

# Sparebanken Møre – the Group

Presentation 4th quarter 2019

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EVP

30 January 2020



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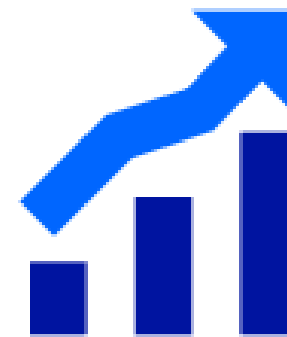
## Solid banking provides good dividends

According to our dividend policy, the allocation of profits gives no dilution.

49 % of the Group's annual result is retained to further strengthen the solidity.

### The bank follows the dividend policy

The Board proposes to the General Meeting to pay a dividend of NOK 17.50 per equity certificate



# The largest bank in the region

## Strong local presence

Our vision:

*Sparebanken Møre shall be the leading contributor to creative enthusiasm in Nordvestlandet.*

*Every day.*

The bank is expanding further and strengthening its position as market leader in our area Nordvestlandet



**28**

branch offices in our region  
Nordvestlandet

**357**

man years

**NOK 75**

billion in total assets

## Strong results

- The bank increases both profitability and efficiency compared to 2018
- Good revenue growth, relatively low cost growth and low losses contribute to the result
- The bank is solid and has good liquidity



### Lending growth

Lending growth was 6.1 per cent over the last 12 months. Growth in deposits was 6.9 per cent



### High and stable Net Interest Income

Growth in NOK and in percentage compared to 2018



### High efficiency

Cost/Income ratio at 40.2 per cent by year end – down 2.3 p.p. compared to last year



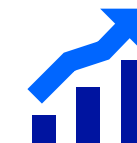
### Low losses

Net NOK 50 million in losses on loan and guarantees



### Strong liquidity and solidity

Deposit to Loan ratio at 57.5 per cent, LCR at 165 and CET1 at 17.4 per cent. Leverage Ratio at 8.0 per cent



### High return

Return on Equity ended at 11.7 per cent for the financial year 2019

## MORG – price development and rating

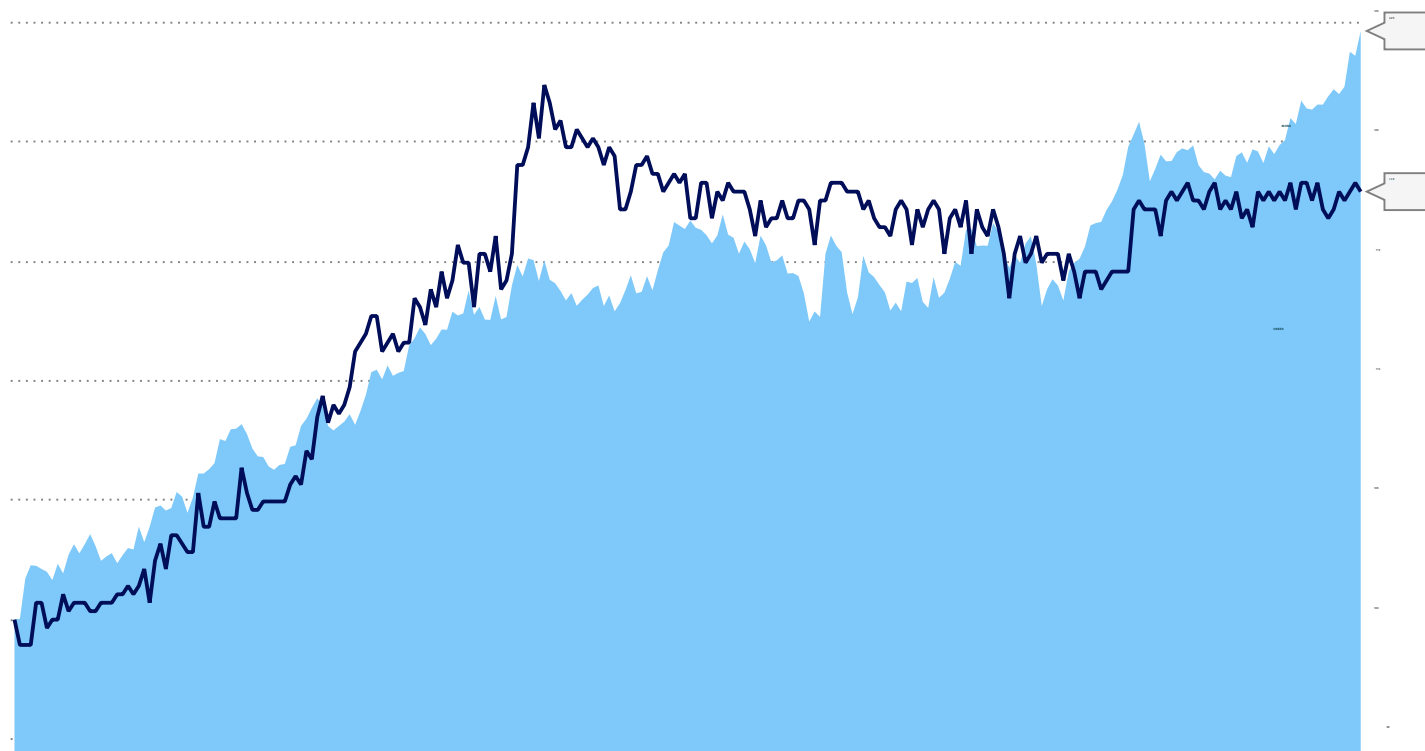
With a MORG price of NOK 317 at the end of 2019, the Price/Book (P/B) ratio has strengthened to 0.99 from 0.93 as of 31.12.2018

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

As the figure shows, the MORG price increased further by about 18 per cent during 2019, lower than the average price development in the equity certificate market

The CET1-ratio ended at 17.4 per cent by year end

## Development at Oslo Stock Exchange



December 9 2019, Moody's confirmed the bank's A2- stable rating. Issuances from Møre Boligkreditt AS are rated Aaa

# Local, personal and digital

## Customers appreciate the bank`s total offer

- High customer satisfaction among Sparebanken Møre's customers
- Proximity is highlighted as one of the most important drivers of customer satisfaction
- Customers prefer personal contact when discussing complex issues
- The combination of personal meetings, local knowledge and digital solutions provides options and a good overall offer
- The bank is also well advanced in digital communication and was awarded best Norwegian bank website for SMEs (Cicero January 2020)



# Corporate social responsibility

- Sustainability and corporate social responsibility are implemented in the bank's overall strategy
- Follows UN principles for responsible banking
- Encourages well-being and good growth conditions
- Strengthened focus on business development
- Significant contributions to research and development
- Provider of competence in the region

Project support for teams and organizations



Talent scholarship in culture and sports



Competence and innovation scholarship



Research collaboration SBM and NTNU

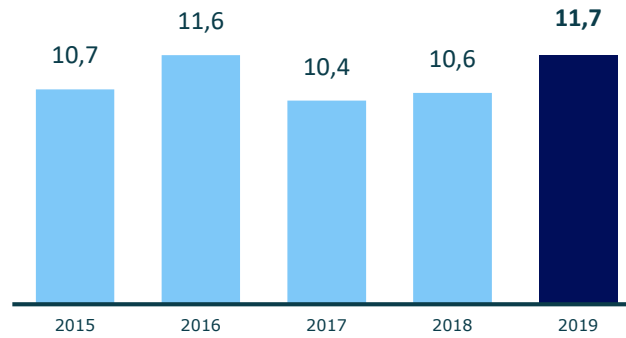




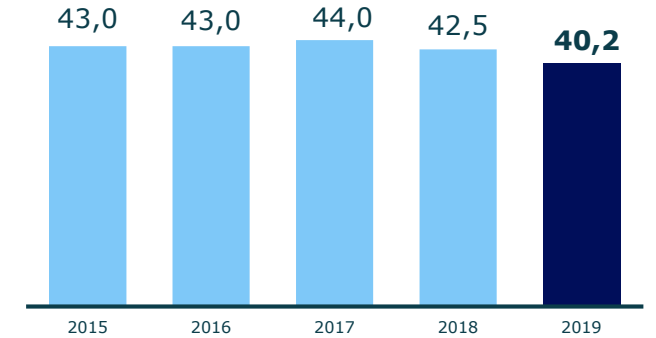
# Key figures

We reach our goals

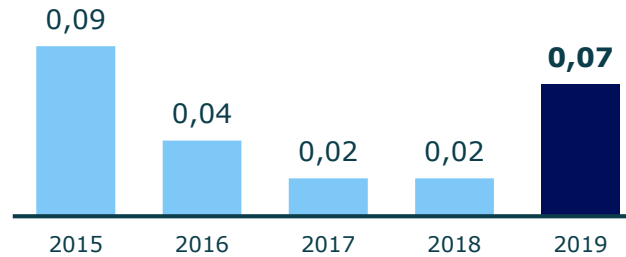
## Return on Equity



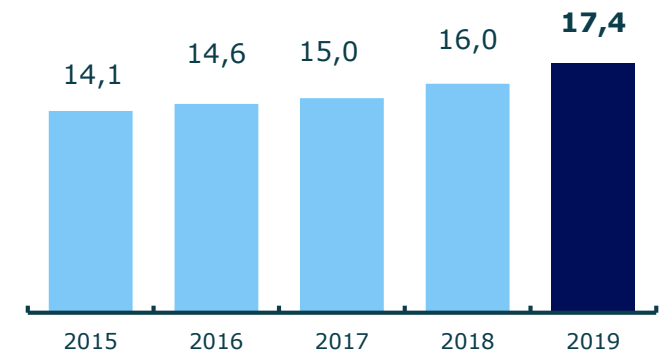
## Cost/Income



## Losses on Loans and Guarantees In per cent of Average Assets



## Common Equity Tier 1 Capital (CET1)



## Balance sheet and key figures

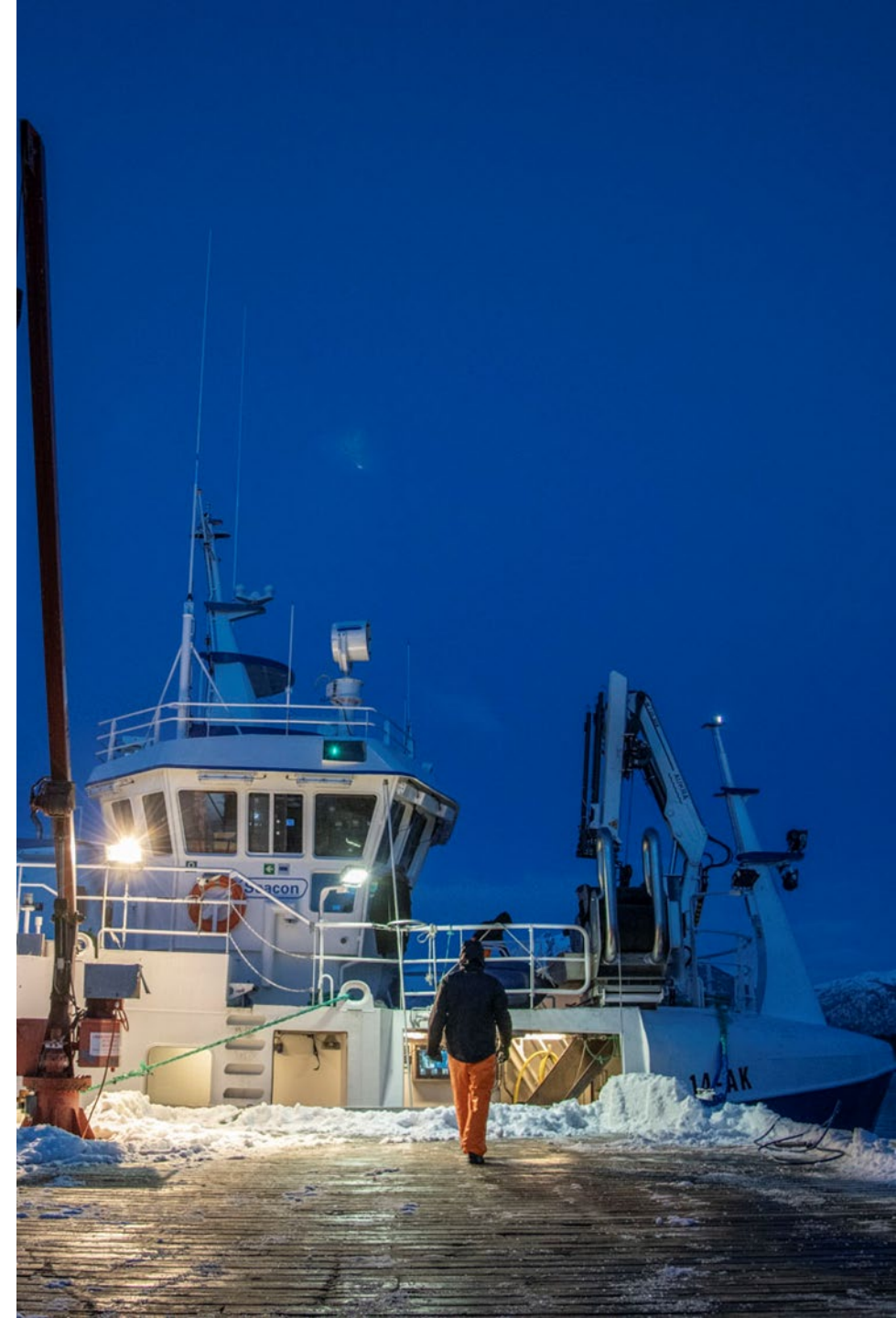
	31.12.2019	31.12.2018	Changes	
<b>Balance in NOK million</b>	<b>NOK</b>	<b>NOK</b>	<b>NOK</b>	<b>%</b>
Total Assets	74,875	71,040	3,835	5.4
Loans to customers	64,029	60,346	3,683	6.1
Deposits from customers	36,803	34,414	2,389	6.9
Net Equity and Subordinated Loans	6,916	6,743	173	3.0

<b>Key Figures</b>	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Changes p.p.</b>	
Return on Equity	11.7	10.6	1.1	
Cost/Income Ratio	40.2	42.3	-2.1	
Total Capital	21.5	19.6	1.9	
Tier 1 Capital	19.3	17.6	1.7	
CET1	17.4	16.0	1.4	
Leverage Ratio	8.0	8.1	-0.1	
Profit per EC (NOK, the Group)	34.50	29.60	4.90	
Profit per EC (NOK, the Bank)	32.00	28.35	3.65	

## Positive outlook for the region and the bank

- Going forward, we expect a moderate increase in production and demand in the county. Continued low interest rates, a weak NOK exchange rate and growth in our export markets will contribute to this
- It seems that the uncertainty related to Brexit and the US-China trade conflict has diminished. We still expect good activity in our main industries
- Unemployment in the county has fallen sharply since the beginning of 2017. According to the NAV, registered unemployment at the labor offices in Møre og Romsdal accounted for 2.0 per cent of the workforce at the end of December. In comparison, national unemployment was 2.2 per cent. With moderate production growth going forward, unemployment is likely to remain low throughout the current year
- Sparebanken Møre is very well capitalized and has good liquidity at year-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

◆ Sparebanken Møre losses are also expected to be low in 2020. Overall, a good result is expected with an Return on Equity above the bank's strategic target of 11 per cent



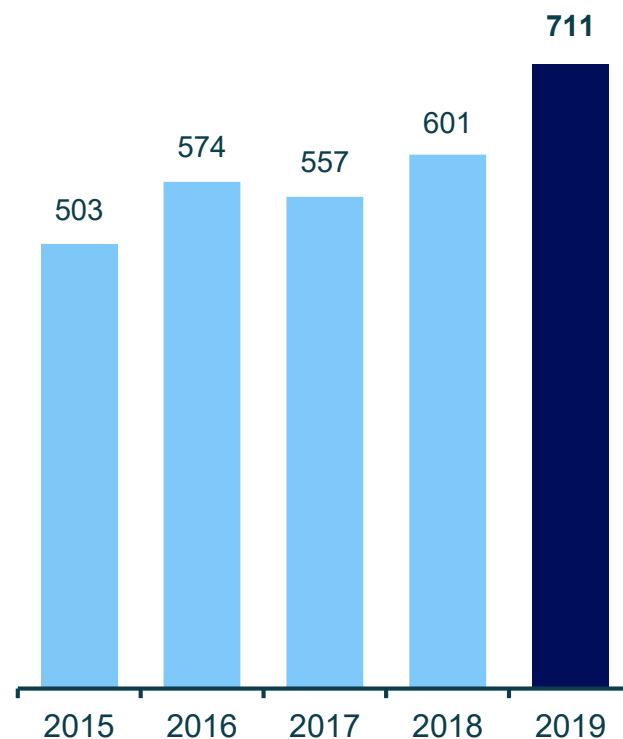
# Results

# Strong results for 2019

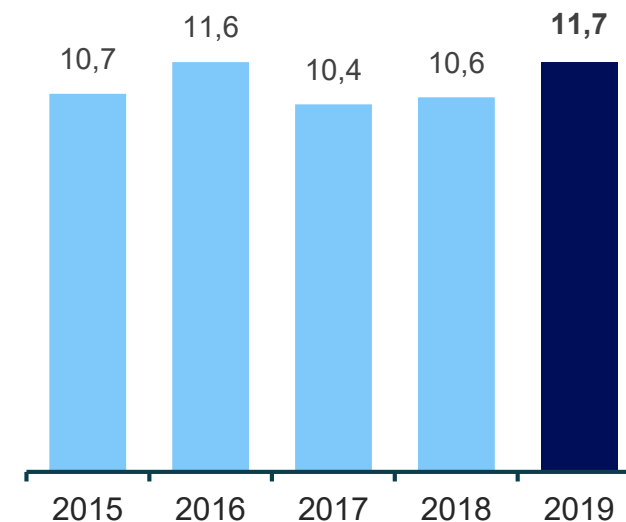
18.3 per cent improved result compared to 2018.

Positive development in profitability.

**Profit after tax**  
- NOK million



**Return on Equity (ROE)**  
- in percent



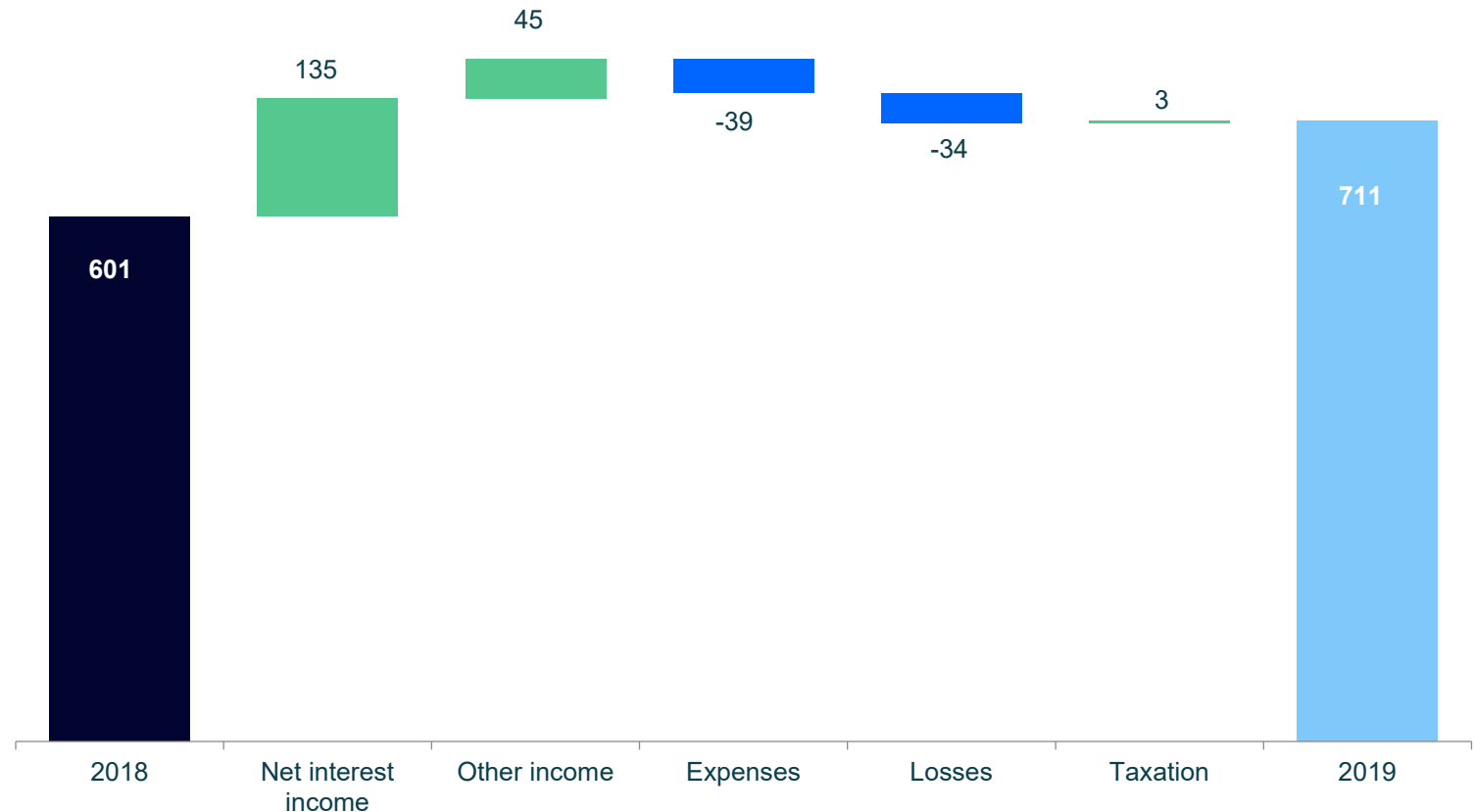
## Growth in income and low losses

Strong revenue growth in 2019 –both Net Interest (11.5 %) and Other Income (18.1 %)

Growth in expenses which is distributed with a 4.1 % increase in personnel costs and an increase of 9.4 % in other costs

Low loan losses (0.07 per cent of average assets)

### Result by year end 2019 compared to 2018



# Results

The bank presents a good result for 2019, with a profit improvement after tax above 18 per cent

The bank's revenues show a positive development and the costs increase moderately. The losses are low

The bank has become more profitable and efficient compared to 2018

Results (NOK million and %)	31.12.2019		31.12.2018		Changes	
	NOK	%	NOK	%	NOK	p.p.
Net Interest Income	1,314	1.79	1,179	1.70	135	0.09
Net Income Financial Investments	67	0.09	50	0.07	17	0.02
Gains/losses liquidity portfolio	-9	-0.01	-19	-0.02	10	0.03
Gains/losses on shares	16	0.02	10	0.01	6	0.01
Other Income	219	0.30	207	0.30	12	0.00
<b>Total Other Income</b>	<b>293</b>	<b>0.40</b>	<b>248</b>	<b>0.36</b>	<b>45</b>	<b>0.04</b>
<b>Total Income</b>	<b>1,607</b>	<b>2.19</b>	<b>1,427</b>	<b>2.06</b>	<b>180</b>	<b>0.13</b>
Personnel costs	354	0.48	340	0.49	14	-0.01
Other costs	292	0.40	267	0.38	25	0.02
<b>Total operating costs</b>	<b>646</b>	<b>0.88</b>	<b>607</b>	<b>0.87</b>	<b>39</b>	<b>0.01</b>
Profit before losses	961	1.31	820	1.19	141	0.12
Losses on loans, guarantees etc	50	0.07	16	0.02	34	0.05
<b>Pre tax profit</b>	<b>911</b>	<b>1.24</b>	<b>804</b>	<b>1.17</b>	<b>107</b>	<b>0.07</b>
Taxes	200	0.27	203	0.29	-3	-0.02
<b>Profit after tax</b>	<b>711</b>	<b>0.97</b>	<b>601</b>	<b>0.88</b>	<b>110</b>	<b>0.09</b>

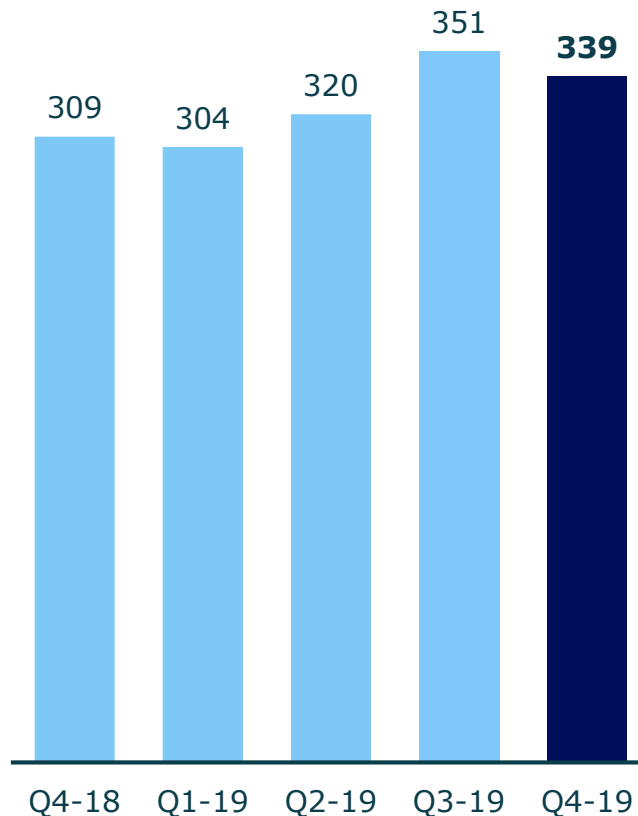
# Good Net Interest Income in Q4

Good growth for both lending and deposits in 2019

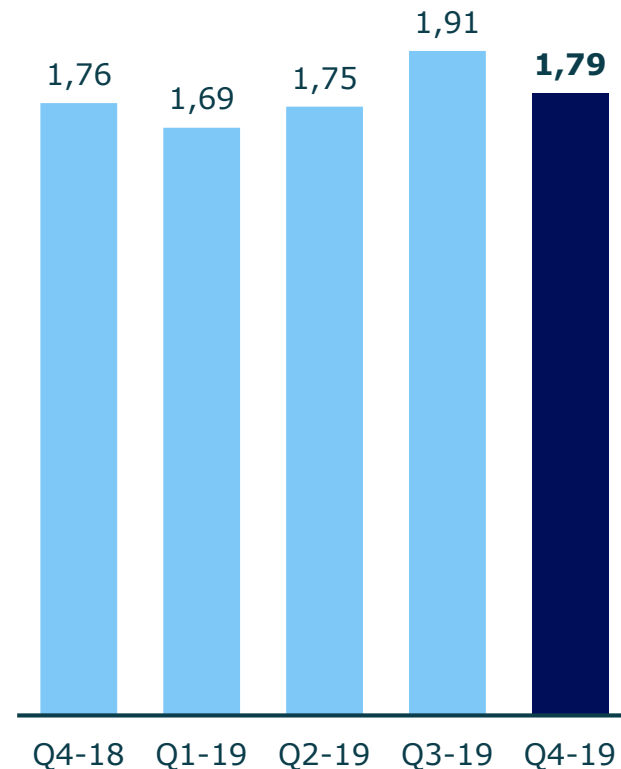
Interest rate change implemented with effect from 13 November

Increased annual fee to the Crisis Resolution Fund and Deposit Guarantee Fund was booked in the fourth quarter with NOK 15 million

**Net Interest Income**  
- NOK million



**Net Interest Income**  
- % of Average Assets

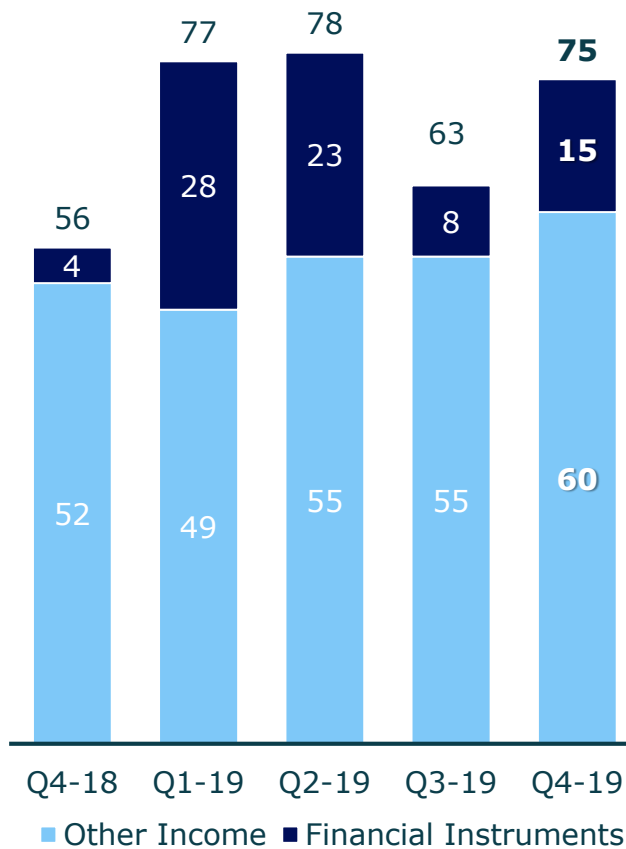




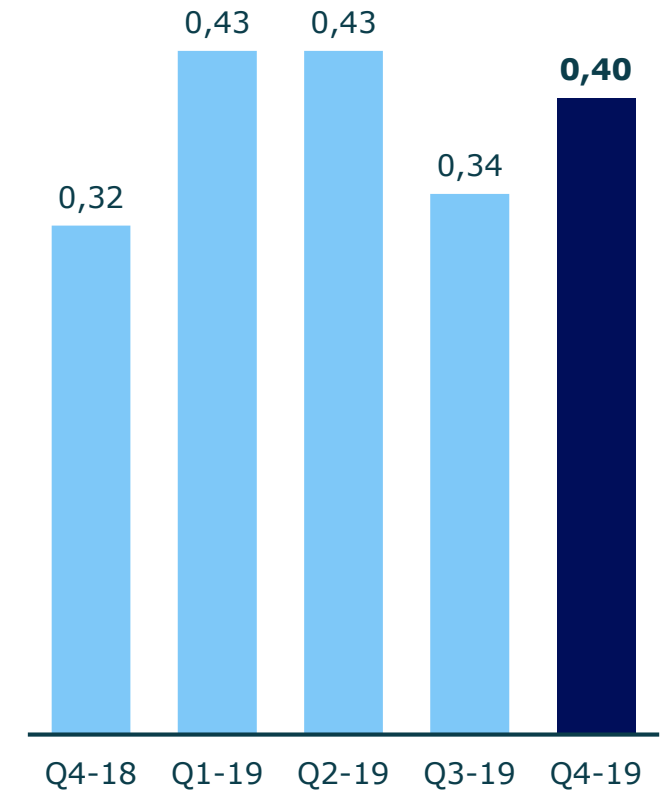
## Quarterly development in Other Income

Gains on the bond portfolio and shares amounted to NOK - 4 million in the fourth quarter of 2019, compared to NOK -14 million in the fourth quarter of 2018.

Other Income  
- NOK million



Other Income  
- % of Average Assets



## Increased value creation leads to growth in revenue

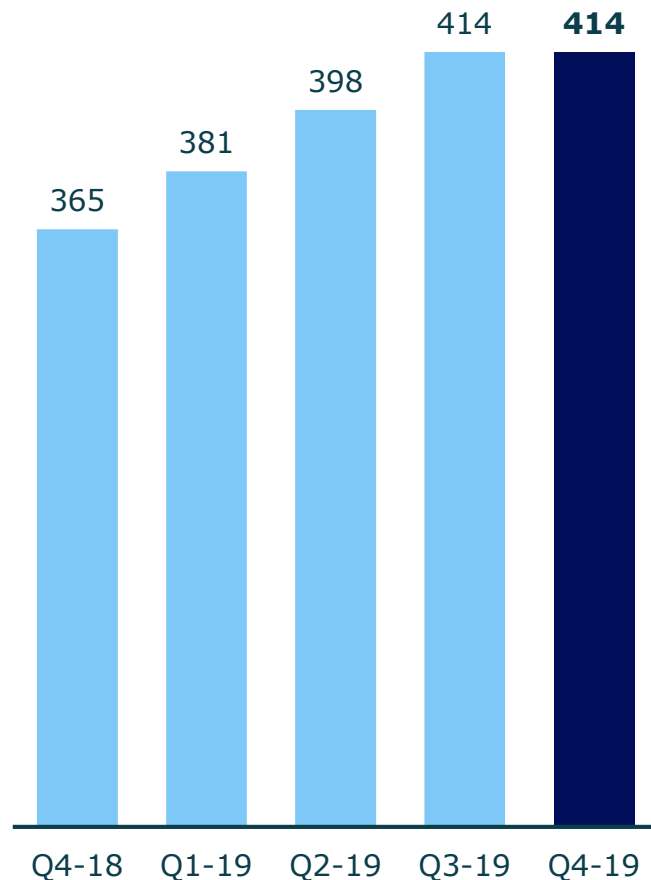
Revenues have risen every quarter in 2019

The bank is competitive and we are still gaining new customers

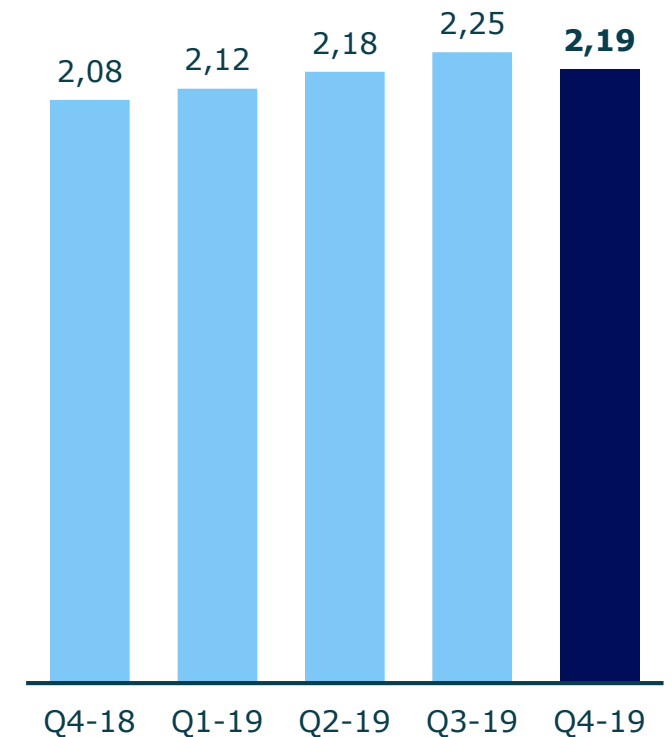
The bank is well-run and this results in new business and revenue growth

More than 70 per cent of our man-years are allocated to direct customer-oriented work

**Total income**  
- NOK million



**Total income**  
- % Average Assets



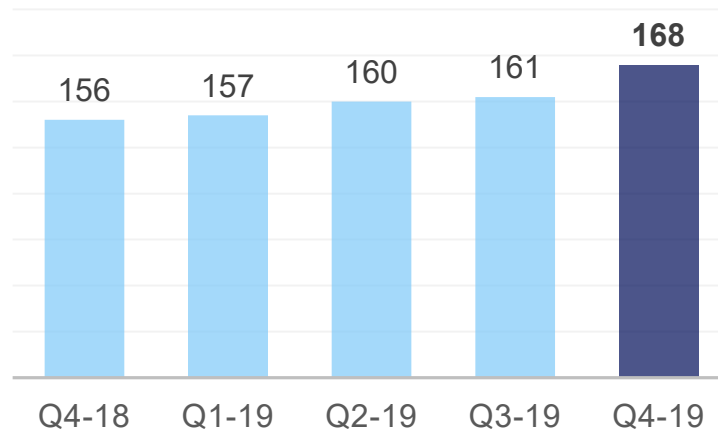
## Improved efficiency - target will be met

Operational efficiency is a high priority in the bank and has been for a number of years

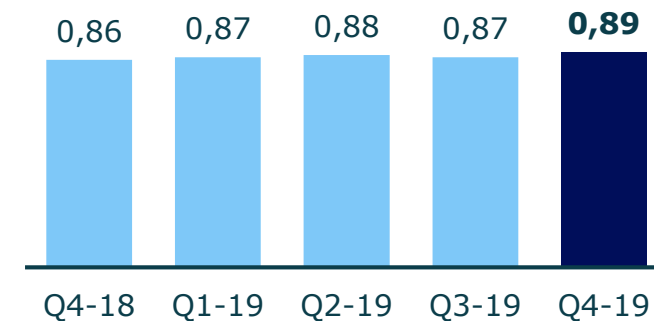
We are approaching the < 40 per cent target for cost efficiency

The bank is growing and efficiency is increasing

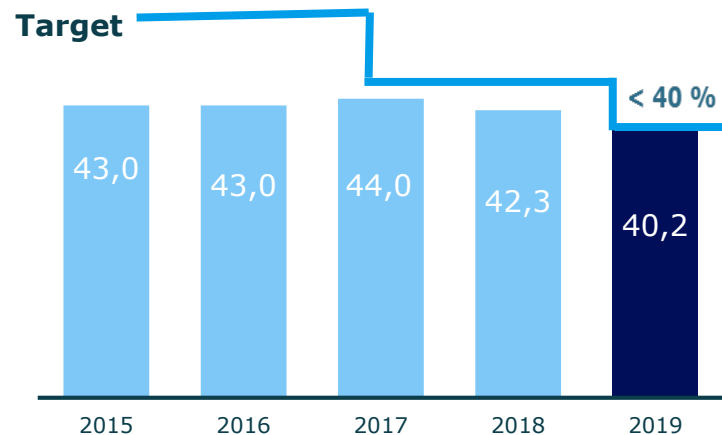
**Operating Costs**  
- NOK million



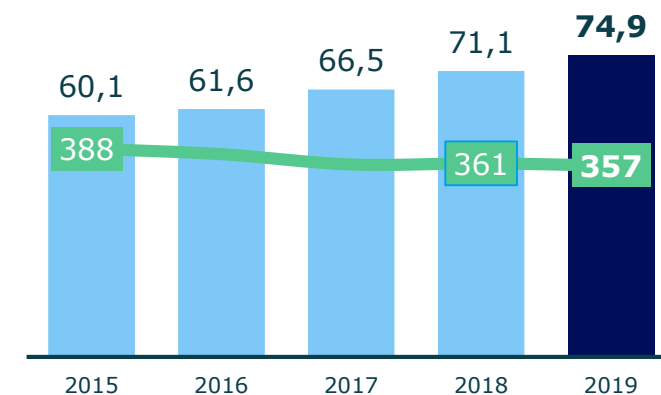
**Operating Costs**  
- % of Average Assets



**Cost/Income ratio**



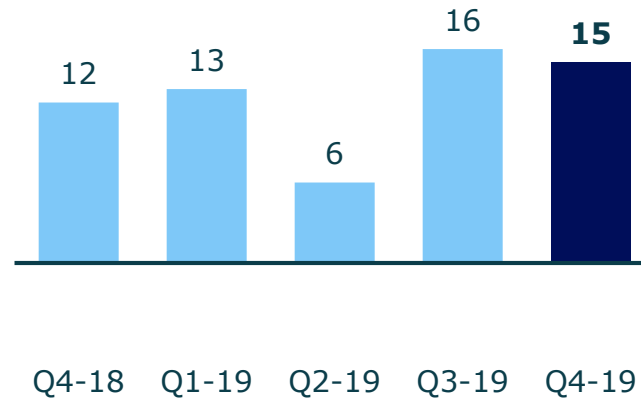
**Total Assets and Man Years**  
- Total Assets in NOK billion



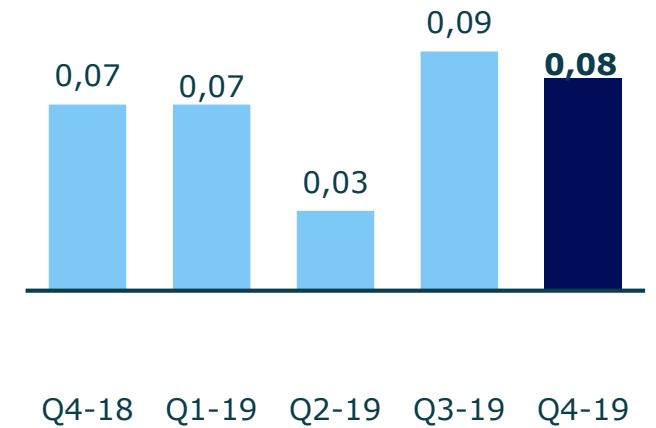
# Strong underwriting

Persistent low losses

**Losses on loans and guarantees**  
- NOK million



**Losses on loans and guarantees**  
- % of Average Assets



## Losses by sector

The expected credit loss (ECL) model is compliant with IFRS 9 and is used to calculate losses

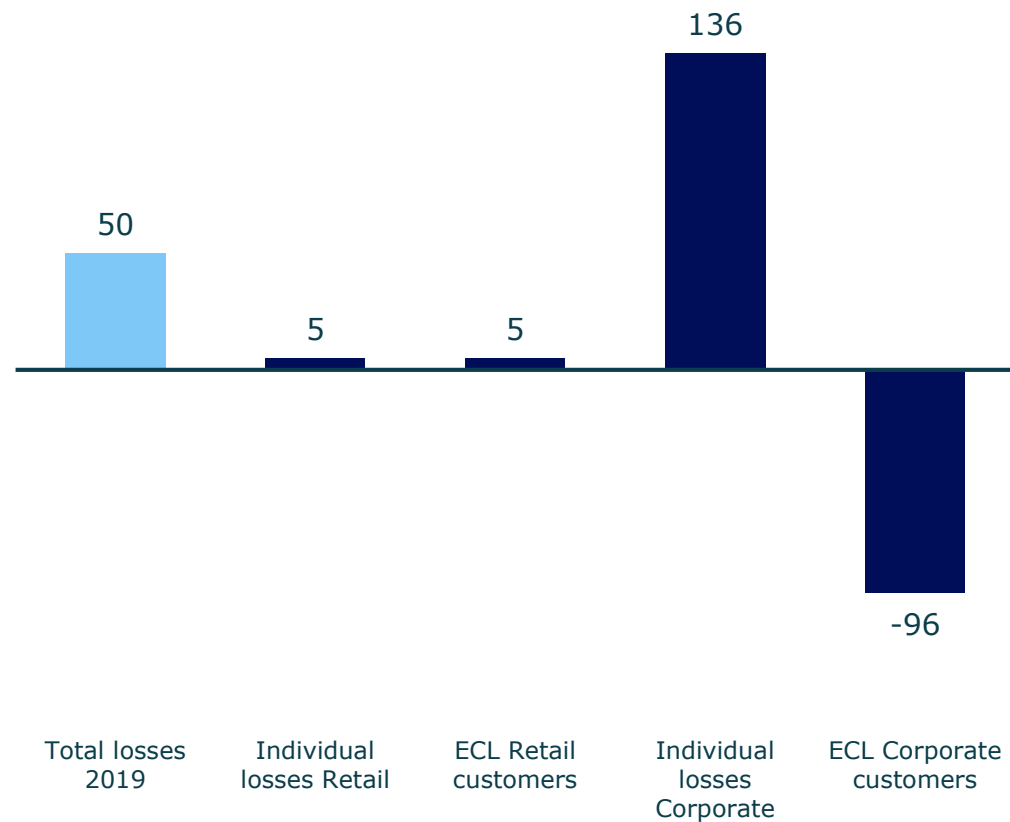
Total calculated ECL by year end is NOK 91 million lower than by 31.12.2018

Changes in individual impairments and other losses amount to NOK 5 million for retail customers and an increase of NOK 136 million for corporate customers

Total losses are NOK 50 million by year end

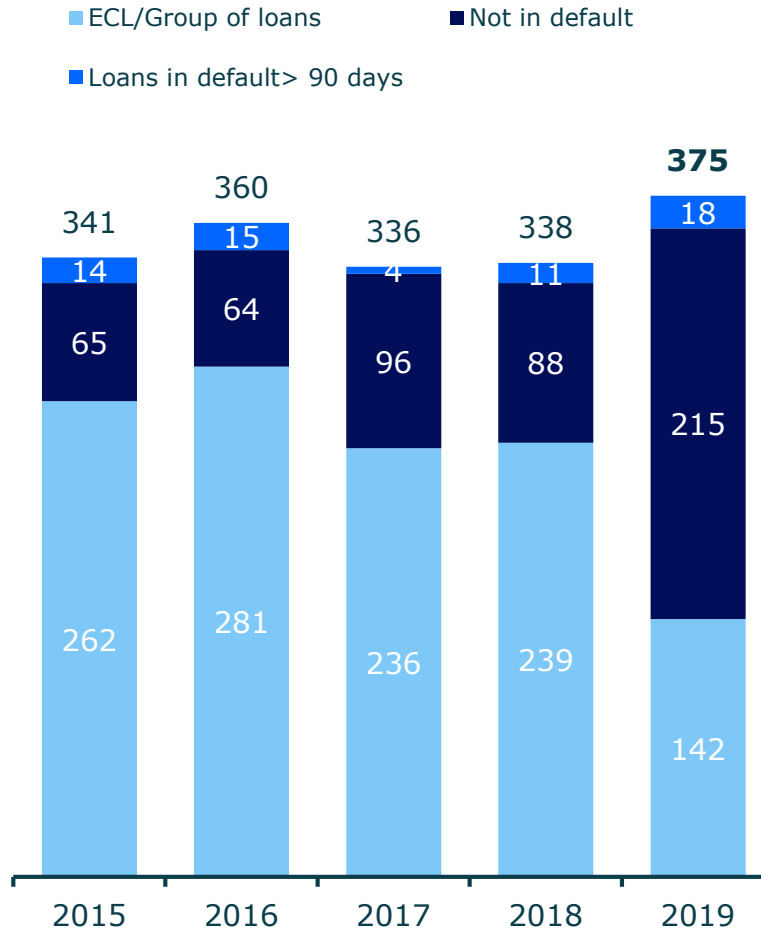
## Losses on loans and guarantees

- NOK million

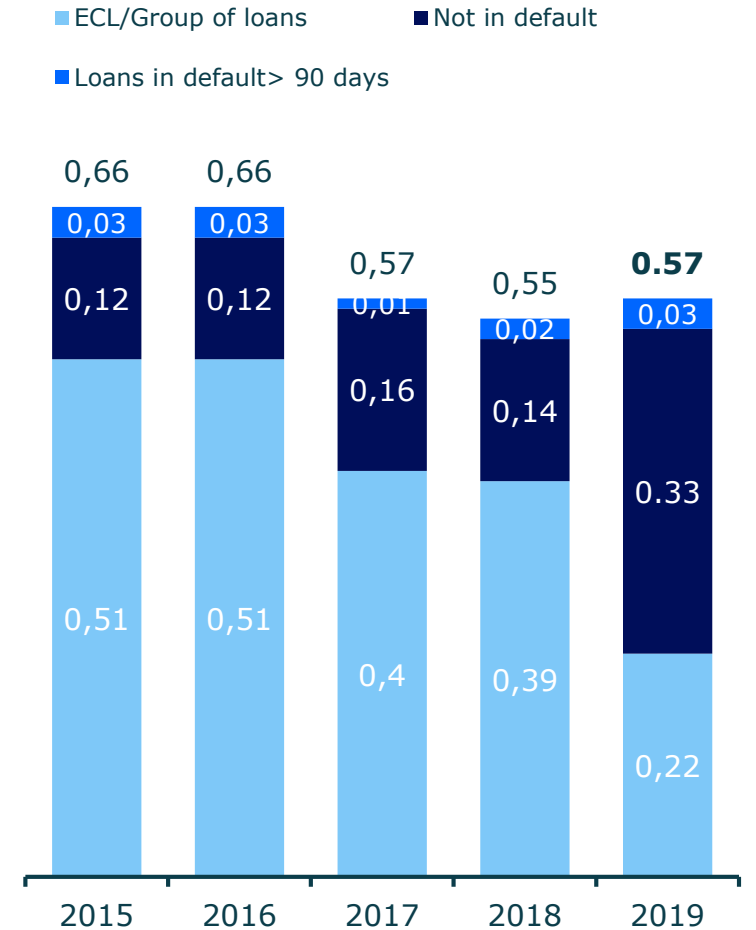


# Impairments - comfortable levels

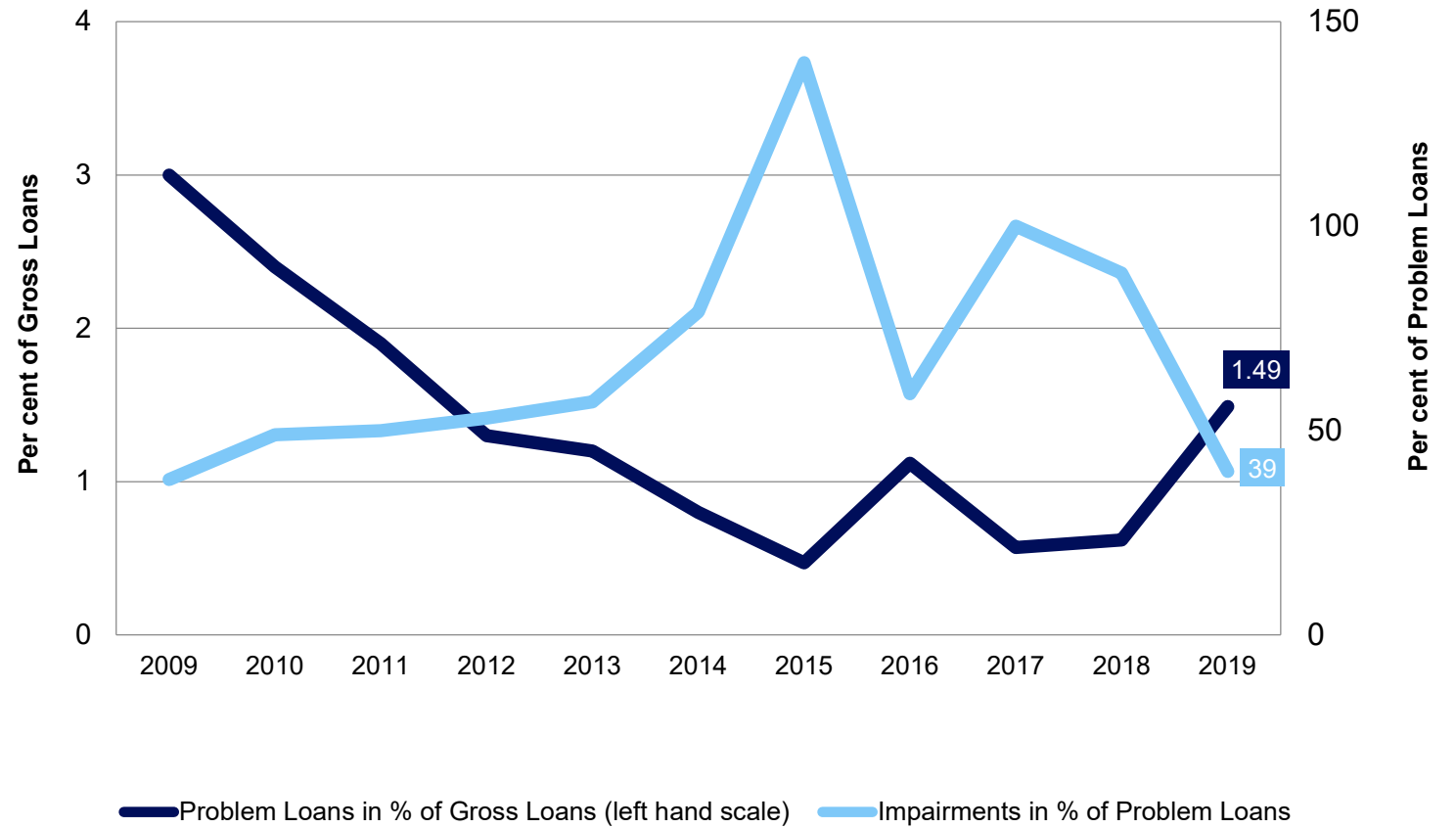
**Impairments**  
- NOK million



**Impairments**  
-% of Gross Loans and guarantees



# Problem Loans and Impairments



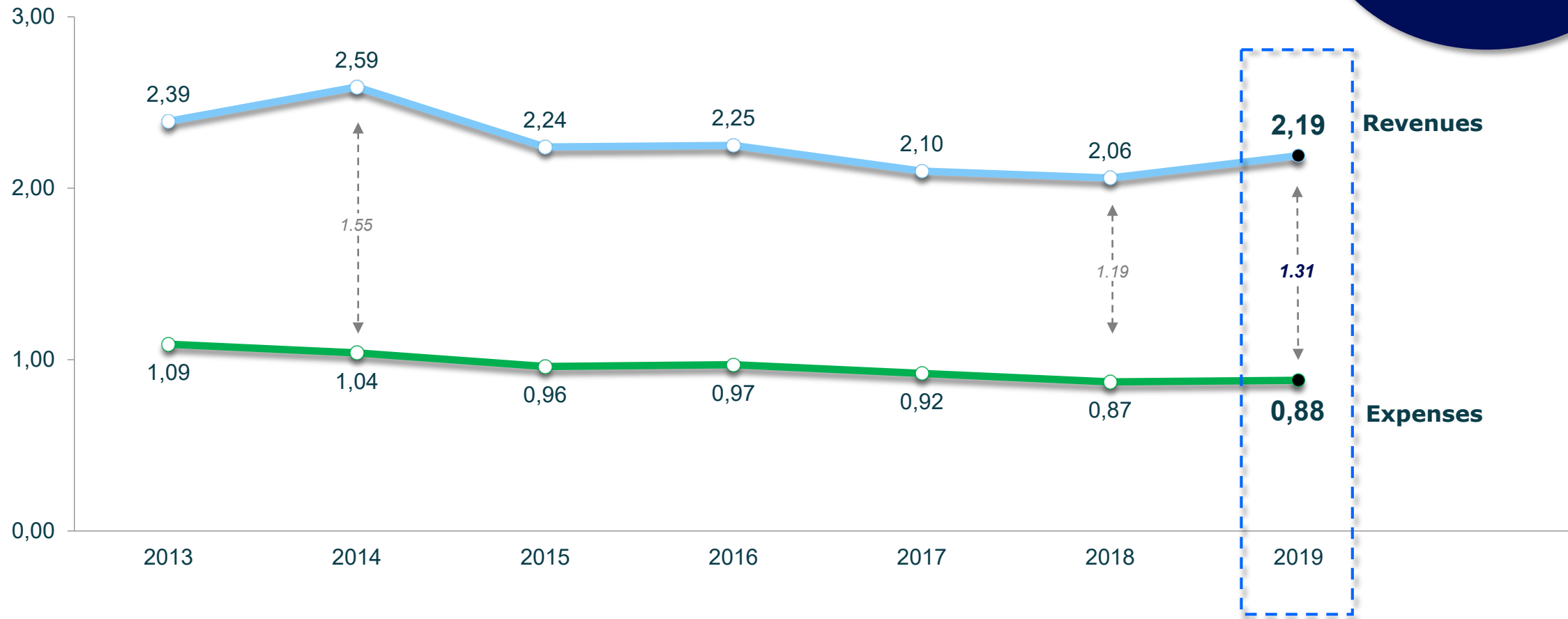
Problem Loans are loans and guarantees more than 90 days over due and performing loans with individual impairments.

# Our business model returns good and stable results

**ROE**  
11.7%

**C/I**  
40.2%

per. cent of av assets





# Balance sheet

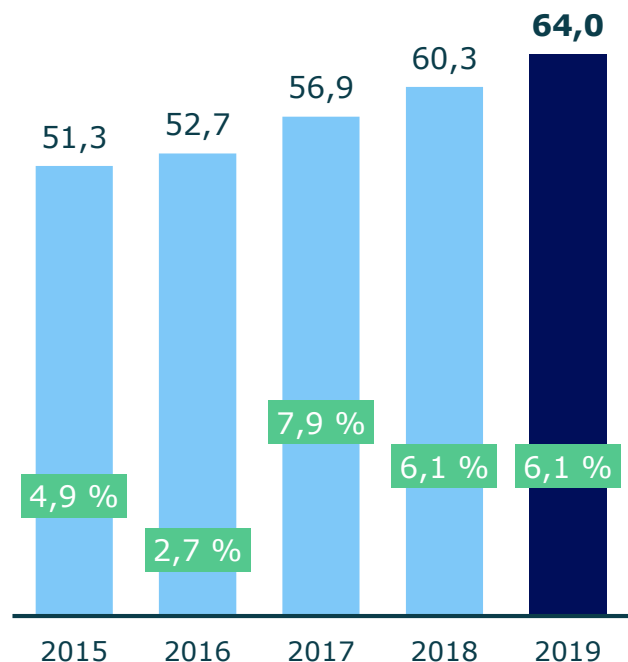
# Continued good growth

The Bank is working well in the market and we are strengthening our position in our region Nordvestlandet

Good growth in lending and deposits in 2019

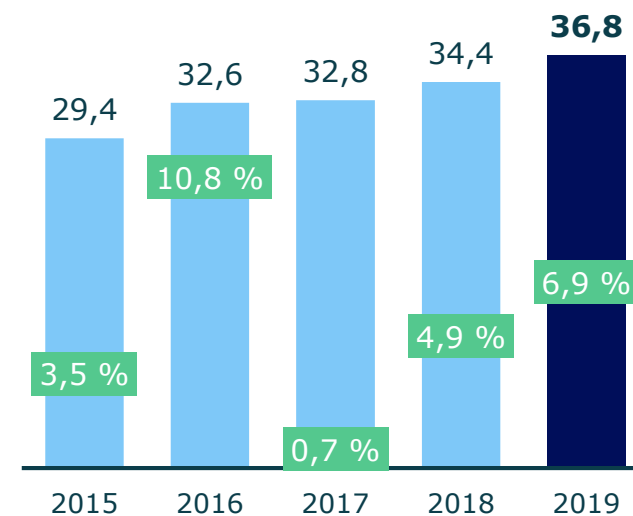
We are constantly attracting new customers and customer surveys show that our customers are well satisfied with their bank

**Loans**  
- NOK billion and per cent (y/y)



Customer lending has increased by 6.1 % over the last 12 months

**Deposits**  
- NOK billion and per cent (y/y)



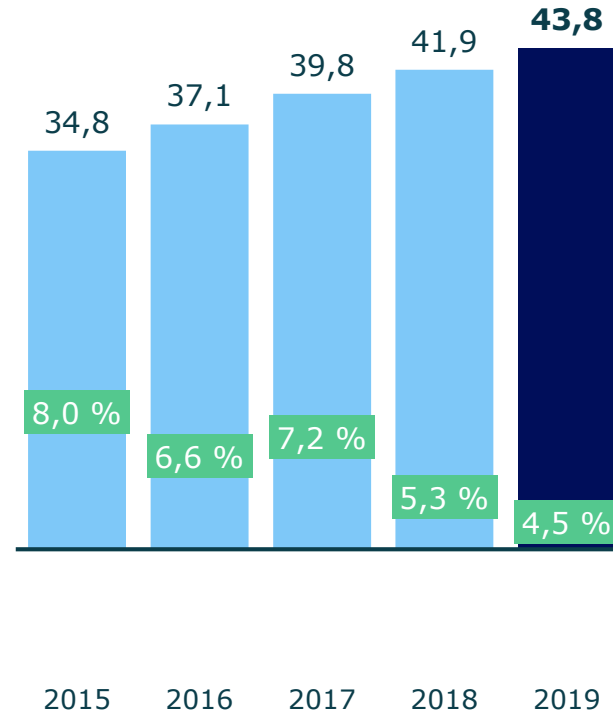
Deposit growth of 6.9 % over the last 12 months.

High deposit-to-loan ratio of 57.5 %

# Lending

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

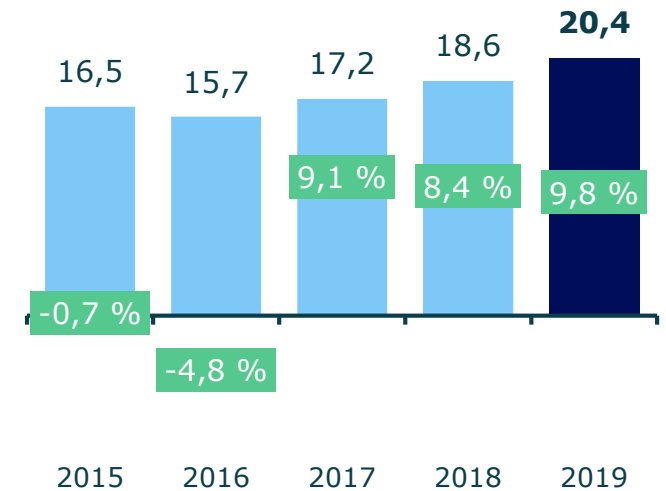
**Retail market**  
- NOK billion and per cent y/y



Retail lending has increased by 4.5 %  
over the last 12 months

Loans to the retail market amount to  
68.4 % of total loans

**Corporate market**  
- NOK billion and per cent y/y

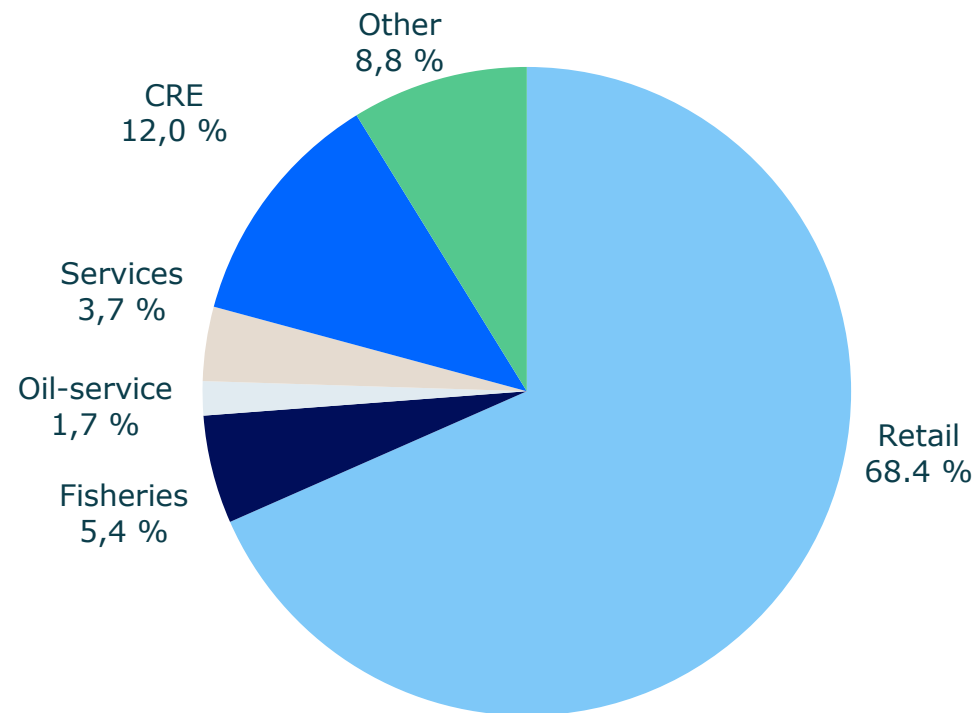


Corporate lending has increased by 9.8 %  
over the last 12 months

Loans to the corporate market amount  
to 31.6 % of total loans

# Diversified loan book

## Loans by sector



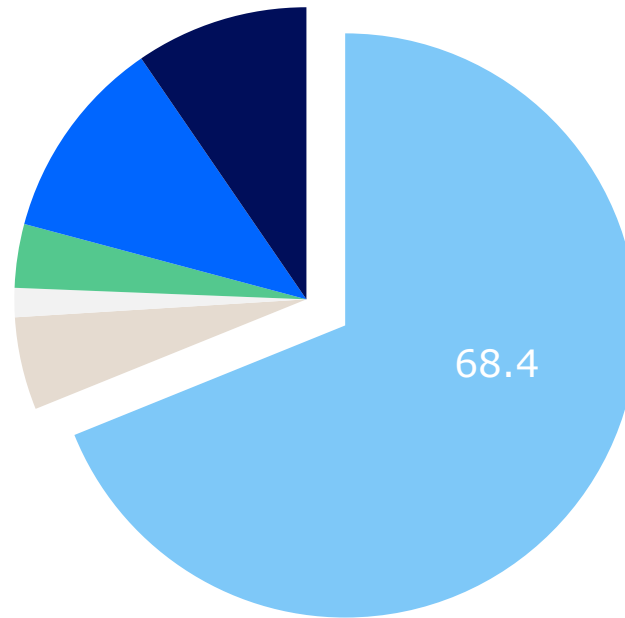
### Other;

Financial services	1.8 %	Ship Yards	0.9 %
Other Industry	1.7 %	Agriculture	0.9 %
Building and Construction	1.4 %	Other	0.2 %
Retail/wholesale trade	1.0 %		
Fishing Industry	0.9 %		

# Good quality in our retail portfolio

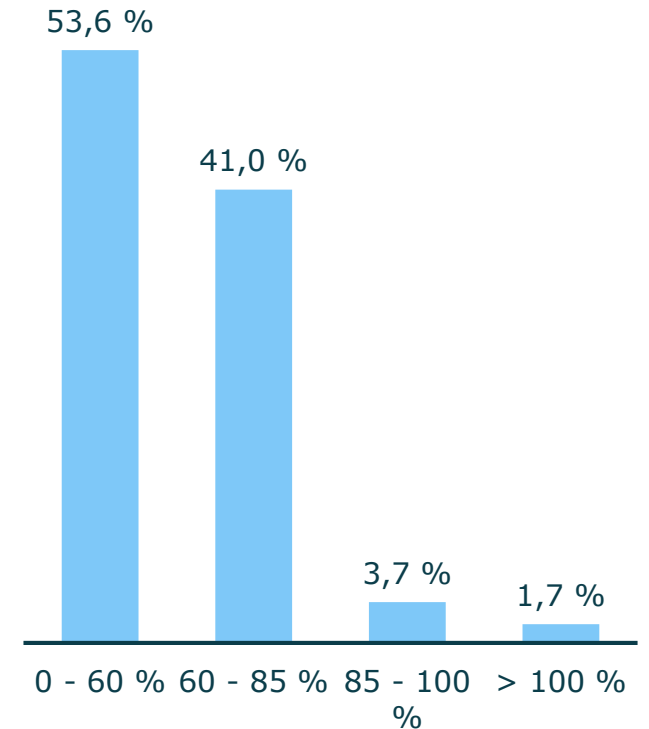
High portion of secured loans

Loans to retail customers  
- % of total loans



- The Bank complies with the lending regulations (Boliglånsforskriften)
- Deviation from Boliglånsforskriften reported in the fourth quarter of 2019 were 8.3 % outside Oslo, and 6.8 % in Oslo

Loan to Value – retail loans



- 94.6 % of mortgages are within 85 % of LTV

# Housing prices

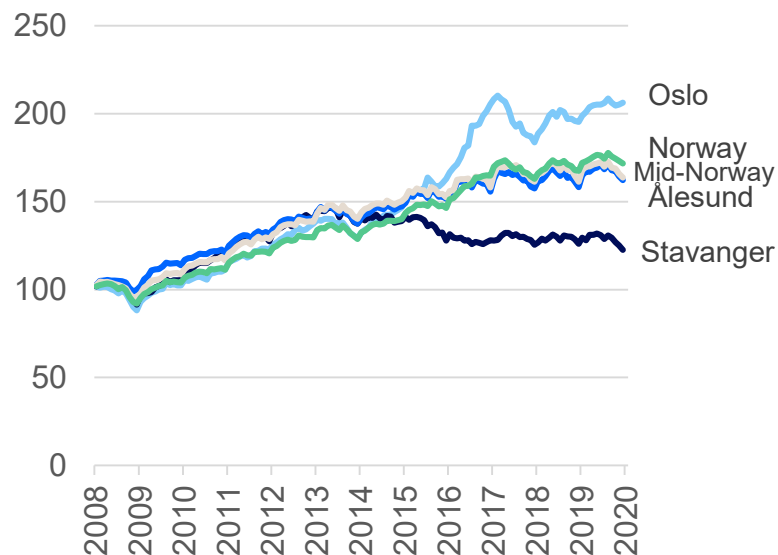
Based on pre-owned dwellings sold in December 2019, seasonal adjusted house prices increased with 0.1 per cent in Norway last month.

Last twelve months Norwegian house prices have increased in average by 2.6 per cent, mainly driven by the 5.5 per cent increase in Oslo.

The City of Ålesund and the Mid-Norway region has experienced around national average indexed development, but below average real house prices per square meter.

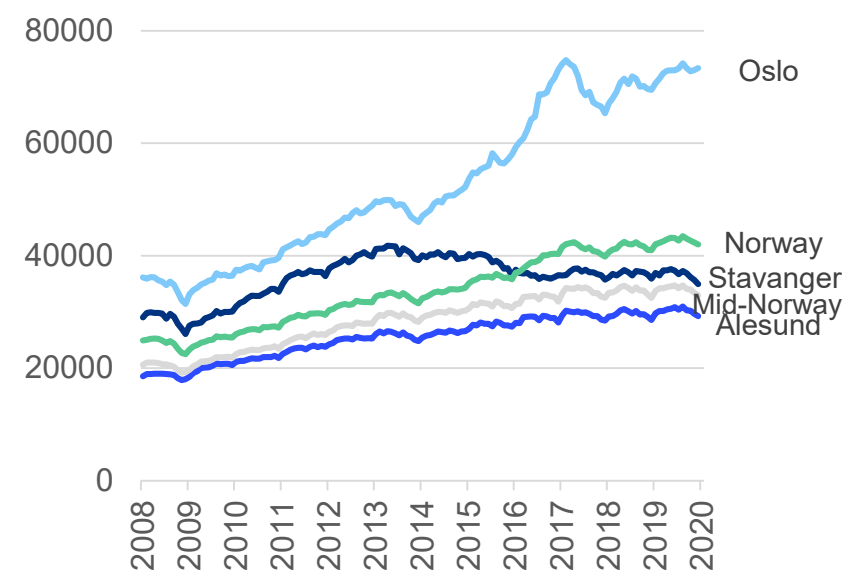
## Indexed development

- January 2008 = 100



## Prices per square meter

- January 2008 – December 2019



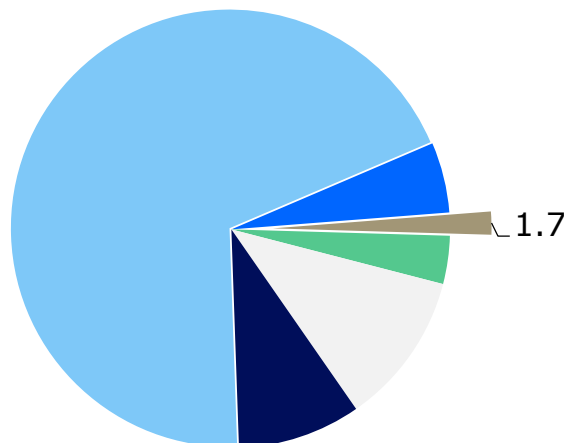
### Key information

(Sold pre-owned dwellings in December 2019)	Norway	Mid-Norway	Greater Ålesund	Greater Stavanger	City of Oslo
Seasonal adj. development month	+0.1 %	-0.1 %	+0.1 %	-0.2 %	+0.5 %
Development 12 months	+2.6 %	+1.4 %	+2.5 %	-2.7 %	+5.5 %
Per square meter (NOK)	42,008	32,926	29,279	34,953	73,339
Average days on market	71 days	92 days	73 days	95 days	33 days
Price median dwelling (NOK)	3,160,000	2,650,000	2,407,000	3,125,000	4,156,000

# Low exposure towards Oil Service

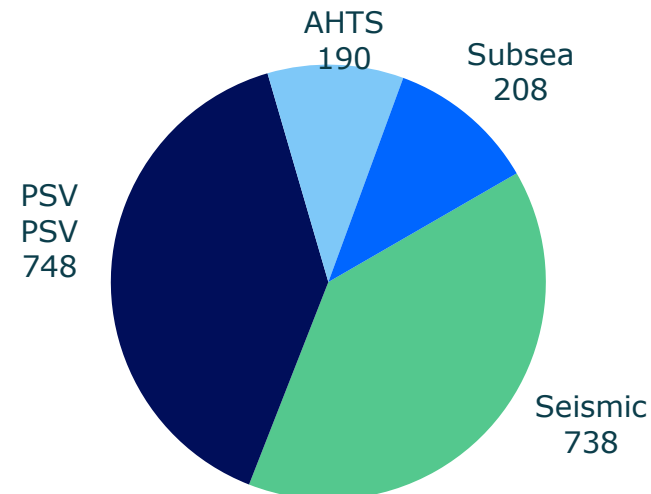
## Loans to Oil Service

- In per cent of total loans



## EAD by types of vessels

- In NOK million

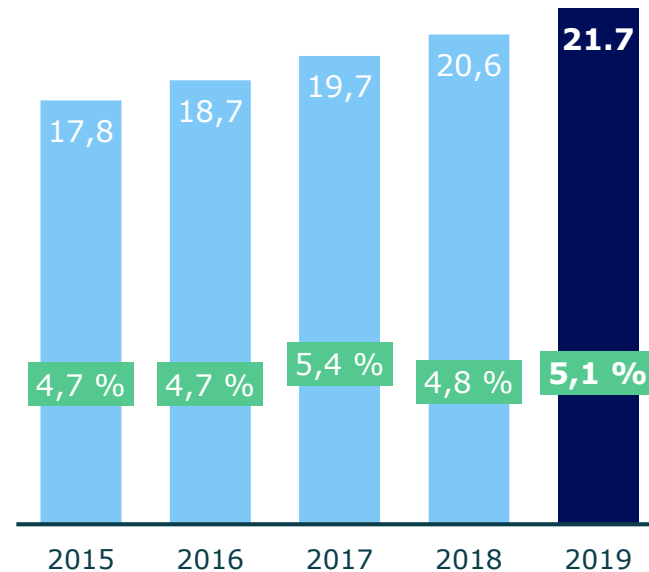


(EAD in NOK million)	Loans	Guarantees	Total EAD	Individual impairments	ECL-IFRS 9	Total	Per cent of EAD
Low Risk (Risk Class A-C)	123	0	123	0	0.3	0.3	0.2 %
Medium Risk (Risk Class D-G)	535	233	768	0	16	16	2.1 %
High Risk (Risk Class H-M)	206	41	247	0	21	21	8.5 %
Loans and guarantees with individual impairments	227	520	746	196	0	196	23.3 %
<b>Total</b>	<b>1,091</b>	<b>794</b>	<b>1,884</b>	<b>196</b>	<b>37</b>	<b>233</b>	<b>12.4 %</b>

# Deposits

## Retail market

- NOK billion and per cent y/y

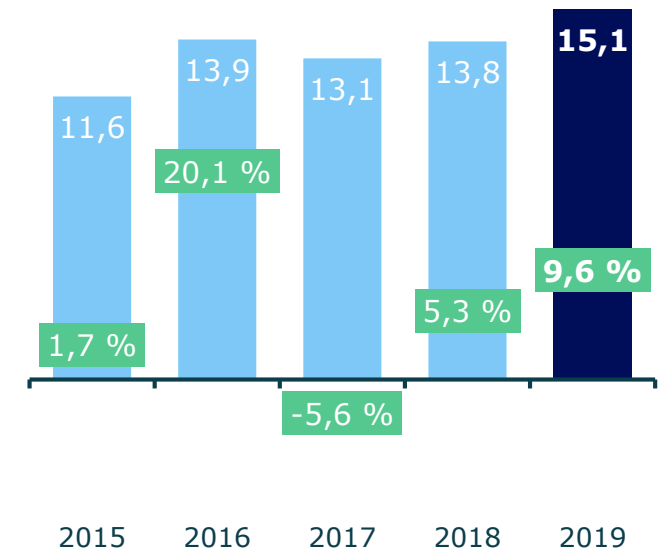


Retail deposits have increased by 5.1 % over the last 12 months

Deposits from the retail market amount to 58.9 % of total deposits

## Corporate and public

- NOK billion and per cent y/y



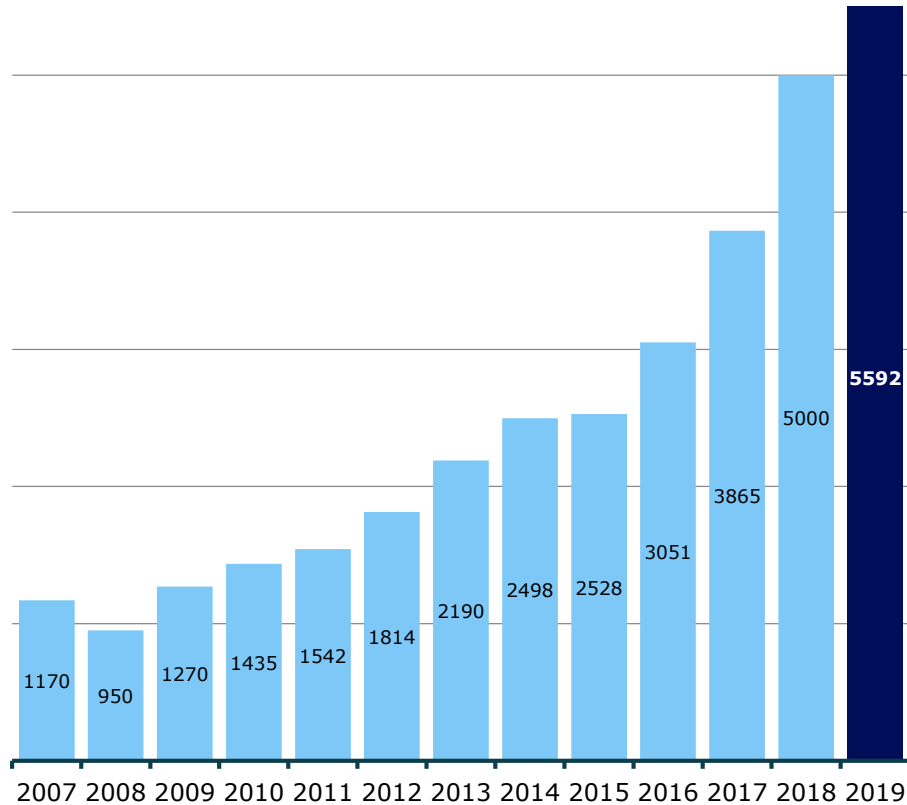
Deposits from corporate and public customers have increased by 9.6 % the last 12 months



# Discretionary Portfolio Management

## Sparebanken Møre - Aktiv Forvaltning

- Portfolio in NOK million



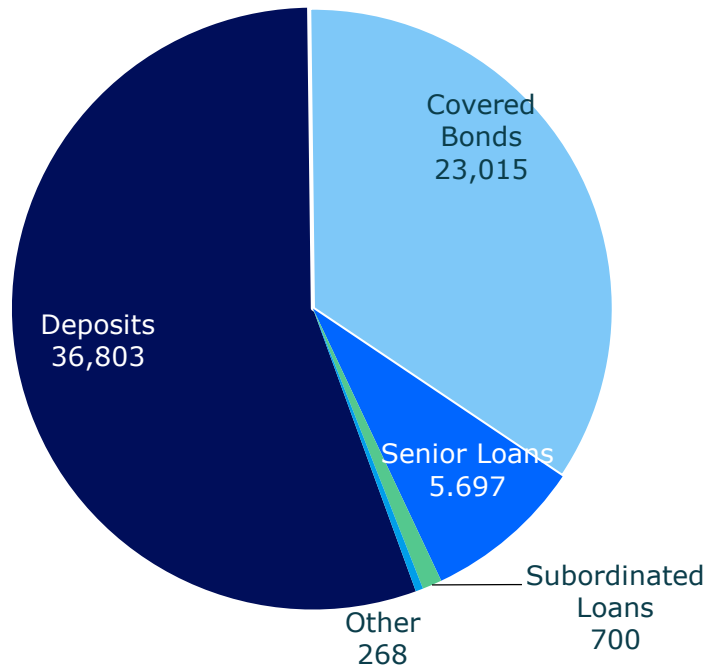
- In addition to deposits, increasingly more of Sparebanken Møre's customers also ask for other investments
- Sparebanken Møre Aktiv Forvaltning (Discretionary Portfolio Management) offers the Bank's clients professional management services
- Our local Asset Managers continuously monitor the portfolio: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



# Liquidity and Capital

# Deposits from customers and market funding – strong rating

Deposits are the Group's most important source of funding



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

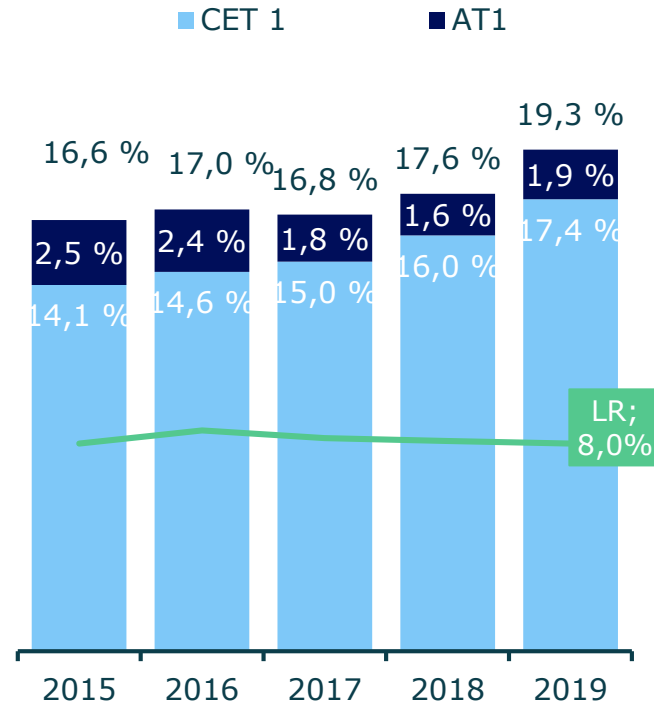
- Our strong deposit-to-loan ratio stood at 57.5 per cent by year end
- Total net market funding ended at NOK 29.7 billion by end of the quarter – close to 90 per cent with remaining maturity of more than one year
- Senior Bonds: Weighted average maturity of 1.92 years (FSA defined key figures)
- Covered Bonds issued through Møre Boligkreditt AS have a weighted average maturity of 4.01 years (FSA defined key figures)
- By quarter end Møre Boligkreditt AS had issued seven loans qualifying for Level 2A liquidity in LCR. Early October 2019, the mortgage company placed its third successful semi-benchmark Public Issue of EUR 250 million in the European market
- December 9 2019, Moody's confirmed the bank's A2- stable rating. Issuances from Møre Boligkreditt AS are rated Aaa

# Equity and related capital

- CET1 and Leverage Ratio (LR) are strengthened in Q4 and ends well above current regulatory requirements
- The Countercyclical buffer has been increased by 0.5 p.p. to 2.5 per cent from year end 2019. The Basel 1 floor is abolished and the SME discount factor is introduced
- This will to a certain, but limited extent from year end 2020 until 2022 be offset by introduction of temporary risk weight floors for residential (20 per cent) and commercial real estate (35 per cent) and from 31.12.2022 increase systemic risk buffer from 3 to 4.5 per cent
- The “floor effect” on Pillar 2 gives an effective Pillar 2 margin (related to RWA) by year end of 1,84 per cent

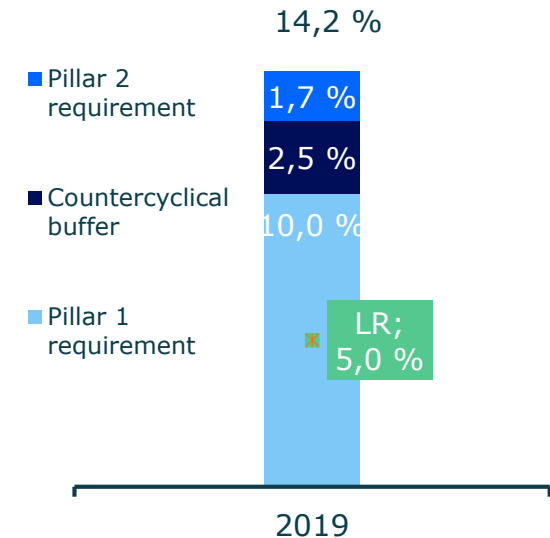


**Tier 1 capital in Sparebanken Møre**  
- % of risk weighted assets



- By year end our Common Equity Tier 1 capital stood at 17.4 %, Tier 1 capital at 19.3 % and Total Capital at 21.5 %
- Sparebanken Møre’s capital targets are:
  - Total Capital: Minimum 18.7 %
  - Tier 1 capital: Minimum 16.7 %
  - CET1: Minimum 15.2 %

**CET1 requirement for Sparebanken Møre**  
- % of risk weighted assets

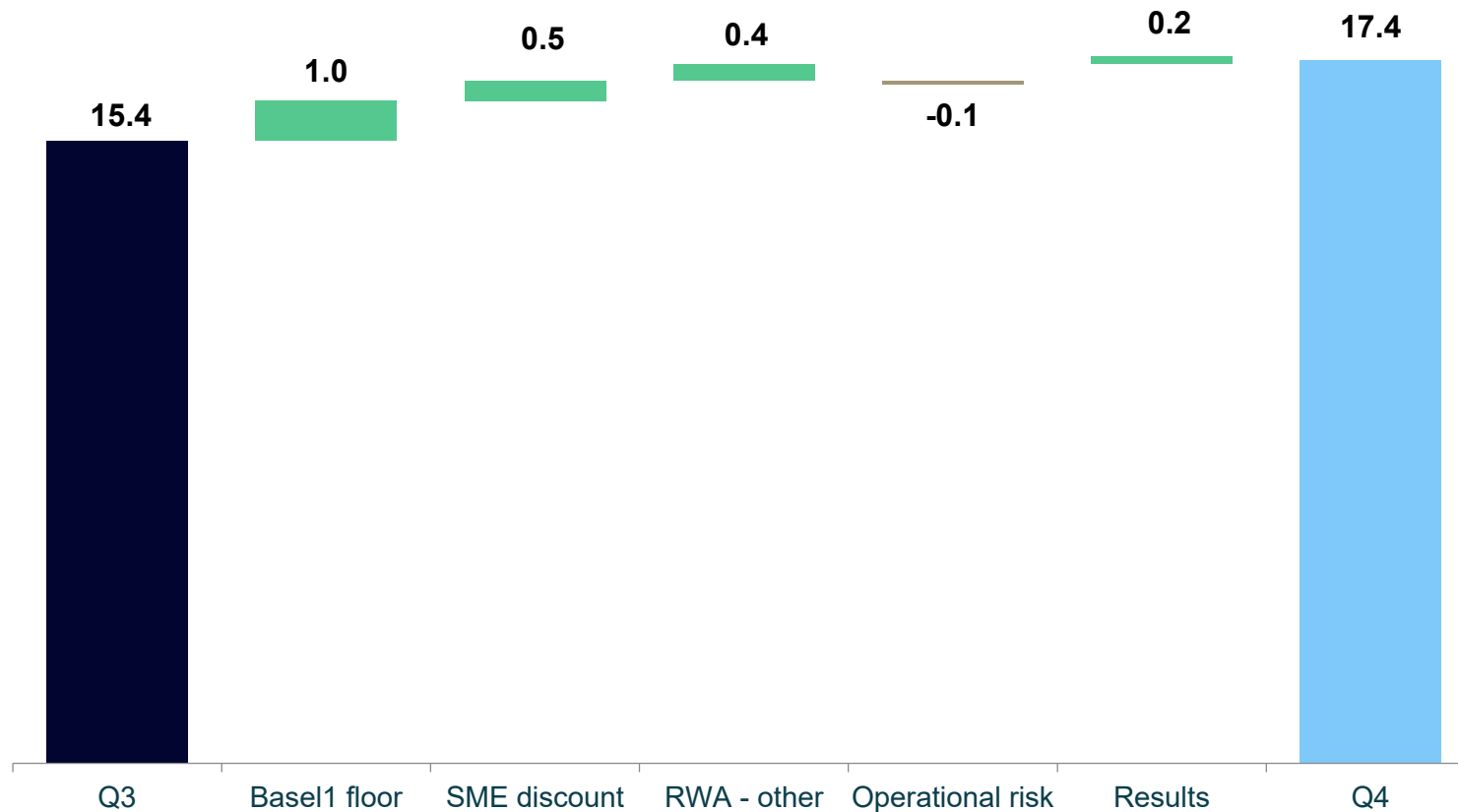


- The Group's capital adequacy ratio is well above the regulatory capital requirements
- Our capital is calculated according to the IRB Foundation Approach for corporate commitments, IRB Approach for the retail market

## Positive development in CET1

Capital adequacy (CET1) well above regulatory requirements

### CET1 – changes from Q3



## Our dividend policy stands firm

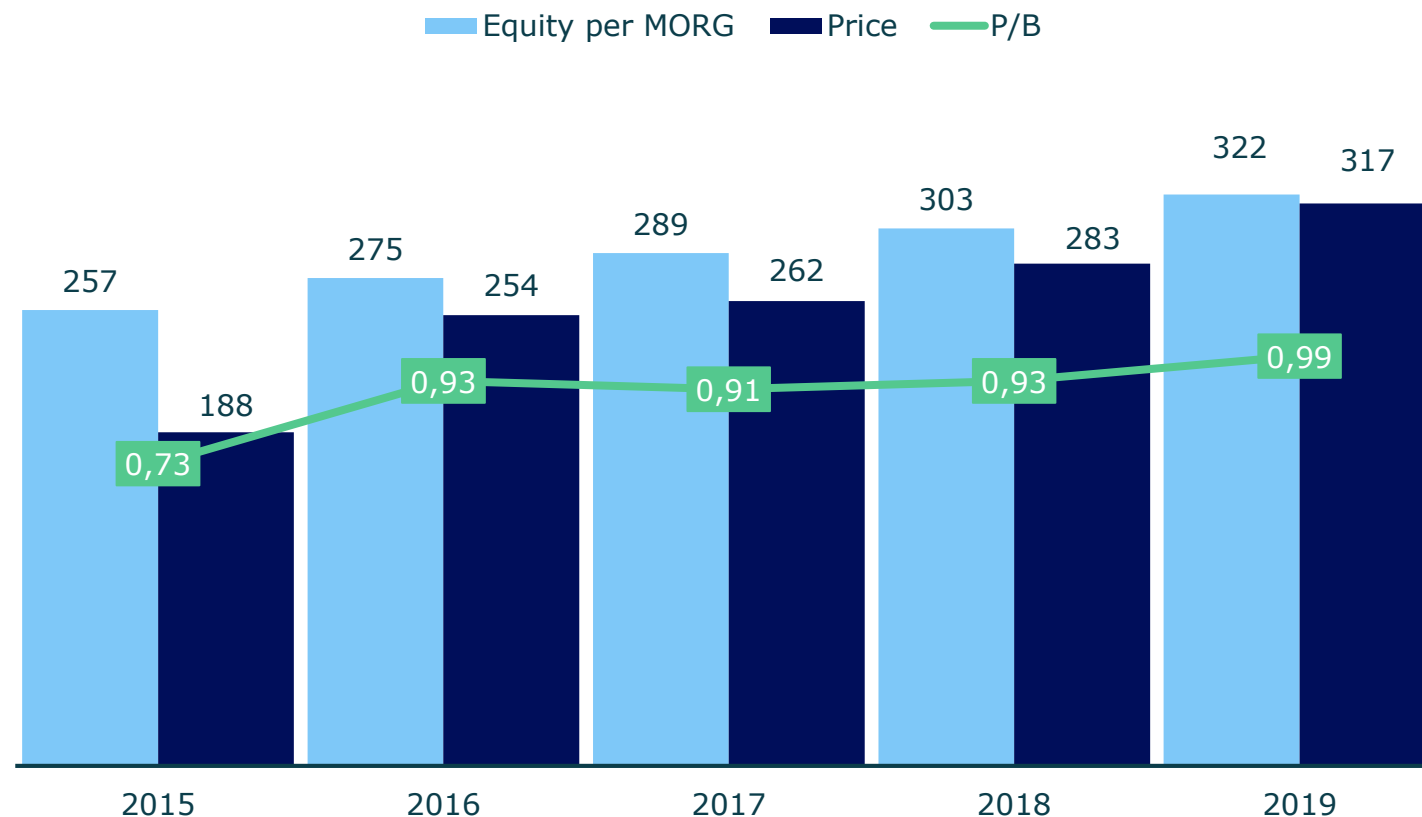
Sparebanken Møre aims to achieve financial results providing a good and stable return on the Bank's equity capital

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

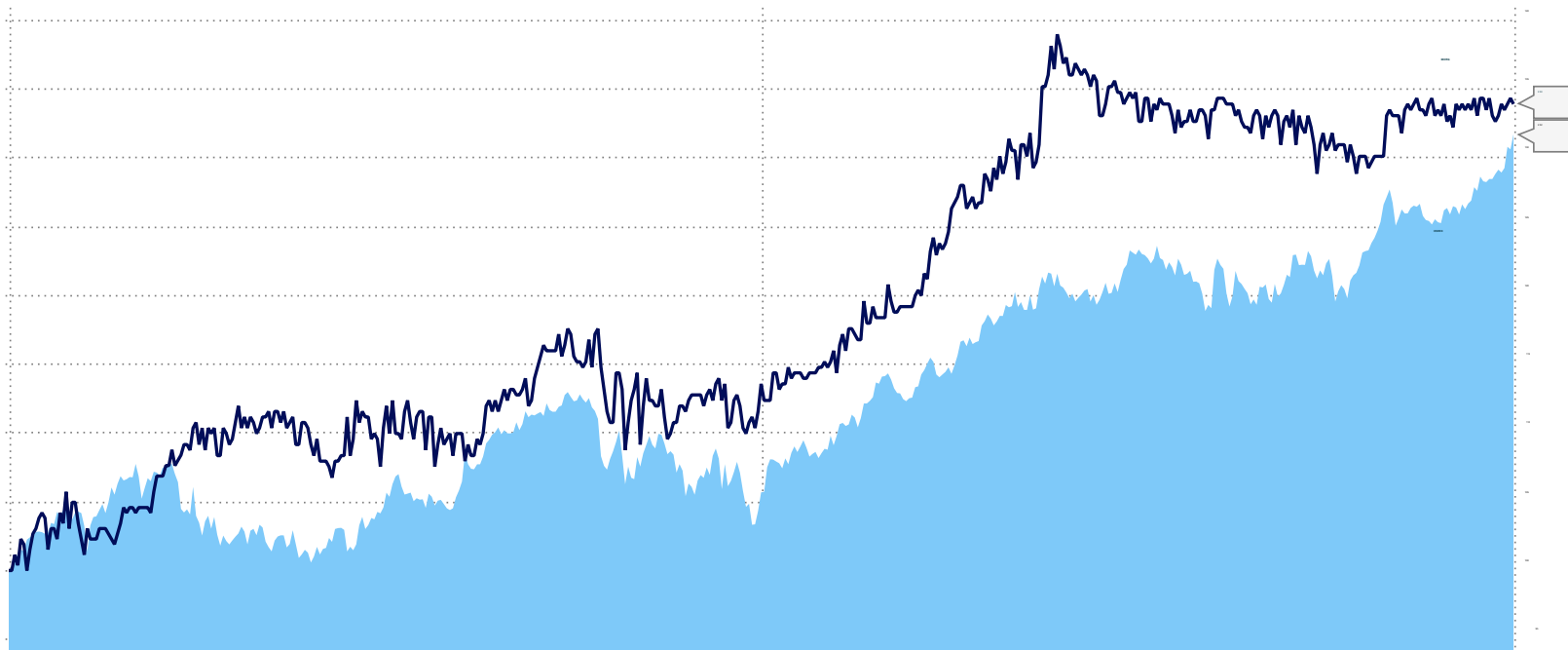
## MORG – price and Price/Book (P/B) value



Equity per MORG is calculated on Group figures

# Equity Capital in 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 December 2019
- Good Total Return



## Annual dividend per EC (NOK)

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	2019	17.50 (proposal)

# Equity Capital in Sparebanken Møre

## About equity certificates

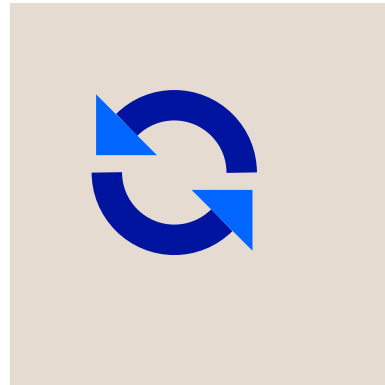
- Equity certificates are a special kind of equity instrument first introduced by savings banks in 1988. A total of 32 banks have now issued such certificates, and 19 of them are listed on the stock exchange
  - Equity certificates are an important part of savings banks' capital base and confer ownership 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
- Sources: The Norwegian Savings Bank Association <https://www.sparebankforeningen.no/en/egenkapitalbevis/about-equity-certificates/>



# Financial targets



**ROE > 11.0 per cent**



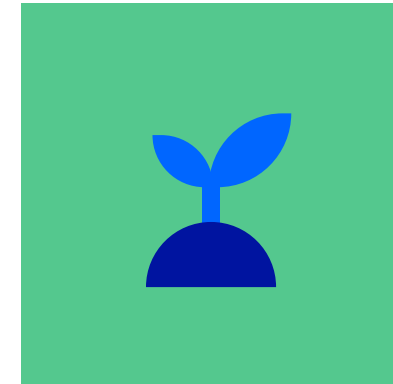
**C/I < 40.0  
per cent**



**Low level  
of losses**



**CET1 > 15.2  
per cent**



**Healthy financial  
structure**

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