



# Sparebanken Møre - the Group

Presentation

4<sup>th</sup>. quarter 2015

# Agenda

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

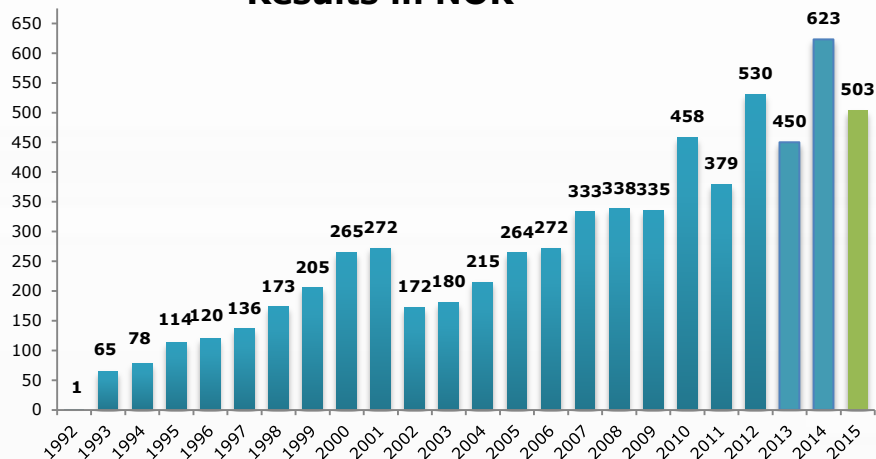




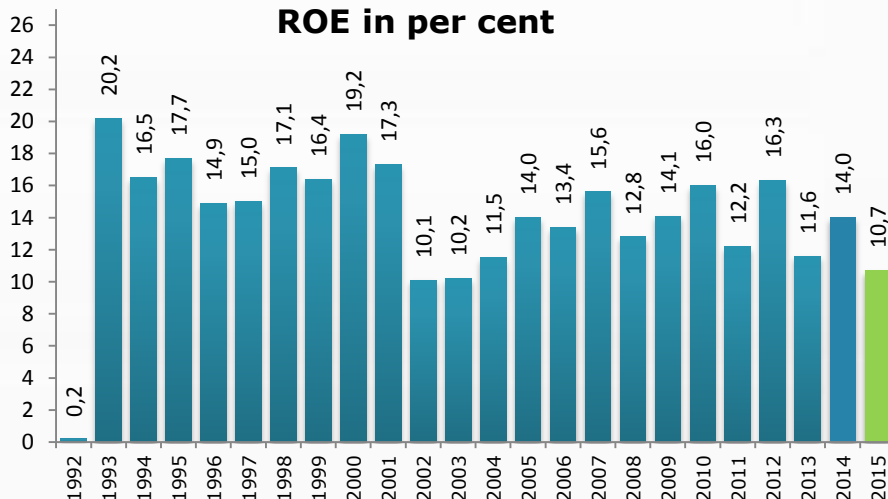
## Summary

# Historical performance – in NOK and ROE

### Results in NOK



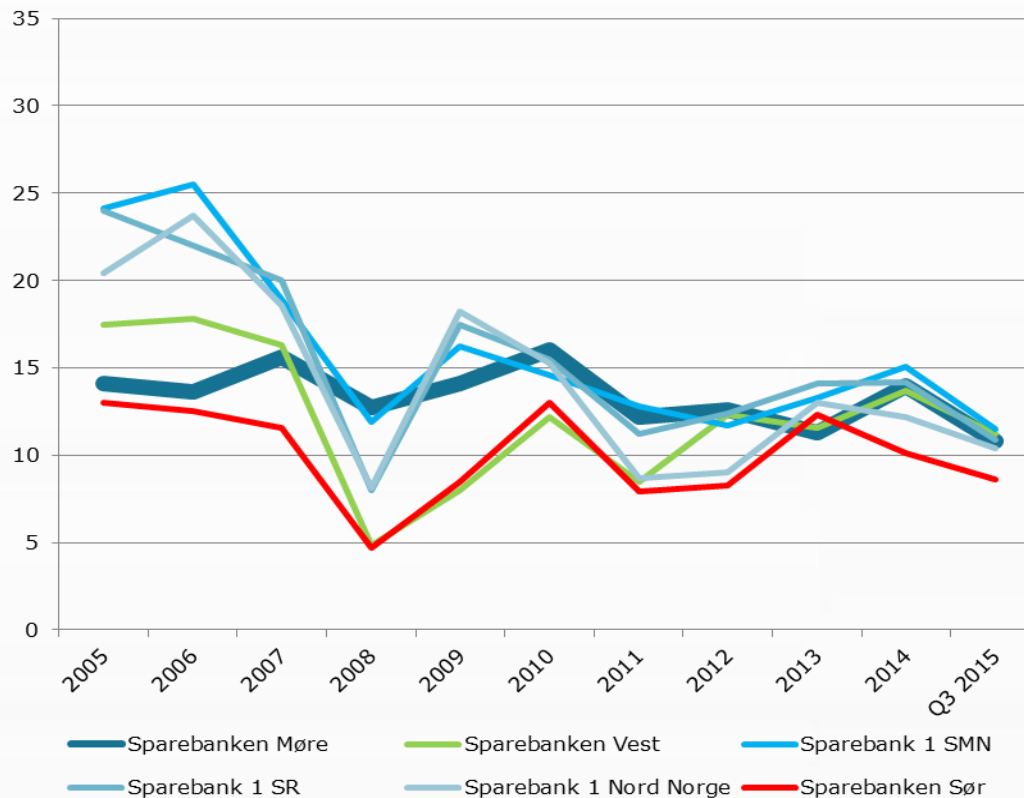
### ROE in per cent



- 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 and the total picture shows a favourable operating environment, albeit increased uncertainty
- Maintained high level of net interest income and strong cost-efficiency
- Low level of loan losses and low volume of loans in default
- Total assets about NOK 60.1 billion by year end
- Higher lending margins in the funding market and still strong competition in the deposits market
- The bank has from May 11<sup>th</sup> a BCA of Baa1 and A2 (stable) long term from Moody's – Møre Boligkreditt's issues are rated Aaa

# High and stable return – based on our business model

Reported ROE – historical development

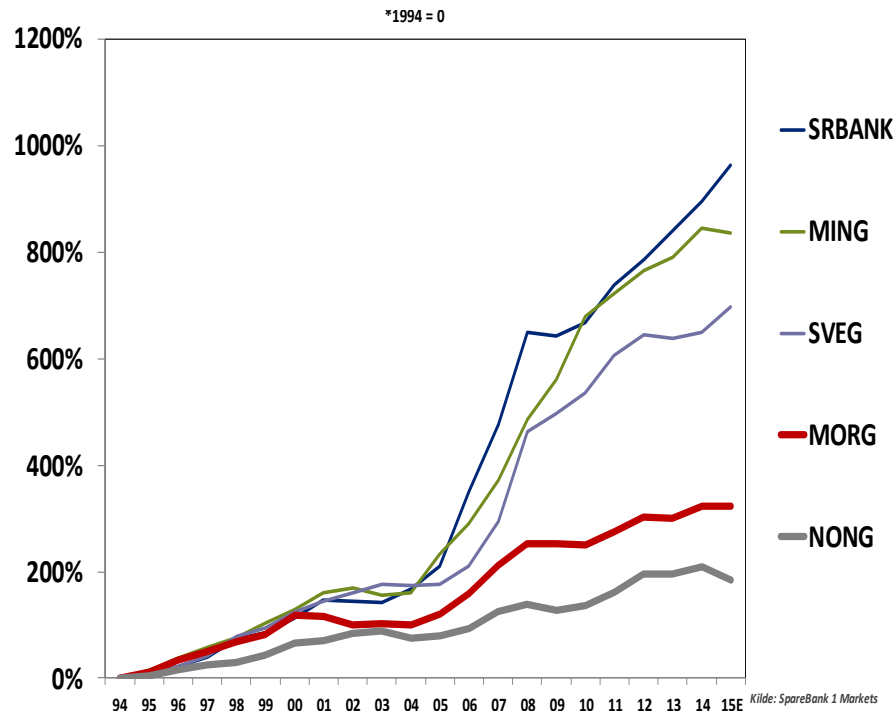


- Less volatile key figures for Sparebanken Møre compared with peers
- Consequences of policy decisions
  - ✓ Contract banking and a clean balance
  - ✓ Core banking focusing on traditional banking services
  - ✓ Focusing lower growth to the corporate market
- Also compared with peers; our results are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



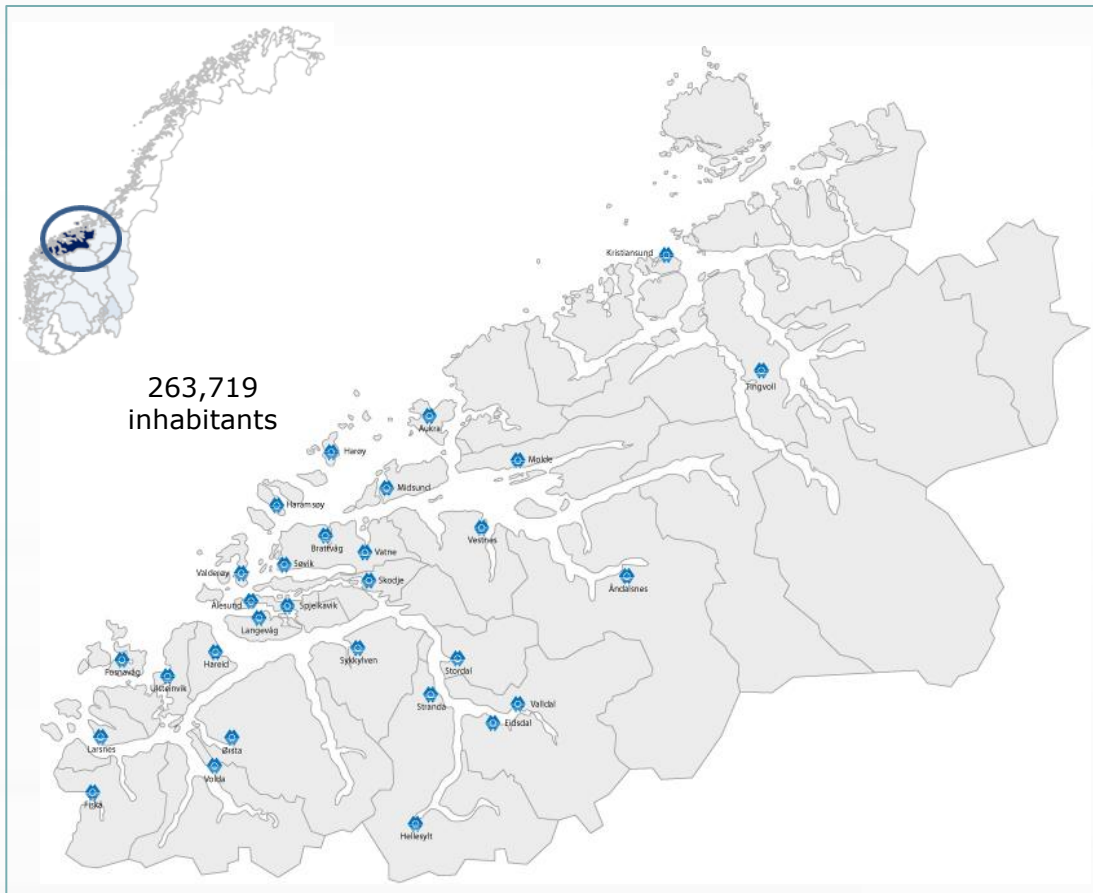
A too high share of - and too large growth in the corporate segment was not consistent with the objective above, and deliberate choices in relation to growth rebalancing was taken

- ✓ Reduced growth rate in loans to the corporate sector (see figure at left) – over the last 15 years, the corporate share of lending has been reduced from about 48% to 33%
- ✓ 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*

# Introduction to Sparebanken Møre



- Independent savings bank
- Head office in Ålesund
- 30 branches in Møre og Romsdal county
- NOK 60.1 billion in total assets, about 170,000 customers
- 388 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

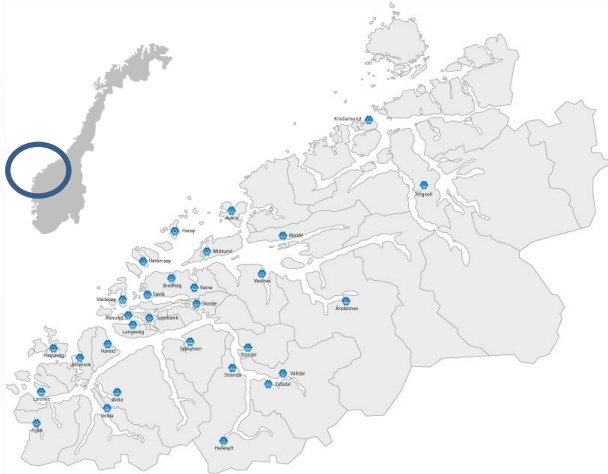
"High competence, financially solid and safe"



## Sparebanken Møre – a brief overview

- Sparebanken Møre is the 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: 67.5 %
  - ✓ Deposits from the retail market: 60.6 %
- 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 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, but fewer new contracts have been signed during 2015
- 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 – some owners last year laid up vessels to balance the market

## Fisheries and seafood



- The export value of Norwegian seafood hit an all time high in 2015. Norway exported seafood for NOK 75.4 billion (+ 8.0 per cent). 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 was visited by more than 190 cruise vessels in 2015
- 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
- Still low unemployment, 2.9%, well below national average of 3.0%
- Below average national real estate prices and above average disposable income levels

## Sparebanken Møre

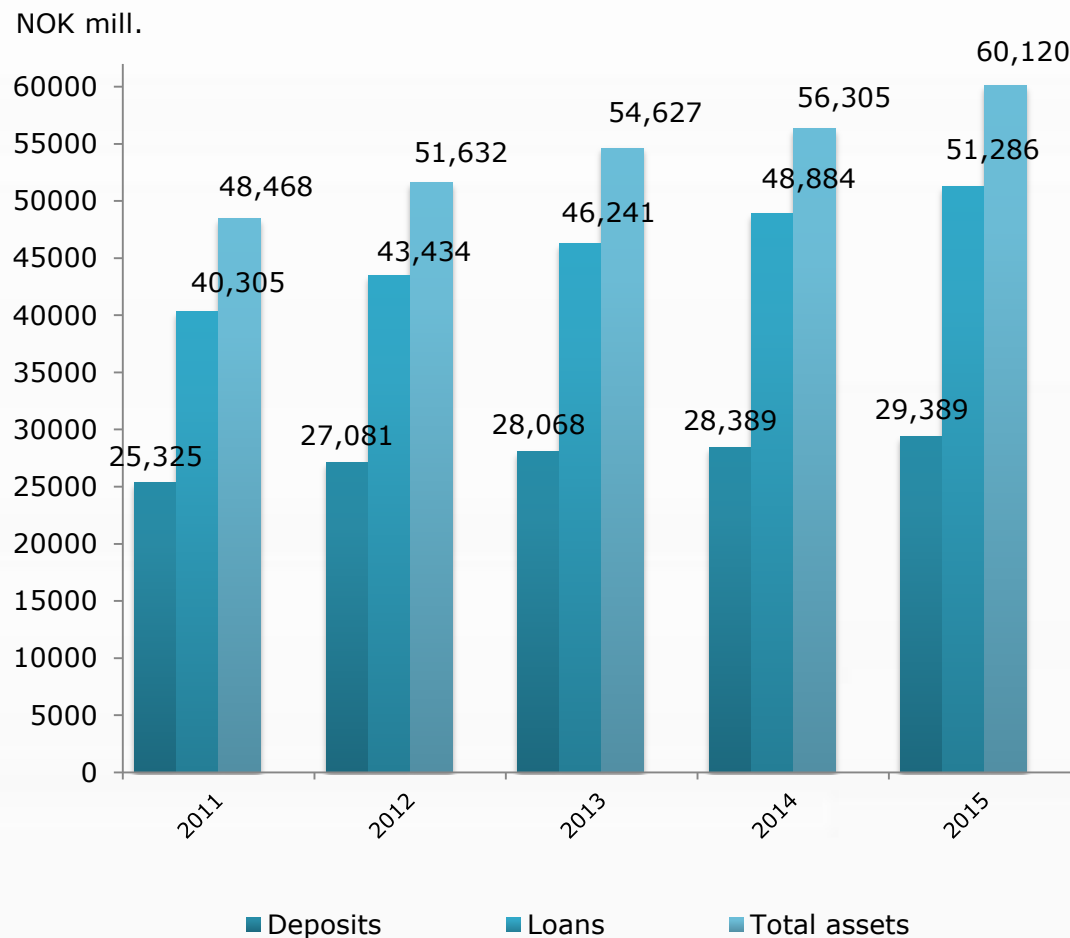
- 8<sup>th</sup>. largest savings bank in Norway, solid financial performance with total assets of NOK 60.1 billion
- Market leader in main market, the county of Møre og Romsdal
- 67% of lending to retail customers, of which more than 95 % are mortgages
- Strong capitalization reflected by Core Capital of 16.4% and Core Tier 1 of 14.2%
- The Bank is rated A2 (stable) by Moody's



## *Deposits and loans*



# Good growth

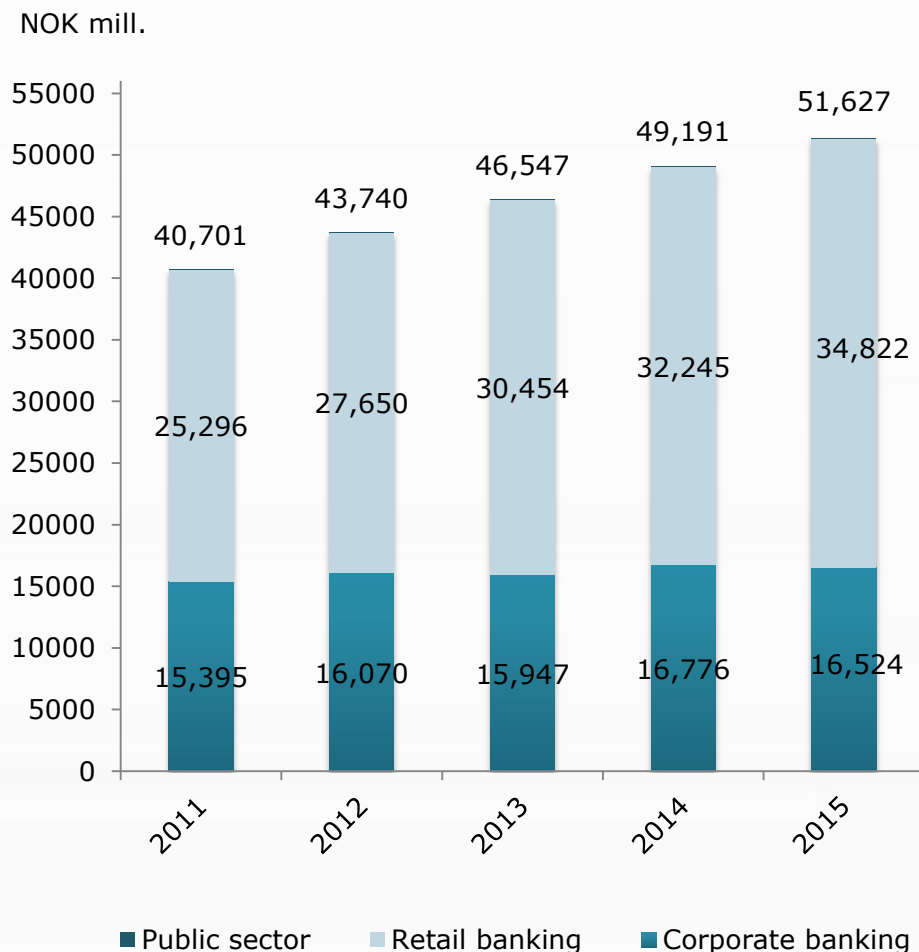


## Growth during the last 12 months

- Total assets            6.8 %
- Loans (net)            4.9 %
- Deposits                3.5 %



# Breakdown of gross lending



## Annual net lending growth

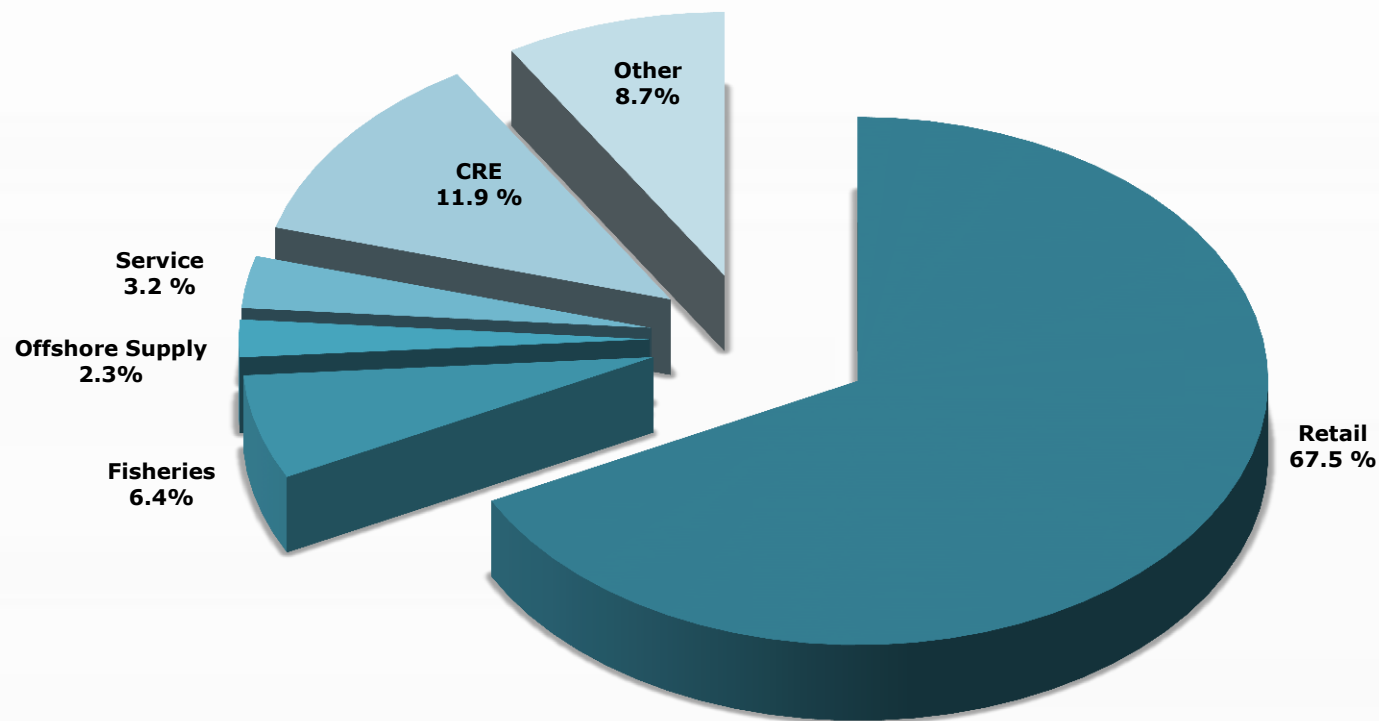
2012:	7.8 %
2013:	6.2 %
2014:	5.7 %
2015:	4.9 %

## Lending growth last 12 months

Gross, retail banking	8.0 %
Gross, corporate	-0.7 %
Gross, public sector	-



# Loans by sector

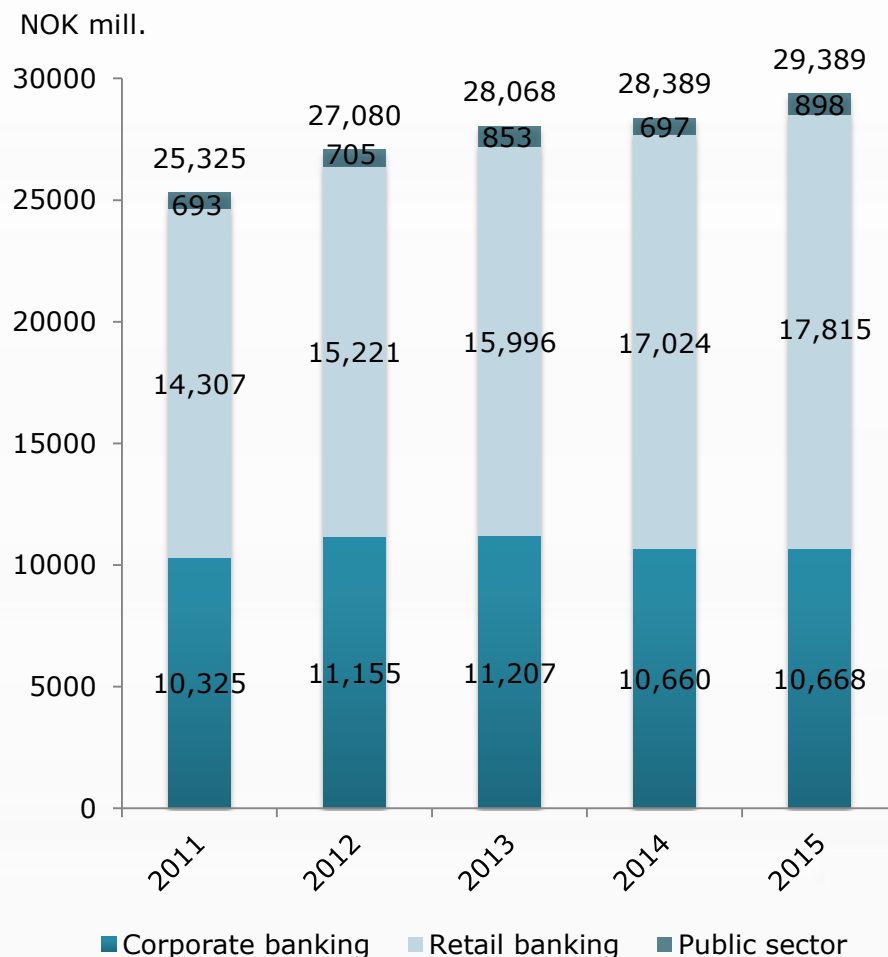


Other 8.7 %					
Other industry	1.2	Financial services	1.7	Agriculture	0.7
Building/construction	1.2	Fishing Industry	1.1	Furniture	0.1
Retail/wholesale trade	1.0	Ship Yards	1.5	Other	0.6





# Breakdown of deposits



## Annual deposit growth

2011:	3.2 %
2012:	6.9 %
2013:	3.6 %
2014:	1.1 %
2015:	3.5 %

## Deposit growth last 12 months

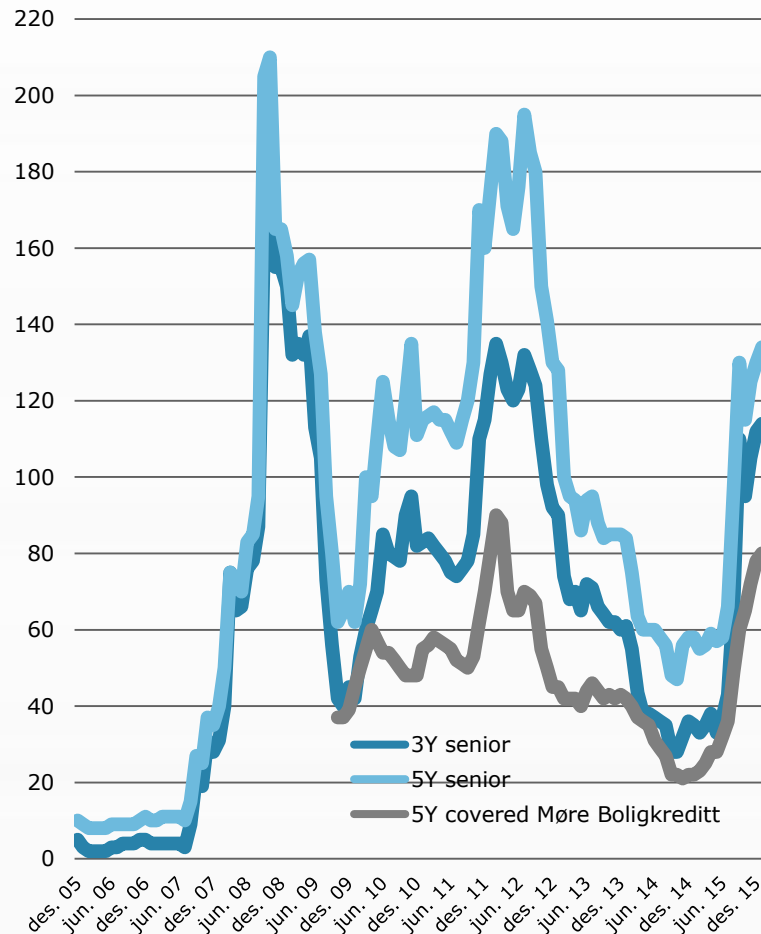
Retail banking	4.7 %
Corporate banking	0.1 %
Public sector	28.8 %



# *Funding and hedging*

# Higher funding margins

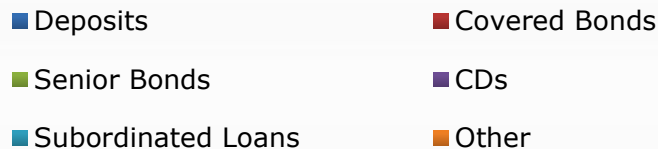
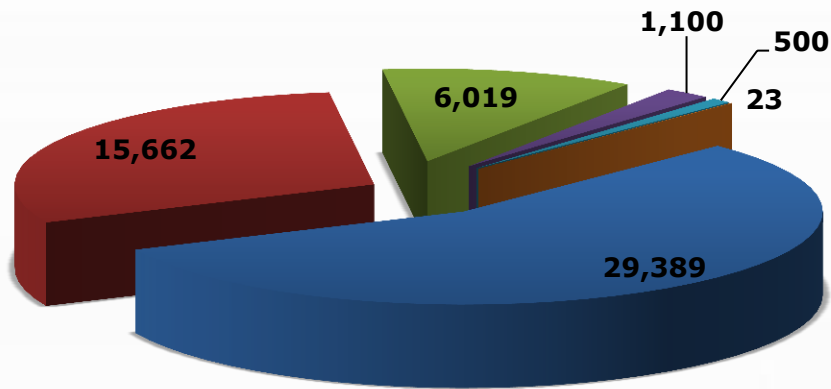
Margins



- Since the beginning of 2012 we saw funding margins fall until year end 2014. In the first two quarters of 2015 margins rose slightly, but over the last two quarters this development changed
- The margins in the Norwegian funding market rose markedly in the first half of September, but accelerated particularly in the second half of the month and following Norges Bank's interest rate decision. The margins rose further in Q4. Liquidity was weak
- 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 therefore inter alia maintain a level of bail in able capital at least at the level we had at the end of 2013
- Sparebanken Møre is rated A2 (stable) and Covered Bonds issued by Møre Boligkreditt AS are rated Aaa by Moody's. We receive good credit rating from Scandinavian investment banks
- In addition to rating the LCR rules have led to differentiated margin pricing depending on size of the issue

# High deposit to loan ratio

## - total financing by quarter end



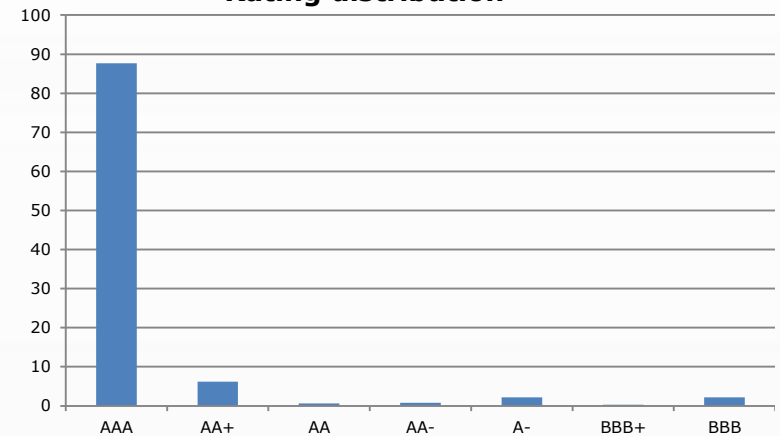
- Deposits from customers are the Group`s most important source of funding
- We maintain a high deposit to loan ratio (57.3 % in the Group). Sparebanken Møre experiences the market access as very good
- Total market funding ended just above NOK 23.3 billion by year end 2015 – approximately 85 per cent with remaining maturity of more than one year
- Senior Bonds: Weighted average maturity of 1.84 years, Covered Bonds with a weighted average maturity of 4.14 years (FSA defined key figures)
- By year end four of Møre Boligkreditt`s bond issues have a size that qualifies for Tier 2A liquidity in LCR. Møre Boligkreditt AS will going forward issue and build up more loans in this category

## Liquidity

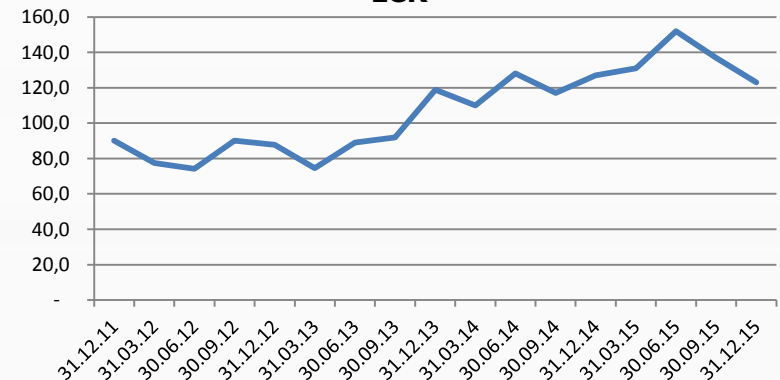
# The quality of the liquidity portfolio is good - and LCR compliant

Rating	Market Value	Country	Market Value	Currency	Market Value
AAA	4.108.196	Norway	2.782.784	NOK	4.156.883
AA+	302.255	Sweden	474.392	EUR	547.708
AA	29.593	Int'l org	338.870		
AA-	41.166	Finland	268.361		
A	49.211	Germany	257.506		
A-	105.381	Luxembourg	218.843		
BBB+	15.067	Denmark	213.633		
BBB	53.721	Netherlands	51.012		
		Austria	50.012		
		Great Britain	49.179		
<b>Total</b>	<b>4.704.591</b>	<b>Total</b>	<b>4.704.591</b>	<b>Total</b>	<b>4.704.591</b>

Rating distribution

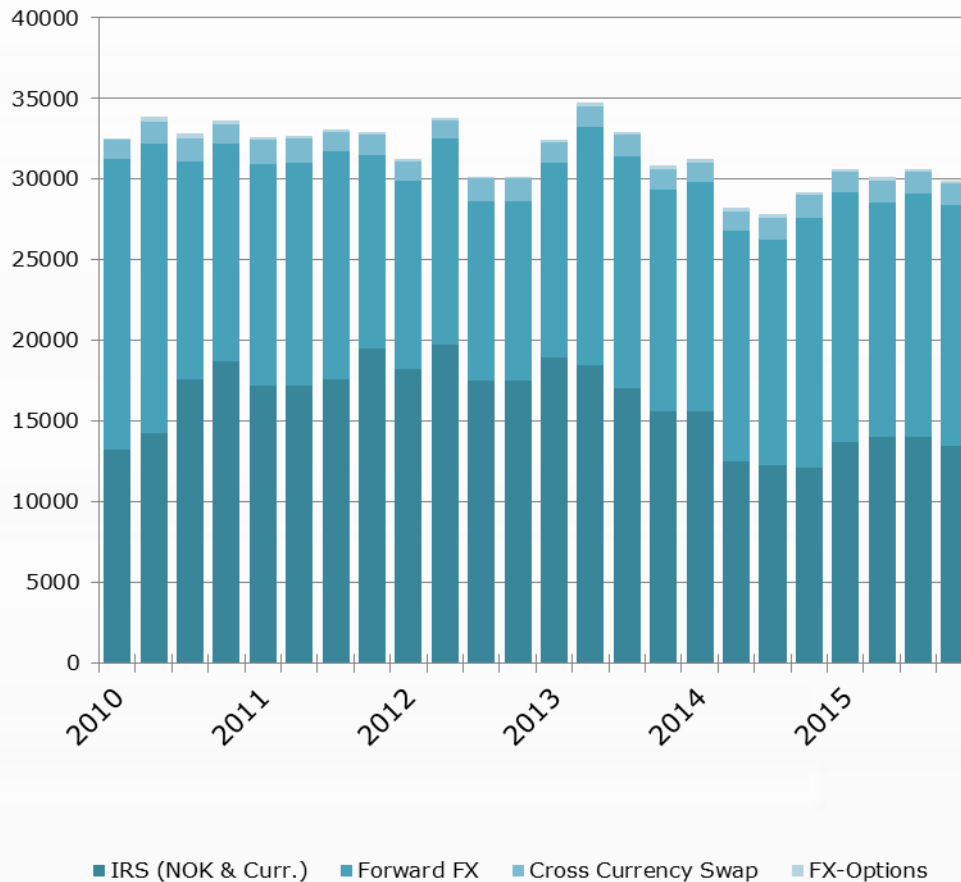


LCR



# Off balance activity - quarterly

NOK MILL



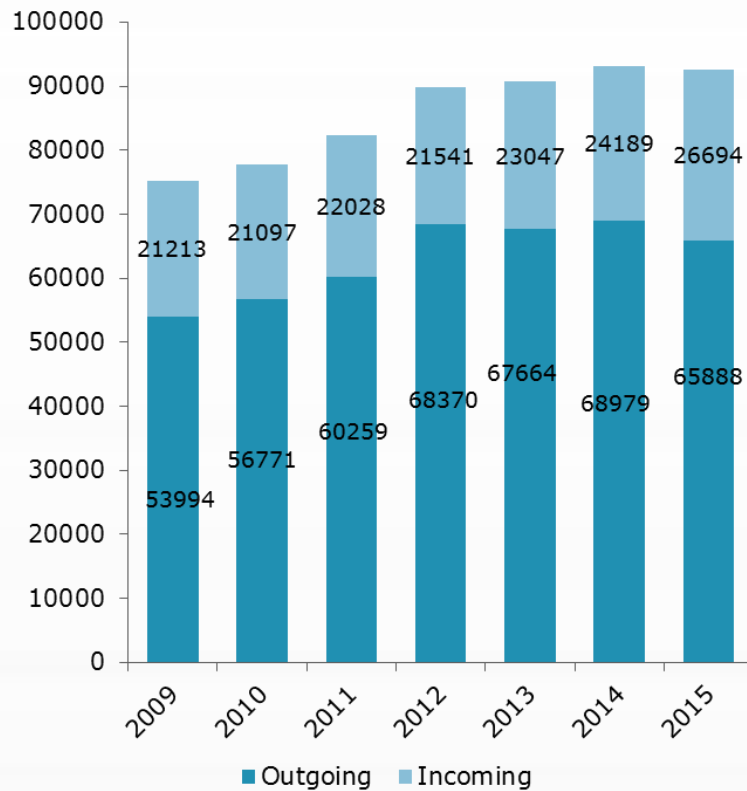
Low risk profile in the interest rate, equity and FX markets

- ✓ 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

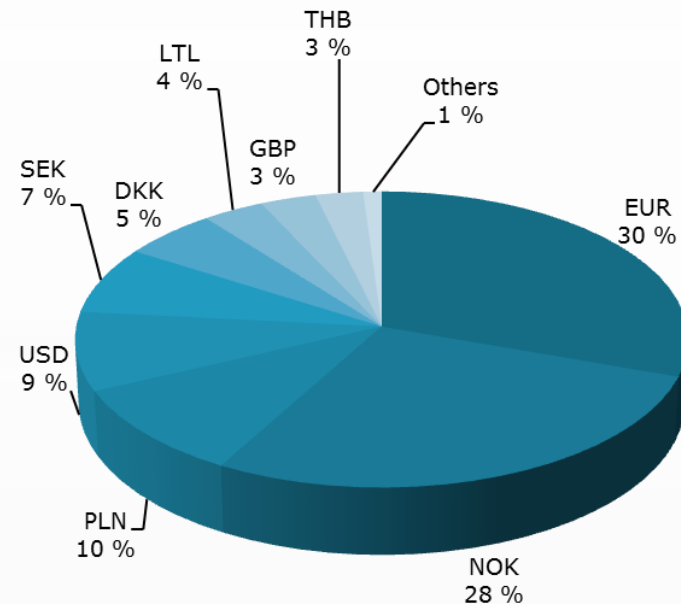


# Number of commercial payments

### No of payments



### No of payments per currency





# *Results*





## Results

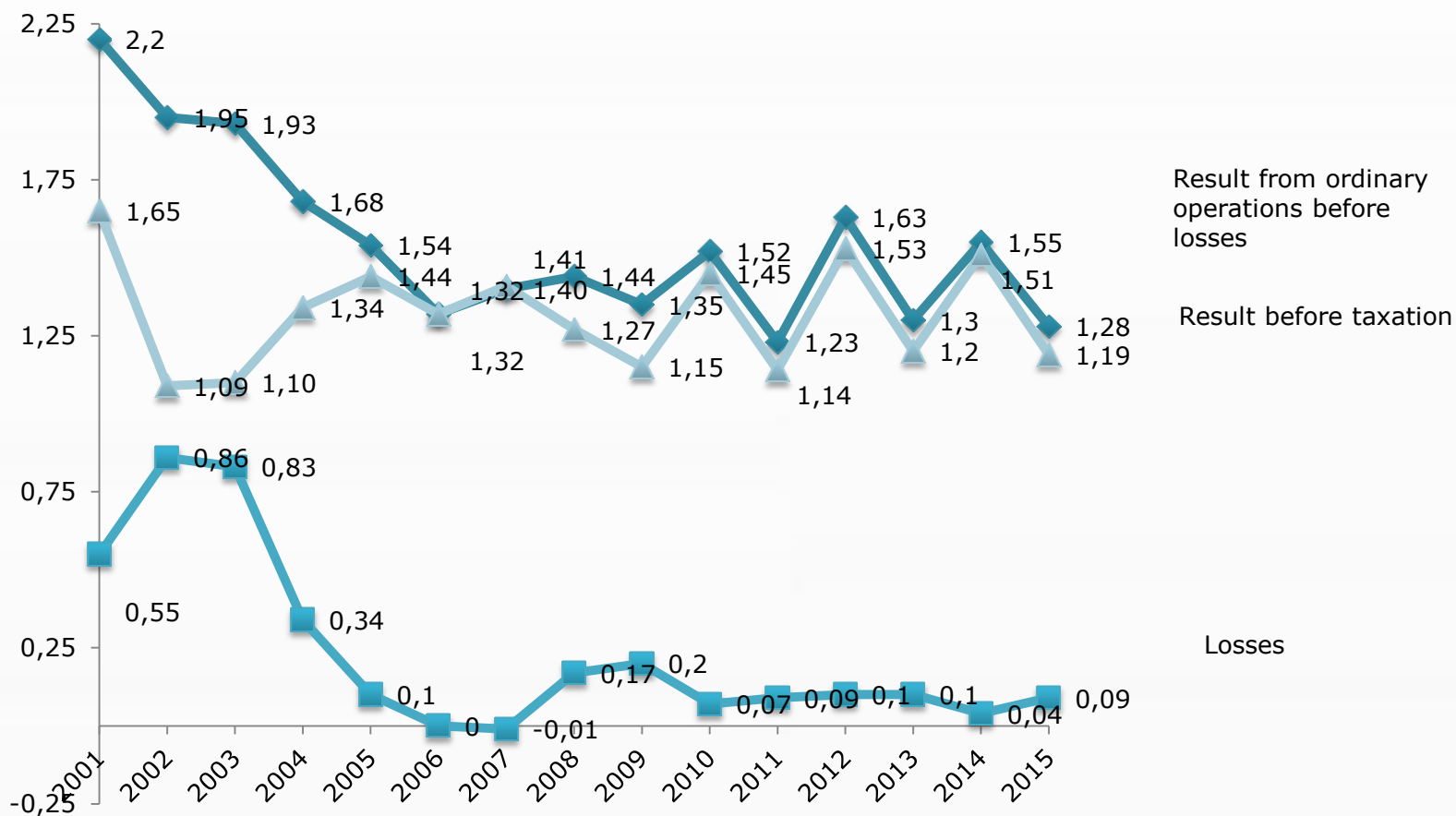
## Main figures

Results	2015		2014		Changes		
	NOK mill	%	NOK mill	%	NOK mill	p.p.	%
Net interest income	1,098	1.89	1,093	2.01	5	-0.12	0.5
Net return, financial investments (other9	63	0.12	31	0.06	39	0.05	103.2
Gains/loss liquidity portfolio	-51	-0.09	10	0.02	-61	-0.11	
Gains from Nets AS			94	0.17	-94	-0.17	
Other income	193	0.33	180	0.33	14	0.00	7.2
Total income	1,303	2.24	1,408	2.59	-97	-0.23	-7.5
Personnel costs	309	0.53	324	0.59	-15	-0.06	-4.6
Other costs	252	0.43	240	0.45	11	-0.02	5.0
Total ordinary operating costs	561	0.96	564	1.04	-4	-0.08	-0.5
Result before credit losses	742	1.28	844	1.55	-93	-0.27	-12.1
Losses on loans and guarantees	50	0.09	22	0.04	28	0.05	127.3
Result before tax cost	692	1.19	822	1.51	-121	-0.32	-15.8
Tax cost	189	0.32	199	0.36	-8	-0.04	-5.1
<b>Result after tax cost</b>	<b>503</b>	<b>0.87</b>	<b>623</b>	<b>1.15</b>	<b>-113</b>	<b>-0.28</b>	<b>-19.2</b>
Total assets	60,120		56,305		3,815		6.8
Lending	51,286		48,884		2,402		4.9
Deposit from customers	29,389		28,389		1,000		3.5
Capital	5,878		5,689		189		3.3
Capital %	18.3		15.8				2.5 p.p.
Core capital %	16.7		14.4				2.3 p.p.
CET 1 %	14.2		12.0				2.2 p.p.
Leverage Ratio (LR) %	8.2		7.9				0.3 p.p.
Liquidity Coverage Ratio (LCR) %	123.0		127.0				
ROE		10.7		14.0			
Cost/income ratio		43.0		40.1			
Earnings per EC (Group in NOK)		25.25		31.20			
Earnings per EC (Bank in NOK)		25.70		29.10			



# Results

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



## High net interest income

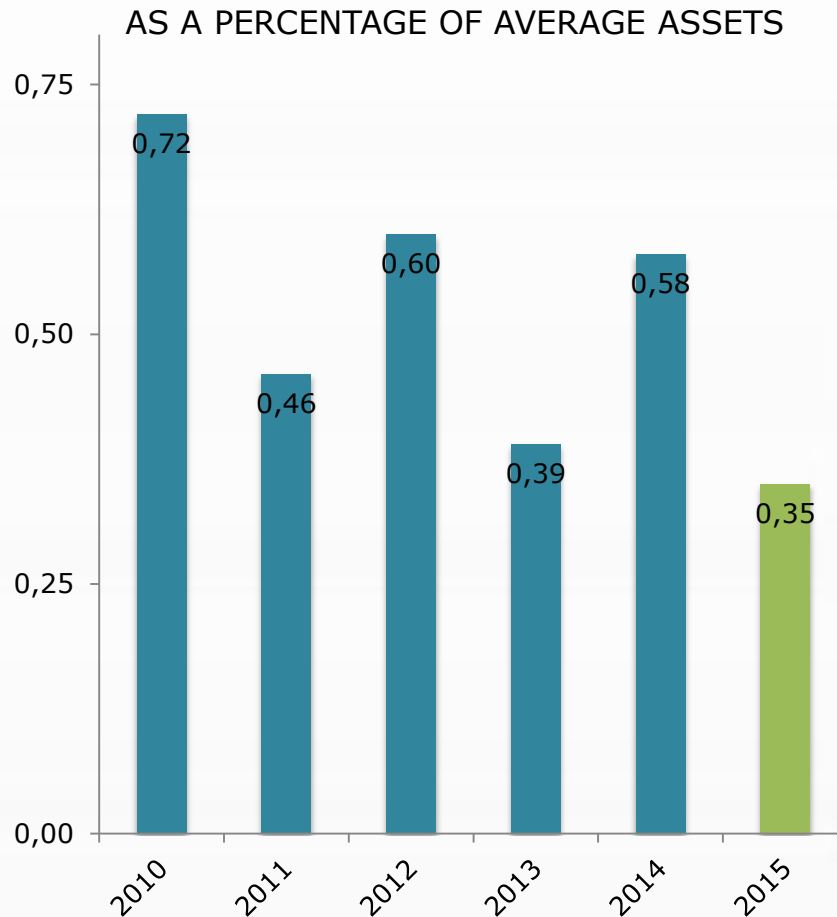
AS A PERCENTAGE OF AVERAGE ASSETS



Net interest income is marginally higher in NOK than in 2014 – lower measured against average assets

- ✓ 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
- ✓ Gradually higher funding margins

## Other operating income



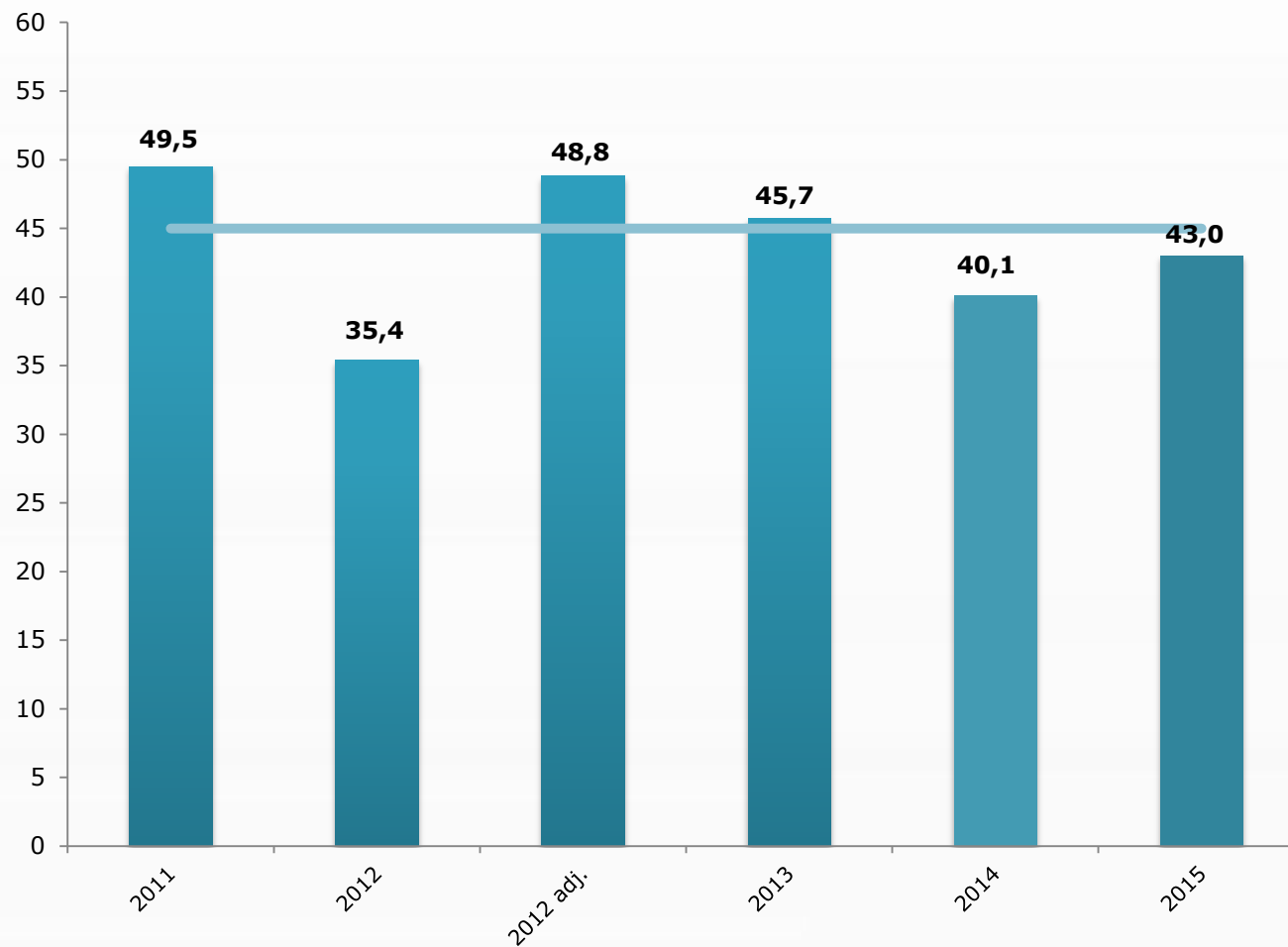
Lower other operating income, compared with 2014:

- Mark to market valuation of the bank`s bond portfolio – negative with NOK 51 million in 2015
- Higher income from hedging activity in the interest rate and FX markets
- High income from guarantees
- High income from financial instruments
- Lower dividend income
- And: 2014 includes net gains from the sale of Nets AS, NOK 94 million



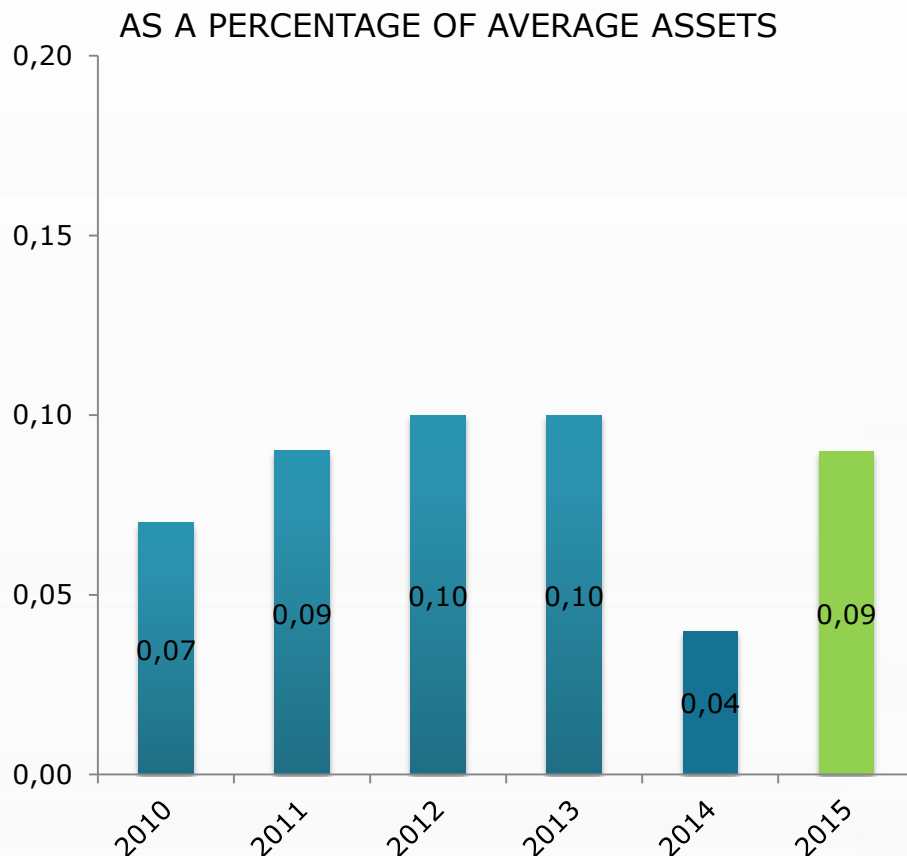
## Results

# Strong development in cost/income - well below the target





## Losses at a very low level



Losses totalled NOK 50 million

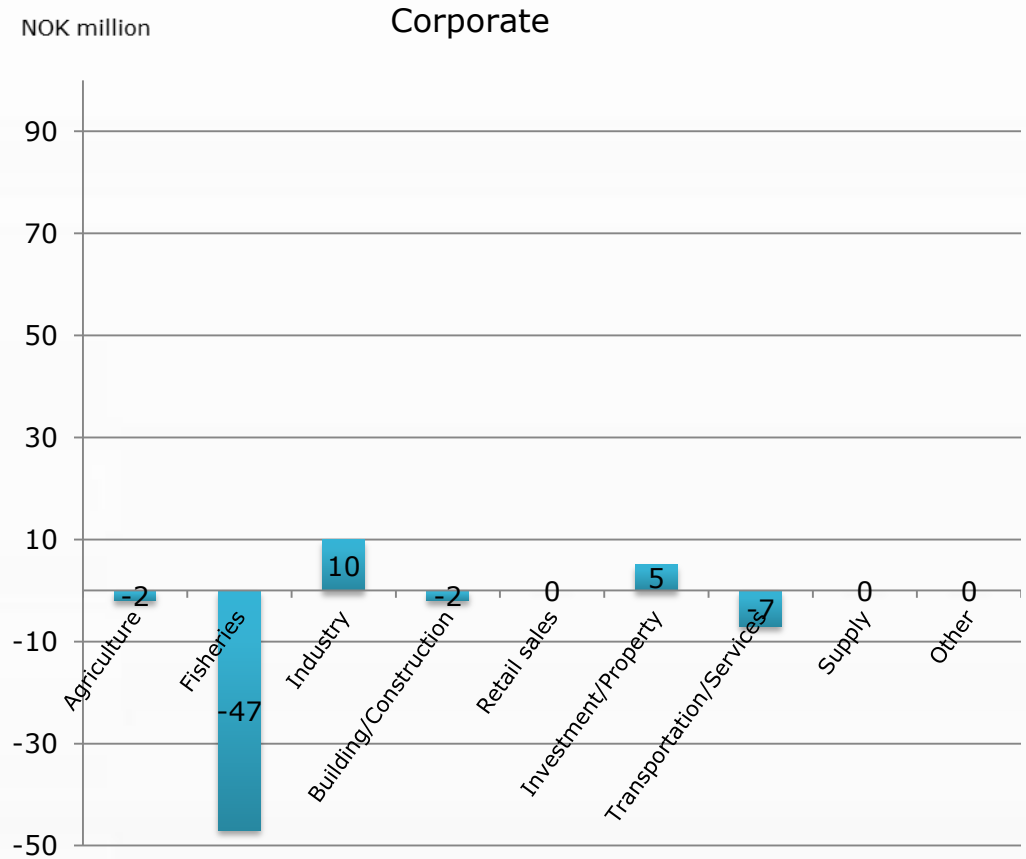
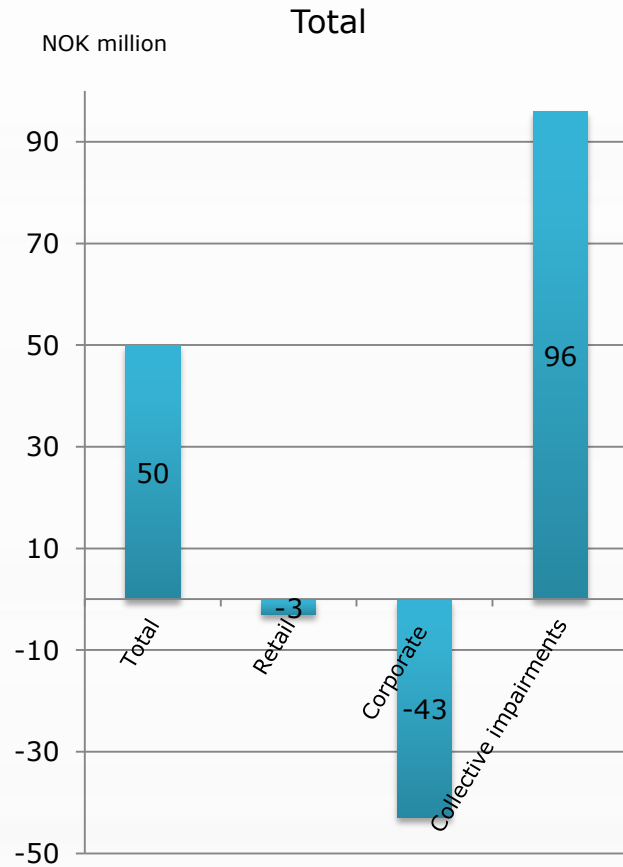
- Corporate: NOK -43 million
- Retail NOK -3 million
- Collective impairments NOK 96 million

Total impairments amounted to NOK 341 million by 31.12.2015



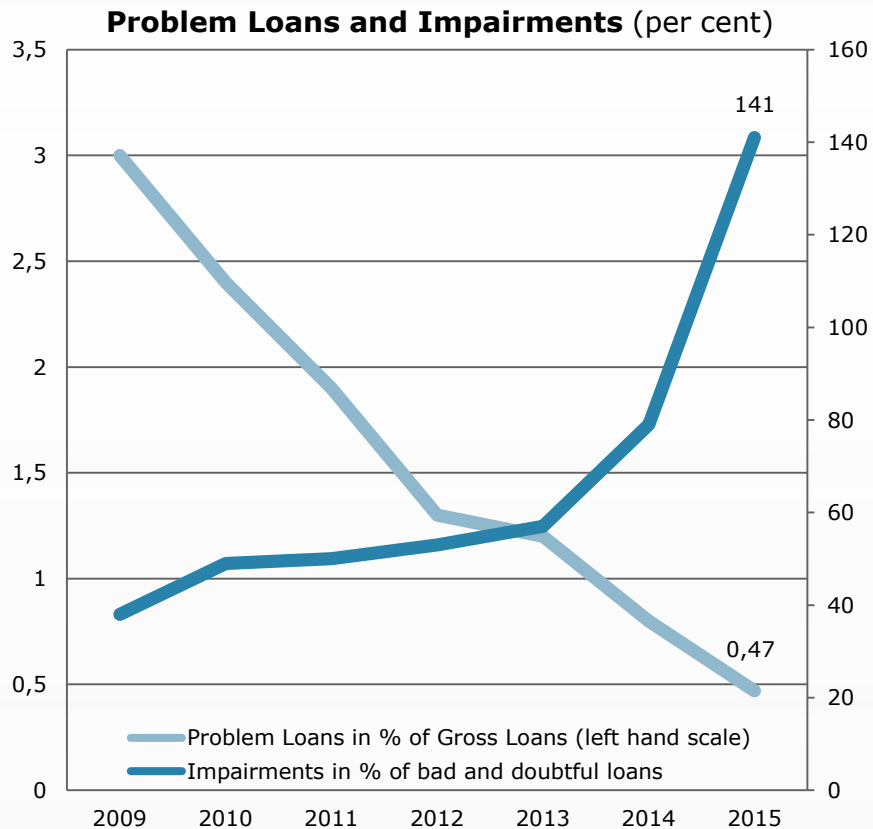
Results

# 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 0.47 % by the end of 2015
- The Bank`s loan loss reserve coverage ratio shows a similar positive development and ended at 141 % by year end



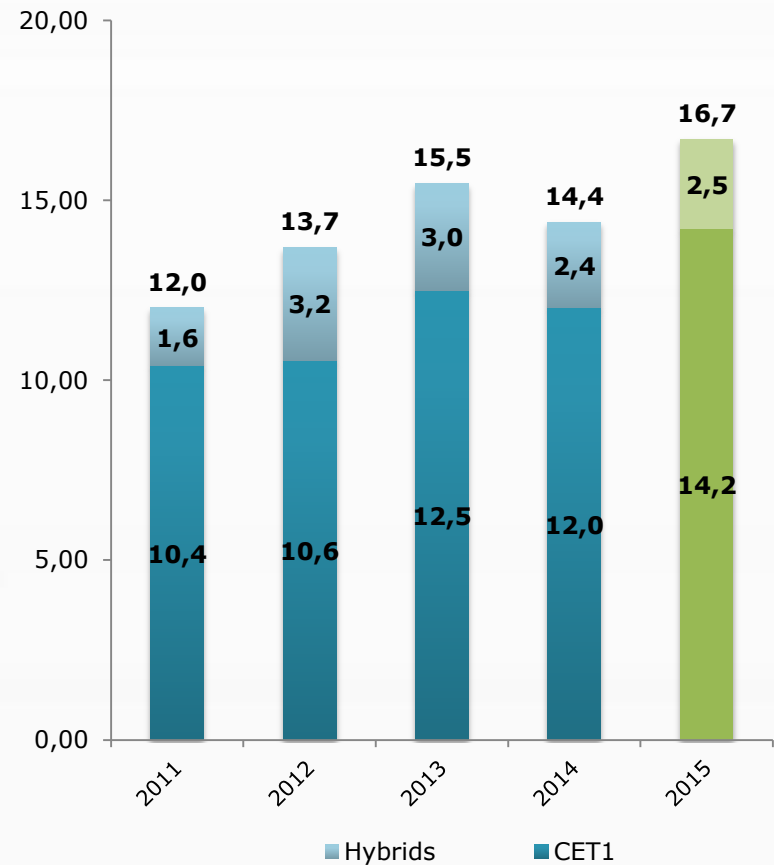
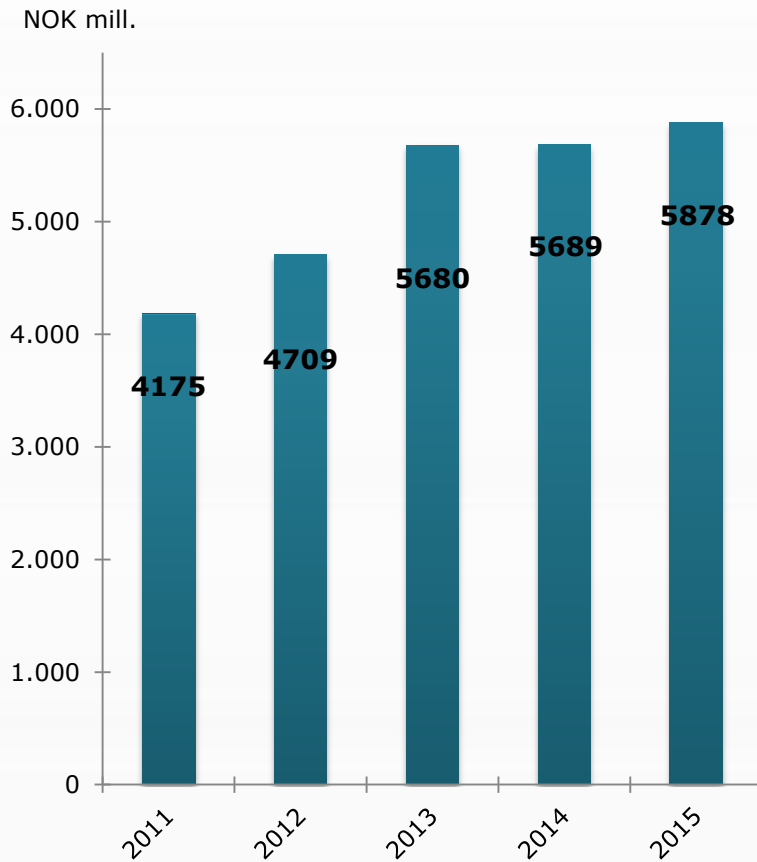


## *Equity and ECs*

Equity

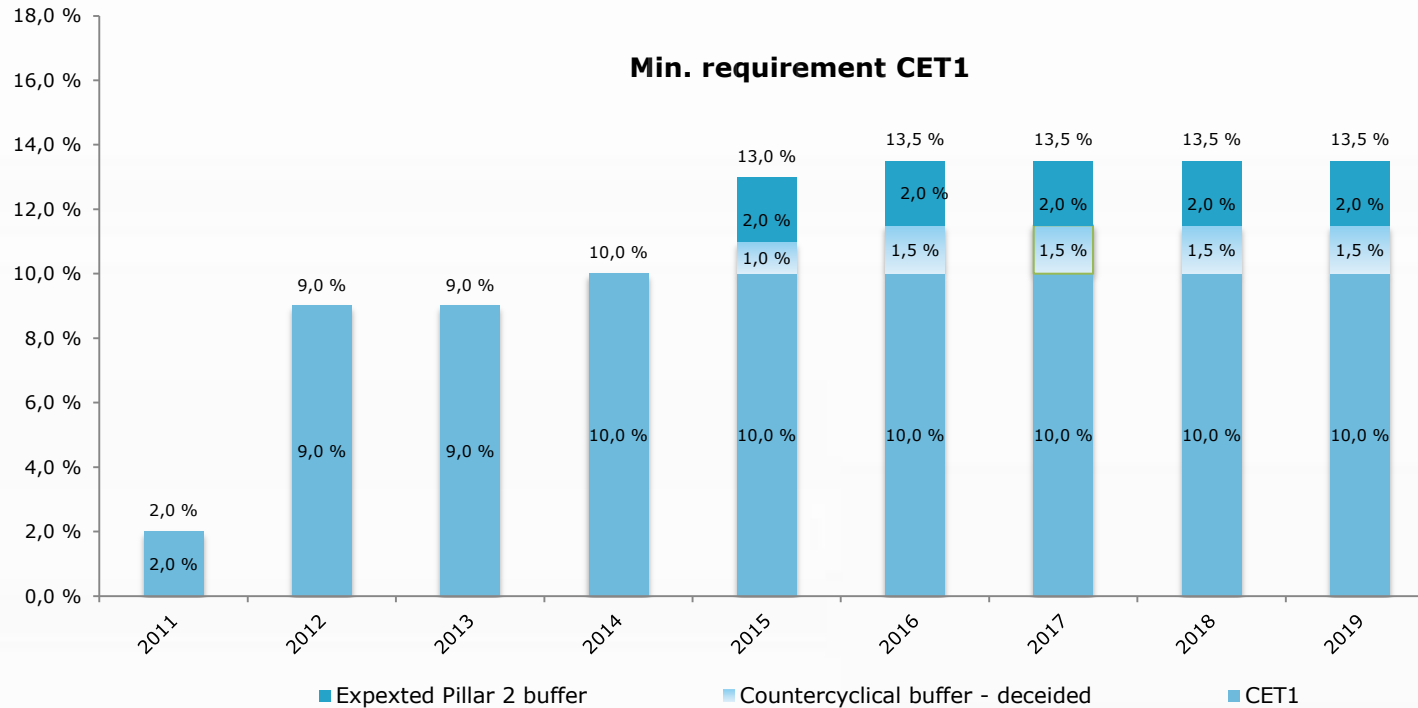
# Equity and related capital:

- strong capital compliant with new requirements



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
- Sparebanken Møre has received approval from the FSA to use the IRB Foundation Approach for corporate commitments, IRB Approach for the retail market
- FSA will conduct a new assessment of the bank's risk and capital requirements in 2016 and establish an individual Pillar 2 Buffer

## 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.

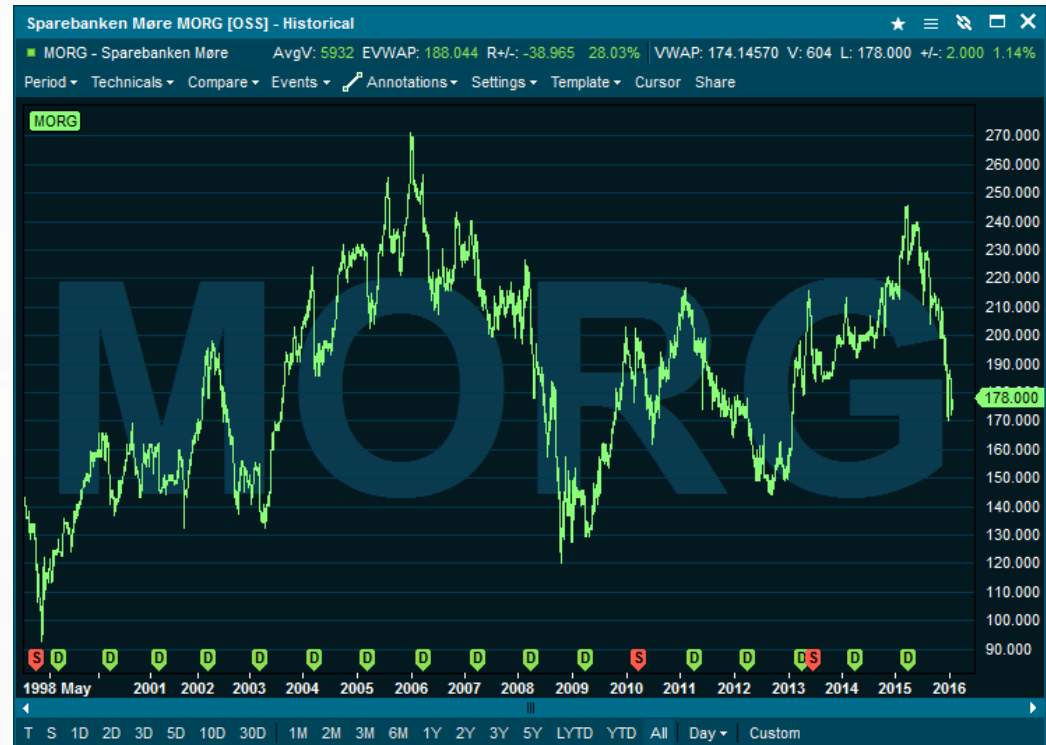
The equity owners’ share of the net result being set aside as dividend funds, will be adapted to the Bank’s equity situation. Sparebanken Møre’s allocation of earnings shall ensure that all equity owners are guaranteed equal treatment.”

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 December 2015

Dividend pr. EC:			
<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 (prop)



## Summing up and outlook

### From the CEO:

- Continued economic uncertainty
- The strong competition will continue
- A solid performance in 2015 leaves us well prepared for 2016
- Main targets from our business plan Møre 2019
  - ✓ CET1 > 13.5 %
  - ✓ ROE > 10 %
  - ✓ Avoid losses
  - ✓ Healthy financial structure
- Our history shows that we reach the goals we set ourselves!

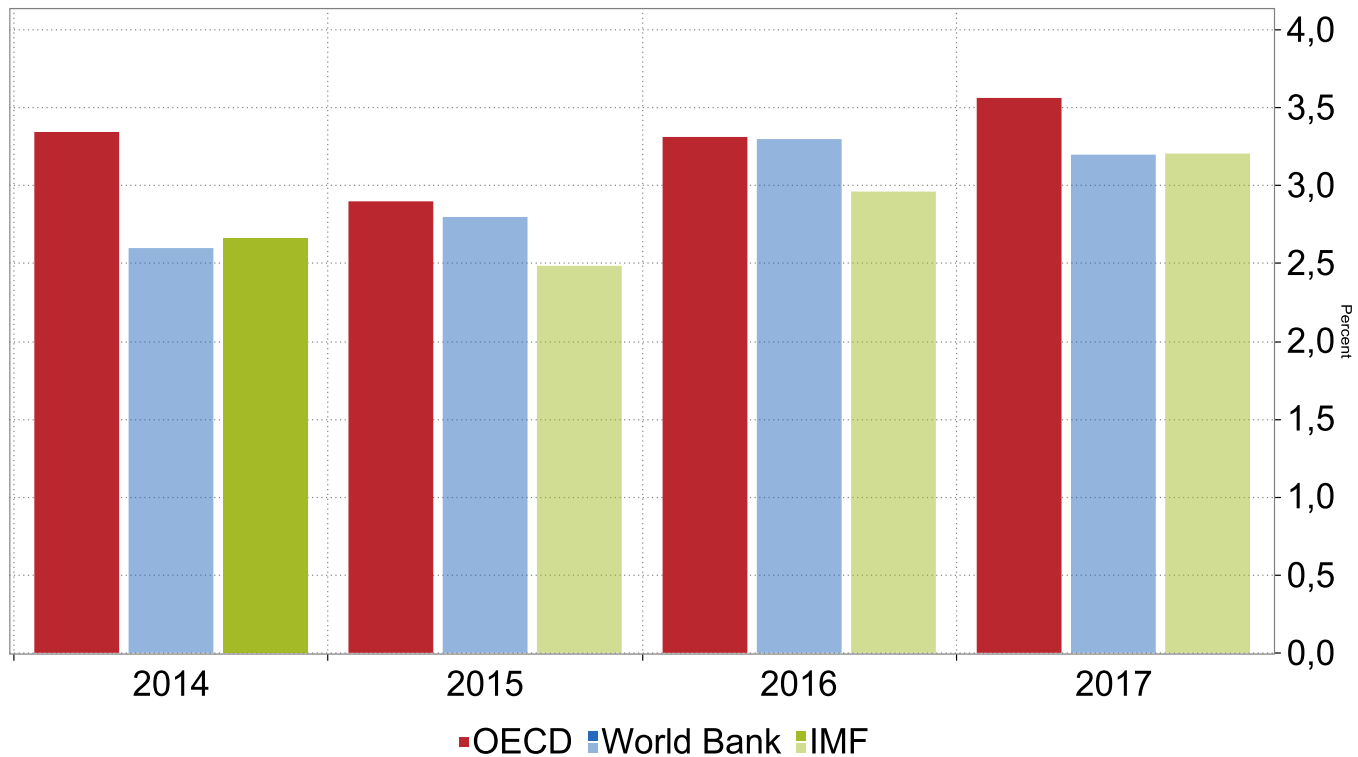




# *Macroeconomic Overview*

# Moderate growth in 2016 and 2017

### Global GDP growth



Source: **Macrobond**





# Slightly higher growth in 2017

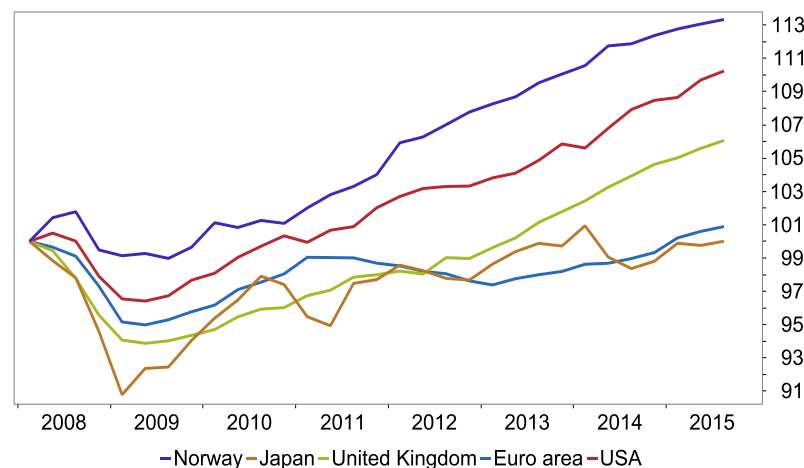
## Growth in GDP

	2015	2016	2017
Global	3.0	3.3	3.6
USA	2.5	2.6	2.7
Euro area	1.5	1.8	2.0
China	6.8	6.5	6.0
UK	2.4	2.4	2.3

## Risk factors:

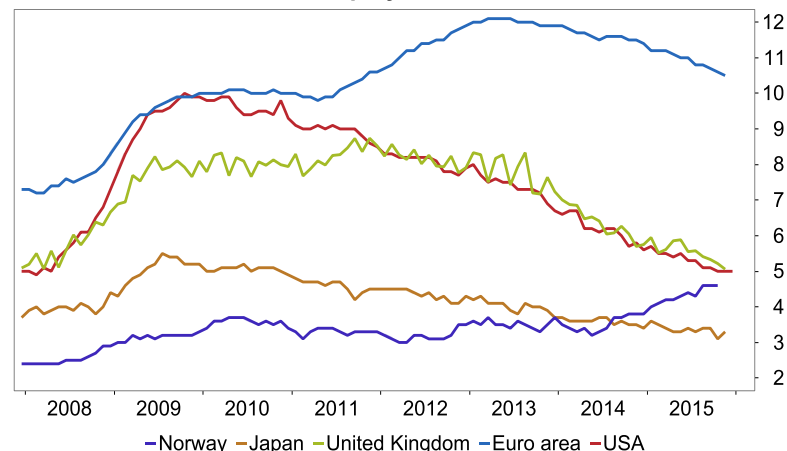
- Growth in China, Russia and Brazil
- Slower growth in Europe
- Development in the oil price
- Financial market turmoil

### Gross Domestic Product



Source: Macrobond

### unemployment rate



Source: Macrobond



# Low growth in the Norwegian Economy

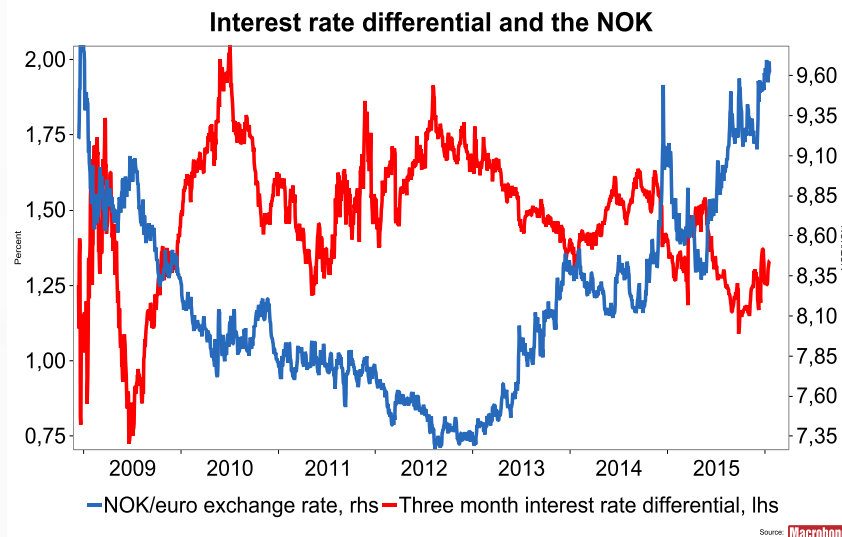
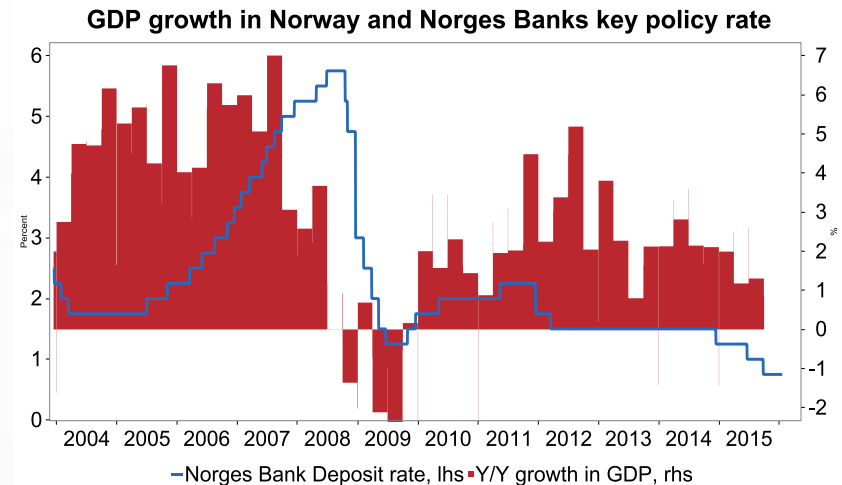
## Lower petroleum investments

### Estimates for the Norwegian economy

	2015	2016	2017
GDP Growth	1.3	1.6	2.2
Unemployment %	4.4	4.7	4.4
Oil price USD	35-66	30-40	40-50
3 month Nibor	1.1	0.80	0.80

### Somewhat stronger growth in 2017:

- Expansionary fiscal policy
- Lower interest rates
- Weak Norwegian krone
- Somewhat higher oil price
- Continued global growth



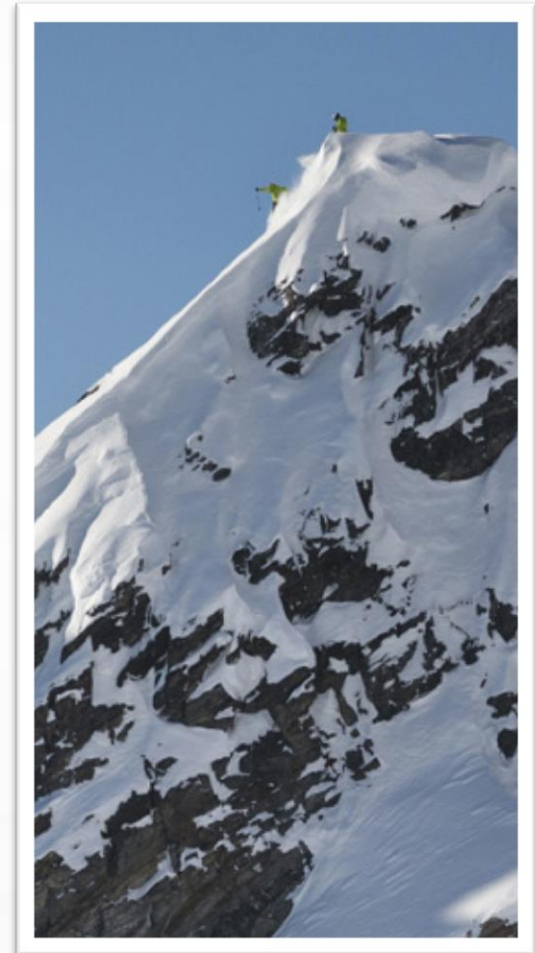
# Lower production growth in Møre og Romsdal

Unusually large differences between sectors

- Increasing growth in traditional exports, in particular fish exports
- Higher demand for personal services
- Increased activity in the public sector
- Uncertainty regarding the amount of new orders for the ship building industry in 2017
- Strong decline in oil investments and reduced production in the delivery industries
- Increasing unemployment. In 2015 the registered unemployment was 2,6 per cent.

Most important risk factors:

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





# *The Housing Market*

# Key characteristics

## Home ownership

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

## Mortgage lending requirements

- LTV shall not exceed 85%
- Min. amortization of 2.5% per year or max. 30 year repayment if LTV exceed 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 weeks notice
- Typical residential mortgage maturity is 25-30 years

## Social benefits

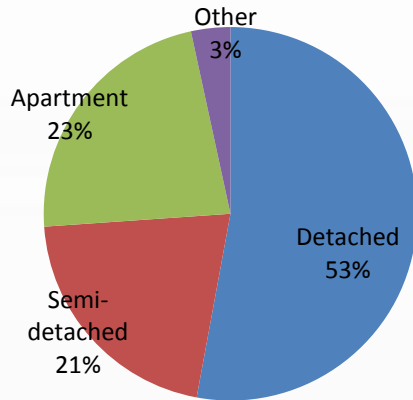
- According to OECD, Norway has the best unemployment benefits
- On average about 60% of previous salary paid benefit for 104 weeks minimum

## Tax incentives

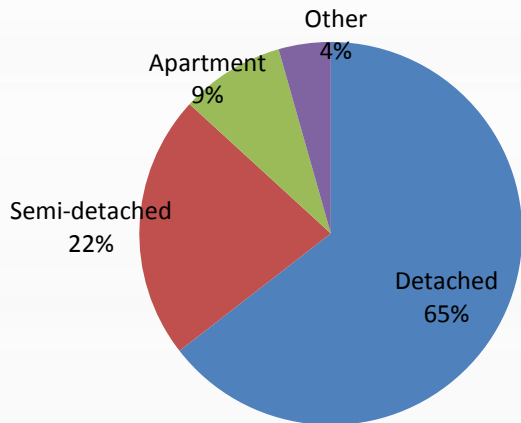
- All interest expenses are tax deductible at capital gains tax rate (27%)
- Property is given preferential treatment when calculating wealth tax
- Capital gain on dwellings is tax free under certain circumstances

# Differences in housing types and prices

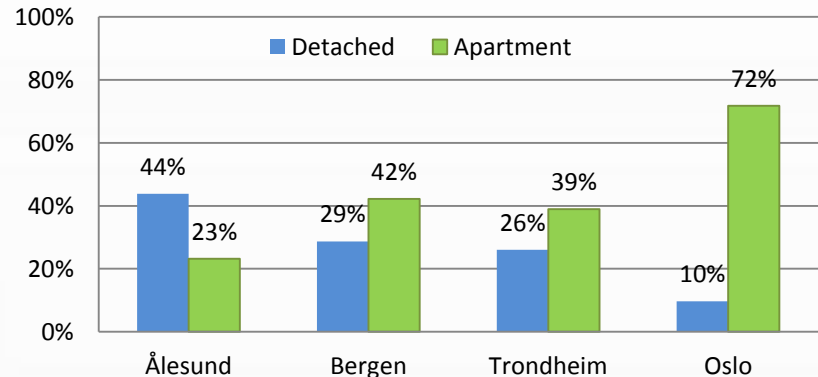
**Household housing-type distribution  
- Norway**



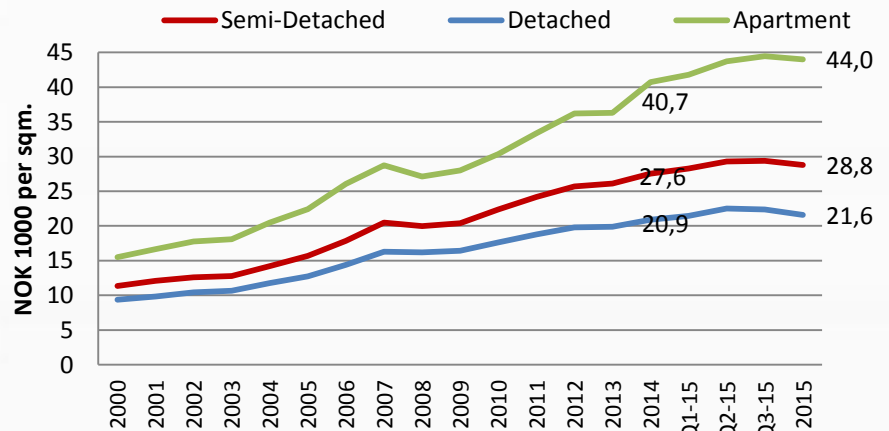
**Household housing-type distribution  
- Møre og Romsdal**



**Housing type distribution  
- Detached vs apartment**



**Price development / housing types**



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

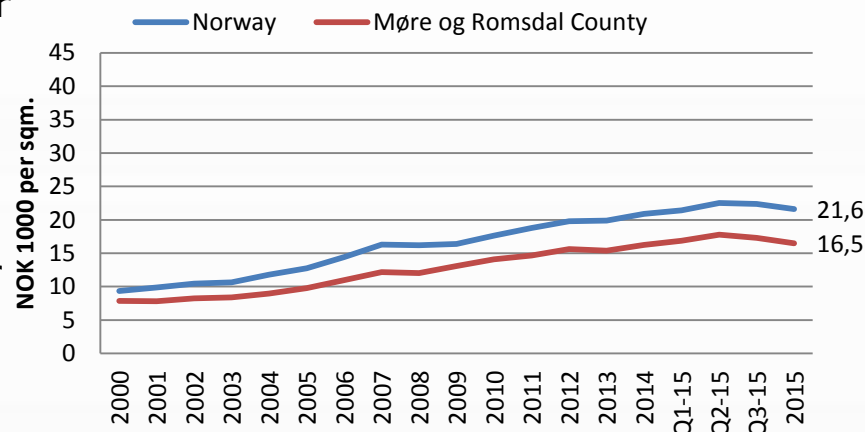


# Differences in development of housing prices

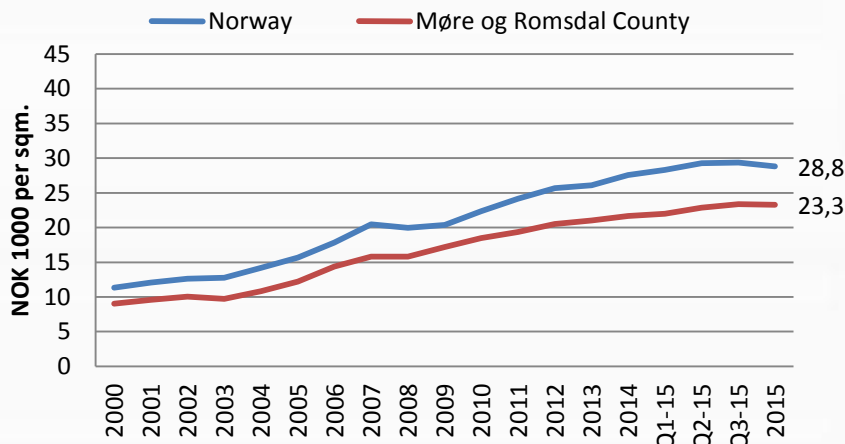
Year-over-year average growth in Norwegian housing prices by September 2015 is 5.0 per cent, compared to 2.9 per cent in Møre og Romsdal. Oslo is up 9.5 per cent, and Stavanger is down 5.3 per cent

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.

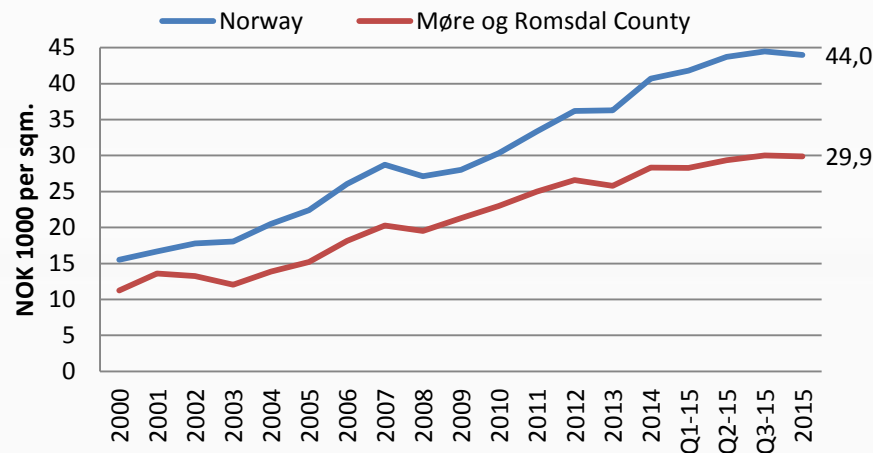
## Detached



## Semi-detached



## Apartment






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## Ratings

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### Sparebanken Møre

**A2**

Last published Credit Opinion:

20 October 2015

- Adjusted Baseline Credit Assessment (BCA):

Baa1

- Short term deposit rating:

Prime-1

- Rating outlook:

Stable

### Møre Boligkreditt AS Covered Bond Programme

**Aaa**

Last published Performance Overview:

6 November 2015

- Timely Payment Indicator (TPI):

High

- TPI Leeway:

4 notch(es)

- OC level constant with current rating :

3.0 %

- Collateral Score:

5.0 %

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**SPAREBANKEN MØRE**