

Jyske Bank

Danske Bank - Danish Banking Seminar
14 March 2017

- A strong finish in Q4 contributes to delivering a net profit of DKK 3,116m, equal to ROE 10.3% in 2016
- Continued growth in new home loans
 - Total volume of DKK 80bn end of 2016 versus DKK 57.5bn end of 2015
 - Expected growth of DKK 10-15bn in 2017
- Improved credit quality
 - Net reversals - credit quality improved in all segments, in Q4 also reversals on agriculture
 - Benign environment
- Capital adjustment process at half-way mark
 - Capital ratio of 18.3% and CET1 ratio of 16.5%, thus 1.8 percentage point of supplementary capital instruments vs. target of 3.5 percentage point
 - Majority of capital adjustment process to be completed in 2017

Our targets

2016

- Delivering an attractive long-term return on equity of 8-12%
- Volume growth of DKK 100bn in housing-related loans and DKK 20bn in property 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%
 - Capital levels above long term targets in order to manage future regulatory requirements
 - S&P rating A- (stable outlook)

10.3%

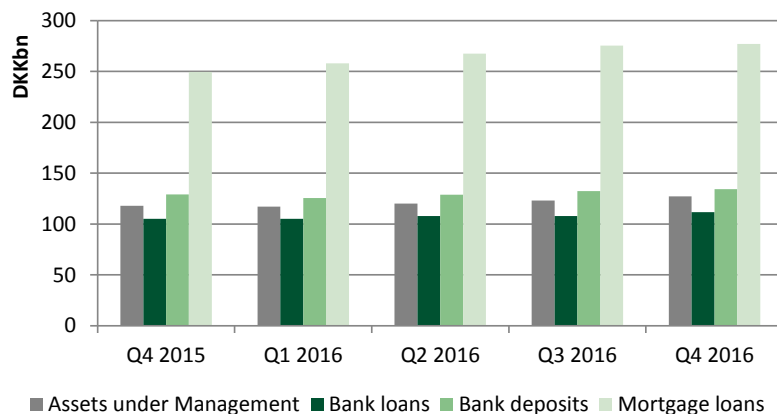
DKK 80.0
and DKK
12.4bn

>DKK 600m

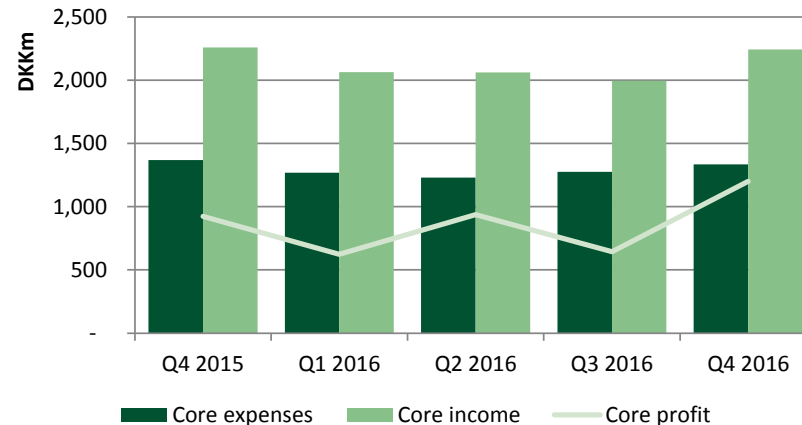
18.3% and
16.5%

- Growth in mortgages and home loans continues at high pace
- Stabilization of bank loans and bank deposits on the rise
- Positive development in AUM due to inflow of new funds and positive returns
- Core income under pressure, strong finish due to favourable development in financial markets affecting net fee income and value adjustments
- Core expenses as expected
- Net reversals of impairments - in Q4 also on agriculture

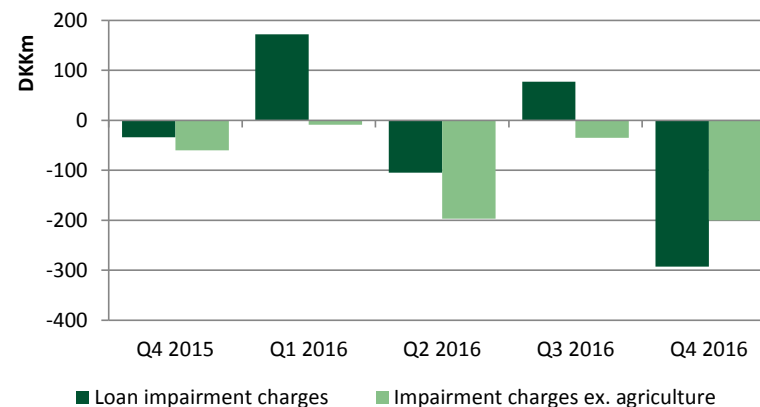
Business volumes



Financials



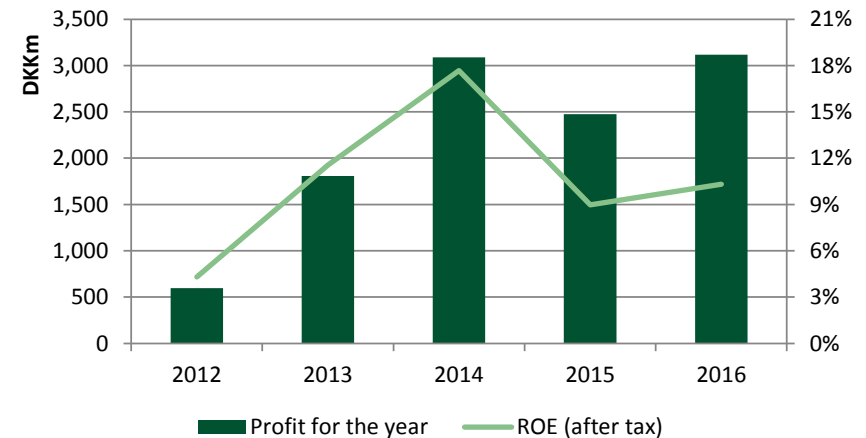
Loan impairment charges (under core profit)



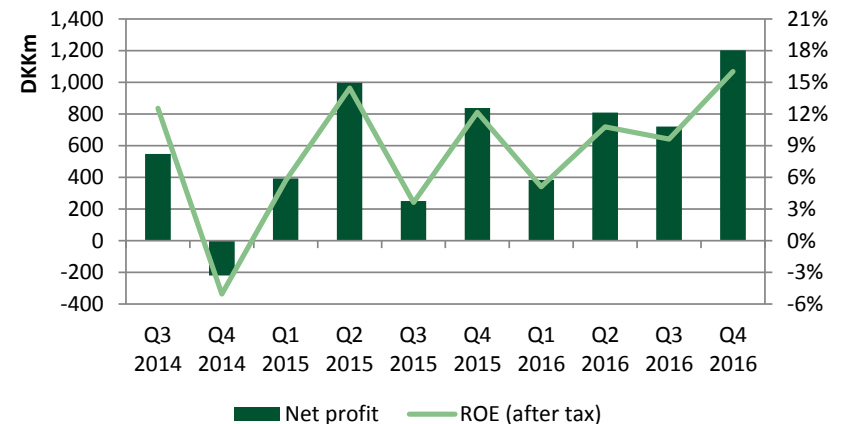
Strong finish lifts ROE into mid-target range

- Delivering a net profit of DKK 1,202m in Q4 and DKK 3,116m in 2016
- ROE of 16.0% p.a. in Q4 and 10.3% in 2016
- ROE for 2016 of 10.3% compared to 9.0% in 2015, net increase of 1.3 percentage points attributed to:
 - Cost savings and lower impairment charges outweighing the pressure on core income.

Net profit



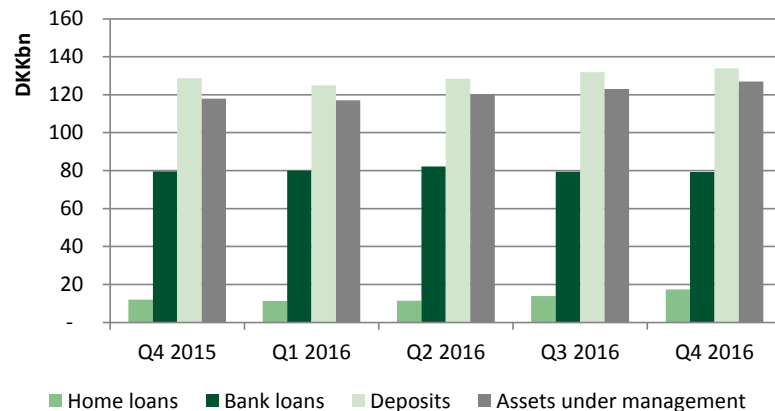
Net profit



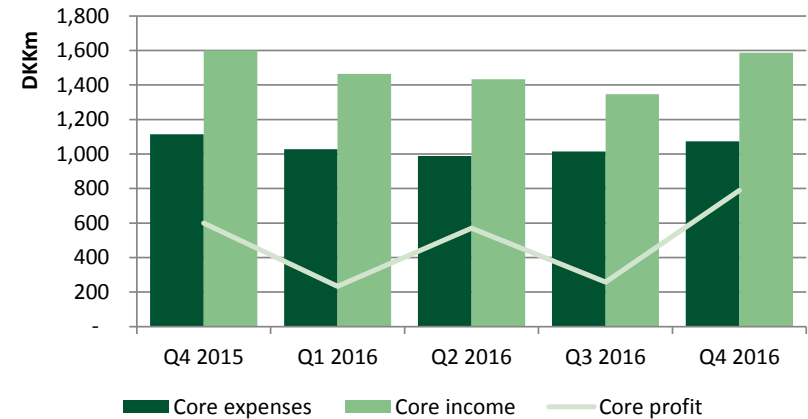
Banking activities

- Stabilization of bank loans and bank deposits on the rise
- Positive development in AUM due to inflow of new funds and positive returns
- Core income under pressure, strong finish due to Q4 seasonality in net fee income
- Core expenses stable and as expected
- Net reversals of impairments - in Q4 also on agriculture

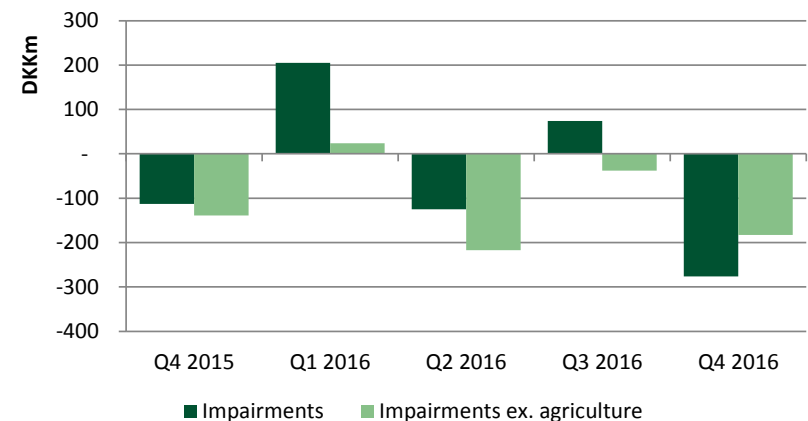
Business volumes



Financials



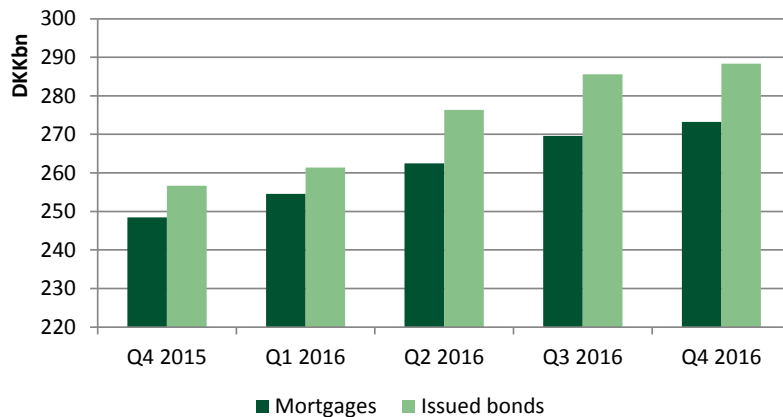
Impairments



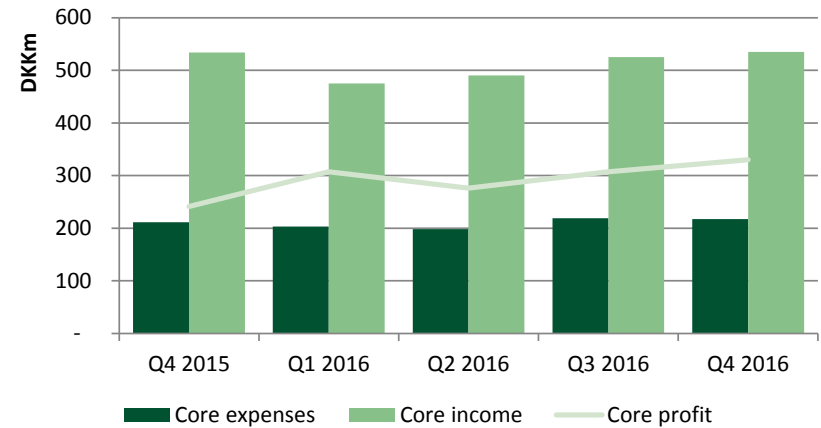
Mortgage activities

- Growth in all lending segments - most significant in Private segment but also significant growth in Commercial segment
- Core income steadily growing as volume grows
- Core expenses as expected
- Overall, low level of impairment charges - net reversals on commercial clients

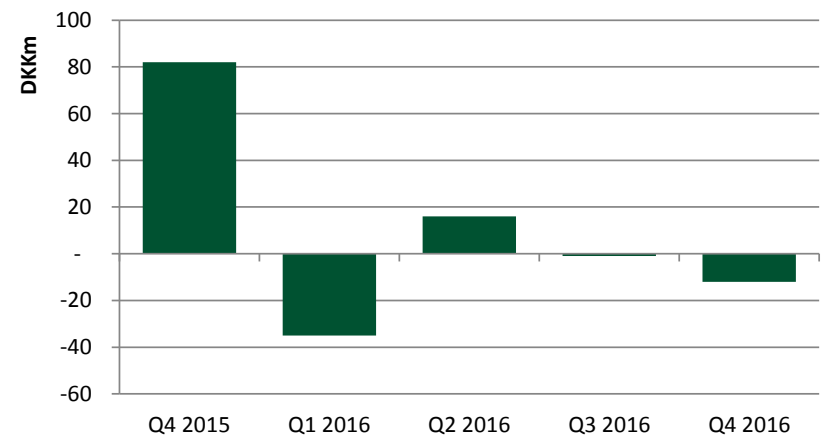
Business volumes (nominal values BRFKredit A/S)



Financials



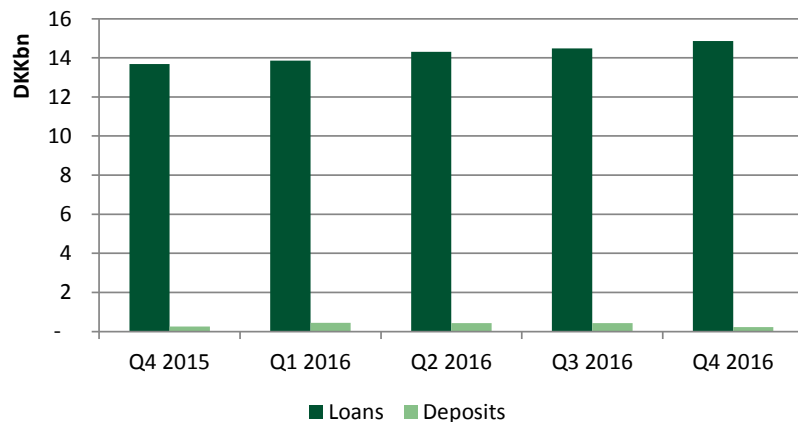
Impairments



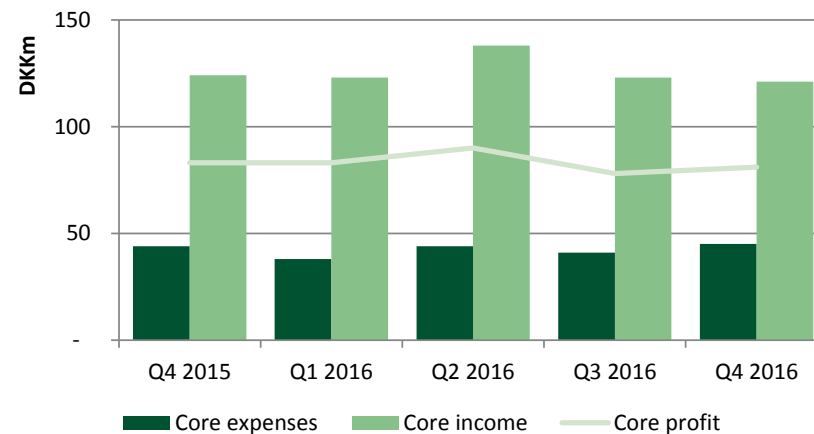
Leasing activities

- Gradually increasing loan volumes
- Stable development in core income based on increased business volume
- Core expenses develop as expected
- Impairment charges at a low level

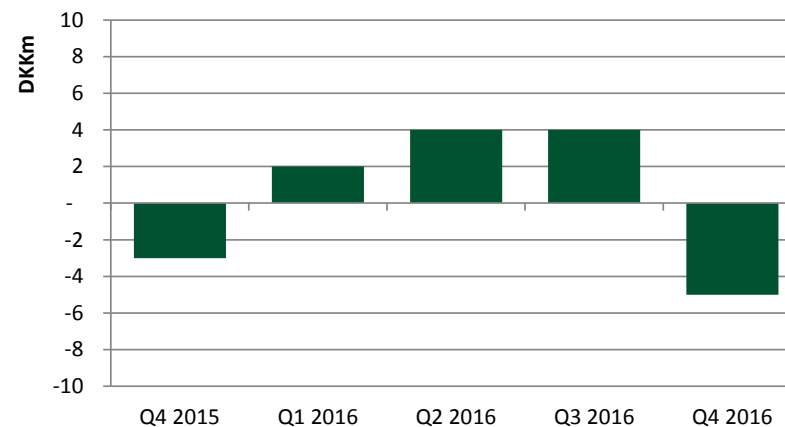
Business volumes



Financials



Impairments

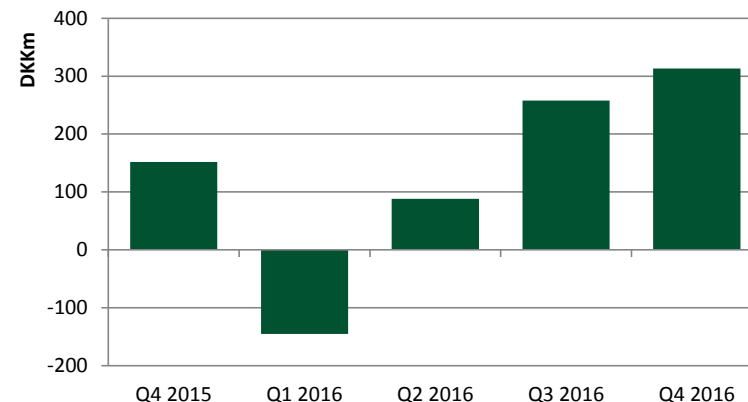


Investment portfolio earnings improved in H2 2016

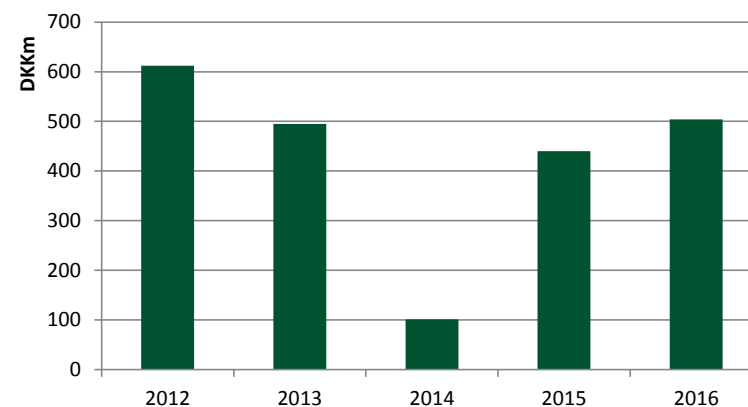
- Improved investment portfolio earnings driven by:
 - In H2 2016 positive value adjustments of DKK 120m related to fair value assessment of Jyske Bank's holdings in Nordjyske Bank (2016: DKK -40m)
 - Positive value adjustments on portfolio of Danish mortgage bonds driven by narrowing of credit spreads (OAS)

- 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



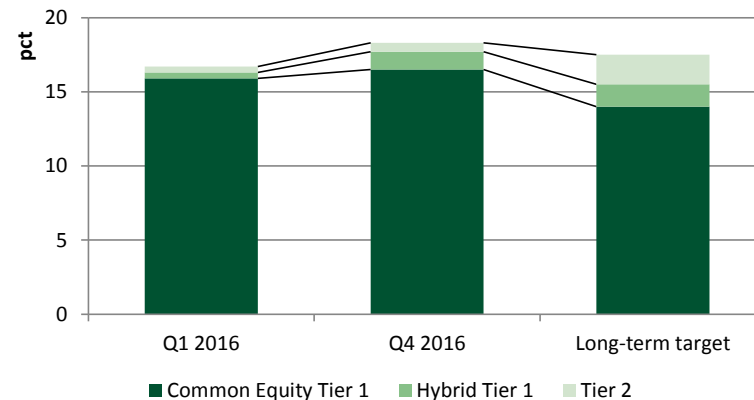
Investment portfolio earnings, last 5 years



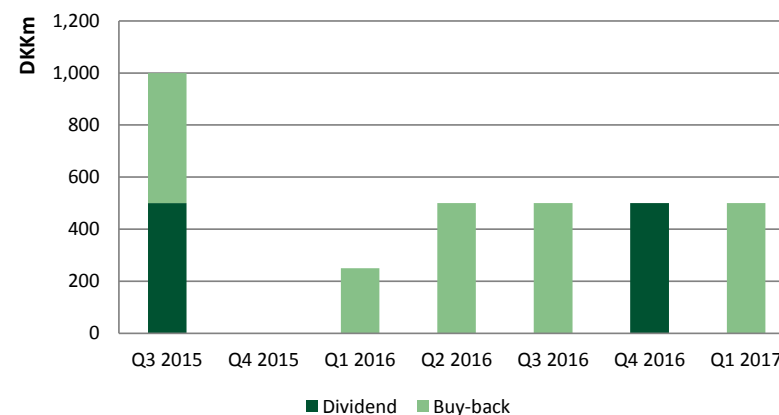
Adjusting to long-term capital targets

- Capital ratio 18.3% and CET1 ratio 16.5% end of Q4 2016 vs. long-term targets of 17.5% and 14%
- Gradual adjustment of the capital structure towards targets (3.5 pp.)
 - Process initiated in Q3 2015
 - Majority of adjustment expected to be completed in the course of 2017
- Steps taken:
 - 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)
 - Dividend DKK 500m (March 2016)
 - Dividend for FY2016 of DKK 500m to be proposed at AGM (March 2017)
 - Tier 2 issue of SEK 1bn (May 2016)
 - AT1 issue totalling DKK 1.5bn (September 2016)
- Defending and securing a stable S&P rating of A- remains a key priority

Capital ratio



Capital distribution (time of announcement)



- Growth strategy:
 - An expected growth of DKK 10-15bn in new home loans
- Pricing:
 - Full effect of negative deposits rates on demand deposits from corporates
 - As per February 1st 2017 the Group no longer waives or offers to discount fees on transfers of mortgages
 - Restructuring prices for services rendered to private individuals, e.g. on-line banking, payment transfers and debit cards. In effect from June 1st, 2017
- Preparing for MiFID II ban on portfolio management fees (to be implemented by end of Q2 2017)
 - New investment product, Jyske Investment, introduced as opposed to adjusting price structure
 - Regulation: transparency and ban on receiving and keeping portfolio management fees
 - Avoid delivering services for free
 - An opportunity for development and improvement
 - Client impact: Approx. 30,000 clients to receive advice before transfer from old solutions to new product
- Capital adjustment continues - majority to be completed by end of 2017
 - Issue of Tier 2 and AT1 capital outstanding in 2017 and 2018
- Regulatory requirements uncertain:
 - Basel IV/CRR2 (implementation expected in 2021-2025)
 - IFRS 9 (implementation expected in 2018-2022)
 - MREL (implementation expected in 2017-2020)

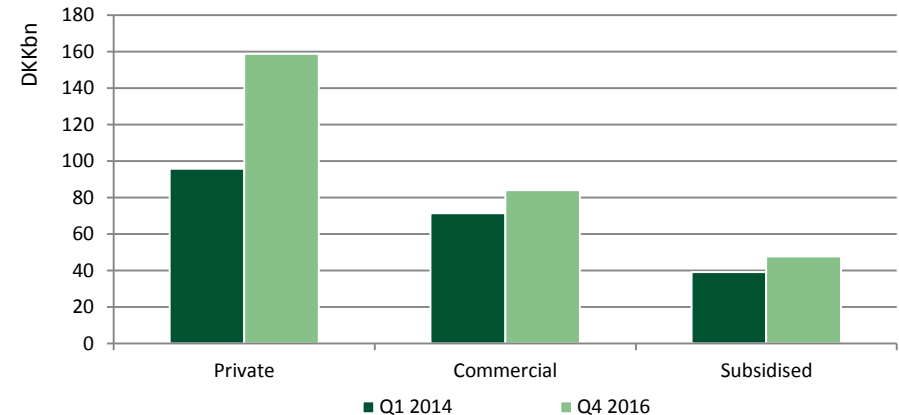
Growth strategy: mortgage lending and home loans

Strategic focus on mortgage lending is a success

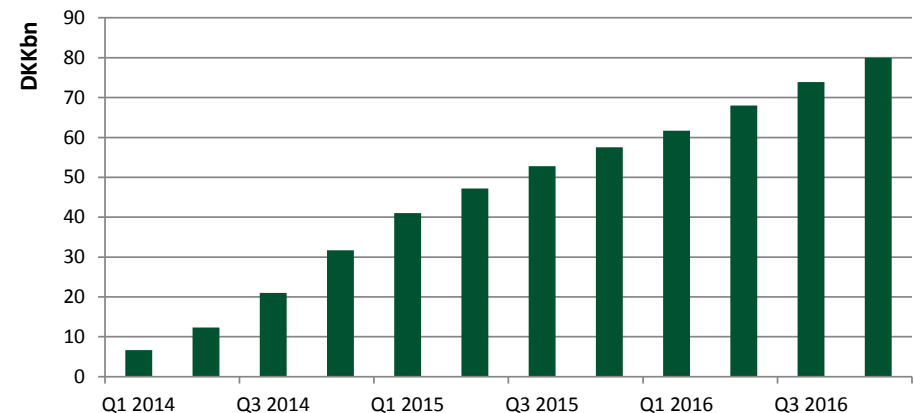
- The Group's mortgage loan volumes have grown by more than DKK 80bn since early 2014
 - Primarily in Private segment due to the new home loan products
 - Commercial and Subsidised have grown by DKK 21bn of which DKK 16bn in properties for housing purposes
 - Market share of mortgage lending has increased to 10.4% (7.9% end of 2013)

- Home loan products still on the rise
 - Majority of new home loans granted to existing customers
 - In 2016, the Group has experienced an increasing proportion of new clients, 29% as of end-2016

Development in mortgage lending

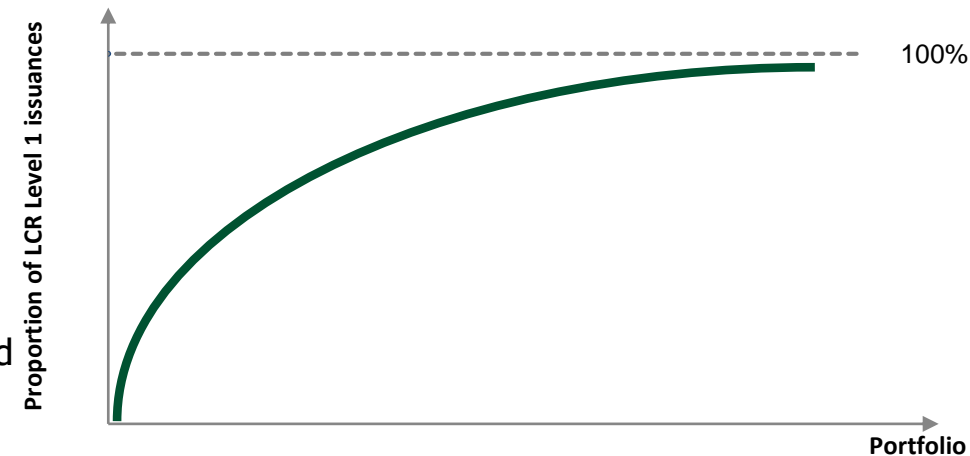
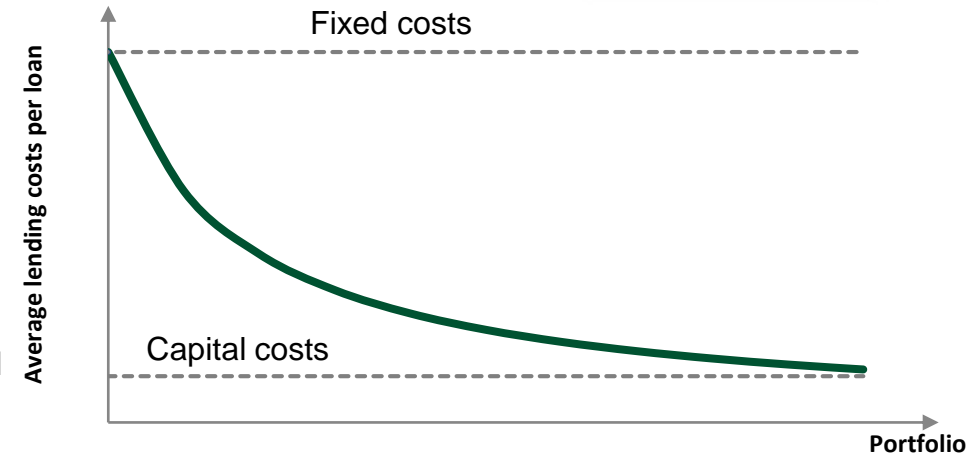


Accumulated home loans via Jyske Bank branches



Increasing profitability

- Growth in the lending portfolio drives marginal operating costs down towards capital costs
- Growth in the portfolio creates larger issuances and lower funding costs
 - LCR compliant proportion of issuances has increased
 - Focus from investors has increased and pricing has been aligned with the market
- Funding supports products with higher margins
 - Adapted to Danish and international regulation
 - Extended funding profile in order to maintain a competitive advantage, i.e. continue to offer F1 products
 - Three EUR benchmark issuances in 2016
- We have focused on attaining flexibility in our products, capital centers, lending documentation, etc.
- Combination of increasing volume and the above mentioned flexibility can be used for further development of new products



Why are we succesful in attracting customers?

- A broad product range comprised of two different product types:
 - Transparent traditional mortgage products in BRFkredit
 - Clear and simple new products in Jyske Bank, e.g. the latest addition, the "Super loan", which is a capped floater
- The Group offers both Jyske Bank home loans and BRFkredit mortgage loans at competitive prices
 - BRFkredit has always been among the mortgage institutions with the lowest margins
 - Jyske Bank is "Best in test" in the consumer magazine TÆNK in both 2015 and 2016
 - Competitive position has been strengthened in the course of 2016 as Jyske Bank and BRFkredit are the only providers with unchanged margins
 - As per February 1st 2017 the Group no longer waives or offers discounted fees on transfers of home loans

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 etc.

Political agreement on mortgages - not a game changer

- Political agreement on home loans reached in January 2017:
 - Notice period for changes in fees and margins is prolonged to 6 months
 - No fees and 50% reduction in quotation cut if customer redeem a loan in the notice period
 - Public website with comparisons of prices (margins and fees) on mortgage loans
 - The agreement gives the borrower the possibility to finance existing mortgage debt above the normal lending limit in other mortgage credit institutions
- We expect no significant impact on the Group's growth strategy

Focus on margins in the mortgage market is more intense than ever



Money and Pension panel

Volume of mortgage loans with LTV > 80%

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

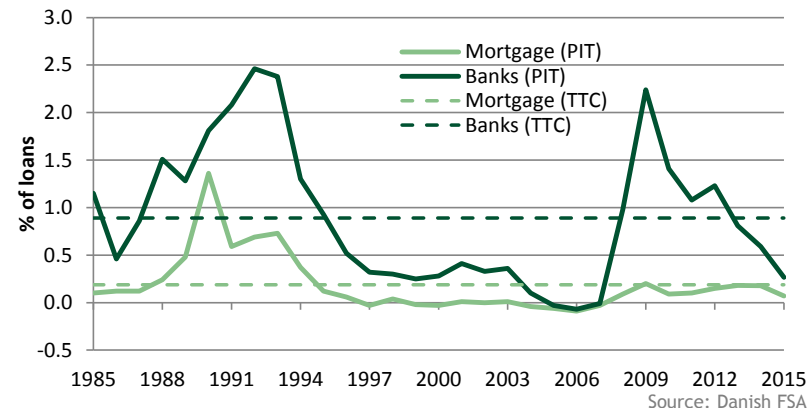
Source: Q3 2016 cover pool reports

Reducing risk and earnings volatility

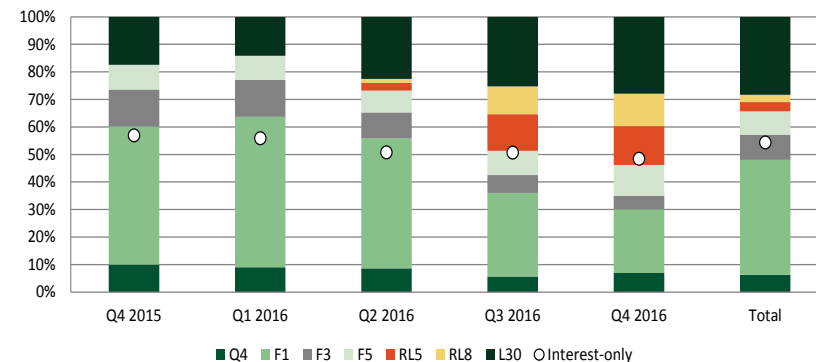
- At end of 2016 low risk mortgage loans make up 66% of the Group's loan portfolio
 - Historically, losses and impairment charges on mortgages are significantly lower than on bank loans: 19bp vs. 89bp
 - Lower risk combined with steady growth in non-interest rate sensitive NII from mortgages result in lower earnings volatility and overall de-risked profile
 - First stock-exchange listing of a Danish specialised mortgage credit institution (expected in 2018) will provide valuable information on investors' ROE expectations on low risk mortgages

- Growth in home loans improves quality of overall portfolio
 - Majority of clients known by Jyske Bank as volume primarily stems from repatriation of loans previously referred to Totalcredit
 - 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

Losses and impairment charges 1985-2015

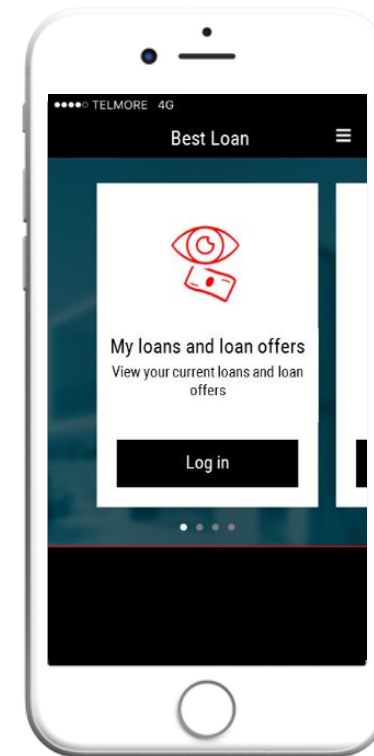


Jyske Bank home loan portfolio by product type



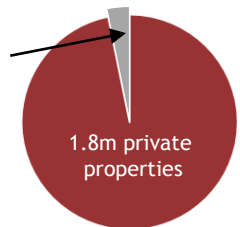
Digitalisation of the mortgage market

- The mortgage market will become more digitalised over the coming years
- The Group must develop a platform for the digital customers
- Within the last year the Group has launched new products, new funding sources, new web design, and a new app, "Best loan"
- The app, "Best loan", offers free independent loan surveillance for all homeowners - also non-customers - a total market of approx. DKK 1,500bn
 - Other providers have focused their digital initiatives on sale of properties
- Initiatives are focused on the customer but also the ability to create synergies within the Group



Private properties as per end-2016

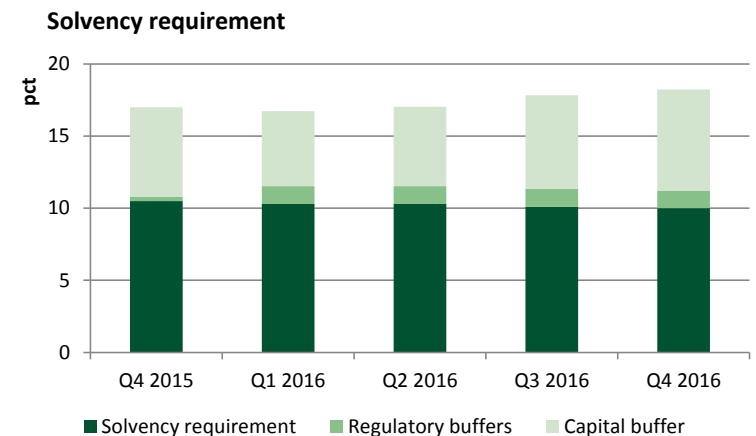
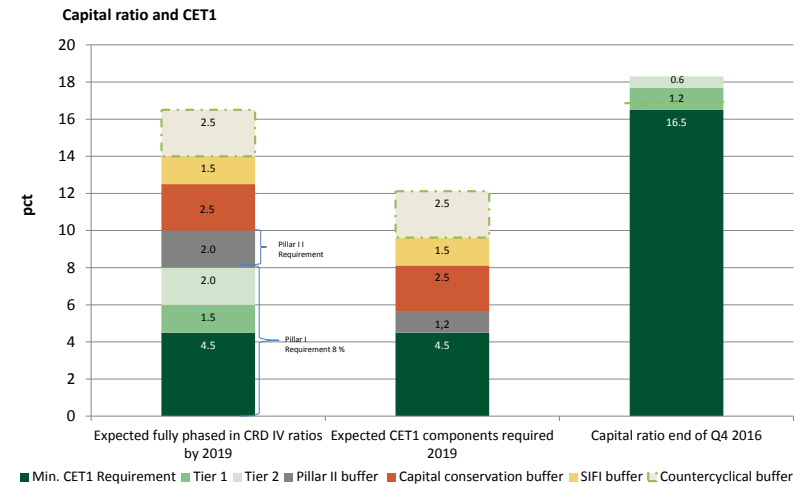
3% sold over last year



Capital

Strong capital position

- Capital ratio 18.3% and CET1 ratio 16.5% end of 2016 compared to 17.0% and 16.1% end of 2015. Change in capital ratios due to:
 - Strengthening of retained earnings
 - Higher REA (primarily volume growth in property related loans)
 - Proposed dividend deducted from capital - new buyback programme not deducted
 - Issue of AT1 and Tier 2
- 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 as at end of 2016:
 - 10.0% (+0.6% SIFI requirement and 0.625% capital conservation buffer, in total 11.2%)
 - Capital buffer DKK 12.8bn corresponding to 7.0%

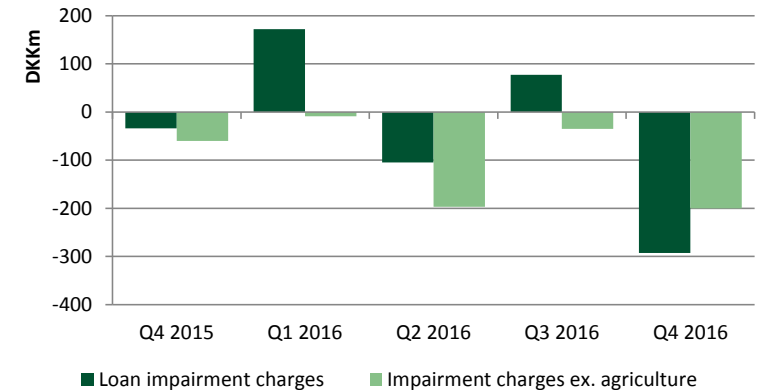


Credit Quality

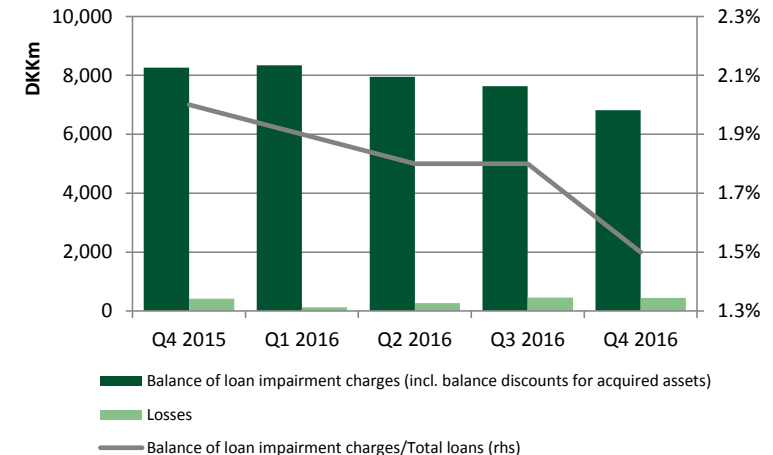
Net reversals

- Net reversals of DKK 149m under core profit
 - Impairment charges on agriculture of DKK 292m
 - Net reversals of DKK 293m in Q4 2016 alone
- End of 2016 total balance of management's estimate of DKK 471m, of which DKK 235m relate to agriculture, compared to DKK 462m and DKK 285m respectively in 2015
- Impairment ratios (under core profit):
 - Impairment ratio for 2016 -3bp
 - Below normalized level
 - Accumulated impairment ratio 1.5% (incl. balance of discounts for acquired loans) vs. 2.0% end of 2015. Development driven by volume growth in low risk home loans
- Banking:
 - Overall credit quality is gradually improving
 - Low number of new defaults and improvement in credit quality of previously defaulted clients
 - Also net reversals in agriculture segment
- Mortgage:
 - Overall positive development in credit quality
 - Reversals on corporates

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
- Impairment ratio for dairy farmers 45% end of 2016 - up from 38% end of 2015 whereas impairment ratio for pig farmers decreases from 31% to 26% in the same period

DKKm/%	Loans, advances and guarantees		Balance of loan impairment charges		Impairment ratio	
	2016	2015	2016	2015	2016	2015
Dairy farmers	889	1,154	722	710	45%	38%
Pig farmers	1,237	1,365	431	605	26%	31%
Total	2,126	2,519	1,153	1,315	35%	34%






- Commodity price development:
 - Pork: Prices peaked at 10.8 DKK/kg in Q3. Current prices are approx. 15% higher than end of 2015
 - Milk: Prices hit historic lows during the summer but have recovered during H2 of 2016 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

Commodity prices



Source: Arla Foods and Danish Crown

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