

# Sparebanken Hedmark

Tier 2 bond issue  
Presentation, May 2013

# Summary

- Tier 2 issue: NOK 500 millions
- Background: Acquisition of shares in Bank 1 Oslo Akershus AS, increasing ownership from 12 % to 40,5 %
- Core Tier 1 for Sparebanken Hedmark (Q1): 15,8 %. After acquisition and issue of Tier 2 (pro forma Q1): 14,2 %
- Sparebanken Hedmark rated A2 by Moody's (review)
- Rating from DNB: # 2 in Norway
- Rating from SpareBank 1 Markets: # 1 of savings banks
- Rating from Nordea: # 1 of savings banks

# Outline

1. Sparebanken Hedmark
  1. About the bank
  2. Financials
  3. Rating
  
2. Investment in Bank 1 Oslo Akershus AS
  1. Reasons for investment
  2. Transaction
  3. Presentation of the bank

# Sparebanken Hedmark in short

- Norway's most solid regional savings bank
  - As one of only a few large banks in Norway it has never needed any inflow of extraordinary liquidity from the Norwegian Banks' Guarantee Fund in order to continue normal banking operations
  - The only regional bank that did not need support during the major bank crisis in Norway in the early 1990s
- The bank has not recorded an operating loss since the end of WW II
- Market share 50 % (Hedmark) - resilient retail business
  - Market share in retail market approx. 50 %
  - Market share in corporate market approx. 40 %
  - Average losses last twenty year 0,2 % of gross loans
- Norway's fifth largest savings bank
  - The largest savings bank in Norway that has not issued equity capital certificates
- Member of SpareBank 1 Alliance - synergies and competence
  - 12 % stakeholder in SpareBank 1 Gruppen AS
  - 40 % stakeholder in Bank 1 Oslo Akershus AS (SpareBank 1 member)
  - IRB bank from 2012

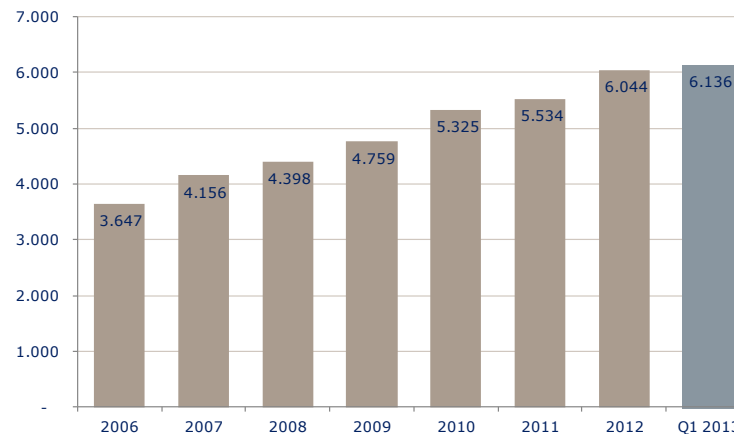
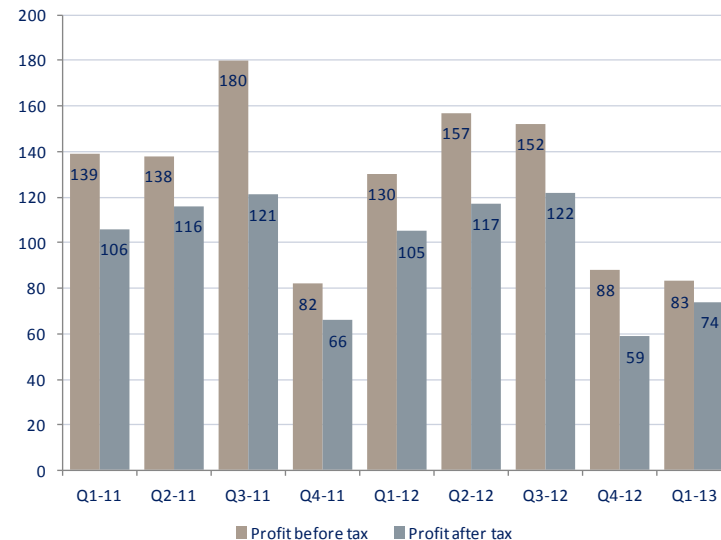
# Sparebanken Hedmark

- Sparebanken Hedmark is the leading provider of financial services to individuals, businesses and public sector in Hedmark.
  - Sparebanken Hedmark:
    - 25 branches in Hedmark
    - 2 branches in Oppland
    - 1 branch in Akershus
    - NOK 44 billion in total assets
    - NOK 57.6 billion in business volume (incl. loans transferred to SpareBank 1 Boligkreditt AS)
    - Equity of NOK 6.1 billion
    - 700 employees in the Group
    - 170 000 customers
    - Leading retail and corporate bank in Hedmark
    - Market share of over 40 per cent
  - Wholly-owned subsidiaries in real estate (EiendomsMegler 1 Hedmark Eiendom AS), movable property leasing and financing (SpareBank 1 Finans Østlandet AS) and in accounting (Consis AS).

# Main features Q1-2013 (Q1-2012)

## - Group

- Profit after tax: MNOK 74 (105)
- Profit after tax adjusted for value changes MNOK 141
- Return on equity after tax: 4.9 % (7.5 %)  
Return on equity excluding market changes in securities and fixed-rate loans: 9.5 %
- Core capital ratio: 15.8 (15.0) per cent
- Equity was NOK 6.1 (5.6) billion, which is equivalent to 13.8 % (13.3 %) of the balance sheet
- Going forward: Strengthening net interest income due to increased lending rates and decreased deposit rates



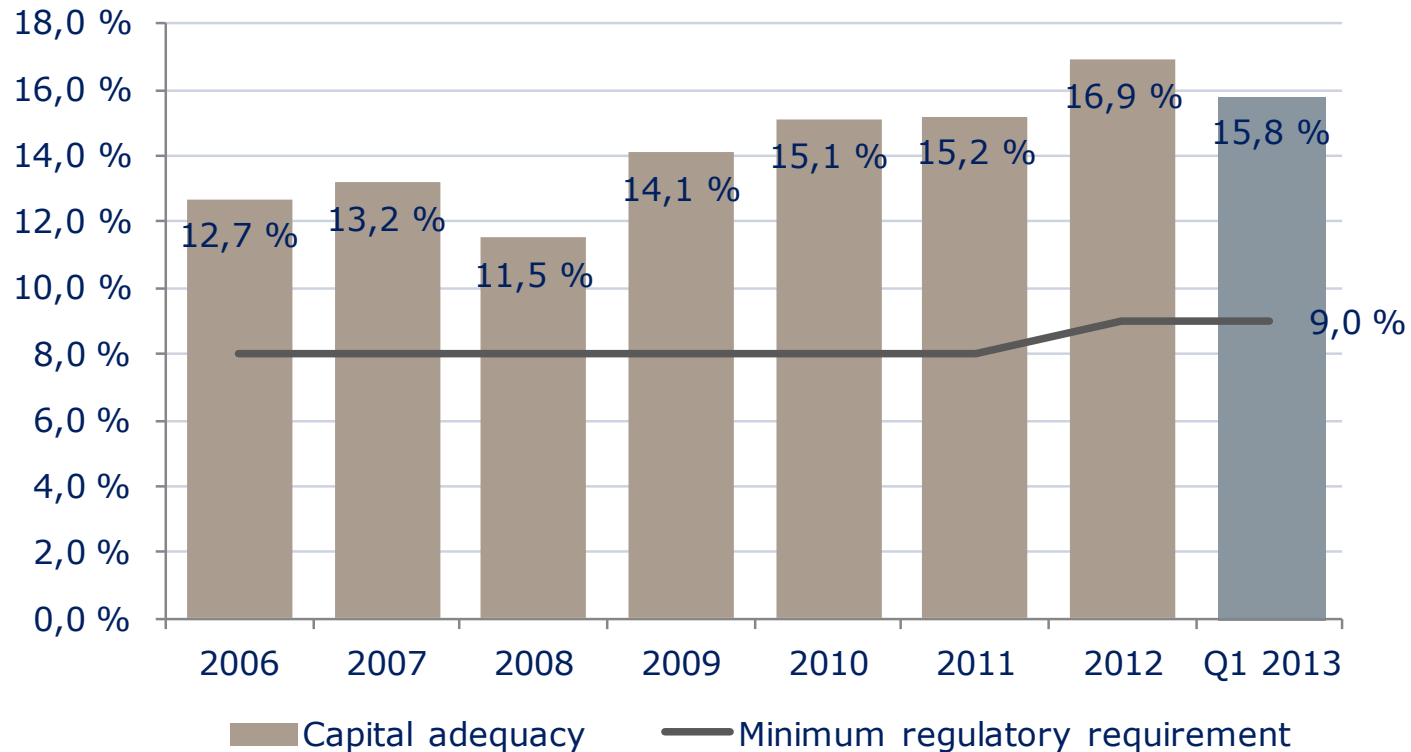
## Q1: Special comments regarding “Net income from financial assets and liabilities”

- The bank values bond issues, bond investments and fixed-rate loans to customers at fair value (value changes recognised through P & L)
- The total effect of market value changes on the result for the 1<sup>st</sup> quarter was minus NOK 94 million
- Financial assets and liabilities: Minus NOK 88 (-29) million

	2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Dividends					7	0
Net profit from ownership interest	54	54	-5	46	10	44
Net profit from other financial assets and liabilities	-88	-88	-21	-47	38	-29
<b>Net income from financial assets and liabilities</b>	<b>-34</b>	<b>-34</b>	<b>-26</b>	<b>-1</b>	<b>55</b>	<b>15</b>

# Development in capital adequacy

- Group

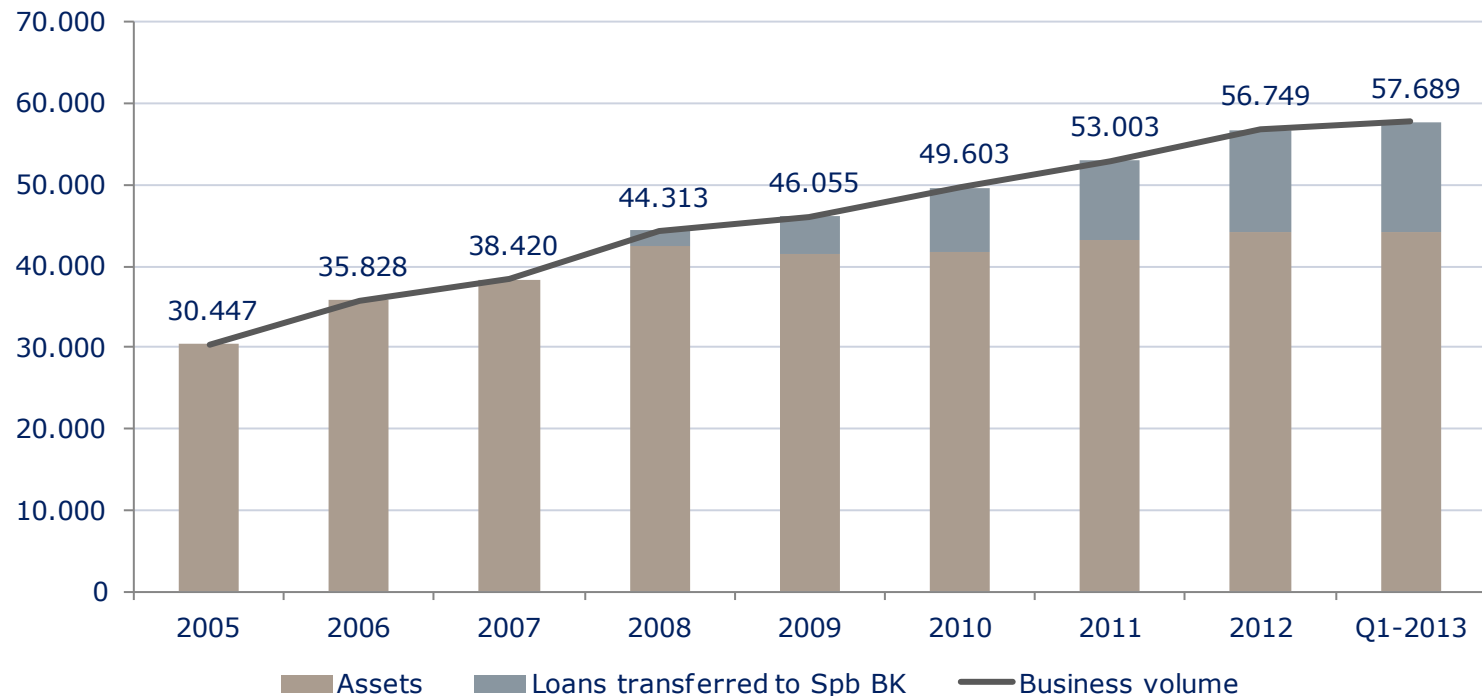


Capital adequacy ratio from 2011 is calculated using the IRB approach (w. floor), figures from 2010 and earlier are calculated using the standard method



# Development of total assets and business volumes - Group

- Deposit to loan ratio at 82 % (Q1)
- Loan growth 8,9 %
- Deposit growth 12,3 %



Business volume= Assets including loans transferred to SpareBank 1 Boligkreditt AS

# Balance sheet - Group

	31.03.2013	31.03.2012	31.12.2012
<b>ASSETS</b>			
Cash and deposits with central banks	540	346	236
Loans to and receivables from credit insti	309	72	294
Loans to and receivables from customers	35.328	34.162	35.200
Financial papers	5.576	5.216	5.958
Investments in subsidiaries, associates and joint ventures	1.606	1.439	1.558
Other assets	902	903	867
<b>Total assets</b>	<b>44.260</b>	<b>42.138</b>	<b>44.113</b>
<b>LIABILITIES</b>			
Deposits from and liabilities to credit insti	694	1.877	833
Deposits from and liabilities to customers	29.155	25.957	28.137
Liabilities arising from issuance of securities and financial derivatives	7.537	7.821	8.231
Other debt an liabilities recognised in the	738	855	868
<b>Total liabilities</b>	<b>38.124</b>	<b>36.510</b>	<b>38.069</b>
<b>EQUITY CAPITAL</b>			
Earned equity capital	6.136	5.628	6.044
<b>Total equity capital</b>	<b>6.136</b>	<b>5.628</b>	<b>6.044</b>
<b>Total liabilities and equity capital</b>	<b>44.260</b>	<b>42.138</b>	<b>44.113</b>

# Capital strength – group

## First quarter 2013

- Core Tier one: 15,8 %\*
- Core Tier one on consolidated basis including Bank 1: 12,6 %\*
- Core Tier one after issue of Tier two : 14,2 %\*
  
- Un-weighted Equity Capital ratio at 13,8 %

- \* Not included result for Q1

# Key figures

## - Group

	<b>Q1 2013</b>	<b>Q1 2012</b>	<b>2012</b>
Profit/loss before tax in % of average assets	0,76 %	1,21 %	1,22 %
Profit/loss after tax in % of average assets	0,67 %	0,98 %	0,93 %
Return on equity capital after tax	4,9 %	7,50 %	7,00 %
Interest margin including loans to SpareBank 1 Boligkreditt AS	2,19 %		
Net interest income in % of average assets	2,07 %	2,25 %	2,21 %
Total operating costs in relation to total income	72,8 %	63,5 %	60,3 %
Total operating costs in relation to total income excl income from financial investments	65,8 %	66,4 %	62,2 %
Losses on loans as a percentage of gross loans	0,0 %	0,0 %	0,1 %
Lending growth in last 12 months including SpareBank 1 Boligkreditt	8,9 %	6,3 %	7,7 %
Deposits growth during the last 12 months	12,3 %	7,8 %	8,6 %
Capital adequacy ratio **)	15,8 %	15,0 %	16,9 %
Core capital ratio **)	15,8 %	15,0 %	16,9 %

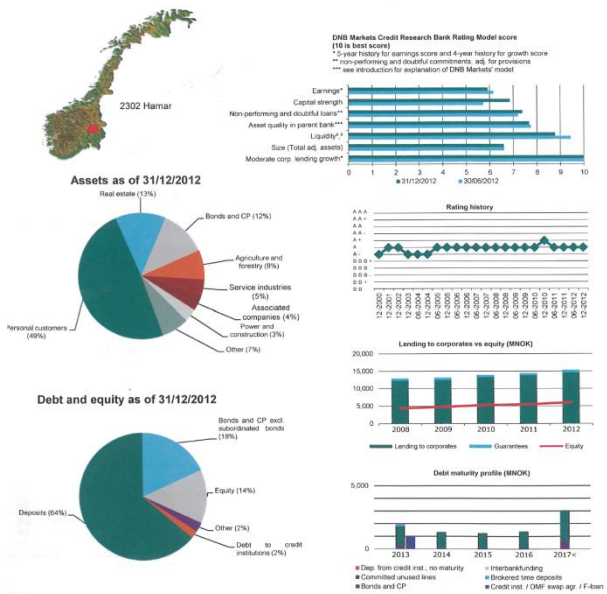
\*) Interest margin=average lending rate to customers-average deposits rate to customers

\*\*\*) Calculated after the IRB approach

# Rating

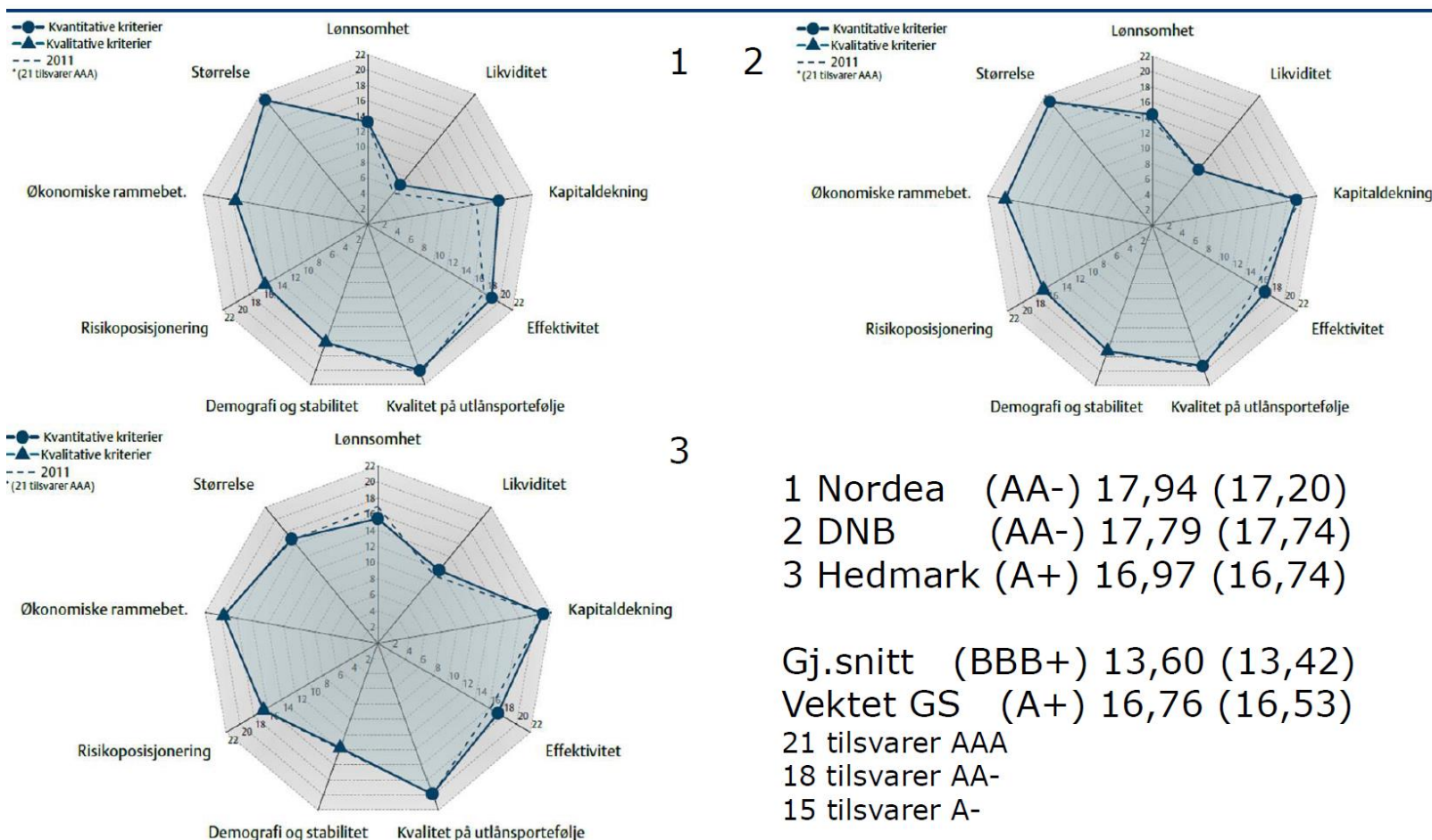
- DNB Credit Research rating
- SpareBank 1 Markets rating
- Nordea Credit Research rating
- Moody's rating

# DNB Credit Research: Ranked # 2 in Norway



Bank	Rating	Official ratings			Assets	Capital ratios		Place
	DNBM	Moody's	S&P	Fitch		Tier 1	Total	
Opdals Sparebank	A-				2,416	19%	19%	28
Orkdal Sparebank	A-				3,452	21%	21%	45
Pareto Bank ASA	BBB				8,283	14%	14%	118
Rindal Sparebank	A-				1,259	23%	23%	36
RørosBanken Røros Sparebank	A-				3,592	18%	18%	33
Sandnes Sparebank	A-			BBB	27,490	15%	16%	31
Santander Consumer Bank AS	BBB-				65,204	10%	11%	122
Selbu Sparebank	BBB+				3,130	17%	17%	95
Seljord Sparebank	BBB+				1,838	20%	20%	71
Skudenes & Aakra Sparebank	BBB+				5,878	16%	16%	74
Soknedal Sparebank	BBB+				1,160	21%	21%	94
SpareBank 1 Buskerud-Vestfold	A-				22,711	14%	15%	24
SpareBank 1 Gudbrandsdal	BBB+				4,251	17%	17%	61
SpareBank 1 Hallingdal Valdres	A-				6,782	16%	16%	48
SpareBank 1 Nord-Norge	A	A2		A	75,261	15%	16%	10
SpareBank 1 Nordvest	BBB+				10,572	13%	13%	56
SpareBank 1 Nøtterøy - Tønsberg	BBB+				6,356	14%	14%	54
SpareBank 1 Ringerike Hadeland	A-				16,997	16%	16%	30
SpareBank 1 SMN	A	A2		A-	107,918	11%	13%	1
SpareBank 1 SR-Bank ASA	A	A2		A-	141,543	12%	13%	3
SpareBank 1 Søre Sunnmøre	A-				7,873	13%	17%	41
SpareBank 1 Østfold Akershus	A-				17,168	15%	15%	46
Sparebanken Hedmark	A	A2	W.Neg		44,113	17%	17%	2
Sparebanken Hordaland	BBB+				1,768	17%	17%	87
Sparebanken Møre	A	A3			51,632	14%	15%	9
Sparebanken Narvik	A-				5,371	24%	24%	15
Sparebanken Pluss	A	A2			44,122	13%	13%	12
Sparebanken Sogn og Fjordane	A-	A3			37,137	14%	15%	16
Sparebanken Sør	A	A3			44,471	14%	14%	13
Sparebanken Telemark	A-				17,806	17%	17%	27
Sparebanken Vest	A	A2		A-	127,828	12%	13%	5
Sparebanken Øst	A	A3			29,638	15%	16%	6
Sparekingsbanken Kristiansand S	A-				7,121	20%	20%	14
Spydeberg Sparebank	BBB				2,062	17%	17%	106

# SpareBank 1 Markets: Ranked # 3 (of all)





# Nordea Credit research: Ranked # 2 (after DNB)



## Credit Research

29 May 2013

### Nordea Markets Bank Report 2013

## Sparebanken Hedmark

## A+

Total assets	NOKm 44113	Rank	2
CEO	Richard Heiberg	S&P / Moody's / Fitch	na / A2 / na
WEB	<a href="http://www.sparebanken-hedmark.no">www.sparebanken-hedmark.no</a>	Alliance	SpareBank 1
Financials			

Sparebanken Hedmark is one of the ten largest banks in Norway. The bank is headquartered at Hamar, and has 29 additional branches. The bank is a co-owner of SpareBank 1 Gruppen AS, and a member of the Sparebank 1 alliance. It provides traditional financial services to the local retail, corporate and public sectors. Retail loans account for 57% of the loan portfolio, which has a relatively high exposure to the property management sector, with 15% on a stand-alone basis. Loans to customers based in the local county of Hedmark represents approximately 71% of total lending. The bank's total assets have increased steadily from NOK 38.3 bn in 2007 to NOK 44.1 bn at year end 2012. Residential mortgages with a notional value of NOK 12.6 bn have been transferred to SpareBank 1 Boligkreditt AS. Earlier in 2013, SBHE increased in ownership stake in Oslo-based commercial bank Bank 1 Oslo Akershus AS to 40.5%.

#### Credit Supportive

- Strong presence in its local markets with solid knowledge of its customers
- Financial strong performance within traditional banking activities
- Highest interest margin of the regional savings banks
- Member of the SpareBank 1 alliance
- Strong capital base

#### Credit Concerns

- Limited geographical diversification
- Relatively high exposure to property management



# A2 – review for downgrade due to investment in Bank 1

## Opinion

### SUMMARY RATING RATIONALE

Sparebanken Hedmark's C- standalone financial strength (BFSR), equivalent to a standalone credit assessment of baa1, primarily reflects Sparebanken Hedmark's robust local franchise, sound capital levels and stable retail banking operations but is constrained by the bank's limited geographic reach and some borrower and industry lending concentrations.

Sparebanken Hedmark's current global local currency (GLC) deposit rating of A2 receives a two-notch uplift from its baa1 standalone credit assessment. This is based on our assessment of a high probability of systemic support for the bank if necessary and its importance to the Norwegian market. Furthermore, we continue to factor in a low probability of support from its membership of the SpareBank 1 Alliance; however due to the reduction of the availability of Alliance support in light of the lowering of the standalone credit assessments of three of the four rated members of the SpareBank 1 Alliance, such support is no longer reflected in a notch of uplift.

Sparebanken Hedmark's ratings are on review for downgrade. The review will focus on evaluating the impact of the increased stake in Bank 1 Oslo Akershus to 40.5% from 12% in January 2013 on the bank's overall risk profile.

# Bank 1 Oslo Akershus AS

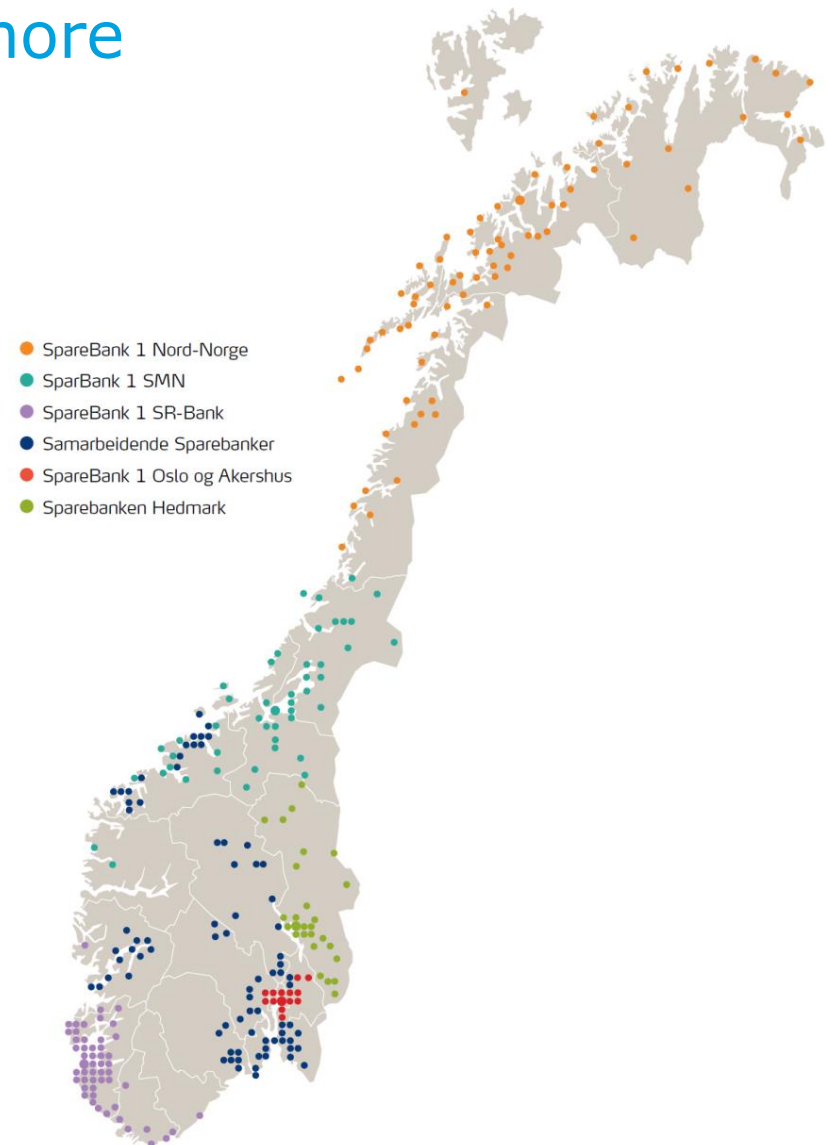
- Rationale
- Transaction and new ownership
- Financials Q1
- Key figures

# Purchase of shares in Bank 1 Oslo Akershus AS

- Reasons for investment
  - Strategic investment. Sparebanken Hedmark's market areas border on Akershus and Oslo; the most heavily populated region of Norway. Regionalisation is increasing in both the housing and labour markets.
  - Attractive financial investment. The bank expects a return on equity of 6 % above the risk free interest rate
- The transaction
  - Sparebanken Hedmark will become the owner of 40,5% of the shares
  - 30% of the shares will be purchased from SMN, SR and SNN
  - MNOK 500 equity issue in Bank 1, where LO increases its ownership interest to 30%
  - Option (conditional) to purchase up to approx. 51% of the shares
  - Price/Book 1,0x
  - The share acquisition has been approved by Finansdepartementet

# Background for investing in Bank 1: Towards one common region, and a more diversified loan book

- Today, Sparebanken Hedmark's market area borders on Akershus
- Regional centralisation - continued growth around the region's cities
- 'One hour rule': motorway and double track railway, with main airport nearby
- Hedmark and Akershus (Oslo): a common labour market, housing market and centre of commerce



# New ownership (after private placement towards LO)

1. Issue (NOK 500 m.kr) will increase Bank 1 tier 1 capital (Q3) from approx. 10.2% to 12.3%

Eier	Dagens eierstruktur	Andel EK i dag (MNOK)	Andel EK etter emisjon (MNOK)	Eierandel etter emisjon
LO	10 %	175,9	675,9	<b>29,9 %</b>
SR-Bank	19,50 %	343,0	343,0	<b>15,2 %</b>
SMN	19,50 %	343,0	343,0	<b>15,2 %</b>
SNN	19,50 %	343,0	343,0	<b>15,2 %</b>
Samspar	19,50 %	343,0	343,0	<b>15,2 %</b>
Hedmark	12 %	211,1	211,1	<b>9,3 %</b>
<i>Sum</i>	<i>100 %</i>	<i>1.759,0</i>	<i>2.259,0</i>	<i>100 %</i>

2. Sparebanken Hedmark will purchase approx. 10% of the shares of SR, SMN and SNN respectively such that the total ownership interest will be approx. 40%

- Sparebanken Hedmark: 40.5%
- LO og tilknyttede forbund: 29.9%
- SamSpar bankene: 15.2%
- SpareBank 1 SR Bank: 4.8%
- SpareBank 1 SMN: 4.8%
- SpareBank 1 Nord Norge: 4.8%

# First quarter 2013: Cost-income ratio now at “average level” – and stronger capitalisation

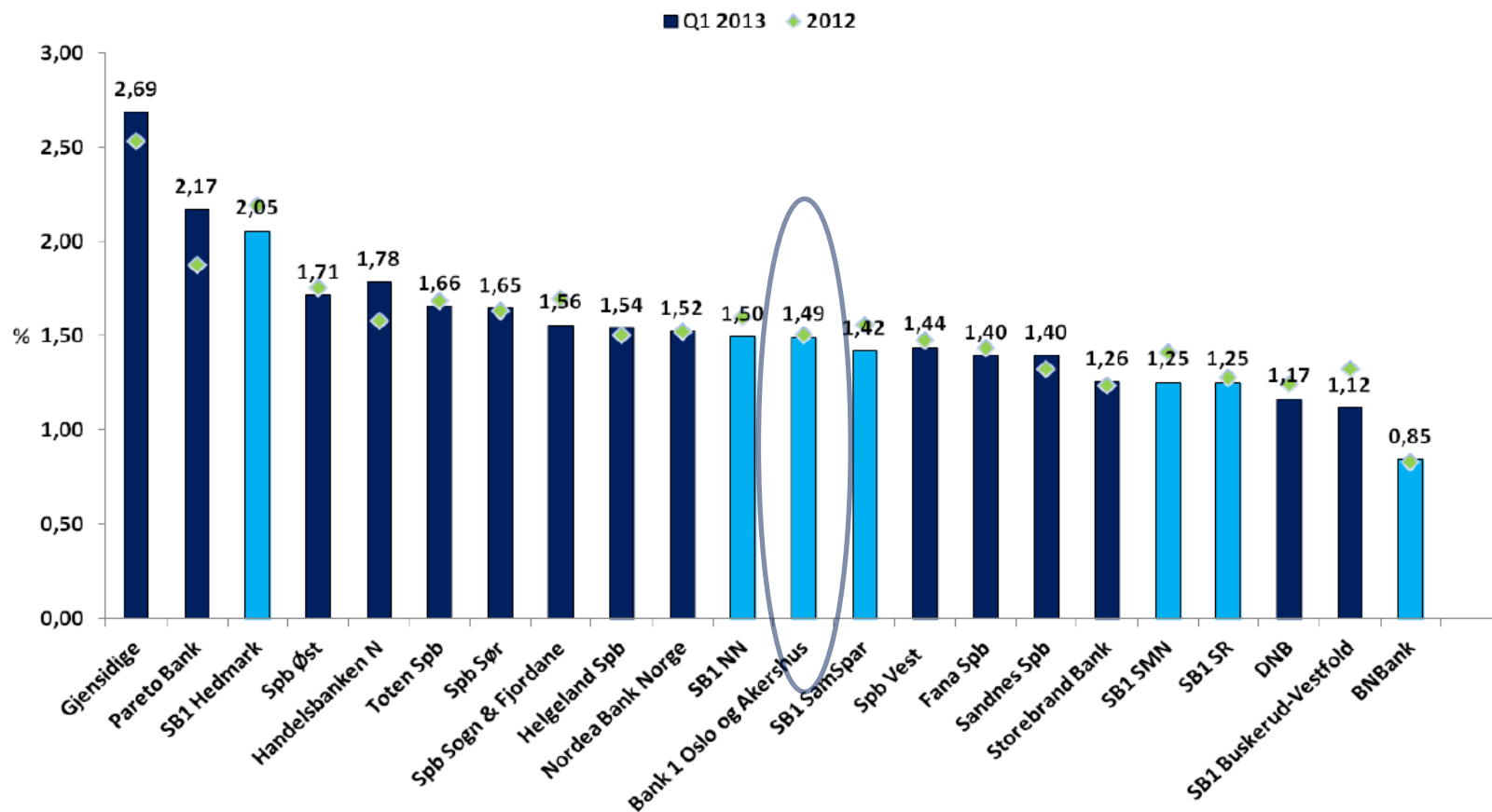
- Cost-income in Parent Bank decreased from 68,5% in 2011 to 59,6 % in Q1 2013
- Number of employees now lower than 10 years ago
- Core capital ratio increased to 13,1 % after new issue (LO)
- Improvement in profitability: Return on equity 13,4 %

	Q 1 2013	Q 1 2012	Year 2012
<b>Net interest income</b>	<b>109</b>	<b>103</b>	<b>432</b>
Other operating income	137	123	558
Operating expenses	162	167	666
<b>Operating profit before losses</b>	<b>83</b>	<b>60</b>	<b>324</b>
Loan losses	-10	16	150
<b>Operating profit before tax</b>	<b>93</b>	<b>44</b>	<b>174</b>
Tax	25	11	68
<b>Net profit</b>	<b>68</b>	<b>33</b>	<b>106</b>

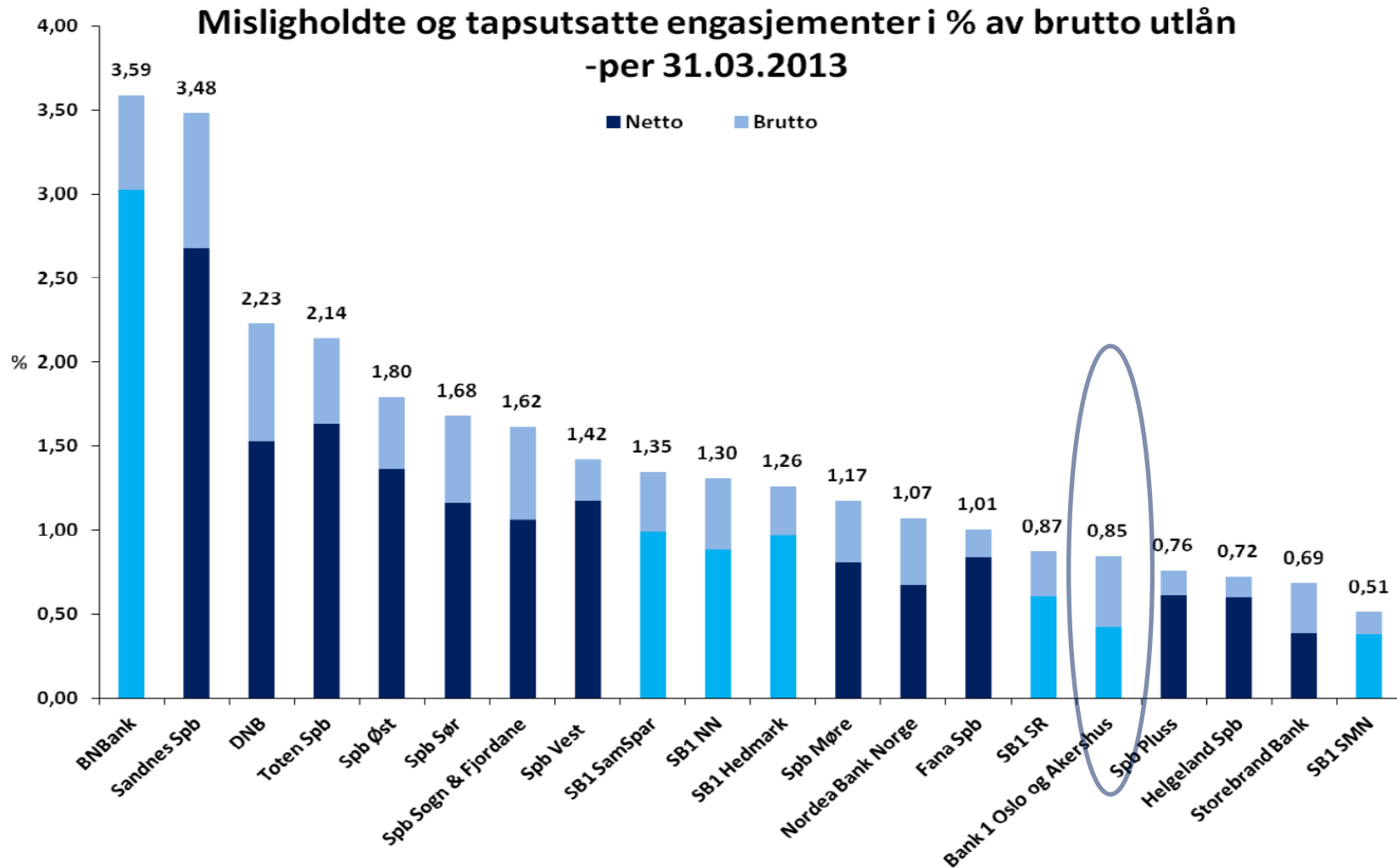
<b>Key figures</b>	Q 1 2013	Q 1 2012	Year 2012
Net interest income	1.50 %	1.51 %	1.56 %
Cost-income ratio (Parent)	59.6 %	67.7 %	60.5 %
Cost-income ratio (Group)	66.2 %	73.6 %	67.3 %
Return on equity (Parent)	11.9 %	8.1 %	7.2 %
Return on equity (Group)	13.4 %	8.1 %	6.2 %
Deposit to loan ratio (Group)	69.8 %	76.7 %	77.9 %
Capital adequacy ratio (Group)	13.1 %	13.3 %	12.8 %
Core capital adequacy ratio (Group)	13.1 %	10.9 %	10.9 %
Core tier one (Group)	12.1 %	9.9 %	9.9 %

# Interest margins: Well performing in a competitive market

## Rentenetto 1. kvartal 2013 mot 2012



# Asset quality: Low share of problem loans





# A retail based bank – near 80 % of loans to retail customers

- Historical background
  - Originally owned by the trade union movement (LO): Arbeidernes Landsbank
    - VÅR Bank AS taken over by SpareBank 1 Gruppen in 1999 when the Norwegian Confederation of Trade Unions (LO) became a 10% owner of the Group
  - Demerged from SpareBank 1 Gruppen in 2010
- Operations
  - Traditional bank
  - 79% of loan volume to retail customers including loans transferred to SB1 Boligkreditt. 68 % of loan volume to retail customers excluding SB1 Boligkreditt.
  - NOK 42,5 billion in “total” assets (incl. NOK 13,2 billion in SB1 Boligkreditt)
  - Exclusive right in SpareBank 1 Alliansen to entire market in Oslo and large parts of Akershus
  - 18 branches in Oslo and Akershus

# Bank 1 Oslo Akershus AS (Group): Key figures

<b>Key figures</b>	<b>Q 1 2013</b>	<b>31.12. 2012</b>	<b>Q 1 2012</b>	<b>31.12. 2011</b>	<b>Q 1 2011</b>	<b>31.12. 2010</b>
Return on equity after tax (%)	13.4 %	6.2 %	8.1 %	6.5 %	5.2 %	13.9 %
Net interest margin (%)	1.50 %	1.56 %	1.51 %	1.48 %	1.57 %	1.62 %
Cost/Income ratio (%)	66.2 %	67.3 %	73.6 %	77.0 %	80.1 %	64.2 %
Impairment losses on loans and guarantees in % of gross loans	-0.04 %	0.64 %	0.07 %	0.24 %	0.04 %	0.38 %
Non-performing and other problem commitments in % of gross loans	1.32 %	1.50 %	1.36 %	1.45 %	2.93 %	2.62 %
Annual growth in loans to customers, gross (incl. SpareBank 1 Boligkreditt)	19.7 %	18.6 %	12.6 %	11.5 %	11.1 %	11.1 %
Annual growth in deposits from customers	-1.2 %	10.1 %	4.0 %	4.6 %	7.0 %	8.4 %
Deposit coverage	69.8 %	77.9 %	76.7 %	75.1 %	72.5 %	71.3 %
Total assets, MNOK	29,253	29,204	27,701	28,220	26,780	26,931
Mortgage loans transferred to SpareBank 1 Boligkreditt, MNOK	13,264	12,199	9,038	7,955	5,193	4,726
Total assets including mortgages transferred to SpareBank 1 Boligkreditt, MNOK	42,517	41,403	36,739	36,175	31,973	31,658
Capital adequacy ratio	13.1 %	12.8 %	13.2 %	13.3 %	13.4 %	13.5 %
Core capital ratio	13.1 %	10.9 %	10.9 %	10.9 %	10.8 %	10.9 %
Core tier one	12.1 %	9.9 %	9.9 %	9.9 %	9.7 %	9.8 %

# Conclusions

- Sparebanken Hedmark
  - Proven track record – and a very strong local market position
  - Capital levels among the highest in Norway – also after the investment in Bank 1 Oslo Akershus
  - Top 3 rating by all three leading credit research institutions in Norway
  - Stable earnings and well positioned for further increase in capital level
- Investment in Bank 1 Oslo Akershus AS
  - Regional development bringing Hedmark and Akershus closer – a common market
  - Expected weaker growth in Hedmark – and stronger in Akershus
  - Investment in a retail market bank with established operations in Sparebanken Hedmark's neighbouring area
  - LO (the trade union movement) and Sparebanken Hedmark will be strong and competent owners for Bank 1 Akershus Oslo AS