

# Jyske Bank 2011

February 2012

# Agenda

Jyske Bank in brief

Off to a good start in 2012

Jyske Bank performance 2008-2011

Jyske Bank actions in 2010, 2011 and 2012

- Strengthening the revenue base
- Cost reductions
- Select acquisitions including portfolios
- Optimizing capital structure
- Improving funding structure

Danish FSA reports

Potentials

2011 in figures

- Core earnings
- Credit quality
- Investment portfolio earnings
- Fee and commission income
- Value adjustments

The Financial Sector in Denmark

# Jyske Bank in brief

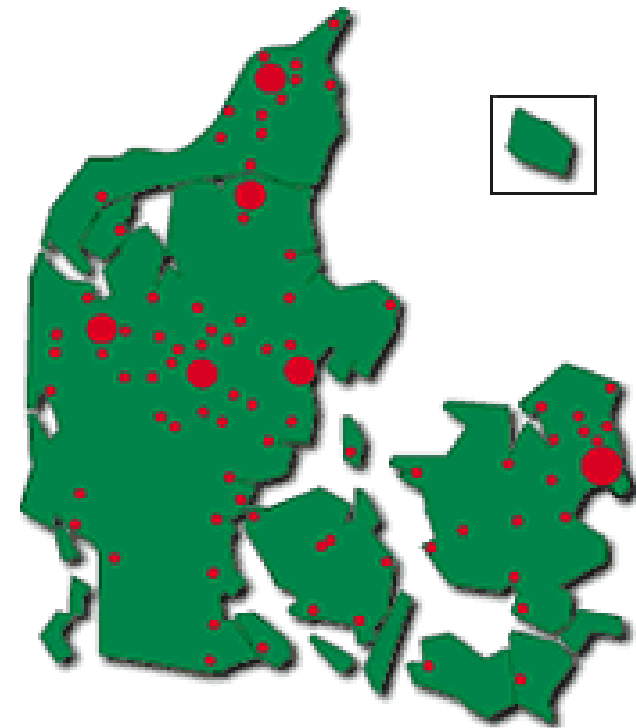
# Jyske Bank in brief

Jyske Bank focuses on core business

## Description

- Established and listed in 1967
- 2nd largest Danish bank by lending
- Total lending of approx. DKK 113bn
- 109 domestic branches
- Approx. 550,000 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
- 3,809 employees (end of 2011)
- 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), credit cards (SEB) and IT services and maintenance (JN Data) and IT R&D (Bankdata, 2012)

## Branch Network

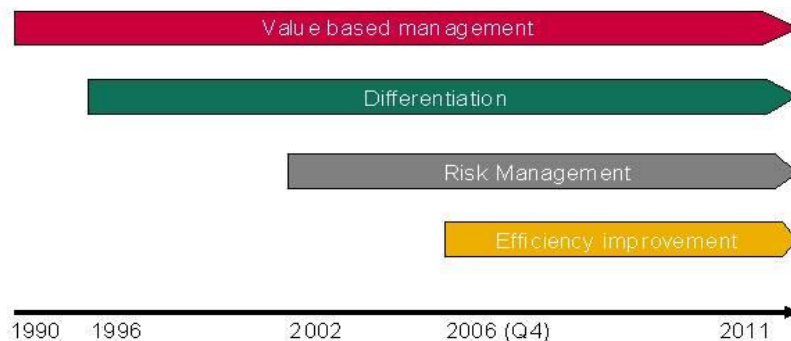


# Jyske Bank in brief

Jyske Bank has a differentiation strategy

## "Jyske Differences"

- Vision is 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:



Select Acquisitions

Bankdata



# Off to a good start in 2012

# Off to a good start in 2012

- Change of strategy: Organic growth and select acquisitions including portfolios
  - Two acquisitions of portfolios in 2011
- Underlying earnings capacity improved during 2011
- 2012 and 2013
  - Reap the fruits of actions taken in 2010, 2011 and beginning of 2012
  - ROE moving towards a normalized level

# Off to a good start in 2012 - cont.

## Financial figures 2011

- The financial highlights for the accounting year 2011 are as announced on 26 January 2012

## Funding agreement using covered bonds

- The agreement with BRFkredit about Covered Bond funding of Jyske Bank's home loans is expected to increase the income by DKK 25m-50m in 2012. The agreement offers a growth potential to the range of DKK 75m-125m p.a. (1.2 - 2% of gross earnings)

## Guarantee fund to be established in Denmark

- Costs for the build-up of the Guarantee Fund are expected to be DKK 125m in 2012 (0.9% of equity)

## Acquisitions

- In 2012 it is anticipated that the pre-tax profit from the acquired activities in 2011 will amount to about DKK 75m, and it is expected to increase to about DKK 125m in 2014 (2% of gross earnings)
- If attractive opportunities arise, Jyske Bank will consider acquiring further select activities over the coming years as the Danish banking sector is expected to consolidate.



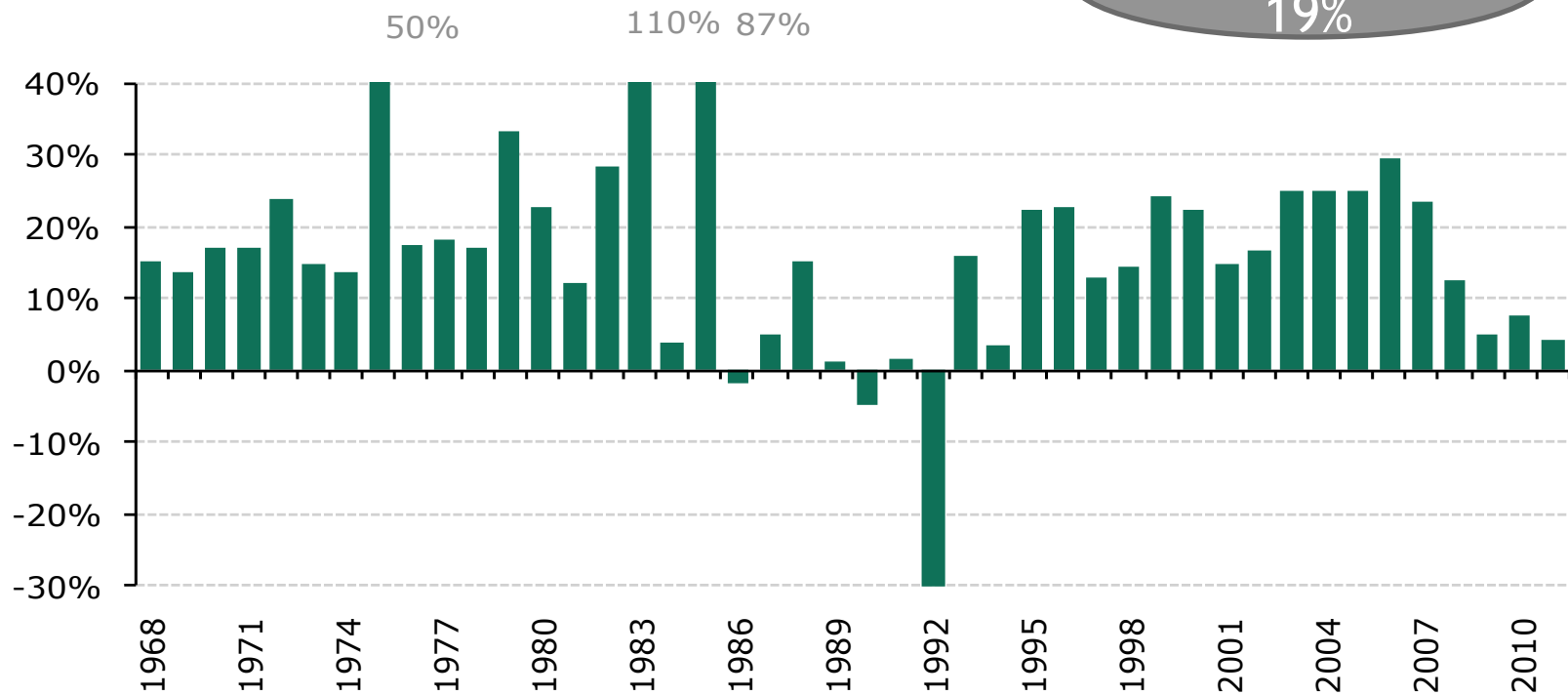
# Jyske Bank performance 2008-2011

DKKm	2008	2009	2010	2011
Profit before Bank Packages, the Guarantee fund and tax	1522	1208	1509	1269*
ROE	15.7%	11.3%	12.1%	9.5%

\* Exclusive of one off items and special items

Pre-tax profit  
(ROE on avg. equity)

Average:  
19%



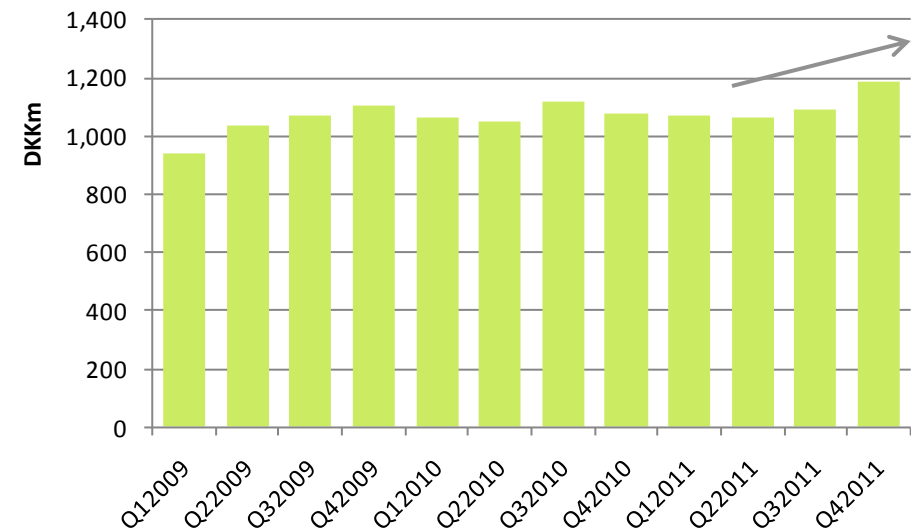
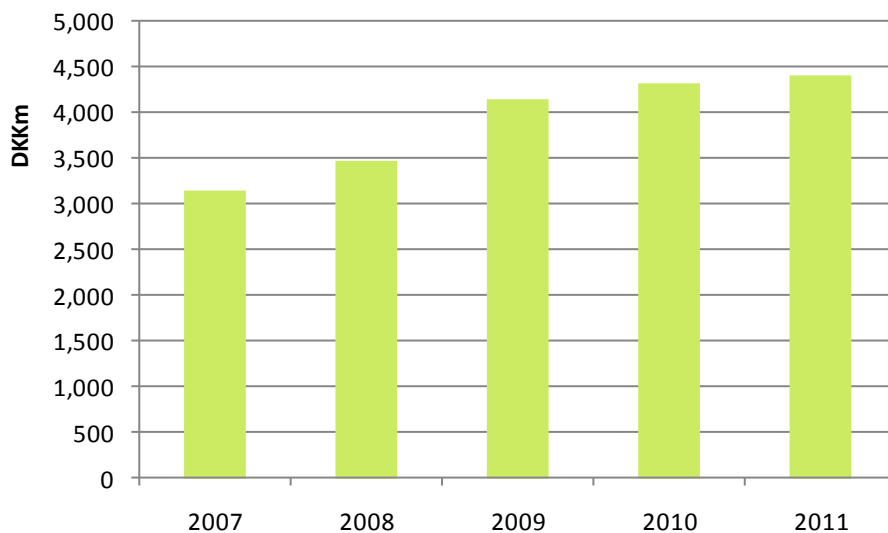
# Jyske Bank actions in 2010, 2011 and 2012

- Strengthening the revenue base
- Cost reductions
- Select acquisitions including portfolios
- Optimizing capital structure
- Improving funding structure

## Strengthening the revenue base

- Interest rate hikes in April, July, October, December
- Action taken after Central Bank-rate changes
- 150 bp (gross) in 2011 due to higher funding costs and payments to the Guarantee Fund
- Full effect from Q2 2012

### Net Interest Income

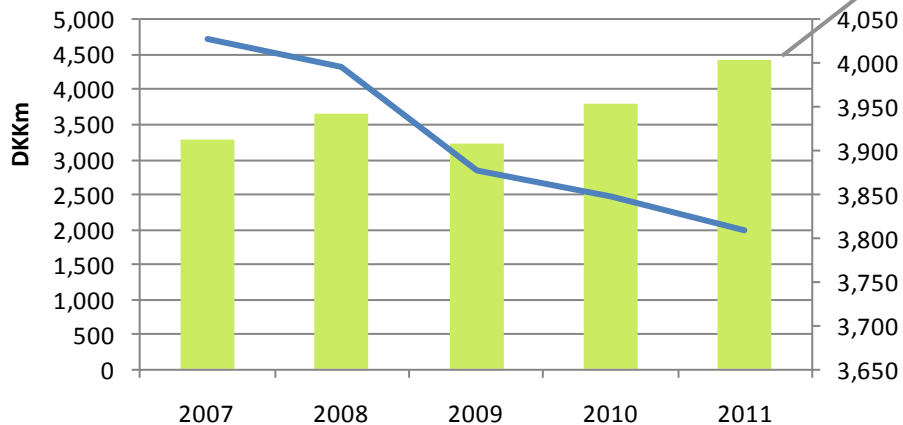


# Cost reductions

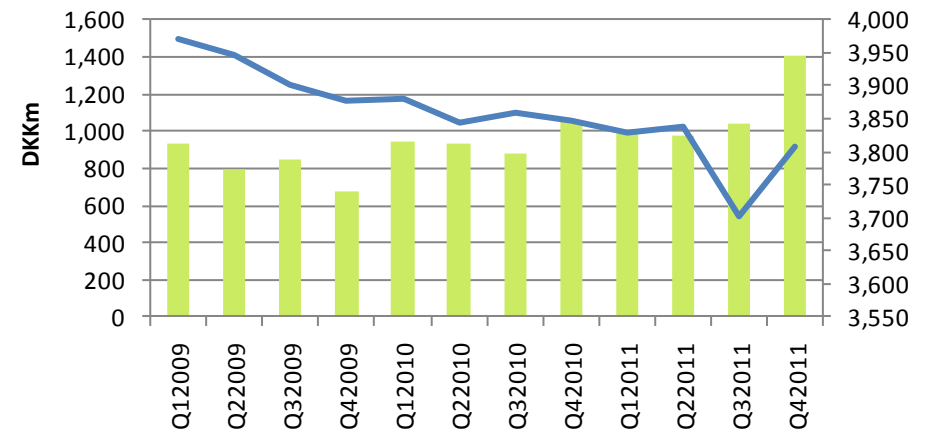
- Underlying growth in costs 2% in 2011
- Staff reductions
  - Expected 3550 employees end of 2012 against 4158 in Q3 2006
- 8 branch mergers in NW Jutland and Copenhagen
- Converting IT systems to Bankdata systems; cost reduction DKK 200m relative to 2010-budget
- *Total reduction in costs annually from 2013: DKK 400m*

## Operating expenses and employees

Special items  
DKK 460m



■ Operating expenses, depreciation and amortisation  
— Number of full-time employees (rhs)



■ Operating expenses, depreciation and amortisation  
— Number of full-time employees (rhs)

# Cost reductions

## Continued reduction in no. of employees

- 150 employees in Sept 2011 - one off costs of DKK 80m in Q3 2011
- 100 employees by natural wastage in 2012
- Full effect DKK 150m
- +141 employees from acquisitions
- Expected 3550 employees end of 2012 against 4158 in Q3 2006

## Migration of IT-platform to Bankdata in Q4 2012

- Conversion costs DKK -95m in Q4 2011; DKK -85m in budget 2012
- Cost reduction of DKK 200m relative to budget 2010/2013
- 2012/2013-effect: DKK 100m

## Merge of branches in Q2 and Q3 2011

- 2 in Copenhagen, 6 in NW Jutland
- Continuous focus on profitable branch structure

# Select acquisitions including portfolios

## Parts of Finans Nord

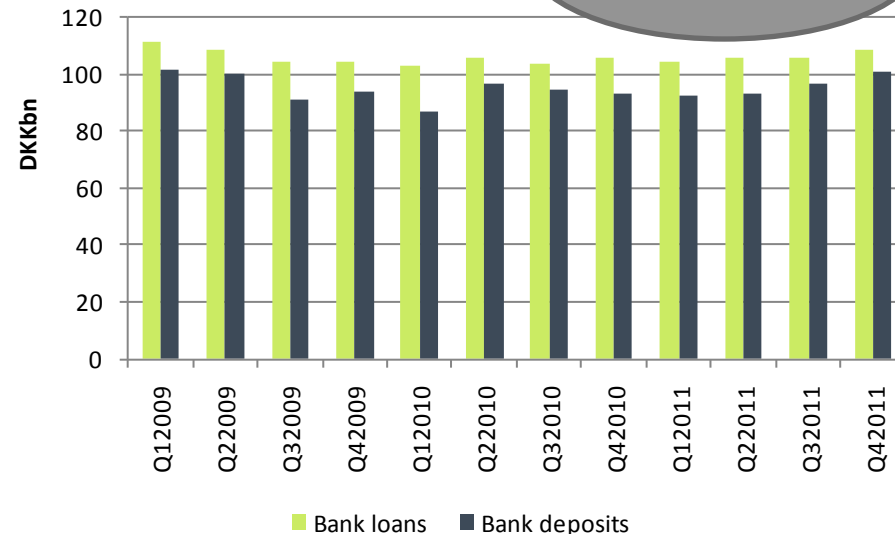
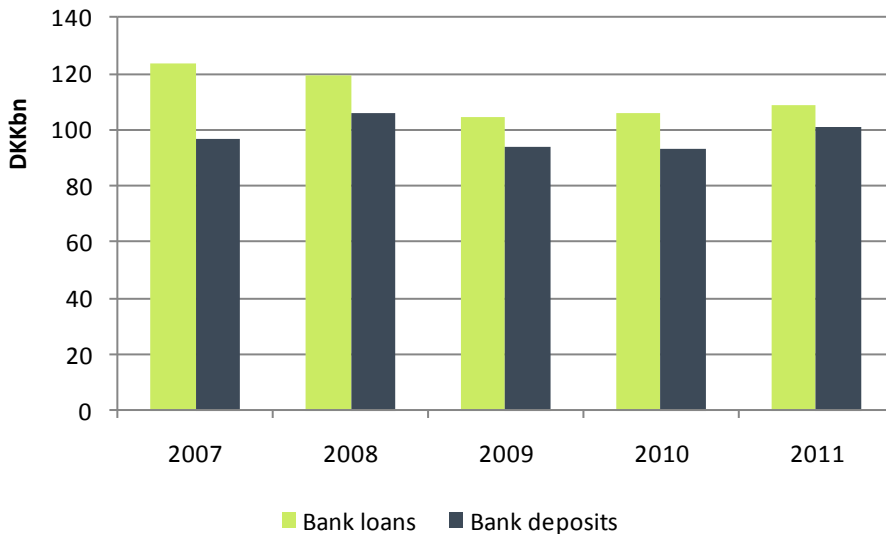
- Future new sales and administration of existing corporate leasing portfolio; approx. DKK 6bn (gross), DKK 300m on Jyske Bank balance sheet (branch) by end 2011, expected DKK 1.6bn in 2012.
- Car-leasing company Easyfleet, approx. DKK 400m (subsidiary) by end 2011, expected DKK 800m in 2012.
- Badwill: DKK 4m
- Budget 2012: Earnings before tax DKK 31m, ROE before tax 19% (weighted estimate)

## Fjordbank Mors (branch)

- Retail and SME portfolio; 43.000 customers, loans DKK 2.3bn, deposits DKK 3.5bn, AUM approx. DKK 2.4bn
- Badwill: DKK 155m
- Budget 2012: Earnings before tax DKK 48m; ROE before tax 15% (estimate)

2012 expected DKK 75m before tax  
 2014 expected DKK 125m before tax ("steady state")

q/q and y/y:  
 1.8%/2.7%





# Management summary

DKKkm	2011				2012E			
	Fjordbank Mors	Finans Nord	Easyfleet	Total	Fjordbank Mors	Finans Nord	Easyfleet	Total
Net interest income	19,2	1,3	0,6	21,1	110,1	26,8	2,1	139,1
Other income	2,8	10,3	9,0	22,1	19,7	37,4	33,6	90,7
Gross earnings	22	11,6	9,6	43,3	129,8	64,3	35,8	229,8
Staff costs	5,5	7,6	4,1	17,2	32,2	32,0	13,3	77,5
Other costs	4,1	2,8	5,3	12,2	27,1	10,1	7,3	44,5
Total costs	9,6	10,4	9,4	29,4	59,3	42,1	20,6	122,1
<b>Core earnings before loan impairment charges</b>	<b>12,4</b>	<b>1,2</b>	<b>0,3</b>	<b>13,8</b>	<b>70,5</b>	<b>22,1</b>	<b>15,1</b>	<b>107,7</b>
Loan impairment charges*					22,1	3,7	2,4	28,2
Pre-tax profit					48,4	18,4	12,7	79,6
Tax					12,1	4,6	3,2	19,9
<b>Profit for the year</b>					<b>36,3</b>	<b>13,8</b>	<b>9,6</b>	<b>59,7</b>

\* Assessed impairment ratio:

FBM 1%

EF og FN 0.4%

Balance sheet, DKKkm	End 2011				2012E			
	Fjordbank Mors	Finans Nord	Easyfleet	Total	Fjordbank Mors	Finans Nord	Easyfleet	Total
Loans and advances	2210	269	442	2921	2210	1610	754	4574
Deposits	3393			3393	3393			3393
Margin on loans and advances	3,94%	3,31%	4,02%		3,94%	2,90%	3,46%	
Margin on deposits	0,67%				0,67%			

ROE					15%	10%		
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31%

# Optimizing capital structure

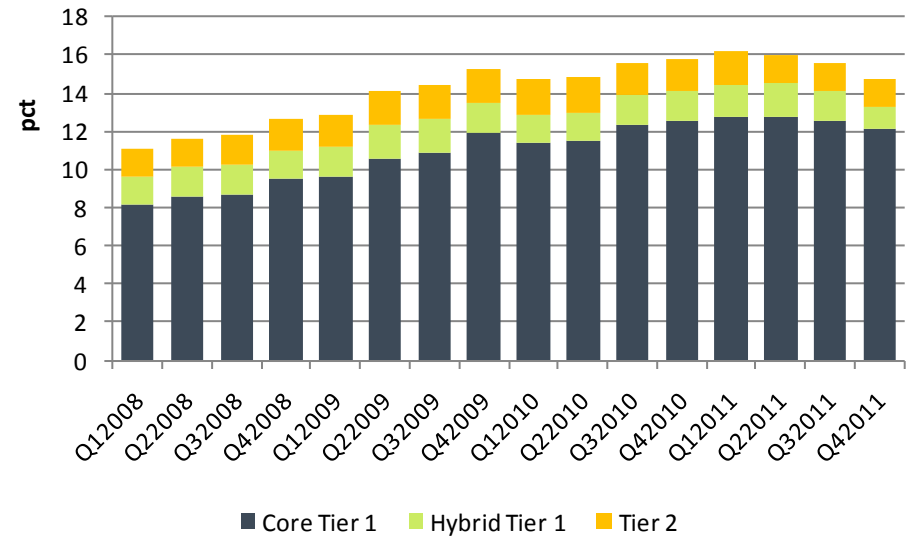
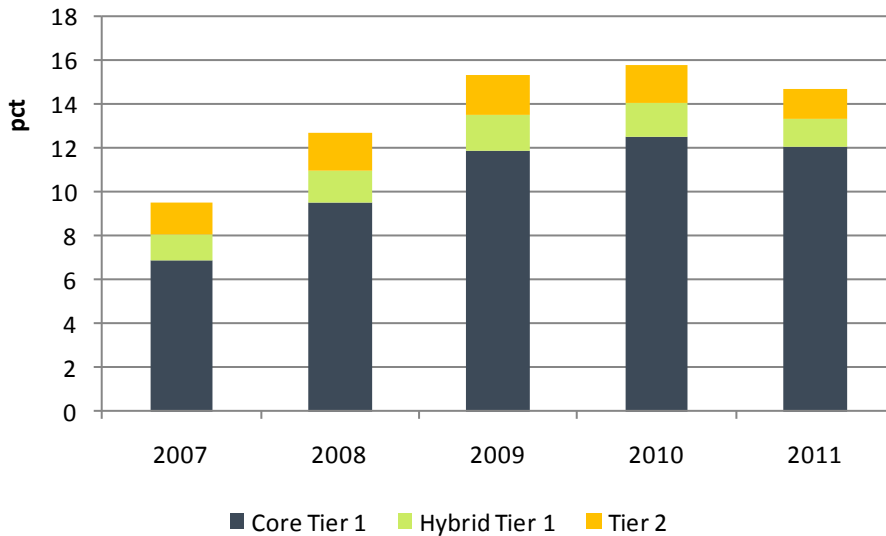
## Redemption of EUR 25m supplementary capital in Q2 2011

- Profit before tax: DKK - 52m
- 7% bond loan
- Contractual maturity in 2024

## Buy back of EUR 50m hybrid capital in Q4 2011

- Profit after tax: DKK +155m
- Price of 55
- Offers for EUR 68m
- Core Tier 1 Capital ratio increased by 0.1 percentage points

# Solvency ratio



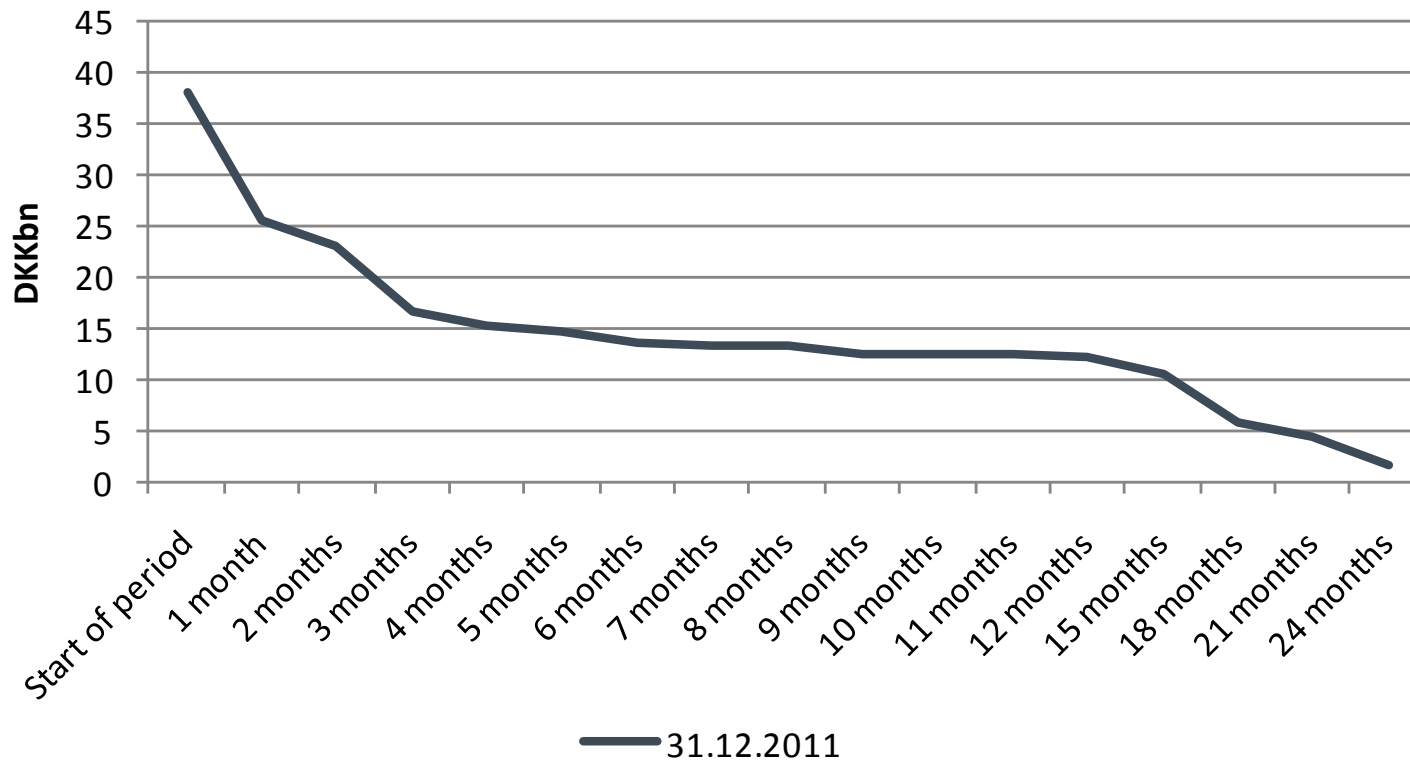
- Focus on equity
- Aligned capital targets with requirements for swedish SIFI's (Core Tier 1 of 12%)
- No government capital
- No dividend payments (since 2000)

# Improving funding structure

## Agreement with BRF Kredit to issue covered bonds - Feb. 2012

- Home loans transferred from JB balance sheet to BRF Kredit
- Issue AAA covered bonds from existing capital centre
- All new loans from February 2012
- Part of the existing stock of home loans, dependent on approval from the Danish FSA
- Net Interest Income DKK 25-50m in 2012
- Long term Net Interest Income DKK 75-125m per annum - given the current market conditions

# Liquidity position and run-off



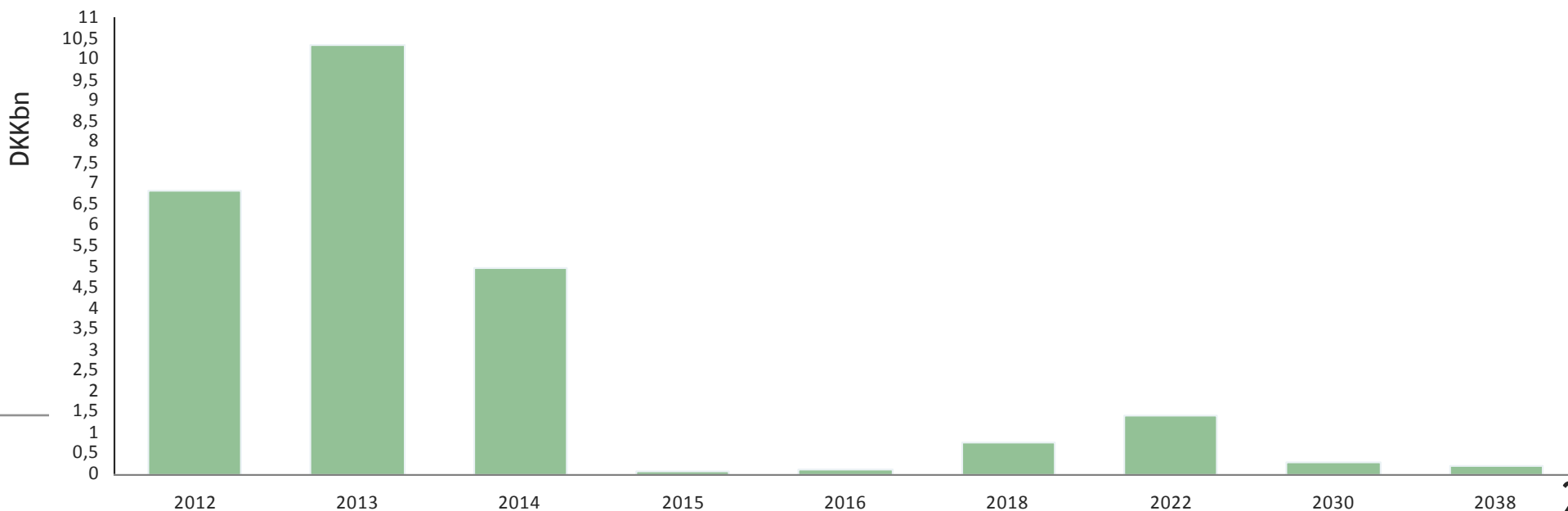
# Long-term funding strategy - A rare but regular issuer in the EMTN market

Funding plans from 2012 and beyond will depend on developments in the balance sheet (funding gap) - policy is to maintain a deposit/loan ratio in the region of 90% (end 2011: 93%):

- Looking at our maturity profile we will have an ongoing refinancing need in the years ahead
- Expect 1-2 public benchmarks a year and ongoing activities in the private placement market
- With a limited funding gap and solid core deposits focus will likely be on 2 to 3-year maturities

Covered bonds are considered as a future funding tool, as the eligible loans are approaching “critical mass”.

**Jyske Bank will continue to maintain a conservative funding profile**



# Danish FSA reports

# Danish FSA reports received in 2011

## 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



# Potentials

# Potentials

## Legal development in Hedge-case

- Provision of DKK 229m in 2011
- Dependent on development of case

## Cancellation of hybrid capital

- Nominal DKK 1292m (potential)

# 2011 in figures

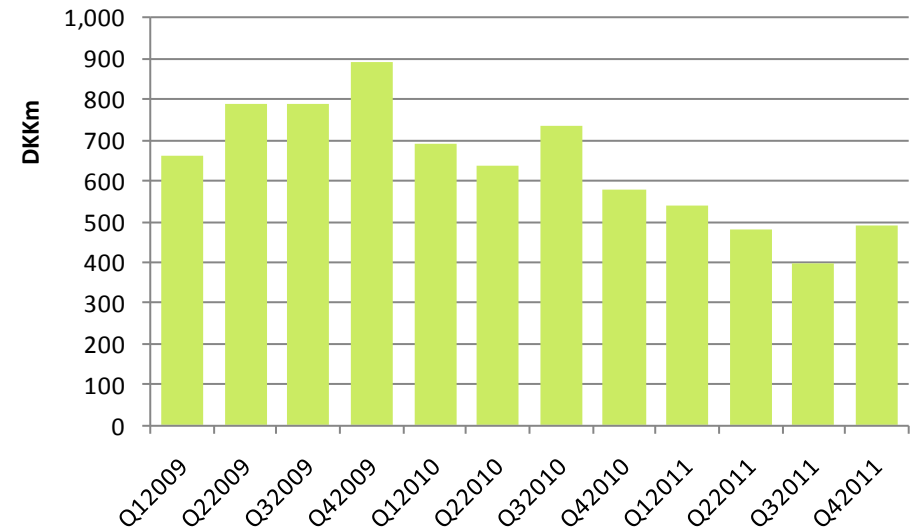
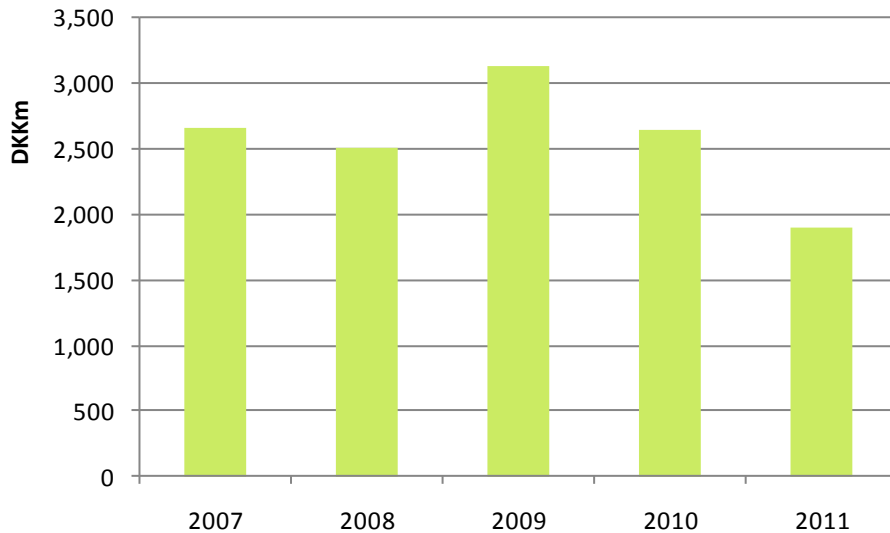
- Core earnings
- Credit quality
- Investment portfolio earnings
- Fee and commission income
- Value adjustments

# Core earnings

# Core earnings

<b>Pre-tax profit for the period</b> DKKm	<b>2011</b>	<b>2010</b>	<b>Index 11/10</b>	<b>Q4 2011</b>	<b>Q3 2011</b>	<b>Q2 2011</b>	<b>Q1 2010</b>	<b>Q4 2010</b>
Net interest income	4.410	4.315	102	1.186	1.091	1.066	1.067	1.080
Dividends, etc.	17	20	85	0	1	14	2	0
Net fee and commission income	1.310	1.322	99	387	306	292	325	417
<b>Net interest and fee income</b>	<b>5.737</b>	<b>5.657</b>	<b>101</b>	<b>1.573</b>	<b>1.398</b>	<b>1.372</b>	<b>1.394</b>	<b>1.497</b>
Value adjustments	-44	387	-11	22	-74	-24	32	20
Other operating income	634	380	167	298	114	113	109	99
<b>Gross earnings</b>	<b>6.327</b>	<b>6.424</b>	<b>98</b>	<b>1.893</b>	<b>1.438</b>	<b>1.461</b>	<b>1.535</b>	<b>1.616</b>
Operating expenses, depreciation and amortisation	4.415	3.802	116	1.403	1.044	979	989	1.046
Profit on investments in associates and group enterprises	-7	22	-32	-2	2	-2	-5	9
<b>Core earnings before loan impairment charges and provisions for guarantees</b>	<b>1.905</b>	<b>2.644</b>	<b>72</b>	<b>488</b>	<b>396</b>	<b>480</b>	<b>541</b>	<b>579</b>
Loan impairment charges and provisions for guarantees	1.478	1.581	93	488	376	370	244	279
<b>Core earnings</b>	<b>427</b>	<b>1.063</b>	<b>40</b>	<b>0</b>	<b>20</b>	<b>110</b>	<b>297</b>	<b>300</b>
Investment portfolio earnings	346	446	78	126	53	95	72	82
<b>Profit before Bank Package I and the Guarantee Fund</b>	<b>773</b>	<b>1.509</b>	<b>51</b>	<b>126</b>	<b>73</b>	<b>205</b>	<b>369</b>	<b>382</b>
Bank Package I and the Guarantee Fund	-172	-506	34	49	35	-87	-169	20
<b>Pre-tax profit</b>	<b>601</b>	<b>1.003</b>	<b>60</b>	<b>175</b>	<b>108</b>	<b>118</b>	<b>200</b>	<b>402</b>

# Core earnings before loan impairment charges



- Hit by value adjustments of DKK -44m in 2011
  - Nil improving in second half of 2011
- Expected to improve in 2012 due to actions in 2011

# Credit quality

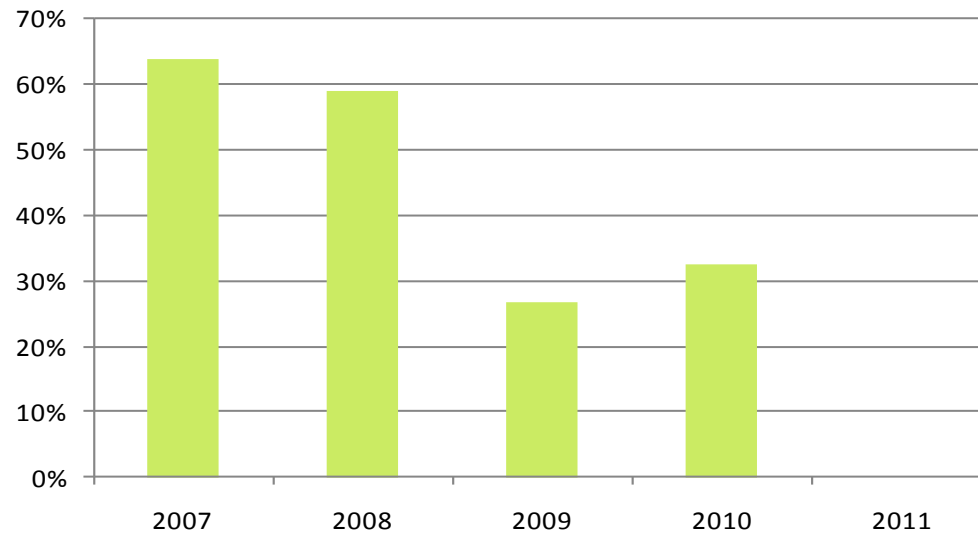
# Loans and advances split by sector

Jyske Bank A/S Loans, advances and guarantees as well as loan impairment charges and provisions for guarantees by sector DKKmn	Loans, advances and guarantees		Balance of loan impairment charges and provisions for guarantees		Loan impairment charges and provisions for guarantees for the year		Loss for the year	
	2011	2010	2011	2010	2011	2010	2011	2010
	Public authorities	5.065	4.582	0	0	0	0	0
Agriculture, hunting, forestry, fishing, etc.	8.174	8.870	590	534	294	333	273	41
Manufacturing and mining, etc.	7.894	7.883	125	270	31	160	180	55
Energy supply	2.355	2.886	17	4	27	-2	17	0
Construction	1.966	2.202	94	92	64	55	70	62
Commerce	7.178	6.540	238	336	98	109	207	77
Transport, hotels and restaurants	3.129	2.685	26	58	8	19	41	49
Information and communication	397	490	12	16	6	9	11	14
Finance and insurance	38.179	29.179	495	1.199	165	456	888	151
Real property	10.739	11.092	780	517	369	251	149	213
Other sectors	4.493	4.526	131	222	-33	68	54	47
Corporate customers, individually assessed, total	84.504	76.353	2.508	3.248	1.029	1.458	1.890	709
Corporate customers, collective impairment charges	<sup>1</sup>		506	466	41	99	6	4
Personal customers, individually assessed	44.379	45.645	448	294	329	126	216	151
Personal customers, collective impairment charges	<sup>1</sup>		147	116	52	20	25	29
<b>Total</b>	<b>133.948</b>	<b>126.580</b>	<b>3.609</b>	<b>4.124</b>	<b>1.451</b>	<b>1.703</b>	<b>2.137</b>	<b>893</b>



# Large exposures

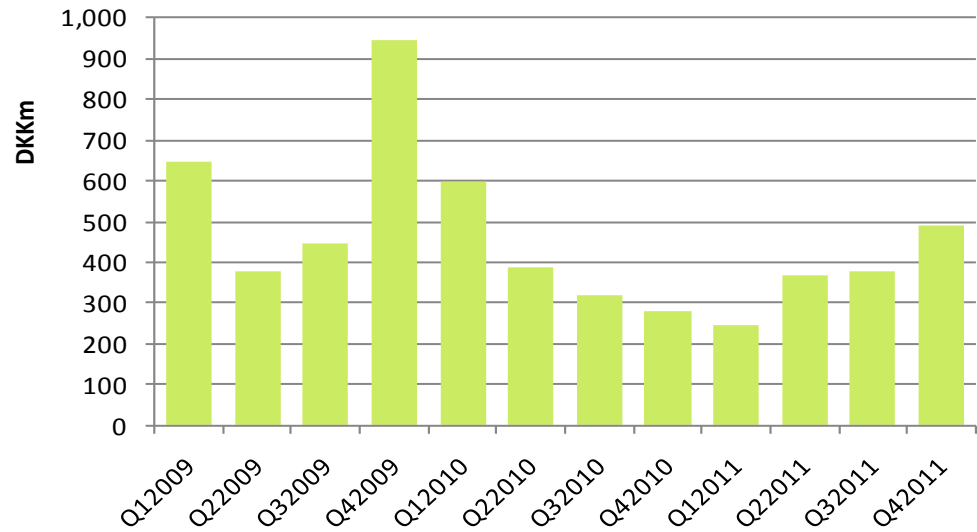
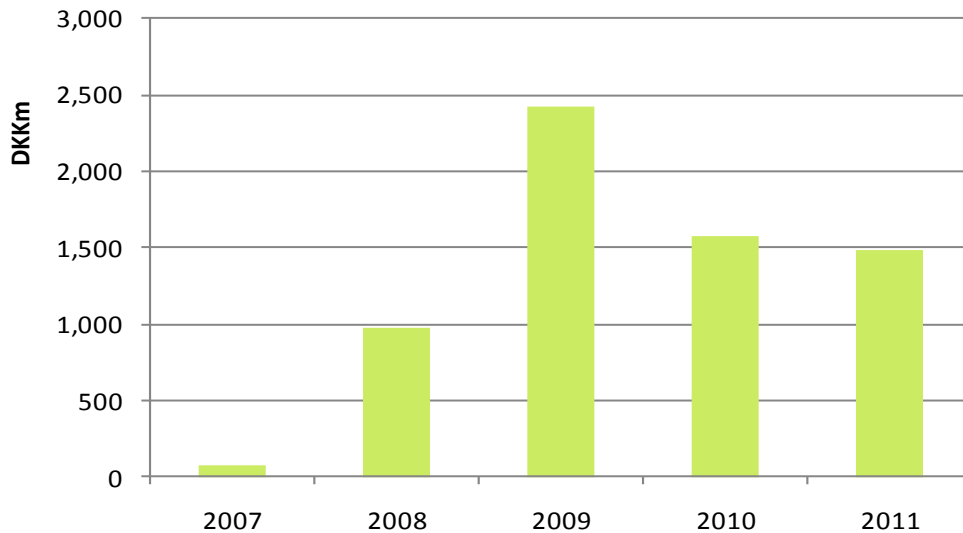
per cent of capital base



- Long-term strategy is intact to reduce dependence of large corporates
- Minor change in definition of large exposures in 2011 (covered bonds)

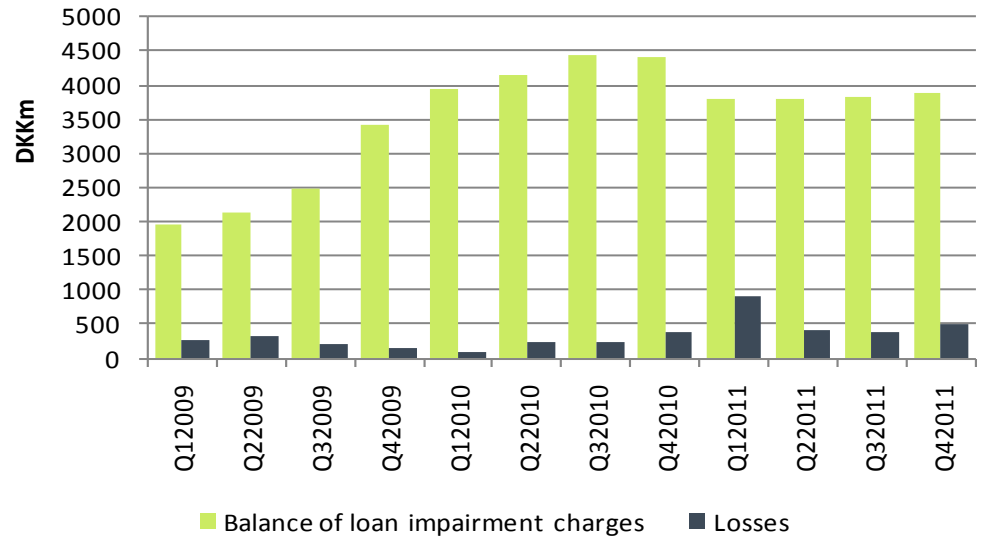
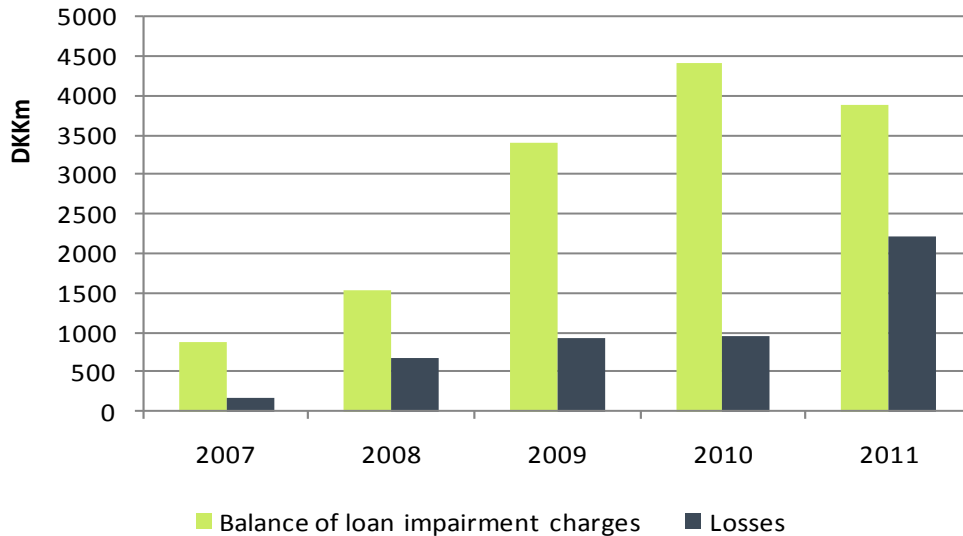


# Loan impairment charges



- Strong performance throughout 2010
- Positive trend reversed in Q2 2011 driven by economic standstill
- New level of impairment charges, particularly driven by agriculture, real estate and commerce
- Contribution to impairments retail/corp: 26%/74%

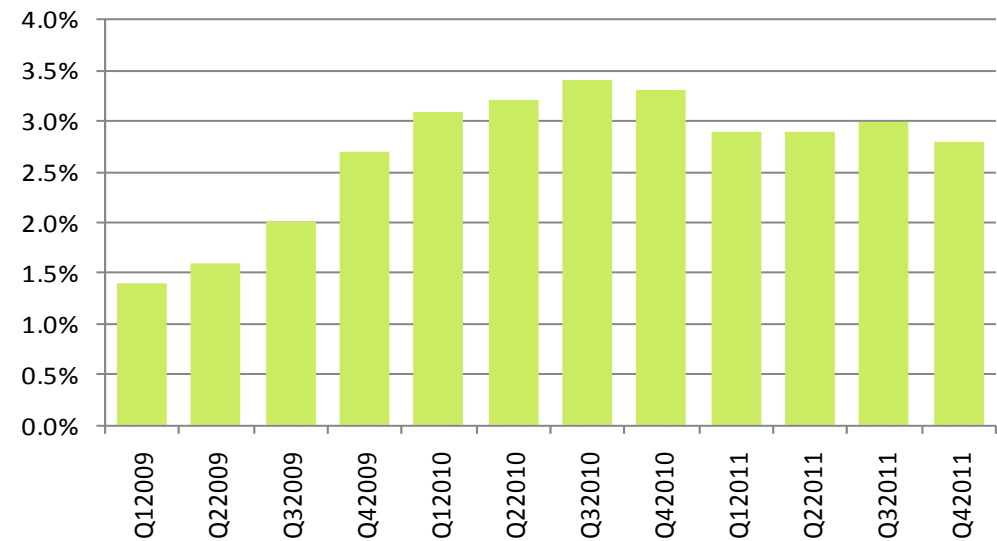
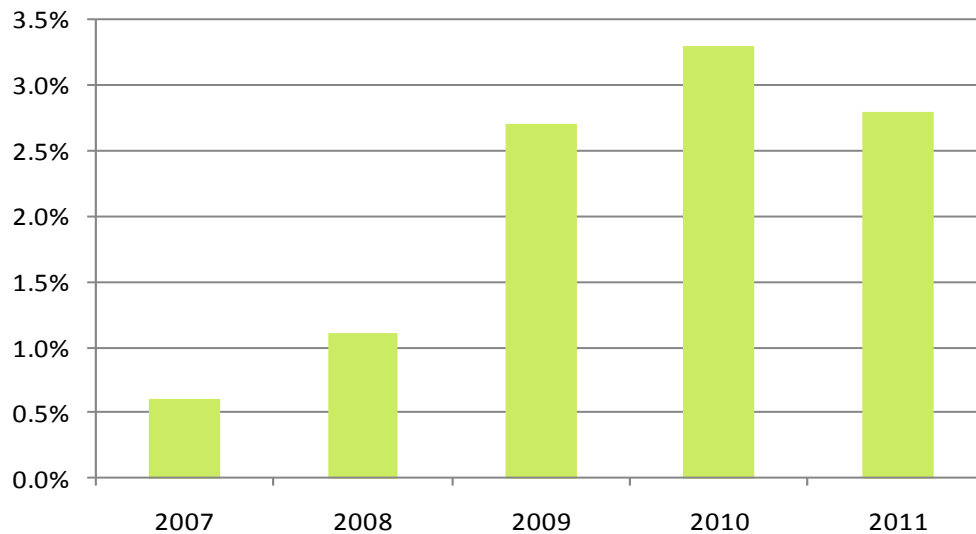
# Balance of loan impairment charges



- Loan losses increasing as expected
- Balance of impairment charges retail/corp: 16%/84%
- Balance expected to decrease further in 2012

# Balance of loan impairment charges

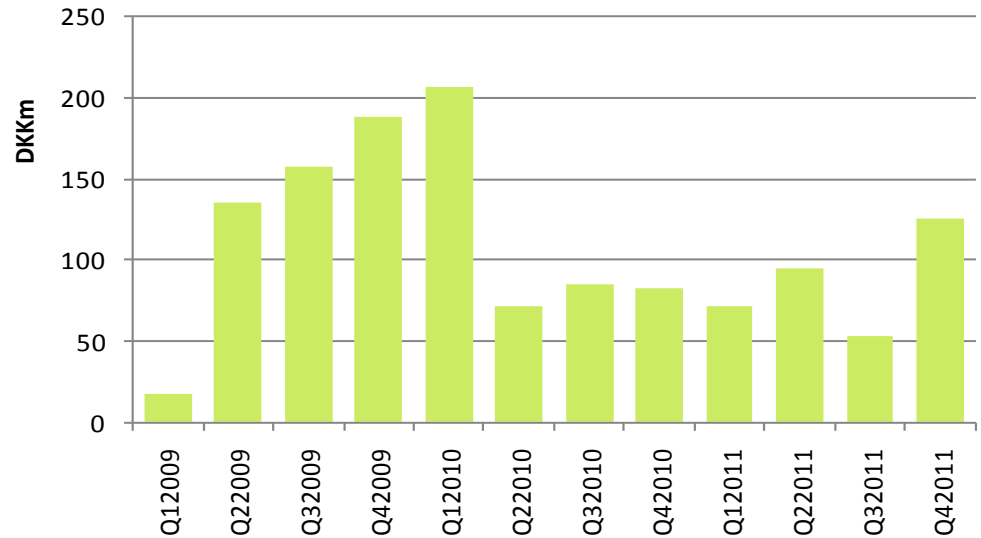
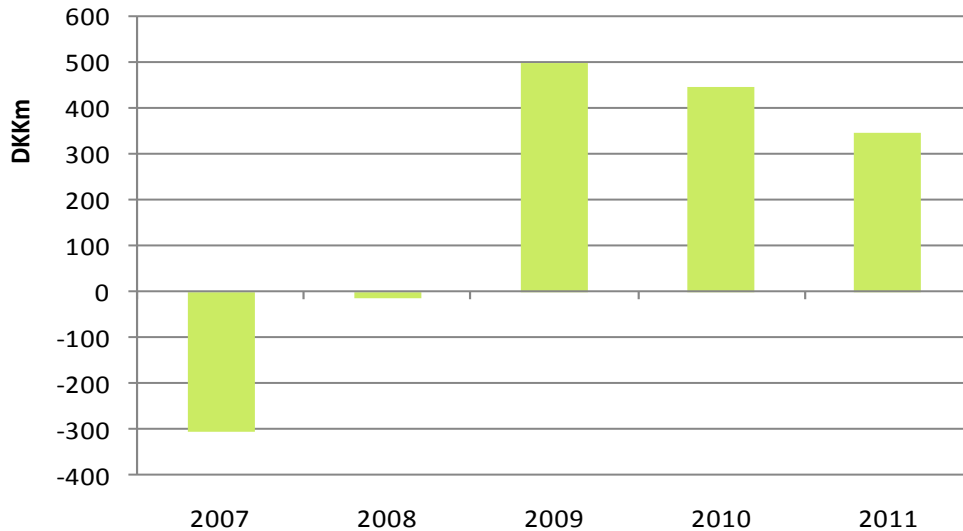
pct. of loans and advances



- Level of 2.8% from peak of 3.4% in Q3 2010
- Normalised interval approx. 2-2.5%

# Earnings from investment portfolios

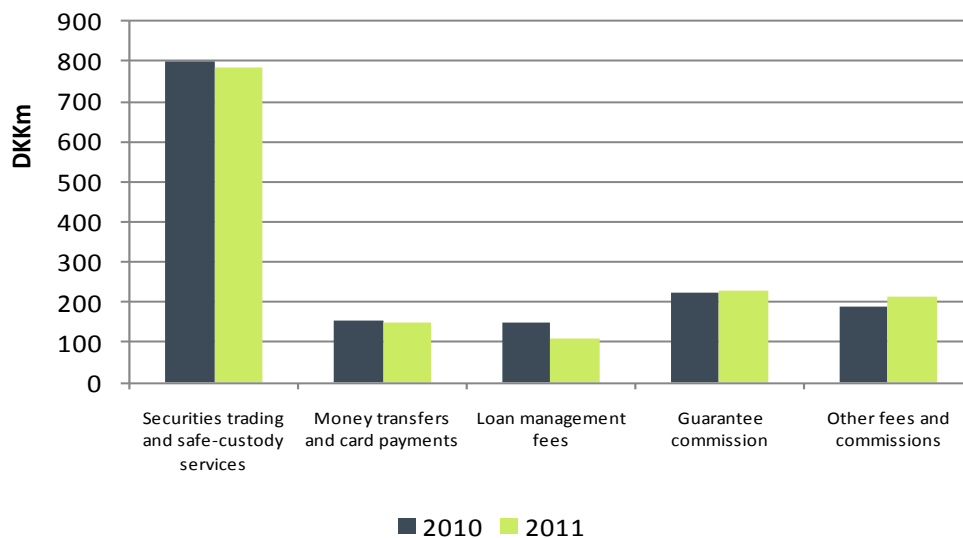
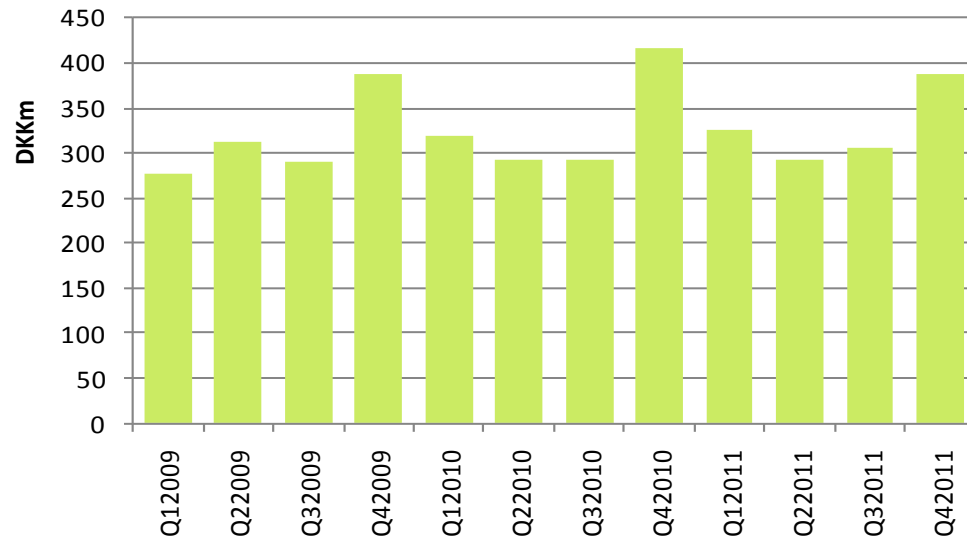
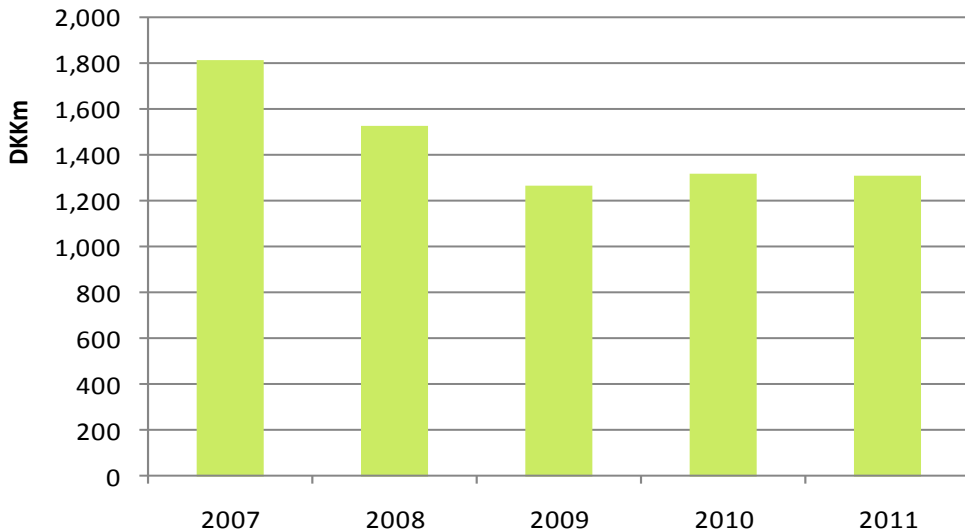
# Earnings from investment portfolios



- Satisfactory return in 2011 of DKK 346m above 5-year average of DKK 193m after funding costs
  - Low interest rate risk (VaR) in Treasury portfolio
  - Interest rate risk hedges interest rate risk in banking book

# Fee and commission income

# Fee and commission income

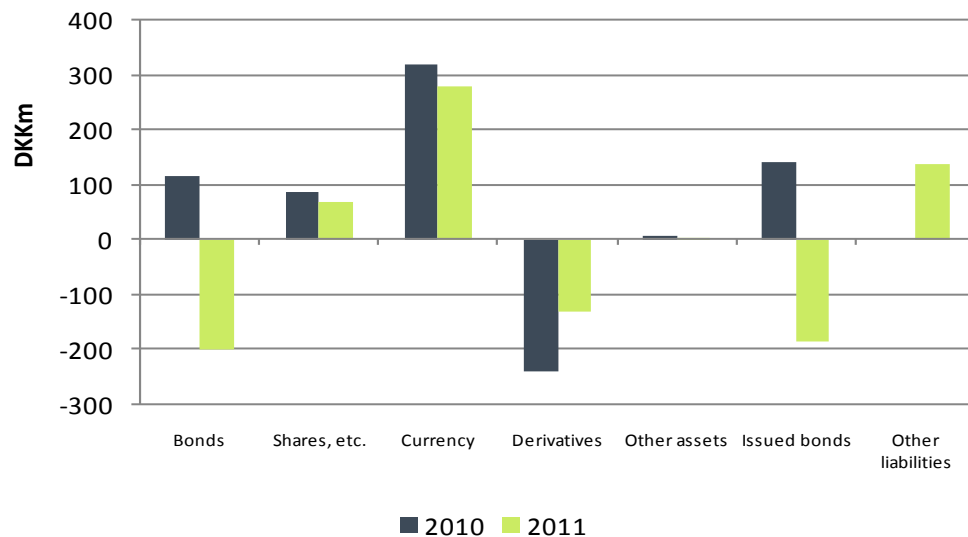
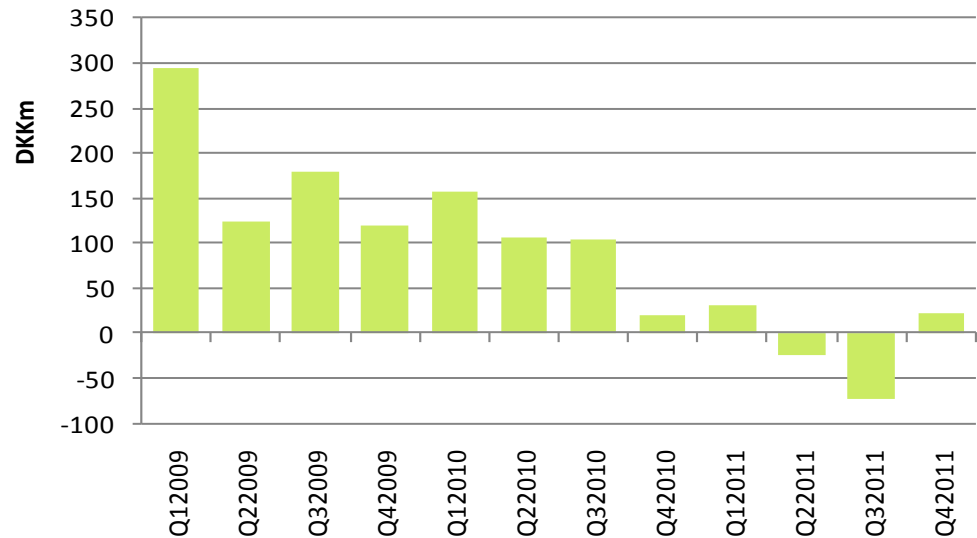
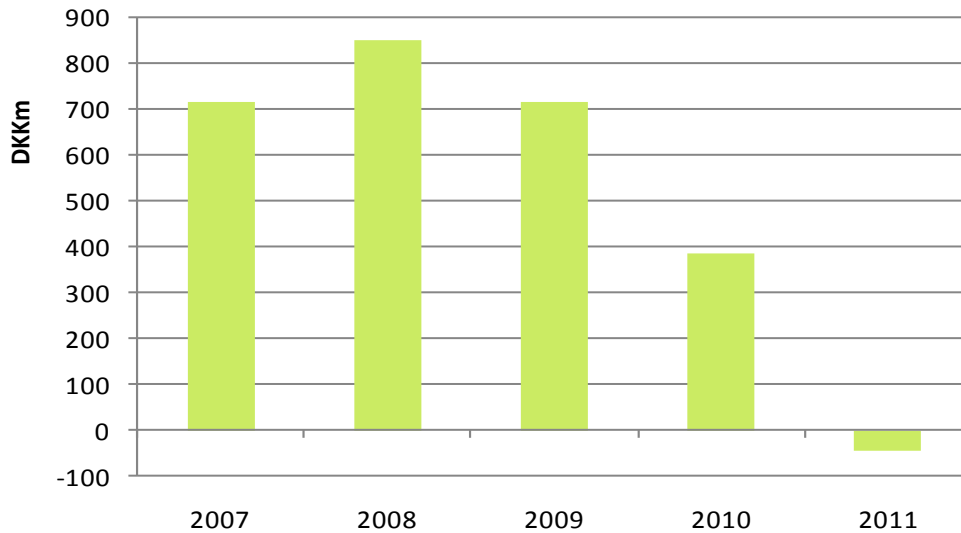


- Stable level in 2009-2011
- No major shifts in composition of fees and commissions
- Low activity level and low risk appetite expected to increase slightly in 2012



# Value adjustments

# Value adjustments



- Low turnover (FX, derivatives trading)
- Negative value adj. from holdings of own issued bonds
- Shift in income composition between value adj. and NII e.g. HTM-portfolio
- Expected positive value adj. in 2012

# The Financial sector in Denmark

# Danish financial institutions 2008

	Equity <sup>*)</sup>
<b>1 Danske Bank</b>	<b>104.355</b>
<b>2 Jyske Bank</b>	<b>9.704</b>
<b>3 FIH Erhvervsbank</b>	<b>7.849</b>
<b>4 Sydbank</b>	<b>6.697</b>
<b>5 Nykredit bank</b>	<b>6.099</b>
<b>6 Spar Nord</b>	<b>4.138</b>
<b>7 Arbejdernes Landsbank</b>	<b>2.951</b>
<b>8 Roskilde Bank</b>	<b>2.633</b>
<b>9 Amagerbanken</b>	<b>2.319</b>
<b>10 Forstædernes Bank</b>	<b>2.208</b>
<b>11 Kronjylland, Sparekassen</b>	<b>2.191</b>
<b>12 Fionia Bank</b>	<b>2.018</b>
<b>13 Alm. Brand Bank</b>	<b>1.917</b>
<b>14 Den Jyske Sparekasse</b>	<b>1.826</b>
<b>15 Ringkøbing Landbobank</b>	<b>1.779</b>
<b>16 Vestjysk Bank</b>	<b>1.714</b>
<b>17 Sparekassen Sjælland</b>	<b>1.701</b>
<b>18 Sparbank Vest</b>	<b>1.673</b>
<b>19 Sparekassen Himmerland</b>	<b>1.459</b>
<b>20 Sparekassen Lolland</b>	<b>1.313</b>

**\*) Start of the year**

# Questions