

# Broken business model partly fixed by deposit repricing and M&A

ABG virtual visit January 2021

# Guidance for 2020

## Updated expectations from 8 December 2020

- Core earnings before impairments and Profit after tax

Guidance for 2020		
Updated expectations throughout the year		
	Core earnings before impairments	Profit after tax
YearEnd 2019	900 - 1,100	628 - 825
March 2020	N/A	N/A
Q1 2020	700 - 1,000	N/A
June 2020	800 - 1,050	350 - 550
September 2020	1,000 - 1,200	500 - 700
December 2020	1,150 - 1,250	650 - 750

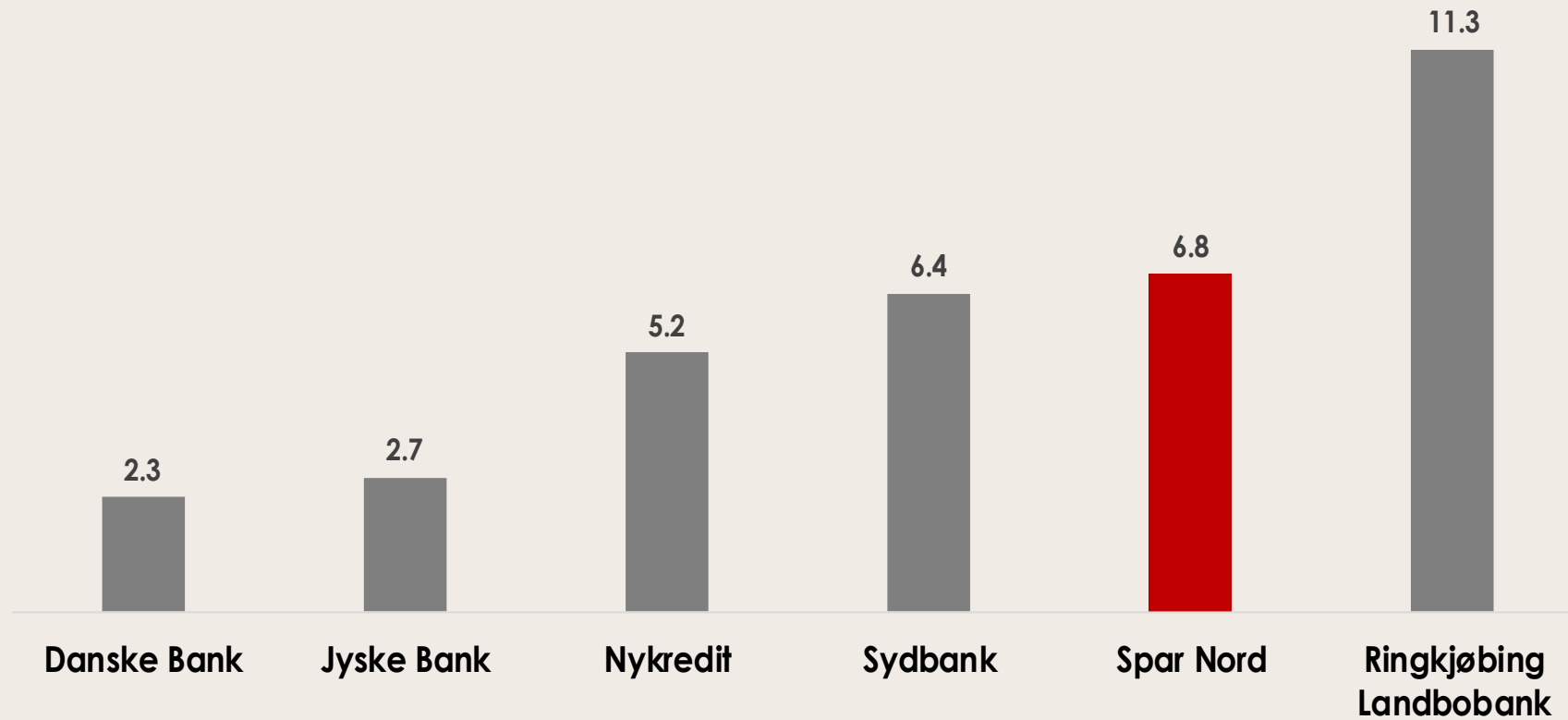
- Impairments of loans

- At the beginning of 2020, we expected loan impairment charges to be higher than in 2019, albeit still at a low level
- In the Q1 report, we expected to recognize additional impairment charges in the coming quarters, especially on business customer loans, due to the slowing economic activity. This was based on a strong uncertainty attaching to the macroeconomic and credit consequences of the COVID-19 crisis
- In June, based on management decisions made in H1, loan impairment charges were expected to be lower in H2 – subject to a continued gradual reopening of society

- Expectations have remained unchanged since

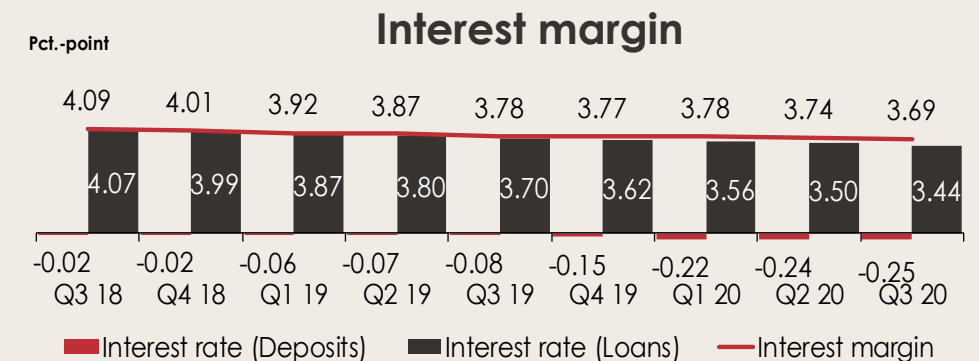
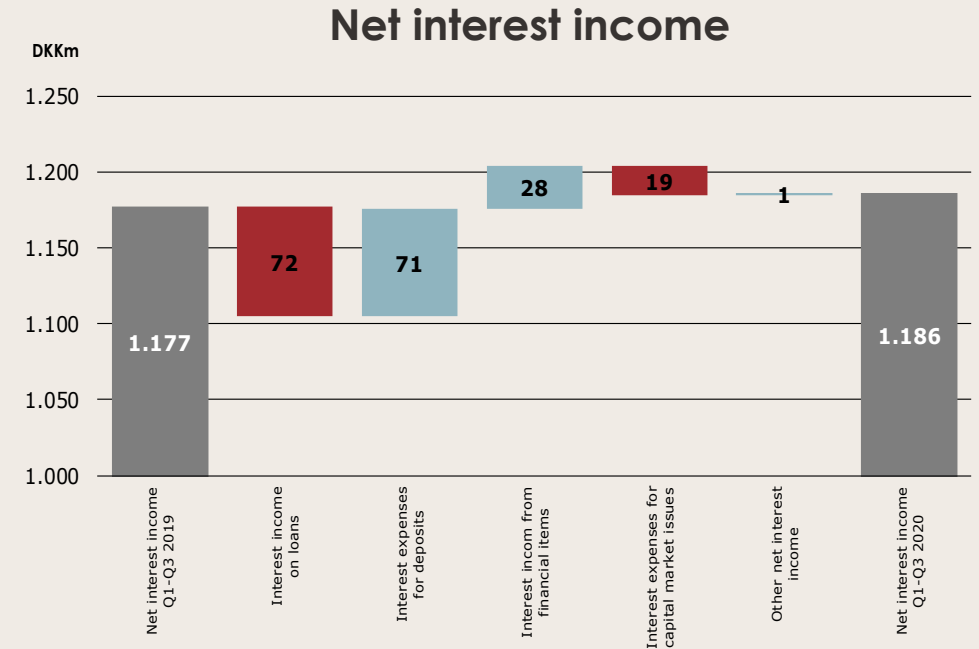
# Satisfactory performance compared to peers

ROE after tax Q3 2020



# Net interest income up by 1% despite drop in lending

- **Total lending of DKK 41.7 billion – decrease of DKK 1.4 billion (3 %) year-to-date**
  - Lending to household customers has grown by DKK 0.6 billion
  - Lending to corporates and SMEs down by DKK 1.9 billion
    - Due to relief packages
  - Lending to public-sector customers down by DKK 0.7 billion
  - Leasing business has grown by DKK 0.6 billion
- **Pressure on lending margin partially offset by active measures on deposits**
  - Lending margin is down 26 basis points
  - Active measures on pricing lead to 17 basis points improvement of deposit margin



# Outlook for NII

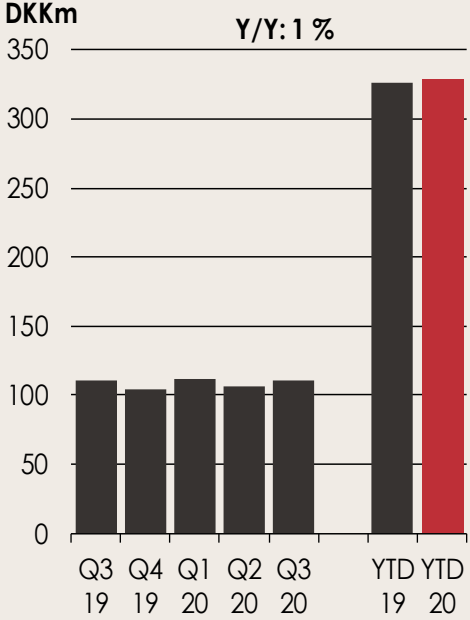
## In the coming quarters, Spar Nord expects:

- Recovering volume growth
- Effects of initiatives taken on deposit repricing
- Continuing but reduced pressure on lending margin
- Increasing interest expenses for MREL capital

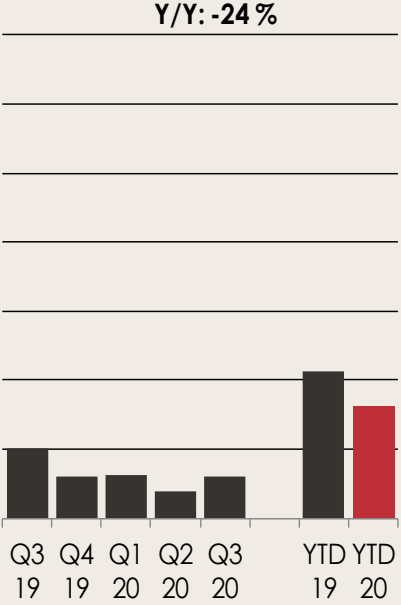


# Net fee income sustained at record level due to continued growth and high activity within mortgaging and securities trading

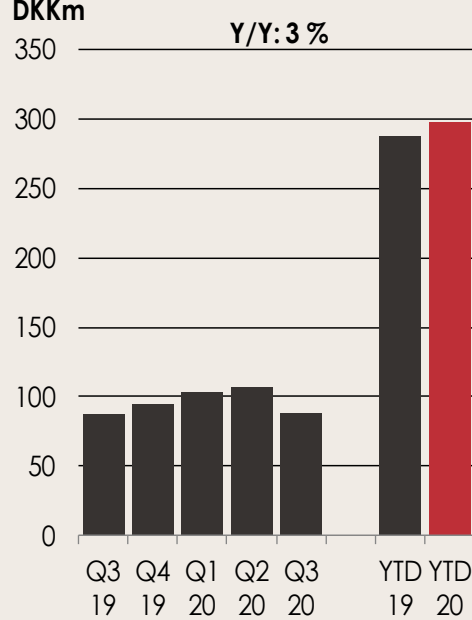
**Mortgage**



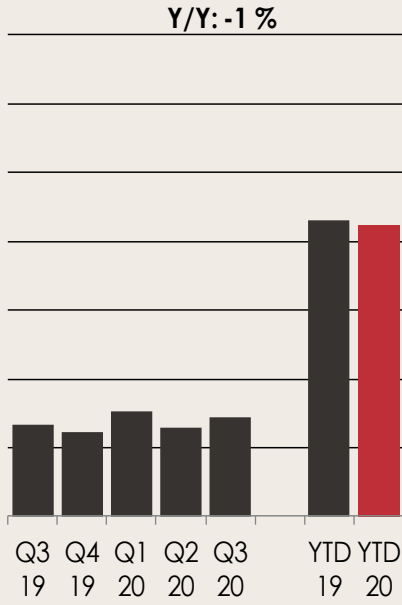
**Loan transactions**



**Securities trading and asset management**



**Other fees**



# Outlook for net fee income

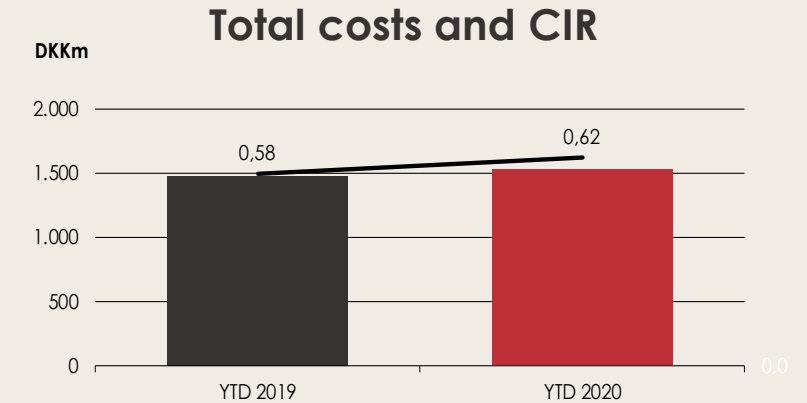
## In the coming quarters, Spar Nord expects:

- Continued activity within re-mortgaging and trading of houses
- Effects of initiatives taken on fee-structure
- Growing volume within asset management products
- Risk for decline in earnings from securities trading from lower activity



# Continued pressure on costs - increases by 4%

- Total costs amounted to DKK 1,530 million versus DKK 1,475 million in Q1-Q3 2019
- Payroll costs were DKK 55 million (6%) higher than last year
  - Growth in headcount and collective wage increases: DKK 28 million
  - Severance pay: DKK 23 million
- Operating expenses and depreciation on par with Q1-Q3 2019
  - Rising costs for data center (BEC) eliminated by savings realized on most other cost items
- Cost/Income Ratio of 0.62 – slightly better than strategic target (0.65)



## Breakdown on cost types

Costs (DKKm)	YTD 2020	YTD 2019	Change
Staff costs	949	894	55
Operating expenses	582	581	0
<b>Costs and expenses</b>	<b>1,530</b>	<b>1,475</b>	<b>55</b>

Operating expenses (DKKm)	YTD 2020	YTD 2019	Change
Staff-related expenses	25	28	-3
Travel expenses	7	15	-7
Marketing costs	50	62	-13
IT expenses	319	290	29
Cost of premises	40	39	1
Other administrative expenses	80	84	-4
Depreciation	60	63	-3
<b>Operating expenses</b>	<b>582</b>	<b>581</b>	<b>0</b>



# Outlook for costs

## In the coming quarters, Spar Nord expects:

- Decline in staff costs from reduced headcount and one-offs in 2020
- Continued structural pressure on IT expenses
- Costs from start-up of three new branches
- General cost containment in other areas e.g. marketing and travel



# Loan impairments influenced by COVID-19

- Loan impairments amounted to an expense of DKK 287 million against DKK 10 million in Q1-Q3 last year

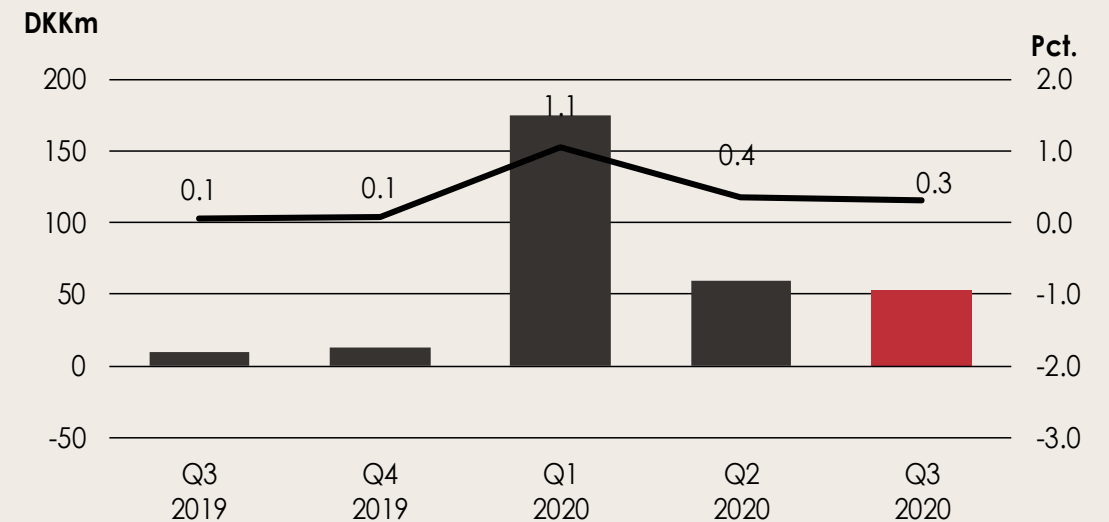
- **Break-down on segments**

- Private: DKK 108 million (Q2: DKK 97 million)
- Consumer finance: DKK 6 million (Q2: DKK 4 million)
- Corporate ex. agriculture: DKK 214 million (Q2: DKK 161 million)
- Agriculture: DKK -41 million (Q2: DKK -28 million)

- **Total management estimate of DKK 594 million (year-end 2019: DKK 303 million)**

- COVID-19: DKK 320 million
- Agriculture: DKK 167 million
- Model uncertainty: DKK 107 million

Impairments and impairment percentage



# Outlook for loan impairments

## In the coming quarters, Spar Nord expects:

- More normalized impairment charges post COVID-19
  - New lock-down again causes increased uncertainty
  - Management estimate related to COVID-19 still considered adequate
- Credit quality will remain robust



# An attractive acquisition

## - Strategically as well as financially

### Strategic rationale

- Strengthen position on the market for serving retail customers in the Greater Copenhagen area and larger cities as Århus, Odense and Kolding
- Boost business volume on several parameters
  - Largest distributor of Totalkredit mortgage loans
  - Largest distributor of investment solutions from Bankinvest
- Improved efficiency and earning power derived from serving a larger number of customers on the same production and support platform

### Financial rationale

- An attractive alternative to organic growth in the current low-growth market
- Strengthen Spar Nord's cost efficiency (C/I) as marginal costs for servicing the new customers are limited
- Attractive risk/reward for Spar Nord's shareholders secured through due diligence
- Potential for increased business with the acquired customers by offering Spar Nord's full product range

# Acquisition of 11 Danish retail branches from BankNordik

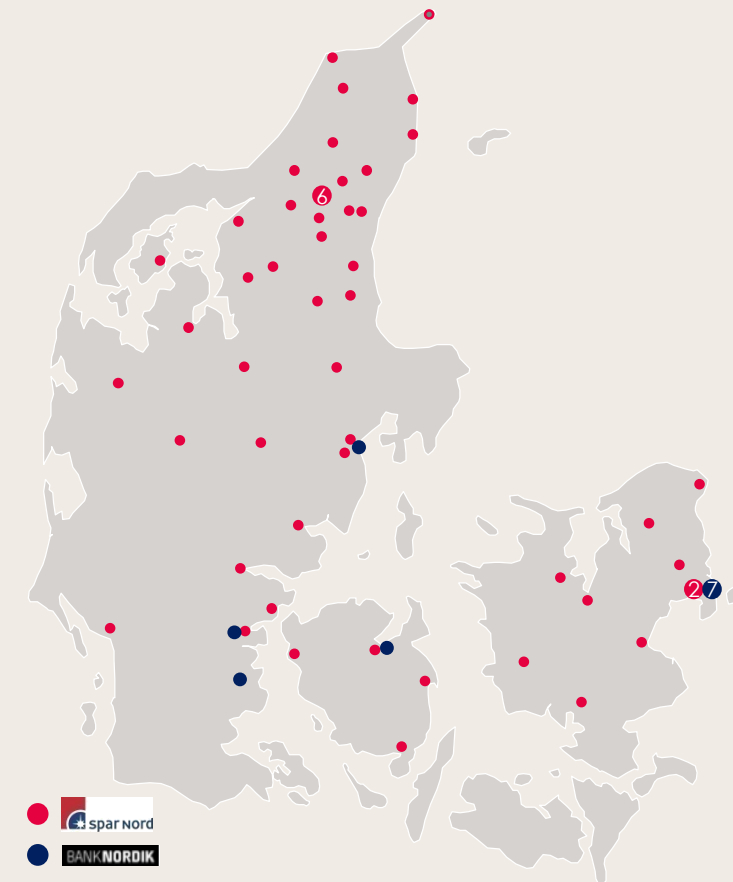
## BankNordik branches in Denmark

- Branches in Greater Copenhagen area:
  - Amager, Dragør, Frederiksberg, Hvidovre, Kastrup, Østerbro, Ungdomsbanken
- Branches in Århus, Odense, Kolding and Haderslev

DKKb	Bank loans	Mortgage	Total credit distribution	In pct.
Greater Copenhagen	1,4	6,7	8,2	61%
Other banches	0,8	4,4	5,2	39%
<b>Sum</b>	<b>2,3</b>	<b>11,1</b>	<b>13,3</b>	<b>100%</b>

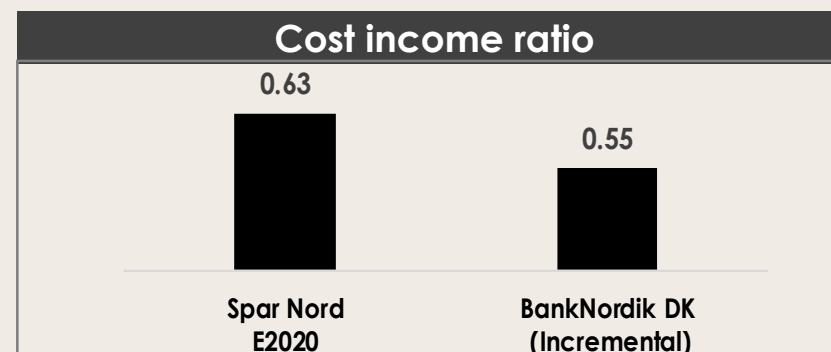
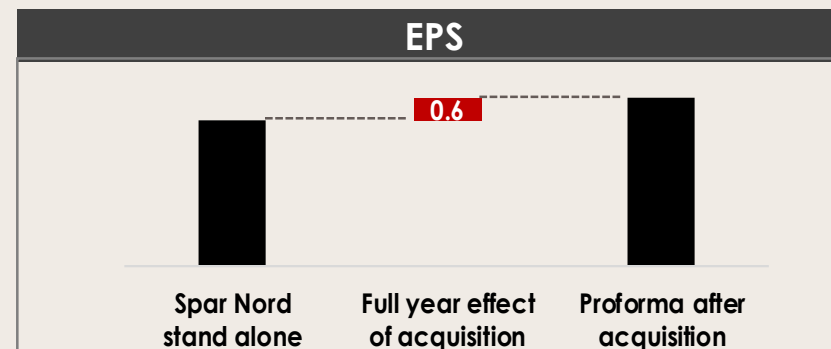
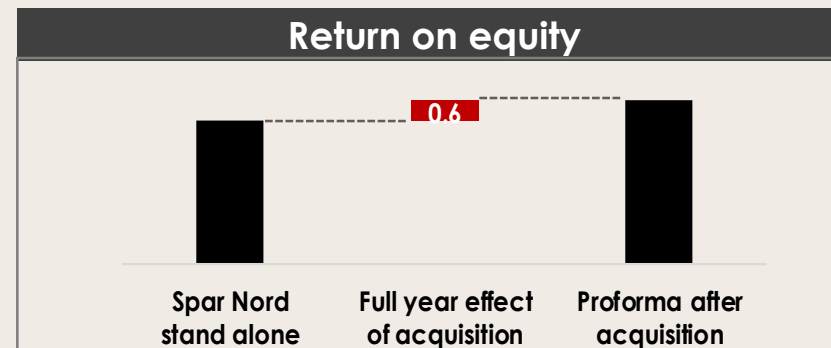
DKKb	Deposits	In pct.
Greater Copenhagen	2,6	44%
Other banches	3,2	56%
<b>Sum</b>	<b>5,8</b>	<b>100%</b>

## Total branches after acquisition



# Positive impact on key financials

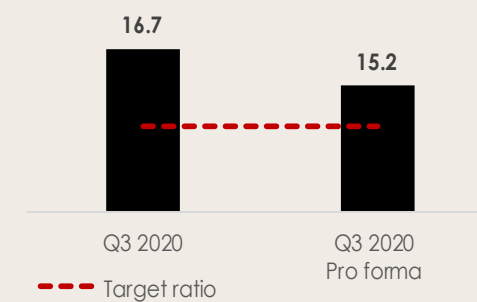
- Spar Nord expects only a modest contribution from the acquired business to the Bank's core earnings before impairment in 2021 because of expected one-off costs to the tune of DKK 60-70 million associated with the transaction
- From 2022, the acquired portfolio is expected to contribute core earnings before impairment of around DKK 110 million
- The full year effect on return on equity from the acquisition is expected to be 0.6 percentage point
- The full year effect on EPS from the acquisition is expected to be 0.6
- Incremental cost income ratio from the acquisition is 0.55



# Strong capital position – also after the acquisition

- As part of the acquisition Spar Nord pays goodwill totaling DKK 255 million
- The total use of capital at the transaction amounts to some DKK 700 million
  - Goodwill of DKK 255 million and allocated capital from REA of DKK 375 are the largest items
  - The remaining items can essentially be attributed to acquired sector shares and one-off costs
- Overall, the acquisition is expected to reduce the Bank's capital ratios by around 1.5 percentage point
- After the transaction, both the common equity tier 1 capital ratio and the own funds ratio will still be well above the Bank's target ratios of 13.5% and 17.5%, respectively

## Common equity tier 1 ratio



## Own funds ratio

