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Results for Q2 2020:

Good activity and improved financial strength in a period of market turmoil

Sparebanken Møre saw a quarter with both growth and improved financial strength. Nevertheless, the overall results were impacted by market turmoil due to Covid-19.

The profit after tax for the second quarter was NOK 150 million, a reduction of NOK 31 million compared with the same quarter last year. The return on equity was 9.2 per cent.

“We met the coronavirus situation with a good financial foundation and have focused on closely monitoring our customers. The results for the second quarter were affected by a reduction in net interest income and increased losses, although at the same time we captured new market shares, increased other income and cut our costs. We are well-positioned to be a solid bank for our customers during this period,” says CEO Trond Lars Nydal of Sparebanken Møre.

Net interest income was NOK 54 million lower than in the same period last year, primarily due to the difference in the timing of the interest rate changes for lending and deposits. Meanwhile, other operating income increased by NOK 46 million due to the change in value of bonds and financial instruments. Operating costs were NOK 3 million lower for the quarter compared with the same quarter last year and the cost income ratio for the quarter ended at 40.3 per cent.

Increased losses, but the Bank is robust

NOK 42 million was charged in losses on loans and guarantees in the quarter, compared with NOK 6 million in the same period last year. Total impairments increased from NOK 375 million at the end of 2019 to NOK 446 million at the end of the period.

“The prospects for several industries remain uncertain and predicting the long-term consequences of the coronavirus pandemic and fall in oil prices is challenging. However, we have a sound and diversified corporate portfolio with low exposure to offshore and supply. And the retail market portfolio is also good, with low level defaults and a low proportion of consumer loans,” says Nydal.

The Bank’s capital situation is good and its credit rating high, which the rating agency Moody’s also confirmed in May when they announced that the Bank would retain its strong A2 rating with a stable outlook. The Common Equity Tier 1 capital ratio improved compared with the same period last year and ended the period at 17.3 per cent. This is markedly above the total minimum regulatory requirement of 12.7 per cent. In addition to this, the Bank has enjoyed a high and rising deposit-to-loan ratio for some time, and this was also the case during the second quarter.

Impressed by the people in our region

The growth in lending in the past 12 months was 4.1 percent, while the growth in deposits in the period was 4.6 percent. The retail market saw the most growth in deposits, with an increase of 8.1 per cent in the past 12 months.

“We are continuing to grow and maintain our strong position in our catchment area. Our proximity to our customers and knowledge of our local markets are key management tools for us and ensure that we can both remain well-informed and act early. We have been impressed by the people in our region, Nordvestlandet, yet again as they have exhibited an impressive capacity for adjusting and adapting when they need to,” says Nydal.

The Bank wishes to contribute to growth and value creation in the region, and it recently entered into a new guarantee agreement with Innovation Norway that secures NOK 125 million for regional business growth. The scheme means that Innovation Norway will stand as guarantor for 75 per cent of any loss to the Bank on individual commitments up to NOK 4 million per company, subject to approval by the Growth Guarantee scheme. This enables the Bank to offer financing to companies that have a good credit score but that cannot provide adequate security for financing.

Lower unemployment

The unemployment rate in the county fell significantly over the second quarter and was 4.1 per cent of the labour force at the end of June. In comparison, the national unemployment rate was 4.8 per cent. Unemployment may fall further towards the end of the year if no new activity reducing measures are introduced to prevent the spread of Covid-19.

“Although production growth is rising, it is likely that unemployment in the county and nationally will remain higher in the long term than it was prior to the coronavirus pandemic. Many sectors still face the prospect of failing earnings, including the tourism industry and the maritime industry. Oil-related industries will also be negatively impacted by the prospects of a sharp decline in petroleum investments in the next few years,” says Nydal.

Strategic targets

The Bank expects the lending growth in 2020 to be somewhat lower than anticipated at the beginning of the year. This is due to tough competition, a strong growth in 2019 and a lower level of investments as a result of the corona pandemic and the reduction in oil price.

Sparebanken Møre is maintaining its long-term financial targets of a cost income ratio below 40 per cent and a return on equity above 11 per cent. The targets are not expected to be achieved this year due to the government’s activity reducing measures and weaker net interest income. The Bank expects, however, to achieve its long-term targets in 2021.

“We are systematically working on our cost-effectiveness and expect to reduce costs by 2.5 per cent in 2020 compared with last year. Our organisation has capable staff, proximity to our customers and short decision paths. This ensures both quality, power to act and ability to see things through,” says CEO Trond Lars Nydal of Sparebanken Møre.

Key figures for Q2 2020

- Net interest income: NOK 266 million/1.35 per cent (NOK 320 million/1.75 per cent)
- Profit before losses: NOK 233 million (NOK 238 million)
- Profit after tax: NOK 150 million (NOK 181 million)
- Return on equity: 9.2 per cent (12.0 per cent)
- Cost income ratio: 40.3 per cent (40.0 per cent)
- Earnings per equity certificate (Group): NOK 7.16 (NOK 8.85)

Comparable figures for the second quarter of 2019 in brackets.

Key figures for H1 2020

- Net interest income: NOK 608 million/1.57 per cent (NOK 624 million/1.72 per cent)
- Profit before losses: NOK 420 million (NOK 462 million)
- Profit after tax: NOK 267 million (NOK 343 million)
- Return on equity: 8.2 per cent (11.5 per cent)
- Cost income ratio: 43.5 per cent (40.7 per cent)
- Earnings per equity certificate (Group): NOK 12.62 (NOK 16.80)
- Common Equity Tier 1 capital (CET1): 17.3 per cent (15.1 per cent)
- Lending growth in the past 12 months: 4.1 per cent (6.2 per cent)
- Deposit growth in the past 12 months: 4.6 per cent (9.0 per cent)

Comparable figures for the first half of 2019 in brackets.

Contacts

- Trond Lars Nydal, CEO, Mobile: +47 951 79 977
- Runar Sandanger, EVP Treasury & Markets, Mobile: +47 950 43 660
- Tone S. Gjerdsbakk, Chief Information Officer, Mobile: +47 990 44 346