

# BRFKREDIT 2015

Published 23 February 2016



**BRFkredit**

# The positive trend continues

## Positive developments in BRFkredit

- **Pre-tax profit** was DKK 909m for 2015. This is equal to a ROE on 8.0 % p.a.

### 2015 (compared to 2014)

- **Core earnings** rose by 7 %
- **Costs** reduced with 6 %
  - Wages reduced with 11 %
- **Loan impairment charges** at a low level
- **Value adjustment** increased in Q2 2015 due to the transfer of BRFkredit Bank assets to Jyske Bank

### Expectations for 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

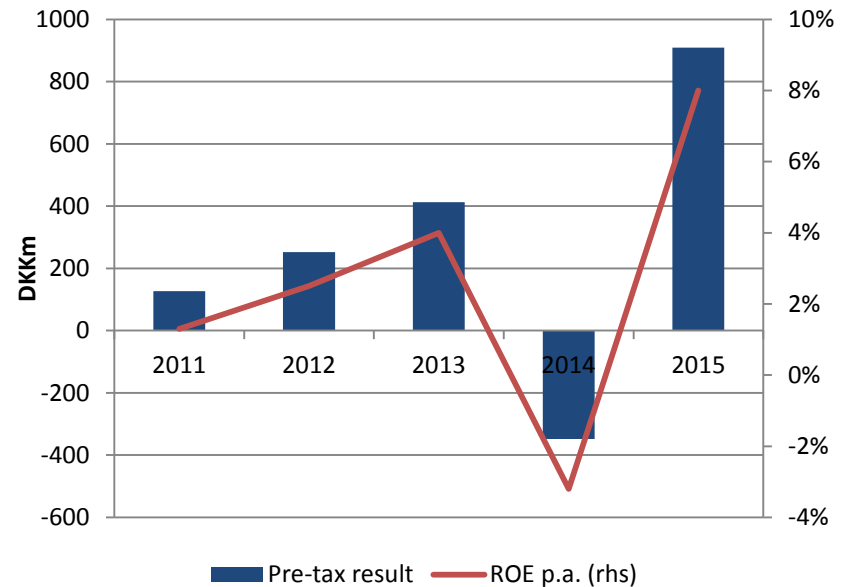
Core profit and net profit for the period DKKm	2015	2014	Indeks 15/14
<b>Core operations</b>			
Contribution income, etc.	1,687	1,494	113
Other net interest income <sup>1)</sup>	-45	81	-
Net fees, charges and commission income etc.	256	184	139
Value adjustments	-106	-61	174
Other income	40	15	240
<b>Core earnings</b>	<b>1,832</b>	<b>1,713</b>	<b>107</b>
Core expenses	908	963	94
<b>Core earnings before loan impairment charges etc.</b>	<b>923</b>	<b>751</b>	<b>123</b>
Loan impairment charges etc.	103	1,069	10
<b>Core profit</b>	<b>821</b>	<b>-318</b>	<b>-</b>
Earnings from investment portfolios	89	-30	-
<b>Pre-tax profit</b>	<b>909</b>	<b>-276</b>	<b>-</b>
Tax	146	-72	-
<b>Net profit or loss for the period</b>	<b>699</b>	<b>-276</b>	<b>-</b>
1) Of which cost of capital	-134	-111	91

# Increasing return on core capital

## Return on Equity of 8.0 % p.a.

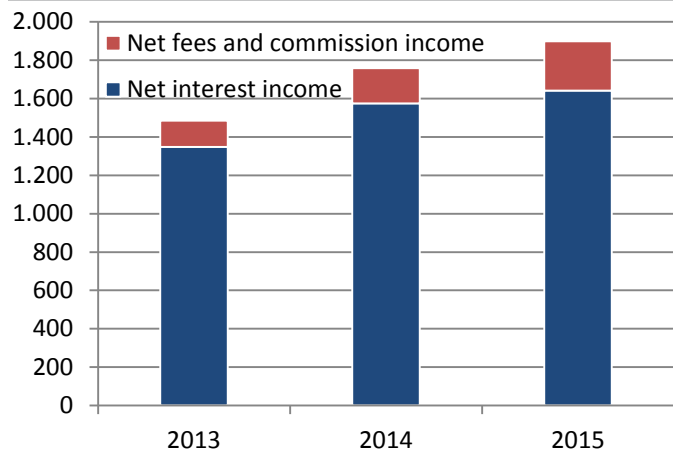
- One joint distribution channel within the group
  - Possible to establish customers within the group with both banking and mortgage products
- Funding of JB Mortgage loans
  - Total funding of DKK 42bn
- Lower marginal costs to growth in lending segments
- Lending to commercial segment
  - Positive 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. (%)

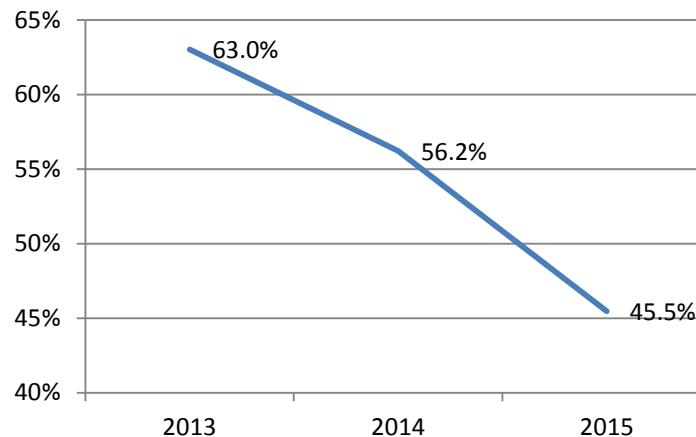


# Financials - selected graphs

## Income (DKKm)

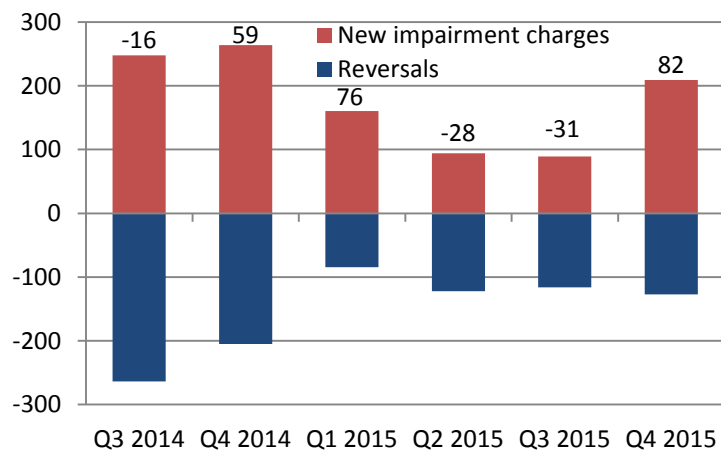


## Cost/income (%)\*

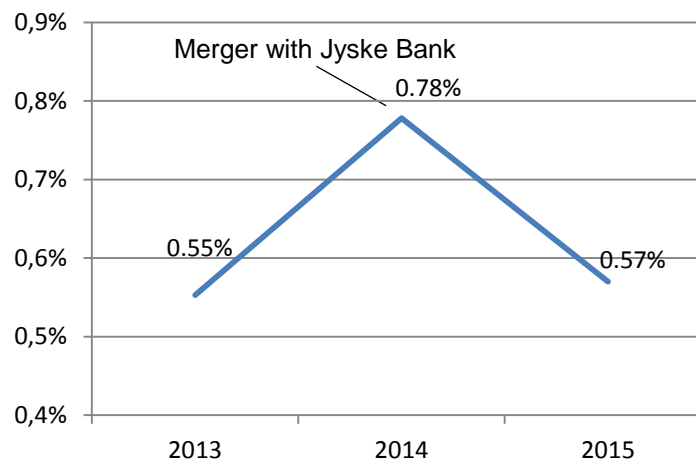


\*Core earnings in Q2 2015 is adjusted for value adjustment relating to transfer of banking activities

## Impairment charges and reversals (DKKm)



## Balance of loan impairments in % of lending



# BRFkredit – Balance sheet

- **Balance sheet** stood at DKK 270bn (end 2014: DKK 254bn). An increase of 3% compared to end 2014 despite transfer of banking activities
- **Mortgage Loans** stood at DKK 251bn (Q4 2014: DKK 220bn)
- Jyske Bank has granted DKK 57.5bn of mortgage lending by the end of 2015. From these DKK 45.5bn were taken on the balance by BRFkredit
- **Equity** stood at DKK 11,781m as of 31 December 2015. The increase compared to end 2014 is due to positive results for all four quarters of 2015

Summary balance sheet, end of period DKKm	2015	2014	Indeks 15/14
Bank loans	-	2,081	-
Mortgage loans	250,892	220,301	114
Bonds and shares etc.	8,127	27,768	29
<b>Total Assets</b>	<b>269,794</b>	<b>261,300</b>	<b>103</b>
Payables to credit institutions and central banks	94	12,036	1
Bank deposits	-	4,990	-
Issued bonds at amortised cost	4,719	5,203	91
Issued bonds at fair value <sup>1)</sup>	249,772	223,826	112
Equity	11,781	11,084	106

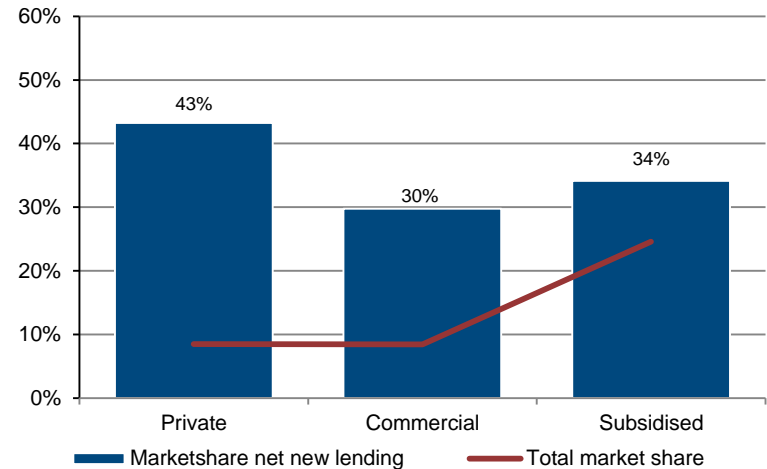
<sup>1)</sup> In 2015 and in 2014, the holding of own mortgage bonds in the amount of DKK 61bn and DKK 66bn, respectively, was offset against issued bonds.

# Development in mortgage lending

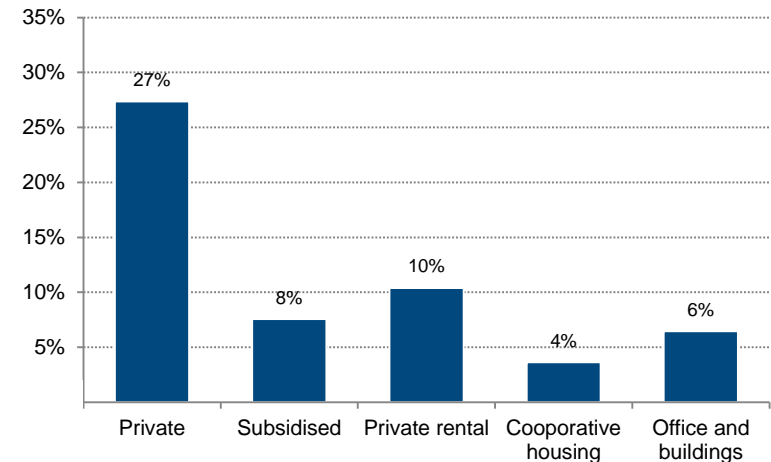
## Positive development in portfolio

- The total market share of mortgage lending for BRFkredit stood at the end of 2015 at 9.7 % (8.2 % end of 2014)
- For the segments private, commercial and subsidised the market share of net lending in the sector is above the total market share of BRFkredit for each segment
- It is expected that BRFkredit in 2016 will continue to have a large proportion of net new lending in the sector
  
- Positive lending growth within all primary property segments
- Lending to the private segment has increased with 27 % in 2015
- BRFkredit still have almost no lending to agriculture and other primary production

Market share of net new lending 2015 and total share



Growth in primary segments in 2015



# BRFkredit: Expectations to 2016

## Results

- BRFkredit expect a positive development in earnings and in the final result
- An increasing lending portfolio will lead to increase in nominal margins
- With the expectation of stable / increasing property prices in the primary segments of BRFkredit, and an historically low housing burden, the impairment charges are expected to remain at a low level
- The costs of senior secured and unsecured debt will remain at a low level due to the decreasing OC-requirement from S&P, over the last years
- Due to the low interest rate level the earnings from the investment portfolio are expected to remain at a low level

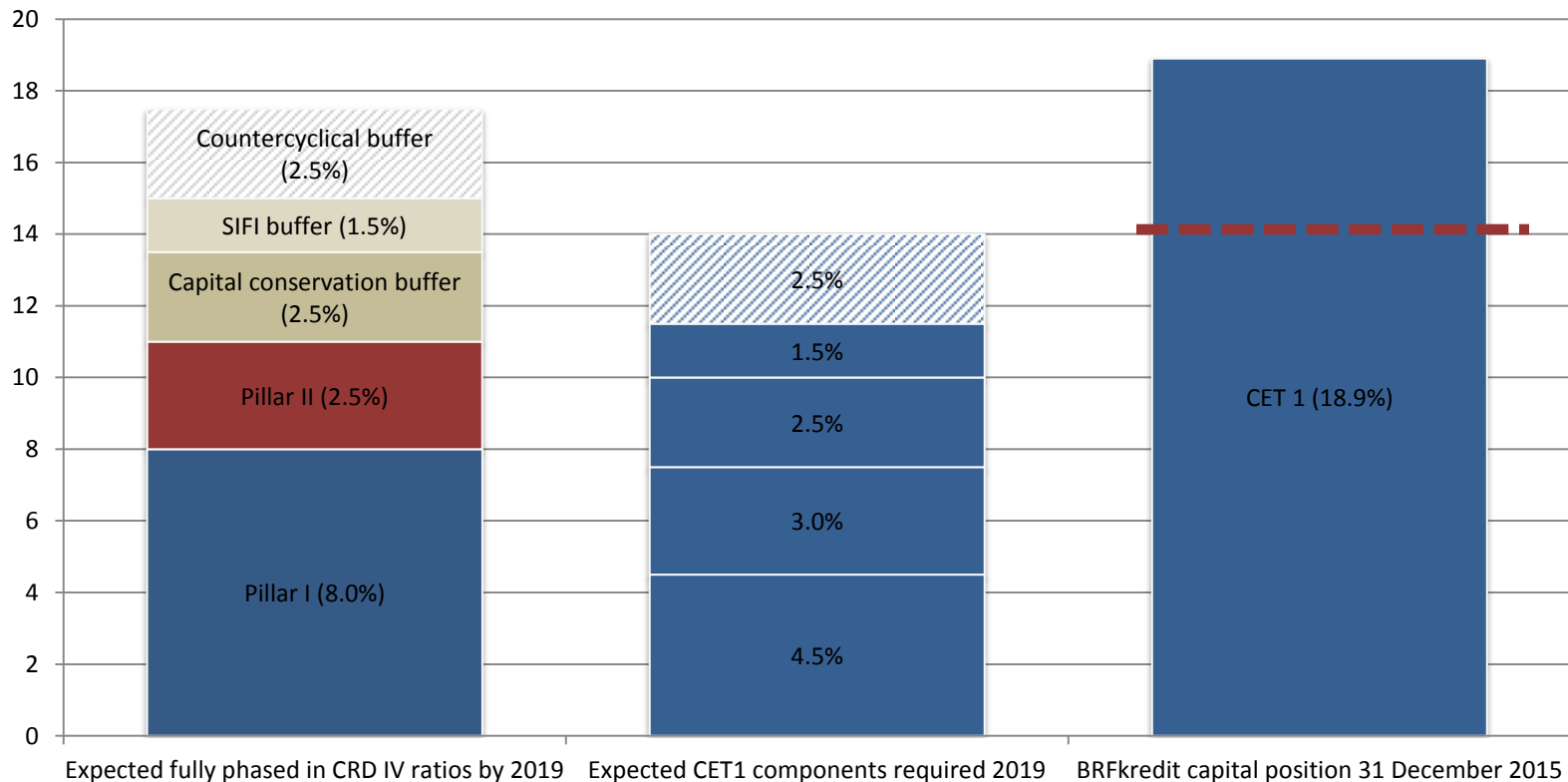
## Development in lending portfolio

- The positive development in the lending portfolio is expected to continue in 2016, coming from both funding of loans from Jyske Bank and loans through BRFkredit
- The increase in the portfolio will lead to a stronger SDO capital center
  - Relatively more private lending
  - Increase in geographical distribution – still mainly focused around the largest Danish cities
  - "New" costumers (already known by Jyske Bank) with high credit quality, and lending with low LTV

## Rating

- Lower average OC-requirements due to a higher proportion of private lending

# Expected fully implemented CRD IV & Danish SIFI demands



\* The countercyclical buffer depends on 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



# 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 lending to commercial segment

- The criteria uses higher haircuts on commercial property values
- The implementation has led to higher OC-requirements for capital centers with a high concentration of commercial lending

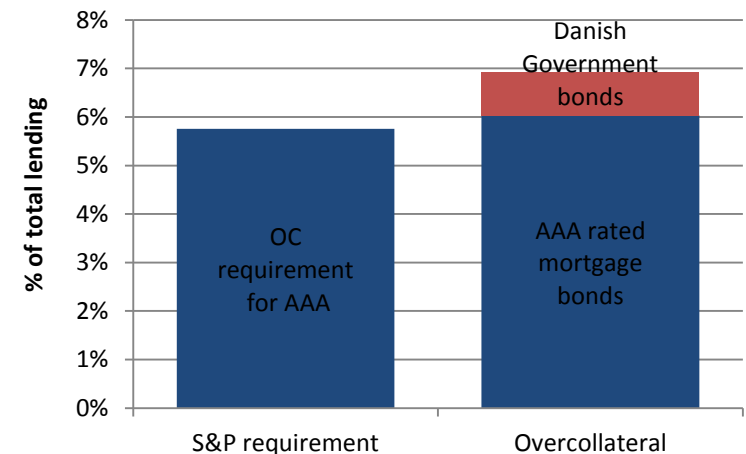
## Types of overcollateral

- 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



# Lending portfolio

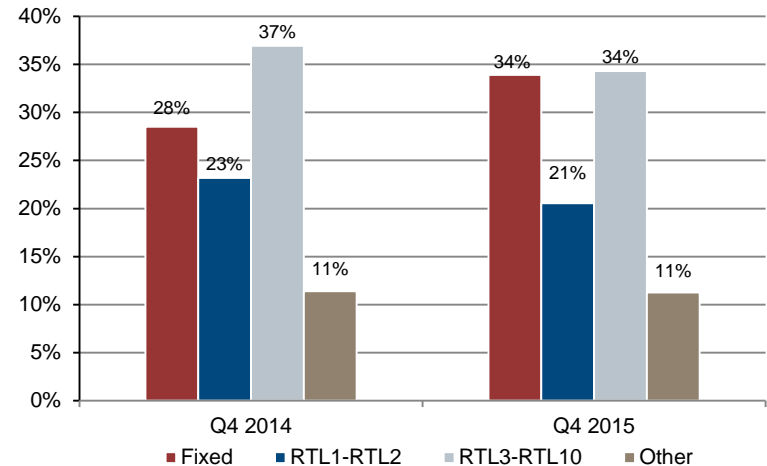
## Relatively more fixed – relatively less variable

- Relatively larger proportion of 30-year fixed interest loans
- Relatively less loans with below two years between refinancing
- It is expected that the development will continue in 2016

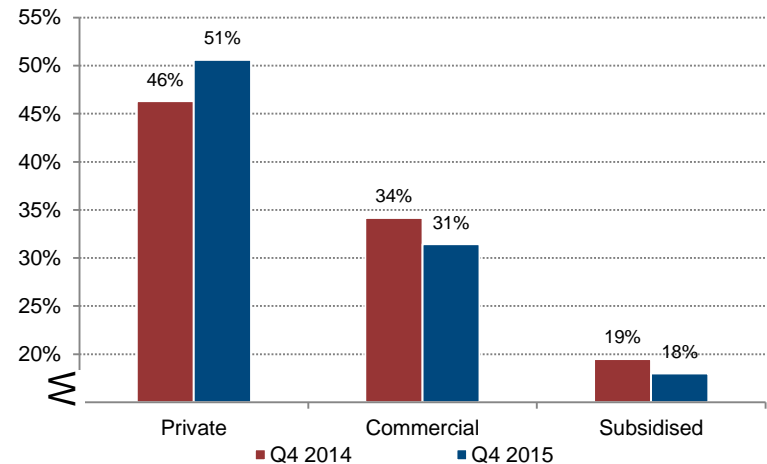
## Relatively more private – relatively less commercial

- Total nominal lending stood at DKK 248.9bn at the end of 2015 (DKK 213.4bn at the end of 2014)
- The total portfolio consist of relatively less commercial and subsidised lending – despite growth both within commercial (8% growth) and subsidised (8% growth) over the last year
- At the end of 2009 39 % of the total lending was commercial lending
- The relative development between private, commercial and subsidised are expected to continue in 2016

Development in lending types



Development in the lending portfolio

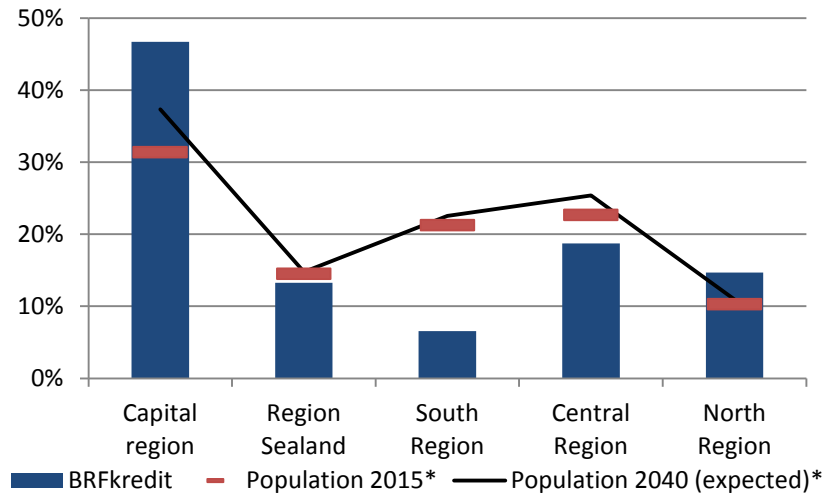


# Geographical exposure

## Low lending to troubled areas

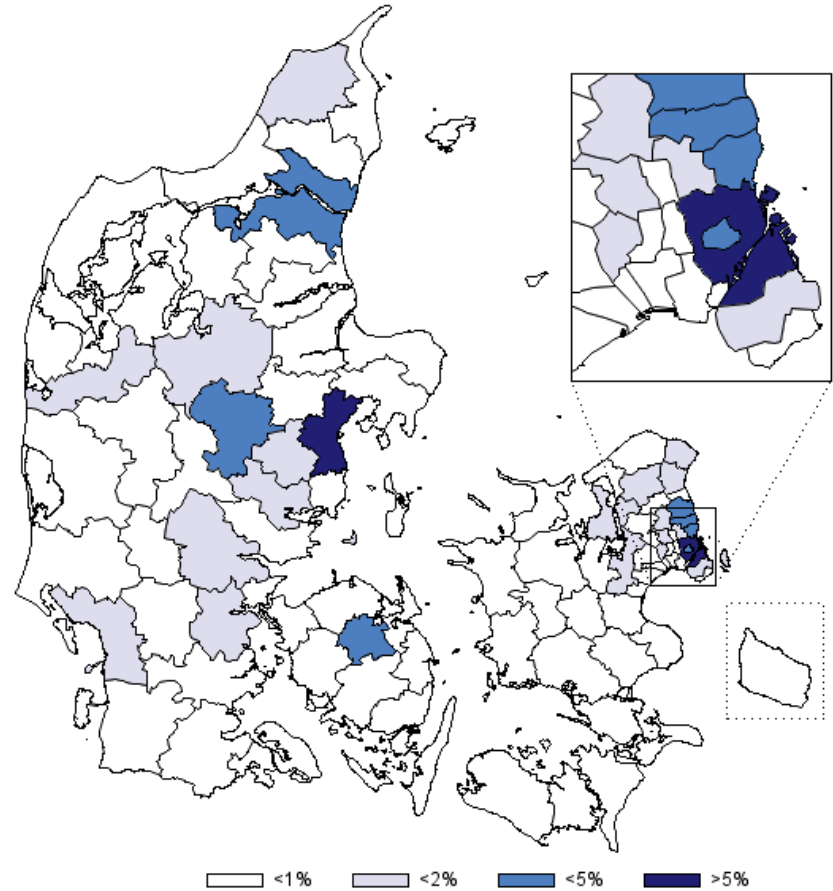
- The primary geographical exposure of BRFkredit is in areas with increasing house prices
- Decreasing LTV in the portfolio
- Low exposures to "troubled" areas
- The exposure to the central region is expected to increase through lending from Jyske Bank

## Total lending in danish regions and population



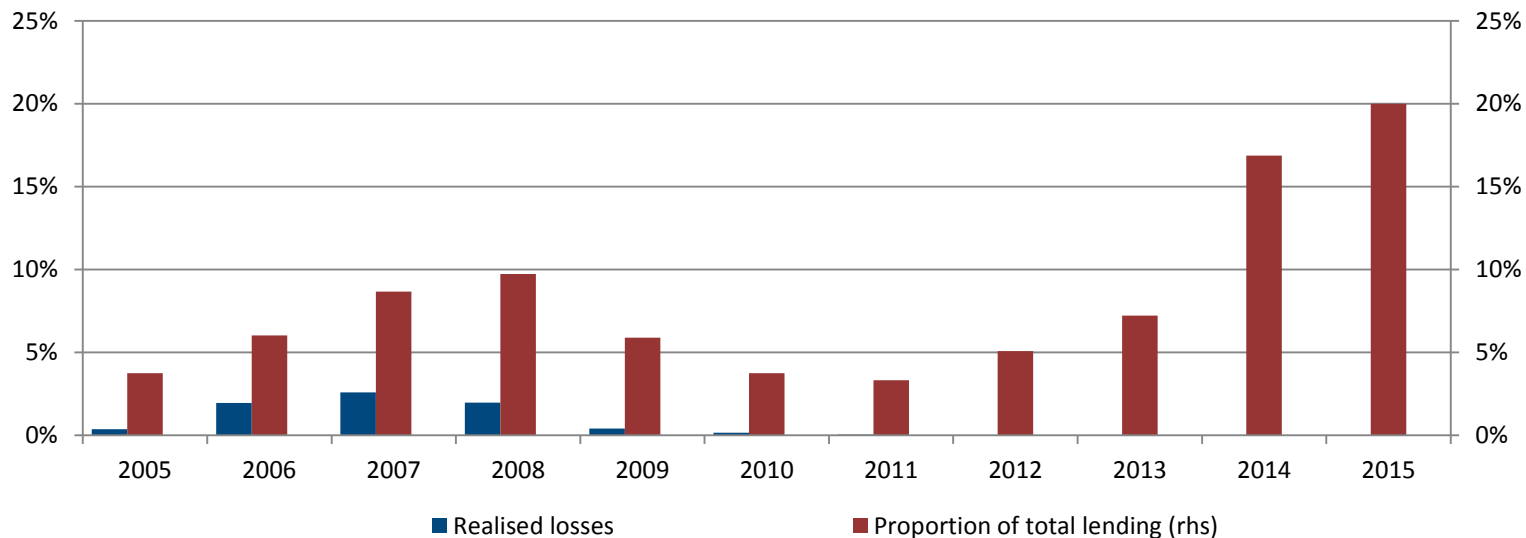
\*Source: Statistics Denmark

## New lending 2015



# Improvement in credit policies

Realised losses (%) by year of disbursement and proportion of total portfolio after year of disbursement

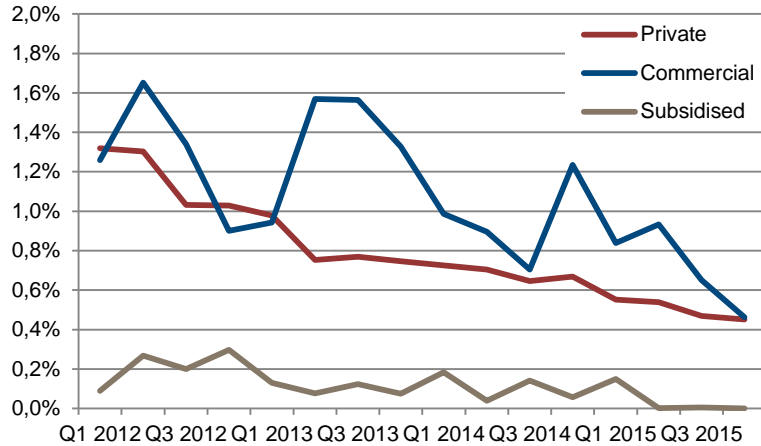


\*Proportion of total lending is based on the last new loan (not a conversion) made by the customer

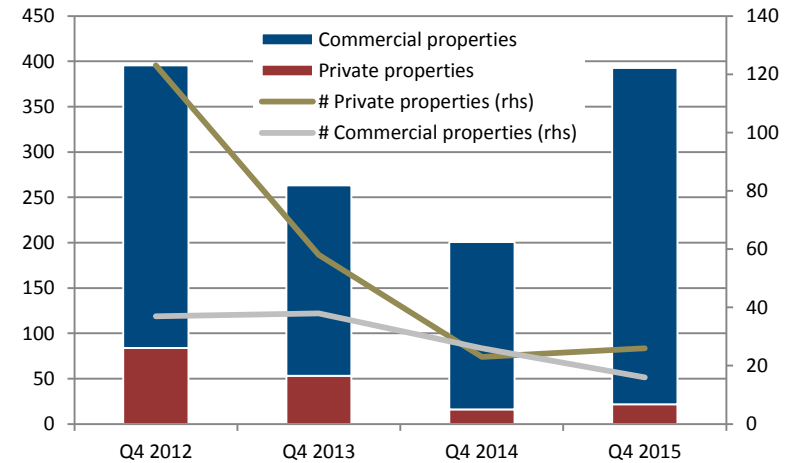
- Tightening of credit policies in 2008 and 2009 has led to a decreasing number of losses
- Full information on the customer for new lending from 2009 and better monitoring of the customer after the payment of the loan
- Many "new" customers are already known to the group
- Impairment charges on new customers are expected to stay low

# Credit quality

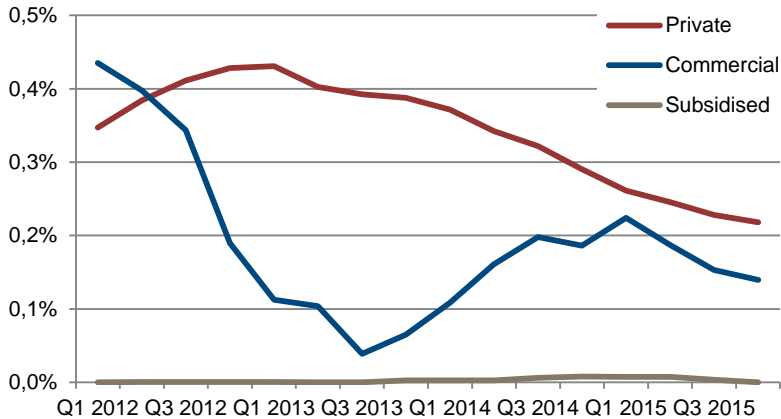
Lending in 90-days arrears (*per cent of lending*)



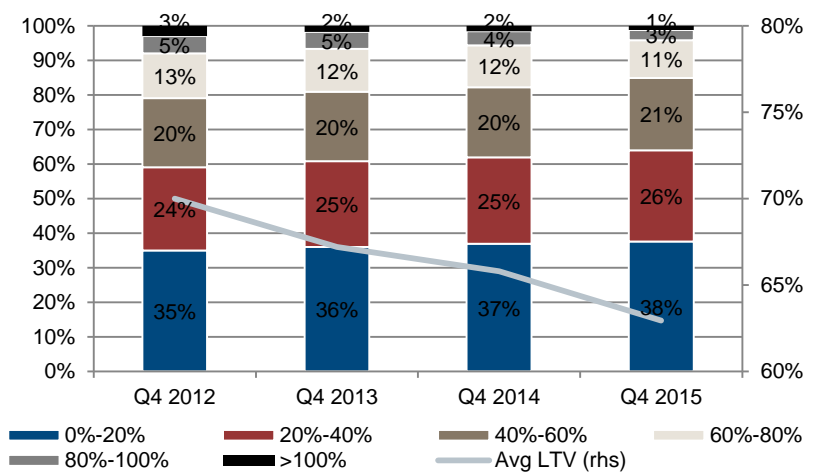
Repossessed properties (*DKKm/number*)



Yearly realised losses (*running year*)



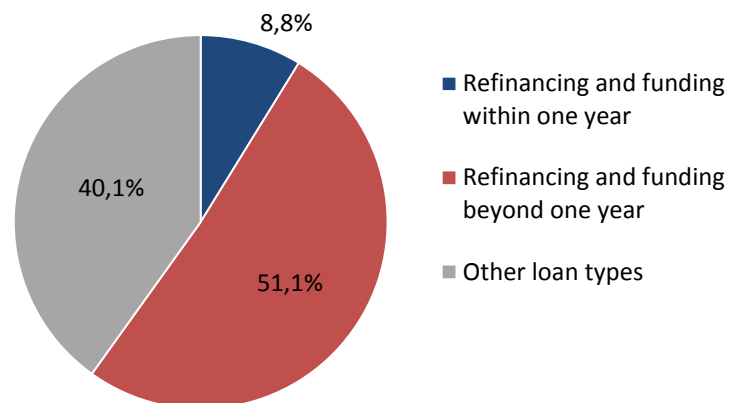
Loan-to-Value brackets (*per cent of lending*)



# Fundingprofile

- In 2015 BRFkredit have continued to reduce the refinancing risk
- Risk reduction through financing and refinancing F1-loans and joint funding loans in a new type of bond, RTL F (Prefinanced)
- The RTL F bond mitigates the refinancing risk, but formally keeps investors in the same position as previously
- The RTL F have improved S&P's benchmark of BRFkredit's refinancing risk: long-term funding compared to the total funding need (SFR) and liquid assets compared to the short-term funding need (BLAST)

Refinancing profile



Planned Refinancing and breakdown of principal still owned

Repayment date	Planned refinancing (amount offered)	Funding		Loans			
		Maturities per refinancing dates	Maturities per refinancing dates + 2 years (RTL F)	F1	F3	F5	Other
<b>April 2016</b>	9.4	1.3	8.1	6.7	1.2	0.0	1.5
<b>October 2016</b>	11.1	5.4	5.7	6.7	0.6	1.9	1.8
<b>January 2017</b>	37.7	21.7	16.0	28.6	2.4	2.0	4.6
<b>Resten af 2017</b>	26.6	24.1	2.5	0.0	5.8	4.6	16.3
<b>2018</b>	31.7	30.9	0.8	0.4	13.3	13.6	4.4
<b>2019 - 2025</b>	39.1	39.1	0.0	5.8	3.7	20.6	9.1

# 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 take 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	Q4 2015	Q4 2014
<b>Concentration risk</b>	< 100 %	77.8%	76,4%
<b>Increase in loans</b>			
- Owner-occupied home and vacation homes	< 15%	25.4%	9,1%
- Residential rental property	< 15%	5.8%	4,0%
- Agriculture	< 15%	-	-
- Other sectors	< 15%	4.3%	2,7%
<b>Borrower's interest-rate risk</b>			
- Residential properties	< 25%	30.7%	27,0%
<b>Interest-only schemes</b>			
- Owner-occupied home and vacation homes	< 10%	10.6%	11,5%
<b>Loans with frequent interest-rate fixing</b>			
- Refinancing (annually)*	< 25%	24.0%	27,5%
- Refinancing (quarterly)	< 12,5%	3.9%	19,4%

\*Last 12 months

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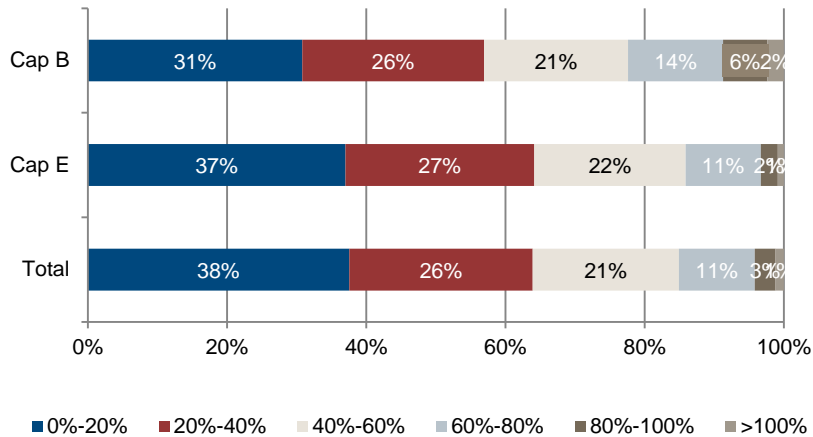
# APPENDICES



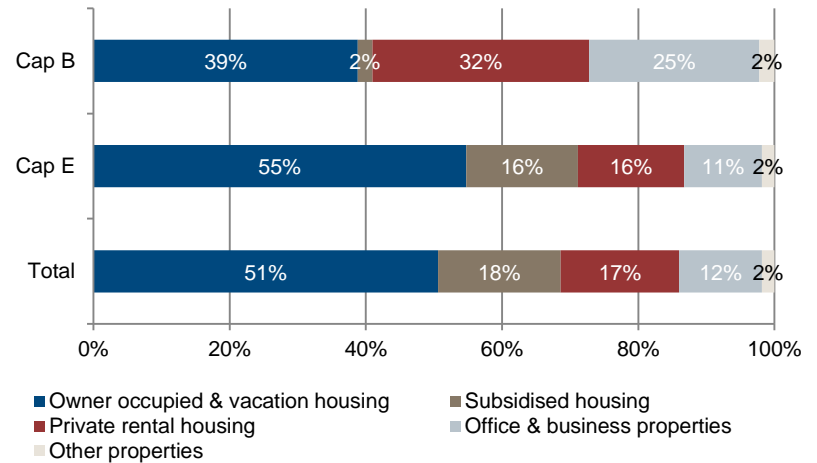
# Portfolio composition

## Q4 2015

### Portfolio by Loan to Value (LTV)



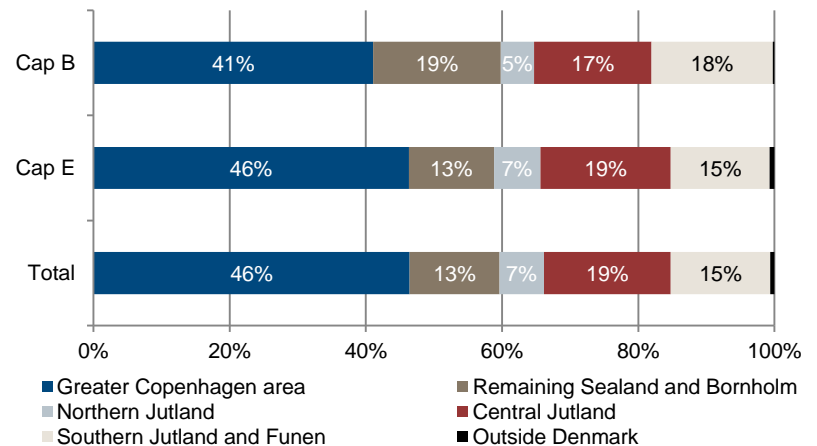
### Portfolio split by property category



### Average LTV by property segment

Average LTV by property segment	Total	Kap E	Kap B
Owner occupied & vacation housing	66.2	66.1	69.7
Subsidised housing	47.4	46.2	32.3
Private rental housing	70.2	69.1	77.7
Office & business properties	64.0	62.5	70.6
Other properties	54.3	56.5	49.4
<b>Lending, average LTV</b>	<b>62.9</b>	<b>62.7</b>	<b>71.2</b>
<i>Total lending (DKK bn)</i>	<i>248.9</i>	<i>212.7</i>	<i>23.5</i>

### Portfolio split by geography



Source: Cover Pool rapport per Q4 2015

# BRFkredit senior secured and senior debt

As of 31<sup>th</sup> December 2015

## 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
DK0009374522	Var. BRFkredit 322.JCBE 2016	Capital Centre E	SSB	DKK	1,000	01-04-2016
XS0882166282	2,5% BRFkredit EMTN Senior 2018	BRFkredit a/s	Senior debt	EUR	500	31-01-2018

Note \* Volume per 30<sup>th</sup> September 2015 as million in the currency stated

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[www.brf.dk/investors](http://www.brf.dk/investors)

## General sources of information

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