

# Presentation for the 1st quarter 2013

med  for  
HELGELAND



# Presentation for the 1st quarter 2013 (HSB group)

Main features

The region

The bank

Profit & loss

Balance

Lending

Deposits

Funding

Solidity

Summary

Appendices



Jan Erik Furunes  
Chief Executive Officer



Lisbeth Flågeng  
Deputy Chief Executive Officer



Inger Lise Strøm  
Chief Financial Officer

# Profit and loss for the quarter

**Further improved basic operations** – gross profit MNOK 51 (42)

**Improved earnings by MNOK 9** – increased by 21 % from Q1/2012

- The net interest increased by MNOK 11
- Net provision earnings increased by MNOK 1
- Financial instruments reduced by MNOK 2
- Operations costs at the same level
- Write-downs on lending at the same level

**Strengthened return on equity** – so far 8.4 (7.2) %



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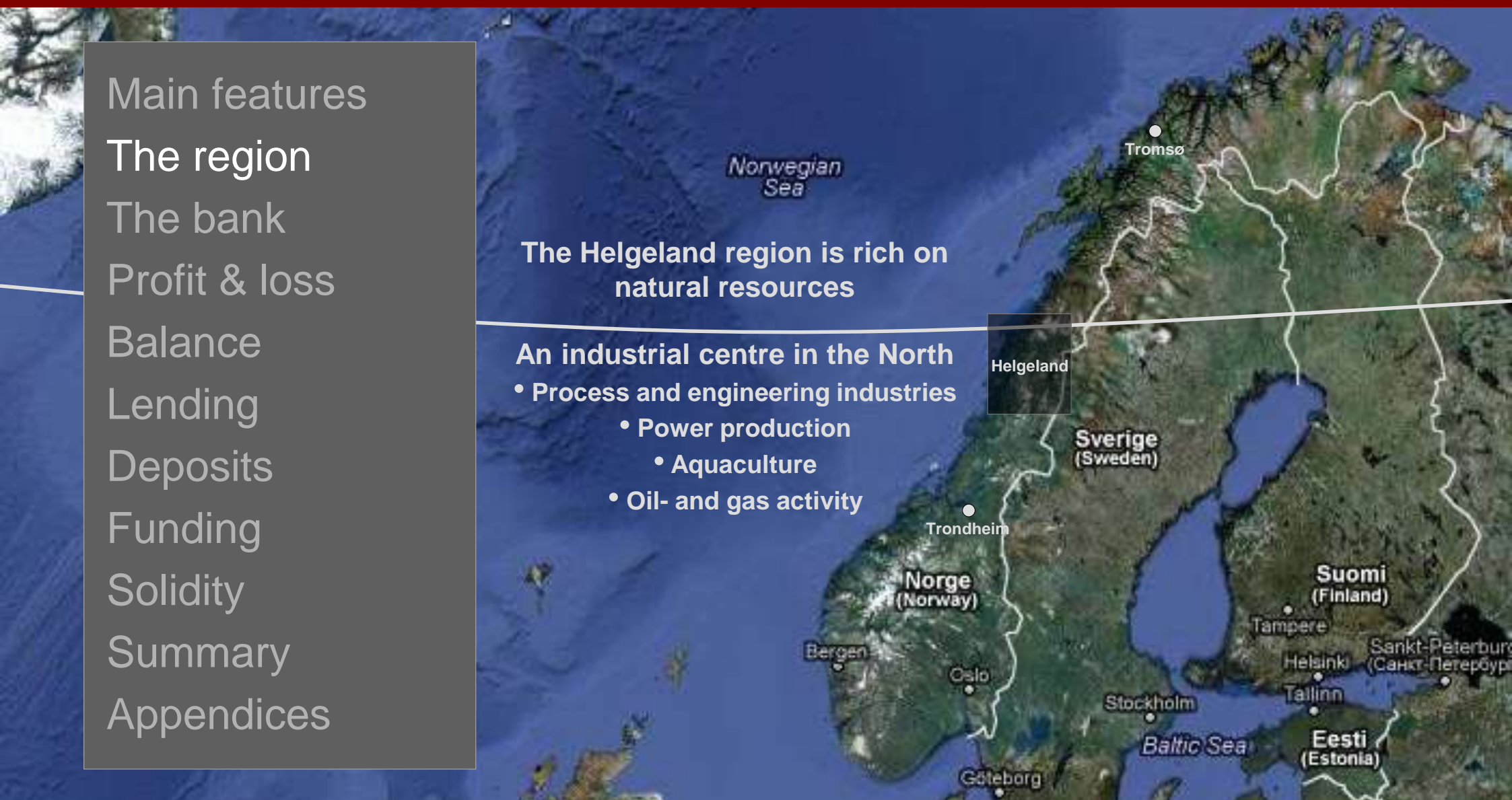
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The Helgeland region is rich on natural resources

An industrial centre in the North

- Process and engineering industries
  - Power production
  - Aquaculture
- Oil- and gas activity



# Increased petroleum related activity



The land-based petroleum activity increases and a more diverse picture emerges:

- The fields are Norne (Statoil 1997), Maruk (Eni 2012), Skarv (BP 2013) and Aasta Hansteen (Statoil 2016)
- Aker Solutions is constructing subsea equipment for the Aasta Hansteen project in the town Sandnessjøen.
- Wasco Energy is establishing in the town Mo i Rana and is producing the pipelines for Aasta Hansteen.
- Exporters in the metal-working industry are challenged with a high exchange rate and difficult market conditions.
- Marine farmers are in a booming market with high demand and high prices.



The region

# Large investments in infrastructure



There were much excitement in relation to the government's publication of the nation transport plan:

- Enabling signal to start upgrading the E6 through the region beginning next year
- Sandnessjoen airport will be extended, and a new large airport in the town Mo i Rana is getting positive reviews
- Funding the airport in Mo i Rana will be one of the topics in the coming parliamentary review on Avinor
- Campus Helgeland is soon completed and in operation with a number of tertiary study programmes this autumn
- Helgeland Sparebank has been part in funding PhD scholarships and research activity

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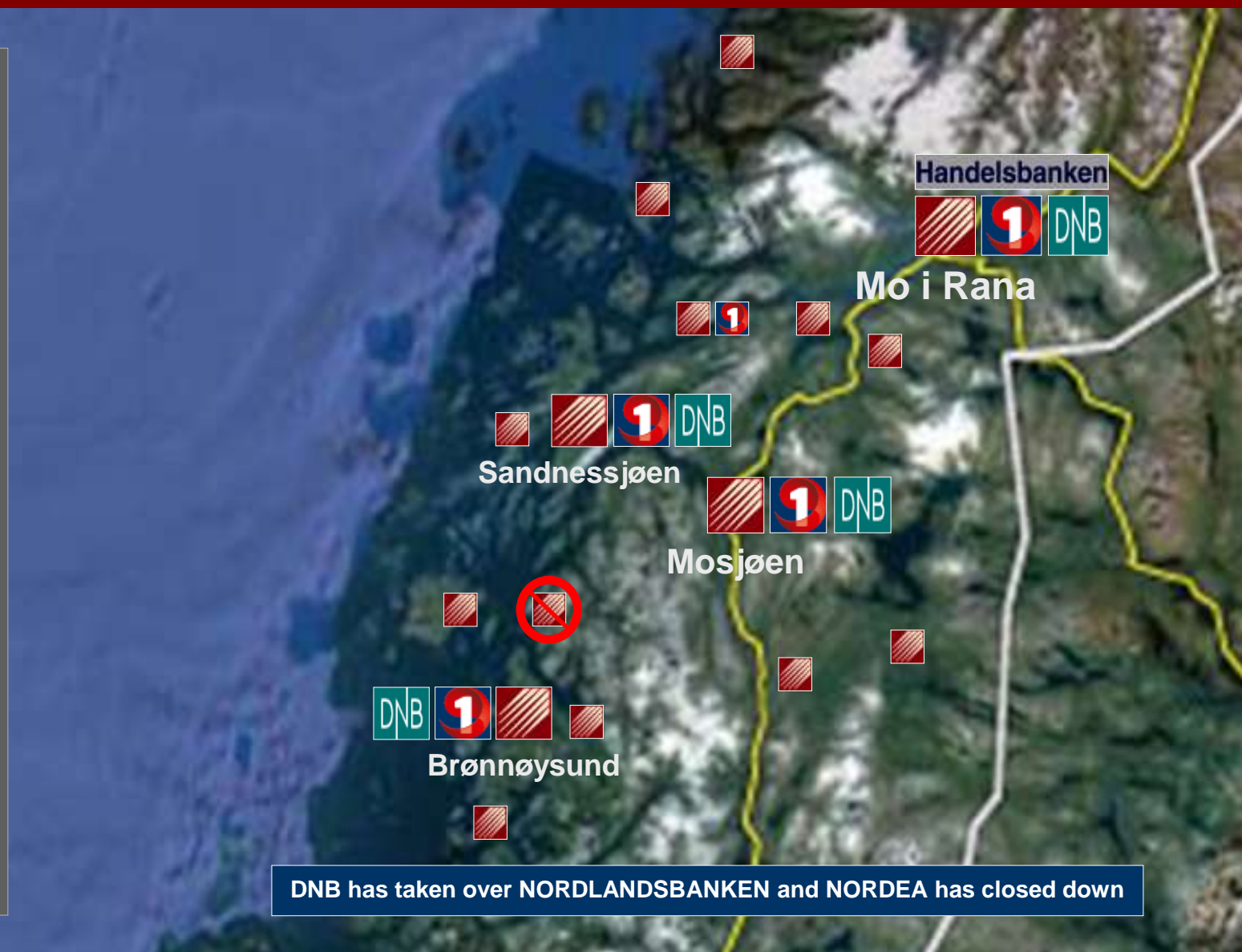
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# Solid market position



Helgeland Sparebank still has a solid marked position in the region (markedsundersøkelsen 2012):

- Personal market 56 %
- Youth market 56 %
- Business market 60 %
- Agricultural market 80 %
- The customer barometer on satisfaction (76) and loyalty (83) signifies that customers are satisfied
- Good competence, quick processing and employee satisfaction among the best in Scandinavia contributes to the bank's position
- The bank is a significant player and contributor to sports, culture and knowledge in the region



The bank

# Good feedback

## Sparebanken ble bondevenn



BONDEVENNENE: Drøkker Jan Erik Furuseth (til venstre) og landbruksrådgiver Tor Steen Solheimen i Helgeland Sparebank ble utnevnt til bondevennar av bondelagene i Rana. Her får de blomster av leder i Ytre-Rana Bondelag, Bernt Bjerke. (Foto: Bjørnar Frønes)

Lokallagene Nord-Rana og Ytre-Rana Bondelag valgte å utnevne Helgeland Sparebank til bondevenn. Banken har lånt ut mer enn 1,3 milliarder kroner til landbruket på Helgeland og har vist stor samarbeidsvilje.

*"In each corner and over the whole of Norway people are talking about Helgeland Sparebank"*

*It is unique that a bank is so engaged, and there is no one that deserves this distinction more than you, says Leif Egil Amundsen in Nord-Rana farmer's association and Bernt Bjerke in Ytre-Rana farmer's association."*

**Commentary: Bondebladet 11.04.13**



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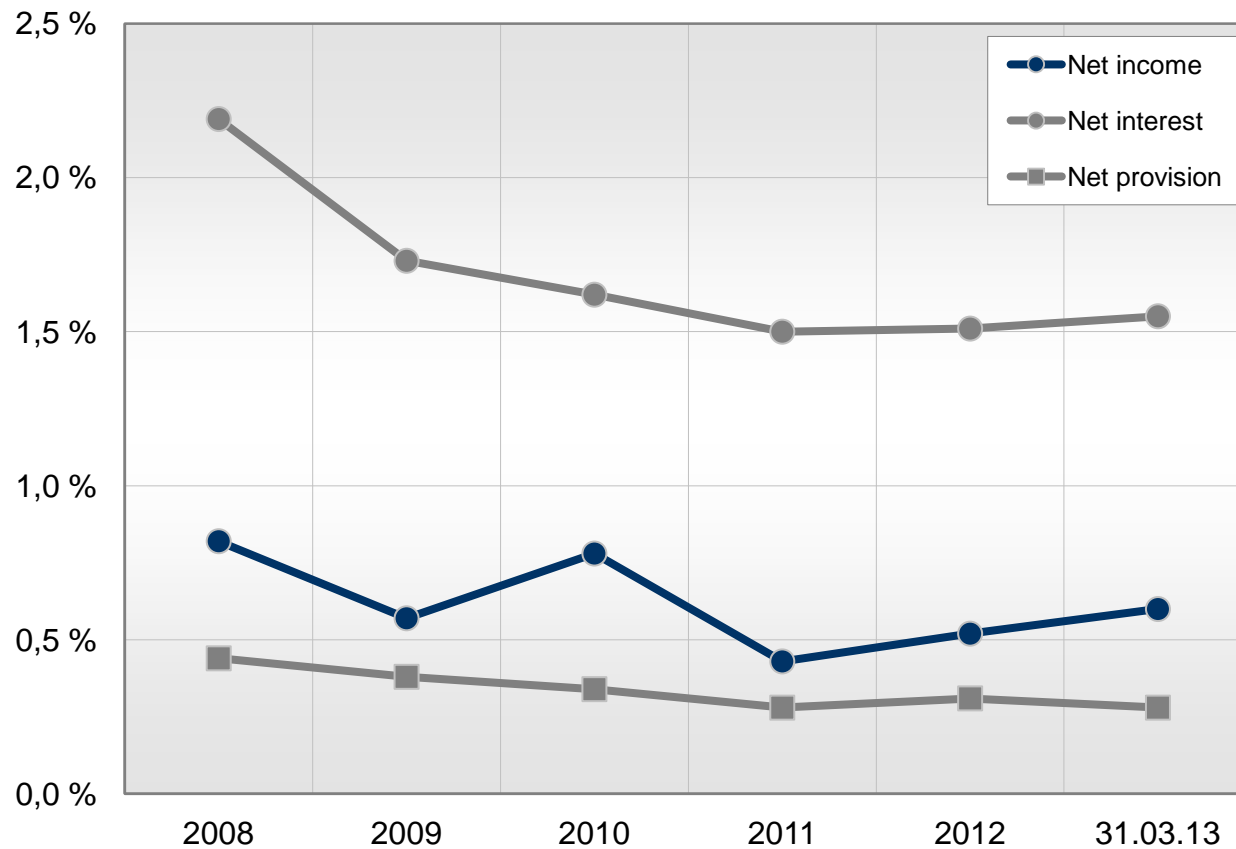
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# Income- and key figure developments

Helgeland Sparebank

## Key figures in % of average BTA



### Further improved basic operations

The net interest

- Strengthened in 2012 and in Q1 2013

Net provision earnings

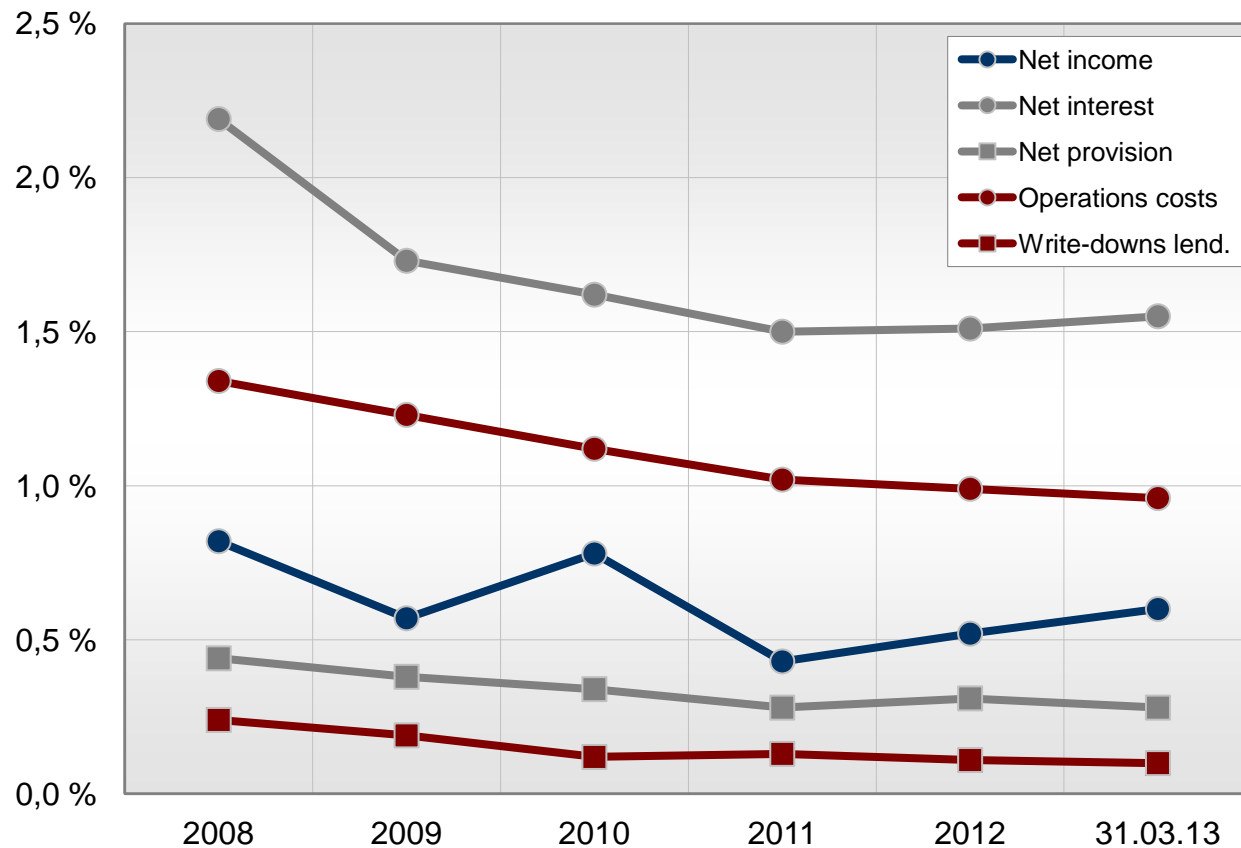
- Increased income
- Normalised insurance sales



# Income- and key figure developments

Helgeland Sparebank

## Key figures in % of average BTA



### Further improved basic operations

The net interest

- Strengthened in 2012 and in Q1 2013

Net provision earnings

- Increased income
- Normalised insurance sales

Operations costs

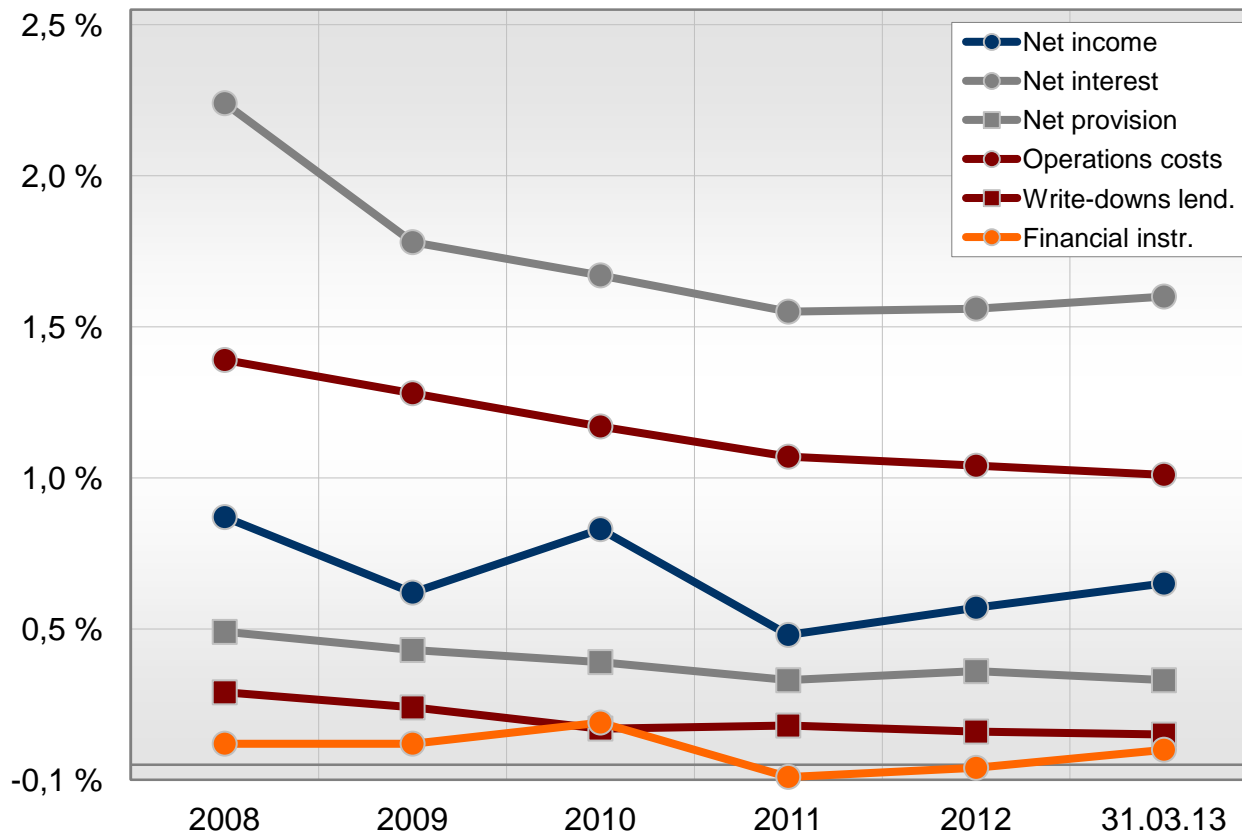
- Improved efficiency - falling costs in % of BTA and income

Low write-downs on lending

# Income- and key figure developments

Helgeland Sparebank

## Key figures in % of average BTA



### Further improved basic operations

The net interest

- Strengthened in 2012 and in Q1 2013

Net provision earnings

- Increased income
- Normalised insurance sales

Operations costs

- Improved efficiency - falling costs in % of BTA and income

Low write-downs on lending

Financial instruments

- Little effect on the Q1 2013 result

# Profit and loss accounts

Helgeland Sparebank (HSB group)			
	31.03.12	31.03.13	Change
Net interest- and credit provision earnings	84	95	11
Net provision earnings	16	17	1
Other operations income	2	1	-1
Ordinary operations costs	59	59	0
Basic operations result	43	54	11
Write-downs lending and warranties	6	6	0
Net value change financial instruments	5	3	-2
Gross profit	42	51	9
Net profit	30	37	7
Net extended income posts	7	11	4
Profit for the period	37	48	11

## Further improved basic operations

- Increased net interest in NOK and % strengthens the basic operations
- Improved efficiency through good cost control – unchanged number of annual positions from 2010 at 177
- Still low write-downs on lending
- Positive development in the financial market has given a value increase over the equity – specified in the extended P&L statement with MNOK 11



# Profit and loss accounts

Helgeland Sparebank (HSB group)					
	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Net interest- and credit provision earnings	1.46 %	1.48 %	1.53 %	1.54 %	1.55 %
Net provision earnings	0.28 %	0.31 %	0.33 %	0.29 %	0.28 %
Other operations income	0.03 %	0.02 %	0.02 %	0.05 %	0.02 %
Ordinary operations costs	1.03 %	1.01 %	0.93 %	0.97 %	0.96 %
Basic operations result	0.74 %	0.80 %	0.95 %	0.91 %	0.89 %
Write-downs lending and warranties	0.12 %	0.16 %	0.12 %	0.08 %	0.10 %
Net value change financial instruments	0.09 %	-0.10 %	0.05 %	-0.08 %	0.05 %
Gross profit	0.71 %	0.54 %	0.88 %	0.75 %	0.83 %
Costs in % of income	55.1 %	59.2 %	48.3 %	54.1 %	50.9 %

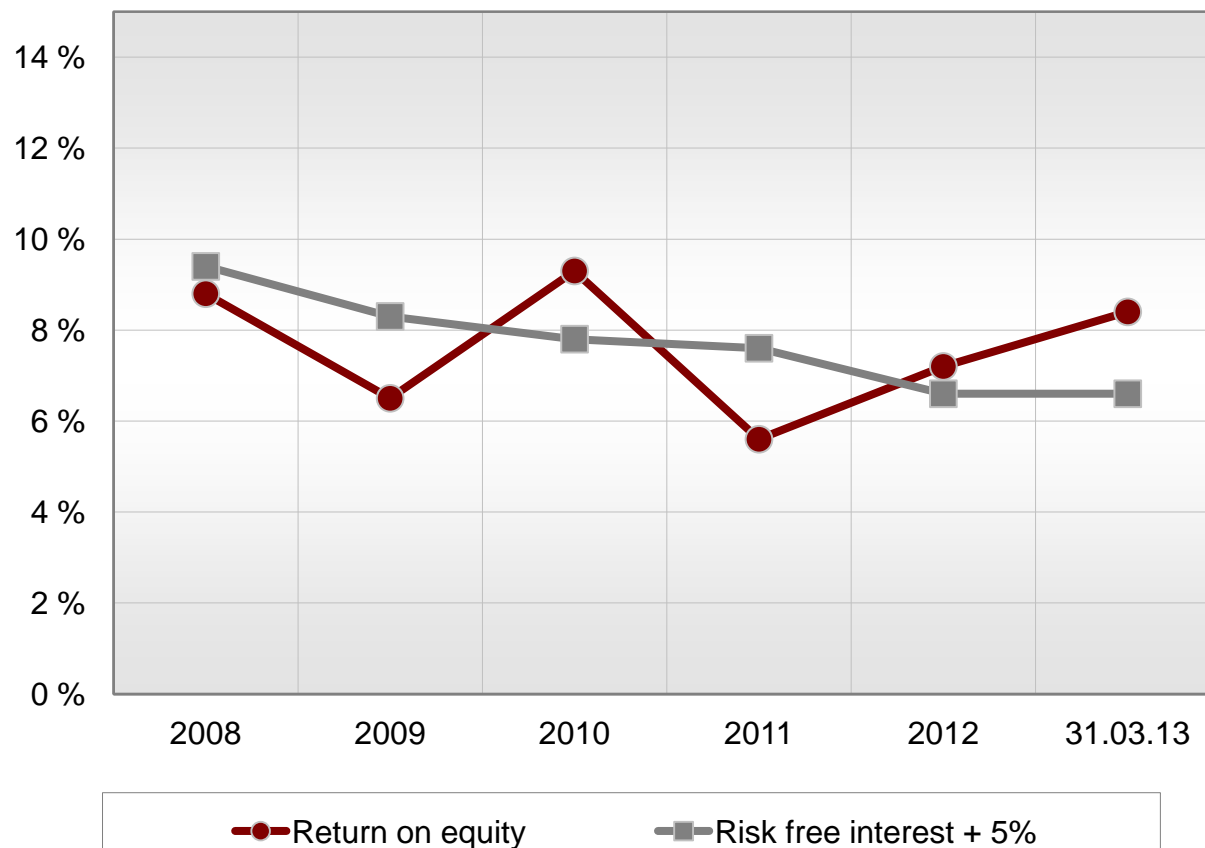
## Further improved basic operations

- Increased net interest in % from Q4 2012 to Q1 2013 – guarantee fund fee charged by 5 bp
- Stable net provision earnings
- Reduced costs in % of income

# Return on equity

Helgeland Sparebank

Return on equity and target figures



## Improved return on equity

Target figure

•Risk free interest + 5% = 6.8%

Result

•8.4 (7.2) %

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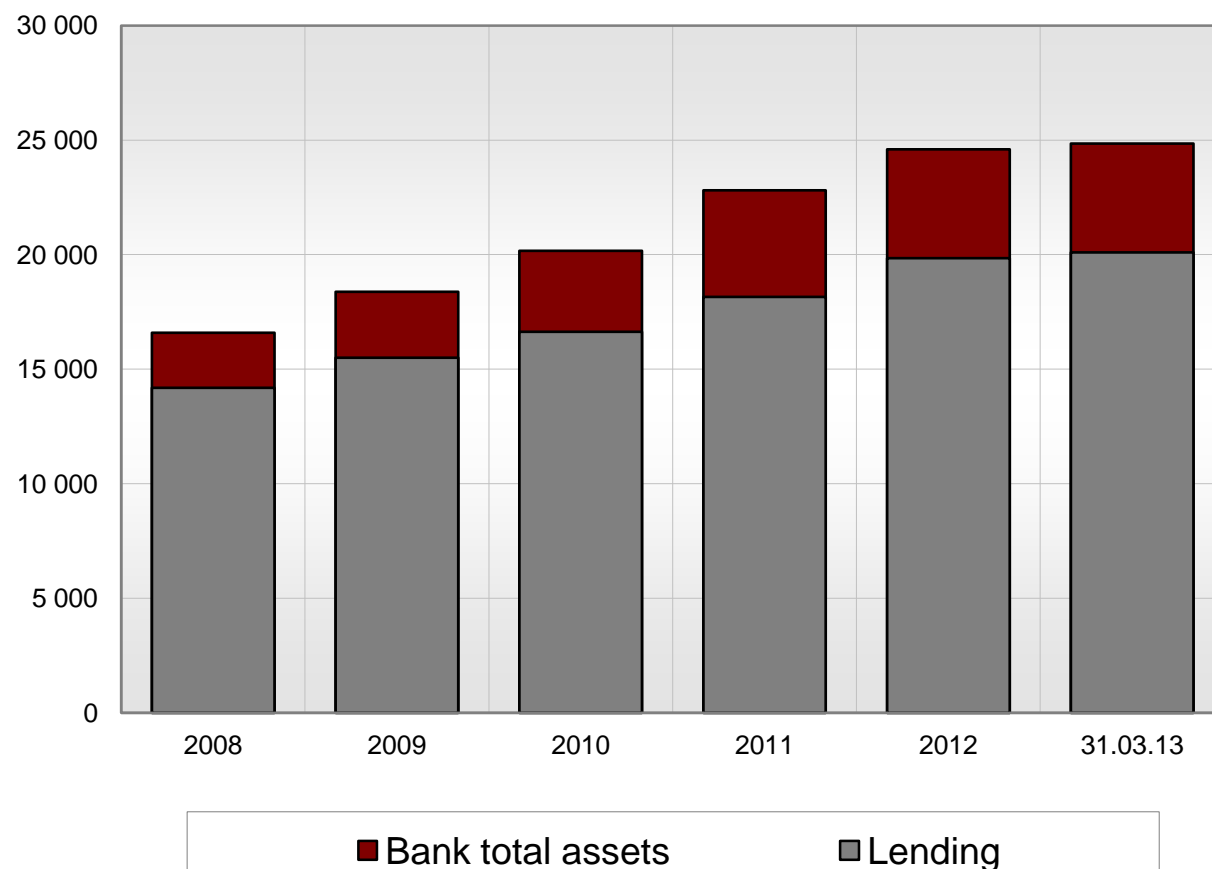




# Balance- and growth development

Helgeland Sparebank

BTA whereby lending (MNOK)



## Reduced lending growth

Gross lending volume as of 31.03.13 was NOK 20.1 (18.4) billion

12-month lending growth: 9.0 (9.3) %

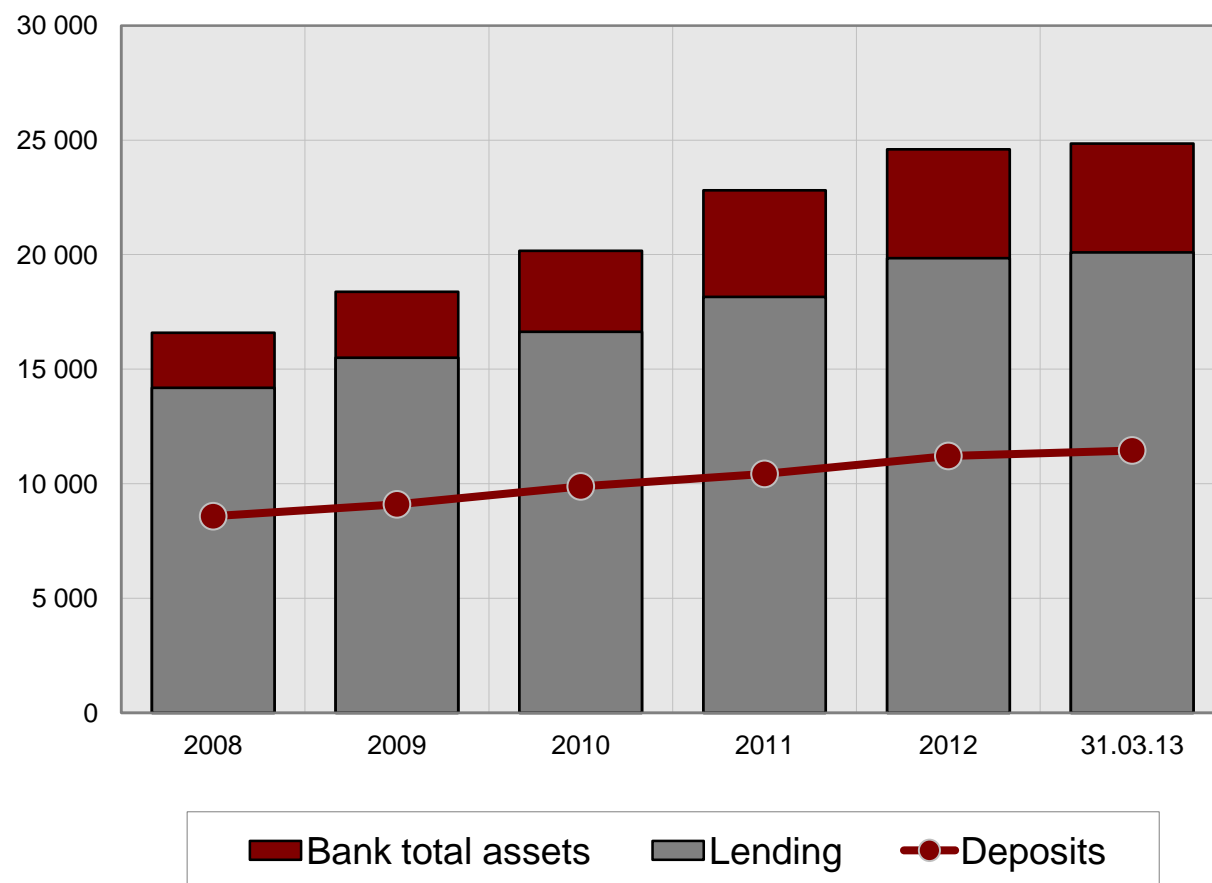
3-month lending growth: 1.3 (1.6) %

Aiming at a combined lending growth down to 5% for 2013

# Balance- and growth development

Helgeland Sparebank

BTA whereby lending and deposits (MNOK)



## Improved deposit growth

Volume as of 31.03.13 was  
NOK 11.4 (10.6) billion

12-month deposit growth:  
8.0 (5.4) %

3-month deposit growth:  
2.2 (1.7) %

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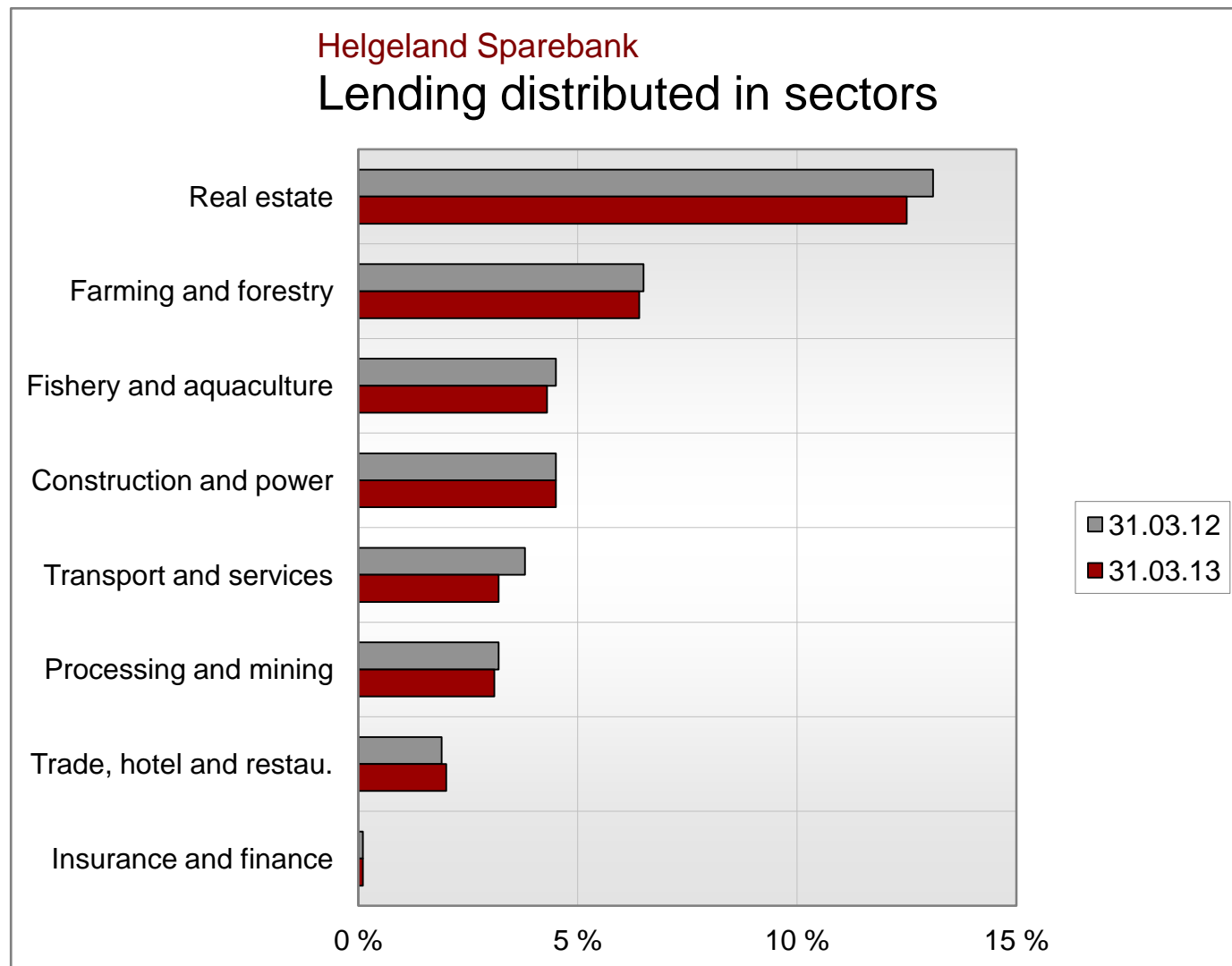
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# Lending

## Gross lending



### Good diversification of lending portfolio

NOK 20.1 (18.4) billion

Lending to private customers constitute NOK 12.8 billion (11.5), mainly in well secured mortgages.

NOK 2.1 (2.0) billion is lending to production in agri- and aquaculture and forestry.

Very loyal customer base

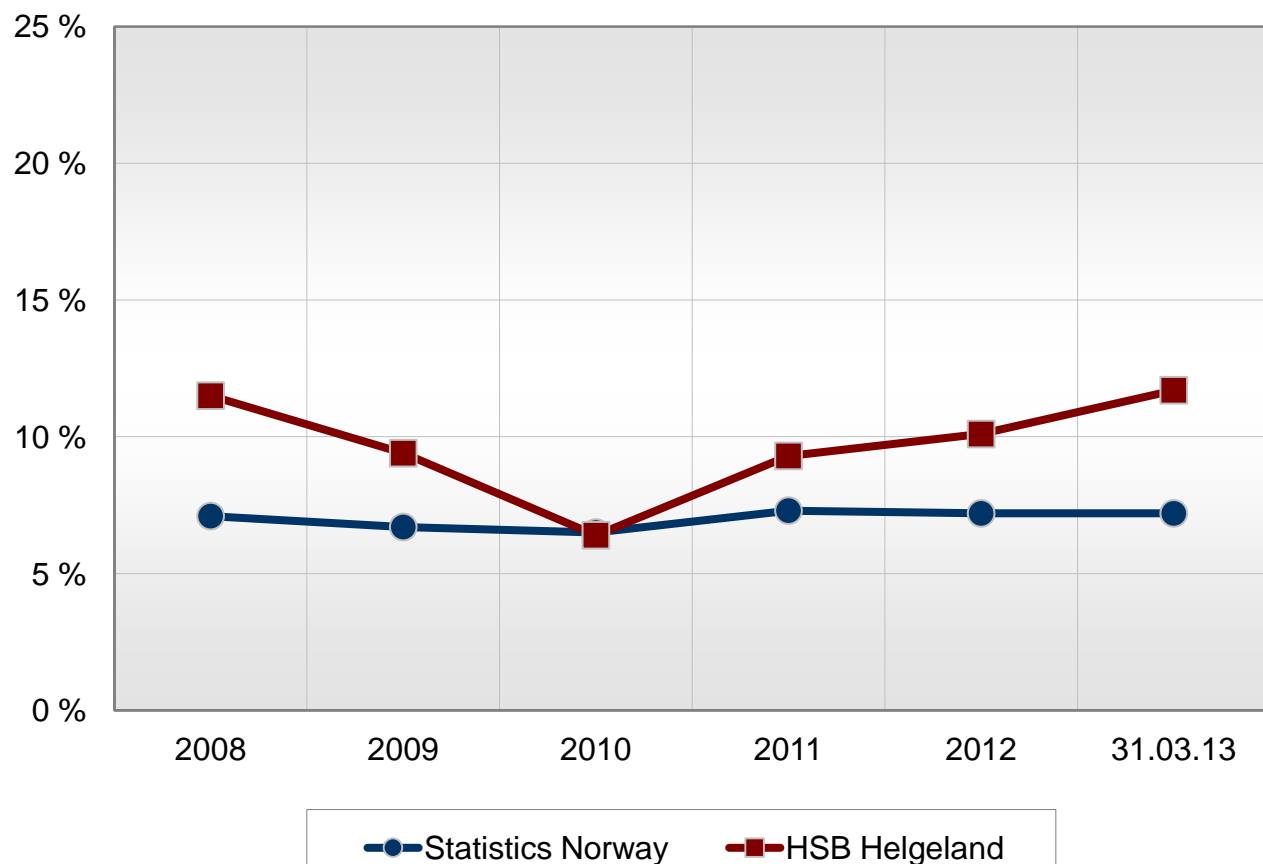
Increased personal market share 63.9 (62.4) %, well above the target at > 60%

83.3% is lent to customers in the Helgeland region

# Credit growth PM

Helgeland Sparebank

12-month credit growth households



**12-month growth 11.7 (8.5) %**

Somewhat higher growth than the average for Norwegian households.

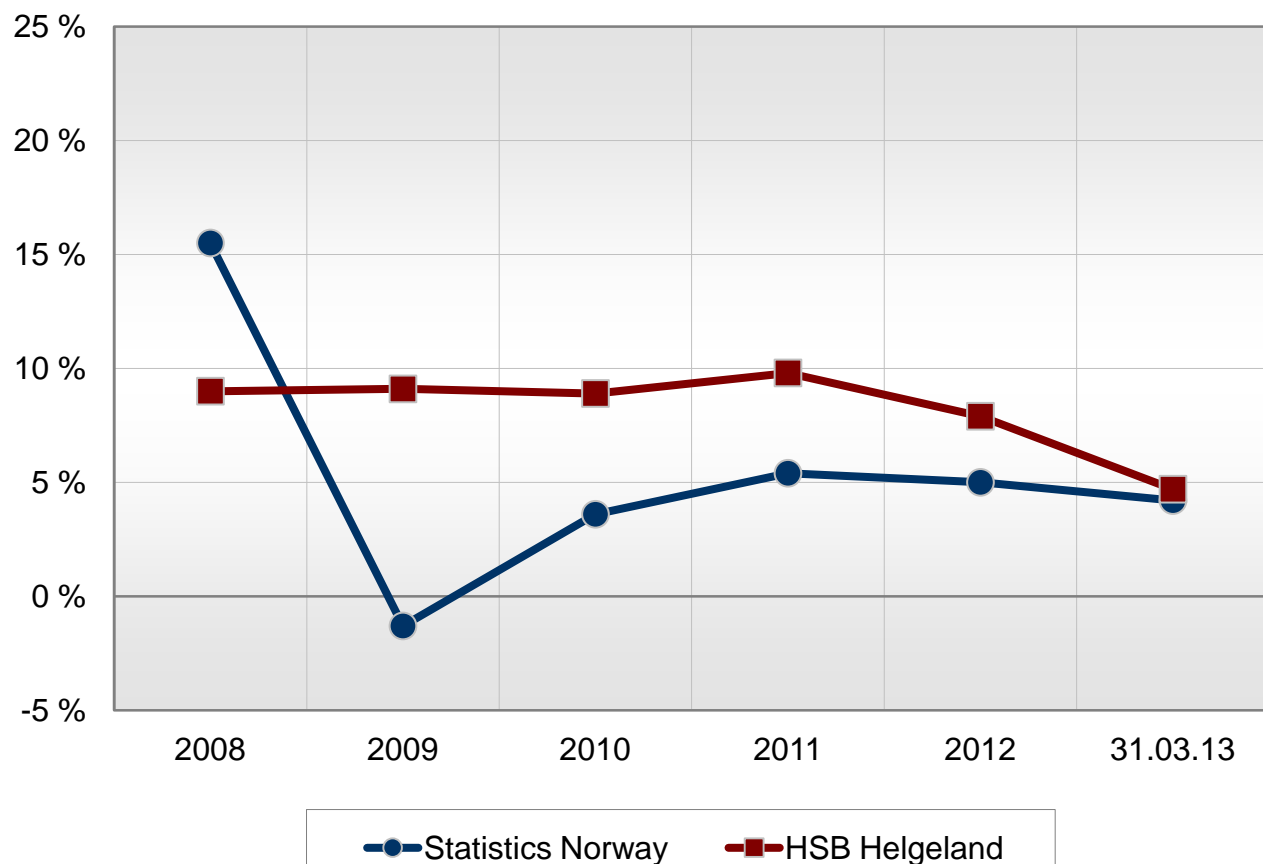
Increasing housing prices combined with increasing population and high activity in the housing market causes good growth.

The housing prices still remain lower than those of the country as a whole.

# Credit growth BM

Helgeland Sparebank

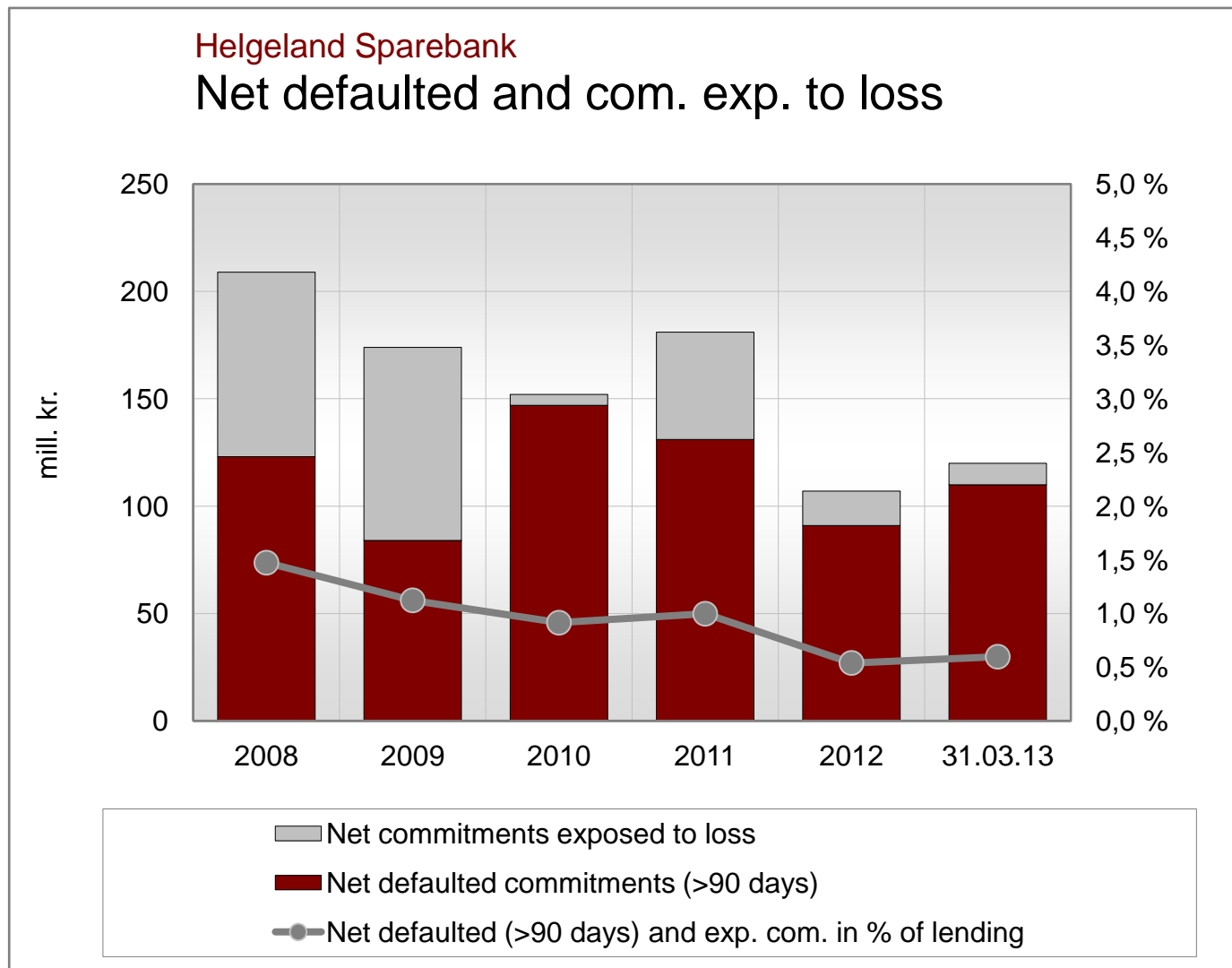
12-month credit growth in businesses



**12-month growth 4.7  
(10.6) %**

The growth in the business market has been declining since 2011.

# Defaults and commitments exposed to loss



**Good quality of the portfolio – growth without increased risk**

Net defaults and commitments exposed to loss in % of gross lending has been falling since 2008 – slight increase in the last quarter

Centralised credit processing has given good results and will be continued.



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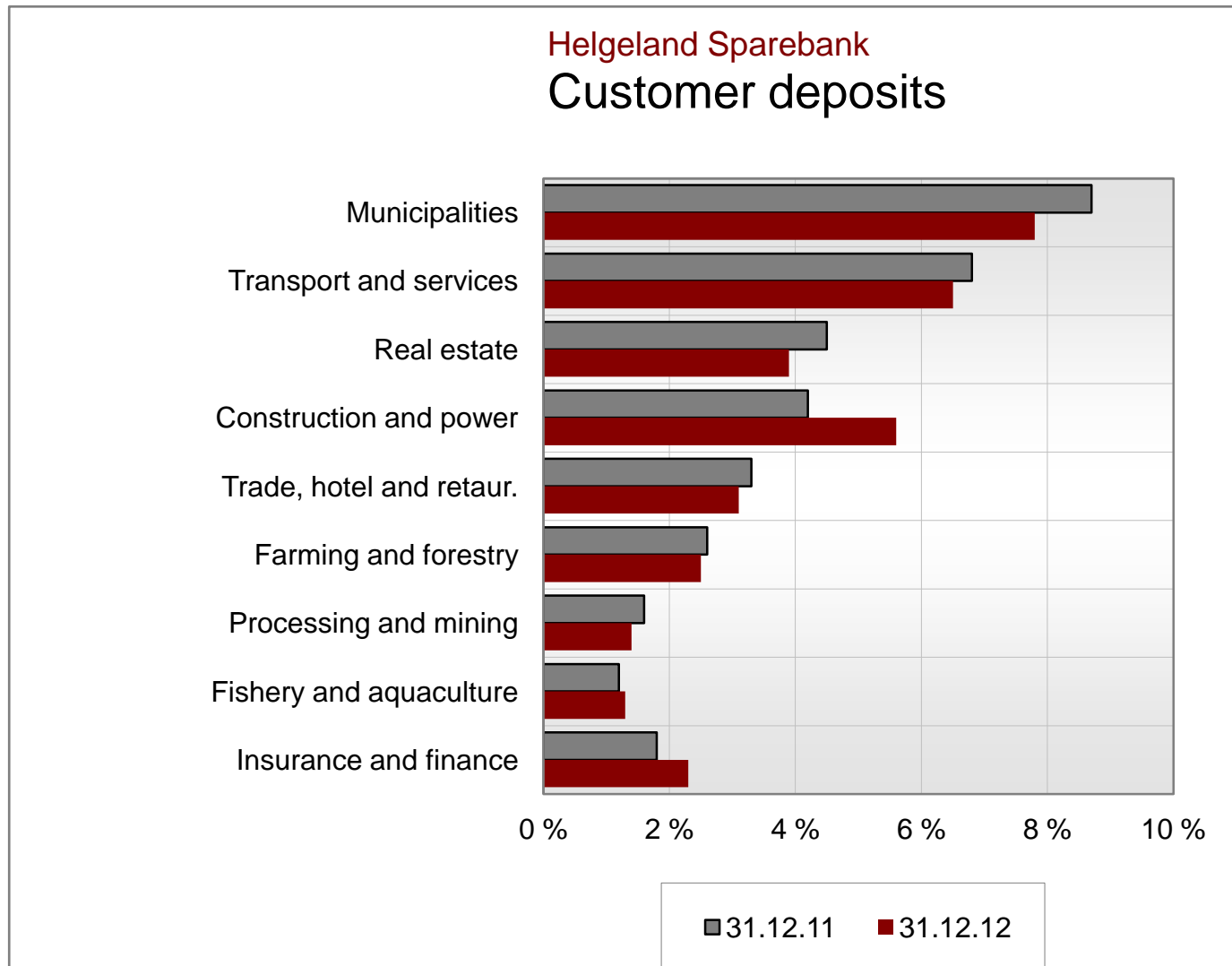
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# Deposits by customers



## Loyal customer base

Of total deposits at NOK 11.4 billion, NOK 7.5 billion (6.9) or 65.5 (64.6) % are deposits by personal customers.

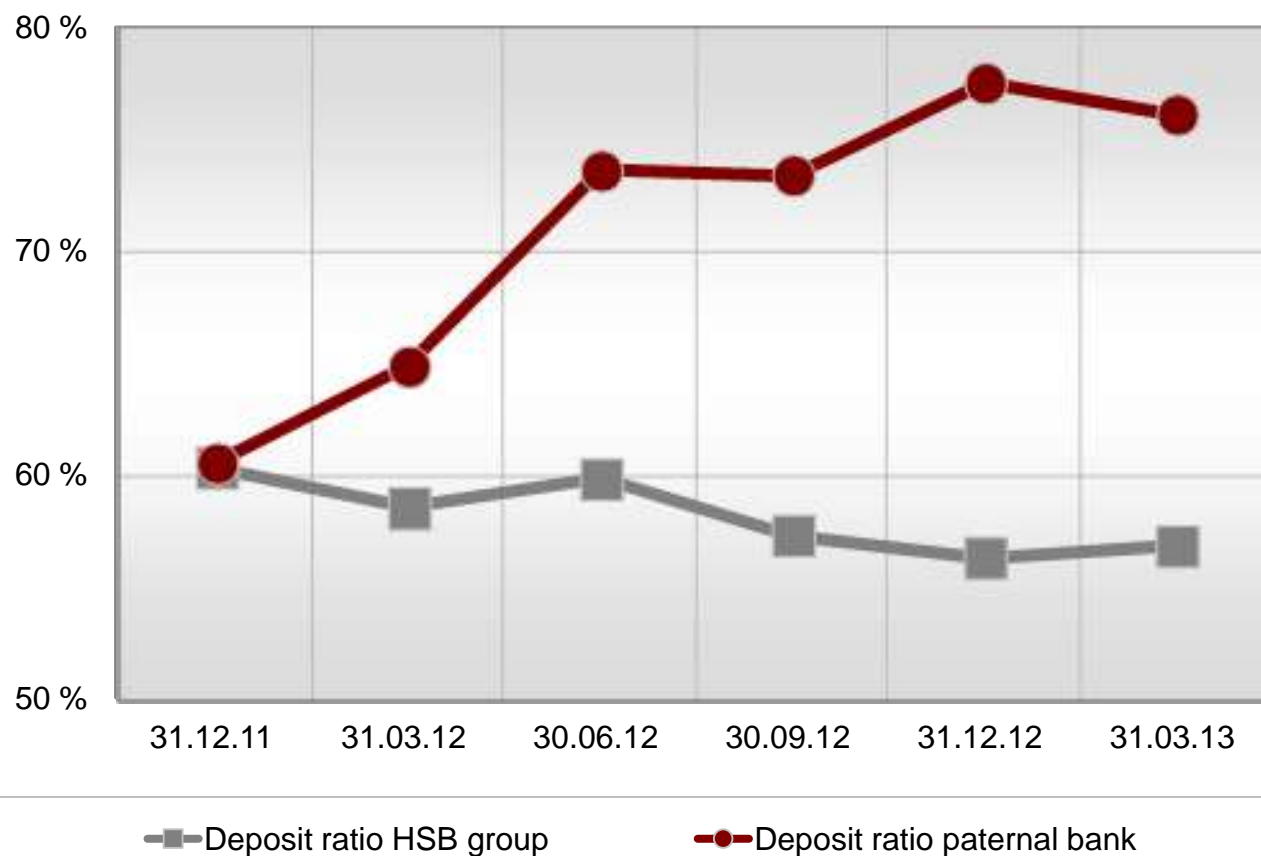
Good diversification of deposits by businesses

91.7% of personal customer deposits are from customers in the Helgeland region

# Deposit ratio

Helgeland Sparebank

Deposit ratio HSB group/par. bank



## Improved deposit ratio in the HSB group

The deposit ratio was 57.0% - still above the minimum requirement at 55%

The HSB group's deposit ratio target is 60%

The deposit ratio has increased by 0.5% in the quarter – new products have been well received in the market

Work to increase the deposit ratio will be continued:

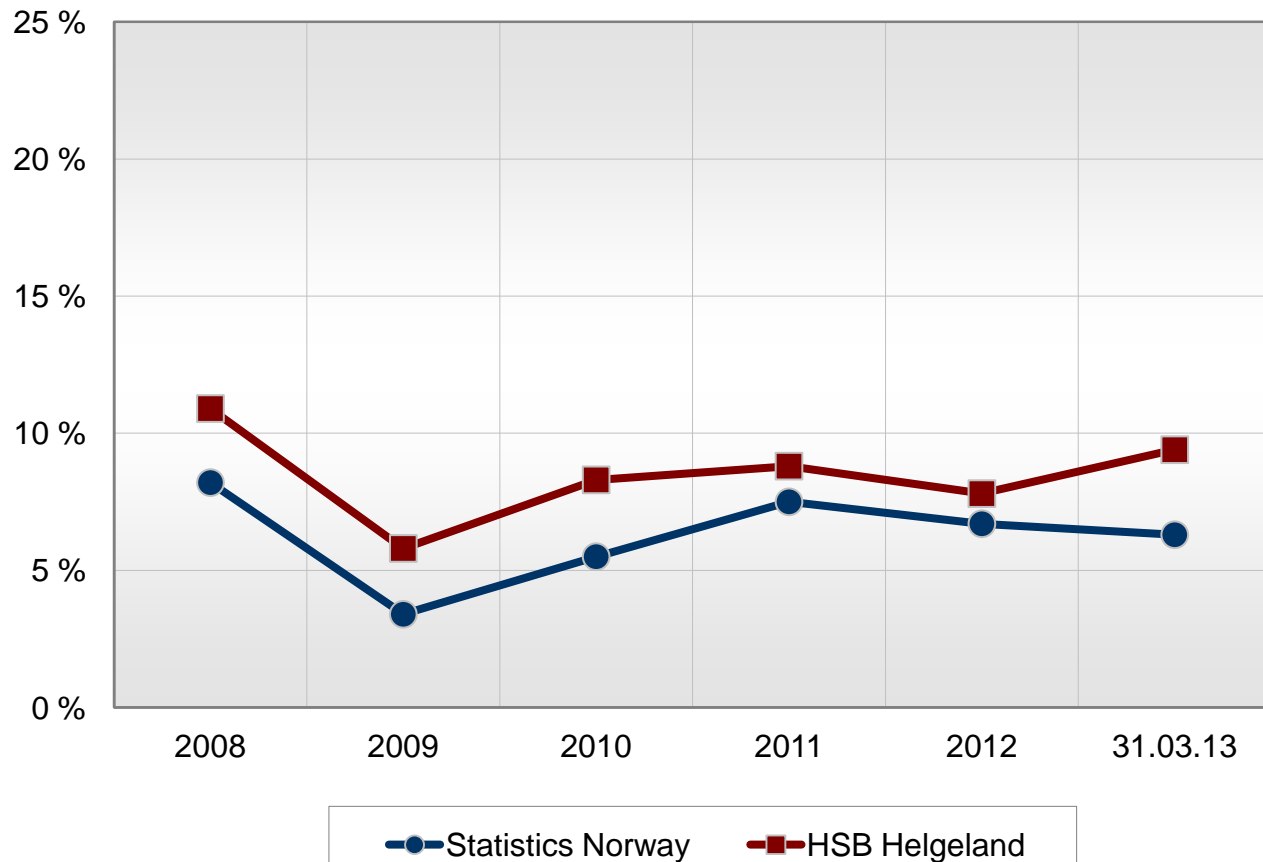
- New savings products will be launched
- Intensified marketing

Decreasing deposit ratio in the paternal bank is due to re-allocation of vacation properties from the bank's CB-company

# Deposit growth PM

Helgeland Sparebank

12-month deposit growth for households



**12-month growth 9.4  
(8.2)%**

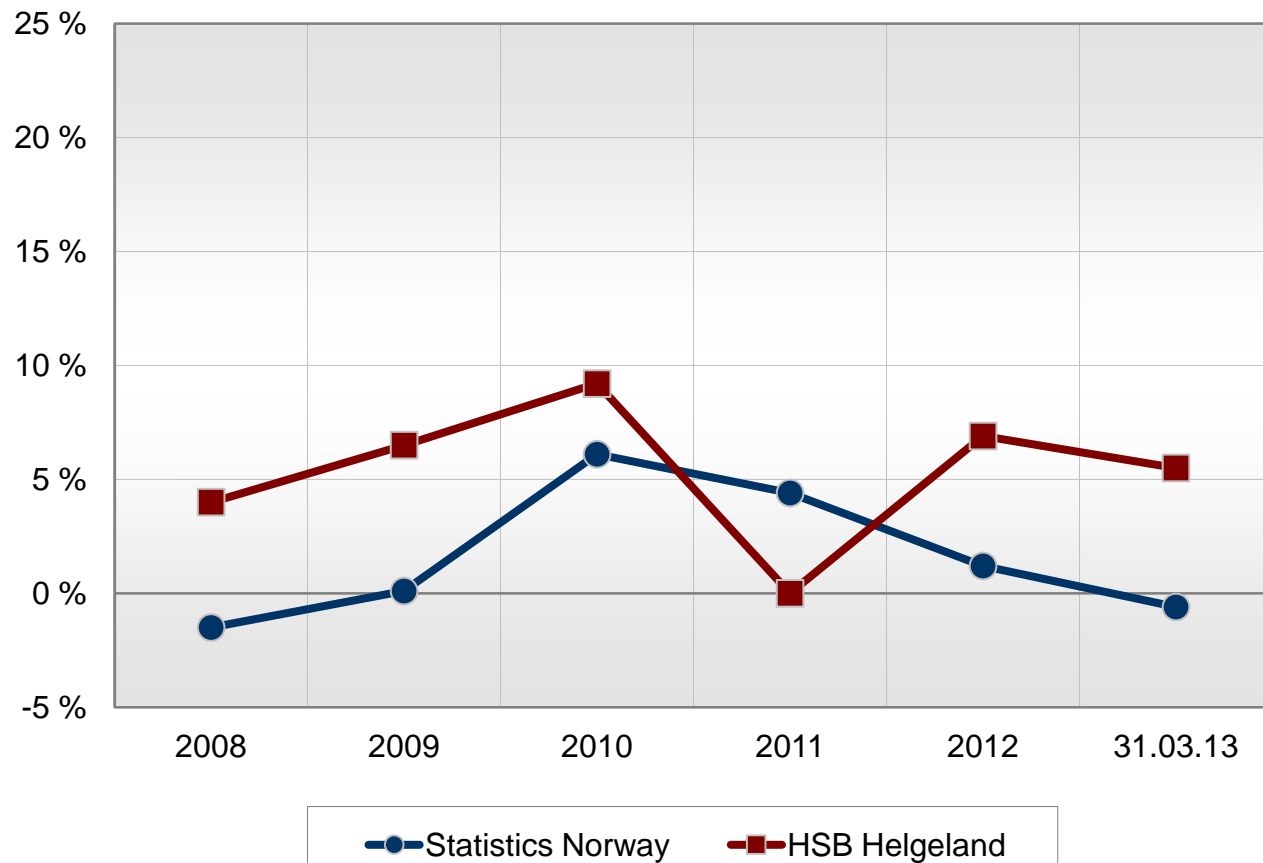
Growth in the personal market is still above the average for the country as a whole.



# Deposit growth BM

Helgeland Sparebank

12-month deposit growth for businesses



**12-month growth 5.5 (0.6)%**

Loyal customer base ensures good growth in the business market – growth still above the average for the country as a whole (which is declining)

The 20 largest deposits are stable over time and constitute NOK 1.6 billion, or 13%, of total deposits



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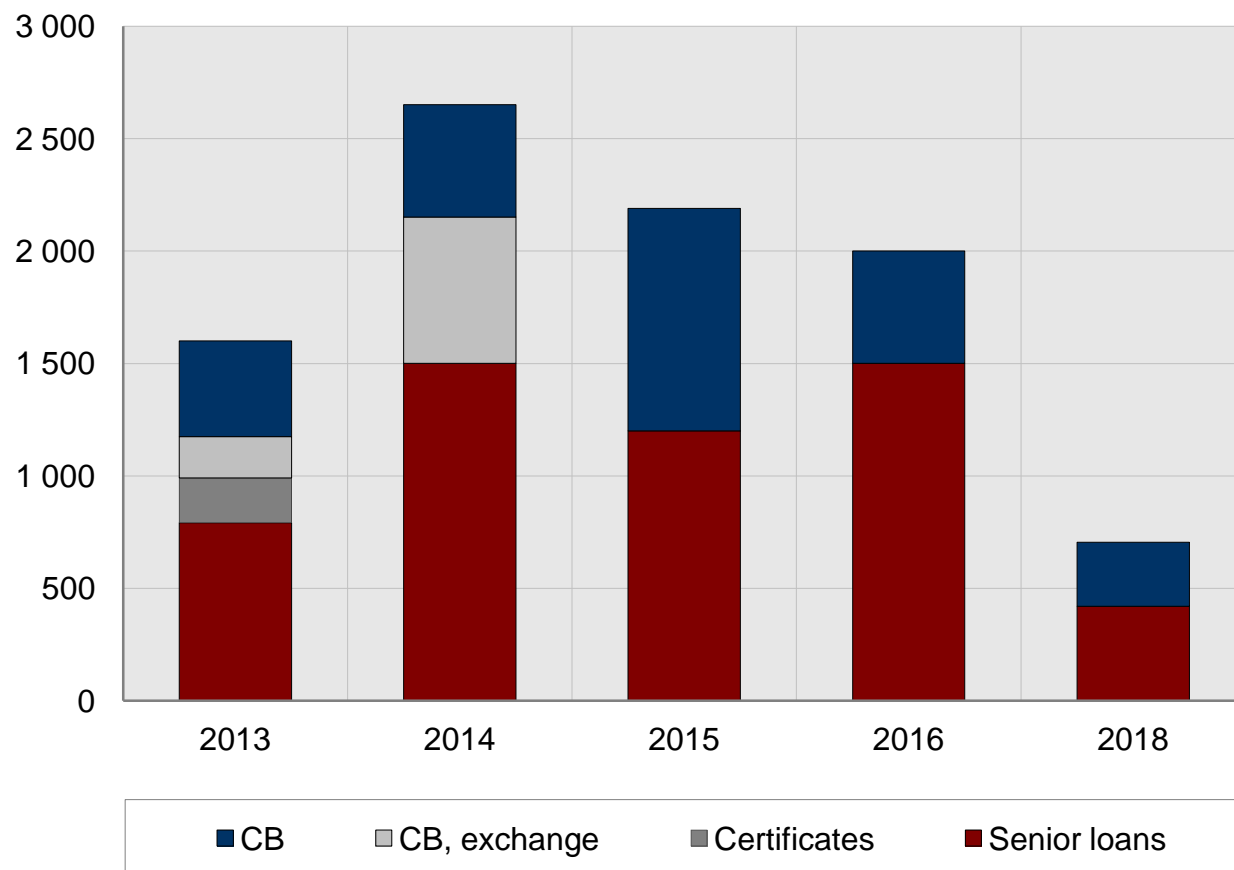
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## Loans from the capital market

Helgeland Sparebank

Maturity of loans (MNOK)



### Reassuring funding

Duration on loans is 2.3 years

Liquidity indicator 1 was 107%  
The reference banks had at 31.12.2012 106%

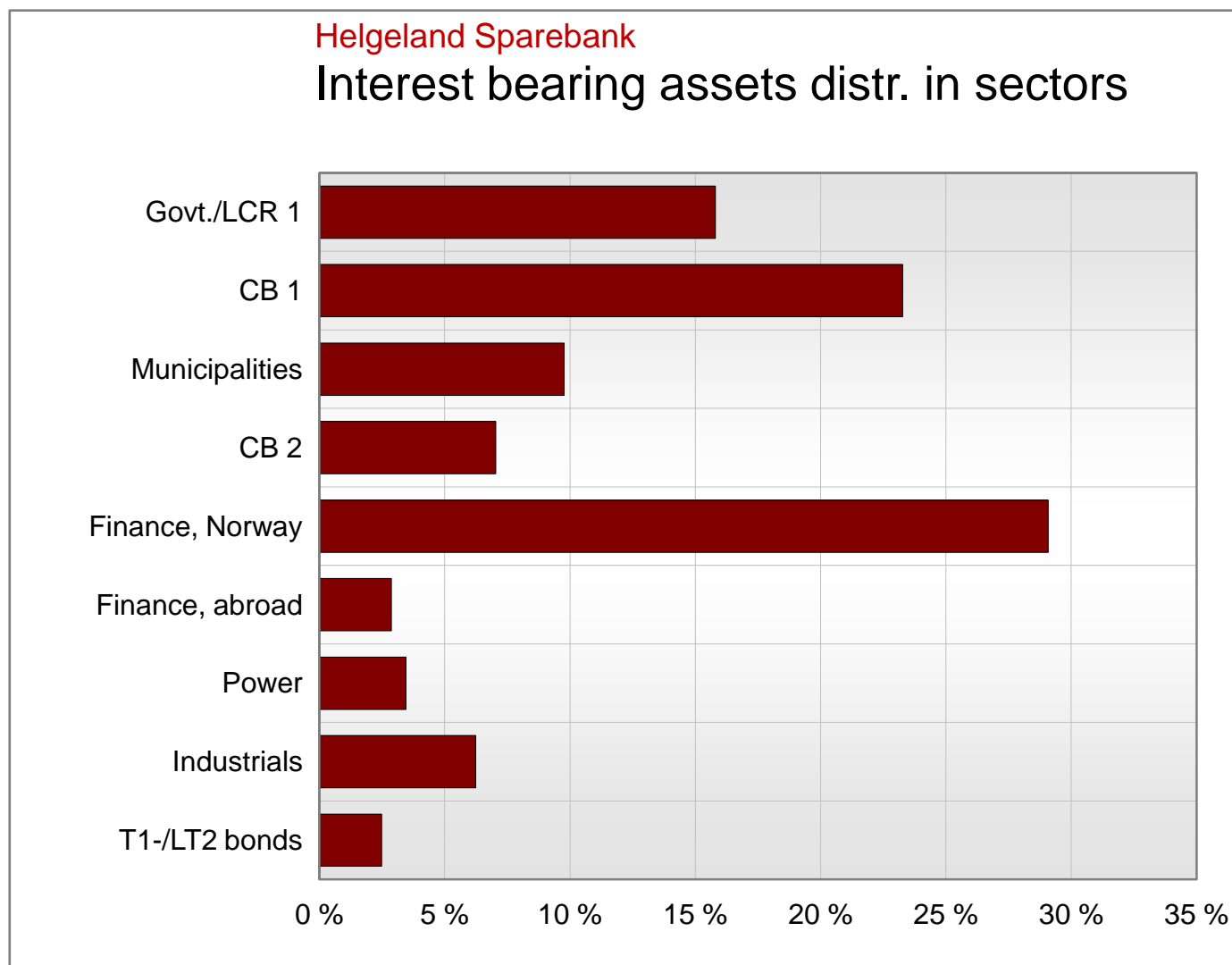
Covered bonds constitute NOK 4.3 billion (38% of loans)

The bank has a moderate degree of transfers, 23% of gross lending (or 36% of PM loans) is transferred to the bank's covered bond company Helgeland Boligkreditt

Further potential for transferring mortgages to Helgeland Boligkreditt

# Funding

## Liquidity buffers



### Solid buffer capital

The liquidity buffers constitute NOK 3.9 billion, equivalent to 15.7% of BTA

The buffer capital consists of cash, deposits in BoN/banks and interest bearing assets

Interest bearing assets;

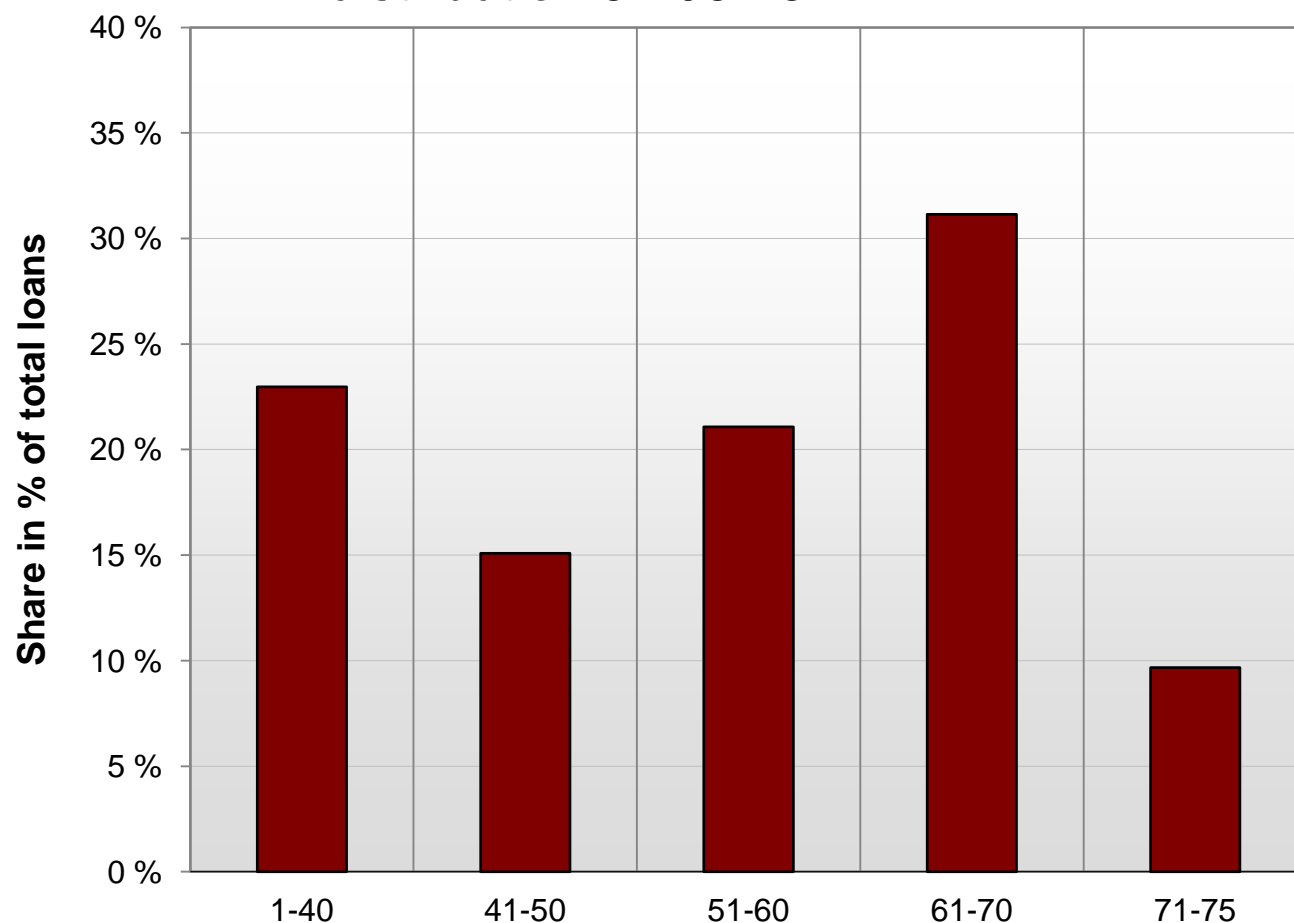
- Portfolio duration 2 years
- 56% are CBs or govt. guaranteed/municipality bonds
- 79% are rated A- or better
- The minimum rating requirement on issuers is BBB- or better
- The portfolio is not exposed to the crisis struck countries in the Euro zone



# Helgeland Boligkreditt AS

Helgeland Sparebank

LTV-distribution 31.03.13



## Good guarantee fund

The guarantee fund:

- Qualified loans MNOK 4,756
- Deposits: MNOK 274
- Ratio of fullness: 116%
- Combined LTV: 53%

Loans in the market:

- Covered Bonds NOK4.3 bn.
- Combined duration on loans 2.4 years (all having soft call)

Profitability Q1 2013:

- Net profit MNOK 10.9
- No losses

Core tier-1 capital adequacy:  
15.7 % (standard method –  
35 % mortgage weights)



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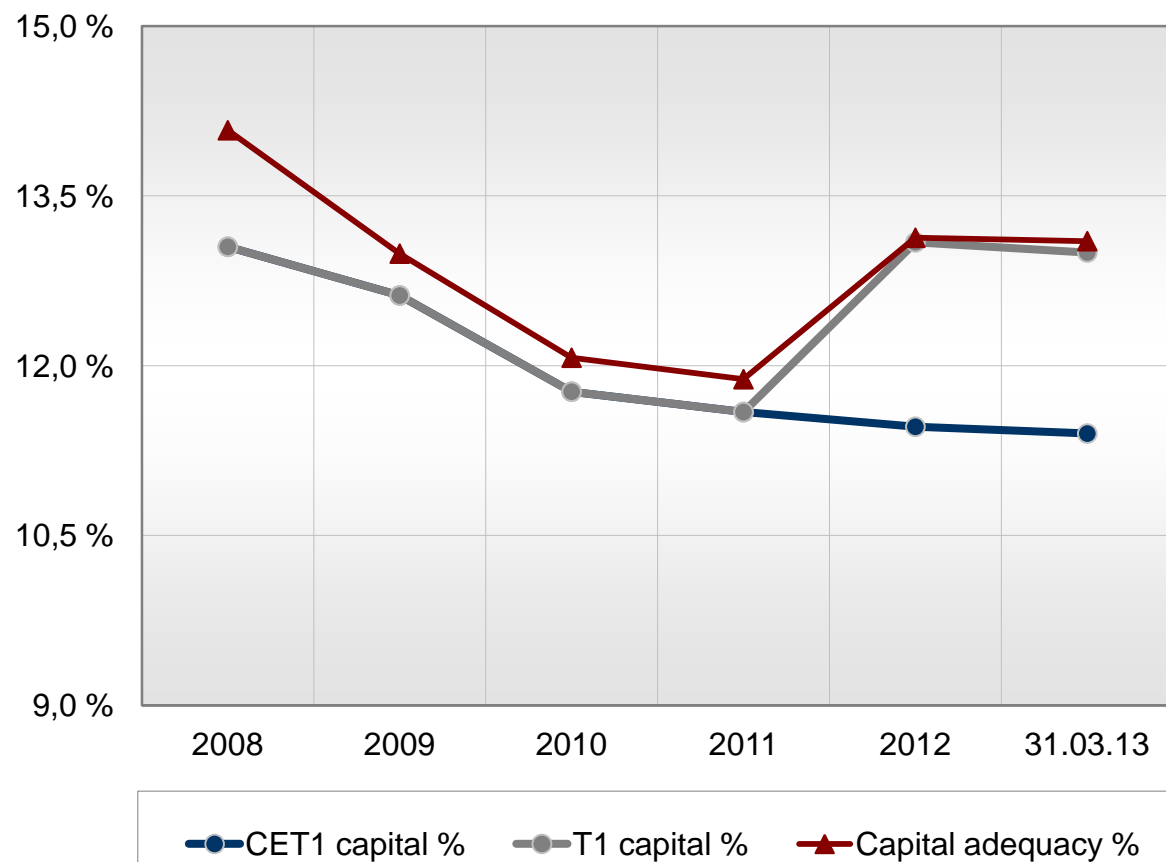
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# Solidity

## Capital ratio

Helgeland Sparebank

### Development in capital adequacy



### Satisfactory solidity

CET1 capital was 11.4% (11.5% at 31.12.2012) – still well above the regulatory requirement of 9%

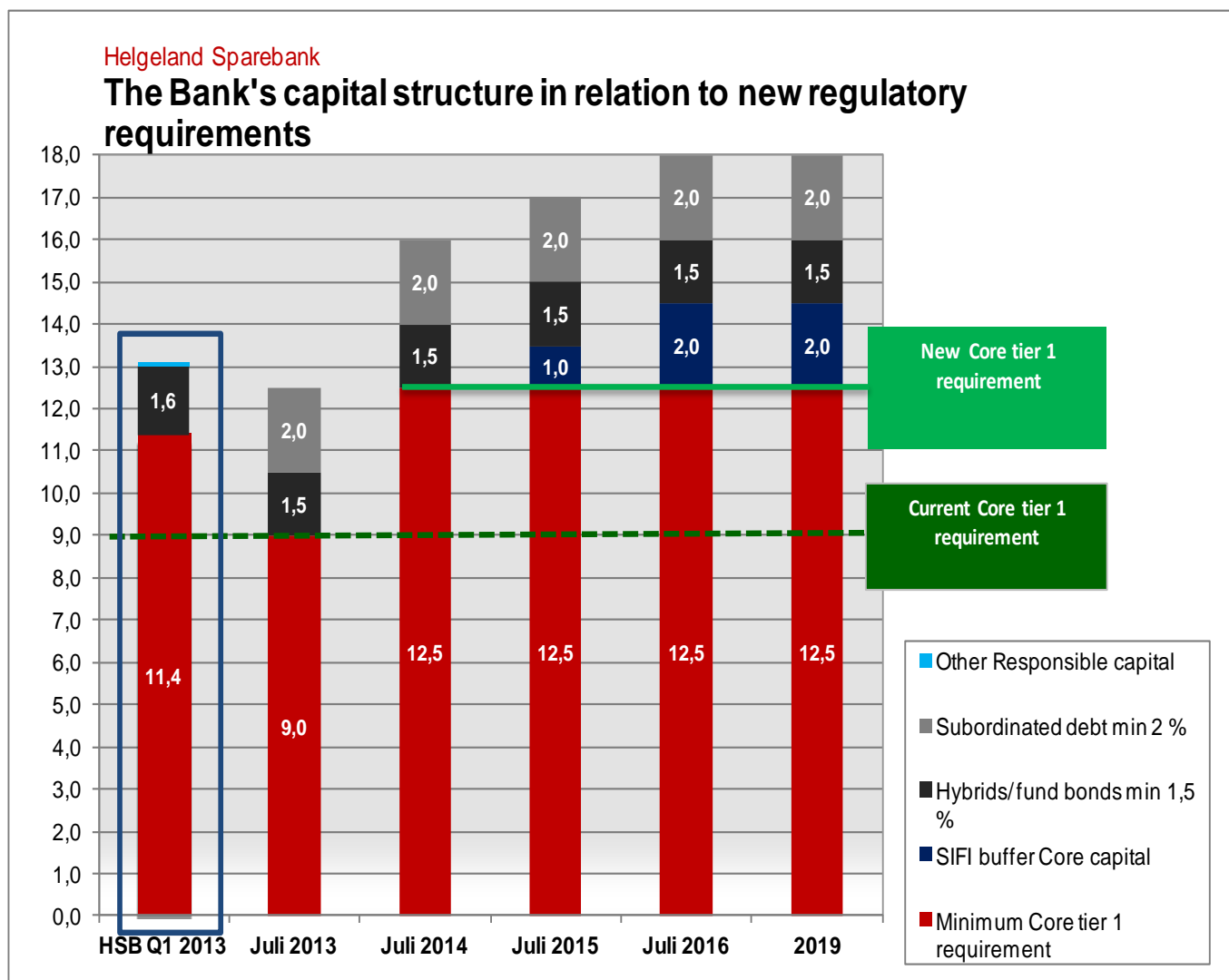
T1 capital was 13.0% (13.1% at 31.12.2012) – increased with a MNOK 220 T1-bond loan in March 2012.

Total capital adequacy was 13.1% (13.2% at 31.12.2012)

The HSB group uses the standard method to calculate capital requirements for lending. No significant tightening is expected of mortgage weights for banks using the standard method.

# Solidity

## Capital structure



### Adaptation of capital structure continues

CET1 capital will in the first instance be strengthened through

- Increased margins on lending
- Reduced growth, primarily BM
- Reduced degree of dividends
- Optimisation of calculation basis

MNOK 220 T1-bond from March 2012 is expected to fulfil the requirements in CRD IV

Total capital adequacy will be improved in 2013 with a MNOK 300 LT2-bond loan

New capital targets and a capital plan will be decided before the summer – the HSB group is aiming toward a CET1 at 12.5% by 1<sup>st</sup> July 2014



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# Prospects and priorities

- Accommodation to new **capital requirements** and improving the **return on equity**
- Increase earnings through better net interest
  - Increase interests on lending to PM by up to 30bp with full effect from May
  - Increase interests on lending to BM by up to 50bp with full effect from April
  - Reduced interests on deposits in BM on parts of the portfolio
    - Continue and increase differentiated risk pricing on lending to BM
- Better cost efficiency throughout the whole organisation
  - Continually benchmarking against other comparative banks
- Reduced lending growth down toward 5% this year
  - Relief of loans to BM through a concrete plan of measures
  - Use of covered bond company and syndication with other banks
  - Use of Brage for leasing and security for unpaid purchase

## Summary

# Prospects and priorities

- Increased focus on risk weighted balance
  - Pre-project on IRB in collaboration with other banks
- Centralised credit processing in BM and generally high quality in the credit work
  - Lower risk in BM in HSB compared with Nordland county (FT/NB sebraanalysis)
  - Reduced risk in PM in HSB compared with Norway (Lindorff solvency analysis)
- Increased deposit ratio from the current level
  - New savings products and intensified marketing
- Consolidate the bank's position as a leading actor in the Helgeland region on a wide basis
  - A regional finance institution
  - A wide distribution network
  - A socially engaged local bank
  - An attractive knowledge-institution



## Summary

# Prospects and priorities

- The land based activity increases and parts of the export industries are struggling
  - The dichotomy in the Norwegian economy also more visible in the Helgeland region
- The bank's strategy with a wide diversification in BM stands firm
  - The large petroleum- and metal exporting corporations are not customers
  - Some large customers within fisheries and fish farming
  - The main market for HSB are SMCs, contractor/supplier companies and agriculture
- The significant governmental infrastructural investments will have a positive impact
  - Construction work on the E6, airport, railway and port facilities
  - Building of university college facilities and an emphasis on education
- More varied and diverse industries have emerged, the population is increasing and more young people with tertiary education are returning to the region

# Contact information

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## Internet

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# Helgeland all possibilities



The main message in “**Horizon Helgeland**” published by Helgeland Sparebank in 2012:

- Growing **population** and **value creation** in the Helgeland region
- Growth is threatened by the **European crisis**
- Growth is limited due to the increasing **demographic population age**
- The region must meet the **need for knowledge**
- The region must solve the **infrastructural challenge**
- The future could be **petroleum**, but we must also ensure **industrial and agricultural** development
- Well-being, identity and opportunities can be improved by **urban/rural development** and **adventure economy**

# "Horizon Helgeland" summary



“In ”**Horizon Helgeland**” central developmental features since 2007 are shown – the year before the financial crisis hit – and on to 2012. A short summary of the graphical presentation:

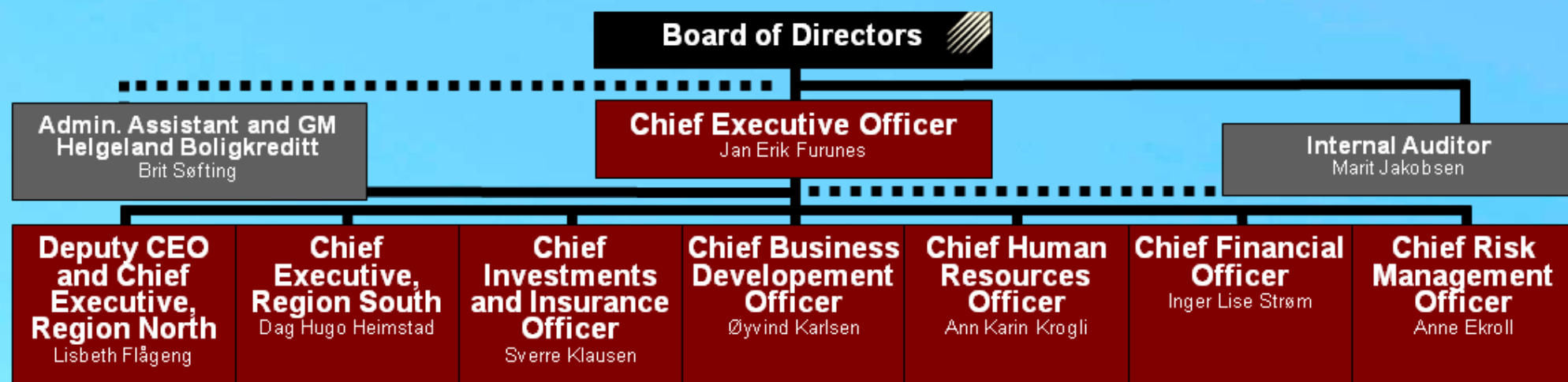
- Helgeland's **population** increases. Increased **employment**, low **unemployment** and increasing **housing prices** together with robust **industries** are four developmental features in the region.
- The population growth in the region is lower than that of the country as a whole. The same is the situation for those with tertiary **education**. Combined with an older **demographic** population these are part of the challenges.
- Lending growth in households and businesses in Norway and the region can be a challenge. This **debt** is a risk in case of an economic decline with increased unemployment."



# Management and organisational structure



# Business development and ownership



## Subsidiaries and associated companies



100 %



8,9 %



34%



6,5 %



48%



10 %



# Profitable and leading



**Helgeland all possibilities** – the region is growing both in terms of population and value creation

- Helgeland Sparebank's vision is to be **a driving force for growth** on Helgeland
- The bank's main goal is to maintain the position as **a profitable and leading** bank in the region through balanced growth
- Helgeland Sparebank has, as the **only bank** in Helgeland, a clear regional ambition and profile:
  - A regional finance institution
  - A wide distribution network
  - A socially engaged local bank
  - An attractive knowledge-institution

# A driving force for growth

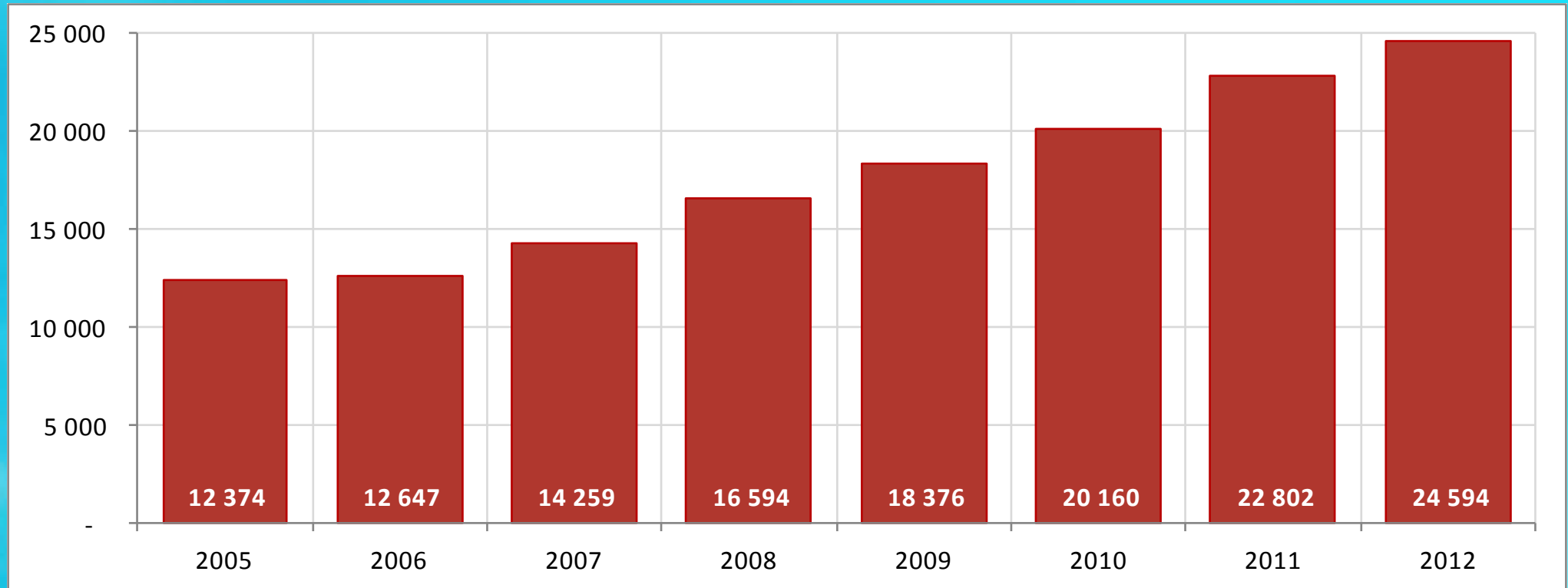


Norway's **12th largest savings** bank of 110 banks – 15 offices in 13 municipalities in the Helgeland region

- ✓ Bank total assets of NOK 25 billion and a market share of 50%
- An **independent regional bank** with no alliances and quoted on the stock exchange
  - The only bank with head office in the region
- **Complete local bank** and largest advisory environment
  - good competence and quick processing locally
- A solid equity of NOK 1.8 billion
  - Locally based financial strength in the development of the region
- An **active supporter** for sports, culture and knowledge
  - annual contribution of MNOK 12-20
- A **central owner** in Helgeland Invest
  - one of the largest investment companies in Northern-Norway

The local bank

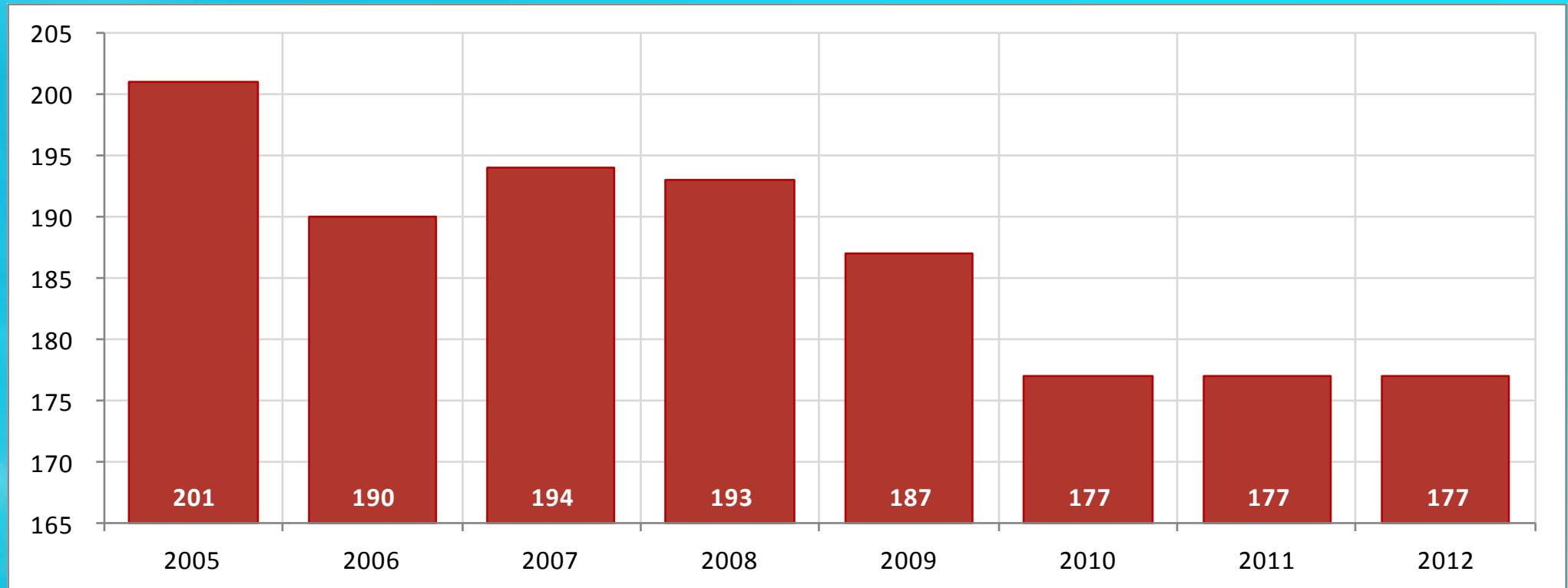
# Steady capital growth





The local bank

# Fewer annual positions



The bank

## 20 largest owners of the ECC - HELG

			<i>Parent bank</i>		
Per 31.03.13	Numbers	% share		Numbers	% share
Sparebankstiftelsen Helgeland	12 099 598	64,7 %	Citibank NA New York	138 847	0,7 %
MP Pensjon PK	800 000	4,3 %	Nervik, Steffen	110 000	0,6 %
Sparebank 1 SMN VPS	649 047	3,5 %	Hartviksen, Harald	94 498	0,5 %
Helgelandskraft AS	340 494	1,8 %	AS Swedbank Clients	86 386	0,5 %
Sparebankstiftelsen DNB	329 124	1,8 %	Tveteraas Eiendomsse	75 000	0,4 %
Skage Vekst	291 400	1,6 %	Tromstrygd	75 000	0,4 %
Terra utbytte VPF	205 384	1,1 %	Institutt for sammenligning	62 300	0,3 %
Sparebanken Vest	200 000	1,1 %	Storkleiven AS	60 000	0,3 %
Bergen Kommunale pensjonska	200 000	1,1 %	Sivesind Invest AS	52 541	0,3 %
Haslum Industri A/S	182 230	1,0 %	Brage Invest AS Terra Forvaltn	51 399	0,3 %
<b>Total 10 biggest owners</b>	<b>14 915 047</b>	<b>79,8 %</b>	<b>Total 20 biggest owners</b>	<b>16 103 248</b>	<b>86,1 %</b>