

# RECORD-HIGH NET PROFIT OF DKK 897 MILLION AND ROE OF 12.2 %

Presentation of Spar Nord's Financial results for 2015



## KEY MESSAGES

- 1 Core income up 4 % driven by net fee income and market value adjustments
- 2 NII down 4 % due to margin pressure, declining volume and lower income from bond portfolio
- 3 Fee income at all-time high following strong activity in mortgage-distribution and asset management
- 4 Market-value adjustments at extraordinary level following sale of shares in Nørresundby Bank
- 4 Costs rose 2 % when adjusted for one-offs related to change of IT-platform
- 5 Core earnings before impairment of DKK 1,488 m – much higher than expected at beginning of year
- 6 Loan losses came down to DKK 316 m corresponding to an impairment percentage of 0.64
- 7 Solid capital position makes way for distribution of 87 % profits as dividend and buy-back

# HEADLINES FROM THE INCOME STATEMENT

## Income statement

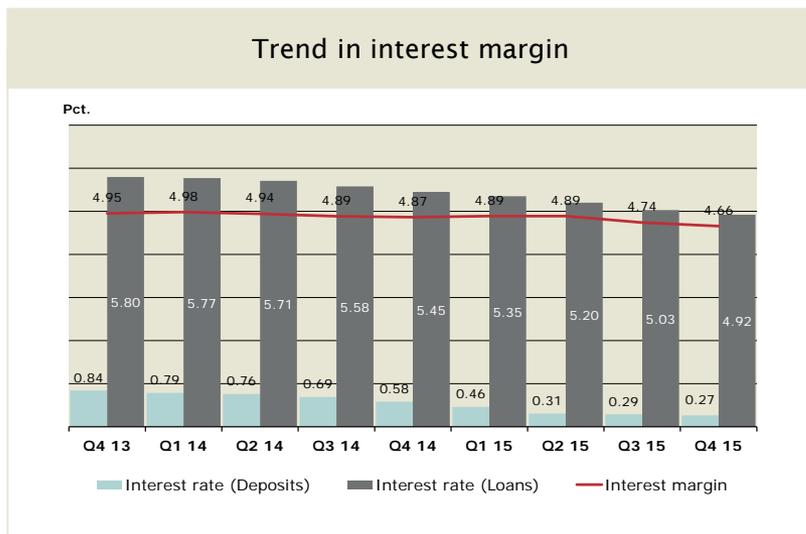
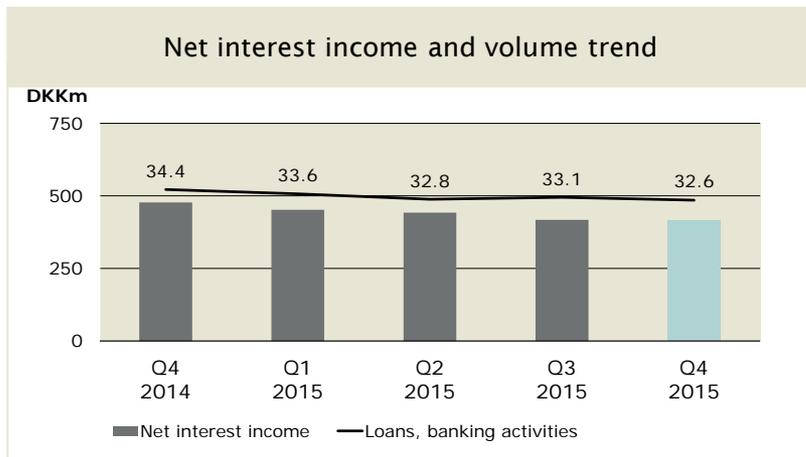
SPAR NORD BANK DKKm	Realized 2015	Realized 2014	Index	Realized Q4 2015	Realized Q3 2015	Index
Net interest income	1,727	1,800	96	416	417	100
Net fees, charges and commissions	1,030	863	119	239	222	108
Market-value adjustments	507	380	134	43	36	122
Other income	66	160	42	16	21	76
<b>Core income</b>	<b>3,331</b>	<b>3,202</b>	<b>104</b>	<b>714</b>	<b>696</b>	<b>103</b>
Staff costs	1,098	1,053	104	291	232	125
Operating expenses etc.	745	870	86	179	177	101
<b>Costs</b>	<b>1,843</b>	<b>1,922</b>	<b>96</b>	<b>469</b>	<b>409</b>	<b>115</b>
<b>Core earnings before impairment</b>	<b>1,488</b>	<b>1,280</b>	<b>116</b>	<b>245</b>	<b>286</b>	<b>86</b>
Impairments of loans and advances, etc.	316	493	64	76	74	102
<b>Core earnings</b>	<b>1,172</b>	<b>786</b>	<b>149</b>	<b>169</b>	<b>213</b>	<b>80</b>
Investment income	-	21	-	-	-	-
<b>Profit/loss on ordinary activities</b>	<b>1,172</b>	<b>807</b>	<b>145</b>	<b>169</b>	<b>213</b>	<b>80</b>
Sector Fund	-99	-102	96	-25	-25	100
<b>Profit before tax</b>	<b>1,074</b>	<b>705</b>	<b>152</b>	<b>145</b>	<b>188</b>	<b>77</b>

## Key messages

- ROE at satisfactory level
  - 2014: 9.0 % after tax
  - 2015: 12.2 % after tax
- Growth in core income
  - Gain from sale of shares in Nørresundby Bank
  - Very strong fee income
- Declining loan losses
  - But agriculture remains a big concern
- Last year with large contribution to depositors' insurance scheme

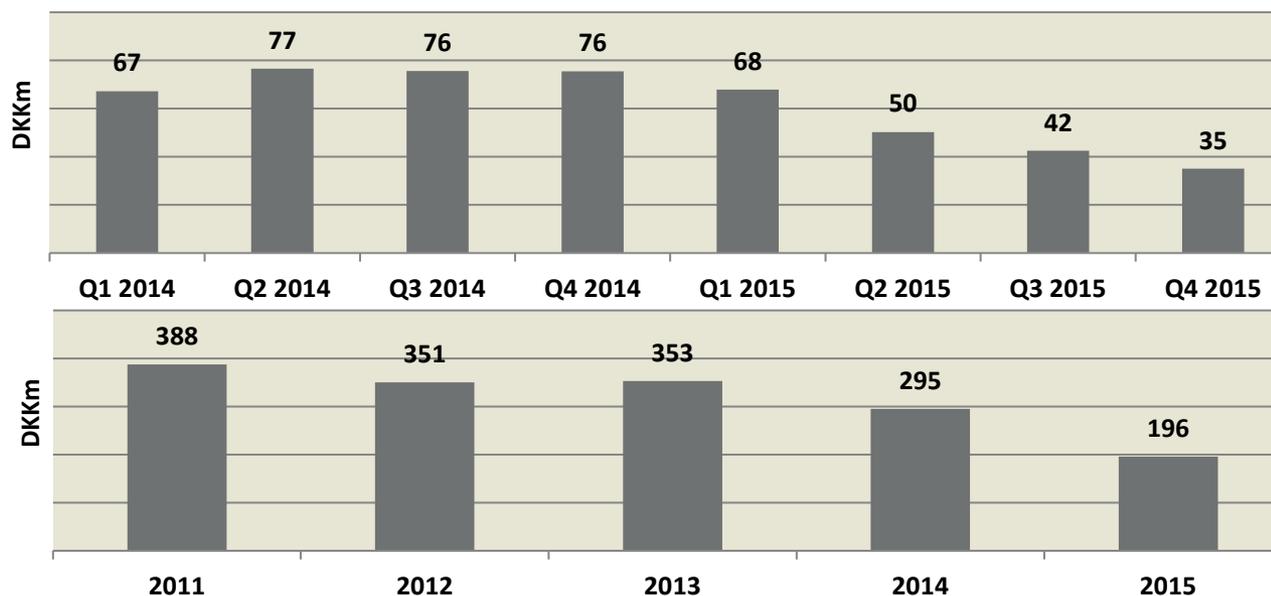
# LOWER INTEREST INCOME FROM BONDS PORTFOLIO AND DECLINING INTEREST MARGIN PUT NII UNDER PRESSURE

- Net interest income was down by 4 % and came to DKK 1,727 million
- Bank lending declined by 5 %
  - Primarily attributable to corporates (public sector, FIH portfolio and run-off portfolio)
- Continued pressure on interest margin
  - Total interest margin has dropped by 20 bps during 2015
  - Decline in lending margin of 52 bps was partially offset by reduction in deposit margin
- Substantial reduction in interest income from bond portfolio



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

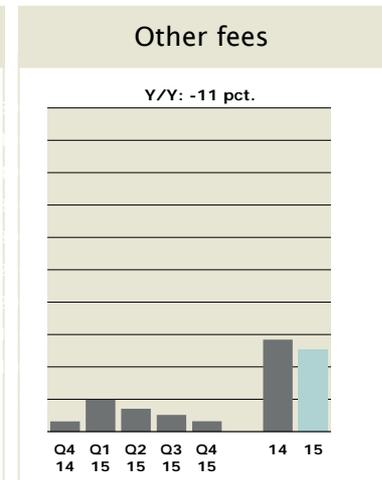
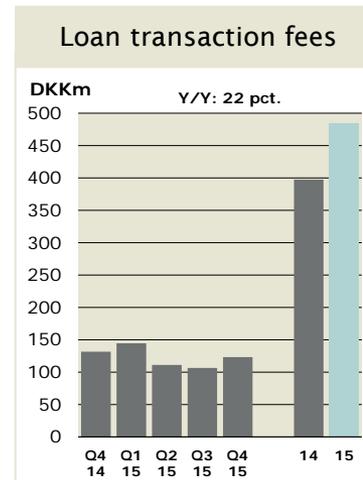
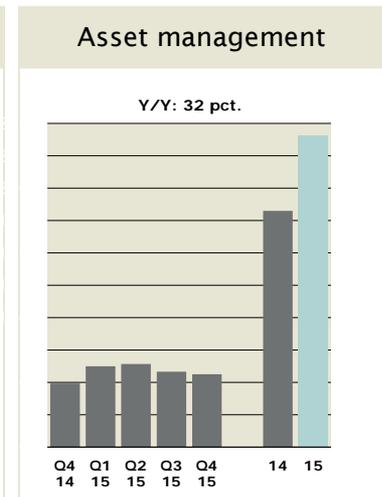
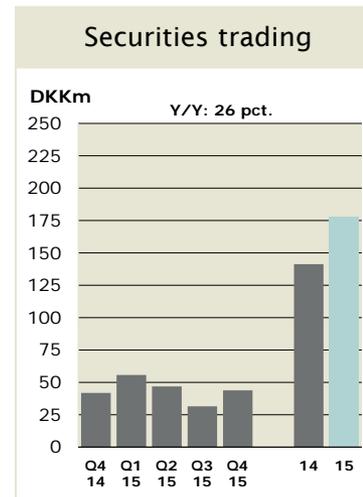
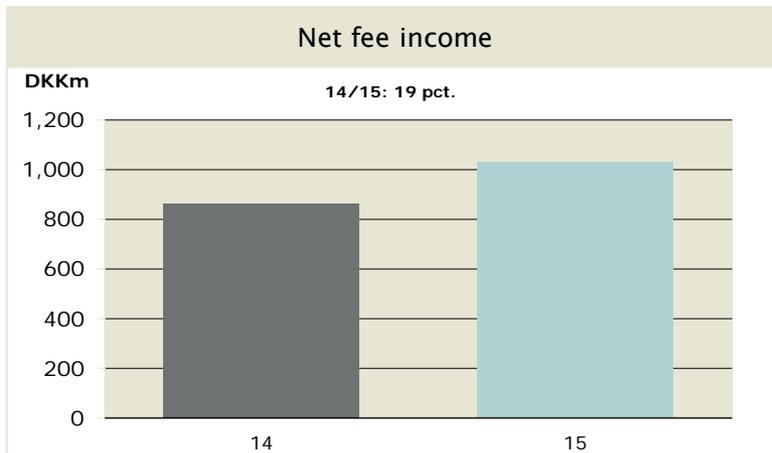
Interest income from bond portfolio



Net interest income DKKm	2014				2015				2014	2015	Change
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Loans and deposits, customers	413	405	436	433	421	428	406	407	1,687	1,661	-26
Financial counterparties	42	55	60	61	48	28	25	22	218	123	-95
Capital market funding	-41	-31	-18	-17	-16	-14	-14	-13	-106	-57	49
<b>Net interest income</b>	<b>414</b>	<b>430</b>	<b>479</b>	<b>477</b>	<b>452</b>	<b>442</b>	<b>417</b>	<b>416</b>	<b>1,800</b>	<b>1,727</b>	<b>-72</b>

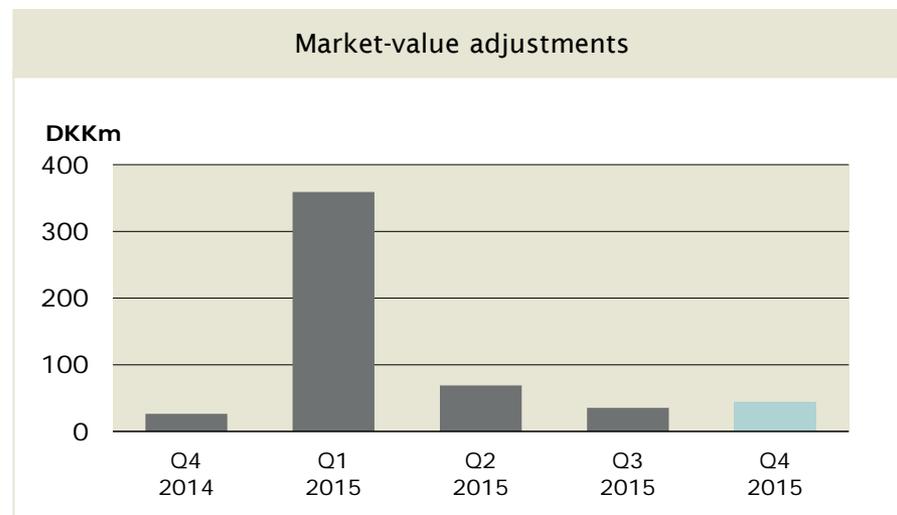
# NET FEE INCOME AT ALL-TIME HIGH

- Net fee and commission income grew by 19 % and came to DKK 1,030 million
  - Especially Q1 was remarkably busy
- Income from mortgage-distribution grew by 25 % to DKK 310 million
- Income from securities trading and asset management grew by 29 %
  - AUM grew by 29 % to DKK 23.4 billion
- Net fee income accounts for 37 % of total net interest and fee income (2014: 32 %)



# MARKET-VALUE ADJUSTMENTS AT EXTRAORDINARY LEVEL FOLLOWING THE DIVESTMENT OF SHARES IN NØRRESUNDBY BANK

- Market-value adjustments grew by 34 % and came to DKK 507 million
- Gain from the sale of Nørresundby Bank was DKK 226 million (in 2014, we booked a DKK 178 million gain related to the sale of Nets)
- Positive trend in market-value adjustments and dividends related to other assets (sector companies)
- A very good year for Danish shares
- Market-value adjustments on bonds portfolio were satisfactory
- Declining income from customers' hedging of interest risk and FX risk

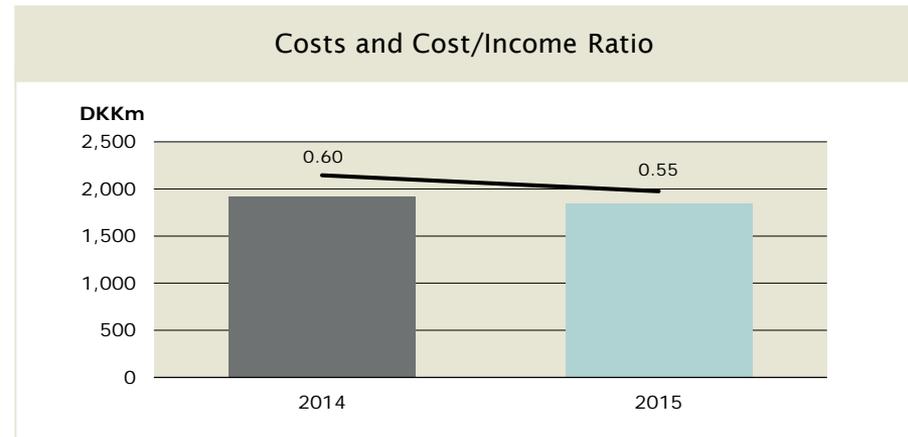


Break-down on types

DKKm	2015	2014	Change
Market-valued adjustments in Trading, Financial Markets & The International	80	59	22
Tangible assets	315	215	100
Currency trade and -agio	57	68	-11
Dividends on shares, etc.	55	38	17
<b>Total</b>	<b>507</b>	<b>380</b>	<b>127</b>

# TREND IN COSTS AS EXPECTED

- Total costs came to DKK 1,843 million – 4 % lower than 2014
  - Adjusted for one-offs costs were up 2 %
- Staff costs were up by 4 %
  - 31 FTEs more than one year ago due to re-launch of leasing business + large IT-projects
  - DKK 11 million severance pay to executive board member
- Operating expenses in line with 2014
  - Adjusted for one-offs related to change of IT-platform (DKK 19 million in 2015 vs. DKK 139 million I 2014)
- As from Q3, contribution to new Resolution Fund is included in core costs
- Cost/Income Ratio improved to 0.55 (excl. Nørresundby Bank: 0.59)
- Outlook
  - Currently all resources are needed in the preparation for change of the IT-platform
  - Workflows expected to be more efficient after the IT-migration
  - Still some potential for adjustments of branch network



Breakdown on types

Costs (DKK million)	2015	2014	Change
Staff costs	1,098	1,053	45
Operating expenses	679	798	-119
Depreciation	66	72	-6
<b>Costs</b>	<b>1,843</b>	<b>1,922</b>	<b>-80</b>

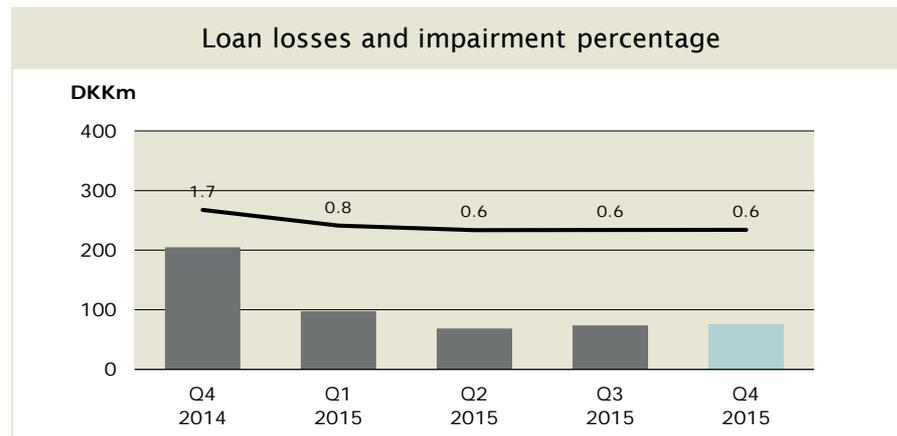
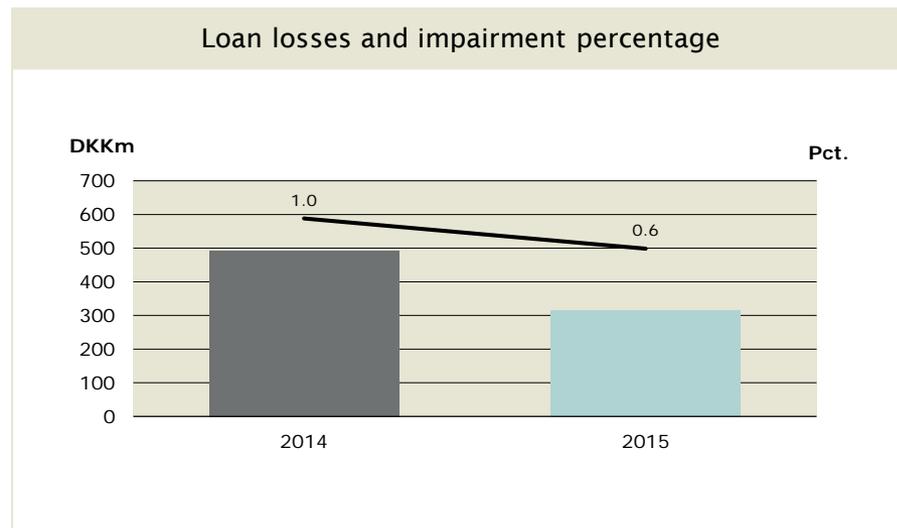
  

Operating expenses (DKK million)	2015	2014	Change
Staff-related expenses	39	34	4
Travel expenses	16	14	1
Marketing costs	95	94	1
IT expenses	339	448	-110
Cost of premises	84	90	-7
Other administrative expenses	107	117	-9
<b>Operating expenses</b>	<b>679</b>	<b>798</b>	<b>-119</b>

# LOAN LOSSES DOWN 36 % TO DKK 316 MILLION

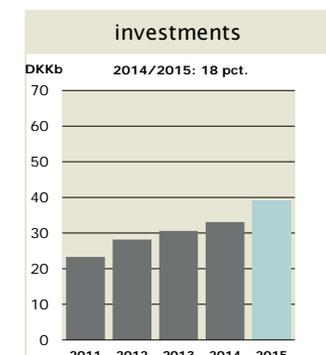
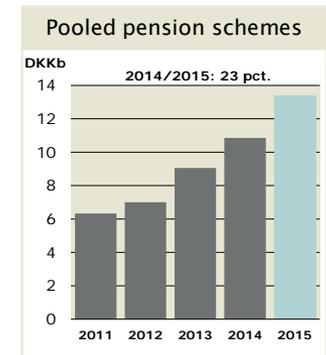
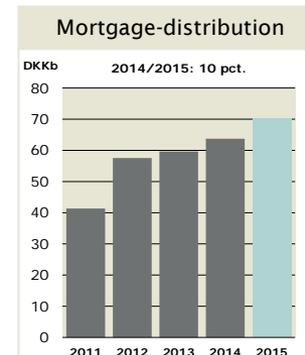
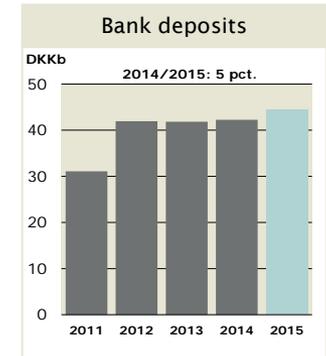
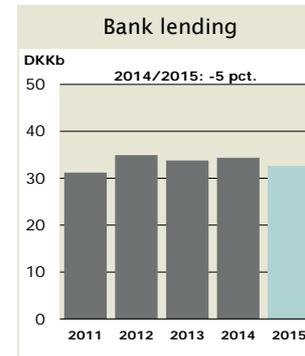
## – 98 % OF PROFIT IMPACT ATTRIBUTABLE TO AGRICULTURE

- Impairment charges came to DKK 316 million corresponding to impairment percentage of 0.64
  - Lower than expected at the beginning of the year
- Breakdown on business segments
  - Household: DKK 43 million (0.2 % p.a.)
  - Corporate excl. agriculture: DKK -37 million (-0.1 p.a.)
  - Agriculture: DKK 310 million (9.0 % p.a.)
- Q4 profit impact came to DKK 76 million
- Key figures about agriculture loan book
  - **Milk:** Loans and guarantees of DKK 1.1 billion – of which 60.3 % impaired (total impairment = 33.3 % of exposure)
  - **Pigs:** Loans and guarantees of DKK 0.9 billion – of which 66.8 % impaired (total impairment = 39.8 % of exposure)
- Low output prices on milk and pork meat expected to lead to substantial challenges also in 2016



# TOTAL BUSINESS VOLUME GROWS TO DKK 211 BILLION

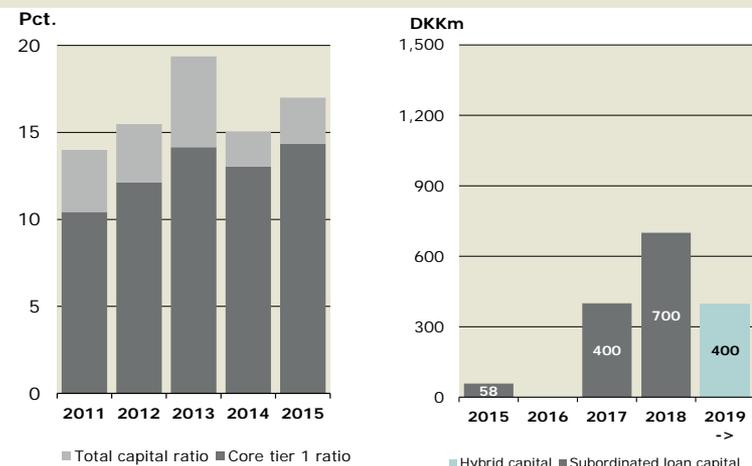
- Total business volume has grown to DKK 211 billion – 8 % higher than YE-2014
- Bank lending is down DKK 1.7 billion or 5 %
  - Primarily attributable to corporates
  - Reduction in business with one single public authority (0.7bn)
  - Reduction in FIH portfolio (DKK 0.6 bn)
  - Reduction in run-off portfolio (DKK 0.3 bn)
- Mortgage-distribution is up by DKK 6.6 billion (10 %)
  - Total distribution of DKK 70.3 billion, hereof DKK 59.3 billion to Totalkredit and DKK 11.0 billion to DLR Kredit
- New leasing lending now exceeds repayments on old portfolio – loan growth of 11 % in 2015
- Bank deposits are up DKK 2.1 billion (5 %)
- Strong demand for asset management and savings products leads to growth in pension pools (23 %) and other investments (18 %)



# STRONG CAPITAL POSITION (AND ABSENCE OF GROWTH) PAVES THE WAY FOR SUBSTANTIAL PAY-OUT TO SHAREHOLDERS

- Strategic capital targets
  - CET1 ratio: 12 %
  - Capital percentage: 15.5
- At the end of Q3, CET1 ratio stands at 14.4 and total capital percentage at 17.0
  - Further boosted by divestment of Nørresundby Bank and net profits
- Total capital percentage must be viewed in connection with the solvency requirement of 9.5 %
  - Excess coverage of DKK 3.5 billion (7.5 percentage points)
- Based on fully implemented CRD IV standards, CET1 ratio stands at 13.9
- Spar Nord's absolute leverage (lending to equity) is still low compared to Danish peers
- 87 % of net-profits to be paid out to shareholders
  - Cash dividend of DKK 3 per share
  - Extraordinary cash dividend of DKK 2 per share (April 2015)
  - Share buy-back of DKK 150 million

Capital percentage and subordinated capital



Capital base

	Q4 2015	2014	2013	2012
<b>Pct.</b>				
Core tier 1 ratio	14.4	13.0	14.1	12.1
Hybrid capital	0.8	0.9	4.2	3.9
Deductions in hybrid capital	-0.3	-0.6	-1.0	-1.0
<b>Tier 1 ratio</b>	<b>14.9</b>	<b>13.3</b>	<b>17.4</b>	<b>15.1</b>
Subordinated debt	2.3	2.3	2.9	1.4
Deductions in own funds	-0.3	-0.6	-1.0	-1.0
<b>Total capital ratio</b>	<b>17.0</b>	<b>15.0</b>	<b>19.4</b>	<b>15.5</b>

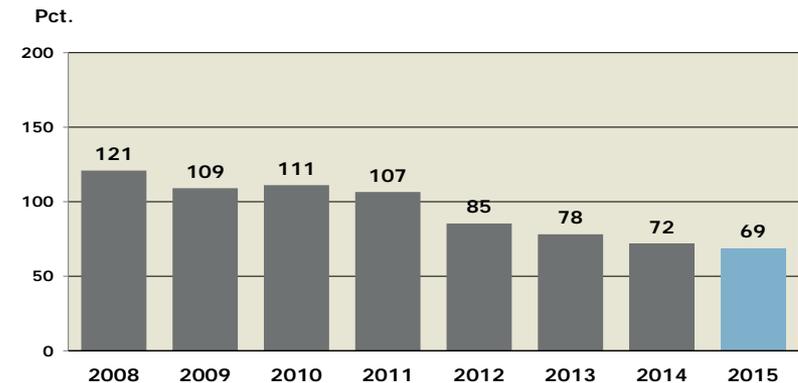
# LIQUIDITY NEED FULLY COVERED BY CUSTOMER DEPOSITS AND CAPITAL BASE

- Strategic liquidity of DKK 19.5 billion
- Increase of DKK 4.5 billion since YE-2014 is attributable to growth in deposits as well as pressure on lending volume
- No current need for wholesale funding
- Since 2008, loan to deposit ratio has been reduced from 121 to 69

## Strategic liquidity

DKKb	2015	2014	2013
Deposits, banking activities	44.4	42.2	41.8
Seniorfunding	0.0	0.1	3.4
Core capital and sub. capital	9.0	8.8	9.5
<b>Stable long term funding</b>	<b>53.4</b>	<b>51.1</b>	<b>54.7</b>
Loans, banking activities	32.6	34.4	33.8
Loans, leasing activities	1.3	1.1	2.1
Maturity < 1 year	0.0	-0.6	-1.5
<b>Liquidity target</b>	<b>19.5</b>	<b>15.0</b>	<b>17.3</b>

## Loan to deposit ratio



# GUIDANCE AND SHARE PRICE

## Guidance

- Core earnings before impairment expected in the DKK 1.1 billion range
- Positive trends
  - Moderate but positive growth in the economy – and in bank lending
  - Recent years' growth in volume and market share on mortgage-distribution and asset management
  - Acquisition of portfolio from FIH Erhvervsbank (January 2016)
- Most serious negative trend is the extraordinarily low interest level
  - Pressure on lending margins
  - Difficult conditions for Markets
- Zero cost-growth
- Loan losses expected to remain at unchanged level
  - Further improvement of credit quality among SME customers
  - Continued challenges for agriculture
- No expenses to Depositors' insurance scheme

## Share price

