

# Presentation of Spar Nord's financial results for Q1 2020

30 April 2020

# Net profit of DKK 24 million and ROE of 0.5 %

## Headlines from the income statement

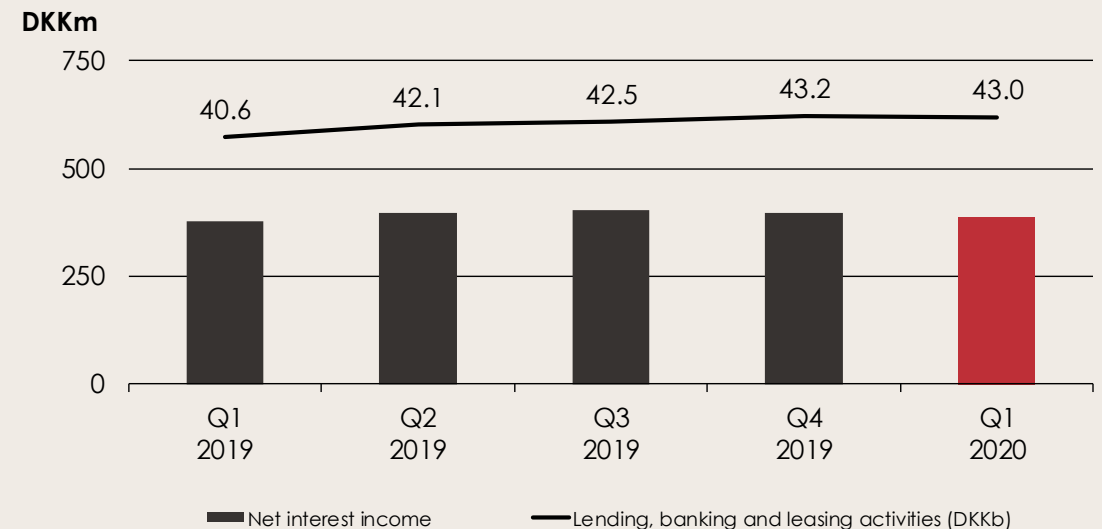
- Stabilisation of interest margin leads to satisfactory NII
- Net fee income sustained at high level
- Negative market value adjustments on bonds and equities in quarter marked by extreme turbulence
- Cost development better than expected
- Substantial impairment charges following DKK 225 million management estimate relating to COVID-19

DKKm	YTD 2020	YTD 2019	Index	Q1 2020	Q4 2019	Index
Net interest income	387	378	102	387	396	98
Net fees, charges and commissions	322	317	102	322	290	111
Market-value adjustments and dividends	-11	118	-9	-11	67	-16
Other income	21	42	50	21	25	84
<b>Core income</b>	<b>719</b>	<b>854</b>	<b>84</b>	<b>719</b>	<b>779</b>	<b>92</b>
Staff costs	315	306	103	315	324	97
Operating expenses	204	212	97	204	215	95
<b>Costs and expenses</b>	<b>520</b>	<b>518</b>	<b>100</b>	<b>520</b>	<b>539</b>	<b>96</b>
<b>Core earnings before impairment</b>	<b>199</b>	<b>336</b>	<b>59</b>	<b>199</b>	<b>239</b>	<b>83</b>
Impairments of loans and advances, etc.	175	10	-	175	12	-
<b>Profit before tax</b>	<b>24</b>	<b>326</b>	<b>7</b>	<b>24</b>	<b>227</b>	<b>10</b>
Tax	0	63	0	0	44	0
<b>Profit</b>	<b>24</b>	<b>263</b>	<b>9</b>	<b>24</b>	<b>182</b>	<b>13</b>

# Stabilisation of interest margin leads to satisfactory NII

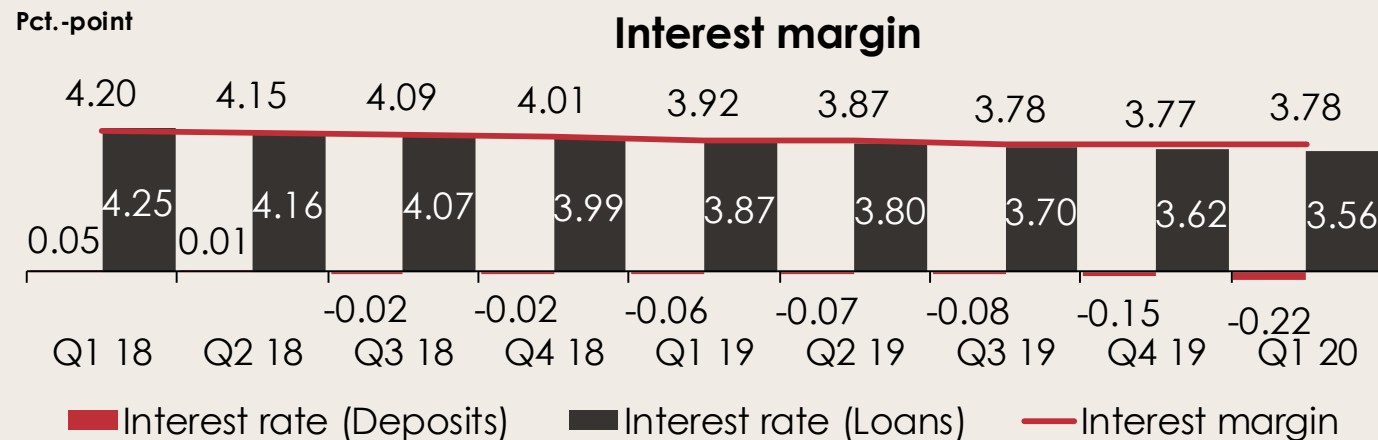
- **Net interest income amounted to DKK 387 million versus DKK 396 million last quarter and DKK 378 in Q1 last year**
  - Small decline from Q4 to Q1 attributable to higher interest expenses for MREL-bonds and one interest day less in Q1
- **Bank and leasing lending stable year-to-date**
  - Lending to private customers in stable
  - Lending to business customers and corporates, excluding leasing, is down by DKK 0.3 billion (hereof DKK 0.2 billion attributable to public authorities down)
  - Leasing business has grown by DKK 0.2 billion
- **Measures taken in Q1**
  - Deposit rate changed from -0.75 % to -0.60 % (effective from 9 May)
  - Threshold for negative deposit rates for private customers down from DKK 750,000 to DKK 250,000 (effective from 9 May)
- **Outlook for the coming quarters**
  - Weaker underlying loan growth due to lower economic activity
  - Increased drawing on credit facilities as a result of COVID-19
  - Stable interest margin

Net interest income and volume trend



# Stabilisation of interest margin leads to satisfactory NII

- **Total interest margin was 1 basis point higher in Q1 than in Q4 last year**
  - Lending margin is down by 6 basis points
  - Active measures on the deposit side lead to 7 basis point improvement of deposit margin



# Net fee income sustained at high level

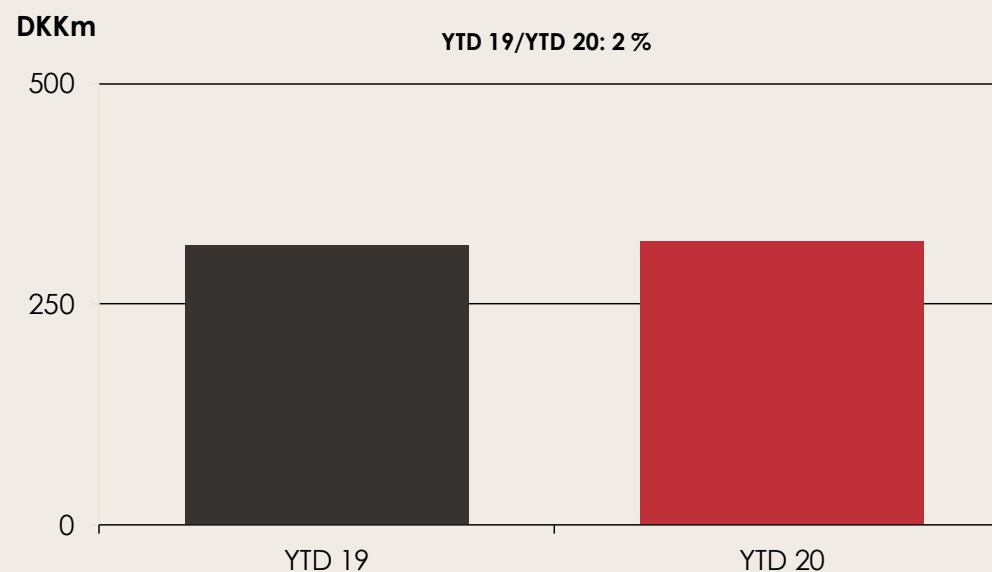
- **Net fee income amounted to DKK 322 million versus DKK 290 in the previous quarter and DKK 317 million in Q1 2019**

- Income from mortgage distribution grew by 8 % and own loan transaction fees grew by 20 % (y/y)
- Fees from securities trading and asset management grew by 9 % (q/q) due to high activity but declined by 7 % (y/y) due to lower prices
- Income from distribution of non-life insurance, pension products etc. sustained at satisfactory level

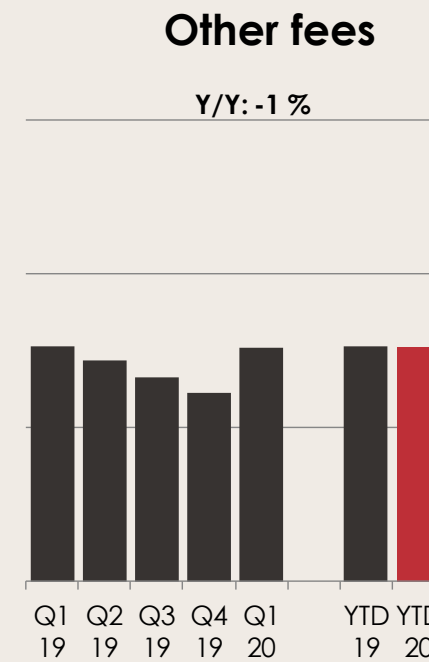
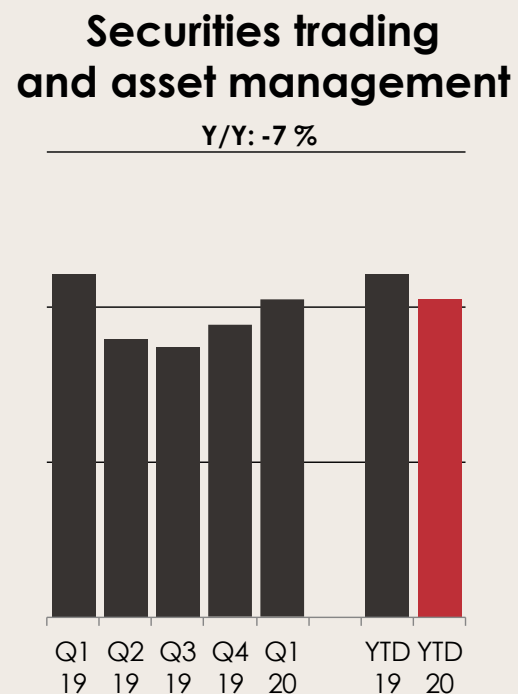
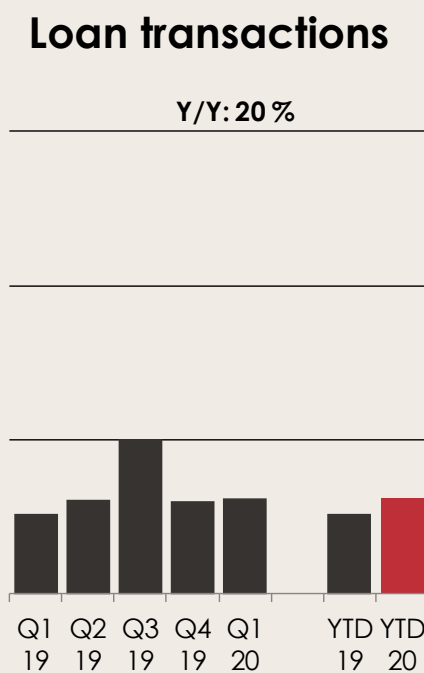
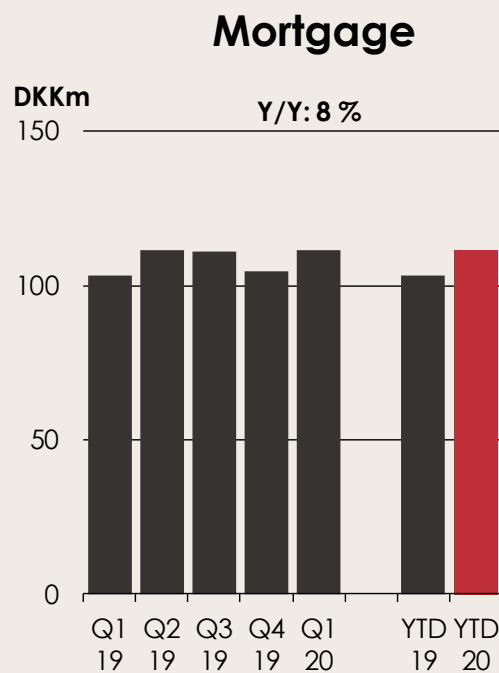
- **Outlook for the coming quarters**

- Pressure on activity-driven fees due to lower economic activity
- Robust base of volumen-driven income

## Net fee income



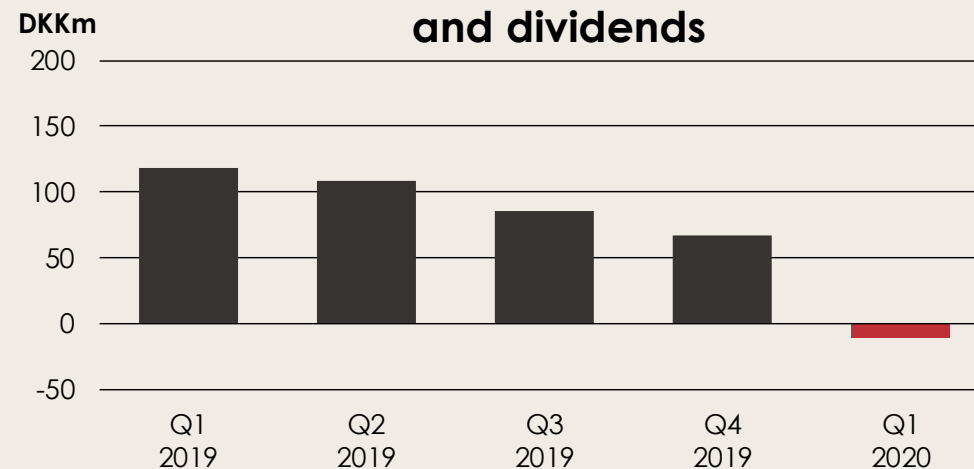
# Net fee income sustained at high level



# Negative market value adjustments on bonds and equities in turbulent quarter

- **Market value adjustments and dividends amounted to DKK -11 million versus DKK 67 million in the previous quarter and DKK 118 million in Q1 last year**
- **Turbulent markets due to the COVID-19 crisis**
  - Falling stock prices
  - Widening of credit spreads
- **Stable and satisfactory development in income from strategic shareholdings in the financial sector**
  - In part driven by positive adjustments relating to 2019
- **Outlook for the coming quarters**
  - General recovery after Q1 – but substantial uncertainty
  - Lower income from sector companies due to lower activity

**Market value adjustments and dividends**

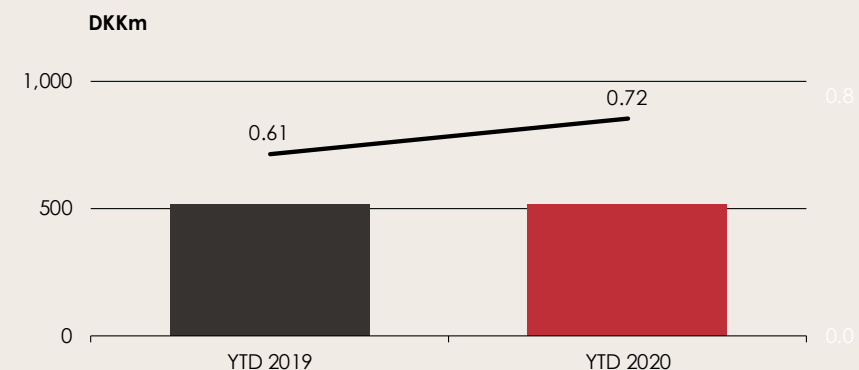


DKKm	Q1 2020	Q4 2019	Q1 2019
Market-valued adjustments in Trading Division	-68	26	67
Tangible assets incl. dividends	39	27	38
Currency trade and -agio	18	14	13
<b>Total</b>	<b>-11</b>	<b>67</b>	<b>118</b>

# Costs developing slightly better than expected

- Total costs amounted to DKK 520 million versus DKK 518 million in Q1 2019
- Payroll costs grew by DKK 9 million (3 %) (y/y)
  - Collective wage increases
  - Total headcount 30 FTE higher than 12 months ago
  - Lower costs related to severance pay and overtime pay
- Operating expenses and depreciation down DKK 7 million (3 %) (y/y)
  - Absence of last year's one-off relating to the offer for DAB
  - IT-expenses (data centre) grew as expected
  - Savings in areas such as marketing and cost of premises
- Outlook for the coming quarters
  - Lower activity level in certain areas lead to lower than expected payroll costs
  - Savings on travel expenses, marketing etc.

Total costs and CIR



Breakdown on cost types

Costs (DKKm)	YTD 2020	YTD 2019	Change
Staff costs	315	306	9
Operating expenses	204	212	-7
<b>Costs and expenses</b>	<b>520</b>	<b>518</b>	<b>2</b>

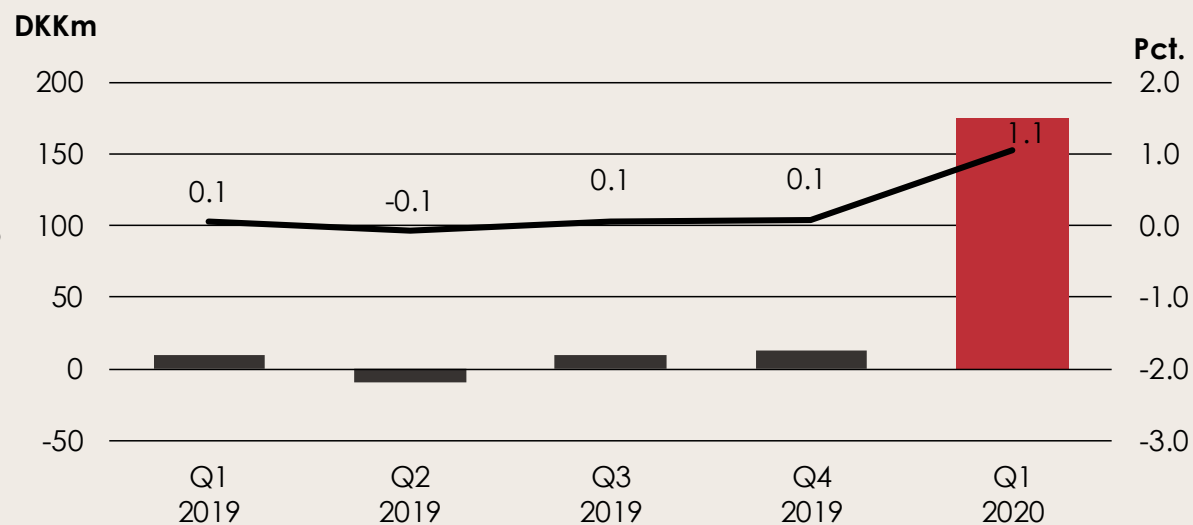
Operating expenses (DKKm)	YTD 2020	YTD 2019	Change
Staff-related expenses	10	10	-1
Travel expenses	4	4	0
Marketing costs	22	25	-3
IT expenses	106	99	6
Cost of premises	12	15	-3
Other administrative expenses	31	37	-6
Depreciation	20	21	-1
<b>Operating expenses</b>	<b>204</b>	<b>212</b>	<b>-7</b>



# COVID-19 crisis impacting loan impairments

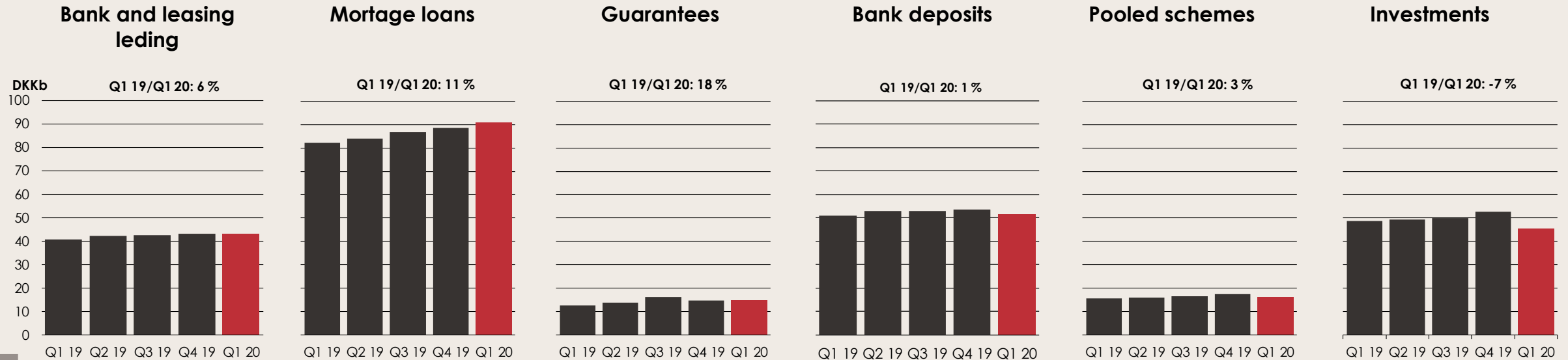
- Loan impairments amounted to an expense of DKK 175 million against DKK 10 million in Q1 last year
- **Breakdown on segments**
  - Private : DKK 69 million
  - Consumer finance: DKK 3 million
  - Corporate ex. agriculture: DKK 132 million
  - Agriculture: DKK -29 million
- **Management estimates of DKK 225 million relating to COVID-19**
  - At the end of the quarter, total management estimates amount to DKK 524 million (Year-end 2019: DKK 303 million)
- **Impairments broken down on stages**
  - Individual impairments (stage 3): DKK 1,235 million (DKK 1,083 million at YE19)
  - Stage 1 and 2: DKK 391 million (DKK 420 million)
- **Outlook for the coming quarters**
  - Additional impairments especially on business customer loans due to COVID-19
  - Uncertainty to remain high

Impairments and impairment percentage



# Business volume: Growth in credit distribution but declining AuM in turbulent market

- Total business volume amounts to DKK 263.9 billion at the end of Q1 – DKK 8.6 billion down from the end of Q4
- Positive trend in total credit distribution
  - Bank and leasing lending has declined by DKK 0.1 billion and mortgage distribution has grown by DKK 2.1 billion
- Deposits down by DKK 1.7 billion year-to-date
  - Decline attributable in part to seasonality (VAT payments), in part to movement from deposits to asset management products
- Customers' invested assets have declined by DKK 7.5 billion year-to-date



# Update on capital position

- **Capital ratios**

- CET 1: 15.3 (strategic target: 13.5)
- Own funds ratio: 19.0 (strategic target: 17.5)

- **Decision to cancel 2019-dividend leads to 0.8 percentage point improvement of capital ratios**

- **Individual solvency requirement of 9.5 % and combined buffer requirement of 3.0 %**

- Excess coverage of 6.5 percentage points or DKK 3.7 billion

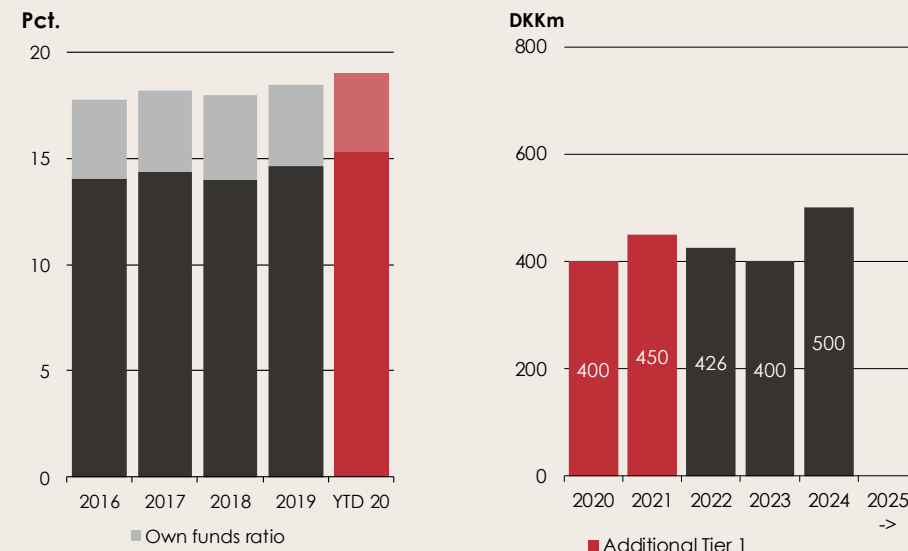
- **Issue of AT1 capital**

- DKK 330 million at 6 % (fixed) and option of early redemption after 5 years issued in April
- DKK 400 million with similar conditions up for early redemption in June

- **Need for MREL-capital**

- Dissolving of the countercyclical buffer reduces the need with DKK >1 billion
- Spar Nord now expects to issue around DKK 1 billion in H2 2020
- Spar Nord expects to comply with MREL demand at the beginning of 2021 even with no further issues

## Own funds ratio and subordinated capital



## Capital base

Pct.	Q1 2020	2019	2018	2017
<b>Common equity Tier 1 capital ratio</b>	<b>15.3</b>	<b>14.6</b>	<b>14.0</b>	<b>14.4</b>
Additional Tier 1	1.5	1.5	1.6	1.7
Deductions in additional Tier 1	0.0	0.0	0.0	-0.1
<b>Tier 1 capital ratio</b>	<b>16.7</b>	<b>16.1</b>	<b>15.6</b>	<b>16.0</b>
Tier 2 capital	2.3	2.3	2.4	2.3
Deductions in own funds	0.0	0.0	0.0	-0.1
<b>Own funds ratio</b>	<b>19.0</b>	<b>18.5</b>	<b>18.0</b>	<b>18.2</b>

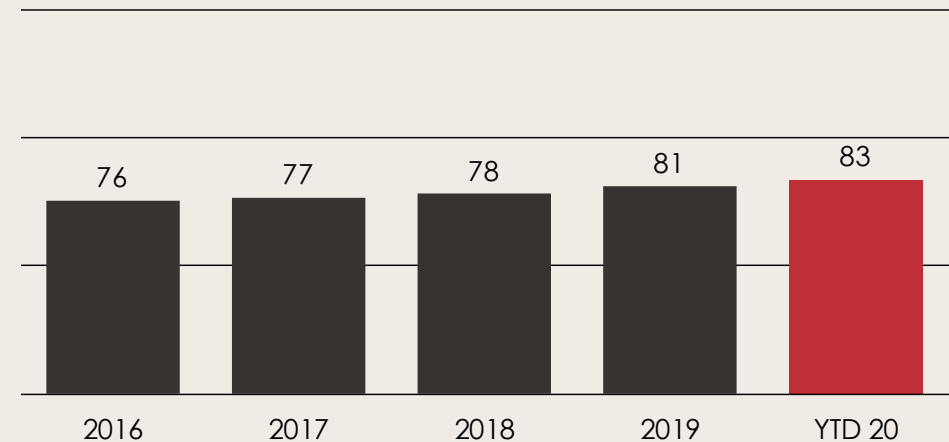
# Comfortable strategic liquidity despite decline in deposits

## Strategic liquidity

DKKb	YTD 2020	2019	2018
Deposits, banking activities	51.6	53.3	50.8
Seniorfunding	2.6	2.6	0.0
Core capital and sub. capital	11.1	11.1	10.6
<b>Stable long term funding</b>	<b>65.2</b>	<b>67.0</b>	<b>61.3</b>
Loans, banking and leasing activities	43.0	43.2	39.6
Maturity < 1 year	0.4	0.4	0.0
<b>Liquidity target</b>	<b>21.8</b>	<b>23.4</b>	<b>21.8</b>

## Loan to deposit ratio

Pct.



# Guidance for 2020

- **Core earnings before impairments**

- At the beginning of 2020, we forecast core earnings before impairment of around DKK 0.9-1.1 billion
- As a result of the COVID-19 crisis and the derived price falls in the financial markets and uncertainty about the credit consequences of the crisis, we opted to suspend guidance in mid-March
- Based on the Q1-results and the overall expectations for business development in the upcoming quarters, we now expect core earnings before impairment for the full year in the DKK 0.7-1.0 billion range
- The wider range is due to uncertainty with respect to the level of economic activity and financial market developments

- **Loan impairments and net profit**

- In view of the fact that the macroeconomic and credit consequences of the COVID-19 crisis are still not sufficiently clear, we are still not able to provide guidance on loan impairment for the year and thus its full-year results
- However, we do expect to recognise additional impairment charges in the coming quarters, especially on business customer loans, due to the slowing economic activity.