

Investor Presentation

BANKNORDIK

Q3 2015 Interim Report:

Operating profit on track - strategic changeover

Árni Ellefsen, 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



- **Highlights**
- **Strategic Changeover**
 - Sale of Vörður
 - Corporate division in Denmark up for sale
 - Management changes
 - Refocusing strategy
- **Financials**
 - Banking
 - Insurance
 - Expenditures
 - Impairments
- **RWA and Capital Ratios**
- **2015 Outlook**

Highlights – financials on track, management refocusing the strategy

Financial (9M 2015)*

- Net profit decreased 15% YoY to DKK 87m (DKK 103m)
- Operating income increased 1% YoY to DKK 559m (DKK 554m)
- Operating costs increased 4% to DKK 377m (DKK 363m)
- Operating profit increased 35% to DKK 157m (DKK 116m)
- Low impairments of DKK 9m (DKK 56m)
- CRD IV implemented - CET1 capital ratio of 12.7% vs. 12.8% if applying Basel II guidelines
- Management narrows guidance on operating profit before impairment charges, non-recurring items, value adjustments and tax to DKK 200-220m, reflecting the sale of Vørður.

Operational (Q3 2015)

- Entered into a conditional sales agreement in respect of wholly owned insurance business Vørður
- Announced sales process for the corporate banking business in Denmark
- Former CFO, Árni Ellefsen, appointed as new CEO
- New management team to support a refocused business strategy.

**Operating figures are adjusted for discontinued business activities related to Vørður*

Divestment of Vörður

- In Q3 BankNordik entered into a conditional agreement to sell 51% of insurance company Vörður to Arion Bank
- The remaining 49% is covered by a put and call option agreement enabling BankNordik to sell the stake to Arion Bank in 2017
- This deal structure is motivated by capital restrictions imposed by the Icelandic Government
- The combined agreed price for all shares was EUR 37.7m (approx. DKK 281m), while the carrying value including goodwill was DKK 188m at 30 September 2015
- Both transactions are expected to be recognised in Q4 2015 or Q1 2016 financial statements
- The deal is subject to the approval of the relevant Icelandic authorities
- Following completion of the sale of all Vörður shares, BankNordik intends to pay an extraordinary dividend to its shareholders, corresponding to the increase in core equity resulting from the transactions – an amount estimated to be not less than DKK 100m.



Initiating sales process for the Danish corporate banking division

- In September, BankNordik initiated a sales process for its corporate banking activities in Denmark
- The bank's tightening exposure to the corporate lending market is motivated by stricter supervisory regulations.
- The sales process is managed by Carnegie Investment Bank
- If the portfolio is sold for an amount equal to the carrying value and RWA decreases DKK 1.5bn, then:
 - Total capital ratio would increase from 15.6% to 17.8%
 - CET1 capital ratio would increase from 12.7% to 14.5%.

Selected key figures	9M 2015
Net interest income (DKK _m)	52*
Fee & commission income (DKK _m)	6
Loans and advances (DKK _{bn})	1.5
Deposits and other debt (DKK _{bn})	0.7
Guarantees (DKK _{bn})	0.2
Total exposures, net (DKK _{bn})	2.3
RWA (DKK _{bn})	1.5
Number of costumers	1,661
FTE	15

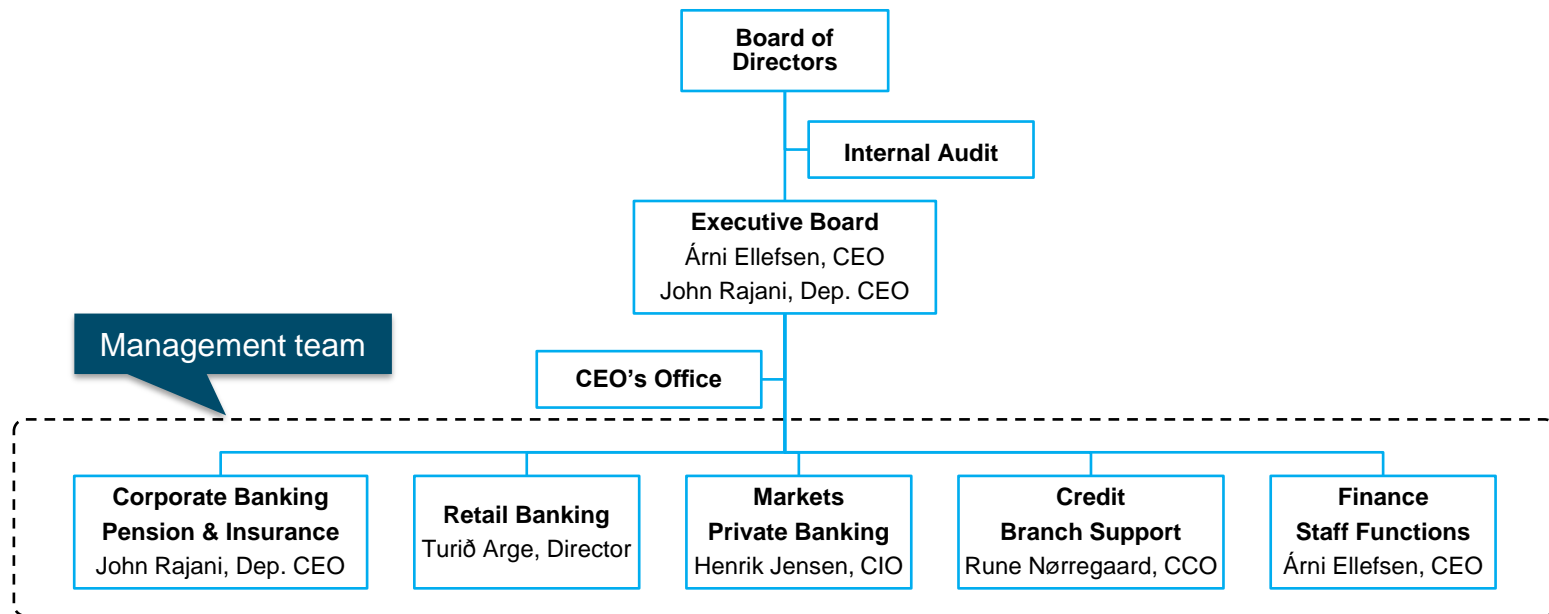
*Includes internal funding rate of 1%

New management team to refocus business strategy

The new management team will support the implementation of the announced strategy to refocus on the personal banking market in Denmark, Greenland and the Faroe Islands and the corporate banking markets in the North Atlantic region

Retail market: Establish a single personal banking area across national borders by optimising processes and systems to capitalise on the growth potential particular to Denmark and Greenland

Corporate market: Take further advantage of specialist knowledge on corporate structures and socioeconomic conditions in the North Atlantic region.



Financials: Interest margins under pressure but operating profit still on track

9M 2015 vs. 9M 2014

- Operating profit increased DKK 41m in 9M 2015 compared to 9M 2014
- Interest income was down DKK 17m because of pressure on margins
- Fee and commission income was DKK 29m higher than in 9M 2014
- Operating costs increased DKK 14m compared to 9M 2014
- Lending volume is up DKK 354m compared to 9M 2014.

Q3 2015 vs. Q2 2015

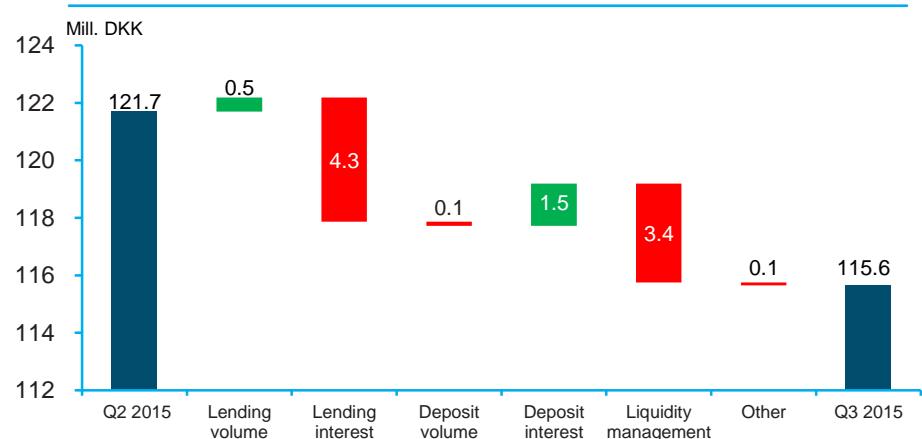
- Operating profit decreased by DKK 14m in Q3 2015 compared to Q2 2015
- Interest income was DKK 6m lower in Q3 vs. Q2
- Operating costs were DKK 6m lower in Q3 vs. Q2
- Loans and advances stayed flat.

<i>DKKm</i>	<i>9M 2015</i>	<i>9M 2014</i>	<i>Index</i>	<i>Q3 2015</i>	<i>Q2 2015</i>	<i>Index</i>
Net interest income	358	375	95	116	122	95
Net fee and commission income	174	145	120	52	67	77
Net insurance income	20	23	88	10	10	100
Other operating income	7	10	69	2	3	60
Operating income	559	554	101	180	203	89
Operating costs	-377	-363	104	-122	-128	95
Sector costs	-16	-18	86	-5	-6	88
Profit before impairment charges	166	172	96	54	69	78
Impairment charges, net	-9	-56	16	7	5	139
Operating profit	157	116	135	60	74	82
Non-recurring items	-25	-1		-11	-14	
Market value adjustments	-36	15		-20	-50	
Profit before tax, continuing	96	131	74	29	10	287
Profit before tax, discontinued (Vørður)	19	3		13	2	
Profit before tax, total	115	134	86	42	12	340
Loans and advances	10,669	10,315	103	10,669	10,680	100
Deposits and other debt	12,754	12,342	103	12,754	12,836	99
Operating cost / income, %	67	66		67	63	

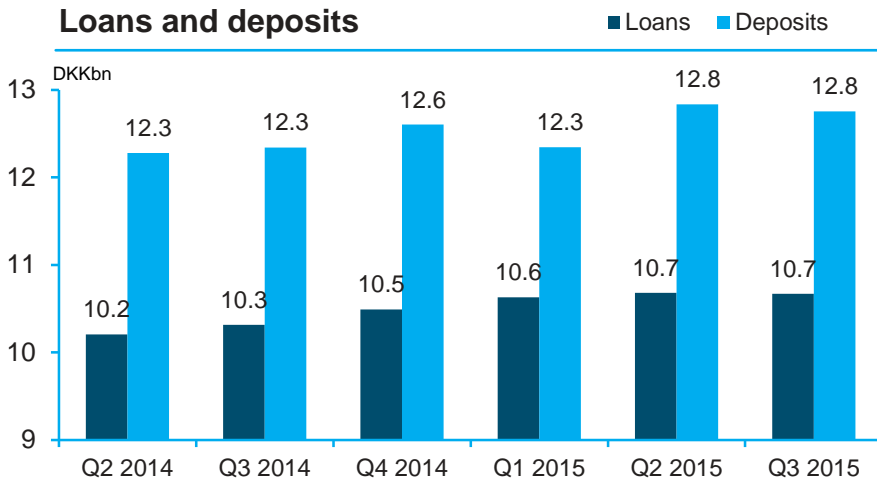
YoY lending up - net interest income (NII) down

- Drop in interest income only partially outweighed by decreased interest payments
- NII decreased DKK 6m from Q2 to Q3 and DKK 17m from 9M 2014 to 9M2015
- Investment income decreased DKK 3m from Q2 to Q3 due to risk-off positioning
- Lending volume was up DKK 354m compared to the same period last year but stayed flat from Q2 to Q3.

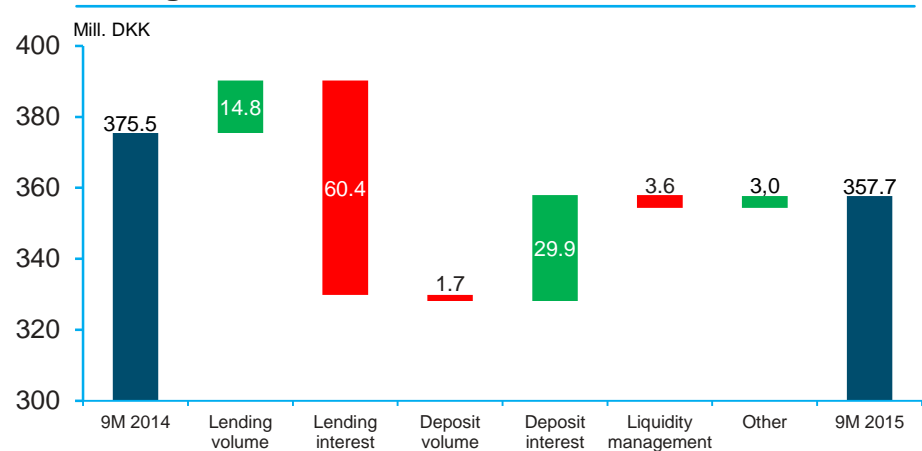
Change in NII from Q2 2015 to Q3 2015



Loans and deposits



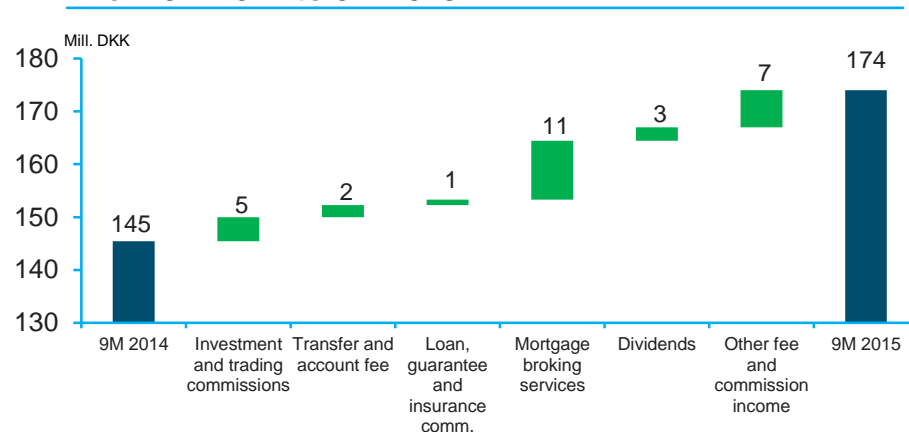
Changes in NII from 9M 2014 to 9M 2015



Substantial increase in net fee and commission income

- Net fee and commission income increased 20% (DKK 29m) from 9M 2014 to 9M 2015
- A surge in mortgage refinancing activity noticeably increased broking income in Q2
- Asset management activity increased considerably throughout 9M 2015
- Overall increase in fee and commission activity in 9M 2015

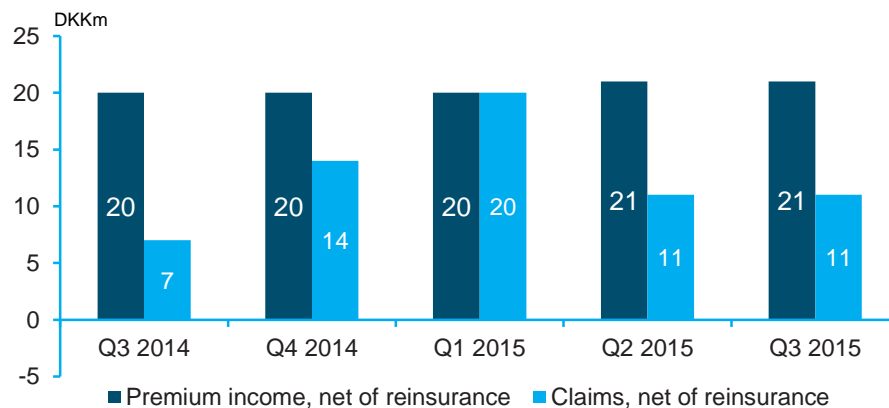
Net fee and commission income development from 9M 2014 to 9M 2015



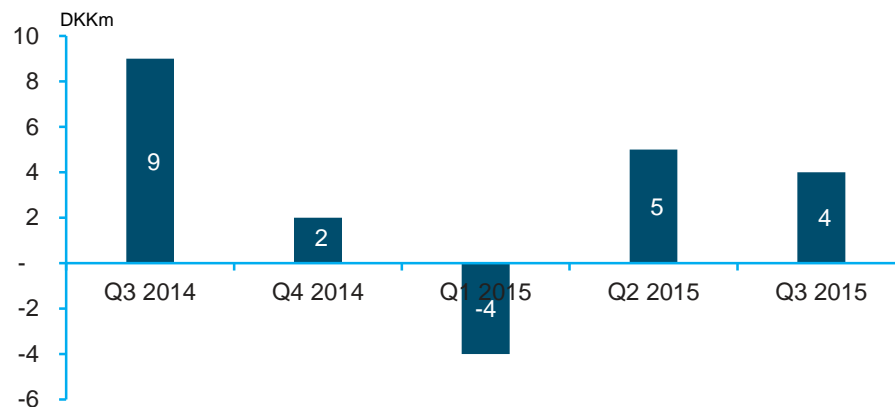
Stable insurance income in Q3 2015

- The launch of the Bank's customer loyalty programme has strongly supported the sale of insurance products, partially compensating for significantly reduced prices in the market
- Profit before tax amounted to DKK 4m in Q3 2015 relative to DKK 9m in Q3 2014
- Premium income, net of reinsurance, increased by DKK 1m in Q3 2015 compared to Q3 2014
- Claims were DKK 4m higher in Q3 2015 compared to Q3 2014.

Premium and claims*



Profit before tax*

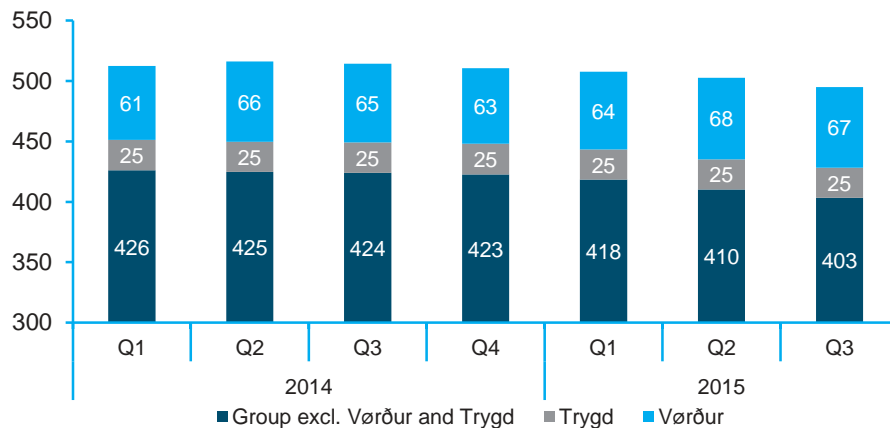


*Figures relate to Trygd only. Vørður is excluded

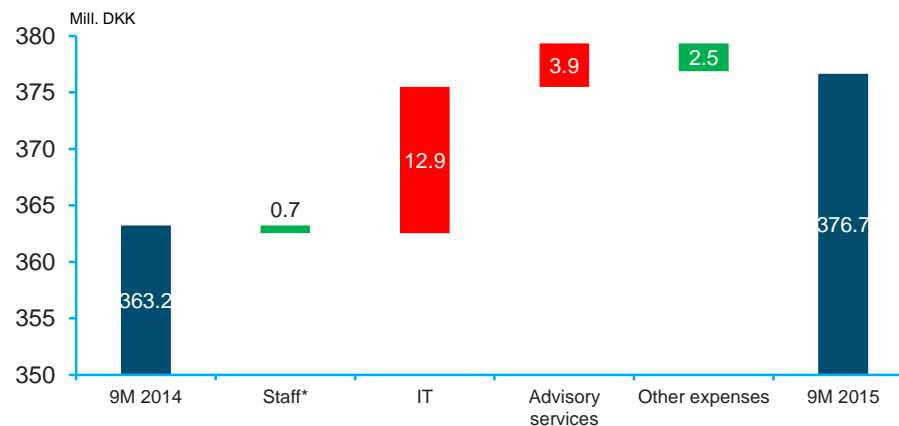
IT services pushed up operating costs in 9M 2015

- Operating costs increased DKK 14m in 9M 2015 compared to 9M 2014
- Comparing Q3 2015 to Q2 2015, operating costs decreased DKK 6m
- Increased IT expenditures in 9M 2015 are in large part owed to an expired discount from SDC as well as the implementation of NemID in the Faroese banking sector
- Staff cost savings in 9M 2015 compared to 9M 2014 were partially offset by overtime payments related to high remortgaging activity.

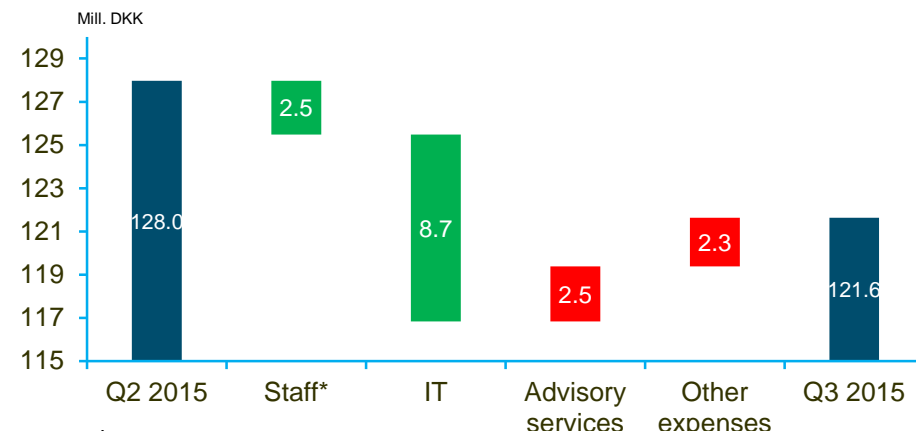
Average number of employees



Cost development from 9M 2014 to 9M 2015



Cost development from Q2 2015 to Q3 2015

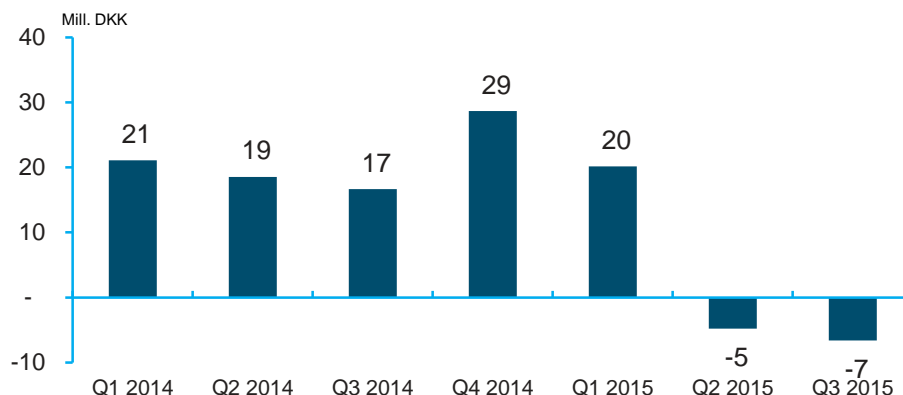


*Staff figure excludes severance payments related to recent organisational adjustments

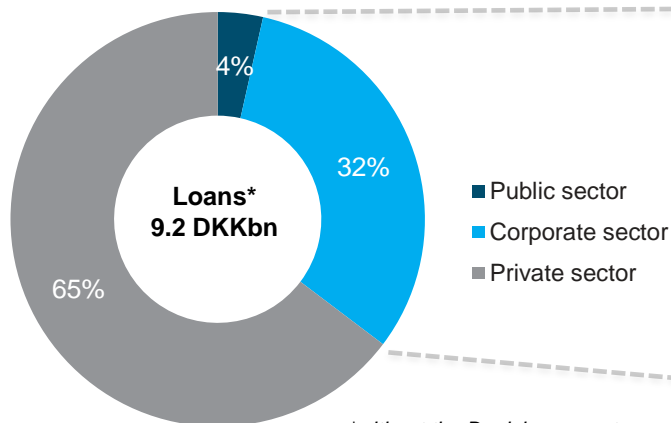
Reversal of impairment charges for the second straight quarter

- Impairment charges in 9M 2015 were DKK 9m vs. DKK 56m in 9M 2014
- In Q3 2015, reversed impairment charges amounted to DKK 7m vs. DKK 5m in Q2 2015
- Reversed impairment charges for the second straight quarter reflects the Bank's strategic focus on solid and systematic credit policy
- The private sector accounts for 65% of the loan portfolio, excluding the Danish corporate business.

Impairment charges, net

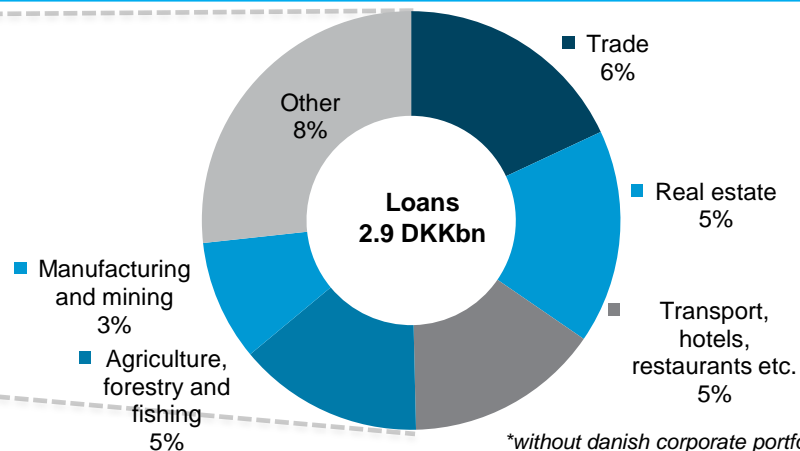


Loans and advances



*without the Danish corporate portfolio

Breakdown of 32% corporates, excl. DK

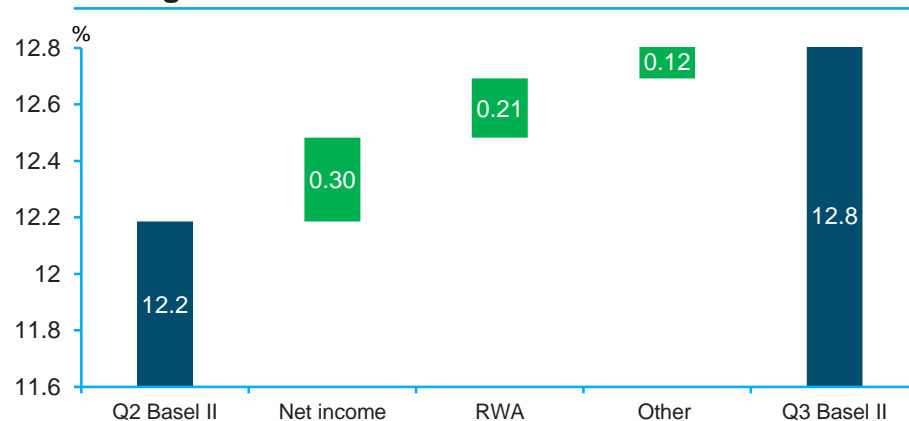


*without danish corporate portfolio

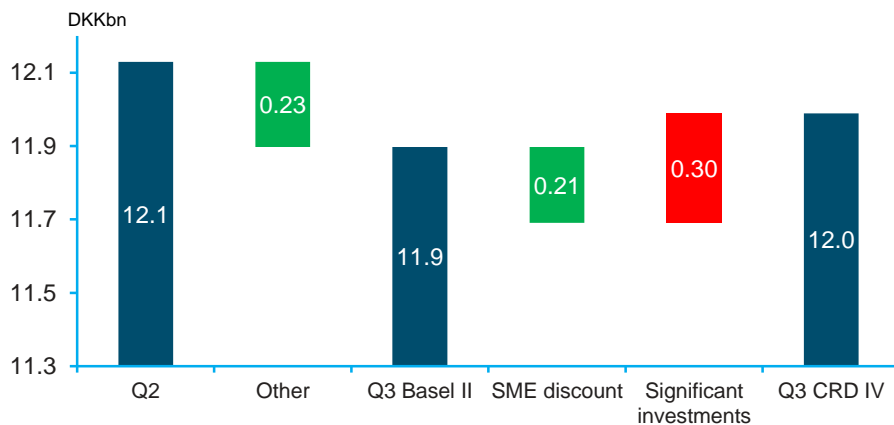
CRD IV implemented with minor effect on CET1

- At 30 September 2015, the Bank had a CET1 capital ratio of 12.7%, a 0.5 percentage point increase from 30 June 2015
- The CRD IV phase-in from Q2 2015 to Q3 2015 had a negative 0.1% effect on the CET1 capital ratio compared to Basel II guidelines
- With a CET1 ratio of 12.7% at 30 September 2015, the Bank is well on its way to meeting the CET1 capital ratio target of 13% in 2019.

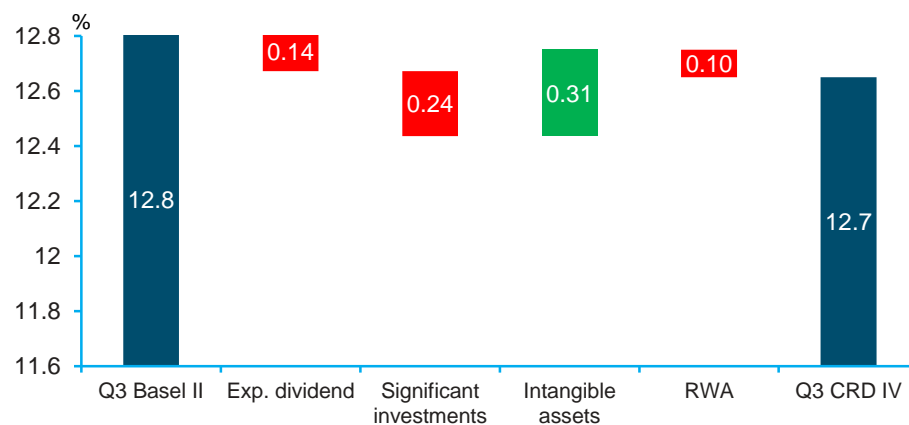
Change in CET1 ratio from Q2 2015 to Q3 2015



Change in RWA from Q2 2015 to Q3 2015



Change in CET1 ratio from Basel II to CRD IV



Outlook for 2015

Management expects profit before impairment charges, non-recurring items, value adjustments and tax to be in the range of DKK 200-220m for the full year 2015 (9M 2015: DKK 166m), reflecting the discontinuation of business activities related to insurance company Vørður

- Volumes are expected to increase somewhat in 2015
- Interest margins are expected to decrease in 2015
- Fee income is expected to increase relative to 2014
- Costs for the full year are expected to be marginally higher than in 2014
- Impairments are expected to be significantly lower than in 2014.

Questions?

Árni Ellefsen, CEO

Appendices

- **Group**
- **Banking, Faroe Islands**
- **Banking, Denmark**
- **Banking, Greenland**
- **Insurance, Trygd**
- **Credit quality of loan portfolio**

Group

Income statement, Group

DKK m	Q1-Q3		Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
	2015	2014					
Net interest income	358	375	116	122	120	122	122
Net fee and commission income	174	145	52	67	55	51	46
Net insurance income	20	23	10	10	0	6	13
Other operating income	7	10	2	3	2	3	3
Operating income	559	554	180	203	176	183	184
Operating costs	-377	-363	-122	-128	-127	-120	-116
Sector costs	-16	-18	-5	-6	-5	-5	-6
Profit before impairment charges	166	172	54	69	43	58	62
Impairment charges	-34	-77	-12	0	-22	-34	-22
Reversals of acquired OEI impairments	25	20	18	5	2	6	6
Impairment charges, net	-9	-56	7	5	-20	-29	-17
Operating profit	157	116	60	74	23	29	45
Impairment charges, intangible assets	0	0	0	0	0	-250	0
Non-recurring items	-25	-1	-11	-14	0	-12	0
Profit before value adjustments and tax	132	115	49	60	23	-233	45
Market value adjustments*	-36	15	-20	-50	34	-13	-7
Profit before tax, continuing operations	96	131	29	10	57	-245	39
Profit before tax, discontinued operations (Vörður)	19	3	13	2	4	19	10
Profit before tax, total	115	134	42	12	61	-226	49
Operating cost/income, %	67	66	67	63	72	66	63
Number of FTE, end of period (incl. Vörður)	476	513	476	490	504	506	513

*Incl. Net income from investment activities

Banking, Faroe Islands

Income statement, Faroe Islands

DKKm	Q1-Q3		Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
	2015	2014					
Net interest income	161	159	50	56	55	53	52
Net fees, commission income & dividends	44	47	14	18	13	14	13
Other operating income	1	5	0	1	0	2	2
Total Operating income	206	211	64	74	68	70	67
Operating cost	-137	-125	-45	-48	-44	-42	-41
Sector costs	-5	-8	-1	-2	-2	-2	-3
Profit before impairment charges	63	77	17	24	23	27	23
Impairment charges, net	-12	-35	-14	1	1	-8	-11
Operating profit	51	43	3	25	23	18	13
Non-recurring items	-12	-4	-11	-1	0	-5	0
Profit before value adjustments and tax	39	39	-8	24	23	14	13
Market value adjustments	-32	21	-19	-47	34	-11	-7
Profit before tax	7	60	-27	-23	57	2	6
Loans and advances	5,781	5,727	5,781	5,834	5,797	5,707	5,727
Deposits and other debt	5,814	5,572	5,814	5,782	5,646	5,847	5,572
Operating cost/income, %	67	59	70	65	64	60	61
Number of FTE, end of period	152	167	152	160	159	158	167

Banking, Denmark

Income statement, Denmark

DKKm	Q1-Q3		Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
	2015	2014					
Net interest income	171	188	57	58	56	61	62
Net fees, commission income & dividends	122	91	36	46	40	34	31
Other operating income	1	1	0	1	0	0	-1
Total Operating income	293	280	93	105	96	95	92
Operating cost	-203	-203	-64	-68	-72	-68	-63
Sector costs	-10	-9	-3	-3	-3	-3	-3
Profit before impairment charges	80	68	26	34	21	24	26
Impairment charges, net	10	-18	26	4	-20	-18	-6
Operating profit	90	50	52	37	0	5	20
Impairment charges, intangible assets	0	0	0	0	0	-200	0
Non-recurring items	-13	3	0	-13	0	-7	0
Profit before value adjustments and tax	77	53	52	24	0	-202	20
Market value adjustments	0	0	0	0	0	0	0
Profit before tax	77	53	52	24	0	-202	20
Loans and advances	4,213	3,882	4,213	4,157	4,167	4,130	3,882
Deposits and other debt	6,543	6,371	6,543	6,682	6,318	6,376	6,371
Operating cost/income, %	69	72	69	65	75	72	68
Number of FTE, end of period	213	232	213	211	233	234	232

Banking, Greenland

Income statement, Greenland

DKKm	Q1-Q3		Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
	2015	2014					
Net interest income	25	27	9	9	8	8	8
Net fees, commission income & dividends	8	7	3	3	2	2	2
Other operating income	1	1	0	0	0	0	0
Total Operating income	34	35	11	12	11	10	11
Operating cost	-20	-21	-6	-7	-7	-6	-7
Sector costs	-1	-1	0	0	0	0	0
Profit before impairment charges	13	13	5	5	3	4	4
Impairment charges, net	-6	-4	-6	0	-1	-2	0
Operating profit	7	10	-1	5	3	2	4
Impairment charges, intangible assets	0	0	0	0	0	-50	0
Non-recurring items	0	0	0	0	0	0	0
Profit before value adjustments and tax	7	10	-1	5	3	-48	4
Market value adjustments	0	0	0	0	0	0	0
Profit before tax	7	10	-1	5	3	-48	4
Loans and advances	674	705	674	689	666	654	705
Deposits and other debt	472	478	472	470	447	467	478
Operating cost/income, %	59	60	54	56	66	57	64
Number of FTE, end of period	16	21	16	18	19	20	21

Insurance, Trygd

Income statement, Trygd

DKKm	Q1-Q3 2015	Q1-Q3 2014	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Premium income, net of reinsurance	62	59	21	21	20	20	20
Claims, net of reinsurance	-41	-35	-11	-11	-20	-14	-7
Net insurance income	21	24	10	10	0	6	13
Net income from investment activities	-1	3	0	-1	0	0	1
Operating income	20	27	10	10	1	6	13
Operating cost	-15	-14	-6	-5	-5	-4	-5
Profit before tax	5	13	4	5	-4	2	9
Combined ratio	91	83	79	73	123	89	61
Claims ratio	66	60	51	51	99	68	37
Number of FTE, end of period	25	26	25	25	25	25	26

Credit quality of the loan portfolio

Credit classification according to the Danish FSA's method

	Q2 2015			Q3 2015			Changes
	<7.5 DKKm	>7.5 DKKm	Total	<7.5 DKKm	>7.5 DKKm	Total	
Portfolio without weakness	4,460	3,139	7,599	4,256	3,155	7,411	-187
Portfolio with some weakness	4,148	1,899	6,046	4,423	1,824	6,247	201
Portfolio with weakness	413	295	708	421	323	744	36
- here of unsecured	222	93	315	213	107	320	5
Portfolio with OIE	1,109	657	1,766	1,060	585	1,645	-121
- here of unsecured	763	320	1,082	727	323	1,050	-32
- impairments	424	181	604	420	194	615	10
Portfolio without individ. classification	542	0	542	495	9	504	-38
Total	10,672	5,990	16,662	10,654	5,897	16,551	-110