

INTERIM REPORT AND ACCOUNTS FOR THE FIRST 3 MONTHS OF 2006 SPAREBANKEN SØR

RESULT

The pre-tax result for the Bank at the end of the first quarter of 2006 totalled NOK 84 million, up by NOK 9 million on the corresponding interim period in 2005. In relation to average assets, this amounted to 1.52 per cent, as against 1.53 per cent at the same time last year.

At the end of the first quarter, the after-tax return on equity capital was 13.4 per cent. The Bank's strategic target ratio is minimum 11 per cent. The Bank's improved result in cash terms during the first quarter of 2006 is primarily ascribable to gains from securities, but other areas have also been making good progress.

NET INTEREST INCOME AND AVERAGE INTEREST MARGIN

Net interest income totalled NOK 120 million at the end of the first quarter, up by NOK 5 million on the comparable interim period last year. In relation to average assets, however, there was a shrinkage from 2.34 per cent to 2.17 per cent during the last 12 months.

The competitive situation has brought about continued downward pressure on overall margins, both in the retail banking- and corporate markets. The smaller increase in net interest income which was achieved despite the abovementioned situation is due to the fact that the overall growth in business volumes, both within the retail banking- and corporate markets, has compensated for the reduction in revenue generation caused by the shrinkage in margins.

OTHER (NON-INTEREST) INCOME

Net other operating income totalled NOK 42 million at the end of the first quarter, up by NOK 10 million on the same time last year. In relation to average assets, this amounted to an increase from 0.65 to 0.76 per cent this year. This improvement is principally attributable to gains from securities. Fee- and commission income posted a moderate increase compared with the same interim period last year.

OPERATING COSTS

Costs totalled NOK 76 million, up from NOK 71 million at the end of the first quarter last year. Measured against average assets, however, the overall cost ratio was reduced from 1.44 to 1.37 per cent. The improvement in the overall cost ratio reflects the fact that the increase in activity levels throughout the Bank continues to be higher than the growth in costs. At the end of the quarter currently under review, manning levels at the Bank amounted to the equivalent of 309 man-years, up by 2 man-years compared with the same time last year.

CREDIT LOSSES AND COMMITMENTS IN DEFAULT

The new lending rules and regulations were applied with effect from 01.01.2006. Reference is made to a separate note to the interim accounts dealing with the effects of the transition. Increased collective write-downs of loans amounting to NOK 4 million were made during the first quarter, at the end of which collective write-downs totalled NOK 50 million. In addition, net recoveries of NOK 2 million relating to individual write-downs were included in the accounts, the total loss cost shown for the first quarter accordingly ending up at NOK 2 million. Recalculated on an annual basis, this is equivalent to 0.05 per cent of lending.

The good economic conditions and continued low domestic interest rates are reflected in a low level of commitments in default as well as bad and doubtful commitments. The level of net commitments in default and bad and doubtful commitments at the end of the first quarter has been reduced from NOK 217 million in 2005 to NOK 182 million in 2006. In relation to lending, this is equivalent to 0.92 per cent, as against 1.25 per cent 12 months ago.

BALANCE SHEET

At the end of the first quarter, aggregate assets stood at NOK 23.2 billion, 14 per cent up from NOK 20.3 billion at the same time last year. During the last 12-month period, loans increased by 13.3 per cent, retail banking and corporate banking expanding by 10.7 and 19 per cent respectively. Deposits were up by 12.0 per cent overall, the retail banking- and corporate sectors increasing by 6.6 and 22.7 per cent respectively. Local commerce and industry within the Bank's market area is currently enjoying a period of good growth and this is reflected in the Bank's accounts.

As a result of the good improvement in the level of deposits, the Bank's overall deposit coverage ratio was reassuringly high at 65.9 per cent at the end of the first quarter, having risen from 63.8 per cent at the beginning of the year.

The Bank's funding loans raised in the certificate- and bond markets totalled NOK 7.6 billion at the end of the quarter, as opposed to NOK 6.3 billion 12 months ago.

CAPITAL ADEQUACY RATIO - EQUITY AND RELATED CAPITAL

At the end of the first quarter of 2006, the Bank's capital adequacy ratio amounted to 12.0 per cent, compared to 11.7 per cent at the same time last year. Following the introduction and implementation of the new lending rules and regulations, NOK 70 million has been added to the Savings Bank's Fund as at 01.01.2006. The Bank's equity and related capital – consisting in its entirety of accrued earnings which have been added to the Savings Bank's Fund – totalled NOK 1.9 billion at the end of the first quarter.

FUTURE PROSPECTS

Good economic conditions are having a pronounced impact on the Bank's development. The Board of Directors expects that this situation will continue as the year progresses. This would suggest that the Bank's results will continue to develop in a satisfactory manner in the immediate future. The competitive situation represents the biggest challenge. Against this background, the downward pressure on margins is likely to continue. In order to maintain the level of satisfactory results it is important that the Bank's overall use of resources is effective. This, coupled with the Bank's core values which focus on closeness to the market, should produce good conditions for successful operations also in the future.

Arendal, 9 May 2006

The Board of Directors of Sparebanken Sør

Profit and Loss Account

PARENT BANK Amounts in NOK million

PARENT BANK Amounts in NOK million				GROUP Amounts in NOK million		
31.03.2006	31.03.2005	31.12.2005	Notes	31.03.2006	31.03.2005	31.12.2005
221	182	777		221	182	775
101	67	306		101	67	303
120	115	471		120	115	472
5	2	11		5	4	8
24	23	104		45	39	197
5	5	26		5	5	26
15	6	27		15	6	27
3	6	16		3	6	16
42	32	132		63	50	222
60	57	260		79	73	337
4	4	15		5	6	20
12	10	45		12	10	45
76	71	320		96	89	402
86	76	283		87	76	292
2	1	3	1	2	1	3
		7				7
84	75	287		85	75	296
20	21	76		20	21	81
64	54	211		65	54	215
				1		4
				64	54	211

Balance Sheet

PARENT BANK Amounts in NOK million

PARENT BANK Amounts in NOK million				GROUP Amounts in NOK million		
31.03.2006	31.03.2005	31.12.2005	Notes	31.03.2006	31.03.2005	31.12.2005
ASSETS						
254	589	147		254	589	147
887	26	188		887	26	188
19,704	17,384	19,187		19,685	17,361	19,168
63	78	69	3	63	78	69
50	169	169	3	50	169	169
19,591	17,137	18,949		19,572	17,114	18,930
2	6	2		2	6	2
1,808	2,088	1,700		1,808	2,088	1,700
198	193	179		198	193	179
10	11	11		10	11	11
30	23	29				
6	3	6		6	4	6
130	102	120		155	132	145
120	44	17		166	76	62
118	97	113		118	97	113
23,154	20,319	21,461		23,176	20,336	21,483
LIABILITIES AND EQUITY CAPITAL						
257	412	446		257	412	441
12,993	11,600	12,243		12,982	11,588	10,828
7,576	6,315	6,608		7,576	6,315	6,170
170	178	222	3	199	204	174
112	88	62	3	112	88	67
82	45	51		82	45	46
21,190	18,638	19,632		21,208	18,652	17,726
				2	2	2
1,900	1,627	1,829	3	1,902	1,629	1,627
					-1	2
64	54			64	54	
23,154	20,319	21,461		23,176	20,336	19,357

OFF BALANCE SHEET ITEMS

Contingent liabilities:

523	587	498		523	587	498
1,539	1,599	1,518		1,539	1,599	1,518
3	2	2		3	2	2
Liabilities:						
5,264	4,979	5,340		5,264	4,979	5,340
300	381	336		300	381	336
285	381	336		285	381	336

QUARTERLY RESULTS (Parent Bank)

Amounts in NOK million	1st q. 2006	4th q. 2005	3rd q. 2005	2nd q. 2005	1st q. 2005	4th q. 2004
Net interest- and credit commission income	120	120	120	116	115	121
Other operating income	42	27	35	38	32	31
Operating costs	76	103	69	77	71	78
Result before credit losses	86	44	86	77	76	74
Losses on loans	2	3	-1	0	1	3
Losses/gains on securities held on a long-term basis		1	4	2	0	-2
Result before tax	84	42	91	79	75	69
Tax payable on ordinary result	20	13	23	19	21	13
Result after tax	64	29	68	60	54	56

QUARTERLY RESULTS (Parent Bank)

As a percentage of average assets	1st q. 2006	4th q. 2005	3rd q. 2005	2nd q. 2005	1st q. 2005	4th q. 2004
Net interest- and credit commission income	2.17	2.25	2.31	2.28	2.34	2.51
Other operating income	0.76	0.51	0.68	0.74	0.65	0.65
Operating costs	1.37	1.93	1.33	1.51	1.44	1.62
Result before credit losses	1.56	0.83	1.66	1.51	1.55	1.54
Losses on loans	0.04	0.06	-0.01	0.00	0.02	0.06
Losses/gains on securities held on a long-term basis		0.02	0.08	0.04	0.00	-0.04
Result before tax	1.52	0.79	1.75	1.55	1.53	1.44
Tax payable on ordinary result	0.36	0.24	0.44	0.37	0.42	0.27
Result after tax	1.16	0.55	1.31	1.18	1.11	1.17

NOTES

NOTE 1 - Losses on loans and guarantees

	31/03/2006	31/03/2005	31/12/2005
Period's change in individual write-downs	-2	-4	-13
Period's change in collective write-downs	4	0	0
Period's confirmed losses against which individual write-downs were made in previous years	1	5	16
Period's confirmed losses against which no individual write-downs were made in previous years		0	3
Period's recoveries from previous confirmed losses	1	0	3
Period's loss cost	2	1	3

NOTE 2 - Commitments in default - bad and doubtful commitments

	31/03/2006	31/03/2005	31/12/2005
Commitments in default	80	105	77
Individual write-downs	-27	-28	-22
Net commitments in default	53	77	55
Other bad and doubtful commitments	170	190	181
Individual write-downs	-41	-50	-47
Net bad and doubtful commitments	129	140	134

Commitments in default are defined as the sum of all a customer's commitments even if only one of his/her/its outstanding loans has been in default for 90 days or more.

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

The effects of the transition are to be shown direct against the equity capital and are as follows:

The Savings Bank's Fund according to the accounts as at 31.12.2005	1,828,531	
Amortisation of previous establishment fees booked as income	-16,829	
Amortisation of specific loss provisions as at 31.12.2005	-6,511	
Reversal of non-specific loss provisions	169,000	
New write-down of groups of loans	-46,000	
Net impact before tax	99,660	
Tax at 28 per cent	-27,900	
Transferred to the Savings Bank's Fund	71,760	71,760
Savings Bank's Fund as at 01.01.2006		1,900,291

Equity and related capital - capital adequacy ratio

	31/03/2006	31/03/2005	31/12/2005
Core capital			
Savings Bank's Fund	1,900	1,627	1,829
Intangible assets and over-funded pension liabilities	-55	-48	-54
Equity capital in other financial institutions	-3	0	-2
Net equity and related capital	1,842	1,579	1,773
Weighted asset calculation basis	15,407	13,490	14,594
Capital adequacy ratio	12.0 %	11.7 %	12.2 %

KEY FINANCIAL FIGURES 2002 - 2006 (Parent Bank)

Profit and Loss Account	31.03.06	2005	2004	2003	2002
Interest- and credit commission income	221	777	725	1,039	1,216
Interest costs	101	306	266	604	775
Net interest- and credit commission income	120	471	459	435	441
Other operating income	42	132	129	126	45
Other operating costs	76	320	313	319	303
Operating result before credit losses	86	283	275	242	183
Losses on loans and guarantees	2	3	22	75	78
Losses/gains on securities held on a long-term basis		7	-2	-1	-
Result from ordinary operations	84	287	251	166	105
Tax	20	76	63	52	34
Result after tax	64	211	188	114	71

Profit and Loss Account items as a percentage of average assets	31.03.06	2005	2004	2003	2002
Interest- and credit commission income	4.00%	3.78%	3.90%	6.05%	7.91%
Interest costs	1.83%	1.49%	1.43%	3.52%	5.04%
Net interest- and credit commission income	2.17%	2.29%	2.47%	2.53%	2.87%
Other operating income	0.76%	0.64%	0.69%	0.74%	0.29%
Other operating costs	1.37%	1.55%	1.68%	1.86%	1.97%
Operating result before credit losses	1.56%	1.38%	1.48%	1.41%	1.19%
Losses on loans and guarantees	0.04%	0.01%	0.12%	0.44%	0.51%
Losses/gains on securities held on a long-term basis		0.03%	-0.01%	0.00%	-0.01%
Result from ordinary operations	1.52%	1.40%	1.35%	0.97%	0.67%
Tax	0.36%	0.37%	0.34%	0.30%	0.22%
Result after tax	1.16%	1.03%	1.01%	0.67%	0.45%
Average assets	22,125	20,531	18,618	17,177	15,384
Return on equity capital		12.96%	12.94%	8.54%	5.62%
Costs as a percentage of income excluding securities	50.85%	54.42%	55.30%	61.43%	57.60%

From the Balance Sheet	31.03.06	2005	2004	2003	2002
Assets	23,154	21,461	19,341	17,577	16,258
Gross loans	19,704	19,187	17,116	15,586	14,166
Deposits from customers	12,993	12,243	10,840	10,263	10,363
Deposits as a percentage of gross lending	65.94%	63.81	63.33%	65.90%	73.20%
Equity and related capital	1,842	1,773	1,579	1,406	1,293
Capital adequacy ratio	12.0 %	12.2	12.2 %	11.8 %	11.6 %
Number of branches	28	29	29	35	39
Number of man-years worked at the Bank	309	309	306	345	351