Equity Valuation of Sparebanken Vest (Ticker: SVEG.OL) - April 30th, 2024

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Dissertation written under the supervision of Professor José Carlos Tudela Martins

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Abstract

Title: Equity Valuation of Sparebanken Vest (Ticker: SVEG.OL) – April 30th, 2024

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This dissertation aims to determine the target price per equity certificate of the Norwegian savings bank Sparebanken Vest, providing an investment recommendation as of April 30th, 2024. The dissertation explores various underlying theories and models, ultimately employing a modified FCFE model, an excess return model, and relative valuation. Both the company and the industry are analyzed, core valuation components are estimated, and finally, the valuation is conducted. Using a football field analysis to summarize the results, the dissertation concludes that the appropriate target price is NOK 121 per equity certificate, resulting in a "Hold" recommendation. Lastly, the target price and forecast are compared with an analyst report published by Pareto Securities AS, which revealed only minor discrepancies in both the forecast and target price, leading to the same investment recommendation.

Keywords: Equity Certificates, Bank Valuation, Equity Valuation, Discounted Cash Flow, Relative Valuation, Excess Return Model, Analyst Report

Abstrato

Título: Equity Valuation of Sparebanken Vest (Ticker: SVEG.OL) – April 30th, 2024

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Esta dissertação tem como objetivo determinar o preço-alvo por título de capital da caixa económica norueguesa Sparebanken Vest, fornecendo uma recomendação de investimento a 30 de abril de 2024. A dissertação explora várias teorias e modelos subjacentes, empregando, em última análise, um modelo FCFE modificado, um modelo de retorno em excesso e uma avaliação relativa. Tanto a empresa como o sector são analisados, os principais componentes de avaliação são estimados e, finalmente, a avaliação é efectuada. Utilizando uma análise de campo de futebol para resumir os resultados, a dissertação conclui que o preço-alvo adequado é de 121 NOK por certificado de acções, o que resulta numa recomendação "Hold". Por último, o preço-alvo e a previsão são comparados com um relatório de análise publicado pela Pareto Securities AS, que revelou apenas pequenas discrepâncias tanto na previsão como no preço-alvo, levando à mesma recomendação de investimento.

Palavras-chave: Certificados de acções, avaliação bancária, avaliação de acções, fluxo de caixa descontado, avaliação relativa, modelo de retorno excessivo, relatório de analista

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List of Abbreviations

AUM – Assets Under Management

β - Beta

CAPEX – Capital Expenditure

CAPM – Capital Asset Pricing Model

CET1- Common Equity Tier 1

CFE – Cash Flow to Equity

CPI – Consumer Price Index

DTI – Debt-to-Income

EC – Equity Certificate

ECC – Equity Certificate Capital

EPEC – Earnings Per Equity Certificate

FCF – Free Cash Flow

FCFE – Free Cash Flow to Equity

FCFEC – Free Cash Flow to Equity Certificates

FCFF – Free Cash Flow to the Firm

FF3 – Fama-French Three-Factor Model

FI – Financial Institution

FTE – Full-time Equivalent

g – Growth

IRB – Internal Ratings-Based

k_e – Cost of Equity

LTV – Loan-to-Value

M&A – Mergers & Acquisitions

NOK – Norwegian Kroner

OSEBX – Oslo Stock Exchange Benchmark Index

OSEEX – Oslo Stock Exchange Equity Certificate Index

P/B – Price-to-Book

P/E – Price-to-Earnings

P&L – Profit and Loss Statement

PV – Present Value

PVGO – Present Value of Growth Opportunities

rf – Risk-free Rate

ROE – Return on Equity

RWA – Risk-Weighted Assets

SVEG – Sparebanken Vest

WEM – Warranted Equity Method

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Please see Appendix for better representation of figures, tables, and other key information.

1.0 Introduction

Sparebanken Vest (SVEG) was established in 1823 and has grown to become Norway's second-largest savings bank by market capitalization. The bank's primary market is in Western Norway, home to about 26% of the Norwegian population. The bank offers a range of financial services to both individuals and businesses, including loans, savings, insurance, pension schemes, financial market operations, and more (Sparebanken Vest, 2023). Traditionally, savings banks like SVEG functioned as mutual savings banks. However, this shifted in 1988 with the implementation of "Lov om skattlegging av eier av grunnfondsbevis" (1987) by the Norwegian Ministry of Finance and Customs. This legislation paved the way for savings banks to issue equity certificates, similar to stocks, enabling investors to contribute to and benefit from the bank's financial development.

The emergence of this unique asset class serves as a key motivation behind the dissertation. More specifically, the dissertation is inspired by the challenge of valuing banks due to the distinct nature of their business model and the notable performance of equity certificates in recent decades. Since April 2000, Norwegian Equity Certificates (OSEEX) have achieved a CAGR of roughly 13.5%, surpassing the Oslo Stock Exchange Benchmark Index (OSEBX), which has achieved a CAGR of about 9.25% (Euronext, 2024). This significant disparity over the past two decades makes Norwegian equity certificates particularly interesting for valuation purposes. Hence, the primary goal of this dissertation is to determine the fair value of Sparebanken Vest's equity certificate capital, aiming to establish a **target price per equity certificate** and formulate an investment recommendation **as of 30.04.2024**. The study will then assess how these findings align with a Norwegian investment bank's target price and investment recommendation, exploring the rationale behind any discrepancies.

Data collection ended on: April 30th, 2024.

2.0 Literature Review

At the core of valuation lies a principle as timeless as Aesop's famous proverb, "A bird in the hand is worth two in the bush." (Aesop, 600BC/2013, p.163). Although old, this principle perfectly captures the essence of valuation. In other words, the value of a financial asset is mainly attributed to three factors:

I. The cash flows expected to be generated by the asset in the future.
II. The certainty of those cash flows.
III. The prevailing risk-free interest rate.

While these factors are more or less universal for asset valuation, the methodology behind each valuation varies significantly. This becomes particularly evident in the valuation of a financial institution (FI). Financial institutions, including banks, require distinct valuation methodologies primarily for two reasons: First, their business model complicates the definition of debt and investments, such as net capex and change in net working capital, leading to more atypical cash flow estimations. Second, the heavy regulation of banks and financial institutions significantly influences the assumptions and forecasting of free cash flows (Damodaran, 2012). Given these constraints, it becomes imperative to outline the critical distinctions between banks and traditional companies and identify the specific methodologies and theories for correctly valuing entities like SVEG. Hence, this section will delve into the business model unique to banks, clarify the characteristics of equity certificates, and outline the methodology and theoretical framework upon which the subsequent valuation and analyses are founded.

2.1 Business of Banking

In essence, banks are intermediaries that facilitate transactions between providers and users of financial capital (Greenbaum et al., 2019). Through this role as a broker, service provider, and agent of qualitative asset transformation, banks generate income. This business model fundamentally sets banks apart from traditional companies due to the significant distinctions between their balance sheets and operations. These distinctions are pivotal in understanding why banks are valued differently from other companies.

Firstly, the function of debt highlights a key distinction. Debt serves as capital for a typical company, but for banks, it functions more like raw material. Unlike other businesses that raise debt for investment purposes, banks use debt as the foundation of their operations. To quote Damodaran (2012), “Debt to a bank is akin to steel for an automobile company” (p. 648). This perspective on the role of debt is further supported by regulatory bodies, which consider only equity and equity-like securities as capital. As a result, valuing operations independently from net interest income proves difficult, as debt is inherently considered an operational element. Therefore, employing a Free Cash Flow to the Firm (FCFF) model to value SVEG is not considered feasible.

Secondly, the challenge of classifying what constitutes net investments underscores another critical distinction. As the FCFF model proves impractical for banks, turning to the Free Cash Flow to Equity (FCFE) model seems like a logical alternative. However, the intricacies of estimating net capex and net changes in working capital, crucial components of the FCFE calculation, become ambiguous within the context of banking. Capital expenditure generally involves investments in property, plant, equipment, and other fixed assets. For banks, however, capital expenditures mainly consist of investments in intangible assets such as brands and human capital. As these investments are categorized under operational expenses, the cash flow statements will exhibit very low capital expenditures, with subsequently low depreciation charges in the P&L. As for working capital, traditionally identified as the difference between current assets and liabilities, another challenge arises. Due to the unique business model of banks, their balance sheets contain only insignificant amounts of what constitutes typically current assets and current liabilities. As a result, relying on capital expenditures and working capital when forecasting net investments will lead to imprecise and potentially misleading FCFE estimates (Damodaran, 2012).

In summary, banks’ distinctive characteristics render conventional valuation models like FCFF and FCFE unsuitable. As a result, this dissertation will employ modified models designed explicitly for bank valuation. Specifically, the valuation will employ a modified cash flow to equity (FCFE) model, an excess return model, and relative valuation, which will be further explained in the following sections.

2.2 Equity Certificates

As previously mentioned, the issuance of equity certificates was authorized in 1988, marking a significant milestone for Norwegian savings banks. This development introduced a distinctive capital structure, splitting the savings banks' equity into primary capital and equity certificate capital. The primary capital is self-owned and can thus be seen as capital owned by the customers and the community. Primary capital comprises paid-up capital, retained earnings, the gift fund, and the compensation fund (Ministry of Finance, 2023). The gift fund represents funds earmarked for public contributions, including scholarships and support for local clubs, among other initiatives. The compensation fund is equivalent to premium reserve, established to safeguard against dilution effects that could alter the ownership proportions within the primary capital and the equity certificate capital (Skotnes, 2017). This ownership proportion determines the net profit allocated between the equity certificate capital and the primary capital. The equity certificate capital comprises paid-up capital linked to equity certificates, the premium reserve, and the equalization reserve. The portion of the net profit attributable to equity certificate capital after dividends is allocated to the equalization reserve. Thus, the equalization reserve comprises retained earnings belonging to equity certificate holders, which can be distributed as dividends if desired.

As outlined in Section 1.0, the primary goal of this dissertation is to determine the fair value of Sparebanken Vest's equity certificate capital. While equity certificate capital is considered equivalent to stocks, some key distinctions are worth mentioning. For instance, holding an equity certificate provides ownership in the equity certificate capital, along with rights to future dividends, proportionate to the holder's share of ownership relative to primary capital. Conversely, owning a share in a company typically confers a right to a portion of the company's total equity. As a result, minor adjustments are necessary to ensure the valuation accurately incorporates this ownership proportion, with further explanation provided in subsequent sections.

Equity certificate holders are restricted to between 20 and 40% of the votes at the general meeting, limiting the possibility of majority control. However, as this valuation is based on a premise of passive ownership, these voting restrictions will not influence the methodology or findings of the dissertation. Additionally, in the event of a deficit, equity certificate capital is

accorded higher priority. This arrangement primarily serves to offset the restricted ownership influence of equity certificate holders (Ministry of Finance, 2023). More specifically, deficit write-downs follow a distinct sequence: firstly, between the gift fund and the equalization reserve, followed by the compensation fund and the premium reserve, and finally, the paid-up capital. Equity certificate capital's preferential treatment arises when the equalization or premium reserves are substantially less than the primary capital or when they do not exist. Under such circumstances, losses are mainly absorbed by the gift and compensation funds before affecting equity certificate capital (Skotnes, 2017). This is not the case for SVEG, as both the equalization reserve and the premium reserve are substantial relative to primary capital.

In conclusion, shares and equity certificates are typically seen as similar types of securities, carrying similar risks and exposure to the entity's upside. However, differences in voting rights, division of equity certificate and primary capital, and specific priorities in deficit scenarios may require modifications in the valuation approach:

I. As previously mentioned, the valuation will assume passive ownership. Hence, the voting rights issue will not be of interest.
II. The division of equity certificate and primary capital will necessitate modifications to cash flow estimates, further explained in Sections 2.4 and 2.5.
III. The preferential treatment in deficit scenarios, which leads to reduced risk, is thought to be reflected in the beta and subsequent cost of equity.

2.3 Cost of Equity

As established, the nature of banking demands a distinct valuation approach. Consequently, the analysis will be based on a modified FCFE model, supplemented by an excess return analysis and relative valuation. As these models focus solely on equity valuation, the cost of equity will consistently serve as the discount rate throughout the dissertation.

The cost of equity (k_e) reflects the return investors require as compensation for the non-diversifiable risk associated with the firm (Damodaran, 2012). Generally, two types of risks are associated with an investment: non-systematic and systematic risk. Non-systematic risk,

also referred to as firm-specific risk, can be eliminated by maintaining a diversified portfolio of investments. As this type of risk is diversifiable, the investor should not be compensated. Conversely, systematic risk, also referred to as market risk (β), cannot be eliminated through diversification. Given that investors unavoidably face this type of risk, they should be compensated (Berk & DeMarzo, 2020). Usually, systematic risk is identified by employing either the CAPM or the FF3 model. According to Koller et al. (2020), the CAPM is the preferred method for estimating the cost of equity and will thus be employed in this dissertation. The CAPM determines a firm's systematic risk by assessing how its stock price correlates with market fluctuations. This measure is represented by beta (β), and in combination with the risk-free rate (rf) and the market risk premium, the CAPM determines the cost of equity:

$$k_e = r_f + \beta\left[E(R_m) - r_f\right]$$

Equation 1: Capital Asset Pricing Model

The cost of equity is a crucial input to the valuation models. Hence, carefully determining the inputs for calculating k_e is essential. Firstly, Koller et al. (2020) emphasize that β should reflect the "future beta," necessitating judgment, rather than relying on the company's historical beta. Furthermore, a company's historical beta can be significantly skewed by one-off events, making industry beta advantageous (Damodaran, 2012). Given the relative illiquidity of SVEG's equity certificates and the changing regulatory requirements throughout the years, employing an industry beta is considered beneficial. The industry beta is typically derived by calculating the beta for each company within the peer group, adjusting for leverage, and then determining the trend-adjusted median beta of the group. The objective is to use these historical estimates of the peer group beta as a predictor for the future beta. For SVEG, this methodology is slightly different. Banks operating under the same regulatory requirements tend to have similar capital structures. Furthermore, the concept of debt is more ambiguous and difficult to define for banks. Consequently, Damodaran (2012) recommends omitting the processes of unlevering and relevering the betas of the peer group. As a result, the dissertation will employ the industry trend-adjusted median beta, unadjusted for leverage. The estimation of beta will be presented in Section 5.2.

Secondly, the risk-free rate serves as a crucial input to the CAPM. The most widely used proxy for the risk-free rate is treasury securities. Treasuries are typically considered risk-free for two primary reasons:

I. Default risk is effectively nullified by the government's ability to print money.
II. Reinvestment risk is managed by aligning the duration of the treasury with the specific cash flow being analyzed.

Koller et al. (2020) have previously argued that the recent historic lows in treasury yields, driven by near-zero policy rates and quantitative easing, have resulted in unreasonable cost of equity estimates. As a result, they recommended adopting a synthetic risk-free rate that combines expected inflation with the long-term average real interest rate. However, in response to recent inflation, policy rates and treasury yields have surged to more normalized levels. Consequently, the dissertation will rely on the current treasury yields rather than a synthetic risk-free rate. More specifically, the dissertation will employ the Norwegian 10-year government bond as a proxy for the risk-free rate. There are three primary reasons for this:

I. The Government of Norway is considered free from default risk (Moody's, 2023).
II. SVEG solely operates in Norway, with cash flows denominated in NOK.
III. The combination of an inverted yield curve and substantial differences between short-term and long-term rates makes it reasonable to solely employ the 10-year yield.

The last essential component of the CAPM is the market risk premium $E(R_m)$. The market risk premium represents the market's expected return over the risk-free rate. It can be determined by analysing expected market returns embedded in current stock prices or by examining historical market risk premiums (Koller et al., 2020). The dissertation will analyse both approaches. Given that SVEG operates exclusively in Norway and is listed on the Oslo Stock Exchange, the dissertation will solely focus on using the market risk premium of the Norwegian equity market. Section 5.2 will present the estimation of key components, including the risk-free rate, market risk premium, beta, and, ultimately, the cost of equity.

2.4 Cash Flow to Equity

For financial institutions like SVEG, characterized by high payout ratios, consistently positive earnings, and stable outlooks, experts such as Damodaran (2012) and Massari et al. (2014) recommend using either a dividend discount model or a cash flow to equity model. Accordingly, this dissertation adopts the FCFE model when valuing SVEG.

As previously mentioned, estimating the traditional FCFE proves difficult for banks; thus, the valuation will rely on a modified FCFE model. Both Damodaran (2012), Massari et al. (2014), and Koller et al. (2020) argue that the most significant investments banks make relate to changes in regulatory capital. As a bank's risk-weighted assets (RWA) grows, it must increase its capital base to comply with regulatory requirements (see Section 3.2). Furthermore, an overcapitalized bank will have excess capital to be distributed, while an undercapitalized bank will need to raise capital. Consequently, the free cash flow available to equity holders of a bank must be the following (Koller et al., 2020):

$$FCFE_t = NI_t - \Delta E_t$$

Equation 2: Free Cash Flow to Equity

The estimation of FCFE is based on a forecast of net income, including comprehensive income, followed by projected changes in regulatory capital. Key factors influencing both net income and the retention ratio include net interest margin, cost-to-income ratio, growth in RWA, and loan loss provisions. For a detailed forecast, please see Section 5.3.

Given that SVEG's equity is divided into primary capital and equity certificate capital, the ownership proportion, also referred to as the owner fraction, must be factored in. SVEG defines the owner fraction as follows (Sparebanken Vest, 2023):

$$Owner\ Fraction = \frac{Total\ Equity\ Certificate\ Capital}{Total\ Equity\ Certificate\ Capital + Total\ Primary\ Capital}$$

Equation 3: Owner Fraction

The owner fraction dictates how net income and dividends are distributed between equity certificate capital and primary capital. For instance, if the consolidated annual profit is NOK 100 and it is decided to distribute 50% as dividends, with an owner fraction of 50%, equity

certificate holders would receive NOK 25 in dividends. Simultaneously, NOK 25 would be transferred to equity certificate capital. An equivalent amount of NOK 25 would be distributed as dividends for public benefits and customer dividends, while the remaining NOK 25 would be transferred to primary capital. In 2023, the owner fraction for SVEG was 40.7%, and it has consistently hovered around 40% over the past five years (Sparebanken Vest, 2023). Since savings banks like SVEG aim to maintain a stable owner fraction, a rate of 40.7% will be used when forecasting free cash flow to equity certificates (FCFEC). Lastly, following the estimation of FCFE and taking the owner fraction into account, the value of the equity certificate capital can be calculated. As stated by Koller et al. (2020), the equity value of a bank must be equal to the present value of future FCFEC discounted at the k_e:

$$Value\ of\ Equity\ Certificate\ Capital = \sum_{t=1}^{\infty} \frac{FCFEC_t}{(1+k_e)^t}$$

Equation 4: Value of Equity Certificate Capital

The forecast of FCFEC and subsequent valuation will be conducted in Section 5.3.

2.5 Excess Return Model

A significant limitation of valuing equity through dividend discount or FCFE models is their inability to indicate whether a firm is creating or destroying value and specify the areas and underlying reasons for this value impact (Koller et al., 2020). To address these shortcomings and provide a deeper understanding of the value creation of SVEG, an excess return analysis will be performed. This analysis will clarify the sources of value creation and offer a foundation for relative valuation, helping to explain discrepancies among valuations of peer group companies.

The excess return model states that a bank's equity value is the sum of its current book value of equity plus the present value of future excess returns, representing the bank's returns above its cost of equity (Massari et al., 2014).

$$Equity\ Value = Equity\ Capital + \sum_{t=1}^{\infty} \frac{Excess\ Return_t}{(1+k_e)^t}$$

Equation 5: Excess Return Model

The equation implies that a bank generating returns equal to its cost of equity should logically be valued at its book value. If the bank's ROE exceeds the k_e, then its market value should be higher than its book value. Conversely, if the bank's ROE falls below its k_e, the market value should be lower. Typically, accounting metrics like the book value of equity can be misleading. However, for banks, the situation is somewhat different. For one, banks invest minimally in capital expenditures, resulting in relatively few depreciation charges that could deflate the balance sheet. Additionally, since most of their assets are marked-to-market, the book value of equity tends to align more closely with market value. On the downside, stock buybacks can undermine the reliability of book value; however, this is less of a concern for SVEG, which does not frequently engage in such practices. Therefore, the excess return model is particularly suitable for SVEG, as its book value of equity provides a more accurate representation of its market value.

As with the FCFE model, the excess return model also requires adjustments to accommodate the unique aspects of equity certificate capital. The primary adjustment involves adjusting the excess return factor to include the owner fraction. The excess return is determined using the following calculation:

$$PV\ of\ Excess\ Return = \sum_{t=1}^{\infty} \frac{Own.\ Fraction * [(ROE * Book\ Value\ of\ Equity_{t-1}) - (k_e * Book\ Value\ of\ Equity_{t-1})]}{(1+k_e)^t}$$

Equation 6: PV of Excess Return

As illustrated in Equation 6, the owner fraction (40.7%) of the calculated excess return is attributed to equity certificate holders. The forecast of excess returns and subsequent valuation will be conducted in Section 5.4.

2.6 Relative Valuation

As highlighted by Koller et al. (2020), performing a relative valuation serves as an effective method to test the valuation of both the cash flow to equity and excess return model. A relative valuation model operates on the assumption that similar companies should trade at similar market multiples. This assumption is based on the efficient market hypothesis, which suggests that tradeable securities are accurately priced by the market (Fama, 1970). Being in the same industry or market does not in itself qualify companies as similar. Rather, it is crucial characteristics such as growth rates, profitability, and risk profiles that ultimately

determine the similarity. Companies that meet these criteria are included in the peer group, which determines the industry beta and the appropriate market multiple for SVEG.

Given that SVEG is a financial institution, employing enterprise value or operating results for valuation multiples is unsuitable. As previously noted, banks' debt is difficult to define, and their operating income does not adequately represent core operations. Consequently, the relative valuation will exclusively employ equity multiples, explicitly focusing on Price-to-Earnings (P/E) and Price-to-Book ratios (P/B). The P/E ratio is typically defined as the market price of a share (or equity certificate) divided by the net profit per share. This measure inherently reflects the company's growth opportunities, cost of equity, and payout ratio and can thus be written as (Bodie et al., 2021):

$$\frac{P}{E} = \frac{1}{k_e}\left[1 + \frac{PVGO}{E/k_e}\right]$$

Equation 7: Price-to-Earnings Multiple

The Present Value of Growth Opportunities (PVGO) ratio indicates that companies lacking significant growth opportunities should be valued as a non-growing perpetuity. Conversely, companies with valuable growth opportunities should warrant a higher P/E ratio, all else equal. Bodie et al. (2021) further suggest that incorporating the retention ratio (b) and corresponding ROE can refine the equation, allowing the P/E ratio to be expressed as follows:

$$\frac{P}{E} = \frac{1 - b}{k_e - (ROE * b)}$$

Equation 8: Price-to-Earnings Ratio for a Company Exhibiting Sustainable Growth

As indicated, companies with higher ROE and significant growth opportunities typically warrant higher P/E ratios. For SVEG and similar banking institutions, this suggests that if a bank achieves an ROE greater than its k_e and demonstrates significant growth opportunities, a higher retention ratio is desirable, provided that regulatory capital requirements are still satisfied. Conversely, if the bank's ROE falls below its k_e, a lower retention ratio is desirable. Nevertheless, should the bank fail to adjust its retention ratio or increase dividends accordingly, the stock price should be affected, as the dividend policy is value-destroying (Bodie et al., 2021). When using P/E multiples for the relative valuation of banks, it's crucial to account for specific earnings management strategies, such as loan provisions.

A conservative bank that overestimates provisions will typically display a lower P/E multiple, all else equal. Conversely, an aggressive bank that underestimates provisions will tend to show a higher P/E multiple. As a result, loan provisions and other items in the P&L of each peer company must be properly analyzed before drawing any conclusions.

The P/B ratio is typically defined as the market price of a share (or equity certificate) divided by the company's book value of equity per share. Similar to the P/E ratio, it is influenced by factors like growth, ROE, payout ratio, and k_e. Damodaran (2012) highlights that ROE is a more crucial determinant of the P/B ratio for banks than for other types of companies, as evidenced by empirical data. This significance stems from the fact that banks' equity values generally reflect their market values more accurately, which means that both book value and ROE provide more reliable estimates of profitability and equity value. ROE determines the P/B multiple based on its deviation from k_e, signalling whether a bank is creating or destroying value. For example, banks with ROE > k_e are expected to trade at P/B multiples above 1, those with ROE = k_e at 1, and those with ROE < k_e below 1, all else equal. However, it is crucial to note that growth, risk, and payout ratios also significantly affect the P/B multiple, much like their impact on the P/E ratio.

The relative valuation, based on the peer group's P/E and P/B multiples, will be conducted in Section 5.5.

2.7 Determining Price Target and Investment Recommendation

Although valuation is inherently subjective, this dissertation aims to be as objective as possible. Accordingly, the methodologies for determining the price target and formulating the investment recommendation will be outlined and explained prior to the valuation and analysis of SVEG.

Firstly, the obtained estimates from the FCFE and excess return model will be triangulated through a relative valuation. This approach will test the valuations against the market pricing of the security. Secondly, the findings from the FCFE, excess return model, and relative

valuation will be presented in a "football field" format, illustrating the overlap among the different valuation methods, including various scenarios. Ultimately, the target price will be derived from the valuation range displayed in the "football field," establishing a price target based on an average of these methodologies.

The estimated target price of SVEG will determine the investment recommendation. Depending on how the target price compares to SVEG's closing price, the recommendation will be classified as either "Buy," "Hold," or "Sell." The specific criteria for each category are outlined as follows:

I. If the target price exceeds the closing price by more than 15%, a "Buy" recommendation is issued.
II. If the target price is within 15% above or below the closing price, a "Hold" recommendation is issued.
III. If the target price is more than 15% below the closing price, a "Sell" recommendation is issued.

The closing price of the equity certificate, target price, and subsequent investment recommendation will be established as of April 30th, 2024.

3.0 Industry Analysis

Sparebanken Vest focuses predominantly on retail and commercial banking in the west coast region of Norway. Consequently, its operations are centered within the Norwegian banking industry. More specifically, SVEG operates within the savings banks industry. The broader banking industry and the niche of savings banks will be explored in the subsequent section.

3.1 Structure of the Norwegian Banking Sector

The Norwegian banking sector consists of nationwide commercial banks, local savings banks, and fully digital banks, commonly referred to as neobanks. As of 2023, 106 banks were operational in Norway, of which 86 were savings banks (Finanstilsynet, 2023). The number of savings banks has significantly declined since its peak at 638 in 1929 (Sparebankforeningen, 2024), a trend that has continued with the recent surge in M&A activity. This increase in M&A activity can be explained by the advantages of becoming a larger bank. Larger banks can navigate compliance issues more effectively, reduce overhead costs, and become eligible for internal rating-based measurements, which can free up capital. (It is important to note that SVEG is already an IRB bank, and the dissertation will not assume any mergers or acquisitions in the near future). DNB is the most significant player in both the retail and corporate market, holding approximately 30% of the market share in lending. Figure 1 illustrates the distribution of the Norwegian lending market in percentages (Norges Bank, 2023):

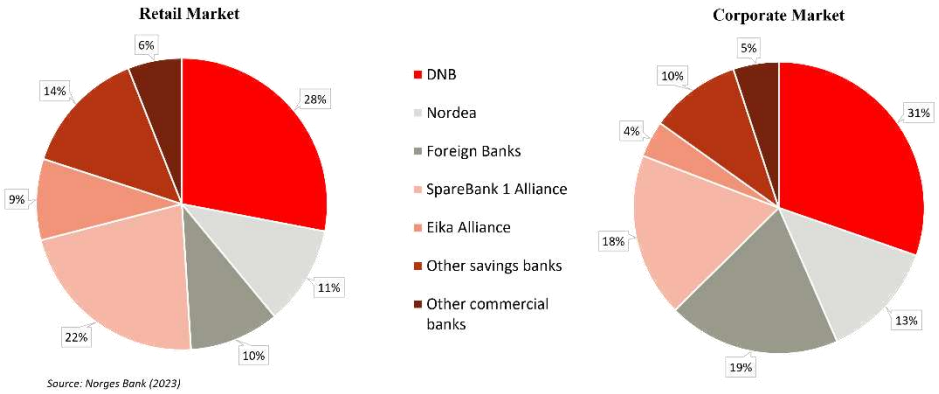


Figure 1: Market Share of Lending as of 2022

As shown in Figure 2 below, the sector's loans and funding mainly consist of private mortgages and deposits. Across both the retail and corporate market, over 50% of the loan

exposure is attributed to private mortgages, while deposits are the predominant source of funding, accounting for over 40%.

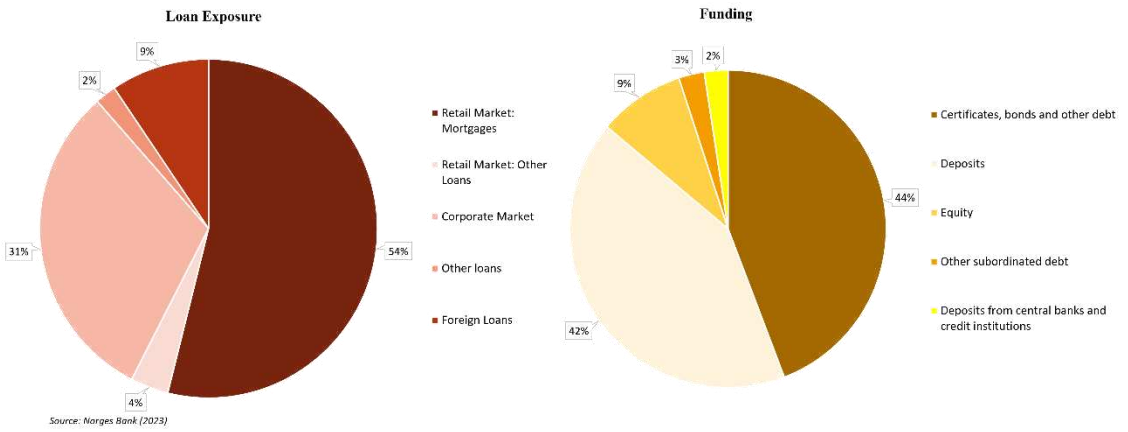


Figure 2: Loan Exposure and Funding Sources as of 2022

Norway is particularly unique in terms of private mortgages due to one critical factor: the interest rate. Research by Winje & Bjørlo (2019) revealed that Norway has a significantly lower proportion of fixed-rate mortgages compared to other countries. Specifically, their analysis from 2005 to 2019 indicated that less than 10% of all mortgages were fixed-rate mortgages. Hence, most Norwegian banks do not encounter the same level of interest rate risk as their European and American counterparts, as demonstrated by the recent banking crisis in the United States (Neely & Neely, 2023). Another important industry characteristic is "The lending regulation" set by the Norwegian Ministry of Finance. As stated by the Ministry of Finance (2023), the regulation has been developed: "To mitigate the build-up of debt in vulnerable households." The law regulates the credit standards for mortgages, consumer loans, and car loans as follows:

I. The Loan-to-Value (LTV) ratio cannot succeed 85%.
II. Loans with LTV over 60% require principal payments.
III. The customer must be able to manage payments at the higher of a 3% rate increase or a 7% interest rate.
IV. Maximum Debt-to-Income (DTI) is set at 5x.

Although banks and FIs have a 10% flexibility quota (5% on consumer loans), the regulation can be seen as risk-mitigating for the banks and industry. The regulation may be partly driven by the risks associated with Norway's high rate of homeownership, as owning one's home is a widely held aspiration in the country. The current homeownership rate of 76% (SSB, 2024) is not only supported by societal norms but also by government incentives such as tax benefits

and specialized high-interest rate products designed specifically for home purchases. Many economists and analysts attribute this goal of homeownership and government incentives as a significant driver behind the substantial price increase in the Norwegian housing market, as demonstrated in Figure 3:

Figure 3: Housing Price Index vs Real Wage Growth

The remarkable price increase in the Norwegian housing market has undoubtedly benefited the banking industry, as evidenced by the low loan losses of only 0.2% over the last ten years, compared to 0.7% in Europe and 1% in the USA (Næss, 2023). However, this situation prompts concerns about the long-term sustainability of such conditions with correspondingly low loan losses. Consequently, it can be questioned whether investing in the sector amounts to "picking up pennies in front of a steamroller". On the other hand, although this tail risk is undeniable, accurately predicting an economic crisis is as improbable as winning the lottery. As a result, there is no expectation of a collapse in the housing market or the Norwegian economy during SVEG's forecasting period.

The Norwegian banking sector can further be distinguished by two key characteristics: firstly, most banks are part of a cooperative alliance, and secondly, there is extensive collaboration across the sector on innovation and product development. The alliances, established throughout the 1990s, were driven by the goal of merging functions like technological

development, compliance, IT, and marketing to gain economies of scale yet still maintain the ability to operate as local banks. In the wake of this, several larger alliances were formed, most notably the Eika Alliance with 50 banks and the SpareBank 1 Alliance with 14 banks. Sparebanken Vest has been part of the cooperative group Frende Gruppen, which has recently transitioned into a formalized alliance set to take effect in 2024. The form of alliances and collaboration across the industry have undoubtedly been beneficial. For instance, many analysts and market participants attribute some of the notable market returns of Norwegian banks to these innovative and cooperative efforts. This phenomenon of high returns is particularly pronounced among savings banks, as highlighted in the research by Næss (2023), demonstrated in Figure 4 below:

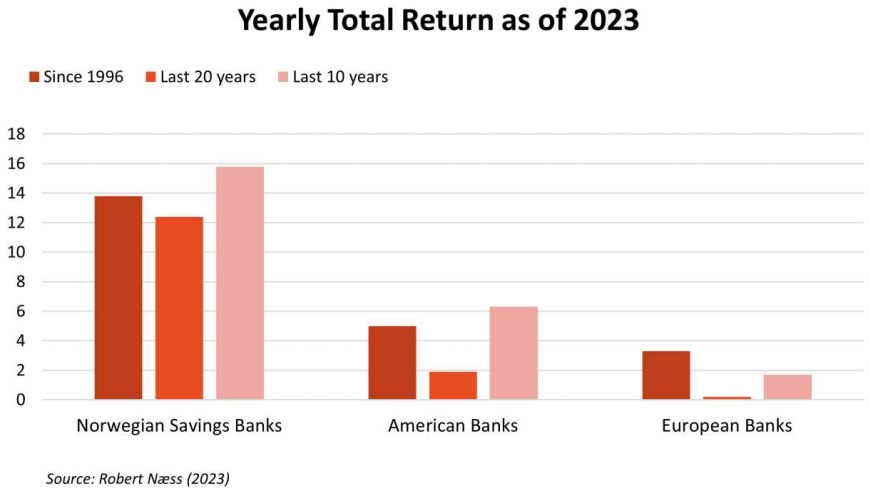


Figure 4: Total Return, Including Reinvested Dividends

Næss (2023) claims that the total return of Norwegian savings banks can mainly be attributed to three things:

I. Cooperation on technological development has led to relatively higher cost efficiency compared to European and American banks.
II. Lending growth has been higher compared to European and American banks.
III. Large exposure to mortgages in an ever-rising housing market has resulted in relatively low loan losses, with correspondingly high ROE.

However, although Norwegian savings banks have shown exceptional profitability (ROE), one might argue that such metrics can easily be influenced by factors like lower capital ratios, suggesting that higher ROEs merely reflect increased risk. Yet, as detailed in Section 3.2, this is not the case.

The competitive landscape in the banking sector is complex. On the one hand, innovations and regulations have simplified the process of switching banks and comparing rates, intensifying the competition (Finansdepartementet, 2023). On the other hand, significant entry barriers such as licensing requirements, stringent capital requirements, and other regulatory hurdles make establishing new banks in Norway challenging. These factors, combined with the consistently strong performance of Norwegian banks, raise questions about the intensity of competition in the sector. However, a report by Menon Economics (2023), commissioned by Finans Norge, concluded that the competition within the sector is strong due to the following reasons:

I. Norway's two largest banks, DNB and Nordea, hold a smaller retail market share compared to their counterparts in other countries.
II. The combined market share of Norway's top two and four banks, based on net lending, is relatively low internationally.
III. Norway exhibits higher customer mobility compared to other countries, particularly in the mortgage sector.

Kantar (2020) also reported a declining trend in the share of customers with only one bank connection, indicating that customers are increasingly shopping around for the best banking products. Supporting this observation, Finans Norge (2024) noted in a recent report that Norwegian bank customers are more active than ever in the market. Their findings indicate that the key factors for Norwegian customers when selecting a bank include (1) user-friendliness, (2) mortgage rates, and (3) deposit rates. Interestingly, SVEG, along with its Bulder concept, is recognized for its technological advancements and leadership in user-friendly applications and online banking services. Consequently, based on Finans Norge's report, SVEG can be considered an attractive banking option for customers.

In conclusion, the industry presents a somewhat ambiguous competitive landscape. On the one hand, customers are becoming increasingly active in the market, and the banks' market shares remain relatively low. On the other hand, technological developments, alliances, and other factors has led to sustained high ROE levels, with no apparent decline despite the argued increase in competition. As shown in Figure 5, the six largest savings banks in Norway consistently achieve strong ROE performance:

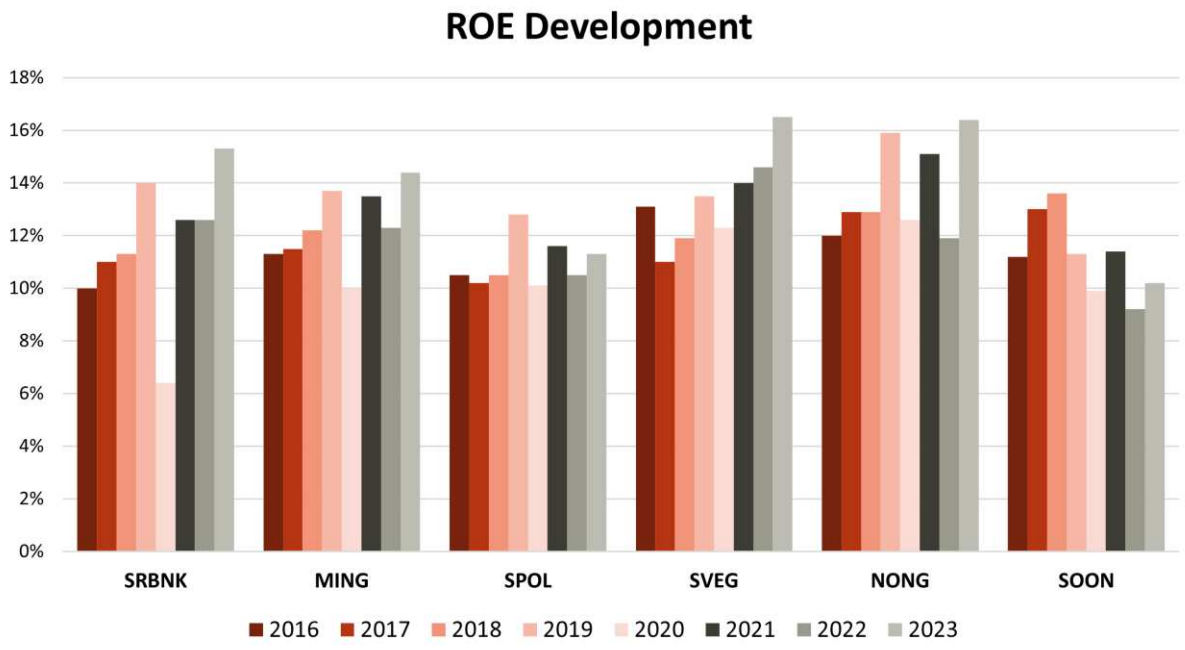


Figure 5: ROE Development, Six Biggest Savings Banks

Consequently, competition for mortgages, deposits, and customers is expected to be moderately high. The subsequent developments in customer base, net lending, net interest margins, and other metrics influenced by industry competition are detailed in Section 5.3.

3.2 Regulation of the Norwegian Banking Sector

Historically, crises have led to increased regulation of the banking sector, including stricter capital requirements, higher barriers of entry, enhanced credit standards, deposit insurance schemes, and more. As this section will demonstrate, the Norwegian Banking Sector has some of the strictest regulations in the world.

The Norwegian banking sector operates under the European Union's capital adequacy legislation, which is based on the Basel III standards (Norges Bank, 2023). Ultimately, the Ministry of Finance oversees the sector, establishing requirements in accordance with EU legislation. The minimum capital requirements under Basel III are as follows (Basel Committee, 2017):

I. Common Equity Tier 1 (CET1) must be at least 4.5% of Risk-Weighted Assets (RWA).
II. Tier 1 Capital must be at least 6% of RWA.

III. Total Capital must be at least 8% of RWA.

In addition, Norwegian banks are required to maintain capital that meets several regulatory buffers: the conservation buffer, systemic risk buffer, countercyclical buffer, the buffer for systemically important banks, and Pillar 2 requirements. As a result, unless deemed systemically important, Norwegian banks are generally required to maintain a minimum CET1 capital ratio of 14% relative to their RWA. Moreover, individual Pillar 2 capital requirements set by the Ministry of Finance and additional margins established by the banks themselves led to an average CET1 ratio of 18.5% for Norwegian banks in 2022, as reported by Norges Bank (2023).

Sparebanken Vest is not classified as systemically important; however, it is still required to maintain a minimum CET1 ratio of 14.8%, including pillar 2 requirements. If the bank were deemed systemically important, it would require a 1% higher CET1 ratio. The bank targets a safety margin of at least 1.25% above its 14.8% threshold, aiming for a CET1 capital ratio of 16.05% (Sparebanken Vest, 2023). Additionally, it is crucial to note that SVEG, due to its size, operates under the Internal Ratings-Based (IRB) approach. This entails using internally developed models to calculate the RWA, which in turn dictates the nominal amount of capital the bank must hold. Operating under this model has proven beneficial, as IRB banks generally report lower RWA figures than those using standardized market weights. The dissertation assumes that the current capital requirements will remain unchanged and that SVEG will continue its operations as a non-systemically important IRB bank.

3.3 Market Climate

One of the most important factors to consider when valuing a bank is undoubtedly the economy in which it operates. While the Norwegian economy is generally stable, it has exhibited notable volatility in recent years following the Covid-19 pandemic. For instance, inflation has risen sharply since 2020, as illustrated in Figure 6.

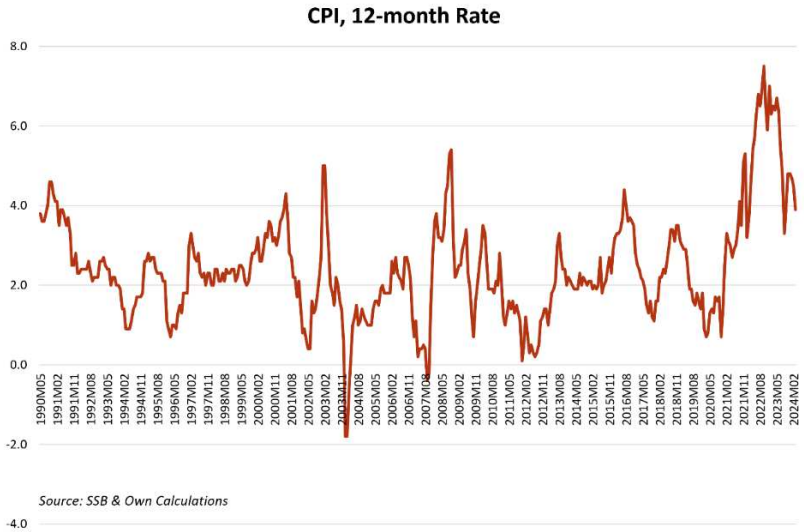


Figure 6: Norwegian CPI, 12-month Rate

Due to the inflationary pressure on the economy, Norges Bank abandoned its zero-rate policy, which led to multiple rate hikes, culminating in a peak of 4.5% on December 14th, 2023 (Norges Bank, 2024). This policy shift subsequently resulted in a significant increase in the Norwegian interbank offer rate (NIBOR), as demonstrated in the following data:

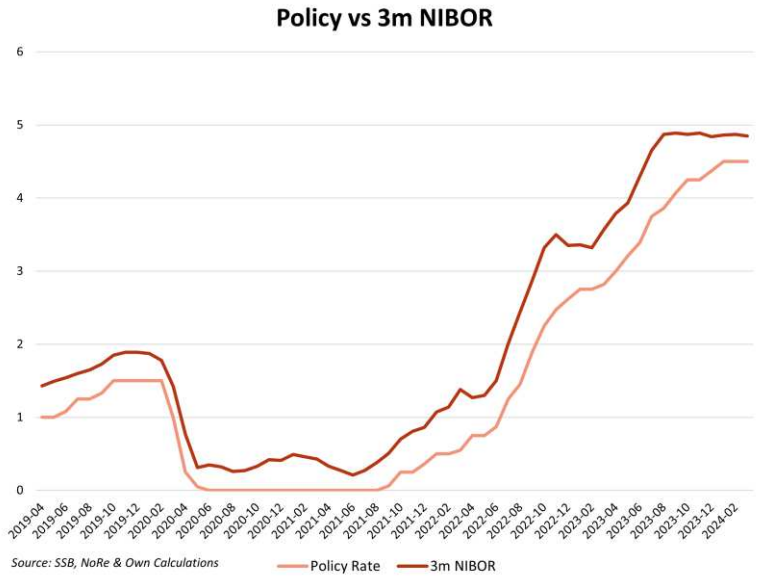


Figure 7: Policy Rate vs 3m NIBOR

Consequently, Norway has experienced lower GNP growth, and Norges Bank holds modest expectations for future economic growth. On the other hand, unemployment has remained low, consumer spending has exceeded expectations, and the construction industry appears to be the only sector significantly impacted so far (Norges Bank, 2024). As a result, the banks' loan losses have remained low, and they have been able to profit from the rate hikes by widening the spread between lending and deposit rates. SVEG exemplifies this, having increased its net interest margin from 1.40% in 2020 to 1.89% in 2023. Additionally, there has been a reduction in its cost-to-income ratio from 35% to 28% and an increase in ROE from 12.3% to 16.5%. These improvements have led to a significant rise in its share price, rising from around NOK 65 to NOK 120 since 2020, corresponding to a compound annual growth rate (CAGR) of approximately 25% over the same period, including reinvested dividends. However, it is questionable how long banks, and SVEG, can sustain such high net interest margins and correspondingly high ROEs, given the expected increase in market competition and policy rate cuts by Norges Bank at the end of the year.

In conclusion, the current market climate has been advantageous for the banking industry, with policy rate hikes leading to margin expansion and increased ROEs. Inflation has begun to revert, the Norwegian household economy shows limited signs of weakness, and the broad corporate market remains unaffected. Consequently, the overall economy is expected to remain stable, albeit with a slightly lower growth rate. Section 5.3 will further delve into how these factors impact the forecast for SVEG.

4.0 Company Analysis

Sparebanken Vest operates in the western region of Norway, serving approximately 26% of the Norwegian market. The bank is headquartered in Bergen and currently distributes its services through 36 sales points across the counties of Vestland, Rogaland, and Møre og Romsdal. The bank primarily engages in lending and financial services, serving both the retail and corporate market. As of December 2023, Sparebanken Vest had more than 325,000 retail and 14,200 corporate customers, with assets under management totalling approximately NOK 306 billion (Sparebanken Vest, 2023). The bank offers its services under two brands: Sparebanken Vest and the newly established Bulder brand. Sparebanken Vest is a community-focused bank that provides physical sales points and digital banking services. Bulder, on the other hand, is Norway's first mobile-app-only banking service. Bulder, launched in autumn of 2019, has quickly become the industry's most significant success story in recent years. The Bulder concept has attracted a substantial number of mortgage customers, currently managing NOK 51 billion in mortgages across 74,000 customers, representing 18% of SVEG's total loan portfolio as of March 31st, 2024. Following DNB's acquisition of the neobank Sbanken, Bulder is positioned for additional growth as customers increasingly shift away from Sbanken (Ghaderi, 2024). Since last year, Bulder's loan portfolio has doubled, and it is anticipated to constitute a larger share of SVEG's total loan portfolio going forward. The current loan portfolio of SVEG is displayed below:

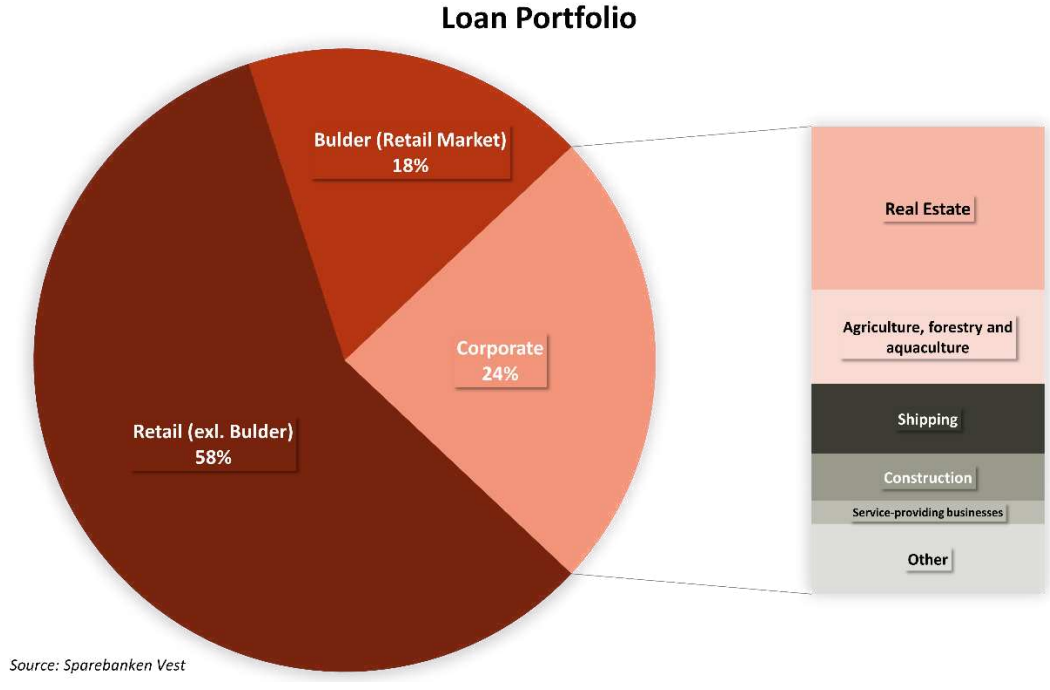


Figure 8: Sparebanken Vest Loan Portfolio

As illustrated in Figure 8, 76% of the loan portfolio is attributed to the retail market, of which 99% consists of mortgage-secured loans. Consequently, the majority of SVEG's net interest income is generated from floating-rate first-priority mortgages. The loan portfolio has shown significant growth over the past decade, with notable contributions from Bulder in the last couple of years, as seen below:

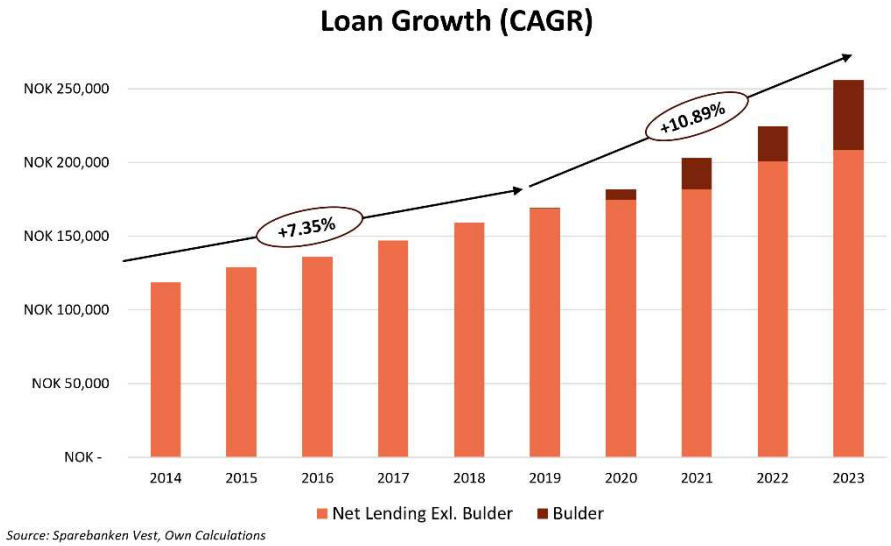


Figure 9: Loan Growth (in million NOK)

The substantial growth in net lending has naturally resulted in a significant increase in net interest income. More remarkably, SVEG has maintained a high ROE during this period, averaging around 13% since 2014 and reaching a peak of 16.5% in 2023, thanks to recent rate hikes:

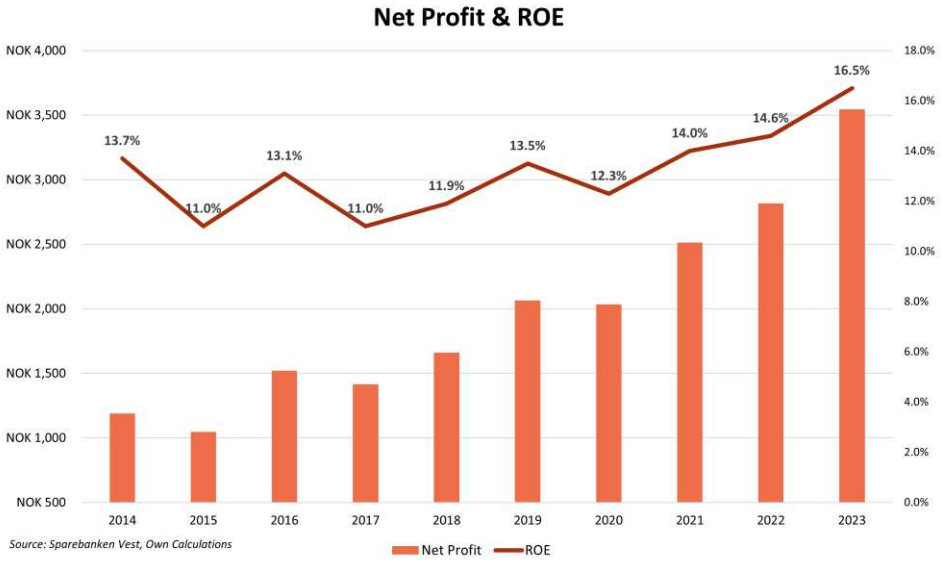


Figure 10: Net Profit (in million NOK) & ROE

The high ROE results from SVEG's stable net interest margin and the continually decreasing cost/income ratio, which is now the industry's lowest at 28%. Additionally, SVEG has maintained low loan losses, averaging around 0.09% yearly since 2014. Although these impressive figures are unlikely to continue at the same rate, they highlight SVEG's ability to grow profitably and demonstrate that the banks products and services must offer significant value to Norwegian customers.

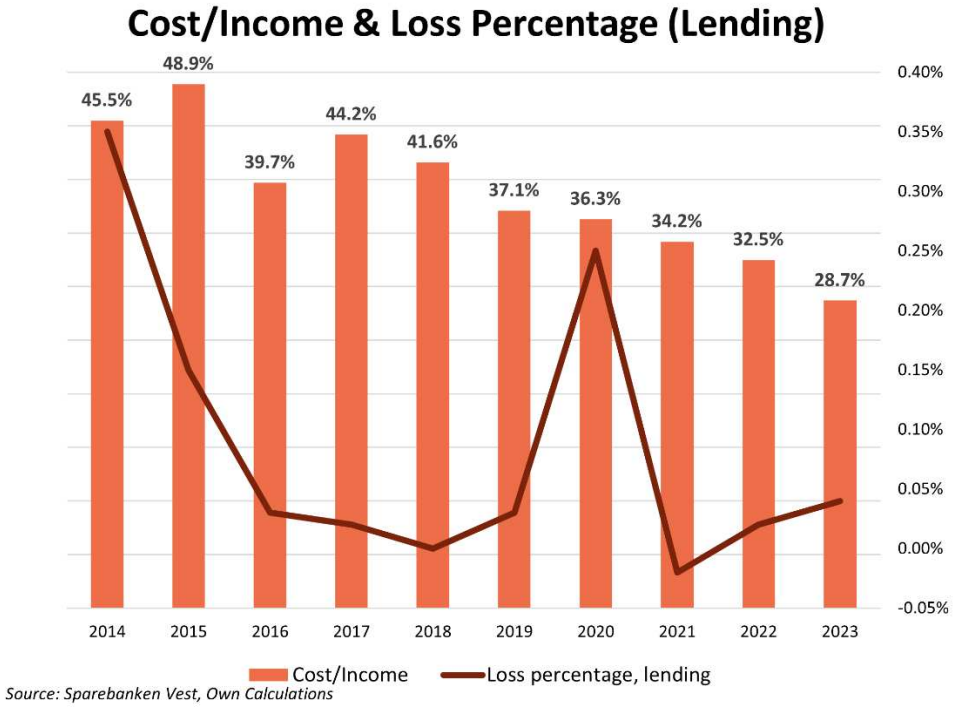


Figure 11: Cost/Income & Loan Losses

High profitability is typically driven by lending or deposit rates, depending on prevailing market conditions. In recent times, SVEG has faced challenges in passing increased NIBOR rates onto the retail market, hindered by increased competition and regulatory requirements that demand an 8-week advance notice before rate hikes can be implemented. However, the spread on corporate loans has been more favourable, as these typically are directly linked to NIBOR. Yet, the primary driver of the increased net interest margin has been the widening spread on deposits. Banks, including SVEG, often delay raising deposit rates during periods of rate hikes. However, with intensifying competition for deposits anticipated in the future, these spreads are expected to return to more normalized levels. Please see Figure 12 and 13 for illustrations of the margins on loans and deposits.

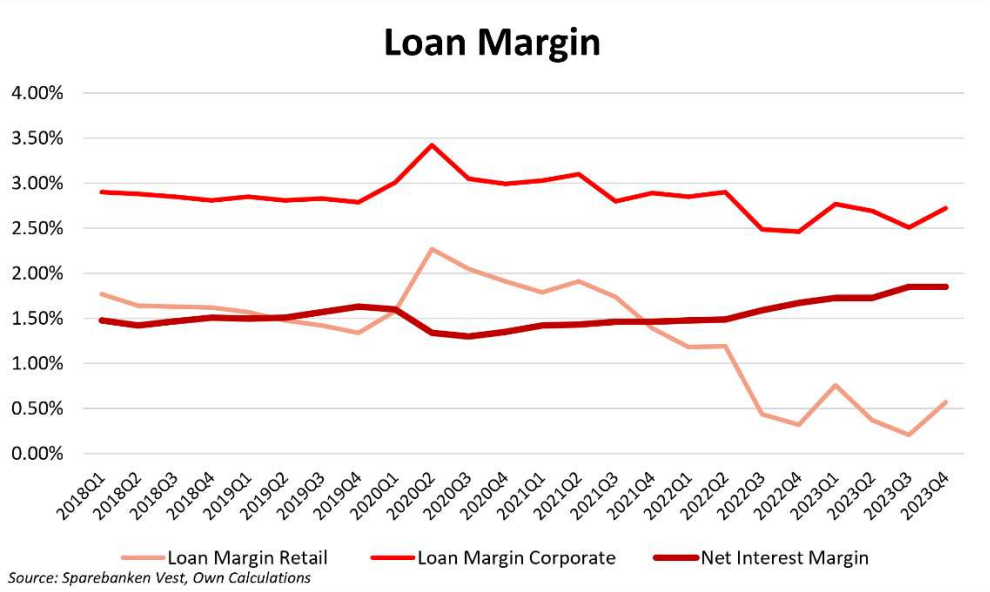


Figure 12: Loan Margin

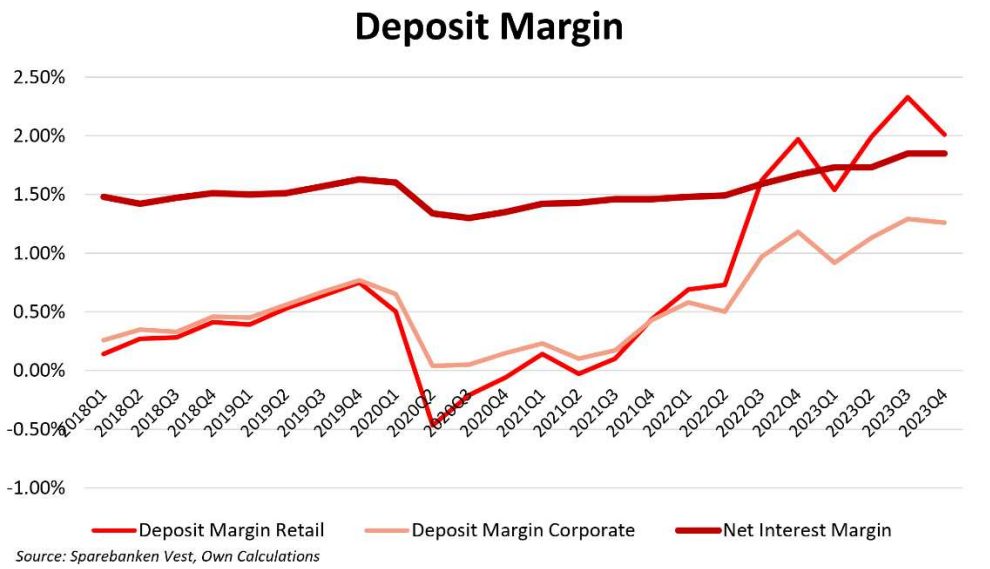


Figure 13: Deposit Margin

SVEG primarily finances its loans through deposits and has maintained an average deposit-to-loan ratio of around 48% since 2014. The remainder is funded through securitized debt and short-term paper. As shown in Figure 13, deposits can offer attractive spreads and are considered a valuable funding source for banks. Damodaran (2023) recently highlighted the importance of maintaining “sticky” deposits, which typically occur when deposit-to-loan ratios are high, and deposits are growing. For SVEG, while not the industry’s highest, the deposit-to-loan ratio remains impressively strong given the high growth in net lending. The deposit-to-loan ratio is expected to remain stable in the future, as there is no indication of the opposite.

As a full-service savings bank, SVEG generates revenue not only from its lending activities. The operating income of SVEG also stems from payment services, real estate brokerage, insurance brokerage, and asset management. Insurance revenue is generated through SVEG's 39.6% ownership in its associate company, Frende Forsikring. The real estate brokerage income comes from the wholly owned subsidiary Eiendomsmegler Vest. Furthermore, SVEG owns 49.99% of the financing company Brage Finans and 41.8% of Norne Securities. In 2023, insurance income weakened due to an increase in damage claims and higher inflation; however, it is expected to recover and return to normal levels in the future. Income from the real estate brokerage market has been low as the sector slowed due to recent rate hikes and inflation. Meanwhile, Brage Finans has demonstrated stable growth in net profit, while Norne Securities has experienced a decline in net profit due to reduced activity in the Norwegian capital markets.

The income from payment services, real estate brokerage, insurance brokerage and asset management will be estimated in the forecast of net income. Due to the scope limitations of this dissertation, Frende Forsikring, Eiendomsmegler Vest, Brage Finans, and Norne Securities will not be individually valued. Ideally, all subsidiaries and associates would be valued separately, and their equity values added to that of the parent company. However, given the 13,000-word limit, a thorough valuation cannot be facilitated. Instead, proxies will be employed to derive reasonable estimates of future operating income from the services, subsidiaries, and associated companies of SVEG.

5.0 Valuation

Having explored the underlying theories and models underpinning the valuation, as well as providing an analysis of the industry and company, the dissertation now shifts to valuing Sparebanken Vest. Firstly, this section will focus on deriving the essential valuation parameters needed to conduct the valuations. Secondly, the valuations will be executed. Thirdly, the results will be compared with the analyst report from Pareto Securities AS. Finally, the dissertation will summarize the findings on the intrinsic value of SVEG, the investment recommendation, and the comparison with the analyst report from Pareto Securities.

5.1 Peer Group

The peer group of SVEG will be used to calculate both the cost of equity (β) and the multiples for relative valuation. The peer group is selected based on five key characteristics: (1) Market Cap, (2) Growth Rate in Lending, (3) Average ROE, (4) Average CET1, and (5) Average Payout Ratio. For the savings banks industry as a whole, most banks are too small and have too limited a geographical footprint to be classified as peers. Consequently, only a select few regional and national savings banks qualify as potential peers. Most of these banks have maintained and targeted payout ratios around 50% and have sustained CET1 ratios similar to those of SVEG. However, when examining average ROE and lending growth rates since 2014, the differences are notably larger. These vast differences have made it challenging to identify banks that match SVEG's average ROE of 13% and loan book CAGR of 9%. Consequently, only five banks are deemed similar enough to be included in the peer group:

Company	MCAP		Average ROE (14-23)	Average CET1	Payout Ratio	CAGR Net Lending
SpareBank 1 SR-Bank	NOK	35,623,461,200	11.82%	15.70%	43.30%	7.53%
SpareBank 1 SMN	NOK	21,101,626,592	12.47%	16.01%	47.08%	7.17%
SpareBank 1 Østlandet	NOK	15,521,193,200	10.94%	17.28%	51.30%	7.06%
Sparebanken Vest	NOK	14,020,174,936	13.16%	15.85%	50.00%	8.92%
SpareBank 1 Nord-Norge	NOK	10,077,951,240	13.10%	15.86%	61.58%	5.38%
SpareBank 1 Sørøst-Norge	NOK	9,596,754,100	11.23%	18.29%	49.70%	7.00%

Figure 14: Peer Group

Although ideally the peer group would be larger, only these five banks have been found to accurately reflect SVEG's financial position, characteristics, and prospects.

5.2 Cost of Equity

As previously mentioned, the cost of equity is calculated based on the CAPM, which comprises the risk-free rate, market risk premium, and the future beta of SVEG. To determine the beta, as discussed in Section 2.3, the 5-year monthly returns of the peer group on the broad Norwegian stock exchange are utilized. These beta estimates are trend-adjusted based on Blume's (1975) idea that all betas revert towards 1 over time. This trend adjustment was considered necessary due to the industry's potential transition towards a more mature phase.

Company	Blume's Beta
SpareBank 1 SR-Bank	1.14
SpareBank 1 SMN	1.11
SpareBank 1 Østlandet	0.93
SpareBank 1 Nord-Norge	1.08
SpareBank 1 Sørøst-Norge	0.77
Industry Beta	1.08

Figure 15: Industry Beta

The risk-free rate is proxied by the effective yield on Norwegian 10-year government bonds, which was approximately 3.8% as of April 30, 2024 (Norges Bank, 2024). When considering the market risk premium, an initial challenge arises due to the limited depth of analysis, diversity of stocks, and range of industries in the Norwegian equity market compared to the U.S. and S&P 500. Given that both Norway and the U.S. hold an Aaa rating from Moody's (2023), the U.S. market will be used as a proxy for the equity risk premium. Koller et al. (2020) argue that United States has warranted an equity risk premium of approximately 5%, based on historical measures. However, as the forecast is forward-looking, it can be argued that employing an implied equity risk premium is favourable. With the S&P 500 at 5035 and the 10-year government bond yield at 4.69%, as of April 30, 2024, the implied equity risk premium calculated stands at 4.37%. This figure is derived using the model suggested by Damodaran (2024) in his recent paper on equity risk premiums, as illustrated below:

As of April 30th, 2024	2023	2024	2025	2026	2027	2028	Terminal Year
Aggregate Earnings	220	239	260	282	307	334	350
Cash Payout%	78%	78%	78%	78%	78%	78%	78%
Cash Return	171	186	202	220	239	260	272
PV of Cash Return	5035	176	175	175	174	174	4162

Analyst: Exp Earnings Growth	8.74%
10-YR Yield	4.69%
S&P 500	5035
Implied Expected Return	9.05%
Implied Market Risk Premium	4.37%

Figure 16: Equity Risk Premium U.S (and Norway)

Based on the estimated beta, risk-free rate, and implied equity risk premium, the cost of equity is calculated as follows:

$$Cost\ of\ Equity = 3.8\% + 1.08 * 4.37\% \rightarrow 8.52\%\ k_E$$

Equation 9: Cost of Equity SVEG

5.3 Cash Flow to Equity Valuation

As previously mentioned, the primary valuation method employed is the FCFE model. This section will delve into the key inputs, the drivers of the forecasts, the results, and finally, a critique of the model. The forecast period is set at seven years and includes both a gordon growth and a multiple-based valuation of SVEG's terminal value. This duration balances accuracy with the uncertainties typical of longer forecasting periods. Although Bulder is in a growth phase, SVEG is regarded as a mature firm. It is expected that Bulder's growth will stabilize within this timeframe, justifying the choice of a seven-year forecast.

The model will determine FCFE through the forecasting period by estimating net income and subsequent investments in regulatory capital. Arguably, the most important elements affecting the net income and subsequent FCFE are the bank's net interest income and net lending. Given the recent rate hikes and subsequent margin expansion, SVEG and the industry have reached a period of superprofit. Since 2014, SVEG's average net interest margin on average interest-bearing assets under management (AUM) has been 1.54%. In 2023, this margin peaked at 1.87%, contributing to a record annual ROE after tax of 16.5%. Following market-

anticipated year-end rate cuts by Norges Bank (2024), and increased competition for deposits and loans, the net interest margin is forecasted to revert to its historical average by 2026.

		Projection Period						
		Year 1 2024	Year 2 2025	Year 3 2026	Year 4 2027	Year 5 2028	Year 6 2029	Year 7 2030
Net Interest Margin on AUM								
Upside	1	1.83%	1.69%	1.60%	1.60%	1.60%	1.60%	1.60%
Base	2	1.80%	1.63%	1.54%	1.54%	1.54%	1.54%	1.54%
Downside	3	1.75%	1.55%	1.50%	1.50%	1.50%	1.50%	1.50%

Figure 17: Projected Net Interest Margin on AUM

As for net lending, the loan book can be divided into two parts, separating Sparebanken Vest and Bulder. Firstly, Sparebanken Vest has shown a CAGR of approximately 6.5% since 2014, excluding Bulder. Available data from 2017 onward indicates that the corporate lending book grew at a CAGR of 9%, while the retail loan book increased at a rate of 5%.

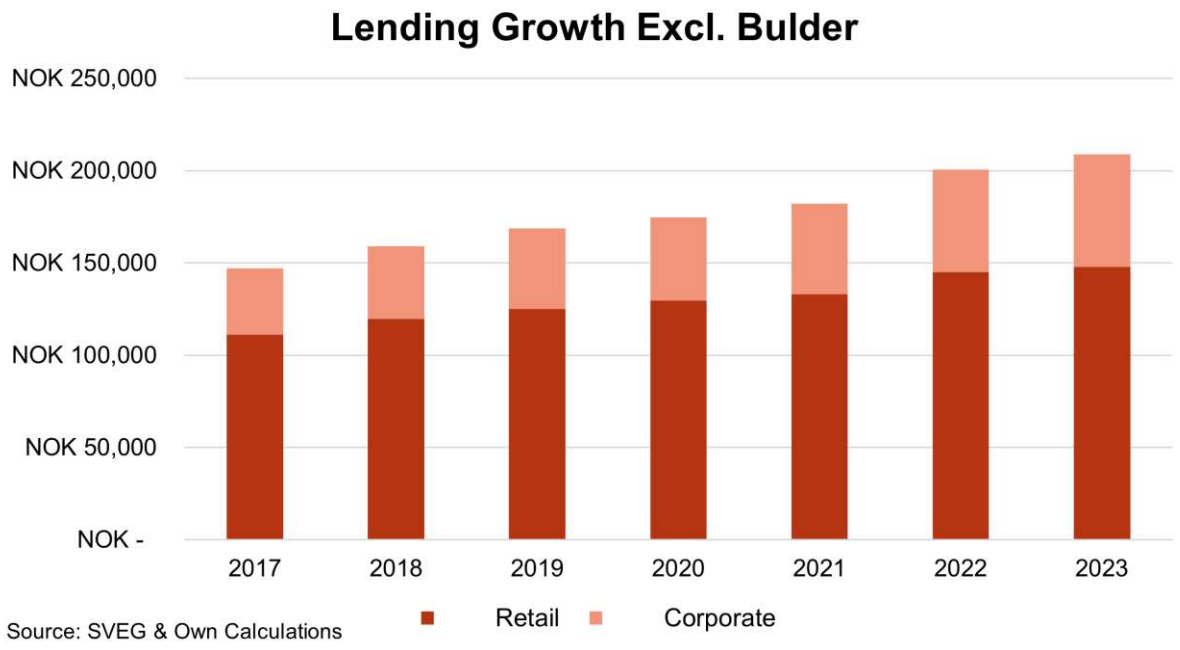


Figure 18: Historical Lending Growth (in million NOK)

As SVEG has established a stable presence in the western region, the retail loan book is expected to be influenced primarily by modest population growth and rising housing prices, which have experienced a CAGR of 5.5% since 2003 (Eiendom Norge, 2024). As population growth has slowed and housing price growth rates are not expected to increase, the CAGR of retail lending is set to continue at 5%. For the corporate market, Sparebanken Vest projects a consistent growth rate of around 7% going forward, which is the forecast for the period. As for Bulder, the story is entirely different. Bulder has a national footprint and has shown

incredible growth since its introduction in 2019, with a loan book CAGR of 50% ('21 - '23). The most comparable bank to Bulder is Sbanken, an online-only bank now owned by DNB. In the last annual report of Sbanken before it delisted, the bank reported a total loan book of around NOK 85 billion and 480 000 retail customers (Sbanken, 2021). Following DNB's acquisition of Sbanken, many customers, unhappy with DNB's market positioning, opted to transfer their banking services to Bulder (Ghaderi, 2024). Bulder ranked highest in Norway for customer satisfaction in 2023 (EPSI, 2023), a title formerly held by Sbanken, and can be seen as the new leading neobank in the country. Consequently, one can argue that Bulder is taking over much of Sbanken's market space, in addition to attracting customers elsewhere. As a result, net lending within the Bulder concept is projected to meet SVEG's guidance of NOK 60 billion by 2024, with growth expected to continue, albeit at a decreasing rate, until it aligns with SVEG's and the industry's historic growth rate (9%) in 2029.

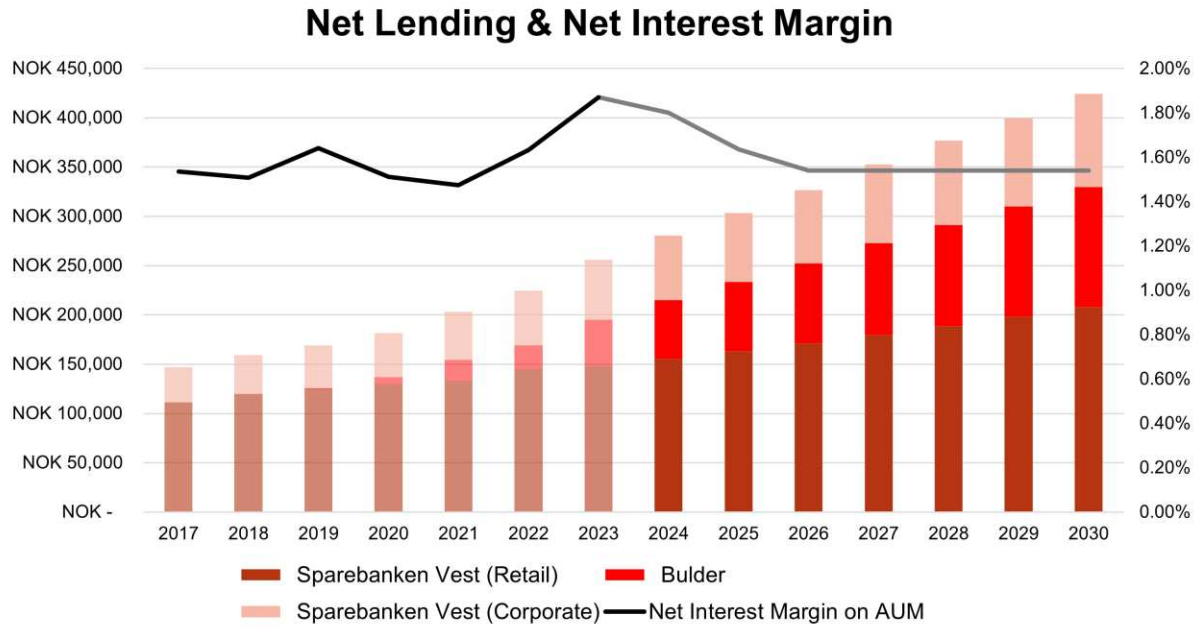


Figure 19: Net Lending (in million NOK)

Commercial paper, loans to other institutions, financial derivatives, and cash and receivables from central banks are anticipated to maintain a consistent ratio relative to net lending. Based on the estimated net interest margin, net lending, and other components of the AUM, the net interest income (in million NOK) and average AUM are forecasted as follows:

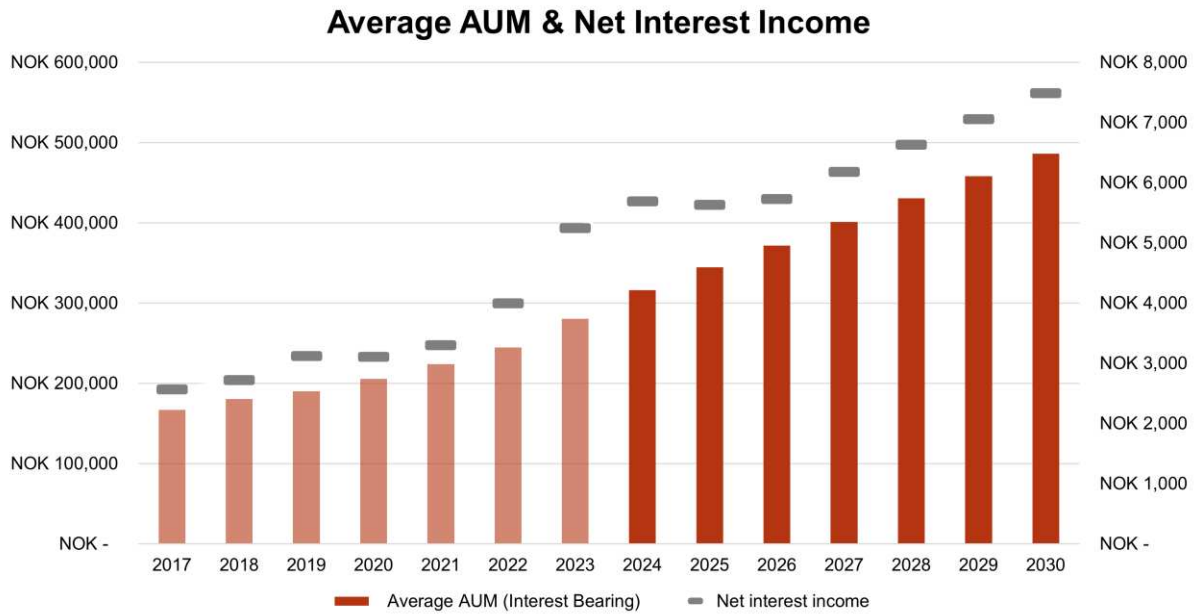


Figure 20: Average AUM & Net Interest Income (in million NOK)

	2021	2022	2023
Net interest income	**NOK 3,299**	**NOK 3,994**	**NOK 5,242**
% growth	*6.3%*	*21.1%*	*31.2%*

Figure 21: Historical Net Interest Income (in million NOK)

	2024	2025	2026	2027	2028	2029	2030
Net interest income	**NOK 5,689**	**NOK 5,627**	**NOK 5,724**	**NOK 6,174**	**NOK 6,627**	**NOK 7,052**	**NOK 7,483**
% growth	*8.5%*	*(1.1%)*	*1.7%*	*7.9%*	*7.3%*	*6.4%*	*6.1%*

Figure 22: Projected Net Interest Income (in million NOK)

Another key revenue source for SVEG comes from net banking services and other operating income, which are driven mainly by the growth in active customers. This revenue primarily comprises commission income and brokerage fees. The income and fees per customer are expected to grow by inflation, whereas the relative commission expenses are expected to stay consistent at an average of 17% of commission income. As with net lending, SVEG and Bulder have different expected growth rates for their active customer bases. SVEG has maintained a CAGR of 1.2% of active customers since 2014. Given its significant market presence, it is expected to sustain this growth rate, slightly exceeding the regional population growth. As for Bulder, the CAGR of active customers has been 84% since 2019. The bank is anticipated to continue its substantial growth rate, albeit at a declining rate, reaching 50% of SVEG's total customer base by 2028, equal to around 1/3 of Sbanken's 2021 customer base.

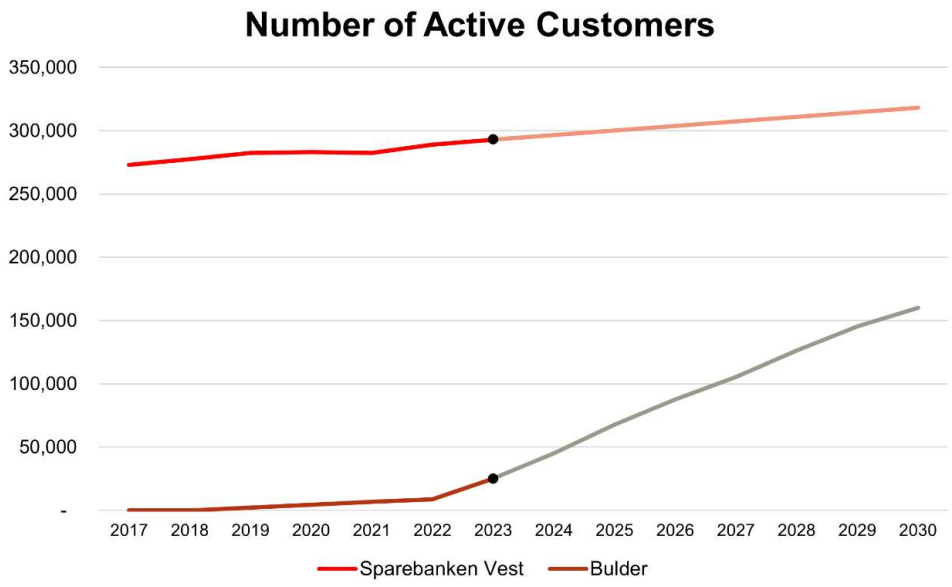


Figure 23: Forecasted Active Customers

Income from associated companies was negatively impacted in 2023, as Frende Holding Group (insurance) experienced unusually high rates of natural disasters. These events are considered temporary, and net profits are expected to return to normal levels in 2024. Meanwhile, for Norne Securities, the corporate finance market has been challenging and is expected to be so for 2024, before reaching normalised levels in 2025. Finally, Brage Finans and Balder Betaling are expected to grow at their historical CAGR for the forecasted years. Consequently, net interest income, net banking services, and other operating income are forecasted as such:

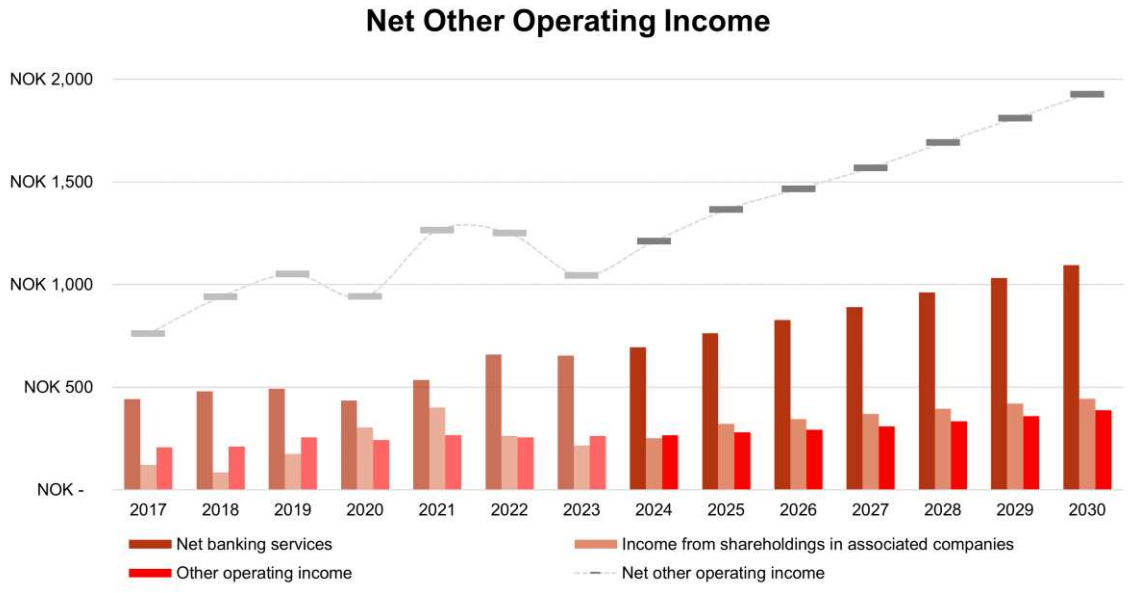


Figure 24: Net Operating Income (in million NOK)

		2021		2022		2023
Net interest income	**NOK**	**3,299**	**NOK**	**3,994**	**NOK**	**5,242**
% growth		*6.3%*		*21.1%*		*31.2%*
Commission income and income from banking services	NOK	639	NOK	775	NOK	783
Commission expenses and expenses relating to banking services	NOK	104	NOK	116	NOK	129
% cost margin		*16.3%*		*15.0%*		*16.5%*
Net banking services	**NOK**	**535**	**NOK**	**659**	**NOK**	**654**
Income from shareholdings in associated companies	NOK	401	NOK	262	NOK	215
Other operating income	NOK	266	NOK	256	NOK	263
Net other operating income	**NOK**	**1,264**	**NOK**	**1,250**	**NOK**	**1,044**

Figure 25: Historical Net Interest Income & Net Other Operating Income (in million NOK)

	2024		2025		2026		2027		2028		2029		2030
Net interest income	**NOK**	**5,689**	**NOK**	**5,627**	**NOK**	**5,724**	**NOK**	**6,174**	**NOK**	**6,627**	**NOK**	**7,052**	**NOK**	**7,483**
% growth		*8.5%*		*(1.1%)*		*1.7%*		*7.9%*		*7.3%*		*6.4%*		*6.1%*
Commission income and income	NOK	837	NOK	918	NOK	998	NOK	1,072	NOK	1,159	NOK	1,244	NOK	1,319
Commission expenses and expe	NOK	142	NOK	156	NOK	170	NOK	182	NOK	197	NOK	211	NOK	224
% cost margin		*17.0%*		*17.0%*		*17.0%*		*17.0%*		*17.0%*		*17.0%*		*17.0%*
Net banking services	**NOK**	**694**	**NOK**	**762**	**NOK**	**828**	**NOK**	**890**	**NOK**	**962**	**NOK**	**1,032**	**NOK**	**1,095**
Income from shareholdings in as	NOK	251	NOK	322	NOK	345	NOK	369	NOK	396	NOK	420	NOK	444
Other operating income	NOK	266	NOK	281	NOK	293	NOK	309	NOK	334	NOK	358	NOK	388
Net other operating income	**NOK**	**1,212**	**NOK**	**1,365**	**NOK**	**1,466**	**NOK**	**1,569**	**NOK**	**1,692**	**NOK**	**1,811**	**NOK**	**1,927**

Figure 26: Net Interest Income & Net other operating income (in million NOK)

The main operating expenditure of SVEG comprises payroll and administrative expenses, depreciation, and other operating expenses. Payroll and other administrative expenses are mainly driven by the number of full-time equivalents (FTEs) and their respective cost. The number of FTEs has grown at a CAGR of 2.3% since 2017, but this rate is expected to increase in response to the projected growth of Bulder. However, it is important to note that as a mobile-only bank, Bulder does not need staff at sales points and can make use of SVEG's current workforce for back-office tasks and customer support. Therefore, despite its growth, the increase in staffing is expected to be modest. As for the expenses per FTE, there has been a CAGR of approximately 5% since 2016, about 1.5% higher than the annual wage inflation across the sector. Furthermore, there has recently been a salary agreement between Finans Norge, representing the financial institutions, and the labour union Finansforbundet, representing the workers in the sector. The agreed-upon salary increase is approximately 5.2% (NRK, 2024). As such, the forecasted increase in expenses per FTE for 2024 is 6.7%, 1.5% above the expected sector-wide salary increase. In subsequent years, salaries and other costs are expected to grow at the historical CAGR. Depreciation and other expenses are expected to grow at their historical growth rates, as no big investments are forecasted in the future. As a result, the following expenses, with the subsequent cost/income ratio, are forecasted:

	2021		2022		2023	
Payroll and general administration expenses	NOK	1,190	NOK	1,292	NOK	1,381
Depreciation	NOK	208	NOK	218	NOK	192
Other operating expenses	NOK	141	NOK	177	NOK	199
Total operating expenses	NOK	1,538	NOK	1,687	NOK	1,772
% cost/income		*34%*		*32%*		*28%*
Profit before write-downs and tax	**NOK**	**3,024**	**NOK**	**3,556**	**NOK**	**4,513**

Figure 27: Historical Expenses & Profits before Write-downs and Tax (in million NOK)

	2024		2025		2026		2027		2028		2029		2030	
Payroll and general administratic	NOK	1,555	NOK	1,665	NOK	1,758	NOK	1,856	NOK	1,959	NOK	2,059	NOK	2,163
Depreciation	NOK	205	NOK	220	NOK	235	NOK	252	NOK	269	NOK	288	NOK	308
Other operating expenses	NOK	211	NOK	224	NOK	237	NOK	251	NOK	266	NOK	282	NOK	299
Total operating expenses	NOK	1,971	NOK	2,109	NOK	2,230	NOK	2,359	NOK	2,495	NOK	2,629	NOK	2,770
% cost/income		*29%*		*30%*		*31%*		*30%*		*30%*		*30%*		*29%*
Profit before write-downs and	**NOK**	**4,929**	**NOK**	**4,883**	**NOK**	**4,960**	**NOK**	**5,383**	**NOK**	**5,824**	**NOK**	**6,234**	**NOK**	**6,639**

Figure 28: Expenses & Profits before Write-downs and Tax (in million NOK)

As indicated above, the cost/income ratio is expected to rise slightly, driven by Bulder's growth, anticipated salary increases and a lower net interest margin.

Finally, and crucially for expense forecasting, the annual write-downs of loans and losses on guarantees must be estimated. Since 2014, SVEG has maintained an average loss rate of only 0.09% on net lending, in contrast to the peer group, which has averaged approximately 0.15%. One might argue that 0.09% is too low for future forecasting; however, the higher loss rates observed in the peer group can largely be attributed to the proportion of corporate loans in their total loan portfolios. As shown below, peer group companies with a higher percentage of corporate loans typically incur greater losses on loans, as expected.

Credit Risk	Average Write-downs	% Corporate Loans	% loans with LTV 0 to 60%
SpareBank 1 SR-Bank	0.25%	38%	NA
SpareBank 1 SMN	0.23%	34%	NA
SpareBank 1 Nord-Norge	0.17%	31%	50.0%
Sparebanken Vest	0.09%	25%	87.6%
SpareBank 1 Østlandet	0.09%	27%	NA
SpareBank 1 Sørøst-Norge	0.04%	21%	NA

Table 1: Write-down of loans, Peer Group

As illustrated in Table 1, SVEG's loan book has consistently maintained an average of 25% corporate loans, and 87.6% of its total loan book has an LTV ratio between 0 to 60%. Additionally, the bank is not heavily exposed to volatile industries, suggesting that it is less likely to experience lower future loan losses compared to some of its peers. On the other hand, given that the economy has been exceptionally strong over the past decade, it would be unrealistic to expect that there will be no challenging periods during the rest of SVEG's

economic lifespan. Therefore, a somewhat conservative increase in industry loan losses is forecasted, with an estimate of 0.15% for the annual write-downs on loans and losses on guarantees.

	2021	2022	2023
Write-down of loans and losses on guarantees	-NOK 31	NOK 52	NOK 95
% of lending	*-0.02%*	*0.02%*	*0.04%*
Pre-tax profit	**NOK 3,055**	**NOK 3,504**	**NOK 4,418**

Figure 29: Historical Pre-tax Profit (in million NOK)

	2024	2025	2026	2027	2028	2029	2030
Write-down of loans and losses (	NOK 421	NOK 455	NOK 490	NOK 529	NOK 565	NOK 600	NOK 636
% of lending	*0.15%*	*0.15%*	*0.15%*	*0.15%*	*0.15%*	*0.15%*	*0.15%*
Pre-tax profit	**NOK 4,509**	**NOK 4,429**	**NOK 4,469**	**NOK 4,854**	**NOK 5,259**	**NOK 5,635**	**NOK 6,003**

Figure 30: Pre-tax Profit (in million NOK)

Tax rates are projected to continue at the average effective rate of 21%, maintained since 2014. While the primary tax rate for financial institutions is 25% (Skatteetaten, 2024), the forecast accounts for comprehensive income from companies exempt from this rate and other variations like customer dividends. Consequently, the profit after tax is forecasted to be:

	2021	2022	2023
Tax	NOK 542	NOK 687	NOK 874
% of profit	*18%*	*20%*	*20%*
Profit for the period	**NOK 2,513**	**NOK 2,817**	**NOK 3,545**

Figure 31: Historical Profit after Tax (in million NOK)

	2024	2025	2026	2027	2028	2029	2030
Tax	NOK 1,127	NOK 1,107	NOK 1,117	NOK 1,214	NOK 1,315	NOK 1,409	NOK 1,501
% of profit	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*
Profit for the period	**NOK 3,381**	**NOK 3,321**	**NOK 3,352**	**NOK 3,641**	**NOK 3,944**	**NOK 4,226**	**NOK 4,502**

Figure 32: Profit after Tax (in million NOK)

The profit for the period is allocated across three distinct asset classes: subordinated bonds classified as equity, primary capital, and equity certificate capital. Firstly, profit is reduced by the interest on subordinated bonds classified as equity. The subordinated debt is anticipated to remain constant relative to the total AUM. Interest on this debt is calculated based on the average spread over the 3M NIBOR, which currently totals 7.59% (4.70% + 2.89%).

Interest on Subordinated	2023	2024	2025	2026	2027	2028	2029	2030
Current NIBOR	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%
Spread over Fixed Rate	2.89%	2.89%	2.89%	2.89%	2.89%	2.89%	2.89%	2.89%
Growth Rate Net Lending		8%	8%	8%	7%	6%	6%	6%
Subordinated Bonds	NOK 1,650	NOK 1,784	NOK 1,923	NOK 2,076	NOK 2,217	NOK 2,351	NOK 2,495	NOK 2,649
Avg. Subordinated Bonds		NOK 1,717	NOK 1,854	NOK 2,000	NOK 2,146	NOK 2,284	NOK 2,423	NOK 2,572
Estimated Interest		**NOK 135**	**NOK 146**	**NOK 158**	**NOK 168**	**NOK 178**	**NOK 189**	**NOK 201**

Figure 33: Estimated Interest (in million NOK) on Subordinated Debt (classified as equity)

	2021		2022		2023	
Profit for the period	**NOK**	**2,513**	**NOK**	**2,817**	**NOK**	**3,545**
Profit allocated to holders of subordinated bonds	NOK	58	NOK	58	NOK	103

Figure 34: Historical Profit Allocated to Subordinated Bonds (in million NOK)

	2024		2025		2026		2027		2028		2029		2030	
Profit for the period	**NOK**	**3,381**	**NOK**	**3,321**	**NOK**	**3,352**	**NOK**	**3,641**	**NOK**	**3,944**	**NOK**	**4,226**	**NOK**	**4,502**
Profit allocated to holders of subordinated bonds	NOK	135	NOK	146	NOK	158	NOK	168	NOK	178	NOK	189	NOK	201

Figure 35: Profit Allocated to Subordinated Bonds (in million NOK)

The profit after allocation to subordinated bonds must be deducted with investments in regulatory capital. The investments in regulatory capital are mainly driven by the CET1 ratio and growth in RWA. The forecasted CET1 ratio is set at 16.05%, as SVEG targets a margin of 1.25% over its regulatory requirements. The RWA is proxied by its historical average relative to AUM, which has been about 37% since 2017. Since SVEG operates as an IRB bank, applying standardized risk weights to asset classes would be inaccurate. Consequently, the underlying assumptions for such calculations do not hold, and therefore, the approach is simplified. The remaining profit after investments is allocated to primary capital and equity certificate capital based on the owner fraction of 40.7%, which is anticipated to stay constant for the future of SVEG. As a result, the estimated free cash flow to equity certificate holders is as follows:

	2021		2022		2023	
Profit allocated to holders of subordinated bonds	NOK	58	NOK	58	NOK	103
Profit allocated to the bank's asset classes	NOK	2,455	NOK	2,759	NOK	3,442
Investment in regulatory capital	NOK	1,247	NOK	1,275	NOK	1,419
% of profit		*50.8%*		*46.2%*		*41.2%*
Free cash flow to capital	NOK	1,208	NOK	1,484	NOK	2,023
% "payout ratio"		*49%*		*54%*		*59%*
Owner fraction		*39.98%*		*40.64%*		*40.67%*
Free cash flow to equity certificate capital	**NOK**	**483**	**NOK**	**603**	**NOK**	**823**

Figure 36: Historical FCFE (in million NOK)

	2024		2025		2026		2027		2028		2029		2030	
Profit allocated to holders of subordinated bonds	NOK	135	NOK	146	NOK	158	NOK	168	NOK	178	NOK	189	NOK	201
Profit allocated to the bank's asset classes	NOK	3,246	NOK	3,175	NOK	3,194	NOK	3,472	NOK	3,765	NOK	4,036	NOK	4,301
Investment in regulatory capital	NOK	1,284	NOK	1,578	NOK	1,632	NOK	1,793	NOK	1,652	NOK	1,585	NOK	1,690
% of profit		*39.5%*		*49.7%*		*51.1%*		*51.6%*		*43.9%*		*39.3%*		*39.3%*
Free cash flow to capital	NOK	1,962	NOK	1,598	NOK	1,563	NOK	1,679	NOK	2,114	NOK	2,451	NOK	2,611
% "payout ratio"		*60%*		*50%*		*49%*		*48%*		*56%*		*61%*		*61%*
Owner fraction		*40.70%*		*40.70%*		*40.70%*		*40.70%*		*40.70%*		*40.70%*		*40.70%*
Free cash flow to equity certificate capital	**NOK**	**799**	**NOK**	**650**	**NOK**	**636**	**NOK**	**684**	**NOK**	**860**	**NOK**	**998**	**NOK**	**1,063**

Figure 37: Forecasted FCFE (in million NOK)

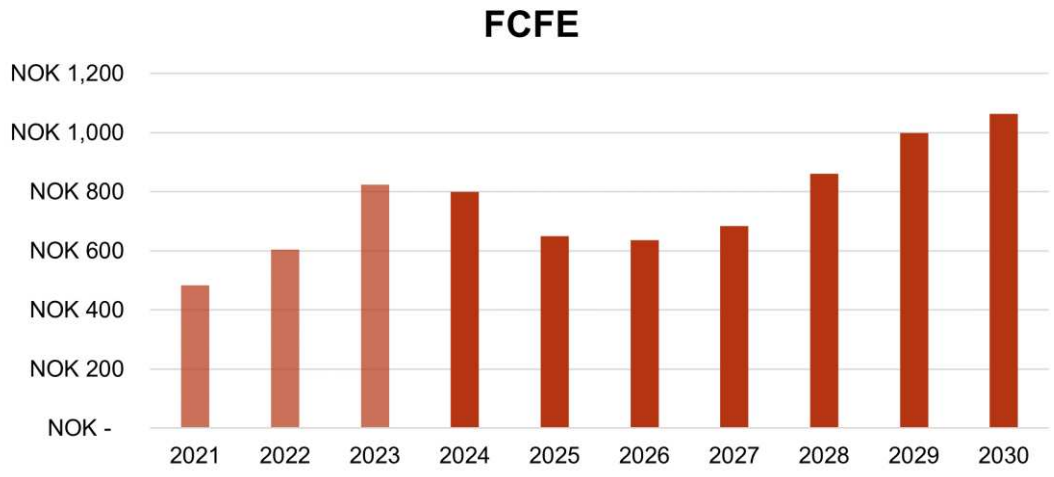


Figure 38: Forecasted FCFE to EC (in million NOK)

Please review this page and the next for the complete historical and forecasted P&L and FCFE.

	2021		2022		2023	
Net interest income	**NOK**	**3,299**	**NOK**	**3,994**	**NOK**	**5,242**
% growth		*6.3%*		*21.1%*		*31.2%*
Commission income and income from banking services	NOK	639	NOK	775	NOK	783
Commission expenses and expenses relating to banking services	NOK	104	NOK	116	NOK	129
% cost margin		*16.3%*		*15.0%*		*16.5%*
Net banking services	**NOK**	**535**	**NOK**	**659**	**NOK**	**654**
Income from shareholdings in associated companies	NOK	401	NOK	262	NOK	215
Other operating income	NOK	266	NOK	256	NOK	263
Net other operating income	**NOK**	**1,264**	**NOK**	**1,250**	**NOK**	**1,044**
Net operating income	**NOK**	**4,563**	**NOK**	**5,244**	**NOK**	**6,286**
Payroll and general administration expenses	NOK	1,190	NOK	1,292	NOK	1,381
Depreciation	NOK	208	NOK	218	NOK	192
Other operating expenses	NOK	141	NOK	177	NOK	199
Total operating expenses	NOK	1,538	NOK	1,687	NOK	1,772
% cost/income		*34%*		*32%*		*28%*
Profit before write-downs and tax	**NOK**	**3,024**	**NOK**	**3,556**	**NOK**	**4,513**
Write-down of loans and losses on guarantees	-NOK	31	NOK	52	NOK	95
% of lending		*-0.02%*		*0.02%*		*0.04%*
Pre-tax profit	**NOK**	**3,055**	**NOK**	**3,504**	**NOK**	**4,418**
Tax	NOK	542	NOK	687	NOK	874
% of profit		*18%*		*20%*		*20%*
Profit for the period	**NOK**	**2,513**	**NOK**	**2,817**	**NOK**	**3,545**
Profit allocated to holders of subordinated bonds	NOK	58	NOK	58	NOK	103
Profit allocated to the bank's asset classes	NOK	2,455	NOK	2,759	NOK	3,442
Investment in regulatory capital	NOK	1,247	NOK	1,275	NOK	1,419
% of profit		*50.8%*		*46.2%*		*41.2%*
Free cash flow to capital	NOK	1,208	NOK	1,484	NOK	2,023
% "payout ratio"		*49%*		*54%*		*59%*
Owner fraction		*39.98%*		*40.64%*		*40.67%*
Free cash flow to equity certificate capital	**NOK**	**483**	**NOK**	**603**	**NOK**	**823**

Figure 39: Historical P&L and Subsequent FCFE (in million NOK)

	2024	2025	2026	2027	2028	2029	2030
Net interest income	NOK 5,689	NOK 5,627	NOK 5,724	NOK 6,174	NOK 6,627	NOK 7,052	NOK 7,483
% growth	*8.5%*	*(1.1%)*	*1.7%*	*7.9%*	*7.3%*	*6.4%*	*6.1%*
Commission income and income from banking se	NOK 837	NOK 918	NOK 998	NOK 1,072	NOK 1,159	NOK 1,244	NOK 1,319
Commission expenses and expenses relating to	NOK 142	NOK 156	NOK 170	NOK 182	NOK 197	NOK 211	NOK 224
% cost margin	*17.0%*	*17.0%*	*17.0%*	*17.0%*	*17.0%*	*17.0%*	*17.0%*
Net banking services	NOK 694	NOK 762	NOK 828	NOK 890	NOK 962	NOK 1,032	NOK 1,095
Income from shareholdings in associated compar	NOK 251	NOK 322	NOK 345	NOK 369	NOK 396	NOK 420	NOK 444
Other operating income	NOK 266	NOK 281	NOK 293	NOK 309	NOK 334	NOK 358	NOK 388
Net other operating income	NOK 1,212	NOK 1,365	NOK 1,466	NOK 1,569	NOK 1,692	NOK 1,811	NOK 1,927
Net operating income	NOK 6,900	NOK 6,992	NOK 7,190	NOK 7,742	NOK 8,319	NOK 8,863	NOK 9,409
Payroll and general administration expenses	NOK 1,555	NOK 1,665	NOK 1,758	NOK 1,856	NOK 1,959	NOK 2,059	NOK 2,163
Depreciation	NOK 205	NOK 220	NOK 235	NOK 252	NOK 269	NOK 288	NOK 308
Other operating expenses	NOK 211	NOK 224	NOK 237	NOK 251	NOK 266	NOK 282	NOK 299
Total operating expenses	NOK 1,971	NOK 2,109	NOK 2,230	NOK 2,359	NOK 2,495	NOK 2,629	NOK 2,770
% cost/income	*29%*	*30%*	*31%*	*30%*	*30%*	*30%*	*29%*
Profit before write-downs and tax	NOK 4,929	NOK 4,883	NOK 4,960	NOK 5,383	NOK 5,824	NOK 6,234	NOK 6,639
Write-down of loans and losses on guarantees	NOK 421	NOK 455	NOK 490	NOK 529	NOK 565	NOK 600	NOK 636
% of lending	*0.15%*	*0.15%*	*0.15%*	*0.15%*	*0.15%*	*0.15%*	*0.15%*
Pre-tax profit	NOK 4,509	NOK 4,429	NOK 4,469	NOK 4,854	NOK 5,259	NOK 5,635	NOK 6,003
Tax	NOK 1,127	NOK 1,107	NOK 1,117	NOK 1,214	NOK 1,315	NOK 1,409	NOK 1,501
% of profit	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*
Profit for the period	NOK 3,381	NOK 3,321	NOK 3,352	NOK 3,641	NOK 3,944	NOK 4,226	NOK 4,502
Profit allocated to holders of subordinated bonds	NOK 135	NOK 146	NOK 158	NOK 168	NOK 178	NOK 189	NOK 201
Profit allocated to the bank's asset classes	NOK 3,246	NOK 3,175	NOK 3,194	NOK 3,472	NOK 3,765	NOK 4,036	NOK 4,301
Investment in regulatory capital	NOK 1,284	NOK 1,578	NOK 1,632	NOK 1,793	NOK 1,652	NOK 1,585	NOK 1,690
% of profit	*39.5%*	*49.7%*	*51.1%*	*51.6%*	*43.9%*	*39.3%*	*39.3%*
Free cash flow to capital	NOK 1,962	NOK 1,598	NOK 1,563	NOK 1,679	NOK 2,114	NOK 2,451	NOK 2,611
% "payout ratio"	*60%*	*50%*	*49%*	*48%*	*56%*	*61%*	*61%*
Owner fraction	*40.70%*	*40.70%*	*40.70%*	*40.70%*	*40.70%*	*40.70%*	*40.70%*
Free cash flow to equity certificate capital	NOK 799	NOK 650	NOK 636	NOK 684	NOK 860	NOK 998	NOK 1,063
Cost of Equity							
Discount Period	0.58	1.58	2.58	3.58	4.58	5.58	6.58
Discount Factor	0.95	0.88	0.81	0.75	0.69	0.63	0.58
Present Value of Free Cash Flow	NOK 762	NOK 572	NOK 515	NOK 510	NOK 592	NOK 633	NOK 621

Figure 40: Forecasted P&L and Subsequent FCFE (in million NOK)

The free cash flows are ultimately discounted at the cost of equity of 8.52%. The PV of these cash flows to equity certificate holders totals NOK 4.2 billion, suggesting a pre-terminal value of approximately NOK 38 per equity certificate. The terminal value is calculated using both the Gordon growth model and the warranted equity method (WEM) P/B ratio. Assuming that SVEG, as a mature company, will continue to operate solely within Norway, the terminal growth rate is set at 2%, aligning with the inflation target of Norges Bank. Consequently, the terminal value and the value per equity certificate are estimated as follows:

Gordon Growth Equity Value		
Present Value of FCFE (in millions)	**NOK**	**4,204**
Terminal Value		
Terminal Year: FCFE (2031E)	NOK	1,084
Growth Rate		2.0%
Terminal Value	**NOK**	**16,675**
Discount Factor		0.58
Present Value of Terminal Value	**NOK**	**9,746**
% of Equity Value		*69.9%*
Equity Certificate Capital Value	**NOK**	**13,950**

Figure 41: Gordon Growth Equity Value (in million NOK)

As a result, the value per equity certificate, using the Gordon growth model, is estimated to NOK 127:

Implied Equity Value and Share Price (Gordon)		
Equity Certificate Capital	**NOK**	**13,950**
Fully Diluted Shares Outstanding		109,687,324
Implied Price per EC	**NOK**	**127**

Figure 42: Price per EC (Gordon)

By employing the WEM P/B ratio, the terminal value is estimated using a P/B multiple calculated by the forecasted ROE, terminal growth rate, and cost of equity, as shown below:

$$\frac{P}{B} = \frac{ROE - g}{k_e - g}$$

Equation 10: WEM P/B Ratio

Although SVEG has maintained an average ROE of approximately 13%, this level is not considered sustainable indefinitely. Damodaran (2012) argues that a bank's ROE should eventually align with its cost of equity over the long term. However, given the distinct characteristics of the Norwegian banking sector, which has demonstrated high industry-wide ROE for decades, applying such a conservative assumption may not accurately reflect the economic reality of SVEG going forward. As such, the lower quartile average ROE (11%) of the peer group is chosen, resulting in a WEM P/B of 1.4.

Warranted P/B	
Peer Group average ROE	11.0%
Growth Rate	2.0%
Cost of Equity	8.50%
Warranted P/B	**1.4**

Figure 43: WEM P/B Ratio

The resulting WEM P/B multiple of 1.4 is used to value the estimated terminal equity certificate capital in 2030, ultimately leading to a value per equity certificate of NOK 127.

Warranted P/B Equity Value		
Present Value of FCFE (in millions)	**NOK**	**4,204**
Terminal Value		
Terminal Year: Equity Certificate Capital (2030E)	NOK	12,061
Exit Multiple (P/B)		1.4x
Terminal Value	**NOK**	**16,699**
Discount Factor		0.58
Present Value of Terminal Value	**NOK**	**9,760**
% of Equity Value		*69.9%*
Equity Certificate Capital Value	**NOK**	**13,964**

Figure 44: Equity Certificate Capital Value, P/B

Implied Equity Value and Share Price (P/B)		
Equity Certificate Capital	**NOK**	**13,964**
Fully Diluted Shares Outstanding		109,687,324
Implied Price per EC	**NOK**	**127**

Figure 45: Value per Equity Certificate, P/B

Although all models rely on assumptions and uncertain estimates of the future, some assumptions in this model should be addressed due to their significant impact on the implied price per equity certificate. Firstly, it would be preferable to have a more detailed analysis of the growth in RWA and subsequent CET1 capital requirement. However, since the bank does not disclose the assumptions used for internal rating-based calculations, a simplification was necessary. Secondly, it would be ideal to value the associated companies separately and then integrate their valuation into that of the parent company. However, given the constraints on time and word count in this thesis, such an approach was not considered practical. Lastly, the general assumptions regarding the terminal growth rate, WEM P/B multiple, and long-term ROE significantly influence the implied price, with the terminal value constituting about 70% of the total valuation. As Section 5.6 will demonstrate, this makes the valuation highly sensitive to these assumptions.

5.4 Excess Return Model

The second valuation method employed is the excess return model. As mentioned, this model is grounded in the principle that a bank's value equals its book value of equity plus any future excess returns it generates above its cost of equity. The forecasted excess return is calculated based on the ROE, book value of equity, cost of equity, and retention ratio. The ROE is expected to remain robust through 2024 and then stabilize at an average of 13% for the forecast period. The dividend/retention ratio is projected to consistently maintain at 50%, aligning with SVEG's target. The cost of equity is set to remain at 8.52%. Consequently, the forecasted excess return is detailed below:

	2021		2022		2023	
Profit for the period (EC)	**NOK**	**982**	**NOK**	**1,121**	**NOK**	**1,400**
% ROE		*14%*		*14%*		*18%*
Equity Cost	NOK	557	NOK	598	NOK	667
Excess Equity Return	**NOK**	**425**	**NOK**	**524**	**NOK**	**732**

Figure 46: Historical Excess Return (in million NOK)

	2024	2025	2026	2027	2028	2029	2030
Profit for the period (EC)	NOK 1,200	NOK 1,174	NOK 1,129	NOK 1,202	NOK 1,280	NOK 1,364	NOK 1,452
% ROE	*16.0%*	*14.5%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*
Equity Cost	NOK 637	NOK 688	NOK 738	NOK 786	NOK 837	NOK 892	NOK 950
Excess Equity Return	NOK 562	NOK 486	NOK 391	NOK 416	NOK 443	NOK 472	NOK 503
Payout Ratio	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*
Retained Earnings	NOK 600	NOK 587	NOK 564	NOK 601	NOK 640	NOK 682	NOK 726
Cost of Equity							
Discount Period	0.58	1.58	2.58	3.58	4.58	5.58	6.58
Discount Factor	0.95	0.88	0.81	0.75	0.69	0.63	0.58
Present Value of Excess Return	NOK 536	NOK 427	NOK 317	NOK 311	NOK 305	NOK 299	NOK 294

Figure 47: Forecasted Excess Return (in million NOK)

The profit for the period is calculated using the incoming book value of equity and the forecasted ROE, while the equity cost is derived from the incoming book value of equity and the cost of equity. The excess equity return is then determined by subtracting the equity cost from the profit for the period. Retained earnings, representing 50% of the profit, are transferred to equity each year. The value of SVEG is subsequently determined by adding the present value of the forecasted excess return to the initial book value of equity and the terminal value:

Excess Return - Value of Equity Certificate		
Book Value of Equity	**NOK**	**7,497**
Present Value of Excess Return	**NOK**	**2,488**
Terminal Value		
Long Term ROE		11.0%
Long Term Growth		2.0%
Terminal Value	**NOK**	**4,576**
Discount Factor		0.58
Present Value of Terminal Value	**NOK**	**2,674**
Equity Certificate Capital Value	**NOK**	**12,660**
Number of EC		109,687,324
Implied Price per Equity Certificate	**NOK**	**115**

Figure 48: Excess Return, Price per EC

The estimated price per equity certificate, assuming a long-term ROE of 11%, equals NOK 115. The assumption of a long-term ROE exceeding the cost of equity is a topic of considerable debate. Notably, experts like Damodaran (2012) contend that competitive market forces will ultimately eliminate the possibility of sustaining excess returns. Despite this, the dissertation assumes that SVEG, given its industry characteristics, will continue to outperform its cost of equity. The impact of this assumption on ROE within the model is explored in greater detail in Section 5.6, where a football field analysis will be conducted.

5.5 Relative Valuation

Lastly, the dissertation will use a relative valuation to cross-check the FCFE and excess return results against the market pricing of the peer group. As previously mentioned, only the equity will be valued, and as such, only equity multiples will be utilized. More specifically, the study will employ P/E and P/B ratios based on both current and projected future earnings, as well as current and anticipated book values of equity. Based on the insights from Table 1, the accounted write-downs on loans for the peer group are deemed accurate, making the earnings and book values of the companies reliable. The peer group multiples are illustrated below:

As of 30.04.2024	P/E Current 2023	P/E Forward 2024E	P/B 2023	P/B 2024E
SpareBank 1 SR-Bank	8.3	10.3	1.2	1.1
SpareBank 1 SMN	8.7	9.1	1.3	1.2
SpareBank 1 Østlandet	10.3	9.3	1.2	1.1
SpareBank 1 Nord-Norge	8.8	8.0	1.5	1.3
SpareBank 1 Sørøst-Norge	12.5	11.9	1.3	1.2
Mean	9.7x	9.7x	1.3x	1.2x
Median	8.8x	9.3x	1.3x	1.2x
Minimum	8.3x	8.0x	1.2x	1.1x
Maximum	12.5x	11.9x	1.5x	1.3x
3 Quartile	11.4x	11.1x	1.4x	1.2x
1 Quartile	8.5x	8.6x	1.2x	1.1x
Harmonic mean	9.5x	9.6x	1.3x	1.2x

Figure 49: Peer Group Ratios

Both forward P/E and P/B estimates are derived from analyst projections. By employing a harmonic mean, SVEG's EC should trade at a price between NOK 101 and NOK 142, as shown below:

As of 30.04.2024	P/E Current 2023	P/E Forward 2024E	P/B 2023	P/B 2024E
Sparebanken Vest	NOK 124	NOK 142	NOK 101	NOK 103

Figure 50: Relative Valuation

This equals to an average price of NOK 117.5, which is not too far off the base case estimates of NOK 127 and NOK 115 in the FCFE and excess return valuation. The multiples shown in Figure 49 will further be utilized in Section 5.6, incorporating upside, downside, and base case scenarios.

5.6 Valuation Summary

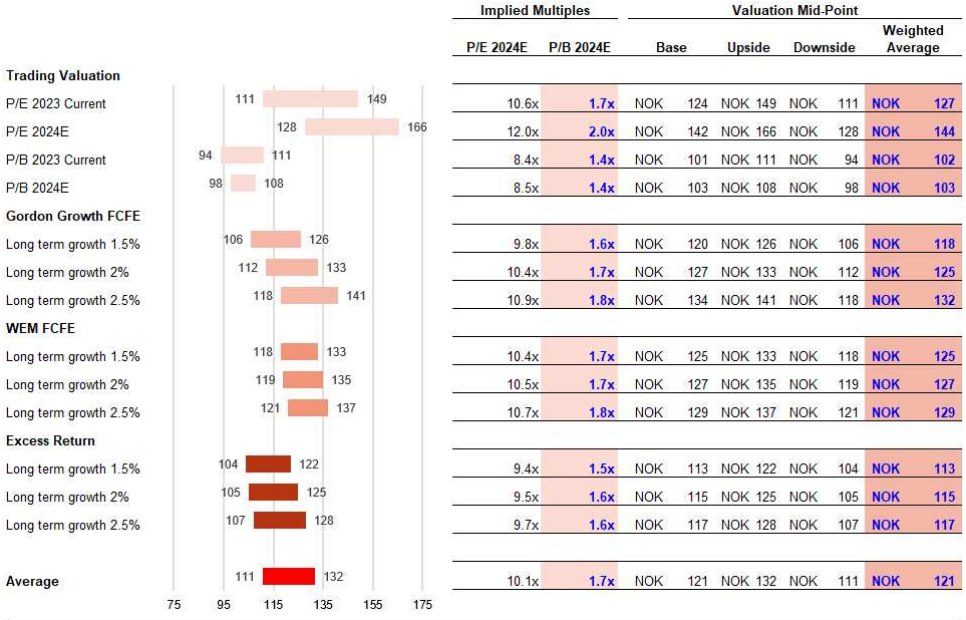
To enhance confidence in the estimated price per EC, a football field analysis is conducted. The analysis combines estimates from the FCFE, excess return, and relative valuation methods, applying base, upside, and downside scenarios with different projections for long-term growth. The base case scenario estimates are discussed in Sections 5.3, 5.4, and 5.5. The upside and downside scenarios are based on the following:

I. **FCFE**
   a. **Upside scenario** assumes higher growth in net lending, and a prolonged period of elevated net interest margin.
   b. **Downside scenario** assumes decreased growth in net lending, and a more rapid contraction in net interest margin.

II. **Excess Return**
   a. **Upside scenario** assumes a terminal ROE of 12%.
   b. **Downside scenario** assumes a terminal ROE of 10%.

III. **Relative Valuation**
   a. **Upside scenario** employs the third quartile of the multiple distribution.
   b. **Downside scenario** employs the first quartile of the multiple distribution.

The base, upside, and downside scenarios are weighted at 50%, 25%, and 25% respectively to calculate a weighted average. The weighted averages from each methodology are then further averaged together to determine the final target price for SVEG as of **April 30th, 2024**:



	Implied Multiples		Valuation Mid-Point			
	P/E 2024E	P/B 2024E	Base	Upside	Downside	Weighted Average
Trading Valuation						
P/E 2023 Current	10.6x	1.7x	NOK 124	NOK 149	NOK 111	NOK 127
P/E 2024E	12.0x	2.0x	NOK 142	NOK 166	NOK 128	NOK 144
P/B 2023 Current	8.4x	1.4x	NOK 101	NOK 111	NOK 94	NOK 102
P/B 2024E	8.5x	1.4x	NOK 103	NOK 108	NOK 98	NOK 103
Gordon Growth FCFE						
Long term growth 1.5%	9.8x	1.6x	NOK 120	NOK 126	NOK 106	NOK 118
Long term growth 2%	10.4x	1.7x	NOK 127	NOK 133	NOK 112	NOK 125
Long term growth 2.5%	10.9x	1.8x	NOK 134	NOK 141	NOK 118	NOK 132
WEM FCFE						
Long term growth 1.5%	10.4x	1.7x	NOK 125	NOK 133	NOK 118	NOK 125
Long term growth 2%	10.5x	1.7x	NOK 127	NOK 135	NOK 119	NOK 127
Long term growth 2.5%	10.7x	1.8x	NOK 129	NOK 137	NOK 121	NOK 129
Excess Return						
Long term growth 1.5%	9.4x	1.5x	NOK 113	NOK 122	NOK 104	NOK 113
Long term growth 2%	9.5x	1.6x	NOK 115	NOK 125	NOK 105	NOK 115
Long term growth 2.5%	9.7x	1.6x	NOK 117	NOK 128	NOK 107	NOK 117
Average	10.1x	1.7x	NOK 121	NOK 132	NOK 111	NOK 121

Figure 51: Valuation Summary

As Figure 51 illustrates, the target price (TP) is NOK 121 per equity certificate. The equity certificate had a closing price of NOK 127.78 on April 30th, which implies an overpricing of around 5.6%. As such, the price of SVEG is within the boundaries of 15%, and the dissertation has come to the conclusion that a **hold recommendation** is justified.

5.7 Sensitivity Analysis

The valuation models are based on uncertain assumptions and future estimates. Moreover, these models are inherently sensitive to variables such as long-term growth rates, exit multiples, and cost of equity. This sensitivity is highlighted by the fact that approximately 70% of the equity value in the FCFE model is attributed to the terminal value. To thoroughly assess the sensitivity of the estimates, multiple sensitivity analyses have been performed. These analyses do not directly influence the target price but provide important information on the risks involved and potential deviations from the forecasted outcomes.

Firstly, an examination of the FCFE (WEM) results shows that the implied price per equity certificate varies significantly with different exit multiples, influenced primarily by the long-term ROE estimates.

Implied Price per equity certificate										
	Exit Multiple									
Cost of Eq.	1.0x		1.2x		1.4x		1.6x		1.8x	
7.5%	NOK	107	NOK	120	NOK	134	NOK	148	NOK	161
8.0%	NOK	104	NOK	117	NOK	130	NOK	144	NOK	157
8.5%	NOK	101	NOK	114	**NOK**	**127**	NOK	140	NOK	153
9.0%	NOK	99	NOK	111	NOK	124	NOK	136	NOK	149
9.5%	NOK	96	NOK	109	NOK	121	NOK	133	NOK	145

Figure 52: Sensitivity Analysis: Exit Multiple

As illustrated above, if the appropriate exit multiple were set at 1, SVEG would be significantly overpriced. This scenario could unfold if increasing competition over time erodes SVEG's profitability, aligning its ROE with the cost of equity, resulting in an implied price of NOK 101, all else equal.

Furthermore, an analysis of the FCFE (Gordon Growth) model's sensitivity to long-term growth estimates and cost of equity yields the following results:

Implied price per equity certificate										
	Long Term Growth									
Cost of Eq.	1.50%		1.75%		2.00%		2.25%		2.50%	
7.5%	NOK	141	NOK	146	NOK	151	NOK	156	NOK	162
8.0%	NOK	130	NOK	134	NOK	138	NOK	142	NOK	147
8.5%	NOK	120	NOK	124	**NOK**	**127**	NOK	130	NOK	134
9.0%	NOK	112	NOK	115	NOK	117	NOK	120	NOK	124
9.5%	NOK	105	NOK	107	NOK	109	NOK	112	NOK	114

Figure 53: Sensitivity Analysis: Long-Term Growth

The long-term growth rate of SVEG is primarily tied to GDP growth and inflation, which in turn impacts housing prices and the economic development of Norwegian households and businesses. As such, deviations from the forecasted 2% growth rate, whether due to a pessimistic or optimistic outlook on the Norwegian economy and SVEG, will lead to fluctuations in the implied price per equity certificate.

The significant impact of the terminal value, which constitutes about 70% of the total equity value, varies markedly across scenarios with different estimated exit multiples and costs of equity, as illustrated below:

PV of Terminal Value % of Equity Value					
	Exit Multiple				
Cost of Eq.	1.0x	1.2x	1.4x	1.6x	1.8x
7.5%	63%	67%	70%	73%	75%
8.0%	63%	67%	70%	73%	75%
8.5%	62%	66%	**70%**	73%	75%
9.0%	62%	66%	70%	72%	75%
9.5%	62%	66%	69%	72%	74%

Figure 54: Sensitivity Analysis: PV of Terminal Value %

Figure 54 demonstrates that a more optimistic outlook, coupled with a lower cost of equity, significantly increases the proportion of SVEG's value attributed to the terminal value, introducing greater uncertainty. This reliance on the terminal value could also be critiqued as a limitation of the models used, as the calculated implied price heavily depends on this component.

Lastly, examining the highly sensitive excess return model, the following results emerge from adjustments to the cost of equity and long-term ROE estimates:

Implied Price per equity certificate										
	Long Term ROE									
Cost of Eq.	9%		10%		11%		12%		13%	
7.5%	NOK	114	NOK	126	NOK	139	NOK	151	NOK	163
8.0%	NOK	104	NOK	115	NOK	126	NOK	137	NOK	147
8.5%	NOK	96	NOK	105	**NOK**	**115**	NOK	125	NOK	134
9.0%	NOK	88	NOK	97	NOK	106	NOK	115	NOK	123
9.5%	NOK	82	NOK	90	NOK	98	NOK	106	NOK	114

Figure 55: Sensitivity Analysis: Excess Return Model

As shown, significantly higher or lower prices can be justified based on the anticipated future economic prospects of SVEG. In other words, a high long-term ROE would yield significant value, warranting a much higher price per equity certificate, and vice versa. Consequently, the excess return model is very sensitive and open to critique in this respect.

5.7.1 Monte Carlo Simulation

In addition to conducting general sensitivity analyses, the dissertation will incorporate a Monte Carlo analysis, primarily to explore the implications of changes in forecasted net lending growth, net interest margins and long-term growth rates. The Monte Carlo analysis utilizes the downside and upside forecasts for net lending, net interest margin, and long-term growth rates, running 10,000 iterations within these parameters. Please see Figure 56 for detailed price distributions resulting from simulated changes in these variables. The distribution is somewhat right-skewed with pronounced right tails, indicating instances of high implied share prices due to instances of high net lending growth, high net interest margin and high long-term growth rates. The downside appears to be more limited. However, it is important to note that the downside does not account for adverse scenarios involving higher-than-normal loan losses.

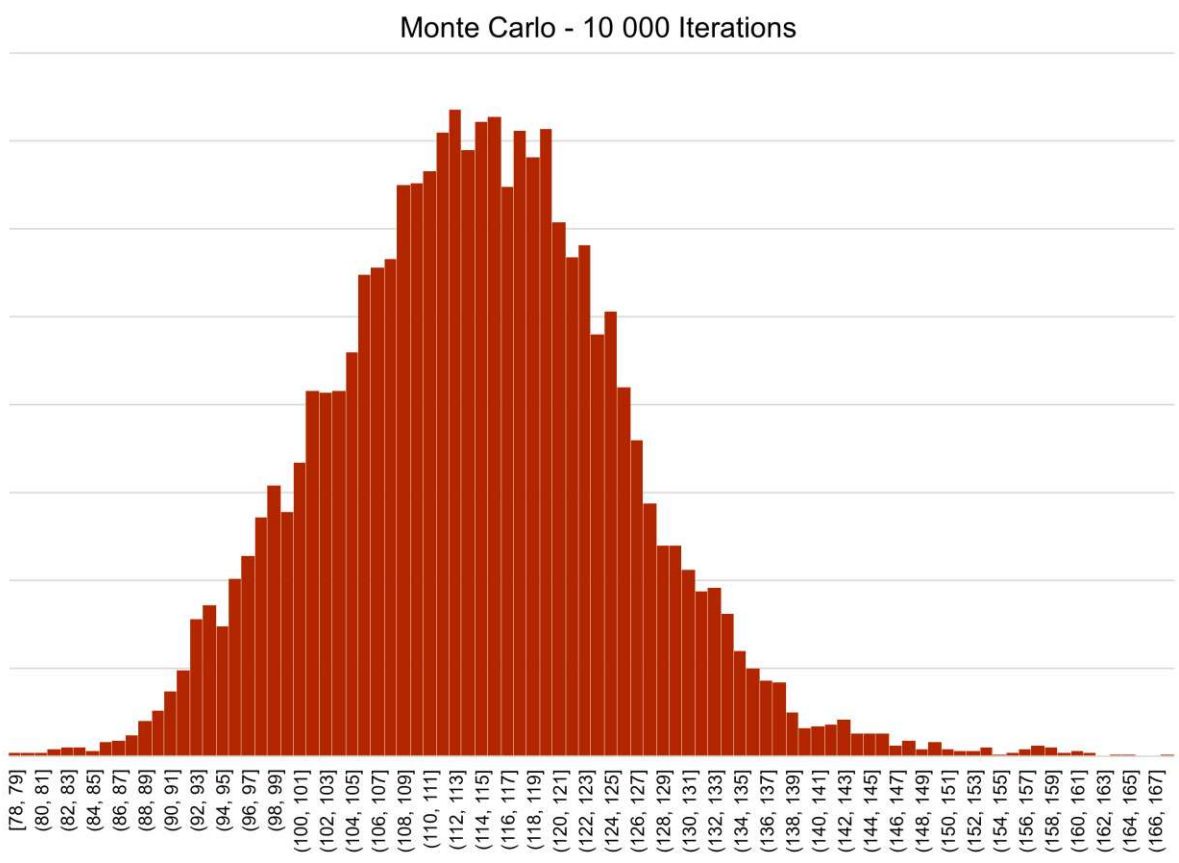


Figure 56: Monte Carlo Simulation

6.0 Comparison with Pareto Securities AS

Following the 2023 annual report, Pareto Securities AS published an equity report on SVEG with TP of NOK 125, as of February 1st. This target price deviates by NOK 4 from the TP of NOK 121 established in the dissertation. The main estimates of both Pareto and the dissertation are the following (in million NOK):

I. **Forecasted net interest income.**
   a. 2024E: NOK 5637 vs NOK 5689
   b. 2025E: NOK 5211 vs NOK 5627

II. **Total income.**
   a. 2024E: NOK 6992 vs NOK 6900
   b. 2024E: NOK 6565 vs NOK 6992

III. **Total operating expenses.**
   a. 2024E: NOK 1843 vs NOK 1971
   b. 2025E: NOK 1894 vs NOK 2109

IV. **Profit before loan losses.**
    a. 2024E: NOK 5149 vs NOK 4929
    b. 2025E: NOK 4672 vs NOK 4883
V. **Loan losses.**
    a. 2024E: NOK 275 vs NOK 421
    b. 2025E: NOK 281 vs NOK 455
VI. **Net profit after tax (22% vs 21% tax).**
    a. 2024E: NOK 3801 vs NOK 3381
    b. 2025E: NOK 3421 vs NOK 3321
VII. **Lending growth**
    a. 2024E: 4.2% vs 10%
    b. 2025E: 4.2% vs 8.2%
VIII. **Net interest margin**
    a. 2024E: 1.93% vs 1.80%
    b. 2025E: 1.72% vs 1.63%

As indicated above, the estimates are largely similar, with the most significant differences occurring in the forecast for lending growth, net interest margin, operating expenses, loan losses and 2025 net interest income. Although the dissertation forecasts significantly higher lending growth, the target price is lower, most likely because of the anticipated lower net interest margin, higher expenses and higher loan losses compared to Pareto's equity report. However, the equity report does not provide a detailed explanation of the valuation techniques or forecasts used, making it difficult to identify other discrepancies that might explain the difference in target price. It should be noted that the difference in TP is minor, and both the equity report and the dissertation conclude with a hold recommendation for the company.

In conclusion, both the equity report and the dissertation view the future of SVEG positively, anticipating higher-than-normal profits in 2024 and 2025. Consequently, both analyses suggest implied price-to-book targets of around 1.6 with a subsequent **hold recommendation.**

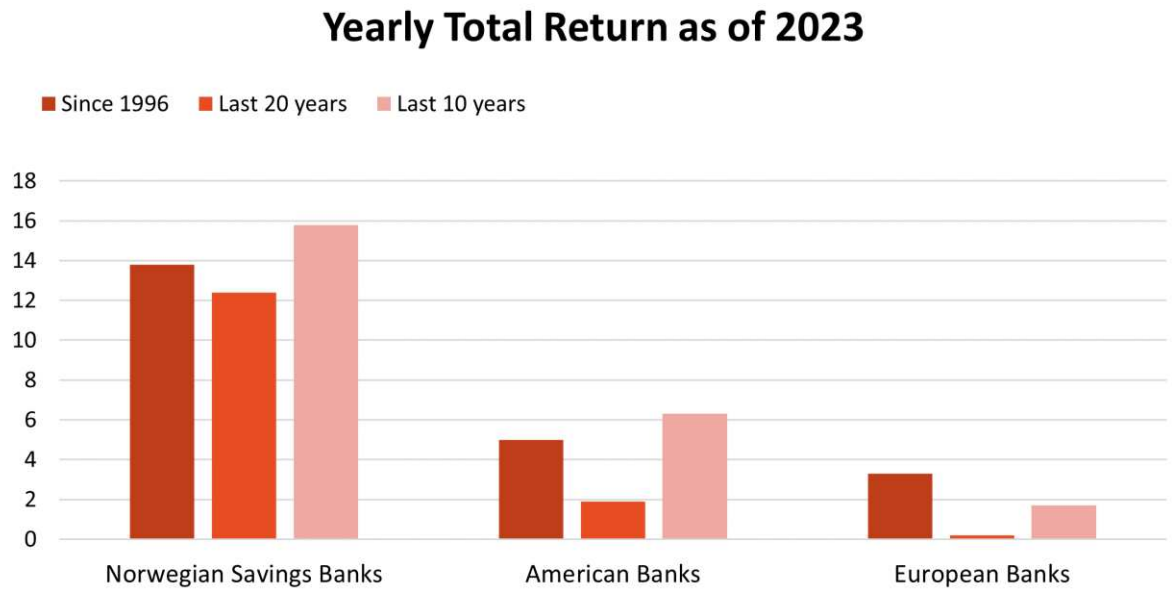
7.0 Conclusion

The aim of this dissertation was to accurately estimate the target price per equity certificate of Sparebanken Vest and provide a well-informed investment recommendation, as of April 30th, 2024. As such, the valuation techniques applicable to banks were analyzed. This analysis led to the use of a modified FCFE model, an excess return model, and relative valuation, all of which were summarized through a football field analysis. To properly employ these models and prepare sensible forecasts, Sparebanken Vest, the industry, and the Norwegian economy were analyzed. The FCFE model yielded a target price of NOK 127, utilizing both a Weighted Equity Method (WEM) and the Gordon growth model for terminal value estimation. The football field analysis showed an FCFE valuation range between NOK 106 and NOK 141, depending on the operating scenario and long-term growth estimates. For the excess return model, the target price was NOK 115, with a football field analysis range between NOK 104 and NOK 128. Lastly, the relative valuation of Sparebanken Vest yielded an average price of NOK 117.5, with a range between NOK 101 and NOK 141, depending on the selected multiple. Consequently, by using the football field analysis encompassing various operating scenarios and long-term growth estimates across all valuation methods, the final target price for Sparebanken Vest was determined to be NOK 121. This suggests that the equity certificate on April 30th, 2024, was overvalued by approximately 5.6%. Therefore, as of April 30th, 2024, the dissertation concludes with a **hold recommendation** for Sparebanken Vest's equity certificates.

Despite the comprehensive analysis, it is important to acknowledge the limitations and potential shortcomings of the models and methods used in this dissertation. Most importantly, the dissertation assumes a robust economy in the coming years, implying a stable housing market and low loan losses. Consequently, the accuracy of the target price and investment recommendation is highly susceptible to negative macroeconomic developments, such as a real estate crisis, which would significantly impact loan losses, net profit, and FCFE. Furthermore, approximately 70% of the FCFE value is derived from the terminal value, making the estimated value per equity certificate highly sensitive to long-term growth and profitability estimates, which are inherently uncertain. Lastly, as previously mentioned, it would have been preferable to value Sparebanken Vest's associated companies and the parent bank separately. However, due to the limitations of this dissertation, this approach was not deemed feasible.

Appendix

Appendix 1 – Savings Banks Total Returns inc. reinvested dividends.



Source: Robert Næss (2023)

Appendix 2 – ROE Development (Figure 5)

	2016	2017	2018	2019	2020	2021	2022	2023
SRBNK	10%	11%	11%	14%	6%	13%	13%	15%
MING	11%	12%	12%	14%	10%	14%	12%	14%
SPOL	11%	10%	11%	13%	10%	12%	11%	11%
SVEG	13%	11%	12%	14%	12%	14%	15%	17%
NONG	12%	13%	13%	16%	13%	15%	12%	16%
SOON	11%	13%	14%	11%	10%	11%	9%	10%

Appendix 3 - Loan Growth (in million NOK) (Figure 9)

Lending Development	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Lending	NOK 118,643	NOK 128,927	NOK 136,099	NOK 147,073	NOK 159,043	NOK 169,179	NOK 181,722	NOK 202,975	NOK 224,494	NOK 255,767
Net Lending Exl. Bulder	NOK 118,643	NOK 128,927	NOK 136,099	NOK 147,073	NOK 159,043	NOK 168,679	NOK 174,722	NOK 181,975	NOK 200,494	NOK 208,767
Bulder	NOK -	NOK -	NOK -	NOK -	NOK -	NOK 500	NOK 7,000	NOK 21,000	NOK 24,000	NOK 47,000

Appendix 4 - ROE, Net Profit, Cost/Income & Loan Loss (Figure 10 & 11)

Figure 10 & Figure 11	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
ROE	13.7%	11.0%	13.1%	11.0%	11.9%	13.5%	12.3%	14.0%	14.6%	16.5%
Cost/Income	45.5%	48.9%	39.7%	44.2%	41.6%	37.1%	36.3%	34.2%	32.5%	28.7%
Net Profit	1,188	1,047	1,521	1,416	1,660	2,064	2,033	2,513	2,817	3,545
Loss percentage, lending	0.35%	0.15%	0.03%	0.02%	0.00%	0.03%	0.25%	-0.02%	0.02%	0.04%

Appendix 5 - Spread (Figure 12 & 13)

Loan Spread vs Deposit Spread	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4
Loan Margin Retail	1.77%	1.64%	1.63%	1.62%	1.57%	1.48%	1.42%	1.34%	1.58%	2.27%	2.05%	1.91%	1.79%	1.91%	1.74%	1.39%	1.18%	1.19%	0.44%	0.32%	0.76%	0.37%	0.21%	0.57%
Loan Margin Corporate	2.90%	2.88%	2.85%	2.81%	2.85%	2.81%	2.83%	2.79%	3.01%	3.42%	3.05%	2.99%	3.03%	3.10%	2.80%	2.89%	2.85%	2.90%	2.49%	2.46%	2.77%	2.69%	2.51%	2.72%
Deposit Margin Retail	0.14%	0.27%	0.28%	0.41%	0.39%	0.53%	0.64%	0.75%	0.50%	-0.47%	-0.21%	-0.06%	0.14%	-0.03%	0.10%	0.44%	0.69%	0.73%	1.62%	1.97%	1.54%	1.99%	2.33%	2.01%
Deposit Margin Corporate	0.26%	0.35%	0.33%	0.46%	0.45%	0.56%	0.67%	0.77%	0.65%	0.04%	0.05%	0.15%	0.23%	0.10%	0.17%	0.43%	0.58%	0.50%	0.97%	1.18%	0.92%	1.13%	1.29%	1.26%
Net Interest Margin	1.48%	1.42%	1.47%	1.51%	1.50%	1.51%	1.57%	1.63%	1.60%	1.34%	1.30%	1.35%	1.42%	1.43%	1.46%	1.46%	1.48%	1.49%	1.59%	1.67%	1.73%	1.73%	1.85%	1.85%

Appendix 6 - Peer Group

Company	MCAP		Average ROE (14-23)	Average CET1	Payout Ratio	CAGR Net Lending
SpareBank 1 SR-Bank	NOK	35,623,461,200	11.82%	15.70%	43.30%	7.53%
SpareBank 1 SMN	NOK	21,101,626,592	12.47%	16.01%	47.08%	7.17%
SpareBank 1 Østlandet	NOK	15,521,193,200	10.94%	17.28%	51.30%	7.06%
Sparebanken Vest	NOK	14,020,174,936	13.16%	15.85%	50.00%	8.92%
SpareBank 1 Nord-Norge	NOK	10,077,951,240	13.10%	15.86%	61.58%	5.38%
SpareBank 1 Sørøst-Norge	NOK	9,596,754,100	11.23%	18.29%	49.70%	7.00%

Appendix 7 - Implied Equity Risk Premium as of **30.04.2024**

As of April 30th, 2024	2023	2024	2025	2026	2027	2028	Terminal Year
Aggregate Earnings	220	239	260	282	307	334	350
Cash Payout%	78%	78%	78%	78%	78%	78%	78%
Cash Return	171	186	202	220	239	260	272
PV of Cash Return	5035	176	175	175	174	174	4162

Analyst: Exp Earnings Growth	8.74%
10-YR Yield	4.69%
S&P 500	5035
Implied Expected Return	9.05%
Implied Market Risk Premium	4.37%

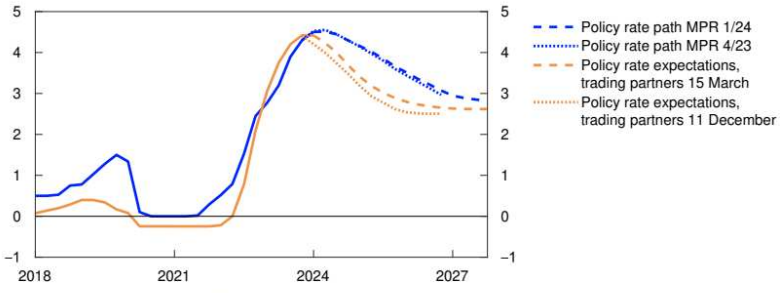
Appendix 8 - Net Interest Margin

		Projection Period						
		Year 1 2024	Year 2 2025	Year 3 2026	Year 4 2027	Year 5 2028	Year 6 2029	Year 7 2030
Net Interest Margin on AUM								
Upside	1	1.83%	1.69%	1.60%	1.60%	1.60%	1.60%	1.60%
Base	2	1.80%	1.63%	1.54%	1.54%	1.54%	1.54%	1.54%
Downside	3	1.75%	1.55%	1.50%	1.50%	1.50%	1.50%	1.50%

Appendix 9 – Policy Rate Path (Norges Bank, 2024)

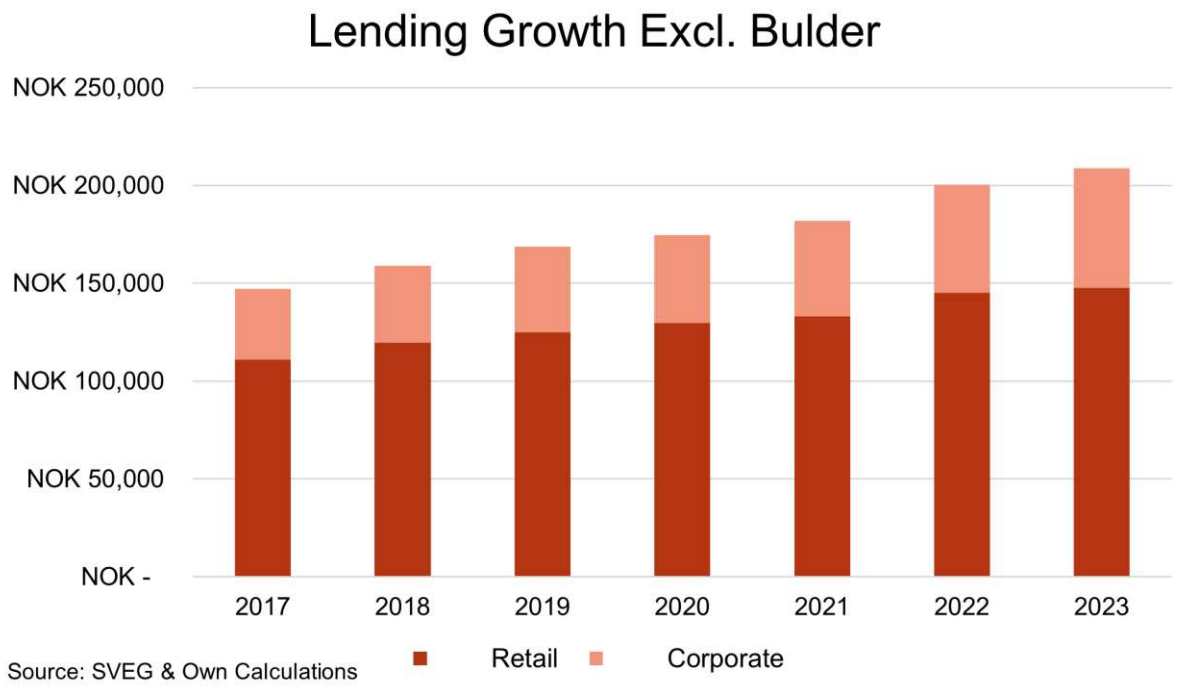
Chart 4.3 Positive interest rate differential against other countries

Policy rates in Norway and among Norway's main trading partners. Percent



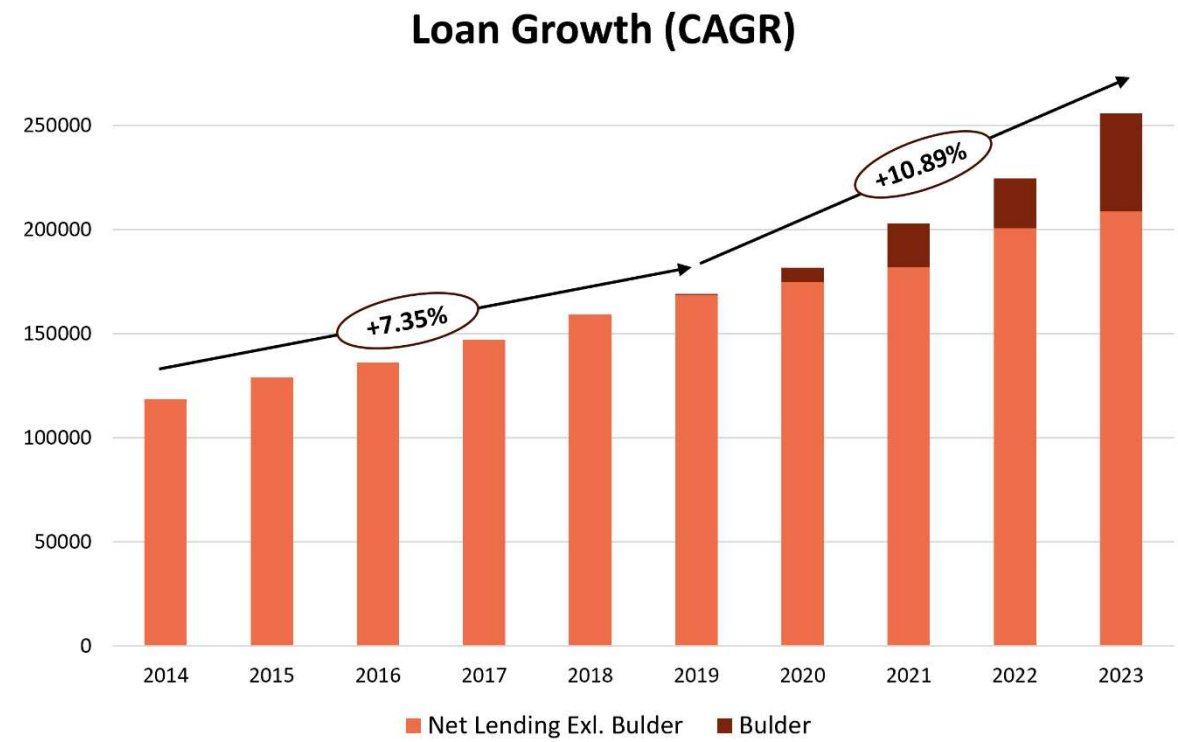
Sources: Bloomberg and Norges Bank

Appendix 10 – Lending Growth excl. Bulder



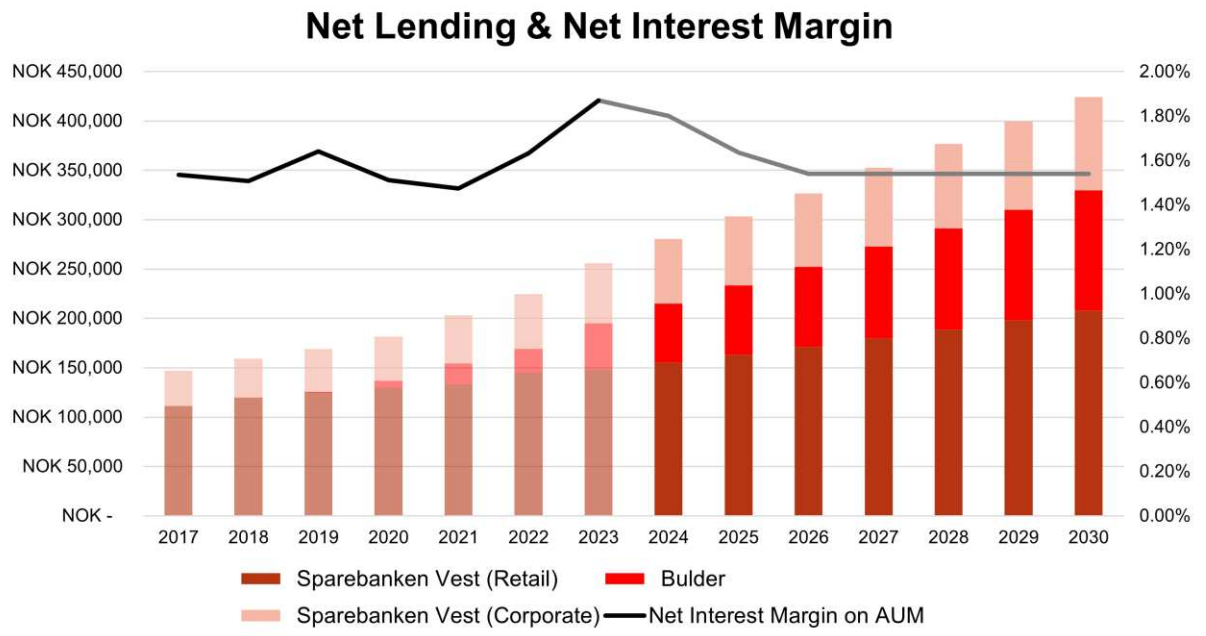
Source: SVEG & Own Calculations

Appendix 11 – Lending Growth incl. Bulder



Source: Sparebanken Vest, Own Calculations

Appendix 12 – Forecasted Net Lending



Appendix 13 – Historical AUM

	2017	2018	2019	2020	2021	2022	2023
Net Lending							
Sparebanken Vest (incl Bulder)	NOK 147,073	NOK 159,043	NOK 169,179	NOK 181,722	NOK 202,975	NOK 224,494	NOK 255,767
Retail	NOK 111,178	NOK 119,634	NOK 124,995	NOK 129,791	NOK 133,104	NOK 145,130	NOK 147,834
Corporate	NOK 35,895	NOK 39,409	NOK 43,684	NOK 44,931	NOK 48,871	NOK 55,364	NOK 60,933
Bulder	NOK -	NOK -	NOK 500	NOK 7,000	NOK 21,000	NOK 24,000	NOK 47,000
Commercial papers and bonds	NOK 19,191	NOK 22,166	NOK 19,464	NOK 28,013	NOK 22,945	NOK 30,825	NOK 36,560
% of Net Lending	*13%*	*14%*	*12%*	*15%*	*11%*	*14%*	*14%*
Loans to credit institutions	NOK 1,588	NOK 1,270	NOK 989	NOK 1,564	NOK 1,238	NOK 1,018	NOK 3,154
% of Net Lending	*1.08%*	*0.80%*	*0.58%*	*0.86%*	*0.61%*	*0.45%*	*1.23%*
Financial derivatives	NOK 4,587	NOK 4,028	NOK 2,950	NOK 5,885	NOK 2,668	NOK 2,575	NOK 5,401
% of Net Lending	*3.12%*	*2.53%*	*1.74%*	*3.24%*	*1.31%*	*1.15%*	*2.11%*
Cash and receivables from central banks	NOK 685	NOK 563	NOK 437	NOK 217	NOK 334	NOK 143	NOK 387
% of Net Lending	*0.47%*	*0.35%*	*0.26%*	*0.12%*	*0.16%*	*0.06%*	*0.15%*
Total AUM (Interest Bearing)	NOK 173,124	NOK 187,070	NOK 193,019	NOK 217,401	NOK 230,160	NOK 259,055	NOK 301,269

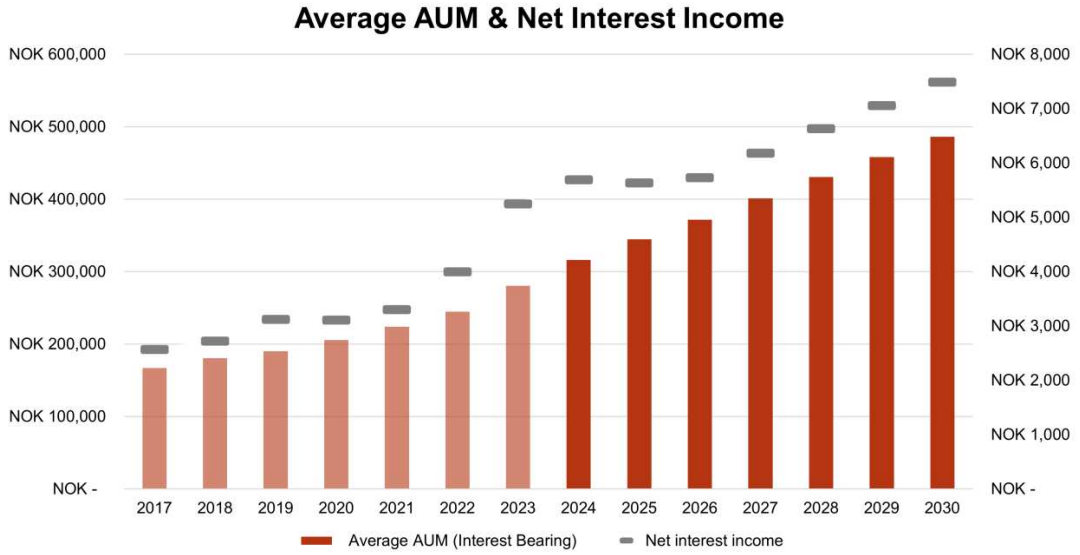
Appendix 14 – Average AUM

Average AUM	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
	NOK 166,953	NOK 180,097	NOK 190,045	NOK 205,210	NOK 223,781	NOK 244,608	NOK 280,162

Appendix 15 – Forecasted AUM

	2024	2025	2026	2027	2028	2029	2030
Total Net Lending (By chosen scenario)	NOK 280,443	NOK 303,272	NOK 326,883	NOK 352,830	NOK 376,732	NOK 399,672	NOK 424,129
+Commercial papers and bonds	NOK 38,635	NOK 41,779	NOK 45,032	NOK 48,607	NOK 51,900	NOK 55,060	NOK 58,429
+Loans to credit institutions	NOK 2,690	NOK 2,908	NOK 3,135	NOK 3,384	NOK 3,613	NOK 3,833	NOK 4,068
+Financial derivatives	NOK 7,807	NOK 8,442	NOK 9,100	NOK 9,822	NOK 10,487	NOK 11,126	NOK 11,807
+Cash and receivables from central banks	NOK 1,237	NOK 1,338	NOK 1,442	NOK 1,557	NOK 1,662	NOK 1,763	NOK 1,871
Total AUM (Interest Bearing)	NOK 330,811	NOK 357,740	NOK 385,591	NOK 416,199	NOK 444,394	NOK 471,454	NOK 500,303
Average AUM (Interest Bearing)	NOK 316,040	NOK 344,275	NOK 371,665	NOK 400,895	NOK 430,296	NOK 457,924	NOK 485,879

Appendix 16 – AUM & Net Interest Income



Appendix 17 - Active Customers

Number of active customers	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Sparebanken Vest	272,945	277,494	282,360	283,100	282,520	289,000	293,000	296,487	300,015	303,585	307,198	310,853	314,553	318,296
Bulder	-	-	2,200	4,400	6,600	8,800	25,000	45,000	67,500	87,750	105,300	126,360	145,314	159,845

Appendix 18 – Associate Ownership

Frende Holding Group	39.58%
Norne Securities	41%
Brage Finans	49.99%
Balder Betaling	38.54%

Appendix 19 – Other operating income

	2024		2025		2026		2027		2028		2029		2030
Comission Income													
Comission income per customer	NOK	2,450	NOK	2,499	NOK	2,549	NOK	2,600	NOK	2,652	NOK	2,705	NOK	2,759
Sum comission income (in millions)	NOK	837	NOK	918	NOK	998	NOK	1,072	NOK	1,159	NOK	1,244	NOK	1,319
% cost margin		*17%*		*17%*		*17%*		*17%*		*17%*		*17%*		*17%*
Net banking services	NOK	694	NOK	762	NOK	828	NOK	890	NOK	962	NOK	1,032	NOK	1,095
Income from shareholdings in associated companies														
Frende Holding Group	NOK	105	NOK	158	NOK	164	NOK	171	NOK	178	NOK	185	NOK	192
Norne Securities	NOK	4	NOK	7	NOK	8	NOK	8	NOK	9	NOK	9	NOK	9
Brage Finans	NOK	136	NOK	150	NOK	165	NOK	181	NOK	199	NOK	215	NOK	230
Balder Betaling	NOK	6	NOK	7	NOK	9	NOK	10	NOK	10	NOK	11	NOK	13
Sum associate income	NOK	251	NOK	322	NOK	345	NOK	369	NOK	396	NOK	420	NOK	444
Other operating income														
Brokerage comission per customer	NOK	780	NOK	764	NOK	749	NOK	749	NOK	764	NOK	779	NOK	811
Sum active customers		341,487		367,515		391,335		412,498		437,213		459,867		478,141
Sum other operating income (in millions)	NOK	266	NOK	281	NOK	293	NOK	309	NOK	334	NOK	358	NOK	388

Appendix 20 – Expenses

	2024		2025		2026		2027		2028		2029		2030
Payroll and general administration expenses (in millions)													
Number of FTEs		839		876		903		930		958		982		1,006
Payroll per FTE	NOK	1,853,493	NOK	1,899,830	NOK	1,947,326	NOK	1,996,009	NOK	2,045,910	NOK	2,097,057	NOK	2,149,484
Sum payroll and general adm. Expenses (in millions)	NOK	1,555	NOK	1,665	NOK	1,758	NOK	1,856	NOK	1,959	NOK	2,059	NOK	2,163
Sum depreciation	NOK	205	NOK	220	NOK	235	NOK	252	NOK	269	NOK	288	NOK	308
Sum other operating expenses	NOK	211	NOK	224	NOK	237	NOK	251	NOK	266	NOK	282	NOK	299
Write down on loans	NOK	421	NOK	455	NOK	490	NOK	529	NOK	565	NOK	600	NOK	636

Appendix 21 – RWA

	2024		2025		2026		2027		2028		2029		2030	
Risk Weighted Assets														
(RWA weight * AUM)	NOK	120,746	NOK	130,575	NOK	140,741	NOK	151,912	NOK	162,204	NOK	172,081	NOK	182,611
CET1 Capital														
Required	NOK	19,380	NOK	20,957	NOK	22,589	NOK	24,382	NOK	26,034	NOK	27,619	NOK	29,309
CET1 capital pre investment	NOK	18,096	NOK	19,380	NOK	20,957	NOK	22,589	NOK	24,382	NOK	26,034	NOK	27,619
Investment in CET1	NOK	1,284	NOK	1,578	NOK	1,632	NOK	1,793	NOK	1,652	NOK	1,585	NOK	1,690
Sum CET1 capital	NOK	19,380	NOK	20,957	NOK	22,589	NOK	24,382	NOK	26,034	NOK	27,619	NOK	29,309
Investment in CET1	NOK	1,284	NOK	1,578	NOK	1,632	NOK	1,793	NOK	1,652	NOK	1,585	NOK	1,690
Difference (Solver)	NOK	-	NOK	-	NOK	-	NOK	-	NOK	-	NOK	-	NOK	-
Equity Certificate Capital														
Investment in CET1	NOK	1,284	NOK	1,578	NOK	1,632	NOK	1,793	NOK	1,652	NOK	1,585	NOK	1,690
% owner fraction		*40.7%*		*40.7%*		*40.7%*		*40.7%*		*40.7%*		*40.7%*		*40.7%*
Investment in Equity Cert. Capital	NOK	522	NOK	642	NOK	664	NOK	730	NOK	672	NOK	645	NOK	688
Total Equity Cert. Capital	NOK	8,019	NOK	8,662	NOK	9,326	NOK	10,055	NOK	10,728	NOK	11,373	NOK	12,061

Appendix 22 – Subordinated Debt

Interest on Subordinated	2023	2024	2025	2026	2027	2028	2029	2030
Current NIBOR	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%
Spread over Fixed Rate	2.89%	2.89%	2.89%	2.89%	2.89%	2.89%	2.89%	2.89%
Growth Rate Net Lending		8%	8%	8%	7%	6%	6%	6%
Subordinated Bonds	NOK 1,650	NOK 1,784	NOK 1,923	NOK 2,076	NOK 2,217	NOK 2,351	NOK 2,495	NOK 2,649
Avg. Subordinated Bonds		NOK 1,717	NOK 1,854	NOK 2,000	NOK 2,146	NOK 2,284	NOK 2,423	NOK 2,572
Estimated Interest		**NOK 135**	**NOK 146**	**NOK 158**	**NOK 168**	**NOK 178**	**NOK 189**	**NOK 201**

Appendix 23 – Historical Results

	2021		2022		2023	
Net interest income	**NOK**	**3,299**	**NOK**	**3,994**	**NOK**	**5,242**
% growth		*6.3%*		*21.1%*		*31.2%*
Commission income and income from banking services	NOK	639	NOK	775	NOK	783
Commission expenses and expenses relating to banking services	NOK	104	NOK	116	NOK	129
% cost margin		*16.3%*		*15.0%*		*16.5%*
Net banking services	**NOK**	**535**	**NOK**	**659**	**NOK**	**654**
Income from shareholdings in associated companies	NOK	401	NOK	262	NOK	215
Other operating income	NOK	266	NOK	256	NOK	263
Net other operating income	**NOK**	**1,264**	**NOK**	**1,250**	**NOK**	**1,044**
Net operating income	**NOK**	**4,563**	**NOK**	**5,244**	**NOK**	**6,286**
Payroll and general administration expenses	NOK	1,190	NOK	1,292	NOK	1,381
Depreciation	NOK	208	NOK	218	NOK	192
Other operating expenses	NOK	141	NOK	177	NOK	199
Total operating expenses	NOK	1,538	NOK	1,687	NOK	1,772
% cost/income		*34%*		*32%*		*28%*
Profit before write-downs and tax	**NOK**	**3,024**	**NOK**	**3,556**	**NOK**	**4,513**
Write-down of loans and losses on guarantees	-NOK	31	NOK	52	NOK	95
% of lending		*-0.02%*		*0.02%*		*0.04%*
Pre-tax profit	**NOK**	**3,055**	**NOK**	**3,504**	**NOK**	**4,418**
Tax	NOK	542	NOK	687	NOK	874
% of profit		*18%*		*20%*		*20%*
Profit for the period	**NOK**	**2,513**	**NOK**	**2,817**	**NOK**	**3,545**
Profit allocated to holders of subordinated bonds	NOK	58	NOK	58	NOK	103
Profit allocated to the bank's asset classes	NOK	2,455	NOK	2,759	NOK	3,442
Investment in regulatory capital	NOK	1,247	NOK	1,275	NOK	1,419
% of profit		*50.8%*		*46.2%*		*41.2%*
Free cash flow to capital	NOK	1,208	NOK	1,484	NOK	2,023
% "payout ratio"		*49%*		*54%*		*59%*
Owner fraction		*39.98%*		*40.64%*		*40.67%*
Free cash flow to equity certificate capital	**NOK**	**483**	**NOK**	**603**	**NOK**	**823**

Appendix 24 – Forecast Period

	2024	2025	2026	2027	2028	2029	2030
Net interest income	NOK 5,689	NOK 5,627	NOK 5,724	NOK 6,174	NOK 6,627	NOK 7,052	NOK 7,483
% growth	*8.5%*	*(1.1%)*	*1.7%*	*7.9%*	*7.3%*	*6.4%*	*6.1%*
Commission income and income from banking se	NOK 837	NOK 918	NOK 998	NOK 1,072	NOK 1,159	NOK 1,244	NOK 1,319
Commission expenses and expenses relating to	NOK 142	NOK 156	NOK 170	NOK 182	NOK 197	NOK 211	NOK 224
% cost margin	*17.0%*	*17.0%*	*17.0%*	*17.0%*	*17.0%*	*17.0%*	*17.0%*
Net banking services	NOK 694	NOK 762	NOK 828	NOK 890	NOK 962	NOK 1,032	NOK 1,095
Income from shareholdings in associated compar	NOK 251	NOK 322	NOK 345	NOK 369	NOK 396	NOK 420	NOK 444
Other operating income	NOK 266	NOK 281	NOK 293	NOK 309	NOK 334	NOK 358	NOK 388
Net other operating income	NOK 1,212	NOK 1,365	NOK 1,466	NOK 1,569	NOK 1,692	NOK 1,811	NOK 1,927
Net operating income	NOK 6,900	NOK 6,992	NOK 7,190	NOK 7,742	NOK 8,319	NOK 8,863	NOK 9,409
Payroll and general administration expenses	NOK 1,555	NOK 1,665	NOK 1,758	NOK 1,856	NOK 1,959	NOK 2,059	NOK 2,163
Depreciation	NOK 205	NOK 220	NOK 235	NOK 252	NOK 269	NOK 288	NOK 308
Other operating expenses	NOK 211	NOK 224	NOK 237	NOK 251	NOK 266	NOK 282	NOK 299
Total operating expenses	NOK 1,971	NOK 2,109	NOK 2,230	NOK 2,359	NOK 2,495	NOK 2,629	NOK 2,770
% cost/income	*29%*	*30%*	*31%*	*30%*	*30%*	*30%*	*29%*
Profit before write-downs and tax	NOK 4,929	NOK 4,883	NOK 4,960	NOK 5,383	NOK 5,824	NOK 6,234	NOK 6,639
Write-down of loans and losses on guarantees	NOK 421	NOK 455	NOK 490	NOK 529	NOK 565	NOK 600	NOK 636
% of lending	*0.15%*	*0.15%*	*0.15%*	*0.15%*	*0.15%*	*0.15%*	*0.15%*
Pre-tax profit	NOK 4,509	NOK 4,429	NOK 4,469	NOK 4,854	NOK 5,259	NOK 5,635	NOK 6,003
Tax	NOK 1,127	NOK 1,107	NOK 1,117	NOK 1,214	NOK 1,315	NOK 1,409	NOK 1,501
% of profit	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*
Profit for the period	NOK 3,381	NOK 3,321	NOK 3,352	NOK 3,641	NOK 3,944	NOK 4,226	NOK 4,502
Profit allocated to holders of subordinated bonds	NOK 135	NOK 146	NOK 158	NOK 168	NOK 178	NOK 189	NOK 201
Profit allocated to the bank's asset classes	NOK 3,246	NOK 3,175	NOK 3,194	NOK 3,472	NOK 3,765	NOK 4,036	NOK 4,301
Investment in regulatory capital	NOK 1,284	NOK 1,578	NOK 1,632	NOK 1,793	NOK 1,652	NOK 1,585	NOK 1,690
% of profit	*39.5%*	*49.7%*	*51.1%*	*51.6%*	*43.9%*	*39.3%*	*39.3%*
Free cash flow to capital	NOK 1,962	NOK 1,598	NOK 1,563	NOK 1,679	NOK 2,114	NOK 2,451	NOK 2,611
% "payout ratio"	*60%*	*50%*	*49%*	*48%*	*56%*	*61%*	*61%*
Owner fraction	*40.70%*	*40.70%*	*40.70%*	*40.70%*	*40.70%*	*40.70%*	*40.70%*
Free cash flow to equity certificate capital	NOK 799	NOK 650	NOK 636	NOK 684	NOK 860	NOK 998	NOK 1,063
Cost of Equity							
Discount Period	0.58	1.58	2.58	3.58	4.58	5.58	6.58
Discount Factor	0.95	0.88	0.81	0.75	0.69	0.63	0.58
Present Value of Free Cash Flow	NOK 762	NOK 572	NOK 515	NOK 510	NOK 592	NOK 633	NOK 621

Appendix 25 – Relative Valuation, Peer Group

As of 30.04.2024	P/E Current 2023	P/E Forward 2024E	P/B 2023	P/B 2024E
SpareBank 1 SR-Bank	8.3	10.3	1.2	1.1
SpareBank 1 SMN	8.7	9.1	1.3	1.2
SpareBank 1 Østlandet	10.3	9.3	1.2	1.1
SpareBank 1 Nord-Norge	8.8	8.0	1.5	1.3
SpareBank 1 Sørøst-Norge	12.5	11.9	1.3	1.2
Mean	9.7x	9.7x	1.3x	1.2x
Median	8.8x	9.3x	1.3x	1.2x
Minimum	8.3x	8.0x	1.2x	1.1x
Maximum	12.5x	11.9x	1.5x	1.3x
3 Quartile	11.4x	11.1x	1.4x	1.2x
1 Quartile	8.5x	8.6x	1.2x	1.1x
Harmonic mean	9.5x	9.6x	1.3x	1.2x

Appendix 26 – Price, Relative Valuation

As of 30.04.2024	P/E Current 2023	P/E Forward 2024E	P/B 2023	P/B 2024E
Sparebanken Vest	NOK 124	NOK 142	NOK 101	NOK 103

Appendix 27 – Excess Return, Present Values

	2024	2025	2026	2027	2028	2029	2030
Profit for the period (EC)	NOK 1,200	NOK 1,174	NOK 1,129	NOK 1,202	NOK 1,280	NOK 1,364	NOK 1,452
% ROE	*16.0%*	*14.5%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*
Equity Cost	NOK 639	NOK 690	NOK 740	NOK 788	NOK 839	NOK 894	NOK 952
Excess Equity Return	NOK 561	NOK 484	NOK 389	NOK 414	NOK 441	NOK 470	NOK 500
Payout Ratio	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*
Retained Earnings	NOK 600	NOK 587	NOK 564	NOK 601	NOK 640	NOK 682	NOK 726
Cost of Equity							
Discount Period	0.58	1.58	2.58	3.58	4.58	5.58	6.58
Discount Factor	0.95	0.88	0.81	0.75	0.69	0.63	0.58
Present Value of Excess Return	NOK 535	NOK 425	NOK 315	NOK 309	NOK 303	NOK 298	NOK 292

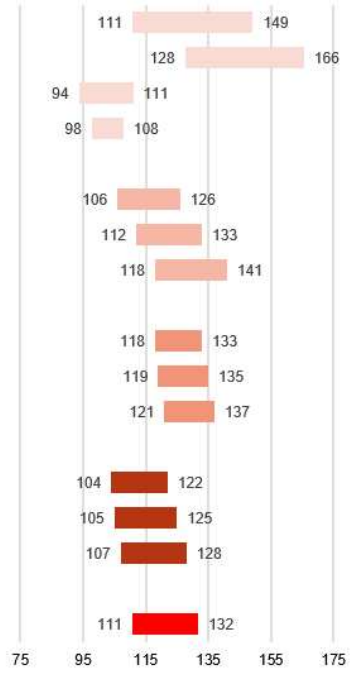
Appendix 28 – Excess Return, Book value of Equity

	Projection Period						
	2024	2025	2026	2027	2028	2029	2030
Book Value of Equity	NOK 8,097	NOK 8,684	NOK 9,248	NOK 9,849	NOK 10,490	NOK 11,171	NOK 11,898

Appendix 29 – Excess Return, Price per EC

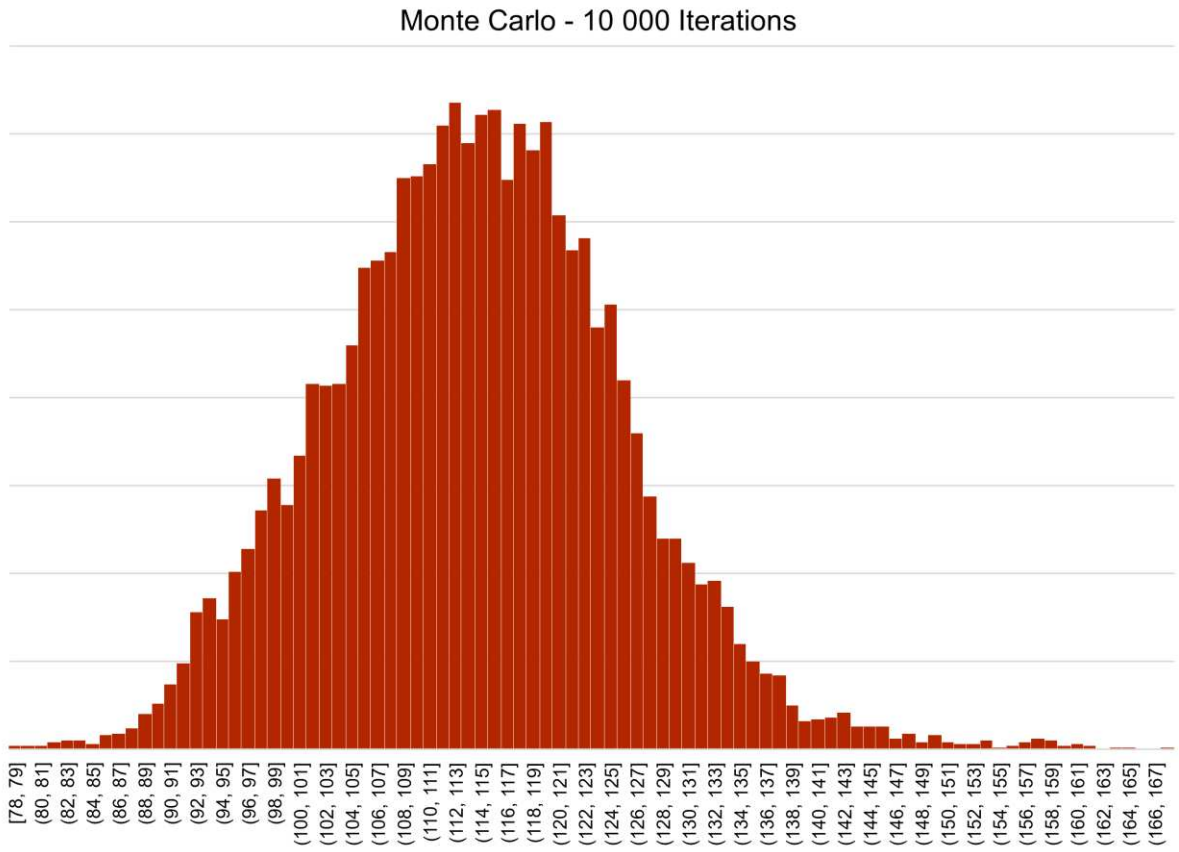
Excess Return - Value of Equity Certificate		
Book Value of Equity	**NOK**	**7,497**
Present Value of Excess Return	**NOK**	**2,488**
Terminal Value		
Long Term ROE		11.0%
Long Term Growth		2.0%
Terminal Value	**NOK**	**4,576**
Discount Factor		0.58
Present Value of Terminal Value	**NOK**	**2,674**
Equity Certificate Capital Value	**NOK**	**12,660**
Number of EC		109,687,324
Implied Price per Equity Certificate	**NOK**	**115**

Appendix 30 – Valuation Summary



	Implied Multiples		Valuation Mid-Point			
	P/E 2024E	P/B 2024E	Base	Upside	Downside	Weighted Average
Trading Valuation						
P/E 2023 Current	10.6x	1.7x	NOK 124	NOK 149	NOK 111	NOK 127
P/E 2024E	12.0x	2.0x	NOK 142	NOK 166	NOK 128	NOK 144
P/B 2023 Current	8.4x	1.4x	NOK 101	NOK 111	NOK 94	NOK 102
P/B 2024E	8.5x	1.4x	NOK 103	NOK 108	NOK 98	NOK 103
Gordon Growth FCFE						
Long term growth 1.5%	9.8x	1.6x	NOK 120	NOK 126	NOK 106	NOK 118
Long term growth 2%	10.4x	1.7x	NOK 127	NOK 133	NOK 112	NOK 125
Long term growth 2.5%	10.9x	1.8x	NOK 134	NOK 141	NOK 118	NOK 132
WEM FCFE						
Long term growth 1.5%	10.4x	1.7x	NOK 125	NOK 133	NOK 118	NOK 125
Long term growth 2%	10.5x	1.7x	NOK 127	NOK 135	NOK 119	NOK 127
Long term growth 2.5%	10.7x	1.8x	NOK 129	NOK 137	NOK 121	NOK 129
Excess Return						
Long term growth 1.5%	9.4x	1.5x	NOK 113	NOK 122	NOK 104	NOK 113
Long term growth 2%	9.5x	1.6x	NOK 115	NOK 125	NOK 105	NOK 115
Long term growth 2.5%	9.7x	1.6x	NOK 117	NOK 128	NOK 107	NOK 117
Average	10.1x	1.7x	NOK 121	NOK 132	NOK 111	NOK 121

Appendix 31 – Monte Carlo Simulation



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