

FIRST QUARTER REPORT 2005 SPAREBANKEN SØR

RESULT

The pre-tax result for the Bank at the end of the first quarter of 2005 totalled NOK 75 million. In relation to average assets, this amounted to 1.53 per cent, as against 1.13 per cent at the same time last year. The Board of Directors is very pleased that the Bank's good progress last year has been continuing this year. All main items in the profit and loss account show improvement. Low credit losses represent the single most important reason for the positive overall development.

At the end of the first quarter, the after-tax return on equity capital was 13.3 per cent. The Board of Directors' target ratio for 2005 is 11 per cent.

NET INTEREST INCOME AND AVERAGE INTEREST MARGIN

Net interest income totalled NOK 115 million at the end of the first quarter, up by NOK 7 million on the comparable interim period last year. In relation to average assets, however, this amounted to 2.34 per cent, as against 2.41 per cent a year ago. Higher lending volumes contributed to the increase in net interest income in cash terms. However, the competitive situation has brought about moderately smaller customer margins. In view of this, the net interest income has shrunk somewhat as a percentage of average assets, but higher lending volumes still compensate for the loss of income involved.

OTHER (NON-INTEREST) INCOME

Net other operating income ended up at NOK 32 million at the end of the first quarter, up by NOK 3 million on the same time last year. In relation to average assets, this amounted to 0.65 per cent, unchanged from last year. Commissions and income from banking services, representing the largest part of other income, have developed in a stable and expected manner. However, one of the Bank's aims is to improve the results within this area. Results from the securities section are in line with those of last year. The Bank's most important subsidiary, ABCenter, posted a somewhat weaker result than 12 months ago.

OPERATING COSTS

Costs totalled NOK 71 million, down from NOK 73 million at the end of the first quarter last year. Measured against average assets, there was also improvement, the overall cost ratio finishing up at 1.44 per cent, significantly down from 1.64 per cent 12 months ago. The Board of Directors is pleased with the improvement in absolute and relative costs at the end of the quarter currently under review. The number of man-years worked has been trimmed by 30 during the last 12 months, the total now being 307. Even though the agreed cost-reducing measures have now been implemented, the level of overall costs is still given a high priority throughout the Bank.

CREDIT LOSSES AND COMMITMENTS IN DEFAULT

Net credit losses charged to the profit and loss account after the first 3 months of the year amounted to only NOK 1 million, substantially lower than 12 months ago and the previous years. This improvement is largely due to the present good economic climate and low domestic interest rates. The Bank's lending portfolio is reviewed and followed up in a systematic and comprehensive way. The low level of today's credit losses is a reflection of the improved quality of the Bank's lending portfolio.

The level of net commitments in default and bad and doubtful commitments has also been falling, representing 1.25 per cent of gross lending at the end of the quarter, down from 1.31 per cent at the end of last year.

BALANCE SHEET

At the end of the quarter currently under review, aggregate assets stood at NOK 20.3 billion, up from NOK 17.9 billion at the same time last year. During the last 12-month period, loans expanded by 9.4 per cent. Lending growth is still significantly higher in the retail banking area than in the corporate banking sector. Deposits were up by 14.3 per cent overall. The high level of deposit growth is principally attributable to some larger deposits received from the Bank's corporate customers. As a result of this, the Bank's overall deposit coverage has improved, from 63.3 per cent at the end of last year, to 66.7 per cent at the end of the first quarter this year. Although the deposit coverage ratio and deposit growth are good at present, a great deal of attention continues to be paid to this area in order to ensure a positive development also in the future.

The Bank's remaining funding requirements are covered by raising long-term bond issues in the market.

CAPITAL ADEQUACY RATIO - EQUITY AND RELATED CAPITAL

At the end of the first quarter of 2005, the Bank's capital adequacy ratio amounted to 11.7 per cent. The Bank's equity and related capital – consisting in its entirety of accrued earnings which have been added to the Savings Bank's Fund – totalled NOK 1.6 billion at the end of the first quarter. The first quarter profit in 2005 has not been factored into the capital adequacy calculations.

FUTURE PROSPECTS

The Board of Directors expects the progress of overall results compared with last year to continue. The restructuring measures which were implemented in 2004 will have a favourable impact in the future. However, the establishment of several new bank branches within Sparebanken Sør's market area will bring about increased competition for customers. This may result in reduced growth in business volumes as well as lower margins but the Bank is well prepared to tackle this situation.

Arendal, 13 April 2005

The Board of Directors of Sparebanken Sør

Profit and Loss Account

PARENT BANK Amounts in NOK million				GROUP Amounts in NOK million		
31.03.2005	31.03.2004	31.12.2004		31.03.2005	31.03.2004	31.12.2004
182	185	725	Interest receivable and similar income	182	185	723
67	77	266	Interest payable and similar costs	67	77	264
115	108	459	Net interest- and credit commission income	115	108	459
2	4	8	Dividends and other income from securities with variable yield	4	4	9
23	21	97	Commissions and income from banking services	39	39	181
5	5	23	Commissions payable and costs regarding banking services	5	5	23
6	5	31	Net value change and gains/losses on f/x and securities	6	5	31
6	4	16	Other operating income	6	4	16
32	29	129	Net other operating income	50	47	214
57	59	255	Wages, salaries and general administration costs	73	75	323
4	4	15	Depreciation of fixed and intangible assets	6	6	23
10	10	43	Other operating costs	10	10	44
71	73	313	Total operating costs	89	91	390
76	64	275	Result before credit losses	76	64	283
1	13	22	Losses on loans, guarantees etc.	1	13	22
		-2	Losses/gains on securities held on a long-term basis			-2
75	51	251	Result before taxation cost	75	51	259
21	14	63	Tax payable on ordinary result	21	14	67
54	37	188	Result for the accounting year	54	37	192
			Minority interests			4
			Result after minority interests	54	37	188

Balance Sheet

PARENT BANK Amounts in NOK million				GROUP Amounts in NOK million		
31.03.2005	31.03.2004	31.12.2004	ASSETS	31.03.2005	31.03.2004	31.12.2004
589	58	237	Cash-in-hand and claims on central banks	589	58	237
26	31	37	Loans to and claims on credit institutions	26	31	37
17 384	15 891	17 116	Gross loans to and claims on customers	17 361	15 844	17 093
78	103	82	Specific loss provisions	78	103	82
169	168	169	Non-specific loss provisions	169	168	169
17 137	15 620	16 865	Net loans to and claims on customers	17 114	15 573	16 842
6	8	6	Repossessed assets	6	8	6
2 088	1 736	1 788	Certificates, bonds and other interest-bearing securities	2 088	1 736	1 788
193	191	159	Shares	193	191	159
11	11	11	Equity stakes in associated companies	11	11	11
23	25	25	Equity stakes in Group companies			
3	6	3	Intangible assets	4	16	6
102	112	101	Fixed assets	132	140	130
44	41	14	Other assets	76	68	46
97	73	95	Prepayments and accrued income	97	74	95
20 319	17 912	19 341	TOTAL ASSETS	20 336	17 906	19 357
			LIABILITIES AND EQUITY CAPITAL			
412	951	441	Liabilities to credit institutions	412	951	441
11 600	10 147	10 840	Deposits from and liabilities to customers	11 588	10 143	10 828
6 315	5 059	6 170	Borrowings through the issuance of securities	6 315	5 059	6 170
178	133	150	Other liabilities	204	127	174
88	98	67	Incurred costs and pre-paid income	88	98	67
45	42	46	Provisions against liabilities and costs	45	42	46
18 638	16 430	17 714	Total liabilities	18 652	16 420	17 726
			Minority interests	2	2	2
1 627	1 445	1 627	Equity capital	1 629	1 447	1 627
			Equity capital - subsidiaries	-1		2
54	37		Undistributed earnings	54	37	
20 319	17 912	19 341	TOTAL LIABILITIES AND EQUITY CAPITAL	20 336	17 906	19 357

OFF-BALANCE SHEET ACCOUNTING ITEMS

Contingent liabilities:

587	501	596	Guarantees	587	501	596
1 599	1 454	1 566	Book value of assets pledged as security for borrowings	1 599	1 454	1 566
2	3	4	Other contingent liabilities	2	3	4
			Liabilities:			
4 979	4 559	4 469	Interest rate swaps	4 979	4 559	4 469
			FRAs			
381	270	408	Forward exchange contracts - bought	381	270	408
381	256	408	Forward exchange contracts - sold	381	256	408

QUARTERLY RESULTS (Parent Bank)

Amounts in NOK million

	1st q. 2005	4th q. 2004	3rd q. 2004	2nd q. 2004	1st q. 2004	4th q. 2003
Net interest- and credit commission income	115	121	118	112	108	105
Other operating income	32	31	35	34	29	45
Operating costs	71	78	83	79	73	87
Result before credit losses	76	74	70	67	64	63
Losses on loans	1	3	2	4	13	40
Losses/gains on securities held on a long-term basis	0	-2	0	0	0	-1
Result before tax	75	69	68	63	51	22
Tax payable on ordinary result	21	13	21	16	14	9
Result after tax	54	56	47	47	37	13

QUARTERLY RESULTS (Parent Bank)

As a percentage of average assets

	1st q. 2005	4th q. 2004	3rd q. 2004	2nd q. 2004	1st q. 2004	4th q. 2003
Net interest and credit commission income	2.34	2.51	2.50	2.45	2.41	2.39
Other operating income	0.65	0.65	0.74	0.74	0.65	1.02
Operating costs	1.44	1.62	1.76	1.73	1.64	1.98
Result before credit losses	1.55	1.54	1.48	1.46	1.42	1.43
Losses on loans	0.02	0.06	0.04	0.09	0.29	0.91
Gains/losses on securities held on a long-term basis	0.00	-0.04	0.00	0.00	0.00	-0.02
Result before tax	1.53	1.44	1.44	1.37	1.13	0.50
Tax payable on ordinary result	0.42	0.27	0.44	0.35	0.31	0.20
Result after tax	1.11	1.17	1.00	1.02	0.82	0.30

NOTES TO THE ACCOUNTS

Losses on loans and guarantees	31.03.2005	31.03.2004	31.12.2004
Change in specific loss provisions during the period	-4	6	-15
Change in non-specific loss provisions during the period	0	4	5
Period's confirmed losses against which specific loss provisions were made in previous years	5	4	28
Period's confirmed losses against which no specific loss provisioning was raised in previous years	0	0	8
Recoveries relating to previous confirmed losses during the period	0	1	4
Credit loss cost during the period	1	13	22

Commitments in defaults - bad and doubtful commitments	31.03.2005	31.03.2004	31.12.2004
Commitments in default	105	246	142
Loss provisions	-28	-64	-39
Net commitments in default	77	182	103
Other bad and doubtful commitments	190	171	165
Loss provisions	-50	-39	-43
Net bad and doubtful commitments	140	132	122

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

Equity and related capital - capital adequacy ratio	31.03.2005	31.03.2004	31.12.2004
Core capital			
Savings Bank's Fund	1 627	1 445	1 627
Intangible assets and over-funded pension liabilities	-48	-39	-48
Equity capital participations in other financial institutions	0	-1	0
Net equity and related capital	1 579	1 405	1 579
Weighted asset calculation basis	13 490	12 317	12 957
Capital adequacy ratio	11.7 %	11.4 %	12.2 %

KEY FINANCIAL FIGURES 2001 - 2005 (Parent Bank)

Profit and Loss Account	31.03.05	2004	2003	2002	2001
Interest- and credit commission income	182	725	1 039	1 216	1 163
Interest costs	67	266	604	775	756
Net interest- and credit commission income	115	459	435	441	407
Other operating income	32	129	126	45	77
Other operating costs	71	313	319	303	297
Operating result before credit losses	76	275	242	183	187
Losses on loans and guarantees	1	22	75	78	59
Losses/gains on securities held on a long-term basis	0	-2	-1	0	35
Result from ordinary operations	75	251	166	105	163
Tax	21	63	52	34	47
Result after tax	54	188	114	71	116

Profit and Loss Account items as a percentage of average assets	31.03.05	2004	2003	2002	2001
Interest- and credit commissions income	3.70 %	3.90 %	6.05 %	7.91 %	8.35 %
Interest costs	1.36 %	1.43 %	3.52 %	5.04 %	5.43 %
Net interest- and credit commission income	2.34 %	2.47 %	2.53 %	2.87 %	2.92 %
Other operating income	0.65 %	0.69 %	0.74 %	0.29 %	0.55 %
Other operating costs	1.44 %	1.68 %	1.86 %	1.97 %	2.13 %
Operating result before credit losses	1.55 %	1.48 %	1.41 %	1.19 %	1.34 %
Losses on loans and guarantees	0.02 %	0.12 %	0.44 %	0.51 %	0.43 %
Losses/gains on securities held on a long-term basis	0.00 %	-0.01 %	0.00 %	0.00 %	0.25 %
Result from ordinary operations	1.53 %	1.35 %	0.97 %	0.68 %	1.16 %
Tax	0.42 %	0.34 %	0.30 %	0.22 %	0.34 %
Result after tax	1.11 %	1.01 %	0.67 %	0.46 %	0.82 %
Average assets	19 694	18 618	17 177	15 384	13 937
Return on equity capital	13.28 %	12.94 %	8.54 %	5.62 %	10.10 %
Costs as a percentage of income excluding securities	50.35 %	55.30 %	61.43 %	57.60 %	59.82 %

From the Balance Sheet	31.03.05	2004	2003	2002	2001
Total assets	20 319	19 341	17 577	16 258	14 402
Gross lending	17 384	17 116	15 586	14 166	12 888
Deposits from customers	11 600	10 840	10 263	10 363	9 189
Deposits as a percentage of gross loans	66.73 %	63.33 %	65.90 %	73.20 %	71.30 %
Equity and related capital	1 579	1 579	1 406	1 293	1 212
Capital adequacy ratio	11.7 %	12.2 %	11.8 %	11.6 %	12.0 %
Number of branches	29	29	35	39	39
Number of man-years worked at the Bank	307	306	345	351	356