STRATEGIC GOALS

‘Trust, simplicity and local commitment – because it makes a difference’

Customer promise → Strategic goals → Financial targets

ROE > 11%
STRATEGIC CHALLENGES

To shape the savings bank of the future in the digital shift that is taking place

Ensuring the bank’s independence and market position in order to contribute to value creation in Western Norway

Maintaining the savings bank values and our distinctiveness, while also renewing ourselves
FRAMEWORK CONDITIONS

1. Long-term ownership
2. New regulatory requirements
3. Digitalisation

Tomorrow’s financial industry in Western Norway
ORGANISATION
– EQUIPPED TO MEET FUTURE REQUIREMENTS FROM BOTH OWNERS AND CUSTOMERS

Rationalisation of processes
Clarification of responsibility for profit performance
More performance and customer-oriented management
STRATEGY

Strategic measures intended to:

- Contribute to modernisation and adaptation to developments in digital technology
- Strengthen the bank’s position in the SME market
- Increase earnings and cooperation between the bank and its subsidiaries/associated companies
- Rationalise the bank’s operations

More specific measures will be introduced and implemented in autumn
MANAGEMENT DEVELOPMENT

Q1/Q2 – 'Change management'
- Corporate management
  - Role model
  - Active participation
  - Success criteria
- Middle managers
  - Role model
  - Active participation
  - Success criteria
- Department managers
  - Role model
  - Active participation
  - Success criteria

Q3/Q4 – 'Time management'
- Corporate management
- Middle managers
- Department managers

2015 ‘Performance management and coaching’
THE ROAD TO JONSVOLL – MORE THAN JUST A BUILDING

Organisational development
Cost savings and efficient use of space
Competence sharing
Interaction with subsidiaries and product companies
## KEY DEVELOPMENTS SECOND QUARTER/ FIRST HALF-YEAR

<table>
<thead>
<tr>
<th>Category</th>
<th>Second quarter</th>
<th>First half-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>INCREASED OPERATING PROFIT</td>
<td>PRE-TAX OPERATING PROFIT</td>
<td>PRE-TAX OPERATING PROFIT</td>
</tr>
<tr>
<td></td>
<td>NOK 433 MILL. (332)</td>
<td>NOK 959 MILL. (605)</td>
</tr>
<tr>
<td>GOOD RETURN ON EQUITY</td>
<td>RETURN ON EQUITY</td>
<td>RETURN ON EQUITY</td>
</tr>
<tr>
<td></td>
<td>16.8% (12.7%)</td>
<td>18.3% (11.6%)</td>
</tr>
<tr>
<td>COST TREND IN LINE WITH TARGET</td>
<td>COST RATIO</td>
<td>COST RATIO</td>
</tr>
<tr>
<td></td>
<td>46.9% (50.9%)</td>
<td>42.5% (52.6%)</td>
</tr>
<tr>
<td>CAPITAL ACCUMULATION ACCORDING TO PLAN</td>
<td>CORE TIER 1 CAPITAL*</td>
<td>CORE TIER 1 CAPITAL*</td>
</tr>
<tr>
<td></td>
<td>11.5% (10.6%)</td>
<td>11.5% (10.6%)</td>
</tr>
<tr>
<td>CONTRIBUTION TO PROFITS, ASSOCIATED COMPANIES</td>
<td>CONTRIBUTION TO PROFITS</td>
<td>CONTRIBUTION TO PROFITS</td>
</tr>
<tr>
<td></td>
<td>NOK 30 MILL. (12)</td>
<td>NOK 48 MILL. (21)</td>
</tr>
</tbody>
</table>

*Figures in brackets: second quarter 2013  
*includes 50% of the profit for the period
The figures for Q1 2014 include a gain on the sale of Nets in the amount of NOK 166 mill., and the Q2 figures include a gain on the sale of properties in the amount of NOK 143 mill.
PROFIT AND BOOK VALUE OF EQUITY CERTIFICATES

Profit per equity certificate

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 13</td>
<td>1.62</td>
</tr>
<tr>
<td>Q3 13</td>
<td>1.85</td>
</tr>
<tr>
<td>Q4 13</td>
<td>1.33</td>
</tr>
<tr>
<td>Q1 14</td>
<td>2.56</td>
</tr>
<tr>
<td>Q2 14</td>
<td>2.32</td>
</tr>
</tbody>
</table>

Book equity per equity certificate

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 13</td>
<td>52</td>
</tr>
<tr>
<td>Q3 13</td>
<td>53.9</td>
</tr>
<tr>
<td>Q4 13</td>
<td>54.7</td>
</tr>
<tr>
<td>Q1 14</td>
<td>54.4</td>
</tr>
<tr>
<td>Q2 14</td>
<td>56.6</td>
</tr>
</tbody>
</table>
The figures for Q1 2014 include a gain on the sale of Nets in the amount of NOK 166 mill., and the Q2 figures include a gain on the sale of properties in the amount of NOK 143 mill.
STABLE NET INTEREST

Development in net interest and credit commission income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NOKm</td>
<td>NOKm</td>
<td>NOKm</td>
<td>NOKm</td>
<td>NOKm</td>
<td>NOKm</td>
<td>NOKm</td>
<td>NOKm</td>
<td>NOKm</td>
<td>NOKm</td>
</tr>
<tr>
<td>422</td>
<td>439</td>
<td>458</td>
<td>478</td>
<td>459</td>
<td>549</td>
<td>573</td>
<td>580</td>
<td>566</td>
<td>575</td>
</tr>
<tr>
<td>1.39%</td>
<td>1.44%</td>
<td>1.46%</td>
<td>1.51%</td>
<td>1.47%</td>
<td>1.72%</td>
<td>1.73%</td>
<td>1.71%</td>
<td>1.67%</td>
<td>1.69%</td>
</tr>
</tbody>
</table>

Per capital unit % p.a.

- Net interest income and credit commissions (NOKm)
- Net interest income and credit commissions per capital unit (% p.a.)
DEVELOPMENT IN MARGINS
– INCREASED NIBOR AND REPRICING OF CUSTOMER INTEREST RATES

Lending

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Retail</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2-13</td>
<td>2.44</td>
<td>3.40</td>
</tr>
<tr>
<td>Q3-13</td>
<td>2.58</td>
<td>3.30</td>
</tr>
<tr>
<td>Q4-13</td>
<td>2.58</td>
<td>3.29</td>
</tr>
<tr>
<td>Q1-14</td>
<td>2.54</td>
<td>3.27</td>
</tr>
<tr>
<td>Q2-14</td>
<td>2.38</td>
<td>3.14</td>
</tr>
</tbody>
</table>

Deposits

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Retail</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2-13</td>
<td>-0.61</td>
<td>-0.35</td>
</tr>
<tr>
<td>Q3-13</td>
<td>-0.63</td>
<td>-0.48</td>
</tr>
<tr>
<td>Q4-13</td>
<td>-0.69</td>
<td>-0.51</td>
</tr>
<tr>
<td>Q1-14</td>
<td>-0.76</td>
<td>-0.50</td>
</tr>
<tr>
<td>Q2-14</td>
<td>-0.58</td>
<td></td>
</tr>
</tbody>
</table>

Retail

Corporated
CONTINUED PROGRESS IN ASSOCIATED COMPANIES
– THE COMPANIES’ PROFIT AFTER TAX, FIRST HALF-YEAR (NOK MILL.)
CONTRIBUTION TO PROFITS FROM ASSOCIATED COMPANIES
– INCREASE OF NOK 18 MILL. IN THE SECOND QUARTER

<table>
<thead>
<tr>
<th>NOKm</th>
<th>Q1 2014</th>
<th>Q1 2013</th>
<th>1H 2014</th>
<th>1H 2013</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frende Forsikring</td>
<td>25</td>
<td>9</td>
<td>38</td>
<td>16</td>
<td>41</td>
</tr>
<tr>
<td>Norne Securities</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>-2</td>
</tr>
<tr>
<td>Brage Finans</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Verd Boligkreditt</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td><strong>Net profit from associated companies</strong></td>
<td><strong>30</strong></td>
<td><strong>12</strong></td>
<td><strong>48</strong></td>
<td><strong>21</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>
GROWTH IN LENDING IN RETAIL AND CORPORATE MARKETS
– GROWTH IN LINE WITH THE BANK’S TARGETS

**Retail market**
Deposits: NOK 39.7 bill. – Lending NOK 87.8 bill.

- 12 m growth deposit: 6,6%
- 12 m growth lending: 7,0%
- Q2 growth deposit: 7,50%
- Q2 growth lending: 2,40%

**Corporate market**
Deposits: NOK 24.5 bill. – Lending NOK 28.2 bill.

- 12 m growth deposit: 2,5%
- 12 m growth lending: 0,7%
- Q2 deposit: -2,1%
- Q2 growth lending: 0,7%
STRENGTHENED MARKET POSITION IN THE RETAIL MARKET
– CONSIDERABLE IMPROVEMENT IN YOUNGER AGE GROUPS

MAIN BANK

Number of new retail customers first half-year: 1,500
Number of new corporate customers: 150
TARGETED COST MEASURES PAYING OFF

Cost ratio
As percentage

Full-time equivalents
Group

Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14
---|---|---|---|---
50,9 | 46,7 | 43,9 | 47,7 | 46,9

Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14
---|---|---|---|---
844 | 838 | 821 | 830 | 808
COST TREND IN LINE WITH TARGET
- REDUCED COSTS IN PARENT BANK COMPARED WITH 2012

On track to reaching the target of a 2% average annual cost growth in the parent bank up until 2015

*) The 2012 figures excl. non-recurring effects related to pensions amounting to a total of NOK 301 million, plus bonuses in the parent bank. The target for the parent bank is excl. bonuses. All figures have been revised pursuant to IAS19R.
**) Including Boligkreditt and excl. bonus
DEFAULTS AND OTHER POTENTIAL BAD DEBT*
– RELATIVELY STABLE IN BOTH CUSTOMER SEGMENTS

*) Includes all defaults, not only default of payment. Includes commitments with individual write-downs, calculated as a percentage of total volume of lending.
PROVISIONS/GROSS LOANS
BREAKDOWN OF LENDING, CORPORATE MARKET

By volume*

- 0-50 mill: 19,456
- 50-150 mill: 9,826
- over 150 mill: 7,698

By sector

- Primary industries: 44%
- Manufacturing and mining: 8%
- Building and construction, power and water supply: 8%
- Commerce, hotel and restaurants: 7%
- International shipping and pipeline transport: 10%
- Other transport, post and telecommunications: 11%
- Property management: 6%
- Services: 6%

* Measured at customer level
COMPOSITION OF DEPOSITS
– LARGE PROPORTION COVERED BY DEPOSITS GUARANTEE SCHEME

Stable deposits, covered by deposits guarantee scheme, treated favourably in LCR and NSFR
FINANCIAL STRENGTH
– CAPITAL LEVEL ABOVE FUTURE MINIMUM AND BUFFER REQUIREMENTS

**Basel 1 floor**

- **Total Capital**: 12.6% Q2 2013, 12.7% Q3 2013, 14.3% Q4 2013, 14.3% 1Q 2014, 14.8% 2Q 2014
- **Additional Capital (Tier 2)**: 0.2% Q2 2013, 0.3% Q3 2013, 1.1% Q4 2013, 1.0% 1Q 2014, 1.4% 2Q 2014
- **Hybrid Capital (Tier 1)**: 1.7% Q2 2013, 1.6% Q3 2013, 2.0% Q4 2013, 2.0% 1Q 2014, 1.4% 2Q 2014
- **Core Tier 1 Capital**: 10.6% Q2 2013, 10.8% Q3 2013, 11.2% Q4 2013, 11.3% 1Q 2014, 11.5% 2Q 2014

**IRB**

- **Total Capital**: 16.7% Q2 2013, 16.8% Q3 2013, 18.1% Q4 2013, 16.9% 1Q 2014, 18.7% 2Q 2014
- **Additional Capital (Tier 2)**: 0.3% Q2 2013, 0.4% Q3 2013, 1.4% Q4 2013, 1.2% 1Q 2014, 2.4% 2Q 2014
- **Hybrid Capital (Tier 1)**: 2.2% Q2 2013, 2.2% Q3 2013, 2.5% Q4 2013, 2.3% 1Q 2014, 1.7% 2Q 2014
- **Core Tier 1 Capital**: 14.2% Q2 2013, 14.3% Q3 2013, 14.2% Q4 2013, 13.4% 1Q 2014, 14.6% 2Q 2014

*The figures for the quarter include 50% of the accumulated profit after tax, with the exception of the fourth quarter.
**Figures for Q1 2014 pursuant to IRB were upwardly adjusted by 0.4 percentage points from the first quarter report, taking into account intra-group eliminations.
CAPITAL ACCUMULATION UP UNTIL 2016
– CAPITALISATION ON A PAR WITH NORWEGIAN SIFI BANKS

Assumptions

- Growth on a par with 2013
  - Retail market 6%
  - Corporate market 2.5%

- Costs in line with cost targets

- ‘Normalised’ losses (25 bp)

- Dividend policy maintained (50% / 5%)

- Combined Pillar I minimum requirements and buffer requirement of 11% Core Tier 1 capital because regional banks are not subject to the same special capital requirements as systemically important institutions.

- Uncertain whether the Financial Supervisory Authority will impose special Pillar II requirements on regional banks.
## STATUS CAPITAL PLAN 2016

<table>
<thead>
<tr>
<th>Category</th>
<th>Target</th>
<th>Actual</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in lending retail and corporate market</td>
<td>6% / 2.5%</td>
<td>7.1% / 2.7%</td>
<td>✔️</td>
</tr>
<tr>
<td>Return on equity</td>
<td>&gt; 11%</td>
<td>18.3%</td>
<td>✔️</td>
</tr>
<tr>
<td>Cost trend in line with target</td>
<td>2%</td>
<td>-2%</td>
<td>✔️</td>
</tr>
<tr>
<td>Capital accumulation according to plan</td>
<td>11.5%</td>
<td>11.5%</td>
<td>✔️</td>
</tr>
</tbody>
</table>
Digital developments and regulatory changes are key framework conditions

Ongoing revision of strategic measures to ensure that the bank achieves its goals

Interest margins under pressure

Expect to reach targeted growth in the retail market, somewhat more challenging in the corporate market

Goal of average cost growth of 2% in the parent bank still applies

Associated companies’ contribution to profits is expected to increase in 2014
APPENDIX
Optimism is returning

- 65% of enterprises in Western Norway are optimistic about the future

While optimism dominates, expectations are at a lower level than at the same time last year

At the same time, Vestlandsindeks no 2/2014 shows:

- Performance index increased from 62.8 to 65
- Highest level of optimism in building and construction
- Lower level of optimism in the power and oil production industries
- 25% have taken on more staff while 10% have downsized in the last month

The projects that apply for funding from the bank are therefore still expected to be of a high quality
LIQUIDITY AND FINANCING
- DEVELOPMENT – ASSETS
LIQUIDITY AND FINANCING
- DEVELOPMENT – LIABILITIES

Liabilities

Duration - liabilities

- Debt to financial institutions and short term instruments
- Senior debt
- Covered bonds and swap arrangement with Norges Bank
- Hybrid capital (Tier 1) and subordinated debt (Tier 2)