Sparekassen Kronjylland

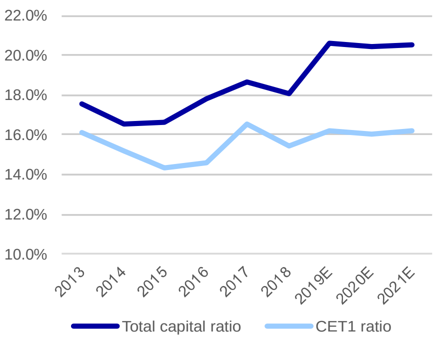
Financials
Denmark

KEY DATA

Country	Denmark
Bloomberg	KRONJ
Moody's	NR/--
S&P	NR/--
Website	sparkron.dk

Source: Company data

CAPITAL RATIOS



Source: Company data and Nordea estimates

ESTIMATE CHANGES

Year	2019E	2020E	2021E
Total revenue	n.a.	n.a.	n.a.
Total costs	n.a.	n.a.	n.a.
Profit before loan losses	n.a.	n.a.	n.a.
PTP	n.a.	n.a.	n.a.
DPS (ord)	n.a.	n.a.	n.a.
EPS (adj)	n.a.	n.a.	n.a.

Source: Nordea estimates

Nordea Markets - Analysts
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A savings bank with solid roots

Sparekassen Kronjylland has almost 190 years of experience since it was founded in Randers, where its headquarters are still located. Over the years, the bank has built a strong footprint in the Eastern part of Jutland in the surrounding area of Randers, where it also has the highest concentration of branches today. While the bank in recent years has expanded its geographical reach to most of Denmark, leading to high lending growth, its asset quality has also improved. Lending with objective evidence of impairment or substantial weakness in creditworthiness has declined by DKK 700m (~16%) since 2016, while total lending and guarantees have increased by DKK ~8bn (~33%).

A self-owned institution with long-term ambitions

In recent years, Sparekassen Kronjylland has grown its lending significantly through organic growth and branch openings, as well as acquisitions of banks with weak capital positions following the financial crisis. However, the bank has also had the patience to reject mergers or branch openings if the circumstances or strategic fit have not been right. We find it likely that this patience is a product of the bank's ownership structure, which differs from its listed peers. The bank is a self-owned institution, where only the customers can acquire its guaranteed capital instruments. The ambition is thus to ensure its long-term existence rather than boost short-term profits. The bank asserts that the primary objective of growth is to strengthen the bank by lowering concentration risk and improving the utilisation of costs.

2020E-21E return on equity of ~5% is not an issue

While the 2020E-21E ROE of ~5% might sound low, we find it important to highlight that this is based on the current low interest level. It is also worth noting that the bank has measures available that could lift short-term income and lower costs, if needed. Sparekassen Kronjylland has avoided implementing negative deposit rates for business customers, who have chosen the bank as their lead bank. This could easily lift short-term NII, if needed. On the cost side, we also find it likely that the bank could lower its budget for sponsorships, if necessary. We estimate that Sparekassen Kronjylland will add 80 bp to the CET1 ratio during 2018-21E, and the loss absorption capacity measured as PBLL to lending stands at 1.6% in 2021E.

Well-capitalised bank with large buffers to capital requirements

Sparekassen Kronjylland had a 2018 CET1 ratio of 15.4% with 690 bp of headroom to the MDA trigger point. The 2018 total capital ratio stood at 18.1%, 110 bp above the bank's internal capital target. Comparing the bank to its listed Danish peers, we place it between Sparekassen Sjælland-Fyn and Ringkjøbing Landbobank from a relative capital strength perspective.

SUMMARY TABLE - KEY FIGURES

DKKm	2015	2016	2017	2018	2019E	2020E	2021E
Total revenue	1,087	1,124	1,171	1,160	1,334	1,250	1,286
Total costs	-755	-797	-866	-881	-921	-956	-983
LL-ratio	0.99%	0.79%	-0.31%	0.05%	-0.23%	0.14%	0.29%
PTP	267	311	378	305	485	303	282
RoE	7.7%	7.8%	9.3%	6.4%	9.9%	5.3%	4.7%
RoTBV (adj)	8.1%	8.3%	9.7%	6.4%	7.1%	5.1%	4.6%
P/E (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
P/BV	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
P/TBV	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
BIS III CT1-ratio	14.4%	14.6%	16.5%	15.4%	16.2%	16.0%	16.2%
DPS (ord)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Yield (ord)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total payout ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data and Nordea estimates

Company overview

Sparekassen Kronjylland is a Danish savings bank and the eighth largest bank in Denmark, with more than 160,000 clients and DKK ~16bn in lending. The bank has 52 branches and it has ~725 FTEs. Compared to some of its listed peers, Sparekassen Kronjylland is a self-owned institution, which is funded by ~40,000 holders of its guaranteed capital instruments, which allows the bank to have a long-term perspective.

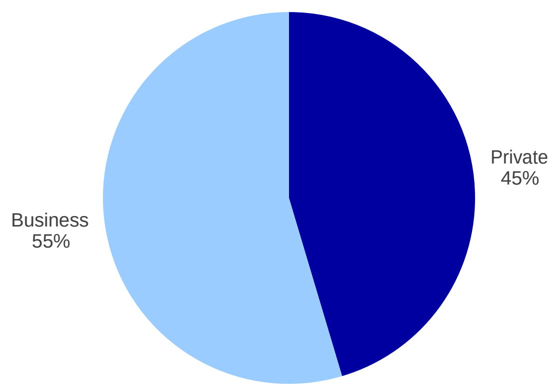
190 years of experience

A savings bank with a long-term view

Sparekassen Kronjylland was founded in 1829 in Randers, in the eastern part of Jutland, where the headquarters is still located. The current bank is a product of many mergers and acquisitions throughout the 1960s and 1970s and another merger wave following the financial crisis in 2008. Furthermore, the bank has recently been actively opening branches to support growth. The bank has 52 branches and employed 725 FTEs in 2018. At the end of 2018, private lending and guarantees represented 45% of the total, while the remaining 55% was business lending and guarantees.

Household lending and guarantees account for 45%, of total lending and guarantees

LENDING AND GUARANTEES OF TOTAL, 2018



Source: Company data and Nordea

Sparekassen Kronjylland operates as a traditional savings bank, with ~40,000 customers holding in total DKK ~1bn in guaranteed capital instruments

The savings bank model

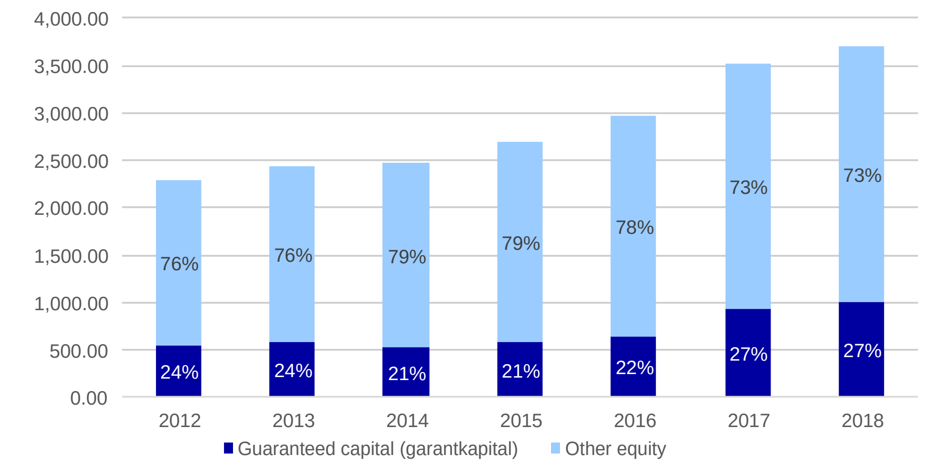
Sparekassen Kronjylland is a self-owned institution, where only the customers have the option to acquire guaranteed capital instruments (in Danish: Garantbeviser). The guaranteed capital can only be acquired in shares of a nominal DKK 1,000, which is tied to one vote for the board of representatives. However, no one can cast more than 20 votes. The guaranteed capital works as equity in the bank and it counts as CET1 capital. The holder of the capital is compensated with interest, which, as with dividends, needs the approval of the board of representatives before it can be distributed to the holder. Currently, Sparekassen Kronjylland has a policy of paying 2.5% in interest on guaranteed capital. Besides the interest on the guaranteed capital, the bank also offers a few discounts on its fees for customers who hold more than DKK 30,000 in guaranteed capital. In contrast with other subordinated capital instruments, the guaranteed capital can be withdrawn; ie the bank buys it back at nominal value. However, due to the status of guaranteed capital as equity under the capital requirement regulations, the Danish FSA has to approve how much of the guaranteed capital can be drawn within a year. Currently, Sparekassen Kronjylland has a pre-approval for withdrawals of up to DKK 50m, which is deducted in CET1 capital. Within the limits of the approval, the holders of the guaranteed capital are free to withdraw the capital.

Sparekassen Kronjylland has at all times been able to meet requests to withdraw guaranteed capital

Historically, Sparekassen Kronjylland has at all times been able to meet the withdrawal requests from its capital holders, emphasising its strong capital position. Owing to the potential but very low risk of facing a loss on the capital as a holder, Sparekassen Kronjylland has decided to limit how much customers can put into guaranteed capital. Hence, retail customers cannot hold more than DKK 50,000 in the bank's guaranteed capital instruments, while the limit is DKK 100,000 for corporate clients. Owing to requests from many customers, the limits were lifted on 1 October 2016 from the previous limit of DKK 20,000 for all customers, which thus explains the large increase guaranteed capital during 2017. The current amount of guaranteed capital of DKK ~1bn is thus distributed to ~40,000 different holders of the guaranteed capital. By simply splitting the bank's equity into two parts, the guaranteed capital and other equity, which mainly constitutes reserves from the previous years' profit, we see that guaranteed capital represents just above a quarter of total equity.

Just above a quarter of the bank's equity is guaranteed capital – the remaining part is mainly reserves from previous years' profits

EQUITY COMPOSITION, DKKm



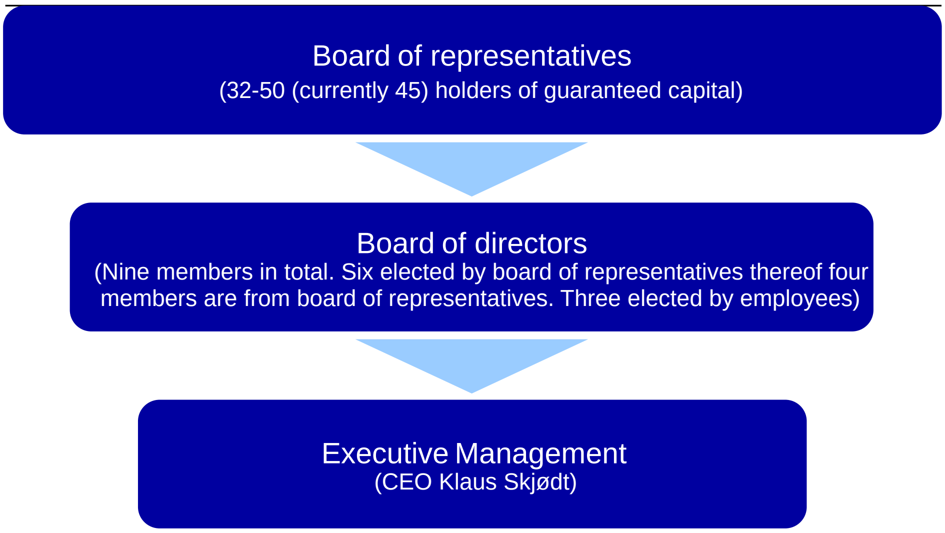
Source: Company data and Nordea estimates

SPAREKASSEN KRONJYLLAND: GOVERNANCE STRUCTURE

The board of representatives is elected by the holders of guaranteed capital at an annual meeting

Two thirds of the board of directors are elected by the board representative, while the remaining third is elected by the employees

The board of directors appoints the CEO and has decision power comparable to the that of the boards in listed banks



Source: Company data and Nordea

Management

The executive management of Sparekassen Kronjylland consists of only the CEO, Klaus Skjødt, who has headed the bank for almost ten years. Before joining Sparekassen Kronjylland in 2009, Mr. Skjødt held a position as Chief Information Officer (CIO) and member of the executive committee at Jyske Bank. Prior to this, Mr. Skjødt has held various positions at Jyske Bank including Head of Group IT and Head of Group Finance.

Besides the job as CEO for Sparekassen Kronjylland, Klaus Skjødt is also the Chairman of Board at both SDC and SparInvest Holdings SE. The latter could, however, likely change in the near future, following Nykredit acquisition of 75% of SparInvest. Mr. Skjødt is also a board member at Lokale Pengeinstitutter and Egnsinvest Holding.

Klaus Skjødt is born in 1965. Mr. Skjødt started his career as bank trainee and has since earned an MBA from Henley Management College. Mr. Skjødt has completed management and business courses from Aarhus Business College, INSEAD, Kellogg School of Management and Harvard Business School.

Klaus Skjødt does not receive any variable compensation, and the fixed compensation including pension equalled DKK ~5m in 2018.

CEO KLAUS SKJØDT

Source: Company data

History of the bank

Sparekassen Kronjylland was founded in 1829 in Randers, where the bank is still domiciled today. During the first 125 years the bank had only one branch. In 1960s, this changed as the first merger wave took place, lasting 11 years. In 1984, the bank issued its first guaranteed capital instruments with the purpose of granting the customers more power in the bank. Within a few months, the bank had issued guaranteed capital to more than 3,200 holders, well above the initial target of 2,000. A few years later, in 1988, the bank changed its name to Sparekassen Kronjylland. While other banks were under distress during the financial crisis, Sparekassen Kronjylland only booked net losses in 2008 (DKK -127m) and in 2011 (-10m). The bank hence retained a CET1 ratio above 16% until 2012, when it used it strong capital position to acquire the healthy assets of the distressed bank, Sparekassen Østjylland. Sparekassen Kronjylland also carried out a few other acquisitions of assets from distressed banks in 2010 and 2011. In 2015, Sparekassen Kronjylland acquired Vorbasse-Hejnsvig Sparekassen, which was also under pressure due to losses on its large agriculture portfolio.

KEY EVENTS FOR SPAREKASSEN KRONJYLLAND

Year	Event
1829	The bank was founded in Randers in the Eastern part of Jutland
1943	The bank acquired Værum-Ørum Sparekasse and shut down the acquired branch
1954	The bank opened its second branch, which was also located in Randers
1966	The bank acquired Virring-Essenbæk Sparekasse
1967	The bank acquired Øster Tørslev Sparekasse
1968	The bank acquired Vester Velling-Skjern Sparekasse
1969	The bank acquired Årslev-Hørning Sparekasse and Øster Velling Sparekasse
1970	The bank acquired Fausing-Auning Sparekasse and Asferg-Fårup Sparekasse
1971	The bank acquired Mariager Sparekasse and Havndal Sparekasse
1972	The bank acquired Falslev Sparekasse and Voldum-Rud Sparekasse
1973	The bank acquired Hald Sparekasse
1977	The bank acquired Holbæk-Udby Sparekasse
1984	The bank issued its first guaranteed capital
1988	The bank changed its name to its current name, Sparekassen Kronjylland
2001	Sparekassen Kronjylland moved to its current head quarter in Randers
2007	Sparekassen Kronjylland merged with Mørke Sparekasse
2010	Sparekassen Kronjylland merged with Tved Sparekasse and acquired two branches from Morsø Bank
2011	Sparekassen Kronjylland acquired one branch from Fjordbank Mors/Finansiel Stabilitet (Government-owned entity that takes over failing banks and their assets)
2012	Sparekassen Kronjylland acquired the healthy assets (15 branches, 40,000 customers and 170 FTEs) of Sparekassen Østjylland from Finansiel Stabilitet
2013	Sparekassen Kronjylland acquired 50% of Krone Kapital, a leasing company. The other 50% is owned by Sparekassen Thy
2015	Sparekassen Kronjylland acquired 25% of NEM Forsikring A/S
2015	Sparekassen Kronjylland acquired Vorbasse-Hejnsvig Sparekasse (Five branches, 10,000 customers and 43 FTEs)

Source: Company data and Nordea

Strategic focus on balancing stakeholders

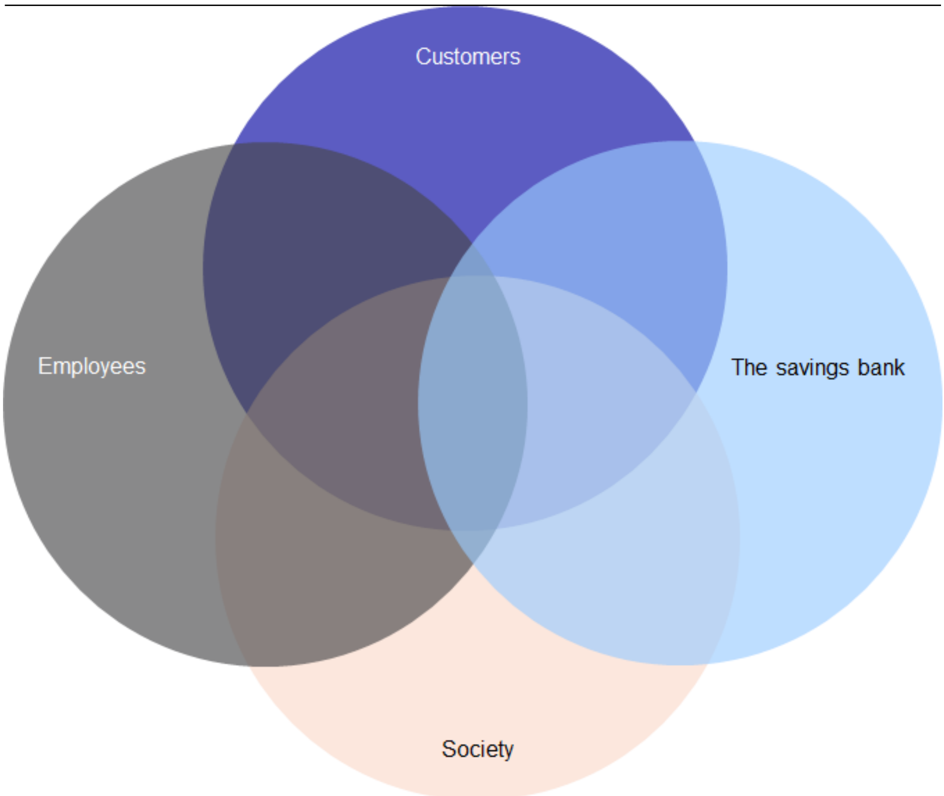
Sparekassen Kronjylland's strategy focuses on balancing its four most important stakeholders: customers, employees, society and the savings bank itself. By balancing these four stakeholders when making decisions, it is the bank's ambition to ensure its long-term existence. The current strategy plan has put the spotlight on improving customer satisfaction, with the result that the bank has climbed up the rankings in surveys, widening the gap to the other Danish banks. Sparekassen Kronjylland also scores fairly highly on employee satisfaction, without having higher salary costs per FTE than peers. While M&A has historically been an important part of the strategic agenda, we highlight that M&A activity has usually happened when other Danish banks have been under pressure due to weak capital positions. We hence find it less likely that Sparekassen Kronjylland will participate in M&A in the near future, but the increasing capital, legal and compliance requirements in the sector could trigger some M&A when looking a few more years into the future. It seems unlikely that another party will acquire Sparekassen Kronjylland, owing to its strict articles of association.

Balancing customers, employees, society and the savings bank itself

As a self-owned institution, the bank has an ambition to ensure its long-term existence. The focus has hence been on making decisions that are supportive for its long-term existence rather than on boosting short-term profits. Hence, the bank focuses on creating a balance between its four main stakeholders: the customers, the employees, society, and the savings bank itself. The current three-year strategy plan, which comes to an end at the end of 2019, has focused on creating "the savings bank of the future with the most satisfied customers."

Sparekassen Kronjylland has put focus on its four most important stakeholders as part of the current strategy plan

SPAREKASSEN KRONJYLLAND'S FOUR MOST IMPORTANT STAKEHOLDERS



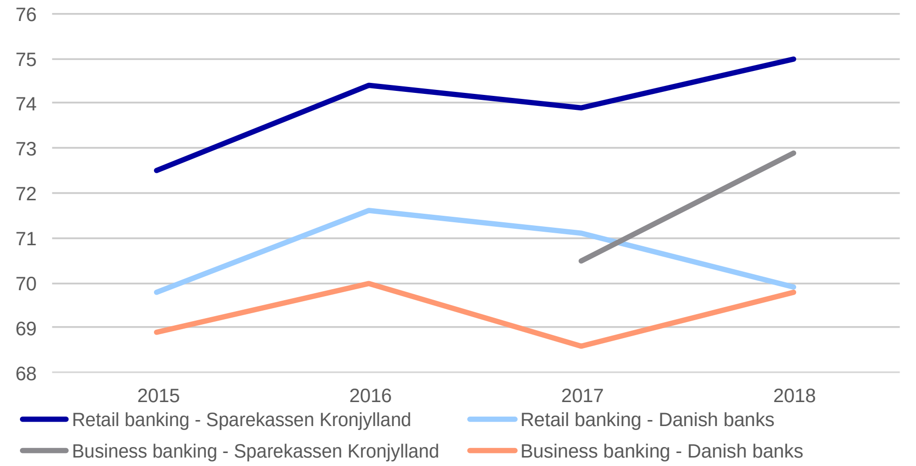
Source: Company data and Nordea

Widening the gap ahead of other Danish banks on customers satisfaction

In connection with its current three-year strategy, the bank has shown a clear ambition to increase customer satisfaction. For retail clients, Sparekassen Kronjylland successfully widened the gap to ~5 points ahead of other Danish banks (from ~3 points) during 2015-18. For business banking clients, the data is not available for Sparekassen Kronjylland prior to 2017 but from 2017 to 2018, the score increased by 2.4 points, which secured the bank the second highest score in the survey. High customer satisfaction has also supported growth in both lending and deposits in recent years. Since 2010, Sparekassen Kronjylland has on average enjoyed 10% y/y annual growth in lending and deposits. While some of this growth has been fuelled through acquisitions, it has mainly been organic, via high customer satisfaction and branch openings in recent years.

Sparekassen Kronjylland has improved its customers satisfaction for both retail and business banking in recent years

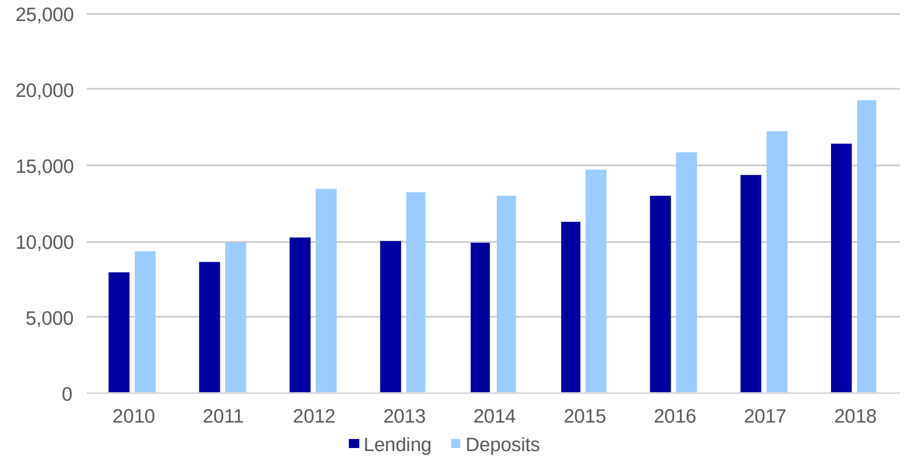
EPSI CUSTOMER SATISFACTION SCORE



Source: EPSI and Nordea

Both lending and deposits have grown by ~10% y/y on average since 2010

LENDING AND DEPOSITS, DKKm

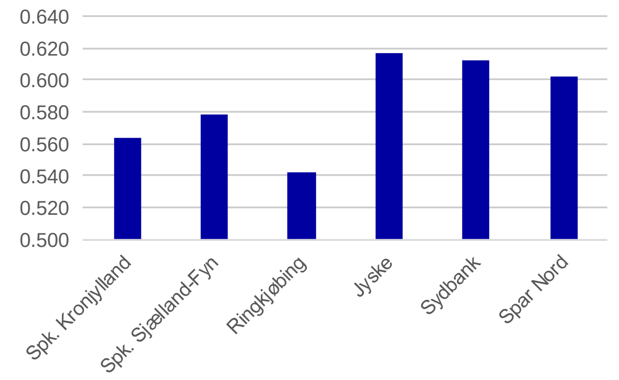


Source: Company data and Nordea

Lower salary costs but also lower income per employee than peers

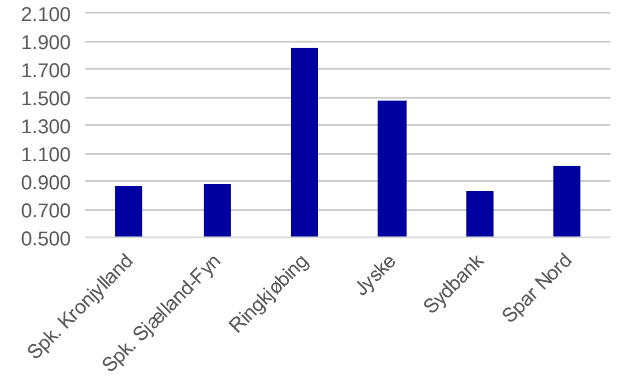
Sparekassen Kronjylland says its employees are some of its most important stakeholders. In a national competition on employee satisfaction, Sparekassen Kronjylland was ranked the fourth best place to work for companies with more than 500 FTEs. Taking a dive into the banks' average salary costs per FTE in 2018, however, we see that Sparekassen Kronjylland's costs are not above peers. When it comes to net interest income, total income and lending per FTE, Sparekassen Kronjylland slightly underperforms peers. This could be explained by the fact that the bank has recently opened branches, which have yet to mature. Alongside the industry, the bank invests significantly in automating routine tasks to free up more time for employees to advise clients, which is also expects to lift employee satisfaction.

SALARY COSTS PER AVERAGE FTE (2018), DKKm



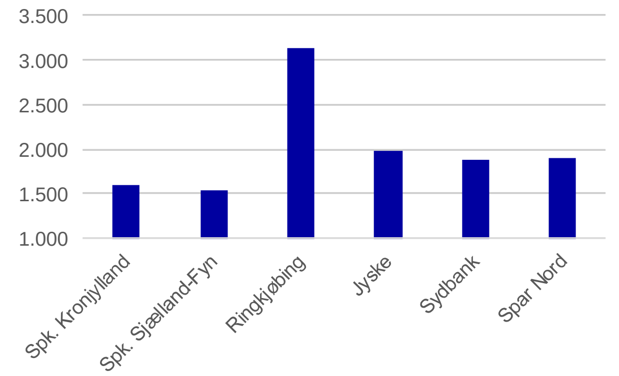
Source: Company data and Nordea

NII PER AVERAGE FTE (2018), DKKm



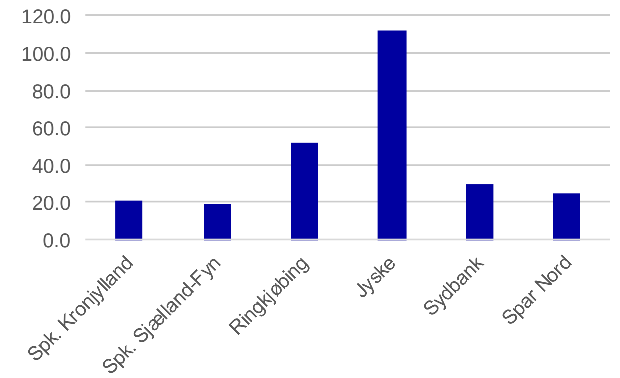
Source: Company data and Nordea

ADJUSTED TOTAL INCOME PER AVERAGE FTE (2018), DKKm



Source: Company data and Nordea

AVERAGE LENDING PER AVERAGE FTE (2018), DKKm



Source: Company data and Nordea

An integrated partner in society

In recent years, banks' interactions with society and the perception of banks in society has become increasingly important, especially judging from portrayals in the media regarding AML issues etc. Sparekassen Kronjylland has an important role in society, especially in the eastern part of Jutland where the bank has higher market shares. The bank thus sponsors the local football and handball teams and other local associations. Furthermore, the bank is also the main sponsor of the Danish women's national handball team. Sparekassen Kronjylland also has a foundation, which provides support grants for local projects.

Strategic initiatives to ensure long-term existence

Patience has been the key behind successful branch openings

The savings bank has existed for almost 190 years and hopes to remain in existence far into the future. In its current strategy plan, one focus area has been opening branches in the right locations with the right employees at the right time. After Sparekassen Kronjylland identifies attractive areas, it patiently awaits the right person to head the branch in that area. For example, the bank recently opened a branch in Aalborg, an area that has been on the wish list for a long time. Similarly, Sparekassen Kronjylland is on its way to opening a new branch in Odense during the fall, which will be the first branch on Funen. The bank has also shown the courage to close branches that have become too small for the bank; it does not protect its branch network at any cost.

M&A activity has often occurred when other Danish banks are under financial distress

The bank has historically been active in mergers and acquisitions. Its M&A activity shows a clear correlation with other Danish banks being distressed; hence it has been able to scale up the business model at a cheap price. Most recently, Sparekassen Vorbasse-Hejnsvig asked for a merger with Sparekassen Kronjylland in 2016, which offered the holders of its guaranteed capital the opportunity to withdraw their capital or guaranteed capital in Sparekassen Kronjylland instead. We find it likely that Sparekassen Kronjylland has received a number of offers like this, but that it has restrained from accepting them if the asset's quality does not fulfil the bank's requirements.

It is fairly unlikely that Sparekassen Kronjylland would be acquired by another bank, in our view, owing to its strict articles of association. Voting rights are capped such that no one capital holder can cast more than 20 votes (one vote per DKK 1000 in guaranteed capital). The bank has ~40,000 capital holders. Furthermore, it requires acceptance from at least 75% of the votes represented to pass a deal where Sparekassen Kronjylland is not the continuing bank, and it also requires that a 90% quorum of all voters are present at the first election to pass. Otherwise, a second meeting is needed, where there is no quorum requirement and only 75% of the votes represented are needed to approve a decision.

Contrary to many of the large Danish banks, Sparekassen Kronjylland has opened branches recently

Sparekassen Kronjylland has also closed branches, however, showing that the bank does not hesitate to cut back if branches fail or become too small

RECENTLY OPENED BRANCHES

Year	Branch
2019 (expected in Q3)	Odense
2018	Aalborg
2017	Slagelse
2017	Køge
2016	Kolding
2016	Esbjerg
2015	Lyngby
2015	København City
2015	Holbæk

Source: Company data and Nordea

RECENTLY CLOSED BRANCHES

Year	Branch
2019	Randers, Kristrup
2019	Ørsted
2018	Randers Vestre
2018	Kjellerup
2018	Stoholm
2016	Assens
2015	Havndal
2015	Randers, Dronningborg
2015	Gjern

Source: Company data and Nordea

Sparekassen Kronjylland has branches across most of Denmark, with the highest concentration around its headquarters in the eastern part of Jutland

The upcoming branch in Odense will become the banks' first branch on Funen

SPAREKASSEN KRONJYLLAND BRANCHES

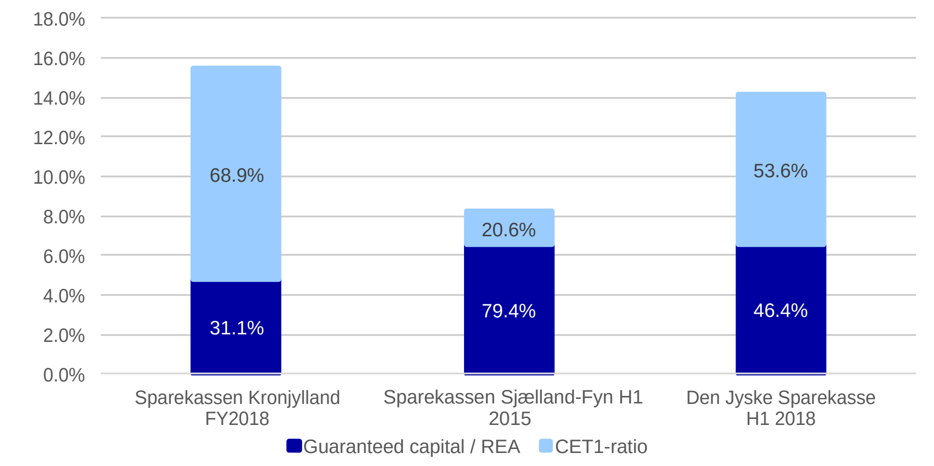
Source: Company data, Google and Nordea

An IPO seems unlikely as long as the capital position is strong

We find it unlikely that Sparekassen Kronjylland will pursue an IPO in the near future, despite the trend of other savings banks like Sparekassen Sjælland-Fyn and Den Jyske Sparekasse changing from a traditional savings bank model to a listed bank model in recent years. Weak capital positions were the main reason for listing Sparekassen Sjælland-Fyn and Den Jyske Sparekasse, as well as a high dependency on their guaranteed capital. This is not the case for Sparekassen Kronjylland.

At the time they were listed, Sparekassen Sjælland-Fyn and Den Jyske Sparekasse had lower CET1 ratios and a greater dependency of guaranteed capital than Sparekassen Kronjylland

CAPITAL COMPOSITION VS OTHER SAVINGS BANKS WHEN THEY WERE LISTED



Source: Company data and Nordea

Asset quality similar to that of its peers

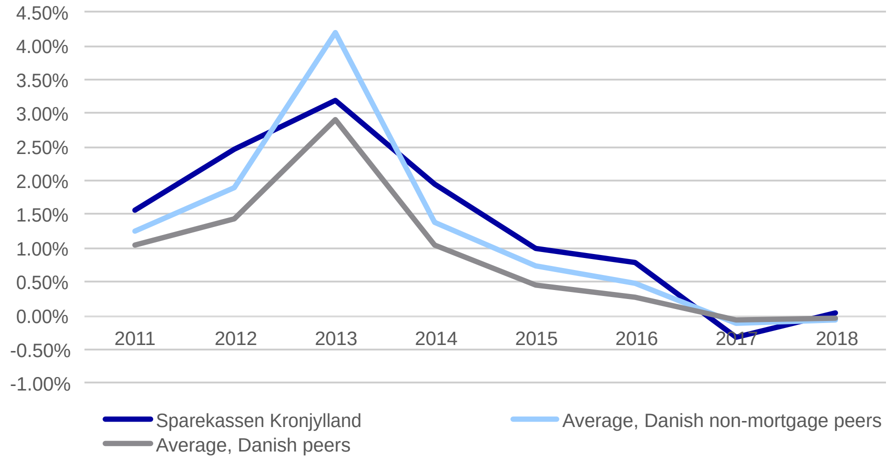
Sparekassen Kronjylland's asset quality looks similar to that of its peers. During the past eight years, the bank has reported slightly higher loan losses than its peers have. The overall asset quality of the bank, however, has improved significantly during 2016-18, despite the bank adding ~30% to its total lending and guarantees. Based on 22 years of loss data for Danish banks, we estimate that Sparekassen Kronjylland will have a normalised loan loss ratio of ~72 bp, assuming an average risk appetite within each sector.

2011-18 loan loss ratio of 133 bp, roughly in line with peers

Sparekassen Kronjylland has reported an average loan loss ratio of 133 bp since 2011. This is roughly in line with its non-mortgage peers at 122 bp. Since 2013, the loan ratio has come significantly down and the bank had only a 5 bp loan loss ratio in 2018. During the last decade, business lending has steadily increased its share of the total lending book and business lending now accounts for ~55% of the total lending and guarantees. While the share of lending to the agriculture sector has declined, lending to the building, construction, and other business segments has increased. Agriculture lending, real property lending and other business lending account for 55% of the bank's loan loss provisions but only 28.5% of total lending and guarantees.

Since 2011, Sparekassen Kronjylland has reported an 11 bp higher loan loss ratio on average than its Danish non-mortgage peers

LOAN LOSS RATIO VS DANISH PEERS



Source: Company data and Nordea

LENDING AND GUARANTEES: SPLIT BY INDUSTRY

	2011	2012	2013	2014	2015	2016	2017	2018
Public authorities	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.1%**	**0.1%**	**0.0%**
Private	**48.5%**	**48.2%**	**47.4%**	**47.9%**	**47.4%**	**46.3%**	**46.4%**	**45.4%**
Total business	**51.5%**	**51.8%**	**52.6%**	**52.1%**	**52.6%**	**53.6%**	**53.5%**	**54.6%**
Agriculture, hunting, forestry and fisheries	8.5%	9.6%	9.7%	11.0%	10.8%	9.1%	8.2%	6.9%
Manufacturing and extraction of raw materials	2.6%	2.2%	2.5%	2.5%	2.2%	2.2%	2.3%	2.6%
Energy supply	1.6%	0.9%	1.0%	0.5%	0.7%	0.6%	1.7%	1.1%
Building and construction	3.7%	3.9%	4.2%	3.4%	3.6%	4.3%	5.0%	5.1%
Trade	7.1%	7.7%	7.5%	7.0%	7.4%	7.2%	9.4%	8.5%
Transport, hotels and restaurants	2.7%	2.7%	3.2%	2.8%	3.3%	4.4%	5.6%	5.2%
Information and communication	0.8%	0.6%	0.4%	0.5%	0.4%	0.7%	0.7%	0.7%
Financing and insurance	5.0%	3.7%	3.8%	3.9%	5.0%	5.0%	1.7%	2.9%
Real property	11.2%	11.9%	11.4%	11.2%	11.0%	11.7%	10.7%	11.5%
Other business	8.4%	8.6%	8.9%	9.3%	8.1%	8.4%	8.3%	10.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company data and Nordea

LOAN LOSS PROVISION: SPLIT BY INDUSTRY

DKKm	2011	2012	2013	2014	2015	2016	2017	2018
Public authorities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Private	**285**	**285**	**294**	**344**	**357**	**343**	**308**	**313**
Total business	**837**	**837**	**811**	**785**	**929**	**919**	**732**	**815**
Agriculture, hunting, forestry and fisheries	287	287	192	219	331	384	301	302
Manufacturing and extraction of raw materials	21	21	33	19	11	11	9	16
Energy supply	0	0	3	1	13	14	4	10
Building and construction	68	68	79	67	49	36	41	53
Trade	106	106	104	100	74	70	75	59
Transport, hotels and restaurants	50	50	37	39	32	18	17	28
Information and communication	4	4	3	4	3	3	2	6
Financing and insurance	68	68	53	46	45	29	18	23
Real property	160	160	189	211	251	232	137	142
Other business	73	73	118	79	120	122	128	176
Total	**1122**	**1122**	**1105**	**1129**	**1286**	**1262**	**1040**	**1128**

Source: Company data and Nordea

Agriculture lending represents ~40% of NPLs with forbearance

The agriculture sector has been troublesome for the Danish banks during recent years, owing to low output prices. The same has been true for Sparekassen Kronjylland, but the bank has lowered its lending and guarantees to the agriculture sector by ~35% since 2015, hence the sector represented only 6.9% by the end of 2018. The 2018 agriculture loan loss provisions represented ~16% of the agriculture gross lending and guarantees, and ~27% of the banks' total loan loss provisions. We note that ~40% of the bank's non-performing loans with forbearance measures were within agriculture.

Agriculture exposure lowered by more than one-third since 2015

AGRICULTURE EXPOSURE TO TOTAL NET LENDING AND GUARANTEES: SPLIT BY SEGMENTS

	2012	2013	2014	2015	2016	2017	2018
Dairy farming	3.3%	2.4%	2.9%	3.4%	2.7%	2.5%	2.0%
Pig farming	4.1%	3.1%	3.1%	3.2%	2.4%	1.9%	1.8%
Crop production	2.5%	2.5%	3.1%	2.3%	2.2%	2.2%	1.8%
Other agriculture	1.9%	1.7%	1.9%	1.9%	1.8%	1.5%	1.3%
Total	**11.8%**	**9.7%**	**11.0%**	**10.8%**	**9.1%**	**8.2%**	**6.9%**

Source: Company data and Nordea

Sparekassen Kronjylland had provisioned 16% of its gross agriculture lending and guarantees by the end of 2018 – this is roughly in line with Danish peers

AGRICULTURE LOAN LOSS PROVISIONS TO GROSS LENDING AND GUARANTEES

	2012	2013	2014	2015	2016	2017	2018
Dairy farming	21%	13%	10%	25%	31%	27%	27%
Pig farming	13%	14%	20%	15%	16%	12%	12%
Crop production	13%	12%	9%	10%	11%	4%	5%
Other agriculture	15%	16%	11%	12%	13%	14%	13%
Total	**16%**	**14%**	**13%**	**17%**	**20%**	**16%**	**16%**

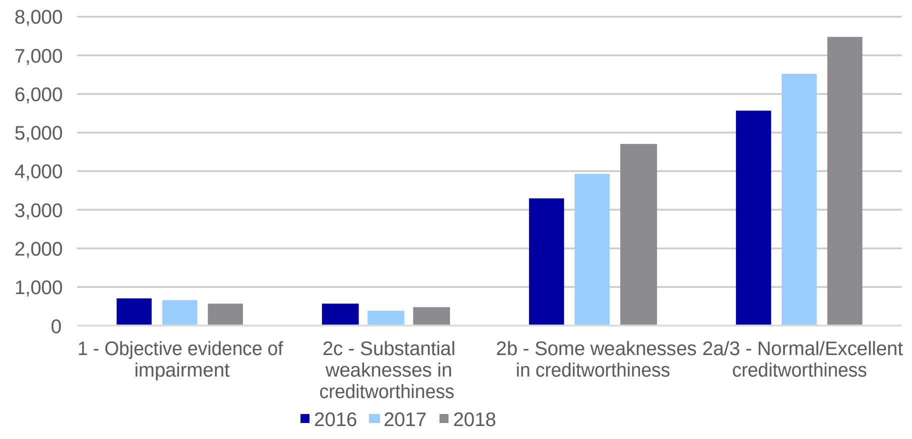
Source: Company data and Nordea

High lending growth without sacrificing asset quality

Since 2016, Sparekassen Kronjylland has added DKK ~8bn (~30%) to its lending and guarantees. The asset quality, however, has improved, if we judge from the Danish FSA's invented scale of creditworthiness. We see that almost DKK 6.5bn of lending and guarantees has been added in the category with excellent or normal creditworthiness. The category just below, lending and guarantees with some weakness in creditworthiness, has also increased by DKK ~2.5bn. Furthermore, the amount of lending and guarantees with substantial weakness or objective evidence of impairment has hence declined by DKK ~0.7bn. We hence argue that recent years' lending growth has not lowered the asset quality. The asset quality has improved slightly more for the bank's business lending and guarantees than for its retail exposures.

Sparekassen Kronjylland added DKK ~1.5bn per year in retail lending and guarantees during 2017-18; the vast majority of new lending and guarantees were 2b and 2a/3 customers

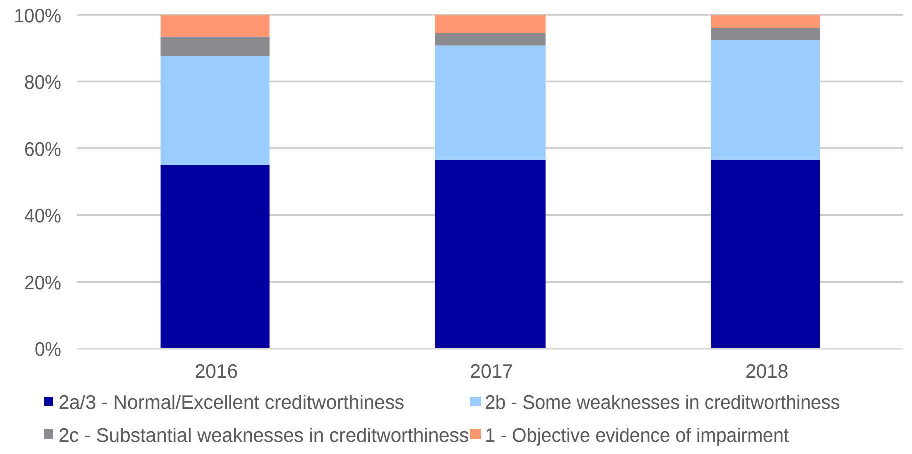
CREDITWORTHINESS OF RETAIL LENDING AND GUARANTEES: DANISH FSA SCALE, DKKm



Source: Company data and Nordea

The share of high risk exposures (1 and 2c) has declined, while the share of 2b and 2a/3 exposures has slightly increased

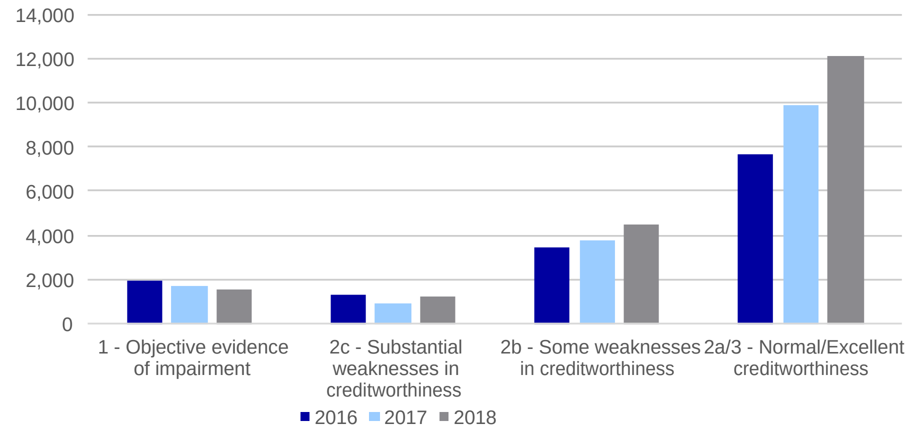
CREDITWORTHINESS OF RETAIL LENDING AND GUARANTEES: DANISH FSA SCALE, %



Source: Company data and Nordea

Sparekassen Kronjylland added DKK 2bn and DKK 3bn in business lending and guarantees in 2017 and 2018, respectively. From 2016 to 2018, business lending and guarantees with normal or excellent creditworthiness increased by DKK 4.3bn

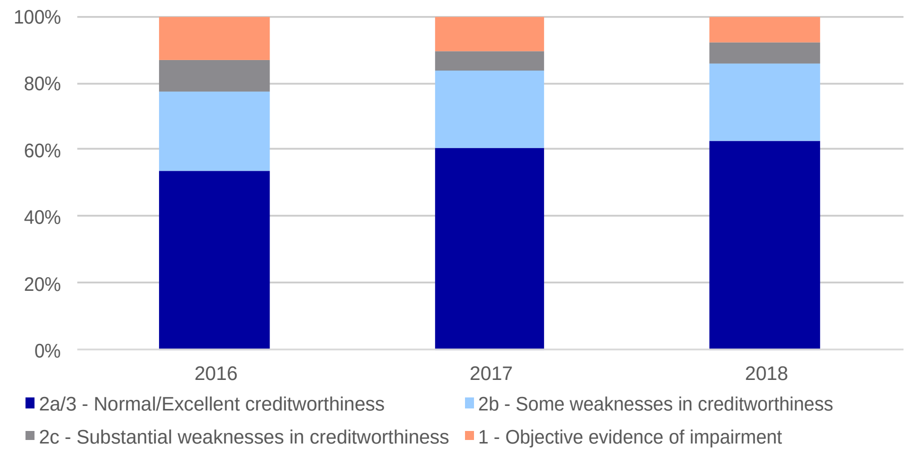
CREDITWORTHINESS OF BUSINESS LENDING AND GUARANTEES: DANISH FSA SCALE, DKKm



Source: Company data and Nordea

The share of high risk exposures (1 and 2c) has declined significantly, while the share of 2a/3 exposures has increased by 8 pp

CREDITWORTHINESS OF BUSINESS LENDING AND GUARANTEES: DANISH FSA SCALE, %



Source: Company data and Nordea

Introduction to the Danish FSA creditworthiness scale

3 – Excellent creditworthiness: Customers with undisputedly strong creditworthiness. Completely unlikely that these loans will default.

2a - Normal creditworthiness: Customers with normal creditworthiness. It is unlikely that those clients will not fulfil their debt obligations. As a rule-of-thumb, retail clients will need to fulfil the following requirements: 1) disposable income of DKK 5,000 as a single, DKK 8,500 as a couple; and DKK 2,500 per child in the household. 2) Lending to gross household income may not exceed 3.5x for households in owner-occupied dwellings and 2.0x for household in cooperative dwellings. For retirees, the ratio may not exceed 2.0x for homeowners in owner-occupied dwellings and 1.0x for households in cooperative dwellings.

2b - Some weaknesses in creditworthiness: Customers with signs of weakness, most often customers who simply fail to fulfil the criteria in 2a. Students and young people often end up in this category, as they typically have low income and low savings, but do not regularly have overdrafts or fail to meet obligations. Business banking clients with this grade are typically characterised by one or more of the following characteristics: 1) low profitability or even loss making in some years; 2) low solvency (rule of thumb: below 20%) or poor working capital management leading to a high amount of tied-up capital; 3) uncertainty, whether the business can continue to be profitable and financially sound going forward; 4) complex financing structure that complicates efficient credit management.

2c - Substantial weaknesses in creditworthiness: Customers with substantial weaknesses in creditworthiness but no objective evidence of value impairment. Retail clients in this category are typically characterised by one or more of the following characteristics: 1) low disposable income due to a change of job, unemployment or illness; 2) too-high fixed costs due to expensive housing costs etc; 3) overspending on credit cards etc; 4) a change in current job status or civil status, which has not affected the creditworthiness yet but could lead to substantial difficulties in fulfilling future obligations. Business banking clients in this category are often characterised by one or more of the following characteristics: 1) very low or negative results or liquidity; 2) solvency rate of 5-15%; 3) ability to fulfil debt obligations in the near future but elevated uncertainties about ability to fulfil long-term debt obligations.

1 - Objective evidence of impairment: Customers who are in financial distress, where it seems likely that the client will not be able to fulfil debt obligations.

What did the FSA highlight in its most recent ordinary inspection?

In June 2019, the Danish FSA published an inspection report of Sparekassen Kronjylland. The report had a sceptical wording similar to other recent inspection reports from the FSA on other Danish banks. The FSA highlights that Sparekassen Kronjylland has had higher lending growth than its peers in the FSA tier 2 bracket. New lending has to a greater extent than previously been corporate lending, with some of the new loans also being larger than previous loans. The FSA hence pointed out that the bank needs to be more specific when defining its business model and credit policy internally. We understand that the bank has already reviewed both.

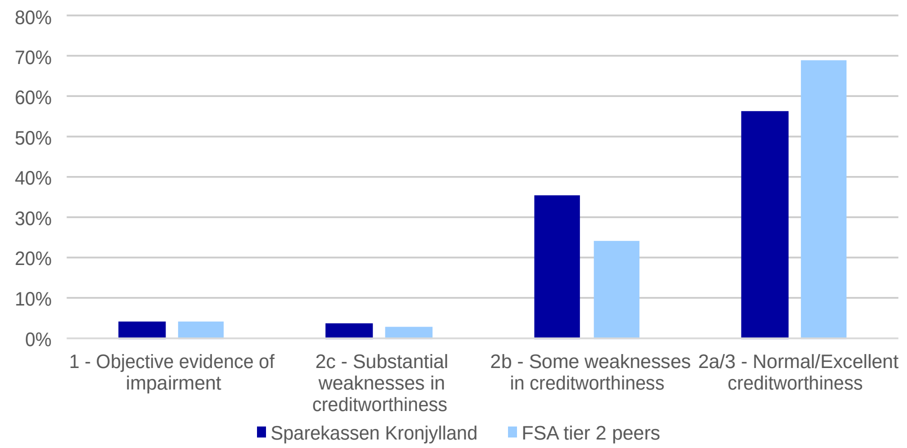
Based on the higher lending growth, the Danish FSA also argues that Sparekassen Kronjylland seems to have a larger risk appetite than peers. A comparison of the the bank's loan book to that of its peers reveals, however, that the creditworthiness is better on corporate lending, while retail lending could look slightly weaker. During the inspection, the Danish FSA also reviewed 212 loans, which were concluded to be correctly risk-classified, and the FSA concluded that the creditworthiness of the ten largest loans was good.

The fact that core earnings-to-lending has decreased recently was also pointed out. It is now below that of peers after previously being significantly above. We find it important to highlight three facts in respect to this. Firstly, Sparekassen Kronjylland has a different ownership structure than its peers in the tier 2 bracket. Being a self-owned institution with customers providing capital through guaranteed capital means that Sparekassen Kronjylland has the freedom to be less focused on short-term profits. A simple example of this is that the bank does not have negative interest rates on deposits, which many of its peers in the tier 2 bracket to some extent have implemented on corporate deposits. Secondly, it is important to notice Sparekassen Kronjylland's focus on growth, as the cost base jumps when new branches are opened, while the revenue base grows slowly as new customers join the bank. Pricing is also likely to be somewhat more aggressive when trying to attract new customers than for existing customers. Thirdly, the relationship between risk and reward cannot be neglected when analysing core earnings-to-lending, as interest margins on weaker/ riskier loans are most likely attached with higher interest rates. As mentioned above, Sparekassen Kronjylland's corporate loans have better creditworthiness than its peers' loans, hence interest margins should also be lower, which has an adverse effect on core earnings-to-lending.

The report also highlighted that the bank's capital ratio was lower than that of its peers, but that its pillar II requirement has been the lowest of all banks in Denmark. The pillar II requirement was however lifted from 9.0% to 9.5% in connection to the inspection in March, as the FSA highlighted that the bank needs to base its solvency on other factors than only benchmarks from the FSA.

A larger share of Sparekassen Kronjylland's retail lending is attached with some weakness compared with peers, but many loans end up in this category because of a high debt-to-income ratio – many young people and first-time home owners are in this category

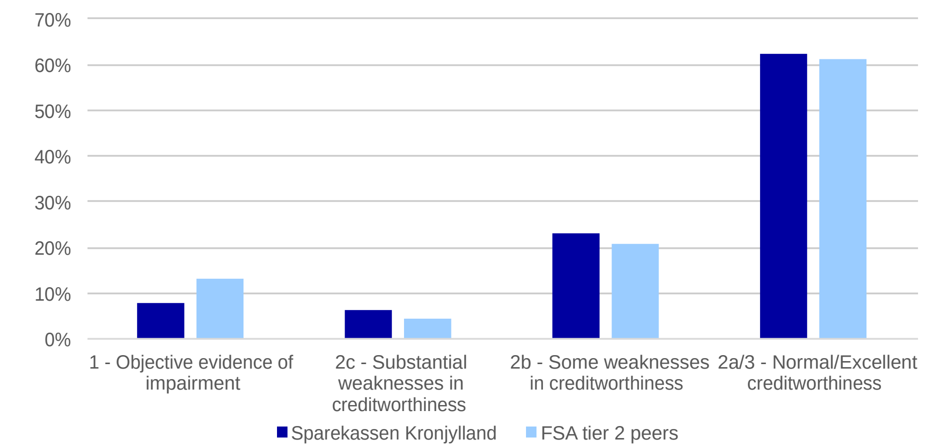
CREDITWORTHINESS OF RETAIL LOAN BOOK COMPARED TO PEERS (END-2018)



Source: Company data, Danish FSA and Nordea

A higher share of Sparekassen Kronjylland's corporate lending has normal/excellent creditworthiness compared with peers, and it also has a far lower share of loans with objective evidence of impairment

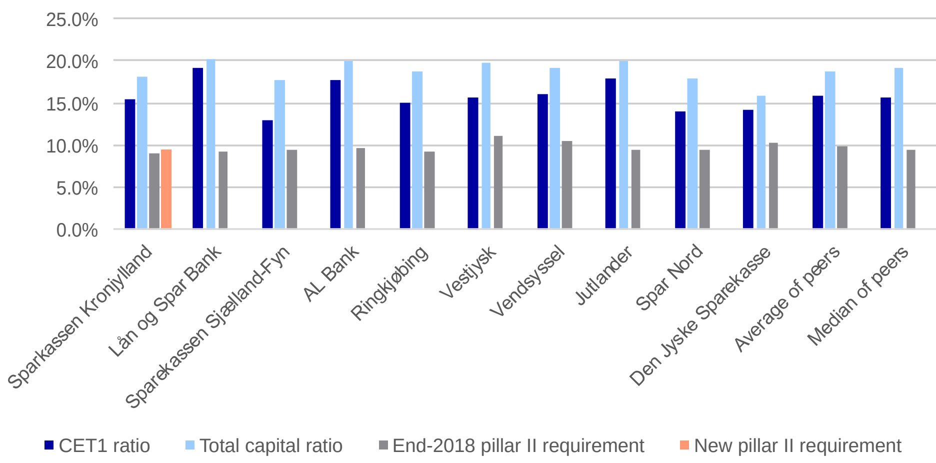
CREDITWORTHINESS OF CORPORATE LOAN BOOK COMPARED TO PEERS (END-2018)



Source: Company data, Danish FSA and Nordea

Sparekassen Kronjylland's capital ratios are only marginally below the average and median of its peers in the tier 2 bracket

2018 CAPITAL RATIOS AND SOLVENCY NEED: PEER COMPARISON



Source: Company data and Nordea

22 years of data indicates a normalised loan loss ratio of ~72 bp

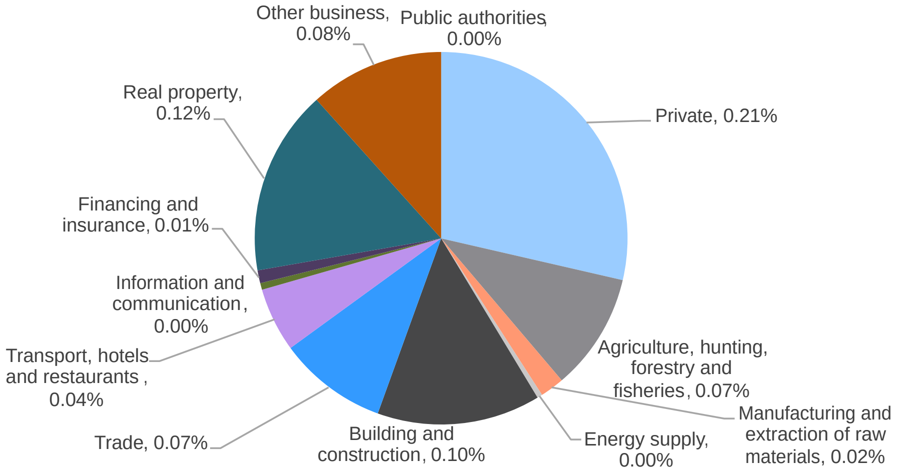
Based on loss data from the Danish FSA for Danish banks since 1995, we estimate that Sparekassen Kronjylland will have a normalised loan loss ratio of ~72 bp, if the exposures within the different industries have an average risk profile. This is slightly higher than the loan loss ratio of 58 bp, which the Danish banks have seen on average since 1995. The estimated normalised loan loss ratio of ~72 bp is mainly driven upwards by the bank's exposure to the real estate, building and construction industries.

DANISH BANKS: ACTUAL LOSSES

	Average 1995-2010	2011	2012	2013	2014	2015	2016	2017	Avg. 1995-2017
Public authorities	**0.01%**	**0.02%**	**0.00%**	**0.33%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.02%**
Agriculture, hunting, forestry and fisheries	**0.68%**	0.71%	1.26%	1.85%	1.91%	2.23%	3.78%	1.72%	**1.06%**
Manufacturing and extraction of raw materials	**0.55%**	1.03%	0.93%	0.71%	0.53%	1.09%	0.31%	0.18%	0.59%
Energy supply etc		0.07%	0.11%	0.25%	0.14%	0.68%	0.37%	0.42%	0.29%
Building and construction	**1.16%**	3.38%	8.89%	4.79%	4.23%	3.15%	1.39%	1.26%	**1.99%**
Trade	**0.71%**	1.16%	1.38%	1.22%	1.10%	1.23%	0.59%	0.52%	0.81%
Transportation, hotels and restaurants	**0.55%**	1.05%	0.96%	1.10%	2.01%	1.96%	1.02%	0.74%	0.76%
Information and communication		0.45%	0.83%	0.99%	0.70%	0.71%	0.18%	0.53%	0.63%
Finance and insurance	**0.21%**	1.16%	0.85%	0.24%	0.16%	0.19%	0.21%	0.07%	0.27%
Real property	**0.92%**	1.23%	1.31%	0.87%	2.09%	1.81%	0.67%	0.43%	**1.01%**
Other industries	**0.74%**	2.51%	1.02%	0.86%	1.05%	0.95%	0.48%	0.42%	0.83%
Total corporate lending	**0.55%**	**1.30%**	**1.30%**	**0.81%**	**0.93%**	**1.00%**	**0.67%**	**0.44%**	**0.66%**
Retail lending	**0.48%**	**0.26%**	**0.43%**	**0.40%**	**0.54%**	**0.48%**	**0.44%**	**0.28%**	**0.45%**
Total	**0.51%**	**0.95%**	**0.98%**	**0.66%**	**0.78%**	**0.78%**	**0.58%**	**0.36%**	**0.58%**

Source: Finanstilsynet and Nordea

COMPOSITION OF ESTIMATED NORMALISED LOAN LOSS RATIO OF 72 BP



Source: Company data, Finanstilsynet and Nordea

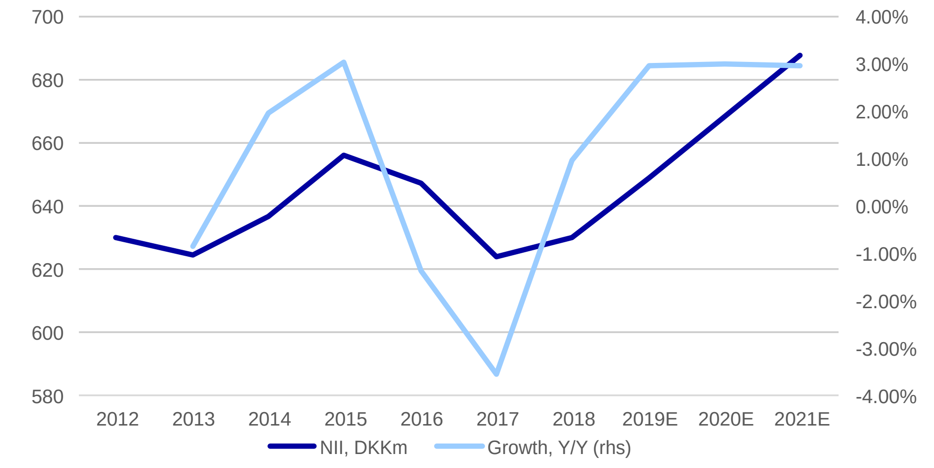
Estimates

We estimate a CAGR of ~3% in 2018-21 adjusted profit before loan losses. This is slightly higher than those of the Danish peers that we cover. This will mainly be driven by growth in both net interest income and net commission income, as we expect the bank to benefit from the recent years' branch expansion strategy. This leads to a 2018-21E CAGR in adjusted total income of ~3%. We expect to see management optimise internal processes and utilise its employees more efficiently in the future, but we acknowledge that there is underlying cost pressure. We thus forecast a 2018-21 adjusted cost CAGR of ~4%, with 2019 costs growing by 5% owing to higher IT-related costs and costs related to the opening of an additional branch in Odense in the autumn of 2019.

Net interest income

We estimate a 2018-21 net interest income CAGR of 3%. Growth will be positively impacted by the recent years' branch openings, which we believe will continue to support lending growth. We estimate a 2018-21 lending CAGR of ~6%. On the negative side, we expect that margin pressure will continue in 2019, and hence hurt NII for this and next year.

NET INTEREST INCOME, DKKm, AND GROWTH, Y/Y



Source: Company data and Nordea estimates

Net interest income set to outperform that of listed peers in 2019 and grow roughly in line with listed peers in 2020-21

NET INTEREST INCOME GROWTH, Y/Y

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Danske	-3.2%	-2.3%	0.3%	-4.1%	5.1%	5.8%	-1.0%	-	-	-
Nordea	1.8%	-0.7%	0.6%	-10.7%	-4.8%	-1.3%	-3.8%	-	-	-
Jyske	1.4%	-0.1%	19.0%	10.7%	-2.3%	-1.3%	-0.9%	-	-	-
Sydbank	-1.1%	-7.2%	-1.8%	-4.7%	-3.4%	-14.2%	-10.9%	-	-	-
Spar Nord	4.8%	16.6%	0.1%	-4.1%	-6.1%	-4.6%	0.2%	-	-	-
Ringkjøbing	1.3%	0.0%	3.2%	0.6%	4.3%	-3.4%	45.7%	-	-	-
BankNordik	12.1%	-6.4%	-12.4%	-6.9%	-11.5%	-6.5%	-3.6%	-3.1%	2.0%	2.0%
Sparekassen Sjælland-Fyn	34.3%	4.1%	28.0%	-8.0%	-8.5%	-1.6%	-0.3%	3.0%	4.3%	3.3%
Sparekassen Kronjylland	0.0%	-0.9%	1.9%	3.0%	-1.4%	-3.6%	1.0%	3.0%	3.0%	2.9%
Average, Danish peers	**5.7%**	**0.3%**	**-1.2%**	**-2.7%**	**-3.2%**	**-2.0%**	**-1.2%**	**-3.5%**	**2.3%**	**2.6%**

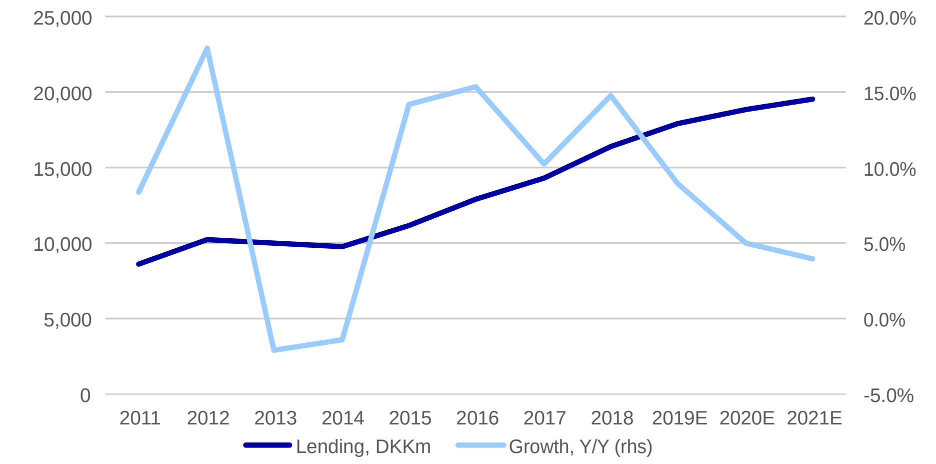
Source: Company data and Nordea estimates *Note: See research.nordea.com for detailed estimates on peers*

Lending growth set to normalise towards 2021

While lending has grown by 10-15% annually since 2015, we find it likely that it will move towards normalised growth rates in 2021. This is based on the fact that Sparekassen Kronjylland opened two to three new branches every year during 2015-17, whereas it only opened one last year, and we also believe that the branch opening in Odense will also be the only one in 2019. We do not pencil in any further branch openings in our 2020-21 estimates, and we hence see less support for lending growth the closer we get to 2021.

Steady lending growth in our forecast period...

LENDING, DKKm, AND GROWTH Y/Y



Source: Company data and Nordea estimates

...but growth rates are approaching those of peers

LENDING GROWTH Y/Y

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Danske	-3.4%	-5.4%	0.7%	2.9%	4.4%	4.0%	1.3%	-	-	-
Nordea	2.7%	-1.1%	1.6%	-2.1%	-6.8%	-2.4%	-0.6%	-	-	-
Jyske	-2.4%	4.9%	207.4%	3.8%	9.6%	8.2%	3.9%	-	-	-
Sydbank	-1.0%	-2.3%	2.8%	8.5%	3.9%	-16.7%	-5.2%	-	-	-
Spar Nord	11.9%	-3.3%	1.7%	-5.0%	7.5%	6.2%	6.1%	-	-	-
Ringkjøbing	-2.5%	11.5%	12.0%	11.6%	1.1%	10.7%	72.3%	-	-	-
BankNordik	-4.0%	-7.5%	0.3%	1.7%	-14.4%	4.3%	4.4%	3.1%	2.9%	2.9%
Sparekassen Sjælland-Fyn	-14.2%	17.8%	-8.5%	-2.2%	7.3%	11.5%	4.2%	4.0%	4.0%	3.0%
Sparekassen Kronjylland	17.9%	-2.1%	-1.4%	14.2%	15.4%	10.3%	14.8%	9.0%	5.0%	4.0%
Average, Danish peers	**0.6%**	**1.4%**	**1.2%**	**3.7%**	**3.1%**	**6.6%**	**3.6%**	**4.5%**	**3.5%**	**3.2%**

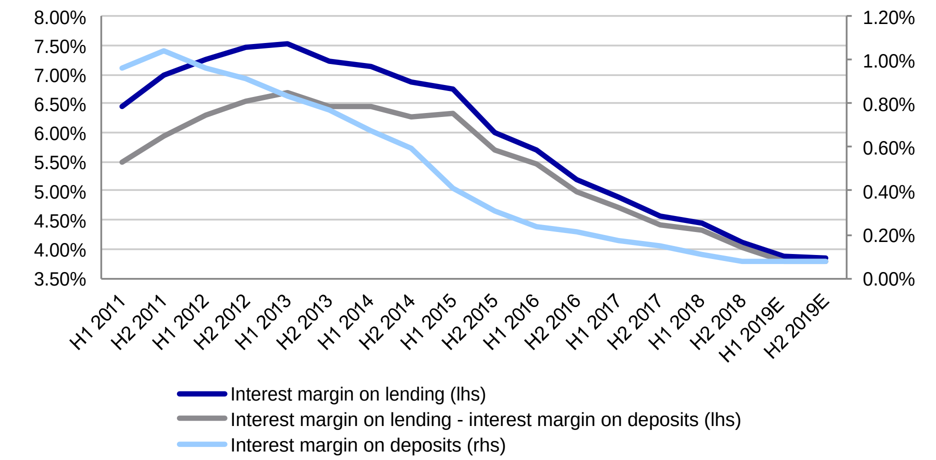
Source: Company data and Nordea estimates *Note: See research.nordea.com for detailed estimates on peers*

Margin pressure is abating but pressure will likely remain tough in 2019

The competitive environment is still challenging for the Danish banks. Many of them have become well-capitalised and have seen earnings boosted by loan loss reversals in recent years. With plenty of capital, competition for lending has been intense. We estimate that the interest margin on lending has dropped by almost 2 pp since the start of 2016. In the same period, the three-month Cibor has only come down ~40 bp. Besides the tough competition, we have also seen many customers become less risky, and as the interest rates on lending are related to the riskiness of loans, this has also led to a drop in margins. Lastly, we have also seen a decline in central bank interest rates. After talking to the Danish banks at analyst presentations and investor meetings, however, we have the impression that margin pressure has slightly abated recently.

We expect that interest margins on lending will continue to decline in 2019 but slightly less than during 2016-18

INTEREST MARGINS ON LENDING AND DEPOSITS, SEMI-ANNUALLY



Source: Company data and Nordea estimates

NET INTEREST MARGINS, ANNUAL

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Danske	1.36%	1.39%	1.43%	1.35%	1.37%	1.39%	1.34%	-	-	-
Nordea	1.63%	1.60%	1.61%	1.44%	1.44%	1.49%	1.45%	-	-	-
Jyske	4.17%	4.11%	2.35%	1.69%	1.55%	1.40%	1.31%	-	-	-
Sydbank	4.04%	3.81%	3.73%	3.37%	3.07%	2.82%	2.83%	-	-	-
Spar Nord	4.67%	5.24%	5.28%	5.15%	4.79%	4.27%	4.03%	-	-	-
Ringkjøbing	4.88%	4.68%	4.32%	3.89%	3.83%	3.49%	3.55%	-	-	-
BankNordik	5.32%	5.28%	4.80%	4.42%	4.18%	4.15%	3.83%	3.58%	3.54%	3.51%
Sparekassen Sjælland-Fyn	4.90%	5.07%	6.27%	6.10%	5.45%	4.90%	4.53%	4.49%	4.50%	4.49%
Sparekassen Kronjylland	6.68%	6.18%	6.42%	6.22%	5.34%	4.57%	4.09%	3.77%	3.63%	3.58%

Source: Company data and Nordea estimates *Note: See research.nordea.com for detailed estimates on peers*

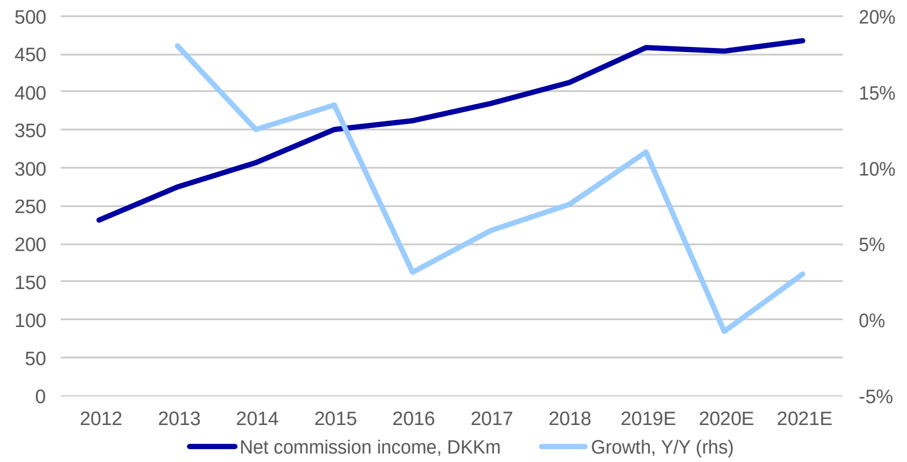
No negative rates for clients with Sparekassen Kronjylland as lead bank

Sparekassen Kronjylland has publicly argued that negative deposit rates conflict with the bank's value proposition. The bank has hence refrained from introducing negative interest rates on deposits for those clients that have the vast majority of their banking business at Sparekassen Kronjylland. This might be a smart move for a self-owned bank with a growth strategy. However, we also argue that if the negative interest environment were to continue for many years and the bank suddenly found itself in financial difficulties, this would be an easy way to lift income. For now, we just find it important to highlight that this low-hanging fruit has not been picked yet, and it will probably not be picked in the near future.

Net commission income

We estimate a 2018-21 net commission income CAGR of ~4%. This will be supported by recently opened branches, in which we expect to see continued growth. At the same time, we also expect to see increased pressure on asset management fees, as the Danish FSA has put the regulatory spotlight on those fees through a follow-up round on the back of the implementation of MiFID II. Overall, we forecast higher growth in commission income for Sparekassen Kronjylland than for its peers in 2019, owing to support from recently opened branches, while our estimated 2020-21 growth is roughly in line with peers.

NET COMMISSION INCOME, DKKm, AND GROWTH, Y/Y

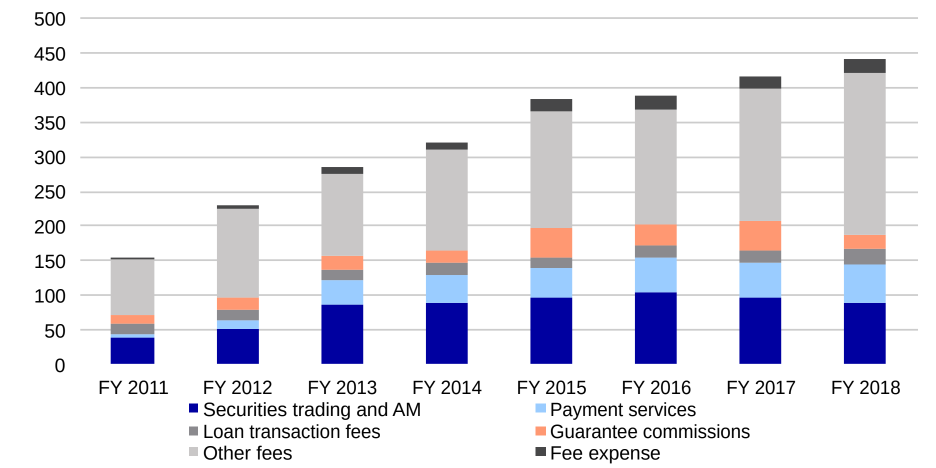


Source: Company data and Nordea estimates

Other fees have grown significantly in recent years

Fees from securities trading and asset management have been under pressure since the implementation of MiFID II in 2017. We expect to see further pressure in our forecast period

FEE INCOME SPLIT



Source: Company data and Nordea

We estimate higher 2019 NCI growth for Sparekassen Kronjylland than for peers. For 2020E-21E, we pencil in NCI growth roughly in line with peers

NET COMMISSION INCOME GROWTH, Y/Y

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Danske	-4.6%	6.8%	7.4%	17.1%	34.6%	-3.7%	8.3%	-1.7%	-	-	-
Nordea	8.7%	5.3%	7.1%	7.6%	13.7%	0.2%	4.0%	-11.2%	-	-	-
Jyske	-0.9%	26.1%	4.8%	1.7%	4.1%	-16.5%	27.9%	-5.3%	-	-	-
Sydbank	134.2%	14.1%	2.0%	20.7%	7.1%	-2.6%	15.9%	0.1%	-	-	-
Spar Nord	-5.7%	16.8%	29.5%	19.7%	19.3%	2.2%	6.0%	1.0%	-	-	-
Ringkjøbing	-7.1%	39.2%	6.5%	15.4%	13.1%	-1.7%	9.9%	75.5%	-	-	-
BankNordik	22.1%	46.1%	-3.5%	1.4%	18.1%	-14.9%	-3.1%	-7.5%	5.4%	2.0%	2.0%
Sparekassen Sjælland-Fyn	8.1%	22.9%	15.1%	26.6%	14.6%	0.8%	8.4%	1.6%	11.5%	3.1%	2.9%
Sparekassen Kronjylland	-	50.7%	18.0%	12.5%	14.2%	3.1%	5.9%	7.5%	11.0%	-0.8%	3.0%
Average, Danish peers	**19.3%**	**25.3%**	**9.7%**	**13.6%**	**15.4%**	**-3.7%**	**9.3%**	**-1.9%**	**5.7%**	**0.2%**	**3.1%**

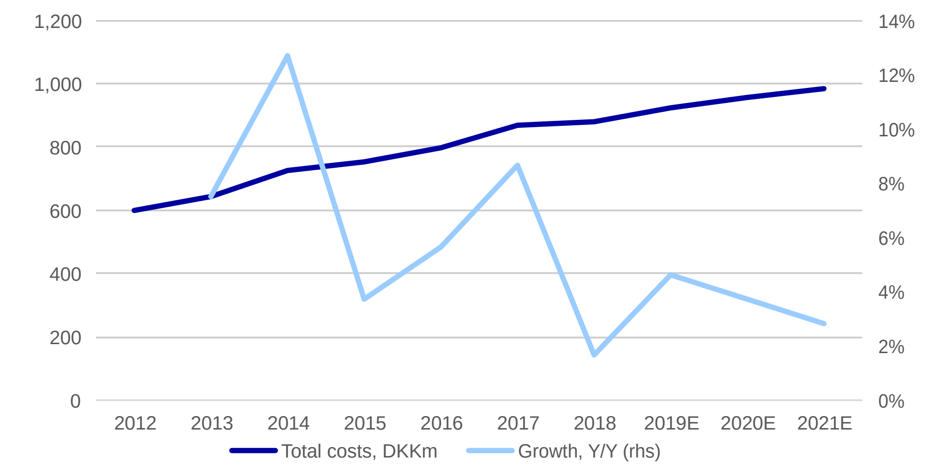
Source: Company data and Nordea estimates *Note: See research.nordea.com for detailed estimates on peers*

Costs

We estimate a 2018-21 total cost CAGR of ~4%. The cost inflation will mainly be driven by rising staff and administrative costs, which together account for almost 95% of total costs. While salary cost inflation will mainly be driven by wage increases and the Danish payroll tax increasing 1-3% in 2019-21, administrative costs are on the rise from higher IT costs. Costs grew modestly in 2018, as Sparekassen Kronjylland only opened one new branch in 2018, after two in 2017, while it also closed three of its branches. In 2019, the bank will open one new branch in the autumn and it has closed two branches in the spring.

While total cost growth was modest in 2018, we expect to see slightly higher cost growth in 2019

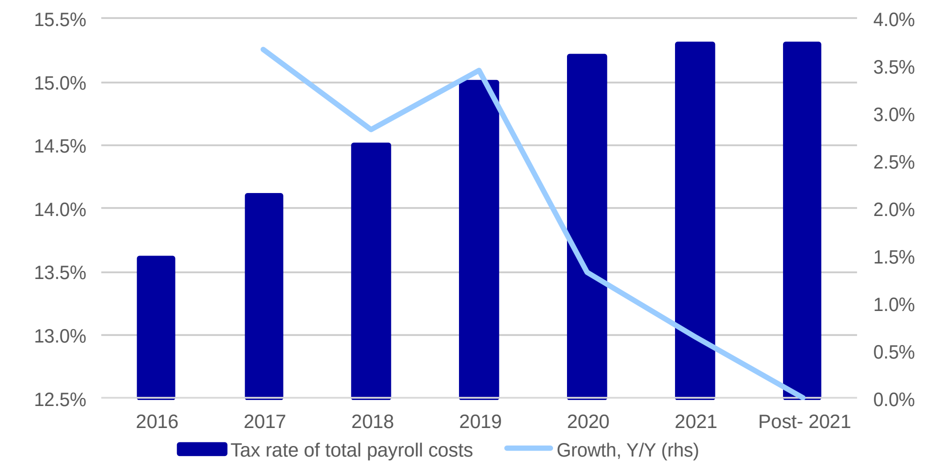
TOTAL COSTS, DKKm, AND GROWTH, Y/Y



Source: Company data and Nordea estimates

Danish payroll tax will increase by 50 bp (3.4%) y/y in 2019

PAYROLL TAX IN DENMARK



Source: The Danish Ministry of Taxation and Nordea

We pencil in higher cost growth for Sparekassen Kronjylland than for Danish peers

COST GROWTH, Y/Y

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Danske	4%	-5%	-6%	2%	5%	-1%	0%	3%	-	-	-
Nordea	5%	0%	-1%	-3%	-4%	4%	1%	-1%	-	-	-
Jyske	12%	-1%	4%	13%	7%	-4%	1%	-2%	-	-	-
Sydbank	-1%	1%	2%	4%	2%	-3%	2%	3%	-	-	-
Spar Nord	-7%	3%	13%	14%	-4%	-1%	5%	0%	-	-	-
Ringkjøbing	4%	6%	3%	9%	3%	4%	5%	85%	-	-	-
BankNordik	7%	11%	-2%	-9%	-1%	-11%	0%	-1%	1%	1%	1%
Sparekassen Sjælland-Fyn	0%	42%	17%	14%	5%	4%	5%	8%	-2%	1%	1%
Sparekassen Kronjylland	-	23%	7%	13%	4%	6%	9%	2%	5%	4%	3%
Average, Danish peers	**3%**	**9%**	**4%**	**5%**	**1%**	**0%**	**3%**	**2%**	**2%**	**1%**	**1%**

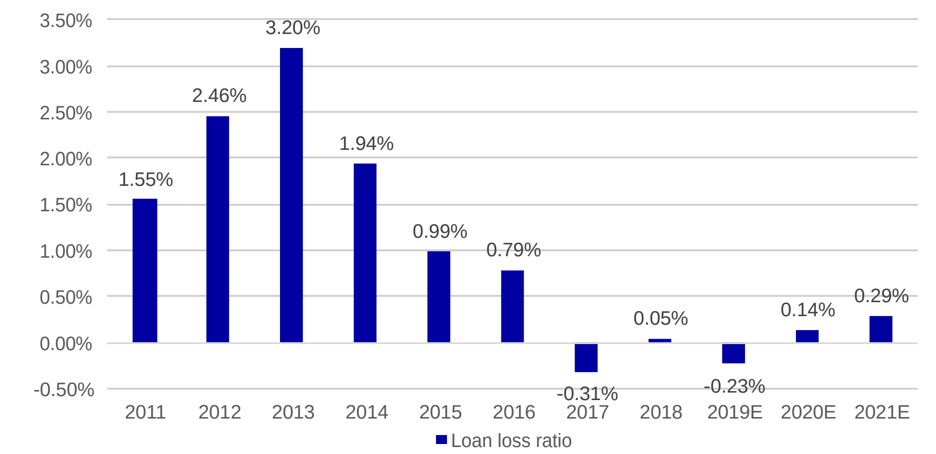
Source: Company data and Nordea estimates *Note: See research.nordea.com for detailed estimates on peers*

Loan losses

We estimate loan loss reversals of DKK 38m in 2019, corresponding to a loan loss ratio of -0.23%. The low level of loan losses will be driven by continuing improvements in the overall economy with low unemployment and economic growth. Furthermore, we have also recently seen output prices within the agriculture sector improve significantly. In recent years, the agriculture sector has been the most troublesome industry for Danish banks in regards to loan losses, and improving market conditions for that industry would hence be positive for banks, including Sparekassen Kronjylland. During 2020-21, we forecast that the loan loss ratio will increase slightly towards its normalised level.

We expect loan loss reversals in 2019, while the loan loss ratio will move slowly towards normalised levels in 2020E-21E

LOAN LOSS RATIO



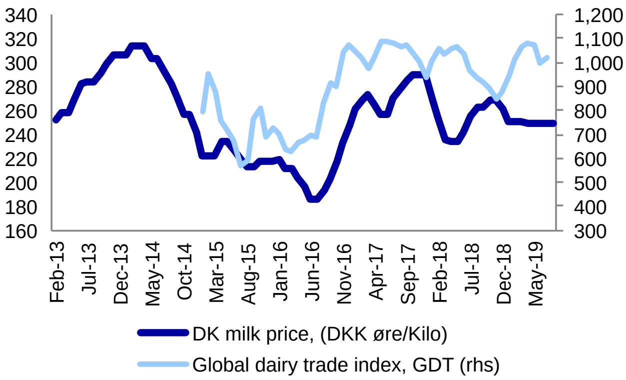
Source: Company data and Nordea estimates

LOAN LOSS RATIO, ANNUAL

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Danske	0.78%	0.45%	0.26%	0.18%	0.00%	0.00%	-0.05%	-0.04%	-	-	-
Nordea	0.23%	0.27%	0.21%	0.16%	0.14%	0.15%	0.12%	0.06%	-	-	-
Jyske	1.40%	1.70%	0.90%	1.76%	0.10%	-0.04%	-0.12%	0.11%	-	-	-
Sydbank	1.64%	2.54%	2.73%	1.06%	0.46%	0.12%	-0.07%	-0.19%	-	-	-
Spar Nord	1.33%	1.90%	1.16%	1.46%	0.92%	0.74%	-0.11%	0.46%	-	-	-
Ringkjøbing	0.98%	1.23%	0.97%	0.63%	0.39%	0.28%	0.06%	0.42%	-	-	-
BankNordik	0.99%	0.97%	1.32%	0.82%	0.19%	-0.12%	-0.66%	-1.16%	-0.75%	0.00%	0.00%
Sparekassen Sjælland-Fyn	0.99%	2.30%	15.77%	2.36%	1.50%	1.10%	0.32%	0.04%	0.36%	0.36%	0.38%
Sparekassen Kronjylland	1.55%	2.46%	3.20%	1.94%	0.99%	0.79%	-0.31%	0.05%	-0.23%	0.14%	0.29%
Average, Danish peers	**1.04%**	**1.42%**	**2.91%**	**1.05%**	**0.46%**	**0.28%**	**-0.06%**	**-0.04%**	**0.03%**	**0.16%**	**0.18%**

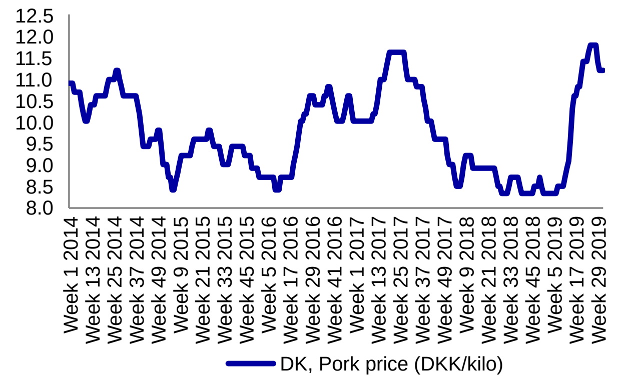
Source: Company data and Nordea estimates *Note: See research.nordea.com for detailed estimates on peers*

AGRICULTURE PRICES: DAIRY



Source: Arla, Global Dairy Trade and Nordea

AGRICULTURE PRICES: PORK



Source: Danish Crown and Nordea

Capital

We estimate modest growth in Sparekassen Kronjylland's capital ratios in our forecast period, as we expect the bank to continue to grow its loan book and hence its REA (risk exposure amount). The bank had a 2018 CET1 ratio of 15.4%, which was roughly in line with those of other Danish peers and well above its legal minimum requirement. Sparekassen Kronjylland differs slightly from listed banks in its capital structure, as it has no share capital but instead has guaranteed capital, which the capital holder can withdraw within the limits set by the bank and the Danish FSA. It is very unlikely that the Danish FSA would allow withdrawals of guaranteed capital if this raised questions about the strength of the bank's capital position, in our view. We hence argue that the savings bank model should not be a concern.

Stable capital ratios despite growth in REA

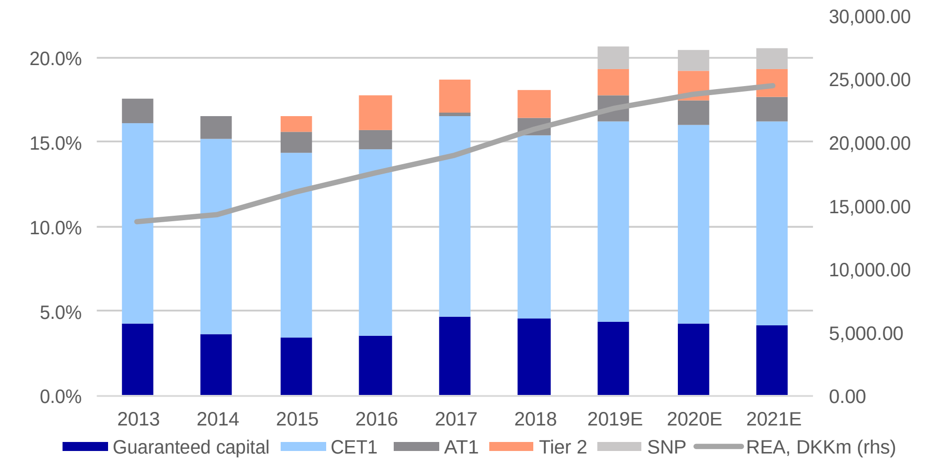
Expected growth in capital ratios will be driven by retained profits and modest growth in the amount of guaranteed capital

We estimate a 2021 CET1 ratio of 16.2%, up 80 bp from 2018. This will partly be driven by average annual growth of ~2% in the amount of guaranteed capital, but the majority of the increase will come from retained profits. Sparekassen Kronjylland raised the limits for how much customers are allowed to have in guaranteed capital on 1 October 2016, which led to a significant inflow in 2017. The limits were raised after several requests from customers. Sparekassen Kronjylland has had a roughly stable CET1 ratio since 2013 within the range of 14.4-16.1%. From 2004 up until the acquisition of the healthy assets of Sparekassen Østjylland in 2012, the CET1 ratio was never below 16%, which underlines the bank's conservative capital policy and strong capital position. Sparekassen Kronjylland's CET1 ratio was roughly in line with those of other Danish peers at the end of 2018. After 2018 ended, Sparekassen Kronjylland has together with a few other Danish regional banks sold 75% of SparInvest to Nykredit, which benefits the capital ratios in two ways: the gains on the sale of DKK ~120m will go through to the income statement, while the sale of SparInvest will also lead to lower deductions in capital, owing to the reduced shareholding in other financial institutions. We estimate that the sale of SparInvest will add ~100 bp to the bank's capital ratios. Sparekassen Kronjylland targets a total capital ratio of a minimum 17%. Based on this, we estimate that the bank targets a CET1 ratio of at least 14%.

Since 2013, the CET1 ratio has never been below 14.4%

~30% of the CET1 capital is guaranteed capital

CAPITAL RATIOS AND REA



Source: Company data and Nordea estimates

DANISH BANKS: BIS III/CRD IV CALCULATIONS

Local currency (m), Q4 2018	Danske	Jyske	Sydbank	Spar Nord	Ringkjøbing	BankNordik	Sparekassen Sjælland-Fyn	Sparekassen Kronjylland
BIS III/CRD IV								
T1	150,504	33,995	10,550	8,387	5,444	1,875	2,671	3,439
- Hybrids etc	23,677	3,047	971	838	0	0	376	201
CET 1	126,827	30,948	9,579	7,549	5,444	1,875	2,295	3,238
REA	748,104	188,433	55,402	53,858	36,385	10,621	17,639	20,982
Equity CET 1 ratio (BIS III)	**17.0%**	**16.4%**	**17.3%**	**14.0%**	**15.0%**	**17.7%**	**13.0%**	**15.4%**
REA/Net lending	42.3%	43.2%	90.8%	139.7%	109.1%	106.7%	144.9%	127.5%

Source: Company data and Nordea estimates

The savings bank model should not be a concern

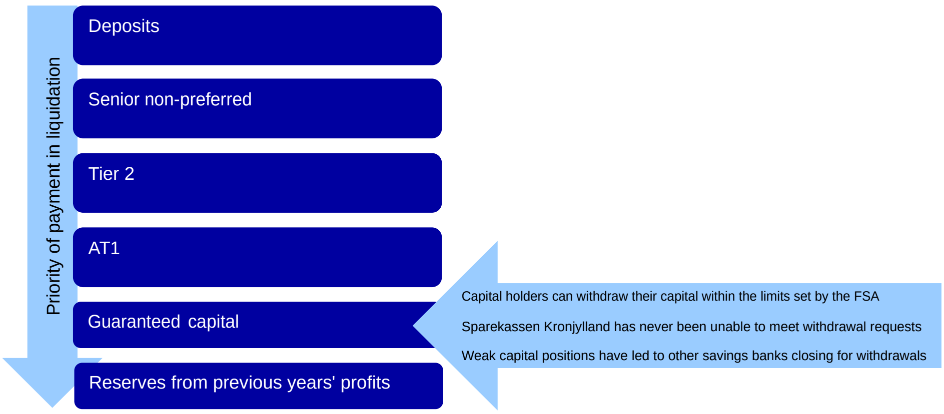
In the savings bank model, there is no share capital, but instead the bank has guaranteed capital

Being an unlisted savings bank, Sparekassen Kronjylland has a slightly different capital structure from that of listed banks. The main difference is in the composition of the equity. For listed banks, the equity consists of reserves from previous years' profits and the share capital that has been raised through the IPO or right issues. For an unlisted savings bank like Sparekassen Kronjylland, the equity consists of reserves from previous years' profits and guaranteed capital, which the capital holder can withdraw, as long as the sum of all withdrawals is within the limits set by the Danish FSA. Currently, Sparekassen Kronjylland has a pre-approval for withdrawals of up to DKK 50m, which is hence deducted in CET1 capital. While Sparekassen Kronjylland has never been unable to meet withdrawal requests from its capital holders, other Danish saving banks have closed for withdrawals at times when their capital positions were vulnerable. With ~30% of its CET1 capital being guaranteed capital, the bank is also less dependent on guaranteed capital than its peers, which have had a need to close for withdrawals. The sensitivity to withdrawals of guaranteed capital is hence also fairly low, and small adjustments to REA can be offset by declines in the amount of guaranteed capital.

CREDIT SENIORITY

Holders of guaranteed capital can withdraw their capital, unlike the equity in listed banks...

...but if the bank ends up in financial distress, the Danish FSA would not allow holders of guaranteed capital to withdraw their capital



Source: Company data and Nordea estimates

CET1 RATIO: SENSITIVITY TO GUARANTEED CAPITAL AND REA

Sparekassen Kronjylland's 2021E CET1 ratio would drop by 2.1 pp to 14.1% in a very unlikely scenario where 50% the guaranteed capital was withdrawn

REA versus our 2021 estimate	Guaranteed capital versus our 2021 estimate: -50%	-40%	-30%	-20%	-10%	0%	10%	20%
15%	12.3%	12.7%	13.0%	13.4%	13.8%	14.1%	14.5%	14.9%
10%	12.9%	13.2%	13.6%	14.0%	14.4%	14.8%	15.1%	15.5%
5%	13.5%	13.9%	14.3%	14.7%	15.1%	15.5%	15.9%	16.3%
0%	14.1%	14.6%	15.0%	15.4%	15.8%	16.2%	16.7%	17.1%
-5%	14.9%	15.3%	15.8%	16.2%	16.7%	17.1%	17.5%	18.0%
-10%	15.7%	16.2%	16.7%	17.1%	17.6%	18.0%	18.5%	19.0%
-15%	16.6%	17.1%	17.6%	18.1%	18.6%	19.1%	19.6%	20.1%
-20%	17.7%	18.2%	18.7%	19.3%	19.8%	20.3%	20.8%	21.4%

Source: Company data and Nordea estimates

Examples of saving banks where the guaranteed capital was locked in

Den Jyske Sparekasse: Owing to its vulnerable capital position, the bank closed for withdrawals of guaranteed capital in August 2013 and only allowed withdrawals if someone else would acquire the guaranteed capital. Also, in 2017 the bank did not pay its 2016 interest to guaranteed capital holders. Den Jyske Sparekasse was listed in November 2018 and for every DKK 100 in guaranteed capital, the holder received one share. The share price closed at DKK 77.5 on its first day of trading.

Sparekassen Limfjorden: The bank locked in its guaranteed capital in November 2011 but after the merger with Sparekassen Vendsyssel in 2012, the capital holders could again withdraw their capital.

Sparekassen Østjylland: The bank went bankrupt in April 2012 after having had its guaranteed capital locked in. The holders of guaranteed capital hence lost their capital.

Sparekassen Løkken: The bank went bankrupt in March 2009. The holders of guaranteed capital hence lost their capital.

Current capital position is well above legal minimum capital requirements

At the end of 2018 Sparekassen Kronjylland had a legal minimum CET1 requirement of 9.1% including 1.5% in a countercyclical buffer that could increase up to 2.5% in late 2020 if the Danish economy remains strong. In connection with its ordinary inspection by the Danish FSA in the first half of 2019, Sparekassen Kronjylland however lifted its pillar II requirement by 50 bp. The legal minimum CET1 requirement has hence increased by ~30 bp to 9.4%. Given the bank's track record with CET1 ratios of ~15-16%, we expect that it targets a CET1 ratio of minimum ~14%. We expect that Sparekassen Kronjylland will be subject to a final MREL requirement of ~21% by the end of 2022. We include a DKK 300m SNP issue during the autumn of 2019 in our estimates, while we do not pencil in a second large SNP issue before 2022.

DANISH BANKS: BIS III/CRD IV MINIMUM CET1 REQUIREMENTS

Q4 2018	Danske	Jyske	Sydbank	Spar Nord	Ringkjøbing	BankNordik	Sparekassen Sjælland-Fyn	Sparekassen Kronjylland
Pillar I								
Minimum CET 1	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital conservation buffer	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Systemic risk buffer (P1)	3.0%	1.5%	1.0%	0.0%	0.0%	3.8%	0.0%	0.0%
Counter cyclical buffer	1.5%	1.5%	1.5%	1.5%	1.5%	0.5%	1.5%	1.5%
Minimum Pillar I CET 1	**11.5%**	**10.0%**	**9.5%**	**8.5%**	**8.5%**	**11.3%**	**8.5%**	**8.5%**
Pillar II	2.7%	1.6%	1.9%	0.8%	0.7%	0.5%	0.8%	0.6%
Minimum CET 1 incl. Pillar 2	**14.2%**	**11.6%**	**11.4%**	**9.3%**	**9.2%**	**11.8%**	**9.3%**	**9.1%**
Management buffer								
Other	1.8%	2.4%	2.6%	4.2%	4.3%	5.2%	3.7%	4.9%
Total minimum CET 1	**16.0%**	**14.0%**	**14.0%**	**13.5%**	**13.5%**	**17.0%**	**13.0%**	**14.0%**
Current CET 1 ratio	**17.0%**	**16.4%**	**17.3%**	**14.0%**	**15.0%**	**17.7%**	**13.0%**	**15.4%**
Excess/shortfall	**1.0%**	**2.4%**	**3.3%**	**0.5%**	**1.5%**	**0.7%**	**0.0%**	**1.4%**

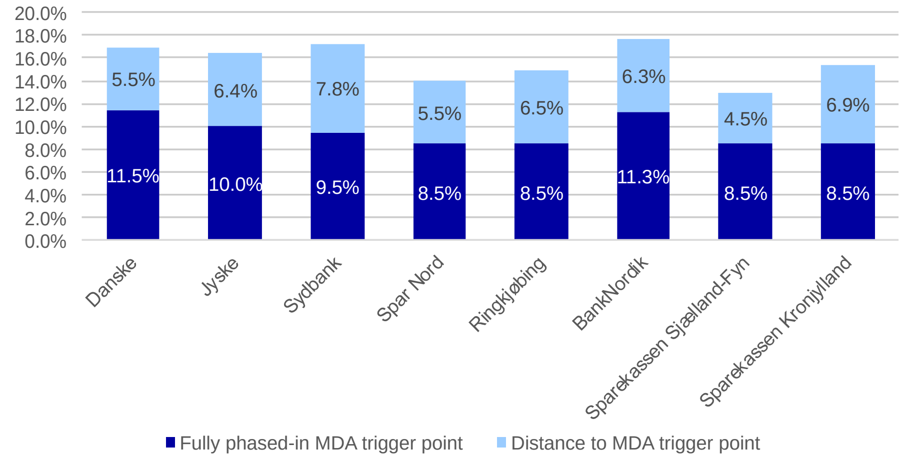
Source: Company data and Nordea estimates
NOTE: Sparekassen Kronjylland has not published its management-decided minimum required CET1 ratio; thus it is Nordea's estimate

690 bp in headroom to the fully phased in MDA trigger point

Based on Sparekassen Kronjylland's fully phased in capital requirements, we estimate that the bank has an MDA (maximum distributable amount) trigger point at 8.5%. With its 2018 CET1 ratio of 15.4%, Sparekassen Kronjylland hence has 690 bp in headroom to its MDA trigger point. This is 100 bp above the Danish peer average. The 690 bp buffer corresponds to DKK ~1.5bn.

The 690 bp in headroom to its fully phased in MDA trigger point is one of the highest buffers among Danish peers

DANISH BANKS: FULLY PHASED IN MDA TRIGGER POINTS (AS OF END-2018)



Source: Company data and Nordea estimates

Slightly higher REA to lending than peers

Sparekassen Kronjylland has a slightly higher REA (risk exposure amount) to lending ratio than its Danish peers. Some of the difference can be explained by Sparekassen Kronjylland using the standardised approach for risk weights, whereas the large banks use internal ratings-based (IRB) models, where the risk weights are often lower. However, both BankNordik and Ringkjøbing also use the standardised approach and both have a REA to lending ratio ~20 pp below Sparekassen Kronjylland's. A 5% (6 pp) reduction in the REA to lending ratio in 2020E would add ~90 bp to the capital ratios.

REA TO LENDING

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Danske	53%	56%	57%	55%	52%	49%	43%	42%	-	-	-
Nordea	-	-	-	42%	42%	42%	41%	51%	-	-	-
Jyske	100%	102%	100%	52%	50%	47%	45%	43%	-	-	-
Sydbank	103%	104%	107%	106%	91%	82%	92%	91%	-	-	-
Spar Nord	135%	133%	126%	143%	143%	135%	133%	136%	-	-	-
Ringkjøbing	103%	107%	107%	103%	101%	105%	102%	109%	-	-	-
BankNordik	105%	105%	110%	114%	107%	107%	104%	107%	107%	105%	103%
Sparekassen Sjælland-Fyn	142%	137%	130%	145%	151%	151%	145%	145%	148%	147%	147%
Sparekassen Kronjylland	140%	137%	137%	145%	143%	135%	132%	128%	127%	126%	125%
Average, Danish peers	**98%**	**98%**	**97%**	**100%**	**98%**	**95%**	**93%**	**95%**	**94%**	**94%**	**93%**

Source: Company data and Nordea estimates

Estimated RAC ratio of 10.1% when applying a framework similar to S&P

Based on S&P's framework used for calculating RAC (risk-adjusted capital) ratios for Danske and Jyske, we estimate that Sparekassen Kronjylland would have a 2018 RAC ratio of 10.1%. This is slightly below Jyske's (~20 bp) and Danske's (~60 bp).

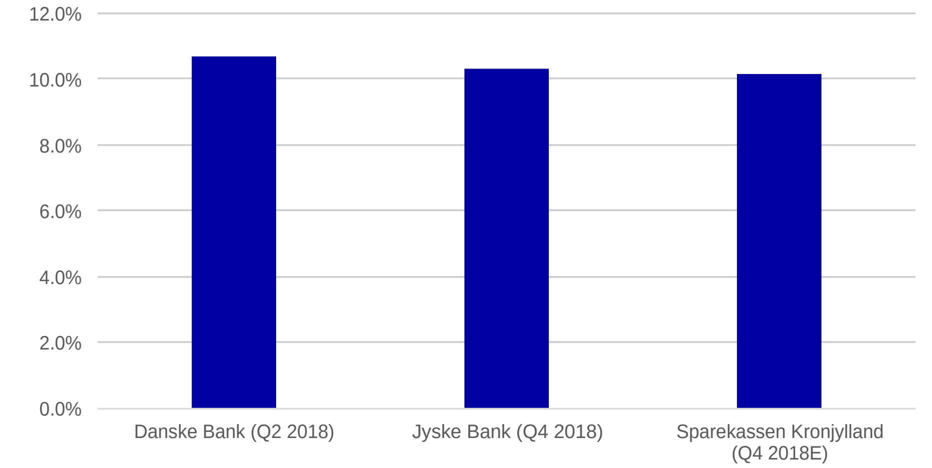
We estimate a 2018 RAC ratio of 10.1% when applying the framework that S&P has used for Danske and Jyske

ESTIMATED 2018 RAC RATIO, DKKm

	Lending	Estimated S&P REA	Risk weight
Government and central banks	487	11	2.2%
Institutions and CCPs	1,067	116	10.8%
Corporate	12,558	8,237	65.6%
Retail	10,442	3,300	31.6%
of which mortgage	-	-	26.7%
Securitisation	-	-	41.0%
Other assets	6,267	10,693	170.6%
Total credit risk	30,821	22,356	38.7%
Credit valuation adjustment		221	0.7%
Market rsk			
Equity in banking book	1,167	10,303	882.9%
Trading book market risk		0	
Total market risk		0	
Operational risk		1,087	3.5%
RWA		33,968	
Capital ratio		3,439	**10.1%**

Source: Company data and Nordea estimates

DANISH BANKS: RAC RATIOS

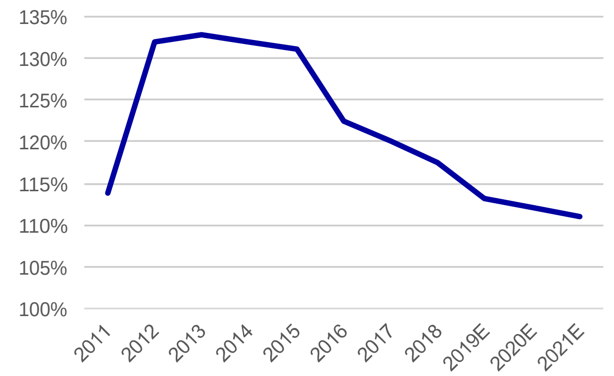


Source: Company data, S&P and Nordea estimates

Deposit surplus and high buffers to LCR requirements

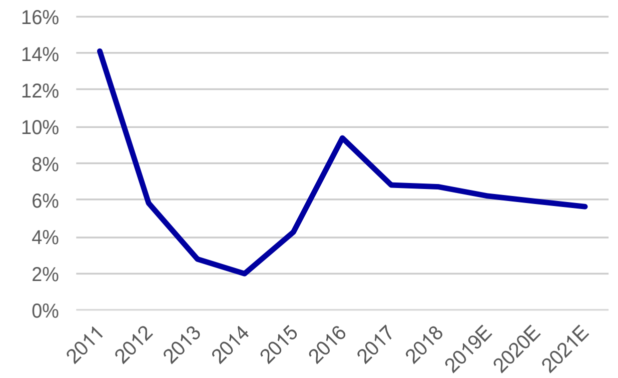
Sparekassen Kronjylland had a deposit surplus of 15% at the end of 2018. This is slightly lower than for the other Danish non-mortgage banks under our institutional coverage. The usage of interbank and central bank borrowing to lending is ~6%, ie the bank mainly uses deposits as a funding source. The 2018 liquidity coverage ratio of 225% was also significantly above both the legal and internal minimum requirements of 100% and 120%, respectively.

DEPOSITS TO LENDING



Source: Company data and Nordea estimates

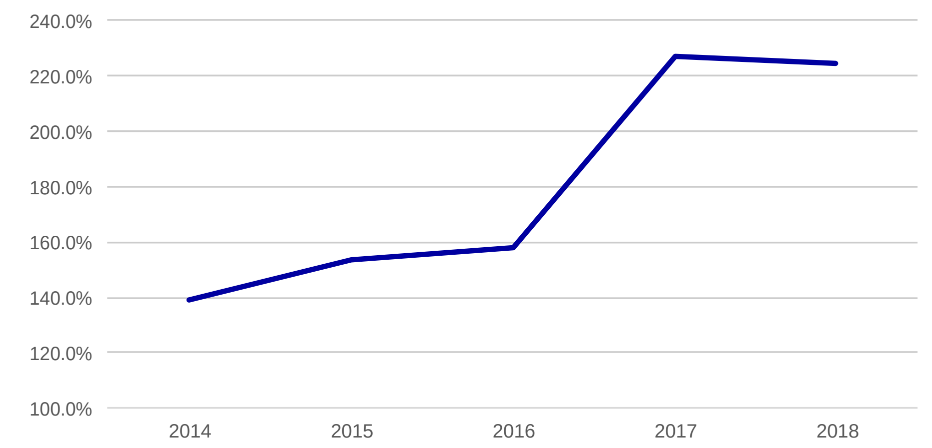
INTERBANK AND CENTRAL BANK BORROWINGS TO LENDING



Source: Company data and Nordea estimates

Sparekassen Kronjylland's LCR is well above the legal minimum requirement of 100% and its own internal requirement of 120%

LIQUIDITY COVERAGE RATIO (LCR)



Source: Company data and Nordea

Risk factors

In this section, we flag a few selected risk factors that we argue may cause Sparekassen Kronjylland's earnings and capital to deviate from our expectations. Below, we identify some of the key risks that apply to the bank and the banking industry in general. We also use these risks as parameters for our scenario analysis in the next section of this report to highlight the financial impact on Sparekassen Kronjylland should these risks materialise.

We identify various risks, although all of them go against our base-case assumptions

Risk factors

- M&A poses a risk, in our view. Considering the pressure on profitability in the industry, we would not rule out further consolidation. We believe the pressure is driven by MREL (or NEP) requirements, which force banks to issue more costly capital with a full subordination requirement in 2022. This also includes unrated banks, which typically require a higher spread premium. Additionally, we argue that the general competitive environment and pressure on margins led to subdued profitability, which could be mitigated by consolidation. Furthermore, we believe that costs, wage pressure, investments in IT and automation and risk control functions will keep expenses up in the industry. Lastly, we find it likely that the industry will converge towards a normalised loan loss environment, which should further subdue profitability. As such, we consider several drivers of potential M&A activity and bolt-on acquisitions as a tool to improve profitability within the Danish banking industry. Should Sparekassen Kronjylland acquire a target, we believe its capital position could become diluted in addition to being exposed to general integration risks of the target.
- We believe further lending activity could be a risk, especially if unsecured, should loan losses rise. This would impair earnings and capital in the bank, in our view. However, we believe the risk is somewhat mitigated by the currently low loan losses and the fair amount of provisioning, as well as by the general deleveraging trends of the Danish economy. We stress this measure further in the following section.
- Rising cost pressure, digital investments and compliance costs are likely to remain elevated, in our view, and could rise even further if the impact on risk control, compliance, AML or IT systems becomes apparent. However, any impact on capital instruments should be somewhat moderate in the short term, we believe.
- Any longer-term effects of customer retention or lower market share could leave the bank unprofitable, in our view, causing difficulties in repaying financial obligations despite this going against our base-case assumptions.
- Rising dividends could, if escalated, dilute capital relative to the current levels. However, we argue governance and ownership structure largely mitigate the majority of this risk. Distributions of AT1 coupons used up DKK 5m in 2018 with around DKK 24m in payments on guaranteed capital, which we consider to be moderate.

RISK FACTORS

Event	Probability	Implications on capital	Comment
M&A	Medium	Medium/High	Due to competitive rivalries, we believe M&A risks are rising in the Danish banking market. We see that risk somewhat mitigated, however, by democratic governance features within Sparekassen Kronjylland
Rising loan losses	Medium	Medium/High	Rising loan losses would hurt the P/L and raise the risk position of Sparekassen Kronjylland. Fairly high loan growth could also amplify risk of back-end loaded loan losses in our view
Risky lending as opposed to customers with high credit scores	Medium	Medium	More unsecured lending could amplify this effect in addition to general loan growth that can lift the bank's risk position if aggressively pursued
Issuance of structural or contractual senior obligations	Medium	Low/Medium	A larger share of senior obligations among total assets would likely cushion senior obligations and not subordinated instruments. We consider the deposit/lending funding ratio as robust, however, and we do not believe that Sparebanken Kronjylland is facing substantial changes to its funding needs. We cannot rule out wholesale market and deposit funding, however, in our view
Pressure on net interest income margin	Medium	Low/Medium	We consider it likely that Sparekassen Kronjylland will experience further pressure on its net interest income margin
Rising cost pressure, digital investments and compliance costs	Medium	Low/Medium	This could further pressure profitability if Sparekassen Kronjylland invests heavily into digitalisation efforts, compliance, KYC, risk control functions, or IT infrastructure. With already relatively low profitability, we consider Sparekassen Kronjylland less adequatly positioned to accommodate for such investments.
Loss of market share	Low/Medium	Low/Medium	The risk of losing its competitive advantage and losing market share would hurt the business risk profile, in our view, although we see the risk partially mitigated, given fairly high lending growth.
Moving to IRB modelling of credit risks	Low	Medium	This would release capital, in our view, if Sparekassen Kronjylland were to pursue an internal model. We consider the risk partially mitigated, however, by the current ownership structure.
Reputational risk, compliance risk, data security, uptime risk	Low	Medium	We argue that there could be severe impacts on Sparekassen Kronjylland's income if factors such as risk control, governance, and AML procedures prove inadequate or if uptime falls enough to prompt customers to leave.
Rising dividends and diluted capital position	Low	Low/Medium	Due to its ownership structure, Sparekassen Kronjylland has a lower level of distributions and dividends paid.

Source: Company data and Nordea estimates

Scenario analysis

In this section, we discuss two additional base-case scenarios. The negative and positive scenarios are based on changes to interest margins, lending growth and loan losses in our forecast period. While we believe the positive scenario is more likely to materialise than the negative scenario, we highlight that both scenarios are actually highly unlikely. We have merely devised them to depict Sparekassen Kronjylland's sensitivity to changes in the three chosen estimates.

Introduction to our negative scenario
In our negative scenario, we make the following adjustments to our base case:

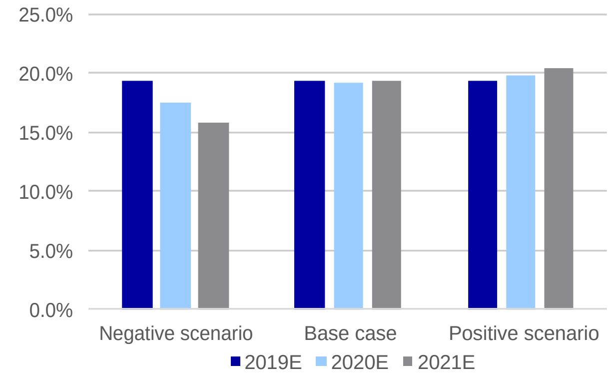
- NII margins – We double our current margin pressure estimates for 2020-21 as a proxy for a significantly worse competitive environment.
- Lending growth – We lift our 2020-21 lending growth estimates to 10% from 5% and 4%, respectively.
- Loan losses – We lift the 2020E-21E loan loss ratio to 200 bp from 14 bp and 29 bp.

Introduction our positive scenario
In our positive scenario, we make the following adjustments to our base case:

- NII margins – We remove all margin pressure in 2020E-21E as a proxy for a significantly better competitive environment.
- Lending growth – We lower our 2020-21 lending growth estimates to 2% from 5% and 4%, respectively.
- Loan losses – We lower our 2020E-21E loan loss ratio to 0 bp from 14 bp and 29 bp.

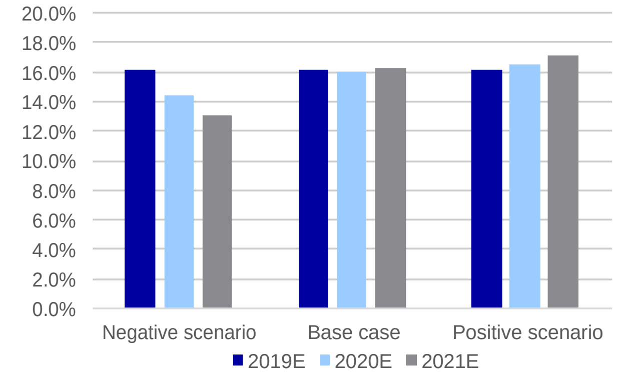
Comparison of the base-case, positive and negative scenarios

TOTAL CAPITAL RATIO EXCLUDING SNP



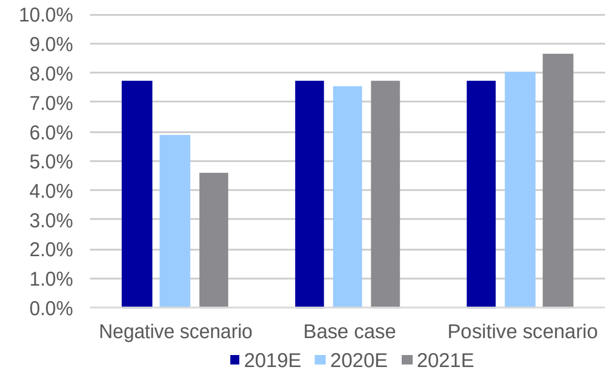
Source: Company data and Nordea estimates

CET1 RATIO



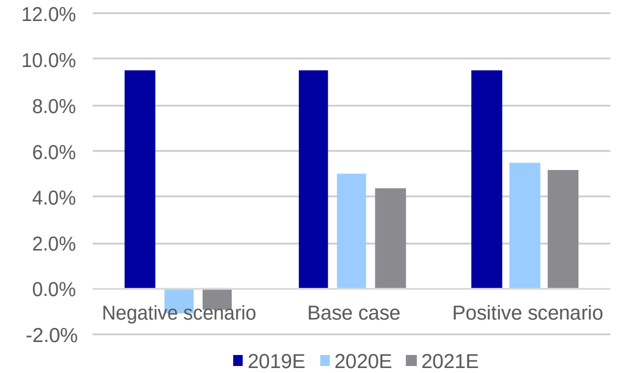
Source: Company data and Nordea estimates

HEADROOM TO FULLY PHASED-IN MDA TRIGGER



Source: Company data and Nordea estimates

ROE



Source: Company data and Nordea estimates

Peer group considerations

Sparekassen Kronjylland's rated peers include Jyske Bank (issuer rating of A- from S&P with a positive outlook) and Sydbank (rated A1 with stable outlook from Moody's). We also include Sparekassen Sjaelland-Fyn. Although the latter is unrated, we argue that its strengths and regional focus make it a closer peer. Furthermore, we include Danske Bank as it is the largest Danish bank, although its business mix is materially different from that of Sparekassen Kronjylland. We largely compare credit strength with that of Sparekassen Sjaelland-Fyn. Here, we find that Sparekassen Kronjylland has similar exposure across Denmark and comparable profitability. We believe Sparekassen Kronjylland has strong capital, although we underscore its quite rapid lending growth as well as the somewhat weaker non-performing loan reserve cover ratio and its exposure relative to equity. Looking ahead, we expect Sparekassen Kronjylland to improve profitability slightly in 2019. However, we expect further net interest income margin pressure to stabilise profits going into 2020 and 2021, as we believe loan losses will rise owing to normalised provisioning.

The peers
The following is a brief overview of our selected Sparekassen Kronjylland peers:

- Danske Bank, founded in 1871, is the largest bank in Denmark and one of the largest banks in the Nordic region. It offers traditional retail and commercial banking services as well as life insurance through Danica Pension. The past twenty years have been characterised by M&A actions, the most prominent of which were the merger with Kjøbenhavns Handelsbank in 1990, BG Bank in 2000 and the acquisition of Sampo Bank in 2006. 60% of the group's lending is in Denmark, about 10% in Sweden, Finland and Norway, and under 5% in Ireland, Northern Ireland and the Baltic region.
- Jyske Bank provides a range of financial solutions for personal, corporate and private banking, and to institutional clients in Denmark. It offers: deposit products; home loans for personal clients; mortgage solutions, including the financing of real property; car and equipment leasing and financing services; advisory services relating to traditional financial solutions targeting personal and private banking clients, as well as corporate clients; investment services, as well as trades in interest-rate products, currencies, equities, commodities and derivatives; asset management; and trading and wealth management advisory services. It also operates in Gibraltar, Germany, and Spain. The company was founded in 1967 and is based in Silkeborg, Denmark.
- Ringkjøbing Landbobank is the seventh-largest bank in Denmark measured by loan book size, and its nationwide market share is around 2%. Based in Ringkjøbing, it has a strong position in Western, Mid and Northern Jutland. Ringkjøbing Landbobank's loan book has expanded from DKK 3bn in 2000 to DKK 34bn today, mainly driven by organic growth, including growth in niche areas like windmill financing and private banking. In 2018, Ringkjøbing Landbobank acquired Nordjyske Bank, which also added DKK ~13bn to the loan book.
- Sparekassen Sjælland-Fyn is a Danish regional bank with strong local presence in its home markets, Zealand and Funen. With 49 retail branches and four business banking branches, the bank has the most extensive branch network of all banks in its home markets. It has DKK ~12bn in lending and more than 156,000 clients. In November 2017, Sparekassen Sjælland-Fyn launched its new four-year strategy called "New Ways", which focuses on improving efficiency and profitability, as well as building a robust capital position.
- Sydbank: Founded in 1970, Sydbank is the fourth-largest bank in Denmark, offering traditional retail and commercial banking services and leasing. Since the divestment of holdings in Totalkredit in 2003, Sydbank became a distributor of mortgage loans and operates a strong Markets division. Since its foundation, Sydbank has participated in a number of M&A deals; the most prominent of which were the acquisitions of Varde Bank and Aktivbanken in 1994, which doubled Sydbank's market share.

PEER GROUP RELATIVE TO SPAREKASSEN KRONJYLLAND

	Sparekassen Kronjylland	Danske Bank	Jyske Bank	Ringkjøbing Landbobank	Sparekassen Sjælland-Fyn	Sydbank
Moody's	NR\---	A2\Negative	Baa1\Stable	A2\Stable	NR\---	A1\Stable
S&P	NR\---	A\Negative	A-\Positive	NR\---	NR\---	NR\---
Business risk profile	Satisfactory	Strong	Strong	Satisfactory	Satisfactory	Satisfactory
Financial risk profile	Significant	Significant	Intermediate	Intermediate	Significant	Intermediate
RISK ASSESSMENT						
Country exposure/risk		Weaker	Equal	Equal	Equal	Equal
Industry exposure/risk		Weaker	Equal	Equal	Equal	Equal
Competitive position		Equal	Equal	Equal	Weaker	Equal
Diversification		Stronger	Stronger	Stronger	Equal	Stronger
Business position overall		**Stronger**	**Stronger**	**Stronger**	**Equal**	**Stronger**
Cash flow protection		Equal	Stronger	Stronger	Equal	Stronger
Capital structure		Equal	Equal	Equal	Equal	Stronger
Liquidity		Equal	Equal	Equal	Equal	Equal
Financial position overall		**Equal**	**Stronger**	**Stronger**	**Equal**	**Stronger**
Performance trend		Equal	Stronger	Equal	Stronger	Stronger
Performance prospects		Weaker	Equal	Equal	Equal	Equal
Strategy/Event risk		Equal	Equal	Equal	Weaker	Equal
OVERALL POSITION		**Stronger**	**Stronger**	**Stronger**	**Moderatly weaker**	**Stronger**

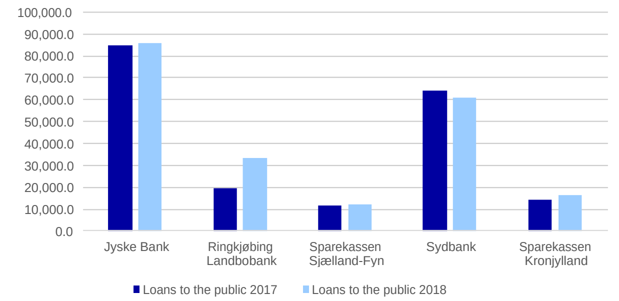
Source: Company data, S&P, Moody's and Nordea estimates

Share of market and earnings resilience

Looking ahead, we expect Sparekassen Kronjylland to improve profitability slightly in 2019

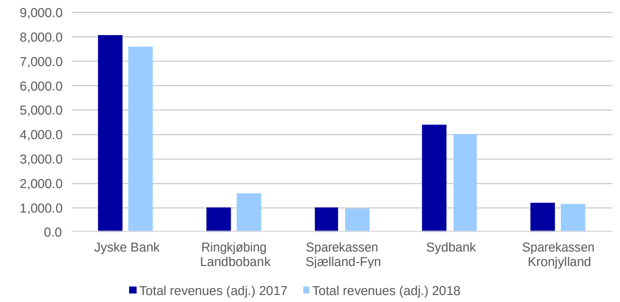
We regard Sparekassen Kronjylland as a smaller local player in Denmark that is transforming into a bank with countrywide reach, although loan volumes are still markedly lower than those of selected rated peers. On the profitability side, we also believe its smaller scale has an impact on cost/income levels, while at the same time we note net interest income margins have been under pressure in recent years. This has subdued profitability as loan losses have been more moderate (albeit with a higher level of impaired loans). We forecast improved profitability in 2019, as we expect loan losses to remain low in the coming year. However, going into 2020 and 2021, we anticipate rising loan losses owing to the fairly high loan growth but also due to a normalisation of loan loss provisioning.

BANK LENDING, DKKm



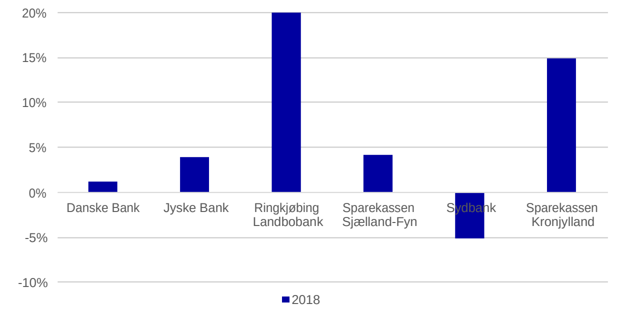
Source: Company data and Nordea

TOTAL INCOME, DKKm



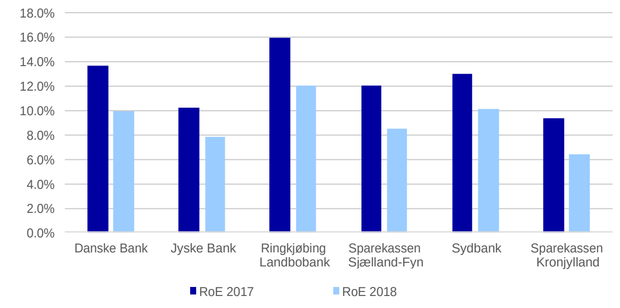
Source: Company data and Nordea

LOAN GROWTH



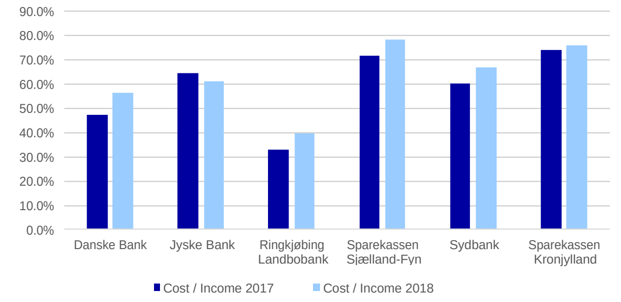
Source: Company data and Nordea
**In 2018, Ringkjøbing Landbobank bought Nordjyske Bank, growing 72%.*

ROE



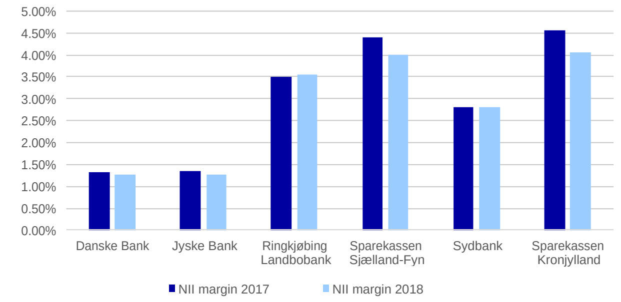
Source: Company data and Nordea

C/I



Source: Company data and Nordea

NET INTEREST INCOME MARGIN



Source: Company data and Nordea

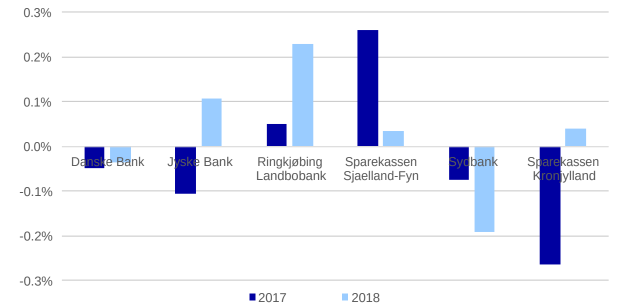
We expect loan losses to rise somewhat going into 2021 to a more normalised level

Asset quality and capital

Looking at loan loss development compared with the peer group, we underscore that loan losses are expected to rise from the currently low levels closer to the ratios of the selected peers as provisioning should normalise. We argue that Sparekassen Kronjylland holds a fair amount of non-performing loans on balance, although the bank is clearly making provisions for this. Loan losses have remained very low, despite the reversals in 2017. As a result, we expect loan losses to rise somewhat going into 2021 to a more normalised level. We also believe Sparekassen Kronjylland's fairly high net interest income margin poses some risk as it engages in lending activities that, in our view, increase the risk of higher loan losses going into the forecast years. This does not form part of our base-case estimates, however.

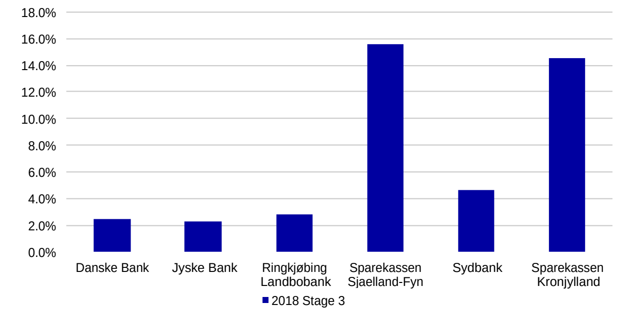
Furthermore, with regards to its equity position, we see that Sparekassen Kronjylland may prove somewhat vulnerable should loans not already provisioned for become further impaired. As such, we will monitor the development of loan-loss provisioning and reserve cover for overdue loans going forward, especially considering the growth rates that the bank has had in recent years.

LOAN LOSS RATIO



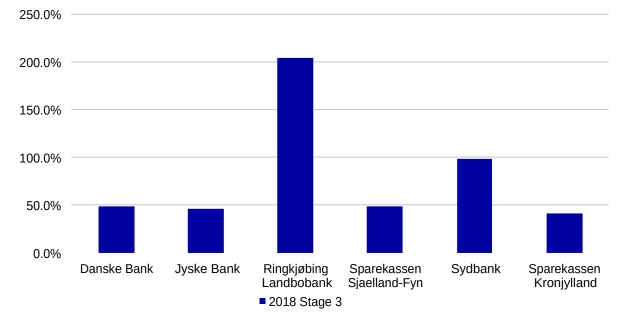
Source: Company data and Nordea

STAGE 3 IFRS 9 LOANS/GROSS LOANS



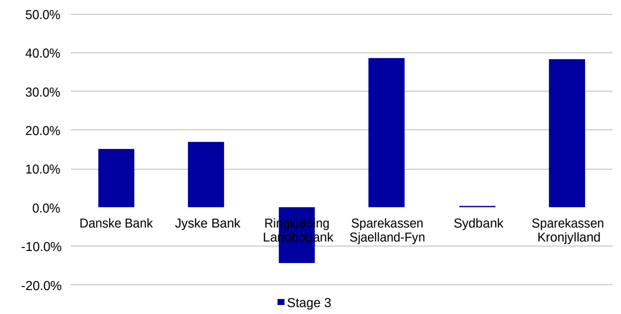
Source: Company data and Nordea

RESERVE COVER OF STAGE 3 LOANS



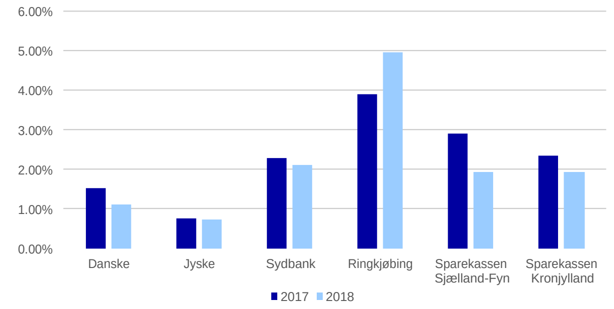
Source: Company data and Nordea

EQUITY EXPOSURE TO NET STAGE 3 LOANS



Source: Company data and Nordea

PROFIT BEFORE LOAN LOSSES TO LENDING

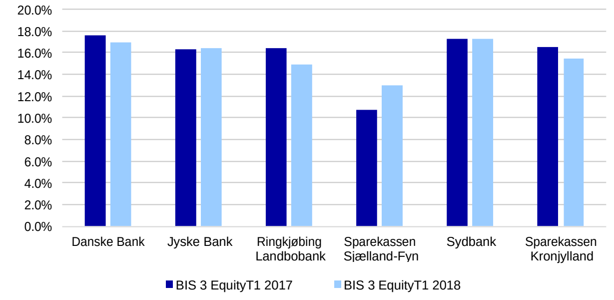


Source: Company data and Nordea

Capital position

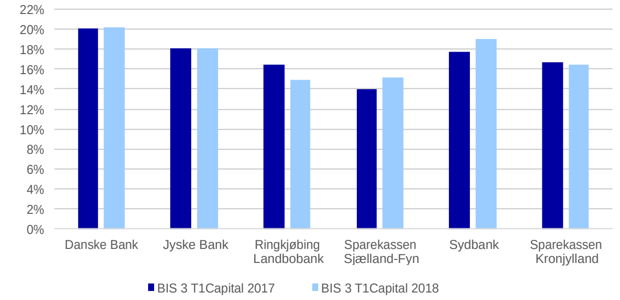
We believe Sparekassen Kronjylland has a strong capital position, and at good levels relative to the competition, which in our view seems prudent considering the risk position in the loan book. Lastly, we believe the bank has robust deposits and we understand that aggressive pricing is not being pursued by the bank to fund its growth. Sparekassen has a total capital ratio target of 17%, which is roughly in line with peers. Given the target of 17% for the total capital ratio, we find it likely that the bank is targeting a minimum CET1 ratio of around 14% despite the bank having no public CET1 ratio target We consider the buffers to these targeted capital ratios adequate for the bank.

CET1 RATIO



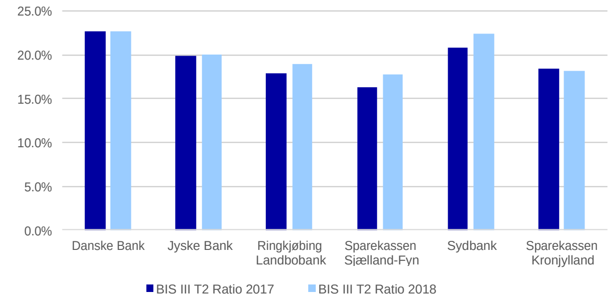
Source: Company data and Nordea

TIER 1 RATIO



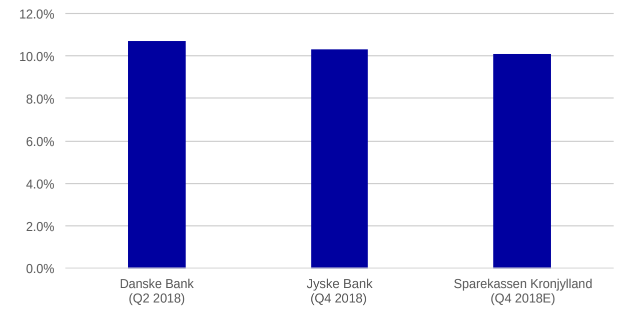
Source: Company data and Nordea

TOTAL CAPITAL



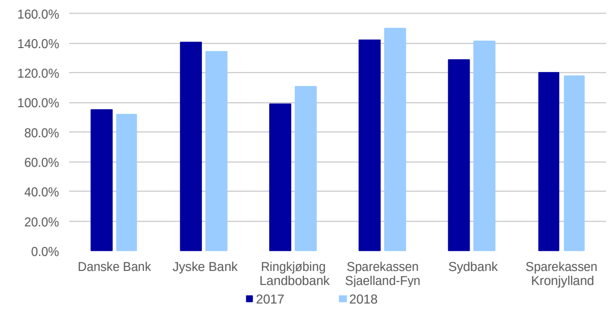
Source: Company data and Nordea

ESTIMATED AND REPORTED RAC RATIO



Source: Company data, S&P and Nordea estimates

DEPOSIT/LOAN RATIO



Source: Company data and Nordea

CAPITAL RELATIVE TO REQUIREMENTS

2018	Danske Bank	Jyske Bank	Ringkjøbing Landbobank	Sparekassen Sjaelland-Fyn	Sydbank	Sparekassen Kronjylland
Minimum CET1	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital conservation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Systemic risk buffer (P1)	3.0%	1.5%	0.0%	0.0%	1.0%	0.0%
Counter cyclical buffer	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Minimum CET1	11.5%	10.0%	8.5%	8.5%	9.5%	8.5%
Pillar II	2.7%	1.6%	0.7%	0.8%	1.9%	0.6%
Minimum CET1 including Pillar II	14.2%	11.6%	9.2%	9.3%	11.4%	9.1%
Management buffer	1.8%	2.4%	4.3%	3.7%	2.6%	4.9%
Capital policy	16.0%	14.0%	13.5%	13.0%	14.0%	14.0%
Total Minimum CET1	16.0%	14.0%	13.5%	13.0%	14.0%	14.0%
Current CET1	**17.0%**	**16.4%**	**15.0%**	**15.1%**	**17.3%**	**15.4%**
Excess/shortfall	**0.9%**	**2.4%**	**1.5%**	**2.1%**	**3.3%**	**1.4%**

Source: Company data and Nordea estimates
Note: Sparekassen Kronjylland has not published its management-decided minimum required CET1 ratio; this is Nordea's estimate.

Reported numbers and forecasts

INTERIM KEY DATA

CAPITAL RATIOS

%	H1 16	H2 16	H1 17	H2 17	H1 18	H2 18	H1 19E	H2 19E
BIS II Trans. CET1-ratio	-	-	-	-	-	-	-	-
BIS II Trans. Capital ratio	-	-	-	-	-	-	-	-
BIS III CET	2,390	2,567	2,865	3,127	3,136	3,238	3,423	3,686
BIS III REA	16,980	17,549	18,992	18,931	19,824	20,982	22,069	22,748
BIS III CET1-ratio	14.1%	14.6%	15.1%	16.5%	15.8%	15.4%	15.5%	16.2%
BIS III T1-ratio	14.9%	15.5%	15.2%	16.7%	16.1%	16.4%	16.4%	17.7%
BIS III Capital ratio	15.6%	17.2%	17.0%	18.4%	17.9%	18.1%	18.0%	19.3%
Tang. Equity/Assets	12.6%	12.9%	13.6%	14.6%	13.8%	13.6%	13.8%	14.1%
Tang. Equity/Lending	21.8%	21.7%	22.6%	23.7%	23.3%	21.9%	21.8%	22.2%
Leverage ratio	11.4%	11.7%	12.5%	13.4%	12.5%	12.2%	12.6%	13.0%

CREDIT QUALITY

DKKm	H1 16	H2 16	H1 17	H2 17	H1 18	H2 18	H1 19E	H2 19E
Impaired loans	-	-	-	2,515	-	2,600	2,587	2,574
Loan loss reserves	1,278	1,216	1,222	1,040	1,146	1,059	1,038	1,017
Coverage ratio	-	-	-	41%	-	41%	40%	40%
Loan loss reserves / Total loans	10.60%	9.36%	8.84%	7.26%	7.69%	6.44%	5.99%	5.67%
Impaired loans / Total loans	0.00%	0.00%	0.00%	17.55%	0.00%	15.80%	14.92%	14.35%
Loan loss ratio	**-1.79%**	**-1.27%**	**0.24%**	**0.95%**	**0.34%**	**-0.51%**	**0.92%**	**0.00%**
Growth loan loss reserves (y/y)	-7%	-3%	-4%	-14%	-6%	2%	-9%	-4%
Growth impaired loans (y/y)	-	-	-	-	-	3%	-	-1%

PROFITABILITY

Adjusted for non-rec. Items	H1 16	H2 16	H1 17	H2 17	H1 18	H2 18	H1 19E	H2 19E
RoE	6.2%	8.9%	11.1%	8.2%	8.2%	4.7%	9.3%	5.1%
RoTBV	6.6%	9.4%	11.7%	8.6%	8.5%	4.8%	9.6%	5.3%
C/I	-73.5%	-70.2%	-68.9%	-79.7%	-73.8%	-78.9%	-71.5%	-79.5%
NII-margin	5.73%	5.31%	4.84%	4.53%	4.33%	4.12%	3.83%	3.76%

REVENUE DISTRIBUTION

Adjusted for non-rec. Items	H1 16	H2 16	H1 17	H2 17	H1 18	H2 18	H1 19E	H2 19E
Net Interest Income	63%	54%	52%	55%	54%	55%	50%	54%
Net Commission Income	32%	31%	31%	35%	36%	36%	38%	36%
Net result from financial transactions	1%	11%	13%	6%	8%	6%	9%	6%
Net insurance income	0%	0%	0%	0%	0%	0%	0%	0%
Other Income	4%	4%	5%	4%	3%	3%	4%	3%

Source: Company data and Nordea estimates

INTERIM INCOME STATEMENT AND BALANCE SHEET

INCOME STATEMENT

DKKm	H1 16	H2 16	H1 17	H2 17	H1 18	H2 18	H1 19E	H2 19E
Interest income	354	348	339	334	332	340	339	357
Interest expense	-28	-27	-26	-24	-19	-23	-23	-25
Net interest income	**326**	**321**	**313**	**311**	**313**	**317**	**316**	**332**
Dividends on shares etc	13	0	2	0	10	0	13	4
Fees and commission income	173	197	192	207	206	215	235	226
Fees and commission expenses	-8	-13	-7	-10	-8	-11	-10	-10
Net interest and fee income	**504**	**505**	**500**	**507**	**521**	**522**	**555**	**552**
Market value adjustments	4	64	79	35	44	36	55	129
Other operating income	23	24	28	22	18	19	23	20
Staff costs and administrative expenses	-359	-380	-391	-418	-399	-421	-419	-442
Amortisation, depreciation and impairment losses	-21	-36	-25	-30	-28	-30	-28	-30
Other operating expenses	-1	-1	-1	-1	-1	-1	-1	-1
Impairment losses on loans and advances etc	-50	-38	8	33	12	-19	38	0
Profit/loss on investments in associates etc	20	16	7	9	6	11	7	10
Profit before tax	**120**	**154**	**205**	**156**	**172**	**117**	**229**	**238**
Other (Profit from discountinued operations)	0	0	0	0	0	0	0	0
Tax	-24	-29	-36	-23	-29	-29	-50	-32
Attributable profit for the year	**97**	**125**	**169**	**133**	**143**	**88**	**179**	**206**

BALANCE SHEET

DKKm	H1 16	H2 16	H1 17	H2 17	H1 18	H2 18	H1 19E	H2 19E
Cash / Interbank	1,027	407	434	477	437	487	487	487
Loans to the public	12,058	12,989	13,823	14,330	14,897	16,456	17,337	17,934
Goodwill and other intangibles	146	137	128	119	109	100	100	100
Total assets	**20,889**	**21,845**	**22,975**	**23,303**	**25,099**	**26,471**	**27,268**	**28,275**
Interbank/owed to credit institutions	992	1,219	1,414	971	1,252	1,108	1,108	1,108
Deposits	15,212	15,893	16,644	17,215	18,474	19,324	19,802	20,291
Subordinated loans	159	358	358	359	359	359	359	659
Minority interest	0	0	0	0	0	0	0	0
Equity	2,772	2,961	3,256	3,517	3,584	3,703	3,872	4,090
Total equity and liabilities	**20,889**	**21,845**	**22,975**	**23,303**	**25,099**	**26,471**	**27,268**	**28,275**

GROWTH (Y/Y)

	H1 16	H2 16	H1 17	H2 17	H1 18	H2 18	H1 19E	H2 19E
Interest income	-5%	-1%	-4%	-4%	-2%	2%	2%	5%
Interest expense	-25%	-11%	-8%	-13%	-25%	-2%	17%	9%
Net interest income	**-3%**	**0%**	**-4%**	**-3%**	**0%**	**2%**	**1%**	**5%**
Dividends on shares etc	543%	-80%	-82%	-231%	323%	-247%	32%	3680%
Fees and commission income	-3%	4%	11%	5%	8%	4%	14%	5%
Fees and commission expenses	22%	15%	-7%	-22%	16%	9%	25%	-6%
Net interest and fee income	**-1%**	**1%**	**-1%**	**0%**	**4%**	**3%**	**7%**	**6%**
Market value adjustments	-55%	-840%	1936%	-46%	-45%	4%	26%	259%
Other operating income	-51%	-26%	20%	-9%	-35%	-12%	29%	4%
Staff costs and administrative expenses	5%	13%	9%	10%	2%	1%	5%	5%
Amortisation, depreciation and impairment losses	-9%	40%	21%	-17%	11%	1%	0%	0%
Other operating expenses	-91%	-95%	-19%	81%	26%	-7%	-22%	-25%
Impairment losses on loans and advances etc	2%	-21%	-116%	-185%	56%	-158%	210%	-100%
Profit/loss on investments in associates etc	432%	30%	-64%	-43%	-20%	19%	20%	-9%
Profit before tax	**-15%**	**40%**	**71%**	**1%**	**-16%**	**-25%**	**33%**	**104%**
Other (Profit from discountinued operations)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m
Tax	-12%	13%	54%	-21%	-20%	24%	73%	10%
Attributable profit for the year	**-15%**	**47%**	**75%**	**6%**	**-16%**	**-34%**	**25%**	**134%**
Loans to the public	**12%**	**15%**	**15%**	**10%**	**8%**	**15%**	**16%**	**9%**
Deposits	5%	8%	9%	8%	11%	12%	7%	5%
Assets	11%	12%	10%	7%	9%	14%	9%	7%
REA growth (BIS III)	**10%**	**9%**	**12%**	**8%**	**4%**	**11%**	**11%**	**8%**

Source: Company data and Nordea estimates

ANNUAL KEY DATA

CAPITAL RATIOS

%	2014	2015	2016	2017	2018	2019E	2020E	2021E
BIS II Trans. CET1-ratio	-	-	-	-	-	-	-	-
BIS II Trans. Capital ratio	-	-	-	-	-	-	-	-
BIS III CET	2,165	2,310	2,567	3,127	3,238	3,686	3,804	3,985
BIS III REA	14,282	16,084	17,549	18,931	20,982	22,748	23,719	24,534
BIS III CET1-ratio	15.2%	14.4%	14.6%	16.5%	15.4%	16.2%	16.0%	16.2%
BIS III T1-ratio	15.2%	14.9%	15.5%	16.7%	16.4%	17.7%	17.5%	17.7%
BIS III Capital ratio	15.2%	15.2%	17.2%	18.4%	18.1%	19.3%	19.2%	19.3%
Tang. Equity/Assets	14.0%	13.1%	12.9%	14.6%	13.6%	14.1%	14.3%	14.5%
Tang. Equity/Lending	23.7%	22.6%	21.7%	23.7%	21.9%	22.2%	22.2%	22.3%
Leverage ratio	13.0%	11.9%	11.7%	13.4%	12.2%	13.0%	13.0%	13.2%

CREDIT QUALITY

DKKm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Impaired loans	-	-	-	2,515	2,600	2,574	2,561	2,548
Loan loss reserves	1,094	1,248	1,216	1,040	1,059	1,017	1,012	1,007
Coverage ratio	-	-	-	41%	41%	40%	40%	40%
Loan loss reserves / Total loans	11.10%	11.09%	9.36%	7.26%	6.44%	5.67%	5.38%	5.14%
Impaired loans / Total loans	0.00%	0.00%	0.00%	17.55%	15.80%	14.35%	13.60%	13.01%
Loan loss ratio	**1.94%**	**0.99%**	**0.79%**	**-0.31%**	**0.05%**	**-0.23%**	**0.14%**	**0.29%**
Growth loan loss reserves (y/y)	3%	14%	-3%	-14%	2%	-4%	-1%	-1%
Growth impaired loans (y/y)	-	-	-	-	3%	-1%	-1%	-1%

PROFITABILITY

Adjusted for non-rec. Items	2014	2015	2016	2017	2018	2019E	2020E	2021E
RoE	4.0%	7.7%	7.8%	9.3%	6.2%	7.1%	5.0%	4.5%
RoTBV	4.2%	8.1%	8.3%	9.7%	6.4%	7.3%	5.1%	4.6%
C/I	-69.1%	-69.4%	-70.9%	-74.0%	-76.3%	-75.2%	-77.3%	-76.9%
NII-margin	6.42%	6.22%	5.34%	4.57%	4.06%	3.69%	3.56%	3.54%

REVENUE DISTRIBUTION

Adjusted for non-rec. Items	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net Interest Income	61%	60%	58%	53%	54%	52%	53%	53%
Net Commission Income	29%	32%	32%	33%	36%	37%	37%	37%
Net result from financial transactions	1%	0%	6%	10%	7%	7%	7%	7%
Net insurance income	0%	0%	0%	0%	0%	0%	0%	0%
Other Income	9%	7%	4%	4%	3%	4%	3%	3%

Source: Company data and Nordea estimates

ANNUAL INCOME STATEMENT AND BALANCE SHEET

INCOME STATEMENT

DKKm	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Interest income	785	746	724	702	673	672	697	724	749
Interest expense	-160	-109	-68	-55	-50	-43	-48	-56	-61
Net interest income	**625**	**637**	**656**	**647**	**624**	**630**	**649**	**668**	**688**
Dividends on shares etc	10	8	2	13	2	10	17	5	5
Fees and commission income	274	310	366	369	398	422	461	471	485
Fees and commission expenses	-10	-10	-17	-20	-17	-19	-20	-21	-22
Net interest and fee income	**898**	**945**	**1,008**	**1,009**	**1,008**	**1,043**	**1,107**	**1,123**	**1,156**
Market value adjustments	54	9	0	68	114	80	184	84	87
Other operating income	166	99	80	47	49	37	43	43	43
Staff costs and administrative expenses	-566	-604	-677	-739	-809	-820	-861	-896	-923
Amortisation, depreciation and impairment losses	-38	-95	-48	-56	-55	-58	-58	-58	-58
Other operating expenses	-41	-29	-30	-2	-2	-3	-2	-2	-2
Impairment losses on loans and advances etc	-326	-194	-98	-89	41	-7	38	-25	-55
Profit/loss on investments in associates etc	11	21	16	36	16	17	17	17	17
Profit before tax	**157**	**151**	**251**	**275**	**362**	**289**	**468**	**286**	**265**
Other (Profit from discountinued operations)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Tax	-34	-54	-52	-53	-59	-58	-82	-63	-58
Attributable profit for the year	**123**	**97**	**199**	**222**	**302**	**231**	**385**	**223**	**207**

BALANCE SHEET

DKKm	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Cash / Interbank	418	899	381	407	477	487	487	487	487
Loans to the public	9,995	9,854	11,253	12,989	14,330	16,456	17,934	18,830	19,583
Goodwill and other intangibles	147	133	155	137	119	100	100	100	100
Total assets	**16,993**	**16,711**	**19,436**	**21,845**	**23,303**	**26,471**	**28,275**	**29,325**	**30,139**
Interbank/owed to credit institutions	279	199	475	1,219	971	1,108	1,108	1,108	1,108
Deposits	13,270	12,999	14,764	15,893	17,215	19,324	20,291	21,102	21,735
Subordinated loans	0	0	159	358	359	359	359	699	699
Minority interest	0	0	0	0	0	0	0	0	0
Shareholders equity	2,431	2,472	2,698	2,961	3,517	3,703	4,090	4,289	4,470
Total equity and liabilities	**16,993**	**16,711**	**19,436**	**21,845**	**23,303**	**26,471**	**28,275**	**29,325**	**30,139**

GROWTH (Y/Y)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Interest income	-3%	-5%	-3%	-3%	-4%	0%	4%	4%	3%
Interest expense	-9%	-32%	-38%	-18%	-10%	-14%	13%	16%	10%
Net interest income	**-1%**	**2%**	**3%**	**-1%**	**-4%**	**1%**	**3%**	**3%**	**3%**
Dividends on shares etc	-23%	-24%	-69%	470%	-83%	340%	70%	-71%	0%
Fees and commission income	22%	13%	18%	1%	8%	6%	9%	2%	3%
Fees and commission expenses	75%	-4%	72%	17%	-16%	12%	7%	3%	3%
Net interest and fee income	**4%**	**5%**	**7%**	**0%**	**0%**	**3%**	**6%**	**1%**	**3%**
Market value adjustments	280%	-84%	-99%	101149%	68%	-30%	131%	-54%	3%
Other operating income	101%	-40%	-19%	-41%	5%	-25%	16%	0%	0%
Staff costs and administrative expenses	3%	7%	12%	9%	10%	1%	5%	4%	3%
Amortisation, depreciation and impairment losses	16%	146%	-49%	17%	-3%	6%	0%	0%	0%
Other operating expenses	125%	-29%	2%	-93%	20%	7%	-24%	0%	0%
Impairment losses on loans and advances etc	53%	-40%	-50%	-9%	-146%	-117%	-665%	-166%	120%
Profit/loss on investments in associates etc	61%	86%	-21%	124%	-55%	2%	2%	0%	0%
Profit before tax	**4%**	**-4%**	**67%**	**9%**	**32%**	**-20%**	**62%**	**-39%**	**-7%**
Other (Profit from discountinued operations)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Tax	-24%	58%	-2%	1%	13%	-3%	42%	-23%	-7%
Attributable profit for the year	**15%**	**-21%**	**105%**	**12%**	**36%**	**-24%**	**67%**	**-42%**	**-7%**
Loans to the public	**-2%**	**-1%**	**14%**	**15%**	**10%**	**15%**	**9%**	**5%**	**4%**
Deposits	2121%	-2%	14%	8%	8%	12%	5%	4%	3%
Assets	-2%	-2%	16%	12%	7%	14%	7%	4%	3%
REA growth (BIS III)	**-2%**	**4%**	**13%**	**9%**	**8%**	**11%**	**8%**	**4%**	**3%**

Source: Company data and Nordea estimates

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