# Jyske Bank Q1 2013

# Agenda

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- Macro Economy & Danish Banking 2013-2014
- Focus in Q1 2013
- Strategic issues
- Jyske Banks performance 1968-2012
- Volumes
- Capital Structure
- Liquidity
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# Jyske Bank in brief

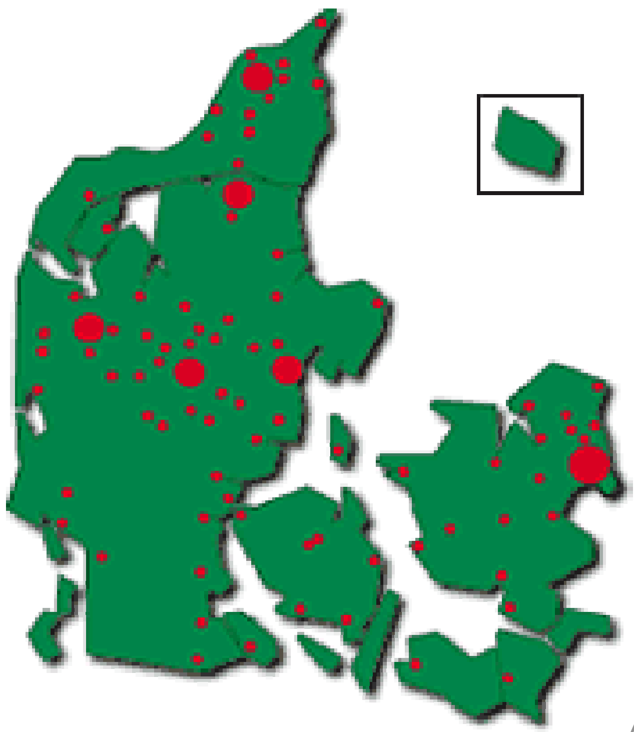
# Jyske Bank in brief

**Jyske Bank focuses on core business**

## Description

- Established and listed in 1967
- 2nd largest Danish bank by lending
- Total lending of approx. DKK 129bn
- 111 domestic branches
- Approx. 675,000 domestic customers
- Business focus is on Danish private individuals, SMEs and international private and institutional investment clients
- International units in Hamburg, Zürich, Gibraltar, Cannes and Weert
- A de-centralised organisation
- 3,806 employees (end of Q1 2013)
- Full-scale bank with core operations within retail and commercial banking, customer driven trading, asset management and private banking
- Flexible business model using strategic partnerships within life insurance (PFA), mortgage products (Nykredit, DLR, BRF), credit cards (SEB), IT operations (JN Data) and IT R&D (Bankdata)

## Branch Network



# Jyske Bank in brief

**Jyske Bank has a differentiation strategy**

**"Jyske Differences"**

- Jyske Bank wants to be Denmark's most customer-oriented bank by providing high standard personal financial advice and taking a genuine interest in customers
- The strategy is to position Jyske Bank as a visible and distinct alternative to more traditional providers of financial services, with regard to distribution channels, products, branches, layout and communication forms
- Equal treatment and long term relationships with stakeholders
- Core values driven by common sense
- Strategic initiatives:

Valuebased management

Differentiation

Risk management

Efficiency improvement

Acquisitions

1990 1996 2002 2006 (Q4) 2011/2012


# Macro Economy & Danish Banking 2013

# Jyske Bank forecasts

JYSKE BANK

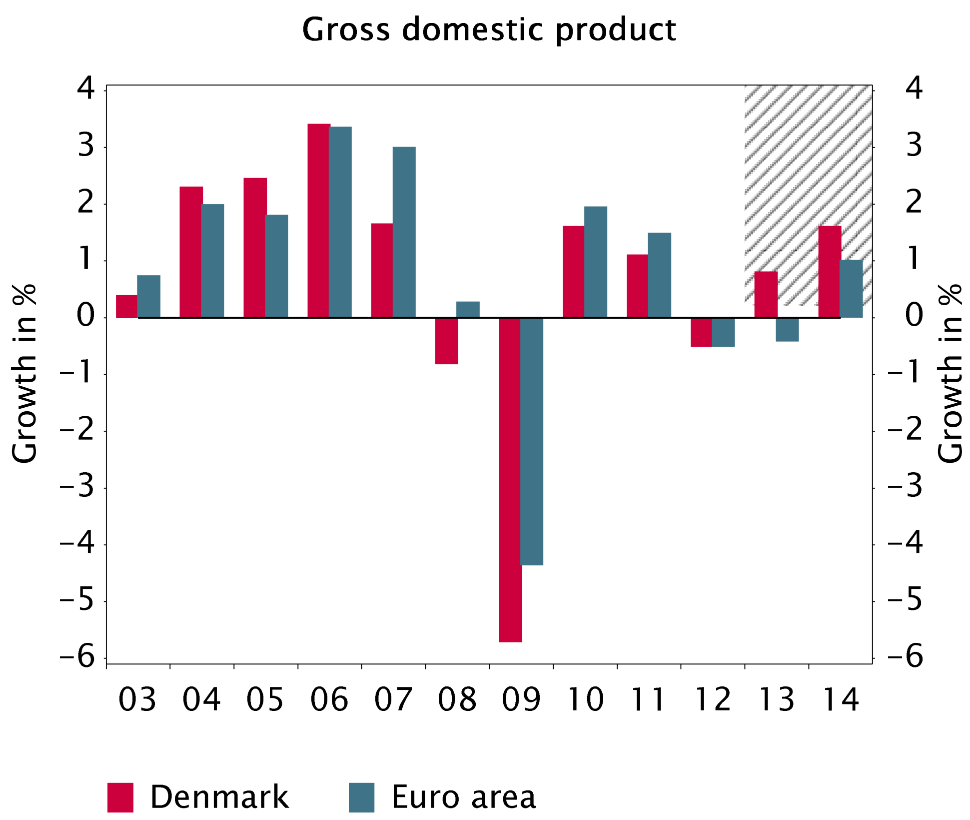
**The Danish economy 2010-2014**

| | 2012 | Real growth (%) | | | | |
|---|---|---|---|---|---|---|
| | DKKbn | 2010 | 2011 | 2012 | 2013* | 2014* |
| **Private spending** | 900 | 1.7 | -0.5 | 0.6 | 0.7 | 1.5 |
| **Public spending** | 522 | 0.4 | -1.5 | 0.2 | 1.0 | 0.8 |
| **Fixed gross investment** | 320 | -2.4 | 2.8 | 2.2 | 0.8 | 3.5 |
| **Inventory investment**** | -6 | 1.0 | 0.5 | -0.4 | 0.1 | 0.0 |
| **Exports** | 994 | 3.0 | 6.5 | 0.9 | 2.2 | 3.3 |
| **Imports** | 913 | 3.2 | 5.6 | 2.5 | 2.4 | 3.5 |
| **Gross domestic product (GDP)** | 1817 | 1.6 | 1.1 | -0.5 | 0.8 | 1.6 |
| **Current account** | | | | | | |
| - DKKbn | | 104 | 101 | 95 | 90 | 85 |
| - percentage of GDP | | 5.9 | 5.6 | 5.2 | 4.8 | 4.4 |
| **Public budget balance** | | | | | | |
| - DKKbn | | -47 | -35 | -75 | -15 | -55 |
| - percentage of GDP | | -2.7 | -2.0 | -4.0 | -0.8 | -2.9 |
| **Unemployment** | | | | | | |
| -Unemployed (thousands), gross | | 165 | 162 | 163 | 165 | 166 |
| - Percentage of the workforce | | 5.7 | 5.6 | 5.7 | 5.7 | 5.8 |
| **Employment** (thousands) | | 2.775 | 2.767 | 2.754 | 2.750 | 2.748 |
| **Inflation** (%) | | 2.3 | 2.8 | 2.4 | 1.6 | 1.7 |
| **Wage index** (manufacturing industry, %) | | 2.5 | 2.2 | 1.9* | 1.9 | 2.1 |
| **House prices** (nominal prices, %) | | 2.8 | -2.7 | -3.0 | 0.5 | 2.0 |
| **Nationalbanken's lending rate, year-end** | | 1.05 | 0.7 | 0.2 | 0.4 | 0.7 |

* Jyske Bank's forecast
** Contribution to growth as a percentage of preceding year's GDP

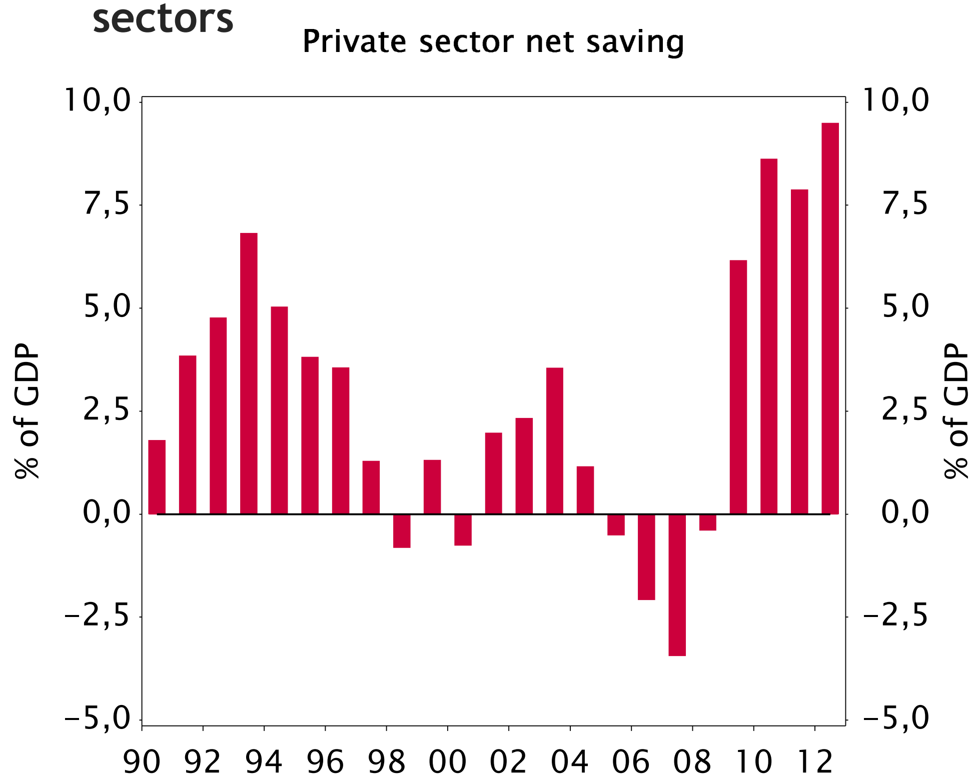
# The Danish economy:
# - currently in a low growth mode

Denmark is a small open economy → affected by the slow down in the EURO area



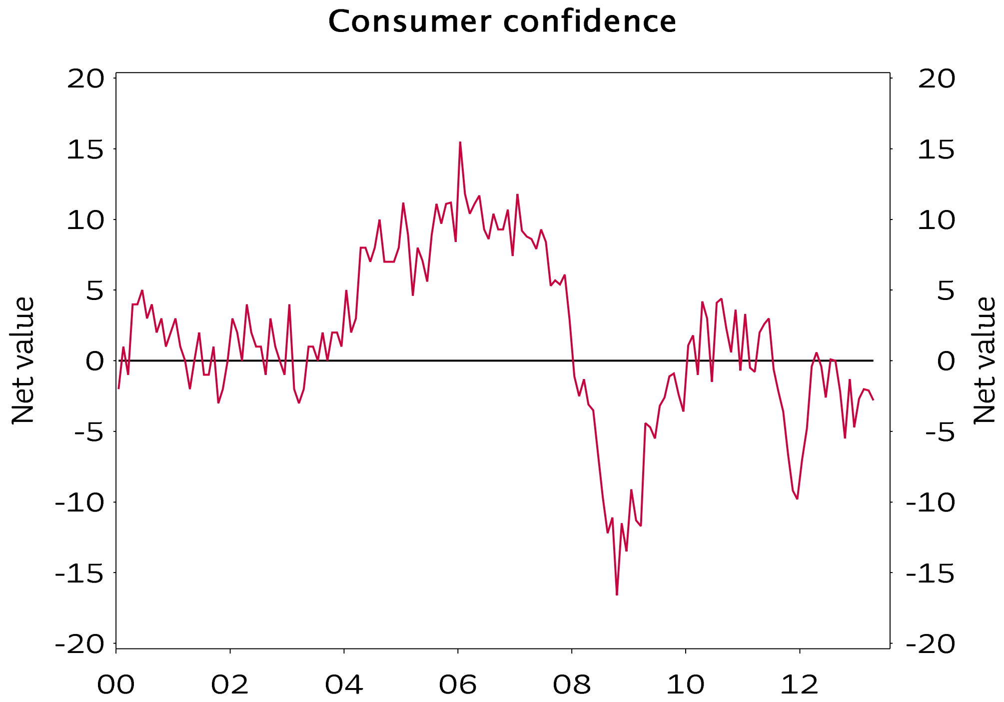

Source: Reuters EcoWin and Jyske Bank forecasts

… and private saving is still record high both in households and the SME/corporate sectors

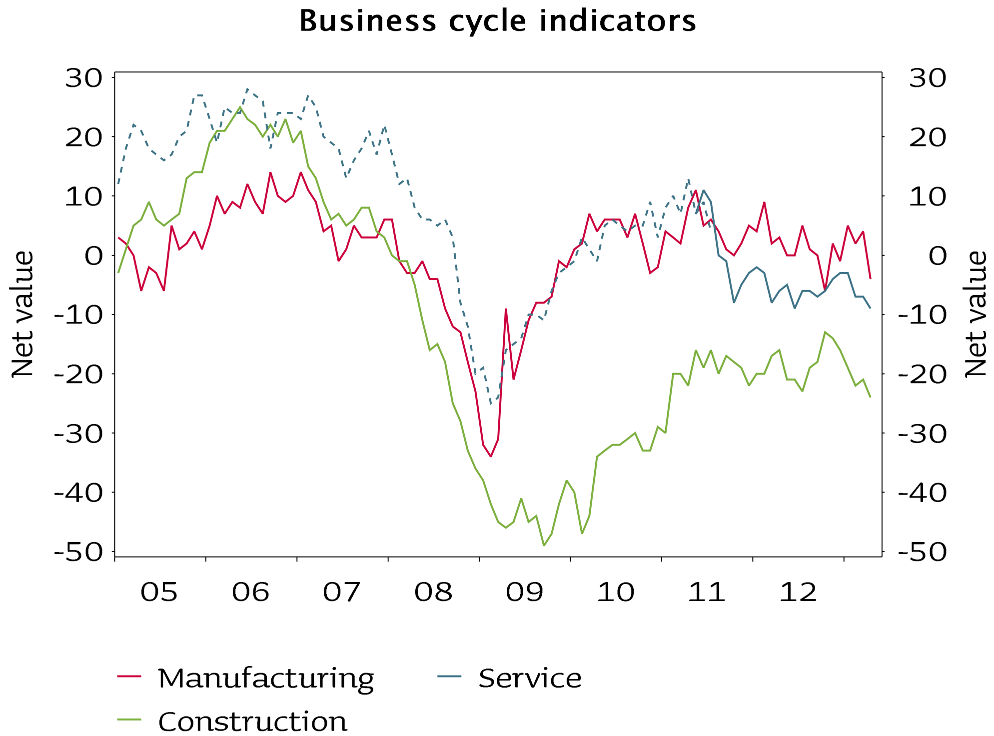



Source: Danmarks Statistik

# … with subdued sentiment indicators




Source: Reuters Ecowin

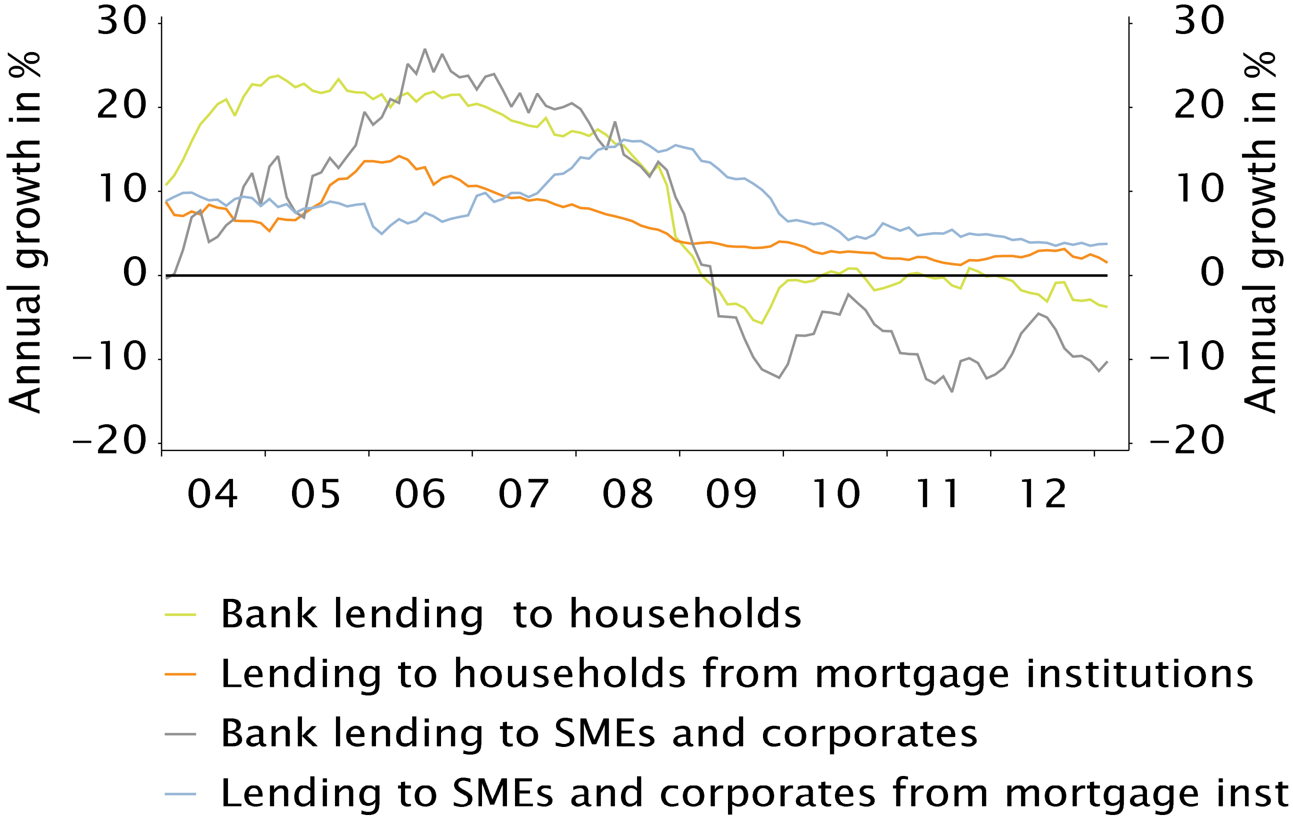



Source: Reuters Ecowin

# ...and a private sector that is reluctant to lend

JYSKE BANK

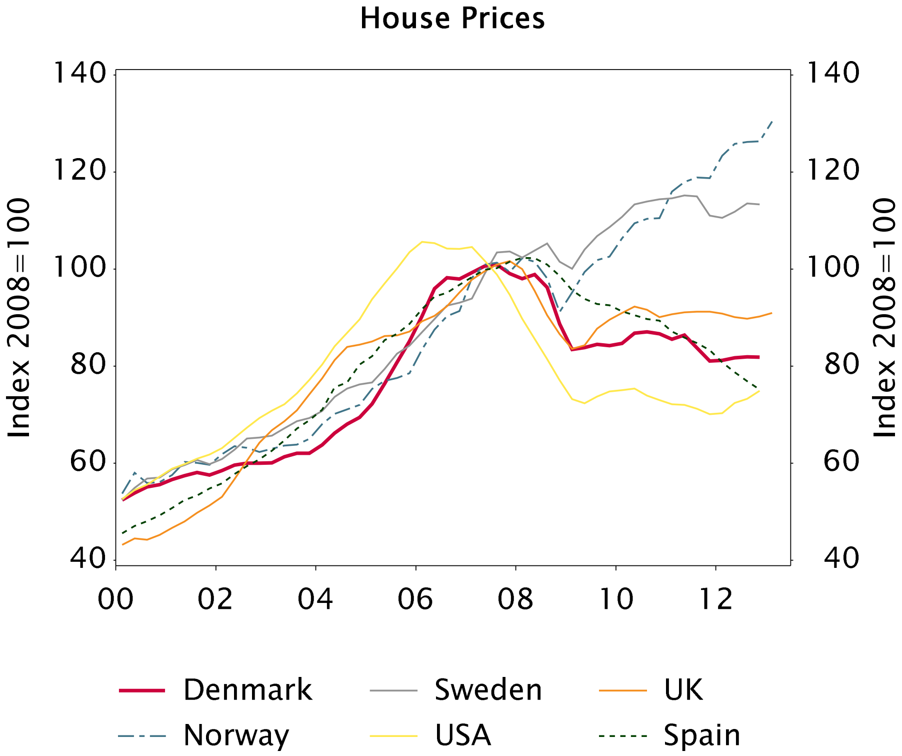
**Lending to households, SMEs and corporates**




Source: Danmarks Nationalbank

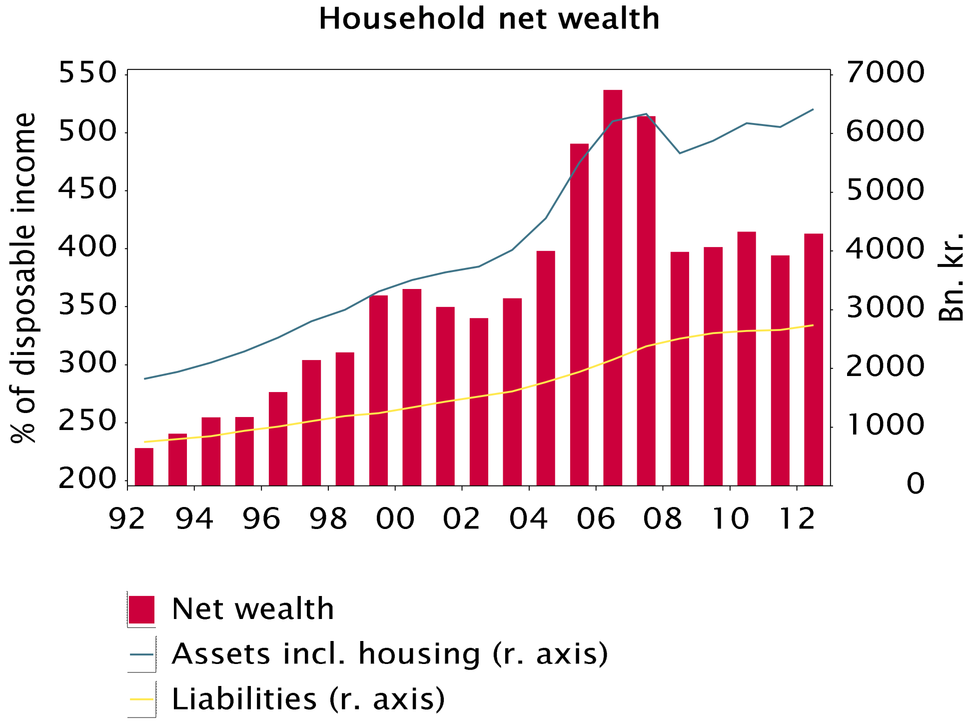
# Why are Danish households so reluctant to spend ?

**Burst of the housing bubble :**
Average LTVs in Danish housing market
2007 : approx. 45 %
2012 : shy of 70 %



Source: Reuters EcoWin

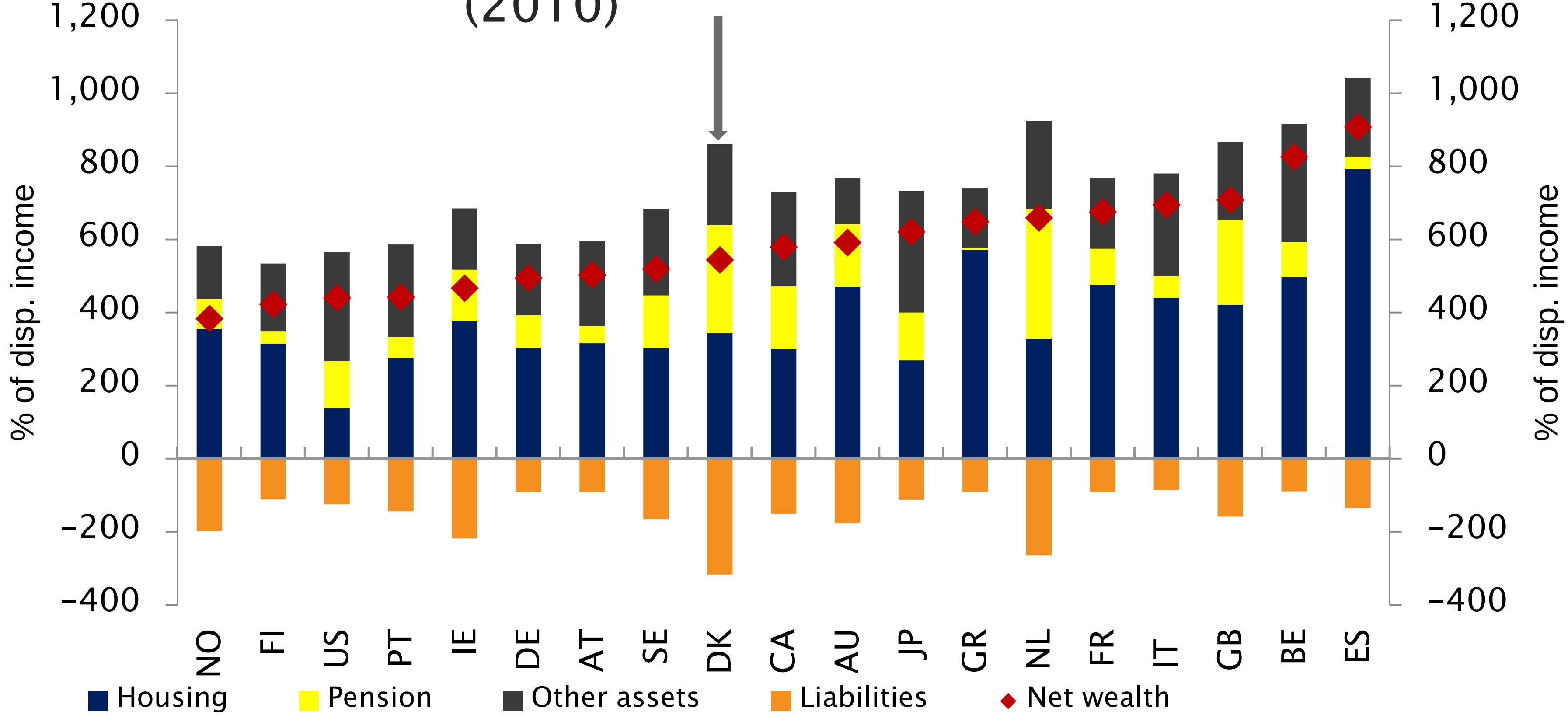
**Combined with the financial crisis:**
-Net wealth 25 % below peak levels in 2007
and slightly higher than in 2004
and Increased household leverage



Source: Jyske Bank

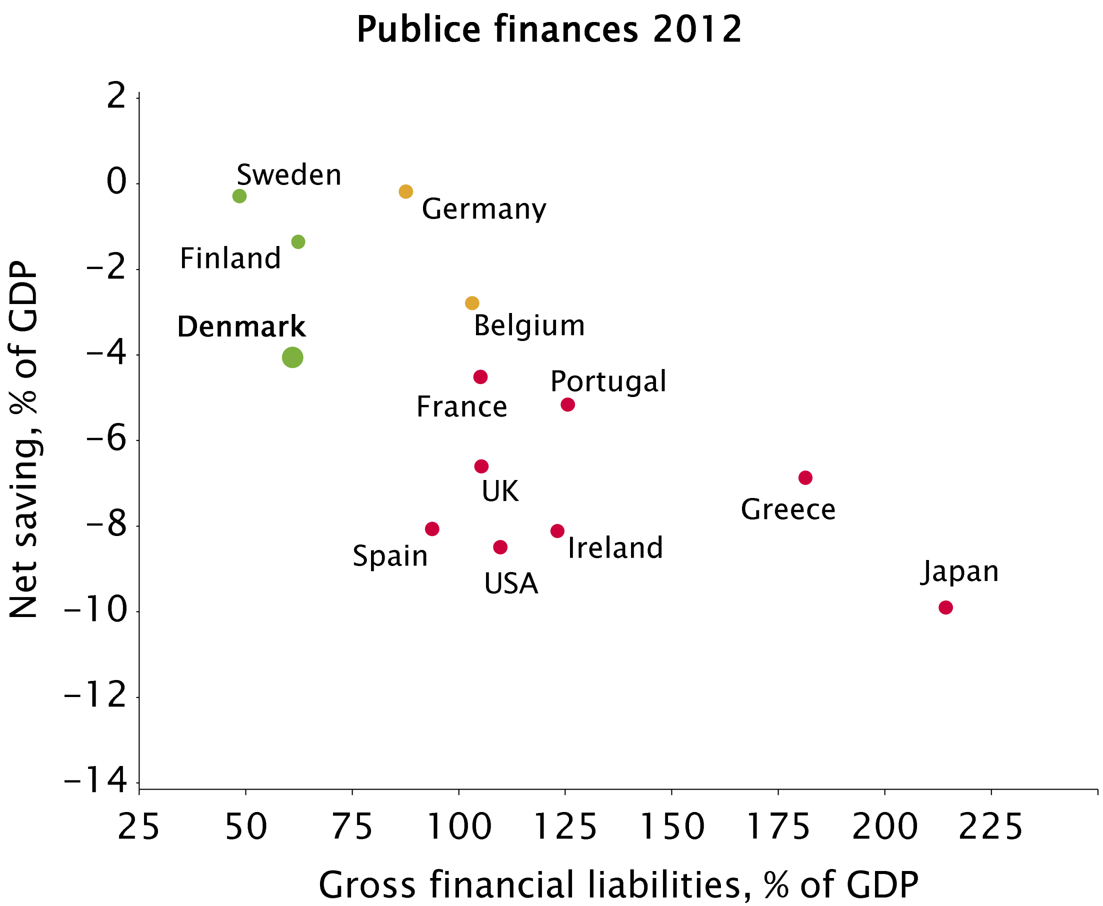
# Household debt is high, but assets are high too
# …….also in international comparison

## Households balance sheet (2010)




Source: Danmarks Nationalbank

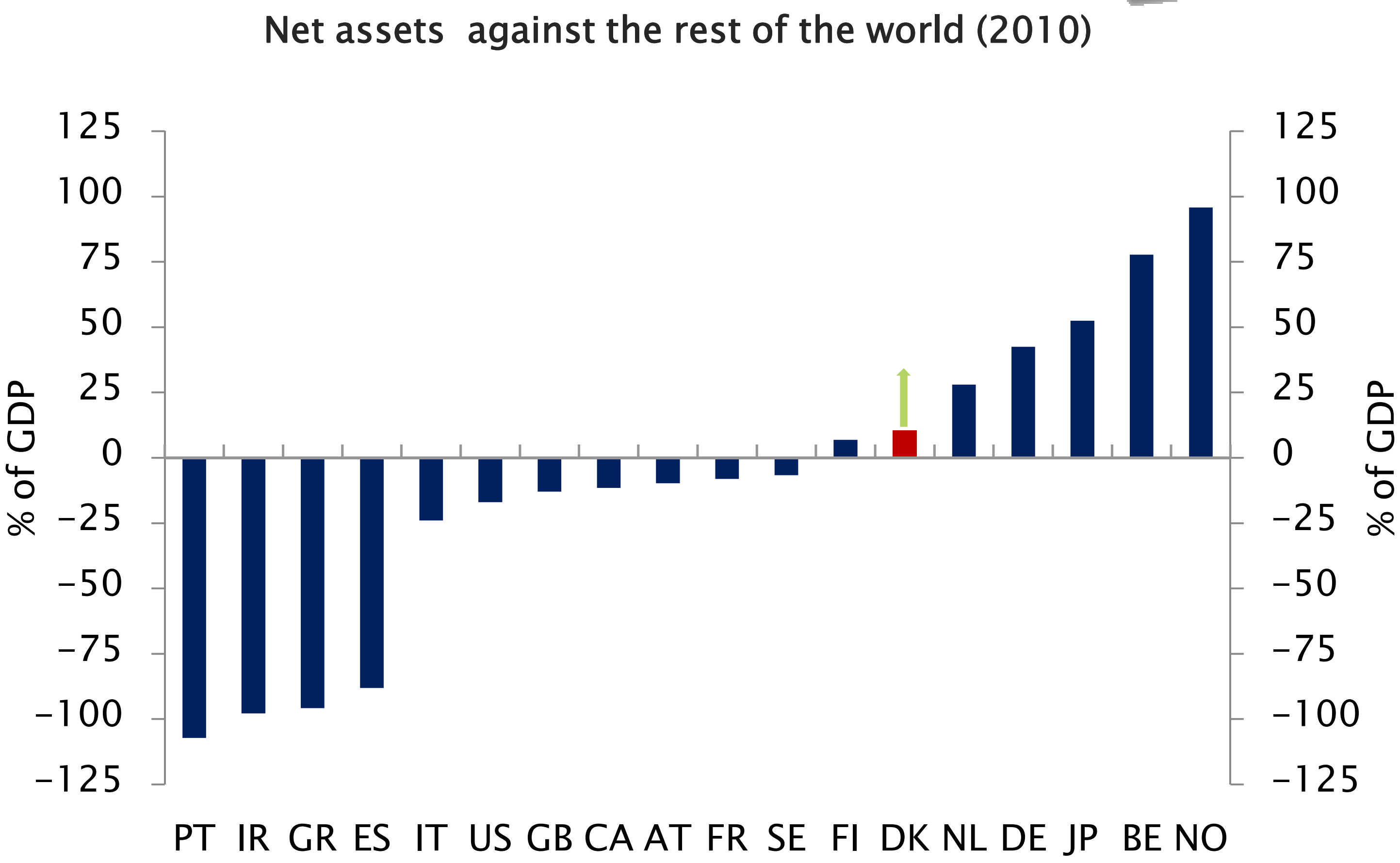
# ....and Denmark has a healthy public sector economy...




Source: OECD

# … and overall strong structural features…

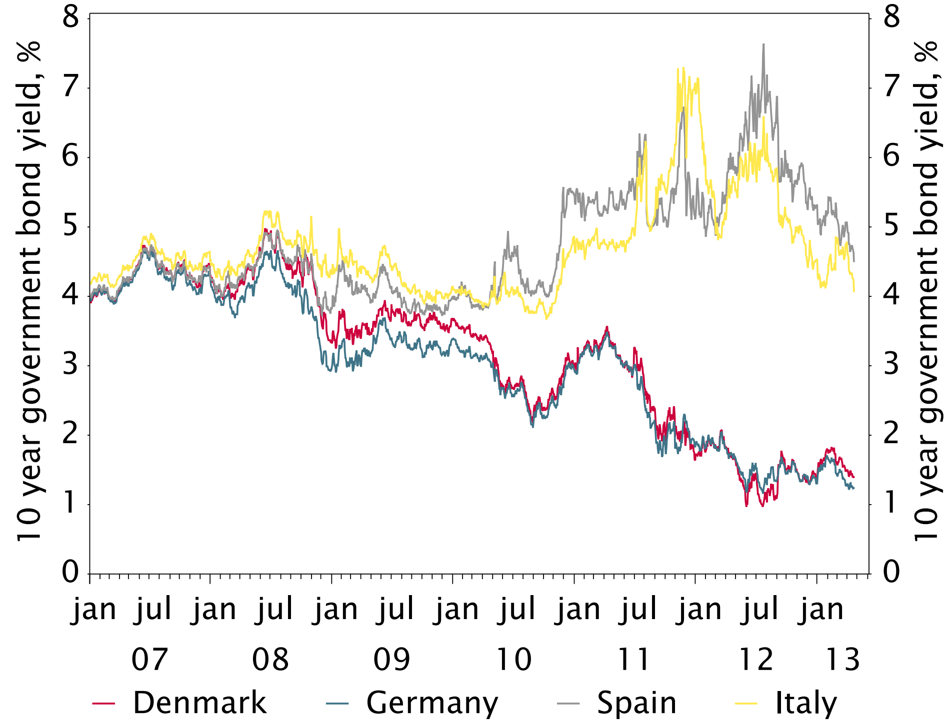
Denmark net assets against the rest of the world are significantly higher today : around 35 % of GDP




Source: Danmarks Nationalbank

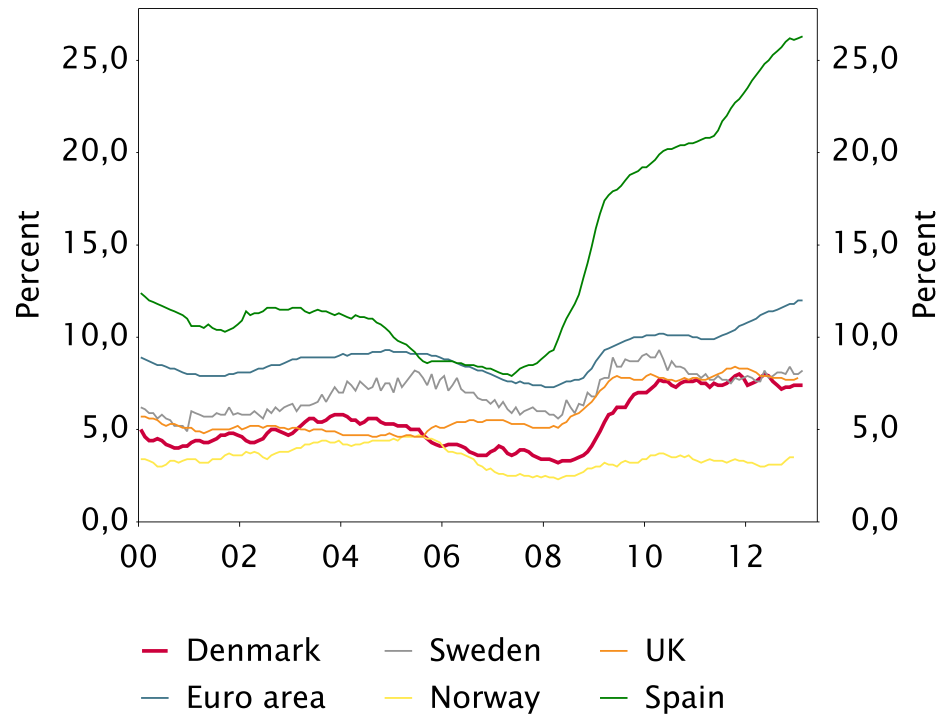
# …ensure low interest rates, and unemployment has been stable for more than two years

Government bond yield




Source: Reuters EcoWin

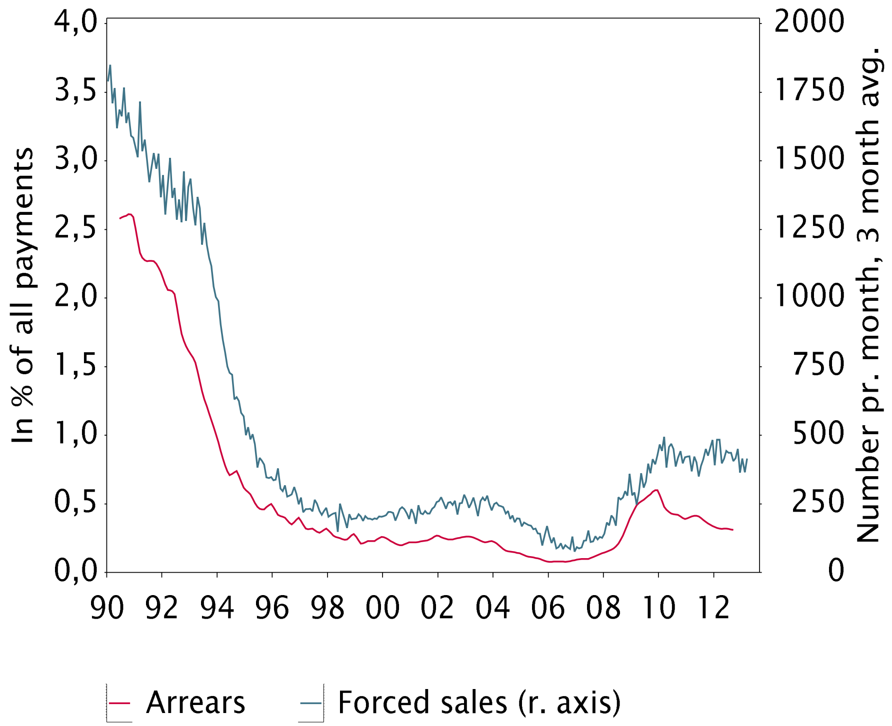
Unemployment rate




Source: Reuters EcoWin

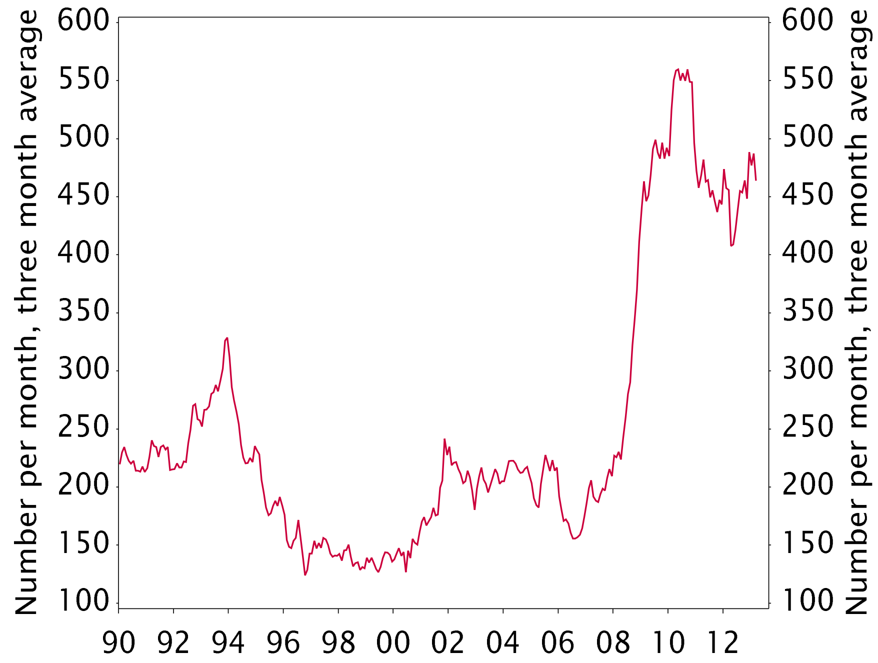
# ...causing only few household defaults. But the business sector still suffers from weak demand

Arrears and forced sales




Source: Realkreditrådet and Reuters Ecowin

Business sector bankruptcies




Source: Reuters EcoWin

# The outlook for 2013: subdued growth in an overall strong economy

- The **slowdown is set to continue** through 2013 due to a weak Euro area, weak real wage development, and continued private sector saving

- However, **some improvement** is likely driven by a stronger housing market and rising economic sentiment in Europe, in general

- A small **fiscal tightning in 2013 is counteracted** by government initiated investments

- The overall **structural features** of the Danish economy continue to **look strong** with large net foreign assets, a current account surplus at 5.7 % of GDP in 2012, and a low public debt level.

# Market conditions

- Shrinking volumes also in 2013
- Earnings capacity close to maximum; further growth via higher volumes
- Capital shortage in some banks due to maturing Tier II capital instruments
- More stringent assessment of solvency requirement (Pillar I+) can lead to lower capital buffers in some banks
- Strategic capital to acquire portfolios limited and only a few larger banks are interested

# Focus in Q1 2013

# Focus in Q1 2013

- ROE pre tax 14.3% (opening equity) – satisfactory
- Spar Lolland

| DKKm | |
|---|---|
| Fair value adjustments of acquired net assets | 97 |
| Layoffs in 2013 and anticipated staff reductions in 2014 | -54 |
| Rental obligations | -21 |
| Other integration costs | -4 |
| **Effect on operations in Q1 2013** | **18** |
| Expected integration costs | -25 |
| **Net** | **-7** |

- Solvency ratio 15% due to acquisition and redemption of Tier II. Capital buffer 5.3 percentage points
- Strategy to acquire and capital target are unchanged

# Strategic issues

# Strategic issues

## Spar Lolland

- Bank loans DKK 6.3bn, bank deposits DKK 9.5bn, total assets DKK 13bn
- Branch mergers finalized by Q2 2013
- It migration and further staff reduction in Q2 2014
- Long term earnings fully in line with earnings from other branches

## Capital

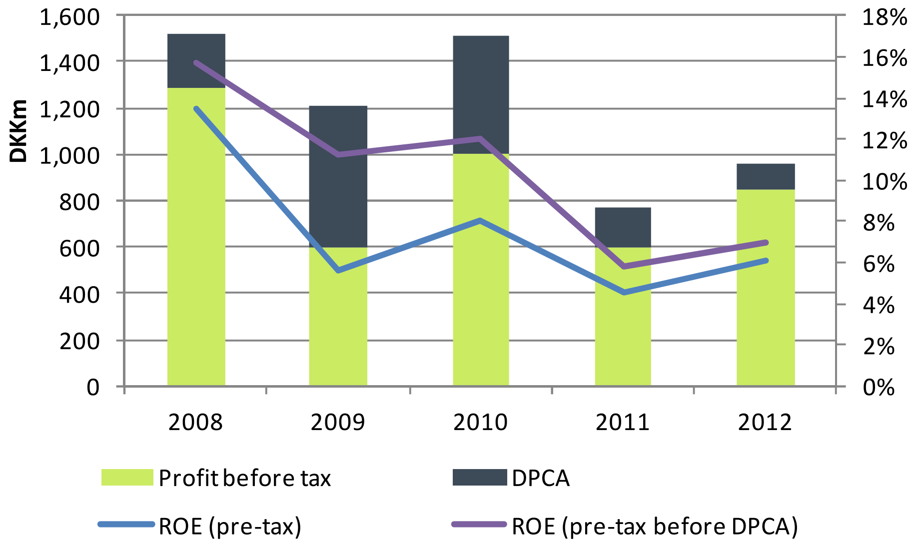
- Core Tier 1:13.7%
- Redemption of Tier 2 loan DKK 1.1bn in april 2013
- 4 Tier 2 issues DKK 0.3bn
- CRD IV: expected 0.2-0.5 pp.
- Jyske Bank proposed to become a systemic bank in Denmark among 6 institutions in DKK

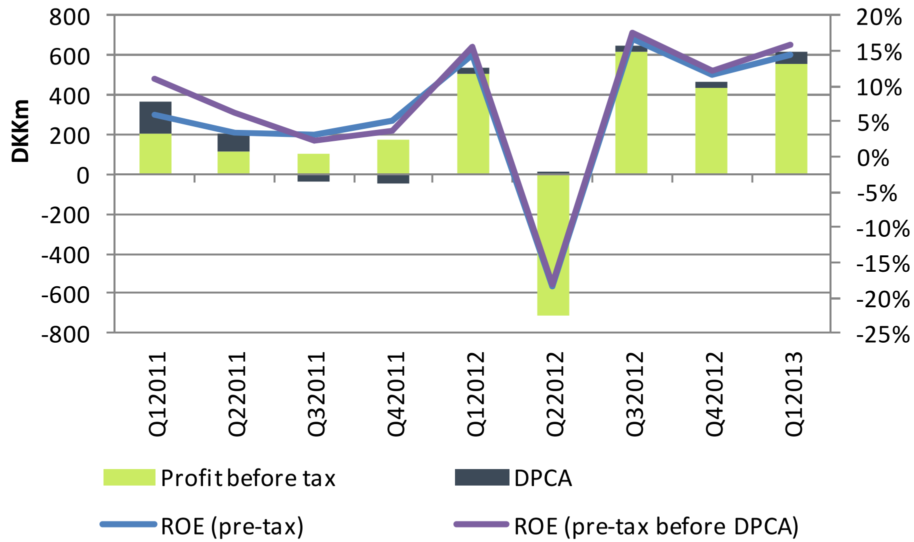
## Liquidity

- Liquidity reserve DKK 50bn; liquidity after 12 mths run-off DKK 14bn
- Acquisitions with deposits surplus; Fjordbank Mors approx. DKK 1bn; Spar Lolland approx. DKK 2.5bn
- Benchmark issue of EUR 500m 2.5 year FRN in Q4 2012 (Euribor + 117bp)
- Issued AAA-rated bonds via BRFkredit DKK 4bn by Q1 2013
- Refinancing of all 2013 redemptions of senior debt  (EMTNs) fully accomplished

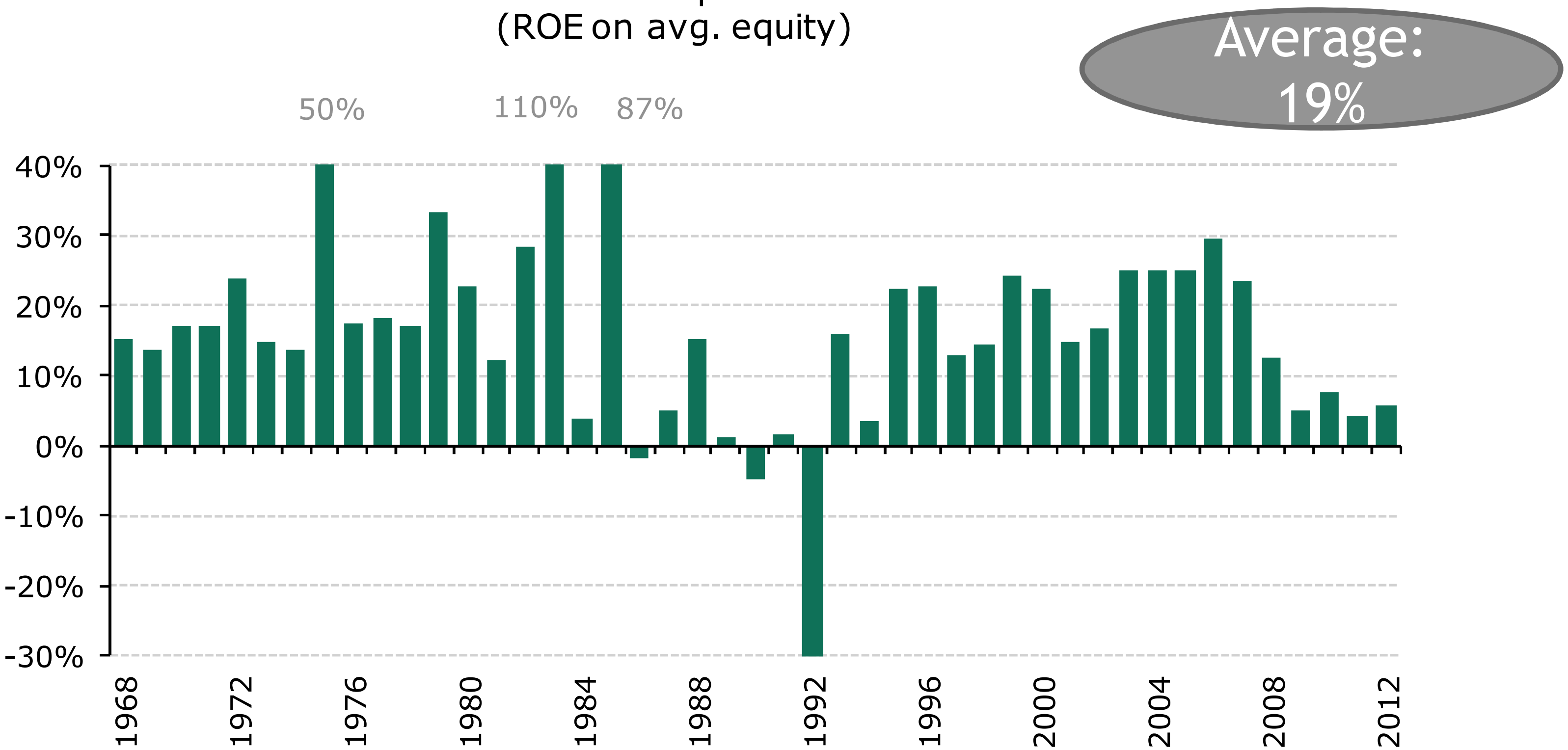
# Jyske Bank performance 1968-2012

# Profit before tax and DPCA



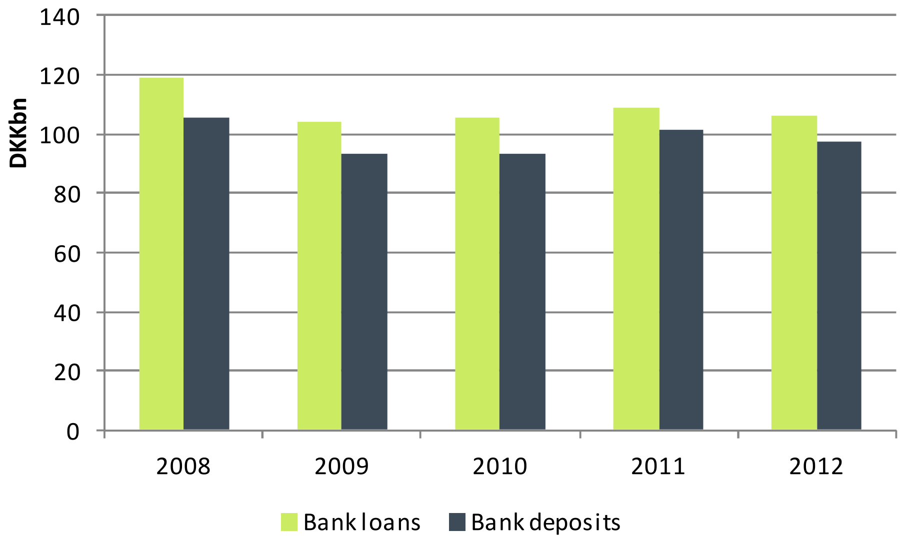



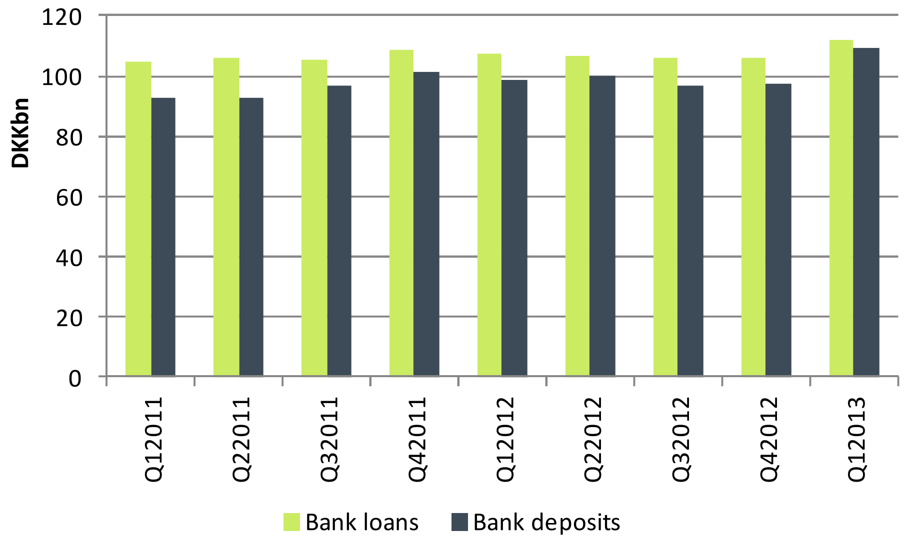
Pre-tax profit
(ROE on avg. equity)



# Volumes

# Bank loans and deposits



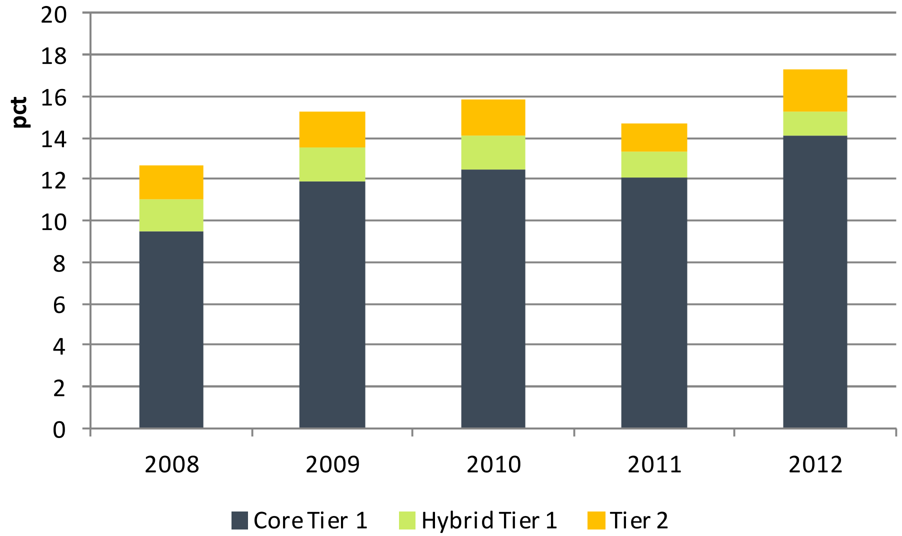

Bank loans:
Spar Lolland
+5.8%

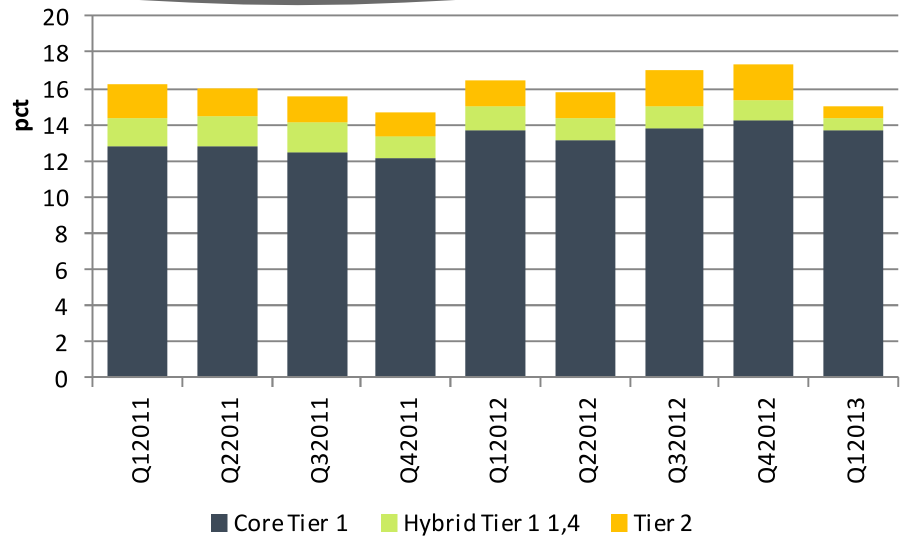
Bank loans:
4.1% y/y
5.4% q/q

# Capital Structure

# Capital structure

• Core Tier 1 above 12%
• Optimize risk and maximize earnings
• Exploit the market to buy portfolios with an acceptable risk

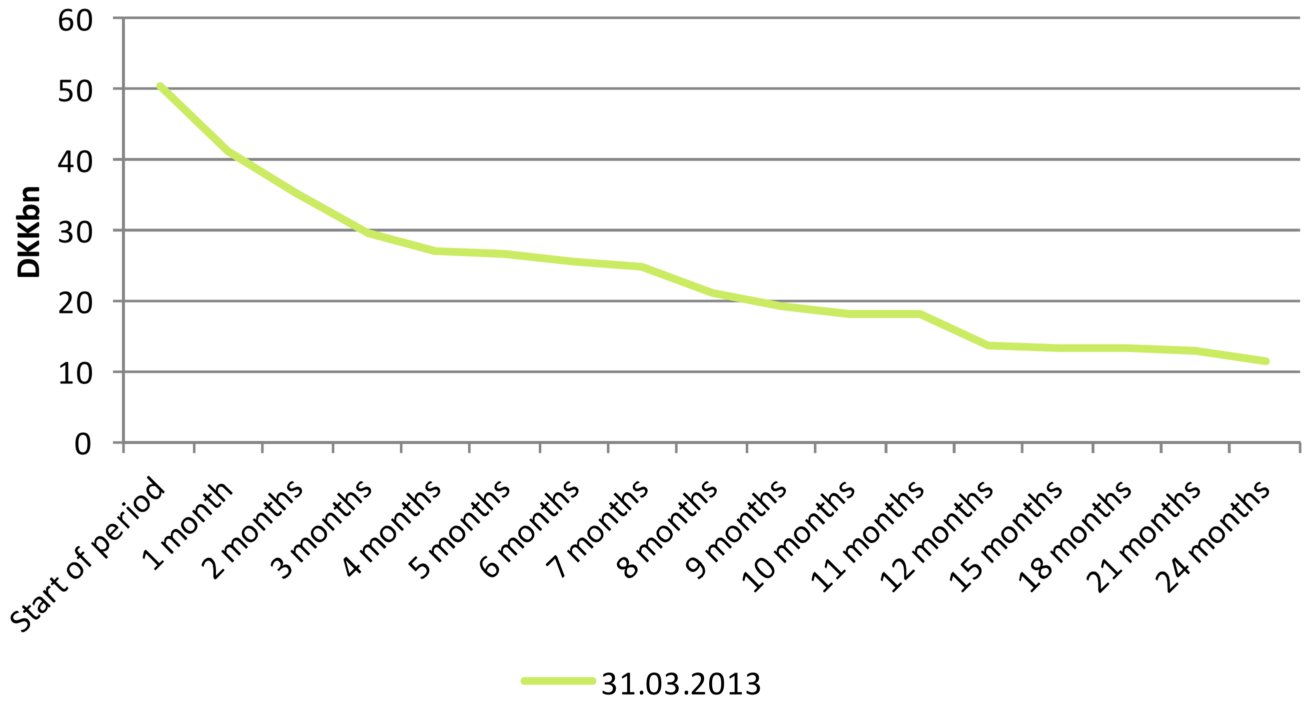



• Core Tier 1: 13.7%
• Tier 1: 14.3%; 2 perpetuals DKK 1.3bn
• Solvency: 15.0%; 4 Tier II issues DKK 0.3bn;
• Capital buffer 5.3 pp
•Spar Lolland RWA DKK 5.8bn

# Liquidity

# Liquidity position and run-off

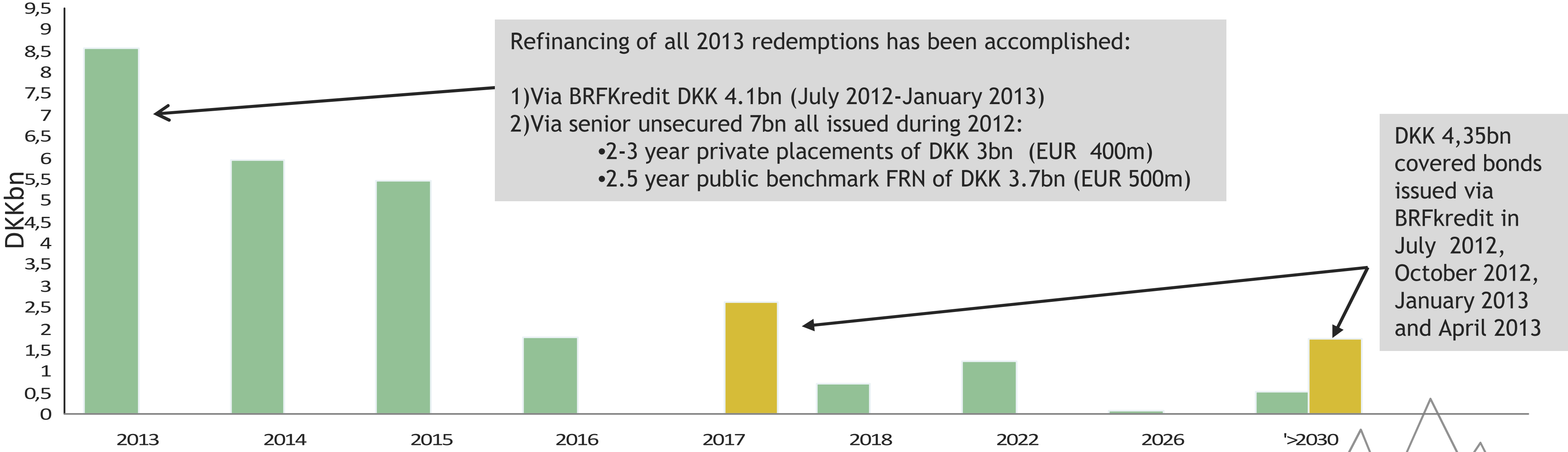


# Senior unsecured funding strategy
# Jyske will be a rare but regular issuer on the EMTN market

Funding plans will depend on developments in the balance sheet (funding gap)
– and integrated part of policy is to maintain a deposit/loan ratio in the region of 90 -100 % -but:

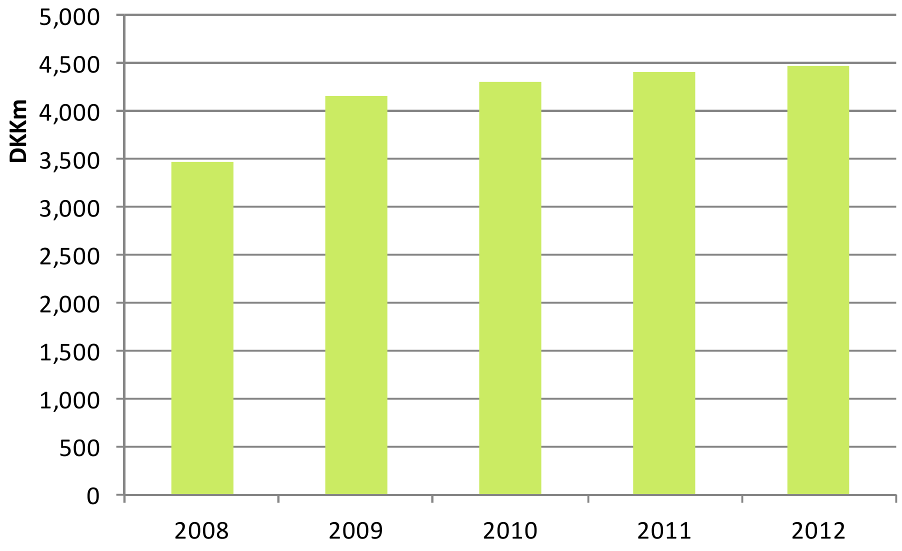
- ***Integrated part of funding strategy to preserve a presence in the debt capital markets***
- Looking at our maturity profile we will have an ongoing refinancing need in the years ahead
- *Expect approximately one public benchmark a year and ongoing activities in the private placement market*
- ***With a very limited funding gap, solid core deposits and the BRFKredit agreement new issue focus will be on 3 year maturities in 2013***

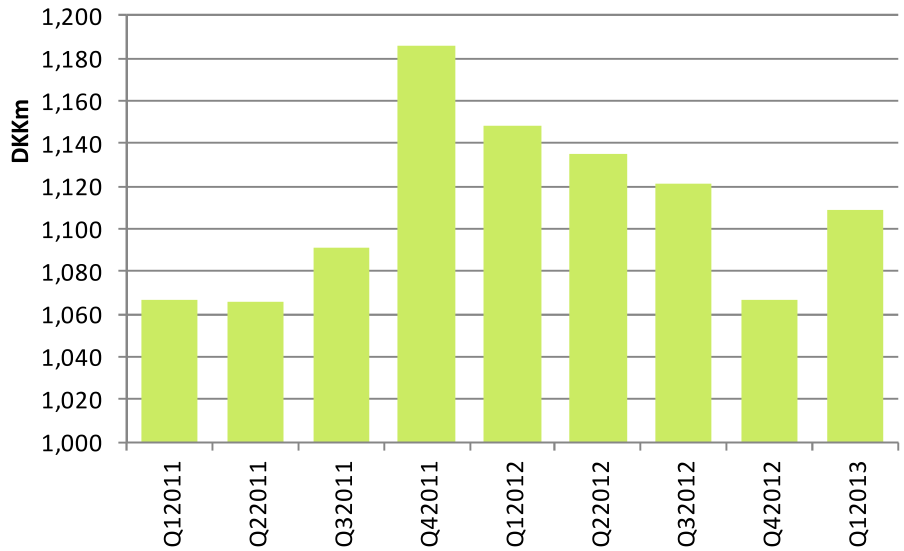
**Jyske Bank will continue to maintain a conservative funding profile (May 2013)**



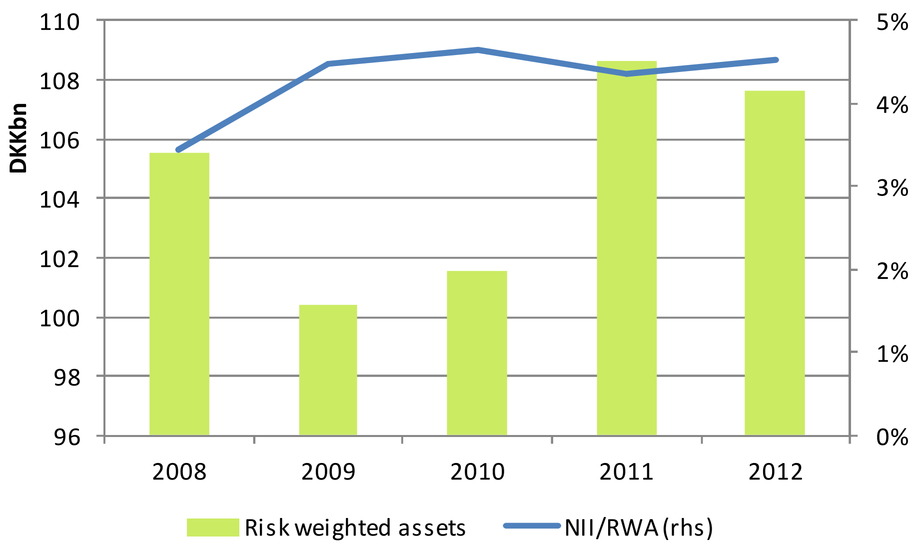
# Q1 2013 in figures

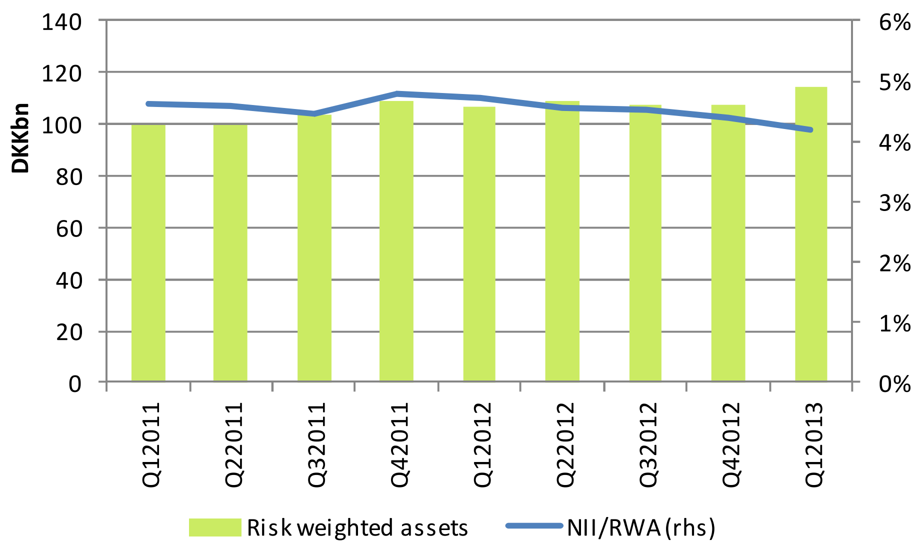
# Net Interest Income



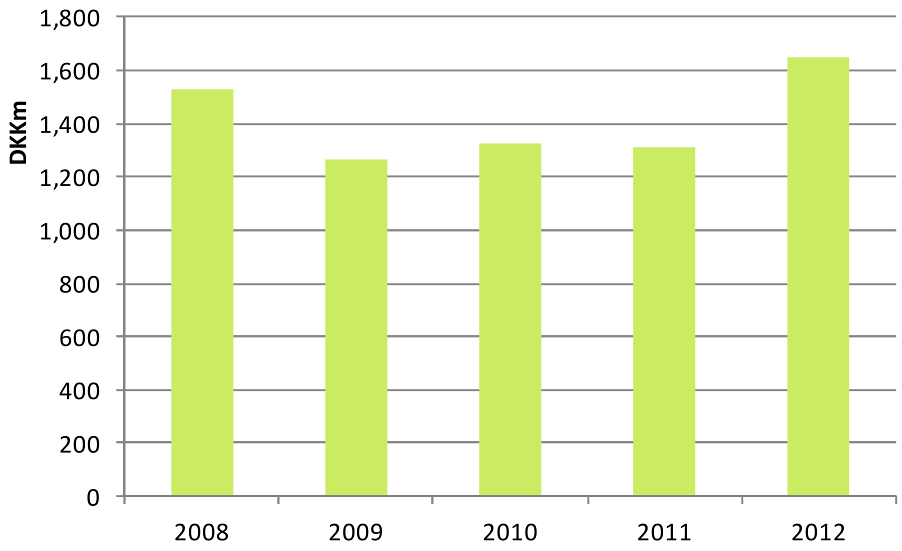



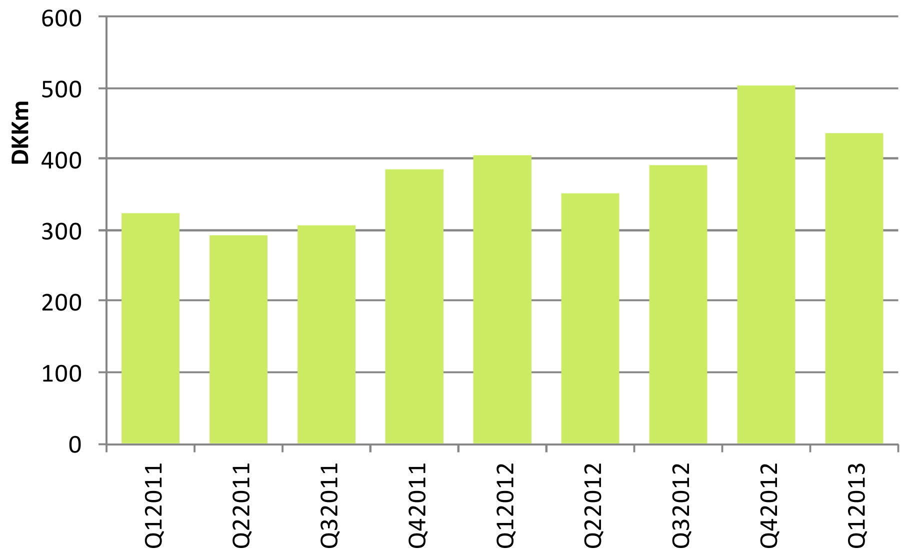
# Return/risk-trade off

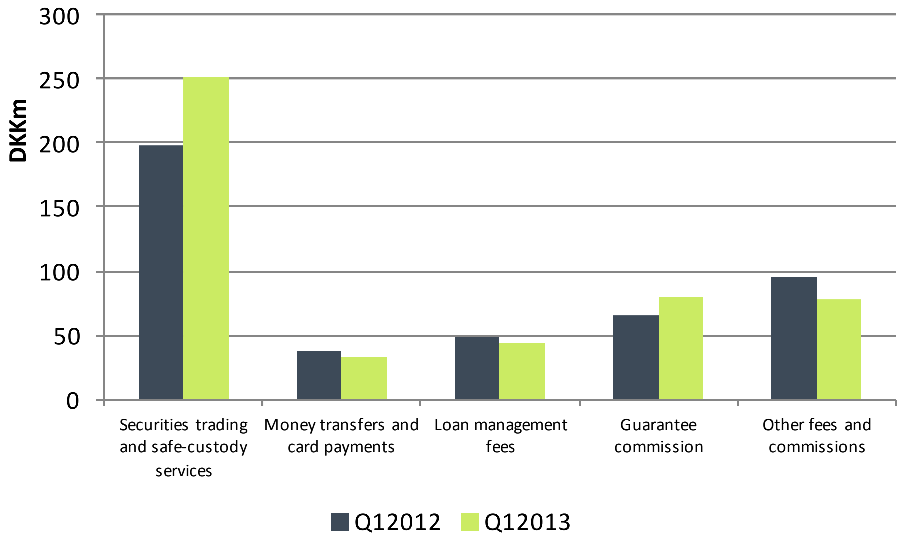


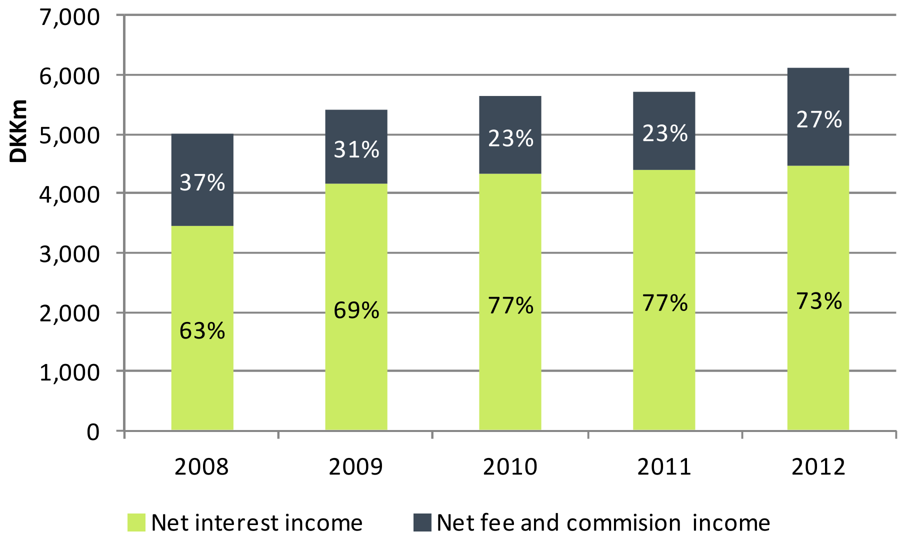
# Fee and commision income

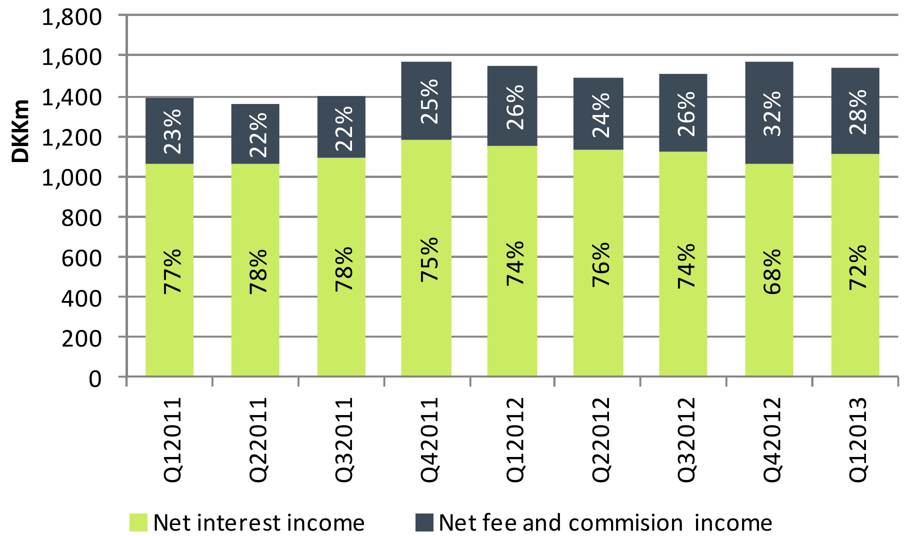


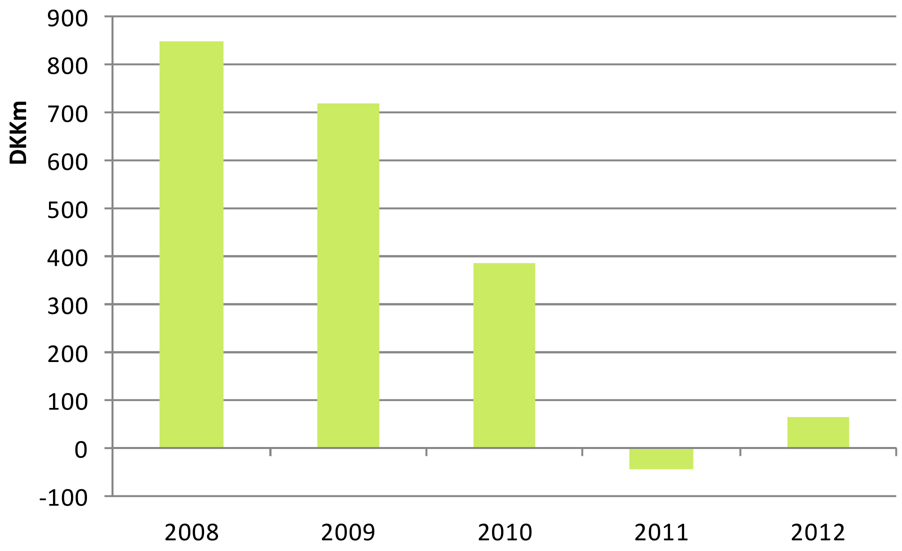



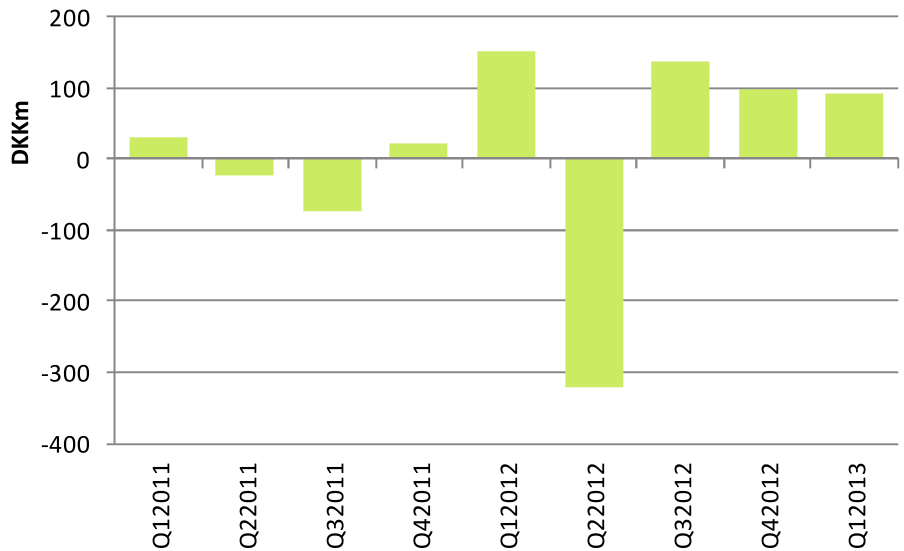
# Net interest and fee income



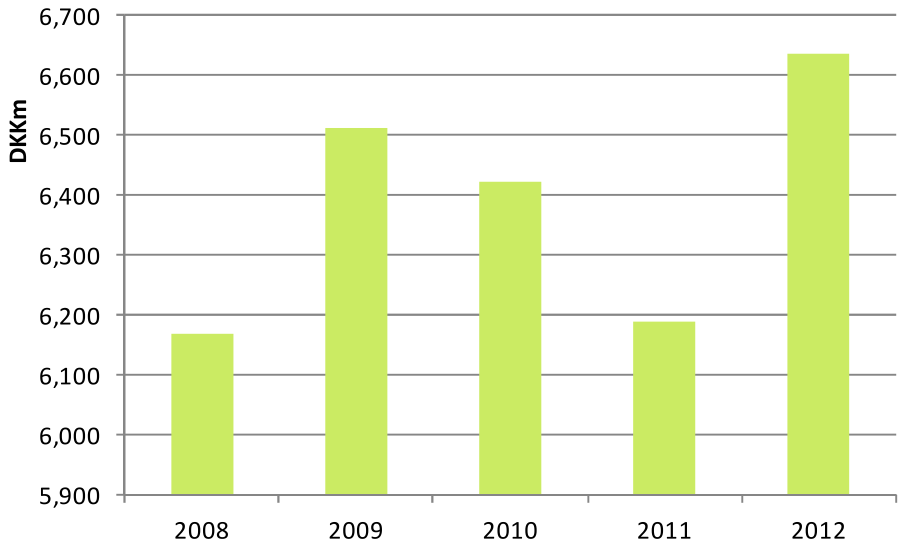



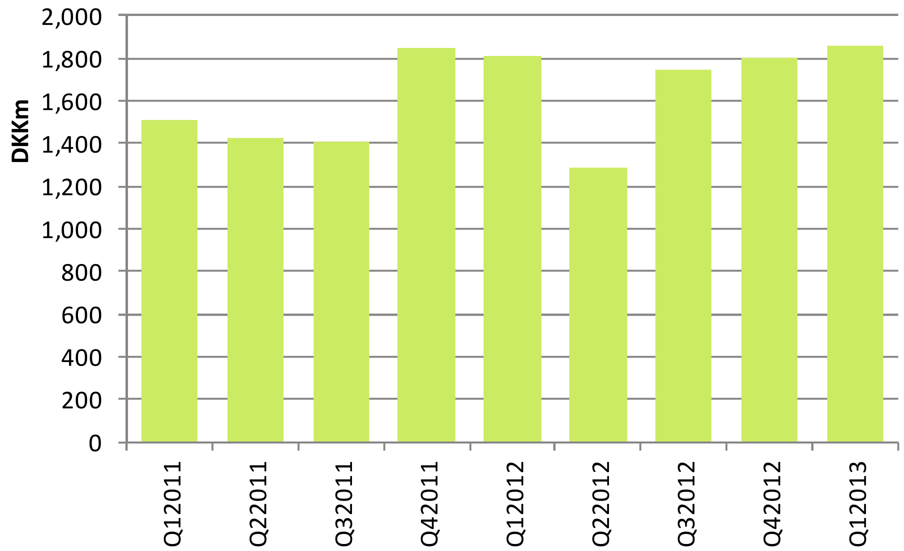
# Value adjustments



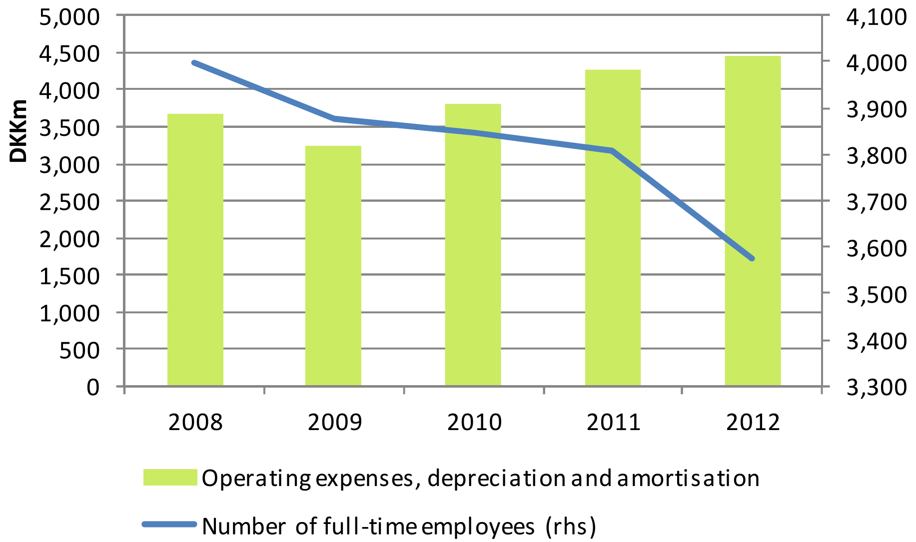



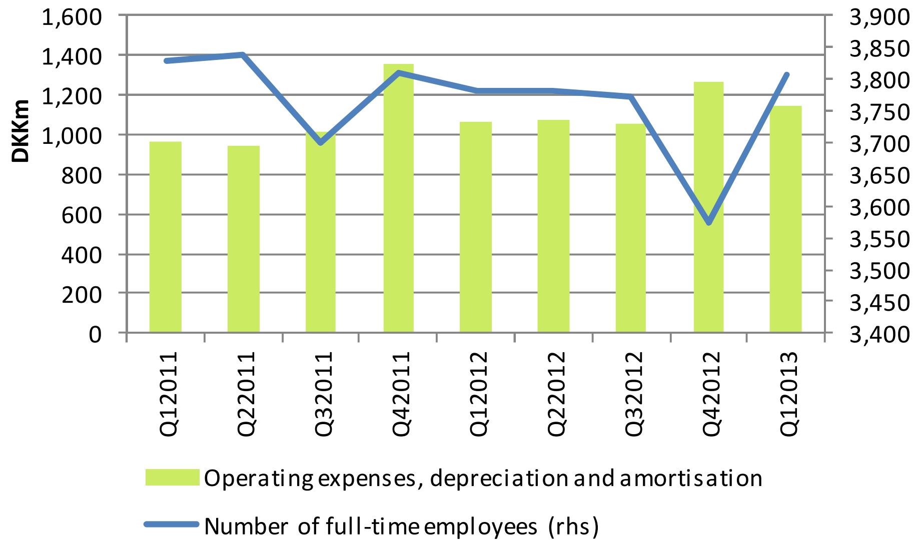

# Gross earnings



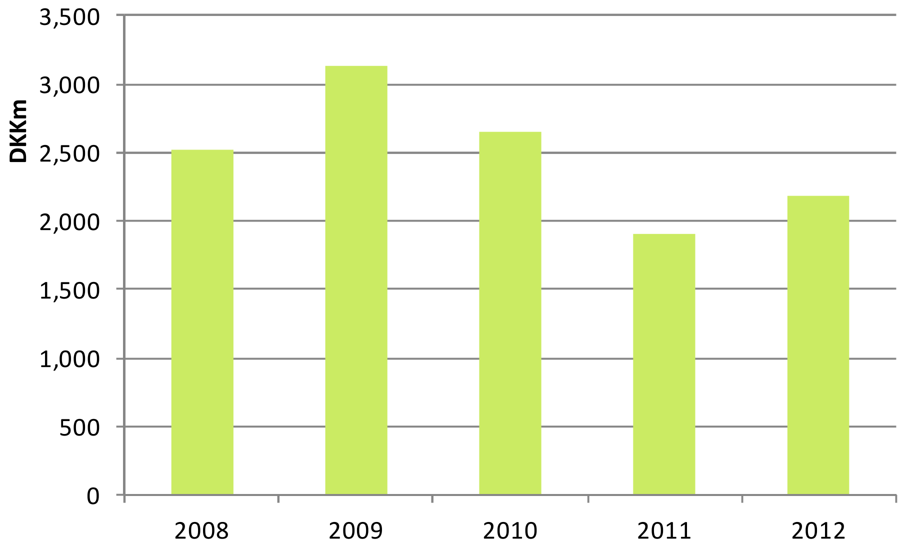



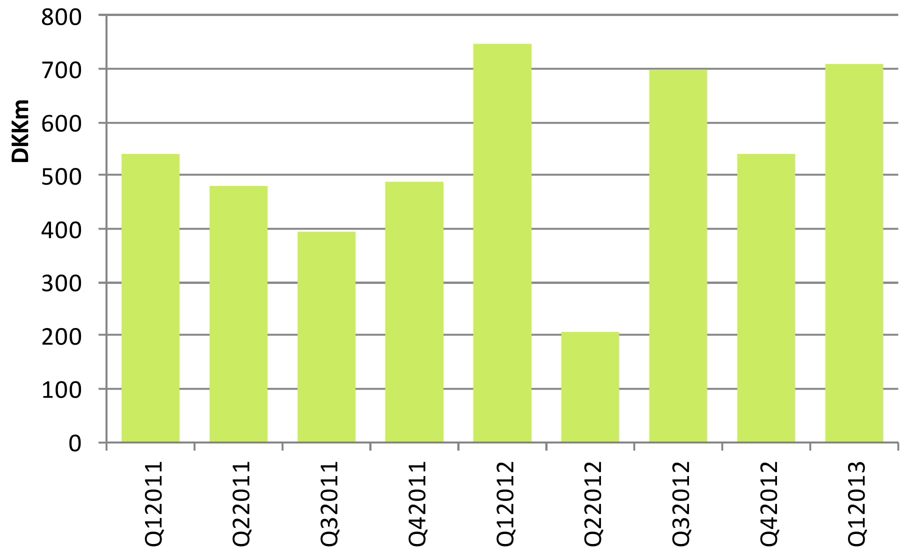
# Operating expenses and employees



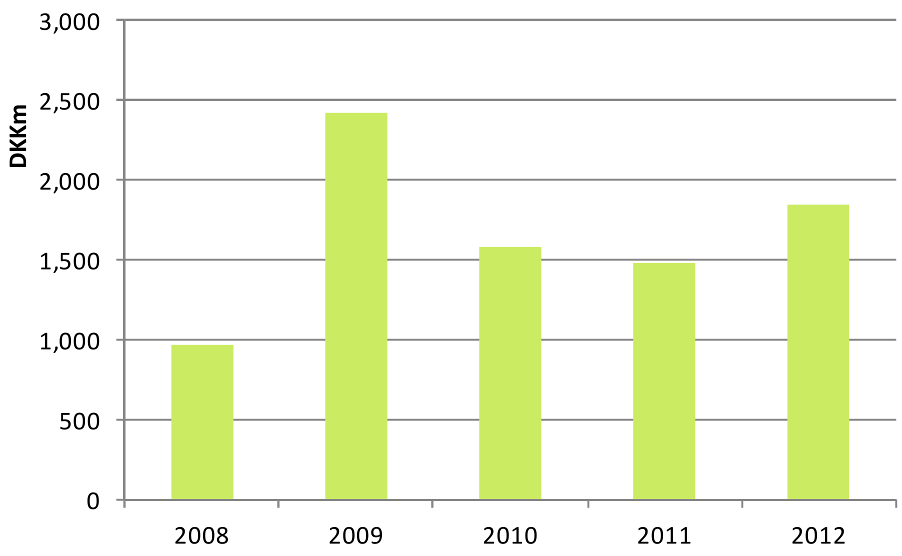



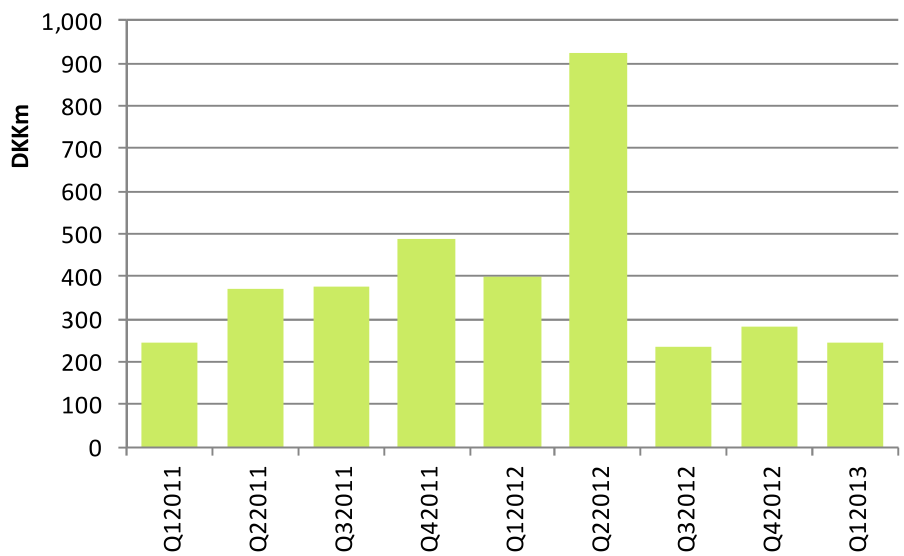
# Core earnings before loan impairment charges



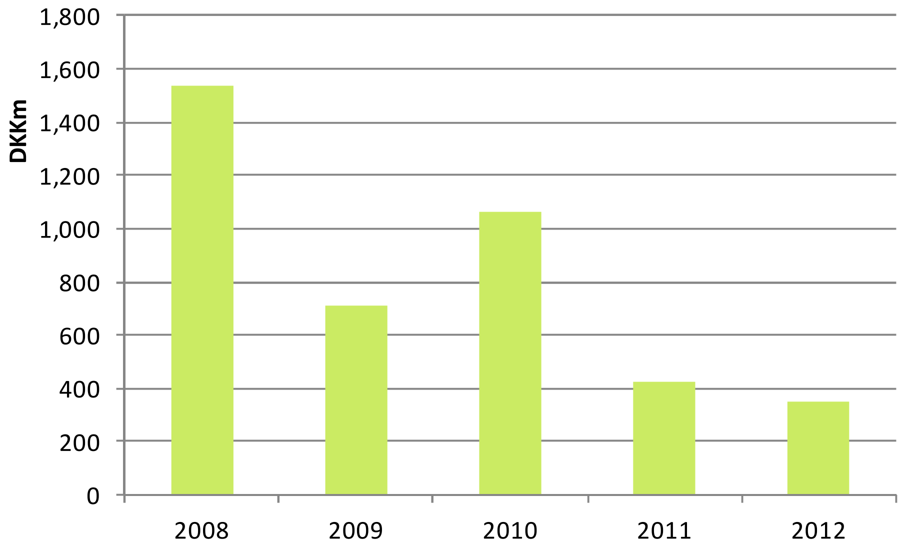



# Loan impairment charges

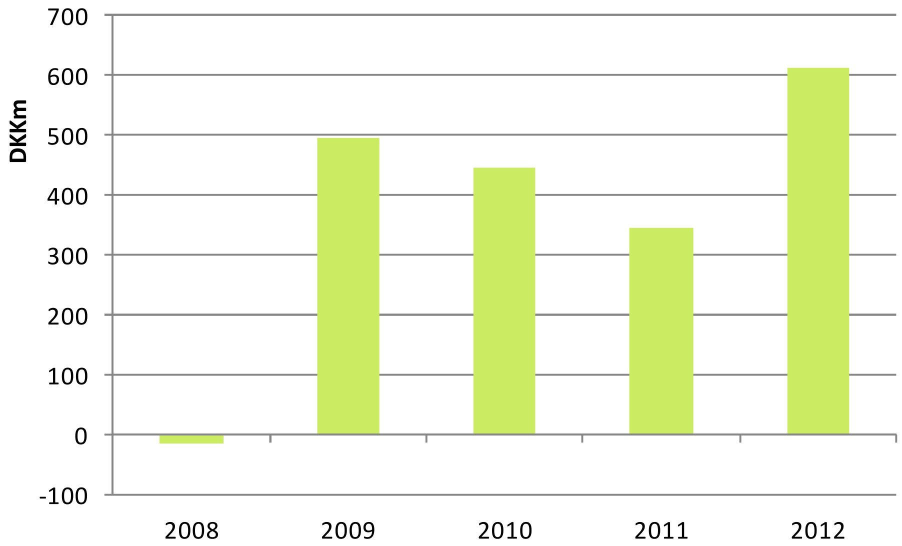


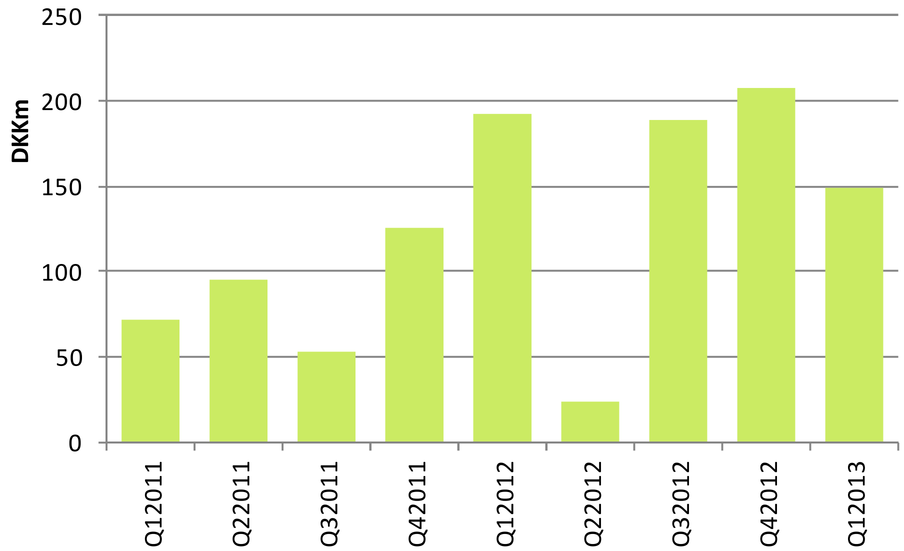



# Core earnings




# Earnings from investment portfolios



# Credit quality

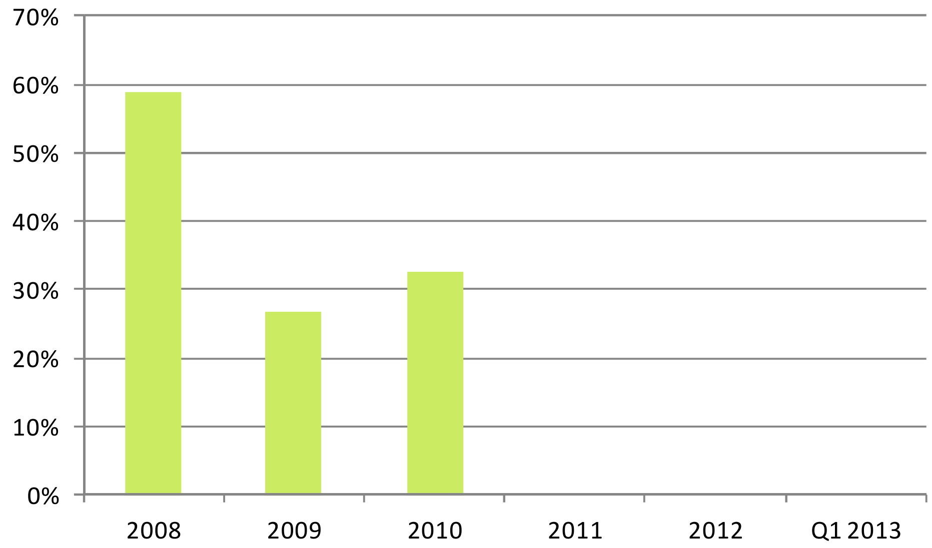
# Loans and advances split by sector

| Jyske Bank A/S | Loans, advances and guarantees | | Balance of loan impairment charges and provisions for guarantees | | Impairment charges and provisions for guarantees for the period | | Loss for the period | |
|---|---|---|---|---|---|---|---|---|
| **Loans, advances and guarantees as well as loan impairment charges and provisions for guarantees by sector** | **Q1 2013** | **End-2012** | **Q1 2013** | **End-2012** | **Q1 2013** | **End-2012** | **Q1 2013** | **Q1 2012** |
| Public authorities | 7,568 | 6,624 | 0 | 0 | 0 | 0 | 0 | 0 |
| Agriculture, hunting, forestry, fishing | 8,482 | 8,192 | 706 | 619 | 90 | 98 | 20 | 130 |
| *Fishing industry* | 2,515 | 2,433 | 40 | 39 | 0 | 14 | 0 | 0 |
| *Milk producers* | 1,468 | 1,533 | 340 | 290 | 58 | 48 | 19 | 36 |
| *Plant production* | 1,319 | 1,068 | 24 | 25 | 1 | 7 | 0 | 8 |
| *Pig farming* | 1,851 | 1,818 | 246 | 211 | 30 | 16 | 1 | 32 |
| *Other farming* | 1,329 | 1,340 | 56 | 54 | 1 | 13 | 0 | 54 |
| Manufacturing, mining, etc. | 7,434 | 6,619 | 160 | 173 | 42 | 26 | 62 | 3 |
| Energy supply | 3,409 | 2,742 | 12 | 13 | -1 | -1 | 0 | 0 |
| Building and construction | 2,398 | 2,234 | 55 | 74 | 2 | 10 | 22 | 7 |
| Commerce | 8,147 | 7,279 | 226 | 241 | 14 | 17 | 32 | 14 |
| Transport, hotels and restaurants | 3,140 | 2,961 | 60 | 37 | 21 | 16 | 3 | 2 |
| Information and communication | 476 | 447 | 18 | 5 | 11 | -2 | 0 | 2 |
| Finance and insurance | 39,258 | 35,026 | 550 | 550 | 10 | 47 | 12 | 63 |
| Real property | 10,719 | 9,860 | 1,060 | 1,051 | 30 | 74 | 26 | 28 |
| *Lease of real estate* | 8,514 | 8,361 | 409 | 392 | 15 | 54 | 26 | 25 |
| *Buying and selling of real estate* | 1,136 | 675 | 105 | 92 | 11 | 15 | 0 | 3 |
| *Other real estate* | 1,069 | 824 | 546 | 567 | 4 | 5 | 0 | 0 |
| Other sectors | 5,546 | 4,802 | 202 | 278 | -38 | 22 | 30 | 19 |
| Corporate customers, individually assessed, total | 89,009 | 80,162 | 3,049 | 3,041 | 181 | 307 | 207 | 268 |
| Corporate customers, collective impairment charges | | | 783 | 717 | 60 | 23 | 5 | 0 |
| Personal customers, individually assessed | 45,055 | 43,385 | 404 | 446 | 2 | 47 | 44 | 75 |
| Personal customers, collective impairment charges | | | 249 | 263 | -8 | 14 | 5 | -1 |
| **Total** | **141,632** | **130,171** | **4,485** | **4,467** | **235** | **391** | **261** | **342** |

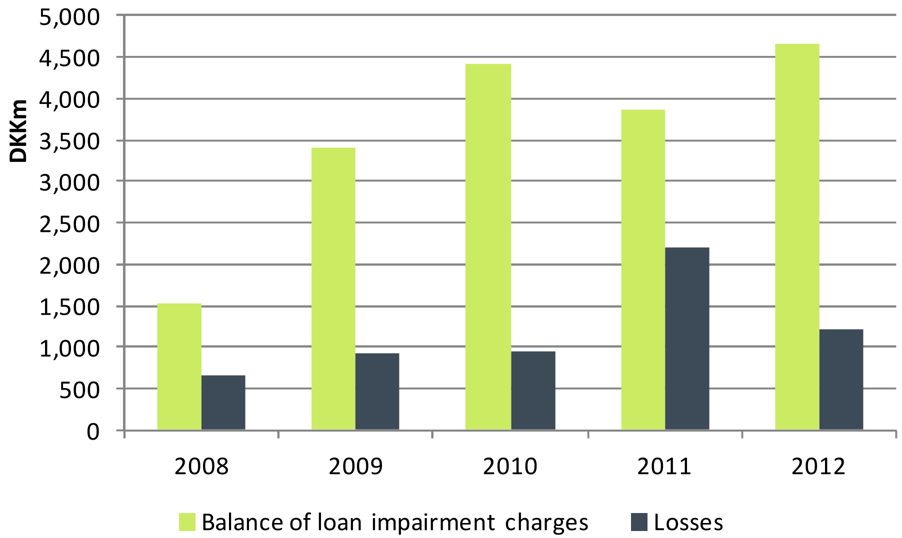
# Loans and advances split by sector

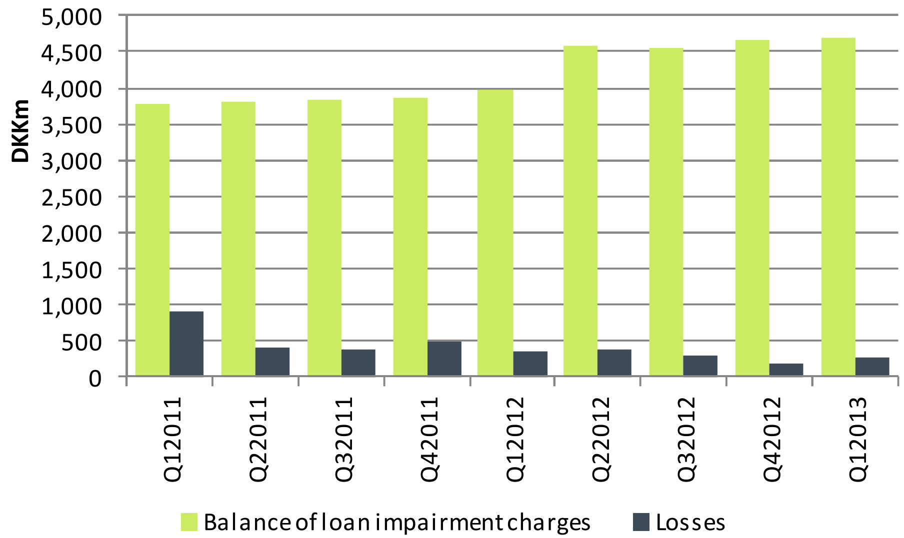
| Jyske Bank A/S | Loans, advances and guarantees | Balance of loan impairment charges and provisions for guarantees | Loans, advances and guarantees | Balance of loan impairment charges and provisions for guarantees | Loss for the period/loans, advances | Loan impairment charges for the period/loans, advances |
|---|---|---|---|---|---|---|
| **Loans, advances and guarantees as well as loan impairment charges and provisions for guarantees (DKKm)** | **Q1 2013** | **Q1 2013** | **Change in pct.** | **Change in pct.** | **Pct.** | **Pct.** |
| Public authorities | 7,568 | 0 | 67.4% | | 0.0% | 0.0% |
| Agriculture, hunting, forestry, fishing industry | 8,482 | 706 | 12.6% | 25.0% | 0.2% | 1.1% |
| *Fishing industry* | 2,515 | 40 | 44.1% | 39.6% | 0.0% | 0.0% |
| *Milk producers* | 1,468 | 340 | -11.2% | 45.9% | 1.3% | 4.0% |
| *Plant production* | 1,319 | 24 | 43.1% | 97.0% | 0.0% | 0.1% |
| *Pig farming* | 1,851 | 246 | -0.6% | -3.4% | 0.1% | 1.6% |
| *Other farming* | 1,329 | 56 | -1.5% | 54.7% | 0.0% | 0.1% |
| Manufacturing and mining, etc. | 7,434 | 160 | -20.2% | 6.0% | 0.8% | 0.6% |
| Energy supply | 3,409 | 12 | 46.4% | -25.0% | 0.0% | 0.0% |
| Building and construction | 2,398 | 55 | 21.7% | -43.9% | 0.9% | 0.1% |
| Commerce | 8,147 | 226 | 7.6% | -6.6% | 0.4% | 0.2% |
| Transport, hotels and restaurants | 3,140 | 60 | -4.5% | 42.9% | 0.1% | 0.7% |
| Information and communication | 476 | 18 | -5.0% | 157.1% | 0.0% | 2.3% |
| Finance and insurance | 39,258 | 550 | 1.8% | 14.1% | 0.0% | 0.0% |
| Real property | 10,719 | 1,060 | 3.3% | 27.6% | 0.2% | 0.3% |
| *Lease of real estate* | 8,514 | 409 | -4.0% | -26.0% | 0.3% | 0.2% |
| *Buying and selling of real estate* | 1,136 | 105 | 74.7% | -23.1% | 0.0% | 1.0% |
| *Other real estate* | 1,069 | 546 | 25.8% | 287.1% | 0.0% | 0.4% |
| Other sectors | 5,546 | 202 | 30.2% | -21.1% | 0.5% | -0.7% |
| Corporate customers, individually assessed, total | 89,009 | 3,049 | 3.8% | 13.3% | 0.2% | 0.2% |
| Corporate customers, collective impairment charges | | 783 | | 56.6% | | |
| Personal customers, individually assessed | 45,055 | 404 | 2.5% | 19.9% | 0.1% | 0.0% |
| Personal customers, collective impairment charges | | 249 | | 27.7% | | |
| **Total** | **141,632** | **4,485** | **5.7%** | **20.5%** | **0.2%** | **0.2%** |

# Large exposures
## per cent of capital base



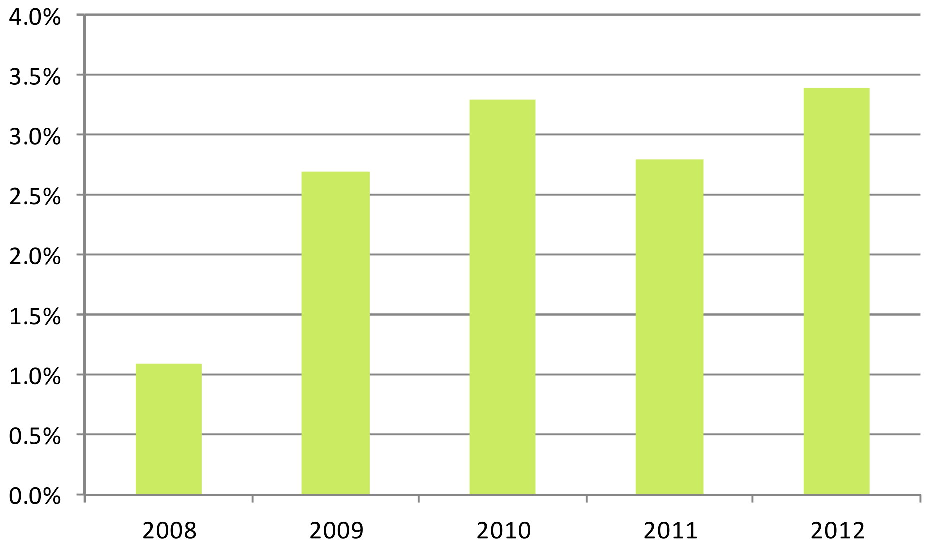
# Balance of loan impairment charges

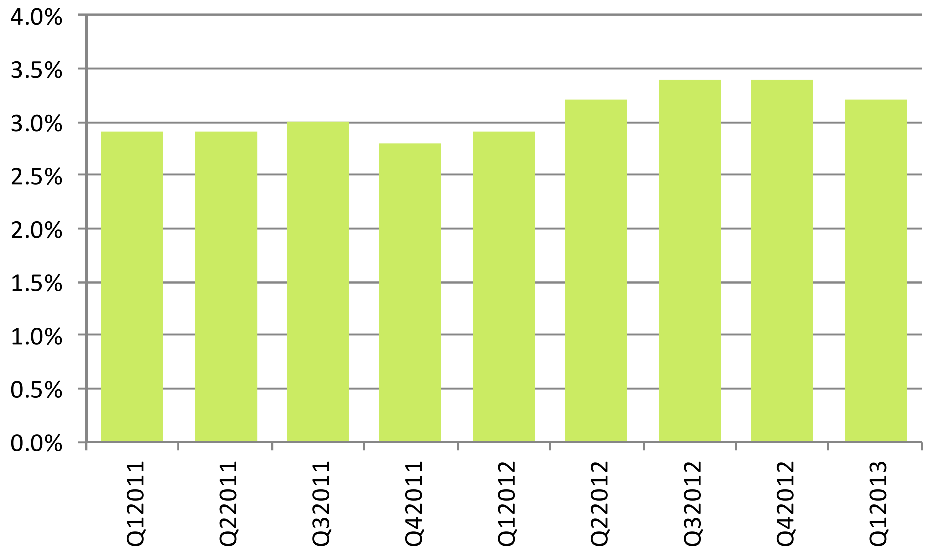


# Balance of loan impairment charges

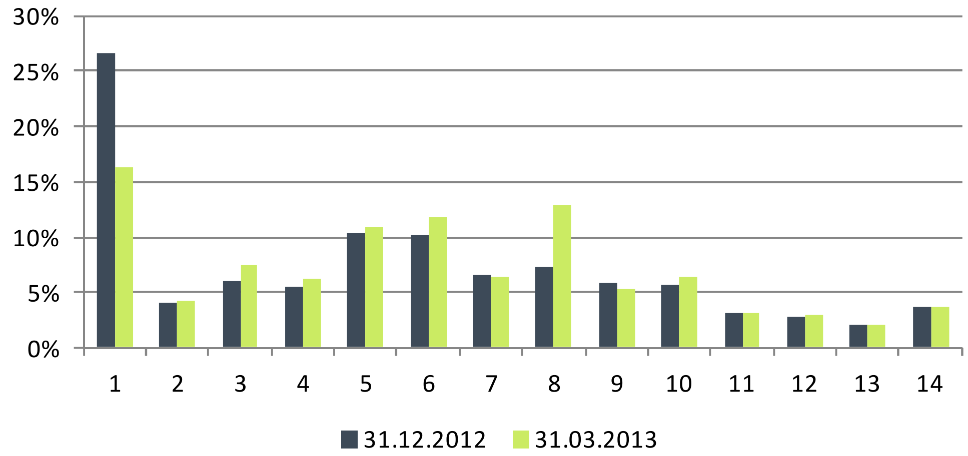
**per cent of loans and advances**



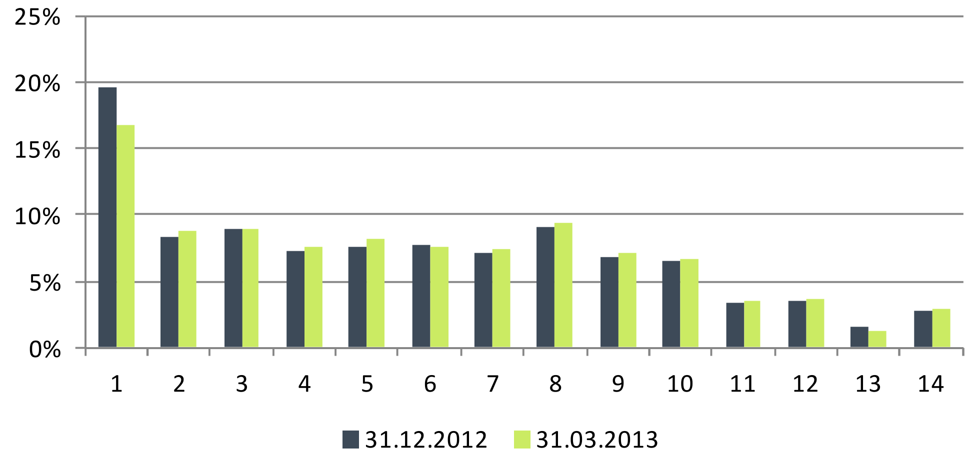



# Exposures by credit rating

Corporates




Retail




Changes in corporates rating classes 1 and 8 are attributable to repo-transactions

# Danish FSA

- Reports in 2011, 2012 and 2013
- New stringent guidelines for impairments

# Danish FSA reports 2011, 2012 and 2013

SME customers and IRB setup
- Decision making material satisfactory
- No ground for changing impairment charges
- IRB models satisfactory

IT inspection
- Principles and policies meet required demands

Market Risk and Compliance
- Management of market risk satisfactory
- Minor change in composition of the compliance report

Custodian bank for Jyske Invest
- The bank should improve some of the control measures in relation to the management of the assets of Jyske Invest – fully implemented

Agricultural clients
- The bank's credit control in respect of agricultural clients is satisfactory
- No ground for changing impairment charges

Management and control of credits
- The supervisory board's discussions and assessments of the bank's risks on the basis of the risk report are not sufficiently evidenced in the minutes. Apart from this, the inspection did not give rise to any important reactions on the part of the FSA.

# New stringent guidelines for impairments

- Focus real estate portfolios and agriculture
- More stringent impairment principles (net exposures, asset values)
- Customers interest rate swaps at fair value
- One off effect Q2 2012:
  - Impairments DKK 543m
  - Value adjustments DKK 357m
- Higher volatility in value adjustments and impairments when interest rates changes

# Fact Book

# Core earnings

| Profit for the period<br>DKKm | Q1<br>2013 | Q1<br>2012 | Index<br>13/12 | Q1<br>2013 | Q4<br>2012 | Q3<br>2012 | Q2<br>2012 | Q1<br>2012 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 1,109 | 1,148 | 97 | 1,109 | 1,067 | 1,121 | 1,135 | 1,148 | 4,471 |
| Dividends, etc. | 13 | 3 | 433 | 13 | 0 | 0 | 17 | 3 | 20 |
| Net fee and commission income | 435 | 405 | 107 | 435 | 504 | 392 | 351 | 405 | 1,652 |
| **Net interest and fee income** | **1,557** | **1,556** | **100** | **1,557** | **1,571** | **1,513** | **1,503** | **1,556** | **6,143** |
| Value adjustments | 92 | 151 | 61 | 92 | 97 | 138 | -320 | 151 | 66 |
| Other operating income | 191 | 87 | 220 | 191 | 113 | 82 | 88 | 87 | 370 |
| Income from operating lease (net) | 16 | 14 | 114 | 16 | 16 | 14 | 14 | 14 | 58 |
| **Gross earnings** | **1,856** | **1,808** | **103** | **1,856** | **1,797** | **1,747** | **1,285** | **1,808** | **6,637** |
| Operating expenses, depreciation and amortisation | 1,147 | 1,062 | 108 | 1,147 | 1,270 | 1,051 | 1,076 | 1,062 | 4,459 |
| Profit on investments in associates and group enterprises | 1 | 0 | - | 1 | 14 | 1 | -3 | 0 | 12 |
| **Core earnings before loan impairment charges and provisions for guarantees** | **710** | **746** | **95** | **710** | **541** | **697** | **206** | **746** | **2,190** |
| Loan impairment charges and provisions for guarantees* | 242 | 398 | 61 | 242 | 283 | 235 | 926 | 398 | 1,842 |
| **Core earnings** | **468** | **348** | **134** | **468** | **258** | **462** | **-720** | **348** | **348** |
| Earnings from investment portfolios | 149 | 192 | 78 | 149 | 208 | 189 | 23 | 192 | 612 |
| **Profit before contribution to the Guarantee Fund, etc.** | **617** | **540** | **114** | **617** | **466** | **651** | **-697** | **540** | **960** |
| The Guarantee Fund, etc. | -56 | -38 | 147 | -56 | -26 | -31 | -14 | -38 | -109 |
| **Pre-tax profit** | **561** | **502** | **112** | **561** | **440** | **620** | **-711** | **502** | **851** |

# Profit/loss

| DKKm | First quarter of 2013 Core earnings | Earnings on investment portfolios | The Guarantee Fund, etc. | Reclassification | Total | First quarter of 2012 Core earnings | Earnings on investment portfolios | The Guarantee Fund, etc. | Reclassification | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 1,109 | 88 | 0 | 0 | 1,197 | 1,148 | 108 | 0 | 0 | 1,256 |
| Dividends, etc. | 13 | 1 | 0 | 0 | 14 | 3 | 1 | 0 | 0 | 4 |
| Net fee and commission income | 435 | 0 | 0 | 0 | 435 | 405 | 0 | 0 | 0 | 405 |
| **Net interest and fee income** | **1,557** | **89** | **0** | **0** | **1,646** | **1,556** | **109** | **0** | **0** | **1,665** |
| Value adjustments | 92 | 62 | 0 | 0 | 154 | 151 | 85 | 0 | 0 | 236 |
| Other operating income | 191 | 0 | 0 | 0 | 191 | 87 | 0 | 0 | 0 | 87 |
| Income from operating lease | 16 | 0 | 0 | 75 | 91 | 14 | 0 | 0 | 55 | 69 |
| **Gross earnings** | **1,856** | **151** | **0** | **75** | **2,082** | **1,808** | **194** | **0** | **55** | **2,057** |
| Operating expenses, depreciation and amortisation | 1,147 | 2 | 56 | 75 | 1,280 | 1,062 | 2 | 38 | 55 | 1,157 |
| Profit on investments in associates and group enterprises | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 |
| **Core earnings before loan impairment charges and provisions for guarantees** | **710** | **149** | **-56** | **0** | **803** | **746** | **192** | **-38** | **0** | **900** |
| Loan impairment charges and provisions for guarantees* | 242 | 0 | 0 | 0 | 242 | 398 | 0 | 0 | 0 | 398 |
| **Pre-tax profit for the period** | **468** | **149** | **-56** | **0** | **561** | **348** | **192** | **-38** | **0** | **502** |

# Questions