

# Interim Report

# Q1 2021

# 28 April 2021

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**Financial review**

“We sold our Danish business effective 1 February, finalising the satisfactory agreement we entered into with Spar Nord in December of last year. The sales process proceeded as planned, and we expect the handover of the divested customer base to be completed by 19 June. Considering the reduced REA resulting from the sale, we expect to distribute DKK 700m in extraordinary dividends to our shareholders during 2021-2023, provided such payout would be in compliance with the regulatory guidelines in place at the time of distribution,” said BankNordik CEO Árni Ellefsen.

“Following the divestment, we’ve made changes to our group organisation in order to ensure that our operations remain cost efficient. Our focus going forward is to retain our strong market positions in the Faroese banking market and also to build profitable growth in Greenland and in our insurance business. We aim to do that by offering good customer experiences and competitive products. We saw high customer activity and rising income flows in both markets in the first quarter of the year, and we further developed our portfolio of green products intended to encourage and support our customers in making sustainable choices,” said Ellefsen.

**Income statement**



The following comments relate to the adjusted figures and are generally stated relative to Q4 2020. Due to seasonal variations, comments on the insurance segment are made relative to Q1 2020.

**Operating income**

The BankNordik Group generated operating income of DKK 97m in Q1 2021, a decrease of DKK 3m compared to Q4 2020.

**Net interest income**

Net interest income was DKK 64m in Q1 2021, DKK 1m lower than in Q4 2020.

**Net fee and commission income**

Net fee and commission income amounted to DKK 17m in Q1 2021, an increase of 1m compared to Q4 2020.

**Net insurance income**

Net insurance income amounted to DKK 7m in Q1 2021, DKK 4m higher than in Q1 2020.

**Operating and sector costs**

Operating costs amounted to DKK 59m in Q1 2021, down by DKK 3m relative to Q4 2020 and continuing the downward trend seen in each quarter since the organisational changes implemented in Q4 2019.

**Profit before impairment charges**

Profit before impairment charges was DKK 38m in Q1 2021, flat relative to Q4 2020.

**Impairment charges**

Net impairment came in at DKK 3m in Q1 2021, compared to a reversal of DKK 10m in Q4 2020.

**Operating profit**

As a result, operating profit came in at DKK 35m in Q1 2021 compared to DKK48m in Q4 2020.

**Non-recurring items**

Due to sale of BankNordik’s Danish business being finalised in Q1 2021, non-recurring income of DKK 77m was realised in the quarter.

**Profit before tax**

Due to the one-off income of DKK 77m from the sale of the Bank’s Danish business, profit before tax increased by DKK 59m quarter on quarter to DKK 108m in Q1 2021 for the Group’s continuing operations. A further DKK 9m of the sale proceeds was attributed to the Group’s discontinued operations, and therefore the Group’s profit before tax increased by DKK 67m in Q1 2021 relative to Q4 2020 to DKK 118m.

**Balance sheet**

BankNordik's total assets at 31 March 2021 amounted to DKK 12.0bn. Loans and advances were DKK 7.4bn, i.e. down by DKK 158m compared to 31 December 2020. Deposits were DKK 7.5bn, a decrease of DKK 221m compared to 31 December 2020.

Liquidity invested in bonds, primarily in Danish mortgage bonds and Danish government bonds, amounted to DKK 2.8bn, a decrease of DKK 1.6bn compared to 31 December 2020. Liquidity invested in equities amounted to DKK 273m, a decrease of DKK 37m relative to 31 December 2020. The Group’s liquidity indicator was 214.4% at 31 March 2021, well above the requirement of 100%. The Group’s LCR at 31 March 2021 was 211.7%, also well above the requirement of 100%. Shareholder’s equity at 31 March 2021 amounted to DKK 2,313m, up by DKK 42m compared to 31 December 2020.

**Capital ratios**

At 31 March 2021, the Group’s CET1 capital ratio was 31.0%, the core capital ratio was 33.1% and the total capital ratio was 36.2%. The net profit for the Q1 2021 period is not reflected in the solvency statement.

**Compliance with the Danish FSA Supervisory Diamond**



At 31 March 2021, the Group was in compliance with all Supervisory Diamond requirements set by the Danish FSA.

**Events after the balance sheet date**

No events have occurred since 31 March 2021 that are deemed to have a significant impact on the Group’s financial position.

**Outlook 2021**

Management reconfirms the FY2021 guidance of operating net profit in the range of DKK 150-200m.

This outlook is subject to uncertainty, including impairments on loans and advances, market value adjustments, and macroeconomic developments, including developments in the COVID-19 situation affecting the markets in which the Group operates.

**Adjusted results**



**BankNordik Group by segment**

Note that the financial results as presented in the item Investment portfolio earnings along with other operating costs than direct costs are not recognised under the business segments Corporate Banking and Personal Banking. From and including the Q3 2021 interim report we aim at include other costs than direct costs under the business segments Corporate Banking and Personal Banking.



**Personal Banking**

The Personal Banking segment reported operating income of DKK 52m in Q1 2021, DKK 1m lower than in Q4 2020.

Net interest income and operating income were unchanged compared to the previous quarter at DKK 34m and DKK 4m, respectively. Net fee and commission income in Q1 2021 fell by DKK 2m quarter on quarter.

Operating costs were DKK 37m in Q1 2021, a fall of DKK 1m compared to Q4 2020. Impairment charges amounted to a reversal of DKK 6m in Q1 2021 compared to a reversal of DKK 3m in Q4 2020.

As a result, operating profit in the quarter was DKK 43m in Q1 2021, an increase of DKK 2m over the previous quarter.

Bank loans and advances to personal customers during the quarter fell by DKK 28m to DKK 3,559m, whereas mortgage-broking services increased by DKK 78m to DKK 2,152m, both compared to 31 December 2020. This is a continuation of the trend seen in recent years of Faroese households increasingly embracing the traditional Danish financing model of 80% LTV mortgage funding with the residual in 2nd lien bank lending.

Deposits held by personal customers increased by DKK 65m during the quarter to DKK 5,205m at 31 March 2021.



**Corporate Banking**

Corporate Banking activities reported operating income of DKK 42m in Q1 2020, up by DKK 1m compared to Q4 2020.

Net interest income fell by DKK 1m in Q1 2021 compared to the previous quarter. Net fee and commission income and other operating income both increased by DKK 1m to DKK 6m and DKK 2m, respectively, compared to the previous quarter.

Operating costs were flat at DKK 5m in Q1 2021 compared to Q4 2020. Impairment charges for Q1 2021 came in at DKK 18m, a rather significant increase on the previous quarter, which saw a reversal of DKK 4m.

As a result, operating profit in Q1 2021 halved to DKK 20m compared to Q4 2020.

Corporate loans and advances fell by DKK 118m in the first quarter of 2021 to DKK 3,856m at 31 March 2021, while deposits fell by DKK 284m in the same period to DKK 2,323m.



**Insurance: Trygd**

Trygd’s premium income was DKK 30m in Q1 2021, flat compared to Q1 2020. Claims fell by DKK 4m in Q1 2021 compared to the same period last year to DKK 26m.

Operating costs were DKK 6m in Q1 2021, flat compared to the first quarter of 2020. As a result, Trygd saw a quarterly loss before tax of DKK 2m compared to a quarterly loss of DKK 6m in Q1 2020.

Trygd continues to strengthen its market position as a leading provider of non-life insurance in the Faroe Islands. Premium increases are seen due to an increase in market share as well as general market growth related to developments in the Faroese economy. Trygd has made changes to its pricing policy to the effect that from 2021 premium increases will still follow Faroese inflation, but now at a minimum annual premium increase of 2% instead of 1%. On the cost side, operating costs have remained largely flat, thereby contributing to margin expansion.

Trygd’s claims vary significantly from one period to the next due to the limited size of the Faroese insurance market, which adds volatility to the financials results.



















**Note 1 Significant accounting policies**

The consolidated financial statements for the first three months of 2021 have been prepared in accordance with IAS 34 “Interim Financial Reporting” supplemented by additional Faroese disclosure requirements for quarterly reports of listed financial companies and in accordance with the financial reporting requirements of the Nasdaq exchange in Copenhagen. The financial statements of the Parent Company, P/F BankNordik, have been prepared in accordance with the Faroese Financial Business Act and with the executive order on financial reports of credit institutions etc. of the Danish FSA as applied in the Faroe Islands.

The application of IAS 34 means that the disclosure of figures is less detailed than the disclosure in a full annual report and that the valuation principles laid down by the international financial reporting standards (IFRS) are applied.

The Group’s significant accounting policies are consistent with those applied in the Annual Report 2020. The Annual Report 2020 provides a full description of the Group’s significant accounting policies.

**Future financial reporting standards and interpretations**

The International Accounting Standards Board (IASB) has issued a number of new accounting standards (IAS and IFRS) and interpretations (IFRIC) that have not yet entered into force. Please refer to the Annual Report 2020 for further information.

**Accounting estimates**

The measurement of certain assets and liabilities requires management to estimate how future events will impact on the value of such assets and liabilities. Estimates of significance to the financial reporting are made in connection with determining the impairment of loans and advances, the fair value of unlisted financial instruments, provisions, business acquisitions etc. Estimates are based on assumptions that management considers appropriate but which are inherently uncertain.

The most significant estimates that management makes in applying the Group’s accounting policies and the most important uncertainty affecting estimates made when preparing the condensed interim report are unchanged from the estimates made in connection with the preparation of the Annual Report 2020 and the uncertainties prevailing at that time.

**Determination of fair value**

The fair value of financial assets is measured on the basis of quoted market prices of financial instruments traded in active markets. If an active market exists, fair value is based on the most recently observed market price at the balance sheet date.

If a financial instrument is quoted in a market that is not active, the Group bases its measurement on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance by including transactions in similar financial instruments that are assumed to be motivated by normal business considerations.

If no active market for standard and simple financial instruments, such as interest rate and currency swaps and unlisted bonds, exists, generally accepted valuation techniques rely on market-based parameters for measuring fair value. The results of calculations made on the basis of valuation techniques are often estimates because exact values cannot be determined from market observations. Consequently, additional parameters, such as liquidity risk and counterparty risk, are sometimes used for measuring fair value.











 





Statement by the Executive Board and the Board of Directors

We have today considered and approved P/F BankNordik’s interim report for the first three months to 31 March 2021.

The consolidated financial statements for the first three months to 31 March 2021 have been prepared in accordance with IAS 34, Interim Financial Reporting as adopted by the EU, while the interim financial statements of the Parent Company have been prepared in accordance with the Faroese Financial Business Act. Furthermore, the Interim Report has been prepared in accordance with additional Faroese disclosure requirements for interim reports of listed financial companies and in accordance with the financial reporting requirements of Nasdaq Copenhagen.

The interim financial statements have not been audited or reviewed.

We consider the accounting policies applied to be appropriate, such that the Interim Financial Report gives a true and fair view of the Group’s and the Parent Company’s assets, shareholders’ equity and liabilities and financial position at 31 March 2021, and of the results of the Group’s and the Parent Company’s operations and the Group’s and Parent Company's cash flows for the first three months ended 31 March 2021.

In addition, we consider the Management’s report to give a fair presentation of the development in the Group’s activities and financial affairs, the profit for the period and the Group’s financial position as a whole, as well as a description of the significant risks and elements of uncertainty that may affect the Group.

Tórshavn, 28 April 2021

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Árni Ellefsen

*CEO*

Board of Directors

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BankNordik is a limited liability

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