and repos'sed assets	-1,323,804	-1,369,982
-10,824	-7,210	Change in other assets	-10,584	-6,724
-488,381	-81,792	Change in certificates and bonds	-488,381	-81,792
18,154	147,607	Change in loans to other credit institutions	18,154	147,607
-1,809,044	-1,298,220	Net cash flow from current financial operations	-1,804,615	-1,310,891
-11,785	-10,983	Investment in fixed assets	-11,611	-13,780
553	5,649	Sale of fixed assets	1,183	5,699
2,423	11,141	Change in shares	2,368	11,315
89	350	Investment in Group- and associated companies	-2,929	
-8,720	6,157	Net cash flow from investments	-10,989	3,234
1,174,853	41,081	Increase in deposits from customers	1,178,251	51,287
747,347	745,155	Change in borrowings through issuance of securities	747,347	745,155
-134,160	267,970	Change in funding loans from credit institutions	-134,160	267,970
-18,641	-20,948	Change in other liabilities	-22,660	-16,645
1,769,399	1,033,258	Net cash flow from long-term funding activities	1,768,778	1,047,767
157,855	-40,767	Net change in liquid assets	157,855	-40,767
114,014	154,781	Liquid assets as at 1.1	114,014	154,781
271,869	114,014	Liquid assets as at 31.12	271,869	114,014

NOTES TO THE ACCOUNTS

1. GENERAL ACCOUNTING PRINCIPLES

The Bank's annual financial statement has been prepared in accordance with good Norwegian 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 it 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 accounting. 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 Bank's accounts, equity stakes in associated companies are included on the basis of the equity method of accounting.

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 the Banking, Insurance and Securities Commission of Norway's (BISC) rules and regulations and on the Bank's own guidelines in this respect. Corporate banking commitments are split into different risk categories according to customers' financial strength and revenue generation. The 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 has 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 borrowers are expected not to be able to meet their 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 in order 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 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 outstanding commitments from customers.

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.

Value assessment of bonds and certificates

Securities which form part of the Bank's trading portfolio are shown in the accounts at market value. Securities in the banking portfolio are assessed at the lower of market value and acquisition cost according to the portfolio principle.

Valuation of shares

The market value of shares forming part of the Bank's trading portfolio is assessed at bid prices on the Oslo Stock Exchange as at 31.12.2002; this is deemed to be the actual value of the shares.

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

The following rates of depreciation are applied:

NOTES TO THE ACCOUNTS

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 31.12.2002. 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 31.12.2002. Bond debt is shown at nominal amounts, adjusted for any premium or discount.

Tax

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

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 other financial institutions, fixing interest rate terms or foreign exchange rates at special 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 conjunction with the hedged items involved.

Interest rate- and currency agreements which form part of the trading portfolio are marked to market as at 31.12.2002. 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 premium or discount in relation to par price 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. Reference is made to the abovementioned paragraph dealing with hedging transactions. 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 Primary Capital Certificates (PCCs) are booked as income during the year in which they are received.

Fees representing 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 commitments to the Bank are deemed to be in default if, in the case of just one loan forming part of his/her/its total borrowings etc. , 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 current account has not been covered within 90 days.

Other bad and doubtful commitments

Commitments which are not yet in default, but where a 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, bankruptcy, when a legal charge made against the borrower's assets has not been successful, and in the case of a legally valued 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 take care of 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, which have been put on a non-accrual of interest basis

The inclusion of income in the accounts in respect of interest, commissions and fees

relating to commitments in default or deemed to be bad and 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 bad and 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 no longer being regarded as bad and 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 in the accounts, the interest which had previously not been booked as income is now included as interest income in the profit and loss account.

Guarantees break down as follows:

	2002	2001
Loan guarantees	168,555	168,570
Payment guarantees	141,704	127,542
Contract guarantees	126,367	168,605
Guarantees for payment of tax	55	61
Miscellaneous	77,611	67,413
Total	514,292	532,191

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

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

	Public sector administration		Primary industry		Industry building		Trade hotels	
	2002	2001	2002	2001	2002	2001	2002	2001
Gross lending	76,016	372,181	327,420	313,803	1,324,034	1,322,107	1,073,221	1,052,794
Guarantees	225	75	2,045	1,335	272,222	342,653	165,993	115,545
Unutilised drawing rights	373,883	200	54,918	52,698	244,479	257,963	215,805	186,081
Commitments in default	0	0	7,787	19,225	34,207	41,155	82,566	11,233
Other bad and doubtful cmts.	0	0	0	1,594	44,934	10,801	12,071	8,132
Specific loan loss provisions	0	0	383	9,161	16,716	16,711	29,592	5,941
Specific guarantee loss provisions	0	0	0	0	510	1,340	28	15

NOTES TO THE ACCOUNTS

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

	Financing		Ret. bkg. customers		Sundry		Total	
	property mgt.							
	2002	2001	2002	2001	2002	2001	2002	2001
Gross lending	2,555,872	2,054,620	8,471,681	7,441,900	337,641	330,846	14,165,885	12,888,251
Guarantees	56,154	57,675	10,903	8,414	6,750	6,494	514,292	532,191
Unutilised drawing rights	227,467	107,078	183,507	195,100	24,012	20,533	1,324,071	819,653
Commitments in default	143,131	97,456	85,215	103,255	5,332	8,992	358,238	281,316
Other bad and doubtful cmts.	3,171	5,466	12,140	14,743	1,736	1,735	74,052	42,471
Specific loan loss provisions	33,042	28,429	26,545	27,519	474	580	106,752	88,341
Specific guarantee loss provisions	0	0	50	50	0	0	588	1,405

Loans and guarantees broken down by different geographical areas

	2002		2001	
	Loans	Guarantees	Loans	Guarantees
Telemark	1,580,679	34,737	1,416,378	29,410
Aust-Agder	6,475,883	283,346	6,321,159	354,365
Vest-Agder	4,720,103	157,323	4,036,940	109,441
Miscellaneous	1,389,220	38,886	1,113,774	38,975
Total	14,165,885	514,292	12,888,251	532,191

Losses, commitments in default etc.

	2002	2001	2000	1999
Commitments in default	358,238	281,316	323,796	203,331
Loss provisions	84,184	75,633	58,887	54,454
Net commitments in default	274,054	205,683	264,909	148,877
	2002	2001	2000	1999
Bad and doubtful commitments	74,052	42,471	54,335	50,738
Loss provisions	23,156	14,113	14,032	16,229
Net bad and doubtful commitments	50,896	28,358	40,303	34,509

Specific loss provisions

	Utlån	Garantier	Sum
Specific loss provisions as at 1.1.	88,341	1,405	89,746
-Period's confirmed losses, against which specific loss provisions have previously been made	28,054	1,073	29,127
+Increased specific loss provisions during the period	2,525	0	2,525
+New specific loss provisions during the period	49,222	383	49,605
-Reversal of specific loss provisions during the period	5,282	127	5,409
=Specific loss provisions as at 31.12.	106,752	588	107,340

Non-specific loss provisions

Non-specific loss provisions as at 1.1.	132,000	0	132,000
+Period's non-specific loss provisions	18,000	0	18,000
=Non-specific loss provisions as at 31.12.	150,000	0	150,000

Loss costs

Change in specific loss provisions during the period	18,411	-817	17,594
+Change in non-specific loss provisions during the period	18,000	0	18,000
+Period's confirmed losses against which specific loss provisions were made in previous years	28,054	1,073	29,127
+Period's confirmed losses against which no specific loss provisioning was made in previous years	15,835	142	15,977
-Period's recoveries from previous confirmed losses	2,366	0	2,366
=Loss cost for the period	77,934	398	78,332

Change in loan interest not booked as income

	2002	2001
Accrued interest – not yet booked as income – on loans as at 1.1	22,503	18,829
-Income – from earlier periods' loan interest – booked during the period	6,155	2,118
-Accrued interest, not yet booked as income, on loans removed from the balance sheet	5,280	3,876
+Period's accrued interest, not yet booked as income, on loans identified as bad/doubtful	14,139	9,668
=Accrued interest – not yet booked as income – on loans shown in b/s as at 31.12	25,207	22,503

Risk classification

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

Corporate banking customers

Corporate banking commitments in excess of NOK 500,000 are subject to risk classification at least once a year. By the end of 2002, most corporate commitments had been classified according to risk. Corporate banking commitments not yet classified by risk have been apportioned within the different risk classes on a relative basis.

The risk classification showed the following breakdown at the end of the last two years:

	Low risk		Medium risk		High risk	
	2002	2001	2002	2001	2002	2001
Gross lending	1,822,415	1,851,759	3,210,258	3,267,811	661,530	326,781
Guarantees	180,720	178,084	265,404	314,266	57,265	31,427
Unutilised drawings rights	434,342	212,348	596,294	374,732	109,928	37,473
Specific loan loss provisions				3,107	80,207	57,715

NOTES TO THE ACCOUNTS

Retail banking customers

Retail banking customers are today 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 loans, guarantees etc. have been classified according to the collateral security pledged in the form of house- and similar mortgages, loans having been made at an appropriately conservative percentage of the assessed value of the collateralised assets in question.

	Up to 60 %		Between 60 % and 80 %		Over 80 %	
	2002	2001	2002	2001	2002	2001
Gross lending	5,898,216	4,986,206	800,992	677,139	582,540	492,465
Guarantees	7,588	5,637	1,036	757	711	547
Unutilised drawings rights	127,721	130,717	17,433	17,559	12,662	12,682
Specific loan loss provisions					26,545	27,519

Retail banking loans which are not secured by mortgage on real estate assets amounted to NOK 1,190 million in 2002 and NOK 1,286 million in 2001.

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. Average annual net loss during the last 5 years amounted to 0.21 per cent of gross lending. An assessment of the lending portfolio's composition, coupled with customers' expected financial development, would suggest that the overall level of credit losses is unlikely to change to any significant degree from a long-term point of view. The highest risk class is expected to account for the largest overall share of the Bank's credit losses.

Expected annual interest income – both for the lending portfolio as a whole and for each individual risk class – will exceed anticipated losses by a wide margin.

3. CERTIFICATES AND BONDS

Certificates and bonds issued by public borrowers

	Av. eff. yield	Acquisition cost	Market value
Quoted securities		0	0
Unquoted securities		50,470	51,303
Total	9.00 %	50,470	51,303
Of which the trading portfolio accounted for		50,470	51,303

Certificates and bonds issued by other borrowers

	Av. eff. yield	Acquisition cost	Market value
Quoted securities		809,499	803,945
Unquoted securities		703,064	703,492
Total	6.97 %	1,512,563	1,507,437
Of which the trading portfolio accounted for		163,748	164,504

No certificates or bonds are nominated in foreign currencies. Effective yield is calculated by dividing the total book value of interest income and any losses/gains by the aggregate amount of the year's average holdings of such securities.

4. SUBORDINATED LOAN CAPITAL PARTICIPATIONS IN OTHER COMPANIES

	2002	2001
Subordinated loan capital in other credit institutions	0	5,000
Subordinated loan capital shown under Bonds in the balance sheet	27,364	39,857
Subordinated loan capital shown under Loans in the balance sheet	25,794	25,829

5. SHARES AND OTHER SECURITIES WITH VARIABLE YIELD

Shares etc.	Acquisition cost	Book value
Trading portfolio:		
Quoted securities	70,129	69,299
Unit trust certificates	15,000	7,189
Total trading portfolio	85,129	76,488
Fixed assets:		
Unquoted securities	46,029	45,380
Unit trust certificates	22,000	22,000
Total fixed assets	68,029	67,380
Total shares	153,158	143,868

Name	Number of shares	Equity stake	Book value	Market value
TRADING PORTFOLIO				
Quoted companies				
Financial institutions				
Bolig og Næringsbanken	12,200	0.13	2,208	2,208
DnB Holding	100,000	0.01	3,260	3,260
Gjensidige Nor	90,000	0.10	20,430	20,430
Sparebanken Midt-Norge	25,400	0.41	3,683	3,683
Sparebanken Møre	21,000	0.38	3,780	3,780
Sparebanken Pluss	31,600	2.53	4,582	4,582
Sparebanken Rogaland	25,000	0.33	4,400	4,400
Storebrand	350,000	0.13	9,100	9,100

NOTES TO THE ACCOUNTS

Name	Number of shares	Equity stake	Book value	Market value
Other quoted companies				
Ekornes	25,000	0.07	2,113	2,113
Farstad Shipping	40,000	0.10	1,660	1,660
Golar LNG	10,000	0.02	420	420
Jøtul	14,000	0.48	882	882
Merkantildata	40,000	0.02	208	208
Orkla	25,000	0.01	2,950	2,950
PhotoCure	10,000	0.06	360	360
Smedvig A-aksjer	30,000	0.05	975	975
Software Innovation	30,000	0.21	390	390
Telenor	200,000	0.01	5,300	5,300
Tomra Systems	30,000	0.02	1,353	1,353
Visma	20,000	0.06	780	780
Vmetro	30,000	0.12	465	465
Unit trusts				
Avanse Europa	99,339		5,789	5,789
Fidelity Telecom	44,194		1,400	1,400
Total trading portfolio			76,488	76,488

Name	Number of shares	Equity stake	Book value
OTHER SHARES/EQUITY PARTICIPATIONS (classified as fixed assets)			
Ikke børsnoterte			
BBS/Bank Asept Holding	104,974	1.59	2,292
Eksporfinans	2,011	1.56	36,198
Norgesinvestor Long Short	70,000		7,000
Norgesinvestor Pro	50,000		5,000
NorgesInvestor Value	100,000		10,000
P-Hus Vest	60	15.79	3,000
Såkorinvest Sør	5,000		2,000
Other companies			1,890
Total			67,380
Total shares and equity stakes in general partnerships			143,868

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

Opening balance	60,275
Bought	7,155
Sold	50
Write-down	0
Closing balance	67,380

6. INVESTMENT IN GROUP- AND ASSOCIATED COMPANIES

Firm and registered office	Equity stake	Acq. cost	Eq. cap. at time of acq.	Opening balance	Result	Other changes	Closing bal.
Subsidiaries:							
A/S Eiendomsvekst, Arendal	100 %	1,500	1,500	2,597	-740	900	2,757
Prosjektutvikling A/S, Arendal	100 %	79	79	103	4	0	107
ABCcenter Holding AS	88 %	25,500	6,873	16,700	-8,694	393	8,399
Total investment in Group companies		27,079	8,452	19,400	-9,430	1,293	11,263
Associated companies:							
Bankbygg A/S , Bygland	50 %	50	50	4	-4		0
Eikentunet A/S, Eiken	49 %	328	328	626	33		659
Longum Teknologi- og							
Kompetansesenter II A/S, Arendal	48 %	5,500	1,500	6,515	44	2,901	9,460
Kragerø Næringshavn AS	25%	28	28		-16	28	12
Søndeled Bygg A/S, Risør	29 %	870	870	1,003	43		1,046
Total equity stakes in associated companies		6,776	2,776	8,148	100	2,929	11,177

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

7. INTER-COMPANY ACCOUNTING ITEMS – GROUP- AND ASSOCIATED COMPANIES

	2002	2001
Group companies		
Loans	39,570	34,911
Deposits	79,111	82,797
Guarantees	100	100
Deposits also include clients' funds which are not incorporated in subsidiaries' balance sheets.		
Associated companies		
Loans	38,091	17,038
Deposits	2,796	2,466

8. FIXED- AND INTANGIBLE ASSETS

	Machinery/Fixtures/ Transport equipment	Buildings	Intangible assets
Acquisition cost as at 1.1.02	132,501	152,161	12,328
Write-ups in previous years		29,500	
Additions in 2002	6,768	4,980	38
Disposals in 2002	6,354		110
Acquisition cost as at 31.12.02	132,915	186,641	12,256
Accumulated depreciation and write-downs	103,701	101,694	10,948
Book value as at 31.12.02	29,214	84,947	1,308
Ordinary depreciation	8,700	6,063	1,429
Gains from sales	493	60	

NOTES TO THE ACCOUNTS

Fixed assets in Group accounts:

	Machinery/Fixtures/ Transport equipment	Buildings	Intangible assets
Acquisition cost as at 1.1.02	138,647	182,890	47,481
Write-ups in previous years		29,500	
Additions in 2002	8,187	3,386	38
Disposals in 2002	7,823		110
Acquisition cost as at 31.12.02	139,011	215,776	47,409
Accumulated depreciation and write-downs	106,183	110,161	31,132
Bookvalue as at 31.12.02	32,828	105,615	16,277
Ordinary depreciation	9,688	6,585	9,069
Gains from sales	493	60	

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 RATIO

Change in equity capital

Savings Bank's Fund

Balance as at 31.12.01	1,264,094
Allocation of profit for the year	69,015
Balance as at 31.12.02	1,333,109

Capital adequacy

The statutory minimum capital adequacy requirement is 8 per cent of a certain weighted asset base.

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

	31,12,02	31,12,01
Core capital		
Savings Bank's Fund	1,333,109	1,264,094
-Over-funding of pension liabilities after deduction of deferred tax	-24,712	-15,806
-Intangible assets	-13,978	-8,544
Core capital	1,294,419	1,239,744
-Equity and related capital participations in other financial institutions	-1,825	-27,352
Net equity and related capital	1,292,594	1,212,392
Calculation basis for assets which do not form part of the trading portfolio	10,839,458	9,318,700
Calculation basis for off-balance sheet items which do not form part of the trading portfolio	353,449	363,428
Calculation basis for assets which form part of the trading portfolio	190,628	682,355
-Equity and related capital participations in other financial institutions	-1,825	-27,352
-Loss provisions	-257,340	-221,746
Total weighted asset calculation basis	11,124,370	10,115,385
Capital adequacy ratio	11.6 %	12.0 %

NOTES TO THE ACCOUNTS

Liabs. and equity capital	Up to 1 month	1-3 months	3 months - 1 year	1-5 years	Over 5 years	No interest rate exposure	Total
Liabs. to credit institutions	41,358	366,947	11,662				419,967
Deposits from and liabilities to customers	8,950,842	991,173	421,094	270			10,363,379
Borrowings through the issuance of securities	689,534	1,208,359	1,347,967		656,642		3,902,502
Other liabilities						238,935	238,935
Equity capital						1,333,109	1,333,109
Total liabs. and equity cap.	9,681,734	2,566,479	1,780,723	270	656,642	1,572,044	16,257,892
Of which in foreign currency	76,277	380,947	11,662			763	469,649
Net interest rate exposure on balance sheet	-8,128,273	10,692,544	-1,399,205	523,962	-624,513	-1,064,515	0
Net off-balance sheet financial derivatives affecting interest rate exposure	-175,427	-1,034,492	920,000	-354,621	644,540		0
Total interest rate exposure	-8,303,700	9,658,052	-479,205	169,341	20,027	-1,064,515	0
Net interest rate exposure as a percentage of assets	-51.1	59.4	-2.9	1.0	0.1	-6.5	

At the end of the year, a 1 percentage point shift in interest rates amounted to a NOK 3.0 million interest rate risk on the balance sheet.

11. AVERAGE INTEREST RATES AND SPECIAL TERMS AND CONDITIONS FOR LIABILITIES ITEMS

	Average interest rate
Liabilities to credit institutions	
Loans and deposits from credit institutions with no agreed maturity	5.5 %
Loans and deposits from credit institutions with agreed maturity	1.0 %
Deposits from customers	
Deposits from customers with no agreed maturity	5.2 %
Deposits from customers with agreed maturity	5.4 %
Borrowings through the issuance of securities	
Liabilities evidenced by certificates	7.0 %
Bond debt	6.7 %

Average interest rate is calculated as a weighted average of actual interest rates as at 31.12.02, defined as annual interest payable in arrears. Liabilities items are not subject to special terms and conditions.

Of the total liabilities to credit institutions, the equivalent of NOK 419 million is expressed in foreign currencies. The corresponding amount for customer deposits is NOK 50 million. All borrowings through the issuance of securities are expressed in Norwegian kroner.

Bonds and certificates amounting to a book value of NOK 1,099 million have been pledged as collateralised security for day loans and so-called D-loans from Norges Bank (Bank of Norway). Such borrowings must be fully secured by depositing securities at the Norwegian Registry of Securities (VPS).

12. INFORMATION REGARDING STAFF AND ELECTED REPRESENTATIVES

Number of staff

In 2002, on average, the Bank employed 407 people, equivalent to an average of 356 man-years.

Wages, salaries, fees and emoluments

Fees paid to elected representatives		1,125
The three sections below accounted for the following amounts:	Board of Trustees	106
	Board of Directors	676
	Control Committee	343
Salary and other remuneration paid to the Managing Director		1,231
Fees paid to external auditor		646
of which auditing services accounted for		510
of which advisory services accounted for		136

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

Loans and guarantees extended to staff and elected representatives

	Loans	Guarantees
Staff	182,825	0
The cost of interest rate subsidies in respect of loans to staff totalled NOK 3.9 million.		
Elected representatives	20,100	0
Of which the three sections below accounted for:	Forstanderskap	13,576
	Board of Trustees	4,744
	Control Committee	1,780

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

13. PENSION LIABILITIES RELATING TO STAFF AND ELECTED REPRESENTATIVES

Guaranteed scheme

Sparebanken Sør runs a group pension scheme for its employees, through a life assurance company. The Bank's liabilities in this respect comprises 413 staff and 82 retired employees. 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. In addition, a separate arrangement has been established for members of the Bank's Group management team who have the option to retire at the age of 60.

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 produced by the life assurance company, detailing the accrued pension liabilities.

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

NOTES TO THE ACCOUNTS

Non-guaranteed scheme

For employees retiring before normal pensionable age, or for those who have not accumulated a full pension entitlement by the time they leave the Bank, Sparebanken Sør provides an annual amount. This pension scheme is funded by a direct charge to the profit and loss account, comprising 4 former employees who have taken early retirement and who are now drawing such pensions, 25 old age pensioners who left the Bank at normal retirement age and are now receiving their pensions, and 8 former members of staff benefitting from the statutory early retirement pension scheme (referred to elsewhere in the Bank's Annual Report and Notes to the Accounts as 'SERPS'). The latter scheme has been established for 399 employees, all of whom have the option to retire at the age of 62. A separate arrangement has been provided of 25 managers, who will be able to leave the Bank subject to application; they will 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 a 100 per cent as far as the abovementioned arrangement for managers is concerned.

The calculations are 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 on invested funds	7.0 %

Breakdown of the pension cost for the year:

Pensionable amounts accrued during the year	8,812
Interest cost relating to pension liabilities	10,423
Expected return on pension resources	-10,189
Impact of changed estimates included in the profit and loss account	601
Employer's levy subject to accrual accounting	-439
Share of future estimated pension liabilities subject to accrual accounting	1,000
Net pension cost	10,208

	31.12.02		31.12.01	
	Guaranteed	Not guaran.	Guaranteed	Not guaran.
Gross pension liabilities	-145,992	-47,949	-118,997	-56,729
Pension resources	165,618		133,228	
Impact of changed estimates not included in profit and loss account	15,218	8,759	7,722	11,338
Share of future estimated pension liabilities not included in accounts		931		4,287
Net pension resources/liabilities	34,844	-38,259	21,953	-41,104

In 2002, the Bank contributed NOK 23.3 million towards pension resources; on that amount, the Bank has paid employer's levy of NOK 3.3 million.

14. ACCOUNTING TREATMENT OF TAX

Temporary differences	31.12.02	31.12.01	Change
Write-up of bank buildings	-6,870	-7,558	688
Pension resources	-34,844	-21,953	-12,891
Negative tax-related accelerated depreciation of fixed assets	32,439	31,284	1,155
Tax-related surplus/shortfall in respect of securities	15,634	-22,936	38,570
Pension liabilities	38,259	41,104	-2,845
Other accounts-related provisions	633	934	-301
Net temporary differences	45,251	20,875	24,376
Deferred tax benefit, 28% thereof	12,670	5,845	
Deferred tax, net change	6,825	4,141	

Taxation charge for the year	2002	2001
Result before tax	105,076	163,388
Permanent differences	-887	-14,641
Group contributions – subsidiaries	-900	-600
Share of result – subsidiaries and associated companies	9,330	8,299
Temporary differences, net change	24,376	14,784
Basis for tax payable	136,995	171,230
Corporate income tax, at 28%	38,359	47,944
Corporate wealth tax	4,541	4,556
Tax payable as shown in balance sheet	42,900	52,500
Settlement of tax payable from previous years	-2,014	-1264
Deferred tax, net change	-6,825	-4,141
Taxation charge for the year	34,061	47,095

For the subsidiaries involved, tax payable for 2002 amounted to NOK 0.4 million; the increase in deferred tax benefit for the year totalled NOK 1.1 million.

15. OTHER LIABILITIES

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

16. FINANCIAL DERIVATIVES

		Nominal amount at 31.12.02	Market value at 31.12.02
Interest rate swaps		2,560,839	15,540
FRAs		1,000,000	- 922
Forward exchange contracts:	Bought	308,137	312,342
	Sold	308,142	312,347

Interest rate swaps: Agreements to swap interest rates for a nominal amount for a fixed period.

FRAs: Agreements fixing a rate of interest for a nominal amount for a future period.

Forward exchange contracts: Agreements to buy or sell a fixed currency amount at a 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.

Of the nominal amount of interest rate swaps, NOK 95 million is accounted for by swaps in the trading portfolio. Apart from this, the Bank's financial derivatives represent hedging transactions which are valued in the same way as the accounting items which have been hedged. The book value of hedging transactions is matched by the 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	
	2002	2001	2002	2001
Credit brokerage	179	169	179	169
Trading and management of securities	5,032	6,282	5,032	6,282
Payments transmission services	68,607	62,897	68,607	62,897
Insurance services	4,468	4,313	4,468	4,313
Real estate brokerage and management			47,147	54,595
Accountancy services for customers				2,048
Miscellaneous	7,451	7,764	7,451	7,764
Total other fees and commissions	85,737	81,425	132,884	138,068

KEY FIGURES 2002 (Parent Bank)

KEY FIGURES 1998-2002

From Profit and Loss Account

	2002	2001	2000	1999	1998
Interest- and credit commission income	1,216.6	1,163.8	947.6	852.9	699.1
Interest costs	775.2	756.1	577.2	502.3	385.6
Net interest- and credit commission income	441.4	407.7	370.4	350.6	313.5
Other operating income	44.6	77.3	89.2	104.6	53.1
Other operating costs	302.7	297.2	283.4	275.5	274.3
Operating result before losses	183.3	187.8	176.2	179.7	92.3
Gains from the sale of long-term shareholdings		35.0	83.4		
Losses on loans and guarantees	78.3	59.4	35.7	27.7	20.5
Result from ordinary operations	105.0	163.4	223.9	152.0	71.8
Tax	34.0	47.1	60.5	42.4	21.4
Result after tax	71.0	116.3	163.4	109.6	50.4

Results etc. as a percentage of average assets

Interest- and credit commission income	7.91 %	8.35 %	7.52 %	7.78 %	6.84 %
Interest costs	5.04 %	5.43 %	4.58 %	4.58 %	3.77 %
Net interest- and credit commission income	2.87 %	2.92 %	2.94 %	3.20 %	3.07 %
Other operating income	0.29 %	0.55 %	0.71 %	0.95 %	0.52 %
Other operating costs	1.97 %	2.13 %	2.25 %	2.51 %	2.69 %
Operating result before losses	1.19 %	1.34 %	1.40 %	1.64 %	0.90 %
Gains from the sale of fixed assets		0.25 %	0.66 %		
Losses on loans and guarantees	0.51 %	0.43 %	0.28 %	0.25 %	0.20 %
Result from ordinary operations	0.68 %	1.16 %	1.78 %	1.39 %	0.70 %
Tax	0.22 %	0.34 %	0.48 %	0.39 %	0.21 %
Result after tax	0.46 %	0.82 %	1.30 %	1.00 %	0.49 %

Average assets	15,384.0	13,936.6	12,595.0	10,967.0	10,215.0
Return on equity capital	5.62 %	10.10 %	15.28 %	11.69 %	5.86 %
Costs as a percentage of income, excl. securities	57.60 %	59.82 %	61.48 %	64.17 %	70.86 %

From the Balance Sheet

Assets	16,257.9	14,401.6	13,255.5	11,893.6	10,481.3
Gross lending	14,165.9	12,888.3	11,550.5	10,186.3	9,010.0
Deposits from customers	10,363.4	9,188.5	9,147.4	7,527.0	7,101.3
Deposits as a percentage of gross lending	73.2 %	71.3 %	79.2 %	73.9 %	78.8 %
Equity and related capital	1,292.6	1,212.4	1,086.0	909.6	849.5
Capital adequacy ratio	11.6 %	12.0 %	11.6 %	11.3 %	12.2 %

AUDITOR'S REPORT 2002

Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of Sparebanken Sør of 2002, showing a profit of NOK 71,014,874 for the Bank and a profit of NOK 71,015,000 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, 2002, 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 complies with the law and regulations.

Arendal, February 27, 2003
KPMG AS



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State Authorised Public Accountant

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