

Strong financial results in 2018

Investor presentation

28 February 2019

Árni Ellefsen, CEO

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Overview

- **Highlights**
- **Financials**
 - Operating income
 - Insurance
 - Business volumes
 - Expenditures
 - Impairment charges
 - Capital ratios
- **Cross-country profitability comparison**
- **Long-term financial objectives**
- **Outlook 2019**
- **Appendices**



Highlights in 2018

— Building a customer-centric financial institution

2018 highlights

- New website launched in April as first step in redesigning entire user interface
- Largest online marketing campaign to date launched in Denmark in October on limiting the use of banking jargon
- Reached out to over 10,000 customers in the peripheral customer base since August to strengthen personal relationships
- Sale and leaseback of the Group's head office produced a gain of DKK 70m
- IFRS 9 accounting policies triggered a net of tax impairment charge of DKK 53m recognised directly in shareholders' equity

Financial highlights

- Operating profit amounted to DKK 289m, up 17% compared to 2017 (246m)
- Operating income down 2% YoY to DKK 635m and operating costs down 1% YoY to DKK 456m
- Net impairment charges on loans were a reversal of DKK 111m and non-recurring items amounted to an income of DKK 72m
- Profit before tax increased to DKK 323m (DKK 235m in 2017)
- Lending volumes up by 4% to DKK 10.0bn (DKK 9.5bn in 2017)
- CET1 capital ratio of 17.7% and total capital ratio of 19.8% at 31 December 2018

2018 financial results

— Figures in DKKm

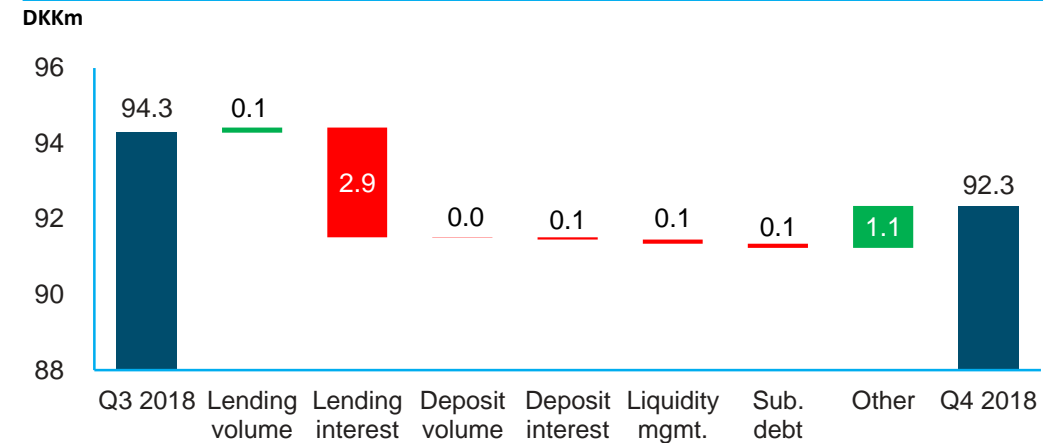
	2018	2017	Index	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	
Profit & loss	Net interest income	374	387	97	92	94	93	94	95
	Net fee and commission income	172	190	90	42	43	43	44	47
	Net insurance income	44	43	101	13	13	6	12	12
	Other operating income	45	28	165	9	10	15	12	8
	Operating income	635	649	98	156	160	157	162	162
	Operating costs	-456	-462	99	-115	-111	-116	-115	-112
	Sector costs	-1	0		0	0	0	0	2
	Profit before impairment charges	179	187	96	42	49	42	47	52
	Net impairment charges on loans	111	60	185	18	39	23	31	51
	Operating profit	289	246	117	60	88	65	77	103
	Non-recurring items	72	-18		-10	-6	12	76	-1
	Market value adjustments	-38	6		-12	-3	-17	-6	-10
Profit before tax	323	235	138	38	78	59	148	92	
Key metrics	Loans and advances	10.0	9.5	104	10.0	10.0	9.7	9.6	9.5
	Deposits and other debt	13.4	12.6	106	13.4	13.2	13.1	13.1	12.6
	Operating cost / income, %	72	71		73	69	73	71	69
	Total capital ratio, %	19.8	19.7		19.8	17.6	18.5	18.9	19.7
	CET1 capital ratio, %	17.7	17.5		17.7	15.5	16.3	16.7	17.5

Margin compression causing a drag on net interest income

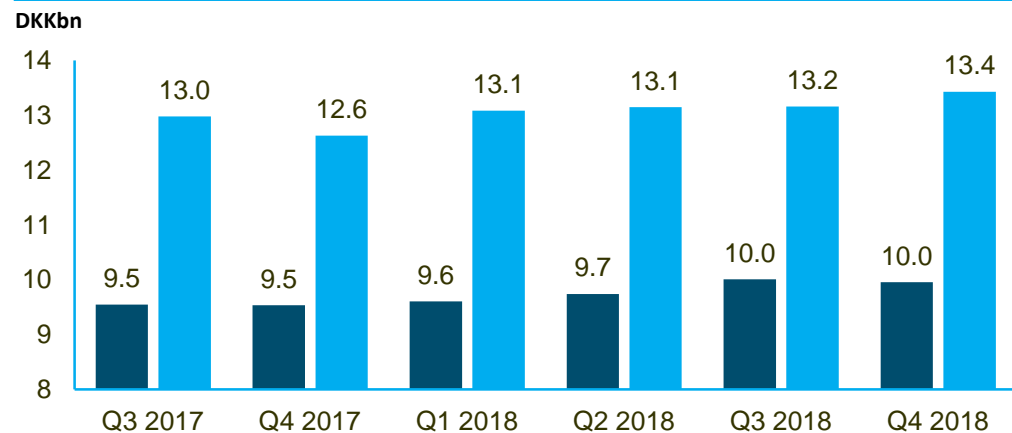
Comments

- Net interest income down DKK 2m QoQ and down DKK 13m YoY due to margin pressure
- Lending volumes down DKK 52m QoQ and up DKK 419m YoY
- The Group's 4% increase in YoY lending did not fully offset the drag on net interest income due to margin pressure

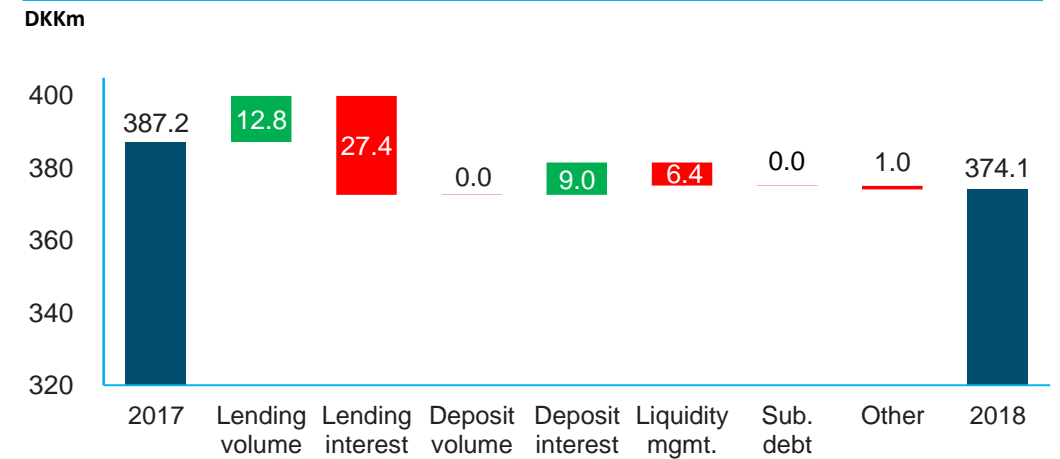
QoQ changes in net interest income



Loans and deposits



YoY changes in net interest income

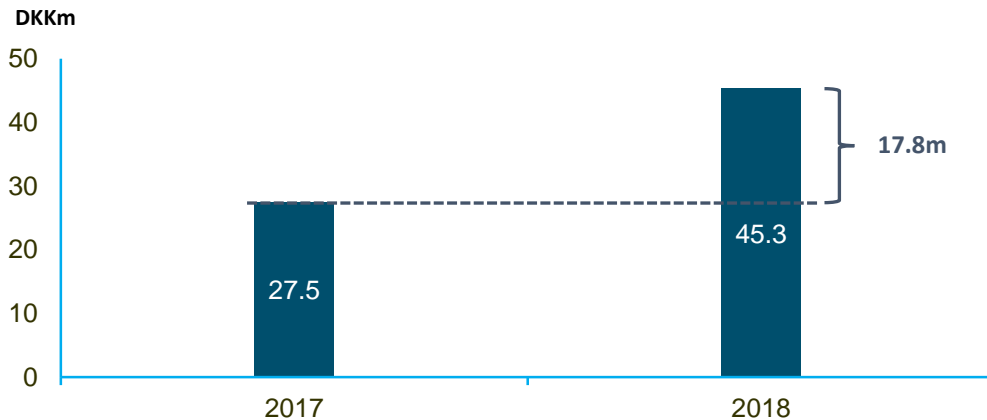


Fee and commission income impacted by MiFID II

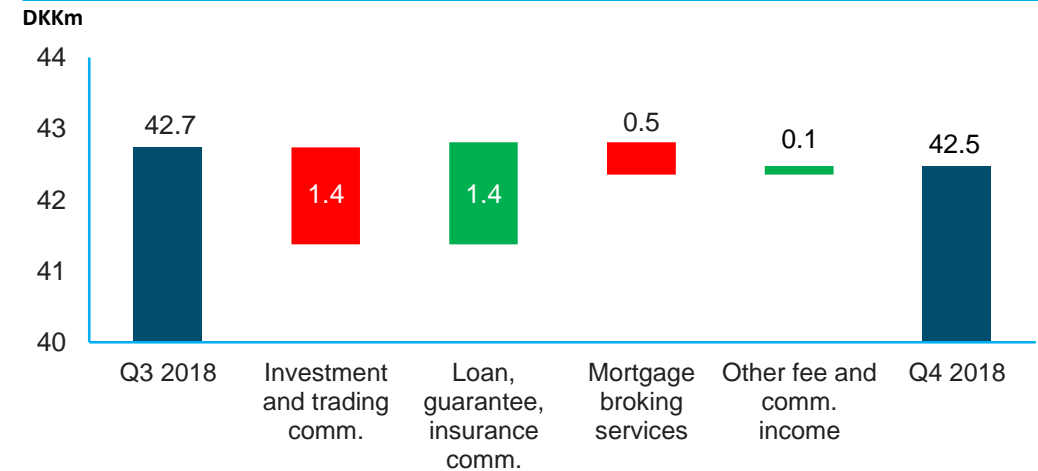
Comments

- Net fee and commission income flat QoQ and down DKK 18m YoY
- YoY drop in fee and commission income offset by an increase in other operating income
- Fee and commission income down by DKK 18m in 2018, mainly due to the implementation of MiFID II
- The fall in fee income was nearly offset by an increase in other operating income of DKK 18m

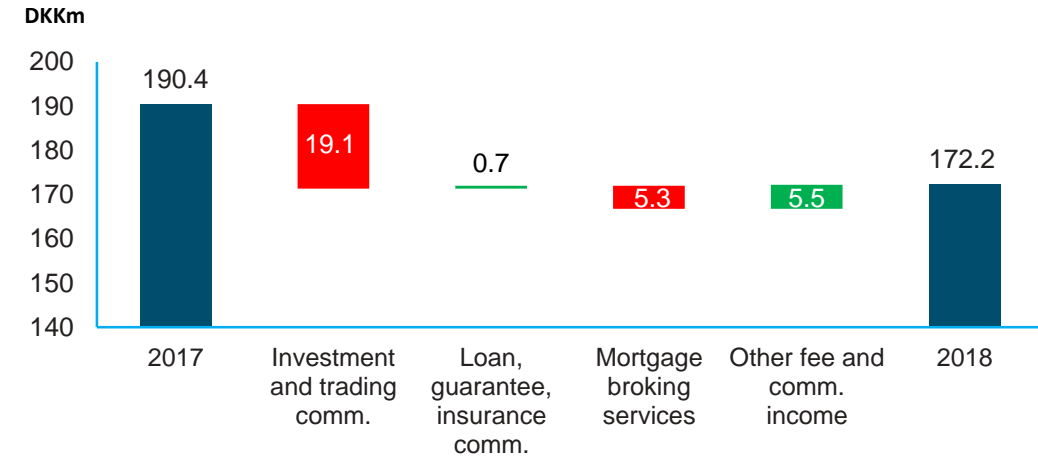
Other operating income



QoQ changes in fee and commission income



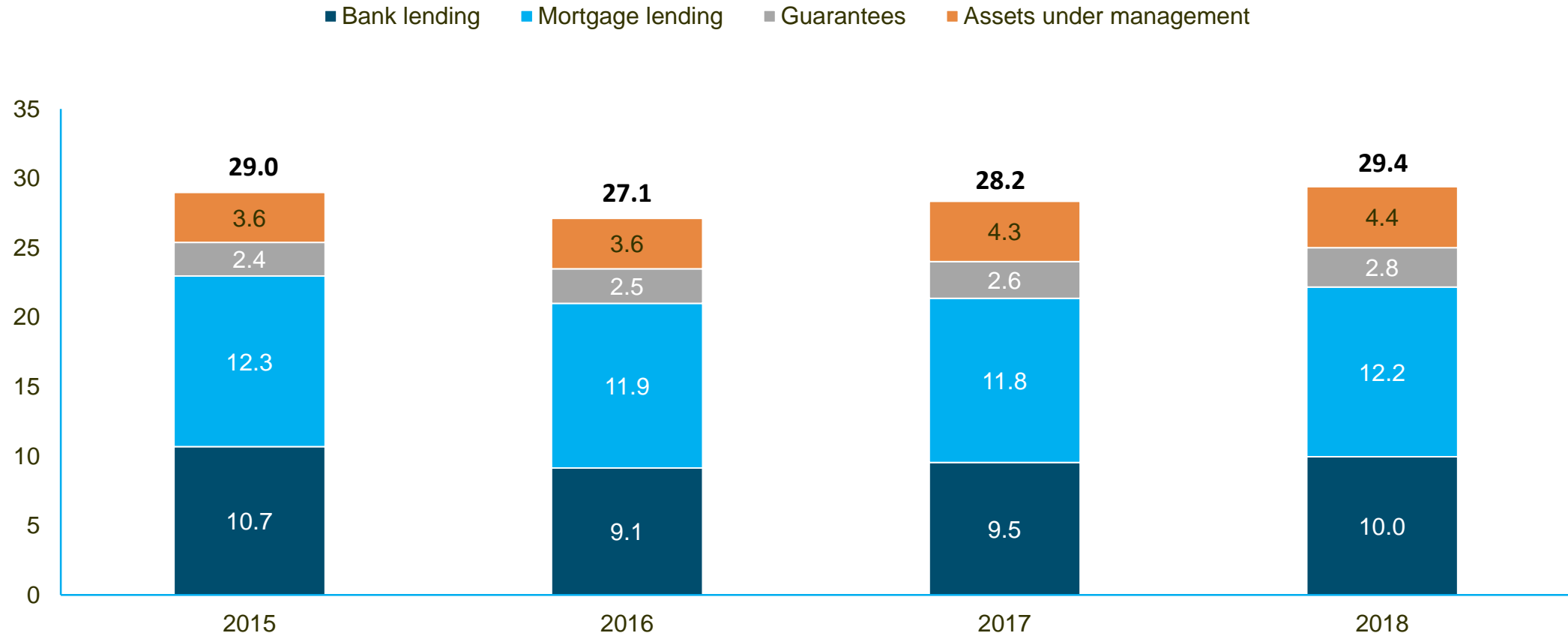
YoY changes in fee and commission income



Development in business volumes

Business volumes as measured by the sum of lending, guarantees and AUM

DKKbn

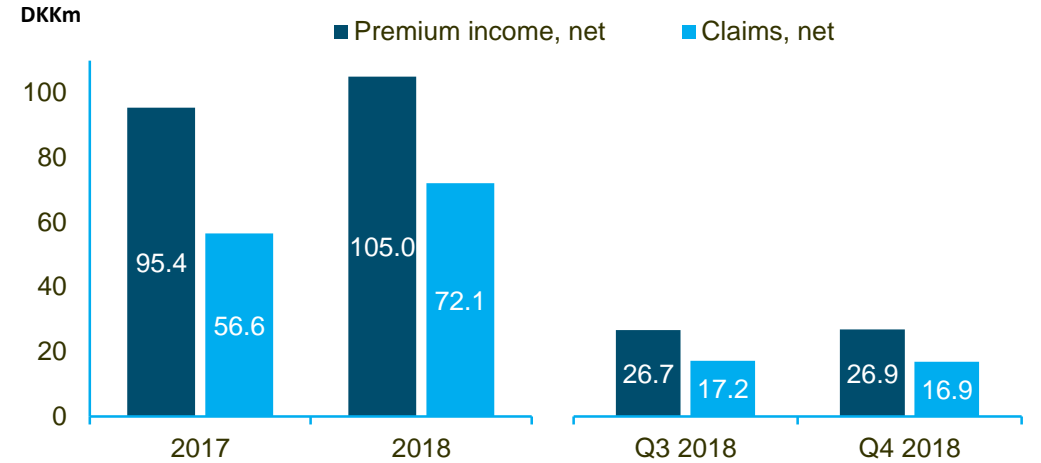


Trygd's growth trajectory continued

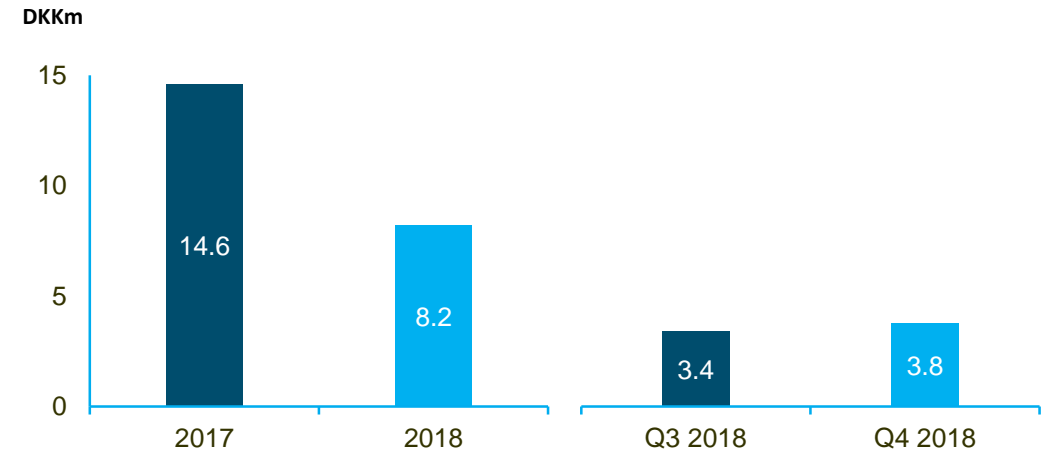
Comments

- Combined ratio of 91% in 2018 compared to 84% in 2017
- Net premium income up by DKK 10m YoY and up by DKK 0.2m QoQ
- Net claims up by DKK 15m YoY and down by DKK 0.3m QoQ in
- Profit before tax of DKK 8m in 2018 relative to DKK 15m PBT in 2017 and DKK 4m PBT in Q4 2018 relative to DKK 3m in Q3 2018
- Trygd expects to continue attracting new customers and growing premium income in 2019

Premium and claims



Profit before tax

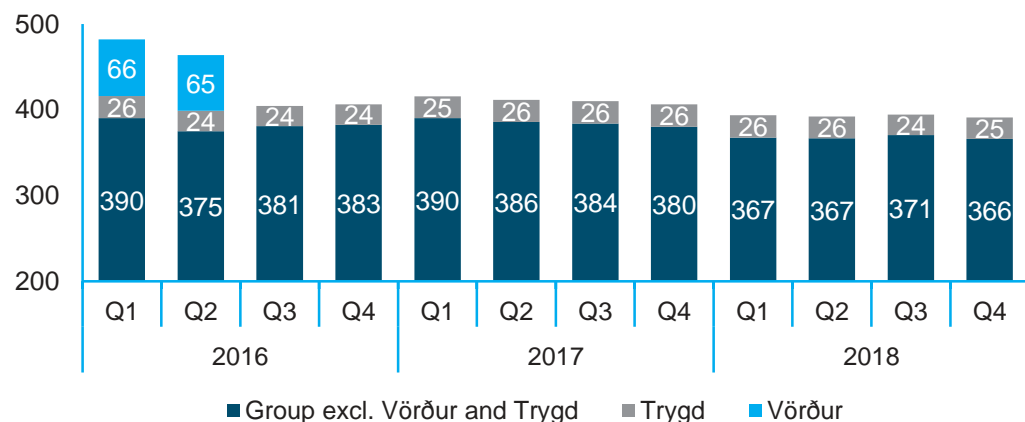


Rigid cost discipline in 2018

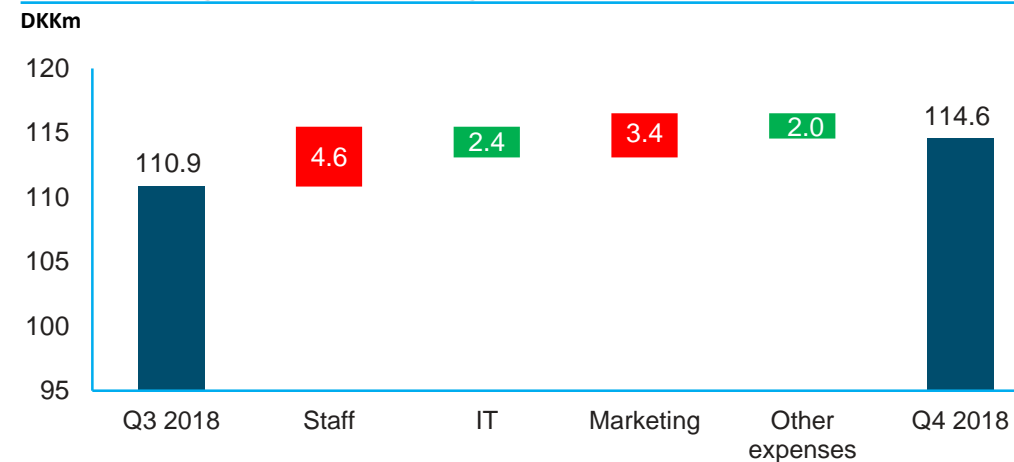
Comments

- Operating costs up DKK 4m QoQ and down by DKK 6m YoY
- Increase in staff costs QoQ related to restructuring of investment management activities
- Rigid cost discipline and efficiency enhancing initiatives contributed to reducing costs YoY
- BankNordik is in line with its target of keeping costs flat in the period from 2016-2020.
- As such, BankNordik targets zero expenditure growth in 2019

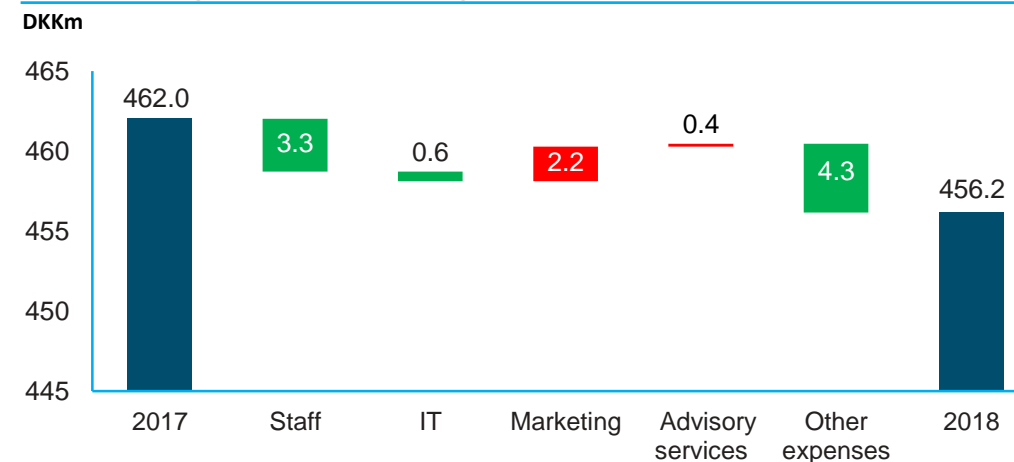
Average number of employees (FTE)



QoQ changes in operating costs



YoY changes in operating costs

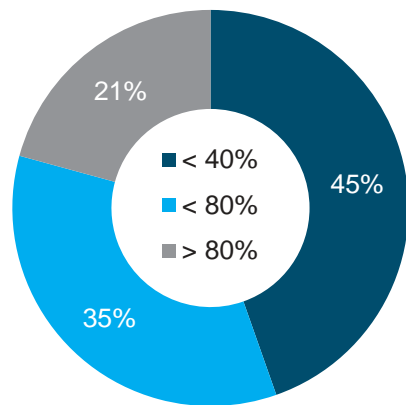


Low-risk loan portfolio and reversal of impairment charges

Comments

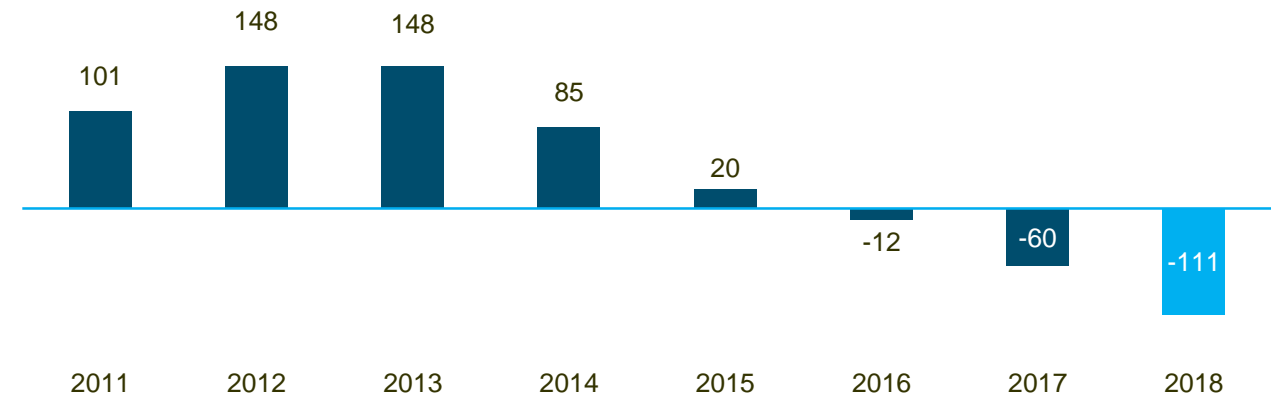
- Net impairment charges were a reversal of DKK 111m in 2018
- No individual sector accounting for more than 5% of the loan portfolio
- Two thirds of the loan portfolio allocated to personal lending
- Strong loan-to-value for housing loans

LTV for housing loans¹



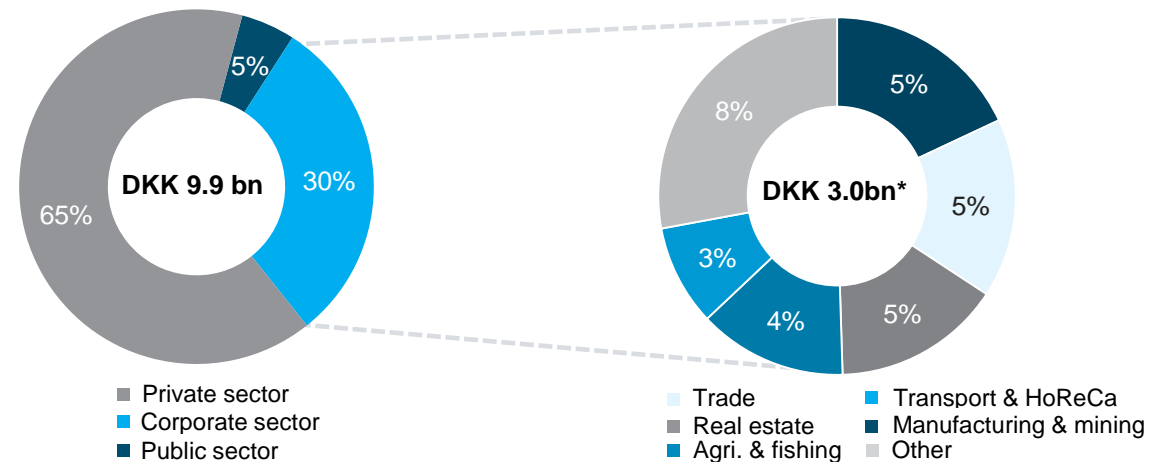
Net impairment charges

DKKm



Loans by sector²

DKKm

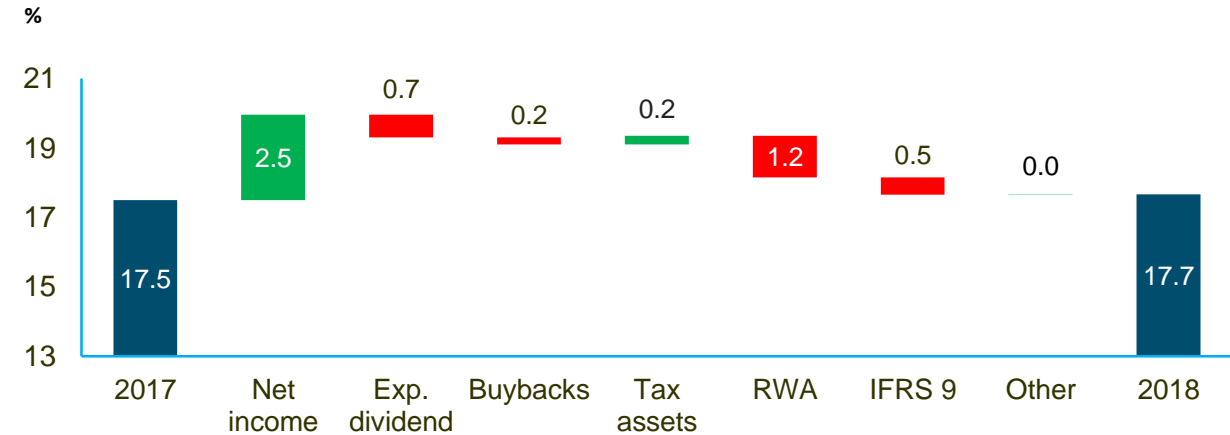


Capital position strengthened in spite of IFRS 9 impairment and growth in RWA

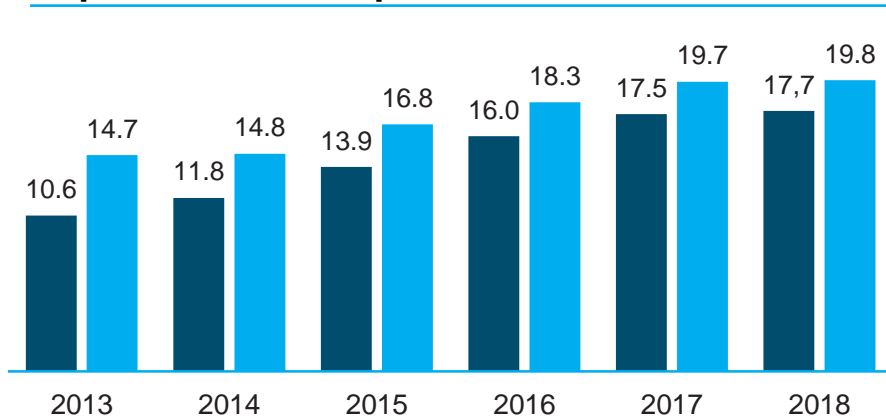
Comments

- CET1 up by DKK 0.2 pp and total capital ratio up by 0.1 pp, both YoY
- The impairment charge triggered by the new IFRS 9 accounting policies had a 0.5 percentage point negative effect on capital ratios
- RWA increased by 7% in 2018

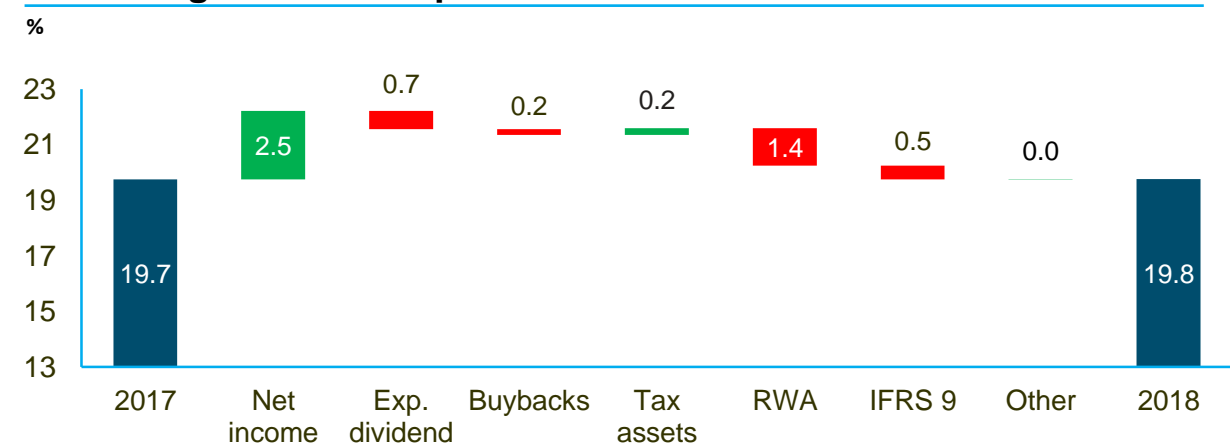
YoY changes in CET1 ratio



Capital ratio development



YoY changes in total capital ratio

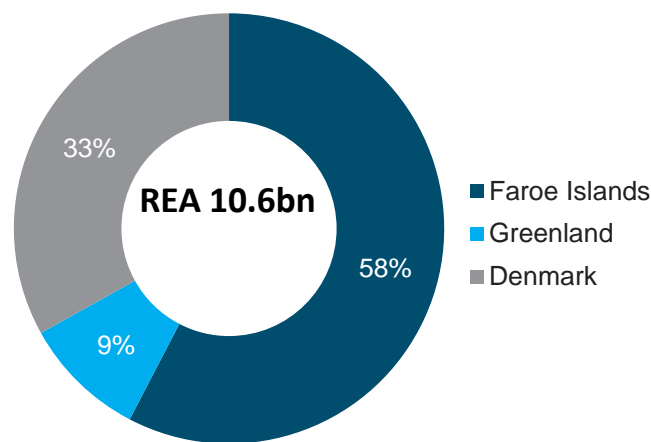


Cross-country comparison of return on equity

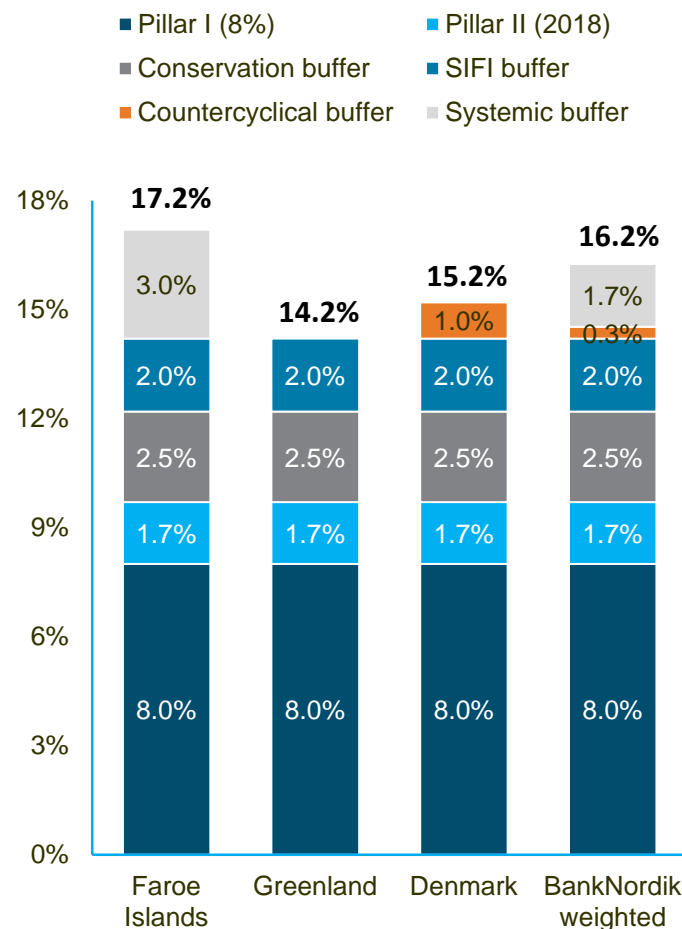
Comments

- Cross-country comparison of profitability is complicated due to differing capital requirements
- Adjusting for differences in the fully phased-in capital requirements provides a clearer picture
- Note: net profit in 2018 is affected by large reversals of impairment charges

REA by country



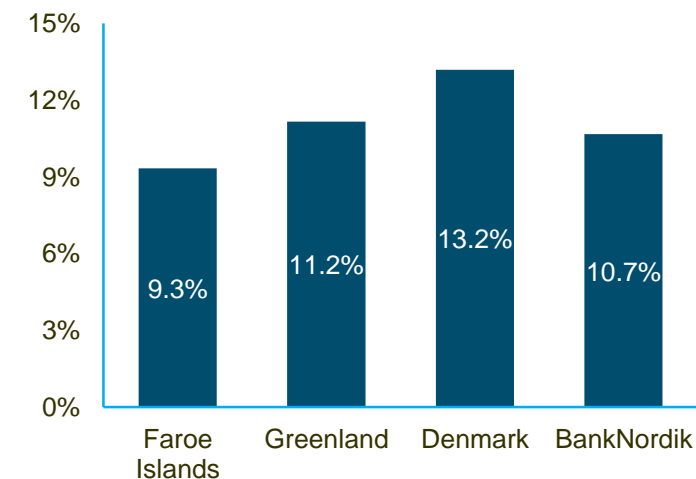
Fully phased-in capital requirements



Weighted equity per country¹

2018	FO	GL	DK	Total
Weighted avg. equity	1,163	154	589	1,903
Net profit	176.2	17.2	68.7	262.1
One-offs, net of tax	67.9	0	-8.9	57.4
Net profit (cont.)	109.9	17.2	77.6	204.7
ROE	15.2%	11.2%	11.7%	13.8%
ROE (cont.)	9.3%	11.2%	13.2%	10.7%

ROE (cont.) per country²



Long-term financial objectives

By 2020, the Group targets:

- 10% ROE
- 65% cost/income ratio
- 17% CET1 ratio
- 20% total capital ratio

In 2018, ROE was affected by:

- a substantial reversal of impairment charges
- a gain on the Group's head office property
- a revaluation gain on BI Holding A/S

	2017	2018	2020 target
Return on equity	10.1%	13.8%*	10%
Cost/income ratio	73%	72%	65%
CET 1 ratio	17.5%	17.7%	17%
Total capital ratio	19.7%	19.8%	20%

Outlook for 2019

Operating profit before impairment charges

- Guidance of DKK 160-200m (2018: DKK 179m)

Net profit

- Guidance of DKK 100-150m (2018: DKK 262m)



Questions?

Árni Ellefsen, CEO

Appendices

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

Group

Income statement, Group

DKKm	2018	2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	374	387	92	94	93	94	95	97	97	98
Net fee and commission income	172	190	42	43	43	44	47	39	53	51
Net insurance income	44	43	13	13	6	12	12	13	9	9
Other operating income (less reclassification)	45	28	9	10	15	12	8	7	7	5
Operating income	635	649	156	160	157	162	162	156	166	164
Operating costs*	-456	-462	-115	-111	-116	-115	-112	-114	-120	-116
Sector costs	-1	0	0	0	0	0	2	-1	-1	-1
Profit before impairment charges	179	187	42	49	42	47	52	42	46	47
Impairment charges	111	35	18	46	19	28	39	0	2	-5
Reversals of acquired OEI impairments (Reclassified from Other operating income)	0	25	0	-7	4	3	12	4	3	5
Impairment charges, net	111	60	18	39	23	31	51	4	5	0
Operating profit	289	246	60	88	65	77	103	46	51	47
Non-recurring items**	72	-18	-10	-6	12	76	-1	-17	0	0
Profit before value adjustments and tax	361	228	50	81	76	154	101	29	51	47
Market value adjustments***	-38	6	-12	-3	-17	-6	-10	1	4	11
Profit before tax	323	235	38	78	59	148	92	30	55	57
Operating cost/income, %	72	71	73	69	73	71	69	73	72	71
Number of FTE, end of period	393	400	393	385	390	387	400	407	407	416

* Comprises staff costs, administrative expenses and amortisation, depreciation and impairment charges (less reclassification to non-recurring items).

** Reclassified from Other operating income, Staff costs and administrative expenses and from Amortisation, depreciation and impairment charges.

*** Incl. net income from investments accounted for under the equity method (excl. sector shares).

Banking

Income statement, Banking

DKKm	2018	2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	373	386	92	94	93	94	95	97	96	97
Net fee and commission income	182	199	45	45	45	46	49	41	55	54
Other operating income	39	23	8	8	13	10	7	6	6	5
Operating income	594	608	145	147	152	150	151	144	158	156
Operating cost	-435	-439	-109	-106	-110	-110	-106	-108	-112	-112
Sector costs	-1	0	0	0	0	0	2	-1	-1	-1
Profit before impairment charges	159	169	35	42	42	40	47	35	45	43
Impairment charges, net	111	60	18	39	23	31	51	4	5	0
Operating profit	269	229	54	81	65	71	98	38	50	43
Non-recurring items	72	-18	-10	-6	12	76	-1	-17	0	0
Profit before value adjustments and tax	341	211	44	75	76	147	96	22	50	43
Market value adjustments	-36	9	-11	-3	-17	-5	-9	2	5	11
Profit before tax	306	220	32	72	59	142	87	24	55	54
Loans and advances *	9.956	9.537	9.956	10.008	9.742	9.607	9.537	9.549	9.428	9.159
Deposits and other debt	13.452	12.654	13.452	13.184	13.168	13.107	12.654	13.000	13.498	12.696
Operating cost/income, %	73	72	75	72	72	73	70	75	71	72
Number of FTE, end of period	360	367	360	355	358	356	367	372	376	384

* The Group implemented IFRS 9 effective from 1 January 2018. Implementation affected lending adversely by DKK 52.6m.

Personal Banking

Income statement, Personal banking

DKKm	2018	2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	258	263	63	65	65	66	68	66	65	64
Net fee and commission income	169	184	44	41	41	43	45	37	53	49
Other operating income	31	13	7	5	11	8	4	6	1	3
Operating income	459	461	114	111	117	116	116	109	119	116
Operating cost	-176	-184	-43	-44	-44	-45	-51	-43	-45	-45
Sector costs	-1	0	0	0	0	0	1	0	0	0
Profit before impairment charges	282	278	70	67	73	71	67	66	74	71
Impairment charges, net	54	7	8	22	10	15	4	-1	1	3
Operating profit	336	285	78	89	83	86	70	65	75	74
Non-recurring items	0	0	0	0	0	0	0	0	0	0
Profit before value adjustments and tax	336	285	78	89	83	86	70	65	75	74
Market value adjustments	0	0	0	0	0	0	0	0	0	0
Profit before tax	336	285	78	89	83	86	70	65	75	74
Loans and advances	6.455	6.325	6.455	6.481	6.382	6.368	6.325	6.274	6.123	6.017
Deposits and other debt	10.096	9.669	10.096	9.928	10.027	9.804	9.669	9.802	10.282	9.530
Operating cost/income, %	38	40	38	40	38	38	44	39	38	38
Number of FTE, end of period	208	212	208	206	201	207	212	208	214	211

Corporate Banking

Income statement, Corporate Banking

DKKm	2018	2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	113	122	27	29	29	28	30	31	30	31
Net fee and commission income	14	15	4	3	3	3	4	4	4	4
Other operating income	6	3	1	2	1	3	1	1	0	1
Operating income	133	140	32	34	34	33	34	35	34	36
Operating cost	-15	-15	-4	-4	-4	-4	-5	-4	-3	-3
Sector costs	0	0	0	0	0	0	0	0	0	0
Profit before impairment charges	118	125	29	30	30	29	30	31	31	33
Impairment charges, net	57	54	10	17	13	16	49	5	4	-3
Operating profit	174	179	39	47	43	45	79	36	35	30
Non-recurring items	0	0	0	0	0	0	0	0	0	0
Profit before value adjustments and tax	174	179	39	47	43	45	79	36	35	30
Market value adjustments	0	0	0	0	0	0	0	0	0	0
Profit before tax	174	179	39	47	43	45	79	36	35	30
Loans and advances	3.502	3.212	3.502	3.527	3.360	3.240	3.212	3.276	3.305	3.142
Deposits and other debt	3.356	2.985	3.356	3.257	3.141	3.303	2.985	3.198	3.216	3.166
Operating cost/income, %	11	11	11	12	11	12	14	11	9	9
Number of FTE, end of period	16	18	16	17	17	18	18	17	17	17

Banking, Faroe Islands

Income statement, Faroe Islands

DKKm	2018	2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	216	212	54	55	53	55	52	53	53	53
Net fee and commission income	50	50	13	12	14	12	12	12	12	14
Other operating income	14	8	3	3	5	3	3	2	1	2
Total Operating income	280	270	69	70	72	70	67	67	67	69
Operating cost	-175	-169	-41	-43	-44	-47	-44	-39	-43	-43
Sector costs	0	0	0	0	0	0	1	0	0	0
Profit before impairment charges	105	101	28	27	28	23	24	28	24	25
Impairment charges, net	46	2	-5	16	21	14	19	-2	-4	-11
Operating profit	151	103	22	43	48	37	43	26	20	14
Non-recurring items	83	-19	-8	0	10	81	-3	-17	0	0
Profit before value adjustments and tax	234	84	14	43	59	118	40	9	20	14
Market value adjustments	-36	16	-11	-7	-18	1	-6	4	5	13
Profit before tax	198	100	2	36	40	120	34	13	25	27
Loans and advances	6.561	6.178	6.561	6.452	6.378	6.213	6.178	6.110	6.056	5.811
Deposits and other debt	7.101	6.455	7.101	7.006	6.880	6.829	6.455	6.514	6.483	6.271
Operating cost/income, %	62	63	60	62	61	66	65	58	64	63
Number of FTE, end of period	189	172	189	179	178	172	172	178	179	181

Banking, Denmark

Income statement, Denmark

DKK ^m	2018	2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	122	133	30	31	31	31	33	34	32	34
Net fee and commission income	123	140	30	31	30	32	35	27	41	37
Other operating income	19	12	4	3	7	6	3	2	4	2
Total Operating income	265	284	63	65	68	69	71	62	78	73
Operating cost	-231	-242	-60	-55	-58	-57	-54	-63	-63	-61
Sector costs	0	0	0	0	0	0	1	0	0	0
Profit before impairment charges	33	43	3	10	9	11	18	-1	14	11
Impairment charges, net	64	55	20	26	-3	20	32	4	10	10
Operating profit	97	98	23	35	7	32	49	3	24	21
Non-recurring items	-11	1	-1	-6	1	-5	1	0	0	0
Profit before value adjustments and tax	86	99	22	29	8	27	51	3	24	21
Market value adjustments	0	0	0	0	0	0	0	0	0	0
Profit before tax	86	99	22	29	8	27	51	3	24	21
Loans and advances	2.798	2.790	2.798	2.832	2.772	2.798	2.790	2.740	2.686	2.659
Deposits and other debt	5.656	5.550	5.656	5.551	5.675	5.619	5.550	5.640	6.171	5.598
Operating cost/income, %	87	85	95	85	86	83	76	101	81	84
Number of FTE, end of period	154	175	154	158	162	166	175	178	181	187

Banking, Greenland

Income statement, Greenland

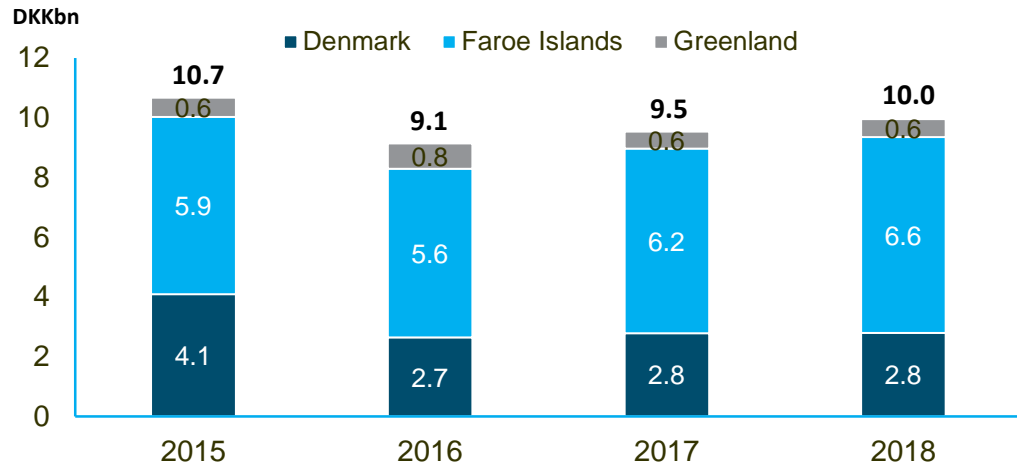
DKK ^m	2018	2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	34	40	9	8	9	8	9	10	11	10
Net fee and commission income	9	9	2	2	2	2	2	2	2	3
Other operating income	6	4	1	2	1	1	1	2	0	0
Total Operating income	49	54	12	13	12	12	13	14	13	14
Operating cost	-29	-28	-7	-8	-8	-6	-8	-6	-6	-7
Sector costs	0	0	0	0	0	0	0	0	0	0
Profit before impairment charges	20	25	5	5	5	5	5	8	7	6
Impairment charges, net	2	2	3	-3	5	-3	1	1	-1	1
Operating profit	22	28	8	2	10	2	5	9	6	7
Non-recurring items	0	0	0	0	0	0	0	0	0	0
Profit before value adjustments and tax	22	28	8	2	10	2	5	9	6	7
Market value adjustments	0	0	0	0	0	0	0	0	0	0
Profit before tax	22	28	8	2	10	2	5	9	6	7
Loans and advances	597	569	597	724	593	597	569	699	685	690
Deposits and other debt	696	648	696	627	613	660	648	846	844	827
Operating cost/income, %	59	52	60	59	62	55	64	46	48	53
Number of FTE, end of period	18	20	18	18	18	19	20	17	17	16

Income statement, Trygd

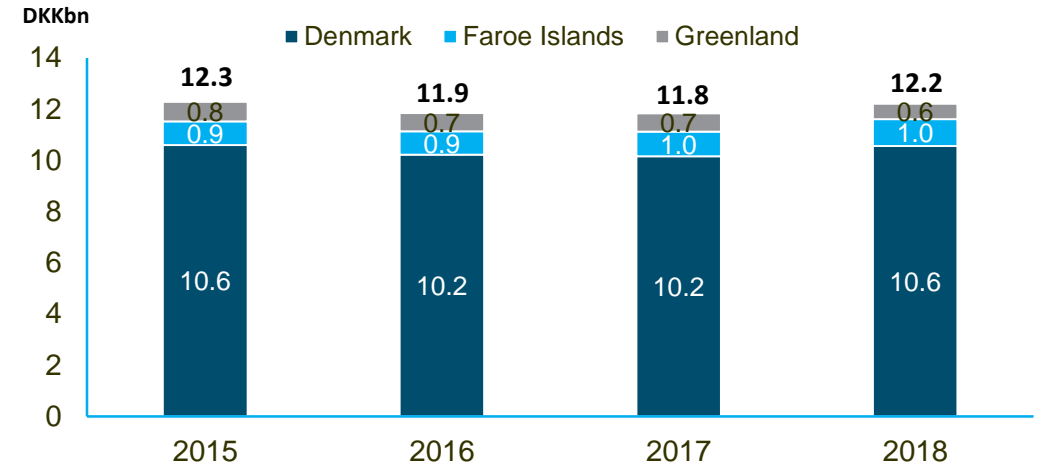
DKKm	2018	2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Premium income, net of reinsurance	105	95	27	27	26	25	25	24	23	23
Claims, net of reinsurance	-72	-57	-17	-17	-23	-15	-15	-12	-14	-15
Net insurance income	33	39	10	10	3	11	10	12	9	7
Net income from investment activities	-1	0	0	0	0	0	0	0	0	0
Operating income	32	39	10	9	3	11	10	12	9	8
Operating cost	-24	-24	-6	-6	-6	-6	-6	-6	-6	-5
Profit before tax	8	15	4	3	-4	5	3	6	3	2
Combined ratio	91	84	85	87	114	80	87	73	88	90
Claims ratio	69	59	63	64	90	58	60	49	60	68
Number of FTE, end of period	25	27	25	23	25	25	27	27	26	26

Development in business volumes

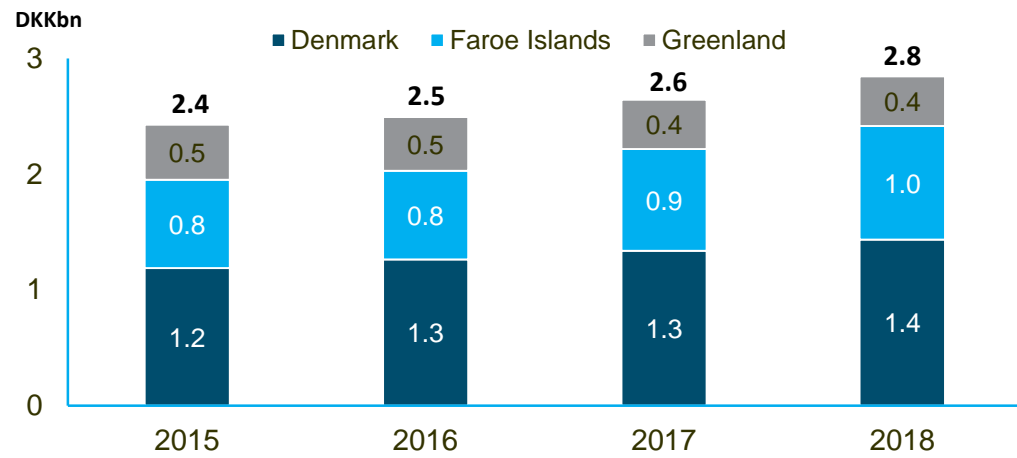
Bank lending



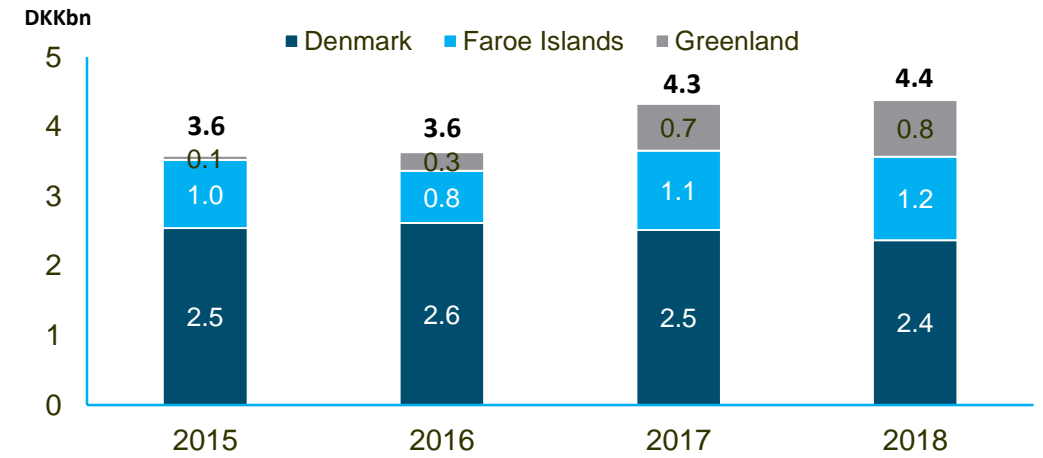
Mortgages



Guarantees



Assets under management



Credit quality of the loan portfolio

Credit classification according to the Danish FSA's method

	Q3 2018			Q4 2018			Change
	<7.5 DKKm	>7.5 DKKm	Total	<7.5 DKKm	>7.5 DKKm	Total	
Portfolio without weakness	3.349	2.586	5.935	3.366	2.948	6.314	379
Portfolio with some weakness	6.028	1.671	7.698	6.097	1.423	7.521	-177
Portfolio with weakness	241	194	435	249	251	499	64
- here of unsecured	71	66	137	66	87	153	16
- impairments	9	39	49	53	54	106	58
Portfolio with OIE	619	349	968	605	239	844	-124
- here of unsecured	349	157	506	332	154	485	-21
- impairments	261	102	363	294	128	422	59
Portfolio without individ. classification	103	38	141	31	26	57	-84
Total	10.339	4.838	15.177	10.348	4.887	15.236	59