



Press release

From: Sparebanken Sør

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First half-year report and accounts 2009

Better result in the second quarter

At the end of the second quarter of 2009, the Sparebanken Sør Group result amounted to NOK 26 million. The weak result is primarily ascribable to low net interest income, value adjustments on the bank's debt and losses on loans. The net interest income improved in the second quarter, but is still characterised by strong competition in the market, coupled with the impact of high funding costs.

It is a positive feature that so far this year, ordinary losses on loans have increased less than expected, and that the interest in the level of commitments in default is limited. The bank is experiencing strong growth in house mortgage loans, whereas the loan demand from industry and commerce has fallen considerably.

With a core capital coverage ratio of 10.8 per cent, Sparebanken Sør is a very strong bank financially. Following the financial crisis, the bank's aim is nevertheless to increase the core capital coverage ratio to 12 per cent. The bank's board of directors wishes to have a solid capital buffer in order to be able to meet downturns in the economy. Against this background, therefore, the bank is planning to apply to Statens Finans Fond (The Government Financial Fund) for capital deposits in the form of capital bonds.

The bank's pre-tax result ended up at NOK 26 million, whereas the corresponding figure the year before was NOK 166 million. As previously mentioned, the result was strongly affected by lower net interest income and value changes on the bank's securities-related debt.

Net interest income totalled NOK 266 million, involving a NOK 34 million reduction compared to the year before. In relation to average assets, the net interest income finished up at 1.54 per cent, consequently significantly lower than last year's figure of 1.96 per cent.

Other (non-interest) operating totalled NOK 99 million, as against NOK 126 million in 2008. The reduction was principally attributable to value changes on the bank's financial instruments.

Operating costs were up from NOK 249 million to NOK 289 million. The expansion in Telemark and consolidation of Start Toppfotball AS are important reasons for the increase in operation costs. For the second half-year, the bank expects a cost development in line with the budget.

NOK 50 million was charged to the profit-and-loss account in respect of losses on loans in the first half of 2009. Net commitments in default and bad and doubtful commitments increased by NOK 1 million during the last quarter, totalling NOK 331 million at the end of the half-year, equivalent to 1.14 per cent of the bank's aggregate lending.

During the last 12 months, assets expanded by 7.5 per cent to NOK 35.4 billion. The lending growth during the period was 7.2 per cent. Retail banking loans were up by 13.1 per cent, whereas there was a contraction of 0.3 per cent in the corporate market. During the course of last year, deposits from customers increased by 7.5 per cent, of which the retail banking market accounted for 14.6 per cent. The bank's overall deposit coverage ratio was 60.5 per cent, which is within the bank's target ratio of 60 per cent. Aggregate equity and related capital totalled NOK 2.6 billion, producing a capital adequacy ratio at the end of the quarter of 12.4 per cent, with a core capital coverage ratio of 10.8 per cent. During the last 12 months, risk-weighted assets were reduced by 0.3 per cent to NOK 20 billion.

Economic prospects for the remainder of 2009 are uncertain, and it is particularly difficult to foresee how the real economy will develop. Businesses' revenue generation is under pressure, and the bank's board of directors expects some increase in losses on loans in the future. In the property market, lower interest rates have reduced the danger of further falls in house prices, and therefore also the risk of increased losses.

The bank's equity positions in Start Toppfotball AS and in Start Stadion AS were discontinued in June.

Long-term funding through Sør Boligkreditt, coupled with the swap scheme with the government, will cover the main part of the bank's need for liquidity and funding during the next few months.

Arendal, 24 August 2009

Sparebanken Sør

For more information, please contact Morten Kraft, Chief Executive Officer, on telephone number +47 37 05 70 93.

Press release and quarterly report are posted on the bank's homepage www.sor.no and will also be available on Oslo Stock Exchange (Oslo Børs) www.newsweb.no.