

Positive developments in operating income and costs continue in Q3

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- 2020 net profit outlook narrowed from DKK 120m-160m to DKK 140m-160m

Company announcement no. 14/2020

"We're pleased to note that the cost-saving and income-generating measures put in place at the end of 2019 yielded positive results in the first nine months of the year. Even though this has been a challenging year considering the COVID-19 situation, we were able to maintain an improved balance between costs and earnings. In the third quarter, the development in net insurance income was especially favourable. Combined with our continued focus on maintaining cost-effective operations, the overall effect of the implemented measures has been greater than initially anticipated," said BankNordik CEO Árni Ellefsen.

"To date, the pandemic has only had a limited impact on the Group's financial results, and our impairment charges were lower than what we expected at the start of the year. Considerable uncertainty persists in terms of the public health crisis, however, and as a result, we have made a further DKK 15m provision against potential COVID-19-related losses, taking total provisions to DKK 50m. Given our total capital ratio of 24.9%, however, we are well-equipped to tackle the challenges that the current situation poses. At the start of October, we announced new financial targets for the Group's cost/income ratio and return on equity, and in light of our third quarter performance, we're well on our way to meeting the new targets," said Árni Ellefsen.

Highlights of BankNordik's interim report for the nine months to 30 September 2020:

9M 2020 vs 9M 2019

- BankNordik reported operating profit before impairment charges of DKK 155m in the 9M period of 2020, a DKK 47m improvement on 9M 2019.
 - Net interest income was up by DKK 16m (+6%), driven by the implementation of negative deposit rates.
 - Fee and commission income was up by DKK 8m (+6%) in 9M 2020 due to the strategic initiatives implemented in December 2019.
 - Net insurance income fell by DKK 5m in 9M 2020 due to an increase in windstorm claims and COVID-19-related travel cancellation claims.
- Operating costs fell by DKK39m to DKK 317m in 9M 2020 due to reduced marketing activities and lower staff costs relative to last year.
- BankNordik reversed impairment charges of DKK 6m, compared to a net reversal of DKK 80m in 9M 2019. The net impairment charges for the 9M 2020 period include a management estimate of DKK 50m that was not included in the 9M 2019 net impairment charges.
- Profit before tax was DKK 156m in 9M 2020, against DKK 201m in 9M 2019.
 - Zero non-recurring items were recognised in 9M 2020, which was also the case in 9M 2019.
- The return on the investment portfolio was negative at DKK 6m, compared to a DKK 12m gain in 9M 2019.
- Profit after tax was DKK 123m in 9M 2020, against DKK 158m in 9M 2019.
- Bank lending volumes fell by DKK 154m (2%) from DKK 10.0bn at 30 September 2019 to DKK 9.8bn at 30 September 2020.
- Mortgage-broking volumes were up by DKK 415m (+3%) from DKK 12.9bn at 30 September 2019 to DKK 13.3bn at 30 September 2020.
- Deposits fell by DKK 665m from DKK 13.6bn at 30 September 2019 to DKK 12.9bn at 30 September 2020.

Q3 2020 vs Q2 2020

- Operating profit before impairment charges was up by DKK 16m to DKK 63m in Q3 2020 from DKK 47m in Q2 2020.
 - Net interest income amounted to DKK 89m in Q3, which was in line with the Q2 figure.
 - Fee and commission income amounted to DKK 49m in Q3 2020, up by DKK 4m over Q2 2020.
 - Net insurance income was up by DKK 7m to DKK 18m in Q3 from DKK12m in the preceding quarter, driven by higher premium income and fewer claims expenses.
 - Other operating income was up by DKK 2m from DKK 8m in Q2 2020 to DKK 9m in Q3 2020.

- Operating costs fell by DKK 3m quarter on quarter.
- Net impairment charges were a reversal of DKK 8m in Q3 2020, compared to a DKK 22m reversal in Q2 2020.
- BankNordik recorded profit before tax of DKK 82m in Q3 2020, compared to DKK 103m in Q2 2020.
 - Zero non-recurring items were recognised in both Q3 2020 and Q2 2020.
 - The investment portfolio yielded a return of DKK 11m in Q3, against DKK 34m in Q2 2020.
- BankNordik recorded an operating profit of DKK 65m for Q3 2020, against DKK 82m for Q2 2020.

Capital ratios

At 30 September 2020, the Group's core capital ratio was 22.6% and the total capital ratio was 24.9%. The net profit for Q3 2020 is not reflected in the solvency statement. BankNordik has made a decision to raise its capital adequacy targets as part of the gradual phasing in of the MREL requirements. As a result, the CET 1 capital target is changed from 18.5% to 19.5%, while the target for the total capital ratio is raised from 22% to 23%.

Due to the uncertainty caused by the coronavirus crisis and in light of the call by the authorities to exercise restraint, BankNordik made a decision on 24 March not to pay dividends in respect of the 2019 financial year for the time being. The Bank has since announced that unless there are significant changes to current economic developments, it intends to reconsider, not later than at the release of the annual report for 2020, whether to pay dividends in respect of the 2019 financial year and subsequent financial years.

Outlook

At the start of the year, BankNordik's management expected net profit for 2020 in the DKK 100-150m range. However, due to the uncertainty surrounding the Covid-19 pandemic, management lowered its guidance by DKK 80m at the end of April.

The limited impact of the pandemic on the Group's financial performance to date has allowed the Bank to upgrade its guidance on 24 June, 16 July and 7 October, when the guidance for net profit in 2020 was raised to DKK 120-160m. As a consequence of continued positive developments, the Group is now narrowing its projection for the full-year net profit to the range of DKK 140-160m. The positive developments were driven especially by improved operating income and a consistent focus on reducing costs.

The outlook is subject to uncertainty relating to how the COVID-19 situation evolves, economic developments, as well as developments in loan impairments and asset prices.

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BankNordik has banking activities in Denmark, Greenland and the Faroe Islands and insurance activities in the Faroe Islands. Founded in the Faroe Islands more than a century ago, the Group has total assets of DKK 16.7bn and about 360 employees. The Bank is subject to the supervision of the Danish Financial Supervisory Authority and is listed on Nasdaq Copenhagen.

Appendix: Q3 2020 financial highlights and comparative figures

Highlights and ratios

DKK m	Q1-Q3 2020	Q1-Q3 2019	Index 20/19	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Net operating profit	266	250	106	89	89	87	87	83
Net fee and commission income	148	140	106	49	45	54	49	47
Net insurance income	34	39	87	18	12	4	14	15
Other operating income (less reclassification)	26	35	73	9	8	9	14	13
Operating income	473	464	102	166	153	154	164	158
Operating costs	-317	-355	89	-102	-106	-109	-117	-116
Sector costs	-1	-1		0	0	0	0	0
Profit before impairment charges	155	108	143	63	47	45	47	42
Impairment charges, net	6	80	8	8	22	-24	25	9

Operating profit	162	189	<i>86</i>	71	69	21	71	51
Non-recurring items	0	0		0	0	0	-13	0
Profit before investment portfolio earnings and tax	162	189	<i>86</i>	71	69	21	58	50
Investment portfolio earnings	-6	12	<i>-48</i>	11	34	-51	1	0
Profit before tax	156	201	<i>78</i>	82	103	-30	59	50
Net profit	123	158	<i>78</i>	65	82	-24	48	40
Loans and advances	9,829	9,983	<i>98</i>	9,829	9,880	9,971	9,909	9,983
Deposits and other debt	12,892	13,557	<i>95</i>	12,892	13,059	12,903	14,399	13,557
Mortgage-broking services	13,333	12,918	<i>103</i>	13,333	13,107	13,010	12,960	12,918
Equity	2,230	2,064	<i>108</i>	2,230	2,167	2,087	2,112	2,064
Total capital ratio, %	24.9	21.0		24.9	24.0	23.4	22.3	21.0
Core capital ratio, %	22.6	18.9		22.6	21.8	21.3	20.2	18.9
CET 1 capital, %	21.1	17.5		21.1	20.3	19.8	18.8	17.5
Liquidity, excess cover %	184.4	225.1		184.4	185.9	159.4	215.7	225.1
Operating cost/income, %	67	77		62	69	71	71	73
Number of FTE, end of period	361	383	<i>94</i>	361	363	359	377	383

Further details are available in the interim report.

Attachments

- [Interim Report BankNordik Q3 2020.pdf](#)
- [IR Presentation Q3 2020.pdf](#)