

Investor Presentation, November 2014

**BANKNORDIK**

Q3 2014 Interim Report:

**Profit improving while  
competition remains stiff**

*Janus Petersen, CEO*

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# Overview

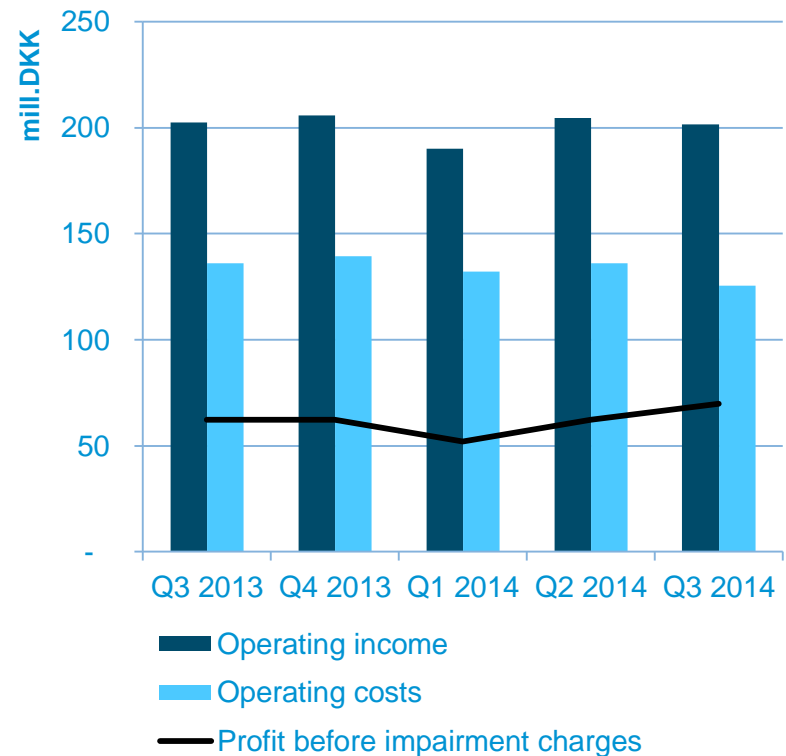
- Financial performance explained
- Outlook for 2014 narrowed
- Strategic focus outlined
  - Stringent segmentation ⇒ Improve income
  - Rationalisation continues ⇒ Cut costs
  - Solid and systematic credit policy ⇒ Low impairments
  - Optimise capital structure ⇒ Repay subordinated loans

# Highlights in Q3 2014:

## Profit still improving, but stiff competition

- Profit before tax and value adj. DKK 53m (Q2: DKK 45m)
- Profit before tax DKK 49m (Q2: DKK 54m)
- Operating income decreased to DKK 201m (Q2: DKK 205m) explained by lower dividends
- Operating costs decreased to DKK 125m (Q2: DKK 136m)
- Impairments decreased to DKK 17m (Q2: DKK 19m)
- Profit before impairments & non-recur. items DKK 70m (Q2: DKK 62m)
- Narrow the guidance of profit before impairments & non-recur. costs to be in the range of DKK 220-240m

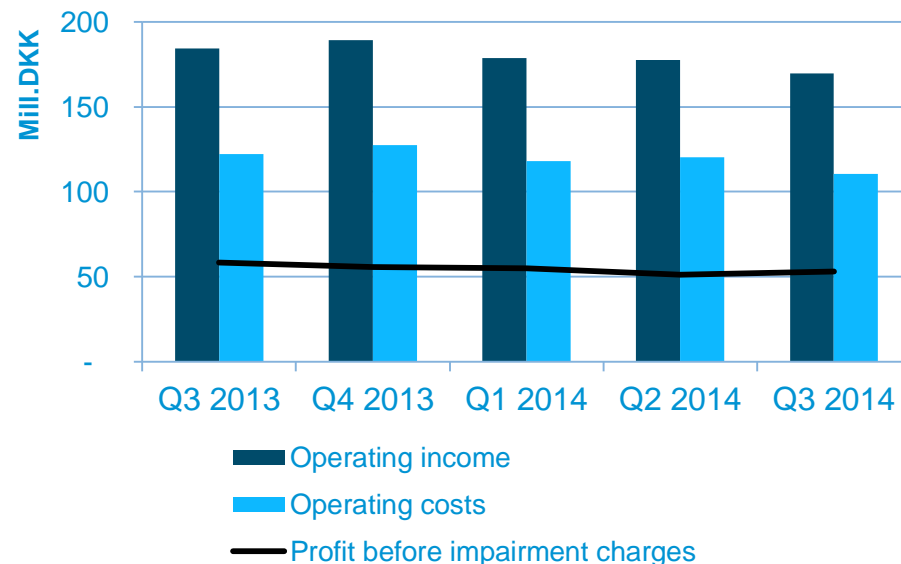
Profit, income & costs  
Group



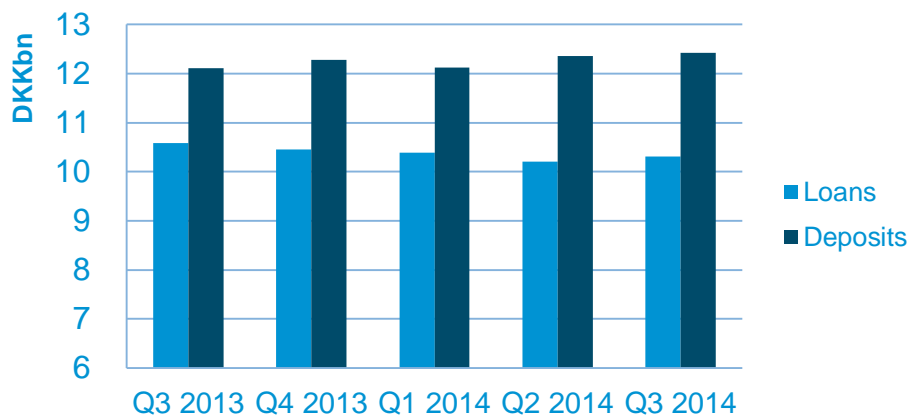
## Banking: Stable lending, competitive pricing remains

- Profit before impairments and non-recurring items DKK 53m (Q2 2014: 51m)
- Operating income was lower because of higher dividend income in Q2
  - Interest margin decreased because of stiffer competition, but lending increased driven by 5% growth in lending in Denmark
- Operating costs decreased to DKK 110m in Q3 explained by higher administrative costs in Q2 related to relocation of branches in Denmark
- Net impairments amounted to DKK 17m

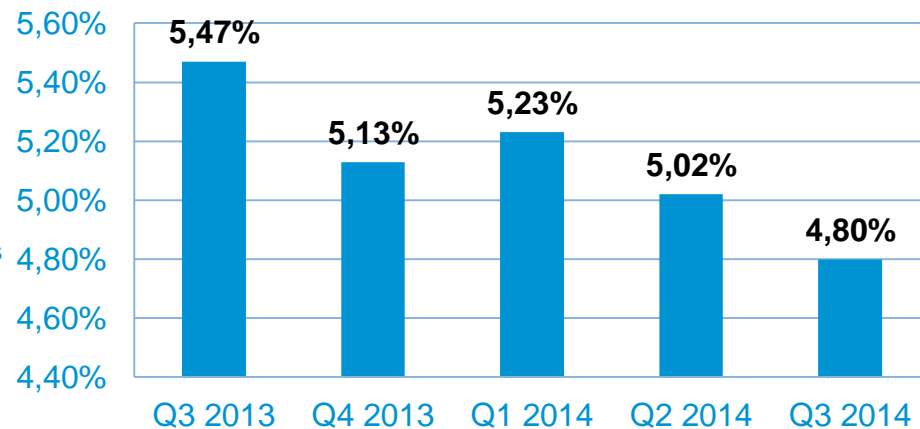
## Profit, income & costs Banking



## Loans & Deposits



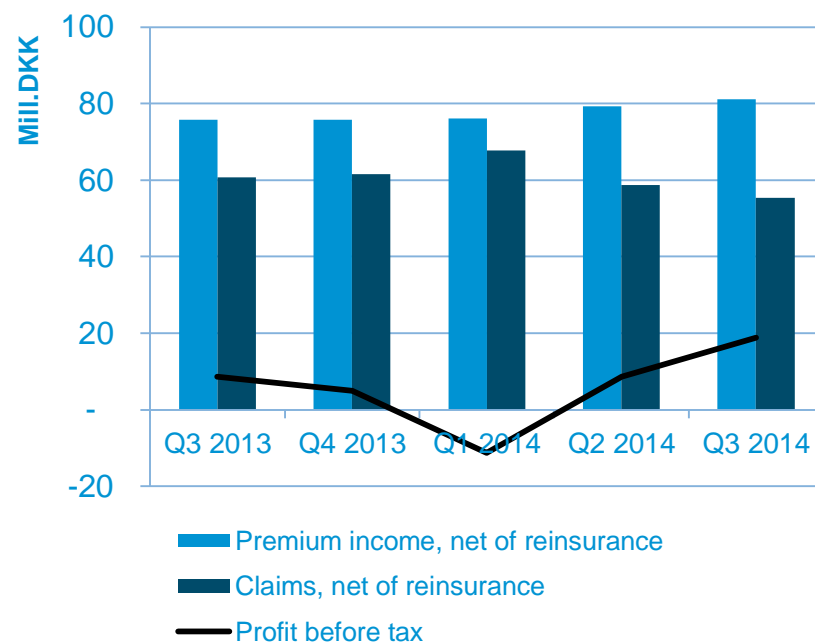
## Interest Margin



# Yet another profitable quarter in insurance

- Profit before tax amounted to DKK 19m in Q3 relative to DKK 9m in Q3 2013
- Premium income from insurance activities improved relative to last year
- Claims were lower in Q3
- Investment income was stable relative to last year
- The 20% reduction in prices on the Faroes dampens profits going forward, but Trygd continues to gain market share

## Profit, Premiums & Claims Insurance



# Outlook for 2014 is being narrowed: Stable volumes, pressure on interest margin remains

- Management expects the profit before tax, impairments, non-recurring items and value adjustments to be in the range of DKK 220-240m for the full year 2014. In Q1-Q3 this result amounted to DKK 184m.
- Volumes are expected to be at the same level at year-end 2014
- Interest margins are expected to be at the same level as the average levels for Q3 2014
- Fee income is expected to be stable relative to 2013
- Costs continue the downward trend
- Impairments are expected to be below those in 2013

# Strategic focus outlined

- Stringent segmentation
  - Rationalisation continues
  - Solid and systematic credit policy
  - Optimise capital structure
- ⇒ Improve income
  - ⇒ Cut costs
  - ⇒ Low impairments
  - ⇒ Repay subordinated loans



# Strategic focus:

## More stringent customer segmentation

- Loyalty programme is well received by customers
- Corporate customer acquisition strengthened
- This year has seen a pick-up in selling pension savings solution and mortgage financing
  - Reflected in improved net fee income in Q3

# Strategic focus:

## Cost efficiency remains on the agenda

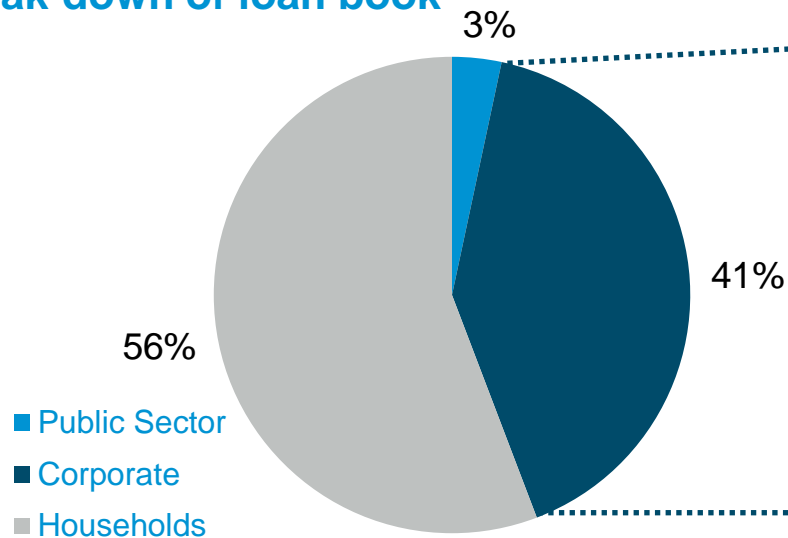
- Rationalisations in Banking, while Insurance has constrained cost growth
- FTE in Banking has been reduced by 5% since Q3 2013
- Staff and administrative costs in banking reduced 9% in Q1-Q3 relative to 2013
- Continue efforts to further improve efficiency

	Q1-Q3 2014	Q1-Q3 2013	Change
<b>BANKING, mill.dkk</b>			
Total staff costs	205	221	-7%
Total adm. expenses	133	151	-12%
<b>Total staff costs and adm. expenses</b>	<b>338</b>	<b>372</b>	<b>-9%</b>
<b>GROUP Full time employees</b>			
Banking	420	440	-5%
Insurance	89	85	4%
Other	4	5	-20%
<b>Group</b>	<b>513</b>	<b>530</b>	<b>-3%</b>

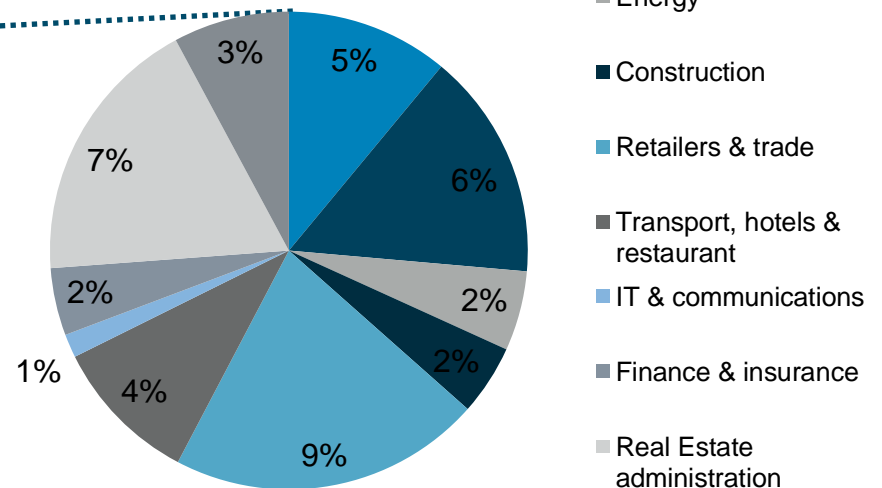
# Strategic focus: Diversified loans and systematic credit policy

- Impairments in Q3 were as expected
- Well diversified loan portfolio
- Centralised organisation of credit process

Break-down of loan book



Further break-down of the 41% to corporates:



# Strategic focus:

## Optimising capital structure

- Solvency ratio: 14.1% of RWA
  - Solvency ratio would be 15% including the accumulated profit in Q1-Q3 2014
- Current capital requirement: 8.8% of RWA
- After CRD IV implementation and SIFI add-on at year-end 2019: 13.9% of RWA
  - Add to this the business cycle buffer of 0.0-2.5%
- Subordinated debt is expected to amount to 2% of RWA
- Net effect of CRD IV is minimal

# Questions?

*Janus Petersen, CEO*

*Árni Ellefsen, CFO*

# Appendices

- Group
- Banking
- Faroe Islands
- Denmark
- Greenland
- Trygd
- Vørður
- Number of full time employees in Group
- Credit quality of the loan portfolio

# Group

DKK m	Q1-Q3 2014	Q1-Q3 2013	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Net interest income	383	441	125	126	133	133	143
Net fee and commission income	148	135	48	54	46	53	43
Net insurance income	54	55	26	20	8	14	15
Other operating income	10	9	3	4	3	5	2
<b>Operating income</b>	<b>596</b>	<b>640</b>	<b>201</b>	<b>205</b>	<b>190</b>	<b>206</b>	<b>203</b>
Operating costs	-393	-418	-125	-136	-132	-139	-136
Sector costs	-18	-20	-6	-6	-6	-4	-4
<b>Profit before impairment charges</b>	<b>184</b>	<b>201</b>	<b>70</b>	<b>62</b>	<b>52</b>	<b>62</b>	<b>62</b>
Impairment charges, net	-56	-107	-17	-19	-21	-42	-32
<b>Operating profit</b>	<b>128</b>	<b>93</b>	<b>53</b>	<b>44</b>	<b>31</b>	<b>20</b>	<b>30</b>
Non-recurring items	-1	8	0	1	-2	-19	1
<b>Profit before value adjustments and tax</b>	<b>127</b>	<b>102</b>	<b>53</b>	<b>45</b>	<b>29</b>	<b>1</b>	<b>31</b>
Market value adjustments*	7	22	-4	9	2	-10	16
<b>Profit before tax</b>	<b>134</b>	<b>124</b>	<b>49</b>	<b>54</b>	<b>31</b>	<b>-9</b>	<b>47</b>
Operating cost/income, %	66%	65%	62%	66%	70%	68%	67%
Number of FTE, end of period	513	530	513	510	512	523	530

# Banking

DKKm	Q1-Q3 2014	Q1-Q3 2013	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Net interest income	374	431	122	122	130	130	140
Net fees, commission income & dividends	145	135	46	52	47	54	43
Other operating income	7	7	2	3	2	5	2
<b>Operating income</b>	<b>526</b>	<b>574</b>	<b>170</b>	<b>178</b>	<b>179</b>	<b>189</b>	<b>185</b>
Operating cost	-349	-377	-110	-120	-118	-128	-122
Sector costs	-18	-20	-6	-6	-6	-6	-4
<b>Profit before impairment charges</b>	<b>159</b>	<b>176</b>	<b>53</b>	<b>51</b>	<b>55</b>	<b>56</b>	<b>58</b>
Impairment charges, net	-56	-108	-17	-19	-21	-41	-32
<b>Operating profit</b>	<b>103</b>	<b>68</b>	<b>36</b>	<b>33</b>	<b>34</b>	<b>14</b>	<b>26</b>
Non-recurring items	-1	8	0	1	-2	-19	1
<b>Profit before value adjustments and tax</b>	<b>102</b>	<b>76</b>	<b>36</b>	<b>34</b>	<b>32</b>	<b>-5</b>	<b>27</b>
Market value adjustments	21	17	-7	11	17	-6	11
<b>Profit before tax</b>	<b>122</b>	<b>94</b>	<b>29</b>	<b>45</b>	<b>48</b>	<b>-10</b>	<b>38</b>
Loans and advances	10.315	10.587	10.315	10.207	10.392	10.460	10.587
Deposits and other debt	12.421	12.108	12.421	12.364	12.132	12.285	12.108
Operating cost/income, %	66%	66%	65%	68%	66%	67%	66%
Number of FTE, end of period	420	440	420	420	420	431	440



# Banking, Faroe Islands

DKKm	Q1-Q3 2014	Q1-Q3 2013	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Net interest income	159	198	52	51	56	59	62
Net fees, commission income & dividends	47	42	13	20	14	20	13
Other operating income	5	4	2	1	2	4	1
<b>Total Operating income</b>	<b>211</b>	<b>245</b>	<b>67</b>	<b>72</b>	<b>72</b>	<b>83</b>	<b>75</b>
Operating cost	-125	-134	-41	-43	-42	-50	-43
Sector costs	-8	-9	-3	-2	-3	-2	-2
<b>Profit before impairment charges</b>	<b>77</b>	<b>102</b>	<b>23</b>	<b>27</b>	<b>27</b>	<b>30</b>	<b>30</b>
Impairment charges, net	-35	-33	-11	-7	-17	-22	-11
<b>Operating profit</b>	<b>43</b>	<b>69</b>	<b>13</b>	<b>20</b>	<b>10</b>	<b>8</b>	<b>19</b>
Non-recurring items	-4	16	0	-2	-2	-19	1
<b>Profit before value adjustments and tax</b>	<b>39</b>	<b>85</b>	<b>13</b>	<b>19</b>	<b>8</b>	<b>-11</b>	<b>20</b>
Market value adjustments	21	17	-7	11	17	-6	11
<b>Profit before tax</b>	<b>60</b>	<b>102</b>	<b>6</b>	<b>29</b>	<b>24</b>	<b>-17</b>	<b>32</b>
Loans and advances	5.727	5.904	5.727	5.763	5.759	5.813	5.904
Deposits and other debt	5.572	4.996	5.572	5.337	5.295	5.311	4.996
Operating cost/income, %	59%	55%	61%	59%	58%	61%	58%
Number of FTE, end of period	167	173	167	166	163	169	173

# Banking, Denmark

DKK m	Q1-Q3 2014	Q1-Q3 2013	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Net interest income	188	204	62	62	64	61	68
Net fees, commission income & dividends	91	86	31	30	31	32	28
Other operating income	1	1	-1	1	0	0	0
<b>Total Operating income</b>	<b>280</b>	<b>291</b>	<b>92</b>	<b>94</b>	<b>95</b>	<b>94</b>	<b>97</b>
Operating cost	-203	-222	-63	-70	-69	-68	-72
Sector costs	-9	-11	-3	-3	-3	-3	-2
<b>Profit before impairment charges</b>	<b>68</b>	<b>59</b>	<b>26</b>	<b>20</b>	<b>22</b>	<b>22</b>	<b>23</b>
Impairment charges, net	-18	-66	-6	-10	-2	-19	-19
<b>Operating profit</b>	<b>50</b>	<b>-8</b>	<b>20</b>	<b>10</b>	<b>20</b>	<b>3</b>	<b>3</b>
Non-recurring items	3	-8	0	3	0	0	0
<b>Profit before value adjustments and tax</b>	<b>53</b>	<b>-16</b>	<b>20</b>	<b>13</b>	<b>20</b>	<b>4</b>	<b>3</b>
Market value adjustments	0	0	0	0	0	0	0
<b>Profit before tax</b>	<b>53</b>	<b>-16</b>	<b>20</b>	<b>13</b>	<b>20</b>	<b>4</b>	<b>3</b>
Loans and advances	3.882	3.878	3.882	3.707	3.892	3.827	3.878
Deposits and other debt	6.371	6.658	6.371	6.501	6.407	6.541	6.658
Operating cost/income, %	72%	76%	68%	75%	73%	73%	74%
Number of FTE, end of period	232	247	232	236	238	248	247

# Banking, Greenland

DKKm	Q1-Q3 2014	Q1-Q3 2013	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Net interest income	27	29	8	9	10	10	10
Net fees, commission income & dividends	7	8	2	2	3	2	2
Other operating income	1	1	0	0	0	0	0
<b>Total Operating income</b>	<b>35</b>	<b>37</b>	<b>11</b>	<b>11</b>	<b>13</b>	<b>13</b>	<b>12</b>
Operating cost	-21	-21	-7	-7	-7	-9	-7
Sector costs	-1	-1	0	0	0	0	0
<b>Profit before impairment charges</b>	<b>13</b>	<b>15</b>	<b>4</b>	<b>4</b>	<b>6</b>	<b>4</b>	<b>5</b>
Impairment charges, net	-4	-8	0	-2	-2	0	-2
<b>Operating profit</b>	<b>10</b>	<b>7</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>3</b>
Non-recurring items	0	0	0	0	0	0	0
<b>Profit before value adjustments and tax</b>	<b>10</b>	<b>7</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>3</b>
Market value adjustments	0	0	0	0	0	0	0
<b>Profit before tax</b>	<b>10</b>	<b>7</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>3</b>
Loans and advances	705	806	705	736	741	821	806
Deposits and other debt	478	454	478	526	429	433	454
Operating cost/income, %	60%	56%	64%	62%	54%	69%	55%
Number of FTE, end of period	21	20	21	18	19	19	20

# Insurance, Trygd in the Faroe Islands

DKK m	Q1-Q3 2014	Q1-Q3 2013	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Premium income, net of reinsurance	59	62	20	20	19	19	19
Claims, net of reinsurance	-35	-35	-7	-15	-13	-25	-14
<b>Net insurance income</b>	<b>24</b>	<b>27</b>	<b>13</b>	<b>5</b>	<b>6</b>	<b>-5</b>	<b>5</b>
Net income from investment activities	3	1	1	1	1	1	0
<b>Operating income</b>	<b>27</b>	<b>27</b>	<b>13</b>	<b>6</b>	<b>8</b>	<b>-5</b>	<b>5</b>
Operating cost	-14	-13	-5	-5	-4	-4	-4
<b>Profit before tax</b>	<b>13</b>	<b>14</b>	<b>9</b>	<b>1</b>	<b>3</b>	<b>-9</b>	<b>1</b>
Combined ratio	83%	78%	61%	99%	89%	150%	96%
Claims ratio	60%	57%	37%	75%	67%	129%	73%
Number of FTE, end of period	26	26	26	25	25	26	26

# Insurance, Vörður in Iceland

DKKkm	Q1-Q3 2014	Q1-Q3 2013	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Premium income, net of reinsurance	177	159	61	60	57	57	56
Claims, net of reinsurance	-146	-129	-48	-44	-55	-37	-46
<b>Net insurance income</b>	<b>31</b>	<b>30</b>	<b>13</b>	<b>16</b>	<b>2</b>	<b>20</b>	<b>10</b>
Net income from investment activities	2	13	7	2	-7	2	7
<b>Operating income</b>	<b>33</b>	<b>43</b>	<b>20</b>	<b>18</b>	<b>-5</b>	<b>22</b>	<b>17</b>
Operating cost	-30	-28	-10	-11	-10	-8	-9
<b>Profit before tax</b>	<b>3</b>	<b>15</b>	<b>10</b>	<b>7</b>	<b>-15</b>	<b>14</b>	<b>8</b>
Combined ratio	100%	99%	94%	91%	114%	79%	98%
Claims ratio	83%	81%	78%	74%	97%	65%	82%
Number of FTE, end of period	63	59	63	61	61	61	59

# Number of full-time employees, end of period

	Q1-Q3 2014	Q1-Q3 2013	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Banking	420	440	420	420	420	431	440
Insurance	89	85	89	86	86	87	85
Other	4	5	4	4	6	5	5
<b>Group</b>	<b>513</b>	<b>530</b>	<b>513</b>	<b>510</b>	<b>512</b>	<b>523</b>	<b>530</b>

# Credit quality of the loan portfolio

- Credit classification according to the Danish FSA's method

	Q2 2014			Q3 2014		
	<7.5 mDKK	> 7.5 mDKK	Total	<7.5 mDKK	> 7.5 mDKK	Total
Portfolio without weakness	4.001	3.115	7.116	4.121	2.986	7.107
Portfolio with some weakness	3.421	1.453	4.874	3.483	1.546	5.029
Portfolio with weakness	460	116	576	455	162	617
- here of unsecured	257	58	315	248	71	319
Portfolio with OEI	1.099	648	1.747	1.101	598	1.698
- here of unsecured	753	351	1.104	761	316	1.078
- impairments	360	115	475	376	107	483
Portfolio without individual classi	1.022	29	1.051	876	20	897
Total	10.003	5.361	15.364	10.036	5.313	15.348