



Press release

From : Sparebanken Sør

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Third quarter report and accounts 2009

Positive profit improvement in 3Q

At the end of 3Q 2009, the Sparebanken Sør Group earned a profit of NOK 110 million, which is slightly down on the same period last year, mainly due to value changes in the bank's liabilities and lower net interest income. In 3Q alone, profit was NOK 84 million, which shows that the bank's earnings are beginning to return to normal.

Year-to-date, the bank's losses on loans have increased less than expected, but there is still uncertainty regarding the economic trend. However, the future outlook does look brighter now compared with a few months ago and there are fewer defaulting borrowers in the loan portfolio.

The bank's core capital adequacy ratio of 10.7 per cent will be increased by a further 2 per cent following an injection of NOK 400 million in capital from the Norwegian State Finance Fund. This will give the bank a sound foundation for future growth.

The Group's pretax profit is NOK 110 million, compared with NOK 210 the previous year. As mentioned before, value changes in the bank's securities-related debt has had a negative impact on profit. If the bank had not reported the securities-related debt at market value and thereby also the value changes in the profit and loss account, the profit year-to-date would have been NOK 273 million, compared with NOK 92 million the previous year. The bank will re-evaluate the principles regarding valuation of financial instruments, as soon as new international standards are available.

Net interest income is NOK 437 million, which is down NOK 26 million from the previous year. Measured as a percentage of the bank's average total assets, net interest income is 1.65 per cent, which is significantly lower than last year, when it was 1.97 per cent.

Other operating income totalled NOK 140 million, compared with NOK 162 million in 2008. The decline is mainly due to value changes in the bank's financial instruments.

Operating costs rose from NOK 375 million to NOK 400 million, which equals a growth of 6.7 per cent. The costs constitute 1.51 per cent of the Group's average total assets, whereas the

corresponding figure for the parent bank is 1.09 per cent. The Group wants to focus on cost-cutting measures in future.

Year-to-date, NOK 67 million was entered as net losses on loans, which is equivalent to 0.31 per cent of the bank's loans. Net defaulted and bad and doubtful commitments have been reduced by NOK 91 million in the last year and total NOK 275 million, which is equivalent to 0.94% of the loans. There has also been a reduction compared with the end of the first half-year 2009.

In the last 12 months, total assets increased by 13.0 per cent to NOK 37.5 billion. During the period, overall lending growth was 5.5 per cent, with a growth of 11.1 per cent in retail banking and -2.5% in corporate loans. In the last year, deposits from customers have increased by 9.6 per cent, of which 10.5 per cent is in the retail banking market. The bank's deposit coverage ratio is 57.0 per cent, which is below the bank's target of 60 per cent.

Total equity and subordinated capital is NOK 2.7 billion, which gives a capital adequacy ratio of 10.7 per cent. In the last year, risk-weighted assets have changed very little and at the end of the quarter were NOK 20.2 billion.

The financial outlook has improved considerably in the third quarter and there is hope that the recession in Norway and overseas will be shorter than previously expected. However, companies' earnings are still under pressure and the bank anticipates a slight increase in losses on loans in this sector in future. In retail banking, rising house prices and a better labour market than anticipated have reduced the bank's risk of higher losses.

In the last few months, long-term funding via Sør Boligkreditt and the swap arrangement with the Norwegian state has covered most of the bank's liquidity requirements. In future, the bank will use the senior bond market to an increasing extent and will also focus on maintaining a satisfactory deposit-to-loan ratio.

Arendal, 28 October 2009
Sparebanken Sør

For more information, please contact CEO Morten Kraft, tel. +47 37 05 70 93.

This press release and quarterly report will be published on the bank's website www.sor.no, and will be available through Oslo Stock Exchange at www.newsweb.no.