

# INVESTING IN OUR FUTURE BUSINESS

Presentation of Spar Nord's full-year results 2014



## 2014 IN BRIEF

- 1 A year marked by strategic initiatives: M&A, decision to change IT-platform, re-launch of leasing
- 2 Satisfactory income growth driven by sale of Nets and strong trend in fee and commission income
- 3 Costs were up 10 % - excluding one-offs related to M&A and change of IT-platform growth was 1 %
- 4 Loan losses grew by 22 % and corresponded to 1.0 % of loans and advances – agriculture is in trouble
- 5 Satisfactory net profit of DKK 614 million equal to ROE of 9.0 %
- 6 Dividend of DKK 1.60 per share corresponding to a pay-out ratio of 33 % and dividend yield of 2.8 %

# HEADLINES FROM THE INCOME STATEMENT

## Income statement

SPAR NORD BANK DKKm	Realized 2014	Realized 2013	Change in pct.
Net interest income	1,800	1,849	-3
Net fees, charges and commissions	863	723	19
Market-value adjustments	380	201	89
Other income	160	166	-4
<b>Core income</b>	<b>3,202</b>	<b>2,938</b>	<b>9</b>
Staff costs	1,053	1,026	3
Operating expenses etc.	870	716	21
<b>Costs</b>	<b>1,922</b>	<b>1,741</b>	<b>10</b>
<b>Core earnings before impairment</b>	<b>1,280</b>	<b>1,197</b>	<b>7</b>
Impairments of loans and advances, etc.	493	405	22
<b>Core earnings</b>	<b>786</b>	<b>792</b>	<b>-1</b>
Investment income	21	44	-52
<b>Profit/loss on ordinary activities</b>	<b>807</b>	<b>836</b>	<b>-3</b>
Sector Fund	-102	-120	-15
Cost related to merger	0	-46	-100
<b>Profit before tax</b>	<b>705</b>	<b>670</b>	<b>5</b>
Tax	91	133	-31
<b>Profit</b>	<b>614</b>	<b>536</b>	<b>14</b>

## Key messages

- Improvement in ROE
  - 2013: 8.6 % after tax
  - 2014: 9.0 % after tax
- Growth in core income
  - Gain from the sale of Nets
  - Strong trend in fee income
- Large one-off costs
  - Change of IT-platform
  - M&A
- Loan losses up 22 %

## Q4 MARKED BY EXTRAORDINARY ITEMS

### Income statement

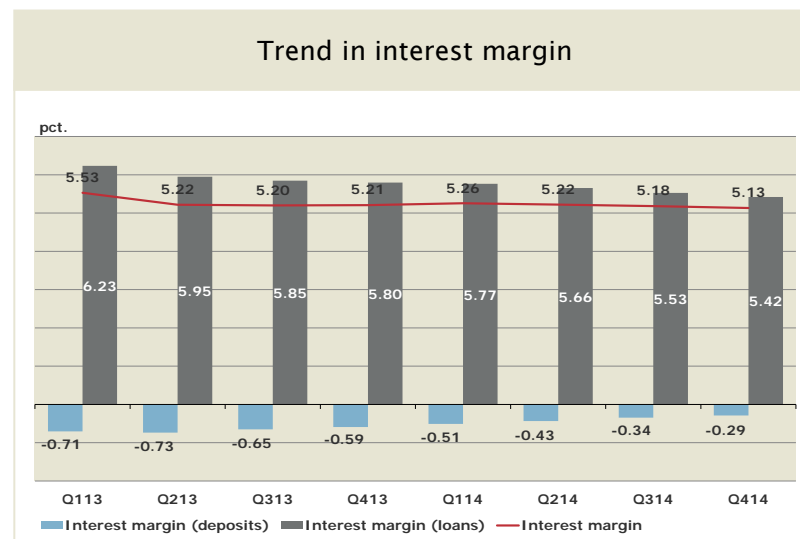
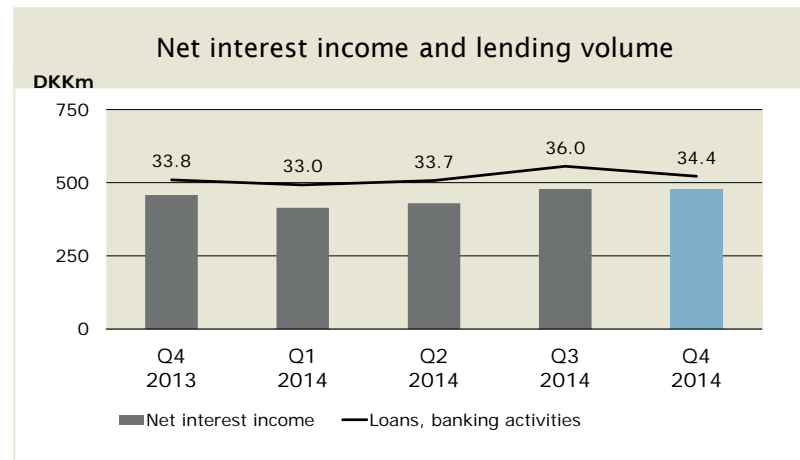
SPAR NORD BANK DKKm	Realized Q4 2014	Realized Q3 2014	Change in pct.	Realized Q4 2013	Change in pct.
Net interest income	477	479	0	458	4
Net fees, charges and commissions	238	225	6	191	25
Market-value adjustments	27	42	-38	58	-54
Other income	40	37	10	55	-27
<b>Core income</b>	<b>782</b>	<b>782</b>	<b>0</b>	<b>761</b>	<b>3</b>
Staff costs	280	227	23	284	-1
Operating expenses etc.	330	161	105	167	97
<b>Costs</b>	<b>610</b>	<b>388</b>	<b>57</b>	<b>451</b>	<b>35</b>
<b>Core earnings before impairment</b>	<b>172</b>	<b>394</b>	<b>-56</b>	<b>310</b>	<b>-44</b>
Impairments of loans and advances, etc.	205	128	60	94	119
<b>Core earnings</b>	<b>-33</b>	<b>266</b>	<b>-112</b>	<b>217</b>	<b>-115</b>
Investment income	2	8	-77	2	-17
<b>Profit/loss on ordinary activities</b>	<b>-31</b>	<b>275</b>	<b>-111</b>	<b>219</b>	<b>-114</b>
Sector Fund	-25	-25	0	-37	-32
Cost related to merger	0	0	-	-4	-
<b>Profit before tax</b>	<b>-56</b>	<b>249</b>	<b>-122</b>	<b>178</b>	<b>-131</b>

### Key messages

- Core income on par with Q3
- Continued strong demand for savings and mortgage products
- One-off expense of DKK 139 million related to change of IT-platform
- Portfolio write-down on agriculture of DKK 100 million

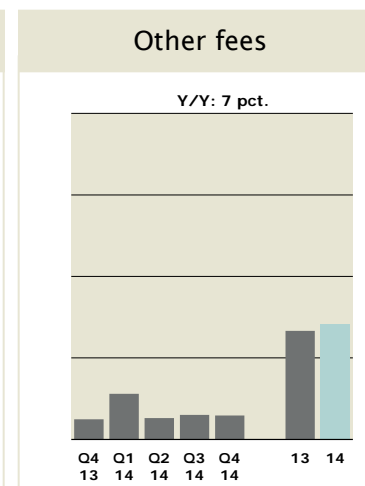
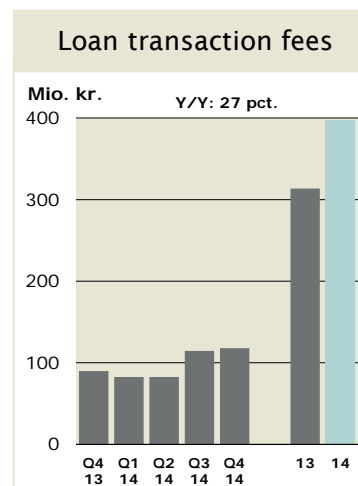
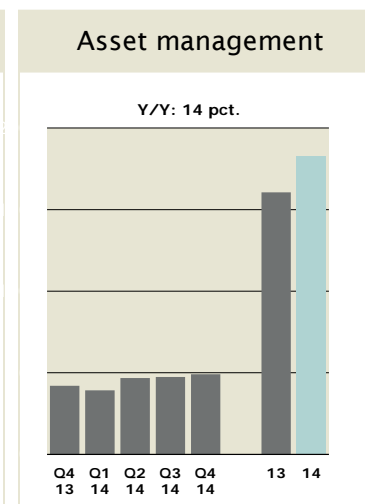
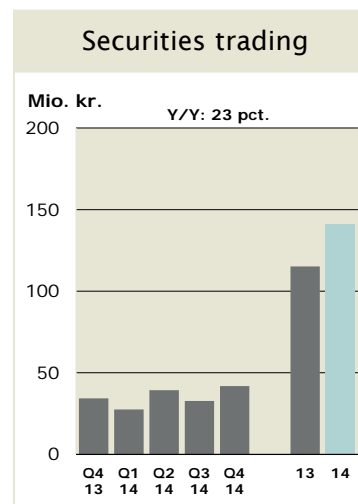
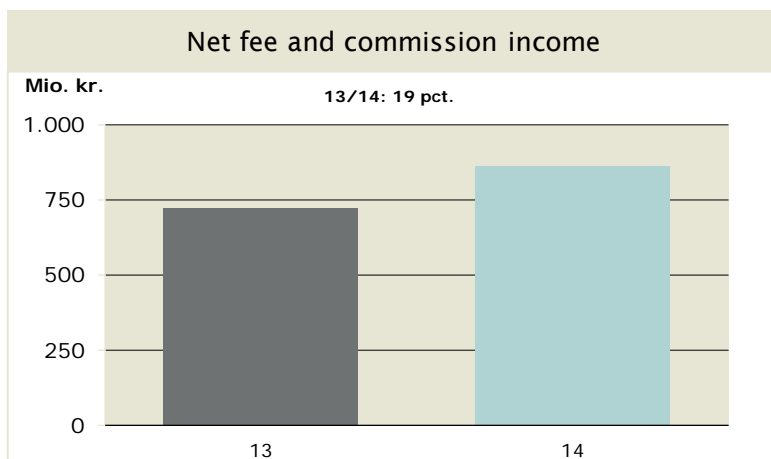
## ACCEPTABLE TREND IN LENDING VOLUME AND NET INTEREST INCOME – ALL THINGS CONSIDERED

- Net interest income was down 3 % to DKK 1,800 million
  - After sharp decline in Q1, the rest of the year was acceptable
- Bank lending grew by 2 %
  - Three acquisitions – especially FIH is visible
  - Stabilized underlying trend
  - Approx. DKK 2 billion reduction in lending to public authorities and run-off portfolio from SPARBANK
- Continued pressure on margins
  - Competition puts pressure on lending margin
  - Gradual improvement of deposit margin – but still negative
- Lower funding expenses following re-payment of state-funded hybrid core capital



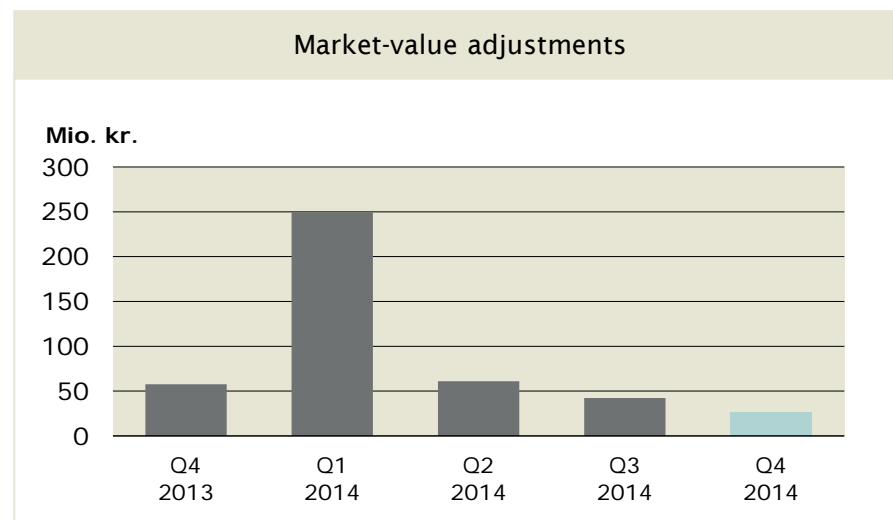
# INCOME FROM FEES AND COMMISSIONS AT ALL-TIME HIGH

- Net fee income grew by 19 % to DKK 863 million
- Strong growth in securities trading and asset management
  - 22 % growth in AUM in pooled pension schemes
  - 84 % growth in AUM related to other investment schemes
- Fee income related to mortgage arrangement grew by 20 % to DKK 245 million
  - Continued volume growth in both household and corporate segment
  - Re-mortgaging activity a all-time high in Q3 and Q4 due to low interest level



## MARKET-VALUE ADJUSTMENTS AT EXTRAORDINARILY HIGH LEVEL DRIVEN BY THE SALE OF NETS

- Market-value adjustments and dividends grew by a whole 89 % and came to DKK 380 million
- Gain from the sale of Nets of DKK 178 million
- Satisfactory market-value adjustments on portfolio of shares and bonds
- Positive trend in income related to customers' hedging of interest risk and FX risk



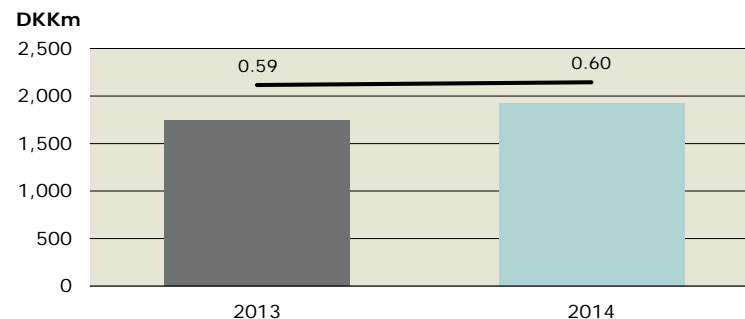
Market-value adjustments broken down on types

DKKm	2014	2013	Change
Market-value adjustments in Trading, Financial Markets & The International Division	59	86	-27
Tangible assets	215	25	190
Currency trade and agio	68	53	15
Dividends on shares, etc.	38	37	1
<b>Total</b>	<b>380</b>	<b>201</b>	<b>179</b>

## A YEAR MARKED BY LARGE ONE-OFF EXPENSES – UNDERLYING TREND AS EXPECTED

- Total costs and expenses of DKK 1,922 million – 10 % up on 2013
- Large one-off expenses
  - Change of IT-platform: DKK 139 million
  - M&A-activities: DKK 24 million
- Underlying growth of 1 % as expected
- Staff costs were up by 3 %
  - Hike in payroll tax and effect of collective agreement
  - 29 new FTEs from FIH Erhvervsbank in Q3
- Depreciation down DKK 27 million due to decline in operational leasing
- In 2014, a total of 5 branches has been closed
  - Spar Nord now has 71 local branches
  - 43 branches have been closed or merged since 2008

Costs and Cost/Income Ratio



Costs – breakdown on types

Costs (DKKm)	2014	2013	Change
Staff costs	1,053	1,026	27
Operating expenses	798	618	181
Depreciation	72	98	-27
<b>Costs</b>	<b>1,922</b>	<b>1,741</b>	<b>181</b>

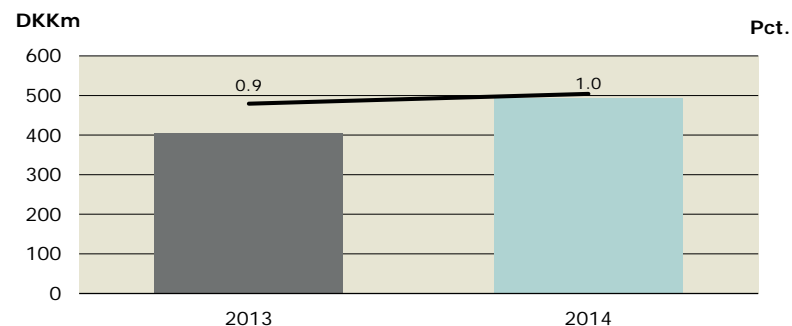
Operating expenses (DKKm)	2014	2013	Change
Staff-related expenses	34	41	-6
Travel expenses	14	15	0
Marketing costs	94	90	3
IT expenses	448	300	148
Cost of premises	90	93	-3
Other administrative expenses	117	78	39
<b>Operating expenses</b>	<b>798</b>	<b>618</b>	<b>180</b>



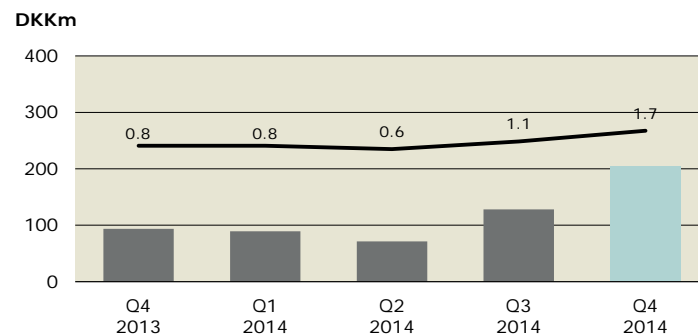
## HIGHER LOAN LOSSES THAN EXPECTED

- Impairments of loans etc. came to DKK 493 million corresponding to impairment percentage of 1.0
  - Somewhat higher than expected at the beginning of the year
- Breakdown on business segments
  - Household: DKK 110 million => 0.5 %
  - Corporate excl. agriculture: DKK 145 million => 0.6 %
  - Agriculture: DKK 238 million => 6.2 %
- Impairment percentage incl. mortgage loans: 0,46
- Danish farmers are hit hard by the crisis between EU and Russia and the decline in China's import

Impairments and impairment percentage



Impairments and impairment percentage



# WELL-DIVERSIFIED LOAN BOOK – BUT AGRICULTURE TRIGGERS LARGE PROFIT-IMPACT

- Our loan book is generally well-diversified
  - Satisfactory diversification on business sectors and no large exposures – Top 20 only add up to 60 % of core capital
- Exposure to household segment account for 42 % of loans and guarantees – sector average is 32 %
  - Recent growth partly attributable to on-going re-mortgaging rally
- Agricultural sector is facing serious challenges due to the crisis between EU and Russia and due to decline in export to China
  - 39 % of agricultural exposure shows OII – impairments now add up to 17 % of exposure

## Loan book – breakdown on business sectors

Breakdown by sector The group	Loans, advances and guarantees	Loans, advances and guarantees	Loans, advances and guarantees Sector
Line of business	DKKm	Pct.	Pct.
DKKb/Pct.	2014	2014	2013
Public authorities	0.9	1.9	2.7
Agriculture, hunting and forestry	3.9	8.0	4.4
Fisheries	0.1	0.3	0.0
Industry and raw materials extraction	2.7	5.7	5.5
Energy supply	1.9	3.8	1.9
Building and construction	1.6	3.3	1.8
Trade	3.9	8.0	4.8
Transport, hotels and restaurants	1.7	3.6	2.9
Information and communication	0.1	0.2	0.7
Financing and insurance	2.8	5.8	28.2
Real estate	5.5	11.4	9.4
Other business areas	2.9	6.1	5.7
<b>Corporate customers, total</b>	<b>28.1</b>	<b>58.1</b>	<b>68.0</b>
<b>Retail customers, total</b>	<b>20.3</b>	<b>41.9</b>	<b>32.0</b>
<b>Total</b>	<b>48.3</b>	<b>100.0</b>	<b>100.0</b>

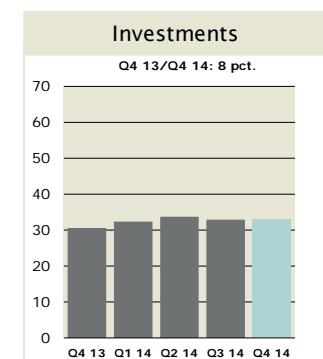
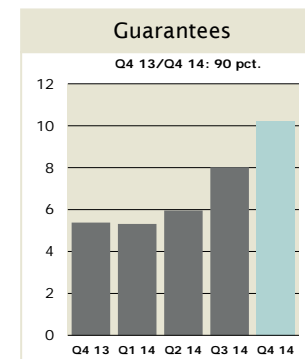
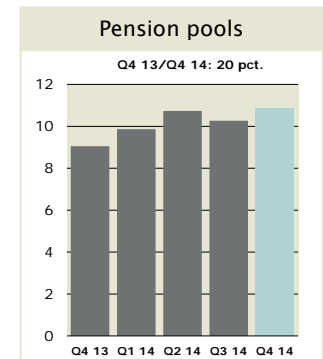
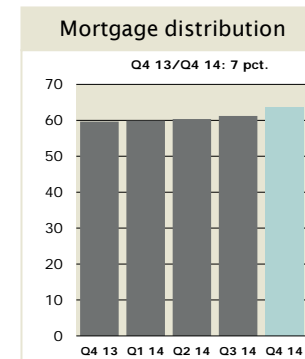
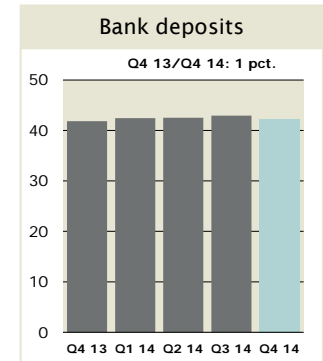
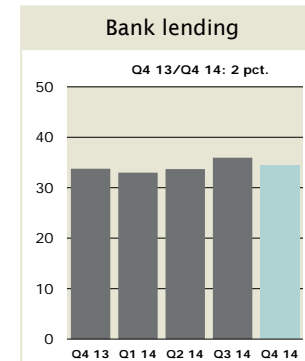
## Agriculture (banking activities)

2014	Loans, advances and guarantees	Of which impaired	Share impaired
DKKm/Pct.	DKKm	DKKm	Pct.
Pig producers	1,090.4	639.6	58.7
Cattle producers	1,357.9	589.9	43.4
Plant cultivation	508.0	82.0	16.1
Mink farmers	107.8	0.4	0.4
Other production lines	506.2	62.1	12.3
<b>Total</b>	<b>3,570.3</b>	<b>1,374.0</b>	<b>38.5</b>

2014	Impairment balance	Impairment for the year	Impairment ratio on exposure	Percentage impaired
DKKm/Pct.	DKKm	DKKm	Pct.	Pct.
Pig producers	211.0	124.1	19.4	33.0
Cattle producers	243.7	25.2	17.9	41.3
Plant cultivation	20.7	-15.8	4.1	25.2
Mink farmers	0.4	0.3	0.4	100.0
Other production lines	29.7	8.1	5.9	47.8
Overall impaired	100.0	100.0	0.0	0.0
<b>Total</b>	<b>605.5</b>	<b>241.9</b>	<b>17.0</b>	<b>44.1</b>

# SATISFACTORY GROWTH IN BUSINESS VOLUME

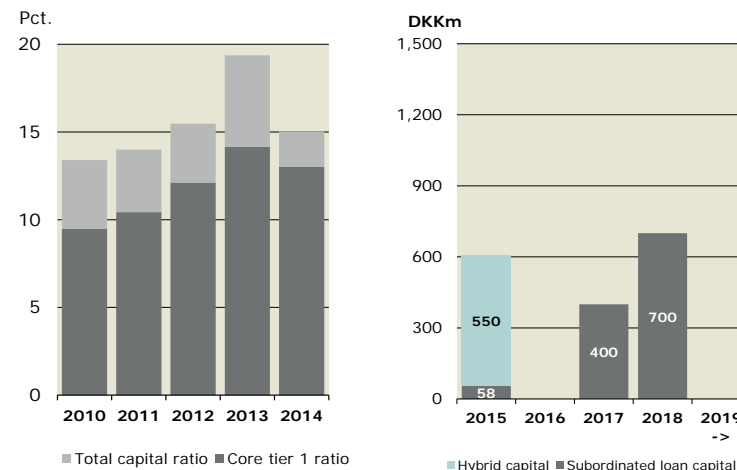
- Total business volume grew by DKK 13 billion or 7 %
- Bank lending grew by DKK 0.6 billion or 2 %
  - Growth mainly attributable to M&A
  - Large reduction in run-off portfolio taken over from SPARBANK and reduction in lending to one specific public sector customer
- Continued growth in mortgage-distribution
  - Total business volume of DKK 63.7 billion, hereof DKK 54.1 billion in Totalkredit and DKK 9.6 billion in DLR
- Strong growth in guarantees due to re-mortgaging rally
- Bank deposits grew by DKK 0.4 billion or 1 %
- Asset management and savings products still in strong demand



# DIVIDEND OF DKK 1.60 PER SHARE – PAYOUT RATIO OF 33 %

- CET1 ratio of 13.0 and total capital ratio of 15.0
  - CET1 ratio reduced by 0.9 percentage points with the acquisition of assets from FIH Erhvervsbank in Q3
  - Total capital percentage reduced by a further 3.0 percentage points with the re-payment of state-funded hybrid core capital
- Total capital percentage should be viewed in connection with an individual solvency need of 9.7 %
  - Excess coverage of DKK 2.6 billion (5.3 percentage points)
- Based on fully loaded CRD IV standards, CET1 would have been 11.8
  - CET1 is not forecast to actually drop below 12 at any point during the implementation of CRD IV
- Dividend policy
  - Target: Payout ratio of 33 %
  - Subject to compliance to strategic capital targets
  - Possibility of extraordinary dividend or buy-backs, if no value-creating investment opportunities can be found
- For 2014, dividend is proposed at DKK 1.60 per share corresponding to 33 % of net profits
  - Dividend yield of 2,8 %

Capital percentage and subordinated capital



Capital base

Pct.	Q4 2014	2013	2012	2011
Core tier 1 ratio	13.0	14.1	12.1	10.4
Hybrid capital	0.9	4.2	3.9	3.8
Deductions in hybrid capital	-0.6	-1.0	-1.0	-0.9
<b>Tier 1 ratio</b>	<b>13.3</b>	<b>17.4</b>	<b>15.1</b>	<b>13.3</b>
Subordinated debt	2.3	2.9	1.4	1.6
Deductions in own funds	-0.6	-1.0	-1.0	-0.9
<b>Total capital ratio</b>	<b>15.0</b>	<b>19.4</b>	<b>15.5</b>	<b>14.0</b>

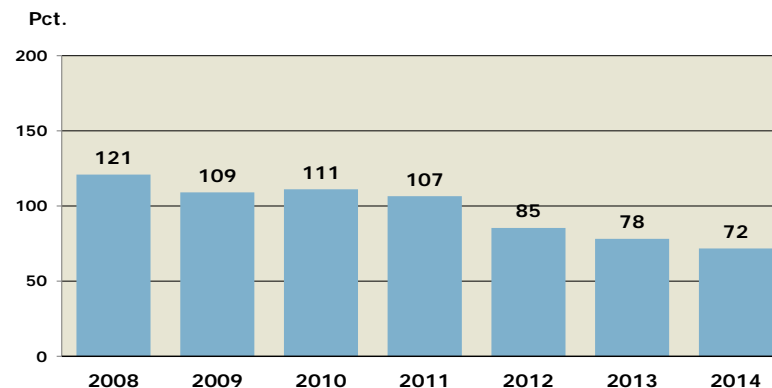
# LIQUIDITY NEED FULLY COVERED BY CUSTOMER DEPOSITS

- Strategic liquidity of DKK 15.0 billion
- Reduction of DKK 2.3 billion during 2015 is attributable to loan growth and re-payment of senior funding
- Growth in bank deposits and reduction in leasing volume pull in the opposite direction
- I 2015, we expect to issue bonds for some DKK 2 billion
- Since 2008, Loan to deposit ratio has been reduced from 121 to 72

## Strategic liquidity

DKKb	2014	2013	2012
Deposits, banking activities	42.2	41.8	41.9
Seniorfunding	0.1	3.4	9.6
Core capital and sub. capital	8.8	9.5	8.5
<b>Stable long term funding</b>	<b>51.1</b>	<b>54.7</b>	<b>60.0</b>
Loans, banking activities	34.4	33.8	34.9
Loans, leasing activities	1.1	2.1	4.0
Maturity < 1 year	-0.6	-1.5	-6.3
<b>Liquidity target</b>	<b>15.0</b>	<b>17.3</b>	<b>14.8</b>

## Loan to deposit ratio

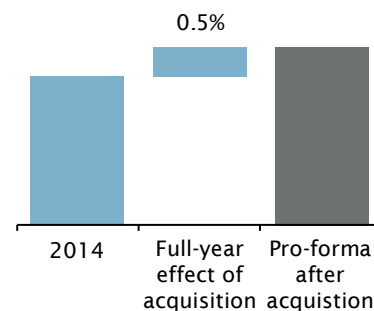


# UPDATE ON THE ACQUISITION FROM FIH ERHVERVSBANK

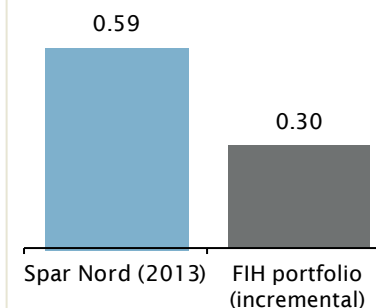
## The acquisition

- 1 July 2014, we took over a total business volume of DKK 4.0 billion (RWA of DKK 2.7 billion)
  - Lending: DKK 2.4 billion
  - Guarantees: DKK 1.25 billion (net: DKK 0.25 billion)
  - Market-value of derivatives: DKK 0.3 billion
- We took over two FIH branches and welcomed 29 new colleagues in three locations
  - 23 of the new people are still with us
  - The branches have now been merged with Spar Nord branches
- We were expecting core earnings of DKK 15 million after expected one-offs of DKK 20 million
  - Core earnings came to DKK 16 million
  - One-offs were DKK 19 million
- Business volume with "FIH customers" is maintained at year-end 2014
- In 2015, we expect the FIH portfolio to contribute with core earnings before impairment of DKK 70 million

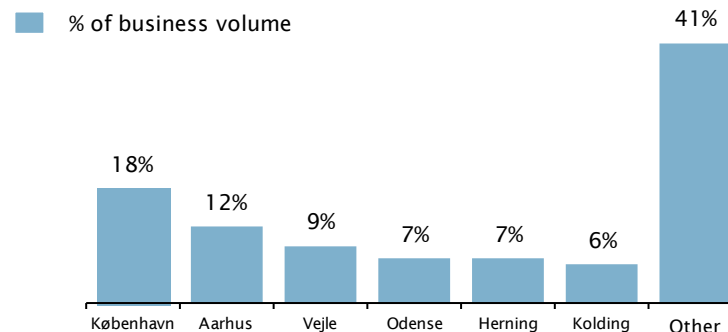
## Return on equity



## Cost/Income Ratio



## Geography



# UPDATE ON CHANGE OF IT-PLATFORM AND DATA PROCESSING CENTRE

## Business perspectives

- Conversion to BEC makes way for huge cost savings and synergies
- Well-functioning digital solutions will be a key competitive parameter in the future
- At BEC, we will team up with partners with great focus on IT and strong development power
  - Nykredit, Handelsbanken, Arbejdernes Landsbank, Danish Central Bank etc.
- BEC's concept is a great match for our strategy "AN UNCOMPLICATED BANK"
  - High degree of integration between business data and reporting data

## Attractive business case

1

### Spar Nord's investment

- Spar Nord will pay exit fee of DKK 139 million to SDC (Q4 2014)
- Conversion costs of DKK 40 million (DKK 25 million in 2015)
- BEC will grant Spar Nord a discount that will largely eliminate Spar Nord's obligations to SDC at the time of conversion

2

### BEC's pricing model is very attractive

- Larger discounts to high volume customers
- Spar Nord's annual IT-expenses will be reduced by DKK 35 million in 2016 and DKK 55 million from 2017 and onwards
- Expected to lower Spar Nord's Cost/Income Ratio with 0.02

## The new data processing centre landscape

### BEC



### SDC



### Bankdata



### Danske Bank

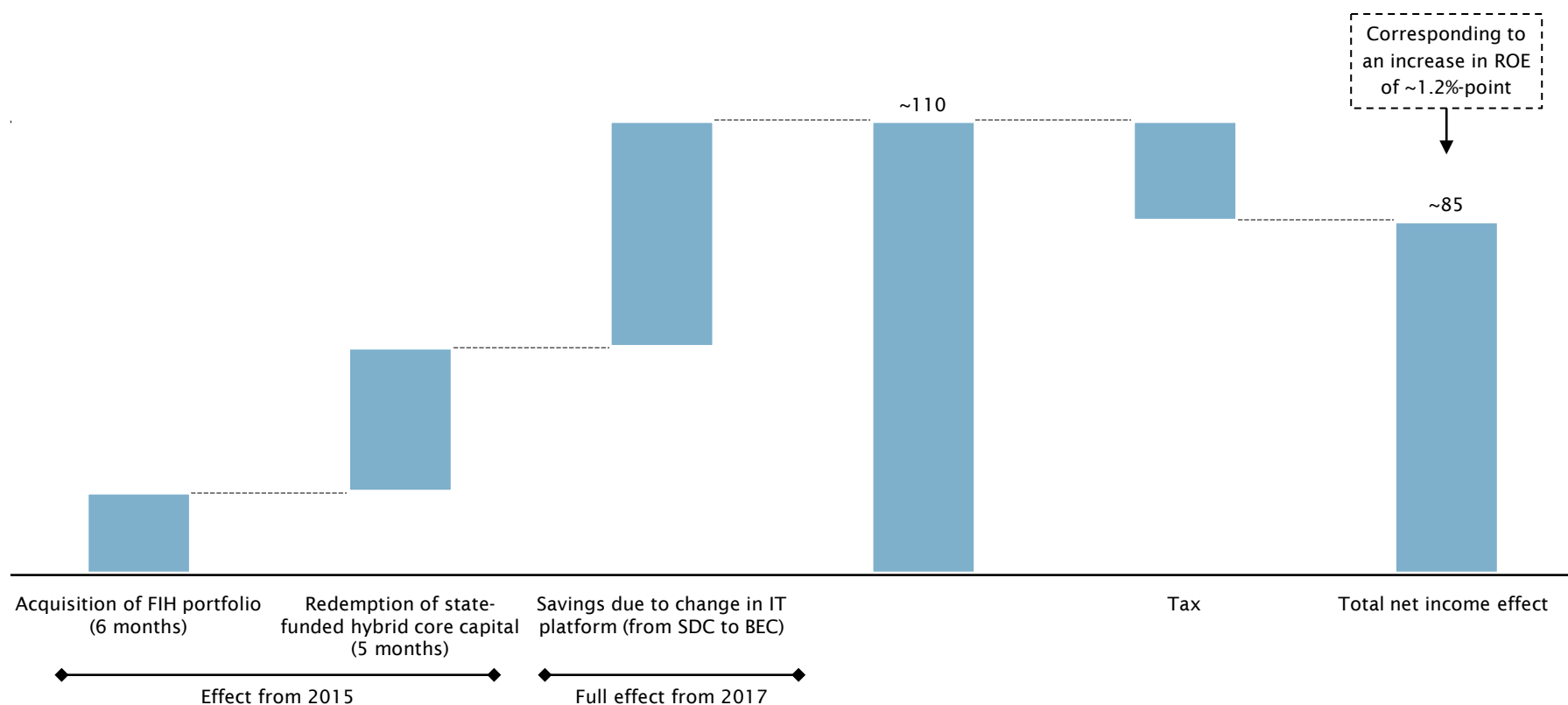


### Nordea



# STRATEGIC INITIATIVES INITIATED IN 2014 WILL HAVE SIGNIFICANT EARNINGS IMPACT IN COMING YEARS

Additional net income effect in 2015-17 of strategic initiatives initiated in 2014 (DKK<sub>m</sub>)



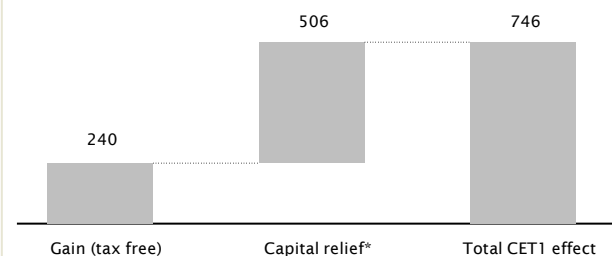


# THE SITUATION AROUND NØRRESUNDBY BANK REMAINS UNRESOLVED

## History and scenarios

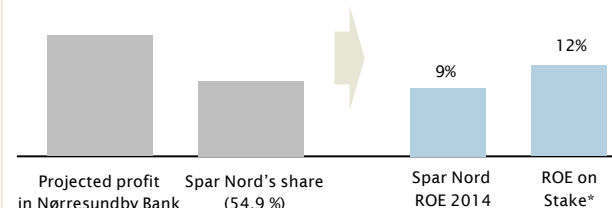
- 10 October 2014, Nørresundby Bank and Nordjyske Bank announced plans to merge the two banks – presumably based on book value
- As 54.9 % shareholder in Nørresundby Bank, we could not live with this solution
- 8 December 2014, we made a conditional voluntary tender offer for the 45.2 % of Nørresundby Bank, we didn't already own
  - DKK 309 and 2 Spar Nord shares per share in Nørresundby Bank => premium of 63 % compared to 9 October
  - The BoD of Nørresundby Bank could not recommend our offer
- 14 January 2015, Nordjyske Bank made a conditional voluntary tender offer to all shareholders in Nørresundby Bank
  - DKK 335 and 1 Nordjyske Bank share per share in Nørresundby Bank => roughly the same price as we had offered
  - The BoD of Nørresundby Bank has recommended the offer, which expires 26 February
- Scenarios
  - We can accept the offer from Nordjyske Bank provided that we do not end up as major shareholder in the merged bank, i.e. the 13.8 % stake that we are to receive needs to be sold in connection with the transaction
  - If this doesn't happen, we will reject the offer and let things return to the situation before Nørresundby Bank and Nordjyske Bank announced their merger plans

## Sale of shares (DKK 440)



\* Estimated 2015 – based on fully implemented CRD IV

## Status quo (stake in Nørresundby Bank)



\* Estimated 2015 – based on fully implemented CRD IV

# GUIDANCE AND SHARE PRICE

## Guidance for 2015

- Core earnings before impairments expected to be in line with 2014 adjusted for one-offs related to Nets and change of IT-platform
- Positive trends
  - Full-year impact of business taken over in 2014
  - Full-year impact of the re-payment of hybrid capital
  - Modest but positive lending growth
  - Continued strong fee income
- Negative impact from extremely low interest level
  - Pressure on lending and deposit margin
  - Challenging business environment for markets operation
- Loan losses expected to stay high
  - Improvement in household and SME segment
  - Continued challenges for agriculture
- Contribution to sector-wide solutions: DKK 100 million

## Share price

