

Jyske Bank mortgage loan seminar

Handelsbanken
28 November 2016

Our targets

Q3 2016

- Delivering an attractive long-term return on equity
 - Long-term target of delivering an after tax ROE between 8-12%
- DKK 100bn in housing-related loans from Jyske Bank branch network and DKK 20bn in mortgage loans for corporate clients
- Harvesting annual synergies of DKK 600m related to the Jyske Bank/BRFkredit merger
 - Full year effect from mid-2016, 18 months ahead of plan
- Maintaining a strong capital position
 - Long-term targets for capital ratio 17.5% and CET1 ratio 14%
 - S&P rating A- (stable outlook)

9.6%

DKK 73.9bn
and DKK
11.2bn

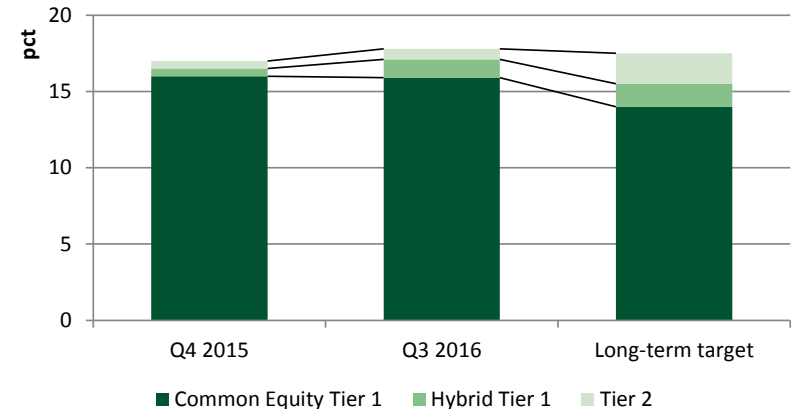
>DKK 600m

17.8% and
15.9%

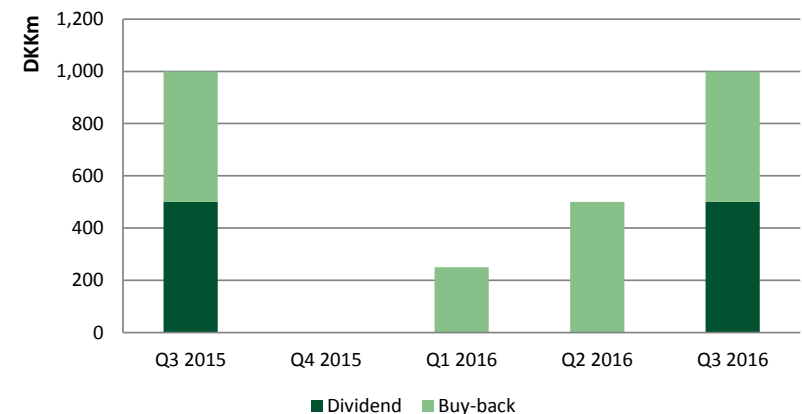
Capital adjustment in process

- Capital ratio 17.8% and CET1 ratio 15.9% end of Q3 2016 vs. long-term targets of 17.5% and 14% (based on fully implemented CRD IV requirements as per 2020)
- Gradual capital adjustment towards targets initiated in Q3 2015
 - Majority of adjustment expected to be completed in the course of 2016-2017
- Steps taken:
 - Share buyback programme DKK 750m (Nov 2015-Jun 2016)
 - Dividend DKK 500m (March 2016)
 - Tier 2 issue of SEK 1bn (May 2016)
 - New share buyback programme of DKK 500m initiated on July 1st and raised by DKK 500m to DKK 1bn (June and August 2016)
 - AT1 issue totalling DKK 1.5bn (September 2016)
 - Intention of proposing ordinary dividend for FY2016 in line with dividend paid in FY2015 (at AGM in March 2017)
- Adjustment towards the long-term CET1 target of 14% is conditional upon maintaining the current strong S&P RAC ratio in accordance with their capital position "strong"
- Defending and securing a stable S&P rating of A- remains a key priority

Capital ratio



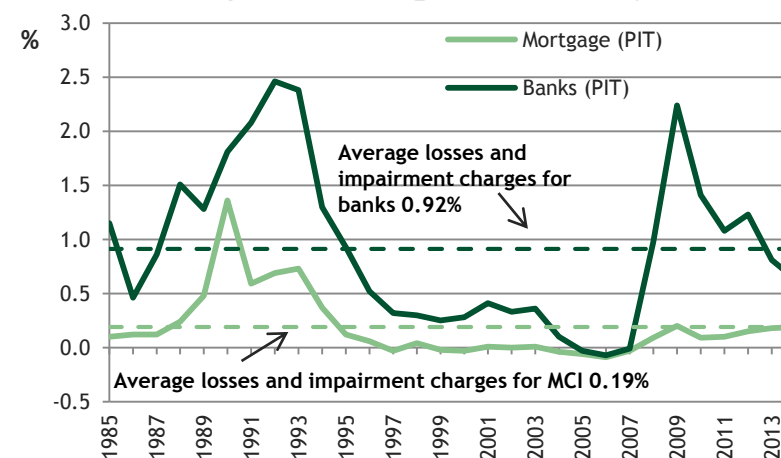
Capital distribution



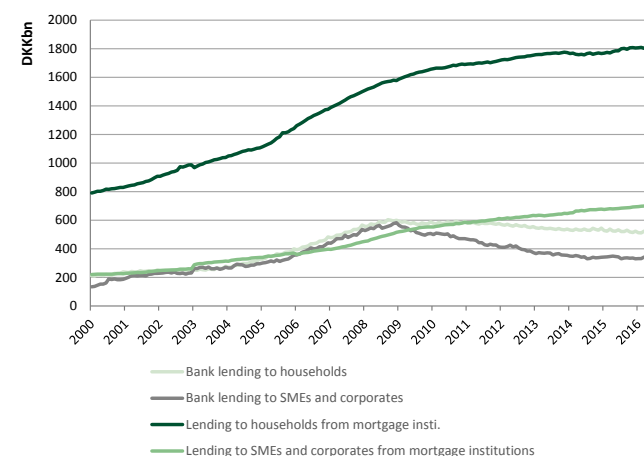
Jyske Bank/BRFkredit merger rationale

- Firmly establishes Jyske Bank as one of the four major financial institutions in Denmark with a full product range
- Extensive distribution platforms and customer bases provide attractive opportunities for organic growth
- Increased economies of scale provide opportunities for cost efficiencies
- Lower earnings volatility from diversified credit portfolio and overall risk profile
- Strong capitalised combined group supporting existing rating (A-)
- Combined platform positioned to benefit from structural changes in demand between banking and mortgage lending
- Well positioned in a changing regulatory environment
- Positioned to participate further in the on-going consolidation of the Danish financial sector should attractive opportunities arise

Losses and impairment charges 1985 - 2014 (as a % of loans)



Domestic lending



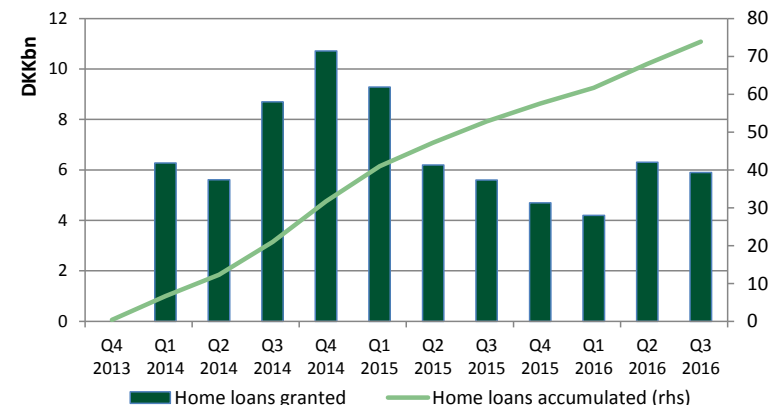
Synergies harvested 18 months ahead of plan

- Target for annual earnings and cost synergies of minimum DKK 600m achieved by end of Q2 2016
 - Full impact from Q3 2016 and onwards - 18 months earlier than originally planned
- New volume:
 - Volume of new home loan products DKK 73.9bn of which DKK 72.7bn was booked by end-September
- Capital costs in BRFkredit DKK 24m in Q3 2016 - down from DKK 27m in Q2 2016
- Number of full-time employees reduced to 3,993 by end of Q3
 - Target of 4,000 full-time employees achieved
 - Resulting in cost synergies of more than DKK 300m annually
- Integration costs:
 - No further integration costs expected
 - Total integration costs come to approx. DKK 110m (incurred in 2014 and 2015)
 - Within the announced range of DKK 100-150m
 - Any additional costs of integrating the banking and mortgage activities will be regarded as operating costs

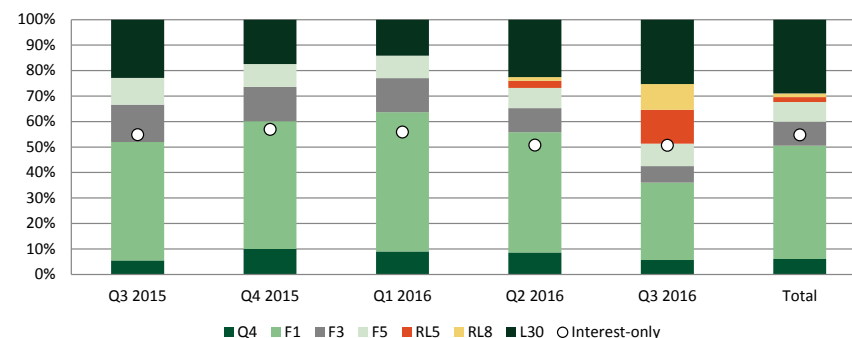
...and growth in home loans and mortgages continues

- Growth in volume:
 - Volume of new home loan products DKK 73.9bn of which DKK 72.7bn was booked by end of Q3. The majority of these are booked as mortgage loans
 - In Q1-Q3 2016, the Group has experienced an increase in home loans granted to new clients
- Quality of portfolio:
 - Majority of loans are granted to clients known by Jyske Bank as volume primarily stems from repatriation of loans previously referred to Totalkredit
 - More than 85% in credit rating class 1-5 compared to overall average of approx. 65% for bank loans for the retail segment (Risk and Capital Management 2015)
 - Losses since December 2013 totalling DKK 0.5m
 - FSA report from early October states that Jyske Bank's risk appetite in growth areas is lower than average for the banks included in the inspection
- Portfolio composition by product type:
 - Variable rate loans account for 70% of portfolio with F1 loans accounting for the majority
 - Proportion of loans with interest-only is relatively stable - down the last two quarters
 - Jyske Renteloft (RL5 and RL8) introduced in Q2 2016

New home loan products



Jyske Bank home loan portfolio by product type



Mortgage loans “Homeowners’ bank”

In 2014 we wanted to create a new strong mortgage provider based on two strong brands

- **Purpose:** Create a strong competitor to existing major banks in a market characterized by large economies of scale
- **Goal:** Two strong mortgage brands based on the groups competencies and systems
 - Effective processes
 - New product features
 - Low funding costs
 - New digital services
- **Vision:** “Disrupt” the market through competitive offers in two brands

The focus on property lending is a success

Goals

- Total property lending balance of
 - DKK 300bn
 - DKK 100bn growth since Q1 2014
- Goals increased DKK 20bn in the commercial segment

Status

- Profitable growth in both brands
 - DKK 282bn
 - DKK 82bn growth since Q1 2014
- Jyske Bank's new home loans account for DKK 73.9bn in 12 quarters
 - Relatively stable quarterly developments (near capacity limit)
 - Mostly known customers from Totalkredit
 - DKK 52bn joint funded in BRFkredit
- Funding spreads eliminated/negligible

Why are we successful in attracting customers?

- Two attractive brands
- Competitive prices
 - BRFkredit has always been competitive to attract new customers from competitors
 - Jyske Bank is "Best in test" (TÆNK, October 2016)
 - Capped Super loan (Cibor3) priced almost as F1
- Broadest product range
 - Traditional mortgage products
 - Joint funding / "bank" home loans
 - "Priority" loans with variable interest rate
 - Top financing
- Product differentiation in the two brands
 - Transparent traditional mortgage products in BRFkredit
 - Clear and simple new products in Jyske Bank
 - No funding (bond) side for the customer

Margins on home loans incl. quotation cut¹⁾ (LTV 0-80%)

With instalments	Fixed	F5	F1	Floater ²⁾
Jyske Bank	0.61	0.79	1.00	0.70 ³⁾
BRFkredit	0.61	0.89	1.15	0.82
Other Institutions	0.68	0.89	1.41	0.92
	-	-	-	-
	0.74	0.92	1.45 ⁴⁾	0.97

Without instalments	Fixed	F5	F1	Floater ²⁾
Jyske Bank	0.84	1.07	1.28	0.90 ³⁾
BRFkredit	0.89	1.12	1.38	1.10
Other Institutions	1.00	1.22	1.73	1.25
	-	-	-	-
	1.06	1.24	1.78 ⁴⁾	1.30

1) Quotation cut divided by the funding period is added to the margins.

2) Cibor3M in Jyske Bank and Cita6M for others. For others 7bp is added to account for quotation cuts of 0.20 DKK (assuming 3Y funding). The JB margin is calculated as interest minus funding costs in BRFkredit

3) No longer offered.

4) Some institutions do not offer new F1 loans.

Source: Publicly accessible prices from mortgage institutions' webpages. There has been made no corrections for individual payback programs, customer advantage programs, differences in credit policies and so on

Transparency or clarity?

Example

Up front

TRANSPARENT

- ❑ Expedition: 2.000 DKK
- ❑ Registration Service: 3.000 DKK
- ❑ Guarantee: 1.000 DKK
- ❑ Brokerage: 0,25%
- ❑ Quotation cut: 0.10 DKK

COMPREHENSIBLE

- ❑ Expedition: 6.500 DKK

Interest

- ❑ Bond rate: 99.50
- ❑ Quotation cut (refi.): 0.20 DKK
- ❑ Coupon: Cibur + 0.18%
- ❑ Margin: 0.7125%

- ❑ Interest rate: Cibur + 1.00%

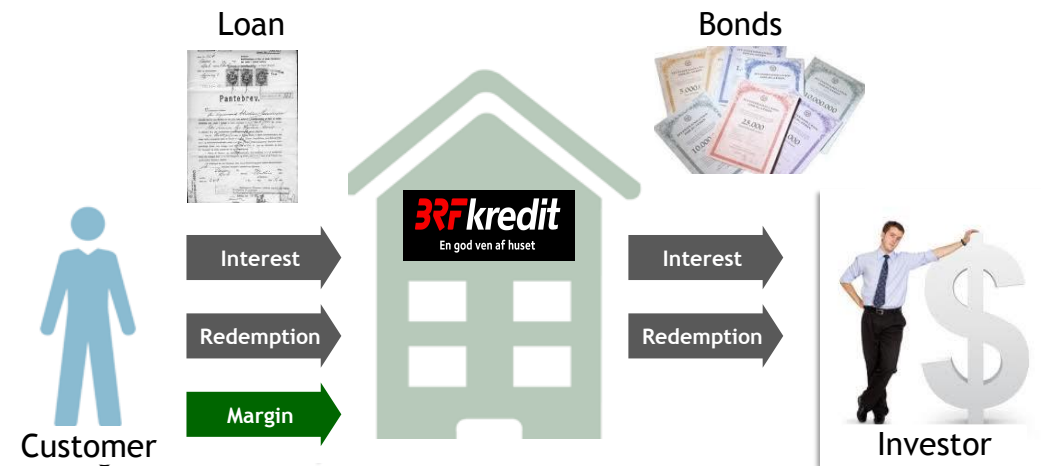
Redemption

- ❑ Market price (bond)
- ❑ Quotation cut: + 0.15 DKK
- ❑ Brokerage: 0.25%
- ❑ Redemption fee: 750 DKK

- ❑ Redemption at par (current)
- ❑ Redemption fee: 750 DKK

Bank home loans are like other mortgage loans - just not initially originated by the MCI

- Initially offered in Jyske Bank
- Legally transferred to BRFkredit
- Funded in BRFkredit covered bonds (SDO)
- FSA approved joint funding model
- Joint funded loans = other mortgage loans on BRFkredit's balance sheet
 - Meet all requirements in Danish MCI regulation ...
 - ... just as if the loans were originated by BRFkredit



Several benefits on loans without a funding side - both for customers and as issuer

- Competitors build up to Level 1B up to 4-5 times as fast
- Product innovation reduces issue sizes
- Customers go from fixed to variable interest rates - but we are restricted due to FSA diamond
- More flexibility is needed
 - Funding, documents, agreements, competencies, systems, processes...
- Longer maturities, foreign currencies and use of derivatives
 - RTL F to handle S&P-requirements without moving customers from 1Y ARM (F1) to Cita
 - Euro covered bonds
 - Financial instruments for hedging

- 
- 100% hedge and balance (back to back)
 - We can always refinance traditionally in bonds

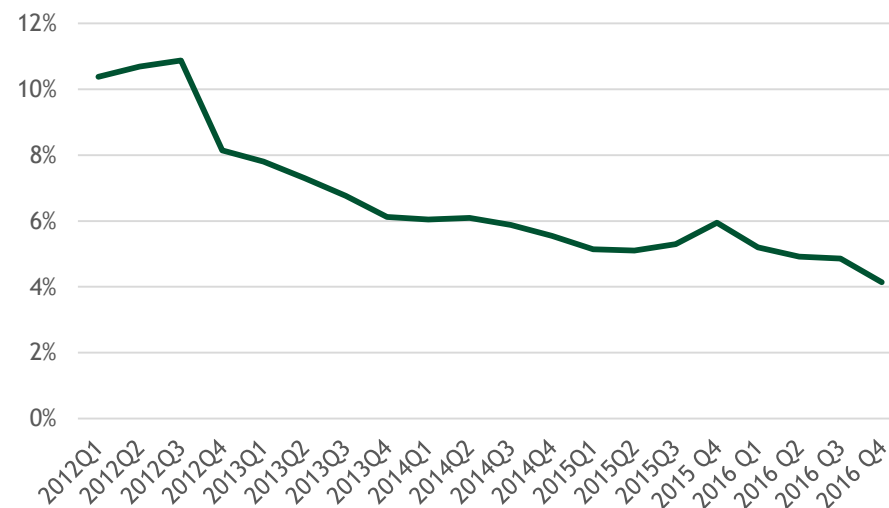
Initiatives to eliminate funding spreads is working

- Continued growth
- Improving financial performance
- Market making agreements
- Increasing share of Level 1B in new issues
 - 2Y-10Y ARM refinancing in April (only)
- Reducing S&P OC requirement (4.1% today)



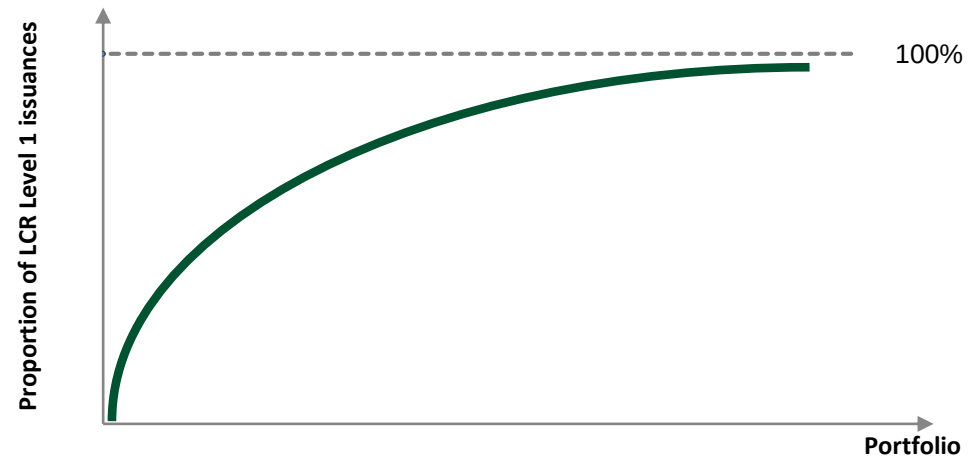
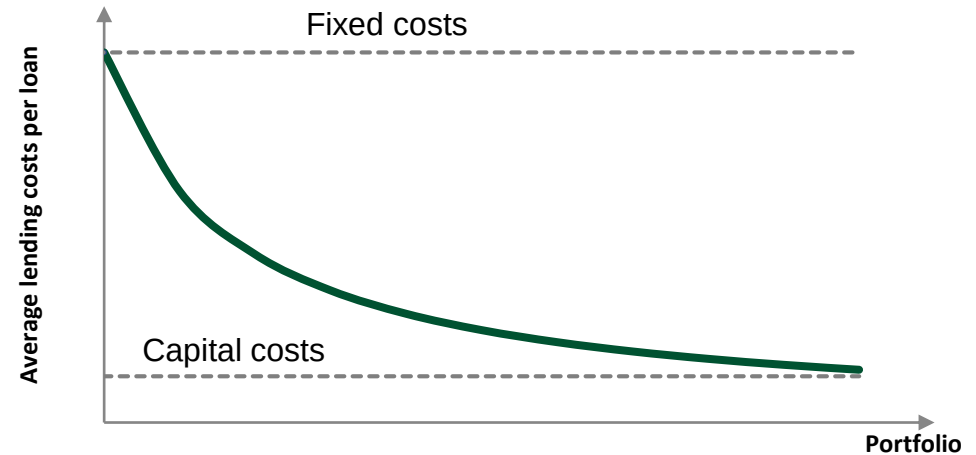
- RTL spreads are eliminated
 - BRFkredit in the RTL future starting December 2016
 - RTL IT: 0 bp
- 30Y almost on par with competitors
 - Today: 0-1 bps
 - We also expect to be included in the long future

S&P OC requirement



Growth is profitable

- Growth drives average costs down due to economies of scale
 - Operational costs in BRFkredit are to a large extent “fixed” capacity costs
 - Synergies has contributed to 11% lower costs in BRFkredit even though the portfolio has increased 13% (YTD compared to 2015)
 - Capital costs are ROE + OC cost
 - Can be calculated in many ways but either way ends up around 30-50 bps
- Growth lowers funding costs as the proportion of Level 1 issues has increased
 - Since January 1st 2014 the proportion of level 1 in open ISINs has increased from 76 to 83% (volume)



When is there a case for higher prices?

The primary considerations:

	Margin (%)	Quantity (DKK)	Impact (DKK)
Increase prices (direct earnings effect)	+ Δ	150bn	?
Reduce price increase to stay competitive ▪ Reputational effects, media etc. ▪ Customer reactions ▪ Individual payback and customer advantage programs	- Δ	150bn	?
Lower growth/sales (price elasticity)	?	- Δ	?
Product mix change (price substitution effects)	?	- Δ	?
Total			?



No clear case for price increases

Current discussions on "LTV > 80 loans"

- The rumour in the press is that politicians discuss opening up for debtors to move loans with LTV higher than the initial LTV limits
- Proposal was set forth by BRFkredit when joint funding started
- Realkreditrådet repeated this proposal under the recent "expert committee" as a way to increase the mobility of debtors
- Proposal was rejected(?)
- The proposal will open up for a new market of considerable size:

Segment (DKKbn)	Retail	Commercial	Total
BRFkredit	24	35	59
Nykredit	215	60	275
RD	89	59	148
Nordea	66	29	95
DLR	1	44	45
Total	395	227	622

Digitalization

**‘Disruptions’ threatens our
current eco system**



Denmark has a very modern service enabled infrastructure

- Authorities offer
 - CPR/CVR register (UID)
 - BBR property register (UID)
 - Title registry with all debt in Danish properties
 - IRS interface to personal tax statements
 - NemID forced on all citizens
- The Financial sector has
 - Electronic clearing & settlement of all fixed income securities (VP)
 - E-nettet: home sales, current loan information, property geo-data, E-engagement (change of bank service)
 - Dankort, payment service (Nets), web & mobile banking, Mobile Pay, My Loans
- The customers have invested in
 - WiFi, Blue Tooth, RFID and other technologies
 - Mobile devices: Smart phones, tablet, watches, GPS etc. etc.
 - ...trust in financial sector services like mobile banks, web banks etc.

‘Disruptions’ are already on their way

- New financial regulation drives excess cost for existing banks
- Digitalisation and cost focus drive fewer physical bank branches
- Credit ratings are harmonized
- Independent financial advisors gain markets shares
- Robot based integration tools are chosen over rewriting legacy code
- PSD2: Debtors can bring their financial data with them
- New rating methods are created using social media
- Interbank block chains are being build
- Robot advisors and ‘AI’ based tech is available
- New IRS home valuations
- Home sales are too expensive / business models change

Everything not complex will become
available free of charge...

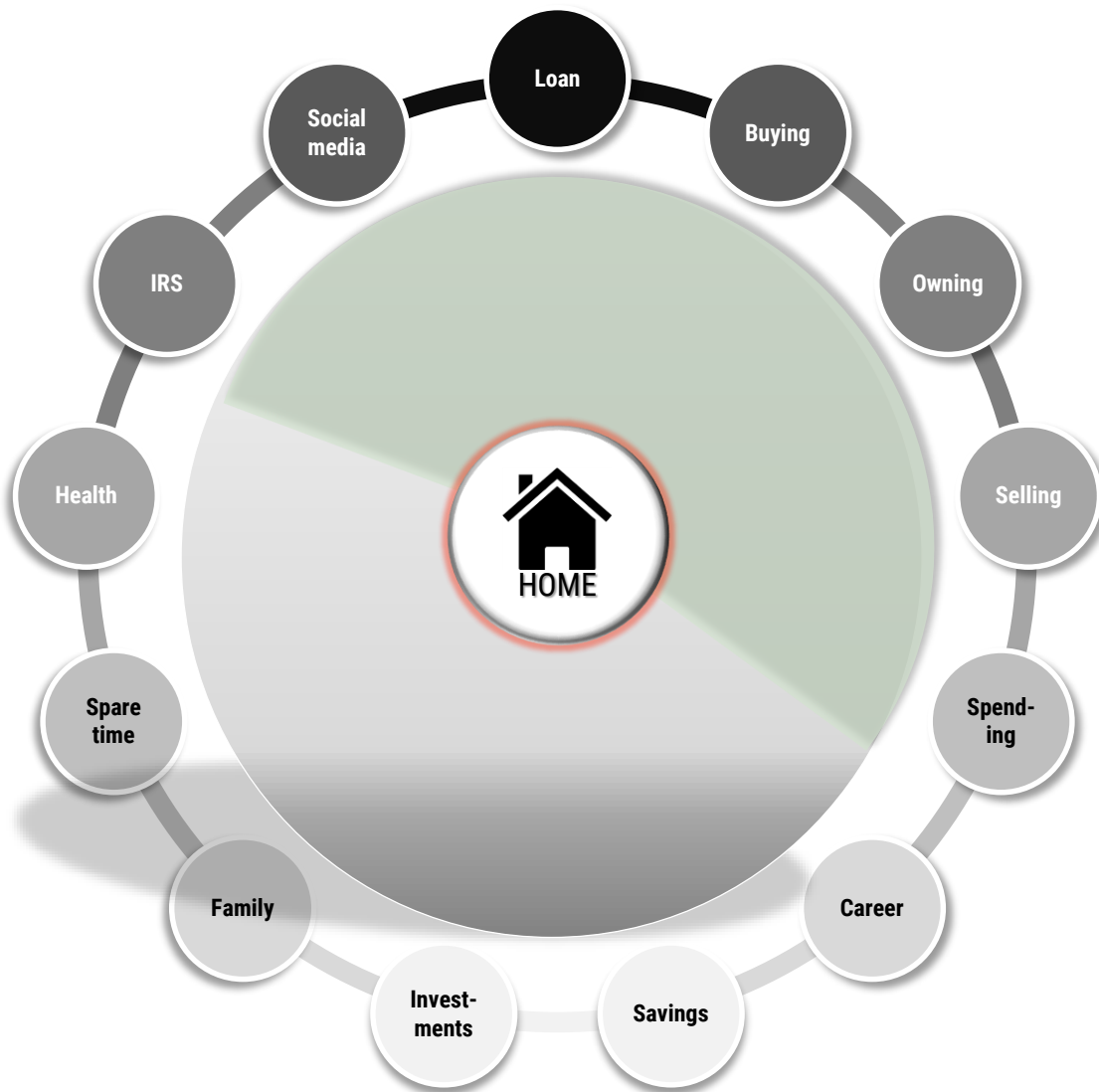


Which trends are most important?

- Mobile price comparisons
- Mobile signing
- Geo and RFID tracking
- Big Data
- Excess capacity becomes tradable
- Changes to the labour market
- 'Trust' scores drives new business models
- Block chains creates new cheap infrastructure/backbone

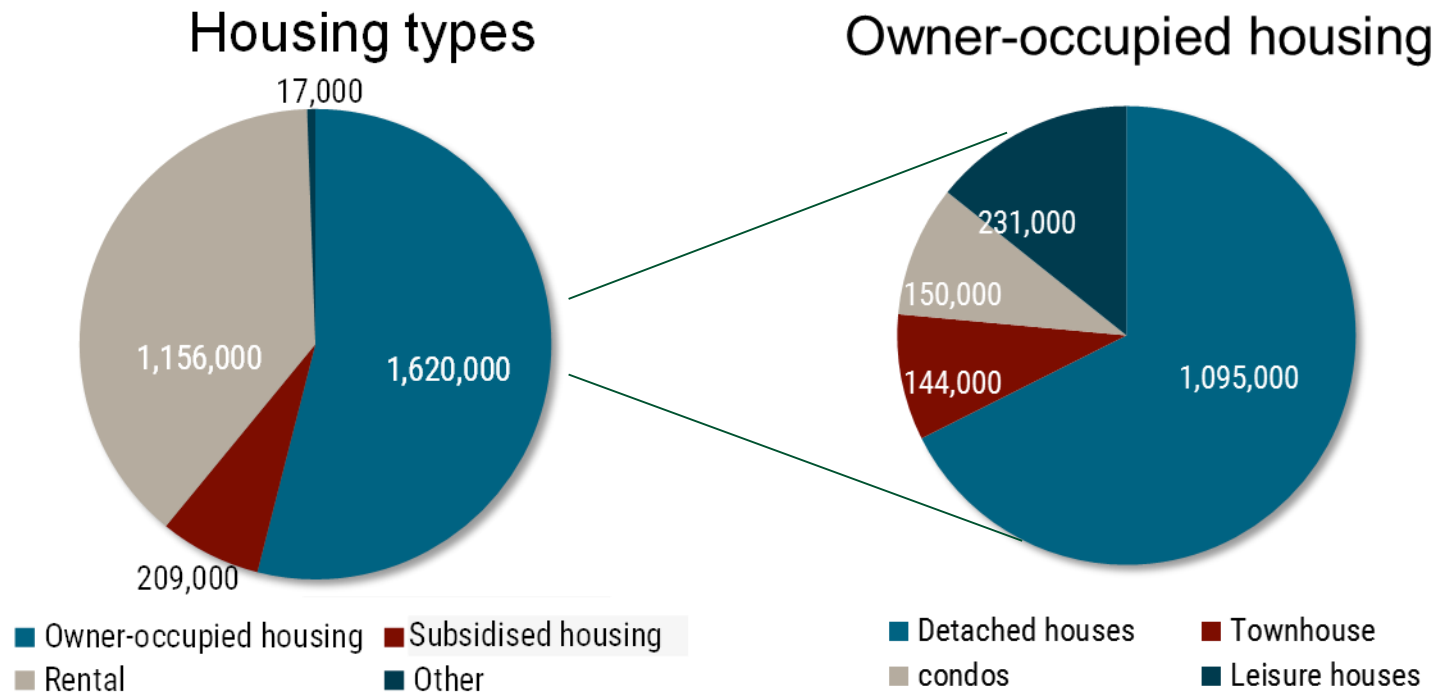


The world according to a mortgage bank



- Everything around the home is taken into consideration
- Focus on selling loans and pre-sale situations
- Homeowners correlate with high income and high end consumption
- Homeowners is preferred target segment for many vendors

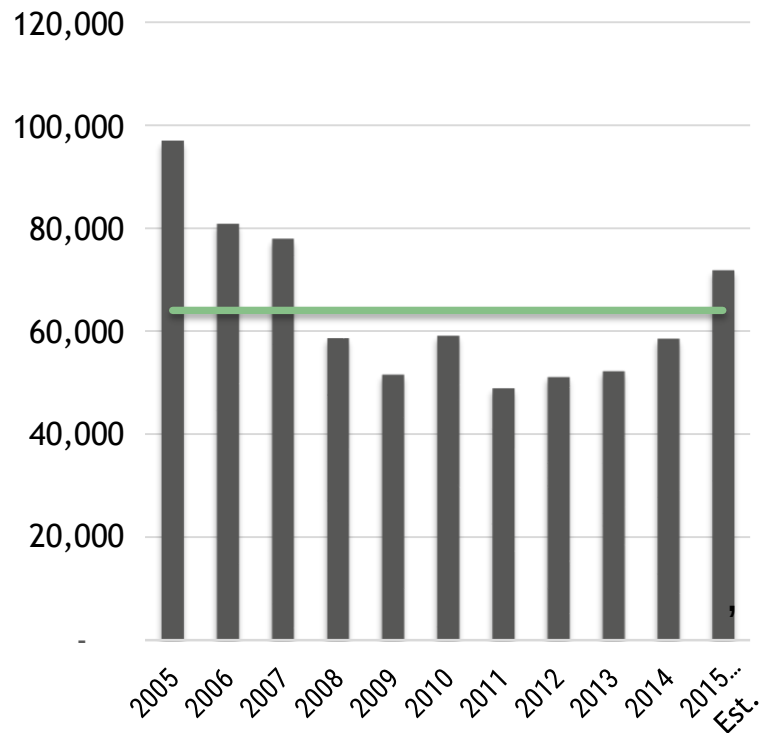
Homeowners is an attractive segment



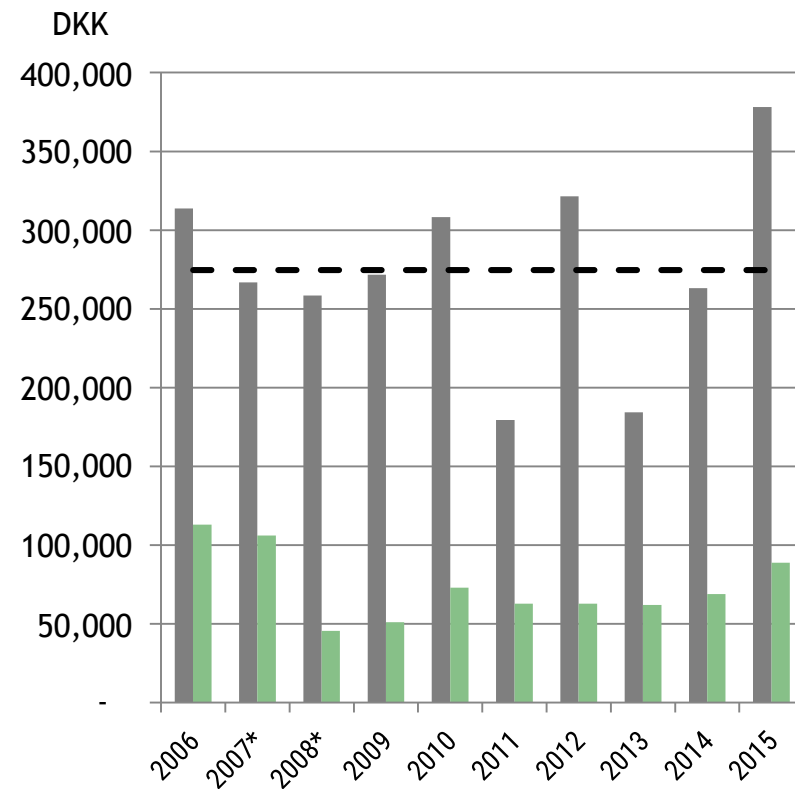
Focus on home sales

64,000 homes are traded annually

Traded homes



Mortgage market average DKK 275bn annually

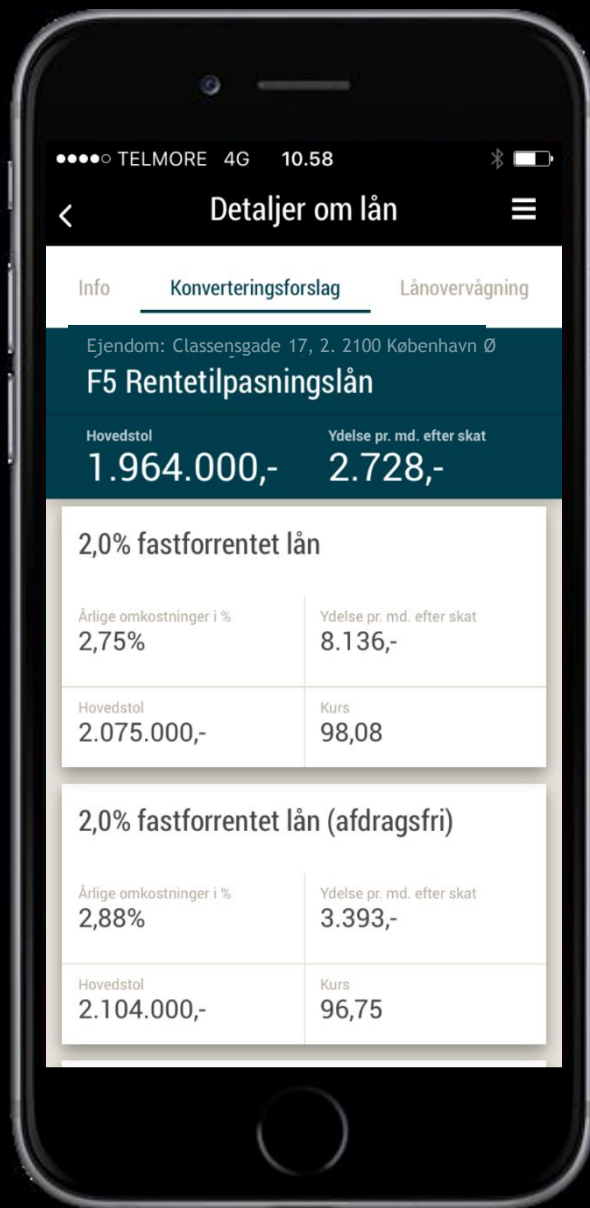


*) 2007 and 2008 are estimated

Jyske Bank is the largest ‘disruptor’



- Brand new home loan product range
- Brand new sales platform
- Competitive prices
- Products with great clarity
- Joint funding - BRFkredit
- Continue to offer 1Y ARM loans (F1)
- EURO Covered Bonds
- RTL F Bonds
- Capped "Super Loans"
- No margin increase
- New digital services



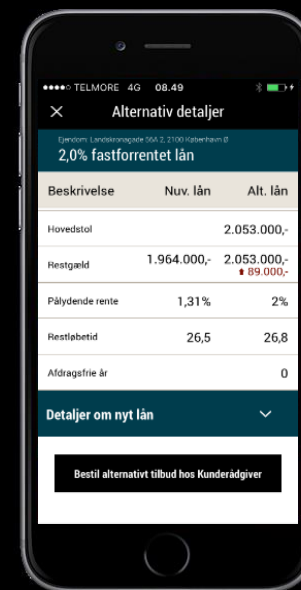
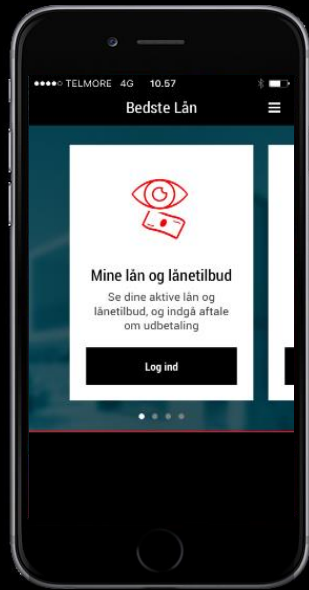
Best Loan

- Your home loans in your pocket



+62,000 downloads

The most downloaded mortgage
app in Denmark



Log in with NemId/touch

- ✓ Free to use
- ✓ Safe
- ✓ Trustworthy

Take a picture of your loan

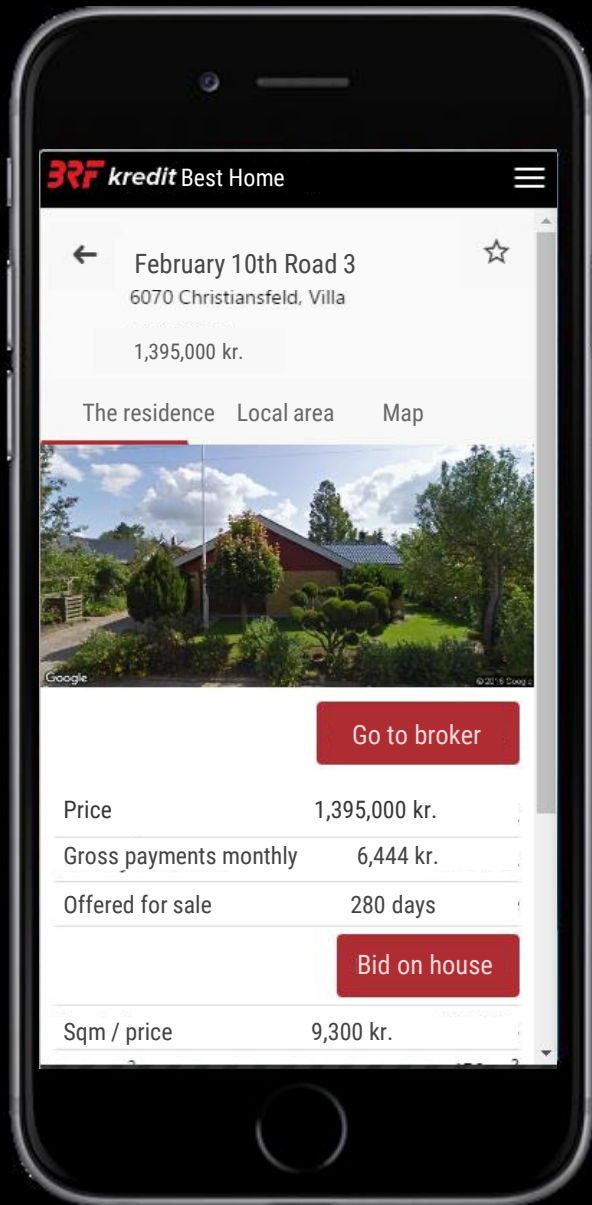
- ✓ Fast
- ✓ Convenient
- ✓ Simple

See relevant alternatives to your current home loans

- ✓ Compare
- ✓ Save money
- ✓ Online market rates

Plus ...

- ✓ View your current home loans and loan offers
- ✓ See current bond prices listed on Nasdaq
- ✓ Loan monitoring and notifications
- ✓ Watch videos

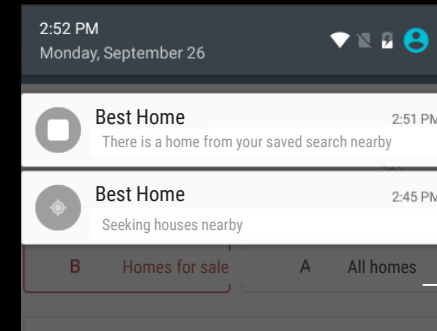
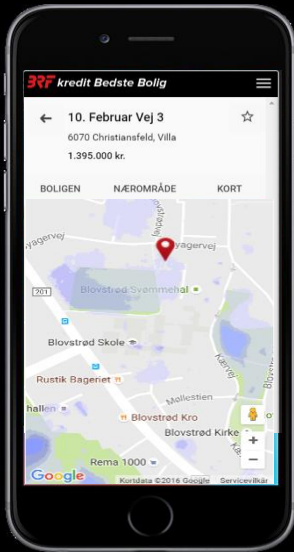


Best Home



Helps you find your dream home - in your pocket

- ✓ Simple
- ✓ Convenient
- ✓ Easy to use



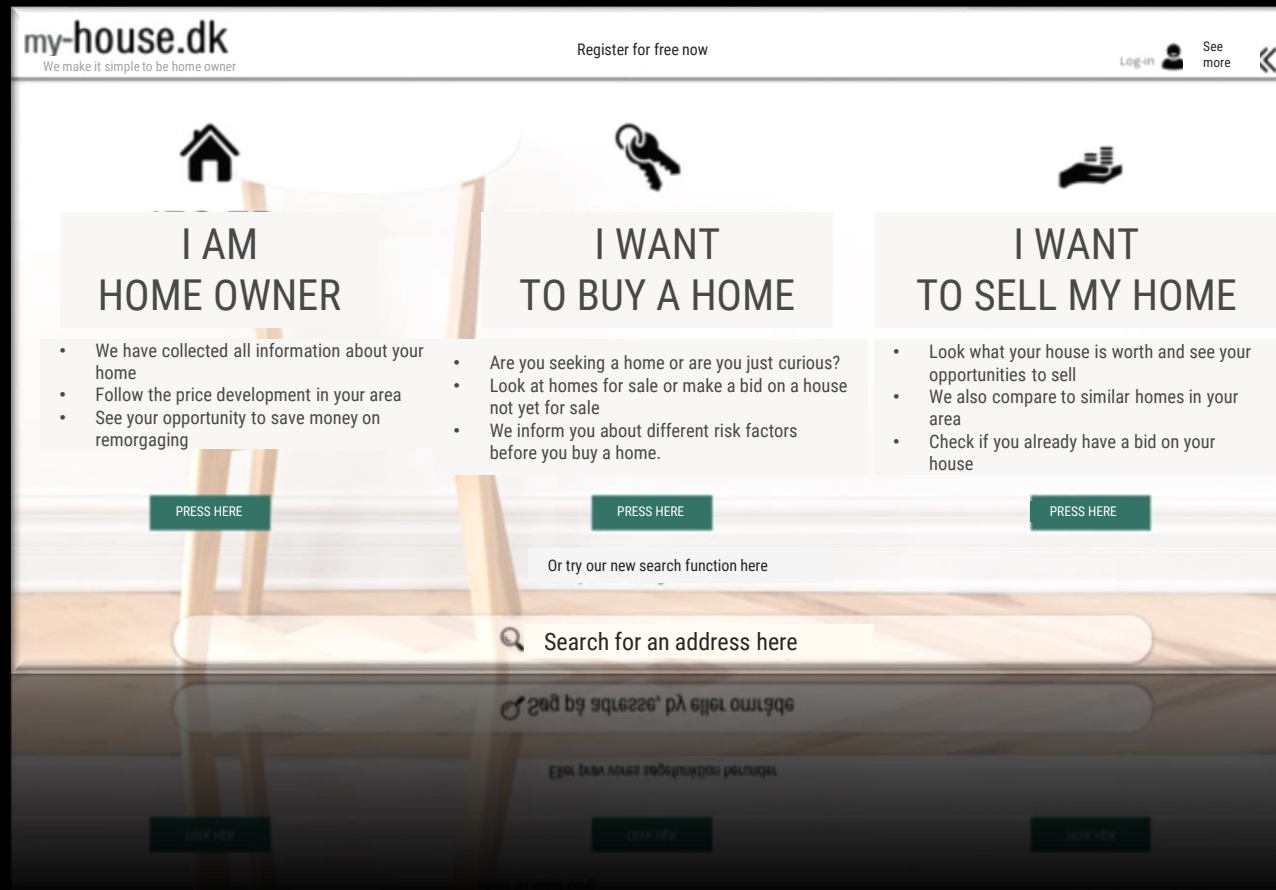
Search homes on relevant criteria

- ✓ Get information about the property, that the real estate agent won't disclose
- ✓ Noise, average grades at local schools, the risk of flooding etc.
- ✓ Bid on homes not on sale

Get notified on your phone

- ✓ When you are near a home that meets your criteria
- ✓ When a favorite home changes price or is sold

‘my-house’



Welcome

to myhouse.dk

We have collected all information about your home in one place

- Follow the price development in your area
- Check the value of your home
- Watch your opportunities to save money on remorgaging

FIND MY HOME

Register user now

About housebook

FAQ

Where do we collect data

Press

Contact



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