

BANKNORDIK

Investor Presentation

Progress in Q3 2018

1 November 2018

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 2018**
- **Appendices**



Highlights

– Positive developments in Q3 2018

Operational highlights

- New digital marketing campaign on limiting the use of banking jargon launched in the Danish market
- Reached out to over 7,000 customers in the peripheral customer base since August to strengthen relationships
- New DKK 15m share buyback programme launched

9M 2018 financial highlights

- Operating profit amounted to DKK 230m, up 60% compared to 9M 2017 (DKK 144m)
- Operating income down 1% YoY to DKK 479m in 9M 2018 (DKK 486m)
- Operating costs down 2% to DKK 342m (DKK 350m)
- Net loan impairment charges were a reversal of DKK 93m (net reversal of DKK 9m)
- Non-recurring items amounted to a gain of DKK 82m vs. a loss of DKK 17m in 9M 2017
- Value adjustments amounted to a loss of DKK 26m (gain of DKK 16m)
- Profit before tax increased to DKK 286m (DKK 143m)
- FY2018 net profit guidance raised from DKK 190-240m to DKK 240-280m (9M 2018: DKK 229m)

9M 2018 financial results

– Figures in DKKm

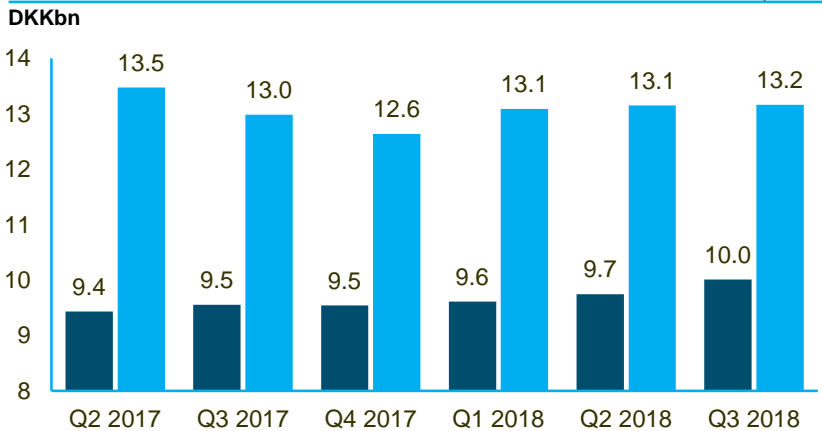
	9M 2018	9M 2017	Index	Q3 2018	Q2 2018	Index
Profit & loss	Net interest income	282	292	96	94	101
	Net fee and commission income	130	143	93	43	99
	Net insurance income	31	31	100	13	211
	Other operating income	36	20	155	10	63
	Operating income	479	489	99	160	101
	Operating costs	-342	-350	98	-111	96
	Sector costs	-1	-2	29	0	100
	Profit before impairment charges	137	135	102	49	116
	Impairment charges, net	93	9		39	23
	Operating profit	230	144	160	88	135
	Non-recurring items	82	-17		-6	12
	Market value adjustments	-26	16		-3	-17
	Profit before tax	286	143	200	78	133
Key metrics	Loans and advances	10,008	9,549	105	10,008	103
	Deposits and other debt	13,163	12,983	98	13,163	100
	Operating cost / income, %	71	72		69	73
	Total capital ratio, %	17.6	18.2		17.6	18.5
	CET1 capital ratio, %	15.5	15.9		15.5	16.3

Increase in lending offset tighter margins

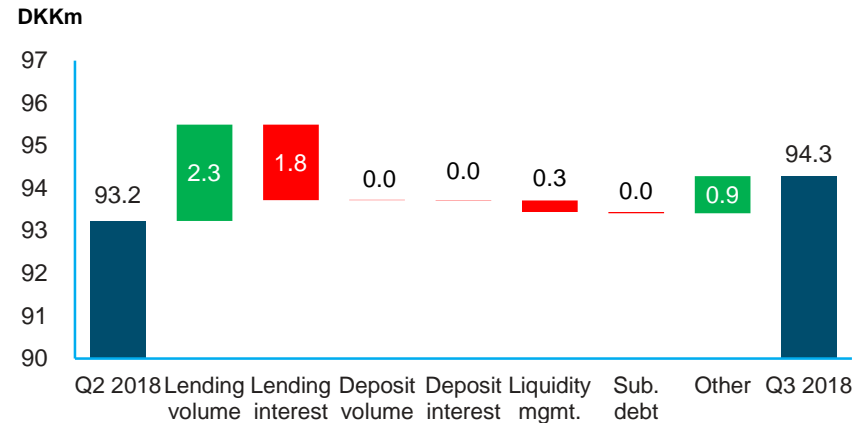
Comments

- Net interest income (NII) up DKK 1m QoQ and down DKK 10m YoY.
- Lending volumes up DKK 266m QoQ and DKK 459m YoY
- Increase in lending volumes more than offset tighter interest margins

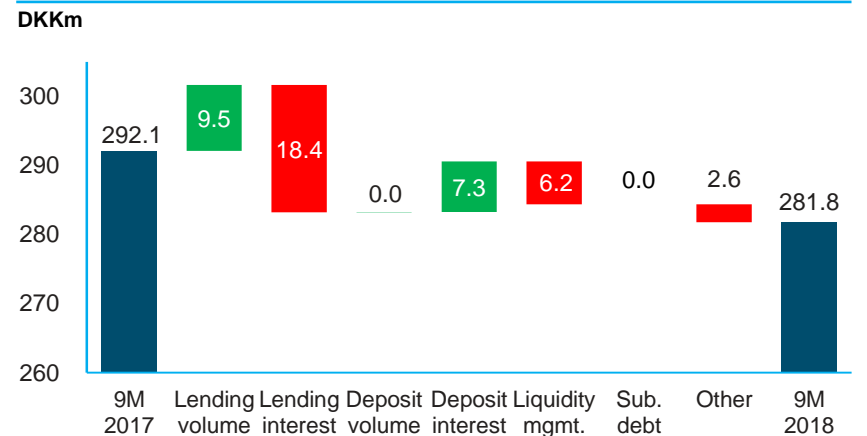
Loans and deposits



QoQ changes in net interest income (NII)



YoY changes in NII

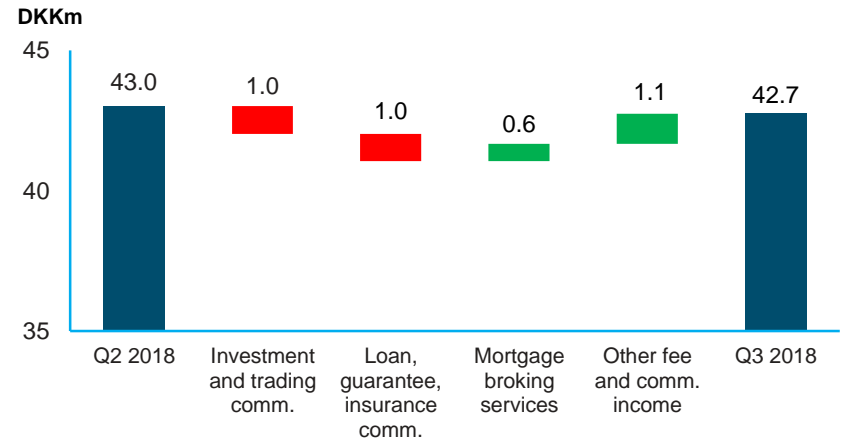


Customer activity higher in Q3 2018

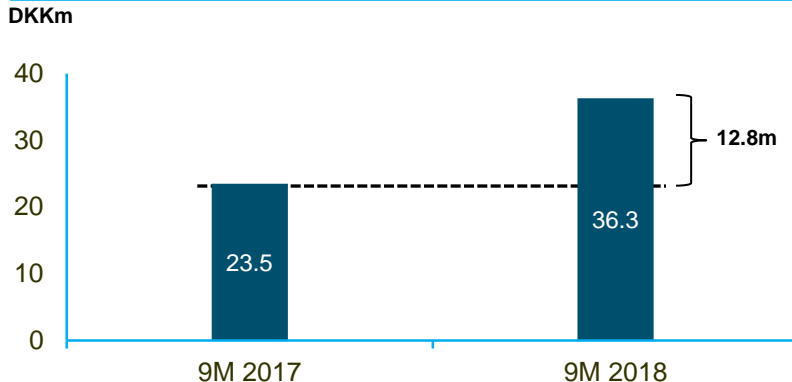
Comments

- Net fee and commission income flat QoQ and down DKK 14m YoY
- YoY drop in fee and commission income offset by an increase in other operating income
- Restructuring of asset management activity relating to MiFID II has led to reclassification of income previously recognised in fee and commission income

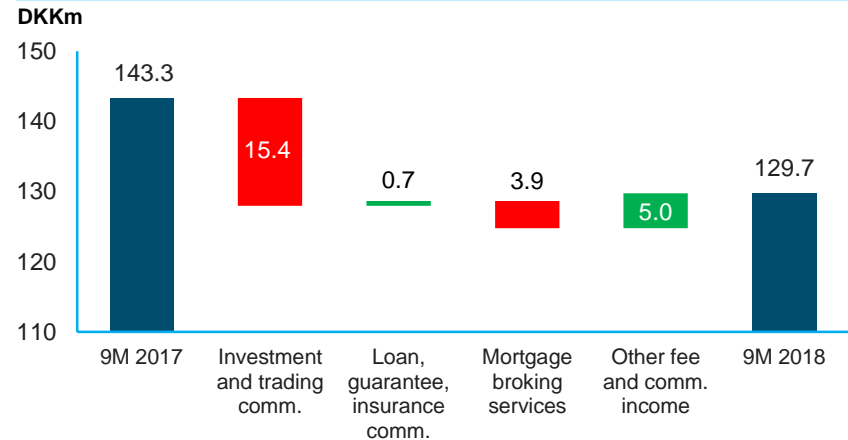
QoQ changes in fee and commission income



Other operating income

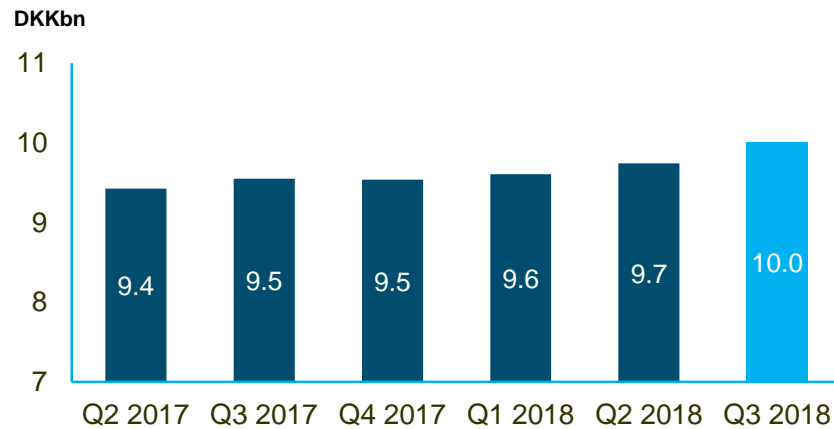


YoY changes in fee and commission income

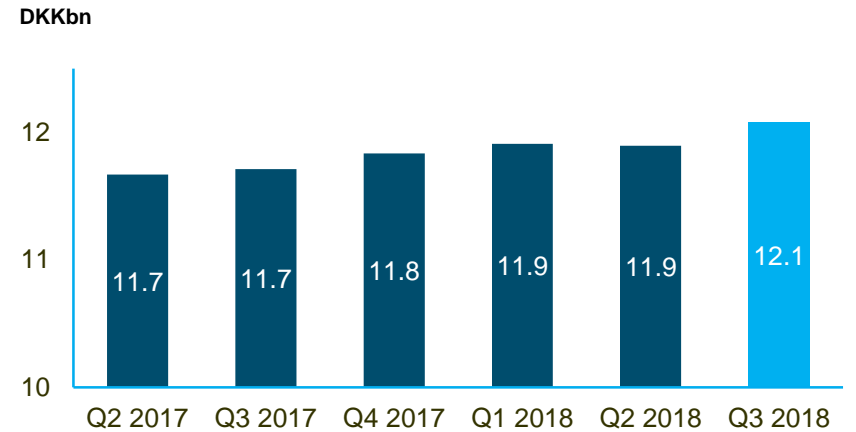


Development in business volumes

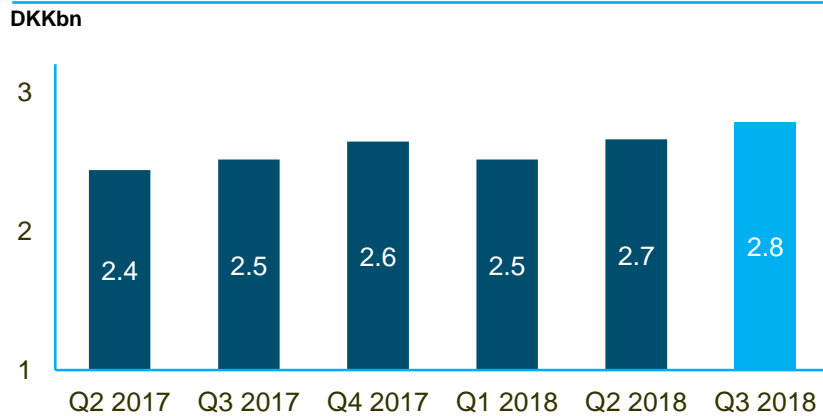
Lending



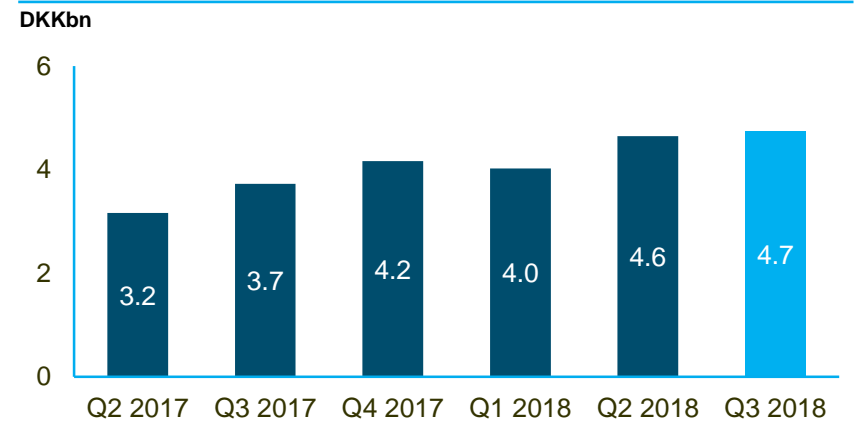
Mortgages



Guarantees

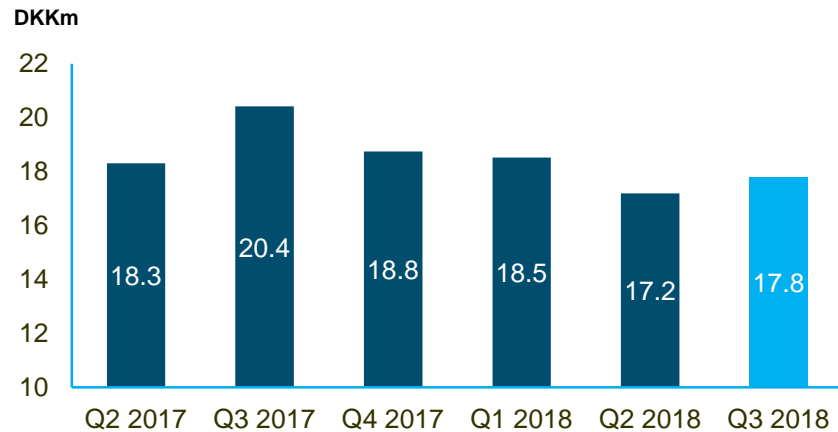


Assets under management

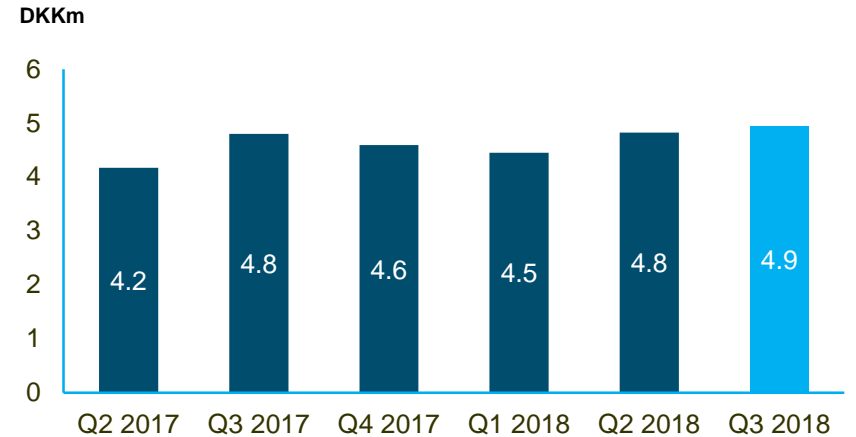


Development in fee and commission income

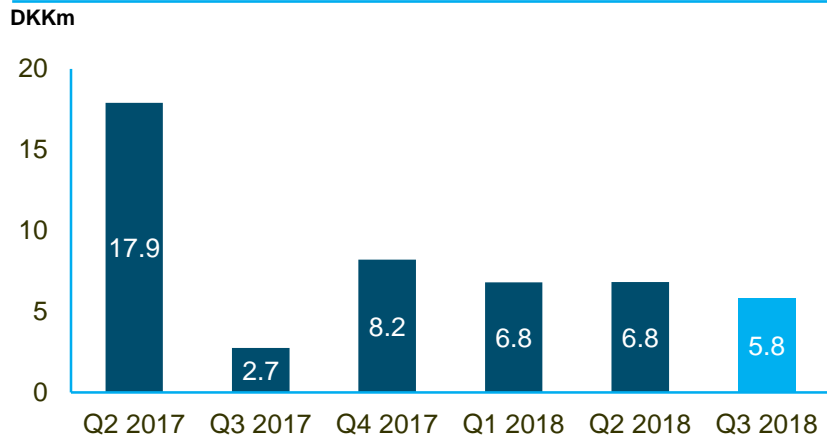
Income from mortgage brokering



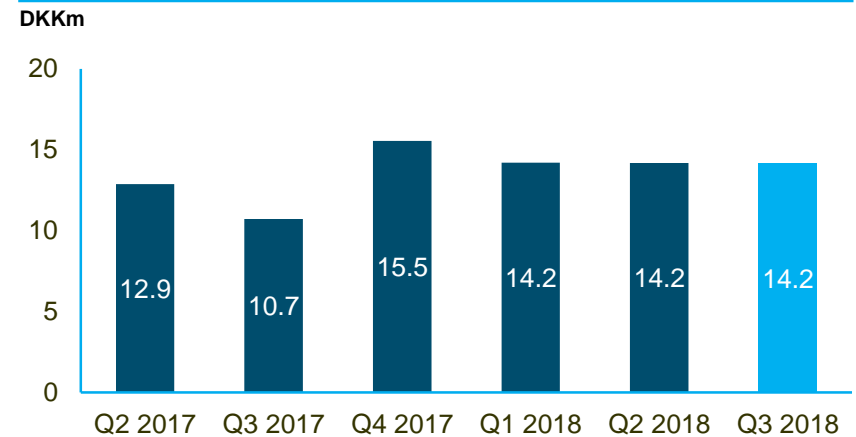
Guarantee commissions



Investment and trading commission



Income from other activities

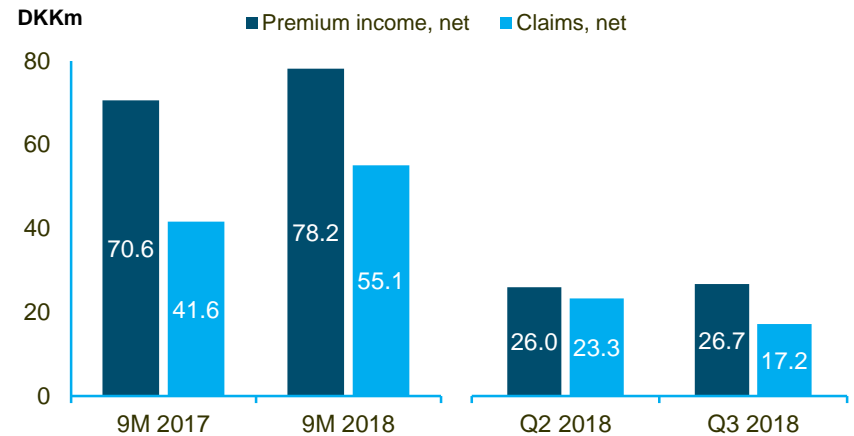


Trygd: Another quarter of solid growth

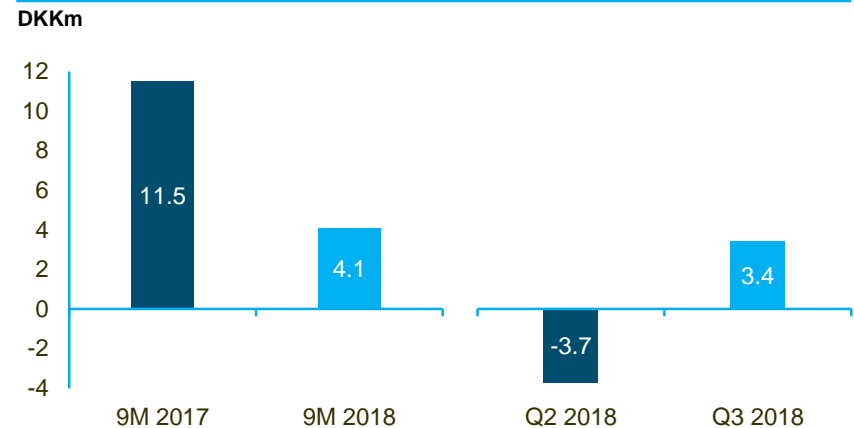
Comments

- Combined ratio of 94% in 9M 2018 compared to 84% in 9M 2017
- Net premium income up by DKK 8m YoY and up by DKK 1m QoQ
- Net claims up by DKK 14m YoY and down by DKK 6m QoQ in particular due to a single large claim in Q2 2018
- Profit before tax of DKK 4m in 9M 2018 relative to DKK 11m PBT in 9M 2017 and DKK 3m PBT in Q3 2018 relative to DKK 4m loss in Q2 2018
- Trygd expects to continue attracting new customers and growing premium income in 2018

Premium and claims



Profit before tax

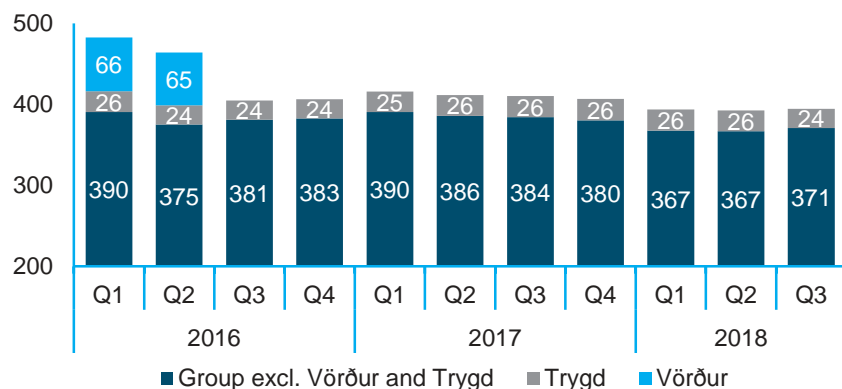


Expenses managed with discipline in 9M 2018

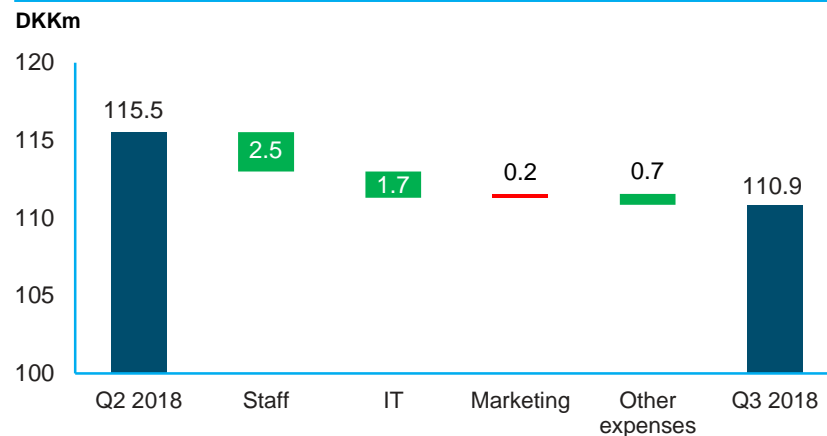
Comments

- Operating costs down DKK 5m QoQ and down by DKK 8m YoY
- A general curb in expenditures contributed to the YoY fall in operating costs
- Marketing costs will increase in Q4 2018 as the Group has recently launched a comprehensive digital marketing campaign in Denmark
- BankNordik targets zero expenditure growth in 2018

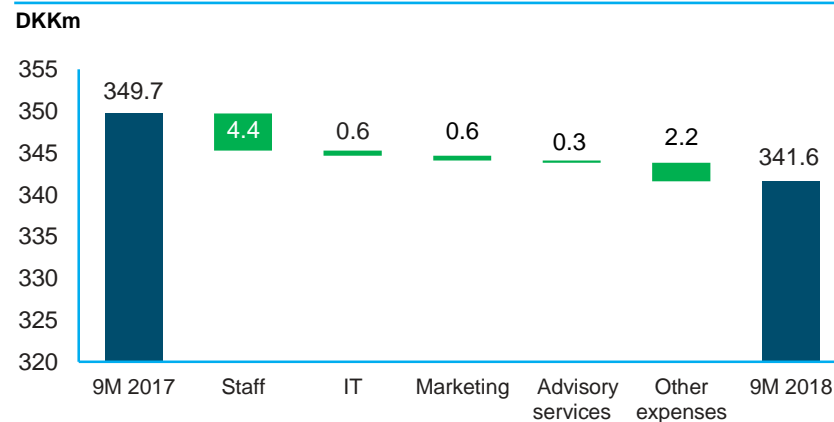
Average number of employees (FTE)



QoQ changes in operating costs



YoY changes in operating costs

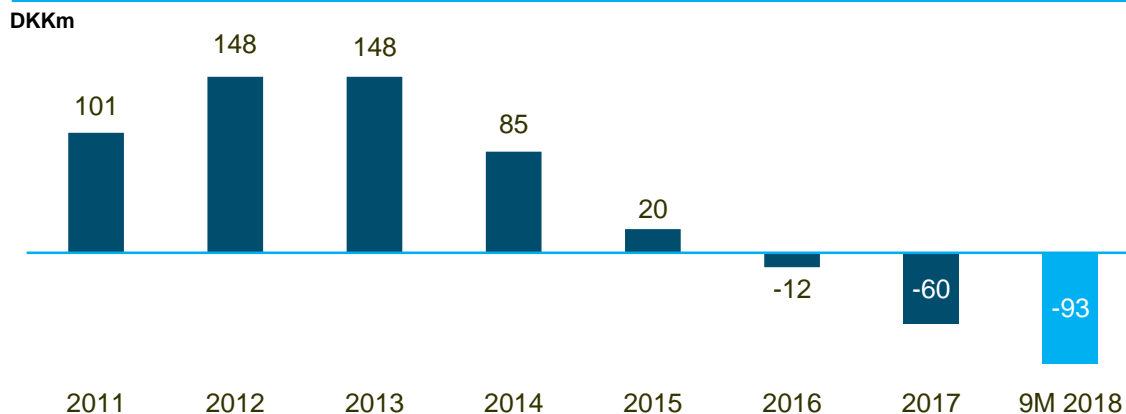


Well diversified and low risk loan-portfolio

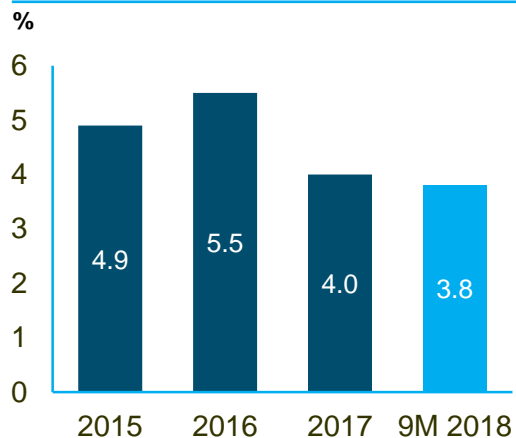
Low-risk portfolio structure

- Net impairment charges were a reversal of DKK 93m in 9M 2018
- No individual sector accounting for more than 5% of the loan portfolio
- Two thirds of the loan portfolio allocated to personal lending

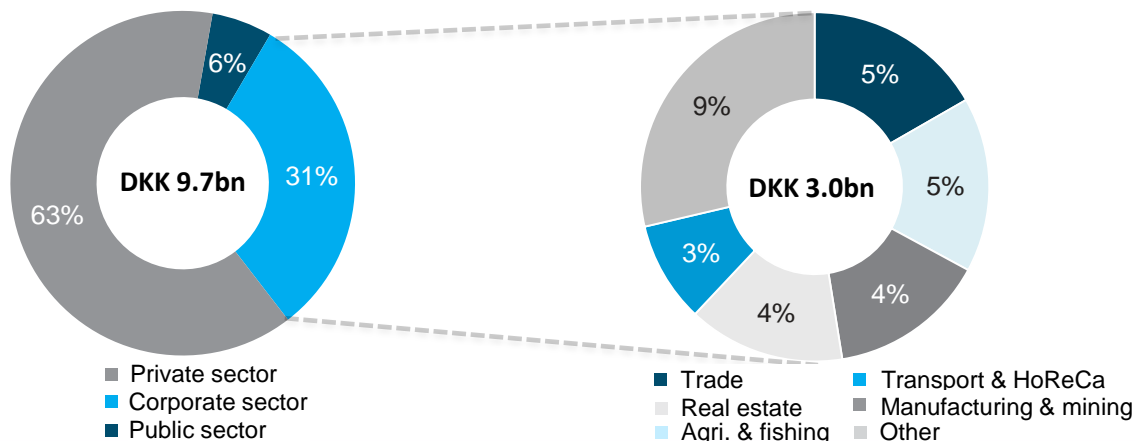
Net impairment charges



Accumulated impairment ratio



Loans by sector - excl. remaining Danish corporate loans

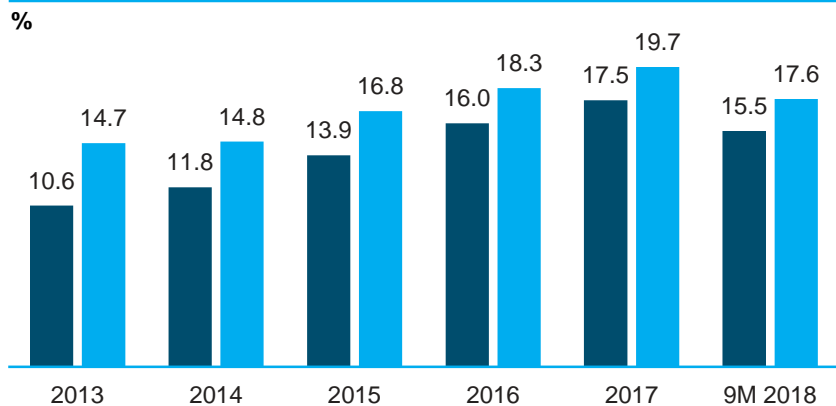


RWA up 7% YTD

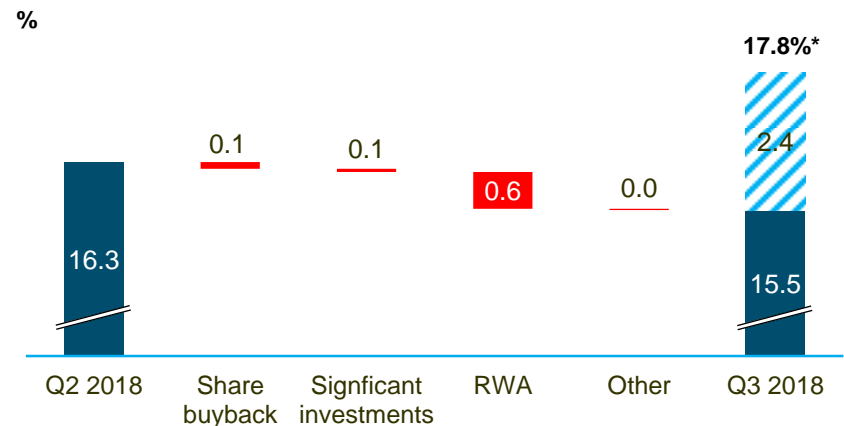
Comments

- CET1 down by 0.8 percentage point and total capital ratio down by 0.9% percentage point, both QoQ
- If net income from 9M 2018 was recognised in the solvency statement, the total capital ratio would be 19.9% and the CET1 ratio would be 17.8% as of 30 September 2018*
- Systemic risk buffer raised to 3% of Faroese exposures as of 2020 (approx. 1.8% of total exposures)

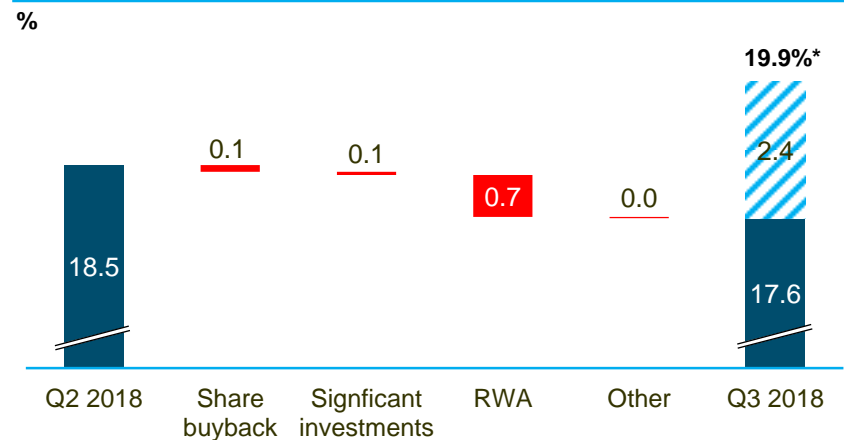
Capital ratio development



QoQ changes in CET1 ratio



QoQ changes in total capital ratio



Long-term financial objectives

2020 financial objectives

Comments	Progress			
<ul style="list-style-type: none"> • The Group targets 10% ROE and a 65% cost/income ratio by 2020 • In 9M 2018, ROE was affected by: <ul style="list-style-type: none"> • a substantial reversal of impairment charges • a gain on the Group's head office property • a revaluation gain on BI Holding A/S • Excluding non-recurring items, the annualised 9M 2018 ROE figure was 11.8%. 	Key metrics	2017	9M 2018	2020 target
	Return on equity	10.1%	15.4%*	10%
	Cost/income ratio	73%	72%	65%
	CET1 capital ratio	17.5%	15.5%	17%
	Total capital ratio	19.7%	17.6%	20%

**Annualised figure based on 9M 2018 net profit, assuming no additional non-recurring items during the year*

Outlook for 2018

Operating profit before impairment charges

- Guidance of DKK 160-200m (9M 2018: DKK 137m)
- Management guiding for the upper end of the guided range

Net profit

- FY 2018 net profit expected to be in DKK 240-280m range



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-Q3 2018	Q1-Q3 2017	Index 18/17	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Net interest income	282	292	96	94	93	94	95	97
Net fee and commission income	130	143	91	43	43	44	47	39
Net insurance income	31	31	100	13	6	12	12	13
Other operating income (less reclassification)	36	20	186	10	15	12	8	7
Operating income	479	486	99	160	157	162	162	156
Operating costs*	-342	-350	98	-111	-116	-115	-112	-114
Sector costs	-1	-2	29	0	0	0	2	-1
Profit before impairment charges	137	135	102	49	42	47	52	42
Impairment charges	93	-4		46	19	28	39	0
Reversals of acquired OEI impairments (Reclassified from Other operating income)	0	12	-	-7	4	3	12	4
Impairment charges, net	93	9		39	23	31	51	4
Operating profit	230	144	160	88	65	77	103	46
Non-recurring items**	82	-17		-6	12	76	-1	-17
Profit before value adjustments and tax	311	127	245	81	76	154	101	29
Market value adjustments***	-26	16		-3	-17	-6	-10	1
Profit before tax	286	143	200	78	59	148	92	30
Operating cost/income, %	71	72		69	73	71	69	73
Number of FTE, end of period	385	407	95	385	390	387	400	407

* 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	Q1-Q3 2018	Q1-Q3 2017	Index 18/17	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Net interest income	281	291	97	94	93	94	95	97
Net fee and commission income	137	150	91	45	45	46	49	41
Other operating income	31	16	193	8	13	10	7	6
Operating income	449	457	98	147	152	150	151	144
Operating cost	-326	-333	98	-106	-110	-110	-106	-108
Sector costs	-1	-2	29	0	0	0	2	-1
Profit before impairment charges	123	123	100	42	42	40	47	35
Impairment charges	93	-4		46	19	28	39	0
Reversals of acquired OEI impairments	0	12	-	-7	4	3	12	4
Impairment charges, net	93	9		39	23	31	51	4
Operating profit	216	131	164	81	65	71	98	38
Non-recurring items	82	-17		-6	12	76	-1	-17
Profit before value adjustments and tax	297	115	260	75	76	147	96	22
Market value adjustments	-24	18		-3	-17	-5	-9	2
Profit before tax	273	132	207	72	59	142	87	24
Loans and advances *	10.008	9.549	105	10.008	9.742	9.607	9.537	9.549
Deposits and other debt	13.184	13.000	101	13.184	13.168	13.107	12.654	13.000
Operating cost/income, %	72	73		72	72	73	70	75
Number of FTE, end of period	355	372	95	355	358	356	367	372

Personal Banking

Income statement, Personal banking

DKKm	Q1-Q3 2018	Q1-Q3 2017	Index 18/17	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Net interest income	195	196	100	65	65	66	68	66
Net fee and commission income	125	118	106	41	41	43	42	38
Other operating income	24	14	178	5	11	8	4	6
Operating income	345	327	105	111	117	116	114	110
Operating cost	-133	-132	101	-44	-44	-45	-51	-43
Sector costs	0	-1	29	0	0	0	1	0
Profit before impairment charges	211	194	109	67	73	71	64	67
Impairment charges	47	-5		27	6	13	1	-4
Reversals of acquired OEI impairments	0	8	-	-5	3	2	3	3
Impairment charges, net	47	3	1.489	22	10	15	4	-1
Operating profit	258	197	131	89	83	86	68	66
Non-recurring items	0	0		0	0	0	0	0
Profit before value adjustments and tax	258	197	131	89	83	86	68	66
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	258	197	131	89	83	86	68	66
Loans and advances	6.481	6.274	103	6.481	6.382	6.368	6.325	6.274
Deposits and other debt	9.928	9.802	101	9.928	10.027	9.804	9.669	9.802
Operating cost/income, %	39	40		40	38	38	45	39
Number of FTE, end of period	206	208	99	206	201	207	212	208

Corporate Banking

Income statement, Corporate Banking

DKKm	Q1-Q3 2018	Q1-Q3 2017	Index 18/17	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Net interest income	86	92	93	29	29	28	30	31
Net fee and commission income	10	11	90	3	3	3	4	4
Other operating income	5	2		2	1	3	1	1
Operating income	101	106	96	34	34	33	34	35
Operating cost	-12	-10	114	-4	-4	-4	-5	-4
Sector costs	0	0	29	0	0	0	0	0
Profit before impairment charges	89	95	94	30	30	29	30	31
Impairment charges	46	1		19	12	15	39	4
Reversals of acquired OEI impairments	0	4	-	-2	1	1	9	1
Impairment charges, net	46	6		17	13	16	49	5
Operating profit	135	101	135	47	43	45	79	36
Non-recurring items	0	0		0	0	0	0	0
Profit before value adjustments and tax	135	101	135	47	43	45	79	36
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	135	101	135	47	43	45	79	36
Loans and advances	3.527	3.276	108	3.527	3.360	3.240	3.212	3.276
Deposits and other debt	3.257	3.198	102	3.257	3.141	3.303	2.985	3.198
Operating cost/income, %	12	10		12	11	12	14	11
Number of FTE, end of period	17	17	99	17	17	18	18	17

Banking, Faroe Islands

Income statement, Faroe Islands

DKKm	Q1-Q3 2018	Q1-Q3 2017	Index 18/17	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Net interest income	163	160	102	55	53	55	52	53
Net fee and commission income	37	38	98	12	14	12	12	12
Other operating income	12	5	217	3	5	3	3	2
Total Operating income	211	203	104	70	72	70	67	67
Operating cost	-133	-126	106	-43	-44	-47	-44	-39
Sector costs	0	-1	29	0	0	0	1	0
Profit before impairment charges	78	77	101	27	28	23	24	28
Impairment charges	51	-17		16	21	14	19	-2
Reversals of acquired OEI impairments	0	0		0	0	0	0	0
Impairment charges, net	51	-17		16	21	14	19	-2
Operating profit	129	61	213	43	48	37	43	26
Non-recurring items	91	-17		0	10	81	-3	-17
Profit before value adjustments and tax	220	44	501	43	59	118	40	9
Market value adjustments	-24	22	111	-7	-18	1	-6	4
Profit before tax	196	66	298	36	40	120	34	13
Loans and advances	6.452	6.110	106	6.452	6.378	6.213	6.178	6.110
Deposits and other debt	7.006	6.514	108	7.006	6.880	6.829	6.455	6.514
Operating cost/income, %	63	62		62	61	66	65	58
Number of FTE, end of period	179	178	101	179	178	172	172	178

Banking, Denmark

Income statement, Denmark

DKKmn	Q1-Q3 2018	Q1-Q3 2017	Index 18/17	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Net interest income	93	100	93	31	31	31	33	34
Net fee and commission income	93	105	89	31	30	32	35	27
Other operating income	16	8	190	3	7	6	3	2
Total Operating income	202	213	95	65	68	69	71	62
Operating cost	-171	-187	91	-55	-58	-57	-54	-63
Sector costs	0	-1	29	0	0	0	1	0
Profit before impairment charges	30	25	124	10	9	11	18	-1
Impairment charges	43	11	386	32	-7	18	19	0
Reversals of acquired OEI impairments	0	12	-	-7	4	3	12	4
Impairment charges, net	43	24	183	26	-3	20	32	4
Operating profit	74	48	153	35	7	32	49	3
Non-recurring items	-10	0		-6	1	-5	1	0
Profit before value adjustments and tax	64	48	133	29	8	27	51	3
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	64	48	133	29	8	27	51	3
Loans and advances	2.832	2.740	103	2.832	2.772	2.798	2.790	2.740
Deposits and other debt	5.551	5.640	98	5.551	5.675	5.619	5.550	5.640
Operating cost/income, %	85	88		85	86	83	77	101
Number of FTE, end of period	158	178	89	158	162	166	175	178

Banking, Greenland

Income statement, Greenland

DKKm	Q1-Q3 2018	Q1-Q3 2017	Index 18/17	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Net interest income	26	31	82	8	9	8	9	10
Net fee and commission income	7	7	94	2	2	2	2	2
Other operating income	4	3	157	2	1	1	1	2
Total Operating income	36	41	89	13	12	12	13	14
Operating cost	-22	-20	108	-8	-8	-6	-8	-6
Sector costs	0	0	29	0	0	0	0	0
Profit before impairment charges	15	21	71	5	5	5	5	8
Impairment charges, net	-1	2		-3	5	-3	1	1
Operating profit	14	23	60	2	10	2	5	9
Non-recurring items	0	0		0	0	0	0	0
Profit before value adjustments and tax	14	23	60	2	10	2	5	9
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	14	23	60	2	10	2	5	9
Loans and advances	724	699	103	724	593	597	569	699
Deposits and other debt	627	846	74	627	613	660	648	846
Operating cost/income, %	59	49		59	62	55	64	46
Number of FTE, end of period	18	17	109	18	18	19	20	17

Insurance, Trygd

Income statement, Trygd

DKKm	Q1-Q3 2018	Q1-Q3 2017	Index 18/17	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Premium income, net of reinsurance	78	71	111	27	26	25	25	24
Claims, net of reinsurance	-55	-42	133	-17	-23	-15	-15	-12
Net insurance income	23	29	79	10	3	11	10	12
Net income from investment activities	-1	0		0	0	0	0	0
Operating income	22	29	77	9	3	11	10	12
Operating cost	-18	-17	103	-6	-6	-6	-6	-6
Profit before tax	4	11	38	3	-4	5	3	6
Combined ratio	94	84		87	114	80	87	73
Claims ratio	71	59		64	90	58	60	49
Number of FTE, end of period	23	27	84	23	25	25	27	27

Credit quality of the loan portfolio

Credit classification according to the Danish FSA's method

	Q2 2018			Q3 2018			Change
	<7.5 DKKm	>7.5 DKKm	Total	<7.5 DKKm	>7.5 DKKm	Total	
Portfolio without weakness	3.352	2.566	5.918	3.349	2.586	5.935	17
Portfolio with some weakness	5.904	1.333	7.237	6.028	1.671	7.698	461
Portfolio with weakness	266	418	683	241	194	435	-248
- here of unsecured	76	113	188	71	66	137	-51
- impairments	14	39	53	9	39	49	-4
Portfolio with OIE	675	367	1.042	619	349	968	-74
- here of unsecured	377	168	545	349	157	506	-39
- impairments	285	110	395	261	102	363	-32
Portfolio without individ. classification	66	13	79	103	38	141	61
Total	10.263	4.696	14.959	10.339	4.838	15.177	218