

# REPORT 3RD QUARTER 2008

SPAREBANK 1 SR-BANK • GROUP



**The international financial unrest impacts the result with significant write-downs on financial investment. The underlying operations are strengthened.**

### 3rd Quarter 2008

- Group profit before tax: NOK 112 million (*NOK 304 million*).
- Return on equity after tax: 3.8 % (*16.9 %*).
- Result of underlying operations before losses: NOK 345 million (*NOK 278 million*).
- Net interest income: NOK 442 million (*NOK 362 million*).
- Net commission and other income: NOK 199 million (*NOK 227 million*).
- Net return on investment securities: - NOK 140 million (*NOK 70 million*), of which NOK 59 million is unrealised losses on the certificate and bond portfolio.
- Net losses on loans and guarantees: NOK 41 million (*NOK 18 million*).
- Earnings per primary capital certificate: NOK 0.44 (*NOK 1.81*).
- Reclassification of parts of the bond portfolio to amortized cost from 1 July 2008. No reclassification of debts.

### As at 30 September 2008

- Group profit before tax: NOK 633 million (*NOK 948 million*).
- Return on equity after tax: 10.0 % (*20.0 %*).
- Result of underlying operations before losses: NOK 890 million (*NOK 697 million*).
- Net interest income: NOK 1,213 mill (*NOK 967 million*).
- Net commission and other income: NOK 620 million (*NOK 635 million*).
- Net return on investment securities: - NOK 66 million (*NOK 320 million*), of which NOK 116 million is unrealised losses on the certificate and bond portfolio.
- Net losses on loans and guarantees: NOK 68 million (*NOK 3 million*).
- Customer support continues: growth in loans 19.4 % (*27.2 %*) over last 12 months which breaks down into 13.5 % RM and 28.4 % CM.
- Growth in deposits: 9.1 % (*15.5 %*) over last 12 months, which breaks down into 10.7 % RM and 7.9 % CM.
- Earnings per primary capital certificate: NOK 3.39 (*NOK 6.21*).

*(Corresponding figures for 2007 are shown in parentheses.*

### Securities reclassified

In accordance with the rules and regulations dated 16 October 2008 issued by the Ministry of Finance, it is now permitted to reclassify securities in a trading portfolio from the category 'Market value with any value changes shown through the profit and loss account' to the categories at amortized cost method. The SpareBank 1 SR-Bank group has decided to apply such reclassification to parts of its bond portfolio with effect from 1 July 2008.

Future assessments within these categories shall be calculated at amortized cost with the help of the effective interest method, which means that earlier write-downs of values and interest are to be amortized and included in the profit and loss account as interest income over the remaining life of the items in question.

The effect of this reclassification on the 3<sup>rd</sup> quarter's profit amounts to increased net interest income of NOK 4 million due to amortization and a NOK 59 million reduction of unrealised losses on the bond portfolio. Reference is made to Note 1 for a more detailed description.

### Profit

*As at 30 September 2008, SpareBank 1 SR-Bank group achieved a profit before tax of NOK 633 million (NOK 948 million). Profit after tax amounted to NOK 438 million (NOK 740 million), giving a return on equity of 10.0% (20.0%) so far this year. It is first and foremost the negative return on investment securities that contributed to the reduction in profit compared to the preceding year. As at 30 September 2008, the underlying operations before losses show a NOK 193 million (27.7%) improvement in profit compared to the same period last year. The rise in*

net interest income accounts for a good part of this improvement.

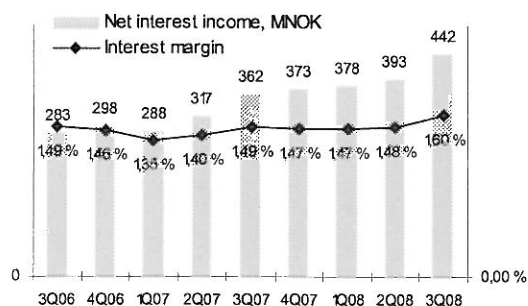
Seen in isolation, the 3<sup>rd</sup> quarter's profit before tax was NOK 112 million (NOK 304 million). Profit after tax was NOK 57 million (NOK 229 million), giving a return on equity of 3.8% (16.9%) in the 3<sup>rd</sup> quarter and reflecting the significant negative net yield on financial investments. In the 3<sup>rd</sup> quarter, the underlying operations before losses improved by NOK 67 million (24.1%) compared to the 3<sup>rd</sup> quarter of 2007. A combination of higher net interest income and gains on currency and interest instruments contributed to the improvement in the result of underlying operations.

### Net interest income

As at 30 September 2008, the group's net interest income amounted to NOK 1,213 million, a rise of NOK 246 million (25.4%) on the same period last year.

The interest margin was 1.52% (1.41%) in terms of average assets. It was particularly the growth in lending and deposits and the increased return on equity (higher market interest rates) that contributed to the rise in net interest income.

The following graph shows the development per quarter (isolated) of net interest income and interest margins:



At the end of the 3<sup>rd</sup> quarter of 2008 the bank had transferred NOK 11.3 billion (NOK 4.4 billion) in home mortgage loans to SpareBank 1 Boligkreditt AS. The income from these loans is recognised as commission and this income totalled NOK 24 million (NOK 6 million) at 30 September 2008.

### Net commission and other income

Net commission income totalled NOK 419 million (NOK 426 million) at 30 September 2008. Commission income from the savings and investment

area declined by NOK 46 million (-30.1%) compared to the corresponding period in the preceding year. The stock market unrest so far this year reduced commission from securities and property projects alike. However, higher commission income from arrangement fees and SpareBank 1 Boligkreditt AS compensated to a great extent for this decline in income. The decision to offer a charge-free loyalty programme has been well received by the market.

Other operating income totalled NOK 201 million (NOK 209 million) as at 30 September 2008, of which NOK 190 million (NOK 205 million) was contributed by the group's real estate business.

### Net return on investment securities

The net return on investment securities was minus NOK 66 million (NOK 320 million) at 30 September 2008. Income from ownerships accounted for NOK 62 million (NOK 172 million), income from financial investments – NOK 142 million (NOK 138 million) and dividends NOK 14 million (NOK 10 million).

Profits attributable to SpareBank 1 Gruppen totalled NOK 50 million (NOK 171 million) as at 30 September 2008. Seen in light of the development in the securities market, the life insurance company and the management company ODIN Forvaltning recorded weak developments in their results compared to the preceding year.

Of the income from financial investments, minus NOK 271 million (NOK 70 million) relates to securities. Of this, the share and primary capital certificate portfolio recorded a capital loss of NOK 91 million (gain of NOK 87 million) and the portfolio of bonds and certificates recorded a capital loss of NOK 180 million (capital loss of NOK 17 million) as at 30 September 2008. Gains on foreign exchange and interest instruments totalled NOK 129 million (NOK 68 million).

At the end of the 3<sup>rd</sup> quarter of 2008, SpareBank 1 SR-Bank's bond and certificate portfolio had a market value of NOK 6.2 billion. The portfolio is mainly made up of investments in foreign banks and financial institutions with a rating of at least A, and bonds issued by Norwegian savings banks. Toward the end of 2007 and again in 2008, as part of the bank's overall liquidity strategy, the group increased its investments in good credit-worthy bonds that satisfy Norges Bank's deposit requirements. This increases the bank's liquidity buffer.

Losses on the bond portfolio amounted to NOK 124 million in the 3rd quarter of 2008 seen in isolation, of which unrealised losses totalled NOK 59 and realised losses totalled NOK 65 million. So far this year the losses on the bond portfolio, unrealised and realised, aggregate NOK 180 million. Assuming that the bond owners maintain their solvency, the unrealised capital losses are expected to be gradually reversed as the bonds are redeemed on maturity. The portfolio's average remaining life to maturity is 3.2 years.

### **Operating expenses**

As at 30 September 2008, the group's operating expenses totalled NOK 1,066 million. This is a rise of NOK 95 million (9.8%) compared to the same period last year. The isolated growth in costs from the 3<sup>rd</sup> quarter of 2007 to the 3<sup>rd</sup> quarter of 2008 was 3.3%. The group's cost ratio at 30 September 2008 was 60.3 (50.5). The rise in the cost ratio was mainly due to the negative net return on investment securities in 2008.

Personnel costs totalled NOK 599 million (*NOK 539 million*) as at 30 September 2008. This was 11.1% higher than in the same period last year. At the end of the 3<sup>rd</sup> quarter of 2008 the group employed 1,103 man-years, a rise of 107 man-years compared to the end of the 3<sup>rd</sup> quarter of 2007.

Other operating expenses totalled NOK 467 million so far this year, a rise of NOK 35 million (8.1%) compared to the same period last year.

### **Credit risk and portfolio development**

Credit risk is defined as the danger of loss as a result of customers or counterparties not having the ability or the will to meet their obligations to the group.

Credit risk is managed inter alia by way of risk-sensitive ceilings that are linked to expected losses, economic capital and the probability of default. The risk models that form the portfolio management are based on statistic evaluations of the probability of customer default using a long-term average during an economic cycle, the customer's expected exposure in the event of default and loss on default.

The group's risk profile for credit risk is moderate. The risk profile has not changed significantly during the last quarter.

The corporate market lending portfolio has a moderate risk profile. There is still a great deal of growth in lending exposure, but the growth rate is

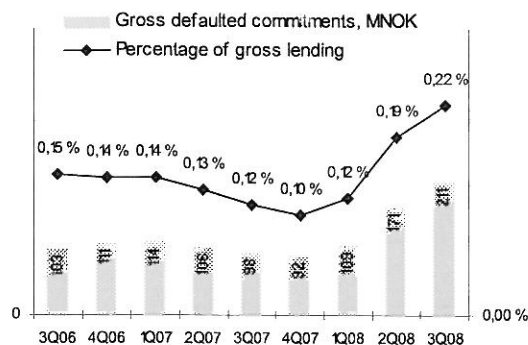
slowing. We expect the growth rate to slow even more in the time to come. The growth in loans to corporate customers is still greater than the growth in the retail market. The portfolio's risk profile is considered to be good and almost 2/3 of the exposure satisfies the group's internal guidelines for classification as low risk. The portfolio's risk profile has not changed significantly during the last quarter, but there is a tendency to see a rise in the commitments that are classified as high risk – mainly as a result of the generally weaker development in the property sector. The estimated probability of default in the corporate market portfolio is rising slightly but is still lower than it was at the beginning of the year.

The risk profile of the retail market loan portfolio is low. The growth in lending exposure to the retail market is moderate and is slowing somewhat. The portfolio's risk profile is considered to be very good and almost the entire lending portfolio satisfies the group's internal guidelines for classification as low risk. The portfolio's risk profile has not changed significantly during the last quarter. The estimated probability of default in the retail market portfolio is rising slightly but is still lower than it was at the beginning of the year.

### **Losses and defaults**

As of 30 September 2008, the group had recorded net losses totalling NOK 68 million (*NOK 3 million*). Seen in isolation, net losses aggregated NOK 41 million (*NOK 18 million*) in the 3<sup>rd</sup> quarter. Gross non-performing commitments at the end of the 3<sup>rd</sup> quarter totalled NOK 211 million (*NOK 98 million*), corresponding to 0.22% of gross loans. The portfolio of performing problem loans totalled NOK 462 million (*NOK 615 million*) at the end of the 3<sup>rd</sup> quarter of 2008. This portfolio has grown by NOK 184 million in the 3<sup>rd</sup> quarter of 2008, a rise that is linked to one major commitment. The loan loss provision ratios for non-performing and other problem loans were 19% and 24% respectively at the end of the 3<sup>rd</sup> quarter of 2008. The following graph shows the development in gross non-performing loans in NOK million and as a percentage of gross loans:

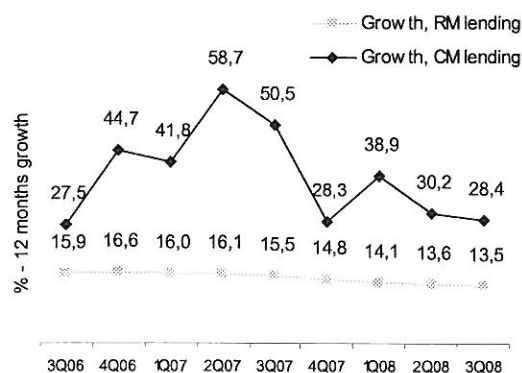




Losses and defaults are still at a low level. This situation reflects the loan portfolio's moderate credit risk profile. However, it is reasonable to assume a more normal level of losses and defaults in the future as a result of changes in the economic environment and the stock market unrest.

### Loans to and deposits from customers

During the last 12 months gross lending increased by 19.4% to NOK 106.8 billion. This includes home mortgage loans (NOK 11.3 billion) transferred to SpareBank 1 Boligkreditt AS. The 12-month growth in the retail market was 13.5% and in the corporate market it was 28.4%. Loans to the corporate market accounted for 42.4% of the group's total lending at the end of the 3<sup>rd</sup> quarter of 2008.



The group's deposits from customers rose by 9.1% over the last 12 months to NOK 52.5 billion. The growth (12 months) in the retail market was 10.7% and in the corporate market 7.9%. Deposits from the corporate market accounted for 55.8% of the group's total deposits from customers at 30 September 2008.

In addition to ordinary deposits from customers, the group has NOK 9.8 billion under management at the end of the 3<sup>rd</sup> quarter of 2008, primarily through ODIN funds and SR-Forvaltning ASA. During the last 12 months the funds declined by NOK 3.4 billion, of

which – NOK 0.9 billion was net new subscriptions and – NOK 2.5 billion was attributed to capital depreciation.

As at 30 September 2008 the deposit-to-loan ratio was 54.9%. At the end of 2007 the deposit-to-loan ratio was 57.0%. The Financial Supervisory Authority of Norway's (Kredittilsynet) liquidity indicator at the end of the 3<sup>rd</sup> quarter of 2008 was 93.6% (93.7%).

### Business areas

#### Retail Market Division

Income in the Retail Market Division rose by NOK 17 million (2.1%) so far this year compared to the same period last year. Net interest income rose by NOK 68 million (16.3%), while other income declined by NOK 51 million (16.3%) in the same period.

The fall in other income is primarily linked to sales and portfolio commission relating to savings and investment products. The stock market decline means that the basis for portfolio commissions has been reduced while at the same time the market unrest has brought about lower sales. Furthermore, the introduction of charge-free accounts in the retail market has resulted in commission from money transfers falling. However, seen in light of the assumptions relating to interest rate margins, sales of supplementary services and growth in the number of customers on which the introduction was based, it is considered to be a success.

The development in the financial markets creates more uncertainty and a lower investment desire among the retail customers. However, the high level of activity in trade and industry in this part of the country, combined with low unemployment, offers good opportunities in the retail market. The good access to customers in Hordaland is expected to be further strengthened as a result of establishing two new offices in that county. The recruitment of staff and the alterations to offices in Åsane and Fana are underway.

#### Corporate Market Division

The development in the Corporate Market Division so far this year has been good and the result is sound, despite the very demanding financial market. Deposits grew by NOK 126 million (30.2%) compared to the same period last year. Net interest income rose by NOK 95 million (31.1%) and other income rose by NOK 31 million (27.6%).

The division's lending grew sharply over the last 12 months (28.6%) but the rate of growth has declined

somewhat since the 2<sup>nd</sup> quarter (32.0%), and is expected to decline even further during the last quarter. The good increase in other income helps strengthen the division's earnings and the activity is therefore less affected by financial market fluctuations.

The growth in deposits declined somewhat during the quarter, and was 4.3% over the last 12 months. The division's deposit-to-loan ratio is still high, standing at 60% at the end of the 3<sup>rd</sup> quarter of 2008. It is probable that the deposit margin will be under even more pressure in the next quarter as a result of the continued financial turmoil.

The loan portfolio quality is still good with losses and defaults at low levels. The turbulence in the financial markets and expectations of lower economic growth make it reasonable to expect more normal loss and default levels in the time to come.

#### *Capital Market Division*

This division comprises specialised areas outside of traditional banking and has brought together the group's concessions and competence in the fields of securities, capital management and product procurement. The security market activities are organised in SR-Markets, including trading for customers' accounts and trading in interest rate products and foreign exchange. Capital management is primarily organised through separate subsidiaries and also includes management of the bank's own investments in securities. Procurement is responsible for the group's development and procurement of products in the field of savings and investments.

Unrest in the world's finance markets so far in 2008 has resulted in a negative yield on investments in shares and bonds. There are grounds for assuming that prolonged turmoil in the world's finance markets will result in further declines in the value of financial investments in the future. In light of the uncertain market prospects and strong fluctuations, an increasing number of customers are hedging their exposures in foreign currencies.

Corporate Finance put Risavika EiendomsInvest AS, on the market as a property syndicate on 8 September 2008. The subscription period for this project is through to 15 December 2008, with an option to extend for a further 90 days.

#### *SR-Forvaltning ASA*

SR-Forvaltning ASA is a securities firm with a licence to provide asset management services. As at 30

September 2008, profit before tax amounted to NOK 36.3 million (*NOK 40.1 million*). At the end of the 3<sup>rd</sup> quarter of 2008, the company had NOK 5.3 billion under management (*NOK 6.2 billion*), a decline of NOK 1.0 billion since the end of 2007. The decline in assets under management is for the most part due to the fall in the value of the portfolios.

#### *SR-Investering AS*

At 30 September 2008, SR-Investering AS had invested in 35 companies and private equity funds. Total investments and commitments amounted to NOK 265 million. Profit before tax was a negative NOK 3.7 million at 30 September 2008 (*NOK 57.2 million*).

The object of the company is to contribute to long-term creation of added value through investments in trade and industry in the group's market area. The company primarily invests in private equity funds and companies that have a need for capital if they are to grow further.

Stock market developments and finance market unrest, with higher financial costs, also influence the activity in private equity funds and other transactions. This has reduced the value of the company's portfolio at 30 September 2008. There have been significant declines in value, especially relating to the company's investments in listed securities. The market unrest also provides good opportunities to make purchases in the time to come. There will, however, still be some uncertainty regarding private equity funds' access to external capital in connection with new investments in the future.

#### *Vågen Eiendom*

Vågen Eiendom (Vågen Eiendomsforvaltning AS, Vågen Drift AS and Vågen Eiendomsmegling AS) returned a profit before tax of NOK 2.5 million as at 30 September 2008.

Vågen Eiendomsforvaltning AS is engaged in the management of 55 commercial properties aggregating ca. 310,000 m<sup>2</sup>. The financial market unrest has affected the 3<sup>rd</sup> quarter and few commercial properties in the region changed hands. Several planned building starts are expected to be postponed. The rental market has been stable and no decline in rents has been observed.

#### *EiendomsMegler 1 SR-Eiendom AS*

At the end of the 3<sup>rd</sup> quarter the company had a profit of NOK 31.9 million (*NOK 28.3 million*). The

company sold properties worth NOK 9.3 billion in the first three quarters of the year, down by approximately 11% on the preceding year. Compared to the year before, the number of sold units also fell, by 9.4% to 4,047 units. Access to new assignments is good and has improved throughout the year. Compared to the record year last year the reduction is 3.4%.

In the 3<sup>rd</sup> quarter the property market has been affected by the uncertainty surrounding housing prices. This, combined with the steadily rising interest rates on mortgages, has resulted in a flat development of housing prices and a reduction in turnover compared to the preceding year. The company retains its strong market position. It is clearly the largest and leading real estate agency in Rogaland in the 3<sup>rd</sup> quarter as well. In Bergen and in the Agder counties, the company has taken active steps to secure strong market growth.

The considerable uncertainty resulting from the financial unrest is now very noticeable in the real estate market. Buyers are hesitant about acquiring property, be it housing, commercial property or in particular new building. This trend is expected to continue during the autumn and the company therefore anticipates that earnings will be somewhat weaker in the 4<sup>th</sup> quarter than they have been so far this year.

#### *SpareBank 1 SR-Finans AS*

At the end of the 3<sup>rd</sup> quarter of 2008 the company recorded a pre-tax profit of NOK 40.9 million (*NOK 29.4 million*). The good development in profit was mainly due to the sharp growth in the portfolio.

New sales have been good for both leasing and car loans, together rising 21.0% in the 3<sup>rd</sup> quarter of 2008 compared to the same period last year. At the end of the 3<sup>rd</sup> quarter total assets amounted to NOK 4.8 billion, a rise of NOK 1.4 billion (43.4%) over the last 12 months. Because of the financial unrest the company is now more restrictive in offering financing and is very deliberate in its customer selection and in pricing new and existing portfolios.

The company's principal activities are lease financing and secured car loans. Over the last few years the business has shown a very favourable development with growth higher than the market growth. This can be attributed to close interaction with the group's other business. This is particularly the case for car loans which are primarily distributed through the bank's branch network. Increasingly higher shares of

the leasing customers also have a customer relationship with the bank. Focus on car loans has been a success and the company has an ambition to become a more important player in the car financing market.

#### *SpareBank 1 Boligkreditt AS*

SpareBank 1 Boligkreditt AS is a mortgage company operating under a licence issued by the Financial Supervisory Authority of Norway (Kredittilsynet). It is owned by the savings banks that make up the SpareBank 1 alliance. SpareBank 1 Boligkreditt AS issues well-secured bonds with pre-emptive rights based on the bank's home mortgage portfolio taken over from the owner banks, and has become an increasingly important tool with which to ensure that the owner banks have access to stable and long-term funding at favourable rates.

At the end of the 3<sup>rd</sup> quarter of 2008 the mortgage company had lent approximately NOK 31.6 billion, of which approximately NOK 11.3 billion was housing loans transferred by SpareBank 1 SR-Bank. The mortgage company had approximately NOK 1.4 billion in equity at the end of the 3<sup>rd</sup> quarter of 2008 and SpareBank 1 SR-Bank owned 23.4% of the company.

#### **Funding**

Unrest in the international finance markets has resulted in the banks' access to funding being reduced, while at the same time the margin the banks have to pay to borrow money has risen a good deal.

During the course of the 3<sup>rd</sup> quarter of 2008, SpareBank 1 SR-Bank issued certificates and bonds in the Norwegian market with a face value of NOK 3.8 billion.

The Board of Directors considers the liquidity situation to be satisfactory. The banks has excess liquidity in the form of short-term placements with Norges Bank and credit institutions totalling NOK 3.8 billion in addition to buffer capital of NOK 7.8 billion made up of bonds and undrawn drawing rights. NOK 1.7 billion in debt is to be repaid in the 4<sup>th</sup> quarter of 2008. Through Sparebank 1 Boligkreditt AS the bank's ability to make use of the new measures introduced by the Government and Norges Bank is considered to be good.

### Capital adequacy

The group's capital adequacy ratio was 10.6% (10.1%) at the end of the 3<sup>rd</sup> quarter of 2008, and the core capital adequacy ratio was 7.5% (7.4%). The group's target is a capital adequacy ratio between 10% and 11% and a core capital adequacy ratio between 7% and 8%.

In the 1<sup>st</sup> quarter of 2008 a new subordinated loan of NOK 500 million was raised and in the 2nd quarter of 2008 a dividend issue of NOK 174 million was arranged.

A limited audit of SpareBank 1 SR-Bank's and the group's income statements and balance sheets as at 30 September 2008 has been carried out. In accordance with the regulations, 50% of the result so far this year has been included in the capital adequacy figures.

### The bank's primary capital certificates

At the end of the 3rd quarter of 2008 there were 11,326 (11,299) registered primary capital certificate holders. The percentage owned by foreigners was 7.8% (9.1%), while 61.4% (64.2%) were owned by investors from Rogaland, the Agder counties and Hordaland. The 20 largest owners controlled 26.1% (30.8%) of the primary capital certificates at the end of September 2008. The bank's holdings of its own certificates totalled 294,264 as of 30 September 2008. The following table lists the owners and percentages as of 30 September 2008:

20 largest primary certificate holders	Number	Share
1. Coil Financial Holding AS	3 791 661	5.1 %
2. Trygve Stangeland	1 564 284	2.1 %
3. Clipper AS	1 420 536	1.9 %
4. Frank Mohn AS	1 363 263	1.8 %
5. Tveteraas Finans AS	1 161 088	1.6 %
6. Laerdal AS	999 900	1.3 %
7. State Street Bank & Trust, USA	968 812	1.3 %
8. Verdipapirfondet Nordea Norge	814 561	1.1 %
9. Brown Brothers Harriman, USA	800 000	1.1 %
10. K�hlergruppen AS	750 000	1.0 %
11. Mellon Bank, USA	713 835	1.0 %
12. Bjergsted Investering AS	699 581	0.9 %
13. The Northern Trust Co, UK	670 645	0.9 %
14. Westco AS	656 581	0.9 %
15. Solvang Shipping AS	629 622	0.8 %
16. Olav T. Stangeland	594 642	0.8 %
17. Forsand Municipality	568 525	0.8 %
18. Helland AS	454 727	0.6 %

19. Skagen Vekst	440 000	0.6 %
20. Ringerike Sparebank	426 212	0.6 %
Total 20 largest	19 488 475	26.1 %

Turnover of primary capital certificates in the 3rd quarter of 2008 corresponds to 6.0% (5.8%) of the number of outstanding certificates. At the end of the 3rd quarter of 2008 the price of the bank's primary capital certificates was NOK 38.50 (NOK 61.88), and including dividend paid the bank's primary capital certificate holders have received an effective yield of - 36.1% (-3.3%) so far this year (as at 30 September). The decline reflects the fall in the value of financial securities nationally and internationally.

To finance continued growth and to be able to offer an alternative to cash dividends, SpareBank 1 SR-Bank carried out a dividend issue in April 2008. In this dividend issue 3,668,598 new primary capital certificates were subscribed to for a total of NOK 174 million. In addition, an issue was floated among employees in the 3d quarter of 2008 where 264,838 new primary capital certificates were subscribed to. Subsequently, the number of primary capital certificates issued is 74,903,345 with a nominal value of NOK 25 each. As a result of the dividend issue the primary capital certificate share has risen from 54.9% to 56.4%. The primary capital certificate share applied in 2008 is weighted on the basis of the time of the issue and is calculated to be 56.0%.

### Accounting principles

SpareBank 1 SR-Bank prepares its consolidated accounts in accordance with the IFRS regulations. With effect from 2007 the bank's parent company accounts are also prepared in accordance with the IFRS regulations.

As of 30 September 2008, the IFRS consolidated accounts show a profit after tax of NOK 438 million and the IFRS parent company accounts show a profit after tax of NOK 521 million. Most of the items are treated identically in the parent company and the consolidated accounts but with one major difference. In the consolidated accounts profit attributable to subsidiaries and associated companies are included in the accounts using the equity method of accounting. This is the same practice that was used earlier in both the parent company and consolidated accounts in accordance with NGAAP. Use of the equity method is, however, not permitted in the IFRS parent company accounts. These ownership interests must be assessed at cost here. Dividends paid by the bank's subsidiaries and by SpareBank 1 Gruppen and

other associated companies are taken to income in the parent company accounts. It is the parent's company profit as at 31 December 2008 that is the point of departure for allocation of the profit. The following table shows the transition from parent company to group result as of 30 September 2008:

Parent company profit after tax	521
Dividends from subsidiaries and associated companies	-213
Share of profit of subsidiaries and associated companies	130
Group profit after tax	438

Reference is made to Note 1 for a more detailed description of the accounting principles applied in the parent company and consolidated accounts. The same accounting principles are applied in both the interim and annual accounts.

#### **The SpareBank 1 banks acquire Glitnir Bank ASA**

The banks in the SpareBank 1 alliance have entered into an agreement to acquire all the shares in Glitnir Bank for NOK 300 million. Until further notice, Glitnir Bank's operations will be continued with a head office in Trondheim. SpareBank 1 SR-Bank's share of the acquisition is 20 per cent. Glitnir Bank has operations in Trondheim, Oslo, Aalesund and Fosnavaag. The Bank has 160 employees and an aggregate loan portfolio of NOK 47 billion. The subsidiary, Glitnir Factoring in Aalesund, with 26 staff, is also part of the acquisition. SpareBank 1 SR-Bank is deemed to have the necessary financial strength to participate in this acquisition without having to raise new capital. The completion of the acquisition is expected before the turn of the year.

#### **Prospects**

The fundamental conditions in the Norwegian and international economies are affected by the international financial unrest more strongly than was anticipated. Economic growth is being dampened more now than was expected. Of late, negative developments in the US economy, combined with unrest in the international financial markets, has impacted the European economy more than was expected earlier and this creates further uncertainty in the world economy.

During the course of the year the international financial unrest has resulted in a marked increase in the mark-up for risk when Norwegian financial institutions have sought new loans. This increase in the cost of funding will gradually be reflected in the

increase in the price the financial institutions charge their customers for assuming risk. Seen in isolation, the issuance of bonds with pre-emptive rights via SpareBank 1 Boligkreditt AS will have a positive impact on the group's funding and funding costs in 2008 and in the years to come.

In the 3<sup>rd</sup> quarter the international financial unrest brought about bankruptcies and forced mergers of US financial institutions. The US authorities and the authorities in a number of European and Asian countries have introduced a range of measures, including significant injections of new equity capital, to strengthen their countries' financial infrastructures. In Norway, the banks were in particular hit with a lack of long-term financing. The authorities have now voted in favour of a range of measures that will provide the market with long-term capital. The Board of Directors is of the opinion that these measures will gradually improve access to liquidity in the market.

The slowdown in the level of activity and the scarcity of long-term capital will result in a reduction in the growth in credits and a lower growth rate for investments and household demands. After having seen a sharp rise in the price of housing over the last few years this is expected to level off and in a number of areas we will see a decline in housing costs in 2008 and 2009. The labour market is now less tight than it was before in many trades and industries, but with continued expectations of satisfactory results for the business community in the group's market area.

The Board expects the group to report good results in the future based on the underlying operations, but the contribution from investment securities is still uncertain in the coming quarters.

Stavanger, 30 October 2008

The Board of Directors of SpareBank 1 SR-Bank

## Quarterly financial statements

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## Key figures SpareBank 1 SR-Bank Group

MAIN FIGURES	30.09.08 MNOK	%	30.09.07 MNOK	%	2007 MNOK	%
Net interest income	1 213	1,52	967	1,41	1 340	1,42
Net commission and other income	620	0,78	635	0,93	895	0,95
Net return on investment securities	-66	-0,08	320	0,47	388	0,41
<b>Total income</b>	<b>1 767</b>	<b>2,21</b>	<b>1 922</b>	<b>2,81</b>	<b>2 623</b>	<b>2,79</b>
<b>Total operating expenses</b>	<b>1 066</b>	<b>1,33</b>	<b>971</b>	<b>1,42</b>	<b>1 357</b>	<b>1,44</b>
<b>Profit before losses</b>	<b>701</b>	<b>0,88</b>	<b>951</b>	<b>1,39</b>	<b>1 266</b>	<b>1,35</b>
Impairment losses on loans and guarantees	68	0,09	3	0,00	10	0,01
<b>Profit before tax and minority interests</b>	<b>633</b>	<b>0,79</b>	<b>948</b>	<b>1,39</b>	<b>1 256</b>	<b>1,33</b>
Tax expense	186	0,23	198	0,29	249	0,26
Minority interests	9	0,01	10	0,01	13	0,01
<b>Net profit</b>	<b>438</b>	<b>0,55</b>	<b>740</b>	<b>1,08</b>	<b>994</b>	<b>1,06</b>

	30.09.08	30.09.07	2007
<b>PROFITABILITY</b>			
Return on equity <sup>1)</sup>	10,0 %	20,0 %	19,4 %
Cost ratio <sup>2)</sup>	60,3 %	50,5 %	51,7 %
<b>BALANCE SHEET</b>			
Gross loans to customers	95 568	85 069	88 090
Gross loans to customers including SpareBank 1 Boligkredit	106 819	89 462	93 080
Deposits from customers	52 477	48 100	50 214
Deposit-to-loan ratio	54,9 %	56,5 %	57,0 %
Growth in loans	12,3 %	21,3 %	14,0 %
Growth in loans incl Boligkredit	19,4 %	13,8 %	19,8 %
Growth in deposits	9,1 %	15,5 %	18,0 %
Average total assets	106 681	91 489	94 246
Total assets	109 176	98 686	103 267
<b>LOSSES AND NON-PERFORMING COMMITMENTS</b>			
Impairment losses ratio <sup>3)</sup>	0,10	0,01	0,01
Non-performing commitments as a percentage of gross loan	0,22	0,12	0,10
Other doubtful commitments as a percentage of gross loans	0,48	0,72	0,73
<b>SOLIDITY</b>			
Capital adequacy ratio	10,61	10,08	10,00
Core capital ratio	7,53	7,44	7,51
Core capital	5 458	4 944	5 167
Net equity and subordinated loan capital	7 686	6 697	6 874
Minimum subordinated capital requirement	5 798	5 314	5 501
<b>BRANCHES AND STAFF</b>			
Number of branches	53	54	54
Number of employees (annualised)	1 103	996	1 021

PRIMARY CAPITAL CERTIFICATES	30.09.08	2007	2006	2005	2004
Primary capital ratio <sup>5)</sup>	56,8 %	54,9 %	51,0 %	53,0 %	56,3 %
Market price	38,50	66,25	68,41	83,25	52,12
Market capitalisation	2 884	4 702	4 274	5 201	3 257
Book equity per PCC (including dividends)	39,07	40,82	34,91	34,31	31,84
Earnings per PCC <sup>4)</sup>	3,39	7,85	7,78	7,75	5,72
Dividends per PCC	n.a.	4,75	4,34	5,07	3,33
Price / Earnings per PCC	8,52	8,44	8,79	10,74	9,11
Price / Book equity	0,99	1,62	1,96	2,43	1,64

<sup>1)</sup> Net profit as a percentage of average equity

<sup>2)</sup> Total operating expenses as a percentage of total operating income

<sup>3)</sup> Net losses expressed as a percentage of average gross lending year to date, annualized

<sup>4)</sup> Net profit multiplied by the primary capital certificate percentage divided by the average number of certificates outstanding.

SpareBank 1 SR-Bank does not have any forward cover contracts or other circumstances that can dilute earning per PCC (primary capital certificate).

<sup>5)</sup> Core capital ratio used for 2008 has increased from 54,9% to 56,0%. Due to the primary capital issue coming into effect from May 2008.

## Income statement

Parent bank					Note	Group				
2007	Q3 07	Q3 08	30.09.07	30.09.08		30.09.08	30.09.07	Q3 08	Q3 07	2007
					Income statement (MNOK)					
5 023	1 331	1 910	3 492	5 277	Interest income	5 355	3 544	1 938	1 348	5 100
3 774	991	1 501	2 588	4 155	Interest expense	4 142	2 577	1 496	986	3 760
1 249	340	409	904	1 122	Net interest income	1 213	967	442	362	1 340
601	157	140	430	422	Commission income	480	487	159	181	675
-83	-20	-21	-61	-60	Commission expenses	-61	-61	-21	-19	-81
26	1	4	5	9	Other operating income	201	209	61	65	301
544	138	123	374	371	Net commission and other income	620	635	199	227	895
11	0	1	9	14	Dividend income	14	10	0	-1	12
94	0	3	94	213	Income from investment in associates	62	172	9	54	234
89	1	-139	80	-151	Net gains/losses on financial instruments	-142	138	-149	17	142
194	1	-135	183	76	Net return on investment securities	-66	320	-140	70	388
1 987	479	397	1 461	1 569	Total income	1 767	1 922	501	659	2 623
570	150	160	411	467	Personnel expenses	599	539	204	194	751
301	71	81	219	244	Administrative expenses	272	248	91	81	339
182	41	32	116	123	Other operating expenses	195	184	53	62	267
1 053	262	273	746	834	Total operating expenses	1 066	971	348	337	1 357
934	217	124	715	735	Operating profit before losses	701	951	153	322	1 266
6	18	35	3	60	Losses on loans and guarantees	68	3	41	18	10
928	199	89	712	675	Operating profit before tax and minority interests	633	948	112	304	1 256
212	61	44	170	154	Tax expense	186	198	52	71	249
0	0	0	0	0	Minority interests	9	10	3	4	13
716	138	45	542	521	Net profit	438	740	57	229	994

## Balance sheet

Parent bank			Note	Group		
31.12.07	30.09.07	30.09.08		30.09.08	30.09.07	31.12.07
						<b>Balance sheet (MNOK)</b>
2 622	1 482	753		753	1 482	2 622
6 489	8 204	5 947		1 657	5 302	3 357
84 647	81 740	91 229		95 568	85 069	88 090
-92	-90	-138		-148	-96	-98
-120	-123	-106		-121	-131	-131
84 435	81 527	90 985	8	95 299	84 842	87 861
5 406	3 389	6 206		6 249	3 418	5 444
897	695	1 501	10	1 501	692	897
449	472	406		546	617	589
788	718	859		1 410	1 210	1 345
430	411	489		0	0	0
0	0	175		521	0	43
1 015	1 059	1 101	5	1 240	1 123	1 109
<b>102 531</b>	<b>97 957</b>	<b>108 422</b>	<b>Total assets</b>	<b>109 176</b>	<b>98 686</b>	<b>103 267</b>
5 813	5 816	4 306		4 306	5 815	5 812
50 995	48 895	53 287	7	52 477	48 100	50 214
35 635	32 270	37 908	11	37 908	32 270	35 635
713	1 198	833	10	830	1 198	713
1 465	2 043	3 267	6	4 112	2 861	2 227
0	0	0		41	0	0
2 825	2 782	3 494	11	3 494	2 822	2 825
<b>97 446</b>	<b>93 004</b>	<b>103 095</b>	<b>Total liabilities</b>	<b>103 168</b>	<b>93 066</b>	<b>97 426</b>
1 774	1 331	1 873		1 873	1 331	1 774
-10	-5	-7		-7	-5	-10
7	380	92		92	380	7
777	775	712		712	775	777
337	0	0		0	0	337
1 970	1 759	1 926		1 926	1 759	1 970
124	68	104		104	68	124
106	103	106		139	110	139
0	0	0		720	450	707
0	542	521		438	740	0
0	0	0		11	12	16
<b>5 085</b>	<b>4 953</b>	<b>5 327</b>	<b>Total equity</b>	<b>6 008</b>	<b>5 620</b>	<b>5 841</b>
<b>102 531</b>	<b>97 957</b>	<b>108 422</b>	<b>Total liabilities and equity</b>	<b>109 176</b>	<b>98 686</b>	<b>103 267</b>

## Consolidated specification of recognised income, expenses and value changes

	30.09.2008	30.09.2007
Net profit prior to minority interests	447	750
Unrecognised actuarial gains and losses	-106	122
Total income recognised	341	872
Attributable to majority interests	332	862
Attributable to minority interests	9	10

This specification shows the profit for the year as it would have been if the unrecognised actuarial gains and losses had been recognised in the income statement.

## Movements in equity capital

SpareBank 1 SR-Bank Group (Amounts in NOK million)	Q3 2008	Q3 2007
Equity capital as of 1 january	5 841	4 445
Dividends	-350	-281
Correction related to equity adjustments in SB1 Group	19	50
Correction	1	-5
Primary capital issue (net)	184	562
Changes in endowment fund	-20	-23
Changes in fair value booked to equity	-106	122
Sale, purchase and capital gains/losses on own primary capital certificates	-8	0
Net profit	447	750
Equity capital as of 30 September	6 008	5 620

## Primary capital ratio

Parent bank (Amounts in NOK million)	30.09.2008	31.12.2007
Primary capital certificates	1 866	1 764
Dividend equalisation reserve	712	777
Premium reserve	92	7
<b>A. The primary certificate owners' capital</b>	<b>2 670</b>	<b>2 548</b>
Savings bank's reserve	1 926	1 970
Endowment fund	104	124
<b>B. The savings bank's reserve</b>	<b>2 030</b>	<b>2 094</b>
Fund for unrealised gains	106	106
<b>Equity excl proposed dividend</b>	<b>4 806</b>	<b>4 748</b>
<b>Primary capital ratio (A/(A+B))</b>	<b>56,8 %</b>	<b>54,9 %</b>

Core capital ratio used for 2008 has increased from 54,9% to 56,0%. Due to the primary capital issue coming into effect from May 2008.

## Cash flow statement

Parent bank			Cash flow statement	Group		
31.12.2007	30.09.2007	30.09.2008		30.09.2008	30.09.2007	31.12.2007
928	712	675	Profit before tax	633	948	1 258
0	0	0	Income from ownership interests	-62	-172	-234
2	0	21	Changes in value of financial assets	38	0	-51
-22	-2	-7	Gain on disposal of non-financial assets	-8	-2	-22
47	35	39	Write-down on non-financial assets	43	39	52
6	3	60	Losses on loans	68	3	10
-237	-237	-238	Taxes paid	-255	-255	-255
724	511	550	Transferred from the years's activity	457	561	756
-9 991	-7 139	-6 582	Change in gross lending to customers	-7 478	-7 772	-10 793
-3 999	-5 739	643	Change in receivables from credit institutions	1 801	-5 252	-3 282
7 852	5 752	2 292	Change in deposits from customers	2 263	5 553	7 667
-247	-244	-1 507	Change in debt to credit institutions	-1 506	-213	-216
-1 880	137	-801	Change in certificates and bonds	-805	140	-1 886
-138	-108	-34	Change in other receivables	-94	-141	-137
336	1 430	833	Change in current liabilities	647	1 357	642
-7 343	-5 400	-4 606	<b>A Net cash flow from operations</b>	<b>-4 715</b>	<b>-5 767</b>	<b>-7 249</b>
-75	-44	-26	Change in tangible fixed assets	-26	-44	-75
55	6	9	Proceeds from sale of fixed assets	9	6	55
-124	-77	-87	Change in shares and ownership stakes	22	272	-178
-144	-115	-104	<b>B Net cash flow, investments</b>	<b>5</b>	<b>234</b>	<b>-198</b>
9 578	6 213	2 273	Debt raised by issuance of securities	2 273	6 213	9 578
-127	-170	669	Change in other long-term liabilities	669	-170	-167
-271	0	0	Dividend to primary capital certificate holders	0	0	-271
9 180	6 043	2 942	<b>C Net cash flow, financing</b>	<b>2 942</b>	<b>6 043</b>	<b>9 140</b>
1 693	528	-1 768	<b>A+B+C Net cash flow during the periode</b>	<b>-1 768</b>	<b>510</b>	<b>1 693</b>
997	997	2 690	Cash and cash equivalents as at 1 January	2 690	997	997
2 690	1 525	922	Cash and cash equivalents as at 31 March	922	1 525	2 690
1 693	528	-1 768	<b>Net cash flow during the period</b>	<b>-1 768</b>	<b>528</b>	<b>1 693</b>

The cash and cash equivalents includes cash and claims on central banks, plus the share of the total of claims on credit institutions that pertains to placement solely in credit institutions. The cash flow statement shows cash provided and used by Sparebank 1 SR-Bank and Sparebank 1 SR-Bank Group.

## QUARTERLY INCOME STATEMENT

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
SpareBank 1 SR-Bank Group, MNOK	2008	2008	2008	2007	2007	2007	2007	2006	2006
Interest income	1 938	1 771	1 646	1 556	1 348	1 160	1 036	892	774
Interest expense	1 496	1 378	1 268	1 183	986	843	748	594	491
<b>Net interest income</b>	<b>442</b>	<b>393</b>	<b>378</b>	<b>373</b>	<b>362</b>	<b>317</b>	<b>288</b>	<b>298</b>	<b>283</b>
Commission income	159	163	158	188	181	159	147	150	126
Commission expenses	-21	-21	-19	-20	-19	-22	-20	-20	-21
Other operating income	61	85	55	92	65	81	63	54	56
<b>Net commission and other income</b>	<b>199</b>	<b>227</b>	<b>194</b>	<b>260</b>	<b>227</b>	<b>218</b>	<b>190</b>	<b>184</b>	<b>161</b>
Dividend income	0	10	4	2	-1	7	4	1	1
Income from investment in associates	9	32	21	62	54	70	48	76	43
Net gains/losses on financial instrument valued at fair value	-149	66	-59	4	17	69	52	114	20
<b>Net return on investment securities</b>	<b>-140</b>	<b>108</b>	<b>-34</b>	<b>68</b>	<b>70</b>	<b>146</b>	<b>104</b>	<b>191</b>	<b>64</b>
<b>Total income</b>	<b>501</b>	<b>728</b>	<b>538</b>	<b>701</b>	<b>659</b>	<b>681</b>	<b>582</b>	<b>673</b>	<b>508</b>
Personnel expenses	204	205	190	212	194	181	164	177	160
Administrative expenses	91	90	91	91	81	82	85	94	74
Other operating expenses	53	74	68	83	62	65	57	60	54
<b>Total operating expenses</b>	<b>348</b>	<b>369</b>	<b>349</b>	<b>386</b>	<b>337</b>	<b>328</b>	<b>306</b>	<b>331</b>	<b>288</b>
<b>Operating profit before impairment losses</b>	<b>153</b>	<b>359</b>	<b>189</b>	<b>315</b>	<b>322</b>	<b>353</b>	<b>276</b>	<b>342</b>	<b>220</b>
Impairment losses on loans and guarantees	41	24	3	7	18	-4	-11	-50	-35
<b>Operating profit before tax and minority interests</b>	<b>112</b>	<b>335</b>	<b>186</b>	<b>308</b>	<b>304</b>	<b>357</b>	<b>287</b>	<b>392</b>	<b>255</b>
Tax expense	52	79	55	51	71	66	61	71	59
Minority interests	3	3	3	3	4	3	3	3	3
<b>Net profit</b>	<b>57</b>	<b>253</b>	<b>128</b>	<b>254</b>	<b>229</b>	<b>288</b>	<b>223</b>	<b>318</b>	<b>193</b>

## Profitability

Return on equity per quarter	3,8 %	17,4 %	9,0 %	17,7 %	16,9 %	23,7 %	20,2 %	30,4 %	19,4 %
Cost percentage	69,5 %	50,7 %	64,9 %	55,1 %	51,1 %	48,2 %	52,6 %	49,2 %	56,7 %

## Balance sheet figures from quarterly accounts

Gross loans to customers	95 568	91 584	89 600	88 090	85 069	80 949	79 023	77 297	70 134
Deposits from customers	52 477	57 075	51 971	50 214	48 100	48 393	44 857	42 547	41 643
Total assets	109 176	109 240	103 896	103 267	98 686	93 912	88 178	85 180	77 427
Average total assets	109 688	106 568	103 582	100 976	96 299	91 045	86 679	80 987	75 104
Growth in loans over last 12 months	12,3 %	13,1 %	13,4 %	14,0 %	21,3 %	23,1 %	23,7 %	25,1 %	19,1 %
Growth in deposits over last 12 months	9,1 %	17,9 %	15,9 %	18,0 %	15,5 %	16,8 %	13,3 %	13,4 %	12,6 %

## Losses and non-performing commitments

Impairment losses ratio	0,10	0,06	0,01	0,01	0,01	-0,04	-0,06	-0,13	0,08
Non-performing commitments as a percentage of total loans	0,22	0,19	0,12	0,10	0,12	0,10	0,14	0,14	0,15
Other doubtful commitments as a percentage of total loans	0,48	0,30	0,78	0,73	0,72	0,20	0,26	0,27	0,38

## Solidity

Capital adequacy ratio	10,61	10,72	10,52	10,00	10,08	10,18	10,06	10,56	9,38
Core capital ratio	7,53	7,79	7,48	7,51	7,44	7,22	6,85	7,39	7,36
Core capital	5 458	5 496	5 083	5 167	4 944	4 485	3 990	4 354	3 909
Net equity and subordinated loan capital <sup>1)</sup>	7 686	7 558	7 154	6 874	6 697	6 325	5 860	6 223	4 979
Minimum subordinated capital requirement <sup>1)</sup>	5 798	5 642	5 438	5 501	5 314				
Total basis for calculation	72 471	70 525	67 974	68 771	66 425	62 124	58 223	58 939	53 108

## Primary capital certificates

Market price at end of quarter	38,50	46,70	52,75	66,25	61,88	61,69	66,75	68,41	66,98
Number of certificates issued, millions	74,90	74,64	70,97	70,97	70,97	70,97	60,31	60,31	60,31
Book equity per PCC, NOK	39,07	39,35	36,48	40,82	40,91	38,36	31,76	34,91	33,68
Earnings per PCC, NOK (annualised)	0,44	1,96	1,00	2,01	1,81	2,46	2,08	2,70	1,65
Price/earnings per PCC	21,88	5,96	13,19	8,24	8,55	6,27	8,02	6,33	10,15
Price/book equity	0,99	1,19	1,45	1,62	1,51	1,61	2,10	1,96	1,99

<sup>1)</sup> New regulations as of 1.1.2007. See note 9 for details.



# Notes to the financial statements

(in MNOK)

Note 1      Accounting principles

## 1.1 Basis of preparation

The 3<sup>rd</sup> quarter 2008 interim financial statements of Sparebank 1 SR-Bank are for the nine months ending 30 september 2008. They have been prepared in accordance with IAS 34 Interim Financial Reporting. The financial statements have been prepared in accordance with current IFRS standards and IFRIC interpretations. By the end of March 2007, the Ministry of Finance gave Parent Banks the option of preparing the 1<sup>st</sup> quarter statements according to IFRS regulations. From the 2<sup>nd</sup> quarter 2007 this became mandatory for listed banks. In order to have a uniform reporting throughout the year, Sparebank 1 SR-Bank chose to report the 1<sup>st</sup> quarter 2007 statements for the Parent Bank according to the IFRS regulations.

## 1.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Segment information is disclosed in a separate note.

## 1.3 Foreign currency transactions and balances

Foreign exchange gains and losses, resulting from the settlement of foreign currency transactions and the translation of monetary assets and liabilities denominated in foreign currencies at period-end exchange rates, are recognised in the income statement, except where hedge accounting is applied.

## 1.4 Tangible fixed assets

Tangible fixed assets comprise property, plant and equipment. All property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Alternatively tangible fixed assets could have been valued at fair value. This would have given an estimated added value. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life. Parts of buildings which are leased out, are classified as investment property, but are otherwise treated the same way as other tangible fixed assets.

## 1.5 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

## 1.6 Securities

Securities consist of shares, ownership stakes, certificates and bonds. Shares and ownership stakes are recognised either at "fair value through profit and loss" or as "available for sale". Certificates and bonds are recognised either at "fair value through profit and loss" or as categories recognised at amortised cost, i.e. "held to maturity" or "loans and receivables". All gains and losses arising from changes in the fair value of securities recognised at "fair value through profit and loss" are included in "Net gain/losses on financial instruments" in the statements. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as "Net gain/losses on financial instruments". Securities recognised as "held to maturity" or "loans and receivables" are measured at amortised cost using the effective interest method. Refer to item 1.8. for explanation of this method.

## 1.7 Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of loans and deposits and of allocating the interest income or expense over the expected term to maturity. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Once a financial asset or a group of similar assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

## 1.8 Loans to customers

Fixed rate loans to customers are carried at fair value. Gains and losses from changes in fair value are included in the income statement. Other loans and advances are carried at amortised cost using the effective interest method.

### *Impairment of gross loans carried at amortised cost*

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'), and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

#### *Impairment of loans carried at fair value*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets carried at fair value is impaired. Impairment losses are included in the income statement in the period in which they arise.

#### **1.9 Derivative financial instruments and hedge accounting**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as hedges of the fair value of recognised liabilities. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

#### **1.10 Pension obligations**

Group companies operate various pensions schemes. The schemes are funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of a defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rate of Norwegian government bonds with adjustments made for differences in terms to maturity. Changes in estimates are recognised in equity according to IAS 19.

#### **1.11 Borrowing**

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

#### **1.12 Dividends**

Dividends on primary capital certificates are recognised in equity in the period in which they are approved by the bank's Supervisory Board.

#### **1.13 Ownership in subsidiaries and associated companies**

According to the IFRS regulations, ownership in subsidiaries and associated companies are valued at cost in the financial statement of the parent bank. In the consolidated financial statements they are accounted for using the equity method: we recognise our share of the profit in associated companies in our income statement, and subsidiaries are consolidated into the financial statements of the group.

#### *Note 2 Losses on loans and guarantees*

Parent bank				Group		
31.12.2007	30.09.2007	30.09.2008		30.09.2008	30.09.2007	31.12.2007
-4	-7	43	Change in individual impairment losses provisions for the period	47	-7	-6
-3	0	-14	Change in collective impairment loss provisions for the period	-10	0	0
0	0	3	Amortised cost	3	0	0
20	14	29	Actual loan losses on commitments for which provisions have been made	29	16	23
0	2	2	Actual loan losses on commitments for which no provision has been made	3	2	1
-7	-6	-3	Recoveries on commitments previously written-off	-4	-8	-8
6	3	60	The period's net losses / (reversals) on loans and advances	68	3	10

**Note 3 Provisions for impairment losses on loans**

Parent bank				Group		
31.12.2007	30.09.2007	30.09.2008		30.09.2008	30.09.2007	31.12.2007
103	103	99	Provisions for Individual impairment losses at start of period	105	111	111
4	2	4	Increases in previous provisions for individual impairment losses	4	2	4
-40	-31	-37	Reversal of provisions from previous periods	-37	-31	-44
52	36	105	New provisions for individual impairment losses	109	36	57
0	-2	0	Amortised cost	0	-2	0
		-29	Actual loan losses during the period for which provisions for individual	-29		
-20	-14	-29	impairment losses have been made previously	-29	-16	-23
99	94	142	Provisions for Individual impairment losses at period end	152	100	105
20	16	31	Net losses	31	18	24

**Note 4 Non-performing and problem commitments**

Parent bank				Group		
31.12.2007	30.09.2007	30.09.2008		30.09.2008	30.09.2007	31.12.2007
			<b>Non-performing loans and advances</b>			
89	96	196	Gross non-performing loans above 90 days	211	98	92
26	27	36	Provisions for Individual impairment losses	40	28	26
63	69	160	Net non-performing loans and advances	171	70	66
29 %	28 %	18 %	Loan loss provision ratio	19 %	29 %	28 %
			<b>Other problem commitments</b>			
620	594	436	Problem commitments	462	615	647
73	67	106	Provisions for Individual impairment losses	112	72	79
547	527	330	Net other problem commitments	350	543	568
12 %	11 %	24 %	Loan loss provision ratio	24 %	12 %	12 %

**Note 5 Other assets**

Parent bank				Group		
31.12.2007	30.09.2007	30.09.2008		30.09.2008	30.09.2007	31.12.2007
0	19	0	Intangible assets	23	23	23
0	0	37	Deferred tax assets	24	10	0
282	296	297	Tangible fixed assets	307	308	294
733	744	767	Other assets	886	782	792
1 015	1 059	1 101	<b>Total other assets</b>	1 240	1 123	1 109

**Note 6 Other liabilities**

Parent bank				Group		
31.12.2007	30.09.2007	30.09.2008		30.09.2008	30.09.2007	31.12.2007
761	1 285	2 220	Accrued expenses and prepaid revenue	2 344	1 398	848
13	0	0	Deferred tax	0	0	21
236	256	383	Provision for accrued expenses and liabilities	437	262	329
455	502	664	Other liabilities	1 331	1 201	1 029
1 465	2 043	3 267	<b>Total other liabilities</b>	4 112	2 861	2 227

Note 7 Customer deposits by sectors and industry

Parent bank				Group		
31.12.2007	30.09.2007	30.09.2008		30.09.2008	30.09.2007	31.12.2007
789	804	877	Agriculture/forestry	877	804	789
349	114	148	Fishing/Fish farming	148	114	349
1 624	972	1 175	Mining/extraction	1 175	972	1 624
2 086	1 842	1 524	Industry	1 524	1 842	2 086
1 464	1 566	2 719	Power and water supply/building and construction	2 719	1 566	1 464
1 768	1 964	1 530	Commodity trade, hotel and restaurant business	1 530	1 964	1 768
1 690	1 546	1 224	Foreign trade shipping, pipeline transport and other transport activities	1 184	1 546	1 690
3 961	3 596	4 115	Real estate business	4 115	3 596	3 961
5 920	5 794	6 968	Service industry	6 198	4 999	5 139
9 894	9 731	9 803	Public sector and financial services	9 803	9 731	9 894
29 545	27 929	30 083	<b>Total corporate sector</b>	29 273	27 134	28 764
21 450	20 966	23 204	Retail customers	23 204	20 966	21 450
50 995	48 895	53 287	<b>Total deposits</b>	52 477	48 100	50 214

Note 8 Loans by sectors and industry

Parent bank				Group		
31.12.2007	30.09.2007	30.09.2008		30.09.2008	30.09.2007	31.12.2007
2 157	2 038	2 341	Agriculture/forestry	2 600	2 267	2 389
614	569	628	Fishing/Fish farming	676	593	640
2 457	2 196	2 733	Mining/extraction	2 871	2 234	2 497
2 436	2 817	2 397	Industry	3 027	3 395	2 993
1 154	1 176	1 564	Power and water supply/building and construction	2 444	1 822	1 845
2 013	1 981	2 728	Commodity trade, hotel and restaurant business	2 966	2 178	2 216
3 453	2 600	5 224	Foreign trade shipping, pipeline transport and other transport activities	5 278	2 805	3 749
15 892	14 747	19 081	Real estate business	19 161	14 800	15 917
3 664	3 987	4 970	Service industry	5 948	4 518	4 211
483	556	273	Public sector and financial services	470	724	655
-105	-57	-100	Unallocated (excess value fixed interest loans and amort. lending fees)	-123	-53	-117
34 218	32 610	41 839	<b>Total corporate sector</b>	45 318	35 283	36 995
50 429	49 185	49 390	Retail customers	50 250	49 786	51 095
84 647	81 795	91 229	<b>Gross loans</b>	95 568	85 069	88 090
-92	-90	-138	- Individual impairment losses provisions	-148	-96	-98
-120	-123	-106	- Collective impairment losses provisions	-121	-131	-131
84 435	81 582	90 985	<b>Net loans</b>	95 299	84 842	87 861

Note 9 Capital adequacy

New rules on capital adequacy were introduced in Norway from the 1 January 2007; Basel II – the EU's new directive regarding capital adequacy. SpareBank 1 SR-Bank has applied to and got permission from Kredittilsynet to use internal rating methods (Internal Rating Based Approach – Foundation) on credit risk from 1 January 2007. This will make the statutory minimum-requirement regarding capital adequacy more risk-sensitive, and thus more in accordance with the risk in the underlying portfolios. Using IRB demands high standards regarding organisation, competence, risk-models and risk-management systems. Interim regulations have been issued by Kredittilsynet, giving IRB-banks full effect of the reduced capital requirements from 2010 and onwards. In 2008, a reduction of the risk-weighted basis of calculation of 10% is allowed, while the corresponding figure for 2007 was 5%.

Parent bank				Group		
31.12.2007	30.09.2007	30.09.2008		30.09.2008	30.09.2007	31.12.2007
1 774	1 331	1 873	Primary capital	1 873	1 331	1 774
-10	-5	-7	- Own primary capital certificates	-7	-5	-10
7	380	92	Premium reserve	92	380	7
1 970	1 759	1 926	Savings bank's reserve	1 926	1 759	1 970
124	68	104	Endowment fund	104	68	124
777	775	712	Equalisation reserve	712	775	777
337	0	0	Allocated to dividend	0	0	337
106	103	106	Reserve for unrealised gains	139	110	139
0	0	0	Other equity	720	305	560
5 085	4 411	4 806	<b>Total book equity</b>	<b>5 559</b>	<b>4 723</b>	<b>5 678</b>
0	-19	-37	Deferred taxes, goodwill and other intangible assets	-49	-36	-26
-2	0	-2	Fund for unrealized gains, available for sale	-2	0	-2
-337	0	0	Deduction for allocated dividends	0	0	-337
-266	-296	-262	50% deduction for subordinated capital in other financial institutions	-12	-46	-12
-158	-159	-237	50% deduction for expected losses on IRB, net of write-downs	-237	-166	-173
0	0	0	50 %Capital adequacy reserve	-538	-417	-486
72	72	36	Share of non-performing, non-amortised estimate deviations	38	77	77
0	271	261	Year-to-date profit included in core capital (50%)	219	370	0
448	439	480	Fund bonds	480	439	448
4 842	4 719	5 045	<b>Total core capital</b>	<b>5 458</b>	<b>4 944</b>	<b>5 167</b>
			Supplementary capital in excess of core capital			
739	739	770	Perpetual subordinated capital	770	739	739
1 639	1 603	2 245	Non-perpetual subordinated capital	2 245	1 643	1 639
-266	-296	-262	50% deduction for subordinated capital in other financial institutions	-12	-46	-12
-158	-159	-237	50% deduction for expected losses on IRB, net of write-downs	-237	-166	-173
0	0	0	50 % capital adequacy reserve	-538	-417	-486
1 954	1 887	2 516	<b>Total supplementary capital</b>	<b>2 228</b>	<b>1 753</b>	<b>1 707</b>
6 796	6 606	7 561	<b>Net subordinated capital</b>	<b>7 686</b>	<b>6 697</b>	<b>6 874</b>
			Minimum requirements subordinated capital, Basel II			
1 860	1 734	2 107	Specialized Lending exposure	2 107	1 734	1 860
1 037	1 037	1 367	Other corporations exposure	1 367	1 037	1 037
31	29	26	SME exposure	26	29	31
559	558	495	Retail mortgage exposure	495	558	559
47	47	46	Other retail exposure	46	47	47
0	0	0	Equity investments	0	0	152
3 534	3 405	4 041	<b>Total credit risk IRB</b>	<b>4 041</b>	<b>3 405</b>	<b>3 686</b>
158	125	159	Debt risk	161	125	158
38	41	70	Equity risk	70	41	38
2	7	0	Currency risk	0	7	2
232	232	248	Operational risk	306	268	268
892	907	464	Transitional arrangements	303	751	681
431	404	364	Exposures calculated using the standardised approach	1 005	818	776
-68	-73	-42	Deductions	-88	-101	-108
5 219	5 048	5 304	<b>Minimum requirements subordinated capital</b>	<b>5 798</b>	<b>5 314</b>	<b>5 501</b>
10,4 %	10,5 %	11,4 %	Capital adequacy ratio	10,6 %	10,1 %	10,0 %
7,4 %	7,5 %	7,6 %	Core capital ratio	7,5 %	7,4 %	7,5 %
3,0 %	3,0 %	3,8 %	Supplementary capital ratio	3,1 %	2,6 %	2,5 %

Note 10 Financial derivatives

	Parent bank	
	Contract amount 30.09.08	Fair value at 30.09.08 Assets      Liabilities
<b>At fair value through profit and loss (Parent Bank)</b>		
<b>Currency instruments</b>		
Currency forward contracts	6 993	121
Currency swaps	12 996	357
Currency options	0	0
<b>Total currency instruments</b>	<b>19 989</b>	<b>478</b>
<b>Interest rate instruments</b>		
Interest rate swaps(including cross-currency)	43 572	820
Other interest rate contracts	0	0
<b>Total interest rate instruments</b>	<b>43 572</b>	<b>820</b>
<b>Hedging / Interest rate instruments</b>		
Interest rate swaps (including cross currency)	10 131	203
<b>Total hedging / Interest rate instruments</b>	<b>10 131</b>	<b>203</b>
<b>Total currency and interest rate instruments</b>		
Total interest rate instruments	53 703	1 023
Total currency instruments	19 989	478
<b>Total</b>	<b>73 692</b>	<b>1 501</b>

The note is approximately identical for the Parent Bank and the Group

Note 11 Debt raised through issuance of securities and subordinated capital

	Parent bank		
	31.12.07	30.09.07	30.09.08
<b>Debt raised through issuance of securities (Parent bank)</b>			
Certificates, nominal amount	5 516	3 030	5 770
Bonds, nominal amount	30 157	29 288	32 157
Adjustments	-38	-48	-19
<b>Total debt raised through issuance of securities</b>	<b>35 635</b>	<b>32 270</b>	<b>37 908</b>

	Balance as at 31.12.07	Issued 2008	Past due/ redeemed 2008	FX rate- and other changes 2008	Balance as at 30.09.08
<b>Change in debt raised through issuance of securities</b>					
Certificates, nominal amount	5 516	4 670	-4 416		5 770
Bonds, nominal amount	30 157	7 093	-5 183	90	32 157
Adjustments	-38			19	-19
<b>Total debt raised through issuance of securities</b>	<b>35 635</b>	<b>11 763</b>	<b>-9 599</b>	<b>109</b>	<b>37 908</b>

	31.12.07	30.09.07	30.09.08
<b>Subordinated capital and hybrid instruments</b>			
Non-perpetual subordinated capital, nominal amount	1 596	1 566	2 207
Perpetual subordinated capital, nominal amount	735	736	767
Hybrid instruments, nominal amount	406	408	435
Adjustments	88	72	85
<b>Total subordinated capital and hybrid instruments</b>	<b>2 825</b>	<b>2 782</b>	<b>3 494</b>

	Balance as at 31.12.07	Issued 2008	Past due/ redeemed 2008	FX rate- and other changes 2008	Balance as at 30.09.08
<b>Change in subordinated capital and hybrid instruments</b>					
Non-perpetual subordinated capital, nominal amount	1 596	500		111	2 207
Perpetual subordinated capital, nominal amount	735			32	767
Hybrid instruments, nominal amount	406			30	436
Adjustments	88			-3	85
<b>Total subordinated capital and hybrid instruments</b>	<b>2 825</b>	<b>500</b>	<b>0</b>	<b>170</b>	<b>3 495</b>

The note is approximately identical for the Parent Bank and the Group



Note 12 Segment reporting

SporeBank 1 SR-Bank Group 30.05.08								
Income statement (in MNOK)	Retail Market	Corporate Market	Eiendoms- Megler 1	SR- Finans	SR- Forvaltning	SR- Investering	Not alloc.	Total
Net interest income	576	401	10	77	2	2	145	1 213
Net commission and other income	264	144	190	-1	48	1	-26	620
Net return on investment securities	0	0	10	0	0	-1	-75	-66
Operating expenses	277	61	178	28	14	6	502	1 066
Operating profit before losses	563	484	32	48	36	-4	-458	701
Losses on loans and guarantees	14	29	0	7	0	0	18	68
Operating profit before tax	549	455	32	41	36	-4	-476	633
<b>Balance sheet (in MNOK)</b>								
Loans to customers	49 390	41 839	0	4 684	0	0	-345	95 568
Individual loss provisions	-45	-93	0	-10	0	0	0	-148
Group loss provisions	-12	-94	0	-15	0	0	0	-121
Other assets	0	0	744	101	53	194	12 785	13 877
<b>Total assets</b>	<b>49 333</b>	<b>41 652</b>	<b>744</b>	<b>4 760</b>	<b>53</b>	<b>194</b>	<b>12 440</b>	<b>109 176</b>
Deposits from customers	23 204	30 083	0	0	0	0	-810	52 477
Other debt	0	0	727	4 460	46	1	45 457	50 691
Total debt	23 204	30 083	727	4 460	46	1	44 647	103 168
Equity	0	0	17	300	7	193	5 491	6 008
<b>Total debt and equity</b>	<b>23 204</b>	<b>30 083</b>	<b>744</b>	<b>4 760</b>	<b>53</b>	<b>194</b>	<b>50 138</b>	<b>109 176</b>

SporeBank 1 SR-Bank Group 30.05.07								
Income statement (in MNOK)	Retail Market	Corporate Market	Eiendoms- Megler 1	SR- Finans	SR- Forvaltning	SR- Investering	Not alloc.	Total
Net interest income	508	306	8	53	1	2	89	967
Net commission and other income	315	113	205	-1	49	1	-47	635
Net return on investment securities	0	0	0	0	0	59	261	320
Operating expenses	252	51	185	22	10	5	446	971
Operating profit before losses	571	368	28	30	40	57	-143	951
Losses on loans and guarantees	-14	18	0	1	0	0	-2	3
Operating profit before tax	585	350	28	29	40	57	-141	948
<b>Balance sheet (in MNOK)</b>								
Loans to customers	49 185	32 610	0	3 274	0	0	0	85 069
Individual loss provisions	-39	-51	0	-6	0	0	0	-96
Group loss provisions	-22	-101	0	-8	0	0	0	-131
Other assets	0	0	765	68	57	203	12 751	13 844
<b>Total assets</b>	<b>49 124</b>	<b>32 458</b>	<b>765</b>	<b>3 328</b>	<b>57</b>	<b>203</b>	<b>12 751</b>	<b>98 686</b>
Deposits from customers	20 966	27 929	0	0	0	0	-795	48 100
Other debt	0	0	749	3 062	50	62	41 043	44 966
Total debt	20 966	27 929	749	3 062	50	62	40 248	93 066
Equity	0	0	16	266	7	141	5 190	5 620
<b>Total debt and equity</b>	<b>20 966</b>	<b>27 929</b>	<b>765</b>	<b>3 328</b>	<b>57</b>	<b>203</b>	<b>45 438</b>	<b>98 686</b>

**Note 13**    *Reclassification of financial assets*

Due to the extraordinary and negative development in the worlds financial markets during 3<sup>rd</sup> quarter 2008 the IASB 13<sup>th</sup> october 2008 approved certain changes to IAS 39 and IFRS 7. The changes permits a reclassification of part of or the whole portfolio of financial assets held for trading retrospectively to 1<sup>st</sup> july 2008. SpareBank 1 SR-Bank has decided to adopt this opportunity and has, after due considerations, chosen to reclassify certain parts of the bond portfolio into categories recognised at amortised cost, i.e. "held to maturity" or "loans and receivables". No reclassifications have been adopted by any of the subsidiaries.

Listed instruments are classified as "held to maturity" while instruments with no observable market value and where the price has been recognised through alternative valuation methods according to IAS 39 are reclassified as "loans and receivables".

Reclassification is carried through due to the major and abnormal impairments that has arisen during the turbulent financial markets. A major part of the banks bond portfolio has normally been kept in custody in Norges Bank and held to maturity. These bonds are normally of superior quality and exceptional changes in price is, according to the banks opinion, disturbing the result unnecessary. There is ability as well as will to keep the reclassified portfolio until maturity.  
The survey below states the effect a non-reclassification would have in the accounts.

**As at 1.7.08**

Parent bank				
Certificates and bonds recognised as:	Book value	Reclass.effect	Amortising	Fair value
At fair value through profit and loss	3 016	0	0	3 016
Held to maturity *)	2 350	0	0	2 350
Receivables *)	578	0	0	578
<b>Total certificates and bonds</b>	<b>5 944</b>	<b>0</b>	<b>0</b>	<b>5 944</b>

**As at. 30.9.08**

Parent bank				
Certificates and bonds recognised as:	Book value	Reclass.effect	Amortising	Fair value
At fair value through profit and loss	3 034	0	0	3 034
Held to maturity *)	2 374	44	4	2 325
Receivables *)	798	12	1	785
<b>Total certificates and bonds</b>	<b>6 206</b>	<b>56</b>	<b>5</b>	<b>6 144</b>

\*) Net unrealised losses written back as at 1<sup>st</sup> july amounts to NOK 47.3 mill The amounts will be amortised during the instruments economic life.  
Weighted remaining economic life is approximately 2.7 years.



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