

Investor Presentation

BANKNORDIK

Growth in lending – margin pressure persists

27 February 2018

Árni Ellefsen, CEO

Disclaimer

- This presentation contains 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 advisers accept any liability whatsoever arising directly or indirectly from the use of this document.

Overview

- **Highlights**
- **Update on strategic initiatives**
- **Financials**
 - Banking
 - Insurance
 - Expenditures
 - Impairment charges
 - Capital ratios
- **Long-term financial objectives**
- **Outlook 2018**
- **Appendices**



- Retail banking
- Private banking
- Corporate banking
- Insurance

Highlights

– Results in line with guidance

2017 highlights

- Strengthened quality of customer relationships
- Improved operational efficiency by continued consolidation of back-office operations in the Faroe Islands
- Revised capital targets: 17% CET1 ratio, 20% total capital ratio, and 65% cost/income ratio

Financial highlights

- Operating profit amounted to DKK 233m, up 22% compared to 2016 (DKK 191m)
- Operating income down 1% YoY to DKK 635m 2017 (DKK 640m)
- Operating costs up 1% to DKK 462m (DKK 459m)
- Net loan impairment charges were a reversal of DKK 60m (net reversal of DKK 12m)
- Non-recurring costs amounted to DKK 18m vs. DKK 12m in 2016
- Profit before tax increased to DKK 235m (DKK 187m, excluding Vørður)
- Lending volumes up by DKK 397m to DKK 9,537m compared to year-end 2016 (DKK 9,141m)
- Deposits down by DKK 36m to DKK 12,632m compared to year-end 2016 (DKK 12,669m)
- CET1 capital ratio of 17.5% and total capital ratio of 19.7% at 31 December 2017

2017 financial results

– Figures in DKKm

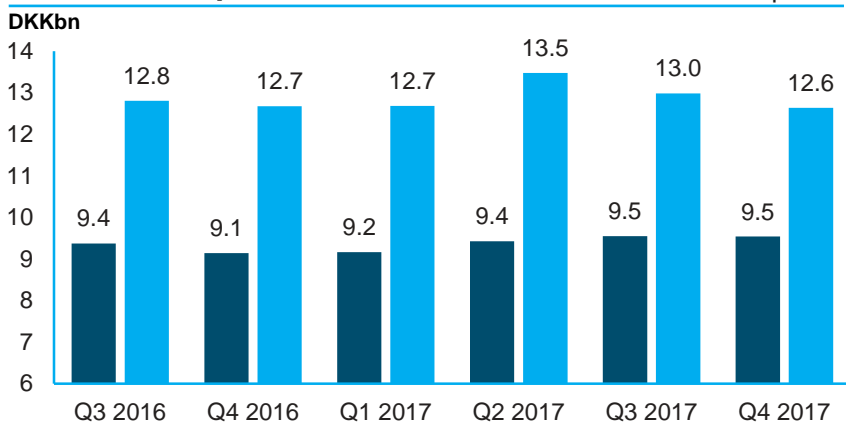
	2017	2016	Index	Q4 2017	Q3 2017	Index	
Profit & loss	Net interest income	387	413	94	95	97	98
	Net fee and commission income	196	192	102	47	39	122
	Net insurance income	43	27	163	12	13	95
	Other operating income	9	9	99	2	3	63
	Operating income	635	640	99	157	152	103
	Operating costs	-462	-459	101	-112	-114	99
	Sector costs	0	-2		2	-1	
	Profit before impairment charges	173	179	97	46	38	121
	Impairment charges, net	60	12		51	4	
	Operating profit	233	191	122	97	42	233
	Non-recurring items	-18	-12	147	-1	-17	
	Market value adjustments	20	8	244	-4	5	
	Profit before tax, continued	235	187	126	92	30	382
	Profit before tax, discontinued (Vörður)	0	90		0	0	
	Profit before tax, total	235	277	85	92	30	302
Key metrics		2017	2016	Index	Q4 2017	Q3 2017	Index
	Loans and advances	9,537	9,141	104	9,537	9,549	100
	Deposits and other debt	12,632	12,669	100	12,632	12,983	97
	Operating cost / income, %	73	72		72	75	
	Solvency ratio, %	19.7	18.3	108	19.7	18.2	108
	CET1 capital ratio, %	17.5	16.0	109	17.5	15.9	110

Lending up 4%, while margin pressure persisted

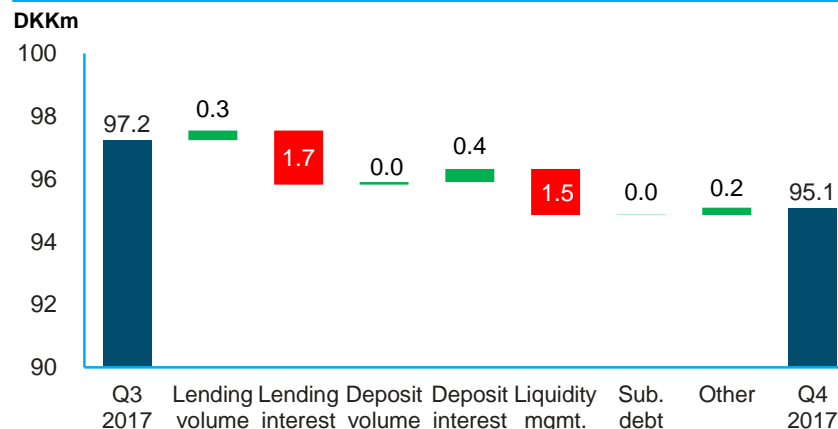
Comments

- Lending volumes up by DKK 397m in 2017 despite Danish corporate loans of approx. DKK 100m being wound up during the period
- 4% YoY growth in lending:
 - 6% growth in lending to personal customers
 - 1% growth in lending to corporate customers
- NII down YoY and QoQ due to further margin pressure and the run-off of corporate lending in Denmark in 2016

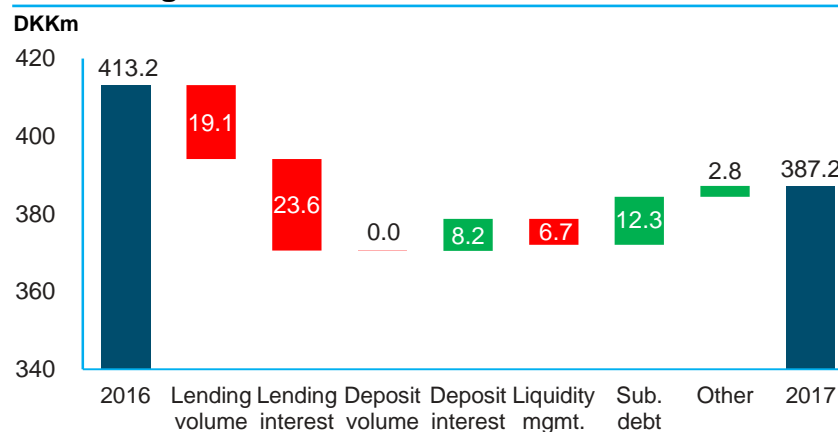
Loans and deposits



QoQ changes in net interest income (NII)



YoY changes in NII

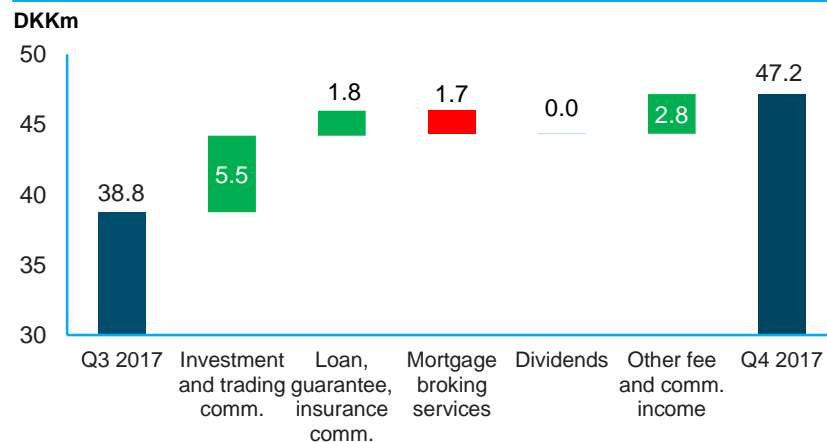


Asset management and mortgage broking drove fee and commission income moderately higher

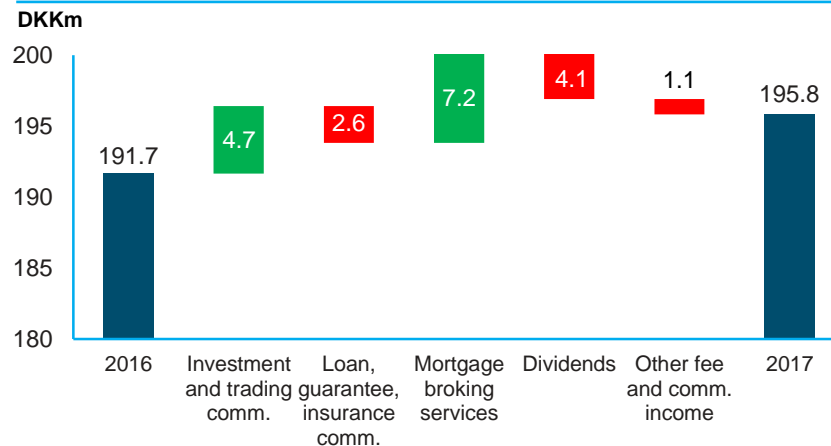
Comments

- Net fee and commission income up by DKK 8m QoQ:
 - Asset management activity increased in Q4 2017
 - Seasonal variations also contributed higher fee income in Q4 2017
- Net fee and commission income up by DKK 4m YoY:
 - Due to increase in investment and trading commission income and mortgage broking activity
 - Dividends decreased due to less income from sector shares

QoQ changes in fee and commission income



YoY changes in fee and commission income

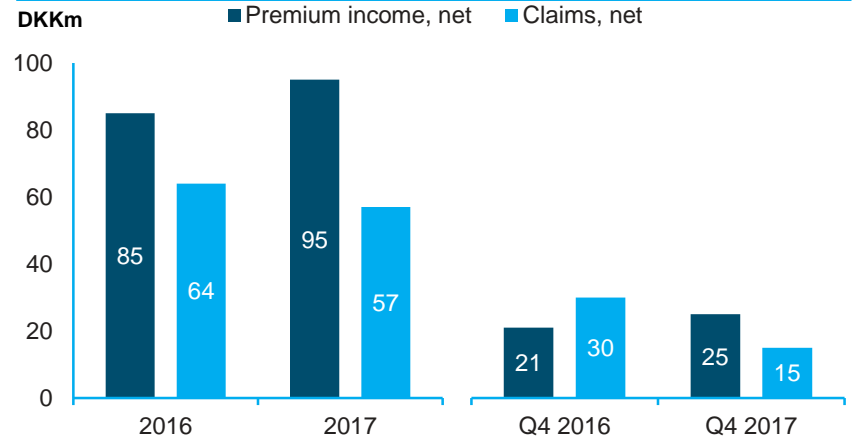


Trygd: Net premium income up 12% in 2017

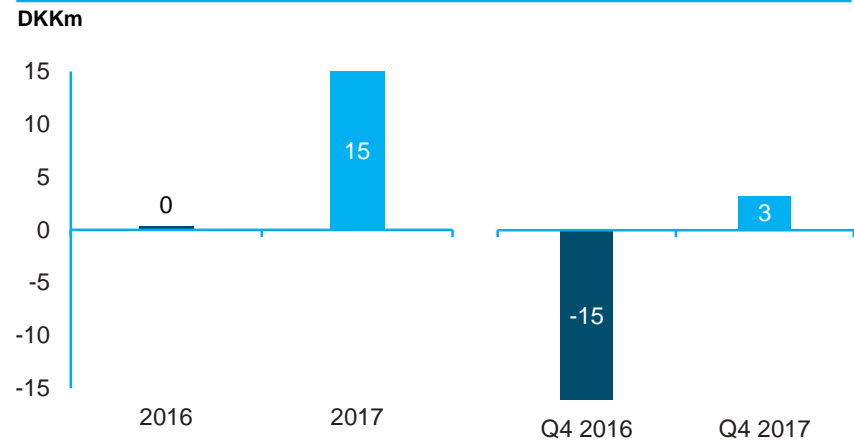
Comments

- Combined ratio of 84% in 2017 compared to 101% in 2016
- Net premium income up by DKK 10m in 2017 compared to 2016 and up DKK 4m from Q4 2016 to Q4 2017
- Net claims down by DKK 7m from 2016 to 2017 and down by DKK 15m from Q4 2016 to Q4 2017
- Profit before tax of DKK 15m in 2017 relative to DKK 0m in 2016 and of DKK 3m in Q4 2017 relative to a loss of DKK 15m in Q4 2016
- Trygd expects to continue attracting new customers and growing premium income in 2018

Premium and claims



Profit before tax

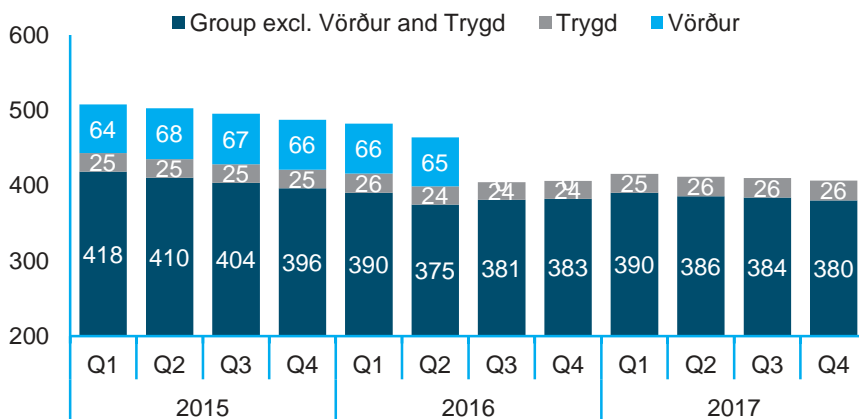


YoY expenditures close to flat

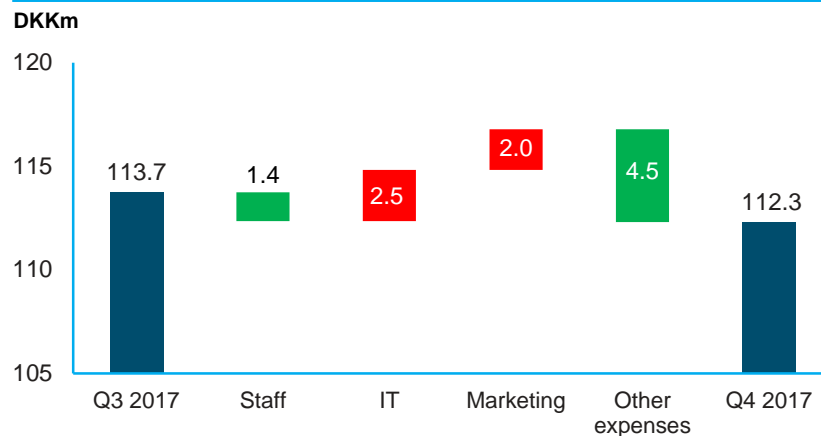
Comments

- Operating costs were down by DKK 1m from Q3 2017 to Q4 2017 and up by DKK 3m from 2016 to 2017
- Staff costs were up YoY in part due to severance payments
- Various IT projects have added to costs in 2017, most notably the MobilePay partnership agreement
- A variety of different expenditure items are contributing to the YoY decrease in other expenses

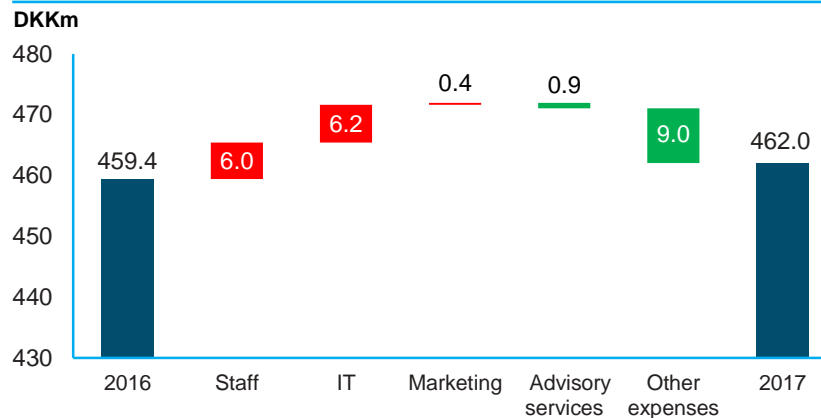
Average number of employees (FTE)



QoQ changes in operating costs



YoY changes in operating costs

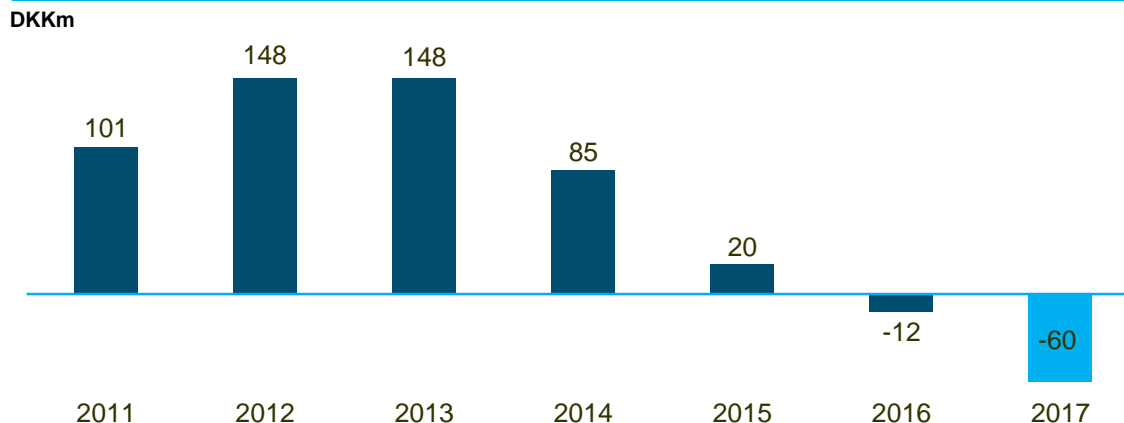


The Group continues to reverse impairment charges

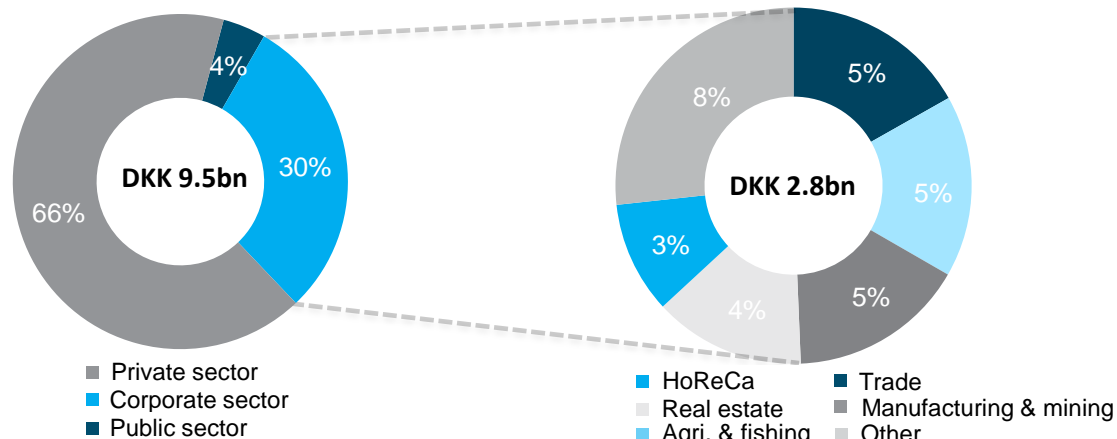
Low-risk portfolio structure

- Net impairment charges were a reversal of DKK 60m in 2017
- The reversal was in particular related to corporate loans that were either repaid or reversed due to improved company-specific conditions
- The private sector accounted for 66% of the loan portfolio, excluding the remaining part of the Danish corporate portfolio
- No individual sector accounting for more than 5% of the loan portfolio
- BankNordik provides 1st lien mortgage loans to the private sector in the Faroe Islands, obtaining a high degree of security

Net impairment charges



Loans by sector - excl. Danish corporate sector

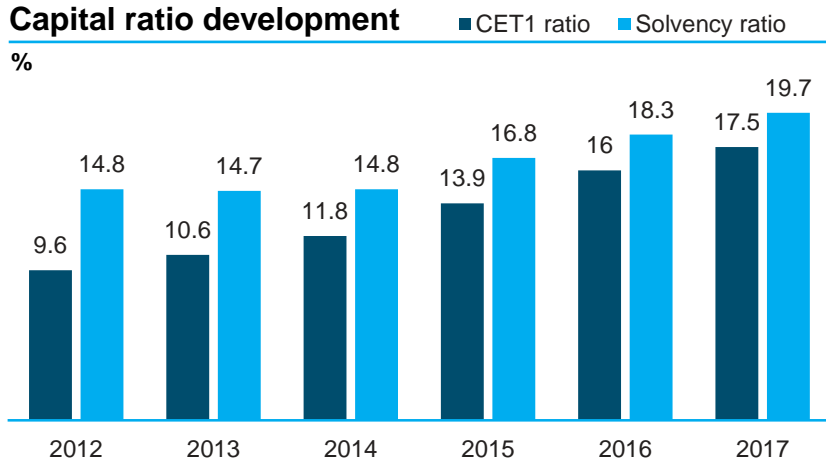


Capital position considerably strengthened in 2017

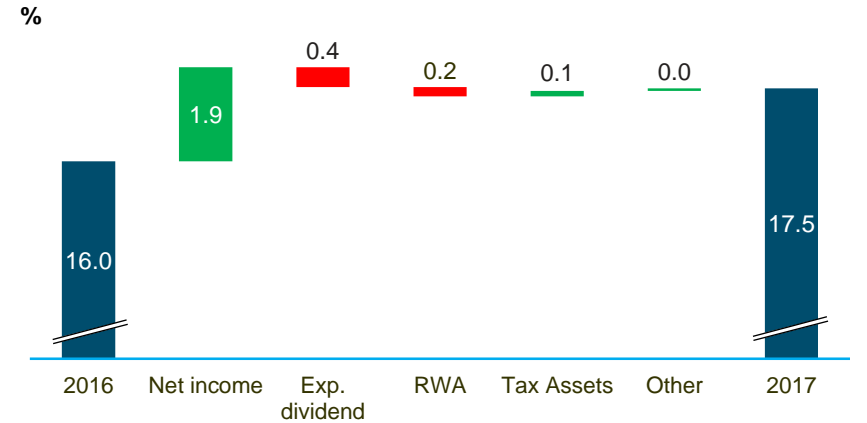
Comments

- CET1 and total capital ratios up by 1.5 percentage points YoY
- Systemic risk buffer of 1% of all Faroese exposures took effect in January 2018
- BankNordik is awaiting the individual MREL add-on, which is expected to be met solely by issuing Tier 3 capital

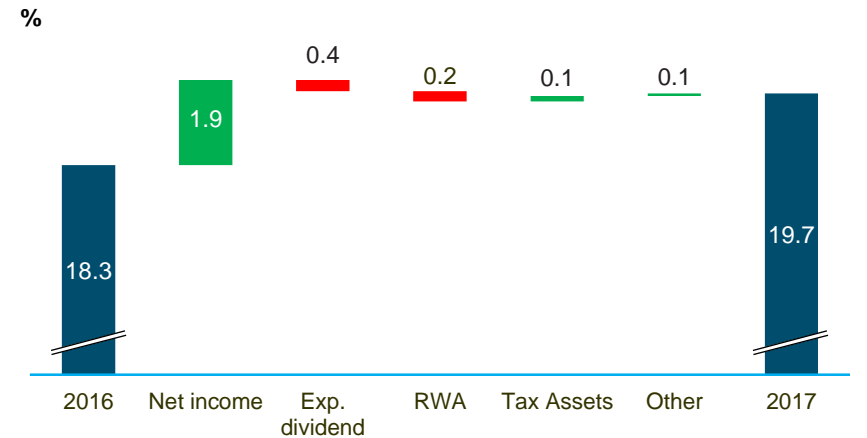
Capital ratio development



YoY changes in CET1 ratio



YoY changes in total capital ratio



Long-term financial objectives

2020 financial objectives

Comments	Progress			
<ul style="list-style-type: none"> ▪ The Group has re-evaluated its capital ratio targets in light of stricter capital requirements ▪ New capital ratio targets: <ul style="list-style-type: none"> – CET 1 target of 17% (previously 13%) – Total capital ratio target of 20% (previously 16.5%) ▪ The target cost/income ratio has also been revised from 62% to 65% ▪ The target return on equity of 10% remains intact ▪ In 2017, ROE was affected by: <ul style="list-style-type: none"> – a substantial reversal of impairment charges – positive market value adjustments – an impairment loss on the Group's head office 	Key metrics	2016	2017	2020 target
	Return on equity	12.0% (8.1%)*	10.1%	10%
	Cost/income ratio	72%	73%	65%
	CET1 capital ratio	16.0%	17.5%	17%
	Total capital ratio	18.3%	19.7%	20%

*8.1% ROE excludes capital gains from Vørður

Outlook for 2018

FY2018 guidance

- Management expects profit before impairment charges, non-recurring items, value adjustments and tax in the range of DKK 160-200m in 2018 (2017: DKK 187m)*
- Net profit is expected to be in the range of DKK 100-150m in 2018 (2017: DKK 189m)

(The guidance figures are provided in accordance with the upcoming changes to the adjusted income statement methodology taking effect in 2018. See the Financial Review section of the 2017 annual report for details)*



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	2017	2016	Index 17/16	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	387	413	94	95	97	97	98	100
Net fees, commission income & dividends	196	192	102	47	39	58	52	51
Net insurance income	43	27	163	12	13	9	9	-7
Other operating income (less reclassification)	9	9	99	2	3	2	1	2
Operating income	635	640	99	157	152	166	160	146
Operating costs*	-462	-459	101	-112	-114	-120	-116	-114
Sector costs	0	-2		2	-1	-1	-1	1
Profit before impairment charges	173	179	97	46	38	46	43	33
Impairment charges	35	-18		39	0	2	-5	-10
Reversals of acquired OEI impairments (reclassified from Other operating income)	25	30	82	12	4	3	5	15
Impairment charges, net	60	12		51	4	5	0	4
Operating profit	233	191	122	97	42	51	43	38
Impairment charges, intangible assets	0	0		0	0	0	0	0
Non-recurring items**	-18	-12	147	-1	-17	0	0	0
Profit before value adjustments and tax	215	179	120	96	25	51	43	38
Market value adjustments***	20	8	244	-4	5	4	14	-10
Profit before tax, continuing operations	235	187	126	92	30	55	57	28
Profit before tax, discontinued operations (Vörður)	0	90		0	0	0	0	0
Profit before tax, total	235	277	85	92	30	55	57	28
Operating cost/income, %	73	72		72	75	72	73	78
Number of FTE, end of period	398	415	96	398	407	407	416	415

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

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

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

Banking

Income statement, Banking

DKKm	2017	2016	Index 17/16	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	386	412	94	95	97	96	97	99
Net fees, commission income & dividends	205	201	102	50	41	60	54	55
Other operating income	5	4	106	1	2	1	1	1
Operating income	595	617	96	145	140	157	152	155
Operating cost	-439	-439	100	-106	-108	-112	-112	-108
Sector costs	0	-2	-	2	-1	-1	-1	1
Profit before impairment charges	156	176	89	41	31	45	40	49
Impairment charges, net	60	12	499	51	4	5	0	4
Operating profit	216	188	115	92	35	50	40	53
Impairment charges, intangible assets	0	0		0	0	0	0	0
Non-recurring items	-18	-12	147	-1	-17	0	0	0
Profit before value adjustments and tax	198	175	113	91	18	50	40	53
Market value adjustments	22	12	184	-3	6	5	14	-9
Profit before tax	220	187	117	87	24	55	54	44
Loans and advances	9.537	9.141	104	9.537	9.549	9.428	9.159	9.141
Deposits and other debt	12.654	12.691	100	12.654	13.000	13.498	12.696	12.691
Operating cost/income, %	74	71		73	78	71	74	69
Number of FTE, end of period	367	385	95	367	372	376	384	385

Personal Banking

Income statement, Personal banking

DKK ^m	2017	2016	Index 17/16	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	263	276	96	68	66	65	64	67
Net fees, commission income & dividends	165	170	97	42	38	41	43	51
Other operating income	3	3	94	0	2	0	0	1
Operating income	431	449	96	110	107	107	108	119
Operating cost	-184	-170	108	-51	-43	-45	-45	-45
Sector costs	0	-2	-	1	0	0	0	1
Profit before impairment charges	248	277	89	60	64	62	63	75
Impairment charges, net	7	18	38	4	-1	1	3	-2
Operating profit	255	296	86	64	63	63	66	73
Non-recurring items	0	-2		0	0	0	0	0
Profit before value adjustments and tax	255	294	87	64	63	63	66	73
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	255	294	87	64	63	63	66	73
Loans and advances	6.325	5.960	106	6.325	6.274	6.123	6.017	5.960
Deposits and other debt	9.669	9.538	101	9.669	9.802	10.282	9.530	9.538
Operating cost/income, %	43	38		47	40	42	41	38
Number of FTE, end of period	212	215	99	212	208	214	211	215

Corporate Banking

Income statement, Corporate Banking

DKK ^m	2017	2016	Index 17/16	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	122	148	83	30	31	30	31	32
Net fees, commission income & dividends	15	17	92	4	4	4	4	5
Other operating income	0	0		0	0	0	0	0
Operating income	137	164	83	33	34	34	36	38
Operating cost	-15	-17	87	-5	-4	-3	-3	-4
Sector costs	0	0	-	0	0	0	0	0
Profit before impairment charges	122	147	83	29	30	31	32	34
Impairment charges, net	54	-6		49	5	4	-3	6
Operating profit	176	140	126	78	35	35	29	40
Non-recurring items	0	0		0	0	0	0	0
Profit before value adjustments and tax	176	140	126	78	35	35	29	40
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	176	140	126	78	35	35	29	40
Loans and advances	3.212	3.181	101	3.212	3.276	3.305	3.142	3.181
Deposits and other debt	2.985	3.153	95	2.985	3.198	3.216	3.166	3.153
Operating cost/income, %	11	10		14	11	9	9	10
Number of FTE, end of period	18	17	106	18	17	17	17	17

Banking, Faroe Islands

Income statement, Faroe Islands

DKK ^m	2017	2016	Index 17/16	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	212	206	103	52	53	53	53	51
Net fees, commission income & dividends	51	58	88	12	12	13	14	16
Other operating income	1	2	60	0	0	0	0	0
Total Operating income	264	266	99	65	66	67	67	67
Operating cost	-169	-171	99	-44	-39	-43	-43	-42
Sector costs	0	-1	-	1	0	0	0	0
Profit before impairment charges	95	95	101	22	26	23	24	26
Impairment charges, net	2	-14		19	-2	-4	-11	-14
Operating profit	97	81	121	40	24	20	13	12
Non-recurring items	-19	0		-3	-17	0	0	-84
Profit before value adjustments and tax	78	81	97	38	8	20	13	-73
Market value adjustments	22	12	184	-3	6	5	14	-9
Profit before tax	100	93	108	34	13	25	27	-82
Loans and advances	6.178	5.645	109	6.178	6.110	6.056	5.811	5.645
Deposits and other debt	6.455	6.156	105	6.455	6.514	6.483	6.271	6.156
Operating cost/income, %	64	64		67	60	64	64	63
Number of FTE, end of period	172	182	95	172	178	179	181	182

Banking, Denmark

Income statement, Denmark

DKK ^m	2017	2016	Index 17/16	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	133	167	80	33	34	32	34	38
Net fees, commission income & dividends	144	133	108	35	27	45	38	36
Other operating income	1	1	94	0	0	0	0	0
Total Operating income	278	302	92	69	61	78	72	74
Operating cost	-242	-243	99	-54	-63	-63	-61	-60
Sector costs	0	-1	-	1	0	0	0	1
Profit before impairment charges	37	58	64	15	-3	14	10	15
Impairment charges, net	55	28	199	32	4	10	10	19
Operating profit	92	85	108	47	2	24	20	34
Impairment charges, intangible assets	0	0		0	0	0	0	0
Non-recurring items	1	-12		1	0	0	0	0
Profit before value adjustments and tax	93	73	128	48	2	24	20	34
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	93	73	128	48	2	24	20	34
Loans and advances	2.790	2.652	105	2.790	2.740	2.686	2.659	2.652
Deposits and other debt	5.550	5.693	97	5.550	5.640	6.171	5.598	5.693
Operating cost/income, %	87	81		79	104	81	86	81
Number of FTE, end of period	175	186	94	175	178	181	187	186

Banking, Greenland

Income statement, Greenland

DKKm	2017	2016	Index 17/16	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	40	38	105	9	10	11	10	11
Net fees, commission income & dividends	10	10	100	2	2	2	3	3
Other operating income	2	1	192	0	1	0	0	1
Total Operating income	52	49	106	12	14	13	13	15
Operating cost	-28	-25	111	-8	-6	-6	-7	-6
Sector costs	0	0	-	0	0	0	0	0
Profit before impairment charges	24	24	102	4	7	7	6	8
Impairment charges, net	2	-2	137	1	1	-1	1	-1
Operating profit	26	22	121	5	9	6	7	8
Impairment charges, intangible assets	0	0		0	0	0	0	0
Non-recurring items	0	0		0	0	0	0	0
Profit before value adjustments and tax	26	22	121	5	9	6	7	8
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	26	22	121	5	9	6	7	8
Loans and advances	569	844	67	569	699	685	690	844
Deposits and other debt	648	842	77	648	846	844	827	842
Operating cost/income, %	54	52	104	68	47	48	54	44
Number of FTE, end of period	20	17	118	20	17	17	16	17

Insurance, Trygd

Income statement, Trygd

DKKm	2017	2016	Index 17/16	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Premium income, net of reinsurance	95	85	112	25	24	23	23	21
Claims, net of reinsurance	-57	-64	89	-15	-12	-14	-15	-30
Net insurance income	39	22	180	10	12	9	7	-8
Net income from investment activities	0	1	7	0	0	0	0	0
Operating income	39	22	173	10	12	9	8	-8
Operating cost	-24	-22	108	-6	-6	-6	-5	-6
Profit before tax	15	0		3	6	3	2	-15
Combined ratio	84	101		87	73	88	90	168
Claims ratio	59	75		60	49	60	68	139
Number of FTE, end of period	25	24	104	25	27	26	26	24

Credit quality of the loan portfolio

Credit classification according to the Danish FSA's method

	Q3 2017			Q4 2017			Change
	<7.5 DKKm	>7.5 DKKm	Total	<7.5 DKKm	>7.5 DKKm	Total	
Portfolio without weakness	3.363	2.913	6.276	3.405	2.735	6.140	-136
Portfolio with some weakness	5.565	1.384	6.949	5.706	1.348	7.053	104
Portfolio with weakness	312	115	427	276	143	418	-9
- of which unsecured	117	24	141	88	36	124	-18
Portfolio with OIE	754	642	1.396	729	477	1.206	-190
- of which unsecured	435	361	796	419	226	645	-152
- impairments	332	224	556	313	117	430	-125
Portfolio without individ. classification	119	17	136	127	108	235	99
Total	10.112	5.072	15.185	10.242	4.810	15.052	-132