

# Jyske Bank

Navigating the Nordics Seminar  
31 May 2017

# Our targets

Q1 2017

- Delivering an attractive long-term return on equity of 8-12%
- Volume growth
  - DKK 100bn in housing-related loans
  - DKK 20bn in property loans for corporate clients
- Maintaining a strong capital position
  - Long-term targets for capital ratio 17.5% and CET1 ratio 14%
  - Capital levels above long term targets in order to manage future regulatory requirements
  - S&P rating A- (stable outlook)

12.3%

DKK 84.3bn

DKK 13.6bn

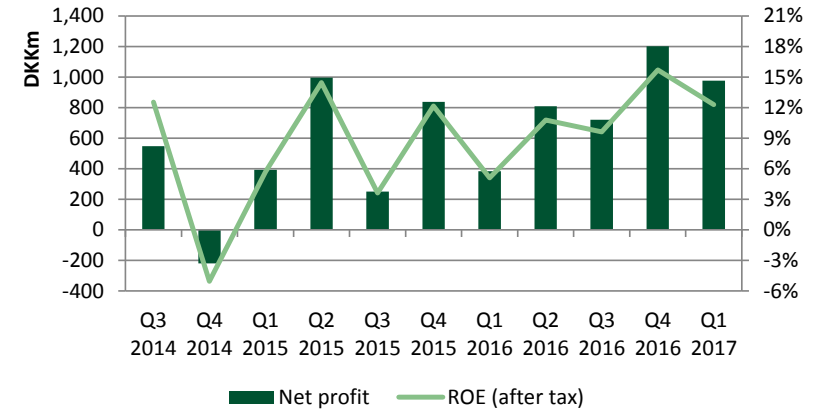
17.6% and  
15.8%\*

- One of the four large financial institutions in Denmark and a Danish SIFI
  - 3 segments (Banking, Mortgage and Leasing)
  - Estimated market share of 10-11%
  - Danish play
  - Approx. 890,000 customers
  - Nationwide branch network comprised of 95 personal client branches, 30 corporate branches and 10 Private Banking centres
  - Total assets of DKK 570bn and total loans of DKK 425bn of which mortgage loans account for DKK 287bn (68%)
- Growth strategy primarily focused on property lending: home loans and mortgages
  - Creating growth and challenging the border between banks and mortgage credit institutions
- Strong capital position
  - Long-term capital policy and well-positioned to manage effects of regulatory requirements
  - Capital distribution:
    - 2015 and 2016: DKK 2.25bn (dividend DKK 500m and buy-backs DKK 1.75bn)
    - 2017: DKK 1.5bn (dividend DKK 500m, buy-back DKK 500m and extra ordinary dividend DKK 500m to be proposed at extra ordinary general meeting to be held in Q2 2017)
  - Able and willing to participate in further consolidation of the Danish financial sector

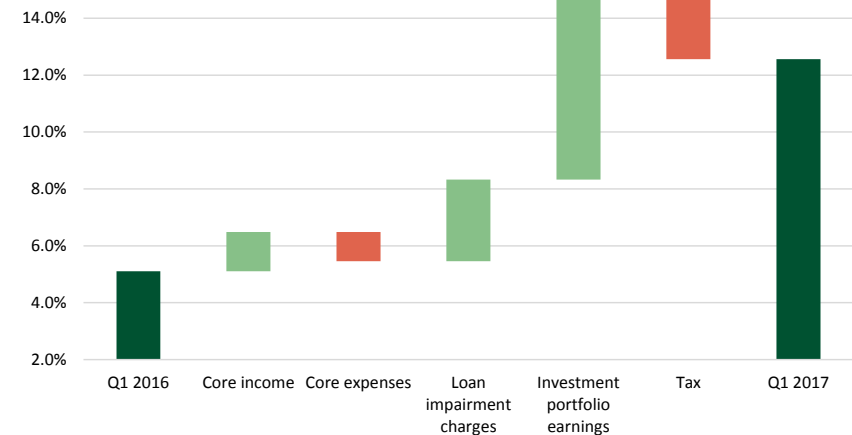
# A strong start to the year

- Delivering a net profit of DKK 976m and ROE of 12.3% p.a. in Q1 2017
- A decrease of 3.4 percentage points compared to Q4 2016, given that improved core income and investment portfolio earnings only provide partial compensation for higher core expenses due to one-offs and lower level of reversals of impairment charges
- ROE of 12.3% p.a. in Q1 2017 compared to 5.1% p.a. in Q1 2016, increase attributed to:
  - Positive contributions from all items except core expenses and tax. Excl. expensed one-offs of DKK 110m core expenses would also have represented an improvement compared to Q1 2016

Net profit

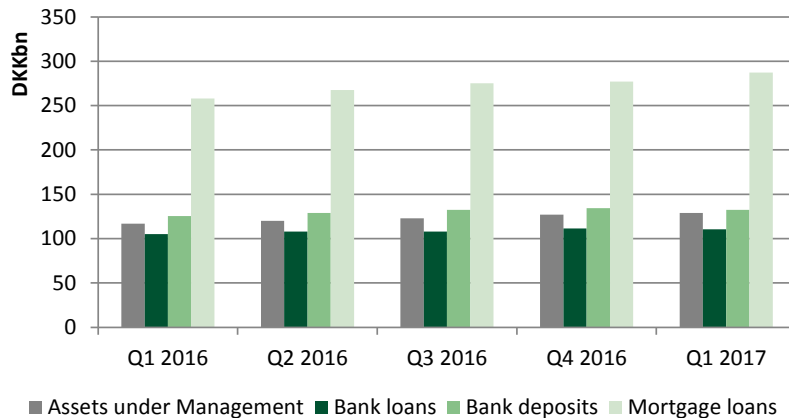


Q1 2017 vs. Q1 2016: Development in ROE after tax

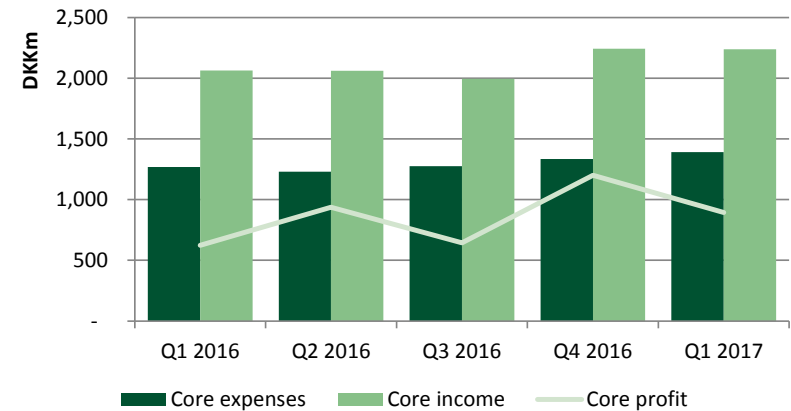


- Growth in mortgages and home loans continues at slightly lower pace
- Bank loans continue to stabilise and bank deposits decrease
- Positive development in AUM due to positive returns and net inflow of funds
- Core income increases due to strong net fee income and value adjustments driven by favourable development in financial markets
- Core expenses up due to one-offs - underlying development stable
- Net reversals of impairments - also to a minor extent on agriculture

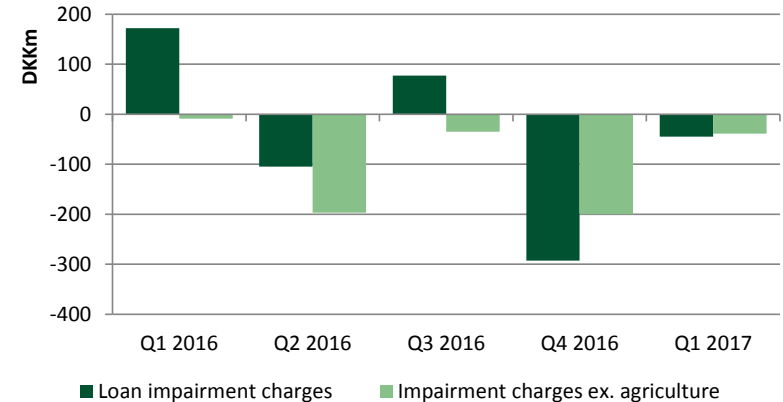
## Business volumes



## Financials

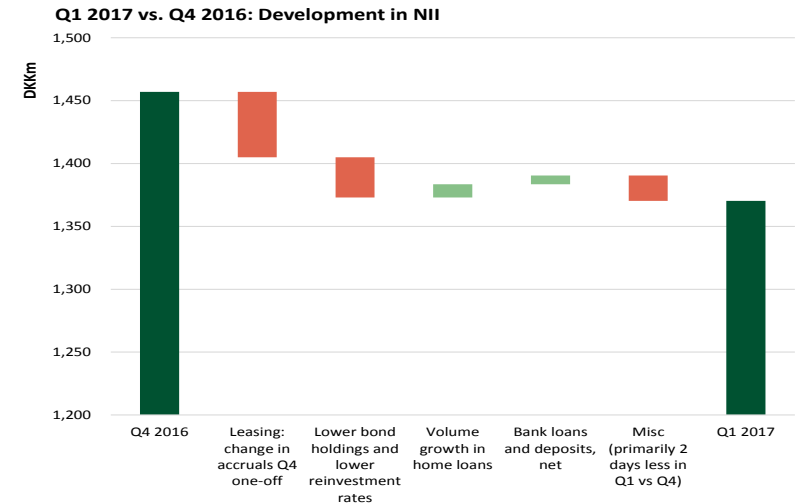


## Loan impairment charges (under core profit)



# Continued pressure on NII

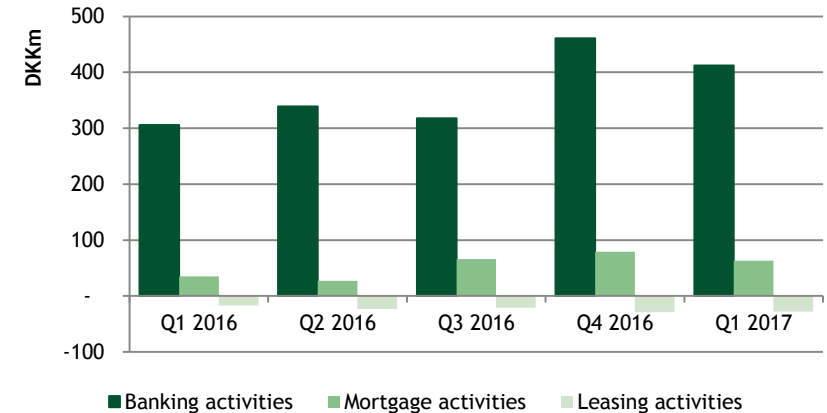
- Underlying trend continues in Q1:
  - NII from growth in home loans and mortgages as well as leasing activities partially compensate for the top-line pressure experienced in banking activities
- Negative variance of DKK 87m compared to Q4 2016
  - One-off of DKK 52m related to change in accruals for up-front fees in leasing activities recognised in Q4 2016
  - 2 days less in Q1 2017 (90 days) than Q4 2016 (92 days)
  - Reduced bond holdings, liquidity as well as trading portfolio, result in lower interest income from bonds
  - Positive NII effect from negative deposits rates introduced in mid-December
  - Pressure on margins



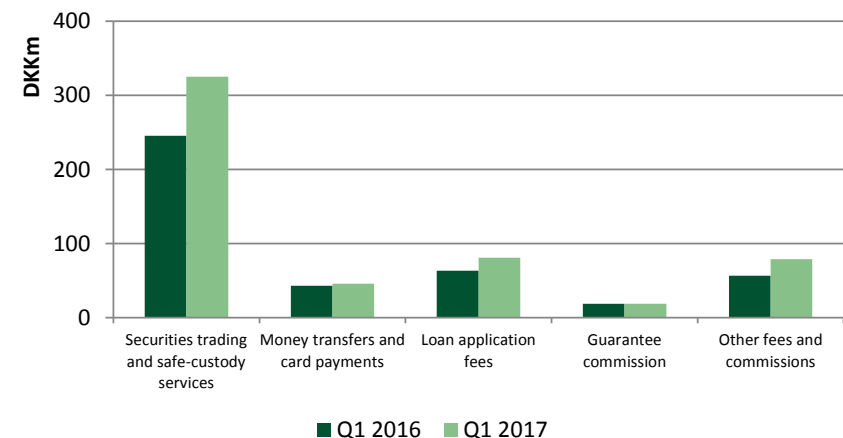
# Tailwind from financial markets results in strong net fee income

- Net fee income in Q1 2017 only second to levels seen in Q4 and up by 38% compared to Q1 2016. The increase can be attributed to:
  - Banking activities: Primarily investment related fee income, secondarily loan application fees
  - Mortgage activities: Fee income increased by higher activity level (loan application fees) and refinancing activity
- Securities trading etc.:
  - Higher investment related commissions as well as performance related fees as stock markets have developed favourably compared to Q1 2016
  - Increased refinancing activity within mortgages leads to higher brokerage income
- Loan application fees:
  - Higher activity in mortgage activities and reinstatement of up-front fees on home loans

Net fee income



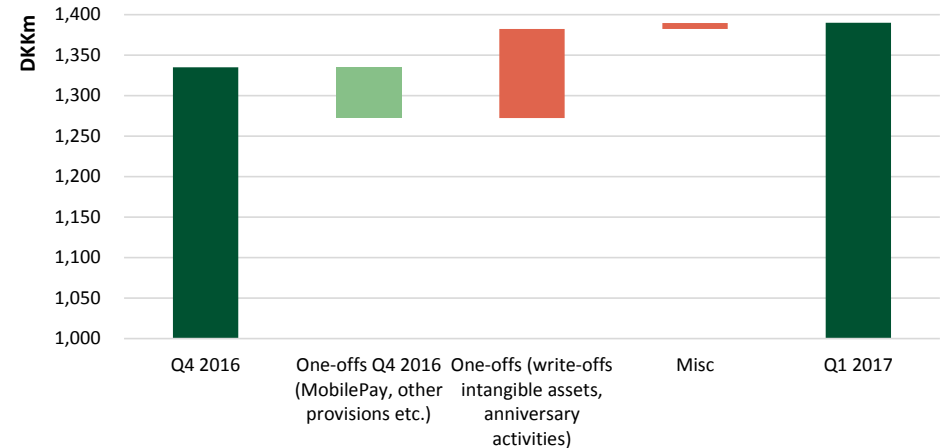
Fee and commission income



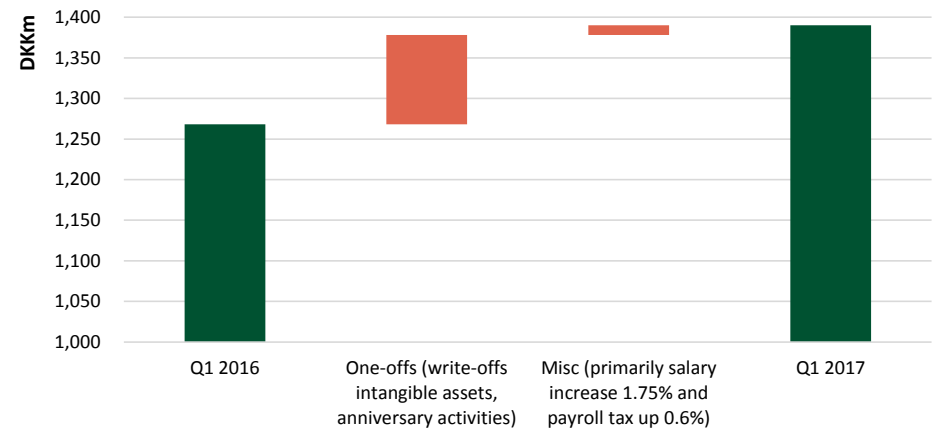
# Underlying trend in core expenses stable

- Underlying development in core expenses stable
- Core expenses in Q1 2017 up by DKK 55m compared to Q4 2016:
  - Both quarters affected by one-offs. In Q1 2017, one-offs of DKK 110m - approx. DKK 50m higher than the one-offs in Q4 2016
- Compared to Q1 2016 core expenses are up by DKK 122m due to:
  - One-offs incurred in Q1 2017
  - Annual re-occurring salary increase stipulated by collective agreement (1.8%) and increase in payroll tax rate (0.6%)

Q1 2017 vs. Q4 2016: Development in core expenses



Q1 2017 vs. Q1 2016: Development in core expenses

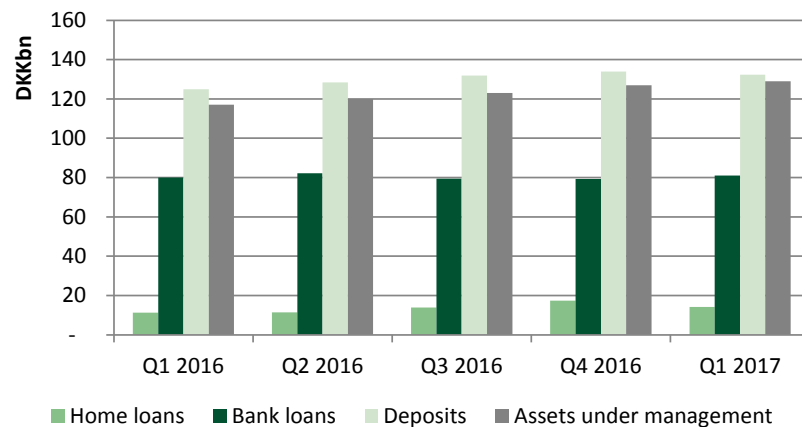




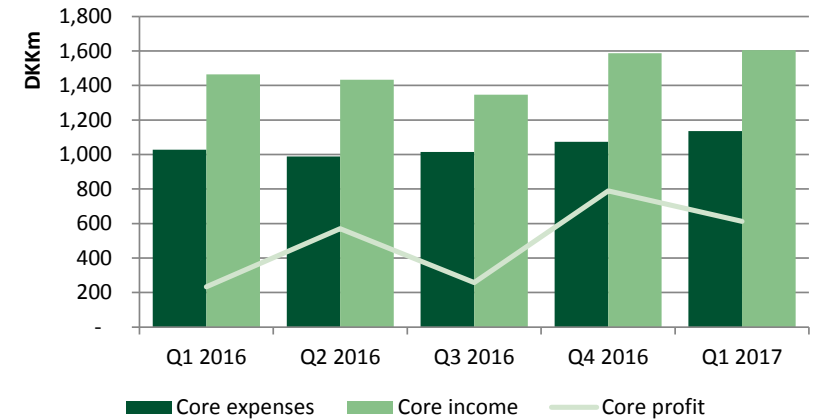
# Banking activities

- Stabilisation of bank loans and bank deposits
- Positive development in AUM due to positive returns and net inflow of funds
- Core income at level with Q4 2016 due to strong net fee income and value adjustments
- Core expenses up due to one-offs, underlying development stable
- Net reversals of impairments - also minor reversal on agriculture

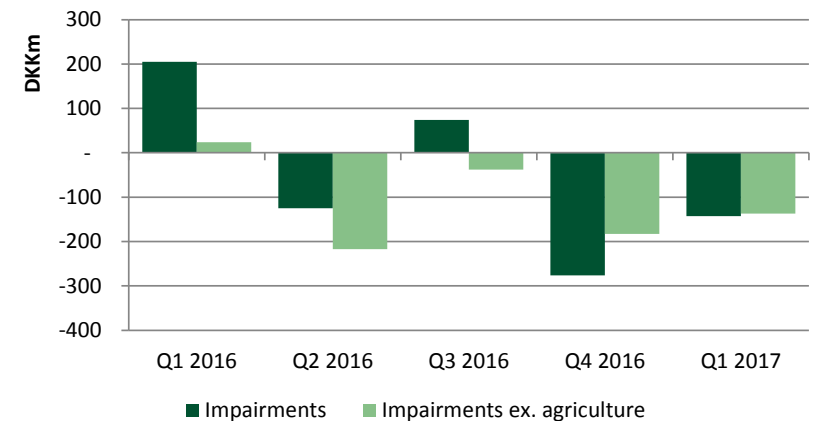
## Business volumes



## Financials



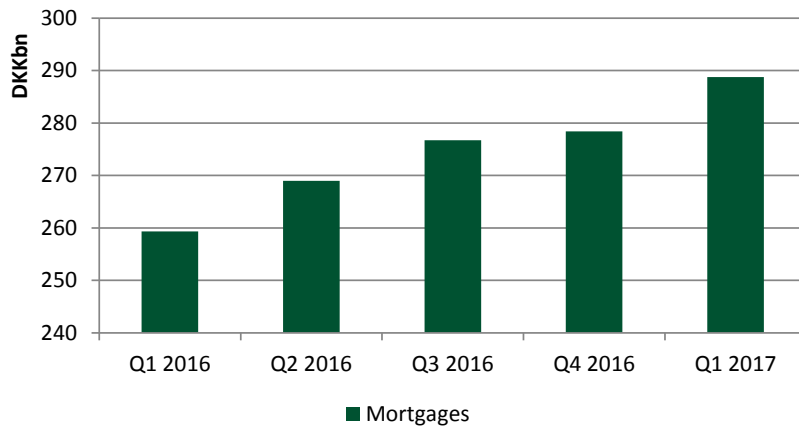
## Impairments



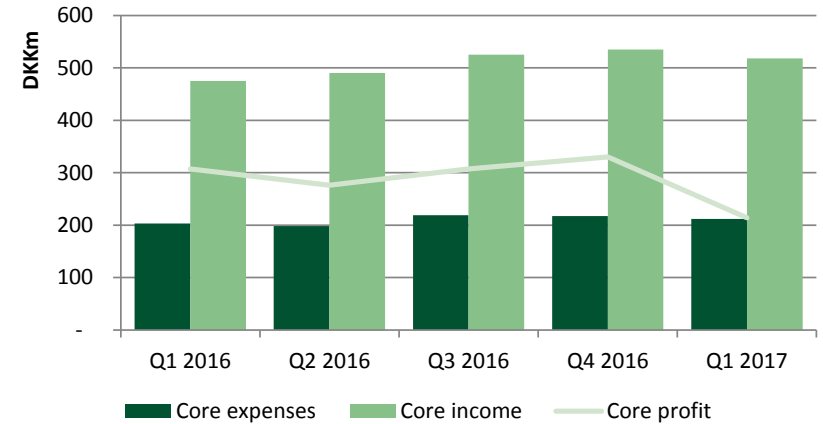
# Mortgage activities

- Growth in all lending segments - most significant in Private and Commercial segment
- Core income stable - NII grows as volume grows, net fee income lower in Q1 2017 than Q4 2016
- Core expenses as expected
- Increased impairments on hard-to-sell mortgaged properties

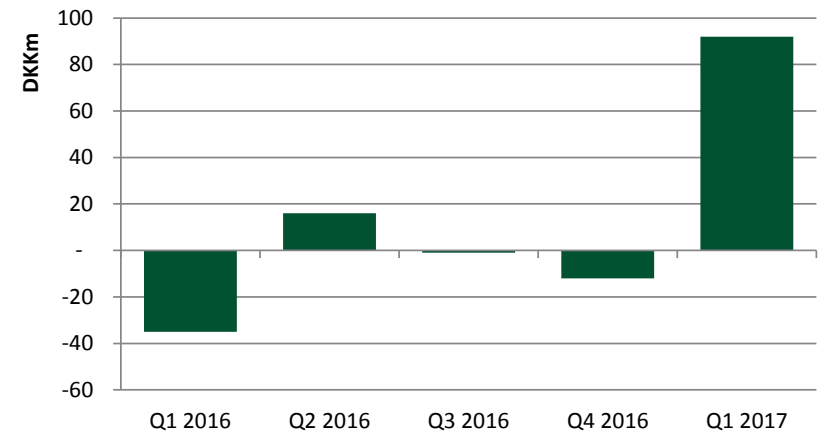
Business volumes (BRFkredit A/S)



Financials



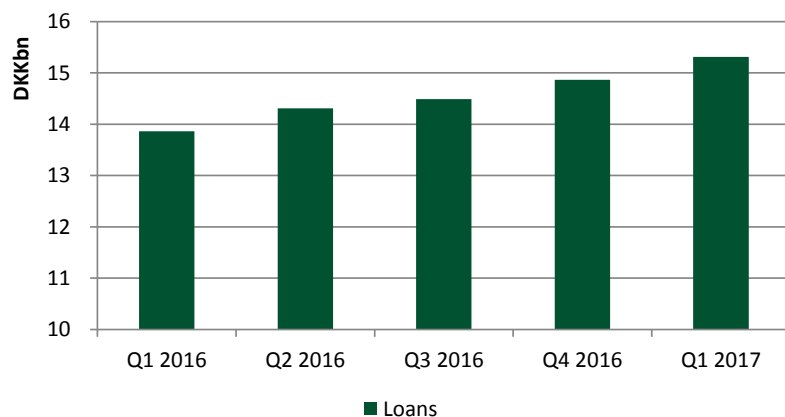
Impairments



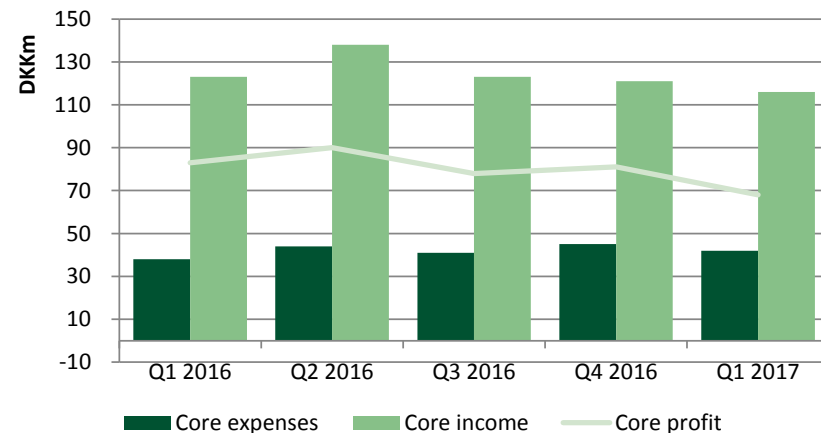
# Leasing activities

- Gradually increasing loan volumes
- Adjusted for one-off in NII Q4 2016, stable development in core income
- Core expenses develop as expected
- Impairment charges at continued low level

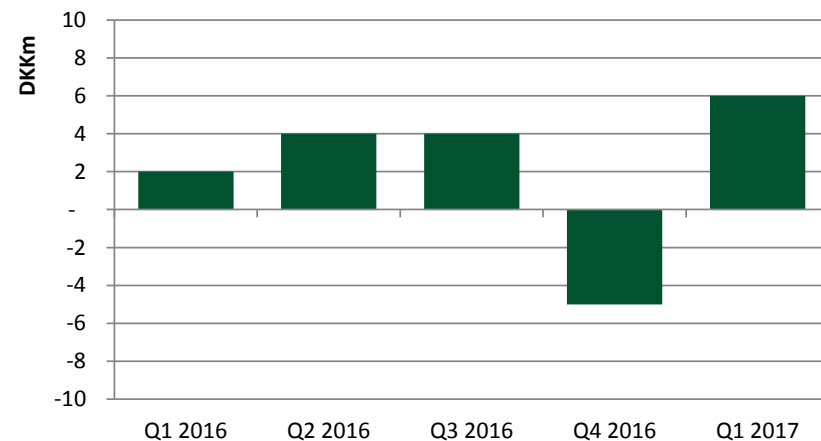
## Business volumes



## Financials



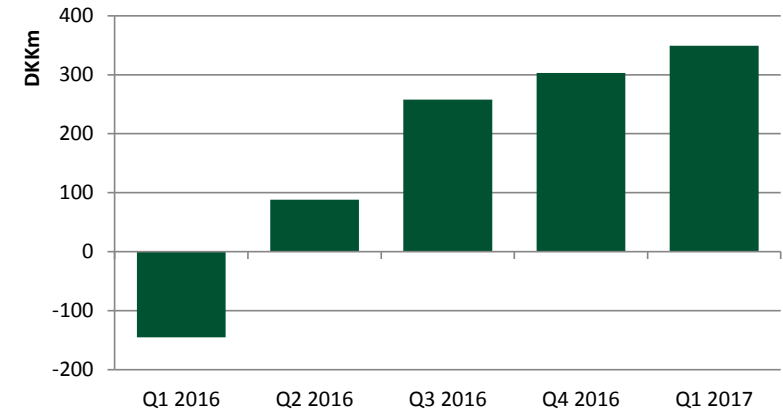
## Impairments



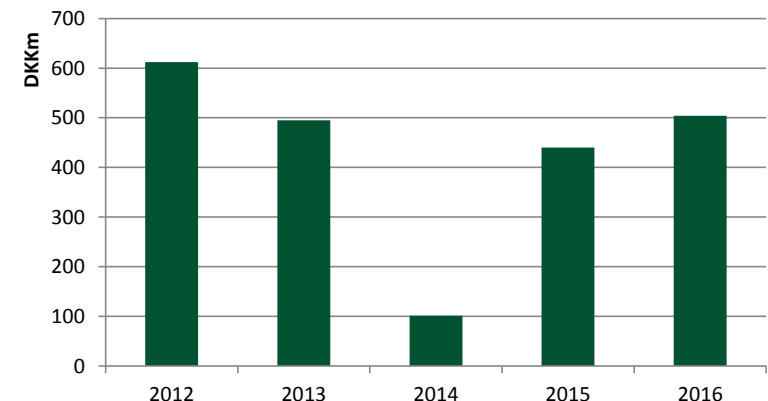
# Strong investment portfolio earnings

- Investment portfolio earnings driven by:
  - Positive value adjustments on portfolio of Danish mortgage bonds driven by narrowing of credit spreads (OAS)
  - Positive effect of approx. DKK 100m from Jyske Bank's holdings in Nordjyske Bank: DKK 70m in value adjustments and DKK 30m in received dividend (Q1 2016: DKK -130m and DKK 15m, respectively)
- Jyske Bank to reduce its holdings of Nordjyske Bank shares in the course of 2017 if a price acceptable to Jyske Bank can be achieved
- Annual investment portfolio earnings have been ranging between DKK 100-600m the past 5 years
  - With an average of approx. DKK 400m

Investment portfolio earnings, quarterly



Investment portfolio earnings, last 5 years

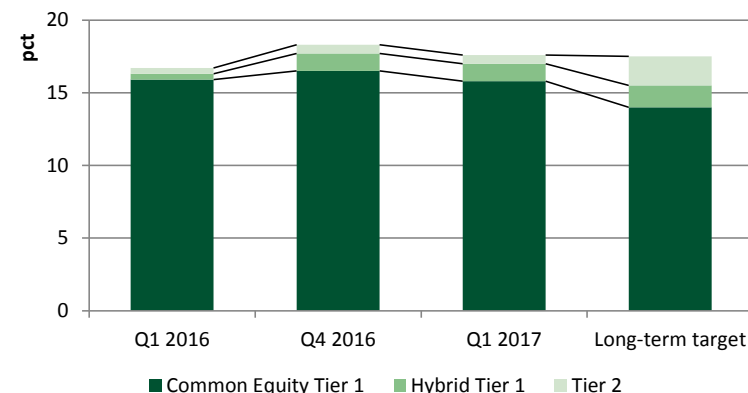


# Capital

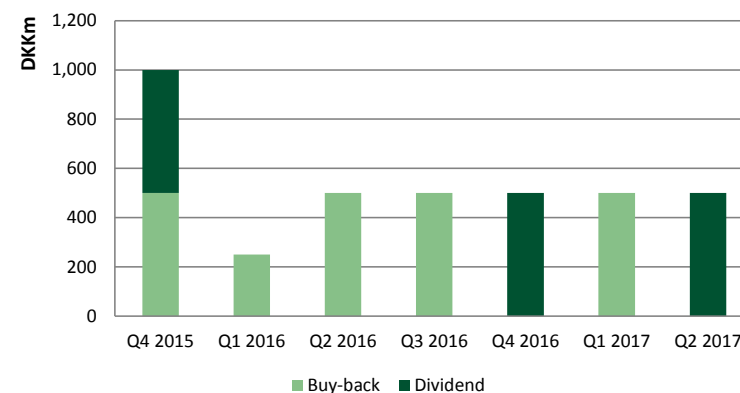
# Adjusting to long-term capital targets

- Capital ratio 17.6% and CET1 ratio 15.8% end of Q1 2017 vs. long-term targets of 17.5% and 14%
  - Tier 2 capital issued as per value date April 5<sup>th</sup> to be included in capital base in Q2
  - Capital ratio of 19.4% and CET1 ratio of 16.3% if current profit and Tier 2 capital were included
- Gradual adjustment of the capital structure towards targets (3.5 pp. in subordinated debt)
  - Subordinated debt 1.8% of REA end of Q1 2017, 3.1% if Tier 2 capital issued early April is included
  - Adjustment expected to be completed by end of H1 2018
- Capital distribution:
  - Share buy-back programmes of DKK 2.25bn in total:
    - DKK 750m (Nov 2015-Jun 2016)
    - DKK 1bn (Jul - Dec 2016)
    - DKK 500m (Mar - Sep 2017)
  - Dividends of DKK 1.5bn in total:
    - DKK 500m (March 2016)
    - DKK 500m (March 2017)
    - Extra ordinary dividend of DKK 500m to be proposed at EGM (Q2 2017)
- Defending and securing a stable S&P rating of A- remains a key priority

Capital ratios

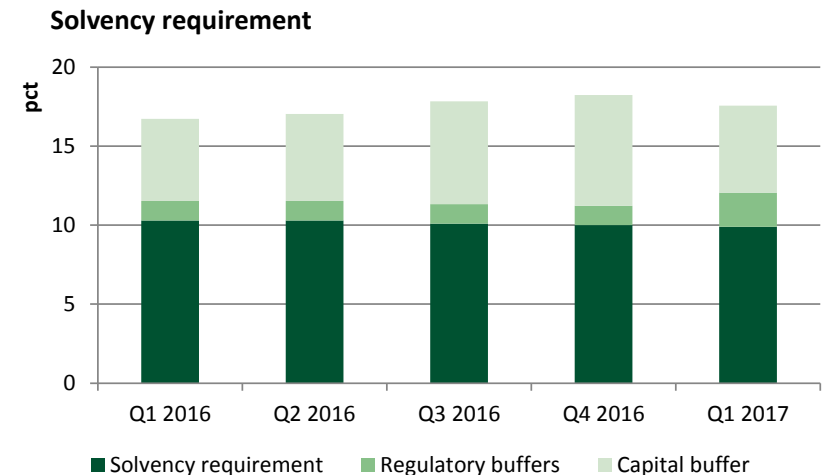
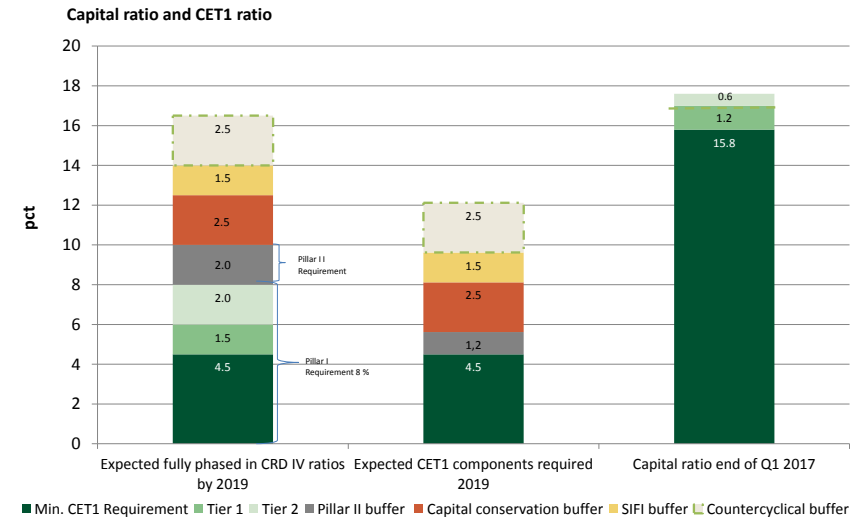


Capital distribution (time of announcement)



# Strong capital position

- Capital ratio 17.6% and CET1 ratio 15.8% end of Q1 2017 compared to 18.3% and 16.5% end of 2016. Changes in capital ratios due to:
  - Current profit no longer included in capital base
  - Proposed extraordinary dividend deducted from capital
  - Higher REA (primarily volume growth in property related loans)
- Solid capital base remains essential to allow room for:
  - Growth (property related loans)
  - Higher capital requirements imposed by upcoming legislation
  - Aligning capital to S&P requirements
  - M&A activity if opportunity should arise
- Individual solvency requirement decreases, combined buffer requirements increase:
  - 9.9% (+0.9% SIFI requirement and 1.3% capital conservation buffer, in total 12.1%)
  - Capital buffer DKK 10.1bn corresponding to 5.5%



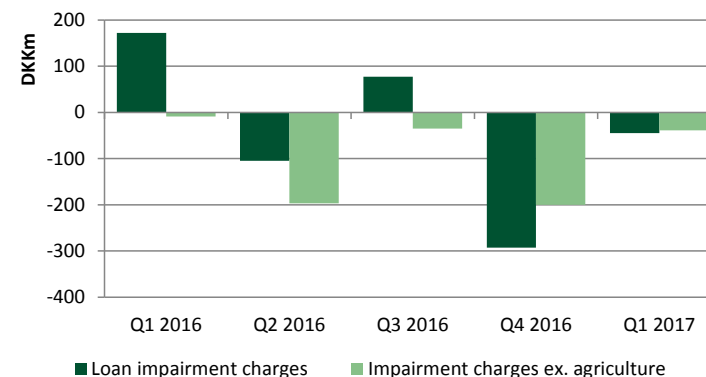
# Credit Quality



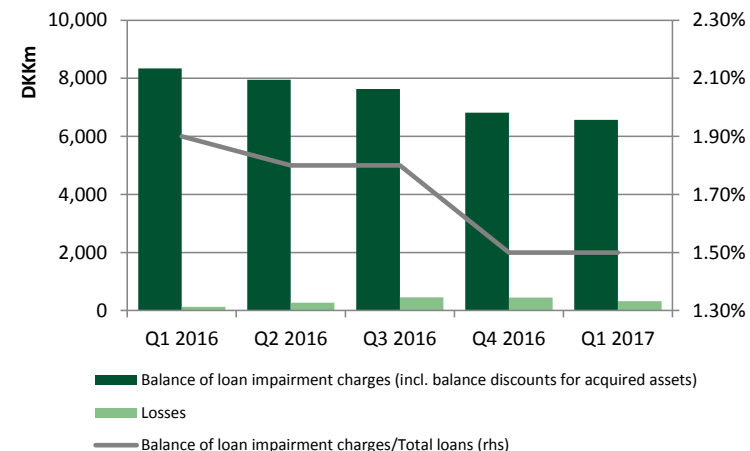
# Net reversals

- Net reversals of DKK 45m under core profit
  - Of which agriculture DKK 6m
- Total balance of management's estimate of DKK 465m end of Q1 2017, of which DKK 185m relate to agriculture, compared to DKK 471m and DKK 235m respectively end of 2016
- Impairment ratios (under core profit):
  - Impairment ratio for Q1 2017 -1bp
  - Well below normalized level
  - Accumulated impairment ratio 1.5% (incl. balance of discounts for acquired loans) - unchanged compared to end of 2016
- Banking:
  - Overall credit quality continues to improve
  - Low number of new defaults and improvement in credit quality of previously defaulted clients
  - Minor reversal in agriculture segment
- Mortgage:
  - Overall positive development in credit quality
  - Impairment charges on hard-to-sell mortgaged properties

Loan impairment charges (under core profit)



Balance of loan impairment charges and losses



# Limited exposure to dairy and pig farmers

- Exposure to dairy and pig farmers accounts for less than 1% of the Group's loans and guarantees
- Commodity price development:
  - Pork: Prices peaked at 10.8 DKK/kg in Q3 2016. Current prices are close to the peak
  - Milk: Prices hit historic lows during the summer of 2016 but have recovered and now stand at 2.5 DKK/kg
- Rebound in commodity prices improves situation for dairy and pig farmers but they remain structurally challenged by high leverage and, in many places, run-down production facilities
- Impairment ratio for dairy farmers 46% end of Q1 2017 - up from 45% end of 2016 whereas impairment ratio for pig farmers stays stable at 26%

Commodity prices



DKKm/%	Loans, advances and guarantees		Balance of loan impairment charges		Impairment ratio		Impairment charges		Losses	
	Q1 2017	Q4 2016	Q1 2017	Q4 2016	Q1 2017	Q4 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016
Dairy farmers	801	889	692	722	46%	45%	6	51	50	21
Pig farmers	1,223	1,237	424	431	26%	26%	-1	71	20	1
<b>Total</b>	<b>2,024</b>	<b>2,126</b>	<b>1,116</b>	<b>1,153</b>	<b>36%</b>	<b>35%</b>	<b>5</b>	<b>122</b>	<b>70</b>	<b>22</b>

## Reducing risk and earnings volatility

# ”A great match” - growth, profitability and risk profile

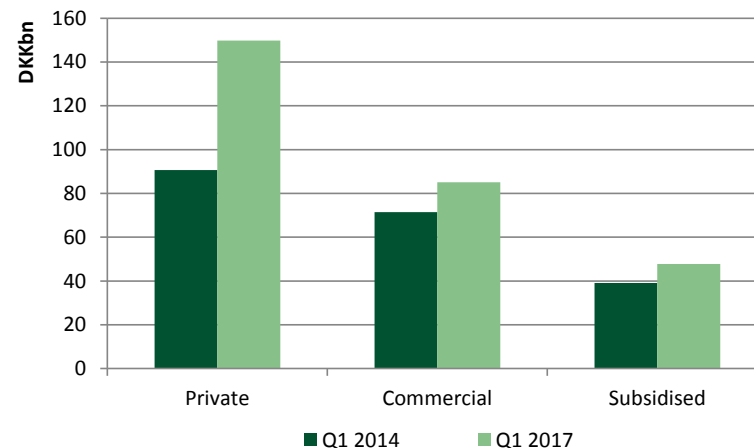
In February 2014, the merger between Jyske Bank and BRFkredit was announced under the headline “A great match”. Part of the rationale was:

- High growth potential
- Revenue and cost synergies
- Diversified balance sheet and de-risked earnings profile

A lot has been achieved 3 years later:

- Annual revenue and cost synergies of DKK 600m were harvested by mid-2016 - 18 months ahead of plan - mainly due to:
  - Volume growth of more than DKK 80bn
  - 10% reduction in FTE
  - Lower capital costs
- Growth targets within reach
  - DKK 100bn in housing-related loans
  - DKK 20bn in mortgage loans for commercial clients

Development in mortgage lending



Core expenses and FTEs



# Transformed risk profile reduces risk and earnings volatility

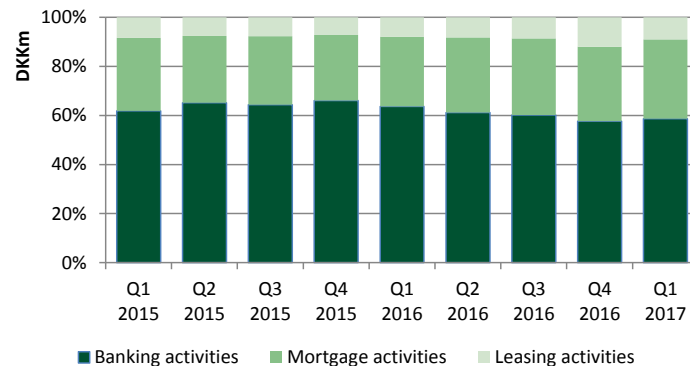
## De-risked profile:

- From 100% bank loans to more than 2/3 mortgage loans. Low risk mortgage loans make up 68% of the Group's loan portfolio at end of Q1 2017:
  - Fully collateralised
  - Historically, losses and impairment charges on mortgages are significantly lower than on bank loans: 19bp vs. 89bp
- Larger part of portfolio comprised of private individuals
  - Less concentration risk and higher degree of diversification

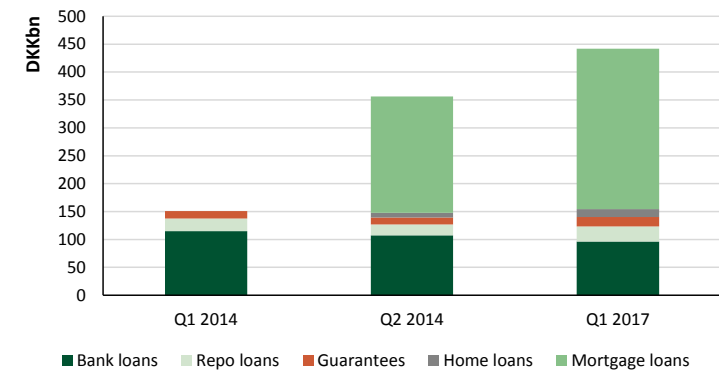
## Reduced earnings volatility:

- Growth in non-interest rate sensitive NII from mortgage activities:
  - 68% of loan volume and 32% of NII in Q1 2017
  - 61% of loan volume and 30% of NII in Q1 2015

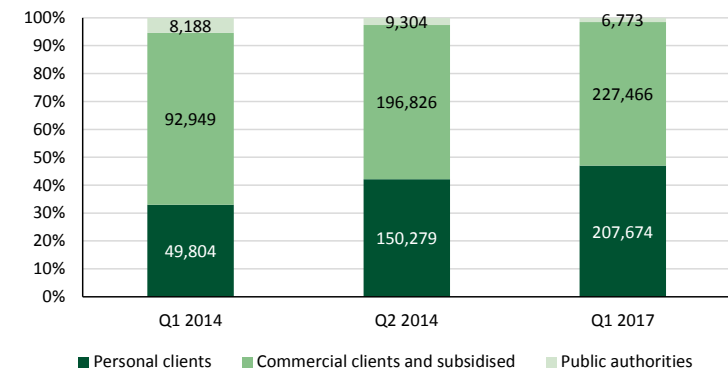
Net interest income



Total loans, advances and guarantees by loan type



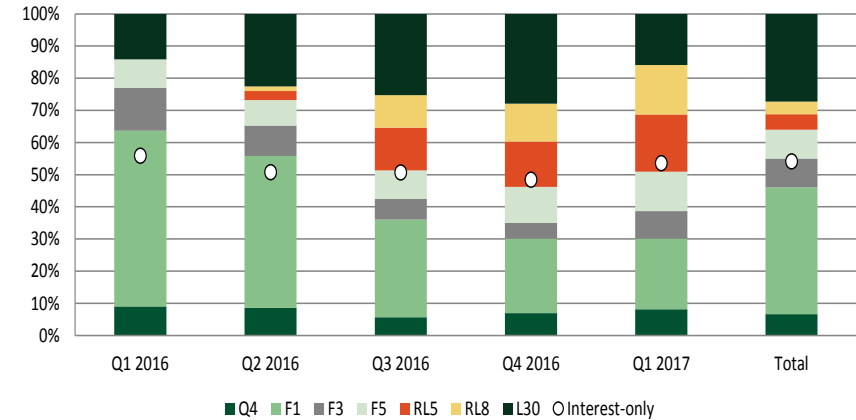
Total loans, advances and guarantees by client segment



# Growth in home loans continues to improve quality of portfolio

- Majority of clients known by Jyske Bank. Volume primarily stems from repatriation of loans previously referred to Totalkredit
- 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 2016)
- Minimal losses since December 2013
- Jyske Bank's risk appetite in growth areas is lower than average (Danish FSA report, October 2016)
- Development in portfolio composition by product type supports compliance with benchmarks in FSA diamond

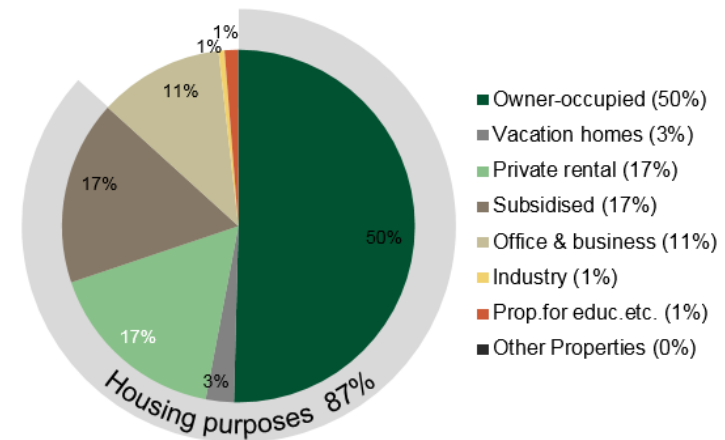
Jyske Bank home loan portfolio by product type



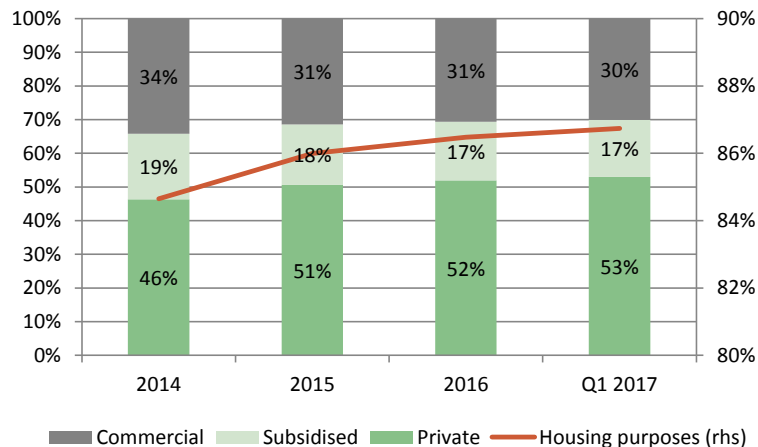
# Mortgages: The portfolio

- 87% of lending to properties with housing purposes
  - No loans with swaps to co-operative housing
  - No lending to agriculture and other primary production
- Increasing share of retail lending
  - Primarily driven by joint funding of Jyske Bank home loans
  - The increase is expected to continue
- Increase in share of fixed rate mortgages and decreasing share of F1 and F2

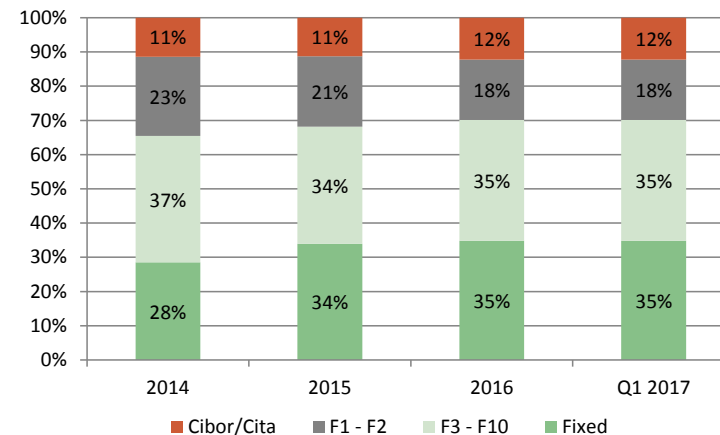
Distribution of lending portfolio



Development in lending portfolio

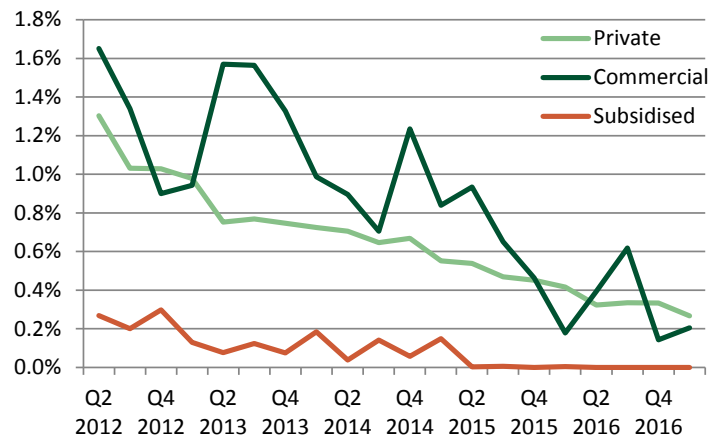


Development in loan types

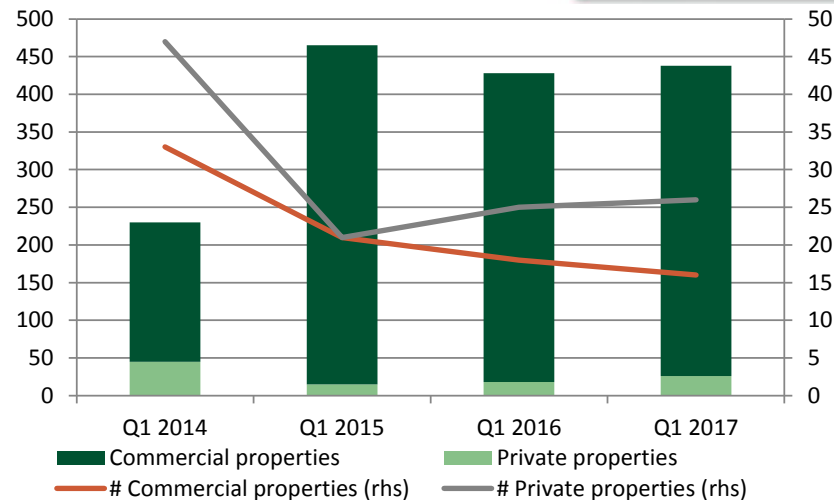


# Mortgages: Improved credit quality

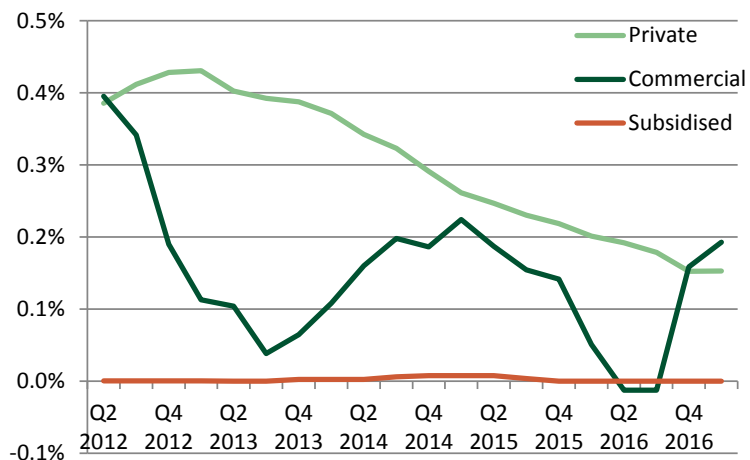
Lending in 90-days arrears (per cent of lending)



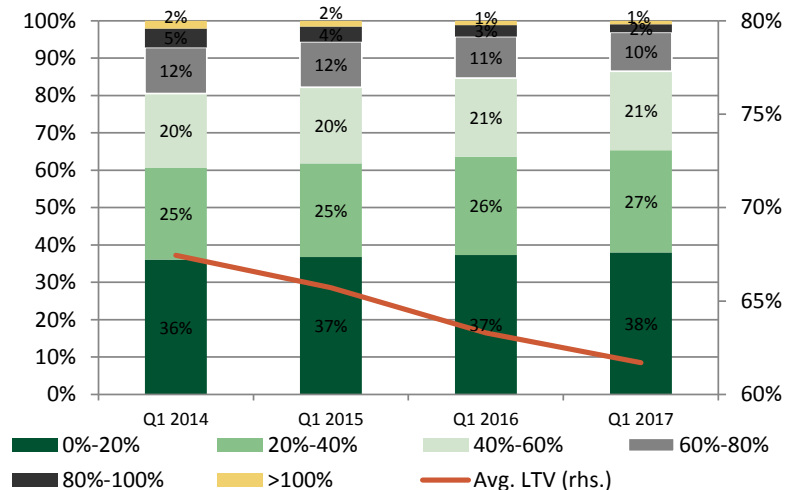
Repossessed properties (DKKm/number)



Yearly realised losses (running year)



Loan-to-Value brackets (per cent of lending)





# Bank loans: the portfolio

- Portfolio composition end of Q1 2017
  - Corporates 56%
  - Private individuals 39%
  - Public authorities 5%
- Accumulated impairment ratio total portfolio 3.6%
  - Public authorities 0%
  - Corporates 5.0%
  - Private individuals 2.1%
- Corporates
  - Net reversals on most sectors, in Q1 2017 also minor reversal on agriculture
  - Finance and insurance accounts for the largest reversal, DKK 47m
  - Impairment ratio for Q1 2017 -9bp
- Private individuals
  - Impairment ratio for Q1 2017 1bp
  - Low number of new defaults

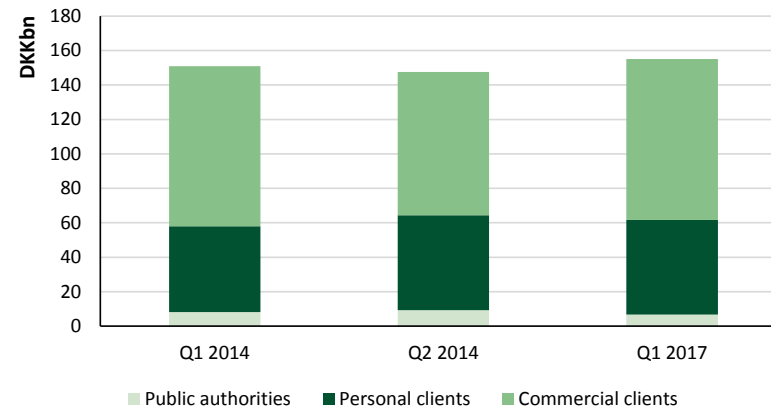
Q1 2017	Loans, advances and guarantees	Balance of loan impairment charges	Losses	Impairment charges
<b>Public authorities</b>	5.2%	0.0%	0.0%	0.0%
Agriculture, hunting, forestry and fishing	4.3%	26.9%	39.1%	6.7%
Manufacturing, mining, etc.	5.1%	3.9%	5.0%	15.3%
Energy supply	3.2%	0.6%	0.0%	-0.4%
Building and construction	2.0%	1.9%	8.5%	9.9%
Commerce	7.0%	2.9%	6.7%	-0.6%
Transport, hotels and restaurants	1.6%	1.9%	5.5%	-14.0%
Information and communication	0.6%	0.8%	0.0%	34.5%
Finance and insurance (ex repo loans)	18.4%	15.6%	0.9%	52.5%
Real property	10.2%	19.6%	12.9%	-8.0%
Other sectors	3.6%	3.5%	0.2%	8.7%
<b>Corporate clients</b>	56.1%	77.6%	78.8%	104.8%
<b>Private individuals</b>	38.6%	22.4%	21.2%	-4.8%
<b>Total</b>	100.0%	100.0%	100.0%	100.0%

Note: Bank loans, advances and guarantees excl. repo loans

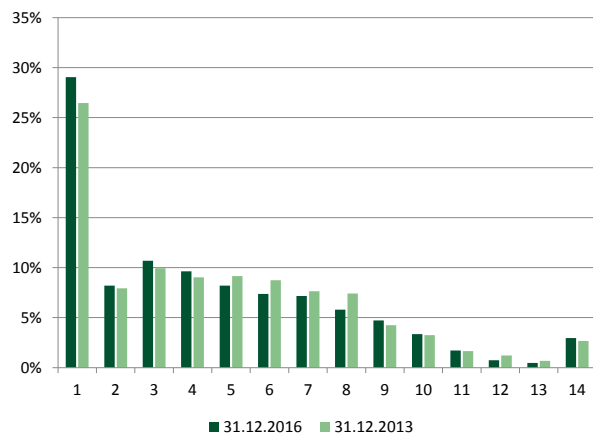
# Improved credit quality

- Only minor changes between customer segments in bank loan portfolio the past 3 years
- Improved credit quality within segments:
  - Retail: 66% in STY 1-5 rating classes end of 2016 vs. 63% end of 2013
  - Commercial: 63% in STY 1-5 rating classes end of 2016 vs. 60% end of 2013
- Improvements reflect the moderate upturn in the Danish economy: moderate economic growth, low interest rates, real wage increase, rising house prices, etc.

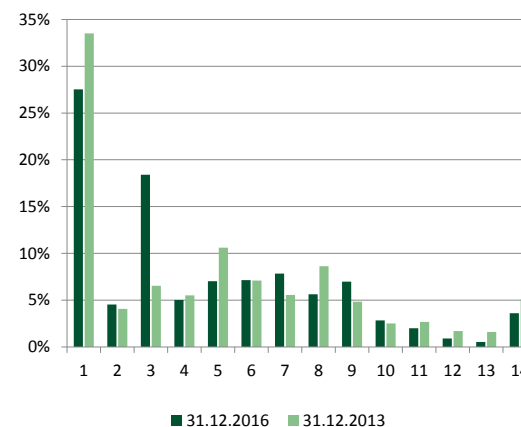
Bank loans excl. repo loans








Retail portfolio distributed by internal rating classes



Commercial portfolio distributed by internal rating classes



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