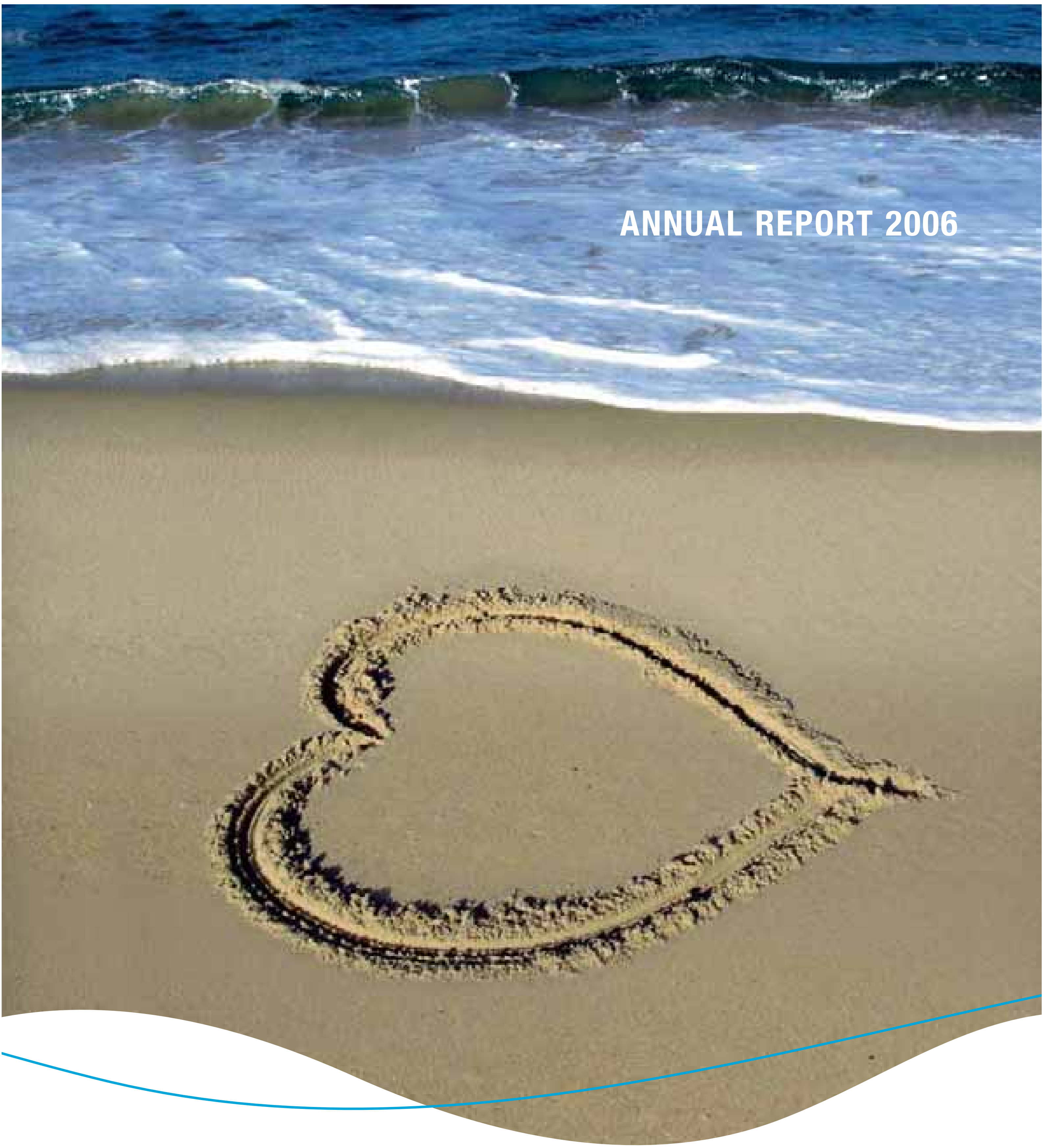


ANNUAL REPORT 2006

SØR

ANNUAL REPORT 2006

CONTENTS

By Morten Kraft, Chief Executive Officer

2006 was a very good year for the Sparebanken Sør Group. The pre-tax operating result totalled NOK 306 million. This was in line with the previous year's result – which was the best operating result in the Bank's history. Such a good result reflects the region's good economic situation. But it also shows that the Bank enjoyed a healthy and good development in 2006.

There were many exciting events at Sparebanken Sør in 2006. Since 1998, the Bank had had a strategic co-operation agreement with Sparebanken NOR/Gjensidige NOR. When the banking part of the Gjensidige NOR group merged with DnB into DnBNOR, we decided to cancel this arrangement of close co-operation. The most important reason for this was the market- and competitive situation which arose in relation to the new big bank. Withdrawing from such a long-established relationship of co-operation was a demanding process in many ways. Following a long period of careful planning, we changed all our IT-systems during the Whitsun weekend in 2006. This conversion process was implemented in a very good way, without any problems at all for our customers.

In April, the Bank appointed a new Chief Executive Officer to replace Hans A. Iversen, who had held that position since 1988. I was given the responsibility of managing Sparebanken Sør's further development. I look forward to this, both with pleasure and humility. I decided to start my work by establishing a new internal organisation model and a new Group management structure. The new organisation model shall help make the Bank even more market- and customer-orientated. We have a long and good tradition as a bank with a decentralised network of branches, where decisions are made as close to our customers as possible. This, coupled with the fact that the Bank's head office is located in the region, means that important and competent decisions can always be made quickly.

During the spring of 2006 we moved all our operations in Arendal to the Bank's building in Vesterveien. After always having been in two separate buildings in Arendal, we decided to locate all our resources in one place. This enables us to utilise our competence in Arendal in a better and more effective way, which will provide even better service, both for corporate- and retail banking customers.

However, the biggest event for the Bank in 2006 was undoubtedly the establishment of our agreement with the soccer club, Start. Through this agreement, the Bank has secured for itself the name right to the new Sør Arena in Kristiansand. Furthermore, as Start's main sponsor, we shall be the club's most important co-operation partner in the future. Start – Sørlandet's very own soccer team – has big ambitions for the future. Sparebanken Sør is the largest and most important financial institution in the region of Sørlandet. It is therefore quite right and entirely natural that Start and Sparebanken Sør join forces in order to promote pride and identity within our region. We are already noticing a great deal of interest in and favorable response to our co-operation with Start. Kristiansand is an important growth area for the Bank. Our agreement with Start shall help to strengthen our investment and efforts here. We look forward to great experiences at Sør Arena!

Sparebanken Sør is a competent and proactive participant in the social development of the region. We contribute with substantial financial support for cultural, industrial and commercial development within our region. It is the Bank's annual results which will enable us to be an active provider of financial support also in the future. We must therefore always focus on the Bank's revenue generation and financial strength. We have competent staff and a strong position in the market. This will be the dual basis of our success in 2007 too.
Our commitment to the region's communities is always close to our heart!

SPAREBANKEN SØR

Sparebanken Sør

Sparebanken Sør is the largest and most important bank for Sørlandet and parts of Telemark.

The Bank's history goes back to Arendals Sparebank, which was established in 1825. We have been providing proactive assistance for individual customers, industry and commerce for 181 years, thereby helping to boost the development within the region. Through mergers and the opening of new branches, the Bank has developed into a regional savings bank, with a local presence through 28 branches within the region's three counties – from Kragerø in the east to Farsund in the west. The Bank's head office is located in Arendal.

Savings banks are self-owning institutions – which means that the Bank has no owners. However, savings banks may issued Primary Capital Certificates in order to strengthen their equity capital. Sparebanken Sør has chosen not to issue such instruments, but has built up its financial strength through profitable operations, retained earnings having been added to its equity capital every year. In recent years, the Bank's growth has been strong and in 2006 the Bank therefore raised a NOK 300 million subordinated loan in order to further boost its financial strength.

Sparebanken Sør's slogan, "Sørlandet is close to our hearts", clearly shows the Bank's commitment to the region. This took on a double meaning when Jan Hannestad, DCEO, Morten Kraft, CEO, and Rolf H. Søraker, Communications Director, presented new defibrillators to several soccer clubs in the region.

The Bank's business concept is to help create wealth and value added for people, industry and commerce, through being close to the market, coupled with independence and local powers of decision. Sparebanken Sør has decided not to join any of the alliances within the savings bank sector, but works with other savings banks in the same situation on projects where this approach is appropriate. Amongst other things, the Bank has entered into agreements relating to the sale of niche products from other product providers, such as non-life insurance and fund-based saving. Through such co-operation arrangements, the Bank becomes cost-effective, and a provider of all products and services to the market.

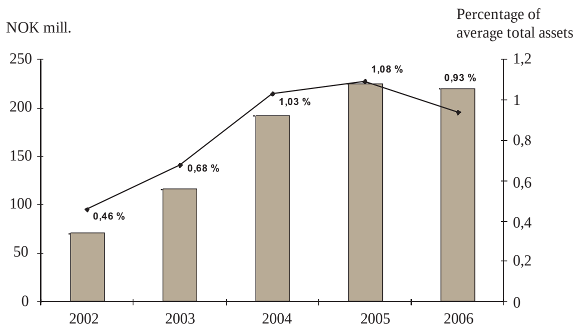
Map of the region showing the locations of the Bank's branches

In 2006, the Sparebanken Sør Group made an after-tax profit of NOK 218 million. This is a very good and in line with last year's record profit of NOK 221 million, the best ever.

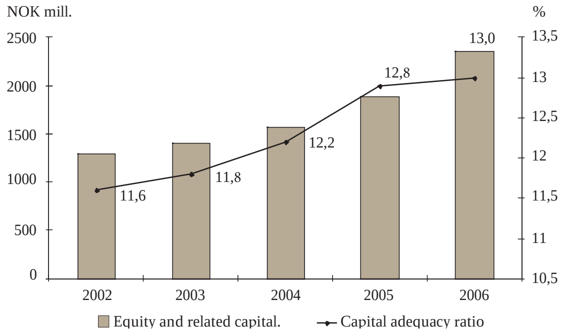
Margins under pressure as a result of increased competition, higher costs, partly related to the conversion of the Bank's IT-platform, coupled with increased collective write-downs of loans according to the new lending rules and regulations, brought about a 0.15 persentage point shrinkage in the after-tax result in relation to average assets, the ratio ending up at 0.93 per cent.

At the end of the year, the capital adequacy ratio amounted to 13.0 per cent, the Bank's subordinated loan capital having been factored into the calculations. The Bank's financial strength is very satisfactory.

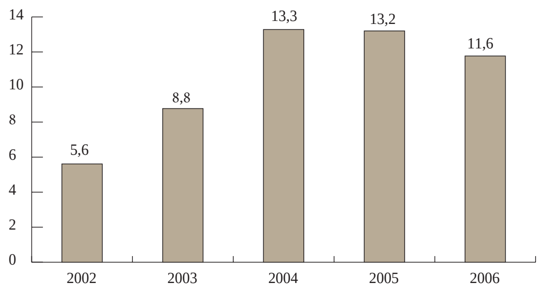
Result after taxes



Capital adequacy ratio



Return on equity



From the Profit and Loss Account
NOK mill.

	2006		2005		2004 *	
	NOK mill.	% of average assets	NOK mill.	% of average assets	NOK mill.	% of average assets
Interest- and credit commission income	1 001	4.27 %	772	3.75 %	723	3.88 %
Interest costs	504	2.15 %	303	1.47 %	264	1.42 %
Net interest- and credit commission income	**497**	**2.12 %**	**469**	**2.28 %**	**459**	**2.46 %**
Net other operating income	241	1.02 %	234	1.14 %	214	1.15 %
Operating costs	433	1.84 %	397	1.93 %	390	2.09 %
Operating result before credit losses	**305**	**1.30 %**	**306**	**1.49 %**	**283**	**1.52 %**
Losses on loans and guarantees	-1	0.00 %	0	0.00 %	22	0.12 %
Losses/gains on secs. held on long-term basis	0	0.00 %	0	0.00 %	-2	-0.01 %
Result before taxation cost	**306**	**1.30 %**	**306**	**1.49 %**	**259**	**1.39 %**
Tax payable on ordinary result	88	0.37 %	85	0.41 %	67	0.36 %
Result after tax	**218**	**0.93 %**	**221**	**1.08 %**	**192**	**1.03 %**
Minority interests	**4**		**4**		**4**	
Majority interests	**214**		**217**		**188**	
Average assets	23 453		20 550		18 623	

From the Balance Sheet as at 31.12	**2006**	**2005**	**2004***
	NOK mill.	**NOK mill.**	**NOK mill.**
Assets	26 227	21 665	19 358
Deposits from customers	14 591	12 235	10 828
Gross lending	22 215	19 165	17 093
Equity and related capital (Parent Bank)	2 333	1 884	1 579
Capital adequacy ratio (Parent Bank)	13.0 %	12.8 %	12.2 %

Key ratios	**2006**	**2005**	**2004***
Costs as a percentage of income excluding securities	61.0 %	60.3 %	60.8 %
Deposits as as percentage of gross lending	65.7 %	63.8 %	63.3 %
Rate of return on equity capital	11.6 %	13.2 %	13.3 %
Number of branches	28	29	35
Number of man-years worked at the Bank	312	306	345

* The figures for 2004 have not been restated according to IFRS.

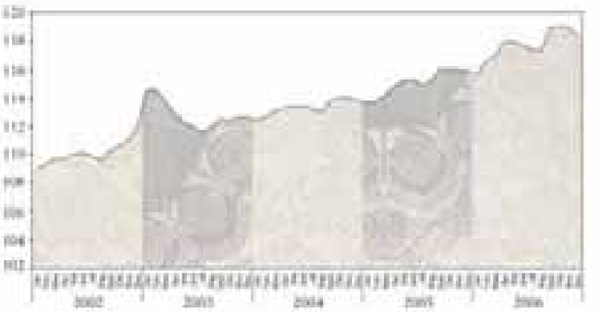
FRAMEWORK CONDITIONS

The Norwegian economy was very strong in 2006. In view of its open economy, Norway is also dependent upon what happens in other countries. In 2006 too, the growth in the global economy was high, and during the last 20-year period economic growth has been the strongest since the early 1970s. In 2006, Norway's trading partners enjoyed growth in their gross national products of about 3.2 per cent, whereas economic growth for mainland Norway ended up at 4.0 per cent. In order to dampen the strong growth to avoid unwanted inflation, both Norwegian and international rates of interest were raised during the course of the year under review. The level of domestic interest rates is still relatively low. Norges Bank increased its signal rate of interest by a total of 1.25 percentage point during the course of 2006, the level having reached 3.50 per cent at the end of the year. A further increase in the central bank's signal rate is expected.

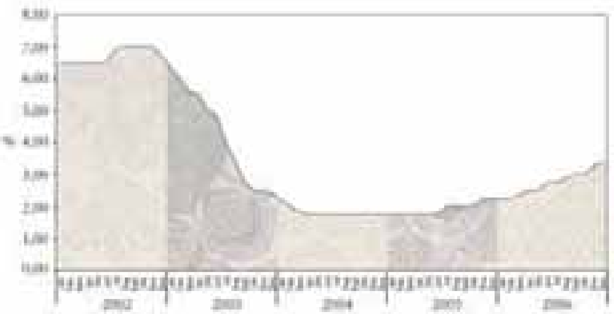
The increase in the prices of raw materials and energy in particular has been the driving force behind the strong performance of the Norwegian economy. In view of the fact that Norway is an important oil-producing nation, the country's commerce and industry are affected by the investments made in the oil-related industry and the ripple effects caused by this. Import prices have been low. This has in particular brought about high levels of capacity utilisation and new business start-ups within the supply industry, coupled with big pressure in the building- and construction sector.

The jobless total has fallen below 2.5 per cent, and the level of employment has increased. Lack of labour is currently one of the biggest challenges within the Norwegian economy. This has not resulted in unrestrained wage growth, but the upward pressure on wages is expected to increase in 2007. Private households' financial situation has been good. Much of the growth within the Norwegian economy is ascribable to households' demand. This has brought about strong growth in house prices and loans to private households.

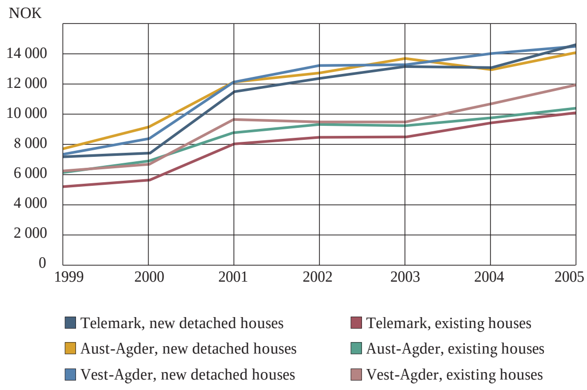
The graph shows price inflation as a percentage per year during the last 5 years.



The graph shows interest rate developments (Norges Bank's signal rate of interest) during the last 5 years.



The graph shows the development in house prices (one graph for Norway and one for Agder).



Source: Central Bureau of Statistics

Price inflation remains low. Norges Bank manages its interest rate policy according to its inflationary target of 2.5 per cent. The rate of inflation is still lower than the target set, but the underlying trend is rising. Increased pressure on house prices, the propensity of industry and commerce to invest and the aggregate credit growth's impact on inflation expectations have been the reasons behind Norges Bank's 1.25 percentage point increase in its signal rate of interest during the course of the year.

The consequences for foreign exchange rates represent an important aspect of monetary policy. Too big a difference between Norwegian and foreign interest rates might result in the Norwegian krone exhange rate becoming too strong in relation to our trading partners' currencies. Norges Bank will therefore have to take the impact on the Norwegian krone exhange rate into consideration when fixing its signal rate of interest.

In 2006, the Norwegian krone weakened slightly against the currencies of our most important trading partners, with the exception of the US dollar.

The Norwegian share market has been developing in a positive manner, Oslo Stock Exchange's main index having risen by 32.5 per cent in 2006. After a big fall towards the end of the first half of the year, prices picked up during the second half, based on lower interest rate expectations and good company results.

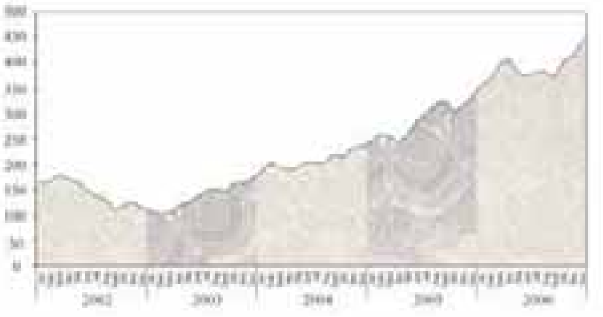
REGIONAL DEVELOPMENT FEATURES

Population growth throughout the region has been 9.0 per cent during the last 15 years, the same as the national average. There has been an increase in Agder, but a reduction in our markets in Telemark (- 4.8 per cent). The rate of population growth was largest in Vest-Agder (12 per cent) and especially in Kristiansand and the surrounding municipalities.

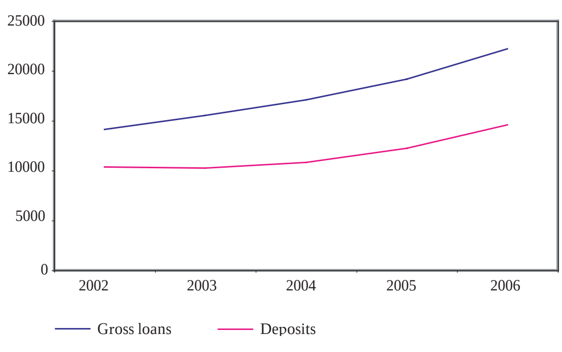
The good national framework conditions in 2006 have also benefitted Sørlandet and Vest-Telemark. Industry and commerce have been doing well and a high level of propensity to invest has accordingly also been evident. There has been great demand for labour, and unemployment has fallen to 2.4 per cent in Vest-Agder, 2.5 per cent in Aust-Agder and 1.5 per cent in those areas of Telemark where the Bank has a branch presence. Optimism, an increased level of employment and a good wage development have provided a good basis also for private households.

The industrial and commercial structure within our region is different from the national average as far as certain areas are concerned. We have a larger industrial sector and a smaller service sector. Our region has the largest amount of export per inhabitant in the whole of Norway – a particularly interesting feature. On the other hand, this makes us particularly dependent upon the economic situation internationally and correspondingly vulnerable to any changes in this respect.

The graph shows developments on the Oslo Stock Exchange



Graph for loans to private households (as a percentage compared with previous years) (Breakdown of markets and Sparebanken Sør) (5 years)



THE FINANCIAL MARKET

The financial market has been characterised by strong competition and, as a result of this, downward pressure on overall margins. Sparebanken Sør has also been experiencing increasing activity within its market from new banks which have established themselves in the region, and from local banks which have gone into the local markets where we have a presence. It has therefore not been possible to pass on the level of interest rate increases in the lending market which the increases in Norges Bank's signal rate should have warranted; at the same time, competition for customers' savings has been putting upward pressure on the interest rates which the Bank has had to pay for deposits.

In January 2007, in order to further strengthen the Bank's competitiveness, the Board of Directors and Board of Trustees agreed to establish new branches at Brokelandsheia in Gjerstad municipality in Aust-Agder, and in the Telemark municipalities of Bø, Porsgrunn and Bamble.

In 2006, Sparebanken Sør's retail banking loans grew by 11.6 per cent. This rate of growth was 1.3 per cent lower than the average for the market. The competitive situation in the Bank's market area is characterised by the arrival of new banks and by strong competition. In the Board of Directors' opinion, the quality of the Bank's lending portfolio is good.

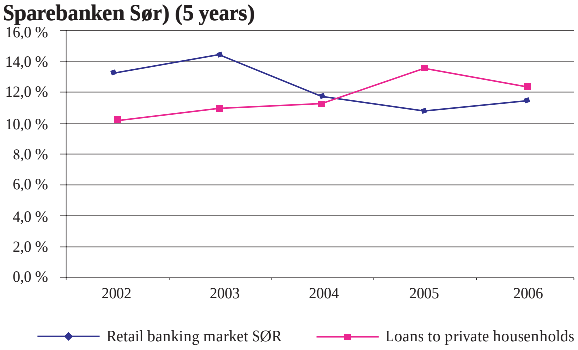
As a result of boom conditions for industry and commerce within the region, the Bank's lending to corporate customers produced substantial growth. The rate of growth ended up at 23.3 per cent, which was 2.2 percentage points higher than the average growth in the market. Strengthening the Bank's position as the leading bank in the regions of Sørlandet and Vest-Telemark is the Board of Directors' planned strategy. In the Board of Directors' opinion, the level of growth has been appropriate and the overall risk profile of the Bank's lending portfolio remains good. At the end of the year under review, retail banking- and corporate banking customers accounted for 60 and 40 per cent respectively of aggregate lending.

Total lending growth in 2006 finished up at 16.0 per cent.

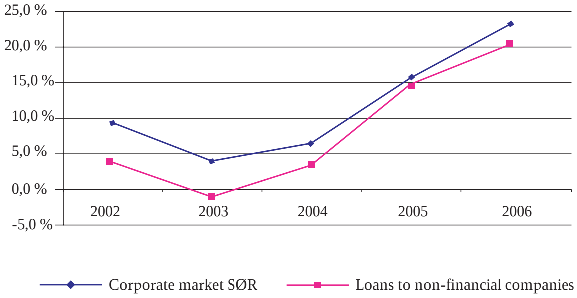
In 2006, deposit growth amounted to 19.2 per cent. In particular, the comparatively high deposit growth came towards the end of the year and is largely accounted for by corporate- and public-sector customers. At the end of the year, the overall deposit coverage ratio was 65.7 per cent.

In the Board of Directors' opinion, the Bank's funding management is good. The growth in lending is expected to continue in 2007 and it will be necessary to raise further capital in the Norwegian and international markets in order to finance it, and at the same time replace some of the short-term deposit portfolio. Sparebanken Sør is an attractive borrower in the capital market and obtains good terms and conditions for its funding loans.

Graph for loans to private households (as a percentage compared with previous years) (Breakdown of markets and Sparebanken Sør) (5 years)



The graph shows growth within the corporate market (both nationally and for Sparebanken Sør) (increase per year as a percentage)



RESULT FOR THE YEAR

Accounting principles

The Sparebanken Sør Group accounts have been prepared in accordance with the International Financial Reporting Standards, IFRS. In view of the fact that it is not yet permitted to apply IFRS to the Parent Bank's accounts, these accounts have therefore been prepared according to Norsk God Regnskapskikk, NGR (good Norwegian accounting practice). The transitional effects and the accounting principles have been explained in Notes to the Accounts.

The annual accounts are based on the assumption of a going concern. The Bank's equity capital is at a reassuringly high level and, in the opinion of the Board of Directors, there are no circumstances which would suggest anything else than the Bank's continued operations.

The figures referred to in the Annual Report from the Board of Directors are Group figures, unless it is stated that the figures apply to the Parent Bank.

Result for the year

The Sparebanken Sør Group's pre-tax result for the year amounted to NOK 306 million, equivalent to 1.3 per cent of average assets. The result was similar to that which was achieved in 2005, which was the best result in the Bank's history. The after-tax return on equity capital ended up at 11.6 per cent. The result for the year thus exceeded the requirement included in the Bank's strategic plan for the period from 2005 to 2007, the rate of return there having been stated as 11.0 per cent. The main features of the 2006 annual accounts are very low credit losses, higher net interest income despite lower average margins, growth in other (non-interest) income and somewhat higher costs.

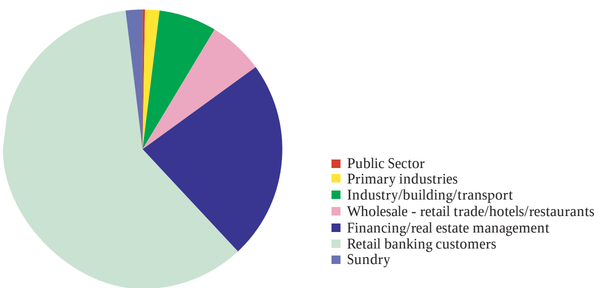
The Board of Directors is pleased with the result achieved in 2006. However, a result at this level is required to further increase the equity capital, in order to maintain the Bank' capital adequacy.

Net interest income and average interest margin

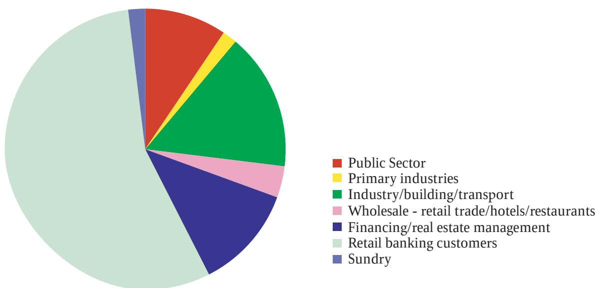
Net interest income totalled to NOK 497 million, up from NOK 469 million in 2005. This is equivalent to 2.12 per cent of average assets, down from 2.28 per cent a year earlier. The Bank has, on an ongoing basis, adapted the interest rate terms and conditions relating to its deposits and loans in relation to the changes in Norges Bank's signal rate of interest, but the Bank's overall percentage margin continues to shrink as a result of the competitive situation. However, in view of the strong market position enjoyed by the Bank, the growth in the overall level of business has been compensating for the loss of revenue brought about by lower margins. In addition, the higher level of domestic interest rates has a positive impact on the investment return derived from the Bank's equity capital.

According to the circumstances, the Bank's net interest income is high in comparison with other banks. However, the high activity levels both in the retail banking- and corporate

Gross loans to customers broken down by different sectors



Deposits from customers broken down by different sectors



banking markets show that the Bank is competitive.

Other (non-interest) income

Other income totalled to NOK 241 million, up by NOK 7 million on 2005. In relation to average assets, however, there was a shrinkage from 1.14 to 1.02 per cent. Fee- and commission income posted a moderate increase. There were no changes in the level of fees within the payments transmission area in 2006.

The increase in income accordingly occurred as a result of higher transaction volumes. Commission income derived from investment- and insurance products developed in a positive manner.

Revenue generation from foreign exchange and securities posted a smaller reduction compared with the year before. However, in relation to our overall activity in these areas, the total income is at a satisfactory level.

Our largest subsidiary, ABCenter, a real estate brokerage company, achieved good results, contributing NOK 5 million. Gross commission income totalled NOK 98 million, up by 5.5 per cent on 2005.

Costs

In 2006, costs totalled to NOK 433 million, up by NOK 36 million on the year before.

In relation to average assets, however, the level of costs was reduced, from 1.93 per cent in 2005 to 1.84 per cent in 2006. At the Parent Bank, the overall cost ratio ended up at 1.47 per cent, down from 1.54 per cent in 2005. This improvement is due to the fact that the growth in total costs was less than the growth in the Bank's activity levels measured as average assets.

During the course of the year, several cost-intensive projects were implemented. In June 2006, the Bank started using the new IT-systems provided by EDB Business Partner. These systems replaced the systems from DnBNOR. The project was carefully planned and its implementation successfully completed. Furthermore, some larger building work was finished in 2006.

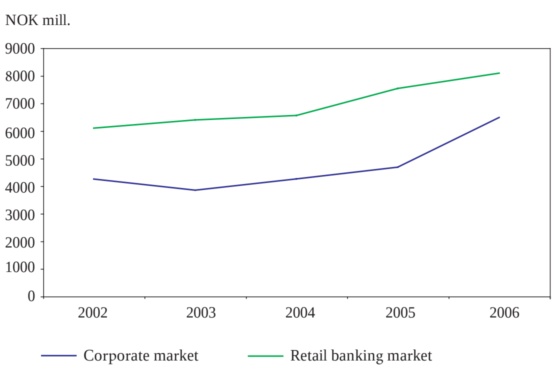
Personnel costs were up by 10.4 per cent, due to wage growth, costs relating to the introduction of the abovementioned IT-systems and costs involving the further enhancement of staff's competence

Losses on loans and guarantees

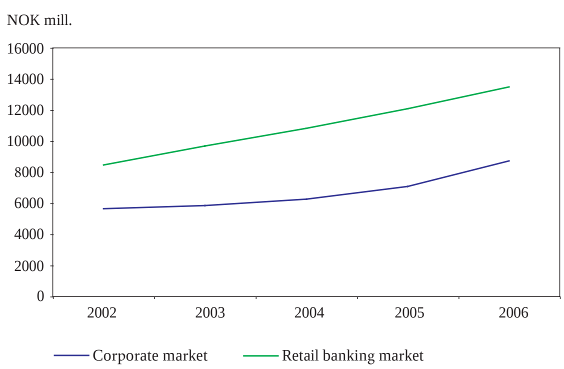
The framework conditions for industry and commerce as well as private households at Sørlandet are good at the present time. This is reflected by NOK 1 million net recoveries in 2006 from previous losses, and by the continued low level of commitments in default and bad and doubtful commitments. A great deal of attention is directed at quality in all credit work and risk management within the credit area.

In 2006, groups of loans were written down by NOK 7 million. There were accordingly net recoveries amounting to NOK 8 million relating to individual losses. Total write-down of groups of loans and individual loans amounted to NOK 53 and 60 million respectively at the end of 2006.

Deposits



Loans



Net commitments in default and bad and doubtful commitments amounted to NOK 192 million at the end of 2006. This was equivalent to 0.9 per cent of total lending. At the end of the previous year, the corresponding figures were NOK 189 million and 1.0 per cent respectively. According to the Bank's analyses, expected losses contained in the lending portfolio as at 31.12.2006 have been estimated at 0.10 – 0.15 per cent of gross loans.

In the opinion of the Board of Directors, the Bank's credit loss situation and the quality of its lending portfolio are both satisfactory.

BALANCE SHEET

Assets, loans and deposits

The Bank's aggregate assets stood at NOK 26.2 billion at the end of the year, up by NOK 4.6 billion or 21.1 per cent during the last 12 months.

Gross loans totalled NOK 22.2 billion, up by 15.9 per cent in the last 12 months. Retail banking- and corporate banking customers accounted for 11.6 and 23.3 per cent respectively of total lending growth. A breakdown of loans according to different customer groups is shown in Note 2 to the Parent Bank accounts and note 20 to the Group accounts. The Bank has a strong position within its market area.

Against the background of the good economic situation at Sørlandet, benefitting both industry, commerce and private households, this has brought about high activity levels in both markets throughout the year under review. In particular, from now on the Bank will attach great importance to further consolidating its position within the retail banking market.

Deposits from customers totalled NOK 14. 6 million at the end of the year, up by 19.2 per cent in 2006. The retail banking- and corporate banking markets grew by 7.4 and 38.3 per cent respectively. The breakdown of the deposits is shown in Note 11 for the Parent Bank and in Note 22 for the Group. The particularly high growth within the corporate market is due to one larger individual deposit.

Deposits from customers remain the Bank's most important source of funding. The deposit coverage ratio improved from 63.8 per cent in 2005 to 65.7 per cent at the end of 2006. Every effort is made to maintain a deposit coverage ratio of at least 60 per cent.

At the end of 2006, funding loans from the certificate- and bond markets totalled NOK 7.6 billion, up by NOK 0.9 billion in the last 12 months. This reflects the development in the Bank's loans and its deposit coverage ratio and therefore represents a very important source of funding for the Bank. Sparebanken Sør enjoys a high level of creditworthiness in this market. It remains of crucial importance that the Bank produces good results and that it benefits from good financial strength. Every effort is made in order to achieve the right balance between short- and long-term funding.

At the end of 2006, the Bank's own portfolio of certificates and bonds amounted to NOK 2.7 billion. A substantial part of this portfolio is earmarked to cover the Bank's funding
requirements as these securities have been pledged as collateral security for any borrowings from the central bank.

The Bank's investment in shares and Primary Capital Certificates (PCCs) amounted to NOK 217 million at the end of the year, slightly up in the last 12 months. The trading portfolio accounts for NOK 104 million of the total portfolio, consisting mainly of quoted Norwegian shares.

Equity and related capital - capital adequacy

At the end of 2006, the Bank's equity and related capital totalled NOK 2.3 billion, consisting mainly of accrued profits amounting to NOK 2.0 billion which has been
added to the Savings Bank's Fund and subordinated loan capital of NOK 300 million.
In relation to a weighted asset calculation base of NOK 18.0 billion, the capital adequacy ratio at the end of

the year amounted to 13.0 per cent, the same level as a year earlier.

The Board of Directors monitors the Bank's capital adequacy ratio closely and considers the current level to be good. A targeted capital adequacy ratio of 12 per cent has been factored into the Bank's strategic plan for the period 2005-2007.

ALLOCATION OF PROFIT FOR THE YEAR

In the opinion of the Board of Directors, the 2006 profit and loss account and balance sheet present a true picture of the Bank's overall position and results. Furthermore, the Board is not aware of any circumstances which have arisen after the turn of the year which would change its view in this respect.

The Parent Bank's NOK 209 million after-tax profit for the year has been allocated as follows:

Donations	NOK 10 million
Transferred to the Savings Bank's Fund	NOK 199 million
Total allocations	NOK 209 million

RISK MANAGEMENT

The Group's risk management involves four risk areas: credit risk, market risk, operational risk and funding risk. The risk is managed through powers of attorney, targets and limits stipulated by the Board of Directors, coupled with a structure for follow-up and control. The risk management ensures that the risk exposure is known at all times, contributing to the Group meeting its strategic targets.

Risk management ensures that the Bank enjoys good financial stability and a good return on its equity capital at all times. The Group has a moderate risk profile, with a good, diversified portfolio on both sides of the balance sheet. The risk is adapted to the organisation's size, ambition, competence and market.

The Group is working continually on the further development and implementation of new solutions for risk management and risk assessment.

Credit risk
Credit risk is defined as the risk of losses being incurred if customers or counterparts
fail to meet their liabilities.
Credit risk is managed through the Group's credit strategy, credit routines and the rules and regulations relating to the granting of credit. These factors constitute the overall guidelines for the Bank's granting of credit.

The credit strategy is agreed at least once a year by the Board of Directors, comprising credit policy guidelines, limits and ratios for risk profile and risk concentrations within the Group.

The Bank has introduced limits and ratios for risk involving amongst other things expected losses, geography, markets and sectors, coupled with limits for large customers and individual customers. Limits and ratios for risk are monitored and reported to the Board of Directors.

The risk classification system is used both for retail banking- and corporate customers in order to make sure that the risk profile both for individual commitments and at portfolio level is in accordance with the credit strategy. The portfolio is divided into three different risk groups – low, medium and high risk respectively. Every effort is made in order to price all commitments in relation to the risk exposure involved.

The Board of Directors is responsible for the Group's granting of credit and has delegated power of attorney-related limits to the Bank's Chief Executive Officer (CEO), who in turn, within his powers of attorney, has delegated further within the organisation. The risk classification system and credit handling routines stipulate requirements with regard to which credit processes and which risk assessments shall be applied in connection with the granting and follow-up of retail banking- and corporate banking loans and similar commitments. The powers of attorney are related to competence, markets, the size of the commitment in question and risk.

The Group has a moderate risk profile within the credit area. This is attributable to a conservative credit strategy, coupled with a low level of domestic interest rates and good economic framework conditions for private persons, industry and commerce.

Market risk

Market risk is mainly related to the Bank's positions and business volumes in the interest rate-, foreign exchange and share markets. The Board of Directors has fixed exposure limits for these risk areas. Follow-up is done through ongoing reporting of portfolios and quantification of risk.

Interest rate risk is mainly related to the Bank's portfolio of interest-bearing securities. Fixed interest rate loans and fixed rate deposits are normally managed in such a way that any significant interest rate risk is hedged on an ongoing basis – but this may also be dependent upon how interest rate prospects are viewed. The Board of Directors has fixed a NOK 25 million limit for total interest rate risk in the Bank's balance sheet, measured by the impact on the Bank's overall result of a 1 percentage point shift in the level of interest rates.
Throughout the year, less than 30 per cent of the agreed limit for interest rate risk was utilised. At the end of the year, the Bank's interest rate risk amounted to NOK 6.9 million.

The Bank is only affected to a small extent by fluctuations in the foreign exchange markets. The most important balance sheet items in this connection represent foreign currency loans to customers, hedged by corresponding funding loans in the same currencies.

At the end of the year, the Bank's total investment in shares amounted to NOK 217 million, of which the trading portfolio accounted for NOK 104 million, consisting mainly of listed Norwegian shares and PCCs. Limits have been introduced for the Bank's exposure in the share market, according to which the maximum amount of the Bank's trading portfolio may be approximately NOK 250 million. In addition, limits have been established for maximum exposure to individual companies, unit trusts and other funds. In order to further reduce the risk of losses, the Bank applies stop-loss limits to certain individual shares contained in the trading portfolio.

Funding risk

Deposits from customers represent the Bank's most important and stable source of funding. The Board of Directors attaches a great deal of importance to the ratio between deposits from and loans to customers being satisfactory. At the end of 2006, the ratio was 65.7 per cent, compared with 63.8 per cent the year before.

Funding loans raised in the certificate- and bond markets totalled NOK 7.6 billion at the end of 2006, NOK 0.9 billion up on a year earlier. The composition of the funding loans has changed, in as much as a larger proportion now consists of bond loans and other funding loans with longer maturities. As a liquidity reserve, Sparebanken Sor has committed, long-term drawing rights facilities, amounting to130 million euros, all of which remained unutilised at the end of the year under review.

In order to further reduce the overall funding risk, the Bank applies targeted diversification with regard to different markets, sources of funding loans, instruments and maturities. According to the Bank's funding strategy, no more than NOK 800 million from funding sources other than customer deposits should have maturities within the next 7 days, whereas volumes in excess of NOK 1.6 billion must have remaining maturities of at least 3 months. The Board of Directors considers it particularly important that the bulk of the Bank's less liquid assets (loans to customers, fixed assets and liquid funds held in order to meet previous liquidity reserve requirements etc.) should be funded by customer deposits, long-term borrowings and equity capital. The liquidity indicator, showing the ratio between the abovementioned assets and the Bank's long-term funding, was 98.8 at the end of 2006, compared with 97.6 a year earlier. In accordance with the Bank's planned strategy, the funding indicator for long-term funding shall be at least 92.0.

Operational risk

Operational risk is defined as the risk of loss being incurred as a result of insufficient or failing internal processes or systems, human error, or external events. This risk is in particular related to failure in the Bank's telecommunication- and electronic data systems. In addition, human error and failure in routines and systems represent a risk area which is considered to be very important by the Board of Directors. Ongoing internal control is applied to these areas; in 2006, no weaknesses were identified which would have been of importance for the assessment of the Bank's operational risk.

In 2005, the Bank decided to cancel its co-operation agreement with DnBNOR. The reason for doing this was the strong competition with the merged bank within our market area. The consequences of this were biggest for the Bank's IT-platform. Over the Whitsun weekend in 2006, the conversion to AS EDB was successfully completed. The Bank now has a satisfactory IT-solution, but work is currently being done on the development of new management- and reporting systems, as well as administrative systems.

PERSONNEL AND WORKING ENVIRONMENT

Sparebanken Sør's new Chief Executive Officer

In November 2005, Morten Kraft was appointed as Sparebanken Sør's new Chief Executive Officer. He started in his new job at the Bank on 1 April 2006, following the retirement of Hans A. Iversen, who had held the position since 1988. Our new CEO has been with the Bank for a long time. He joined the former Aust-Agder Sparebank already in 1977, has worked his way up and has held many central positions in the Bank. Before his new appointment, he was the Bank's Deputy Chief Executive Officer. The Board of Directors is delighted about his appointment and is very confident that he is the right man to manage and further develop the Bank.

The number of man-years worked at the Bank

At the end of 2006, 312 man-years were worked at the Bank, and 11 employees were on special leave . In the Group as a whole, staff amounted to the equivalent of 400 man-years. The overall manning level is stable and operations are run in accordance with the man-year framework limits introduced by the Board of Directors. The Working Environment Committee has worked on matters relating to safety and security, structural alterations of the Bank's premises, the company health service, the IA-agreement (Care in the Workplace) and general environment questions. Absenteeism through illness is at a stable, low level, amounting to 3.8 per cent in 2006, unchanged from the year before.

EQUALITY BETWEEN THE SEXES AND EQUAL OPPORTUNITIES

Sparebanken Sør employs 327 people – 174 women and 153 men. 83 women are employed on a part-time basis, whereas only two men work on a part-time basis.
In the case of the Bank's governing bodies, women account for 46 per cent of the Board of Trustees' members and 40 per cent of the members of the Board of Directors, whose Chairman is as woman.

Following the reorganisation, 6 of the Bank's senior management positions are held by women, equivalent to 18 per cent. For the first time in the Bank's history, there is now a woman in Sparebanken Sør's senior management team. Gry Moen started in her job as marketing director and as a member of the Group management team on 1 September 2006. The Board of Directors would wish to increase the proportion of female managers in the Bank.

EXTERNAL ENVIRONMENT

The Bank's operations do not produce any pollution of the external environment.
The Bank regards environmental questions as an important part of the credit handling process relating to the financing of different customers and projects.

DONATIONS

The Board of Trustees set aside NOK 10 million of the 2005 profit for various worthwhile donations. Against the background of the historically large provisions for donations and the increased attention surrounding the Bank's donations, the Board of Directors has implemented new procedures relating to the allocation of donations. Following our public announcement that clubs, associations etc. may apply to the Bank for donations, we now have more applications from which to choose, giving us a better possibility to prioritise the right purposes involved. The Bank's local branch managers have been authorised to allocate up to 20 per cent of the donation funds available; this has further enhanced the Bank's image in the local communities. In this way, the Board of Directors has made every effort to ensure that donations for various worthwhile projects underpin Sparebanken Sør's reputation as a bank which is committed to and involved in the region's local communities – a bank with local roots, the best bank in the Sørlandet region.

Purposes and/or projects selected for donations included:

- A grand piano for Mandal Kirke
- Financial support for Kollemo Grendehus
- The Ibsen Museum at Grimstad
- The Start soccer players'cancer project – Sørlandet Sykehus Kristiansand
- The start-up fund at Kjevik Flyplass
- A new organ for Trefoldighetskirken in Arendal
- The heart project – Sørlandet Sykehus Arendal
- Artificial grass football pitches at Tvedestrand and Kviteseid
- A climbing wall for Normisjonen at Kragerø

In addition, several smaller amounts have been provided for organisations and projects within the Bank's region

SUBSIDIARIES AND ASSOCIATED COMPANIES

ABCenter Holding AS is a wholly-owned subsidiary of the Bank. The company is the parent company of the real estate brokerage group, ABCenter, which has 13 real estate brokerage companies in Agder and Telemark. The Group is the region's largest real estate broker, selling well over 3,000 properties in 2006 – new buildings, residential properties, holiday properties, as well as industrial and commercial properties. In 2006, the company's revenue generation totalled NOK 97.9 million, with a pre-tax result of NOK 12.7 million. Some of the Bank's subsidiaries have minority shareholders among their key staff. In 2006, after minorities' share, the after-tax result, which was consolidated into Sparebanken Sør's accounts, amounted to NOK 5.0 million.

The Bank is the largest shareholder (46.7 per cent) in Arendal Kunnskapspark Eiendom AS. The company rents out 8,700 square meters of floor space at Longum in Arendal, both to innovative businesses and established businesses. In all, there are around 30 companies with 250 staff at Arendal Kunnskapspark. Sparebanken Sør, together with the other shareholders, has decided to sell the company to new owners who will be able to develop it further.

Eiendomsvekst AS is a wholly-owned subsidiary of Sparebanken Sør. The company owns a 160-decare site at Longum in Arendal. During the course of 2006, two industrial/ commercial sites were sold. In addition, further option agreements were entered into for the sale of the rest of the site area. Furthermore, the Bank has equity stakes in some smaller property companies.

FUTURE PROSPECTS

2006 was a good year for Sparebanken Sør. In order to strengthen the Bank's market position further, efforts are being made to extend the Bank's geographical area, initially eastwards in Telemark. The sponsorship agreement with Start will make the Bank more visible within the region and in particular in Kristiansand, which is one of the Bank's most important target areas. The good progress of the Norwegian economy and the favorable framework conditions for the region's industry and commerce are expected to continue and against this background, the growth in the Bank's balance sheet is likely to continue. Private households' financial situation will remain good despite the expectation of further interest rate increases. The challenges facing the Bank are partly related to the shrinkage in the overall interest margin. However, higher interest rates produce a higher return on the Bank's equity capital. In the Board of Directors' opinion, an increase in assets alone cannot compensate for the reduction in the average interest margin. In view of this, therefore, every effort will be made in order to further develop the Bank's other (non-interest) income. According to the Board of Directors' strategy, the primary objective is to boost overall business volumes in relation to the Bank's existing cost basis, rather than implementing larger cost-reducing measures.

In the Board of Directors' opinion, the Bank's financial and market-related position is good. We have competent staff and our bank is uniquely placed as the largest and best bank for Sørlandet and parts of Telemark. We shall be developing this position further in 2007.

Arendal, 14 March 2007

Alice Jervell **Chairman**	**Arne Johan Johnsen**	**Kjell Pedersen-Rise**	**Erling Holm**	**Hilde Sakariassen**
Unni Grete Farestveit	**Trine Jørgensen**	**Per Adolf Berntsen**	**Trond Fr. Winther**	**Morten Kraft** **Chief Executive Officer**

OUR MARKET

Oil-related industry had a very active year in 2006. This sector is a large and important export industry in our region and has many different participants. In 2005, a network for this industry (NODE) was therefore established, which today consists of 39 companies. This industrial sector has been given the status of main project within the national ARENA-programme, which has been initiated by central authorities, Innovasjon Norge and Norges Forskningsråd. In 2006, this group of companies had a turnover of NOK 15 billion and an order reserve of NOK 40 million at the end of the year. Furthermore, a competence- and supplier-related development project in connection with the Farsund Basin has been established. The industry is currently enjoying full capacity utilisation, its biggest challenge being the lack of skilled labour. The time from decision to completed capital investment in the oil industry is relatively long. The increased propensity to invest is naturally linked initially to the high oil price which has lasted for a long time. Although the price of oil has fallen somewhat, it would still be significantly profitable to develop new oil and gas fields both on the Norwegian shelf and in other areas.

Traditional industry has always been strongly represented in the areas of Sørlandet and Telemark. The region has a great variety of different industrial companies, from the multi-national industrial groups to small and medium-sized companies owned by local people. This industry too has been benefitting from good framework conditions during the year which is now behind us.

The building- and construction industry also had a good year in 2006. Most businesses have been enjoying full order books and the sector has experienced a big shortage of labour. Many guest workers have been recruited. In our region, this sector is fragmented – from one-man carpentry businesses to large building contractors and regional offices of nationwide companies. The type of work varies from the building of dwelling houses and holiday properties to large road- and building projects.

Hydramarine AS is located on Andøya in Kristiansand. The company manufactures a broad range of cranes and offshore equipment for the shipping- and oil sectors. One advanced product are large cranes for sub-sea operations involving heavy lifting. Through advanced steering systems, the crane compensates for the vessel's vertical and horizontal movements, making sure that the entire lifting operation is completely stable.

Sevan Marine ASA is a listed company with its head office in Arendal. The company has developed a circular, floating platform (PSO) for the production and storage of oil. A drilling platform has also been developed according to the same principles. The advantage of the platform is its large capacity and its shape, which is capable of handling waves and wind in an optimal manner, independent of directional influence. The company has signed an agreement for delivery of 5 such floating platforms. The company's current market capitalisation is NOK 6.7 billion.

The pleasure boat industry has particularly deep and important roots in the region of Sørlandet. **Nidelv Båtbyggeri AS** in Arendal, rich in traditions, is a pleasure boat manufacturer which over the years has developed a number of models which have been very well received in the market. Due to customers with strong purchasing power, the pleasure boat industry sold virtually its entire production of boats in 2006.

Foto: Øivind Berg

Skorve Entreprenør AS is a building contractor located in Vest-Telemark which was established in 2005 and which has already been very successful, winning orders both within the areas of new building and renovation, for private developers and municipalities. The company uses local craftsmen and today employs over 30 people.

Foto: Tom Riis

The number of man-years worked in the primary industries in our market accounts for about 2.7 per cent of the total number of people employed and there is a downward trend. The number of units within agriculture and forestry in Agder and Vest-Telemark has been falling during the last five years by 880 or 30 per cent to 2,075 farms. Sparebanken Sør is the bank of co-operation for the farmers' associations in Agder and has a number of customers within agriculture and forestry; in view of this, the Bank is particularly interested in this development trend. As is the case in most other parts of Norway, the active farmers in Agder and Telemark have had to implement sometimes large restructuring measures. However, many farmers in our region have handled this challenge well, investing in a future within agriculture, partly through more specialisation, co-operation solutions and supplementary products.

At Austre Moland in Arendal, the three dairy farmers, Ole L. Skjulestad, Lars Woie and Olav Lillevaaje, have built a modern, joint-venture cow barn with a total floor space of 2,000 square meters, with room for 70 milking cows and 150 calves. The cattle can move about freely and there are automatic feeding systems and robot milking machines. By extending to two milking robots, the capacity of milking cows can be doubled. The three owners work a shift system, which has given them all a better everyday life and better opportunities for further utilising the farm's resources.

Foto: Øivind Berg

Oldroyd Industrier AS at Kragerø manufactures patented building cardboard with versatile use, both for foundation walls and indoor use. The cardboard has a specially developed pattern which means that it can easily be bent and adapted to different purposes. The company has entered into a strategic alliance with Icopal AS, which markets the product.

OUR MARKET

Tourism and travel are an important industry at Sørlandet and in Telemark. After two lacklustre years in 2002 and 2003, the industry has been benefitting from a positive trend. In 2006, overnight hotel bookings and the holiday cottage rental market grew by about 7 per cent and 9 per cent respectively. This good development is also reflected in businesses' profitability. The region has several big attractions, including Dyreparken in Kristiansand and Bø Sommarland. In addition, Sørlandet's coast and the Kragerø archipelago are important holiday destinations. Inland areas such as Åseral, Hovden, Rauland and Lifjell represent important recreational areas for large population areas in the east of Norway and at Sørlandet. In view of the building ban in areas close to the sea and the price development of holiday cottages in these areas, the mountain areas have become more attractive for many people; today more holiday cottages are now being built in inland municipalities than along the coast. Many municipalities are making every effort to put in place conditions conducive to the building of holiday cottages. The municipality of Bykle is an example of this with an investment of NOK 80-100 million in infrastructure for the holiday market. It is estimated that an annual amount of about NOK 3 billion is invested in holiday cottages and that the economic ripple effect from tourism and travel amounts to between NOK 6 and 7 billion within the region.

Sparebanken Sør has more than 100,000 retail banking customers and provides proactive assistance within our region for people who want to realise their dreams of acquiring a new house, holiday cottage, car, boat or other desirable assets. Being close to our customers and having a great deal of local knowledge we are able to help people find good solutions for their private investments.

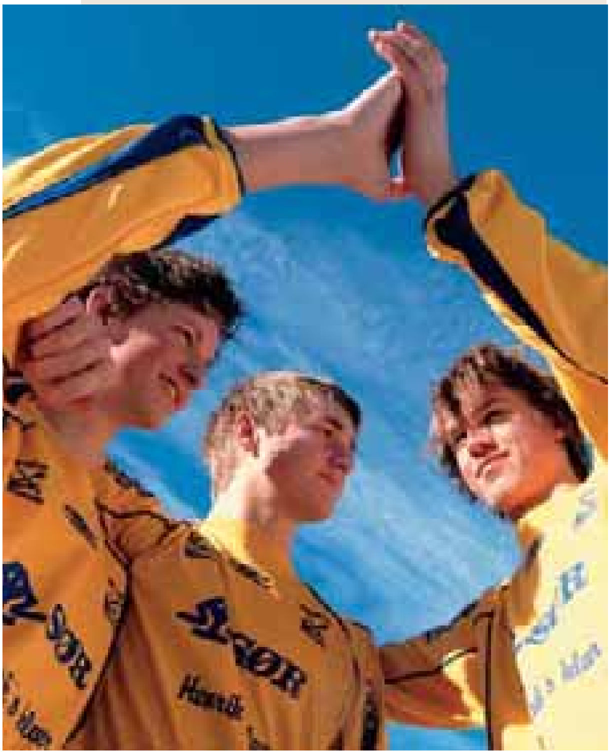
Against the background of private households' good financial position, the activity within the house building sector has been picking up.

A regional savings bank is also a local bank with deep roots within the social- and cultural life in the communities of the region. There is no doubt that many clubs and associations would have faced big challenges when trying to provide various facilities for children and young people had it not been for the financial assistance provided by an active and generous bank which is able to support a variety of projects within culture, sport and athletics. Sparebanken Sør provides sponsorships in the region of NOK 5 million each year.

Foto: Øystein Kvanneid

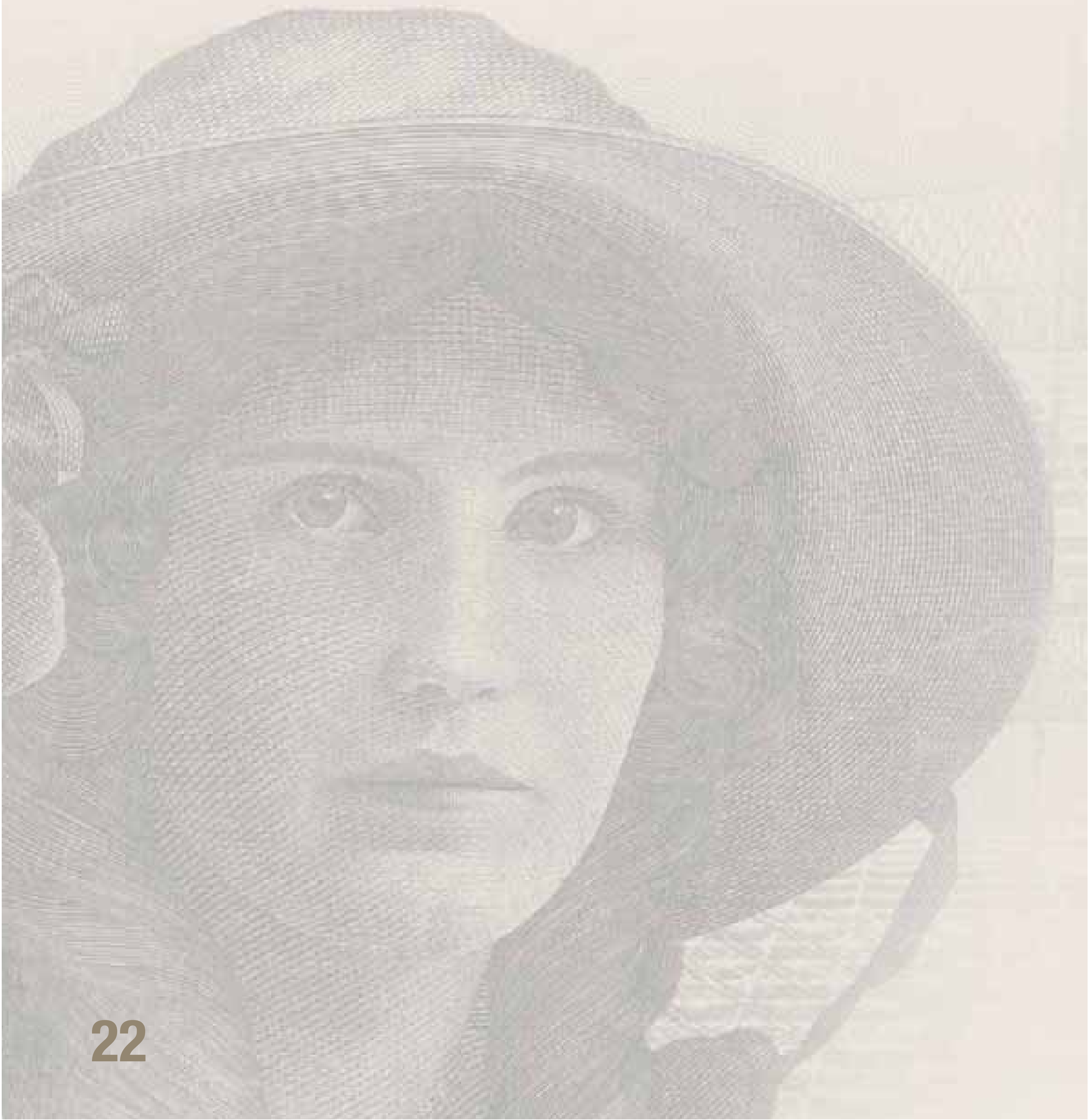
Hovden Skisenter is located in the municipality of Bykle at the top of Setesdal which is 822 meters above sea level. The centre has modern alpine facilities which comprise 5 ski lifts and 18 runs, with a drop of 353 meters. The ski centre offers up-to-date facilities such as an inn, bistro, an after ski bar, ski rental and shop. Hovden always gets snow in the winter and is a very popular area for people from Agder, providing a varied selection of overnight accommodation as well as private holiday cottages.

Jerv is an active athletic club at Grimstad which provides many facilities for children and young people. The young soccer players in the picture, Lars Mathias Bjunes, Fredrik Magelssen and Haldor Mejer Myklestad are good examples of how the Bank's donations are put to good use.



The Torjesen family, consisting of father, mother and two boys (soon to be three), moved into their new 'two-generation house' at Hålandsheia in June 2006. Elin Margrethe's parents live in the other part of the house. The families' house was the first house to have been completed on this new housing estate developed by Byggplan Sør AS. They are very pleased to have been able to take advantage of the Bank's flexi-loan offer, which provides a great deal of freedom both while the house is being built and in the future.

At Lyngdal, **Sørlandsbadet**, which opened in January 2007, has become the big, new attraction. The local municipality and private investors joined forces to build a magnificent indoor swimming pool and bathing complex for use throughout the year. The facilities consist of swimming- and playing areas, an Olympic-size swimming pool, as well as cafes and recreational services.



PARENT BANK ACCOUNTS according to Good Norwegian Accounting Practice

CONTENTS

Profit and loss account - parent bank

NOK million	Notes	2006	2005	2004
Interest receivable and similar income				
Interest receivable and similar income from loans to credit institutions		10	6	2
Interest receivable and similar income from loans to customers		925	715	674
Interest receivable from certificates and bonds		70	53	49
Total interest receivable and similar income		**1 005**	**774**	**725**
Interest payable and similar costs				
Interest payable on debt to credit institutions		5	7	12
Interest payable on deposits from customers		256	154	130
Interest payable and similar costs relating to securities issued		249	145	124
Total interest payable and similar costs		**510**	**306**	**266**
Net interest- and credit commission income		**495**	**468**	**459**
Dividends receivable and other income from securities with variable yield				
Income from shares, unit trust certificates and other securities with variable yield		8	8	9
Income from equity stakes in associated companies	**5**			
Income from equity stakes in Group companies	**5**	5	3	-1
Total dividends receivable and other income from securities with variable yield		**13**	**11**	**8**
Commissions receivable and other income from banking services				
Guarantee commissions		9	8	8
Other fees receivable and commission income	**18**	101	96	89
Total commissions receivable and income from banking services		**110**	**104**	**97**
Commissions payable and costs relating to banking services		**23**	**26**	**23**
Net value change and gains/losses on foreign exchange and securities				
Net value change and gains/losses on certificates and bonds		-3	-3	-2
Net value change and gains/losses on shares		7	18	24
Net value change and gains/losses on foreign exchange and financial derivatives		15	12	9
Total net gains/losses on securities and foreign exchange		**19**	**27**	**31**
Other operating income				
Operating income from real estate		6	5	6
Other operating income		10	11	10
Total other operating income		**16**	**16**	**16**
Net other operating income		**135**	**132**	**129**
Total net operating income		**630**	**600**	**588**

NOK million

	Notes	2006	2005	2004
Wages, salaries and general administration costs				
Wages and salaries	**13**	125	118	128
Pensions	**14**	20	14	10
Social costs		29	27	26
Administration costs		102	97	91
Total wages, salaries and general administration costs		**276**	**256**	**255**
Depreciation of fixed- and intangible assets	**7**	**18**	**15**	**15**
Other operating costs				
Operating costs relating to real estate		13	12	9
Other operating costs		37	33	34
Total other operating costs		**50**	**45**	**43**
Total operating costs		**344**	**316**	**313**
OPERATING RESULT BEFORE CREDIT LOSSES		**286**	**284**	**275**
Losses on loan, guarantees etc.				
Losses on loans		-1	0	22
Total losses on loans, guarantees etc.	**1**	**-1**	**0**	**22**
Write-downs and gains/losses on securities held on a long-term basis				
Net gains/losses on securities		2	7	-2
Total gains/losses on securities		**2**	**7**	**-2**
RESULT BEFORE TAXATION COST		**289**	**291**	**251**
Tax payable on ordinary result	**15**	**80**	**78**	**63**
RESULT FROM ORDINARY OPERATIONS AFTER TAX		**209**	**213**	**188**
For allocation		**209**	**213**	**188**
Allocations				
Donations		-10	-10	-5
Transferred to the Savings Bank's Fund	**8**	-199	-203	-183
TOTAL ALLOCATIONS		**-209**	**-213**	**-188**

Balance sheet - parent bank

ASSETS NOK million	Notes	31.12.06	31.12.05	31.12.04
Cash-in-hand and claims on central banks	**9**	**70**	**147**	**237**
Loans to and claims on credit institutions				
Loans to and claims on credit institutions - without agreed maturity or notice of withdrawal		11	68	37
Loans to and claims on credit institutions - with agreed maturity or notice of withdrawal		634	120	
Total loans to and claims on credit institutions	**3,9**	**645**	**188**	**37**
Loans to and claims on customers				
Overdraft facilities and working credits		1 339	856	723
Building loans		909	620	539
Repayment loans		19 993	17 695	15 854
Total loans before individual write-downs and collective write-downs		**22 241**	**19 171**	**17 116**
Write-downs on individual loans		60	69	82
Write-downs on groups of loans		53	46	169
Total net loans to and claims on customers	**1,3,6,9,13**	**22 128**	**19 056**	**16 865**
Repossessed assets		**1**	**2**	**6**
Certificates and bonds				
Certificates and bonds issued by public-sector borrowers		59	51	54
Certificates and bonds issued by other borrowers		2 691	1 649	1 734
Total certificates and bonds	**2,3,9**	**2 750**	**1 700**	**1 788**
Shares and equity stakes in general partnerships	**4**	**199**	**179**	**159**
Equity stakes in associated companies	**5**	**11**	**11**	**11**
Equity stakes in Group companies	**5**	**56**	**29**	**25**
Intangible assets				
Deferred tax benefit	**15**	29	31	3
Other intangible assets	**7**	10		1
Total intangible assets		**39**	**31**	**4**
Fixed assets				
Machinery, fixtures and fittings, and transport equipment		27	26	27
Buildings and other real estate		98	94	74
Total fixed assets	**7**	**125**	**120**	**101**
Other assets		**25**	**17**	**14**
Prepaid costs, not yet incurred, and accrued income, not yet received				
Accrued income, not yet received		76	43	30
Prepaid costs, not yet incurred		3	3	3
Over-funding of pension liabilities	**14**	5		61
Total prepayments and accrued income		**84**	**46**	**94**
TOTAL ASSETS		**26 133**	**21 526**	**19 341**

ARENDAL, 31 December 2006

Alice Jervell, Arne Johan Johnsen, Kjell Pedersen-Rise, Erling Holm, Hilde Sakariassen

Alice Jervell Chairman	Arne Johan Johnsen	Kjell Pedersen-Rise	Erling Holm	Hilde Sakariassen

Fastsatt av Forstanderskapet i møte 27. mars 2007

BALANCE SHEET - Parent Bank

LIABILITIES AND EQUITY CAPITAL

NOK million	Noter	31.12.06	31.12.05	31.12.04
Liabilities to credit institutions				
Loans and deposits from credit institutions - without agreed maturity or notice of withdrawal		59	8	1
Loans and deposits from credit institutions - with agreed maturity or notice of withdrawal		1 072	438	440
Total liabilities to credit institutions	**9,10**	**1 131**	**446**	**441**
Deposits from and liabilities to customers				
Deposits from and liabilities to customers - without agreed maturity		14 049	11 754	10 376
Deposits from and liabilities to customers - with agreed maturity		546	489	464
Total deposits from and liabilities to customers	**6,9,10,11**	**14 595**	**12 243**	**10 840**
Borrowings through the issuance of securities				
Certificates and other short-term borrowings		210	429	1 210
Bond debt		7 464	6 179	4 960
Total borrowings through the issuance of securities	**9,10,12**	**7 674**	**6 608**	**6 170**
Other liabilities	**15,16**	**245**	**253**	**149**
Incurred costs; income received, not yet accrued		**75**	**62**	**67**
Provisions for liabilities and costs				
Pension liabilities etc.	**14**	74	74	45
Specific provisions for guarantee liabilities				1
Total provisions for liabilities and costs		**74**	**74**	**46**
Subordinated loan capital	**19**	**300**		
TOTAL LIABILITIES		**24 094**	**19 686**	**17 713**
EQUITY CAPITAL:				
Accrued equity capital/retained earnings				
Savings Bank's Fund		2 039	1 840	1 628
Total accrued equity capital/retained earnings		**2 039**	**1 840**	**1 628**
TOTAL EQUITY CAPITAL	**8**	**2 039**	**1 840**	**1 628**
TOTAL LIABILITIES AND EQUITY CAPITAL		**26 133**	**21 526**	**19 341**
OFF BALANCE SHEET ITEMS:				
Contingent liabilities				
Guarantees	**1**	656	498	596
Book value of assets pledged as security for mortgage debt etc.	**10**	1 748	1 518	1 566
Other contingent liabilities		2	2	4
Liabilities	**17**			

14 March 2007 – Sparebanken Sør

Unni Grete Farestveit **Trine Jørgensen** **Per Adolf Berntsen** **Trond Fr. Winther** **Morten Kraft**
Chief Executive Officer

Cash flow statement - Parent Bank

Assets NOK million	2006	2005	2004
Interest receivable	972	764	724
Interest payable	-491	-305	-276
Other payments received	125	139	126
Payments made relating to operations	-337	-311	-301
Recoveries from confirmed losses	2	3	4
Tax paid	-79	-63	-34
Group contributions made	-1	-1	-29
Payments relating to donations	-4	-3	-2
Net cash flow from operations	**187**	**223**	**212**
Increase in loans, adjusted for confirmed lossses and repossessed property	-3 074	-2 086	-1 565
Change in other assets	-8	-3	12
Change in certificates and bonds	-1 051	83	-340
Change in deposits from customers	2 352	1 403	577
Change in loans - other credit institutions	-457	-151	12
Change in funding loans from credit institutions	685	5	55
Change in other liabilities	-10	49	13
Net cash flow from current financial operations	**-1 563**	**-700**	**-1 236**
Investment in fixed assets	-33	-34	-6
Sale of fixed assets	3	1	1
Change in shares	-15	-18	28
Investment in Group companies/associated companies	-22		
Net cash flow from investments	**-67**	**-51**	**23**
Change in liabilities incurred through the issuance of securities	1 066	438	932
Change in subordinated loans	300		
Net cash flow from long-term funding operations	**1 366**	**438**	**932**
Net change in liquid funds	**-77**	**-90**	**-69**
Liquid funds as at 1.1	147	237	306
Liquid funds as at 31.12	**70**	**147**	**237**

GENERAL ACCOUNTING PRINCIPLES

General comments

The annual accounts for 2006 have been prepared in accordance with currently valid laws, rules, regulations and good Norwegian accounting practice. All amounts are in NOK unless stated otherwise.

From the third quarter of 2006, in the case of its Group accounts, Sparebanken Sør started reporting according to IFRS (International Financial Reporting Standards). For the time being, it is not permitted to apply the IFRS rules and regulations to the Parent Bank accounts. The Sparebanken Sor Parent Bank accounts for 2006 have accordingly been prepared in accordance with Norsk God Regnskapsskikk (NGR), whereas the Sparebanken Sor Group accounts for the whole of 2006 have been prepared according to the IFRS rules and regulations. Separate IFRS Group accounts with notes and accounting principles have been prepared and presented in the annual report.

From 01.01.2006, Sparebanken Sor switched to the new lending rules and regulations, which are mainly in accordance with the IAS 39 rules and regulations relating to loans and credit loss assessment. The Bank applies the same interpretations of the rules and regulations relating to the Parent Bank accounts, where the new lending rules and regulations are applied and in the Group account where IAS 39 is applied. The figures for 2005 have been restated according to the new standard in the annual accounts. The 2004 figures have not been restated.

Sparebanken Sør has started treating its pension liabilities in the accounts according to IAS 19 (IFRS standards pertaining to benefits for staff) both in the Parent Bank- and Group accounts. During the autumn of 2005, permission was granted for this standard to be used in the Norwegian accounts too when the Group accounts were prepared according to the IFRS rules and regulations. This change has an impact with effect from 01.01.2005, therefore making the 2005 figures comparable.

Otherwise, reference is made to Notes to the Parent Bank's annual accouints for details relating to the implementation of these changes.

Subsidiaries

Subsidiaries are companies of which the Bank in its own right or together with subsidiaries owns more than 50 per cent and/or in which it has a deciding influence, and where such ownership is regarded as permanent.

In the Bank's accounts, its equity stakes in subsidiaries are shown according to the equity method of accounting.
A summary of the Bank's subsidiaries is shown in note 5.

Associated companies

Associated companies are defined as companies of which the Bank owns between 20 and 50 per cent, and where such equity stakes involve influence and represent a long-temr investment.
In the accounts, equity stakes in associated companies are included on the basis of the equity method of accounting.

Pension costs

The accounting treatment of pension costs is based on IAS 19 relating to benefits for staff.

Loans to customers

As mentioned, with effect from 01.01.2006, the Bank switched to application of new rules and regulations relating to the treatment of loans in the accounts. The transition also meant that non-specific loss provisions were reversed in the accounts and replaced by write-down of groups of loans. Previous specific loss provisions were reviewed and replaced by new individual write-downs. Previous establishment fees included as income in the profit and loss account were reversed and estimated value of loans monitored on a long-time basis was shown in the balance sheet. All comparable figures for 2005 have been restated according to new accounting principles.

At their first assessment, loans are assessed at market value. During subsequent periods, loans are assessed at amortised cost by appying the effective interest rate method. Fees relating to the loans are included in the assessment of effective interest income and shown in a corresponding manner in the profit and loss account.

Amortised cost is defined as the acquisition cost minus repayments relating to the principle amount, adjusted for the amortising effect as a result of application of the effective interest rate method and adjusted for any impairment in value.

GENERAL ACCOUNTING PRINCPLES

Impairment in value of loans – and credit losses

On each balance sheet day in question, an assessment is made to ascertain whether there is objective proof of impairment in value of loans or groups of loans. Impairment in value only exists if there is objective proof of events which can bring about a reduced cash flow. Impairment in value must be related to events occurring after the first time the loan in question has been shown in the accounts, and it must be possible to assess such impairment in value in a reliable manner. Events indicating impairment in value are as follows:

- significant financial difficulties being experienced by the borrower
- default
- the borrower hving been granted special terms and conditions due to his/her/its financial situation
- it is likely that the borrower will enter into debt negotiations or other financial restructurings
- data which can be observed indicating a measurable reduction in future cash flows from a group of loans

The Bank first assesses whether there is individual, objective proof of impairment in value. If this is not the case, the loan is included in a group of loans with the same credit risk. The group is then assessed on an aggregate basis with regard to impairment in value. Loans which have been assessed individually and where write-down has been made, are excluded.

If there is objective proof of impairment in value having occurred, the amount of the loss is assessed as the difference between the loan's book value and the present value of future, estimated cash flows discounted at the original effective rate of interest applied to the loan. The value of the loan is reduced by using an appropriation account and shown in the profit and loss account.

Loans in default and bad and doubtful loans

A customer's aggregate commitment is deemed to be in default when instalments or interest due have not been paid 90 days after due date, or when credit facilities have been overdrawn for more than 90 days. Loans which are not in default, but where the customer's financial position would suggest that the commitment is bad and doubtful, are classified as bad and doubtful.

Confirmed losses

When it is highly probable that the losses in question are final, the losses are classified as confirmed. Losses are deemed to be confirmed in the case of a formally announced composition with creditors, or bankruptcy, or if the imposition of restraint upon chattels and the sale thereof have not brought about the required result, a legally confirmed judgment, or if the Bank has waived its rights relating to the whole or part of the commitment involved. Confirmed losses covered by previous individual write-downs are recorded against the write-down in question. Confirmed losses against which no write-down has been made or where there is too large or too small cover in relation to the write-down made, are shown in the profit and loss account.

Repossessed assets and property

Repossessed property represents assets which have been acquired in cases where the Bank wishes to protect and secure outstanding commitments from customers. The accounting treatment in this respect is based on estimated realisation value at the time of repossession. Any subsequent write-down is shown under 'Losses on loans/guarantees' in the profit and loss account. Gains/losses from a subsequent sale of the assets in question are similarly incorporated in the accounts.

Value assessment of bonds and certificates

Securities which form part of the Bank's trading portfolio are assessed at market value on the accounting day on which they are traded on a stock exchange or in a regular market, and where such securities benefit from good diversification of owners and where there is good liquidity in the papers. Securities in the Bank's portfolio are assessed on a total basis at the lower of market value and acquisition cost according to the portfolio principle.

Valuation of shares

The market value of shares forming part of the Bank's trading portfolio was assessed at bid prices on the Oslo Stock Exchange as at 31.12.2006; this is deemed to be the actual value of the shares in question.
Other equities, except investment in associated companies or subsidiaries, are classified as fixed assets, valued at

acquisition cost and not adjusted for any subsequent and ongoing price changes. However, the value of these shares is written down if their market value were to fall significantly below book value.

Fixed assets

Real estate as well as other fixed- and intangible assets are shown in the balance sheet at acquisition cost, plus any write-up, minus accumulated ordinary depreciation.

Ordinary depreciation is based on cost price, to which are added any write-ups; depreciation is spread over the economic life of the asset in question, on a straight-line basis.

The following rates of depreciation are applied:

Machinery/IT equipment	20-33 %
Fixtures and fittings	10-20 %
Transport equipment	15-20 %
Bank buildings/real estate	2- 4 %
Intangible assets	33 %

Foreign exchange

At the end of the accounting year, assets and liabilities in foreign currencies were converted into Norwegian kroner at middle exchange rates between bid- and offer prices as at 31.12.2006. Income and costs are translated into NOK at the exchange rates ruling at the time of completing the transactions involved.

Liabilities

Customer deposits are valued at nominal amounts. Liabilities in foreign currencies were valued at middle exchange rates between bid- and offer prices as at 31.12.2006. Bond debt is shown at nominal amounts, adjusted for any premium or discount at the time the loan is raised.

Tax

Tax is treated in the accounts in accordance with the Provisional Norwegian Accounting Standard for Corporate Tax.

Financial instruments

Financial instruments comprise negotiable and tradeable financial assets and liabilities,as well as financial derivatives. Financial instruments are agreements entered into either with customers or other financial institutions. Such agreements include forward exchange contracts, swaps, FRAs, agreements relating to securities transfers etc.

There are two main types of agreements: those which are entered into as part of the Bank's trading on it own account, the purpose being to make a profit from any price differences and price changes, and those which form part of the Bank's ordinary banking business. Agreements within the former category represent the Bank's trading portfolio, whereas all other agreements relate to day-to-day banking operations (banking portfolio).

The purpose of the banking portfolio (hedging transactions) is to neutralise any existing or anticipated interest rate- or foreign currency risks. A high degree of negative covariance is accordingly required as far as any value changes between the hedging agreements and the hedged items are concerned.

Interest rate- and currency agreements used in order to hedge the Bank's balance sheet items or other financial instruments are evaluated in connection with the hedged items. Income and costs relating to these agreements are shown in the accounts in conjunction with the hedged items involved.

Interest rate- and currency agreements which form part of the trading portfolio were marked to market as at 31.12.2006. Any changes in market value are shown on a net basis as net gains/losses in the profit and loss account.

Accrual accounting – the inclusion of income and costs in the accounts

Interest income and commissions are included in the profit and loss account as they accrue as income or as they are incurred as costs. Any premium or discount in relation to par price in connection with bond issues is apportioned over the life of the bond and included in the profit and loss account as an adjustment to current interest costs. Please also refer to the abovementioned paragraph dealing with hedging transactions. Prepaid income, and costs incurred, not yet paid, are subject to accrual accounting and shown under Liabilities in the balance sheet. Accrued income, not yet received, and prepaid costs are shown under Assets in the balance sheet. Dividends from shares and Primary Capital Certificates (PCCs) are booked as income during the year in which they are received.

Fees representing direct payment for services rendered are taken into the profit and loss account as income when paid. This does not apply to establishment fees relating to new loans. Such fees are amortised over the life of the loan.

1

1. Loans, guarantees, repossessed assets, credit losses and commitments in default

Definitions

Commitments in default
A customer's total outstanding commitments to the Bank are deemed to be in default if, in the case of just one loan forming part of his/her/its total borrowings etc., payment or part payment has not been made within 90 days of the maturity in question, or if any unauthorised overdraft in respect of a credit facility or current account has not been covered within 90 days.

Other bad and doubtful commitments are commitments which are not yet in default, but where a customer's financial situation would suggest that a loss which has already been incurred is very likely to materialise at a later date.

Confirmed losses
Losses are deemed to be confirmed in the case of an officially declared composition with creditors, bankruptcy, when a legal charge made against the borrower's assets has not been successful, and in the case of a legally valid judgment having been obtained, or otherwise if the Bank has forgiven all or part of the indebtedness in question.

Individual write-down
Individual write-down of a loan is made if there is objective proof of impairment of value. The write-down is calculated as the difference between book value and present value of the estimated future cash flows discounted at an effective rate of interest.

Collective write-down
Write-down of a group of loans is made if there is objective proof of impairment of value. The write-down is calculated as the difference between book value and present value of the estimated future cash flows discounted at an effective rate of interest.

Cancellation of bad and doubtful loan status
This occurs when, in the case of a loan against which individual write-down has been made, that loan has subsequently been put in order, the applicable repayment schedule having been reverted to, and the commitment is no longer regarded as bad and doubtful, and when it is also felt that the customer will continue to adhere to the agreed payment schedule going forward.

Guarantees break down as follows:

	2006	2005
Loan guarantees	100	100
Payment guarantees	246	157
Contract guarantees	260	175
Other guarantee liabilities	50	66
Total	**656**	**498**

No part of the abovementioned total guarantee liabilities has been counter-guaranteed by other financial institutions.

Loans, guarantees, commitments in default etc. broken down by main business sectors

	Public sector administration		Primary industries		Industry, building and transport		Trade, hotels, and restaurants	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Gross loans	58	59	368	348	1,497	1,159	1,435	1,497
Guarantees	0	0	3	2	339	233	158	141
Unutilised drawing rights	396	384	54	51	273	215	381	294
Commitments in default	0	0	2	4	10	4	10	11
Other bad and doubtful commitments	0	0	2	0	53	45	29	73
Write-downs on individual loans	0	0	1	1	13	14	17	26
Specific guarantee loss provisions	0	0	0	0	0	0	0	0

Loans, guarantees, commitments in default etc. broken down by main business sectors - continued

	Financing and property management		Retail banking customers		Miscellaneous		TOTAL	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Gross loans	5,111	3,810	13,368	11,972	404	326	22,241	19,171
Guarantees	135	99	12	14	9	9	656	498
Unutilised drawing rights facilities	439	226	414	231	44	30	2,001	1,431
Commitments in default	44	12	69	45	6	1	141	77
Other bad and doubtful commitments	11	32	16	22	0	9	111	181
Write-downs on individual loans	8	8	20	19	1	1	60	69
Specific guarantee loss provisions	0	0	0	0	0	0	0	0

Loans and guarantees broken down by geographical areas

	2006		2005	
	Loans	**Guar.**	**Loans**	**Guar.**
Telemark	2,115	57	1,829	31
Aust-Agder	9,266	308	8,229	276
Vest-Agder	8,207	202	6,790	151
Miscellaneous	2,653	89	2,323	40
Total	**22,241**	**656**	**19,171**	**498**

Credit losses, commitments in default etc.	**2006**	**2005**	**2004**	**2003**	**2002**
Commitments in default	141	77	142	266	358
Write-downs	25	22	39	66	84
Net commitments in default	**116**	**55**	**103**	**200**	**274**
Bad and doubtful commitments	111	181	165	153	74
Write-downs	35	47	43	31	23
Net commitments in default	**76**	**134**	**122**	**122**	**51**

Change in non-specific loss provisions on transition to new lending rules and regulations	
Non-specific loss provisions as at 31.12.2005	**169**
Transferred to the Savings Bank's Fund	-123
Adjusted non-specific loss provisions as at 31.12.2005	**46**

Individual write-downs	**Loans**	**Guar.**	**Total**
Individual write-downs as at 01.01	69	0	69
-Period's confirmed losses against which individual write-down was previously made	2	0	2
+Increased individual write-downs during the period	0	0	0
+New individual write-downs during the period	11	0	11
-Reversal of individual write-downs during the period	18	0	18
=Individual write-downs as at 31.12	**60**	**0**	**60**

Write-down of groups of loans			
Collective write-down as at 01.01	46	0	46
+Period's change in collective write-down	7	0	7
=Collective write-down as at 31.12	**53**	**0**	**53**

Credit loss costs	Loans	Guar.	Total
Period's change in individual write-downs	-9	0	-9
+Period's change in collective write-downs	7	0	7
+Period's confirmed losses against which individual write-down was made in previous years	2	0	2
+Period's confirmed losses against which no individual write-down was made in previous years	2	0	2
-Period's recoveries from previous confirmed losses	-3	0	-3
=Period's loss cost	-1	0	-1

Losses on loans and guarantees etc. broken down by different customer groups	2006	2005
Primary industries	0	0
Industry, building and transport	0	0
Wholesale- and retail trade; hotels/restaurants	-7	4
Financing and real estate management	0	-1
Retail banking customers	0	-1
Sundry	-1	0
Total credit losses on customers	-8	2
Repossessed assets	0	0
Increase in collective write-down	7	-2
Total losses on loans, guarantees etc.	-1	0

Risk classification

For the purpose of risk classification, outstanding commitments are split into retail banking- and corporate banking commitments. Risk classification forms an integrated part of the credit assessment process, based on the evaluation of customers' financial position, collateral and any other security, or any other circumstances which are important in risk context. Commitments are divided into three different risk classes.

Corporate customers

Corporate customer commitments are subject to risk classification at least once a year. By the end of the year currently under review, most corporate commitments had been classified according to risk. Corporate customer commitments not yet classified by risk have been apportioned within the different classes on a relative basis.

The risk classification showed the following breakdown at the end of the year:

	Low risk		Medium risk		High risk	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Gross lending	4,525	3,756	3,993	3,090	355	353
Guarantees	328	262	290	198	26	24
Unutilised drawing rights facilities	809	648	714	492	64	60
Write-downs of individual loans	0	0	0	0	40	50

Retail banking customers

The risk classification is done on the basis of an empirical score system relating to customers' pattern of behavior, which among other things reflects customers' compliance with the terms and conditions of the loan agreements entered into, and which also takes into consideration the value of the assets pledged as collateral security for the outstanding commitments to the Bank.

The risk classification showed the following breakdown at the end of last year:

	Low risk		Medium risk		High risk	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Gross lending	11,363	9,937	1,738	1,676	267	359
Guarantees	10	12	2	2	0	0
Unutilised drawing rights facilities	352	192	54	32	8	7
Write-downs on individual loans	0	0	0	0	20	19

Some general aspects

Risk classification is a very important factor when pricing loans.

There were no significant shifts/changes between the different risk classes last year.

Average annual net credit losses during the last 5 years amounted to 0.15 per cent of gross lending. An assessment of the lending portfolio's composition, coupled with customers' expected financial development, would suggest that the overall level of credit losses is unlikely to change to any significant degree from a long-term point of view. The highest risk class is expected to account for the largest overall share of the Bank's credit losses.

Expected annual interest income – both for the lending portfolio as a whole and for each indicidual risk class – will exceed anticipated losses by a wide margin.

2

2. Certificates and bonds

	2006		2005	
	Acquisition cost	**Book value**	**Acquisition costs**	**Book value**
Listed securities	1,478	1,477	939	937
Non-listed securities	1,274	1,273	762	763
Total certificates and bonds	**2,752**	**2,750**	**1,701**	**1,700**
Of which trading portfolio accounted for	456	454	350	349

No certificates or bonds are nominated in foreign currencies. Effective yield is calculated by dividing the total book value of interest income, realised losses/gains and any change in unrealised losses/gains by the portfolio's average market value throughout the year. The financial impact of hedging transactions relating to the portfolio is taken into consideration. In 2006, the average effective yield on the Bank's portfolio of certificates and bonds amounted to 3.35 per cent. NOK 2 million in respect of negative value change in the Bank's trading portfolio of certificates and bonds has been charged to the profit and loss account.

Certificates and bonds broken down by different categories of borrowers

	2006		2005	
	Acq. cost	**Book value**	**Acq. cost**	**Book value**
Municipalities and counties	60	59	50	51
Guaranteed by municipalities	39	38	41	40
Banks	1,158	1,158	761	762
Mortgage companies	157	157	83	83
Other companies - 20% weighting	335	335	210	210
Other companies - 100% weighting	1,003	1,003	556	554
Total certificates and bonds	**2,752**	**2,750**	**1,701**	**1,700**

3

3.Subordinated loan capital in other companies

	2006	2005
Subordinated loan capital shown under Bonds in the balance sheet	95	72
Subordinated loan capital shown under Loans in the balance sheet	5	5

4

4. Shares and other securities with variable yield

Shares etc.	Year's value change	Acq. cost	Book value
Trading portfolio:			
Listed securities	4	64	91
Unit trust certificates	-1	12	13
Total trading portfolio	**3**	**76**	**104**
Fixed assets:			
Not listed		79	78
Unit trust certificates		17	17
Total fixed assets		**96**	**95**
Total assets		**172**	**199**

Name	Number of shares	Equity stake	Book value	Market value
TRADING PORTFOLIO				
Listed companies				
Financial institutions				
DnB NOR	100,000	0.01	9	9
Sparebanken Midt-Norge	120,000	0.24	10	10
Sparebanken Møre	10,000	0.18	3	3
Sparebanken Pluss	31,600	2.63	8	8
Sparebanken Rogaland	40,000	0.18	8	8
Storebrand	25,000	0.01	2	2
Other listed companies				
Acergy	35,000	0.72	4	4
APL	42,200	0.10	3	3
Cermaq	23,200	0.03	2	2
EDB Business Partner	95,500	0.11	5	5
Golar LNG	30,000	0.05	2	2
Norsk Hydro	50,000	0.01	10	10
Orkla A-shares	15,000	0.01	5	5
Renewable Energy Corporation	6,000	0.01	1	1
SeaDrill	40,000	0.01	4	4
Sevan Marine	60,000	0.04	2	2
Statoil	45,000	0.01	7	7
Tomra Systems	75,000	0.05	3	3
Vmetro	30,000	0.13	1	1
Yara International	15,000	0.01	2	2
Unit trusts				
European Mid Cap Fund	47,564		11	11
Japan Smaller Companies Fund	18,722		2	2
Total trading portfolio			**104**	**104**

Name	Number of shares	Equity stake	Book value
OTHER SHARES/EQUITY PARTICIPATIONS (classified as fixed assets)			
Non-listed companies			
Actor Fordringsforvaltning	20	10.00	14
BBS/Bank Axept Holding	153,730	2.33	5
Eksportfinans	2,011	1.33	36
Norgesinvestor Opportunities	20,000		2
Norgesinvestor Proto	150,000		15
P-Hus Vest	76	15.70	4
Solsiden 1 AS	65,789	39.21	5
Sørlandets Teknologisenter	900	7.17	2
Såkorninvest Sør	5,714	3.30	2
Teller	2,363	4.38	7
Other companies			3
Total			**95**
Total shares and equity participations in general partnerships			**199**

Shares classified as fixed assets were subject to the following movements last year:

Opening balance	91
Bought	9
Sold	7
Reversal of previous years' write-down	2
Closing balance	**95**

5. Investment in Group companies and associated companies

Amounts in NOK thousand

Name and registered office	Equity stake	Acq. cost	Eq. cap. at time of acq.	Op. bal.	Result	Other ch.	Closing b.
Subsidiaries:							
A/S Eiendomsvekst, Arendal	100 %	1,500	1,500	2,935	374		3,309
Prosjektutvikling A/S, Arendal	100 %	79	79	107			107
Bankbygg A/S	51 %	52	50	189	16	3	208
Rettighetskompaniet AS	100 %	21,430	500	0		[1] 21,430	21,430
ABCenter Holding AS	100 %	28,106	6,873	26,296	5,021		31,317
Total investment in Group companies		**51,167**	**9,002**	**29,527**	**5,411**	**21,433**	**56,371**

1) The amount represents acquisition cost. Value in excess of equity capital as shown in balance sheet on the settlement date in question refers to name rights relating to Sør Arena.

Name and reg. office	Eq. stake	Acq. cost	Eq. cap. at time of acq.	Op. bal.	Result	Other changes	Closing b.
Associated companies:							
Bankbygg A/S, Bygland	50 %	50	50	189		-189	0
Arendal Kunnskapspark							
Eiendom AS, Arendal	47 %	5,500	1,500	9,173	278		9,451
Kragerø Næringshavn AS	25 %	28	28	12			12
Søndeled Bygg A/S, Risør	29 %	870	870	1,123	28		1,151
Total eq. stakes in assoc. companies		**6,448**	**2,448**	**10,497**	**306**	**-189**	**10,614**

Equity stakes in the respective companies correspond to shares of voting capital.

6

6. Inter-company accounting items involving Group- and associated companies

	2006	2005
Group companies		
Loans	21	19
Deposits	492	358
Guarantees	2	0

Deposits also include customers' funds which are not incorporated in subsidiaries' balance sheets.

	2006	2005
Associated companies		
Loans	63	69
Deposits	5	2

7

7. Fixed- and intangible assets

	Machinery/Fixtures/ Transport equipment	Buildings	Intangible assets
Acquisition cost as at 1.1.06	137	193	13
Written up in previous years		16	
Additions in 2006	10	12	11
Disposals in 2006	13	6	5
Acquisition cost as at 31.12.06	134	215	19
Accumulated depreciation and write-downs	107	117	9
Book value as at 31.12.06	**27**	**98**	**10**
Ordinary depreciation	9	7	2
Gains from sales	0	3	0

Depreciation periods for the various categories of fixed assets have been determined in accordance with their anticipated economic life. Fixed assets are depreciated on a straight-line basis. Intangible assets consist of various electronic data programmes.

Most of the Bank's buildings are located within its own region and are used for the Bank's own business operations.

8. Equity and related capital – capital adequacy ratio

Change in equity capital	Savings Bank's Fund
Balance as at 31.12.2005	**1,829**
Implementation of IAS 19 for pensions, estimate discrepancies	-91
Implementation of new lending rules including change in tax payable	76
Increase in deferred tax benefit relating to estimate discrepancies for pensions	26
Adjusted balance as at 31.12.2005	**1,840**
Profit for the year	199
Balance as at 31.12.2006	**2,039**

Capital adequacy

The statutory minimum capital adequacy requirement is 8 per cent of a certain weighted asset calculation basis.
The Bank's equity and related capital consists of core capital and supplementary capital in the form of subordinated loan capital.

	31.12.06	Adjusted 31.12.05
Core capital		
Savings Bank's Fund	2,039	1,840
- Intangible assets	-39	-6
+ Share of zero-rated non-amortised estimate discrepancies	39	52
Core capital	**2,039**	**1,886**
Subordinated loan capital	300	0
Supplementary loan capital	**300**	**0**
-Equity and related capital participations in other financial institutions	-6	-2
Net equity and related capital	**2,333**	**1,884**

Calculation basis for assets which do not form part of the trading portfolio	17,353	14,251
Calculation basis for off balance sheet items which do not form part of the trading portfolio	407	379
Calculation basis for assets which form part of the trading portfolio	352	204
-Equity and related capital participations in other financial institutions	-6	-2
-Write-downs	-113	-115
Total weighted asset calculation basis	**17,993**	**14,717**
Capital adequacy ratio	**13.0 %**	**12.8 %**

9

9. Funding- and interest rate risk

Funding risk / remaining life

Funding risk is defined as the risk of the Bank not being able to meet its liabilities at maturity, refinance its debt as it falls due for repayment, or the Bank not being able to fund an increase in its total assets. Funding risk is incurred as a result of different remaining lives for claims and liabilities. The Bank makes every effort to reduce the risk by prioritising more long-term funding, provided that this is available at an acceptable cost in relation to short-term funding. Furthermore, the way in which the overall deposit coverage ratio is developing is crucial for the Bank's dependence upon the money market.

The table below shows remaining life for the main items in the Parent Bank's balance sheet as at 31.12.2006.

Assets	**Up to 1 month**	**1-3 months**	**3 months-1 year**	**1-5 years**	**Over 5 year**	**No stated maturity**	**Total**
Cash-in-hand and claims on central banks	6					64	70
Loans to and claims on credit institutions	645						645
Loans to and claims on customers	1,484	706	1,769	4,018	14,151		22,128
Bonds and certificates	440	230	312	1,613	155		2,750
Other asset items	84			39		417	540
Total assets	**2,659**	**936**	**2,081**	**5,670**	**14,306**	**481**	**26,133**
of which in foreign currencies	651	486				3	1,140
Liabilities and equity cap.							
Liabs. to credit institutions	705	426					1,131
Deposits from and liabilities to customers	14,517	35	33	10			14,595
Borrowings through the issuance of securities	60	150	1,450	5,415	599		7,674
Other liabilities	71	50	40			233	394
Subordinated loan capital					300		300
Equity capital						2,039	2,039
Toal liabs. and eq. capital	**15,353**	**661**	**1,523**	**5,425**	**899**	**2,272**	**26,133**
of which in foreign curr.	733	461					1,194
Net funding exposure on balance sheet	**-12,694**	**275**	**558**	**245**	**13,407**	**-1,791**	

Credit facilities are included under 'Up to 1 month'. At the end of the year, facilities granted, but not utilised, amounted to NOK 2,001 million.

Interest rate risk / remaining period until agreed/probable interest rate re-fixing

Interest rate risk occurs when there are differences in interest rate fixing periods between asset- and liabilities items or in the case of positions relating to interest rate swaps. In such cases, the Bank will not be able to implement interest rate changes on a parallel basis for all balance sheet items. Total interest rate risk, coupled with interest rate risk relating to the Bank's portfolio of certificates and bonds, is reported to the Board of Directors on a regular basis. The Bank shall have a moderate risk and throughout the year the risk has been within the limits stipulated by the Board of Directors.

On the basis of the Bank's balance sheet as at 31.12.2006, a parallel shift in the yield curve of one percentage point would involve a total interest rate risk of about NOK 7.0 million.

The table below shows the remaining periods until the next interest rate re-fixing for the main items in the Parent Bank's balance sheet 31.12.2006.

Assets	**Up to 1 month**	**1-3 months**	**3 months-1 year**	**1-5 years**	**Over 5 year**	**No interest**	**Total**
Cash-in-hand and claims on central banks						70	70
Loans to and claims on credit institutions	645						645
Loans to and claims on customers	16	21,314	56	633	109		22,128
Bonds and certificates	861	1,720	57	112			2,750
Other asset items						540	540
Total assets	**1,522**	**23,034**	**113**	**745**	**109**	**610**	**26,133**
of which in foreign curr.	651	484				5	1,140
Liabilities and eq. capital							
Liabs. to credit institutions	705	426					1,131
Deposits from and liabilities to customers	14,334	49	169	43			14,595
Borrowings through the issuance of securities	554	2,769	750	3,002	599		7,674
Other liabilities						394	394
Subordinated loan capital		300					300
Equity capital						2,039	2,039
Total liabs. and eq. cap.	**15,593**	**3,544**	**919**	**3,045**	**599**	**2,433**	**26,133**
of which in foreign curr.	732	461				1	1,194
Net exposure on the balance sheet	**-14,071**	**19,490**	**-806**	**-2,300**	**-490**	**-1,823**	
Net off balance sheet financial derivatives affecting the interest rate exposure	-640	-2,574	358	2,318	538	0	0
Total interest rate exp.	**-14,711**	**16,916**	**-448**	**18**	**48**	**-1,823**	**0**
Net interest rate exposure as % of total assets	**-56.3**	**64.7**	**-1.7**	**0.1**	**0.2**	**-7.0**	

10

10. Average interest rates and special terms and conditions for liabilities items

	2006	2005
Liabilities to credit institutions		
Loans and deposits from credit institutions - no agreed maturity	1.8 %	0.5 %
Loans and deposits from credit institutions - with agreed maturity	3.0 %	1.5 %
Deposits from customers		
Deposits from customers - with no agreed maturity	2.7 %	1.5 %
Deposits from customers - with agreed maturity	3.0 %	1.9 %
Liabilities incurred through the issuance of securities		
Debt evidenced by certificates	3.1 %	2.8 %
Bond debt	4.4 %	4.1 %

Average interest rates are calculated as a weighted average of actual interest rates as at 31.12.2006, defined as annual interest payable in arrears. No liability item is subject to special terms and conditions.

Of the total liabilities to credit institutions,the equivalent of NOK 460 million is expressed in foreign currencies. Of this, the equivalent of NOK 355 million is in CHF and NOK 71 million in JPY. In the case of deposits from customers, NOK 712 million is in USD and NOK 18 million in EUR. Total deposits in foreign currencies from customers amount to the equivalent of NOK 733 million. All borrowings through the issuance of securities are expressed in Norwegian kroner.

Bonds and certificates amounting to a total book value of NOK 1,748 million have been pledged as collateral security for day loans and so called D-loans from Norges Bank. Such borrowings must be fully secured by depositing securities at the Norwegian Registry of Securities (VPS).

11

11. Deposits from customers broken down by main commercial, industrial and other sectors

	2006	2005
Public administration	1,386	1,286
Primary industries	219	212
Industry / building /transport	2,307	1,227
Wholesale- and retail trade / hotels / restaurants	538	440
Financing / real estate management	1,763	1,285
Retail banking customers	7,456	6,995
Sundry	926	798
TOTAL	**14,595**	**12,243**

12

12. Breakdown of bond loans

ISIN number	Ticker	Nominal amount	Of which owned by Bank	Coupon	Repayment structure	Final maturity
NO 0010275563		700	0	NIBOR 3M + 0,02	Bullet	29.06.2007
NO 0010202096	SORG64	750	0	4.50 %	Bullet	15.10.2007
NO 0010136906	SORG60	750	0	7.00 %	Bullet	19.03.2008
NO 0010220940	SORG01	750	255	NIBOR 3M + 0,13	Bullet	22.10.2008
NO 0010300106	SORG05	750	0	NIBOR 3M	Bullet	02.02.2009
NO 0010183999	SORG62	750	0	5.80 %	Bullet	17.06.2009
NO 0010243512	SORG03	750	0	3.95 %	Bullet	02.11.2009
NO 0010340953	SORG09 PRO	158	0	NIBOR 3M + 0.80	Bullet	16.11.2009
NO 0010224652	SORG02	750	0	NIBOR 3M + 0.19	Bullet	05.05.2010
NO 0010344864	SORG10 PRO	300	40	NIBOR 3M + 0.065	Bullet	10.02.2011
NO 0010279300	SORG04	750	0	3.75 %	Bullet	18.08.2011
NO 0010311111	SORG07 PRO	400	100	4.45 %	Bullet	15.05.2013
NO 0010302425	SORG06	400	100	4.25 %	Bullet	19.02.2016
SUM		**7,958**	**495**			

As at 31.12. 2006, an aggregate premium of NOK 1 million is incorporated in the balance sheet. This gives the bond loans included in the balance sheet a total net book value of NOK 7,464 million.

13

13. Information pertaining to staff and elected representatives

Amounts in NOK thousand

Number of staff

In 2006, the Bank employed 349 people, including technical personnel, equivalent to 310 man-years on average.

Wages, salaries, fees and other emoluments	
Board of Trustees	133
Board of Directors	840
Control Committee	201
Total amount paid	**1,174**

There are no special agreements involving remuneration other than what is mentioned in Note 14 about pension liabilities.

Fees paid to external auditors (all amounts are exclusive of VAT)	
Auditing	520
Tax advice	14
Accounting advice	82
Other assistance	19
Total fees paid to external auditors	**635**

Loans and guarantees extended to staff and elected representatives	**Loans**	**Guarantees**
Staff	**262,845**	**0**

The total cost of interest rate subsidies in respect of staff loans amounted to NOK 2.3 million.

Salaries, loans/security arrangements and benefits provided for senior personnel and elected representatives

		Fees and other remu-neration	Total salary	Benefits in kind	Pension cost – accr. accounting	Total of all payments	Loans and security arr.
Sen. personnel and elec. reps.							
CEO 01.01.-31.03	Hans A. Iversen		589	189		778	78
DCEO 01.01.-31.03 / CEO 01.04.-31.12	Morten Kraft		1,214	156	262	1,632	859
Gen. Mgr. 01.01.-31.03/ DCEO 01.04.-31.12	Jan Hannestad		1,024	159	685	1,868	1,608
Gen. Mgr., Markets 01.09.-31.12	Gry J. Moen		270	38	158	466	2,300
Gen. Mgr. HR and Comms. 01.04.-31.12	Rolf H. Søraker		708	78	60	846	176
Reg. Gen. Mgr., West, 01.04.-31.12	Øyvind Aasen		708	80	78	866	2,886
Reg. Gen. Mgr., East 01.04.-31.12	Gunnar Thomassen		698	83	76	857	1,385
Board of Directors							
Chariman, 01.05.-31.12	Alice Jervell	94				94	1,818
Dep. Chairman, 01.05-31.12	Arne Johan Johnsen	60				60	0
Member, 01.05.-31.12	Hilde Sakariassen	12				12	0
Member, 01.05.-31.12	Unni Grethe Farestveit	58				58	30
Member, 01.05.-31.12	Trine Jørgensen	56				56	0
Memeber, 01.05.-31.12	Kjell Pedersen-Rise	57				57	0
Member, 01.05.-31.12	Erling Holm	57				57	0
Member, 01.12.-31.12	Trond F. Winther	17	369	15		401	222
Member, 01.01.-31.12	Per A. Bentsen	84	377	18		479	2,485
Control Committee							
Chairman, 01.01.-31.12	Dennis Danielsen	79				79	0
Member, 01.01.-31.12	Gunnas S. Langfeldt	55				55	0
Member, 01.01.-31.12	Toril Sættem	53				53	0
Board of Trustees							
Chairman, 01.05.-31.12	Øystein Haga	14				14	832
Other members		119				119	18,094

All loans have been provided either on general staff- or standard customer terms and conditions.

14

14. Pension liabilities relating to staff and elected representatives

Guaranteed scheme

Sparebanken Sør provides a group pension scheme for its employees, through a life assurance company. The Bank's liabilities in this respect comprises 352 staff and 102 retired employees. These liabilities are shown in the Bank's accounts on the basis of IAS 19, in accordance with which the Bank's pension scheme is to be treated as a benefit scheme. In addition, a separate arrangement has been established for some members of the Bank's Group management team, who have the option of retiring at the age of 60 years.

The total amount of pension resources is assessed on the basis of its estimated value at the end of the applicable accounting period. The estimated value is adjusted each year in accordacne with a statement provided by the life assurance company, setting out the transferable value of the pension resources.

Accrued pension liabilities are assessed on the basis of their estimated value at the end of the relevant accounting period. The amount is adjusted annually, according to a statement provided by the life assurance company, setting out in detail the incurred pension liabilities.

An actuarial valuatoin is done each year, based on information provided by the Bank.

Non-guaranteed scheme

For employees retiring before normal pensionable age, or for employees who have not accumulated a full pension entitlement by the time they leave the Bank, Sparebanken Sor provides an annual amount. This pension scheme is funded by a direct charge to the profit and loss account and comprises 18 old age pensioners who are now receiving their pensions, and 25 employees benefitting from the statutory early retirement pension scheme (referred to elsewhere in the Bank's Annual Report and Notes to the Accounts as 'SERPS'). The latter scheme has been established for 349 employees, all of whom have the option of retiring at the age of 62 years. A separate arrangement has been provided for 22 managers, who, subject to application, would be able to leave the Bank with a complimentary pension in addition to 'SERPS'. These arrangements have been incorporated in the Bank's accounts in accordance with IAS 19 for benefits provided for staff. The assumptions which have been applied in this connection are identical to those pertaining to the fund-based scheme. In the case of 'SERPS', this scheme is based on the assumption of employees' average propensity to opt for this alternative being 50 per cent, whereas the corresponding ratio has been put a 100 per cent as far as the abovementioned arrangement for managers is concerned.

Calculations are based on the following assumptions:	**2006**	**2005**
Rate of discounting	3.9 %	4.7 %
Wage- and salary adjustment and adjustment of basic amount	4.0 %	3.0 %
Pension adjustment	2.0 %	2.0 %
Expected rate of return on invested funds	4.9 %	5.7 %
Financial assumptions:		
Rate of discounting	4.35 %	3.9 %
Expected rate of return on invested funds	5.45 %	4.9 %
Breakdown of pension cost for the year:		
Pensionable amounts accrued during the year	12	11
Interest cost relating to the pension liabilities	13	13
Expected return on pension resources	-11	-12
Impact of changed estimates included in the profit and loss account	2	
Employers' social security contributions subject to accrual accounting	3	1
Administration costs	1	1
Net pension cost	**20**	**14**

Change as at 31.12.05 in net pension liabilities after implementation of IAS19	**Guar.**	**Non-guar.**
Net pension resources shown in the balance sheet as at 31.12.05	**68**	**-51**
Estimate discrepancies shown in relation to equity capital as at 31.12.05	-71	-20
Net pension liabilities shown in balance sheet, adjusted as at 31.12.05	**-3**	**-71**

	31.12.06		31.12.05	
	Guar.	**Non-guar.**	**Guar.**	**Non-guar.**
Gross pension liabilities	-267	-84	-259	-79
Pension resources	233		216	
Impact of changes in estimates, not included in profit and loss acct.	39	10	40	8
Net pension resources / liabilities	**5**	**-74**	**-3**	**-71**

In 2006, the Bank contributed NOK 18.4 million towards pension resources; on that amount, the Bank paid employers' social security contributions of NOK 2.6 million. The Bank's pension scheme meets the requirements relating to obligatory occupational pension.

15

15. Accounting treatment of tax

Change in deferred tax benefit as at 31.12.05 as a result of estimate discrepancies for pensions	
Deferred tax benefit as at 31.12.05	5
Deferred tax benefit relating to estimate discrepancies for pensions shown in relation to eq. capital	26
Deferred tax benefit as at 31.12.05, adjusted	**31**

Temporary differences	**31.12.06**	**31.12.05**	**Change**
Write-up of bank buildings	-4	-5	1
Pension resources	-5		-5
Negative tax-related accelerated depreciation of fixed assets	37	36	1
Tax-related surplus/shortfall in respect of securities	2	1	1
Pension liabilities	74	74	0
Other accounts-related provisions	1	4	-3
Net temporary differences	**105**	**110**	**-5**
Deferred tax benefit, 28 % thereof	**29**	**31**	
Deferred tax, net change	**-2**	**1**	

Taxation cost for the year	**2006**	**2005**
Result before taxation cost	289	291
Permanent differences	-17	-31
Share of result – subsidiaries and associated companies	-5	-3
Temporary differences, net change	-5	7
Basis for tax payable	**262**	**264**
Corporate income tax, 28 % thereof	73	74
Corporate wealth tax	6	6
Tax payable for the year	**79**	**80**
Settlement relating to tax payable from previous years	-1	-1
Deferred tax, net change	2	-1
Taxation cost for the year	**80**	**78**
Tax payable for the year	79	80
Tax due relating to dissolution of non-specific loss provisions	30	
Tax payable as shown in the balance sheet	**109**	**80**

16. Other liabilities

This section consists largely of short-term items relating to payments transmission services, tax payable and unpaid Group contributions.

17. Financial derivatives

		Nominal amount as at 31.12.06	Market value at 31.12.06
Interest rate swaps	5,785	42	
Forward exch. contracts:	bought	903	15
	sold	866	-15

Interest rate swaps: Agreements to swap interest rates for a nominal amount for a fixed period.

Forward exch. contracts: Agreements to buy or sell a fixed currency amount at a future date at an agreed rate of exhange.

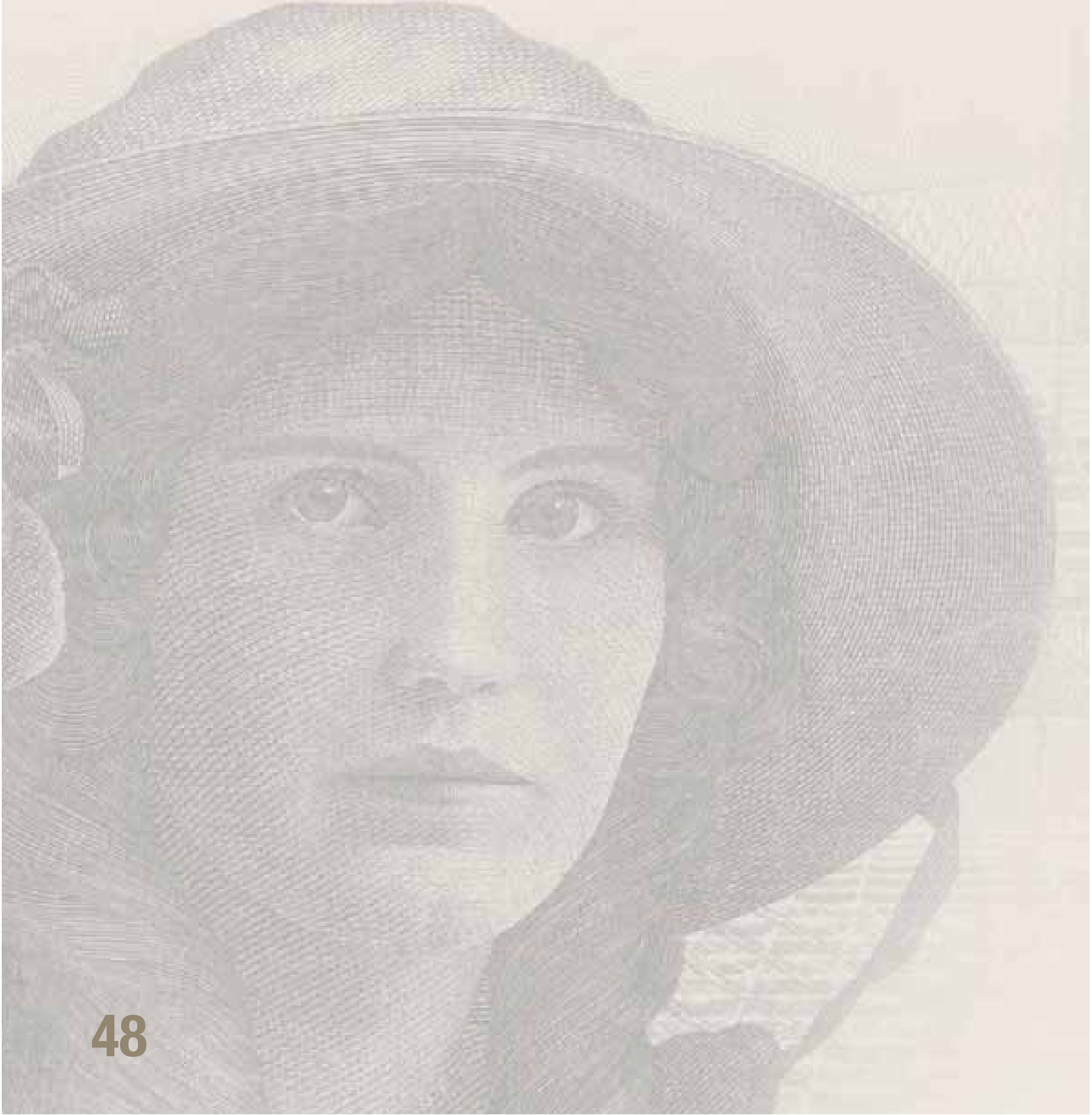
Nominal amount is the agreement's underlying principal amount, which is shown on a gross basis. These agreements have been entered into as hedging transactins. The nominal values of hedging transations are matched by corresponding countervalues of the balance sheet items involved or other off balance sheet items; there are normally no isolated gains or losses on the Bank's financial derivatives.

18. Breakdown of fees and commissions

	2006	2005
Securities trading and management	9	7
Payments transmission services	77	74
Insurance services	7	7
Real estate brokerage and management	0	0
Other activities	8	8
Total other fees and commissions	**101**	**96**

19. Subordinated loan capital

ISIN number	Ticker	Nominal amount	of which is held by Bank	Coupon	Repayment structure	Final maturity
NO 0010329626	SORG08 PRO	300	0	NIBOR 3M + 0.42	Bullet	15.03.2017



GROUP ACCOUNTS According to International Financial Reporting Standard (IFRS)

CONTENTS

PROFIT AND LOSS ACCOUNT - Group

NOK million

	Notes	2006 IFRS	2005 IFRS	2005 NGR
Interest receivable and similar income	**4,6,28**	1 001	772	775
Interest payable and similar costs	**4,5,6,28**	504	303	303
Net interest- and credit commission income	**6**	**497**	**469**	**472**
Commissions receivable and income from banking services	**7**	208	197	197
Commissions payable and costs relating to banking services	**8**	23	26	26
Net commission income	**4**	**185**	**171**	**171**
Income from financial instruments	**9**	37	47	42
Income from investment in associated companies	**16**			
Other operating income	**30**	19	16	16
Total other operating income	**4**	**56**	**63**	**58**
Personnel costs	**25,26**	**222**	**201**	**205**
Depreciation of fixed- and intangible assets	**15**	**19**	**16**	**20**
Write-down for impairment in value of intangible assets			3	
Other operating costs	**10**	**192**	**177**	**177**
Total operating costs	**4**	**433**	**397**	**402**
OPERATING RESULT BEFORE CREDIT LOSSES		**305**	**306**	**299**
Losses on loans, guarantees etc.	**21**	-1	0	3
RESULT BEFORE TAXATION COST		**306**	**306**	**296**
Tax payable on ordinary result	**14**	88	85	81
RESULT FROM ORDINARY OPERATIONS AFTER TAX	**32**	**218**	**221**	**215**
Minority interests		4	4	4
Majority interests		**214**	**217**	**211**

BALANCE SHEET - Group

NOK million

	Notes	31.12.06 IFRS	31.12.05 IFRS	31.12.05 NGR
Assets:				
Cash-in-hand and claims on central banks		70	147	147
Loans to and claims on credit institutions	**12**	645	188	188
Net loans to customers	**4,20,21,25,28**	22 102	19 050	18 930
Repossessed assets		1	2	2
Securities	**17**	2 967	1 889	1 879
Financial derivatives	**19**	68	95	
Equity stakes in associated companies	**16**	11	11	11
Intangible assets	**15**	31		
Fixed assetst	**15**	150	141	145
Asset relating to tax	**14**	28	34	6
Other assets	**11,26**	154	108	175
TOTAL ASSETS	**4,18,32**			
Liabilities and equity capital:				
Liabilities to credit institutions	**12**	1 131	446	446
Total deposits from and liabilities to customers	**4,22,28**	14 591	12 235	12 232
Borrowings through the issuance of securities	**23**	7 617	6 711	6 608
Financial derivatives	**19**	111	16	
Liabilities relating to period tax	**14**	83	85	85
Other liabilities	**13,26**	334	328	279
Subordinated loan capital	**24**	299		
TOTAL LIABILITIES		**24 166**	**19 821**	**19 650**
Minority interests		6	6	2
Other equity capital		21	8	1
Savings Bank's Fund	**27,29**	2 034	1 830	1 830
TOTAL EQUITY CAPITAL		**2 061**	**1 844**	**1 833**
TOTAL LIABILITIES AND EQUITY CAPITAL	**4,18,32**	**26 227**	**21 665**	**21 483**
OFF BALANCE SHEET ITEMS:				
Contingent liabilities				
Guarantees		656		498
Book value of assets pledged as collateral security for mortgage debt etc.		1 748		1 518
Other contingent liabilities		2		2

Changes in equity capital

	31.12.06	31.12.05
Result for the year	**218**	**221**
Donations	-10	-10
Change in market value of equity capital instruments available for sale	13	3
Dividends	-4	-4
Total change in equity capital on aggregate basis	**217**	**210**

CASH FLOW STATEMENT - Group

NOK million	2006	2005
Interest receivable	968	762
Interest payable	-485	-302
Other payments received	213	232
Payments made relating to operations	-424	-388
Recoveries from confirmed losses	2	4
Tax paid	-84	-67
Payments relating to donations	-4	-3
Minority interests	-4	-4
Net cash flow from operations	**182**	**234**
Increase in loans	-3 076	-2 090
Change in other assets	-8	-16
Change in securities	-1 066	65
Change in loans to other credit institutions	-457	-151
Change in deposits from customers	2 353	1 404
Change in loans from credit institutions	685	5
Change in other debt		51
Net cash flow from current financial operations	**-1 569**	**-732**
Investment in fixed assets	-63	-36
Sale of fixed assets	7	6
Net cash flow from investments	**-56**	**-30**
Change in debt incurred through the issuance of securities	1 066	438
Change in subordinated loan capital	300	
Net cash flow from long-term financing operations	**1 366**	**438**
Net change in liquid funds	**-77**	**-90**
Liquid funds as at 1.1	147	237
Liquid funds as at 31.12	**70**	**147**

NOTES TO THE GROUP IFRS ACCOUNTS FOR 2006

1

1. General information

The Sparebanken Sør Group consists of the Parent Bank, Sparebanken Sør, and its subsidiaries ABCenter Holding AS, AS Eiendomsvekst, Prosjektutvikling AS, Bankbygg AS and Rettighetskompaniet AS.
The Group conducts banking operations in 28 locations in Aust-Agder, Vest-Agder and Vest-Telemark.

The Parent Bank's Head Office is located in Arendal, whereas the head office of the real estate brokerage firm, ABCenter, is situated in Kristiansand.

2

2. Accounting principles

First time application of IFRS
From the third quarter of 2006, the Sparebanken Sør Group reported its Group accounts according to the International Financial Reporting Standards, IFRS, and currently applicable interpretations. The 2006 Group accounts have in its entirety been prepared in accordance with IFRS. The accounts are based on IFRS standards and interpretations which are obligatory and approved by EU in the case of accounts which are presented for 2006. Of other standards and interpretations which will be obligatory with effect from 1.1.2007 can be mentioned IFRS 7, which will involve further requirements with regard to information amongst other things on risk relating to financial instruments.

One year's comparable profit and loss account, balance sheet, cash flow statement and Notes to the Accounts are shown. Effects from the implementation of IFRS are shown in relation to equity capital in the opening balance sheet as at 1.1.2005. The transitional effects have been explained about in more detail in note 32. Figures in the column 2005 NGR have not been restated according to the new lending rules and regulations and IAS 19.

It is not yet allowed to apply IFRS to company accounts and the Parent Bank's accounts have therefore been prepared in accordance with Norsk God Regnskapsskikk (NGR).

Consolidation
The Group accounts comprise the Parent Bank and its subsidiaries where the Bank, on its own, or together with subsidiaries, owns more than 50 per cent and/or has a deciding influence, and the equity stake is deemed to be permanent. Internal transactions and intra-group balances have been netted out.

In the case of acquisition of subsidiaries, the cost price of shares in the Parent company is netted out against the equity capital in the subsidiary in question at the time of acquisition. The difference between cost price and net book value of assets in the subsidiary at the time of acquisition is added to the assets to which the excess value is related, within the market value of these assets. The part of the cost price which cannot be related to specific assets represents goodwill. To the extent that the value of the acquired assets exceeds the cost price, the difference is booked as income in the accounts.

Associated companies
Associated companies are companies where the Bank has significant influence. Significant influence exists when the Bank has an equity stake between 20 and 50 per cent. Associated companies are incorporated in the accounts according to the equity method of accounting. This means that when the asset is incorporated in the accounts for the first time, it is shown at cost price and thereafter adjusted for the Bank's share of the result of the associated company.

Foreign exchange
The accounts are presented in Norwegian kroner which is also the Group's functional currency.

Transactions in foreign currencies are converted into NOK at the exchange rates ruling at the time of the transaction involved. Any foreign exchange losses and gains arising from such transactions and from conversion of money items in foreign currencies on the balance sheet day in question are incorporated in the profit and loss account.

The Group's claims and liabilities in foreign currencies in the accounts are converted to middle prices on the Oslo Stock Exchange on the balance sheet days in question. Foreign currency positions are limited through the use of counter transactions in the same currencies.

Interest income and costs

Interest income and interest costs relating to assets and liabilities assessed at amortised cost are incorporated on an ongoing basis in the profit and loss account according to the effective interest rate method. The effective interest rate is defined as the rate of interest which when applied means that the present value of the expected cash flow over the expected life of a financial asset or financial liability ends up equal to the book value of the financial asset or liability. When calculating effective interest, the cash flow linked to the agreement in question is estimated, but without taking into consideration any future credit losses.
If a financial asset is written down for credit loss, new effective interest is calculated on the basis of adjusted estimated cash flow.

In the case of interest-bearing instruments assessed at market value, the market interest amount will be classified as interest income or interest cost whereas the impact of any value change as a result of interest rate changes is classified as income or cost from financial investments or financing.

Commission income and commission costs

In general, commission income and commission costs are subject to accrual accounting in relation to when the services involved are rendered or received. Fees relating to loans are not shown in the accounts as commissions, but are factored into the calculation of effective interest and included accordingly in the profit and loss account. Fees received from the real estate brokerage operations are booked through the profit and loss account when the transaction in question is completed.

Loans to customers

Initially, loans are assessed at market value. During subsequent periods, loans at floating rates of interest are assessed at amortised cost by using the effective interest method. Fees relating to loans are incorporated in the calculation of effective interest and booked accordingly through the profit and loss account. Amortised cost is acquisition cost minus repayments on the principle amount, adjusted for the amortisation effect as a result of the application of the effective interest method and adjusted for any impairment in value.

In the Group accounts, fixed interest rate loans to customers are incorporated at market value, gains or losses due to a change in market value being included in the profit and loss account as a change in value. Market value is calculated by discounting the cash flow from the loans applying yield requirements derived from zero coupon interest.

Impairment in value relating to loans

At regular intervals, an assessment is made to ascertain whether there is objective proof of impairment in value for loans or groups of loans. Impairment in value exists if there is objective proof of events which may bring about a reduced cash flow. Impairment in value must refer to events occurring after the first time a loan is assessed, and it must be possible to measure it in a reliable manner. Events which indicate that impairment in value has occurred are as follows:

- significant financial difficulties being experienced by the borrower
- default
- special terms and conditions having been agreed due to the borrower's financial situation
- the borrower is likely to enter into debt negotiations or other financiel restructurings
- data which can be observed indicating a measurable reduction in future cash flows from a group of loans

The Bank first assesses whether there is individual, objective proof of impairment in value. If this is not the case, the loan is included in a group of loans with the same credit risk. The group is then assessed on an aggregate basis with regard to impairment in value. Loans which have been written down individually are excluded.

If there is objective proof of impairment in value having occurred, the amount of loss is calculated as the difference between the loan's book value and the present value of future, estimated cash flows discounted at the loan's original effective rate of interest. The loan's value is reduced by using an appropriation account and the appropriate entry included in the profit and loss account. Write-down of groups of loans is made according to corresponding principles.

Loans in default and bad and doubtful loans

A customer's aggregate commitment is deemed to be in default if repayments due or interest due have not been paid 90 days after the due date in question or if credit facilities have been overdrawn for more than 90 days. Loans which are not in default, but where the customer's financial situation would suggest that the commitment is bad or doubtful, are classified as bad and doubtful.

Confirmed losses

When it is highly probable that credit losses are final, the losses are classified as confirmed. Losses are regarded as confirmed in the case of an officially confirmed composition with creditors, when a distraint order has not produced satisfactory results, a legally valid judgment, or when the Bank has waived its rights relating to the whole or part of the commitment in question. Confirmed losses which are covered by previous individual write-downs are appropriately accounted for in relation to the write-down. Confirmed losses against which no write-down has been made or where there is a surplus or shortfall in relation to the write-down made, are included in the profit and loss account.

Repossessed assets

In some cases, the Bank repossesses assets which have been pledged as collateral security for loans as part of handling loans and guarantees in default. In the case of a repossession, the assets in question are assessed at their assumed realisation value and the commitment adjusted correspondingly. When accounts are subsequently prepared, the value is adjusted for change in the realisation value.

Securities

Securities consist of shares and unit trust certificates, bonds and certificates. Shares, unit trust certificates and Primary Capital Certificates (PCCs) are classified in the Group accounts either as 'market value over the profit and loss account' or as 'available for sale', any value change being shown directly in relation to equity capital.

Certificates and bonds are classified in the Group accounts at market value with any value change included in the profit and loss account. All financial instruments which are classified at market value through the profit and loss account are assessed at market value, any change in market value from opening balance sheet date being included in the profit and loss account as net gains/losses on financial instruments.

Market value of securities such as equities, unit trust certificates and PCCs listed in a regular market is defined as the last quoted buying price.

Market value of securities such as equities, unit trust certificates and PCCs not listed in a regular market is based on the level of revenue generation and/or balance sheet value of the company in question.

Market value of securities such as bonds and certificates is calculated as the present value based on the swap curve for the remaining life, with an addition or a deduction for the group of issuers in question.

Financial assets are removed from the balance sheet when the right to receive the cash flows from the investment stops or has stopped in the case of realisation.

Bond- and certificate debt

When an issue is raised, the bond- and certificate debt is shown in the accounts at the market value of the net proceeds. During subsequent periods, the debt is shown at market value with value change through the profit and loss account.

The market value of the bond- and certificate debt is calculated as the present value initially based on the swap curve for the remaining life, with an addition or a deduction for the group of issuers in question.

Subordinated loans

Subordinated loans rank behind all other liabilities in priority. Subordinated loans are classified as a liability in the balance sheet and, when raised, are shown in the accounts at cost price. During subsequent periods, such loans are shown at market value with value change recorded through the profit and loss account.

Deposits/financial liabilities

The significant majority of deposits are shown in the accounts at amortised cost. The exception to this are deposits with share yield, such deposits being shown in the accounts at market value, with value change recorded in the profit and loss account.

Financial derivatives and hedging

Financial derivatives consist of foreign currency- and interest rate instruments. Financial derivatives are shown in the Group accounts at market value at the time the derivatives contract is entered into and thereafter at market value at all times, with value change included in the profit and loss account under the accounting item 'Income from financial instruments'.

Market value of interest rate derivatives is computed as the present value initially based on the swap curve for the remaining life.
Derivatives in foreign currencies are assessed at currently valid rates of exchange at the end of the year.

In practice, the Bank uses financial derivatives mainly for hedgning purposes, but hedging accounting is not applied.

Intangible assets

Intangible assets consist of goodwill, rights and electronic data programmes.

Goodwill is defined as the difference between the acquisition price and the identified value of net assets of the business acquired. Goodwill is not depreciated but is assessed with regard to write-down on an annual basis.

Rights are shown in the balance sheet at cost price after deductions have been made for depreciation. The depreciation period reflects the life of the right in question.

Electronic data programmes are shown in the accounts at cost price after deductions have been made for depreciation. The Bank applies straight-line depreciation which shall reflect the economic life.

Fixed assets

Fixed assets comprise buildings, sites and operations-related chattels. Buildings and operations-related chattels are shown in the accounts at cost price, deductions having been made for depreciation and write-downs. The Bank applies straight-line depreciation which shall reflect the asset's economic life.

Impairment in value of other financial assets

Impairment in value of other financial assets is assessed in the same way as impairment in value of loans.

Pensions

The Bank has different pension schemes, which are all benefit schemes. A benefit-related scheme is a pension scheme which provides the right to a defined, future benefit once the pensionable age has been reached. The level of pension is decided by factors such as age, the number of years in employment and the amount of salary. The most comprehensive pension schemes are guaranteed through payment to an insurance company.

The liabilities included in the balance sheet relating to a defined benefit scheme amount to the present value of the defined liability reduced by the market value of the pension resources. The liability is assessed every year by an independent actuary. The present value of future defined benefits is computed by discounting future estimated payments, using interest rates recommended by Norsk Regnskapsstiftelse.

The financial parameters on which the calculation of pension liabilities is based are updated on the balance sheet date in question. Estimate discrepancies relating to the transition to IFRS have been shown in relation to equity capital in the accounts. For subsequent periods, a new corridor will be built within the limits set by the accounting standard.

Non-guaranteed liabilities

The Bank issues financial guarantees as part of its ordinary operations. Loss asseessment is made as part of the assessment of losses on loans and is reported together with these.

Provisions are made for other non-guaranteed liabilities if it is more likely than not that the liability would materialise, and if the financial consequences can be assessed in a reliable manner. Provisions for restructuring costs are made when the Group has an agreement-related or legal liability.

Tax

Tax included in the profit and loss account consists of tax payable and deferred tax.

Liabilities or assets are calculated in the case of deferred tax on temporary differences, which involve the difference between book value and tax-related value of assets and liabilities. Deferred tax is levied at 28 per cent on the temporary differences at the end of the accounting year. Tax-increasing and tax-reducing temporary differences which are reversed or which can be reversed during the same period are assessed and shown on a net basis. Deferred tax benefit is shown in the balance sheet on the basis of expectations of taxable income through revenue generation in future years.

Segmentation reporting

A segment is a customer category of similar products, services, return and risk. A segment can also be customer groups within a geographical area. The Bank's operations are divided into the primary segments of retail banking, corporate banking and real estate brokerage. Geographical location is defined as a secondary segment.

Cash flow statement

The cash flow statement is prepared initially based on gross cash flows from operational-, investment- and funding activities. Cash flows from operational activities are defined as ongoing interest relating to the lending- and deposit activity involving customers, net payments in and out in the case of the Bank's lending and deposit operations, coupled with payments generated from costs relating to ordinary operational activities. Investment activities are defined as investments in the 'available for sale portfolio', together with investments in operational assets and property. Cash flows from new subordinated loans and bonds and repayments relating to such loans are defined as funding activities.

Events occurring after the balance sheet date in question

The accounts are deemed to have been approved for publication once the Board of Directors has dealt with the matter. After this, the Board of Trustees and regulating authorities may, should they so wish, refuse to approve the accounts, but cannot change the accounts.

Events occurring up to the time the accounts are published which were known on the balance sheet date in question have been taken into consideration in the accounts. Events relating to circumstances which were not known on the balance sheet day will be made known if they are of significant importance.

The accounts are prepared and presented on the assumption of a going concern. This assumption, in the Board of Directors' opinion, was valid at the time the accounts were approved for presentation.

Use of estimates and assessments relating to accounting principles

Critical estimates and assessments are primarily related to the write-down of individual loans or groups of loans, pension liabilities, depreciation and amortisation as well as confirmation of market value. Accounting estimates may deviate from the results achieved, but are based on the best estimate available at the time of presenting the accounts.

The Bank's corporate banking commitments are divided into risk classes according to customers' financial strength and revenue generation. Commitments within the weakest risk classes are reviewed 3-4 times each year in order to ascertain the need for write-down. All larger retail banking commitments are reviewed to establish whether there is a need to make a write-down. Criteria for write-down are described under losses on loans. The Bank's systems for risk classification are mentioned under risk management. The assessment of individual and group-related write-downs will always be based on a considerable degree of judgment. One can never with certainty know what relevance historical data may have as a basis for making a decision. The realisation of collateral security relating to specific assets or sectors will always be subject to a considerable degree of uncertainty.

The level of depreciation shall reflect the asset's economic life. Every effort is made in order to choose a period of depreciation which corresponds to economic life, but there will always be a risk of the economic life in practice being different from the depreciation period.

Pension liabilities are based on estimates relating to the return obtained from the pension resources, future interest rate- and price increases, wage development, the development in the National Insurance Fund' basic amount, turnover, the share of disabled pensioners and age. Changes in the estimates may produce substantial fluctuations in pension liabilities and pension costs.

It will normally be possible to estimate the market value of securities which are traded in an active market with a reasonable degree of certainty. In cases where this is not possible, different assessment models are applied, which are mentioned in more detail under the description of market value. In our opinion, the models provide a good estimate of market value, even if this will also be subject to some uncertainty.

3

3. Financial risk management

Risk management

The Group's risk management involves four risk areas: credit risk, market risk, operational risk and funding risk. Risk is managed through powers of attorney, targets and limits agreed by the Board of Directors, coupled with a structure for follow-up and control.

Risk management shall ensure that the risk exposure is known at all times, helping to enable the Group to meet its strategic targets.

Furthermore, risk management shall ensure that the Bank has good financial stability and a good return on equity capital at all times.

The Group has a moderate risk profile, with a well diversified portfolio. Risk shall be adapted to the organisation's size, ambitions, competence and market. The Group makes every effort on a continuing basis to further develop and implement new solutions for risk management and risk assessment.

Credit risk

Credit risk is defined as the risk of losses occurring as a result of customers or counterparts being unable to meet their obligations.

Targets for credit risk are set at least once a year by the Board of Directors. Credit risk is managed through the Group's credit strategy, credit routines and rules and regulations pertaining to the granting of credit, which contain the overall guidelines for the Bank's granting of credit and credit follow-up.

The Board of Directors stipulates, follows up and evaluates limits and ratios for the Group's risk profile.

The Group actively applies its risk classification system to risk management and the granting of credit, both for retail banking- and corporate customers. The portfolio is divided into three risk groups – low, medium and high risk. The risk classification system and the credit handling routines stipulate certain requirements with regard to the credit processes and risk assessments to be implemented in connection with the granting of credit.

Every effort is made in order to price all commitments according to the risk exposure involved.

The Board of Directors is responsible for the Group's granting of credit and has delegated power of attorney limits to the Bank's CEO, who, within his powers of attorney, may in turn further delegate such powers of attorney. The powers of attorney are related to competence, market, the size of commitment and risk.

The Group has a low risk profile within the credit area. This is due to a conservative credit strategy, coupled with the low level of domestic interest rates and good financial and economic framework conditions currently being enjoyed by private persons, commerce and industry.

Market risk

Market risk is mainly related to the Bank's positions and business volumes within the interest rate-, foreign exchange and share markets. The Board of Directors has stipulated exposure limits for the risk areas involved, and follow-up is done through ongoing reporting of portfolios and quantification of risk.

Most of the Bank's interest rate risk is related to the Bank's portfolio of interest-bearing securities. Fixed interest rate loans and fixed interest rate deposits are normally managed in such a way that interest rate risk is covered on an ongoing basis, but it may also be dependent upon how the interest rate prospects are viewed.

The Board of Directors has stipulated a limit of NOK 25 million for aggregate interest rate risk in the Bank's balance sheet, measured by the overall impact on results of a 1 percentage point change in the level of interest rates. Throughout the year, less than 30 per cent of the agreed limit for interest rate risk has been utilised, and at the end of the year, the Bank's interest rate exposure totalled NOK 6.9 million.

The Bank is only to a small extent affected by fluctuations in the foreign exchange market. The most important balance sheet item in this connection is foreign currency loans to customers, which are hedged through corresponding funding loans in the same currency.

The Bank's aggregate investment in shares amounts to NOK 217 million, of which the trading portfolio accounts for NOK 104 million, mainly involving Norwegian listed shares and PCCs. A limit has been stipulated for exposure in the share market according to which the Bank's trading portfolio must not exceed about NOK 250 million. In addition, limits have been established for maximum exposure to individual companies and investment funds. In order to reduce the risk of losses further, the Bank applies stop-loss limits for individual shares in its trading portfolio.

Funding risk

Deposits from customers are the Bank's most important and most stable source of funding. The Board of Directors attaches a great deal of importance to the ratio between deposits from customers and loans being satisfactory. At the end of 2006, the Bank's overall deposit coverage ratio was 65.7 per cent, up from 63.8 per cent the year before. The Board of Directors is comfortable with this level of deposit coverage due to the fact that the Bank has been experiencing strong lending growth, and also because the low level of domestic interest rates and the good yields obtainable in the securities market in 2006 have favoured saving through banks to a lesser extent.

Funding loans obtained from the certificate- and bond markets amounted to NOK 7.6 billion at the end of the year currently under review, NOK 0.9 billion up on the previous year. The composition of the funding loans has been changed in as much as a larger part involves bond loans and other funding loans with long maturities. As a liquidity reserve, the Bank has committed, long-term drawing rights amounting to 130 million euros, none of which was utilised at the end of the year.

In order to further reduce its funding risk, the Bank has been making every effort to diversify its funding loans, choosing different maturities, markets, funding sources and instruments. From funding sources other than customer deposits, no more than NOK 800 million may have maturities within the next 7 days, whereas volumes in excess of NOK 1.6 billion shall have a remaining life of at least 3 months. The Board of Directors attaches a great deal of importance to most of the less liquid assets (loans to customers, fixed assets, former liquidity reserve requirements etc.) being funded by customer deposits, long-term funding loans and equity capital. The liquidity indicator, which shows the ratio between the abovementioned assets and the Bank's long-term funding, was 98.8 at the end of 2006, up from 97.6 the year before. In accordance with the Bank's strategic plan, the liquidity indicator for long-term funding shall be at least 92.

4. Segmentation reporting

Reporting by segment	Group as at 31.12.2006					Group as at 31.12.2005				
P&L account (NOK million)	**Ret. bkg.**	**Corpo-rate**	**Real est. brokerage**	**Unallot-ted**	**Total**	**Ret. bkg.**	**Corpo-rate**	**Real est. brokerage**	**Unallot-ted**	**Total**
Net. int.- and cr. comm. income	235	154	2	106	497	262	158	1	48	469
Net other operating income	49	17	98	77	241	48	25	93	68	234
Operating costs	143	101	87	102	433	149	80	78	90	397
Op. res. before losses by segment	**141**	**70**	**13**	**81**	**305**	**161**	**103**	**16**	**26**	**306**
Losses on loans and guarantees		-7		6	-1	-1	3		-2	
Result before tax per segment	**141**	**77**	**13**	**75**	**306**	**162**	**100**	**16**	**28**	**306**
Loans to customers	13,487	8,752		-24	22,215	12,084	7,103		-22	19,165
Individual write-down on loans	-20	-40			-60	-19	-50			-69
Collective write-down on loans	-15	-38			-53	-13	-33			-46
Other assets			75	4,050	4,125			68	2,547	2,615
Total assets per segment	**13,452**	**8,674**	**75**	**4,026**	**26,227**	**12,052**	**7,020**	**68**	**2,525**	**21,665**
Deps. from and liabs. to customers	8,101	5,903		587	14,591	7,542	4,700		-7	12,235
Open accounts/other liabilities	5,366	2,809	75	1,325	9,575	4,523	2,353	68	642	7,586
Total liabilities per segment	**13,467**	**8,712**	**75**	**1,912**	**24,166**	**12,065**	**7,053**	**68**	**635**	**19,821**
Equity capital				**2,061**	**2,061**				**1,844**	**1,844**
Total liabs and eq. per segment	**13,467**	**8,712**	**75**	**3,973**	**26,227**	**12,065**	**7,053**	**68**	**2,479**	**21,665**

Reporting by region	Group as at 31.12.2006					Group as at 31.12.2005				
P&L account (NOK million)	**Øst**	**Vest**	**Real est. brokerage**	**Unallot-ted**	**Total**	**Øst**	**Vest**	**Real est. brokerage**	**Unallot-ted**	**Total**
Net. int.- and cr. comm. income	206	207	2	82	497	208	211	1	49	469
Net other operating income	49	54	98	40	241	49	49	93	43	234
Operating costs	117	127	87	102	433	110	119	78	90	397
Op. res. before tax per region	**138**	**134**	**13**	**20**	**305**	**147**	**141**	**16**	**2**	**306**
Losses on loans and guarantees	5	-13		7	-1	6	-4		-2	
Result before tax per region	**133**	**147**	**13**	**13**	**306**	**141**	**145**	**16**	**4**	**306**
Loans to customers	9,991	11,758		466	22,215	8,798	10,080		287	19,165
Individual write-down on loans	-34	-26			-60	-30	-39			-69
Collective write-down on loans				-53	-53				-46	-46
Other assets	102	97	75	3,851	4,125	79	84	68	2,384	2,615
Total assets per region	**10,059**	**11,829**	**75**	**4,264**	**26,227**	**8,847**	**10,125**	**68**	**2,625**	**21,665**
Deps. from and liabs. to customers	6,877	6,985		729	14,591	5,664	6,317		254	12,235
Open accounts/other liabilities	3,182	4,844	75	1,474	9,575	3,183	3,808	68	527	7,586
Total liabilities per region	**10,059**	**11,829**	**75**	**2,203**	**24,166**	**8,847**	**10,125**	**68**	**781**	**19,821**
Equity capital				2,061	2,061				1,844	1,844
Total liabs. and eq. cap. by region	**10,059**	**11,829**	**75**	**4,264**	**26,227**	**8,847**	**10,125**	**68**	**2,625**	**21,665**

Region Øst comprises all branches east of Arendal, Arendal included. Region Vest comprises all branches west of Arendal.

5. Average interest rates and special terms and conditions relating to liabilities items

	2006	2005
Liabilities to credit institutions		
Loans and deposits from credit institutions - without agreed maturity	1.8 %	0.5 %
Loans and deposits from credit institutions - with agreed maturity	3.0 %	1.5 %
Deposits from customers		
Deposits from customers - without agreed maturity	2.7 %	1.5 %
Deposits from customers - with agreed maturity	3.0 %	1.9 %
Borrowings through the issuance of securities		
Debt evidenced by certificates	3.1 %	2.8 %
Bond debt	4.4 %	4.1 %

Average rate of interest is computed as a weighted average of the actual interest rate terms and conditions as at 31.12.06 defined as annual rate of interest paid in arrears. No liabilities items have special terms and conditions.

Of the total liabilities to credit institutions, NOK 460 million is accounted for by foreign currencies, including NOK 355 million in CHF and NOK 71 million in JPY. Of deposits from customers, NOK 712 million is in USD and NOK 18 million in EUR. Total deposits in foreign currencies from customers amount to NOK 733 million. Liabilities incurred through the issuance of securities are all expressed in NOK kroner.

Bonds and certificates at a book value of NOK 1,748 million have been pledged as collateral security for intra-day- and d-loanbs from Norges Bank. Such loans must be fully secured by collateral assets deposited with VPS.

6. Net interest- and credit commission income

	2006	2005
Interest etc. received from claims on credit institutions	10	6
Interest etc. received from loans to customers	921	713
Interest etc. received from certificates and bonds	70	53
Total interest income	**1,001**	**772**
Interest etc. paid on liabilities to credit institutions	5	7
Interest etc. paid on deposits from customers	250	151
Interest etc. paid on securities issued	249	145
Interest etc. paid on subordinated loan capital		
Total interest costs	**504**	**303**
Net interest- and credit commission income	**497**	**469**

7. Commissions receivable and income from banking services

	2006	2005
Guarantee commission	9	8
Securities trading and management	9	7
Inter-bank fees	6	8
Payments transmission services	71	66
Insurance services	7	7
Real estate brokerage and management	98	93
Sundry	8	8
Total commissions receivable and income from banking services	**208**	**197**

8. Commissions payable and costs relating to banking services

	2006	2005
Inter-bank fees	6	6
Payments transmission	15	19
Other commissions costs	2	1
Total commissions payable and costs relating to banking services	**23**	**26**

9. Income from financial instruments

	2006	2005
Value change relating to loans and deposits incorporated at market value	-23	-19
Value change relating to certificates and bonds	-3	0
Dividends received from equity capital instruments	8	8
Value change relating to equity capital instruments	7	25
Value change relating to financial derivatives	-124	-66
Value change relating to securities issued	161	91
Foreign exchange trading	11	8
Total income from financial instruments	**37**	**47**

10. Other operating costs

	2006	2005
Marketing	24	22
IT-costs	65	55
Operating costs relating to real estate	17	16
External fees paid	7	7
Other operating costs	79	77
Total other operating costs	**192**	**177**

11. Other assets

	2006	2005
Accrued, not yet received income, and prepaid costs	79	46
Other assets	75	62
Total other assets	**154**	**108**

12. Loans and liabilities to credit institutions

	2006	2005
Loans to and claims on credit institutions		
Without agreed maturities or notice of withdrawal	11	68
With agreed maturities or notice of withdrawal	634	120
Total loans to and claims on credit institutions	**645**	**188**
Liabilities to credit institutions		
Without agreed maturities or notice of withdrawal	59	8
With agreed maturities or notice of withdrawal	1.072	438
Total liabilities to credit institutions	**1,131**	**446**

13

13. Other liabilities

	2006	2005
Pension liabilities	74	74
Trade creditors	13	7
Tax deductions	10	7
Settlement accounts	54	29
Other liabilities	94	149
Incurred holiday pay	19	14
Incurred interest	52	23
Other incurred costs	18	25
Total other liabilities	**334**	**328**

14

14. Accounting treatment of tax

	Book value of deferred tax	
Deferred tax and tax benefit:	**2006**	**2005**
Pension resources	2	-1
Negative tax-related accelerated depreciation of fixed assets	-10	-10
Premium/discount relating to securities		1
Fixed interest rate loans	-1	4
Financial derivatives relating to assets	13	26
Deposits	-2	-1
Pension liabilities	-21	-20
Financial derivatives relating to liabilities	-25	-4
Certificate- and bond loans	16	-28
Other accounts-related provisions		-1
Total	**-28**	**-34**

Breakdown of tax shown in the profit and loss account:		
Tax payable on the result for the year (period tax)	76	79
Wealth tax	7	6
Deferrred tax shown in the profit and loss account	6	1
Too much / too little tax set aside in previous years	-1	-1
Tax as shown in the profit and loss account	**88**	**85**

Reconciliation of tax payable on the result for the year (period tax):	2006	2005
28 % of result before tax	86	86
Permanent differences	-4	-6
Deferred tax shown in the profit and loss account	-6	-1
Tax payable on the result for the year (period tax)	**76**	**79**

15

15. Fixed- and intangible assets

	Machinery/Fixtures/ Transport equipment	Buildings	Intangible assets
Acquisition cost as at 1.1.06	144	224	52
Additions in 2006	12	18	33
Disposals in 2006	14	7	6
Acquisition cost as at 31.12.06	**142**	**235**	**79**
Accumulated depreciation and write-downs	112	115	48
Book value as at 31.12.06	**30**	**120**	**31**
Ordinary depreciation	10	7	2
Gains on sale	0	4	0

Assumed economic life corresponds to the depreciation periods for the various groups of assets.
Assets are depreciated on a straight-line basis.

Most of the Group's buildings are located within the Bank's own district and are used for the Bank's own purposes.

16

16. Associated companies

Amounts in NOK thousand

Name and registered office	Eq. stake	Acq. cost	Book v. of eq. cap. at acq.	Op. bal.	Result	Other changes	Cl. Bal.
Associated companies:							
Bankbygg A/S, Bygland	50 %	50	50	189		-189	0
Arendal Kunnskapspark Eiendom AS	47 %	5,500	1,500	9,173	278		9,451
Kragerø Næringshavn AS	25 %	28	28	12			12
Søndeled Bygg A/S, Risør	29 %	870	870	1,123	28		1,151
Total eq, stake in associated companies		**6,448**	**2,448**	**10,497**	**306**	**-189**	**10,614**

17

17. Securities

Certificates and bonds

	Risk weighting	2006
Certificates and bonds issued by public sector borrowers	20 %	407
	100 %	239
Certificates and bonds issued by other borrowers	20 %	1,247
	100 %	857
Total certificates and bonds		**2,750**

Shares at market value incorporated in the profit and loss account	
Listed shares in the Bank's trading portfolio	91
Fund investments priced by fund management companies	13
Total shares assessed at market value incorp. in the profit and loss account	**104**

Trading portfolio	Share capital in NOK million	No. of shares	Nominal value	Eq. stake percentage	Acquisition cost	Market v.
Financial institutions						
DnB NOR	13,341	100,000	1	0.01	6	9
Sparebanken Midt-Norge	1,263	120,000	3	0.24	3	10
Sparebanken Møre	550	10,000	1	0.18	2	3
Sparebanken Pluss	120	31,600	3	2.63	4	8
Sparebanken Rogaland	1,125	40,000	2	0.18	2	8
Storebrand	1,227	25,000	0	0.01	0	2
Other listed companies						
Acergy	2,423	35,000	0	0.72	4	4
APL	11	42,200	0	0.10	2	3
Cermaq	925	23,200	0	0.03	1	2
EDB Business Partner	159	95,500	0	0.11	4	5
Golar LNG	410	30,000	0	0.05	2	2
Norsk Hydro	4,488	50,000	0	0.01	7	10
Orkla A-aksjer	1,287	15,000	0	0.01	5	5
Renewable Energy Corporation	494	6,000	0	0.01	1	1
SeaDrill	4,793	40,000	0	0.01	3	4
Sevan Marine	29	60,000	0	0.04	2	2
Statoil	5,398	45,000	0	0.01	7	7
Tomra Systems	164	75,000	0	0.05	4	3
Vmetro	11	30,000	0	0.13	3	1
Yara International	503	15,000	0	0.01	2	2
Unit trusts						
European Mid Cap Fund	47,564				10	11
Japan Smaller Companies Fund	18,722				2	2
Total trading portfolio					**76**	**104**

Shares at market value with value change shown in relation to equity capital

Shares available for sale	Aksjekapital i mill NOK	Antall aksjer	Pålydende verdi	Eierandel i prosent	Anskaffel-seskost	Virkelig verdi
Actor Fordringsforvaltning	12	20	1	10.00	14	14
BBS/Bank Axept Holding	165	153,730	3	2.33	5	9
Eksportfinans	1,594	2,011	21	1.33	36	36
P-Hus Vest	24	76	4	15.70	4	4
Solsiden 1 AS		65,789		39.21	3	8
Sørlandets Teknologisenter	25	900	2	7.17	2	2
Såkorninvest Sør	17	5,714	1	3.30	2	2
Teller	54	2,363	2	4.38	7	13
Other companies					3	4
Unit trusts						
Norgesinvestor Opportunities		20,000			2	2
Norgesinvestor Proto		150,000			15	19
Total shares available for sale					**93**	**113**

18

18. Funding- and interest rate risk

Funding risk / remaining life

Funding risk is defined as the risk of the Bank being unable to meet its obligations at maturity or refinance its debt as it falls due for repayment, or being unable to fund an increase in total assets. Funding risk occurs as a result of different remaining lives for claims and liabilities. Every effort is made in order to reduce the risk by prioritising more long-term funding as long as this can be arranged at an acceptable cost in relation to short-term funding. Furthermore, the way in which the overall deposit coverage ratio develops is crucial for the Bank's dependence upon the money market.

The table below shown remaining life for the main items in the Group's balance sheet as at 31.12.2006.

Assets	Up to 1 month	1-3 months	3 months-1 year	1-5 years	Over 5 years	No maturity agreed	Total
Cash-in-hand and claims on central banks	6					64	70
Loans to and claims on credit institutions	645						645
Loans to and claims on customers	1,484	706	1,769	4,018	14,125		22,102
Securities	440	230	312	1,613	155	217	2,967
Other asset items	84			39		320	443
Total assets	**2,659**	**936**	**2,081**	**5,670**	**14,280**	**601**	**26,227**
of which in foreign currencies	651	486				3	1,140
Liabilities and eq. capital							
Liabs. to credit institutions	705	426					1,131
Deposits from and liabilities to customers	14,513	35	33	10			14,591
Borrowings through the issuance of securities	60	150	1,451	5,387	569		7,617
Other liabilities	71	50	40			367	528
Subordinated loan capital					299		299
Equity capital						2,061	2,061
Total liabilities and equity capital	**15,349**	**661**	**1,524**	**5,397**	**868**	**2,428**	**26,227**
of which in foreign currencies	733	461					1,194
Net liquidity exposure in the balance sheet	**-12,690**	**275**	**557**	**273**	**13,412**	**-1,827**	

Credit facilities are shown under 'Up to 1 month'. Unutilised credit facilities – already granted – amounted to NOK 2,001 million at the end of the year.

Interest rate risk / remaining time until agreed/probable interest rate re-fixing

Interest rate risk occurs when there are differences in interest rate fixing periods between asset- and liabilities items. The Bank will therefore not be able to apply interest rate changes on a parallel basis for all balance sheet items. Total interest rate risk, together with interest rate risk relating to the portfolio of certificates and bonds, is reported on a regular basis to the Board of Directors. The Bank shall have a moderate risk and throughout the year, the risk has been within the limits stipulated by the Board of Directors.

Based on the Bank's balance sheet as at 31.12.2006, a parallel shift in the interest rate curve of 1 percentage point is equivalent to an aggregate interest rate risk of about NOK 7 million.

The table below shows the remaining periods until the next interest rate re-fixing for the main items in the Group's balance sheet as at 31.12.2006

Assets	**Up to 1 month**	**1-3 months**	**3 months- 1 year**	**1-5 years**	**Over 5 years**	**No maturity agreed**	**Total**
Cash-in-hand and claims on central banks						70	70
Loans to and claims on credit institutions	645						645
Loans to and claims on customers	16	21,288	56	633	109		22,102
Securities	861	1,720	57	112		217	2,967
Other asset items						443	443
Total assets	**1,522**	**23,008**	**113**	**745**	**109**	**730**	**26,227**
of which in foreign currencies	651	484				5	1,140
Liabilities and eq. capital							
Liabilities to credit institutions	705	426					1,131
Deposits from and liabilities to customers	14,330	49	169	43			14,591
Borrowings through the issuance of securities	556	2,771	751	2,970	569		7,617
Other liabilities						528	528
Subordinated loan capital		299					299
Equity capital						2,061	2,061
Total liabs. and eq. cap.	**15,591**	**3,545**	**920**	**3,013**	**569**	**2,589**	**26,227**
of which in foreign currencies	732	461				1	1,194
Net interest rate exposure on the balance sheet	**-14,069**	**19,463**	**-807**	**-2,268**	**-460**	**-1,859**	
Nominal value of financial derivatives affecting interest rate exposure	-640	-2,574	358	2,318	538		
Total interest rate exposure	-14,709	16,889	-449	50	78	-1,859	
Net interest rate exposure as a percentage of assets	**-56.1**	**64.4**	**-1.7**	**0.2**	**0.3**	**-7.1**	

19. Financial derivatives

	2006		2005	
	Assets Book value	Liabilities Book value	Assets Book value	Liabilities Book value
Ordinary banking operations as at 31.12:				
Forward exchange contracts – bought and sold	15	15	6	6
Interest rate swaps	53	96	89	10
Total financial derivatives	**68**	**111**	**95**	**16**

Interest rate swaps: Agreements to swap interest rates for a nominal amount for a fixed period.
Forward exchange contracts: Agreements to buy or sell a certain currency amount at a future point in time at an agreed rate.

20. Breakdown of loans according to type and markets

31.12.2006	Retail banking			Corporate banking			
	Gross loans	Write-down	Net loans	Gross loans	Write-down	Net loans	Total net loans
Overdraft facilities	134	2	132	679	11	668	800
Building loans	134		134	773		773	907
Repayment loans	12,799	33	12,766	6,874	67	6,807	19,573
Total loans with floating rates of interest, at amortised cost	**13,067**	**35**	**13,032**	**8,326**	**78**	**8,248**	**21,280**
Repayment loans at fixed rates of interest, at market value	420		420	402		402	822
Total loans	**13,487**	**35**	**13,452**	**8,728**	**78**	**8,650**	**22,102**

As at 31.12.2005	Retail banking			Corporate banking			
	Gross loans	Write-down	Net loans	Gross loans	Write-down	Net loans	Total net loans
Overdraft facilities	111	2	109	643	9	634	743
Building loans	87		87	530		530	617
Repayment loans	11,349	30	11,319	5,456	74	5,382	16,701
Total loans with floating rates of interest, at amortised cost	**11,547**	**32**	**11,515**	**6,629**	**83**	**6,546**	**18,061**
Repayment loans at fixed rates of interest, at market value	537		537	452		452	989
Total loans	**12,084**	**32**	**12,052**	**7,081**	**83**	**6,998**	**19,050**

Risk classification of loans		Low risk		Medium risk		High risk	
		2006	2005	2006	2005	2006	2005
Gross loans	15,915	13,858	5,681	4,598	619	709	
Guarantees	338	274	292	200	26	24	
Unutilised drawing rights facilities	1,162	840	768	524	71	67	
Write-downs on individual loans	0	0	0	0	60	69	

Loans and guarantees according to geographical location	2006		2005	
	Loans	Guar.	Loans	Guar.
Telemark	2,115	57	1,829	31
Aust-Agder	9,240	308	8,223	276
Vest-Agder	8,207	202	6,790	151
Sundry	2,653	89	2,323	40
Total	**22,215**	**656**	**19,165**	**498**

21

21. Losses on loans and guarantees; commitments in default

	2006	2005	2004	2003	2002
Commitments in default	141	77	142	266	358
Write-downs	25	22	39	66	84
Net commitments in default	**116**	**55**	**103**	**200**	**274**
Bad and doubtful commitments	111	181	165	153	74
Write-downs	35	47	43	31	23
Net bad and doubtful commitments	**76**	**134**	**122**	**122**	**51**

Individual write-downs	**Loans**	**Guar.**	**Total**
Individual write-downs as at 1.1	69	0	69
-Period's confirmed losses against which individual			
write-down was previously made	2	0	2
+Increased individual write-downs during the period	0	0	0
+New individual write-downs during the period	11	0	11
-Reversal of individual write-downs during the period	18	0	18
=Individual write-downs as at 31.12	**60**	**0**	**60**

Write-downs on groups of loans	**Loans**	**Guar.**	**Total**
Collective write-down as at 1.1	46	0	46
+Period's change in collective write-down	7	0	7
=Collective write-down as at 31.12	**53**	**0**	**53**

Credit loss costs	**Loans**	**Guar.**	**Total**
Period's change in individual write-downs	-9	0	-9
+Period's change in collective write-down	7	0	7
+ Period's confirmed losses against which individual			
write-down was previously made			
	2	0	2
+ Period's confirmed losses against which individual			
write-down was not made in previous years	2	0	2
-Period's recoveries from previous confirmed losses	-3	0	-3
=Period's credit loss cost	**-1**	**0**	**-1**

Losses on loans, guarantees etc. according to customer groups	**2006**	**2005**
Primary industries	0	0
Industry/building and transport	0	0
Wholesale- and retail trade; hotels/restaurants	-7	4
Financing and real estate management	0	-1
Retail banking customers	0	-1
Sundry	-1	0
Total losses on customers	**-8**	**2**
Repossessed assets	0	0
Increase in collective write-down	7	-2
Total loss on loans, guarantees etc.	**-1**	**0**
Overtatte eiendeler	0	0

22. Deposits from customers according to main industrial, commercial and other sectors

	2006	2005
Public administration	1,386	1,286
Primary industries	219	212
Industry / building /transport	2,307	1,228
Wholesale- and retail trade / hotels / restaurants	538	440
Financing / real estate managemenet	1,759	1,277
Retail banking customers	8,101	7,542
Sundry	281	250
TOTAL	**14,591**	**12,235**

23. Bond debt according to maturity dates

ISIN nummer	Ticker	Nominal amount	Of which held for own acct.	Coupon	Repayment structure	Final maturity
NO 0010275563		700	0	NIBOR 3M + 0.02	Bullet	29.06.2007
NO 0010202096	SORG64	750	0	4.50 %	Bullet	15.10.2007
NO 0010136906	SORG60	750	0	7.00 %	Bullet	19.03.2008
NO 0010220940	SORG01	750	255	NIBOR 3M + 0.13	Bullet	22.10.2008
NO 0010300106	SORG05	750	0	NIBOR 3M	Bullet	02.02.2009
NO 0010183999	SORG62	750	0	5.80 %	Bullet	17.06.2009
NO 0010243512	SORG03	750	0	3.95 %	Bullet	02.11.2009
NO 0010340953	SORG09 PRO	158	0	NIBOR 3M + 0.80	Bullet	16.11.2009
NO 0010224652	SORG02	750	0	NIBOR 3M + 0.19	Bullet	05.05.2010
NO 0010344864	SORG10 PRO	300	40	NIBOR 3M + 0.065	Bullet	10.02.2011
NO 0010279300	SORG04	750	0	3.75 %	Bullet	18.08.2011
NO 0010311111	SORG07 PRO	400	100	4.45 %	Bullet	15.05.2013
NO 0010302425	SORG06	400	100	4.25 %	Bullet	19.02.2016
SUM		**7,958**	**495**			

The bond debt is incorporated in the balance sheet at market value, amounting to NOK 7,407 million.

The Bank also has short-term certificate debt which is incorporated at market value, amounting to NOK 210 million.

24. Subordinated loan capital

ISIN nummer	Ticker	Nominal amount	Of which held for own acct.	Coupon	Repayment structure	Final maturity
NO 0010329626	SORG08 PRO	300	0	NIBOR 3M + 0.42	Bullet	15.03.2017

25

25. Information pertaining to staff and elected representatives

Amounts in NOK thousand

Number of staff

In 2006, on average, there were 449 staff, including technical personnel, working at the Group. This represented an average of 400 man-years.

Salaries and fees	
Board of Trustees	133
Board of Directors	840
Control Committee	201
Total fees paid to elected representatives	**1,174**

There are no agreements relating to payments other than what is mentioned in note 26 about pension liabilities.

Fees paid to external auditor for the Group (all amounts are exclusive of value added tax):	
Auditing	770
Tax advice	14
Accounting assistance	182
Other assistance	146
Total fees paid to external auditor	**1,112**

Loans and guarantees for staff and elected representatives	Loans	Guarantees
Staff	**345,171**	**0**

The cost of interest rate subsidy relating to loans for staff amounted to NOK 3.1 million.

Salaries, loans/security provided, and benefits provided for senior management and elected representatives

		Fees and other emoluments	Total salaries	Fringe benefits	Pension cost subj. to accrual accounting	Total salaries and emoluments	Loans and security provided
Senior management							
CEO, 01.01.-31.03	Hans A. Iversen		589	189		778	78
DCEO, 01.01.-31.03 / CEO, 01.04.-31.12	Morten Kraft		1,214	156	262	1,632	859
Gen. Mgr., 01.01.-31.03./ DCEO, 01.04.-31.12	Jan Hannestad		1,024	159	685	1,868	1,608
Gen. Mgr., Markets, 01.09.-31.12	Gry J. Moen		270	38	158	466	1,500
Gen. Mgr., HR and communication, 01.04.-31.12	Rolf H. Søraker		708	78	60	846	176
Reg. Gen. Mgr., West 01.04.-31.12	Øyvind Aasen		708	80	78	866	2,886
Reg. Gen. Mgr., East 01.04.-31.12	Gunnar Thomassen		698	83	76	857	1,385
Board of Directors							
Chairman, 01.05.-31.12	Alice Jervell	94				94	1,818
Dep. Chairman, 01.05-31.12	Arne Johan Johnsen	60				60	0
Member 01.05.-31.12	Hilde Sakariassen	12				12	0
Member 01.05.-31.12	Unni Grethe Farestveit	58				58	30
Member 01.05.-31.12	Trine Jørgensen	56				56	0
Member 01.05.-31.12	Kjell Pedersen-Rise	57				57	0
Member 01.05.-31.12	Erling Holm	57				57	0
Member 01.12.-31.12	Trond F. Winther	17	369	15		401	222
Member 01.01.-31.12	Per A. Bentsen	84	377	18		479	2,485

		Fees and other emoluments	Total salaries	Fringe benefits	Pension cost subj. to accrual accounting	Total salaries and emoluments	Loans and security provided
Control Committee							
Chairman 01.01.-31.12	Dennis Danielsen	79				79	0
Member 01.01.-31.12	Gunnas S. Langfeldt	55				55	0
Member 01.01.-31.12	Toril Sættem	53				53	0
Board of Trustees							
Chairman 01.05.-31.12	Øystein Haga	14				14	832
Other members		119				119	18,094
Senior management, ABCenter							
Managing Director	Per Madland		1,028	133		1,161	20

All loans have been extended at general terms and conditions applicable to staff or at standard terms and conditions used for customers.

26

26. Pension liabilities relating to staff and elected representatives

Guaranteed scheme

Sparebanken Sør provides a group pension scheme for its employees, through a life assurance company. The Bank's liabilities in this respect comprises 352 staff and 102 retired employees. These liabilities are shown in the Bank's accounts on the basis of IAS 19, in accordance with which the Bank's pension scheme is to be treated as a benefit scheme. In addition, a separate arrangement has been established for some members of the Bank's Group management team, who have the option of retiring at the age of 60 years.

The total amount of pension resources is assessed on the basis of its estimated value at the end of the applicable accounting period. The estimated value is adjusted each year in accordance with a statement provided by the life assurance company, setting out the transferable value of the pension resources.

Accrued pension liabilities are assessed on the basis of their estimated value at the end of the relevant accounting period. The amount is adjusted annually, according to a statement provided by the life assurance company, setting out in detail the incurred pension liabilities.

An actuarial valuation is done each year, based on information provided by the Bank.

Non-guaranteed scheme

For employees retiring before normal pensionable age, or for employees who have not accummulated a full pension entitlement by the time they leave the Bank, Sparebanken Sor provides an annual amount. This pension scheme is funded by a direct charge to the profit and loss account and comprises 18 old age pensioners who are now receiving their pensions, and 25 employees benefitting from the statutory early retirement pension scheme (referred to elsewhere in the Bank's Annual Report and Notes to the Accounts as 'SERPS'). The latter scheme has been established for 349 employees, all of whom have the option of retiring at the age of 62 years. A separate arrangement has been provided for 22 managers, who, subject to application, would be able to leave the Bank with a complimentary pension in addition to 'SERPS'. These arrangements have been incorporated in the Bank's accounts in accordance with IAS 19 for benefits provided for staff. The assumptions which have been applied in this connection are identical to those pertaining to the fund-based scheme. In the case of 'SERPS', this scheme is based on the assumption of employees' average propensity to opt for this alternative being 50 per cent, whereas the corresponding ratio has been put at 100 per cent as far as the abovementioned arrangement for managers is concerned.

Calculations are based on the following assumptions:		
	2006	**2005**
Interest rate used when discounting	3.9 %	4.7 %
Wage- and salary adjustment and adjustment of basic amount	4.0 %	3.0 %
Pension adjustment	2.0 %	2.0 %
Expected rate of return on invested funds	4.9 %	5.7 %

Financial assumptions:		
Interest rate used when discounting	4.35 %	3.9 %
Expected rate of return on invested funds	5.45 %	4.9 %

Breakdown of pension cost for the year:	**2006**	**2005**
Pensionable amounts accrued during the year	12	11
Interest cost relating to the pension liabilities	13	13
Expected return on pension resources	-11	-12
Impact of changed estimated included in the profit and loss account	2	
Employers' social security contributions subject to accrual accounting	3	1
Administration costs	1	1
Net pension cost	**20**	**14**

Change as at 31.12.05 in net pension liabilities after implementation of IAS 19	**Guar.**	**Non-guar.**
Net pension resources shown in the balance sheet as at 31.12.05	**68**	**-51**
Estimate discrepancies shown in relation to equity capital as at 31.12.05	-71	-20
Net pension liabilities shown in balance sheet, adjusted as at 31.12.05	**-3**	**-71**

	31.12.06		**31.12.05**	
	Guar.	**Non-guar.**	**Guar.**	**Non-guar.**
Gross pension liabilities	-267	-84	-259	-79
Pension resources	233		216	
Impact of changes in estimates, not shown in profit and loss account	39	10	40	8
Net pension resources / pension liabilities	**5**	**-74**	**-3**	**-71**

In 2006, the Bank contributed NOK 18.4 million towards pension resources; on that amount, the Bank paid employers' social security contributions of NOK 2.6 million.

The Group's pension schemes meet the requirements relating to obligatory occupational pension.

27. Equity and related capital - capital adequacy (Parent Bank)

Change in equity capital	Savings Bank's Fund
Balance as at 31.12.2005	**1,829**
Implementation of IAS19 relating to pensions	-90
Implementation of new lending rules and regulations	76
Tax	25
Balance adusted as at 31.12.2005	**1,840**
Profit for the year	199
Balance as at 31.12.2006	**2,039**

Capital adequacy

According to the statutory capital adequacy requirement, equity and related capital shall amount to 8 per cent of a weighted asset calculation basis. The equity and related capital consists of core capital and supplementary capital in the form of subordinated loan capital.

	31.12.06	31.12.05
Core capital		
Savings Bank's Fund	2,039	1,840
- Intangible assets	-39	-6
+ Share of zero-rated unamortised estimate discrepancies	39	52
Core capital	**2,039**	**1,886**
Subordinated loan capital	300	0
Supplementary capital	**300**	**0**
-Equity and related capital participations in other financial institutions	-6	-2
Net equity and related capital	**2,333**	**1,884**

		Adjusted
	31.12.06	31.12.05
Calculation basis for assets not forming part of the trading portfolio	17,353	14,251
Calculation basis for off balance sheet items not forming part of the trading portfolio	407	379
Calculation basis for assets forming part of the trading portfolio	352	204
-Equity and related capital in other financial institutions	-6	-2
-Write-downs	-113	-115
Total weighted asset calculation basis	**17,993**	**14,717**
Capital adequacy ratio	**13.0 %**	**12.8 %**

28

28. Closely related parties

	Group management		Board of Directors		Control Committee		Chairman of Board of Trustees	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Loans outstanding as at 31.12	8,418	6,779	4,556	1,766	0	0	832	704
Interest income	204	146	110	49	0	4	39	34
Deposits as at 31.12	838	370	1,690	2,879	1,181	1,483	3	7
Interest costs	16	19	58	69	32	29	0	0

29

29. Change in equity capital

	Savings Bank's Fund	Market value reserve	Other equity capital	Minority interests	TOTAL
Equity capital as at 01.01.2005	**1,623**	**4**	**1**	**6**	**1,634**
Result for 2005	217			4	221
Donations	-10				-10
Change in market value of equity capital instrument available for sale		3			3
Dividends paid				-4	-4
Equity capital as at 31.12.2005	**1,830**	**7**	**1**	**6**	**1,844**
Result for 2006	214			4	218
Donations	-10				-10
Change in market value of equity capital instrument available for sale		13			13
Dividends paid				-4	-4
Equity capital as at 31.12.2006	**2,034**	**20**	**1**	**6**	**2,061**

30

30. Rental income and rental costs

The Group rents premises in some locations. The annual rental in 2006 amounted to NOK 4.4 million. Own premises are rented out to the extent that they are not used for own operations. The annual rental income totalled NOK 2.5 million in 2006.
The Group also rents payment terminals which are in turn rented out to customers. In 2006, the annual rental income amounted to NOK 6 million and rental cost totalled NOK 5 million.

31. Events occurring after the balance sheet date

In 2007, an agreement was entered into for the sale of the Bank's buildings at Strandgata 1 / Østregate 2 in Arendal. The sale will produce a substantial gain.

32. Adjustment of opening balances

GROUP ACCOUNTS	31.12.04 NGR	Change in finnancial instru-ments	New lending rules and regs.	Change in guar. pen-sions	Change in non-guar. pen-sions	Reversal of write-up of build-ings	Reclassi-fication of divid-ends	Available for sale	31.12.04 IFRS
ASSETS		1)	2)	3)	3)	4)	5)	6)	
Cash-in-hand and claims on central banks	237								237
Loans to and claims on credit institutions	37								37
Gross loans to customers	17,093	36	-16						17,113
Specific loss prvisions	-82								-82
Non-specific loss provisions	-169		121						-48
Net loans	**16,842**	**36**	**105**						**16,983**
Repossessed assets	6								6
Securities	1,947							4	1,951
Financial derivatives		180							180
Equity stake in associated companies	11								11
Intangible assets	4								4
Fixed assets	131					-5			126
Asset relating to tax	3	4		20	7	1			35
Other assets	140			-72					68
TOTAL ASSETS	**19,358**	**220**	**105**	**-52**	**7**	**-4**		**4**	**19,638**
LIABILITIES AND EQUITY CAPITAL									
Liabiliities to credit institutions	441								441
Deposits from customers	10,828	5							10,833
Borrowing through issuance of securities	6,170	194							6,364
Financial derivatives		31							31
Liabilities relating to period tax	62								62
Other liabilities	224		29		24		-4		273
Subordinated loan capital									0
TOTAL LIABILITIES	**17,725**	**230**	**29**		**24**		**-4**		**18,004**
Minority interests	2						4		6
Savings Bank's Fund	1,630	-10	76	-52	-17	-4			1,623
Other equity capital	1							4	5
TOTAL EQUITY CAPITAL	**1,633**	**-10**	**76**	**-52**	**-17**	**-4**	**4**	**4**	**1,634**
TOTAL LIABILITIES AND EQ. CAP.	**19,358**	**220**	**105**	**-52**	**7**	**-4**	**0**	**4**	**19,638**

NOTES TO THE GROUP IFRS ACCOUNTS FOR 2006

GROUP ACCOUNTS	31.12.05 NGR	Change in financial instru-ments	New lending rules and regs.	Change in guar. pen-sions	Change in non-guar. pen-sions	Reversal of write-up of build-ings	Reclassi-fication of divid-ends	Available for sale	31.12.04 IFRS
ASSETS		1)	2)	3)	3)	4)	5)	6)	
Cash-in-hand and claims on central banks	147								147
Loans to and claims on credit institutions	188								188
Gross loans to customers	19,168	15	-18						19,165
Specific loss provisions	-69								-69
Non-specific loss provisions	-169		123						-46
Net loans	**18,930**	**15**	**105**						**19,050**
Repossessed assets	2								2
Securities	1,879	3						7	1,889
Financial derivatives		95							95
Equity stakes in associated companies	11								11
Intangible assets	0								0
Fixed assets	145					-4			141
Asset relasting to tax	6	2		19	6	1			34
Other assets	175			-67					108
TOTAL ASSETS	**21,483**	**115**	**105**	**-48**	**6**	**-3**		**7**	**21,665**
LIABILITIES AND EQUITY CAPITAL									
Liabilities to credit institutions	446								446
Deposits from customers	12,232	3							12,235
Borrowings through issuance of securities	6,608	103							6,711
Financial derivatives		16							16
Liabilities relating to period tax	85								85
Other liabilities	279		29	4	20		-4		328
Subordinated loan capital	0								0
TOTAL LIABILITIES	**19,650**	**122**	**29**	**4**	**20**	**0**	**-4**	**0**	**19,821**
Minority interests	2						4		6
Savings Bank's Fund	1,830	-7	76	-52	-14	-3			1,830
Other equity capital	1							7	8
TOTAL EQUITY CAPITAL	**1,833**	**-7**	**76**	**-52**	**-14**	**-3**	**4**	**7**	**1,844**
TOTAL LIABILITIES AND EQUITY CAPITAL	**21,483**	**115**	**105**	**-48**	**6**	**-3**	**0**	**7**	**21,665**

Adjusted result for 2005

GROUP ACCOUNTS	Result 31.12.05 acc. to NGR	Change in financial instru-ments	New lending rules and regs.	Change in guar. pen-sions	Change in non-guar. pen-sions	Reversal of write-up of build-ings	Reclassi-fication of divid-ends	Available for sale	Result 31.12.05 acc. to IFRS
		1)	2)	3)	3)	4)	5)	6)	
Interest receivable and similar income	775		-3						772
Interest payable and similar costs	303								303
Net int.- and credit comm. income	**472**		**-3**						**469**
Comms. and income from bkg. services	197								197
Comms.and costs rel. to bkg. services	26								26
Total commission income	**171**								**171**
Income from financial instruments	42	5							47
Income from inv. In associated companies									
Other operating income	16								16
Total other operating income	**58**	**5**							**63**
Personnel costs	205				-4				201
Depreciation of fixed and intangible assets	20					-1			19
Other operating costs	177								177
Total operating costs	**402**				**-4**	**-1**			**397**
OPERATING RESULT BEFORE CREDIT LOSSES	**299**	**5**	**-3**		**4**	**1**	**0**	**0**	**306**
Losses on loans, guarantees etc.	3		-3						0
RESULT BEFORE TAXATION COSTS	**296**	**5**	**0**		**4**	**1**	**0**	**0**	**306**
Tax payable on ordinary result	81	2	1		1				85
RESULT FROM ORDINARY OPERATIONS AFTER TAX	**215**	**3**	**-1**		**3**	**1**	**0**	**0**	**221**
Minority interests	4								4
Majority interests	211	3	-1		3	1	0	0	217

1) Change in financial instruments applies to market value assessment of financial instruments which were previously valued at cost price.
2) New lending rules and regulations have meant that previous non-specific loss provisions have been replaced by write-down on groups of loans, so called 'LTO' loans (monitored on a long-term basis) have been included in the balance sheet, and previous establishment fees included as income in the profit and loss account have been reversed in the accounts in order to be able to amortise those amounts over the life of the loans involved.
3) At the transition to IAS 19, pensions were recalculated according to new assumptions and the estimate discrepancies involved shown in relation to equity capital.
4) Previous write-up on buildings was reversed in the accounts when the transition to IFRS was made.
5) Dividends refer to minority share of dividends from ABCenter. According to the IFRS rules and regulations, dividends shall be classified as equity capital until a resolution relating to the dividends has been passed.
6) Shares available for sale are long-term shareholdings which were previously valued at cost price. They are now assessed at market value, with value change shown in relation to equity capital.

TO SPAREBANKEN SØR'S BOARD OF TRUSTEES

THE CONTROL COMMITTEE'S ANNUAL REPORT FOR 2006

During the course of the year, the Control Committee has monitored the Bank's operations in accordance with the Savings Banks Act and currently valid directives.

The Bank's operations have been conducted according to the Savings Banks Act, the Bank's by-laws, the Board of Trustees' resolutions and other valid rules and regulations.

The Control Committee has examined the Bank's annual financial statement for 2006 and recommends that the Profit and Loss Account and Balance Sheet are adopted as the Bank's official accounts.

The Control Committee is of the opinion that the Board of Directors' assessment of the Bank's financial position covers all appropriate aspects.

Arendal, 15 March 2007

Dennis Danielsen

Gunnar S. Langfeldt

Torild Sættem

AUDITOR'S REPORT FOR 2006

Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of Sparebanken Sør as of 31 December 2006, showing a profit of NOK 208 535 292 for the parent Bank and a profit of
NOK 218 000 000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the parent Bank's financial statements and the group accounts. The parent Bank's financial statements comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to prepare the parent Bank's financial statements. The rules of the Norwegian accounting act and International Financial Reporting Standards as adopted by the EU have been applied to prepare the group accounts. These financial statements and the Board of Directors' report are the responsibility of the Bank's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Bank's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion,

- the parent Bank's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the parent Bank as of 31 December 2006, the results of its operations and its cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the group accounts are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Group as of 31 December 2006, the results of its operations, its cash flows and the changes in equity for the year then ended, in accordance with the rules of the Norwegian accounting act and International Financial Reporting Standards as adopted by the EU
- the Bank's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and comply with the law and regulations.

Arendal, 15. March 2007
KPMG AS

Terje H. Holst
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only

Financial Highlights 2002 - 2006 (Group)

Profit and Loss Account	**2006**	**2005**	**2004***	**2003***	**2002***
Interest- and credit commission income	1 001	772	723	1 034	1 211
Interest costs	504	303	264	601	771
Net interest- and credit commission income	**497**	**469**	**459**	**433**	**440**
Other operating income	241	234	214	204	101
Total income	**738**	**703**	**673**	**637**	**541**
Other operating costs	433	397	390	392	359
Operating result before credit losses	**305**	**306**	**283**	**245**	**182**
Losses on loans and guarantees	-1		22	75	78
Gains/losses on secs. held on a long-term basis			-2	-1	
Result from ordinary operations	**306**	**306**	**259**	**169**	**104**
Tax	88	85	67	52	33
Result after tax	**218**	**221**	**192**	**117**	**71**

Profit and Loss Account items as a percentage of average assets	**2006**	**2005**	**2004***	**2003***	**2002***
Interest- and credit commission income	4.27 %	3.75 %	3.88 %	6.02 %	7.86 %
Interest costs	2.15 %	1.47 %	1.42 %	3.50 %	5.00 %
Net interest- and credit commission income	**2.12 %**	**2.28 %**	**2.46 %**	**2.52 %**	**2.86 %**
Other operating costs	1.02 %	1.14 %	1.15 %	1.19 %	0.65 %
Total income	**3.14 %**	**3.42 %**	**3.61 %**	**3.71 %**	**3.51 %**
Other operating costs	1.84 %	1.93 %	2.09 %	2.28 %	2.33 %
Operating result before credit losses	**1.30 %**	**1.49 %**	**1.52 %**	**1.43 %**	**1.18 %**
Losses on loans and guarantees	0.00 %	0.00 %	0.12 %	0.44 %	0.51 %
Gains/losses on secs. held on a long-term basis	0.00 %	0.00 %	-0.01 %	-0.01 %	0.00 %
Result from ordinary operations	**1.30 %**	**1.49 %**	**1.39 %**	**0.98 %**	**0.67 %**
Tax	0.37 %	0.41 %	0.36 %	0.30 %	0.21 %
Result after tax	**0.93 %**	**1.08 %**	**1.03 %**	**0.68 %**	**0.46 %**
Average assets	23 453	20 550	18 623	17 180	15 399

From the Balance Sheet	**2006**	**2005**	**2004***	**2003***	**2002***
Assets	26 227	21 665	19 358	17 570	16 272
Deposits from customers	14 591	12 235	10 828	10 260	10 362
Gross lending	22 215	19 165	17 093	15 539	14 131
Equity and related capital	2 333	1 884	1 579	1 406	1 293
Capital adequacy ratio	13.0 %	12.8 %	12.2 %	11.8 %	11.6 %

Other key figures					
Costs as % of income excluding securities	61.00 %	60.30 %	60.80 %	66.22 %	62.33 %
Deposits as a percenage of gross lending	65.70 %	63.80 %	63.30 %	66.03 %	73.33 %
Rate of return on equity capital	11.60 %	13.20 %	13.30 %	8.77 %	5.61 %
Number of branches	28	29	29	35	39
Number of man-years worked at the Bank	312	309	306	345	351

* Figures for 2002, 2003 and 2004 have not been restated according to IFRS.

Sparebanken Sør
Vesterveien 1, N-4836 Arendal, Norway.
Postal address: Serviceboks 602, N-4809 Arendal, Norway.
S.W.I.F.T. address: AASPNO22.
Telephone: +47 37025000.
Telefax: +47 37024150.
Company reg.no.: NO 009378 93566.

w w w . s o r . n o