

# Sparebanken Møre - the Group

25 April 2019

**PRESENTATION**

1<sup>ST</sup>. QUARTER 2019

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*



SPAREBANKEN MØRE

**28**

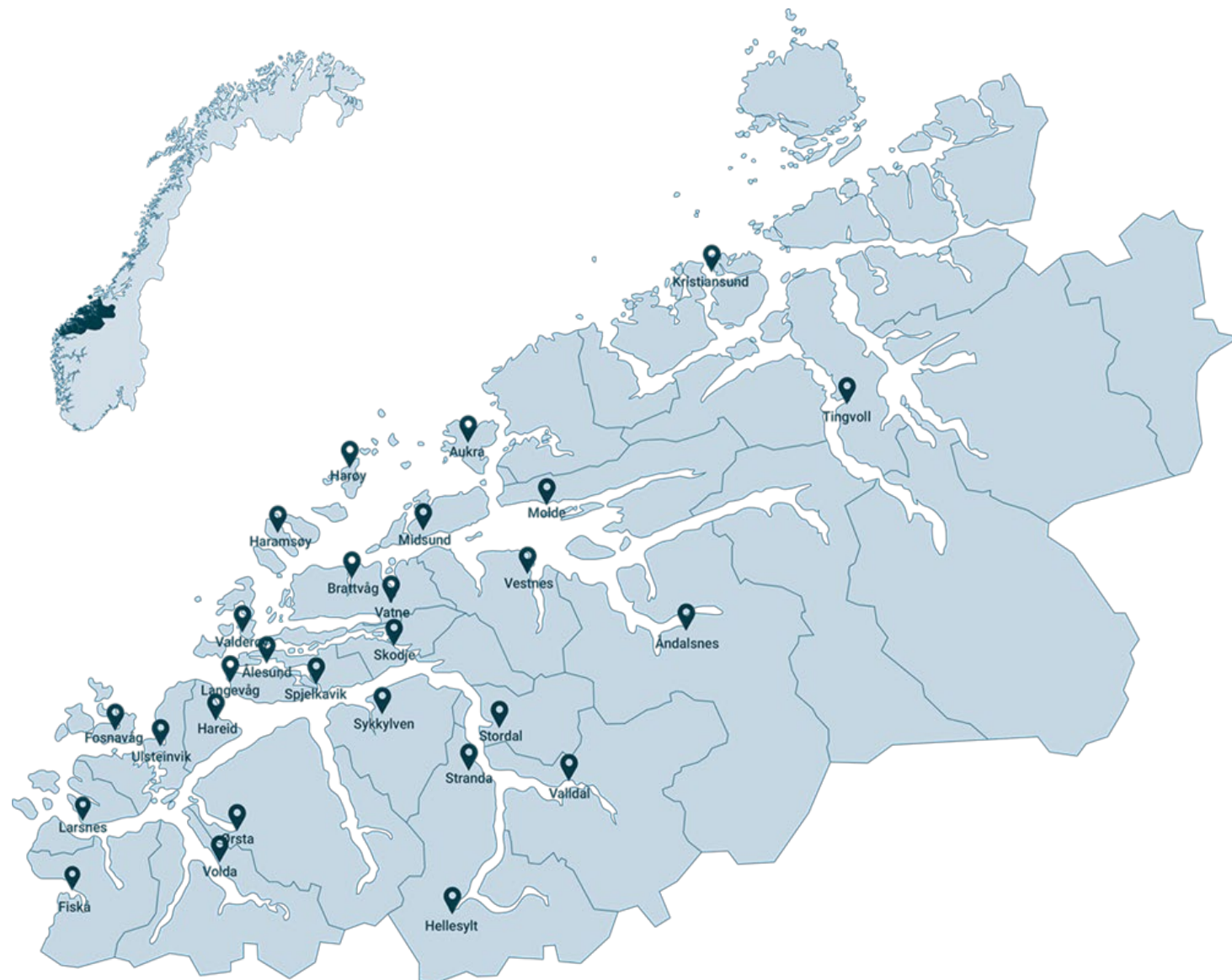
**BRANCH OFFICES IN  
MØRE OG ROMSDAL**

**356**

**MAN YEARS**

**71**

**BILLION IN  
TOTAL ASSETS**



# Customer experience, added value and efficiency

High pace of digital development - exemplified



SPAREBANKEN MØRE

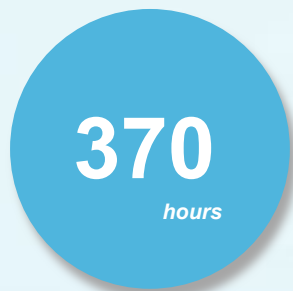
Update Custody Values



Concent-based Loan application



Self Service Passwords



CRM - processes



Self Service Cards



Customer Profitability Model



Free up time for advising



Annual effect

10,210 man hours

# Highlights from Q1 2019

*Positive development in key figures*



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**Loan growth** was 5.2 per cent over the last 12 months. Growth in deposits was 4.6 per cent



**High and stable Net Interest Income:** Growth in NOK compared to 2018



**High efficiency:** Cost/Income ratio at 41.2 per cent by quarter end – down 2.4 p.p. compared to first quarter last year



**Low losses:** Net NOK 13 million in losses on loan and guarantees



**Strong liquidity and solidity:** Deposit to Loan ratio at 57.2 per cent, LCR at 125 and CET1 at 15.9 per cent



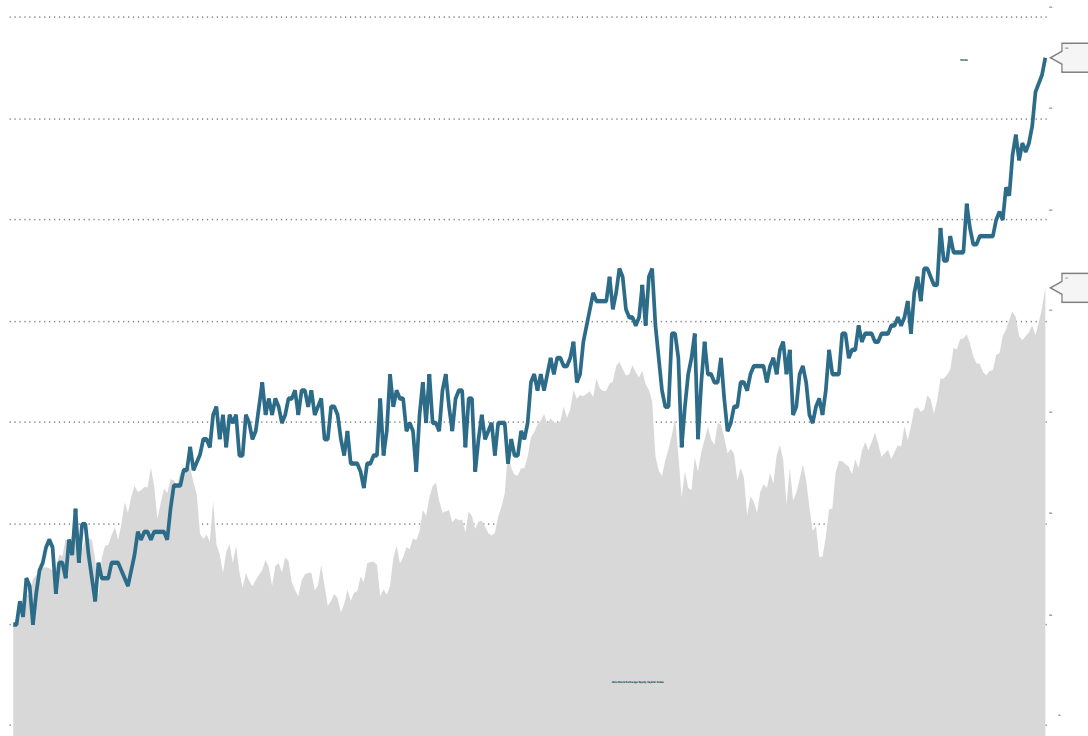
**High return:** Return on Equity ended at 11.0 per cent

# MORG – strong capital and rating

*Strong development at Oslo Stock Exchange*



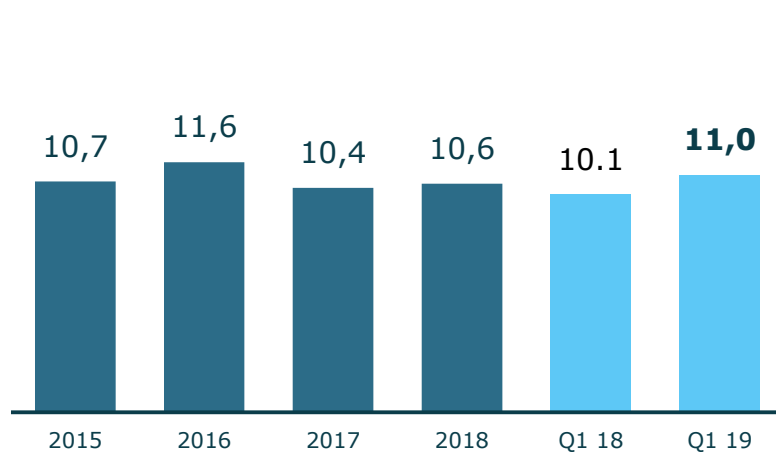
SPAREBANKEN MØRE



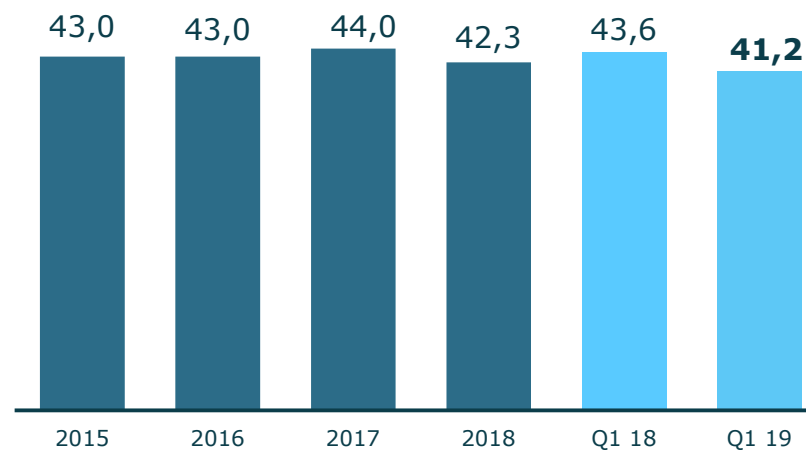
- The PCCs/ECs of Sparebanken Møre (MORG) have been listed at Oslo Stock Exchange since 1989
- With a MORG price of NOK 299 at the end of Q1 2019, the price to book ratio has improved from 0.93 to 1.01 during the first quarter
- The price of MORG rose by almost 13.6 per cent (Total return) during 2018, about 8 p.p. more than the equity certificate index
- The positive price development continued during Q1
- The CET1-ratio ended at 15.9 per cent by quarter end

- December 12 2018, Moody`s confirmed the bank's A2- stable rating. Issuances from Møre Boligkreditt AS are rated Aaa
- In December 2018 the Financial Supervisory Authority decided to reduce the bank's Pillar 2 requirement from 1.8 to 1.7 per cent from 31 March 2019

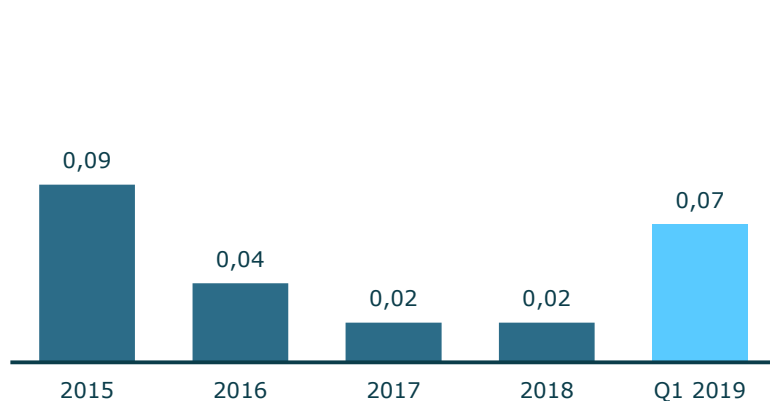
## Return on Equity



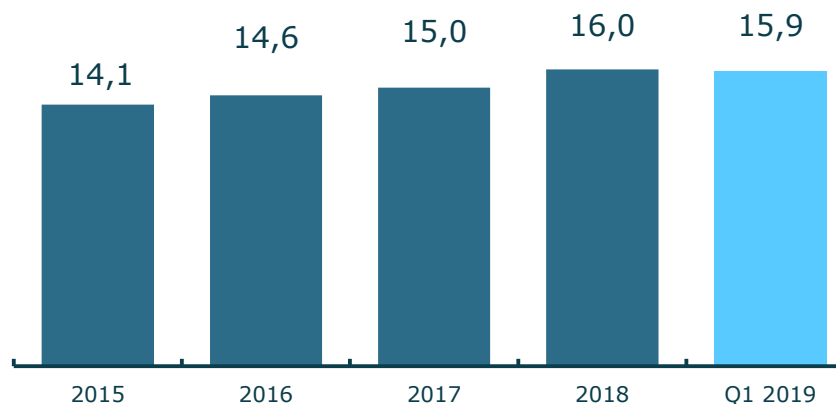
## Cost/Income



## Losses on Loans and Guarantees



## Common Equity Tier1 Capital (CET1)



# Positive outlook

- Sparebanken Møre is very well capitalized and has a strong liquidity position by quarter end. The bank has a healthy financial structure, results have been strong and stable and losses have been at a low level for many years
  
- Production and demand remain at a high level in the county. The main reasons for this are
  - the interest rate level remains relatively low
  - a weak NOK
  - high level of activity in the public sector
  - continued growth in our export markets
  - Positive and stronger growth in oil investments has positive effects
  
- Furthermore, the activity level in the housing market is satisfactory. However, there is still uncertainty related to Brexit and the outcome of trade disputes between the United States and China





# Results

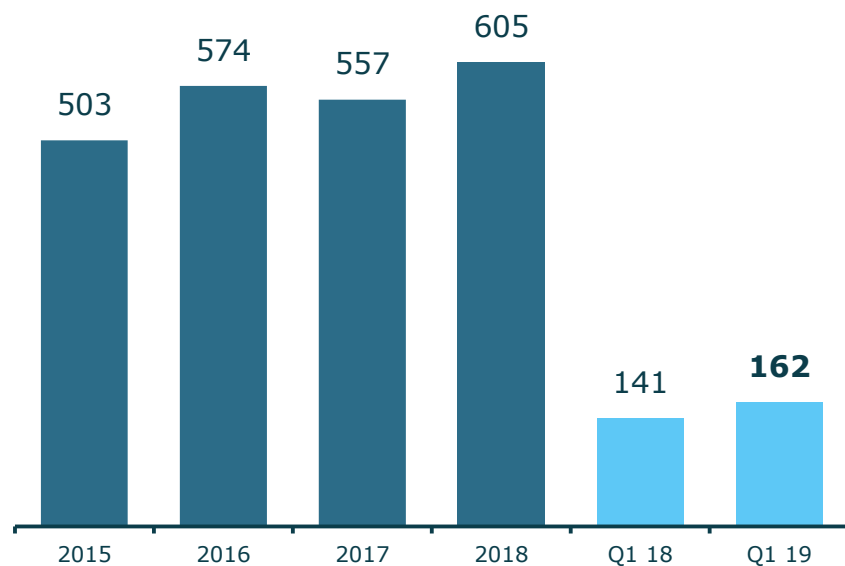


# Good results

15 per cent improved result compared to Q1 2018

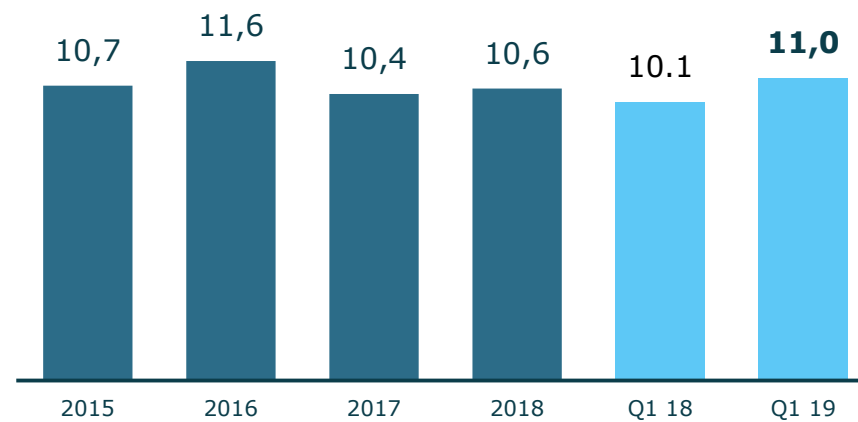
## Profit after tax

- NOK million



## Return on Equity (ROE)

- in percent

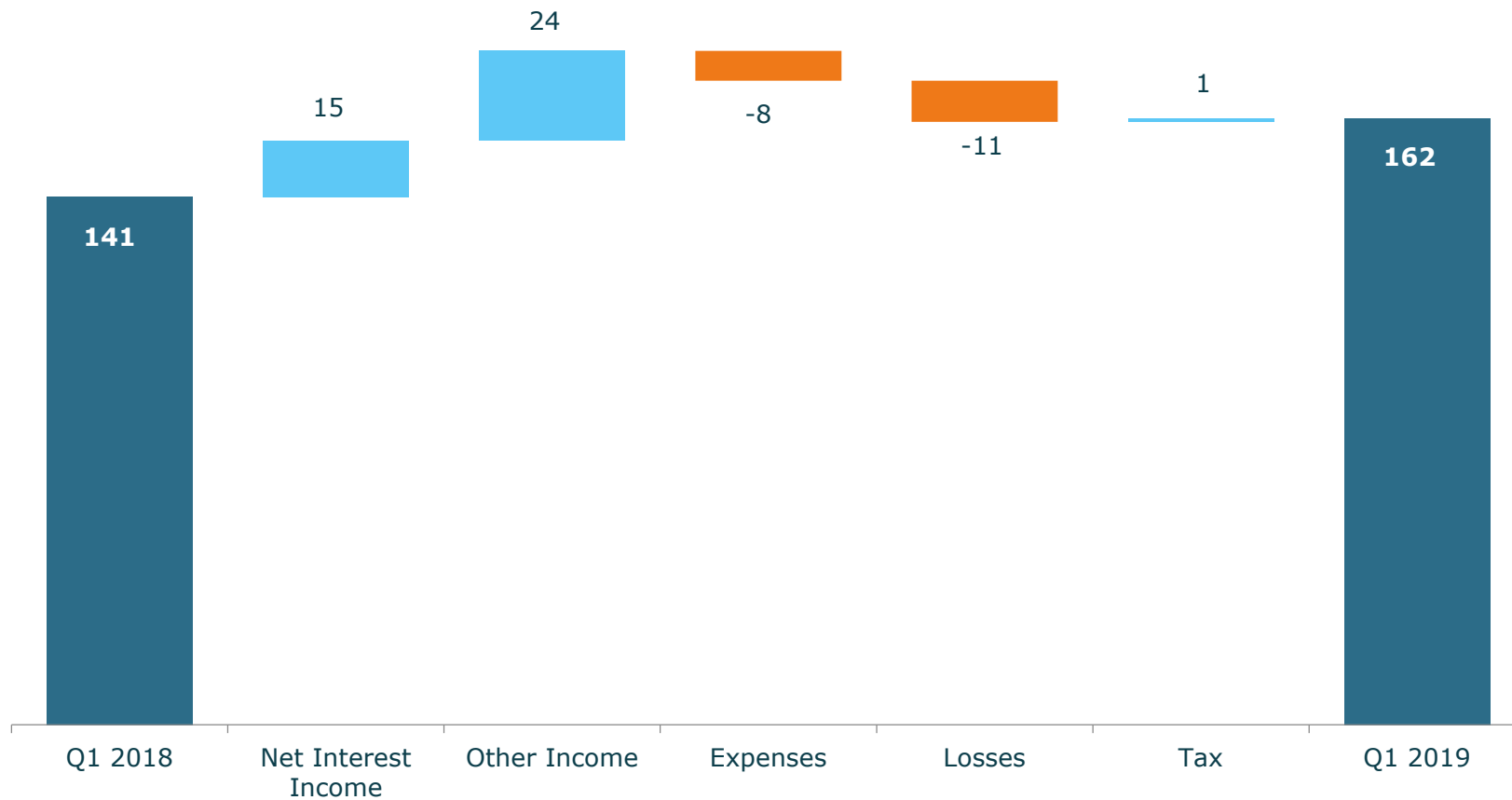


# Growth in income and low losses

Result in Q1 2019 compared to Q1 2018



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# Results

## Main figures Q1 2019 and Q1 2018– The Group



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Results (NOK million and %)	Q1 2019		Q1 2018		Changes	
	NOK	%	NOK	%	NOK	p.p.
Net Interest Income	304	1.69	289	1.73	15	-0.04
Net Income Financial Investments	16	0.09	5	0.02	11	0.07
Gains/losses liquidity portfolio	6	0.03	3	0.02	3	0.01
Gains/losses on shares	6	0.03	-2	0.02	8	0.01
Other Income	49	0.28	47	0.28	2	0.00
<b>Total Other Income</b>	<b>77</b>	<b>0.43</b>	<b>53</b>	<b>0.32</b>	<b>24</b>	<b>0.11</b>
<b>Total Income</b>	<b>381</b>	<b>2.12</b>	<b>342</b>	<b>2.05</b>	<b>39</b>	<b>0.07</b>
Personnel costs	85	0.47	84	0.50	1	-0.03
Other costs	72	0.40	65	0.39	7	0.01
<b>Total operating costs</b>	<b>157</b>	<b>0.87</b>	<b>149</b>	<b>0.89</b>	<b>8</b>	<b>-0.02</b>
Profit before losses	224	1.25	193	1.16	31	0.09
Losses on loans, guarantees etc	13	0.07	2	0.01	11	0.06
<b>Pre tax profit</b>	<b>211</b>	<b>1.18</b>	<b>191</b>	<b>1.15</b>	<b>20</b>	<b>0.03</b>
Taxes	49	0.26	50	0.29	-1	-0.03
<b>Profit after tax</b>	<b>162</b>	<b>0.92</b>	<b>141</b>	<b>0.86</b>	<b>21</b>	<b>0.06</b>

# Balance sheet and key figures

	Q1 2019	Q1 2018	Changes	
<b>Balance in NOK million</b>	<b>NOK</b>	<b>NOK</b>	<b>NOK</b>	<b>%</b>
Total Assets	71,135	68,660	2,475	3.6
Loans to customers	61,270	58,247	3,023	5.2
Deposits from customers	35,066	33,539	1,527	4.6
Net Equity and Subordinated Loans	6,646	6,479	167	2.6

<b>Key Figures</b>	<b>Q1 2019</b>	<b>Q1 2018</b>	<b>Changes p.p.</b>	
Return on Equity	11.0	10.1	0.9	
Cost/Income Ratio	41.2	43.6	-2.4	
Total Capital	19.4	18.6	0.6	
Tier 1 Capital	17.3	16.6	0.8	
CET1	15.9	15.1	0.7	
Leverage Ratio	8.1	8.1	0.0	
Profit per EC (NOK, the Group)	7.95	7.00	0.95	
Profit per EC (NOK, the Bank)	14.10	12.00		

# Quarterly development in Net Interest Income

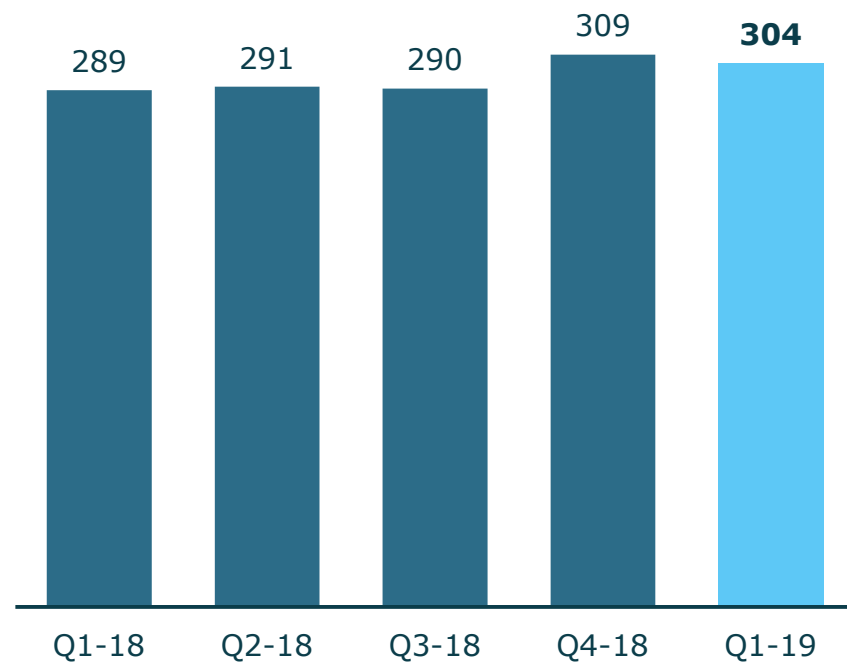
*Strong development*



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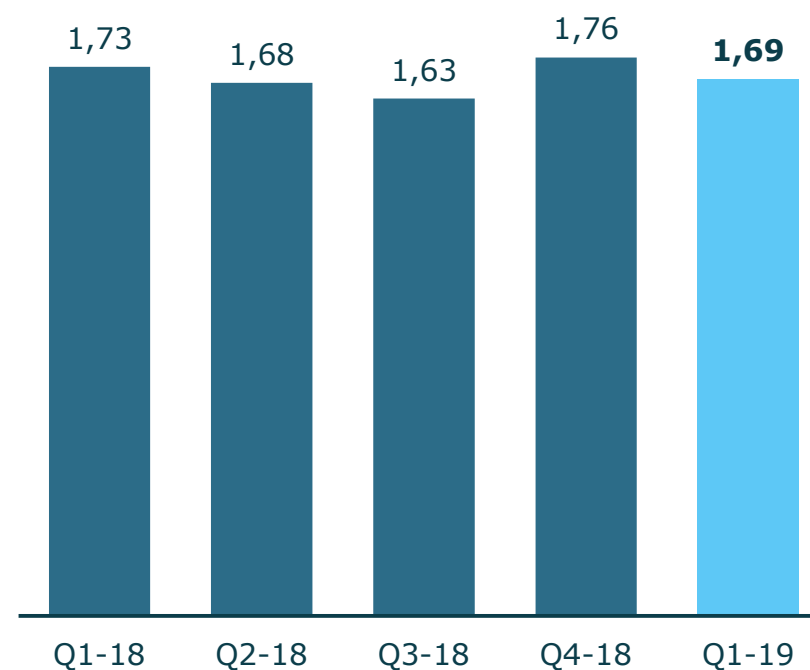
## Net Interest Income

- NOK million



## Net Interest Income

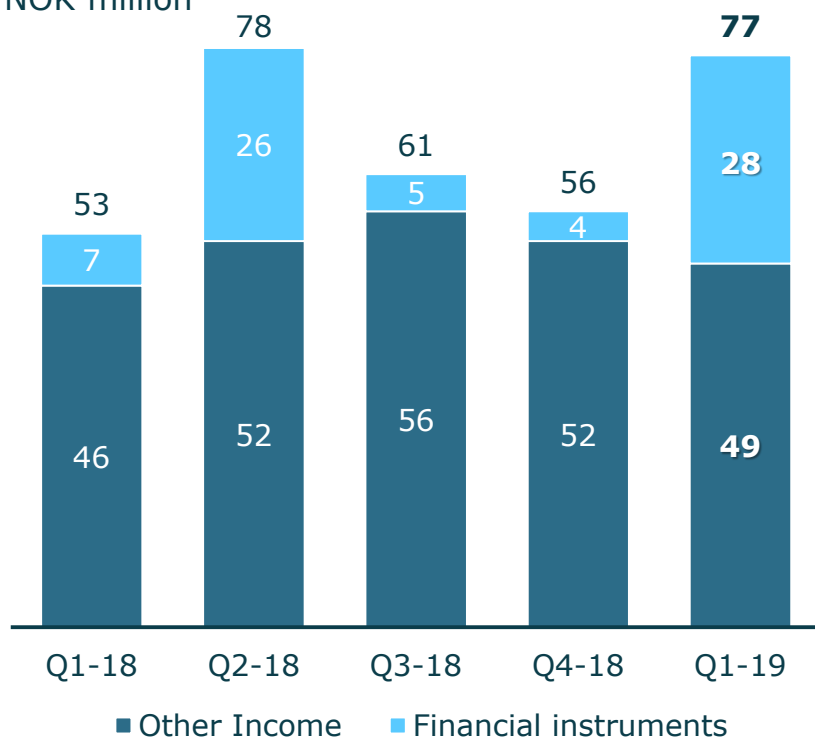
- % of Average Assets



# Quarterly development in Other Income

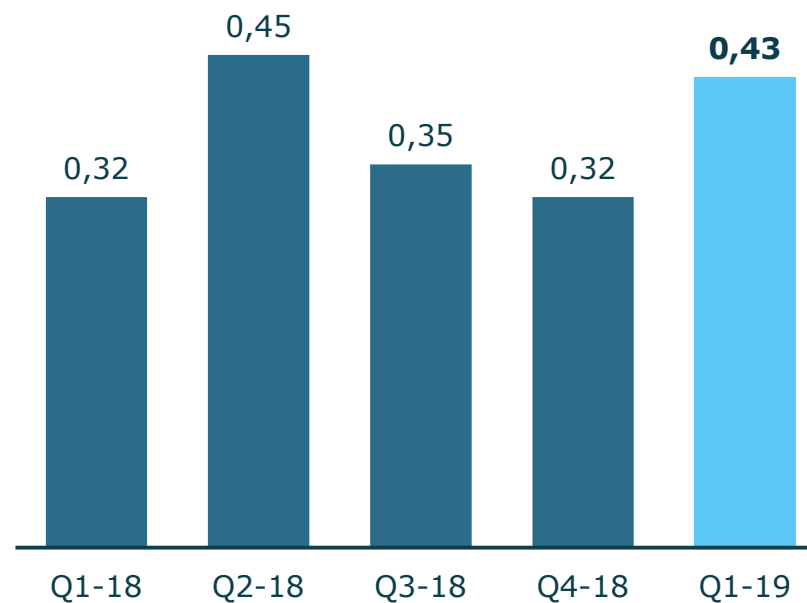
## Other Income

- NOK million



## Other Income

- % of Average Assets



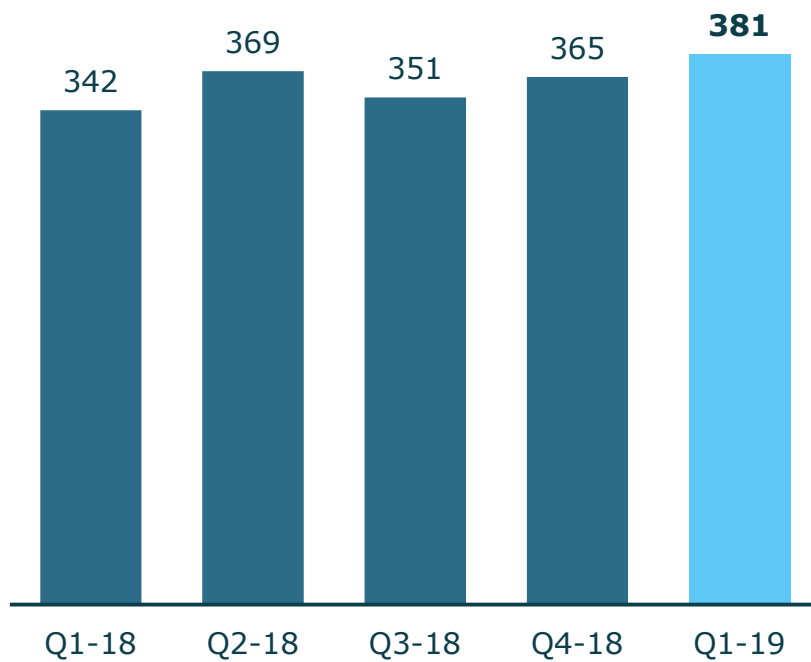
Gains on bonds and shares amounted to NOK 12 million in the quarter

# Total Income

11 per cent income growth compared to Q1 2018

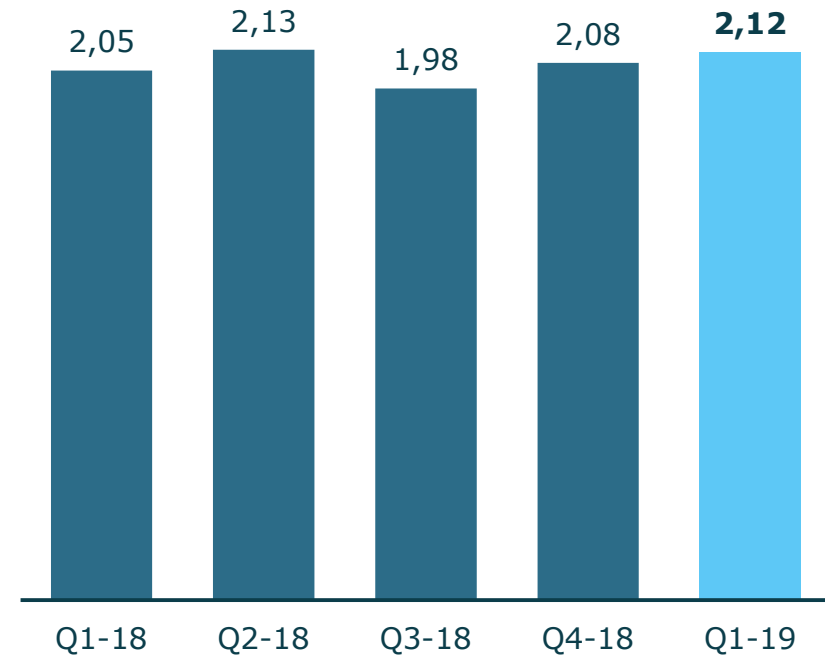
## Total Income

- NOK million



## Total Income

- % of Average Assets





# Strong cost control – improved efficiency

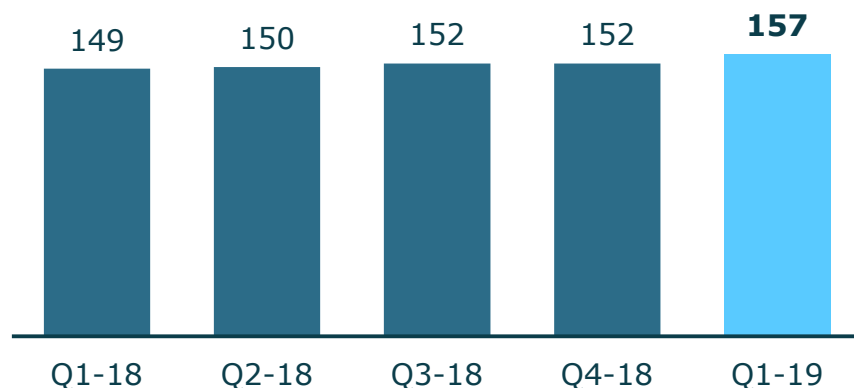
Positive development



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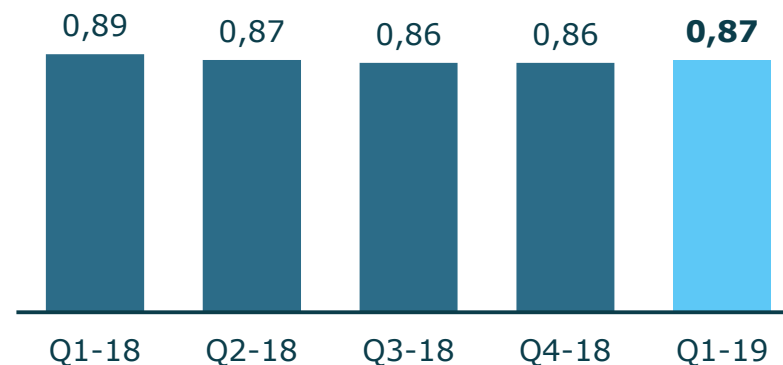
## Operating Costs

- NOK million



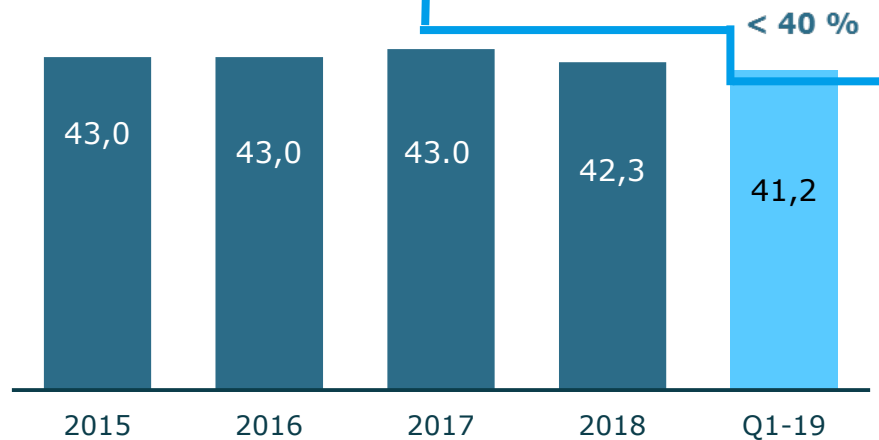
## Operating Costs

- % of Average Assets



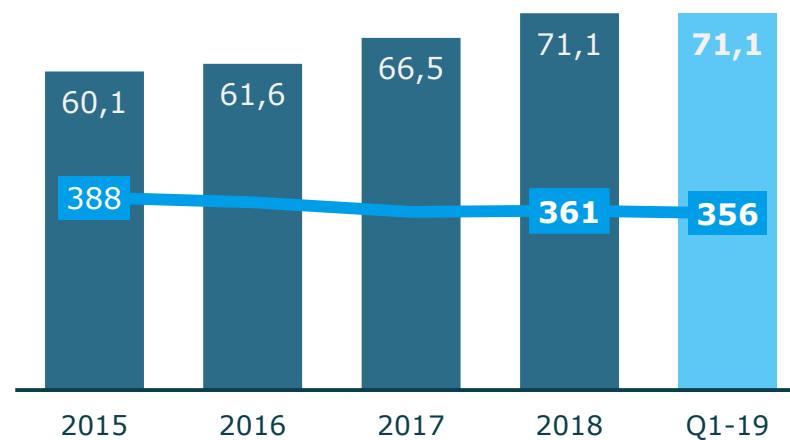
## Cost/Income ratio

Target



## Total Assets and Man Years

- Total Assets in NOK billion



# Strong underwriting

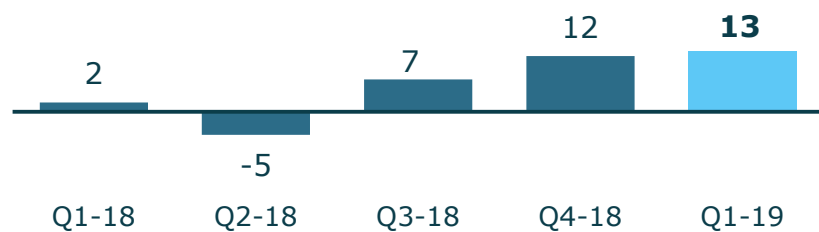
Persistent low losses



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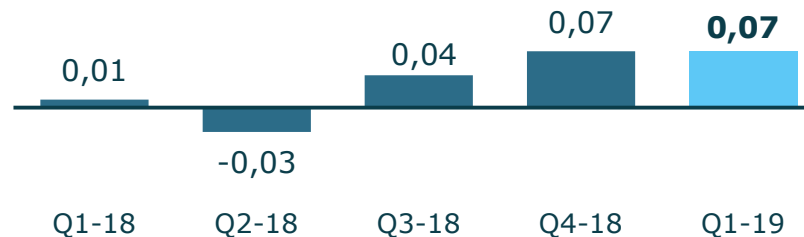
## Losses on loans and guarantees

- NOK million



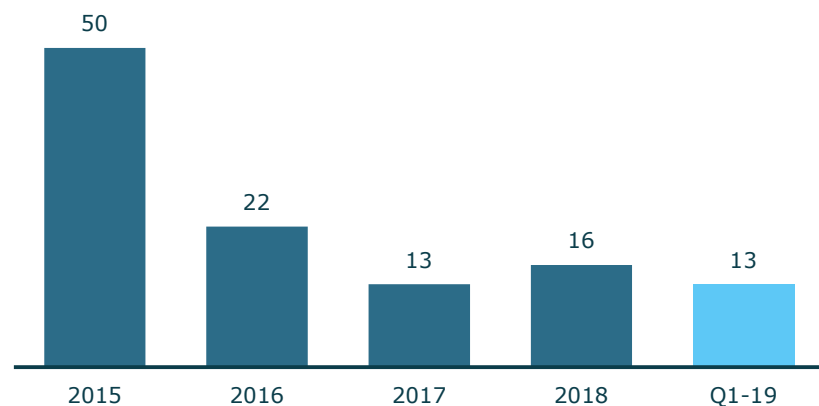
## Losses on loans and guarantees

- % of Average Assets



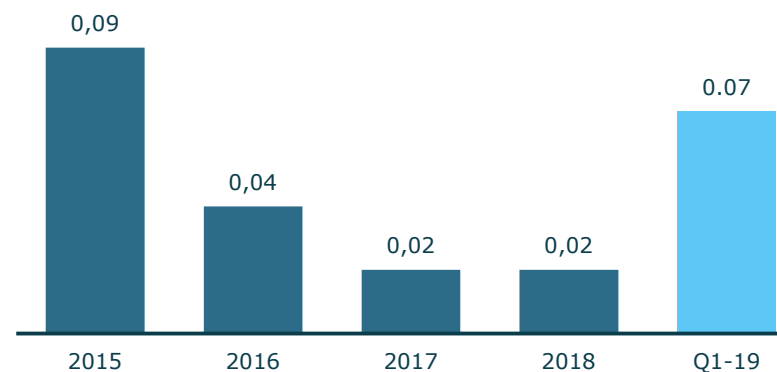
## Losses on loans and guarantees

- NOK million



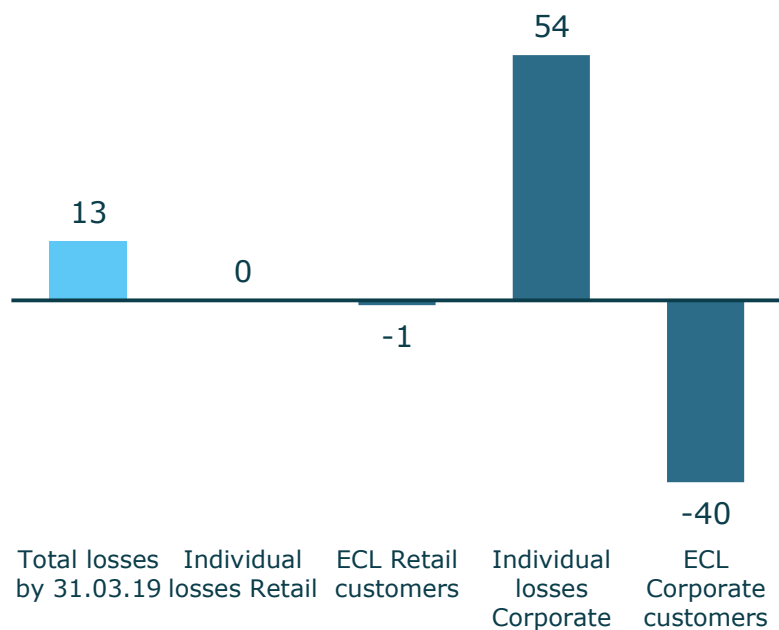
## Losses on loans and guarantees

- % of Average Assets



## Losses on loans and guarantees

- NOK million



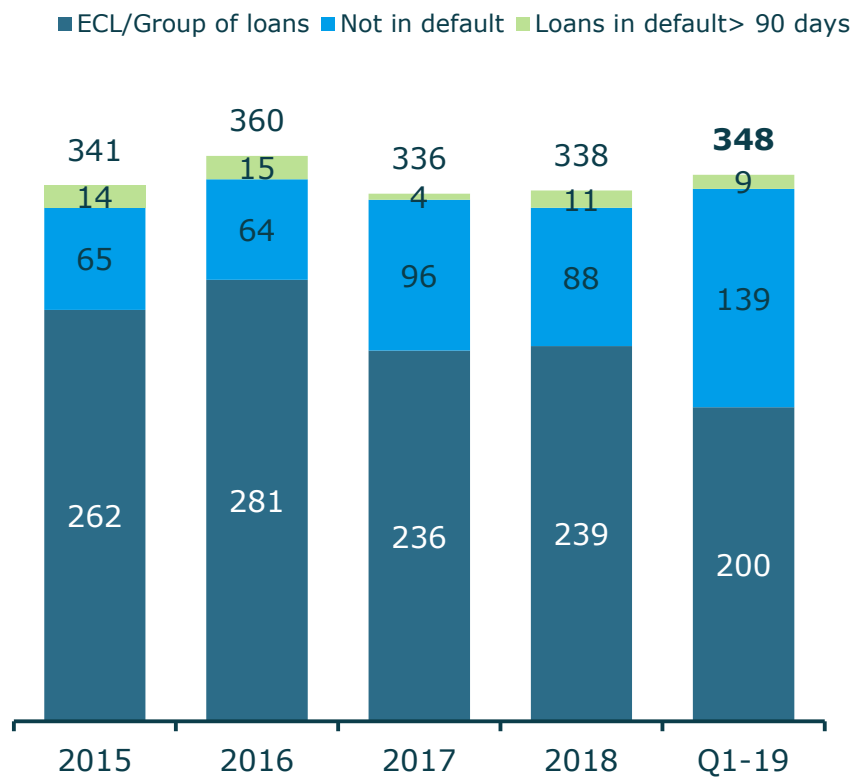
- The expected credit loss (ECL) model is compliant with IFRS 9 and is used to calculate losses
- Total calculated ECL by quarter end is NOK 40 million lower than by 31.12.2018
- Individual impairments and other losses of NOK 0 million for retail customers and NOK 54 million for corporate customers
- Total losses are NOK 13 million by quarter end

# Impairments

High and comfortable levels

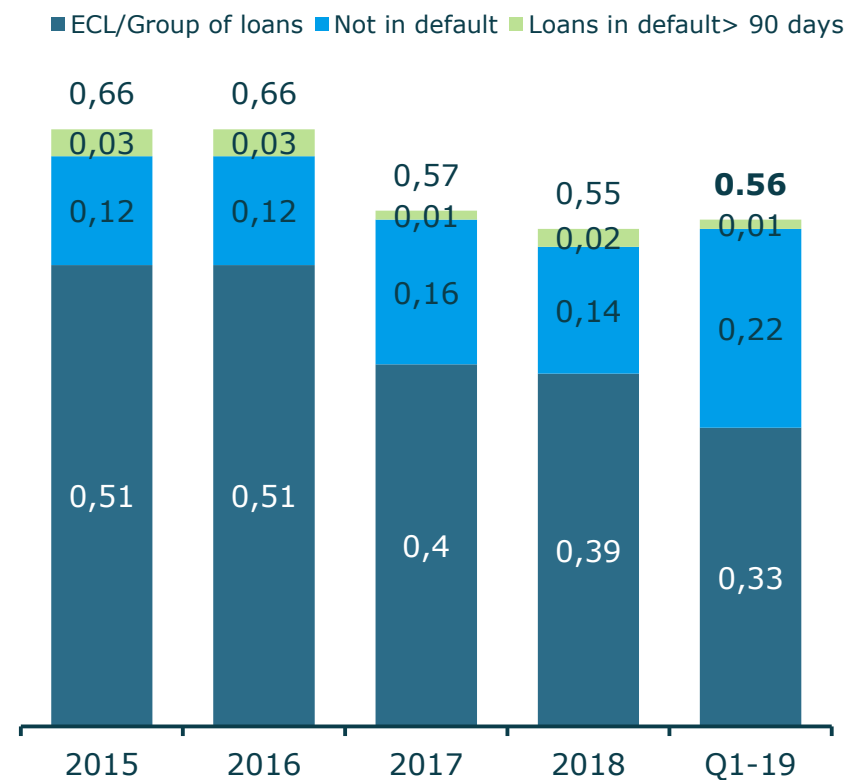
## Impairments

- NOK million



## Impairments

- % of Gross Loans



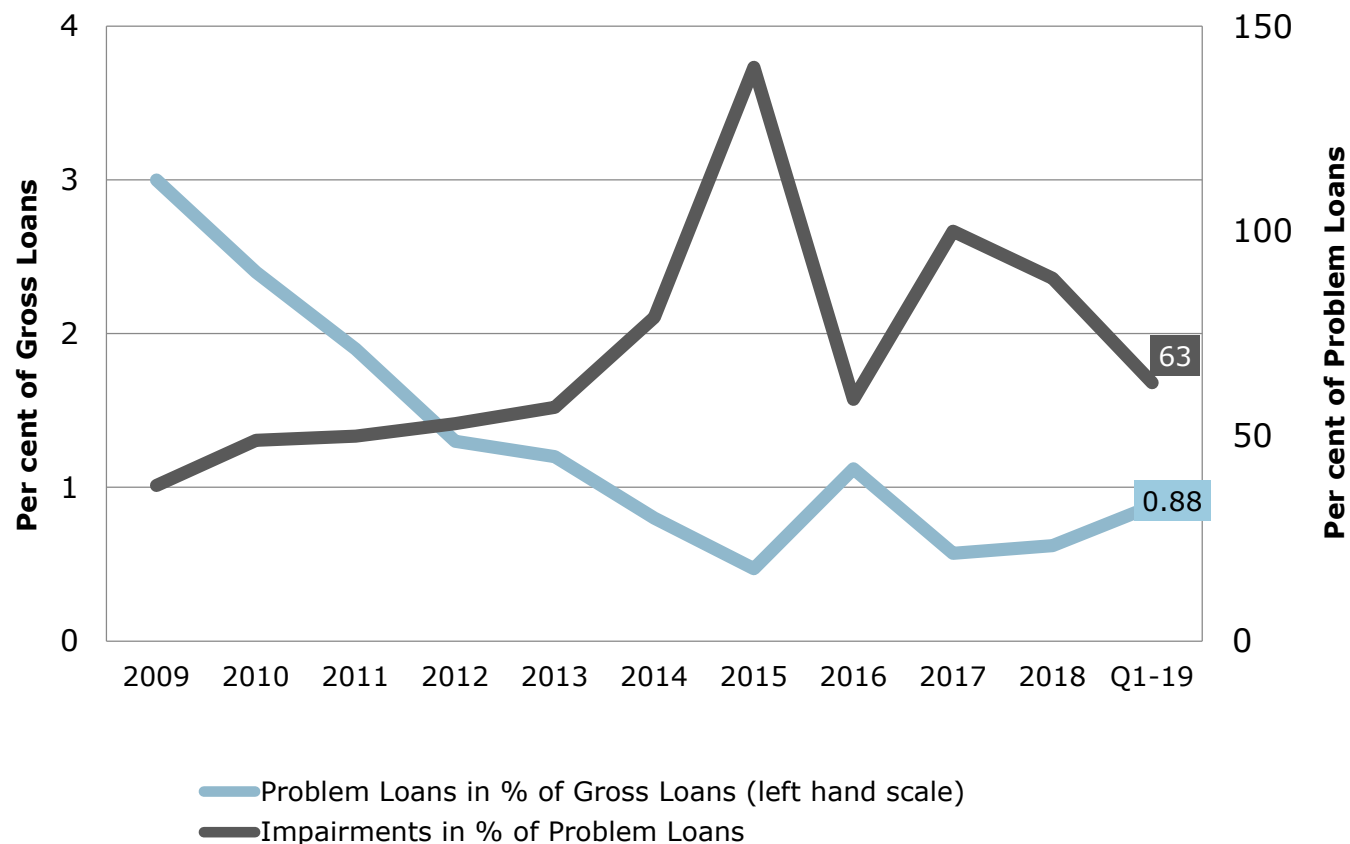
# Problem Loans and Impairments

*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

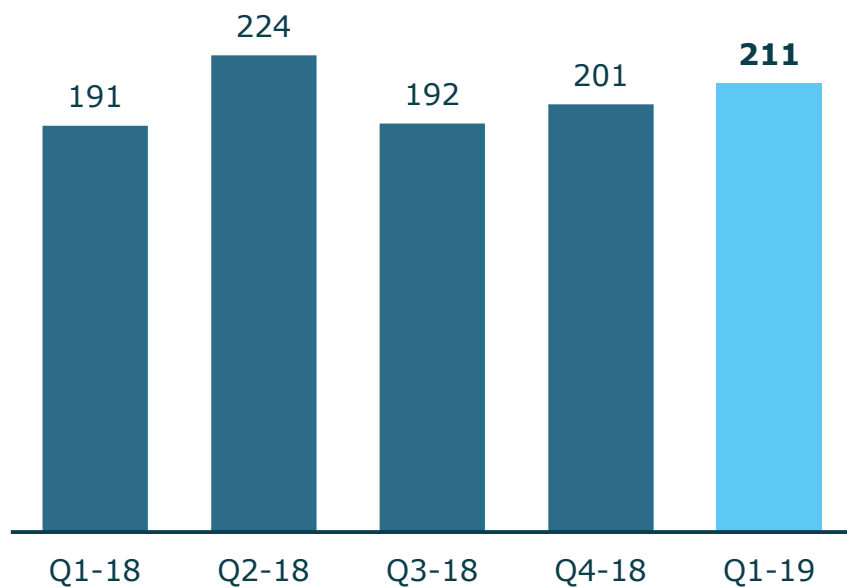
*Stable quarterly development*



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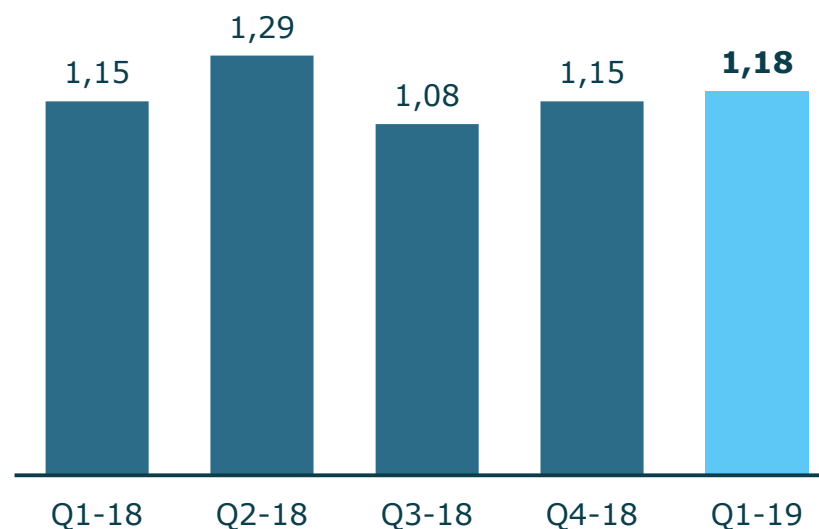
## Profit after losses

- NOK million



## Profit after losses

- % of Average Assets



# Balance sheet

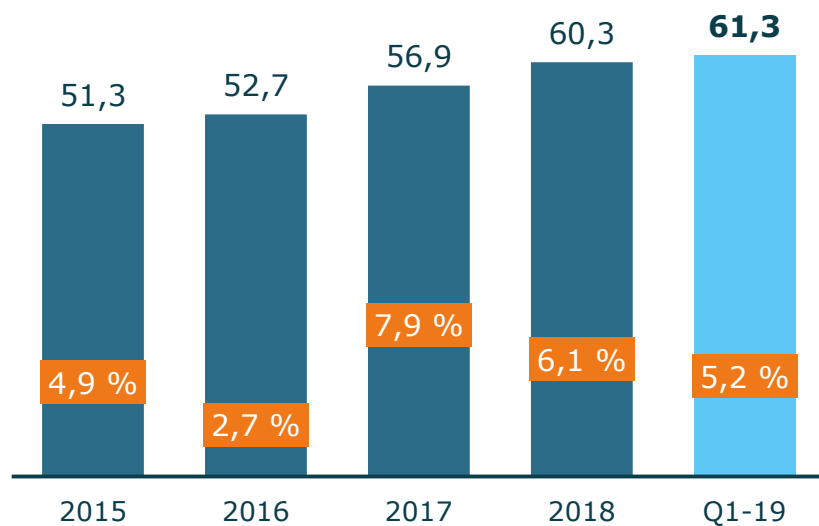


# Continued good growth

*Strong loan growth and high deposit-to-loan ratio*

## Loans

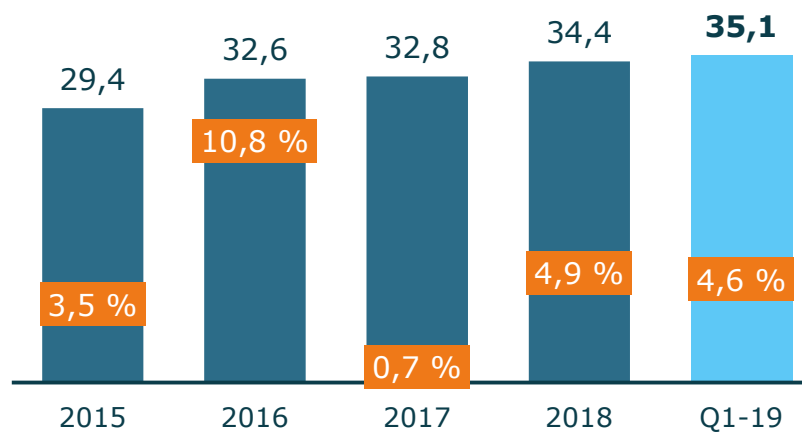
- NOK billion and per cent (y/y)



- Customer lending has increased by 5.2 % over the last 12 months

## Deposits

- NOK billion and per cent (y/y)



- Deposit growth of 4.6 % over the last 12 months
- High deposit-to-loan ratio of 57.2 %

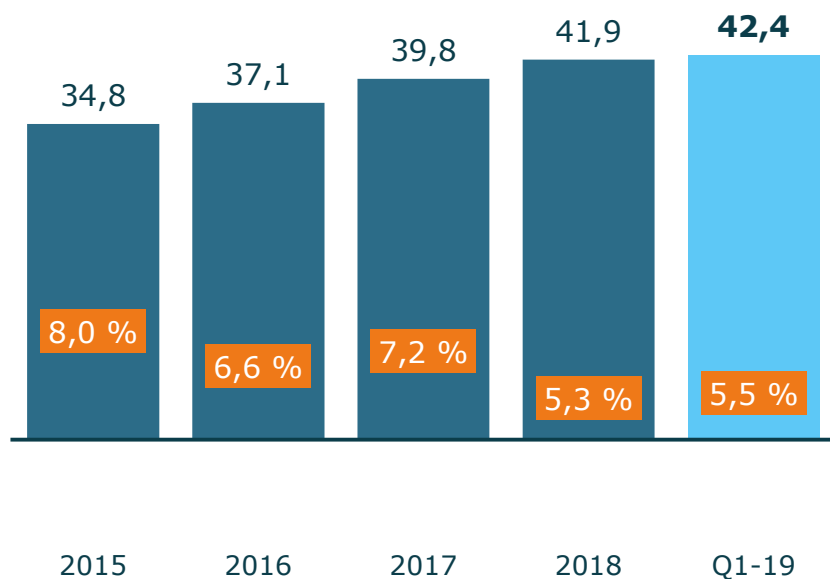


# Lending

Stable growth in the retail – good growth in the corporate market

## Retail market

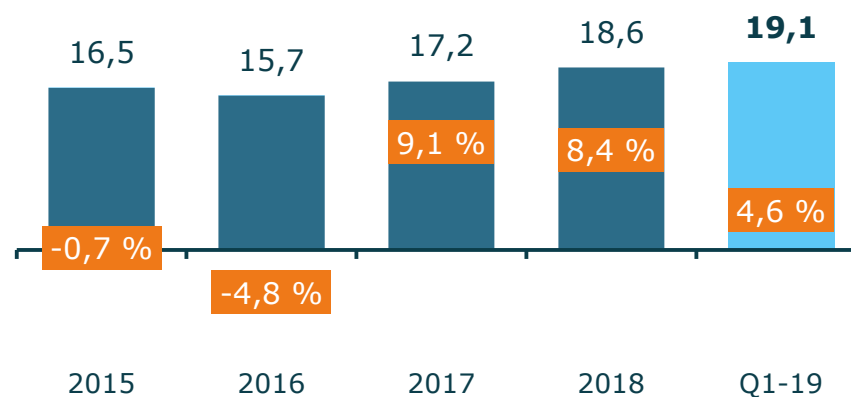
- NOK billion and per cent y/y



- Retail lending has increased by 5.5 % over the last 12 months
- Loans to the retail market amount to 69.2 % of total loans

## Corporate market

- NOK billion and per cent y/y



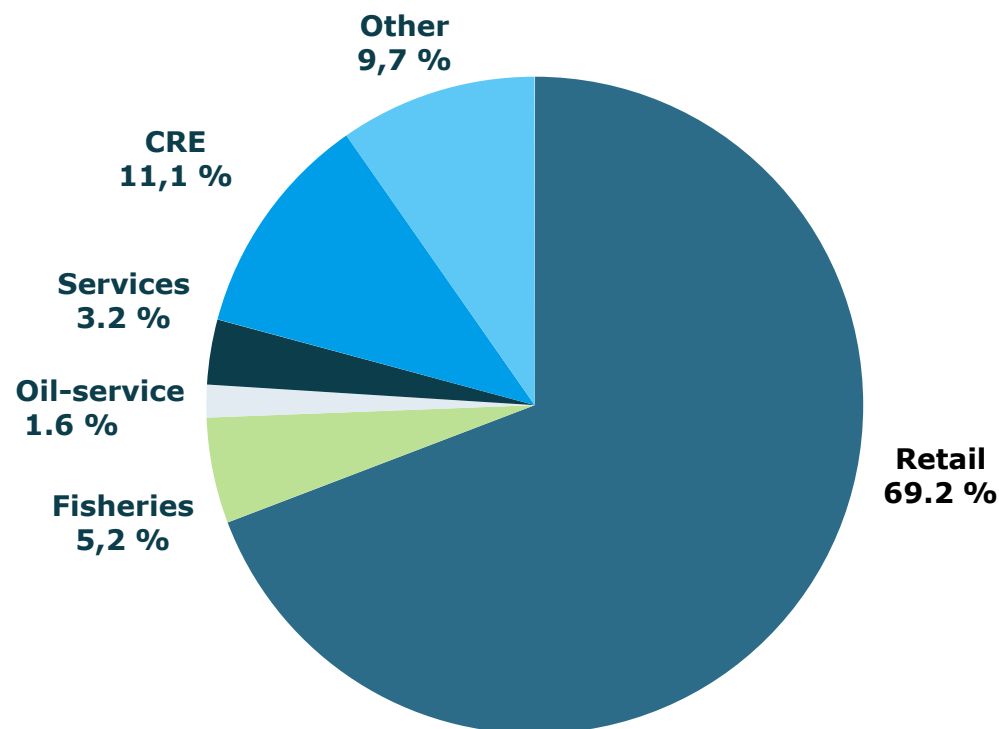
- Corporate lending has increased by 4.6 % over the last 12 months
- Loans to the corporate market amount to 30.8 % of total loans

# Diversified loan book

## Loans by sector



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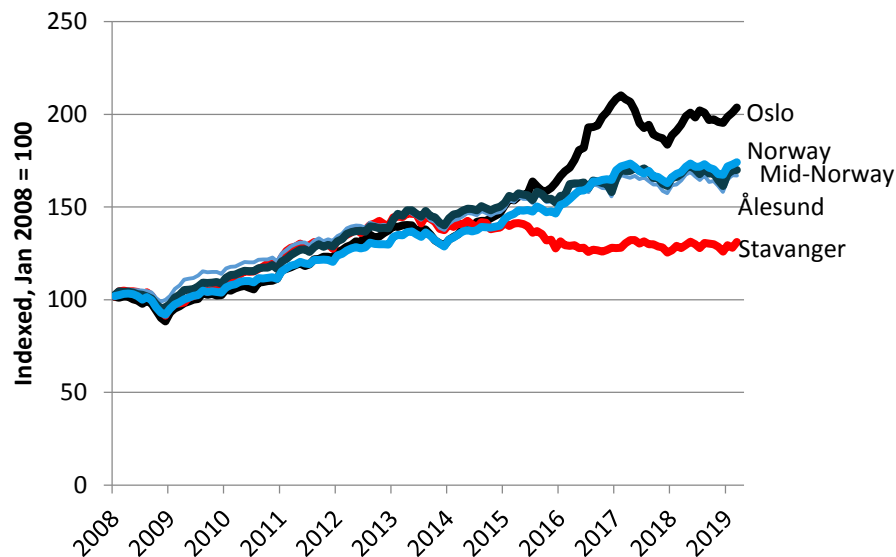
### Other:

Financial services	2.1 %	Retail/wholesale trade	1.0 %
Other Industry	1.8 %	Agriculture	0.8 %
Ship Yards	1.3 %	Other	0.3 %
Fishing Industry	1.2 %		
Building and construction	1.2 %		

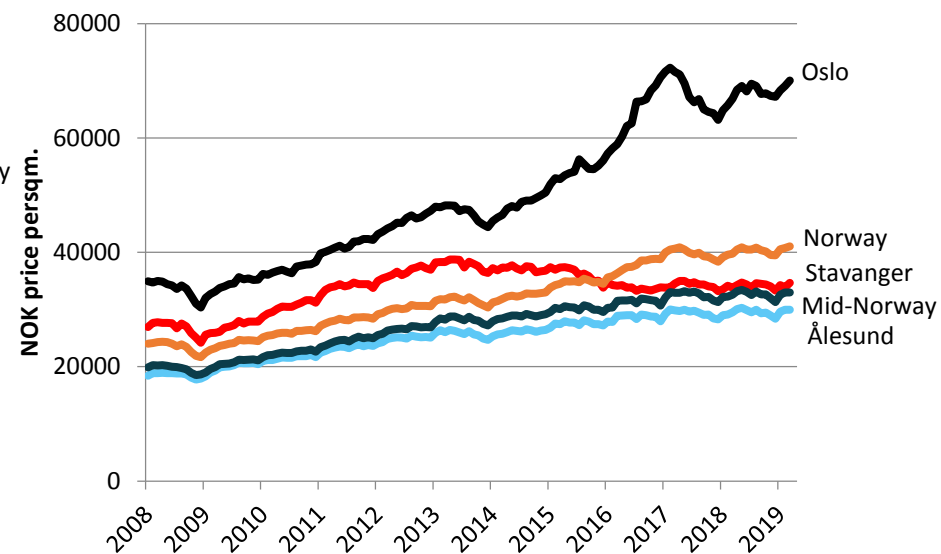
# Housing prices

Development from January 2008 – March 2019

**Indexed, January 2008 = 100**



**Development housing prices per sqm.**



## Key information

(Sold pre-owned dwellings)

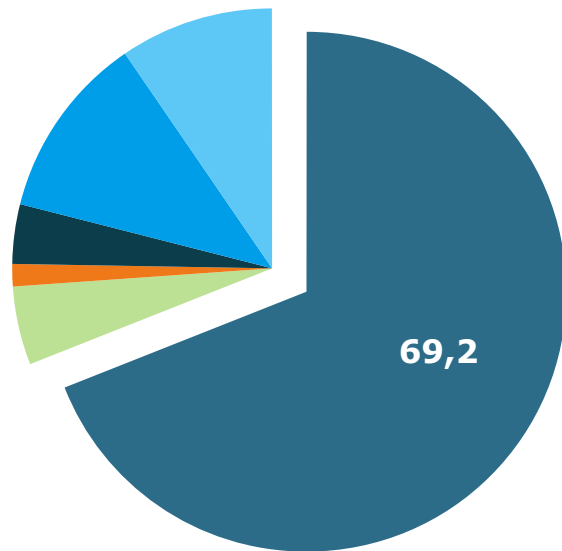
	<b>Norway</b>	<b>Mid-Norway</b>	<b>Greater Ålesund</b>	<b>Greater Stavanger</b>	<b>City of Oslo</b>
Seasonal adj. development month	+0.3 %	-0.1 %	-0.2 %	+1.1 %	+0.8 %
Development 12 month	+3.2 %	+1.2 %	+1.6 %	+2.5 %	+4.8 %
Per square meter (NOK)	41,029	33,007	29,979	34,693	70,049
Average days on market (March)	52 days	73 days	64 days	68 days	24 days
Price median dwelling (NOK)	3,118,598	2,700,000	2,545,000	3,192,079	4,015,500

# Good quality in our retail portfolio

*High portion of secured loans*

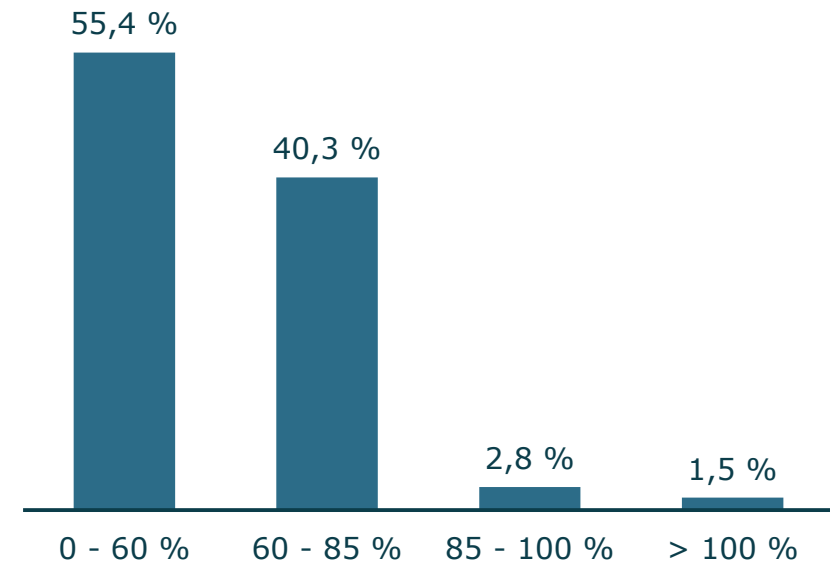
## Loans to retail customers

- % of total loans



- The Bank complies with the lending regulations (Boliglånsforskriften)
- Deviation from Boliglånsforskriften reported in the first quarter of 2019 were 5.5 % outside Oslo, and 6.7 % in Oslo

## Loan to value – retail loans

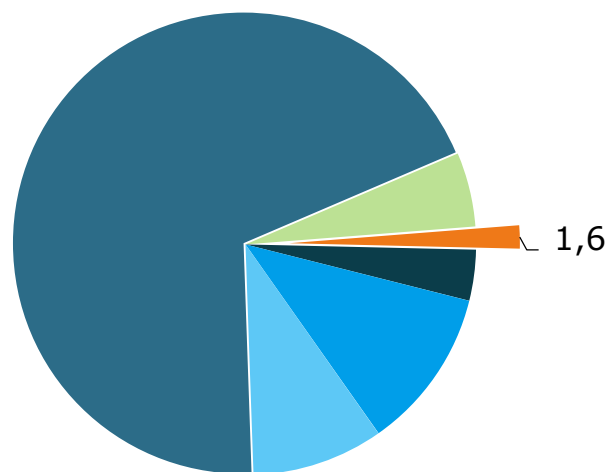


- 95.7 % of mortgages are within 85 % of LTV

# Low exposure towards Oil Service

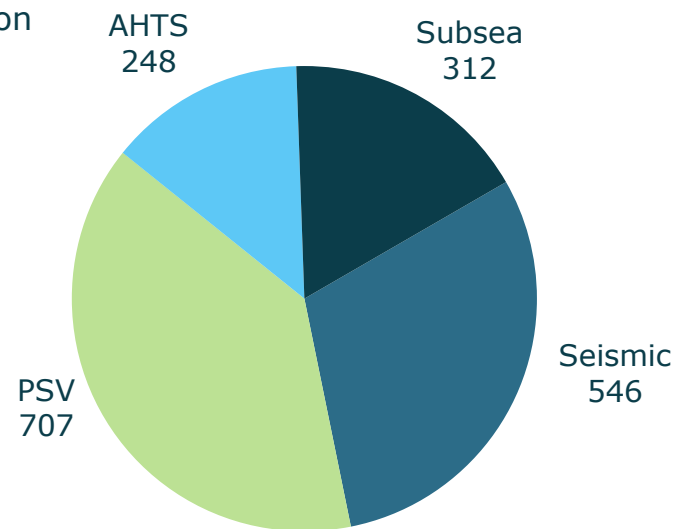
## Loans to Oil Service

- In per cent of total loans



## EAD by types of vessels

- In NOK million



(EAD in NOK million)	Loans	Guarantees	Total EAD				
				Individual	ECL-IFRS 9	Total	Per cent of EAD
Low Risk(Risk Class A-C)	138	125	263	0	0.1	0,1	0.0 %
Medium Risk(Risk Class D-G)	400	111	511	0	11	11	2.1 %
High Risk(Risk Class H-M)	322	345	668	0	86	86	12.9 %
Loans and guarantees with individual impairments	114	258	371	100	-	100	26.9 %
<b>Total</b>	<b>973</b>	<b>840</b>	<b>1,813</b>	<b>100</b>	<b>97</b>	<b>197</b>	<b>10.9 %</b>

# Exposure towards Commercial Real Estate

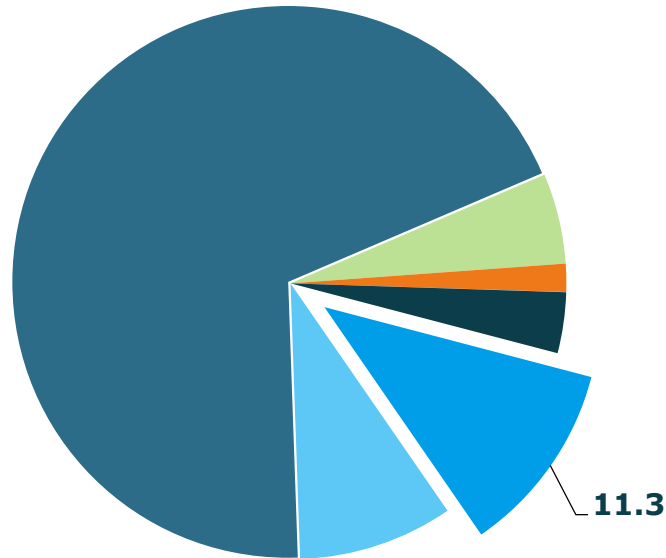
*Low portion and well-diversified portfolio of commercial property*



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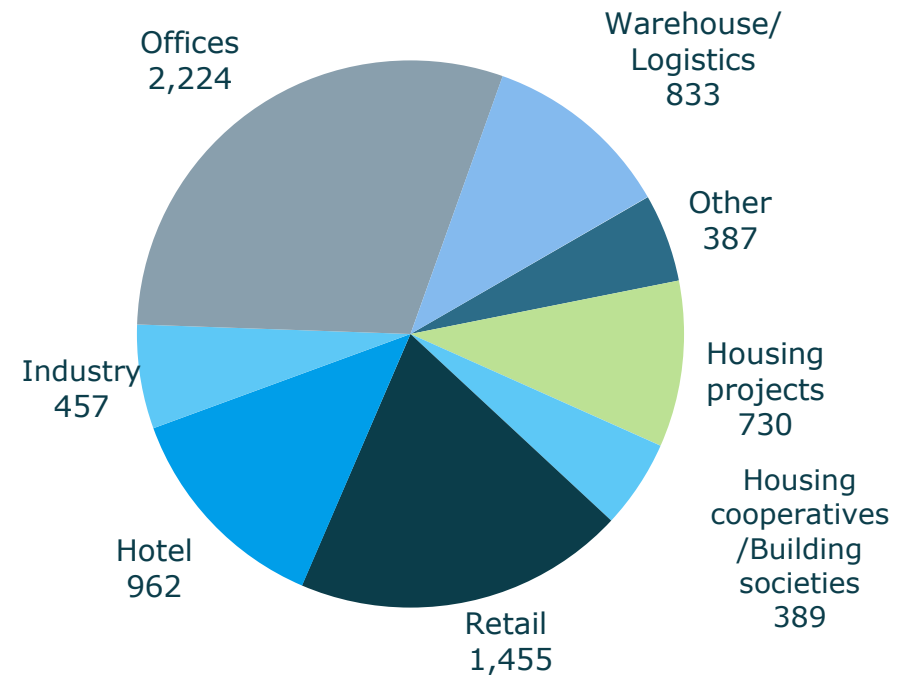
## CRE exposure

- In per cent of total loans



## Distributed by types of commercial property

- In NOK million



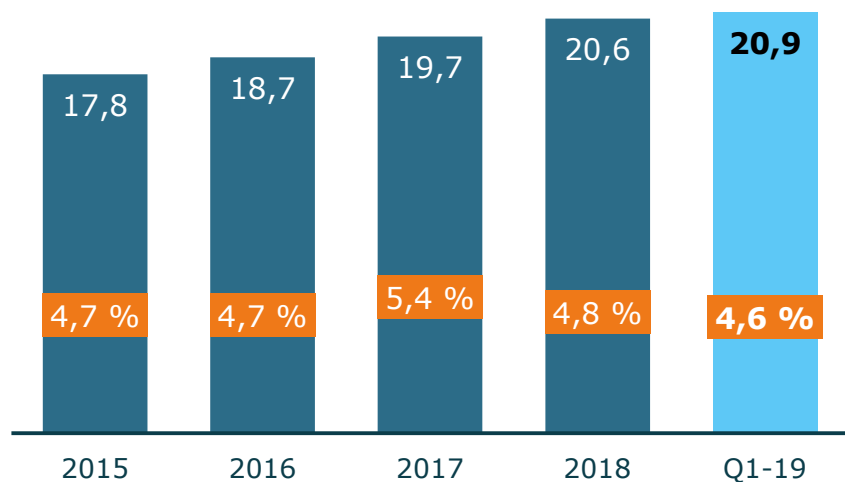
- Well diversified portfolio
- Center-low properties with low unemployment rates
- Solid owners with long relationships with the bank

# Deposits

Good growth in deposits over the last 12 months

## Retail market

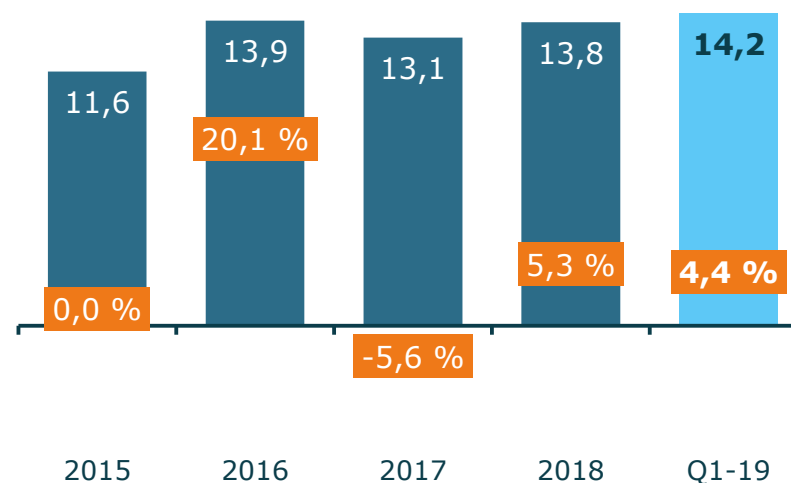
- NOK billion and per cent y/y



- Retail deposits have increased by 4.4 % over the last 12 months
- Deposits from the retail market amount to 59.5 % of total deposits

## Corporate and public

- NOK billion and per cent y/y



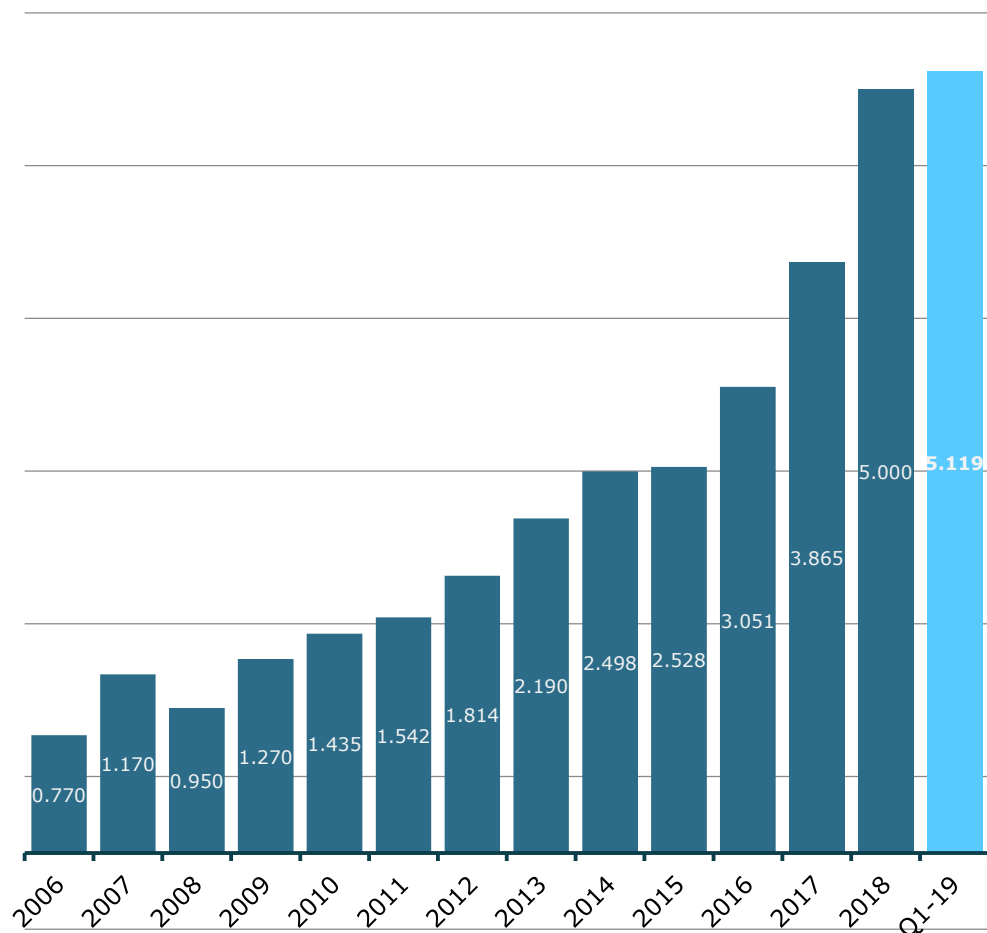
- Deposits from corporate and public customers have increased by 3.9 % the last 12 months

# Discretionary Portfolio Management

*Strong growth - NOK 5 billion under management*

## Sparebanken Møre - Aktiv Forvaltning

- Portfolio in NOK billion



- 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
  - 163 investment companies
  - 214 wealthy private individuals



# Liquidity and Capital

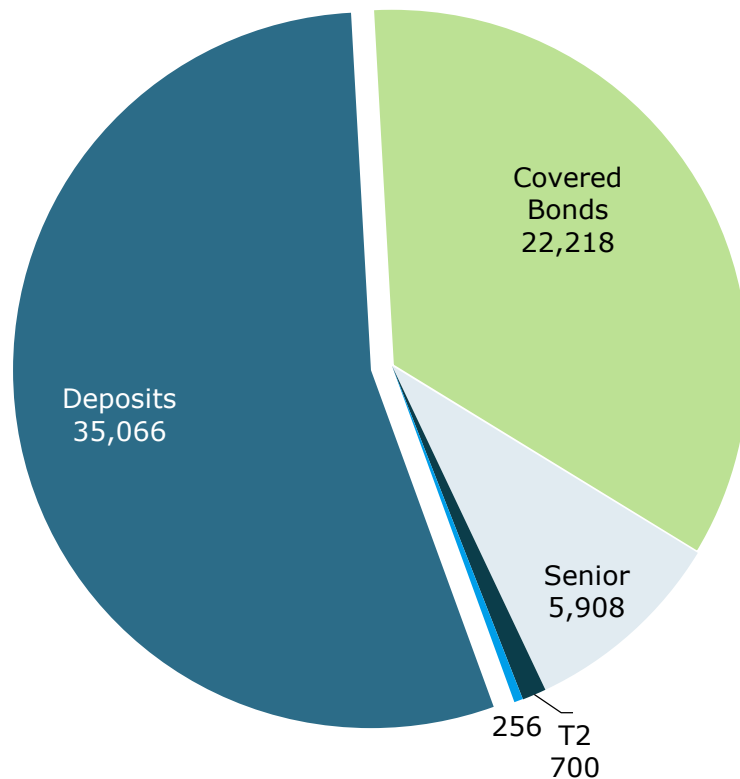


# Deposits from customers and market funding

*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

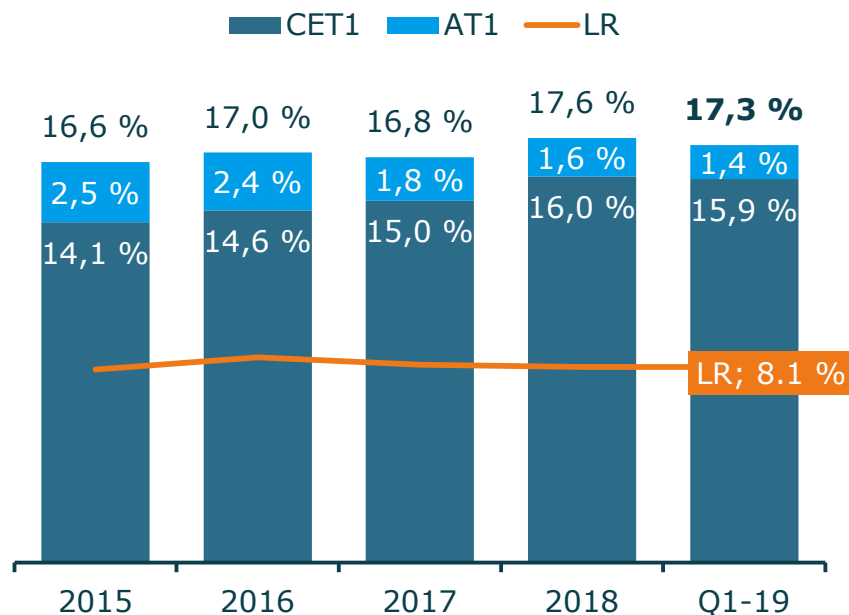
- Our strong deposit-to-loan ratio stood at 57.2 per cent by quarter end
- Total net market funding ended at NOK 27.8 billion by end of the quarter – 85 per cent with remaining maturity of more than one year
- Senior Bonds: Weighted average maturity of 1.97 years (FSA defined key figures)
- Covered Bonds issued through Møre Boligkreditt AS have a weighted average maturity of 3.87 years (FSA defined key figures)
- Møre Boligkreditt AS has issued seven loans qualifying for Level 2A liquidity in LCR. In June 2018, the mortgage company issued it's second sub-benchmark Public Issue of EUR 250 million in the European market, our inaugural was issued in June 2017
- December 12 2018, 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

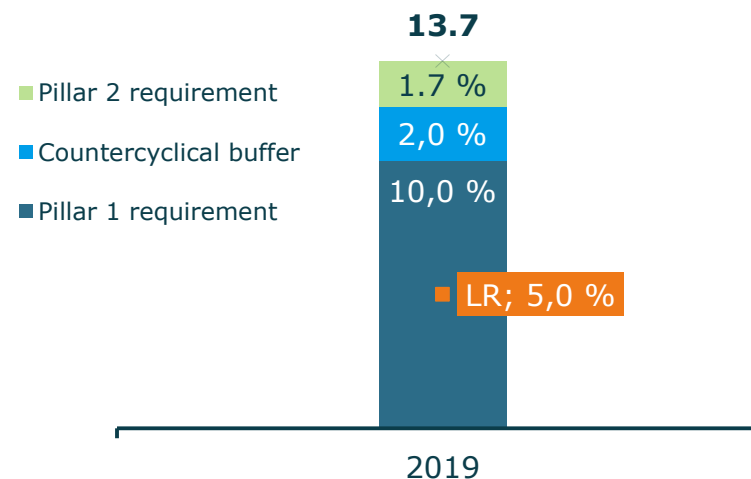
- % of risk weighted assets



- By quarter end our Common Equity Tier 1 capital stood at 15.9 %, Tier 1 capital at 17.3 % 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 %

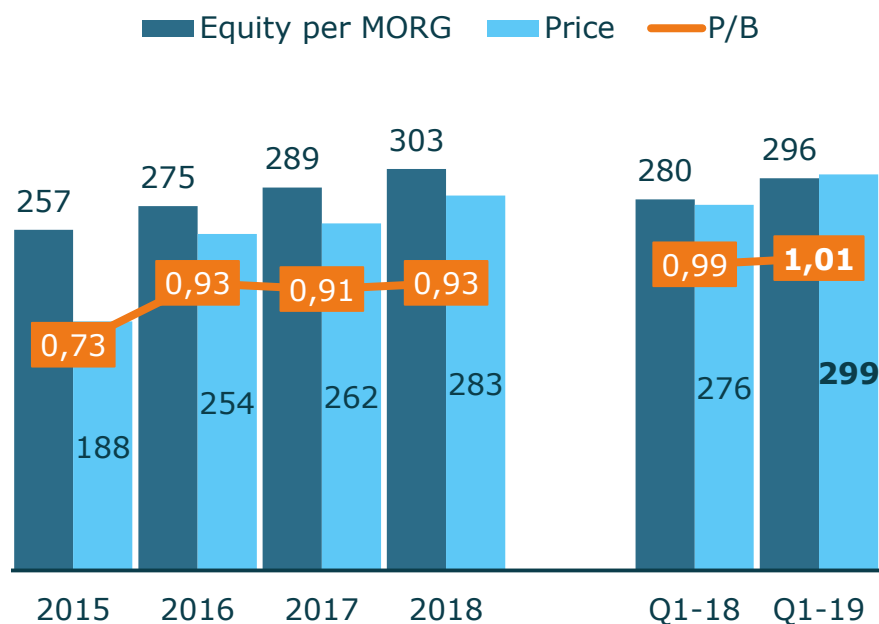
## CET1 requirement for Sparebanken Møre

- % of risk weighted assets



- The Group's capital adequacy ratio is well above the announced regulatory capital requirements
- Our capital is calculated according to the IRB Foundation Approach for corporate commitments, IRB Approach for the retail market
- The Pillar 2 requirement has been reduced to 1.7 % from March 31 2019

## 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

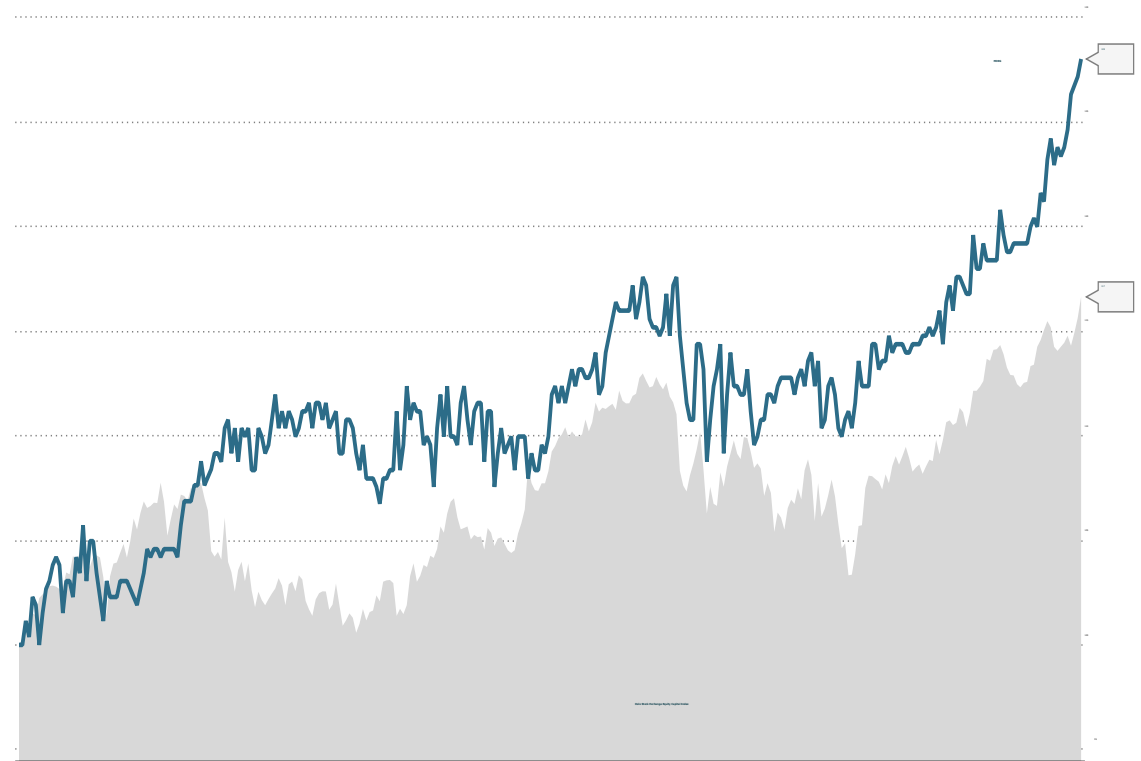
## Dividend and EC-price



SPAREBANKEN MØRE

- The PCCs/ECs of Sparebanken Møre (MORG) have been listed at Oslo Stock Exchange since 1989
- Total EC capital NOK 989 million by March 2019
- Good Total Return – see figure

Annual dividend per EC			
1990	10	2005	20
1991	0	2006	20
1992	0	2007	23
1993	13	2008	20
1994	12	2009	12
1995	13	2010	12
1996	13	2011	8
1997	13	2012	12
1998	15	2013	8
1999	16	2014	13.50
2000	17	2015	11.50
2001	17	2016	14.00
2002	15	2017	14.00
2003	16	2018	15.50
2004	18		



# 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 2019-2022

ROE > 11.0 per cent

C/I < 40,0 per cent

Low level of losses

CET1 > 14,8 per cent

Healthy financial structure



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