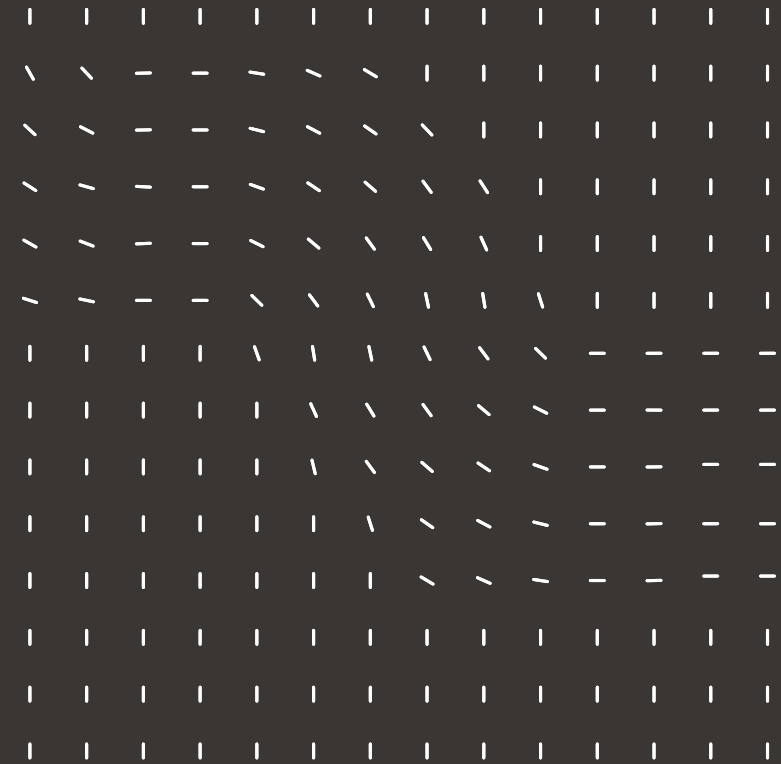


# Spar Nord update

## Danske Bank Nordic Banking Seminar

Lasse Nyby, CEO  
6 March 2023



# 2022 was another great year for Spar Nord

## Profitability at very satisfactory level

- Net profit at DKK 1.4 billion
- 12.5 % ROE after tax
- Capital distribution of 60%

## Strong business growth and activity

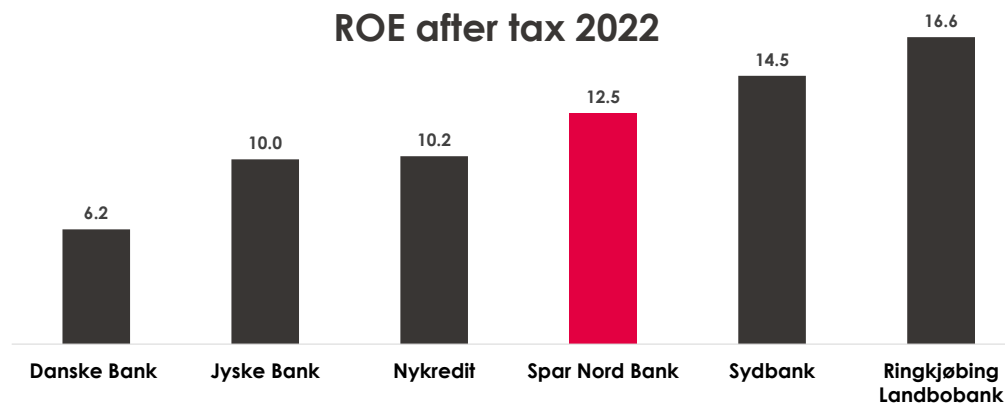
- 13 % lending and deposit growth (y/y)
- Net interest income above DKK 2.0 billion
- Fee income at all time high (again)

## ROE among the best in Denmark

SPAR NORD BANK DKKm	2022	2021	Index
Net interest income	2,011	1,736	116
Net fees, charges and commissions	1,689	1,541	110
Market-value adjustments and dividends	323	407	79
Other income	122	133	91
<b>Core income</b>	<b>4,145</b>	<b>3,818</b>	<b>109</b>
Staff costs	1,384	1,346	103
Operating expenses	953	890	107
<b>Costs and expenses</b>	<b>2,338</b>	<b>2,237</b>	<b>104</b>
<b>Core earnings before impairment</b>	<b>1,808</b>	<b>1,581</b>	<b>114</b>
Impairments of loans and advances	78	-120	-
<b>Profit before tax</b>	<b>1,730</b>	<b>1,701</b>	<b>102</b>
Tax	313	333	94
<b>Profit</b>	<b>1,417</b>	<b>1,368</b>	<b>104</b>

ROE (% after tax)	2018	2019	2020	2021	2022	Avg. ROE (5 year)
Arbejdernes Landsbank	4.0	8.0	4.4	14.4	6.7	7.5
Jyske Bank	7.5	7.1	4.4	8.8	10.0	7.6
<b>Spar Nord Bank</b>	<b>10.8</b>	<b>11.7</b>	<b>7.4</b>	<b>12.9</b>	<b>12.5</b>	<b>11.1</b>
Sydbank	10.0	7.4	6.7	11.3	14.5	10.0
Ringkjøbing Landbobank	11.2	13.2	11.7	14.6	16.6	13.5
Sparekassen Danmark	9.7	13.0	7.7	11.2	7.3	9.8
<b>Average (Peer group)</b>	<b>8.9</b>	<b>10.1</b>	<b>7.1</b>	<b>12.2</b>	<b>11.3</b>	<b>9.9</b>

## ROE after tax 2022



# Strong trend in NII/NCI less costs

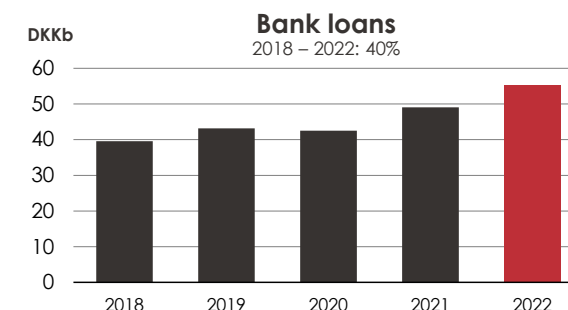
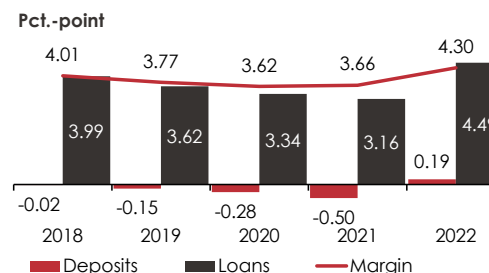
## Net interest income

- Positive deposit margin well-established for both private and corporate customers
- Strong increase in lending rates – all interest rate hikes from Central Bank has been implemented
- By end of 2022, interest bearing assets of DKK 90 billion versus interest bearing liabilities of DKK 80 billion
- **For 2023, strong increase expected in NII**
  - Sustained organic growth in lending from strategic focus on business customers, growth in leasing business and bank mortgage loans
  - Interest rate developments in 2022 and expectations of additional rate hikes in the first half of 2023

## Net fee income

- Volume based fees account for approximately 2/3 of total net fee income, while activity-based fees account for 1/3
- Adjustment of fee structure in later years has made “unprofitable customers profitable”
- Customer activity at a lower pace in the beginning of 2023
- **For 2023, level for net fees are expected maintained**
  - Continuing organic growth and additional customer activity driven by improved distribution capabilities through the establishment of new branches

DKKm	2018	2019	2020	2021	2022
Net interest income	1,548	1,573	1,584	1,736	2,011
Net fees, charges and commissions	1,127	1,225	1,238	1,541	1,689
<b>NII and NCI</b>	<b>2,675</b>	<b>2,799</b>	<b>2,822</b>	<b>3,277</b>	<b>3,701</b>
Costs	1,924	2,014	2,099	2,237	2,338
<b>NII and NCI less costs</b>	<b>752</b>	<b>784</b>	<b>723</b>	<b>1,040</b>	<b>1,363</b>



DKKm	2017	2018	2019	2020	2021
Mortgage fee	380	394	430	434	511
Loan transaction fees	89	92	137	108	130
Securities and asset management	401	382	382	401	471
Other fees	246	258	276	294	429
<b>Total net fees</b>	<b>1,116</b>	<b>1,127</b>	<b>1,225</b>	<b>1,238</b>	<b>1,541</b>

# Continued pressure on costs

- **Total costs amounted to DKK 2,338 million versus DKK 2,237 million in 2021 – increase of 4%**

- **Payroll costs increases by DKK 38 million (3%)**

- 36 more employees than at end of 2021 mainly driven by the opening of new local banks and banking areas in 2022

- **Operating expenses up by DKK 63 million (7%)**

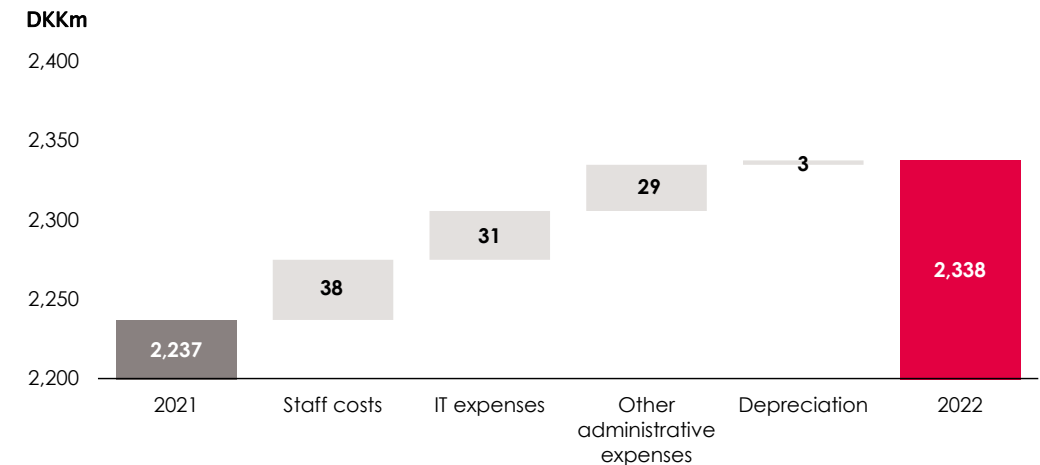
- Rise in IT costs owing to the expiry of a fixed-price agreement with BEC and a greater business volume relating, among other things, to the acquisition of BankNordik's Danish business
- Several other cost items (travel-, marketing- and other costs) were also higher than in the year-earlier period, which was affected by COVID-19

- **Cost/Income Ratio of 0.56 – down from 0.59 in 2021**

- **Cost expectations for 2023**

- Increase in payroll costs driven by a higher average headcount and pay increases in accordance with collective agreements
- Increase in IT costs – primarily linked to the Bank's data processing centre
- Increase in other operating expense items due to the higher level of inflation

Trend in costs



Breakdown on cost types

Operating expenses (DKKm)	2022	2021	Change
Staff-related expenses	46	40	6
Travel expenses	16	10	5
Marketing costs	65	58	6
IT expenses	544	513	31
Cost of premises	61	53	8
Other administrative expenses	123	120	3
Depreciation	98	96	3
<b>Operating expenses</b>	<b>953</b>	<b>890</b>	<b>63</b>

# Impairment reserves at a high level

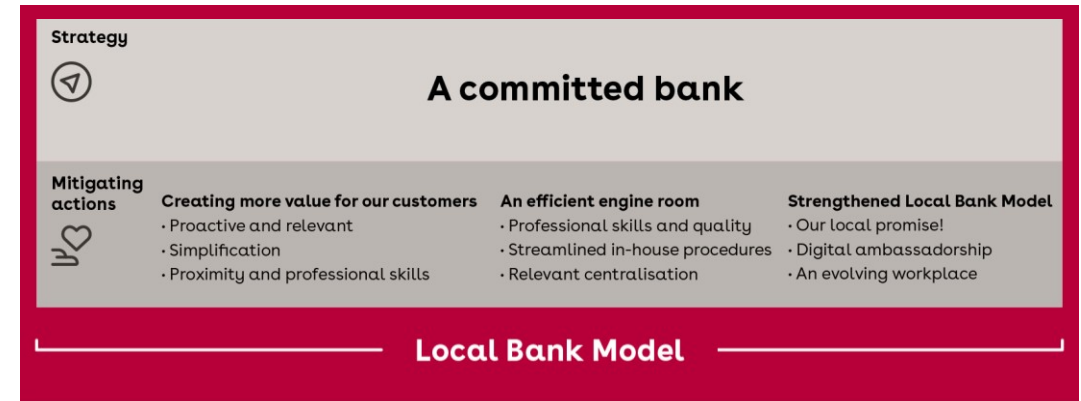
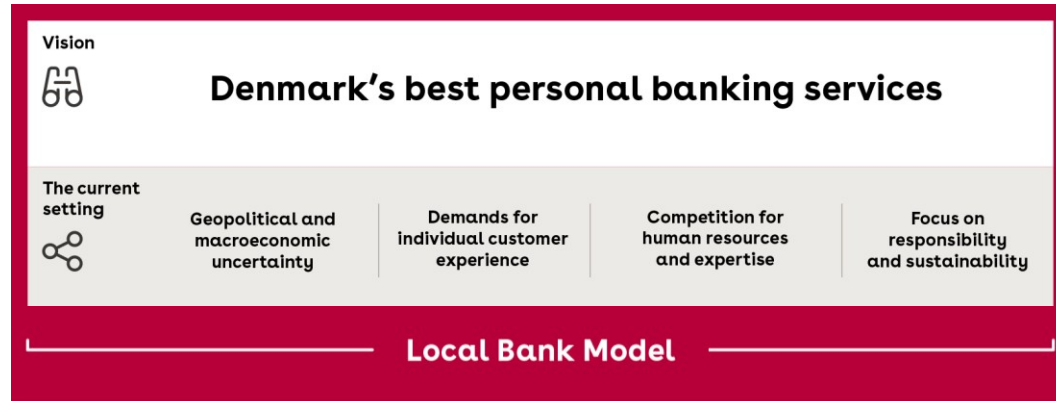
## - Impairment charges of DKK 78 million in 2022

- In 2022, management estimates and model-calculated impairments have (expectedly) been front-running impairment charges
  - Continued decline in the number of exposures flagged for OEI and improved credit quality resulted in lower individual impairments of DKK 137 million
  - Increase in model-calculated impairments of DKK 174 million due to more negative macroeconomic variables related primarily to retail customers and updated assumptions and expectations for the impacts of rising inflation and interest rates, declining economic growth and falling housing prices
  - Total management estimates increased by DKK 38 million primarily related to inflation, low growth and housing prices
- For 2023, loan impairment charges are expected higher than in 2022

Impairments by type (DKKm)	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Management estimates	536	540	526	576	574
Model-calculated impairments	295	329	411	436	469
<b>Management estimates and model-calculated impairments</b>	<b>831</b>	<b>869</b>	<b>937</b>	<b>1,012</b>	<b>1,043</b>
Individual impairments	760	740	662	614	623
<b>Total impairments</b>	<b>1,591</b>	<b>1,609</b>	<b>1,598</b>	<b>1,626</b>	<b>1,666</b>

DKKm	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Inflation, low growth and housing prices	65	243	279	317	434
COVID-19	295	150	85	84	0
Agriculture, land prices	105	101	98	86	41
Model uncertainty etc.	71	46	64	89	98
<b>Total management estimates</b>	<b>536</b>	<b>540</b>	<b>526</b>	<b>576</b>	<b>574</b>

# Strategy and strategic actions 2023-25



- **Creating more value for our customers**

- Improved services to large business customers by establishing Large Corporate departments in Aarhus and Roskilde to complement the Aalborg location

- **An efficient engine room**

- Centralisation of administrative tasks – such as production and verification of business documents and financial analysis

- **Strengthened local bank model**

- Consolidation of Spar Nord's market position by giving employees an increased mandate to make decisions that concern customercentric areas and relations. This way, our employees should have an even greater opportunity to make a difference in the areas where they live – and where the Bank operates

# Financial guidance and financial targets 2023-25

- **Financial guidance for 2023**

- Core earnings before impairments expected to be in the DKK 2.3-2.7 billion range
- Loan impairment charges expected to be higher than in 2022
- Profit after tax expected to be in the DKK 1.5-1.8 billion range

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## Strategic targets 2023-25

Return on equity

**> 11 %**

after tax

Cost/Income Ratio

**< 55**

Dividend

**40-60 %**

of profit for the year

Based on an impairment ratio, which in the 2023-2025 strategy period is not expected to exceed 0.50

# Capital position and distribution

- **Capital ratios, year-end 2022**

- CET1: 16.4 (strategic target: 13.5)
- Own funds ratio: 20.9 (strategic target: 17.5)

- **Individual solvency requirement of 9.8% and combined buffer requirement of 5.5%**

- Excess coverage of 5.5 percentage points or DKK 3.3 billion

- **Adjusted dividend policy**

- Spar Nord pursues the goal of generating a competitive return for its shareholders – by way of share price performance and distributions. Spar Nord aims to distribute 40-60% of the net profit for the year with due consideration to meeting the Bank's capital targets

- The Bank intends to make distributions in the form of cash dividends and share buybacks, always provided that at least 30% of the net profit will be distributed as cash dividends. The distribution of between 40% and 60% is calculated on the net profit and thus before payment of interest on the Bank's additional tier 1 capital

## Capital position

Pct. / DKKm	2018	2019	2020	2021	2022
<b>Common equity Tier 1 capital ratio</b>	<b>14.0</b>	<b>14.6</b>	<b>17.2</b>	<b>16.3</b>	<b>16.4</b>
Additional Tier 1	1.6	1.5	1.4	1.9	1.9
<b>Tier 1 capital ratio</b>	<b>15.6</b>	<b>16.1</b>	<b>18.6</b>	<b>18.3</b>	<b>18.4</b>
Tier 2 capital	2.4	2.3	2.4	2.5	2.6
<b>Own funds ratio</b>	<b>18.0</b>	<b>18.5</b>	<b>21.0</b>	<b>20.8</b>	<b>20.9</b>
<b>Total Risk Exposure</b>	<b>53,895</b>	<b>55,963</b>	<b>54,865</b>	<b>60,479</b>	<b>60,463</b>
<i>Of which Credit Risk</i>	<i>44,029</i>	<i>47,068</i>	<i>45,277</i>	<i>50,165</i>	<i>50,063</i>
<i>Of which Market Risk</i>	<i>4,125</i>	<i>3,340</i>	<i>3,994</i>	<i>4,140</i>	<i>3,901</i>
<i>Of which Operational Risk</i>	<i>5,705</i>	<i>5,555</i>	<i>5,594</i>	<i>6,174</i>	<i>6,499</i>

## Payout ratio

	2018	2019	2020	2021	2022
Dividend per share (DKK)	3.5	0.0	1.5	5.0	4.5
Share buyback (DKKm)				225	300
<b>Payout ratio</b>	<b>47</b>	<b>0</b>	<b>25</b>	<b>61</b>	<b>60</b>