

# Sparebanken Møre Group

Presentation 3rd quarter 2020

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EVP

22 October 2020



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- Introduction and highlights
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# We belong here – The largest bank in the region, and with 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 region Nordvestlandet.



**27**

branch offices in our region  
Nordvestlandet

**353**

man years

**NOK 80**

billion in total assets

## Q3 2020

- Net Interest Income has strengthened in Q3 compared to Q2, albeit lower than in Q3 2019
- There is good activity in the bank and we are growing both on loans and deposits
- Efficiency has improved and the cost to income ratio ended at 39 per cent for the quarter
- The Bank maintains a strong and improved solidity and strong liquidity



### Balance growth

Lending growth was 2.7 per cent over the last 12 months. Growth in deposits was 8.8 per cent



### Weaker Net Interest Income

Reduction in NOK and in percentage compared to Q3 2019



### Efficiency

Cost/Income ratio at 39.0 per cent in the quarter – unchanged compared with Q3 2019



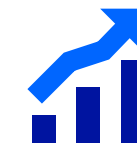
### Losses

NOK 36 million in losses on loans and guarantees in Q3



### Strong liquidity and solidity

Deposit to Loan ratio at 60.2 per cent, LCR at 126 and CET1 at 17.5 per cent. Leverage Ratio at 7.9 per cent



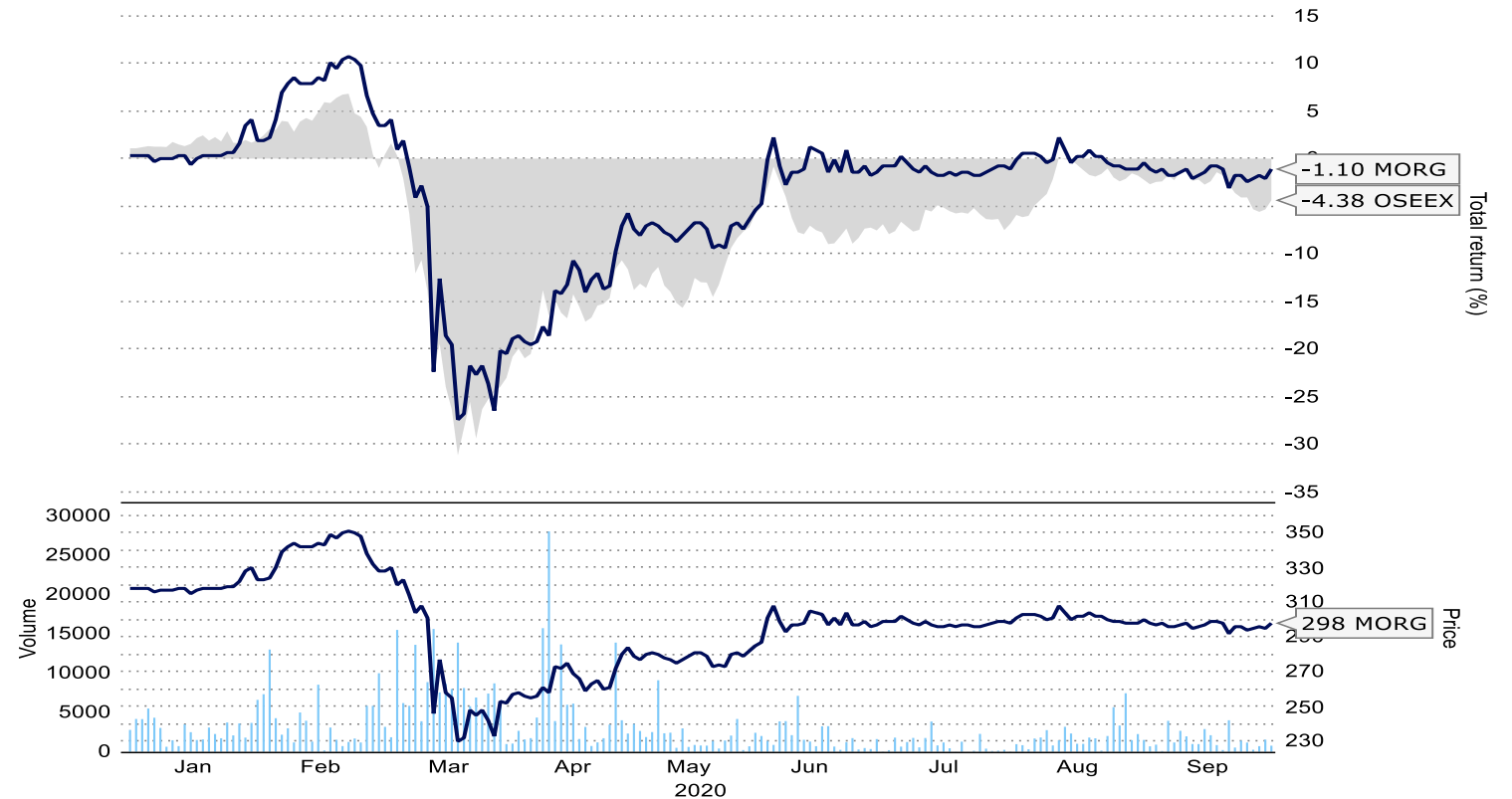
### Return on Equity

Return on Equity ended at 9.4 per cent for the third quarter of 2020

# MORG – price development and rating

- With a MORG price of NOK 298 at the end Q3, the price to book ratio has been reduced to 0.91 from 0.99 as of 31.12.19
- As the figure shows, the MORG price has fallen by 1.1 per cent during the first three quarters of 2020, less than the average decline (4.4 per cent) in the EC-market in the same period
- The CET1-ratio ended at 17.5 per cent by half year end

## Development at Oslo Stock Exchange YTD (MORG vs. EC-index)

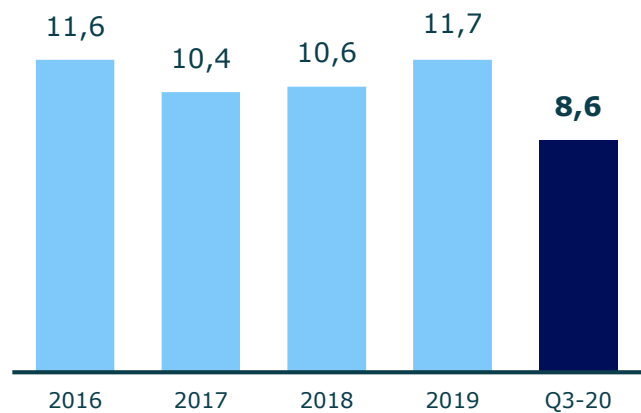


Source: Bloomberg

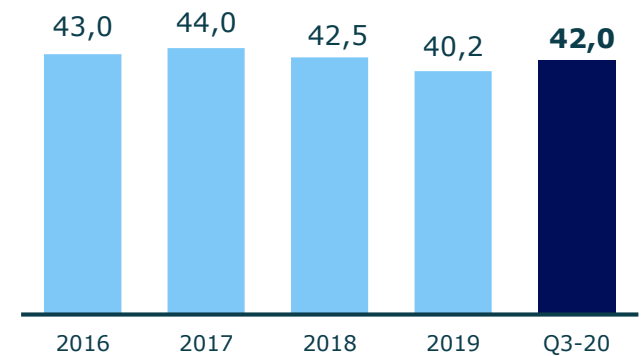
22 May 2020, Moody`s confirmed the bank's A2- stable rating. Issuances from Møre Boligkreditt AS are rated Aaa.

# Key figures

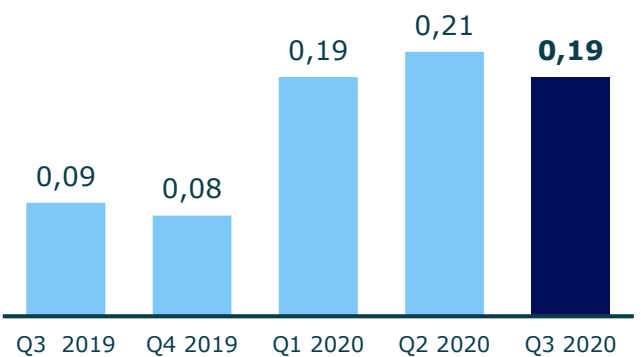
## Return on Equity



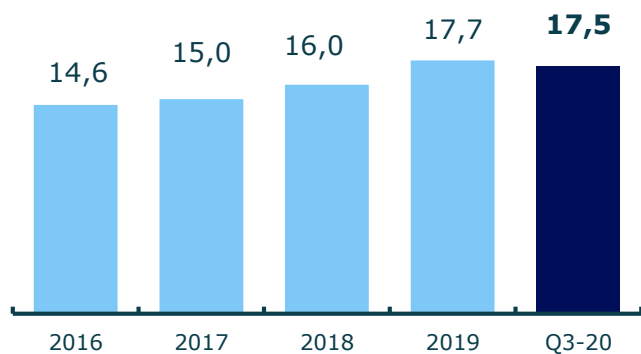
## Cost/Income



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



## Common Equity Tier 1 Capital (CET1)



## Balance sheet and key figures

	30.09.2020	30.09.2019	Changes	
<b>Balance in NOK million</b>	<b>NOK</b>	<b>NOK</b>	<b>NOK</b>	<b>%</b>
Total Assets	80,384	73,144	7,240	9.9
Loans to customers	65,367	63,647	1,720	2.7
Deposits from customers	39,329	36,147	3,182	8.8
Net Equity and Subordinated Loans	6,921	6,593	328	5.0

<b>Key Figures</b>	<b>30.09.2020</b>	<b>30.09.2019</b>	<b>Changes p.p.</b>	
Return on Equity	8.6	11.6	-3.0	
Cost/Income Ratio	42.0	40.1	1.9	
Total Capital (incl. 50% of 1H results)	21.4	19.0	2.4	
Tier 1 Capital	19.3	17.0	1.9	
CET1	17.5	15.4	2.3	
Leverage Ratio	7.9	8.0	-0.1	
Profit per EC (NOK, the Group)	20.00	25.60	-5.60	
Profit per EC (NOK, the Bank)	22.95	25.90	-2.95	

## Outlook for the region and the bank

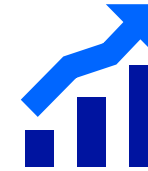
- Key economic figures indicate that production and demand in Møre og Romsdal continued to rise through the third quarter of 2020. From August to September, unemployment in the county fell from 3.7 to 3.1 per cent of the labour force. In comparison, unemployment on a national basis was 3.7 per cent. If there are no new lockdown periods, unemployment may continue to fall further until the end of the year
- However, the economic situation remains serious for several industries. Among other things, this applies to the tourism industry, maritime industry and oil-related industries. A possible further decline in unemployment will therefore probably be slower as the labour market normalizes and the economic second wave effects of the corona pandemic take effect
- The bank has a solid capital base and good liquidity and will continue to be a strong and committed supporter for our customers. The focus is always on having good operations and profitability
- The economic second wave effects of the corona pandemic are expected to impact the market during the fourth quarter. This, combined with a weaker net interest income i.a. as a result of market practices for changes in lending and deposit rates in the spring of 2020, entails that the Bank's financial targets will not be achieved in 2020
- Sparebanken Møre's targets of a return on equity exceeding 11 per cent and a cost income ratio of less than 40 per cent remain unchanged, and the Bank has implemented measures to meet these targets





## Financial targets remain unchanged

- Sparebanken Møre's long-term targets of a Return on Equity exceeding 11 per cent and a Cost to Income ratio less than 40 per cent remain unchanged
- The Bank's financial targets will not be achieved in 2020
- The Bank has implemented measures to meet its financial strategic targets



ROE > 11.0 per cent



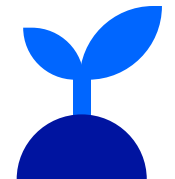
C/I < 40.0  
per cent



Low level  
of losses



CET1 > 13.7  
per cent



Healthy financial  
structure

# Results

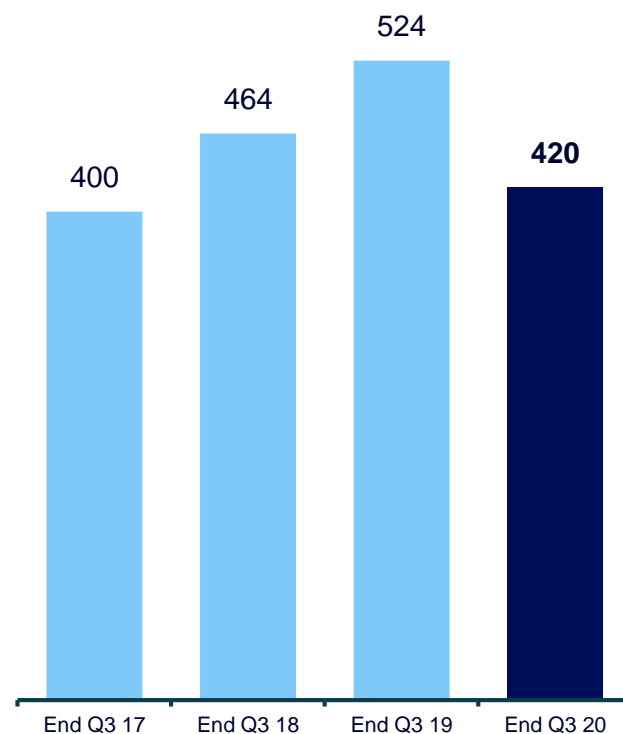
## Results per Q3 2020

Sparebanken Møre's result has continued to improve through the third quarter.

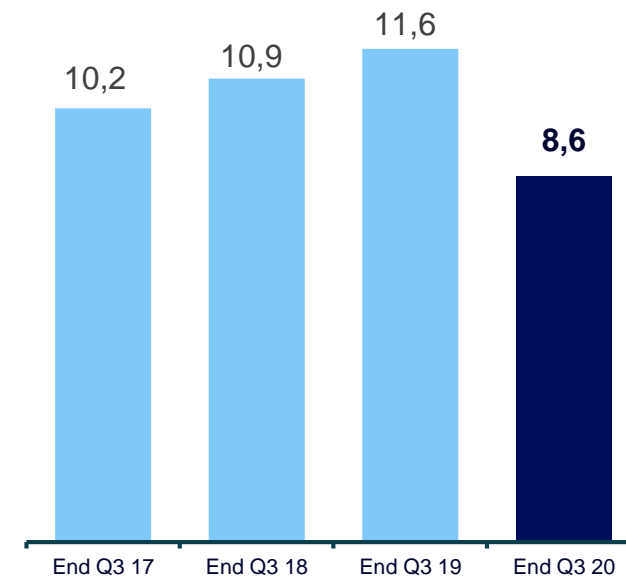
Profitability YTD is rising and was 8.6% as of the 3rd quarter compared to 8.2% at the first half.

The bank's result is nevertheless still influenced by the market turmoil; through a reduction in net interest income, an increase in losses and lower growth. The costs has continued to decline.

### Profit after tax - NOK million



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



## Recovery in progress

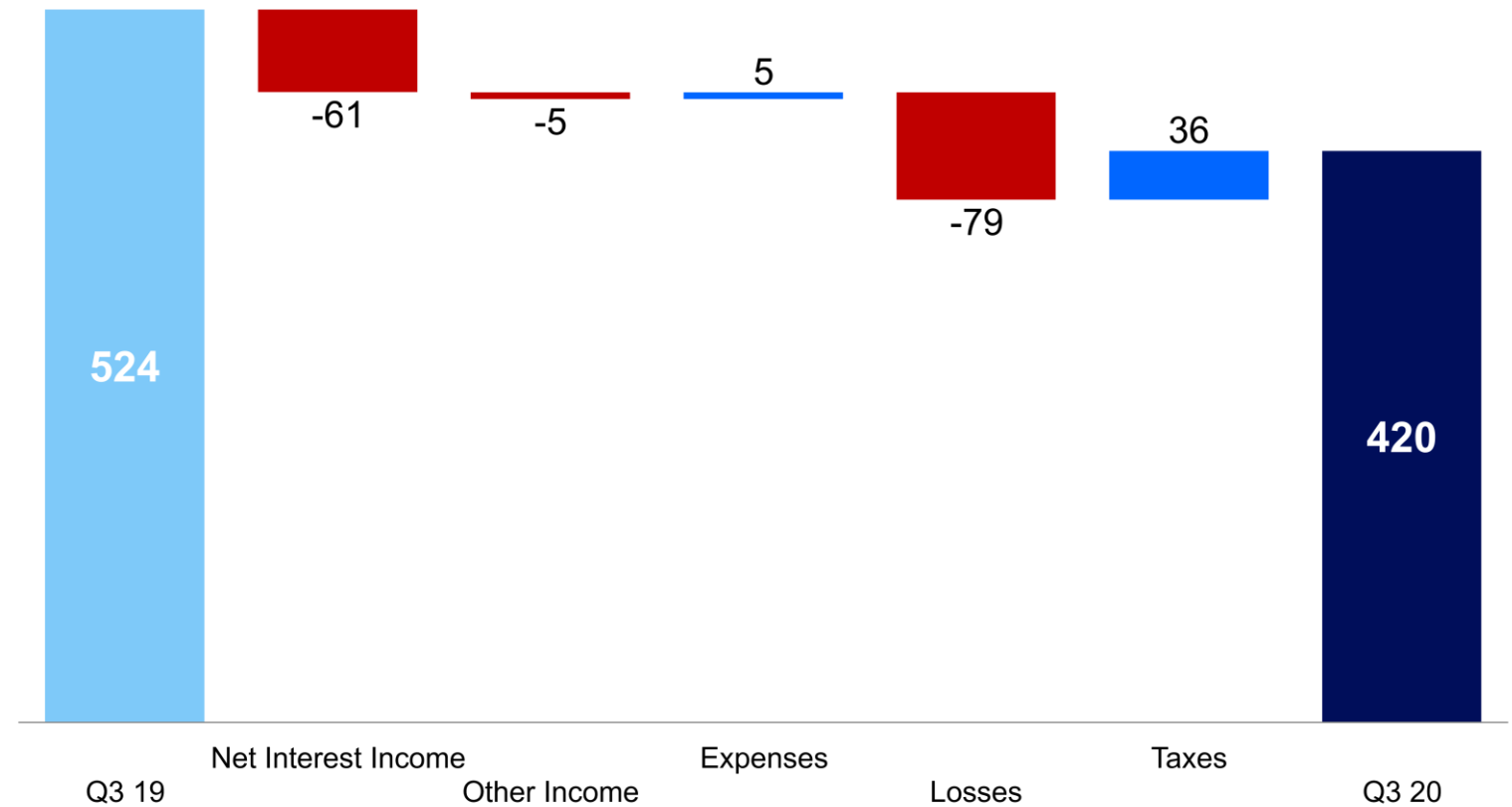
The bank's net interest income is markedly lower than last year.

Other income was sharply up in the second quarter due to changes in the value of the bond- and fixed income portfolios, more normal development in the third quarter.

Costs are NOK 5 million lower than in the first three quarters of 2019.

Losses have increased compared with the same period last year.

## Results by quarter end compared to Q3 2019



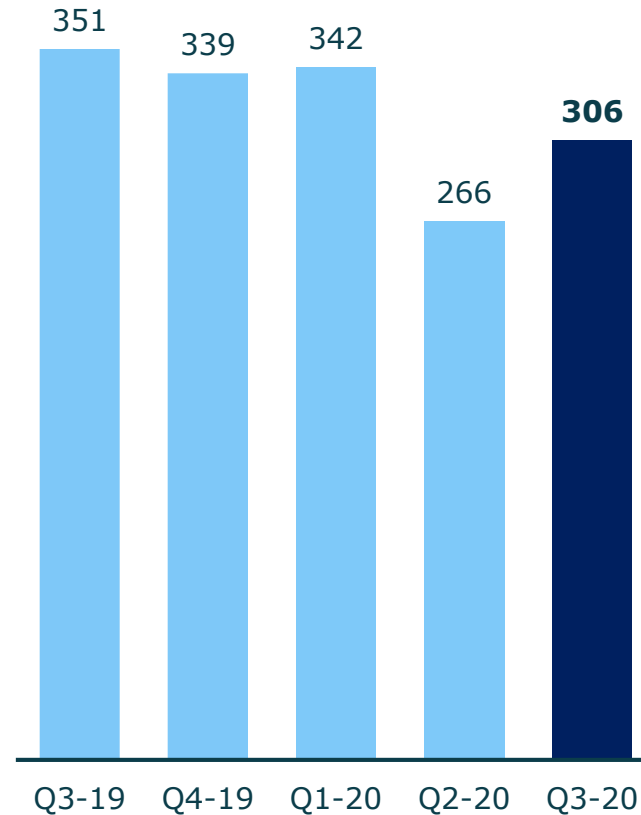
## Results in details

Results (NOK million and %)	Q3 2020		Q3 2019		Changes	
	NOK	%	NOK	%	NOK	p.p.
Net Interest Income	914	1.56	975	1.78	-61	-0.22
Net Income Financial Investments	56	0.09	48	0.09	8	0.00
Gains/losses liquidity portfolio	-6	-0.01	-1	0.00	-5	-0.01
Gains/losses on shares	6	0.01	12	0.02	-6	-0.01
Other Income	157	0.27	159	0.29	-2	-0.02
<b>Total Other Income</b>	<b>213</b>	<b>0.36</b>	<b>218</b>	<b>0.40</b>	<b>-5</b>	<b>-0.04</b>
<b>Total Income</b>	<b>1.127</b>	<b>1.92</b>	<b>1.193</b>	<b>2.18</b>	<b>-66</b>	<b>-0.26</b>
Personnel costs	251	0.42	263	0.48	-12	-0.06
Other costs	222	0.38	215	0.39	7	-0.01
<b>Total operating costs</b>	<b>473</b>	<b>0.80</b>	<b>478</b>	<b>0.87</b>	<b>-5</b>	<b>-0.07</b>
Profit before losses	654	1.12	715	1.31	-61	-0.19
Losses on loans, guarantees etc	114	0.19	35	0.06	79	0.13
<b>Pre tax profit</b>	<b>540</b>	<b>0.93</b>	<b>680</b>	<b>1.25</b>	<b>-140</b>	<b>-0.32</b>
Taxes	120	0.20	156	0.29	-36	-0.09
<b>Profit after tax</b>	<b>420</b>	<b>0.73</b>	<b>524</b>	<b>0.96</b>	<b>-104</b>	<b>-0.23</b>

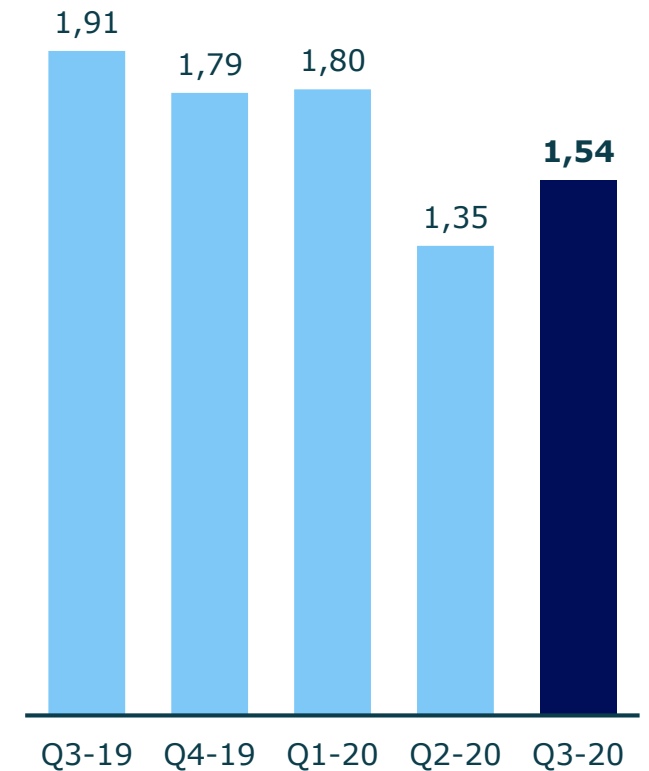
# Net Interest Income rebounds

- The Net Interest Income has strengthened compared with the second quarter
- Although Net Interest Income has increased, the figure is influenced by the over all low interest rate level
  - ✓ High deposit to loan ratio
  - ✓ High Leverage ratio
  - ✓ Competition
  - ✓ Growth
  - ✓ Strong liquidity
- The focus is constantly on profitable growth and we expect continued improvement in net interest income in Q4

**Net Interest Income**  
- NOK million



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

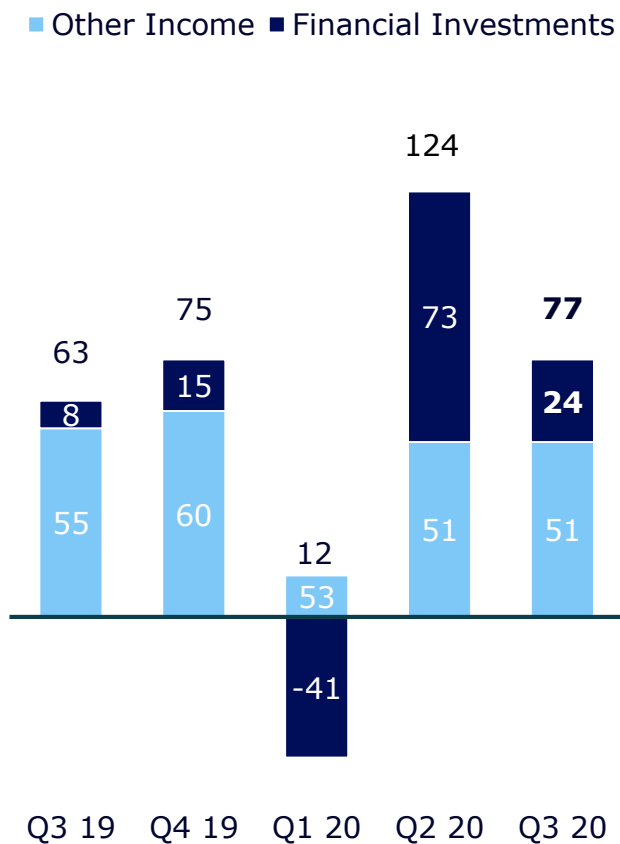


# Quarterly development in Other Income

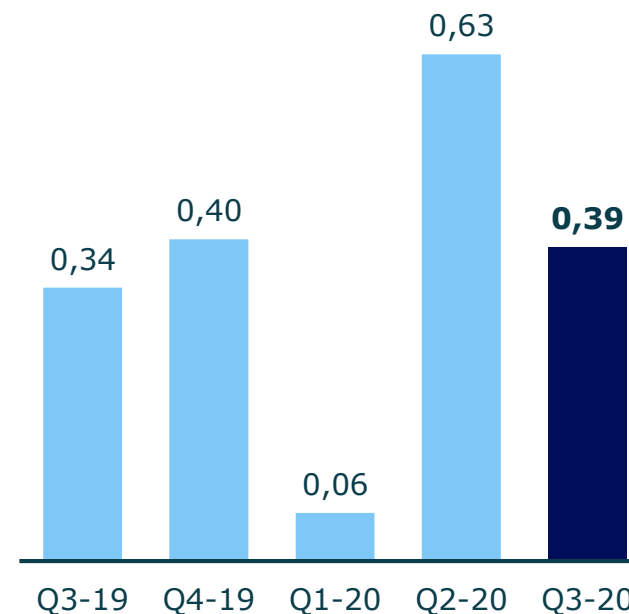
Other Income is more “normalized” in Q3 compared with Q1 and Q2

- Positive development in income from the Markets and Guarantee areas
- Lower income from payment services

**Other Income**  
- NOK million



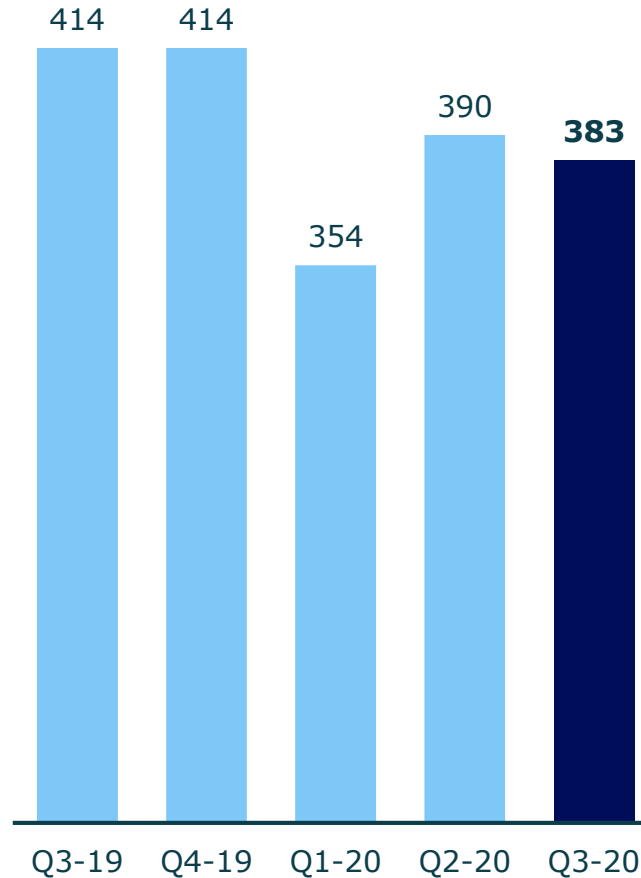
**Other Income**  
- % of Average Assets



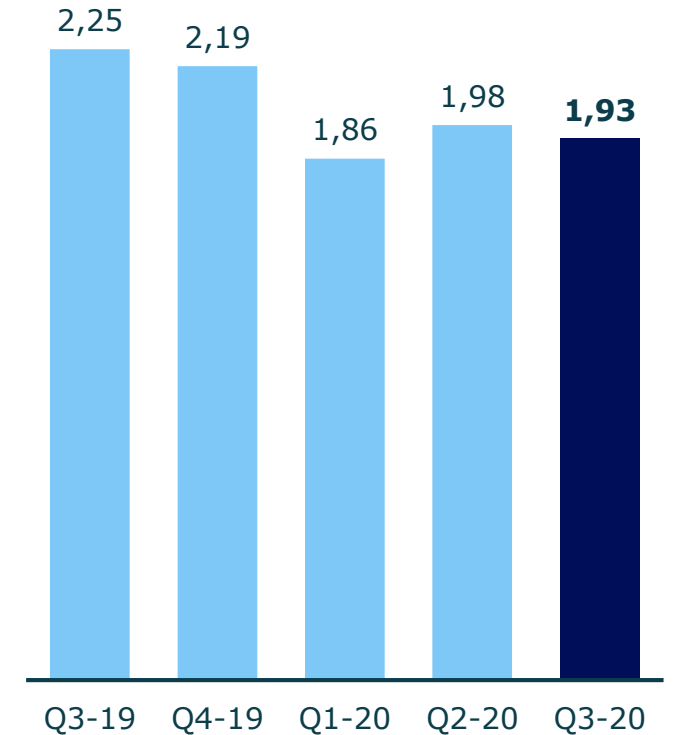
# Total Income

- Total revenues were NOK 383 million in the third quarter
- Net interest income has risen throughout the quarter
- Other income higher than the same period last year
- There has been good activity in the bank throughout the quarter and we have good demand from existing and new customers

**Total income**  
- NOK million



**Total income**  
- % Average Assets





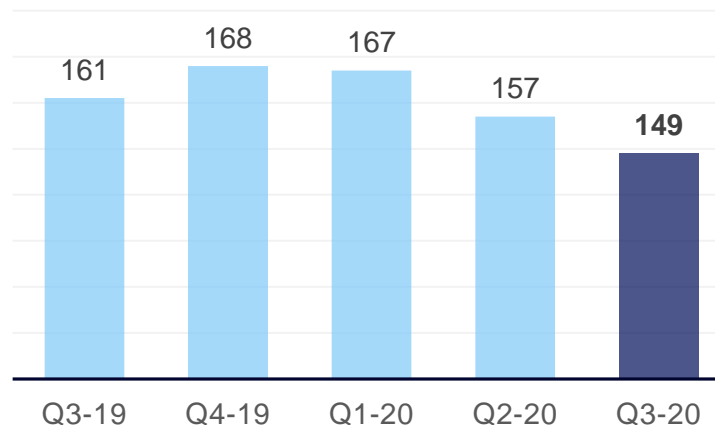
# Costs

The costs continue to decline.

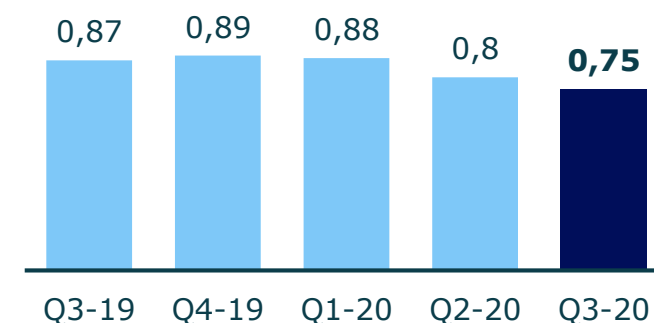
Total costs in the quarter was lower than in the same quarter last year and lower than in previous quarters this year.

We have expectations of a cost reduction of 2.5 percent in 2020 compared with last year.

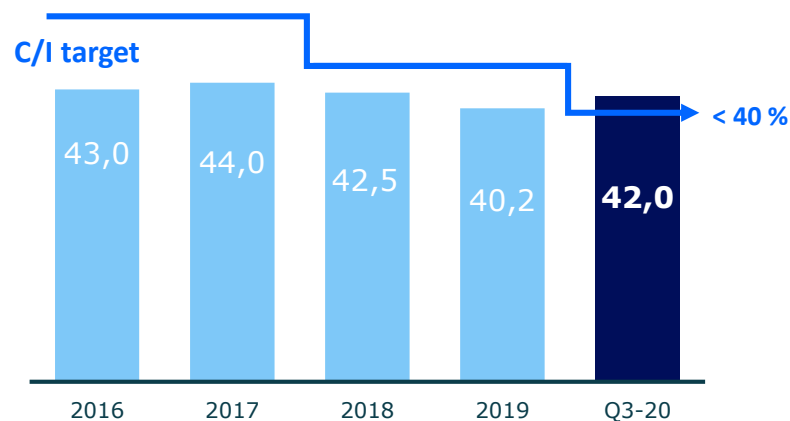
**Operating Costs**  
- NOK million



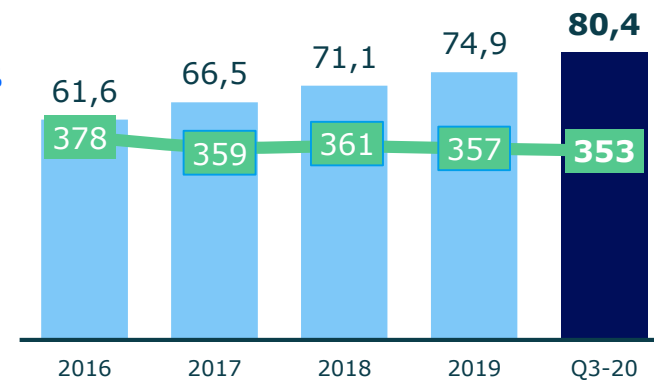
**Operating Costs**  
- % of Average Assets



**Cost/Income ratio**



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



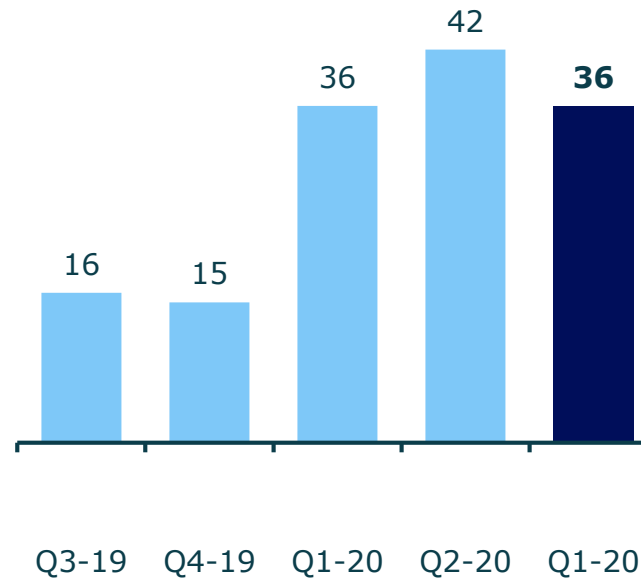
# Losses

Total impairments increased from NOK 375 million at the end of 2019 to NOK 481 million at the end of the quarter.

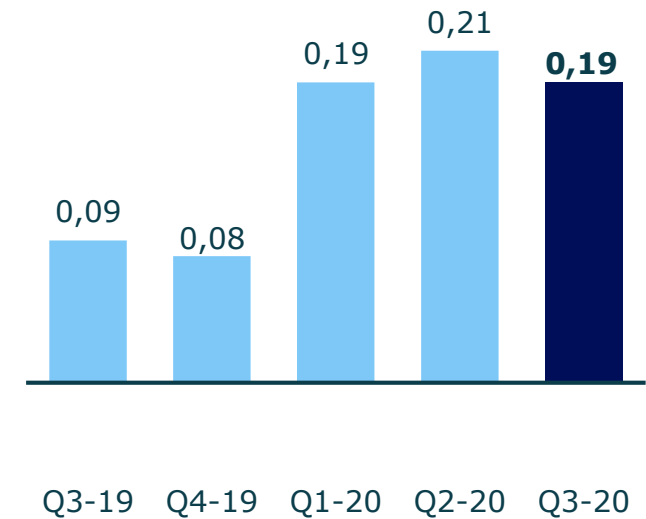
Predicting the consequences of the corona situation is challenging, but we have a solid portfolio and closely follow our commitments.

In spite of the macroeconomic conditions improving and low level of problem loans, the Covid-19 situation and the consequences of the fall in oil prices still reigns. Changes in these conditions could impact the Group`s losses.

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



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

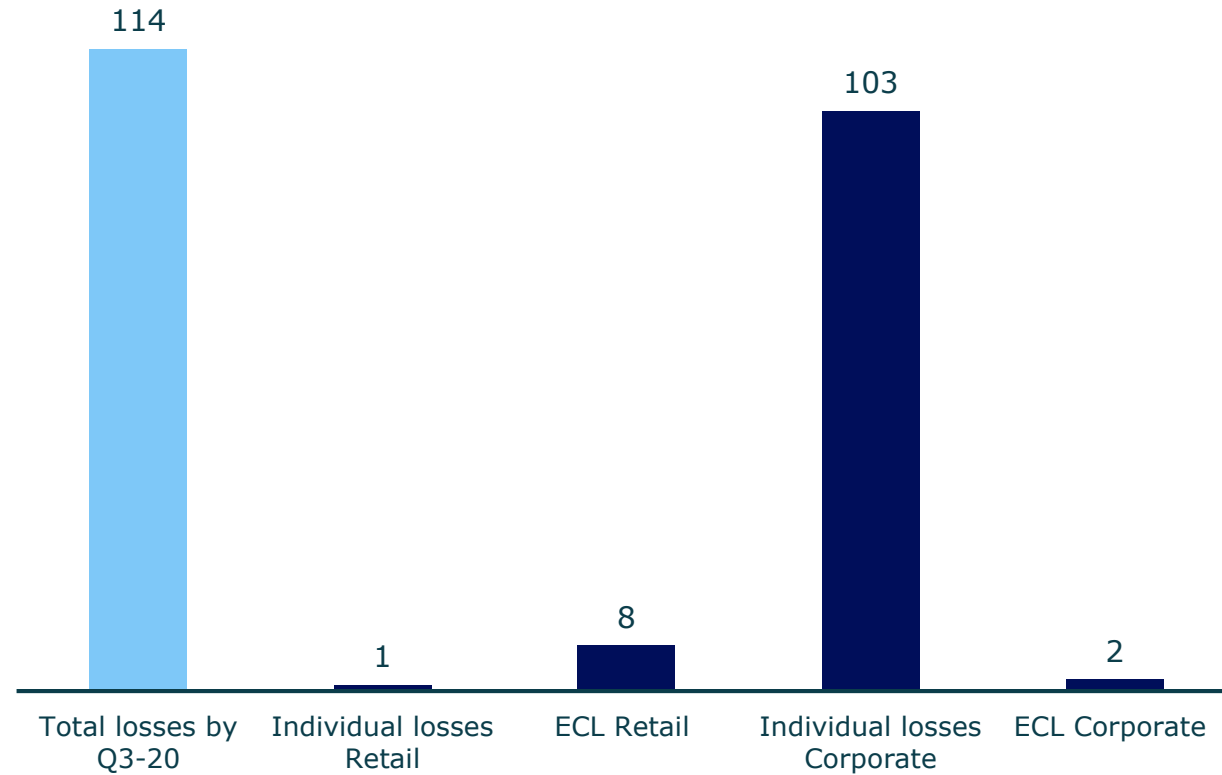


## Losses by sector

- The expected credit loss (ECL) model is compliant with IFRS 9 and is used to calculate losses
- Total provision for expected credit losses by quarter end is NOK 106 million higher than by 31.12.2019
- Model calculated ECL has increased by NOK 10 million and individually assessed impairments have increased by NOK 96 million
- Sundry losses (recoveries, realized losses) amount to NOK 8 million

## Losses on loans and guarantees

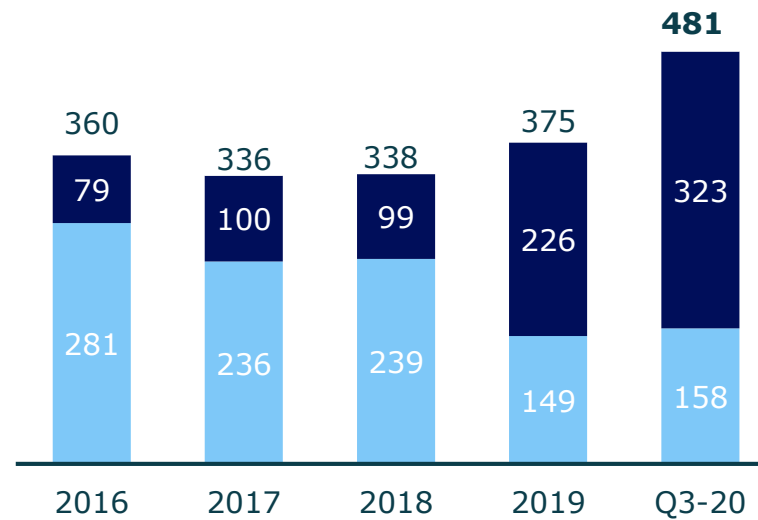
- NOK million



# Impairments at comfortable levels

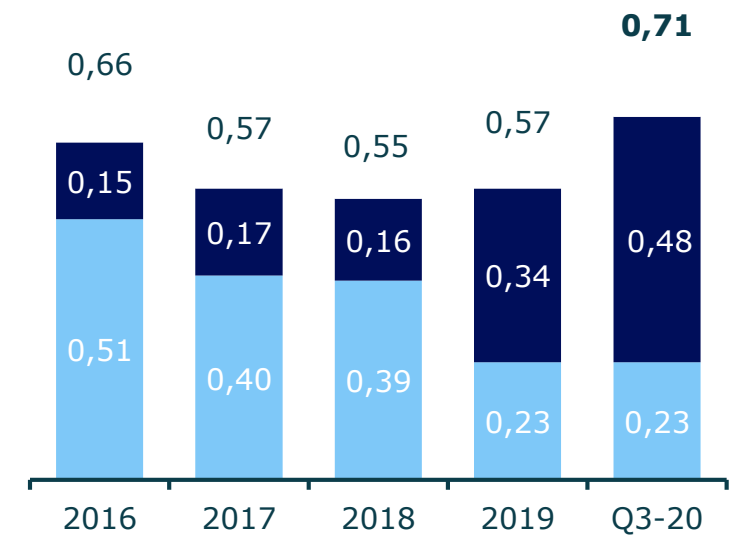
**Impairments**  
- NOK million

■ ECL/Group of loans  
■ Individually assessed impairments

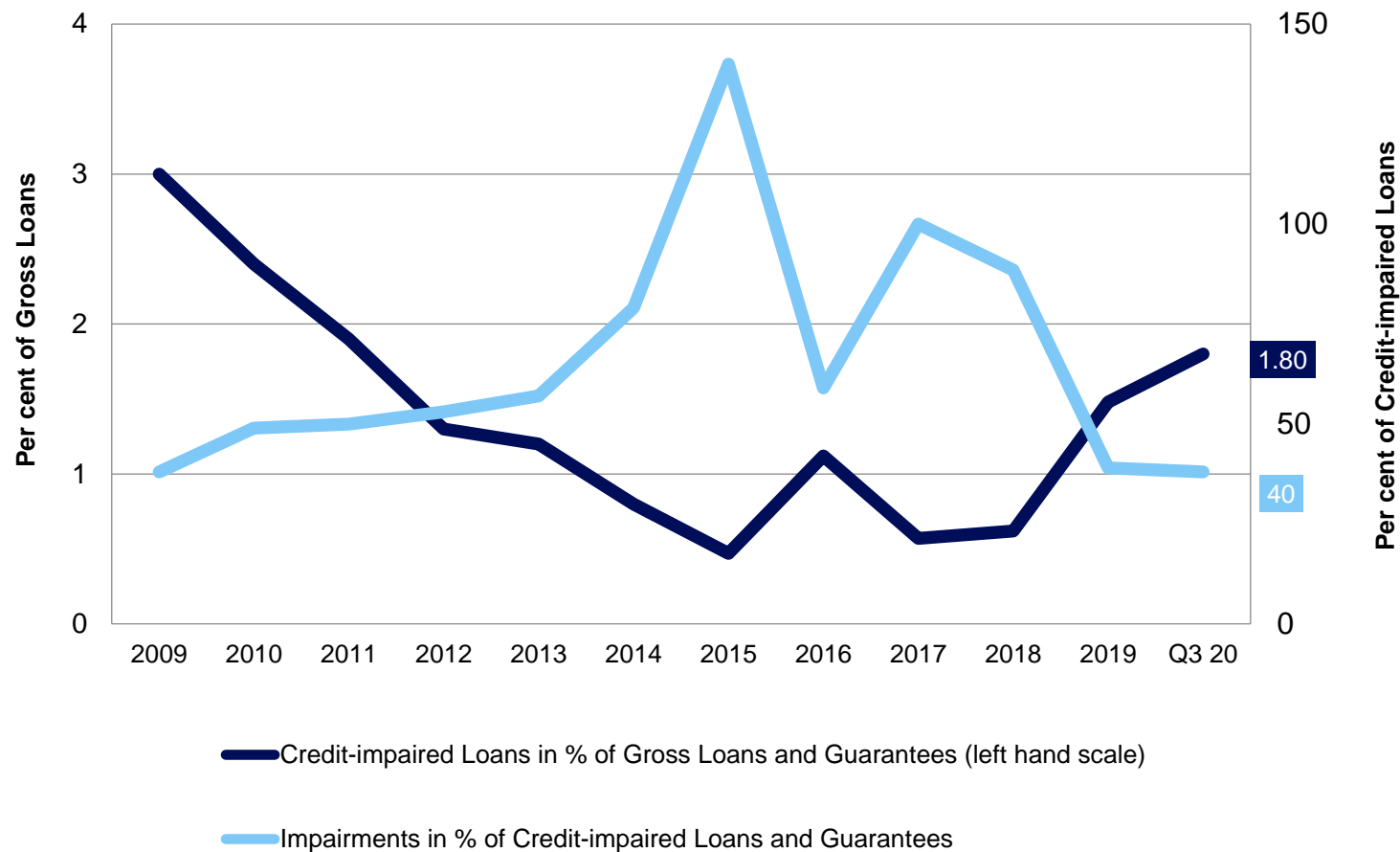


**Impairments**  
-% of Gross Loans and guarantees

■ ECL Group of loans  
■ Individually assessed impairments



# Credit-impaired loans



Credit-impaired Loans are loans and guarantees more than 90 days over due and performing loans with individually assessed impairments.

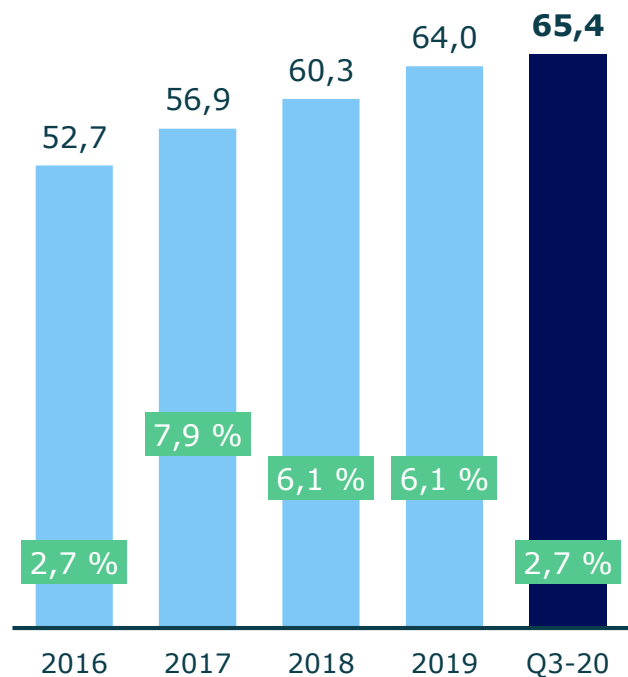
# Balance sheet

## Continued growth

- The bank experienced lower loan growth during Q3 whereas the growth rate for deposits from customers maintains high and rising
- The bank maintains a stable and high deposit to loan ratio
- The bank expects the growth rate for lending at the turn of the year to be higher than at the end of the third quarter
- Deposit growth is expected to remain high

### Loans

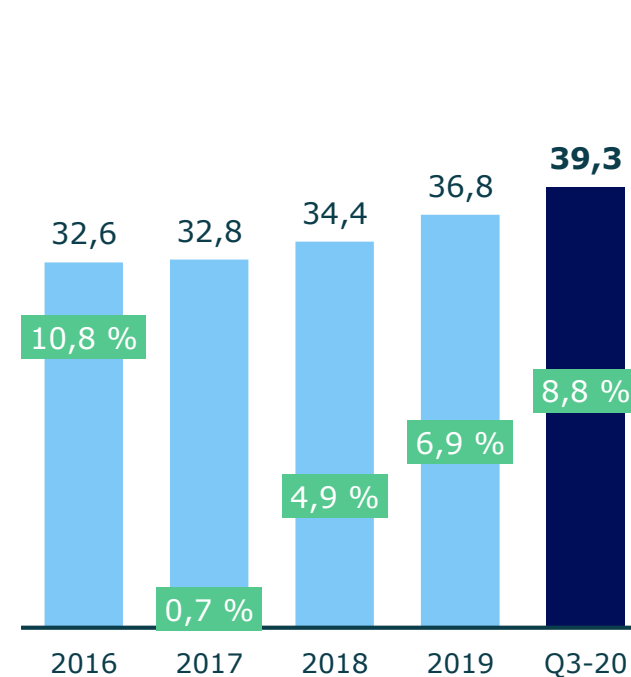
- NOK billion and per cent (y/y)



Customer lending has increased by 2.7 % over the last 12 months.

### Deposits

- NOK billion and per cent (y/y)



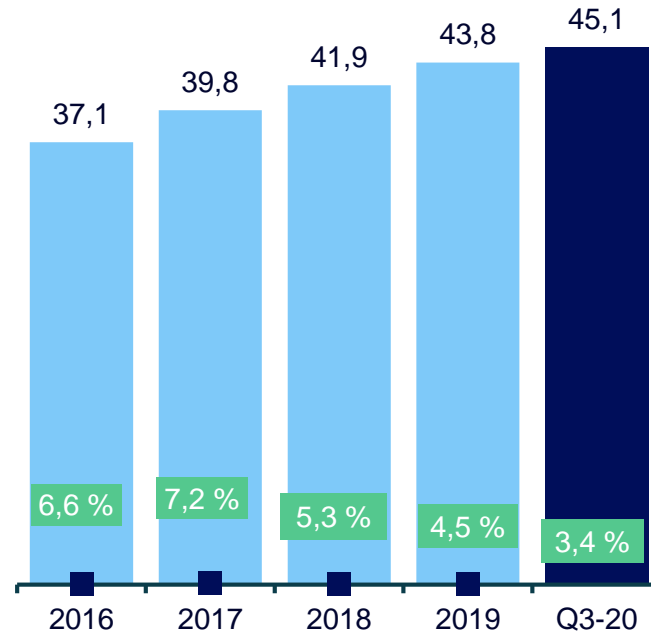
Deposit growth of 8.8 % over the last 12 months.

High deposit-to-loan ratio of 60.2 %

# Lending

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

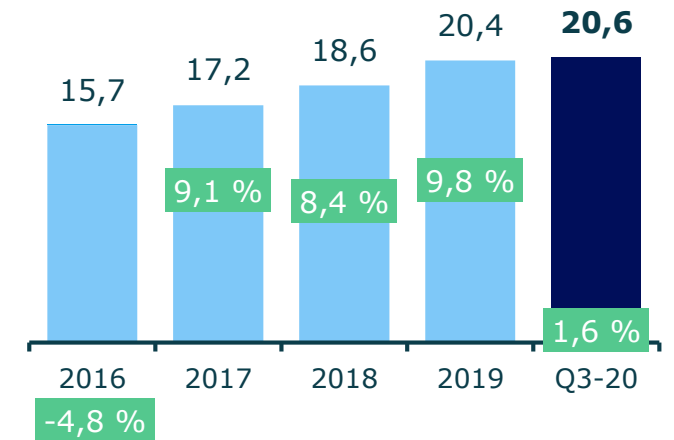
**Retail market**  
- NOK billion and per cent y/y



Retail lending has increased by 3.4 % over the last 12 months

Loans to the retail market amount to 68.7 % of total loans

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



Corporate lending has increased by 1.6 % over the last 12 months

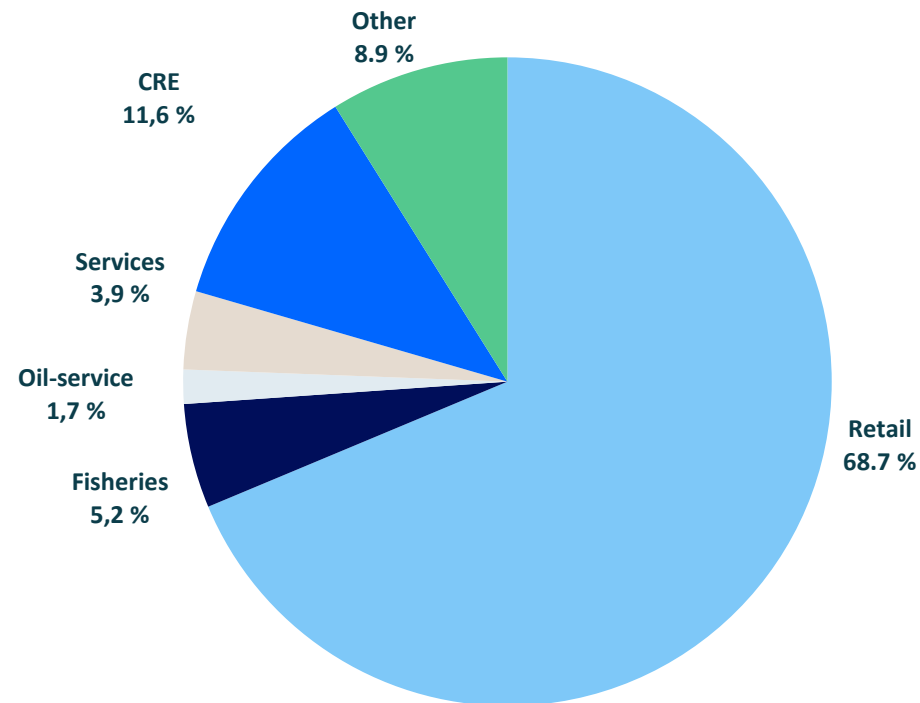
Loans to the corporate market amount to 31.3 % of total loans



## Diversified loan book

- The bank is diversified with high credit quality in the portfolio
- We are close to our customers and enter into early dialogue
- The influx of customers with liquidity problems and the need for assistance has gradually diminished and bankruptcy figures remain low

## Loans by sector



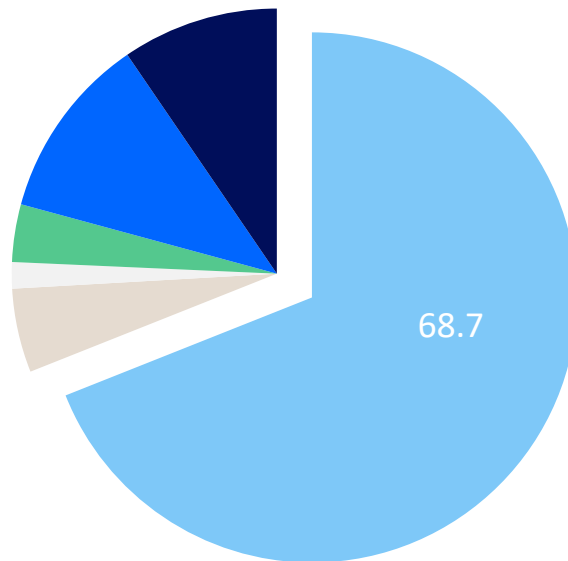
### Other;

Financial services	1.4 %	Ship Yards	0.4 %
Other Industry	2.4 %	Agriculture	0.9 %
Building and Construction	1.5 %	Other	0.1 %
Retail/wholesale trade	1.0 %		
Fishing Industry	1.2 %		

## Good quality in our retail portfolio

- High portion of secured loans and low level of loans in default
- We are close to the customers and enter into dialogue early

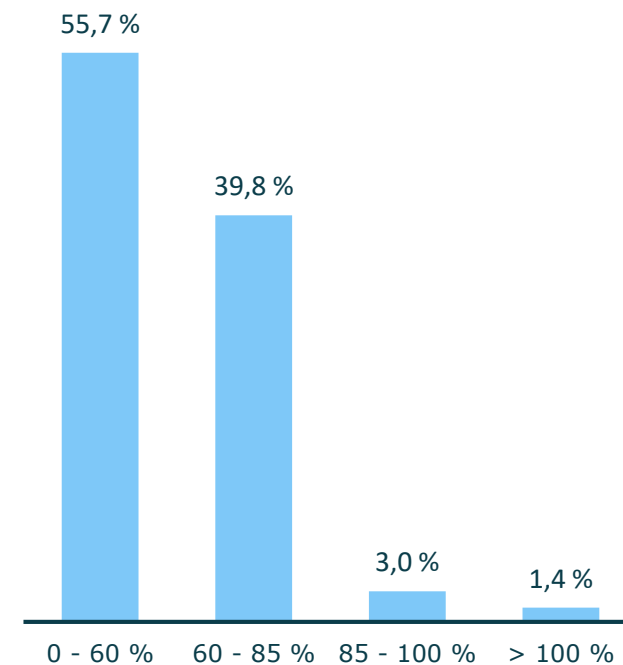
### Loans to retail customers - % of total loans



The Bank complies with the lending regulations (Boliglånsforskriften)

Deviation from Boliglånsforskriften reported in the third quarter of 2020 were 15.1 % outside Oslo, and 18.6 % in Oslo

### Loan to Value – retail loans



95.5 % of mortgages are within 85 % of LTV

# Housing prices

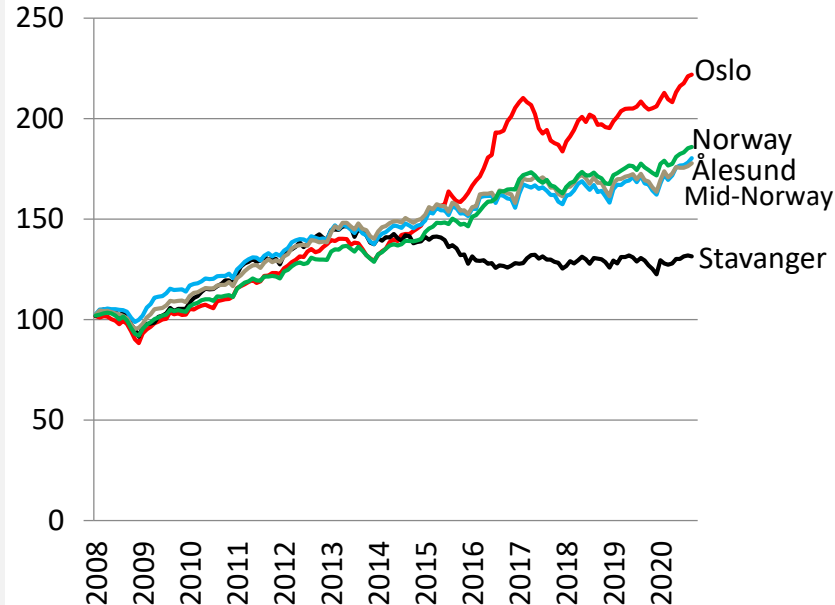
Based on pre-owned dwellings sold, Norwegian seasonal adjusted house prices increased by 1.3 per cent in September 2020.

Last twelve months Norwegian house prices have increased in average by 5.8 per cent.

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

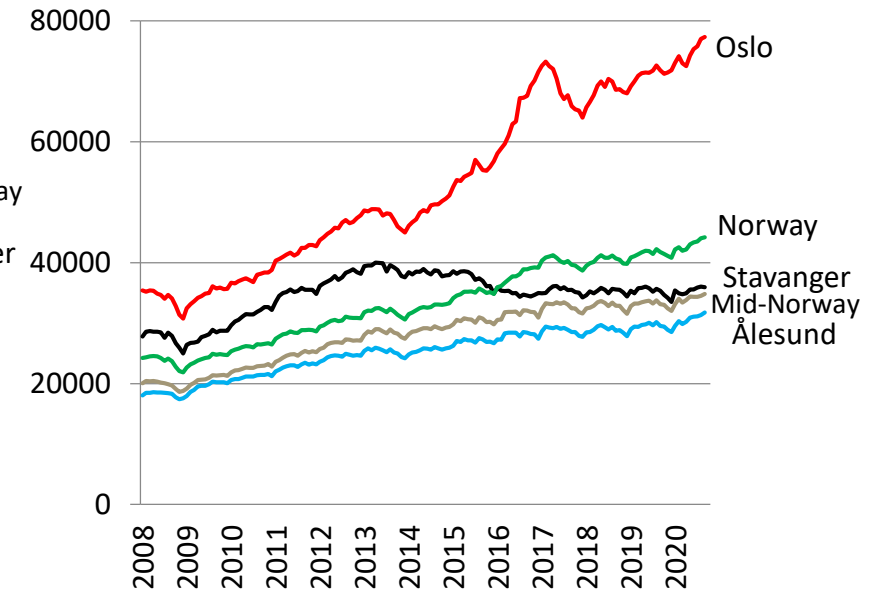
## Indexed development

- January 2008 = 100



## Price per square meter

- January 2008 – September 2020



### Key information

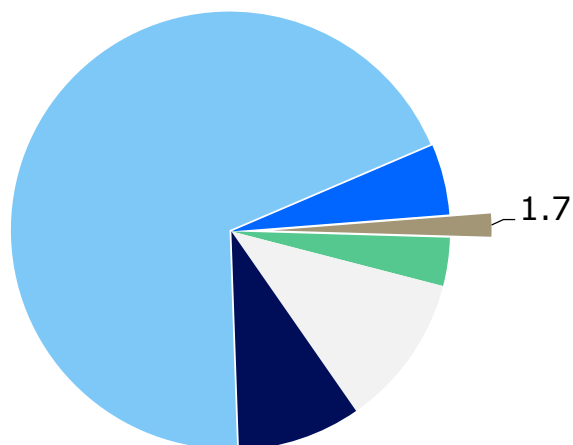
(Sold pre-owned dwellings in September 2020)

	Norway	Mid-Norway	Greater Ålesund	Greater Stavanger	City of Oslo
Seasonal adj. development month	+1.3 %	+2.0 %	+2.7 %	+0.3 %	+1.5 %
Development 12 months	+5.8 %	+5.0 %	+7.5 %	+1.7 %	+7.7 %
Per square meter (NOK)	44,200	34,798	31,742	35,922	77,295
Average days on market	48 days	65 days	54 days	70 days	23 days
Price median dwelling (NOK)	3,550,000	2,810,000	2,800,000	3,229,099	4,410,000

# Low exposure towards Oil Service

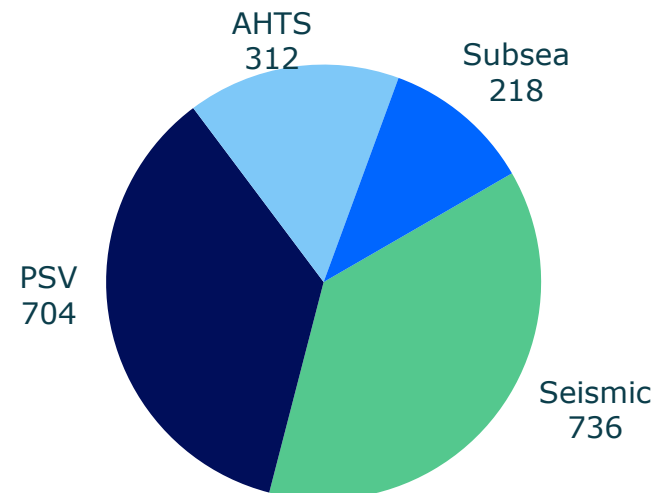
## Loans to Oil Service

- In per cent of total loans



## EAD\* by types of vessels

- In NOK million



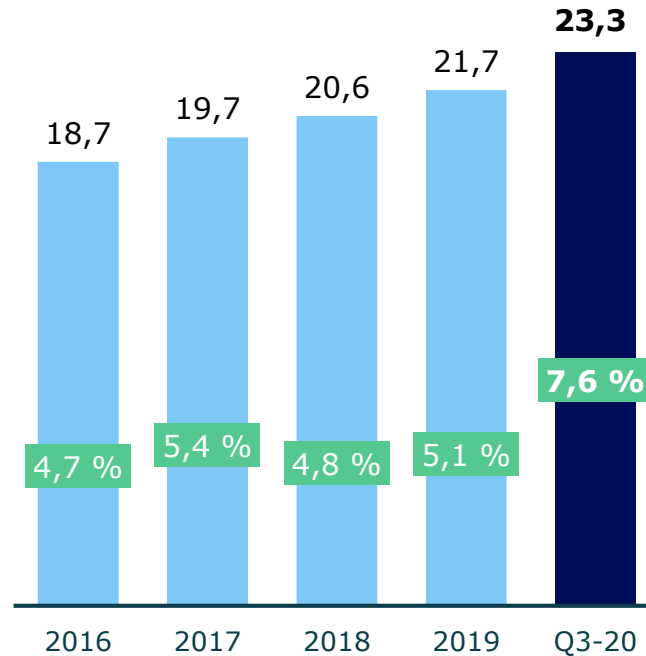
(EAD in NOK million)	Loans	Guarantees	Total EAD*	Expected Credit Losses			Per cent of EAD
				Individually assessed impairments	ECL-IFRS 9	Total	
Low Risk (Risk Class A-C)	218	106	324	0	5,3	5,3	1.6 %
Medium Risk (Risk Class D-G)	187	69	255	0	1,6	1,6	0.6 %
High Risk (Risk Class H-M)	151	204	354	0	19,6	19,6	5.5 %
Loans and guarantees with individually assessed impairments	562	475	1037	291	-	291,0	28.1 %
<b>Total</b>	<b>1,117</b>	<b>853</b>	<b>1,971</b>	<b>291</b>	<b>26,4</b>	<b>317,4</b>	<b>16.1 %</b>

\* Sparebanken Møre's total EAD ended at MNOK 72,463 at the end of third quarter

# Deposits

## Retail market

- NOK billion and per cent y/y

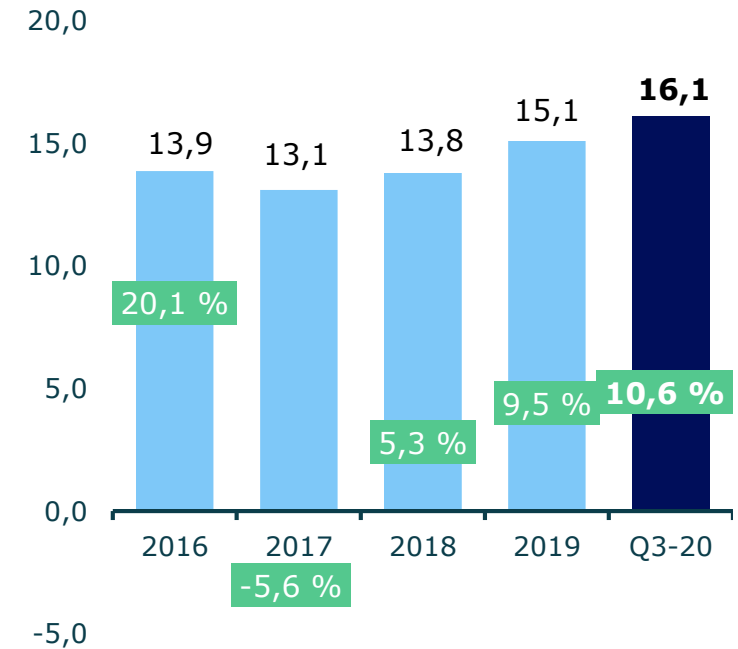


Retail deposits have increased by 7.6 % over the last 12 months

Deposits from the retail market amount to 59.2 % of total deposits

## Corporate and public

- NOK billion and per cent y/y

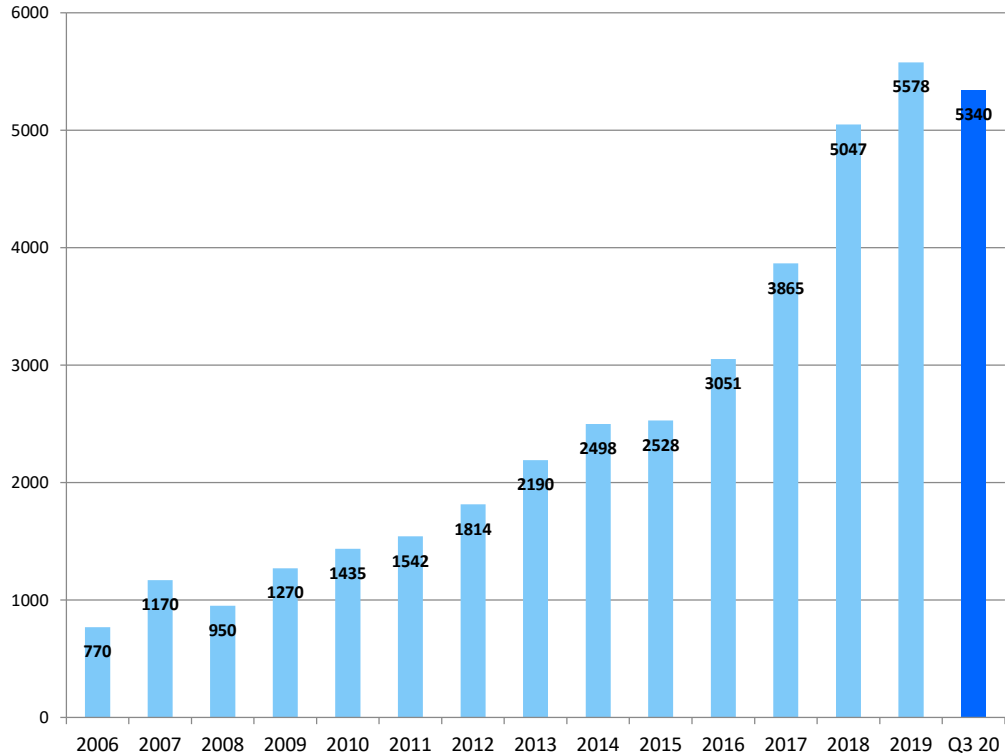


Deposits from corporate and public customers have increased by 10.6 % the last 12 months

# Discretionary Portfolio Management

## Sparebanken Møre - Aktiv Forvaltning

- Portfolio in NOK million



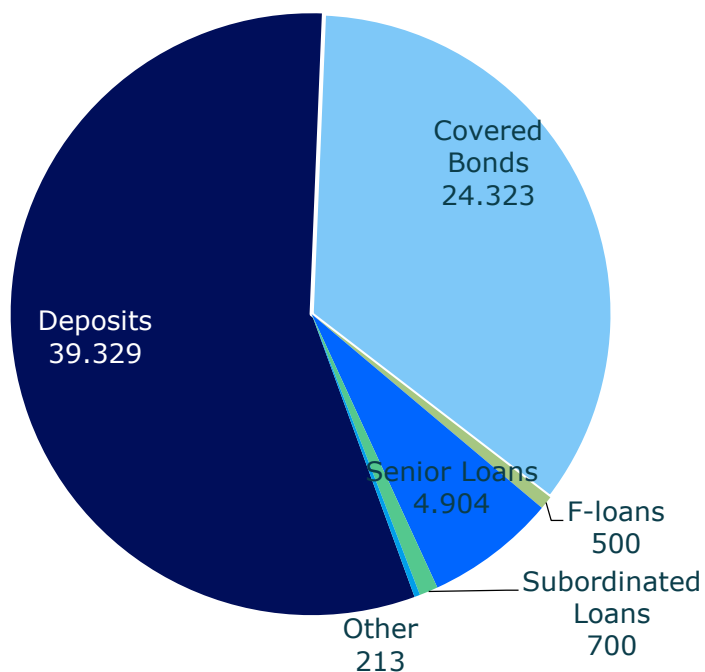
- In addition to deposits, increasingly more of Sparebanken Møre's customers also ask for other investments
- Despite market turmoil, the number of new customers has grown very well
- Sparebanken Møre Aktiv Forvaltning (Discretionary Portfolio Management) offers the Bank's clients professional management services
- Local Asset Managers continuously monitor our customers portfolios:
  - 5 municipalities
  - 10 foundations
  - 1 pension fund
  - 2 insurance companies
  - 190 investment companies
  - 244 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

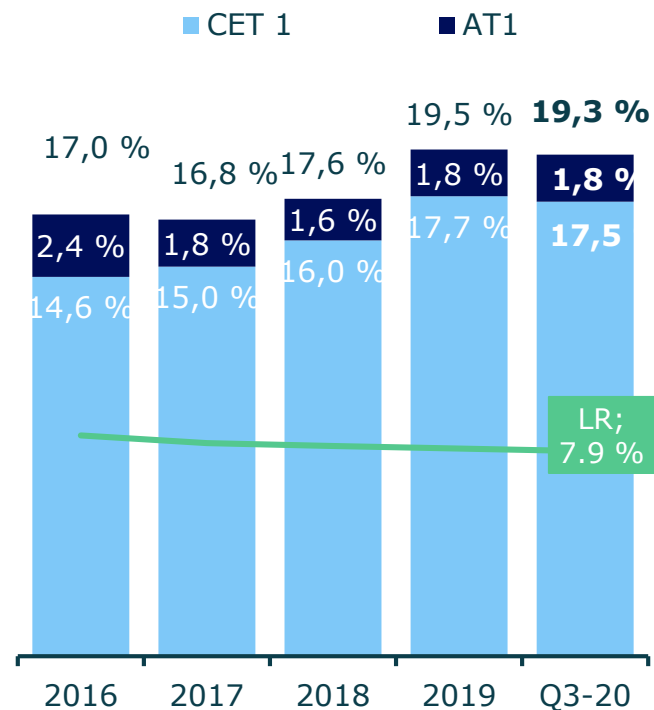
- Our deposit-to-loan ratio stood at 60.2 per cent by quarter end
- Total net market funding ended at NOK 30.4 billion by end of the quarter – more than 90 per cent with remaining maturity of more than one year
- Senior Bonds: Weighted average maturity of 2.33 years (FSA defined key figures)
- Covered Bonds issued through Møre Boligkreditt AS have a weighted average maturity of 3.56 years (FSA defined key figures)
- By quarter end Møre Boligkreditt AS had issued seven loans qualifying for Level 2A liquidity in LCR. October 2019, the mortgage company placed its third successful semi-benchmark Public Issue of EUR 250 million in the European market
- Sparebanken Møre has utilized Norges Bank's F-loan scheme with two loans totaling NOK 1,000 million, NOK 500 million with a 6-month and NOK 500 million with a 12-month maturity. The first loan matured in September. The liquidity from the loans has been used to strengthen the bank's LCR liquidity portfolio
- May 22 2020, Moody's confirmed the bank's A2- stable rating. Issuances from Møre Boligkreditt AS are rated Aaa



# Equity and related capital

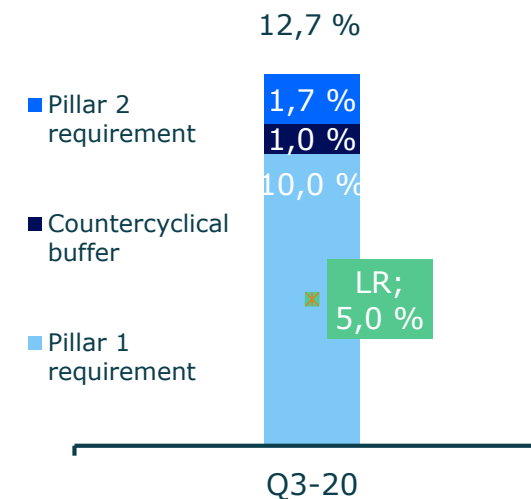
- We work continuously to maintain and strengthen Sparebanken Møre's good capital position
- CET1 and Leverage Ratio (LR) ends by quarter end well above current regulatory requirements
- The uncertain situation will persist, but the bank is equipped to withstand increasing defaults and losses and at the same time have the capacity for lending growth

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



- By quarter end our Common Equity Tier 1 capital stood at 17.5 %, Tier 1 capital at 19.3 % and Total Capital at 21.4 % incl 50% of the Q3 results
- Sparebanken Møre's capital targets are:
  - Total Capital: Minimum 17.2 %
  - Tier 1 capital: Minimum 15.2 %
  - CET1: Minimum 13.7 %

## CET1 requirement for Sparebanken Møre - % of risk weighted assets and excl. Management Buffer

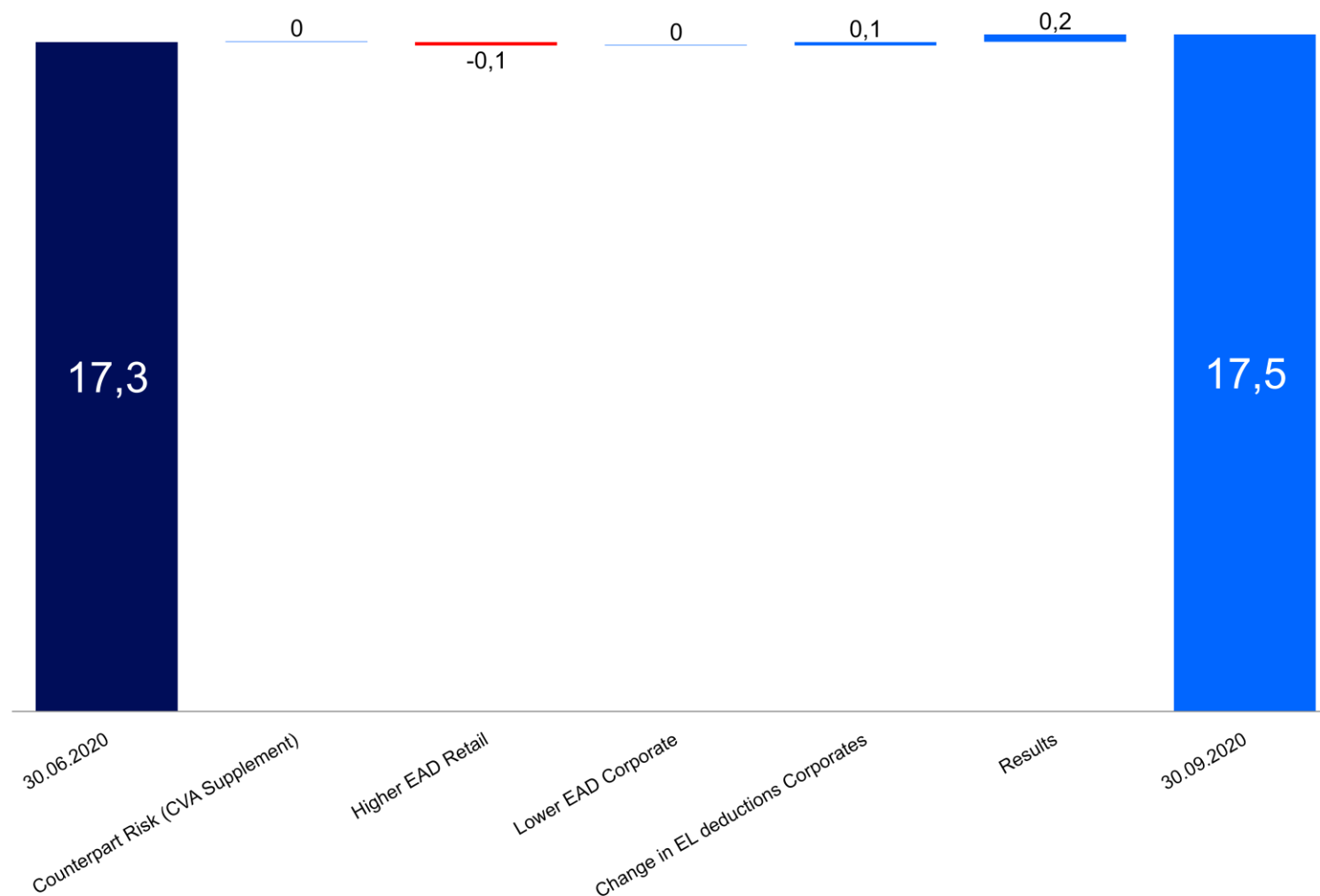


- The Group's capital adequacy ratio is well above the regulatory capital requirements
- Our capital is calculated according to the IRB Foundation Approach for corporate commitments, IRB Approach for the retail market and the Standardised Approach for other B/S items

## Development in CET1

- CET1 capital was strengthened during the quarter
- The uncertainty surrounding the covid-19 situation and the consequences of the fall in oil prices will persist for some time to come, but the bank has a solid capital base and good liquidity, and will continue to be a strong and committed supporter for our customers

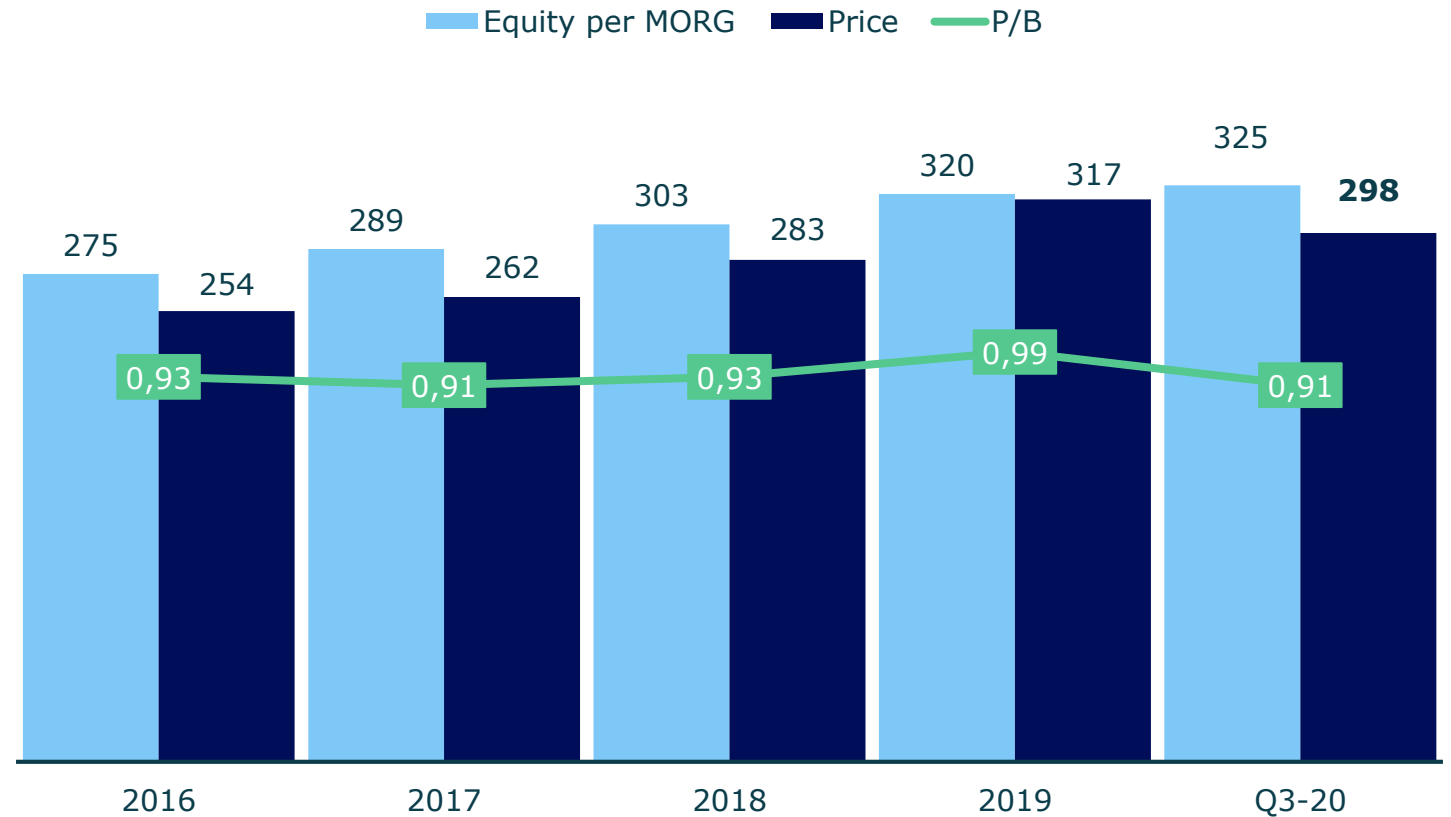
## Changes in Q3



## Dividend policy

- 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. Sparebanken Møre was the first Norwegian savings bank to be listed at OSE
- Total EC capital NOK 989 million by September 2020
- Good Total Return over many years



Source: Bloomberg

## 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	14.00

# 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

Source: The Norwegian Savings Bank Association <https://www.sparebankforeningen.no/en/egenkapitalbevis/about-equity-certificates/>

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