

FIRST HALF-YEAR REPORT AND ACCOUNTS 2005

SPAREBANKEN SØR

RESULT

The pre-tax result for the Bank at the end of the second quarter of 2005 totalled NOK 154 million. In relation to average assets, this amounted to 1.54 per cent, as against 1.26 per cent at the same time last year. The Bank's good progress in 2004 and the first quarter of 2005 has been continuing during the second quarter. The improved overall result is primarily ascribable to increased net interest income, reduced costs and very low credit losses.

At the end of the second quarter, the after-tax return on equity capital was 14.0 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 231 million at the end of the second quarter, up by NOK 10 million on the comparable interim period last year. In relation to average assets, however, this amounted to 2.31 per cent, as against 2.43 per cent a year ago.

The competitive situation, coupled with a low level of domestic interest rates for a long period, has brought about a shrinkage in the average interest margin as well as reduced income from that part of the Bank's placements which is funded by equity capital. However, this loss of income has been compensated for, mainly through higher lending volumes.

OTHER (NON-INTEREST) INCOME

Net other operating income ended up at NOK 70 million at the end of the second quarter, up by NOK 6 million on the same time last year. In relation to average assets, this amounted to 0.70 per cent, unchanged from last year. Other income developed in a stable manner.

Commissions and income from banking services posted moderate growth. The securities area did better than at the same time last year. The Bank's most important subsidiary, ABCenter, produced good results, but a little down on the level achieved 12 months ago.

OPERATING COSTS

Costs totalled NOK 148 million, down from NOK 153 million at the end of the second quarter last year. Measured against average assets there was also improvement, the overall cost ratio finishing up at 1.48 per cent, significantly down from 1.68 per cent 12 months ago. The good progress which has been made earlier as far as overall costs are concerned has therefore continued during the second quarter this year. The improvement is partly a result of the restructuring measures which were implemented in 2004. The number of man-years worked has been trimmed by 12 during the last 12 months, the total now being 309.

CREDIT LOSSES AND COMMITMENTS IN DEFAULT

Net loan losses charged to the profit and loss account after the first 6 months of the year amounted to only NOK 1 million. The low level of credit losses experienced in the first quarter this year has continued during the second quarter. 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.

Loss provisions have been made for 26 per cent of the Bank's commitments in default and bad and doubtful commitments.

The level of net commitments in default and bad and doubtful commitments has been falling, representing 1.20 per cent of gross lending at the end of the second 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 20.4 billion, up from NOK 18.6 billion at the same time last year. During the last 12-month period, loans expanded by 9.4 per cent. Lending growth is still higher in the retail banking area than in the corporate banking sector. Deposits were up by 14.6 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 67.4 per cent, having risen from 64.3 per cent at the same time last year.

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

CAPITAL ADEQUACY RATIO - EQUITY AND RELATED CAPITAL

At the end of the second quarter of 2005, the Bank's capital adequacy ratio amounted to 11.4 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 second quarter. The profit for the first half of 2005 has not been factored into the capital adequacy calculations.

FUTURE PROSPECTS

Prospects for the Norwegian economy are good. A moderate increase in domestic interest rates is expected. Customer margins will remain under strong downward pressure partly as a result of several competing banks having established themselves in Sparebanken Sør's market area. However, the Bank enjoys a strong position within the area of Sørlandet. The Board of Directors is optimistic about the Bank's results in the immediate future, partly due to the fact that the current low level of credit losses is expected to continue.

Arendal, 23 August 2005

The Board of Directors of Sparebanken Sør

Profit and Loss Account

PARENT BANK Amounts in NOK million

GROUP Amounts in NOK million

30.06.2005	30.06.2004	31.12.2004		30.06.2005	30.06.2004	31.12.2004
370	359	725	Interest receivable and similar income	370	359	723
139	138	266	Interest payable and similar costs	139	138	264
231	221	459	Net interest- and credit commission income	231	221	459
9	11	8	Dividends and other income from securities with variable yield	8	9	9
48	46	97	Commissions receivable and income from banking services	89	90	181
12	11	23	Commissions payable and costs of banking services	12	11	23
15	10	31	Net value change and gains/losses on f/x and securities	15	10	31
10	8	16	Other operating income	10	8	16
70	64	129	Net other operating income	110	106	214
118	122	255	Wages, salaries and general administration costs	150	154	323
8	8	15	Depreciation of fixed- and intangible assets	12	12	23
22	23	43	Other operating costs	22	23	44
148	153	313	Total operating costs	184	189	390
153	132	275	Result before credit losses	157	138	283
1	17	22	Losses on loans, guarantees etc.	1	17	22
2		-2	Losses/gains on securities held on a long-term basis	2		-2
154	115	251	Result before taxation cost	158	121	259
40	31	63	Tax payable on ordinary result	41	33	67
114	84	188	Result for the accounting year	117	88	192
			Minority interests	3	4	4
			Result after minority interests	114	84	188

Balance Sheet

Parent Bank Amounts in NOK million

GROUP Amounts in NOK million

30.06.2005	30.06.2004	31.12.2004	ASSETS	30.06.2005	30.06.2004	31.12.2004
413	79	237	Cash-in-hand and claims on central banks	413	79	237
51	81	37	Loans to and claims on credit institutions	51	81	37
17 884	16 353	17 116	Gross lending to and claims on customers	17 861	16 306	17 093
75	97	82	Specific loss provisions	75	98	82
169	172	169	Non-specific loss provisions	169	172	169
17 640	16 084	16 865	Net lending to and claims on customers	17 617	16 036	16 842
2	7	6	Repossessed assets	2	7	6
1 913	1 843	1 788	Certificates, bonds and other interest-bearing securities	1 913	1 843	1 788
162	185	159	Shares	162	185	159
11	11	11	Equity stakes in associated companies	11	11	11
26	29	25	Equity stakes in Group companies			
3	6	3	Intangible assets	6	22	6
105	113	101	Fixed assets	135	142	130
30	46	14	Other assets	62	75	46
93	68	95	Pre-payments and accrued income	93	68	95
20 449	18 552	19 341	TOTAL ASSETS	20 465	18 549	19 357
			LIABILITIES AND EQUITY CAPITAL			
342	724	441	Liabilities to credit institutions	342	724	441
12 055	10 522	10 840	Deposits from and liabilities to customers	12 043	10 518	10 828
5 969	5 471	6 170	Borrowings raised through the issuance of securities	5 969	5 471	6 170
178	144	150	Other liabilities	202	138	174
120	120	67	Incurred costs and pre-paid income	120	120	67
44	42	46	Provisions for liabilities and costs	44	42	46
18 708	17 023	17 714	Total liabilities	18 720	17 013	17 726
			Minority interests	2	5	2
1 627	1 445	1 627	Accrued equity capital	1 630	1 447	1 630
			Equity capital - subsidiaries	-1		-1
114	84		Retained earnings	114	84	
1 741	1 529	1 627	TOTAL EQUITY CAPITAL	1 743	1 531	1 629
20 449	18 552	19 341	TOTAL LIABILITIES AND EQUITY CAPITAL	20 465	18 549	19 357
			ACCOUNTING ITEMS OFF THE BALANCE SHEET			
			Contingent liabilities:			
580	542	596	Guarantees	580	542	596
1 579	1 514	1 566	Book value of assets pledged as collateral security for debt	1 579	1 514	1 566
2	3	4	Other contingent liabilities	2	3	4
			Liabilities:			
5 062	4 523	4 469	Interest rate swaps	5 062	4 523	4 469
			FRAs			
284	238	408	Forward exchange contracts - bought	284	238	408
283	238	408	Forward exchange contracts - sold	283	238	408

QUARTERLY RESULTS (Parent Bank)

Amounts in NOK million

	2nd q. 2005	1st q. 2005	4th q. 2004	3rd q. 2004	2nd q. 2004	1st q. 2004
Net interest and credit commission income	116	115	121	118	112	108
Net other operating income	38	32	31	35	34	29
Operating costs	77	71	78	83	79	73
Result before credit losses	77	76	74	70	67	64
Losses on loans, guarantees etc.	0	1	3	2	4	13
Losses/gains on securities held on a long-term basis	2	0	-2	0	0	0
Result before taxation cost	79	75	69	68	63	51
Tax payable on ordinary result	19	21	13	21	16	14
Result after tax	60	54	56	47	47	37

QUARTERLY RESULTS

as a percentage of average assets

	2nd q. 2005	1st q. 2005	4th q. 2004	3rd q. 2004	2nd q. 2004	1st q. 2004
Net interest and credit commission income	2.28	2.34	2.51	2.50	2.45	2.41
Net other operating income	0.74	0.65	0.65	0.74	0.74	0.65
Operating costs	1.51	1.44	1.62	1.76	1.73	1.64
Result before credit losses	1.51	1.55	1.54	1.48	1.46	1.42
Losses on loans, guarantees etc.	0	0.02	0.06	0.04	0.09	0.29
Losses/gains on securities held on a long-term basis	0.04	0.00	-0.04	0.00	0.00	0.00
Result before taxation cost	1.55	1.53	1.44	1.44	1.37	1.13
Tax payable on ordinary result	0.37	0.42	0.27	0.44	0.35	0.31
Result after tax	1.18	1.11	1.17	1.00	1.02	0.82

NOTES

Losses on loans and guarantees	30.06.2005	30.06.2004	31.12.2004
Change in specific loss provisions during the period	-6	1	-15
Change in non-specific loss provisions during the period	0	8	5
Period's confirmed losses against which specific loss provisions were made in previous years	8	9	28
Period's confirmed losses against which no specific loss provisioning was raised in previous years	1	1	8
Period's recoveries in respect of previous confirmed losses	2	2	4
Loss cost for the period	1	17	22

Commitments in default - bad and doubtful commitments	30.06.2005	30.06.2004	31.12.2004
Commitments in default	113	238	142
Loss provisions	-31	-61	-39
Net commitments in default	82	177	103
Other bad and doubtful commitments	177	164	165
Loss provisions	-45	-37	-43
Net bad and doubtful commitments	132	127	122

Commitments in default are defined as the sum of a customer's total commitments to the Bank if just one of these loans has been in default for 90 days or more.

Equity and related capital - capital adequacy ratio	30.06.2005	30.06.2004	31.12.2004
Core capital			
The Savings Bank's Fund	1 627	1 445	1 627
Intangible assets and over-funded pension liabilities	-48	-39	-48
Equity participations in other financial institutions	0	-5	0
Net equity and related capital	1 579	1 401	1 579
Weighted asset calculation basis	13 827	12 719	12 957
Capital adequacy ratio	11.4 %	11.0 %	12.2 %

KEY FINANCIAL FIGURES, PERCENTAGES AND RATIOS

From the Profit and Loss Account	30.06.05	30.06.04	2004	2003	2002	2001
Interest- and credit commission income	370	359	725	1 039	1 216	1 163
Interest costs	139	138	266	604	775	756
Net interest- and credit commission income	231	221	459	435	441	407
Net other operating income	70	64	129	126	45	77
Operating costs	148	153	313	319	303	297
Result before credit losses	153	132	275	242	183	187
Losses on loans, guarantees etc.	1	17	22	75	78	59
Losses/gains on securities held on a long-term basis	2	0	-2	-1	0	35
Result before taxation cost	154	115	251	166	105	163
Tax payable on ordinary result	40	31	63	52	34	47
Result after tax	114	84	188	114	71	116

Profit and Loss Account items as a percentage of average assets	30.06.05	30.06.04	2004	2003	2002	2001
Interest- and credit commission income	3.69 %	3.94 %	3.90 %	6.05 %	7.91 %	8.35 %
Interest costs	1.38 %	1.51 %	1.43 %	3.52 %	5.04 %	5.43 %
Net interest- and credit commission income	2.31 %	2.43 %	2.47 %	2.53 %	2.87 %	2.92 %
Net other operating income	0.70 %	0.70 %	0.69 %	0.74 %	0.29 %	0.55 %
Operating costs	1.48 %	1.68 %	1.68 %	1.86 %	1.97 %	2.13 %
Result before credit losses	1.53 %	1.45 %	1.48 %	1.41 %	1.19 %	1.34 %
Losses on loans, guarantees etc.	0.01 %	0.19 %	0.12 %	0.44 %	0.51 %	0.43 %
Losses/gains on securities to be held on a long-term basis	0.02 %	0.00 %	-0.01 %	0.00 %	0.00 %	0.25 %
Result before taxation cost	1.54 %	1.26 %	1.35 %	0.97 %	0.68 %	1.16 %
Tax payable on ordinary result	0.40 %	0.34 %	0.34 %	0.30 %	0.22 %	0.34 %
Result after tax	1.14 %	0.92 %	1.01 %	0.67 %	0.46 %	0.82 %
Average assets	20 030	18 208	18 618	17 177	15 384	13 937
Return on equity capital	14.0 %	12.6 %	12.9 %	8.5 %	5.6 %	10.1 %
Costs a a percentage of income excluding securities	51.8 %	55.6 %	55.3 %	61.4 %	57.6 %	59.8 %

From the Balance Sheet	30.06.05	30.06.04	2004	2003	2002	2001
Assets	20 449	18 552	19 341	17 577	16 258	14 402
Gross lending	17 884	16 353	17 116	15 586	14 166	12 888
Deposits from customers	12 055	10 522	10 840	10 263	10 363	9 189
Deposits as a percentage of gross loans	67.4 %	64.3 %	63.3 %	65.9 %	73.2 %	71.3 %
Equity and related capital	1 579	1 401	1 579	1 406	1 293	1 212
Capital adequacy ratio	11.4 %	11.0 %	12.2 %	11.8 %	11.6 %	12.0 %
Number of branches	29	30	29	35	39	39
Number of man-years worked at the Bank	309	321	306	345	351	356