

## Positive performance driven by strategic initiatives in a challenging year

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Divestment of Danish business expected to bring extraordinary dividends of DKK 700m in 2021–2023

### Announcement no. 6/2021

“We’re pleased that we succeeded in delivering strong financial results in 2020 despite the challenging and volatile economic climate caused by the pandemic. In particular, we’re proud that we’ve harvested the benefits of the strategic initiatives we implemented in December 2019, which were intended to strike a better balance between our costs and our earnings. At the end of the year, we signed a satisfactory agreement to sell the Group’s Danish business, and going forward, we intend to focus on the Faroese and Greenlandic markets and to create positive customer experiences, profitable growth and long-term value for all our stakeholders,” said BankNordik CEO Árni Ellefsen.

“As a major financial player in the Faroes and Greenland, we’re in a position to contribute to the green transition in the communities in which we operate, and we’re very happy to shoulder that responsibility. As part of our efforts to build a more sustainable business, we’ve begun to measure the Group’s performance on environmental, social and governance issues using ESG performance indicators. The biggest difference we can make in this context is by encouraging and supporting our customers in making sustainable choices. We already offer financial services that make it attractive for our customers to choose green alternatives and, going forward, we plan to further develop our advisory services and products in this area. In other words, we want to contribute to a sustainable society both through our own business operations and through our customer relationships,” said Ellefsen.

Highlights of BankNordik’s annual report for 2020:

### FY 2020 vs FY 2019

- BankNordik reported operating profit before impairment of DKK 149m in 2020, a DKK 28m improvement on 2019.
  - Net interest income was up by DKK 28m, driven by the extended use of negative interest rates.
  - Fee and commission income was up by DKK 4m in 2020, mainly due to greater customer activity.
  - Net income from insurance activities was down by DKK 7m compared with 2019 due to higher claims expenses.
- Operating costs were down by DKK 12m to DKK 238m, mainly as a result of a lower headcount and general cost management.
- BankNordik made a net reversal of impairment losses DKK 5m in 2020, against a net reversal of DKK 69m in 2019. Impairment charges for 2020 include a management estimate of DKK 52m.
- Profit before tax came to DKK 206m for 2020, compared with DKK 260m in 2019.
  - The divested Danish business produced a profit before tax of DKK 54m, compared with DKK 78m in 2019.
- Bank lending volumes were up by DKK 245m (3%) from DKK 7,363m at 31 December 2019 to DKK 7,608m at 31 December 2020.
- Mortgage-broking volumes were up by DKK 339m (+17%) from DKK 2,036m at 31 December 2019 to DKK 2,375m at 31 December 2020.
- Deposits were down by DKK 944m from DKK 8,701m at 31 December 2019 to DKK 7,756m at 31 December 2020.

### Q4 2020 vs Q3 2020

- Operating profit before impairment charges was DKK 38m in Q4 2020, against DKK 47m in Q3.
  - Net interest income was unchanged at DKK 65m.
  - Fee and commission income amounted to DKK 16m in Q4 2020, up by DKK 1m over Q3.
  - Net income from insurance activities was DKK 12m in Q4 2020, which was DKK 7m less than in Q3 due to higher claims expenses.
  - Other operating income was up by DKK 2m in Q4 2020.
  - Operating costs were up by DKK 5m Q/Q.
- Loan impairment charges amounted to a reversal of DKK 10m in Q4 2020, against DKK 2m in Q3.
- BankNordik recorded profit before tax of DKK 51m in Q4 2020, compared to DKK 82m in Q3.
  - The divested Danish business produced a profit before tax of DKK 1m in Q4 2020, compared with DKK 35m in Q3.

## Capital ratios

At 31 December 2020, the Group had a CET1 capital ratio of 22.6%, an increase of 3.8 percentage points relative to 31 December 2019. The total capital ratio was 26.4% at 31 December 2020, an increase from 22.3% at 31 December 2019.

## Return on capital

BankNordik recorded net profit of DKK 166m for 2020, of which the Board of Directors proposes to distribute DKK 48m (equal to DKK 5 per share) as dividends. Accordingly, the Bank expects a payout ratio for 2020 of just under 30%.

The divestment of the Danish business and the capital relief derived from the transaction is expected to result in extraordinary distributions to the shareholders totalling DKK 700m (equal to DKK 73 per share). Initially, DKK 450m of this amount is expected to be distributed in 2021, while the remaining DKK 250m is expected to be distributed in 2022 and 2023.

## Guidance for 2021

BankNordik expects slight increases in mortgage-broking services to personal customers and in lending to commercial customers in 2021. Increased customer activity and the resegmentation of the retail customer portfolio are expected to produce a moderate increase in fee and commission income. Income from insurance activities is also expected to increase, although the claims experience may vary significantly from one year to the next. The Bank expects 2021 operating costs to be at the 2020 level and impairment charges to remain at a low level.

Income recognised from the divestment of the Danish business is expected to amount to DKK 70-90m (DKK 55-70m after tax).

Management expects a net profit in the DKK 150-200m range (2020: DKK 166m).

This guidance is generally subject to uncertainty and will, amongst other things, depend on economic conditions, loan impairment charges and market value adjustments.

## Strategic financial targets

BankNordik has revised its strategic financial targets following the divestment of the Danish business and the resulting greater focus on the corporate segment. The target for the CET1 capital ratio target will henceforth be 23.0% (31 December 2020: 22.6%), while the target for the total capital ratio is 33.0% including MREL (31 December 2020: 26.4%).

If the divestment of the Danish business had been recognised at 31 December 2020, the CET1 capital ratio would have been approximately 33%, while the total capital ratio would have been approximately 37%.

Our target going forward is for a return on equity of 8% after tax (2020: 7.6%) and for a payout ratio to the shareholders of about 50% (previously 20-40%).

## For additional information, please contact:

Árni Ellefsen, CEO, tel. (+298) 230 348

BankNordik has banking activities in the Faroe Islands and in Greenland as well as insurance activities in the Faroe Islands. Founded in the Faroe Islands more than a century ago, the Group has total assets of DKK 17.3 bn and 220 employees. The Bank is subject to the supervision of the Danish Financial Supervisory Authority and is listed on Nasdaq Copenhagen.

**Appendix:** Q4 2020 financial highlights and comparative figures are provided below.

## Highlights and ratios

DKKm	Q1-Q4 2020	Q1-Q4 2019	Index 20/19	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Net interest income	258	230	112	65	65	65	63	61
Net fee and commission income	60	56	107	16	15	13	16	15
Net insurance income	45	52	86	12	18	12	4	14
Other operating income (less reclassification)	24	33	75	8	6	5	5	10
<b>Operating income</b>	<b>387</b>	<b>371</b>	<b>104</b>	<b>101</b>	<b>104</b>	<b>95</b>	<b>87</b>	<b>99</b>

Operating costs	-238	-250	95	-62	-57	-59	-59	-67
Sector costs	-1	0		0	0	0	0	0
<b>Profit before impairment charges</b>	<b>149</b>	<b>120</b>	<i>124</i>	<b>38</b>	<b>47</b>	<b>36</b>	<b>28</b>	<b>33</b>
Impairment charges, net	5	69	7	10	-2	16	-18	21
<b>Operating profit</b>	<b>154</b>	<b>189</b>	<i>81</i>	<b>48</b>	<b>44</b>	<b>52</b>	<b>10</b>	<b>53</b>
Non-recurring items	0	-5		0	0	0	0	-5
<b>Profit before investment portfolio earnings and tax</b>	<b>154</b>	<b>184</b>	<i>83</i>	<b>48</b>	<b>44</b>	<b>52</b>	<b>10</b>	<b>48</b>
Investment portfolio earnings	-2	-3	<i>67</i>	1	3	15	-21	-3
<b>Profit before tax, continuing operations</b>	<b>152</b>	<b>182</b>	<i>84</i>	<b>49</b>	<b>48</b>	<b>66</b>	<b>-11</b>	<b>46</b>
<b>Profit before tax, discontinued operations</b>	<b>54</b>	<b>78</b>	<i>70</i>	<b>1</b>	<b>35</b>	<b>37</b>	<b>-18</b>	<b>14</b>
<b>Profit before tax, total</b>	<b>206</b>	<b>260</b>	<i>79</i>	<b>51</b>	<b>82</b>	<b>103</b>	<b>-30</b>	<b>59</b>
<b>Tax</b>	<b>40</b>	<b>53</b>	<i>76</i>	<b>7</b>	<b>17</b>	<b>21</b>	<b>-5</b>	<b>11</b>
<b>Net profit</b>	<b>166</b>	<b>207</b>	<i>80</i>	<b>43</b>	<b>65</b>	<b>82</b>	<b>-24</b>	<b>48</b>
Loans and advances	7,608	7,363	<i>103</i>	7,608	7,501	7,479	7,416	7,363
Deposits and other debt	7,756	8,701	<i>89</i>	7,756	7,531	7,581	7,468	8,701
Mortgage credit	2,375	2,036	<i>117</i>	2,375	2,284	2,121	2,057	2,036
Equity	2,272	2,112	<i>108</i>	2,272	2,230	2,167	2,087	2,112
Total capital ratio, %	26.4	22.3		26.4	24.9	24.0	23.4	22.3
Core capital ratio, %	24.1	20.2		24.1	22.6	21.8	21.3	20.2
CET 1 capital, %	22.6	18.8		22.6	21.1	20.3	19.8	18.8
Liquidity, excess cover %	195.6	215.7		195.6	184.4	185.9	159.4	215.7
Operating cost/income, %	61	67		62	55	62	68	67
Number of FTE, end of period	228	238	<i>96</i>	228	232	228	228	238

\* Excluding non-recurring items and value adjustments.

Further details are available in the annual report.

## Attachments

- [BankNordik Annual Report 2020.pdf](#)
- [Risk Management Report 2020.pdf](#)
- [IR Presentation Q4 2020.pdf](#)