

HALF YEAR REPORT 2004 SPAREBANKEN SØR

RESULT

The pre-tax result at the end of the second quarter totalled NOK 114.9 million. This was NOK 28.8 million up on the corresponding interim period last year. In relation to average assets, the result amounted to 1.27 per cent, as against 1.01 per cent at the same time last year. The improvement in the result is largely due to lower costs and lower credit losses.

NET INTEREST INCOME AND AVERAGE INTEREST MARGIN

Net interest income totalled NOK 220.6 million at the end of the second quarter, up by NOK 5.4 million on the comparable interim period last year. The improvement is primarily ascribable to the fact that this year – and the next two years – Sparebanken Sør will not have to pay any levy to the Savings Banks' Guarantee Fund. This is related to the fact that due to a restructuring in the Norwegian banking industry, the two separate Guarantee Funds of the savings banks and commercial banks are in the process of being merged into one guarantee fund. On the other hand, the low level of domestic interest rates has resulted in lower interest income than for the same period last year from that part of the Bank's placements which is funded by equity capital. However, this reduction in interest income is compensated for by higher lending volumes. In relation to average assets, net interest income amounted to 2.44 per cent, as against 2.54 per cent a year ago.

OTHER (NON-INTEREST) INCOME

Net other operating income ended up at NOK 63.8 million at the end of the second quarter, up by NOK 10.2 million on the same time last year. In relation to average assets, this involved an increase from 0.63 to 0.71 per cent. The improvement is principally attributable to increased dividends on shares in the Bank's securities trading portfolio, coupled with a significantly better result from the Bank's subsidiary, ABCenter AS, a real estate brokerage company. Furthermore, net earnings from banking services were slightly up on the same time a year ago. Automated services account for most of the Bank's payments transmission business, but these services are priced the lowest.

OPERATING COSTS

Costs totalled NOK 152.7 million, down from NOK 158.2 million at the end of the second quarter last year. A shrinkage in costs was achieved within several different areas of the Bank. However, the reduction in overall manning levels and the number of branches is only to a modest extent reflected in the profit and loss account at the end of the quarter. The impact of these restructuring measures will not be evident until the second half of the year. Measured against average assets, the overall cost ratio finished up at 1.69 per cent, down from 1.87 per cent 12 months ago.

CREDIT LOSSES

Net credit losses after the first 6 months of the year amounted to NOK 16.8 million, of which the increase in non-specific loss provisions accounted for NOK 8.0 million. The losses are lower than a year ago; this shows that the quality of the Bank's lending portfolio has been improving. The portfolio is monitored closely in order to ensure that its quality remains good and in order to identify any credit losses as early as possible.

Commitments in default as well as bad and doubtful commitments are at an acceptable level and there has been improvement in this area.

BALANCE SHEET

At the end of the quarter currently under review, aggregate assets stood at NOK 18.6 billion, up from NOK 16.9 billion at the same time last year. During the last 12-month period, loans expanded by 10.2 per cent. Lending growth is still significantly higher in the retail banking area than in the corporate banking sector. Deposits were up by 2.8 per cent overall. Retail banking deposits improved, whereas there was a slight reduction in the corporate banking area. At the end of the quarter, deposits amounted to 64.3 per cent of loans. A minimum deposit coverage ratio of 60 per cent has been stipulated by the Board of Directors. The Bank's remaining funding requirements are largely covered by new bond issues raised in the market.

CAPITAL ADEQUACY RATIO - EQUITY AND RELATED CAPITAL

At the end of the second quarter of 2004, the Bank's capital adequacy ratio amounted to 11.0 per cent. The Bank's equity and related capital – consisting of core capital only – totalled NOK 1.4 billion.

FUTURE PROSPECTS

Sparebanken Sør is currently enjoying a period of good progress within several areas. The Board of Directors expects this trend to continue, especially as the impact on overall results of the restructuring measures which were completed this spring will materialise during the second half of 2004. Domestic interest rates are still low and no significant increases are expected in the near future. This puts downward pressure on the Bank's margins and interest income. Furthermore, maintaining a level of satisfactory deposit growth as well as a reasonable overall deposit coverage ratio will be a challenging task for the Bank. However, the Bank has a good name in the money markets and is able to meet external funding requirements by borrowing at favourable rates. The Board of Directors expects that this situation will continue to apply, in view of the Bank's good results and progress at the present time.

Arendal, 18 August 2004

The Board of Directors of Sparebanken Sør

Jostein Dalane
Chairman

Jan A. Roaldstveit
Deputy Chairman

Sidsel Schwabe-Hansen

Sigmund Pollestad

Laila Øygarden

Kirsti Aatangen

Lise M. Weum Sandnes

Arnt Haddeland

Tove Solfeld

Hans A. Iversen
Managing Director

PROFIT AND LOSS ACCOUNT

PARENT BANK Amounts in NOK million

GROUP Amounts in NOK million

30.06.2004	30.06.2003	31.12.2003		30.06.2004	30.06.2003	31.12.2003
358.9	596.4	1 039.1	Interest receivable and similar income	358.7	595.6	1 034.3
138.3	381.2	603.9	Interest payable and similar costs	138.3	381.2	600.6
220.6	215.2	435.2	Net interest- and credit commission income	220.4	214.4	433.7
11.3	-0.6	-0.4	Dividends and other income from securities with variable yield	8.8	4.0	8.1
45.3	42.0	94.0	Commissions receivable and income from banking services	90.2	64.1	162.8
11.1	10.3	24.1	Commissions payable and costs relating to banking services	11.1	10.3	24.1
10.4	17.4	44.7	Net value change and gains/losses on f/x and securities	10.4	17.4	44.7
7.9	5.1	12.1	Other operating income	7.9	5.1	12.2
63.8	53.6	126.3	Net other operating income	106.2	80.3	203.7
121.3	125.4	258.7	Wages, salaries and general administration costs	153.6	147.6	320.4
8.1	8.6	15.6	Depreciation of fixed- and intangible assets	12.1	12.7	26.1
23.3	24.2	45.6	Other operating costs	23.3	24.2	45.6
152.7	158.2	319.9	Total operating costs	189.0	184.5	392.1
131.7	110.6	241.6	Result before credit losses	137.6	110.2	245.3
16.8	24.5	75.6	Losses on loans, guarantees etc.	16.8	24.5	75.6
-	-	-0.6	Gains/losses on securities held on a long-term basis	-	-	-0.6
114.9	86.1	165.4	Result before taxation cost	120.8	85.7	169.1
31.0	26.0	51.6	Tax payable on ordinary result	33.0	26.0	52.4
83.9	60.1	113.8	Result for the accounting year	87.8	59.7	116.7
			Minority interests	3.9	-0.4	2.9
			Result after minority interests	83.9	60.1	113.8

BALANCE SHEET

PARENT BANK Amounts in NOK million

GROUP Amounts in NOK million

30.06.2004	30.06.2003	31.12.2003	ASSETS	30.06.2004	30.06.2003	31.12.2003
79.3	58.3	305.8	Cash-in-hand and claims on central banks	79.3	58.3	305.8
81.2	121.2	49.0	Loans to and claims on credit institutions	81.2	121.2	49.0
16 353.2	14 840.4	15 585.9	Loans (gross) and claims on customers	16 306.0	14 805.0	15 538.7
97.7	96.3	97.0	Specific loss provisions	97.7	96.3	97.0
172.0	156.0	164.0	Non-specific loss provisions	172.0	156.0	164.0
16 083.5	14 588.1	15 324.9	Loans (net) to and claims on customers	16 036.3	14 552.7	15 277.7
7.4	7.1	7.6	Repossessed assets	7.4	7.1	7.6
1 842.8	1 694.8	1 449.8	Certificates, bonds and other interest-bearing securities	1 842.8	1 694.8	1 449.8
184.9	153.9	182.5	Shares	185.0	153.9	182.6
11.2	11.2	11.2	Equity stakes in associated companies	11.2	11.2	11.2
28.7	6.6	26.2	Equity stakes in Group companies			
5.8	14.0	4.7	Intangible assets	22.0	30.4	14.6
112.9	119.3	110.5	Fixed assets	141.6	143.6	139.2
47.0	35.5	26.5	Other assets	74.6	50.5	54.0
67.6	101.5	78.5	Prepayments and accrued income	67.6	101.5	78.5
18 552.3	16 911.5	17 577.2	TOTAL ASSETS	18 549.0	16 925.2	17 570.0
			LIABILITIES AND EQUITY CAPITAL			
723.5	679.0	385.8	Liabilities to credit institutions	723.5	679.0	385.8
10 521.8	10 237.0	10 262.9	Deposits from and liabilities to customers	10 518.4	10 235.7	10 259.5
5 471.5	4 150.9	5 238.1	Borrowings raised through the issuance of securities	5 471.5	4 150.9	5 238.1
144.7	106.0	134.6	Other liabilities	137.7	119.2	127.7
120.3	308.0	68.1	Incurred costs and prepaid income	120.3	308.0	68.1
41.7	37.4	42.8	Provisions for liabilities and costs	41.7	37.4	42.8
17 023.5	15 518.3	16 132.3	Total liabilities	17 013.1	15 530.2	16 122.0
			Minority interests	5.3	0.0	1.4
1 444.9	1 333.1	1 444.9	Equity capital	1 446.7	1 334.9	1 446.6
83.9	60.1		Undistributed profits	83.9	60.1	
18 552.3	16 911.5	17 577.2	TOTAL LIABILITIES AND EQUITY CAPITAL	18 549.0	16 925.2	17 570.0

OFF BALANCE SHEET ITEMS

Contingent liabilities

542.1	546.9	480.8	Guarantees	542.1	546.9	480.8
1 514.2	1 232.7	1 269.5	Book value of assets pledged as security for borrowings	1 514.2	1 232.7	1 269.5
3.2	3.4	4.9	Other contingent liabilities	3.2	3.4	4.9

Liabilities

4 523.2	2 897.2	4 684.9	Interest rate swaps	4 523.2	2 897.2	4 684.9
237.6	239.6	276.0	Forward exchange contracts - bought	237.6	239.6	276.0
237.6	239.7	276.0	Forward exchange contracts - sold	237.6	239.7	276.0

QUARTERLY RESULTS (Parent Bank)

Amounts in NOK million

	2nd q. 2004	1st q. 2004	4th q. 2003	3rd q. 2003	2nd q. 2003	1st q. 2003
Net interest- and credit commission income	115.1	105.5	105.0	115.0	109.4	105.8
Other operating income	34.6	29.2	45.4	27.3	41.0	12.6
Operating costs	79.3	73.4	87.2	74.5	78.5	79.7
Result before credit losses	70.4	61.3	63.2	67.8	71.9	38.7
Losses on loans	4.0	12.8	40.5	10.6	11.8	12.7
Losses on securities held on a long-term basis			-0.6			
Result before tax	66.4	48.5	22.1	57.2	60.1	26.0
Tax payable on ordinary result	17.5	13.5	8.6	17.0	17.3	8.7
Result after tax	48.9	35.0	13.5	40.2	42.8	17.3

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

	30.06.2004	30.06.2003	31.12.2003
Net interest- and credit commission income	2.44	2.54	2.53
Other operating income	0.71	0.63	0.74
Operating costs	1.69	1.87	1.86
Result before credit losses	1.46	1.30	1.41
Losses on loans	0.19	0.29	0.44
Gains/losses on securities held on a long-term basis	0.00	0.00	0.00
Result before tax	1.27	1.01	0.97
Tax payable on ordinary result	0.34	0.30	0.30
Result after tax	0.93	0.71	0.67

NOTES TO THE ACCOUNTS

Losses on loans and guarantees	30.06.2004	30.06.2003	31.12.2003
Change in specific loss provisions during the period	0.7	-10.9	-9.9
Change in non-specific loss provisions during the period	8.0	6.0	14.0
Period's confirmed losses, against which specific loss provisions were made in previous years	9.1	29.7	52.9
Period's confirmed losses, against which no specific loss provisioning was raised in previous years	0.9	0.4	20.2
Period's recoveries relating to previous confirmed losses	1.9	0.7	1.6
Credit loss cost during the period	16.8	24.5	75.6

Commitments in default - bad and doubtful commitments	30.06.2004	30.06.2003	31.12.2003
Commitments in default	238.0	395.1	266.0
Loss provisions	-61.4	-73.7	-65.8
Net commitments in default	176.6	321.4	200.2
Other bad and doubtful commitments	163.8	133.2	153.0
Loss provisions	-36.7	-22.7	-31.7
Net bad and doubtful commitments	127.1	110.5	121.3

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

Equity and related capital - capital adequacy ratio	30.06.2004	30.06.2003	31.12.2003
Core capital			
Savings Bank's Fund	1 444.9	1 333.1	1 444.9
Intangible assets and over-funded pension liabilities	-38.9	-38.7	-37.9
Equity and similar capital participations in other financial institutions	-5.3	-1.0	-0.9
Net equity and related capital	1 400.7	1 293.4	1 406.1
Weighted asset calculation basis for capital adequacy computation purposes	12 719.1	11 925.1	11 920.5
Capital adequacy ratio	11.0 %	10.9 %	11.8 %

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

1)

KEY FIGURES 2000 - 2004

Profit and loss account	30.06.04	2003	2002	2001	2000
Interest- and credit commission income	358.9	1 039.1	1 216.6	1 163.8	947.6
Interest costs	138.3	603.9	775.2	756.1	577.2
Net interest- and credit commission income	220.6	435.2	441.4	407.7	370.4
Other operating income	63.8	126.3	44.6	77.3	89.2
Other operating costs	152.7	319.9	302.7	297.2	283.4
Operating result before credit losses	131.7	241.6	183.3	187.8	176.2
Losses on loans and guarantees	16.8	75.6	78.3	59.4	35.7
Gains/losses on securities held on a long-term basis	-	-0.6	-	35.0	83.4
Result from ordinary operations	114.9	165.4	105.0	163.4	223.9
Tax	31.0	51.6	34.0	47.1	60.5
Result after tax	83.9	113.8	71.0	116.3	163.4

Profit and loss account items - as a percentage of average assets	30.06.04	2003	2002	2001	2000
Interest- and credit commission income	3.98 %	6.05 %	7.91 %	8.35 %	7.52 %
Interest costs	1.54 %	3.52 %	5.04 %	5.43 %	4.58 %
Net interest- and credit commission income	2.44 %	2.53 %	2.87 %	2.92 %	2.94 %
Other operating income	0.71 %	0.74 %	0.29 %	0.55 %	0.71 %
Other operating costs	1.69 %	1.86 %	1.97 %	2.13 %	2.25 %
Operating result before credit losses	1.46 %	1.41 %	1.19 %	1.34 %	1.40 %
Losses on loans and guarantees	0.19 %	0.44 %	0.51 %	0.43 %	0.28 %
Gains/losses on securities held on a long-term basis	0.00 %	0.00 %	0.00 %	0.25 %	0.66 %
Result from ordinary operations	1.27 %	0.97 %	0.68 %	1.16 %	1.78 %
Tax	0.34 %	0.30 %	0.22 %	0.34 %	0.48 %
Result after tax	0.93 %	0.67 %	0.46 %	0.82 %	1.30 %
Average assets	18 131.1	17 177.0	15 384.0	13 936.6	12 595.0
Return on equity capital	11.61 %	8.54 %	5.62 %	10.10 %	15.28 %
Costs as a percentage of income, excluding earnings from securities	54.81 %	61.43 %	57.60 %	59.82 %	61.48 %

From the Balance Sheet	30.06.04	2003	2002	2001	2000
Assets	18 552.3	17 577.2	16 257.9	14 401.6	13 255.5
Loans (gross)	16 353.2	15 585.9	14 165.9	12 888.3	11 550.5
Deposits from customers	10 521.8	10 262.9	10 363.4	9 188.5	9 147.4
Deposits as a percentage of loans (gross)	64.30 %	65.90 %	73.20 %	71.30 %	79.20 %
Equity and related capital	1 400.7	1 406.1	1 292.6	1 212.4	1 086.0
Capital adequacy ratio	11.0 %	11.8 %	11.6 %	12.0 %	11.6 %