

# Sparebanken Møre - the Group

25 January 2018

## PRESENTATION

4<sup>TH</sup>. QUARTER 2017  
PRELIMINARY ANNUAL ACCOUNTS

Runar Sandanger

*EVP*



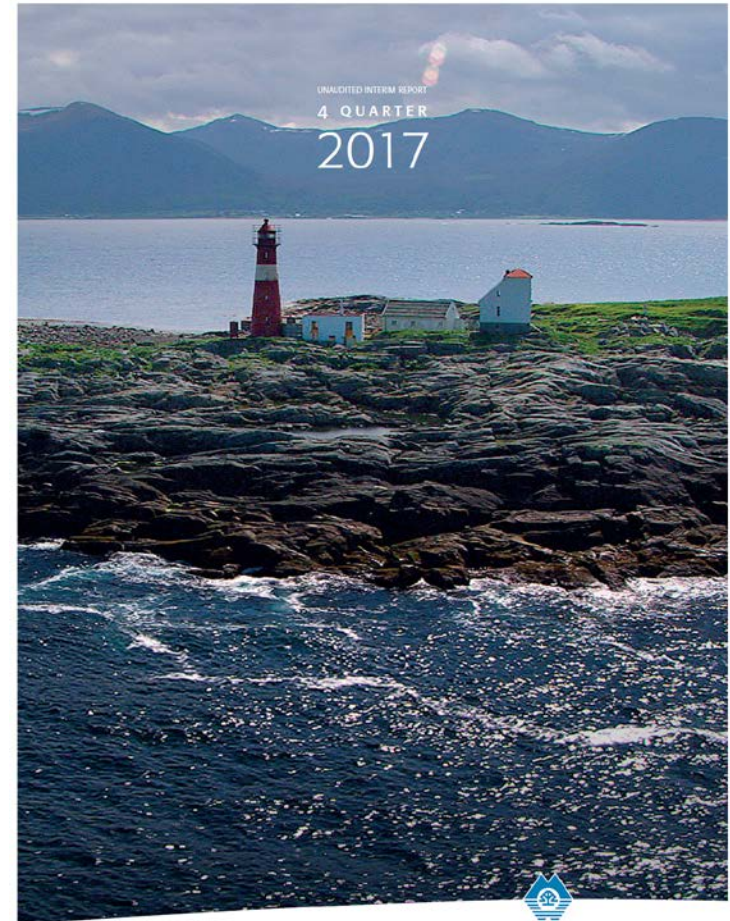
# Contents

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SPAREBANKEN MØRE

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



SPAREBANKEN MØRE

# The largest bank in the county

*Contributing considerably to the local society*



SPAREBANKEN MØRE

28

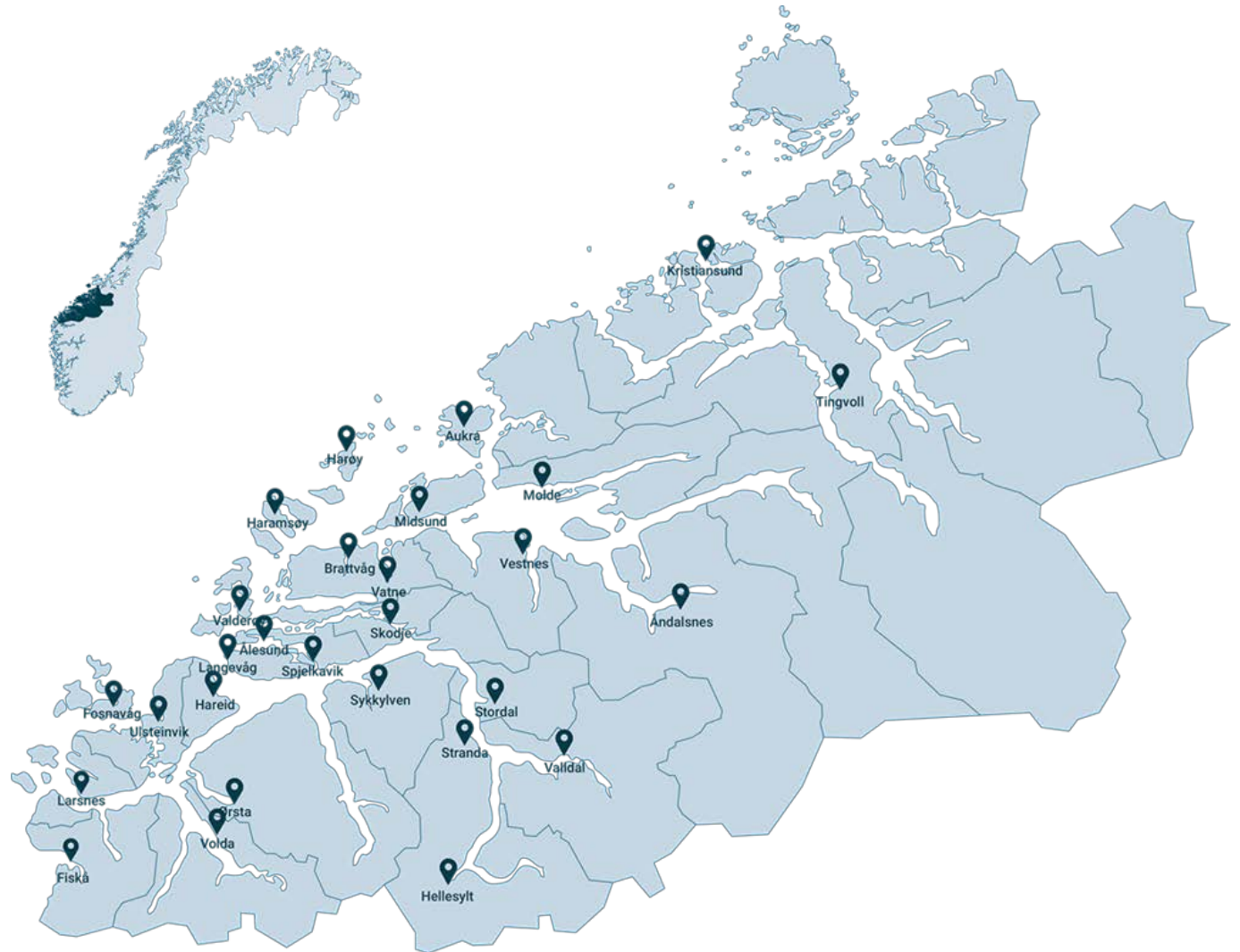
OFFICES IN  
MØRE OG ROMSDAL

359

MAN YEARS

66.5

BILLION IN  
TOTAL ASSETS



# Highlights from 2017



Good loan growth and high deposit to loan ratio



Positive development in net interest income



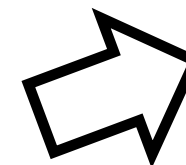
Increased focus on other income give results



Stable cost base - high efficiency



Very low losses



Strong capital

**10.4%**

Strong ROE

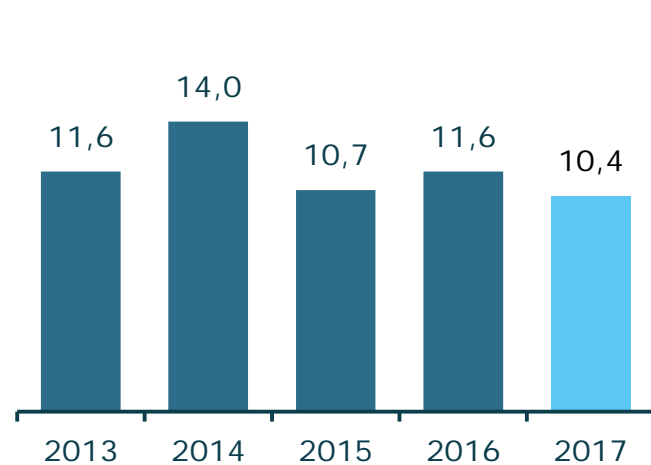
**NOK 14**

High dividend proposal

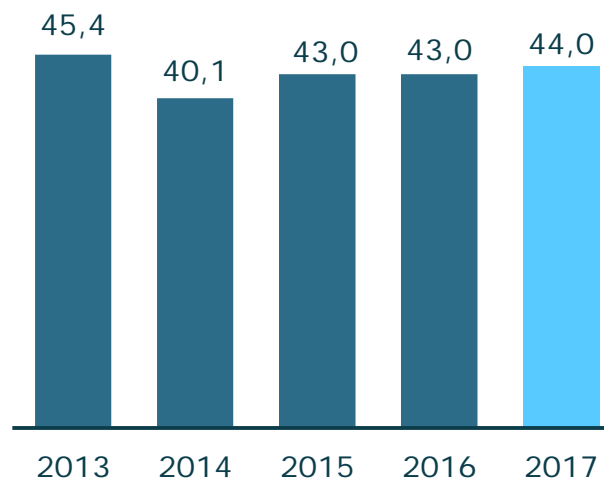
# Key figures

*We reach our goals*

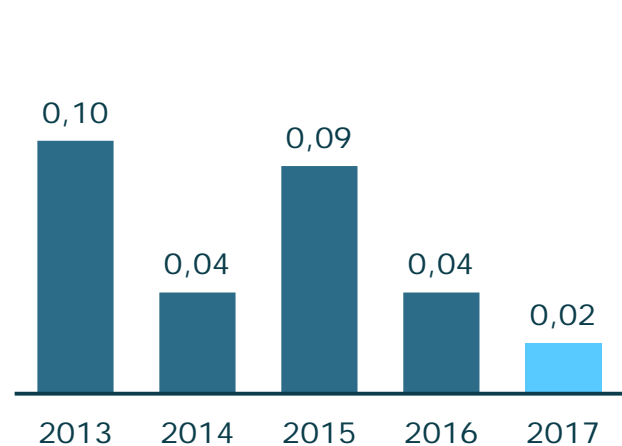
## Return on Equity



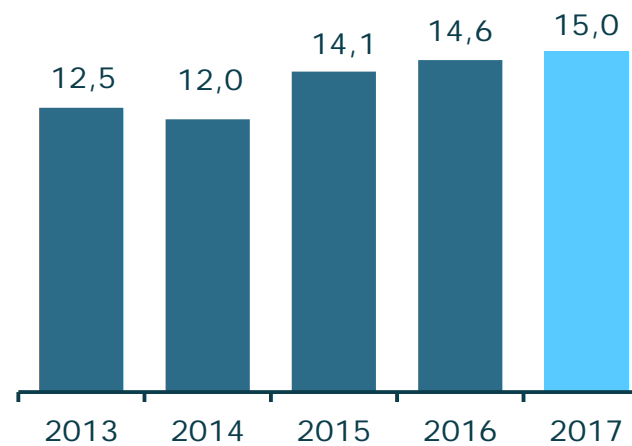
## Cost/Income



## Losses on Loans and Guarantees



## Core Tier1 Capital



# Positive outlook

- At the turn of the year, Sparebanken Møre is well capitalized, with a healthy financial structure and a strong balance. The results have been strong and stable and losses have been at a low level for many years
- The economic outlook for Møre og Romsdal is good and we are seeing increased activity following
  - ✓ a weak Norwegian currency
  - ✓ low level of interest rates
  - ✓ expansionary fiscal policy
  - ✓ higher oil prices
  - ✓ good growth in our export markets
  - ✓ high adaptability in local business and industry
- On the other hand, housing prices have continued to fall, and there is uncertainty linked to price developments in the future



# Good results in 2017

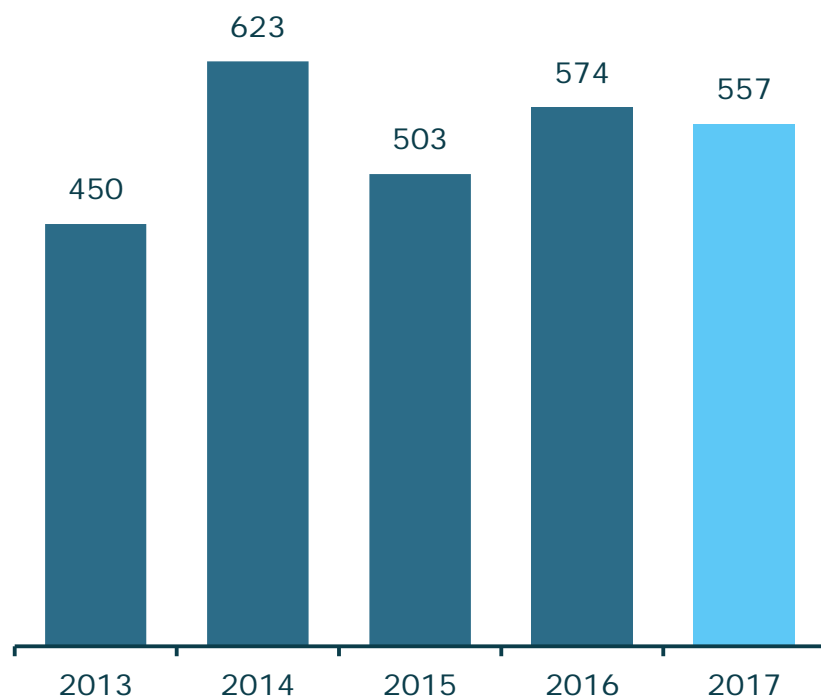
*In line with our plans*



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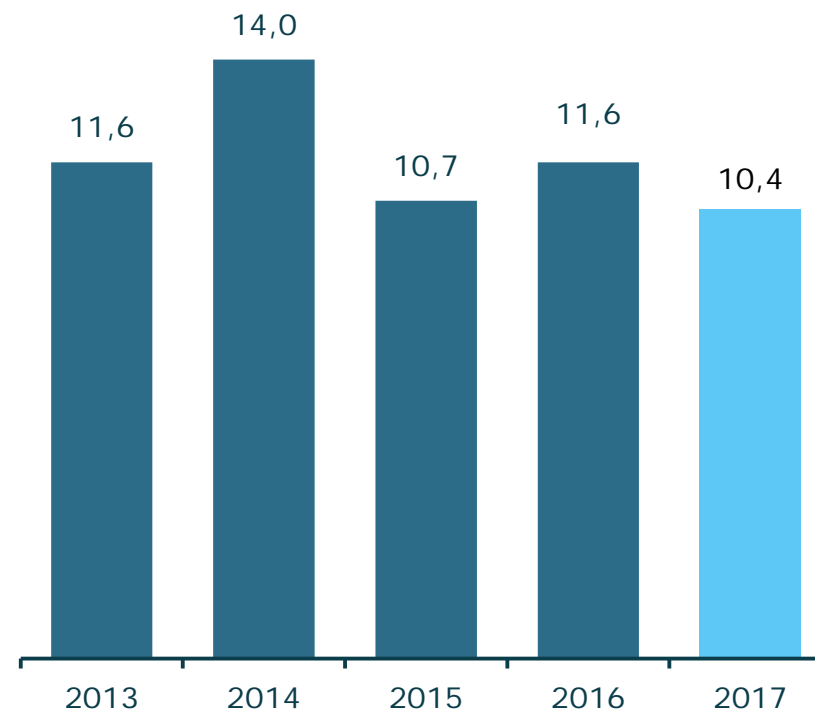
## Result after taxation

- NOK million



## Return on Equity

- in percent (ROE)

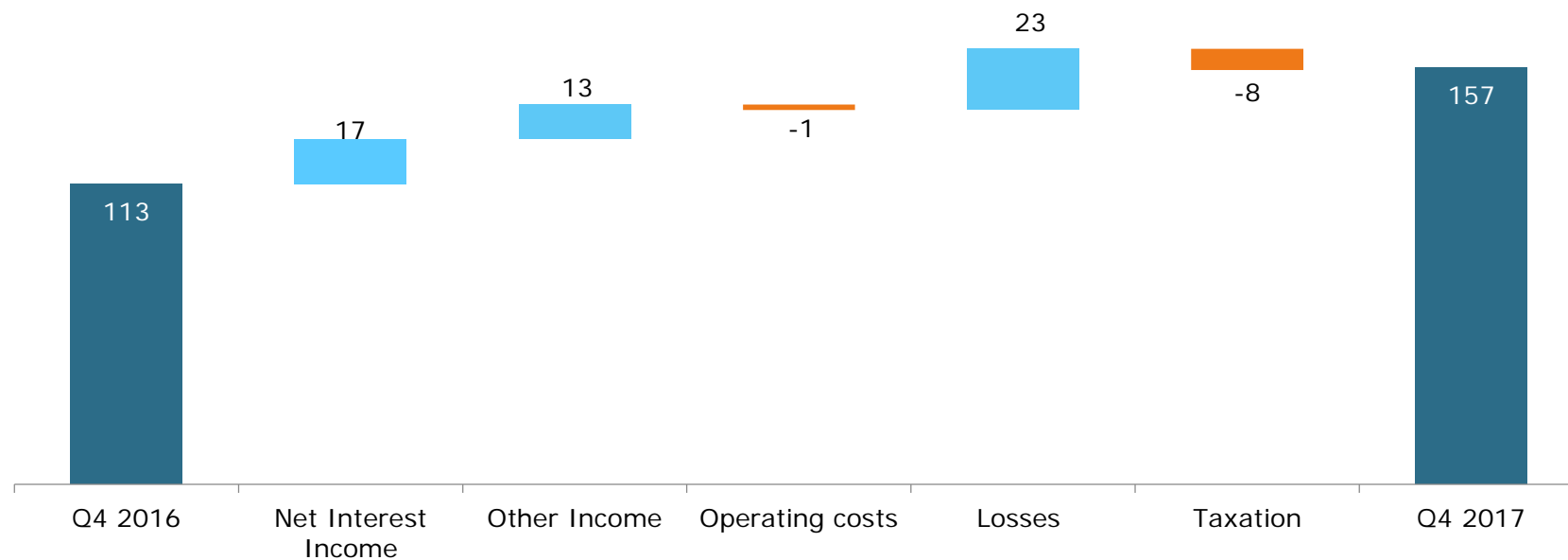


# Changes from Q4 2016 to Q4 2017

Result after taxation (NOK million)



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- Higher Net Interest Income in NOK
- Positive development in Other Income
- Stable operating costs
- Low level of losses also in Q4



# Results

## Statement of income by the end of Q4 – the Group



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Results (NOK million and %)	2017		2016		Changes		
	NOK	%	NOK	%	NOK	p.p.	%
Net Interest Income	1,100	1.72	1,082	1.79	18	-0.07	1.7
Net Income Financial Investments	35	0.05	30	0.05	5	0.00	16.7
Gains from shares (VISA in 2016)	-10	-0.02	45	0.07	-55	-0.09	
Gains/losses liquidity portfolio	23	0.04	24	0.04	-1	0.00	-4.2
Other Income	194	0.31	182	0.30	12	0.01	6.6
Total Other Income	242	0.38	281	0.46	-39	-0.08	-13.9
<b>Total Income</b>	<b>1,342</b>	<b>2.10</b>	<b>1,363</b>	<b>2.25</b>	<b>-21</b>	<b>-0.15</b>	<b>-1.5</b>
Personnel costs	335	0.52	335	0.55	0	-0.03	0.0
Other costs	255	0.40	251	0.42	5	-0.02	2.0
<b>Total operating costs</b>	<b>590</b>	<b>0.92</b>	<b>586</b>	<b>0.97</b>	<b>4</b>	<b>-0.05</b>	<b>0.7</b>
Profit before losses	752	1.18	777	1.28	-25	-0.10	-3.2
Losses on loans, guarantees etc	13	0.02	22	0.04	-9	-0.02	-40.9
<b>Pre tax profit</b>	<b>739</b>	<b>1.16</b>	<b>755</b>	<b>1.24</b>	<b>-16</b>	<b>-0.08</b>	<b>-2.1</b>
Taxes	182	0.28	181	0.30	7	-0.02	0.6
<b>Profit after taxation</b>	<b>557</b>	<b>0.88</b>	<b>574</b>	<b>0.94</b>	<b>-18</b>	<b>-0.06</b>	<b>-3.0</b>

# Balance and key figures

	31.12.2017	31.12.2016	Changes	
Balance in NOK million	NOK	NOK	NOK	%
Total Assets	66,491	61,593	4,888	8.0
Loans to customers	56,867	52,691	4,176	7.9
Deposits from customers	32,803	32,562	241	0.7
Net Equity and Subordinated Loans	6,300	6,132	168	2.7

Key Figures	31.12.2017	31.12.2016	Changes p.p.	
Return on Equity	10.4	11.6	-1.2	
Cost/Income Ratio	44.0	43.0	1.0	
Total Capital	18.4	18.6	-0.2	
Core Capital	16.8	17.0	-0.2	
Core Tier 1 Capital	15.0	14.6	0.4	
Leverage Ratio	8.2	8.5	-0.3	
Results per EC (NOK, the Group)	27.70	28.80	-1.10	
Results per EC (NOK, the Bank)	27.00	29.85	-2.85	

# Quarterly development in Net Interest Income

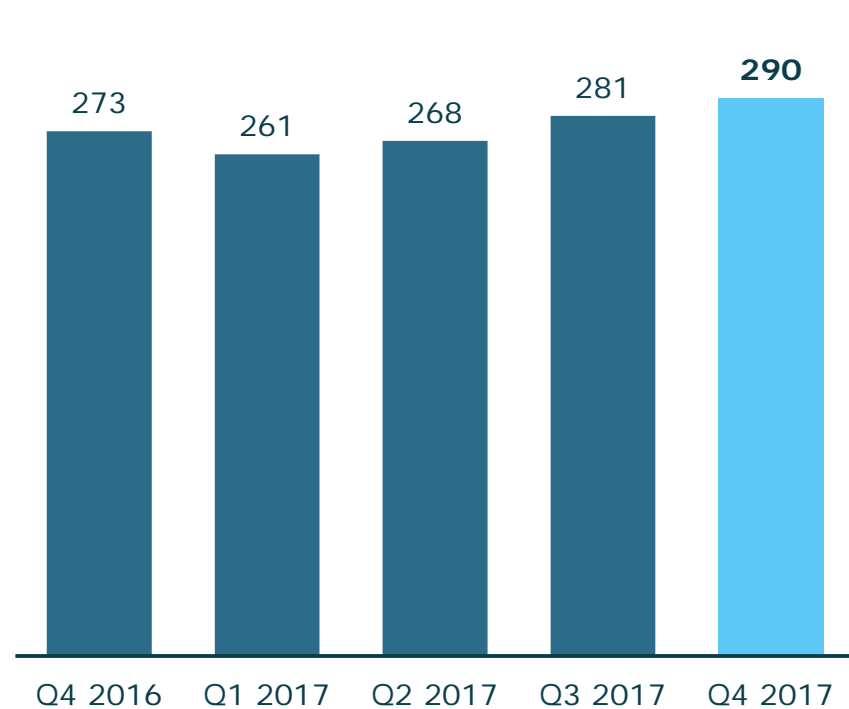
*Increased net interest income*



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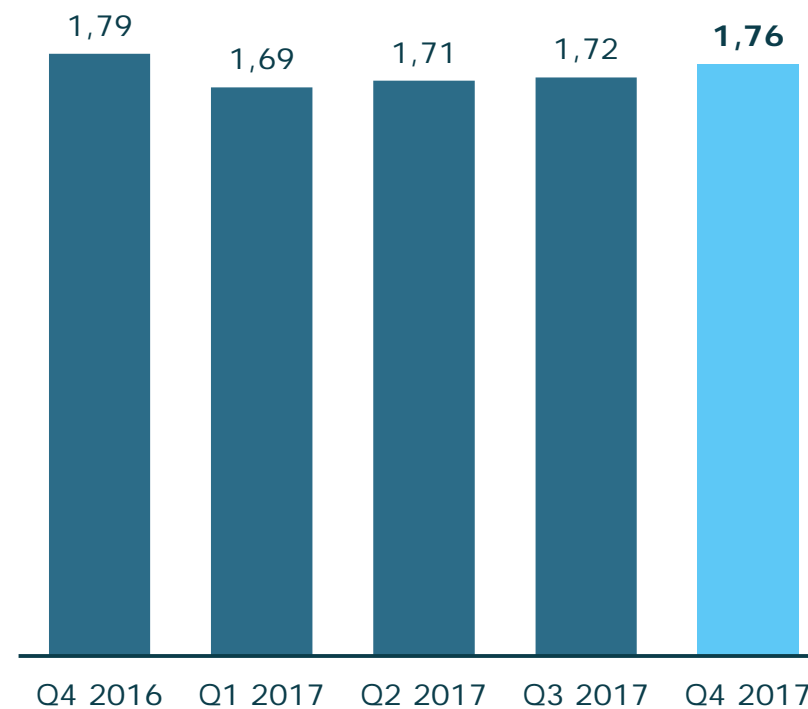
## Net Interest Income

- NOK million



## Net Interest Income

- % of Average Assets



# Quarterly development Other Income

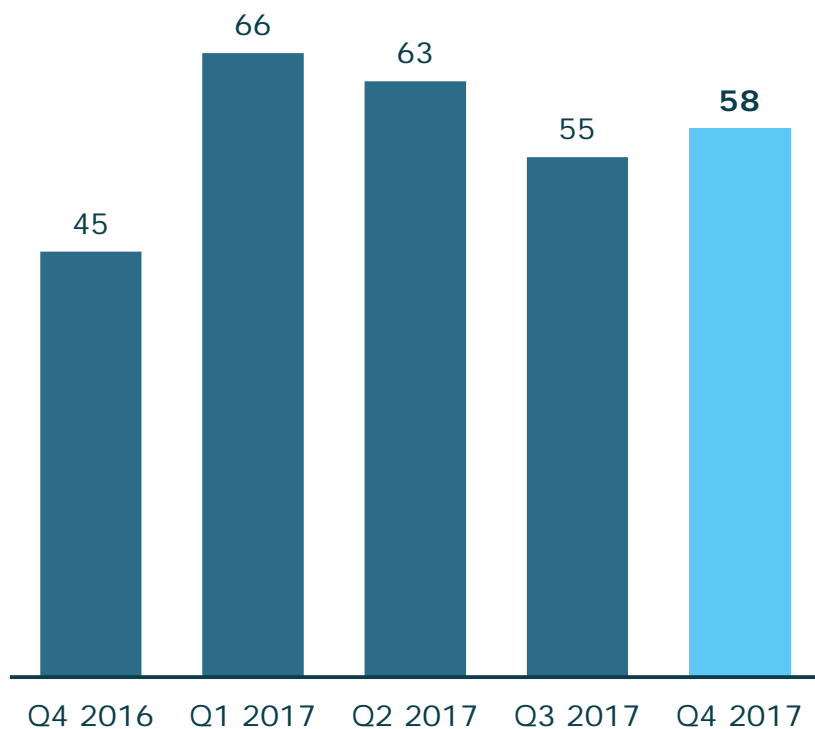
*Negative effects from financial instruments*



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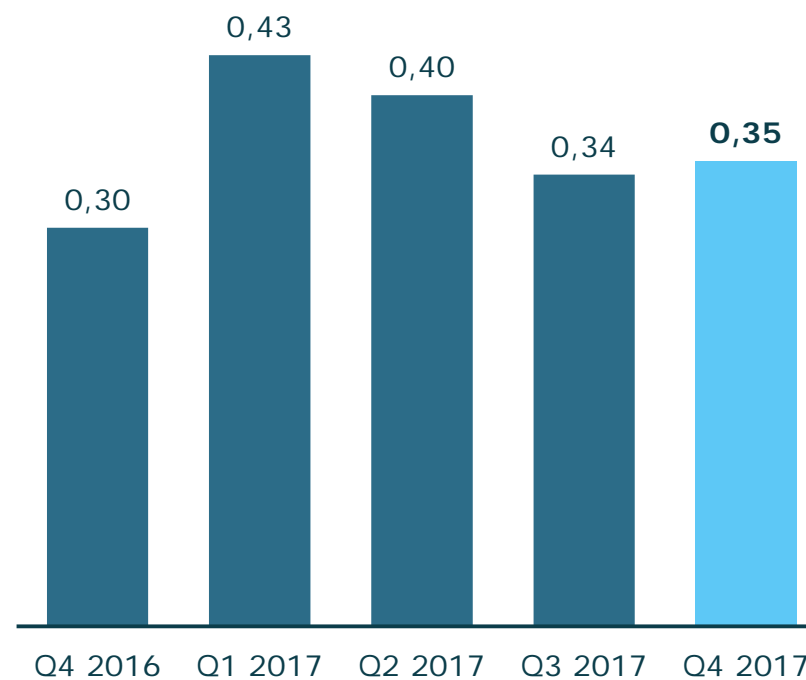
## Other Income

- NOK million



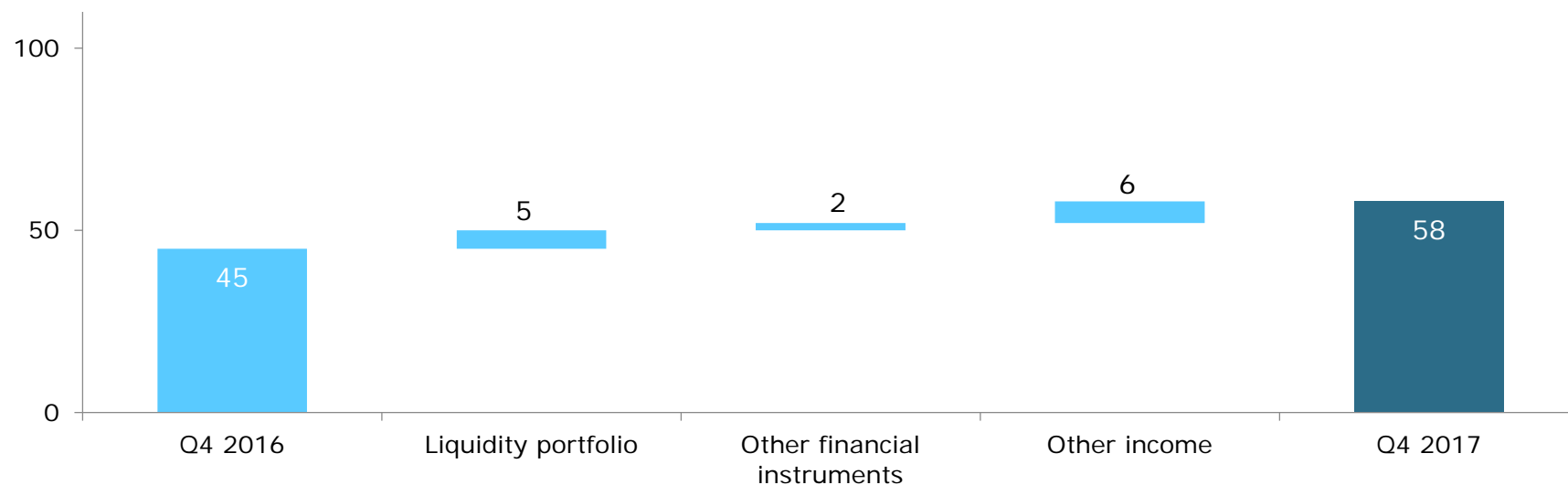
## Other Income

- % of Average Assets



# Other Income

Changes in NOK million compared with Q4 2016



- Valuation of the liquidity portfolio changed from - NOK 4 million to NOK 1 million from Q4 2016 to Q4 2017
- Positive change in other financial investments is mainly related to the development of basis swaps
- Continued good growth in our Discretionary Portfolio Management Department contributes positively during the quarter

# Total Income

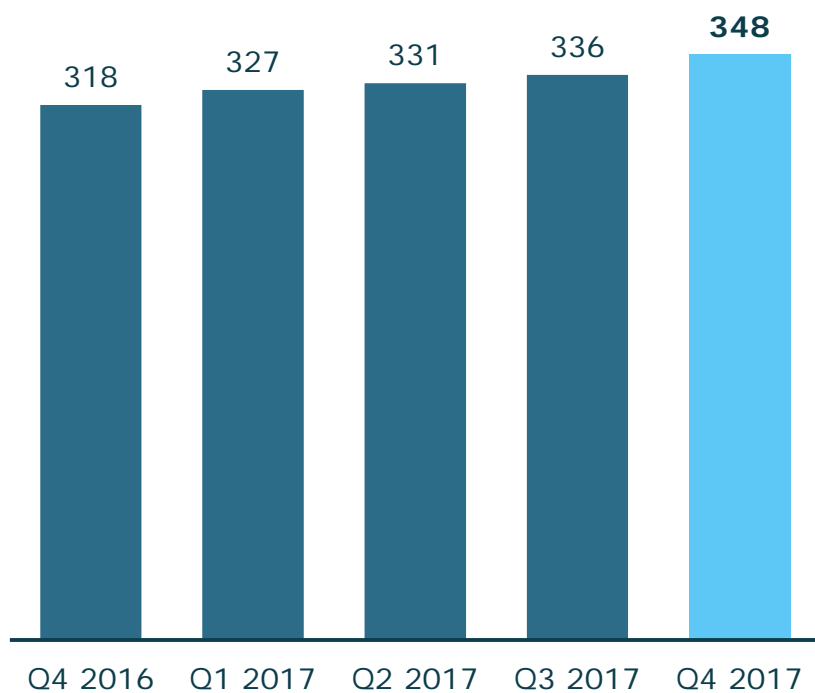
Quarterly development



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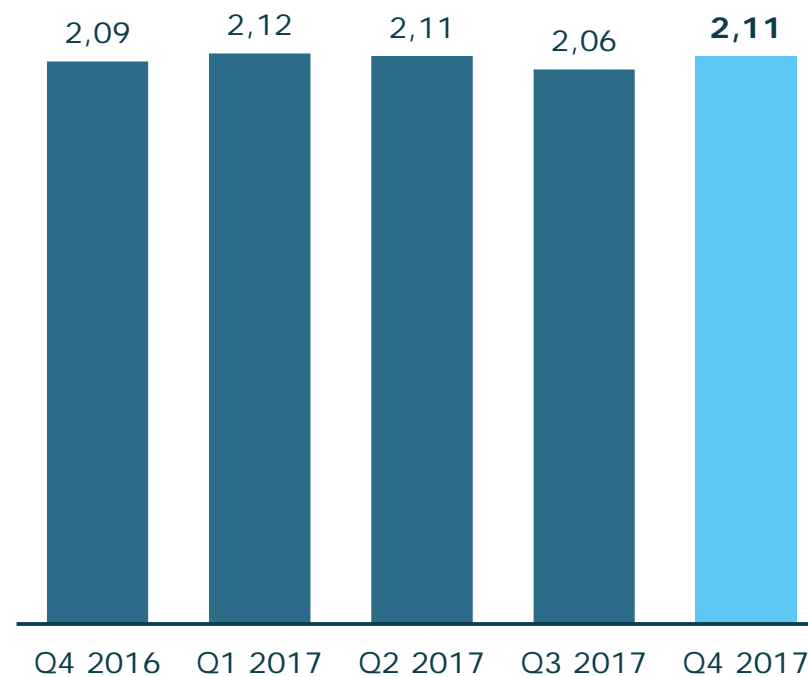
## Total Income

- NOK million



## Total Income

- % of Average Assets



# Lower Costs

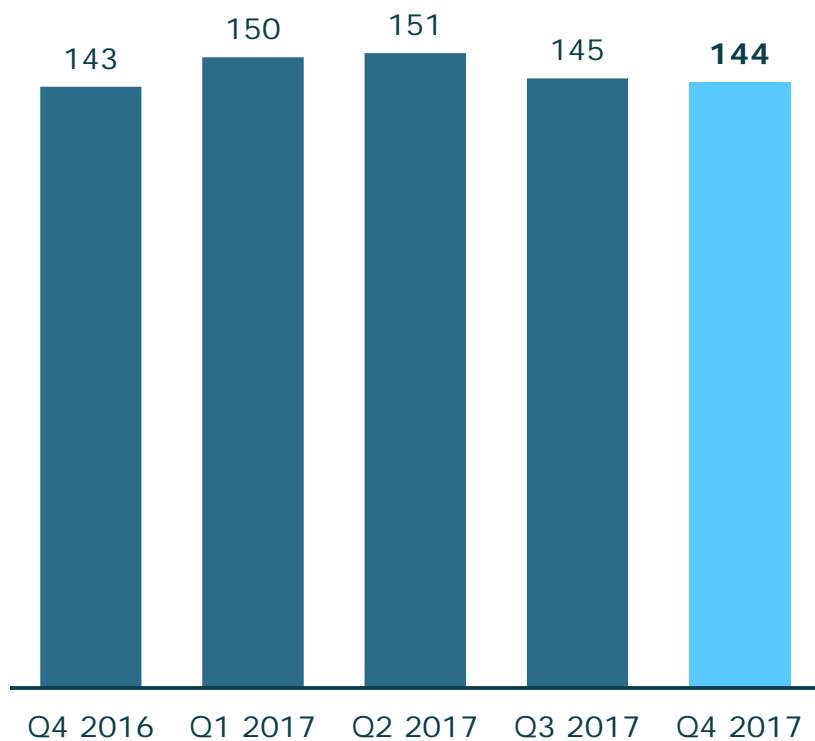
*Positive quarterly development*



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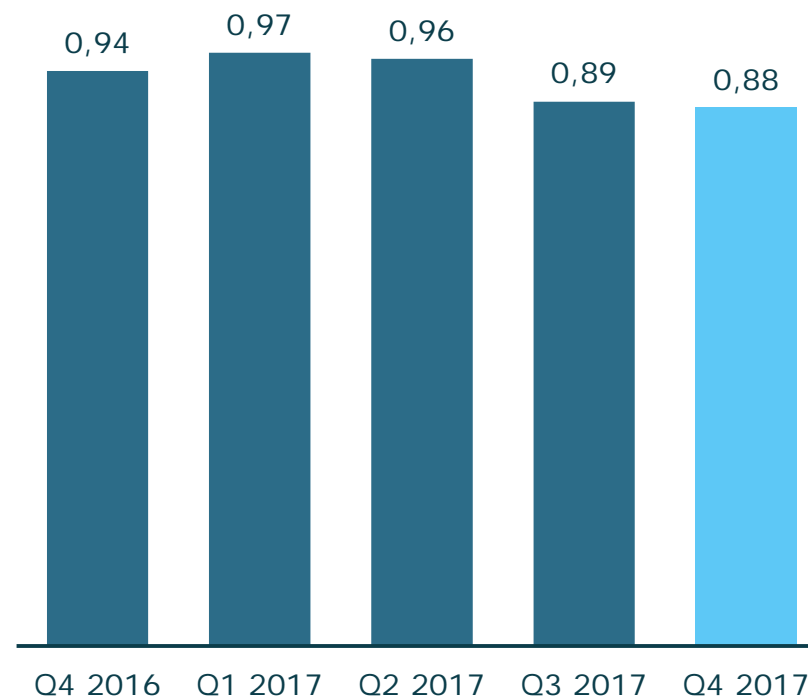
## Operating Costs

- NOK million



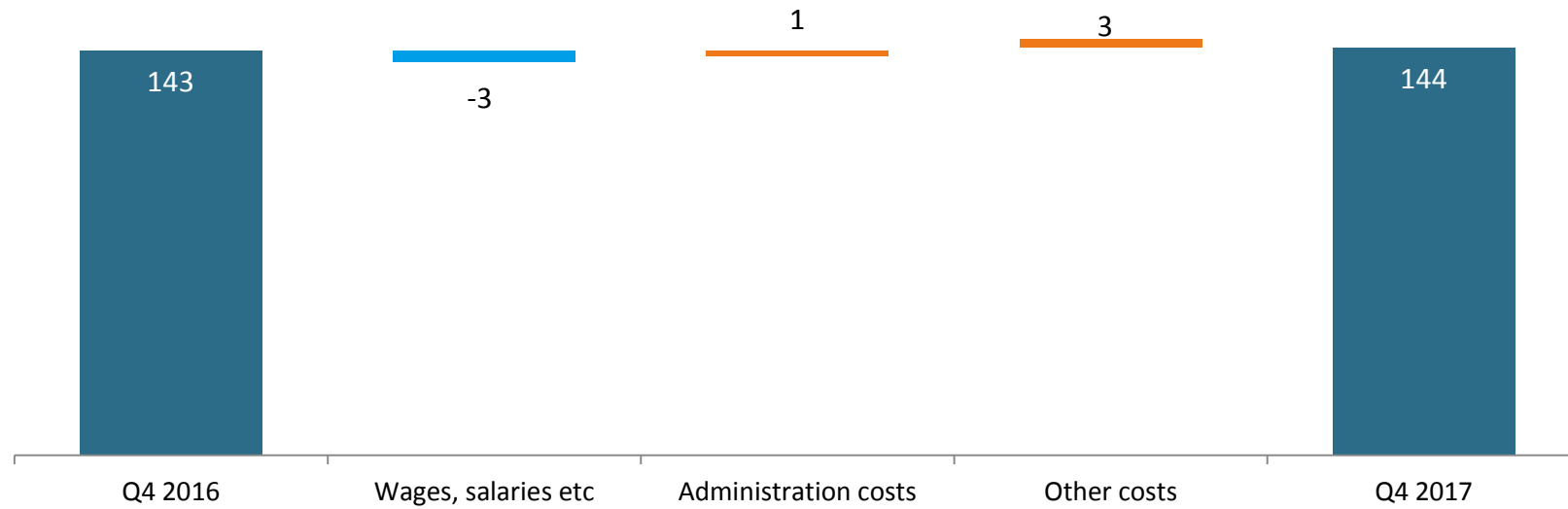
## Operating Costs

- % of Average Assets



# Costs

Costs in line with Q4 2016



- Reduction in personnel costs even with the introduction of financial tax with effect from January 2017, amounting to NOK 3 million in Q4



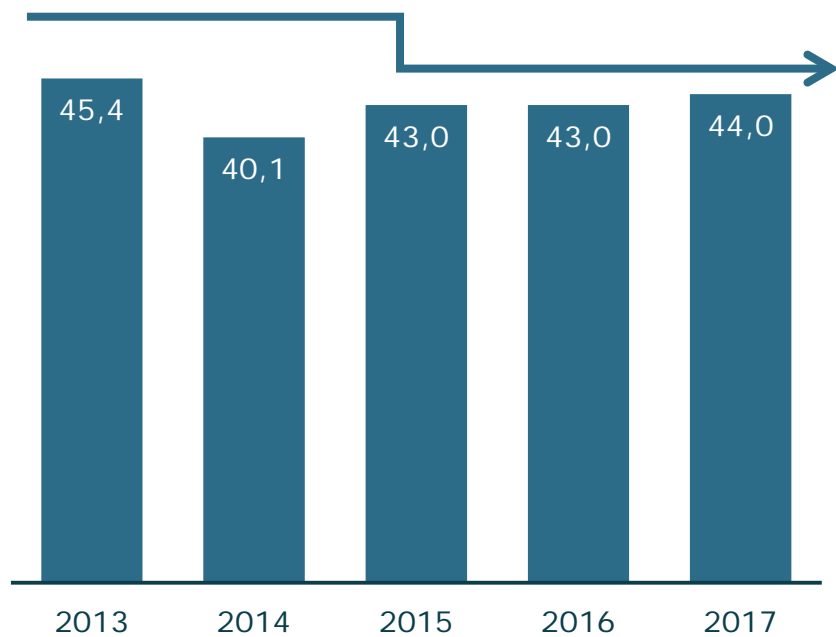
# High efficiency

Efficiency target met ( $C/I < 45\%$ )



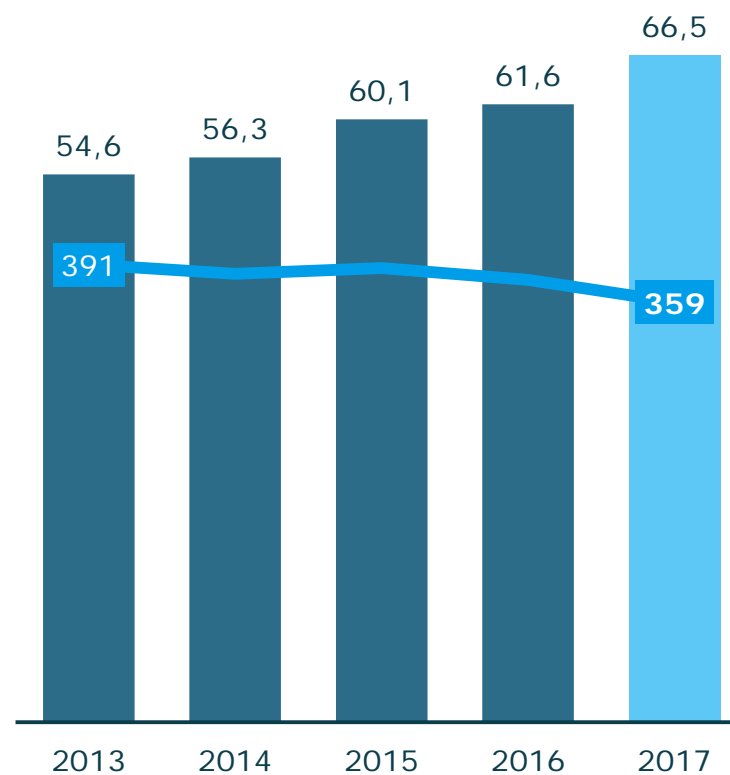
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## Cost/Income ratio



## Total Assets and Man Years

- Total Assets in NOK billion



# Result before losses

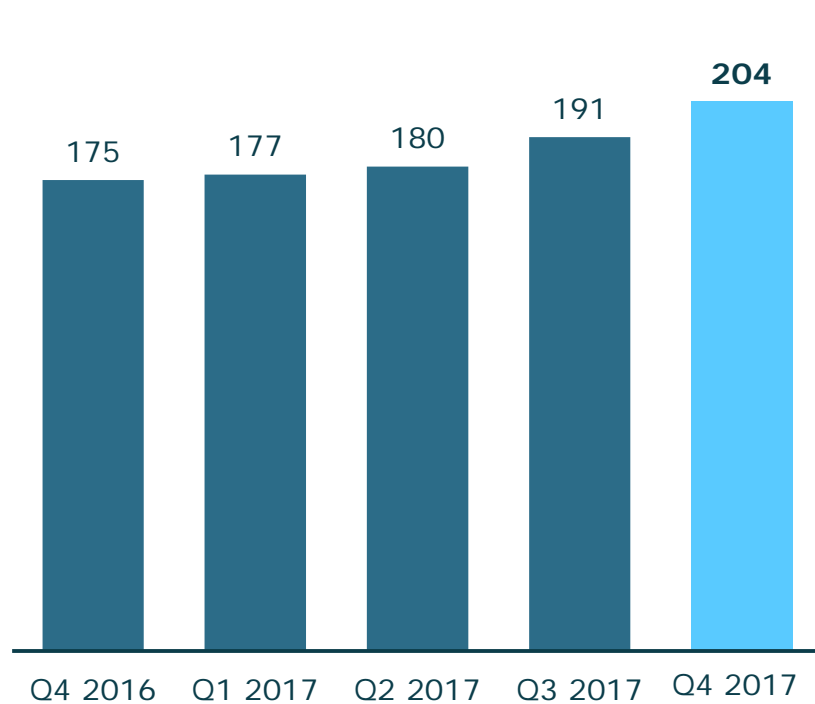
*Positive quarterly development*



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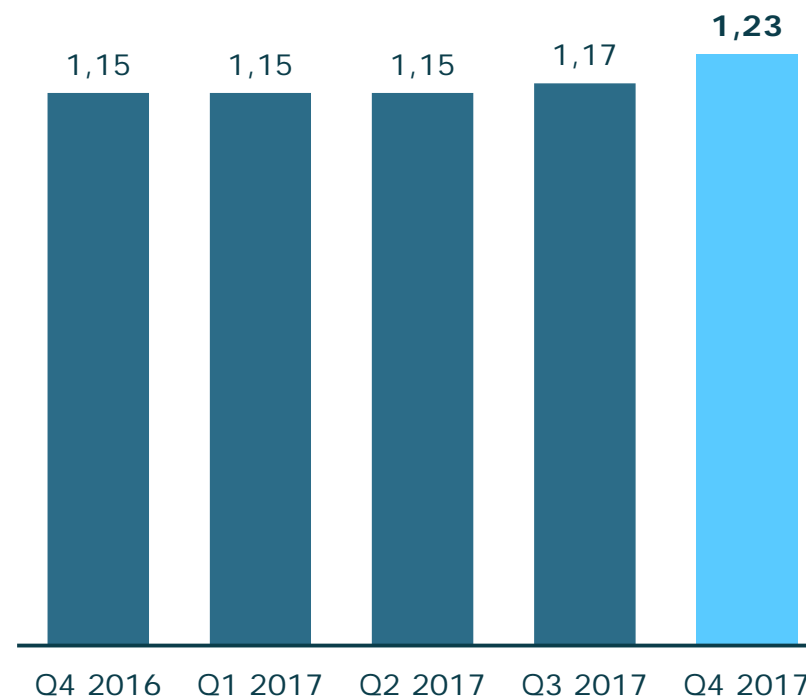
## Result before losses

- NOK million



## Result before losses

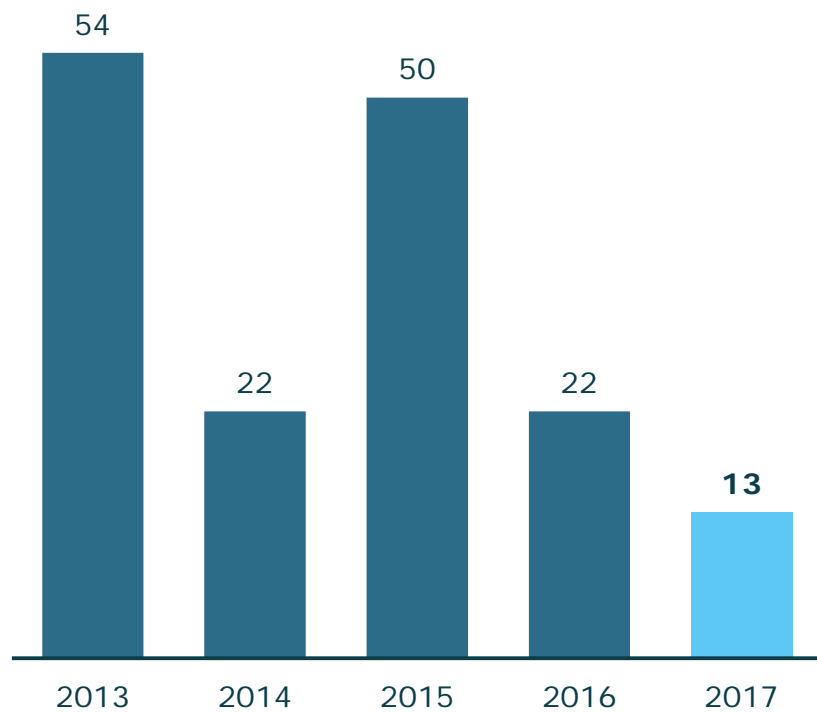
- % of Average Assets



# Low level of losses over time

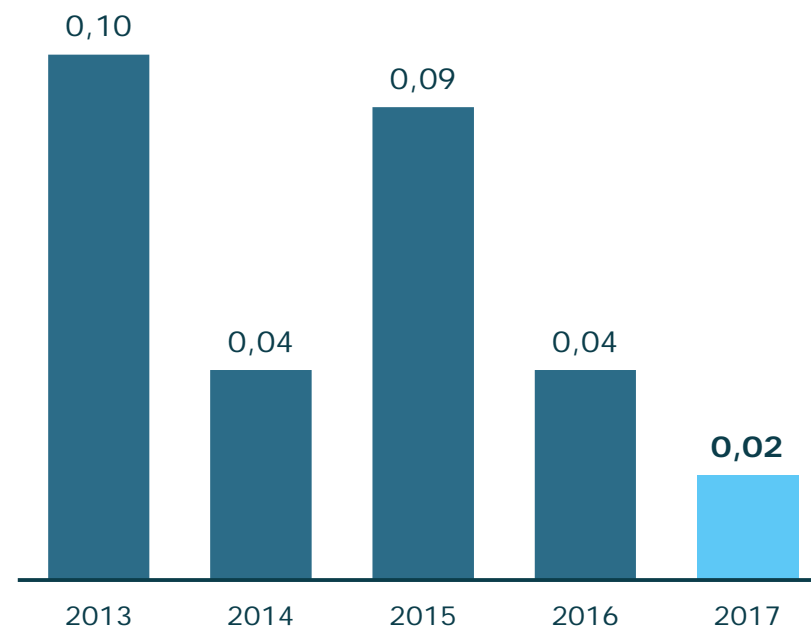
## Losses on loans and guarantees

- NOK million



## Losses on loans and guarantees

- % of Average Assets

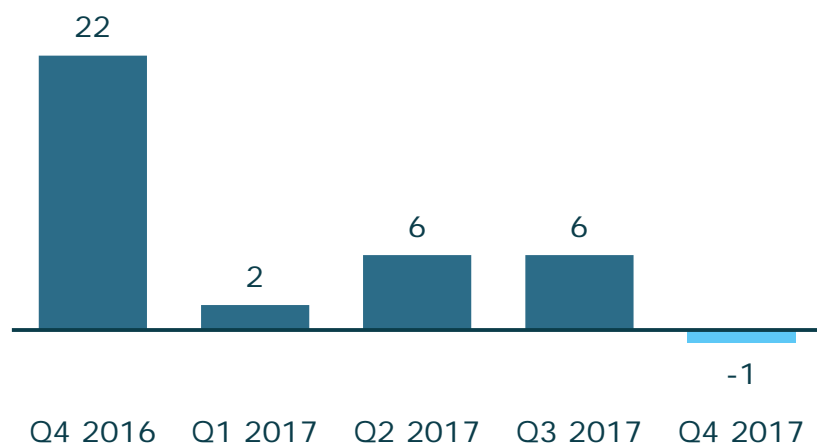


# Losses

*Good credit work over time gives results*

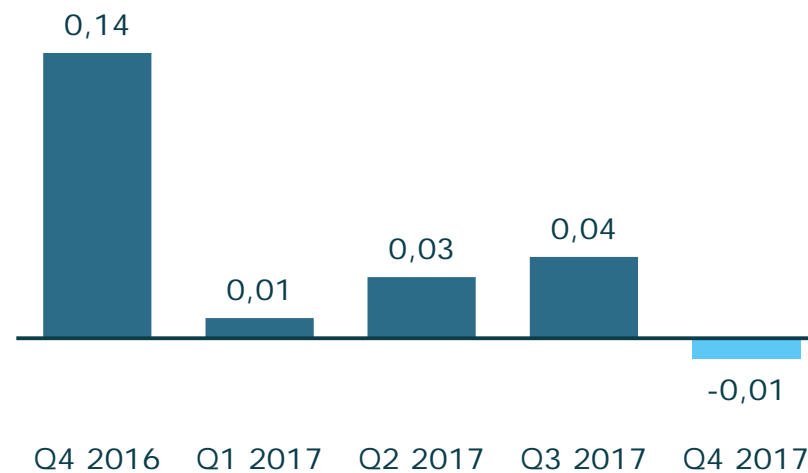
## Losses on loans and guarantees

- NOK million



## Losses on loans and guarantees

- % of Average Assets



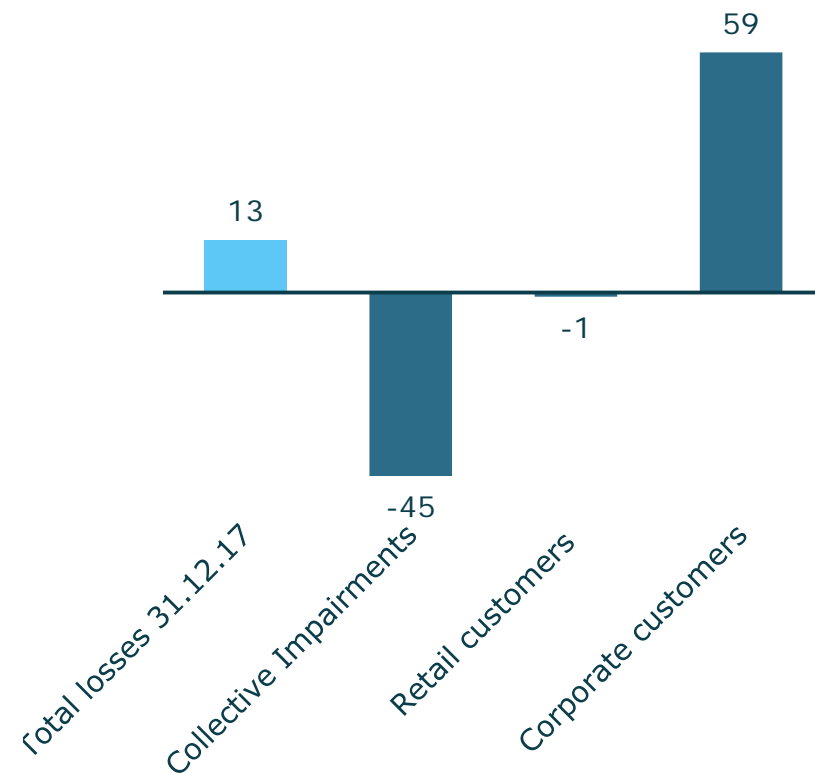
# Losses by sector



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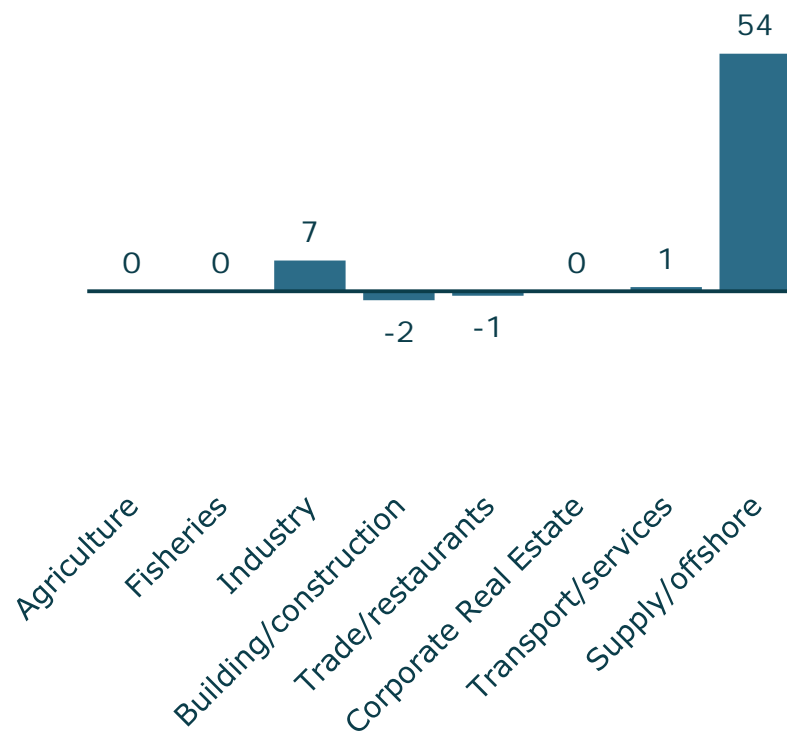
## Losses on loans and guarantees

- NOK million



## Detailed losses – corporate market

- NOK million



# Impairments

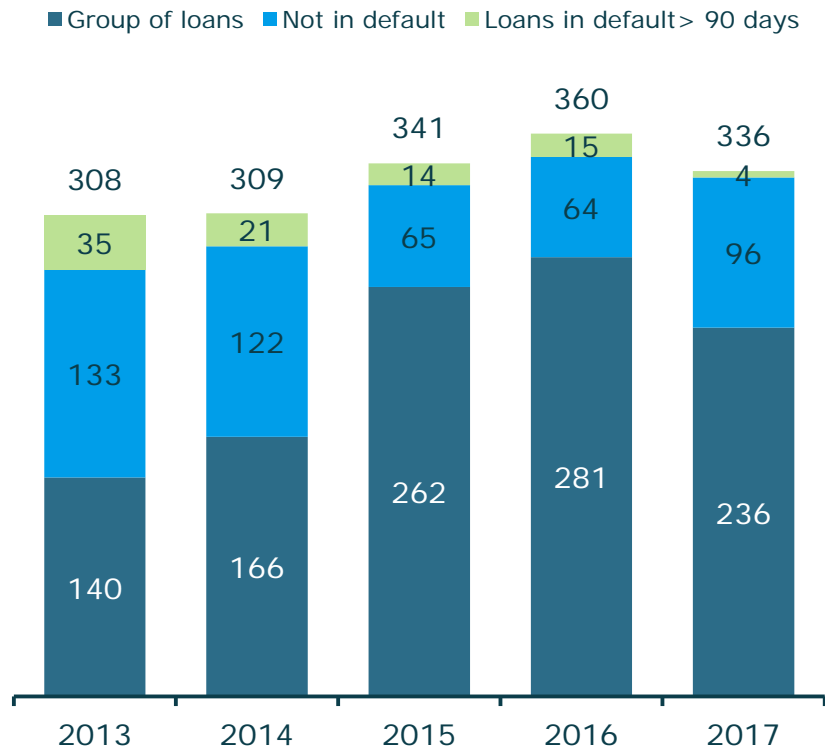
*High and comfortable levels*



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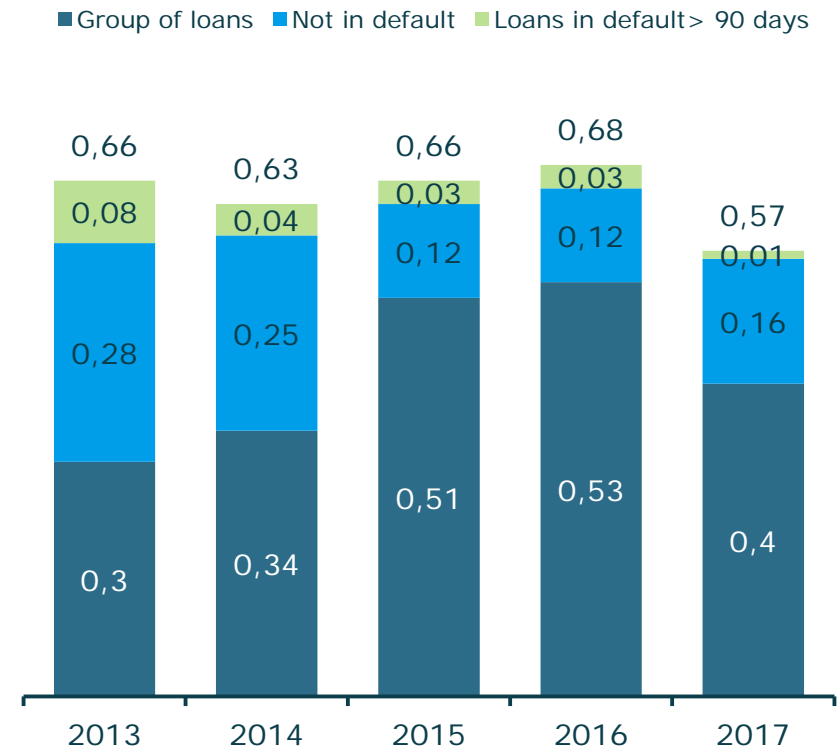
## Impairments

- NOK million



## Impairments

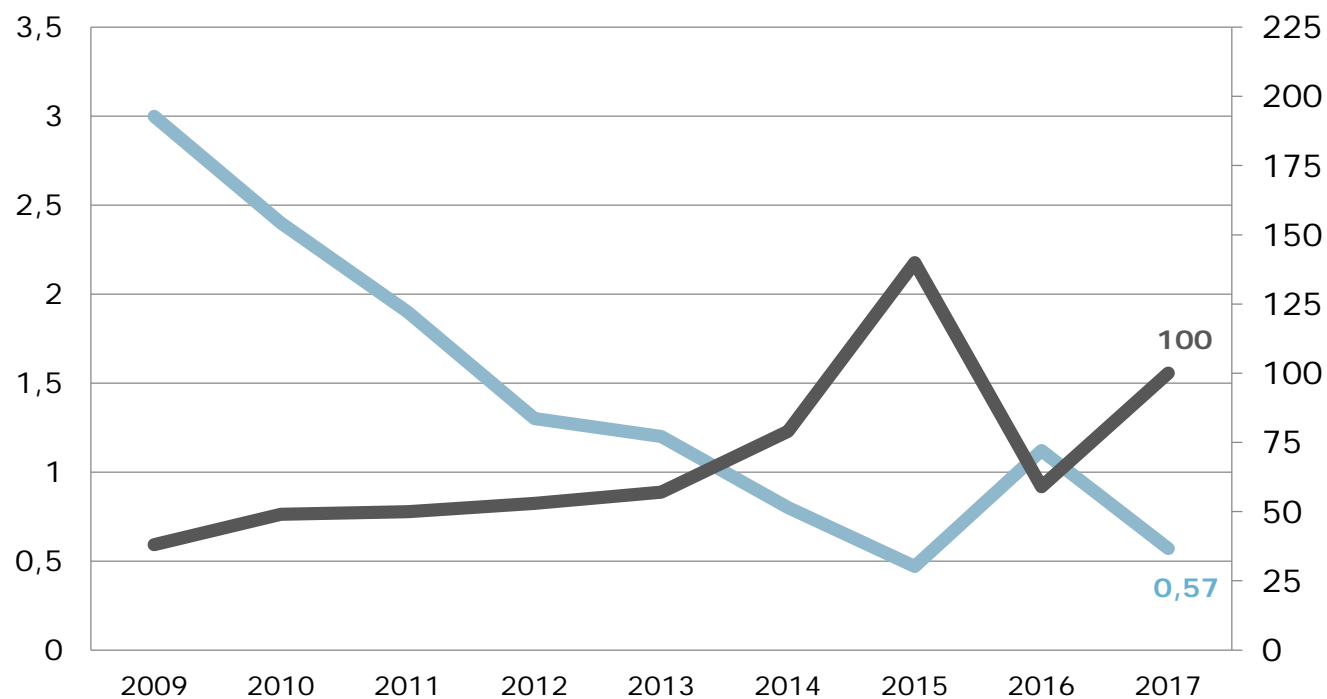
- % of Gross Loans



# Problem Loans and Impairments

*Continued positive development*

## Problem Loans and Impairments (per cent)



— Problem Loans in % of Gross Loans (left hand scale)

— Impairments in % of Problem Loans

# IFRS 9

## *Limited impact*

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- The Group shall report losses (Expected Credit loss - ECL) in accordance with IFRS 9 from 1.1.2018
- The Group has developed an ECL-loss model that meets the requirements of IFRS 9
- The model's calculation of expected losses as at 1.1.2018 gives an increase in impairments of NOK 6 million
- The transition to IFRS 9 has a marginal effect on equity and no effect on core capital



# Pre tax profit

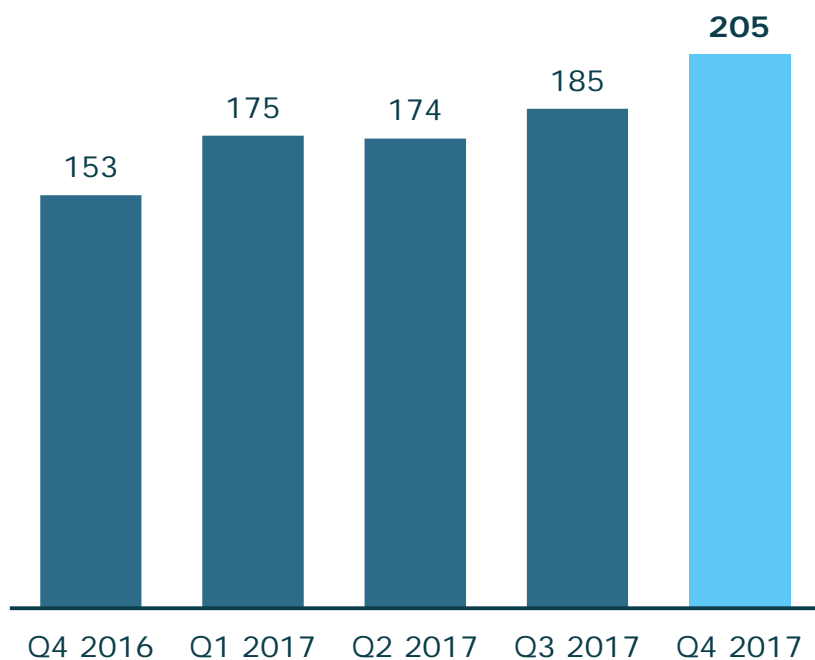
*Positive quarterly development*



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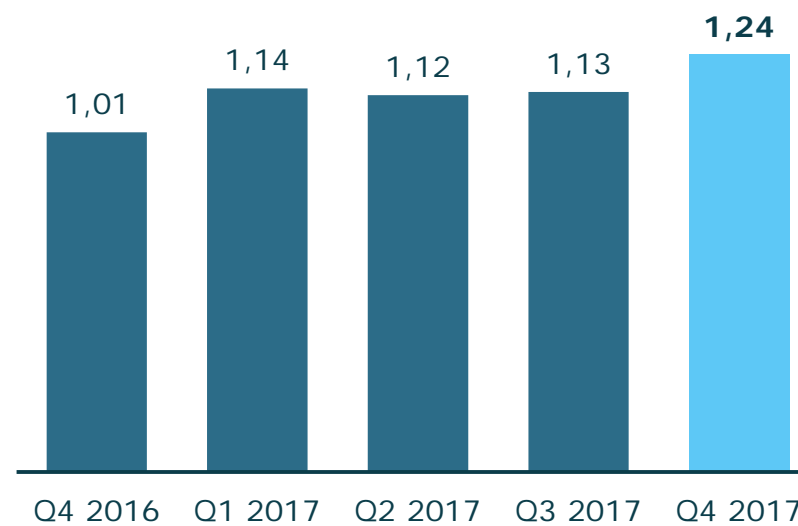
## Profit after losses

- NOK million



## Profit after losses

- % of Average Assets

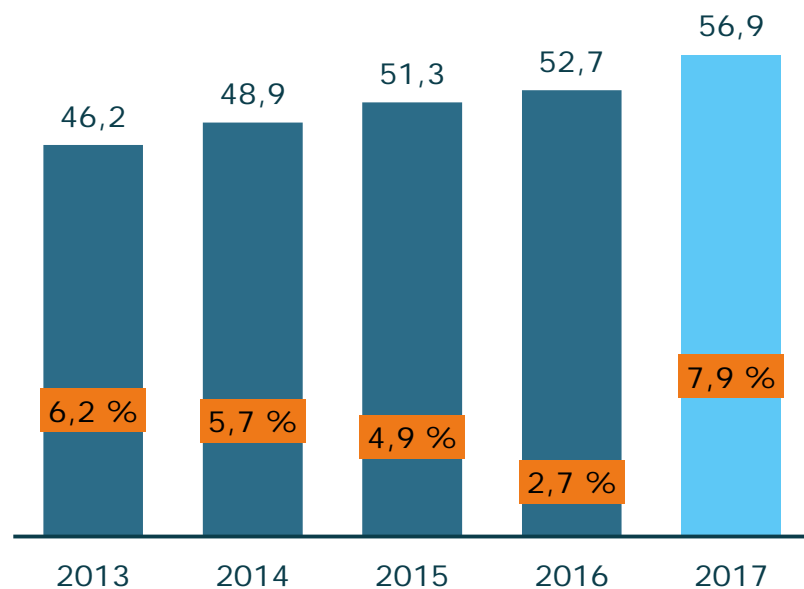


# Balance

Growth in line with our plans

## Loans

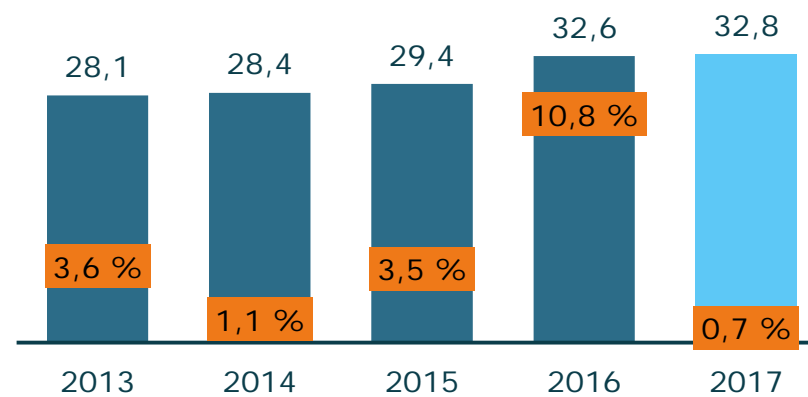
- NOK billion and per cent (y/y)



- Customer lending has increased by 7.9 % the last 12 months

## Deposits

- NOK billion and per cent (y/y)



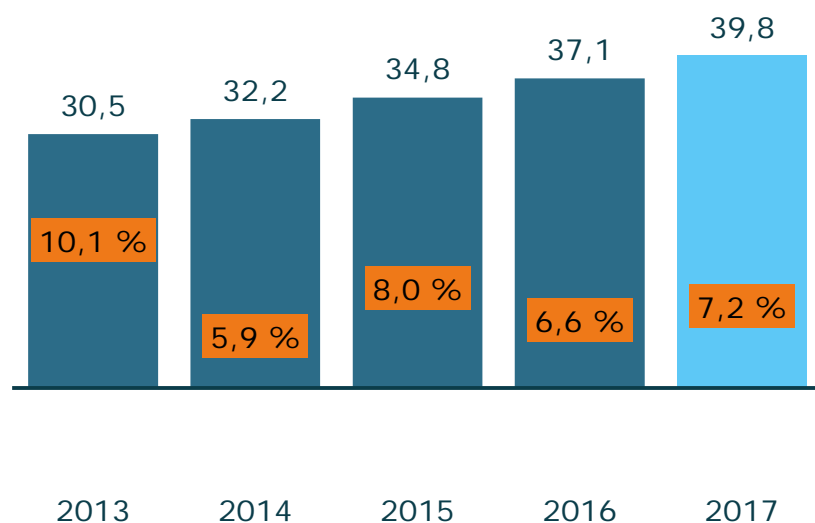
- Deposits grew by 0.7 % the last 12 months
- High deposit to loan ratio, 57.7 %

# Lending

Good growth in the market

## Retail market

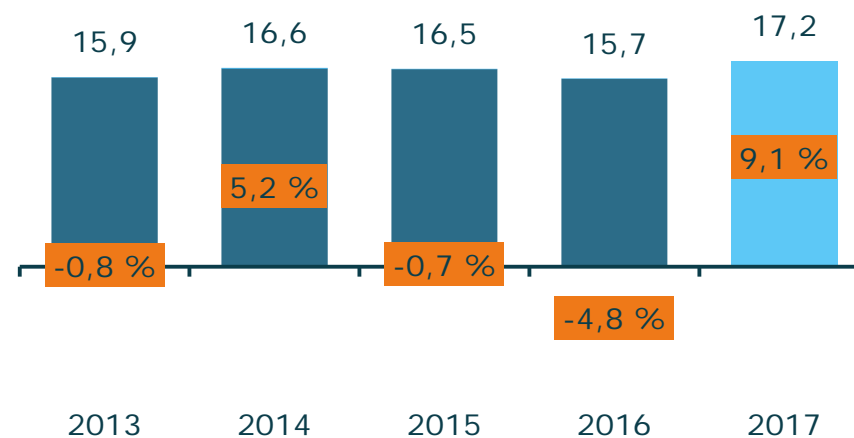
- NOK billion and per cent y/y



- Retail lending has increased by 7.2 % the last 12 months
- Loans to the retail market amount to 70 % of total loans

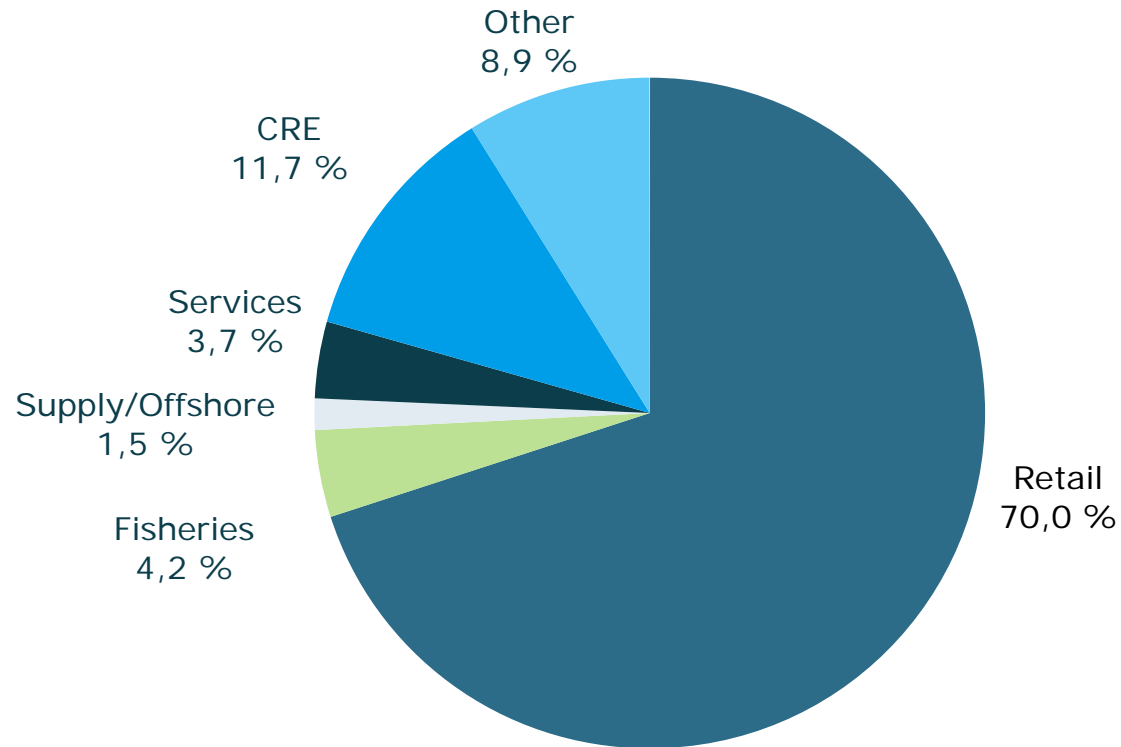
## Corporate market

- NOK billion and per cent y/y



- Corporate lending has increased by 9.1 % the last 12 months, -1.2 % during Q4
- Loans to the corporate market amount to 30 % of total loans

# Loans by sector



## Other:

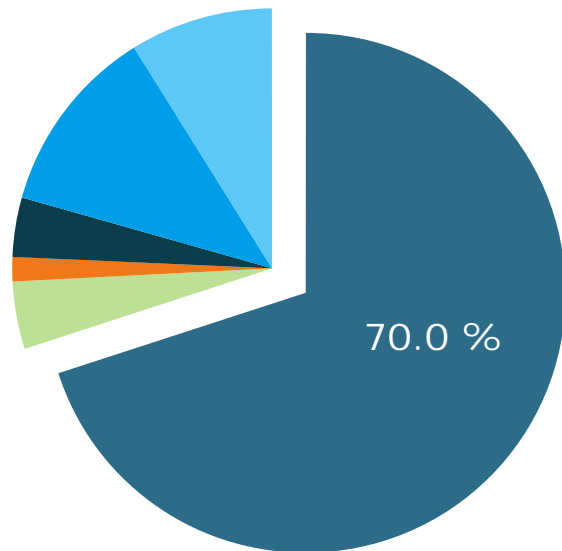
Other Industry	1.7 %	Agriculture	0.8 %
Financial services	2.2 %	Fishing Industry	0.7 %
Building and construction	1.0 %	Furniture	0.1 %
Ship Yards	1.2 %	Other	0.1 %
Retail/wholesale trade	1.1 %		

# Lending

*High proportion of secured loans*

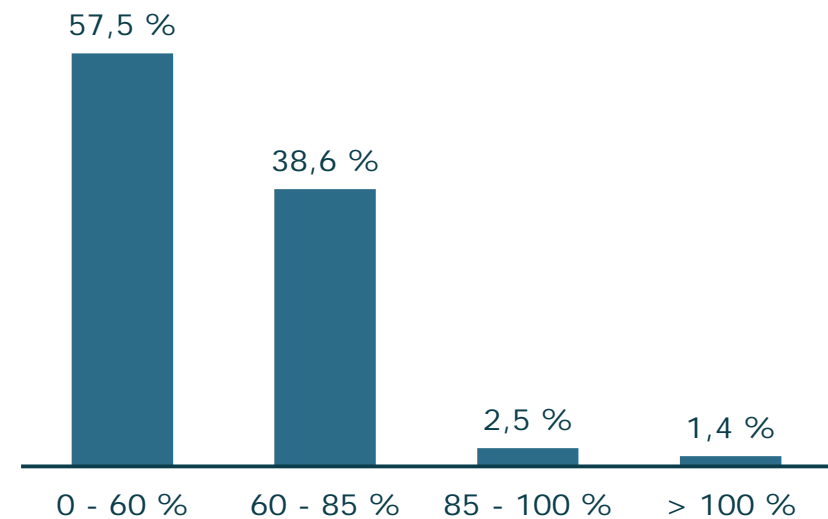
## Loans to retail customers

- % of total loans



- The bank complies with the regulations from the Norwegian authorities (Boliglånsforskriften)
- Deviations reported in the fourth quarter of 2017 were 5.4 % outside Oslo, 3.4% in Oslo which are well within the requirement in section 8 Flexibility

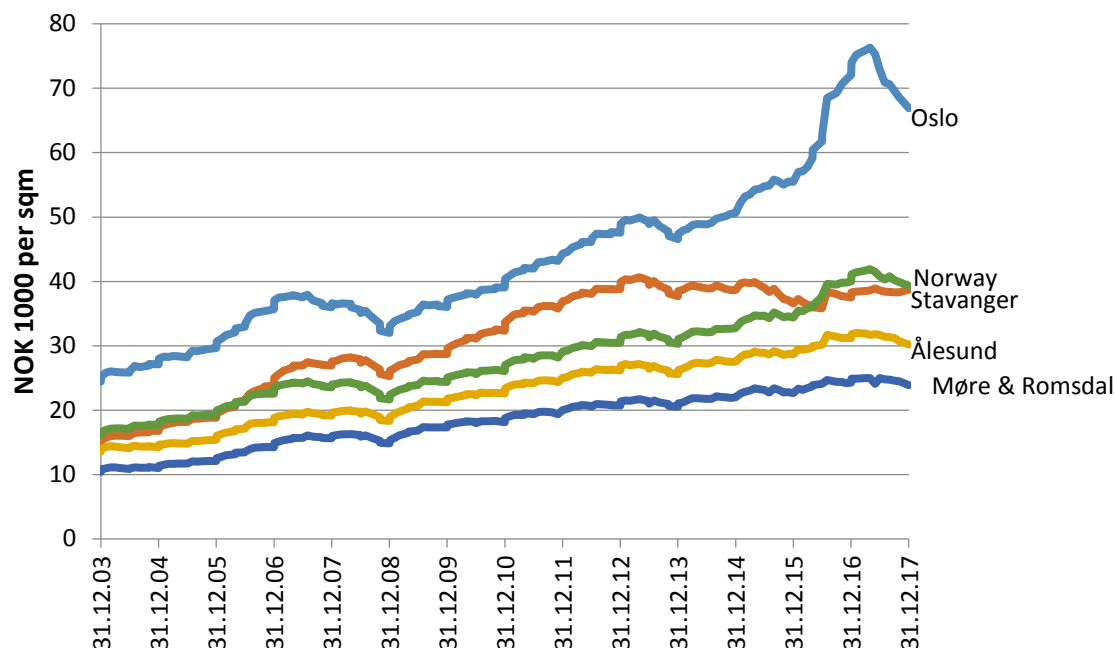
## Loan to value – retail loans



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

# Differences in house prices

Development in average house prices December 2003 – December 2017



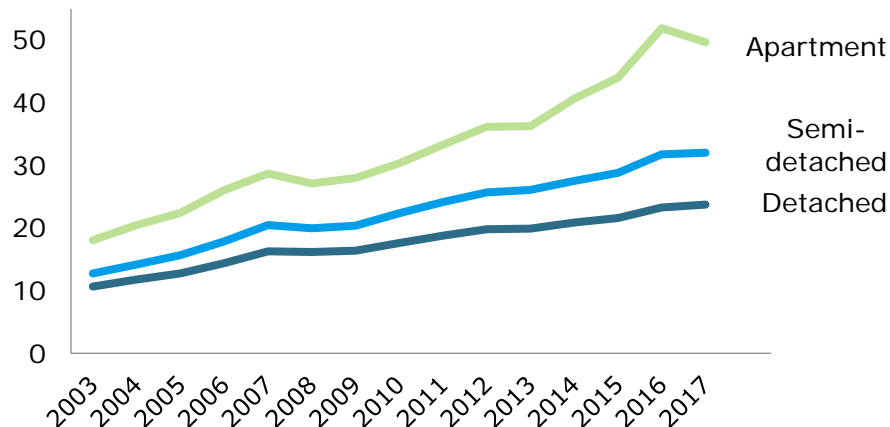
- The county of Møre og Romsdal has over time experienced lower growth in average house price
- Since its peak in February/ March, house prices in the county of Møre og Romsdal and Ålesund are down respectively 4.4% and 5.6%
- Since house prices peaked in Oslo, and Norway as a whole, in April they are down respectively 11.5% and 6.7%

Key information (Sold pre-owned dwellings)	Norway	County of Møre og Romsdal	City of Ålesund	City of Stavanger	City of Oslo
Price development last 12 months	-2.1 %	-2.0 %	-3.3 %	0.0 %	-6.2 %
Price per square meter (NOK)	39,256	23,914	30,243	38,678	66,905
Average days on market (DOM) sold units in December 2017	61 days	99 days	84 days	72 days	39 days
Price median dwelling (NOK)	2,995,000	2,300,000	2,557,000	3,169,786	3,730,747

# Differences in the Norwegian housing market

## Price development different dwellings

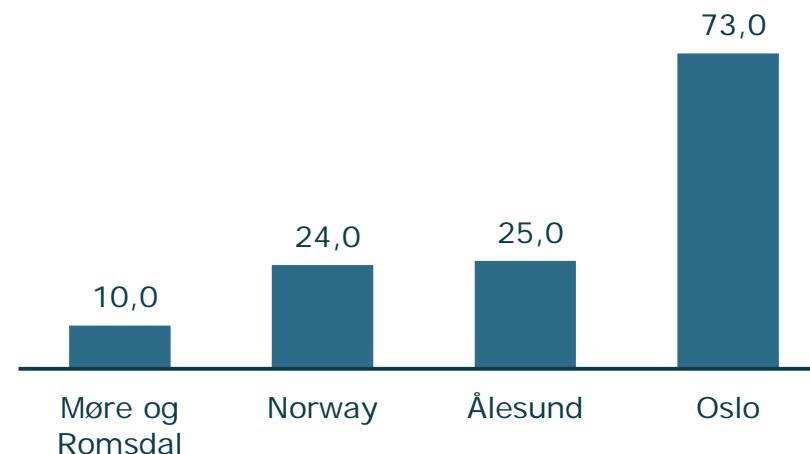
- Norway- price per square meter NOK 1000



- Apartment prices in Norway have shown stronger growth than other housing types
- We see differences in price development and number of days on market also between municipalities in the county of Møre og Romsdal

## Part of dwellings which are apartments

- In per cent of total dwellings



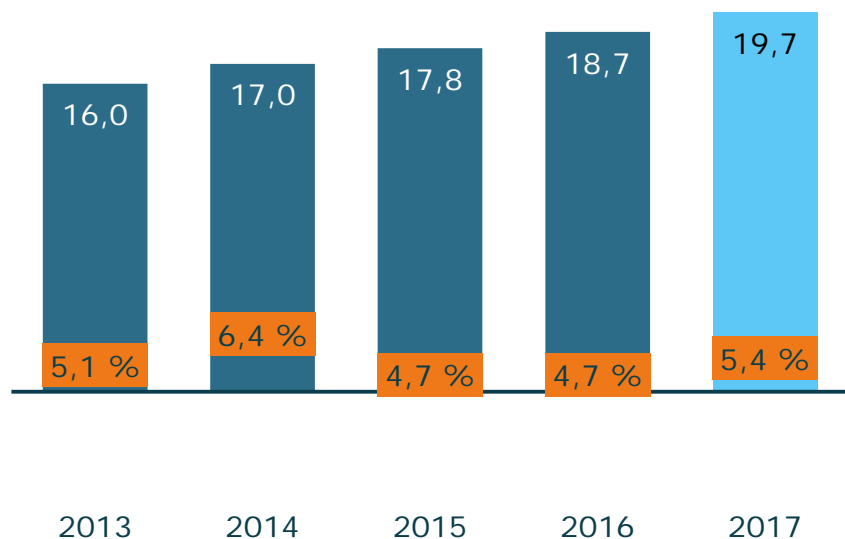
- In the county of Møre og Romsdal detached and semi-detached housing are more common
- In % of total cover pool loans, Ålesund is the single largest municipality representing 20 % of cover pool lending
- In the cover pool, 3 out of 4 mortgages are secured by detached and semi-detached houses

# Deposits

Growth in deposits the last 12 months

## Retail market

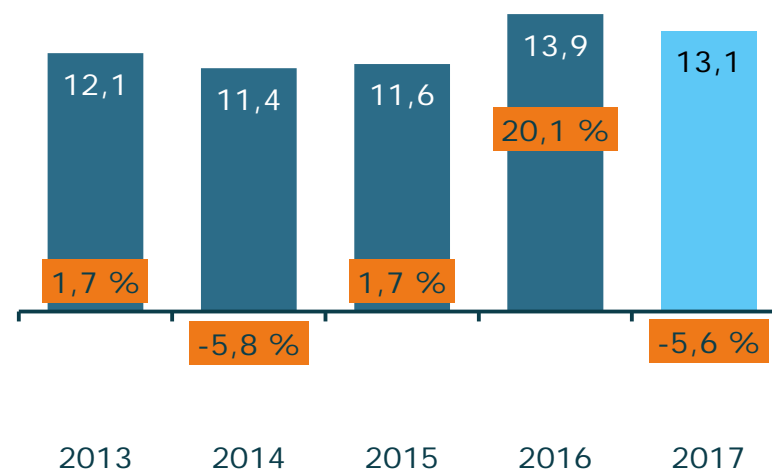
- NOK billion and per cent y/y



- Retail deposits have increased by 5.4 % the last 12 months
- Deposits from the retail market amount to 60.0% of total deposits

## Corporate and public

- NOK billion and per cent y/y



- Deposits from corporate customers have been reduced by 3.2 % the last 12 months and ended at NOK 12.4 billion by quarter end
- Deposits from public customers have decreased and ended at NOK 0.7 billion by quarter end

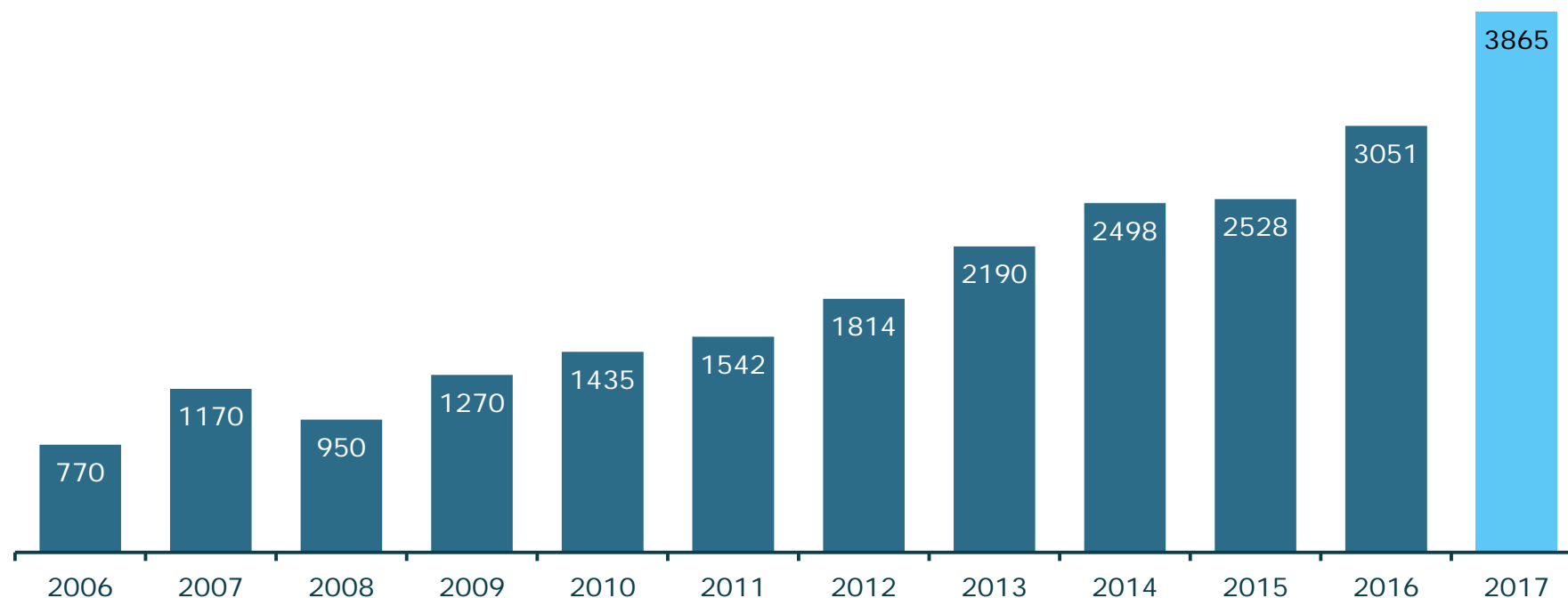


# Discretionary Portfolio Management

*Close to NOK 4 billion under management*



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- In addition to deposits, increasingly more of the Bank's customers also ask for other investments
- Sparebanken Møre Aktiv Forvaltning (Møre Discretionary Portfolio Management) offers the Bank's 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

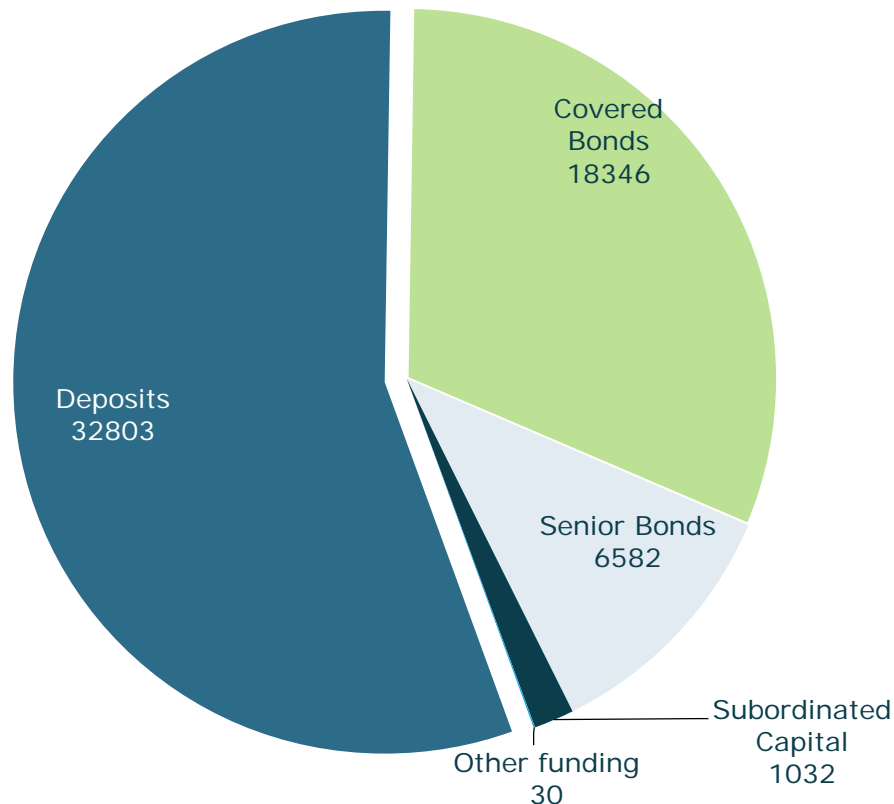
# Deposits from customers and market funding

Deposits are the Group`s most important source of funding, 57.7 % coverage



## Deposits and market funding

- NOK million



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

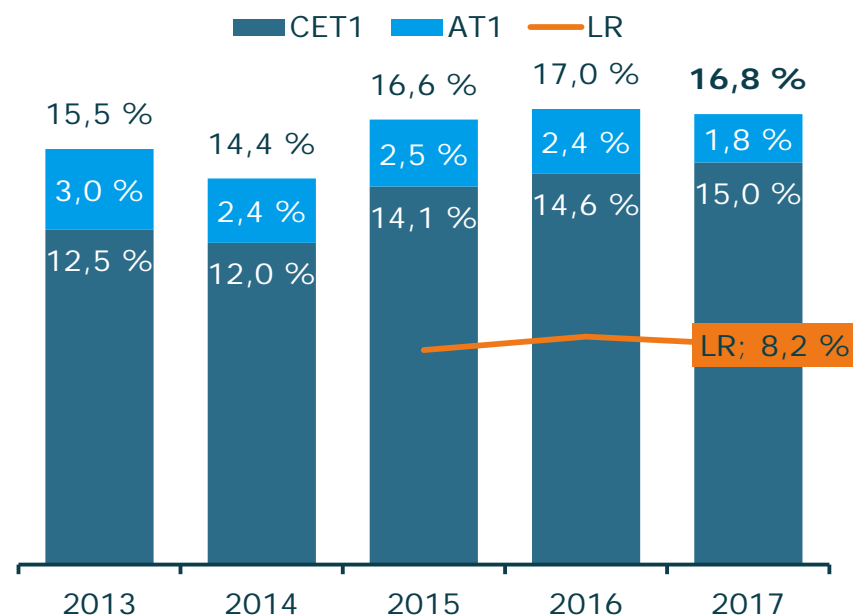
- Total market funding ended close to NOK 26.0 billion by year end – more than 85 per cent with remaining maturity of more than one year
- Senior Bonds: Weighted average maturity of 2.38 years (FSA defined key figures)
- Covered Bonds issued through Møre Boligkreditt AS have a weighted average maturity of 3.48 years (FSA defined key figures)
- By year end 2017 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 2017 Møre Boligkreditt AS successfully issued a Public EUR 250 million Covered Bond in the European market
- In an updated Credit Opinion dated 14 December 2017 Moody`s confirmed Sparebanken Møre`s A2 stable rating. Møre Boligkreditt AS` issues are all rated Aaa

# Equity and related capital

Capital and leverage ratio (LR) well above regulatory requirements

## Core Capital in Sparebanken Møre

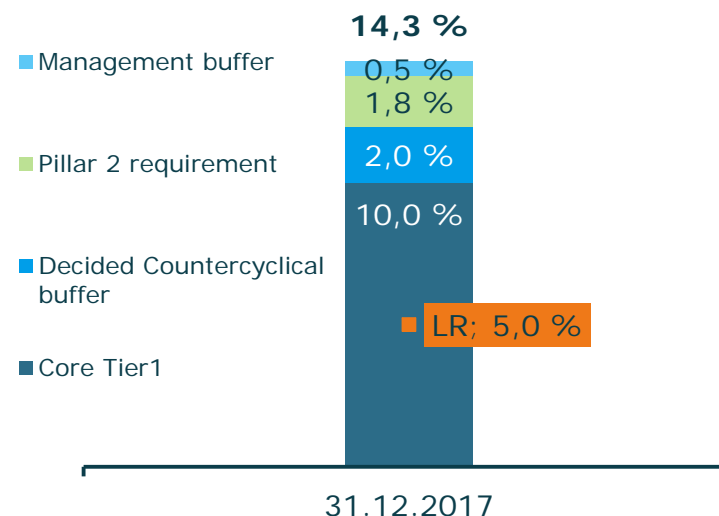
- % of risk weighted assets



- By year end our CET1 stood at 15.0 %, total capital at 18.4 %
- Sparebanken Møre`s capital targets are:
  - Total Capital: Min. 17.8 %
  - Core Capital: Min. 15.8 %
  - CET1: Min. 14.3%

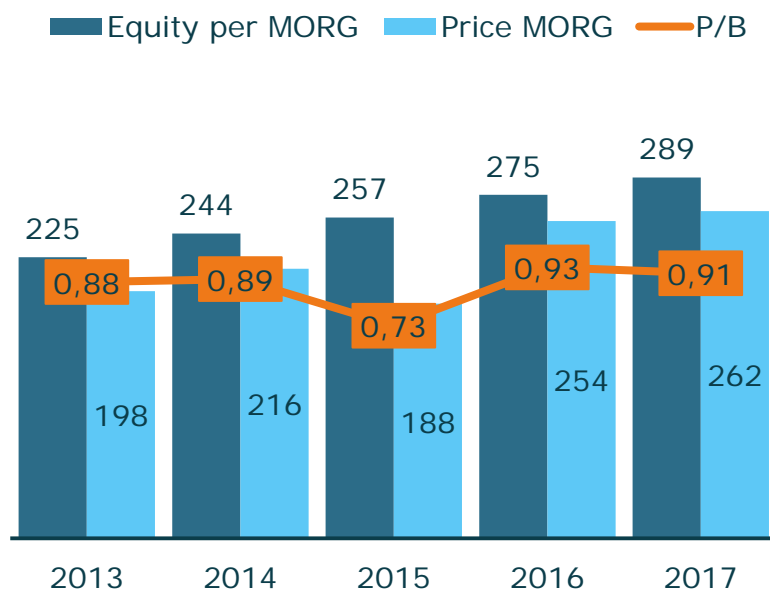
## Minimum requirements

- % of risk weighted assets



- 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



- Equity per MORG is calculated on Group figures

## Dividend Policy

- The aim of Sparebanken Møre is to achieve financial results which provide a good and stable return on the Bank's equity capital. The 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, it will be aimed at distributing about 50% of the profit for the year as dividends
- Sparebanken Møre's allocation of earnings shall ensure that all equity owners are guaranteed equal treatment

# Equity Capital in Sparebanken Møre

## Dividend and EC-price



SPAREBANKEN MØRE

- The PCCs/ECs of Sparebanken Møre have been listed at Oslo Stock Exchange since 1989
- Total EC capital: NOK 989 million by December 2016
- Good return

Dividend pr. EC Sparebanken Møre:			
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	Proposal 14.00
2003	16		
2004	18		





## GOALS IN OUR STRATEGIC PLAN «MØRE 2021»

- CET1 > 14.3 %
- Cost/Income < 45%
- ROE > 10 %
- Low level of losses
- Healthy financial structure

*We achieve our goals.*



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