

## **REPORT AND ACCOUNTS FOR THE FIRST HALF OF 2006 SPAREBANKEN SØR**

### **RESULT**

The Bank's pre-tax result at the end of the second quarter of 2006 totalled NOK 137 million, down by NOK 17 million on the corresponding interim period in 2005. In relation to average assets, this amounted to 1.22 per cent, as against 1.54 per cent at the same time last year. At the end of the second quarter, the after-tax return on equity capital was 10.8 per cent, as against 14.0 per cent 12 months earlier. Somewhat lower income from securities, coupled with a smaller increase in operating costs and credit losses, brought about the small reduction in the overall result.

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

Net interest income totalled NOK 242 million at the end of the second quarter, up by NOK 11 million on the comparable interim period last year. In relation to average assets, however, there has been a shrinkage from 2.31 per cent to 2.15 per cent during the last 12 months. During the first two quarters of the year, Norges Bank twice raised its benchmark rate of interest, on each occasion by 0.25 percentage point. The Bank has not been able to increase its customer lending rates to the same extent due to the fierce competitive situation. This has contributed to a shrinkage in the Bank's average interest margin. However, increased lending volumes have been compensating for the resulting loss in revenue; despite these developments, the Bank has nevertheless enjoyed an improvement in total net interest income.

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

Net other operating income totalled NOK 62 million at the end of the second quarter, down by NOK 8 million on the same time last year. In relation to average assets, this amounted to a reduction from 0.70 to 0.55 per cent this year. Lower revenue generation from securities as a result of falling prices on the Oslo Stock Exchange during the second quarter is the most important reason for the shrinkage in other income. The Bank's real estate brokerage company, ABCenter, has been doing well, having produced a NOK 3 million profit at the end of the second quarter. Fee- and commission income posted a smaller growth.

### **OPERATING COSTS**

Costs totalled NOK 158 million, up from NOK 148 million at the end of the second quarter last year. Measured against average assets, however, the overall cost ratio was trimmed from 1.48 to 1.40 per cent during the last 12 months. During the second quarter this year, the cost side has been characterised by high activity levels, particularly in connection with the transition to new banking and administrative systems brought in by EDB Businesspartner AS.

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

The new lending rules and regulations were applied with effect from 01.01.2006. Reference is made to a separate note to the interim accounts dealing with the effects of the transition. Increased group-related write-downs of loans amounting to NOK 4 million were made during the first half of 2006, at the end of which group-related write-downs totalled NOK 50 million. In addition, net losses of NOK 5 million relating to individual write-downs were included in the accounts, the total loss cost shown for the first half of 2006 accordingly ending up at NOK 9 million. Recalculated on an annual basis, this is equivalent to 0.09 per cent of total lending.

Commitments in default as well as bad and doubtful commitments have remained at a low level. At the end of the second quarter, net commitments in default and bad and doubtful commitments

totalled NOK 218 million, equivalent to 1.06 per cent of total lending. At the same time last year, the corresponding figures were NOK 214 million and 1.20 per cent respectively.

### **BALANCE SHEET**

At the end of the second quarter, aggregate assets stood at NOK 23.2 billion, 13.6 per cent up from NOK 20.4 billion at the same time last year. During the last 12-month period, loans increased by 14.5 per cent, retail banking and corporate banking expanding by 11.3 and 20.4 per cent respectively. Deposits were up by 5.4 per cent overall, the retail banking- and corporate sectors increasing at more or less the same rate.

At the end of the second quarter, the Bank's overall deposit coverage ratio amounted to 62.1 per cent, compared with 63.8 per cent at the beginning of the year.

The Bank's funding loans raised in the certificate- and bond markets totalled NOK 7.8 billion at the end of the quarter currently under review, up from NOK 6.0 billion 12 months ago.

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

At the end of the second quarter of 2006, the Bank's capital adequacy ratio amounted to 11.5 per cent, up from 11.4 per cent at the same time last year. Following the introduction and implementation of the new lending rules and regulations, NOK 71 million was added to the Savings Bank's Fund as at 01.01.2006. 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 1.9 billion at the end of the second quarter.

### **FUTURE PROSPECTS**

The Board of Directors expects the Bank to enjoy a positive development in the immediate future. The result at the end of the second quarter this year was to some extent affected by falling prices on the Oslo Stock Exchange. However, the underlying banking operations are progressing well and overall costs are at an acceptable level. The Bank's strong position throughout the region of Sørlandet and the good general economic outlook also provide a good basis for the Bank's further progress.

**Arendal, 22 August 2006**

**The Board of Directors of Sparebanken Sør**

## PROFIT AND LOSS ACCOUNT

PARENT BANK				GROUP			
Amounts in NOK million				Amounts in NOK million			
30.06.2006	30.06.2005	31.12.2005		Notes	30.06.2006	30.06.2005	31.12.2005
459	370	777	Interest receivable and similar income		459	370	775
217	139	306	Interest payable and similar costs		217	139	303
<b>242</b>	<b>231</b>	<b>471</b>	<b>Net interest- and credit commission income</b>		<b>242</b>	<b>231</b>	<b>472</b>
11	9	11	Dividends and other income from securities with variable yield		8	8	8
51	48	104	Commissions and income from banking services		95	89	197
11	12	26	Commissions payable and costs relating to banking services		11	12	26
5	15	27	Net value change and trading gains/losses on f/x and securities		5	15	27
6	10	16	Other operating income		6	10	16
<b>62</b>	<b>70</b>	<b>132</b>	<b>Net other operating income</b>		<b>103</b>	<b>110</b>	<b>222</b>
125	118	260	Wages and general administration costs		162	150	337
8	8	15	Depreciation of fixed- and intangible assets		9	12	20
25	22	45	Other operating costs		25	22	45
<b>158</b>	<b>148</b>	<b>320</b>	<b>Total operating costs</b>		<b>196</b>	<b>184</b>	<b>402</b>
<b>146</b>	<b>153</b>	<b>283</b>	<b>Operating result before credit losses</b>		<b>149</b>	<b>157</b>	<b>292</b>
9	1	3	Losses on loans, guarantees etc.	1	9	1	3
	2	7	Losses/gains on securities held on a long-term basis			2	7
<b>137</b>	<b>154</b>	<b>287</b>	<b>Result before tax cost</b>		<b>140</b>	<b>158</b>	<b>296</b>
38	40	76	Tax payable on ordinary result		39	41	81
<b>99</b>	<b>114</b>	<b>211</b>	<b>Result from ordinary operations after tax</b>		<b>101</b>	<b>117</b>	<b>215</b>
			Minority interests		2	3	4
			<b>Result after minority interests</b>		<b>99</b>	<b>114</b>	<b>211</b>

## BALANCE SHEET

PARENT BANK				GROUP			
Amounts in NOK million				Amounts in NOK million			
30.06.2006	30.06.2005	31.12.2005	ASSETS	Notes	30.06.2006	30.06.2005	31.12.2005
96	413	147	Cash-in-hand and claims on central banks		96	413	147
333	51	188	Loans to and claims on credit institutions		333	51	188
20,486	17,884	19,187	Gross loans to and claims on customers	2	20,467	17,861	19,168
68	75	69	Write-downs of individual loans	3	68	75	69
50	169	169	Write-downs of group-related loans	3	50	169	169
<b>20,368</b>	<b>17,640</b>	<b>18,949</b>	<b>Net loans to and claims on customers</b>		<b>20,349</b>	<b>17,617</b>	<b>18,930</b>
2	2	2	Repossessed assets		2	2	2
1,917	1,913	1,700	Certificates, bonds and other interest-bearing securities		1,917	1,913	1,700
192	162	179	Shares		192	162	179
11	11	11	Equity stakes in associated companies		11	11	11
32	26	29	Equity stakes in Group companies				
6	3	6	Intangible assets		6	6	6
135	105	120	Fixed assets		160	135	145
14	30	17	Other assets		59	62	62
129	93	113	Prepayments and accrued income		129	93	113
<b>23,235</b>	<b>20,449</b>	<b>21,461</b>	<b>TOTAL ASSETS</b>		<b>23,254</b>	<b>20,465</b>	<b>21,483</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>							
243	342	446	Liabilities to credit institutions		243	342	446
12,712	12,055	12,243	Deposits from and liabilities to customers		12,701	12,043	12,232
7,809	5,969	6,608	Debt through the issuance of securities		7,809	5,969	6,608
218	178	222	Other liabilities	3	244	202	251
173	120	62	Incurred costs and prepaid income	3	173	120	62
81	44	51	Provisions for liabilities and costs		81	44	51
<b>21,236</b>	<b>18,708</b>	<b>19,632</b>	<b>Total liabilities</b>		<b>21,251</b>	<b>18,720</b>	<b>19,650</b>
			Minority interests		2	2	2
1,900	1,627	1,829	Accrued equity capital	3	1,902	1,630	1,831
			Equity capital - subsidiaries			-1	
99	114		Retained earnings		99	114	
<b>1,999</b>	<b>1,741</b>	<b>1,829</b>	<b>Total equity capital</b>		<b>2,001</b>	<b>1,743</b>	<b>1,831</b>
<b>23,235</b>	<b>20,449</b>	<b>21,461</b>	<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>23,254</b>	<b>20,465</b>	<b>21,483</b>

### ITEMS OFF THE BALANCE SHEET

#### Contingent liabilities:

582	580	498	Guarantees		582	580	498
1,581	1,579	1,518	Book value of assets pledged as collateral security for debt		1,581	1,579	1,518
4	2	2	Other contingent liabilities		4	2	2
<b>Liabilities</b>							
5,494	5,062	5,340	Interest rate swaps		5,494	5,062	5,340
489	284	336	Forward exchange contracts - bought		489	284	336
470	283	336	Forward exchange contracts - sold		470	283	336

## QUARTERLY RESULTS (Parent Bank)

Amounts in NOK million	2nd q. 2006	1st q. 2006	4th q. 2005	3rd q. 2005	2nd q. 2005	1st q. 2005
Net interest- and credit commission income	122	120	120	120	116	115
Net other operating income	20	42	27	35	38	32
Operating costs	82	76	103	69	77	71
<b>Operating result before credit losses</b>	<b>60</b>	<b>86</b>	<b>44</b>	<b>86</b>	<b>77</b>	<b>76</b>
Losses on loans, guarantees etc.	7	2	3	-1	0	1
Losses/gains on securities held on a long-term basis			1	4	2	0
<b>Result before tax cost</b>	<b>53</b>	<b>84</b>	<b>42</b>	<b>91</b>	<b>79</b>	<b>75</b>
Tax payable on ordinary result	18	20	13	23	19	21
<b>Result from ordinary operations after tax</b>	<b>35</b>	<b>64</b>	<b>29</b>	<b>68</b>	<b>60</b>	<b>54</b>

## QUARTERLY RESULTS (Parent Bank)

As a percentage of average assets	2nd q. 2006	1st q. 2006	4th q. 2005	3rd q. 2005	2nd q. 2005	1st q. 2005
Net interest- and credit commission income	2.13	2.17	2.25	2.31	2.28	2.34
Net other operating income	0.35	0.76	0.51	0.68	0.74	0.65
Operating costs	1.43	1.37	1.93	1.33	1.51	1.44
<b>Operating result before credit losses</b>	<b>1.05</b>	<b>1.56</b>	<b>0.83</b>	<b>1.66</b>	<b>1.51</b>	<b>1.55</b>
Losses on loans, guarantees etc.	0.12	0.04	0.06	-0.01	0.00	0.02
Losses/gains on securities held on a long-term basis			0.02	0.08	0.04	0.00
<b>Result before tax cost</b>	<b>0.93</b>	<b>1.52</b>	<b>0.79</b>	<b>1.75</b>	<b>1.55</b>	<b>1.53</b>
Tax payable on ordinary result	0.32	0.36	0.24	0.44	0.37	0.42
<b>Result from ordinary operations after tax</b>	<b>0.61</b>	<b>1.16</b>	<b>0.55</b>	<b>1.31</b>	<b>1.18</b>	<b>1.11</b>

## NOTES

### NOTE 1 - Losses on loans and guarantees

	30/06/2006	30/06/2005	31/12/2005
Change in individual write-downs during the period	3	-6	-13
Change in group-related write-downs during the period	4	0	0
Period's confirmed losses against which individual write-downs were made in previous years	2	8	16
Period's confirmed losses against which no individual write-downs were made in previous years	1	1	3
Period's recoveries from previous, confirmed losses	1	2	3
<b>Credit loss cost for the period</b>	<b>9</b>	<b>1</b>	<b>3</b>

### NOTE 2 - Commitments in default - bad and doubtful commitments

	30/06/2006	30/06/2005	31/12/2005
Commitments in default	105	113	77
Individual write-downs	-28	-31	-22
<b>Net commitments in default</b>	<b>77</b>	<b>82</b>	<b>55</b>
Other bad and doubtful commitments	185	177	181
Individual write-downs	-44	-45	-47
<b>Net bad and doubtful commitments</b>	<b>141</b>	<b>132</b>	<b>134</b>

Commitments in default are defined as the sum a customer's total outstanding commitments to the Bank, if just one loan has been in default for 90 days or longer.

### NOTE 3 - Implementation of new lending rules and regulations as at 01.01.2006

Any transitional impact shall be shown direct in relation to equity capital and is as follows:

<b>The Savings Bank's Fund according to the accounts as at 01.01.2005</b>		<b>1,829</b>
Amortisation of previous establishment fees booked as income	-17	
Difference - specific loss provisions/individual write-downs	-7	
Reversal of non-specific loss provisions	169	
New write-down of groups of loans	-46	
<b>Net impact before tax</b>	<b>99</b>	
Tax at 28 per cent	-28	
<b>Transferred to the Savings Bank's Fund as at 01.01.2006</b>	<b>71</b>	<b>71</b>
<b>The Savings Bank's Fund as at 01.01.2006</b>		<b>1,900</b>

### Equity and related capital - capital adequacy

	30/06/2006	30/06/2005	31/12/2005
Savings Bank's Fund	1,900	1,627	1,829
Intangible assets and over-funded pension liabilities	-55	-48	-54
Equity capital in other financial institutions	-2	0	-2
<b>Net equity and related capital</b>	<b>1,843</b>	<b>1,579</b>	<b>1,773</b>
Weighted asset calculation basis	16,073	13,827	14,594
<b>Capital adequacy ratio</b>	<b>11.5 %</b>	<b>11.4 %</b>	<b>12.2 %</b>

**KEY FINANCIAL FIGURES 2002-2006 (Parent Bank)**

<b>From the Profit and Loss Account</b>	<b>30.06.06</b>	<b>30.06.05</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Interest- and credit commission income	459	370	777	725	1,039	1,216
Interest costs	217	139	306	266	604	775
<b>Net interest- and credit commission income</b>	<b>242</b>	<b>231</b>	<b>471</b>	<b>459</b>	<b>435</b>	<b>441</b>
Net other operating income	62	70	132	129	126	45
Operating costs	158	148	320	313	319	303
<b>Operating result before credit losses</b>	<b>146</b>	<b>153</b>	<b>283</b>	<b>275</b>	<b>242</b>	<b>183</b>
Losses on loans, guarantees etc.	9	1	3	22	75	78
Losses/gains on securities held on a long-term basis		2	7	-2	-1	
<b>Result before tax cost</b>	<b>137</b>	<b>154</b>	<b>287</b>	<b>251</b>	<b>166</b>	<b>105</b>
Tax payable on ordinary result	38	40	76	63	52	34
<b>Result from ordinary operations after tax</b>	<b>99</b>	<b>114</b>	<b>211</b>	<b>188</b>	<b>114</b>	<b>71</b>

<b>Profit and Loss Account items as a percentage of average assets</b>	<b>30.06.06</b>	<b>30.06.05</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Interest- and credit commission income	4.08%	3.69%	3.78%	3.90%	6.05%	7.91%
Interest costs	1.93%	1.38%	1.49%	1.43%	3.52%	5.04%
<b>Net interest- and credit commission income</b>	<b>2.15%</b>	<b>2.31%</b>	<b>2.29%</b>	<b>2.47%</b>	<b>2.53%</b>	<b>2.87%</b>
Net other operating income	0.55%	0.70%	0.64%	0.69%	0.74%	0.29%
Operating costs	1.40%	1.48%	1.55%	1.68%	1.86%	1.97%
<b>Operating result before credit losses</b>	<b>1.30%</b>	<b>1.53%</b>	<b>1.38%</b>	<b>1.48%</b>	<b>1.41%</b>	<b>1.19%</b>
Losses on loans, guarantees etc.	0.08%	0.01%	0.01%	0.12%	0.44%	0.51%
Losses/gains on securities held on a long-term basis	0.00%	0.02%	0.03%	-0.01%	0.00%	-0.01%
<b>Result before tax cost</b>	<b>1.22%</b>	<b>1.54%</b>	<b>1.40%</b>	<b>1.35%</b>	<b>0.97%</b>	<b>0.67%</b>
Tax payable on ordinary result	0.34%	0.40%	0.37%	0.34%	0.30%	0.22%
<b>Result of ordinary operations after tax</b>	<b>0.88%</b>	<b>1.14%</b>	<b>1.03%</b>	<b>1.01%</b>	<b>0.67%</b>	<b>0.45%</b>
Average assets	22,503	20,030	20,531	18,618	17,177	15,384
<b>From the Balance Sheet</b>						
Total assets	23,235	20,449	21,461	19,341	17,577	16,258
Gross loans	20,486	17,884	19,187	17,116	15,586	14,166
Deposits from customers	12,712	12,055	12,243	10,840	10,263	10,363
Equity and related capital	1,843	1,579	1,773	1,579	1,406	1,293
Capital adequacy ratio	11.5 %	11.4 %	12.2	12.2 %	11.8 %	11.6 %
<b>Other key ratios and figures</b>						
Costs as a percentage of income excluding securities	51.89%	51.80%	54.42%	55.30%	61.43%	57.60%
Deposits as a percentage of gross loans	62.05%	67.40%	63.81	63.33%	65.90%	73.20%
Return on equity capital	10.80%	14.00%	12.96%	12.94%	8.54%	5.62%
Number of branches	28	29	29	29	35	39
Number of man-years worked at the Bank	308	309	309	306	345	351