

**Solid net profit of DKK 690 million yields an annualized 11.9 % return on equity – full-year guidance raised**

Presentation of Spar Nord's financial results for Q1-Q3 2016



## Key messages

### **Core income sustained at the level of 2015 when adjusted for last year's one-off gain related to Nørresundby Bank**

- NII dropped 7 % (y/y) due to lower income from bond portfolio and due to margin pressure
- Net fee income dropped by 2 % (y/y) but remains at highly satisfactory level
- Market-value adjustments were very strong – 38 % up on last year when adjusted for the sale of shares in Nørresundby Bank

### **Cost reduction and declining loan losses**

- Total costs were reduced by 1 % (y/y) – effects of IT-migration are beginning to materialize
- Loan impairments were reduced by 22 % – profit impact almost entirely attributable to agriculture

### **Full-year guidance is raised**

- Forecast for full-year core earnings is adjusted upwards from around DKK 1.1 billion to about DKK 1.2 billion after approx DKK 50 million one-off costs related to a new strategy plan
- Loan losses are now expected to be somewhat down on last year (previously "slightly down")

### **New strategy plan for 2017-19**

- Growth initiatives and efficiency-enhancing initiatives are expected to contribute DKK 200 million and DKK 100 million, respectively
- Target for a return on equity is 9-11% after tax, and the Cost/Income Ratio is expected to be 0.60.

## Headlines from the income statement

### Income statement

| SPAR NORD BANK<br>DKKm                  | Realized<br>YTD 2016 | Realized<br>YTD 2015 | Index     | Realized<br>Q3 2016 | Realized<br>Q2 2016 | Index      |
|---|----------------------|----------------------|-----------|---------------------|---------------------|------------|
| Net interest income                     | 1,226                | 1,311                | 93        | 413                 | 417                 | 99         |
| Net fees, charges and commissions       | 778                  | 791                  | 98        | 259                 | 268                 | 97         |
| Market-value adjustments                | 329                  | 464                  | 71        | 143                 | 115                 | 124        |
| Other income                            | 51                   | 51                   | 100       | 19                  | 17                  | 108        |
| <b>Core income</b>                      | <b>2,384</b>         | <b>2,617</b>         | <b>91</b> | <b>834</b>          | <b>817</b>          | <b>102</b> |
| Staff costs                             | 835                  | 807                  | 103       | 249                 | 307                 | 81         |
| Operating expenses etc.                 | 519                  | 566                  | 92        | 157                 | 166                 | 94         |
| <b>Costs</b>                            | <b>1,354</b>         | <b>1,374</b>         | <b>99</b> | <b>406</b>          | <b>473</b>          | <b>86</b>  |
| <b>Core earnings before impairment</b>  | <b>1,031</b>         | <b>1,243</b>         | <b>83</b> | <b>428</b>          | <b>344</b>          | <b>125</b> |
| Impairments of loans and advances, etc. | 188                  | 240                  | 78        | 54                  | 79                  | 69         |
| <b>Core earnings</b>                    | <b>843</b>           | <b>1,003</b>         | <b>84</b> | <b>374</b>          | <b>265</b>          | <b>141</b> |
| Sector Fund                             | 0                    | -74                  | -         | 0                   | 0                   | -          |
| <b>Profit before tax</b>                | <b>843</b>           | <b>929</b>           | <b>91</b> | <b>374</b>          | <b>265</b>          | <b>141</b> |

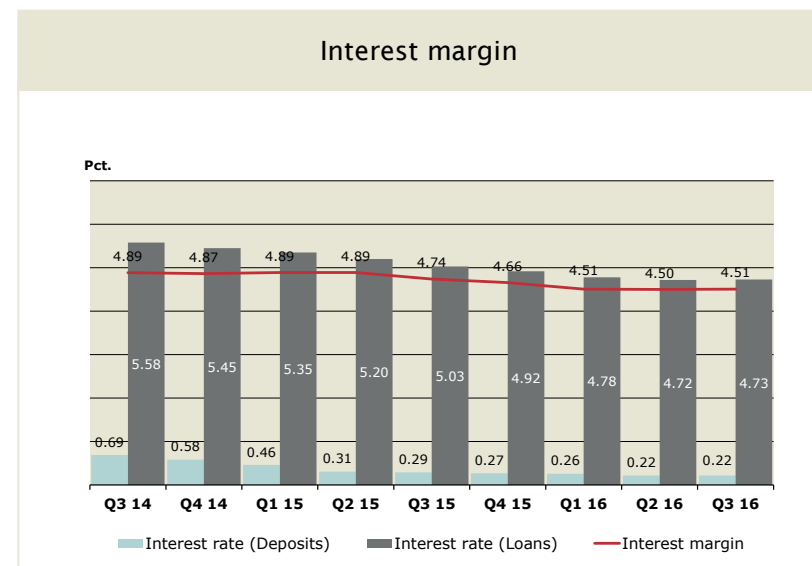
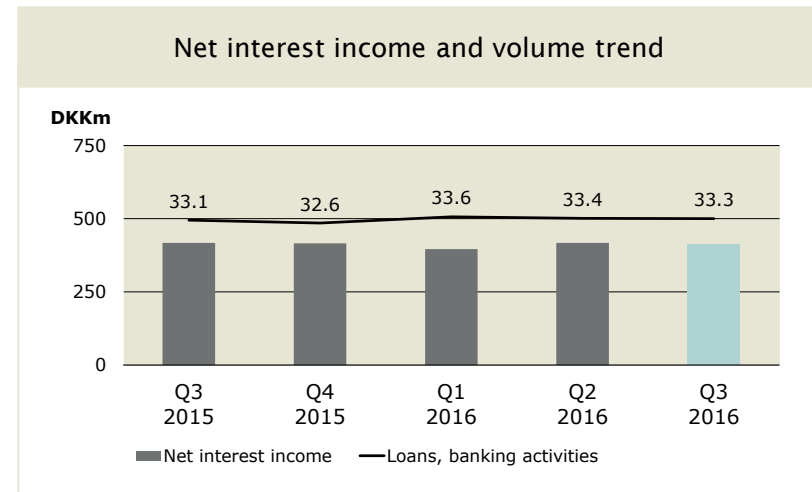
### Key messages

- Satisfactory ROE
  - 2015: 10,3 % after tax\*
  - 2016: 11,9 % after tax
- Fee income remains high
  - Driven by mortgage activities and "other fees"
- Strong market-value adjustments
  - Lifted by bond portfolio
- Cost reduction
  - General reduction across cost types
- Declining loan losses

\* Excl. Nørresundby Bank

# Lending volume and net interest income have stabilized

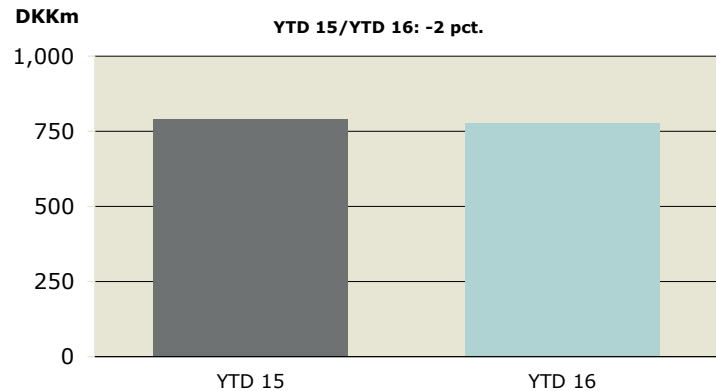
- Net interest income dropped by 7 % (y/y) and ended at DKK 1,226 million
  - out of the DKK 85 million decline, DKK 66 million is attributable to bond portfolio
- Bank and leasing lending is up 4 % year-to-date
  - Loan portfolio of DKK 0.5 billion acquired from FIH
  - Strong growth in leasing business (DKK 0.5 billion)
- Interest margin has stabilized in recent months
  - Total interest margin has declined by 23 bps since the end of Q3 last year, but has been stable for 6 months
  - Lending margin has been stable for 3 quarters
  - Reported lending margin is impacted by migration to new IT-system (reported somewhat too high)
- One-off in Q3
  - DKK 13 million carried to income following changed tax assessments for 2011-13



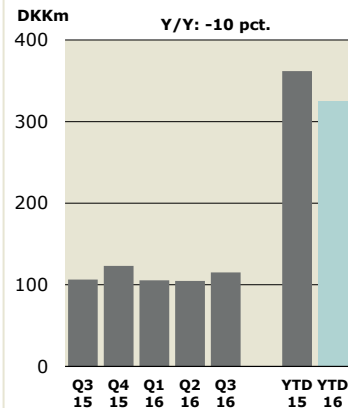
# Highly satisfactory net fee income

- Net fee income was down 2 % (y/y) but was sustained at very high level (DKK 778 million)
- Income from loan transaction fees was down 10 % on last year's extremely high level
  - Income related to mortgage-distribution grew by 10 % (y/y)
- Income from securities trading was down 5 % (y/y) but has developed positively since Q1
- Other fees are impacted positively by pris adjustments on transaction banking
- Migration to new IT-system has led to a more precise allocation of net fees

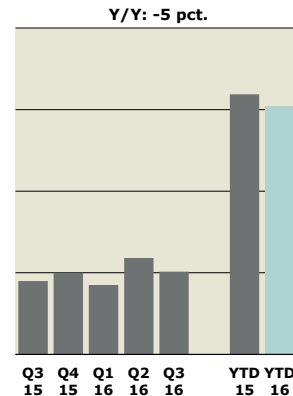
Net fee income



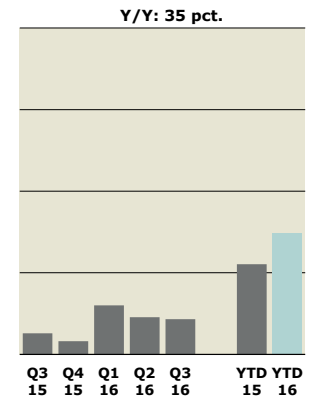
Loan transaction fees



Securities/asset mgmt.

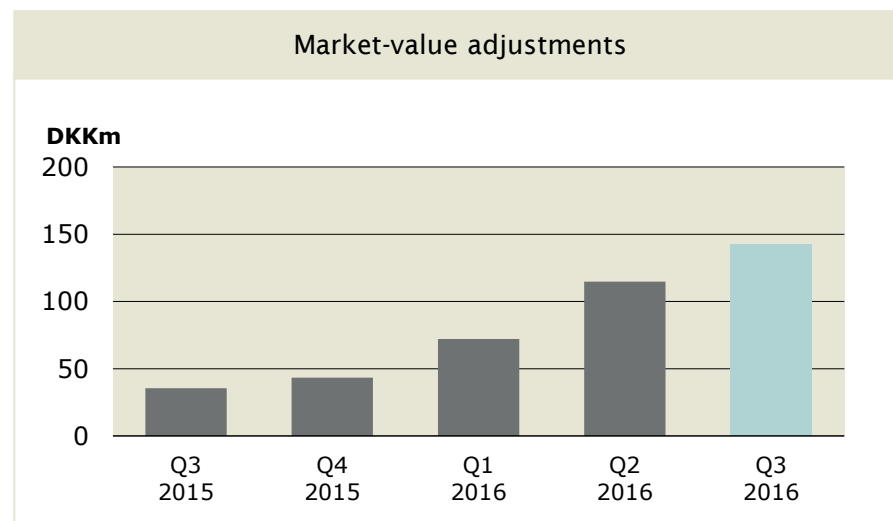


Other fees



## Positive trend in market-value adjustments and dividends

- Market-value adjustments and dividends dropped by DKK 134 million (y/y) but have grown for 4 consecutive quarters
- Adjusted for one-off gain in 2015 related to Nørresundby Bank, market-value adjustments have grown by DKK 92 million or 38 % (y/y)
- Strong performance on bonds attributable to narrowing of spreads on Danish mortgage-bonds
- Positive market-value adjustments on shares in sector companies, e.g. DLR Kredit, Danmarks Skibskredit, Vækstinvest Nordjylland A/S and Erhvervsinvest K/S
- DKK 23 million positive adjustment on sales price in the divestment of Nets

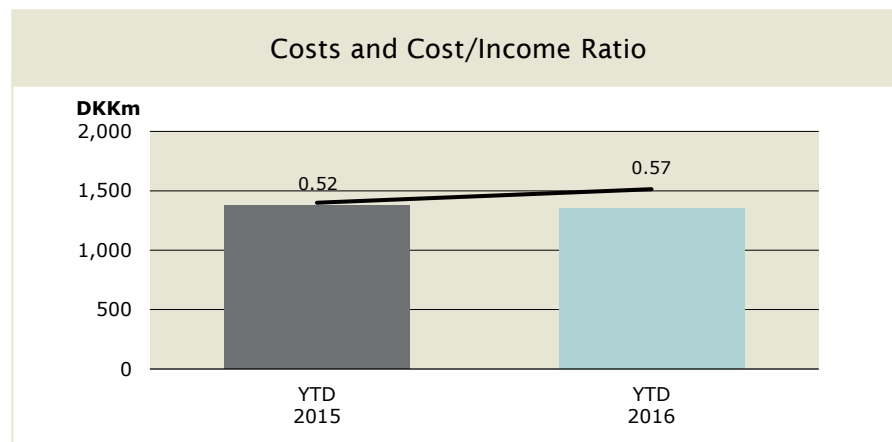


Market-value adjustments broken down on types

| DKKm   | YTD 2016   | YTD 2015   | Change      |
|--|------------|------------|-------------|
| Market-valued adjustments in Trading, Financial Markets & The International Division | 156        | 73         | 84          |
| Tangible assets  | 91         | 292        | -200        |
| Dividends on shares, etc.  | 49         | 55         | -5          |
| Currency trade and -agio   | 33         | 45         | -12         |
| <b>Total</b>   | <b>329</b> | <b>464</b> | <b>-134</b> |

## ■ Total costs reduced by 1 %

- Total costs and expenses came to DKK 1,354 million - 1 % lower than last year
- Payroll costs were up 3 %
  - 11 FTEs more than last year (leasing, SparXpres and IT)
  - Extra work related to IT-project
  - Positive one-off related to successful legal action regarding the principles governing the calculation of payroll taxes
- Operating expenses reduced by 9 %
  - General reduction across cost types
  - Absence of one-off costs
- Positive effects on IT-migration are beginning to show
  - IT-expenses reduced by 5 %



Breakdown on cost types

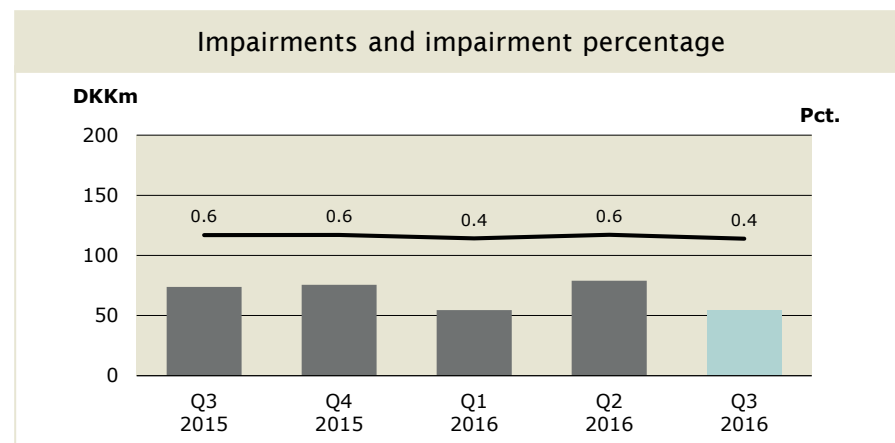
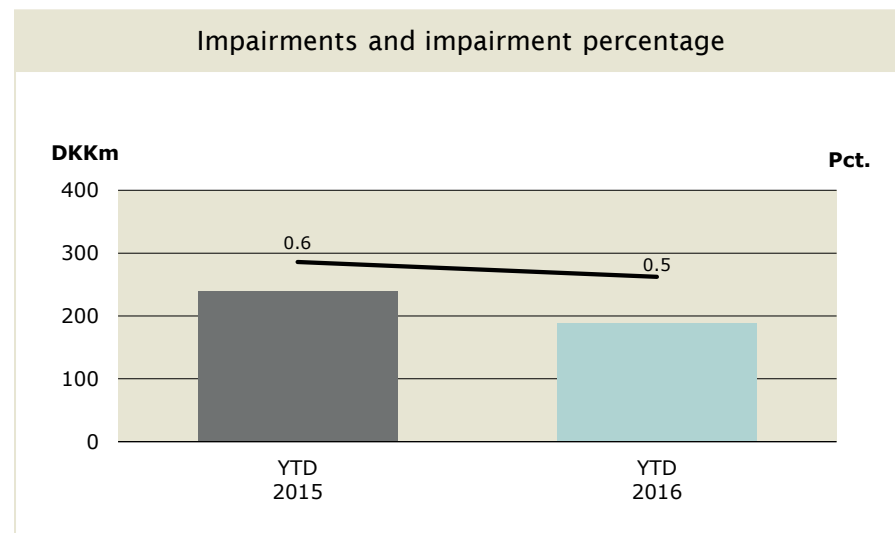
| Costs (DKKm)       | YTD 2016     | YTD 2015     | Change     |
|--------------------|--------------|--------------|------------|
| Staff costs        | 835          | 807          | 27         |
| Operating expenses | 468          | 514          | -46        |
| Depreciation       | 51           | 52           | -1         |
| <b>Costs</b>       | <b>1,354</b> | <b>1,374</b> | <b>-20</b> |

| Operating expenses (DKKm)     | YTD 2016   | YTD 2015   | Change     |
|-------------------------------|------------|------------|------------|
| Staff-related expenses        | 27         | 29         | -3         |
| Travel expenses               | 11         | 11         | 0          |
| Marketing costs               | 65         | 72         | -7         |
| IT expenses                   | 239        | 252        | -13        |
| Cost of premises              | 61         | 65         | -3         |
| Other administrative expenses | 66         | 86         | -20        |
| <b>Operating expenses</b>     | <b>468</b> | <b>514</b> | <b>-46</b> |

## Loan losses down 22 %

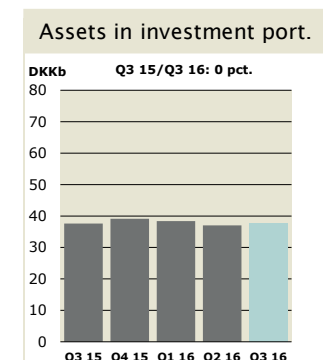
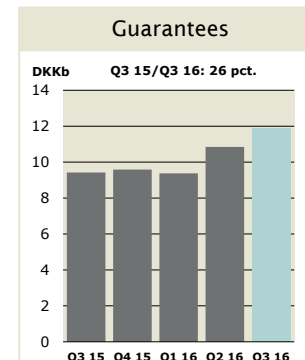
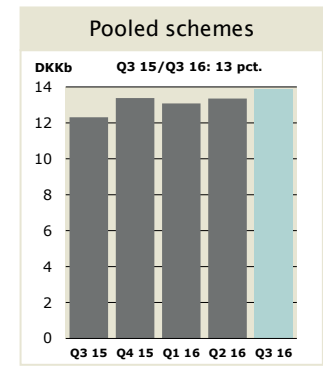
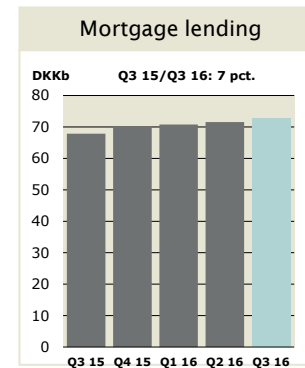
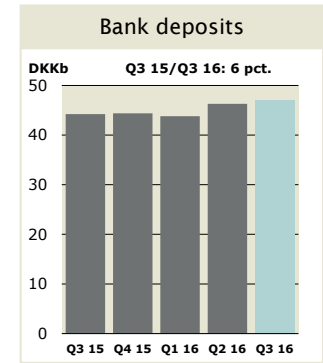
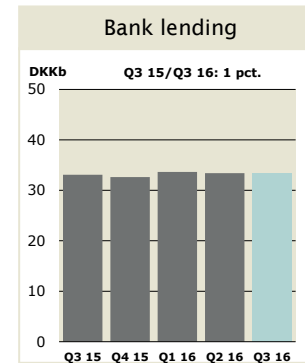
- Loan losses came to DKK 188 million corresponding to an impairment percentage of 0.47
  - 94 % of profit impact is attributable to agriculture
- Impairment percentage on business segments
  - Household: DKK -72 million (-0.4 % p.a.)
  - Corporate ex. agriculture: DKK 84 million (0.4 % p.a.)
  - Agriculture: DKK 176 million (6.6 % p.a.)
- Breakdown on business segment can be somewhat affected by migration to new IT-system
- Status on agriculture
  - **Milk:** Loans and advances of DKK 1.2 billion – hereof 58 % impaired and 40 % written down
  - **Pigs:** Loans and advances of DKK 0.9 billion – hereof 51 % impaired and 33 % written down





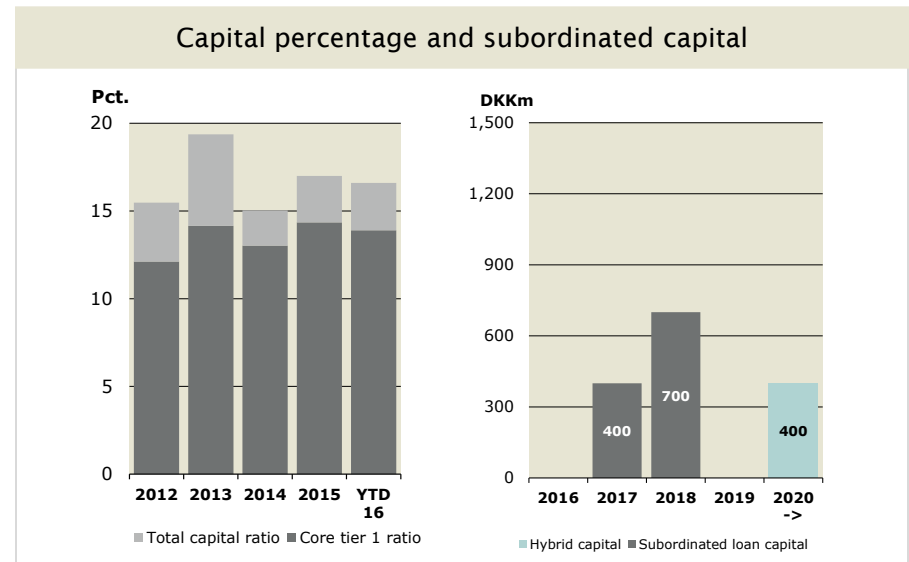
# Total business volume has grown by DKK 7.5 billion YTD

- At the end of Q3, the Group's total business volume came to DKK 218.2 billion – DKK 7.5 billion higher than at the beginning of the year
- Bank and leasing lending is up by DKK 1.2 billion YTD
- Mortgage loan portfolio has grown by DKK 2.3 billion (3 %)
  - Total volume of DKK 72.6 billion, hereof DKK 61.1 billion in Totalkredit and DKK 11.5 billion in DLR Kredit
- Bank deposits have grown by DKK 2.7 billion (6 %)
- Guarantees have grown by DKK 2.3 or 24 % due to high re-financing activity and high activity in the housing market
- Customers' investment assets have declined by DKK 1.5 billion or 4 %



# Capital position remains comfortable

- Strategic targets
  - CET1: 12 % minimum
  - Total capital ratio: 15.5 % minimum
- At the end of Q3, Core Equity Tier 1 ratio is at 13.9 and total capital ratio at 16.6
- Capital ratio should be viewed in connection with individual solvency need of 9.4 % and combined buffer requirement of 0.6 %
  - Excess coverage of DKK 3.1 billion (6.6 pp)
- Based on fully phased-in CRD IV regulations, CET1 ratio is 13.5
- Spar Nord's absolute leverage of equity is low compared to other large Danish banks
- Status on share buyback programme
  - Total programme: DKK 150 million
  - End of Q3: DKK 108 million



Capital base

| Pct.                         | Q3 2016     | 2015        | 2014        | 2013        |
|------------------------------|-------------|-------------|-------------|-------------|
| Core tier 1 ratio            | 13.9        | 14.4        | 13.0        | 14.1        |
| Hybrid capital               | 0.8         | 0.8         | 0.9         | 4.2         |
| Deductions in hybrid capital | -0.2        | -0.3        | -0.6        | -1.0        |
| <b>Tier 1 ratio</b>          | <b>14.5</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>16.6</b> | <b>17.0</b> | <b>15.0</b> | <b>19.4</b> |

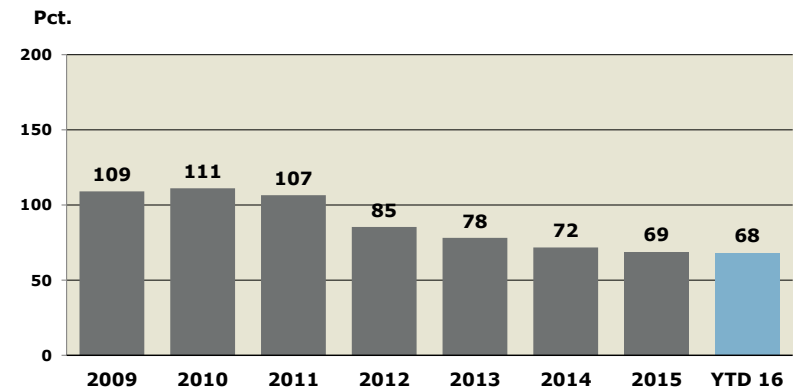
# Strategic liquidity of DKK 21.1 billion

- Strategic liquidity of DKK 21.1 billion
- Further strengthened in Q3 due to growth in deposits combined with flat loan growth
- Independence of funding from the capital markets
- Loan to deposit ratio of 68
- LCR of 155

## Strategic liquidity

| DKKb                            | YTD 2016    | 2015        | 2014        |
|---------------------------------|-------------|-------------|-------------|
| Deposits, banking activities    | 47.0        | 44.4        | 42.2        |
| Seniorfunding                   | 0.0         | 0.0         | 0.1         |
| Core capital and sub. capital   | 9.2         | 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       | 33.3        | 32.6        | 34.4        |
| Loans, leasing activities       | 1.8         | 1.3         | 1.1         |
| Maturity < 1 year               | 0.0         | 0.0         | -0.6        |
| <b>Liquidity target</b>         | <b>21.1</b> | <b>19.5</b> | <b>15.0</b> |

## Loan to deposit ratio



# Guidance and share price

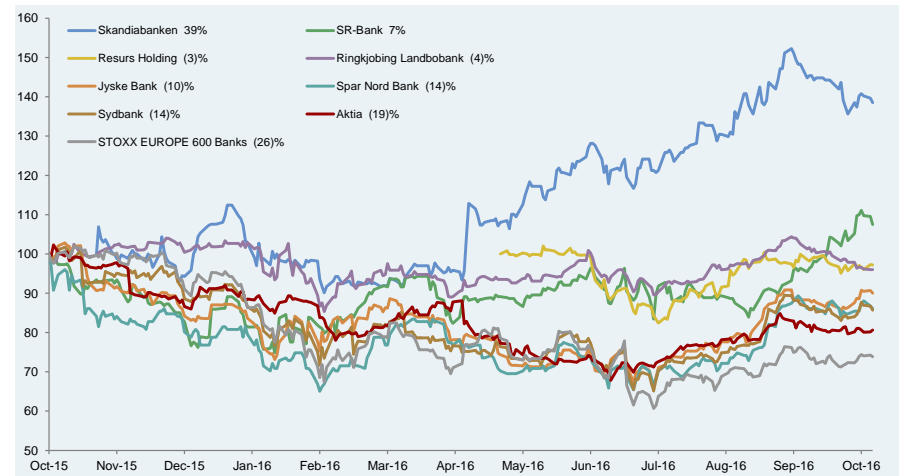
## Guidance for 2016

- Core earnings before impairments now expected in the DKK 1.2 billion range after one-off costs of DKK 50 million related to new strategy plan
- Loan impairments now expected to be somewhat lower than in 2015

## Preliminary guidance for 2017

- Core earnings before impairments in the DKK 1.1-1.2 billion range – primarily sensitive to interest margin and market-value adjustments
- Loan losses lower than in 2016

## Share price

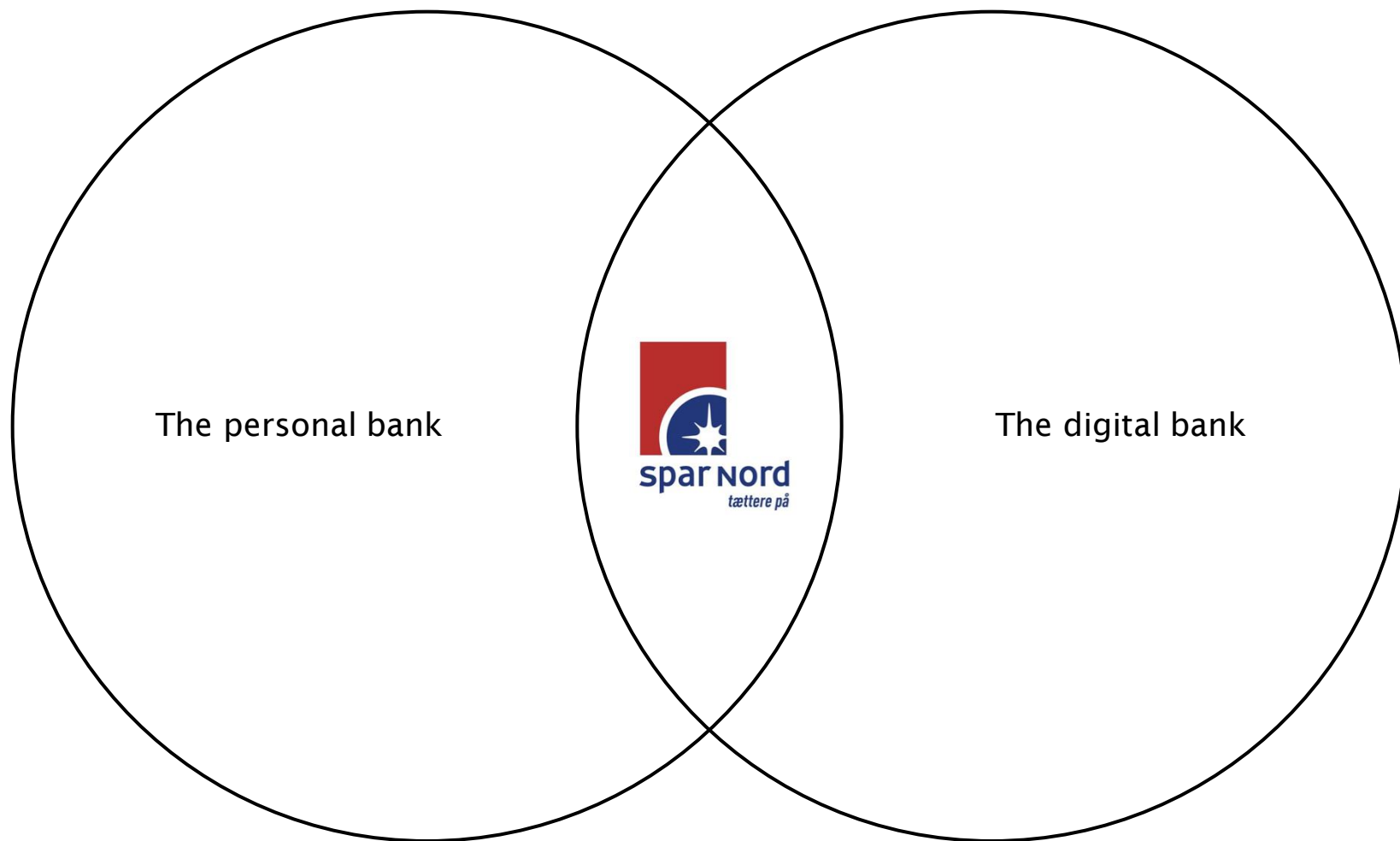


# **NEW STRATEGY PLAN**

## ■ Point of departure

- **We have a strong position in the field**
  - Growth in market share and respectable profits throughout the crisis
  - High customer satisfaction and unutilized market potential outside North Jutland
  - Migration to a new IT platform completed successfully
- **The framework conditions are shifting**
  - Low growth and low interest rates have become a permanent feature
  - The wave of new rules and regulations continues to swamp us
  - Customer behaviour is changing, and new technological possibilities are emerging
- **More of the same will not suffice to generate sustained good results in the years ahead**
  - New technology and new regulations create a need for substantial investment
  - Customer offerings must be adapted to an environment with low growth and low interest rates
  - The service platform must be adapted to the customers' changed behaviour

## Our position in the market



# ■ Outline of initiatives

## Growth initiatives

- Increased market share, including in cities
- Enhanced wealth management concept with increased focus on Private Banking
- New corporate banking strategy (new segmentation, new service concept)
- Strengthened cross sales via bonus programme, data mining and increased focus on 360 degree advice
- Growth in consumer finance (SparXpres)
- Growth in Leasing
- Digital innovation strategy and fintech programme

## Efficiency enhancement initiatives

- Branch structure
- Dedicated units to perform more service tasks, the aim being to carve out time for advisory service
- Investment in automation and process automation



# Chosen KPIs

## Return on equity

- Growing during the period – expected in 9-11 % range after tax
- Expectation based on unchanged interest level as well as stable business and risk profile

## Financial impact of strategic measures

- Growth initiatives: + DKK 200 million compared to forecast with no initiatives
- Efficiency enhancing initiatives: + DKK 100 million compared to forecast with no initiatives

## Cost efficiency

- Cost/Income Ratio of 0.60

## Other KPI areas

- Net influx of Star PLUS customers
- Influx of High New Worth clients
- Influx of bigger corporate customers
- Customers' evaluation of competencies, service quality and digital solutions
- Degree of automation and process improvement