

Press release

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First Quarter 2011

Stable earnings and sound capital base

At the end of the 1st quarter 2011, the Sparebanken Sør Group's pre-tax profit was MNOK 78, which is equivalent to 0.82 per cent of the average total assets. In the same period last year, higher income from financial instruments and reversal of pension costs associated with the AFP early retirement scheme contributed toward a strong profit performance. However, when corrected for these effects, profit is approximately at the same level as last year.

Lending growth in the retail banking market is still strong and a core capital adequacy ratio of 13.9 per cent provides a sound foundation for future growth.

At the end of the quarter, net interest income was MNOK 159, which is down MNOK 10 compared with the 1st quarter 2010. The decrease is due to narrower margins.

Other operating income totalled MNOK 46, which is down MNOK 6 compared with the 1st quarter 2010. The most important reason for this fall is a reduction in income from financial instruments of MNOK 56 compared with the previous year, due to changes in risk premiums in the 1st quarter of this year being less than in the 1st quarter of last year.

Total group costs were MNOK 115, which is up MNOK 24 compared with the previous year. However, there is almost no growth in costs compared with the 1st quarter 2010, when this figure is corrected for the one-time effect of reversal of pension costs associated with AFP early retirement scheme.

Net losses on loans of MNOK 12 have been charged to the profit and loss account. This is down MNOK 10 million on the same period last year. The majority of these losses are associated with commitments in the corporate market. Higher collective write-downs have not been implemented in the first quarter.

Net defaulted and bad loans were MNOK 356 and show a very positive reduction of MNOK 65 from the start of the year. The decrease can primarily be attributed to corporate commitments.

At the end of the 1st quarter, total assets were BNOK 37.7, compared with BNOK 35.3 last year.

In the last twelve months, lending growth was 5.8 per cent, with a growth of 9.3 per cent in the retail banking market and 0.8 per cent in the corporate market. The percentage of loans to the retail banking market is now 67.3 per cent.

Deposit growth was 3.9 per cent, with deposits in the retail banking market increasing by 6.3 per cent and 0.5 per cent in the corporate market. Deposit growth was 52.7 per cent for the group and 64.4 per cent for the parent bank.

Total equity and related capital is BNOK 3.3 billion, of which BNOK 2.8 is shareholder's equity, BNOK 0.2 is Perpetual Hybrid Tier 1 Capital and BNOK 0.3 is subordinated loan capital. At the end of the 1st quarter 2011, capital adequacy ratio was 15.3 per cent, based on the standard approach outlined in the Basel II rules. Core capital ratio was 13.9 per cent.

The board of directors is satisfied with the profit at the end of the first quarter. Increased pressure on interest rate margins will however challenge earnings in the coming quarters.

The new strategic plan has now been adopted by the board of directors, will be communicated to the relevant environments and will be the basis for our future work.

This press release and quarterly report will be published on the bank's website www.sor.no, and will be available on Oslo Børs www.newsweb.no