

# Net profit of DKK 876 million and ROE of 13.1 %

Presentation of Spar Nord's financial results for Q1-Q3 2019

# Net profit of DKK 876 million and ROE of 13.1 %

## Headlines

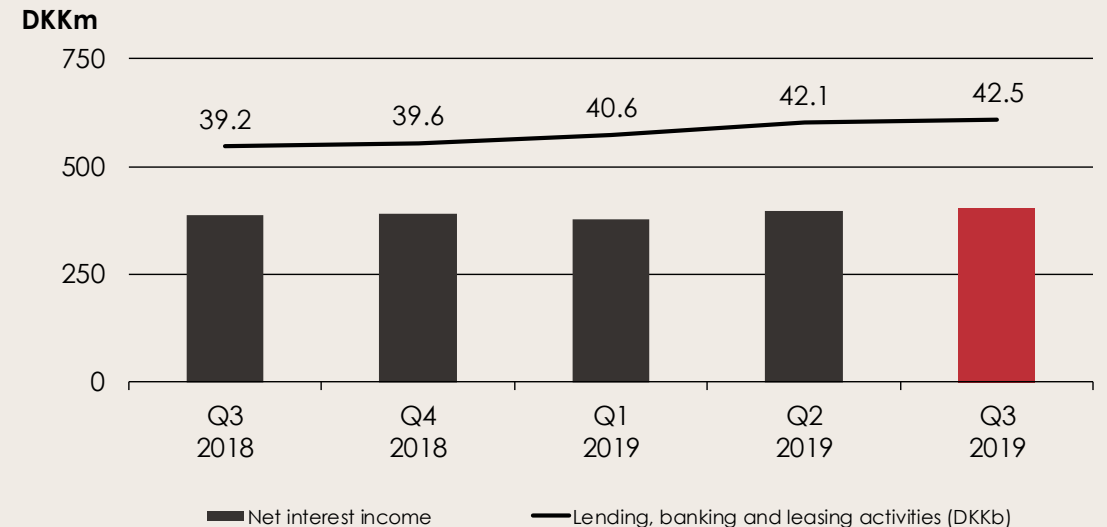
- Strong core income driven by low/falling interest rates
- NII up 2 % despite continued margin pressure
- Net fee income up 9 % following extremely high refinancing activity
- Large improvement in market value adjustments on equities and bonds
- As a whole, staff costs and operating expenses, are in line with expectations
- Loan losses remain very low

DKKm	YTD 2019	YTD 2018	Index	Q3 2019	Q2 2019	Index
Net interest income	1,177	1,159	102	402	397	101
Net fees, charges and commissions	935	856	109	315	304	104
Market-value adjustments and dividends	312	260	120	86	108	79
Other income	135	220	62	70	24	291
<b>Core income</b>	<b>2,560</b>	<b>2,495</b>	<b>103</b>	<b>873</b>	<b>833</b>	<b>105</b>
Staff costs	894	841	106	281	306	92
Operating expenses	581	576	101	185	184	100
<b>Costs and expenses</b>	<b>1,475</b>	<b>1,418</b>	<b>104</b>	<b>466</b>	<b>491</b>	<b>95</b>
<b>Core earnings before impairment</b>	<b>1,085</b>	<b>1,077</b>	<b>101</b>	<b>407</b>	<b>342</b>	<b>119</b>
Impairments of loans and advances, etc.	10	67	15	9	-9	-100
<b>Profit before tax</b>	<b>1,075</b>	<b>1,011</b>	<b>106</b>	<b>397</b>	<b>351</b>	<b>113</b>
Tax	198	162	123	67	69	97
<b>Profit</b>	<b>876</b>	<b>849</b>	<b>103</b>	<b>331</b>	<b>283</b>	<b>117</b>

# Strong lending growth but continued margin pressure

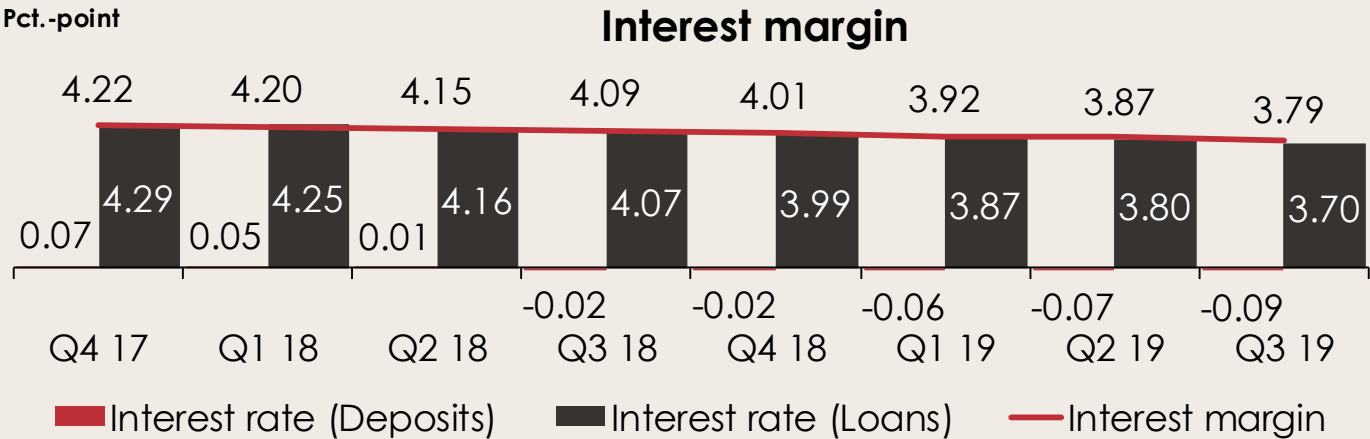
- Net interest income amounted to DKK 1,177 million versus DKK 1,159 million in Q1-Q3 last year
- Bank and leasing lending has grown by DKK 3.0 billion (7 %) year-to-date and by DKK 3.4 billion (9 %) year-on-year
  - Lending to private customers is up DKK 0.3 billion YTD
  - Lending to corporates, excluding leasing, is up DKK 2.0 billion – hereof public authorities DKK 0.6 billion
  - Leasing business has grown by DKK 0.7 billion
- From Q2 to Q3 NII has grown from DKK 397 million to DKK 402 million
  - Change in accounting for fee amortization (DKK -6 million)
  - One more interest day in Q3
  - Lending growth of DKK 0.4 billion (q/q) but continuing margin pressure

## Net interest income and volume trend



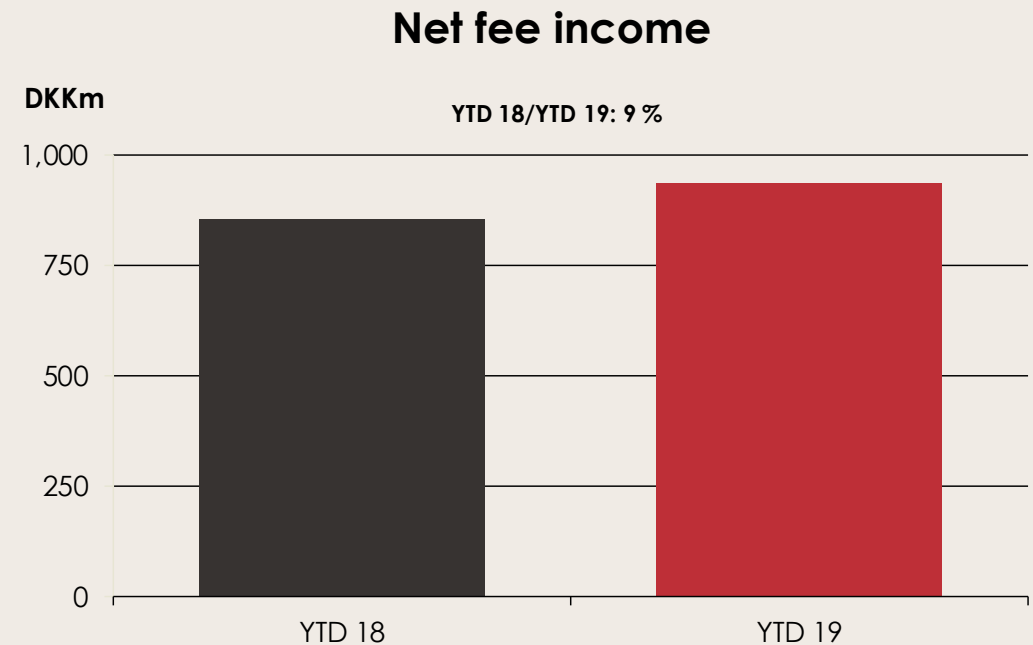
# Strong lending growth but continued margin pressure

- Total interest margin has declined by 22 basis points since Q4 2018
  - Lending margin is down 29 basis points
  - Active measures on pricing lead to 7 basis points improvement of deposit margin
- Lending growth predominantly driven by areas (larger corporates, public sector, leasing etc.) characterized by relatively low margins

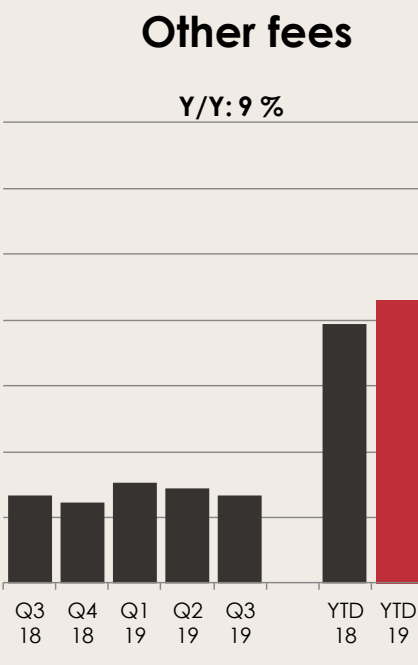
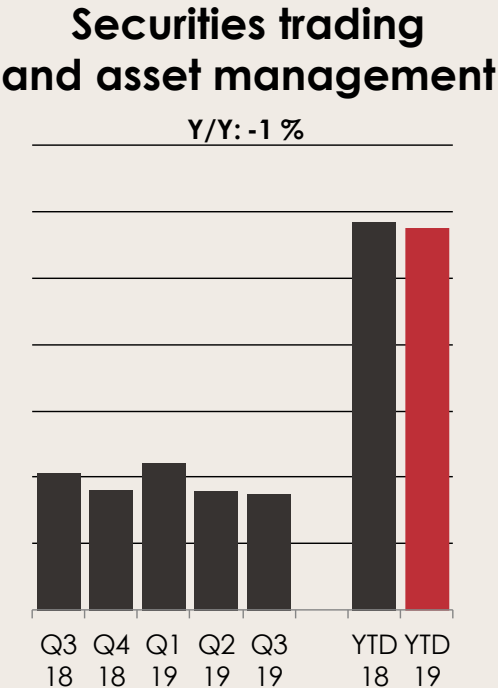
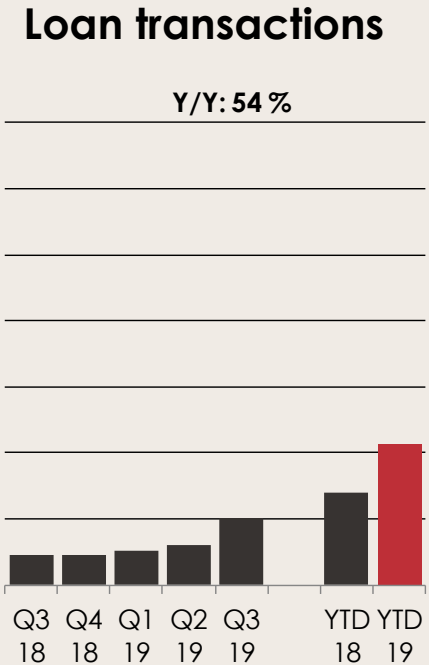
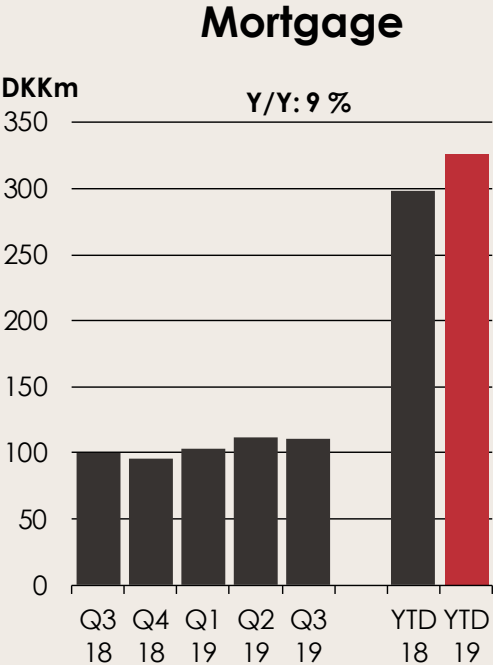


# Volume growth and extremely strong refinancing activity drive net fee income to record level

- Net fee income amounted to DKK 935 million versus DKK 856 million in Q1-Q3 last year
  - Income from mortgage distribution is up 9 % (y/y) driven by strong volume growth and high re-mortgaging activity
  - Loan transaction fees are up 54 % (y/y) due to extraordinarily high activity
  - Fees from securities trading and asset management down by 1 % (y/y)
  - Income from insurance distribution, pension products etc. grew by 9 % (y/y)
- Change in accounting for fee amortization reduce net fee income by DKK 19 million (y/y)
- From Q2 to Q3 net fee income is up from DKK 304 million to DKK 315 million
  - Key driver still mortgage refinancing



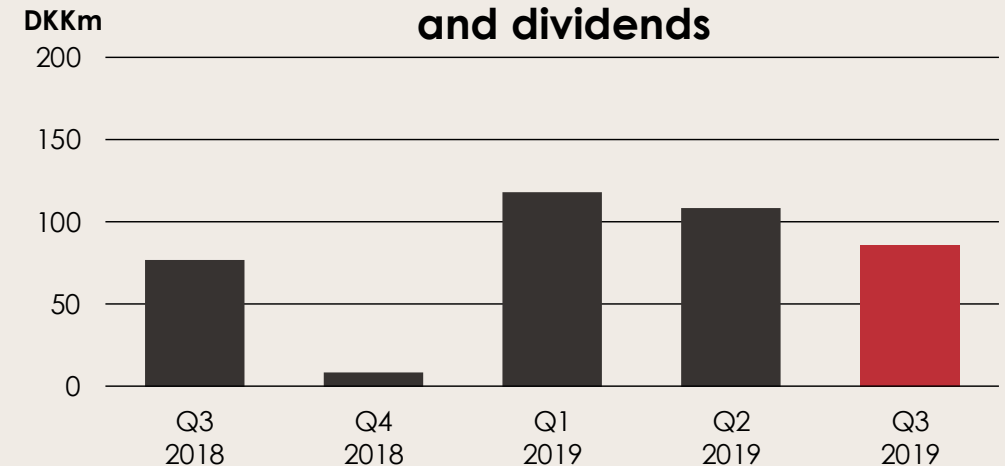
# Volume growth and extremely strong refinancing activity drive net fee income to record level



# Strong growth in market value adjustments on equities and bonds

- Market value adjustments and dividends amounted to DKK 312 million in Q1-Q3 2019 versus DKK 260 million in Q1-Q3 last year
  - Q1-Q3 2018 was positively impacted by DKK 82 million adjustment on Spar Nord's stake in BankInvest
- Highly satisfactory market value adjustments on bonds (liquidity portfolio) attributable to declining interest rates
- Strong income from equity portfolio in positive market
- Market value adjustments on strategic share holdings in financial sector companies as expected

**Market value adjustments and dividends**

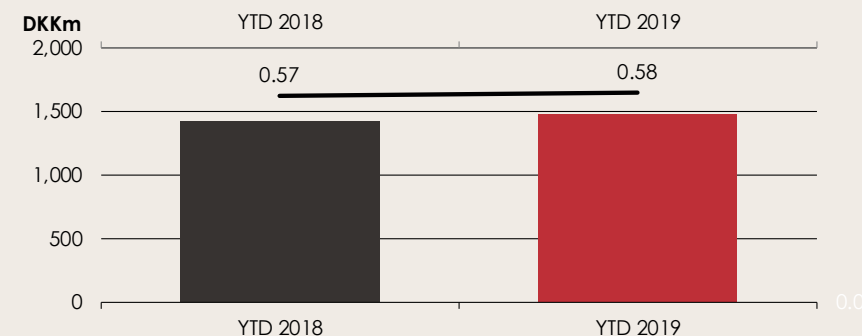


DKKm	YTD 2019	YTD 2018	Change
Market-valued adjustments in Trading and International Division	151	13	138
Tangible assets incl. dividends	117	205	-88
Currency trade and -agio	44	42	1
<b>Total</b>	<b>312</b>	<b>260</b>	<b>52</b>

# Costs under structural pressure – as expected

- Total costs amounted to DKK 1,475 million versus DKK 1,418 million in Q1-Q3 2018
- Payroll costs were DKK 52 million (6 %) higher than in Q1-Q3 last year
  - Collective wage increases (~2 %) (DKK 21 million)
  - High customer activity leads to increase in overtime pay etc. (DKK 14 million)
  - Absence of last year's positive one-offs (DKK 9 million)
  - Headcount increased by 16 FTEs (y/y)
- Operating expenses and depreciation on par with Q1-Q3 last year
  - Focus on general cost containment in all areas
  - One-off related to offer for Danske Andelskassers Bank in Q1
  - Re-segmentation from cost of premises and depreciation due to IFRS 16
- Cost/Income Ratio of 0.58 – in line with strategic target

## Total costs and CIR



## Breakdown on cost types

Costs (DKKm)	YTD 2019	YTD 2018	Change
Staff costs	894	841	53
Operating expenses	581	576	5
<b>Costs and expenses</b>	<b>1,475</b>	<b>1,418</b>	<b>57</b>

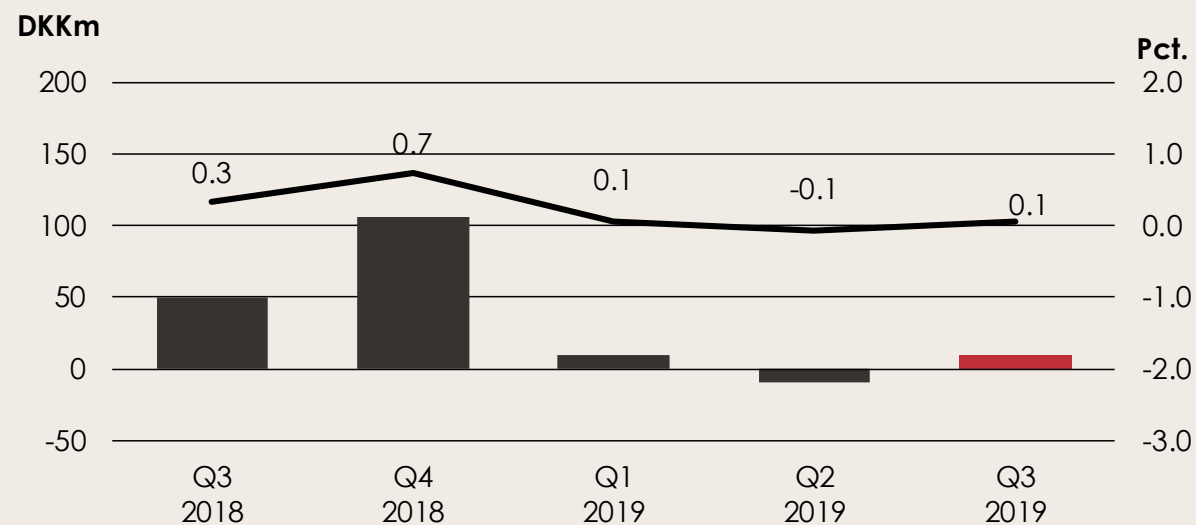
Operating expenses (DKKm)	YTD 2019	YTD 2018	Change
Staff-related expenses	28	29	-1
Travel expenses	15	12	3
Marketing costs	62	70	-8
IT expenses	290	297	-7
Cost of premises	39	61	-22
Other administrative expenses	84	62	22
Depreciation	63	45	18
<b>Operating expenses</b>	<b>581</b>	<b>576</b>	<b>5</b>



# Loan impairments at extremely low level

- Loan impairments amounted to an expense of DKK 10 million against DKK 67 million in Q1-Q3 last year
- Breakdown on segments
  - Private : DKK -28 million
  - Consumer finance (SparXpres): DKK 46 million
  - Corporate ex. agriculture: DKK 2 million
  - Agriculture: DKK -10 million
- Profit impact from SparXpres is influenced by DKK 27 million write-off of all debt collection claims older than 18 months
- In general, the reported profit impact should be viewed in connection with review of all significant impairment exposures

Impairments and impairment percentage



# Review of impairment exposures

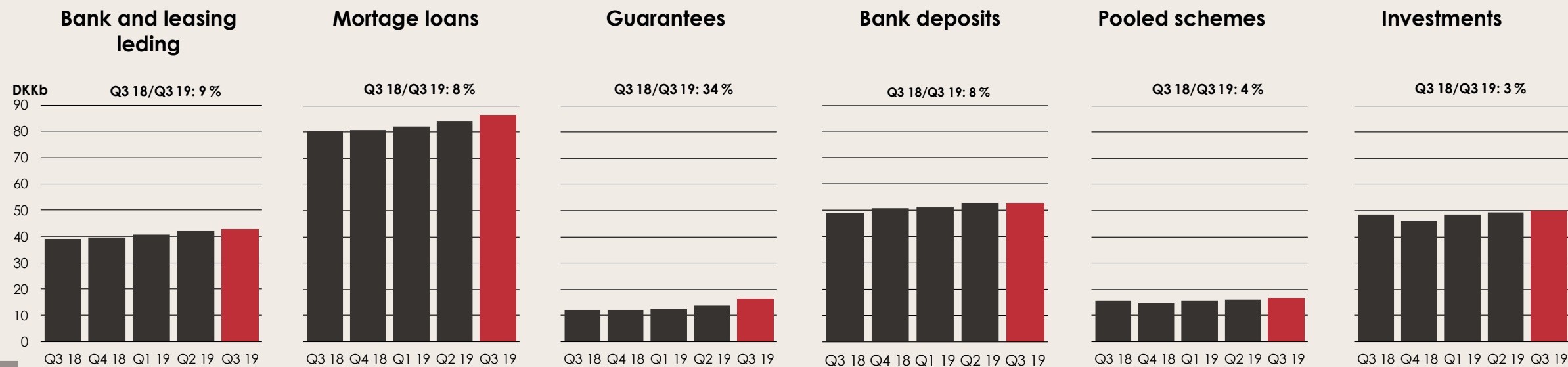
- All significant impairment exposures reviewed
  - Total exposure of DKK 948 million reclassified from stage 3 (NPL) to stages 1 and 2
  - Non-Performing Loans reduced by DKK 1,001 million – NPL ratio down to 3.8
- Review has led to significant changes on the impairment account
  - DKK 494 million reversal of individual impairments
  - DKK 326 million write-off (hereof DKK 98 million in SparXpres)
  - New management assessments of DKK 195 million – primarily regarding land prices
- Review confirms impression of robust credit quality and solid coverage
- Impairments broken down on stages – after review
  - Individual impairments (stage 3): DKK 1,081 million (end-2018: DKK 1,531 million)
  - Stage 1 and 2: DKK 445 million (end-2018: DKK 414 million)

## Trend in NPL

	Q418	Q119	Q219	Q319
NPL (DKKm)	3,300	3,099	2,964	1,963
Exposure	47,354	48,941	49,838	52,089
NPL ratio	7.0	6.3	5.9	3.8

# Very satisfactory volume growth

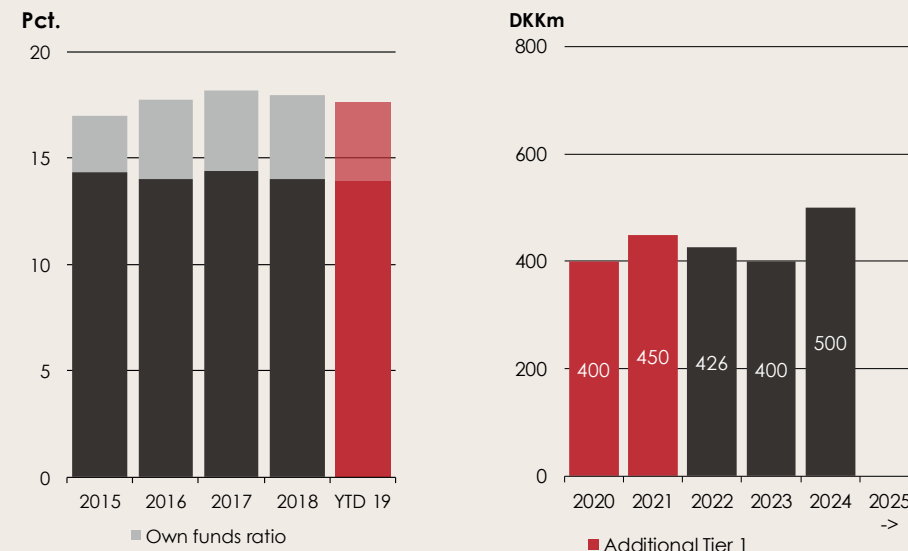
- At end-Q1-Q3, total business volume amounts to DKK 264.2 billion – DKK 20.1 billion (8 %) higher than end-2018
- Positive trend in credit distribution to both private customers and corporates
  - Bank and leasing lending has grown by 3.0 billion (7 %) and distribution of mortgage loans has grown by DKK 5.7 billion (7 %) YTD
- Deposits and pooled pension savings are still growing
  - Bank deposits are up DKK 2.1 billion (4 %) and deposits in pooled schemes are up DKK 1.6 billion (11 %) YTD
- Customers invested assets have increased by DKK 3.7 billion (8 %) year-to-date



# Update on capital position

- Strategic capital targets
  - CET1 ratio: 13.5
  - Own funds ratio: 17,5
- At the end of Q3, CET1 ratio stood at 13.9 and Own funds ratio at 17.6
  - Guarantees at extraordinarily high level due to re-mortgaging activity – impact on capital ratios ~ 0.3 percentage points
- Own funds ratio of 17.6 should be viewed in connection with an individual solvency requirement of 9.2 % and a combined buffer requirement of 3.5 %
  - Excess coverage of 4.9 percentage points or DKK 2.8 billion
- Expected need for MREL of around DKK 7 billion in 2019-21
  - First issue expected to take place in November 2019
- Rating from Moody's announced
  - Baseline credit assessment: baa1
  - Outlook: Stable

## Own funds ratio and subordinated capital



## Capital base

Pct.	Q3 2019	2018	2017	2016
<b>Common equity Tier 1 capital ratio</b>	<b>13.9</b>	<b>14.0</b>	<b>14.4</b>	<b>14.0</b>
Additional Tier 1	1.5	1.6	1.7	1.8
Deductions in additional Tier 1	0.0	0.0	-0.1	-0.2
<b>Tier 1 capital ratio</b>	<b>15.4</b>	<b>15.6</b>	<b>16.0</b>	<b>15.6</b>
Tier 2 capital	2.3	2.4	2.3	2.3
Deductions in own funds	0.0	0.0	-0.1	-0.2
<b>Own funds ratio</b>	<b>17.6</b>	<b>18.0</b>	<b>18.2</b>	<b>17.7</b>

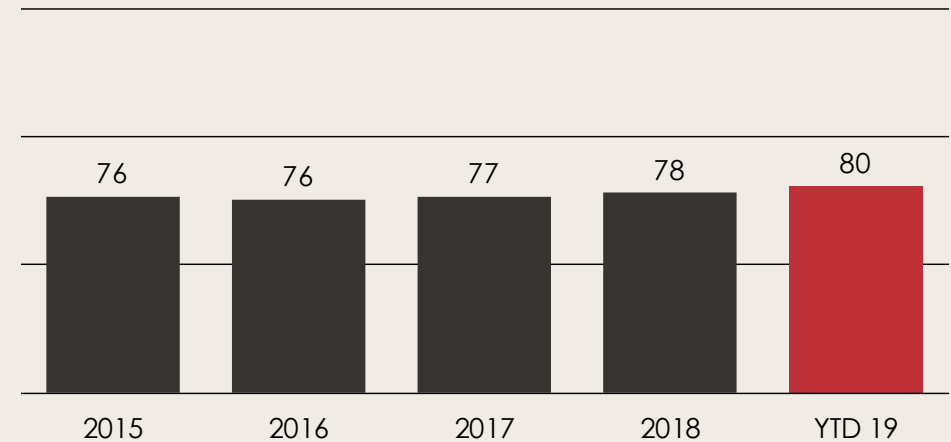
# Comfortable strategic liquidity

## Strategic liquidity

DKKb	YTD 2019	2018	2017
Deposits, banking activities	52.9	50.8	48.7
Seniorfunding	0.0	0.0	0.0
Core capital and sub. capital	10.9	10.6	10.1
<b>Stable long term funding</b>	<b>63.8</b>	<b>61.3</b>	<b>58.8</b>
Loans, banking and leasing activities	42.5	39.6	37.3
Maturity < 1 year	0.4	0.0	0.7
<b>Liquidity target</b>	<b>20.9</b>	<b>21.8</b>	<b>20.8</b>

## Loan to deposit ratio

Pct.



# Upgraded guidance for 2019

- **Core earnings before impairment**

- At the beginning of 2019, our guidance for core earnings before impairments was in the DKK 1.0-1.1 billion range
- Based on Q1 and Q2, in two increments, this was revised to DKK 1,150-1,250 million
- In October, based on projected Q3 results and outlook for the remainder of the year, guidance was upgraded to **DKK 1,200-1,300 million**

- **Net profit**

- At the beginning of 2019, our guidance for net profit was in the DKK 700-800 million range
- Based on Q1 and Q2, in two increments, this was revised to DKK 850-950 million
- In October, based on projected Q3 results and outlook for the remainder of the year, guidance was upgraded to **DKK 925-1,025 million**