

# **INTERIM REPORT AND ACCOUNTS FOR THE FIRST 9 MONTHS OF 2005 SPAREBANKEN SØR**

## **RESULT**

The pre-tax result for the Bank at the end of the third quarter of 2005 totalled NOK 254 million. In relation to average assets, this amounted to 1.61 per cent, as against 1.32 per cent at the same time last year. The Bank's good progress during the first half of 2005 continued in the third quarter. The improved overall result is primarily ascribable to increased net interest income, higher other (non-interest) income and lower credit losses compared with the comparable interim period in 2004.

At the end of the third quarter, the after-tax return on equity capital was 14.9 per cent. The Board of Directors' target ratio for 2005 is 11 per cent.

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

Net interest income totalled NOK 351 million at the end of the third quarter, up by NOK 12 million on the comparable interim period last year. In relation to average assets, this amounted to 2.31 per cent, as against 2.45 per cent a year ago. The level of domestic interest rates has remained low for quite some time, although there was a small increase during the third quarter. This, coupled with the competitive situation, puts downward pressure on the Bank's margins. However, the resulting adverse impact on overall income has been compensated for through improved revenue generation due to the lending growth during the period.

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

Net other operating income ended up at NOK 105 million at the end of the third quarter, up by NOK 7 million on the same time last year. In relation to average assets, this amounted to 0.69 per cent, unchanged from last year. In the circumstances, income derived from securities has been at a high level so far this year. Furthermore, the Bank's subsidiary, ABCenter, has been doing well.

Commissions and income from banking services posted a smaller growth.

## **OPERATING COSTS**

Costs totalled NOK 217 million, down from NOK 236 million at the end of the third quarter last year. Measured against average assets, there was also improvement, the overall cost ratio finishing up at 1.43 per cent, significantly down from 1.71 per cent 12 months ago. The good progress on overall cost reduction has continued, a very positive development. The shrinkage in total costs is largely due to lower personnel costs. This is related to the reduction in overall manning levels which was implemented last year. In addition, however, there has been a general shrinkage in costs within the Bank's other areas involved.

## **CREDIT LOSSES AND COMMITMENTS IN DEFAULT**

Net loan losses charged to the profit and loss account after the first 9 months of the year amounted to a negligible amount. Credit losses were also extremely low during the first half of the year. The good quality of the Bank's lending portfolio, both as far as retail banking and corporate customers are concerned, is reflected in low levels of credit losses and commitments in default.

28 per cent of the Bank's commitments in default and bad and doubtful commitments are covered by loan provisions.

The level of net commitments in default and bad and doubtful commitments has been falling, representing 1.01 per cent of gross lending at the end of the third quarter, down from 1.31 per cent at the end of last year.

### **BALANCE SHEET**

At the end of the quarter currently under review, aggregate assets stood at NOK 21.3 billion, up from NOK 18.7 billion at the same time last year. During the last 12-month period, loans expanded by 9.7 per cent, retail banking and corporate banking expanding by 10.2 and 8.8 per cent respectively. Deposits were up by 20.9 per cent overall. The deposit growth is significantly higher for corporate banking than for retail banking, partly attributable to some larger deposits received from the Bank's corporate customers. As a result of the good improvement in the level of deposits, the Bank's overall deposit coverage ratio is reassuringly high at 66.7 per cent at the end of the third quarter, having risen from 60.5 per cent at the same time last year.

The Bank's remaining funding requirements are covered by raising certificate- and bond issues in the market.

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

At the end of the third quarter of 2005, the Bank's capital adequacy ratio amounted to 10.9 per cent. The Bank's equity and related capital – consisting in its entirety of accrued earnings which have been added to the Savings Bank's Fund – totalled NOK 1.6 billion at the end of the third quarter. The profit for the first 9 months of 2005 has not been factored into the capital adequacy calculations.

### **FUTURE PROSPECTS**

The Board of Directors expects the good progress in the Bank's overall results to continue. The competitive situation has become fiercer following the establishment of more banks within Sparebanken Sør's market area. However, the Board of Directors expects continued, good progress for the Bank, partly due to the generally good economic conditions at the present time. In particular, this is reflected in the form of lower credit losses. A moderate increase in the level of domestic interest rates is unlikely to change this situation.

During the course of 2006, the Bank will be discontinuing its co-operation agreement with DnBNOR within the IT area. Sparebanken Sør has entered into a new IT agreement with AS EDB.

Arendal, 19 October 2005

The Board of Directors of Sparebanken Sør

## Profit and Loss Account

PARENT BANK (Amounts in NOK million)				GROUP A (Amounts in NOK million)		
30.09.2005	30.09.2004	31.12.2004		30.09.2005	30.09.2004	31.12.2004
567	540	725	Interest receivable and similar income	567	539	723
216	201	266	Interest payable and similar costs	216	201	264
<b>351</b>	<b>339</b>	<b>459</b>	<b>Net interest- and credit commission income</b>	<b>351</b>	<b>338</b>	<b>459</b>
11	11	8	Dividends and other income from securities with variable yield	8	10	9
75	70	97	Commissions receivable and income from banking services	137	133	181
19	18	23	Commissions payable and costs relating to banking services	19	18	23
25	23	31	Net value change and gains/losses on f/x and securities	25	23	31
13	12	16	Other operating income	13	12	16
<b>105</b>	<b>98</b>	<b>129</b>	<b>Net other operating income</b>	<b>164</b>	<b>160</b>	<b>214</b>
174	191	255	Wages, salaries and general administration costs	222	239	323
11	12	15	Depreciation of fixed and intangible assets	15	18	23
32	33	43	Other operating costs	32	33	44
<b>217</b>	<b>236</b>	<b>313</b>	<b>Total operating costs</b>	<b>269</b>	<b>290</b>	<b>390</b>
<b>239</b>	<b>201</b>	<b>275</b>	<b>Result before credit losses</b>	<b>246</b>	<b>208</b>	<b>283</b>
0	18	22	Losses on loans, guarantees etc.	0	19	22
6	0	-2	Losses/gains on securities held on a long-term basis	6	0	-2
<b>245</b>	<b>183</b>	<b>251</b>	<b>Result before taxation costs</b>	<b>252</b>	<b>189</b>	<b>259</b>
63	52	63	Tax payable on ordinary result	65	53	67
<b>182</b>	<b>131</b>	<b>188</b>	<b>Result for the accounting year</b>	<b>187</b>	<b>136</b>	<b>192</b>
			Minority interests	5	5	4
			<b>Result after minority interests</b>	<b>182</b>	<b>131</b>	<b>188</b>

## Balance Sheet

PARENT BANK (Amounts in NOK million)				GROUP (Amounts in NOK million)		
30.09.2005	30.09.2004	31.12.2004	ASSETS	30.09.2005	30.09.2004	31.12.2004
275	48	237	Cash-in-hand and claims on central banks	275	48	237
368	32	37	Loans to and claims on credit institutions	368	32	37
18 351	16 732	17 116	Loans (gross) to and claims on customers	18 328	16 685	17 093
71	92	82	Specific loan provisions	71	92	82
169	172	169	Non-specific loan provisions	169	172	169
<b>18 111</b>	<b>16 468</b>	<b>16 865</b>	<b>Loans (net) to and claims on customers</b>	<b>18 088</b>	<b>16 421</b>	<b>16 842</b>
2	7	6	Repossessed assets	2	7	6
2 068	1 730	1 788	Certificates, bonds and other interest-bearing securities	2 068	1 730	1 788
184	174	159	Shares	184	174	159
11	11	11	Equity stakes in associated companies	11	11	11
28	28	25	Equity stakes in Group companies			
3	6	3	Intangible assets	6	22	6
116	115	101	Fixed assets	146	144	130
21	23	14	Other assets	53	51	46
120	80	95	Pre-payments and accrued income	120	80	95
<b>21 307</b>	<b>18 722</b>	<b>19 341</b>	<b>TOTAL ASSETS</b>	<b>21 321</b>	<b>18 720</b>	<b>19 357</b>
			<b>LIABILITIES AND EQUITY CAPITAL</b>			
272	686	441	Liabilities to credit institutions	272	686	441
12 240	10 127	10 840	Deposits from and liabilities to customers	12 228	10 124	10 828
6 560	6 021	6 170	Borrowings through the issuance of securities	6 560	6 021	6 170
228	107	150	Other liabilities	250	100	174
155	164	67	Incurred costs and pre-paid income	155	164	67
43	41	46	Provisions for liabilities and costs	43	41	46
<b>19 498</b>	<b>17 146</b>	<b>17 714</b>	<b>Total liabilities</b>	<b>19 508</b>	<b>17 136</b>	<b>17 726</b>
			Minority interests	2	6	2
1 627	1 445	1 627	Accrued equity capital	1 630	1 447	1 630
			Equity capital in subsidiaries	-1		-1
182	131		Retained earnings	182	131	
<b>1 809</b>	<b>1 576</b>	<b>1 627</b>	<b>Total equity capital</b>	<b>1 811</b>	<b>1 578</b>	<b>1 629</b>
<b>21 307</b>	<b>18 722</b>	<b>19 341</b>	<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>	<b>21 321</b>	<b>18 720</b>	<b>19 357</b>
			<b>OFF BALANCE SHEET ITEMS</b>			
			<b>Contingent liabilities:</b>			
597	556	596	Guarantees	597	556	596
1 604	1 561	1 566	Book value of assets pledged as collateral security for debt	1 604	1 561	1 566
2	2	4	Other contingent liabilities	2	2	4
			<b>Liabilities:</b>			
5 297	4 055	4 469	Interest rate swaps	5 297	4 055	4 469
239	291	408	Forward exchange contracts - bought	239	291	408
239	291	408	Forward exchange contracts - sold	239	291	408

## QUARTERLY RESULTS (Parent Bank)

Amounts in NOK million

	3rd q. 2005	2nd q. 2005	1st q. 2005	4th q. 2004	3rd q. 2004	2nd q. 2004
Net interest- and credit commission income	120	116	115	121	118	112
Net other operating income	35	38	32	31	35	34
Operating costs	69	77	71	78	83	79
<b>Result before credit losses</b>	<b>86</b>	<b>77</b>	<b>76</b>	<b>74</b>	<b>70</b>	<b>67</b>
Losses on loans, guarantees etc.	-1	0	1	3	2	4
Losses/gains on securities held on a long-term basis	4	2	0	-2	0	0
<b>Result before taxation cost</b>	<b>91</b>	<b>79</b>	<b>75</b>	<b>69</b>	<b>68</b>	<b>63</b>
Tax payable on ordinary result	23	19	21	13	21	16
<b>Result after tax</b>	<b>68</b>	<b>60</b>	<b>54</b>	<b>56</b>	<b>47</b>	<b>47</b>

## QUARTERLY RESULTS (Parent Bank)

As a percentage of average assets

	3rd q. 2005	2nd q. 2005	1st q. 2005	4th q. 2004	3rd q. 2004	2nd q. 2004
Net interest- and credit commission income	2.31	2.28	2.34	2.51	2.50	2.45
Net other operating income	0.68	0.74	0.65	0.65	0.74	0.74
Operating costs	1.33	1.51	1.44	1.62	1.76	1.73
<b>Result before credit losses</b>	<b>1.66</b>	<b>1.51</b>	<b>1.55</b>	<b>1.54</b>	<b>1.48</b>	<b>1.46</b>
Losses on loans, guarantees etc.	-0.01	0	0.02	0.06	0.04	0.09
Losses/gains on securities held on a long-term basis	0.08	0.04	0.00	-0.04	0.00	0.00
<b>Result before taxation cost</b>	<b>1.75</b>	<b>1.55</b>	<b>1.53</b>	<b>1.44</b>	<b>1.44</b>	<b>1.37</b>
Tax payable on ordinary result	0.44	0.37	0.42	0.27	0.44	0.35
<b>Result after tax</b>	<b>1.31</b>	<b>1.18</b>	<b>1.11</b>	<b>1.17</b>	<b>1.00</b>	<b>1.02</b>

## NOTES

<b>Losses on loans and guarantees</b>	30.09.2005	30.09.2004	31.12.2004
Change in specific loss provisions during the period	-11	-5	-15
Change in non-specific loss provisions during the period	0	8	5
Period's confirmed losses against which specific loss provisions were raised in previous years	11	15	28
Period's confirmed losses against which no specific loss provisioning was raised in previous years	3	3	8
Period's recoveries relating to previous, confirmed losses	3	3	4
<b>Period's credit loss cost</b>	<b>0</b>	<b>18</b>	<b>22</b>

<b>Commitments in default and doubtful commitments</b>	30.09.2005	30.09.2004	31.12.2004
Commitments in default	96	229	142
Loss provisions	-27	-59	-39
<b>Net commitments in default</b>	<b>69</b>	<b>170</b>	<b>103</b>
Other doubtful commitments	161	141	165
Loss provisions	-44	-33	-43
<b>Net doubtful commitments</b>	<b>117</b>	<b>108</b>	<b>122</b>

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

<b>Equity and related capital - capital adequacy ratio</b>	30.09.2005	30.09.2004	31.12.2004
<b>Core capital</b>			
The Savings Bank's Fund	1 627	1 445	1 627
Intangible assets and over-funded pension liabilities	-48	-39	-48
Equity capital participations in other financial institutions	-2	-1	0
<b>Net equity and related capital</b>	<b>1 577</b>	<b>1 405</b>	<b>1 579</b>
Statutory weighted asset calculation basis	14 409	12 525	12 957
<b>Capital adequacy ratio</b>	<b>10.9 %</b>	<b>11.2 %</b>	<b>12.2 %</b>

**KEY FIGURES 2001 - 2005 (Parent Bank)**

<b>Profit and Loss Account</b>	<b>30.09.05</b>	<b>30.09.04</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Interest receivable and credit commission income	567	540	725	1 039	1 216	1 163
Interest payable	216	201	266	604	775	756
<b>Net interest- and credit commission income</b>	<b>351</b>	<b>339</b>	<b>459</b>	<b>435</b>	<b>441</b>	<b>407</b>
Net other operating income	105	98	129	126	45	77
Operating costs	217	236	313	319	303	297
<b>Result before credit losses</b>	<b>239</b>	<b>201</b>	<b>275</b>	<b>242</b>	<b>183</b>	<b>187</b>
Losses on loans, guarantees etc.	0	18	22	75	78	59
Losses/gains from securities held on a long-term basis	6	0	-2	-1	0	35
<b>Result before taxation cost</b>	<b>245</b>	<b>183</b>	<b>251</b>	<b>166</b>	<b>105</b>	<b>163</b>
Tax payable on ordinary result	63	52	63	52	34	47
<b>Result after tax</b>	<b>182</b>	<b>131</b>	<b>188</b>	<b>114</b>	<b>71</b>	<b>116</b>

<b>Profit and Loss Account items as a percentage of average assets</b>	<b>30.09.05</b>	<b>30.09.04</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Interest receivable and credit commission income	3.73 %	3.91 %	3.90 %	6.05 %	7.91 %	8.35 %
Interest payable	1.42 %	1.46 %	1.43 %	3.52 %	5.04 %	5.43 %
<b>Net interest- and credit commission income</b>	<b>2.31 %</b>	<b>2.45 %</b>	<b>2.47 %</b>	<b>2.53 %</b>	<b>2.87 %</b>	<b>2.92 %</b>
Net other operating income	0.69 %	0.71 %	0.69 %	0.74 %	0.29 %	0.55 %
Operating costs	1.43 %	1.71 %	1.68 %	1.86 %	1.97 %	2.13 %
<b>Result before credit losses</b>	<b>1.57 %</b>	<b>1.45 %</b>	<b>1.48 %</b>	<b>1.41 %</b>	<b>1.19 %</b>	<b>1.34 %</b>
Losses on loans, guarantees etc.	0.00 %	0.13 %	0.12 %	0.44 %	0.51 %	0.43 %
Losses/gains on securities held on a long-term basis	0.04 %	0.00 %	-0.01 %	0.00 %	0.00 %	0.25 %
<b>Result before taxation cost</b>	<b>1.61 %</b>	<b>1.32 %</b>	<b>1.35 %</b>	<b>0.97 %</b>	<b>0.68 %</b>	<b>1.16 %</b>
Tax payable on ordinary result	0.41 %	0.37 %	0.34 %	0.30 %	0.22 %	0.34 %
<b>Result after tax</b>	<b>1.20 %</b>	<b>0.95 %</b>	<b>1.01 %</b>	<b>0.67 %</b>	<b>0.46 %</b>	<b>0.82 %</b>
Average assets	20 269	18 388	18 618	17 177	15 384	13 937
Return on equity capital	14.9 %	12.1 %	12.9 %	8.5 %	5.6 %	10.1 %
Costs a a percentage of income excluding securities	49.5 %	56.1 %	55.3 %	61.4 %	57.6 %	59.8 %

<b>From the Balance Sheet</b>	<b>30.09.05</b>	<b>30.09.04</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Assets	21 307	18 722	19 341	17 577	16 258	14 402
Gross loans	18 351	16 732	17 116	15 586	14 166	12 888
Deposits from customers	12 240	10 127	10 840	10 263	10 363	9 189
Deposits as a percentage of gross lending	66.7 %	60.5 %	63.3 %	65.9 %	73.2 %	71.3 %
Equity and related capital	1 577	1 405	1 579	1 406	1 293	1 212
Capital adequacy ratio	10.9 %	11.2 %	12.2 %	11.8 %	11.6 %	12.0 %
Number of branches	29	29	29	35	39	39
Number of man-years worked in the Bank	308	307	306	345	351	356