

# Sparebanken Møre - the Group

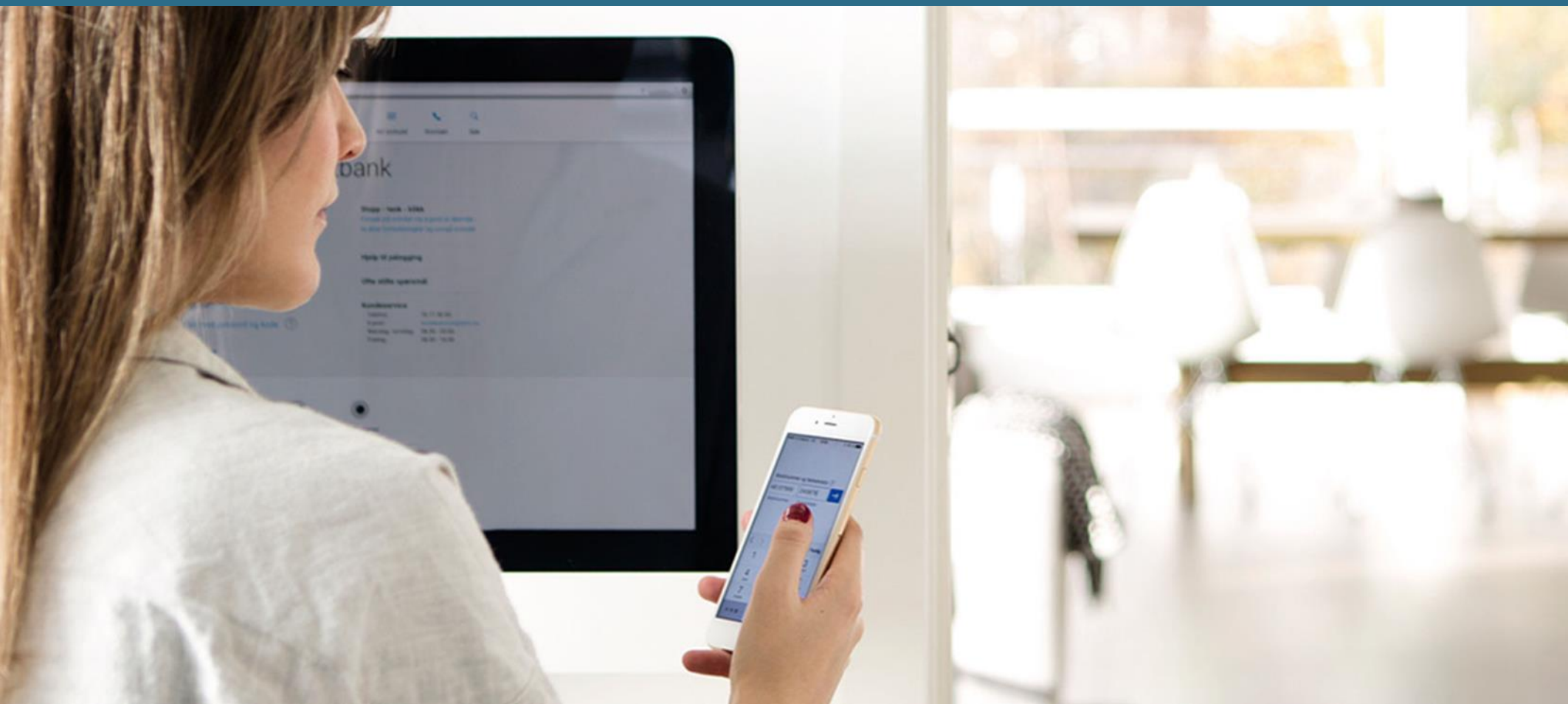
24 October 2018

**PRESENTATION**

3<sup>RD</sup> QUARTER 2018

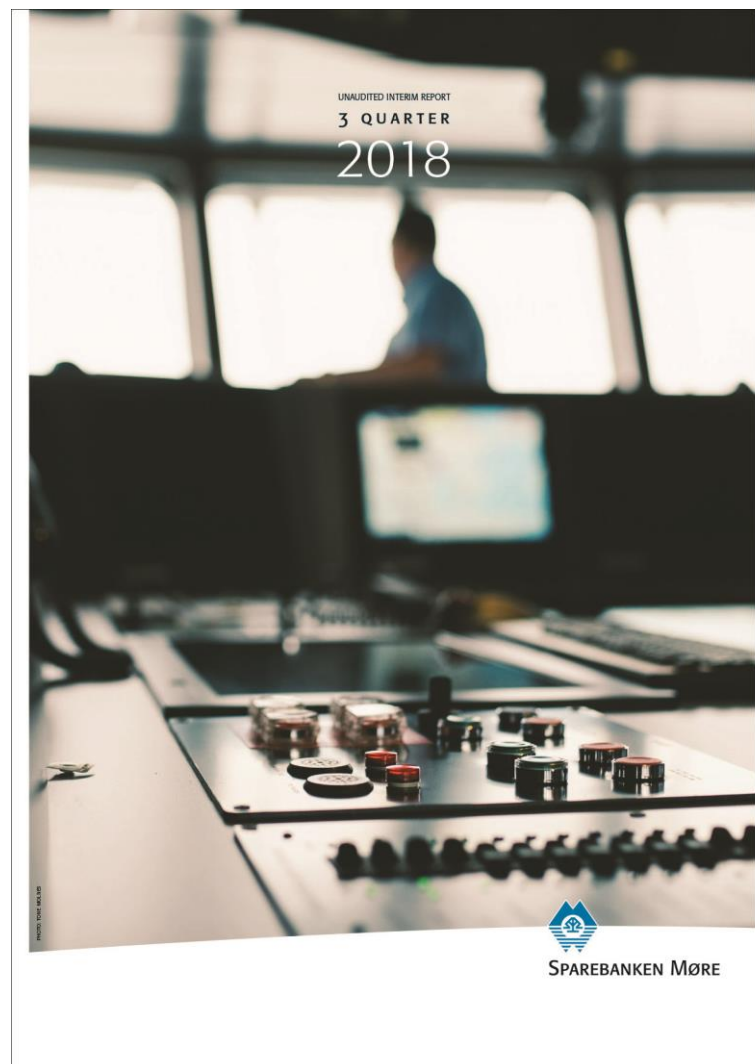
Runar Sandanger

*EVP*



# Contents

- Introduction and highlights
- Results
- Deposits and Loans
- Liquidity and Capital
- Main targets



# The largest bank in the county

*Strong local presence*



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**28**

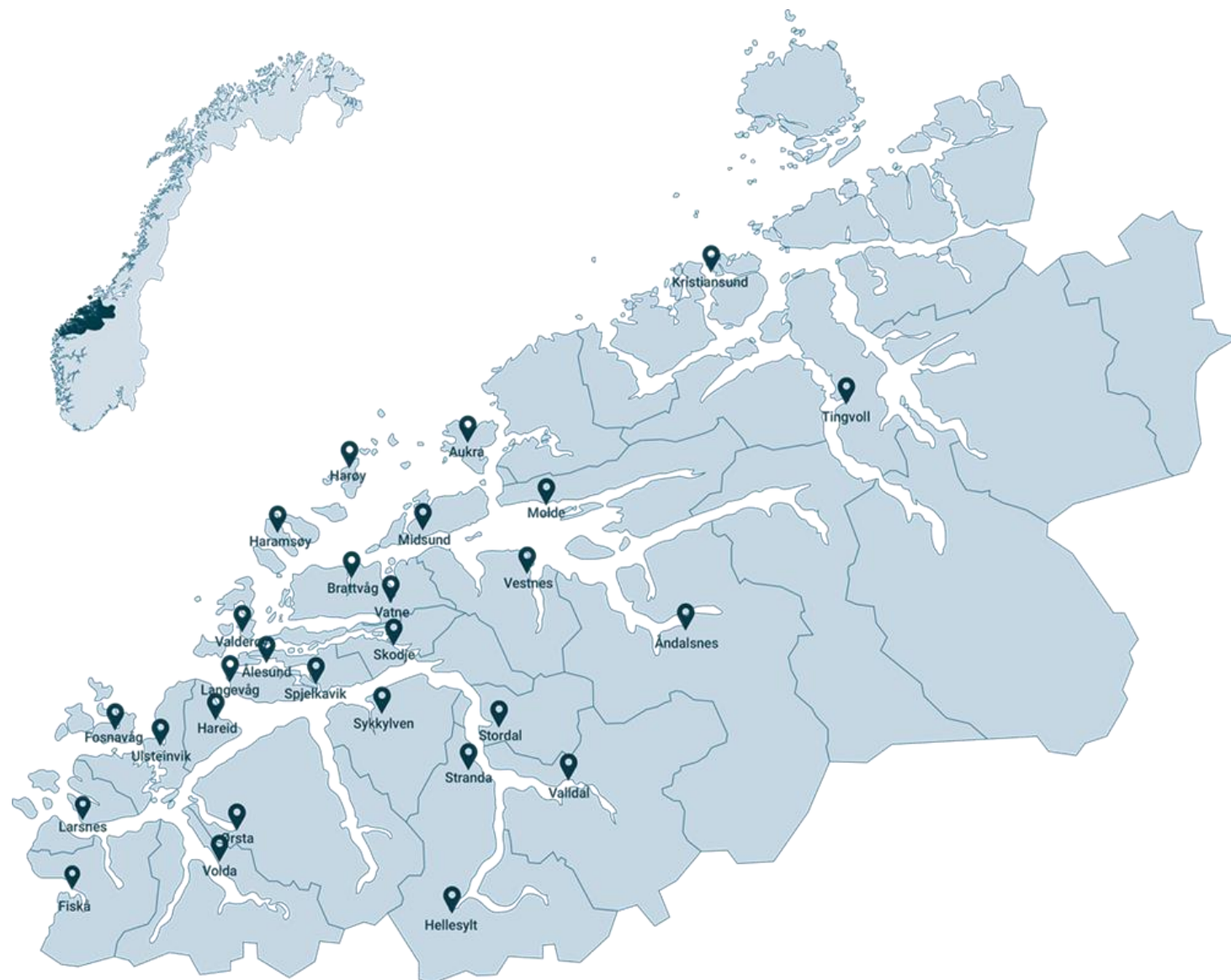
**OFFICES IN  
MØRE OG ROMSDAL**

**363**

**MAN YEARS**

**69.9**

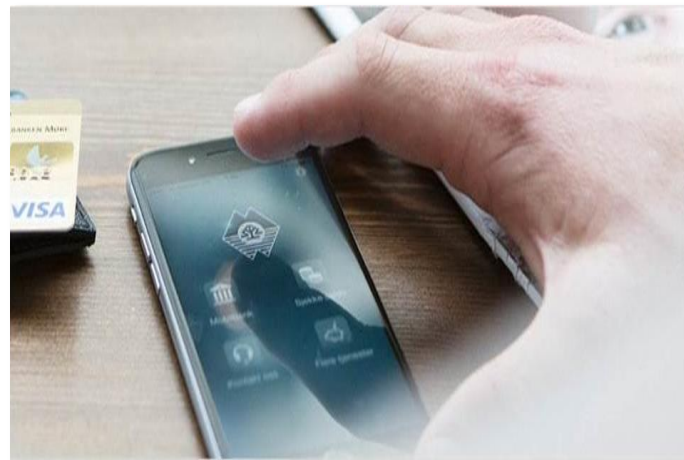
**BILLION IN  
TOTAL ASSETS**



# Developing the bank further



*Employees*



*Technology*



*Social responsibility*

# Highlights from the first three quarters of 2018

*Positive development in key figures*



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Loan growth 5.5 per cent over the last 12 months and good growth in deposits (4.8 per cent)



High and stable Net Interest Income: Growth in NOK compared to the same period last year. Interest rate change with effect from mid-November



High efficiency: Cost/Income ratio at 42.5 per cent by quarter end – down 2.4 p.p. compared with first three quarters last year



Very low losses: Net NOK 4 million in loan losses by end of Q3 2018. We expect losses to remain low for 2018

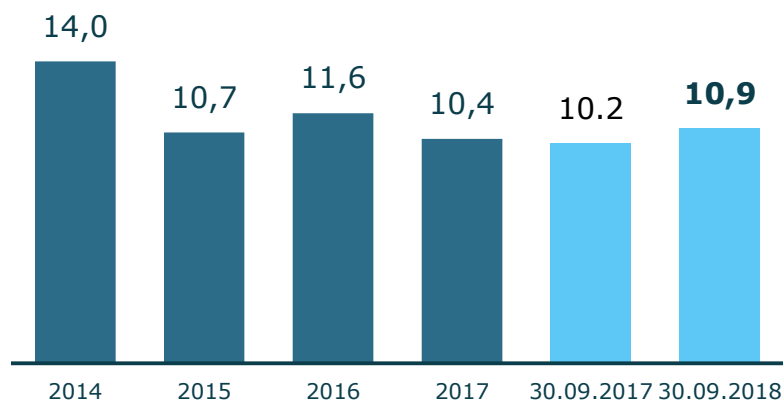


Strong liquidity and solidity: Deposit to Loan ratio at 58.2 per cent, CET1 at 15.8 per cent

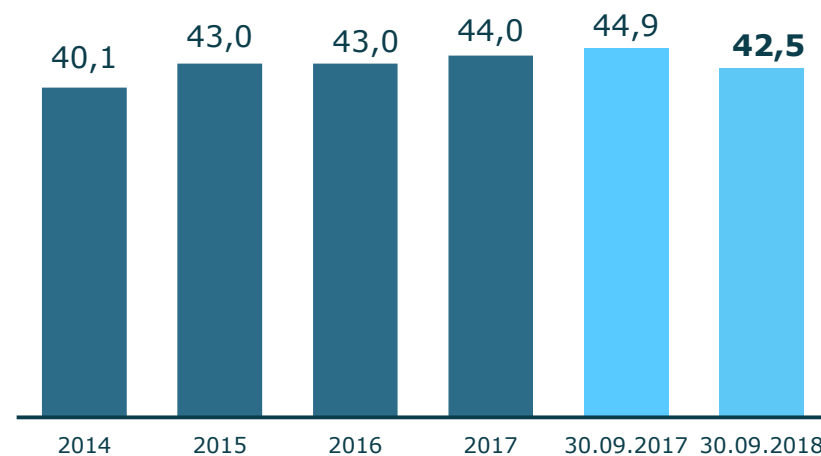


Good Return on Equity: 10.9 per cent

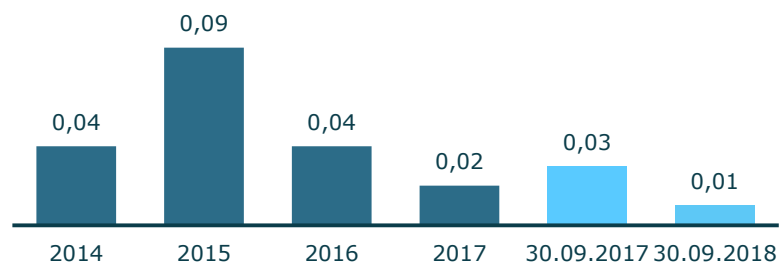
## Return on Equity



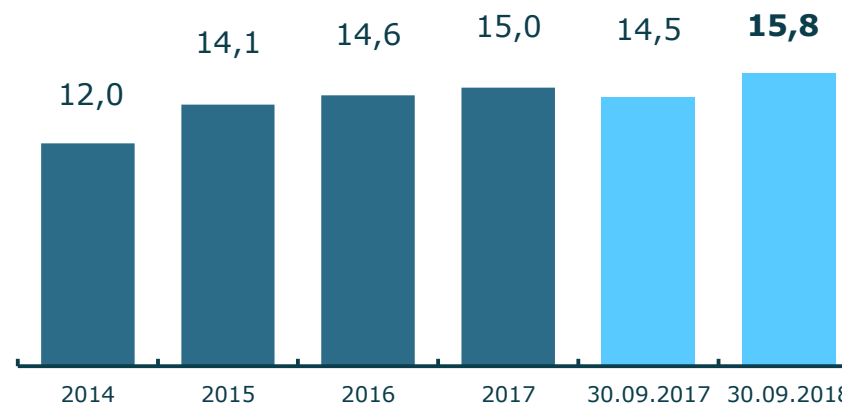
## Cost/Income



## Losses on Loans and Guarantees

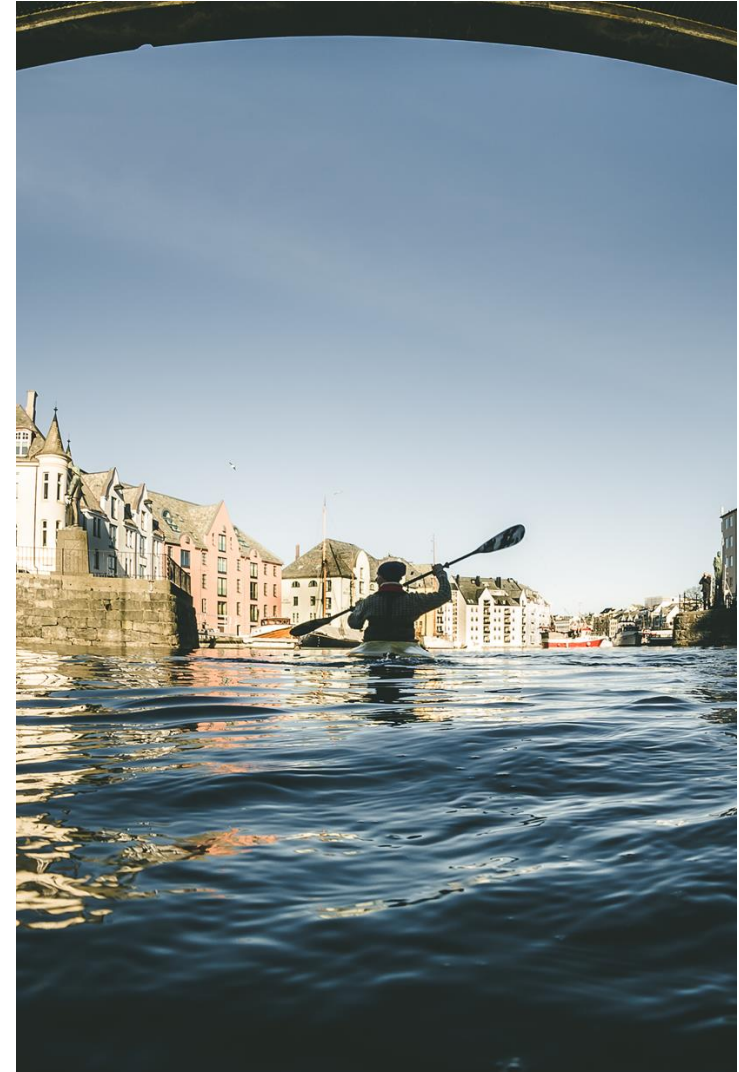


## Common Equity Tier1 Capital (CET1)



# Positive outlook

- Sparebanken Møre is well capitalized and has a very good liquidity by quarter end. The bank has a healthy financial structure and a strong balance sheet. The results have been strong and stable and losses have been at a low level for many years
- With the current economic environment the economic outlook for the county seems to be good. The main reasons for this are
  - the rise in oil prices and new investment projects in the petroleum sector
  - low interest rates
  - a weak NOK
  - good growth in export markets
  - high activity level in the public sector
- It also appears that the danger of a major fall in house prices has been reduced. However, the risk of growth-dampening international trade barriers seems to have increased somewhat



# Results





# Good results

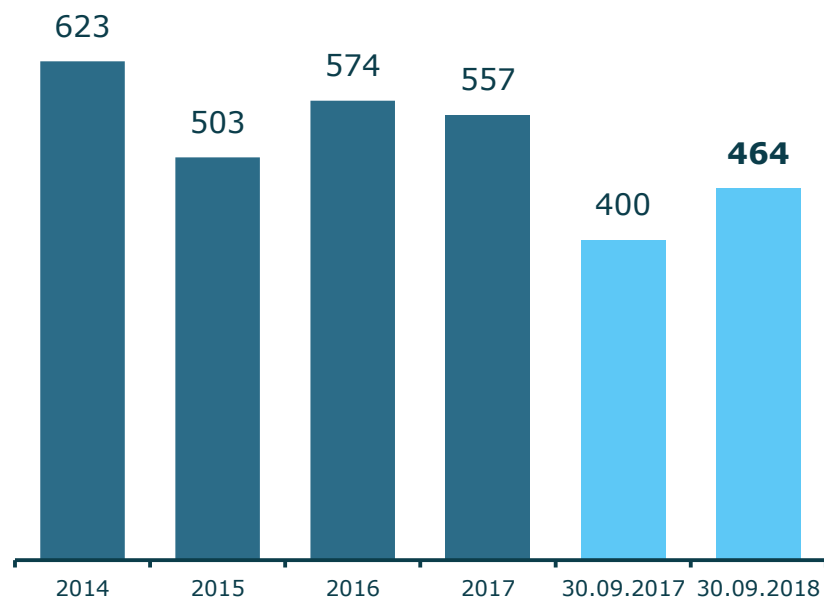
16 per cent improved results compared with the first three quarters of 2017



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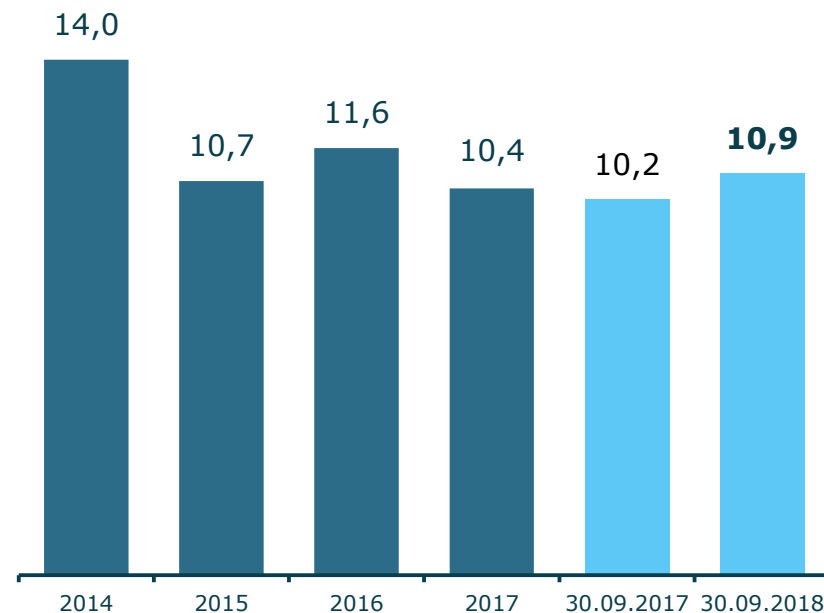
## Profit after tax

- NOK million



## Return on Equity

- in percent (ROE)



# Growth in income, stable cost level and low losses

Result by Q3 2018 compared with Q3 2017



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- Higher Net Interest Income in NOK
- Higher level of Other Income
- Stable operating costs
- Low level of losses

# Results

## Statement of income by Q3 2018 – The Group



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Results (NOK million and %)	30.09.2018		30.09.2017		Changes		
	NOK	%	NOK	%	NOK	p.p.	%
Net Interest Income	870	1.68	810	1.70	60	-0.02	7.4
Net Income Financial Investments	32	0.06	27	0.06	5	0.00	-
Gains/losses liquidity portfolio	-11	-0.02	23	0.05	-34	-0.07	-
Gains/losses on shares	16	0.03	-9	-0.02	25	0.05	-
Other Income	155	0.30	143	0.30	12	0.00	8.4
Total Other Income	192	0.37	184	0.39	8	-0.02	4.3
<b>Total Income</b>	<b>1,062</b>	<b>2.05</b>	<b>994</b>	<b>2.09</b>	<b>68</b>	<b>-0.04</b>	<b>6.8</b>
Personnel costs	254	0.49	253	0.53	1	-0.04	0.4
Other costs	197	0.38	193	0.41	4	-0.03	2.0
<b>Total operating costs</b>	<b>451</b>	<b>0.87</b>	<b>446</b>	<b>0.94</b>	<b>5</b>	<b>-0.07</b>	<b>1.1</b>
Profit before losses	611	1.18	548	1.15	63	0.03	11.5
Losses on loans, guarantees etc	4	0.01	14	0.03	-10	-0.02	-71.4
<b>Pre tax profit</b>	<b>607</b>	<b>1.17</b>	<b>534</b>	<b>1.12</b>	<b>73</b>	<b>0.05</b>	<b>13.7</b>
Taxes	143	0.27	134	0.28	9	-0.01	6.7
<b>Profit after tax</b>	<b>464</b>	<b>0.90</b>	<b>400</b>	<b>0.84</b>	<b>64</b>	<b>0.06</b>	<b>16.0</b>

# Balance sheet and key figures

	30.09.2018	30.09.2017	Changes	
Balance in NOK million	NOK	NOK	NOK	%
Total Assets	69,876	66,189	3,687	5.6
Loans to customers	59,620	56,488	3,132	5.5
Deposits from customers	34,684	33,082	1,602	4.8
Net Equity and Subordinated Loans	6,479	6,535	-56	-0.9

Key Figures	30.09.2018	30.09.2017	Changes p.p.	
Return on Equity	10.9	10.2	0.7	
Cost/Income Ratio	42.5	44.9	-2.4	
Total Capital	19.4	19.1	0.3	
Tier 1 Capital	17.4	17.1	0.3	
CET1	15.8	14.5	1.3	
Leverage Ratio	8.2	8.5	-0.3	
Profit per EC (NOK, the Group)	22.85	20.10	2.75	
Profit per EC (NOK, the Bank)	23.30	22.30	1.00	

# Quarterly development in Net Interest Income

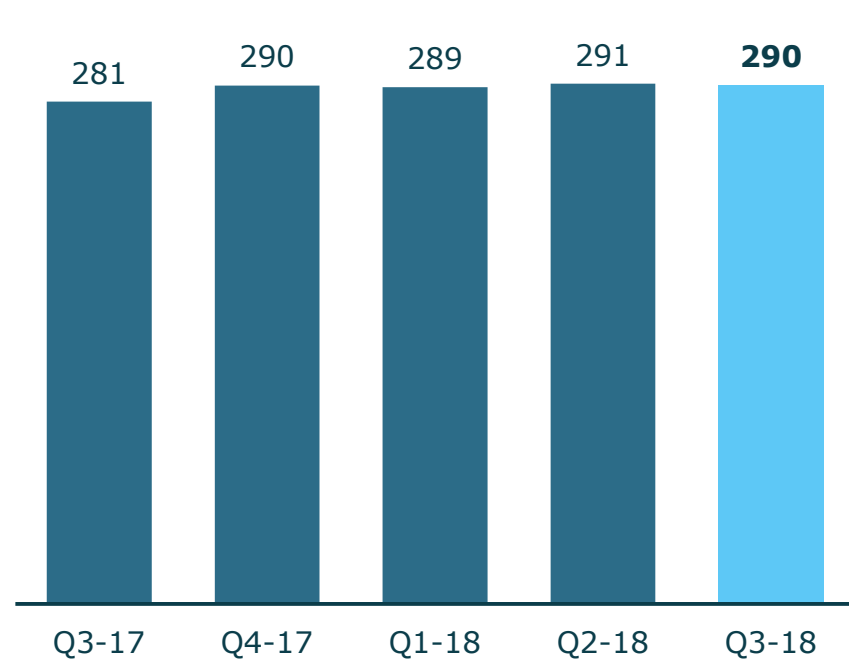
*Stable NII in NOK, lower in per cent*



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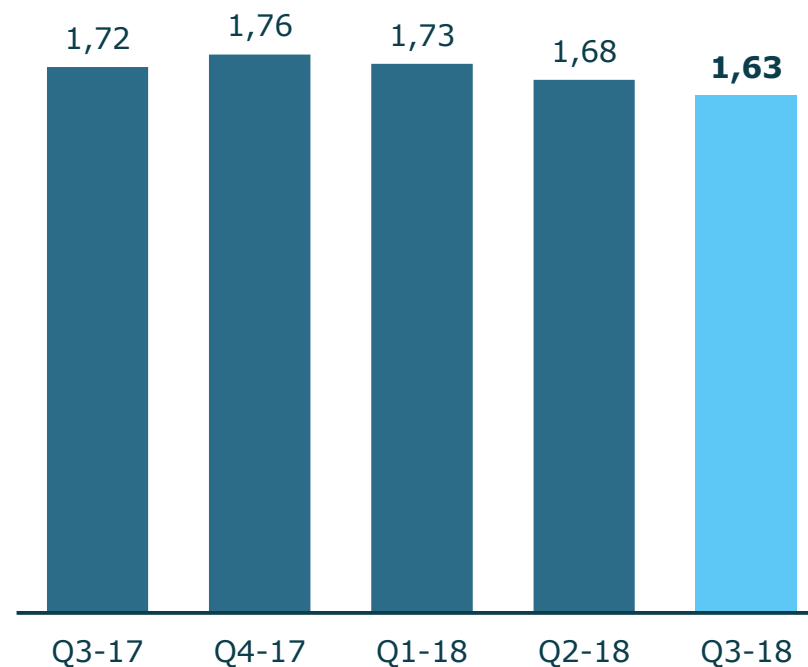
## Net Interest Income

- NOK million



## Net Interest Income

- % of Average Assets



# Quarterly development in Other Income

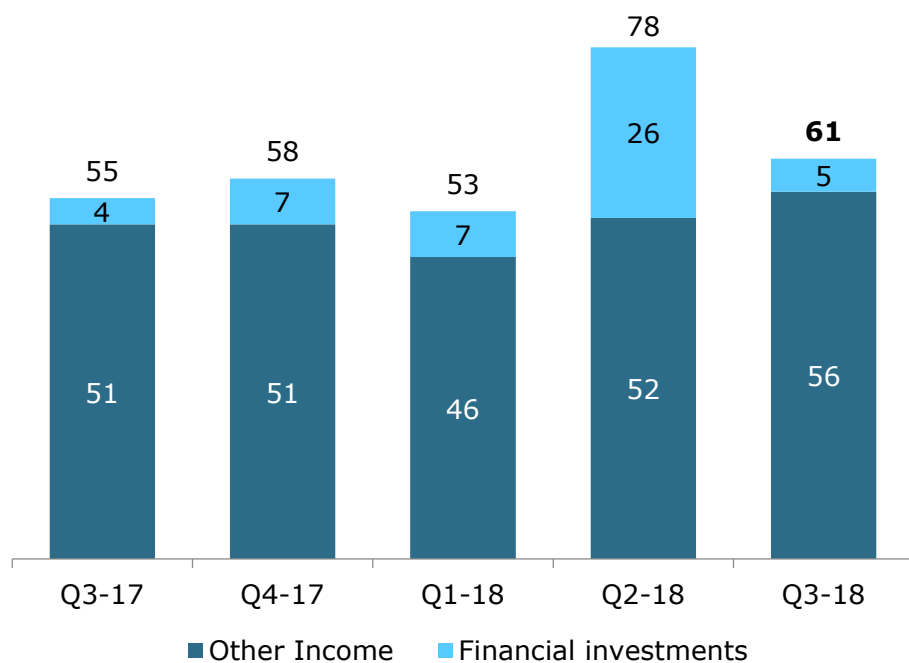
*Increased customer related income*



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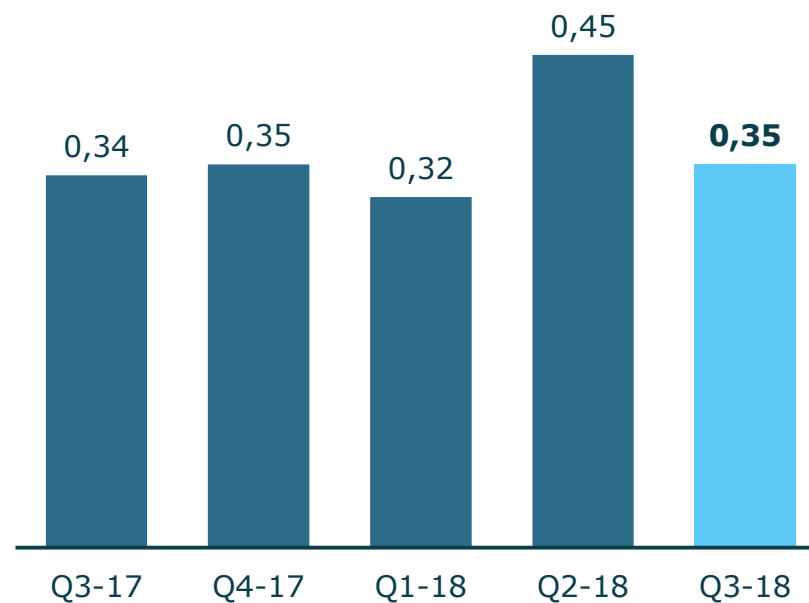
## Other Income

- NOK million



## Other Income

- % of Average Assets



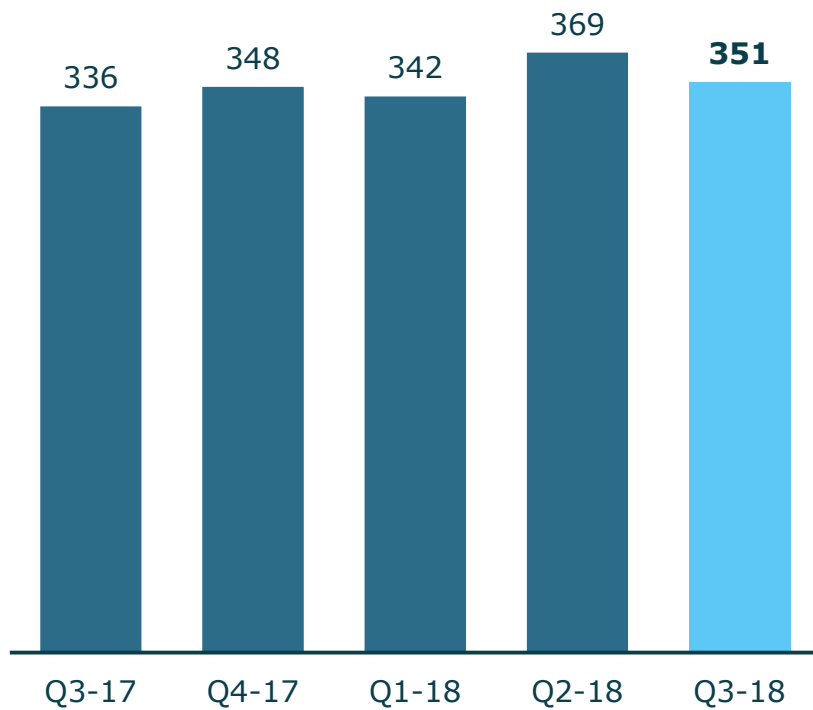
# Total Income

5 per cent income growth compared to third quarter 2017



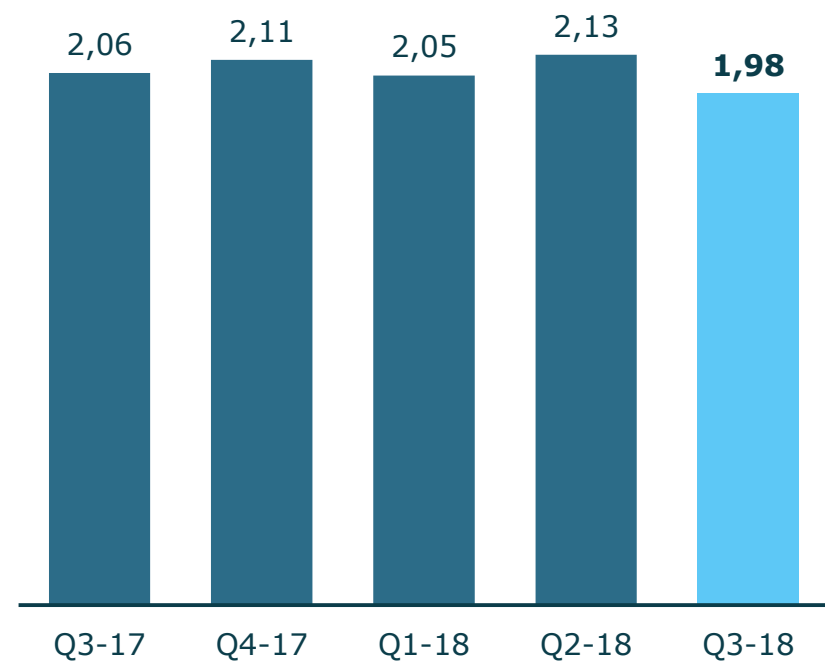
## Total Income

- NOK million



## Total Income

- % of Average Assets



# Strong cost control – improved efficiency

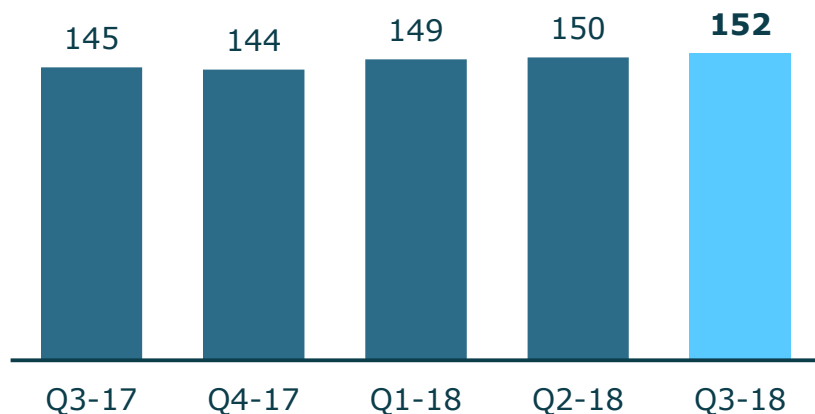
Positive development



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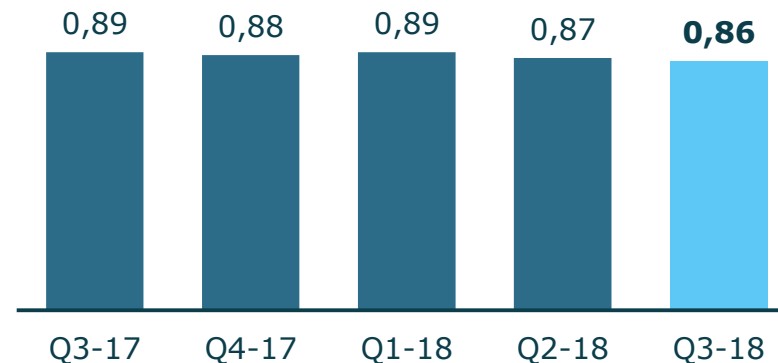
## Operating Costs

- NOK million



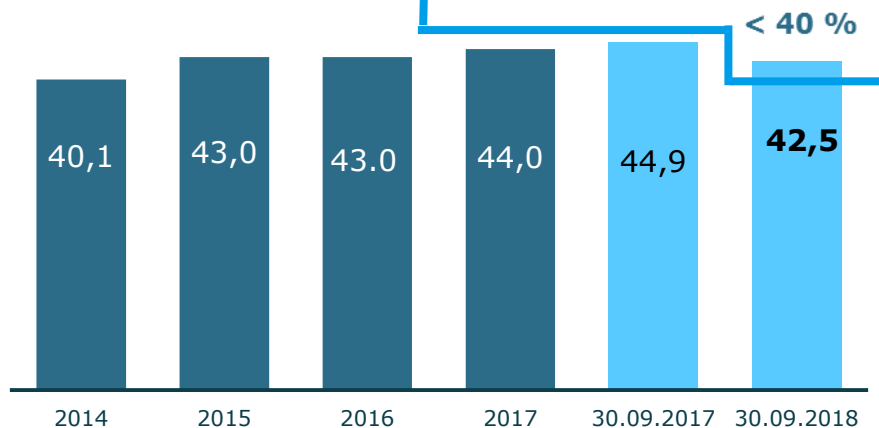
## Operating Costs

- % of Average Assets



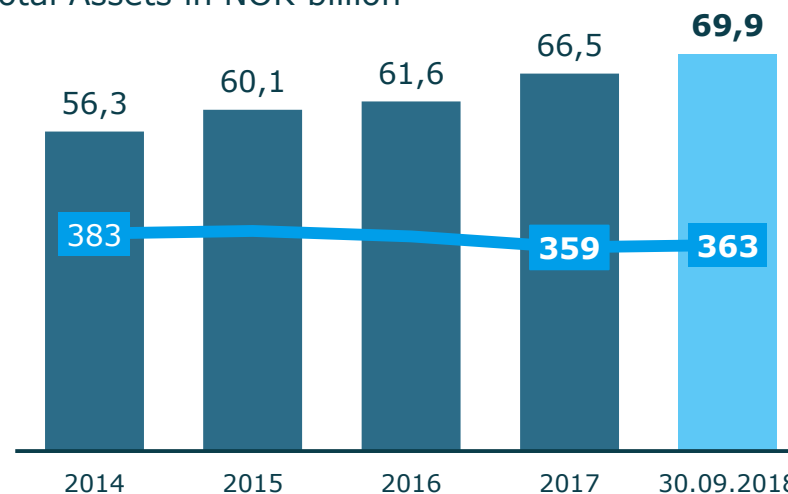
## Cost/Income ratio

Target



## Total Assets and Man Years

- Total Assets in NOK billion





# Strong underwriting

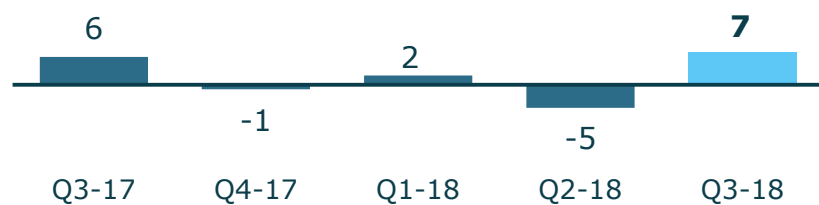
Persistent low losses



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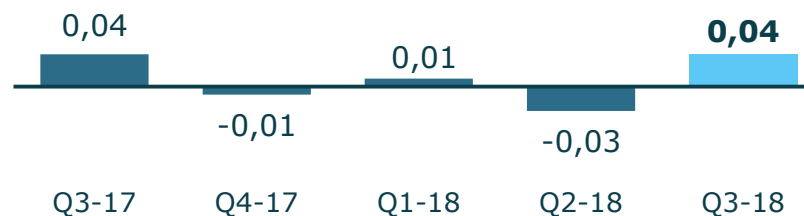
## Losses on loans and guarantees

- NOK million



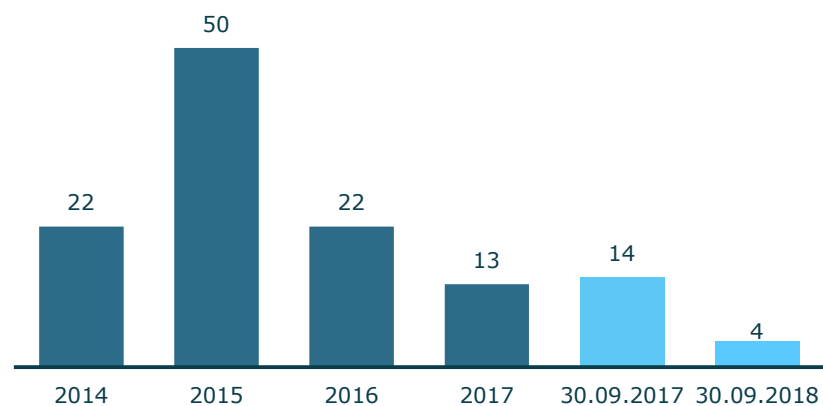
## Losses on loans and guarantees

- % of Average Assets



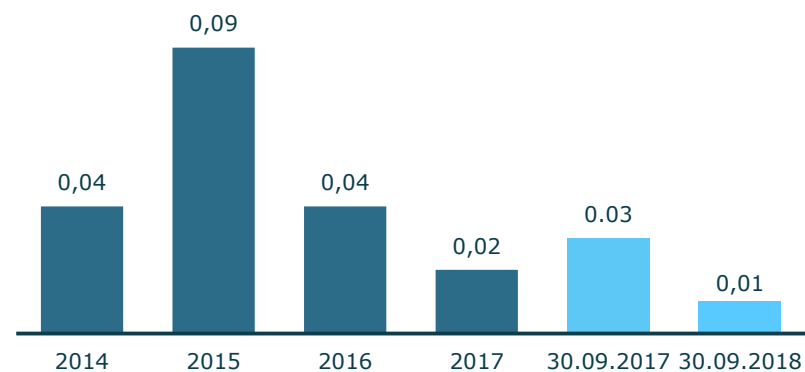
## Losses on loans and guarantees

- NOK million



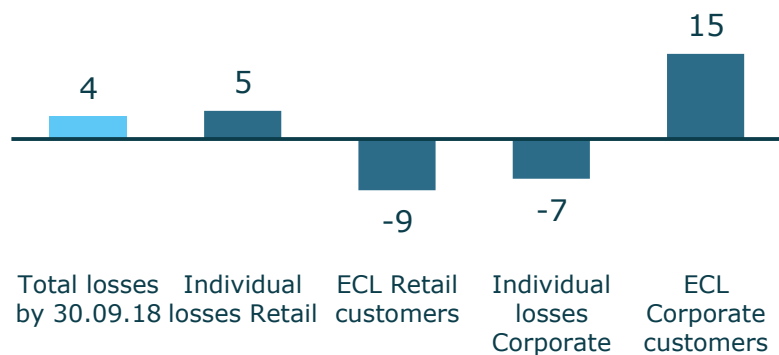
## Losses on loans and guarantees

- % of Average Assets



## Losses on loans and guarantees

- NOK million



- The expected credit loss (ECL) model is compliant with IFRS 9 and is used to calculate losses
- Total calculated ECL by third quarter end is NOK 6 million higher than by 1.1.2018
- Individual impairments and other losses of NOK 5 million for retail customers and NOK -7 million for corporate customers
- Total losses are NOK 4 million by quarter end

# Impairments

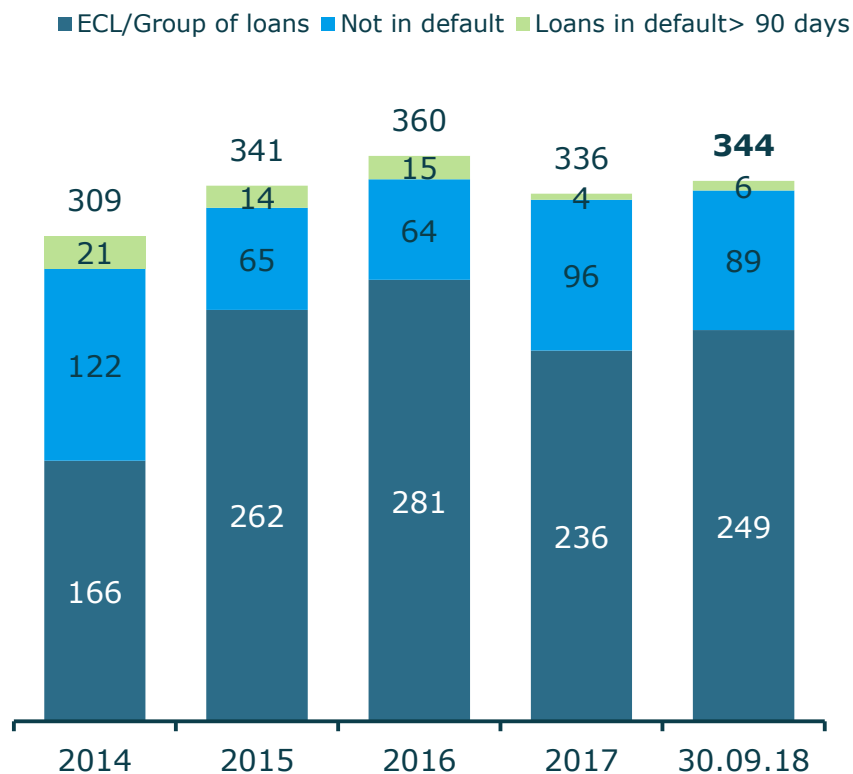
High and comfortable levels



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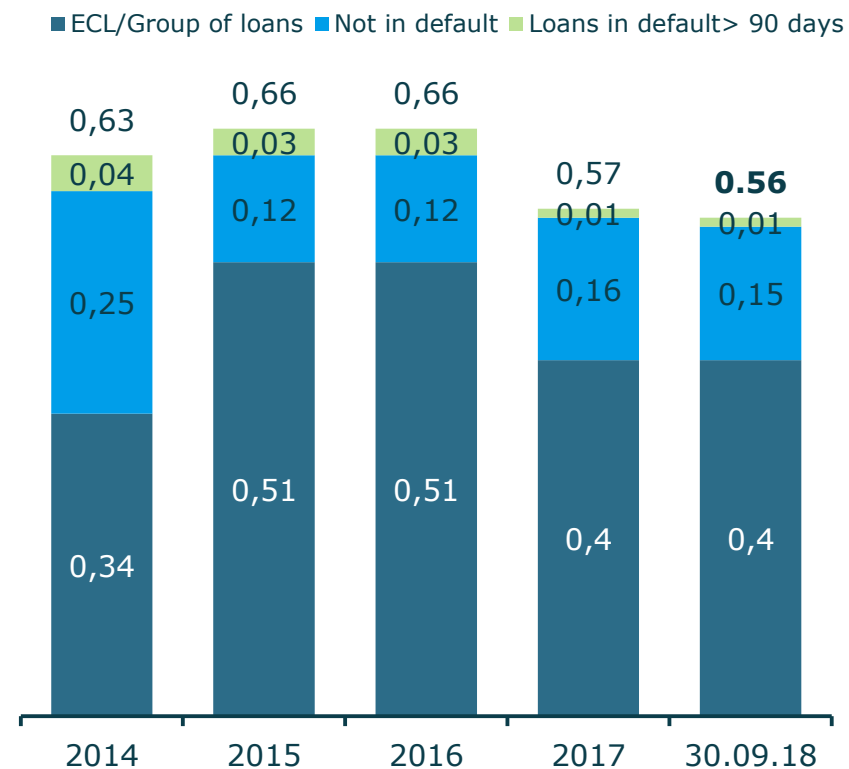
## Impairments

- NOK million



## Impairments

- % of Gross Loans



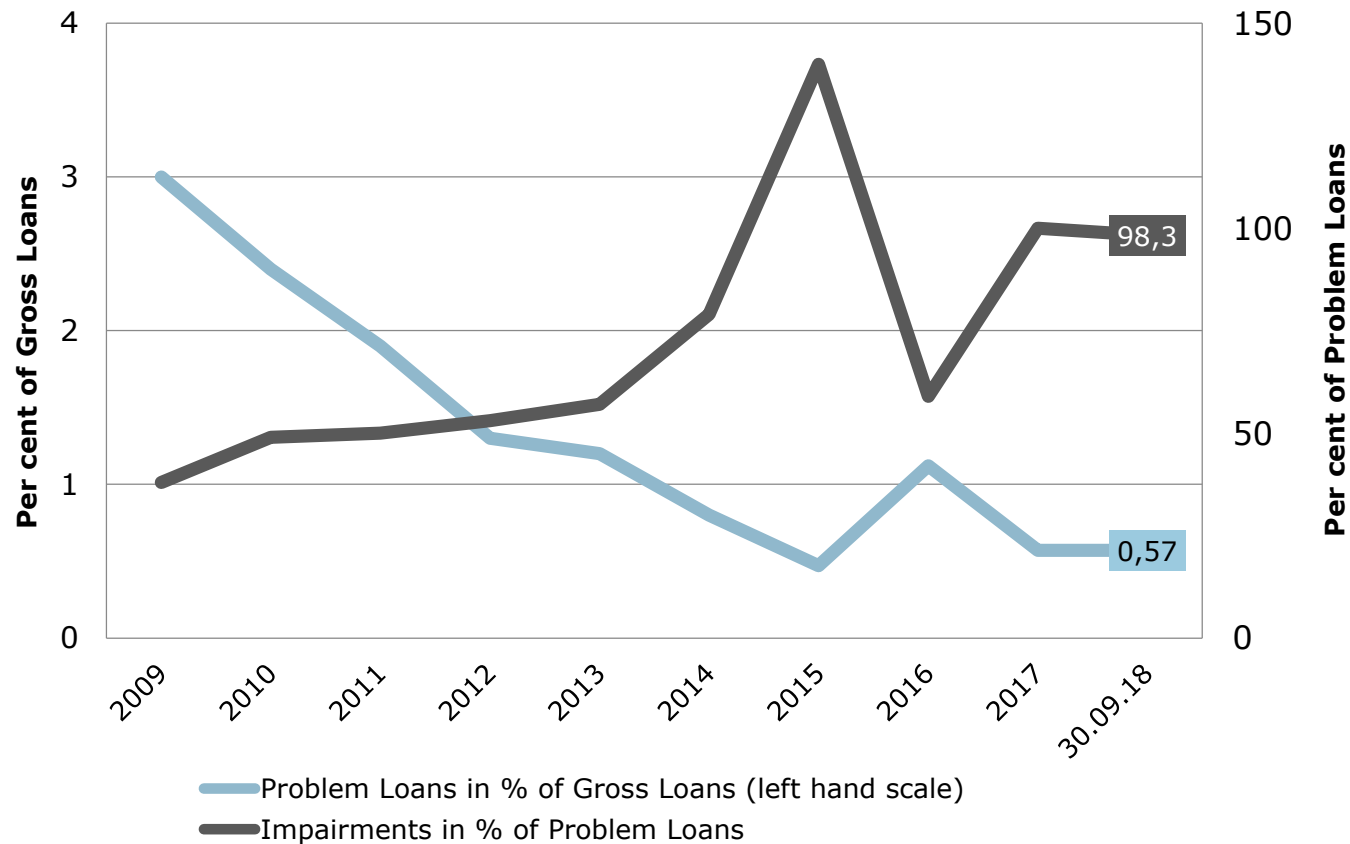
# Problem Loans and Impairments

*Low level of problem loans and good coverage*



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## Problem Loans and Impairments (per cent)



Problem Loans are loans and guarantees more than 90 days over due and performing loans with individual impairments.

# Pre tax profit

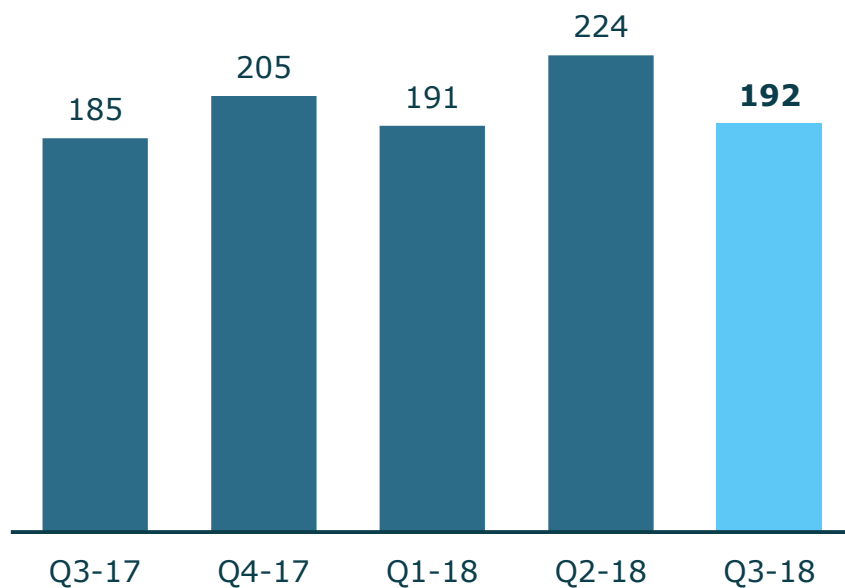
*Stable quarterly development*



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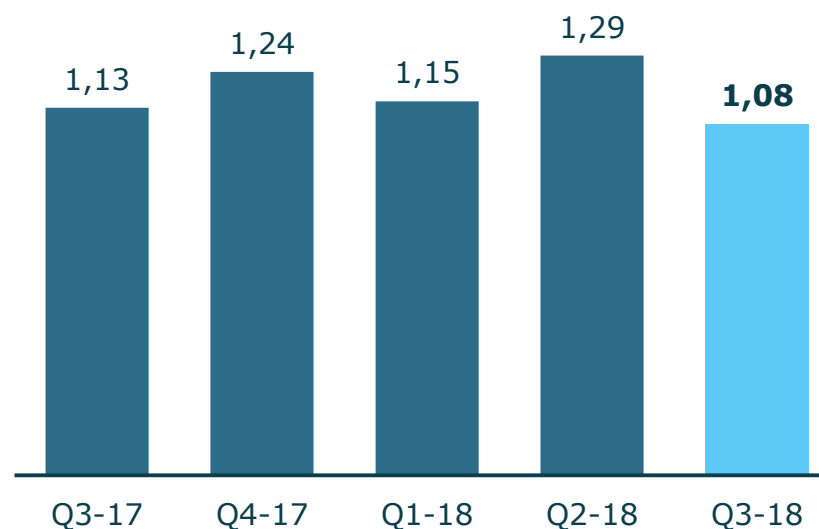
## Profit after losses

- NOK million



## Profit after losses

- % of Average Assets



# Balance sheet

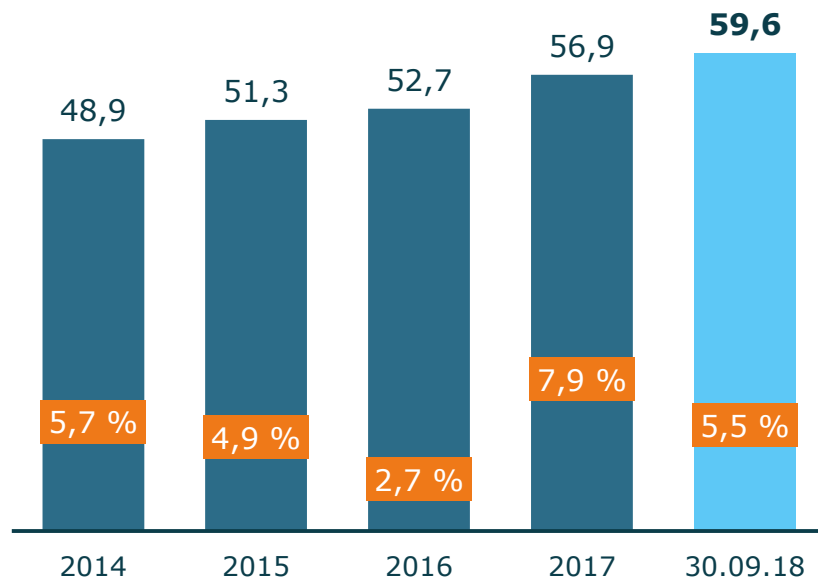


# Continued good growth

Strong loan growth and high deposit-to-loan ratio

## Loans

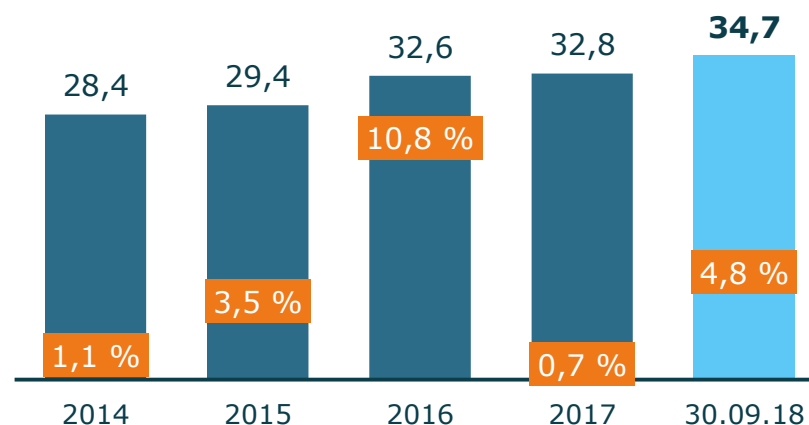
- NOK billion and per cent (y/y)



- Customer lending has increased by 5.5 % over the last 12 months

## Deposits

- NOK billion and per cent (y/y)



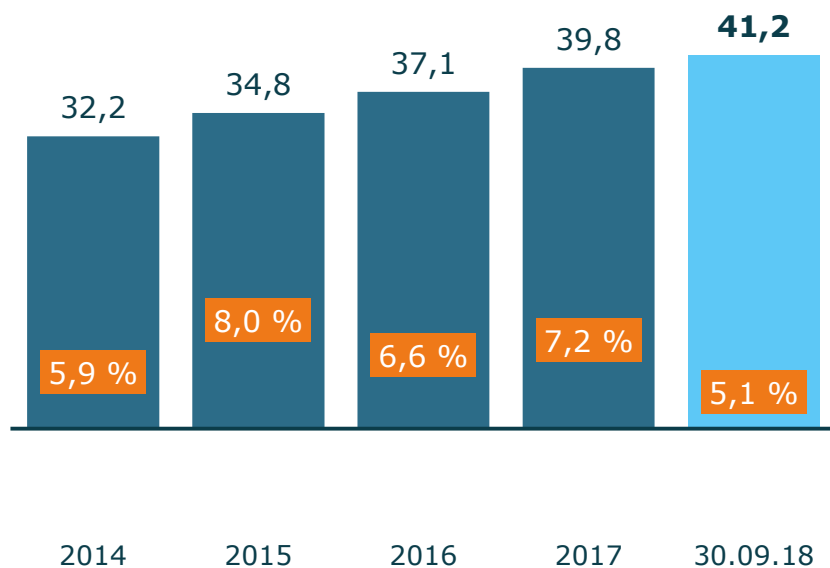
- Deposit growth of 4.8 % over the last 12 months
- High deposit-to-loan ratio of 58.2 %

# Lending

Stable growth to the retail - and higher to the corporate market

## Retail market

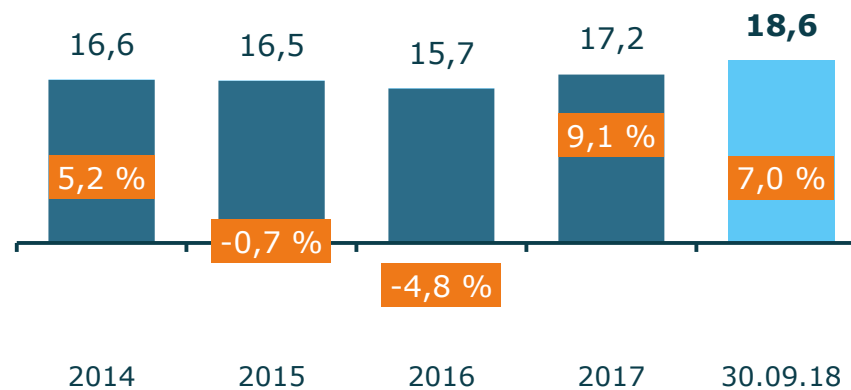
- NOK billion and per cent y/y



- Retail lending has increased by 5.1 % over the last 12 months
- Loans to the retail market amount to 69.1 % of total loans

## Corporate market

- NOK billion and per cent y/y



- Corporate lending has increased by 7.0 % over the last 12 months
- Loans to the corporate market amount to 30.9 % of total loans

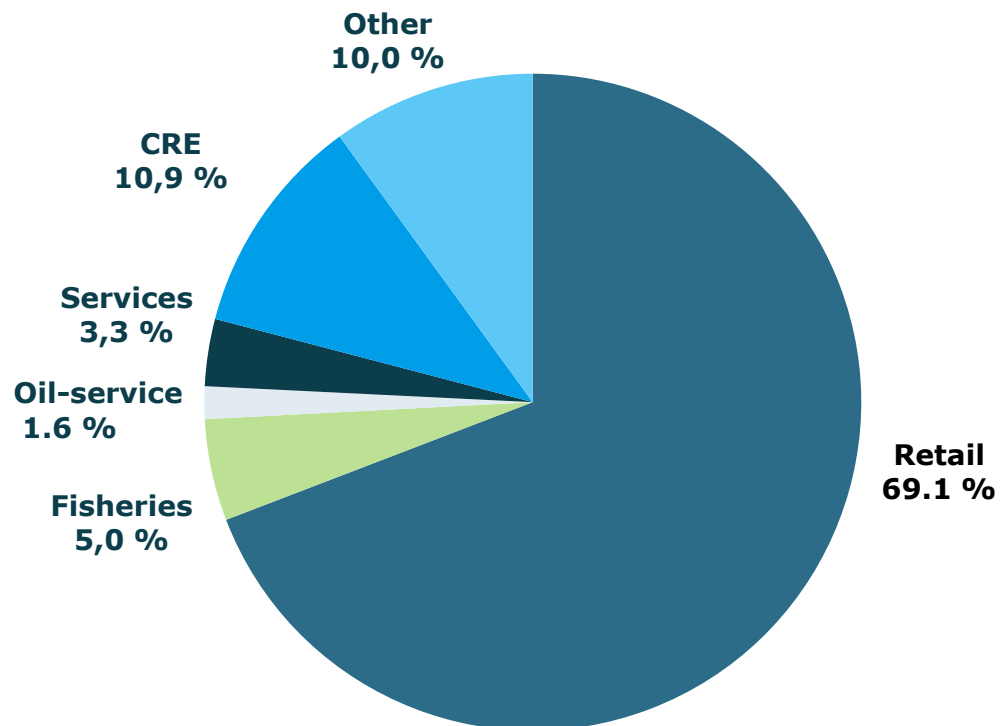


# Diversified loan book

## Loans by sector



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### Other:

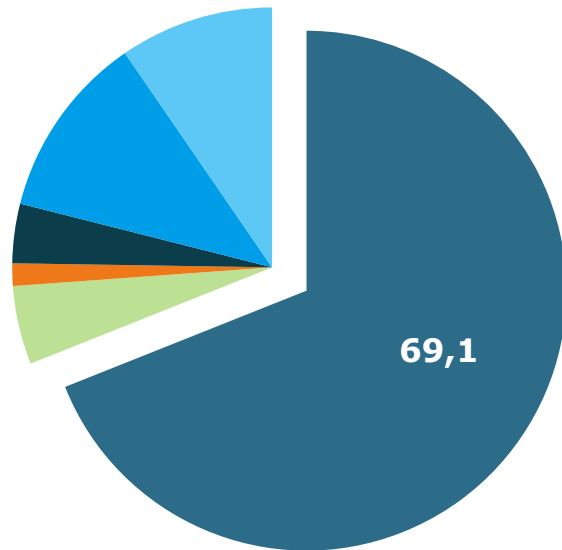
Financial services	2.1 %	Retail/wholesale trade	1.1 %
Other Industry	1.5 %	Agriculture	0.8 %
Ship Yards	1.5 %	Other	0.4 %
Fishing Industry	1.4 %		
Building and construction	1.3 %		

# Good quality in our retail portfolio

*High proportion of secured loans*

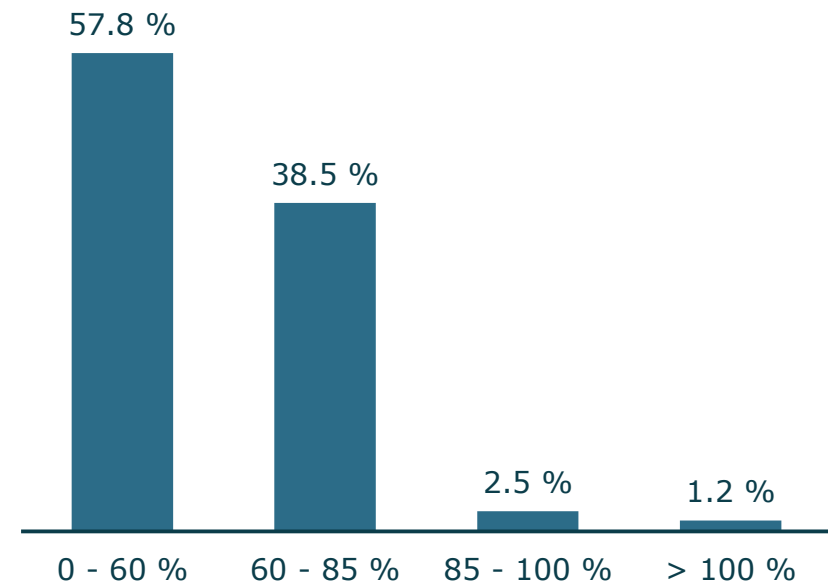
## Loans to retail customers

- % of total loans



- The bank complies with the regulations from the Norwegian authorities (Boliglånsforskriften)
- Deviations reported in the third quarter of 2018 were 4.0 % outside Oslo, and 5.6 % in Oslo

## Loan to value – retail loans



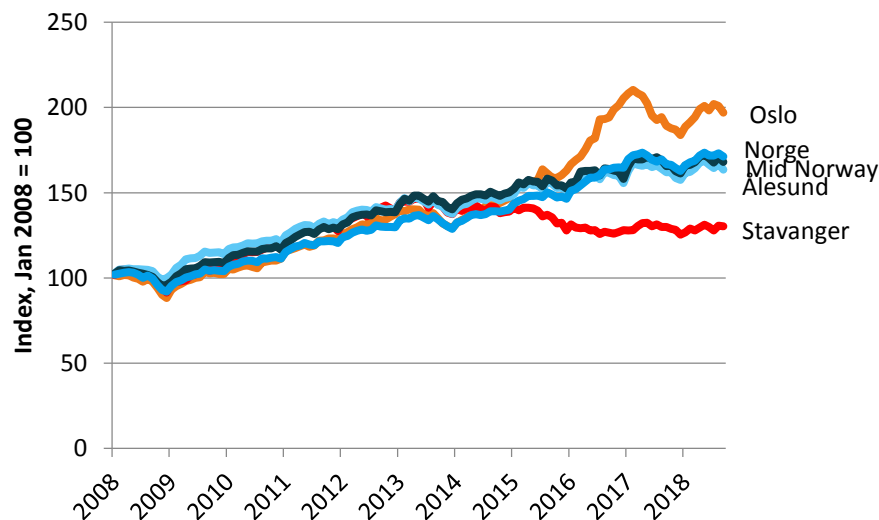
- 96.3 % of mortgage-backed loans to retail customers are within 85 % of value

# Housing prices

- Development from January 2008 to September 2018

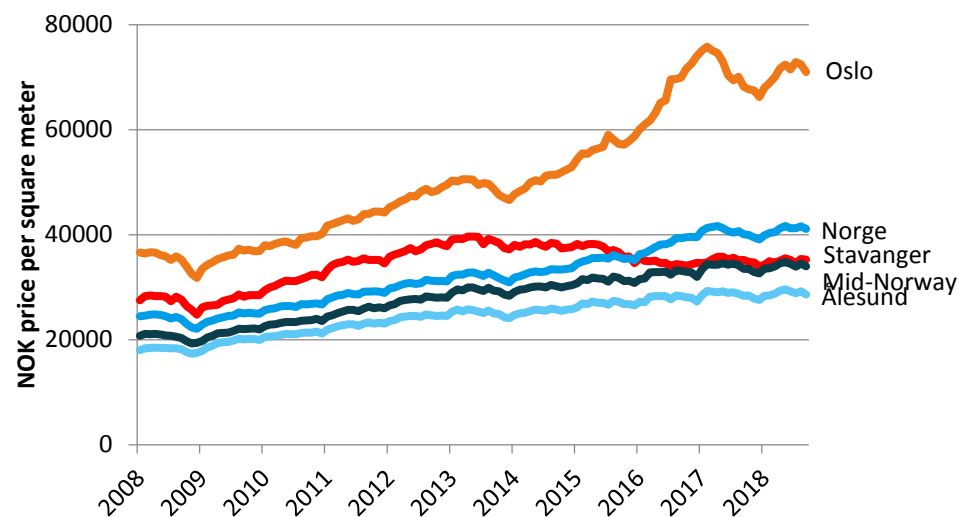
## Development in housing prices

- Index – Jan 2008 = 100



## Development in housing prices

- Average price per square meter



Key information (Sold pre-owned dwellings)	Norway	Mid-Norway**	Greater Ålesund*	Greater Stavanger*	City of Oslo
Price development last 12 months	+2.7 %	+1.4 %	+0.9 %	+0.3 %	+4.1 %
Price per square meter (NOK)	41,134	34,000	28,655	35,282	71,005
Average days on market (DOM) sold units in September 2018	43	55	55	76	23
Price median dwelling (NOK)	3,145,583	2,712,357	2,535,500	3,212,500	4,026,000

\*Ålesund and Stavanger including surrounding municipalities

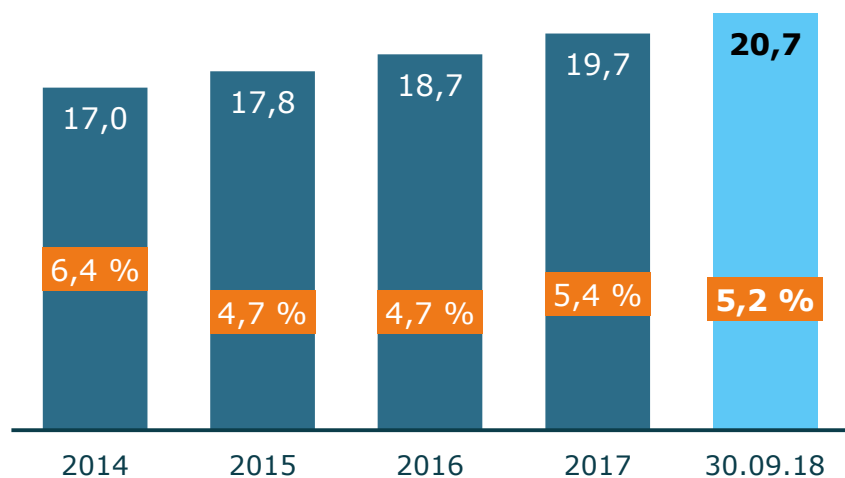
\*\* Mid-Norway including the county of Møre og Romsdal and the county of Trøndelag

# Deposits

Good growth in deposits over the last 12 months

## Retail market

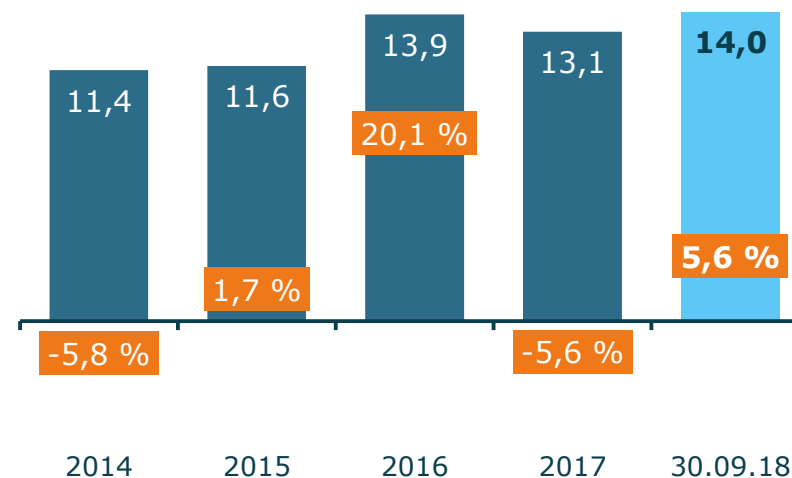
- NOK billion and per cent y/y



- Retail deposits have increased by 5.2 % over the last 12 months
- Deposits from the retail market amount to 59.7 % of total deposits

## Corporate and public

- NOK billion and per cent y/y



- Deposits from corporate and public customers have increased by 5.6 % the last 12 months and ended at NOK 14 billion by quarter end

# Discretionary Portfolio Management

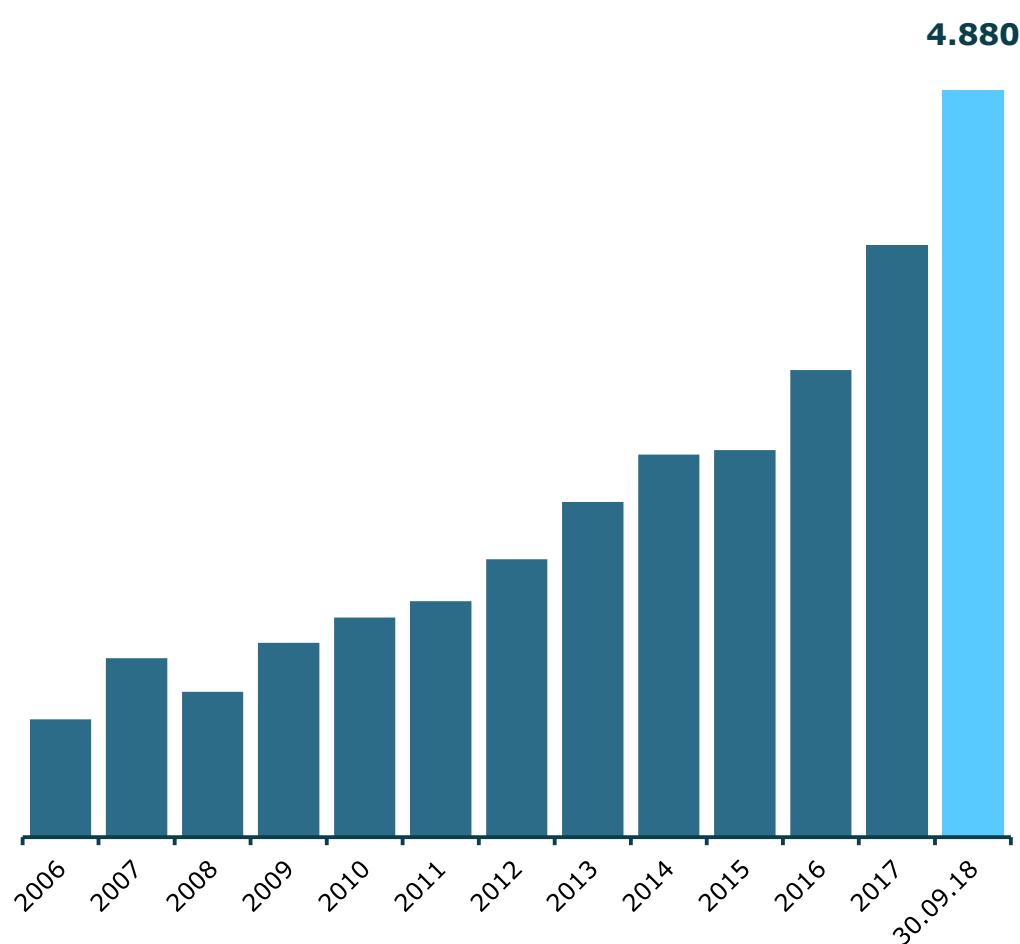
*Strong growth - close to NOK 5 billion under management*



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## Sparebanken Møre - Aktiv Forvaltning

- Portfolio in NOK million



- In addition to deposits, increasingly more of the Sparebanken Møre`s customers also ask for other investments
- Sparebanken Møre Aktiv Forvaltning (Discretionary Portfolio Management) offers the Bank's clients professional management services
- Our local Asset Managers continuously monitor the portfolio:
  - 9 municipalities
  - 10 foundations
  - 1 pension fund
  - 2 insurance companies
  - 153 investment companies
  - 203 wealthy private individuals

# Liquidity and Capital

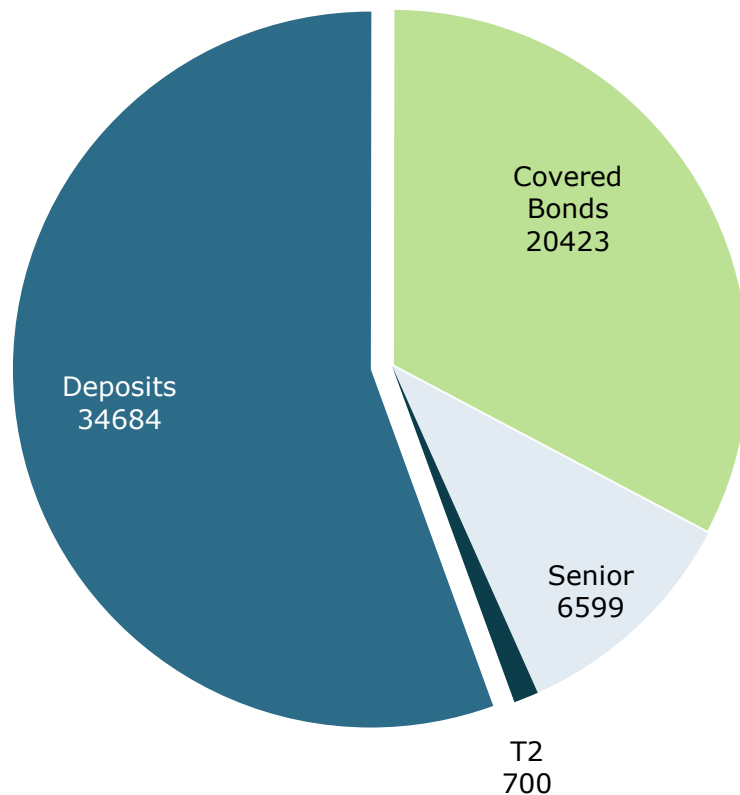


# Deposits from customers and market funding

*Deposits are the Group`s most important source of funding*

## Deposits and market funding

- NOK million



## Sparebanken Møre with good access to the market – diversifying the investor base

- Our strong deposit-to-loan ratio stood at **58.2** per cent by quarter end
- Total net market funding ended at NOK 27.5 billion by quarter end – close to 85 per cent with remaining maturity of more than one year
- Senior Bonds: Weighted average maturity of 2.19 years (FSA defined key figures)
- Covered Bonds issued through Møre Boligkreditt AS have a weighted average maturity of 3.63 years (FSA defined key figures)
- Møre Boligkreditt AS has issued eight loans qualifying for Level 2A liquidity in LCR. In June this year, the mortgage company issued it's second sub-benchmark Public Issue of EUR 250 million in the European market, the first issued last summer
- June 14 this year, Moody`s confirmed the bank's A2- stable rating. Issuances from Møre Boligkreditt AS are rated Aaa

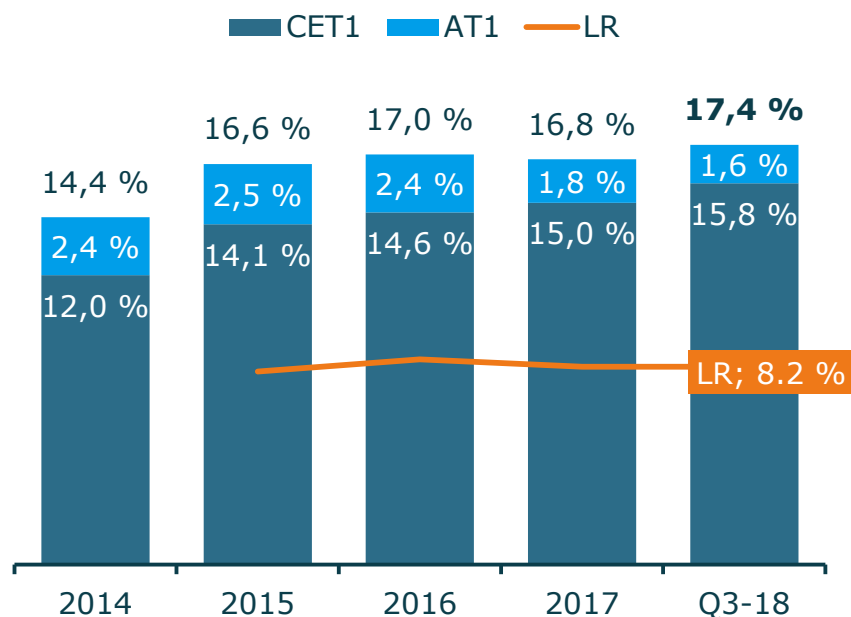
# Equity and related capital

Capital and leverage ratio (LR) well above regulatory requirements



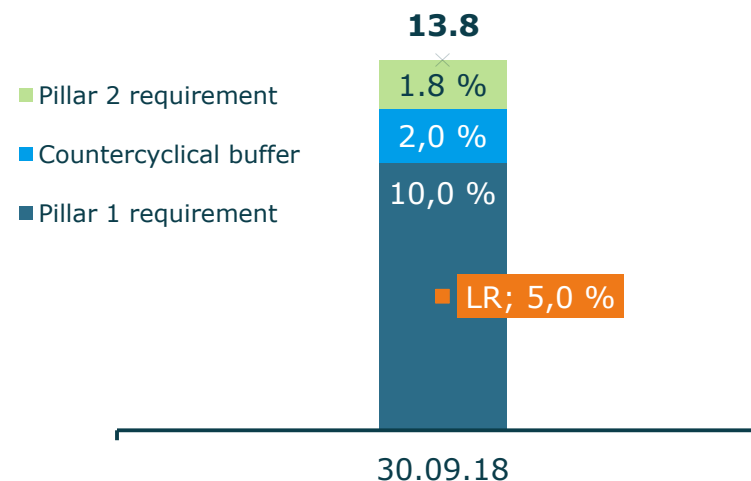
## Tier 1 capital in Sparebanken Møre

- % of risk weighted assets



## CET1 requirement for Sparebanken Møre

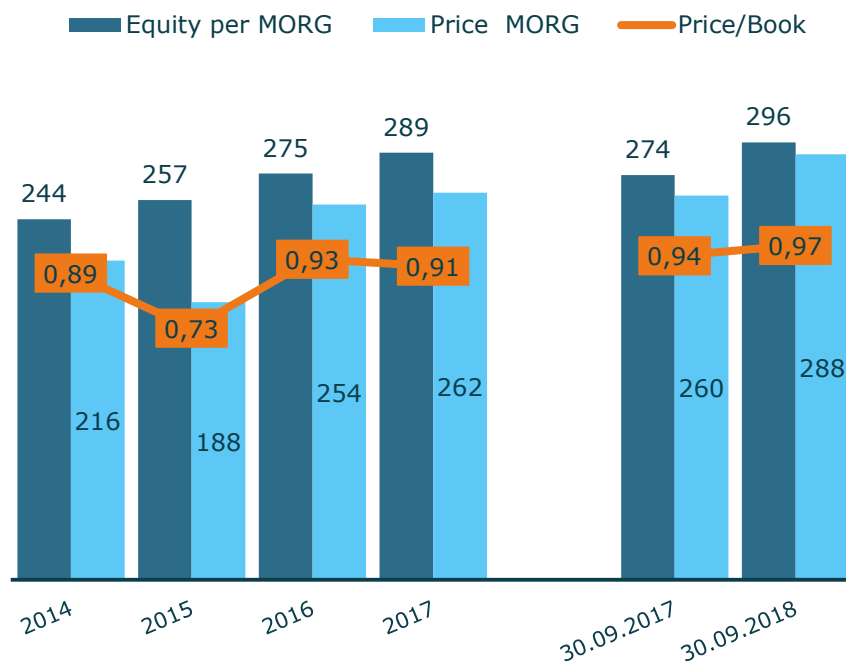
- % of risk weighted assets



- By quarter end our Common Equity Tier 1 capital stood at 15.8%, Tier 1 capital at 17.4 % and total capital at 19.4 %
- Sparebanken Møre's capital targets are:
  - Total Capital: Minimum 18.3 %
  - Tier 1 capital: Minimum 16.3 %
  - CET1: Minimum 14.8 %
- The Group's Capital shall follow the announced regulatory capital escalation plan
- Our capital is calculated according to the IRB Foundation Approach for corporate commitments, IRB Approach for the retail market



## MORG – price and Price/Book (P/B) value



- Equity per MORG is calculated on Group figures

## Dividend Policy

- Sparebanken Møre aims to achieve financial results providing a good and stable return on the Bank's equity capital
- Sparebanken Møre's results should ensure that the owners of the equity receive a competitive long-term return in the form of cash dividends and capital appreciation on their equity
- Unless the capital strength dictates otherwise, about 50% of the profit for the year will be distributed as dividends
- Sparebanken Møre's allocation of earnings shall ensure that all equity owners are guaranteed equal treatment

# Equity Capital in Sparebanken Møre

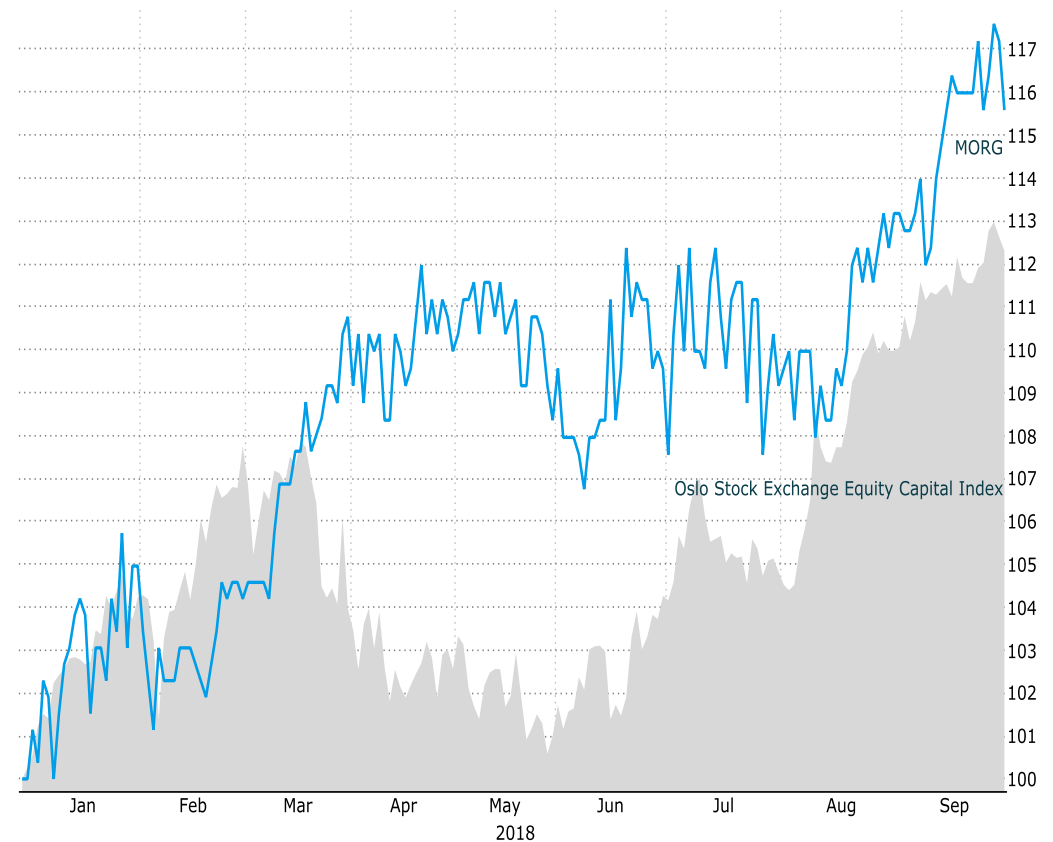
## Dividend and EC-price



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- The PCCs/ECs of Sparebanken Møre (MORG) have been listed at Oslo Stock Exchange since 1989
- Total EC capital NOK 989 million by September 2018
- Good return – Total Return for Sparebanken Møre is 4 per cent higher than the EC index by end of Q3

Annual dividend per EC			
<b>1990</b>	10	<b>2005</b>	20
<b>1991</b>	0	<b>2006</b>	20
<b>1992</b>	0	<b>2007</b>	23
<b>1993</b>	13	<b>2008</b>	20
<b>1994</b>	12	<b>2009</b>	12
<b>1995</b>	13	<b>2010</b>	12
<b>1996</b>	13	<b>2011</b>	8
<b>1997</b>	13	<b>2012</b>	12
<b>1998</b>	15	<b>2013</b>	8
<b>1999</b>	16	<b>2014</b>	13.50
<b>2000</b>	17	<b>2015</b>	11.50
<b>2001</b>	17	<b>2016</b>	14.00
<b>2002</b>	15	<b>2017</b>	14.00
<b>2003</b>	16		
<b>2004</b>	18		



Source: Bloomberg

# Equity Capital in Sparebanken Møre

## *About equity certificates*



SPAREBANKEN MØRE

- Equity certificates are a special kind of equity instrument first introduced by savings banks in 1988. A total of 32 banks have now issued such certificates, and 19 of them are listed on the stock exchange
- Equity certificates are an important part of savings banks' capital base and confer ownership of between 14 % and 97 % of the individual bank
- A savings bank that has issued equity certificates has two types of equity. One is its primary capital, or "ownerless" equity, consisting of retained earnings built up by the bank over the years. The other is the certificate-holders' equity, consisting of equity certificate capital and related reserves (equalization reserve and premium account)
- Equity certificates have clear similarities to shares. The main difference is the owners' rights to the bank's assets and influence over the bank's governing bodies. The key principle is that profits are distributed proportionally on the basis of ownership share and the bank's other capital
- In a limited company, losses hit shareholders' equity directly. In a savings bank, losses are first absorbed by the primary capital and the equalization reserve before hitting the equity certificate capital



## **GOALS IN OUR STRATEGIC PLAN «MØRE 2022» FOR THE PERIOD 2018-2022**

- CET1 > 14.8 %
- Cost/Income < 40 %
- ROE > 11 %
- Low level of losses
- Healthy financial structure

*We achieve our goals.*



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