

Growth in business volumes – continued margin pressure

Investor presentation

5 August 2019

Árni Ellefsen, CEO

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Overview

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



Highlights in H1 2019

H1 2019 operating highlights

- BankNordik partnered with the European Investment Fund to provide financing to innovative enterprises in the Faroe Islands and Greenland through the InnovFin programme
- BankNordik's customers can now use Apple Pay to make contactless purchases using their Apple devices

H1 2019 financial highlights

- Net interest income down 3% to DKK 181m in H1 2019 from DKK 188m H1 2018
- Net fee and commission income up 7% to DKK 93m from DKK 87m in H1 2018
- Operating income amounted to DKK 321m vs. DKK 319m in H1 2018
- Operating costs up 4% to DKK 240m (DKK 231m)
- Net impairment charges were a reversal of DKK 72m (reversal of DKK 54m)
- Market value adjustments amounted to a loss of DKK 2m (loss of DKK 23m)
- Profit before tax was DKK 151m (DKK 207m)
- Bank lending volumes up by 3% to DKK 10.1bn (DKK 9.7bn)
- Mortgage lending volumes up by 6% to DKK 12.6bn (DKK 11.9bn)
- CET1 capital ratio of 17.5% and total capital ratio of 19.6% at 30 June 2019

H1 2019 financial results

— Figures in DKKm

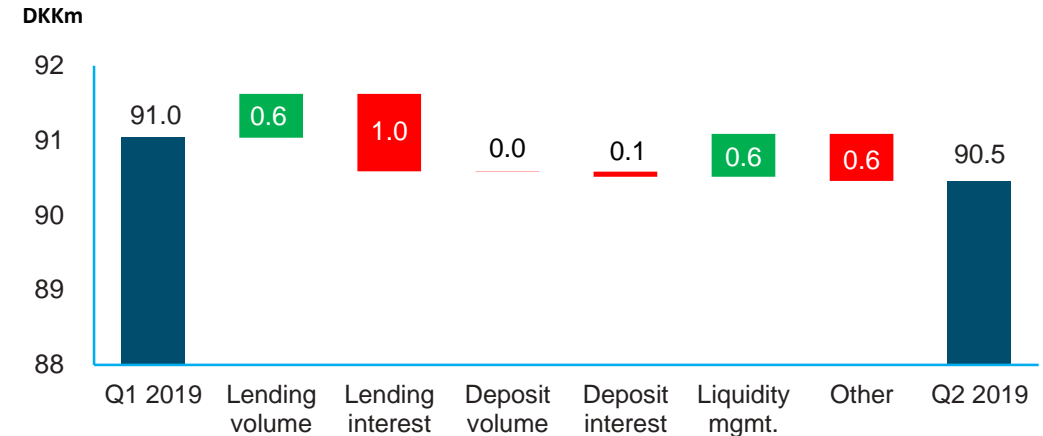
	H1 2019	H1 2018	Index	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	
Profit & loss	Net interest income	181	188	97	90	91	92	94	93
	Net fee and commission income	93	87	107	45	48	42	43	43
	Net insurance income	24	18	131	15	9	13	13	6
	Other operating income	22	27	83	11	11	9	10	15
	Operating income	321	319	100	163	158	156	160	157
	Operating costs	-240	-231	104	-119	-120	-115	-111	-116
	Sector costs	0	0		0	0	0	0	0
	Profit before impairment charges	81	88	92	43	38	42	49	42
	Net impairment charges on loans	72	54	134	53	19	18	39	23
	Operating profit	153	142	108	96	57	60	88	65
	Non-recurring items	0	88		0	0	-10	-6	12
	Market value adjustments	-2	-23		-10	8	-12	-3	-17
Profit before tax	151	207	73	86	65	38	78	59	
Key metrics	Loans and advances	10.1	9.7	103	10.1	10.0	10.0	10.0	9.7
	Deposits and other debt	14.1	13.1	107	14.1	14.0	13.4	13.2	13.1
	Mortgage credit	12.6	11.9	106	12.6	12.5	12.2	12.1	11.9
	Operating cost / income, %	76	72		75	76	73	69	73
	Total capital ratio, %	19.6	18.5		19.6	19.2	19.8	17.6	18.5
	CET1 capital ratio, %	17.5	16.3		17.5	17.2	17.7	15.5	16.3

Net interest income remaining under pressure

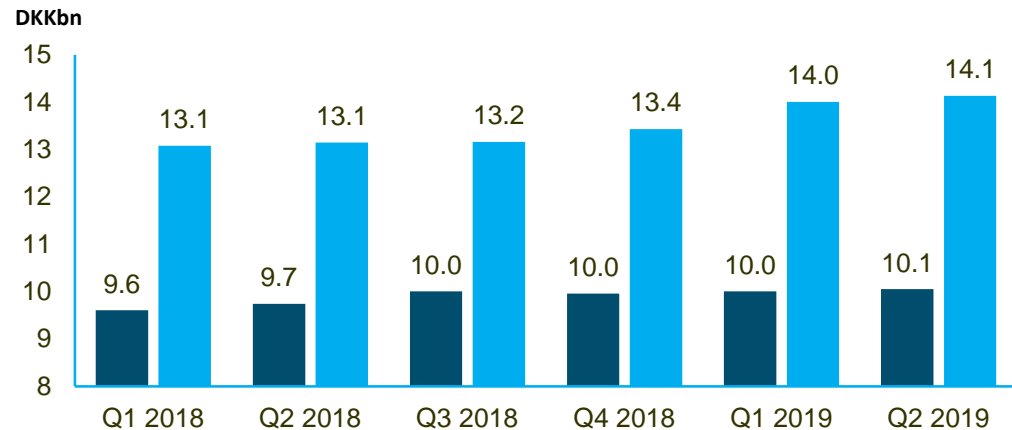
Comments

- Net interest income down by DKK 1m QoQ and by DKK 6m YoY, mainly due to margin pressure
- Squeezed margins continue to cause a drag on net interest income
- Lending volumes up by DKK 46m QoQ and by DKK 311m YoY

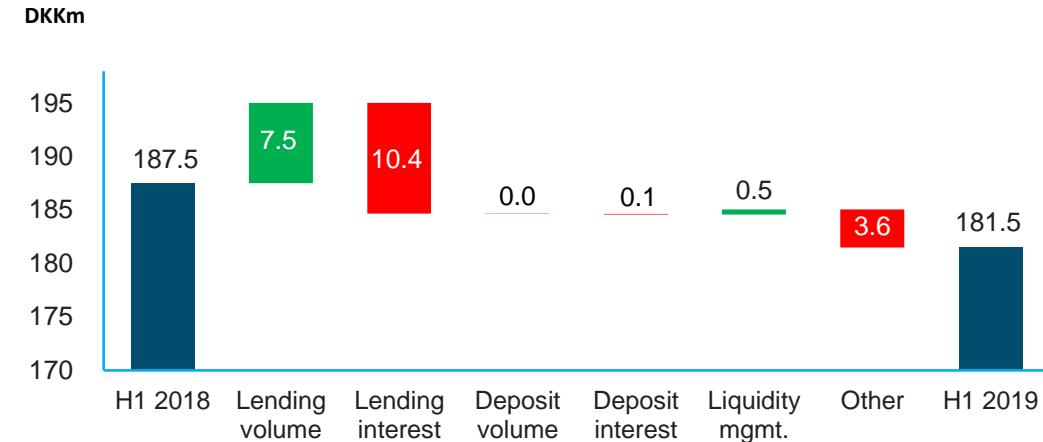
QoQ changes in net interest income



Loans and deposits



YoY changes in net interest income

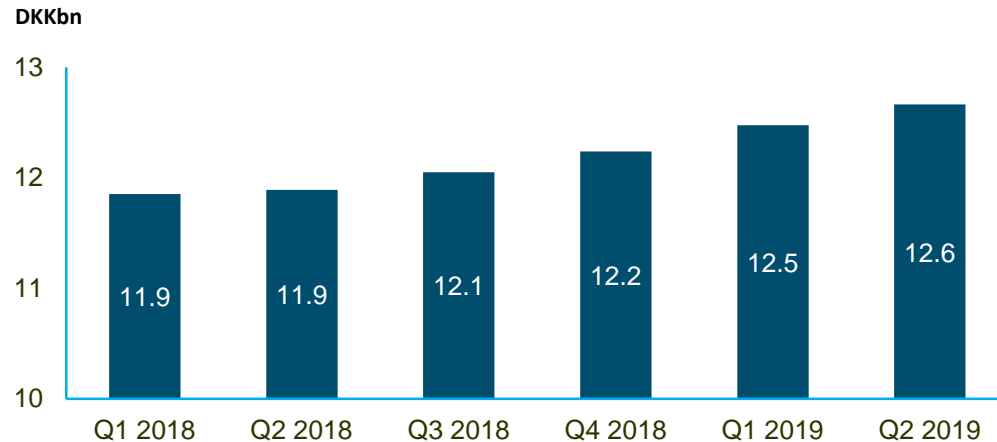


High customer activity driving fee and commission income

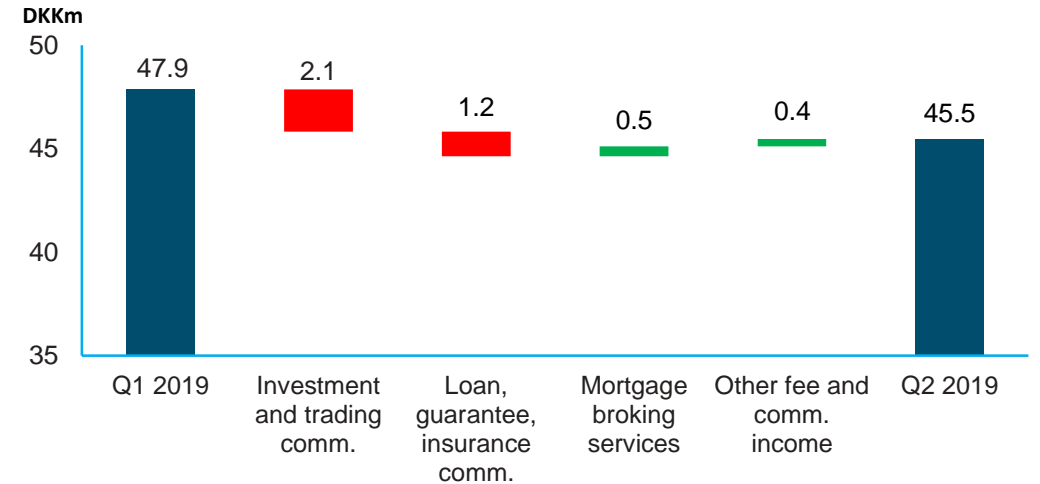
Comments

- Net fee and commission income down by DKK 2m QoQ and up by DKK 6m YoY
- Strong customer activity in the first half of 2019 drove fee and commission income higher
- Mortgage-lending volumes up DKK 406m YTD

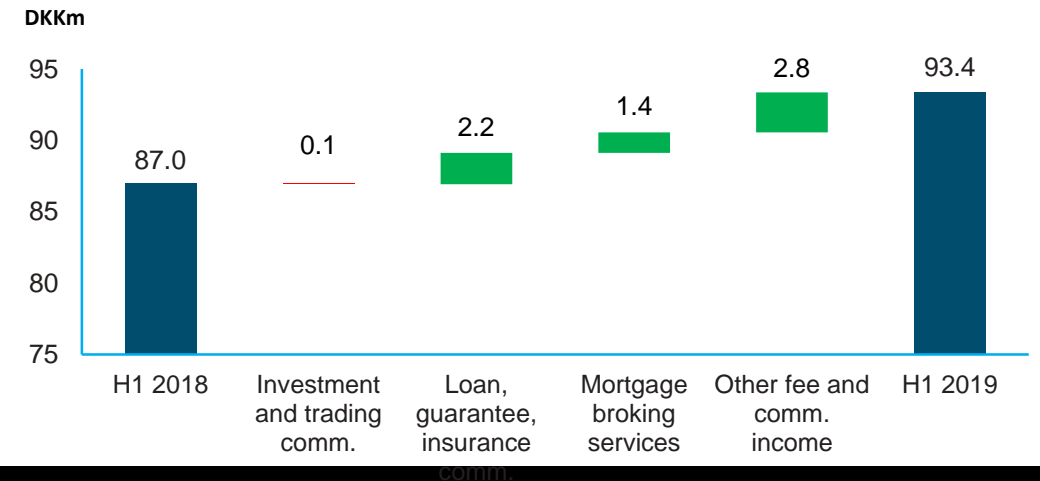
Mortgage lending



QoQ changes in fee and commission income



YoY changes in fee and commission income

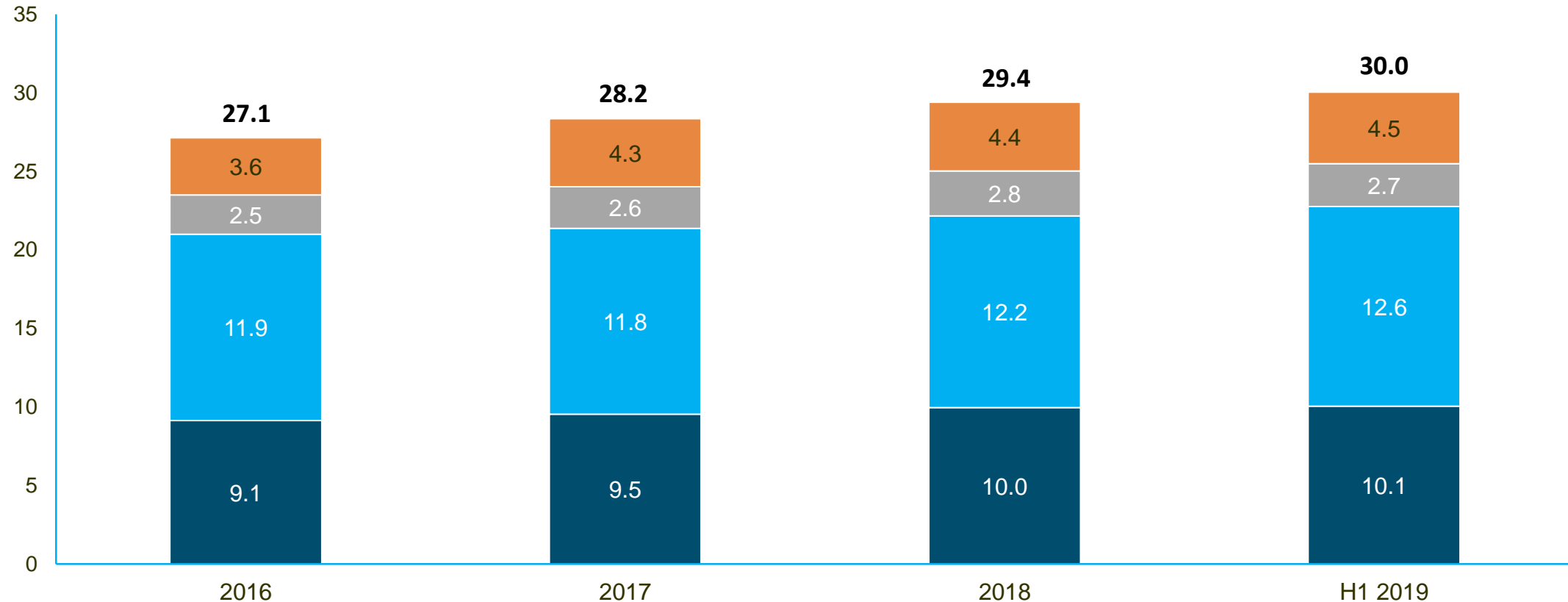


Developments in business volume

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

DKKbn

■ Bank lending ■ Mortgage lending ■ Guarantees ■ Assets under management

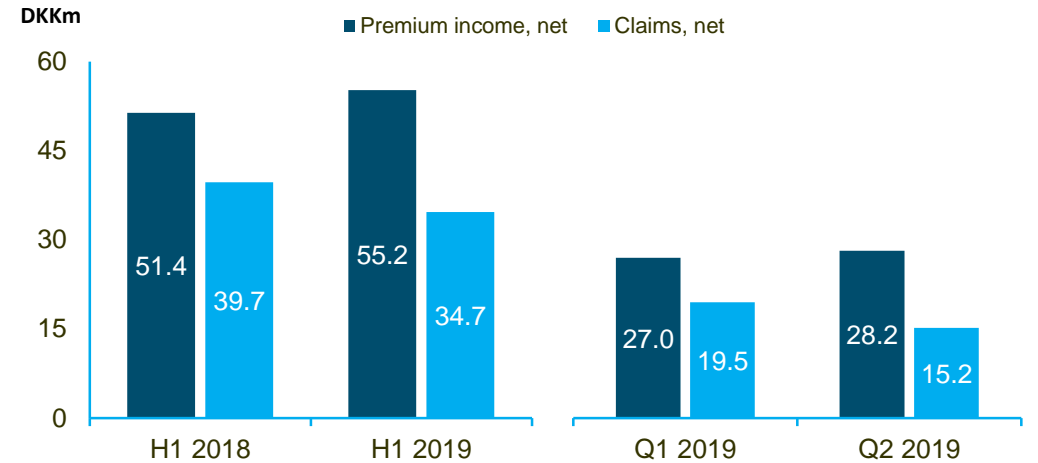


Trygd continues to deliver growth

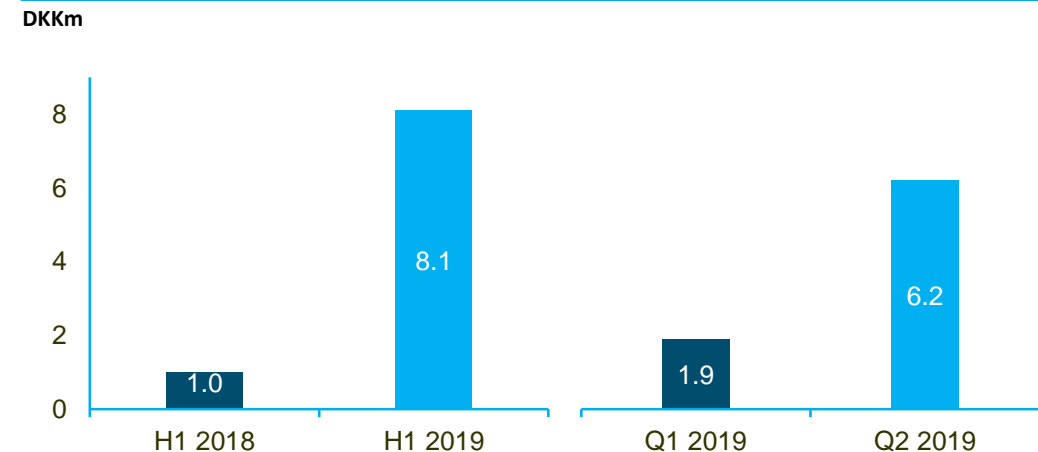
Comments

- Combined ratio of 85% in H1 2019 compared to 97% in H1 2018
- Net premium income up by DKK 4m YoY and by DKK 1m QoQ
- Net claims down by DKK 3m YoY and by DKK 4m QoQ
- Profit before tax of DKK 8m in H1 2019 relative to DKK 1m in H1 2018 and DKK 6m in Q2 2019 relative to DKK 2m in Q1 2019
- Trygd expects to continue attracting new customers and growing premium income in 2019

Premium and claims



Profit before tax

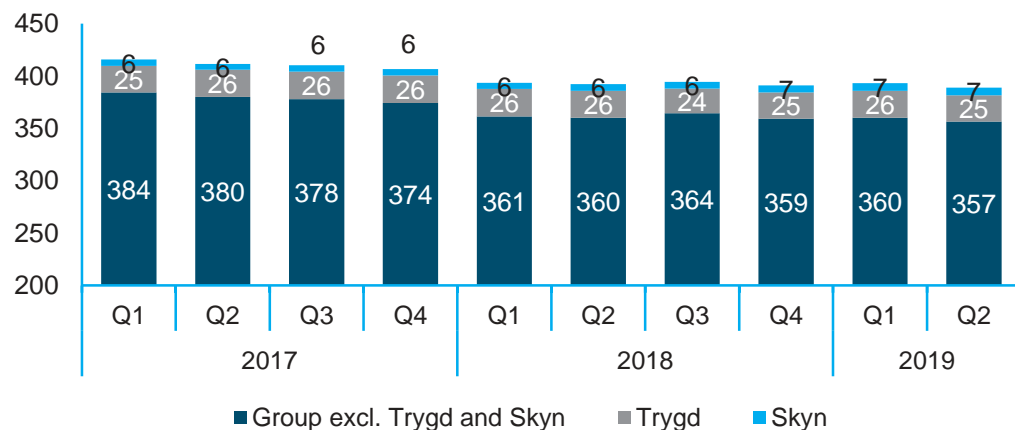


Higher staff-related costs YTD 2019

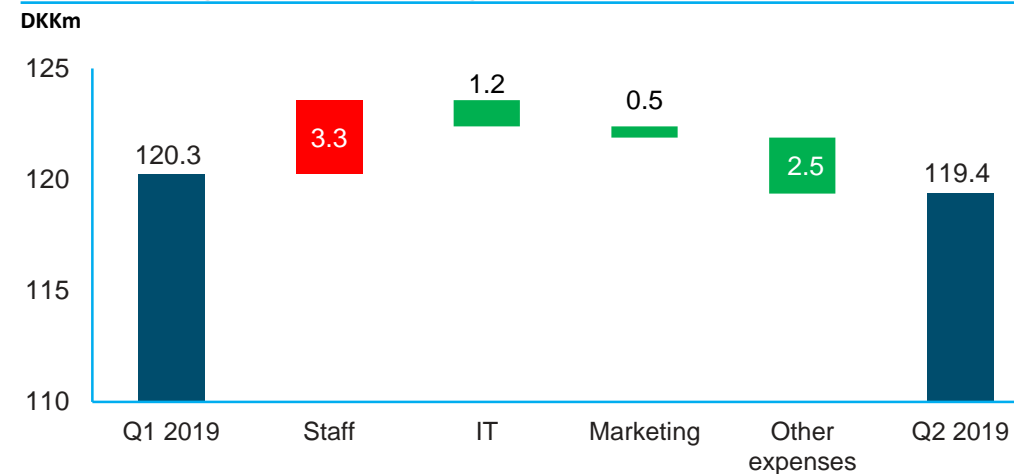
Comments

- Operating costs up by DKK 9m YoY and down by DKK 1m QoQ
- Increase in staff cost due to non-recurring items, severance payments as well as general wage increases
- Increase in YoY marketing expenditures related to the Group's online marketing campaign which was first launched in H2 2018 and continued into 2019

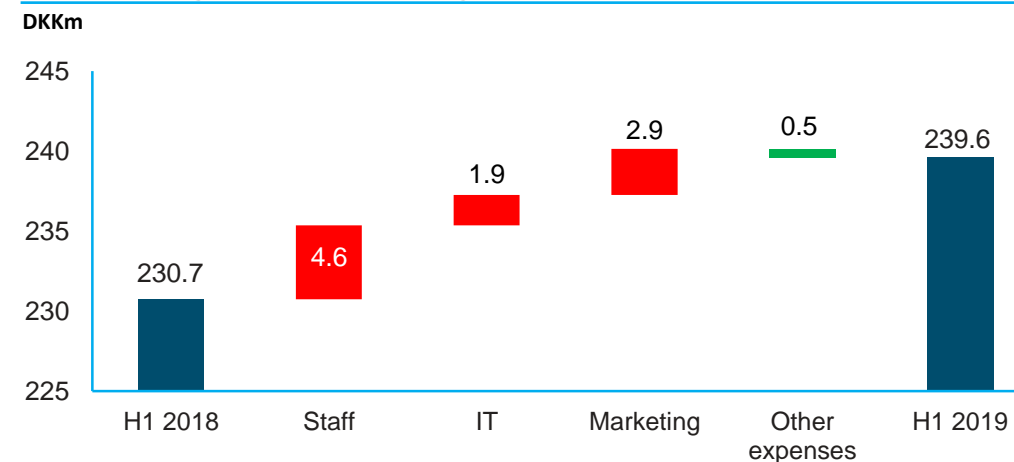
Average number of employees (FTE)



QoQ changes in operating costs



YoY changes in operating costs

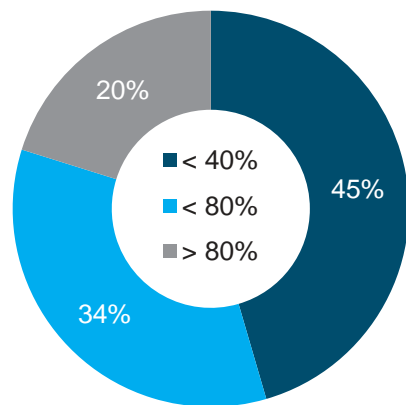


Significant reversal of impairment charges in H1 2019

Comments

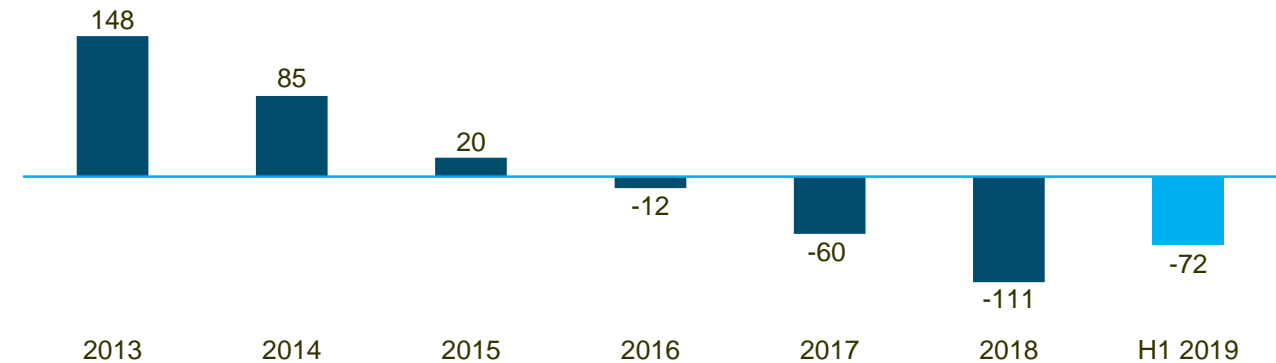
- Net impairment charges were a reversal of DKK 72m in H1 2019, driven by strong economic developments and improved customer finances
- Two thirds of loan portfolio allocated to personal lending
- Strong loan-to-value for housing loans

LTV for housing loans¹



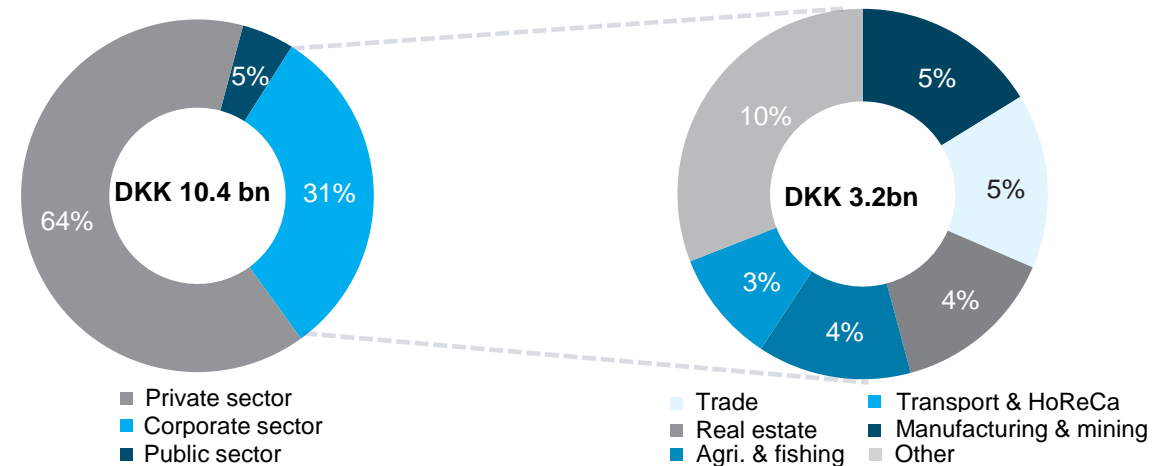
Net impairment charges

DKKm



Loans by sector²

DKKm

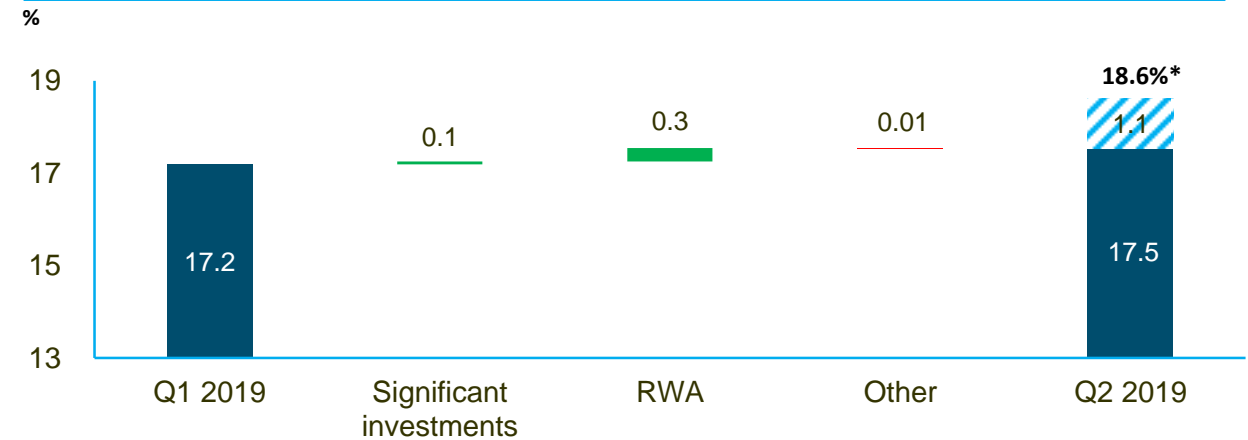


Capital position remains strong

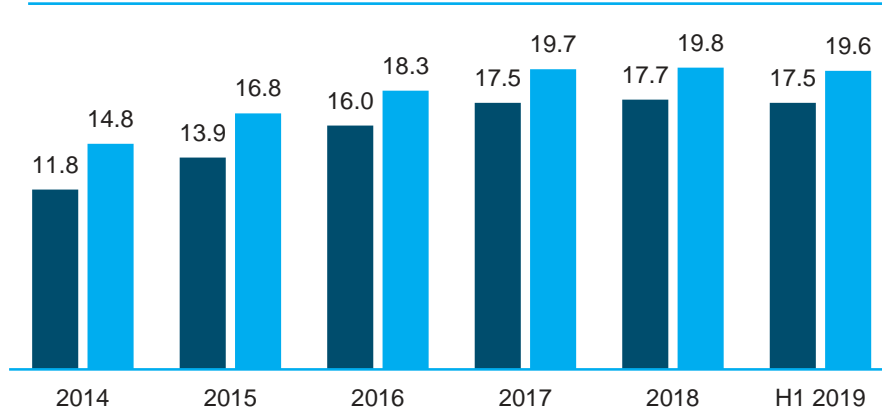
Comments

- CET1 up by 0.3 pp and total capital ratio up by 0.4 pp QoQ
- RWA down in Q2 2019 due to less market risk exposure stemming from a correction to the risk estimate from Q1 2019
- If net income from H1 2019 were recognised, the CET1 ratio would be 18.6%* and the total capital ratio would be 20.7%*

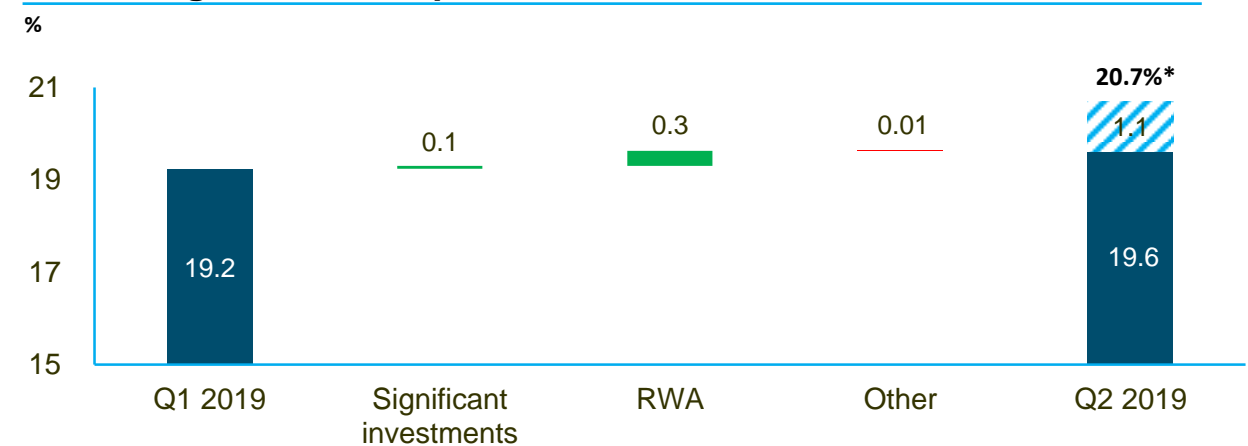
YoY changes in CET1 ratio



Capital ratio development



YoY changes in total capital ratio



Long-term financial objectives

In H1 2019, ROE was affected by:

- Large reversal of impairment charges

Outlook for 2019

- Operating profit before impairment charges in the range of DKK 160-200m (H1 2019: DKK 81m)
- Net profit in the range of DKK 150-200m (H1 2019: DKK 118m)

	2018	H1 2019	2020 target
Return on equity	13.8% ¹	11.5% ²	10%
Cost/income ratio	72%	75%	65%
CET 1 ratio	17.7%	17.5%	17%
Total capital ratio	19.8%	19.6%	20%

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

DKKkm	H1 2019	H1 2018	Index 19/18	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net interest income	181	188	97	90	91	92	94	93
Net fee and commission income	93	87	107	45	48	42	43	43
Net insurance income	24	18	131	15	9	13	13	6
Other operating income (less reclassification)	22	27	83	11	11	9	10	15
Operating income	321	319	100	163	158	156	160	157
Operating costs ¹	-240	-231	104	-119	-120	-115	-111	-116
Sector costs	0	0		0	0	0	0	0
Profit before impairment charges	81	88	92	43	38	42	49	42
Impairment charges, net	72	54	134	53	19	18	39	23
Operating profit	153	142	108	96	57	60	88	65
Non-recurring items ²	0	88		0	0	-10	-6	12
Profit before value adjustments and tax	153	230	66	96	57	50	81	76
Market value adjustments ³	-2	-23		-10	8	-12	-3	-17
Profit before tax	151	207	73	86	65	38	78	59
Operating cost/income, %	75	72		73	76	73	69	73
Number of FTE, end of period	390	390	100	390	393	393	385	390

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

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

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

Banking

Income statement, Banking

DKK ^m	H1 2019	H1 2018	Index 19/18	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net interest income	181	187	97	90	91	92	94	93
Net fee and commission income	99	92	107	48	51	45	45	45
Other operating income	19	23	83	10	10	8	8	13
Operating income	299	302	99	148	151	145	147	152
Operating cost	-229	-220	104	-113	-116	-109	-106	-110
Sector costs	0	0		0	0	0	0	0
Profit before impairment charges	69	81	85	34	35	35	42	42
Impairment charges, net	72	54		53	19	18	39	23
Operating profit	141	135	104	87	54	54	81	65
Non-recurring items	0	88		0	0	-10	-6	12
Profit before value adjustments and tax	141	223	63	87	54	44	75	76
Market value adjustments	-1	-22		-9	8	-11	-3	-17
Profit before tax	140	201	70	78	62	32	72	59
Loans and advances	10.053	9.742	103	10.053	10.006	9.956	10.008	9.742
Deposits and other debt	14.156	13.168	108	14.156	14.027	13.452	13.184	13.168
Mortgage credit	12.644	11.890	106	12.644	12.477	12.238	12.050	11.890
Operating cost/income, %	77	73		77	77	75	72	72
Number of FTE, end of period	358	358	100	358	359	360	355	358

Personal Banking

Income statement, Personal banking

DKKm	H1 2019	H1 2018	Index 19/18	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net interest income	121	131	93	60	61	63	65	65
Net fee and commission income	91	84	108	44	46	44	41	41
Other operating income	16	19	84	8	8	7	5	11
Operating income	228	233	98	112	116	114	111	117
Operating cost	-88	-89	99	-45	-43	-43	-44	-44
Sector costs	0	0		0	0	0	0	0
Profit before impairment charges	139	144	97	67	73	70	67	73
Impairment charges, net	30	25	122	26	4	8	22	10
Operating profit	169	169	100	92	77	78	89	83
Non-recurring items	0	0		0	0	0	0	0
Profit before value adjustments and tax	169	169	100	92	77	78	89	83
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	169	169	100	92	77	78	89	83
Loans and advances	6.451	6.382	101	6.451	6.429	6.455	6.481	6.382
Deposits and other debt	10.639	10.027	106	10.639	10.304	10.096	9.928	10.027
Mortgage credit	12.280	11.460	107	12.280	12.093	11.838	11.625	11.460
Operating cost/income, %	39	38		40	37	38	40	38
Number of FTE, end of period	212	201	105	212	200	208	206	201

Corporate Banking

Income statement, Corporate Banking

DKKm	H1 2019	H1 2018	Index 19/18	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net interest income	58	57	102	29	29	27	29	29
Net fee and commission income	8	7	126	4	4	4	3	3
Other operating income	2	3		1	1	1	2	1
Operating income	69	67	103	34	35	32	34	34
Operating cost	-7	-8	87	-3	-3	-4	-4	-4
Sector costs	0	0		0	0	0	0	0
Profit before impairment charges	62	59	105	31	31	29	30	30
Impairment charges, net	34	29		24	11	10	17	13
Operating profit	96	88	109	54	42	39	47	43
Non-recurring items	0	0		0	0	0	0	0
Profit before value adjustments and tax	96	88	109	54	42	39	47	43
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	96	88	109	54	42	39	47	43
Loans and advances	3.573	3.360	106	3.573	3.565	3.502	3.527	3.360
Deposits and other debt	3.498	3.141	111	3.498	3.715	3.356	3.257	3.141
Mortgage credit	364	430	85	364	384	400	425	430
Operating cost/income, %	10	11		10	10	11	12	11
Number of FTE, end of period	16	17	93	16	16	16	17	17

Banking, Faroe Islands

Income statement, Faroe Islands

DKKm	H1 2019	H1 2018	Index 19/18	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net interest income	107	108	99	54	53	54	55	53
Net fee and commission income	28	25	109	14	14	13	12	14
Other operating income	9	8	108	4	5	3	3	5
Total Operating income	143	142	101	72	72	69	70	72
Operating cost	-98	-90	108	-50	-48	-41	-43	-44
Sector costs	0	0		0	0	0	0	0
Profit before impairment charges	45	51	89	22	24	28	27	28
Impairment charges, net	22	35		12	10	-5	16	21
Operating profit	67	86	79	34	33	22	43	48
Non-recurring items	0	91		0	0	-8	0	10
Profit before value adjustments and tax	67	177	38	34	33	14	43	59
Market value adjustments	-1	-17	8	-9	8	-11	-7	-18
Profit before tax	66	160	41	25	41	2	36	40
Loans and advances	6.564	6.378	103	6.564	6.540	6.561	6.452	6.378
Deposits and other debt	7.491	6.880	109	7.491	7.442	7.101	7.006	6.880
Mortgage credit	1.146	979	117	1.146	1.102	1.057	1.007	979
Operating cost/income, %	68	64		69	67	60	62	61
Number of FTE, end of period	189	178	106	189	190	189	179	178

Banking, Denmark

Income statement, Denmark

DKKmn	H1 2019	H1 2018	Index 19/18	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net interest income	57	62	93	28	29	30	31	31
Net fee and commission income	67	62	108	32	34	30	31	30
Other operating income	8	13	65	4	4	4	3	7
Total Operating income	132	136	97	65	68	63	65	68
Operating cost	-118	-116	102	-57	-61	-60	-55	-58
Sector costs	0	0		0	0	0	0	0
Profit before impairment charges	14	21	70	8	7	3	10	9
Impairment charges, net	37	18	211	23	14	20	26	-3
Operating profit	51	38	134	31	21	23	35	7
Non-recurring items	0	-4		0	0	-1	-6	1
Profit before value adjustments and tax	51	35	148	31	21	22	29	8
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	51	35	148	31	21	22	29	8
Loans and advances	2.845	2.772	103	2.845	2.846	2.798	2.832	2.772
Deposits and other debt	5.799	5.675	102	5.799	5.693	5.656	5.551	5.675
Mortgage credit	10.892	10.273	106	10.892	10.740	10.563	10.409	10.273
Operating cost/income, %	89	85		88	90	95	85	86
Number of FTE, end of period	149	162	92	149	149	154	158	162

Banking, Greenland

Income statement, Greenland

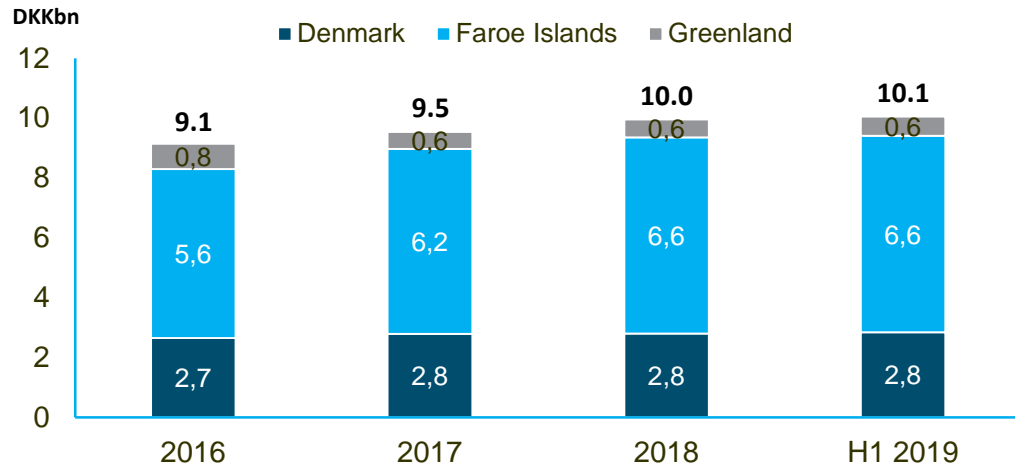
DKKkm	H1 2019	H1 2018	Index 19/18	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net interest income	17	17	96	8	8	9	8	9
Net fee and commission income	4	5	96	2	2	2	2	2
Other operating income	2	2	102	1	1	1	2	1
Total Operating income	23	24	97	12	11	12	13	12
Operating cost	-13	-14	94	-7	-6	-7	-8	-8
Sector costs	0	0		0	0	0	0	0
Profit before impairment charges	10	10	100	5	5	5	5	5
Impairment charges, net	13	2		18	-5	3	-3	5
Operating profit	23	11	200	22	0	8	2	10
Non-recurring items	0	0		0	0	0	0	0
Profit before value adjustments and tax	23	11	200	22	0	8	2	10
Market value adjustments	0	0		0	0	0	0	0
Profit before tax	23	11	200	22	0	8	2	10
Loans and advances	643	593	109	643	621	597	724	593
Deposits and other debt	865	613	141	865	892	696	627	613
Mortgage credit	606	638	95	606	635	618	635	638
Operating cost/income, %	57	59		58	57	60	59	62
Number of FTE, end of period	20	18	113	20	21	18	18	18

Income statement, Trygd

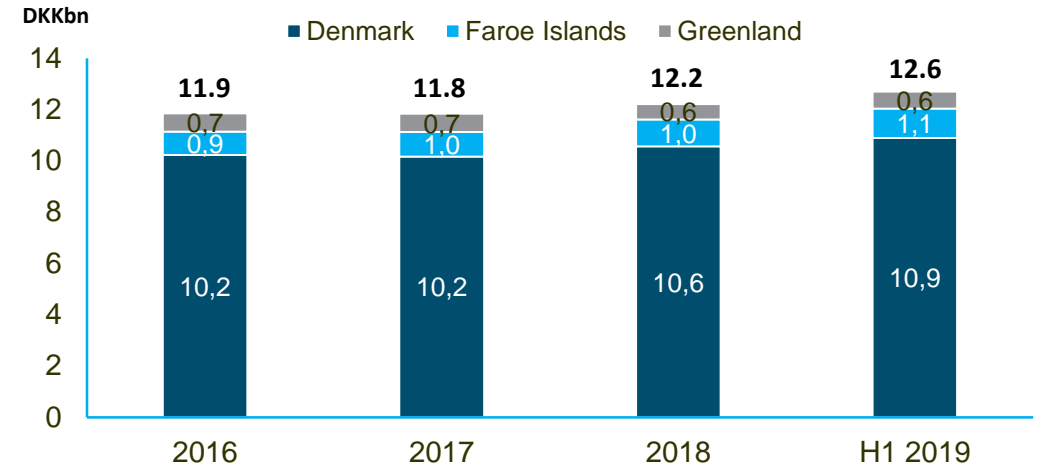
DKKm	H1 2019	H1 2018	Index 19/18	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Premium income, net of reinsurance	55	51	107	28	27	27	27	26
Claims, net of reinsurance	-35	-38	91	-15	-19	-17	-17	-23
Net insurance income	21	13	152	13	8	10	10	3
Net income from investment activities	0	0		0	0	0	0	0
Operating income	20	13	156	13	8	10	9	3
Operating cost	-12	-12	103	-7	-6	-6	-6	-6
Profit before tax	8	1	800	6	2	4	3	-4
Combined ratio	85	97		78	93	85	87	114
Claims ratio	63	74		54	72	63	64	90
Number of FTE, end of period	24	25	99	24	26	25	23	25

Development in business volumes

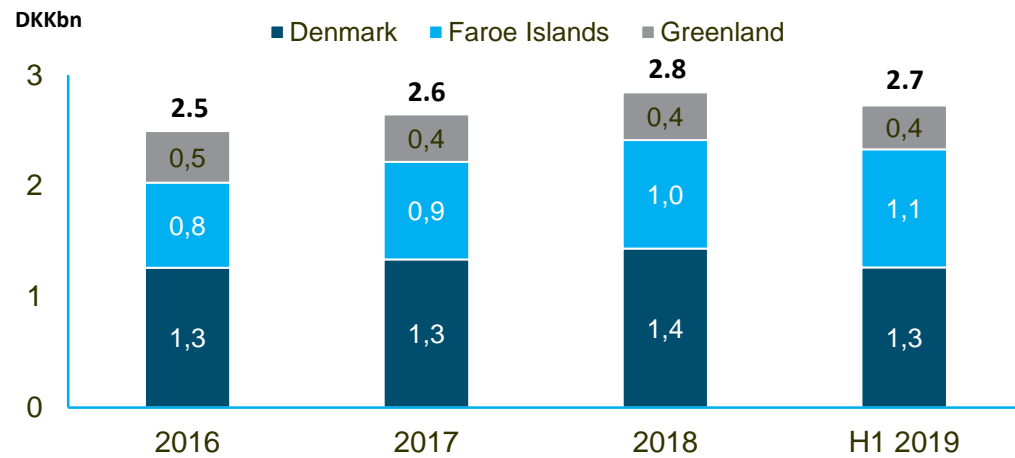
Bank lending



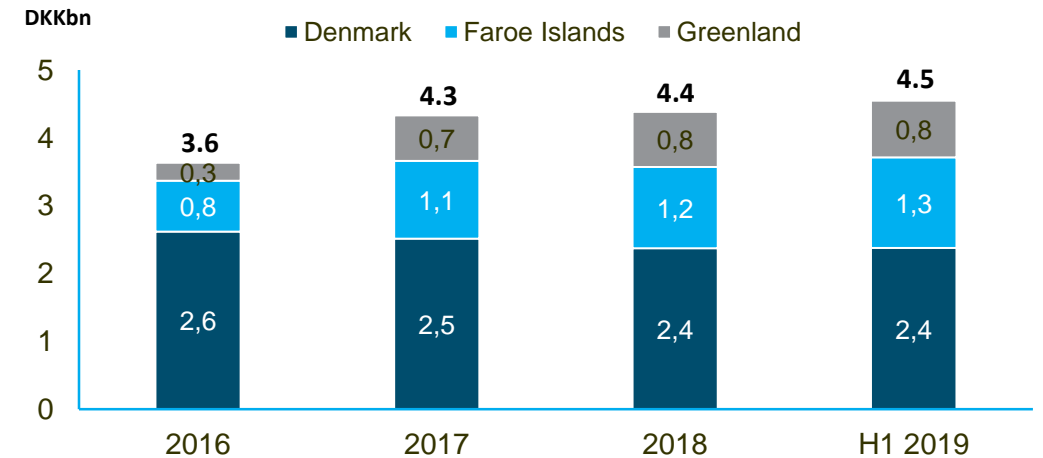
Mortgages



Guarantees



Assets under management



Credit quality of the loan portfolio

Credit classification according to the Danish FSA's method

	Q1 2019			Q2 2019			Change
	<7.5 DKKm	>7.5 DKKm	Total	<7.5 DKKm	>7.5 DKKm	Total	
Portfolio without weakness	3.359	3.107	6.467	3.351	3.211	6.562	95
Portfolio with some weakness	5.970	1.547	7.517	6.009	1.432	7.441	-76
Portfolio with weakness	217	176	392	226	154	380	-12
- here of unsecured	55	51	106	51	57	107	1
- impairments	100	97	197	44	41	85	-112
Portfolio with OIE	589	231	820	553	229	782	-38
- here of unsecured	310	148	457	293	146	439	-18
- impairments	286	129	415	275	128	403	-12
Portfolio without individ. classification	34	65	99	50	0	50	-49
Total	10.169	5.126	15.295	10.188	5.026	15.214	-81