

# Presentation for the 3<sup>rd</sup> quarter 2013

med  for  
HELGELAND



# Presentation for the 3<sup>rd</sup> quarter 2013 (HSB group)

Main features  
Document of goals  
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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**Improved basic operations also in the 3<sup>rd</sup> quarter, no large one-time-effects**

- Gross profits MNOK 76 (53)

## **Improvements in key figures**

- Significantly increased net interest 1.82 (1.53) %
- Low costs over time 0.92 (0.93) %, in percent on income 41.5 (48.3) %
- Low write-downs on lending 0.11 (0.12) %

## **Very good deposit growth**

- Deposit ratio over 60%, highest since 2008

## **Reduced lending growth**

- Growth in the quarter 1.5 (2.1) %

# Profit and loss so far this year

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**Additionally improved basic operations** – gross profit MNOK 193 (126)

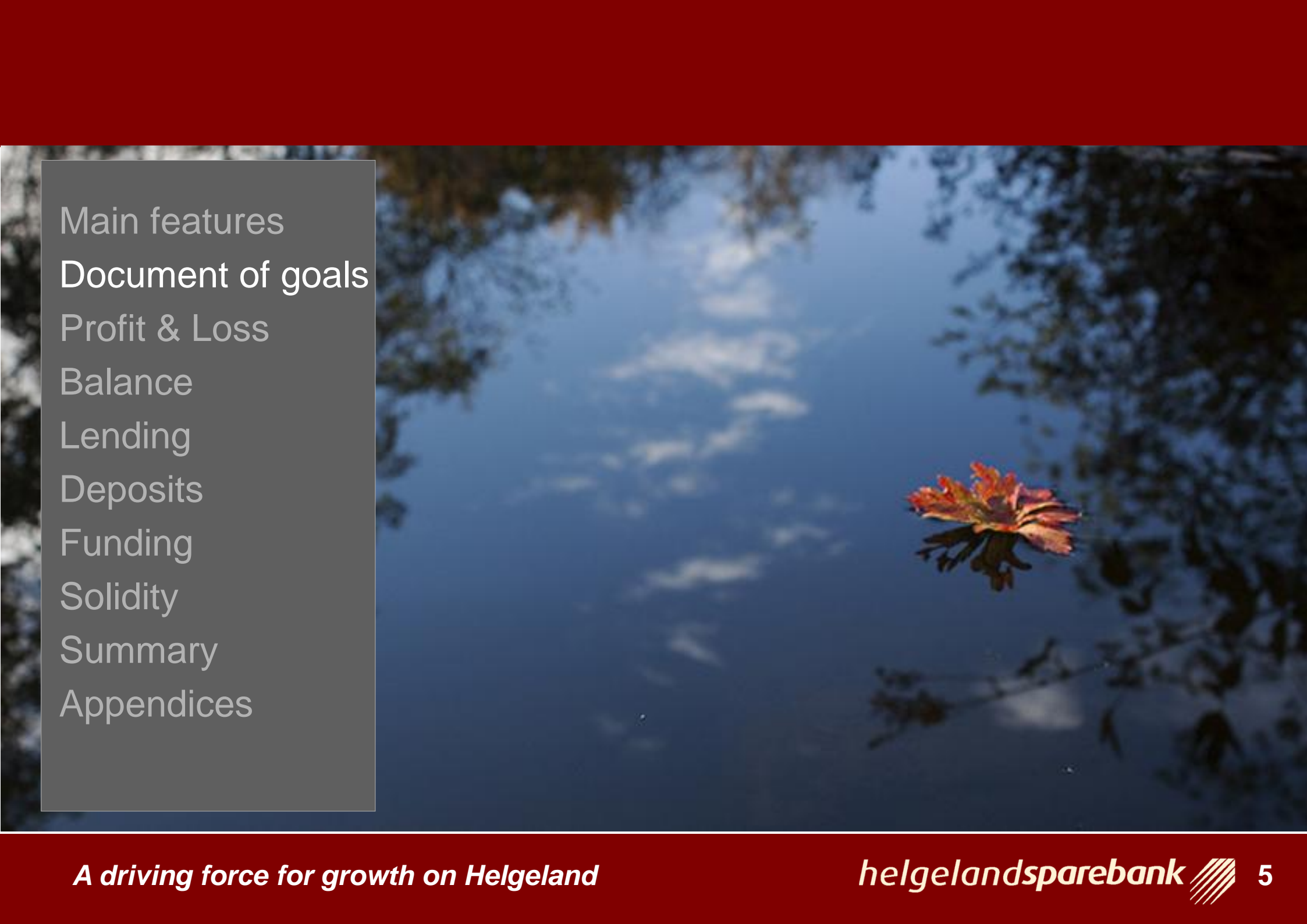
- Passed the annual result from 2012

**Improved profits of MNOK 67** – increased by 53 % from 30.09.12

- Net interest increased by MNOK 60 – increased by 23% from 30.09.2012
- Net value change on financial instruments increased by MNOK 6

**Strengthened return on equity** – so far this year 9.9 (7.2) %





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# Financial goals

- *Return on equity of 10% assuming normal market conditions*
- *CET1 capital ratio of at least 12.5% and a total capital ratio up toward 18% given a counter cyclical capital buffer of 2.5%*
- *Cost growth from 2014 maximum 3.5%*
- *Deposit ratio of 60%*
- *The dividend policy stands firm in a long term perspective – however, in the next two years dividends will be reduced to 25 – 30%*

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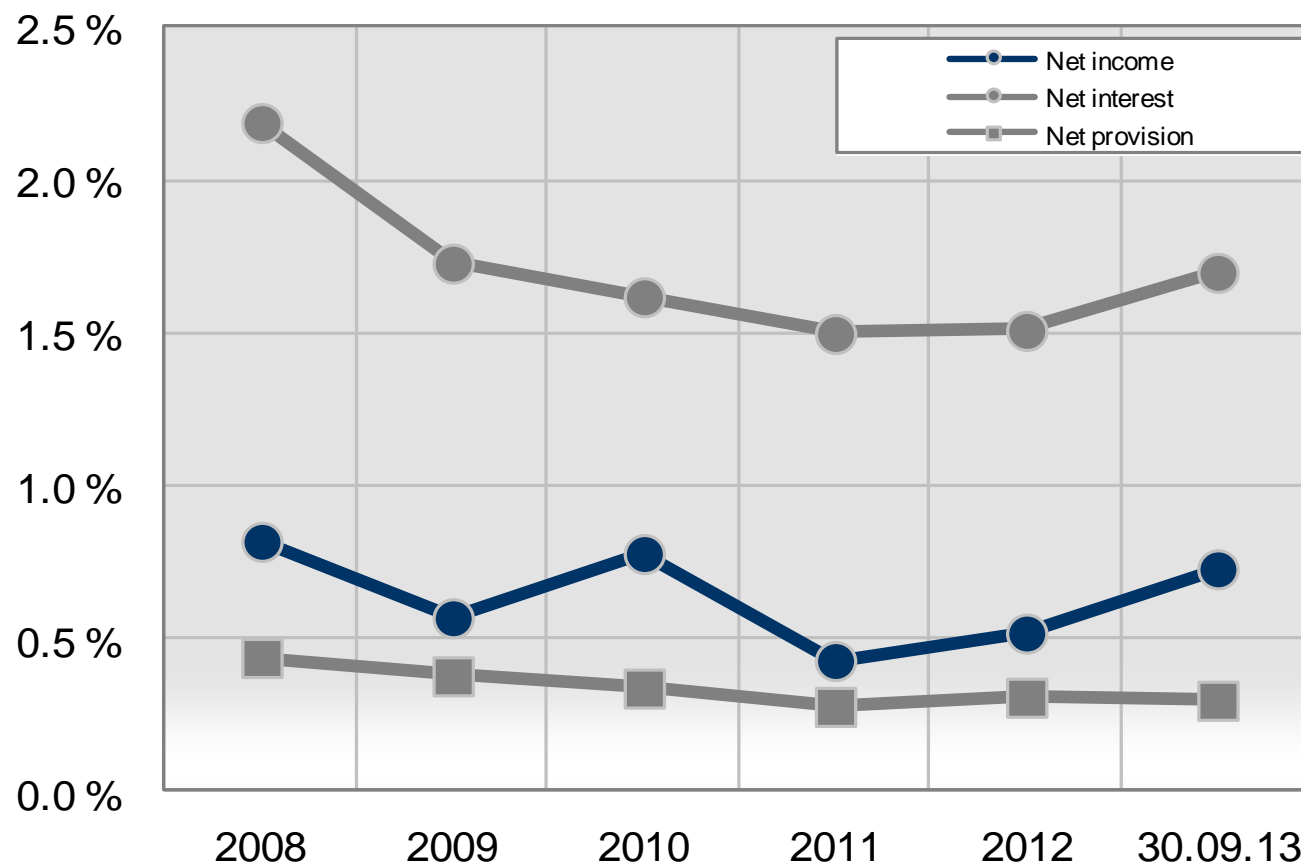
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# Income- and key figure developments

Helgeland Sparebank

Key figures in % of average BTA



## Improvement of basic operations continues

Net interest

- Significantly improved in 2013

Net commission earnings

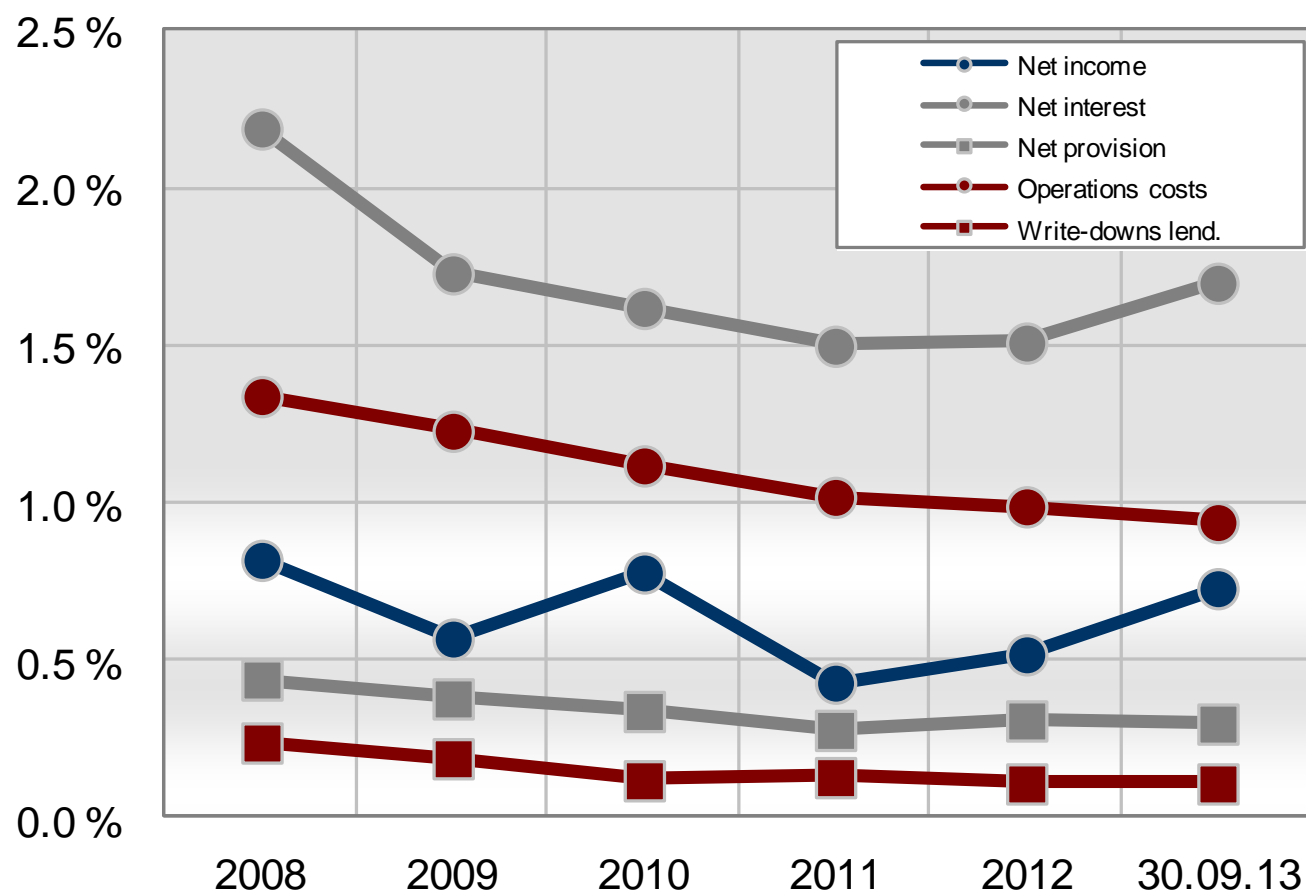
- Stable income in NOK and %
- Normalised insurance sales



# Income- and key figure developments

Helgeland Sparebank

Key figures in % of average BTA



## Improvement of basic operations continues

Net interest

- Significantly improved in 2013

Net commission earnings

- Stable income in NOK and %
- Normalised insurance sales

Operations costs

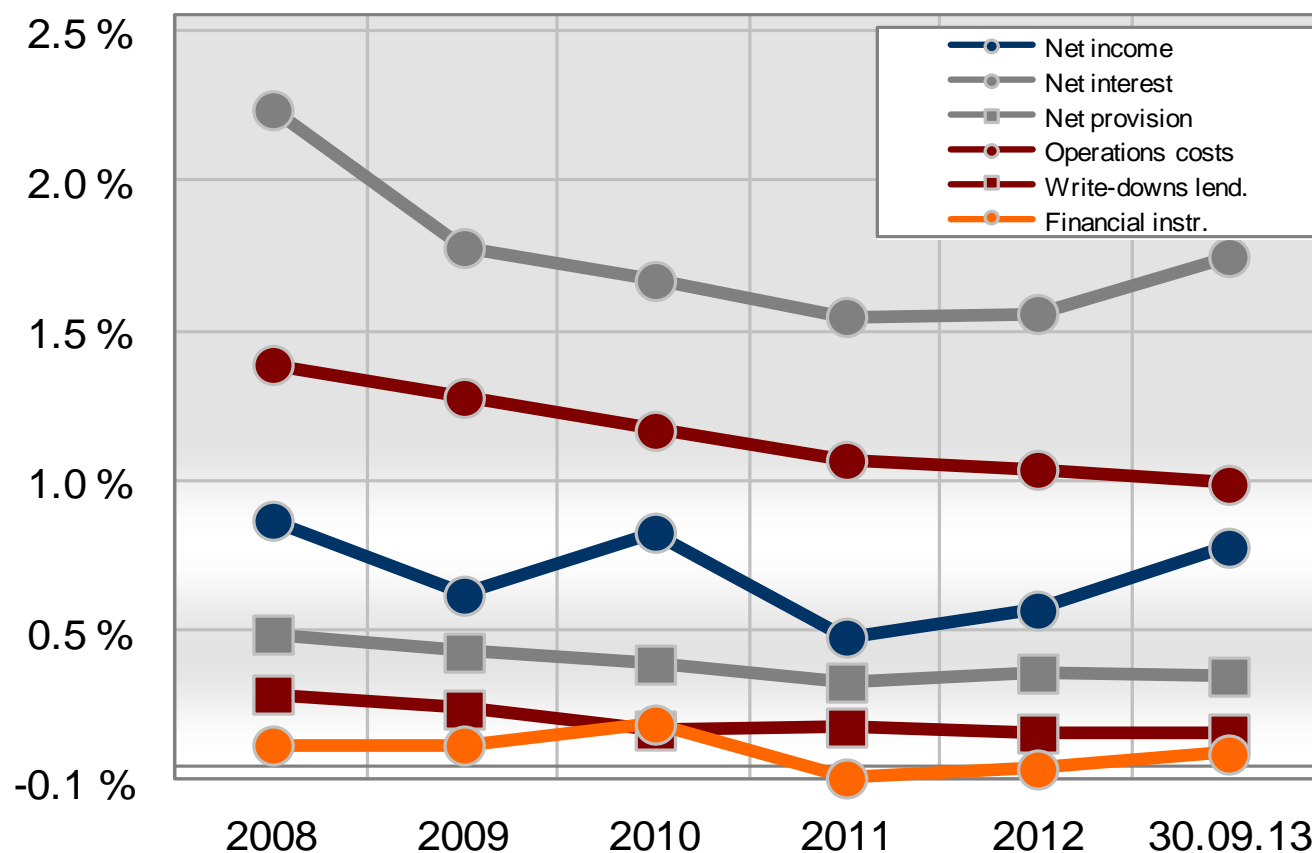
- The efficiency improvement continues, falling costs in both % of BTA and income

Stable low write-downs on lending

# Income- and key figure developments

Helgeland Sparebank

Key figures in % of average BTA



## Improvement of basic operations continues

### Net interest

- Significantly improved in 2013

### Net commission earnings

- Stable income in NOK and %
- Normalised insurance sales

### Operations costs

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

Stable low write-downs on lending

### Financial instruments

- Positive contribution over the result

# Profit and loss accounts

Helgeland Sparebank (HSB group)				
	30.09.12	30.09.13	Q3 2012	Q3 2013
Net interest- and credit provision earnings	261	321	92	117
Net provision earnings	54	57	20	22
Other operations income	4	4	1	1
Ordinary operations costs	173	177	56	59
Result basic operations	146	205	57	81
Write-downs lending and warranties	22	20	7	7
Net value change financial instruments	2	8	3	2
Gross profit	126	193	53	76
Net profit	92	137	39	54
Net extended income posts	15	24	8	2
Profit for the period	107	161	47	56

## The improvement of basic operations continues

- The net interest has increased by 23% so far this year – strengthens the basic operations
- Efficiency improvement through good cost control – unchanged number of annual positions at 177
- Still low write-downs on lending

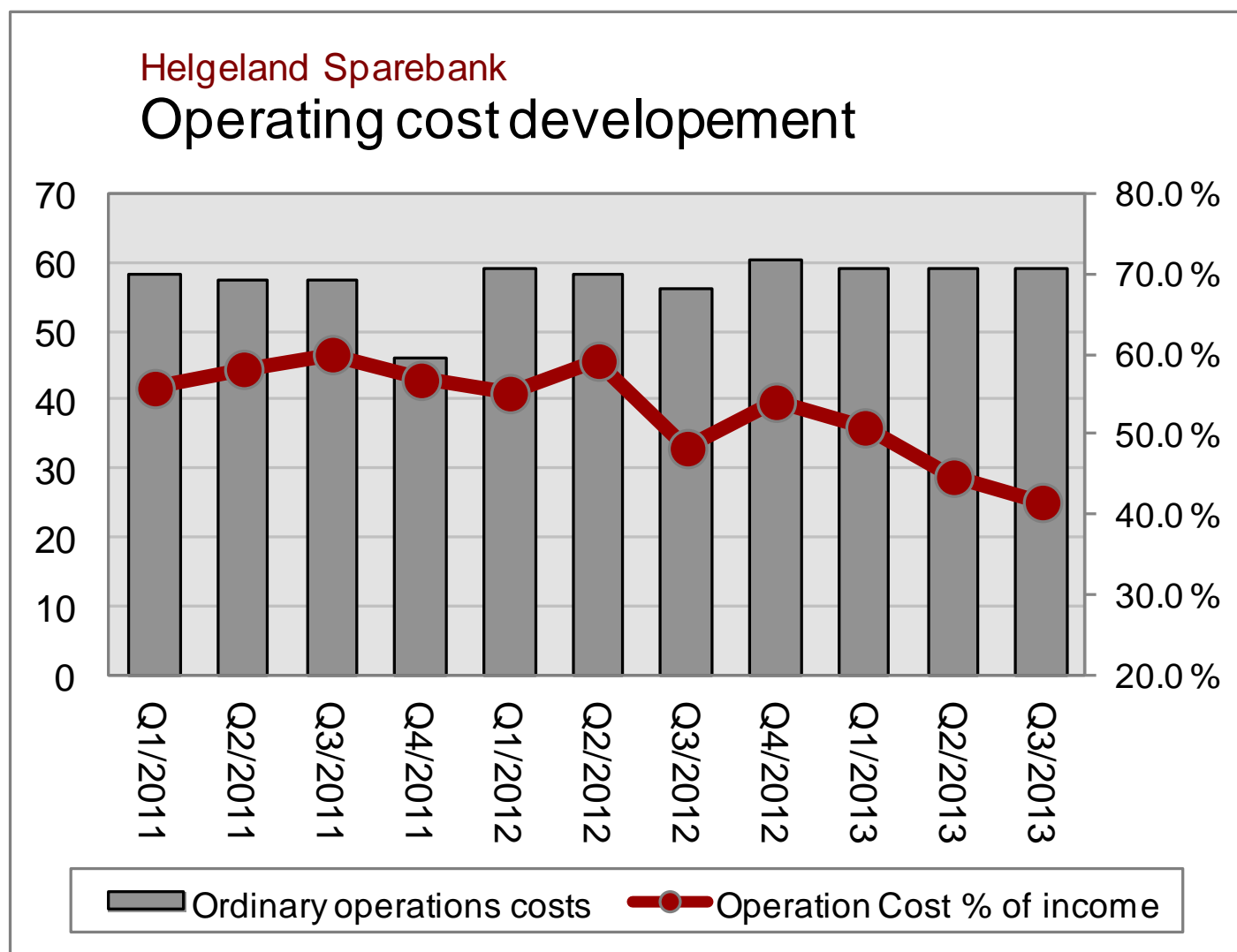
# Profit and loss accounts

Helgeland Sparebank (HSB group)					
	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Net interest- and credit provision earnings	1.53 %	1.54 %	1.55 %	1.73 %	1.82 %
Net provision earnings	0.33 %	0.29 %	0.28 %	0.29 %	0.34 %
Other operations income	0.02 %	0.05 %	0.02 %	0.03 %	0.02 %
Ordinary operations costs	0.93 %	0.97 %	0.96 %	0.94 %	0.92 %
Result basic operations	0.95 %	0.91 %	0.89 %	1.11 %	1.26 %
Write-downs lending and warranties	0.12 %	0.08 %	0.10 %	0.11 %	0.11 %
Net value change financial instruments	0.05 %	-0.08 %	0.05 %	0.05 %	0.03 %
Gross profit	0.88 %	0.75 %	0.83 %	1.05 %	1.18 %
Costs in % of income	48.3 %	54.1 %	50.9 %	44.7 %	41.5 %

## The improvement of basic operations continues

- Net interest has increased by 9bp from Q2 2013 to Q3 2013 – guarantee fund fee is charged by 5bp
- Stable net commission earnings
- Low costs both in % of BTA and in % of income

# Costs



## Increasing cost efficiency

Operations costs in % of total income have a positive development

Relatively flat cost development in NOK throughout the last 3 years

Operations costs have increased by 2.3% compared to 30.09.2012

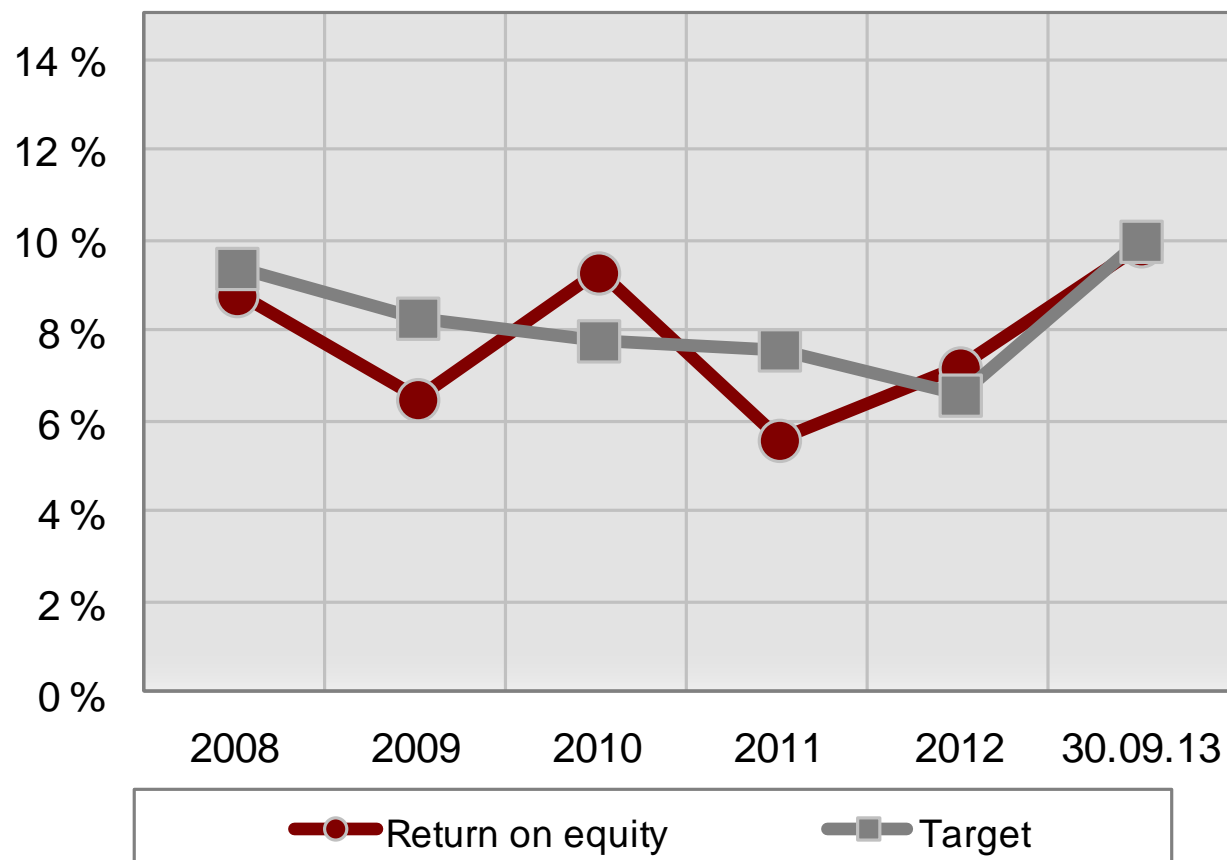
Target figure:  
Cost growth from 2014 of maximum 3.5%



# Return on equity

Helgeland Sparebank

## Return on equity and target figures




## Good improvement of return on equity

### Profit & loss

- So far this year 9.9 (7.2) %
- Return on equity in the 3<sup>rd</sup> quarter was 11.4% against 10.1% in the 2<sup>nd</sup> quarter and 8.4% in the 1<sup>st</sup> quarter

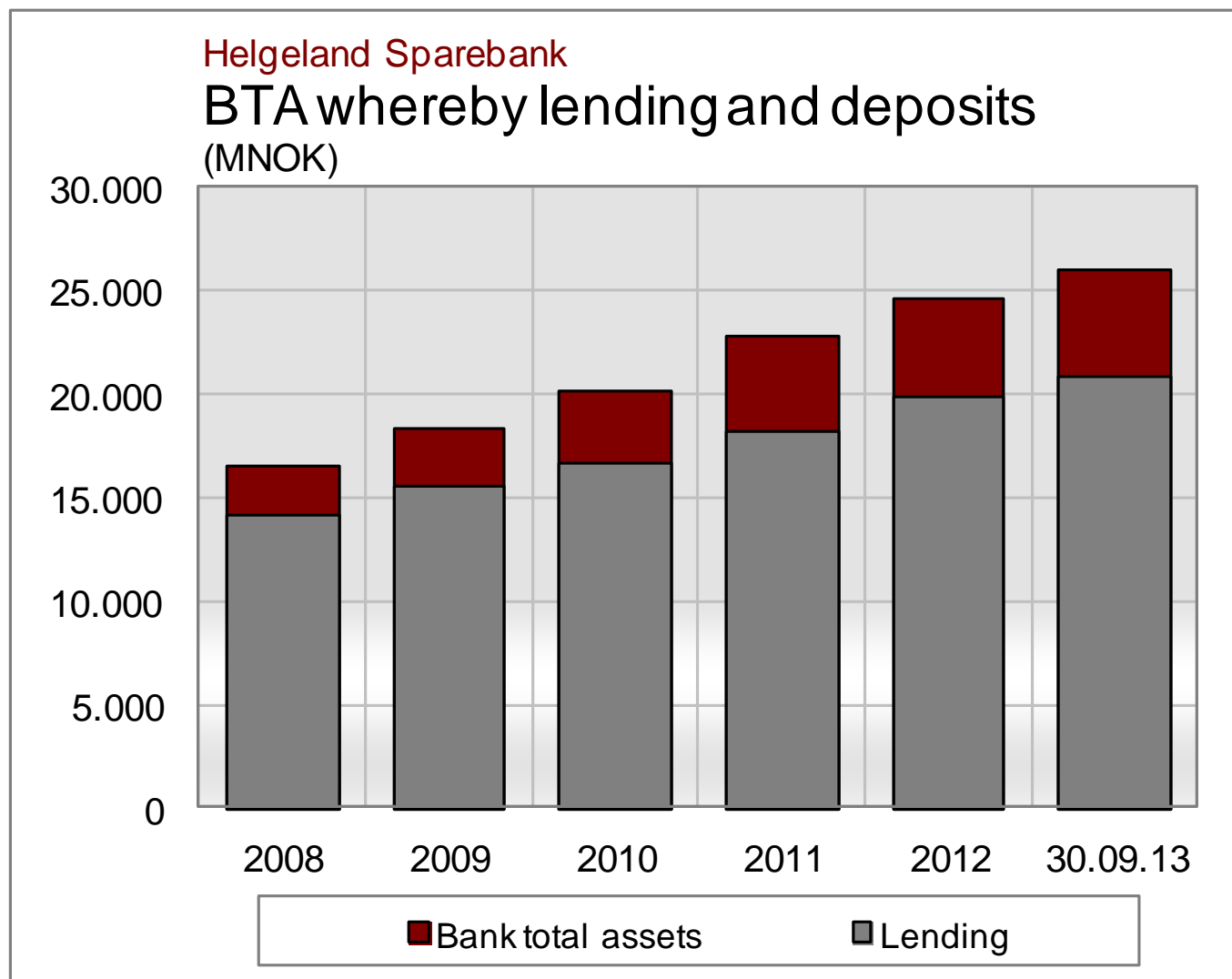
### Target figure

- 10% under normal market conditions



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# Balance- and growth development



## Reduced lending growth

Gross lending per 30.09.13:  
NOK 20.8 (19.4) bn.

12-month lending growth:  
MNOK 1,427 / 7.4 (8.6) %

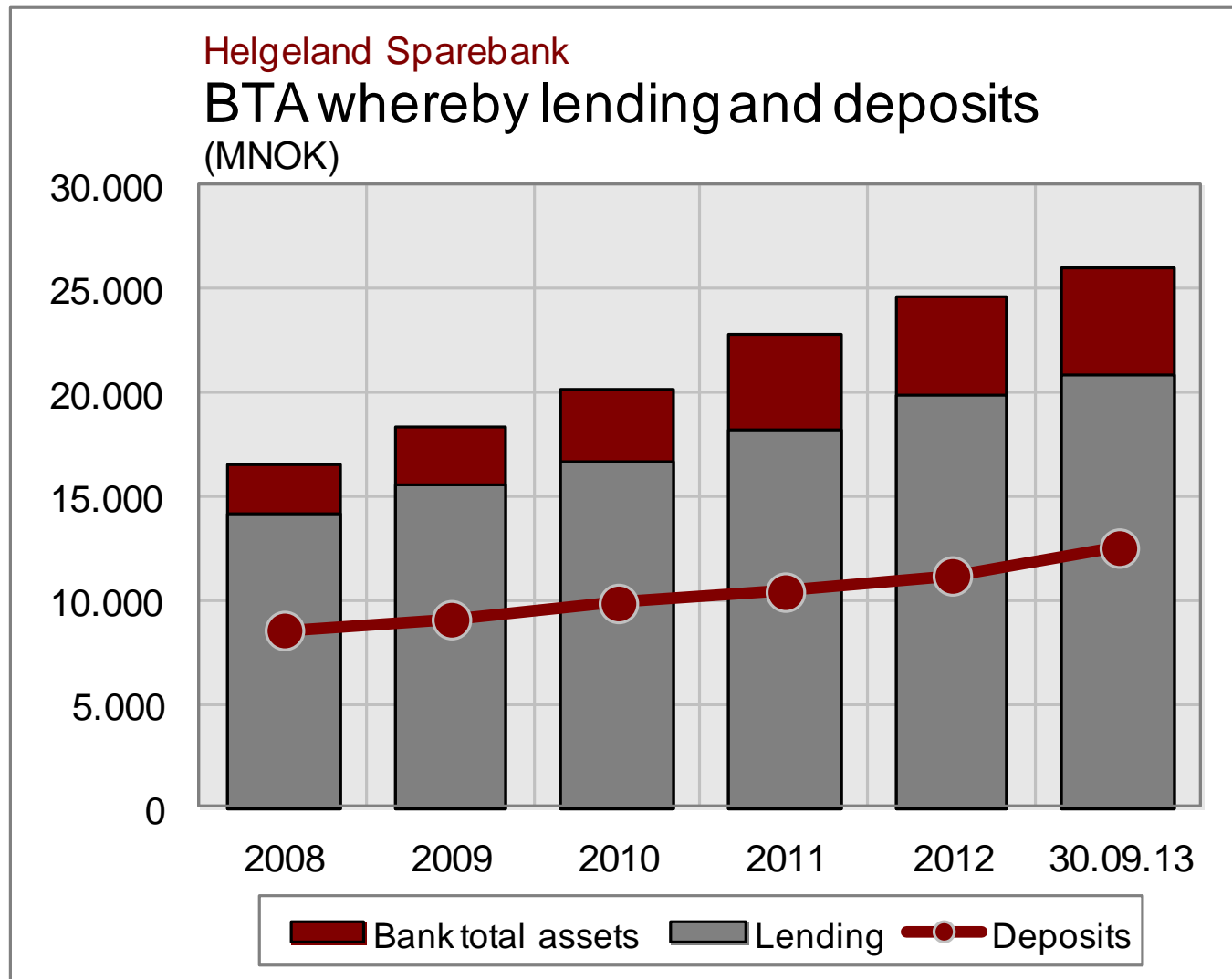
9-month lending growth:  
MNOK 961 / 4.8 (6.8) %

3-month lending growth:  
1.5 (2.1) %

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

83,0 (83.5) % are loans to  
customers in the Helgeland  
region

# Balance- and growth development



## Improved deposit growth

Volume at 30.09.13:  
NOK 12.6 (11.1) bn.

12-month deposit growth:  
MNOK 1,442 / 13.0 (7.1) %


9-month deposit growth:  
MNOK 1,342 / 12.0 (6.5) %

3-month deposit growth:  
2.9 (-0.8) %

Stable deposit mass, 92 (91.8)  
% are customers in the  
Helgeland region

62.1 (65.8) % deposits from  
personal customers



An aerial photograph showing a coastal area with a large body of water, a harbor with several ships, and a complex of industrial and commercial buildings. In the background, there are green, forested mountains. The foreground shows a road and some greenery.

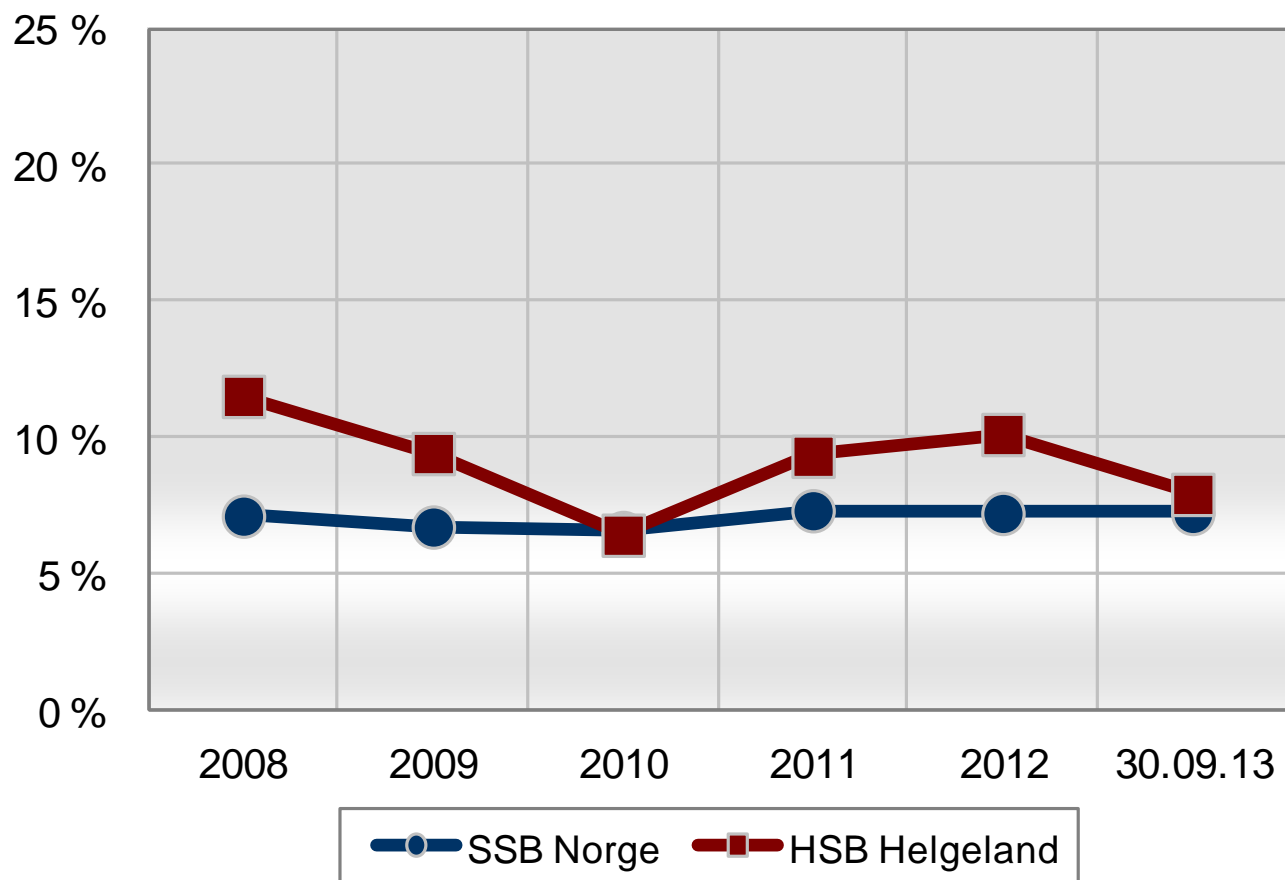
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# Credit growth Retail Market

Helgeland Sparebank

12-month credit growth retail market



**12-month growth**  
**7.9 (10.7) %**

9-month growth 5.9 (8.1) %

Normal activity – somewhat lower growth in 2013

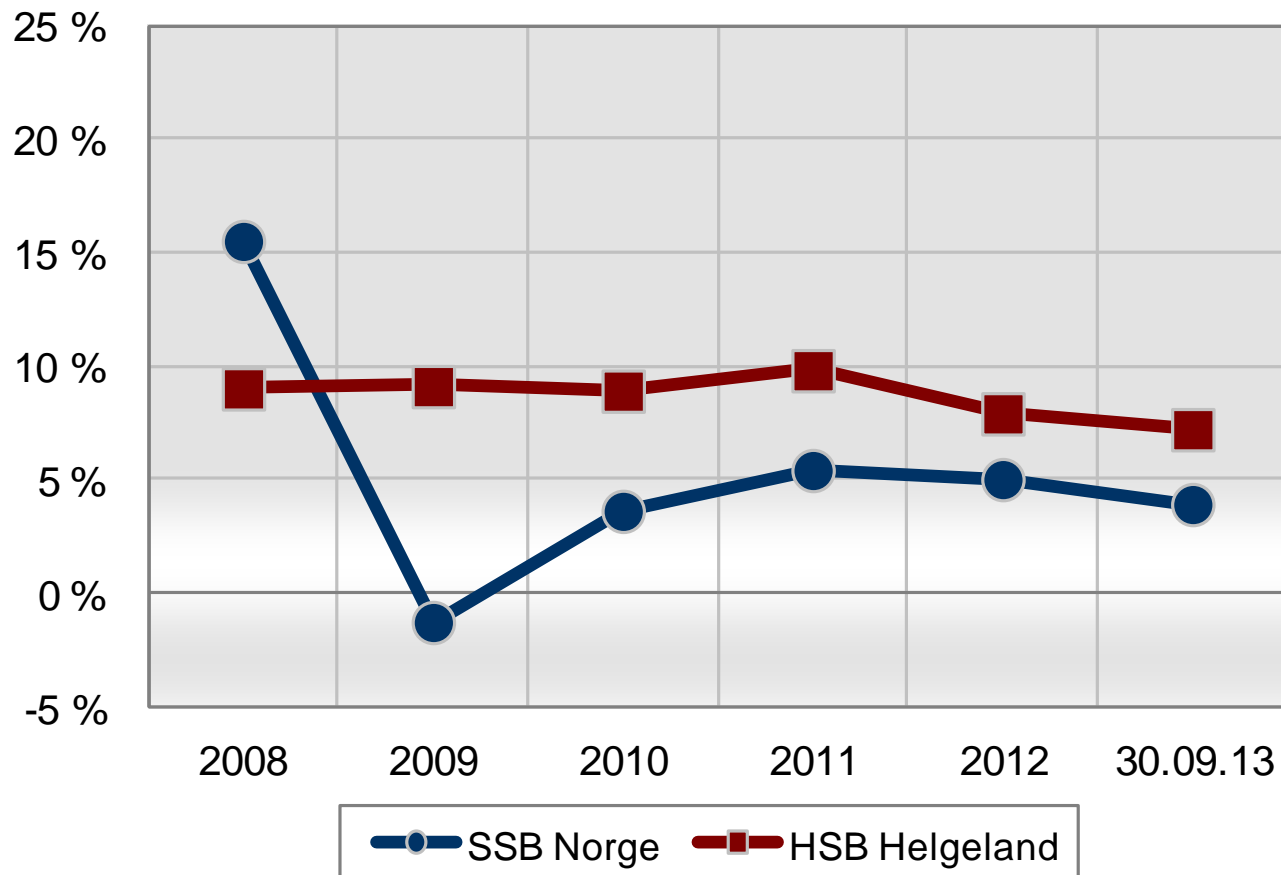
Lending to personal customers constitute NOK 13.4 (12.5) bn, mainly well secured mortgages

Stable share of retail market 64.6 (64.3) %, well above the target figure which is > 60 %

# Credit growth Corporate market

Helgeland Sparebank

12-month credit growth corp. market



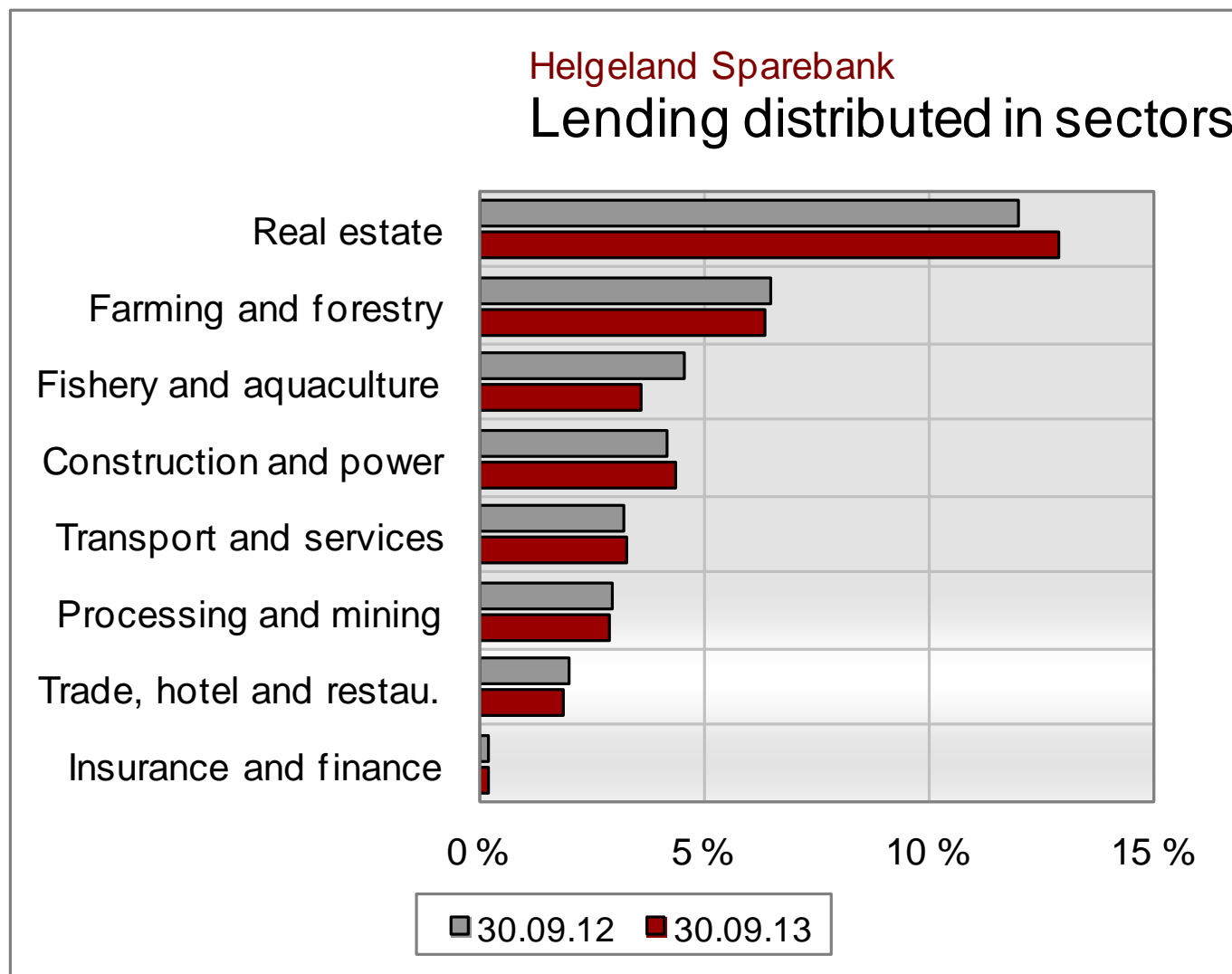
**12-month growth 6.4  
(5.0) %**

9-month growth 2.9 (4.4) %

The growth in the corporate market has been decreasing since 2011

Stricter prioritising of projects so far in 2013

# Gross lending Corporate market



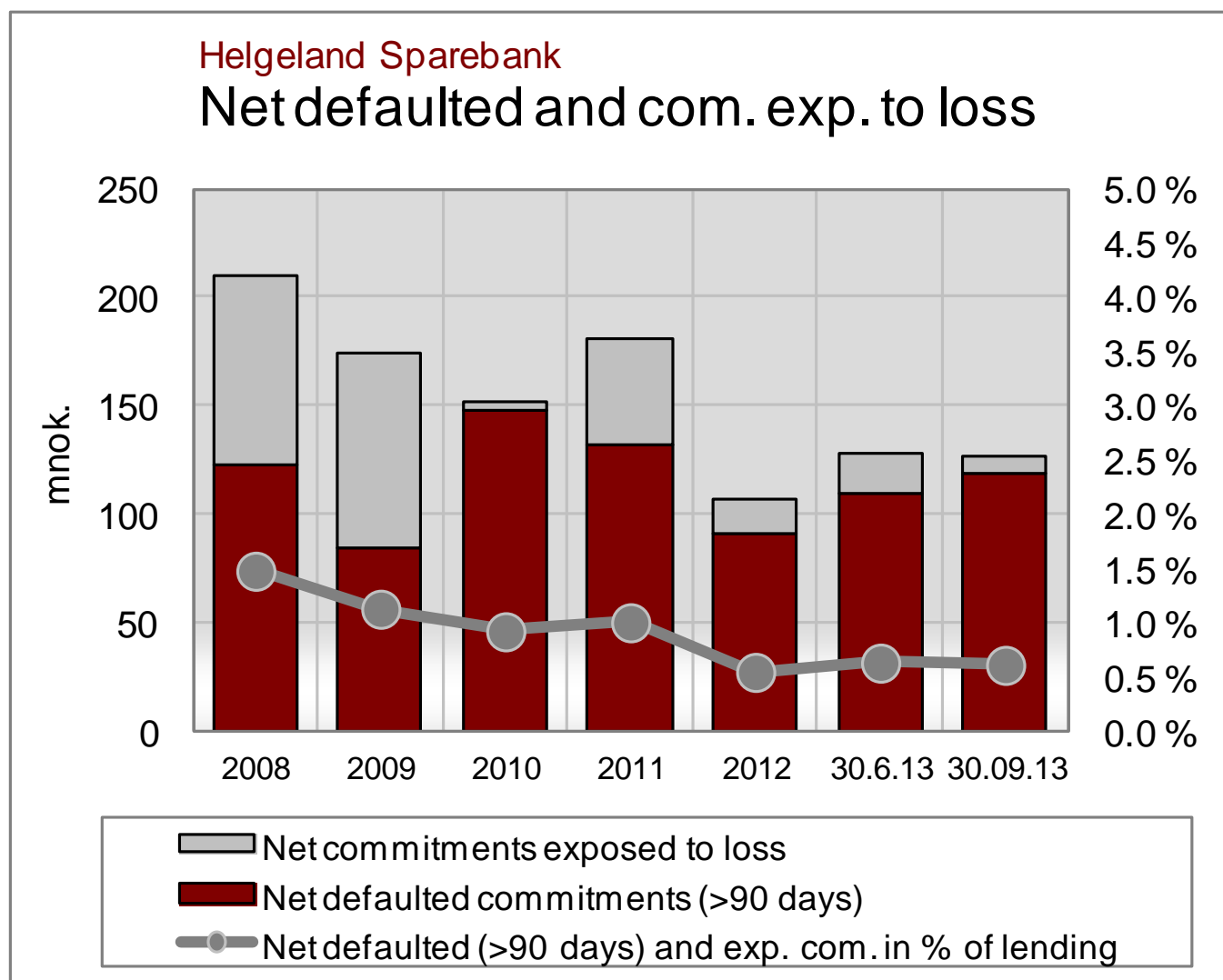
## Well diversified lending portfolio

Lending to corporate customers constitute NOK 7.4 (6.9) bn.

NOK 2.1 (2.1) bn. are loans to food production consisting of agri- and aquaculture and forestry.

Very loyal customer base


# Defaults and commitments exposed to loss



## Good portfolio quality – growth without increased risk

Net defaults and commitments exposed to loss in % of gross lending have been declining since 2008, but have increased somewhat in 2013.

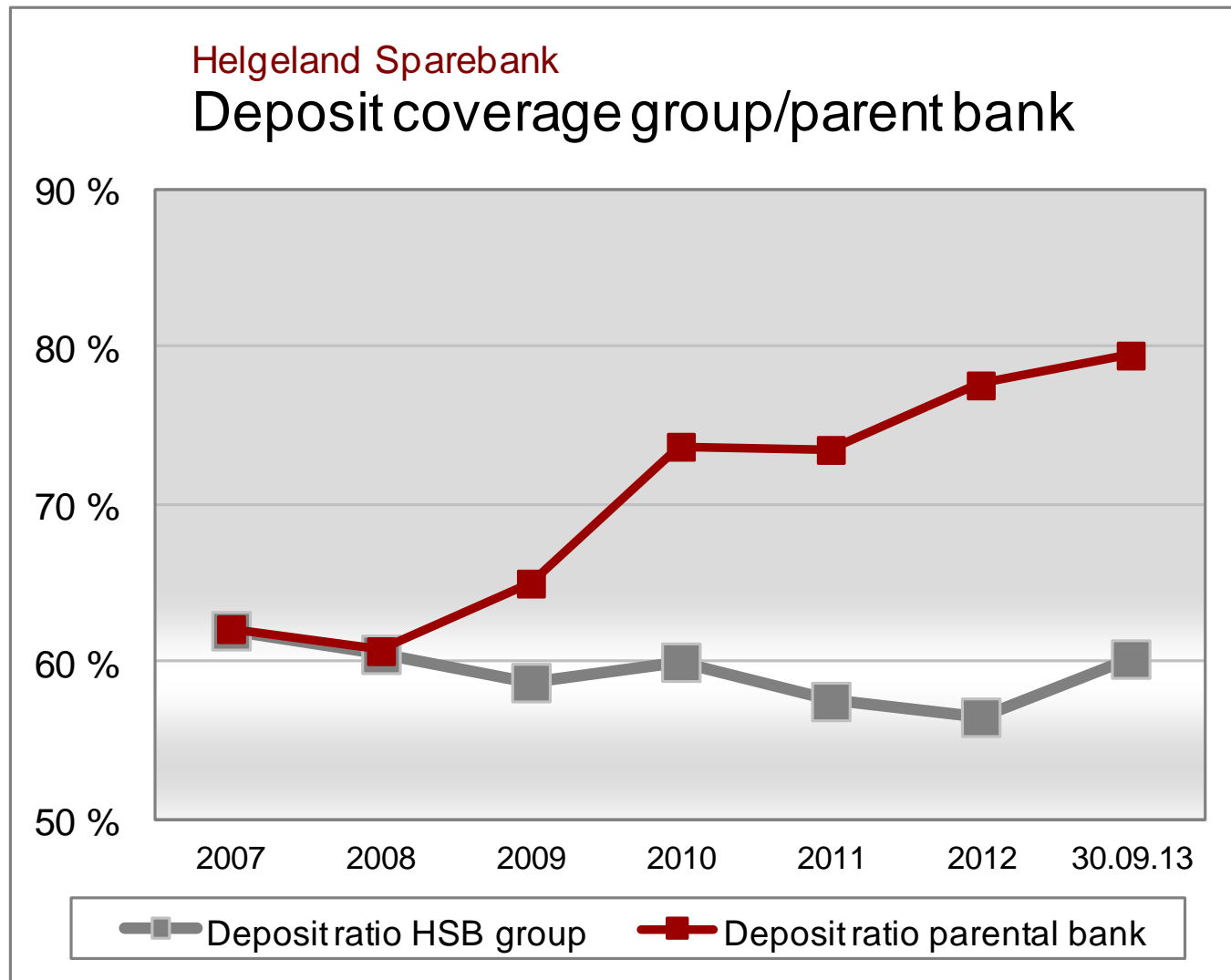
Net defaults and commitments exposed to loss are at a relatively low level, and constitute 0.6 (0.5) % of gross lending.

A silhouette of a person rappelling down a dark, jagged cliff face. The person is positioned on the right side of the frame, holding a rope that extends from the top right corner. The background is a vibrant sunset sky with hues of orange, yellow, and purple. The overall scene conveys a sense of adventure and achievement.

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# Deposit ratio



## Increased deposit ratio

The deposit ratio in the HSB group was 60.3 (57.3) %

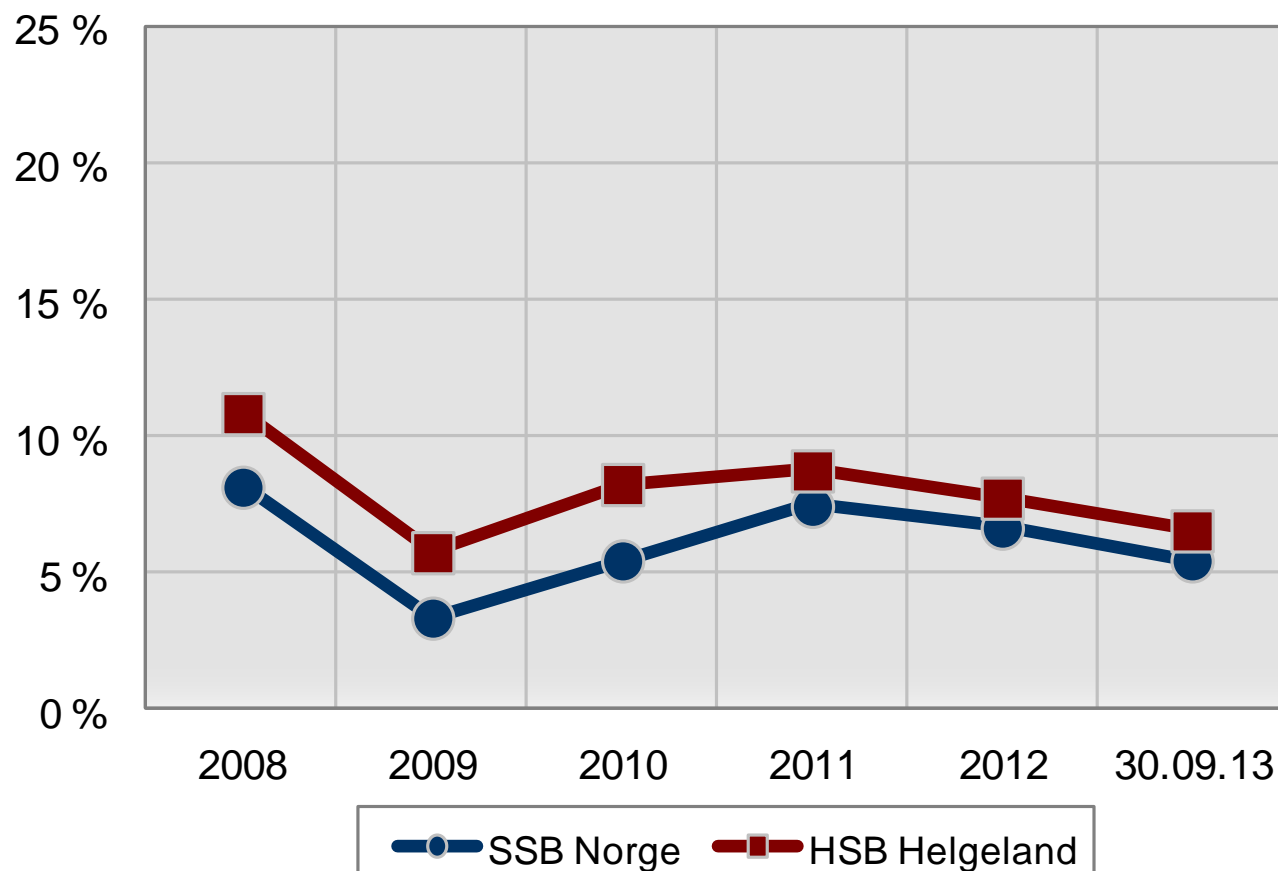
Target deposit ratio in the HSB group is 60%

Very good deposit growth in the quarter

# Deposit growth retail market

Helgeland Sparebank

Deposit growth retail market 12 mth.



**12-month growth 6.6 (8.2) %**

9-month growth 6.1 (7.4)%

Deposits from personal customers constitute NOK 7.8 (7.3) bn.

Growth in personal customer still higher than the national average

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

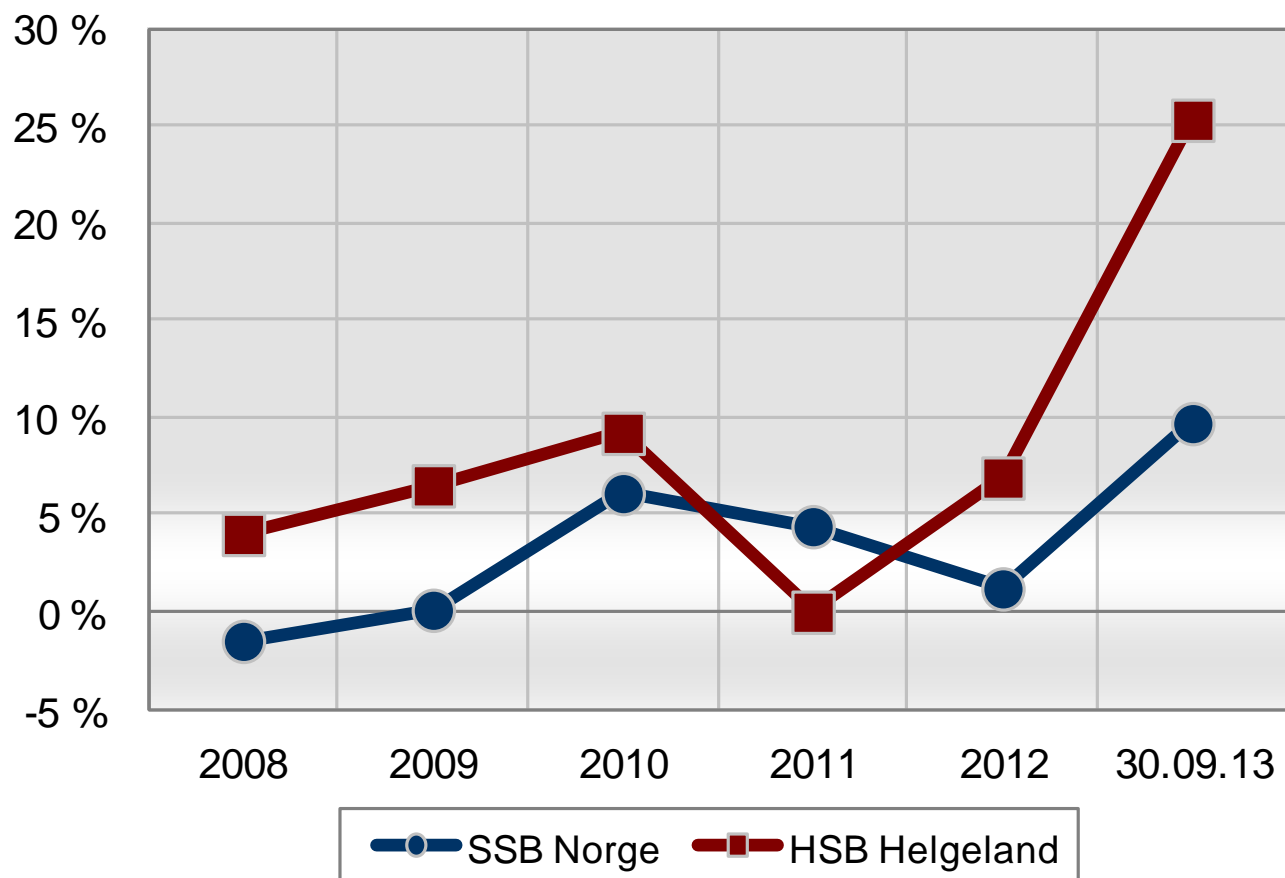
The work with increasing the deposits will continue:

- More new savings products will be launched
- Intensified marketing

# Deposit growth corporate market

Helgeland Sparebank

Deposit growth corp. market 12 mth.



**12-month growth 25.3 (4.8) %**

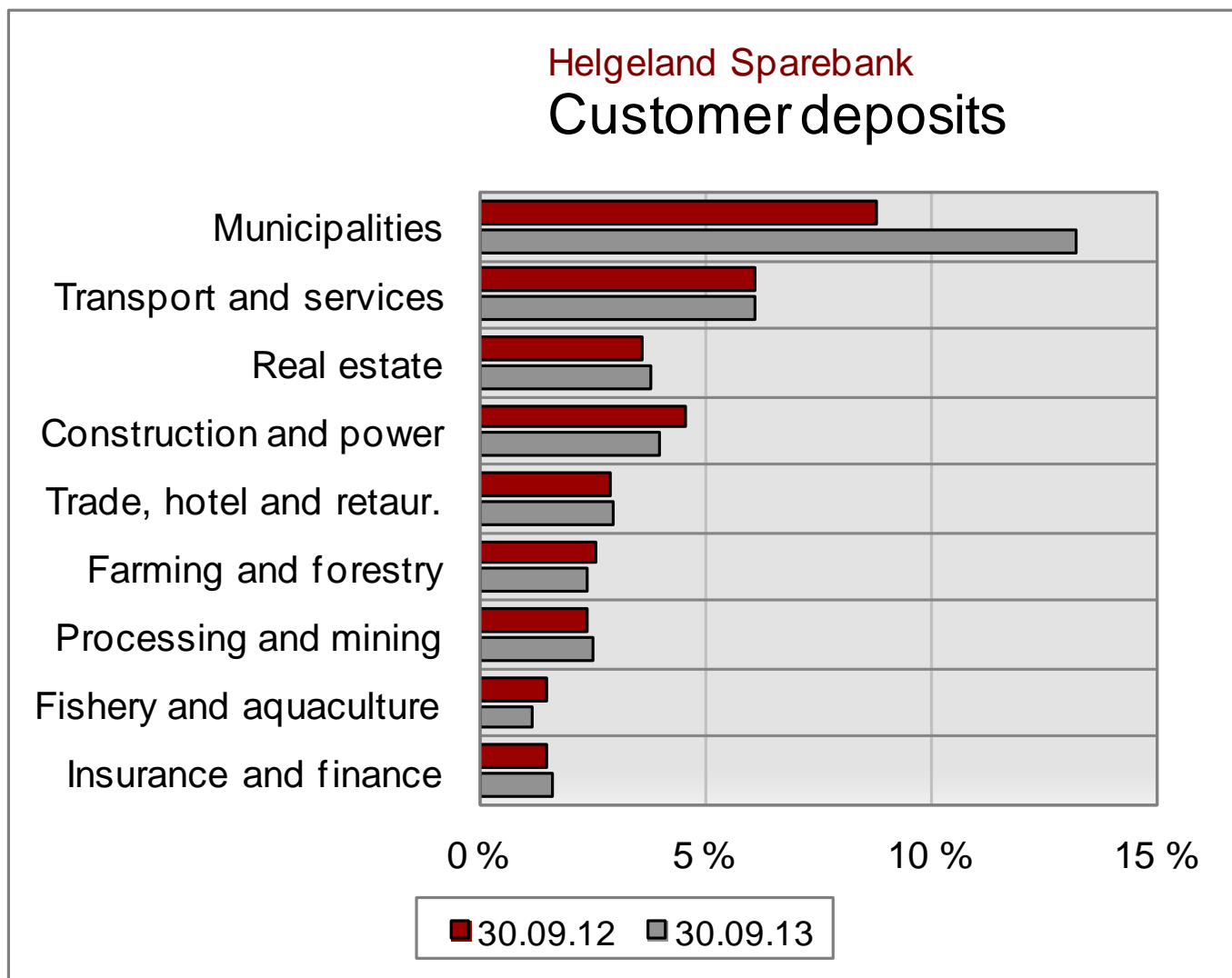
9-month growth 23.0 (4.9) %

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

20 largest deposits have been stable over time, significant increase in the 3<sup>rd</sup> quarter due to a new deposit from the municipal sector

20 largest deposits constitute NOK 2.2 (1.6) bn, or 17.1 (14.4) % of total deposits


# Customer deposits corporate market



## Loyal customer base

Of total deposits, NOK 4.8 (3.8) bn. are deposits from the corporate market

Good diversification of deposits from businesses

An aerial photograph of a coastal area, likely Helgeland, Norway. The image shows a large body of water (fjord or bay) with several islands and a prominent mountain range in the background. In the foreground, there is a developed area with industrial buildings, a harbor with several ships, and a marina with many small boats. The water is a deep blue, and the land is green with some rocky areas.

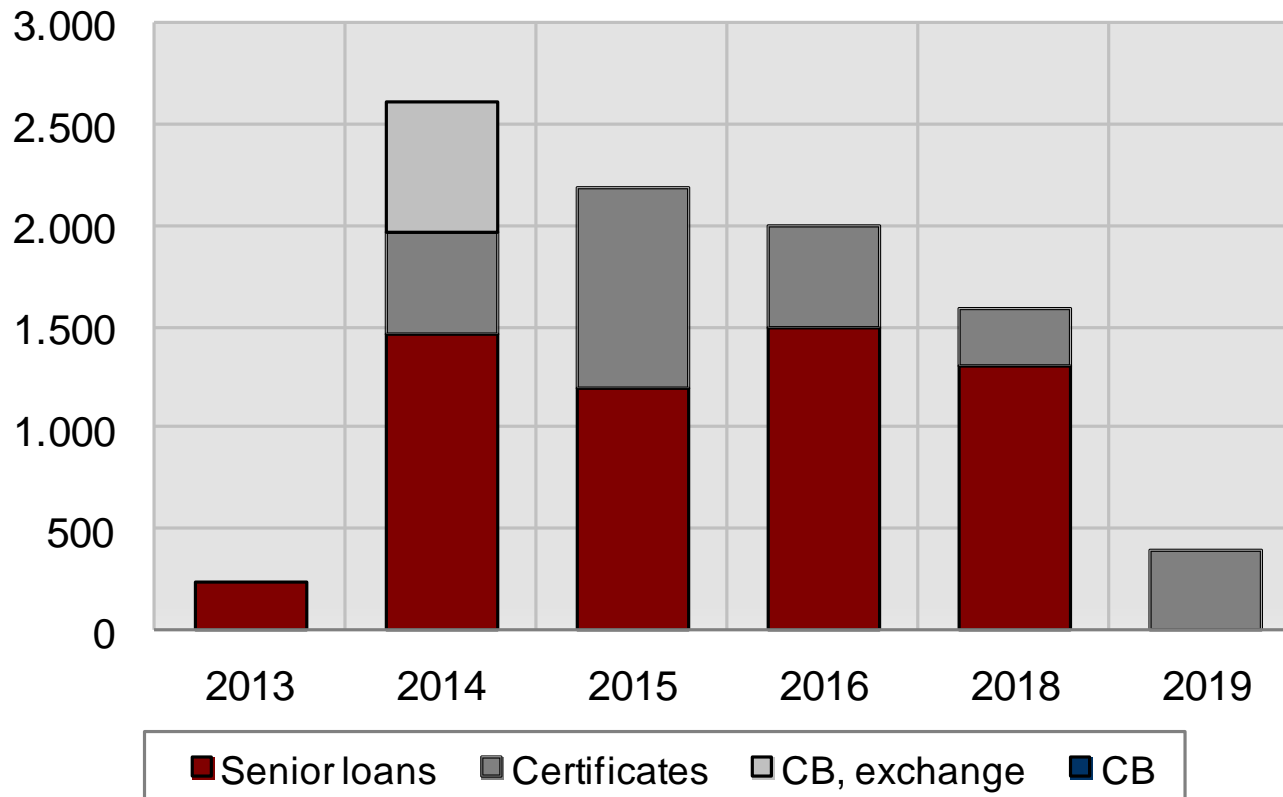
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# Loans from the capital market

Helgeland Sparebank

## Capital market funding structure and maturity



## Good and long term funding

Duration on loans is 2.5 (2.3) yrs.

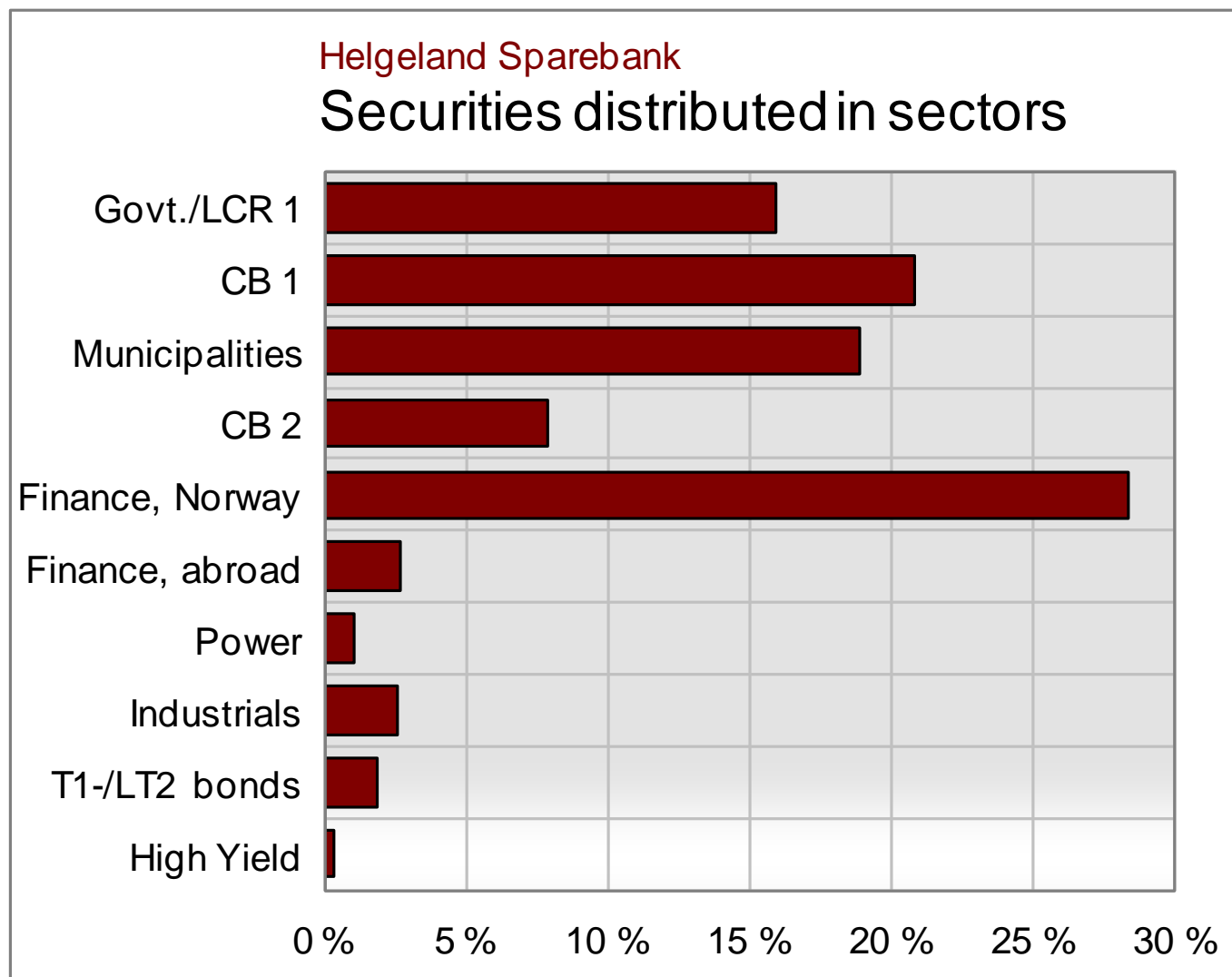
Liquidity indicator 1 was 108.2%  
The indicator value for the reference banks was 105.8% at 30.09.13

Covered bonds constitute NOK 3.3 (3.4) bn. (30 (31) % of the loaning portfolio)

The bank has a moderate rate of transference, 23 % of gross lending (or 35% of PM lending) is transferred to Helgeland Boligkreditt AS

Additional potential for transferring mortgages to Helgeland Boligkreditt AS, the target is 30% of gross lending

# Liquidity buffers



## Solid buffer capital

The liquidity buffers constitute NOK 4.3 (4.2) bn. equal to 16.5 (17.2) % of BTA

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

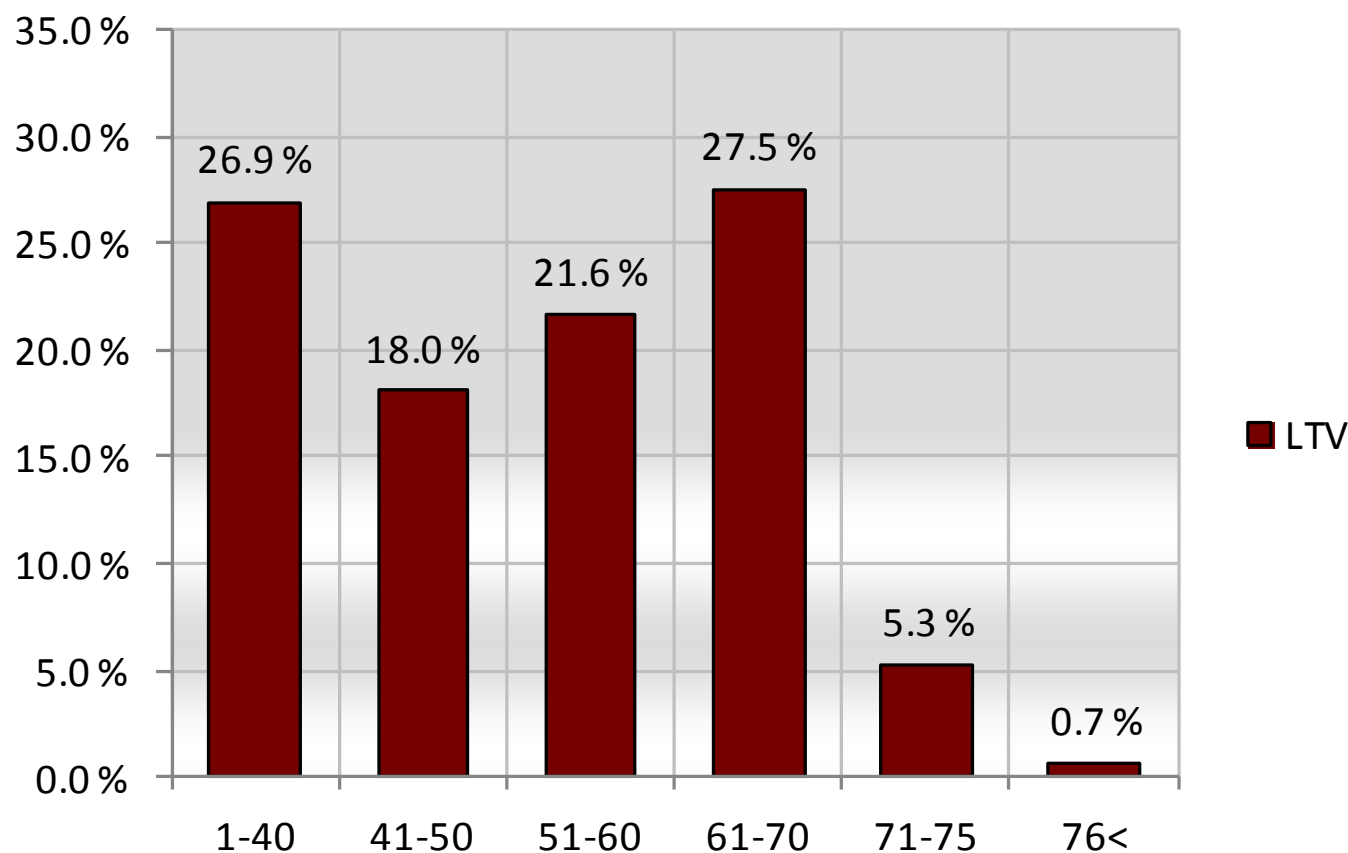
Interest bearing assets:

- Duration on portfolio 1.7 years
- 63 % are covered bonds or govt.-/municipal bonds.
- 88.5 % are rated A- or better

# Helgeland Boligkreditt AS

Helgeland Boligkreditt

LTV-allocation as of 30.09.2013



## Good cover pool

The cover pool:

- Qualified loans MNOK 4,745 (4,486)
- Deposits: MNOK 240 (273)
- Ratio of fullness: 124 (111) %
- Combined LTV: 50.2 (52.8) %

Loans:

- CB NOK 4.0 bn. (whereby 0.7 in the paternal banks possession – swap agreement)
- Duration on loaning 2.3 (2.6) years (all loans have soft call)

Profitability 30.09.13:

- Net profit MNOK 35.2 (18.7)

CET1 capital ratio:

15.52% (standard method with 35% mortgage weights)





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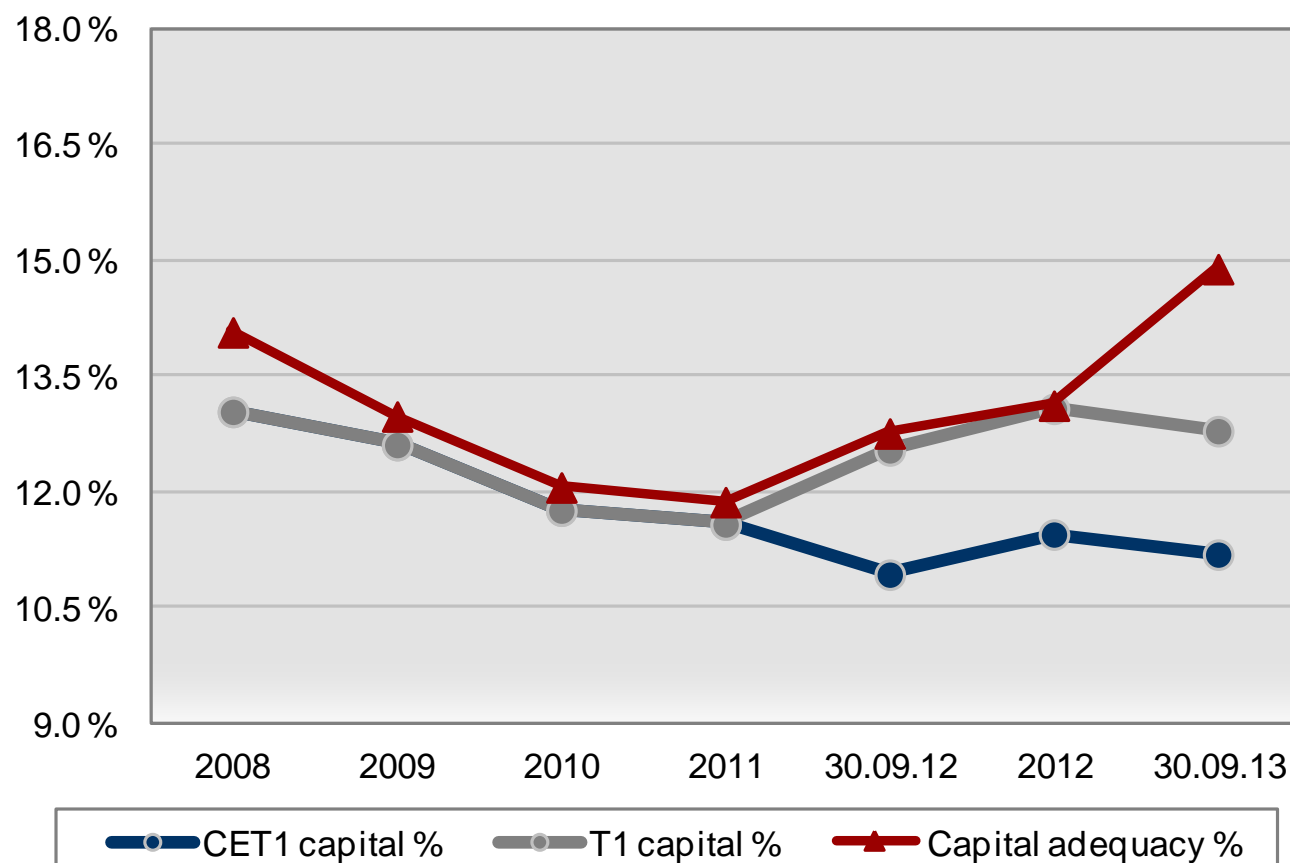
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# Solidity

## Capital ratio

Helgeland Sparebank

### Development in capital adequacy



### Satisfactory solidity

CET1 capital ratio was 11.2% (11.5% at 31.12.12) – well above the current regulatory requirement of 9%, and 10% from 01.07.14

Core capital was 12.8% (13.1% at 31.12.12)

Total capital ratio was 14.9% (13.2% at 31.12.12) – strengthened in June with a MNOK 300 subordinated loan

The HSB group uses the standard method when calculating capital requirements for lending 35% mortgage weights

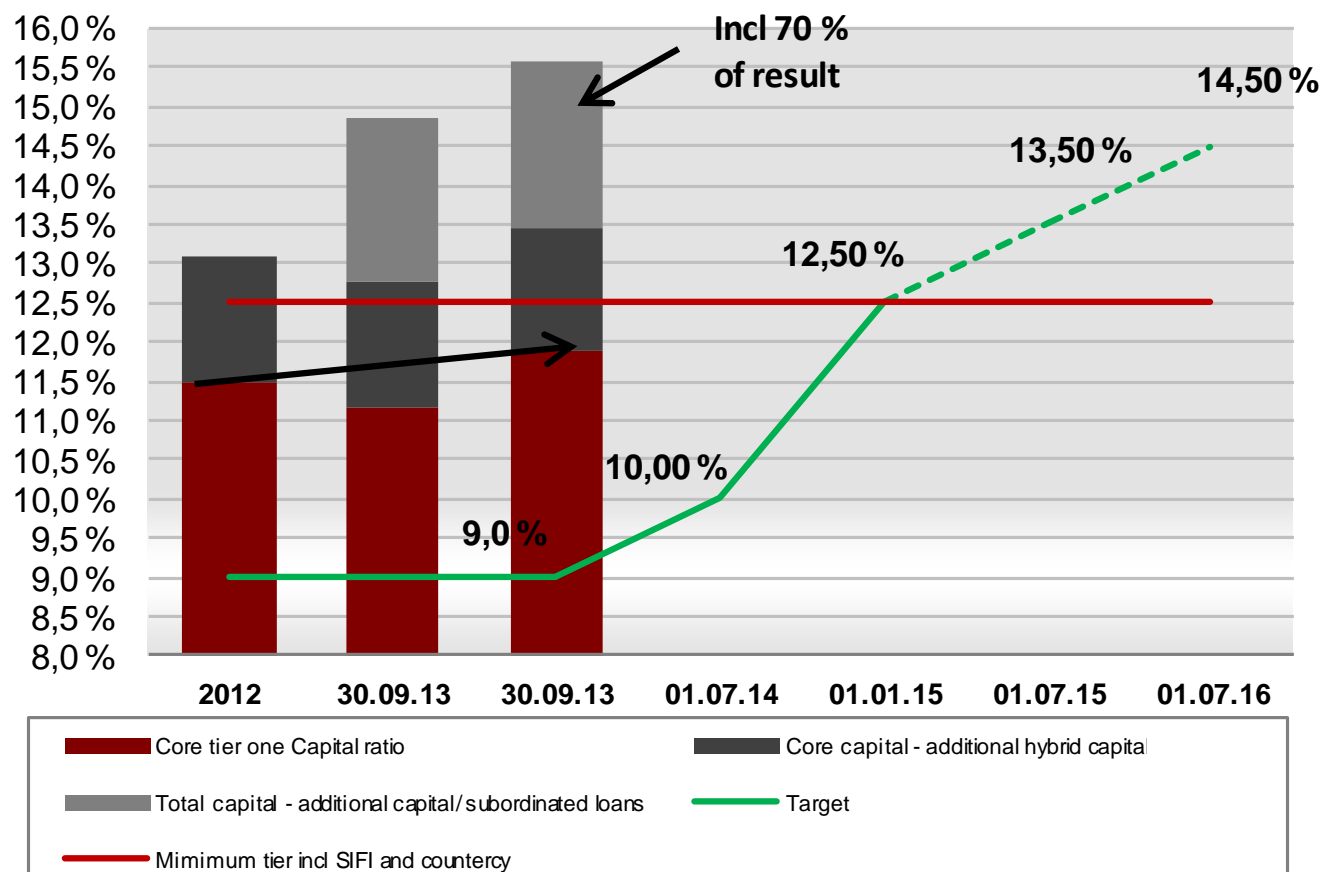
The share of this year's profits are not worked into the numbers



# Capital structure and capital plan

Helgeland Sparebank

## Development capital adequacy




## Strengthened earnings strengthens CET1 capital

CET1 capital has increased by 40bp since the turn of the year, from 11.5% to 11.9% at Q3 (Includes 70% of profits this year)

CET1 capital will still be strengthened through increased risk pricing, reduced lending growth, reduced degree of dividends and a focus on the basis for calculation

The total capital will be additionally strengthened by new subordinated/T1 loans toward 2017

The bank will fulfill the regulatory requirements within the time limits WITHOUT emitting ECCs in the market



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# Prospects and priorities

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Target oriented work toward the bank's strategy- and capital plan

- Increase return on equity
  - Increase profits additionally through a better net interest
    - Increased risk pricing on lending
  - The cost efficiency will be upheld
    - Continued benchmarking against other comparable banks
- Adaption to new capital requirements
  - Reduce the lending growth down toward 5% this year
    - Unloading of loans to the business market through concrete measure is ongoing
- Centralised credit management in BM and high quality in the credit work
- Continue the focus on maintaining a good deposit ratio
- We are working to get in place an official rating by the 1<sup>st</sup> half 2014

# Prospects and priorities

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- Helgeland has since 2007 grown in population and value creation
- Helgeland has a robust and divers labour market
  - Unemployment slightly increasing
  - Governmental enterprises expand
  - Increased oil- and gas activity both on- and off shore
  - Better international market last quarter for the exportoriented process- and mining industries
  - Still high salmon prices in the export markets
  - Young people are returning to an increasing number of jobs in services, both in the public and private sectors.
  - Larger infrastructural investments on the E6, airport and ports

# 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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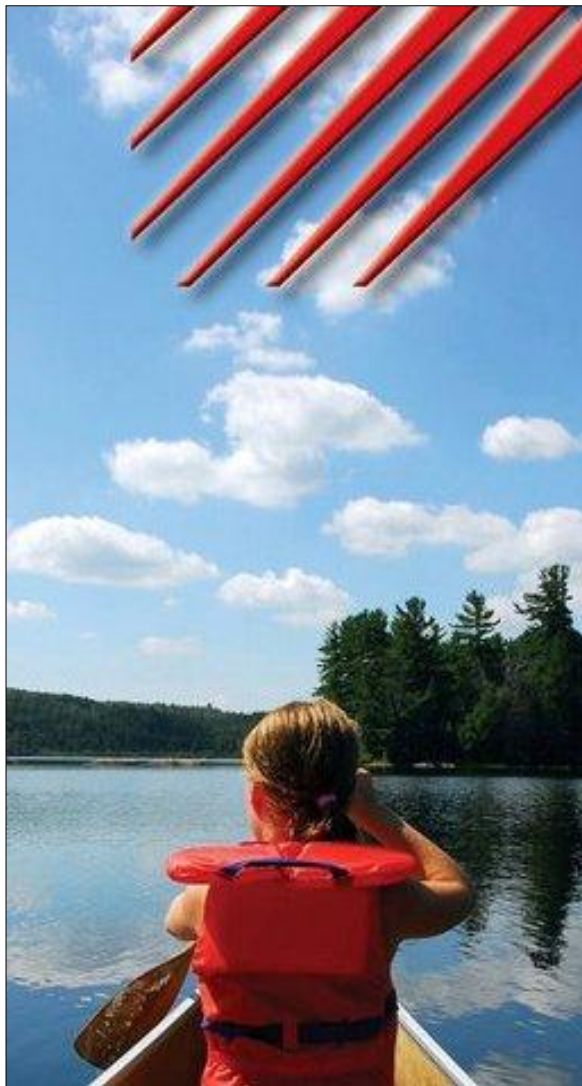
The bank

## 20 largest owners of the ECC - HELG

			<i>Parent bank</i>		
Per 30.09.13	Numbers	% share		Numbers	% share
Sparebankstiftelsen Helgeland	12 099 598	64,7 %	Pareto AS	170 000	0,9 %
MP Pensjon	800 000	4,3 %	Citibank, N.A S/A National fin	136 147	0,7 %
Sparebank 1 SMN VPS	649 047	3,5 %	Nervik, Steffen	110 000	0,6 %
Helgelandskraft AS	340 494	1,8 %	Melum Mølle AS	100 000	0,5 %
Sparebankstiftelsen DnB NOR	329 124	1,8 %	Hartviksen, Harald	94 498	0,5 %
Bergen Kommunale pensj.	300 000	1,6 %	Brage Invest AS Eika kapital	82 287	0,4 %
Sparebanken Vest	200 000	1,1 %	Tromstrygd	75 000	0,4 %
Verdipapirfondet EIK	199 316	1,1 %	Institutt for sammenligning	62 300	0,3 %
Skagen Vekst	185 809	1,0 %	Storkleiven AS	60 000	0,3 %
Johs. Haugerudsvei AS	176 402	0,9 %	Sniptind Holding AS	57 465	0,3 %
<b>Total 10 biggest owners</b>	<b>15 279 790</b>	<b>81,7 %</b>	<b>Total 20 biggest owners</b>	<b>16 227 487</b>	<b>86,8 %</b>



# 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** in 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 1.9 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.

# 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

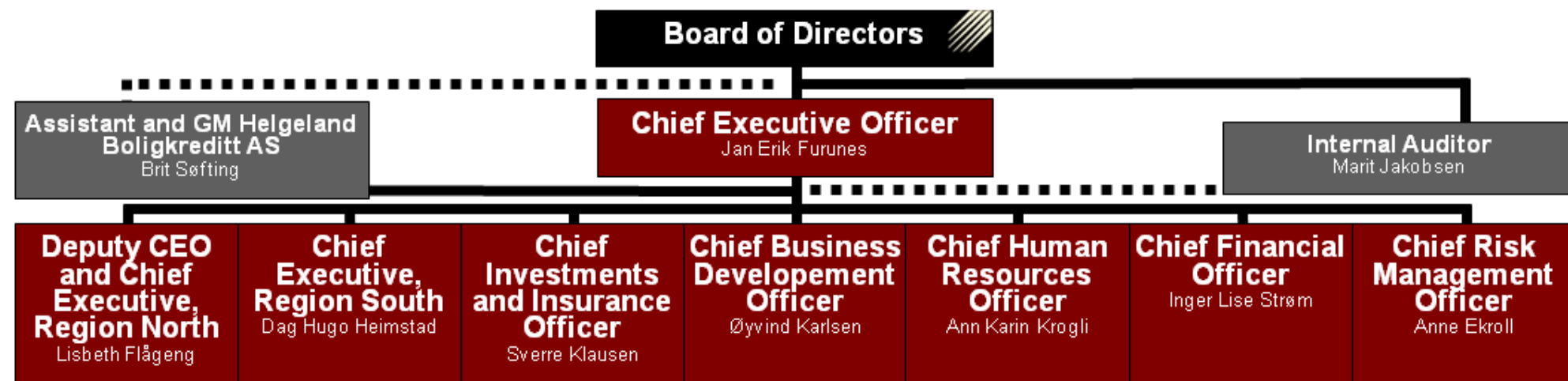


"In "Horizon Helgeland" central developmental features since 2007 are shown – the year before the financial crisis hit – and on to 2012. A short summary of the graphical presentation:

- 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."



# Business development and ownership



## Subsidiaries and associated companies



100 %



8,9 %



34%



6,5 %



48%

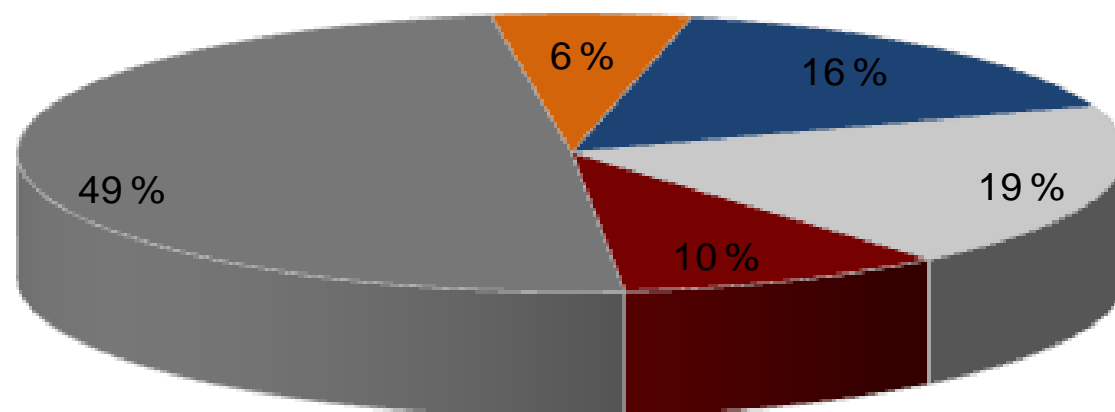


10 %

# Commission earnings

Helgeland Sparebank

Comm. income and income from  
coreoperation



- |                       |                        |
|-----------------------|------------------------|
| ■ Guarantee fee       | ■ Payment charges      |
| ■ Comm life insurance | ■ Comm P & C insurance |
| ■ Other fees          |                        |

## Commission earnings:

A large part of the income comes from fees on payment transactions

Commission Life- and General insurance have a positive trend.

# Management and organisational structure

