Second quarter and first half-year 2012

The Sparebanken Vest Group

23 August 2012
Stein Klakegg, Managing Director
Local full service bank for residents and businesses in Western Norway

- Every fifth company and one in four private person in Western Norway use us
- More than 60 branches and 800 employees along the coast of Western Norway
- Key driving force for industrial and social development since 1823
- Third biggest Norwegian-owned bank and the second oldest savings bank
- NOK 125.5 billion in assets under management
- Listed on the stock exchange since 1995
Second quarter 2012

- Stable, good core banking operations
- Improved net interest
- Strong progress in associated companies
- Passed 250,000 customers in the retail market
First half-year 2012

- Stable, good capital adequacy
- Improved, good liquidity
- Visible effects of improvement programme
- Unrest in the financial markets and a demanding regulatory regime
## Key figures

<table>
<thead>
<tr>
<th></th>
<th>Q2 2012</th>
<th>Q2 2011</th>
<th>1 half-year 2012</th>
<th>1 half-year 2011</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit/loss before write-downs and tax</td>
<td>NOK 199 mill</td>
<td>NOK 211 mill</td>
<td>NOK 483 mill</td>
<td>NOK 437 mill</td>
<td>NOK 858 mil</td>
</tr>
<tr>
<td>Pre-tax profit</td>
<td>NOK 171 mill</td>
<td>NOK 183 mill</td>
<td>NOK 405 mill</td>
<td>NOK 398 mill</td>
<td>NOK 732 mil</td>
</tr>
<tr>
<td>Profit/diluted profit per equity certificate</td>
<td>NOK 0.88</td>
<td>NOK 1.19</td>
<td>NOK 2.13</td>
<td>NOK 2.58</td>
<td>NOK 4.55</td>
</tr>
<tr>
<td>Net interest (annualised)</td>
<td>1.44 %</td>
<td>1.44 %</td>
<td>1.42 %</td>
<td>1.43 %</td>
<td>1.46 %</td>
</tr>
<tr>
<td>Cost ratio (annualised)</td>
<td>1.25 %</td>
<td>1.23 %</td>
<td>1.25 %</td>
<td>1.22 %</td>
<td>1.22 %</td>
</tr>
<tr>
<td>Annualised return on equity (ROE)</td>
<td>7.3 %</td>
<td>9.2 %</td>
<td>8.9 %</td>
<td>10.1 %</td>
<td>8.7 %</td>
</tr>
<tr>
<td>Deposits/loans ratio</td>
<td>55.8 %</td>
<td>57.8 %</td>
<td>55.8 %</td>
<td>57.8 %</td>
<td>53.5 %</td>
</tr>
<tr>
<td>Liquidity indicator</td>
<td>105.6 %</td>
<td>103.2 %</td>
<td>105.6 %</td>
<td>103.2 %</td>
<td>102.6 %</td>
</tr>
<tr>
<td>Common equity</td>
<td>9.5 %</td>
<td>9.5 %</td>
<td>9.5 %</td>
<td>9.5 %</td>
<td>9.6 %</td>
</tr>
<tr>
<td>Total capital</td>
<td>11.4 %</td>
<td>11.4 %</td>
<td>11.4 %</td>
<td>11.4 %</td>
<td>11.6 %</td>
</tr>
<tr>
<td>Common equity (Basel II fully implemented)</td>
<td>12.9 %</td>
<td>12.5 %</td>
<td>12.9 %</td>
<td>12.5 %</td>
<td>12.9 %</td>
</tr>
<tr>
<td>Total capital (Basel II fully implemented)</td>
<td>15.6 %</td>
<td>15.3 %</td>
<td>15.6 %</td>
<td>15.3 %</td>
<td>15.6 %</td>
</tr>
</tbody>
</table>

*Total capital includes 50 % of the result for the period (except for the year 2011)*
Profit before write-downs on loans, financial instruments and non-recurring items
Continued optimism in Western Norway

- The survey in the second quarter shows that 7 out of 10 businesses take a positive view of the next half-year.
- Optimism is evenly distributed in all the four counties of Western Norway.
- Export enterprises are more optimistic than companies targeting the domestic market. The exception is businesses exporting to the eurozone.

The next Vestlandsindeks will be published on 25 September 2012

www.spv.no/vestlandsindeks
Vestlandsindeks: increased prices and improved profitability

- 57% of the businesses expect improved profitability. Biggest change in Hordaland and Sogn og Fjordane.
- Nearly one-third of the businesses predict increased retail prices.
- 34% of the businesses say they will increase their staff over the next six months.
- The proportion of businesses expecting to make investments in the next six months is unchanged from the first quarter at 33%.
**Product and supplier strategy**
– product companies and strong distribution network

<table>
<thead>
<tr>
<th></th>
<th>Frende</th>
<th>Norne</th>
<th>Brage</th>
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<tbody>
<tr>
<td>Share of profit/loss SPV as of 30 June 2010</td>
<td>NOK -23.0 mill.</td>
<td>NOK -2.2 mill.</td>
<td>n/a</td>
</tr>
<tr>
<td>Share of profit/loss SPV as of 30 June 2011</td>
<td>NOK -10.5 mill.</td>
<td>NOK -8.5 mill.</td>
<td>NOK -2.5 mill.</td>
</tr>
<tr>
<td>Share of profit/loss SPV as of 30 June 2012</td>
<td>NOK 26.5 mill.</td>
<td>NOK -2.8 mill.</td>
<td>NOK -1.4 mill.</td>
</tr>
</tbody>
</table>

**Total number of competence-based jobs established since 2007:** 180
Frende Skadeforsikring
– 7,000 new customers in 2012 and assets under management of NOK 1.4 billion

Controlled growth and efficient operations

Development in Frende Skadeforsikring (overall)

Market share\(^1\) (all of Norway)

- **3 %** Frenede Skade
- **97 %** Others

Market share\(^2\) (Hordaland)

- **15 %** Frenede Skade
- **85 %** Andre

*Combined ratio* of 86.6% in the second quarter.

\(^1\)Estimated
\(^2\)Calculated
Outlook

External factors

- Western Norway
  - High level of activity and investments in oil and energy and in building and construction
  - Good demand for oil products, metals and fish
  - Risk of contagion effect from global unrest

- International risk factors
  - The sovereign debt situation in Europe
  - A setback in the US economy
  - Developments in new emerging economies
  - The situation in the Middle East

Sparebanken Vest

- Lower volume growth in the corporate market
- Improved net interest for the bank in the time ahead
- Expectations of continued low risk in the retail market and market uncertainty for certain corporate customers
- Increased commission and contributions from associated companies
- Effects of improvement programme
- Volatile capital market
Second quarter and first half-year 2012

The Sparebanken Vest Group

: Accounting and finance

23 August 2012
Eivind Areklett Norebø, CFO
Profit/loss development second quarter 2011-2012

- Q2 2011 Reported: 183
- Net interest: 54
- Net banking services/other income: 5
- Associated companies: 23
- Other financial instruments: 3
- Commercial papers and bonds: 24
- Shares: 18
- Operating expenses: 12
- Hardanger: 43
- Other operating expenses: 171

NOKm
Profit/loss development first half-year 2011-2012

- 398 NOKm 30.06.2011 Reported
- 98 Net interest
- 8 Net banking services/other income
- 45 Associated companies
- 50 Commercial papers and bonds
- 45 Shares
- 2 Other financial instruments
- Integration expenses
- Operating expenses
- Other operating expenses
- Loan losses
- 405 30.06.2012 Reported
Increased net interest in the second quarter*

* Incl. full consolidation of Sparebanken Vest Boligkreditt AS
Change in net interest Q2 2011 – Q2 2012

- Net interest income Q2 2011: 385
- Lending volume: 23
- Deposit volume: 19
- Lending margin: 52
- Equity capital: 12
- Deposit margin: 26
- Commercial papers and bonds: 6
- Shares: 6
- Other assets and liabilities: 14
- Net interest income Q2 2012: 439
Interest margins increasing*

* Product margins and interest margins (parent bank and housing credit company) seen in relation to the bank's intra-group interest
Margins in relation to 3-month NIBOR (effective interest rate)

**Lendings**

- 2010 Q1: 2.41
- 2010 Q2: 2.28
- 2010 Q3: 2.18
- 2010 Q4: 2.23
- 2011 Q1: 2.20
- 2011 Q2: 2.69
- 2011 Q3: 2.69
- 2011 Q4: 1.68
- 2012 Q1: 1.42
- 2012 Q2: 1.38
- 2012 Q3: 1.50
- 2012 Q4: 1.41
- 2013 Q1: 1.22
- 2013 Q2: 1.09
- 2013 Q3: 1.09
- 2013 Q4: 1.73
- 2014 Q1: 1.89

**Deposits**

- 2010 Q1: 0.30
- 2010 Q2: 0.24
- 2010 Q3: 0.42
- 2010 Q4: 0.46
- 2011 Q1: 0.31
- 2011 Q2: 0.32
- 2011 Q3: 0.43
- 2011 Q4: 0.77
- 2012 Q1: 0.57
- 2012 Q2: 0.55
- 2012 Q3: 0.05
- 2012 Q4: 0.02
- 2013 Q1: 0.26
- 2013 Q2: 0.17

**Definition:** The quarter's average customer interest rate minus average of 3-month NIBOR
Reduction of 30 full-time equivalents in the improvement programme

Full-time equivalents 30.06.2012 876
Full-time equivalents 30.04.2011 846
Change 30

Details:
Integration Sparebanken Hardanger 47
New positions Eiendomsmegler Vest 8
New positions Sparebanken Vest 5
Improvement programme -30
Change full-time equivalents 30

- Sparebanken Vest started its improvement programme in Q2 2011, with the goal of reducing the number of full-time equivalents by 6% in the course of 2012.

- As of Q2 2012, we have reduced the number of full-time equivalents by 30. In addition, 11 full-time equivalents will be eliminated in 2012.

- New positions in Sparebanken Vest are mainly related to new IT staff who are set to replace 15 external IT consultants.

- New positions in Eiendomsmegler Vest are based on the goal of growth in the number of properties sold and market shares in 2012.
Acquired company and high level of activity affect operating expenses

- 30% of the increase in costs is related to the operation and takeover of Hardanger Sparebank, incl. integration costs.
- High project activity and investment in digital channels, including new online banking and mobile phone banking services.
- Lower interest rate leads to higher pension expenses.

<table>
<thead>
<tr>
<th></th>
<th>MNOK</th>
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<tbody>
<tr>
<td>Costs 30.6.2012</td>
<td>758</td>
</tr>
<tr>
<td>Costs 30.6.2011</td>
<td>650</td>
</tr>
<tr>
<td><strong>Change</strong></td>
<td><strong>108</strong></td>
</tr>
</tbody>
</table>

**Details:**

**Hardanger Sparebank**
- Salaries: 15
- Other operating expenses: 10
- Integration expenses: 8
**Total Hardanger Sparebank**: 33

**Sparebanken Vest**
- Change full-time equivalents and increase in salaries: 11
- Pension expenses: 10
- IT expenses: 26
- Other operating expenses: 17
**Total Sparbanken Vest**: 64

**Eiendomsmegler Vest**
- Change full-time equivalents and increase in salaries: 9
- Other operating expenses: 2
**Total Eiendomsmegler Vest**: 11
**Change operating expenses**: 108
Good growth in deposits

Growth in deposits in the last 12 months 10.4% (RM 14.5% and CM 5.0%) incl. Sparebanken Hardanger
Lending volume of NOK 104 billion
– balanced growth in lendings and good diversification

Growth in lendings in the last 12 months 14.3%
(RM 13.0% and CM 17.7%), incl. Sparebanken Hardanger

Commitment volume by industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail market</th>
<th>Corporate market</th>
</tr>
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<tbody>
<tr>
<td>2008</td>
<td>15.1</td>
<td>6.2</td>
</tr>
<tr>
<td>2009</td>
<td>16.2</td>
<td>5.5</td>
</tr>
<tr>
<td>2010</td>
<td>17.1</td>
<td>5.4</td>
</tr>
<tr>
<td>2011</td>
<td>18.1</td>
<td>5.3</td>
</tr>
<tr>
<td>2012</td>
<td>19.1</td>
<td>5.0</td>
</tr>
</tbody>
</table>

- Retail market
- Corporate market
The RM portfolio – large proportion secured by mortgage – good security coverage with low LTV ratios

96% of RM exposed to housing loans

- 96% of the RM portfolio consists of loans secured by mortgage*
- 33% of housing loans are flexible loans (overdraft facilities), the remainder are ordinary instalment loans
- Flexible loans can be furnished for up to 70% of the house’s market value pursuant to the new guidelines

Good security coverage

<table>
<thead>
<tr>
<th>LTV &lt;= 70 %</th>
<th>70 - 85 %</th>
<th>LTV &gt; 85 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>92.7 %</td>
<td>4.6 %</td>
<td>2.8 %</td>
</tr>
</tbody>
</table>

Ordinary instalment loans are normally furnished for up to 85% of a house’s value pursuant to the new guidelines
Up to 100% LTV ratio permitted if additional security is furnished, and following a separate assessment of creditworthiness
93% of the total volume of housing loans are within 70% of the house’s value provided that all loans are split.
Risk profile – low in the retail market, moderate in the corporate market
– stable, low risk profile in the retail market

- High RM share makes positive contribution to the overall low risk profile
  - Large proportion secured by mortgage and low LTV ratio.
- More than 80% of the overall portfolio has low risk
- Both CM and RM developed positively in the quarter.

Debt-servicing ability + security coverage (PD/LGD)*

*From 2012, the bank uses a new loss calculation method that affects the classification. This means that the data are not directly comparable with previous periods.
Stable percentage provided for and reduced default of payment

Increased group write-downs but stable percentage provided for

Decrease in default of payment in CM, stable in RM
Low losses in the second quarter

- Loss cost of NOK 28 million in the second quarter, corresponding to 0.05 (0.06)% per annum of average gross loans
- The corresponding figure for the first half-year is NOK 0.15 (0.09)%.
Improved structural liquidity
– liquidity portfolio of approx. NOK 17 billion

Composition of liquidity portfolio Q2 2012

- State 11%
- Local and county authorities 6%
- Banks 22%
- Others 2%
- Covered bonds 52%
- Interbank 4%
- Equities 4%
- "Used as collateral in NB"
Liquidity – capital market financing of NOK 57 billion
– good access to the capital market, proportion of funding with a term to maturity of more than three years is more than 40%

- Capital market funding (excluding covered bonds and swap arrangement)
- Covered bonds sold in market
- Covered bonds used in swap arrangement
Capital adequacy Basel II and transitional arrangement – high, stable proportion of Core Tier 1 capital

* The figures for the quarter include 50% of the accumulated profit after tax
While we are waiting for the new regulations…
– uncertainty about when the regulations will be introduced makes capital planning challenging

- Uncertainty relating to the introduction of new, more risk-sensitive capital requirement regulations makes capital planning challenging.
  - Especially in banks with IRB approval

- Sparebanken Vest adopted new capital adequacy targets in autumn 2011
  - Pursuant to Basel II, the bank shall have a Core Tier 1 capital ratio of 10% and overall capital adequacy of 13%.
  - Pending the new regulations, the bank shall have a capital adequacy ratio on a par with Q3 2011 pursuant to the transitional arrangement

- As of Q2 2012, the bank is clearly above the capital adequacy targets pursuant to Basel II and on a par with the capital adequacy targets pursuant to the transitional arrangement.

- Norwegian authorities’ requirement for a minimum of 9% Core Tier 1 capital (pursuant to the transitional arrangement)
  - Creates additional challenges relating to capital planning
  - Leads to further capital optimisation in operations
While we are waiting for the new regulations ...(contd.)
– recognition of the pension corridor for the defined-benefit pension scheme

- As of 1 January 2013, IAS 19 will be revised so that deferred recognition of pension commitments (‘the corridor method’) is no longer permitted
  - The commitment must be entered against equity and own funds
  - Uncertainty relating to transitional arrangements

- Operational and cost-cutting measures have been implemented to improve capital efficiency and maintain core capital adequacy

- Change in adjustment of the defined-benefit pension scheme
  - From the average of wage and price inflation to system based on return on pension capital
  - Preliminary calculation of economic effects based on existing actuary calculations (seen in isolation)
    - Non-recurring effect on pre-tax profit/loss in the year of the plan change: up to NOK 275 million
    - Pre-tax effect on profit/loss the following year: up to NOK 50 million
    - Reduction of equity as of 1 January 2013: approx. NOK 295 million (approx. NOK 370 million without plan change)
    - Estimated net effect on equity as of 1 January 2013 is approx. minus NOK 100 million

- Effect of other measures
Questions?