

# Spar Nord update

## Danske Bank Nordic Banking Seminar

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# 2023, A historical great year for Spar Nord

## Profitability at very satisfactory level

- Net profit at DKK 2.4 billion
- 19.7% ROE after tax
- Capital distribution of 69%

## Continued business growth and record high NII

- 3% growth in total business volume
- Net interest income above DKK 3.5 billion
- Net reversal of impairment charges

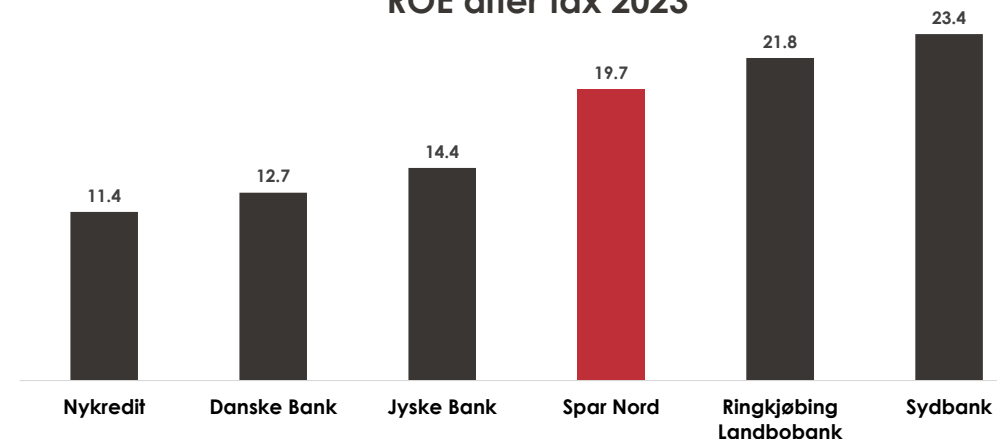
## ROE among the best in Denmark

SPAR NORD BANK DKKm	2023	2022	Index
Net interest income	3,538	2,011	176
Net fees, charges and commissions	1,493	1,689	88
Market-value adjustments and dividends	452	323	140
Other income	175	122	143
<b>Core income</b>	<b>5,658</b>	<b>4,145</b>	<b>136</b>
Staff costs	1,493	1,384	108
Operating expenses	1,057	953	111
<b>Costs and expenses</b>	<b>2,550</b>	<b>2,338</b>	<b>109</b>
<b>Core earnings before impairment</b>	<b>3,108</b>	<b>1,808</b>	<b>172</b>
Impairments of loans and advances	-33	78	-
<b>Profit before tax</b>	<b>3,141</b>	<b>1,730</b>	<b>182</b>
Tax	720	313	230
<b>Profit</b>	<b>2,421</b>	<b>1,417</b>	<b>171</b>

ROE (% after tax)	2019	2020	2021	2022	2023	Avg. ROE (5 year)
Arbejdernes Landsbank	8.0	4.4	14.4	6.7	14.7	9.6
Jyske Bank	7.1	4.4	8.8	10.0	14.4	8.9
<b>Spar Nord Bank</b>	<b>11.7</b>	<b>7.4</b>	<b>12.9</b>	<b>12.5</b>	<b>19.7</b>	<b>12.8</b>
Sydbank	7.4	6.7	11.3	14.5	23.4	12.7
Ringkøbing Landbobank	13.2	11.7	14.6	16.6	21.8	15.6
Sparekassen Danmark*	13.0	7.7	11.2	7.3	12.9	10.4
<b>Average (Peer group)</b>	<b>10.1</b>	<b>7.1</b>	<b>12.2</b>	<b>11.3</b>	<b>17.8</b>	<b>11.7</b>

\*ROE in 2023 based on company estimates

## ROE after tax 2023



# Strong trend in NII/NCI less costs

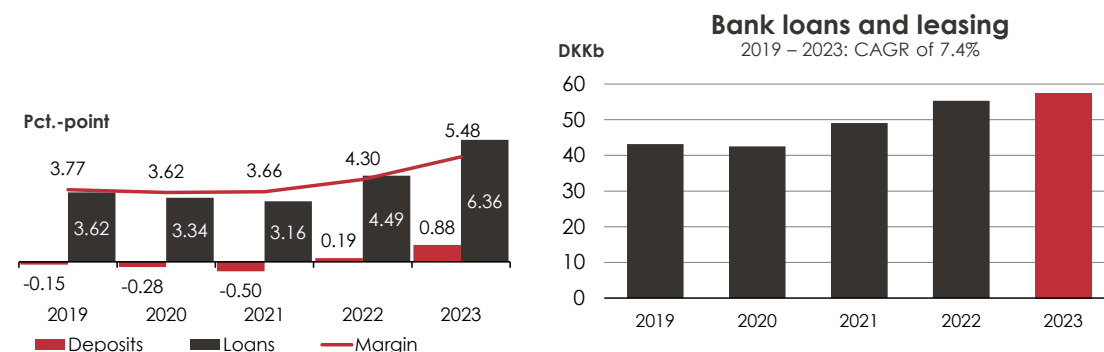
## Net interest income

- Strong increase in lending rates – up 187 bp. y/y
  - In the same period, CB rate has been raised by 185 bp.
- Deposit margin well-established - deposit rates up a modest 69 bp. y/y
- Increase in NII from excess liquidity of DKK 1,145 million compared to 2022
- **For 2024, decline expected in net interest income**
  - Sustained organic growth in lending from strategic focus on business customers, growth in leasing business and bank mortgage loans
  - Pressure on deposit margins and higher funding costs
  - Expectation of three rate cuts from June 2024 and onwards totaling 75 bp.

## Net fee income

- Overall lower level of activity within the housing market
- Also decline in activity within securities trading and assets under management, where fee income was also negatively affected by last year's decline in volume within assets under management
- **For 2024, modest increase expected in net fee income**
  - Continuing organic growth and additional customer activity driven by improved distribution capabilities through establishment of new branches
  - Increase in net fee income from a higher level of activity in areas such as pension, insurance and securities trading, as well as a higher asset management volume at the beginning of the year

DKKm	2019	2020	2021	2022	2023
Net interest income	1,573	1,584	1,736	2,011	3,538
Net fees, charges and commissions	1,225	1,238	1,541	1,689	1,493
<b>NII and NCI</b>	<b>2,799</b>	<b>2,822</b>	<b>3,277</b>	<b>3,701</b>	<b>5,031</b>
<b>Costs</b>	<b>2,014</b>	<b>2,099</b>	<b>2,237</b>	<b>2,338</b>	<b>2,550</b>
<b>NII and NCI less costs</b>	<b>784</b>	<b>723</b>	<b>1,040</b>	<b>1,363</b>	<b>2,481</b>



DKKm	2019	2020	2021	2022	2023
Mortgage fee	430	434	511	548	474
Loan transaction fees	137	108	130	147	89
Securities and asset management	382	401	471	504	441
Other fees	276	294	429	491	489
<b>Total net fees</b>	<b>1,225</b>	<b>1,238</b>	<b>1,541</b>	<b>1,689</b>	<b>1,493</b>

# National foothold

## North Denmark Region

Business volume DKK 115 billion (2019: 106)  
FTE 321 (2019: 378)  
Branches 21 (2019: 21)

## Central Denmark Region

Business volume DKK 79 billion (2019: 62)  
FTE 233 (2019: 222)  
Branches 9 (2019: 9)

## Region of Southern Denmark

Business volume DKK 42 billion (2019: 30)  
FTE 133 (2019: 115)  
Branches 9 (2019: 8)

## New Local Banks established in recent years

- **2020**
  - Branch in Herlev
- **2021**
  - Branch in Korsør
  - Branch in Solrød Strand
- **2022**
  - Branch in Hørsholm
  - Banking area on Nykøbing Falster
  - Banking area in Allerød
- **2023**
  - Branch in Helsingø
  - Banking area in Frederikssund

## Capital Region of Denmark

Business volume DKK 53 billion (2019: 21)  
FTE 180 (2019: 83)  
Branches 15 (2019: 5)

## Region Zealand

Business volume DKK 53 billion (2019: 37)  
FTE 143 (2019: 122)  
Branches 8 (2019: 5)

# Costs/income ratio down to 45

- **Total costs amounted to DKK 2,550 million versus DKK 2,338 million in 2022 (9%)**

- **Payroll costs increases by DKK 109 million (8%)**

- 1,703 employees by end of 2023, which was 59 more than at end of 2022
- The increase was mainly driven by recent years' opening of new local banks and banking areas on Zealand and within leasing and the Large Corporates area

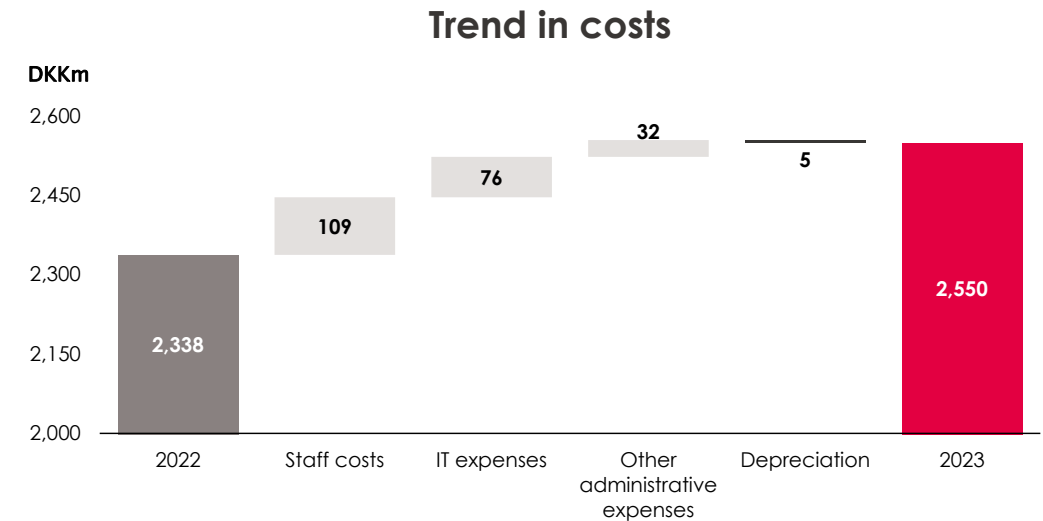
- **Operating expenses up by DKK 104 million (11%)**

- The increase in operating expenses was mainly due to higher IT costs relating to the Bank's data processing centre, BEC and other IT costs

- **C/I Ratio of 45 versus C/I Ratio of 56 in 2022**

- **Cost expectations for 2024**

- Increase in payroll costs driven by a higher average headcount and pay increases in accordance with collective agreements
- Increase in IT costs due to recent years' growth, partly to work to complete several in-house IT projects
- Expected one-off costs of approx. DKK 40 million related to the bank's 200th anniversary and cloud migration



## Breakdown of operating expenses

Operating expenses (DKKm)	2023	2022	Change
Staff-related expenses	57	46	10
Travel expenses	20	16	4
Marketing costs	70	65	5
IT expenses	620	544	76
Cost of premises	59	61	-2
Other administrative expenses	138	123	15
Depreciation	94	98	-5
<b>Operating expenses</b>	<b>1,057</b>	<b>953</b>	<b>104</b>

# Impairment reserves at a high level

## - Net reversal of impairment charges of DKK 33 million in 2023

- In 2023, management estimates and model-calculated impairments has continued to front-run impairment charges
  - Continued decline in the number of exposures flagged for OEI and improved credit quality resulted in lower individual impairments in stage 3 of DKK 72 million
  - Total increase in impairments in stage 1 and 2 and management estimates of DKK 79 million, whereof 88 was attributable to an underlying increase in management estimate
  - Total management estimate of DKK 662 million breaks down into DKK 389 million on corporate customers and DKK 273 million on private customers
- For 2024, Impairment charges are budgeted at a level around 0.30% of loans, advances and guarantees

Impairments by type (DKKm)	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Management estimates	574	588	646	671	662
Impairments in Stage 1 and 2	469	472	473	497	460
<b>Impairments in Stage 1 and 2 + Estimates</b>	<b>1,043</b>	<b>1,060</b>	<b>1,119</b>	<b>1,169</b>	<b>1,122</b>
Impairments in Stage 3	623	608	569	543	551
<b>Total impairments</b>	<b>1,666</b>	<b>1,667</b>	<b>1,688</b>	<b>1,712</b>	<b>1,673</b>

DKKm	2018	2019	2020	2021	2022	2023
Management estimates	40	303	570	536	574	662
<i>Profit impact from management estimates</i>		263	267	-34	38	88
Income statement, impairment charges		22	309	-120	78	-33
<b>Impairment charges ex. effect from change in management estimates</b>		<b>-241</b>	<b>42</b>	<b>-86</b>	<b>40</b>	<b>-121</b>

# Well diversified loan book maintained

## Loans and guarantees broken down by industry\*

- **Loan book is generally very well diversified on industries**
  - No abnormal exposure to any business sectors
  - Largest sector exposure is property which accounts for 12%
    - 83% collateralized with property mortgages - of which 75% are first mortgages
- **Exposure to private customers accounts for 44% of loans and guarantees – against a sector average of approx. 1/3**

Industry	DKKm			Pct.		
	2023	2022	2021	2023	2022	2021
Public authorities	760	1,358	1,259	1.1	2.0	1.8
Agriculture	2,643	2,802	2,743	3.8	4.0	4.0
Fisheries	56	93	114	0.1	0.1	0.2
Industry	3,416	3,666	3,055	5.0	5.3	4.5
Utilities	1,872	2,159	1,842	2.7	3.1	2.7
Building and construction	3,046	3,106	2,993	4.4	4.5	4.4
Trade	4,465	4,977	4,191	6.5	7.2	6.1
Transport, Hotels and Restaurants	3,157	3,165	2,897	4.6	4.6	4.2
Information	351	330	389	0.5	0.5	0.6
Financing and insurance	4,231	4,469	4,139	6.1	6.4	6.1
Property	8,393	8,200	7,343	12.2	11.8	10.8
Other industries	6,241	5,580	5,008	9.1	8.1	7.3
Total Business customers	38,630	39,905	35,973	56.1	57.6	52.7
Private customers	30,234	29,385	32,260	43.9	42.4	47.3
<b>Total</b>	<b>68,864</b>	<b>69,290</b>	<b>68,234</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* Excl. reverse repo transactions

# Total credit distribution by industry\*

Bank loans and guarantees + Originated mortgage loans - 2023 (DKKm)								
Industry	Spar Nord On balance sheet			Spar Nord Off balance sheet	Originated mortgage loans		Total	Total in pct.
	Bank loans	SparXpres	Leasing loans	Guarantees	Totalkredit	DLR Kredit		
Public authorities	755		2	2	0	0	760	0.5
Agriculture and Fisheries	1,502		937	11	310	3,098	5,859	3.5
Industry	1,988		993	405	316	173	3,874	2.3
Utilities	958		817	79	29	24	1,907	1.1
Construction and engineering	1,348		1,339	272	820	336	4,115	2.4
Trade	3,467		695	227	889	331	5,610	3.3
Transport, hotels and restaurants	1,305		1,713	101	391	107	3,617	2.1
Informations	275		40	14	365	12	706	0.4
Financing and insurance	3,607		232	338	185	398	4,759	2.8
Property	7,664		183	162	2,106	3,946	14,061	8.3
Other industries	3,862		2,042	157	2,767	293	9,121	5.4
<b>Total business customers</b>	<b>26,730</b>		<b>8,994</b>	<b>1,767</b>	<b>8,180</b>	<b>8,717</b>	<b>54,388</b>	<b>32.3</b>
Private customers	22,897	509	10	1,503	87,566	1,706	114,191	67.7
<b>Total</b>	<b>49,627</b>	<b>509</b>	<b>9,004</b>	<b>3,270</b>	<b>95,745</b>	<b>10,424</b>	<b>168,579</b>	<b>100.0</b>

\*Gross credit distribution excl. reverse repo transactions



# Solid capital coverage and distribution of 69%

- **Capital ratios, year-end 2023**

- CET1: 17.7 (strategic target: 13.5)
- Own funds ratio: 22.3 (strategic target: 17.5)

- **Individual solvency requirement of 9.8% and combined buffer requirement of 6.0%**

- Excess coverage of 6.2 percentage points or DKK 3.8 billion

- **Deductions for the share buyback programme are expected to reduce Spar Nord's capital ratios by 0.9 of a percentage point at the end of Q1 2024**

- **IRB-project, status**

- Application submitted to the Danish FSA at early July 2023
- The Danish FSA's processing of the application is progressing as planned
- Implementation of IRB models at the 2024/2025 changeover
- Initial effect from IRB-implementation partly offset by Basel III / CRD IV
- Over time, increasing positive effects from IRB implementation

## Capital position

Pct. / DKKm	2023	2022	2021	2020	2019
<b>Common equity Tier 1 capital ratio</b>	<b>17.7</b>	<b>16.4</b>	<b>16.3</b>	<b>17.2</b>	<b>14.6</b>
Additional Tier 1	1.9	1.9	1.9	1.4	1.5
<b>Tier 1 capital ratio</b>	<b>19.7</b>	<b>18.4</b>	<b>18.3</b>	<b>18.6</b>	<b>16.1</b>
Tier 2 capital	2.6	2.6	2.5	2.4	2.3
<b>Own funds ratio</b>	<b>22.3</b>	<b>20.9</b>	<b>20.8</b>	<b>21.0</b>	<b>18.5</b>
<b>Total Risk Exposure</b>	<b>60,369</b>	<b>60,463</b>	<b>60,479</b>	<b>54,865</b>	<b>55,963</b>
Of which Credit Risk	49,563	50,063	50,165	45,277	47,068
Of which Market Risk	3,958	3,901	4,140	3,994	3,340
Of which Operational Risk	6,848	6,499	6,174	5,594	5,555

## Payout ratio

	2023	2022	2021	2020	2019
Dividend per share (DKK)	10.0	4.5	5.0	1.5	0.0
Share buyback (DKKm)	500	300	225	-	-
<b>Payout ratio</b>	<b>69</b>	<b>60</b>	<b>61</b>	<b>25</b>	<b>0</b>

## Dividend policy

- 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

# Financial guidance and financial targets 2023-25

- **Financial guidance for 2024**

- Core earnings before impairments expected to be in the DKK 2.4-2.9 billion range
- Impairment charges are budgeted at a level around 0.30% of loans, advances and guarantees
- Profit after tax expected to be in the DKK 1.7-2.1 billion range
  - Corresponding to a ROE after tax in the 13-16% range

## Strategic targets 2023-25

Return on equity

**> 11 %**

after tax

**2023:**  
19.7%

Cost/Income Ratio

**< 55**

**2023:**  
45

Dividend

**40-60 %**

of profit for the year

**2023:**  
69%

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

CET 1  
**13.5 %**

**2023:**  
17.7%

Own funds ratio  
**17.5 %**

**2023:**  
22.3%

LCR  
**125 %**

**2023:**  
246%

NSFR  
**105 %**

**2023:**  
131%