

**PRE-TAX PROFIT OF DKK 204 MILLION AFTER QUARTER MARKED BY  
TOPLINE PRESSURE. COST REDUCTION AND LOWER IMPAIRMENTS**

Presentation of Spar Nord's results for Q1 2016



## KEY MESSAGES

- 1 Net interest income was down by 12 % (y/y) and by 5 % compared to last quarter
- 2 Net fee income was down 20 % (y/y) but up 5 % compared to last quarter
- 3 Costs were reduced by 2 % (y/y) – partly due to one-off events
- 4 Loan losses were reduced to DKK 54 million corresponding to impairment percentage of 0.43
- 5 Negative volume trend was reversed – bank lending was up 3 % compared to YE 2015
- 6 Preparations for IT migration still on track – benefits still expected to be according to guidance
- 7 Guidance for full-year core earnings before impairments and impairment level re-iterated

## HEADLINES FROM THE INCOME STATEMENT

### Income statement

SPAR NORD BANK DKKm	Realized Q1 2016	Realized Q4 2015	Index	Realized Q1 2015	Index
Net interest income	396	416	95	452	88
Net fees, charges and commissions	250	239	105	312	80
Market-value adjustments	72	43	166	359	20
Other income	15	16	96	17	89
<b>Core income</b>	<b>734</b>	<b>714</b>	<b>103</b>	<b>1,140</b>	<b>64</b>
Staff costs	279	291	96	277	101
Operating expenses etc.	195	179	109	207	94
<b>Costs</b>	<b>475</b>	<b>469</b>	<b>101</b>	<b>484</b>	<b>98</b>
<b>Core earnings before impairment</b>	<b>259</b>	<b>245</b>	<b>106</b>	<b>656</b>	<b>39</b>
Impairments of loans and advances, etc.	55	76	72	98	56
<b>Core earnings</b>	<b>204</b>	<b>169</b>	<b>121</b>	<b>558</b>	<b>37</b>
Investment income	0	0	-	0	-
<b>Profit/loss on ordinary activities</b>	<b>204</b>	<b>169</b>	<b>121</b>	<b>558</b>	<b>37</b>
Sector Fund	0	-25	0	-25	0
<b>Profit before tax</b>	<b>204</b>	<b>145</b>	<b>141</b>	<b>533</b>	<b>38</b>

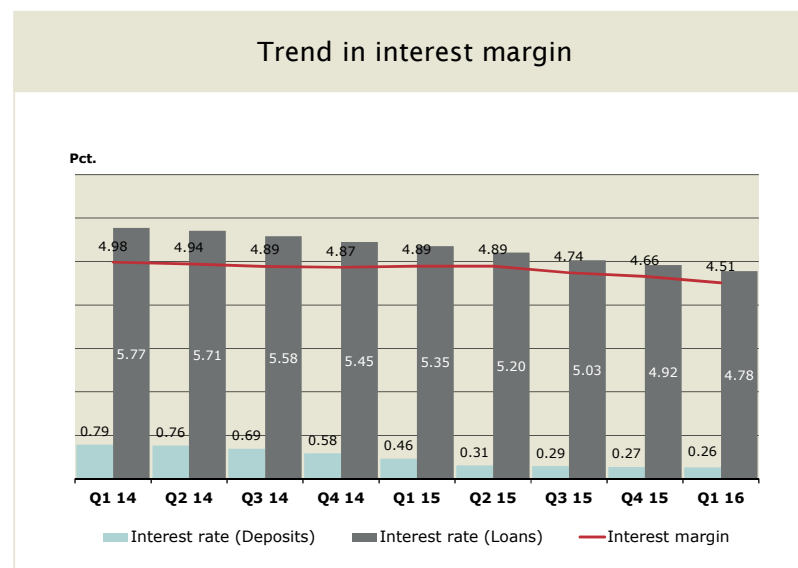
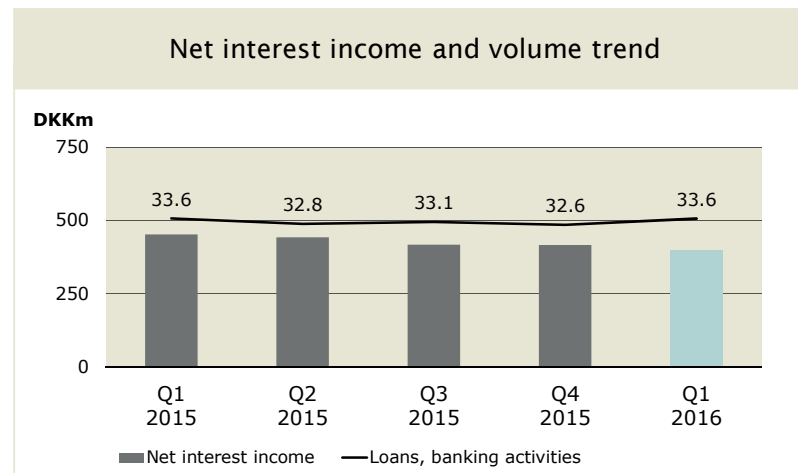
### Key messages

- ROE at acceptable level
  - 2015: 13.6 % after tax\*
  - 2016: 8.4 % after tax
- Pressure on core income
  - Declining loan margin
  - Absence of extraordinary activity drivers
- Lower costs
  - No off-offs in Q1
- Declining loan losses
  - But challenges for agriculture remains

\* Adjusted For one-off gain on Nørresundby Bank

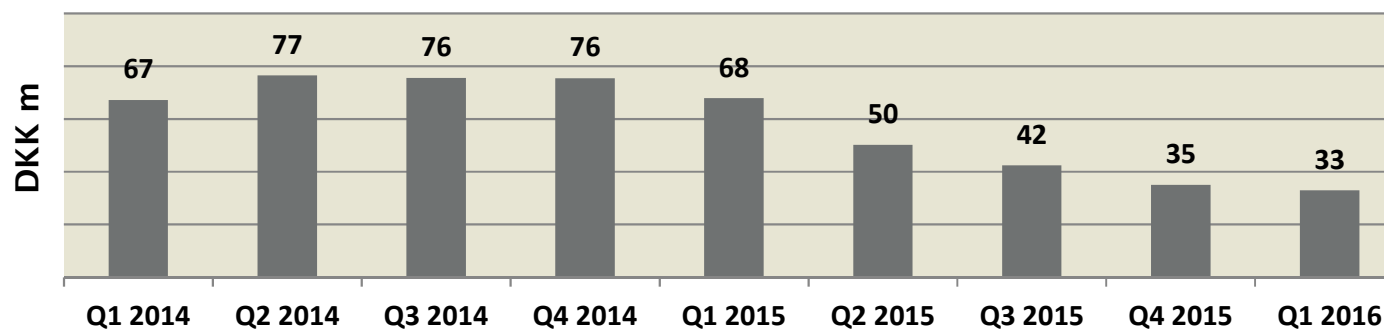
## SIGNIFICANT PRESSURE ON NET INTEREST INCOME

- Net interest income was down by 12 % (y/y) and came to DKK 396 million – compared to Q4 the decline was 5 %
- Bank lending is up by 3 % YTD
  - Portfolio of DKK 0.5 billion taken over from FIH
  - Satisfactory underlying trend in both household and corporate segments
- Continued pressure on interest margin
  - Total interest margin is down by 14 bps since YTD
  - Impossible to mitigate pressure on lending margin via adjustment of deposit margin
- Out the DKK 56 million decline (y/y), DKK 35 million is attributable to lower interest income on bond portfolio



## LOW-RATE ENVIRONMENT PUTS INCOME FROM BOND PORTFOLIO UNDER PRESSURE

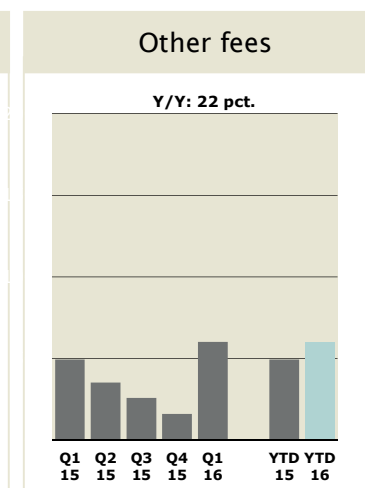
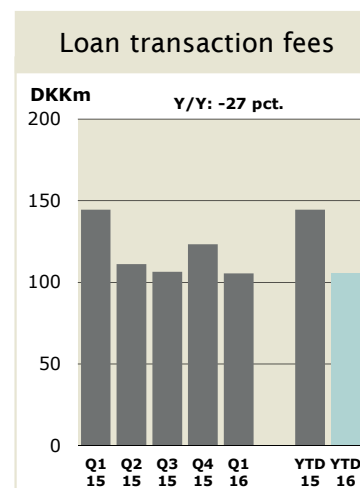
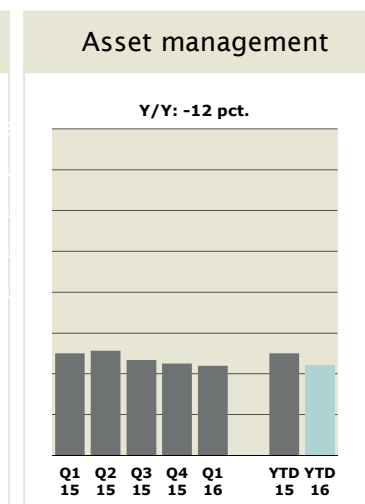
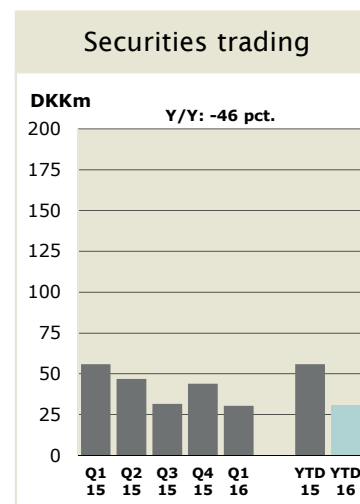
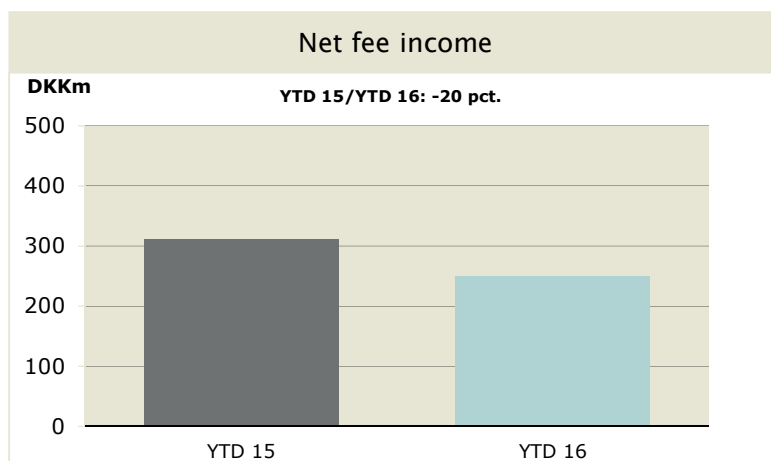
Interest income from bond portfolio



Net interest income	2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1 15	Q1 16 Change	
Loans and deposits, customers	413	405	436	433	421	428	406	407	392	421	392	-28
Financial counterparties	42	55	60	61	48	28	25	22	15	48	15	-32
Capital market funding	-41	-31	-18	-17	-16	-14	-14	-13	-12	-16	-12	4
<b>Net interest income</b>	<b>414</b>	<b>430</b>	<b>478</b>	<b>477</b>	<b>452</b>	<b>442</b>	<b>417</b>	<b>416</b>	<b>396</b>	<b>452</b>	<b>396</b>	<b>-56</b>

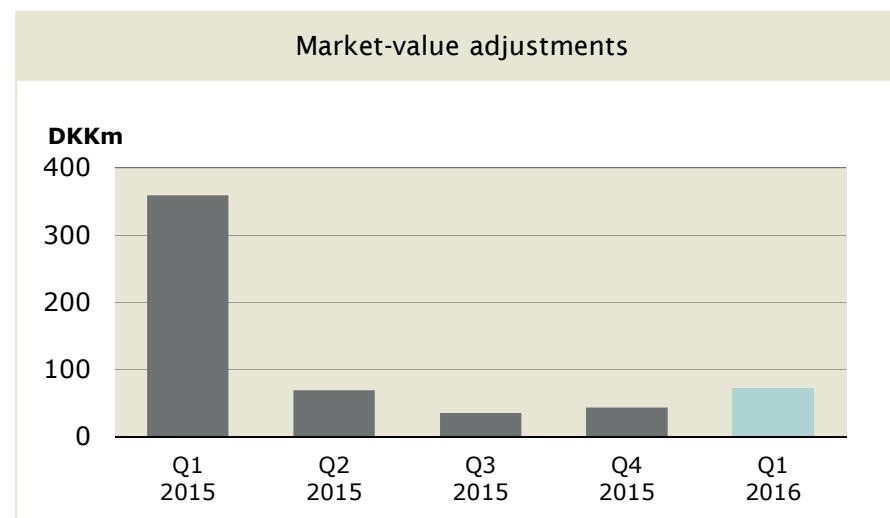
## DESPITE LOWER CUSTOMER ACTIVITY, NET FEE INCOME REMAINS SATISFACTORY

- Net fee income was down by 20 % (y/y) but up 5 % on Q4
- Income from loan transactions fees was down DKK 35 million on last year's extremely high level
- Income from securities trading was down by DKK 26 million (y/y) in difficult market
- Volume-related income was sustained at high level
- Measures implemented in Q1 (by Totalkredit as well as Spar Nord) will have effect in the rest of 2016



## MARKET-VALUE ADJUSTMENTS AND DIVIDENDS: TOUGH START TO THE YEAR BUT IMPROVEMENTS IN MARCH

- Market-value adjustments and dividends were down by DKK 287 million (y/y) but grew by DKK 28 million compared to Q4
- Adjusted for the sale of shares in Nørresundby Bank Q1 2015, the decline was DKK 53 million (y/y)
- Especially in February, market conditions were difficult
- Decline in income from customers' hedging of interest risk and FX risk



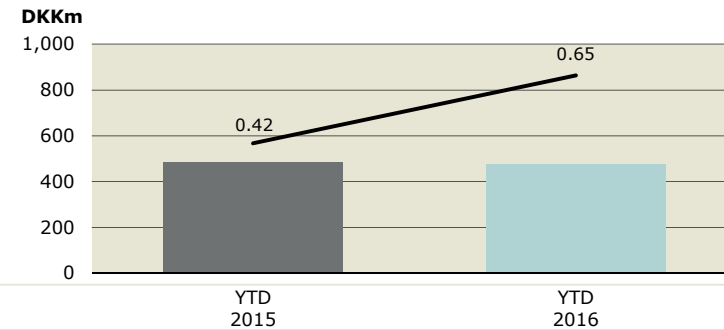
Breakdown on types

DKKm	YTD 2016	YTD 2015	Change
Market-valued adjustments in Trading, Financial Markets & The International Division	31	82	-51
Tangible assets	31	245	-215
Dividends on shares, etc.	1	8	-7
Currency trade and -agio	10	24	-15
<b>Total</b>	<b>72</b>	<b>359</b>	<b>-287</b>

## COSTS REDUCED BY 2 %

- Total costs came to DKK 475 million – 2 % lower than Q1 2015
- Staff costs were up 1 % (y/y)
  - Spar Nord employs 37 FTE more than 12 months ago (primarily in leasing business and IT-project)
  - Declining expenses related to **holiday pay**
  - Reversal of payroll-tax
- Operating costs were reduced by 7 %
  - IT-expenses were higher due to migration project
  - Absence of one-off costs
- Potential for future cost measures
  - At present, all resources are needed in IT-project
  - After migration to BEC, annual IT-expenses will be reduced by DKK 55 million (DKK 35 million in 2016)
  - In addition to this, migration is expected to lead to efficiency gains due to better system integration
  - Further potential for adjustment of branch footprint

Costs and Cost/Income Ratio



Breakdown on cost types

Costs (DKKm)	YTD 2016	YTD 2015	Change
Staff costs	279	277	3
Operating expenses	178	191	-13
Depreciation	17	17	1
<b>Costs</b>	<b>475</b>	<b>484</b>	<b>-10</b>

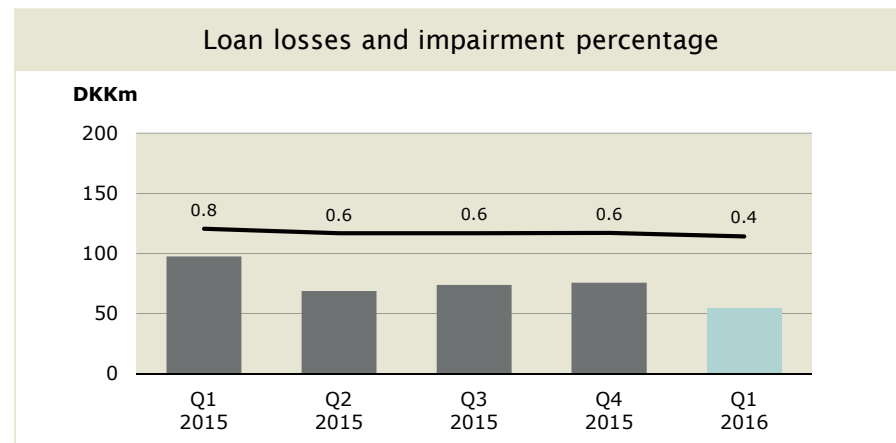
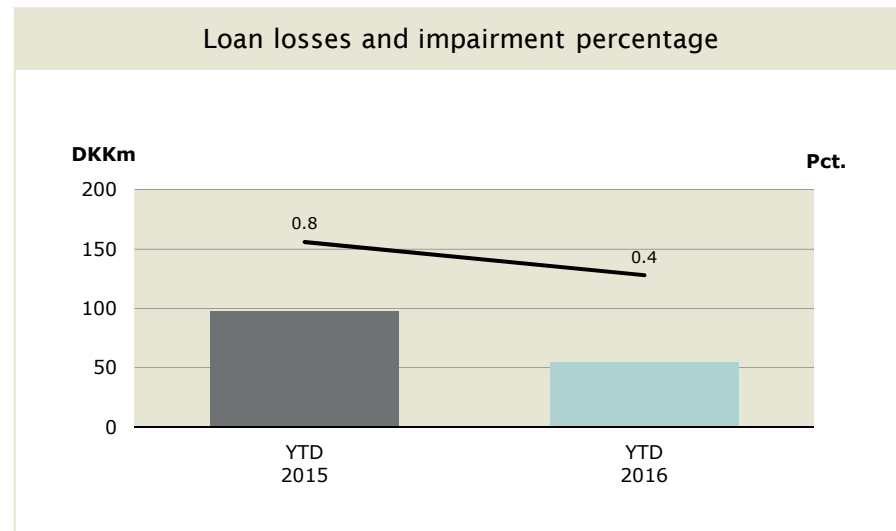
  

Operating expenses (DKKm)	YTD 2016	YTD 2015	Change
Staff-related expenses	11	12	-1
Travel expenses	4	4	0
Marketing costs	25	26	-1
IT expenses	92	86	6
Cost of premises	20	22	-2
Other administrative expenses	26	42	-16
<b>Operating expenses</b>	<b>178</b>	<b>191</b>	<b>-13</b>



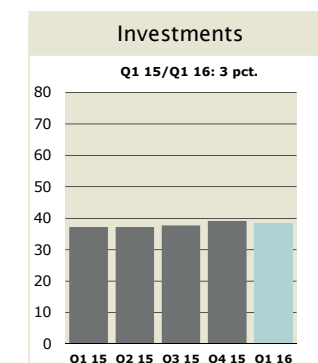
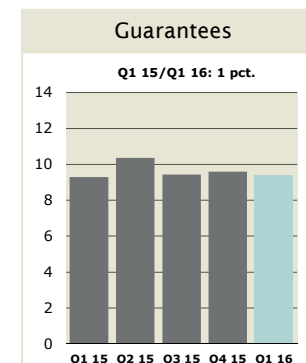
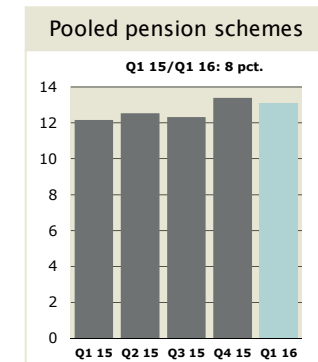
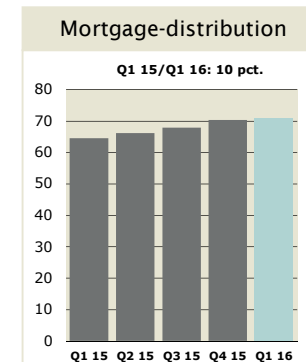
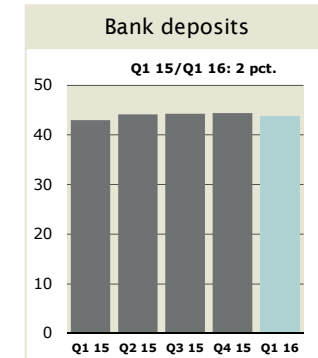
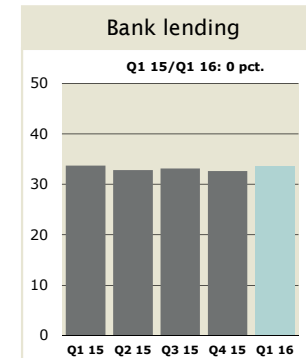
## LOAN LOSSES REDUCED TO DKK 55 MILLION

- Impairment charges came to DKK 55 million corresponding to impairment percentage of 0.43
  - Lower than expected at the beginning of the year
- Breakdown on business segments
  - Household: DKK -3 million (-0.1 % p.a.)
  - Corporate excl. agriculture: DKK 3 million (0.0 p.a.)
  - Agriculture: DKK 55 million (6.3 % p.a.)
- Key figures about agriculture loan book
  - **Milk:** Loans and guarantees of DKK 1.1 billion – of which 58 % impaired (total impairment = 35 % of exposure)
  - **Pigs:** Loans and guarantees of DKK 0.9 billion – of which 62 % impaired (total impairment = 42 % of exposure)
- Low output prices on milk and pork meat expected to lead to substantial challenges also in 2016



# TOTAL BUSINESS VOLUME OF DKK 210 BILLION

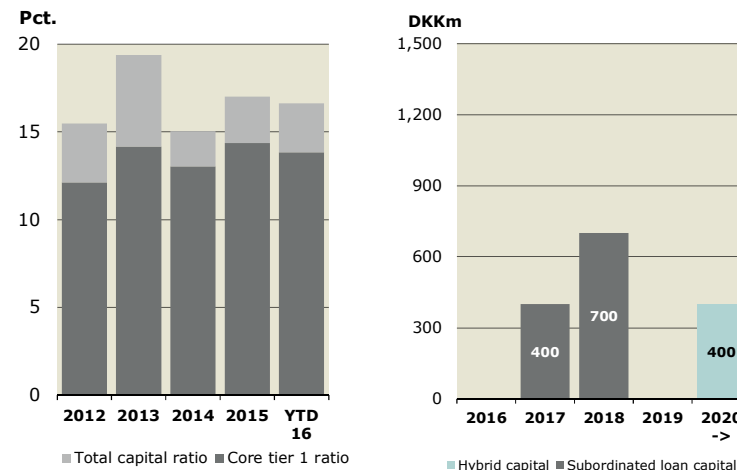
- Total business volume of DKK 210.4 billion – DKK 0.2 billion lower than YE 2015
- Bank lending (including leasing) has grown by DKK 1.1 billion YTD
  - Portfolio taken over from FIH: DKK 0.5 billion
  - Lending to corporates (excl. FIH portfolio): DKK 0.2 billion
  - Lending to households: DKK 0.3 billion
  - Leasing: DKK 0.1 billion
- Mortgage-distribution is up by DKK 0.5 billion (1 %)
  - Total distribution of DKK 70.8 billion, hereof DKK 59.6 billion to Totalkredit and DKK 11.2 billion to DLR Kredit
- Bank deposits are down DKK 0,6 billion (2 %)
- Difficult market conditions lead to reduction in assets under management in pooled pension schemes (down 2 %) and other AuM (down 2 %)



## SOLID CAPITAL POSITION

- Strategic capital targets
  - CET1 ratio: 12 %
  - Capital percentage: 15.5
- At the end of Q1, CET1 ratio stands at 13.8 and total capital percentage at 16.6
- Total capital percentage must be viewed in connection with the solvency requirement of 9.4 %
  - Excess coverage of DKK 3.4 billion (7.2 percentage points)
- Based on fully implemented CRD IV standards, CET1 ratio stands at 13.5
- Spar Nord's absolute leverage (lending to equity) is still low compared to Danish peers
- Status on share buyback programme
  - Total programme: DKK 150 million
  - End of Q1: DKK 37 million acquired

### Capital percentage and subordinated capital



### Capital base

Pct.	Q1 2016	2015	2014	2013
Core tier 1 ratio	13.8	14.4	13.0	14.1
Hybrid capital	0.8	0.8	0.9	4.2
Deductions in hybrid capital	-0.2	-0.3	-0.6	-1.0
<b>Tier 1 ratio</b>	<b>14.5</b>	<b>14.9</b>	<b>13.3</b>	<b>17.4</b>
Subordinated debt	2.3	2.3	2.3	2.9
Deductions in own funds	-0.2	-0.3	-0.6	-1.0
<b>Total capital ratio</b>	<b>16.6</b>	<b>17.0</b>	<b>15.0</b>	<b>19.4</b>

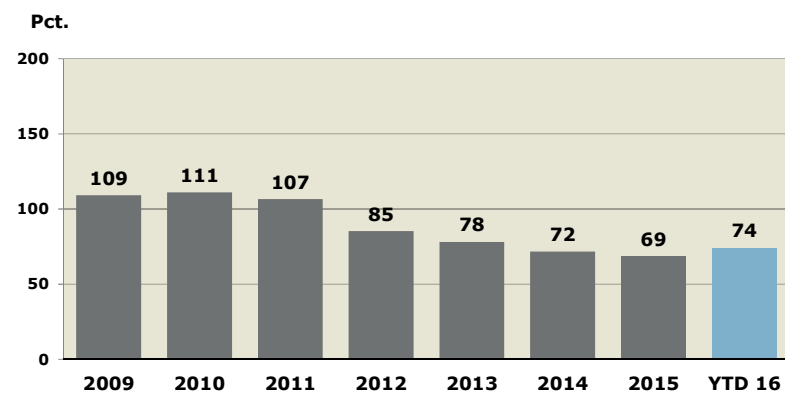
## LIQUIDITY NEED FULLY COVERED BY CUSTOMER DEPOSITS AND CAPITAL BASE

- Strategic liquidity of DKK 18.0 billion
- Reduction of DKK 1.5 billion since YE-2015 is attributable to lending growth combined with decline in deposits
- No current need for wholesale funding
- Loan to deposit ratio of 74

### Strategic liquidity

DKKb	YTD		
	2016	2015	2014
Deposits, banking activities	43.8	44.4	42.2
Seniorfunding	0.1	0.0	0.1
Core capital and sub. capital	9.1	9.0	8.8
<b>Stable long term funding</b>	<b>53.0</b>	<b>53.4</b>	<b>51.1</b>
Loans, banking activities	33.6	32.6	34.4
Loans, leasing activities	1.4	1.3	1.1
Maturity < 1 year	0.0	0.0	-0.6
<b>Liquidity target</b>	<b>18.0</b>	<b>19.5</b>	<b>15.0</b>

### Loan to deposit ratio



## GUIDANCE AND SHARE PRICE

### Guidance for 2016

Core income before impairments still expected in the DKK 1.1 billion range

- Positive trends
  - Increase in mortgage-margins
  - Further measures on fee side
  - IT-savings
- Negative trends
  - Continued margin pressure

Loan losses still expected to be on the same level as in 2015

- Everything but agriculture is doing well
- Men agriculture remains very challenged

### Share price

