

# Net profit of DKK 838 million and ROE of 10.7 %

Presentation of Spar Nord's financial results for 2016

# Net profit of DKK 838 million and ROE of 10.7 %

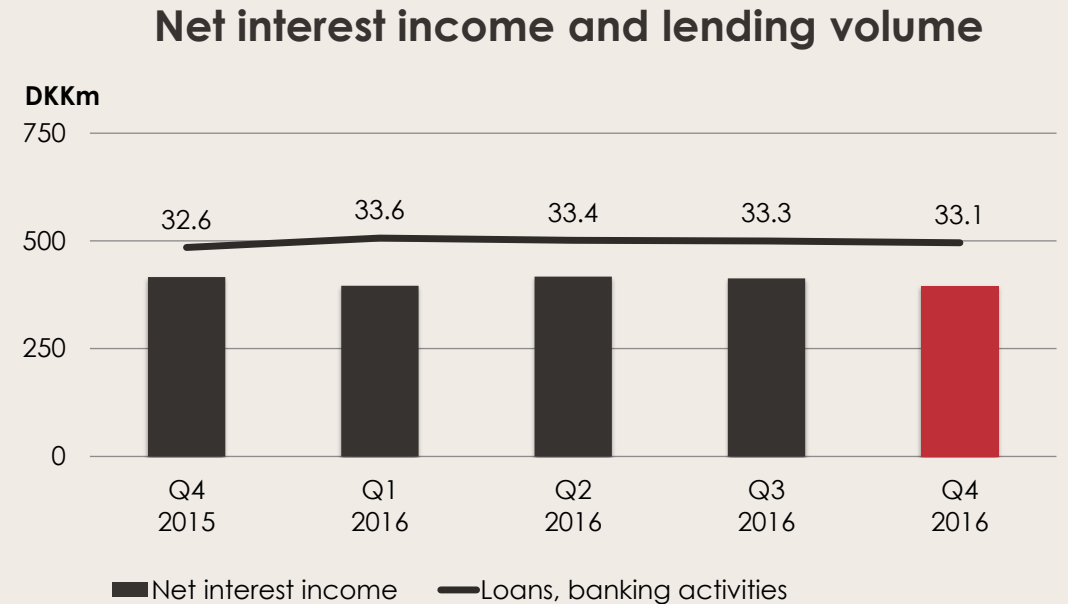
- Low interest rate environment and tough competition put NII under pressure
- Fee income at record-level driven by mortgage-distribution and asset management
- Very strong market-value adjustments after great performance in the bonds area
- Costs influenced by one-offs related to IT-migration and implementation of new strategy
- Core earnings before impairment of DKK 1,271 million – higher than expected 12 months ago
- Loans losses down to DKK 242 million corresponding to 0.44 % of loans and guarantees
- Solid capital position makes way for dividend of DKK 5 per share (pay-out ratio of 75 %)

# Highlights from the income statement

| SPAR NORD BANK<br>DKKm                 | Realized<br>2016 | Realized<br>2015 | Index      | Realized<br>Q4 2016 | Realized<br>Q3 2016 | Index      |
|--|------------------|------------------|------------|---------------------|---------------------|------------|
| Net interest income                    | 1,621            | 1,727            | 94         | 395                 | 413                 | 96         |
| Net fees, charges and commissions      | 1,053            | 1,030            | 102        | 275                 | 260                 | 106        |
| Market-value adjustments               | 434              | 507              | 86         | 104                 | 143                 | 73         |
| Other income                           | 59               | 66               | 89         | 9                   | 19                  | 46         |
| <b>Core income</b>                     | <b>3,167</b>     | <b>3,331</b>     | <b>95</b>  | <b>783</b>          | <b>834</b>          | <b>94</b>  |
| Staff costs                            | 1,142            | 1,098            | 104        | 307                 | 249                 | 124        |
| Operating expenses etc.                | 755              | 745              | 101        | 236                 | 157                 | 150        |
| <b>Costs</b>                           | <b>1,896</b>     | <b>1,843</b>     | <b>103</b> | <b>543</b>          | <b>406</b>          | <b>134</b> |
| <b>Core earnings before impairment</b> | <b>1,271</b>     | <b>1,488</b>     | <b>85</b>  | <b>240</b>          | <b>428</b>          | <b>56</b>  |
| Impairments of loans, etc.             | 242              | 316              | 77         | 55                  | 54                  | 100        |
| <b>Core earnings</b>                   | <b>1,028</b>     | <b>1,172</b>     | <b>88</b>  | <b>185</b>          | <b>374</b>          | <b>50</b>  |
| Sector Fund                            | 0                | -99              | -          | 0                   | 0                   | -          |
| <b>Profit before tax</b>               | <b>1,028</b>     | <b>1,074</b>     | <b>96</b>  | <b>185</b>          | <b>374</b>          | <b>50</b>  |
| Tax                                    | 190              | 177              | 107        | 37                  | 66                  | 57         |
| <b>Profit</b>                          | <b>838</b>       | <b>897</b>       | <b>93</b>  | <b>148</b>          | <b>308</b>          | <b>48</b>  |

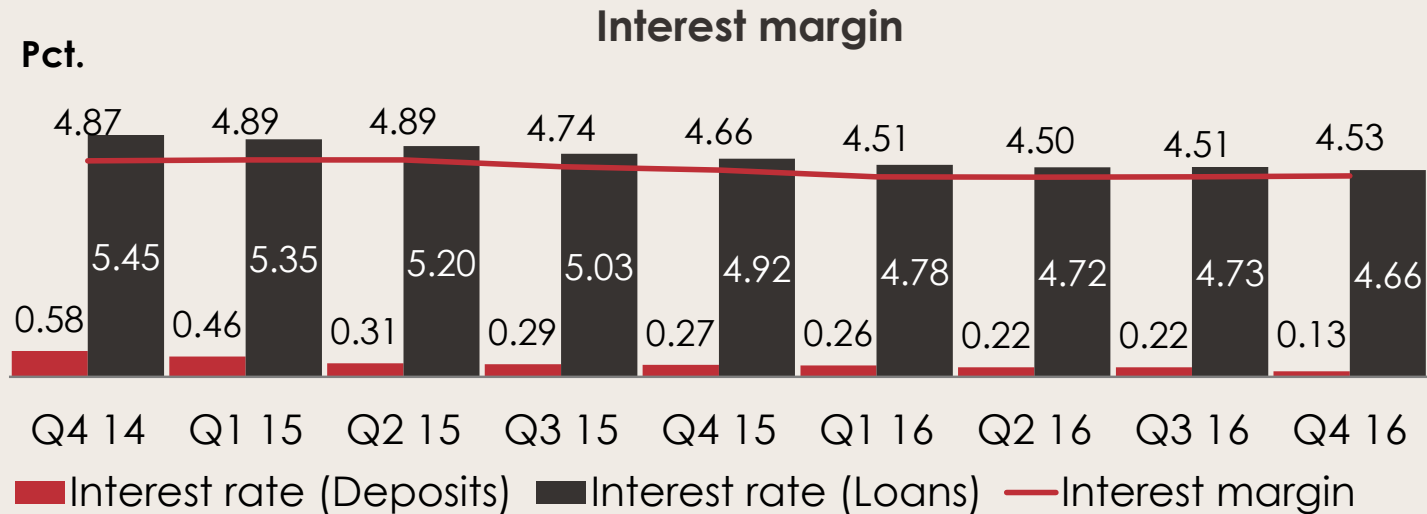
# Low interest rate environment and tough competition put NII under pressure

- Net interest income declined by 6 % and came to DKK 1,621 million
- Interest income from bond portfolio was reduced by DKK 78 million compared to 2015
- Bank and leasing lending grew by DKK 1.2 billion (4 %)
  - Private households + DKK 0.3 billion
  - Corporates + DKK 0.2 billion
  - Leasing + DKK 0,7 billion

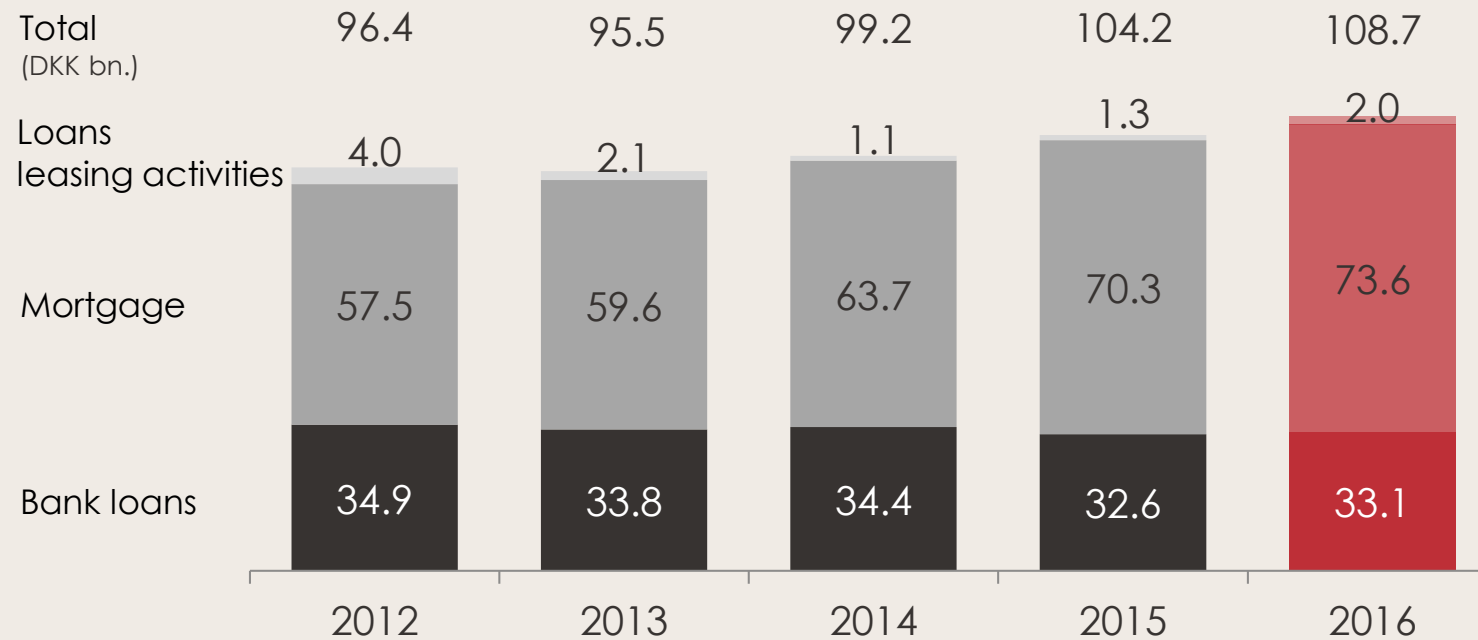


# Reduction of deposit margin mitigates pressure on lending margin

- Total interest margin declined by 13 basis points in 2016 – but was stable from Q1 through Q4
- Price competition on bank lending squeezes lending margin by 26 basis points
- Price cuts on the deposit side lead to 13 basis points reduction in deposit margin

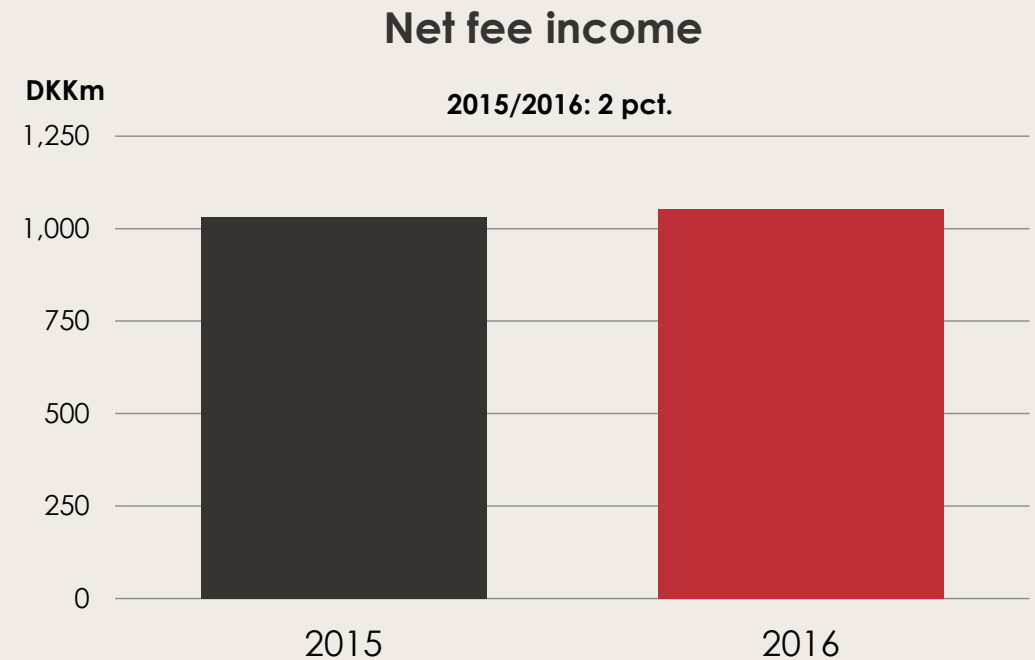


# Total credit distribution grew by 4 %

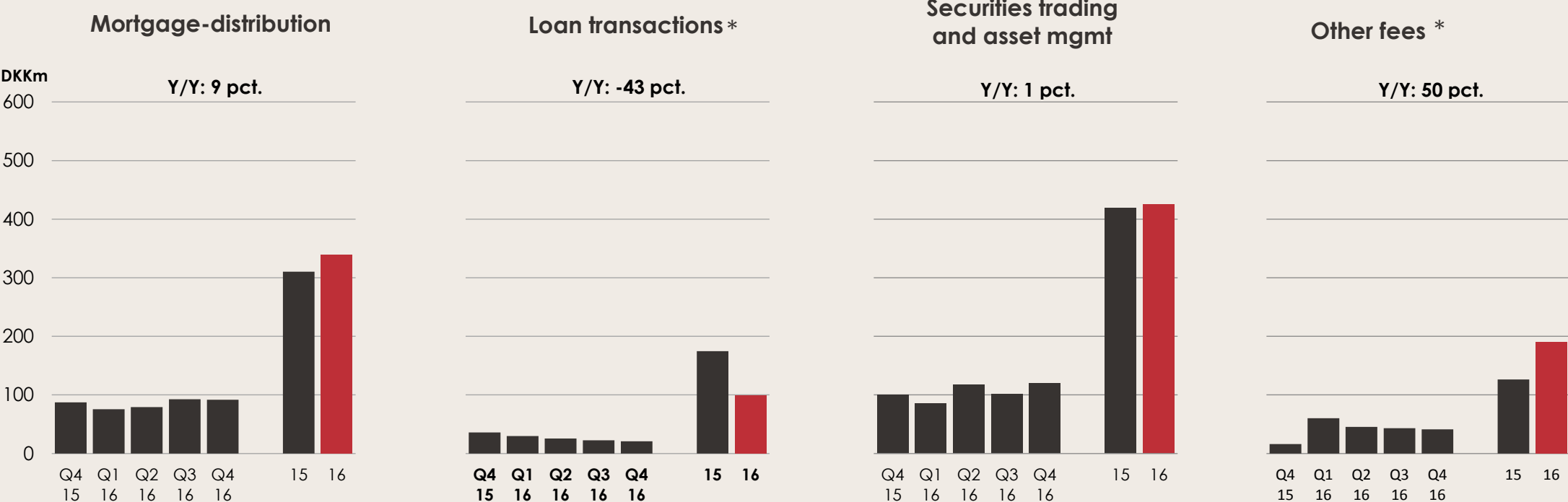


# Net fee income at record level

- Total net fee income grew by 2 % and came to DKK 1.053 million
- Income from mortgage-distribution was up 9 %
  - Continued volume growth
  - Margin hikes from Totalkredit
- Income related to securities trading and asset management remained very satisfactory
- Strong growth in fee income related to transaction banking



# Strong fee income driven by mortgage-distribution, asset management and other fees



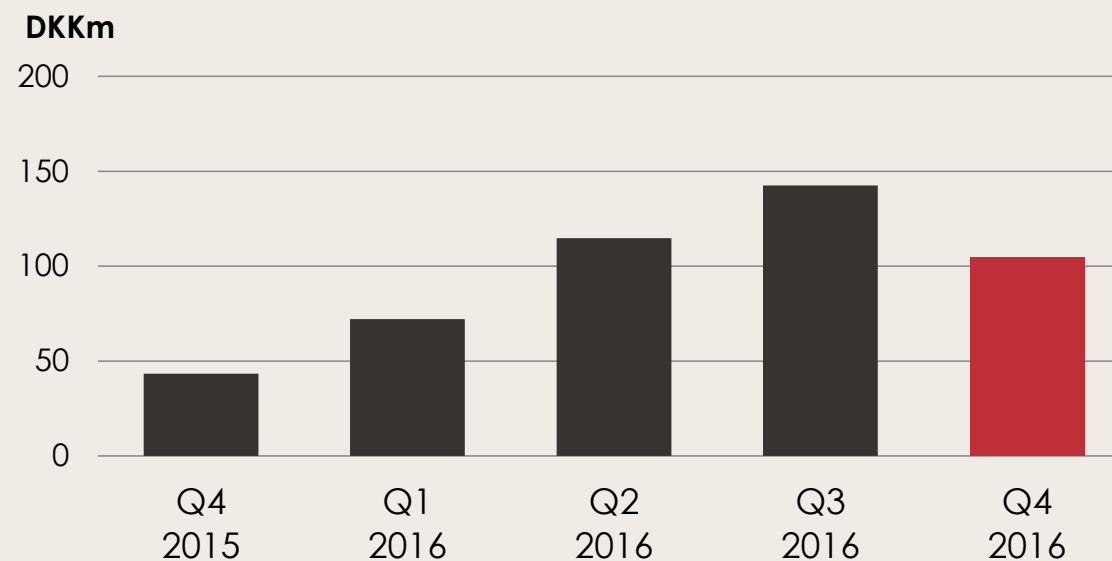
\* Change of IT-provider influences classification between loan transactions and other fees



# Very strong market-value adjustments

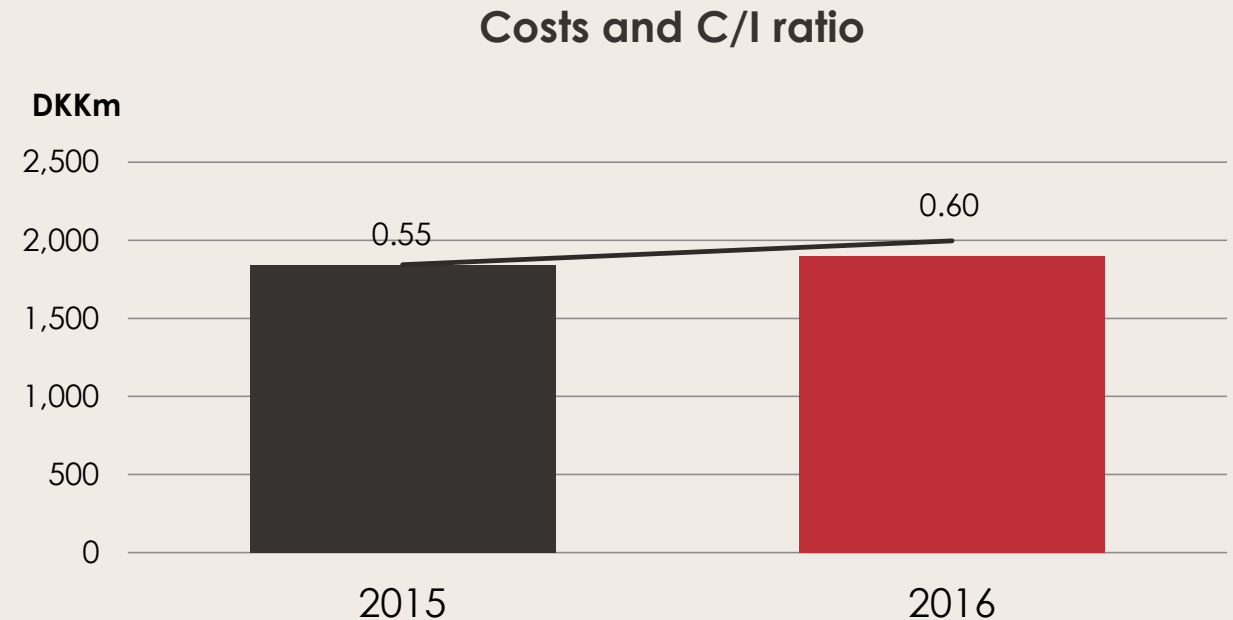
- Market-value adjustments and dividends came to DKK 434 million – 14 % down on 2015
  - Adjusted for the sale of Nørresundby Bank in 2015, market-value adjustments and dividends grew by 54 %
- Market-value adjustments in Trading & Markets Division grew from DKK 80 million to DKK 223 million
  - Strong performance on bonds, driven by drop in interest rates and narrowing of spreads
- Market-value adjustments and dividends on sector shares were down by DKK 212 million
  - Absence of large one-off items (e.g. Nørresundby Bank)
  - Positive trend in DLR, Skibskredit, Erhvervsinvest etc.
  - Positive post-adjustment of Nets selling price

**Market-value adjustments**



# Costs influenced by IT-migration and implementation of new strategy

- Total costs came to DKK 1,896 million – up 3 % on 2015
  - Adjusted for one-off costs related to new strategy, costs were flat
- One-off costs of DKK 64 million related to implementation of new strategy
- Payroll costs were up 4 %
- Operating expenses were down by 3 %



# Costs influenced by IT-migration and implementation of new strategy

- Payroll costs grew by 4 % and came to DKK 1.142 million
  - Pay rises under collective agreements
  - Extra work related to IT-migration
  - Unchanged headcount compared to year-end 2015
  - Positive effect from legal action regarding payroll tax
  - Strategy costs of DKK 20 million
- Operating expenses were down 3 % to DKK 660 million
  - Positive impact from IT-migration
  - General reduction across cost types
  - Fewer one-off items
  - Strategy costs of DKK 23 million
- Depreciation, amortization and impairments grew by 42 % and came to DKK 94 million
  - IT, properties etc. – related to new strategy (DKK 21 million)

## Breakdown on cost types

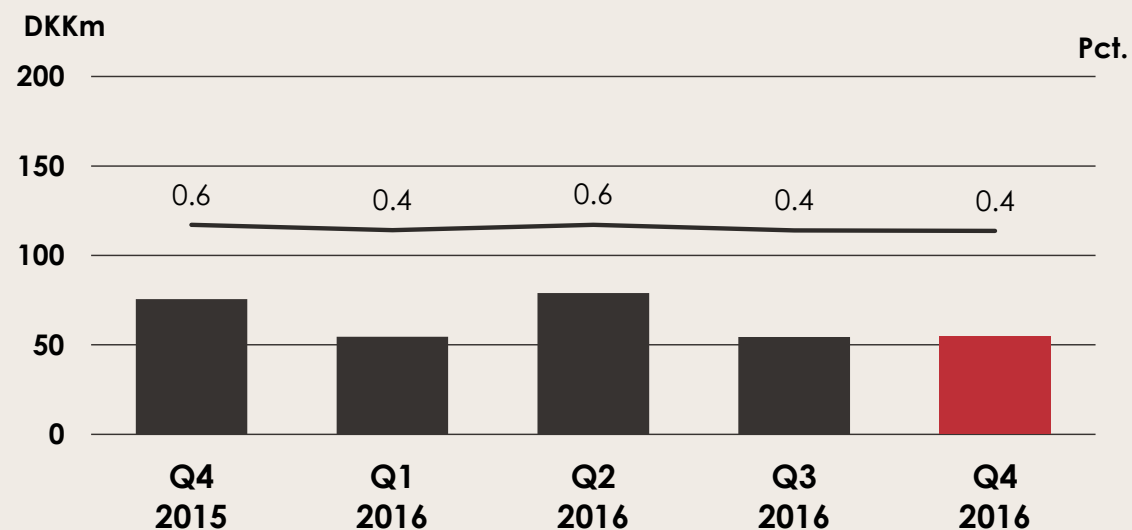
| Costs (DKKm)       | 2016         | 2015         | Change    |
|--------------------|--------------|--------------|-----------|
| Staff costs        | 1,142        | 1,098        | 44        |
| Operating expenses | 660          | 679          | -19       |
| Depreciation       | 94           | 66           | 29        |
| <b>Costs</b>       | <b>1,896</b> | <b>1,843</b> | <b>54</b> |

| Operating expenses (DKKm)     | 2016       | 2015       | Change     |
|-------------------------------|------------|------------|------------|
| Staff-related expenses        | 40         | 39         | 1          |
| Travel expenses               | 15         | 16         | 0          |
| Marketing costs               | 91         | 95         | -4         |
| IT expenses                   | 333        | 339        | -6         |
| Cost of premises              | 86         | 84         | 2          |
| Other administrative expenses | 96         | 107        | -12        |
| <b>Operating expenses</b>     | <b>660</b> | <b>679</b> | <b>-19</b> |

# Positive trend in loan losses

- Impairments on loans etc. declined to DKK 242 million corresponding to 0.44 percent
  - 23 % lower than last year – and lower than expected at the beginning of the year
- Break-down on segments (and impairment percentage)
  - Private households: DKK -4 million (0.0 %)
  - Corporates excl. agriculture: DKK 125 million (0.4 %)
  - Agriculture: DKK 121 million (3.6 %)
- Generally positive trend in credit quality
  - Conditions for agriculture are improving
  - Private households are doing well
  - Few but relatively large impairments on corporates (wind, property)

Impairments and impairment percentage



# Update on agriculture

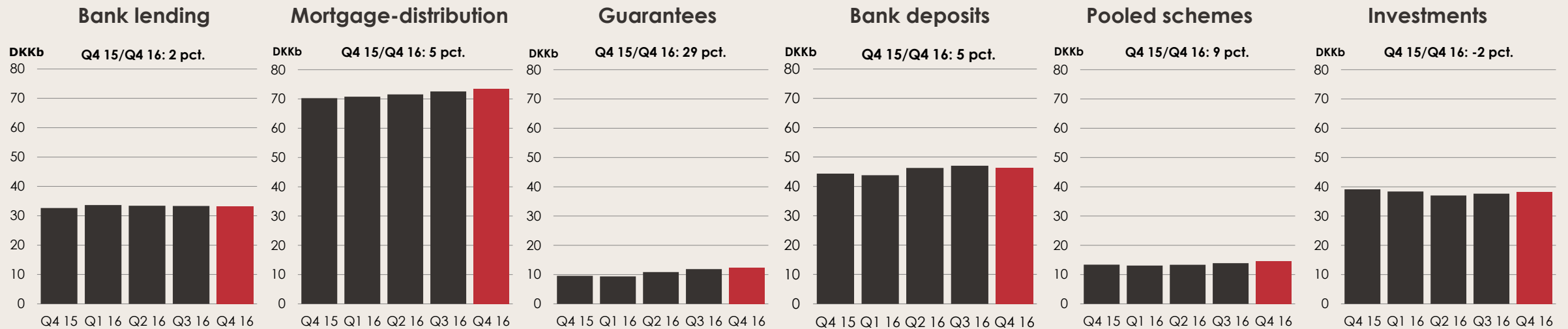
- Output prices improved during the year
  - Pork prices up from DKK 8.70/kg. to DKK 10.00/kg. (at present: DKK 10.00/kg.)
  - Milk prices up from DKK 2.18/kg. to DKK 2.41/kg. (at present: DKK 2.62/kg.)
- Many farmers remain under pressure
  - Big differences between individual farmers' results
  - High debt level
- Outlook for 2017
  - Improved liquidity
  - Continued efforts to restructure weak farmers
  - Declining losses

| AGRICULTURAL EXPOSURE BY PRODUCTION LINE |                                      |                      |                   |
|--|--------------------------------------|----------------------|-------------------|
| 2016<br>DKKm/pct.                        | Loans,<br>advances and<br>guarantees | Of which<br>impaired | Share<br>impaired |
| Cattle producers                         | 1,112.7                              | 685.0                | 61.6              |
| Pig producers                            | 798.8                                | 414.0                | 51.8              |
| Plant cultivation                        | 685.3                                | 102.6                | 15.0              |
| Mink farmers                             | 114.1                                | 41.4                 | 36.3              |
| Leasing                                  | 361.3                                | 16.6                 | 4.6               |
| Other production lines                   | 321.8                                | 20.7                 | 6.4               |
| <b>Total</b>                             | <b>3,394.0</b>                       | <b>1,280.3</b>       | <b>37.7</b>       |

| AGRICULTURAL EXPOSURE BY PRODUCTION LINE |                       |                            |                                    |                        |
|--|-----------------------|----------------------------|------------------------------------|------------------------|
| 2016<br>DKKm/pct.                        | Impairment<br>balance | Impairment for<br>the year | Impairment<br>ratio on<br>exposure | Percentage<br>impaired |
| Cattle producers                         | 425.2                 | 102.5                      | 38.2                               | 62.1                   |
| Pig producers                            | 247.9                 | -0.3                       | 31.0                               | 59.9                   |
| Plant cultivation                        | 49.9                  | 6.5                        | 7.3                                | 48.6                   |
| Mink farmers                             | 16.0                  | 10.8                       | 14.0                               | 38.6                   |
| Leasing                                  | 1.9                   | -0.1                       | 0.5                                | 11.4                   |
| Other production                         | 14.2                  | 1.8                        | 4.4                                | 68.6                   |
| <b>Total</b>                             | <b>755.1</b>          | <b>121.2</b>               | <b>22.2</b>                        | <b>59.0</b>            |

# Business volume grew by 5 % to DKK 220 billion

- Positive trend in credit arrangement to both private customers and corporates
  - Bank and leasing lending grew by DKK 1.2 billion (4 %) and mortgage-distribution grew by DKK 3.3 billion (5 %)
  - Total credits arranged to private customers grew by 4 % and to corporate customers by 5 %
- Deposits continue to grow
  - Bank deposits were up by DKK 2.1 billion (5 %) and deposits in pooled pension schemes by DKK 1.2 billion (9 %)



# Solid capital position

- CET1 ratio of 14.0 and total capital ratio of 17.7
  - Small decline in CET1 attributable to growth in REA
  - DKK 450 million AT1 capital issued in December
- Capital percentage of 17.7 should be viewed in the light of an ICAAP ratio of 9.5 % and a combined buffer requirement of 0.6 %
  - Excess coverage relative to total capital requirement of 7.6 percentage points (DKK 3.6 billion)
- CET1 ratio on fully implemented CRD IV rules: 13.7 %

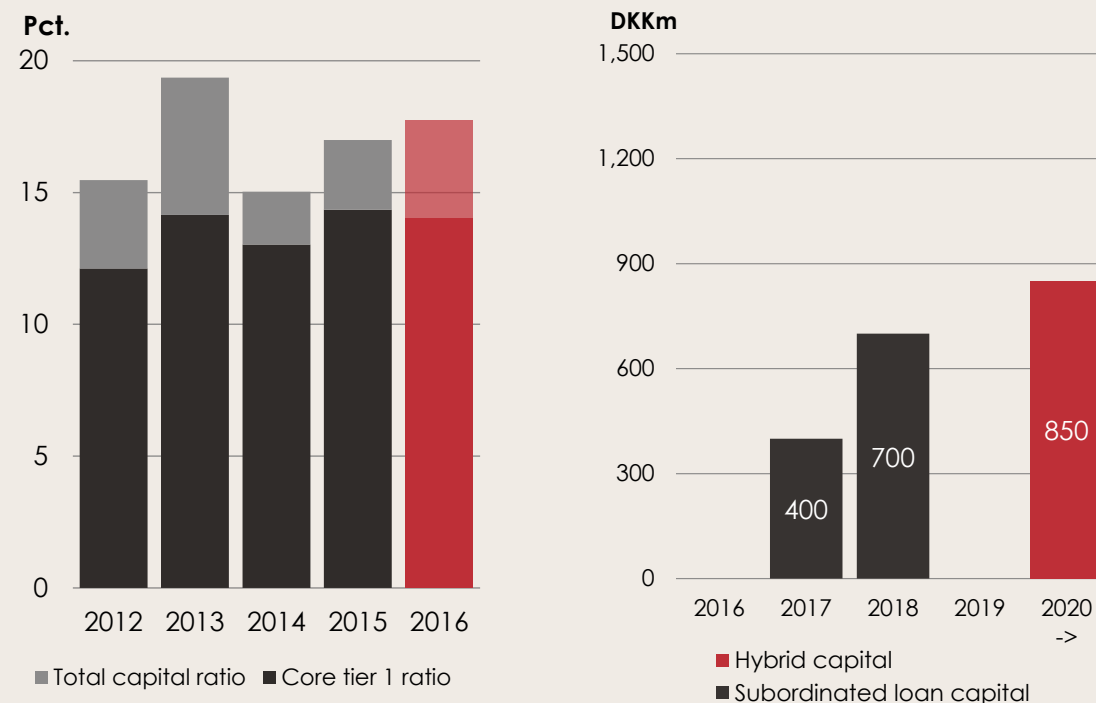
## Capital base

| Pct.                         | Q4 2016     | 2015        | 2014        | 2013        |
|------------------------------|-------------|-------------|-------------|-------------|
| Core tier 1 ratio            | 14.0        | 14.4        | 13.0        | 14.1        |
| Hybrid capital               | 1.8         | 0.8         | 0.9         | 4.2         |
| Deductions in hybrid capital | -0.2        | -0.3        | -0.6        | -1.0        |
| <b>Tier 1 ratio</b>          | <b>15.6</b> | <b>14.9</b> | <b>13.3</b> | <b>17.4</b> |
| Subordinated debt            | 2.3         | 2.3         | 2.3         | 2.9         |
| Deductions in own funds      | -0.2        | -0.3        | -0.6        | -1.0        |
| <b>Total capital ratio</b>   | <b>17.7</b> | <b>17.0</b> | <b>15.0</b> | <b>19.4</b> |

# Capital targets and dividends

- Strategic capital targets
  - CET 1 ratio: 12.0 minimum
  - Total capital ratio: 15.5 minimum
- Dividend policy
  - Distribution of at least two-thirds of net profits (subject to compliance to strategic capital targets)
- For 2016, a DPS of DKK 5 is proposed
  - Pay-out ratio of 75 %
  - Dividend yield of 6 %
- Perspectives on targets and policies
  - Spar Nord uses standard risk weights and is not SIFI
  - Spar Nord's absolute leverage is low compared to peers
  - Uncertainties related to MREL, IFRS9 and CRD IV

## Capital percentage and subordinated capital



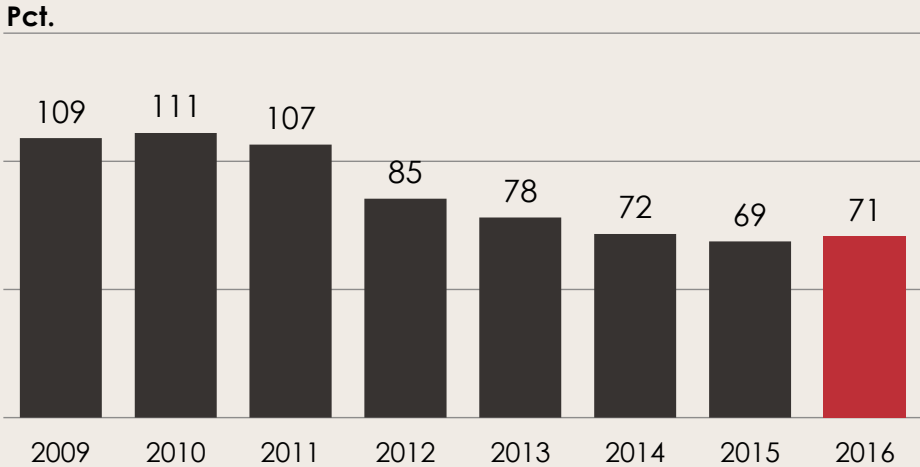


# Strategic liquidity further strengthened

Strategic liquidity

| DKKb                            | 2016        | 2015        | 2014        |
|---------------------------------|-------------|-------------|-------------|
| Deposits, banking activities    | 46.5        | 44.4        | 42.2        |
| Seniorfunding                   | 0.0         | 0.0         | 0.1         |
| Core capital and sub. capital   | 9.7         | 9.0         | 8.8         |
| <b>Stable long term funding</b> | <b>56.2</b> | <b>53.4</b> | <b>51.1</b> |
| Loans, banking activities       | 33.1        | 32.6        | 34.4        |
| Loans, leasing activities       | 2.0         | 1.3         | 1.1         |
| Maturity < 1 year               | -0.4        | 0.0         | -0.6        |
| <b>Liquidity target</b>         | <b>20.7</b> | <b>19.5</b> | <b>15.0</b> |

Loan to deposit ratio



# Guidance for 2017

- Modest but positive growth in the economy
  - Moderate positive lending growth driven by continued growth in market-share
- Pressure on core income
  - Low interest level puts pressure on interest income from both customer lending and bond portfolio
  - Fee income expected to remain on high level
  - Difficult to match 2016-performance on bonds
- Costs influenced by strategy implementation
  - Underlying growth in payroll costs due to collective agreements and hike in payroll tax
  - One-off costs related to strategic initiatives
  - First positive effects of strategic initiatives begin to materialize
- Core earnings before impairment in the DKK 1.1-1.2 billion range
- Impairments expected to come further down
  - More positive outlook for agriculture

