

# Sparebanken Hedmark

Second Quarter 2014

Presentation of financial results

CEO Richard Heiberg

13.08.2014

# About Sparebanken Hedmark

- Sparebanken Hedmark is the leading provider of financial products to people, companies and the public sector in Hedmark
- Norway's largest self-owned savings bank:
  - NOK 7.2 billion in equity
  - NOK 50 billion in total assets
  - NOK 66 billion in commercial volume (incl. loans transferred to SpareBank 1 Boligkreditt/SpareBank 1 Næringskreditt )
  - 700 employees, 171,000 customers
  - 23 branches in Hedmark, 2 in Oppland and 1 in Akershus
- Regional bank with a local presence
  - Hedmark: Branches in 20 out of 22 municipalities
  - Oppland: Branches in Gjøvik and Lillehammer.
  - Akershus: Branch in Årnes.
- Subsidiaries
  - Estate agency (EiendomsMegler 1 Hedmark Eiendom AS)
  - Leasing and asset financing (SpareBank 1 Finans Østlandet AS)
  - Accounting and consultancy chain (SpareBank 1 Regnskapshuset Østlandet AS)
- Owns 40.5% of Bank 1 Oslo Akershus AS and 11 % of the SpareBank 1 Gruppen AS
- Rated A2 by Moody's



# Highlights – first half-year 2014

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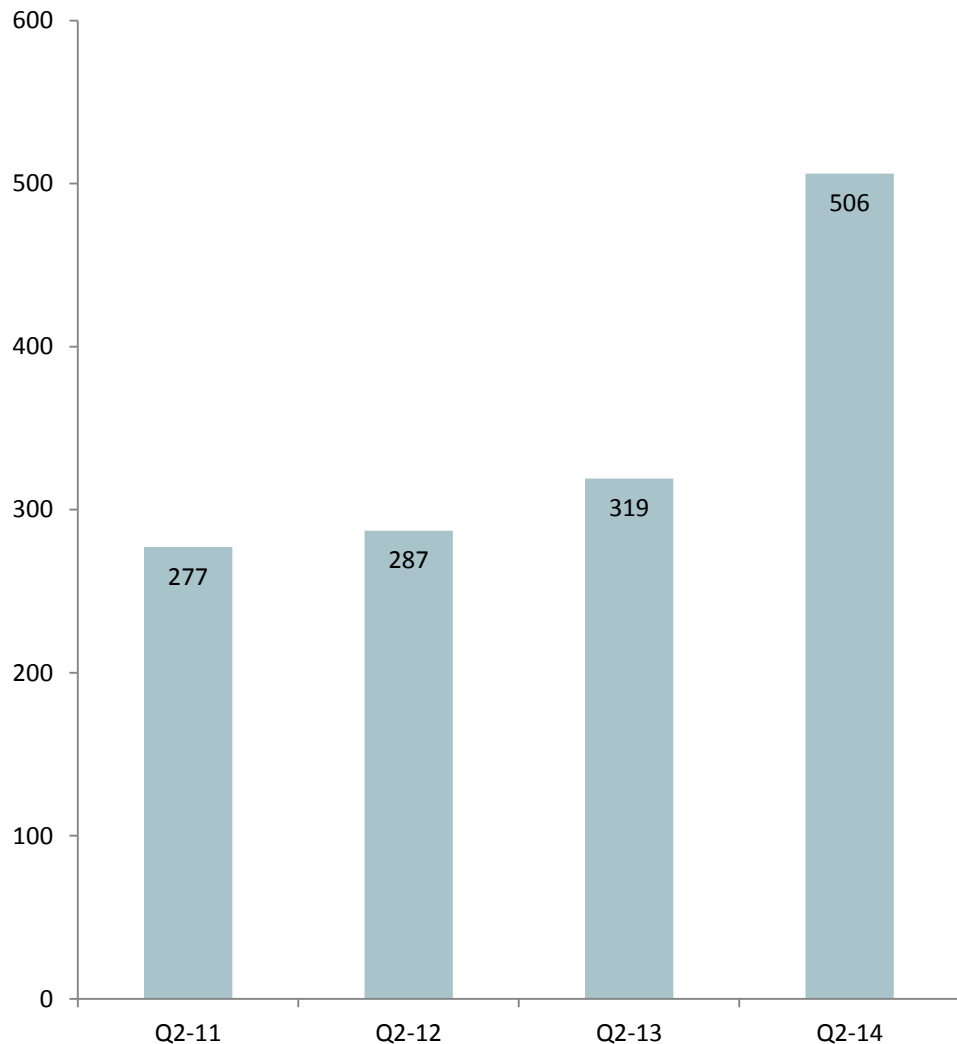
- Very good financial strength
  - An equity ratio on 14.4 per cent of the unweighted balance sheet
- Higher risk weight on mortgage loans to customers have significant effect on the core 1 ratio (14,0)
- Satisfactory performance in the banking operations
- Good results for jointly owned companies Bank 1 Oslo Akershus AS (40.5 %) and SpareBank 1 Gruppen AS (11 %)
- Earnings from the sale of shares in Nets Holding ASA will be recognized from equity to profit in the third quarter
- Drop in interest margin on loans is compensated largely by lower deposits rates
- The Bank is in a very good liquidity situation – high demand for the Bank`s debt securities
- Rated A2 from Mood`s and rated # 1 among Norwegians savings banks by SpareBank 1 Markets, # 2 by DnB Markets and # 2 by Nordea
- Initiated study of equity capital certificates (ECC)

# Profit/loss first quarter 2014 (Group)

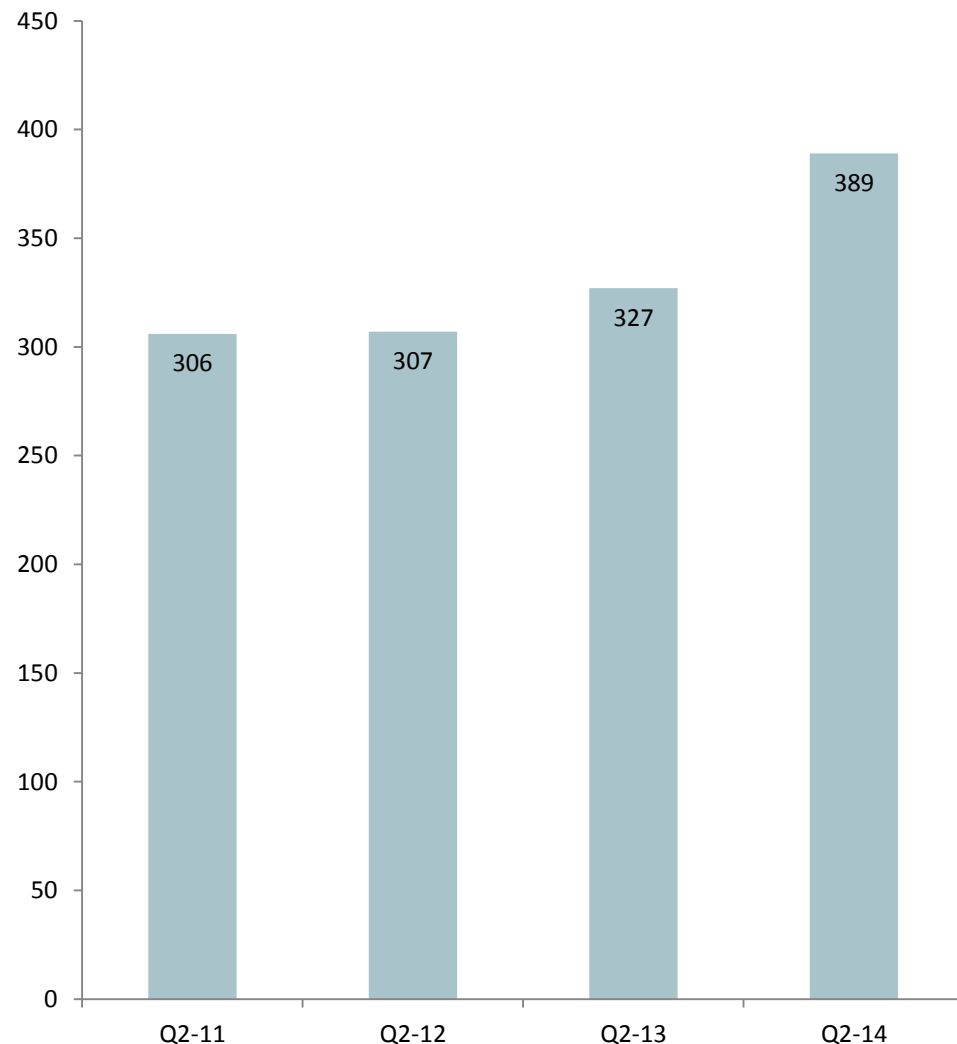
|                                                   | First half-<br>year<br>2014 | First half-<br>year<br>2013 | 2013       |
|---------------------------------------------------|-----------------------------|-----------------------------|------------|
| Net interest income                               | 499                         | 479                         | 1008       |
| Net commission income                             | 238                         | 166                         | 370        |
| Other income                                      | 113                         | 94                          | 189        |
| Total operating expenses                          | 481                         | 458                         | 916        |
| <b>Result ordinary operation before losses</b>    | <b>369</b>                  | <b>281</b>                  | <b>651</b> |
| Losses on loans and guarantees                    | 33                          | 25                          | 72         |
| <b>Result ordinary operation after losses</b>     | <b>336</b>                  | <b>256</b>                  | <b>579</b> |
| Dividends                                         | 12                          | 18                          | 21         |
| Net profit from ownership interest                | 195                         | 107                         | 326        |
| Net income from financial assets/liabilities      | -37                         | -62                         | -84        |
| <b>Profit/loss before tax</b>                     | <b>506</b>                  | <b>319</b>                  | <b>842</b> |
| Tax charge                                        | 83                          | 60                          | 147        |
| <b>Profit/loss after tax</b>                      | <b>424</b>                  | <b>260</b>                  | <b>695</b> |
| Return on equity capital after tax                | 12,3 %                      | 8,5 %                       | 11,0 %     |
| Total operating costs in relation to total income | 47,1 %                      | 57,1 %                      | 50,1 %     |
| Losses on loans as a percentage of gross loans    | 0,2 %                       | 0,1 %                       | 0,2 %      |

# Result before tax for Group and Parent Bank

## Result before tax accumulated - Group



## Result before tax accumulated – Parent bank



# Result before tax for Group incl. effects from Nets Holding ASA

- Gains on NOK 158 million from the sale of shares in Nets Holding ASA
- Recognition of the gain from the Nets Holding ASA in the first half would have resulted in a return on equity of 16.9 percent
- Core equity tier 1 ratio increase to 15.2 per cent

|                                                | First half-<br>year 2014<br>incl. Nets | First half-<br>year 2014<br>reported | First half-<br>year<br>2013 |
|------------------------------------------------|----------------------------------------|--------------------------------------|-----------------------------|
| Net interest income                            | 499                                    | 499                                  | 479                         |
| Net commission income                          | 238                                    | 238                                  | 166                         |
| Other income                                   | 113                                    | 113                                  | 94                          |
| Total operating expenses                       | 481                                    | 481                                  | 458                         |
| <b>Result ordinary operation before losses</b> | <b>369</b>                             | <b>369</b>                           | <b>281</b>                  |
| Losses on loans and guarantees                 | 33                                     | 33                                   | 25                          |
| <b>Result ordinary operation after losses</b>  | <b>336</b>                             | <b>336</b>                           | <b>256</b>                  |
| Dividends                                      | 12                                     | 12                                   | 18                          |
| Net profit from ownership interest             | 195                                    | 195                                  | 107                         |
| Net income from financial assets/liabilities   | 121                                    | -37                                  | -62                         |
| <b>Profit/loss before tax</b>                  | <b>664</b>                             | <b>506</b>                           | <b>319</b>                  |

# Income statement isolated quarters (Group)

|                                                | Q2 2014    | Q1 2014    | Q4 2013    | Q3 2013    | Q2 2013    |
|------------------------------------------------|------------|------------|------------|------------|------------|
| Net interest income                            | 259        | 240        | 263        | 266        | 252        |
| Net commission income                          | 109        | 130        | 100        | 104        | 89         |
| Other income                                   | 57         | 56         | 46         | 49         | 48         |
| Total operating expenses                       | 240        | 242        | 235        | 223        | 227        |
| <b>Result ordinary operation before losses</b> | <b>185</b> | <b>184</b> | <b>174</b> | <b>196</b> | <b>162</b> |
| Losses on loans and guarantees                 | 21         | 12         | 43         | 4          | 22         |
| <b>Result ordinary operation after losses</b>  | <b>164</b> | <b>172</b> | <b>131</b> | <b>192</b> | <b>140</b> |
| Dividends                                      | 0          | 12         | 3          | 0          | 18         |
| Net profit from ownership interest             | 81         | 114        | 121        | 98         | 53         |
| Net income from financial assets/liabilities   | -4         | -33        | -3         | -19        | 26         |
| <b>Profit/loss before tax</b>                  | <b>241</b> | <b>265</b> | <b>251</b> | <b>271</b> | <b>237</b> |
| Tax charge                                     | 45         | 38         | 38         | 49         | 51         |
| <b>Profit/loss after tax</b>                   | <b>196</b> | <b>227</b> | <b>213</b> | <b>222</b> | <b>186</b> |

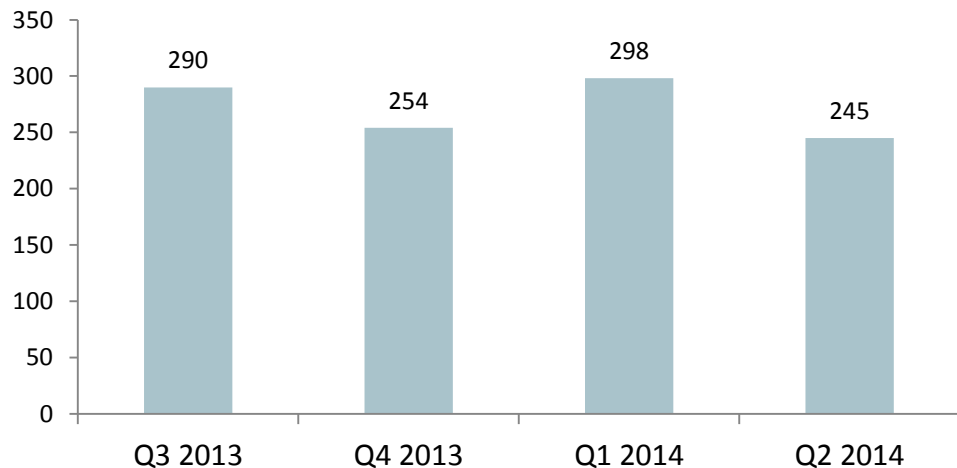
# Specification of results (Group)

| <i>(Nok million)</i>                                    | First half-<br>year 2014 | First half-<br>year 2013 | 2013       |
|---------------------------------------------------------|--------------------------|--------------------------|------------|
| <b>Parent Bank's profit after tax</b>                   | <b>362</b>               | <b>306</b>               | <b>622</b> |
| Dividends received from subsidiaries and joint ventures | -134                     | -121                     | -123       |
| <b>Profit /loss attributable to:</b>                    |                          |                          |            |
| SpareBank 1 Gruppen AS                                  | 85                       | 47                       | 132        |
| Bank 1 Oslo Akershus AS                                 | 119                      | 53                       | 133        |
| SpareBank 1 Boligkreditt and Næringskreditt AS          | 8                        | 5                        | 17         |
| EiendomsMegler 1 Hedmark Eiendom AS                     | 9                        | 3                        | 5          |
| SpareBank 1 Finans Østlandet AS                         | 50                       | 39                       | 79         |
| SpareBank 1 Regnskapshuset Østlandet AS                 | 7                        | 0                        | -4         |
| Other companies                                         | 0                        | -13                      | -20        |
| <b>Consolidated profit before tax</b>                   | <b>506</b>               | <b>319</b>               | <b>841</b> |
| Tax                                                     | 83                       | 60                       | 147        |
| <b>Consolidated profit after tax</b>                    | <b>424</b>               | <b>259</b>               | <b>694</b> |

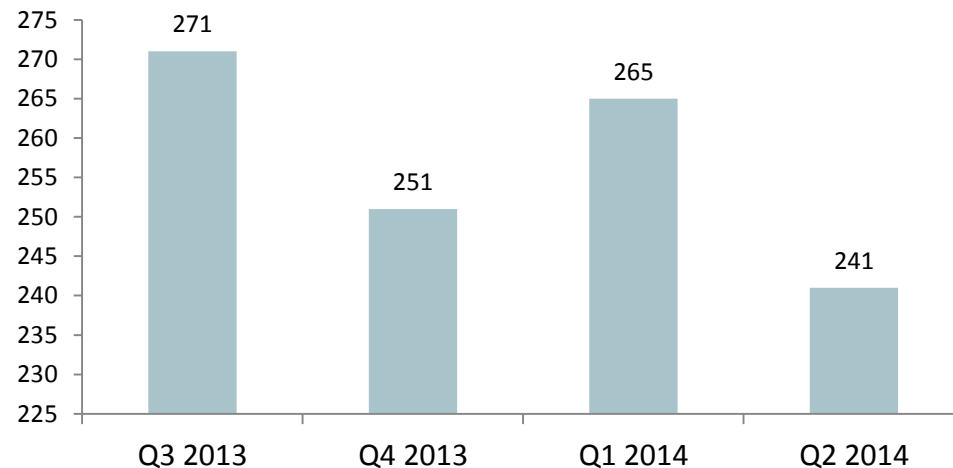


# Financial results by quarter (Group)

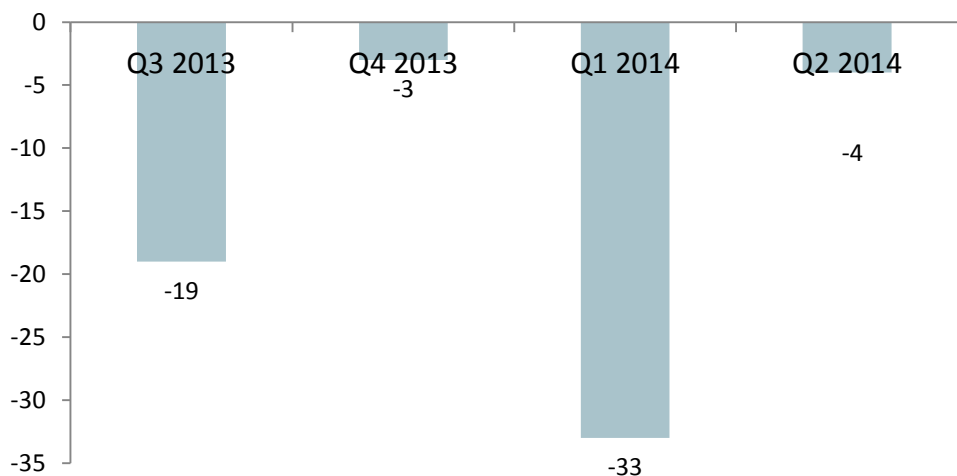
Profit/loss before tax excl. profit from other financial assets and liabilities



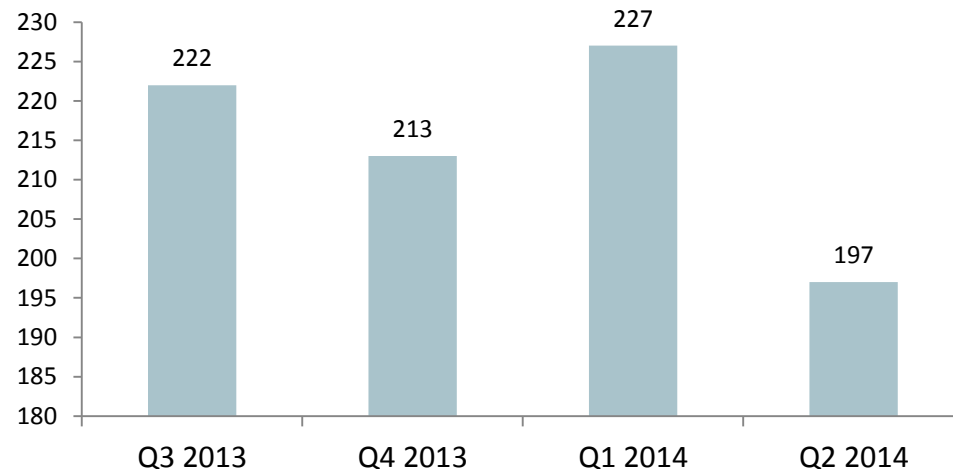
Profit/loss before tax



Net result from other financial assets and liabilities

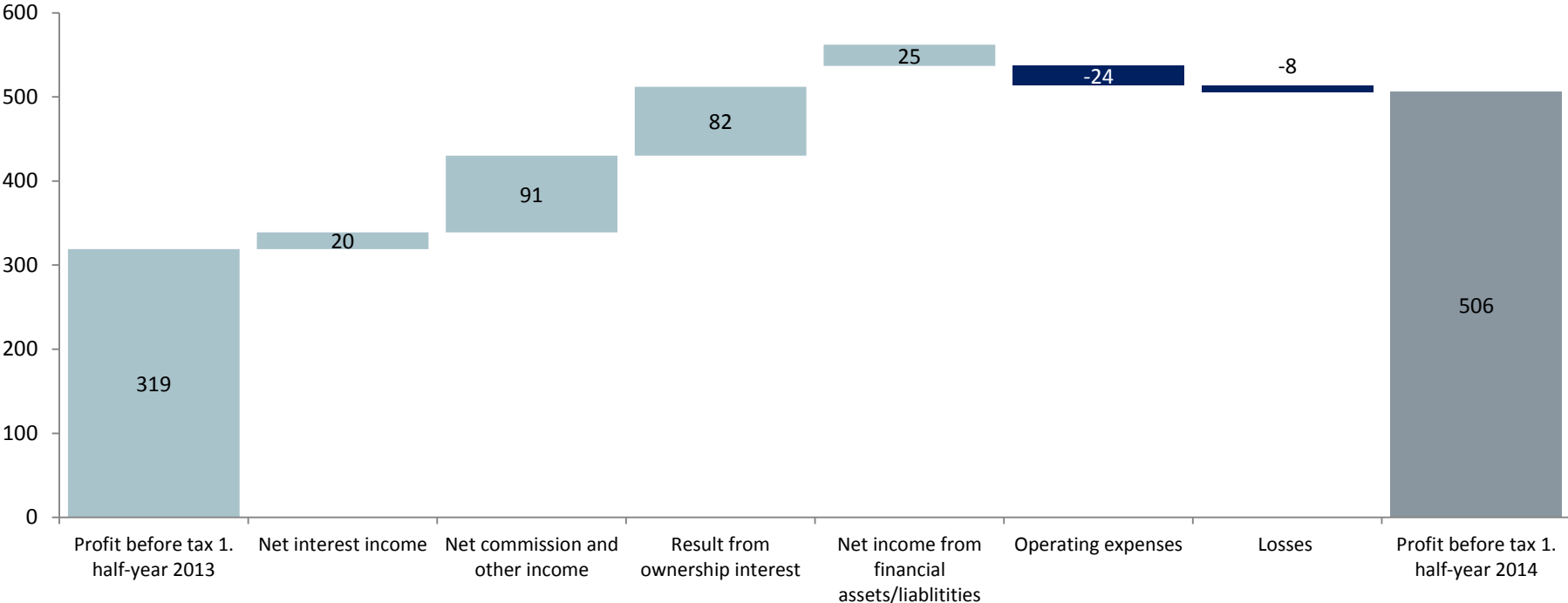


Result after tax



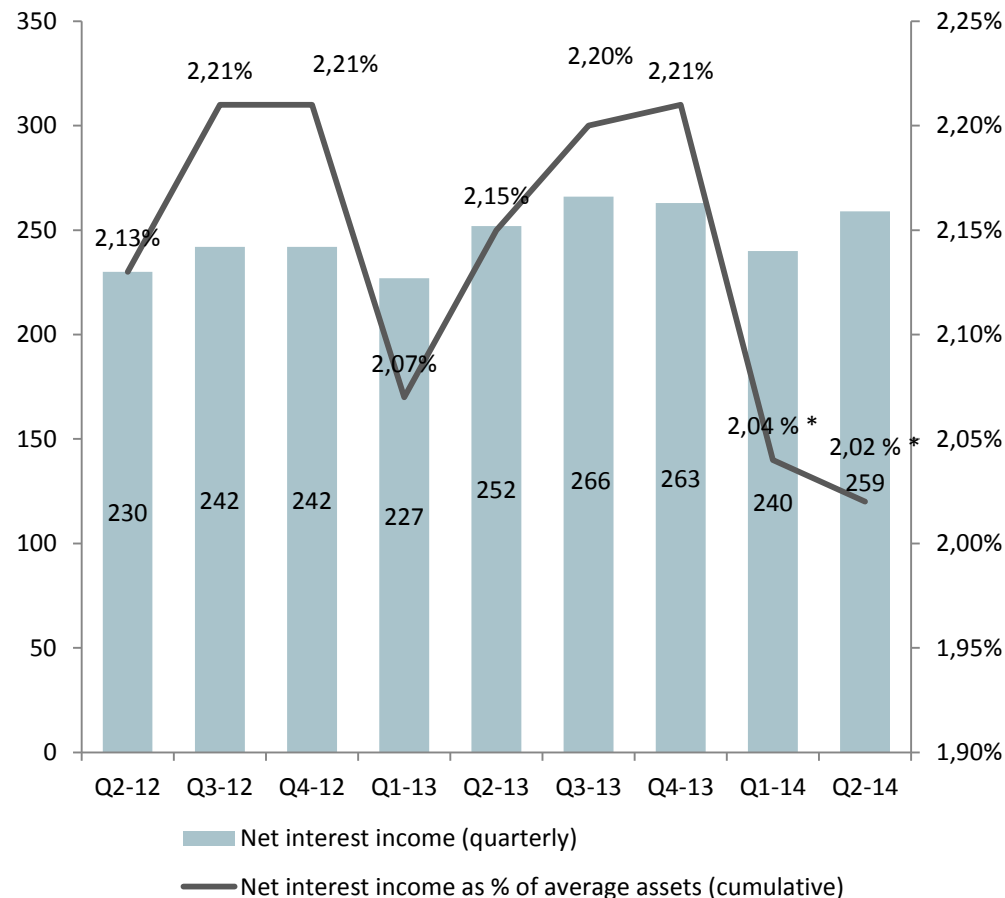
# Specification of the consolidated profit (Group)

Change in profit before tax Q2 2013 vs Q2 2014

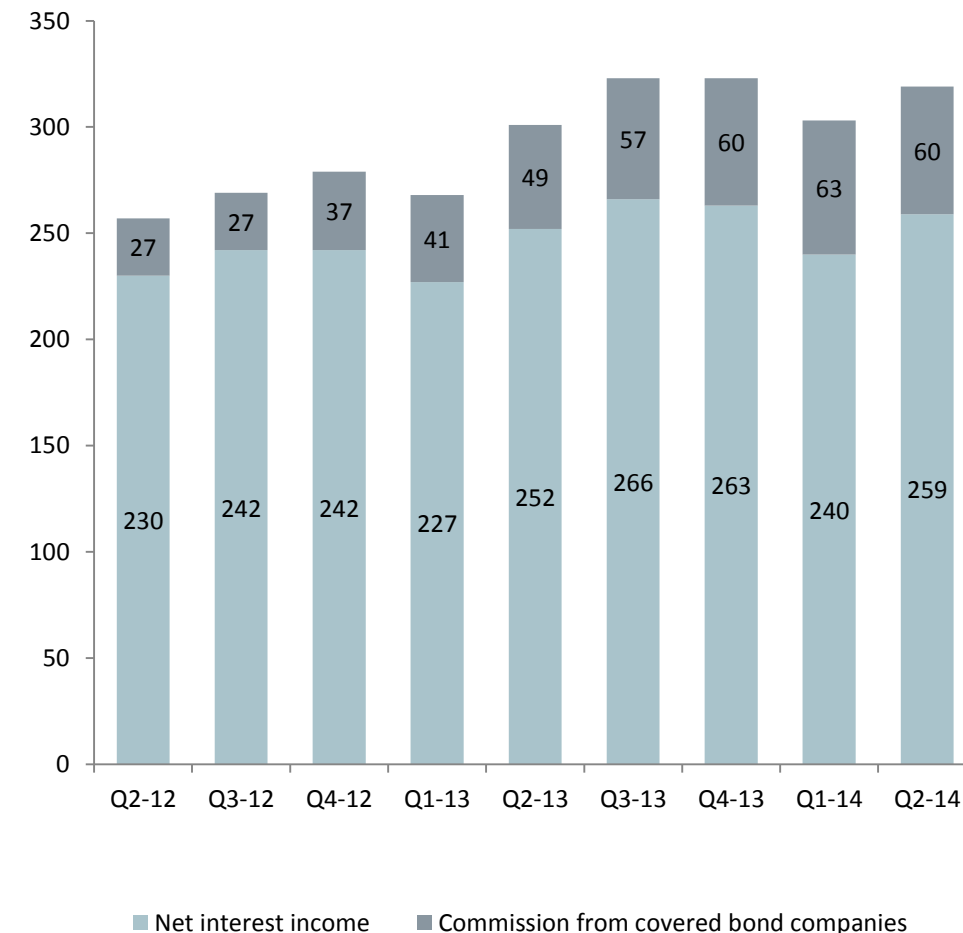


# Net interest income (Group)

## Interest income excl. Commission from covered bond companies

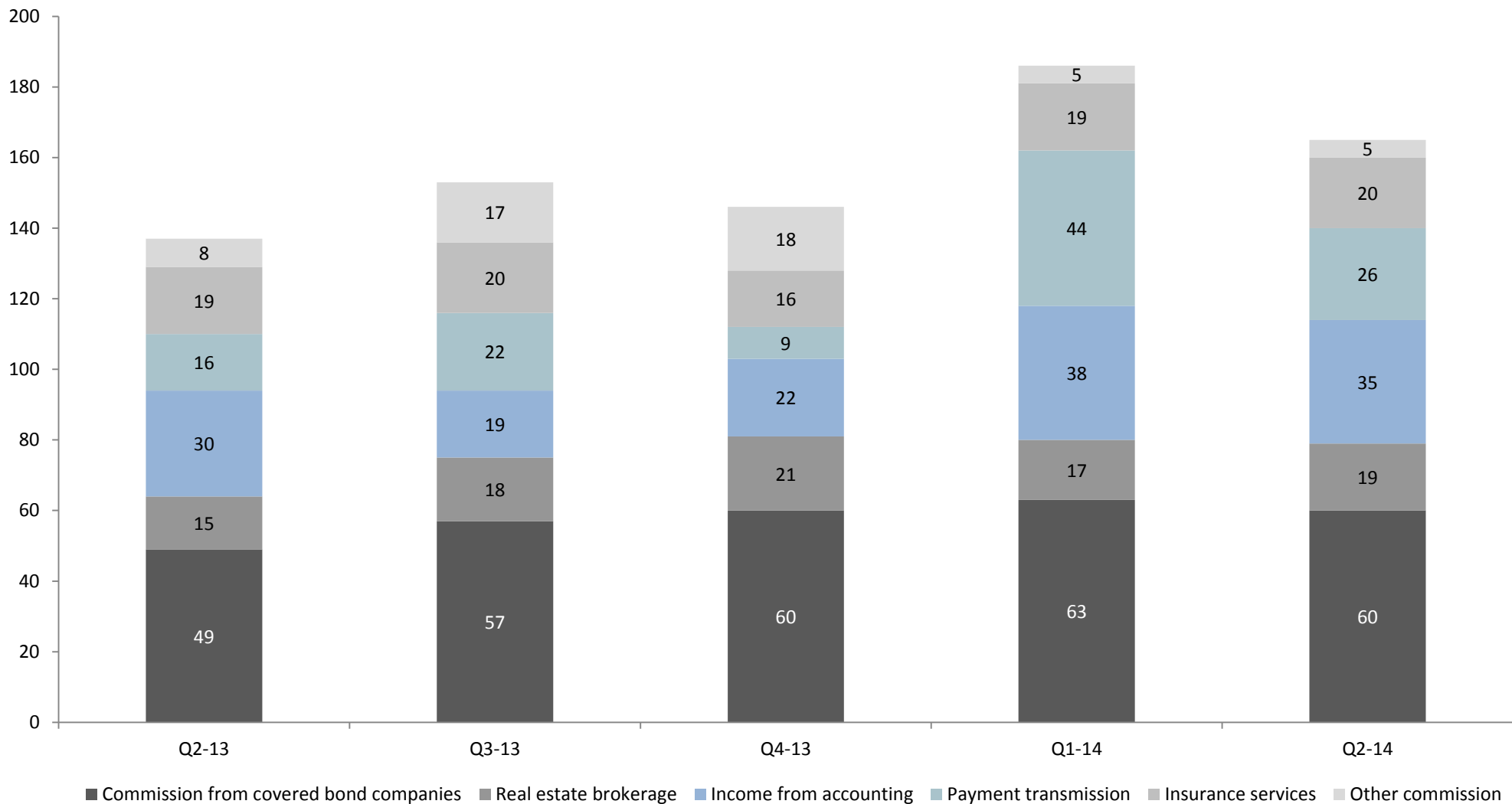


## Interest income incl. commission from covered bond companies



\* MasterCard portfolio was sold in Q1.

# Net commission and other income (Group)



# Net income from financial assets and liabilities (Group)

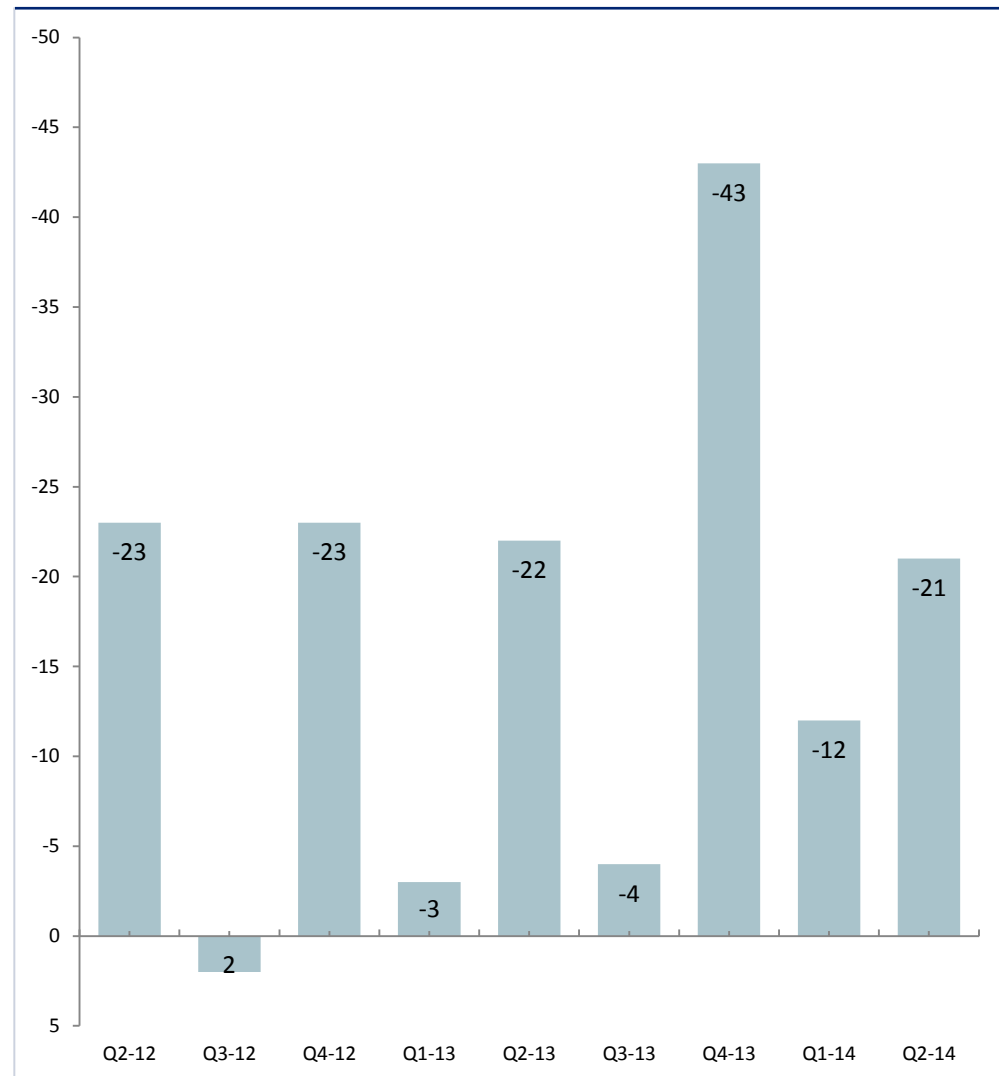
|                                                          | 2013       | Q2 2013   | Q1 2013   | Q4 2013   | Q3 2013   | Q2 2013   |
|----------------------------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|
| Dividends                                                | 12         |           | 12        | 0         |           | 18        |
| Net profit from ownership interest                       | 195        | 81        | 114       | 81        | 99        | 48        |
| Profit/loss and change in value of bond and certificates | 27         | 27        |           | -54       | 10        | 19        |
| Profit/loss and change in value of shares                | -128       | -83       | -45       |           | 3         |           |
| Profit/loss and change in value of financial derivatives | 63         | 51        | 12        | 5         | -33       | 14        |
| <b>Net income from financial assets and liabilities</b>  | <b>170</b> | <b>75</b> | <b>95</b> | <b>32</b> | <b>79</b> | <b>99</b> |

# Operating expenses (Group)

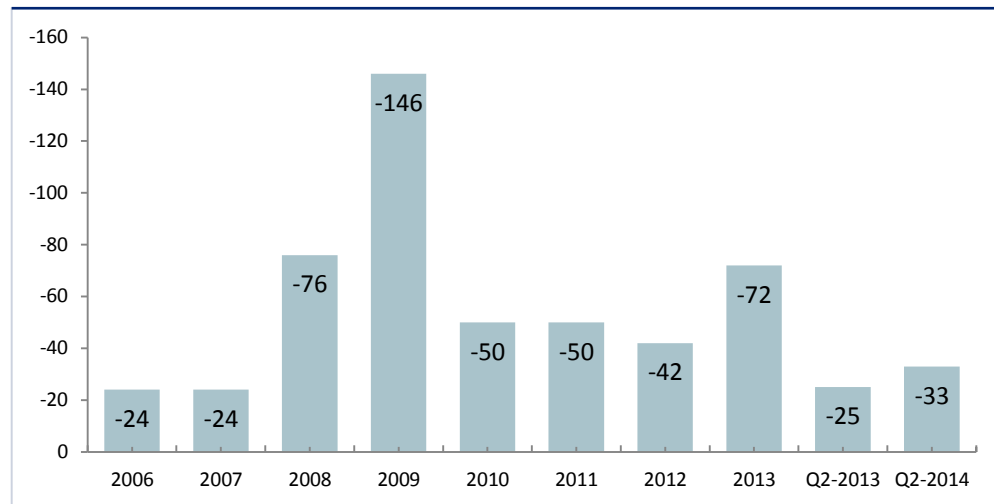
|                                                | 2014       | Q2<br>2014 | Q1<br>2014 | Q4<br>2013 | Q3<br>2013 | Q2<br>2013 |
|------------------------------------------------|------------|------------|------------|------------|------------|------------|
| Payroll                                        | 197        | 95         | 102        | 91         | 90         | 86         |
| Pension costs                                  | 27         | 14         | 13         | 11         | 13         | 12         |
| Social security expenses                       | 41         | 20         | 21         | 22         | 19         | 18         |
| Total personnel expenses                       | <b>265</b> | <b>129</b> | <b>136</b> | <b>124</b> | <b>122</b> | <b>116</b> |
|                                                | 0          | 0          | 0          | 0          |            |            |
| Total operating expenses and other expenses    | 143        | 74         | 69         | 78         | 67         | 75         |
| Total personnel- and operating expenses        | <b>408</b> | <b>203</b> | <b>205</b> | <b>202</b> | <b>189</b> | <b>191</b> |
|                                                | 0          | 0          | 0          | 0          |            |            |
| Depreciation                                   | 20         | 10         | 10         | 10         | 10         | 10         |
| Other operating expenses                       | 52         | 25         | 27         | 22         | 24         | 27         |
| <b>Total personnel- and operating expenses</b> | <b>481</b> | <b>238</b> | <b>242</b> | <b>234</b> | <b>223</b> | <b>227</b> |

# Losses on loans and guarantees (Group)

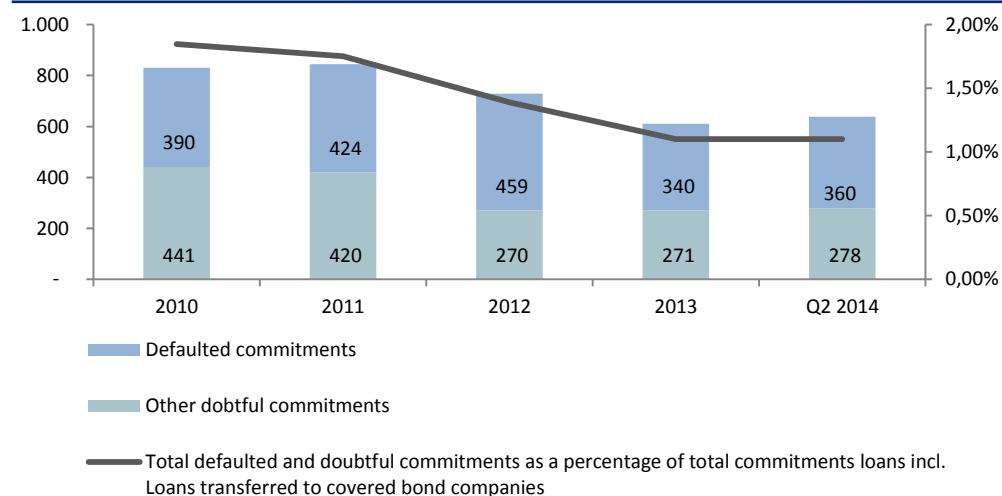
## Quarterly losses isolated



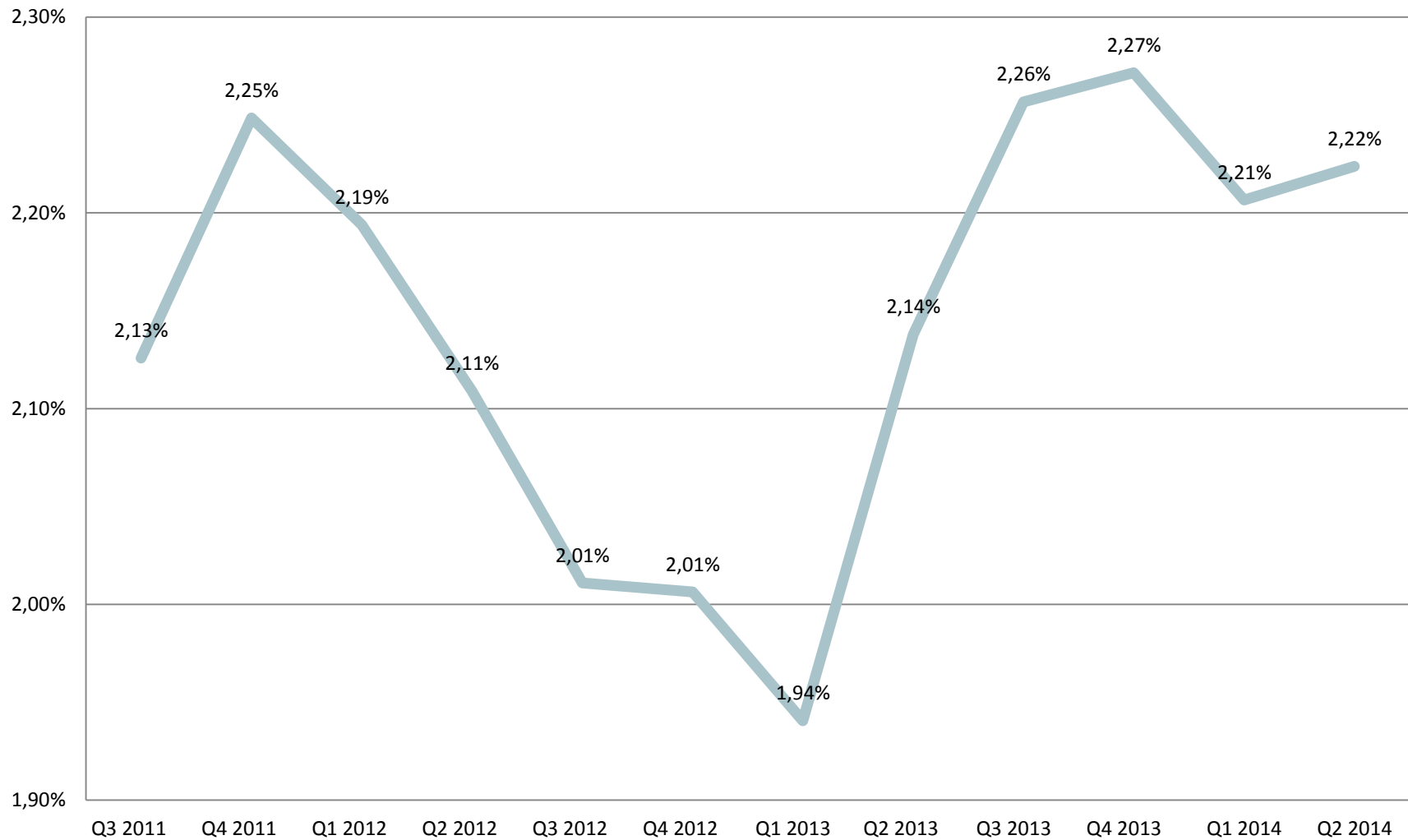
## Yearly losses



## Defaulted and doubtful commitments

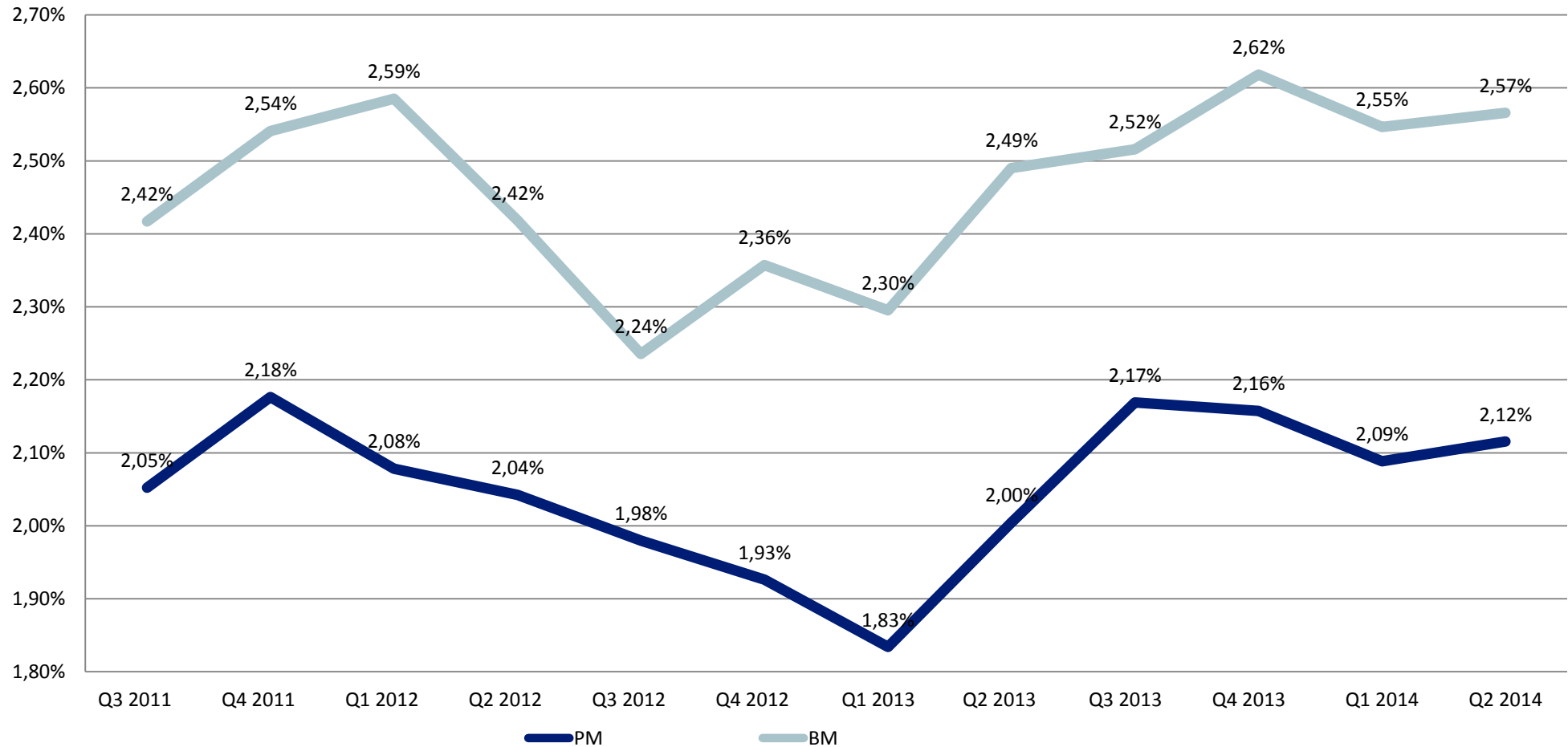


# Interest margin Parent bank (incl. Boligkreditt and excl. Mastercard)





# Interest margin Parent bank (incl. Boligkreditt and excl. Mastercard)



PM: Retail market BM: Corporate market

# Main figures Sparebanken Hedmark (Group)

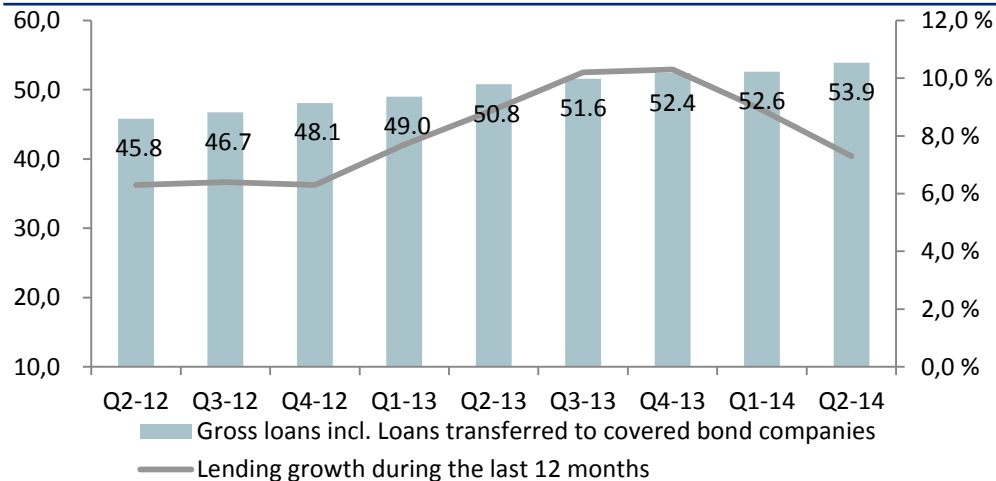
|                                                                                                                  | First half-year<br>2014 | First half-year<br>2013 | 2013   |
|------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|--------|
| <b>Profitability</b>                                                                                             |                         |                         |        |
| Return on equity capital after tax                                                                               | 12,3 %                  | 8,5 %                   | 11,0 % |
| <b>From the balance sheet</b>                                                                                    |                         |                         |        |
| Assets                                                                                                           | 50.195                  | 46.290                  | 47.397 |
| Business volume                                                                                                  | 65.855                  | 60.279                  | 62.578 |
| Lending growth last 12 months incl. Loans transferred to covered bond companies                                  | 6,2 %                   | 10,9 %                  | 8,9 %  |
| Deposits growth during the last 12 months                                                                        | 4,4 %                   | 10,5 %                  | 7,0 %  |
| Deposits from customers in relation to gross loans to customers                                                  | 83,8 %                  | 83,4 %                  | 80,9 % |
| <b>Financial strength</b>                                                                                        |                         |                         |        |
| Capital adequacy ratio                                                                                           | 14,4 %                  | 14,7 %                  | 16,4 % |
| Tier 1 ratio                                                                                                     | 14,0 %                  | 14,7 %                  | 16,2 % |
| Core capital ratio                                                                                               | 14,4 %                  | 14,9 %                  | 16,4 % |
| <b>Other key figures</b>                                                                                         |                         |                         |        |
| Total operating costs in relation to total income                                                                | 47,1 %                  | 57,1 %                  | 50,1 % |
| Gros doubtful commitments as a percentage of total commitments incl. Loans transferred to covered bond companies | 1,1 %                   | 1,2 %                   | 1,1 %  |

# Balance sheet (Group)

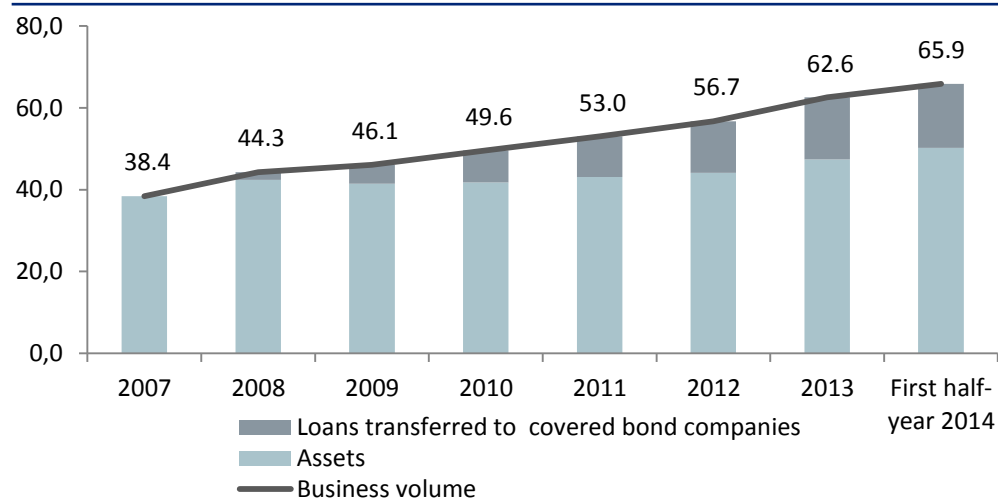
|                                                                           | 30.06.2014    | 30.06.2013    | 31.12.2013    |
|---------------------------------------------------------------------------|---------------|---------------|---------------|
| <b>ASSETS</b>                                                             |               |               |               |
| Cash and deposits with central banks                                      | 1.504         | 604           | 572           |
| Loans to and receivables from credit institutions                         | 629           | 480           | 699           |
| Loans to and receivables from customers                                   | 38.004        | 36.517        | 36.936        |
| Financial papers                                                          | 6.062         | 5.400         | 5.646         |
| Investments in subsidiaries, associates and joint ventures                | 2.851         | 2.370         | 2.565         |
| Other assets                                                              | 1.145         | 919           | 979           |
| <b>Total assets</b>                                                       | <b>50.195</b> | <b>46.290</b> | <b>47.397</b> |
| <b>LIABILITIES</b>                                                        |               |               |               |
| Deposits from and liabilities to credit institutions                      | 697           | 631           | 632           |
| Deposits from and liabilities to customers                                | 32.042        | 30.677        | 30.097        |
| Liabilities arising from issuance of securities and financial derivatives | 8.650         | 7.464         | 8.580         |
| Other debt and liabilities recognised in the balance sheet                | 1.090         | 715           | 866           |
|                                                                           | 508           | 498           | 503           |
| <b>Total liabilities</b>                                                  | <b>42.987</b> | <b>39.985</b> | <b>40.679</b> |
| <b>EQUITY CAPITAL</b>                                                     |               |               |               |
| Earned equity capital                                                     | 7.208         | 6.305         | 6.718         |
| <b>Total equity capital</b>                                               | <b>7.208</b>  | <b>6.305</b>  | <b>6.718</b>  |
| <b>Total liabilities and equity capital</b>                               | <b>50.195</b> | <b>46.290</b> | <b>47.397</b> |

# Development in balance sheet (Nok billion) (Group)

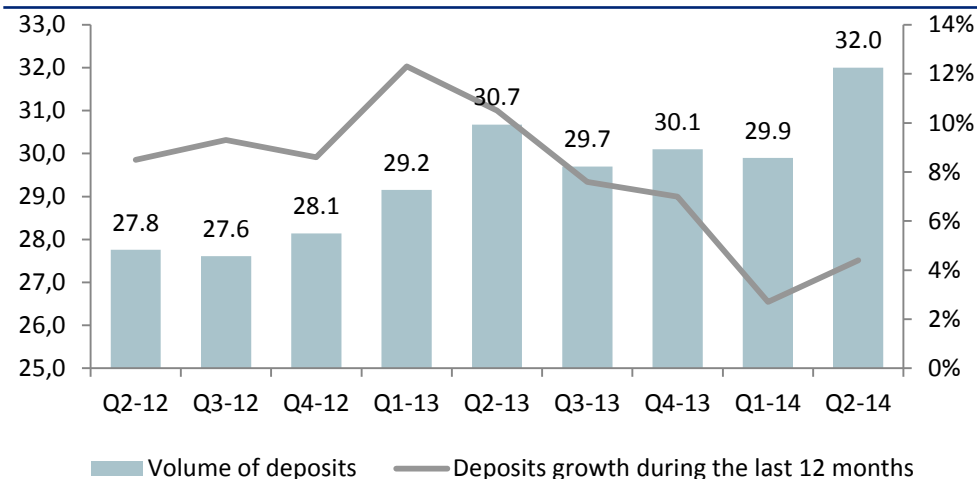
## Gross loans incl. Loans transferred to covered bond companies



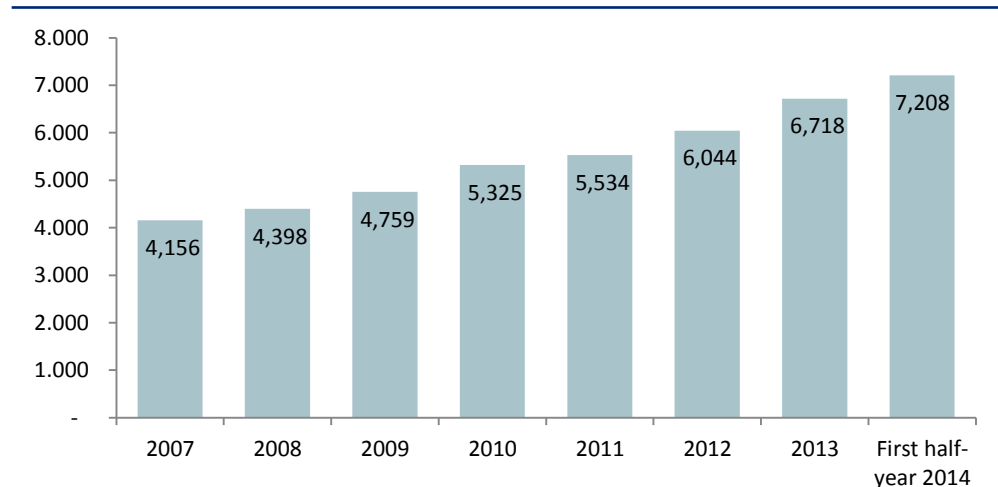
## Development in assets and business volume



## Deposits



## Development equity (NOK million)

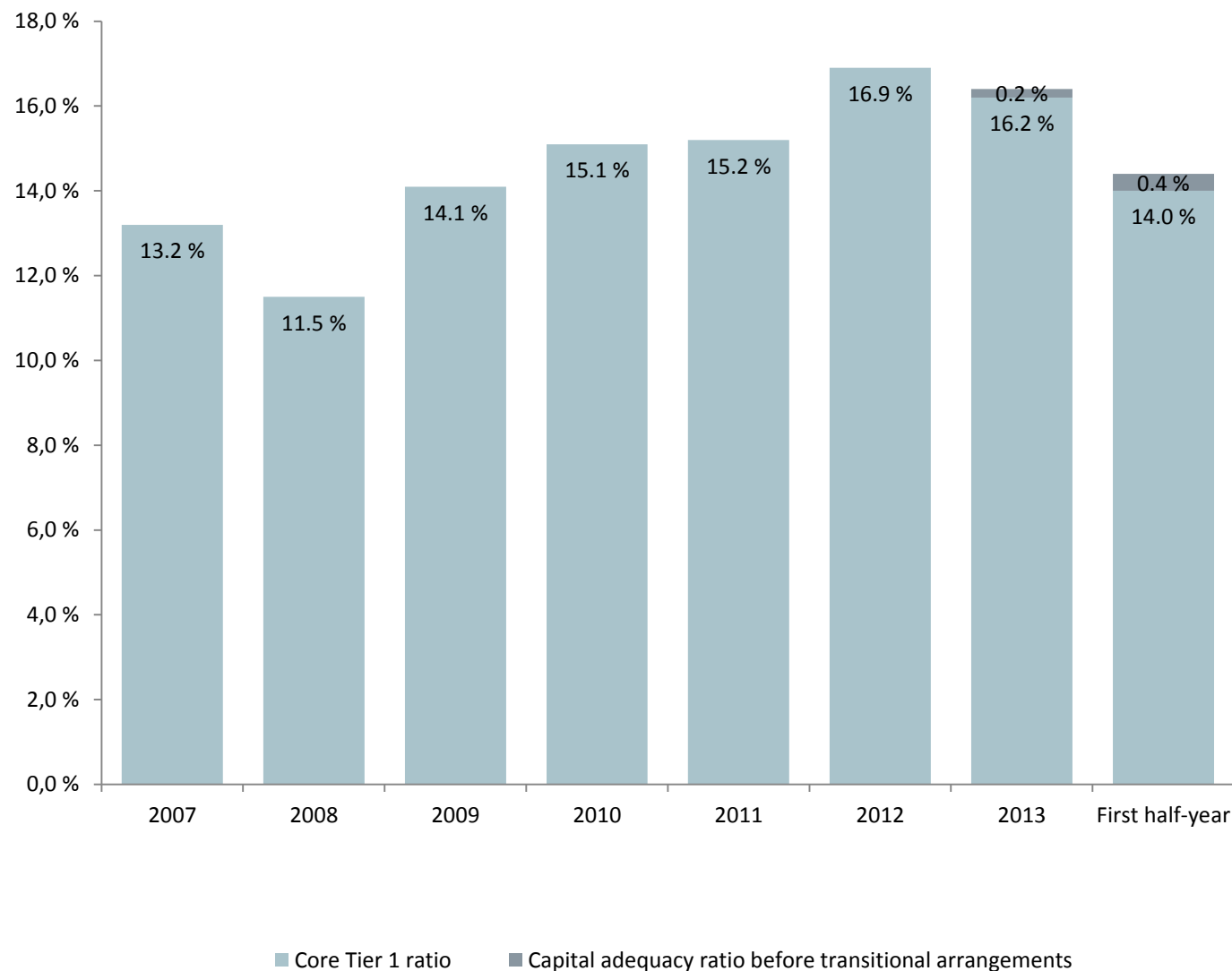


# Development in Tier 1 ratio (Group)

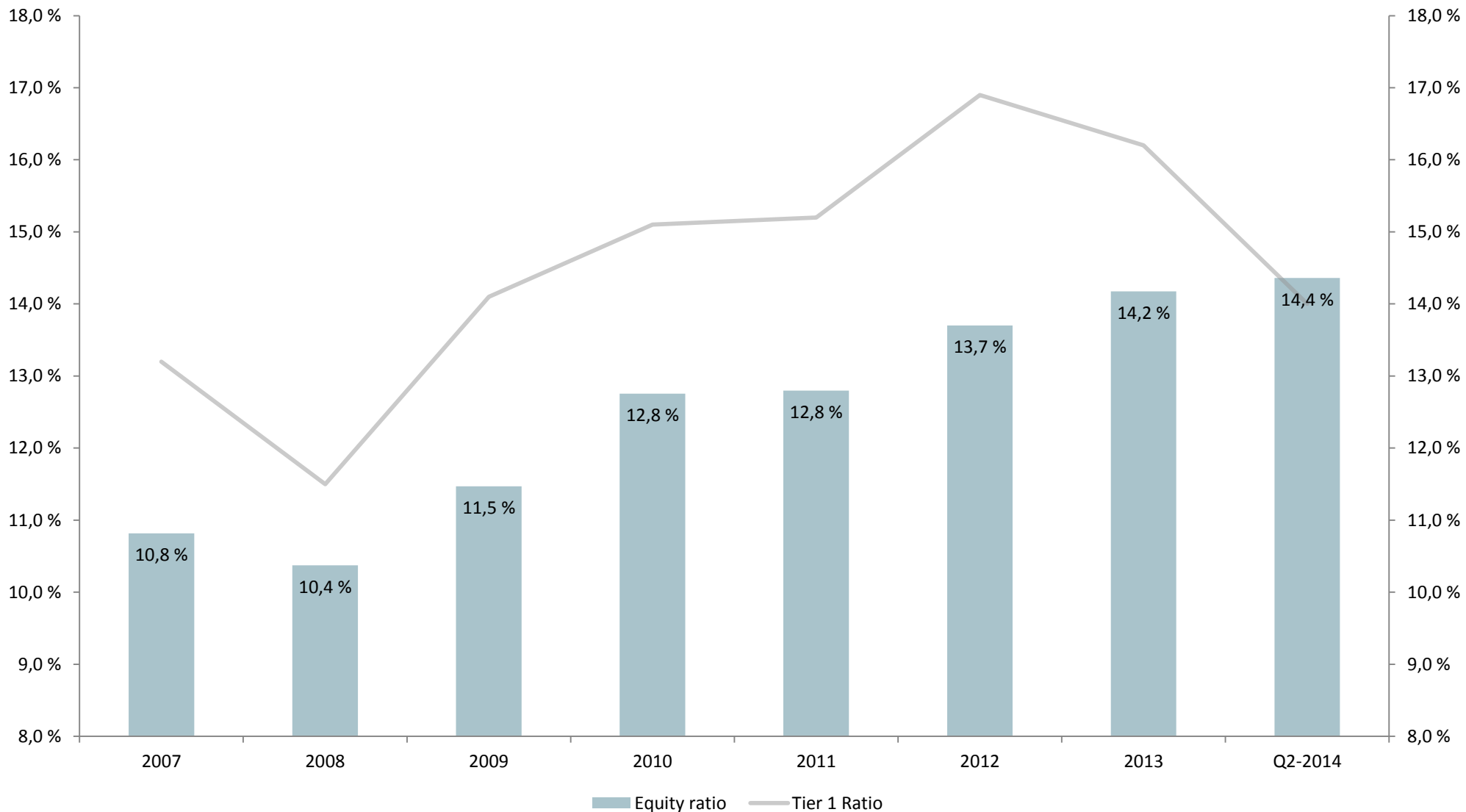
Core equity tier 1 ratio parent bank as at 30.06: 18.9 %

As at 1. July 2014 the Government will implement new capital adequacy requirements:

Core Tier 1: Minimum 10 %  
Capital adequacy ratio: Minimum 13,5 %

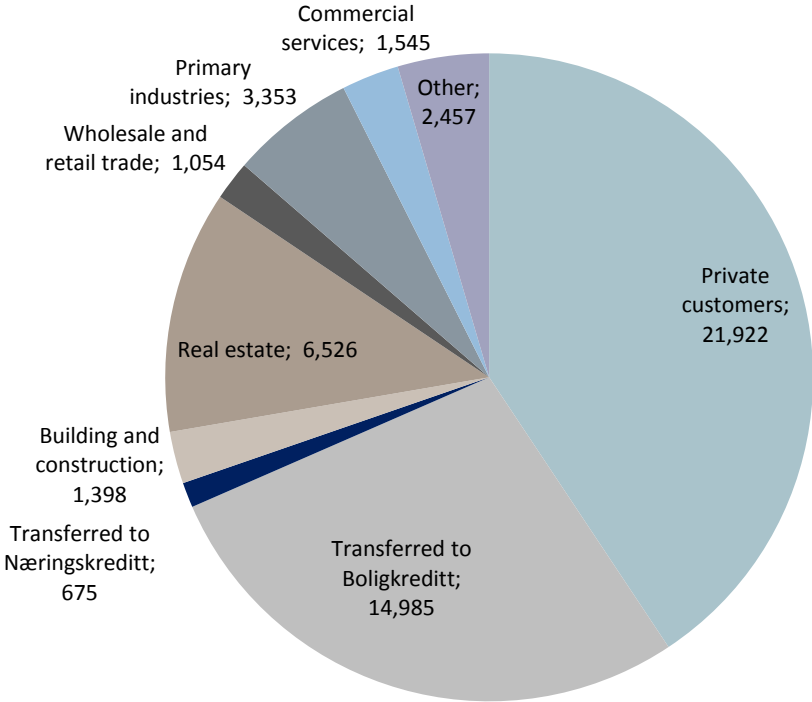


# Equity ratio (Group)

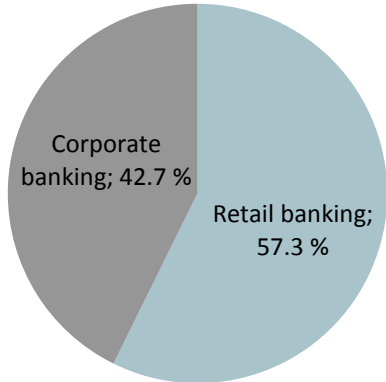


# Composition of loans and receivables from customers (Group)

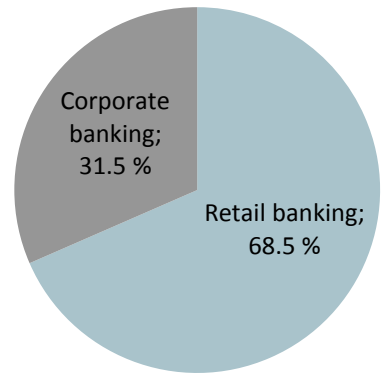
Composition of loans incl. covered bond companies



Composition of loans excl. covered bond companies



Composition of loans incl. covered bond companies



# Liquidity reserves

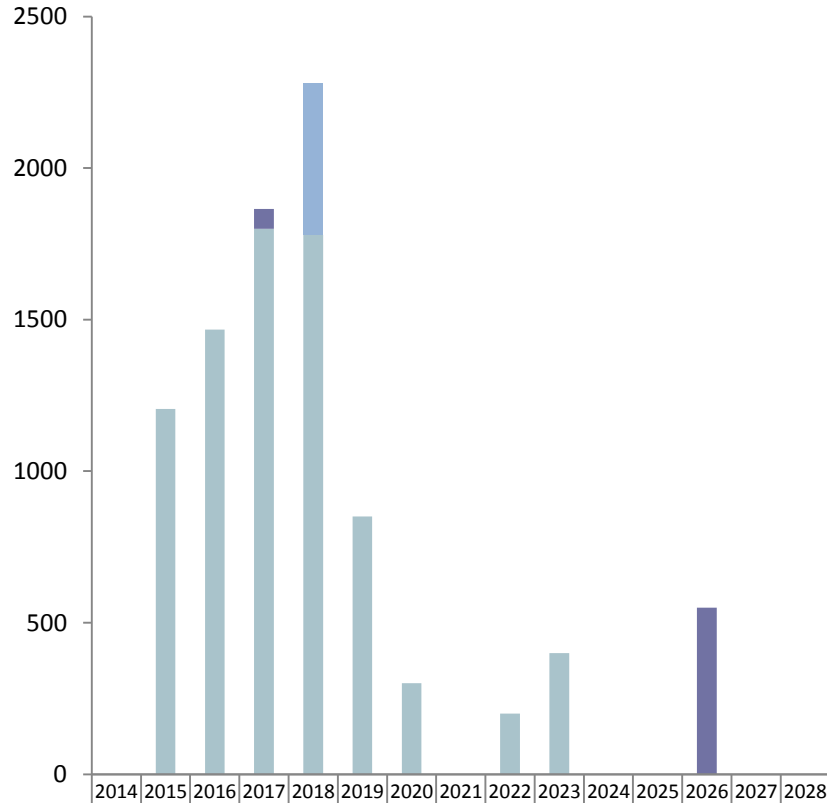
- The figure shows the distribution of the bank's liquidity reserve as at 30.06.2014





# Maturities

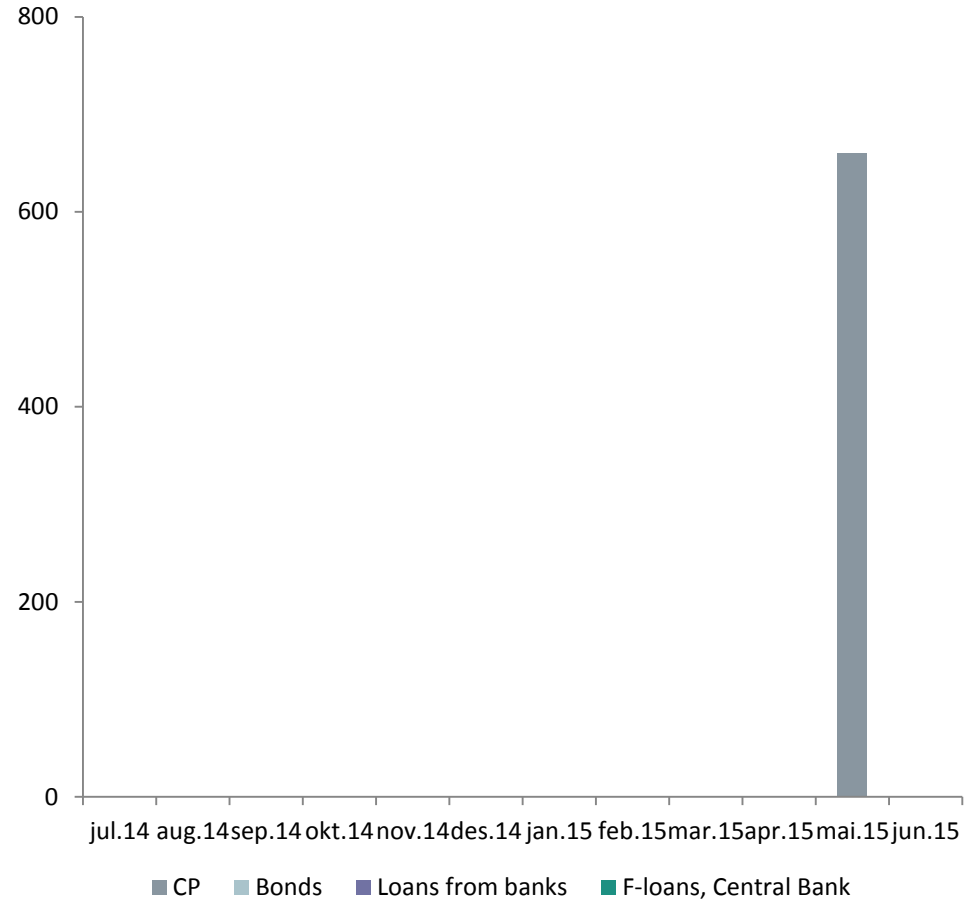
## Annual maturities; total to maturity MNOK 8 518



|                     |   |      |      |      |      |     |     |  |     |     |  |  |  |  |     |  |  |  |  |
|---------------------|---|------|------|------|------|-----|-----|--|-----|-----|--|--|--|--|-----|--|--|--|--|
| Subordinated        |   |      |      |      | 500  |     |     |  |     |     |  |  |  |  |     |  |  |  |  |
| CP                  | 0 |      |      |      |      |     |     |  |     |     |  |  |  |  |     |  |  |  |  |
| Loans from banks    |   |      |      | 65   |      |     |     |  |     |     |  |  |  |  | 550 |  |  |  |  |
| Bond issues         | 0 | 1205 | 1468 | 1800 | 1780 | 850 | 300 |  | 200 | 400 |  |  |  |  |     |  |  |  |  |
| F-loan Central Bank |   |      |      |      |      |     |     |  |     |     |  |  |  |  |     |  |  |  |  |

■ F-loan Central Bank ■ Bond issues ■ Loans from banks ■ CP ■ Subordinated

## Funding maturities the next 12 months MNOK 660



■ CP ■ Bonds ■ Loans from banks ■ F-loans, Central Bank