

## **THIRD QUARTER REPORT 2004 SPAREBANKEN SØR**

### **RESULT**

The pre-tax result at the end of the third quarter totalled NOK 182.8 million. This was NOK 39.5 million up on the corresponding interim period last year. In relation to average assets, the result amounted to 1.32 per cent, as against 1.13 per cent at the same time last year. The improvement in the result is largely due to significantly lower credit losses, higher earnings from securities and the fact this year Sparebanken Sør will not have to pay any levy to the Savings Banks' Guarantee Fund.

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

Net interest income totalled NOK 338.6 million at the end of the third quarter, up by NOK 8.4 million on the comparable interim period last year. The improvement is partly ascribable to the fact since this year (and the next two years) no levy is payable to the Savings Banks' Guarantee Fund, there has accordingly been no deduction of this amount from the Bank's net interest income. This change is related to the fact that due to a restructuring in the Norwegian banking industry, the two separate Guarantee Funds of the savings banks and commercial banks are in the process of being merged into one guarantee fund. Domestic interest rates are still low and this has resulted in lower income from that part of the Bank's placements which is funded by equity capital. However, this reduction in income is largely compensated for by higher lending volumes, particularly in the retail banking market. In addition, this year every effort has been made in order to improve the Bank's margins, especially within the corporate market. In relation to average assets, net interest income amounted to 2.46 per cent, as against 2.59 per cent a year ago.

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

Net other operating income ended up at NOK 98.4 million at the end of the third quarter, up by NOK 17.5 million on the same time last year. In relation to average assets, this involved an increase from 0.63 to 0.71 per cent. The improvement is principally attributable to higher income from securities. Furthermore, net earnings from banking services posted a moderate increase compared with the same time a year ago. The improved income is primarily ascribable to higher transaction volumes, as prices have not been changed to any significant extent. Automated services account for most of the Bank's payments transmission business, but these services are priced the lowest.

### **OPERATING COSTS**

Costs totalled NOK 235.8 million, up from NOK 232.7 million at the end of the third quarter last year. The increase in costs, in cash terms, is partly due to a NOK 8.5 million provision at the end of the third quarter to cover accrued bonuses for the Bank's staff. Total costs also include NOK 4.0 million restructuring costs relating to the reduction in overall manning levels. If these two factors were taken into consideration in this connection, there would have been a shrinkage in costs in cash terms in comparison with the corresponding interim period last year. The reduction in overall manning levels and the number of branches has so far had little impact on the overall results. Measured against average assets, however, there was further improvement, the overall cost ratio finishing up at 1.71 per cent, down from 1.82 per cent 12 months ago.

## **CREDIT LOSSES**

Net credit losses after the first 9 months of the year amounted to NOK 18.5 million, of which the increase in non-specific loss provisions accounted for NOK 8.0 million. The losses are lower than a year ago; this shows that the quality of the Bank's lending portfolio has been improving.

Commitments in default as well as bad and doubtful commitments have remained at an acceptable level and there appears to be a downward trend. However, this area is still monitored very carefully.

## **BALANCE SHEET**

At the end of the quarter currently under review, aggregate assets stood at NOK 18.7 billion, up from NOK 17.1 billion at the same time last year. During the last 12-month period, loans expanded by 9.9 per cent. Lending growth is still significantly higher in the retail banking area than in the corporate banking sector. Deposits were down by 0.5 per cent overall. Retail banking deposits improved, whereas there was a smaller reduction in the corporate banking area. At the end of the quarter, deposits amounted to 60.5 per cent of loans. The shrinkage in the overall deposit coverage is watched very closely. The Bank's remaining funding requirements are covered by new long-term bond issues raised in the market.

## **CAPITAL ADEQUACY RATIO - EQUITY AND RELATED CAPITAL**

At the end of the third quarter of 2004, the Bank's capital adequacy ratio amounted to 11.2 per cent. The Bank's equity and related capital – consisting of core capital only – totalled NOK 1.4 billion.

## **FUTURE PROSPECTS**

Sparebanken Sør is currently enjoying a period of good progress within several areas. The Board of Directors expects this trend to continue. Domestic interest rates are still low and no significant increases are expected in the near future. This puts downward pressure on the Bank's margins and interest income. Furthermore, maintaining a level of satisfactory deposit growth as well as a reasonable overall deposit coverage ratio will be a challenging task for the Bank. However, the Bank has a good name in the money markets and is able to meet external funding requirements by borrowing at favourable rates. The Board of Directors expects that this situation will continue to apply, in view of the Bank's good results and progress at the present time.

Arendal, 20 October 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

Kristi Marie Tveit

Tove Solfeld

Hans A. Iversen  
Managing Director

## PROFIT AND LOSS ACCOUNT

PARENT BANK			GROUP			
Amounts in NOK million			Amounts in NOK mill.			
30.09.2004	30.09.2003	31.12.2003		30.09.2004	30.09.2003	31.12.2003
539.8	844.2	1 039.1	Interest receivable and similar income	539.6	843.1	1 034.3
201.2	514.0	603.9	Interest payable and similar costs	201.2	514.0	600.6
<b>338.6</b>	<b>330.2</b>	<b>435.2</b>	<b>Net interest- and credit commission income</b>	<b>338.4</b>	<b>329.1</b>	<b>433.7</b>
11.0	-0.1	-0.4	Dividends and other income on securities with variable yield	9.6	4.2	8.1
70.1	66.8	94.0	Commissions and income from banking services	132.9	117.1	162.8
18.0	17.3	24.1	Commission- and other costs relating to banking services	18.0	17.3	24.1
23.2	22.3	44.7	Net value change - gains/losses on f/x and securities	23.2	22.3	44.7
12.1	9.2	12.1	Other operating income	12.1	9.2	12.2
<b>98.4</b>	<b>80.9</b>	<b>126.3</b>	<b>Net other operating income</b>	<b>159.8</b>	<b>135.5</b>	<b>203.7</b>
190.5	185.0	258.7	Wages, salaries and general administration costs	238.9	231.8	320.4
12.1	12.9	15.6	Depreciation on fixed- and intangible assets	18.2	19.8	26.1
33.2	34.8	45.6	Other operating costs	33.2	34.8	45.6
<b>235.8</b>	<b>232.7</b>	<b>319.9</b>	<b>Total operating costs</b>	<b>290.3</b>	<b>286.4</b>	<b>392.1</b>
<b>201.2</b>	<b>178.4</b>	<b>241.6</b>	<b>Result before credit losses</b>	<b>207.9</b>	<b>178.2</b>	<b>245.3</b>
18.5	35.1	75.6	Losses on loans, guarantees etc.	18.5	35.1	75.6
0.1	-	-0.6	Gains/losses on securities held on a long-term basis	-	-	-0.6
<b>182.8</b>	<b>143.3</b>	<b>165.4</b>	<b>Result before taxation charge</b>	<b>189.4</b>	<b>143.1</b>	<b>169.1</b>
51.5	43.0	51.6	Tax payable on ordinary result	53.5	43.0	52.4
<b>131.3</b>	<b>100.3</b>	<b>113.8</b>	<b>Result for the accounting year</b>	<b>135.9</b>	<b>100.1</b>	<b>116.7</b>
			Minority interests	4.6	-0.2	2.9
			<b>Result after minority interests</b>	<b>131.3</b>	<b>100.3</b>	<b>113.8</b>

## BALANCE SHEET

PARENT BANK			GROUP			
Amounts in NOK million			Amounts in NOK million			
30.09.2004	30.09.2003	31.12.2003		30.09.2004	30.09.2003	31.12.2003
			<b>ASSETS</b>			
48.5	56.3	305.8	Cash-in-hand and claims on central banks	48.5	56.3	305.8
32.2	57.2	49.0	Loans to and claims on credit institutions	32.2	36.2	49.0
16 731.9	15 229.2	15 585.9	Loans (gross) to and claims on customers	16 684.7	15 214.8	15 538.7
92.0	94.7	97.0	Specific loss provisions	92.0	94.7	97.0
172.0	159.0	164.0	Non-specific loss provisions	172.0	159.0	164.0
<b>16 467.9</b>	<b>14 975.5</b>	<b>15 324.9</b>	<b>Net loans to and claims on customers</b>	<b>16 420.7</b>	<b>14 961.1</b>	<b>15 277.7</b>
7.4	7.1	7.6	Repossessed assets	7.4	7.1	7.6
1 729.5	1 600.2	1 449.8	Certificates, bonds and other interest-bearing securities	1 729.5	1 600.2	1 449.8
173.7	165.4	182.5	Shares	173.8	165.5	182.6
11.2	11.2	11.2	Equity stakes in associated companies	11.2	11.2	11.2
27.5	7.0	26.2	Equity stakes in Group companies			
5.8	14.0	4.7	Intangible assets	21.5	30.9	14.6
115.0	123.0	110.5	Fixed assets	143.7	147.3	139.2
23.4	16.9	26.5	Other assets	51.0	31.9	54.0
80.4	98.8	78.5	Pre-payments and accrued income	80.4	98.8	78.5
<b>18 722.5</b>	<b>17 132.6</b>	<b>17 577.2</b>	<b>TOTAL ASSETS</b>	<b>18 719.9</b>	<b>17 146.5</b>	<b>17 570.0</b>
			<b>LIABILITIES AND EQUITY CAPITAL</b>			
685.8	440.2	385.8	Liabilities to credit institutions	685.8	461.2	385.8
10 127.3	10 199.9	10 262.9	Deposits from and liabilities to customers	10 123.9	10 177.6	10 259.5
6 021.2	4 552.7	5 238.1	Borrowings through the issuance of securities	6 021.2	4 552.7	5 238.1
107.3	112.8	134.6	Other liabilities	100.3	126.0	127.7
163.6	355.9	68.1	Incurred costs and pre-paid income	163.6	355.9	68.1
41.1	37.7	42.8	Provisions for liabilities and costs	41.1	37.7	42.8
<b>17 146.3</b>	<b>15 699.2</b>	<b>16 132.3</b>	<b>Total liabilities</b>	<b>17 135.9</b>	<b>15 711.1</b>	<b>16 122.0</b>
			Minority interests	6.0	0.2	1.4
1 444.9	1 333.1	1 444.9	Equity capital	1 446.7	1 334.9	1 446.6
131.3	100.3		Retained earnings	131.3	100.3	
<b>18 722.5</b>	<b>17 132.6</b>	<b>17 577.2</b>	<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>	<b>18 719.9</b>	<b>17 146.5</b>	<b>17 570.0</b>

### OFF BALANCE SHEET ITEMS

#### Contingent liabilities:

556.1	510.8	480.8	Guarantees	556.1	510.8	480.8
1 560.6	1 225.6	1 269.5	Book value of assets pledged as security for borrowings	1 560.6	1 225.6	1 269.5
2.3	3.2	4.9	Other contingent liabilities	2.3	3.2	4.9

#### Liabilities:

4 055.3	4 177.1	4 684.9	Interest rate swaps	4 055.3	4 177.1	4 684.9
291.4	172.7	276.0	Forward exchange contracts - bought	291.4	172.7	276.0
290.5	172.7	276.0	Forward exchange contracts - sold	290.5	172.7	276.0

## QUARTERLY RESULTS (Parent Bank)

Amounts in NOK million	3rd q. 2004	2nd q. 2004	1st q. 2004	4th q. 2003	3rd q. 2003	2nd q. 2003
Net interest- and credit commission income	118.0	115.1	105.5	105.0	115.0	109.4
Other operating income	34.6	34.6	29.2	45.4	27.3	41.0
Operating costs	83.1	79.3	73.4	87.2	74.5	78.5
<b>Result before credit losses</b>	<b>69.5</b>	<b>70.4</b>	<b>61.3</b>	<b>63.2</b>	<b>67.8</b>	<b>71.9</b>
Losses on loans	1.7	4.0	12.8	40.5	10.6	11.8
Gains/losses on securities held on a long-term basis	0.1			-0.6		
<b>Result before tax</b>	<b>67.9</b>	<b>66.4</b>	<b>48.5</b>	<b>22.1</b>	<b>57.2</b>	<b>60.1</b>
Tax payable on ordinary result	20.5	17.5	13.5	8.6	17.0	17.3
<b>Result after tax</b>	<b>47.4</b>	<b>48.9</b>	<b>35.0</b>	<b>13.5</b>	<b>40.2</b>	<b>42.8</b>

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

	30.09.2004	30.09.2003	31.12.2003
Net interest- and credit commission income	2.46	2.59	2.53
Other operating income	0.71	0.63	0.74
Operating costs	1.71	1.82	1.86
<b>Result before credit losses</b>	<b>1.46</b>	<b>1.40</b>	<b>1.41</b>
Losses on loans	0.14	0.27	0.44
Gains/losses on securities held on a long-term basis	0.00	0.00	0.00
<b>Result before tax</b>	<b>1.32</b>	<b>1.13</b>	<b>0.97</b>
Tax payable on ordinary result	0.37	0.34	0.30
<b>Result after tax</b>	<b>0.95</b>	<b>0.79</b>	<b>0.67</b>

## NOTES TO THE ACCOUNTS

<b>Losses on loans and guarantees</b>	30.09.2004	30.09.2003	31.12.2003
Changes in specific loss provisions during the period	-5.0	-11.7	-9.9
Changes in non-specific loss provisions during the period	8.0	9.0	14.0
Period's confirmed losses against which specific loss provisions were made in previous years	15.7	37.8	52.9
Period's confirmed losses against which no specific loss provisioning was made in previous years	2.9	1.1	20.2
Period's recoveries relating to previous confirmed losses	3.1	1.1	1.6
<b>Loss cost for the period</b>	<b>18.5</b>	<b>35.1</b>	<b>75.6</b>

<b>Commitments in default - bad and doubtful commitments</b>	30.09.2004	30.09.2003	31.12.2003
Commitments in default	229.7	351.9	266.0
Loss provisions	-59.3	-81.3	-65.8
<b>Net commitments in default</b>	<b>170.4</b>	<b>270.6</b>	<b>200.2</b>
Other bad and doubtful commitments	141.5	128.8	153.0
Loss provisions	-33.2	-14.3	-31.7
<b>Net bad and doubtful commitments</b>	<b>108.3</b>	<b>114.5</b>	<b>121.3</b>

Commitments in default are defined as the sum of all commitments of a customer if at least one of these commitments has been in default for 90 days or longer.

<b>Equity and related capital - capital adequacy ratio</b>	30.09.2004	30.09.2003	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 capital participations in other financial institutions	-0.7	-1.0	-0.9
<b>Net equity and related capital</b>	<b>1 405.3</b>	<b>1 293.4</b>	<b>1 406.1</b>
Weighted asset calculation basis	12 524.8	11 791.0	11 920.5
<b>Capital adequacy ratio</b>	<b>11.2 %</b>	<b>11.0 %</b>	<b>11.8 %</b>

1) The result so far this year has not been included in the calculations.

1)

**KEY FIGURES 2000 - 2004**

<b>Profit and loss Account</b>	<b>30.09.04</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Interest- and credit commission income	539.8	1 039.1	1 216.6	1 163.8	947.6
Interest costs	201.2	603.9	775.2	756.1	577.2
<b>Net interest- and credit commission income</b>	<b>338.6</b>	<b>435.2</b>	<b>441.4</b>	<b>407.7</b>	<b>370.4</b>
Other operating income	98.4	126.3	44.6	77.3	89.2
Other operating costs	235.8	319.9	302.7	297.2	283.4
<b>Operating costs before credit losses</b>	<b>201.2</b>	<b>241.6</b>	<b>183.3</b>	<b>187.8</b>	<b>176.2</b>
Losses on loans and guarantees	18.5	75.6	78.3	59.4	35.7
Gains/losses on securities held on a long-term basis	0.1	-0.6	-	35.0	83.4
<b>Result from ordinary operations</b>	<b>182.8</b>	<b>165.4</b>	<b>105.0</b>	<b>163.4</b>	<b>223.9</b>
Tax	51.5	51.6	34.0	47.1	60.5
<b>Result after tax</b>	<b>131.3</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>30.09.04</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Interest- and credit commission income	3.92 %	6.05 %	7.91 %	8.35 %	7.52 %
Interest costs	1.46 %	3.52 %	5.04 %	5.43 %	4.58 %
<b>Net interest- and credit commission income</b>	<b>2.46 %</b>	<b>2.53 %</b>	<b>2.87 %</b>	<b>2.92 %</b>	<b>2.94 %</b>
Other operating income	0.71 %	0.74 %	0.29 %	0.55 %	0.71 %
Other operating costs	1.71 %	1.86 %	1.97 %	2.13 %	2.25 %
<b>Operating result before credit losses</b>	<b>1.46 %</b>	<b>1.41 %</b>	<b>1.19 %</b>	<b>1.34 %</b>	<b>1.40 %</b>
Losses on loans and guarantees	0.14 %	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>1.32 %</b>	<b>0.97 %</b>	<b>0.68 %</b>	<b>1.16 %</b>	<b>1.78 %</b>
Tax	0.37 %	0.30 %	0.22 %	0.34 %	0.48 %
<b>Result after tax</b>	<b>0.95 %</b>	<b>0.67 %</b>	<b>0.46 %</b>	<b>0.82 %</b>	<b>1.30 %</b>
Average assets	18 388.1	17 177.0	15 384.0	13 936.6	12 595.0
Return on equity capital	12.12 %	8.54 %	5.62 %	10.10 %	15.28 %
Costs as a percentage of income, excluding securities	56.10 %	61.43 %	57.60 %	59.82 %	61.48 %

  

<b>From the Balance Sheet</b>	<b>30.09.04</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Assets	18 722.5	17 577.2	16 257.9	14 401.6	13 255.5
Gross loans	16 731.9	15 585.9	14 165.9	12 888.3	11 550.5
Deposits from customers	10 127.3	10 262.9	10 363.4	9 188.5	9 147.4
Deposits as a percentage of gross loans	60.50 %	65.90 %	73.20 %	71.30 %	79.20 %
Equity and related capital	1 405.3	1 406.1	1 292.6	1 212.4	1 086.0
Capital adequacy ratio	11.2 %	11.8 %	11.6 %	12.0 %	11.6 %
Number of branches	27	35	39	39	39
Number of man-years worked at the Bank	307	345	351	356	343