

# The personal bank in a digital world

Danske Bank's Danish Banking Seminar, 14 March 2017

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# Agenda

1. Spar Nord's equity story
2. Important trends in our operating environment
3. Introduction to our new strategy
4. Outlook for 2017



# Why invest in Spar Nord?

1



Profitable focus on ordinary household customers and local SMEs

2



High customer satisfaction and potential for further growth in market share

3



Sound credit quality

4



Standardized approach to riskweighting makes for lower leverage and lower risk

5



Strong capital position - room for substantial capital distribution as well as firepower for acquisitions

6



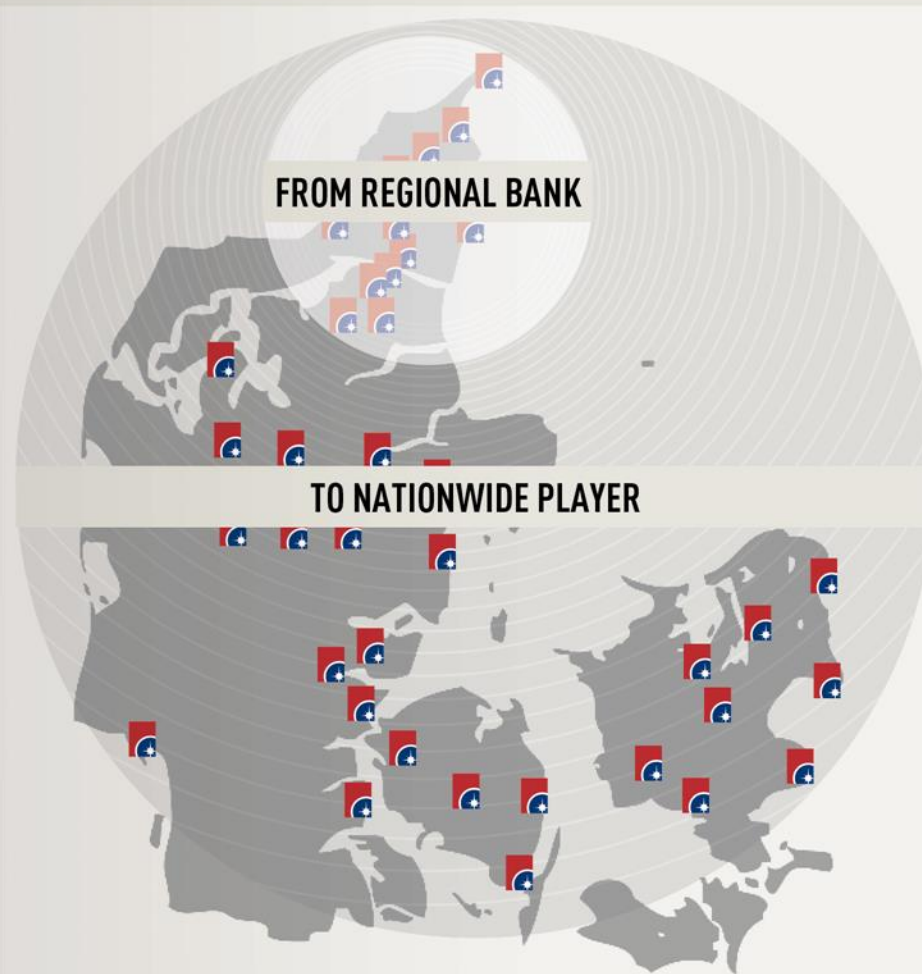
New strategy plan: The Personal Bank in a Digital World

# From regional bank to nationwide player

## FROM REGIONAL TO NATIONAL

	2001	2009	2016
<b>Branches</b>	<b>65</b>	<b>77</b>	<b>58</b>
North Jutland	63	48	27
Outside North Jutland	2	29	31
<b>Lending, banking activities (DKK bn)</b>	<b>14.6</b>	<b>30.1</b>	<b>31.8</b>
North Jutland	12.4	21.0	13.5
Outside North Jutland	2.2	9.1	18.3
<b>Deposits, banking activities (DKK bn)</b>	<b>14.0</b>	<b>29.0</b>	<b>44.1</b>
North Jutland	13.2	21.8	21.6
Outside North Jutland	0.8	7.2	22.5
<b>Customers</b>	<b>198,000</b>	<b>264,000</b>	<b>394,000</b>
North Jutland	190,000	193,000	192,000
Outside North Jutland	8,000	71,000	202,000
<b>Employees</b>	<b>724</b>	<b>995</b>	<b>1,057</b>
North Jutland	668	645	479
Outside North Jutland	56	350	578

## EXPANSION OF DISTRIBUTION NETWORK FROM 2002 TO 2016





# Strong trend in financial performance

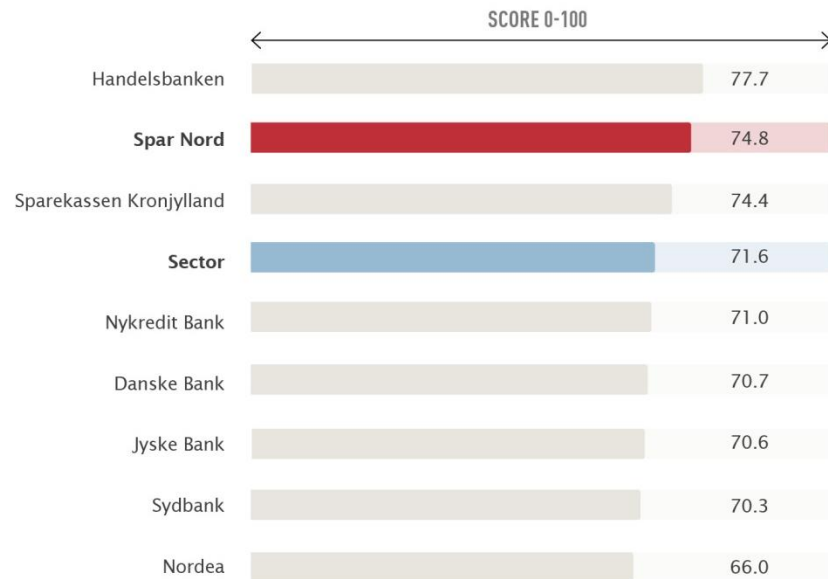
INCOME STATEMENT DKK m	2016	2015	2014	2013	2012
Net interest income	1,621.2	1,727.2	1,799.5	1,849.4	1,676.8
Net income from fees, charges and commissions	1,052.7	1,030.3	863.3	722.6	561.6
<b>Core income</b>	<b>3,166.9</b>	<b>3,330.8</b>	<b>3,201.9</b>	<b>2,938.4</b>	<b>2,710.9</b>
Salaries	1,141.7	1,098.2	1,052.9	1,025.6	930.3
Operating expenses	660.4	679.2	798.0	617.5	591.1
<b>Costs</b>	<b>1,896.4</b>	<b>1,842.9</b>	<b>1,922.4</b>	<b>1,741.4</b>	<b>1,674.9</b>
<b>Core earnings before impairment</b>	<b>1,270.5</b>	<b>1,487.9</b>	<b>1,279.5</b>	<b>1,197.0</b>	<b>1,036.0</b>
<b>Core earnings</b>	<b>1,028.1</b>	<b>1,172.3</b>	<b>786.4</b>	<b>792.2</b>	<b>374.2</b>
<b>Profit/loss before tax</b>	<b>1,028.1</b>	<b>1,073.6</b>	<b>705.0</b>	<b>669.5</b>	<b>290.1</b>

EARNINGS						
Return on equity after tax	%	10.7	12.2	9.0	8.6	4.2
Cost share of core income	DKK	0.60	0.55	0.60	0.59	0.62

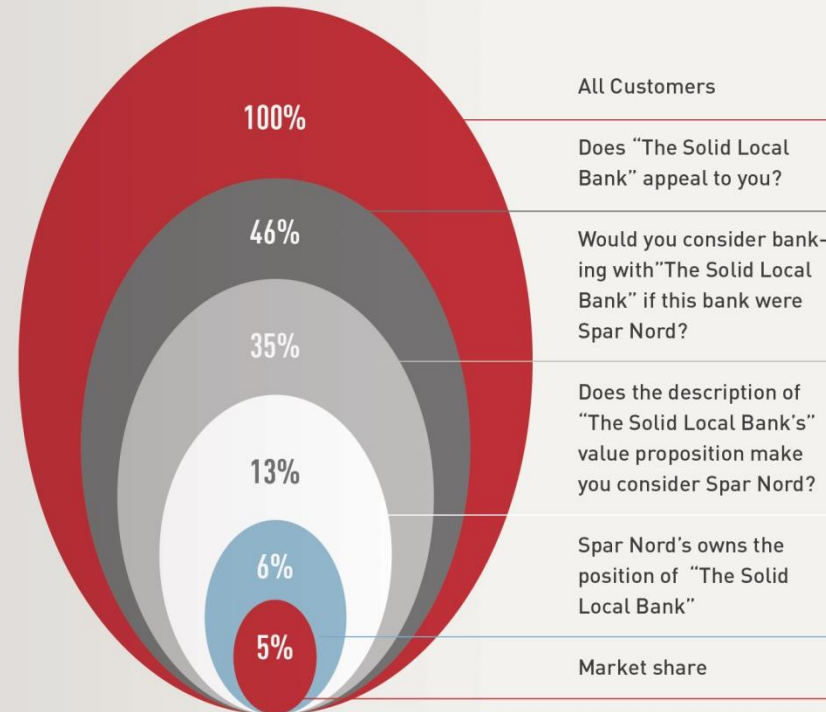
THE SPAR NORD SHARE						
Earnings per share	DKK	6.6	7.1	4.9	4.3	1.9
Dividend	DKK	5.0	3.0	1.6	1.0	0.0
Extraordinary dividend	DKK	-	2.0	-	-	-
Share Buy back	DKK m	-	150	-	-	-
Payout ratio	%	75	87	33	23	0

# High customer satisfaction and potential for further growth in market share

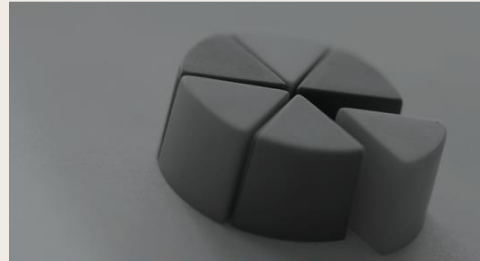
CUSTOMER SATISFACTION – HOUSEHOLD SEGMENT



ANALYSIS OF MARKET POTENTIAL



# Sound credit quality and diversified loan book



Very well-diversified portfolio  
– only one business sector  
exceeding 10% of total  
lending



Low exposure to single large  
customers  
(Top 20 equals 74% of CET1)

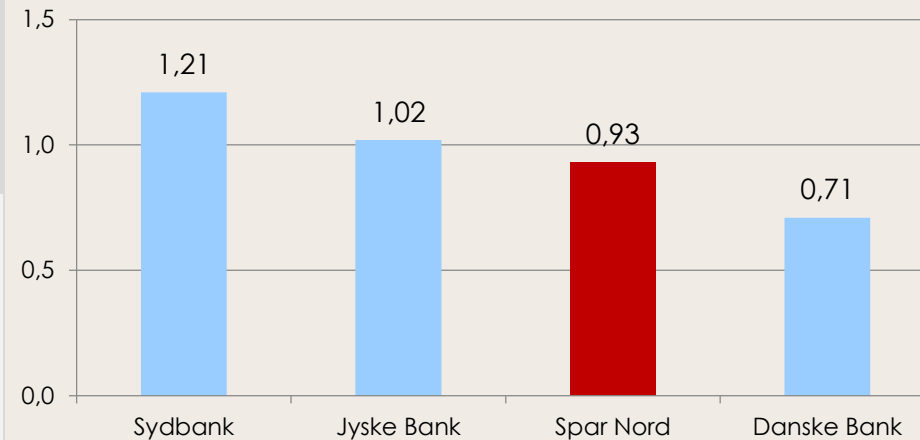


High share of household  
lending 45%



Agriculture remains our  
biggest challenge – 7% of  
exposure, but 38 % of  
impairments

IMPAIRMENT RATIO COMPARED TO PEERS, AVERAGE 2008-2016 (%)

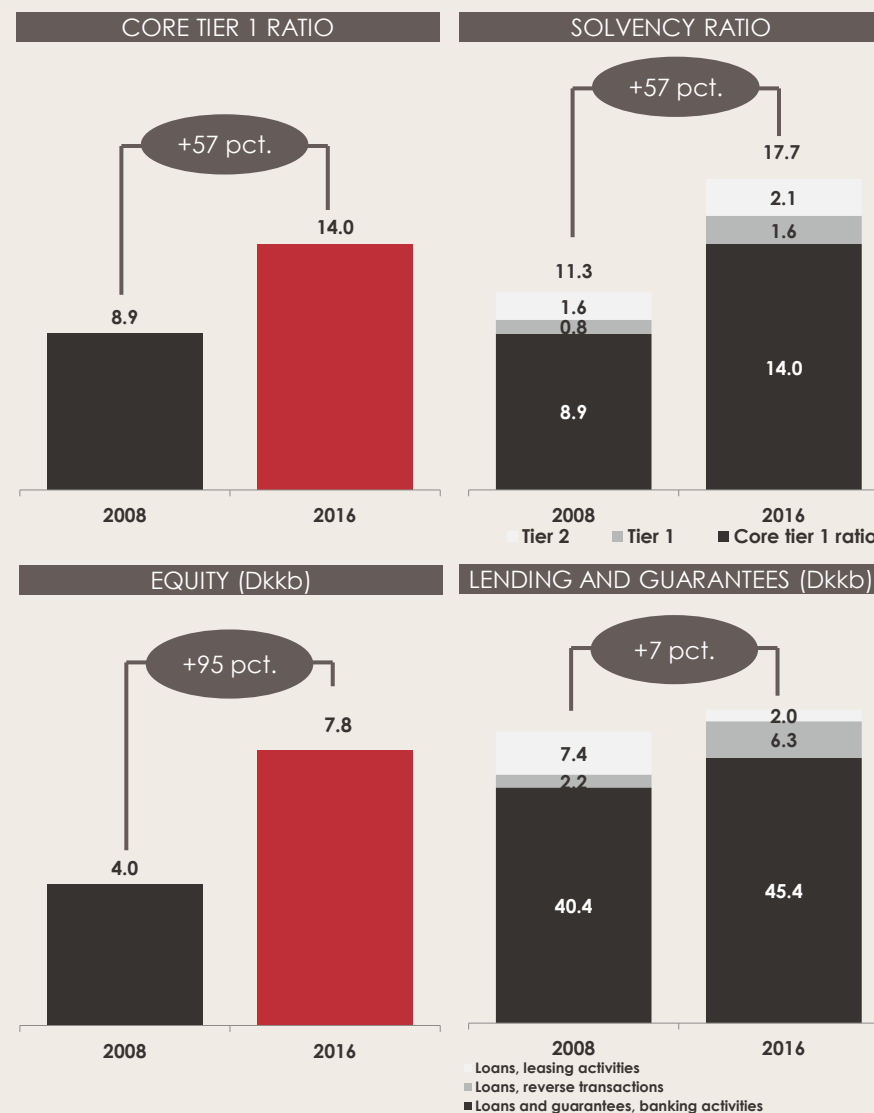


LENDING BROKEN DOWN ON BUSINESS SECTORS (%)



# Strong trend in capital position – unaided by magic models

- Spar Nord has not adopted internal rating based approach to risk weighting
- Rating models are use in credit granting and pricing – but not as a tool for risk reduction
- Run on the standard platform, Spar Nord's absolute leverage is very low compared to other large Danish banks
- Since 2008, shareholders' equity has almost doubled – with bank lending and guarantees roughly at an unchanged level
- Deleveraging would have been even more drastic if it hadn't been for a relatively big growth in RWA





# Changes in our operating environment are profound and call for major strategic overhaul



# Four trends with huge impact on our business in years to come

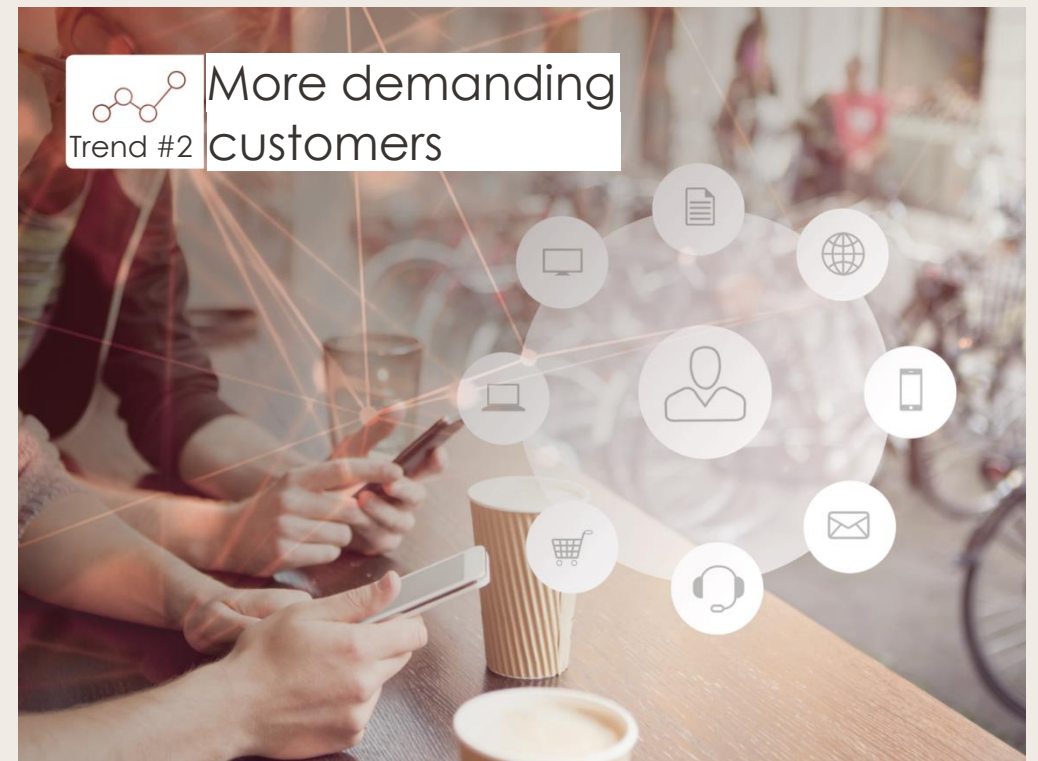
# Trend #1: Digitization

- In short: Digitization has permeated every aspect of our lives
- Most important aspects of digitization for us:
  - Mobile
  - Social media
  - Data
  - Cloud



# Trend #2: More demanding customers

- In step with the growing digitization, our customers' expectations are changing
- Most important implications for us:
  - Customers' service needs must be handled instantly
  - Need for better accessibility (more channels and "24/7") as well as better user experience on our digital solutions
  - Personal advice still highly relevant on important live events



# Trend #3: Low growth and low interest rates

- The economic climate remains uneasy: Growth, household expenditure and investments are still very low
- Competitive pressure on lending margins – all banks that survived the crisis want to grow
- Most important implications for us:
  - Other income sources than NII become more crucial
  - Need to act wisely to avoid “race to the bottom”
  - Growth in NII must come from growth in market share





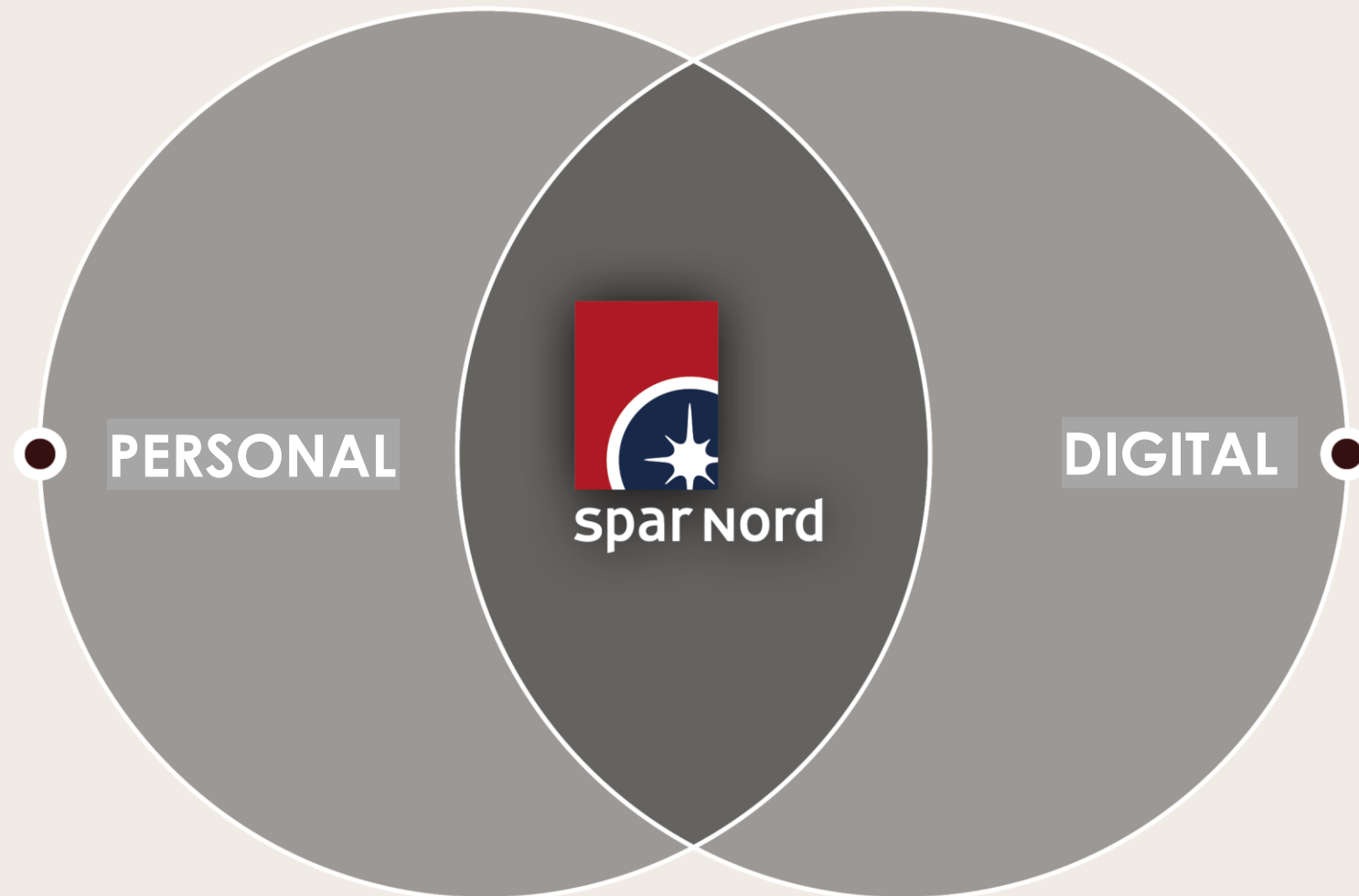
# Trend #4: Regulation

- Just to name a few:
  - IFRS 9
  - PSD 2
  - MIFID II
  - New capital adequacy rules
  - New data protection regulation
- Most important implications for us:
  - Hugely demanding projects - pressure on cost side
  - Need to review business business model in certain areas



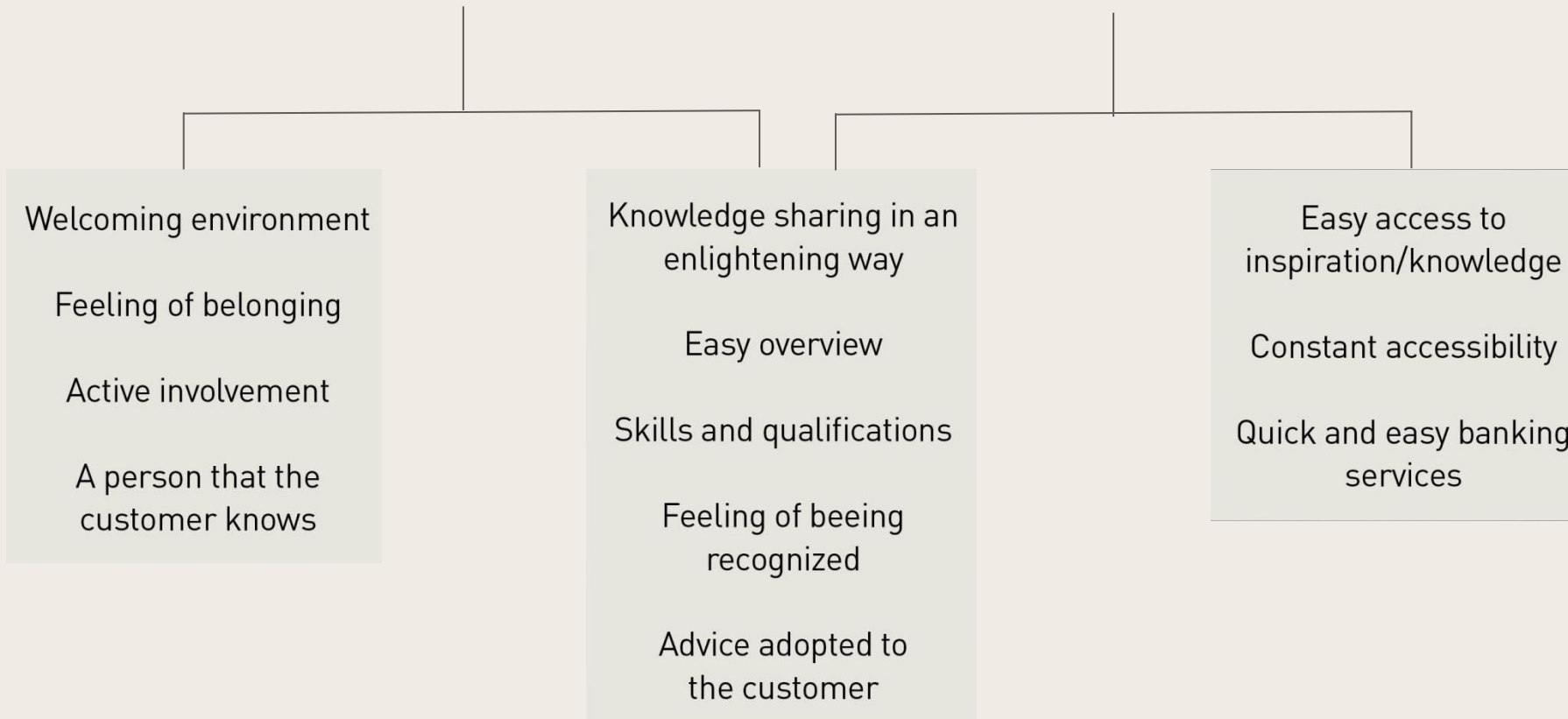
# Our answer to the challenges

# Strategic bearing



# Our burning ambition is to become...

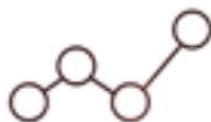
## THE PERSONAL BANK IN A DIGITAL WORLD





VISION

# DENMARK'S MOST PERSONAL BANK



TRENDS

#1 DIGITIZATION

#2 MORE DEMANDING CUSTOMERS

#3 LOW GROWTH AND LOW INTEREST RATES

#4 TIGHTER RULES AND STANDARDS



STRATEGIC BEARING

## THE PERSONAL BANK IN A DIGITAL WORLD



MUST WIN BATTLES

#1 TOP-NOTCH PERSONAL ADVICE AND SERVICE

- The good customer meeting
- The good banking experience
- Better grip on customer relations

#2 LOCAL OWNERSHIP AND STRONG CENTRAL SUPPORT

- Customer service of the future
- Improved wealth management concept
- New business customer concept

#3 DIGITIZATION THE SPAR NORD WAY

- More efficient processes
- New digital solutions
- New digital development organization



# From Must Win Battles to concrete actions

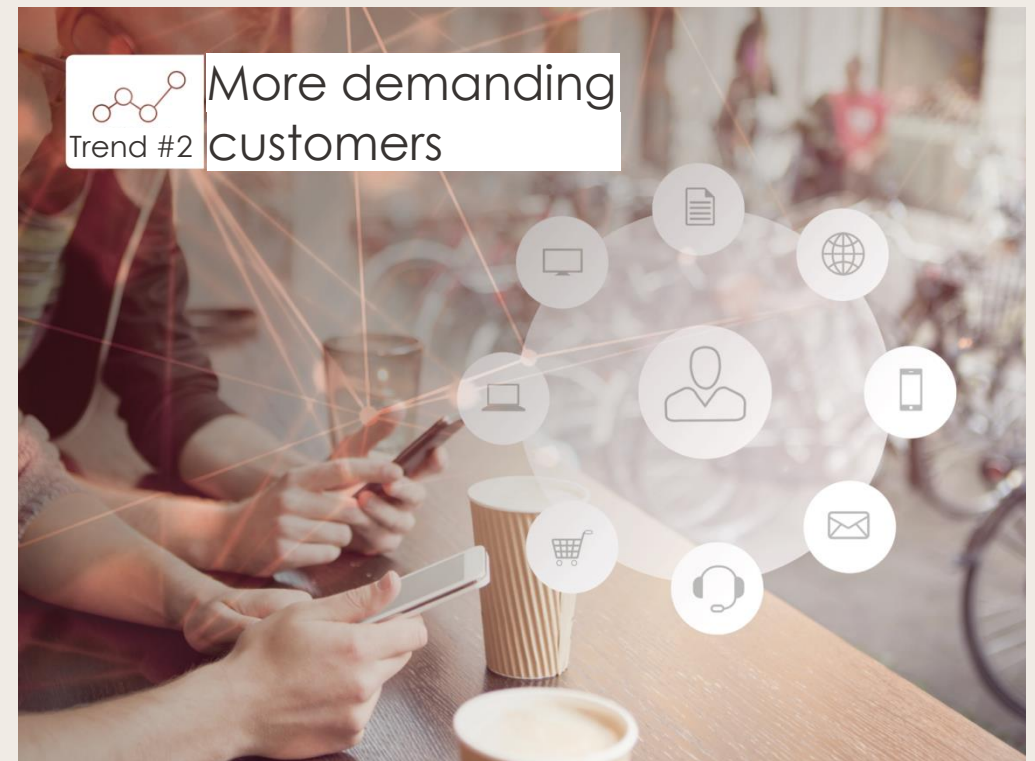
# Digitization

- Efficiency enhancement
  - Process automation (loan processing, customer onboarding etc.)
  - Improved self-service solutions
  - Implementation of CRM
- Growth
  - New customer leads by social media
  - Stronger sales performance driven by data
  - New digital services



# More demanding customers

- Aim to free up account manager resources by centralizing and digitizing simple and recurring customer service tasks
- Focus on strengthening competencies in key areas (mortgage, pension)
- New organization and segmentation in corporate segment
- Private Banking established as separate entity
- Continued focus on critical mass in branch network



# Low growth and low interest rates

- Pressure on lending margin expected to continue – no longer possible to mitigate via lower deposit margins
- On the positive side, lower interest rates lead to lower losses
- Income growth must come from growth in market-share in four core segments (household, corporate, private banking and leasing/consumer finance)
- Need to put a price on services that used to be free
- Extend product offering to both households and corporates (non-life insurance, pension services)
- Focus on cost-critical mass and process improvement



# Regulation

- MREL: Impact still unknown
- IFRS 9: Impact still unknown but we are calculation right now
- Basel IV: Modest impact due to our status as “standard” bank without own models
- MIFID II: Most likely outcome is transition to clean funds and adjustment of prices – potentially in combination with increased focus on funds of funds
- PSD 2: Our new innovation strategy (open platform innovation) aims to turn PSD 2 into an advantage rather than a threat





# KPIs and outlook for 2017

# Selected KPIs - Financial Targets

Return on equity	9-11%
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Growth initiatives	DKK 200 million
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Efficiency-enhancing measures	DKK 100 million
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Cost/Income Ratio	0.60
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# Guidance for 2017

- Modest but positive growth in the economy
  - Moderate positive lending growth driven by continued growth in market-share
- Pressure on core income
  - Low interest level puts pressure on interest income from both customer lending and bond portfolio
  - Fee income expected to remain on high level
  - Difficult to match 2016-performance on bonds
- Costs influenced by strategy implementation
  - Underlying growth in payroll costs due to collective agreements and hike in payroll tax
  - One-off costs related to strategic initiatives
  - First positive effects of strategic initiatives begin to materialize
- Core earnings before impairment in the DKK 1.1-1.2 billion range
- Impairments expected to come further down
  - More positive outlook for agriculture



# Thanks for listening!

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