

HALF YEAR REPORT 2003 SPAREBANKEN SØR

RESULT

The pre-tax result at the end of the second quarter totalled NOK 86.1 million. This was NOK 18.9 million up on the corresponding interim period last year. In relation to average assets, the pre-tax result amounted to 1.01 per cent, as against 0.89 per cent at the same time last year. The improvement in the result is largely due to the increase in securities prices and its favourable impact on the overall value of the Bank's investment portfolio

NET INTEREST INCOME AND AVERAGE INTEREST MARGIN

Net interest income totalled NOK 215.2 million at the end of the second quarter. The increase compared with last year is modest, amounting to NOK 4.2 million. In relation to average assets, net interest income amounted to 2.54 per cent, as against 2.81 per cent a year ago. Interest rates are still falling and this puts a great deal of additional downward pressure on the Bank's overall margins, as it is difficult to time the cuts in deposit rates to coincide with the reductions in lending rates. In addition, the low level of interest rates triggers reduced revenue generation from that part of the Bank's placements which is funded by equity capital.

OTHER (NON-INTEREST) INCOME

Net other operating income ended up at NOK 53.6 million, as opposed to NOK 25 million at the same time last year. In relation to average assets, this involved an increase from 0.33 to 0.63 per cent. The improvement in other income during the second quarter is principally attributable to generally rising prices in the stock markets. Net earnings from banking services showed stable development but were only slightly up on the same time a year ago.

OPERATING COSTS

Costs totalled NOK 158.2 million, up from NOK 146.6 million at the end of the second quarter last year. This is mainly due to the general increase in prices and wages, coupled with certain larger items of maintenance work. Measured against average assets, however, the cost ratio finished up at 1.87 per cent, down from 1.95 per cent 12 months ago. Costs have been developing in accordance with the Bank's budget plans.

CREDIT LOSSES

Net credit losses after the first 6 months of the year amounted to NOK 24.5 million, of which non-specific loss provisions accounted for NOK 6.0 million. Certain parts of local commerce and industry are still struggling, a situation which is reflected in the Bank's accounts. Credit losses are nevertheless only NOK 2 million up on the corresponding interim period last year. A significant part of the losses is related to some larger individual commitments. The Bank's loan portfolio is assessed at regular intervals in order to identify any credit losses as early as possible.

BALANCE SHEET

At the end of the quarter currently under review, aggregate assets stood at NOK 16.9 billion, up from NOK 15.2 billion at the same time last year. During the last 12-month period, loans expanded by 9.5 per cent. Lending to retail banking- and corporate customers expanded by 13.3 and 4.2 per cent respectively. Deposits were up by 5.1 per cent overall, the retail banking- and corporate sectors improving by 5.8 and 2.7 per cent respectively. The Bank's overall credit risk profile has not changed significantly during the period. Overall deposit coverage is reassuringly high, deposits representing 70.2 per cent of loans, compared with 73.1 per cent at the same time last year. The Bank's remaining funding requirements are largely covered by new bond issues raised in the market.

CAPITAL ADEQUACY RATIO

At the end of the second quarter, the Bank's capital adequacy ratio amounted to 10.85 per cent. The result so far this year has not been included for capital adequacy computation purposes. The Bank's equity and related capital – consisting of core capital only – totalled NOK 1.3 billion at the end of the quarter.

PROSPECTS FOR THE REMAINDER OF THE YEAR

The result for the first half of 2003 is better than last year. As mentioned above, this is primarily ascribable to improved securities prices. The core banking operations showed a lacklustre development. Every effort will be made to improve this situation, through cost savings generally and a revision of the Bank's distribution network in particular. Against the background of the currently uncertain times, especially within the commercial and industrial sector, the Bank's loan portfolio will continue to be monitored very closely in order to help keep credit losses at a reasonable level.

Arendal, 18 August 2003

The Board of Directors of Sparebanken Sør

Tom F. Evensen
Chairman

Jostein Dalane
Deputy Chairman

Jan A. Roaldstveit

Laila Øygarden

Sidsel Schwabe-Hansen

Sigmund Pollestad

Kirsti Aatangen

Arnt Haddeland

Kristi Marie Tveit

Hans A. Iversen
Managing Director

Profit and Loss Account

PARENT BANK Amounts in NOK million				GROUP Amounts in NOK million			
30.06.2003	30.06.2002	31.12.2002		30.06.2003	30.06.2002	31.12.2002	
596.4	579.4	1 216.6	Interest received and similar income	595.6	578.8	1 211.0	
381.2	368.4	775.2	Interest payable and similar costs	381.2	368.4	771.1	
215.2	211.0	441.4	Net interest- and credit commission income	214.4	210.4	439.9	
-0.6	4.2	-2.3	Dividends and other income from securities with variable yield	4.0	6.9	7.1	
42.0	44.0	92.8	Commissions receivable and income from banking services	64.1	70.7	139.9	
10.3	12.0	25.7	Commissions payable and costs relating to banking services	10.3	12.0	25.7	
17.4	-15.8	-34.3	Net value change and gains/losses on f/x and securities	17.4	-15.8	-34.3	
5.1	4.6	14.2	Other (non-interest) operating income	5.1	4.6	14.2	
53.6	25.0	44.7	Net other operating income	80.3	54.4	101.2	
125.4	116.9	240.6	Wages, salaries and general administration costs	147.6	141.6	287.5	
8.6	8.6	16.2	Depreciation of fixed- and intangible assets	12.7	12.8	25.3	
24.2	21.1	45.9	Other operating costs	24.2	21.1	45.9	
158.2	146.6	302.7	Total operating costs	184.5	175.5	358.7	
110.6	89.4	183.4	Result before credit losses	110.2	89.3	182.4	
24.5	22.2	78.3	Losses on loans, guarantees etc.	24.5	22.2	78.3	
86.1	67.2	105.1	Result before taxation charge	85.7	67.1	104.1	
26.0	19.0	34.1	Tax payable on ordinary result	26.0	19.0	33.3	
60.1	48.2	71.0	Result for the accounting year	59.7	48.1	70.8	
			Minority interests	-0.4	-0.1	-0.2	
			Result after minority interests	60.1	48.2	71.0	

Balance Sheet

PARENT BANK Amounts in NOK million				GROUP Amounts in NOK million			
30.06.2003	30.06.2002	31.12.2002	ASSETS	30.06.2003	30.06.2002	31.12.2002	
58.3	86.9	271.9	Cash-in-hand and claims on central banks	58.3	86.9	271.9	
121.2	95.9	67.9	Loans to and claims on credit institutions	121.2	95.9	67.9	
14 588.1	13 317.1	13 909.1	Loans to and claims on customers	14 552.7	13 285.9	13 873.8	
7.1	7.1	7.1	Repossessed assets	7.1	7.1	7.1	
1 694.8	1 138.7	1 558.7	Certificates, bonds and other interest-bearing securities	1 694.8	1 138.7	1 558.7	
153.9	170.9	143.9	Shares	153.9	170.9	144.0	
11.2	8.2	11.2	Equity stakes in associated companies	11.2	8.2	11.2	
6.6	20.4	11.3	Equity stakes in Group companies				
14.0	8.5	14.0	Intangible assets	30.4	36.4	35.4	
119.3	124.4	114.2	Fixed assets	143.6	151.0	138.4	
35.5	64.4	23.2	Other assets	50.5	77.2	38.2	
101.5	123.4	125.4	Prepayments and accrued income	101.5	123.4	125.4	
16 911.5	15 165.9	16 257.9	TOTAL ASSETS	16 925.2	15 181.6	16 272.0	
			LIABILITIES AND EQUITY CAPITAL				
679.0	392.5	420.0	Liabilities to credit institutions	679.0	392.5	420.0	
10 237.0	9 739.0	10 363.4	Deposits from and liabilities to customers	10 235.7	9 734.3	10 362.1	
4 150.9	3 291.2	3 902.5	Borrowings through the issuance of securities	4 150.9	3 291.2	3 902.5	
106.0	93.5	100.4	Other liabilities	119.2	110.9	113.6	
308.0	296.0	99.7	Incurring costs and prepaid income	308.0	296.1	99.7	
37.4	41.4	38.8	Provisions for liabilities and costs	37.4	41.4	38.8	
15 518.3	13 853.6	14 924.8	Total liabilities	15 530.2	13 866.4	14 936.7	
			Minority interests	0.0	1.2	0.4	
1 333.1	1 264.1	1 333.1	Equity capital	1 334.9	1 265.8	1 334.9	
60.1	48.2		Retained earnings	60.1	48.2		
16 911.5	15 165.9	16 257.9	TOTAL LIABILITIES AND EQUITY CAPITAL	16 925.2	15 181.6	16 272.0	

ITEMS OF AN OFF-BALANCE SHEET CATEGORY

Contingent liabilities

546.9	542.8	514.3	Guarantees	546.9	542.8	514.3
1 232.7	984.6	1 098.9	Book value of assets pledged as security for borrowings	1 232.7	984.6	1 098.9
3.4	9.0	4.3	Other contingent liabilities	3.4	9.0	4.3
			Liabilities:			
2 897.2	2 337.2	2 560.8	Interest rate swaps	2 897.2	2 337.2	2 560.8
		1 000.0	FRAs			1 000.0
239.6	475.3	308.1	Forward exchange contracts - bought	239.6	475.3	308.1
239.7	472.5	308.1	Forward exchange contracts - sold	239.7	472.5	308.1

QUARTERLY PROFIT AND LOSS ACCOUNT FIGURES (Parent Bank)

Amounts in NOK million	2nd q. 2003	1st q. 2003	4th q. 2002	3rd q. 2002	2nd q. 2002
Net interest- and credit commission income	109.4	105.8	116.4	114	107.3
Other (non-interest) operating income	41.0	12.6	22.1	-2.4	5.1
Operating costs	78.5	79.7	86.7	69.4	74.2
Result before credit losses	71.9	38.7	51.8	42.2	38.2
Losses on loans	11.8	12.7	44.7	11.4	15.0
Result before tax	60.1	26.0	7.1	30.8	23.2
Tax payable on ordinary result	17.3	8.7	5.6	9.5	6.0
Result after tax	42.8	17.3	1.5	21.3	17.2

MAIN FIGURES AS A PERCENTAGE OF AVERAGE ASSETS (Parent Bank)

	30.06.03	30.06.02	2000
Net interest- and credit commission income	2.54	2.81	2.87
Andre driftsinntekter	0.63	0.33	0.29
Operating costs	1.87	1.95	1.97
Result before credit losses	1.30	1.19	1.19
Losses on loans	0.29	0.3	0.51
Result before tax	1.01	0.89	0.68
Tax payable on ordinary result	0.30	0.25	0.22
Result after tax	0.71	0.64	0.46

Losses on loans and guarantees	30.06.03	30.06.02	31.12.02
Changes in specific loss provisions during the period	-10.9	0.6	17.6
Period's change in non-specific loss provisions	6.0	7.0	18.0
Period's conf. losses against which spec. prov. were previously made	29.7	15.7	29.1
Period's conf. losses against which no spec. prov. were prev. made	0.4	0.4	16.0
Period's recoveries relating to previous confirmed losses	0.7	1.5	2.4
Credit loss cost during the period	24.5	22.2	78.3

Commitments in default; bad and doubtful commitments	30.06.03	30.06.02	31.12.02
Commitments in default	395.1	270.8	358.2
Loss provisions	-73.7	-63.7	-84.2
Net commitments in default	321.4	207.1	274.0
Other bad and doubtful commitments	133.2	65.4	74.1
Loss provisions	-22.7	-26.6	-23.2
Net bad and doubtful commitments	110.5	38.8	50.9

Commitments in default are defined as a customer's total commitments if at least one loan has been in default for 90 days or longer.

Equity and related capital - capital adequacy ratio	30.06.03	30.06.02	31.12.02
Core capital			
The Savings Bank's Fund	1 333.1	1 264.1	1 333.1
Intangible assets and over-funded pension liabilities	-38.7	-24.4	-38.7
Equity capital participations in other financial institutions	-1.0	-30.0	-1.8
Net equity and related capital	1 293.4	1 209.7	1 292.6
Weighted asset calculation basis	11 925.1	11 000.0	11 124.4
Capital adequacy ratio	10.9 %	11.0 %	11.6 %

1)

1) The result so far this year has not been factored into the calculations.

KEY FIGURES 1998 - 2002

Profit and Loss Account	30.06.03	2002	2001	2000	1999
Interest receivable and cr. comm. income	596.4	1 216.6	1163.8	947.6	852.9
Interest costs	381.2	775.2	756.1	577.2	502.3
Net int. receivable and cr. comm. income	215.2	441.4	407.7	370.4	350.6
Other (non-interest) operating income	53.6	44.7	77.3	89.2	104.6
Other operating costs	158.2	302.7	297.2	283.4	275.5
Operating result before credit losses	110.6	183.4	187.8	176.2	179.7
Gain from the sale of long-term shareholdings			35.0	83.4	
Losses on loans and guarantees	24.5	78.3	59.4	35.7	27.7
Result from ordinary operations	86.1	105.1	163.4	223.9	152.0
Tax	26.0	34.1	47.1	60.5	42.4
Result after tax	60.1	71.0	116.3	163.4	109.6

Profit and Loss Account as a percentage of average assets	30.06.03	2002	2001	2000	1999
Interest receivable and credit comm. Income	7.05 %	7.91 %	8.35 %	7.52 %	7.78 %
Interest costs	4.51 %	5.04 %	5.43 %	4.58 %	4.58 %
Net int. receivable and cr. comm. income	2.54 %	2.87 %	2.92 %	2.94 %	3.20 %
Other (non-interest) operating income	0.63 %	0.29 %	0.55 %	0.71 %	0.95 %
Other operating costs	1.87 %	1.97 %	2.13 %	2.25 %	2.51 %
Operating result before credit losses	1.30 %	1.19 %	1.34 %	1.40 %	1.64 %
Gain from the sale of long-term shareholdings	0.00 %	0.00 %	0.25 %	0.66 %	0.00 %
Losses on loans and guarantees	0.29 %	0.51 %	0.43 %	0.28 %	0.25 %
Result from ordinary operations	1.01 %	0.68 %	1.16 %	1.78 %	1.39 %
Tax	0.30 %	0.22 %	0.34 %	0.48 %	0.39 %
Result after tax	0.71 %	0.46 %	0.82 %	1.30 %	1.00 %
Average assets	16 920.0	15 384.0	13 936.6	12 595.0	10 967.0
Return on equity capital	9.09 %	5.62 %	10.10 %	15.28 %	11.69 %
Costs as a % of income excluding securities	61.93 %	57.60 %	59.82 %	61.48 %	64.17 %

From the Balance Sheet	30.06.03	2002	2001	2000	1999
Assets	16 911.5	16 257.9	14 401.6	13 255.5	11 893.6
Gross loans	14 840.4	14 165.9	12 888.3	11 550.5	10 186.3
Deposits from customers	10 237.0	10 363.4	9 188.5	9 147.4	7 527.0
Deposits as a percentage of gross loans	68.98 %	73.16 %	71.29 %	79.19 %	73.89 %
Equity and related capital	1 293.4	1 292.6	1 212.4	1 086.0	909.6
Capital adequacy ratio	10.9 %	11.6 %	12.0 %	11.6 %	11.3 %