

# Financial results for Q1-Q3 2020

Lasse Nyby, CEO

29 October 2020

# Net profit of DKK 507 million and ROE of 6.8%

## Headlines from the income statement

- Net interest income up by 1% (y/y)
- Net fee income drops 2% (y/y) but sustained at high level
- Persistent positive earnings from bonds and equities in Q3
- Costs up by 4 % (y/y): One-off severance pay, rising costs of IT (data centre) while savings are still realized on most other cost items
- Impairment charges continues to be influenced by COVID-19 uncertainty
- All-time high business volume driven by growth in mortgage loans, deposits and pooled schemes - decline in corporate lending
- Strategic liquidity at record level and very solid capital position

SPAR NORD BANK DKKm	Realized YTD 2020	Realized YTD 2019	Index	Realized Q3 2020	Realized Q2 2020	Index
Net interest income	1,186	1,177	101	391	408	96
Net fees, charges and commissions	918	935	98	300	296	101
Market-value adjustments and dividends	301	312	96	137	174	79
Other income	48	135	36	21	7	313
<b>Core income</b>	<b>2,454</b>	<b>2,560</b>	<b>96</b>	<b>850</b>	<b>885</b>	<b>96</b>
Staff costs	949	894	106	289	344	84
Operating expenses	582	581	100	190	188	101
<b>Costs and expenses</b>	<b>1,530</b>	<b>1,475</b>	<b>104</b>	<b>479</b>	<b>532</b>	<b>90</b>
<b>Core earnings before impairment</b>	<b>923</b>	<b>1,085</b>	<b>85</b>	<b>371</b>	<b>353</b>	<b>105</b>
Impairments of loans and advances, etc.	287	10	-	53	59	89
<b>Profit before tax</b>	<b>636</b>	<b>1,075</b>	<b>59</b>	<b>318</b>	<b>294</b>	<b>108</b>
Tax	129	198	65	66	63	105
<b>Profit</b>	<b>507</b>	<b>876</b>	<b>58</b>	<b>252</b>	<b>231</b>	<b>109</b>

# Net interest income up by 1%

- **Net interest income amounted to DKK 1,186 million versus DKK 1,177 million in Q1-Q3 last year**

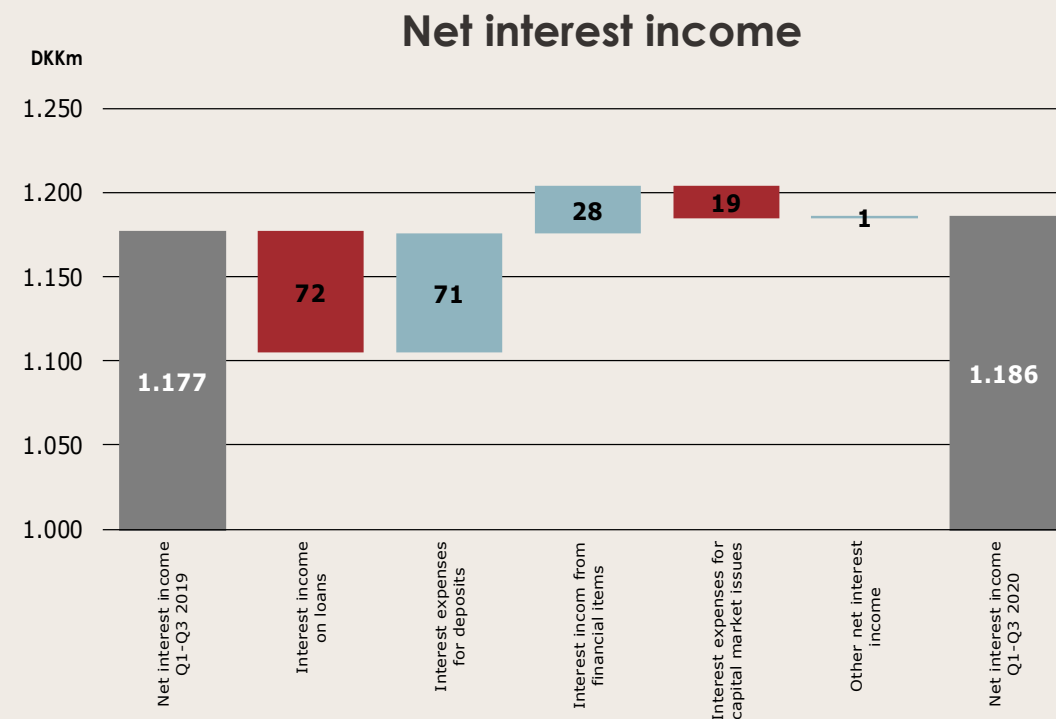
- Interest expenses on deposits reduced by DKK 71 million via active measures
- Higher interest income from placement of surplus liquidity of DKK 28 million
- Interest income from loans decreased by DKK 72 due to margin pressure
- Higher interest expenses for subordinated debt and issued bonds of DKK 19 million

- **Total lending of DKK 41.7 billion – decrease of DKK 1.4 billion (3 %) year-to-date**

- Lending to household customers has grown by DKK 0.6 billion
- Lending to corporates and SMEs down by DKK 1.9 billion (due to relief packages)
- Lending to public-sector customers down by DKK 0.7 billion
- Leasing business has grown by DKK 0.6 billion

- **From Q2 to Q3 NII fell from DKK 408 million to DKK 391 million**

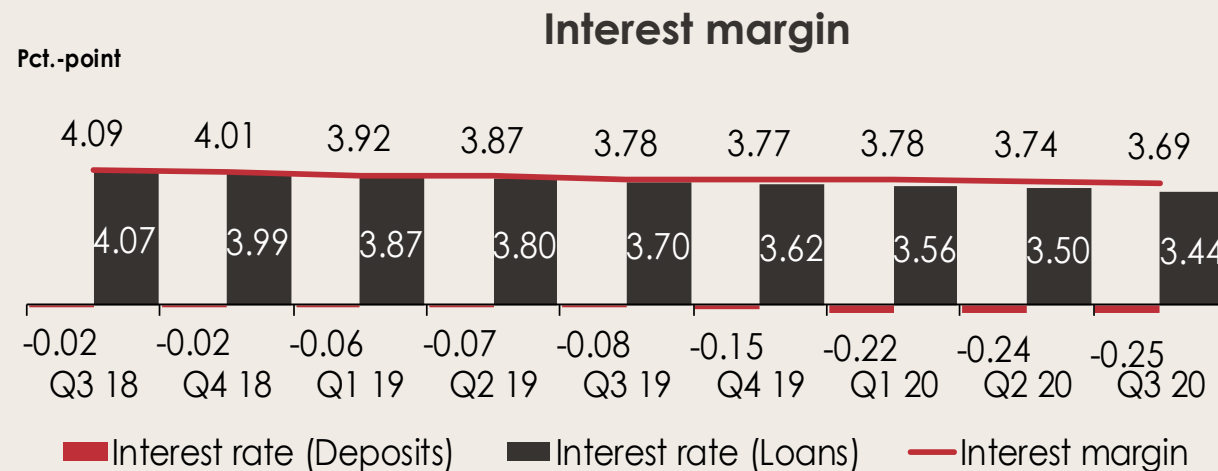
- Lower interest income related to bonds and financial instruments
- Net interest income related to deposits and loans remain unchanged



DKKm	Q1-Q3	Q3	Q2	Q1
Interest income on loans	1,089	357	362	370
Interest expenses for deposits	-93	-36	-32	-25
<b>Net interest income, deposits and loans</b>	<b>1,182</b>	<b>393</b>	<b>394</b>	<b>395</b>
Interest income from financial deposits	75	24	37	14
Interest expenses for capital market issuance	45	16	15	14
Other net interest income	-25	-9	-8	-8
<b>Total net interest income</b>	<b>1,186</b>	<b>391</b>	<b>408</b>	<b>387</b>

# Pressure on lending margin partially offset by active measures on deposits

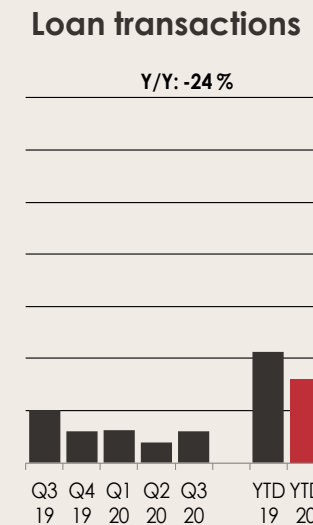
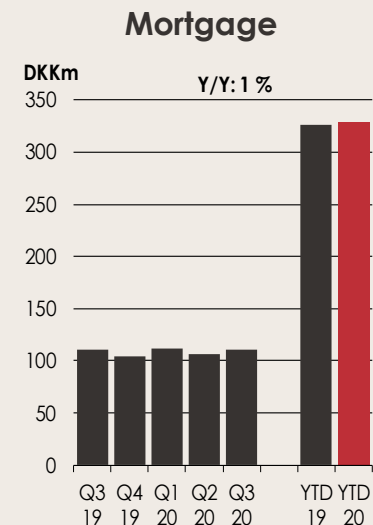
- **Total interest margin has declined by 8 basis points since year-end 2019**
  - Lending margin is down 18 basis points
  - Active measures on pricing lead to 10 basis points improvement of deposit margin
- **Compared to 12 months ago, total interest margin is down by 9 basis points**
  - Lending margin is down 26 basis points
  - Active measures on pricing lead to 17 basis points improvement of deposit margin



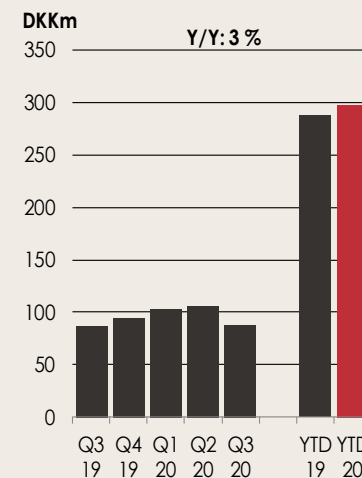
# Net fee income sustained at record level

- **Net fee income amounted to DKK 918 million versus DKK 935 million in Q1-Q3 2019**
  - Income from mortgage distribution up 1% driven by volume growth
  - Other loan transactions fees down 24% due to lower refinancing activity
  - Securities trading and asset management grew by 3% follow strong trading activity in volatile markets
  - Fee income from payments, insurance sales etc. down by 1%
- **From Q2 to Q3 net fee income grew from DKK 296 million to DKK 300 million**
  - Higher other transaction fees and growth in mortgage loans

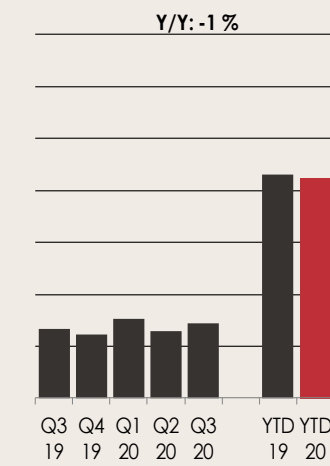
DKKm	Q1-Q3	Q3	Q2	Q1
Mortgage fee	328	110	106	112
Other transaction fees	81	30	19	31
Securities and asset management	297	88	107	103
Other fees	212	72	65	76
<b>Total net fees</b>	<b>918</b>	<b>300</b>	<b>296</b>	<b>322</b>



**Securities trading and asset management**



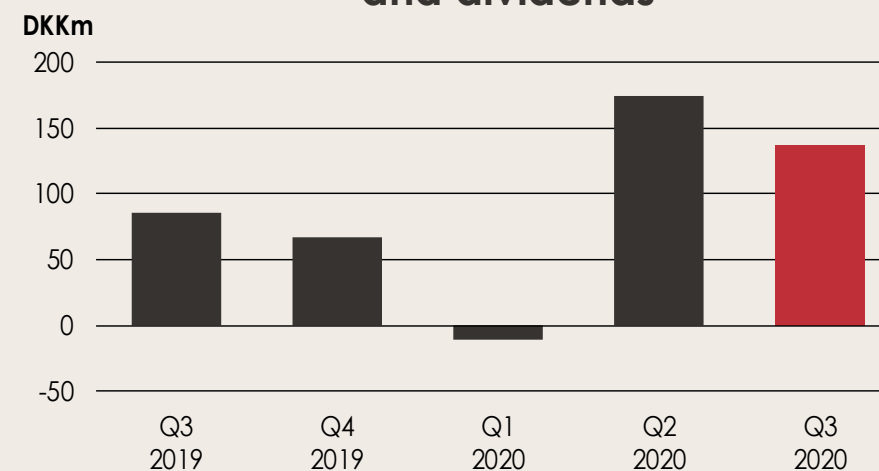
**Other fees**



# Positive trend in market value adjustments on bonds and equities in Q3

- **Market value adjustments and dividends amounted to DKK 301 million versus DKK 312 million in Q1-Q3 2019**
  - Market value adjustments on bonds and equities down DKK 4 million following turbulent Q1 with falling prices and expanded credit spreads
  - Market value adjustments and dividends on shareholdings in financial sector down DKK 7 million (y/y)
- **Persistent positive financial markets development in Q3**
  - Continued tightening of credit spreads
  - Increasing share prices

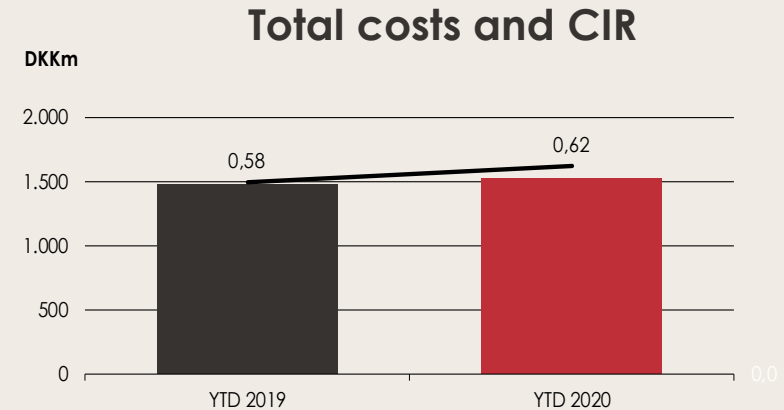
Market value adjustments and dividends



DKKm	Q1-Q3	Q3	Q2	Q1
Market val. adj. in Trading Division etc.	147	80	134	-68
Equity investments, incl.	110	43	28	39
Currency trade and -agio	44	13	12	18
<b>Total market value adjustments and dividends</b>	<b>301</b>	<b>137</b>	<b>174</b>	<b>-11</b>

# Continued pressure on costs - increases by 4%

- Total costs amounted to DKK 1,530 million versus DKK 1,475 million in Q1-Q3 2019
- Payroll costs were DKK 55 million (6%) higher than last year
  - Growth in headcount and collective wage increases: DKK 28 million
  - Severance pay: DKK 23 million
- Operating expenses and depreciation on par with Q1-Q3 2019
  - Rising costs for data center (BEC) eliminated by savings realized on most other cost items
- Cost/Income Ratio of 0.62 – slightly better than strategic target (0.65)



## Breakdown on cost types

Costs (DKKm)	YTD 2020	YTD 2019	Change
Staff costs	949	894	55
Operating expenses	582	581	0
<b>Costs and expenses</b>	<b>1,530</b>	<b>1,475</b>	<b>55</b>

Operating expenses (DKKm)	YTD 2020	YTD 2019	Change
Staff-related expenses	25	28	-3
Travel expenses	7	15	-7
Marketing costs	50	62	-13
IT expenses	319	290	29
Cost of premises	40	39	1
Other administrative expenses	80	84	-4
Depreciation	60	63	-3
<b>Operating expenses</b>	<b>582</b>	<b>581</b>	<b>0</b>

# Loan impairments influenced by COVID-19

- **Loan impairments amounted to an expense of DKK 287 million against DKK 10 million in Q1-Q3 last year**

- Loan impairment charges of DKK 53 million in Q3
- Management estimate related to COVID-19 increased by DKK 65 million in Q3

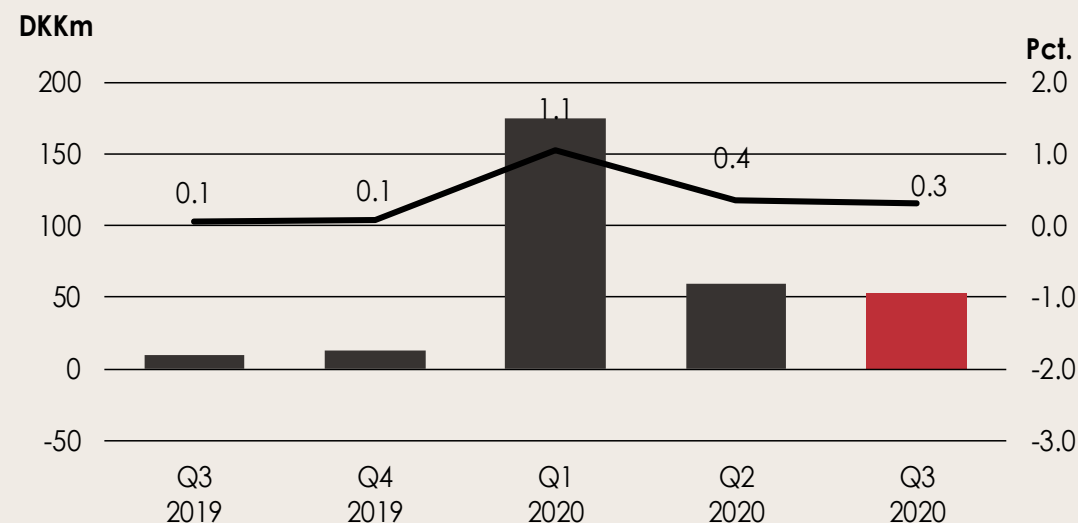
- **Break-down on segments**

- Private: DKK 108 million (Q2: DKK 97 million)
- Consumer finance: DKK 6 million (Q2: DKK 4 million)
- Corporate ex. agriculture: DKK 214 million (Q2: DKK 161 million)
- Agriculture: DKK -41 million (Q2: DKK -28 million)

- **Total management estimate of DKK 594 million (year-end 2019: DKK 303 million)**

- COVID-19: DKK 320 million
- Agriculture: DKK 167 million
- Model uncertainty: DKK 107 million

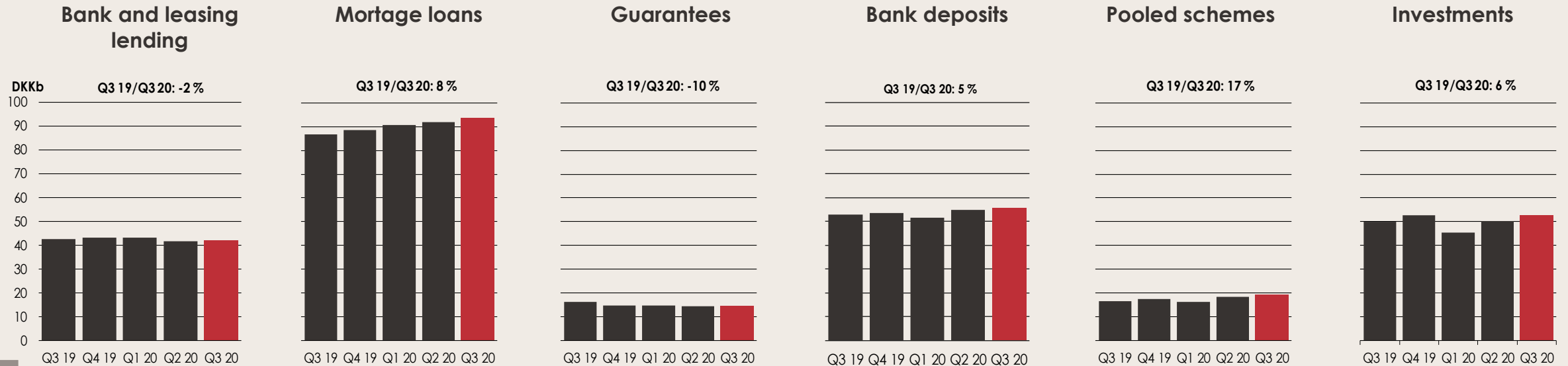
## Impairments and impairment percentage





# Continued growth in total business volume

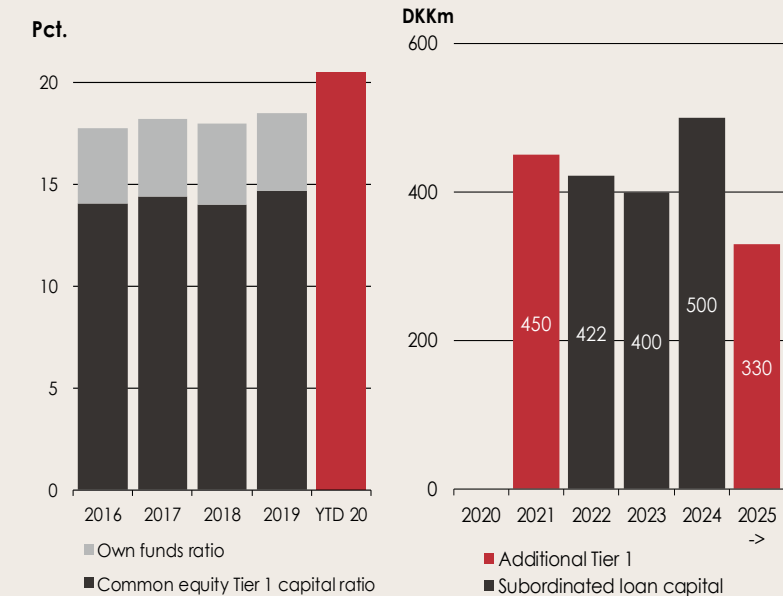
- At year-end, total business volume amounts to DKK 280.1 billion – DKK 7.7 billion (3%) higher than end-2019
- Positive trend in total credit distribution
  - Bank and leasing lending is down by 1.4 billion (3%) and distribution of mortgage loans has grown by DKK 5.1 billion (6%) YTD
- Deposits and pooled pension savings are still growing
  - Bank deposits are up DKK 2.2 billion (4%) and deposits in pooled schemes are up DKK 1.8 billion (11%)
- Customers' invested assets on par with end-2019



# Very solid capital position

- **Capital ratios**
  - CET1: 16.7 (strategic target: 13.5)
  - Own funds ratio: 20.4 (strategic target: 17.5)
- **Individual solvency requirement of 9.6% and combined buffer requirement of 3.0%**
  - Excess coverage of 7.8 percentage points or DKK 4.3 billion
- **Own funds ratio increased by 0.2 percentage points in Q3 primarily attributable to consolidation while risk exposure is unchanged**
  - Unchanged risk exposure covers increased credit exposure (primarily leasing), and a reduction in exposure related to market risk (primarily bond risk)
- **Capital ratios with IFRS9 effect fully phased-in**
  - CET 1: 16.0
  - Own funds ratio: 19.8

## Own funds ratio and subordinated capital



## Capital base

Pct.	Q3 2020	2019	2018	2017
<b>Common equity Tier 1 capital ratio</b>	<b>16.7</b>	<b>14.6</b>	<b>14.0</b>	<b>14.4</b>
Additional Tier 1	1.4	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>18.1</b>	<b>16.1</b>	<b>15.6</b>	<b>16.0</b>
Tier 2 capital	2.4	2.3	2.4	2.3
Deductions in own funds	0.0	0.0	0.0	-0.1
<b>Own funds ratio</b>	<b>20.4</b>	<b>18.5</b>	<b>18.0</b>	<b>18.2</b>

# Strategic liquidity at record level

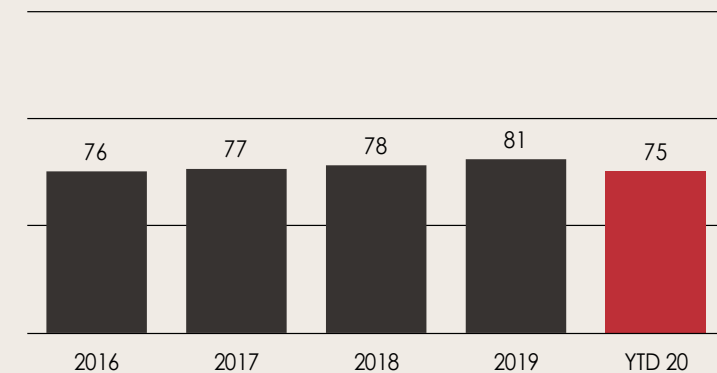
- **Strategic liquidity further strengthened in 2020**
  - Higher deposits combined with declining lending
- **Per 30 September 2020, LCR stands at 216%**
- **Expectation to be able to comply with the MREL requirement by mid-2021 without additional issues**
  - Regular considerations related to need and timing of issuing additional MREL capital during 2020 and 2021

## Strategic liquidity

DKKb	YTD 2020	2019	2018
Deposits, banking activities	55,5	53,3	50,8
Seniorfunding	2,6	2,6	0,0
Core capital and sub. capital	11,5	11,1	10,6
<b>Stable long term funding</b>	<b>69,6</b>	<b>67,0</b>	<b>61,3</b>
Loans, banking and leasing activities	41,7	43,2	39,6
Maturity < 1 year	0,0	0,4	0,0
<b>Strategic liquidity, total</b>	<b>27,8</b>	<b>23,4</b>	<b>21,8</b>

## Loan to deposit ratio

Pct.



# Guidance for 2020

## Updated expectations from 9 September 2020 are maintained

- **Core earnings before impairments**

- At the beginning of 2020, we expected core earnings before impairments of DKK 900-1,100 million
- Following a temporary suspension due to COVID-19, guidance was re-introduced in the Q1 report – at DKK 700-1,000 million
- In June, based on development in Q2 and forecasts for the coming quarters, guidance was hiked to DKK 800-1,050 million
- **In September, driven by continuing positive trends in the financial market in Jul/Aug, guidance was upgrade to DKK 1,000-1,200 million**
  - **With an expected result in the middle of the range**

- **Impairments of loans**

- Based on management decisions made in H1, loan impairment charges are expected to be lower in H2 – subject to a continued gradual reopening of society
  - **Expectations remain unchanged**

- **Net profits**

- At the beginning of 2020, we expected net profits of DKK 625-825 million
- Following a temporary suspension guidance was re-introduced in June – at DKK 350-550 million
- **In September, full-year guidance for profit after tax raised to DKK 500-700 million**
  - **Again with an expected result in the middle of the range**