

# SpareBank 1 SR-Bank Group

Investor Presentation – May 2011

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# Norwegian Economy

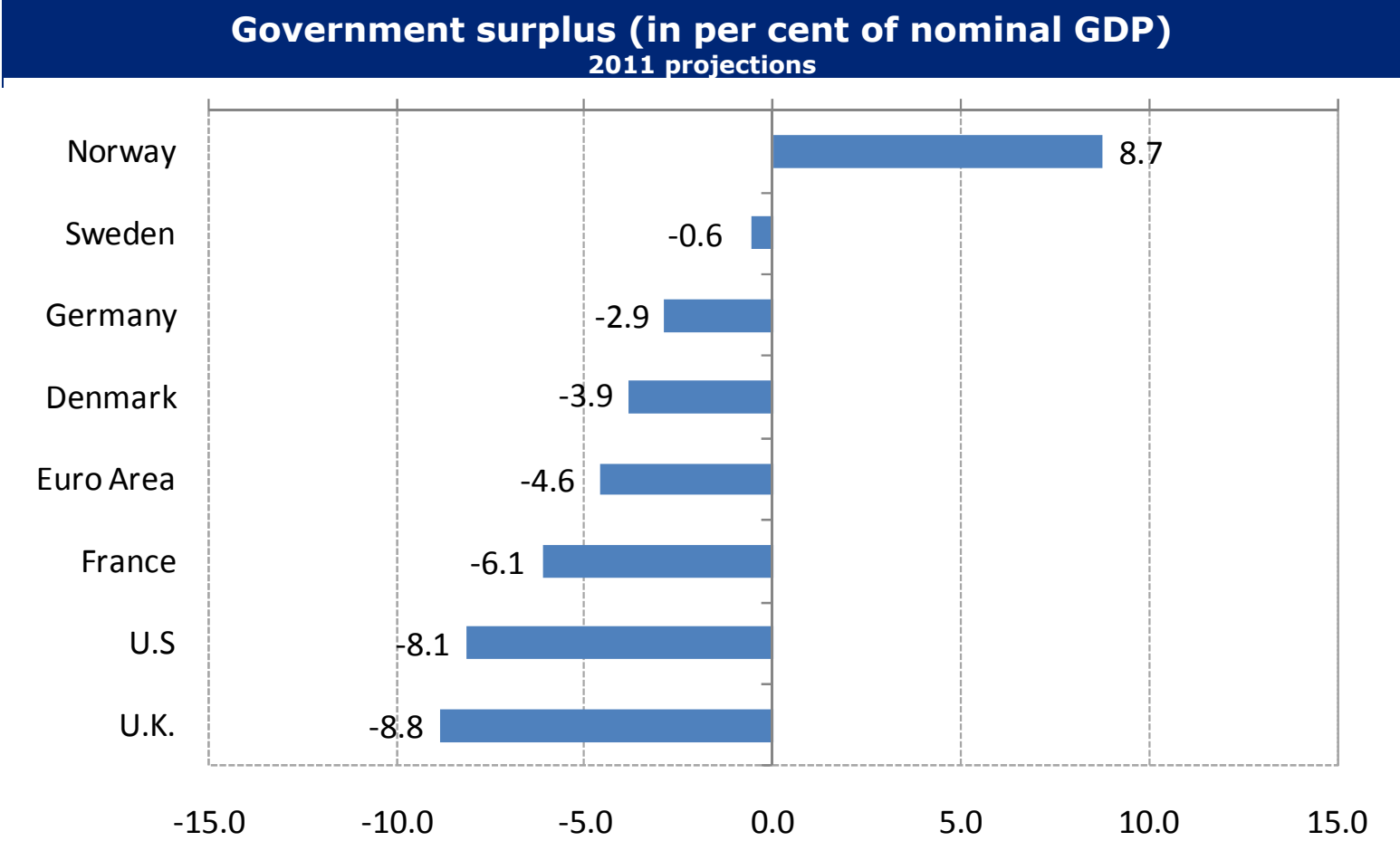
# Norwegian Economy

## Key Economic Indicators

	 <b>Norway</b>					
<b>Economic Indicators (%)</b>	2006A	2007A	2008A	2009 A	2010 A	2011 E
GDP Growth, year on year (mainland)	4.9	5.6	1.8	-1.3	2.2	3.3
Inflation, CPI	2.3	0.8	3.8	2.1	2.5	1.8
Private Consumption, real	4.8	5.4	1.6	0.2	3.6	3.7
Interest Rate (3m Money Market)	3.1	5.0	6.2	2.5	2.5	2.8
Unemployment	3.4	2.5	2.6	3.2	3.6	3.6
Current Account Surplus / GDP	17	14	18	13	13	12
Budget Surplus / GDP	17	17	20	12	9	10
Sovereign Wealth Fund / GDP	88	94	94	116	126	134

# Norwegian Economy

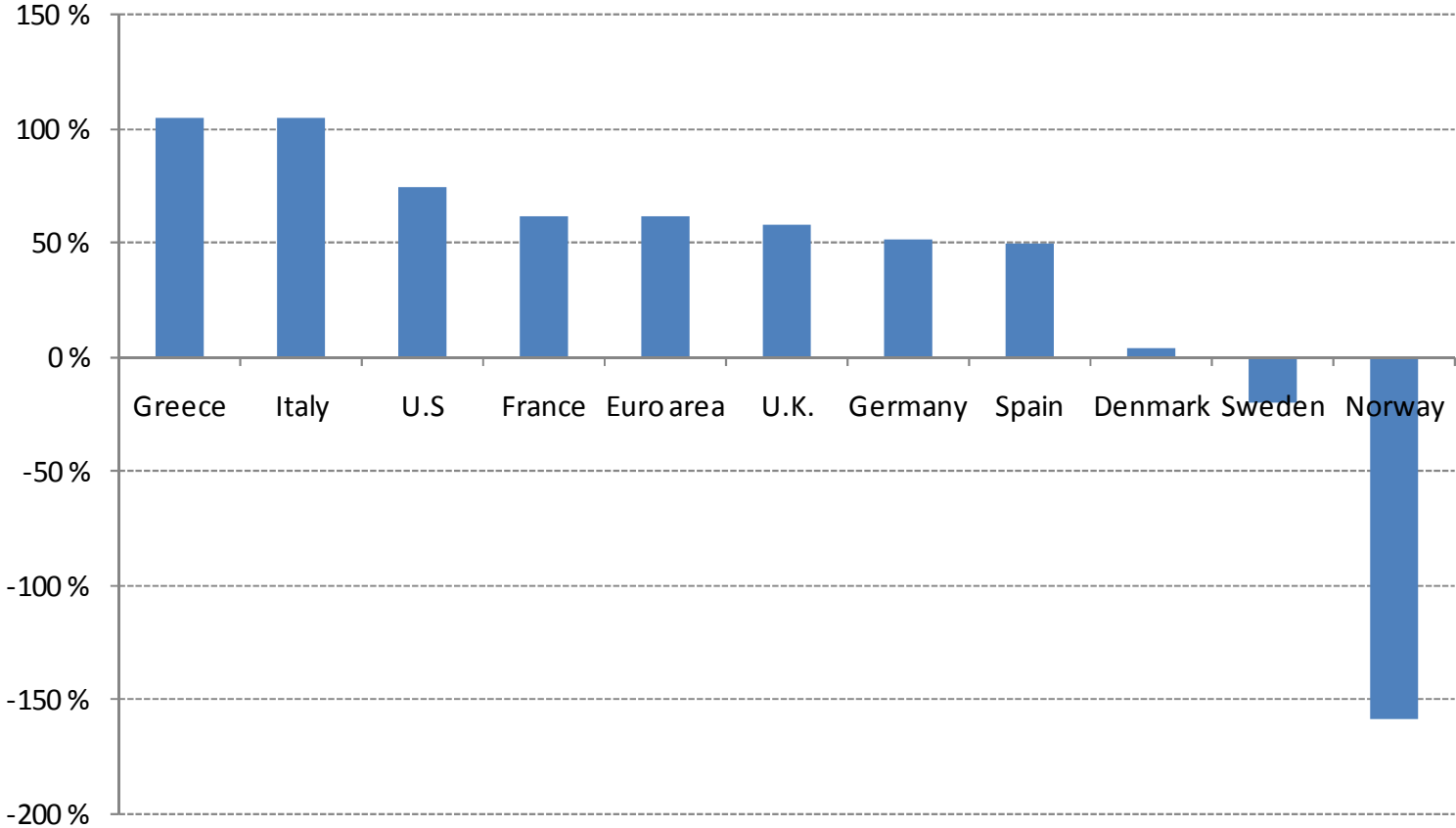
A unique situation with a budget surplus...



# Norwegian Economy

..causes a solid net financial position

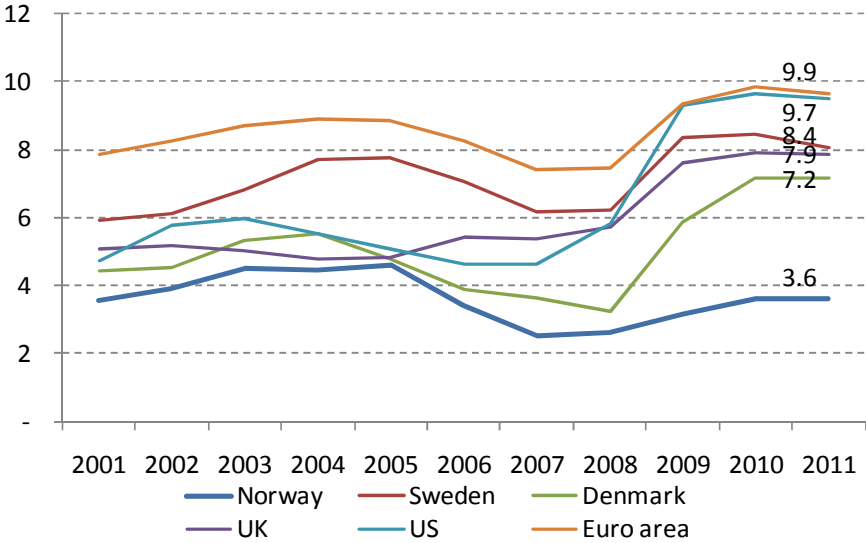
**General gov net financial liabilities (in per cent of nominal GDP)**  
2011 projections



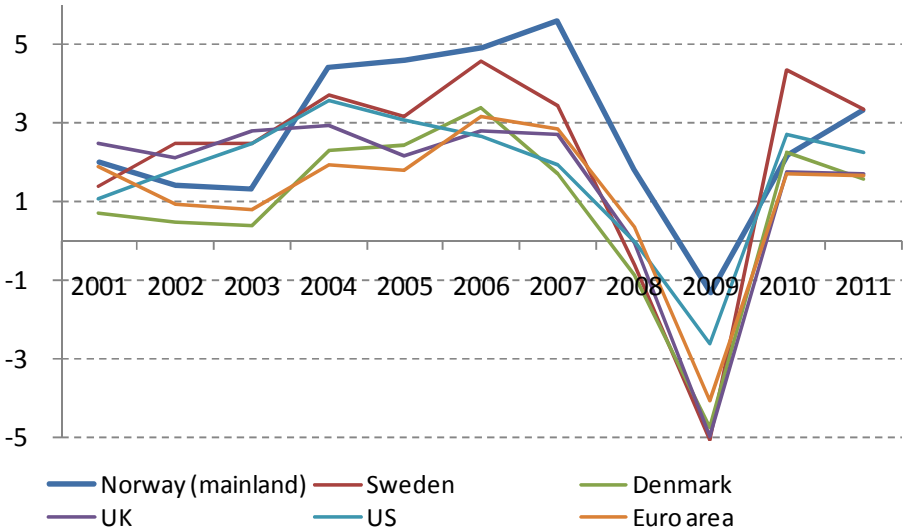
# Norwegian Economy

A smaller impact of the recent crisis than the Nordic neighbours

**Unemployment rates**



**GDP growth rates**



SpareBank 1 - alliance

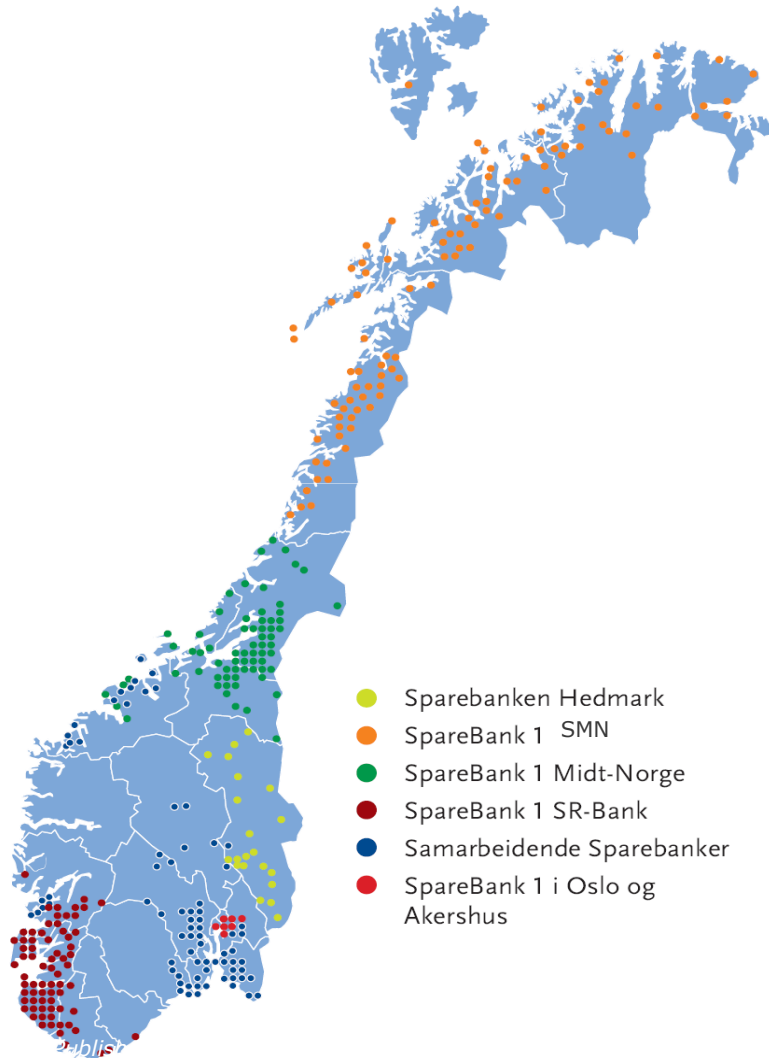
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SpareBank 1 SR-Bank



# SpareBank 1 - alliance

## Strong alliance of Norwegian retail banks

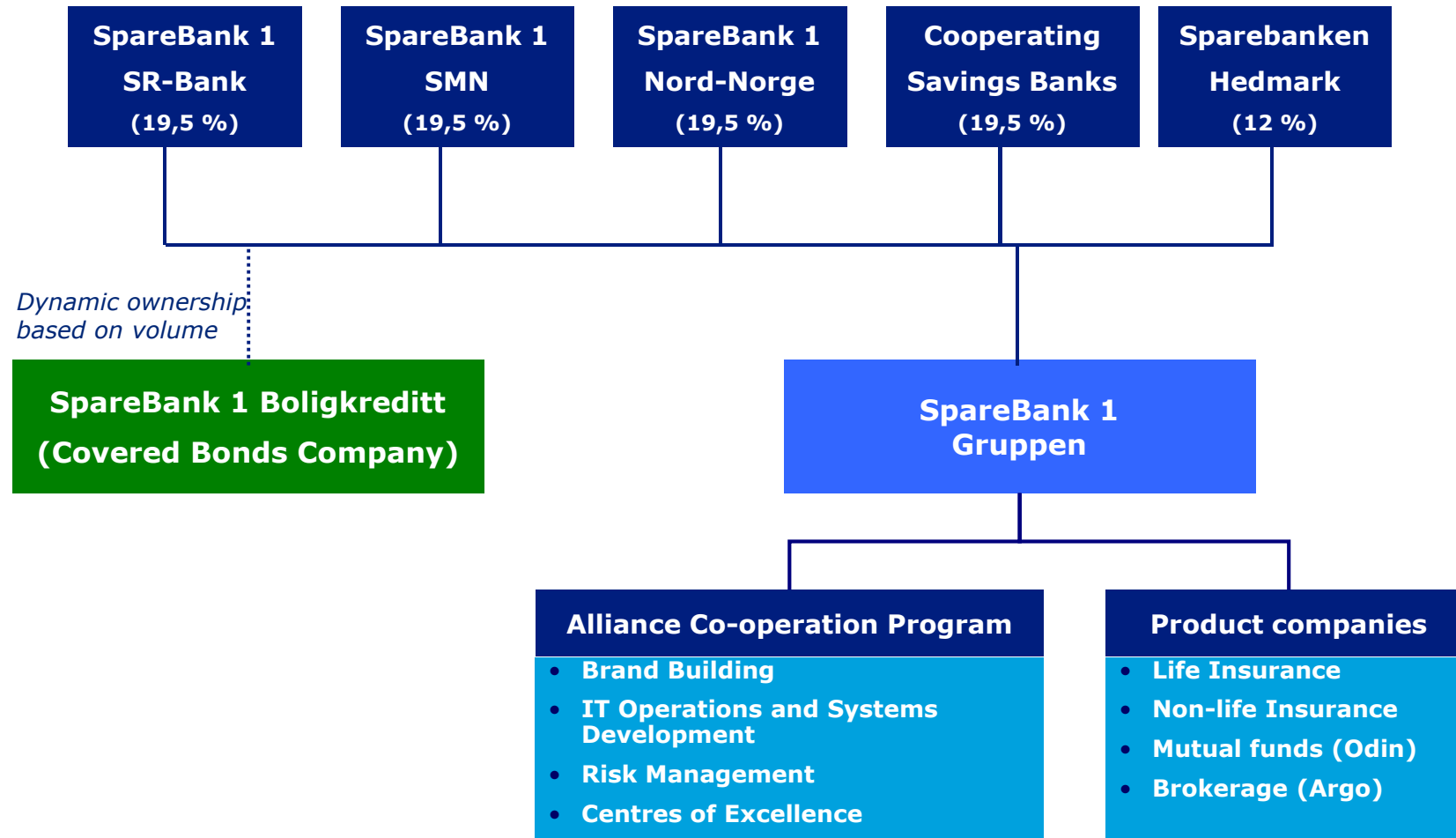


- Founded 1996 - Economies of Scale
- Local presence – extensive branch network
- 2nd largest mortgage lender in the Norwegian Retail Market
- Market leader in its local markets
  - “The neighbourhood bank” with market shares from 30 - 50%
- Approx two thirds are retail lending
  - Rest is SME lending
- Key banks in the Alliance trace their history back to the 1820’s

Ratings	Fitch	Moody’s
SpareBank 1 SR-Bank	A- / F2	A1 / P-1
SpareBank 1 SMN	A- / F2	A1 / P-1
SpareBank 1 Nord-Norge	A / F1	A1 / P-1
Sparebanken Hedmark	n/a	A1 / P-1

# SpareBank 1 - alliance

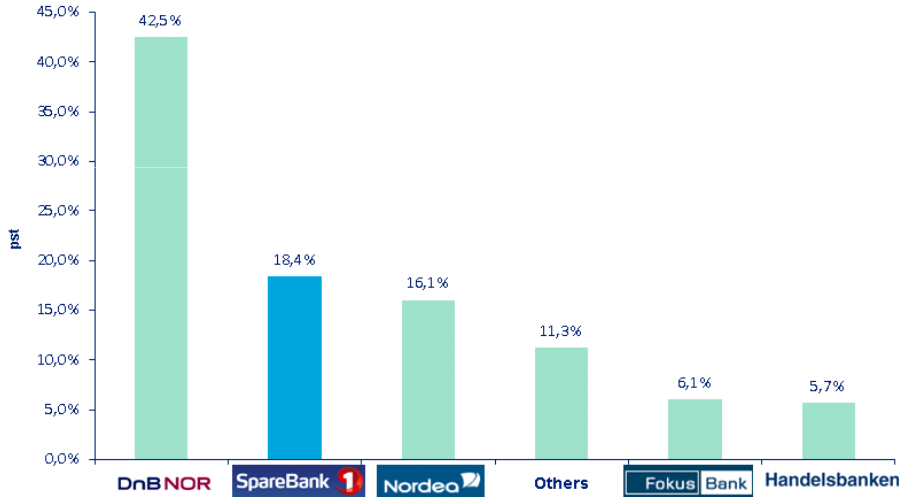
## Simplified structure



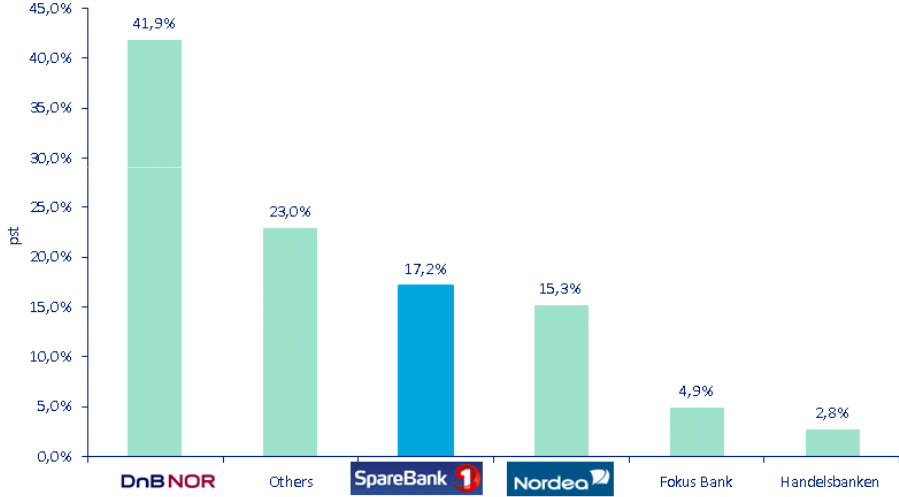
# SpareBank 1 - alliance

## Market Shares in Norway

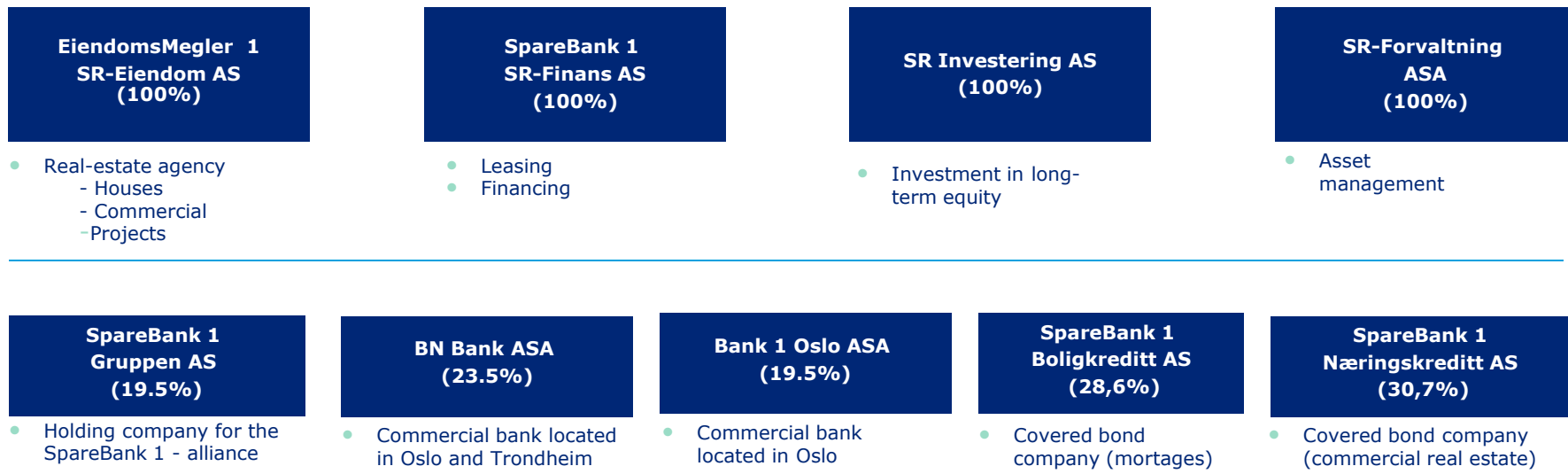
### Lending



### Deposits



# Group Structure



# Recommended by the customer

## SPAREBANK 1 SR-BANK'S STRATEGY

**We shall be southern and western Norway's most attractive supplier of financial services**

Based on:

- Good customer experiences
- Strong team spirit and professionalism
- Local roots and decision-making power
- Financial strength, profitability and confidence in the market

## OUR PURPOSE

SpareBank 1 SR-Bank shall create value for the region of which we are part

## OUR VALUES

"Courage to speak your mind, strength to create"

### **By being**

- Able to view things in a long-term perspective
- Open and sincere

### **By showing**

- Responsibility and respect
- A will and an ability to improve

# SpareBank 1 SR-Bank

Creating values for more than 170 years



## Southwestern Norway's leading bank group

- Profit before tax as at Q1 2011: NOK 336 million
- Total assets on-balance sheet: NOK 133 billion
- 54 offices in Hordaland, Rogaland and Agder
- Close to 300 000 customers - main bank for 26 municipalities or counties
- Around 1 200 employees
- Amongst one of the most profitable banks in Scandinavia last 15 years



# Financial Performance – Q1 2011

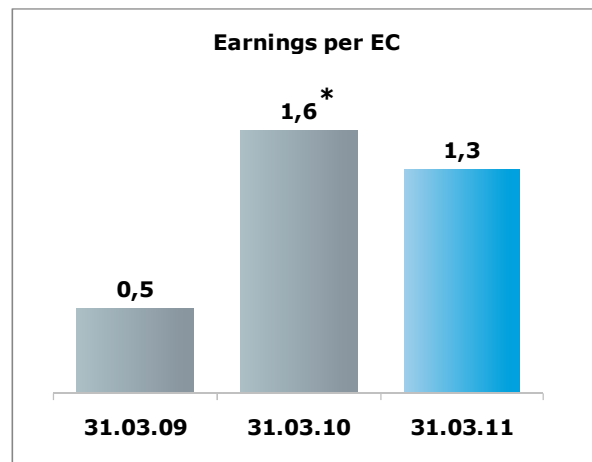
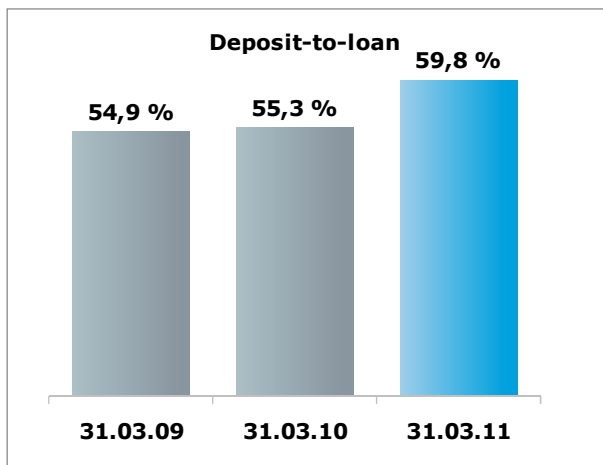
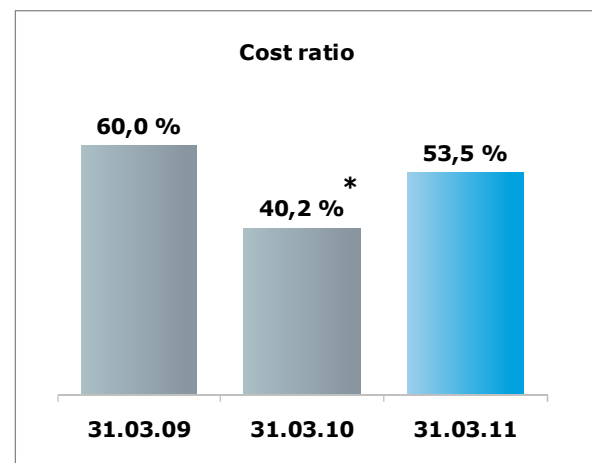
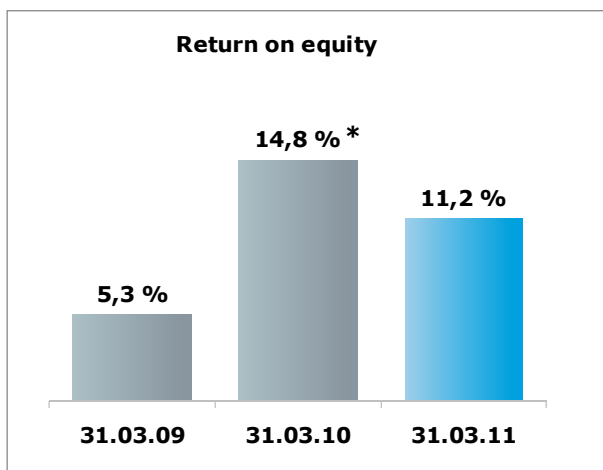
# Highlights Q1 2011

- Profit before tax was NOK 336 million (NOK 395 million)
- Profit after tax was NOK 265 million (NOK 298 million), corresponding to a return on equity after tax of 11.2% (14.8%)
- Reduced net interest income as a result of margin pressure
- Lending growth of 12.5% and growth in deposits of 17.5% over past 12 months
- Good growth in other income – increased number of products sold and brokered assignments in EiendomsMegler 1 SR-Eiendom
- Higher operating expenses as a result of a higher level of activity
- Net impairment losses on loans of NOK 51 million - significant portion related to a single commitment
- Increased Tier 1 capital ratio
- Financial Supervisory Authority of Norway has recommended that the Ministry of Finance grant authorisation for conversion to limited liability company

*(The figures in brackets are from the same period in 2010 and inclusive of net contractual pension (AFP) items of NOK 73 million.)*



# Key figures



\* Figures from 2010 inclusive of net contractual pension (AFP) items of NOK 73 million

# Income statement

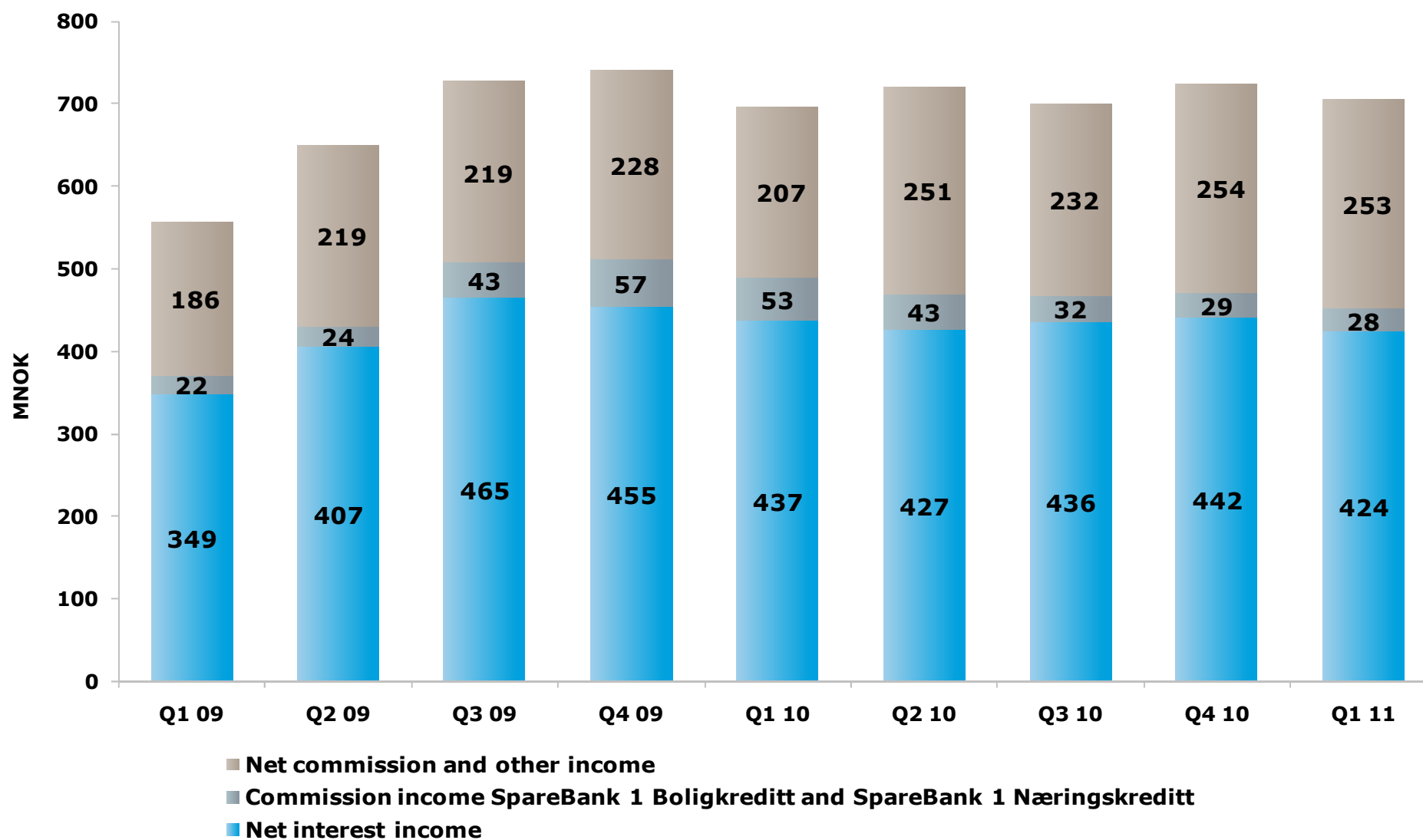
<i>MNOK</i>	<b>Q1 11</b>	<b>Q4 10</b>	<b>Q3 10</b>	<b>Q2 10</b>	<b>Q1 10</b>
Net interest income	424	442	436	427	437
Net commission and other income	281	283	264	294	260
Net return on investment securities	128	183	137	172	79
<b>Total income</b>	<b>833</b>	<b>908</b>	<b>837</b>	<b>893</b>	<b>776</b>
<b>Total operating expenses</b>	<b>446</b>	<b>423</b>	<b>408</b>	<b>423</b>	<b>312</b>
<b>Operating profit before losses</b>	<b>387</b>	<b>485</b>	<b>429</b>	<b>470</b>	<b>464</b>
Impairment losses on loans and guarantees	51	71	43	51	69
<b>Operating profit before tax and min. int.</b>	<b>336</b>	<b>414</b>	<b>386</b>	<b>419</b>	<b>395</b>
Tax expense	71	33	86	81	97
<b>Net profit</b>	<b>265</b>	<b>381</b>	<b>300</b>	<b>338</b>	<b>298</b>

# Key figures

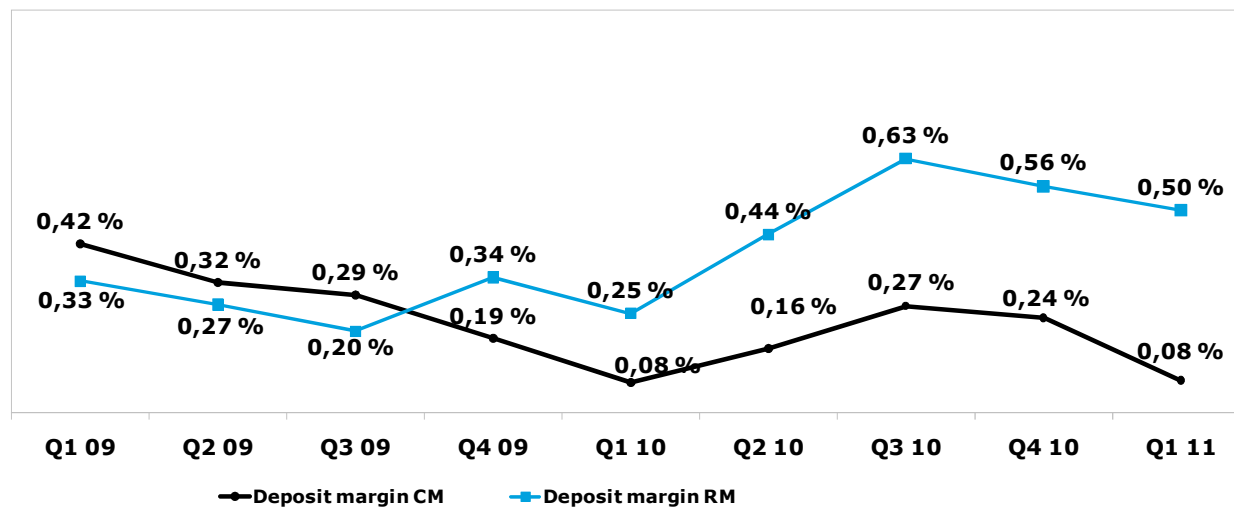
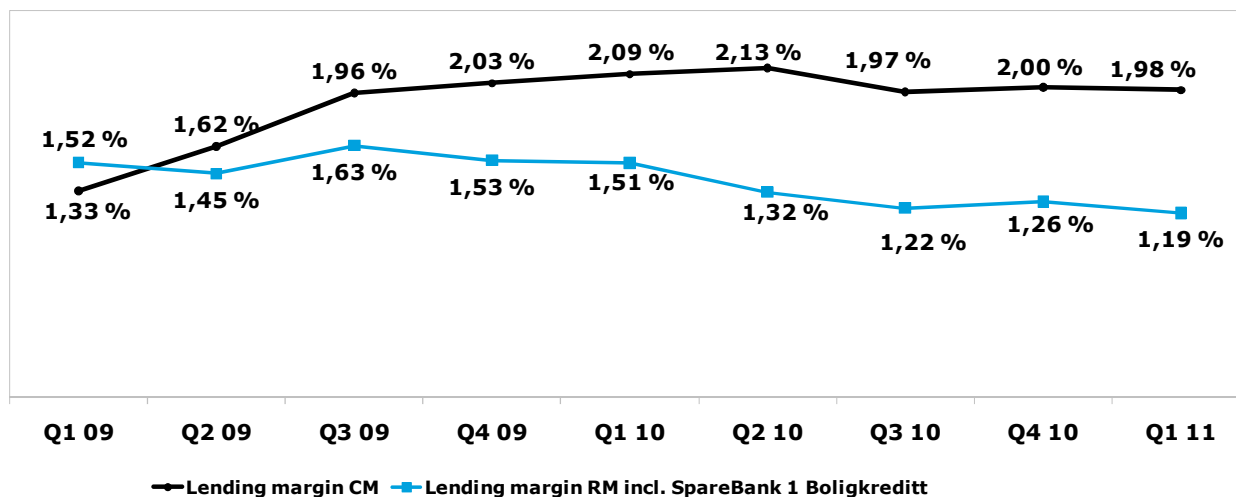
	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Return on equity after tax (%)	11,2	16,9	14,3	16,5	14,8
Net interest margin (%)	1,28	1,31	1,34	1,34	1,42
Cost ratio (%)	53,5	46,6	48,7	47,4	40,2
Impairment losses on loans and guarantees in % of gross loans incl. SpareBank 1 Boligkreditt*	0,15	0,22	0,14	0,17	0,23
Impairment losses on loans and guarantees in % of gross loans excl. SpareBank 1 Boligkreditt*	0,19	0,28	0,17	0,21	0,29
Non-performing and other problem commitments in % of gross loans incl. SpareBank 1 Boligkreditt	1,09	0,91	1,20	1,08	1,08
Non-performing and other problem commitments in % of gross loans excl. SpareBank 1 Boligkreditt	1,41	1,14	1,48	1,37	1,34
Annual growth in loans to customers, gross (incl. SpareBank 1 Boligkreditt)	12,5	11,6	6,6	6,0	5,8
Annual growth in deposits from customers	17,5	11,8	3,7	3,1	-0,9
Total assets, BNOK	133	135	130	129	127
Mortgage loans transferred to SpareBank 1 Boligkreditt, BNOK	31	26	24	26	24
Result per equity certificate (EC), NOK	1,3	1,9	1,6	1,8	1,6
Book value per equity certificate (EC), NOK	47,2	47,5	44,1	42,4	41,5
Number of certificates issued, millions	127	127	121	121	121

\* Annualized figures

# Income profile



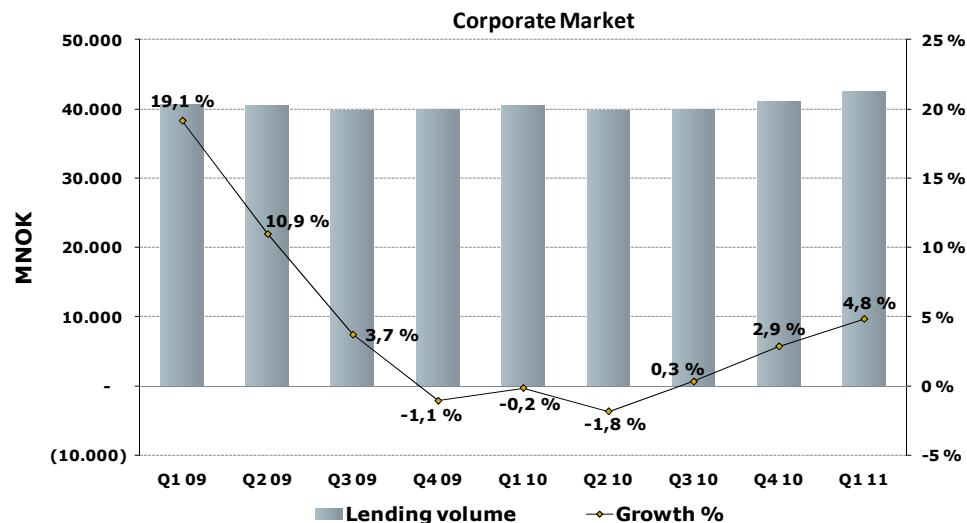
# Lending and deposit margins



**Definition:** Average customer interest minus 3 months average nibor

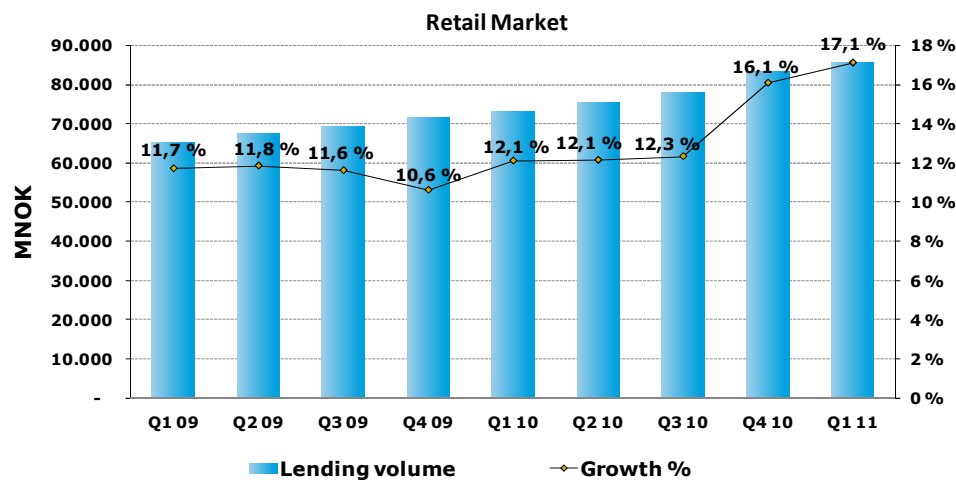
# Lending volume and 12 month growth

## Including portfolio in SB1 Boligkreditt and SB1 Næringskreditt



Per 31.03.2011:

- 12 month growth 4.8 % incl. Kvinnherad
- 12 month growth 3.0 % excl. Kvinnherad

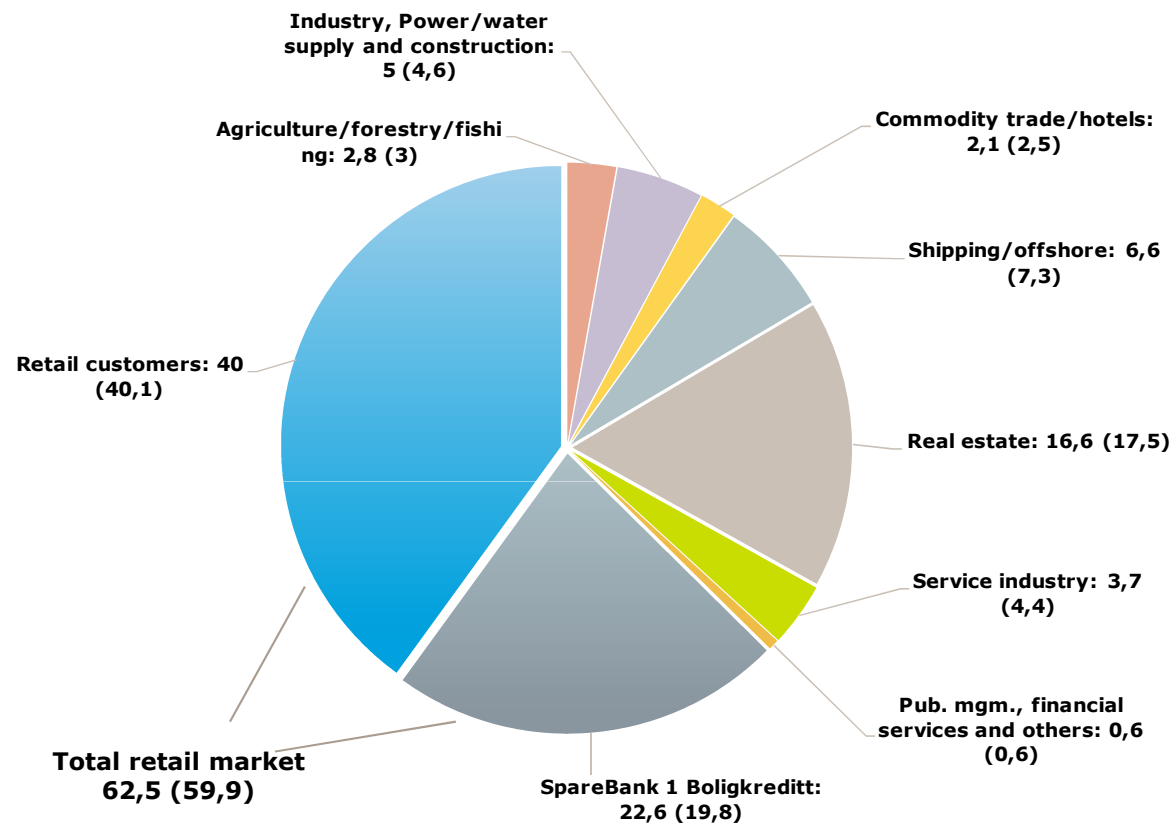


Per 31.03.2011:

- 12 month growth 17.1 % incl. Kvinnherad
- 12 month growth 12.5 % excl. Kvinnherad

# Loans by industry

## Increased share of retail lending

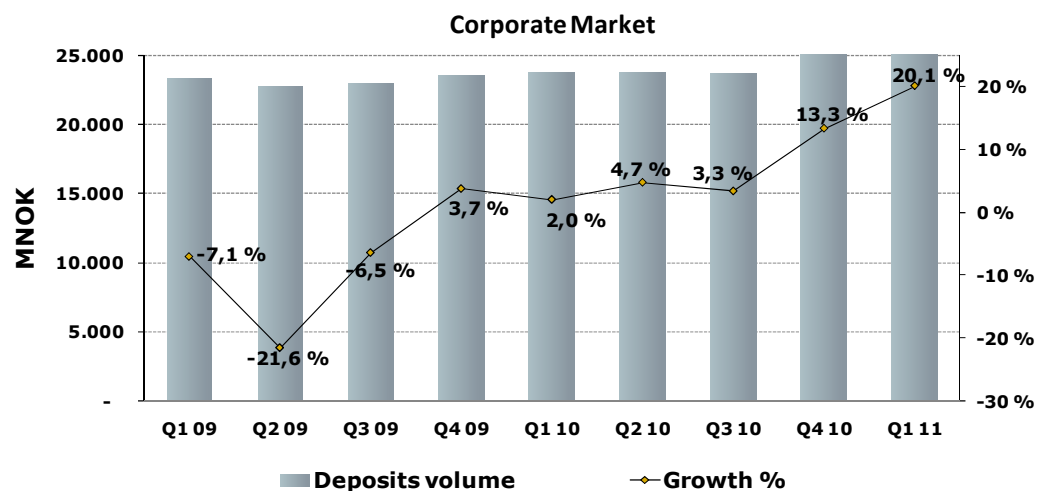


All figures are percentages. Figures as at 31 March 2010 are in brackets.

Loans before individual write-downs, nominal amounts.

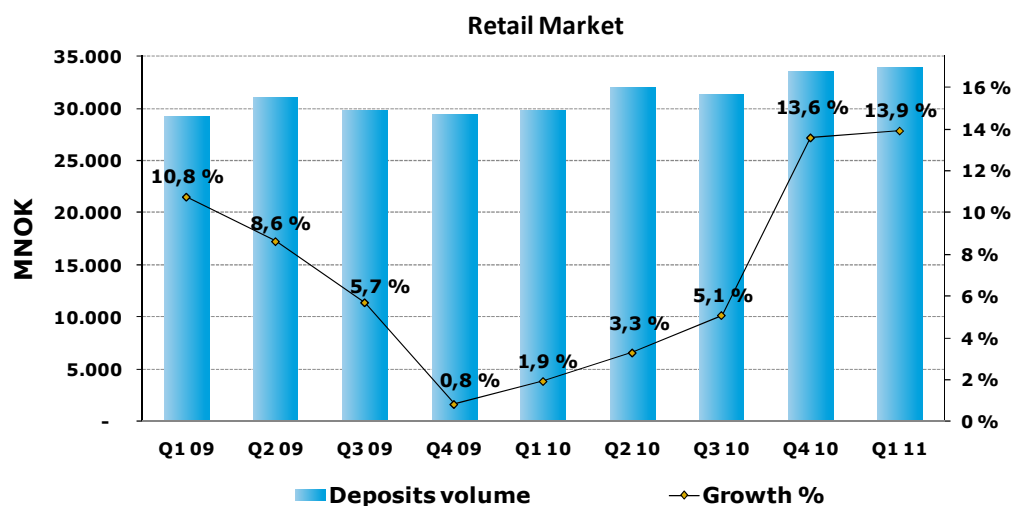
Sector allocation in accordance with the standard classification from Statistics Norway.

# Deposits volume and 12 month growth



Per 31.03.2011:

- 12 month growth 20.1 % (incl. Kvinnherad aquisition in Q4 2010)
- 12 month growth 17.4 % (excl. Kvinnherad aquisition in Q4 2010)



Per 31.03.2011:

- 12 month growth 13.9 % (incl. Kvinnherad aquisition in Q4 2010)
- 12 month growth 8.5 % (excl. Kvinnherad aquisition in Q4 2010)



# Net commission income and other income

<i>MNOK</i>	<b>Q1 11</b>	<b>Q4 10</b>	<b>Q3 10</b>	<b>Q2 10</b>	<b>Q1 10</b>
Payment facilities	48	50	53	50	48
Savings/placements	38	34	29	41	32
Insurance products	33	33	25	29	27
Commission income real estate (EM1)	94	87	93	109	76
Guarantee commission	19	15	17	13	12
Arrangement- and customer fees	12	12	6	9	9
Other	9	24	9	2	3
<b>Net commission and other income excl. SB1 Boligkreditt og SB1 Næringskreditt</b>	<b>253</b>	<b>254</b>	<b>232</b>	<b>252</b>	<b>207</b>
Commission income SB1 Boligkreditt and SB1 Næringskreditt	28	29	32	43	53
<b>Net commission and other income excl. SB1 Boligkreditt og SB1 Næringskreditt</b>	<b>281</b>	<b>283</b>	<b>264</b>	<b>294</b>	<b>260</b>

# Net return on investment securities

<i>MNOK</i>	<b>Q1 11</b>	<b>Q4 10</b>	<b>Q3 10</b>	<b>Q2 10</b>	<b>Q1 10</b>
Dividend	6	0	1	46	0
Investment income, associates	51	94	70	54	49
Securities gains/losses	17	53	32	41	21
- of which capital change in shares and certificates	28	71	12	45	7
- of which capital change in certificates and bonds	-11	-18	20	-5	15
Currency/interest gains/losses	54	36	34	31	9
- of which currency customer- and own-account trading	30	28	35	31	37
- of which IFRS-effects	24	8	-1	0	-28
<b>Net return on investment securities</b>	<b>128</b>	<b>183</b>	<b>137</b>	<b>172</b>	<b>79</b>

The earnings impact of the merger between Nordito AS and PBS AS of NOK 96 million, resulted in NOK 45 million in dividends and NOK 51 million in capital gains in Q2 2010. In addition, the value of the bank's ownership interest in the merged company, Nets Holding AS, was increased by NOK 67 million in Q4 2010.

# Subsidiaries

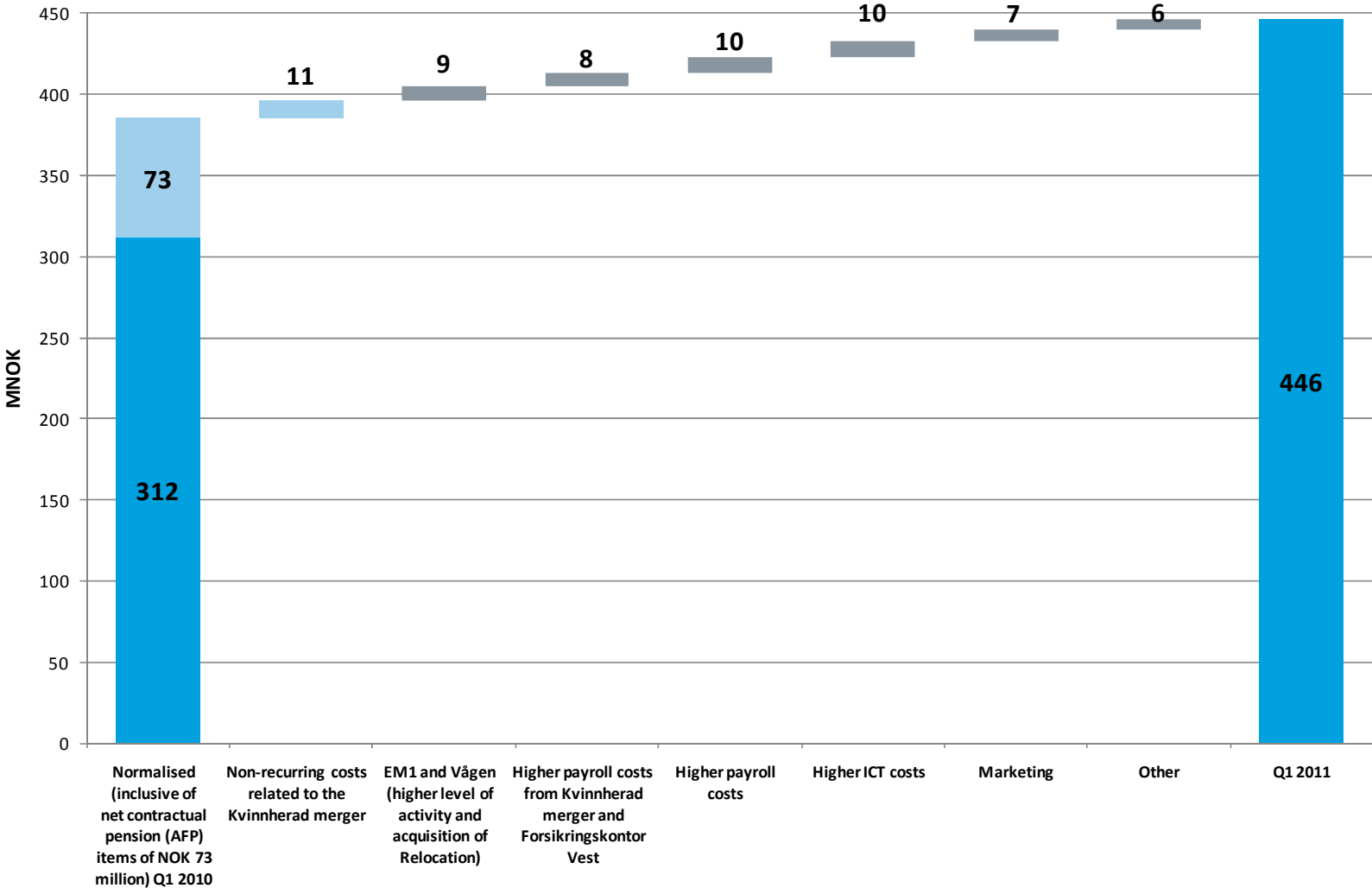
<i>MNOK</i>	<b>31.03.11</b>	<b>31.03.10</b>
<b>EiendomsMegler 1 SR-Eiendom AS</b>		
Number of sales	1.795	1.492
Operating profit before taxes	12,3	4,7
<b>SpareBank 1 SR-Finans AS</b>		
Total assets (BNOK)	5,0	5,1
Operating profit before taxes	-17,9	10,4
<b>SR-Forvaltning ASA</b>		
Portfolio (BNOK)	6,5	5,9
Operating profit before taxes	5,8	4,8
<b>SR-Investering AS</b>		
Investmentportfolio (MNOK)	134	108
Operating profit before taxes	14,6	2,4
<b>Other</b>		
Operating profit before taxes	0,1	-0,3

# Ownership interests

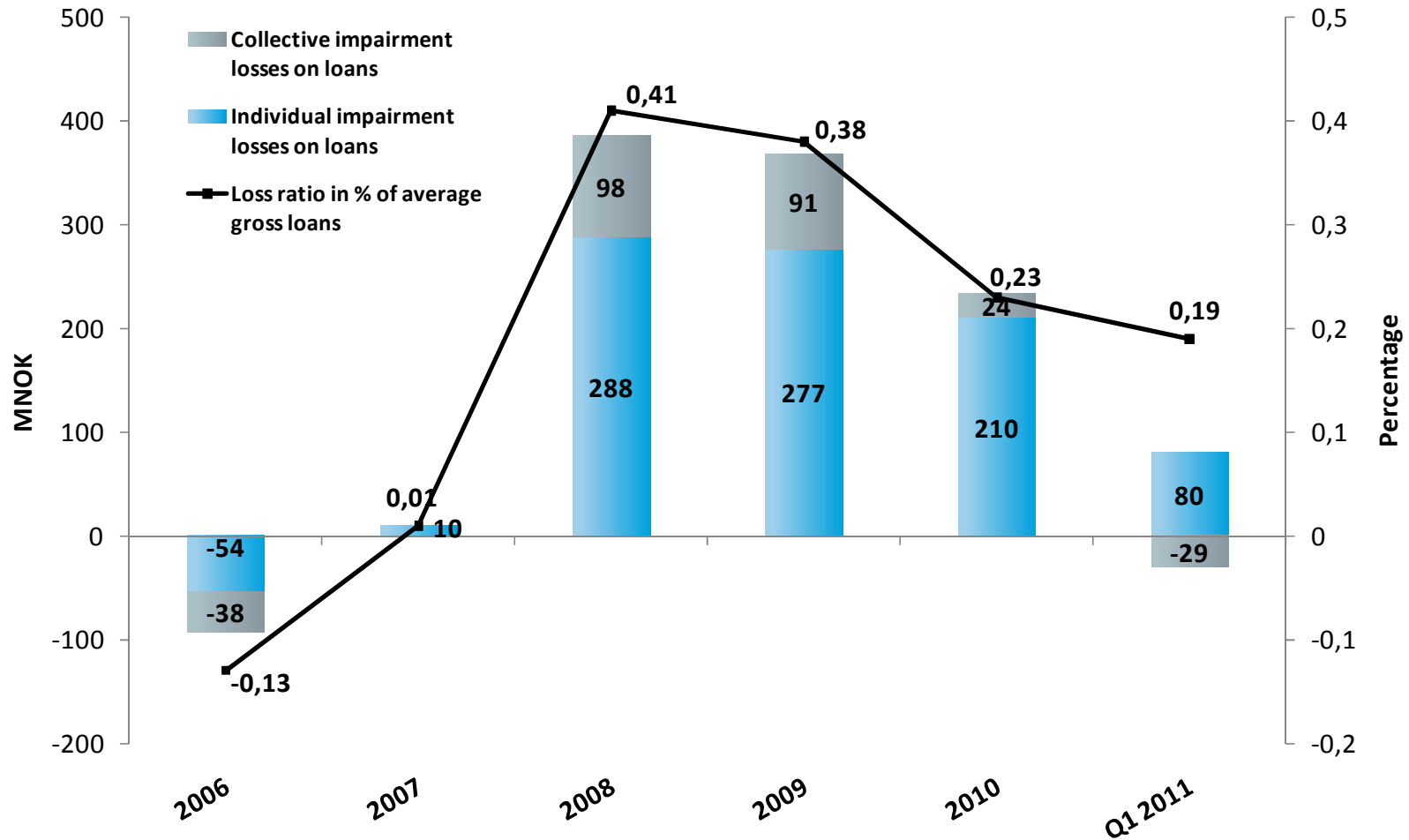
MNOK	31.03.11	31.03.10
<b>SpareBank 1 Gruppen AS</b> (19,5% interest ownership)		
Profit after tax	27,9	23,6
<b>BN Bank ASA</b> (23,5% interest ownership)		
Profit after tax	2,9	7,1
Amortised	7,3	1,6
<b>SpareBank 1 Boligkreditt AS</b> (28,6% interest ownership)		
Profit after tax	8,3	9,0
<b>SpareBank 1 Næringskreditt AS</b> (30,7% interest ownership)		
Profit after tax	0,9	0,3
<b>SpareBank 1 Utvikling</b> (17,7% interest ownership)		
Profit after tax	0,3	-
<b>Bank 1 Oslo AS</b> (19,5% interest ownership)		
Profit after tax	3,5	6,9
<b>Total owner interests</b>		
Profit after tax	51,1	48,5

# Operating expenses

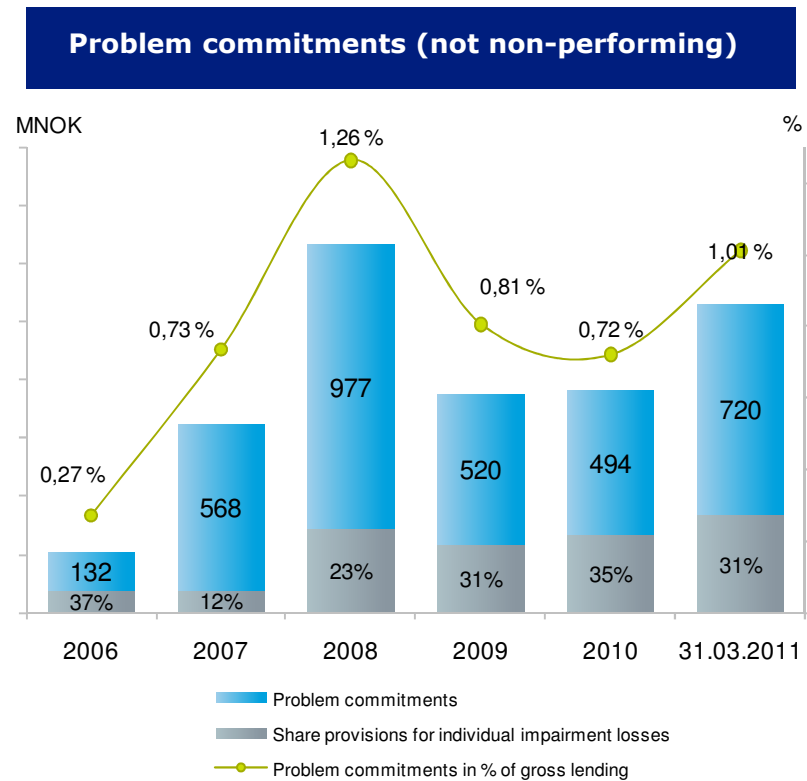
Development last 12 months



# Impairment losses on loans last 5 years



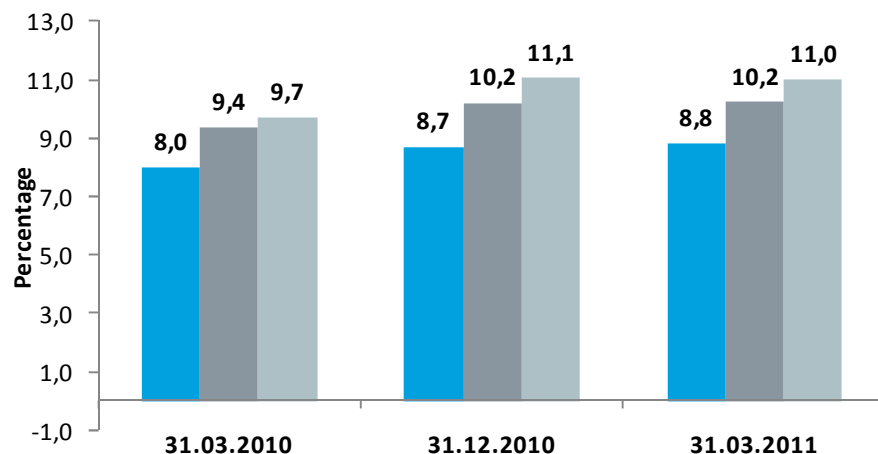
# Low level of distressed commitments



**Gross non-performing commitments** – non-performing loans before deduction of loss provisions. Non-performing over 90 days.

**Problem commitments** – Commitments that are not non-performing for which a loss provision has been made

# Capital strength



■ Core (Tier 1) capital ratio without Hybrid Tier 1 Perpetual Capital

■ Core (Tier 1) capital ratio

■ Core (Tier 1) capital ratio excl. transitional rules

- At the end of Q1 2011 the core capital ratio was 10.2 % - up from 9.4 % at the same time last year
- Due to transitional rules the minimum requirement for capital adequacy for 2011 may be reduced to 80 per cent in relation to Basel I rules.
  - The core capital ratio excl. the transitional rules are 11.0 %
- One of SpareBank 1 SR-Bank's goals is for its core capital adequacy to be a minimum of 9%.



# Liquidity and Funding

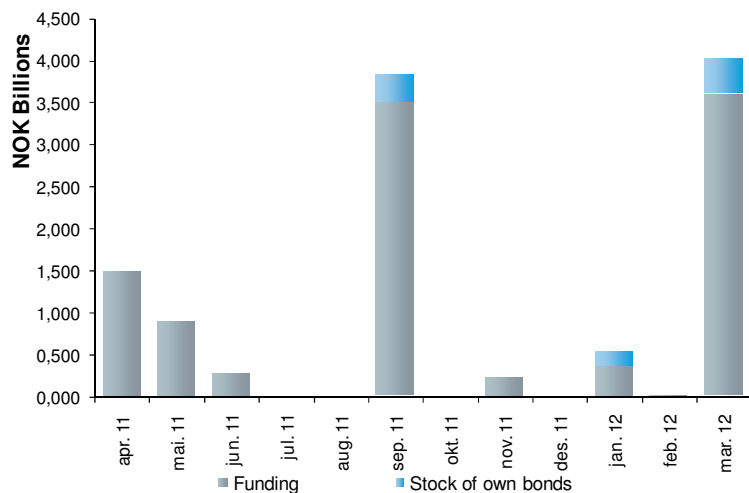
# Available Funding Programmes

	Swap with CB	Domestic	EMTN	Boligkreditt	Næringskreditt
Description	Gov't Bonds vs. Covered Bonds	Certificate of Deposits/ Debentures	Euro medium-term debt instruments	Covered Bonds (Mortgages)	Covered Bonds (commercials)
Status	Gov't Bonds	Senior unsecured/ Subordinated	Senior unsecured/ Subordinated	Senior secured	Senior secured
Size	NOK 350 bn	Unlimited	EUR 7.5 bn	EUR 10 bn USD XXX	??
Maturity	Up to 5 years	1 month plus	1 to 30 years	1 year plus	1 year plus
Status	Terminated				

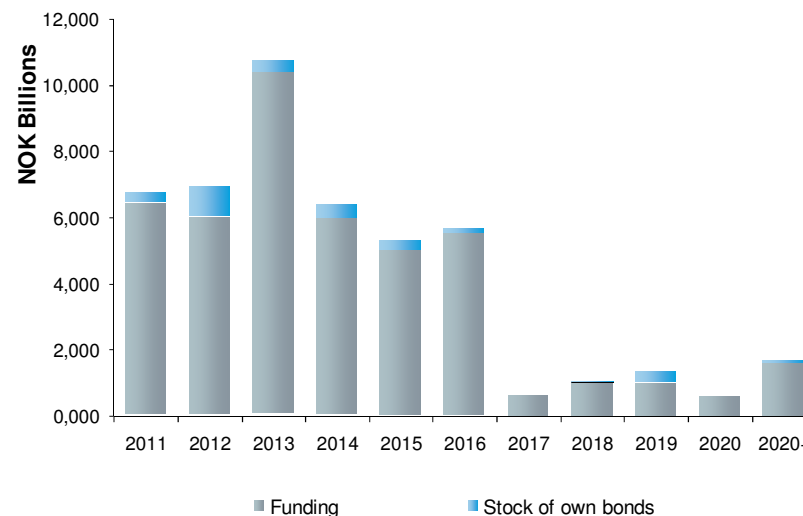


# Funding and liquidity management

Funding next 12 months



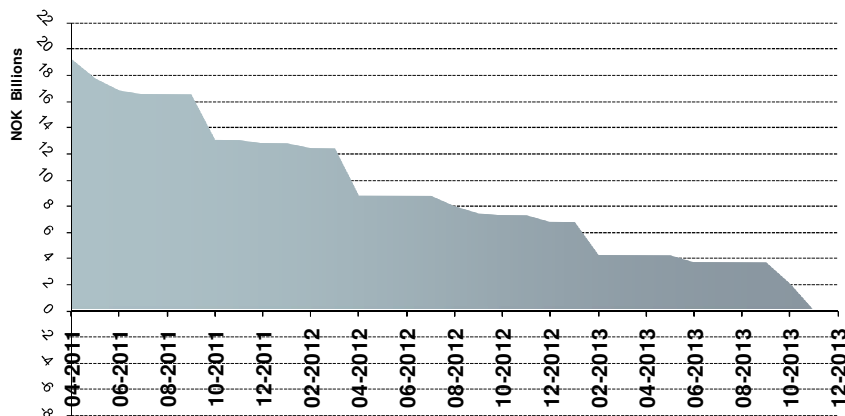
Funding per year



- Good liquidity and access to new funding
- As at 31.03.2011 the liquidity buffer totalled NOK 19.2 billion
- Net refinancing needs the next 12 months are NOK 10.4 billion

# Liquidity buffer and bond portfolio

## Liquidity buffer



## Bond portfolio

Asset class	Market value MNOK	Share	Of which, securities classified to amortised cost MNOK
Norwegian other	195	1 %	100
Norwegian bank/finance	1.988	11 %	354
Norwegian state/municipal	2.091	12 %	108
Foreign bank/finance	1.087	6 %	655
Other Norwegian covered b	12.025	68 %	9.475
Industry	366	2 %	0
<b>Total</b>	<b>17.752</b>	<b>100 %</b>	<b>10.691</b>

- Liquidity buffer: cash, short-term placements, drawing rights in Norges Bank (bonds including covered bonds) and home loans that currently are ready to be transferred to Boligkreditt.
- Provided deposits and lending remain unchanged, with no new borrowing during the period.

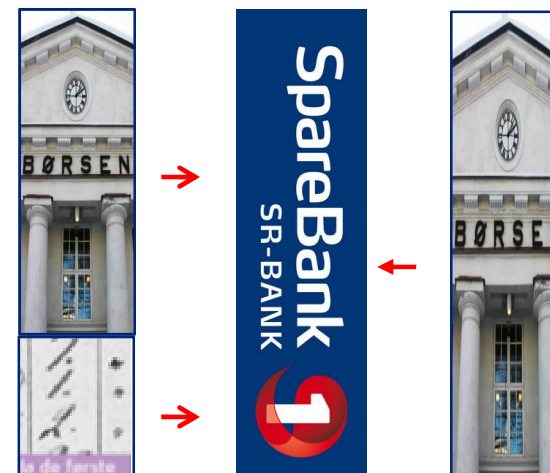
# Outlook - 2011

# Outlook

- The upswing in the Norwegian economy has gained a foothold and Norges Bank has signalled that the key rate will gradually increase towards a more normal level.
- A good underlying development for business and the population in the region with continued low unemployment.
- Even though continued pressure on the margins is expected in the traditional product areas of deposits and lending, the group is well-equipped for future growth through solid income from a number of other areas. The group is well-positioned within its own geographic market areas through a strong value chain focus and a well-developed branch office network.
- The underlying quality of the group's loan portfolio is good, and defaults and losses are expected to remain at relatively low levels in 2011.
- The Board of Directors considers the overall outlook for the group's earnings to be good.

# Conversion to limited savings bank

- On 25 November 2010 the Supervisory Board unanimously approved the Board of Directors' recommendation to apply to the Ministry of Finance for authorisation to convert to a limited savings bank.
- The Financial Supervisory Authority of Norway made a positive recommendation to the Ministry of Finance in March 2011.
- If the Ministry of Finance follows the recommendation by the Financial Supervisory Authority of Norway the conversion will probably be carried out effective at the end of 2011.



# Appendix



# Equity certificate - ROGG

- Owner shares as at 31.03.11:
  - From Rogaland, Agder-fylkene and Hordaland: 46,1 % (46,9 %)
  - Non-domestic: 9,7 % (6,7 %)
  - Largest 10: 33,6 % (30,6 %)
  - Largest 20: 40,6 % (37,1 %)
- No. of ROGG owners as at 31.03.11: 12 116 (12 466)
- Employees in the group owned 3,5 % of the equity certificates by the end of 1st quarter 2011
- Turnover 1st quarter 2011: 3,0 % (5,1 %)

(Figures for corresponding period in 2010 are shown in parentheses)

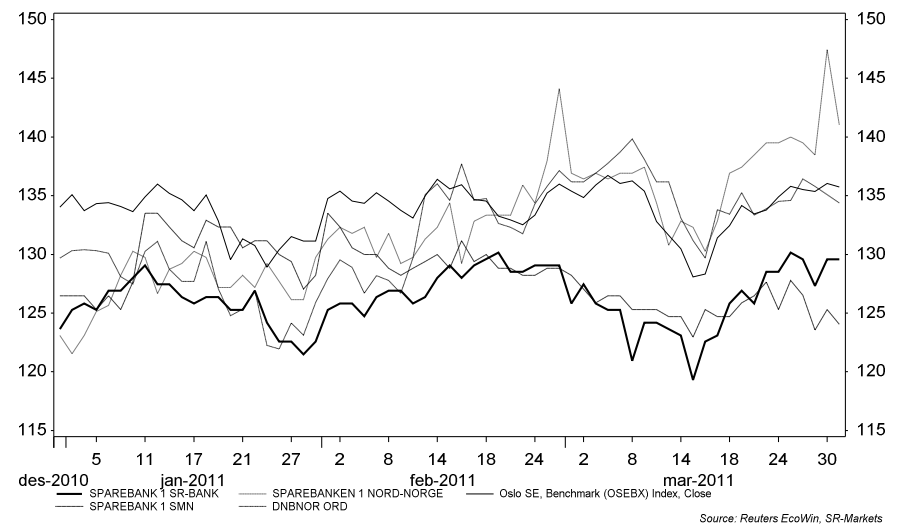
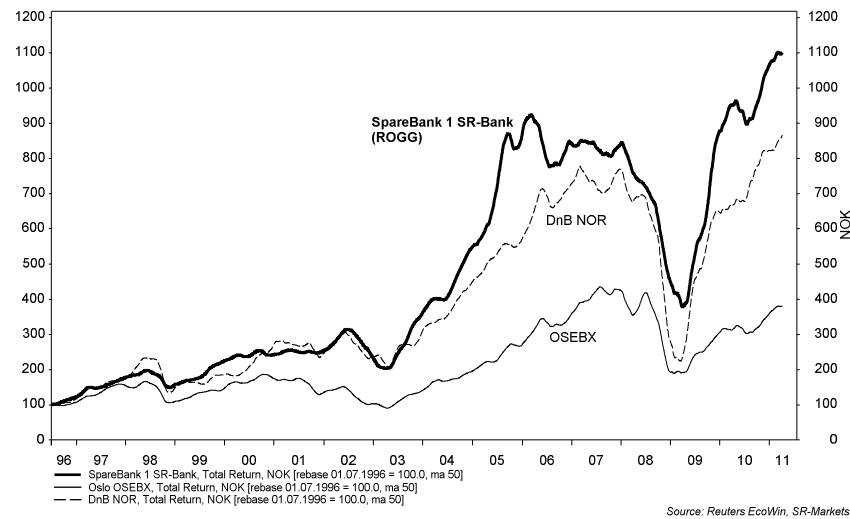
	Q1 2011	2010	2009	2008	2007
EC percentage	63,2	63,2	62,9	56,1	54,9
Market price	57,00	57,00	50,00	27,08	55,21
Stock value (MNOK)	7.257	7.257	6.047	2.434	4.702
Book value per EC, NOK (group)	47,17	47,45	42,07	37,23	37,64
Book value per EC, NOK (parentbank)	40,96	41,80	36,85	32,06	34,02
Earnings per EC	1,32	6,84	6,88	3,00	6,54
Dividend per EC	n.a.	2,75	1,75	0,83	3,96
P/E	10,80	8,33	7,27	9,03	8,44
P/BV (group)	1,21	1,20	1,19	0,73	1,47
P/BV (parentbank)	1,39	1,36	1,36	0,84	1,62

## 20 largest equity certificate holders

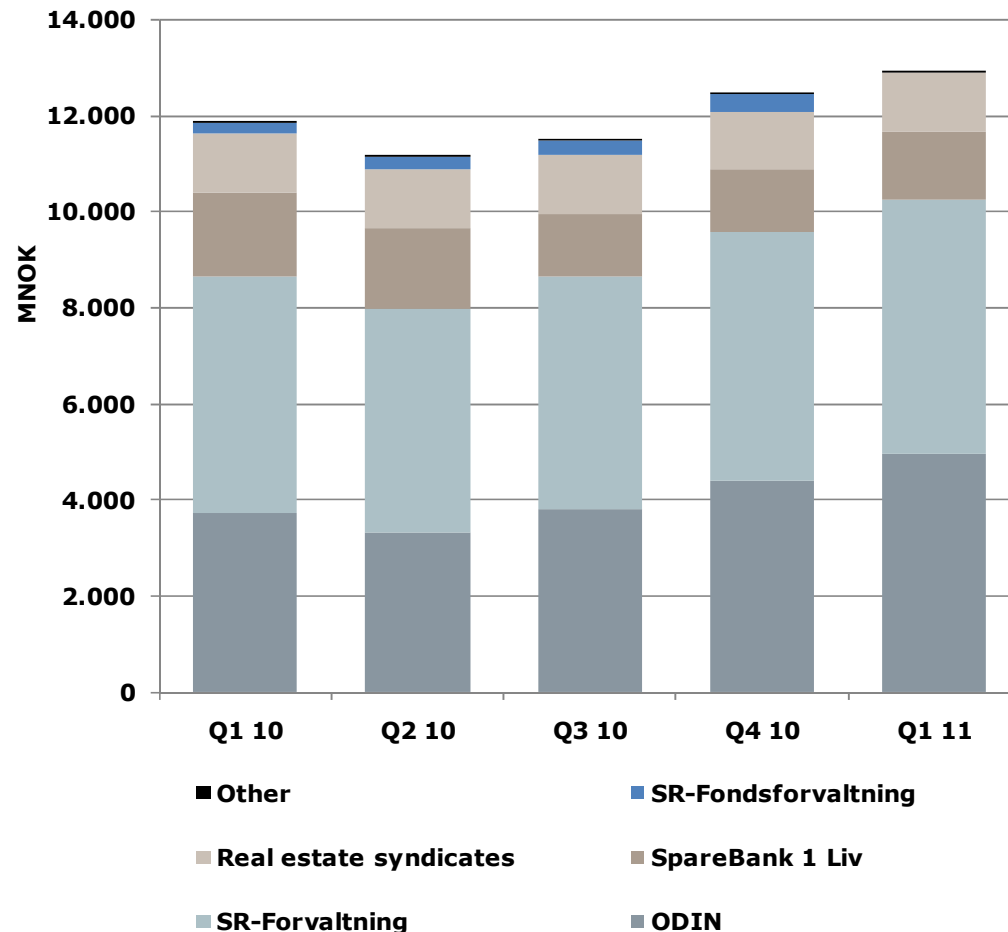
<b>20 largest EC holders per 31.03.11</b>	<b>Number</b>	<b>Stake</b>
Gjensidige Forsikring	20.713.065	16,3%
SpareBank 1-stiftinga Kvinnherad	6.069.934	4,8%
Odin Norge	3.205.372	2,5%
Odin Norden	3.065.553	2,4%
Clipper AS	1.685.357	1,3%
Frank Mohn AS	1.666.142	1,3%
Trygve Stangeland	1.632.048	1,3%
Bank of New York, U.S.A.	1.618.227	1,3%
JPMorgan Chase Bank, U.K.	1.598.223	1,3%
Skandinaviska Enskilda Banken	1.507.080	1,2%
SHB Stockholm Clients Account, Sverige	1.258.000	1,0%
Trygves Holding AS	1.070.939	0,8%
Varma Mutual Pension Insurance, Finland	1.062.534	0,8%
Køhlergruppen AS	1.000.000	0,8%
Westco AS	885.352	0,7%
Forsand kommune	769.230	0,6%
The Northern Trust, U.K.	732.800	0,6%
Bjergsted Investering AS	720.055	0,6%
Nordisk Finans Invest AS	716.834	0,6%
Solvang Shipping AS	701.034	0,6%
<b>Total 20 largest holders</b>	<b>51.677.779</b>	<b>40,6%</b>

# Price performance 1996 – Q1 2011

- dividend reinvested

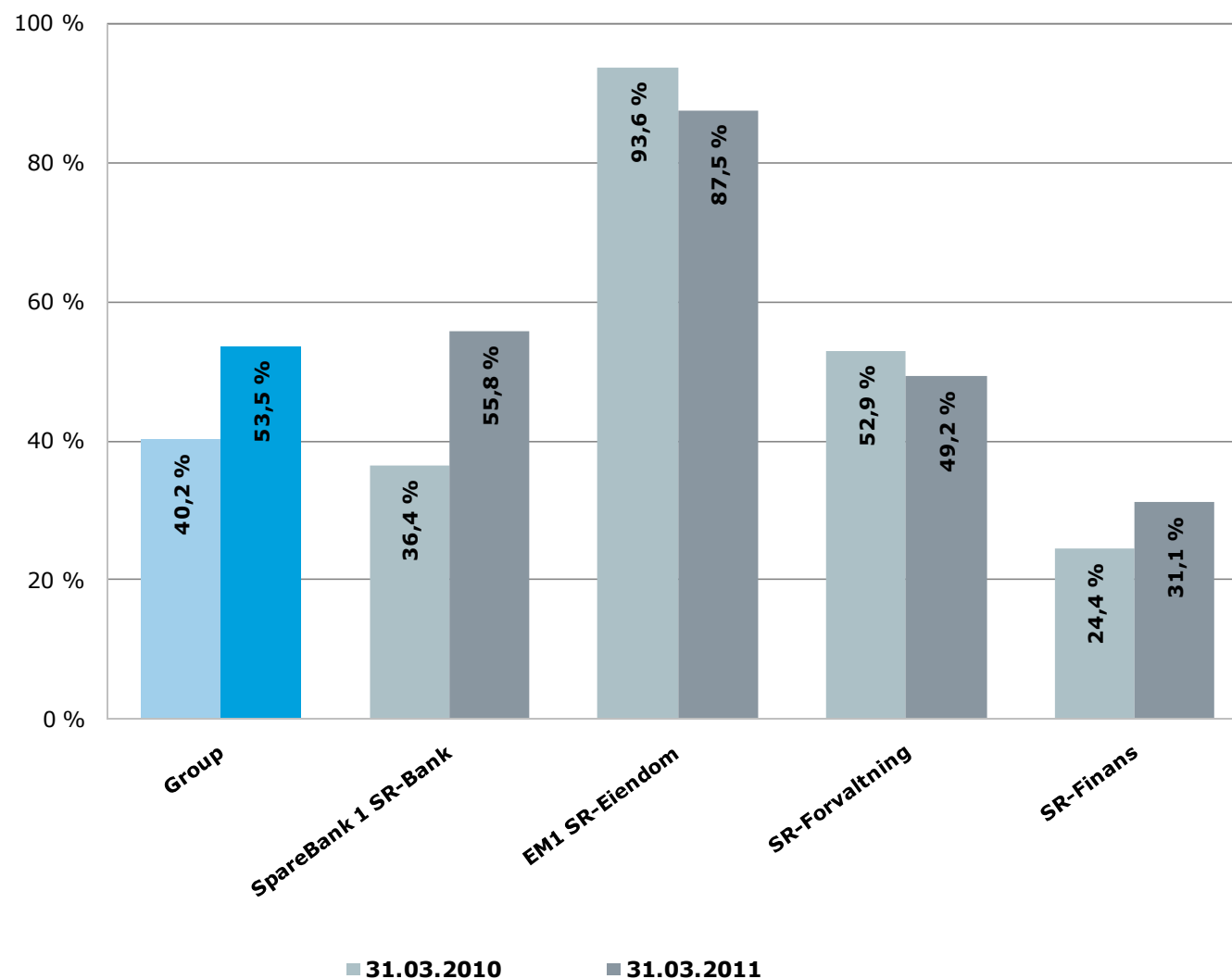


# Savings/placements – portfolio development



- As at 31.03.2011, assets under management amounted to NOK 12.9 billion
  - Up from NOK 11.9 billion at 31.03.2010
  - 57 517 current savings contracts (54 290 savings contracts as at 31.03.10)
  - The average per savings contracts is NOK 772 per month, which amounts to MNOK 44.4 in monthly savings
- Most of the assets are managed by SR-Forvaltning and ODIN
- SR-Fondsforvaltning sold to the ODIN Forvaltning AS with effect from 1.1.2011

# Cost ratio per 31.03.2011



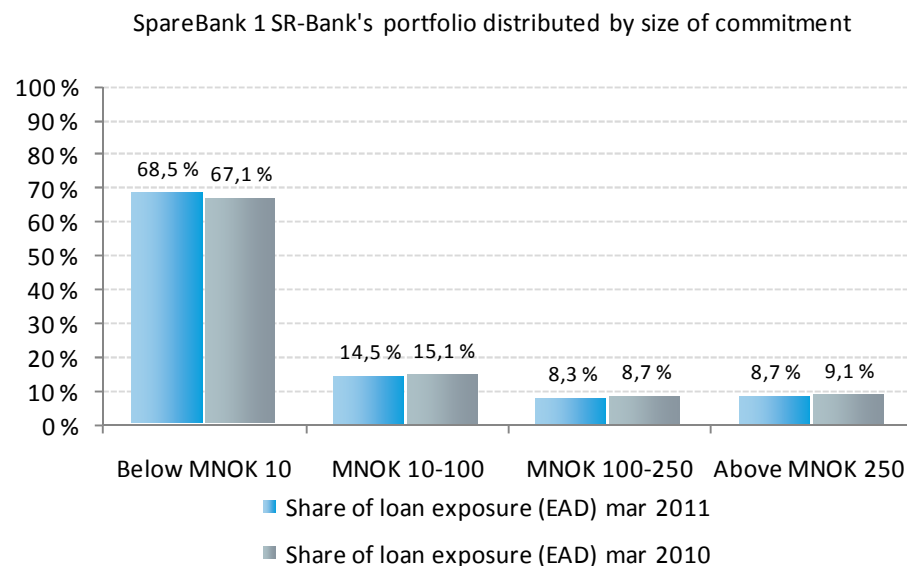
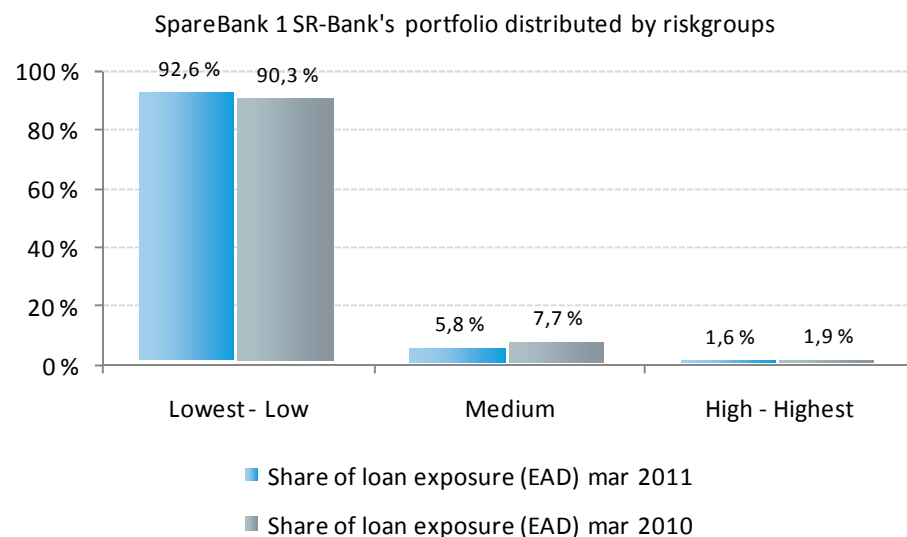
# Impairment losses on loans and guarantees

<i>Losses on loans in income statement (MNOK)</i>	<b>Q1 2011</b>	<b>Q4 2010</b>	<b>Q3 2010</b>	<b>Q2 2010</b>	<b>Q1 2010</b>
Corporate customers	74	66	37	41	56
Retail customers	6	2	3	2	3
Change in collective impairment losses on loans	-29	3	3	8	10
Net impairment losses on loans	51	71	43	51	69
Net impairment losses in % of average gross loans	0,19	0,28	0,17	0,21	0,29

<i>Impairment losses on loans (MNOK)</i>	<b>31.03 2011</b>	<b>31.12 2010</b>	<b>30.09 2010</b>	<b>30.06 2010</b>	<b>31.03 2010</b>
Individual impairment losses on loans	470	402	405	376	341
Collective impairment losses on loans	328	357	341	338	331
Total impairment losses on loans	798	759	746	714	672
Individual impairment losses ratio (%)	0,45	0,38	0,40	0,39	0,35
Collective impairment losses ratio (%)	0,31	0,34	0,34	0,35	0,34

# Risk profile of SpareBank 1 SR-Bank

## High share of commitments with low risk



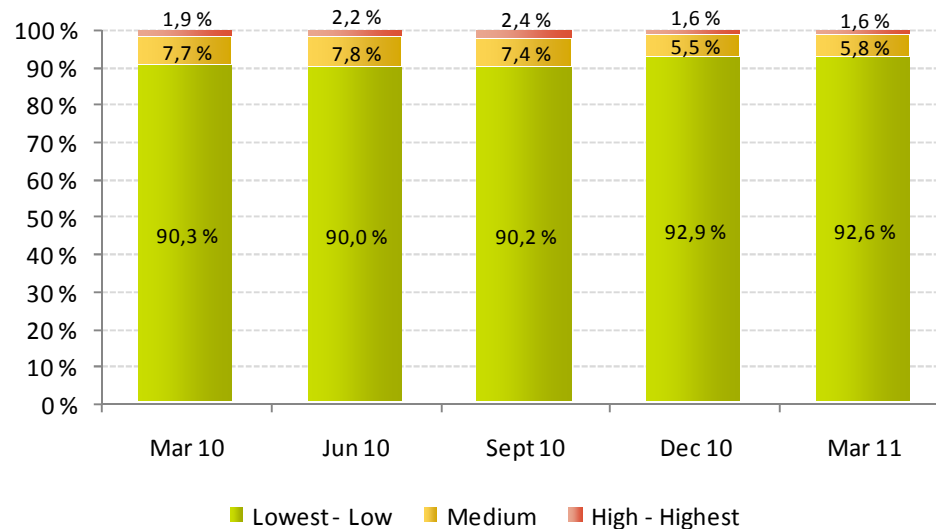
- 93% of the bank's loan exposure satisfies the criteria for low and the lowest risk. Expected losses in this portion of the portfolio are very limited and account for 0.05%. The risk profile has shown a positive development over the past year.
- Exposure to high or the highest risk accounts for 1.6% of the bank's loan exposure. Expected losses in this portion of the portfolio are 4%.
- 69% of the bank's loan exposure is to commitments that account for less than NOK 10 million. This corresponds to 99 per cent of all the customers.
- 17% of the bank's loan exposure is to customers that have an exposure in excess of NOK 100 million. This percentage has declined somewhat over the past year. The probability of default in this portion of the portfolio is lower than the average for the corporate market portfolio.

Lowest - Low risk, expected loss	0 % - 0,50 %
Average risk, expected loss	0,50 - 2,00 %
High - Highest risk, forventet tap	over 2,00 %

# Risk profile of SpareBank 1 SR-Bank

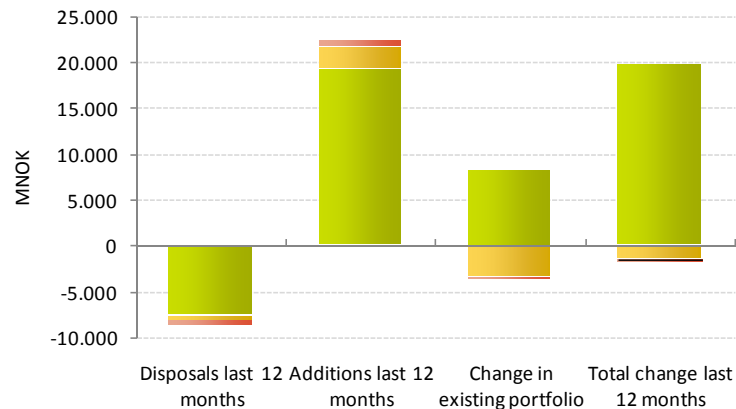
Moderate risk profile and stable development of the portfolio quality over the past quarter

Development of SpareBank 1 SR-Bank's portfolio distributed by riskgroups



- The group's moderate risk profile remains unchanged.
- The persistently low interest rate levels are contributing to a high level of activity, low unemployment and still climbing housing prices in the group's market area.
- These factors, together with the ongoing focus on risk-reducing measures, have resulted in the group's overall portfolio quality being maintained at a good level.

Migration in SpareBank 1 SR-Bank's portfolio last 12 months



Measurement of risk exposure is based on a long-term average throughout the business cycle. This implies greater stability in the default estimates.

The figures include the portfolio transferred to SpareBank 1 Boligkreditt AS.

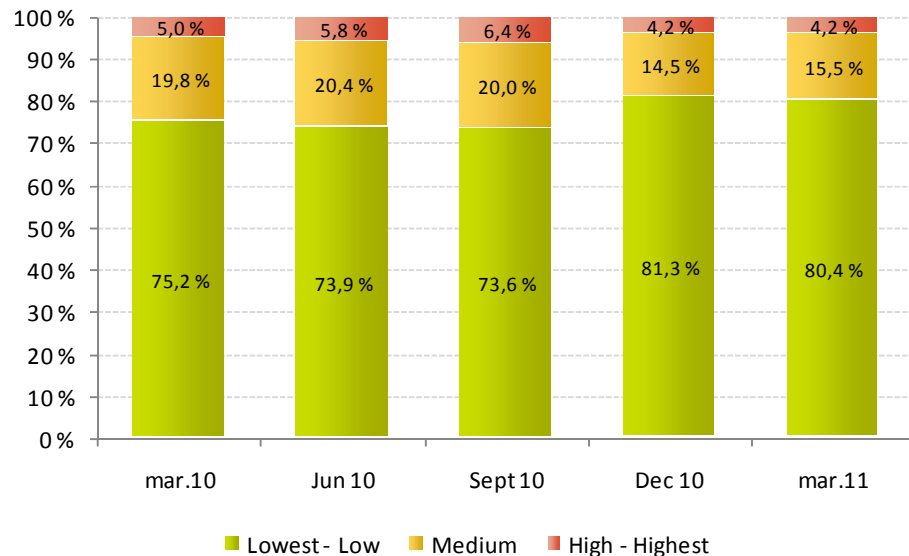
Lowest - Low risk, expected loss	0 % - 0,50 %
Average risk, expected loss	0,50 - 2,00 %
High - Highest risk, forventet tap	over 2,00 %



# Risk profile of corporate market portfolio

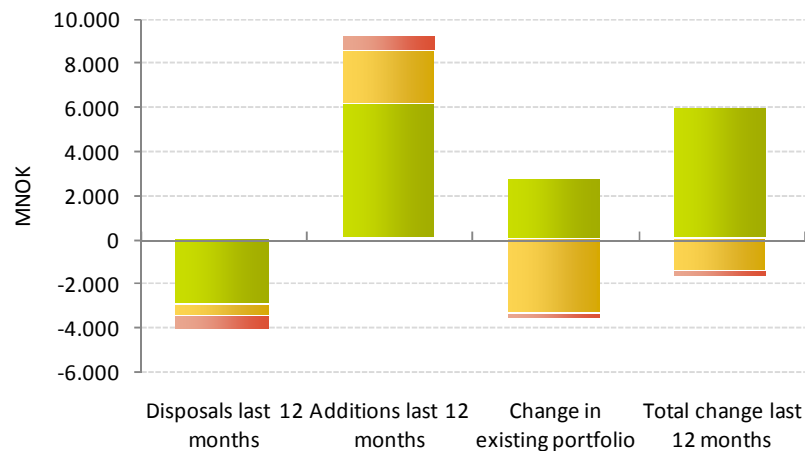
Portfolio quality is good and the development has been stable over the past quarter

Development in corporate market's portfolio distributed by risk groups



- The quality of the corporate market portfolio is considered good. The portfolio's average probability of default, its expected losses and the risk-adjusted capital requirements remained stable in Q1 2011.
- The portfolio's risk profile has, however, improved over the past year. The addition of new commitments with a low risk profile is greater than the disposals, and the existing portfolio is marked by positive migration over the past year.

Migration in corporate market's portfolio last 12 months

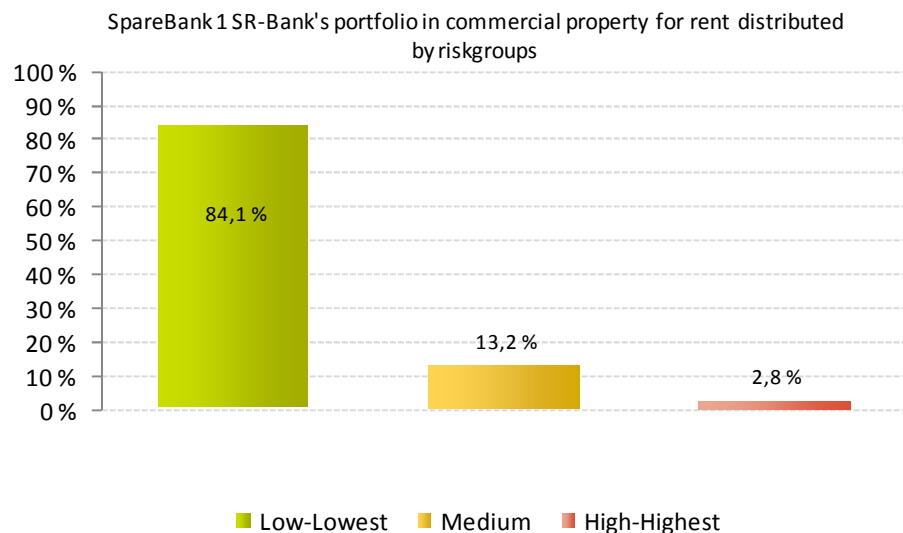


Measurement of risk exposure is based on a long-term average throughout the business cycle. This implies greater stability in the default estimates.

Lowest - Low risk, expected loss	0 % - 0,50 %
Average risk, expected loss	0,50 - 2,00 %
High - Highest risk, forventet tap	over 2,00 %

# Portfolio of commercial property for rental

Portfolio is dominated by commitments with low risk



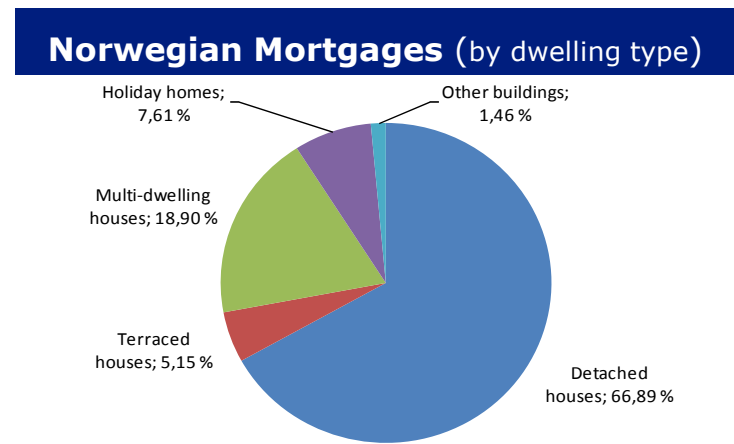
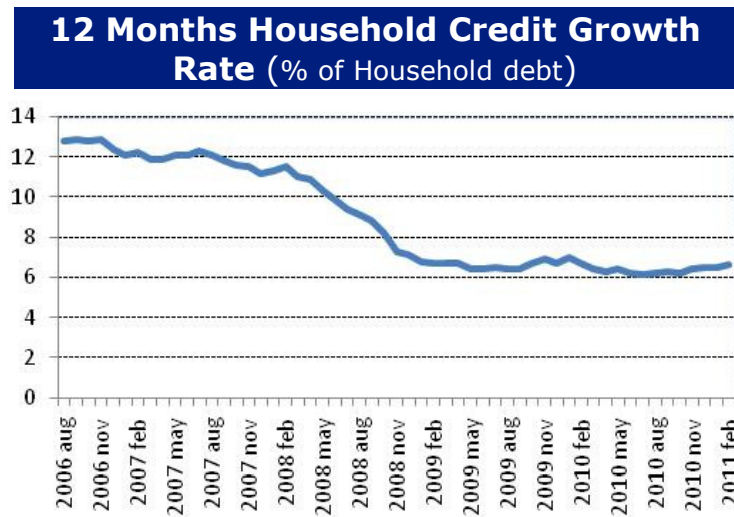
- The portfolio of commercial property for rental represents the group's largest concentration in a single sector and accounts for around 11% of the total exposure (EAD) including retail market customers.
- The portfolio of commercial property for rental is dominated by commitments with low risk. 84% of the exposure is classified as low risk, while 3% is classified as high risk.
- Interest rates for a significant portion of the portfolio have been hedged, primarily through interest rate hedging contracts with a duration of over five years.
- The portfolio is dominated by long-term leases with financially solid tenants. The vacancy rate is low.

■ Lowest - Low risk, expected loss	0 % - 0,50 %
■ Average risk, expected loss	0,50 - 2,00 %
■ High - Highest risk, forventet tap	over 2,00 %

# Norwegian Mortgage Market

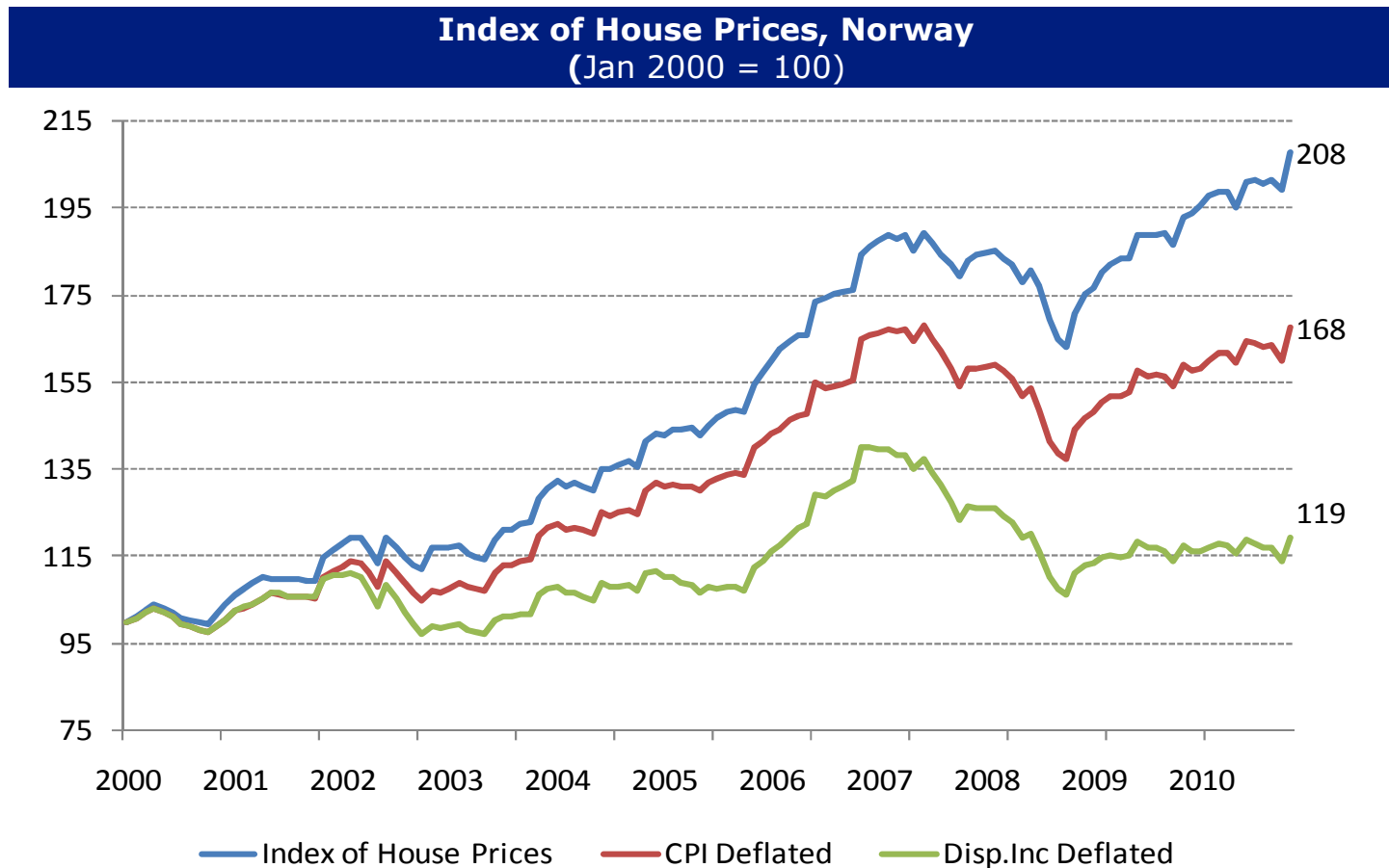
## Key Characteristics

<b>Size of the market</b>	<ul style="list-style-type: none"> <li>• Total mortgage market around NOK 1,840 billion at YE 2010 (approx USD 330bn)</li> <li>• Banks and credit institutions are the dominant supplier of mortgages with over 88% market share</li> <li>• Typical maturity 25-30 years</li> <li>• Very little buy-to-let market – No sub-prime market</li> </ul>
<b>Home Ownership</b>	<ul style="list-style-type: none"> <li>• 80% of households owner occupied</li> <li>• Amongst the highest in the world</li> </ul>
<b>Interest Payment</b>	<ul style="list-style-type: none"> <li>• 90-95% of mortgages are floating rate</li> <li>• Interest rates can be reset at the lender's discretion, by giving the debtor 6 weeks notice</li> </ul>
<b>Tax Incentives</b>	<ul style="list-style-type: none"> <li>• Interest expenses on mortgage loans are tax deductible</li> <li>• Low effective real estate tax</li> <li>• Capital gain on a dwelling is tax-free after one year of owner-occupancy</li> </ul>
<b>Social Benefit</b>	<ul style="list-style-type: none"> <li>• Generous social security benefit for unemployed people</li> <li>• Unemployment benefit represents ca 60% of final salary</li> <li>• Benefit is paid for up to 104 weeks</li> </ul>
<b>Personal Liability</b>	<ul style="list-style-type: none"> <li>• Borrowers are personally liable for their debt, also for outstanding debt post foreclosure and forced sale</li> <li>• Strong cultural and economic incentive to service debt</li> <li>• Individual borrowers have a strong relationship with their lenders</li> <li>• Vast majority of borrowers pay via direct debit</li> </ul>



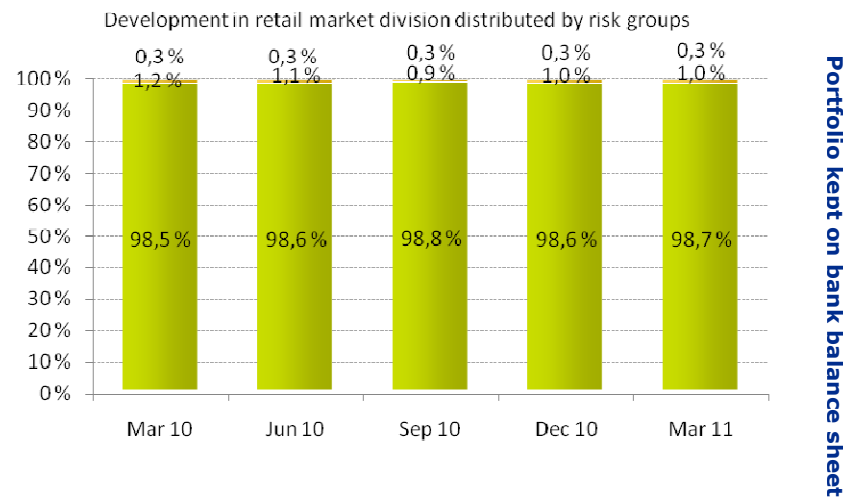
# Norwegian Mortgage Market

## Nominal and real house price development



# Risk profile in the Retail Market Portfolio

## Low risk portfolio and limited loss potential



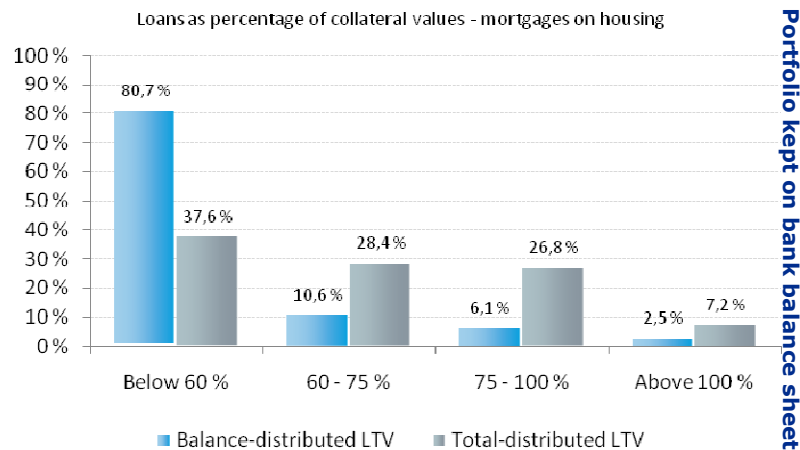
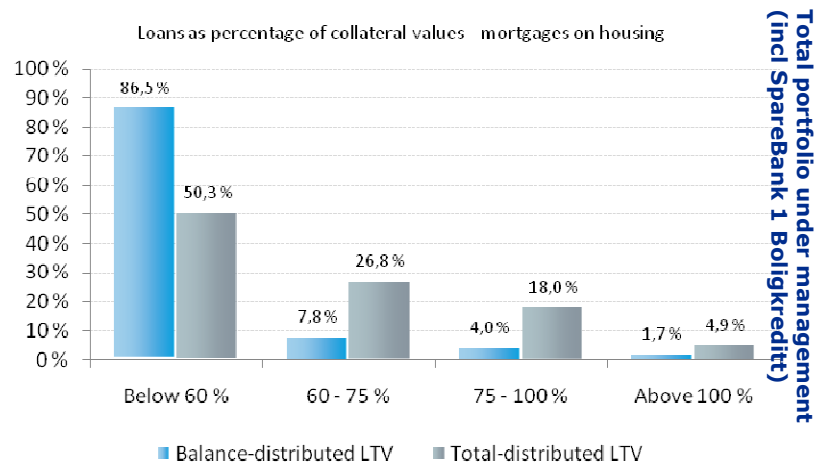
- The quality of the retail market portfolio is very good. Its performance is characterised by sustained stability.
- The healthy growth of the portfolio that the group has enjoyed for a prolonged period has not affected the risk profile of the portfolio.
- Most of the portfolio is secured by way of mortgages on real estate. Collateral coverage is good, which would indicate that there is only a limited risk of loss so long as the values of the collateral pledged are not significantly impaired.

Measurement of risk exposure is based on a long-term average through a business cycle. It results in greater stability in the estimates of non-performing loans.

■ Lowest - Low risk, expected loss	0% - 0.50%
■ Medium risk, expected loss	0.50 - 2.00%
■ High - Highest risk, expected loss	over 2.00%

# Loan to Value ratio – LTV

## Residential mortgages

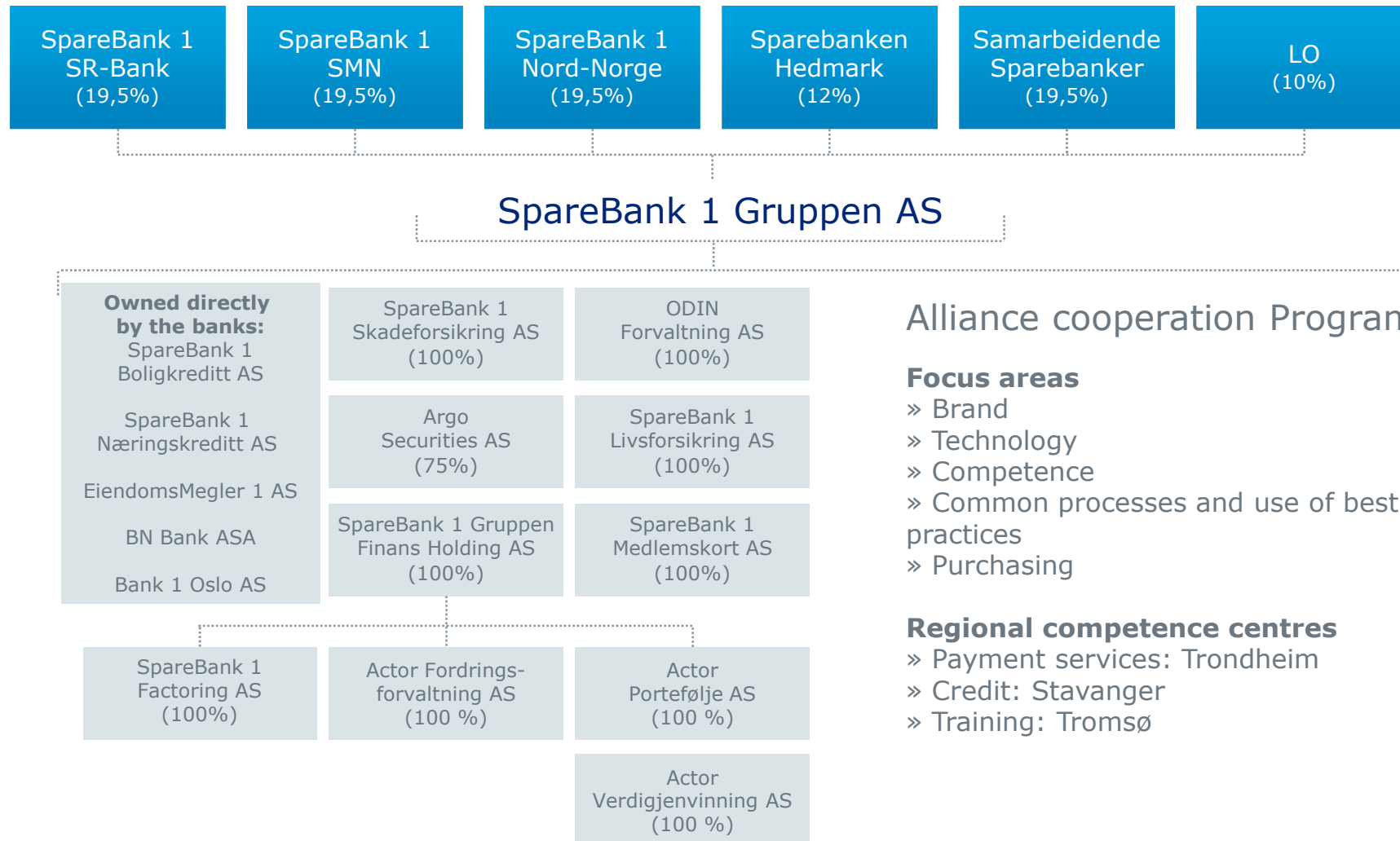


- Lending is consistently moderate seen in light of the value of assets pledged as collateral. Less than 6 per cent of the exposure exceeds 75 per cent of the value of assets pledged as collateral. There were no substantial changes in LTV values in the last quarter.
- Internally, the group focuses on a commitment's estimated loss level when the loss potential is to be assessed. The starting point is the *realisation value* of the pledged assets. This is considerably lower than the market value and shall reflect the security value when realised during a recession.

The calculation of LTV is based on the market value of the collateral. In the case of balance-distributed LTV, with loans that exceed 60% of the collateral's market value the excess amount is distributed among the other intervals.

In the case of totally distributed LTV the entire loan is allocated to one and the same interval.

# SpareBank 1 Alliance structure



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