



# Sparebanken Møre - the Group

Presentation

3<sup>rd</sup> quarter 2016

Runar Sandanger EVP

October 20 2016

# Agenda

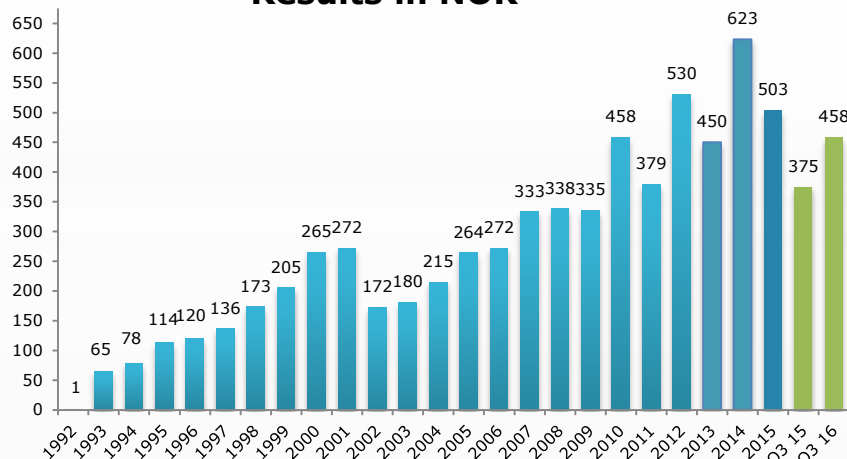
- Summary
- Introduction
- Results
- Deposits and Loans
- Funding and Hedging
- Equity and ECs
- Economic outlook and future prospects
- Appendix: Housing Market





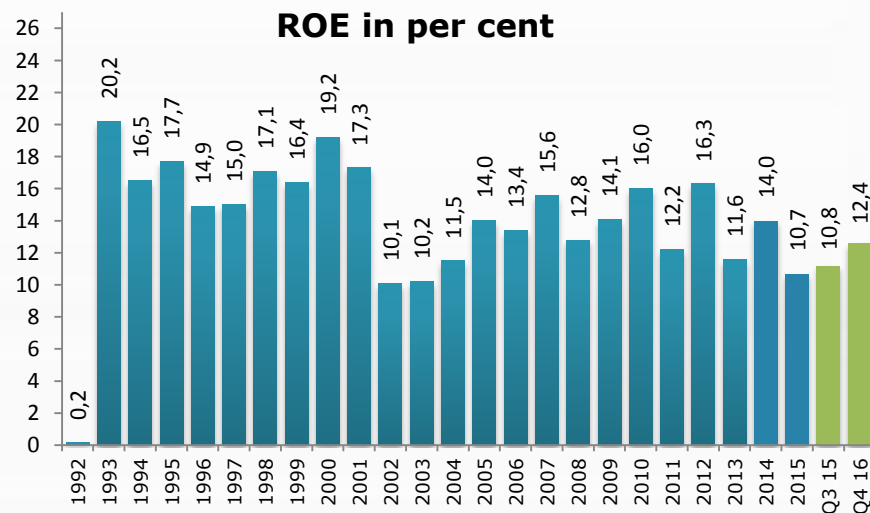
# Historical performance and highlights

### Results in NOK

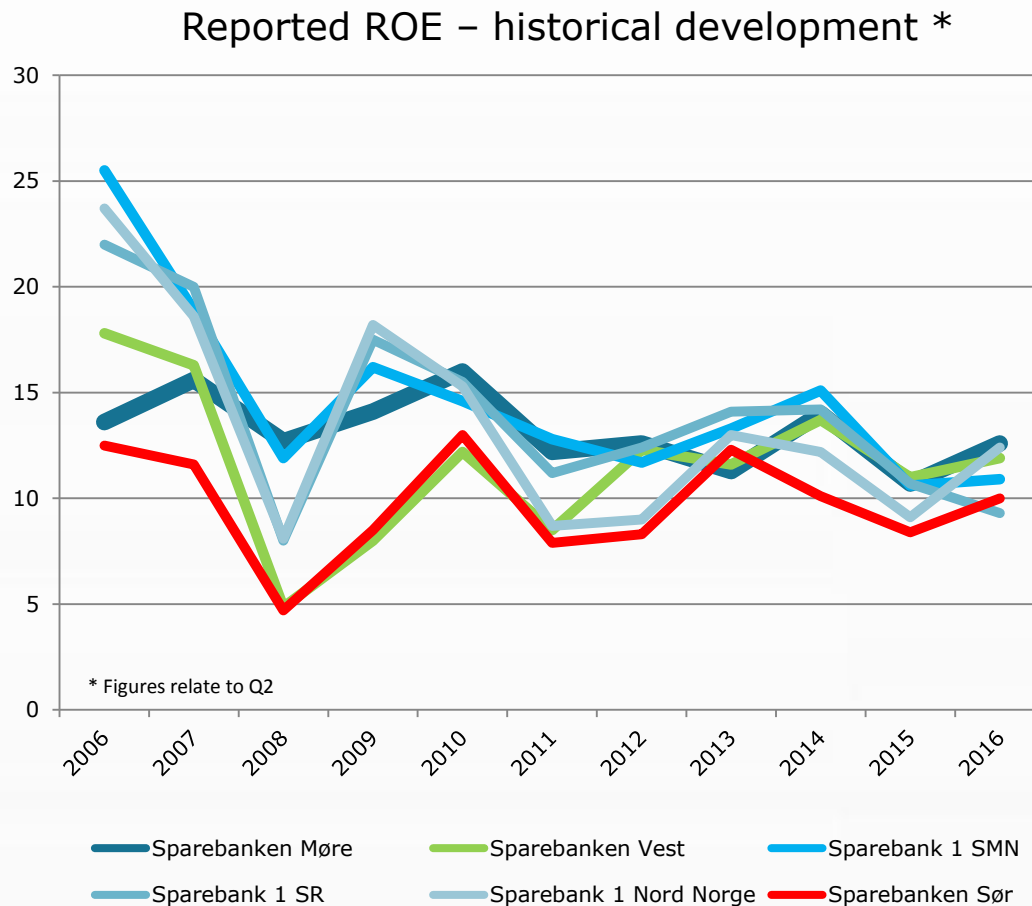


- The Norwegian economy is changing as a result of the consequences of the fall in oil prices. In our county we see the consequences differ between industries, however the total picture shows a favourable operating environment, albeit still high uncertainty
- Total assets ended at NOK 61.8 billion by quarter end
- We see a moderate growth in loans, very strong growth in deposits – the bank`s capital and liquidity position is strong
- The net interest margin is under pressure following high competition, different operating conditions, good liquidity and in general low interest rates
- The effect on profit before tax from the first part of the gain related to the Visa transaction was NOK 38 million in Q2 and further NOK 7 million in Q3
- Low level of loan losses and low volume of loans in default

### ROE in per cent



# High and stable return – based on our business model

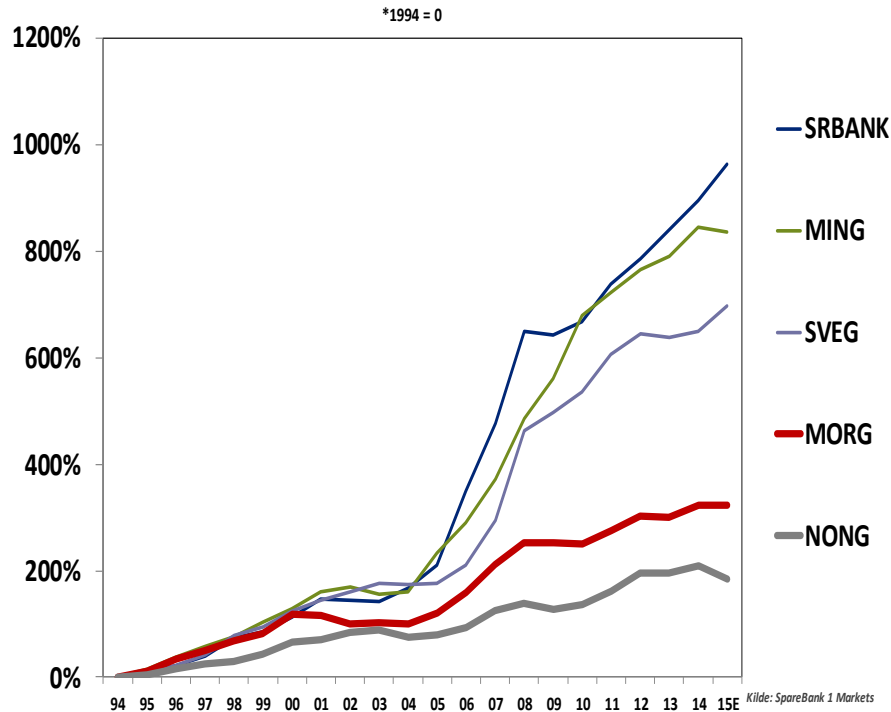


- Less volatile key figures for Sparebanken Møre compared with peers
- Consequences of policy decisions
  - ✓ Contract banking and a clean balance
  - ✓ Core banking focusing on traditional banking services
  - ✓ Focusing on lower growth to the corporate market
- Also compared with peers; our results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

## Rebalancing of lending

Sparebanken Møre was until the early 2000s the bank among regional banks with the highest losses, while our dividend policy, then as now, has the objective of achieving financial results which provide a good and stable return on the bank`s equity

### Lending to the corporate sector 1994-2015



A too high share of - and too large growth in the corporate segment was not consistent with the objective above, and deliberate choices in relation to growth rebalancing was taken

- ✓ Reduced growth rate in loans to the corporate sector (see figure left) – over the last 15 years, the corporate share of lending has been reduced from about 48% to less than 30%
- ✓ Clearly defined limits for exposure and growth in different business sectors
- ✓ Further emphasis on credit quality - especially in relation to fast growing sectors / industries



# *Introduction to the bank and the market*



# 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

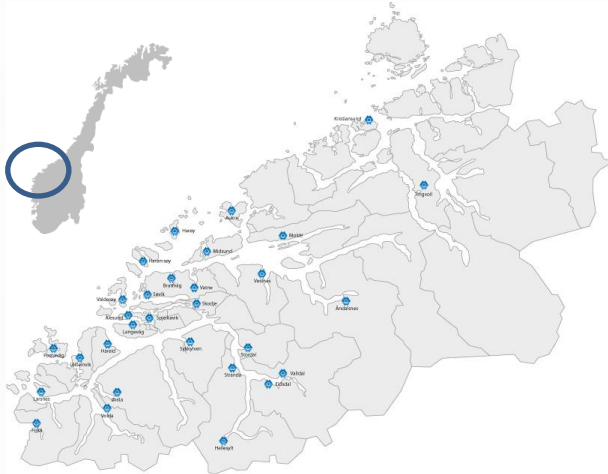
"High competence, financially solid and safe "



## Sparebanken Møre – a brief overview

- Sparebanken Møre is the 8th 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: 70.1 %
  - ✓ Deposits from the retail market: 57.2 %
- Sparebanken Møre is a fully fledged foreign exchange bank
- Sparebanken Møre is rated A2 (stable outlook) 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



- 263,719 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 about 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 has been 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. The order books are good for most of the yards, the industry has been highly skilled to adapt to other building projects than oil-related
- Over 75 % of the worlds large, hi-tech offshore vessels are designed in our area
- 40% of the world's most advanced offshore fleet is controlled by 19 ship owning companies in the region – some owners last year laid up vessels to balance the market

## Fisheries and seafood



- Norway has beaten all previous records and has exported seafood worth NOK 65 billion this year to date. This is an increase of 26 per cent or NOK 13.2 billion compared with the same period last year. 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 has been visited by more than 180 cruise vessels in 2016
- 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, 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 7 000 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
- Stabilized level of unemployment during the quarter, 3.0 %, national average of 2.8%
- Below average national real estate prices and above average disposable income levels

## Sparebanken Møre

- 8<sup>th</sup>. largest savings bank in Norway, solid financial performance with total assets of NOK 61.8 billion
- Market leader in main market, the county of Møre og Romsdal
- 70.1% of lending to retail customers, of which more than 95 % are mortgages
- Strong capitalization reflected by Core Capital of 17.3%, Core Tier 1 of 14.9% and a Leverage Ratio of 8.1%
- The Bank is rated A2 (stable) by Moody's



# *Results*



## Results

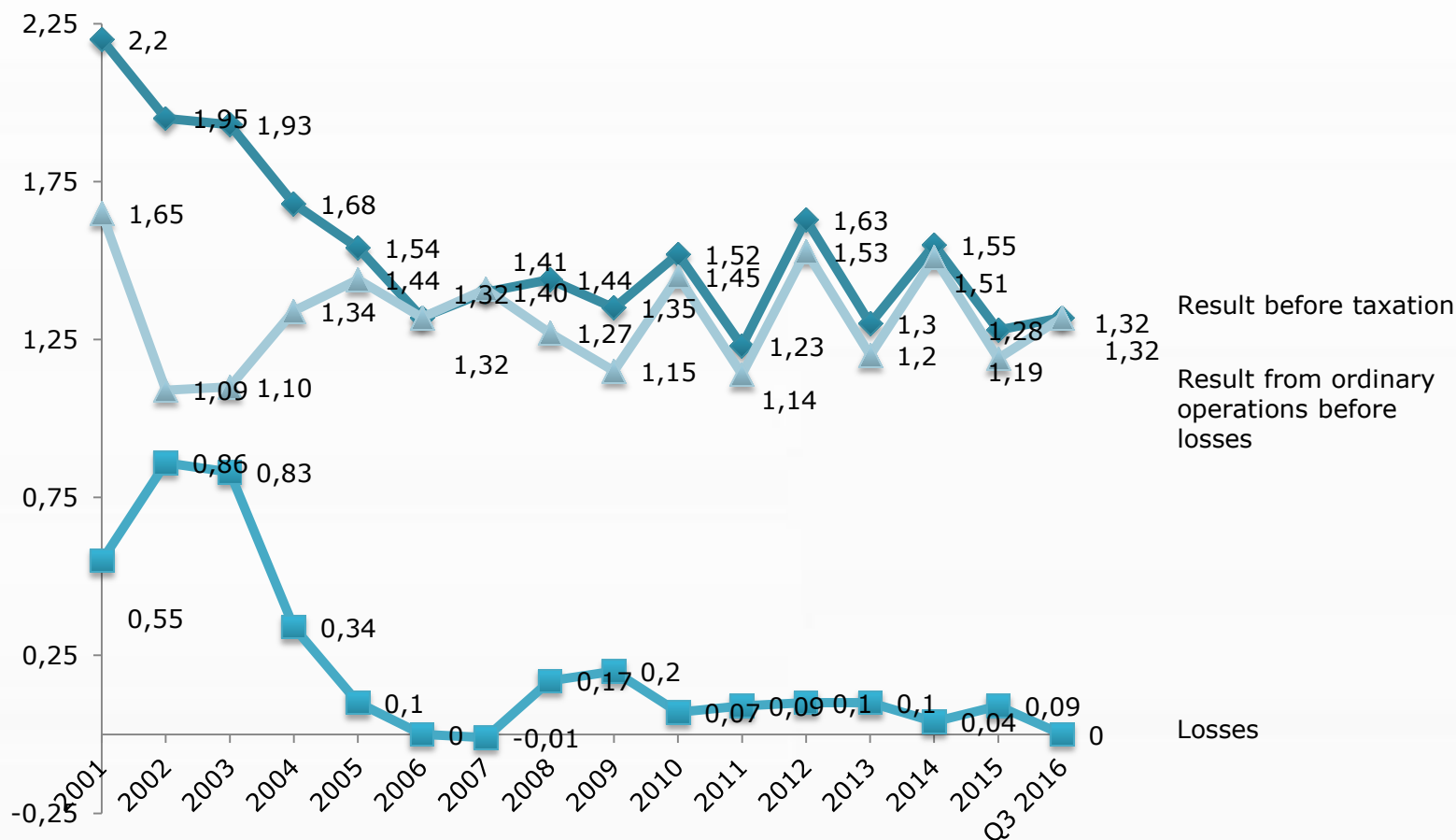
# Main figures

Results	Q3 2016		Q3 2015		Changes		
	NOK mill	%	NOK mill	%	NOK mill	p.p.	%
Net interest income	830	1.83	837	1.94	-7	-0.11	-0.8
Norwegian Banks` Guarantee Fund - fee	-27	-0.06	-24	-0.06	-3	0,00	12.5
Net interest income - total	803	1.77	813	1.88	-10	-0.11	-1.2
Net return, financial investments	27	0.06	56	0.12	-29	-0.06	-51.8
Gain Visa Transaction	45	0.10			45	0.10	
Gain/losses liquidity portfolio	27	0.06	-41	-0.09	68	0.15	
Other income	137	0.31	150	0.35	-13	-0.04	-8.7
Total other income	236	0.53	165	0.38	71	0.15	43.0
Total income	1,039	2.30	978	2.26	61	0.04	6.2
Personnel costs	249	0.55	248	0.57	1	-0.02	0.4
Other costs	194	0.43	189	0.44	5	-0.01	2.6
Total ordinary operating costs	443	0.98	437	1.01	6	-0.03	1.4
Result before credit losses	596	1.32	541	1.25	55	0.07	10.2
Losses on loans and guarantees	0	0,00	25	0.06	-25	-0.06	
Result before tax cost	596	1.32	516	1.19	80	0.13	15.5
Tax cost	138	0.31	141	0.33	-3	-0.02	-1.9
<b>Result after tax cost</b>	<b>458</b>	<b>1.01</b>	<b>375</b>	<b>0.86</b>	<b>83</b>	<b>0.15</b>	<b>22.1</b>
Total assets	61,790		59,641		2,149		
Lending	51,753		51,419		334		
Deposit from customers	32,350		29,286		3,064		
Capital	6,180		5,745		435		
Capital %	18.8		17.2				
Core capital %	17.3		15.7				
CET 1 %	14.9		13.3				
Leverage Ratio (LR) %	8.1		7.8				
ROE	12.4		10.8				
Cost/income ratio	42.6		44.7				
Earnings per EC (Group in NOK)	22.95		18.80				
Earnings per EC (Bank in NOK)	25.50		21.30				

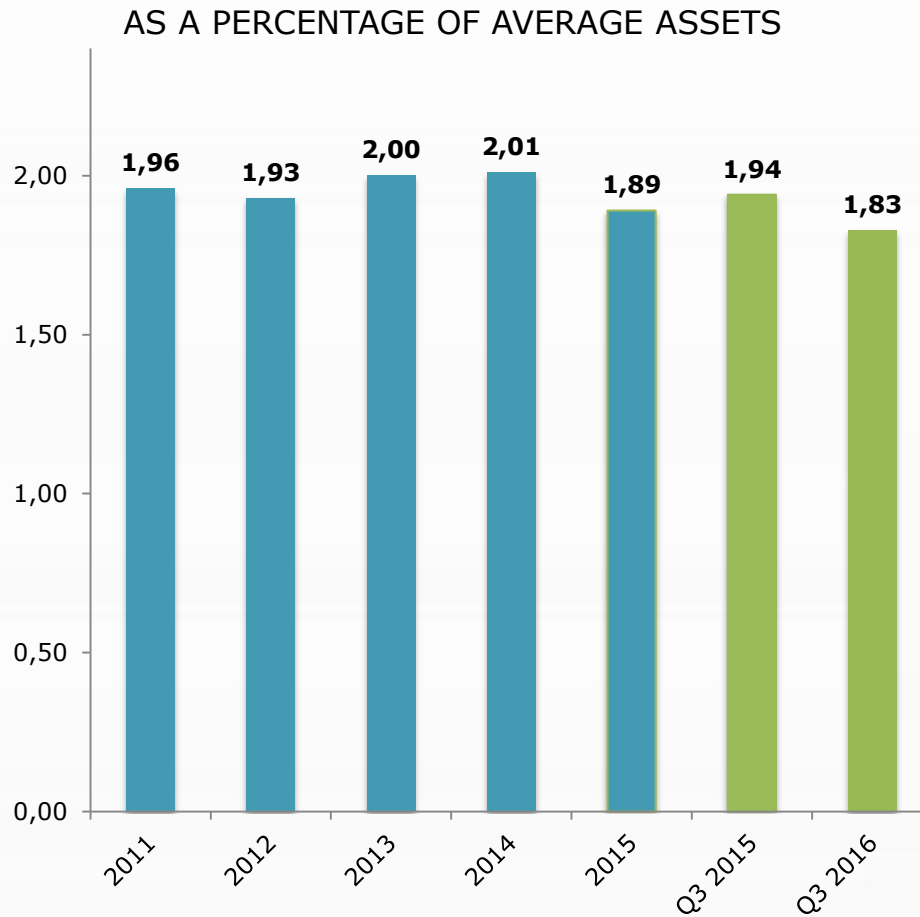


## Results

# Result as a percentage of average assets - still very low losses



## Lower net interest income

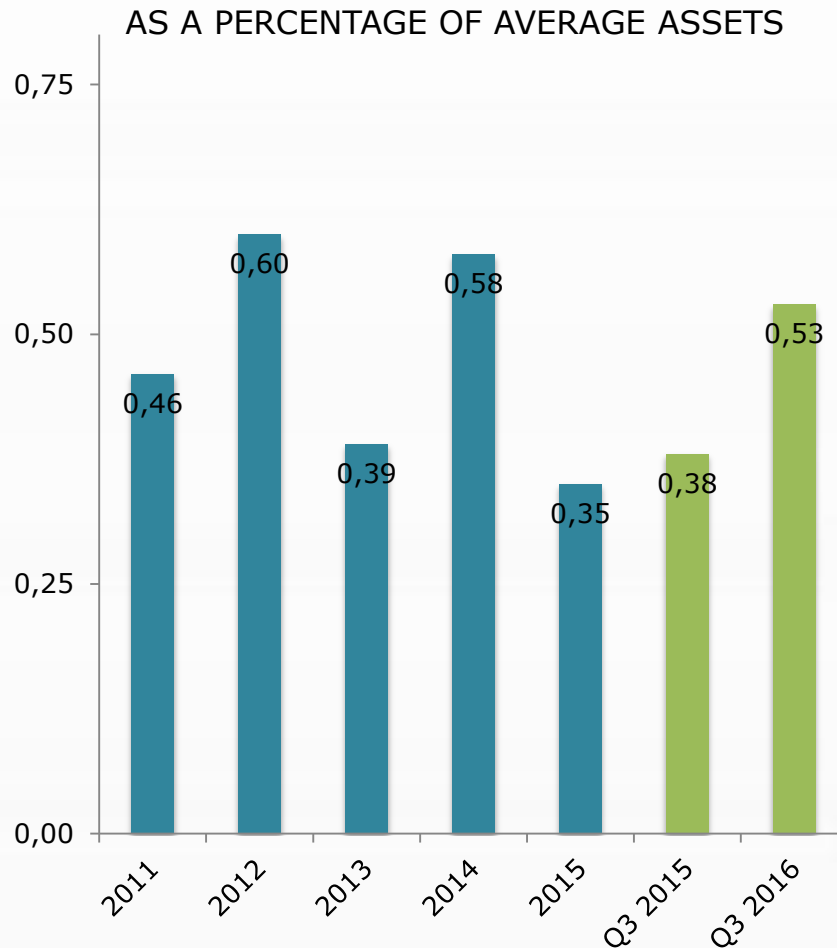


Net interest income is lower than in the three first quarters of 2015

- ✓ Strong competition on loans and deposits
- ✓ More liquidity on the balance sheet with higher quality
- ✓ Still low interest rate level with low return on free capital
- ✓ Gradually higher funding margins through 2015, levelling out in 2016



# Other operating income



Higher other operating income, compared with the three first quarters of 2015

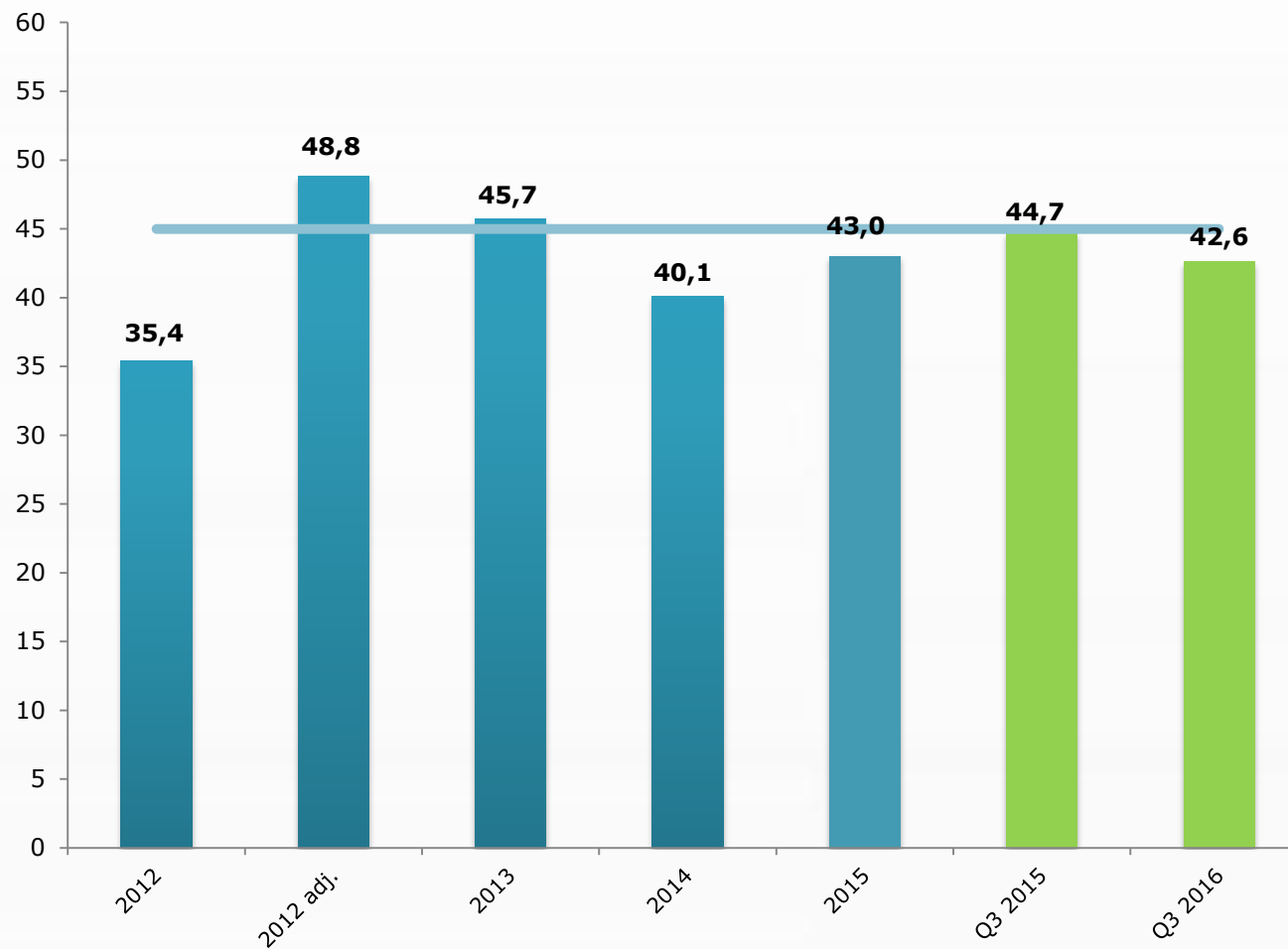
- Slightly higher income from customer`s hedging activity in the fx market, lower from the interest rate market and from financial instruments
- The market value of our liquidity portfolio is higher
- The Visa Transaction gives a strong positive contribution to other income
- Lower income from guarantees and from our real estate brokerage activity



## Results

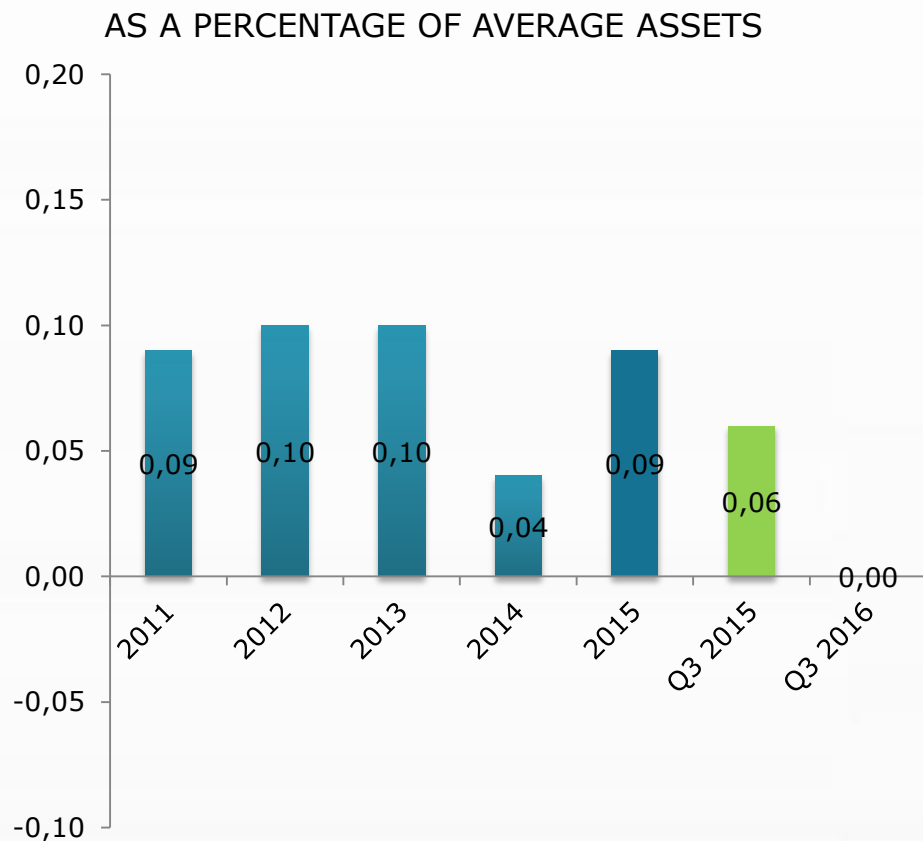
# Development in cost/income

- target will be met





## Losses at a very low level



Losses totalled NOK 0 million

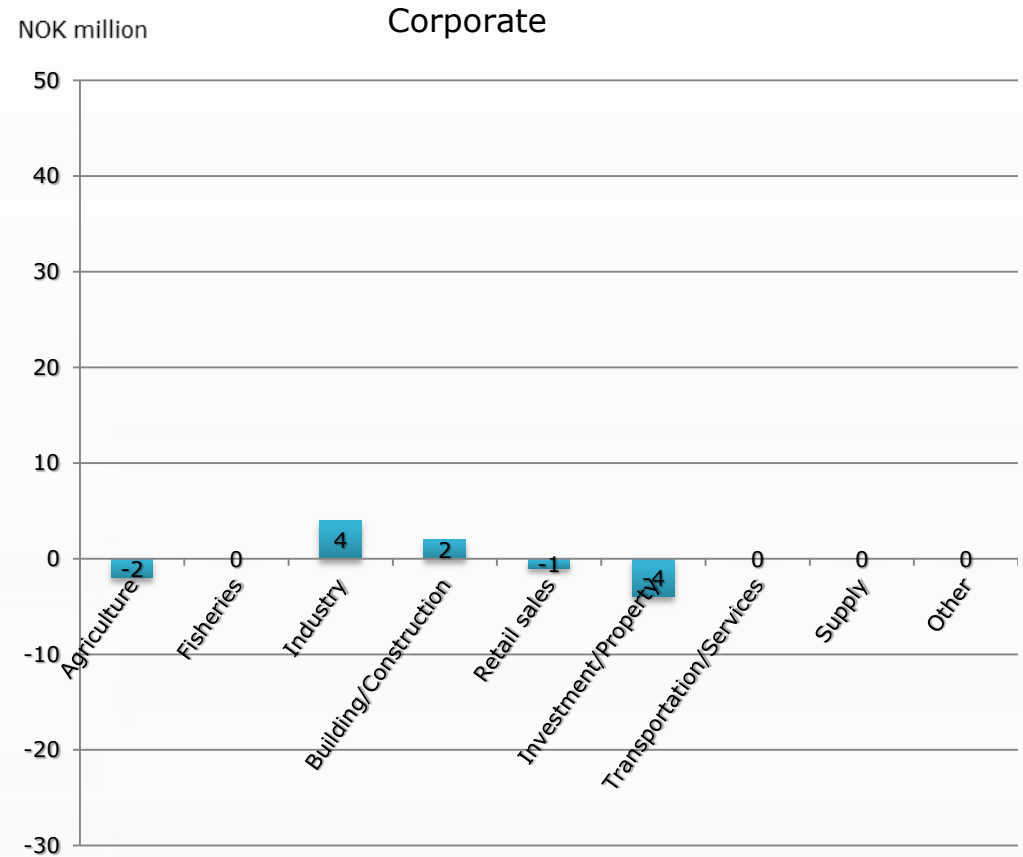
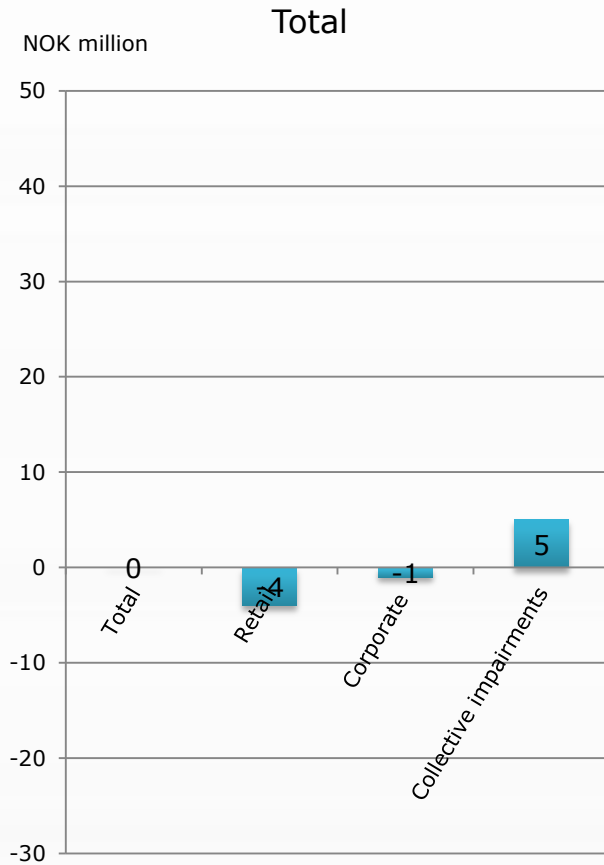
- Corporate: NOK -1 million
- Retail NOK -4 million
- Collective impairments NOK 5 million

Total impairments amounted to NOK 337 million by 30.09.2016



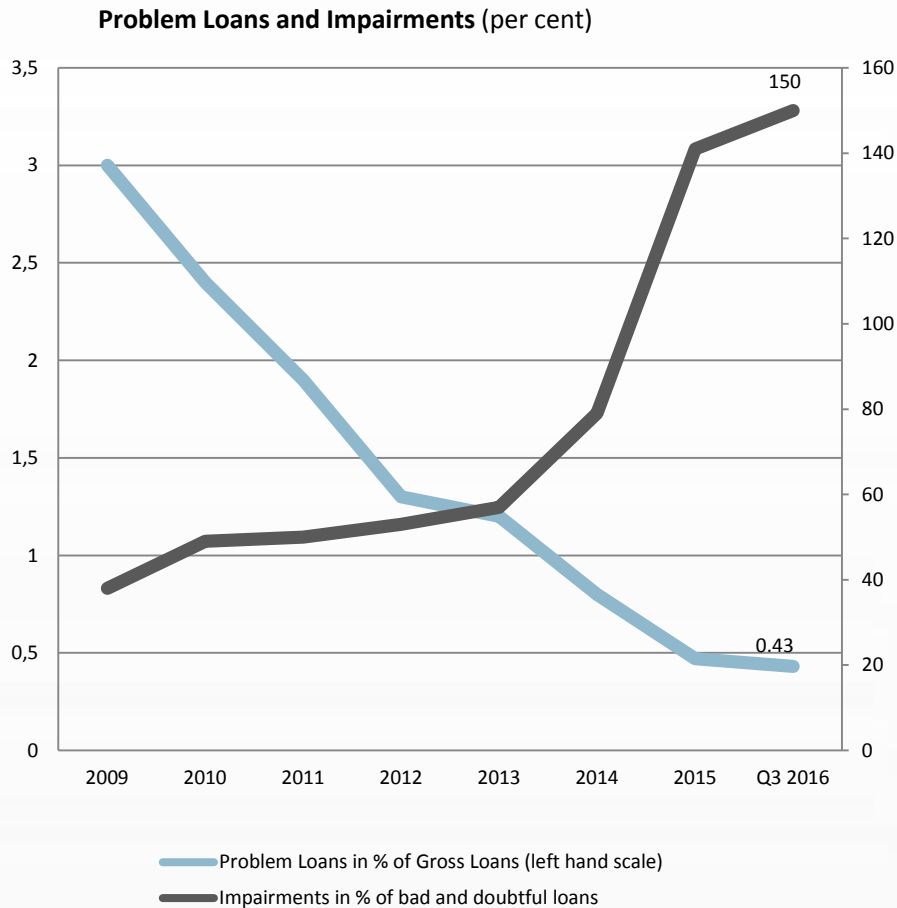
Results

# Losses - details



# Problem Loans and impairments

## - continued positive development

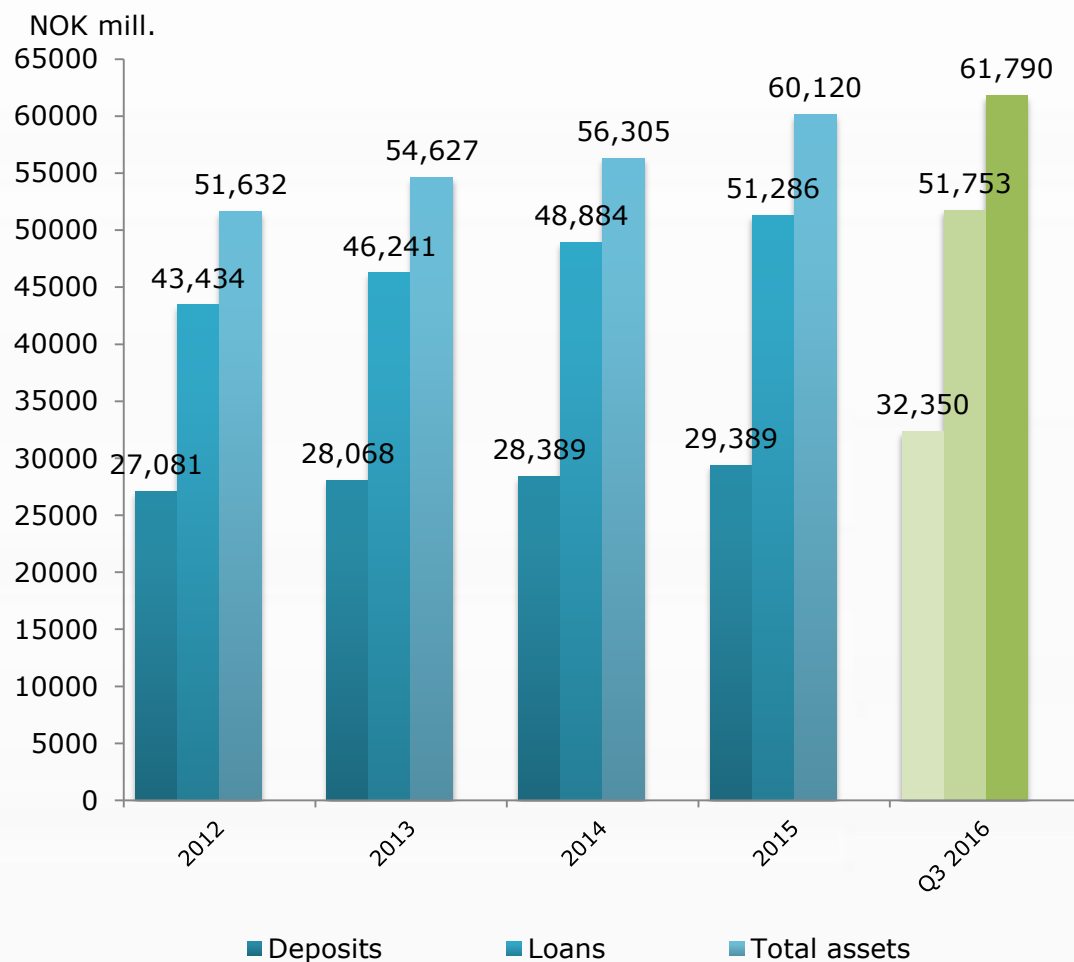


- The volume of Problem Loans has declined over the last years
- As a percentage of gross loans this figure ended at 0.43 % by the end of Q3 2016
- The Bank`s loan loss reserve coverage ratio shows a similar positive development and ended at 150 % by quarter end



## *Deposits and loans*

## Reduced growth



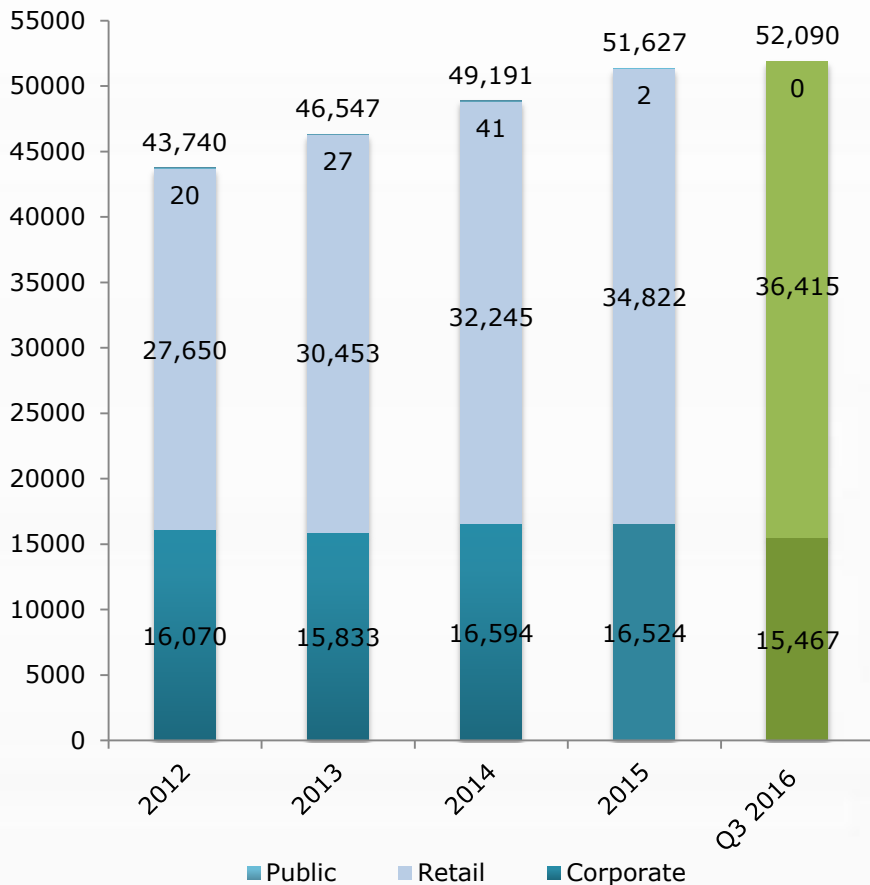
### Growth during the last 12 months

- Total assets      3.6%
- Loans (net)      0.6 %
- Deposits          10.5 %



# Lower growth - breakdown of gross lending

NOK mill.



## Annual net lending growth

2013:	6.2 %
2014:	5.7 %
2015:	4.9 %
Q3 2016:	0.6 %

## Lending growth last 12 months

Gross, retail banking	6.2 %
Gross, corporate	-9.8 %

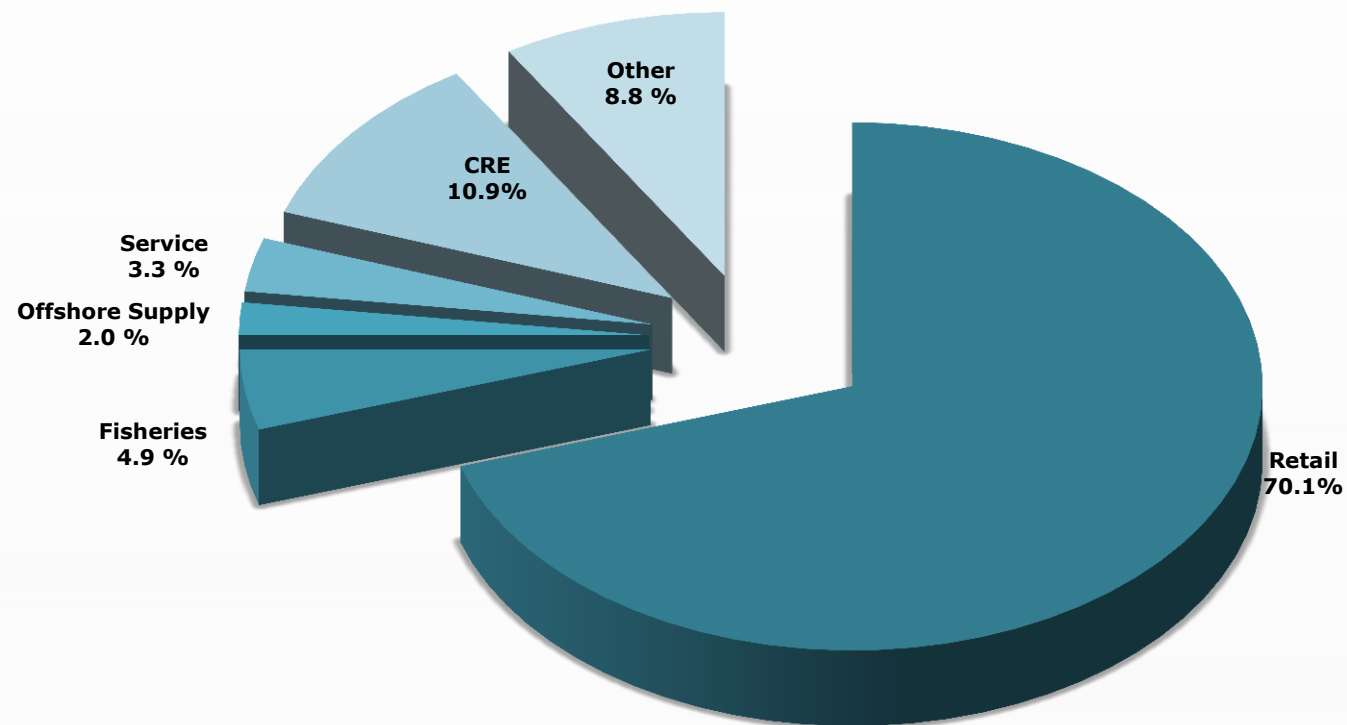
## Composition of loans

Retail market:	70.1 %
Corporate market:	29.9 %



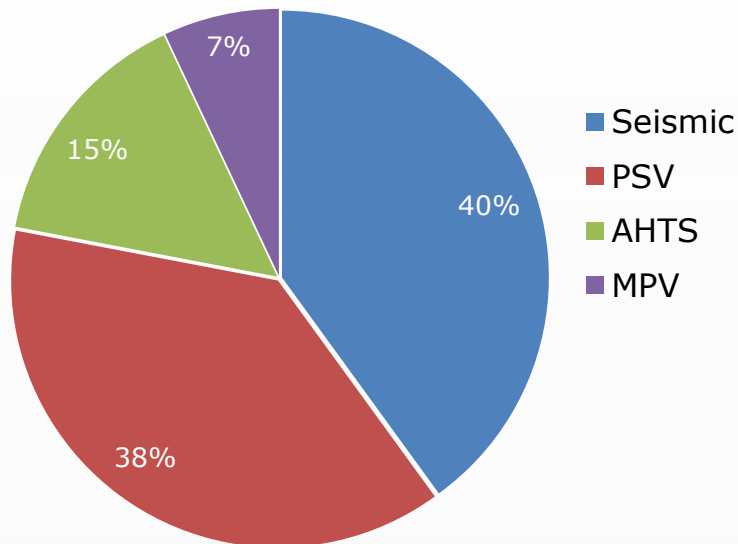


# Loans by sector



Other 8.8 %					
Other industry	1.3	Financial services	1.5	Agriculture	0.7
Building/construction	1.2	Fishing Industry	1.6	Furniture	0.1
Retail/wholesale trade	1.0	Ship Yards	1.0	Other	0.4

# Total exposure – Offshore/Supply



Segment	Exposure MNOK	Total	Guarantees	Loans
Seismic	813	40%	23%	55%
PSV	783	38%	64%	14%
AHTS	316	15%	13%	18%
MPV	139	7%	0%	13%
<b>Total</b>	<b>2,051</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Seismic

- Total exposure MNOK 813
- 3 companies and 10 ships
- Market leading counterparties

## PSV

- Total exposure MNOK 783
- 4 companies and 9 ships
- Largest exposure MNOK 262 on contract to 2020 with a very strong counterparty



## Impairments – Offshore/Supply

Impairments according to risk classes and EAD by end of Q3 2016

MNOK	EAD	Individual impairments	Collective impairments	Total	Percentage of EAD
Low risk (A-C)	946	0	0	0	0 %
Medium risk (D-G)	745	0	62	62	8 %
High risk (H-M)	424	0	107	107	25 %
Impaired commitments	0	0	0	0	0 %
<b>Total</b>	<b>2,116</b>	<b>0</b>	<b>169</b>	<b>169</b>	<b>8 %</b>



# Stronger growth - breakdown of deposits



## Annual deposit growth

2012:	6.9 %
2013:	3.6 %
2014:	1.1 %
2015:	3.5 %
Q2 2016:	10.5 %

## Deposit growth last 12 months

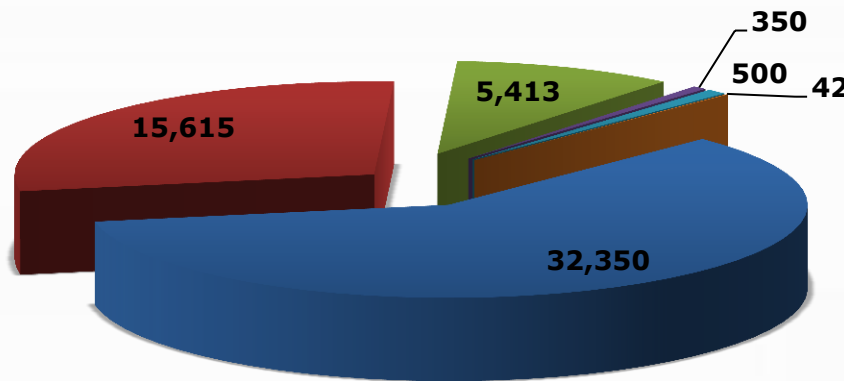
Retail sector	5.2 %
Corporate sector	20.0 %
Public sector	21.4 %



# *Funding and hedging*

# High deposit to loan ratio

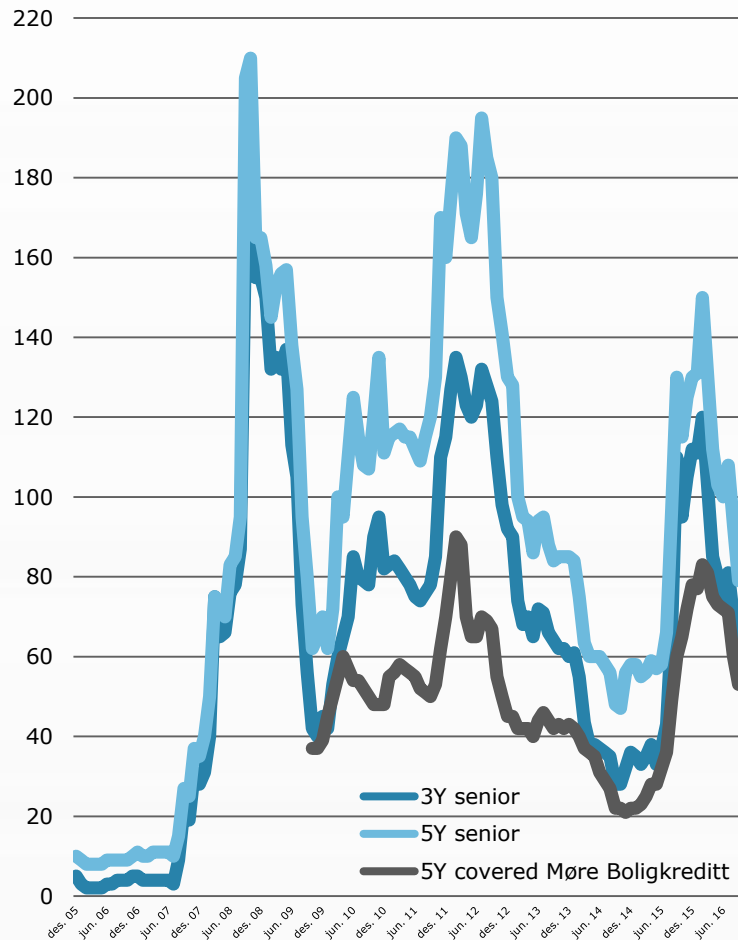
## - total financing by quarter end



- Deposits from customers are the Group`s most important source of funding
- We maintain a high deposit to loan ratio (62.5 % in the Group). Sparebanken Møre experiences the market access as very good
- Total market funding ended just above NOK 21.8 billion by quarter end – nearly 80 per cent with remaining maturity of more than one year
- Senior Bonds: Weighted average maturity of 1.98 years, Covered Bonds with a weighted average maturity of 3.81 years (FSA defined key figures)
- By quarter end four of Møre Boligkredit`s bond issues have a size that qualifies for Tier 2A liquidity in LCR. Møre Boligkredit AS will going forward issue and build up more loans in this category

# Lower funding margins

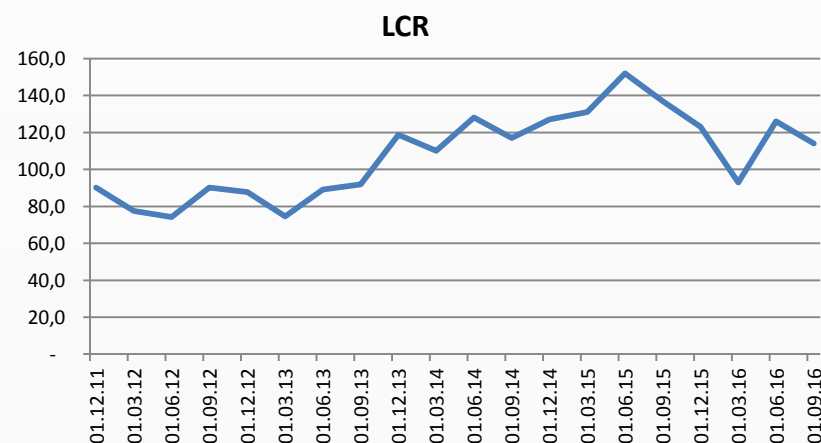
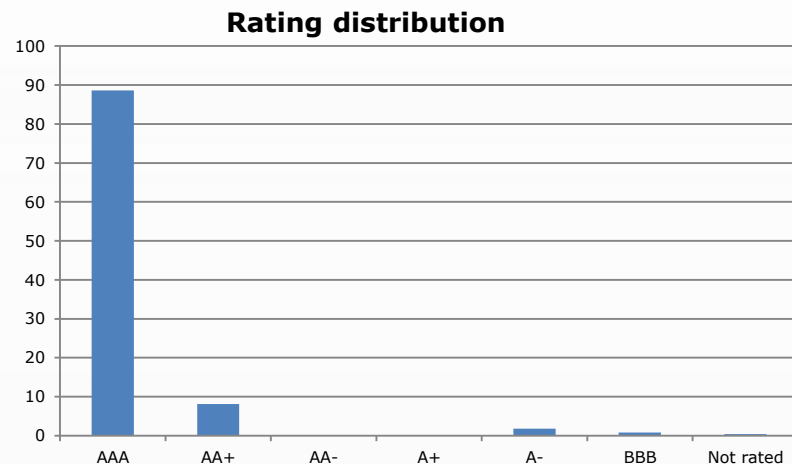
## Margins



- The bank's funding in excess of deposits are covered in the money and capital markets
- In the first half of 2015 we saw a slight recovery in margins in the market, but after the summer we recorded a sharp increase, accelerating especially in the second half of September and following Norges Bank's interest rate decision
- Margins rose further until the end of February this year and the liquidity was weak. Increase in margins during the period as a whole has been highest for senior bonds – these bonds also experienced the most positive development the last weeks of Q1 and in Q2
- The reduction in margins was current broken in connection with brexit, but continued through the late summer. Borrowing margins lies by the end of Q3 approximately at the level we saw in August/September last year
- The refinancing of existing loans and financing of new growth will be adapted to 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 also going forward maintain a share of senior financing according to bail in regulations and market expectations
- In addition to rating the LCR rules have led to differentiated margin pricing depending on size of the issue

# The quality of the liquidity portfolio is good - and LCR compliant

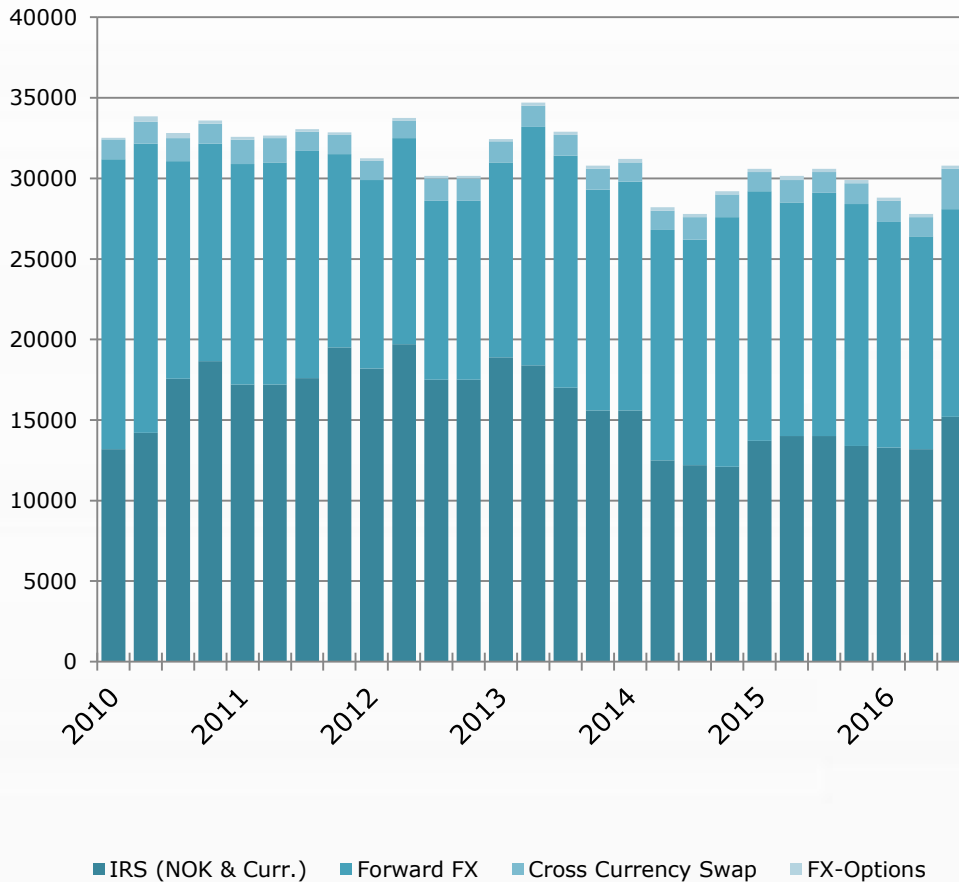
Rating	Market Value	Country	Market Value	Currency	Market Value
AAA	6.395.961	Norway	4.811.463	NOK	6.443.227
AA+	582.365	Denmark	574.867	EUR	555.337
AA-	16.808	Sweden	556.489	DKK	223.300
A+	10.034	Int'l org	375.513		
A-	131.924	Finland	293.836		
BBB	54.842	Germany	253.466		
Not rated	29.929	Luxembourg	214.240		
		Austria	50.007		
		Netherlands	46.984		
		UK	44.999		
<b>Total</b>	<b>7.221.864</b>	<b>Total</b>	<b>7.221.864</b>	<b>Total</b>	<b>7.221.864</b>





# Off balance activity - quarterly

NOK MILL



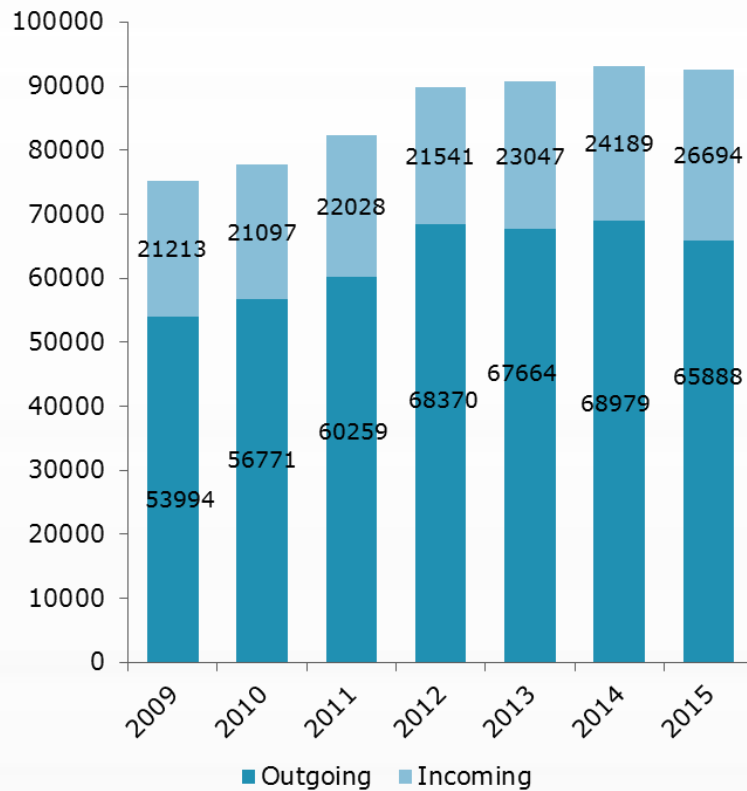
Low risk profile in the interest rate, equity and FX markets

- ✓ 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

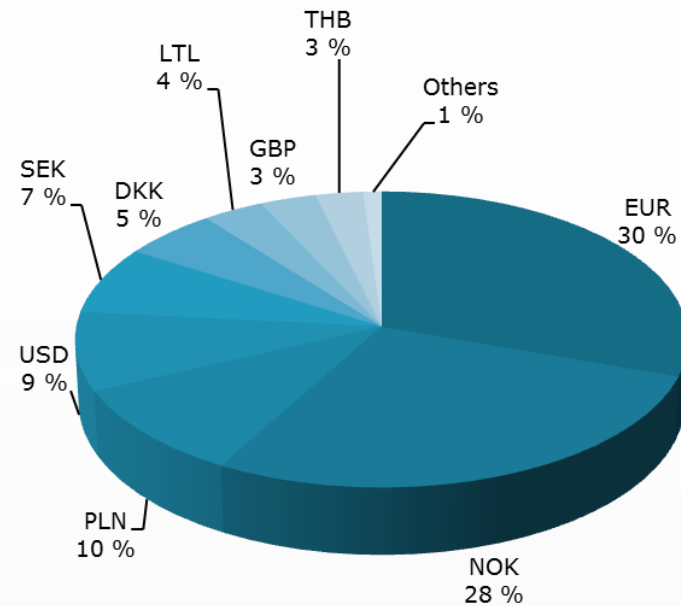


# Number of commercial payments

### No of payments



### No of payments per currency



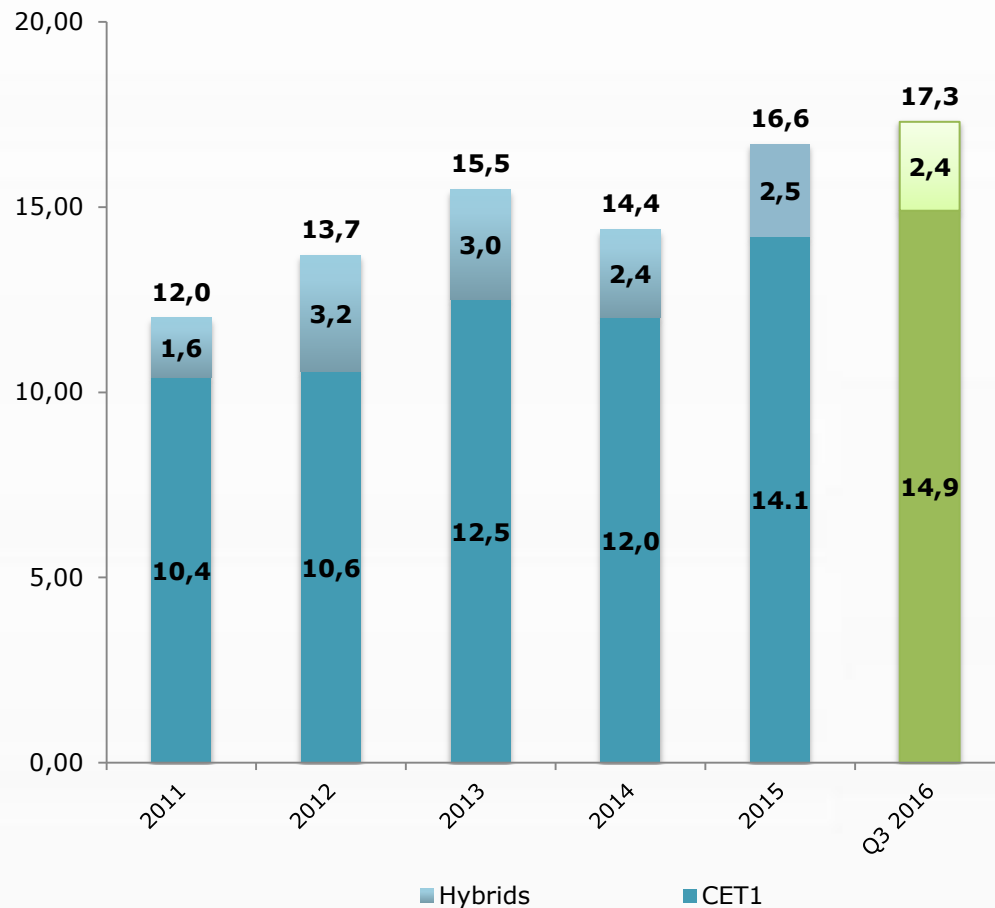


## *Equity and ECs*

Equity

# Equity and related capital:

- strong capital compliant with new requirements

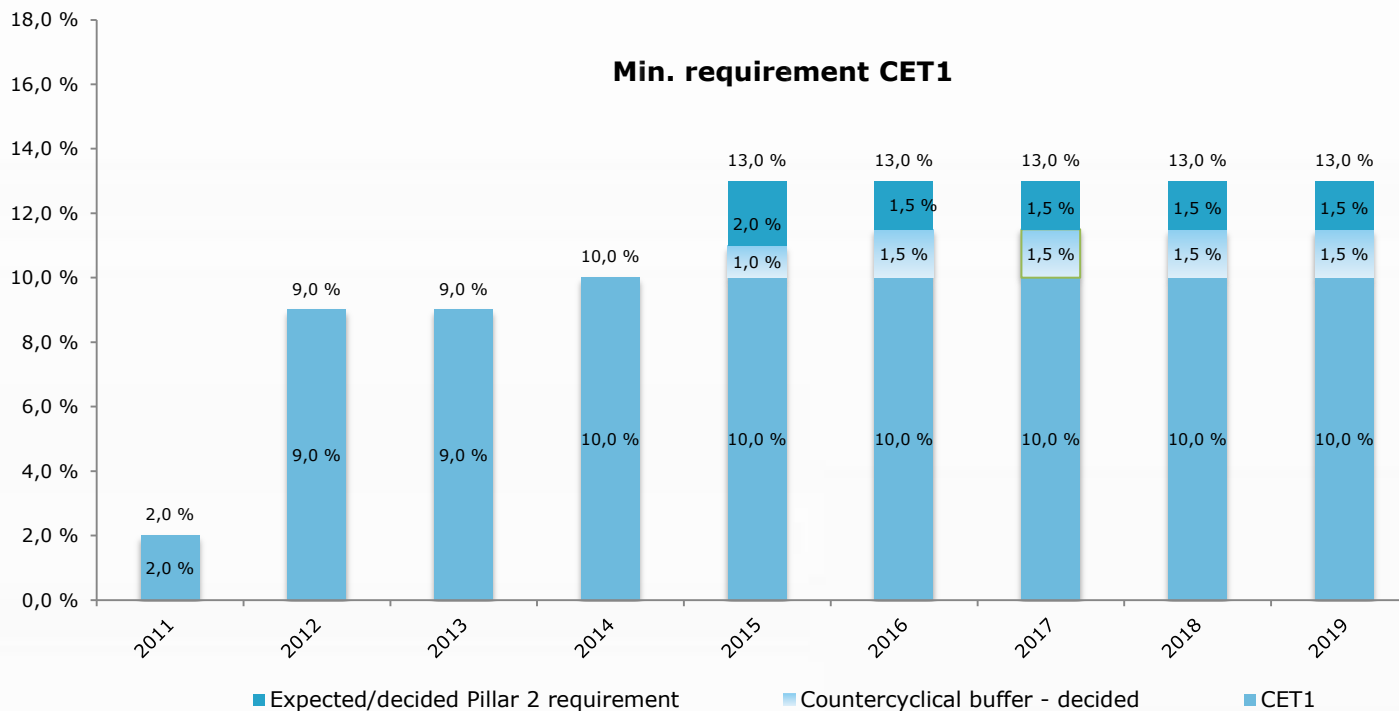


- Sparebanken Møre has built up our Core Capital over the last years and we are compliant with the new requirements
- Our capital is calculated according to the IRB Foundation Approach for corporate commitments, IRB Approach for the retail market
- From year end 2015 we have been hit by the Basel I floor



## Equity

# Strong 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. Our capital targets are:

- ✓ Total Capital: Min. 16.5 %
- ✓ Core Capital: Min. 14.5 %
- ✓ CET1: Min. 13.0 %

## 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.

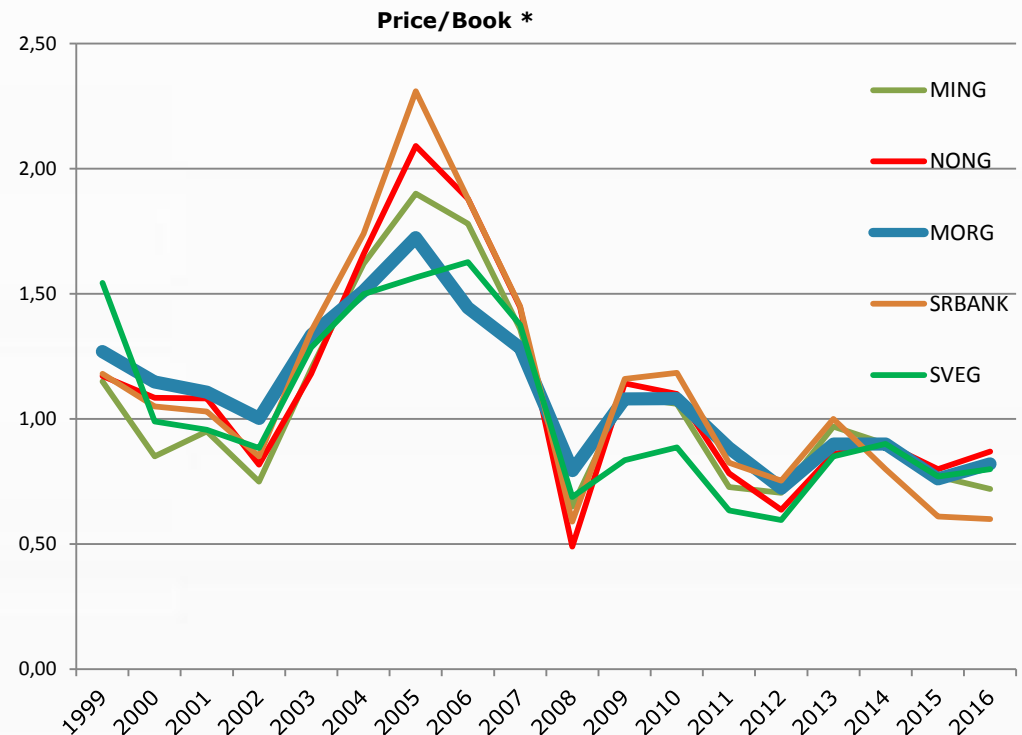
The equity owners’ share of the net result being set aside as dividend funds, will be adapted to the Bank’s equity situation. Sparebanken Møre’s allocation of earnings shall ensure that all equity owners are guaranteed equal treatment.”

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 2016
- In general Norwegian savings banks are traded at a discount compared to book value

Dividend pr. EC Sparebanken Møre:			
<b>1990</b>	10	<b>2003</b>	16
<b>1991</b>	0	<b>2004</b>	18
<b>1992</b>	0	<b>2005</b>	20
<b>1993</b>	13	<b>2006</b>	20
<b>1994</b>	12	<b>2007</b>	23
<b>1995</b>	13	<b>2008</b>	20
<b>1996</b>	13	<b>2009</b>	12
<b>1997</b>	13	<b>2010</b>	12
<b>1998</b>	15	<b>2011</b>	8
<b>1999</b>	16	<b>2012</b>	12
<b>2000</b>	17	<b>2013</b>	8
<b>2001</b>	17	<b>2014</b>	13.50
<b>2002</b>	15	<b>2015</b>	11.50



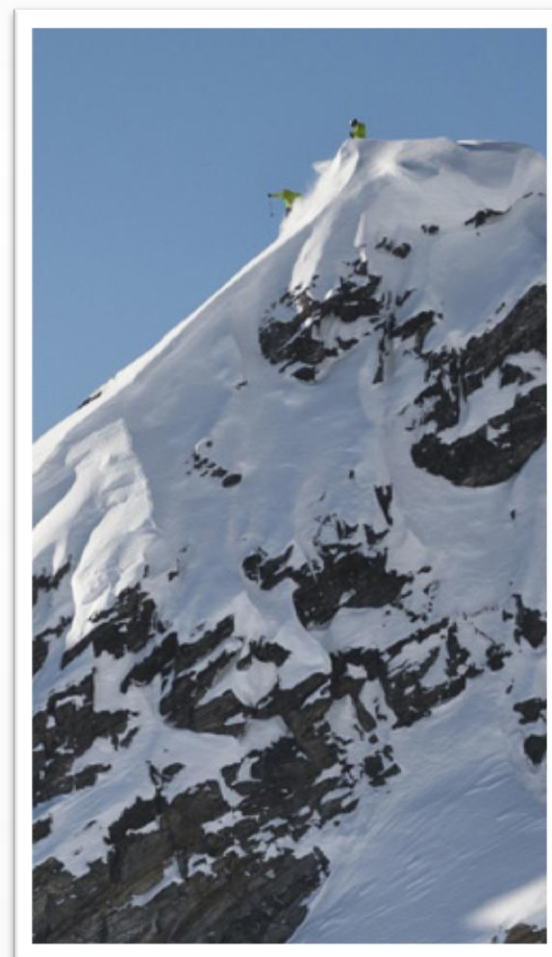
## Moderate production growth in Møre og Romsdal in 2017

Most sectors are doing well

- Increasing growth in traditional exports, in particular fish exports
- Higher demand for personal services
- Increased activity in the public sector and within construction.
- Further decline in oil investments and reduced production in the delivery industries
- Considerable restructuring in the labour market
- Unemployment seems to be levelling out. In September 2016 the registered unemployment rate was 3.0 per cent.

Most important risk factors:

- International economy
- The oil price and oil investments
- The Norwegian krone
- Domestic house prices





## Summing up and outlook

### From the CEO:

- Continued economic uncertainty
- The strong competition will continue
- Main targets from our business plan Møre 2020 will be met
  - ✓ *CET1 > 13.0 %*
  - ✓ *ROE > 10 %*
  - ✓ *Avoid losses*
  - ✓ *Healthy financial structure*





*Appendix:*

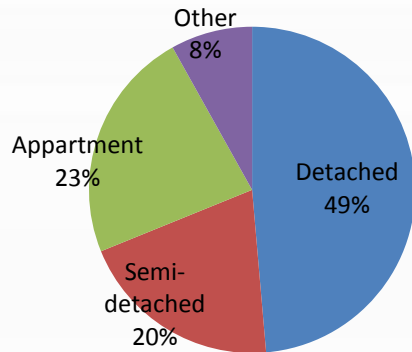
# *The Housing Market*

## Key characteristics

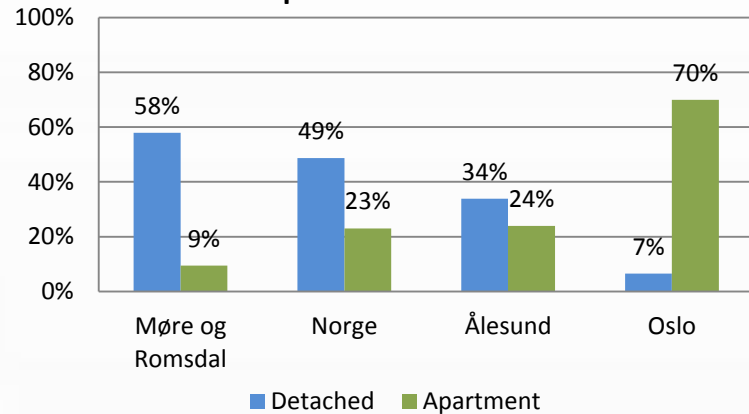
Home ownership	<ul style="list-style-type: none"><li>• Among the highest in the world – around 80% of households own their own home</li><li>• Limited buy-to-let market</li></ul>
Mortgage lending requirements	<ul style="list-style-type: none"><li>• LTV shall not exceed 85%</li><li>• Min. amortization of 2.5% per year or max. 30 year repayment if LTV exceed 70%</li><li>• Debt-service ability should be stressed for a 5 % increase in customer interest rate</li></ul>
Personal Liability	<ul style="list-style-type: none"><li>• Borrowers are personally liable for their debt – also after foreclosure / forced sale</li><li>• Transparent and reliable information about borrowers available to the lenders</li></ul>
Mortgage lending	<ul style="list-style-type: none"><li>• More than 95% of all mortgage lending is granted by banks / mortgage companies</li><li>• Approximately 90% of residential mortgages are floating rate loans</li><li>• The interest rate on floating rate mortgages can be increased with six weeks notice</li><li>• Typical residential mortgage maturity is 25-30 years</li></ul>
Social benefits	<ul style="list-style-type: none"><li>• According to OECD, Norway has the best unemployment benefits</li><li>• On average about 60% of previous salary paid benefit for 104 weeks minimum</li></ul>
Tax incentives	<ul style="list-style-type: none"><li>• All interest expenses are tax deductible at capital gains tax rate (25%)</li><li>• Property is given preferential treatment when calculating wealth tax</li><li>• Capital gain on dwellings is tax free under certain circumstances</li></ul>

# Differences in housing types and prices

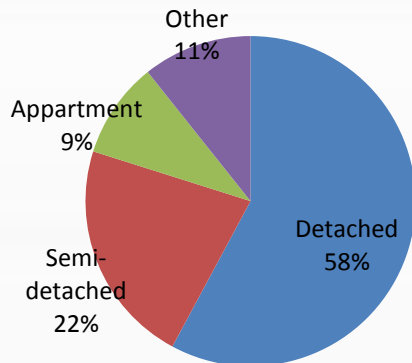
**Household housing type distribution  
- Norway**



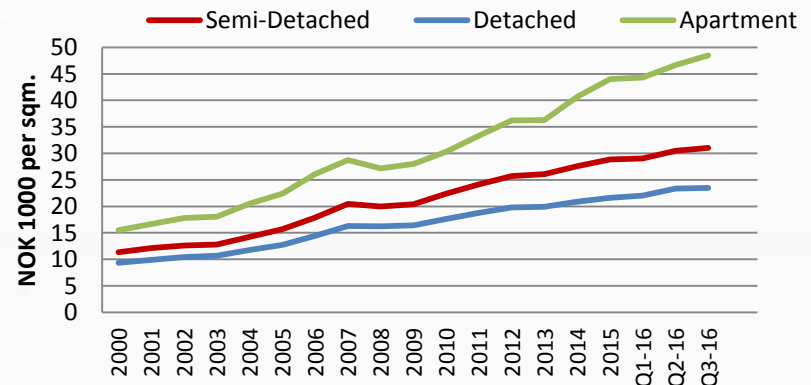
**Housing type distribution  
- Detached vs apartment**



**Household housing type distribution  
- Møre og Romsdal**



**Price development / housing types**



In Møre og Romsdal county detached and semi-detached housing are more common.

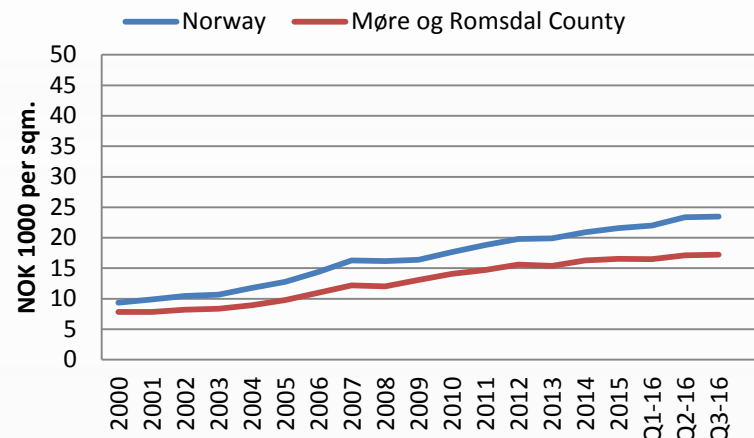


# Differences in development of housing prices

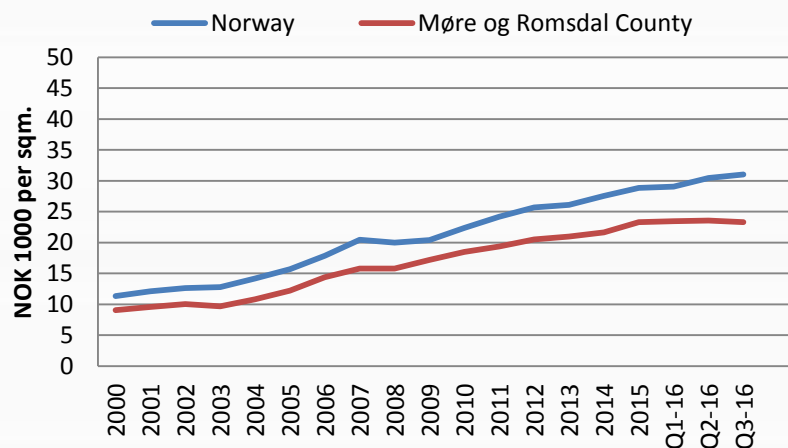
Year-over-year average growth in Norwegian housing prices by September 2016 is 10.0 per cent, compared to 3.0 per cent in Møre og Romsdal.

The average national price per square meter in Norway is higher than the average price per square meter in the county of Møre og Romsdal.

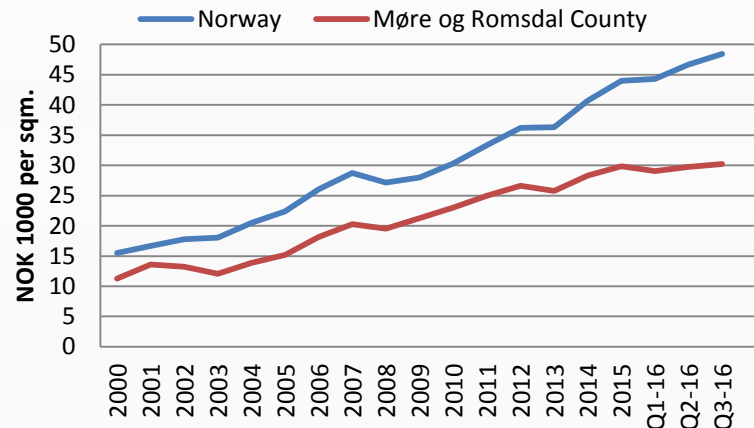
## Detached



## Semi-detached



## Apartment

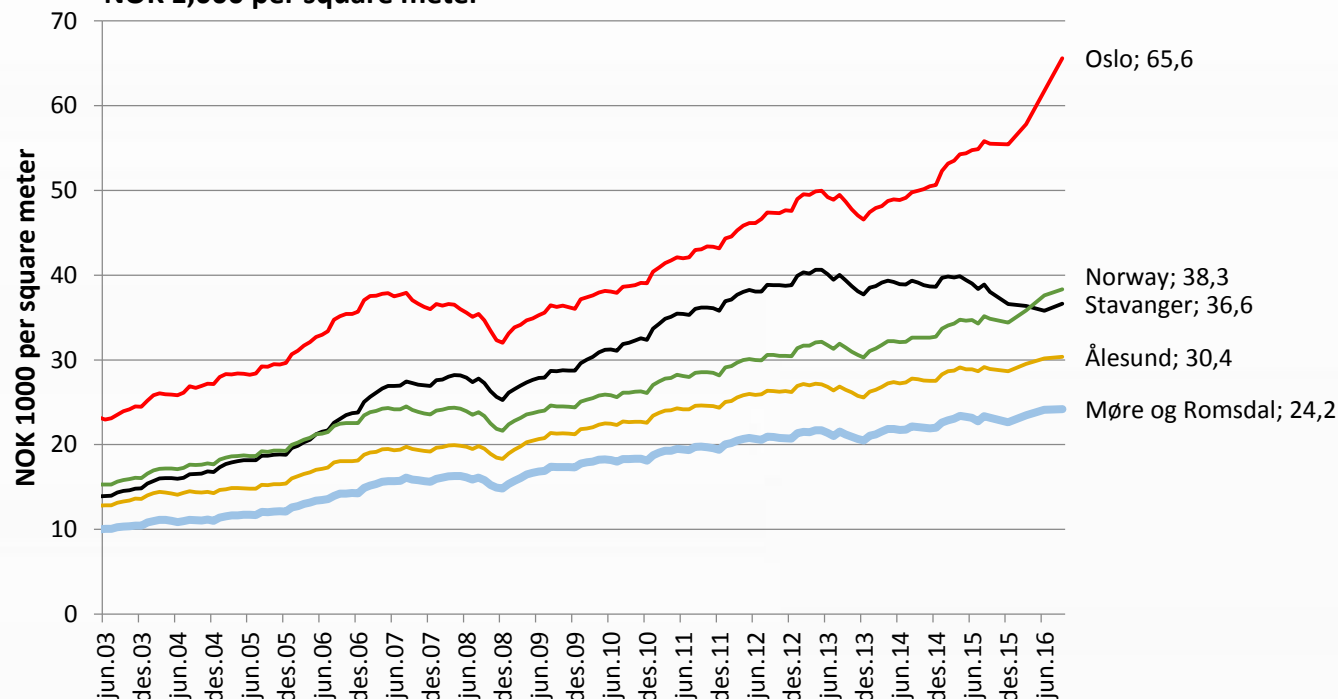




# Differences in house price

## Development in average house prices

-NOK 1,000 per square meter



In Oslo the average growth in house prices was +18.5 per cent last twelve months, compared to -5.3 per cent in Stavanger, and +6.0 per cent in the city of Ålesund.

The median house price in Norway was NOK 2.9 million in September 2016, compared to NOK 2.3 million in the county of Møre og Romsdal.

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