

# A LARGER AND SIMPLER BANK

Presentation of Spar Nord's Full-Year Results 2012



## KEY MESSAGES FROM FULL-YEAR REPORT

Positive trend in all income lines

Sustained zero-growth in costs

Very satisfactory PPP and improved Cost/income Ratio

Weak economic growth

Revised provisioning guidelines from Danish FSA

Loan impairments remain high

Higher contribution to sector-wide bailout scheme

Non-recurring costs related to merger with Sparbank

Slight decrease in net profits

Liquidity surplus of DKK 14.8 billion

Core tier 1 of 12.1 percent

Solid capital and liquidity position

Merger with Sparbank

Sharper strategy

Stronger platform for future profitability

"Merger effect" still expected in the DKK 245 million range

Decline in lending in Q4 2012

2013 core earnings before impairments expected in the DKK 1.000 – 1.100 million range

## HIGHLIGHTS FROM THE INCOME STATEMENT

SPAR NORD BANK DKKm	Realized 2012	Realized 2011	Change in pct.
Net interest income	1.542	1.472	5
Net fees, charges and commissions	557	477	17
Market-value adjustments	242	130	86
Other income	90	79	14
<b>Core income</b>	<b>2.432</b>	<b>2.158</b>	<b>13</b>
Staff costs	906	883	3
Operating expenses etc.	595	578	3
<b>Costs</b>	<b>1.501</b>	<b>1.460</b>	<b>3</b>
<b>Core earnings before impairment</b>	<b>931</b>	<b>698</b>	<b>33</b>
Impairments of loans and advances, etc.	594	404	47
<b>Core earnings</b>	<b>338</b>	<b>294</b>	<b>15</b>
Investment income	41	3	
<b>Profit/loss on ordinary activities</b>	<b>378</b>	<b>297</b>	<b>28</b>
Sector Fund	-58	6	
Cost related to merger	-67		
<b>Profit from continuing operations</b>	<b>253</b>	<b>303</b>	<b>-16</b>
Profit from discontinued operations	37	42	-13
<b>Profit before tax</b>	<b>290</b>	<b>345</b>	<b>-16</b>

## Q4 MARKED BY EXTRAORDINARY EVENTS

SPAR NORD BANK DKKm	Realized Q4 2012	Realized Q3 2012	Change in pct.	Realized Q4 2011	Change in pct.
Net interest income	414	368	12	402	3
Net fees, charges and commissions	138	123	12	117	18
Market-value adjustments	48	53	-8	33	47
Other income	29	17	70	12	137
<b>Core income</b>	<b>630</b>	<b>561</b>	<b>12</b>	<b>564</b>	<b>12</b>
Staff costs	270	185	46	243	11
Operating expenses etc.	157	131	20	145	8
<b>Costs</b>	<b>427</b>	<b>316</b>	<b>35</b>	<b>388</b>	<b>10</b>
<b>Core earnings before impairment</b>	<b>203</b>	<b>246</b>	<b>-17</b>	<b>176</b>	<b>15</b>
Impairments of loans and advances, etc.	156	111	40	141	10
<b>Core earnings</b>	<b>48</b>	<b>134</b>	<b>-65</b>	<b>35</b>	<b>36</b>
Investment income	16	20	-23	0	
<b>Profit/loss on ordinary activities</b>	<b>63</b>	<b>155</b>	<b>-59</b>	<b>35</b>	<b>83</b>
Sector Fund	-14	-17	13	24	-160
Cost related to merger	-58	-9	-548		
<b>Profit from continuing operations</b>	<b>-9</b>	<b>129</b>	<b>-107</b>	<b>59</b>	<b>-115</b>
Profit from discontinued operations	14	6	137	10	40
<b>Profit before tax</b>	<b>5</b>	<b>135</b>	<b>-96</b>	<b>69</b>	<b>-92</b>

## SPARBANK CONSOLIDATED INTO P/L FROM 15 NOVEMBER

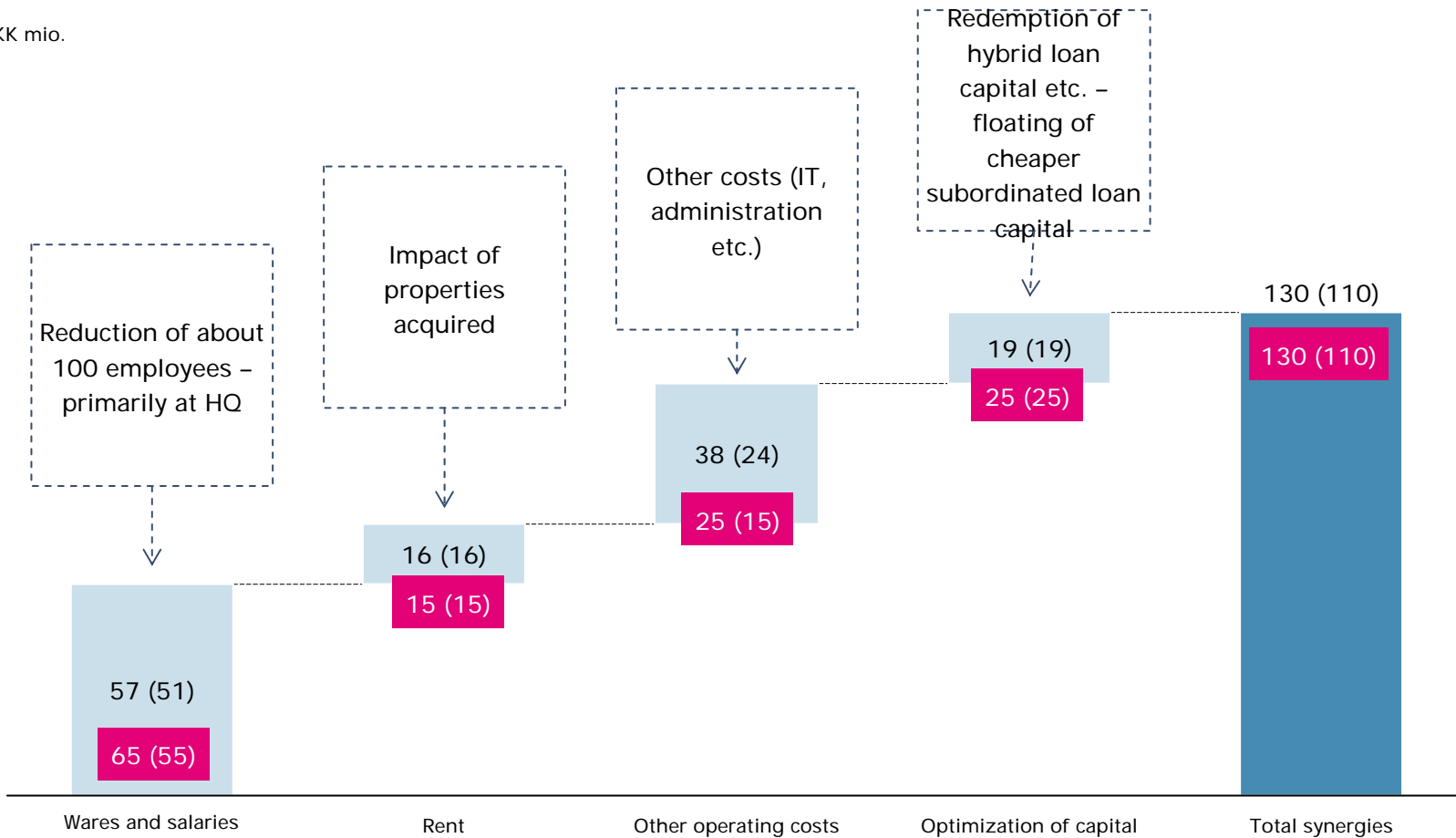
- Performance as expected
- Non-recurring costs related to merger
  - Impact in 2012: DKK 67 million
  - Total non-recurring costs are expected to amount to DKK 110-120 million
  - i.e., non-recurring costs expected to amount to DKK 40-50 million in 2013
- The merger (added business plus synergies) is expected to contribute to core earnings before impairment with about DKK 265 million
- Merger is still expected to have a positive impact on
  - Cost/Income Ratio
  - Return on Equity
  - Earnings per share

(DKKm.)	2012	Sparbank 15/11 - 31/12 2012	Spar Nord 2012	Spar Nord 2011	Spar Nord YtY 2011-2012
<b>Core income</b>	2.432	69	2.363	2.158	205
<b>Costs</b>	1.501	39	1.461	1.460	1
<b>Core earnings before impairment</b>	931	30	902	698	203
Impairments of loans and advances, etc.	594	-1	595	404	191
<b>Core earnings</b>	338	31	306	294	13

# SYNERGIES – STILL ON TRACK

Synergies resulting from merger – original expectation and revised expectation

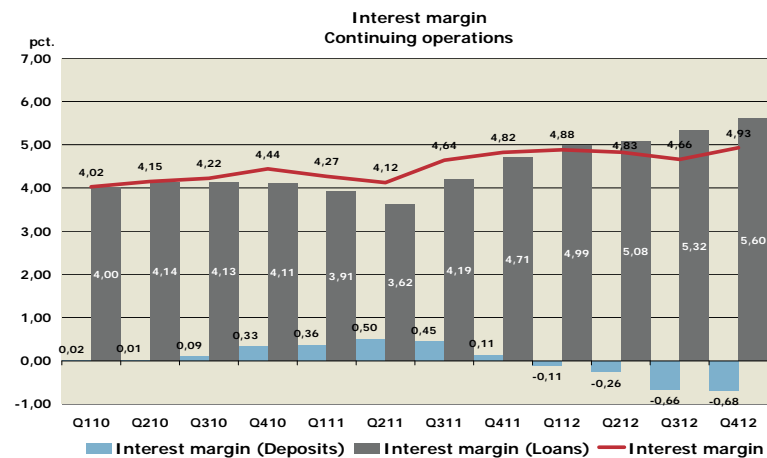
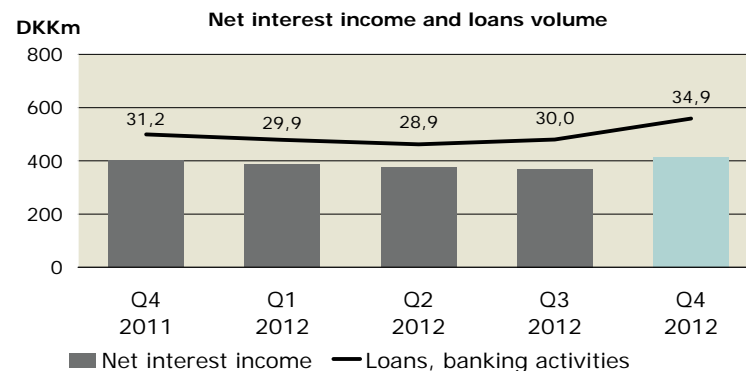
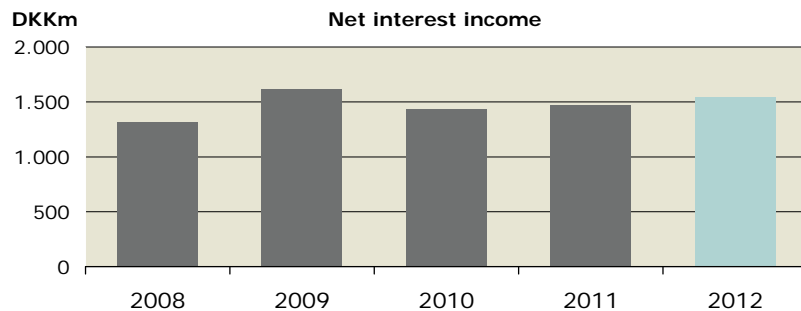
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Note: Figures in brackets represent the effect of synergies in 2013. Remaining synergies have impact from 2014.

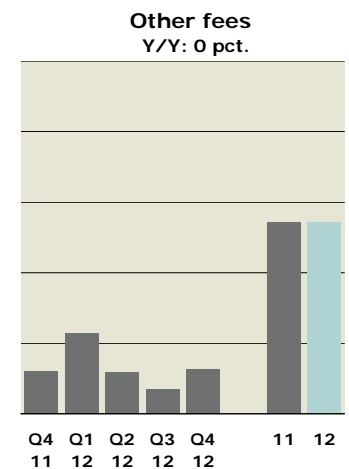
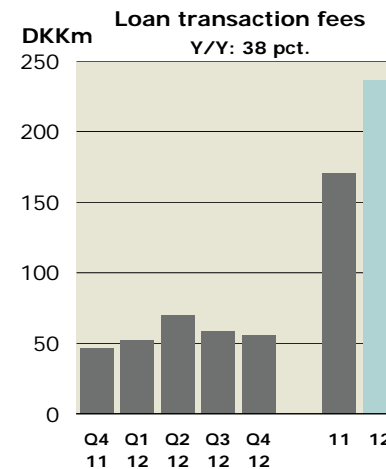
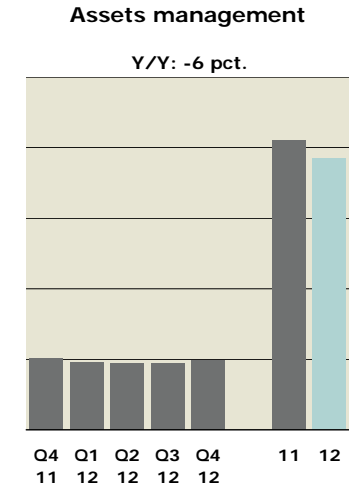
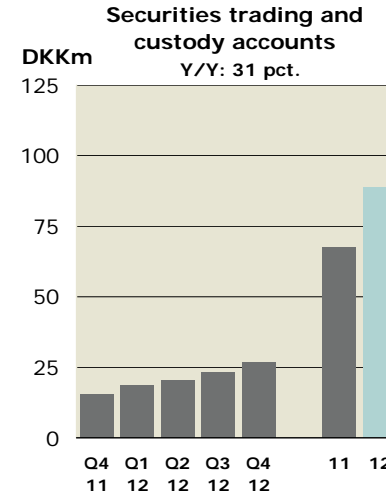
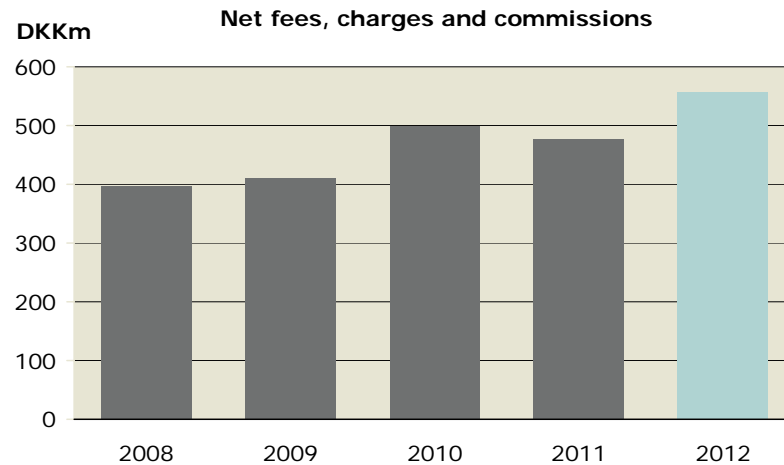
# GROWTH IN NET INTEREST INCOME IN SPITE OF PRESURE ON LENDING VOLUME AND NEGATIVE DEPOSIT MARGIN

- Net interest income of DKK 1,542 million – 5% up from 2011
- Positive trends
  - Expansion of lending volume in 2012
  - Optimized funding structure
  - Contribution from Sparbank post-merger: approx. DKK 50m
- Negative trends
  - 9% y/y decline in bank lending in old Spar Nord (12% growth when Sparbank is included)
  - Markedly negative trend in deposit margin due to low market interest rate



## VERY SATISFACTORY NET FEE INCOME DRIVEN BY HIGH ACTIVITY IN THE MORTGAGE-CREDIT AREA

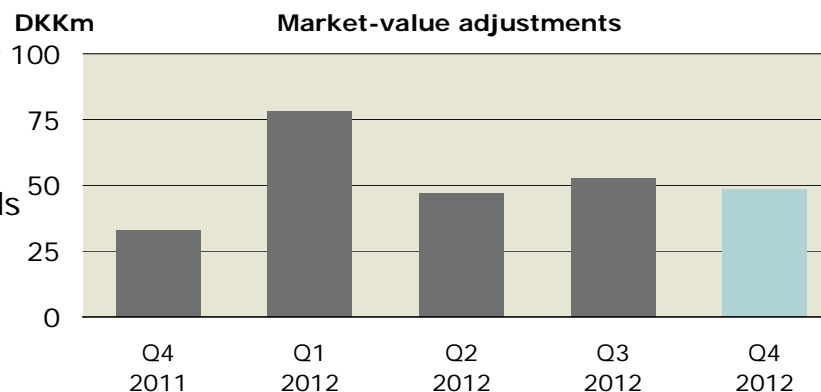
- Net fees and commissions of DKK 557 million – 17% up from 2011
- Significant growth in mortgage-credit area
  - Very high lending and re-mortgaging activity
- Positive trend in securities trading
- Contribution from Sparbank post-merger: approx. DKK 10m





## 86% GROWTH IN MARKET-VALUE ADJUSTMENTS DRIVEN BY BOND PORTFOLIO

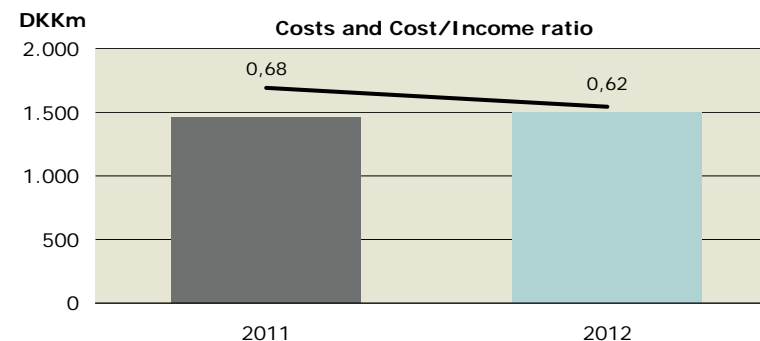
- Market-value adjustments and dividends of DKK 242 million – 86% up from 2011
- Increase attributable primarily to bond portfolio
  - Narrowing of the Danish mortgage bond spreads
- Slight decline in market-value adjustments on portfolio of shares in sector companies
- Further decline in earnings on customers' hedging of interest and FX risk



DKKm	2012	2011	Change
Market-valued adjustments in Trading, Financial Instruments	165	34	132
Tangible assets	6	12	-6
Currency trade and -agio	54	74	-19
<b>Total</b>	<b>226</b>	<b>120</b>	<b>106</b>

## COSTS KEPT AT ZERO-GROWTH LEVEL FOR THIRD YEAR ON END

- **Total costs and expenses of DKK 1.501 million – up 3% on 2011**
  - Operating costs assumed in connection with merger: DKK 39 million
- **Adjusted for this, costs were kept a zero-growth level**
  - Even though DKK 29m was defrayed in Q4 by way of special costs related to strategy revision
- **Payroll costs 3% up driven by**
  - Costs related to disestablishment and severance pay
  - Ordinary payroll costs taken over in connection with merger
- **Operating expenses up 4%**
  - Growth in IT-expenses
- **Cost/income ratio improved to 0.62**
- **Improved efficiency: Since 2009 the number of customers served by each staff member (local banks) has grown by 22%**

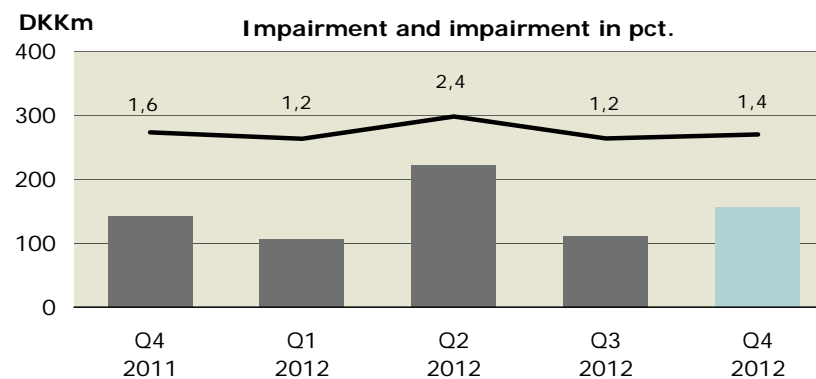
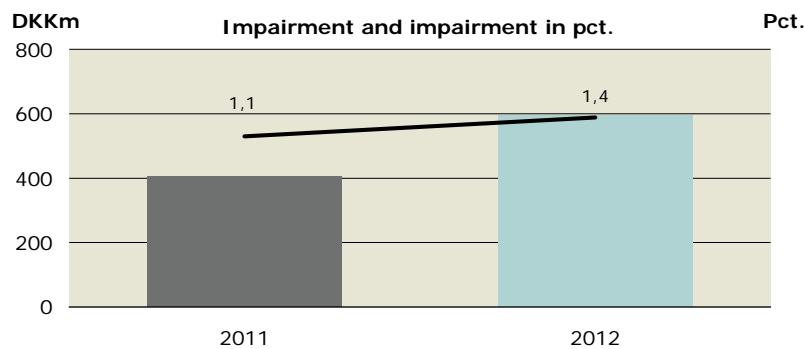


Costs (DKKm)	2012	2011	Change in pct.
Staff costs	906	883	3
Operating expenses	526	504	4
Depreciation	69	73	-6
<b>Costs</b>	<b>1.501</b>	<b>1.460</b>	<b>3</b>

Operating expenses (DKKm)	2012	2011	Change
Staff-related expenses	41	36	5
Travel expenses	11	10	1
Marketing costs	84	87	-3
IT expenses	248	229	19
Cost of premises	74	76	-2
Other administrative expenses	69	66	2
<b>Operating expenses</b>	<b>526</b>	<b>504</b>	<b>22</b>

## WEAK ECONOMIC GROWTH AND REVISED GUIDELINES FROM THE FSA KEEP LOAN IMPAIRMENT AT SUBSTANTIAL LEVEL

- **Total loan impairments of DKK 594 million – up from DKK 404 million in 2011**
  - DKK 480 million attributable to corporate customers, corresponding to impairment percentage of 2.0
  - DKK 114 million attributable to household customers, corresponding to impairment percentage of 0.7
- **Revised provisioning guidelines from the Danish FSA**
  - Q2: Impairment losses of DKK 96 million on agriculture and commercial property attributable to clarification of guidelines regarding the two sectors
  - Q4: DKK 43 impairment loss on one single exposure in the property sector



*Note: Based on average lending and guarantees*

## LOAN BOOK DIVERSIFICATION – ONLY SMALL CHANGES FOLLOWING MERGER

- Exposure to agriculture down to 8.4% - covered by 15.1% of individual impairments
- In spite of Sparbank's relatively high exposure to commercial property, Group exposure to the sector is reduced from 2011 to 2012
- Lending to households now account for 40% of total lending – markedly above sector average

Continuing activities Line of Business Pct.	Loans and advances					Indiv. impairments	Indiv. impairments
	Spar Nord	Sparbank	Continuing activities	Spar Nord	Sector	Spar Nord	Spar Nord
	2012	2012	2012	2011	2011	2012	2011
Public sector	5,1	0,0	4,0	4,8	3,4	0,0	0,0
Agriculture	9,5	4,5	8,4	9,2	4,3*	15,1	31,4
Fishing	0,5	0,0	0,4	0,5	0,0	0,0	0,3
Industry and raw materials extraction	3,2	4,7	3,5	2,5	6,8	2,1	4,0
Energy supply	4,6	2,7	4,2	4,4	1,8	1,1	0,5
Construction and civil engineering	3,1	4,6	3,4	2,8	2,3	4,7	3,7
Trade	8,8	5,7	8,0	8,7	5,3	4,9	7,2
Transportation, hotels and restaurants	3,4	2,3	3,2	3,0	3,8	5,3	2,2
Information and communication	0,3	0,5	0,4	0,4	0,7	0,5	0,2
Financing and insurance activities	5,7	3,3	5,0	6,3	20,6	9,2	6,6
Real estate	12,1	15,9	13,0	13,2	12,4	17,0	11,1
Other business	5,4	10,8	6,5	5,6	6,1	12,5	9,4
<b>Corporate customers, total</b>	<b>61,7</b>	<b>55,0</b>	<b>60,0</b>	<b>61,4</b>	<b>67,5</b>	<b>72,4</b>	<b>76,6</b>
<b>Personal customers, total</b>	<b>38,3</b>	<b>45,0</b>	<b>40,0</b>	<b>38,6</b>	<b>32,5</b>	<b>27,6</b>	<b>23,4</b>
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

\*) incl. fishing

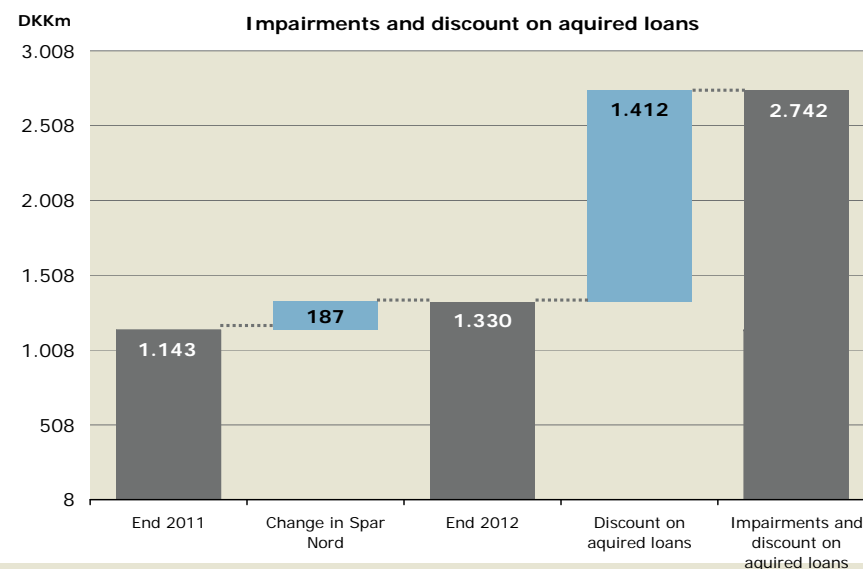
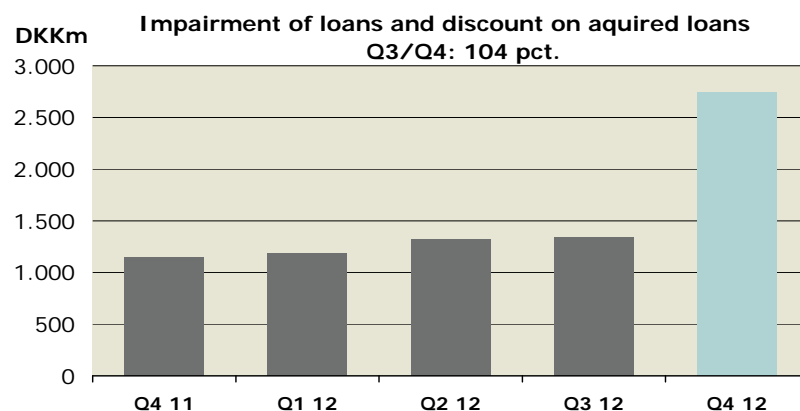
## SPECIAL CREDITS TAKEN OVER FROM SPARBANK

- **In connection with the merger, Spar Nord has taken over a separate portfolio (destined for run-off) totaling DKK 1.9 billion**
  - Taken over at DKK 0.7 billion discount
  - DKK 0,6 billion of portfolio consists of non-accrual loans
- **67 group-related exposures**
- **Characteristics**
  - Asset financing – particularly within commercial property
  - Customers who have often used several banks (club deals)
  - Bank arrangements in many of the commitments
- **Portfolio has been subjected to thorough review – appropriate provisions have been taken in the face of the special risks attaching to the exposures**
- **Expected run-off time: 2-5 years**

## IMPAIRMENT ACCOUNT POST-MERGER

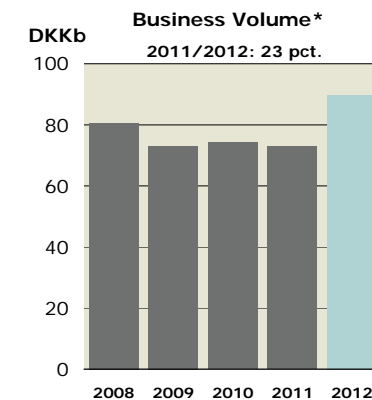
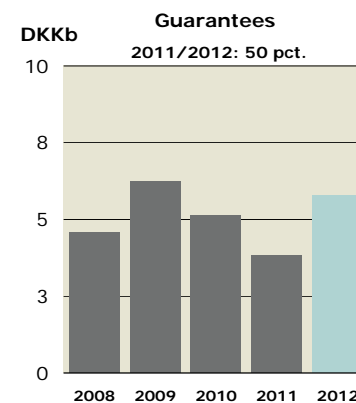
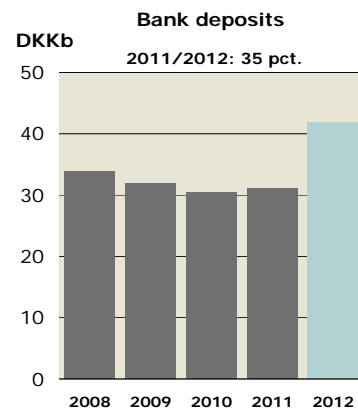
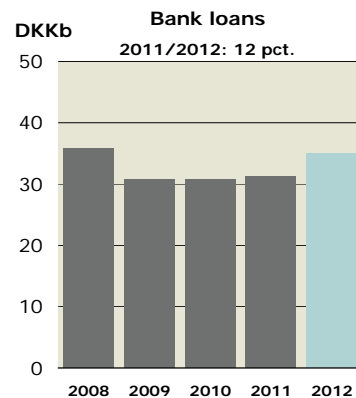
- Going forward, Spar Nord's impairment account will consist of
  - Impairment account from Spar Nord pre-merger – DKK 1,330 million
  - Discount on commitments taken over from Sparbank (i.e. Sparbank's impairment balance + fair value adjustments) – DKK 1,412 million in total
  - Total impairment account YE 2012: DKK 2,742 million
- Lending to problem sectors covered by substantial impairment account
  - Agriculture: 8.5% of lending and guarantees
  - Commercial property: 7.7% of lending and guarantees

Spar Nord Line of business - DKKm	Impairments and discount on acquired loans	Discount on acquired loans	Impairments
Public sector	0,0	0,0	0,0
Agriculture	401,2	26,8	374,4
Fishing	1,0	0,0	1,0
Industry and raw materials extraction	89,9	44,4	45,5
Energy supply	35,7	23,1	12,6
Construction and civil engineering	137,8	73,2	64,6
Trade	162,2	40,4	121,8
Transportation, hotels and restaurants	171,0	109,2	61,8
Information and communication	18,6	7,8	10,8
Financing and insurance activities	234,2	178,4	55,8
Real estate	434,8	254,2	180,6
Other business	357,1	269,5	87,6
<b>Corporate customers, total</b>	<b>2.043,5</b>	<b>1.027,0</b>	<b>1.016,5</b>
<b>Personal customers, total</b>	<b>698,2</b>	<b>384,7</b>	<b>313,5</b>
<b>Total</b>	<b>2.741,7</b>	<b>1.411,7</b>	<b>1.330,0</b>



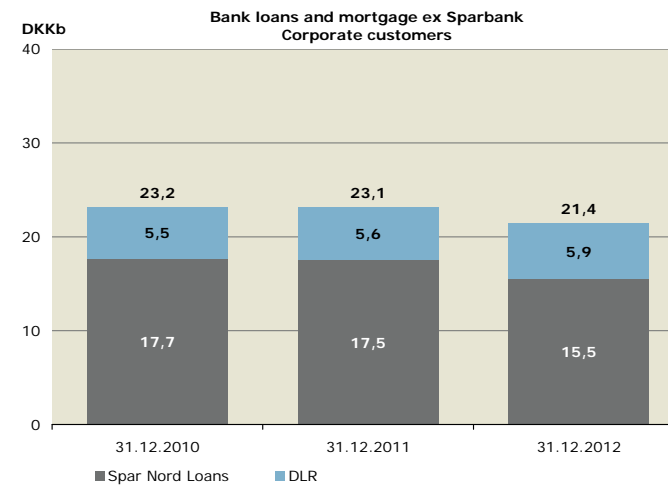
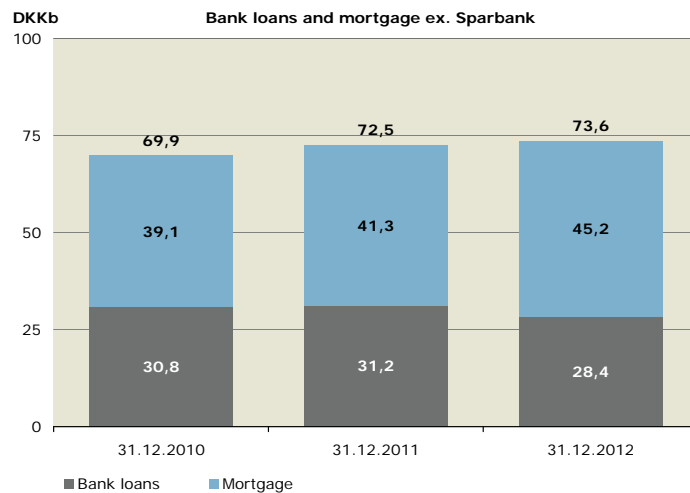
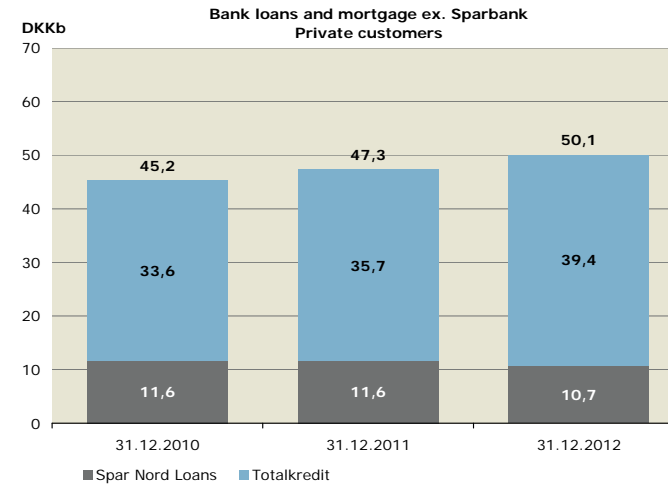
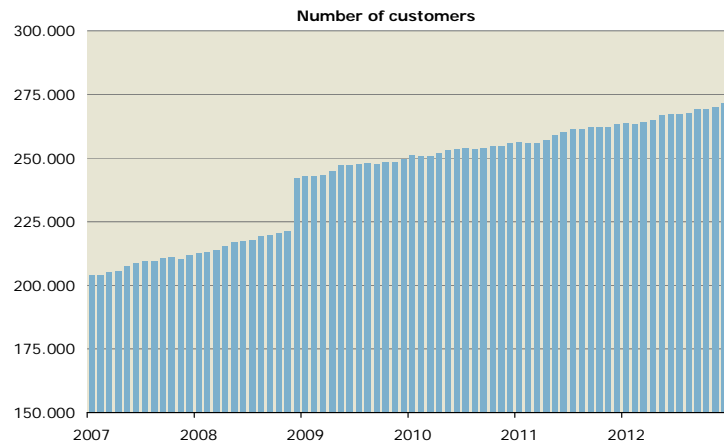
## MERGER WITH SPARBANK SECURES VOLUME GROWTH IN CHALLENGING MARKET

- **Bank lending DKK 3.7 billion (12%) higher than YE 2011**
  - Growth is solely attributable to lending taken over from Sparbank
  - Lending in old Spar Nord down DKK 2.8 billion since YE 2011 (households down DKK 0.9 billion - corporates down DKK 1.9 billion)
- **Total credits arranged (bank lending + mortgage-credit lending) up 2% in old Spar Nord and up 27% including lending taken over from Sparbank**
- **Bank deposits up DKK 10.8 billion (35%) from YE 2011**
  - DKK 8.6 billion attributable to deposits taken over from Sparbank
  - Deposits in old Spar Nord up DKK 2.2 billion



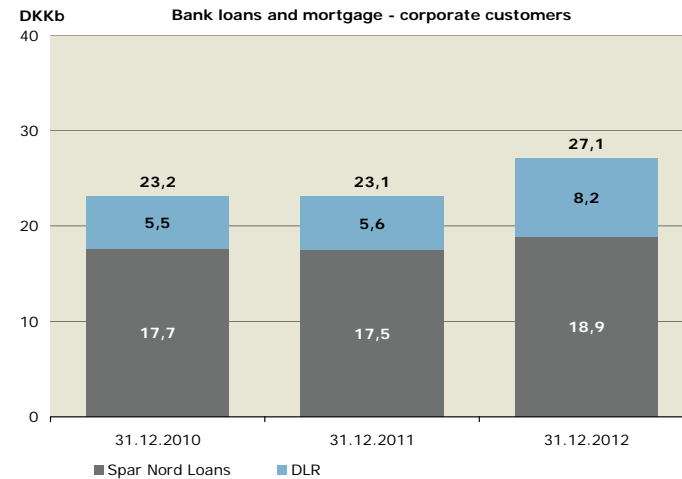
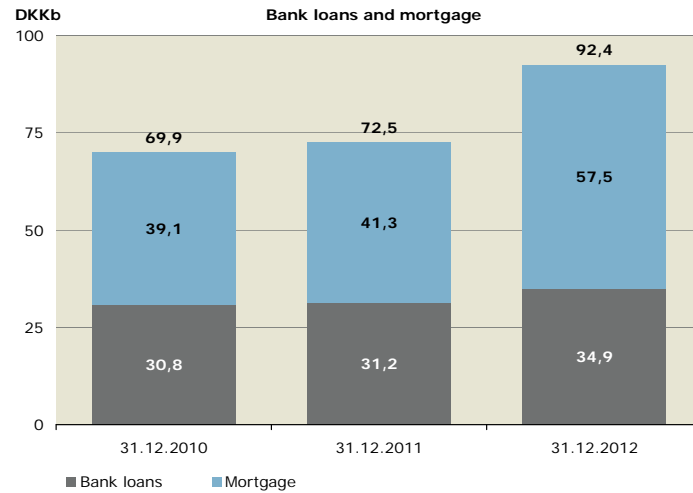
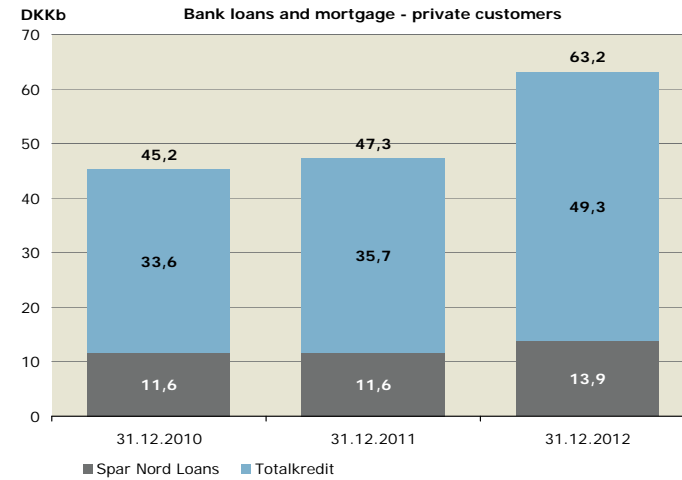
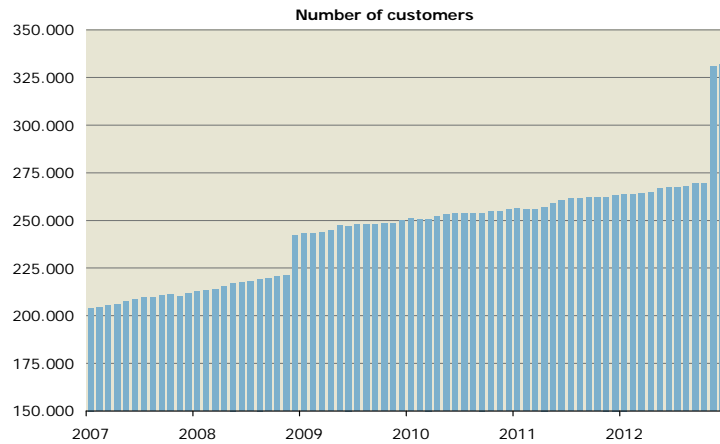
\* Not including repo, reverse and pooled schemes

# GROWTH IN MORTGAGE-CREDIT AREA SECURES GROWTH IN TOTAL LOANS ARRANGED (OLD SPAR NORD)





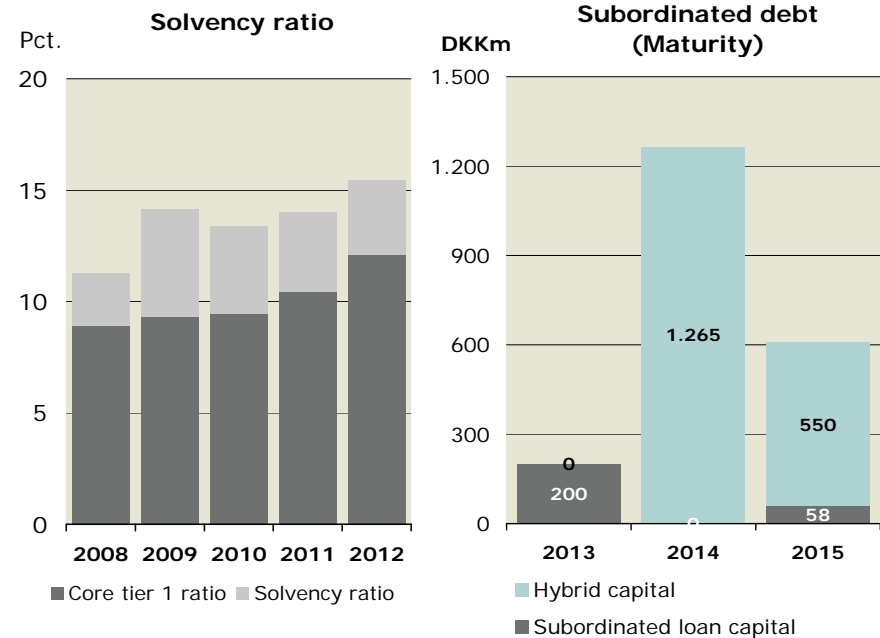
# GROWTH IN TOTAL LOANS ARRANGED INCLUDING BUSINESS TAKEN OVER FROM SPARBANK



## STRONG CAPITAL POSITION

- **Core Tier 1 ratio of 12.1 (YE 2011: 10.4)**
  - Shareholders equity DKK 1.1 billion higher than YE 2011
  - Growth in RWA including merger: DKK 4.2 billion
- **Trends in 2012**
  - DKK 1,1 billion in new equity
  - Premature redemption of subordinated debt totalling DKK 1.1 billion
  - Floating of new subordinated loan of DKK 0.4 billion
- **Solvency ratio of 15.5 – up from 14.0 YE 2011**
- **ICAAP ratio of 10.0**
  - Corresponding to excess coverage of 5.5 pp – up from 5.2 pp YE 2011
- **As from Q4, ICAAP is calculated according to the 8+ method**

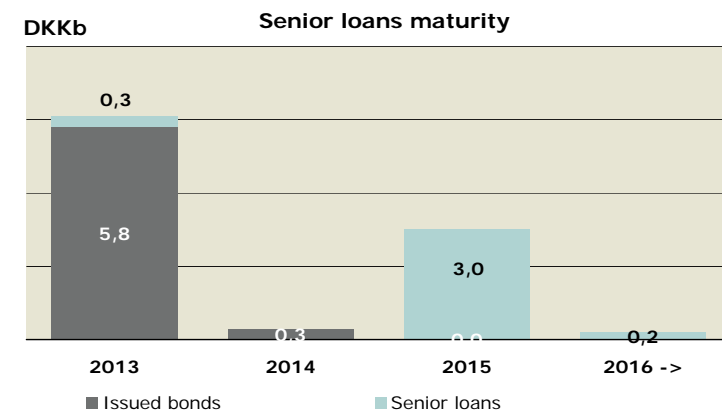
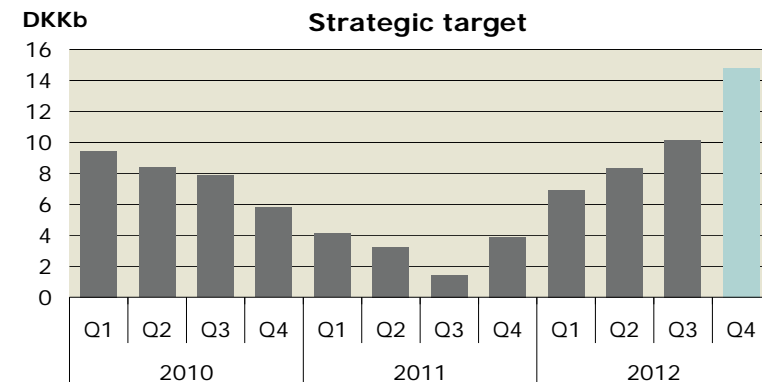
Pct.	Q4			
	2012	2011	2010	2009
Core tier 1 ratio	12,1	10,4	9,5	9,3
Hybrid capital	3,9	3,8	3,8	3,9
Deductions in hybrid capital	-1,0	-0,9	-0,2	-0,1
<b>Tier 1 ratio</b>	<b>15,1</b>	<b>13,3</b>	<b>13,2</b>	<b>13,2</b>
Subordinated debt	1,4	1,6	2,0	2,6
Deductions in capitalbase	-1,0	-0,9	-1,8	-1,7
<b>Solvency ratio</b>	<b>15,5</b>	<b>14,0</b>	<b>13,4</b>	<b>14,2</b>



## EXCESS COVERAGE RELATIVE TO STRATEGIC LIQUIDITY TARGET IMPROVED TO DKK 14.8 BILLION

- Excess coverage relative to strategic target stands at DKK 14.8 billion – improvement of DKK 10.9 billion since YE 2011
- Trends in 2012
  - Run-off on leasing portfolio: DKK 3.4 billion
  - Reduction of bank lending (old Spar Nord: DKK 2.8 billion)
  - Total growth in bank lending (incl. Sparbank) of DKK 3.7 billion
  - Growth in deposits (incl. Sparbank) of DKK 10.8 billion
  - DKK 1.1 billion in new equity
  - Central Bank LTRO: DKK 3.0 billion
- Current liquidity buffer and run-off on leasing portfolio expected to be sufficient to repay all senior funding maturing in 2012 and 2013

DKKb	2012	2011	2010
Deposits, banking activities	41,9	31,1	30,4
Seniorfunding	9,6	10,2	9,3
Core capital and sub. capital	8,5	6,9	6,9
<b>Stable long term funding</b>	<b>60,0</b>	<b>48,2</b>	<b>46,6</b>
Loans, banking activities	34,9	31,2	30,7
Loans, leasing activities	4,0	7,1	7,7
Maturity < 1 year	-6,3	-6,0	-2,3
<b>Strategic target (&gt;0)</b>	<b>14,8</b>	<b>3,9</b>	<b>5,9</b>



## OUTLOOK FOR 2013

- **Core earnings before impairments and non-recurring costs related to merger expected in the DKK 1.000-1.100 million range**
  - Total lending is lower going into 2013 than what was previously expected
  - Merger (added business plus synergies) expected to contribute with approx DKK 245 million
- **Impairments expected to hover around 1% of total loans and guarantees**
  - Increased uncertainty resulting from the merger
- **Non-recurring costs relating to merger: DKK 40-50 million**
- **Contribution to sector-targeted solutions i the DKK 90 million range**
- **Breakeven result from discontinued business (leasing)**