

Investor Presentation, 7 May 2014

**BANKNORDIK**

Q1 2014 Interim Report:

# Performance in line with expectations

*Janus Petersen, CEO*

# Disclaimer

- This presentation includes statements regarding future results, which are subject to risks and uncertainties. Consequently, actual results may differ significantly from the results indicated or implied in these statements.
- No representation or warranty (expressed or implied) is made as to, and no reliance should be placed on, the fairness, accuracy or completeness of the information contained herein. Accordingly, none of BankNordik, or any of its principal shareholders or subsidiary undertakings or any of such person's officers or employees or advisors accept any liability whatsoever arising directly or indirectly from the use of this document

# Overview

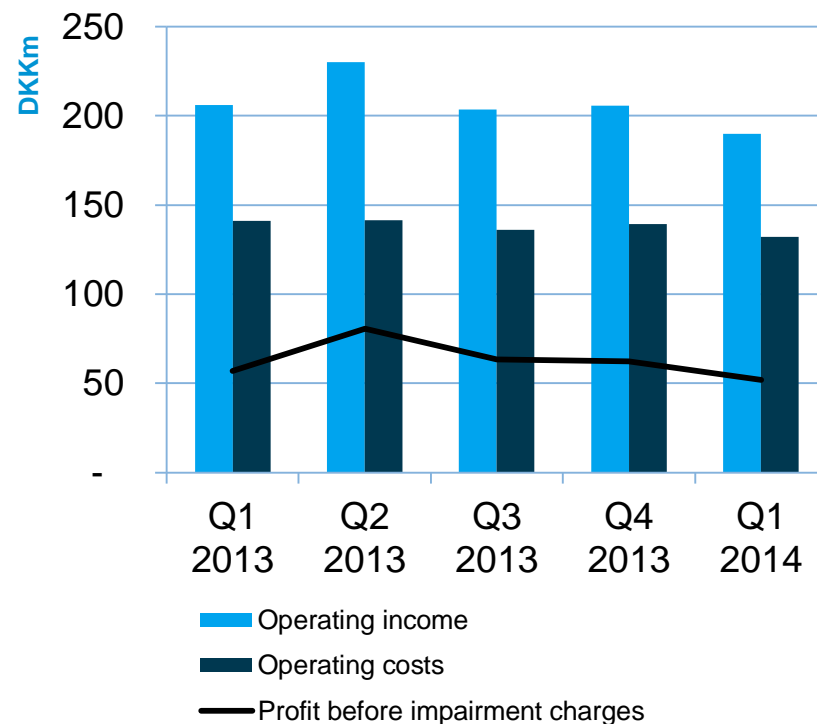
- Financial performance explained
- Outlook for 2014 maintained
- Strategic focus outlined
  - Stringent segmentation ⇒ Improve income
  - Rationalisation continues ⇒ Cut costs
  - Solid and systematic credit policy ⇒ Low impairments
  - Optimise capital structure ⇒ Repay subordinated loans

# Highlights in Q1 2014:

Performance in line with expectations

- Profit before tax and value adj. DKK 29m (Q4 2013: DKK 1m)
- Profit before tax DKK 31m (Q4 2013: DKK -9m)
- Operating income decreased 8% to DKK 190m (Q4 2013: DKK 206m) explained by seasonal variations in fees and lower insurance income
- Operating costs also decreased 5% to DKK 132m (Q4 2013: DKK 139m)
- Impairments decreased to DKK 21m (Q4 2013: DKK 42m)
- Profit before impairments & non-recur. costs DKK 52m (Q4 2013: DKK 62m)

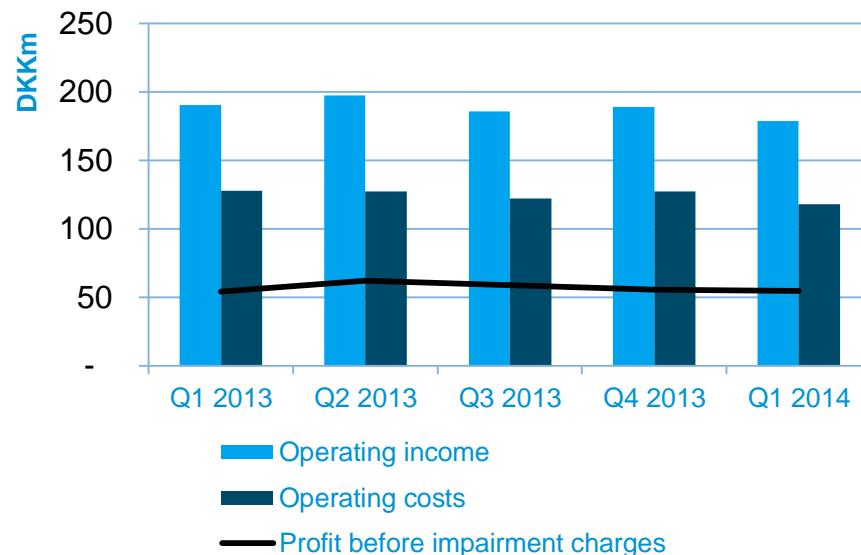
## Profit, operating income & costs



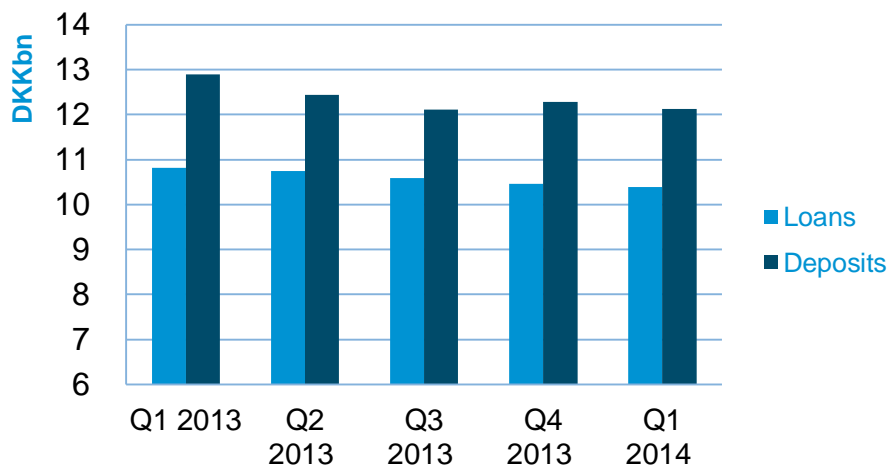
# Banking: Stable lending, competitive pricing remains

- Operating income decreased because of lower fees and insurance income. Customer inflow continues causing loan growth in DK.
- Operating costs decreased to DKK 118m explained by higher marketing and other costs in Q4
- Profit before impairments and non-recurring items DKK 55m (Q4 2013: 56m)
- Net impairments amounted to DKK 21m

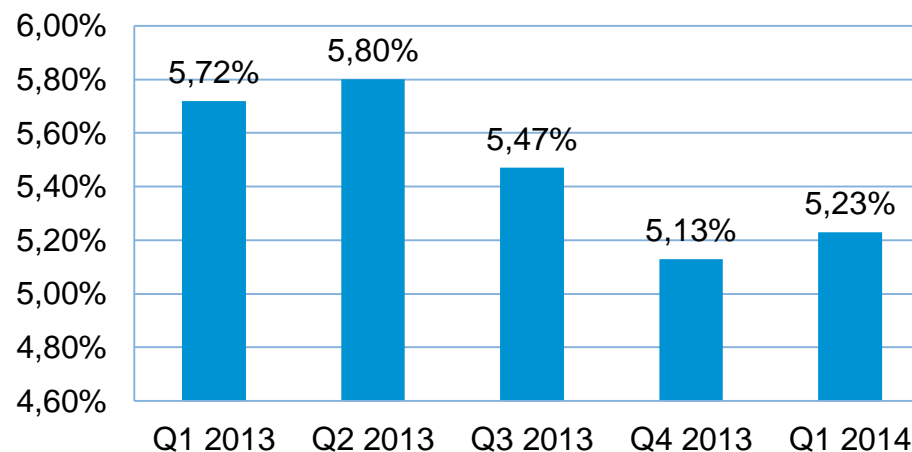
## Profit, income & costs Banking



## Loans & Deposits

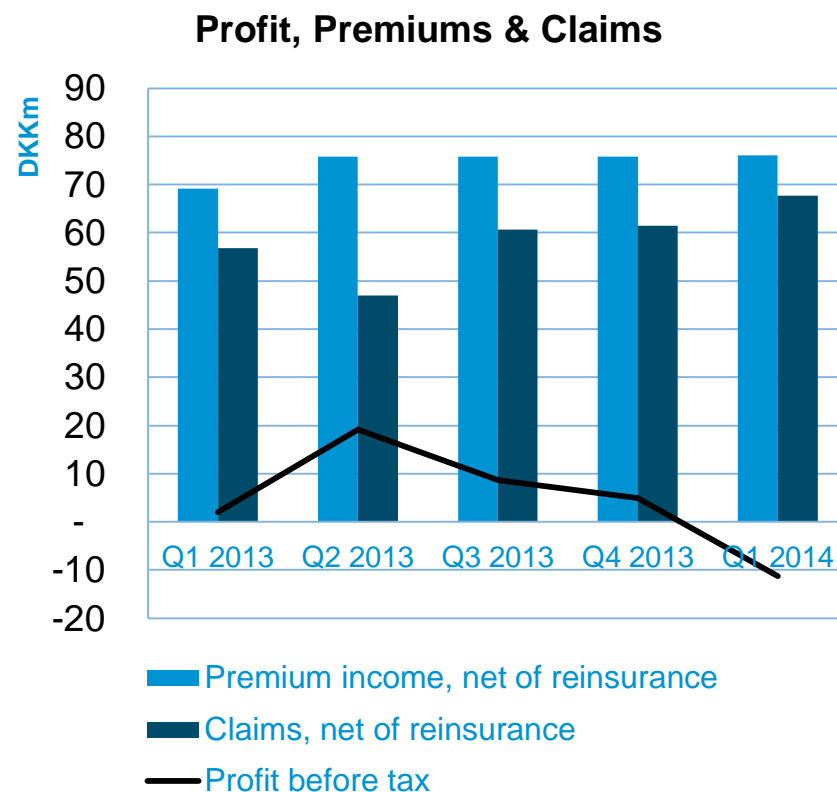


## Interest Margin



# A quarter influenced by higher claims and negative investment return in insurance

- Premium income from insurance activities were stable
- Claims were significantly higher in Q1 in Iceland
- Investment income was negative in Iceland because of volatility in the markets
- The 20% reduction in prices on the Faroes dampens profits going forward, but Trygd continues to gain market share



# Outlook for 2014: Stable volumes, but 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 200-240m for the full year 2014. In Q1 this result amounted to DKK 52m.
- Volumes are expected to be at the same level at year-end 2014
- Interest margins are expected to be marginally lower than the average levels for Q4 2013
- 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
  - Current customers take on new products especially within insurance and pensions – in order to achieve better prices
  - Gaining market share in insurance on the Faroes
  - Prices have been lowered to attract new customers and retain volume
- Unprofitable customers are being serviced more efficiently
- Corporate customer acquisition strengthened

# Strategic focus:

## Cost efficiency remains on the agenda

- Rationalisations: FTE in Banking has been reduced by 7% since Q1 2013
- Lower costs in Q1 relative to Q4 2013 primarily driven by marketing campaign in Q4 and other lower administrative costs in Q4
- Continue efforts to further improve efficiency

	<b>Q1 2014</b>	<b>Q4 2013</b>	<b>Q3 2013</b>	<b>Q2 2013</b>	<b>Q1 2013</b>
Banking	420	431	440	451	452
Insurance	86	87	85	89	82
Other	5	5	4	5	5
<b>Group</b>	<b>512</b>	<b>523</b>	<b>529</b>	<b>545</b>	<b>539</b>

# Strategic focus: Diversified loans and systematic credit policy

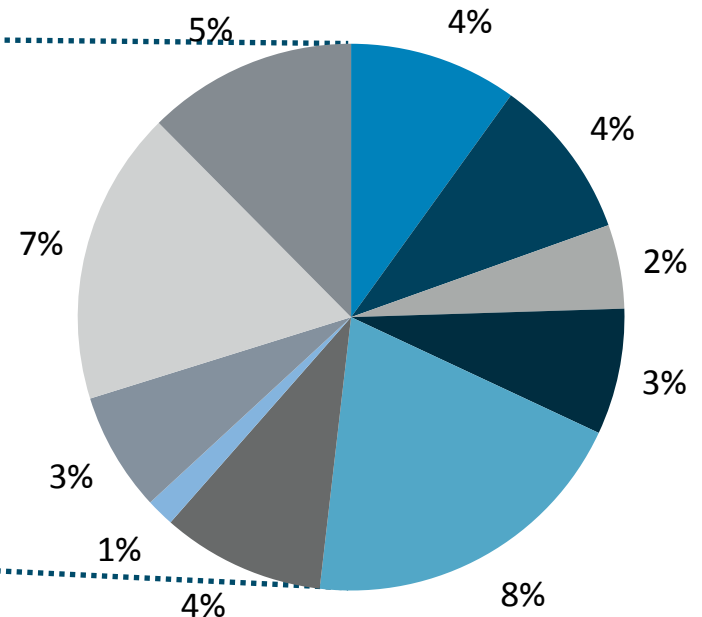
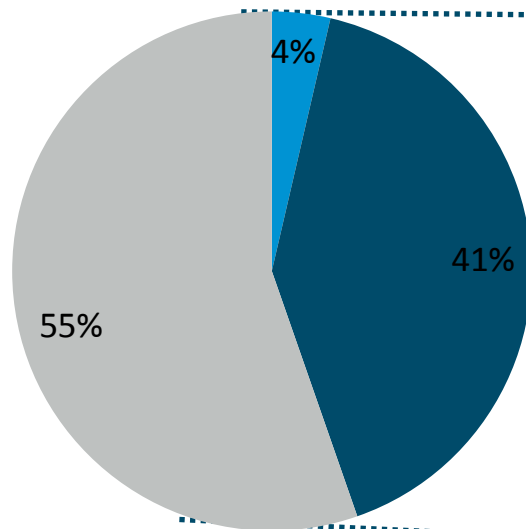
- Impairments in Q1 were as expected
- Well diversified loan portfolio
- Centralised organisation of credit process

Further break-down of the 41% to corporates:

- Agriculture, fisheries & aquaculture
- Energy
- Retailers & trade
- IT and communications
- Real estate administration
- Industry
- Construction
- Transport, hotels & restaurants
- Finance and insurance
- Other corporates

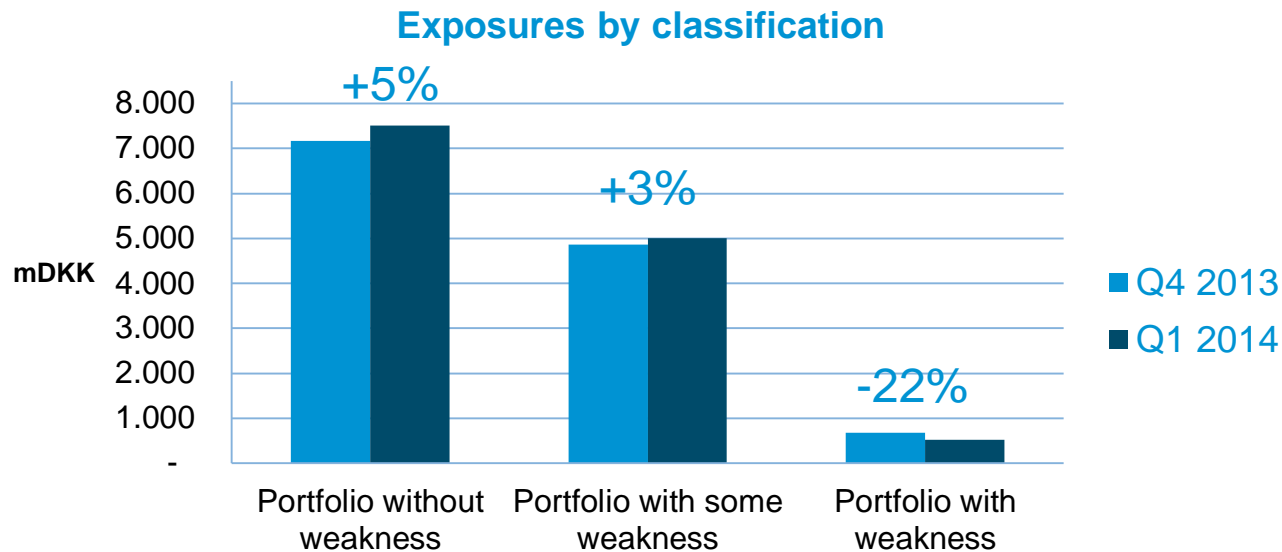
## Break-down of loan book

- By sector
- Public Sector
  - Corporate
  - Households



# Credit classifications underpins strategic focus on lower impairments going forward

- Exposures to customers without weakness increased by DKK 346m in Q1
- Portfolio of loans with weaknesses has decreased significantly. Especially large unsecured loans with weaknesses has dropped significantly.
- Observe DKK 17m remain of unsecured large exposures with weaknesses.
- Coverage of non-performing loans including acquired impairments amount to 441%



# Strategic focus:

## Effect on capital requirement from CRD IV

- Solvency ratio: 14.7% of RWA
- Current capital requirement: 8.8% of RWA
  - The Faroese Home Government and the Danish Government in February made an agreement to select BN as SIFI. Add-on capital requirement of 2.5%
  - CRD IV implies a capital preservation buffer of 2.5% and a potential counter cyclical buffer of up to 2.5%
  - After CRD IV target a solvency covering all these requirements at year-end 2019
- After CRD IV implementation at year-end 2019 the minimum solvency target amounts to 13.9% of RWA
- Adjustments to capital:
  - 1.3% Deductions for insurance and limit for hybrid capital
  - + 0.5% Lower weights to SME exposures
- Treatment of subordinated debt:
  - Hybrid capital capped to 1.5%, currently 2.2%
  - Other subordinated debt capped to 2%, currently 2.4%

# Capital plan to meet requirements

- Repaid remaining state hybrid capital of DKK 63m in Q2
- According to current capital plan the outstanding non-compliant capital of DKK 180m will be redeemed and partially refinanced with new issuance
  - Currently there is no update on the time schedule of the implementation on the Faroe Islands
- SIFI requirement of 2.5 per cent of RWA is to be partially financed by retaining and later refinancing subordinated debt of up to 2% of RWA

# 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

DKKm	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net interest income	133	133	143	151	147
Net fee and commission income	46	53	43	48	44
Net insurance income	8	14	15	29	12
Other operating income	3	5	3	3	3
<b>Operating income</b>	<b>190</b>	<b>206</b>	<b>204</b>	<b>230</b>	<b>206</b>
Operating costs	-132	-139	-136	-142	-141
Sector costs	-6	-4	-4	-8	-8
<b>Profit before impairment charges</b>	<b>52</b>	<b>62</b>	<b>63</b>	<b>81</b>	<b>57</b>
Impairment charges, net	-21	-42	-32	-20	-55
<b>Operating profit</b>	<b>31</b>	<b>20</b>	<b>31</b>	<b>61</b>	<b>1</b>
Non-recurring items	-2	-19	0	18	-10
<b>Profit before value adjustments and</b>	<b>29</b>	<b>1</b>	<b>31</b>	<b>79</b>	<b>-9</b>
Market value adjustments*	2	-10	16	-16	22
<b>Profit before tax</b>	<b>31</b>	<b>-9</b>	<b>47</b>	<b>63</b>	<b>13</b>
Operating cost/income, %	70%	68%	67%	61%	68%
Number of FTE, end of period	512	523	530	545	538

# Banking

DKKm	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net interest income	130	130	140	148	144
Net fees, commission income & dividend	47	54	43	47	45
Other operating income	2	5	3	2	2
<b>Operating income</b>	<b>179</b>	<b>189</b>	<b>186</b>	<b>197</b>	<b>190</b>
Operating cost	-118	-128	-122	-127	-128
Sector costs	-6	-6	-4	-8	-8
<b>Profit before impairment charges</b>	<b>55</b>	<b>56</b>	<b>59</b>	<b>62</b>	<b>54</b>
Impairment charges, net	-21	-41	-32	-20	-56
<b>Operating profit</b>	<b>34</b>	<b>14</b>	<b>27</b>	<b>42</b>	<b>-1</b>
Non-recurring items	-2	-19	0	18	-10
<b>Profit before value adjustments and</b>	<b>32</b>	<b>-5</b>	<b>27</b>	<b>61</b>	<b>-11</b>
Market value adjustments	17	-6	11	-8	14
<b>Profit before tax</b>	<b>48</b>	<b>-10</b>	<b>38</b>	<b>53</b>	<b>3</b>
Loans and advances	10.392	10.460	10.587	10.750	10.820
Deposits and other debt	12.132	12.285	12.108	12.437	12.902
Operating cost/income, %	66%	67%	66%	64%	67%
Number of FTE, end of period	420	431	440	451	452

# Banking, Faroe Islands

DKKm	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net interest income	56	59	62	71	66
Net fees, commission income & dividend	14	20	13	17	12
Other operating income	2	4	2	1	1
<b>Total Operating income</b>	<b>72</b>	<b>83</b>	<b>76</b>	<b>89</b>	<b>80</b>
Operating cost	-42	-50	-44	-45	-45
Sector costs	-3	-2	-2	-3	-3
<b>Profit before impairment charges</b>	<b>27</b>	<b>30</b>	<b>31</b>	<b>40</b>	<b>31</b>
Impairment charges, net	-17	-22	-11	-6	-16
<b>Operating profit</b>	<b>10</b>	<b>8</b>	<b>20</b>	<b>34</b>	<b>15</b>
Non-recurring items	-2	-19	0	18	-2
<b>Profit before value adjustments and</b>	<b>8</b>	<b>-11</b>	<b>20</b>	<b>52</b>	<b>13</b>
Market value adjustments	17	-6	11	-8	14
<b>Profit before tax</b>	<b>24</b>	<b>-17</b>	<b>31</b>	<b>45</b>	<b>26</b>
Loans and advances	5.759	5.813	5.904	5.982	5.969
Deposits and other debt	5.295	5.311	4.996	5.154	5.294
Operating cost/income, %	58%	61%	57%	51%	57%
Number of FTE, end of period	163	169	173	176	173

# Banking, Denmark

DKKm	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net interest income	64	61	68	68	68
Net fees, commission income & dividend	31	32	28	28	30
Other operating income	0	0	0	1	0
<b>Total Operating income</b>	<b>95</b>	<b>94</b>	<b>97</b>	<b>97</b>	<b>98</b>
Operating cost	-69	-68	-72	-75	-75
Sector costs	-3	-3	-2	-4	-4
<b>Profit before impairment charges</b>	<b>22</b>	<b>22</b>	<b>23</b>	<b>17</b>	<b>19</b>
Impairment charges, net	-2	-19	-19	-12	-35
<b>Operating profit</b>	<b>20</b>	<b>3</b>	<b>3</b>	<b>5</b>	<b>-16</b>
Non-recurring items	0	0	0	0	-8
<b>Profit before value adjustments and</b>	<b>20</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>-24</b>
Market value adjustments	0	0	0	0	0
<b>Profit before tax</b>	<b>20</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>-24</b>
Loans and advances	3.892	3.827	3.878	3.964	4.056
Deposits and other debt	6.407	6.541	6.658	6.826	7.055
Operating cost/income, %	73%	73%	74%	78%	76%
Number of FTE, end of period	238	248	247	254	257

# Banking, Greenland

DKKm	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net interest income	10	10	10	9	10
Net fees, commission income & dividend	3	2	2	3	3
Other operating income	0	0	0	0	0
<b>Total Operating income</b>	<b>13</b>	<b>13</b>	<b>12</b>	<b>12</b>	<b>13</b>
Operating cost	-7	-9	-7	-6	-8
Sector costs	0	0	0	0	0
<b>Profit before impairment charges</b>	<b>6</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>
Impairment charges, net	-2	0	-2	-2	-5
<b>Operating profit</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>0</b>
Non-recurring items	0	0	0	0	0
<b>Profit before value adjustments and</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>0</b>
Market value adjustments	0	0	0	0	0
<b>Profit before tax</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>0</b>
Loans and advances	741	821	806	804	794
Deposits and other debt	429	433	454	456	553
Operating cost/income, %	54%	69%	55%	53%	61%
Number of FTE, end of period	19	19	20	21	22

# Insurance

DKK <sup>m</sup>	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Premium income, net of reinsurance	76	76	56	55	48
Claims, net of reinsurance	-68	-61	-46	-38	-45
<b>Net insurance income</b>	<b>8</b>	<b>20</b>	<b>10</b>	<b>17</b>	<b>3</b>
Net income from investment activities	-5	2	7	0	6
<b>Operating income</b>	<b>3</b>	<b>22</b>	<b>17</b>	<b>18</b>	<b>9</b>
Operating cost	-14	-12	-9	-6	-13
<b>Profit before tax</b>	<b>-11</b>	<b>14</b>	<b>8</b>	<b>11</b>	<b>-4</b>
Combined ratio	108%	79%	98%	86%	113%
Claims ratio	89%	65%	82%	69%	94%
Number of FTE, end of period	86	87	85	89	82

# Insurance, Trygd in the Faroe Islands

DKKm	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Premium income, net of reinsurance	19	19	19	21	21
Claims, net of reinsurance	-13	-25	-14	-9	-11
<b>Net insurance income</b>	<b>6</b>	<b>-5</b>	<b>5</b>	<b>12</b>	<b>10</b>
Net income from investment activities	1	1	0	0	0
<b>Operating income</b>	<b>8</b>	<b>-5</b>	<b>5</b>	<b>12</b>	<b>10</b>
Operating cost	-4	-4	-4	-4	-4
<b>Profit before tax</b>	<b>3</b>	<b>-9</b>	<b>1</b>	<b>8</b>	<b>6</b>
Combined ratio	89%	150%	96%	65%	73%
Claims ratio	67%	129%	73%	45%	54%
Number of FTE, end of period	25	26	26	23	24

# Insurance, Vörður in Iceland

DKKkM	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Premium income, net of reinsurance	57	57	56	55	48
Claims, net of reinsurance	-55	-37	-46	-38	-45
<b>Net insurance income</b>	<b>2</b>	<b>20</b>	<b>10</b>	<b>17</b>	<b>3</b>
Net income from investment activities	-7	2	7	0	6
<b>Operating income</b>	<b>-5</b>	<b>22</b>	<b>17</b>	<b>18</b>	<b>9</b>
Operating cost	-10	-8	-9	-6	-13
<b>Profit before tax</b>	<b>-15</b>	<b>14</b>	<b>8</b>	<b>11</b>	<b>-4</b>
Combined ratio	114%	79%	98%	86%	113%
Claims ratio	97%	65%	82%	69%	94%
Number of FTE, end of period	61	61	59	66	58



# Number of full-time employees, end of period

	<b>Q1 2014</b>	<b>Q4 2013</b>	<b>Q3 2013</b>	<b>Q2 2013</b>	<b>Q1 2013</b>
Banking	420	431	440	451	452
Insurance	86	87	85	89	82
Other	5	5	4	5	5
<b>Group</b>	<b>512</b>	<b>523</b>	<b>529</b>	<b>545</b>	<b>539</b>

# Credit quality of the loan portfolio

- Credit classification according to the Danish FSA's method

	Q4 2013			Q1 2014		
	<7.5 mDKK	> 7.5 mDKK	Total	<7.5 mDKK	> 7.5 mDKK	Total
Portfolio without weakness	4.140	3.029	7.169	4.291	3.224	7.515
Portfolio with some weakness	3.527	1.338	4.865	3.552	1.445	4.997
Portfolio with weakness	483	194	677	492	36	528
- here of unsecured	275	73	348	289	17	306
Portfolio with OEI	1.194	659	1.853	1.109	708	1.817
- here of unsecured	799	355	1.154	758	353	1.111
- impairments	338	153	491	348	110	458
Portfolio without individual classi	1.351	-	1.351	1.147	9	1.156
Total	10.695	5.220	15.915	10.591	5.422	16.013