



# Sparebanken Møre - the Group

Presentation

3<sup>rd</sup>. quarter 2014

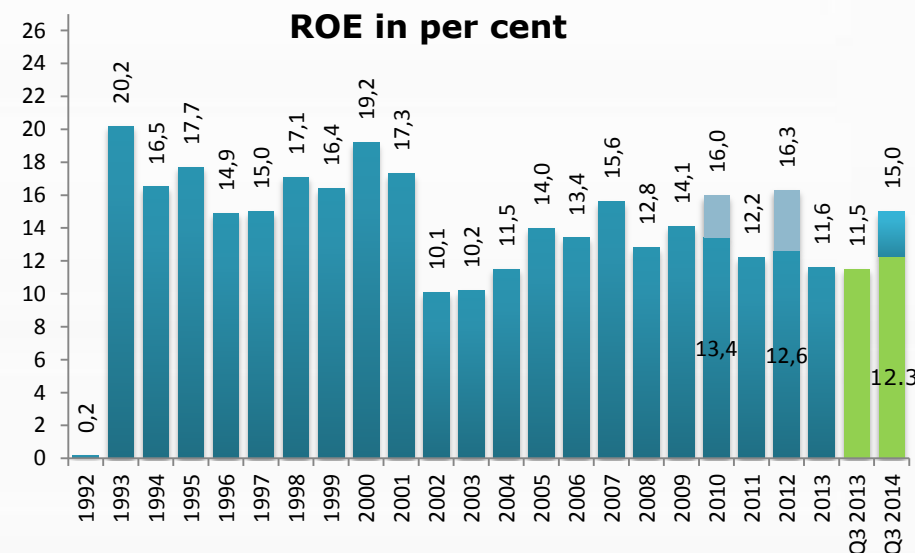
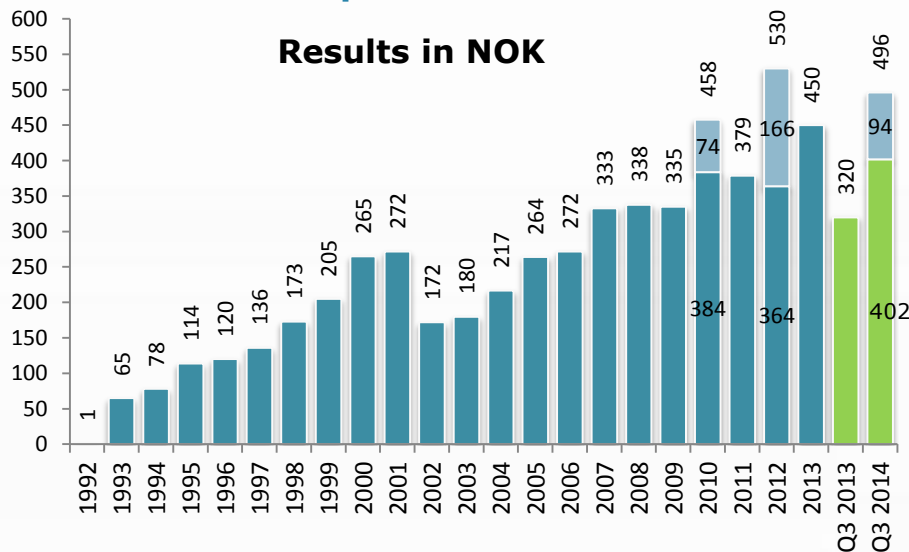
# Agenda

- Summary
- Introduction
- Deposits and Loans
- Funding and Hedging
- Results
- Equity and ECs
- Future prospects
- Macroeconomic overview





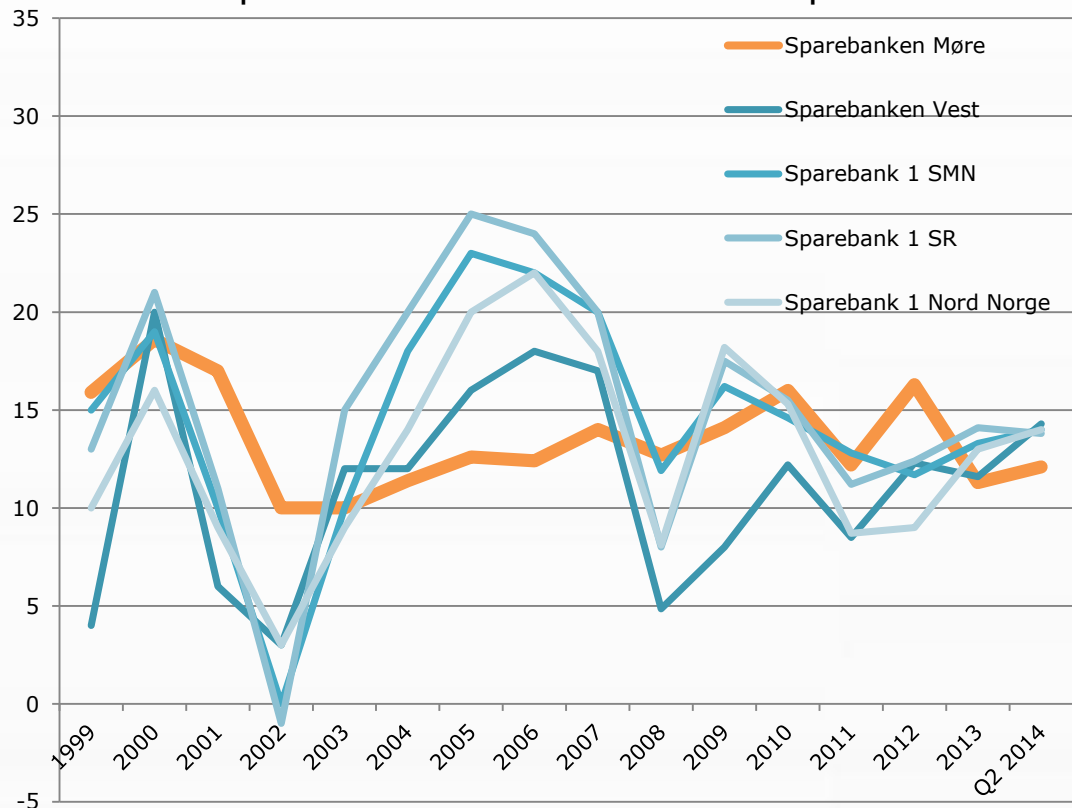
# Historical performance – in NOK and ROE



- Favourable operating environment, a strong county in a strong Norwegian economy
- Maintained high level of net interest income
- Strong cost-efficiency
- Low level of loan losses and low volume of loans in default
- Total assets about NOK 55,4 billion by quarter end
- Lower margins in the funding market but still strong competition in the deposits market
- Core Tier 1 Capital 12.35 % by quarter end
- Sparebanken Møre was one of the 186 banks that in Q1 signed a contract to sell their stakes in Nets Holding. The transaction was finally closed July 9<sup>th</sup>, and the effect is included in the Group's ordinary result in Q3 – gross effect NOK 94 million
- One off effects on results also in 2010 and 2012

# High and stable return – based on our business model

Reported ROE – historical development

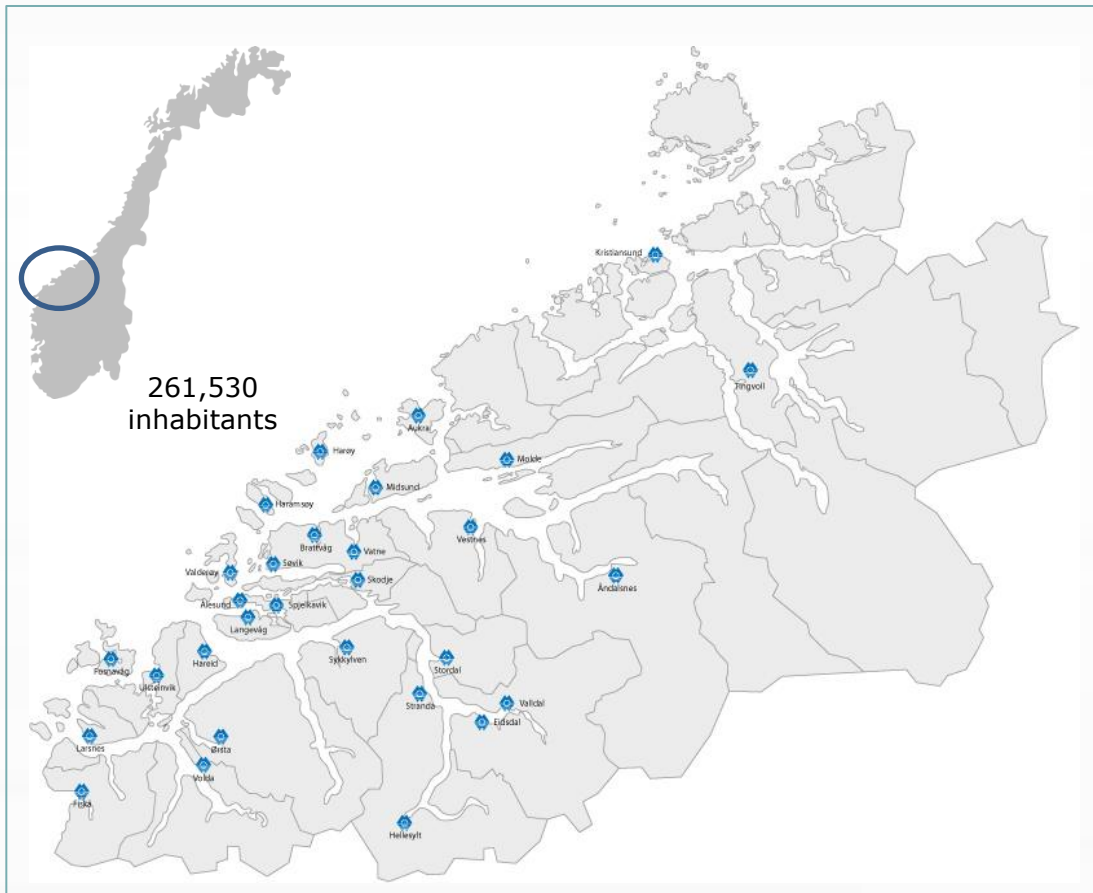


- Less volatile key figures for Sparebanken Møre compared with peers
- Consequences of policy decisions
  - Contract banking and a clean balance
  - Core banking focusing on traditional banking services
- Also compared with peers; our results are achieved with a high level of capital



# *Introduction to the bank and the market*

# Introduction to Sparebanken Møre



- Independent savings bank
- Head office in Ålesund
- 30 branches in Møre og Romsdal county
- NOK 55.4 billion in total assets, about 170 000 customers
- 386 man years

- Established in 1843
- Listed on the Oslo Stock Exchange since 1989
- No. 1 bank in Møre og Romsdal

# Full service bank in Møre og Romsdal



## SPAREBANKEN MØRE

### **Key business areas**

Corporate  
Market

Retail  
Market

Capital  
Market

Adm/  
support

### **Fully owned companies**

#### Møre Boligkreditt AS

The company has a license to operate as a mortgage company and issue covered bonds

#### Møre Eiendomsmegling AS

Real estate brokerage towards retail and corporate customers

### **Core values**

#### Enthusiastic

"Maintain position as no. 1 bank in Møre og Romsdal"

#### Local

"Local decision making, independent, and present"

#### Solid

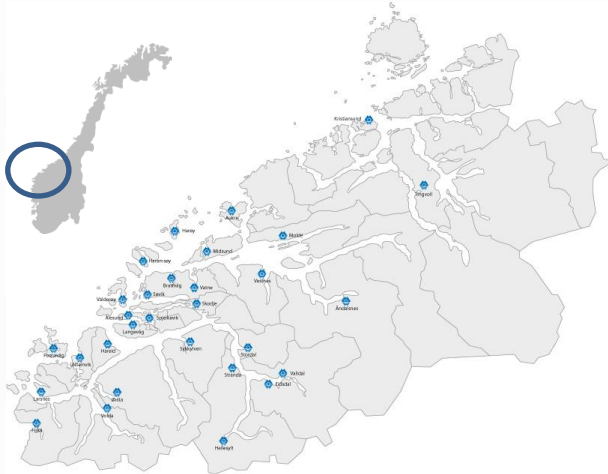
"High competence, financially solid and safe"

## Sparebanken Møre – a brief overview

- Sparebanken Møre is the 7th largest Norwegian bank – the bank serves customers from the county of Møre og Romsdal
- The population of Møre og Romsdal is just above 260 000, and the population in the municipalities where the bank is located is 200 000
- The bank serves about 170 000 customers, whereof
  - ✓ 160 500 customers in the retail market
  - ✓ 9 500 customers in the corporate market
- The activity is based on traditional banking services
  - ✓ Loans to the retail market: 66.4 %
  - ✓ Deposits from the retail market: 58.8 %
- Sparebanken Møre is a fully fledged foreign exchange bank
- Sparebanken Møre is rated A3 (negative) by Moody`s
- Møre Boligkreditt AS` (100 % owned covered bonds company) issues are rated Aaa by Moody`s



# Sparebanken Møre's market area



## Møre og Romsdal county



- 261,530 inhabitants
- The 3<sup>rd</sup> largest GDP per employee among 19 counties in Norway
- Norway's 3<sup>rd</sup> largest export county
- Diversified business structure
- Sparebanken Møre with 30% market share

## Diversified business structure in the region

- Fisheries/seafood
- Marine construction
- Agricultural
- Offshore services
- Oil & gas
- Aluminum
- Tourism
- Furniture

## Selected companies in Møre og Romsdal



# Møre og Romsdal – Diversified industries

## Oil and offshore



- Norwegian maritime areas are rich in natural resources, and play a very important role in commercial activities in Møre og Romsdal
- The petroleum sector is responsible for 1/4 of the total investments in Norway
- Nyhamna in Møre og Romsdal receives gas from The Ormen Lange Oilfield, and delivers from there through another pipeline to Easington UK

## Maritime industry



- A large part of Norway's strength in the field of advanced marine operations is concentrated within an hours drive from the town of Ålesund.
- The region is home to 14 shipyards, and is one of very few complete maritime clusters in the world.
- Over 75 % of the worlds large, hi-tech offshore vessels are designed here
- 40% of the world's most advanced offshore fleet is controlled by 19 ship owning companies in the region

## Fisheries and seafood



- The fishing industry is the second largest export sector in Norway after oil and gas. The value of Norwegian seafood exports totals record high NOK 60 billion in 2013 – and even higher this year NOK 32.7 billion by half year end (+20 %)
- Møre og Romsdal is by far the largest food exporting Norwegian county, responsible for 1/3 of the nations total food export
- In addition to fish and fish products the food production and exports also include agricultural products (fruit and berries) and other foodstuff industry (pizza, cured ham, salami, etc)

## Tourism



- Trollstigen Mountain Road is one of Norway's most dramatic and most visited attractions
- The UNESCO-protected Geirangerfjord will be visited by more than 220 cruise vessels in 2014
- The city of Ålesund is known for its architecture in Art Nouveau style, its surrounding fjords and the high peaks of the Sunnmøre Alps

# Summary

## Norway

- The Norwegian mainland economy has grown since late 2009
- Large government budget surplus, record high petroleum investments and strong household sector
- Ability and willingness to move monetary and financial policy in more expansive direction if needed
- Well managed petroleum wealth, value of government pension fund of more than NOK 5 500 billion
- Good labour market performance with low unemployment and high participation

## Møre og Romsdal

- Population of just above 260,000
- Dominant industrial and commercial sectors are fisheries, tourism, maritime- and oil industry
- Responsible for approximately 1/3 of Norway's total export of food, mainly fish and fishery products
- Low unemployment, 2.1%, well below national average of 2.7%
- Below average national real estate prices and above average disposable income levels

## Sparebanken Møre

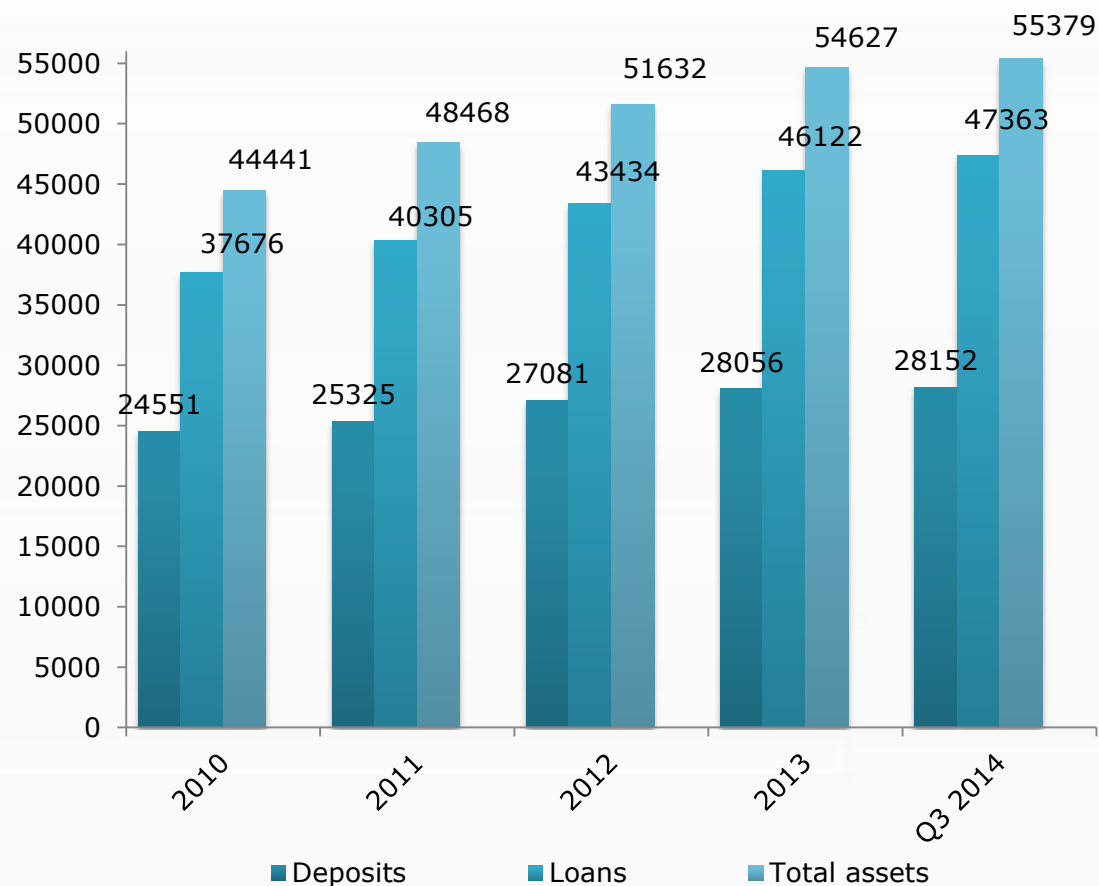
- Seventh largest savings bank in Norway, solid financial performance with total assets of NOK 55.4 billion
- Market leader in main market, the county of Møre og Romsdal
- 66% of lending to retail customers, of which more than 95 % are mortgages
- Strong capitalization reflected by Core Capital of 14.65% and Core Tier 1 of 12.35%
- The Bank is rated A3 (negative outlook) by Moody's



## *Deposits and loans*

# Moderate growth

NOK mill.



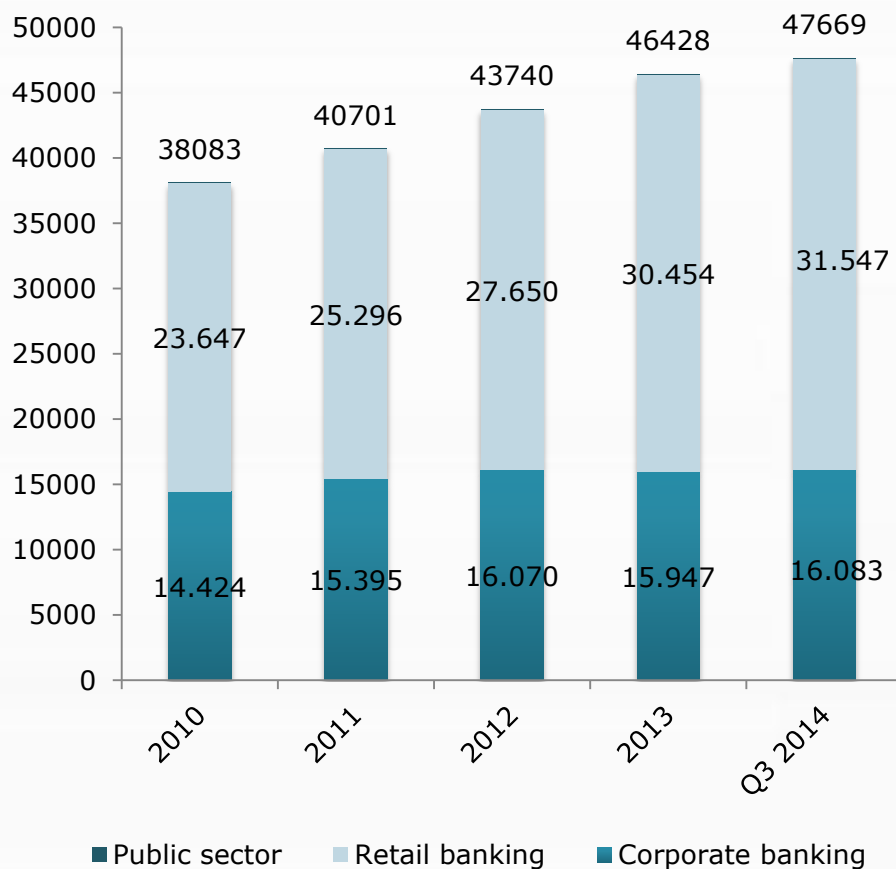
## Growth during the last 12 months

- Total assets 4.1 %
- Loans (net) 4.6 %
- Deposits 3.1 %



# Breakdown of gross lending

NOK mill.



## Annual net lending growth

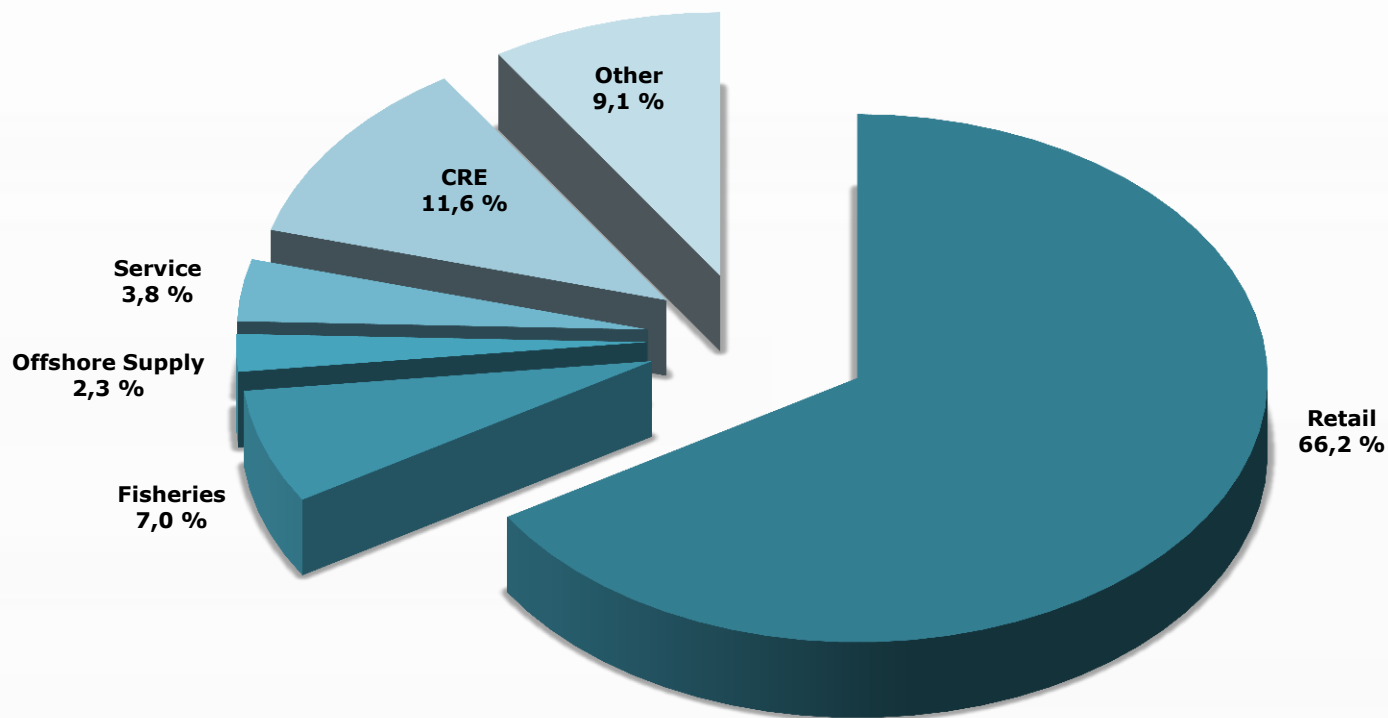
2010:	5.1 %
2011:	7.0 %
2012:	7.8 %
2013:	6.2 %
Q3 14:	4.6 %

## Lending growth last 12 months

Gross, retail banking	6.2 %
Gross, corporate	1.7 %
Gross, public sector	-



# Loans by sector

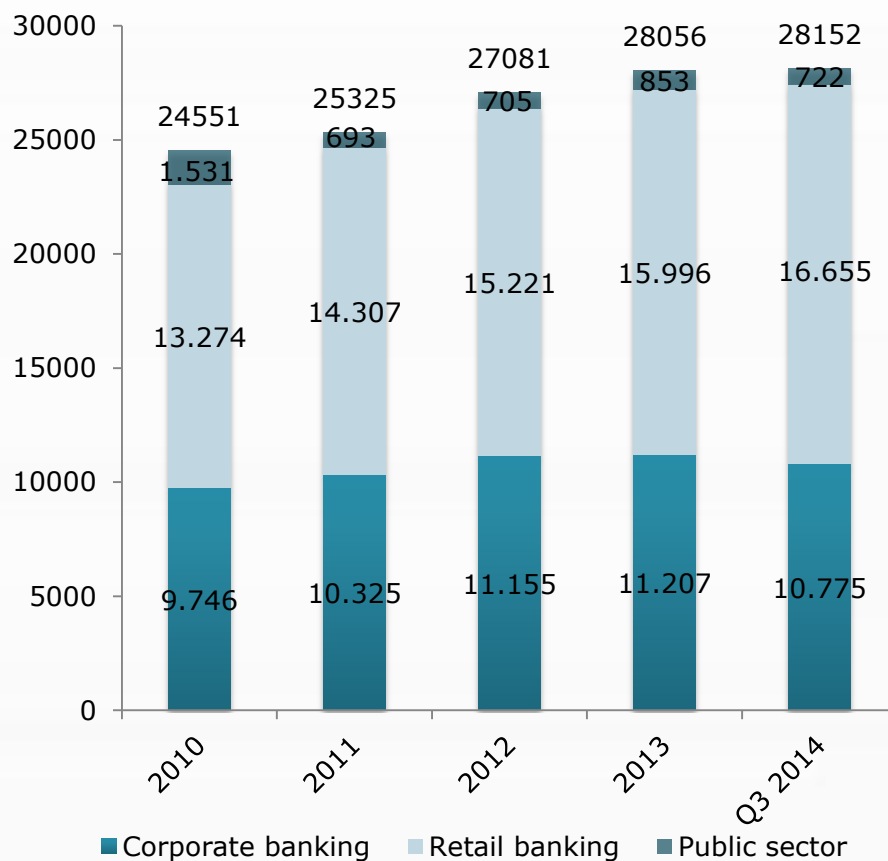


Other 9.1%					
Other industry	0.7	Financial services	1.3	Agriculture	1.0
Building/construction	1.4	Fishing Industry	0.9	Furniture	0.1
Retail/wholesale trade	1.3	Ship Yards	1.8	Other	0.6



# Breakdown of deposits

NOK mill.



## Annual deposit growth

2010:	12.7 %
2011:	3.2 %
2012:	6.9 %
2013:	3.6 %
Q3 14:	3.1%

## Deposit growth last 12 months

Retail banking	5.1 %
Corporate banking	0.2 %
Public sector	2.0 %

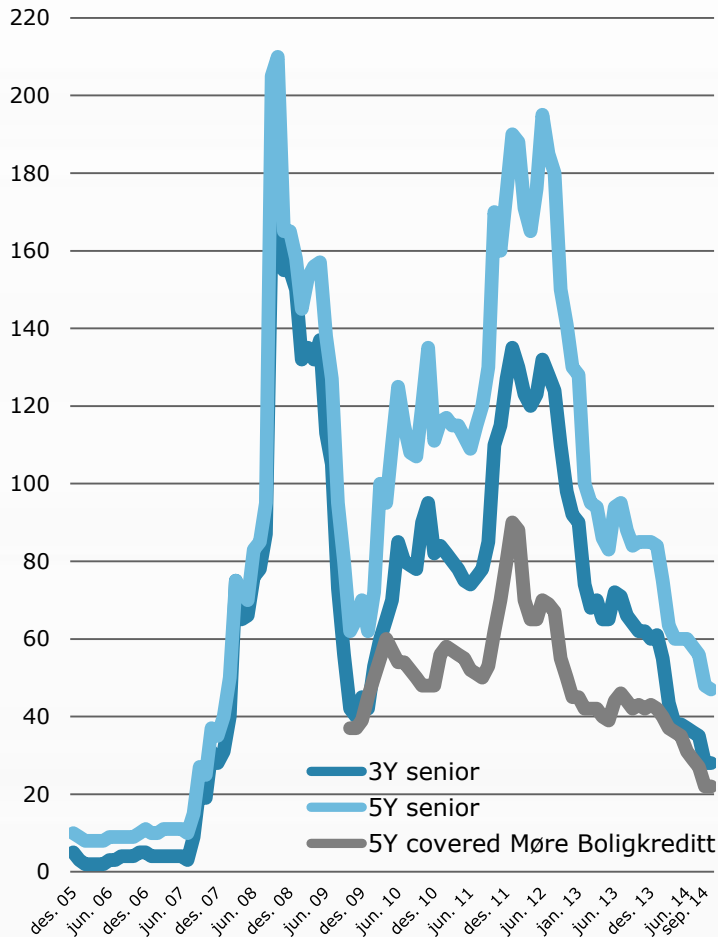




# *Funding and hedging*

# Good access to the market

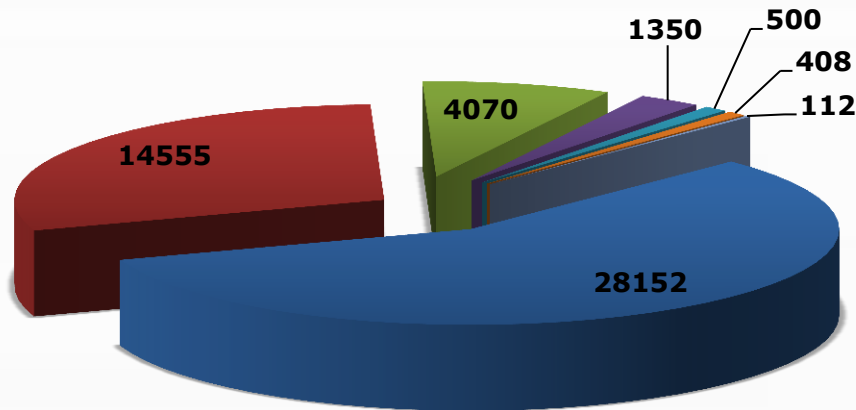
## Margins



- Since the beginning of 2012 we have mainly seen funding margins been reduced. By the end of Q3 margins in the long-term bond market are at the lowest we have seen since January 2008
- Covered Bonds issued by Møre Boligkreditt AS has replaced senior bonds as the Group`s main source of long-term market financing and now account for about 78 % of long term market loans
- The refinancing of existing loans and financing of new growth will adapt regulatory requirements as LCR and L1 (including our targets related to transfer of mortgages to Møre Boligkreditt AS), and bail-in rules
- Sparebanken Møre will therefore inter alia maintain a level of bail in able capital at least at the level we had at the end of 2013
- 5-year covered bond funding is at quarter year end at a level of maximum 22 p.p. above NIBOR - senior financing about 0.25 p.p. higher
- Sparebanken Møre is rated A3 (negative) and Covered Bonds issued by Møre Boligkreditt AS are rated Aaa by Moody's. In addition to rating the preliminary LCR rules with effect from September this year has led to differentiated margin pricing depending on size of the issue

# High deposit to loan ratio

- total financing by quarter end



- Deposits
- Senior Bonds
- Subordinated Loans
- Other
- Covered Bonds
- CDs
- Long Term FX

- Deposits from customers are the Group`s most important source of funding and we maintain a high deposit to loan ratio (59.4 % in the Group). Sparebanken Møre experiences the market access as very good
  - ✓ In the first half of 2014 maturity of senior bonds was replaced with two new senior issues in the Norwegian market. The Bank has also established a EUR 50 million long-term loan agreement with Landesbank Baden-Württemberg
  - ✓ Value September 22, we issued new 6 year Covered Bond at a volume of NOK 2.0 billion. The issue was priced at NIBOR + 0.24 p.p to investors. Lead managers were Swedbank and Nordea
- Total market funding ended just above NOK 19.9 billion – approximately 80 per cent with remaining maturity of more than one year (20 – 30 per cent of market funding is renewed annually)
- Senior Bonds: Weighted average maturity of 2.21 years, Covered Bonds with a weighted average maturity of 3.82 years



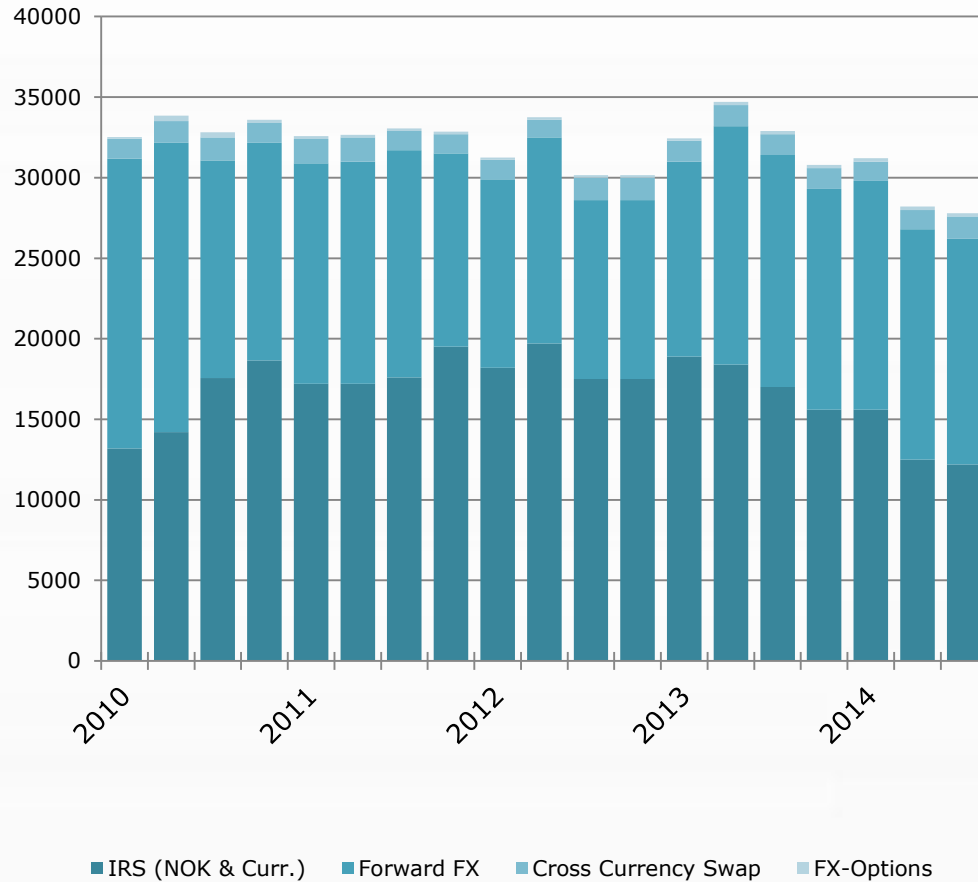
## The quality of the liquidity portfolio is good

- with a high level of LCR

Rating	Market Value	Country	Market Value	Currency	Market Value
AAA	5.600.891	Norway	4.041.884	NOK	5.646.381
AA+	161.662	Sweden	777.048	EUR	767.428
AA	173.729	Germany	334.226		
AA-	124.224	Finland	307.715		
A	101.295	Int`l org.	306.333		
A-	236.652	Luxembourg	212.403		
BBB+	15.354	Denmark	200.382		
		Great Britain	139.376		
		Austria	50.037		
		Netherlands	44.405		
<b>Total</b>	<b>6.413.809</b>	<b>Total</b>	<b>6.413.809</b>	<b>Total</b>	<b>6.413.809</b>

# Off balance activity - quarterly

NOK MILL

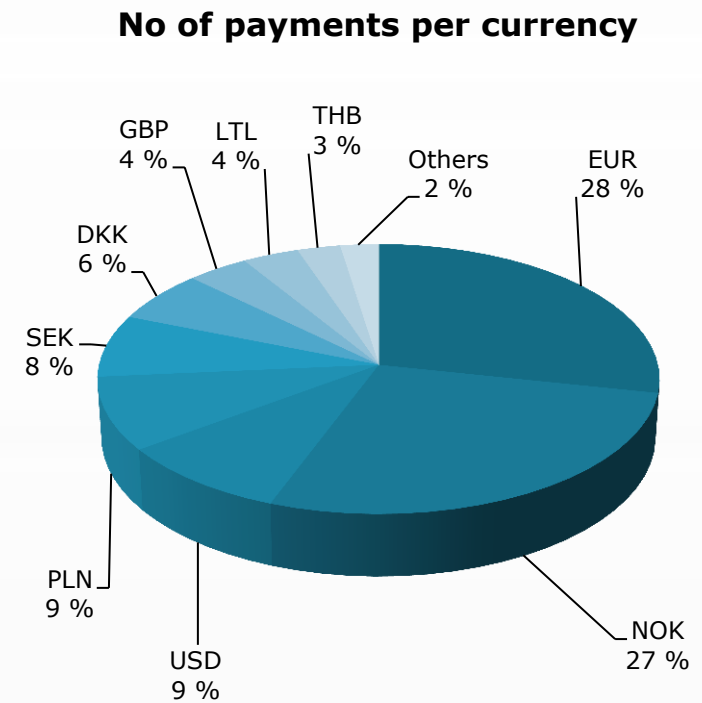
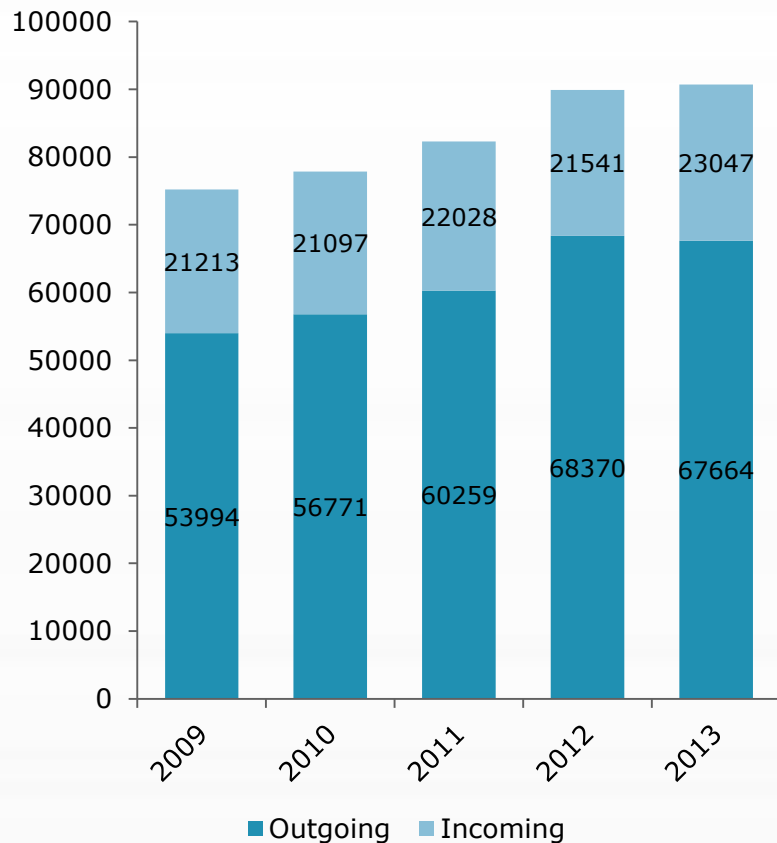


Low risk profile in the interest rate, equity and FX markets

- ✓ Sparebanken Møre has no trading portfolio in these or other similar markets/instruments
- ✓ Client's positions are hedged in the market
- ✓ The bank's positions are hedged



# Number of commercial payments





# *Results*



# Main figures

	30.09. 2014		30.09.2013		Change during last 12 months		
<b>From the Profit and Loss Account</b>	NOK mill.	%	NOK mill.	%	NOK mill.	P. points	%
Net interest income/av. int. margin	811	2.00	761	1.96	50	0.04	6.6
Net return, financial investments	48	0.12	15	0.04	33	0.08	220.0
Nets AS	94	0.23			94	0.23	
Other income	132	0.33	131	0.34	1	-0.01	0.8
Total income	1,085	2.68	907	2.34	178	0.34	19.6
Personnel costs	245	0.60	242	0.62	3	-0.02	1.2
Other costs	183	0.45	200	0.52	-17	-0.07	-8.5
Total ordinary operating costs	428	1.05	442	1.14	-14	-0.09	-3.2
Result before credit losses	657	1.63	465	1.20	192	0.43	41.3
Losses on loans and guarantees	15	0.04	28	0.07	-13	-0.03	-46.4
Result before tax cost	642	1.59	437	1.13	205	0.46	46.9
Tax cost	146	0.36	117	0.30	29	0.06	24.8
<b>Result after tax cost</b>	<b>493</b>	<b>1.23</b>	<b>320</b>	<b>0.83</b>	<b>176</b>	<b>0.40</b>	<b>55.0</b>
Value adjustment – shares available for sale	-8	-0.06	9	0.02	-17	-0.08	-
<b>Total</b>	<b>488</b>	<b>1.17</b>	<b>329</b>	<b>0.85</b>	<b>159</b>	<b>0.32</b>	<b>48.3</b>
<b>From the Balance Sheet</b>							
Total assets	55,379		53,188		2,191		4.1
Net lending	47,363		45,262		2,101		4.6
Deposits	28,152		27,312		840		3.1
Capital	5,296		5,410		-114		-2.1
Core capital ratio		14.65		15.30			-0.65 p.p.
Core Tier 1 Capital ratio		12.35		12.30			0.05 p.p.
Return on equity capital (incl. Nets)		12.3 (15.0)		11.50			
Costs as a percentage of income		39.40		48.70			
Earnings per EC (the Bank in NOK)		25.10		14.50			



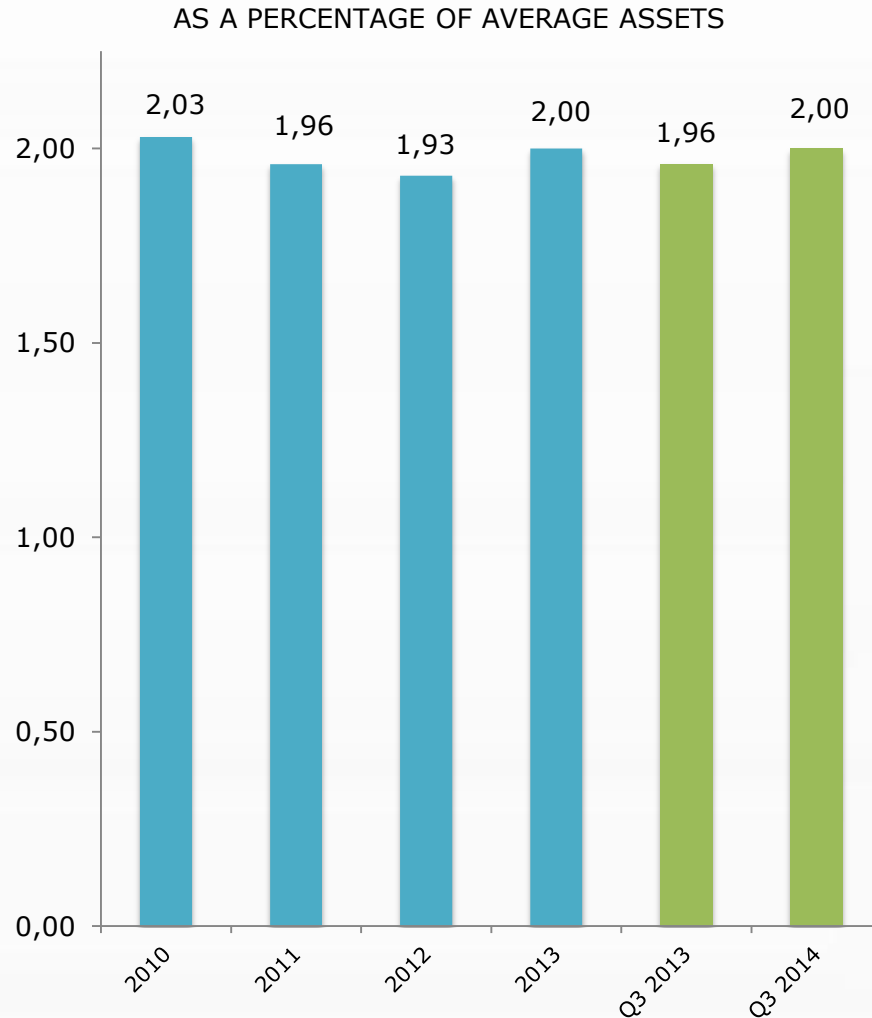


# Results

## Result as a percentage of average assets



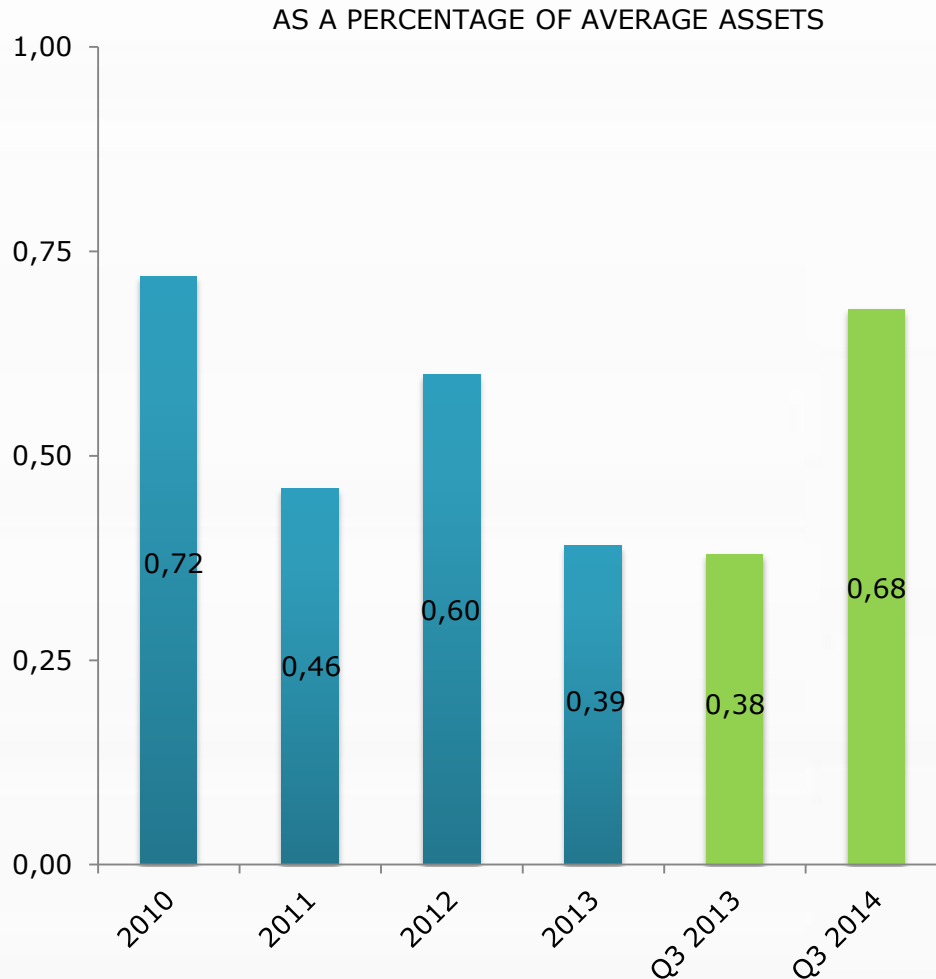
## Higher net interest income



Net interest income is higher than previous year despite:

- ✓ Strong competition on loan and deposits
- ✓ More liquidity on the balance sheet with higher quality
- ✓ Still low interest rate level with low return on free capital
- ✓ Charge for the Norwegian Banks Guarantee Fund

# Other operating income



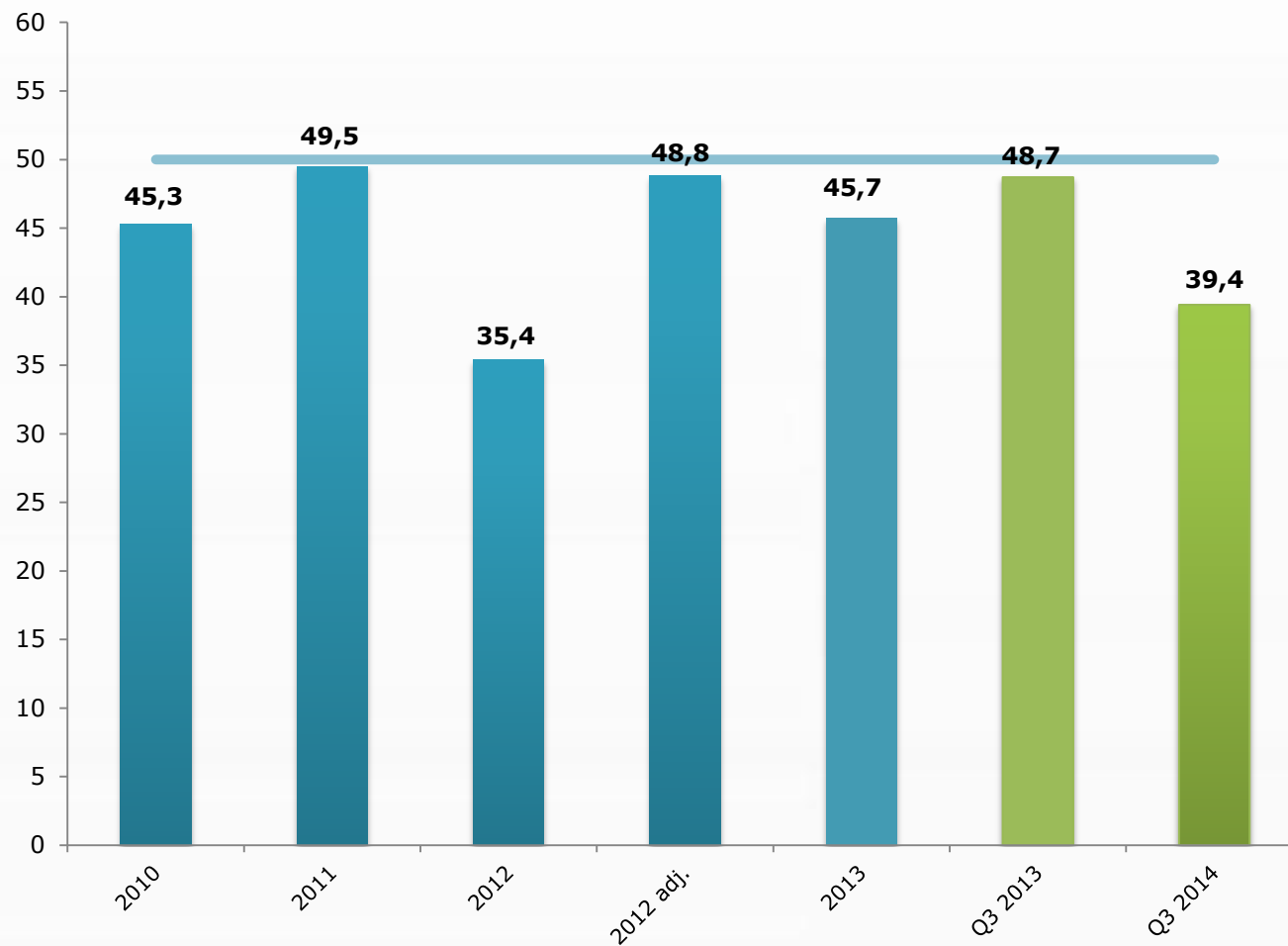
Higher other operating income, compared with 2013:

- Capital gains from the sale of Nets AS
- Mark to market valuation of the liquidity portfolio
- Higher commission income
- Lower dividend and lower income from FX and IRS-business



# Strong development in cost/income

- well below the target



## Losses at a very low level

per. cent of average assets



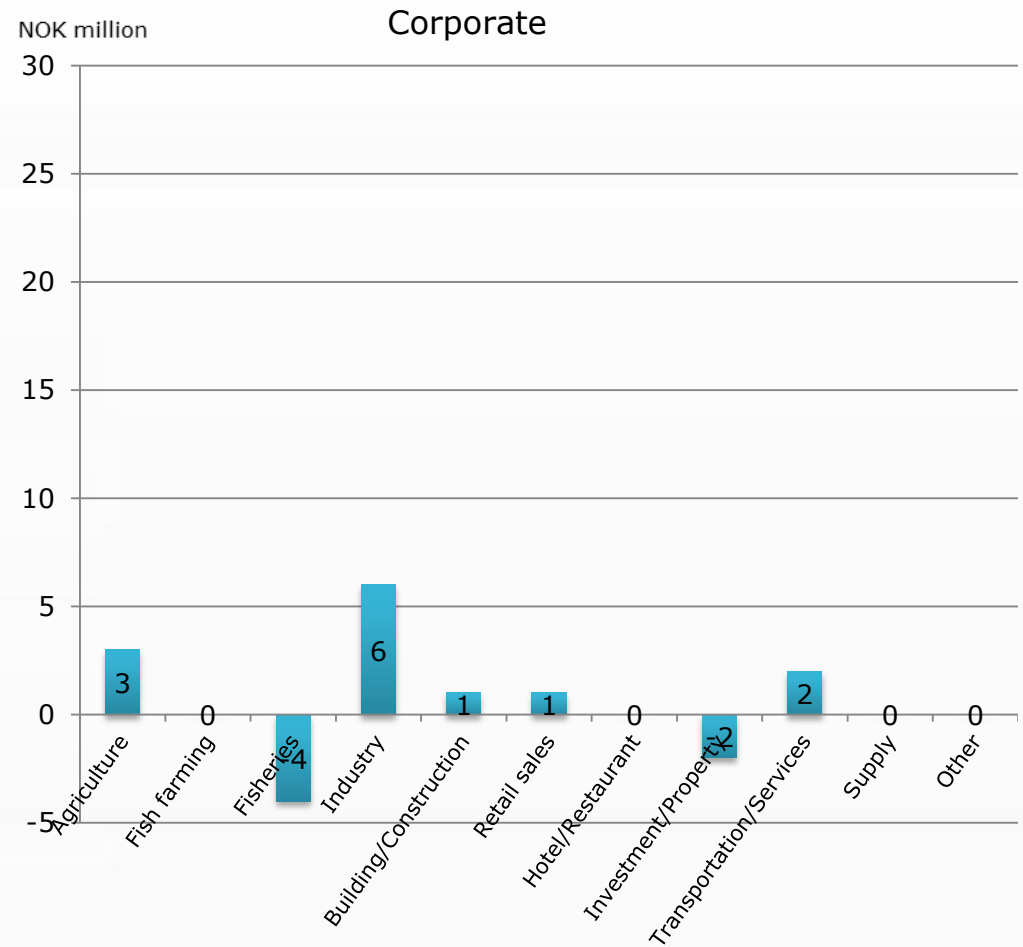
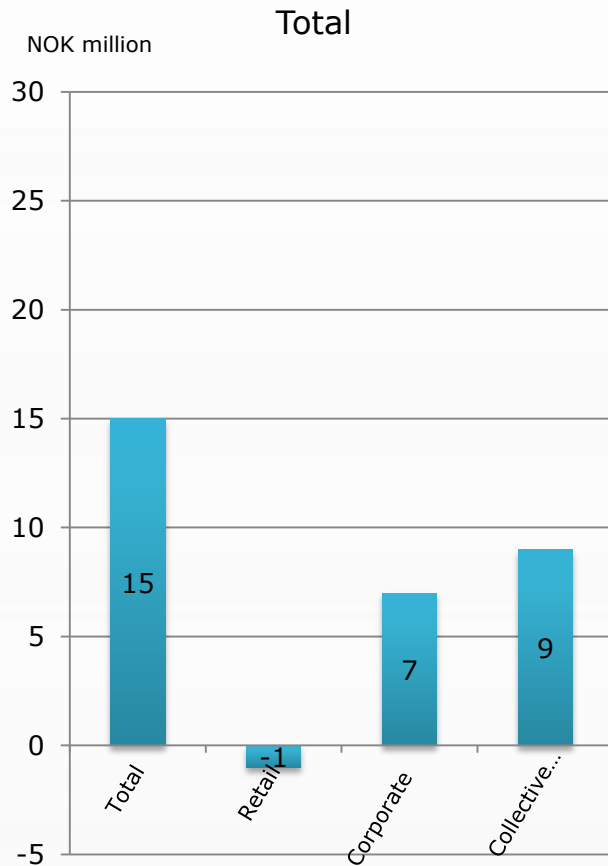
Losses totalled NOK 15 million

- Corporate: NOK 7 million
- Retail NOK -1 million
- Collective impairment NOK 9 million

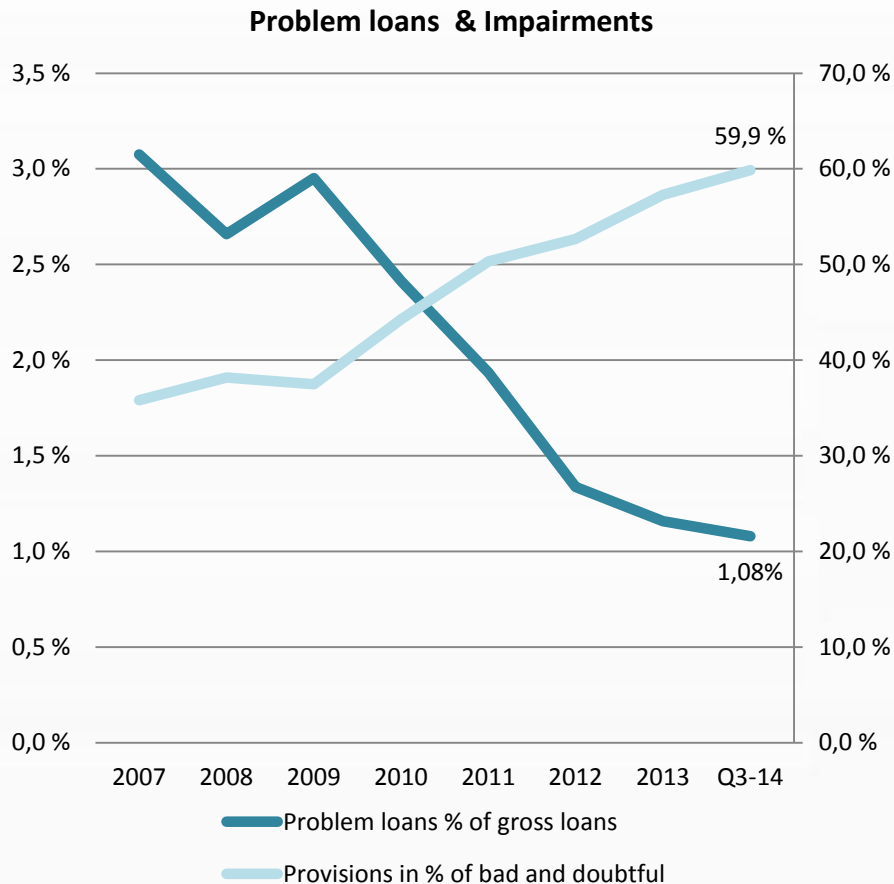
Total impairments amounted to NOK 306 million by 30.09.2014

Results

# Losses - details



# Problem Loans and impairments - continued positive development



- The volume of Problem Loans has declined over the last years
- As a percentage of gross loans this figure ended at 1.08% by the end of Q3 2014
- The Bank`s loan loss reserve coverage ratio shows a similar positive development and ended at 59.9% by quarter end



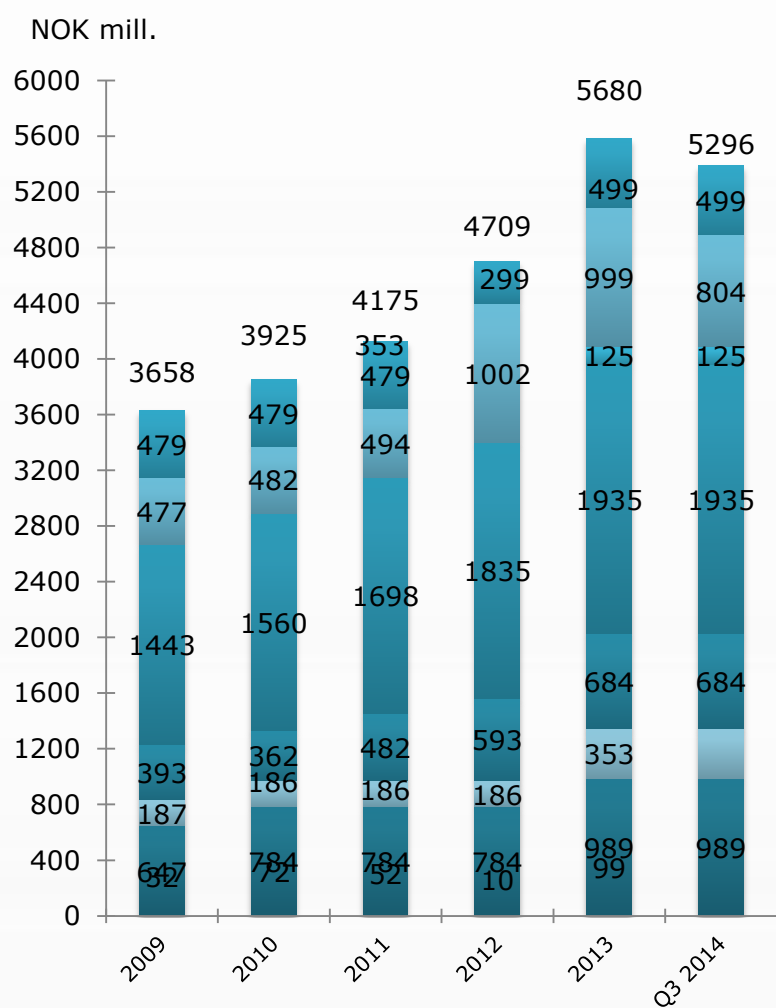
## *Equity and ECs*



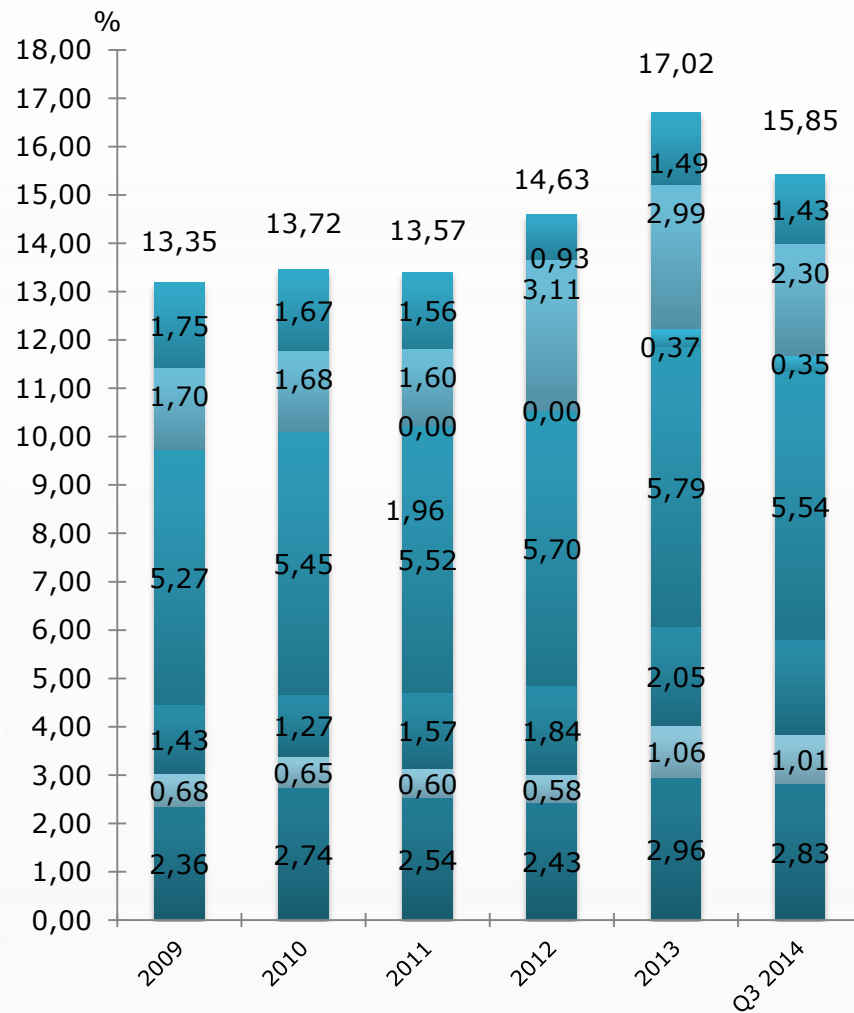


Equity

# Equity and related capital: Strong capital



- ECs
- Savings Bank's Fund
- Supplementary capital
- Premium Fund
- Gift Fund
- Miscellaneous

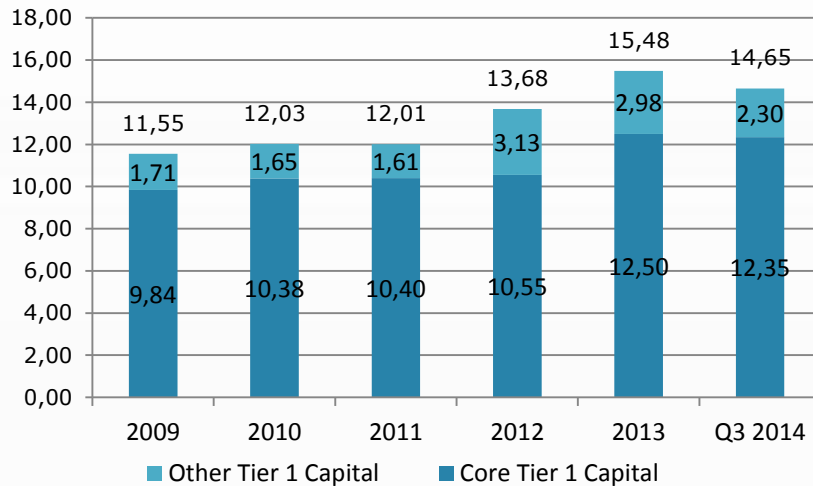


- Dividend Equalisation Fund
- Capital Bonds

Equity

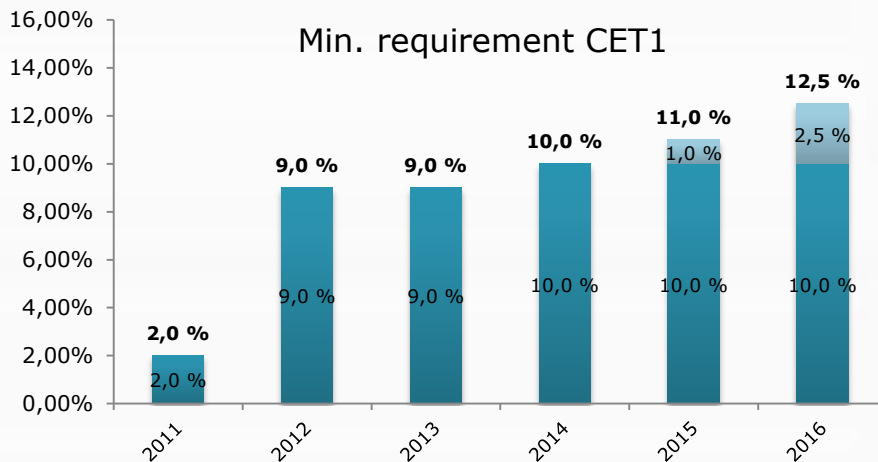
# IRB approval from FSA

Core Capital



- Sparebanken Møre will maintain a strong financial position as the leading bank in the region and will follow the announced schedule related to core capital
- Received approval from the FSA to use IRB foundation approach for corporates
- Capital adequacy ratio is now calculated in accordance with Basel II, standardized approach for the mass market, IRB foundation for corporates
- The bank must until further notice from the FSA utilize the standardized method for the mass market

Min. requirement CET1



## Summing up and outlook

### From the CEO:

- The stability of the macroeconomic factors for Møre og Romsdal will contribute to a low level of losses this year
- Overall lending growth for 2014 is expected to be good and line with our plans, moderate growth in the longer term
- Long-term financing in the Norwegian and international funding market will increasingly be used - the bank has strong financial strength and good credit rating
- Strong cost focus will continue and will contribute to cost ratio being well within the Bank's target for 2014
- The Bank has laid a robust strategy for the years ahead through new business plan "Møre 2018"



## Dividend policy

“Sparebanken Møre’s aim is to achieve financial results which provide a good and stable return on the Bank’s equity. The results shall ensure that the owners of the equity receive a competitive, long-term return in the form of dividends and increase in the value of the equity.

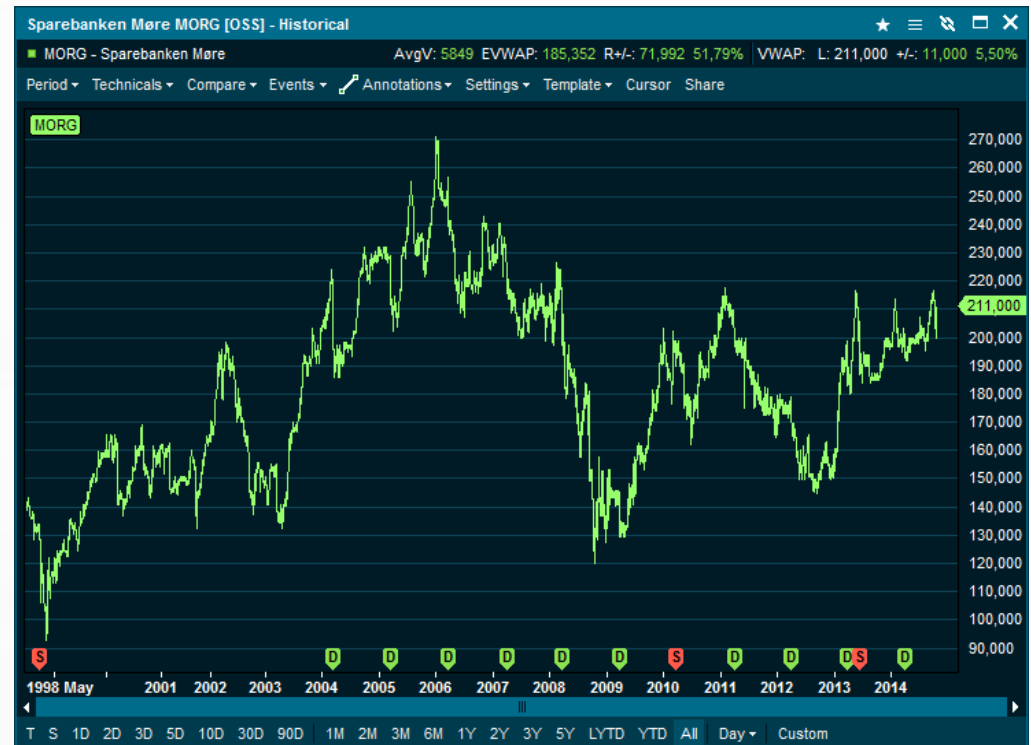
The equity owners’ share of the net result being set aside as dividend funds, will be adapted to the Bank’s equity situation. Sparebanken Møre’s allocation of earnings shall ensure that all equity owners are guaranteed equal treatment.”

Given Sparebanken Møre`s strategic plan and stipulated return on equity, we expect the normalized dividend payout ratio to be in the range 40-50%

## Dividend and EC-price

- The PCCs/ECs of Sparebanken Møre have been listed at Oslo Stock Exchange since 1989
- Total EC capital: NOK 989 million by September 2014

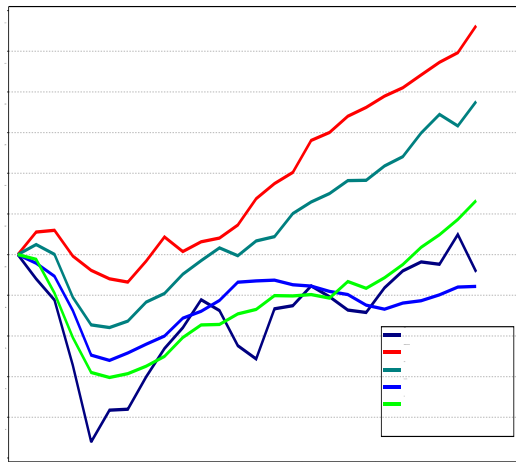
Dividend pr. EC:			
<b>1990</b>	10	<b>2002</b>	15
<b>1991</b>	0	<b>2003</b>	16
<b>1992</b>	0	<b>2004</b>	18
<b>1993</b>	13	<b>2005</b>	20
<b>1994</b>	12	<b>2006</b>	20
<b>1995</b>	13	<b>2007</b>	23
<b>1996</b>	13	<b>2008</b>	20
<b>1997</b>	13	<b>2009</b>	12
<b>1998</b>	15	<b>2010</b>	12
<b>1999</b>	16	<b>2011</b>	8
<b>2000</b>	17	<b>2012</b>	12
<b>2001</b>	17	<b>2013</b>	8





# *Macroeconomic Overview*

# The Norwegian economy remains strong. However, growth will be moderate in 2014-2015



The Norwegian economy is characterised by:

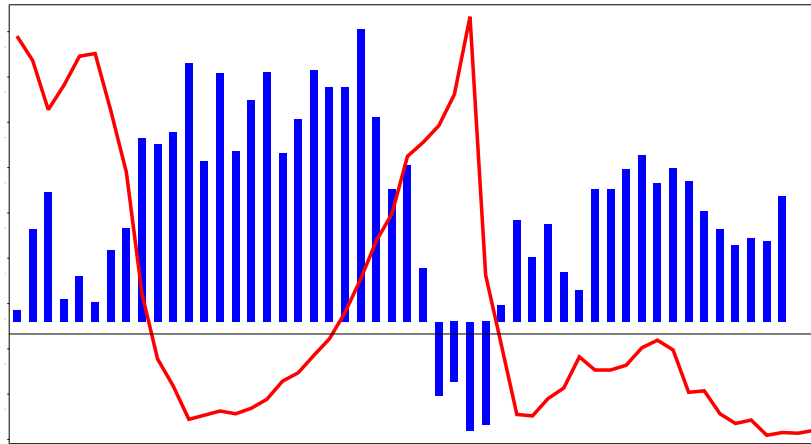
- Low unemployment
- Record high house prices
- Increased private demand
- High activity in the oil sector
- Strong public sector growth
- Low interest rates

However, growth is expected to be moderate in 2015 due to:

- A decline in petroleum investments
- Low growth in Europe
- High costs in the export sectors

We expect a GDP growth in Mainland Norway of 2 per cent both in 2014 and 2015

# Growth has stabilised over the past year

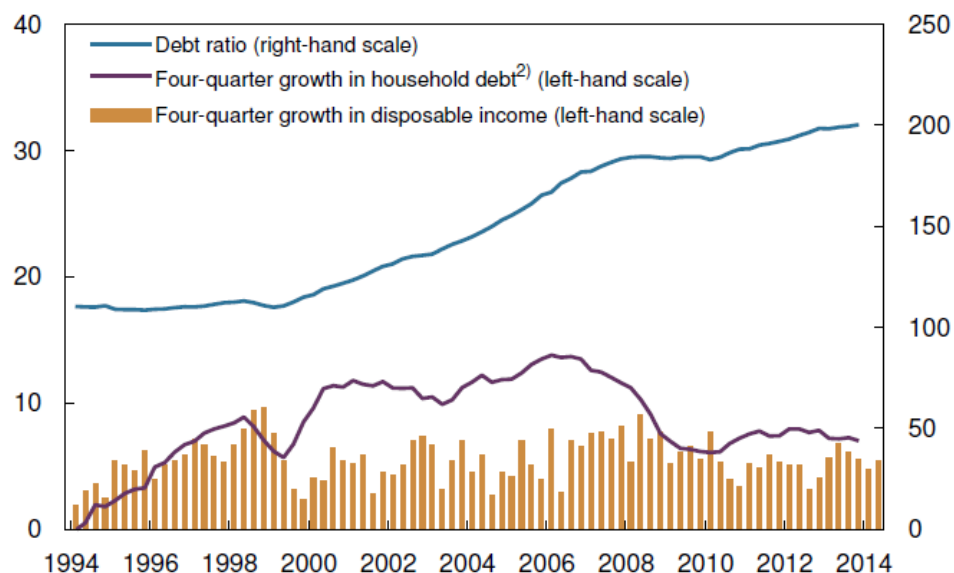






# High household debt is the main domestic risk factor

Chart 3.3 Household debt-to-disposable income ratio.<sup>1)</sup>  
Percent. 1994 Q1 – 2014 Q2



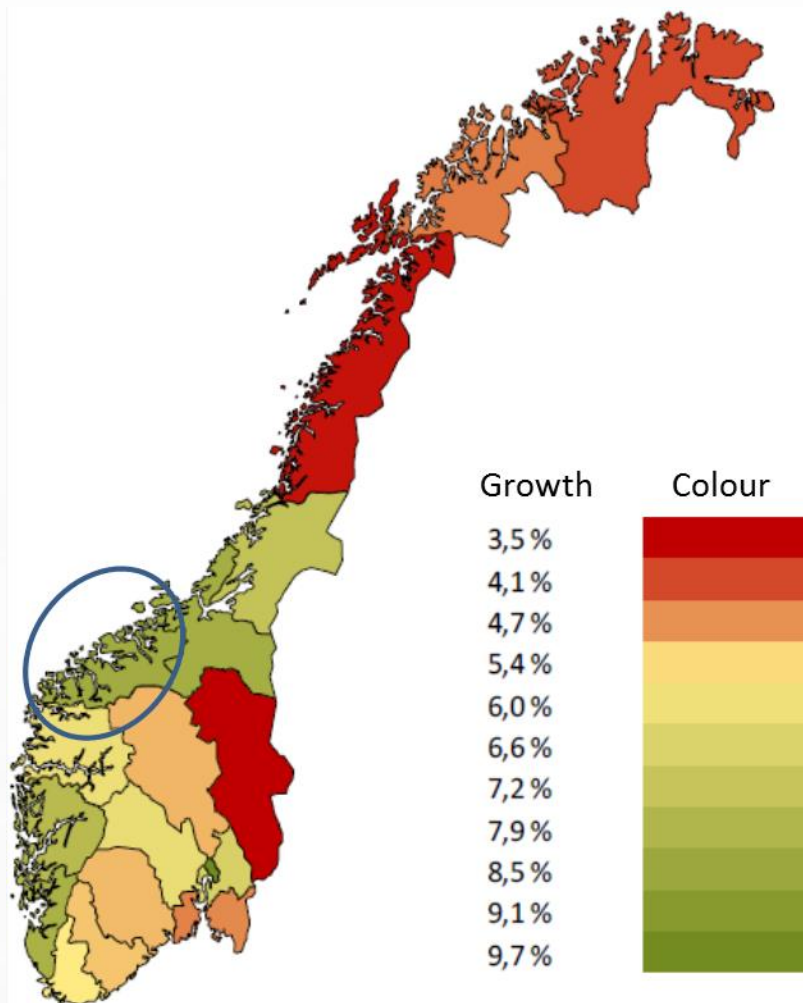
1) Loan debt as a percentage of disposable income, adjusted for estimated reinvested dividend income for 2000 – 2005 and redemption/reduction of equity capital for 2006 Q1 – 2012 Q3.

2) Change in stocks at the end of the quarter. Last observation on 2013 Q4.

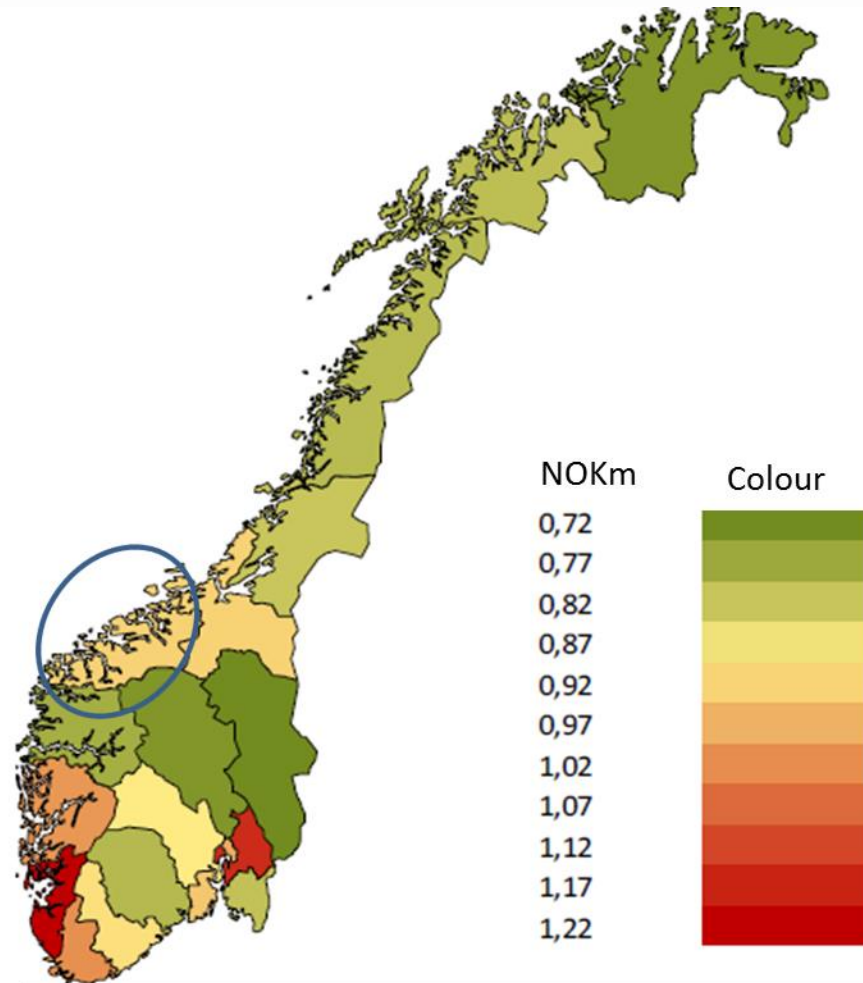
Sources: Statistics Norway and Norges Bank

# High credit growth in the county, but low debt burden\*

Annual credit growth 2012-2013



Debt burden households 2013 (NOK million)



\*Source: Sparebank1 Markets/Statistics Norway



## Key characteristics

### Home ownership

- Among the highest in the world – around 80% of households own their own home
- Very limited buy-to-let market

### FSA lending guidelines

- LTV should normally not exceed 85%
- Interest-only loans should normally not be granted if LTV exceeds 70%
- Debt-service ability should be stressed for a 5% increase in customer interest rate

### Personal Liability

- Borrowers are personally liable for their debt – also after foreclosure / forced sale
- Transparent and reliable information about borrowers available to the lenders

### Mortgage lending

- More than 95% of all mortgage lending is granted by banks / mortgage companies
- Approximately 90% of residential mortgages are floating rate loans
- The interest rate on floating rate mortgages can be increased with six week notice
- Typical residential mortgage maturity is 25-30 years

### Social benefits

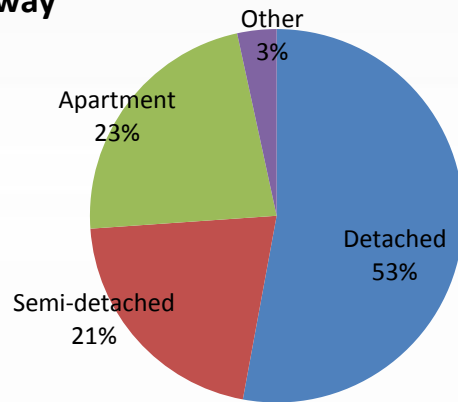
- According to OECD, Norway have the best unemployment benefits
- On average about 60% of previous salary paid benefit for 104 weeks minimum

### Tax incentives

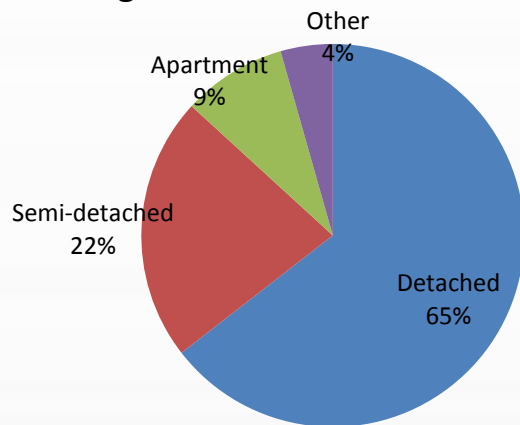
- All interest expenses are tax deductible at capital gains tax rate (27%)
- Property are given preferential treatment when calculating wealth tax
- Capital gain on dwellings is tax free under certain circumstances

# Differences in housing types and prices

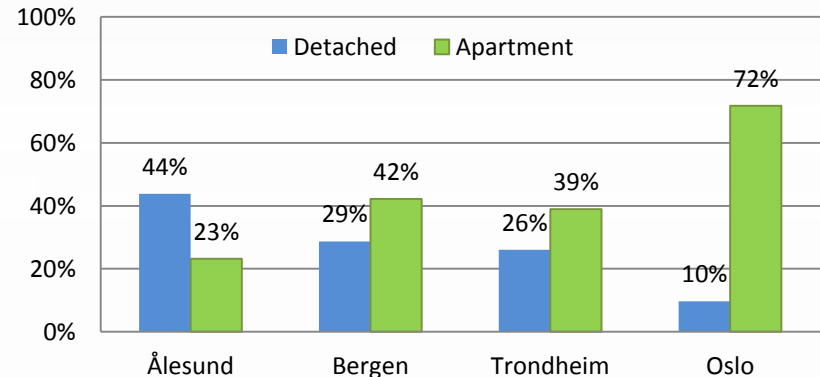
**Housing-type distribution  
- Norway**



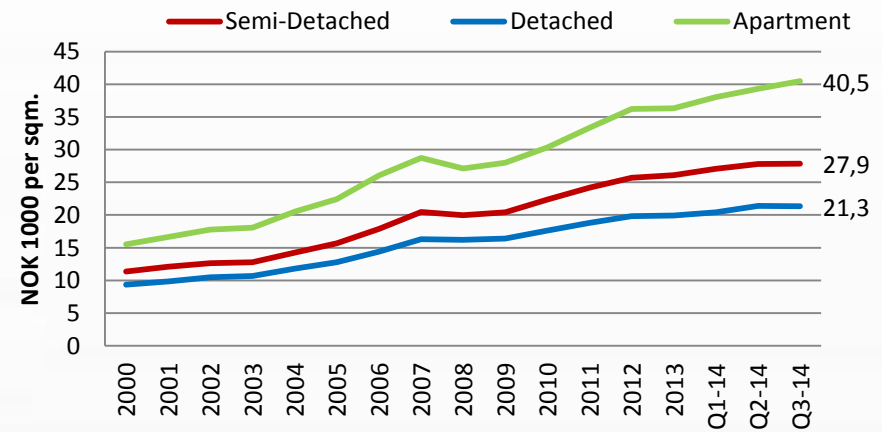
**Housing-type distribution  
- Møre og Romsdal**



**Housing type distribution  
- Detached vs apartment**



**Price development / Housing types**



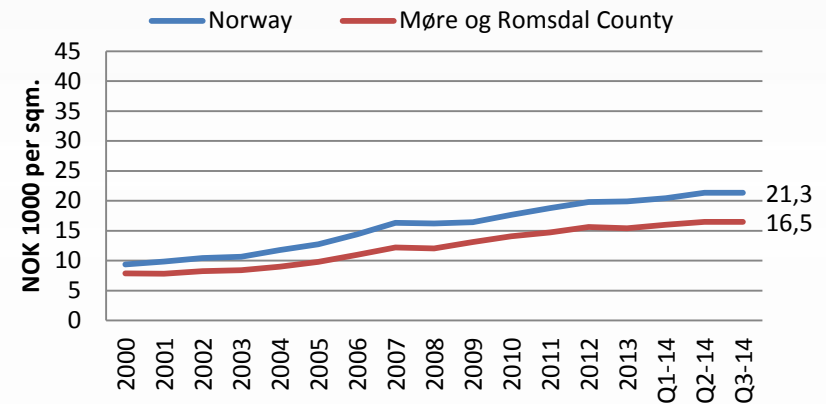
Price growth on apartments in Norway have been considerably stronger than other housing-types. In Møre og Romsdal county detached and semi-detached housing is more common.

# Differences in development of housing prices

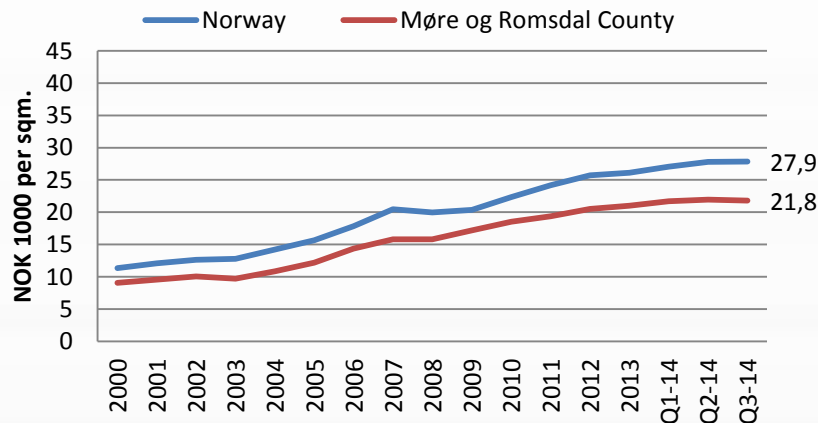
Year-over-year average growth in Norwegian housing prices by end of September 2014 is 3.6 per cent.

The average national price growth in Norway is stronger than the average price growth in the county of Møre og Romsdal.

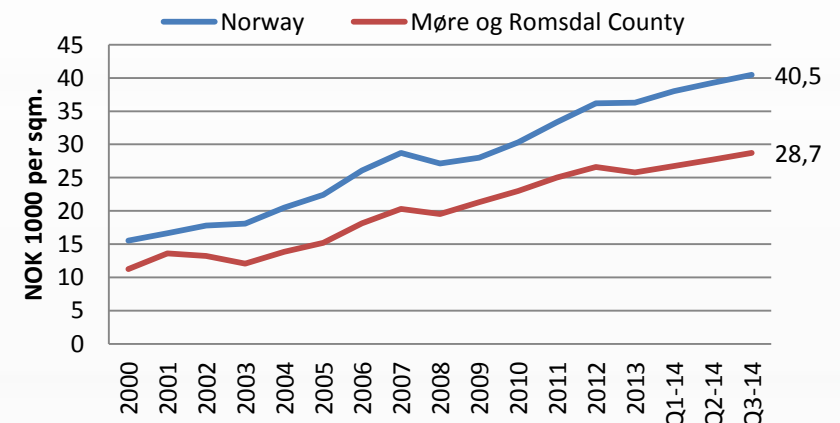
## Detached



## Semi-detached



## Apartment



If house prices remain unchanged at present levels, the average national increase in house prices in 2014 will be 2.1 per cent.

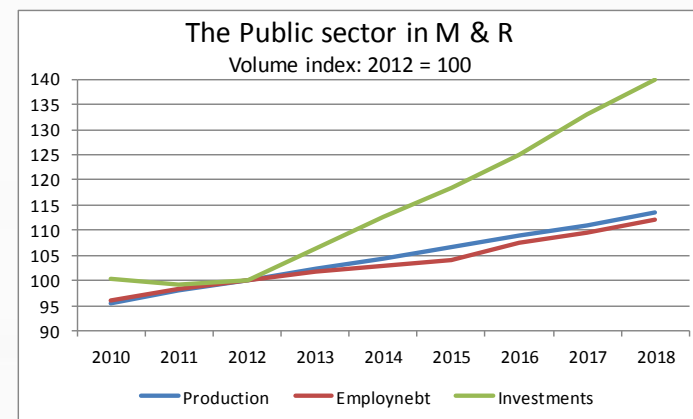
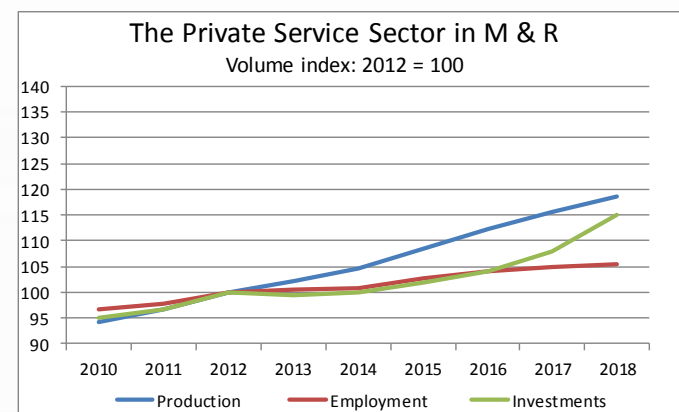
# The business sector in Møre og Romsdal is doing well

The most important drivers of growth and activity in 2014 and forward:

- ▲ Private consumption
- ▲ Public expenditures
- ▲ The construction sector
- ▲ Food production and fish exports
- ▲ The maritime cluster

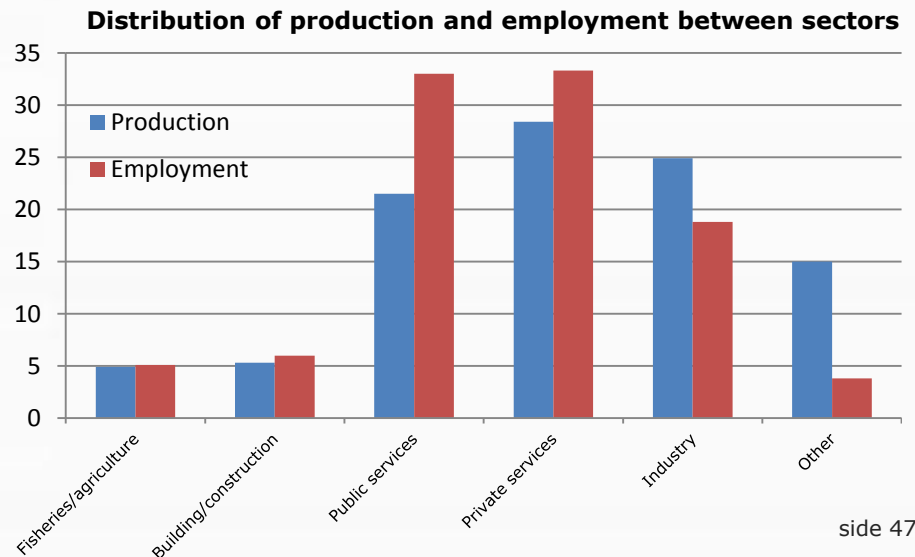
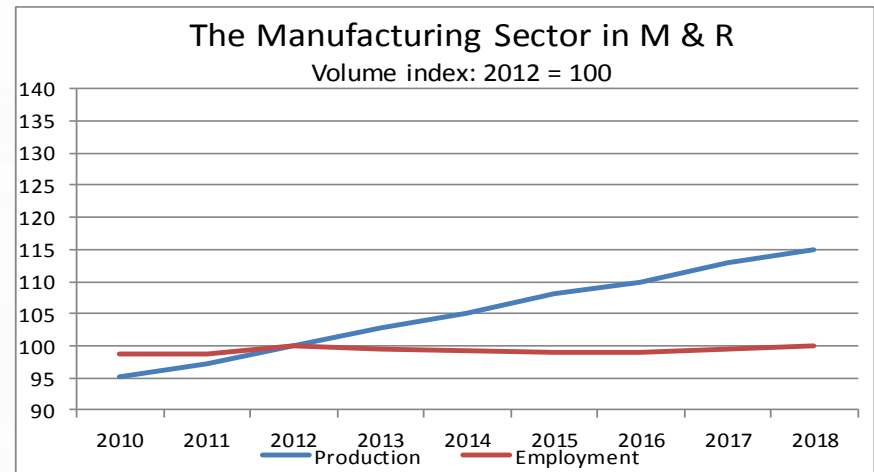
Main reasons for higher output:

- Low interest rates
- Expansionary fiscal policy
- A competitive business sector
- Higher export market growth



# The long term outlook for the manufacturing sector has improved

- The outlook for the manufacturing industry is still positive due to:
  - ✓ The weakening of the NOK
  - ✓ Growth in World trade
- Unemployment in Møre og Romsdal will stabilise around 2 ½ - 2 ¾ per cent during 2015
- Increased demand for labour due to increased production of goods and services and limited productivity growth will keep unemployment low



# Moderate production growth in Møre og Romsdal - growth will vary among the sectors

- Growth in traditional exports
- Higher demand for private services
- Increased activity in the public sector
- High production within hydro electric power shipbuilding and the petroleum sector
- High production in the fishing industry
- Slightly higher unemployment

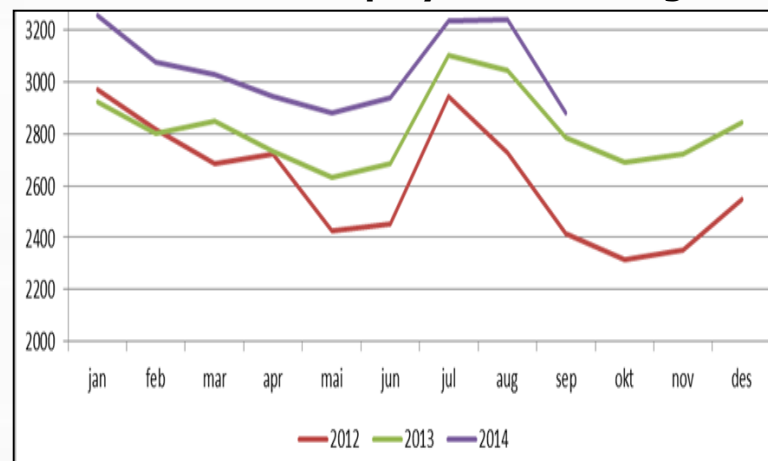
## Most important risk factors:

- International economy
- The oil price
- The Norwegian krone
- Household debt and house prices

**Number of unemployed in Møre og Romsdal (sadj)**



**Actual number of unemployed in Møre og Romsdal**





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