

Investor Presentation

**BANKNORDIK**

# Solid start to the year

2 May 2017

*Árni Ellefsen, CEO*

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# Overview

- **Highlights**
- **Update on strategic initiatives**
- **Financials**
  - Banking
  - Insurance
  - Expenditures
  - Impairment charges
  - Capital ratios
- **Long-term financial objectives**
- **Outlook 2017**
- **Appendices**



- Retail banking
- Private banking
- Corporate banking
- Insurance

# Highlights

## – First quarter of solely continuing business activities

### Q1 2017 financial highlights

- Operating income down 4% YoY to DKK 160m in Q1 2017 (Q1 2016: DKK 168m)
- Operating costs down 1% to DKK 116m (DKK 117m)
- Net loan impairment charges were DKK 0m (net reversal of DKK 1m)
- Operating profit amounted to DKK 43m (DKK 50m)
- Profit before tax increased to DKK 57m (DKK 25m)
- CET1 capital ratio of 16.1% and solvency ratio of 18.4% at 31 March 2017

### Dividends

- At the Annual General Meeting, shareholders adopted the proposal to pay an ordinary dividend of DKK 60m and an extraordinary dividend of DKK 240m related to the sale of Vørður and the winding up of corporate activities in Denmark. The amount was paid out on 5 April 2017.

# Q1 2017 financial results

– Figures in DKKm

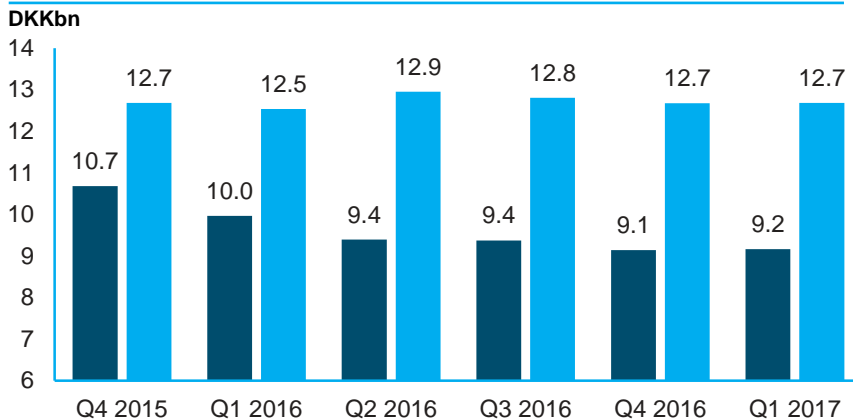
	Q1 2017	Q1 2016	Index	Q1 2017	Q4 2016	Index	
<b>Profit &amp; Loss</b>	Net interest income	98	113	87	98	98	
	Net fee and commission income	52	44	118	52	102	
	Net insurance income	9	9	100	9	-7	
	Other operating income	1	2	67	1	69	
	<b>Operating income</b>	<b>160</b>	<b>168</b>	<b>96</b>	<b>160</b>	<b>110</b>	
	Operating costs	-116	-117	99	-116	102	
	Sector costs	-1	-1	54	-1	1	
	<b>Profit before impairment charges</b>	<b>43</b>	<b>49</b>	<b>88</b>	<b>43</b>	<b>130</b>	
	Impairment charges, net	0	1		0	4	
	<b>Operating profit</b>	<b>43</b>	<b>50</b>	<b>86</b>	<b>43</b>	<b>114</b>	
	Non-recurring items	0	-12		0	0	
	Market value adjustments	14	-3		14	-10	
	<b>Profit before tax, continued</b>	<b>57</b>	<b>35</b>	<b>163</b>	<b>57</b>	<b>208</b>	
	Profit before tax, discontinued (Vörður)	0	-10		0	0	
	<b>Profit before tax, total</b>	<b>57</b>	<b>25</b>	<b>233</b>	<b>57</b>	<b>208</b>	
<b>Key Metrics</b>		<b>Q1 2017</b>	<b>Q1 2016</b>	<b>Index</b>	<b>Q1 2017</b>	<b>Q4 2016</b>	<b>Index</b>
	Loans and advances	9,159	9,961	92	9,159	9,141	100
	Deposits and other debt	12,679	12,532	101	12,679	12,669	100
	Operating cost / income, %	73	70		73	78	
	Solvency ratio, %	18.4	17.2	107	18.4	18.3	101
CET1 capital ratio, %	16.1	14.4	112	16.1	16.0	101	

# QoQ margin pressure flattened out

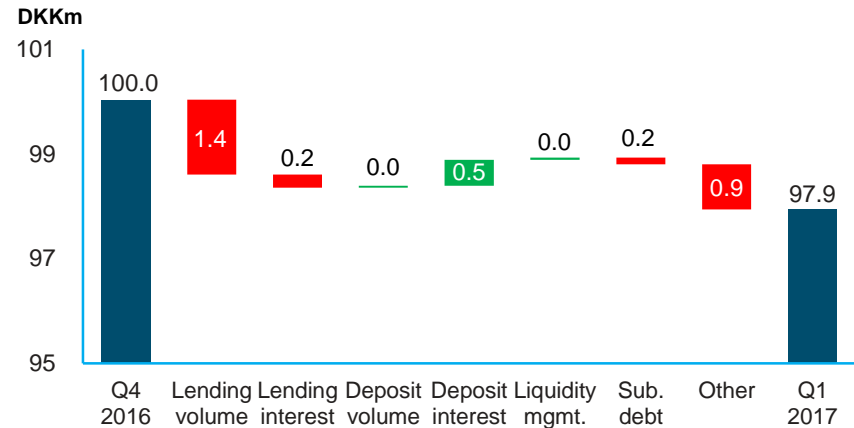
## Comments

- Net interest income (NII) down DKK 2m from Q4 2016 to Q1 2017 and down by DKK 15m from Q1 2016 to Q1 2017
- YoY drop in NII mainly owing to the winding up of corporate activities in Denmark and margin pressure
- QoQ fall in NII mostly due to a drop in average lending volumes during the quarter
- Lending volumes down DKK 802m YoY and up DKK 18m QoQ.

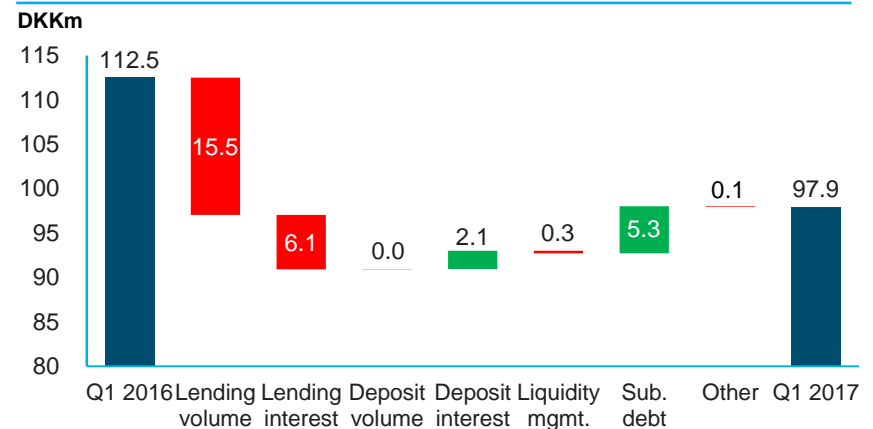
## Loans and deposits



## QoQ changes in NII



## YoY changes in NII

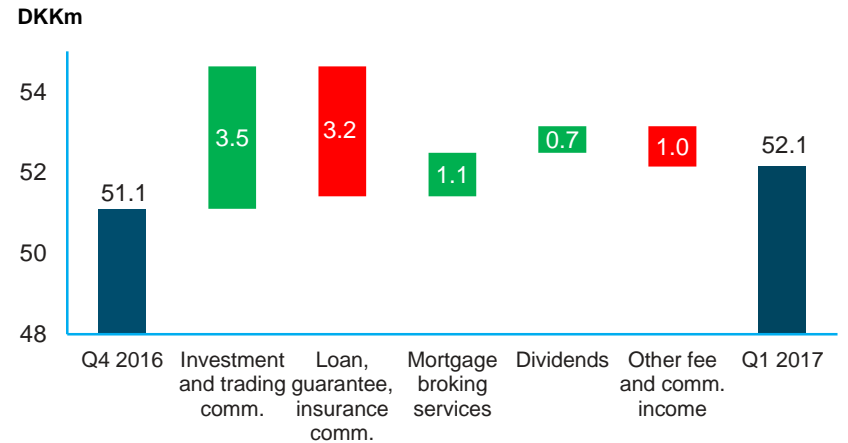


# Fee and commission income up YTD

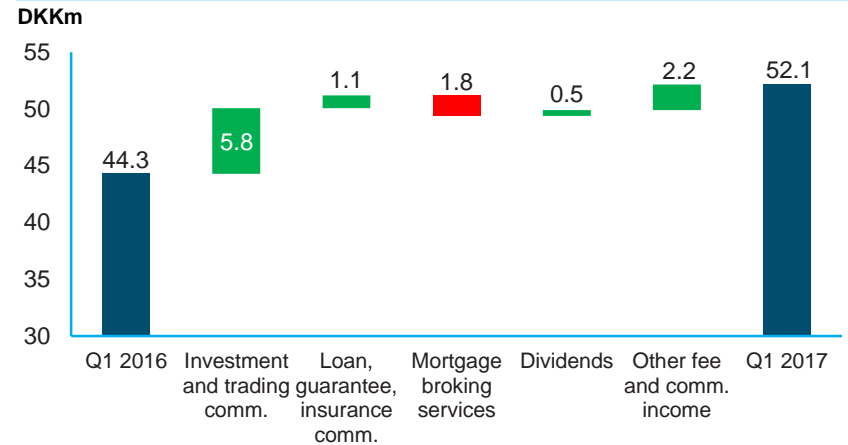
## Comments

- Net fee and commission income up by DKK 1m QoQ:
  - Income from investment management operations increased during Q1 2017
  - Insurance commission decreased due to provision income from NordikLív recognised in Q4 2016
- Net fee and commission income up by DKK 8m YoY:
  - Income from investment management operations up YoY
  - General customer activity increased YoY, while mortgage broking activity was down compared to Q1 2016

## QoQ changes in fee and commission income



## YoY changes in fee and commission income

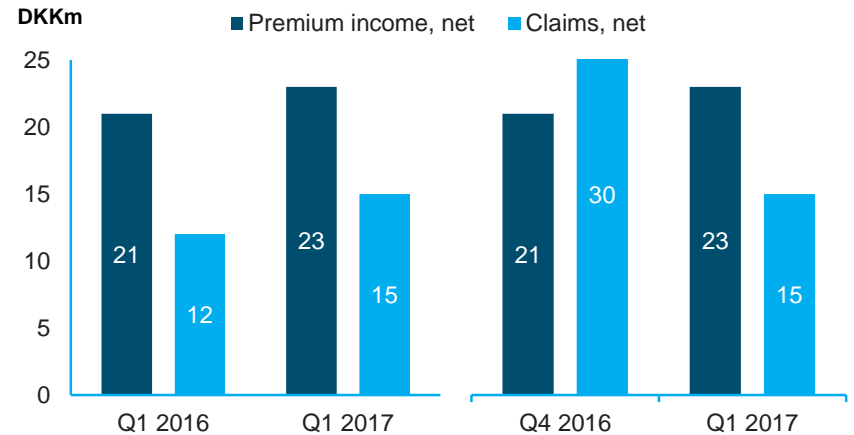


# Trygd: Claims stable in Q1 2017

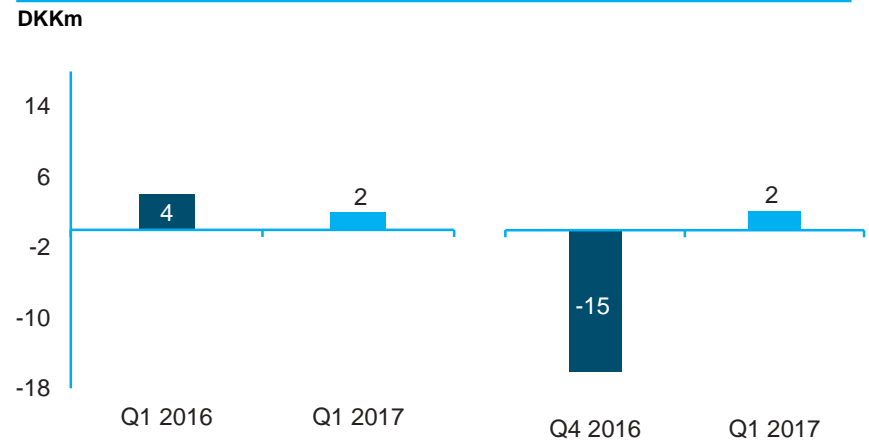
## Comments

- Net premium income up by DKK 2m in Q1 2017 compared to both Q1 2016 and Q4 2016
- Net claims up DKK 3m from Q1 2016 to Q1 2017, but DKK 15m from Q4 2016 to Q1 2017 due to high level of claims in December 2016
- Profit before tax of DKK 2m in Q1 2017 relative to DKK 4m in Q1 2016 and a loss of DKK 15m in Q4 2016
- Trygd expected to continue attracting new customers and growing premium income in 2017

## Premium and claims



## Profit before tax



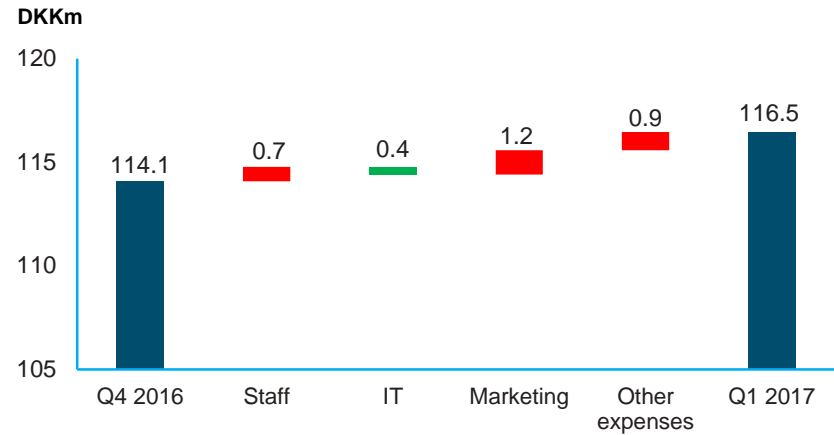


# Operating costs almost flat YoY – up DKK 2m QoQ

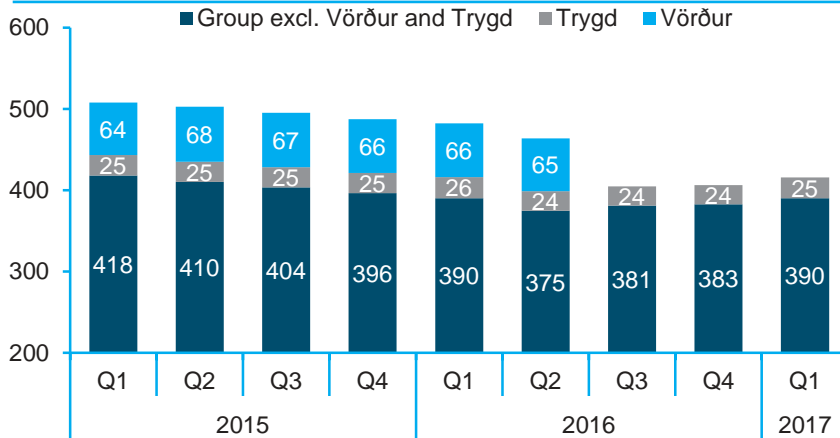
## Comments

- Operating costs were up by DKK 2m from Q4 2016 to Q1 2017 and down by DKK 1m from Q1 2016 to Q1 2017
- Various cost items were up in Q1 2017, leading to higher QoQ expenditures
- YoY costs were down mainly due to the winding-up of corporate activities in Denmark

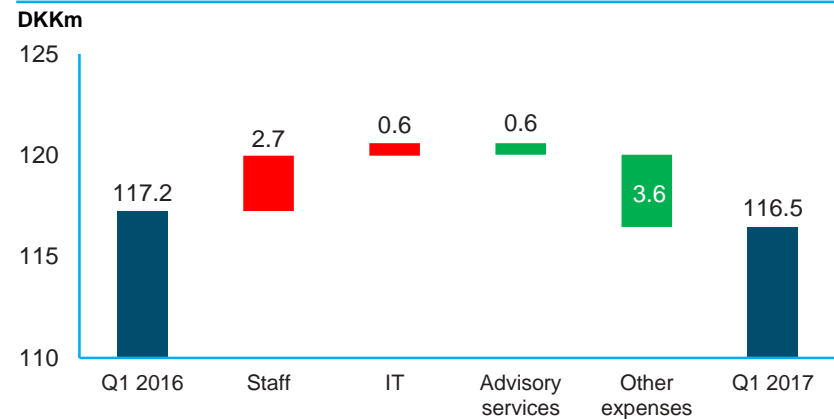
## QoQ changes in operating costs



## Average number of employees (FTE)



## YoY changes in operating costs



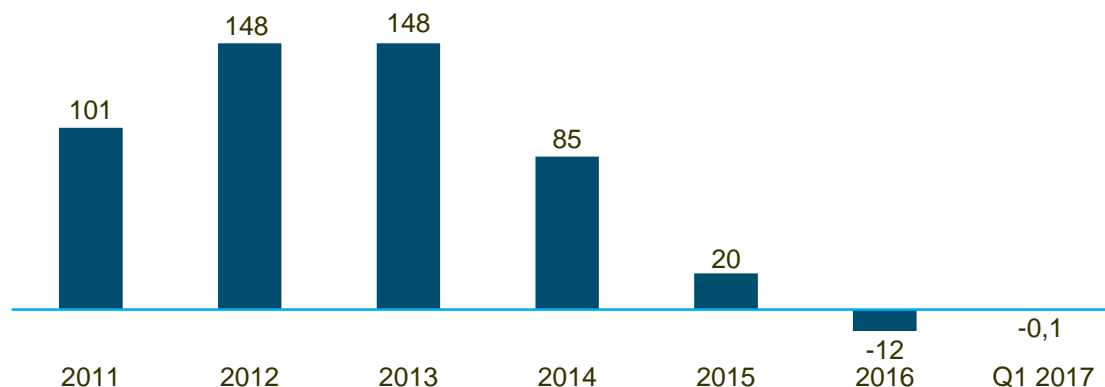
# Low impairment charges

## Conservative portfolio structure

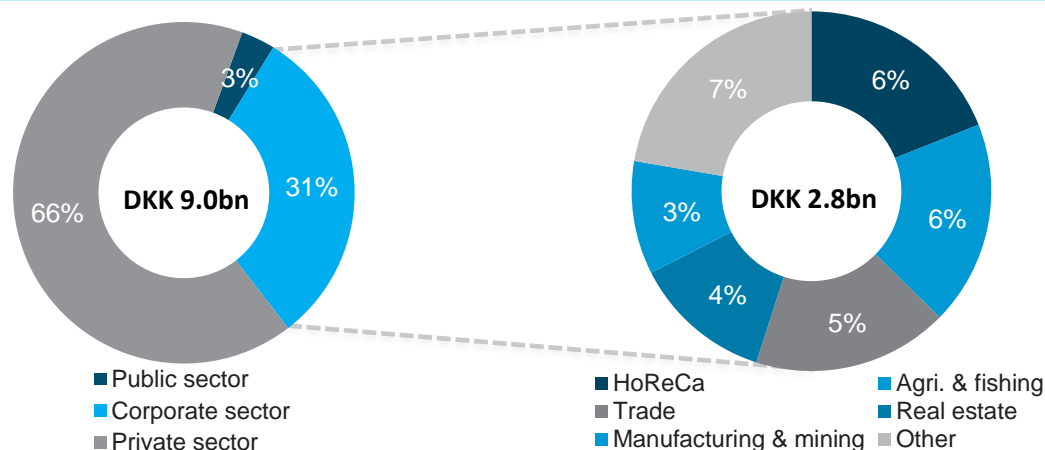
- Net impairment charges were DKK 0m in Q1 2017
- The private sector accounts for 66% of the loan portfolio, excluding the Danish corporate portfolio
- No individual sector accounts for more than 6% of the loan portfolio, excluding the Danish corporate portfolio
- BankNordik provides 1<sup>st</sup> lien mortgage loans to the private sector in the Faroe Islands, obtaining a high degree of security

## Net impairment charges

DKKm



## Loans by sector - excl. Danish corporate sector

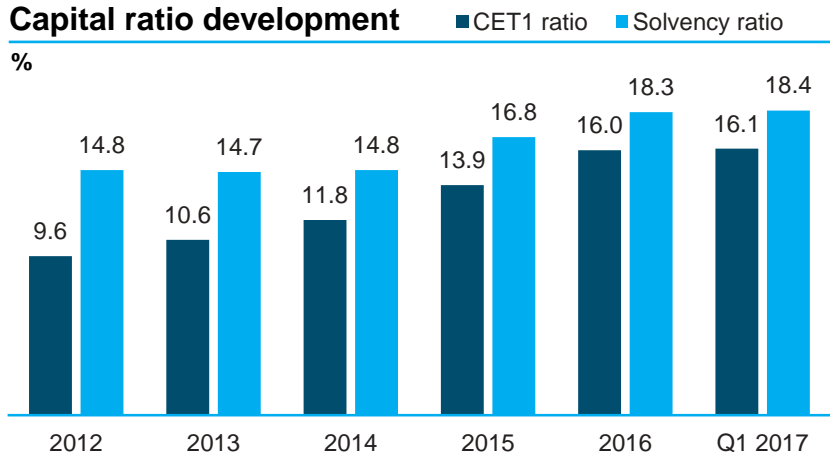


# Slight increase in capital levels YTD

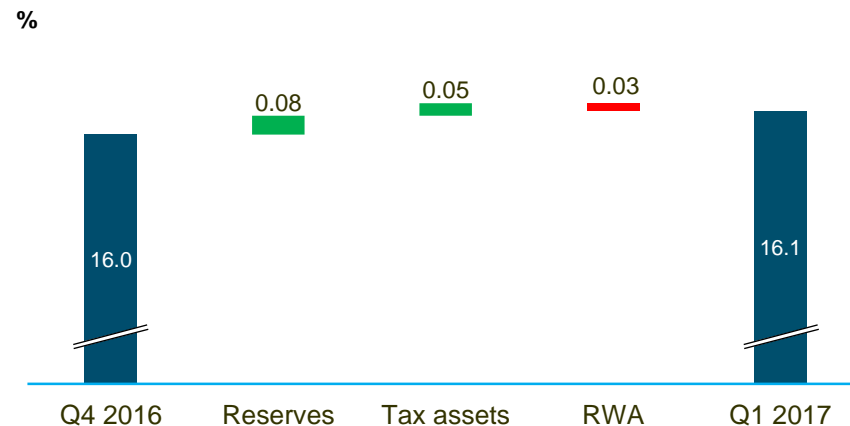
## Comments

- CET1 and solvency ratios both up 0.1 percentage point QoQ
- If net income from Q1 2017 was included, the total capital ratio would be 18.6% as of 31 March 2017
- BankNordik continuously monitors the regulatory environment to anticipate and adapt to the impending MREL capital requirements

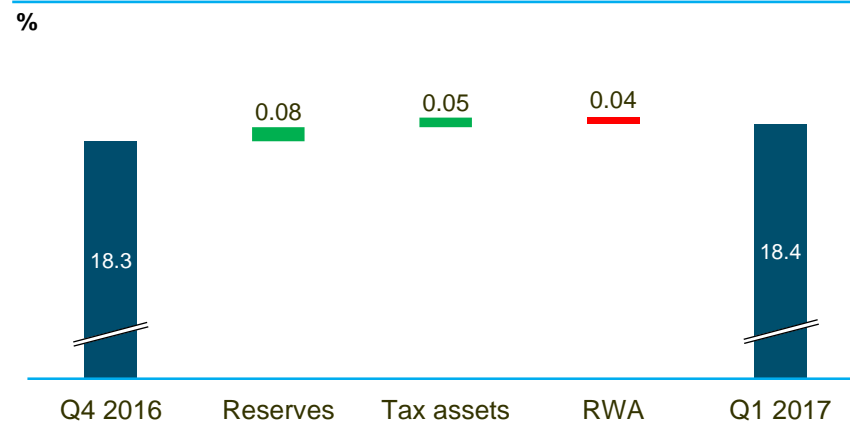
## Capital ratio development



## QoQ changes in CET1 ratio



## QoQ changes in solvency



# Long-term financial objectives

## 2020 financial objectives

Comments	Progress			
<ul style="list-style-type: none"> <li>▪ The Group targets 10% ROE and 62% cost/income by 2020</li> <li>▪ The Group is likely to re-evaluate its capital ratio targets once the requirements relating to MREL become known</li> <li>▪ In Q1 2017, ROE was affected by:               <ul style="list-style-type: none"> <li>- low impairment charges</li> <li>- positive market value adjustments</li> </ul> </li> </ul>	Key metrics	2016	Q1 2017	2020 target
	Return on equity	12.0% (8.1%)*	10.0%**	10%
	Cost/income ratio	72%	73%	62%
	CET1 capital ratio	16.0%	16.1%	13%
	Total capital ratio	18.3%	18.4%	16.5%

\*8.1% ROE excludes capital gains from Vörður

\*\*Annualised figure

# Outlook for 2017

## FY2017 guidance reconfirmed

- Management reconfirms guidance of profit before impairment charges, value adjustments and tax in the range of DKK 150-190m in 2017 (Q1 2017: DKK 43m)
- Net impairment charges on loans for 2017 are expected to be less than DKK 20m (Q1 2017: DKK 0m)



**BANKNORDIK**

# Questions?

*Árni Ellefsen, CEO*

# Appendices

- **Group**
- **Banking**
- **Personal Banking**
- **Corporate Banking**
- **Banking, Faroe Islands**
- **Banking, Denmark**
- **Banking, Greenland**
- **Insurance, Trygd**
- **Credit quality of loan portfolio**

# Group

## Income statement, Group

DKKm	Q1 2017	Q1 2016	Index 17/16	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	98	113	87	100	103	98	113
Net fees, commission income & dividends	52	44	118	51	46	50	44
Net insurance income	9	9		-7	12	12	9
Other operating income (less reclassification)	1	2	67	2	2	3	2
<b>Operating income</b>	<b>160</b>	<b>168</b>	<b>96</b>	<b>146</b>	<b>163</b>	<b>163</b>	<b>168</b>
Operating costs*	-116	-117	99	-114	-113	-115	-117
Sector costs	-1	-1	54	1	-1	-1	-1
<b>Profit before impairment charges</b>	<b>43</b>	<b>49</b>	<b>88</b>	<b>33</b>	<b>49</b>	<b>47</b>	<b>49</b>
Impairment charges	-5	-3	197	-10	4	-10	-3
Reversals of acquired OEI impairments (Reclassified from Other operating income)	5	3	159	15	-1	14	3
Impairment charges, net	0	1		4	4	3	1
<b>Operating profit</b>	<b>43</b>	<b>50</b>	<b>86</b>	<b>38</b>	<b>53</b>	<b>50</b>	<b>50</b>
Impairment charges, intangible assets	0	0		0	0	0	0
Non-recurring items (Reclassified from Staff costs and administrative expences)	0	-12		0	0	0	-12
<b>Profit before value adjustments and tax</b>	<b>43</b>	<b>38</b>	<b>115</b>	<b>38</b>	<b>53</b>	<b>50</b>	<b>38</b>
Market value adjustments**	14	-3		-10	12	9	-3
<b>Profit before tax, continuing operations</b>	<b>57</b>	<b>35</b>	<b>163</b>	<b>28</b>	<b>64</b>	<b>60</b>	<b>35</b>
<b>Profit before tax, discontinued operations (Vörður)</b>	<b>0</b>	<b>-10</b>		<b>0</b>	<b>99</b>	<b>1</b>	<b>-10</b>
<b>Profit before tax, total</b>	<b>57</b>	<b>25</b>	<b>233</b>	<b>28</b>	<b>164</b>	<b>61</b>	<b>25</b>
Operating cost/income, %	73	70		78	69	70	70
Number of FTE, end of period	416	477	87	415	416	464	477

\* Comprises Staff costs and administrative expences and Amortisation, depreciation and impairment charges (less reclassification to non-recurring items)

\*\* Incl. Net income from investments accounted for under the equity method



# Banking

## Income statement, Banking

DKKm	Index						
	Q1 2017	Q1 2016	17/16	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	97	112	87	99	103	97	112
Net fees, commission income & dividends	54	46	118	55	48	52	46
Other operating income	1	1	68	1	1	2	1
<b>Operating income</b>	<b>152</b>	<b>159</b>	<b>96</b>	<b>155</b>	<b>151</b>	<b>151</b>	<b>159</b>
Operating cost	-112	-113	99	-108	-108	-110	-113
Sector costs	-1	-1	54	1	-1	-1	-1
<b>Profit before impairment charges</b>	<b>40</b>	<b>45</b>	<b>89</b>	<b>49</b>	<b>42</b>	<b>40</b>	<b>45</b>
Impairment charges, net	0	1		4	4	3	1
<b>Operating profit</b>	<b>40</b>	<b>45</b>	<b>87</b>	<b>53</b>	<b>46</b>	<b>43</b>	<b>45</b>
Impairment charges, intangible assets	0	0		0	0	0	0
Non-recurring items	0	-12		0	0	0	-12
<b>Profit before value adjustments and tax</b>	<b>40</b>	<b>33</b>	<b>120</b>	<b>53</b>	<b>46</b>	<b>43</b>	<b>33</b>
Market value adjustments	14	-3		-9	12	12	-3
<b>Profit before tax</b>	<b>54</b>	<b>30</b>	<b>177</b>	<b>44</b>	<b>58</b>	<b>55</b>	<b>30</b>
Loans and advances	9.159	9.961	92	9.141	9.372	9.395	9.961
Deposits and other debt	12.696	12.589	101	12.691	12.829	13.006	12.589
Operating cost/income, %	74	71		69	71	73	71
Number of FTE, end of period	384	381	101	385	386	370	381

# Personal Banking

## Income statement, Personal banking

DKKm	Q1 2017	Q1 2016	Index 17/16	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	64	70	92	67	70	68	70
Net fees, commission income & dividends	43	37	116	51	44	38	37
Other operating income	0	0		1	1	0	0
<b>Operating income</b>	<b>108</b>	<b>108</b>	<b>100</b>	<b>119</b>	<b>115</b>	<b>107</b>	<b>108</b>
Operating cost	-45	-38	118	-45	-42	-45	-38
Sector costs	0	-1	55	1	-1	-1	-1
<b>Profit before impairment charges</b>	<b>63</b>	<b>69</b>	<b>91</b>	<b>75</b>	<b>72</b>	<b>61</b>	<b>69</b>
Impairment charges, net	3	1		-2	8	12	1
<b>Operating profit</b>	<b>66</b>	<b>70</b>	<b>94</b>	<b>73</b>	<b>80</b>	<b>73</b>	<b>70</b>
Impairment charges, intangible assets	0	0		0	0	0	0
Non-recurring items	0	-2		0	0	0	-2
<b>Profit before value adjustments and tax</b>	<b>66</b>	<b>68</b>	<b>96</b>	<b>73</b>	<b>80</b>	<b>73</b>	<b>68</b>
Market value adjustments	0	0		0	0	0	0
<b>Profit before tax</b>	<b>66</b>	<b>68</b>	<b>96</b>	<b>73</b>	<b>80</b>	<b>73</b>	<b>68</b>
Loans and advances	6.017	5.766	104	5.960	5.852	5.716	5.766
Deposits and other debt	9.530	9.382	102	9.538	9.722	9.742	9.382
Operating cost/income, %	41	35		38	34	44	36
Number of FTE, end of period	211	196	108	215	207	203	196

# Corporate Banking

## Income statement, Corporate Banking

DKK <sup>m</sup>	Q1 2017	Q1 2016	Index 17/16	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	31	45	70	32	34	36	45
Net fees, commission income & dividends	4	4	101	5	4	4	4
Other operating income	0	0		0	0	0	0
<b>Operating income</b>	<b>36</b>	<b>49</b>	<b>72</b>	<b>38</b>	<b>38</b>	<b>40</b>	<b>49</b>
Operating cost	-3	-6	50	-4	-3	-4	-6
Sector costs	0	0	53	0	0	0	0
<b>Profit before impairment charges</b>	<b>32</b>	<b>42</b>	<b>76</b>	<b>34</b>	<b>35</b>	<b>36</b>	<b>42</b>
Impairment charges, net	-3	1		6	-2	-11	1
<b>Operating profit</b>	<b>29</b>	<b>43</b>	<b>67</b>	<b>40</b>	<b>32</b>	<b>24</b>	<b>43</b>
Impairment charges, intangible assets	0	0		0	0	0	0
Non-recurring items	0	0		0	0	0	0
<b>Profit before value adjustments and tax</b>	<b>29</b>	<b>43</b>	<b>67</b>	<b>40</b>	<b>32</b>	<b>24</b>	<b>43</b>
Market value adjustments	0	0		0	0	0	0
<b>Profit before tax</b>	<b>29</b>	<b>43</b>	<b>67</b>	<b>40</b>	<b>32</b>	<b>24</b>	<b>43</b>
Loans and advances	3.142	4.195	75	3.181	3.520	3.678	4.195
Deposits and other debt	3.166	3.207	99	3.153	3.107	3.264	3.207
Operating cost/income, %	9	13		10	8	10	13
Number of FTE, end of period	17	21	81	17	18	22	21

# Banking, Faroe Islands

## Income statement, Faroe Islands

DKK <sup>m</sup>	Q1 2017	Q1 2016	Index 17/16	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	53	55	97	51	53	47	55
Net fees, commission income & dividends	14	12	112	16	13	17	12
Other operating income	0	1	28	0	0	1	1
<b>Total Operating income</b>	<b>67</b>	<b>68</b>	<b>99</b>	<b>67</b>	<b>67</b>	<b>64</b>	<b>68</b>
Operating cost	-43	-44	99	-42	-42	-43	-44
Sector costs	0	0	57	0	0	0	0
<b>Profit before impairment charges</b>	<b>24</b>	<b>24</b>	<b>100</b>	<b>26</b>	<b>24</b>	<b>21</b>	<b>24</b>
Impairment charges, net	-11	5		-14	1	-7	5
<b>Operating profit</b>	<b>13</b>	<b>29</b>	<b>44</b>	<b>12</b>	<b>26</b>	<b>14</b>	<b>29</b>
Non-recurring items	0	0		-84	84	0	0
<b>Profit before value adjustments and tax</b>	<b>13</b>	<b>29</b>	<b>44</b>	<b>-73</b>	<b>110</b>	<b>14</b>	<b>29</b>
Market value adjustments	14	-3		-9	12	12	-3
<b>Profit before tax</b>	<b>27</b>	<b>27</b>	<b>103</b>	<b>-82</b>	<b>121</b>	<b>26</b>	<b>27</b>
Loans and advances	5.811	5.810	100	5.645	5.828	5.843	5.810
Deposits and other debt	6.271	5.810	108	6.156	6.178	6.179	5.810
Operating cost/income, %	64	64		63	63	67	64
Number of FTE, end of period	182	169	108	182	178	171	169

# Banking, Denmark

## Income statement, Denmark

DKKmn	Q1 2017	Q1 2016	Index 17/16	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	34	49	69	38	40	41	49
Net fees, commission income & dividends	38	32	120	36	33	33	32
Other operating income	0	0		0	0	1	0
<b>Total Operating income</b>	<b>72</b>	<b>80</b>	<b>89</b>	<b>74</b>	<b>73</b>	<b>75</b>	<b>80</b>
Operating cost	-61	-64	96	-60	-60	-60	-64
Sector costs	0	-1		1	-1	-1	-1
<b>Profit before impairment charges</b>	<b>10</b>	<b>16</b>	<b>62</b>	<b>15</b>	<b>13</b>	<b>14</b>	<b>16</b>
Impairment charges, net	10	-5		19	3	10	-5
<b>Operating profit</b>	<b>20</b>	<b>11</b>	<b>180</b>	<b>34</b>	<b>16</b>	<b>24</b>	<b>11</b>
Impairment charges, intangible assets	0	0		0	0	0	0
Non-recurring items	0	-12		0	0	0	-12
<b>Profit before value adjustments and tax</b>	<b>20</b>	<b>-1</b>		<b>34</b>	<b>16</b>	<b>24</b>	<b>-1</b>
Market value adjustments	0	0		0	0	0	0
<b>Profit before tax</b>	<b>20</b>	<b>-1</b>		<b>34</b>	<b>16</b>	<b>24</b>	<b>-1</b>
Loans and advances	2.659	3.422	78	2.652	2.734	2.886	3.422
Deposits and other debt	5.598	6.197	90	5.693	5.946	6.195	6.197
Operating cost/income, %	86	79		81	82	80	79
Number of FTE, end of period	186	196	95	186	191	182	196

# Banking, Greenland

## Income statement, Greenland

DKKm	Q1 2017	Q1 2016	Index 17/16	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	10	9	121	11	10	9	9
Net fees, commission income & dividends	3	2	124	3	2	2	2
Other operating income	0	0		1	0	0	0
<b>Total Operating income</b>	<b>13</b>	<b>11</b>	<b>120</b>	<b>15</b>	<b>12</b>	<b>12</b>	<b>11</b>
Operating cost	-7	-6	123	-6	-6	-7	-6
Sector costs	0	0	55	0	0	0	0
<b>Profit before impairment charges</b>	<b>6</b>	<b>5</b>	<b>118</b>	<b>8</b>	<b>5</b>	<b>5</b>	<b>5</b>
Impairment charges, net	1	0		-1	-1	0	0
<b>Operating profit</b>	<b>7</b>	<b>5</b>	<b>135</b>	<b>8</b>	<b>4</b>	<b>4</b>	<b>5</b>
Impairment charges, intangible assets	0	0		0	0	0	0
Non-recurring items	0	0		0	0	0	0
<b>Profit before value adjustments and tax</b>	<b>7</b>	<b>5</b>	<b>135</b>	<b>8</b>	<b>4</b>	<b>4</b>	<b>5</b>
Market value adjustments	0	0		0	0	0	0
<b>Profit before tax</b>	<b>7</b>	<b>5</b>	<b>135</b>	<b>8</b>	<b>4</b>	<b>4</b>	<b>5</b>
Loans and advances	690	729	95	844	810	666	729
Deposits and other debt	827	582	142	842	705	632	582
Operating cost/income, %	54	53		44	53	59	53
Number of FTE, end of period	17	16	106	17	17	16	16

# Insurance, Trygd

## Income statement, Trygd

DKKm	Index						
	Q1 2017	Q1 2016	17/16	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Premium income, net of reinsurance	23	21	109	21	22	21	21
Claims, net of reinsurance	-15	-12	128	-30	-12	-10	-12
<b>Net insurance income</b>	<b>7</b>	<b>9</b>	<b>82</b>	<b>-8</b>	<b>9</b>	<b>12</b>	<b>9</b>
Net income from investment activities	0	0		0	0	1	0
<b>Operating income</b>	<b>8</b>	<b>9</b>	<b>82</b>	<b>-8</b>	<b>9</b>	<b>12</b>	<b>9</b>
Operating cost	-5	-5	102	-6	-6	-5	-5
<b>Profit before tax</b>	<b>2</b>	<b>4</b>	<b>57</b>	<b>-15</b>	<b>4</b>	<b>7</b>	<b>4</b>
Combined ratio	90	81		168	77	64	75
Claims ratio	68	57		139	57	46	57
Number of FTE, end of period	26	25	104	24	24	23	25

# Credit quality of the loan portfolio

Credit classification according to the Danish FSA's method

	Q4 2016			Q1 2017			Change
	<7.5 DKKm	>7.5 DKKm	Total	<7.5 DKKm	>7.5 DKKm	Total	
Portfolio without weakness	3.790	2.432	6.222	3.840	2.549	6.390	168
Portfolio with some weakness	5.436	1.120	6.556	5.197	1.190	6.387	-169
Portfolio with weakness	391	89	480	342	100	442	-37
- here of unsecured	151	22	173	138	9	148	-25
Portfolio with OIE	928	674	1.602	848	681	1.528	-74
- here of unsecured	563	358	921	512	393	905	-16
- impairments	383	243	626	351	217	567	-59
Portfolio without individ. classification	143	0	143	115	0	115	-28
<b>Total</b>	<b>10.687</b>	<b>4.315</b>	<b>15.003</b>	<b>10.343</b>	<b>4.520</b>	<b>14.863</b>	<b>-140</b>