

BRFKREDIT INTERIM REPORT Q3 2016

Published 27 October 2016



Agenda

- **Financials Q3 2016**
- Status Jyske Bank - BRFkredit
- Capital and Rating
- Credit quality and the housing market
- Funding
- Appendices



The positive trend continues

Positive developments in BRFkredit

- Pre-tax profit was DKK 934m for Q1-Q3 2016. This is equal to a ROE of 10.6 % p.a.

Q1-Q3 2016 (compared to Q1-Q3 2015)

- Core earnings before loan impairment charges rose by 45 %
- Core profit rose by 54 %
- Costs reduced with 11 %
 - Wages reduced with 8 %
- Loan impairment charges is positive
- Value adjustment are no longer affected by the transfer of BRFkredit Bank assets to Jyske Bank

Expectations for rest of 2016

- Core earnings is expected to increase as a consequence of a growing lending portfolio
- Loan impairment charges are expected to continue at a low level

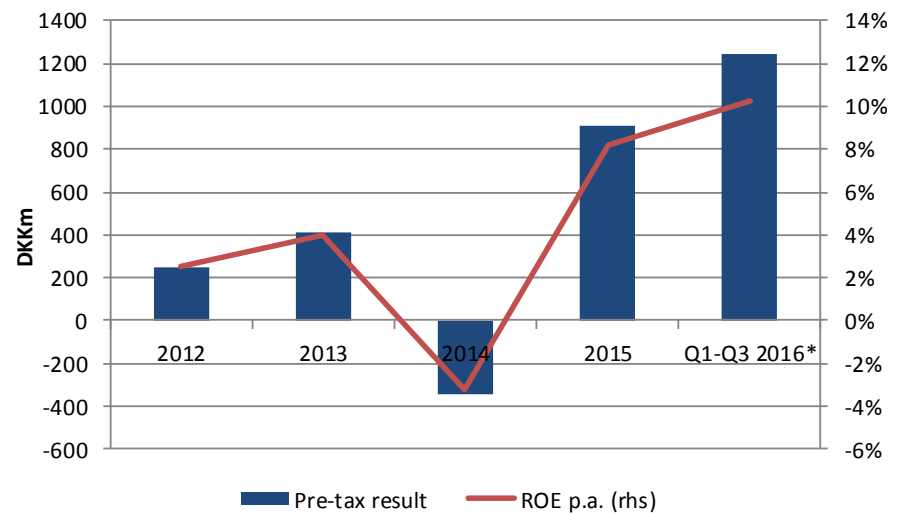
Core profit and net profit for the period DKKm	Q1 - Q3 2016	Q1 - Q3 2015	Index 16/15
Core operations			
Contribution income, etc.	1329	1255	106
Other net interest income 1)	-37	-32	116
Net fees, charges and commission income etc.	128	173	74
Value adjustments	31	-123	-25
Other income	41	24	171
Core earnings	1491	1298	115
Core expenses	620	697	89
Core earnings before loan impairment charges etc.	870	601	145
Loan impairment charges etc.	-20	21	-95
Core profit	891	580	154
Earnings from investment portfolios	44	52	85
Pre-tax profit	934	632	148
Tax	205	146	140
Net profit or loss for the period	730	485	151
1) Of which cost of capital	78	100	78

Increasing return on equity

Return on Equity of 10.6 % p.a.

- One joint distribution channel within the group
 - Possible to establish customers within the group with both banking and mortgage products
- Funding of JB Mortgage loans
 - Total funding of DKK 52bn
- Lower marginal costs to growth in lending segments
- Lending to commercial segment
 - Positive growth in commercial lending since 2012
- Lower operating costs
- Lower capital costs
 - Decreased with DKK 100m since 2013
 - Decreasing requirements from rating institutes and lower SDO-requirements
- Impairment charges TTC
 - Impairments on pre-crisis level

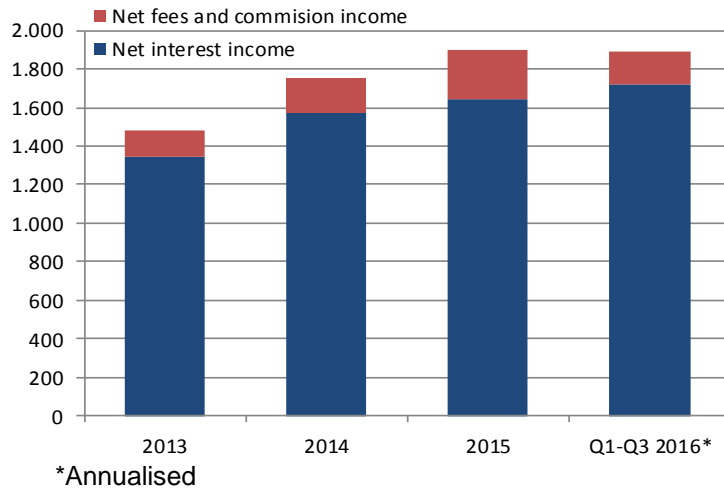
Pre tax result (DKK m) and ROE p.a. (%)



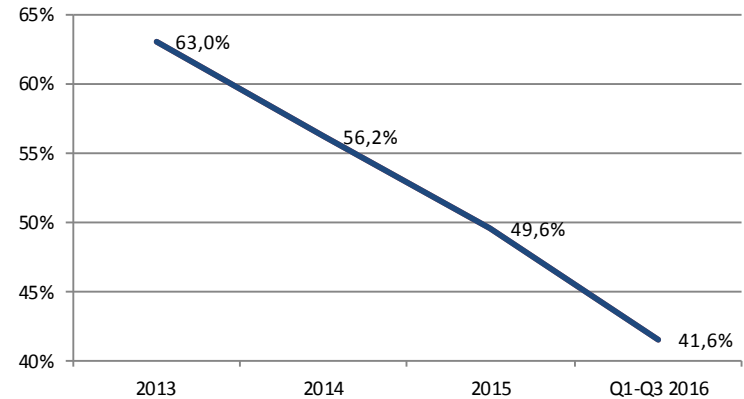
*Annualised

Financials - selected graphs

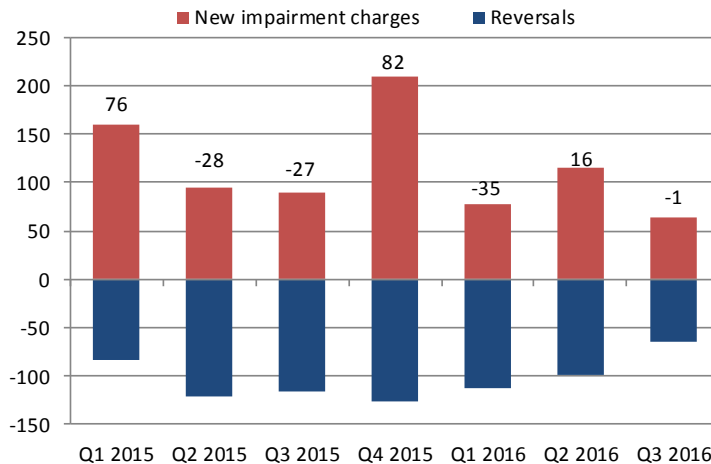
Income (DKKm)



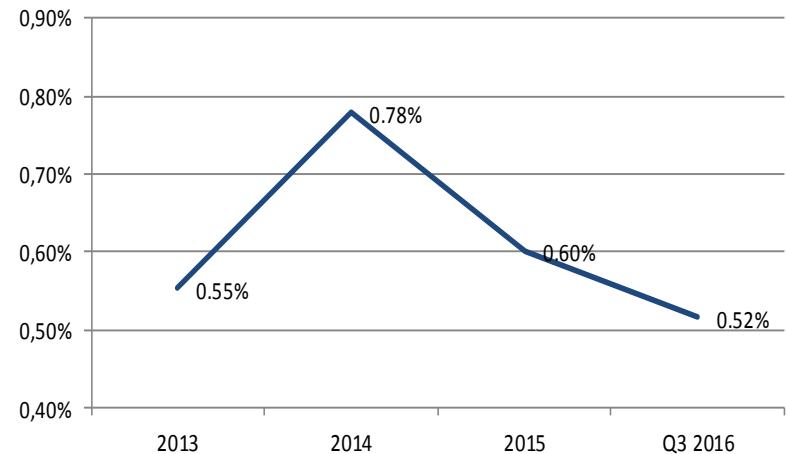
Cost/income (%)



Impairment charges and reversals (DKKm)



Balance of loan impairments in % of lending



BRFkredit – Balance sheet

- **Balance sheet** stood at DKK 305bn (Q3 2015: DKK 263bn). An increase of 16% compared to Q3 2015
- **Mortgage Loans** stood at DKK 277bn (Q3 2015: DKK 244bn)
- Jyske Bank has granted DKK 63.6bn of mortgage loans by the end of Q3 2016. From these DKK 52.1bn were taken on the balance by BRFkredit
- **Equity** stood at DKK 12,511m as of 30 September 2016. The increase compared to end Q3 2015 is due to positive results for all the last four quarters

Summary balance sheet, end of period DKKm	Q3 2016	Q3 2015	Index 16/15
Bank loans			
Mortgage loans	276.682	243.784	113
Bonds and shares etc.	15.254	9.550	160
Total Assets	304.664	263.175	116
Payables to credit institutions and central banks	1200	955	126
Bank deposits	-	-	-
Issued bonds at amortised cost	3.718	4.716	79
Issued bonds at fair value 1)	284.052	241.992	117
Equity	12.511	11.555	108

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The focus on property lending is a success for the group

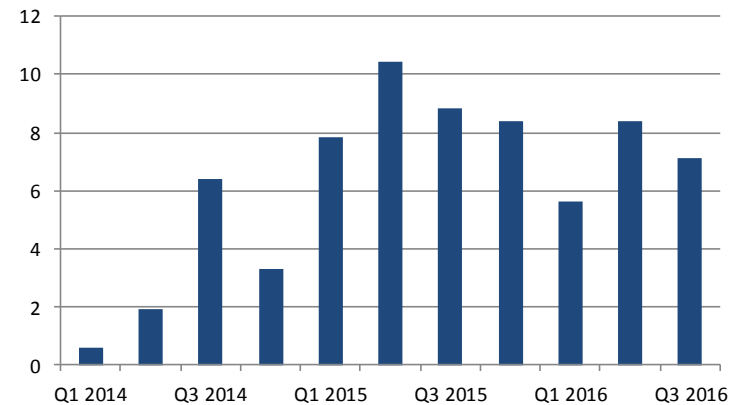
Goal is to reach a total property lending balance of DKK 300bn

- This equals a net lending growth of around DKK 100bn from Q1 2014
- The goal has been increased with gross new lending of DKK 20bn to the commercial segment
- Ambitious, but realistic goal

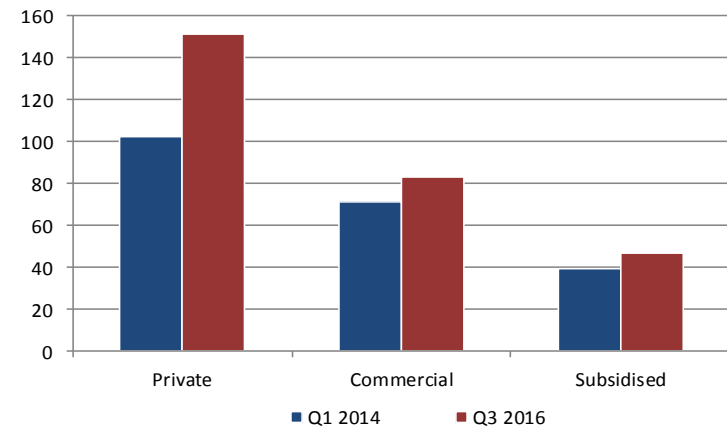
Status Q3 2016: Property lending at DKK 282bn

- Net growth in property lending of roughly DKK 82bn has already been achieved
- 40 % growth in the property lending balance
- Relatively stable quarterly developments
- Net increase in portfolio in both brands
- Focus on residential and commercial lending

Quarterly net new lending in BRFkredit (DKKbn)



Property lending in the group (DKKbn)



Why are we succeeding with the customers

- Our customers can choose between two different product types:
 - Transparent classic products in BRFkredit
 - Clear and simple new products in Jyske Bank
 - The customers are given the choice and they use it
- The group has competitively prices (margins)
 - BRFkredit has always been among the institutes with lowest margins to attract new customers from other banks by giving them a good offer and to compensate for advantages of full customer relationship in a group with both bank and mortgage loans
 - Jyske Bank is "Best in test" in the magazine TÆNK in August 2015
- Loans financed in BRFkredit SDO covered bonds
 - The loans comply with the Danish mortgage law, as if they were granted by BRFkredit in regards to the balance principle
- The profitability in an increasing portfolio at the current margins depends on the ability to use the advantages of scale in the mortgage market

Margins on residential mortgage loans (0-80%)

With instalments	Fixed	F5	F1	Floater*
Jyske Bank	0,61	0,75	0,70	0,70**
BRFkredit	0,61	0,85	0,85	0,75
Other Institutes	0,68	0,85	1,11	0,85
	–	–	–	–
	0,74	0,88	1,15	0,90

Without instalments	Fixed	F5	F1	Floater*
Jyske Bank	0,84	1,03	0,98	0,90**
BRFkredit	0,89	1,08	1,08	1,03
Other Institutes	1,00	1,18	1,43	1,18
	–	–	–	–
	1,06	1,20	1,48	1,23

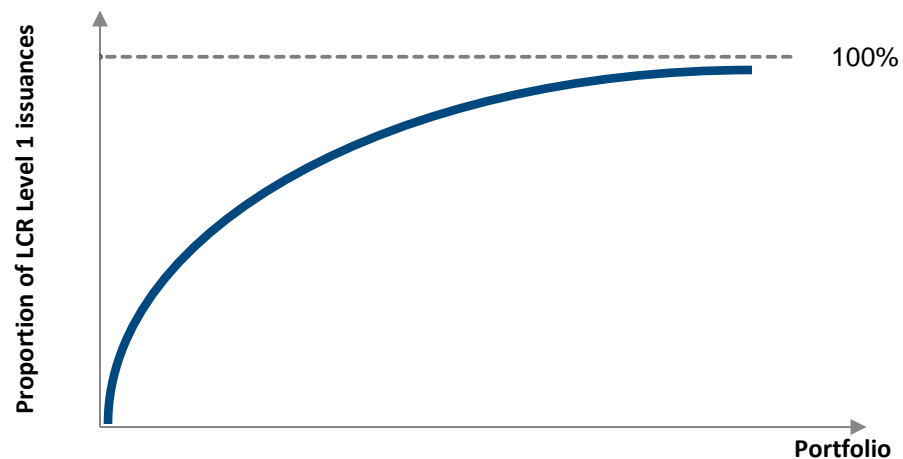
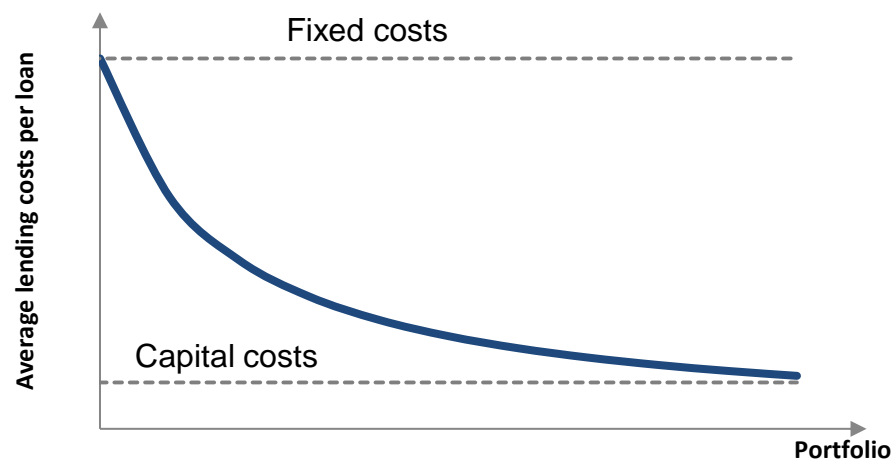
* Cibor3M in Jyske Bank and Cita6M for others. The JB margin are calculated as interest minus funding costs in BRFkredit

** Is no longer offered

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

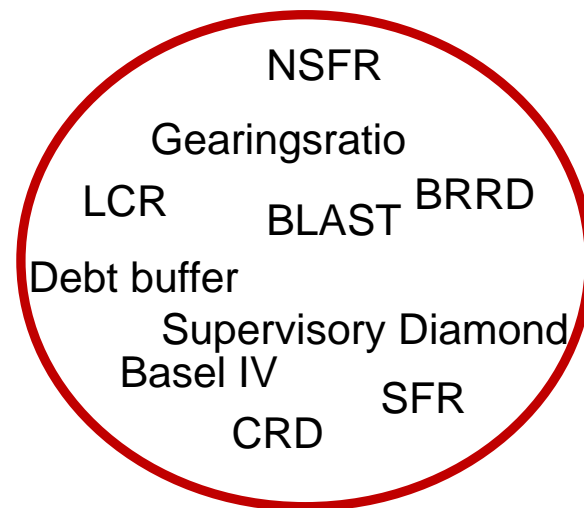
Increased earnings from growth in the portfolio

- Growth in the lending portfolio drives average costs down towards capital costs
- Capital requirements from new customers are simple
 - Low probability of default and LTV < 80 % ⇒ Low capital requirements
 - LTV < 80 % ⇒ No SDO requirements
 - Residential customers with LTV < 80 % ⇒ Low AAA-requirements from S&P
- Increasing capital requirements in the future, but institutes will be hit differently
 - LR and IRB floors is expected to be respectively 3-4% and 20-30% (residential customers)
- Growth in the portfolio creates larger issuances and lower funding costs
 - The proportion that lives up to LCR is increased
 - Focus from investors is increased
 - Better possibilities to offer a greater variety of loan types



The group has been working to solve the challenges in the future regulation

- Increased focus on regulation in the sector
- We have focused to attain flexibility in our products, capital centers, lending documentation etc.
- To handle regulatory challenges we have developed new funding mechanisms behind our lending
 - LCR/NSFR, Supervisory Diamond, S&P requirements etc.
 - Been able to offer the customers the products they require
 - Introduction of derivatives and covered bond issuances in EUR gives the group a new set of funding tools
- The 2-brand strategy gives flexibility
 - Possibility to differentiate prices between products, customers etc.
 - Introduction of derivatives and EUR covered bond issuances gives the group a new set of funding tools
- Together BRFkredit and Jyske Bank have the most full set of products in the sector



Need for further flexibility in relation to products and funding

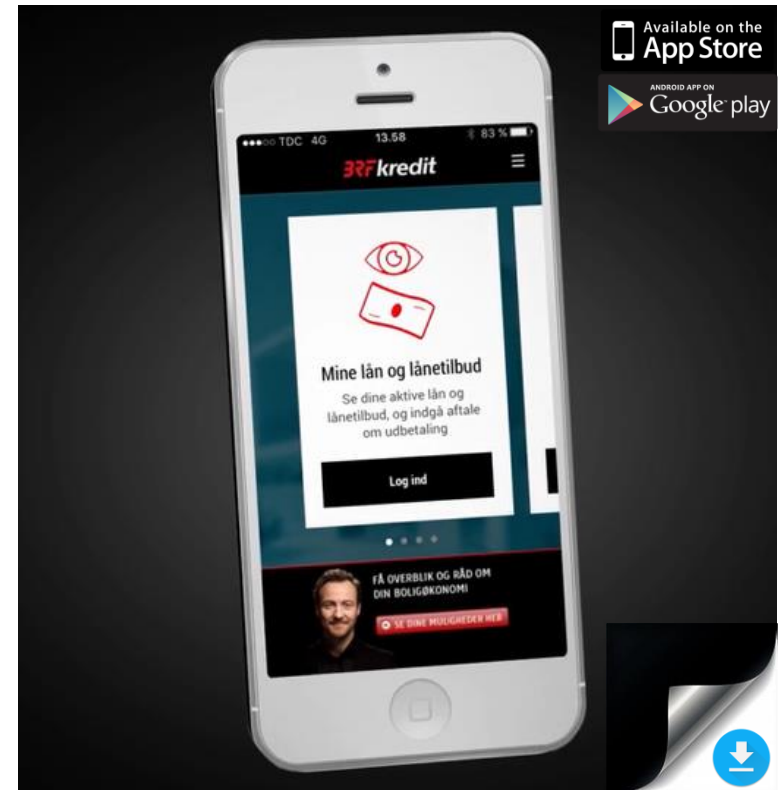
Where is the future focus

Still a potential to grow in the mortgage market

- The residential portfolio is still increasing at a stable rate
- We have an acceptable success in attracting commercial customers and we are still seeing possibilities
- Still a potential for cross-sale within the group

Digitalisation

- The lending market is getting increasingly digitalised
- The group must be able to service customers who want digital solutions
- Within the last 6 months launched new products, new funding sources, new web design, and a new app !
- The app offers free independently loan surveillance for homeowners - also outside the group - total market of DKK 1,500bn
- The only institute to offer loan surveillance for all homeowners
- The focus is on the customer, but we are also able to create synergies within the group



Summing up

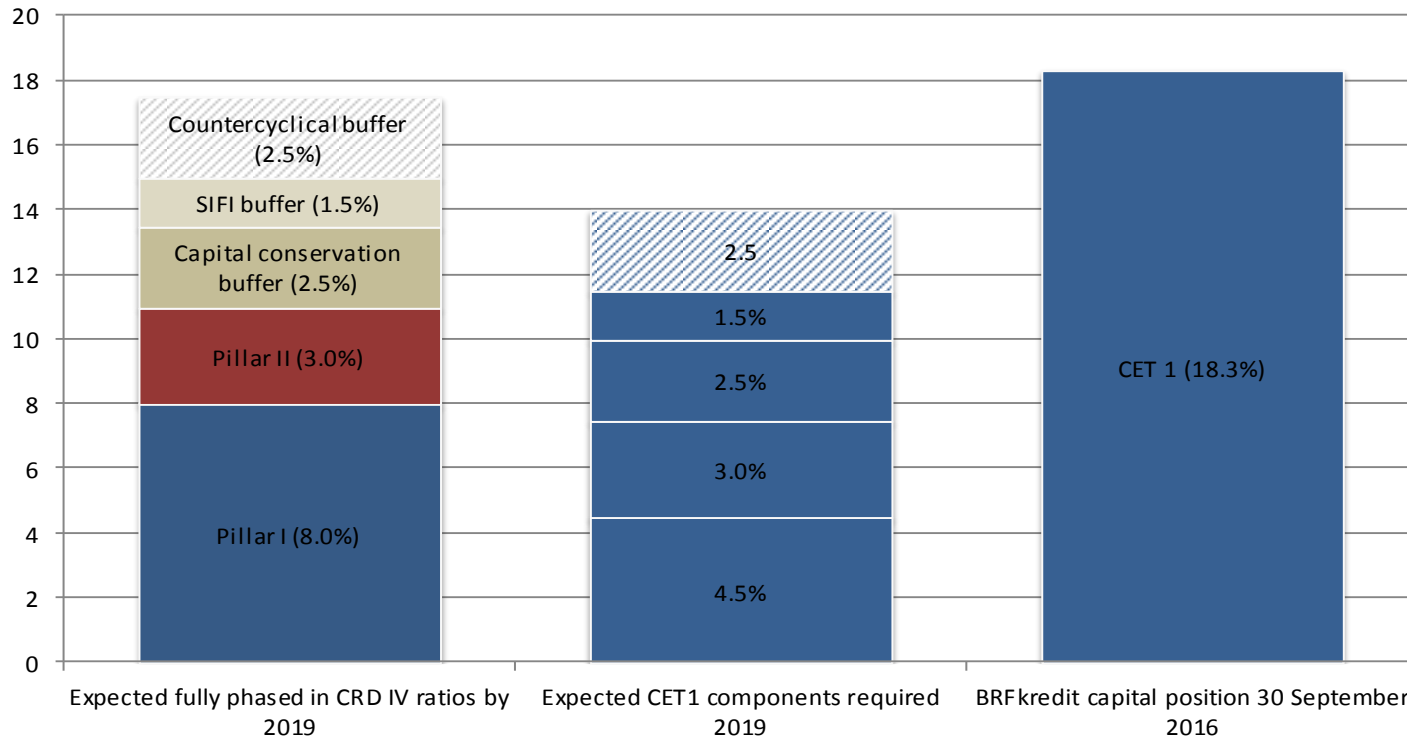
- Still spending considerable resources on regulation
 - Important to prioritise in regards to investments in customers and increasing profits
 - Future pricing depends on
 - Future capital requirements
 - Future expenses in regards to regulation
 - Customer price sensitivity
 - Digitalisation could affect the market in different ways
- Focus from the Danish FSA on the Supervisory diamond, which is to be implemented in 2018/20
 - ✓ Challenges with F1 is expected to be solved
 - ✓ Refinancing is known for the rest of the year
 - ✓ Funding need is known
 - ✓ Interest only is almost solved
 - ✓ Growth in portfolio is ... deliberate
 - Focus on large exposures
 - We have success in keeping the customer focus externally ... and to maintain a strong profit internally

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Expected fully implemented CRD IV & Danish SIFI demands



*) The countercyclical buffer depends of the development of the Danish economy from 2016 and to 2019

- The solvency need is expected to be at 17 % in 2019 (including the worst scenario of the countercyclical buffer), of which 13.5 % should be covered with core equity
- BRFkredit is already compliant with the fully implemented requirement
- Growth not constrained by capital requirements

Rating

Implementation of new criteria for mortgage bonds

- In the new criteria implemented by S&P in 2015, the rating of the covered bond is more dependent on the issuer rating than previously
- The overcollateral should at least cover the S&P AAA credit risk. The need to cover the refinancing risk is dependent of the number of free notches above AAA
- BRFkredit cover the total OC-requirement independent of free notches

New criteria for private

- Expected implementation of S&P criteria for residential loans could lead to higher haircuts on the property value

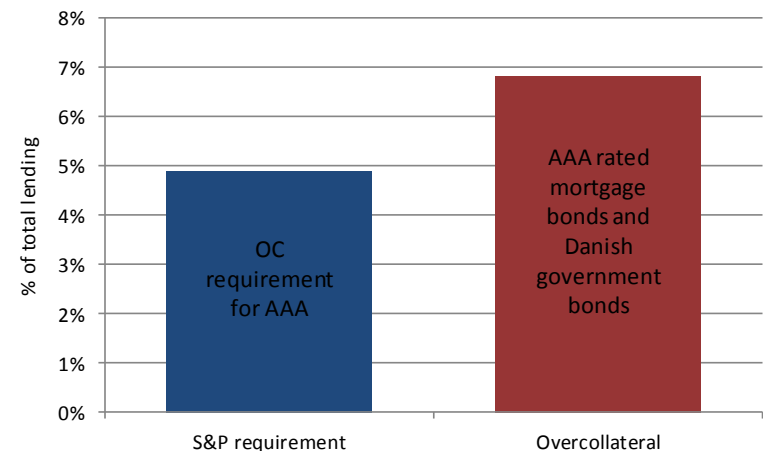
Types of overcollateral

- Overcollateral required by S&P to keep AAA is placed exclusively in AAA rated Danish mortgage bonds and in Danish government bonds

Rating Standard and Poor's

BRFkredit	A-
Outlook	Stable
Capital Center B	AAA
Capital Center E	AAA
Capital Center General	AAA
Free notches over AAA	2

Rating requirement and overcollateral



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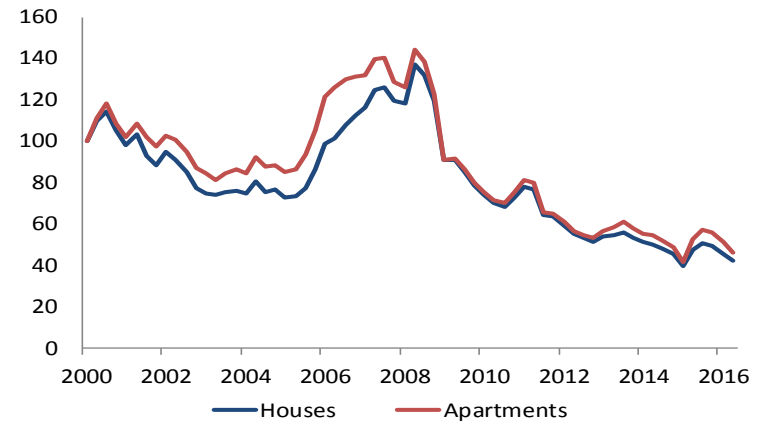
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Housing market

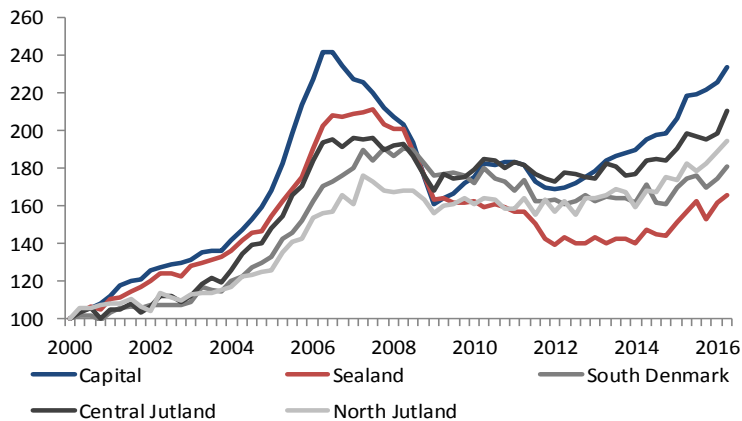
- Housing prices increased with 6.4 % in 2015 and the prices on apartments increased with 10.8 %
- Positive trend in the market in 2016 despite slowly improvements in the Danish economy
- A steady growth is expected in 2016 as a consequence of a weak economic growth and tighter credit policies
- The housing burden is expected to remain at a low level

Housing burden (indeks 2000 = 100)



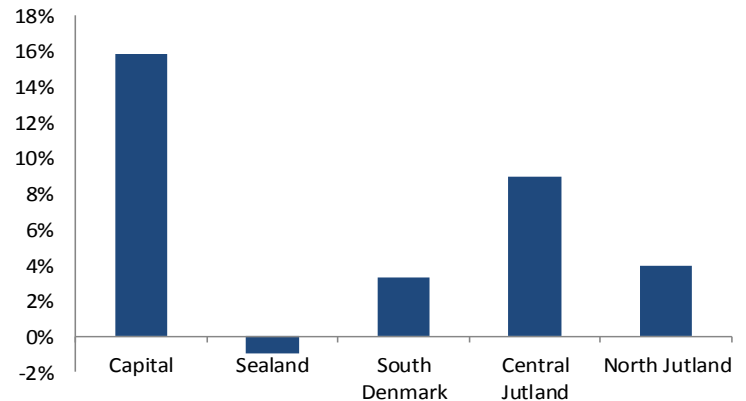
Source: BRFKredit

Regional development in prices (indeks 2000 = 100)



Source: Federation of Danish Mortgage Banks

Expected regional population growth (2016 Q3 – 2040)

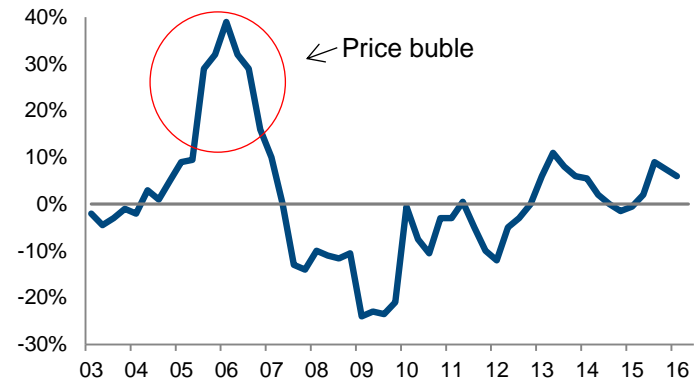


Source: Statistics Denmark

Focus on Copenhagen area

- No price bubble in Copenhagen housing market
- Market sensitive to increases in interest rates
- Construction of new properties in Copenhagen should dampen price increases
- Low residential LTVs in Copenhagen
- In BRFKredit only 0.3 % of residential lending above LTV 100 with a decline in prices in Copenhagen of 20 %.

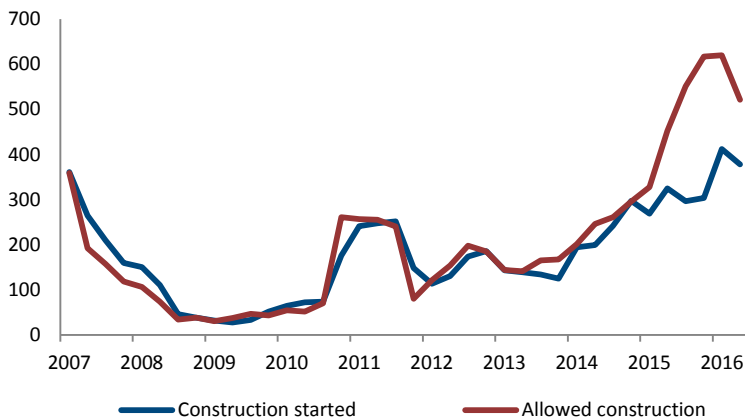
Year-to-year changes in corrected* apartment prices



*Prices corrected with income, interest rate and margin

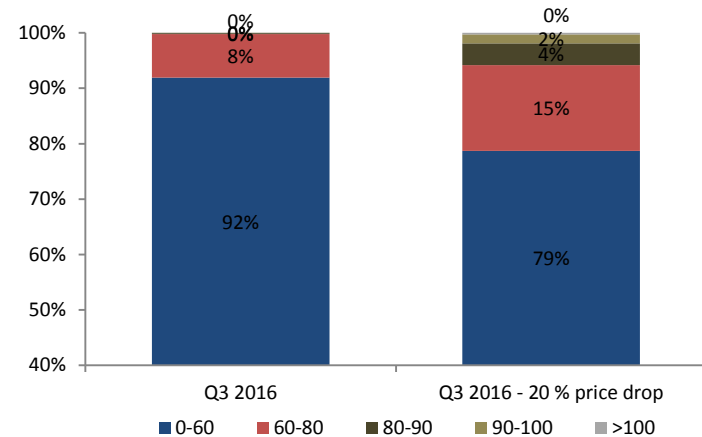
Source: Danish National Bank

Construction of residential properties (1000 m² per year)



Source: Statistics Denmark

Residential LTV in BRFKredit



Source: BRFKredit

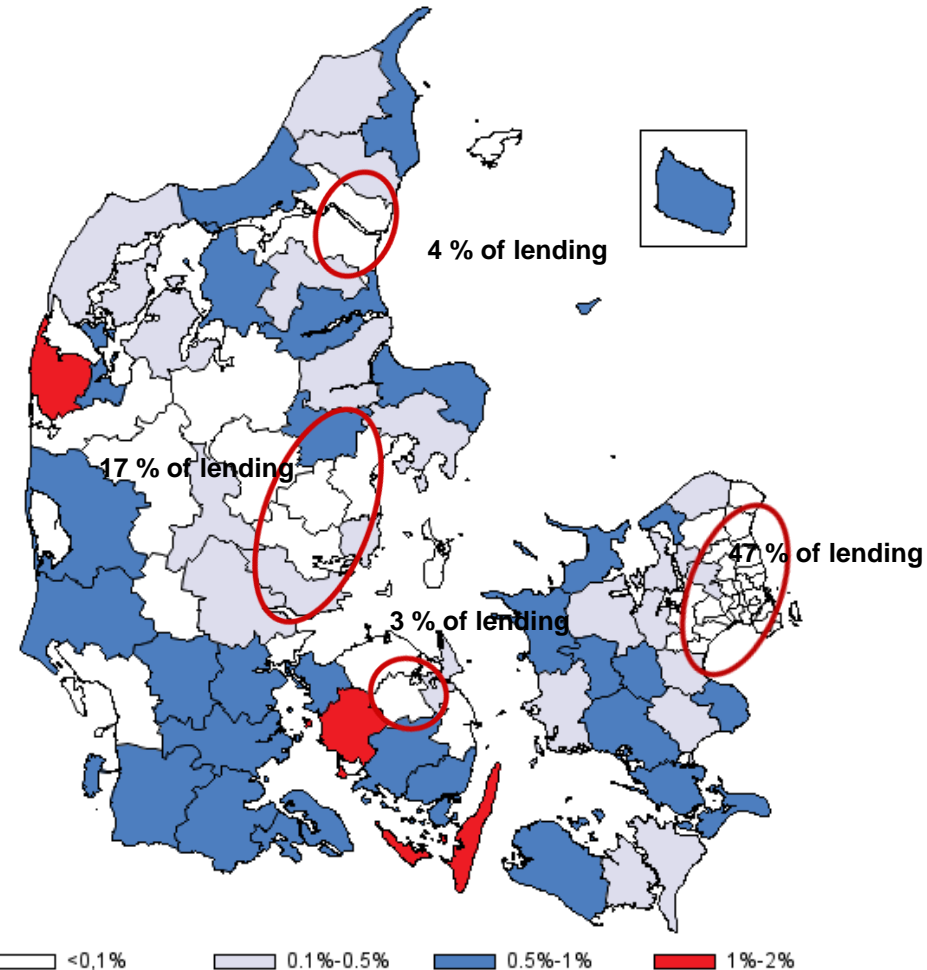
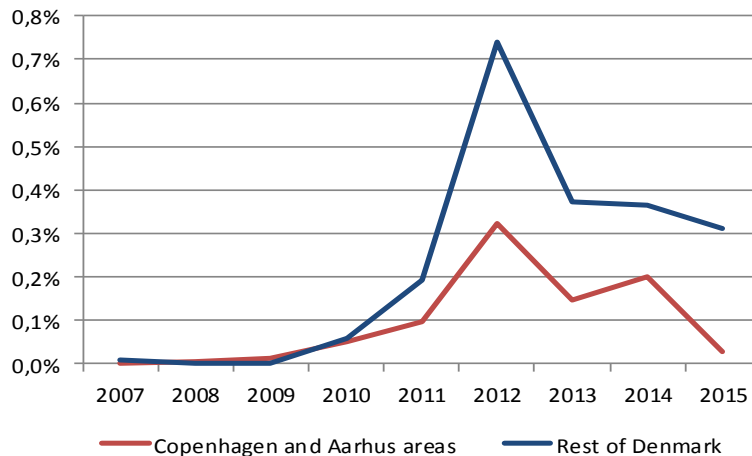
Geographical exposure

East – east strategy

- The primary geographical exposure of BRFkredit is in areas with increasing house prices and expected population growth
- Relatively low losses in urban areas during the financial crisis
- High tradeability prevent losses
- Through Jyske Bank the growth in the eastern part of Jutland is expected to continue

Loss in 2015 for housing properties

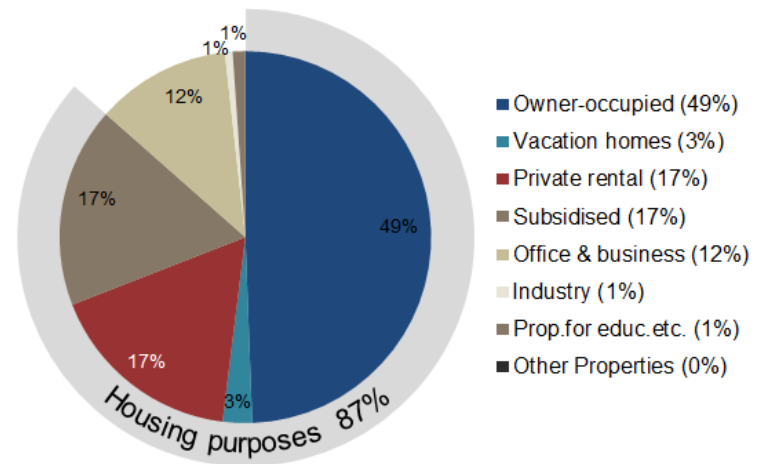
Average yearly loss (% of lending)



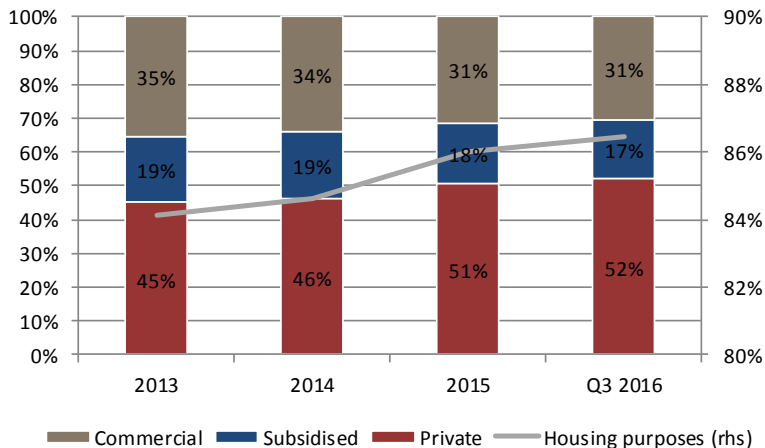
Portfolio

- 87 % of lending to properties with housing purposes
 - No loans to cooperative housing with swaps
 - No lending to agriculture and other primary production
- Increasing share of retail lending
 - The increase is expected to continue
- Increase in share of fixed rate mortgages and decreasing share of F1 and F2

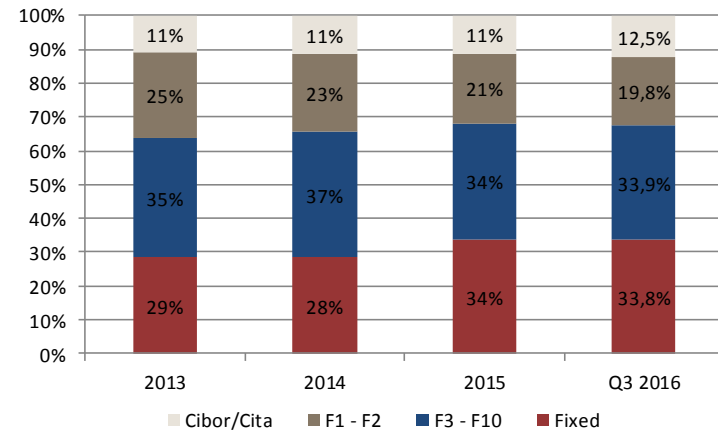
Lending portfolio



Development in lending portfolio

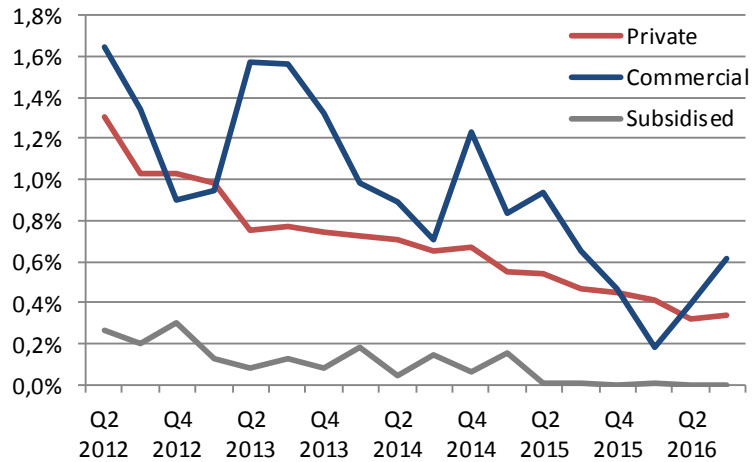


Development in loan types

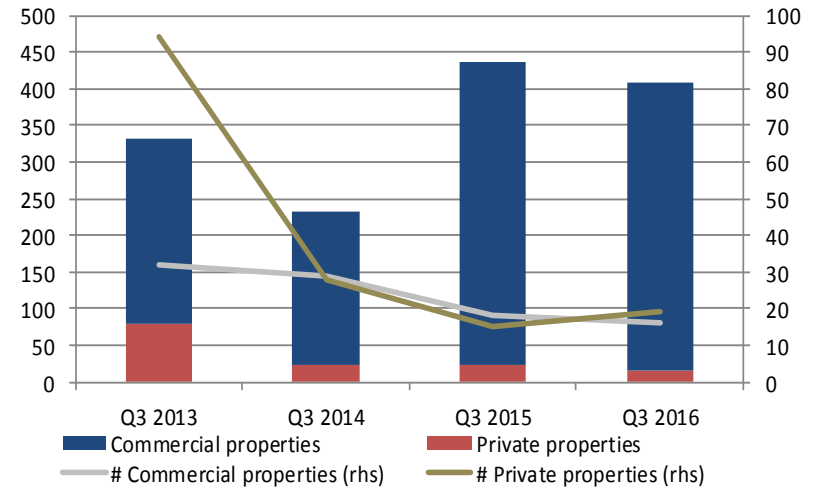


Credit quality

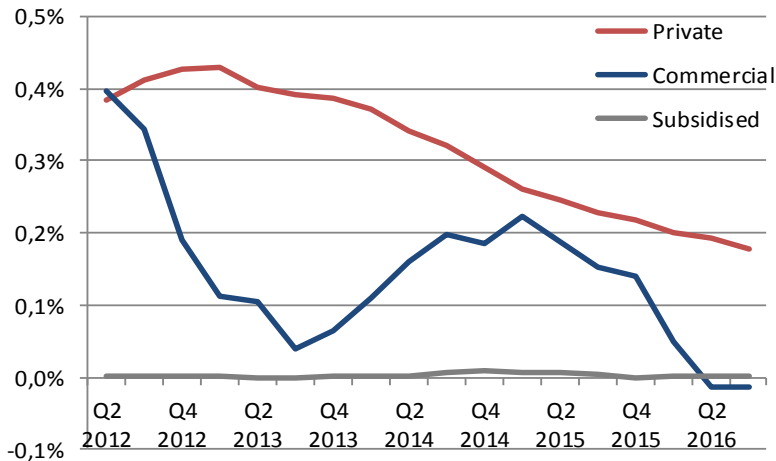
Lending in 90-days arrears (per cent of lending)



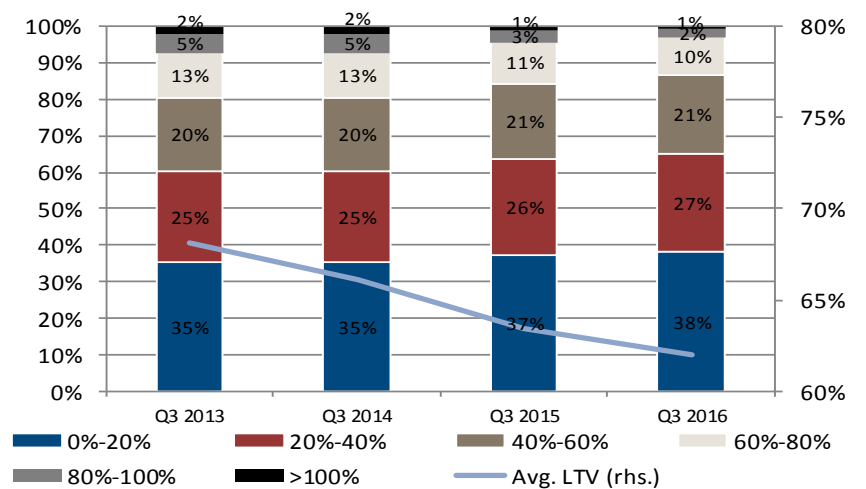
Repossessed properties (DKKm/number)



Yearly realised losses (running year)



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



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Refinancing

Decrease dependence on short term funding due to S&P and the supervisory diamond

- Increased margins and quotation cuts on short term funded loans (F1 og F2)

Funding of short term funding loans (F1 and F2) with RTL-F

- Bond has a legal maturity of three years, but BRFkredit will refinance on a yearly basis (F1) or every second year (F2)

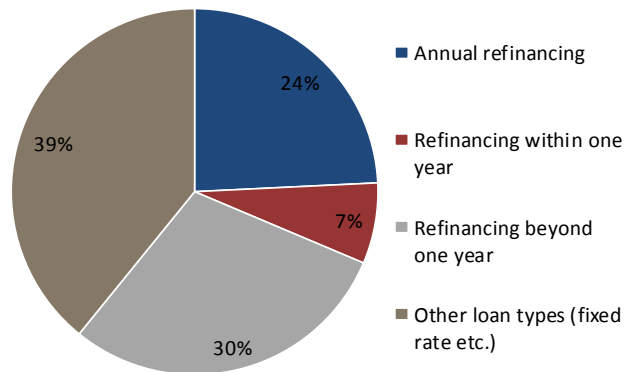
Funding of short term funding loans (F1) with longer maturing bonds and derivatives

- Funding of F1-loans with bonds with a maturity of 3 to 5 years

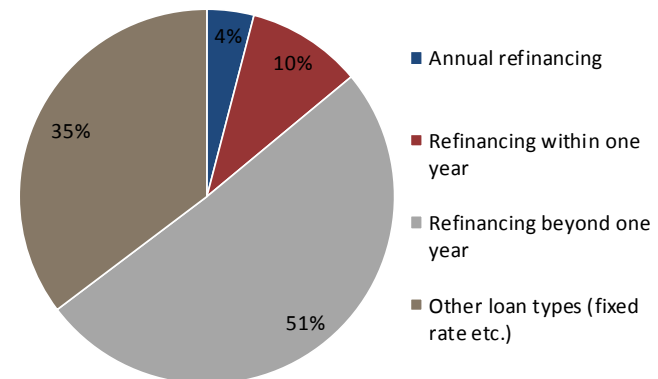
Ensure liquidity in issued bonds from BRFkredit

- Funding of bonds with a maturity of 2 to 10 years financed and refinanced in April and F1 and floaters at other refinancing dates

Refinancing profile Q1 2014



Refinancing profile Q3 2016



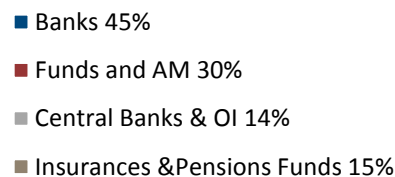
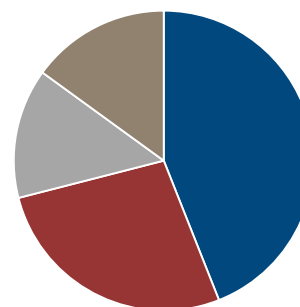
EUR funding of DKK loans

- BRFkredit is the only Danish mortgage institute to issue Danish covered bonds under the joint funding agreement
 - Funding of bank loans through bonds issued by mortgage institutes
 - Funding of subportfolios of loans
 - Exempt from the strict micro match of loans and funding
- The joint funding agreement allows BRFkredit to finance DKK mortgage loans by European market standard non callable EUR covered bond bullet structures – by use of derivatives
- Danish legal framework (L89): soft bullet
- The EUR funding can be applied to existing and new loans
 - But are only applied to loans within the Joint Funding agreement
- Derivatives used to hedge risks fully:
 - In accordance with covered bond ISDA/CSA and S&P requirements
 - Unilateral CSA in favour of BRFkredit

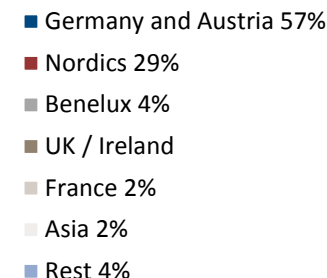
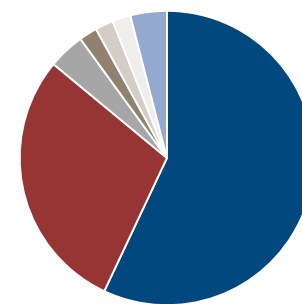
Details on first EUR covered bond

Transaction details	
Issuer	BRFkredit A/S
Issue Ratings	AAA
Issue Size	EUR 500m / EUR 750m
Status	Danish Legislative Covered Bond
Maturity Data	1 April 2021 / 1 July 2023
Value Date	23 March 2016 / 15 June 2016
Coupon	0.25 %
Re-offer Price/Spread	MS +20 bps / MS +14 bps
ISIN	XS1385173734 / XS1435774903

Investor distribution*



Geographical distribution*



*All figures are based on allocated amounts

- Two first successful EUR covered bond issuances in 2016
- Large interest from a wide variety of investor
- BRFkredit is committed to building a curve in the euro covered bond market

The Supervisory Diamond for mortgage institutes

- The Supervisory Diamond takes effect as of 2018 - yet not until 2020 in respect of interest-only and loans subject to refinancing
- BRFkredit expects to be compliant before the supervisory diamond takes effect.
- Due to the expected lending growth in 2016 BRFkredit will not comply with the growth benchmark in the private segment. The expected growth is made by customers already known to the group. However, it is expected that BRFkredit will also comply with this benchmark in 2018
- BRFkredit has already implemented initiatives to comply with the supervisory diamond
 - BRFkredit has raised prices on loans with floating interest rates and loans with interest only schemes, and
 - BRFkredit has lowered the prices on loans with fixed interest rate and amortization

	Benchmark	Q3 2016	Q4 2015
Concentration risk	< 100 %	65,0%	81,1%
Increase in loans			
- Owner-occupied home and vacation homes	< 15%	16,4%	27,4%
- Residential rental property	< 15%	9,4%	7,8%
- Agriculture	< 15%		
- Other sectors	< 15%	6,0%	6,4%
Borrower's interest-rate risk			
- Residential properties	< 25%	25,4%	27,2%
Interest-only schemes			
- Owner-occupied home and vacation homes	< 10%	9,7%	10,5%
Loans with frequent interest-rate fixing			
- Refinancing (annually)*	< 25%	20,5%	22,4%
- Refinancing (quarterly)	< 12,5%	2,7%	15,7%

*Last 12 months

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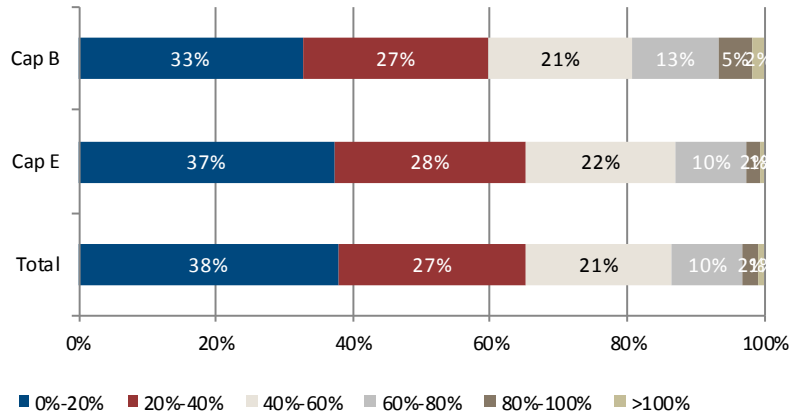
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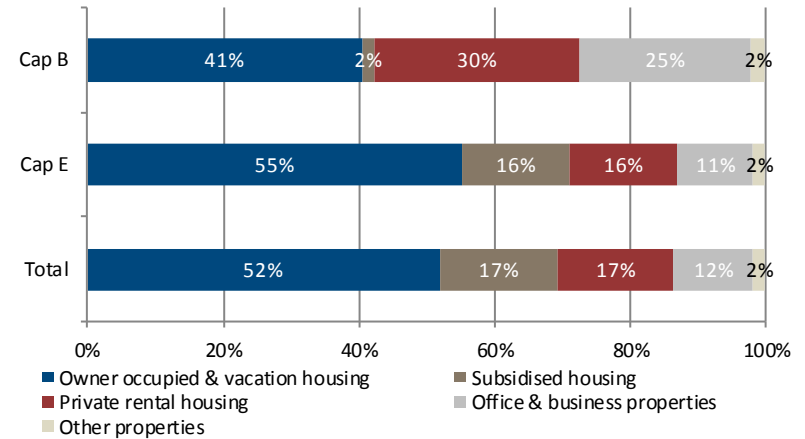
Portfolio composition

Q3 2016

Portfolio by Loan to Value (LTV)



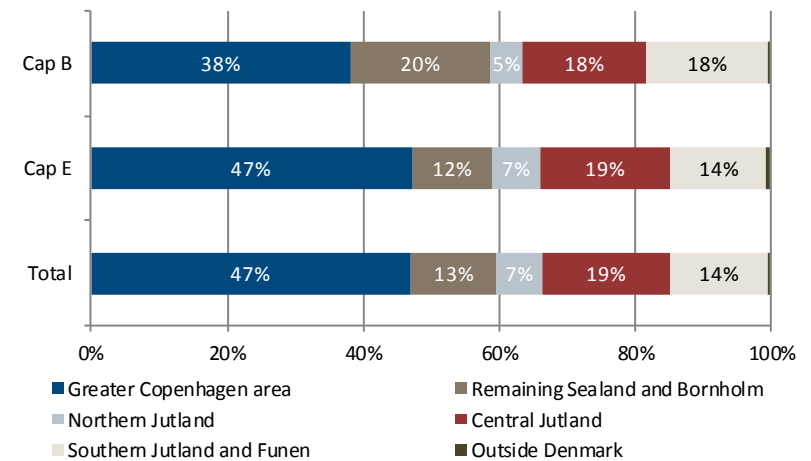
Portfolio split by property category



Average LTV by property segment

Average LTV by property segment	Total	Cap E	Cap B
Owner occupied & vacation housing	64%	64%	63%
Subsidised housing	48%	45%	33%
Private rental housing	70%	69%	72%
Office & business properties	62%	61%	71%
Other properties	56%	58%	52%
Lending, average LTV	62%	62%	67%
<i>Total lending (DKK bn)</i>	<i>269.6</i>	<i>238.4</i>	<i>19.3</i>

Portfolio split by geography



BRFkredit senior secured and senior debt

As of 30th September 2016

Senior secured bonds and senior debt

- Covered bonds legislation (SDO) require on-going monitoring of Capital Centre E
- BRFkredit provides additional security on a loan-by-loan basis
- Proceeds from the bond issues below is part of ensuring a sufficient over-collateralisation

ISIN	Name	Issuer	Type	Currency	Volume *	Maturity
XS0882166282	2,5% BRFkredit EMTN Senior 2018	BRFkredit a/s	Senior debt	EUR	500	31-01-2018

Note * Volume per 30 September 2016 as million in the currency stated

Disclaimer

Disclaimer

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www.brf.dk/investors

General sources of information

Organisation	Danish name	Link
Association of Danish Mortgage Banks	Realkreditrådet	www.realkreditraadet.dk
NASDAQ OMX Copenhagen A/S	Nasdaq OMX København	www.nasdaqomxnordic.com
The Danish Central Bank	Danmarks Nationalbank	www.nationalbanken.dk
Statistics Denmark	Danmarks Statistik	www.dst.dk
ECBC Covered Bond Label	ECBC Covered Bond Label	www.coveredbondlabel.com