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**BANKNORDIK**

Annual Report 2013:

**Profit on the same level -  
with fiercer competition**

*Janus Petersen, CEO*

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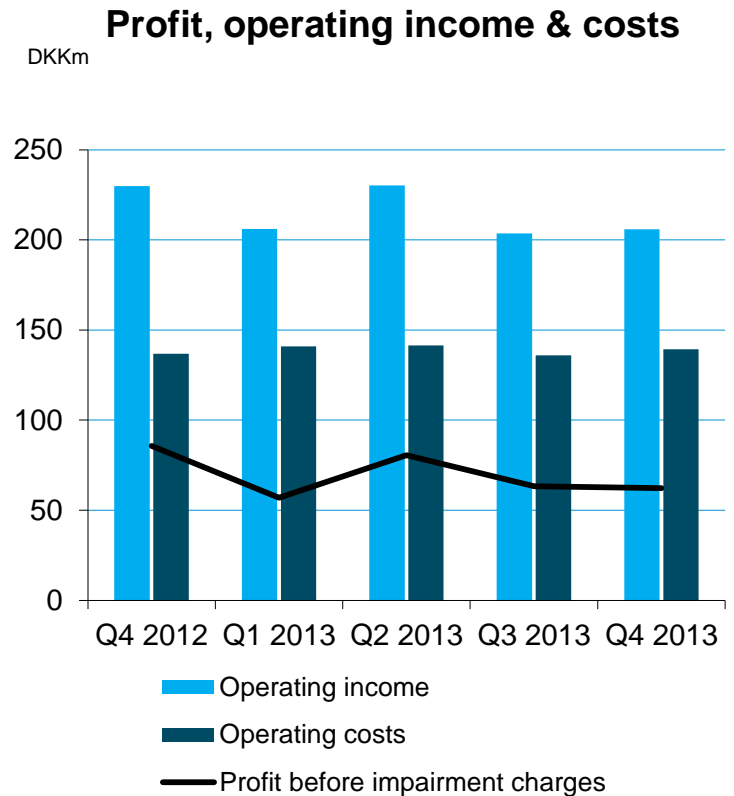
# Overview

- Financial performance explained
- Outlook for 2014 provided
- 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 2013:

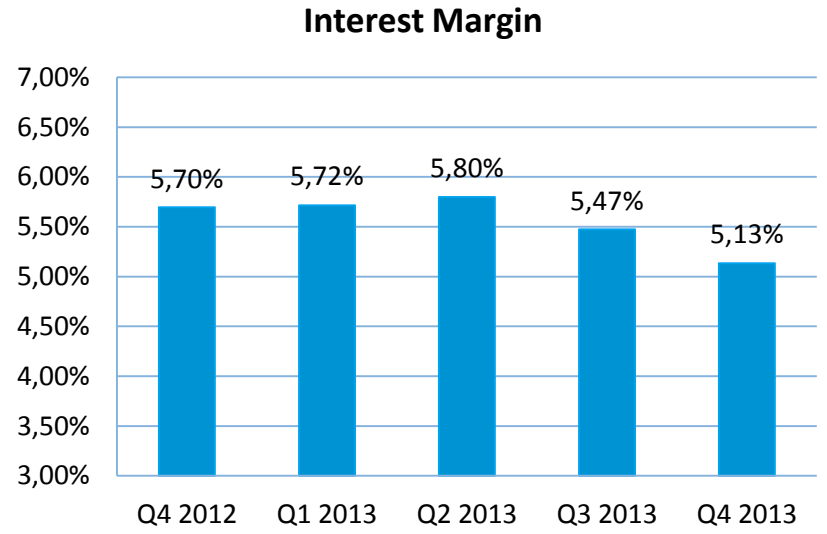
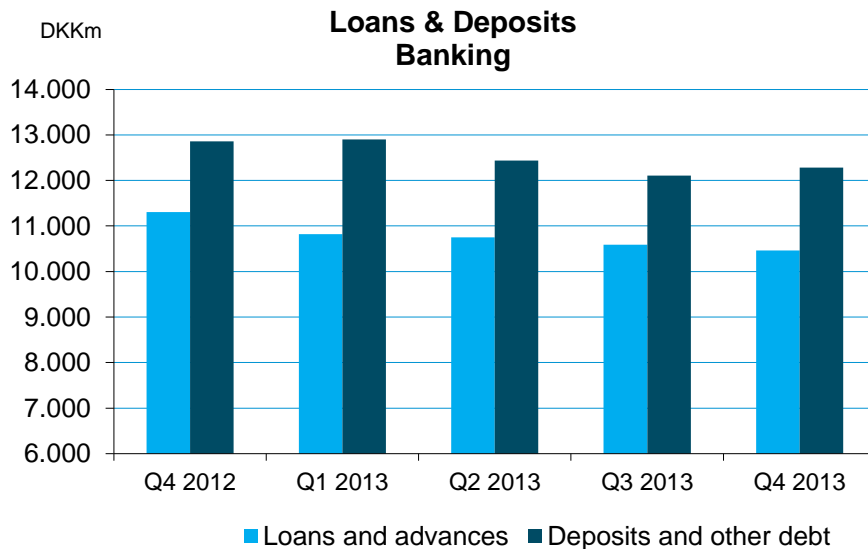
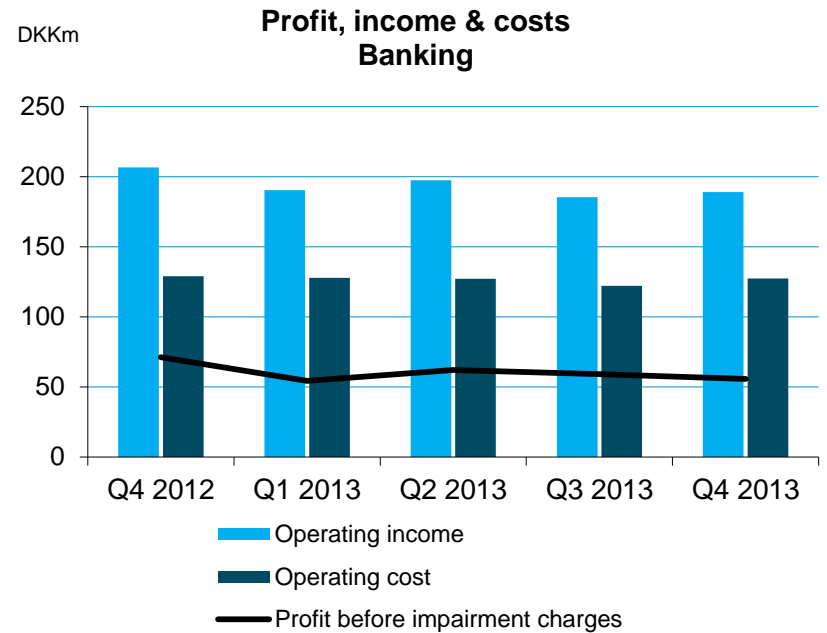
Profit on the same level  
- with fiercer competition

- Profit before tax and value adj. DKK 103m (2012: DKK 101m)
- Profit before tax DKK 114m compared with DKK 122m in 2012
- Operating income decreased 7% to DKK 846m (DKK 895m in 2012)
- Operating costs also decreased 7% to DKK 558m (DKK 592m in 2012)
- Impairments increased to DKK 148m (DKK 115m in 2012)
- Profit before impairments & non-recur. items DKK 261m (DKK 292m 2012)
- Dividend of DKK 15 mill proposed to AGM



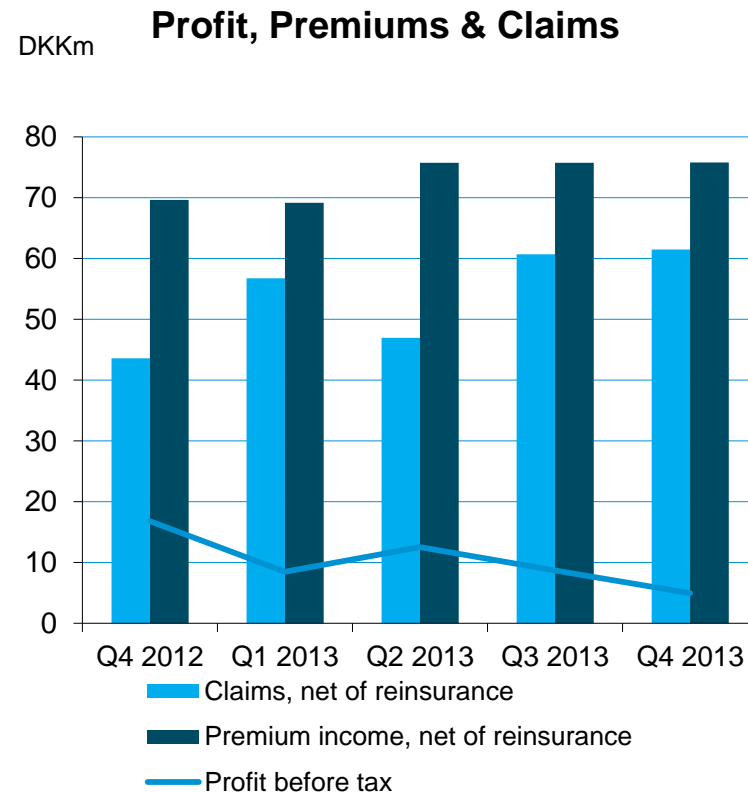
# Banking: Lower lending, more competitive pricing

- Operating income decreased because of lower interest margin and volumes, but more competitive prices have attracted customers in Q4
- Operating costs decreased to DKK 505m (-6% compared with 2012)
- Profit before impairments and non-recurring items DKK 232m (249m in 2012) hereof DKK 56m in Q4 (71m in Q4 '12)
- Net impairments amounted to DKK 148m



# A profitable year in insurance

- Premium income from insurance activities were stable
- Claims were significantly higher in Q4 in the Faroes caused by storms
- Both the Faroese and the Icelandic insurance businesses generated profits, but the 20% reduction in retail prices in the Faroes will hamper profits going forward



# Outlook for 2014: Stable volumes, but pressure on interest margin remains

- Management expects for 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. Compares with DKK 261m in 2013.
- Volumes are expected to be at the same level at year-end 2014
- Interest margin is expected to be marginally lower than the average level 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

- Launched a new loyalty programme, which was well received by customers
  - Current customers take on new products especially within insurance and pensions – in order to achieve better prices
  - Prices have been lowered to attract new customers and retain volume
  - Lower margins and prices are reflected in lower income in Q3-Q4
- Unprofitable customers are being serviced more efficiently
- Corporate customer acquisition strengthened

# Strategic focus: Rationalisation finalised in Q1, but natural adjustments continue

- Rationalisations: FTE in Banking has been reduced by 9% since Q4 2012
- Higher costs in Q4 relative to Q3 primarily driven by marketing campaign in Q4 and other lower administrative costs in Q4
- Continue efforts to further improve efficiency

	<b>Q4 2013</b>	<b>Q3 2013</b>	<b>Q2 2013</b>	<b>Q1 2013</b>	<b>Q4 2012</b>
Banking	431	439	451	452	469
Insurance	73	73	73	76	76
Other	5	5	4	5	5
<b>Group</b>	<b>509</b>	<b>517</b>	<b>529</b>	<b>533</b>	<b>548</b>

# Strategic focus: Diversified loans and systematic credit policy

- Impairments in 2013 above expectations
- Well diversified loan portfolio
- Centralised organisation of credit process

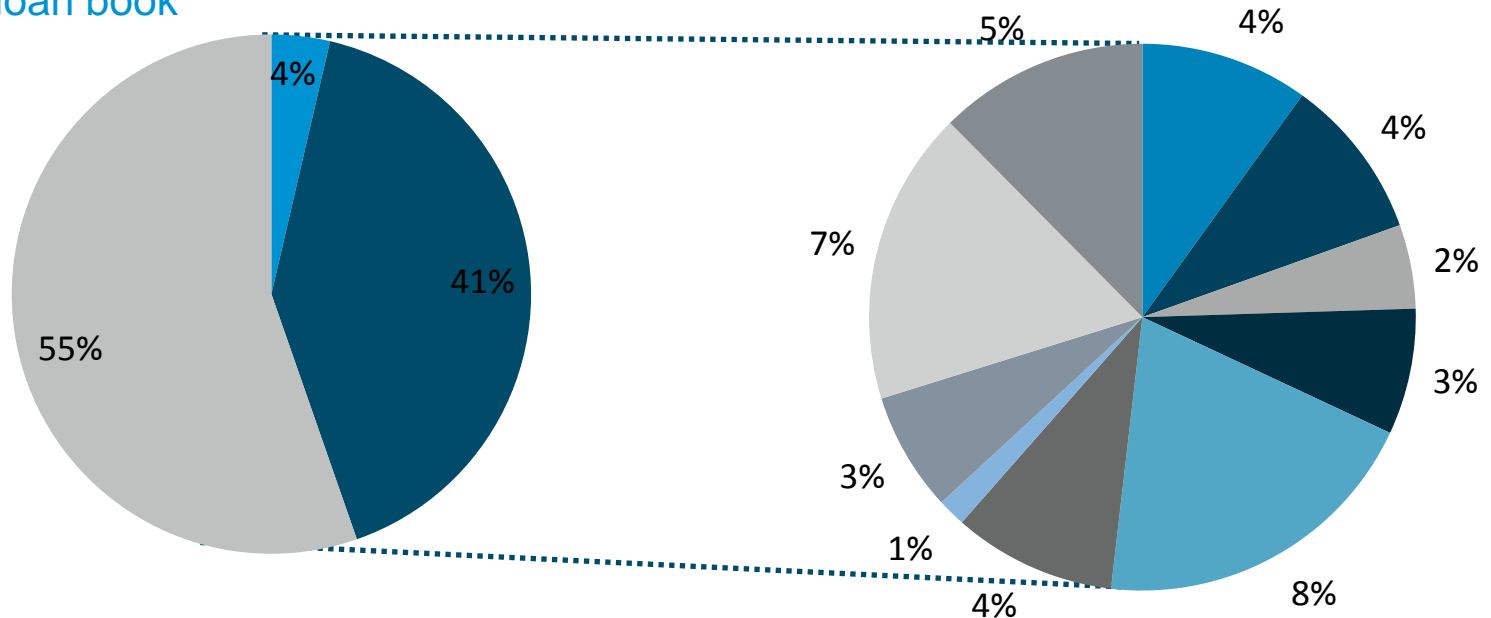
Further break-down of the 41% to corporates:

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

## Break-down of loan book

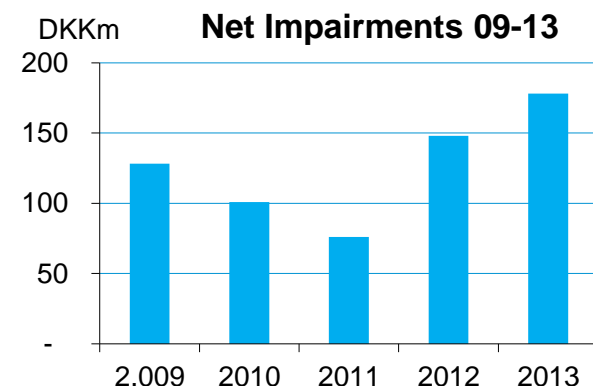
### By sector

- Public Sector
- Corporate
- Households



# Low risk corporate loan portfolio (> 7.5m) – impairments in 2013 caused by review of retail

- Only DKK 194m (unsecured 73m) in exposure to corporates with weakness
- Impairments mainly in retail (from 236m in 2012 to 328m in 2013)
- Unsecured retail exposure with weakness reduced from 323m to 275m caused by impairments
- Accumulated impairments amount to DKK 491m excluding the DKK 435m in acquired impairments – total impairments amount to DKK 926m



	2013			2012		
	> 7.5m	< 7.5m	Total	> 7.5m	< 7.5m	Total
Portfolio without weakness	3.029	4.140	7.168	3.356	3.650	7.006
Portfolio with some weakness	1.338	3.527	4.865	1.210	3.533	4.743
Portfolio with weakness	194	483	677	189	534	723
- hereof unsecured	73	275	347	50	323	372
Portfolio with OEI	659	1.194	1.852	551	553	1.105
- hereof unsecured	355	799	1.153	226	318	543
- impairments	153	338	491	138	236	374
Portfolio without individual classif.	0	1.351	1.351	11	2.631	2.642
<b>Total</b>	<b>5.220</b>	<b>10.694</b>	<b>15.913</b>	<b>5.317</b>	<b>10.903</b>	<b>16.219</b>

# Strategic focus:

## Effect on capital requirement from CRD IV

- Solvency ratio: 14.7% of RWA
- Current capital requirement: 8.9% of RWA
  - The Faroese Home Government and the Danish Government in February made an agreement to select BankNordik as SIFI, which is expected to increase the solvency requirement by 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 implementation the Bank therefore targets a solvency covering all these requirements at year-end 2019

# Capital plan to meet requirements

- Repay remaining state hybrid capital of DKK 63m in first half of 2014
- According to current capital plan the outstanding non-compliant capital of DKK 180m will be redeemed and partially refinanced with new issuance
- 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
- Insurance
- Trygd
- Vørður
- Number of full time employees in Group



# Group

DKKm	2013	2012	Index 13/12	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Net interest income	574	613	93	133	143	151	147	154
Net fee and commission income	188	195	95	53	43	48	44	54
Net insurance income	69	81	85	14	15	29	12	18
Other operating income	14	6	242	5	3	3	3	4
<b>Operating income</b>	<b>846</b>	<b>895</b>	<b>93</b>	<b>206</b>	<b>204</b>	<b>230</b>	<b>206</b>	<b>230</b>
Operating costs	-558	-592	93	-139	-136	-142	-141	-137
Sector costs	-26	-11	230	-4	-4	-8	-8	-7
<b>Profit before impairment charges</b>	<b>261</b>	<b>292</b>	<b>89</b>	<b>62</b>	<b>63</b>	<b>81</b>	<b>57</b>	<b>86</b>
Impairment charges	-178	-148	119	-46	-40	-29	-64	-46
Reversals of acquired OEI impairments	31	33	91	4	8	9	8	11
<b>Operating profit</b>	<b>114</b>	<b>177</b>	<b>63</b>	<b>20</b>	<b>31</b>	<b>61</b>	<b>1</b>	<b>51</b>
Non-recurring items	-11	-77	13	-19	0	18	-10	-17
<b>Profit before value adjustments and</b>	<b>103</b>	<b>101</b>	<b>101</b>	<b>1</b>	<b>31</b>	<b>79</b>	<b>-9</b>	<b>34</b>
Market value adjustments*	11	21	51	-10	16	-16	22	8
<b>Profit before tax</b>	<b>114</b>	<b>122</b>	<b>92</b>	<b>-9</b>	<b>47</b>	<b>63</b>	<b>13</b>	<b>42</b>
Operating cost/income, %	66	66	99	68	67	61	68	61
Number of FTE, end of period	509	550	92	509	517	529	533	550

# Banking

DKKm	2013	2012	Index	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
			13/12					
Net interest income	562	602	92	130	140	148	144	151
Net fees, commission income & dividend	189	192	97	54	43	47	45	54
Other operating income	12	1	784	5	3	2	2	2
<b>Operating income</b>	<b>763</b>	<b>795</b>	<b>95</b>	<b>189</b>	<b>186</b>	<b>197</b>	<b>190</b>	<b>207</b>
Operating cost	-505	-536	93	-128	-122	-127	-128	-129
Sector costs	-26	-11	248	-6	-4	-8	-8	-6
<b>Profit before impairment charges</b>	<b>232</b>	<b>249</b>	<b>92</b>	<b>56</b>	<b>59</b>	<b>62</b>	<b>54</b>	<b>71</b>
Impairment charges	-178	-148	119	-46	-40	-29	-64	-46
Reversals of acquired OEI impairments	31	33	91	4	8	9	8	11
<b>Operating profit</b>	<b>84</b>	<b>134</b>	<b>61</b>	<b>14</b>	<b>27</b>	<b>42</b>	<b>-1</b>	<b>36</b>
Non-recurring items	-11	-77	13	-19	0	18	-10	-17
<b>Profit before value adjustments and</b>	<b>73</b>	<b>58</b>	<b>125</b>	<b>-5</b>	<b>27</b>	<b>61</b>	<b>-11</b>	<b>19</b>
Market value adjustments	12	14	83	-6	11	-8	14	4
<b>Profit before tax</b>	<b>85</b>	<b>72</b>	<b>117</b>	<b>-10</b>	<b>38</b>	<b>53</b>	<b>3</b>	<b>24</b>
Loans and advances	10.460	11.303	92	10.460	10.587	10.750	10.820	11.303
Deposits and other debt	12.285	12.861	95	12.285	12.108	12.437	12.902	12.861
Operating cost/income, %	66	67	97	67	66	64	67	62
Number of FTE, end of period	431	469	91	431	440	451	452	469

# Banking, Faroe Islands

DKKm	2013	2012	<i>Index</i> 13/12	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Net interest income	257	276	92	59	62	71	66	69
Net fees, commission income & dividends	62	60	102	20	13	17	12	18
Other operating income	9	1	1.303	4	2	1	1	2
<b>Total Operating income</b>	<b>328</b>	<b>336</b>	<b>97</b>	<b>83</b>	<b>76</b>	<b>89</b>	<b>80</b>	<b>89</b>
Operating cost	-185	-196	93	-50	-44	-45	-45	-46
Sector costs	-11	-5	242	-2	-2	-3	-3	-3
<b>Profit before impairment charges</b>	<b>132</b>	<b>136</b>	<b>96</b>	<b>30</b>	<b>31</b>	<b>40</b>	<b>31</b>	<b>40</b>
Impairment charges	-55	-67	82	-22	-11	-6	-16	-36
<b>Operating profit</b>	<b>77</b>	<b>69</b>	<b>111</b>	<b>8</b>	<b>20</b>	<b>34</b>	<b>15</b>	<b>3</b>
Non-recurring items	-3	-14	23	-19	0	18	-2	-9
<b>Profit before value adjustments and tax</b>	<b>73</b>	<b>55</b>	<b>133</b>	<b>-11</b>	<b>20</b>	<b>52</b>	<b>13</b>	<b>-5</b>
Market value adjustments	12	14	80	-6	11	-8	14	5
<b>Profit before tax</b>	<b>85</b>	<b>69</b>	<b>122</b>	<b>-17</b>	<b>31</b>	<b>45</b>	<b>26</b>	<b>0</b>
Loans and advances	5.813	6.044	95	5.813	5.904	5.982	5.969	6.044
Deposits and other debt	5.311	5.217	101	5.311	4.996	5.154	5.294	5.217
Operating cost/income, %	56	67	83	61	57	51	57	52
Number of FTE, end of period	169	177	94	169	173	176	173	177

# Banking, Denmark

DKKm	<i>Index</i>							
	2013	2012	13/12	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Net interest income	266	285	92	61	68	68	68	67
Net fees, commission income & dividend	118	121	96	32	28	28	30	33
Other operating income	2	1	226	0	0	1	0	1
<b>Total Operating income</b>	<b>385</b>	<b>407</b>	<b>94</b>	<b>94</b>	<b>97</b>	<b>97</b>	<b>98</b>	<b>101</b>
Operating cost	-290	-305	94	-68	-72	-75	-75	-74
Sector costs	-14	-6	242	-3	-2	-4	-4	-4
<b>Profit before impairment charges</b>	<b>81</b>	<b>95</b>	<b>84</b>	<b>22</b>	<b>23</b>	<b>17</b>	<b>19</b>	<b>23</b>
Impairment charges	-115	-77	149	-24	-27	-22	-43	-30
Reversals of acquired OEI impairments	31	33	91	4	8	9	8	11
<b>Operating profit</b>	<b>-4</b>	<b>52</b>	<b>-8</b>	<b>3</b>	<b>3</b>	<b>5</b>	<b>-16</b>	<b>3</b>
Non-recurring items	-8	-63	12	0	0	0	-8	-8
<b>Profit before value adjustments and</b>	<b>-11</b>	<b>-11</b>	<b>102</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>-24</b>	<b>-8</b>
<b>Profit before tax</b>	<b>-11</b>	<b>-11</b>	<b>102</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>-24</b>	<b>-8</b>
Loans and advances	3.827	4.332	87	3.827	3.878	3.964	4.056	4.332
Deposits and other debt	6.541	7.127	91	6.541	6.658	6.826	7.055	7.127
Operating cost/income, %	75	75	99	73	74	78	76	74
Number of FTE, end of period	243	269	89	248	247	254	257	269

# Banking, Greenland

DKKm	<i>Index</i>							
	2013	2012	13/12	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Net interest income	39	41	93	10	10	9	10	11
Net fees, commission income & dividend	10	11	84	2	2	3	3	3
Other operating income	1	0	1.213	0	0	0	0	0
<b>Total Operating income</b>	<b>50</b>	<b>53</b>	<b>93</b>	<b>13</b>	<b>12</b>	<b>12</b>	<b>13</b>	<b>13</b>
Operating cost	-30	-34	86	-9	-7	-6	-8	-9
Sector costs	-1	0	257	0	0	0	0	0
<b>Profit before impairment charges</b>	<b>19</b>	<b>18</b>	<b>102</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>4</b>
Impairment charges	-8	-5	168	0	-2	-2	-5	0
<b>Operating profit</b>	<b>11</b>	<b>14</b>	<b>79</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>0</b>	<b>4</b>
Non-recurring items	0	0	NA	0	0	0	0	0
<b>Profit before value adjustments and</b>	<b>11</b>	<b>14</b>	<b>79</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>0</b>	<b>4</b>
<b>Profit before tax</b>	<b>11</b>	<b>14</b>	<b>79</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>0</b>	<b>4</b>
Loans and advances	821	927	88	821	806	804	794	927
Deposits and other debt	433	523	82	433	454	456	553	523
Operating cost/income, %	60	65	91	69	55	53	61	67
Number of FTE, end of period	19	23	82	19	20	21	22	23

# Insurance

DKKm	2013	2012	<i>Index</i> 13/12	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Premium income, net of reinsurance	296	278	106	76	76	76	69	70
Claims, net of reinsurance	-226	-199	113	-61	-61	-47	-57	-44
<b>Net insurance income</b>	<b>71</b>	<b>80</b>	<b>89</b>	<b>15</b>	<b>15</b>	<b>22</b>	<b>19</b>	<b>26</b>
Net income from investment activities	16	19	85	2	7	0	6	4
<b>Operating income</b>	<b>87</b>	<b>99</b>	<b>88</b>	<b>17</b>	<b>22</b>	<b>23</b>	<b>26</b>	<b>30</b>
Operating cost	-52	-52	100	-12	-13	-10	-17	-13
<b>Profit before tax</b>	<b>35</b>	<b>46</b>	<b>75</b>	<b>5</b>	<b>9</b>	<b>13</b>	<b>8</b>	<b>17</b>
Combined ratio	94%	86%	110	115%	97%	76%	93%	83%
Claims ratio	76%	71%	107	81%	80%	62%	82%	63%
Number of FTE, end of period	73	76	96	73	73	73	76	76

# Insurance, Trygd in the Faroe Islands

DKKm	2013	2012	<i>Index</i> 13/12	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Premium income, net of reinsurance	81	82	99	19	19	21	21	21
Claims, net of reinsurance	-60	-40	148	-25	-14	-9	-11	-12
<b>Net insurance income</b>	<b>21</b>	<b>41</b>	<b>51</b>	<b>-5</b>	<b>5</b>	<b>12</b>	<b>10</b>	<b>8</b>
Net income from investment activities	1	3	52	1	0	0	0	1
<b>Operating income</b>	<b>23</b>	<b>44</b>	<b>51</b>	<b>-5</b>	<b>5</b>	<b>12</b>	<b>10</b>	<b>9</b>
Operating cost	-17	-20	82	-4	-4	-4	-5	-5
<b>Profit before tax</b>	<b>6</b>	<b>23</b>	<b>25</b>	<b>-9</b>	<b>1</b>	<b>8</b>	<b>5</b>	<b>4</b>
Combined ratio	95%	74%	127	150%	96%	65%	73%	82%
Claims ratio	74%	49%	150	129%	73%	45%	54%	59%
Number of FTE, end of period	22	23	96	22	22	22	23	23

# Insurance, Vörður in Iceland

DKKkm	<i>Index</i>							
	2013	2012	13/12	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Premium income, net of reinsurance	216	197	110	57	56	55	48	49
Claims, net of reinsurance	-166	-159	105	-37	-46	-38	-45	-31
<b>Net insurance income</b>	<b>50</b>	<b>38</b>	<b>130</b>	<b>20</b>	<b>10</b>	<b>10</b>	<b>9</b>	<b>18</b>
Net income from investment activities	15	16	90	2	7	0	6	3
<b>Operating income</b>	<b>64</b>	<b>55</b>	<b>118</b>	<b>22</b>	<b>16</b>	<b>11</b>	<b>15</b>	<b>21</b>
Operating cost	-36	-32	111	-8	-9	-6	-12	-8
<b>Profit before tax</b>	<b>29</b>	<b>23</b>	<b>128</b>	<b>14</b>	<b>8</b>	<b>5</b>	<b>3</b>	<b>12</b>
Combined ratio	94%	97%	96	79%	98%	86%	113%	85%
Claims ratio	77%	81%	95	65%	82%	69%	94%	64%
Number of FTE, end of period	51	53	96	51	51	51	53	53



# Number of full-time employees, end of period

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Faroe Islands	169	173	176	173	177
Denmark	243	246	254	257	269
Greenland	19	20	21	22	23
<b>Banking</b>	431	439	451	452	469
Trygd	22	22	22	23	23
Vørður	51	51	51	53	53
<b>Insurance</b>	73	73	73	76	76
Skyn	5	5	4	5	5
<b>Group</b>	509	517	529	533	548