

INTERIM FINANCIAL REPORT

FIRST HALF 2018

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FIRST HALF AT A GLANCE

Highlights from the interim financial statements for the period 1 January – 30 June 2018:

- Profit before tax was DKK 41.8 million, compared with DKK 30.0 million in the same period in 2017.
- Core profit before loan impairment charges remained largely unchanged compared with the first half of 2017.
- Loan impairment charges decreased from DKK 74.8 million to DKK 66.0 million in the first half of 2018.
- The total capital ratio was 15.7%. The solvency need was 9.8% excluding and 11.7% including capital conservation buffer.
- Return on equity before tax was 29.8% p.a., compared with 21.6% p.a. in the first half of 2017.
- The bank's consumer lending activities are still developing satisfactorily, but growing at a slower rate than previously, partly due to the disposal of credit-impaired portfolios. The bank's loan portfolio of consumer loans amounted to approx. DKK 1.8 billion distributed over more than 85,000 customers.
- The portfolio of loans and guarantees to business customers has largely been disposed of.
- The bank meets all benchmarks in the Supervisory Diamond.
- The bank still expects a considerable increase in both core profit and profit before tax for 2018, with the latter expected to be in the region of DKK 100 million.

KEY FIGURES AND FINANCIAL RATIOS (extract from note 3)

Key figures for the bank (DKK '000)	<u>H1 2018</u>	<u>H1 2017</u>	<u>2017</u>
Income statement			
Net interest and fee income	184,599	169,340	344,239
Total expenses and amortisation, depreciation and impairment	76,272	61,627	125,913
Core profit before loan impairment charges	107,772	108,109	217,809
Loan impairment charges	65,954	74,764	163,516
Core profit	41,818	33,345	54,273
Profit for the period before tax	41,818	30,027	55,180
Profit for the period after tax	41,818	28,076	49,918
Balance sheet			
Loans and advances	1,813,019	1,752,836	1,879,462
Deposits	2,146,886	1,921,628	2,106,514
Equity	247,938	291,601	313,443
Balance sheet total	2,530,717	2,343,786	2,545,550
Financial ratios for the bank (%)			
Total capital ratio	15.7%	16.1%	17.6%
Solvency need excl. capital conservation buffer	9.8%	10.5%	9.9%
Solvency need incl. capital conservation buffer	11.7%	11.7%	11.2%
Return on equity after tax (calculated p.a.)	29.8%	20.2%	17.3%

COMPANY INFORMATION

ADDRESS

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2450 Copenhagen SV
Denmark
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Fax: +45 7022 0727

CVR

25 21 34 83

AUDITORS

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

SHAREHOLDERS

The following shareholders owned more than 5% of the company at the balance sheet date:

LTH Holding 2 ApS
MOL Holding 2 ApS
FLS Holding 2 ApS

BOARD OF DIRECTORS

Ulrik Bayer (Chairman)
Søren M. Overgaard
Michael Albrectslund
Ulrik F. Thagesen
Helle Okholm
Lars Thuesen

EXECUTIVE BOARD

Tom Rattleff (CEO)
Claus Dyhr

AUDIT COMMITTEE

The Committee's responsibilities are discharged by the full Board of Directors.

REMUNERATION COMMITTEE

The Committee's responsibilities are discharged by the full Board of Directors.

STATEMENT BY THE EXECUTIVE BOARD AND THE BOARD OF DIRECTORS

The Board of Directors and the Executive Board have today discussed and approved the interim financial report of Basisbank A/S for the period 1 January – 30 June 2018.

The interim financial statements have been prepared in accordance with the Danish Financial Business Act, including the Executive Order on Financial Reports for Credit Institutions and Investment Firms etc.

In our opinion, the interim financial statements give a true and fair view of the institution's financial position at 30 June 2018 and of the results of the institution's operations for the period 1 January – 30 June 2018.

In our opinion, the Management's review gives a fair review of the development in the institution's operations and financial matters as well as a description of the significant risks and uncertainty factors pertaining to the institution.

The interim financial report for the half year has not been either audited or reviewed.

Copenhagen, 21 August 2018

Executive Board:

Tom Rattleff
CEO

Claus Dyhr

Board of Directors:

Ulrik Bayer
Chairman

Søren M. Overgaard

Michael Albrechtslund

Ulrik F. Thagesen

Helle Okholm

Lars Thuesen

MANAGEMENT'S REVIEW

CORE ACTIVITY

The company's core activity is to carry on banking business within the framework of the Danish Financial Business Act.

The business model is to operate an easily accessible internet bank, with simple deposit products and unsecured consumer loans. The bank offers unsecured consumer loans online under its own brand and via various brands such as "LånLet", "Selene Finans" and "Nupp". The bank also collaborates with a number of car dealers, retailers, web shops etc. that offer unsecured consumer loans in connection with purchases of goods and services. In addition, the bank collaborates with a number of financial partners. The bank operates exclusively in the Danish market.

OPERATING AND FINANCIAL REVIEW

GENERAL

The bank's core business delivered a satisfactory performance in the first half of 2018. Profit before tax for the period was DKK 41.8 million, compared with DKK 30.0 million in the first half of 2017.

Competition intensified in the market for unsecured consumer loans, the bank's primary business area, putting pressure on online sales channels, in particular. The bank worked successfully on several new sales channels for unsecured consumer loans, securing a generally satisfactory addition to its loan portfolio during the first half. During the first half, the bank granted loans totalling DKK 529 million, distributed over 10,500 existing customers and 15,300 new customers.

In spring 2018, the bank began disposing of credit-impaired portfolios with a total carrying amount for the first half of 2018 of approx. DKK 103 million, generating an accounting gain.

Interest and fee income from the consumer loan portfolio largely met the bank's expectations. Overall, the current portfolio provides the bank with a satisfactory net return, supporting the business model, according to which unsecured consumer loans should make up the bulk of the bank's loans and advances.

COMPOSITION OF CORE PROFIT

	H1 2018	H1 2017	2017
Net interest and fee income	184,599	169,340	344,239
Value adjustments	-600	344	-614
Other operating income	45	52	97
Staff and administrative expenses	-68,393	-55,060	-111,800
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	-7,864	-6,552	-14,099
Other operating expenses	-15	-15	-14
Core profit before loan impairment charges	107,772	108,109	217,809
Impairment charges on loans and receivables, etc.	-65,954	-74,764	-163,536
Core profit	41,818	33,345	54,273
Profit/(loss) on investments in associates and group enterprises	0	-3,318	907
Profit before tax	41,818	30,027	55,180
Tax	0	-1,951	-5,262
PROFIT FOR THE PERIOD	41,818	28,076	49,918

LOANS AND ADVANCES

As a consequence of the implementation of IFRS 9 at the beginning of 2018, the bank's total loans and advances in the first half decreased from DKK 1,879 million at the end of 2017 to DKK 1,813 million. The IFRS 9 adjustment amounted to DKK 135 million at the beginning of 2018 and DKK 121 million at 30 June 2018.

The bank's winding-up portfolio of business loans, primarily to real estate limited partnerships, was reduced from DKK 59 million at 31 December 2017 to DKK 16 million, and is expected to be reduced still further in the second half.

On the other hand, the bank's loans and advances to private consumer loan customers (excl. IFRS adjustment) increased from DKK 1,820 million in total at the end of 2017 to DKK 1,918 million. The addition was satisfactory and was achieved through online channels, existing and new retail partners and by increasing loans and advances to existing customers. The bank is currently gaining more than 120 new customers each day, and every day more than 60 existing customers take the opportunity to increase their loans. The bank had a total of approx. 85,000 consumer loan customers at 30 June.

During the period under review, the bank sold credit-impaired consumer loan portfolios to a value of DKK 103 million, in excess of the written-down carrying amounts, on a regular basis.

DEPOSITS

The bank's deposits amounted to DKK 2,147 million at 30 June 2018, compared with DKK 2,107 million the previous year. The bank has approx. 14,000 deposit customers.

Despite the record-low interest rate level, the bank continued to pay positive, albeit modest, interest on all deposit accounts, including payroll and budget accounts. The bank's deposit customers are rarely charged fees in their day-to-day contact with the bank, which is considered a key competitive parameter in the battle to attract stable deposit customers.

NET INTEREST AND FEE INCOME

The bank's interest expenses fell marginally in the first half compared with the same period the previous year. The bank's overall interest expenses totalled DKK 9.4 million in the first half, compared with DKK 10.1 million in the first half of 2017. The government AT1 capital has been redeemed and replaced by other AT1 capital. The interest expense on the new AT1 capital is recognised as dividend via the distribution of profit and consequently is not charged directly against profit.

Interest income increased as a result of the positive trend in the consumer loan portfolio. Total interest income increased from DKK 164.4 million to DKK 177.5 million.

Net fee income increased slightly, reflecting increased sales. The increase was DKK 1.5 million, giving a total figure of DKK 16.6 million for the first half of 2018.

Overall, net interest and fee income showed satisfactory growth from DKK 169.4 million to DKK 184.6 million.

LOAN IMPAIRMENT CHARGES

Impairment charges totalling DKK 66.0 million were recognised during the first half, compared with DKK 74.8 million in the same period in 2017.

Overall value adjustments on business loans were positive, at DKK 3.0 million, compared with corresponding positive value adjustments of DKK 3.5 million in the same period in 2017. Impairment charges on the consumer loan portfolio amounted to DKK 68.9 million, compared with DKK 78.9 million in the same period in 2017.

Total impairment charges also benefited from an accounting gain of DKK 11.6 million on regular disposals of credit-impaired portfolios. In addition, IFRS 9 impairment charges totalling DKK 14.1 million were reversed during the first half.

The increase in impairment charges on consumer loans before gains on disposals and IFRS 9 adjustments reflected a number of factors. Firstly, the bank's portfolio of this type of loan was higher than after the first half of 2017, with resulting higher impairment charges; secondly, the loss risk on new loans is higher than on older loans, meaning that impairment losses will invariably be higher during periods with steeply rising loans and advances.

When a consumer loan becomes credit-impaired, the bank calculates the accounting impairment charges using a statistically computed Loss Given Default (LGD).

The LGD calculated for the first half of 2018 increased marginally, to 59.82%. As previously mentioned, at the beginning of 2018 the bank started disposing of its credit-impaired consumer loans on a regular basis.

ORGANISATION

At the end of the first half, the bank had a total of 105 employees converted to 74 full-time equivalents.

EXPENSES

The bank's total staff and administrative expenses increased from DKK 55.1 million in the first half of 2017 to DKK 68.4 million.

The increase reflects an increase in staff, IT and marketing expenses to ensure that the bank will continue to appear as a leading, innovative player in the market for unsecured consumer loans in Denmark.

EARNINGS

The bank's first-half profit before tax was DKK 41.8 million, compared with DKK 30.0 million in the first half of 2017. The profit provides a return on equity of 29.8% p.a., compared with 21.6% in the first half of 2017, which is considered satisfactory.

LIQUIDITY

The bank's excess liquidity coverage remained sound at 30 June 2018. The minimum liquidity requirement was DKK 222.1 million and the liquidity reserve amounted to DKK 552.5 million, exceeding the requirement in the Supervisory Diamond by DKK 330.4 million.

Going forward, the bank wants its lending activities to continue to be wholly financed by its total deposits to ensure that the bank remains independent of capital markets.

The bank's liquidity reserve is predominantly placed in a bond portfolio and Danmarks Nationalbank respectively. The bond portfolio is managed by a professional third party under a mandate from the bank's Board of Directors. A small proportion is placed with other credit institutions. The bank generally endeavours to minimise market and credit risk when placing excess liquidity.

OWN FUNDS, SOLVENCY, RISK MANAGEMENT AND BUSINESS MODEL

The legislation requires the bank to have adequate own funds to support the bank's risk exposure. Management has elected to calculate credit risk and market risk using the standardised approach and operational risk using the basic indicator approach. Management is of the view that more sophisticated methods of calculating the bank's solvency are not required at the present time. However, the bank is still working on a number of initiatives aimed at developing the bank's risk management models to underpin capital allocation, pricing and, in the longer term, the capital employed report.

The bank's Board of Directors and Executive Board must ensure that the bank has adequate own funds. This is the minimum capital that is required, in management's view, to cover all material risks. The bank's method for calculating that it has adequate capital resources is based on a model prepared by The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (*Lokale Pengeinstitutter*) (which is based on the Danish Financial Supervisory Authority's 8+ model), a statistical model for a part of the private customer portfolio and the bank's risk experience coupled with experience from the industry. Material risks relate to the bank's credit risks on its loan portfolio. The bank is continuously working on improving and developing its risk calculation method.

At the start of 2018, the bank redeemed the government AT1 capital with DKK 81.6 million and raised new AT1 capital of DKK 85.0 million. At 30 June 2018, the bank's CET1 capital amounted to DKK 262.7 million, which, together with the recently raised AT1 capital of DKK 85.0 million, corresponds to total own funds of DKK 347.7 million.

The bank has elected to apply the transitional arrangement for implementation of IFRS 9, so that the effect of IFRS 9 is phased in over the period 2018 to 2022. The transitional arrangement enables the bank to calculate a supplement to the CET1 capital corresponding to the effect of IFRS 9 multiplied by a factor that will be reduced during the five-year transitional period.

The bank's risk exposure has been calculated at DKK 2,214.9 million, and the individual capital requirement has been calculated at DKK 217.6 million, corresponding to 9.8%, compared with an actual solvency of 15.7%. The bank's capital conservation buffer has been calculated at DKK 41.5 million and the total capital requirement incl. capital conservation buffer consequently amounts to DKK 259.1 million, corresponding to 11.7%.

The bank has applied the 8+ method to calculate its solvency needs. Further information can be found in:

- Reporting on required capital adequacy and individual solvency requirement (at 30.06.2018)
- Reporting on other risk information (at 31.12.2017)

The two reports can be downloaded at www.basisbank.dk.

OWN FUNDS, SOLVENCY, RISK MANAGEMENT AND BUSINESS MODEL (CONTINUED)

Solvency needs calculated by the bank at 30 June 2018		To meet these needs, the bank has
Solvency need, 8+ method	217.6	347.7
8% requirement	177.2	347.7
4.5% requirement	99.7	262.7
4.5% requirement + Pillar II supplement	140.0	262.7

SUPERVISORY DIAMOND

The bank meets all limit values set by the Danish Financial Supervisory Authority in the Supervisory Diamond. The currently calculated values are set out below:

Performance indicators for Basisbank at 30 June 2018 compared with the benchmarks in the Supervisory Diamond

	30.06.2018 half year	30.06.2017 half year
Sum of large exposures ($< 125\%$ of adjusted own funds)	13.3 %	11.3 %
Lending growth ($< 20\%$ p.a.)	5.6 %	8.5 %
Commercial property exposure ($< 25\%$ of total loan portfolio)	1.4 %	4.5 %
Stable funding [loans and advances / capital employed less bonds with a time to maturity of less than one year] (< 1)	0.73	0.76
Excess liquidity coverage ($> 50\%$)	148.8 %	162.9 %

MAJOR RELATED PARTY TRANSACTIONS

The bank had related party transactions during the first half. All major transactions are listed in note 9, to which reference is made.

OUTLOOK FOR 2018

The bank expects its consumer loan portfolio to continue to grow in the second half, with resulting continued growth in net interest and fee income. The bank expects to expand both its product offering and its distribution channels in the course of the second half of 2018. Consequently, the bank still expects a considerable increase in both core profit and profit before tax for 2018, with the latter expected to be in the region of DKK 100 million.

EVENTS AFTER THE REPORTING PERIOD

No events have occurred between the reporting date and the date of signing that alter the estimates and judgements that form the basis for the recognition and measurement of the items in the company's income statement and statement of comprehensive income for the period 1 January – 30 June 2018 and the balance sheet at 30 June 2018, including the statement of changes in equity.

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

DKK '000	Note	H1 2018	H1 2017	2017
Interest income		177,479	164,369	333,358
Interest expenses		-9,440	-10,091	-20,633
Net interest income		168,039	154,278	312,725
Fee and commission income		50,876	51,720	102,633
Fees and commission paid		-34,316	-36,658	-71,119
Net interest and fee income		184,599	169,340	344,239
Value adjustments	4	-600	344	-614
Other operating income		45	52	97
Staff and administrative expenses		-68,393	-55,060	-111,800
Amortisation and depreciation of intangible assets and property, plant and equipment		-7,864	-6,552	-14,099
Other operating expenses		-15	-15	-14
Impairment charges on loans and receivables etc.	6	-65,954	-74,764	-163,536
Profit/(loss) on investments in associates and group enterprises		0	-3,318	907
Profit before tax		41,818	30,027	55,180
Income tax expense		0	-1,951	-5,262
PROFIT FOR THE PERIOD		41,818	28,076	49,918
Distribution of profit				
Profit for the period		41,818	28,076	49,918
Interest on AT1 capital		-2,196	-	-
Retained earnings, previous periods/years		277,443	227,525	227,525
Opening impact IFRS 9		-105,127	-	-
Retained earnings		211,938	255,601	277,443
Statement of comprehensive income				
Profit for the period		41,818	28,076	49,918
Other comprehensive income		0	0	0
COMPREHENSIVE INCOME FOR THE PERIOD		41,818	28,076	49,918

BALANCE SHEET

DKK '000	Note	H1 2018	H1 2017	2017
ASSETS				
Cash in hand and demand deposits with central banks		42,195	49,166	48,544
Receivables from credit institutions and central banks		48,921	115,008	74,078
Loans and other receivables at amortised cost	6	1,813,019	1,752,837	1,879,462
Bonds at fair value		469,487	369,541	468,170
Shares etc.		14	14	14
Investments in associates		6,719	2,494	6,719
Intangible assets		20,916	18,868	21,048
Other tangible assets		1,788	3,063	2,691
Deferred tax assets		50,099	20,448	20,448
Other assets		63,868	4,860	20,592
Prepayments		13,691	7,487	3,784
TOTAL ASSETS		2,530,717	2,343,786	2,545,550

BALANCE SHEET (CONTINUED)

	Note	30.06.2018 half year	30.06.2017 half year	31.12.2017 year
EQUITY AND LIABILITIES				
Deposits from customers and other debt		2,146,886	1,921,628	2,106,514
Current tax liabilities		6,404	1,951	6,404
Other equity and liabilities		42,628	43,914	34,501
Deferred income		10	13	9
Total debt		2,195,928	1,967,506	2,147,428
Provisions for losses under guarantees		1,851	3,036	3,036
Other provisions		-	-	-
Total provisions		1,851	3,036	3,036
Subordinated debt		85,000	81,643	81,643
Share capital		36,000	36,000	36,000
Retained earnings		211,938	255,601	277,443
Total equity		247,938	291,601	313,443
TOTAL EQUITY AND LIABILITIES		2,530,717	2,343,786	2,545,550

STATEMENT OF CHANGES IN EQUITY

DKK '000	Share capital	Distribution of profit	Retained earnings	Total
Equity 01.01.2017	36,000	-	227,525	263,525
Profit for the period	-	-	28,076	28,076
Other comprehensive income	-	-	-	-
Comprehensive income for the period	-	-	28,076	28,076
Equity 30.06.2017	36,000	-	255,601	291,601
Equity 01.01.2017	36,000	-	227,525	263,525
Profit for the year	-	-	49,918	49,918
Other comprehensive income	-	-	0	0
Comprehensive income for the year	-	-	49,918	49,918
Equity 31.12.2017	36,000	-	277,443	313,443
Equity 01.01.2018	36,000	-	277,443	313,443
IFRS 9 opening impact after tax	-	-	-105,127	-105,127
Profit for the period	-	-	41,818	41,818
Interest on AT1 capital	-	-2,196	-	-2,196
Comprehensive income for the period	-	-2,196	-63,309	-65,505
Equity 30.06.2018	36,000	-2,196	214,134	247,938

CALCULATION OF OWN FUNDS ETC.

DKK '000	Note	30.06.2018 half year	30.06.2017 half year	31.12.2017 year
Capital requirement acc. to section 124(1) of the Danish Financial Business Act		8%	8%	8%
Equity excl. non-controlling interests		247,938	291,601	313,443
Effect of IFRS 9 transitional arrangement (95%)		128,039	-	-
Tax assets		-50,099	-20,448	-20,448
Intangible assets		-20,916	-18,868	-21,048
Other deductions		-470	-371	-469
Profit for the period		-41,818	-28,076	-
AT1 capital		85,000	81,643	81,643
Tier 1 capital		347,674	305,481	353,102
Tier 2 capital		-	-	-
Own funds		347,674	305,481	353,102
Risk exposures				
Credit risk		1,623,823	1,414,880	1,526,033
Market risk		93,613	91,164	85,835
Operational risk		497,484	394,521	395,521
Total		2,214,920	1,900,565	2,006,389

NOTES

1. SIGNIFICANT ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms etc. (the Executive Order on the Presentation of Financial Statements).

The interim financial statements are presented in Danish kroner (DKK) rounded to the nearest DKK 1,000.

Apart from the implementation of the new IFRS 9 impairment rules, the accounting policies are unchanged from the accounting policies applied in the 2017 financial statements. For further details on accounting policies, including definitions of financial ratios etc., reference is therefore made to the 2017 annual report. The effect of IFRS 9 has been recognised at 1 January 2018. Comparative figures for previous periods have not been restated.

2. ACCOUNTING JUDGEMENTS, ESTIMATES AND UNCERTAINTIES

The interim financial statements are prepared on the basis of special assumptions that require the use of accounting estimates. These estimates are made by Basisbank's management in accordance with accounting policies and based on historical experience and assumptions that management considers to be reasonable and realistic. The assumptions may be incomplete, and unforeseen future events or circumstances may arise, and others may arrive at different estimates. The bank is also affected by risks and uncertainties that could mean that actual results may differ from those estimates. The areas that involve a higher degree of judgement or complexity or areas in which assumptions and estimates are material to the financial statements are set out below.

In preparing the interim financial statements management makes a number of accounting judgements that form the basis for the presentation, recognition and measurement of the bank's assets and liabilities. The interim financial statements have been prepared on a going concern basis applying currently applicable practice and accounting rules for Danish banks. Significant estimates made by management in connection with the recognition and measurement of these assets and liabilities, and key sources of estimation uncertainty related to the preparation of the interim financial report for the first half of 2018, are the same as for the preparation of the 2017 annual report.

- Measurement of loans and advances
- Measurement of deferred tax assets
- Institution-specific factors

Measurement of loans and advances

Impairment charges on loans and receivables where quantifying the risk that not all future payments will be received involves significant estimates. If it can be established that not all future payments are expected to be received, significant estimates will also be used in determining the amount of expected payments, including realisable values of collateral and expected dividend payments from estates. Recognised impairment charges are subject to considerable estimates, are made in accordance with accounting policies and are based on a series of assumptions.

Accounting policies are based on the IFRS-compatible rules in the Executive Order on the Presentation of Financial Statements, and the preparation of cash flows, including timeframe, is to a great extent governed by management's intentions with the exposure. Changes to these assumptions may affect the financial reporting and the impact may be material.

Changes may occur in the event of changes in regulatory practice, and policy changes by management, e.g. a change of timeframe, may also affect valuations.

The bank's portfolio of loans and guarantees can be divided into two primary segments in relation to individual impairment charges:

- Customers where the need to recognise an impairment charge is determined using actual figures based on the expected cash flow from the given exposure
- Customers where the need to recognise an impairment charge is determined statistically as an average of expected cash flows on all loans and advances with uniform credit characteristics (Loss Given Default – LGD)

Consumer loans

The bank's portfolio of consumer loans is accounted for in accordance with the second bullet above as the bank uses an internal model to calculate partly the probability of counterparty default (PD), and partly Loss Given Default (LGD).

The carrying amount of the bank's portfolio of consumer loans totalled DKK 1,820.0 million at 30 June 2018.

The carrying amount of the portfolio of credit-impaired consumer loans was determined by discounting the expected cash flows for a ten-year period from the date of credit impairment of the loan. Cash flows are discounted using the weighted effective interest rate for the credit-impaired portfolio before the credit impairment. This enables the present value of future cash flows and the amount of the impairment charge to be determined.

The bank uses a process whereby actual cash flows from the bank's credit-impaired loans are followed up on in detail on a half-yearly basis, and over/under-performance will result in a reassessment of expected cash flows for the remainder of the ten-year period. In this way the bank ensures that the value of these loans reflects management's best estimates of future expected cash flows, which are used as a basis for calculating the present value of the loans.

Estimates of cash flows over a ten-year period invariably involve some uncertainty, as there is a high probability that actual cash flows will differ from budgeted cash flows, as assumed events often do not occur as expected, and there may be not insignificant both positive and negative deviations.

Examples of factors that may have a material impact on actual cash flows:

- Changed prospective Customer behaviour compared with the historical observations on which the bank's budgeted cash flows are based
- Changes in the bank's collection processes may result in both positive and negative deviations between actual and budgeted cash flows
- Extraordinary market conditions that are not permitted to be reflected in the valuation of loans according to the Executive Order on the Presentation of Financial Statements, as they must be valued applying a principle of neutrality

Other accounting elements

- Collective impairment charges are still subject to some uncertainty as the bank has only limited historical data on which to base its calculations, and it has consequently been necessary to supplement the model calculations with management estimates. Management estimates relate, in particular, to the qualification of the probability of losses due to very few losses on the private portfolio
- Provisions for losses under guarantees, where the quantification of the risk of payment having to be made under a given guarantee involves significant estimates
- Listed financial instruments that may be priced in markets with low turnover, resulting in some uncertainty when measuring at fair value using market prices
- Unlisted financial instruments where the measurement of fair values involves significant estimates
- Deferred tax assets are recognised for all tax losses, to the extent that it is considered probable that tax profits will be realised within the foreseeable future against which the losses can be offset.

NOTES

3. KEY FIGURES AND FINANCIAL RATIOS

DKK '000	H1 2018	H1 2017	H1 2016	H1 2015	2017
Income statement					
Net interest and fee income	184,599	169,340	131,843	86,539	344,239
Value adjustments	-600	344	474	-1,163	-614
Staff costs and administrative expenses	68,393	55,060	50,203	41,813	111,800
Loan impairment charges etc.	65,954	74,764	48,376	45,562	163,536
Profit/(loss) on investments in associates and group enterprises	0	-3,318	-211	-785	907
Profit for the period before tax	41,818	30,027	29,816	6,640	55,180
Profit for the period after tax	41,818	28,076	27,878	6,640	49,918
Balance sheet					
Loans and advances	1,813,019	1,752,836	1,448,858	1,594,876	1,879,462
Deposits	2,146,886	1,931,628	2,026,083	2,244,439	2,106,514
Equity	247,938	291,601	226,693	93,338	313,443
Total assets	2,530,717	2,343,786	2,386,322	2,470,023	2,545,550
Financial ratios					
Total capital ratio	15.7%	16.1%	17.6%	9.0%	17.6%
Tier 1 capital ratio	15.7%	16.1%	17.6%	9.0%	17.6%
Return on equity before tax (calculated p.a.)	29.8%	21.6%	28.0%	14.8%	19.1%
Return on equity after tax (calculated p.a.)	29.8%	20.2%	26.2%	14.8%	17.3%
Cost:income ratio	41.4%	36.3%	41.2%	48.0%	36.6%
Interest rate risk	-0.2%	0.2%	-0.1%	-0.9%	-0.3%
Foreign exchange position	0.0%	0.0%	3.0%	0.4%	0.0%
Loan to deposit ratio	100.4%	101.5%	91.9%	78.8%	99.3%
Loan to equity ratio	7.3	6.0	6.4	17.1	6.0
Growth in loans during half year	-3.5%	8.5%	3.9%	2.1%	16.4%
Excess liquidity relative to regulatory liquidity requirements	148.8%	162.9%	322.1%	244.9%	167.8%
Sum of large exposures	13.2%	11.3%	12.0%	78.8%	9.5%
Impairment ratio for first half	3.0%	3.8%	2.6%	2.5%	7.7%
Return on assets	1.7%	1.2%	1.2%	0.3%	2.0%
LCR ratio	1,437.0%	2,193.7%	383.1%	-	3,007.5%

NOTES

4. VALUE ADJUSTMENTS

DKK '000	<u>H1 2018</u>	<u>H1 2017</u>	<u>2017</u>
Value adjustments			
Other loans and receivables at fair value	-	14	13
Bonds	-643	374	-373
Shares etc.	-	-91	-314
Investment property	-	-	-
Foreign currency	25	46	79
Derivative financial instruments	18	1	-19
	<u>-600</u>	<u>344</u>	<u>-614</u>

5. TAX

The bank's tax loss carryforwards amounted to DKK 250 million at 30 June 2018, corresponding to a tax base of DKK 55 million - depending on the income tax rate at the date of realisation.

At 30 June 2018, the bank judged that a DKK 50.1 million deferred tax asset relating partly to tax loss carry-forwards and partly to the tax base resulting from the IFRS 9 implementation could be realised within a period of three years.

DKK '000	<u>H1 2018</u>	<u>H1 2017</u>	<u>2017</u>
Deferred tax asset, start of period	20,448	20,448	20,448
Deferred tax on IFRS 9 opening adjustment	29,651	-	-
Deferred tax asset, end of period	<u>50,099</u>	<u>20,448</u>	<u>20,448</u>

6. LOAN IMPAIRMENT CHARGES ETC.

DKK '000	Individual impairment charges	Collective impairment charges	Total
H1 2018			
Impairment charges at 01.01.2018	211,725	1,300	213,025
IFRS 9	134,778	-	134,778
Foreign exchange adjustments	-	-	-
Impairment charges during period	11,762	-	11,762
Reversal of impairment charges	-15,525	-1,300	-16,825
Actual realised losses	-712	-	-712
Other movements	108	-	108
Impairment charges at 30.06.2018	342,136	0	342,136
H1 2017			
Impairment charges at 01.01.2017	273,454	1,300	274,754
Foreign exchange adjustments	-	-	-
Impairment charges during period	81,895	-	81,895
Reversal of impairment charges	-4,795	-	-4,795
Actual realised losses	-154,216	-	-154,216
Other movements	99	-	99
Impairment charges at 30.06.2017	196,437	1,300	197,737
Year 2017			
Impairment charges at 01.01.2017	273,454	1,300	274,754
Foreign exchange adjustments, start of period	0	-	0
Impairment charges during period	143,980	.	143,980
Reversal of impairment charges	-6,094	-0	-6,094
Other movements	168	.	168
Actual realised losses	-199,783	.	-199,783
Impairment charges at 31.12.2017	211,725	1,300	213,025

6. LOAN IMPAIRMENT CHARGES ETC. (CONTINUED)

Impairment charges and credit losses recognised in the income statement during the period:

DKK '000	H1 2018	H1 2017	2017
Impairment charges during period	11,343	81,895	143,980
Reversal of impairment charges recognised in previous financial years	-3,333	-4,308	-6,094
Received on debt previously written off	-11,675	-8,018	-8,555
IFRS 9 adjustment	-14,150	-	-
Losses without previous impairment charges	83,877	5,295	34,205
Other movements	-108	-100	168
	<u>65,954</u>	<u>74,764</u>	<u>163,704</u>

For the first half of 2018, losses without previous impairment charges were impacted by the sale of credit-impaired portfolios.

DKK '000	H1 2018
Stage 1 impairment charges	
Accumulated Stage 1 impairment charges at end of previous financial year	0
Changed accounting policy for impairment charges (IFRS 9)	43,798
Stage 1 impairment charges and value adjustments respectively during period	<u>1,333</u>
Accumulated Stage 1 impairment charges at balance sheet date	45,131
Stage 2 impairment charges	
Accumulated Stage 2 impairment charges at end of previous financial year	0
Changed accounting policy for impairment charges (IFRS 9)	90,979
Stage 1 impairment charges and value adjustments respectively during period	<u>-15,483</u>
Accumulated Stage 2 impairment charges at balance sheet date	75,496
Stage 3 impairment charges	
Accumulated Stage 3 impairment charges at end of previous financial year	213,025
Changed accounting policy for impairment charges (IFRS 9)	0
Stage 3 impairment charges and value adjustments respectively during period	<u>8,484</u>
Accumulated Stage 3 impairment charges at balance sheet date	<u>221,509</u>
Total accumulated loan impairment charges, end of period	<u>343,987</u>

7. OFF-BALANCE SHEET ITEMS

DKK '000	Note	H1 2018	H1 2017	2017
Undrawn credit facilities		45,422	51,448	47,676
Guarantees etc.	8	22,787	24,012	23,842
Other commitments		24,456	30,308	27,178
Off-balance sheet items		92,665	103,768	98,696

8. CONTINGENT LIABILITIES

DKK '000	H1 2018	H1 2017	2017
Financial guarantees	11,960	11,731	11,212
Other guarantees	10,827	12,281	12,631
Total	22,787	24,012	23,842

Like other Danish banks, the bank is comprised by the Danish deposit guarantee scheme. Following the bank's contribution in 2015, the deposit guarantee scheme is met so that the bank will not have to make any contributions in 2016 or 2017. If compensation payments are made by the fund, the bank, like the rest of the sector, will be under obligation to contribute its share of the amount required to reinstate the fund's assets, currently equivalent to 2.5 per mille of the sector's covered deposits.

The bank is also under obligation to make contributions to the Danish Resolution Fund scheme (*Afviklingsformuen*), which is managed by the Danish financial resolution authority (*Finansiel Stabilitet*). Like previous years, the contribution for 2017 was DKK 15 thousand.

The bank uses SDC as its data centre. The notice period for cancellation of the membership is 12 months. The cancellation costs are based on the actual business volume, and, at the present time, would amount to approx. DKK 8-10 million in total.

The bank also has a lease that can be terminated at the end of November 2020, amounting to DKK 12,617 thousand, and lease commitments calculated at DKK 2,680 thousand.

The bank is not involved in any litigation.

9. RELATED PARTIES

The following persons are related parties of the bank:

The following persons are related parties of the bank:

- Lars Thuesen (control via LTH Holding 0 ApS)
- Flemming Stolling (key management personnel and control via FLS Holding 0 ApS)
- Morten Larsen (key management personnel and control via MOL Holding 0 ApS)
- The full Board of Directors

Transactions with spouses of the above persons are included in the summary of transactions with other related parties.

Associates:

- K/S Vantaa (associate)

Companies in which Morten Larsen exercises control:

- ML Holding Solrød ApS
- MOL Holding 0 ApS (incl. subsidiaries)

Companies in which Flemming Stolling exercises control:

- Stolling Group ApS (incl. subsidiaries)
- FLS Holding 0 ApS (incl. subsidiaries)

Companies in which Lars Thuesen exercises control:

- Nosca A/S (incl. subsidiaries)
- Turnstone Poland
- Dutch Travel Partners ApS
- Scandinavian Travel Media ApS
- Basispartners ApS
- LTH Holding 0 ApS (incl. subsidiaries)
- JT3H ApS (incl. subsidiaries)
- LTAB1 ApS (incl. subsidiary)

Companies in which Lars Thuesen, Flemming Stolling and Morten Larsen jointly exercise control:

- SATO Holding A/S
- Selene Finans ApS
- LånLet ApS
- Nupp ApS

	Balance	Transactions
	30.06.2018	H1 2018
	DKK '000	DKK '000
All transactions with related parties are made on an arm's length basis		

The following major balance (at 30 June 2018) and transactions (2018) took place with related parties:

- Payment of brokerage commission to LånLet ApS, Selene Finans ApS and Nupp ApS	2,247	13,084
- Lease, deposit and rent payment to SATO Holding A/S and others	100	192
- Transactions with other related parties*	0	4,933
- Loans, related party of Flemming Stolling	366	67
- Legal fee to Lund Elmer Sandager	0	0

* Besides pay and other benefits to employed spouses of related parties, the item includes pay to employees classified as material risk takers.

10. EVENTS AFTER THE REPORTING PERIOD

No events have occurred between the reporting date and the date of signing that alter the estimates and judgements that form the basis for the recognition and measurement of the items in the parent company's and the Group's income statement and statement of comprehensive income for the period 1 January – 30 June 2018 and the balance sheet at 30 June 2018, including the statement of changes in equity.