

## **FIRST QUARTER REPORT 2004 SPAREBANKEN SØR**

### **RESULT**

The pre-tax result at the end of the first quarter totalled NOK 48.5 million. This was NOK 22.5 million up on the corresponding interim period last year. In relation to average assets, the pre-tax result amounted to 1.08 per cent, as against 0.63 per cent at the same time last year. The improvement in the result is largely due to higher income from securities. Another positive factor is the lower level of costs in the first quarter compared with the same period a year ago.

### **NET INTEREST INCOME AND AVERAGE INTEREST MARGIN**

Net interest income totalled NOK 105.5 million at the end of the first quarter, down by NOK 0.3 million on the comparable interim period last year. The slight reduction is primarily ascribable to the low level of domestic interest rates this year, compared with the same period last year. Low interest rates in the market trigger reduced revenue generation from that part of the Bank's placements which is funded by equity capital. In relation to average assets, net interest income amounted to 2.36 per cent, as against 2.58 per cent a year ago.

### **OTHER (NON-INTEREST) INCOME**

Net other operating income ended up at NOK 29.2 million at the end of the first quarter, up by NOK 16.6 million on the same time last year. In relation to average assets, this involved an increase from 0.31 to 0.65 per cent. The improvement in other income is principally attributable to generally rising securities prices. In addition, there was increased income from share dividends, and an improvement in the result of the Bank's most important subsidiary. Net earnings from banking services showed stable development, but were only slightly up on the same time a year ago. Automated services account for most of the payments transmission business, but these services are priced the lowest .

### **OPERATING COSTS**

Costs totalled NOK 73.4 million, down from NOK 79.7 million at the end of the first quarter last year. The reduction applied to most cost categories throughout the Bank. Measured against average assets, the overall cost ratio finished up at 1.64 per cent, down from 1.95 per cent 12 months ago. However, the Bank's level of costs is still too high. Further measures have therefore been implemented in order to reduce costs; this is expected to produce the desired impact before long .

### **CREDIT LOSSES**

Net credit losses after the first 3 months of the year amounted to NOK 12.8 million, of which the increase in non-specific loss provisions accounted for NOK 4.0 million. The losses are largely unchanged from a year ago. Corporate lending still accounts for the largest share of total credit losses, whereas losses in the retail banking lending area are very modest. The Bank's loan portfolio is assessed at regular intervals in order to identify any credit losses as early as possible.

Commitments in default as well as bad and doubtful commitments are at an acceptable level – there were only smaller changes compared with the start of the year.

## **BALANCE SHEET**

At the end of the quarter currently under review, aggregate assets stood at NOK 17.9 billion, up from NOK 16.6 billion at the same time last year. During the last 12-month period, loans expanded by 8.7 per cent. Lending growth is still higher in the retail banking area than in the corporate banking sector. The Bank's overall credit risk profile has not changed significantly during the period. Deposits were down by 2.0 per cent overall, largely due to the withdrawal of some larger deposits by municipal customers. However, retail banking deposits improved by 4.5 per cent. Deposits amounted to 63.8 per cent of loans. A minimum deposit coverage ratio of 60 per cent has been fixed by the Board of Directors. The Bank's remaining funding requirements are largely covered by new bond issues raised in the market.

## **CAPITAL ADEQUACY RATIO**

At the end of the first quarter, the Bank's capital adequacy ratio amounted to 11.4 per cent. The Bank's equity and related capital – consisting of core capital only – totalled NOK 1.4 billion.

## **FUTURE PROSPECTS**

Sparebanken Sør is a financially strong bank, enjoying a strong position in its local market. In order to maintain and further improve this position, restructuring measures – involving a 10 per cent shrinkage in overall manning levels and a reduction in the number of branches – are in the process of being implemented. This should produce annual cost savings of NOK 25 million. The financial impact of these measures will materialise in the near future. Prospects of continued, low interest rates are likely to dampen deposit growth and put downward pressure on the Bank's net interest income. This is one of the reasons why every effort is also being made in order to boost the Bank's overall revenue generation. This, coupled with increased emphasis on risk pricing of loans, is expected to produce the desired results in the near future.

Arendal, 21 April 2004

The Board of Directors of Sparebanken Sør

Jostein Dalane  
Chairman

Jan A. Roaldstveit  
Deputy Chairman

Sidsel Schwabe-Hansen

Sigmund Pollestad

Laila Øygarden

Kirsti Aatangen

Lise M. Weum Sandnes

Arnt Haddeland

Tove Solfeld

Hans A. Iversen  
Managing Director

## PROFIT AND LOSS ACCOUNT

PARENT BANK Amounts in NOK million				GROUP Amounts in NOK mill.		
31.03.2004	31.03.2003	31.12.2003		31.03.2004	31.03.2003	31.12.2003
185.1	310.6	1 039.1	Interest receivable and similar income	185.0	310.2	1 034.3
79.6	204.8	603.9	Interest payable and similar costs	79.6	204.8	600.6
<b>105.5</b>	<b>105.8</b>	<b>435.2</b>	<b>Net interest- and credit commission income</b>	<b>105.4</b>	<b>105.4</b>	<b>433.7</b>
3.4	-3.2	-0.4	Dividends and other income from securities with variable yield	4.3	1.1	8.1
21.3	20.6	94.0	Commissions receivable and income from banking services	38.1	29.5	162.8
4.7	4.0	24.1	Commissions payable and costs relating to banking services	4.7	4.0	24.1
5.2	-3.5	44.7	Net value change and gains/losses on f/x and securities	5.2	-3.5	44.7
4.0	2.7	12.1	Other operating income	4.0	2.7	12.2
<b>29.2</b>	<b>12.6</b>	<b>126.3</b>	<b>Net other operating income</b>	<b>46.9</b>	<b>25.8</b>	<b>203.7</b>
58.9	62.6	258.7	Wages, salaries and general administration costs	74.6	73.8	320.4
4.0	4.3	15.6	Depreciation of fixed- and intangible assets	5.9	6.4	26.1
10.5	12.8	45.6	Other operating costs	10.5	12.8	45.6
<b>73.4</b>	<b>79.7</b>	<b>319.9</b>	<b>Total operating costs</b>	<b>91.0</b>	<b>93.0</b>	<b>392.1</b>
<b>61.3</b>	<b>38.7</b>	<b>241.6</b>	<b>Result before credit losses</b>	<b>61.3</b>	<b>38.2</b>	<b>245.3</b>
12.8	12.7	75.6	Losses on loans, guarantees etc.	12.8	12.7	75.6
-	-	-0.6	Gains/losses on securities held on a long-term basis	-	-	-0.6
<b>48.5</b>	<b>26.0</b>	<b>165.4</b>	<b>Result before taxation cost</b>	<b>48.5</b>	<b>25.5</b>	<b>169.1</b>
13.5	8.7	51.6	Tax payable on ordinary result	13.5	8.7	52.4
<b>35.0</b>	<b>17.3</b>	<b>113.8</b>	<b>Result for the accounting year</b>	<b>35.0</b>	<b>16.8</b>	<b>116.7</b>
			Minority interests		-0.5	2.9
			<b>Result after minority interests</b>	<b>35.0</b>	<b>17.3</b>	<b>113.8</b>

## BALANCE SHEET

PARENT BANK Amounts in NOK million				GROUP Amounts in NOK million		
31.03.2004	31.03.2003	31.12.2003	ASSETS	31.03.2004	31.03.2003	31.12.2003
57.6	204.6	305.8	Cash-in-hand and claims on central banks	57.6	204.6	305.8
31.6	67.4	49.0	Loans to and claims on credit institutions	31.6	67.4	49.0
15 891.1	14 621.2	15 585.9	Loans (gross) to and claims on customers	15 843.9	14 585.7	15 538.7
102.8	115.0	97.0	Specific loss provisions	102.8	115.0	97.0
168.0	153.0	164.0	Non-specific loss provisions	168.0	153.0	164.0
<b>15 620.3</b>	<b>14 353.2</b>	<b>15 324.9</b>	<b>Net loans to and claims on customers</b>	<b>15 573.1</b>	<b>14 317.7</b>	<b>15 277.7</b>
7.6	7.1	7.6	Repossessed assets	7.6	7.1	7.6
1 735.6	1 527.1	1 449.8	Certificates, bonds and other interest-bearing securities	1 735.6	1 527.1	1 449.8
191.2	132.0	182.5	Shares	191.3	132.1	182.6
11.2	11.2	11.2	Equity interests in associated companies	11.2	11.2	11.2
25.3	6.9	26.2	Equity interests in Group companies			
5.8	14.0	4.7	Intangible assets	15.5	30.5	14.6
111.7	116.9	110.5	Fixed assets	140.4	141.2	139.2
40.8	14.0	26.5	Other assets	68.4	29.0	54.0
73.7	120.8	78.5	Prepayments and accrued income	73.7	120.8	78.5
<b>17 912.4</b>	<b>16 575.2</b>	<b>17 577.2</b>	<b>TOTAL ASSETS</b>	<b>17 906.0</b>	<b>16 588.7</b>	<b>17 570.0</b>
			<b>LIABILITIES AND EQUITY CAPITAL</b>			
950.8	481.3	385.8	Liabilities to credit institutions	950.8	481.3	385.8
10 146.5	10 339.3	10 262.9	Deposits from and liabilities to customers	10 143.1	10 337.9	10 259.5
5 059.5	4 049.5	5 238.1	Borrowings raised through the issuance of securities	5 059.5	4 049.5	5 238.1
132.4	112.5	134.6	Other liabilities	125.4	125.7	127.7
101.0	204.0	68.1	Incurred costs and prepaid income	101.0	204.0	68.1
42.3	38.2	42.8	Provisions for liabilities and costs	42.3	38.2	42.8
<b>16 432.5</b>	<b>15 224.8</b>	<b>16 132.3</b>	<b>Total liabilities</b>	<b>16 422.1</b>	<b>15 236.6</b>	<b>16 122.0</b>
			Minority interests	2.2	-0.1	1.4
1 444.9	1 333.1	1 444.9	Equity capital	1 446.7	1 334.9	1 446.6
35.0	17.3		Undistributed profits	35.0	17.3	
<b>17 912.4</b>	<b>16 575.2</b>	<b>17 577.2</b>	<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>	<b>17 906.0</b>	<b>16 588.7</b>	<b>17 570.0</b>

### OFF BALANCE SHEET ITEMS

#### Contingent liabilities:

500.6	555.8	480.8	Guarantees	500.6	555.8	480.8
1 454.2	1 155.9	1269.5	Book value of assets pledged as security for borrowings	1 454.2	1 155.9	1269.5
2.8	3.4	4.9	Other contingent liabilities	2.8	3.4	4.9
			<b>Liabilities</b>			
4 558.7	2 645.0	4 684.9	Interest rate swaps	4 558.7	2 645.0	4 684.9
-	500.0	-	FRAs	-	500.0	-
269.9	400.0	276.0	Forward exchange contracts - bought	269.9	400.0	276.0
256.2	399.9	276.0	Forward exchange contracts - sold	256.2	399.9	276.0

## QUARTERLY RESULTS (Parent Bank)

Amounts in NOK million

	1st q. 2004	4th q. 2003	3rd q. 2003	2nd q. 2003	1st q. 2003	4th q. 2002
Net interest- and credit commission income	105.5	105.0	115.0	109.4	105.8	116.4
Other (non-interest) operating income	29.2	45.4	27.3	41.0	12.6	22.1
Operating costs	73.4	87.2	74.5	78.5	79.7	86.7
<b>Result before credit losses</b>	<b>61.3</b>	<b>63.2</b>	<b>67.8</b>	<b>71.9</b>	<b>38.7</b>	<b>51.8</b>
Losses on loans	12.8	40.5	10.6	11.8	12.7	44.7
Losses on securities held on a long-term basis		-0.6				
<b>Result before tax</b>	<b>48.5</b>	<b>22.1</b>	<b>57.2</b>	<b>60.1</b>	<b>26.0</b>	<b>7.1</b>
Tax payable on ordinary result	13.5	8.6	17.0	17.3	8.7	5.6
<b>Result after tax</b>	<b>35.0</b>	<b>13.5</b>	<b>40.2</b>	<b>42.8</b>	<b>17.3</b>	<b>1.5</b>

## MAIN FIGURES AS A PERCENTAGE OF AVERAGE ASSETS (Parent Bank)

	31.03.2004	31.03.2003	31.12.2003
Net interest- and credit commission income	2.36	2.58	2.53
Other (non-interest) operating income	0.65	0.31	0.74
Operating costs	1.64	1.95	1.86
<b>Result before credit losses</b>	<b>1.37</b>	<b>0.94</b>	<b>1.41</b>
Losses on loans	0.29	0.31	0.44
Gains/losses on securities held on a long-term basis	0.00	0.00	0.00
<b>Result before tax</b>	<b>1.08</b>	<b>0.63</b>	<b>0.97</b>
Tax payable on ordinary result	0.30	0.21	0.30
<b>Result after tax</b>	<b>0.78</b>	<b>0.42</b>	<b>0.67</b>

## NOTES TO THE ACCOUNTS

<b>Losses on loans and guarantees</b>	31.03.2004	31.03.2003	31.12.2003
Change in specific loss provisions during the period	5.8	7.9	-9.9
Change in non-specific loss provisions during the period	4.0	3.0	14.0
Period's confirmed losses, against which specific loss provisions were made in previous years	3.4	2.0	52.9
Period's confirmed losses, against which no specific loss provisioning was raised in previous years	0.2	0.2	20.2
Period's recoveries relating to previous, confirmed losses	0.6	0.4	1.6
<b>Credit loss cost during the period</b>	<b>12.8</b>	<b>12.7</b>	<b>75.6</b>

<b>Commitments in default - bad and doubtful commitments</b>	31.03.2004	31.03.2003	31.12.2003
Commitments in default	246.2	401.7	266.0
Loss provisions	-64.4	-88.3	-65.8
<b>Net commitments in default</b>	<b>181.8</b>	<b>313.4</b>	<b>200.2</b>
Other bad and doubtful commitments	170.7	90.2	153.0
Loss provisions	-38.9	-27.3	-31.7
<b>Net bad and doubtful commitments</b>	<b>131.8</b>	<b>62.9</b>	<b>121.3</b>

Commitments in default are defined as the total amount of all outstanding commitments of a customer if just one of his/her/its loans has been in default for 90 days or more.

<b>Equity and related capital - capital adequacy</b>	31.03.2004	31.03.2003	31.12.2003
<b>Core capital</b>			
Savings Bank's Fund	1 444.9	1 333.1	1 444.9
Intangible assets and over-funded pension liabilities	-38.9	-38.7	-37.9
Equity- and similar capital participations in other financial institutions	-0.9	-1.8	-0.9
<b>Net equity and related capital</b>	<b>1 405.1</b>	<b>1 292.6</b>	<b>1 406.1</b>
Weighted asset calculation basis for capital adequacy computation purposes	12 317.4	11 515.4	11 920.5
<b>Capital adequacy ratio</b>	<b>11.4 %</b>	<b>11.2 %</b>	<b>11.8 %</b>

## KEY FIGURES 2000 - 2004

<b>Profit and Loss Account</b>	<b>31.03.04</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Interest- and credit commission income	185.1	1 039.1	1 216.6	1 163.8	947.6
Interest costs	79.6	603.9	775.2	756.1	577.2
<b>Net interest- and credit commission income</b>	<b>105.5</b>	<b>435.2</b>	<b>441.4</b>	<b>407.7</b>	<b>370.4</b>
Other operating income	29.2	126.3	44.6	77.3	89.2
Other operating costs	73.4	319.9	302.7	297.2	283.4
<b>Operating result before credit losses</b>	<b>61.3</b>	<b>241.6</b>	<b>183.3</b>	<b>187.8</b>	<b>176.2</b>
Losses on loans and guarantees	12.8	75.6	78.3	59.4	35.7
Gains/losses on securities held on a long-term basis	-	-0.6	-	35.0	83.4
<b>Result from ordinary operations</b>	<b>48.5</b>	<b>165.4</b>	<b>105.0</b>	<b>163.4</b>	<b>223.9</b>
Tax	13.5	51.6	34.0	47.1	60.5
<b>Result after tax</b>	<b>35.0</b>	<b>113.8</b>	<b>71.0</b>	<b>116.3</b>	<b>163.4</b>

  

<b>Profit and loss account items - as a percentage of average assets</b>	<b>31.03.04</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Interest- and credit commission income	4.14 %	6.05 %	7.91 %	8.35 %	7.52 %
Interest costs	1.78 %	3.52 %	5.04 %	5.43 %	4.58 %
<b>Net interest- and credit commission income</b>	<b>2.36 %</b>	<b>2.53 %</b>	<b>2.87 %</b>	<b>2.92 %</b>	<b>2.94 %</b>
Other operating income	0.65 %	0.74 %	0.29 %	0.55 %	0.71 %
Other operating costs	1.64 %	1.86 %	1.97 %	2.13 %	2.25 %
<b>Operating result before credit losses</b>	<b>1.37 %</b>	<b>1.41 %</b>	<b>1.19 %</b>	<b>1.34 %</b>	<b>1.40 %</b>
Losses on loans and guarantees	0.29 %	0.44 %	0.51 %	0.43 %	0.28 %
Gains/losses on securities held on a long-term basis	0.00 %	0.00 %	0.00 %	0.25 %	0.66 %
<b>Result from ordinary operations</b>	<b>1.08 %</b>	<b>0.97 %</b>	<b>0.68 %</b>	<b>1.16 %</b>	<b>1.78 %</b>
Tax	0.30 %	0.30 %	0.22 %	0.34 %	0.48 %
<b>Result after tax</b>	<b>0.78 %</b>	<b>0.67 %</b>	<b>0.46 %</b>	<b>0.82 %</b>	<b>1.30 %</b>
Average assets	17 961.1	17 177.0	15 384.0	13 936.6	12 595.0
Return on equity capital	9.74 %	8.54 %	5.62 %	10.10 %	15.28 %
Costs as a percentage of income, excluding earnings from securities	56.17 %	61.43 %	57.60 %	59.82 %	61.48 %

  

<b>From the Balance Sheet</b>	<b>31.03.04</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Assets	17 912.4	17 577.2	16 257.9	14 401.6	13 255.5
Loans (gross)	15 891.1	15 585.9	14 165.9	12 888.3	11 550.5
Deposits from customers	10 131.9	10 262.9	10 363.4	9 188.5	9 147.4
Deposits as a percentage of loans (gross)	63.80 %	65.90 %	73.20 %	71.30 %	79.20 %
Equity and related capital	1 405.1	1 406.1	1 292.6	1 212.4	1 086.0
Capital adequacy ratio	11.4 %	11.8 %	11.6 %	12.0 %	11.6 %