

# Net profit of DKK 799 million and ROE of 13.1 %

Presentation of Spar Nord's financial results for Q1-Q3 2017

# Net profit of DKK 799 million and ROE of 13.1 %

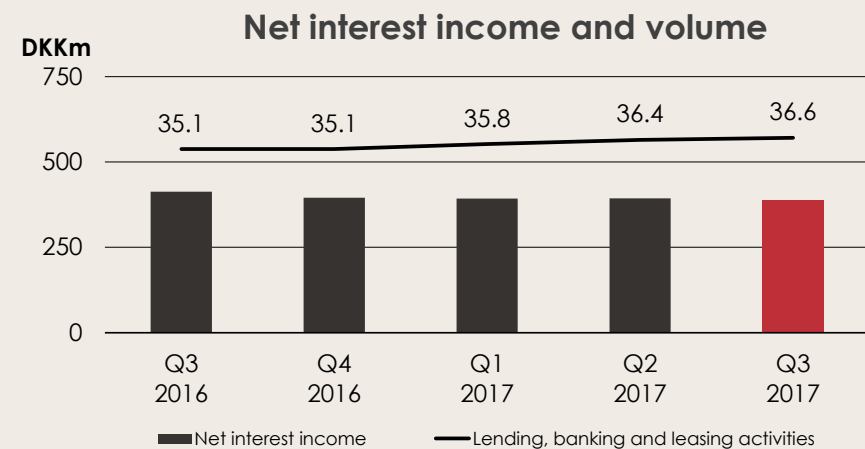
- Recovery in macroeconomic conditions leads to higher investments and increasing demand for financing
- Low interest rate environment and tough competition continue to put pressure on Net interest income
- Highly satisfactory net fee income driven by mortgage distribution and transaction banking
- Market-value adjustments negatively impacted by Q3 write-down on BEC
- Cost growth of 4 % - primarily driven by strategic initiatives (IT-projects, branch refurbishment etc.)
- DKK 51 million net reversal of loan losses – markedly better than expected
- Following BEC write-down, we forecast core earnings before impairment of around DKK 1,200 against the previous forecast of around DKK 1,250. Full-year impairment charges are now expected to be around DKK 0 and thus, we maintain guidance for our full-year PTP

# Key points from the income statement

SPAR NORD BANK DKKm	Realized YTD 2017	Realized YTD 2016	Index	Realized Q3 2017	Realized Q2 2017	Index
Net interest income	1,173	1,226	96	388	393	99
Net fees, charges and commissions	837	778	108	264	279	95
Market-value adjustments	303	329	92	18	121	14
Other income	64	51	125	19	21	90
<b>Core income</b>	<b>2,377</b>	<b>2,384</b>	<b>100</b>	<b>688</b>	<b>814</b>	<b>85</b>
Staff costs	850	835	102	247	318	78
Operating expenses etc.	561	519	108	186	185	101
<b>Costs</b>	<b>1,411</b>	<b>1,354</b>	<b>104</b>	<b>434</b>	<b>502</b>	<b>86</b>
<b>Core earnings before impairment</b>	<b>966</b>	<b>1,031</b>	<b>94</b>	<b>255</b>	<b>312</b>	<b>82</b>
Impairments of loans and advances, etc.	-51	188	-27	-42	-10	414
<b>Profit before tax</b>	<b>1,017</b>	<b>843</b>	<b>121</b>	<b>297</b>	<b>322</b>	<b>92</b>
Tax	218	153	143	73	64	114
<b>Profit</b>	<b>799</b>	<b>690</b>	<b>116</b>	<b>224</b>	<b>258</b>	<b>87</b>

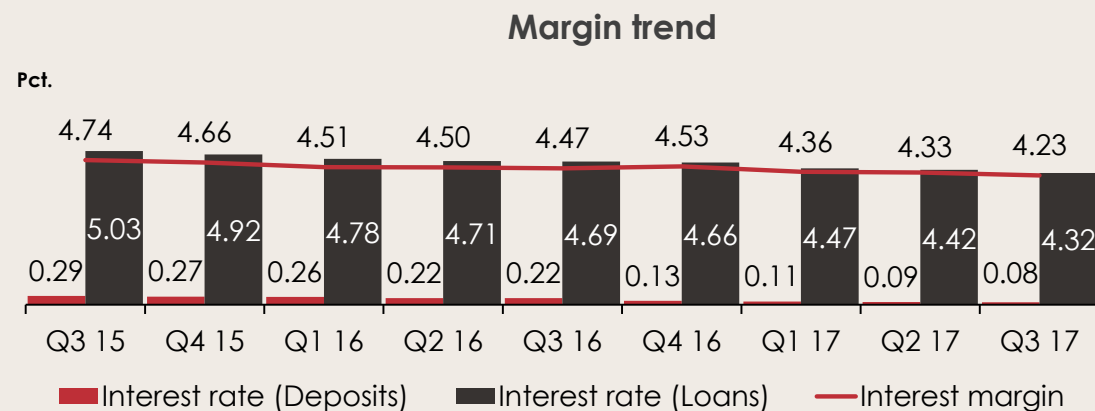
# Low-interest rate environment and tough competition put pressure on NII

- Net interest income declined by 4 % (y/y) and came to DKK 1,173 million
- Bank and leasing lending is up by DKK 1.5 billion (4 %) year-to-date
  - Households: DKK 0.4 billion
  - Corporates: DKK 1.1 billion
- Interest income from bond portfolio was DKK 31 million lower than in the same period last year
- NII has been stable for 4 quarters
- Positive Q3 one-off of DKK 10 million related to a previously impaired commitment (Q2: DKK 9 million)



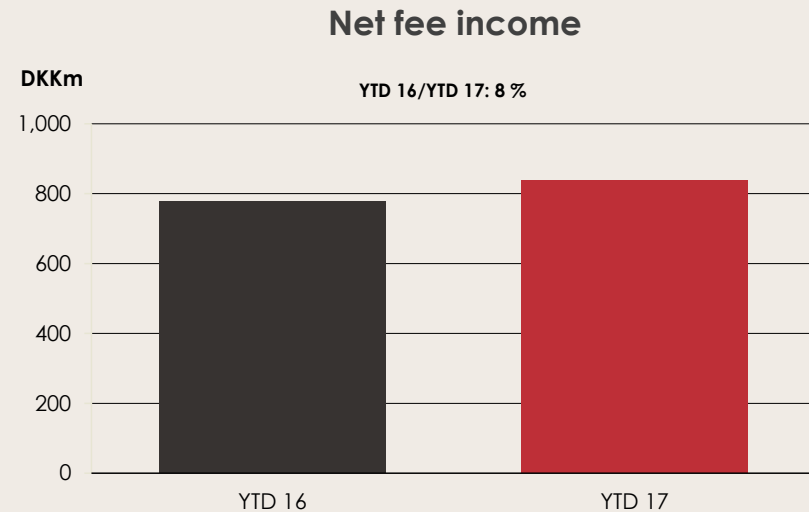
# Continued pressure on interest margin

- In Q3 2017, the total interest margin was 30 basis points lower than in Q4 2016
- Lending margin has declined by 34 basis points year-to-date – 10 basis points from Q2 to Q3
- In the same period, deposit margin has been lowered by 8 basis points – not much more to come for

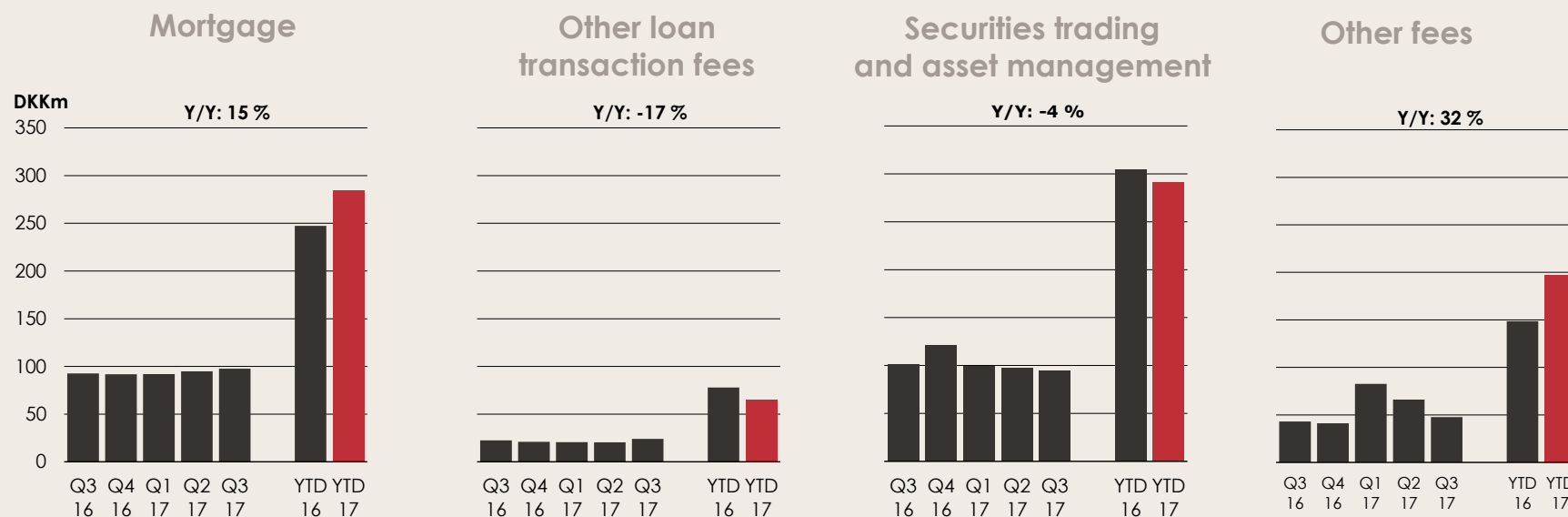


# Strong trend in net fee income driven by mortgage distribution and transaction banking

- Net income from fees, charges and commissions amounted to DKK 837 million – up DKK 59 million (8 %) on Q1-Q3 last year
- Income from mortgage-distribution grew by 15 % driven by both volume growth and price hikes
- Strong growth in other fees driven by transaction banking, insurance distribution etc.
- Small decline in fee income related to securities trading and asset management - partially attributable to MiFID II



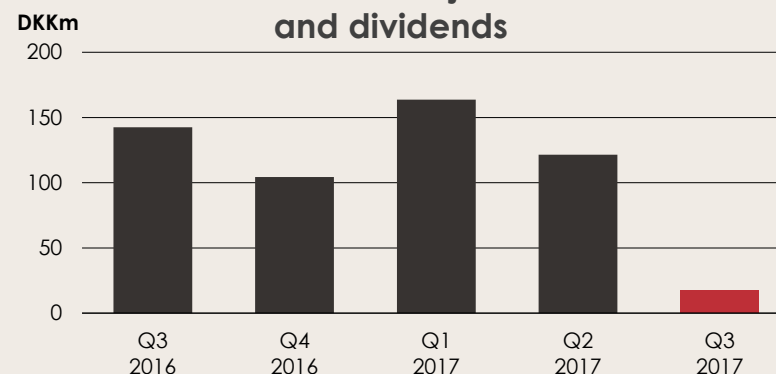
# Strong trend in net fee income driven by mortgage distribution and transaction banking



# Market value adjustments negatively impacted by write-down on BEC

- Market value adjustments amounted to DKK 303 million – down 8 % Q1-Q3 last year
- Market value adjustments on shares and bonds was sustained at a satisfactory level
- Market value adjustments on strategic shareholdings in the financial sector declined by DKK 46 million (y/y)
  - Positive adjustments on DLR Kredit, BankInvest, Erhvervsinvest II K/S and PRAS
  - DKK 54 million negative adjustment on shareholding in BEC following write-down on development assets
- Market value adjustments and dividends declined from DKK 121 million in Q2 to DKK 18 million in Q3
  - Negative trend in sector shares – mainly driven by BEC write-down
  - Lower market value adjustments on bonds

Market value adjustments and dividends



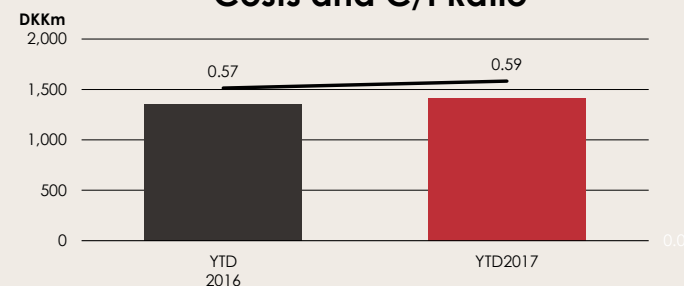
DKKm	YTD2017	YTD2016	Change
Market-valued adjustments in Trading, Financial Markets & The International Division	208	205	3
Tangible assets	70	91	-22
Currency trade and -agio	25	33	-8
<b>Total</b>	<b>303</b>	<b>329</b>	<b>-27</b>



# Costs and expenses influenced by strategic initiatives

- Total costs and expenses amounted to DKK 1,411 million which is DKK 57 million (4 %) higher than in Q1-Q3 last year.
- Wages and salaries grew by DKK 2 % (y/y)
  - collective agreements,
  - Lack of last year's positive one-offs
- Other operating expenses grew by 10 % (y/y)
  - Strategic IT-projects both in Spar Nord and on BEC
  - Roll-out of new branch concept
  - Increased marketing efforts
- Staff and branches
  - At the end of Q3, Spar Nord employs 1,557 FTE – 9 more than 12 months ago
  - Spar Nord now consists of 51 branches – 15 fewer than 12 months ago

Costs and C/I Ratio



Breakdown on types

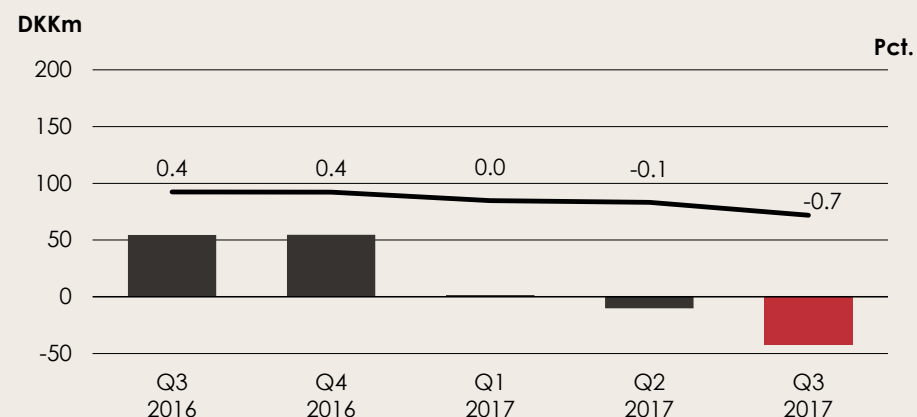
Costs (DKKm)	YTD2017	YTD2016	Change
Staff costs	850	835	15
Operating expenses	515	468	47
Depreciation	46	51	-5
<b>Costs</b>	<b>1,411</b>	<b>1,354</b>	<b>57</b>

Operating expenses (DKKm)	YTD2017	YTD2016	Change
Staff-related expenses	29	27	3
Travel expenses	12	11	1
Marketing costs	79	65	15
IT expenses	252	239	13
Cost of premises	76	61	14
Other administrative expenses	68	66	2
<b>Operating expenses</b>	<b>515</b>	<b>468</b>	<b>47</b>

# Substantial net reversal of loan losses

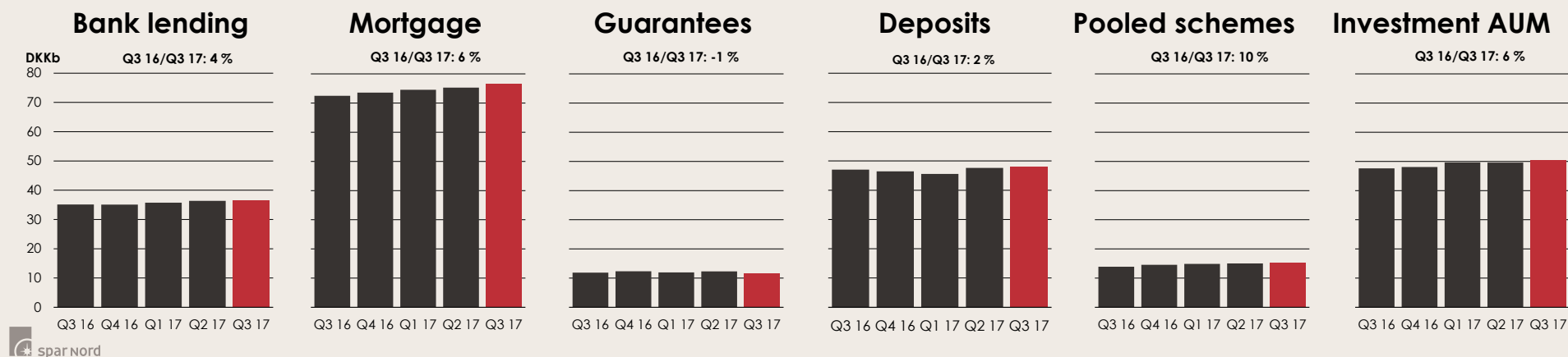
- Loan impairment charges was an income of DKK 51 million, which compares to an expense of DKK 188 million in Q1-Q3 last year
- Incl. management estimates of DKK 150m (DKK 85m related to households and DKK 65m related to agriculture and corporates), profit impact was:
  - Households: DKK 58 million
  - Corporates excl. agriculture: DKK -100 million
  - Agriculture: DKK -9 million
- Explanations behind positive development
  - Continued improvement of macro conditions
  - Better outlook for agriculture
  - Lower inflow of new impairment exposures and substantial growth in income from exposures previously written off
  - Generally strong credit quality – confirmed by FSA in Q2

**Loan impairment and impairment percentage**



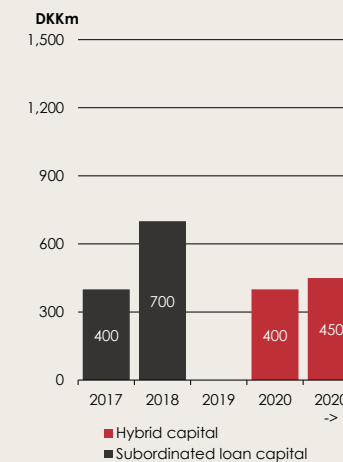
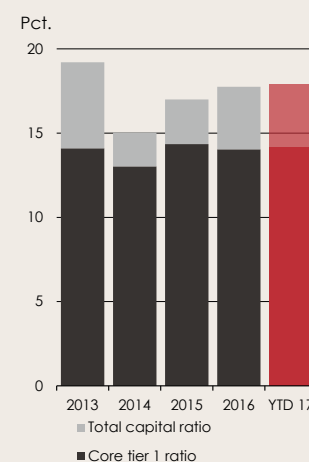
# Business volume growing 4 % to DKK 239 billion

- Positive trend in credit distribution to both households and corporates
  - Bank and leasing lending is up by DKK 1.5 billion (4 %) and volume of distributed mortgage loans is up by DKK 3.1 (2 %) YTD
- Bank deposits have grown by DKK 1.6 billion (4 %) and pooled schemes by DKK 0.7 billion (5 %) year-to-date
- Customers' AuM is up by DKK 2.7 billion (4 %) year-to-date



# Solid capital position – but also issues to be addressed

- At the end of Q3, CET 1 ratio was 14.2 % and the total capital ratio 17.9 %
- The total capital ratio of 17.9 should be viewed relative to the individual solvency need of 9.1 % and the 1.3 % combined buffer requirement
  - Excess capital coverage of 7.5 percentage points or DKK 3.7 billion
- In Q3 we have resumed the practice of consolidating our profits for the year-to-date
- We still expect to be met with MREL demands on the same level as SIFI banks
- Expected impact of IFRS 9: 2-3 % of equity
- Strategic considerations of switching to IRB methods – further on this topic in our Q4 report



Pct.	Q3 2017	2016	2015	2014
Core tier 1 ratio	14.2	14.0	14.4	13.0
Hybrid capital	1.7	1.8	0.8	0.9
Deductions in hybrid capital	-0.1	-0.2	-0.3	-0.6
<b>Tier 1 ratio</b>	<b>15.8</b>	<b>15.6</b>	<b>14.9</b>	<b>13.3</b>
Subordinated debt	2.2	2.3	2.3	2.3
Deductions in own funds	-0.1	-0.2	-0.3	-0.6
<b>Total capital ratio</b>	<b>17.9</b>	<b>17.7</b>	<b>17.0</b>	<b>15.0</b>

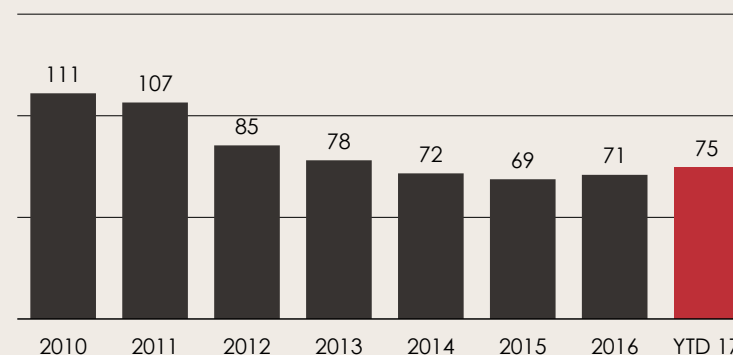
# Strategic liquidity remains very comfortable

## Strategic liquidity

DKKb	YTD2017	2016	2015
Deposits, banking activities	48.1	46.5	44.4
Seniorfunding	0.0	0.0	0.0
Core capital and sub. capital	9.9	9.7	9.0
<b>Stable long term funding</b>	<b>58.0</b>	<b>56.2</b>	<b>53.4</b>
Loans, banking and leasing activities	36.6	35.1	33.9
Maturity < 1 year	0.4	0.4	0.0
<b>Liquidity target</b>	<b>21.0</b>	<b>20.7</b>	<b>19.5</b>

## Loan to deposit ratio

Pct.



# Guidance for 2017


- At the beginning of 2017, Spar Nord forecast core earnings before impairment of around DKK 1.1-1.2 billion, and after Q2 this forecast was upgraded to around DKK 1,250 million
- At the beginning of the year, loan impairments were expected to be “lower than in 2016”, but after Q2 this forecast was revised to “substantially lower than in 2016”
- Based on developments in Q3 and due to the write-down relating to BC, Spar Nord forecasts core earnings before impairment of around DKK 1,200 million. Full-year impairment charges are now expected to be around DKK 0, and thus Spar Nord maintains its full-year guidance for pre-tax profit


# Contact us at

**Ole Madsen, IR**

Telephone: +45 96 34 40 10

Mail: [oma@sparnord.dk](mailto:oma@sparnord.dk)

 Facebook

 LinkedIn

**Lasse Nyby, CEO**

Telephone: +45 96 34 40 11

Mail: [lny@sparnord.dk](mailto:lny@sparnord.dk)



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