

# Sparebanken Møre - the Group

October 19 2017

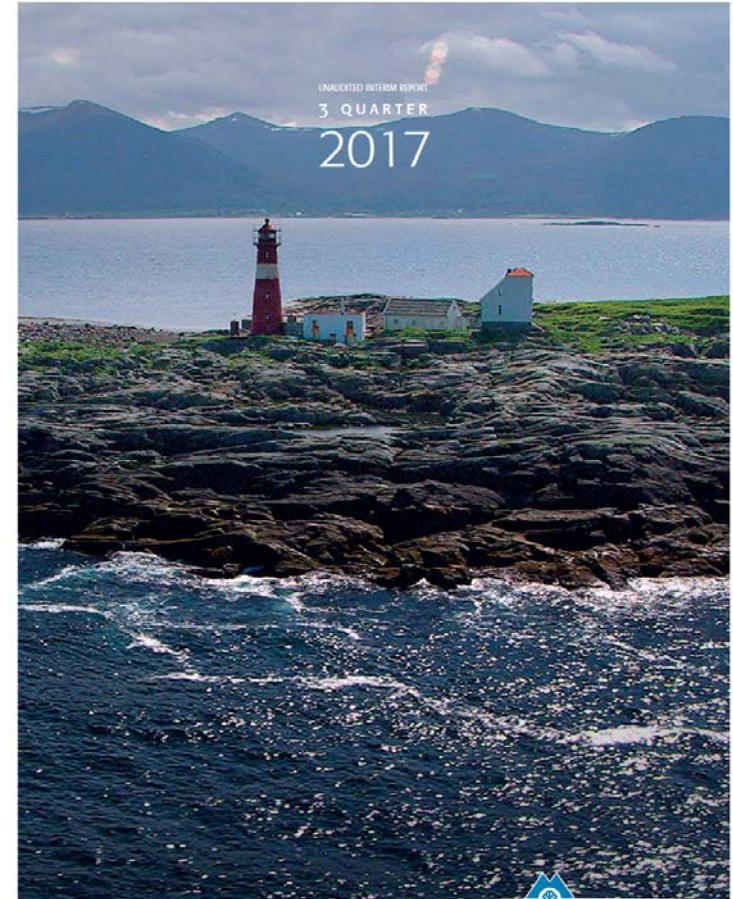
PRESENTATION  
3<sup>RD</sup>. QUARTER 2017

**Runar Sandanger**  
*EVP*

# Contents

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- Introduction and highlights
- Results
- Deposits and Loans, overview and details
- Liquidity and Capital
- Future prospects and main targets



# Highlights from Q3 2017

*- Good growth and improved conditions*



SPAREBANKEN MØRE

## STABILIZED ECONOMIC OUTLOOK

- Economic activity in the county has over the last months stabilized at a higher level
- Key reasons for this are a weak NOK, low level of interest rates and an expansionary fiscal policy
- In September, the registered unemployment rate in Møre og Romsdal (NAV) was 2.5 per cent. This was the same unemployment rate as for the country as a whole. The unemployment rate in the county is now at the lowest level in two years

## GOOD GROWTH

- The bank is competitive and has recognized good, but reduced lending growth both to the retail market and to the corporate market
- We expect lower rates in lending growth for the rest of the year

## IMPROVED NET INTEREST INCOME

- Despite a persistent tough competition, lower risk and thus lower margins in parts of the corporate sector portfolio together with sustained low interest rates, the bank can show a positive development in net interest income in the quarter
- The improvement is most marked in the retail market, among other things as a result of lower funding costs

## COOPERATION WITH NTNU

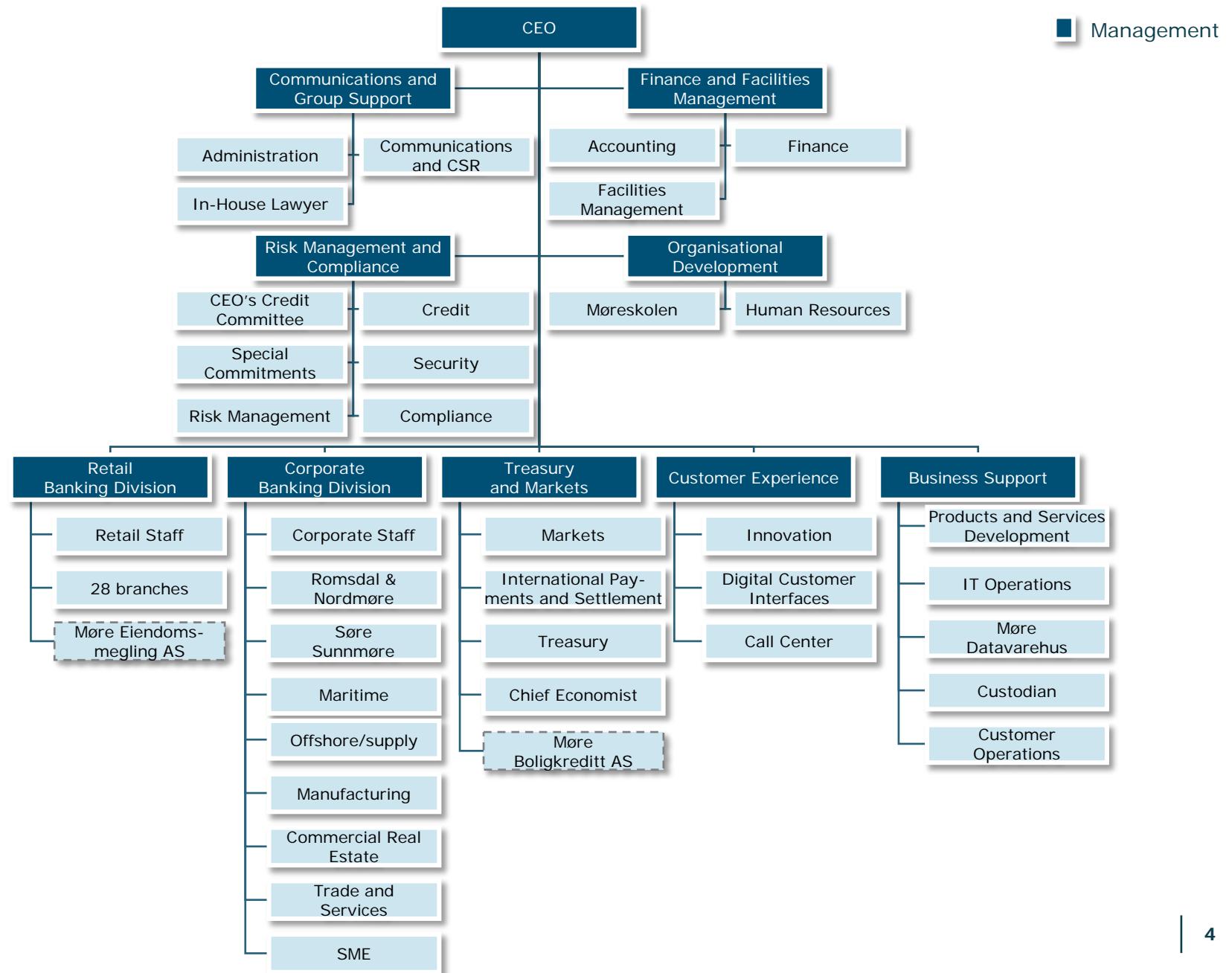
- In September, Sparebanken Møre entered into a partnership with NTNU, which will contribute to research and development in service innovation, entrepreneurship, finance and technology. The collaboration is concretized through a lab, which is established at NTNU in Ålesund, and current research areas are artificial intelligence, machine learning, Big Data and sustainable business models

## ORGANISATION

- Sparebanken Møre has recently changed the organisation with the aim of ensuring the Bank having a future-oriented, outwardly directed and efficient organisation. Among other things, the Bank has created a brand new division, Customer Experience, to ensure that both products and services meet customer requirements and expectations

# Meeting the future

New organisational structure from 01.10.17



# The largest bank in the county

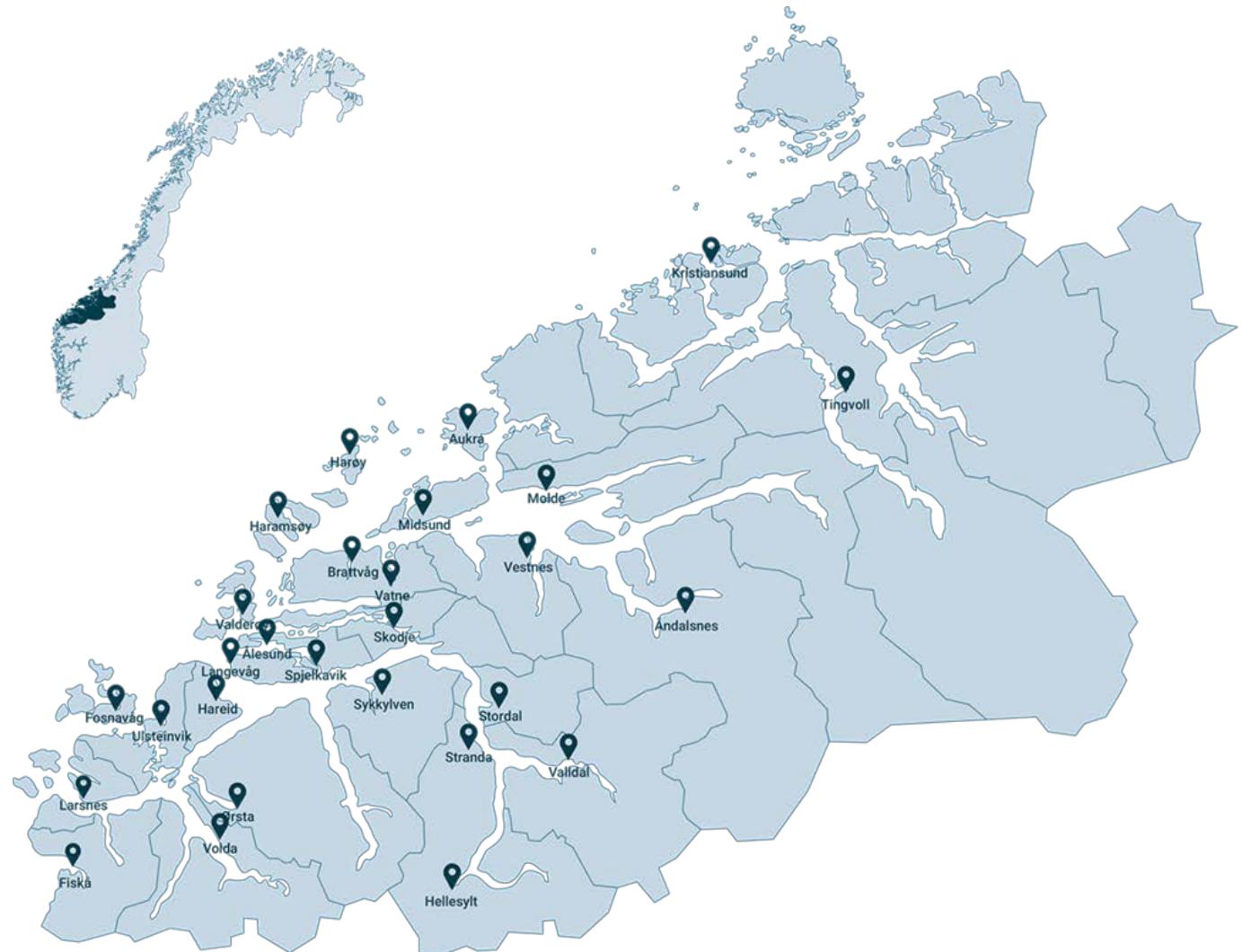
*- Contributing considerably to the local society*



**28**  
OFFICES IN  
MØRE OG ROMSDAL

**363**  
MAN YEARS

**66**  
BILLION IN  
TOTAL ASSETS

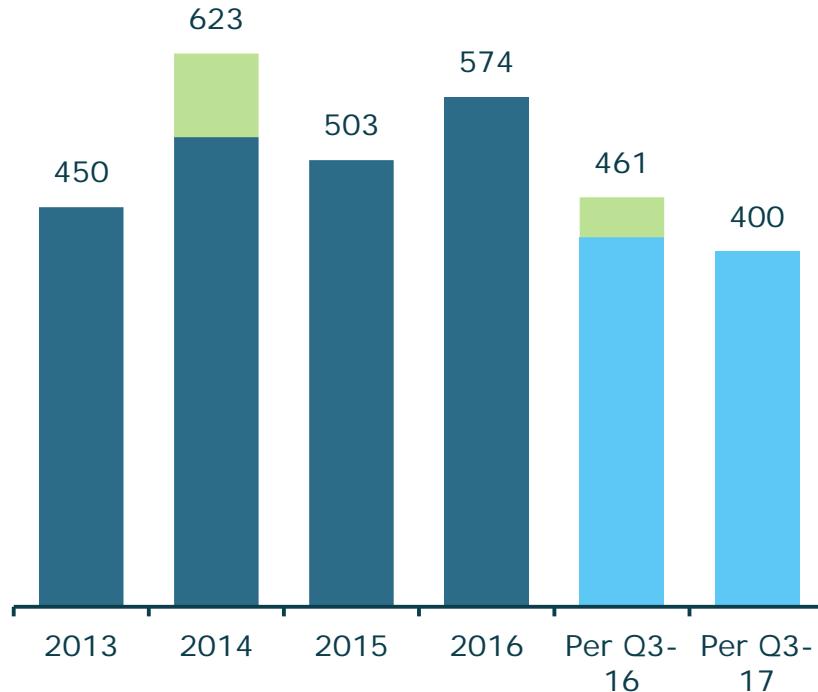


# Results in short

- *In line with our plans*

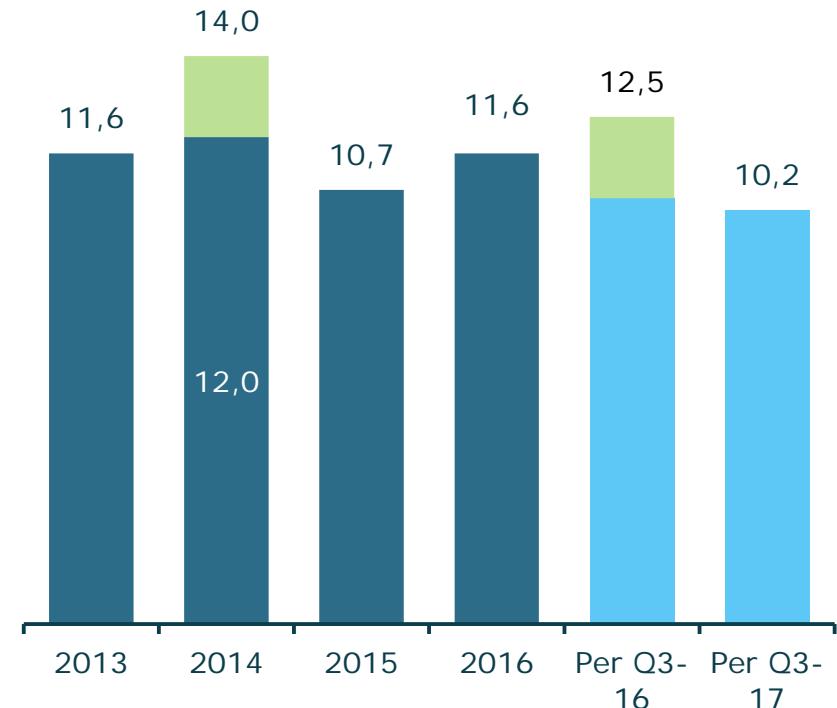
## Result after taxation

- NOK million



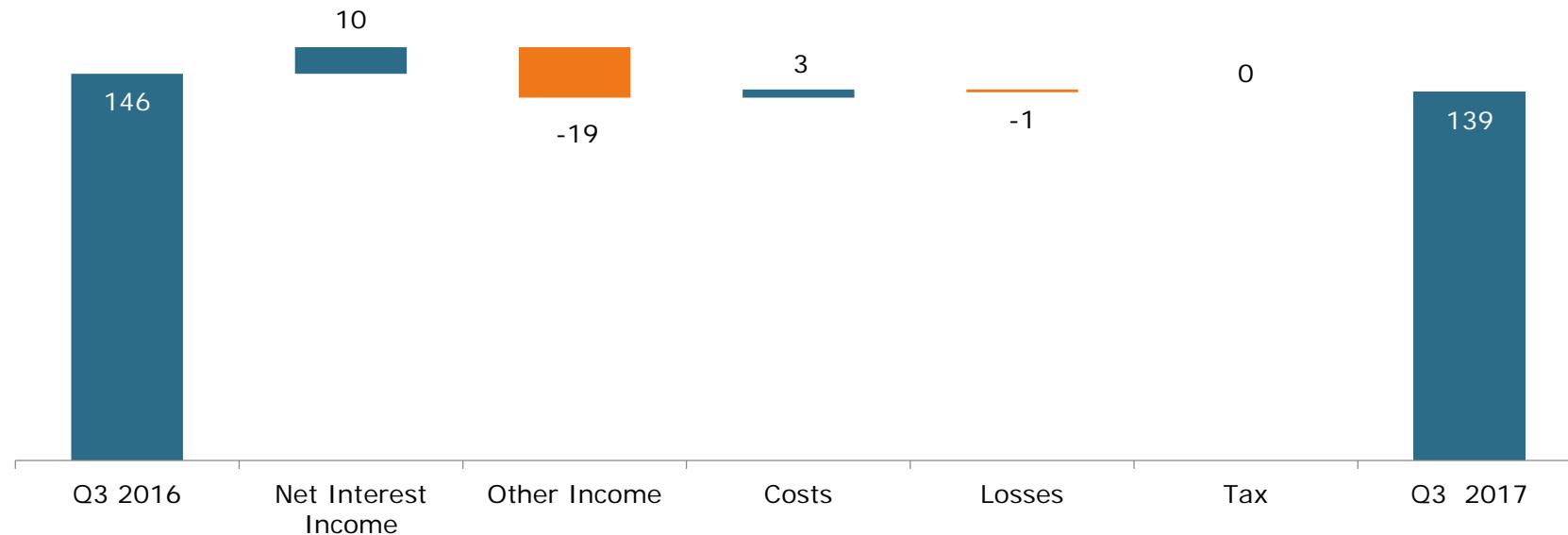
## Return on Equity

- In percent (ROE)



# Changes from Q3 2016 to Q3 2017

- *Result after taxation (NOK million)*



- Higher Net Interest Income in NOK
- Gains from VISA contributed with NOK 7 million to Other Income in Q3 2016
- Lower operating costs
- Low level of losses also in Q3

# Results

- Statement of income by the end of Q3 – the Group

<b>Results</b> (NOK million and %)	30.09.2017		30.09.2016		Changes		
	<b>NOK</b>	<b>%</b>	<b>NOK</b>	<b>%</b>	<b>NOK</b>	<b>p.p.</b>	<b>%</b>
Net Interest Income	810	1.70	809	1.79	1	-0.09	0.1
Net Income Financial Investments	19	0.04	27	0.06	-8	-0.02	-29.6
Gains from VISA			45	0.10	-45	-0.10	
Gains/losses liquidity portfolio	22	0.05	27	0.06	-5	-0.01	-18.5
Other Income	143	0.30	137	0.30	6	0.00	4.4
Total Other Income	184	0.39	236	0.52	-52	-0.13	-22.0
<b>Total Income</b>	<b>994</b>	<b>2.09</b>	<b>1,045</b>	<b>2.31</b>	<b>-51</b>	<b>-0.22</b>	<b>-4.9</b>
Personnel costs	253	0.53	249	0.55	4	-0.02	1.6
Other costs	193	0.41	194	0.43	-1	-0.02	-0.5
<b>Total operating costs</b>	<b>446</b>	<b>0.94</b>	<b>443</b>	<b>0.98</b>	<b>3</b>	<b>-0.04</b>	<b>0.7</b>
Profit before losses	548	1.15	602	1.33	-54	-0.18	-9.0
Losses on loans, guarantees etc	14	0.03	0	0.00	14	0.03	-
<b>Pre tax profit</b>	<b>534</b>	<b>1.12</b>	<b>602</b>	<b>1.33</b>	<b>-68</b>	<b>-0.21</b>	<b>-11.3</b>
Taxes	134	0.28	141	0.31	-7	-0.03	-4.9
<b>Profit after taxation</b>	<b>400</b>	<b>0.84</b>	<b>461</b>	<b>1.02</b>	<b>-61</b>	<b>-0.18</b>	<b>-13.2</b>

# Balance and key figures

- Q3 2017 and Q3 2016

	30.09.2017	30.09.2016	Changes	
Balance in NOK million	NOK	NOK	NOK	%
Total Assets	66,189	61,790	4,399	7.1
Loans to customers	56,488	51,753	4,735	9.1
Deposits from customers	33,082	32,350	732	2.3
Net Equity and Subordinated Loans	6,535	5,971	764	12.8

Key Figures	30.09.2017	30.09.2016	Changes p.p.
Return on Equity	10.2	12.5	-2.3
Cost/Income Ratio	44.9	42.4	2.5
Total Capital	19.1	18.8	0.3
Core Capital	17.1	17.3	-0.2
Core Tier 1 Capital	14.5	14.9	-0.4
Leverage Ratio	8.5	8.1	0.4
Results per EC (NOK, the Group)	20.10	23.10	-3.00
Results per EC (NOK, the Bank)	22.30	25.70	-3.40

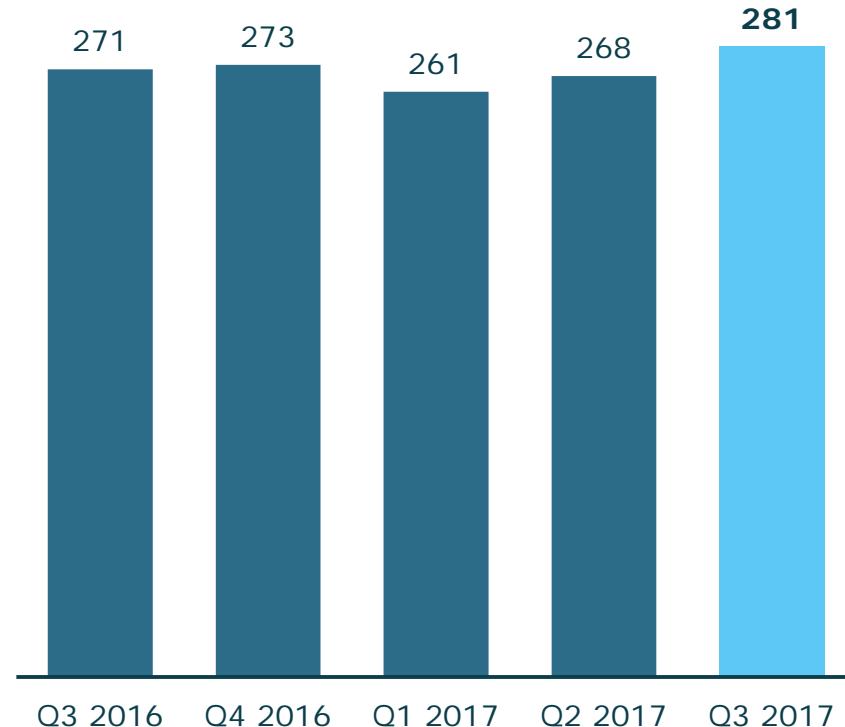
# Quarterly development in Net Interest Income

- *Increased net interest income*



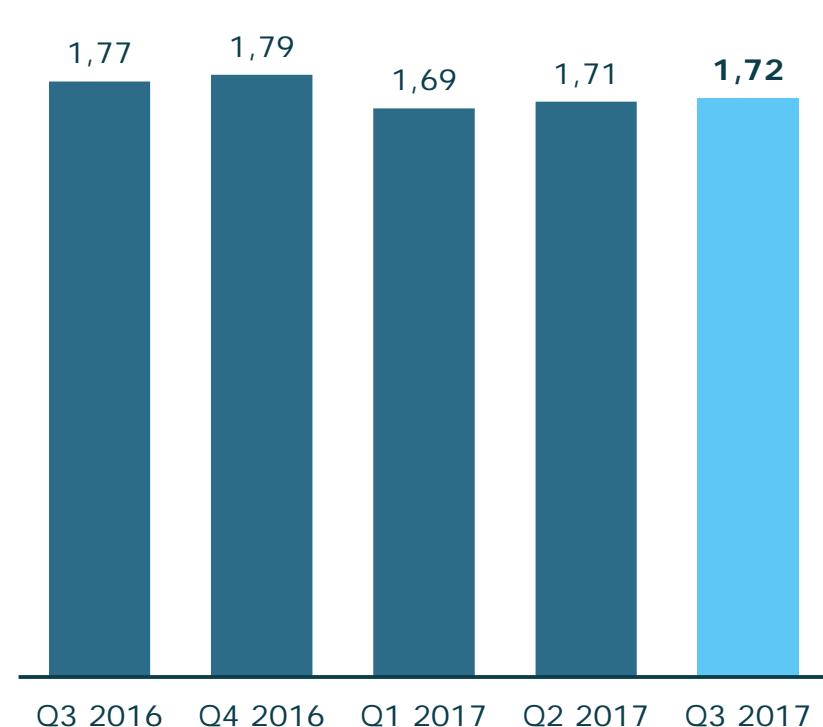
## Net Interest Income

- NOK million



## Net Interest Income

- % of Average Assets



# Other Income

- Changes in NOK million compared with Q3 2016



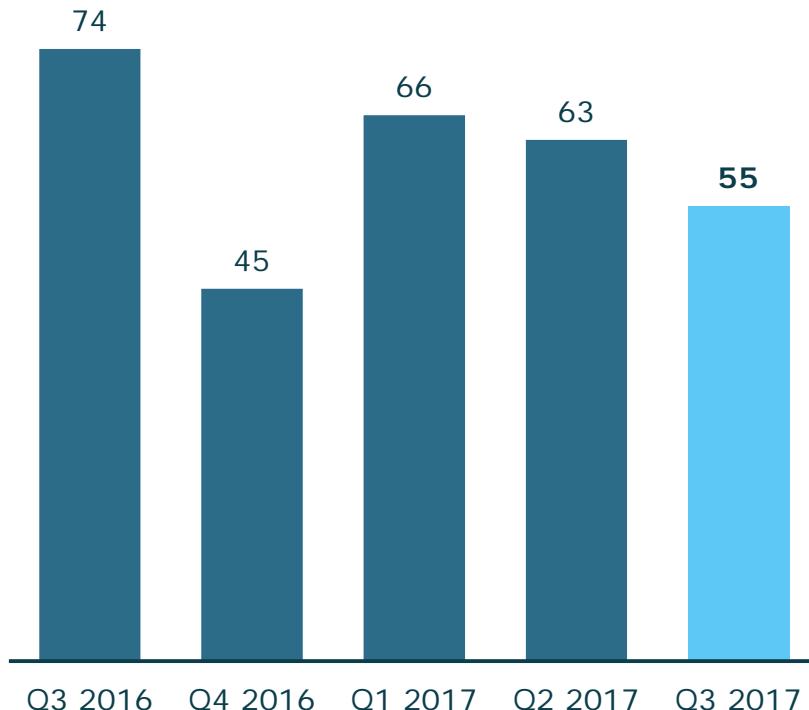
- Valuation of the liquidity portfolio changed from + 17 million to 0 million from Q3 2016 to Q3 2017
- Negative change in other financial investments are mainly related to the VISA transaction and the development of basis swaps
- Continued good activity in our Discretionary Portfolio Management Department contributes positively during the quarter

# Quarterly development Other Income

- Negative effects from financial instruments

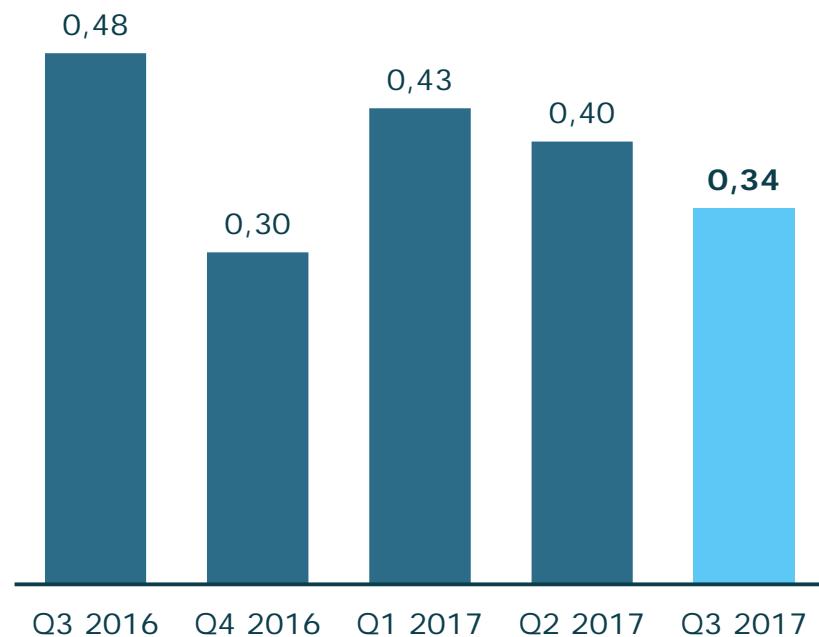
## Other Income

- NOK million



## Other Income

- % of Average Assets



- Gains from the VISA transaction were booked in second and third quarter of 2016, NOK 38 million in Q2 and NOK 7 million in Q3 2016

# Total Income

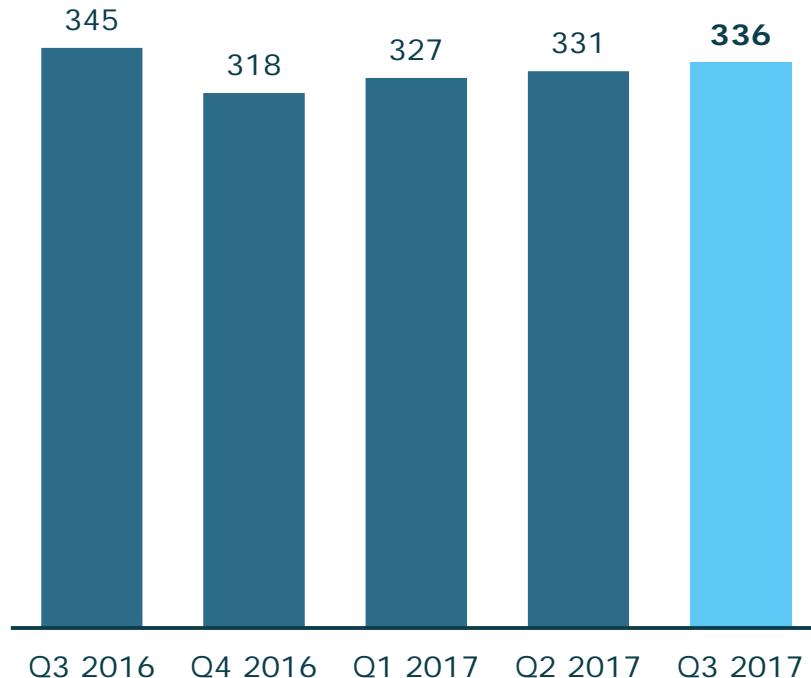
- *Quarterly development*



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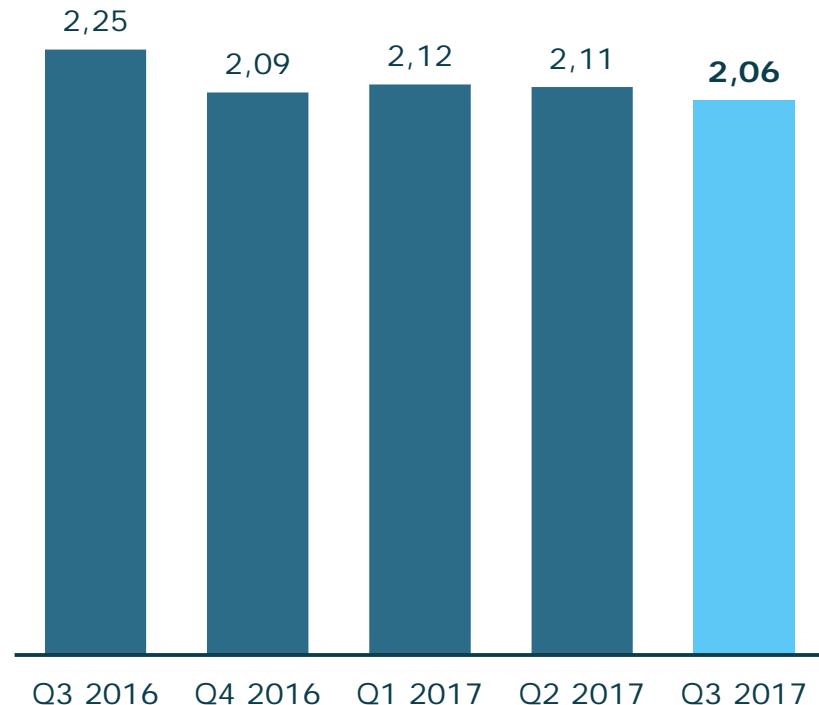
## Total Income

- NOK million



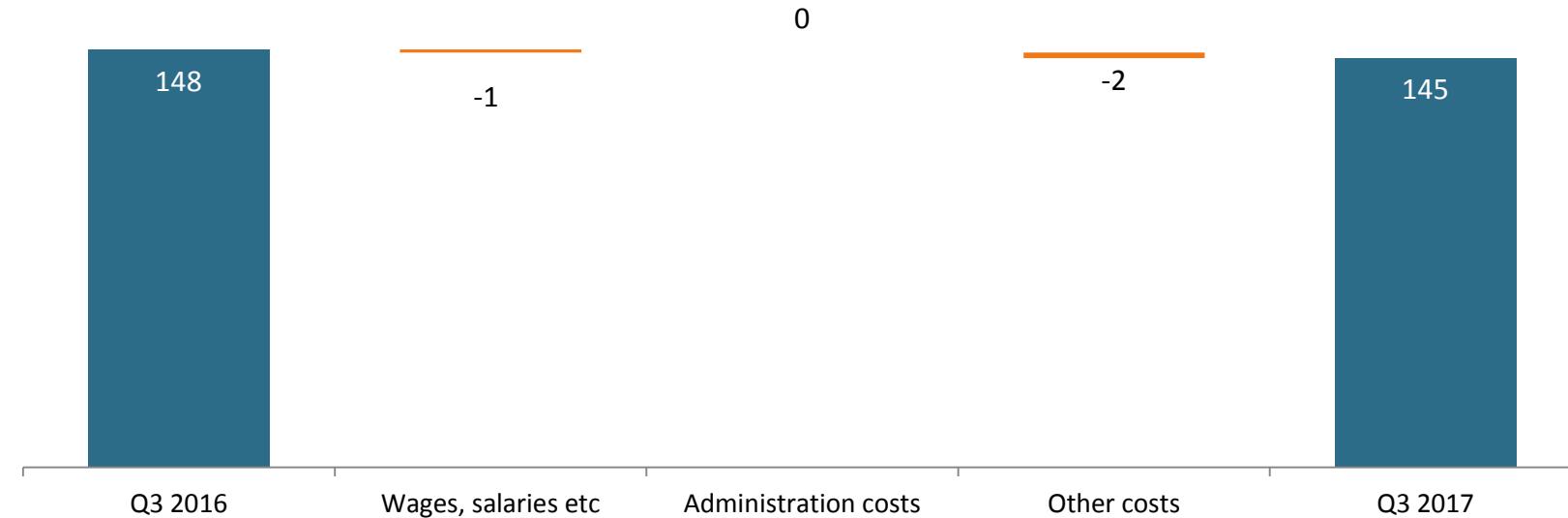
## Total Income

- % of Average Assets



# Costs

- *Lower costs compared with Q3 2016*



- Reduction in personnel costs even with the introduction of financial tax with effect from January this year, amounting to NOK 3 million in Q3

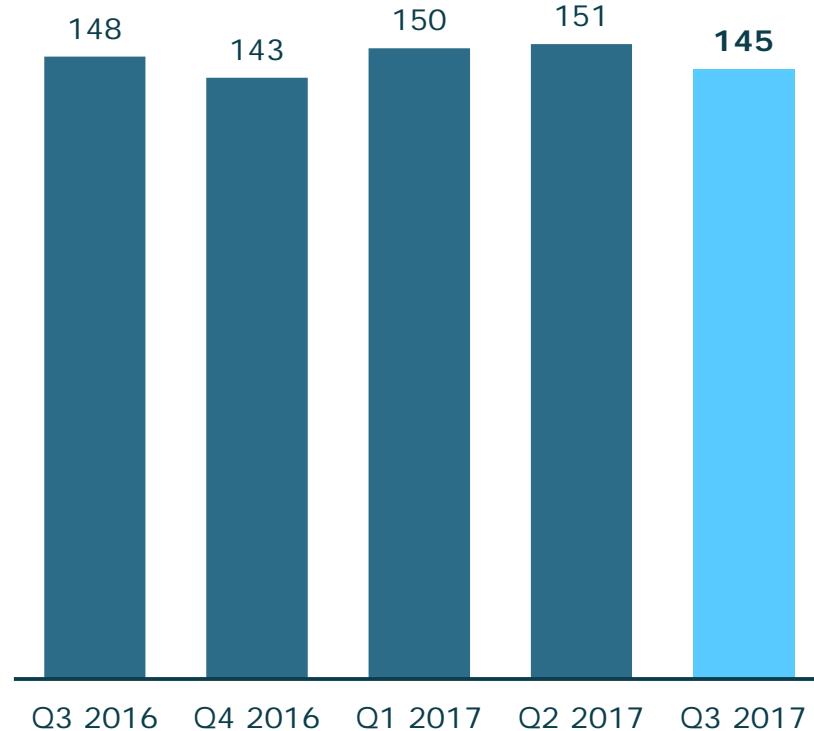
# Total Operating Costs

- Positive quarterly development – albeit new financial tax



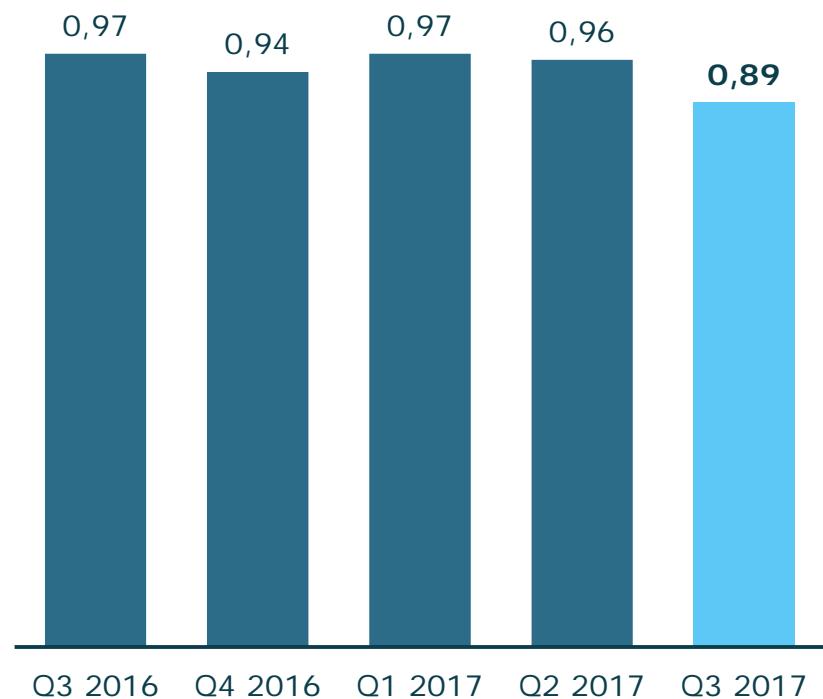
## Operating Costs

- NOK million



## Operating Costs

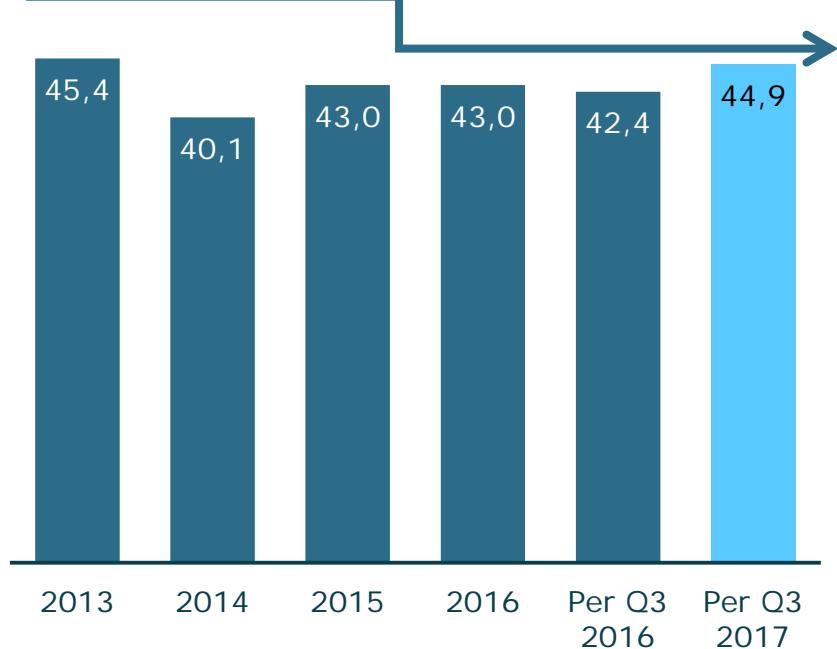
- % of Average Assets



# High efficiency

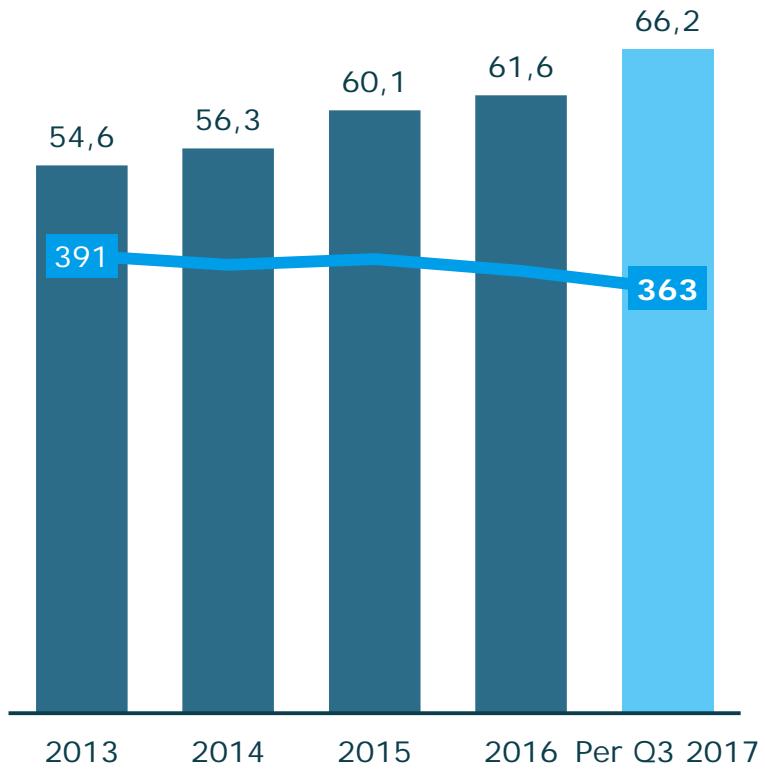
- Internal target will be met ( $C/I < 45\%$ )

## Cost/Income ratio



## Total Assets and Man Years

- Total Assets in NOK billion

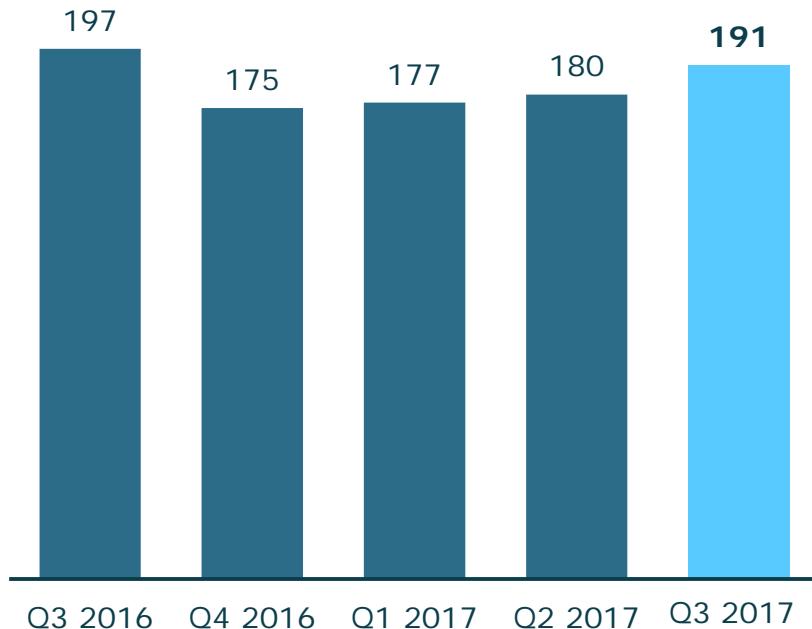


# Result before losses

- Positive quarterly development

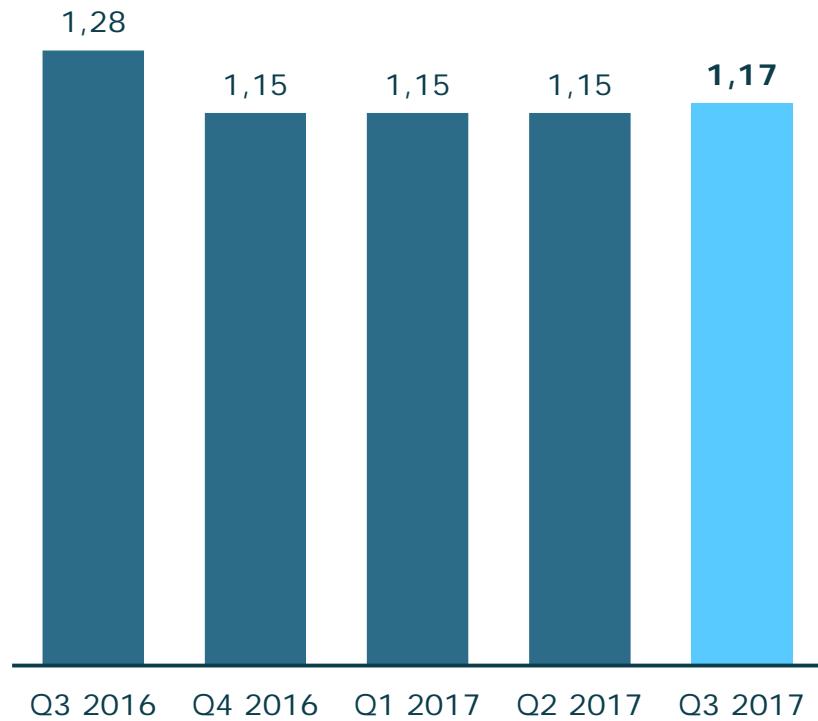
## Result before losses

- NOK million



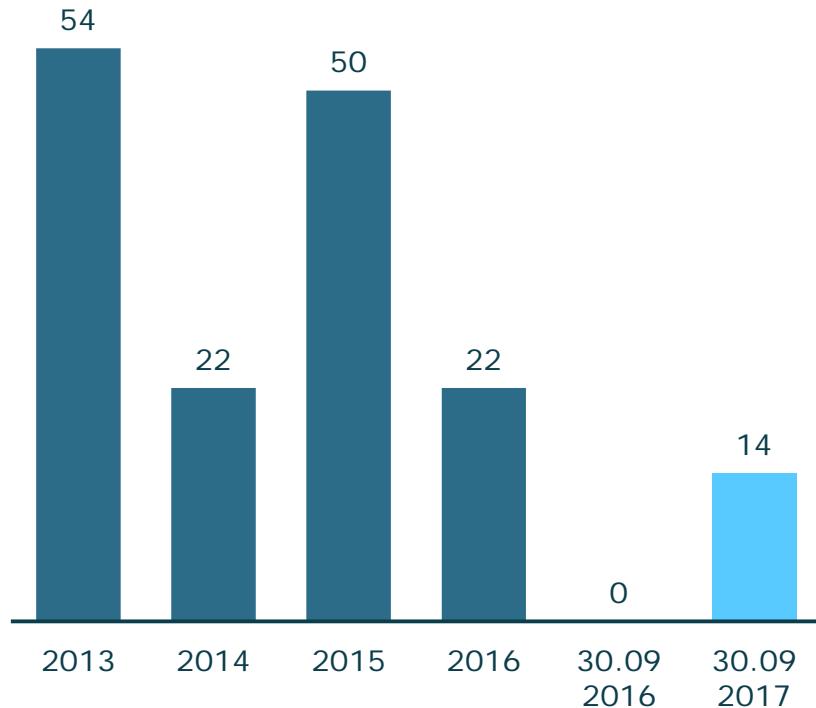
## Result before losses

- % of Average Assets

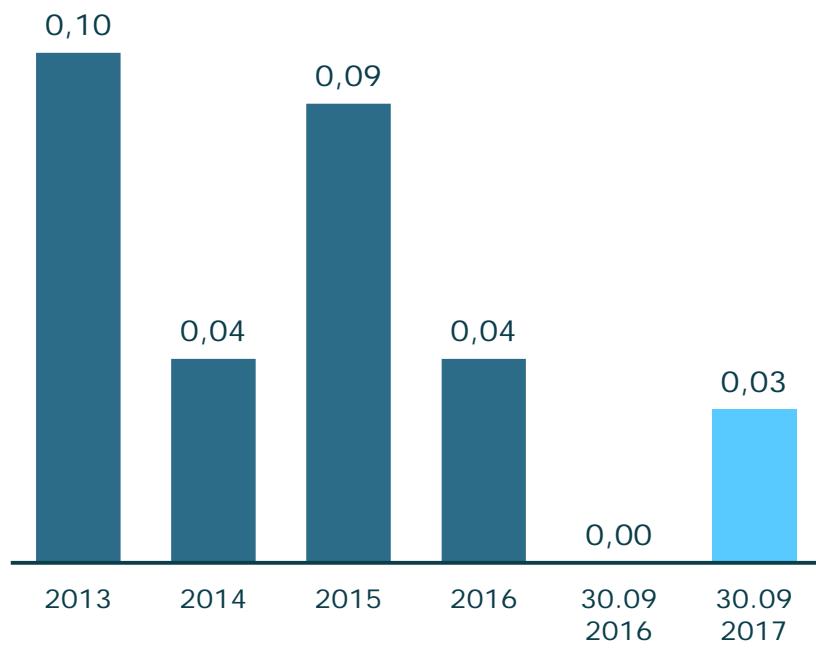


# Low level of losses over time

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



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



# Losses

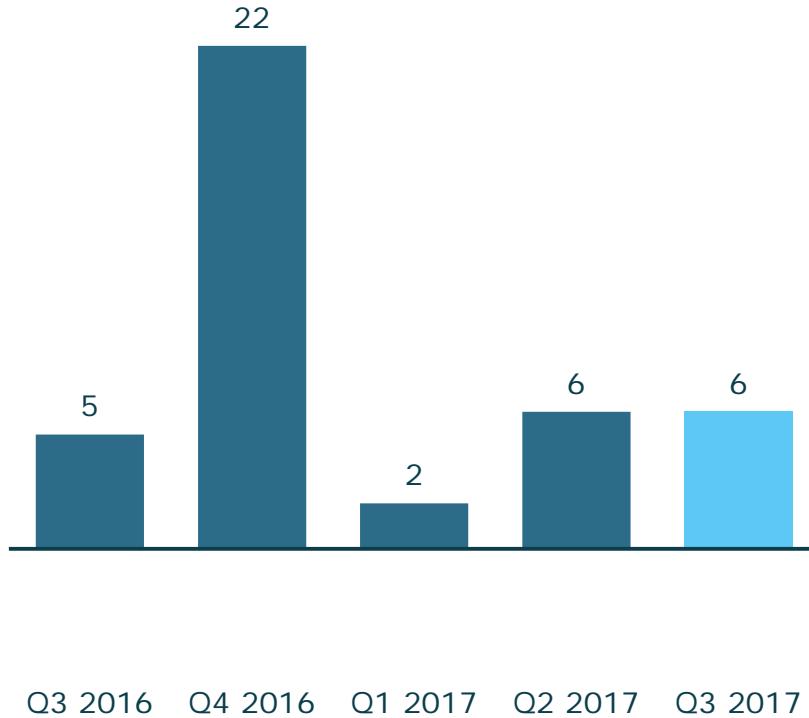
## - *Quarterly development*



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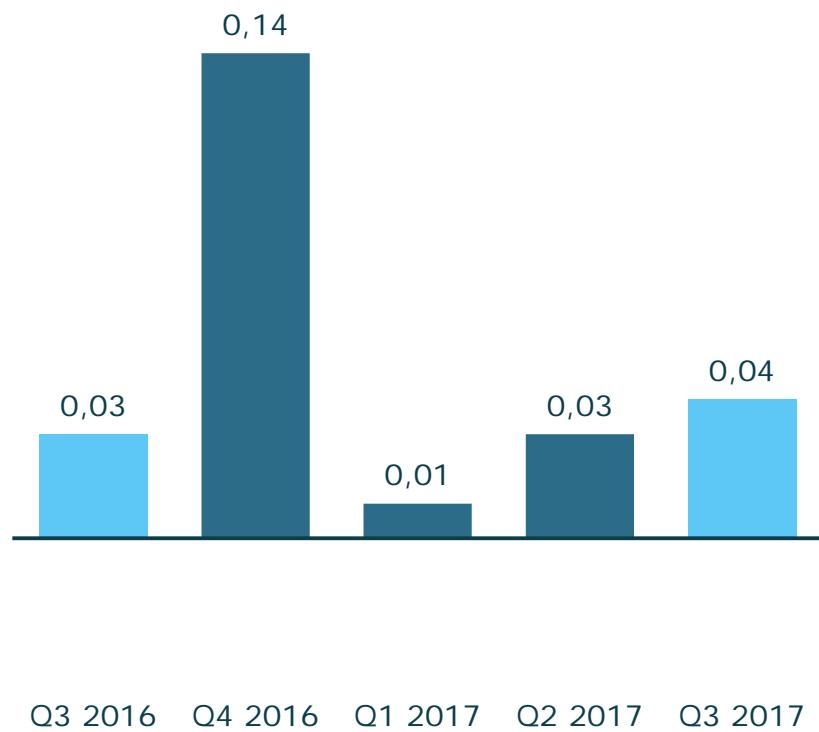
### Losses on loans and guarantees

- NOK million



### Losses on loans and guarantees

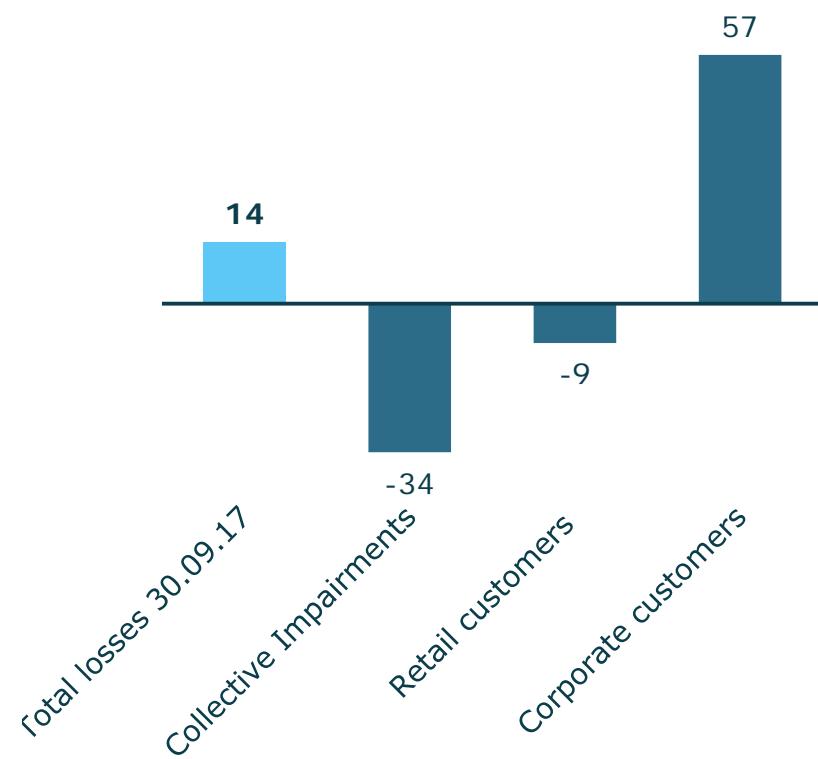
- % of Average Assets



# Losses by sector

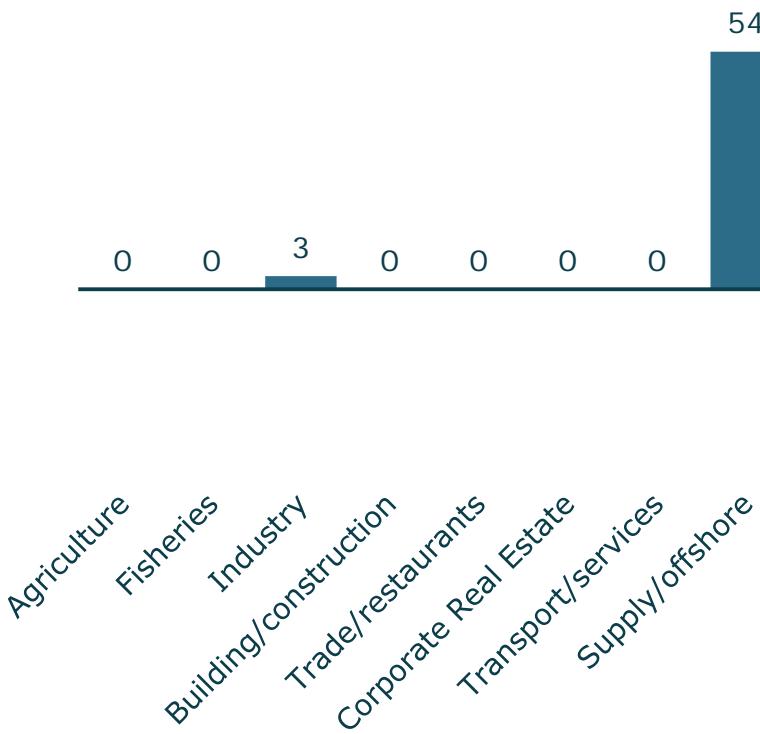
## Losses on loans and guarantees

- NOK million



## Detailed losses – corporate market

- NOK million



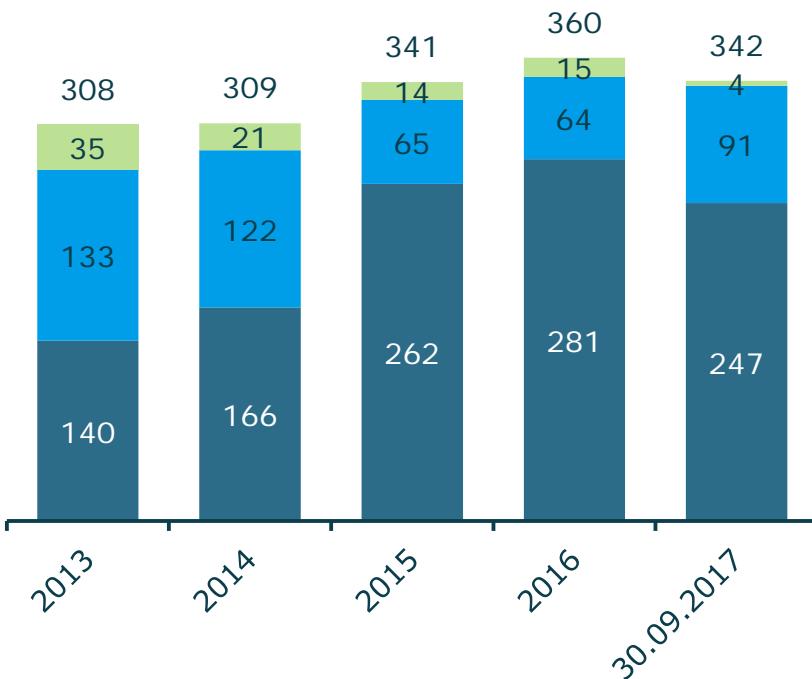
# Impairments

- Solid and comfortable levels

## Impairments

- NOK million

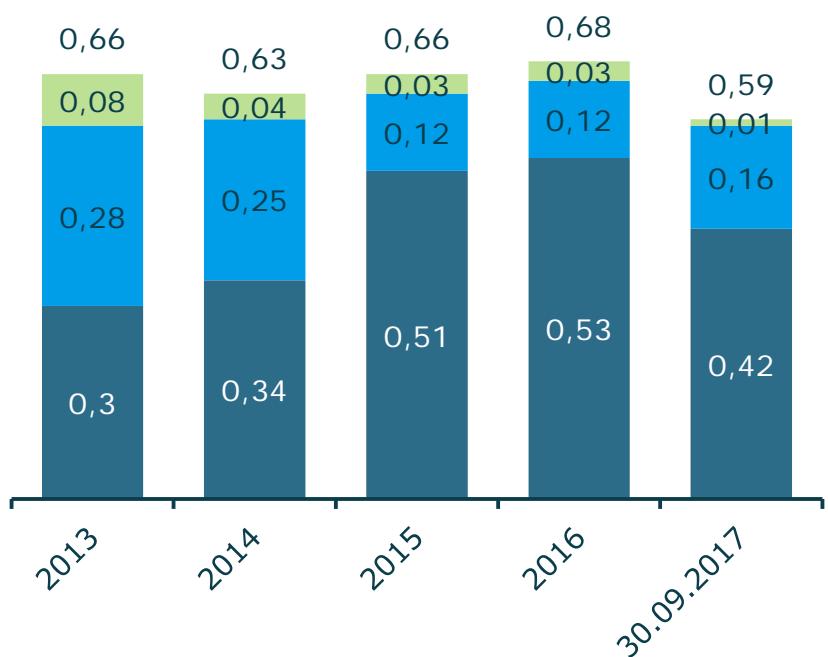
■ Group of loans ■ Not in default ■ Loans in default > 90 days



## Impairments

- % of Gross Loans

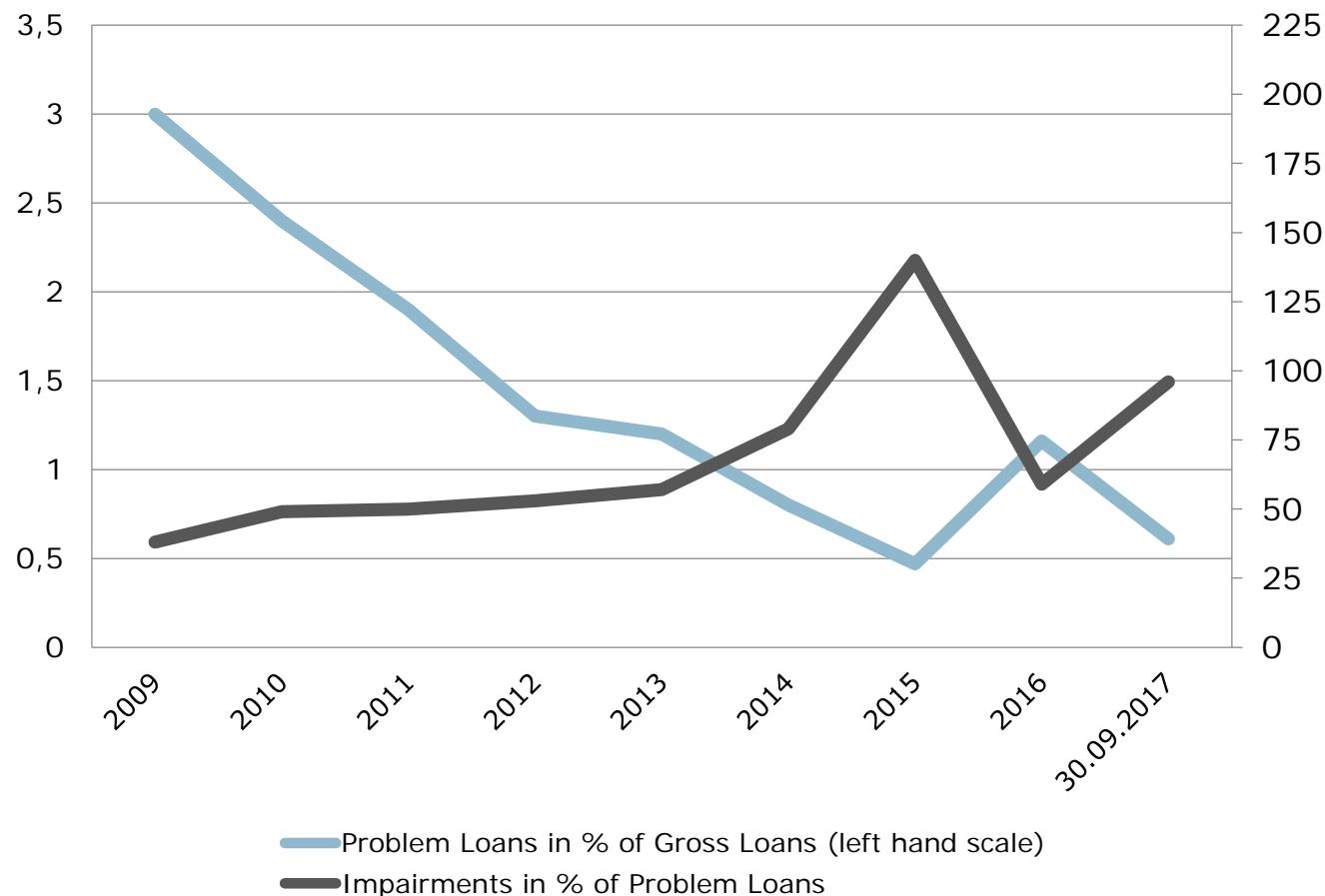
■ Group of loans ■ Not in default ■ Loans in default > 90 days



# Problem Loans and Impairments

- *Continued positive development*

## Problem Loans and Impairments (per cent)

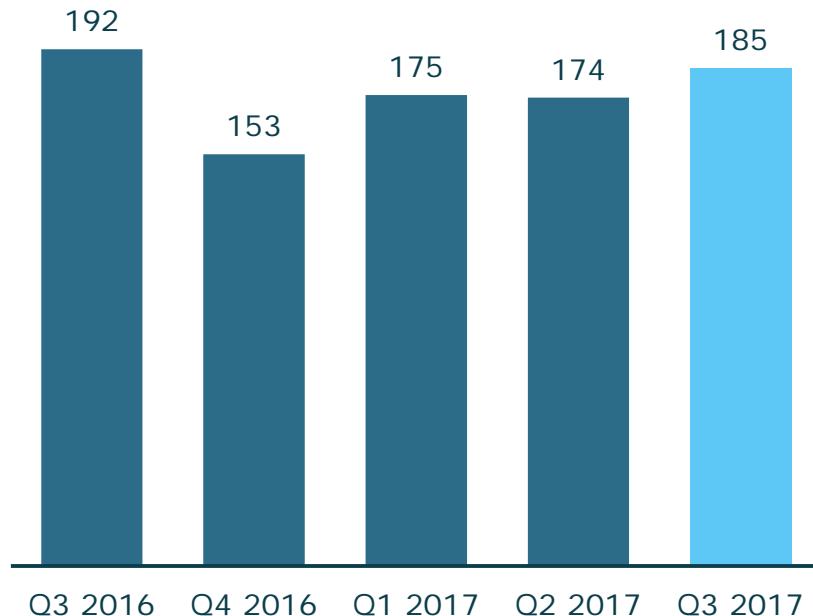


# Pre tax profit

- Positive quarterly development

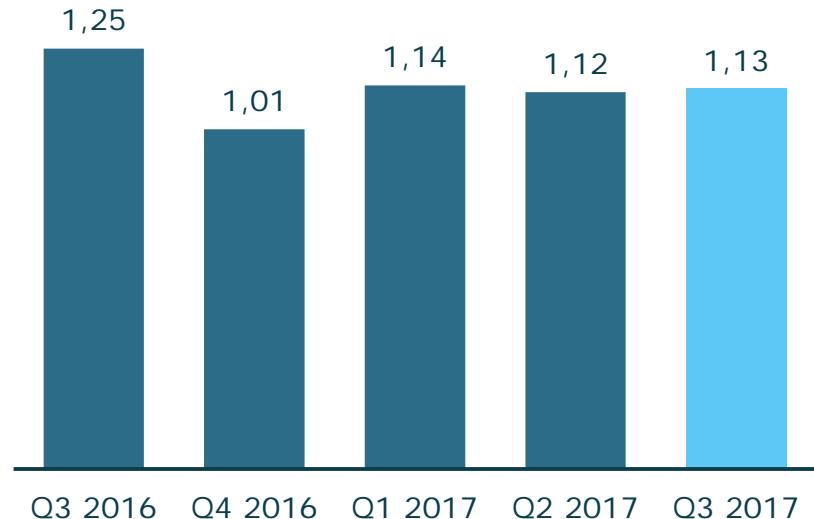
## Profit after losses

- NOK million



## Profit after losses

- % of Average Assets

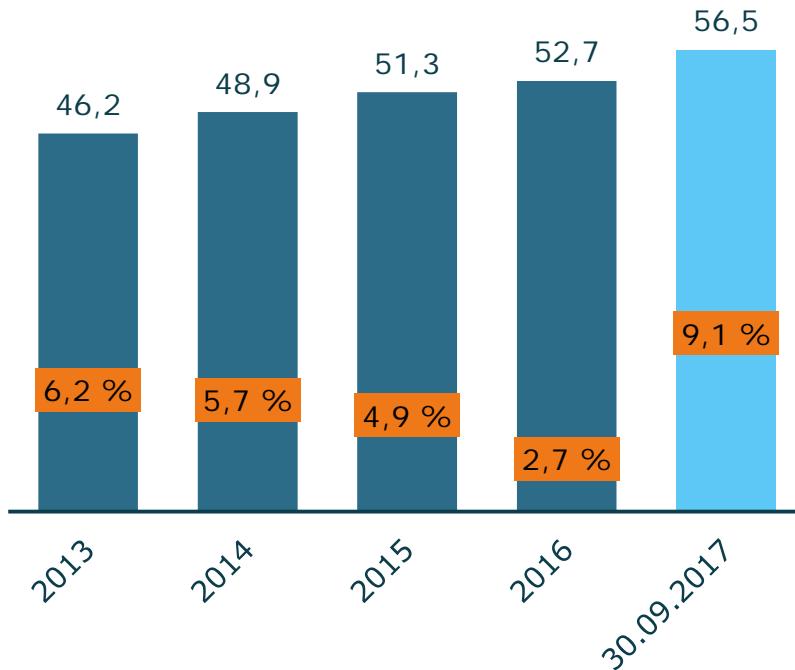


# Balance

- *Growth in line with our plans*

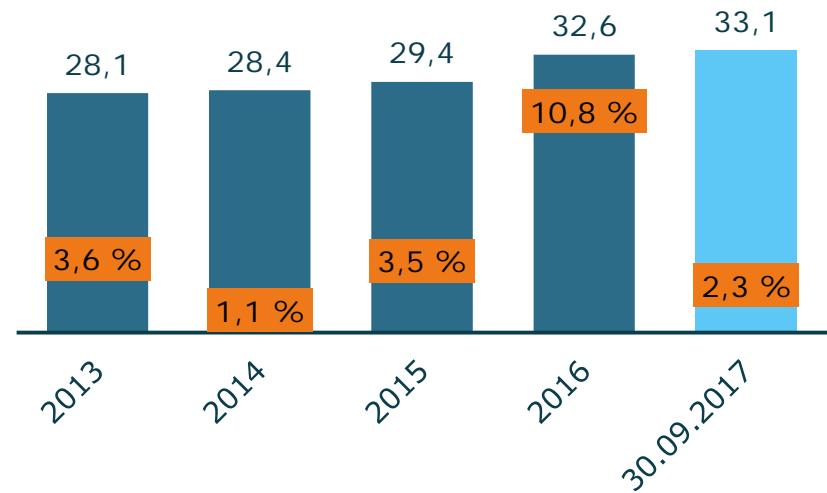
## Loans

- NOK billion and per cent (y/y)



## Deposits

- NOK billion and per cent (y/y)



- Customer lending has increased by 9.1% the last 12 months

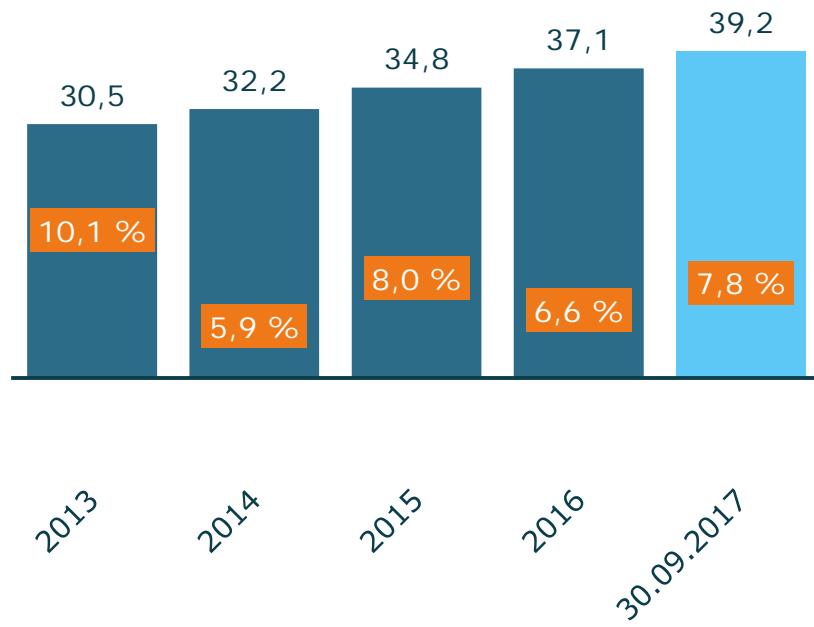
- Deposits grew by 2.3% the last 12 months
- High deposit to loan ratio, 58.6%

# Lending

- *Good growth in the market*

## Retail market

- NOK billion and per cent y/y



## Corporate market

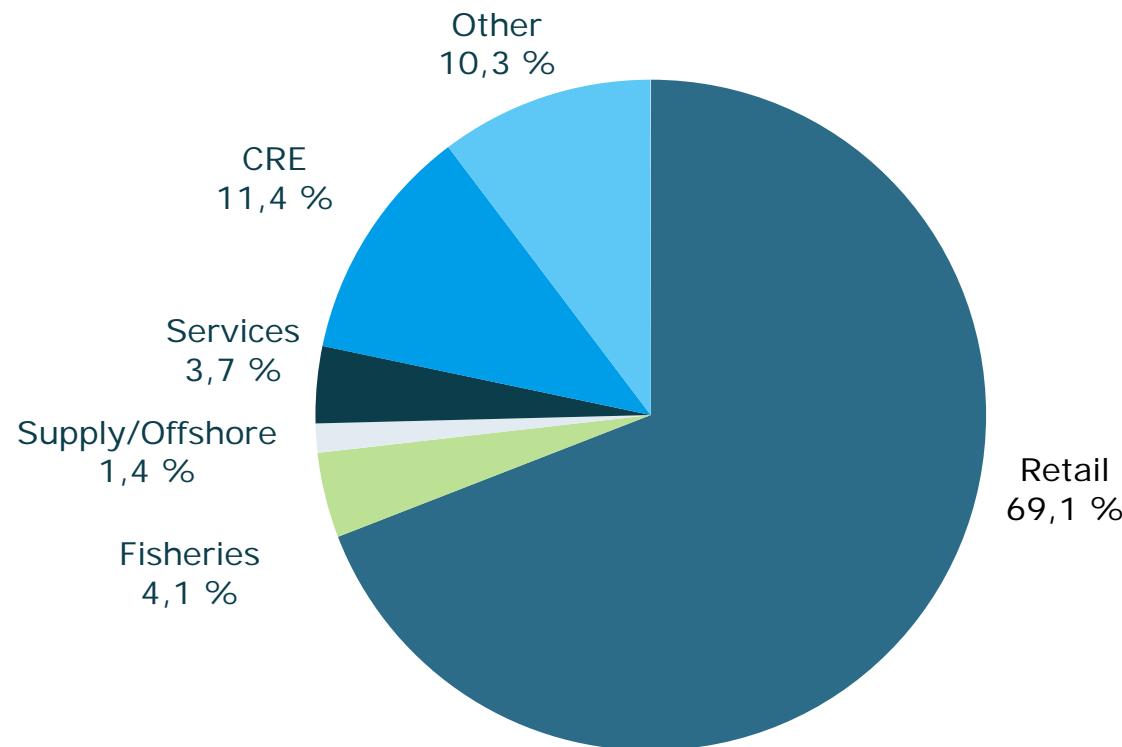
- NOK billion and per cent y/y



- Retail lending has increased by 7.8 % the last 12 months
- Loans to the retail market amount to 69.1 % of total loans

- Corporate lending has increased by 12.3 % the last 12 months
- During Q3: -1.6 %
- Loans to the corporate market amount to 30.9 % of total loans

# Loans by sector



## Other:

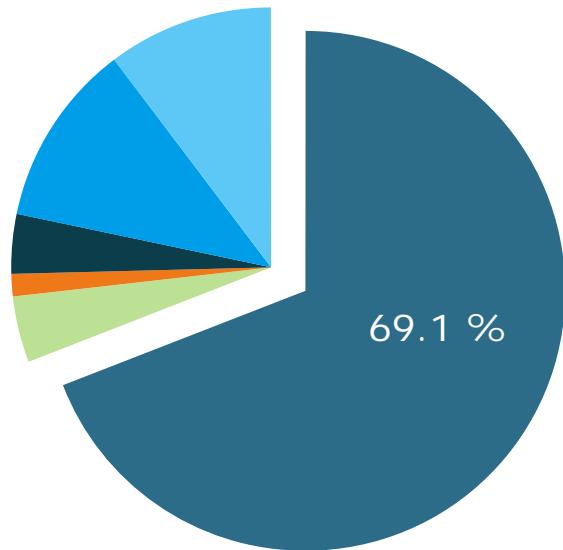
Other Industry	1.7 %	Agriculture	0.7 %
Financial services	2.3 %	Fishing Industry	1.5 %
Building and construction	1.1 %	Furniture	0.1 %
Ship Yards	1.3 %	Other	0.6 %
Retail/wholesale trade	1.1 %		

# Lending

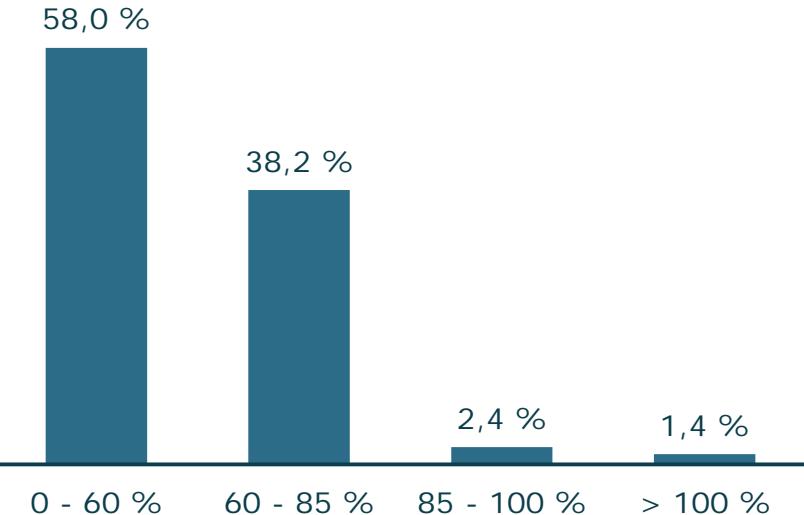
- *High proportion of secured loans*

## Loans to retail customers

- % of total loans



## Loan to value – retail loans

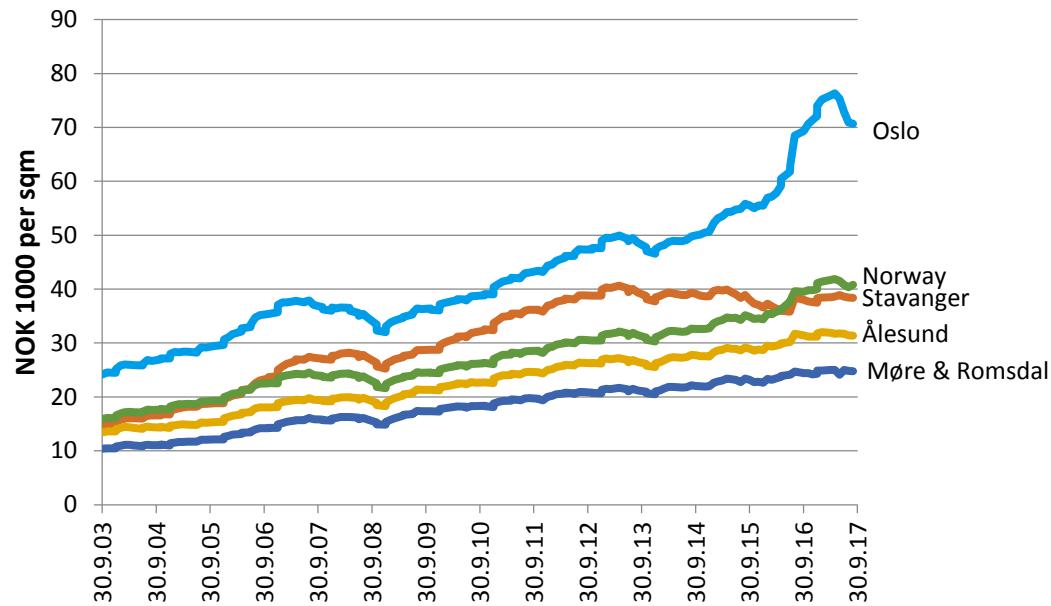


- The bank complies with the regulations from the Norwegian authorities (Boliglånsforskriften)
- Deviations reported in the third quarter of 2017 were 5.4% outside Oslo, 6.0% in Oslo which are well within the requirement in section 8 Flexibility

- 96.2% of mortgage-backed loans to retail customers are within 85% of value

# Differences in house prices

- *Development in average house prices September 2003 – September 2017*



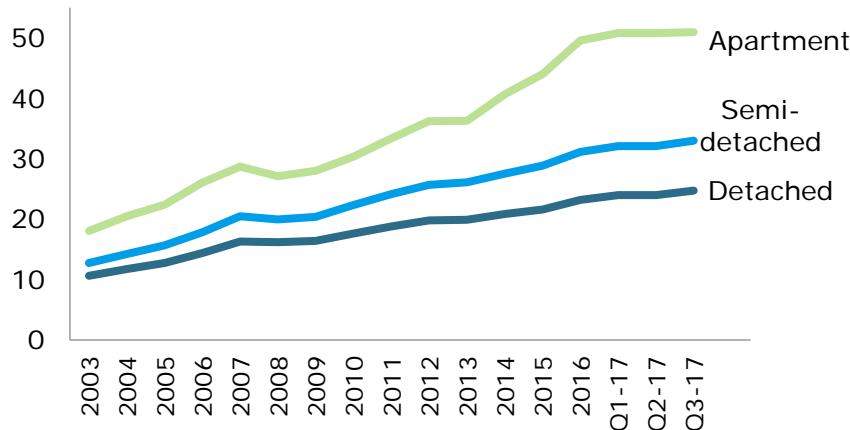
- The county of Møre og Romsdal has experienced lower growth in average house price per square meter than Norway as a whole
- Albeit negative development in Oslo over the last months, the y/y growth is still positive

Key information (pre-owned dwellings)	Norway	County of Møre og Romsdal	City of Ålesund	City of Stavanger	City of Oslo
Price development last 12 months	+1.5 %	+1.0 %	+0.1 %	+0.8 %	+0.9 %
Price per square meter (NOK)	40,200	24,600	31,200	38,300	69,600
Average days on market (DOM) sold units in September 2017	38 days	70 days	41 days	49 days	27 days
Price median dwelling (NOK)	3,064,000	2,400,000	2,650,000	3,250,000	3,968,000

# Differences in the Norwegian housing market

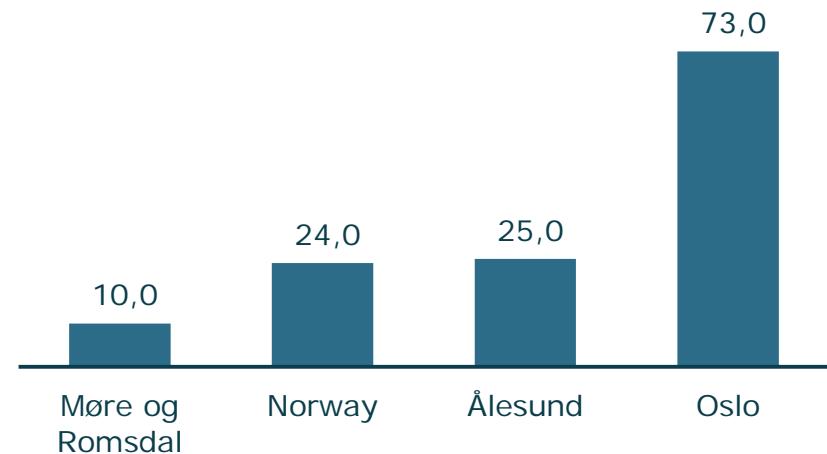
## Price development different dwellings

- Norway- price per square meter NOK



## Part of dwellings which are apartments

- In per cent of total dwellings



- Growth in average apartment prices in Norway is levelling out
- We see differences in price development and number of days on market also between municipalities in the county of Møre og Romsdal

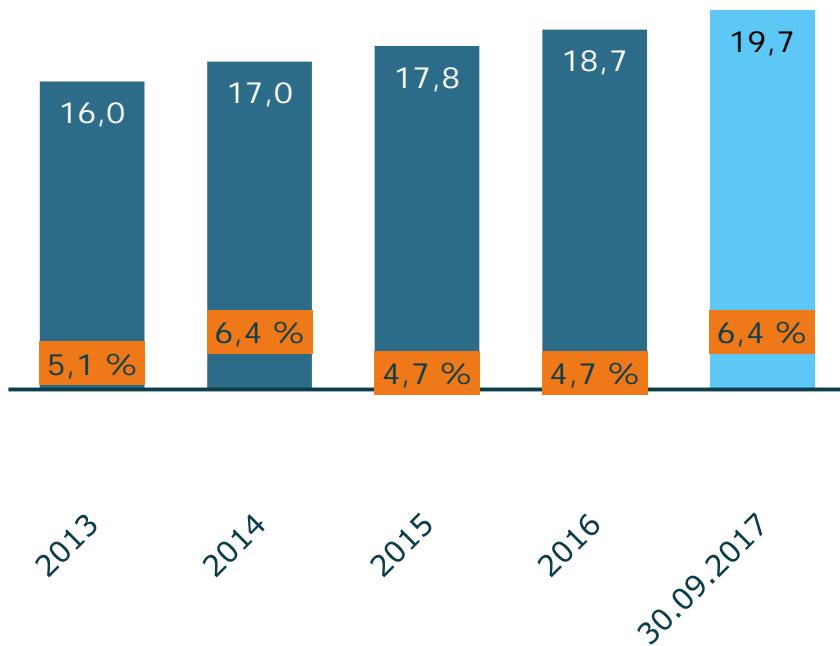
- In the county of Møre og Romsdal detached and semi-detached housing are more common
- In % of mortgages, Ålesund is the single largest municipality
- 3 out of 4 mortgages are secured by detached and semi-detached houses

# Deposits

- *Growth in deposits the last 12 months*

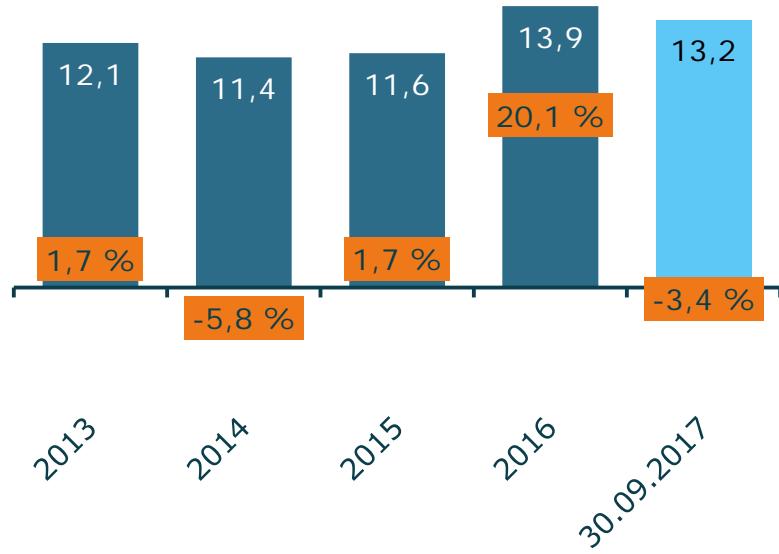
## Retail market

- NOK billion and per cent y/y



## Corporate and public

- NOK billion and per cent y/y

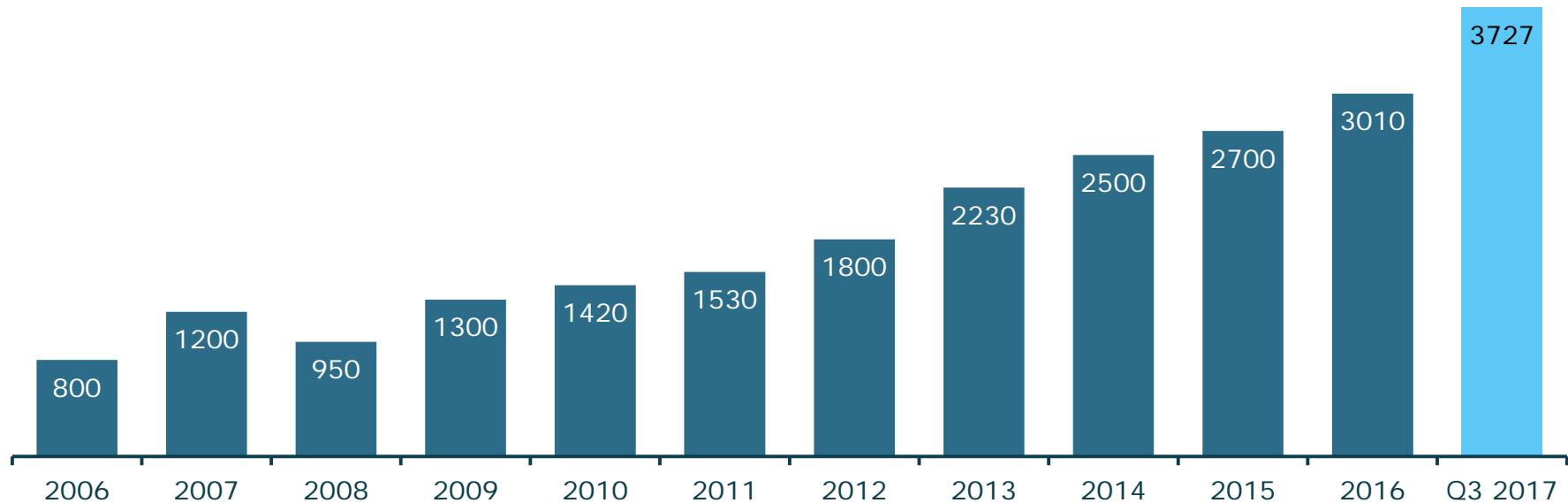


- Retail deposits have increased by 6.4 % the last 12 months
- Deposits from the retail market amount to 59.5 % of total deposits

- Deposits from corporate customers have been reduced by 1.7 % the last 12 months and ended at NOK 12.4 billion by quarter end
- Deposits from public customers have decreased and ended at NOK 0.8 billion by quarter end

# Discretionary Portfolio Management

- *Strong return and strong growth - volume in NOK million*



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

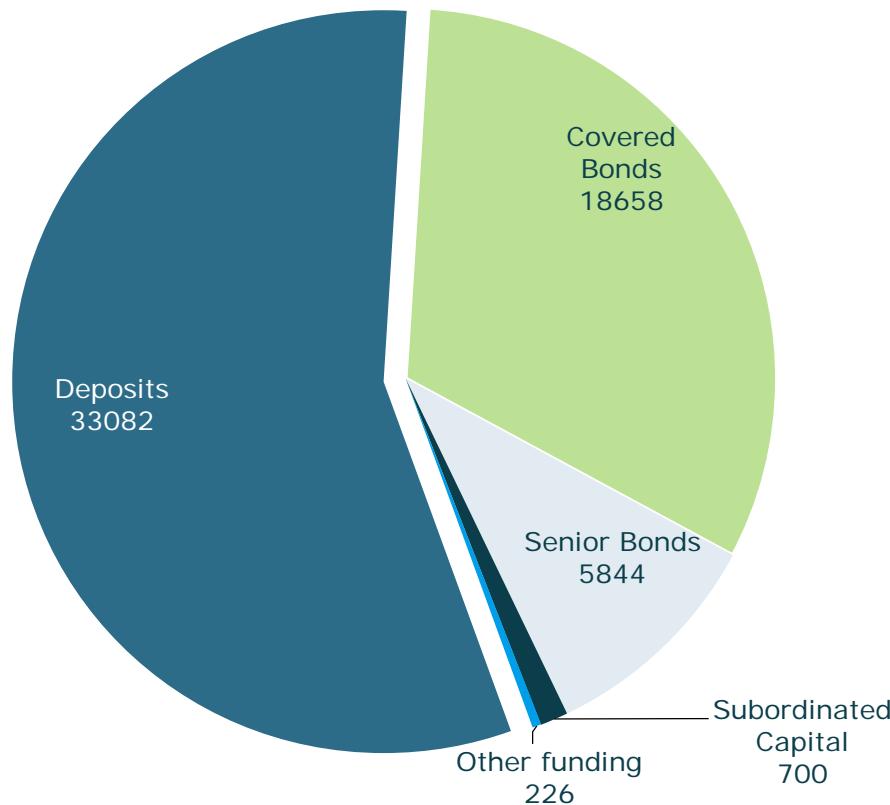
# Deposits from customers and market funding

- Deposits are the Group`s most important source of funding, 58.6 % coverage



## Deposits and market funding

- NOK million



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

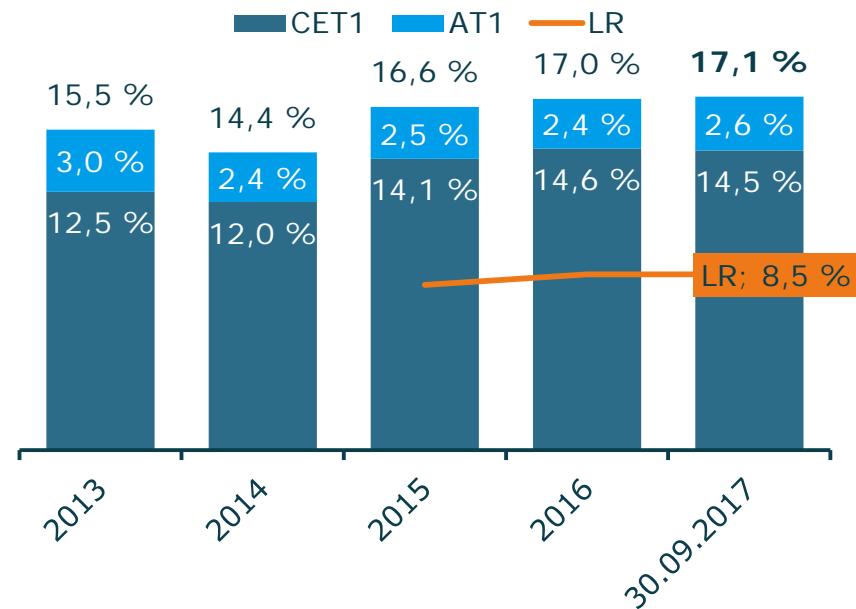
- Total market funding ended just above NOK 25.4 billion by quarter end – more than 85 per cent with remaining maturity of more than one year
- Senior Bonds: Weighted average maturity of 2.28 years (FSA defined key figures)
- Covered Bonds issued through Møre Boligkreditt AS have a weighted average maturity of 3.72 years (FSA defined key figures)
- By quarter end five of Møre Boligkreditt`s bond issues are listed on *Oslo Børs Covered Bond Benchmark list* and also qualifies for Tier 2A liquidity in LCR. In Q2 Møre Boligkreditt AS successfully issued a Public EUR 250 million Covered Bond in the European market

# Equity and related capital

- Capital and leverage ratio (LR) well above regulatory requirements

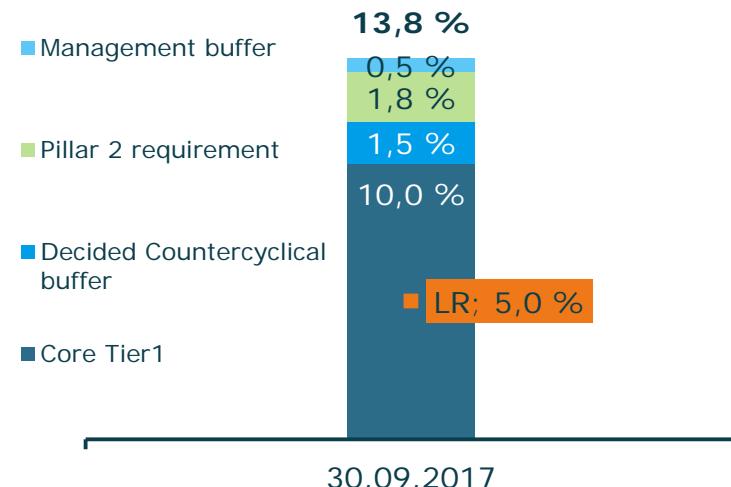
## Core Capital in Sparebanken Møre

- % of risk weighted assets



## Minimum requirements

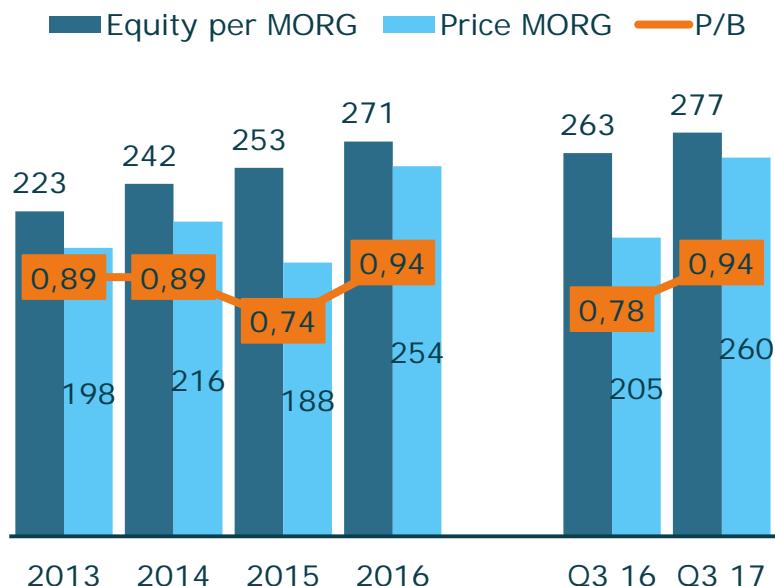
- % of risk weighted assets



- By quarter end our CET1 stood at 14.5 %, total capital at 19.1 %
- Sparebanken Møre's capital targets are:
  - Total Capital: Min. 17.3 %
  - Core Capital: Min. 15.3 %
  - CET1: Min. 13.8 %

- The Group's Capital shall follow the announced regulatory capital escalation plan
- Our capital is calculated according to the IRB Foundation Approach for corporate commitments, IRB Approach for the retail market

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



## The Dividend Policy is adjusted

- Sparebanken Møre`s allocation of earnings shall ensure that all equity owners are guaranteed equal treatment
- Sparebanken Møre has the recent years specified a dividend ratio in the range of 40 to 50 per cent
- The adjusted policy states that about 50 per cent of the profit can be distributed as dividends in the form of cash dividend to the equity certificate owners and dividend to the local community

- Equity per MORG is calculated on Group figures



## GOALS IN OUR STRATEGIC PLAN «MØRE 2020»

- CET1 > 13.8 %
- Cost/Income < 45%
- ROE > 10 %
- Low level of losses
- Healthy financial structure

*The history shows that we achieve our goals.*

## FUTURE PROSPECTS

- Continued, but somewhat declining lending growth for the rest of the year
- Positive development in net interest income
- Enhanced focus on other income
- Stable cost base - increased efficiency
- Strong and forward-looking measures to meet the digital shift
- Still low losses

# Contact

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