

# Presentation for the 2nd quarter 2013

med  for  
HELGELAND



# Presentation for the 2nd quarter 2013 (HSB group)

Main features  
Strategy process  
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

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## Further improved basic operations, no large one-time-effects

- Gross profit MNOK 66 (31)

## Improvements in key figures

- Significantly improved net interest 1.73 (1.48) %
- Low costs 0.94 (1.01) %, in percent of income 44.7 (59.2) %
- Low write-downs on lending 0.11 (0.16) %

**New subordinated loan-** MNOK 300 strengthens the total capital ratio

**Good deposit growth – reduced lending growth**

# Profit and loss so far this year

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**Further improved basic operations** – gross profit MNOK117 (73)

**Improved earnings by MNOK 44** – increased by 60% from 30.06.12

- The net interest increased by MNOK 35 – increased by 21% from 30.06.12
- Net value change on financial instruments increased by MNOK 7

**Increased return on equity** – so far 9.2 (6.3) %



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# Strategy analysis and strategy plan



# Document of goals – superior goals

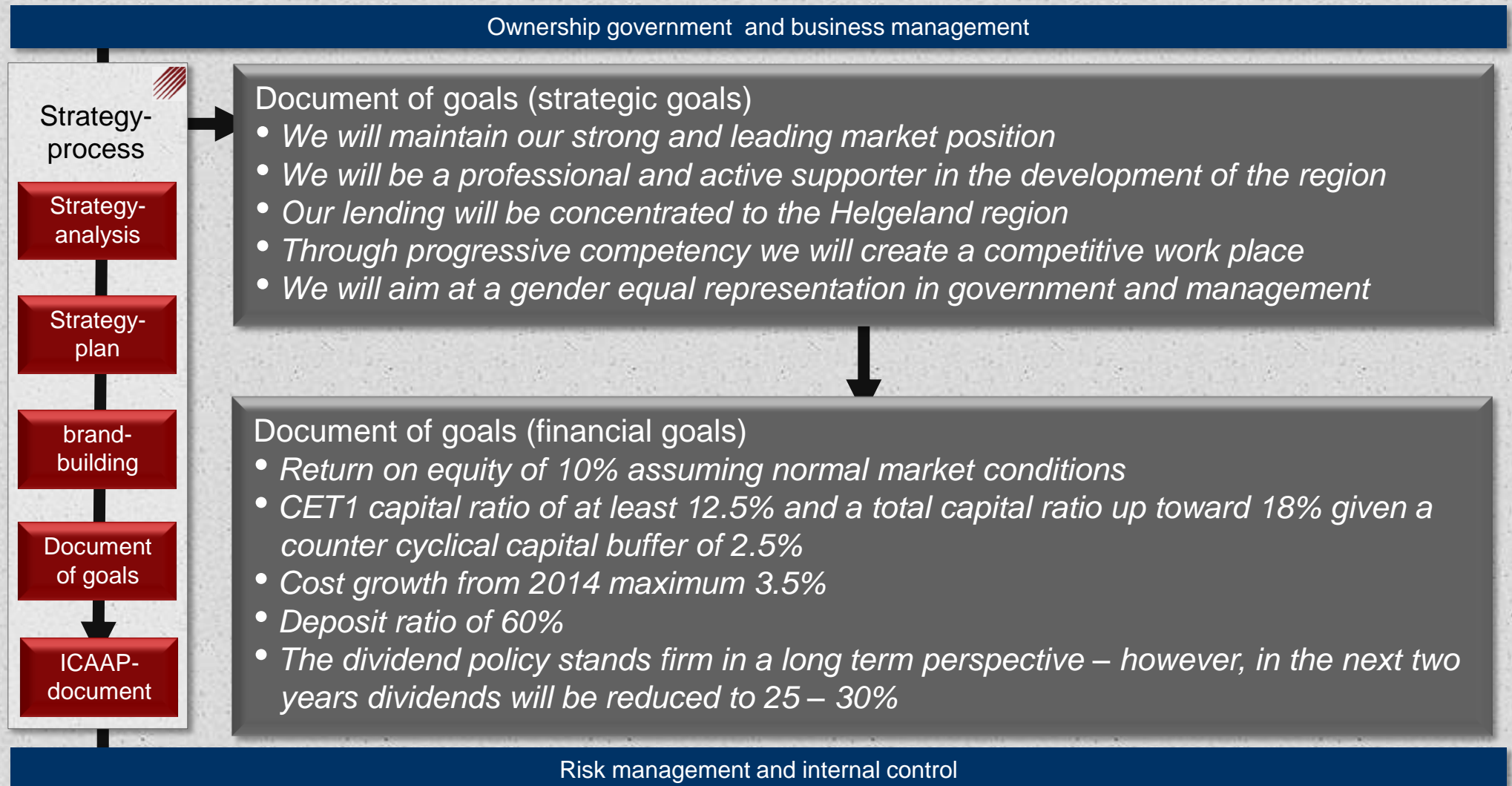


# Document of goals – strategic goals





# Document of goals – strategic and financial goals



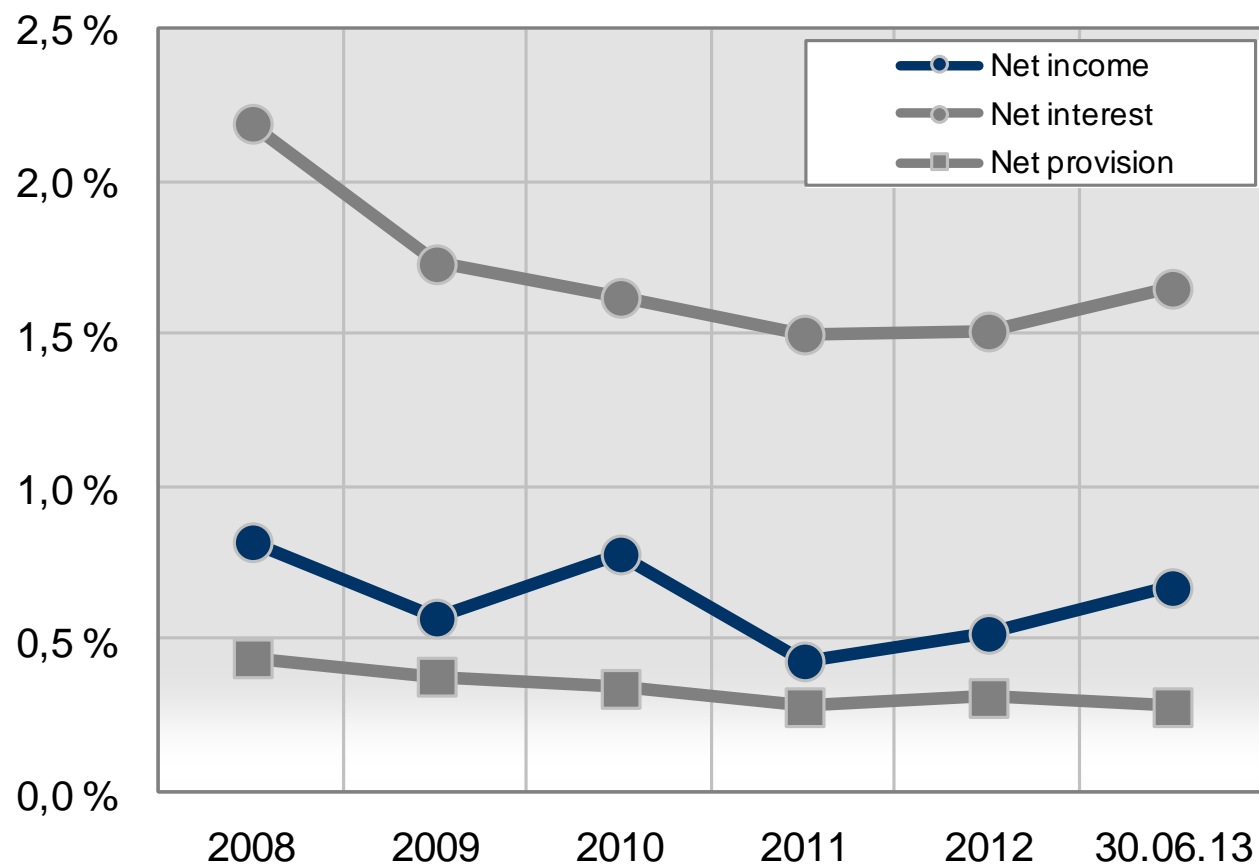
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# Income- and key figure developments

Helgeland Sparebank

Key figures in % of average BTA



## Further improved basic operations

Net interest

- Strengthened in 2012 and first half 2013

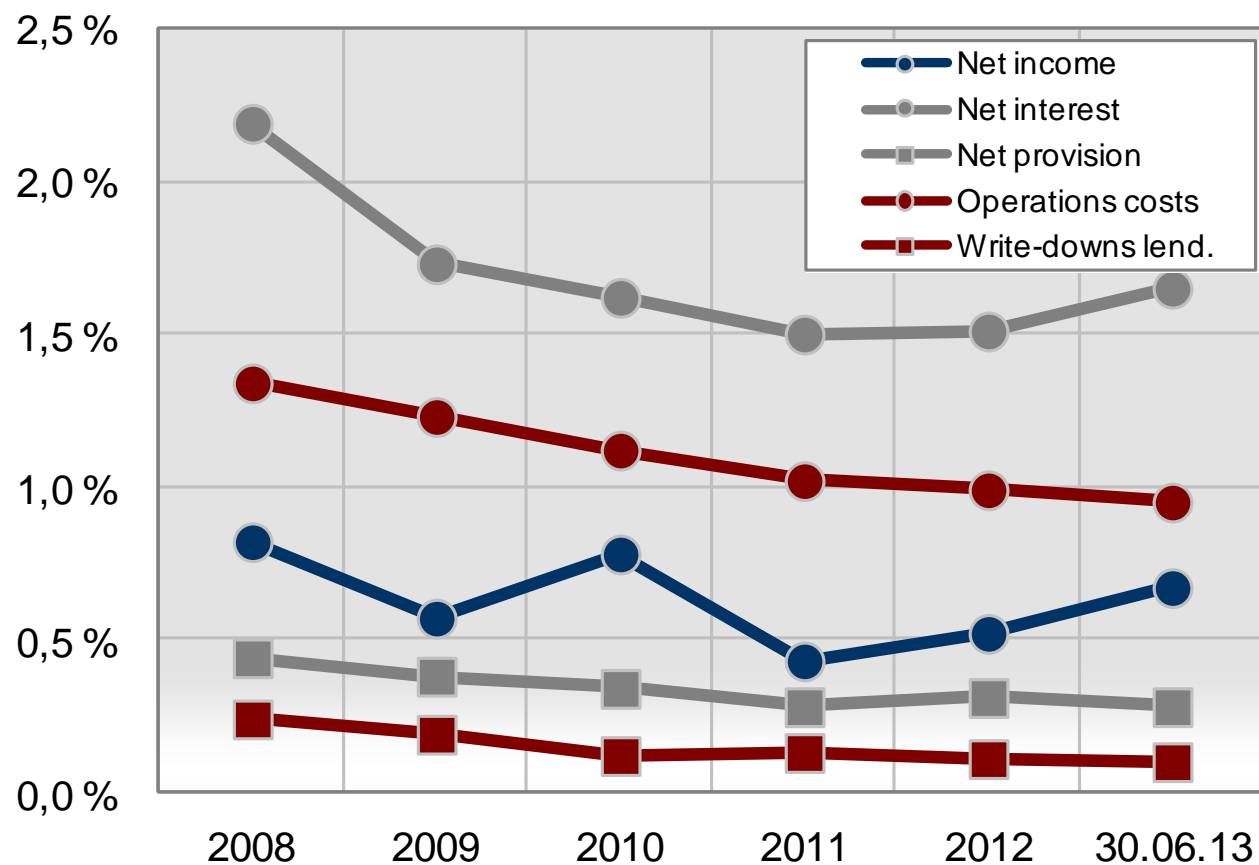
Net provision earnings

- Stable income in NOK
- Normalised insurance sales

# Income- and key figure developments

Helgeland Sparebank

Key figures in % of average BTA



## Further improved basic operations

### Net interest

- Strengthened in 2012 and first half 2013

### Net provision earnings

- Stable income in NOK
- Normalised insurance sales

### Operations costs

- The efficiency improvement continues, falling costs both in % of BTA and income

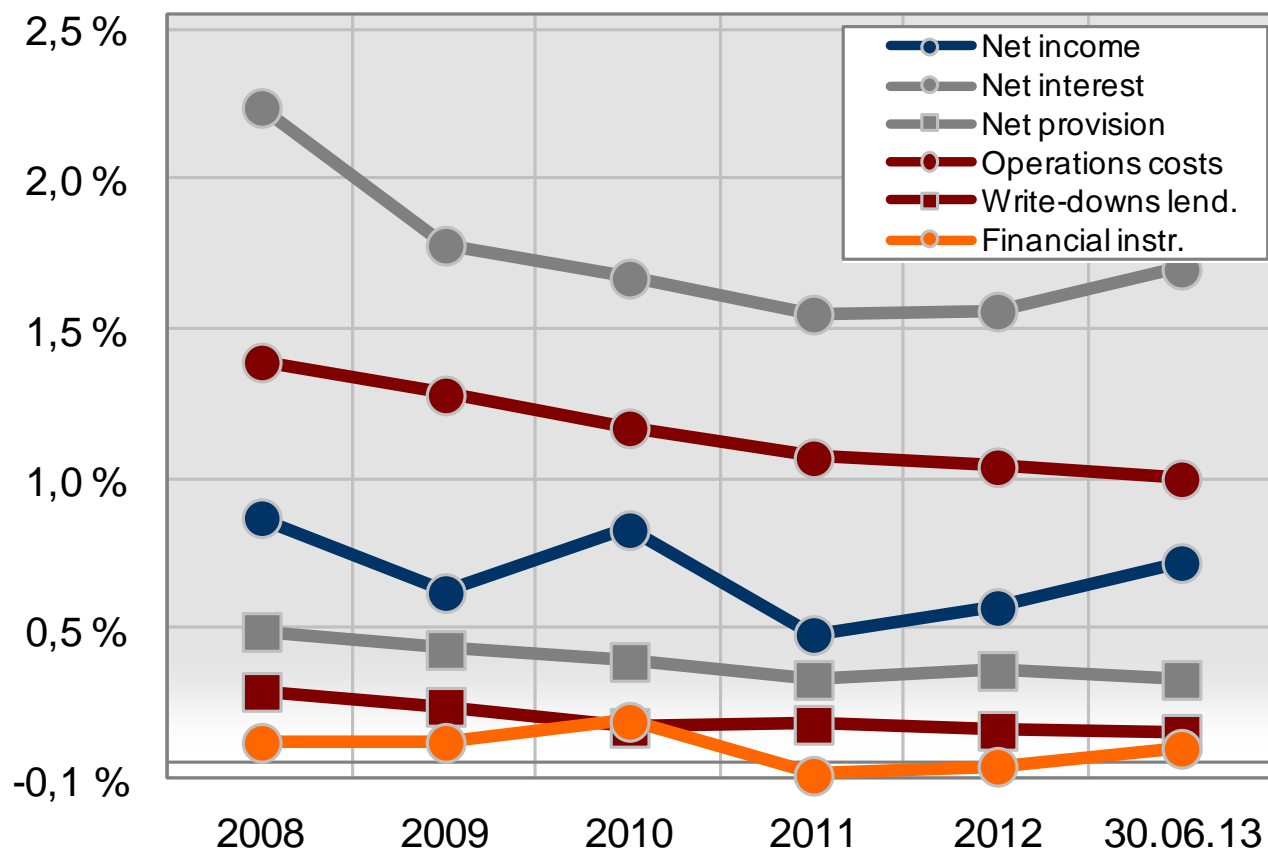
Low write-downs on lending



# Income- and key figure developments

Helgeland Sparebank

Key figures in % of average BTA



## Further improved basic operations

### Net interest

- Strengthened in 2012 and first half 2013

### Net provision earnings

- Stable income in NOK
- Normalised insurance sales

### Operations costs

- The efficiency improvement continues, falling costs both in % of BTA and income

### Low write-downs on lending

### Financial instruments

- Positive contribution over the result

# Profit and loss accounts

| Helgeland Sparebank (HSB group)             |          |          |         |         |
|---|----------|----------|---------|---------|
|   | 30.06.12 | 30.06.13 | Q2 2012 | Q2 2013 |
| Net interest- and credit provision earnings | 169      | 204      | 85      | 109     |
| Net provision earnings                      | 34       | 35       | 18      | 18      |
| Other operations income                     | 3        | 3        | 1       | 2       |
| Ordinary operations costs                   | 117      | 118      | 58      | 59      |
| Result basic operations                     | 89       | 124      | 46      | 70      |
| Write-downs lending and warranties          | 15       | 13       | 9       | 7       |
| Net value change financial instruments      | -1       | 6        | -6      | 3       |
| Gross profit                                | 73       | 117      | 31      | 66      |
| Net profit                                  | 53       | 83       | 23      | 46      |
| Net extended income posts                   | 7        | 22       | 0       | -8      |
| Profit for the period                       | 60       | 105      | 23      | 38      |

## Further improved basic operations

- The net interest has so far this year increased with 21% - improves basic operations
- Efficiency improvement through good cost control – unchanged number of annual positions at 177
- Still low write-downs on lending

# Profit and loss accounts

| Helgeland Sparebank (HSB group)             |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
|   | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 |
| Net interest- and credit provision earnings | 1,48 %  | 1,53 %  | 1,54 %  | 1,55 %  | 1,73 %  |
| Net provision earnings                      | 0,32 %  | 0,33 %  | 0,29 %  | 0,28 %  | 0,29 %  |
| Other operations income                     | 0,02 %  | 0,02 %  | 0,05 %  | 0,02 %  | 0,03 %  |
| Ordinary operations costs                   | 1,01 %  | 0,93 %  | 0,97 %  | 0,96 %  | 0,94 %  |
| Result basic operations                     | 0,81 %  | 0,95 %  | 0,91 %  | 0,89 %  | 1,11 %  |
| Write-downs lending and warranties          | 0,16 %  | 0,12 %  | 0,08 %  | 0,10 %  | 0,11 %  |
| Net value change financial instruments      | -0,10 % | 0,05 %  | -0,08 % | 0,05 %  | 0,05 %  |
| Gross profit                                | 0,55 %  | 0,88 %  | 0,75 %  | 0,83 %  | 1,05 %  |
| Costs in % of income                        | 59,2 %  | 48,3 %  | 54,1 %  | 50,9 %  | 44,7 %  |

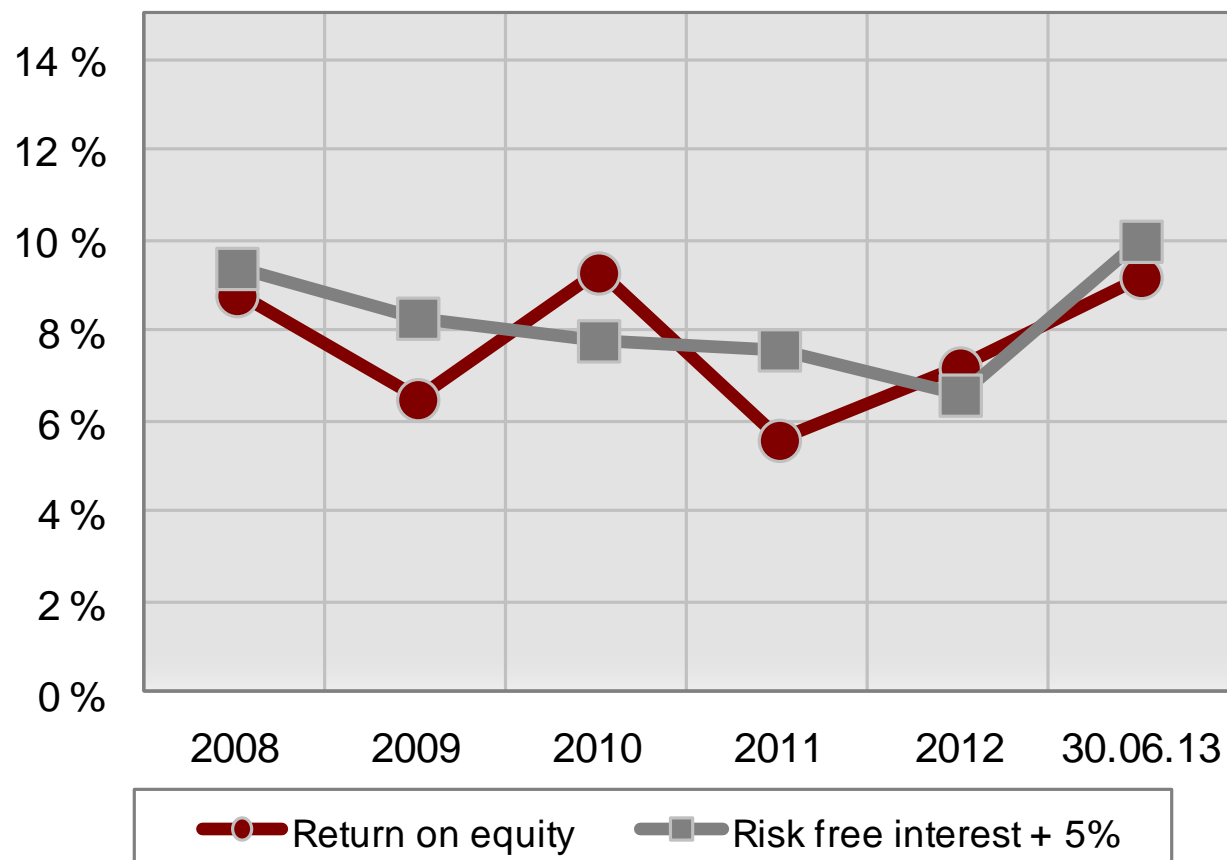
## Further improved basic operations

- Net interest increased by 15% from Q1 2013 to Q2 2013 – 5bp guarantee fund fee is then charged
- Stable net provision earnings
- Low costs in both % of BTA and in % of income

# Return on equity

Helgeland Sparebank

## Return on equity and target figures



## Increased return on equity

### Result


- 9.2 % (6.3) % - increased from 8.4 % in the 1<sup>st</sup> quarter

### Target figures

- 10 % under normal market conditions

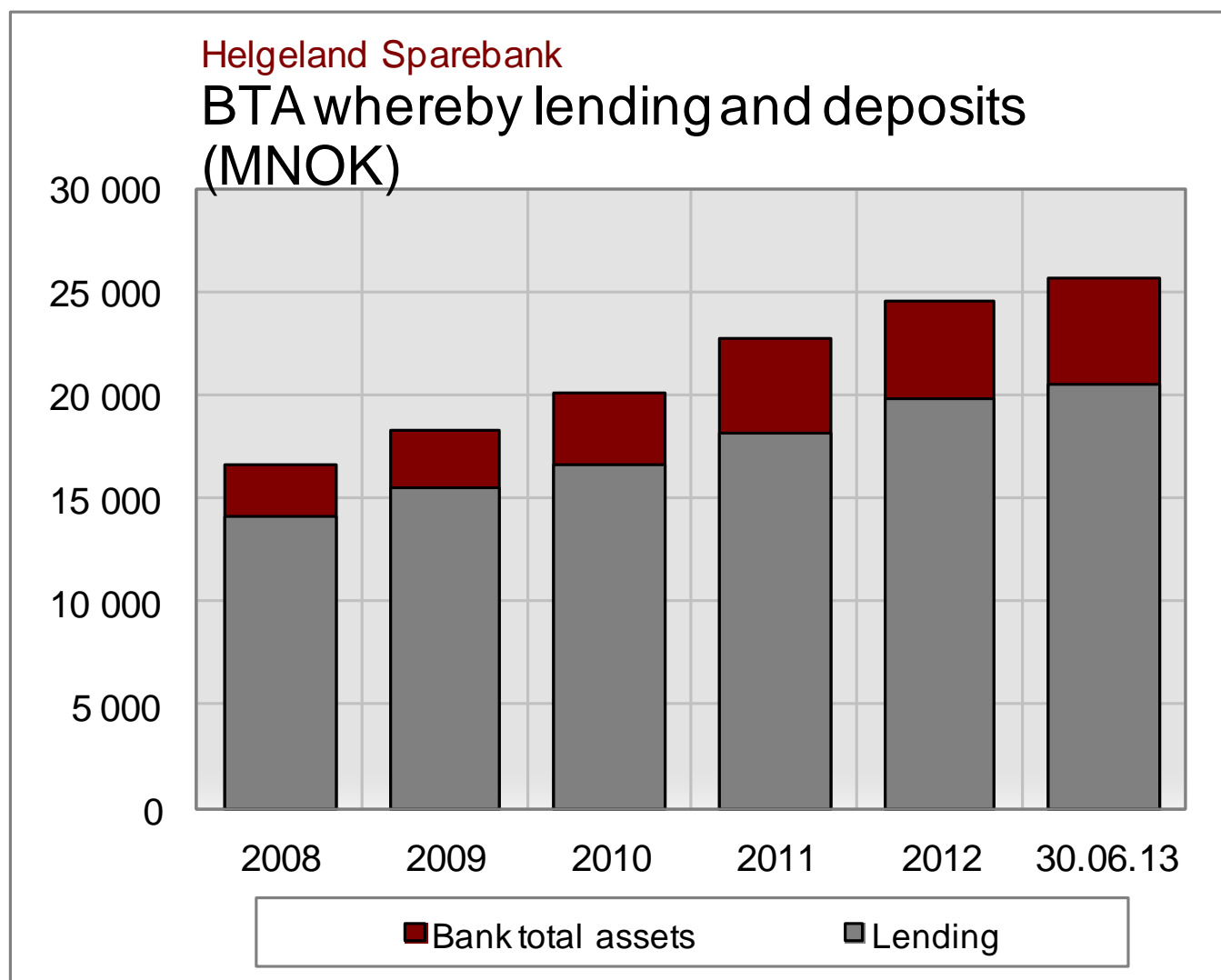
Group contribution from Helgeland Boligkreditt AS has increased the basis for dividends in the parental bank by MNOK 30





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# Balance- and growth development



## Reduced lending growth

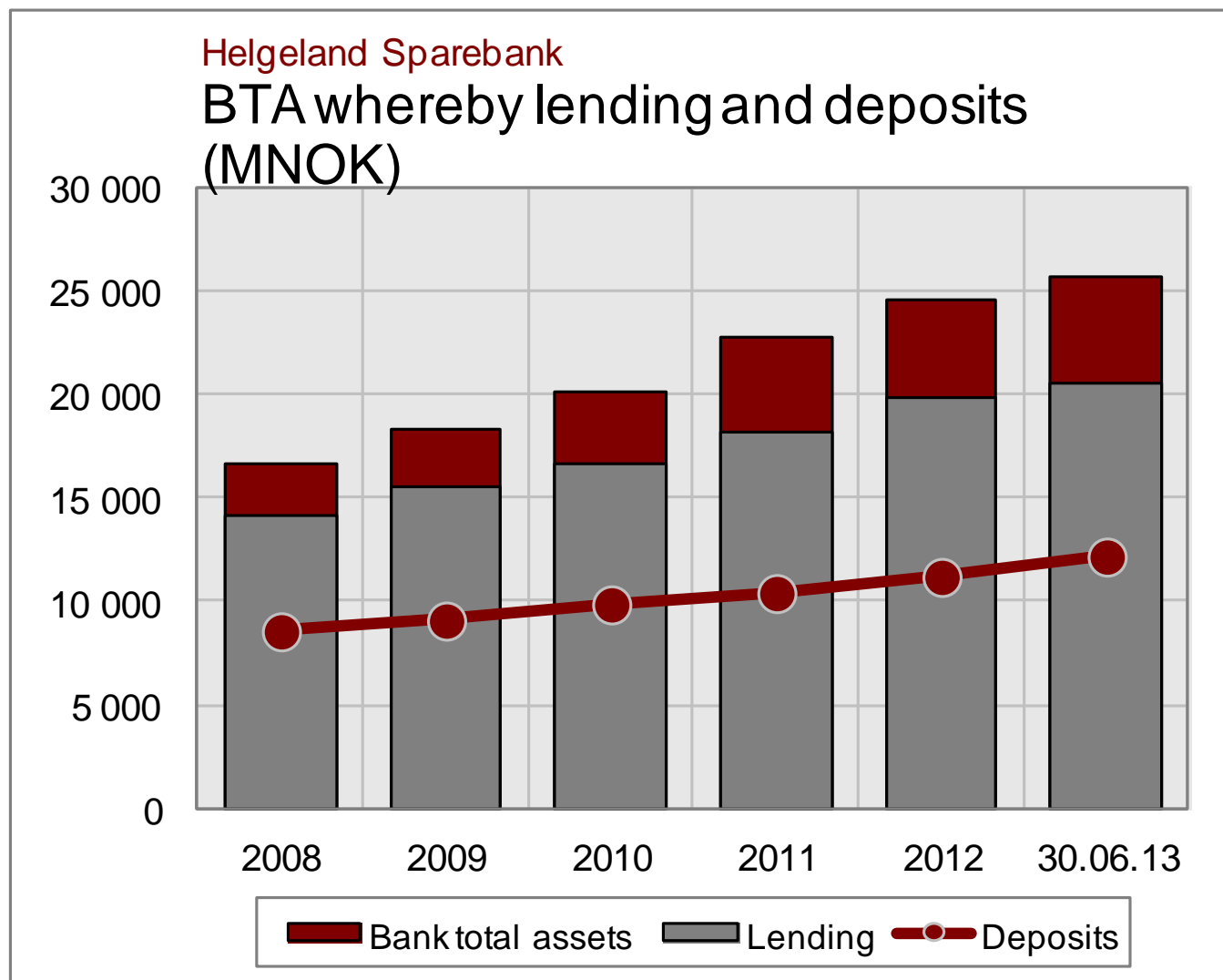
Volume gross lending at 30.06.2013 was NOK 20.5 (19.0) bn.

12-month growth in lending was MNOK 1,523: 8.0 (10.2)%

6-month lending growth MNOK 650: 3.3 (4.5) %

Steering toward a combined lending growth down toward 5% for 2013

# Balance- and growth development



## Increased deposit growth

Volume at 30.06.2013 was  
MNOK 12.2 (11.2)

12-month deposit growth  
MNOK 996: 8.9 (7.3) %

6-month deposit growth  
MNOK 983: 8.8 (7.4) %

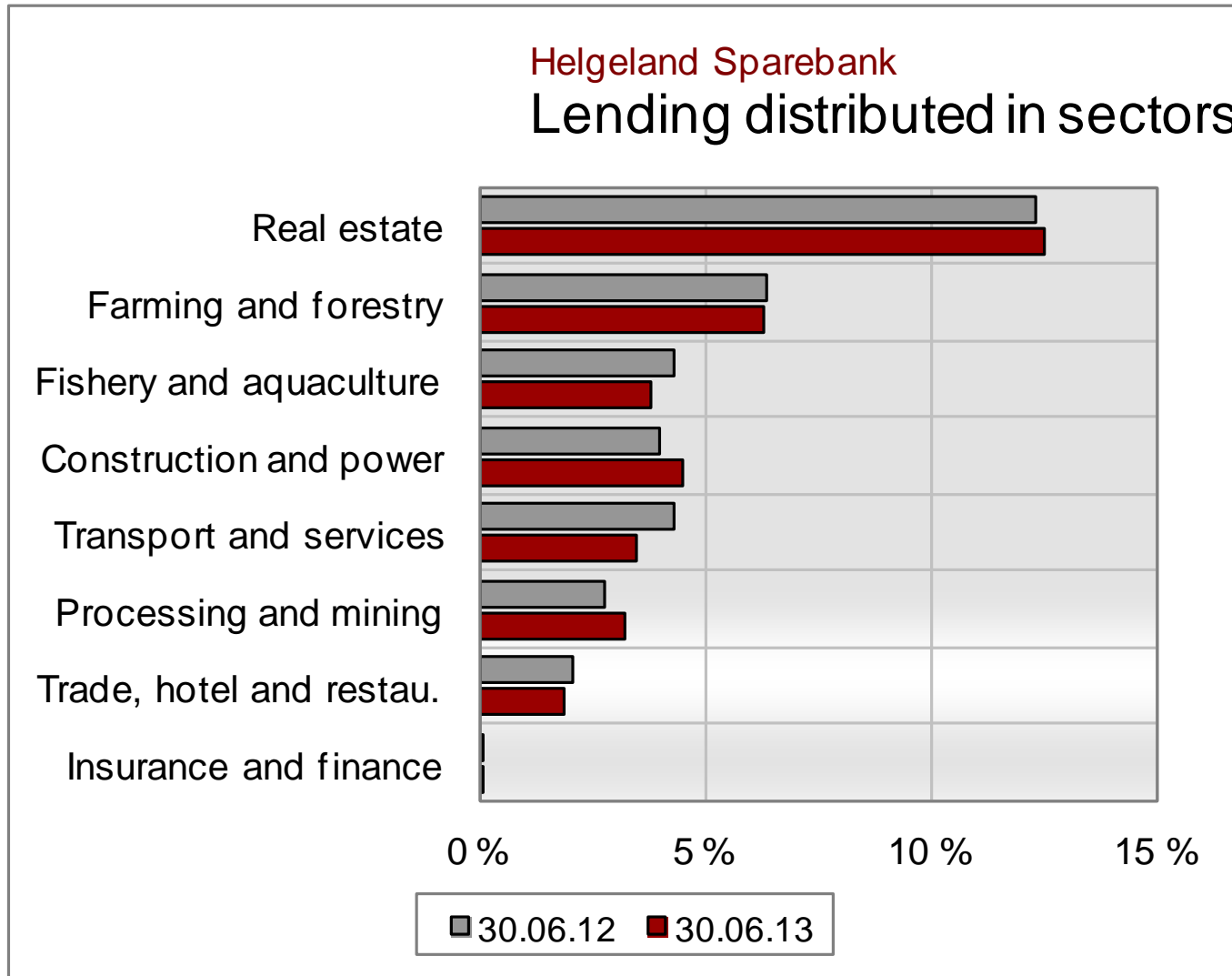


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# Gross lending BM



## Good diversification in the lending portfolio

NOK 20.5 (19.0) bn.

Lending to personal customers constitute NOK13.2 (12.1) bn, mainly well secured mortgages

NOK 2.1 (2.0) bn. is lending to food production composed of agri- and aquaculture and forestry.

Very loyal customer base

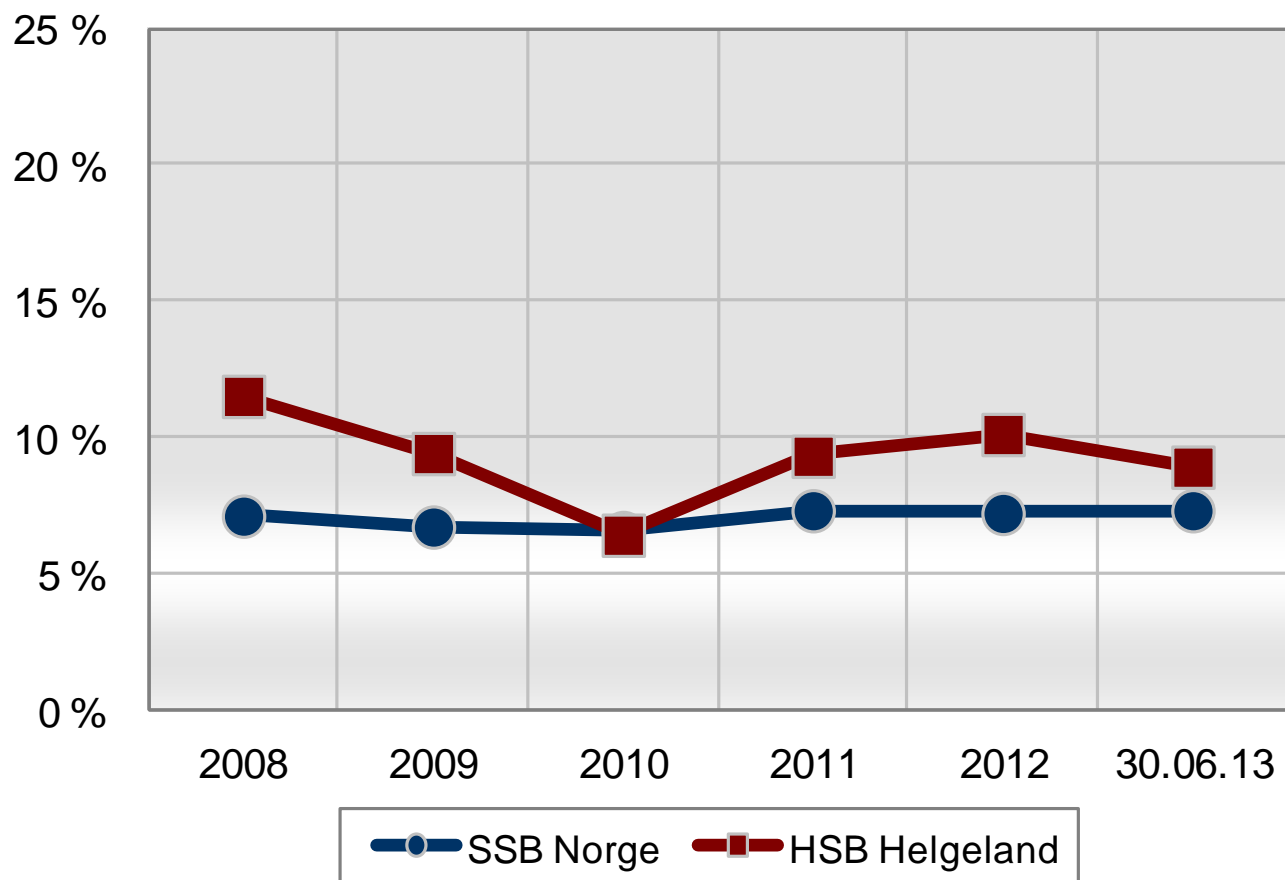
Increased personal market share 64.3 (63.7) %, well above target figures which are > 60%

83.1% is lending to customers in Helgeland

# Credit growth PM

Helgeland Sparebank

12-month credit growth households



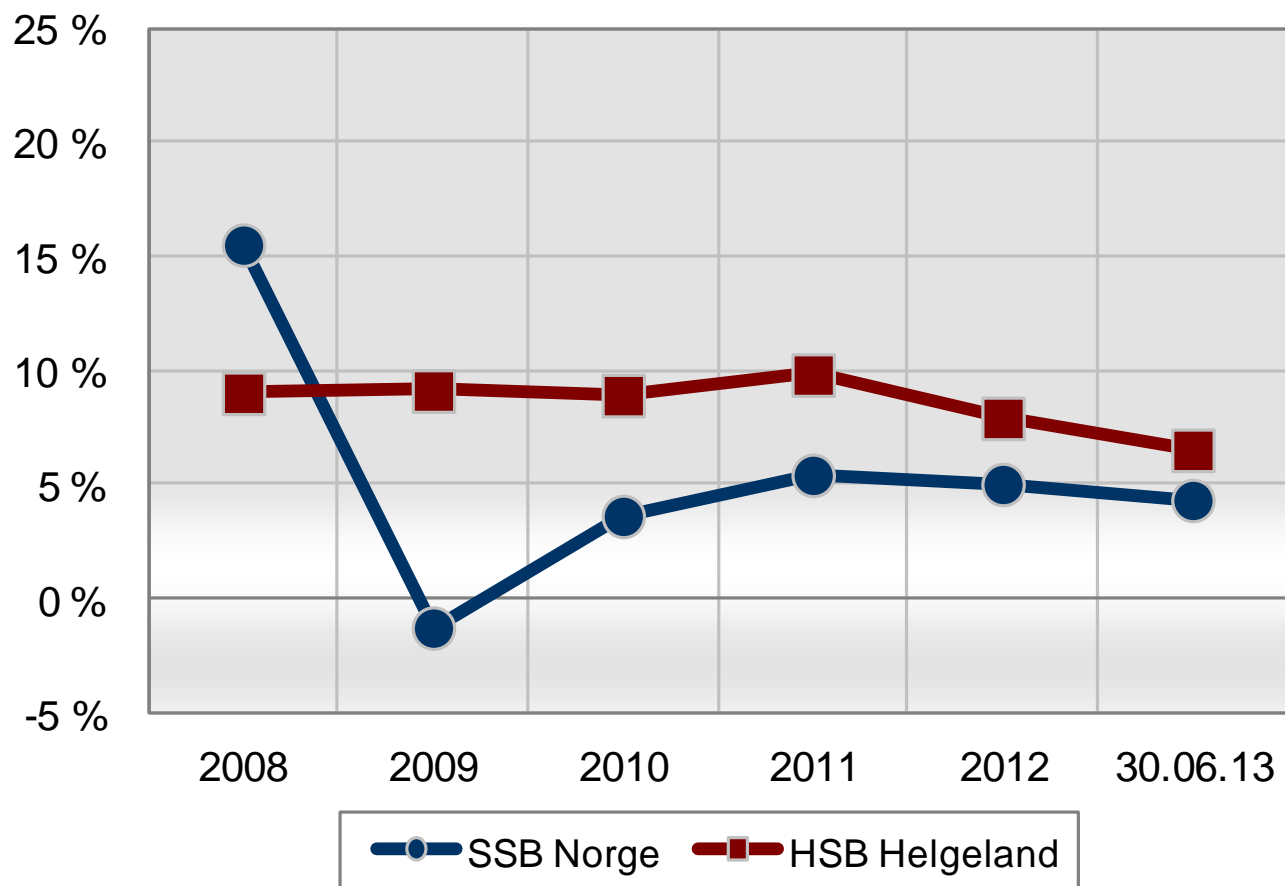
**12-month growth 8.9  
(11.2) %**

Normal activity – somewhat  
lower growth in 2013

# Credit Growth BM

Helgeland Sparebank

12-month credit growth in businesses



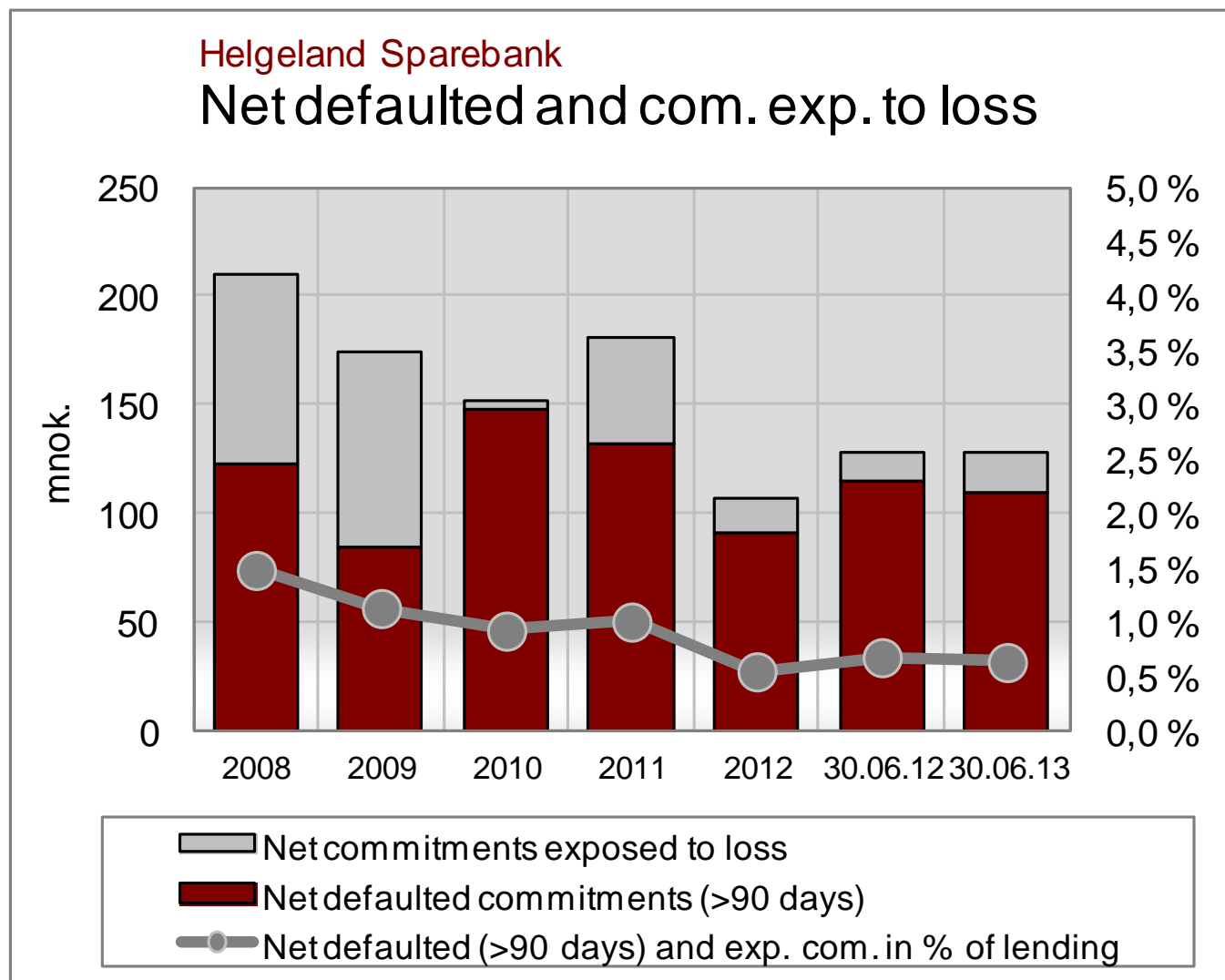
**12-month growth 6.5 (8.7) %**

The growth in BM has diminished since 2011.

Stricter priorities of projects so far in 2013

Unloading of commitments is ongoing and is expected to give effects in the 2<sup>nd</sup> half

# Defaults and commitments exposed to loss



## Good portfolio quality – growth without increased risk

Net defaulted and commitments exposed to loss in % of gross lending has been declining since 2008 – net defaulted and commitments exposed to loss in percent of gross lending constitute 0.63 (0.67) %

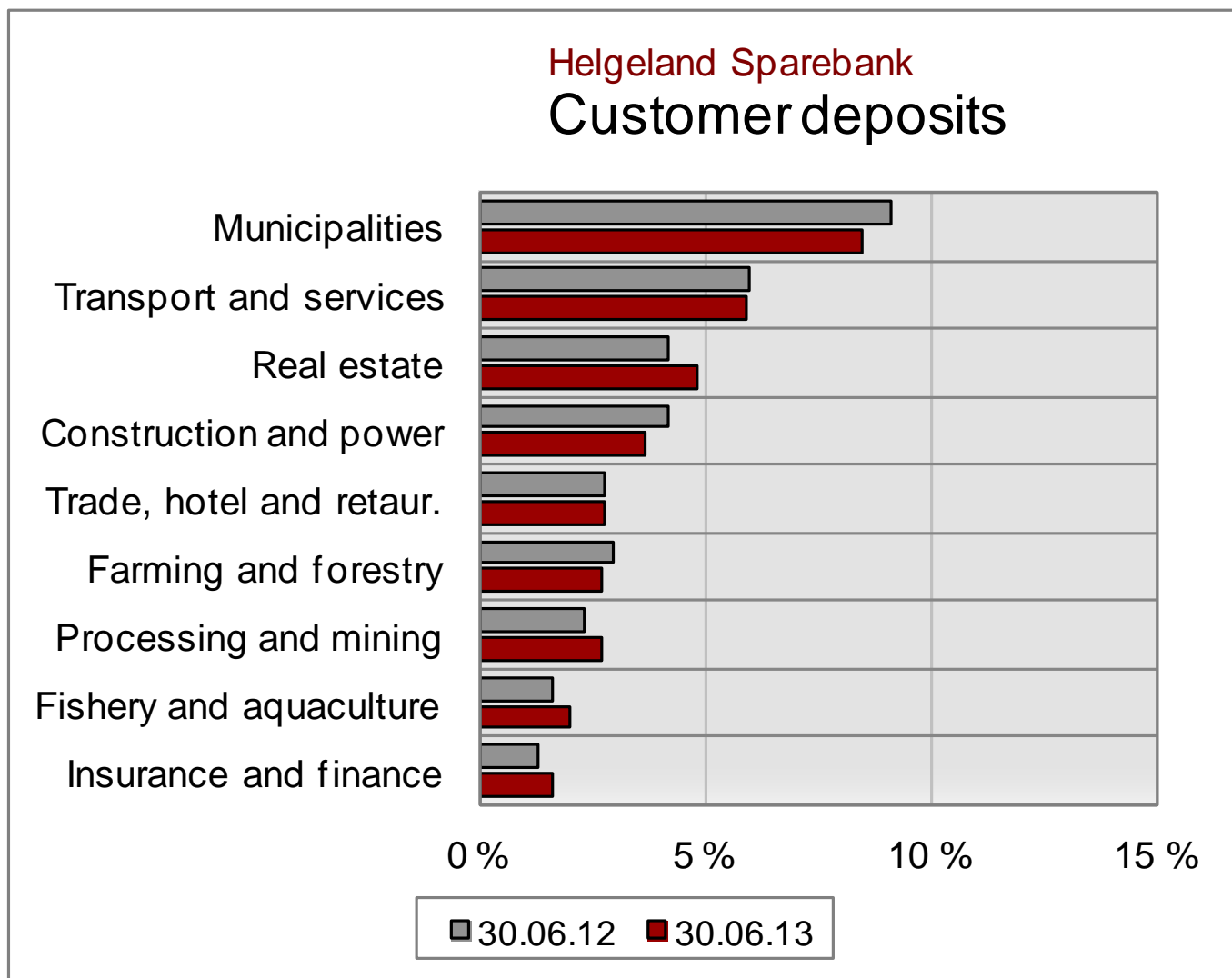
Centralised credit appraisal and strong local competency give results.



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# Customer deposits BM



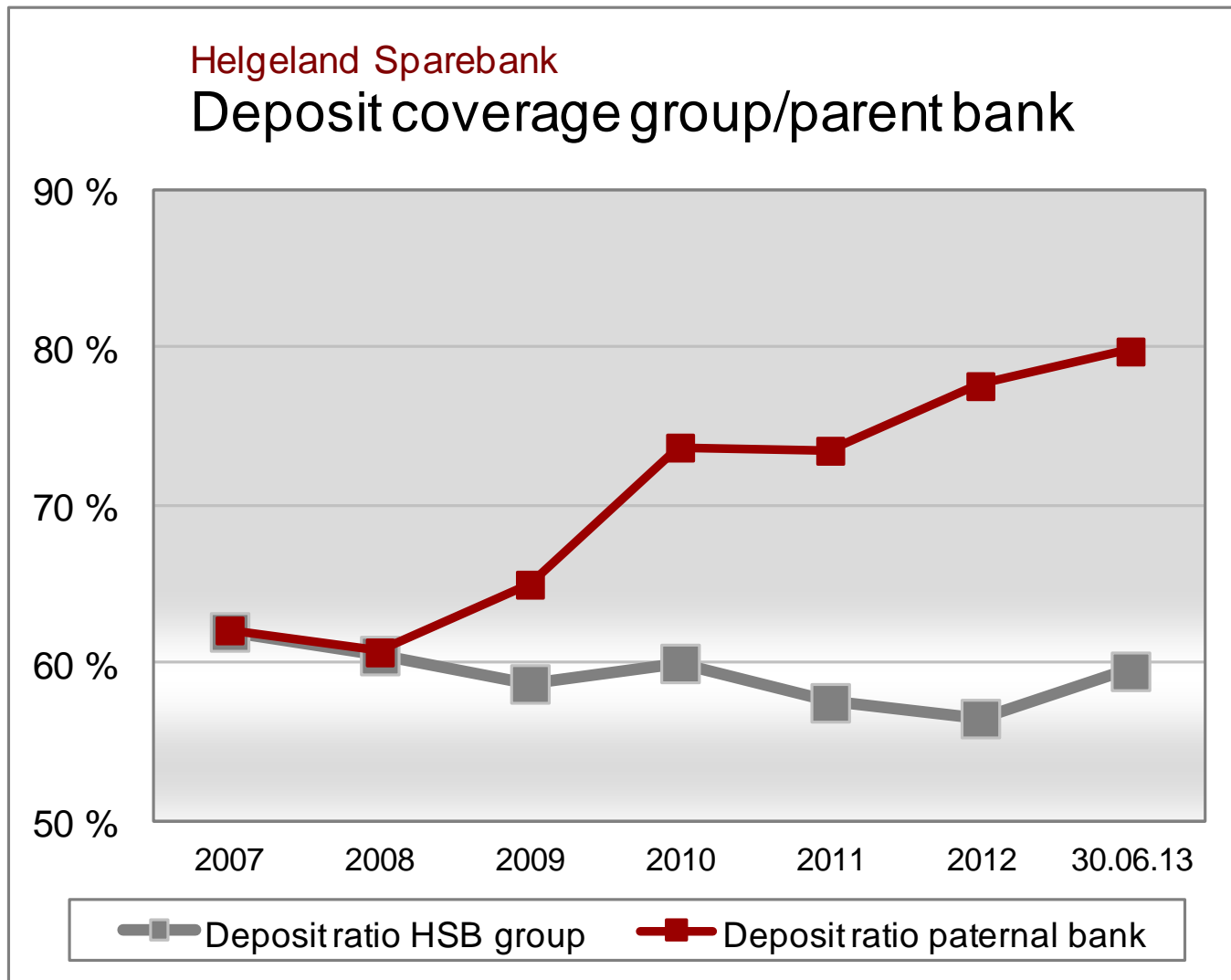
## Loyal customer base

Of total deposits at NOK 12.2 (11.2) bn, NOK 8 (7.3) bn. or 65.4 (65.4) % are from personal customers

Good diversification of deposits from businesses

91.3 % of the customer deposits are from customers in Helgeland

# Deposit ratio



## Increased deposit ratio

The deposit ratio in the HSB group was 59.5%

The target deposit ratio for the HSB group is 60%

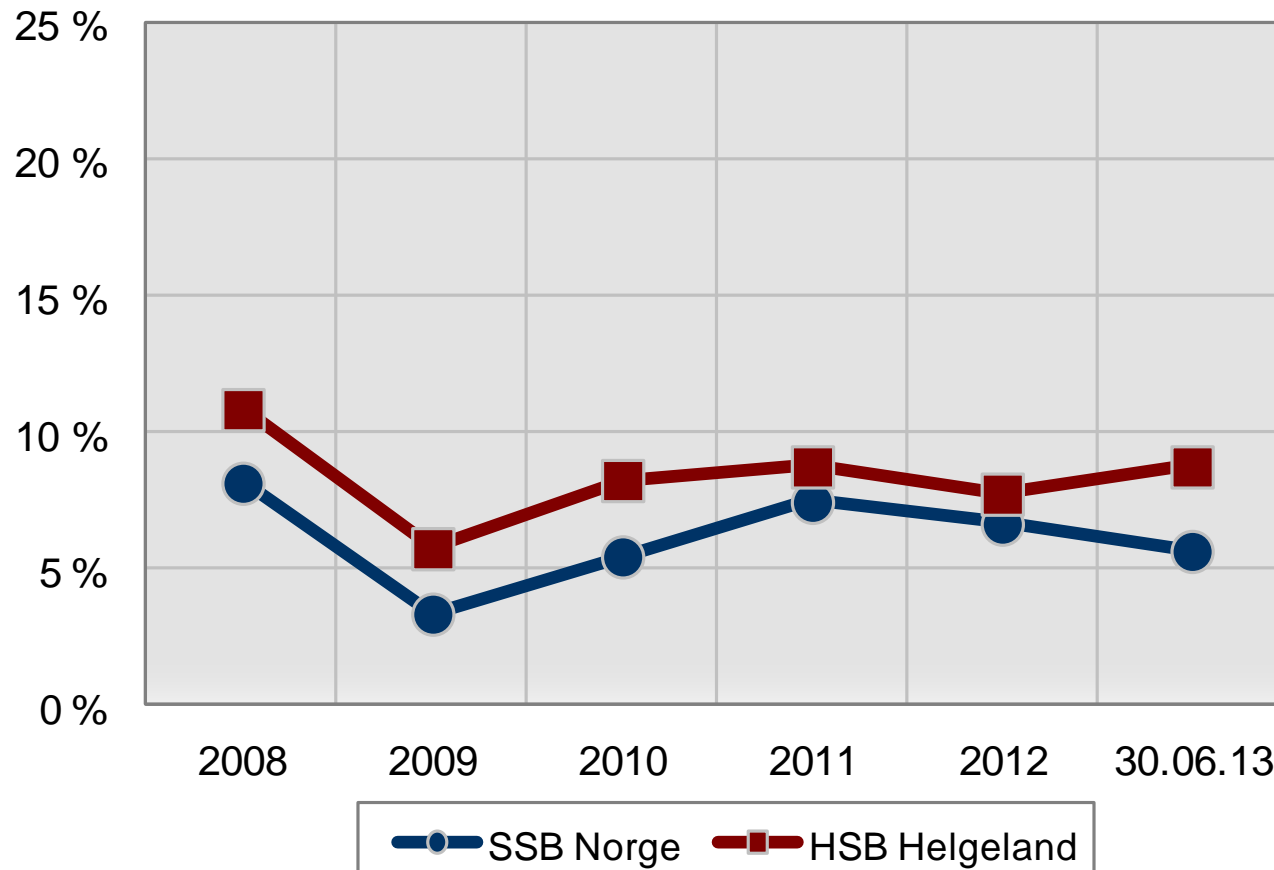
Good deposit growth in the quarter

-New deposit products have been received well in the market

# Deposit growth PM

Helgeland Sparebank

12-month deposit growth for households



**12-month growth 8.8 (8.4) %**

The growth in the personal market is still higher than the national average

New products have been well received and the focus on deposits gives good results

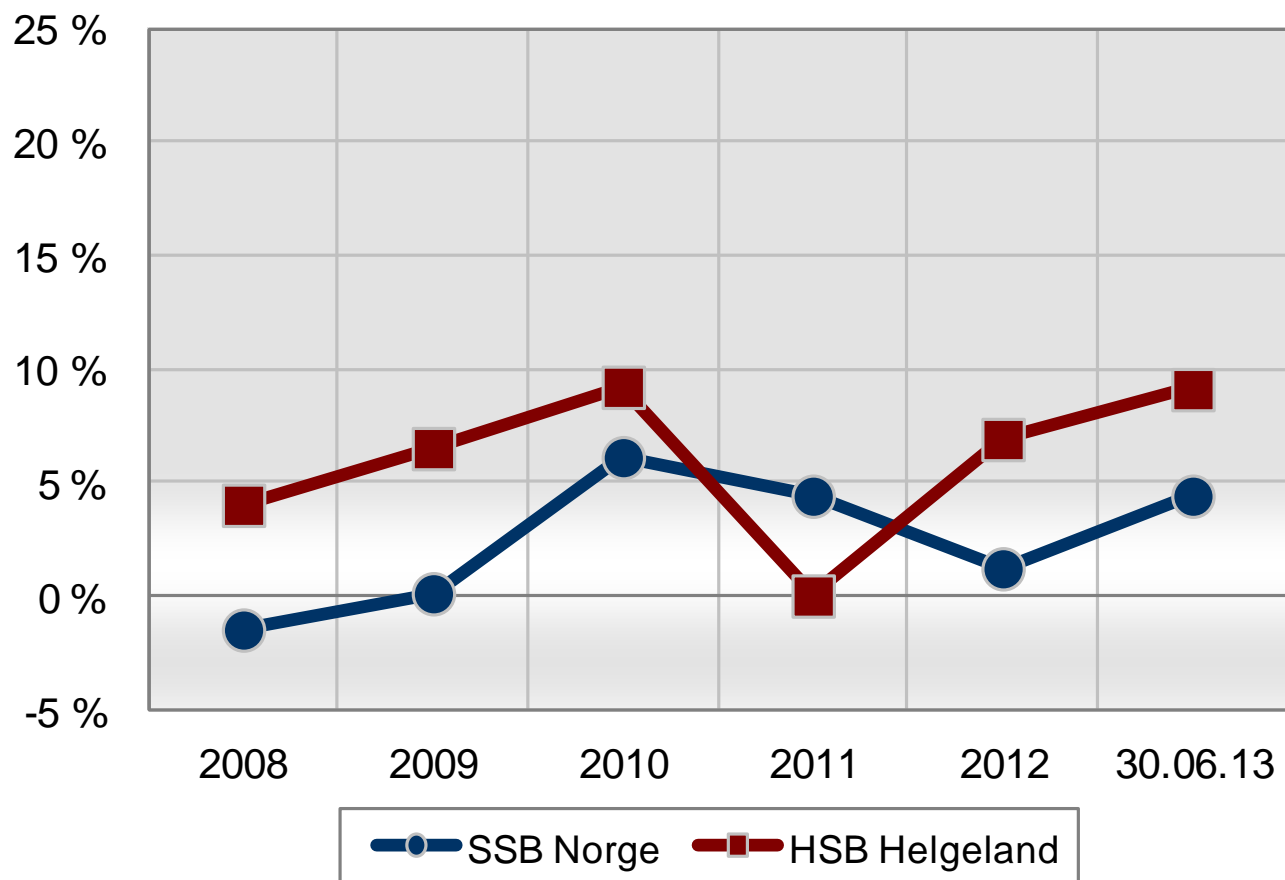
The work to increase deposits will continue:

- More new savings products will be launched
- Intensified marketing

# Deposit growth BM

Helgeland Sparebank

12-month deposit growth for businesses




**12-month growth 9.1  
(5.3) %**

Loyal customer base gives good growth in the business market – still higher growth than the national average

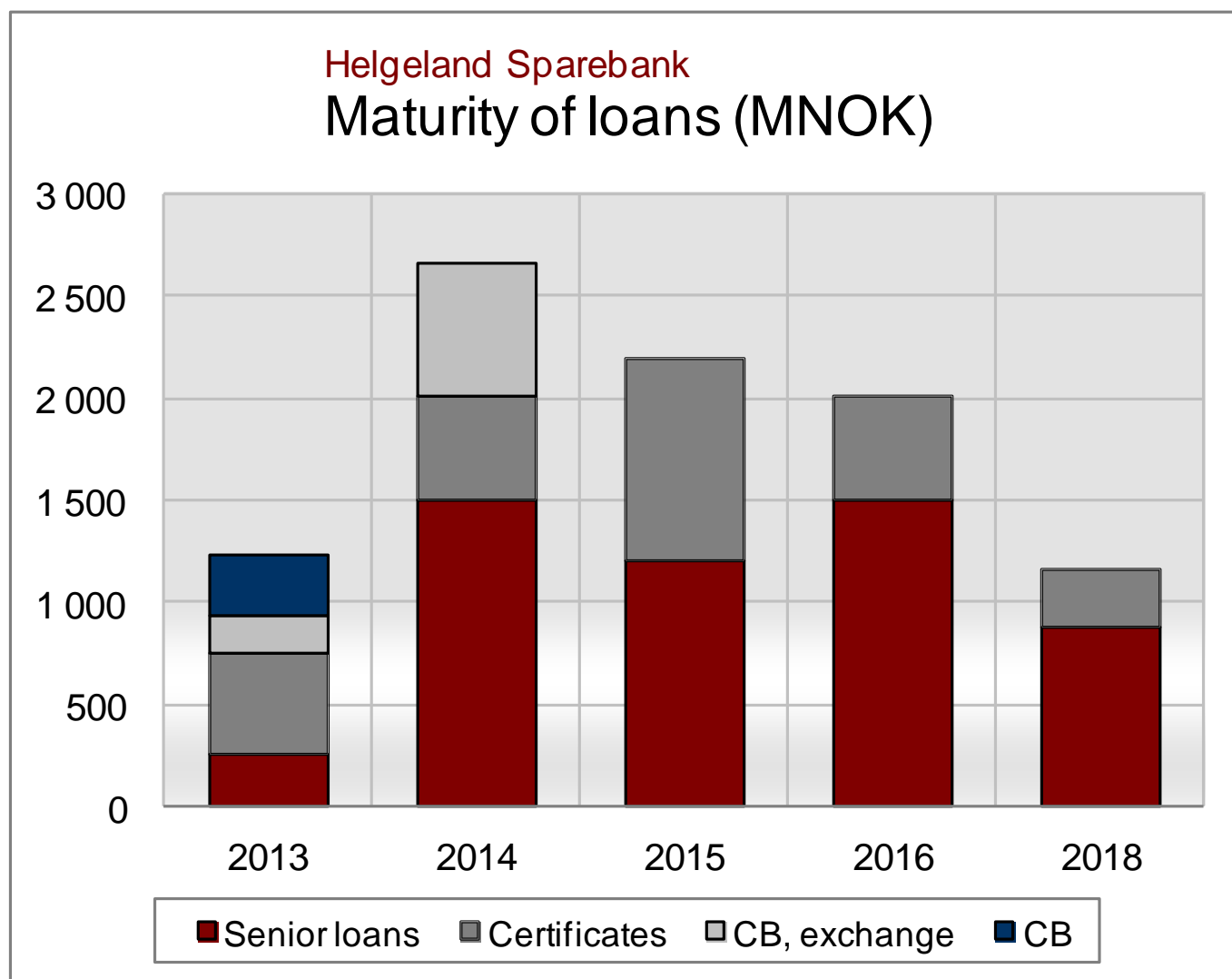
20 largest deposits have been stable over time and constitute NOK 1.6 (1.4) bn. or 13 (13) % of total deposits



A close-up photograph of a copper coin, likely a 1 Euro coin, resting on a white surface. A black line graph is drawn on the surface, showing a fluctuating upward trend. The coin is positioned on the left side of the frame, and the line graph extends from the bottom left towards the top right.

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# Loans from the capital market



## Satisfactory funding

Duration on loans is 2.3 years

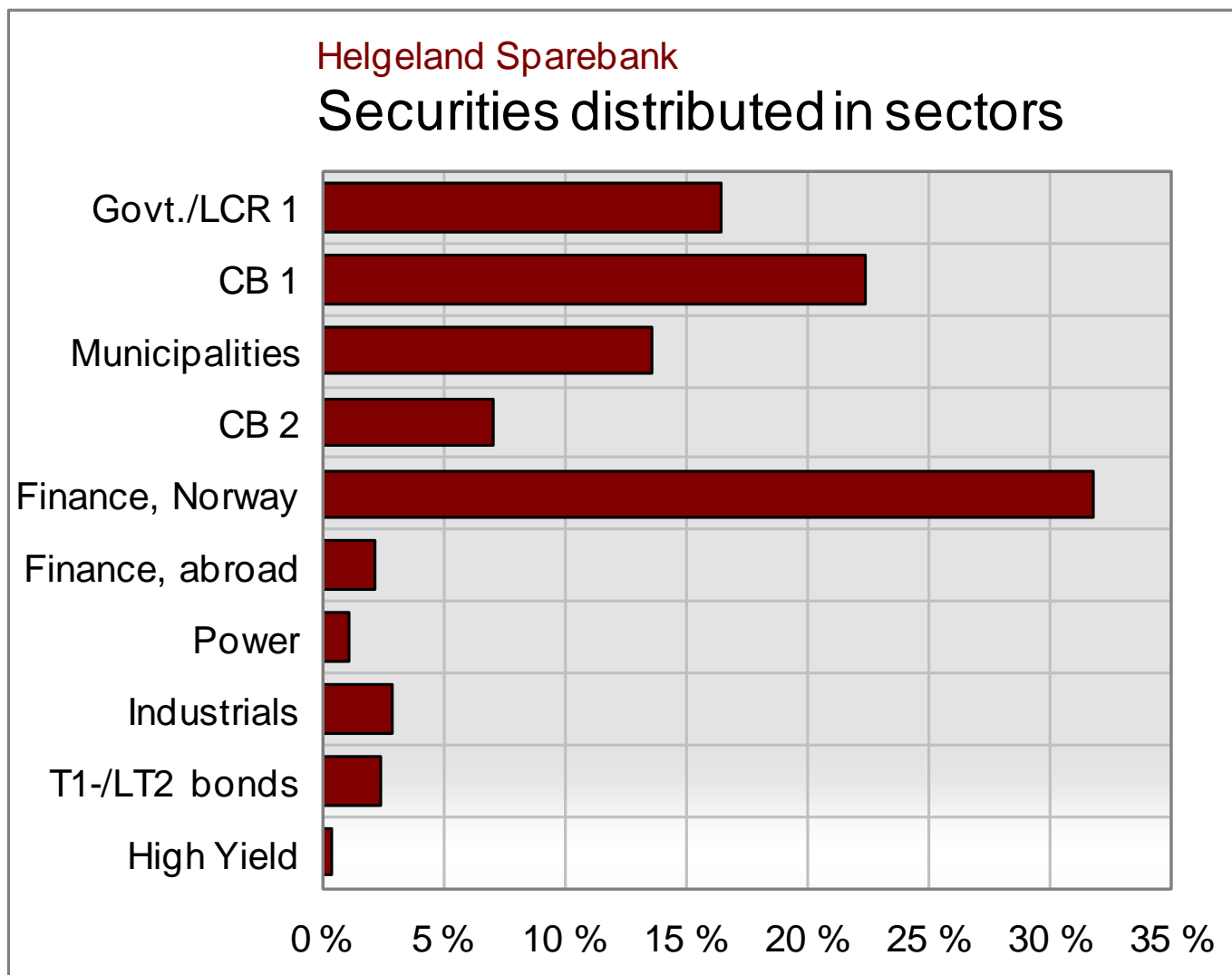
Liquidity indicator 1 was 106.9%  
The indicator value for the reference banks was on the 31.03.13 at 105.4%

Covered bonds constitute NOK 4.1 bn. (37% of the loaning portfolio)

The bank has a moderate rate of transfers, 24% of gross lending (or 37% of PM loans) are transferred to Helgeland Boligkreditt AS

Additional potential for transferring mortgages to Helgeland Boligkreditt

# Liquidity buffers



## Solid buffer capital

The liquidity buffers constitute NOK 4.3 bn, equal to 16.7% of BTA

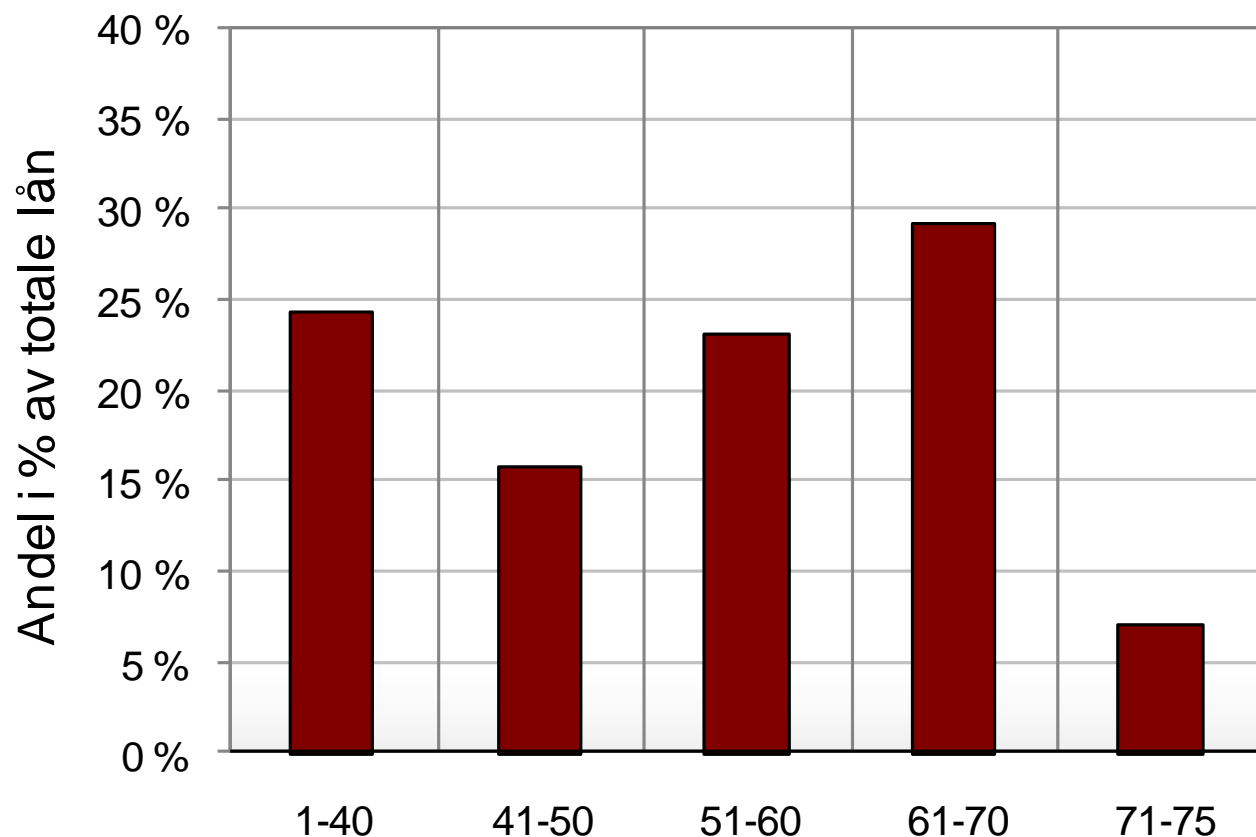
The buffer capital consists of cash, deposits in BoN/banks and interest bearing assets

Interest bearing assets:

- Portfolio duration, 2years
- 60% are covered bonds or governmental/municipality bonds
- 88% are rated A- or better

# Helgeland Boligkreditt AS

## Helgeland Sparebank LTV-fordeling 30.06.13



### Good cover pool

The cover pool:

- Qualified lending of MNOK 4,943
- Deposits: MNOK 244
- Rate of fullness: 126%
- Combined LTV: 52%

Loans:

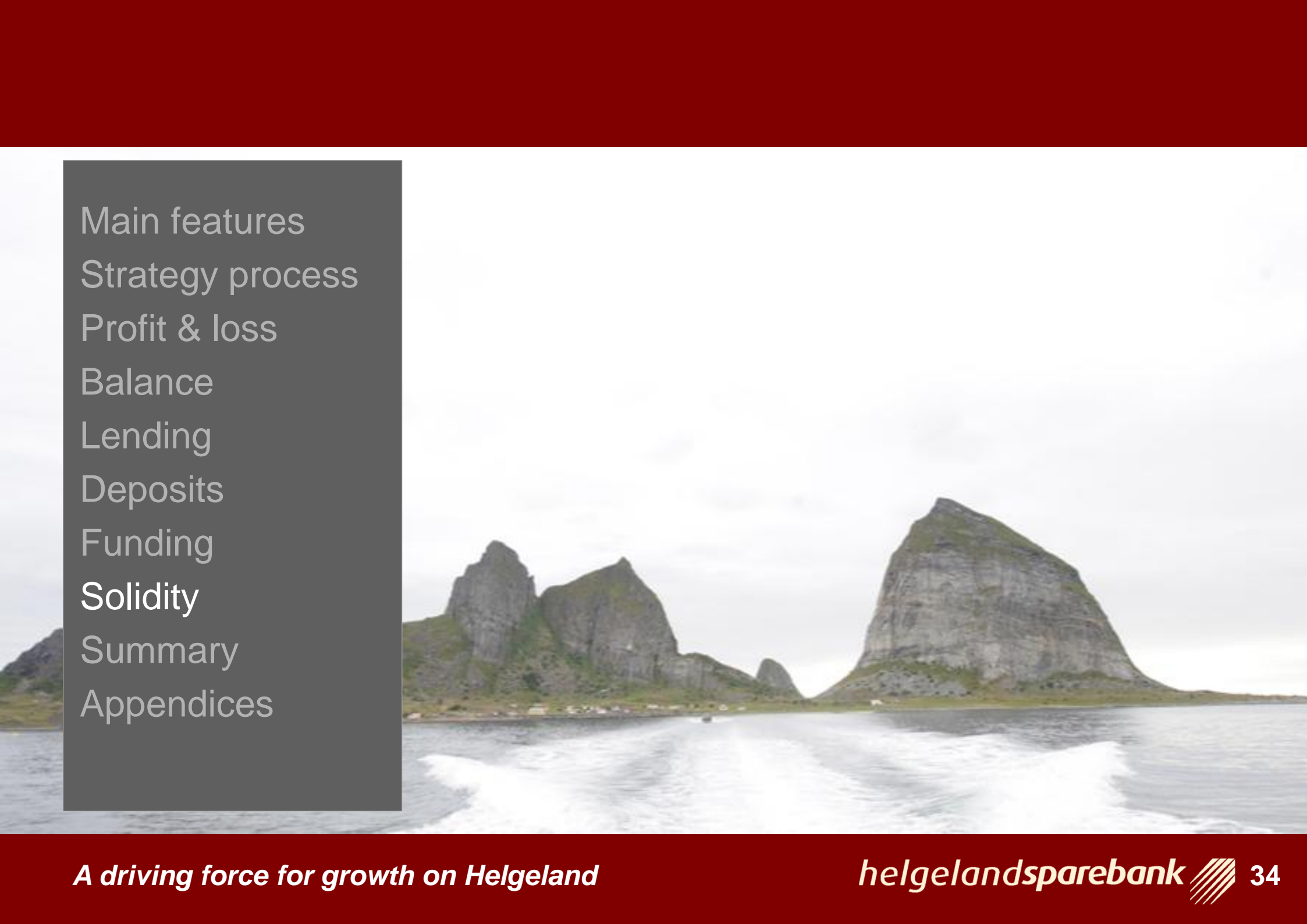
- Covered bonds NOK 4.1 bn.
- Duration on loans 2.2years (all loans have soft call)

Profitability 30.06.2013:

- Net profit MNOK 23.9
- No losses

CET1 capital ratio:

15,1 % (standard method – 35 % mortgage weighs)



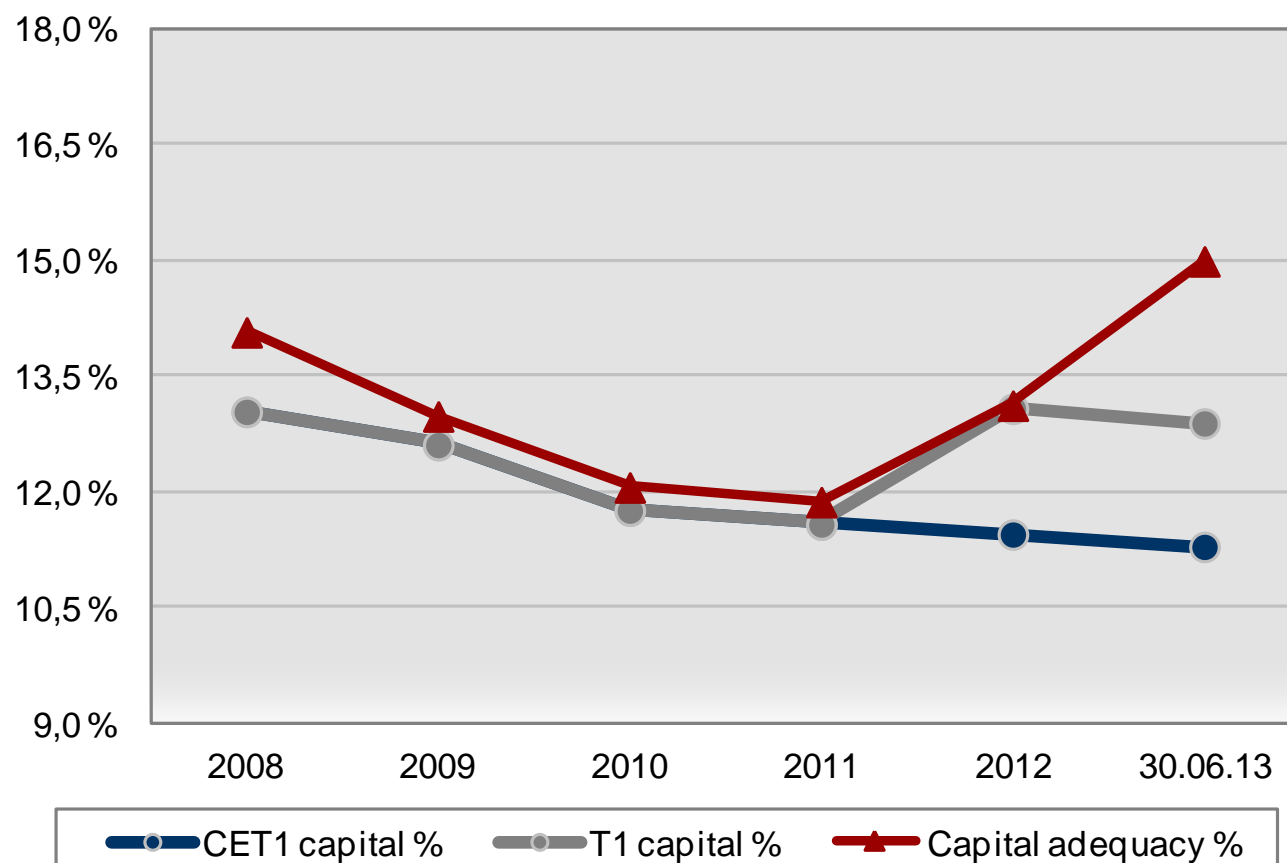
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# Solidity

## Capital ratio

### Helgeland Sparebank Development in capital adequacy



### Satisfactory solidity

CET1 capital was 11.3% (11.5% at 31.12.12) – well above the regulatory requirements of 9% (at the moment)

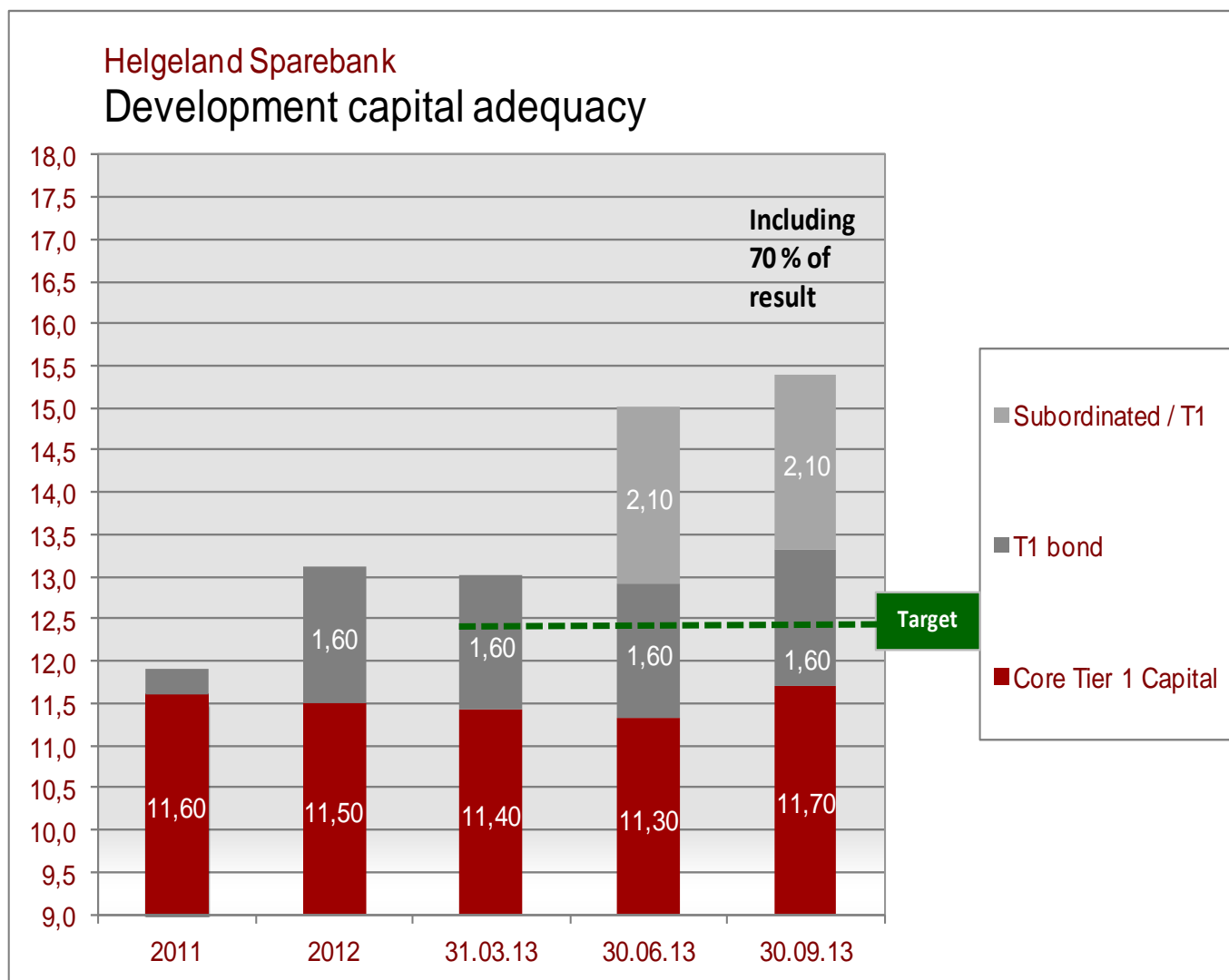
T1 capital was 12.9% (13.1% at 31.12.12)

Total capital ratio was 15.0% (13.2% at 31.12.12)  
-Strengthened in June with a MNOK300 subordinated loan

The HSB group uses the standard method when calculating capital requirements for lending. There are no expected tightening in risk weights for the standard method banks.

# Solidity

## Capital structure



### New capital targets have been determined

The HSB group aims toward a CET1 of 12.5% from 01.07.14 and a total capital ratio up to 18% toward 2018 (given the counter cyclical buffer)

CET1 capital will in the first instance be increased through

- increased profit
- reduced growth, primarily in BM
- reduced degree of dividends
- optimisation of the calculation basis

T1 bond of MNOK 220 is expected to meet the requirements in CRD IV and a MNOK 300 subordinated loan is according to requirement in CRD IV

Subordinated/T1 loans will be used toward 2018 to strengthen the total capital ratio additionally



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# Prospects and priorities

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Target oriented work toward the bank's strategy plan

- Increase return on equity
  - Increase profitability additionally through better net interest
    - Reduced interest rates on deposits on parts of the portfolio, with full effect from August
    - Continue differentiated risk pricing on lending in the business market
  - Improve the cost efficiency throughout the whole organisation
    - Continually bench marking against other comparable banks
- Adapt to new capital requirements
  - Reduce lending growth down toward 5% this year
    - Unload loans in the business market through concrete measures
      - Use of covered bond company and syndication with other banks
      - Use of Brage for leasing and sales insurance
- Centralised credit management in the business market and high quality in the credit work
- Continue the work to increase the deposit ratio

# Prospects and priorities

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- Helgeland has since 2007 grown in population and value creation
- Helgeland has a robust and versatile labour market
  - National governmental businesses expand
  - Increased oil- and gas activity both off- and on shore
  - Challenging for export oriented process- and mining industry
  - Salmon prices remain high in the export markets
  - Younger people are returning to an increasing number of jobs in services both in the public and private sector
  - Large infrastructural investments on the E6, airport and ports
  - Campus Helgeland is opened next week by the minister of knowledge



# Contact information

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Chief Executive Officer

**Jan Erik Furunes**

(+47) 75 12 83 21 / (+47) 915 70 573  
jan.erik.furunes@hsb.no

## Business Address

Helgeland Sparebank  
Postboks 68  
8601 Mo i Rana  
Norway

Deputy Chief Executive Officer

**Lisbeth Flågeng**

(+47) 75 12 83 01 / (+47) 416 85 777  
lisbeth.flageng@hsb.no

## Internet

ECCs in general: [www.egenkapitalbevis.no](http://www.egenkapitalbevis.no)  
Web-site and online banking : [www.hsb.no](http://www.hsb.no)

Chief Financial Officer

**Inger Lise Strøm**

(+47) 75 11 91 11 / (+47) 951 33 295  
inger-lise.strom@hsb.no

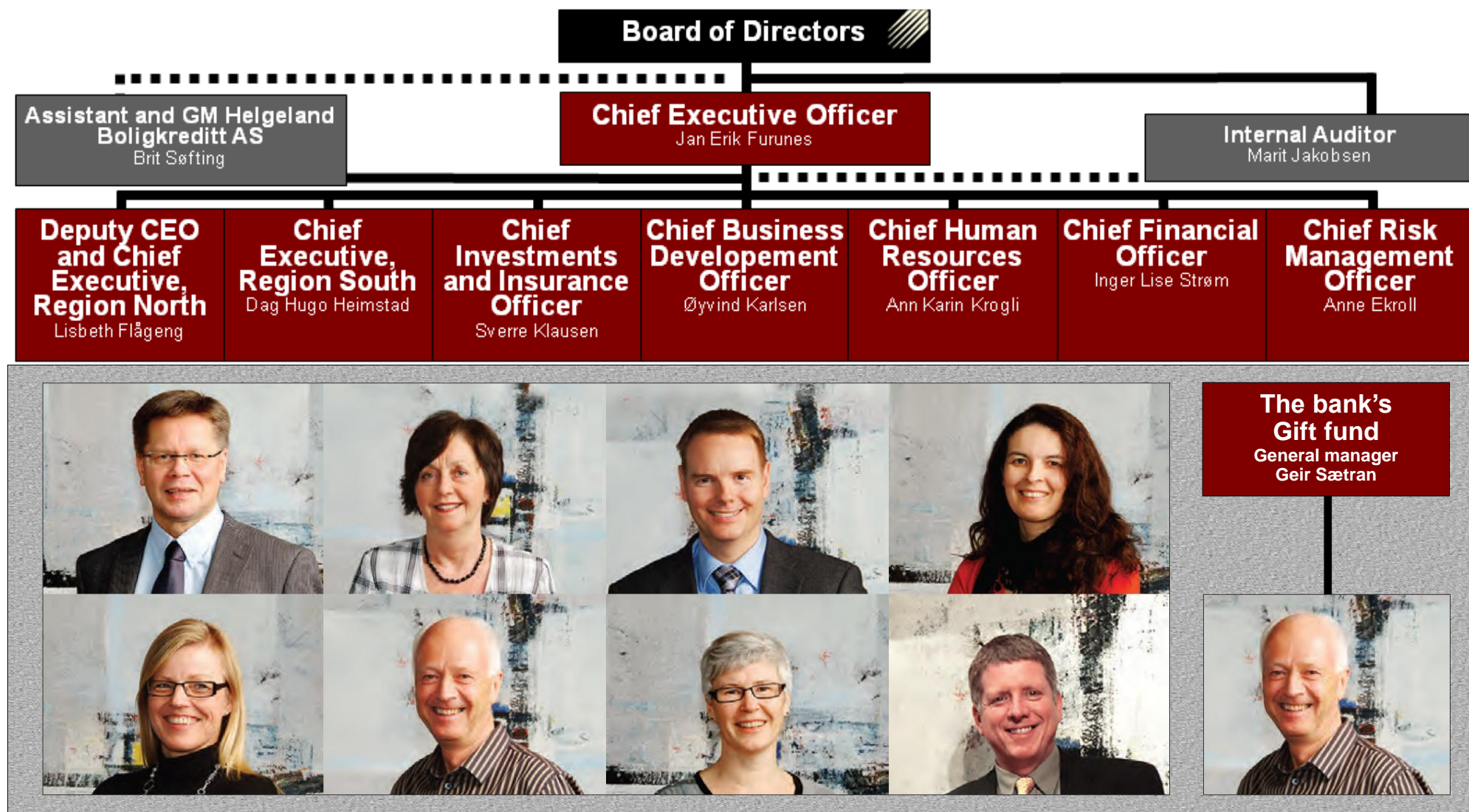


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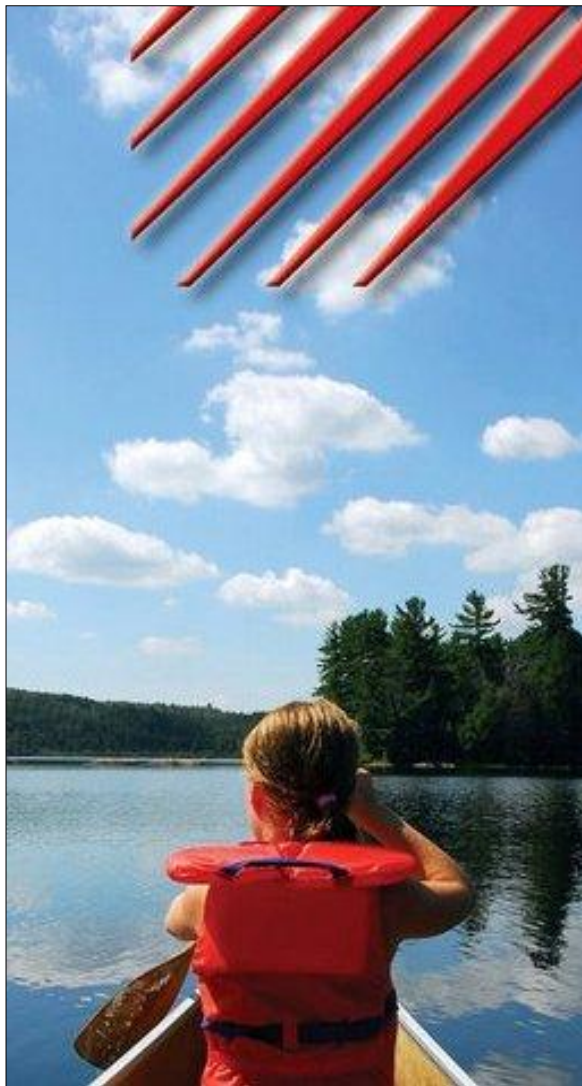




# Management and organisational structure



# 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



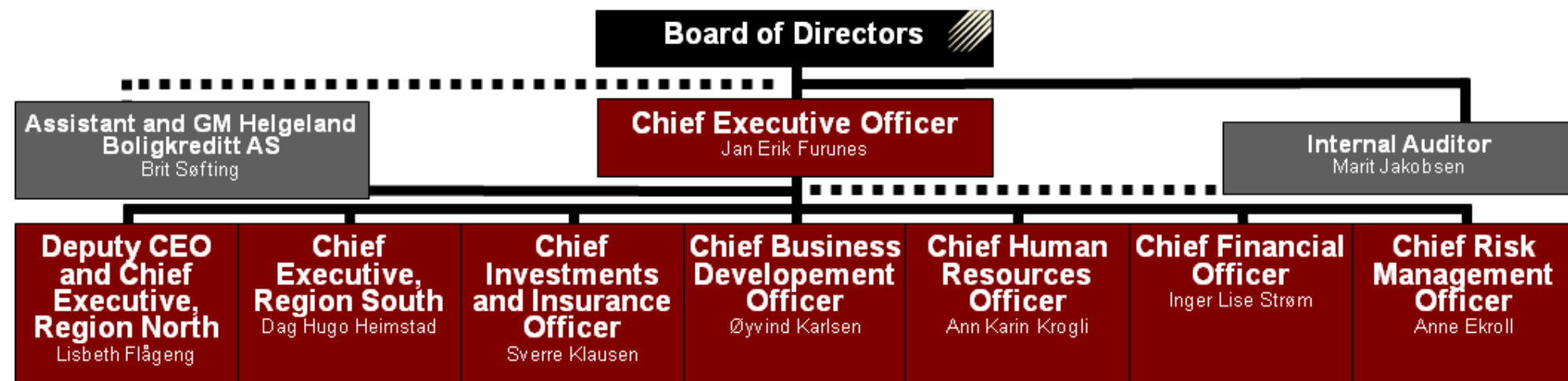
# Solid market position



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

- Personal market 56 %
- Youth market 56 %
- Business market 60 %
- Agricultural market 80 %
- The customer barometer on satisfaction (76) and loyalty (83) indicates satisfied customers.
- Good competency, quick processing and employee satisfaction in the lead in Scandinavia contributes to the bank's position.
- The bank is a significant supporter and contributor to sports, culture and knowledge in the region.

# Business development and ownership



## Subsidiaries and associated companies



100 %



8,9 %



34%



6,5 %



48%



10 %

# 20 largest owners of the ECC - HELG

|                                |                   |               | <i>Parent bank</i>             |                   |               |
|--------------------------------|-------------------|---------------|--------------------------------|-------------------|---------------|
| Per 30.06.13                   | Numbers           | % share       |                                | Numbers           | % share       |
| Sparebankstiftelsen Helgeland  | 12 099 598        | 64,7 %        | Citibank, N.a S/A              | 135 647           | 0,7 %         |
| MP Pensjon                     | 800 000           | 4,3 %         | Nervik, Steffen                | 110 000           | 0,6 %         |
| Sparebank 1 Midt-Norge         | 649 047           | 3,5 %         | Melum Mølle AS                 | 100 000           | 0,5 %         |
| Helgelandskraft AS             | 340 494           | 1,8 %         | Hartviksen, Harald             | 94 498            | 0,5 %         |
| Sparebankstiftelsen DnB NOR    | 329 124           | 1,8 %         | Brage Invest AS Eika kapital   | 82 287            | 0,4 %         |
| Sparebanken Vest               | 200 000           | 1,1 %         | Tveteraas Eiendomsmesse        | 75 000            | 0,4 %         |
| Bergen Kommunale pensj.        | 200 000           | 1,1 %         | Tromstrygd                     | 75 000            | 0,4 %         |
| Terra utbytte                  | 199 316           | 1,1 %         | Swedbank AS                    | 69 270            | 0,4 %         |
| Skagen Vekst                   | 185 809           | 1,0 %         | Institutt for sammenligning    | 62 300            | 0,3 %         |
| Johs. Haugerudsvei AS          | 182 230           | 1,0 %         | Storkleiven AS                 | 60 000            | 0,3 %         |
| <b>Total 10 biggest owners</b> | <b>15 185 618</b> | <b>81,2 %</b> | <b>Total 20 biggest owners</b> | <b>16 049 620</b> | <b>85,8 %</b> |



# 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."