

# Interim report for the 1<sup>st</sup> half of 2014

med  for  
HELGELAND



# Interim report for the 1<sup>st</sup> half of 2014 (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

# Theme

## Main features

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# Main features 1st half year

## Results

Good basic operation – gross profit MNOK 146 (117)

- Net interest increased by MNOK 23
- Net commissions increased by MNOK 6
- Operating cost increased by MNOK 5
- Losses on loans increased by MNOK 16
- Return on financial investments increased by MNOK 23

## Profitability

Improved return on equity 10,7 (9,2) %

## Solvency

Strengthened capital adequacy – core tier one 12,0 (11,3) % – capital ratio 15,7 (15,0) %

## Funding

Good and long-time funding – official rating is strengthening the position in the capital market

# Main features 1st half year

## Lending

Reduced 12-month growth 1,6 (8,0) % – in line with the Bank's instruments due to increased capital requirements

- Personal market 4,0 (8,9) %
- Corporate market -2,7 (6,4) %

## Deposits

Increased 12-month growth 12,5 (8,9) % – deposit coverage 65,9 (59,5) %

- Personal market 8,3 (8,8) %
- Corporate market 20,4 (9,1) %

## Destinctive features 2th quarter

Losses on loans: Singel commitment in the pelagic fishing industry recorded MNOK 13,5

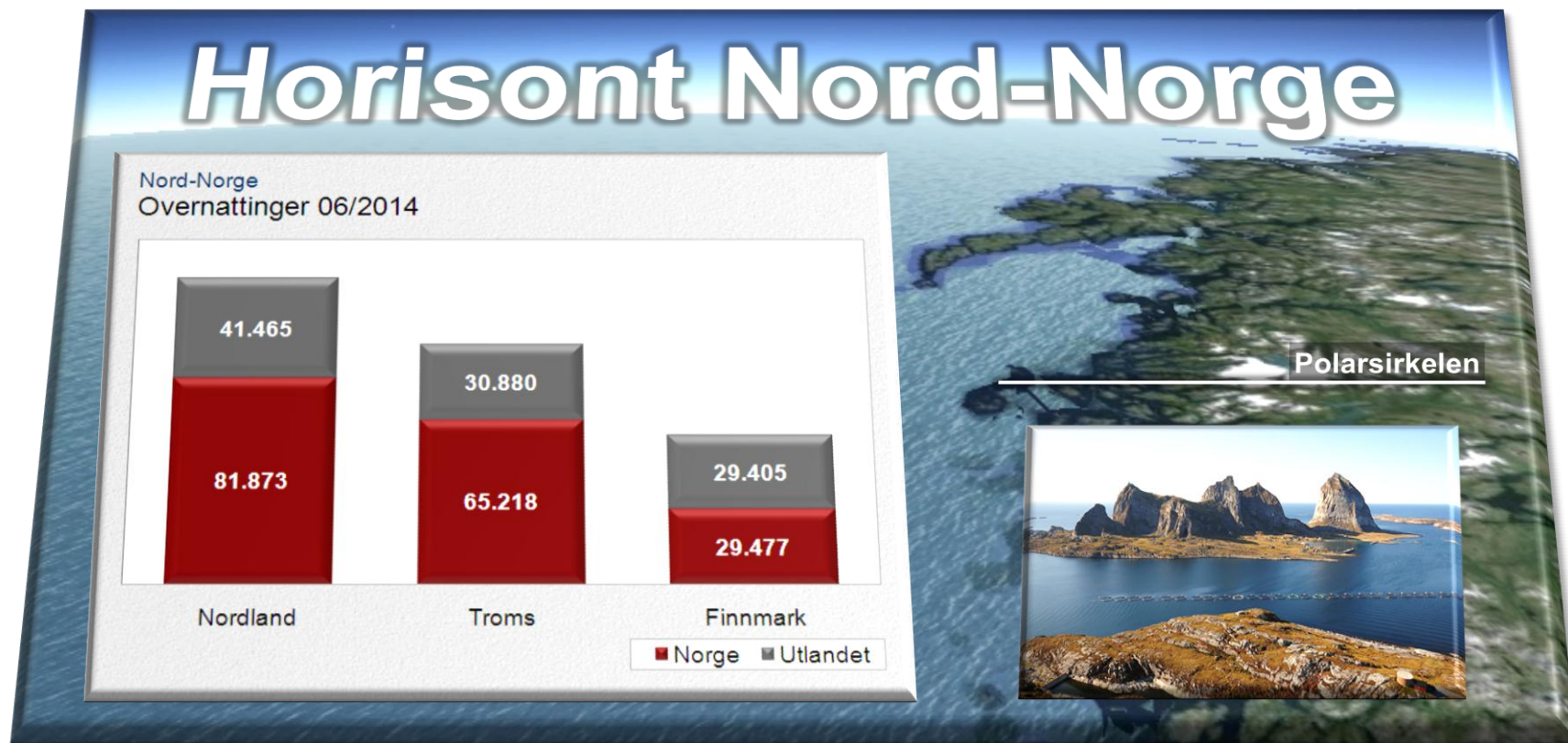
Financial investments: Nets gain recognized with MNOK 16,8

# Theme

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# Helgeland – The most beautiful coastline in Norway

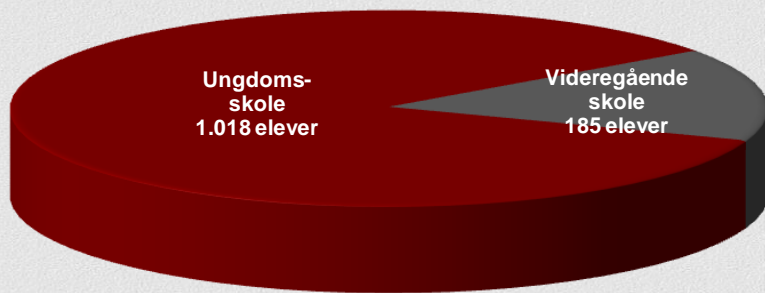




# HSB – wide knowledge investment

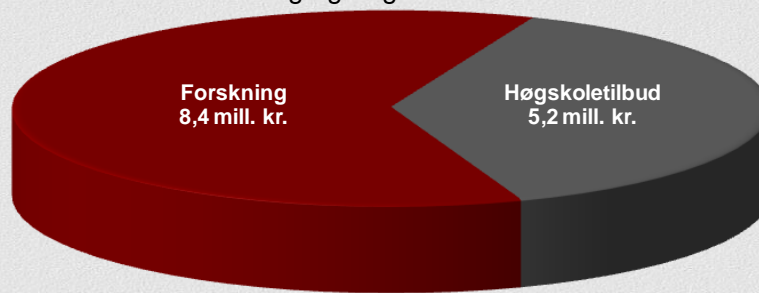
Helgeland Sparebank

Antall underviste elever skoleåret 2013/14



Helgeland Sparebank

Millionstøtte til forskning og høgskelelilbud siden 2010



## Knowledge Commitment middle / high school

In keeping with a long tradition savings bank, the Bank has taught over 1,200 students in lower and upper secondary school on the year 2013/14 in personal finance.

The initiative is a partnership with Young Enterprise in Nordland and is based on the teaching program for FNO. It is the first time the bank is investing heavily in this segment.

## Knowledge Commitment reasearch / study programs

The Bank's gift allocation has increasingly since 2012 shifted towards reasearh and study programs organized by among others Campus Helgeland (cooperation between colleges and universities).

Resarh activities include graduate fellowships in technology and industrual business as well as newly established SINTEF activity directed tiwards industry.



# HSB – documentet driving force



## **The association's 100 year anniversary: Stories of the bank**

"Throughout the development of Nova Sea, the company has benefited greatly from working with current Helgeland Sparebank. Spite of difficult times and balancing on the brink of bankruptcy, the bank has contributed capital, risk appetite and visions. Particular, the former general manager Arnt Krane. the importance of having a bank that has been close to the company's is indisputable. "

**Aino Olaisen on behalf of Vigner Olaisen AS**



## **The association's 100 year anniversary: Stories of the bank**

"We are so grateful to have HSB as a partner and contributor. When properly organized equestrian competition we are in Utskarpen as sportsteams and built entirely dependent on HSB and their economic contribution to make to such a convention - it would not be possible without the HSB . Their contribute to the community our lives and that it can be done here where we live. it puts all incorporating units appreciated! "

**Karina Langstrand on behalf of Hestesportgruppa i Utskarpen IL**

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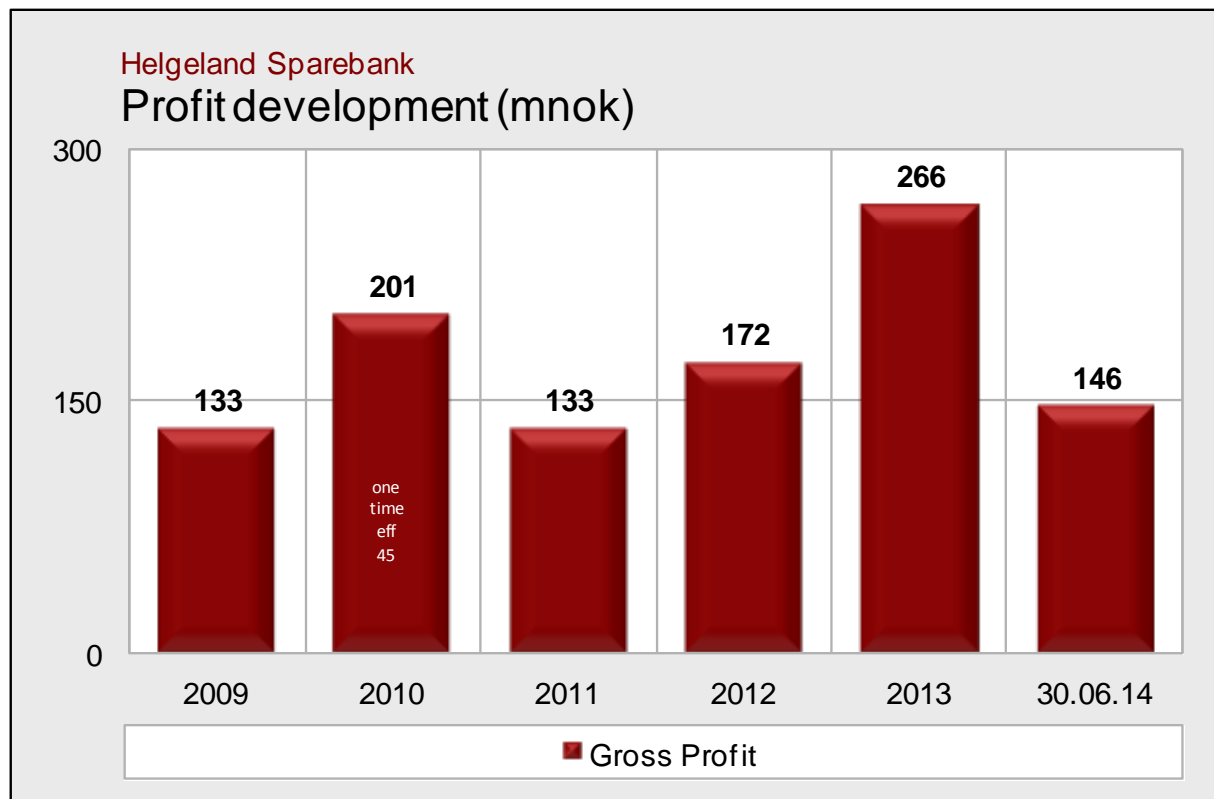
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# Profit & Loss



## Kommentar

Historically good result in 2013 based only in core operation

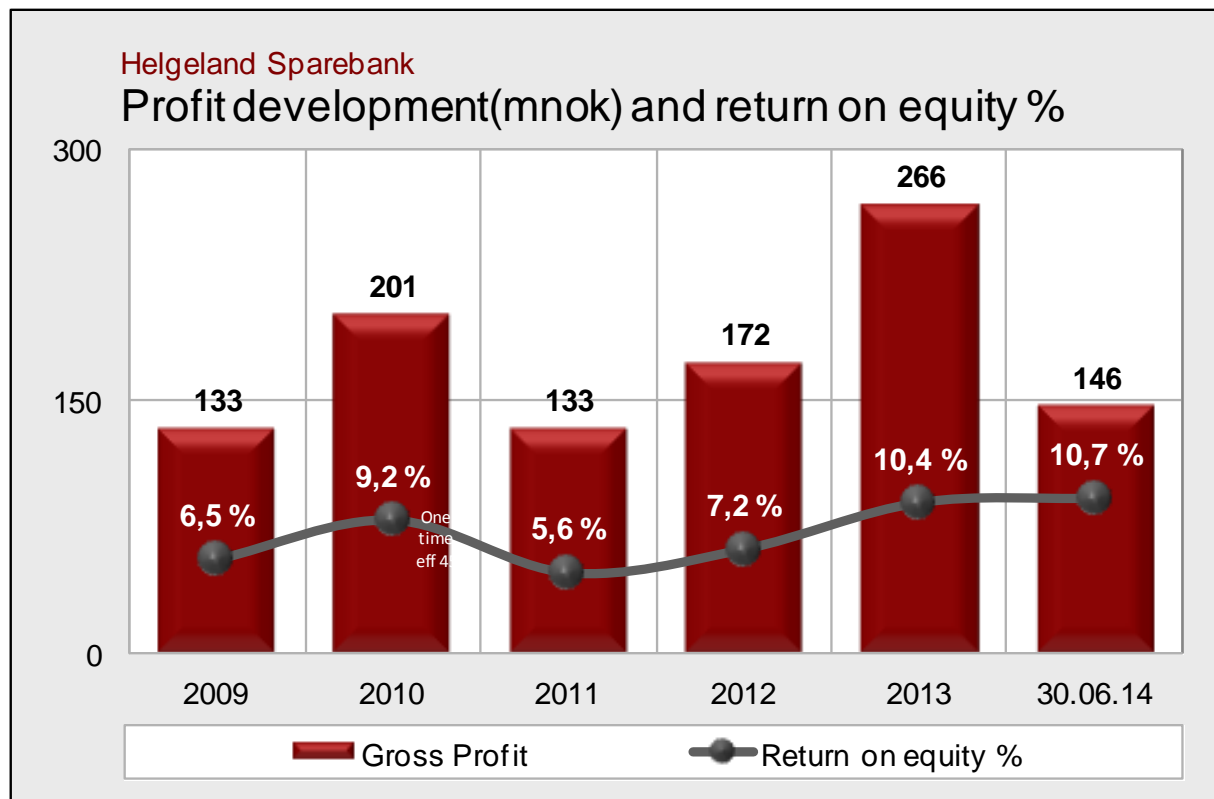
The improvement from 2011 to 2013 is exactly 100 %

The goal for 2014 is stronger GOP than 2013

Some uncertainties net interest

- Relief BM-engagement
- Increased price competition
- Effect of interest rate reduction
- Effect of official rating

# Result



## Kommentar

Historically good result in 2013 based only in core operation

The improvement from 2011 to 2013 is exactly 100 %

The goal for 2014 is stronger GOP than 2013

Some uncertainties net interest

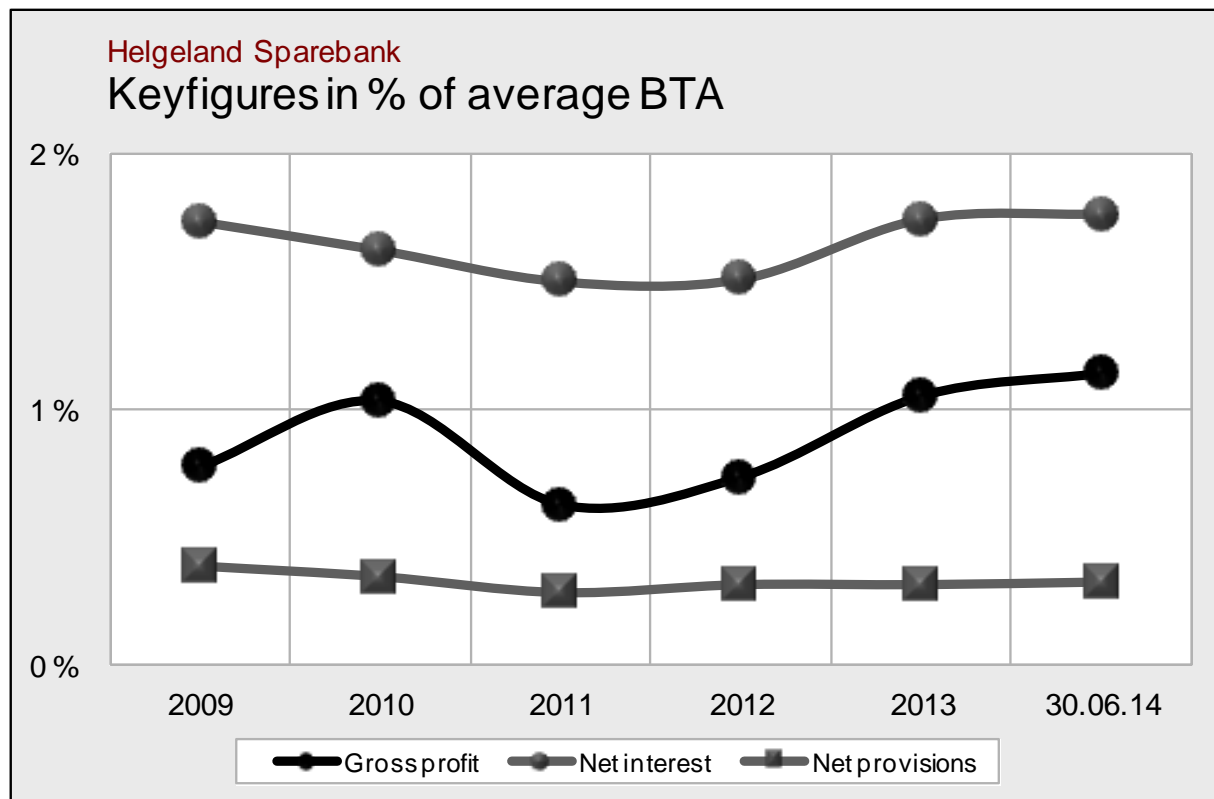
- Relief BM-engagement
- Increased price competition
- Effect of interest rate reduction
- Effect of official rating

Return on equity

- Target at least 10 %
- Result 10,7 (9,2) %



# Keyfigures



## Kommentar

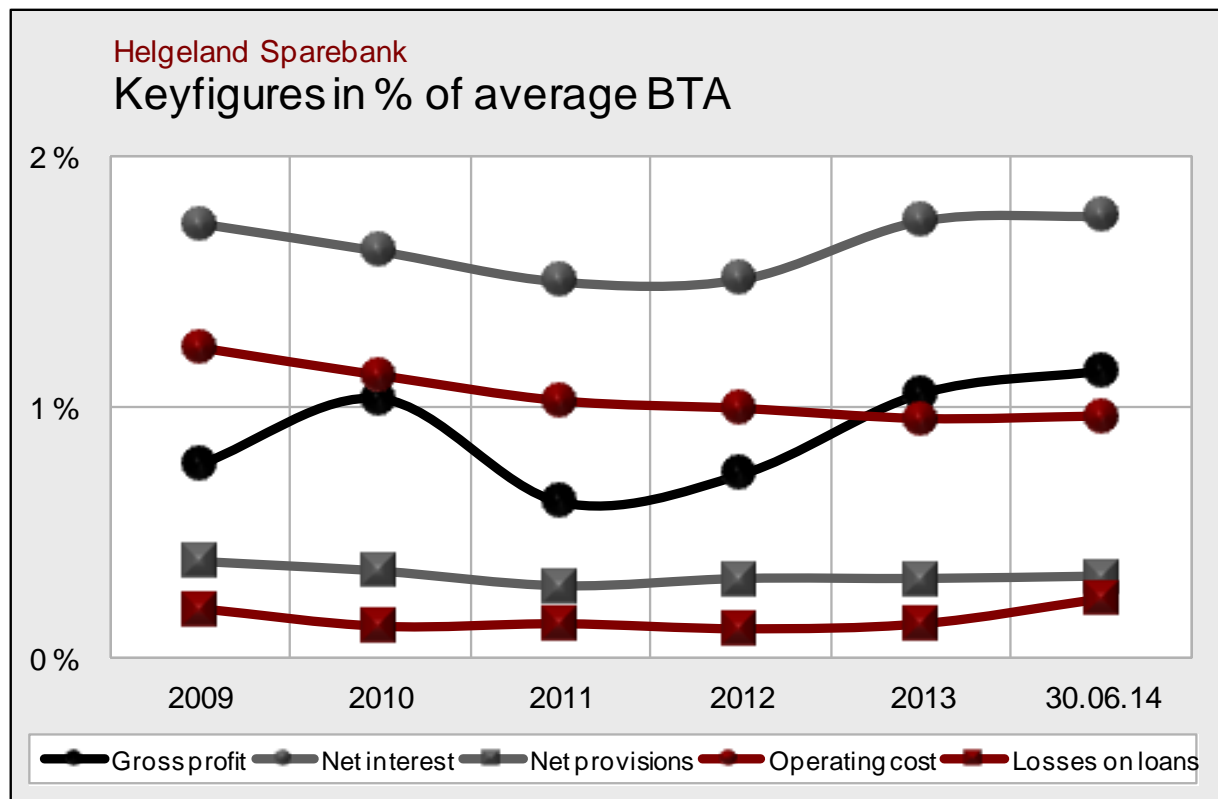
### Net interest

- Improved margin from 2011
- Slight decrease in 2014 – Q2 = Q1

### Net provisions

- Stable level from 2011
- Increase in 2014 – Q2 > Q1

# Keyfigures



## Kommentar

### Net interest

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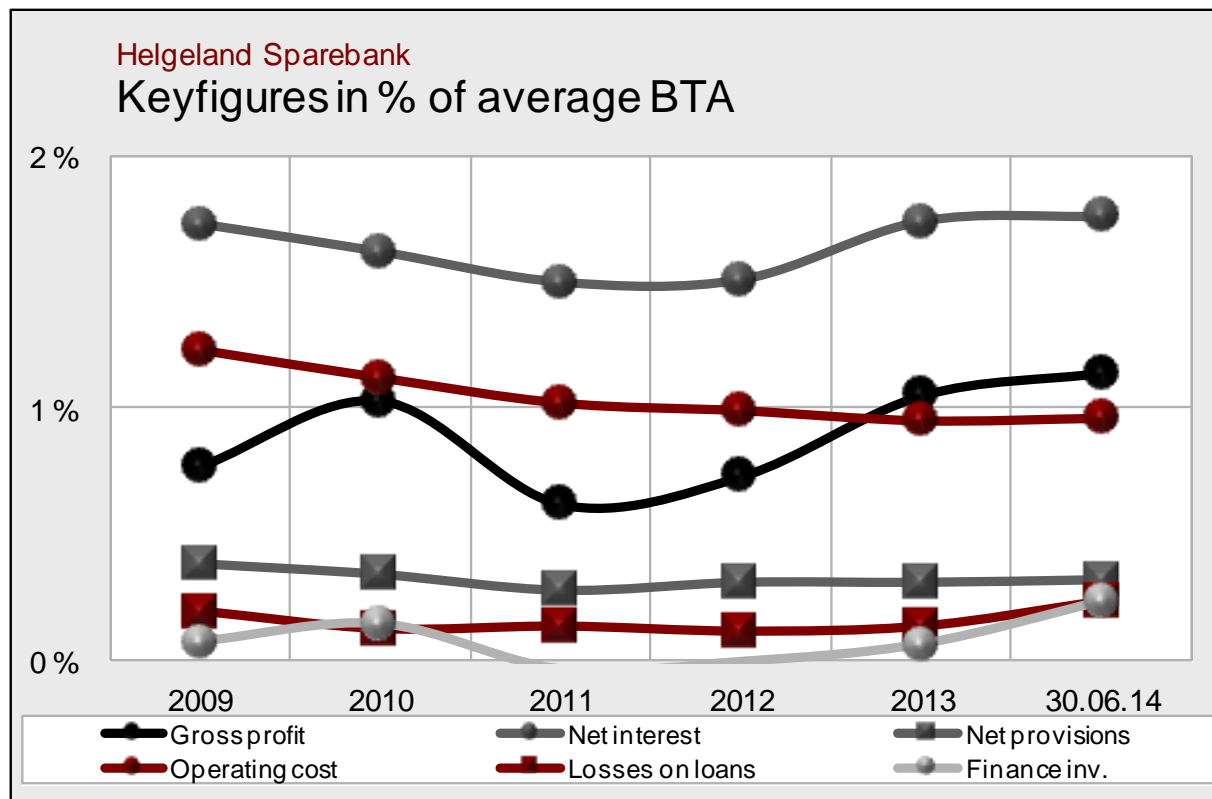
### Operating cost

- Dropping cost from 2009
- Flattening in 2014 – Q2 < Q1

### Losses on loans

- Relatively low level from 2009
- increasing in 2014

# Keyfigures



## Kommentar

### Net interest

- Improved margin from 2011
- Slight decrease in 2014 – Q2 = Q1

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- Stable level from 2011
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### Operating cost

- Dropping cost from 2009
- Flattening in 2014 – Q2 < Q1

### Losses on loans

- Relatively low level from 2009
- increasing in 2014

### Financial investments

- Low risk controlling
- increase in 2014 – including Nets

# Profit & Loss

Helgeland Sparebank (konsern)	Profit & loss (MNOK)				
	Q2/2013	Q3/2013	Q4/2013	Q1/2014	Q2/2014
Net interest- and credit provision earnings	109	117	118	113	114
Net provision earnings	18	22	20	19	22
Other operatios income	2	1	3	1	1
Ordinary operations cost	59	59	62	62	61
Result basic operations	70	81	79	71	76
Write-downs lending and warranties	7	7	12	11	18
Net value change financial instruments	3	2	6	6	23
Gross profit	66	76	73	66	81
Net profit	46	54	56	48	59
Net extended income posts	-8	2	41	13	-7
Profit for the period	38	56	97	61	52

## Kommentar

Still good and stable core operations

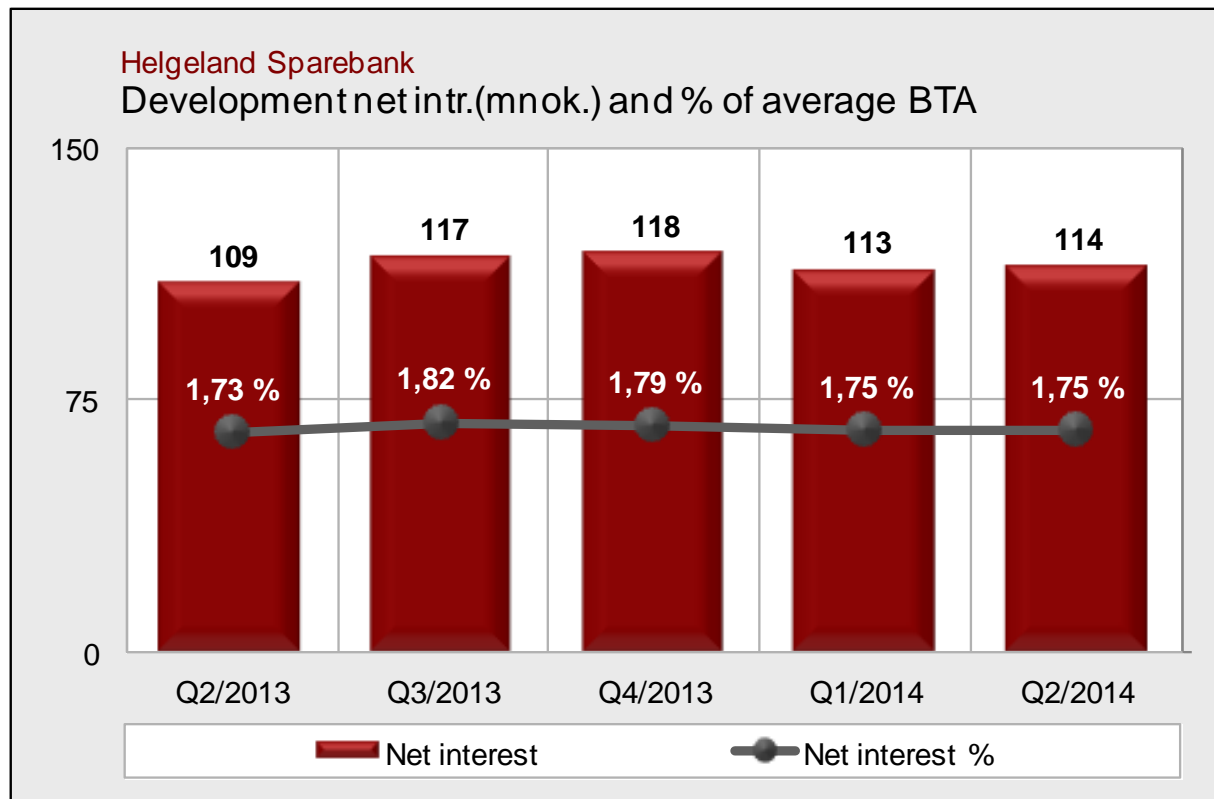
Losses on loans last quarter related to a single engagement in the pelagic fishing industry

Net increase in finance investments last quarter is a result of Nets-profit and profit contribution from associates

Comprehensive P&L are therefore slightly reduced from Q1 to Q2



# Net interest



## Kommentar

Net interest slightly down towards 2014, but level remain unchanged from Q1 to Q2

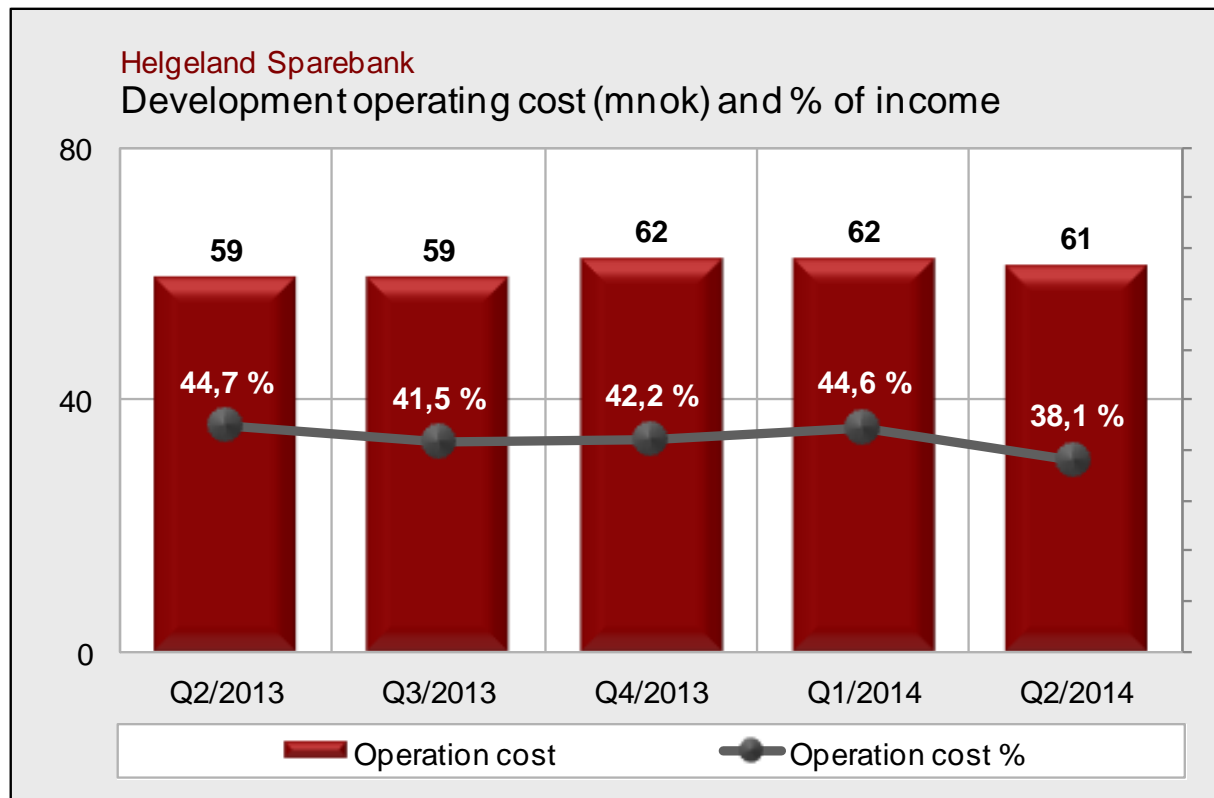
Change in net interest is due to

- Relief BM involvement
- Increased price competition

Price competition – driven forward by SPK and KLP, faced with individual price adjustment

The bank has announced further market adaption of interest rate on deposits

# Operating cost



## Kommentar

Relatively flat costs in MNOK towards 2014, but the expense ratio down in Q2.

Growth in cost first half year

- Maximum target 3,5 %
- Result 4,1 %

Future challenge will be increased payroll tax from 01.07

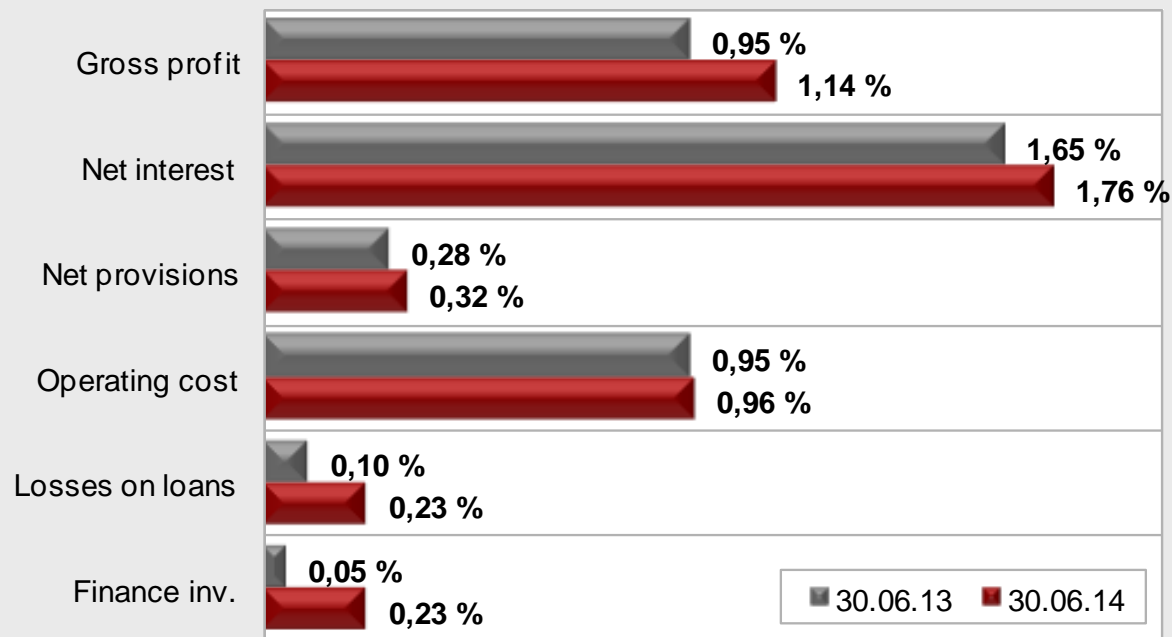
Project initiated to streamline operations

Including reorganize all cash-handling in all offices from 01.01.15

# Keyfigures

Helgeland Sparebank

## Keyfigures in % of average BTA



### Kommentar

Gross profit, net interest, net provisions and finance-investments strenghtened

Non growth in operating cost and some greater losses on loans

# Theme

Main features

Strategy process

Profit & loss

**Balance**

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Solidity

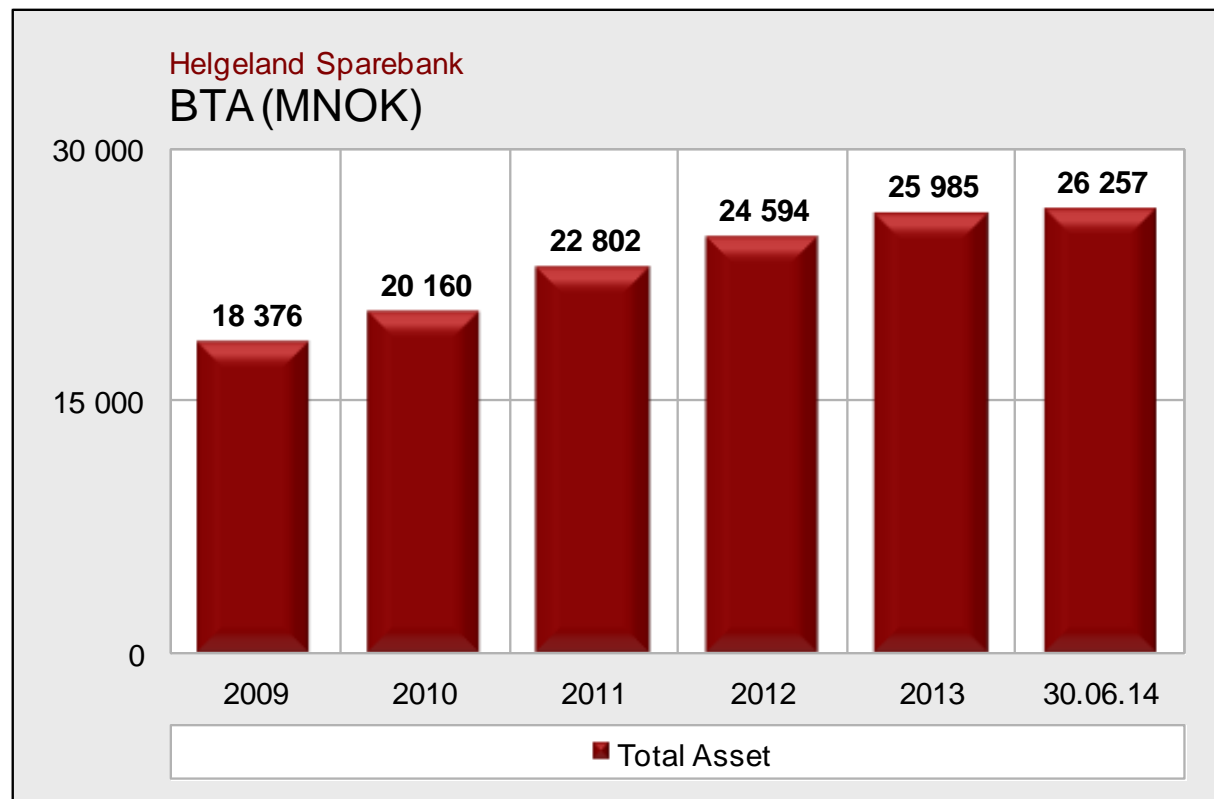
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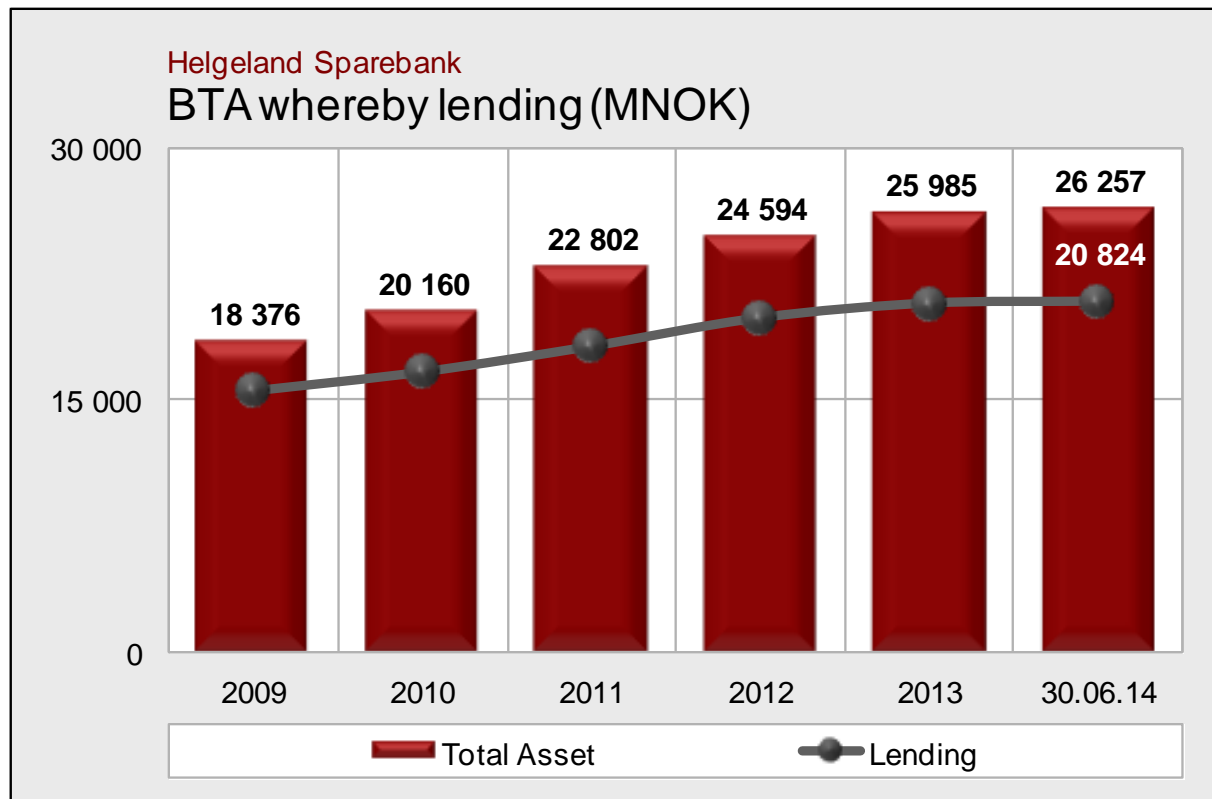
# Total Asset



## Kommentar

Cause of lower total assets is relief  
BM involvement

# Total Asset



## Kommentar

Cause of lower total assets is relief  
BM involvement

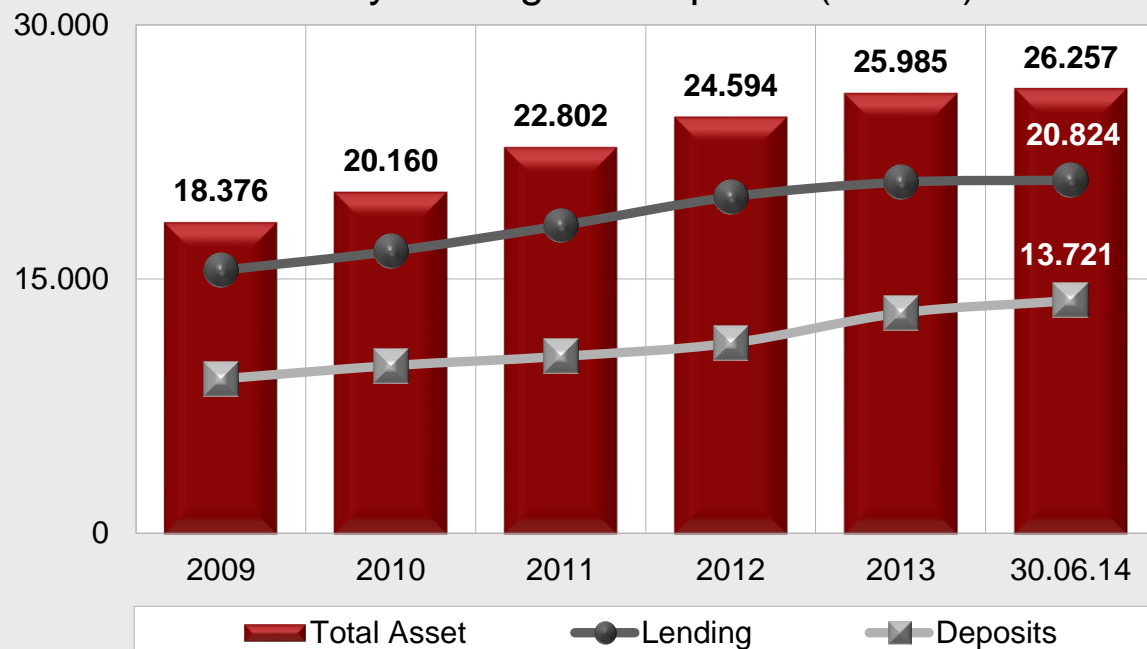
### Lending

- 1. half year 20,8 (20,5) bn. NOK
- 12 mnth growth 332 MNOK.
- 6 mnth growth 116 MNOK

# Total Asset

Helgeland Sparebank

BTA whereby lending and deposits (MNOK)



## Kommentar

Cause of lower total assets is relief BM involvement

### Lending

- 1. half year 20,8 (20,5) bn. NOK
- 12 mnth growth 332 MNOK.
- 6 mnth growth 116 MNOK.

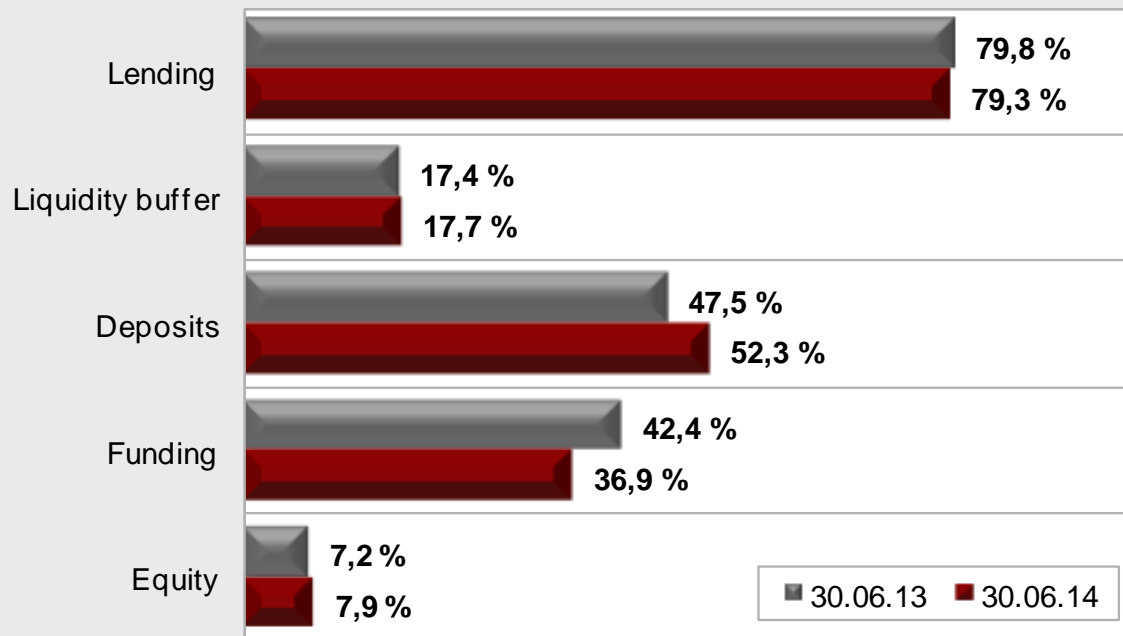
### Deposits

- 1. half year 13,7 (12,2) bn NOK.
- 12 mnth growth 1.526 MNOK
- 6 mnth growth 731 MNOK.

# Balance sheet

Helgeland Sparebank

Balance allocation in % of BTA



## Kommentar

Strong deposit growth has reduced the need for funding

Unweighted equity in the balance sheet are strengthened



# Theme

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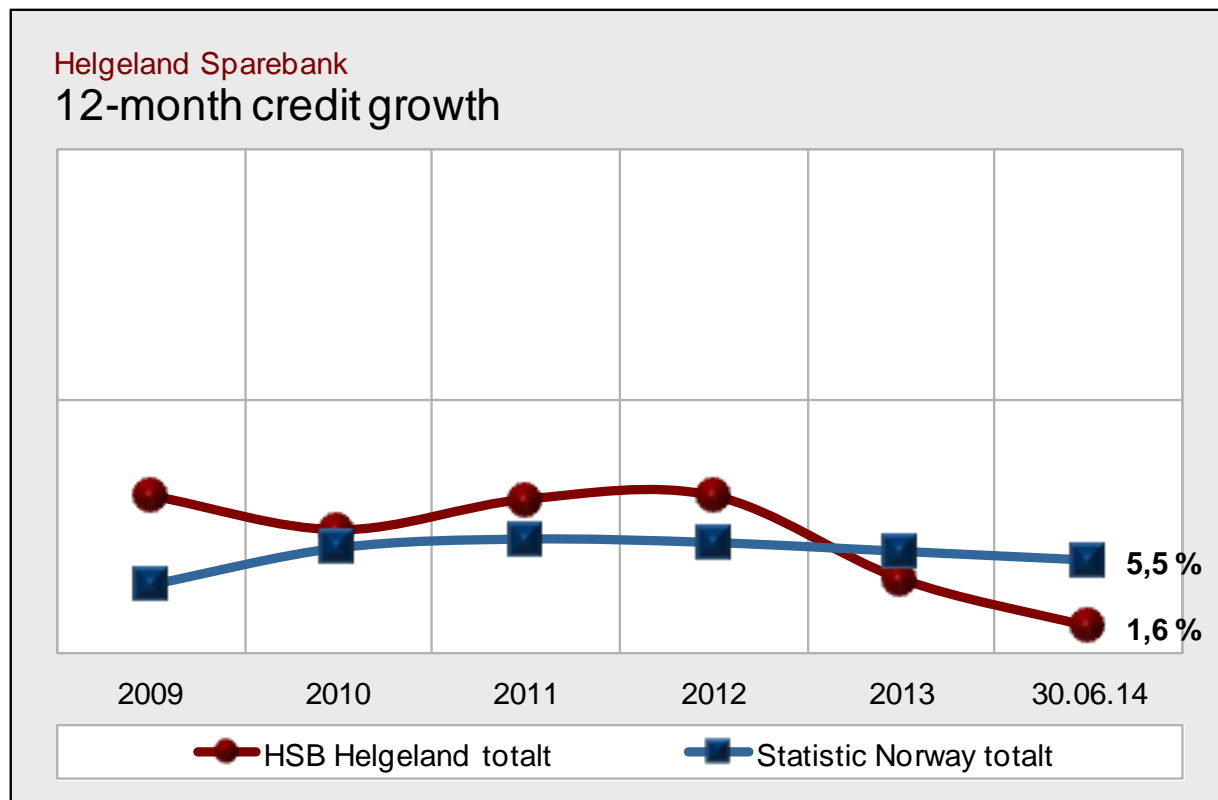
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# Credit growth

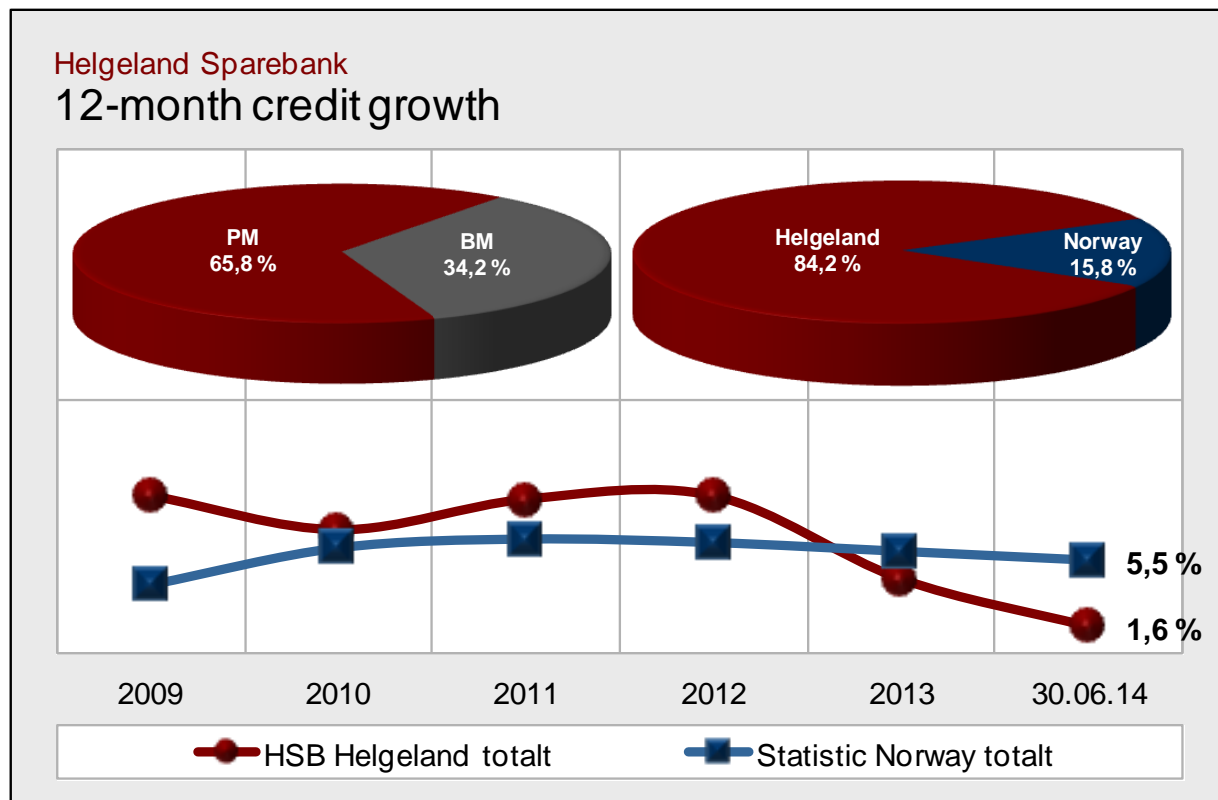


## Kommentar

Reduced lending growth in line with the Bank's instruments due to higher capital requirements

- 12 mnth growth 1,6 (8,0) %
- 6 mnth growth 0,6 (3,3) %

# Credit growth



## Kommentar

Reduced lending growth in line with the Bank's instruments due to higher capital requirements

- 12 mnth growth 1,6 (8,0) %
- 6 mnth growth 0,6 (3,3) %

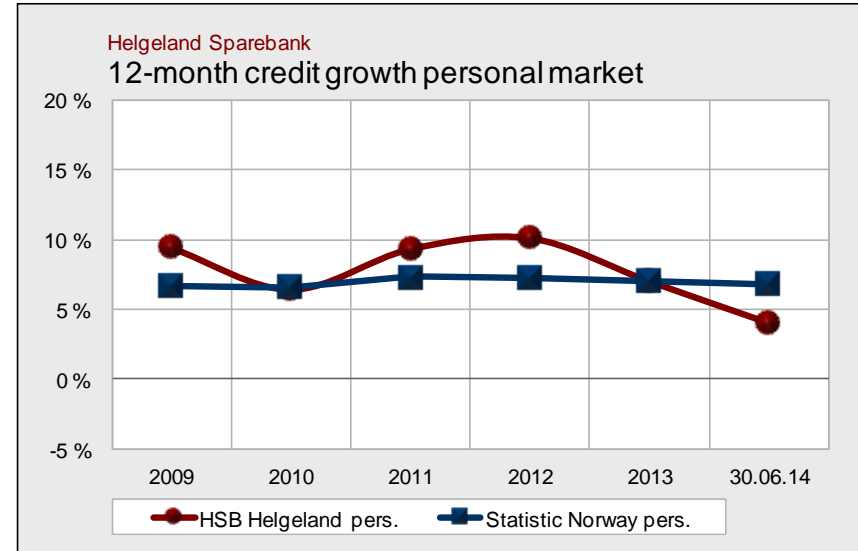
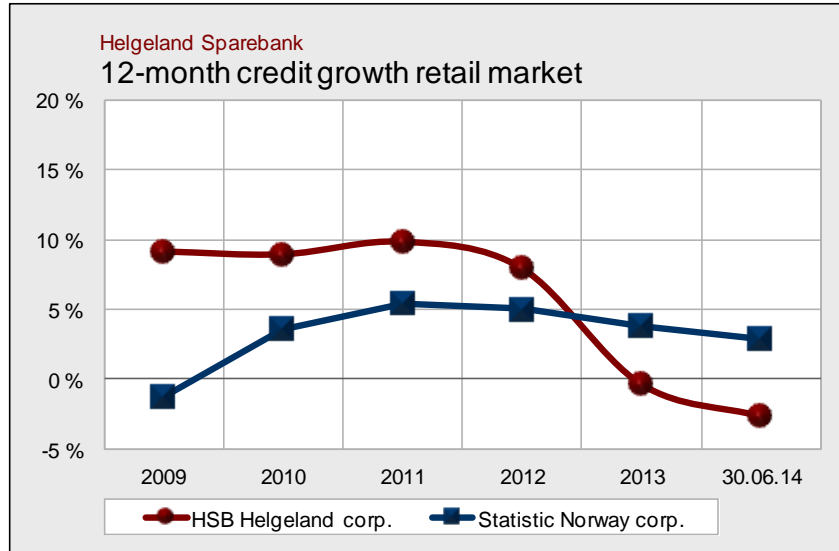
### PM-share

- Minimum target 60 %
- Result 65,8 (64,3) %

### Helgeland-share

- Result 84,2 (83,1) %

# Credit growth BM and PM



## Kommentar

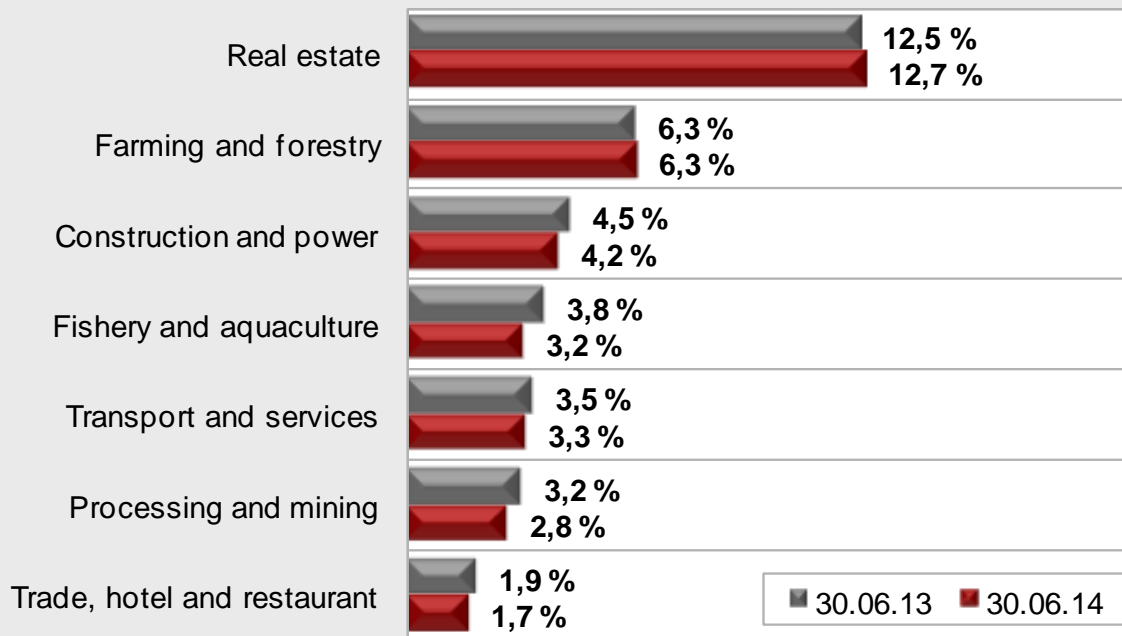
12 month growth 1,6 (8,0) % which BM -2,7 (6,4) % and PM 4,0 (8,9) %

Stricter priorities and reduction relief in BM in Q2/2014 – expected credit growth is revised down

# Lending BM

Helgeland Sparebank

## Lending distributed in sector



## Kommentar

Well-diversified loan portfolio in BM and very loyal customers.

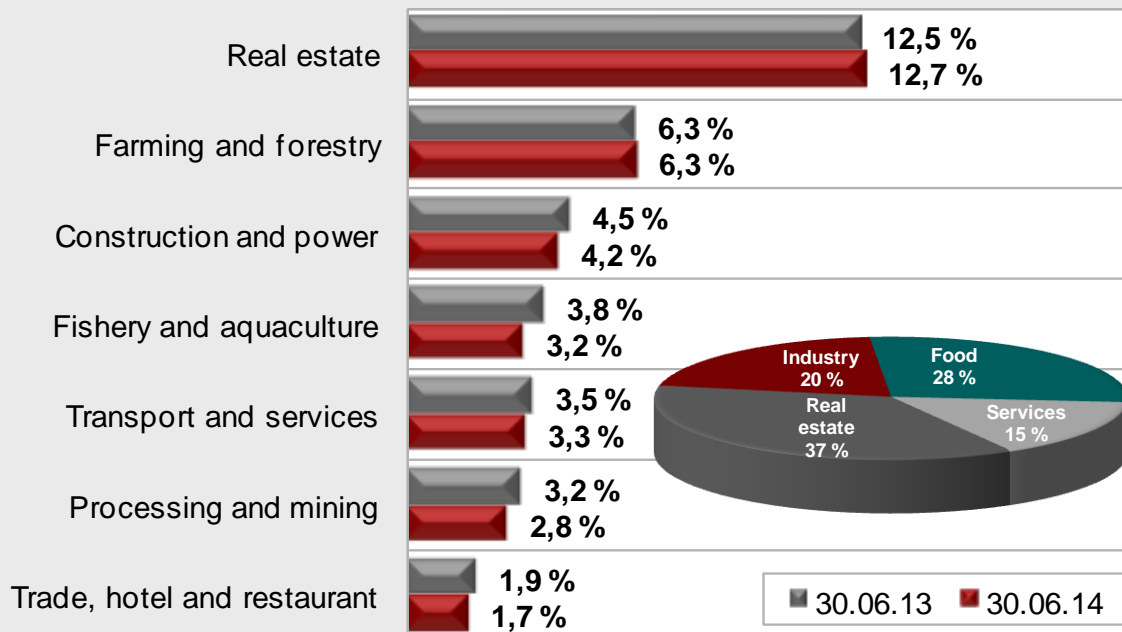
Lending to BM constituting 7,1 (7,3) bn NOK



# Lending BM

Helgeland Sparebank

## Lending distributed in sector



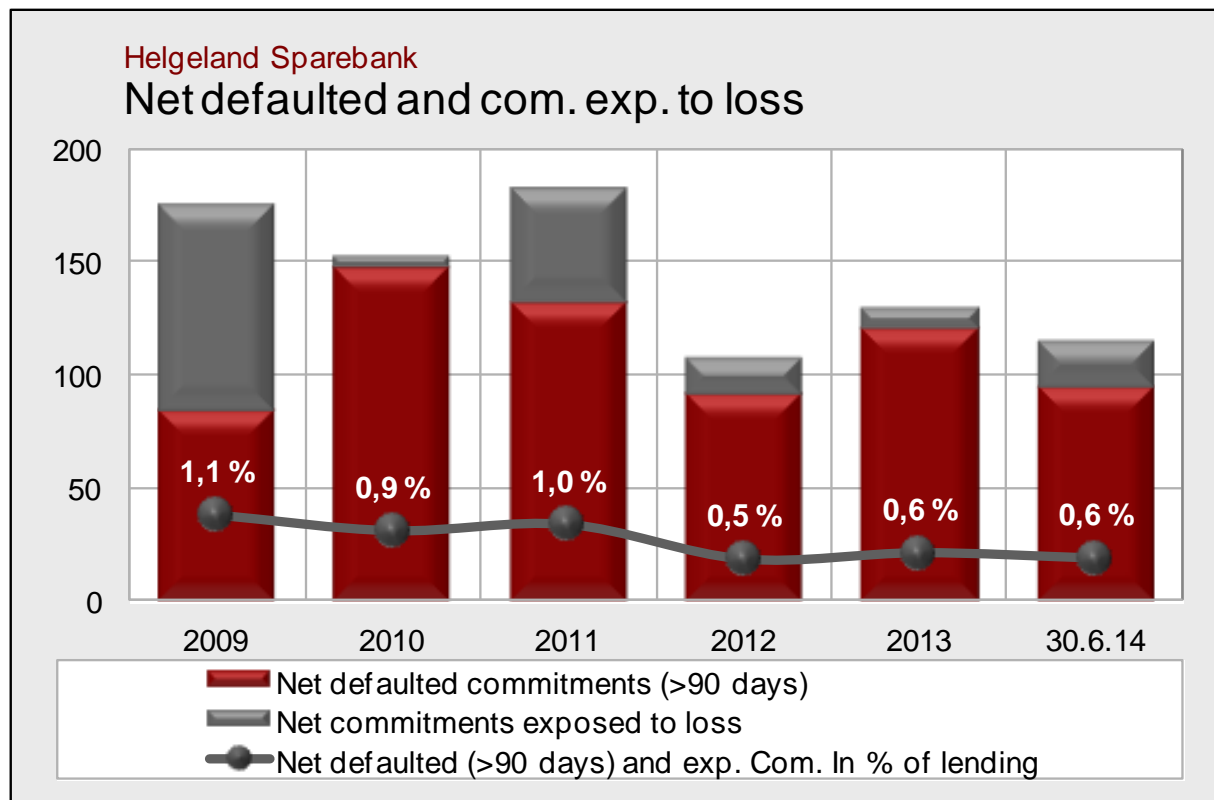
## Kommentar

Well-diversified loan portfolio in BM and very loyal customers.

Lending to BM constituting 7,1 (7,3) bn NOK

Food production consisting of land / forestry and fisheries / aquaculture constitutes 28 % of BM loans.

# Net defaultet and com. Exp. To loss



## Kommentar

Still good quality on portfolio

Net non-performing and doubtful loans as % of gross loan falling since 2009

Net non-performing and doubtful loans as % of gross loans declining since the trend in defaults in the portfolio and individual loans are followed carefully and follow through concrete measures.

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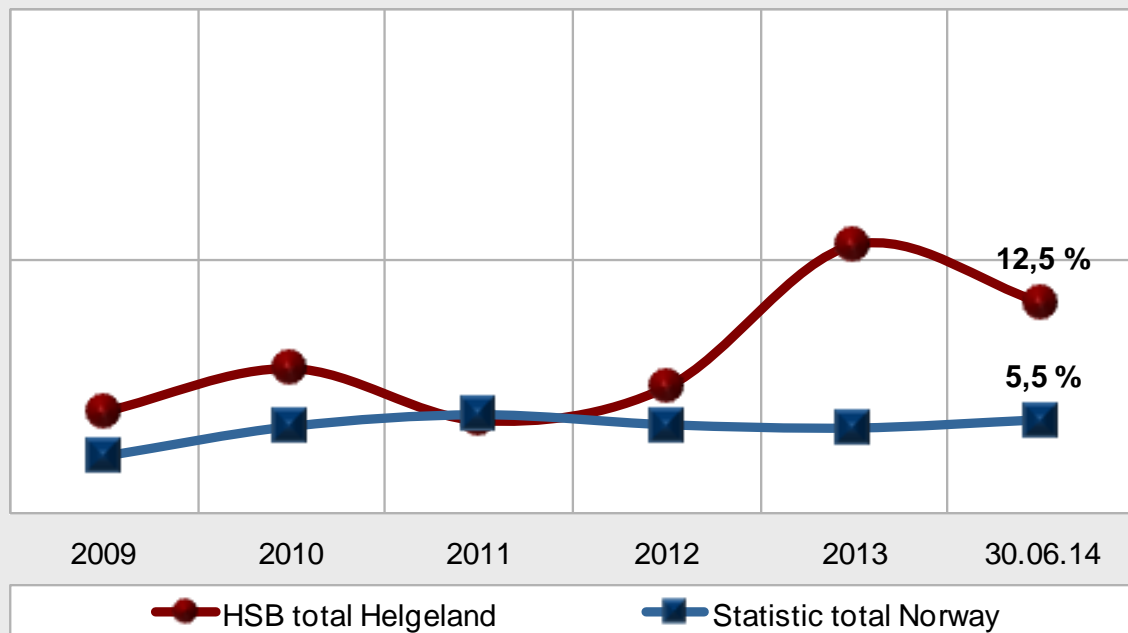
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# Deposit growth

Helgeland Sparebank

12-month deposit growth



## Kommentar

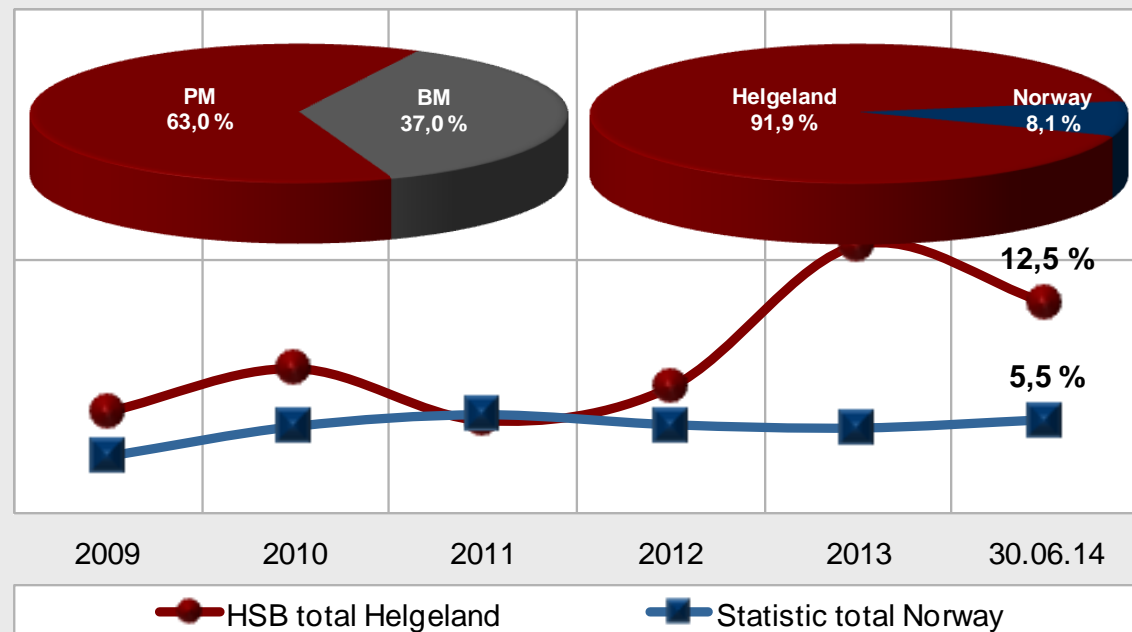
Very good deposit growth

- 12 mnth growrh 12,5 (8,9) %
- 6 mnth growth 5,6 (8,8) %

# Deposit growth

Helgeland Sparebank

## 12-month deposit growth



### Kommentar

Very good deposit growth

- 12 mnth growth 12,5 (8,9) %
- 6 mnth growth 5,6 (8,8) %

PM-share

- Result 63,0 (65,4) %

Helgeland-share

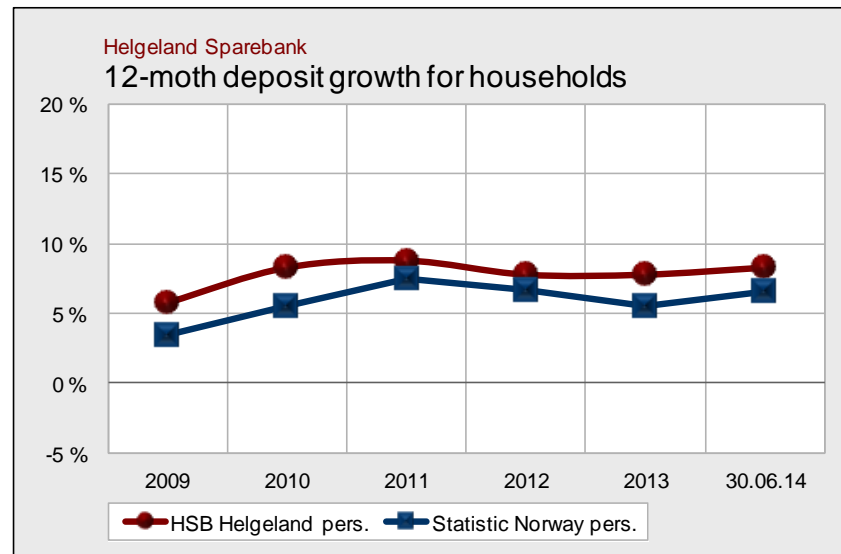
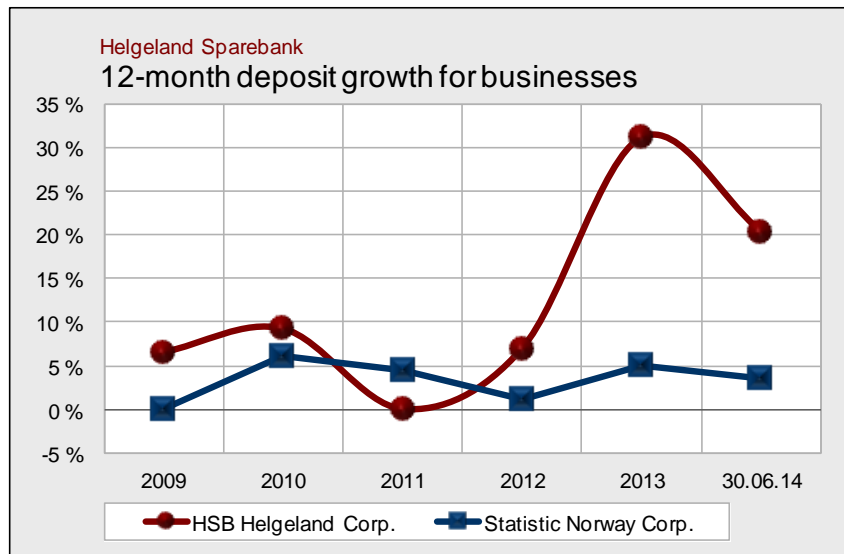
- Result 91,9 (91,3) %

Deposit coverage

- Minimum target 60 %
- Result 65,9 (59,5) %

Share of deposit < 2 MNOK  
8,1 bn NOK. or 93 % of PM-deposit

# Deposit BM and PM



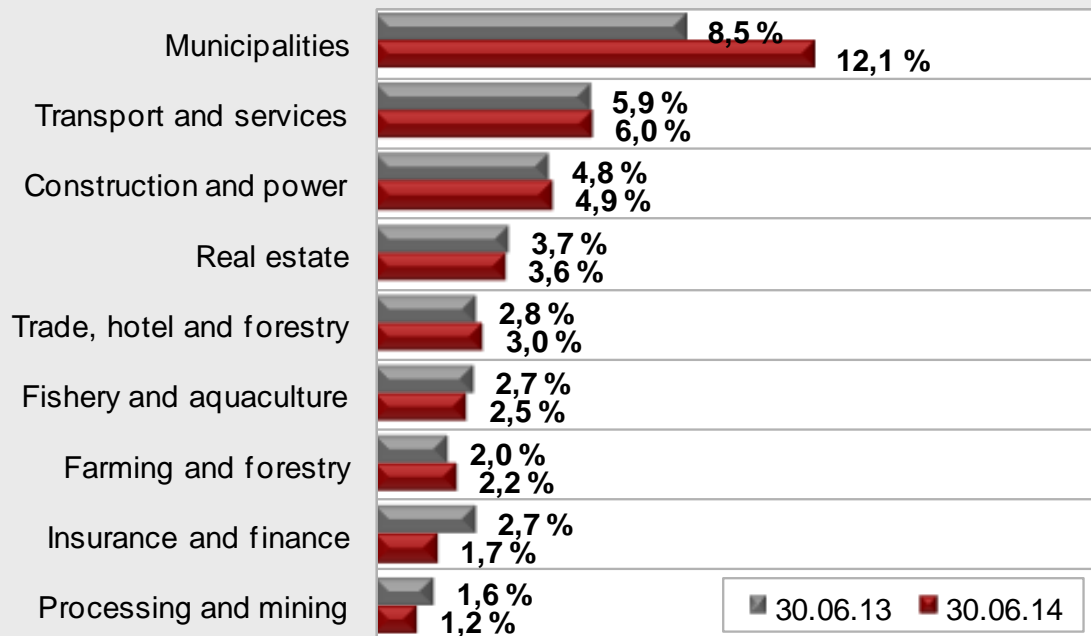
## Kommentar

12 mnth growth 12,5 (8,9) % of which BM 20,4 (9,1) % and PM 8,3 (8,8) %  
Larger municipal deposits in 2013 – growth year to date is entirely from PM



# Deposit BM

## Helgeland Sparebank Customer deposits



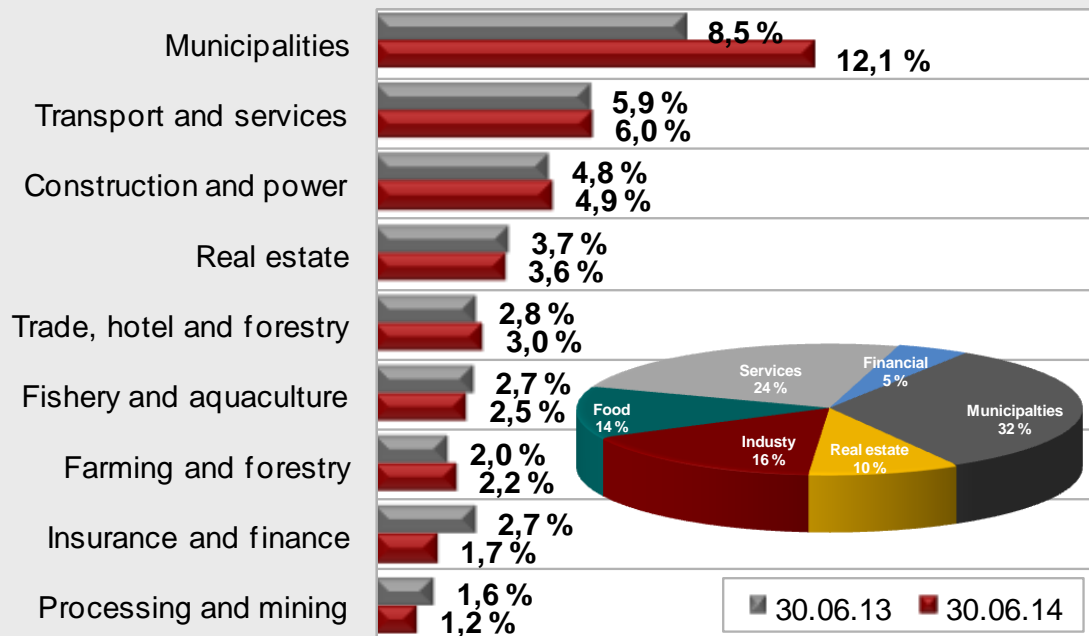
## Kommentar

Well diversified deposit portfolio in BM

Deposits from BM constitutes 5,1 (4,2) bn NOK

# Deposit BM

## Helgeland Sparebank Customer deposits



## Kommentar

Well diversified deposit portfolio in BM

Deposits from BM constitutes 5,1 (4,2) bn NOK

Deposit from municipalities constitutes 32 % of deposits from BM

# Theme

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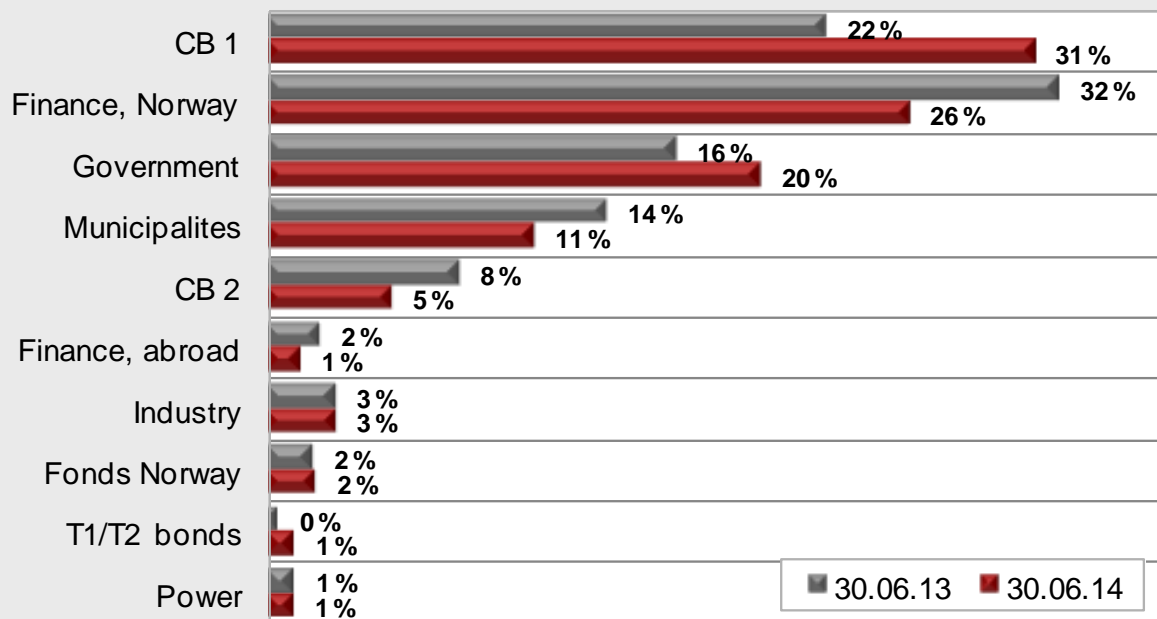
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# Liquidity buffers

Helgeland Sparebank

## Securities distributed in sectors



## Kommentar

Liquidity buffers constitute 4.7 (4.5) bn NOK – equal to 17.7 (17.4) % of BTA

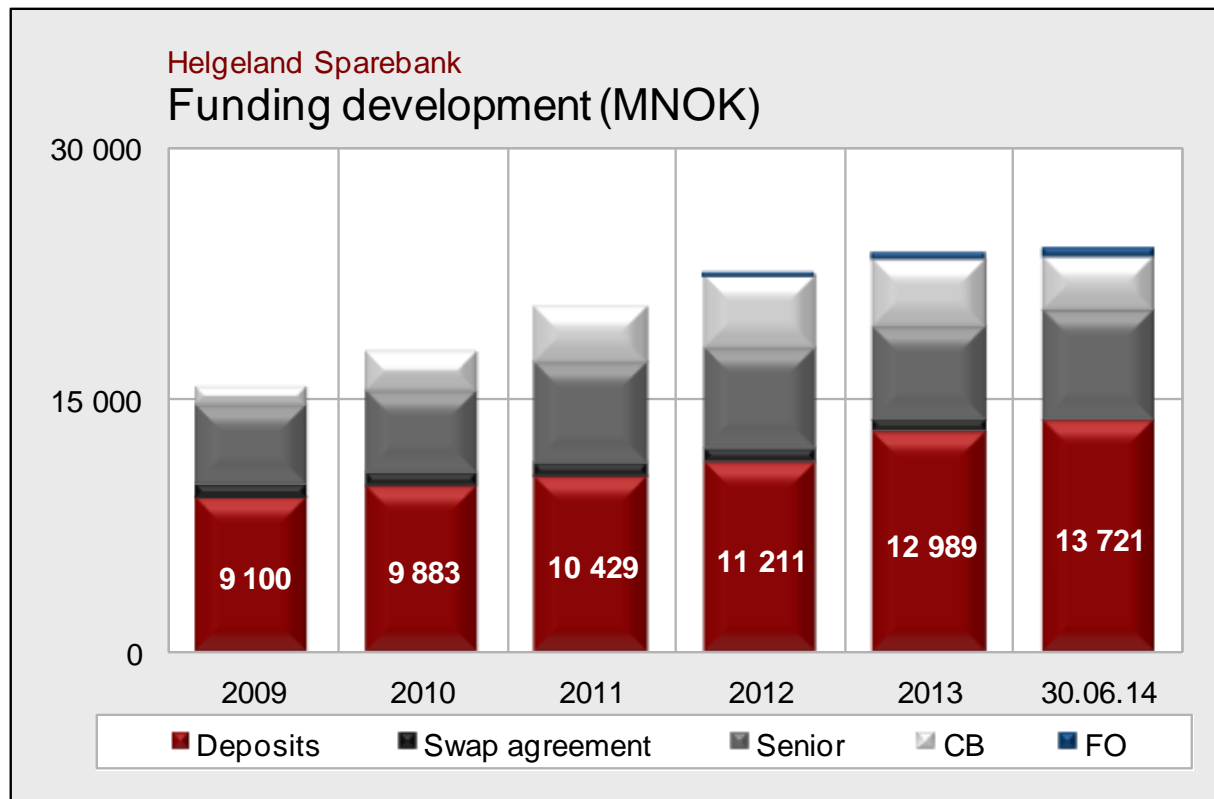
Buffer capital consists of cash, deposits in NB / banks and interest-bearing securities.

The group has gradually increased the quality of the liquidity buffer, and will gradually further customize buffers to Basel III.

Interest-bearing securities:

- Duration portfolio 2,15
- 66 % bonds or states-/municipal bonds guaranteed
- 90,6 % are rated A- or better

# Funding

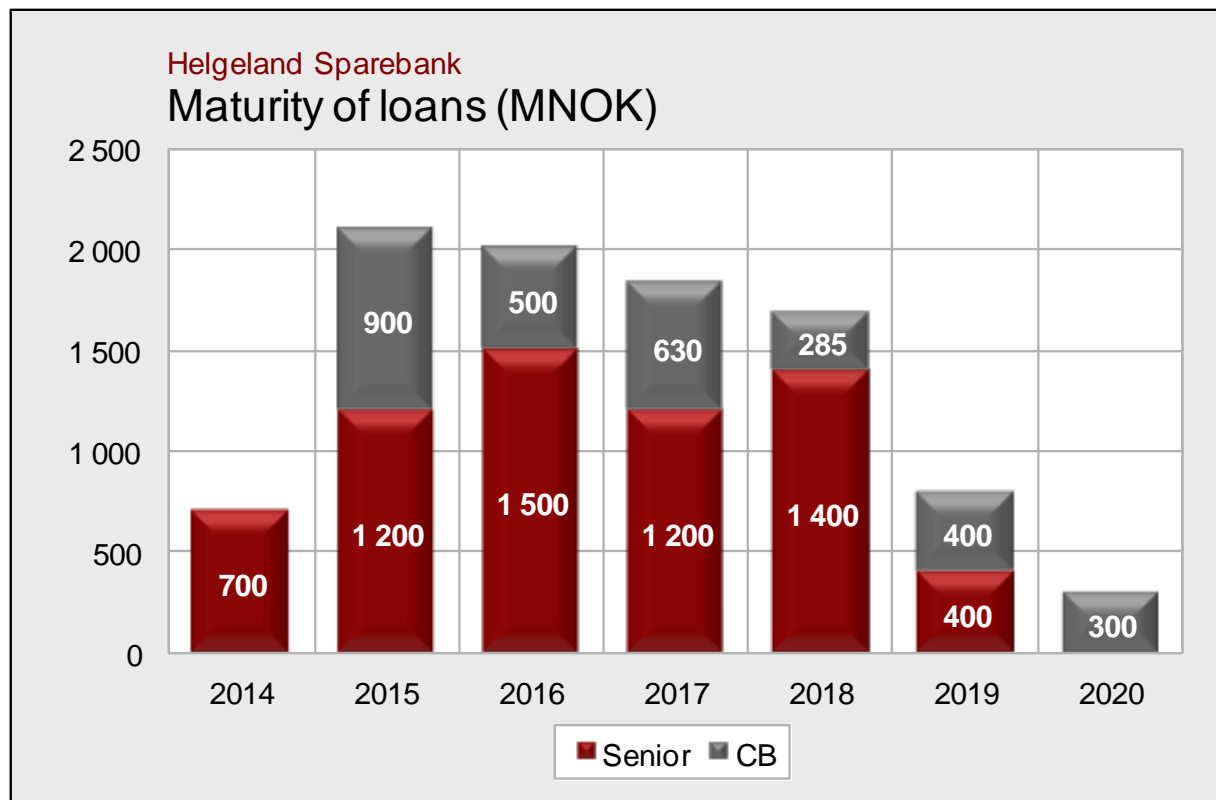


## Kommentar

Deposits is the main funding source

The Bank's mortgage company rated Aaa – bonds will continue to be the focus area

# Funding



## Kommentar

Strong and long-term funding

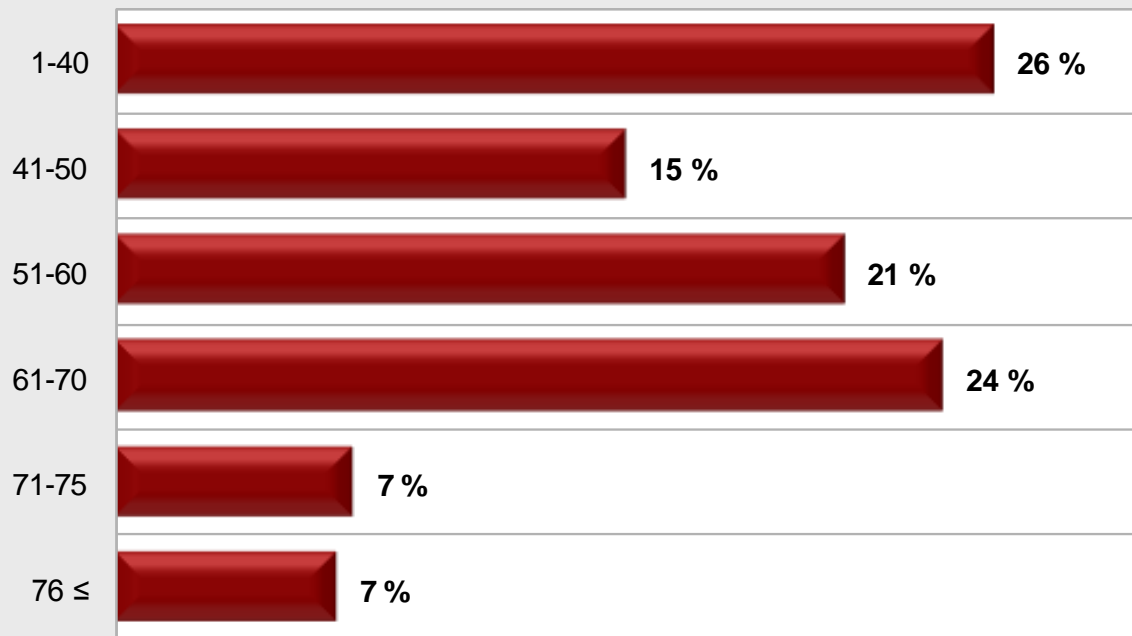
Increased duration 2,5 (2,3)  
and longer term of bonds



# Helgeland Boligkreditt AS

Helgeland Sparebank

LTV-allocation 30.06.14



## Kommentar

Total LTV 52 (52) %

The cover pool

- Eligible loans 4.188 (4.935) MNOK
- Deposits 225 (240) MNOK
- Coverage 33 (26) %

Bonds 3,3 bn NOK (of which 0,3 in the parent bank's ownership)

Net profit 25,7 (23,9) MNOK

Core capital ratio 17 %  
(standard calculation with 35 % mortgage weighting)

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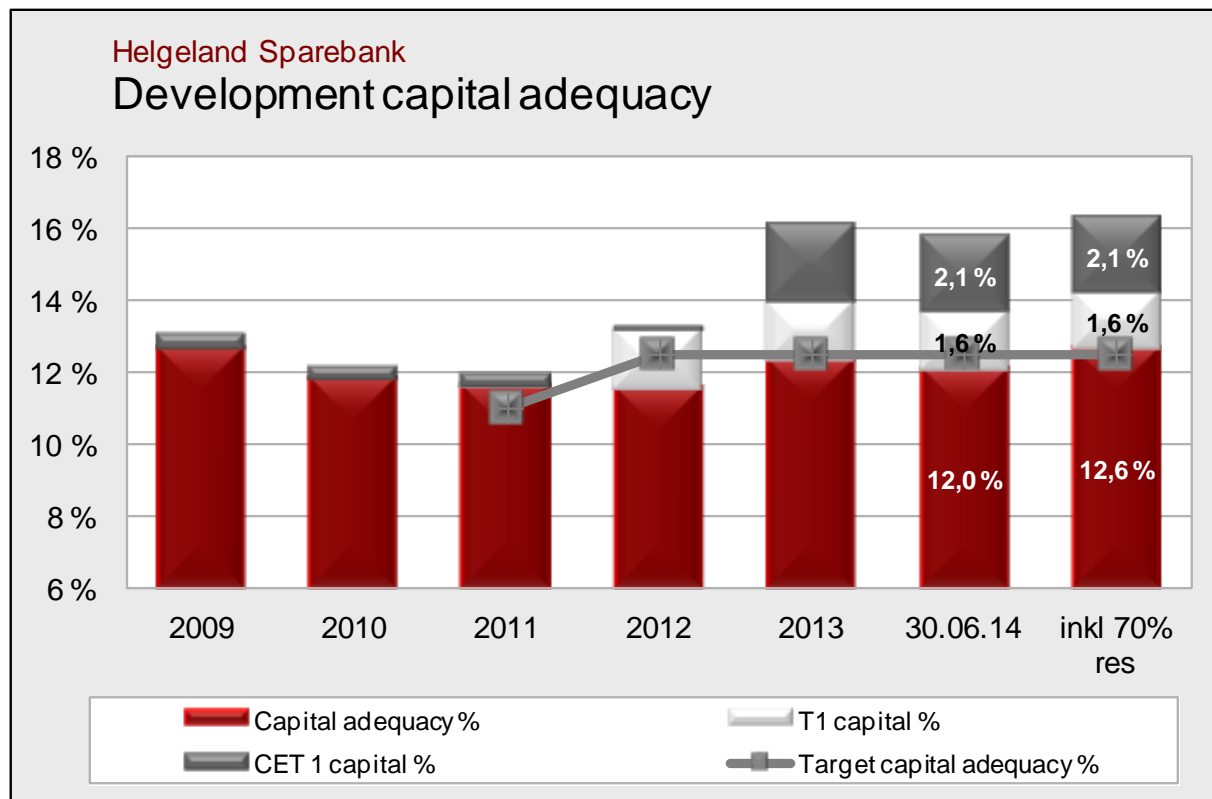
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# Capital adequacy



## Kommentar

Capital adequacy

- Capital adequacy 12,0 (11,3) %
- Core capital 13,6 (12,9) %
- Core tier one 15,7 (15,0) %

The Group is on schedule with the strengthening of capital adequacy in relation to new capital requirements

Capital adequacy will continue to be strengthened through regular operations.

Core tier one will be further strengthened by new subordinated debt/hybrid securities up to 2018.

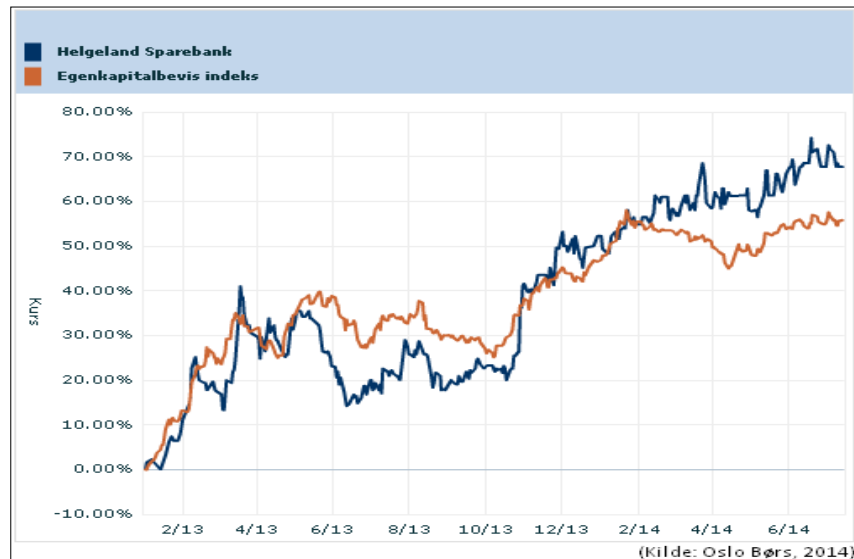
Conservative mortgages weights of 35% - the standard method.

# HELG – 20 largest owners

Per 30.06.14	Numbers	% share	<i>Parent bank</i>		
				Numbers	% share
Sparebankstiftelsen Helgeland	6 599 598	35,3 %	Verdipapirfondet Eika utbytte	317 656	1,7 %
MP Pensjon PK	1 032 203	5,5 %	Lamholmen AS	300 364	1,6 %
USB AG, London Branc A/C	1 000 000	5,3 %	Holberg Norge Verdipapirfond	218 600	1,2 %
Pareto AS	970 836	5,2 %	Sniptind Holding AS	201 801	1,1 %
Citibank, N.A.	838 741	4,5 %	Bergen kommunale pensjonsk	200 000	1,1 %
Pareto Online AS	500 000	2,7 %	Johs. Haugerudsvei AS	145 992	0,8 %
VPF Nordea Norge	448 550	2,4 %	Mellem Nes Invest	118 200	0,6 %
AS Atlantis Vest	448 481	2,4 %	Melum Mølle AS	110 240	0,6 %
Sparebankstiftelsen DNB	442 724	2,4 %	Steffen Nervik	110 000	0,6 %
Helgelandskraft As	340 494	1,8 %	Andvord AS	102 203	0,5 %
<b>Total 10 biggest owners</b>	<b>12 621 627</b>	<b>67,5 %</b>	<b>Total 20 biggest owners</b>	<b>14 446 683</b>	<b>77,3 %</b>

The bank has issued a total of 18 700 000 primary certificates value of NOK 10,-.

# ECC development og Liquidity HELG

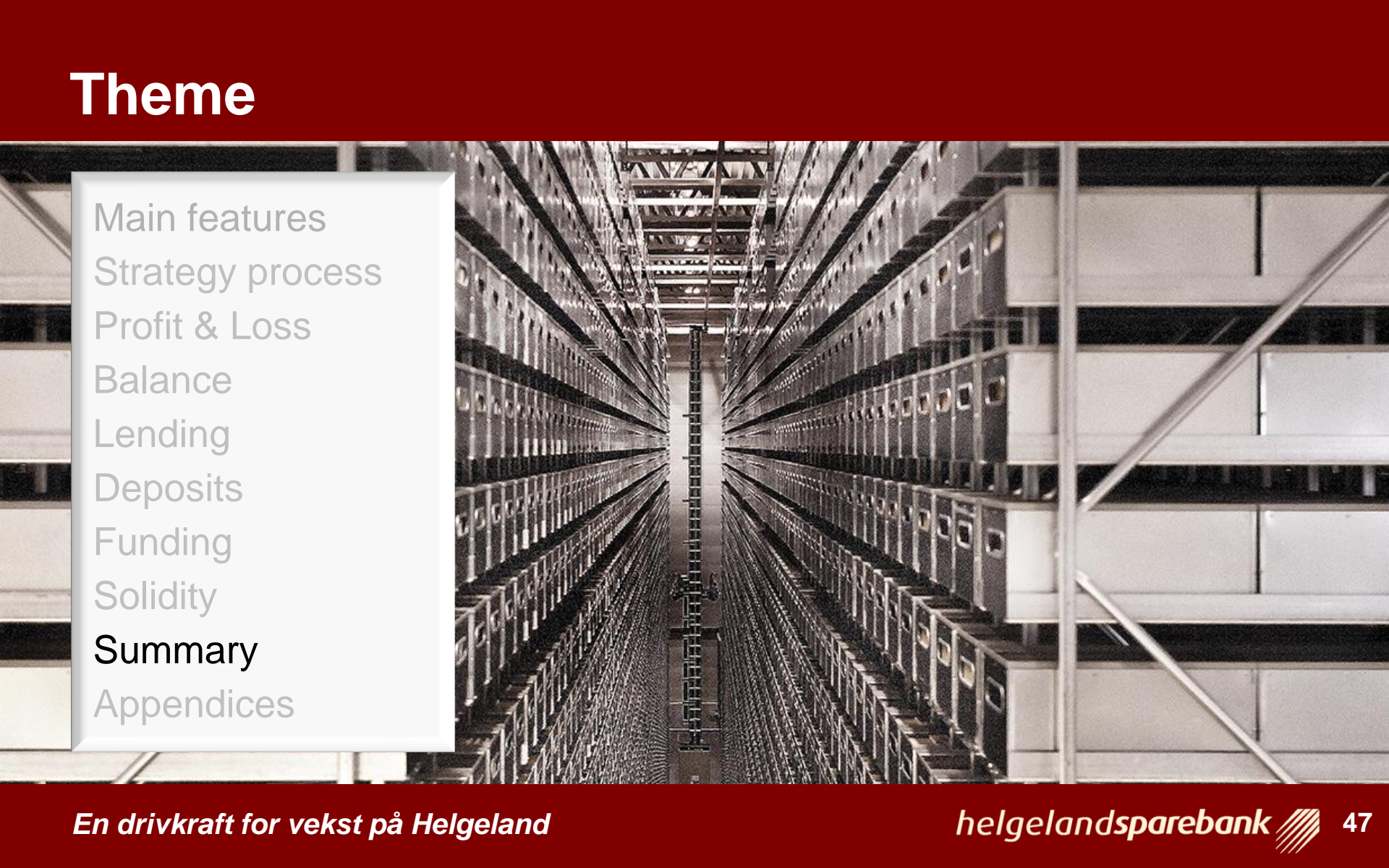


## The good price development has continued into Q3 2014

Sales in HELG increased from 0.9 million certificates in 2012 to 6.1 million certificates in 2013, of which 2.5 million was from Sparebankstiftelsen Helgeland in November. Further divestment from Sparebankstiftelsen helps to increase the number of freely tradable certificates on Oslo Stock Exchange.



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# Priorities and prospects

## **Profitability and solvency**

Purposeful work with the bank's strategy and capital plan succeeded in 2013 and continued in 2014

Priority is continued profitability and solvency

## **Result**

The Bank expects continued solid core operations

- Moderate decrease in net interest- relief BM involvement and increased price competition
- Further marketization of interest rates on deposits BM - effect in September 2014
- Initiatives official rating – Strengthen the bank's position in the capital market
- Width Sales of insurance and leasing - continued high priority
- Increased payroll taxes – greater focus on operational efficiency and cost control - cash management of the bank terminated from 01.01.2015.
- Losses on par with industry expectations – defaults developments closely and with close monitoring

## **Balance**

Expected growth in loan is revised down to 3-4 % in 2014

# Priorities and prospects

## Helgeland region

Helgeland is characterized by a stable and versatile labor market with a combination of solid export companies and major government agencies

- Most export industries in metals, mining and seafood have a relatively high capacity utilization and more faces also acceptable prices in export markets
- Russian import stop creating uncertainty especially for seafood industry
- Public and private investment will increase as a result of new infrastructure projects and oil activity
- Unemployment is expected to continue at a low level

**Thank you for your attention!**

**A DRIVING FORCE  
FOR GROWTH**



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# Helgeland – rich in natural resources

## Horisont Nord-Norge

Helgeland is the

**Industrial center in North**

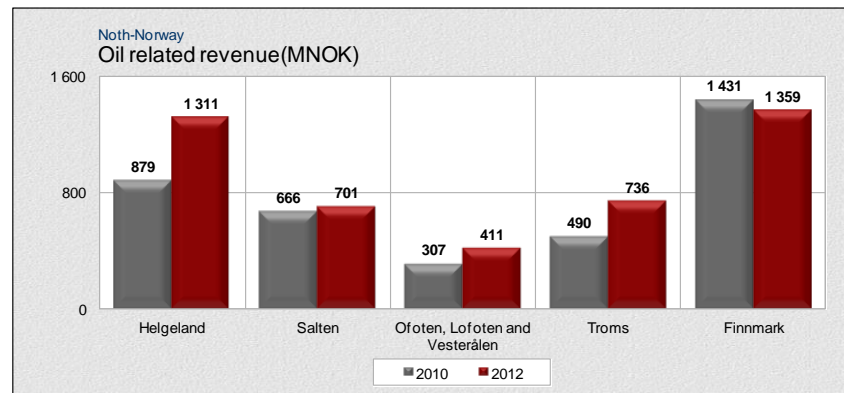
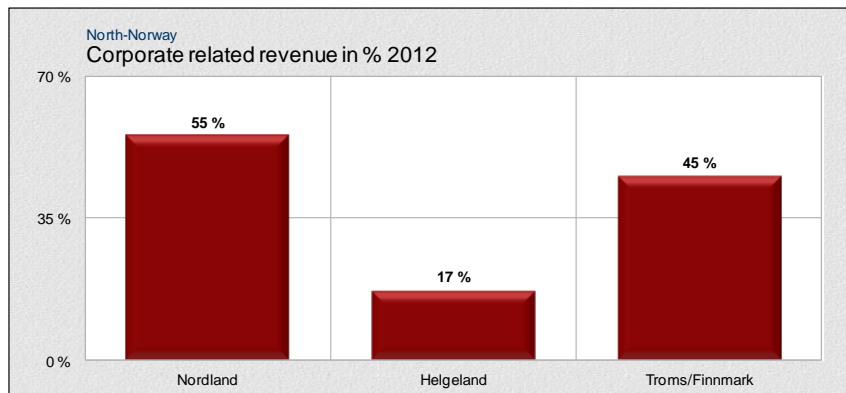
- Process- and engineering industry
  - Power Generation
  - Aquaculture
- Oil and gas activity

The region is also host to several large state enterprises





# Helgeland – increased value added



## Business-related revenue

The greatest value in Northern Norway in terms of corporate related sales are made in Nordland by 55%

Helgelands share is 17 %.

Companies in Nordland account for 65% of export values in the north where metals constitutes 94% and 50% seafood.

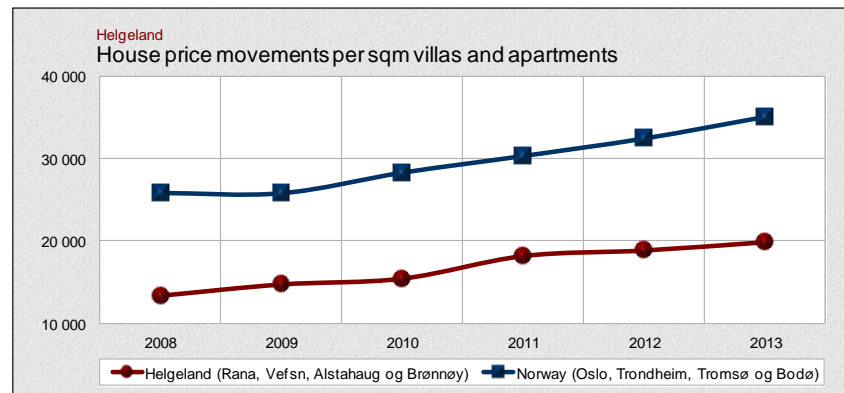
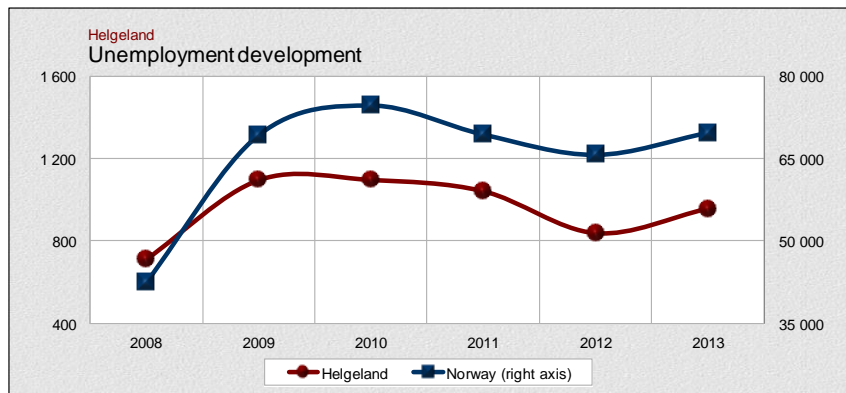
## Oil-related revenue

The greatest value in northern Norway, measured in oil-related sales are made in Helgeland with MNOK 1.311 and in Finnmark MNOK 1.359

The largest growth in the offshore supply industry is in Helgeland and no other regions in the north has a growth of similar size.



# Helgeland – less vulnerable



## Unemployment Development

Unemployment and Development level at Helgeland is lower than the average in Norway and the vulnerable lower too.

This can be attributed to a diverse labor from export-oriented industries (metals and seafood) via private services (Evry Card Services) to large state-owned enterprises (Brønnøysundregistrene, National Library, etc.)

## House price development

House price developments and the level is lower in Helgeland than the average of Oslo, Trondheim, Tromsø and Bodø.

Fall height at the interest rate increase is less in Helgeland as income level is relatively similar across the country. Average house price per square meter in the cities of Helgeland is 19,000 compared with the Tromsø 32,000 NOK

# HSB – only non-aligned bank

## Horisont Nord-Norge

Two **financial center** in north  
with Headoffice in the district

- SB 1 NN: Tromsø
- HSB: Mo i Rana

Five smaller bank's: Eika

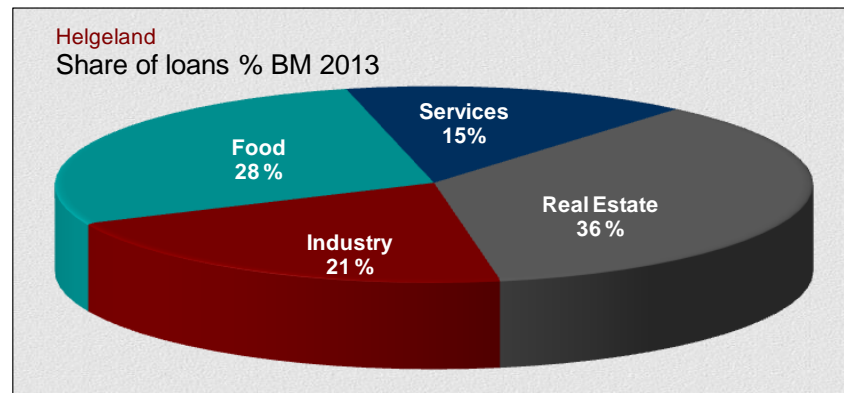
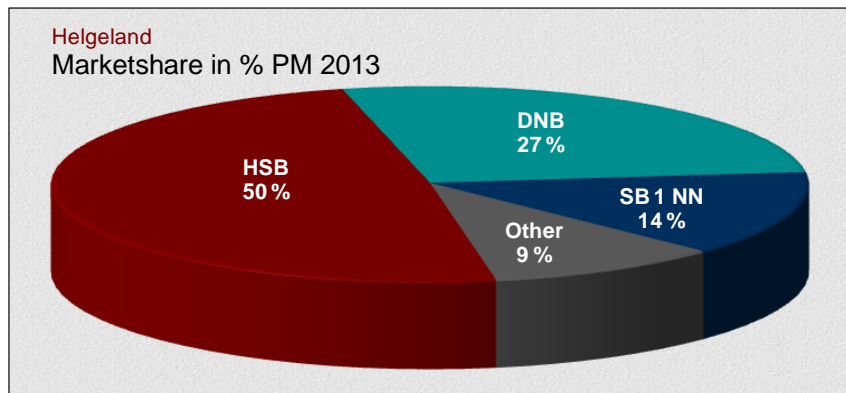
Nordlandsbanken: Taken over by DNB

Aligned: SB 1 and Eika (Terra)

Only non-aligned bank: HSB



# HSB – solid market position



## Marketshare

HSB has a market share of 50% in the retail market and about 60% in the corporate market.

The Bank has also been a leader in insurance by 21%.

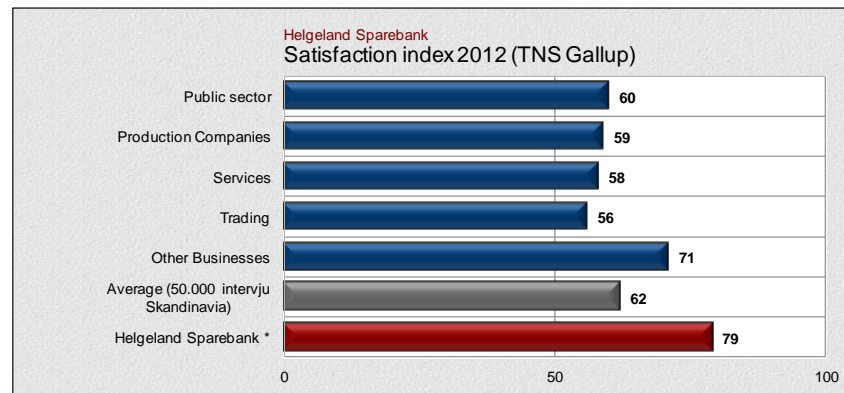
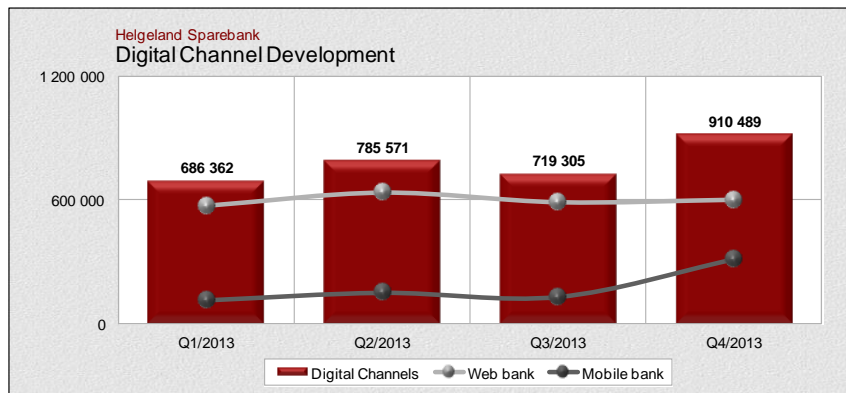
Some market share is lost due. reduced lending and prioritization of profitability and financial strength.

## The lending ratio

HSB has a solid position in the business market and are well diversified in different industries.

The largest export companies and offshore companies with business address outside Helgeland have with their banking connections to Helgeland. The bank has a strong foothold in the SME market and with business address at Helgeland.

# HSB – digital focusing and employee satisfaction



## Digital channel development

HSB has prioritized investment limits stronger in the direction of digital solutions and the Bank continuously monitors changes in customer behavior.

In the fall, the bank launched a new mobile banking which immediately increased activity via digital channels. The Bank cooperates through B5 for new innovative IT solutions.

## Satisfaction index

HSB is among the top of scandinavian firms with high job satisfaction among employees according to a survey compiled by TNS Gallup

Sick leave was last year historic low of 3.6% since the merger in 2005 and has declined steadily from 2010, when sickness absence was all of 6.7%. This is also good economy.

# A driving force for growth on Helgeland

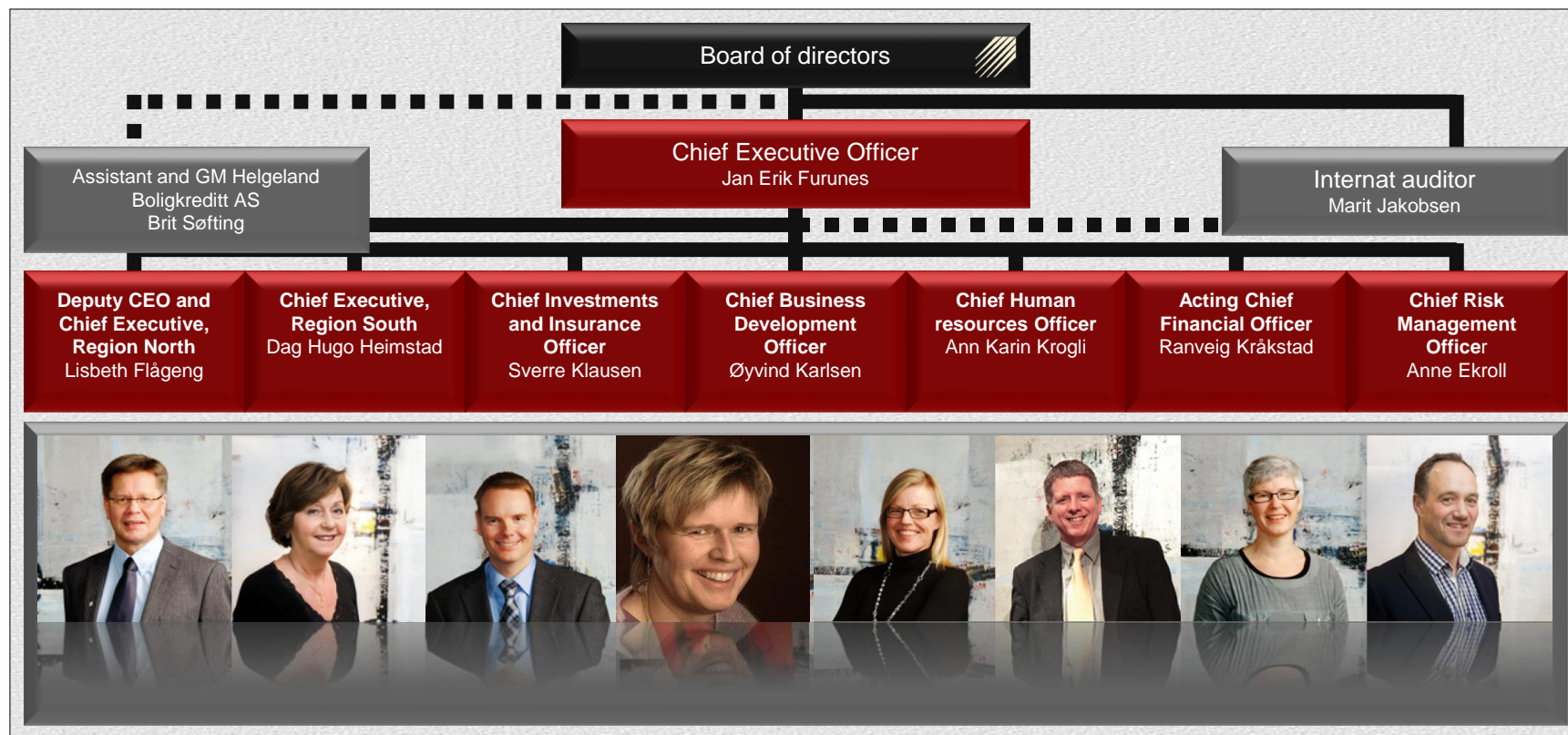


Norway's **12th largest savings** bank of 108 banks – 15 offices in 13 municipalities in the Helgeland region

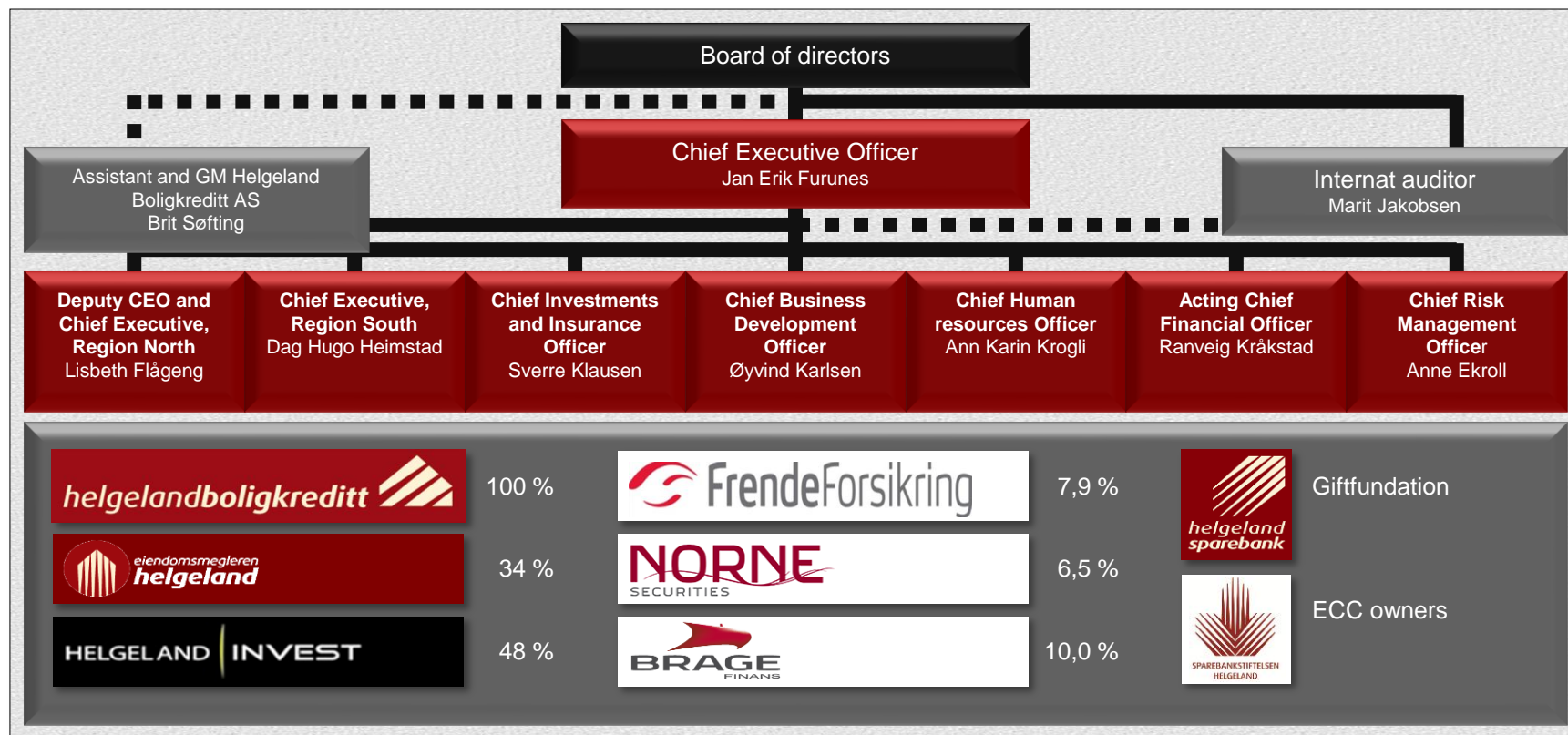
- ✓ Bank total assets of NOK 26 billion and a market share of 50%
- An **independent regional bank** with no alliances and quoted on the stock exchange
  - The only bank with head office in the region
- **Complete local bank** and largest advisory environment
  - good competence and quick processing locally
- A **solid equity** of NOK 2.0 billion
  - Locally based financial strength in the development of the region
- An **active supporter** for sports, culture and knowledge
  - annual contribution of MNOK 15
- A **central owner** in Helgeland Invest
  - one of the largest investment companies in Northern-Norway



# Management and organisational structure



# Business development and ownership





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Organization number    937904029

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