

# Solid net profit of DKK 690 million yields an annualized 11.9 % return on equity – full-year guidance raised

Presentation of financial results for Q1-Q3 2016 and introduction to new strategy plan



## Key messages

### **Core income sustained at the level of 2015 when adjusted for last year's one-off gain related to Nørresundby Bank**

- NII dropped 7 % (y/y) due to lower income from bond portfolio and due to margin pressure
- Net fee income dropped by 2 % (y/y) but remains at highly satisfactory level
- Market-value adjustments were very strong – 38 % up on last year when adjusted for the sale of shares in Nørresundby Bank

### **Cost reduction and declining loan losses**

- Total costs were reduced by 1 % (y/y) – effects of IT-migration are beginning to materialize
- Loan impairments were reduced by 22 % – profit impact almost entirely attributable to agriculture

### **Full-year guidance is raised**

- Forecast for full-year core earnings is adjusted upwards from around DKK 1.1 billion to about DKK 1.2 billion after approx DKK 50 million one-off costs related to a new strategy plan
- Loan losses are now expected to be somewhat down on last year (previously "slightly down")

### **New strategy plan for 2017-19**

- Growth initiatives and efficiency-enhancing initiatives are expected to contribute DKK 200 million and DKK 100 million, respectively
- Target for a return on equity is 9-11% after tax, and the Cost/Income Ratio is expected to be 0.60.

## Headlines from the income statement

### Income statement

SPAR NORD BANK DKKm	Realized YTD 2016	Realized YTD 2015	Index	Realized Q3 2016	Realized Q2 2016	Index
Net interest income	1,226	1,311	93	413	417	99
Net fees, charges and commissions	778	791	98	259	268	97
Market-value adjustments	329	464	71	143	115	124
Other income	51	51	100	19	17	108
<b>Core income</b>	<b>2,384</b>	<b>2,617</b>	<b>91</b>	<b>834</b>	<b>817</b>	<b>102</b>
Staff costs	835	807	103	249	307	81
Operating expenses etc.	519	566	92	157	166	94
<b>Costs</b>	<b>1,354</b>	<b>1,374</b>	<b>99</b>	<b>406</b>	<b>473</b>	<b>86</b>
<b>Core earnings before impairment</b>	<b>1,031</b>	<b>1,243</b>	<b>83</b>	<b>428</b>	<b>344</b>	<b>125</b>
Impairments of loans and advances, etc.	188	240	78	54	79	69
<b>Core earnings</b>	<b>843</b>	<b>1,003</b>	<b>84</b>	<b>374</b>	<b>265</b>	<b>141</b>
Sector Fund	0	-74	-	0	0	-
<b>Profit before tax</b>	<b>843</b>	<b>929</b>	<b>91</b>	<b>374</b>	<b>265</b>	<b>141</b>

### Key messages

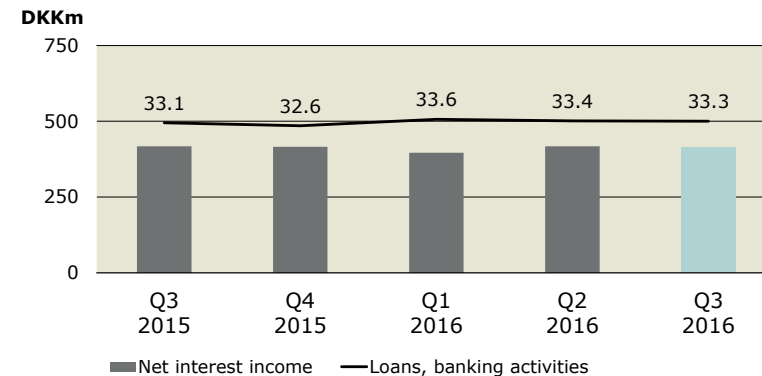
- Satisfactory ROE
  - 2015: 10,3 % after tax\*
  - 2016: 11,9 % after tax
- Fee income remains high
  - Driven by mortgage activities and "other fees"
- Strong market-value adjustments
  - Lifted by bond portfolio
- Cost reduction
  - General reduction across cost types
- Declining loan losses

\* Excl. Nørresundby Bank

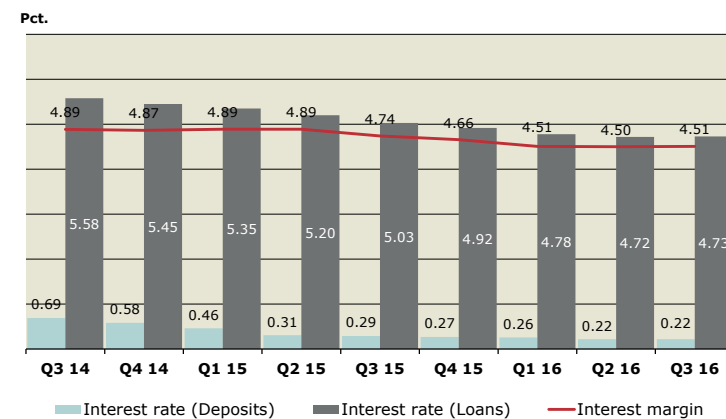
## ■ Lending volume and net interest income have stabilized

- Net interest income dropped by 7 % (y/y) and ended at DKK 1,226 million
  - out of the DKK 85 million decline, DKK 66 million is attributable to bond portfolio
- Bank and leasing lending is up 4 % year-to-date
  - Loan portfolio of DKK 0.5 billion acquired from FIH
  - Strong growth in leasing business (DKK 0.5 billion)
- Interest margin has stabilized in recent months
  - Total interest margin has declined by 23 bps since the end of Q3 last year, but has been stable for 6 months
  - Lending margin has been stable for 3 quarters
  - Reported lending margin is impacted by migration to new IT-system (reported somewhat too high)
- One-off in Q3
  - DKK 13 million carried to income following changed tax assessments for 2011-13

Net interest income and volume trend

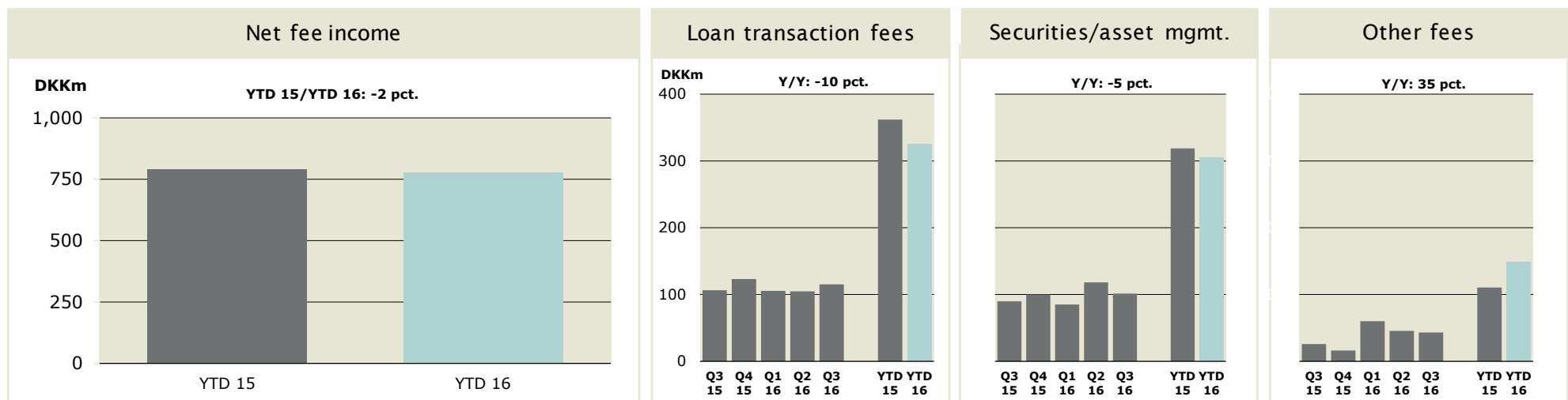


Interest margin



## ■ Highly satisfactory net fee income

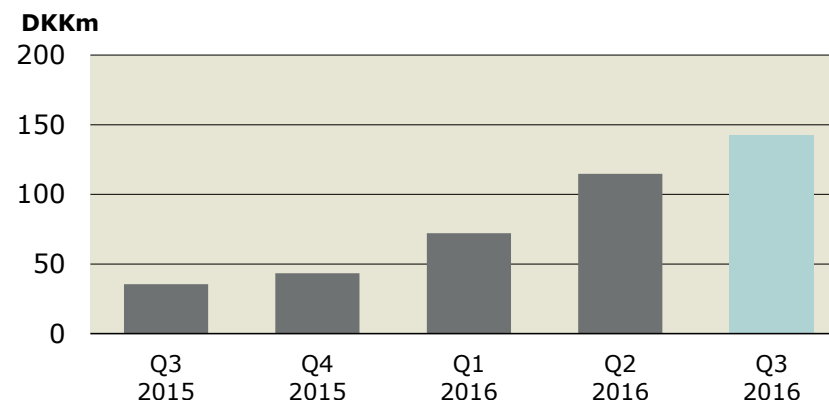
- Net fee income was down 2 % (y/y) but was sustained at very high level (DKK 778 million)
- Income from loan transaction fees was down 10 % on last year's extremely high level
  - Income related to mortgage-distribution grew by 10 % (y/y)
- Income from securities trading was down 5 % (y/y) but has developed positively since Q1
- Other fees are impacted positively by pris adjustments on transaction banking
- Migration to new IT-system has led to a more precise allocation of net fees



## Positive trend in market-value adjustments and dividends

- Market-value adjustments and dividends dropped by DKK 134 million (y/y) but have grown for 4 consecutive quarters
- Adjusted for one-off gain in 2015 related to Nørresundby Bank, market-value adjustments have grown by DKK 92 million or 38 % (y/y)
- Strong performance on bonds attributable to narrowing of spreads on Danish mortgage-bonds
- Positive market-value adjustments on shares in sector companies, e.g. DLR Kredit, Danmarks Skibskredit, Vækstinvest Nordjylland A/S and Erhvervsinvest K/S
- DKK 23 million positive adjustment on sales price in the divestment of Nets

Market-value adjustments



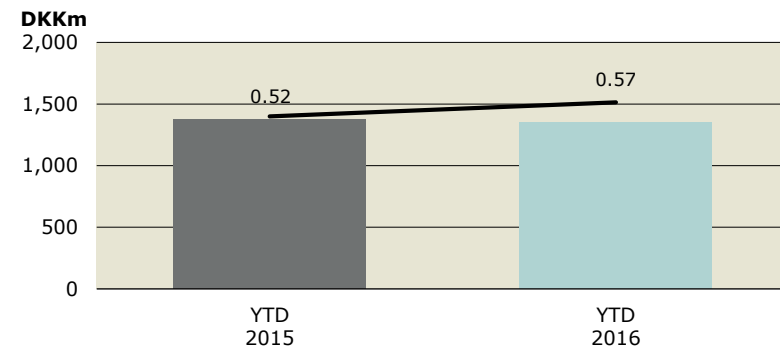
Market-value adjustments broken down on types

DKKm	YTD 2016	YTD 2015	Change
Market-valued adjustments in Trading, Financial Markets & The International Division	156	73	84
Tangible assets	91	292	-200
Dividends on shares, etc.	49	55	-5
Currency trade and -agio	33	45	-12
<b>Total</b>	<b>329</b>	<b>464</b>	<b>-134</b>

## ■ Total costs reduced by 1 %

- Total costs and expenses came to DKK 1,354 million - 1 % lower than last year
- Payroll costs were up 3 %
  - 11 FTEs more than last year (leasing, SparXpres and IT)
  - Extra work related to IT-project
  - Positive one-off related to successful legal action regarding the principles governing the calculation of payroll taxes
- Operating expenses reduced by 9 %
  - General reduction across cost types
  - Absence of one-off costs
- Positive effects on IT-migration are beginning to show
  - IT-expenses reduced by 5 %

Costs and Cost/Income Ratio



Breakdown on cost types

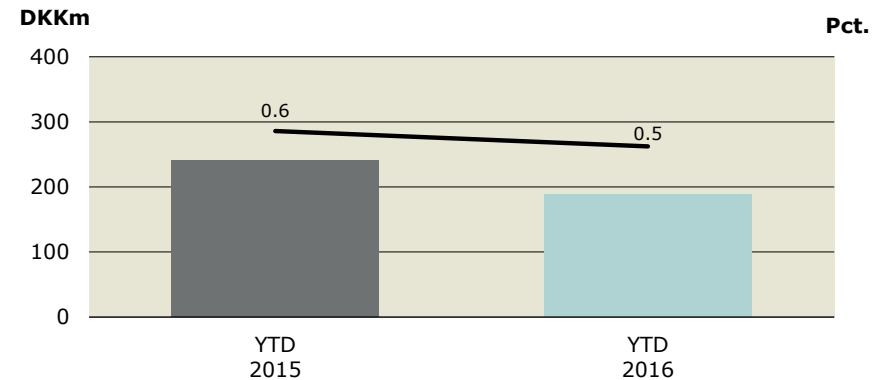
Costs (DKKm)	YTD 2016	YTD 2015	Change
Staff costs	835	807	27
Operating expenses	468	514	-46
Depreciation	51	52	-1
<b>Costs</b>	<b>1,354</b>	<b>1,374</b>	<b>-20</b>

Operating expenses (DKKm)	YTD 2016	YTD 2015	Change
Staff-related expenses	27	29	-3
Travel expenses	11	11	0
Marketing costs	65	72	-7
IT expenses	239	252	-13
Cost of premises	61	65	-3
Other administrative expenses	66	86	-20
<b>Operating expenses</b>	<b>468</b>	<b>514</b>	<b>-46</b>

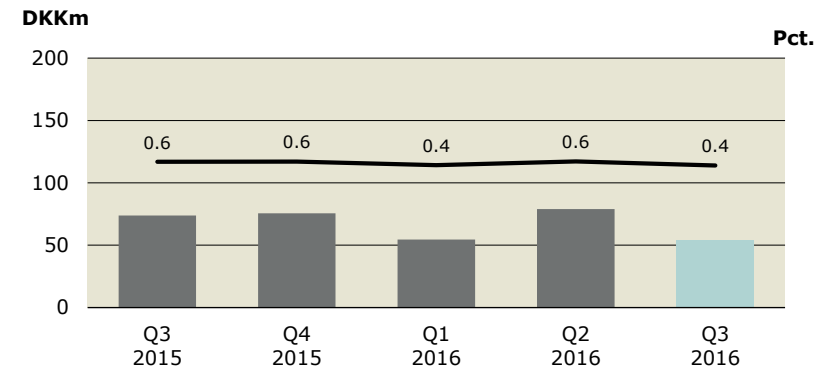
## Loan losses down 22 %

- Loan losses came to DKK 188 million corresponding to an impairment percentage of 0.47
  - 94 % of profit impact is attributable to agriculture
- Impairment percentage on business segments
  - Household: DKK -72 million (-0.4 % p.a.)
  - Corporate ex. agriculture: DKK 84 million (0.4 % p.a.)
  - Agriculture: DKK 176 million (6.6 % p.a.)
- Breakdown on business segment can be somewhat affected by migration to new IT-system
- Status on agriculture
  - **Milk:** Loans and advances of DKK 1.2 billion – hereof 58 % impaired and 40 % written down
  - **Pigs:** Loans and advances of DKK 0.9 billion – hereof 51 % impaired and 33 % written down

Impairments and impairment percentage



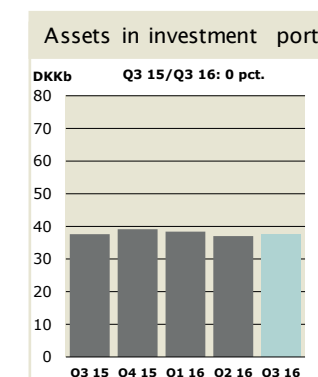
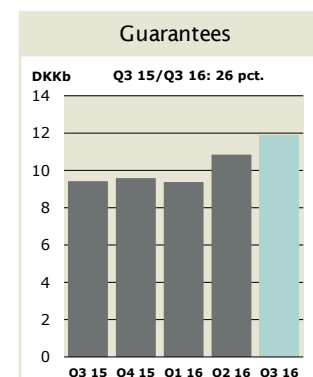
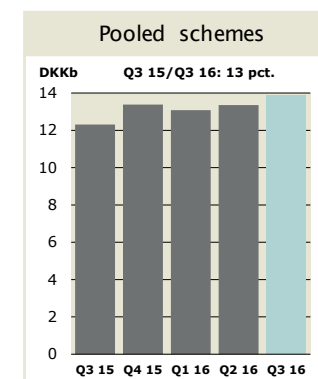
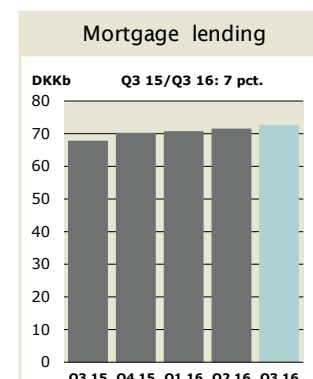
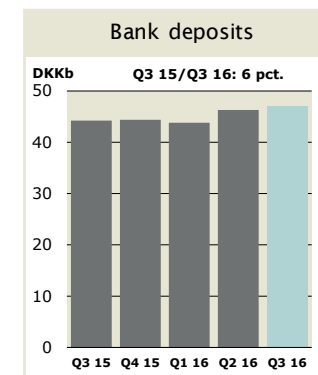
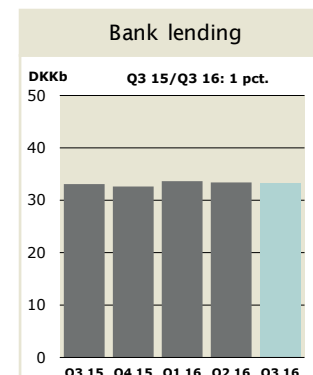
Impairments and impairment percentage





## ■ Total business volume has grown by DKK 7.5 billion YTD

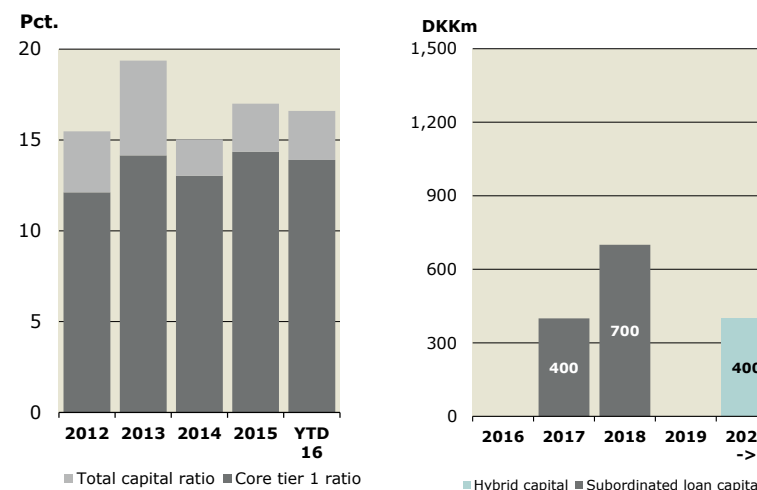
- At the end of Q3, the Group's total business volume came to DKK 218.2 billion – DKK 7.5 billion higher than at the beginning of the year
- Bank and leasing lending is up by DKK 1.2 billion YTD
- Mortgage loan portfolio has grown by DKK 2.3 billion (3 %)
  - Total volume of DKK 72.6 billion, hereof DKK 61.1 billion in Totalkredit and DKK 11.5 billion in DLR Kredit
- Bank deposits have grown by DKK 2.7 billion (6 %)
- Guarantees have grown by DKK 2.3 or 24 % due to high re-financing activity and high activity in the housing market
- Customers' investment assets have declined by DKK 1.5 billion or 4 %



## Capital position remains comfortable

- Strategic targets
  - CET1: 12 % minimum
  - Total capital ratio: 15.5 % minimum
- At the end of Q3, Core Equity Tier 1 ratio is at 13.9 and total capital ratio at 16.6
- Capital ratio should be viewed in connection with individual solvency need of 9.4 % and combined buffer requirement of 0.6 %
  - Excess coverage of DKK 3.1 billion (6.6 pp)
- Based on fully phased-in CRD IV regulations, CET1 ratio is 13.5
- Spar Nord's absolute leverage of equity is low compared to other large Danish banks
- Status on share buyback programme
  - Total programme: DKK 150 million
  - End of Q3: DKK 108 million

Capital percentage and subordinated capital



Capital base

Pct.	Q3 2016	2015	2014	2013
Core tier 1 ratio	13.9	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>

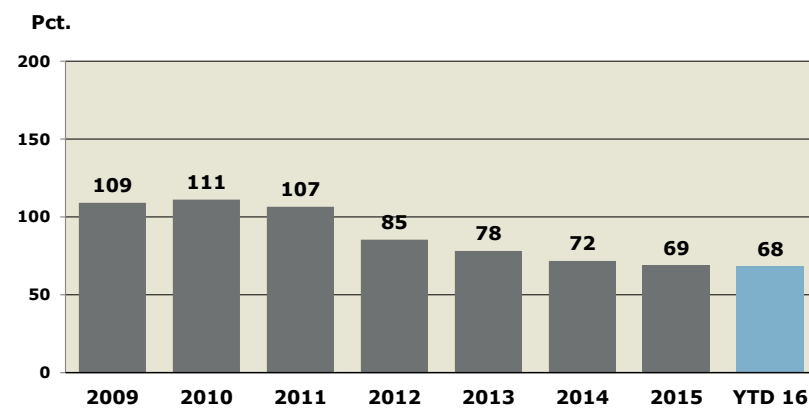
## Strategic liquidity of DKK 21.1 billion

- Strategic liquidity of DKK 21.1 billion
- Further strengthened in Q3 due to growth in deposits combined with flat loan growth
- Independence of funding from the capital markets
- Loan to deposit ratio of 68
- LCR of 155

### Strategic liquidity

DKKb	YTD 2016	2015	2014
Deposits, banking activities	47.0	44.4	42.2
Seniorfunding	0.0	0.0	0.1
Core capital and sub. capital	9.2	9.0	8.8
<b>Stable long term funding</b>	<b>56.2</b>	<b>53.4</b>	<b>51.1</b>
Loans, banking activities	33.3	32.6	34.4
Loans, leasing activities	1.8	1.3	1.1
Maturity < 1 year	0.0	0.0	-0.6
<b>Liquidity target</b>	<b>21.1</b>	<b>19.5</b>	<b>15.0</b>

### Loan to deposit ratio



## Guidance and share price

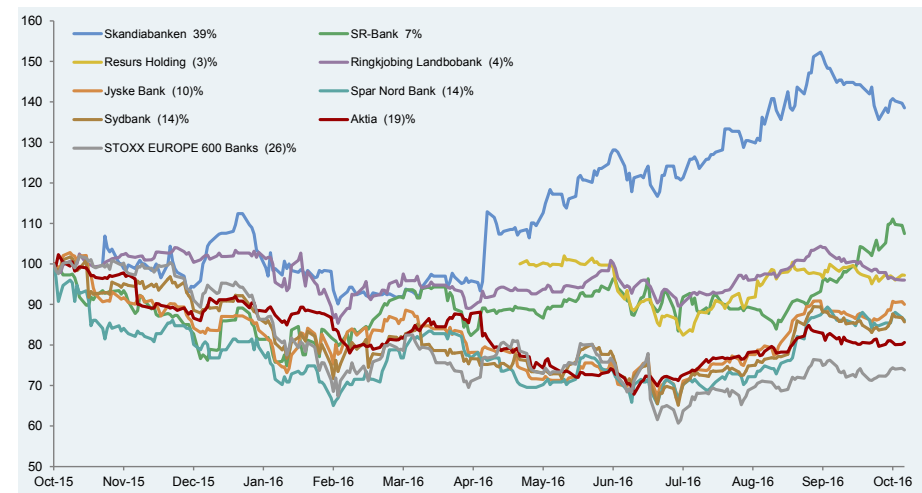
### Guidance for 2016

- Core earnings before impairments now expected in the DKK 1.2 billion range after one-off costs of DKK 50 million related to new strategy plan
- Loan impairments now expected to be somewhat lower than in 2015

### Preliminary guidance for 2017

- Core earnings before impairments in the DKK 1.1-1.2 billion range – primarily sensitive to interest margin and market-value adjustments
- Loan losses lower than in 2016

### Share price

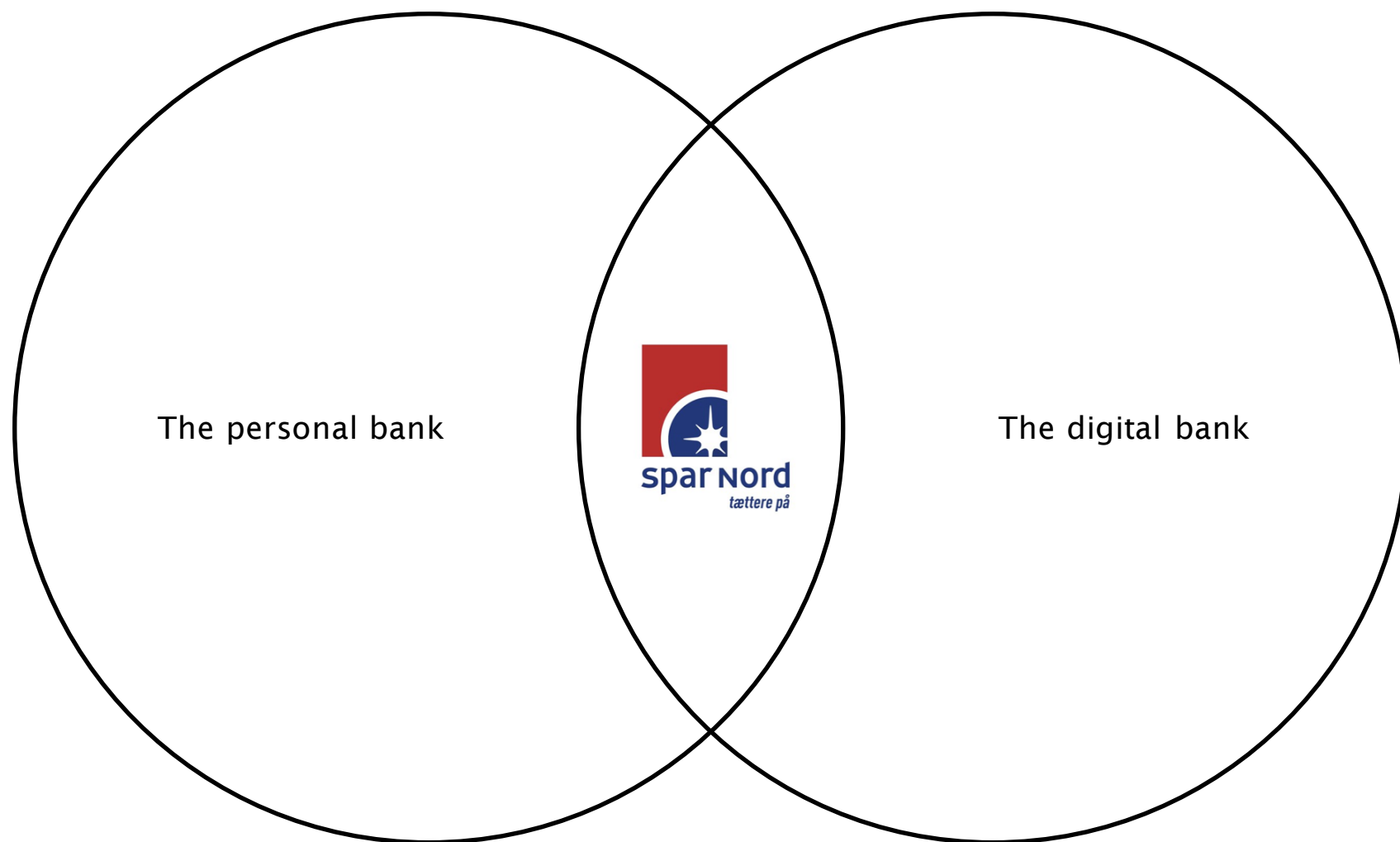


# **NEW STRATEGY PLAN**

## Point of departure

- **We have a strong position in the field**
  - Growth in market share and respectable profits throughout the crisis
  - High customer satisfaction and unutilized market potential outside North Jutland
  - Migration to a new IT platform completed successfully
- **The framework conditions are shifting**
  - Low growth and low interest rates have become a permanent feature
  - The wave of new rules and regulations continues to swamp us
  - Customer behaviour is changing, and new technological possibilities are emerging
- **More of the same will not suffice to generate sustained good results in the years ahead**
  - New technology and new regulations create a need for substantial investment
  - Customer offerings must be adapted to an environment with low growth and low interest rates
  - The service platform must be adapted to the customers' changed behaviour

## ■ Our position in the market



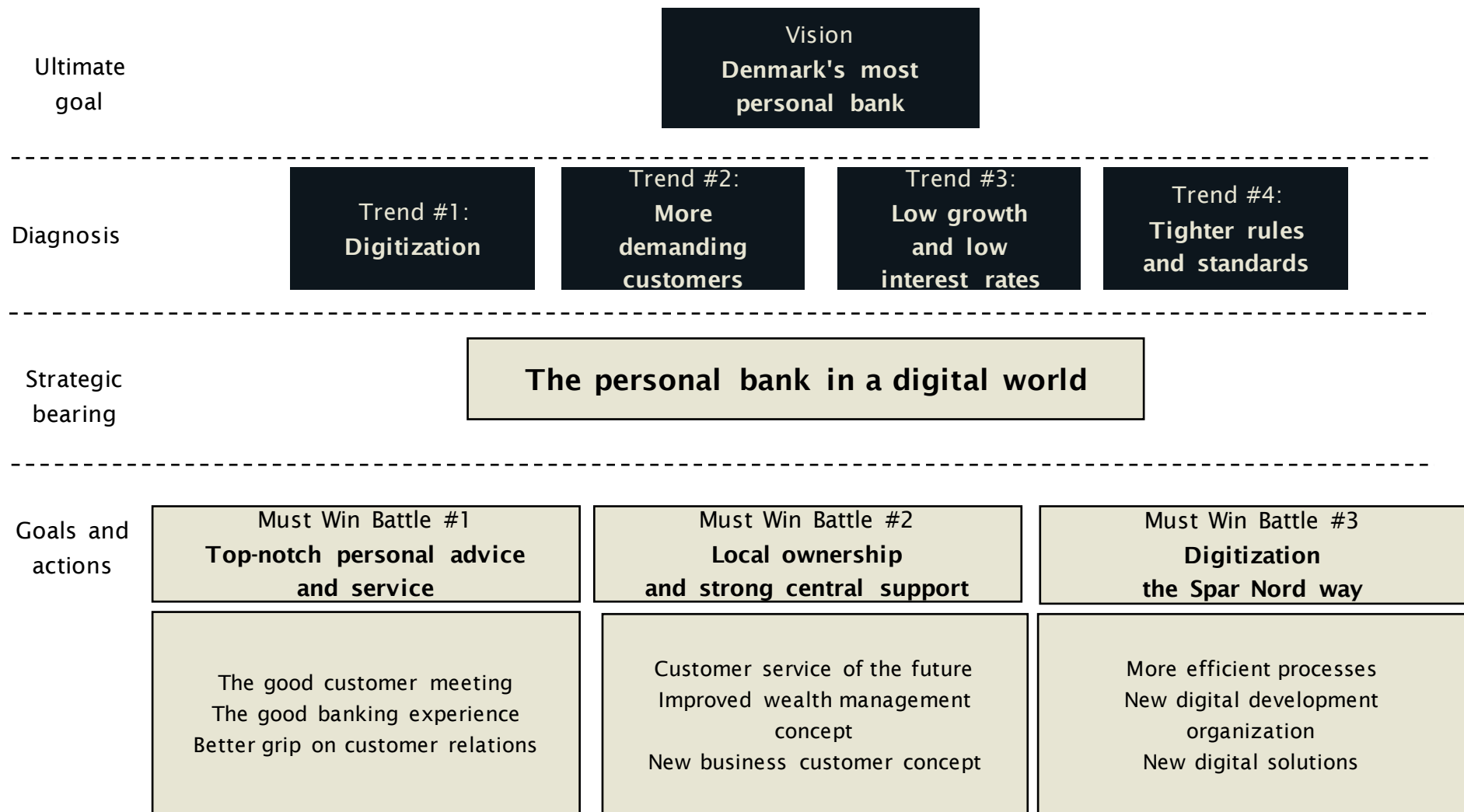
## Our burning ambition

### THE PERSONAL BANK IN A DIGITAL WORLD





## From vision to action



## How to generate growth in a stagnating market?

### **Denmark to remain our geographic market area**

- Our geographic growth since 2002 means that we still have a lot of unutilized potential in many locations

### **We have a good platform for organic growth**

- High customer satisfaction and a good image – potential for raising awareness of the bank

### **M&As are still an attractive option**

- But they are difficult to plan – so it is more a question of readiness (and sufficient capital) when an option presents itself

### **Opportunities for digital business development**

- New products in our existing market
- New initiatives on the fringes of the market

## Growth initiatives

- **Overall goal**
  - Combined, the initiatives are to boost core earnings by DKK 200m
- **Supporting KPIs**
  - Addition of Star PLUS customers
  - Addition of high net-worth customers
  - Addition of major business customers
- **Most important action areas**
  - Investment to strengthen the image and thus the market share: Generally outside North Jutland, and more specifically in the three largest cities
  - New business customer concept: Improved offerings for major customers, new segmentation (comprehensive advisory services – Small Corporates)
  - Improved wealth management concept: Developing and marketing targeted Private Banking offerings
  - Strengthened cross-selling: Deploying benefit programme and customer meeting design
  - Growth strategies in SparXpres and Leasing
  - Digital innovation strategy: Launching new offers (to new target groups)

## Efficiency enhancement initiatives

- **Overall goal**
  - Combined, the initiatives are to improve core earnings by DKK 100m
- **Supporting KPIs**
  - Number of service tasks solved by the Customer Service Centre (as opposed to local branches)
  - Degree of automation (benefits from process improvements)
- **Most important action areas**
  - Continued work on branch structure (12 branches will be closed in 2016)
  - Changed distribution of tasks between local banks and the Customer Service Centre
  - Implementation of CRM
  - Investments in process improvements and automation
  - New segmentation of business customers (comprehensive advisory services – Small Corporates)

## Outline of KPIs

General KPIs <b>FINANCIAL TARGETS</b>
<ul style="list-style-type: none"> <li>• Return on equity after tax of 9-11% (unchanged interest level and risk profile)</li> <li>• Growth initiatives of DKK 200m and efficiency enhancement initiatives of DKK 100m</li> <li>• Cost ratio of 0.60</li> </ul>

Must Win Battle #1 <b>Top-notch personal advice and service</b>	Must Win Battle #2 <b>Local ownership and strong central support</b>	Must Win Battle #3 <b>Digitization the Spar Nord way</b>
<ul style="list-style-type: none"> <li>• Growth in number of Star PLUS customers</li> <li>• Customer assessment of skills and qualifications</li> <li>• Customer assessment of service level</li> </ul>	<ul style="list-style-type: none"> <li>• New business customers (+ DKK 10m)</li> <li>• New high net-worth customers (+ DKK 2.5m)</li> <li>• Number of tasks performed by the Customer Service Centre</li> </ul>	<ul style="list-style-type: none"> <li>• Number of users of digital solutions</li> <li>• Customer assessment of digital solutions</li> <li>• Level of automation/process improvements</li> </ul>