

BRFKREDIT FULL YEAR REPORT 2016

Published 21 February 2017



BRFkredit

Agenda

- **Financials 2016**
- Mortgage lending
- Capital and Rating
- Credit quality and the housing market
- Funding
- Appendices



The positive trend continues

Positive developments in BRFkredit

- Pre-tax profit was DKK 1,295m for 2016. This is equal to a ROE of 10.6 % p.a.

2016 (compared to 2015)

- Core earnings before loan impairment charges rose by 28 %
- Core profit rose by 48 %
- Costs reduced with 8 %
 - Wages reduced with 6 %
- Loan impairment charges are positive
- Value adjustment are no longer affected by the transfer of BRFkredit Bank assets to Jyske Bank

Expectations for 2017

- 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

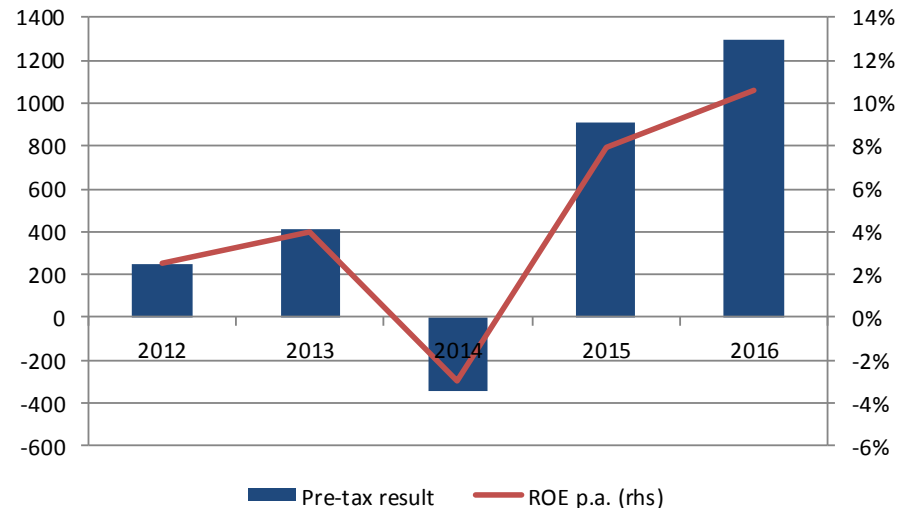
Core profit and net profit for the period DKKm	2016	2015	Index 16/15
Core operations			
Contribution income, etc.	1785	1687	106
Other net interest income 1)	-53	-45	119
Net fees, charges and commission income etc.	207	256	81
Value adjustments	30	-106	-28
Other income	52	40	131
Core earnings	2021	1832	110
Core expenses	837	908	92
Core earnings before loan impairment charges etc.	1184	923	128
Loan impairment charges etc.	-32	103	-31
Core profit	1216	821	148
Earnings from investment portfolios	80	89	90
Pre-tax profit	1295	909	142
Tax	285	210	135
Net profit or loss for the period	1011	699	145
1) Of which cost of capital	107	134	80

Increasing return on equity

Return on Equity of 10.6 % p.a.

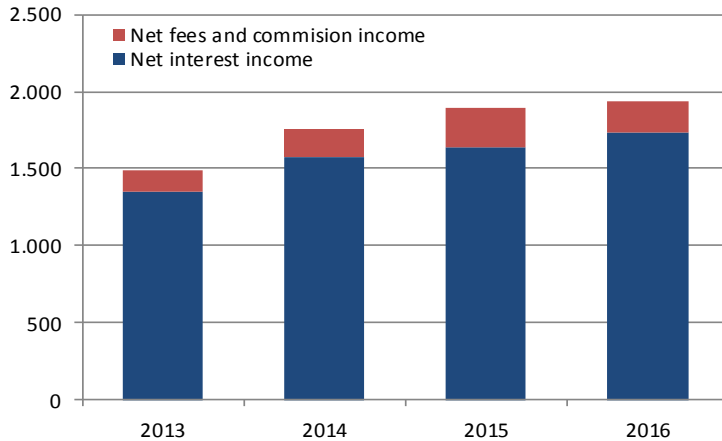
- One joint distribution channel within the group
 - Possible to establish customers within the group with both banking and mortgage products
- Funding of JB Mortgage loans
 - Total funding of DKK 53bn
- Lower marginal costs to growth in lending segments
- Lending to commercial segment
 - Positive growth in commercial lending since 2012
- Lower operating costs
- Lower capital costs
 - Decreased with DKK 143m since 2013
 - Decreasing requirements from rating institutes and lower SDO-requirements
- Impairment charges TTC
 - Impairments on pre-crisis level

Pre tax result (DKKm) and ROE p.a. (%)

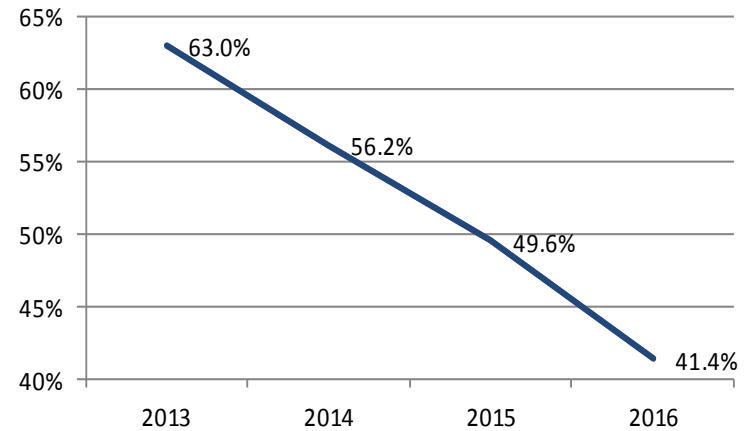


Financials - selected graphs

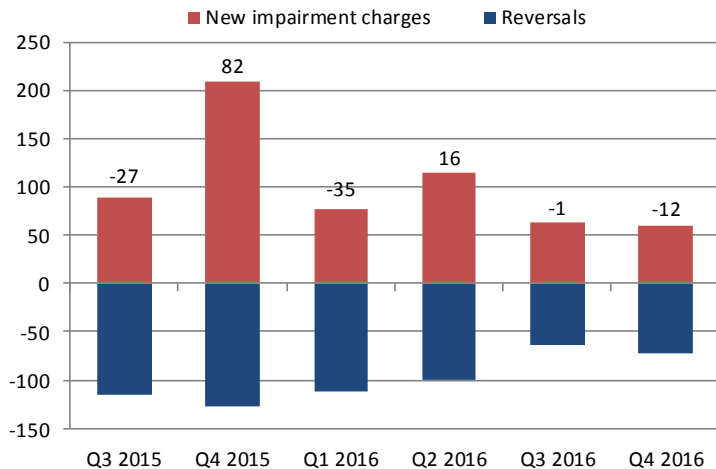
Income (DKKkM)



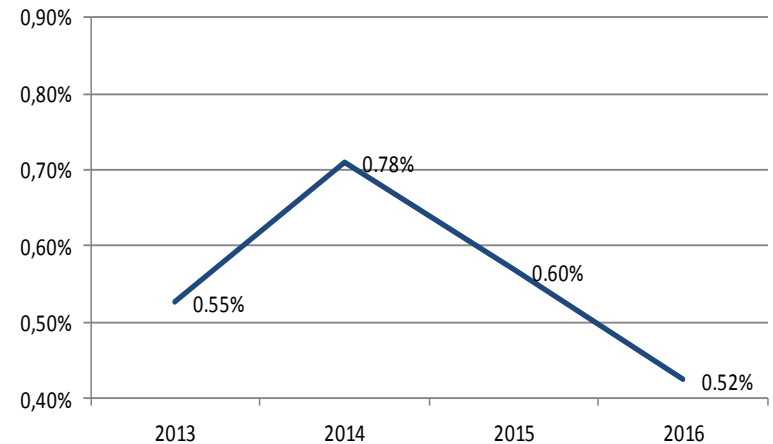
Cost/income (%)



Impairment charges and reversals (DKKkM)



Balance of loan impairments in % of lending



BRFkredit – Balance sheet

- Balance sheet stood at DKK 307bn (2015: DKK 270bn). An increase of 14% compared to 2015
- Mortgage Loans stood at DKK 278bn (2015: DKK 251bn)
- Jyske Bank has granted net DKK 68bn of mortgage loans by the end of 2016. From these DKK 53bn were taken on the balance by BRFkredit at the end of 2016
- Equity stood at DKK 12,812m as of 31 December 2016. The increase compared to end 2015 is due to positive results for all the last four quarters

Summary balance sheet, end of period DKKm	2016	2015	Index 16/15
Bank loans	-	-	
Mortgage loans	278.407	250.892	111
Bonds and shares etc.	16.307	8.127	201
Total Assets	307.037	269.794	114
Payables to credit institutions and central banks	907	94	964
Bank deposits	-	-	-
Issued bonds at amortised cost	3.711	4.719	79
Issued bonds at fair value 1)	285.676	249.772	114
Equity	12.812	11.781	109

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- **Mortgage lending**
- Capital and Rating
- Credit quality and the housing market
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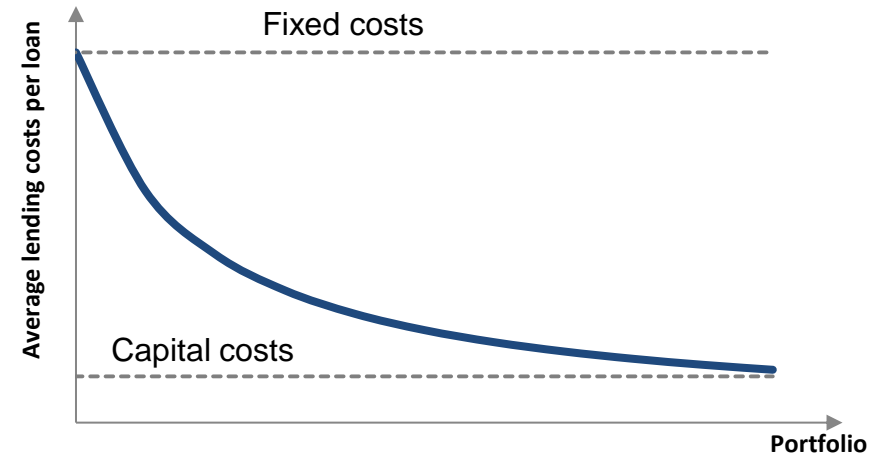
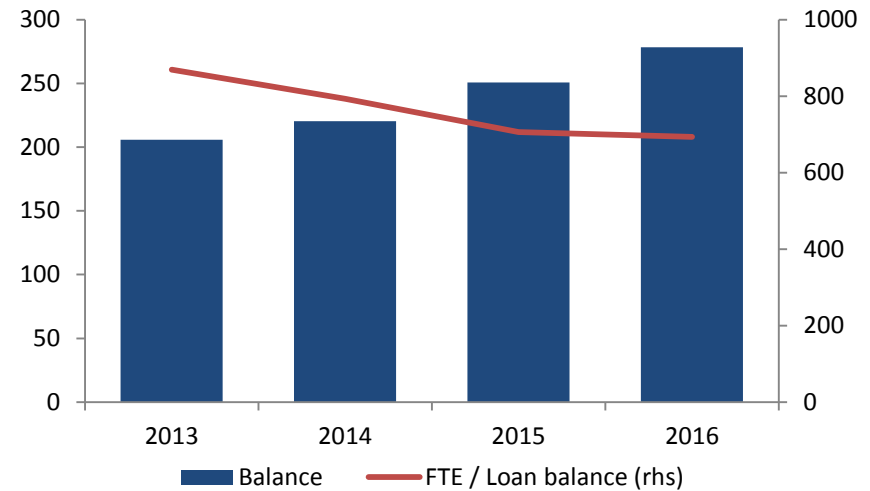
- Appendices



The focus on property lending is a success for the group

- Net growth of more than DKK 80bn over the last three years for the group
- Net growth primarily in residential segment
- Commercial property lending growing with DKK 21bn – DKK 16bn in housing properties
- Since 2014 the group has introduced new banking products
- Introduction of capped floater loan (“Super Loan”) in 2016
- Growth in the lending portfolio drives average costs towards capital costs
 - The proportion that lives up to LCR is increased
 - Focus from investors is increased

Loan balance (DKKbn) and FTE in BRFKredit



Increased earnings from innovation

- Funding is adapted to Danish and international regulation
- The group prolongs funding to maintain a high margin on products that competitors are not able to offer due to regulation
- Three benchmark issuances in Euro in 2016 supports the earnings
- We have focused to attain flexibility in our products, capital centers, lending documentation etc.
- The increase in volumen and flexibility can be used for further developments of new products
- End of discounts on fees

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 Institutes	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 Institutes	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) Cibar3M 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 and so on

Political agreement on mortgage – not a game changer

- Political agreement on home loans, 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 site with comparisons of prices (margins and fees) on mortgage loan
 - The agreement gives the borrower the possibility to finance existing mortgage debt above the normal lending limit in other mortgage institutes
- No significant impact on the Group's growth strategy
 - Increased possibilities to attract customers with LTV above the lending limit

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



Money and Pension panel

Digitalisation on the mortgage market

- The mortgage market is becoming more digitalised over the coming years
- The group must create a platform for the digital customers
- Within the last year 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



Best loan



My mortgage loan

Competitors digitale initiatives to mortgage customers

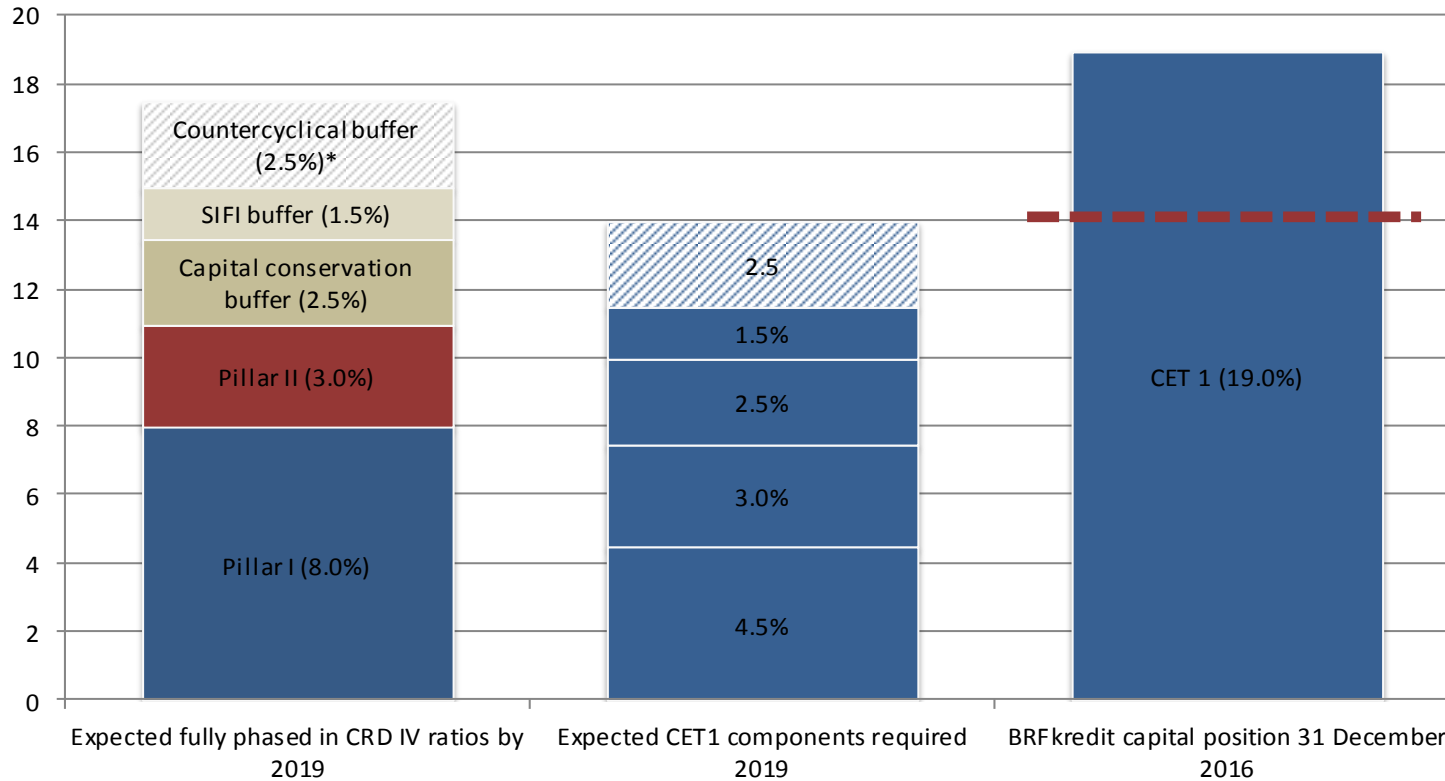


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Expected fully implemented CRD IV & Danish SIFI demands



*) 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

Criteria for covered bonds

- In the criteria for covered bonds, the rating of the covered bond is dependent on the issuer rating
- 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 residential

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

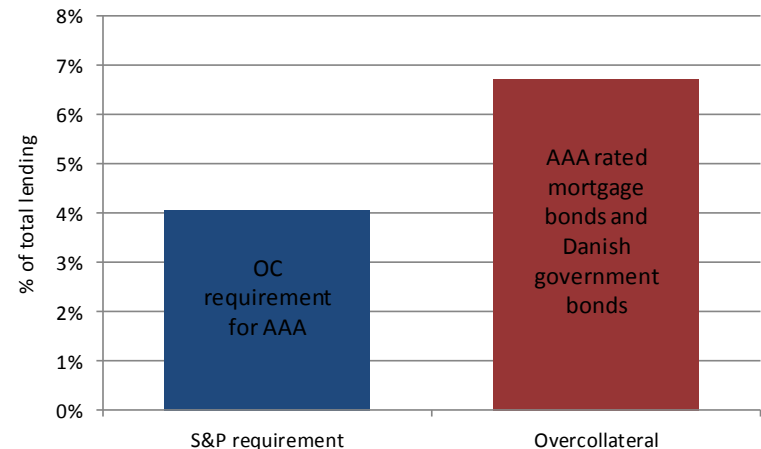
Types of overcollateral

- 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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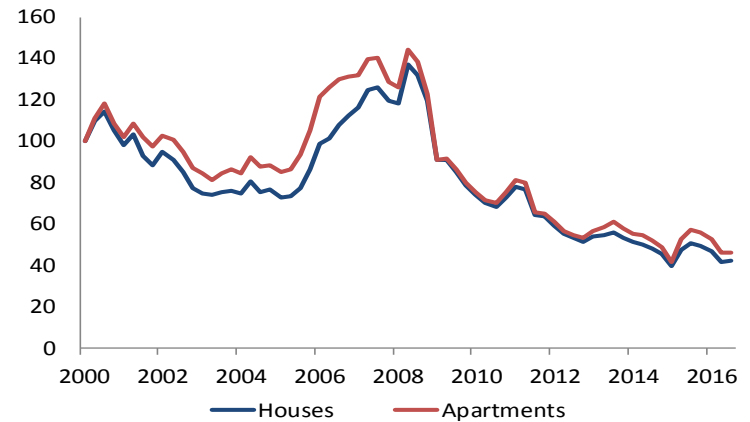
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Housing market

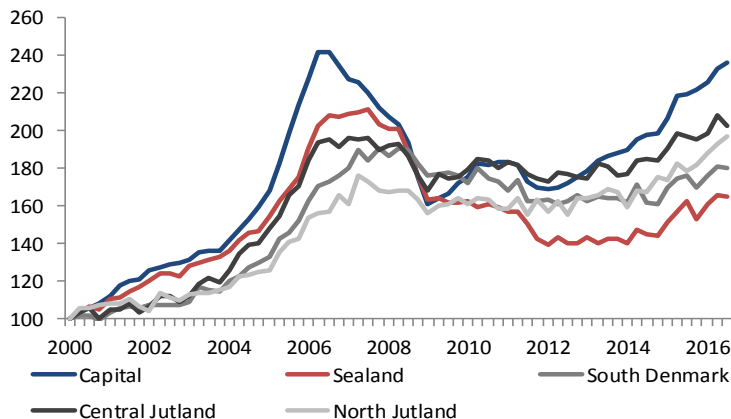
- Housing prices increased with 5.4 % in 2016 and the prices on apartments increased with 8.9 %
- Positive trend in housing prices in 2016 for all geographical areas of Denmark
- A steady growth is expected in 2017 as a consequence of a weak economic growth and tighter credit policies
- The housing burden is expected to remain at a low level

Housing burden (indeks 2000 = 100)



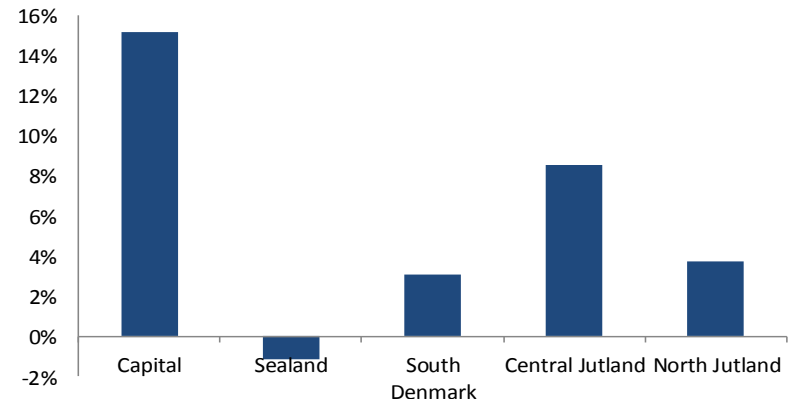
Source: BRFKredit

Regional development in prices (indeks 2000 = 100)



Source: Federation of Danish Mortgage Banks

Expected regional population growth (2016 Q4 – 2040)

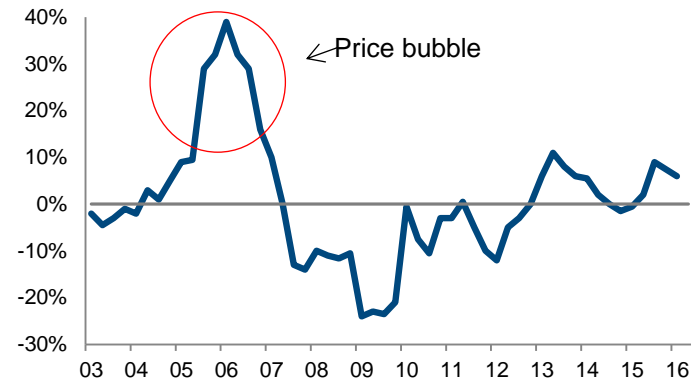


Source: Statistics Denmark

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
- In BRFkredit only 0.3 % of residential lending above LTV 100 with a decline in prices in Copenhagen of 20 %

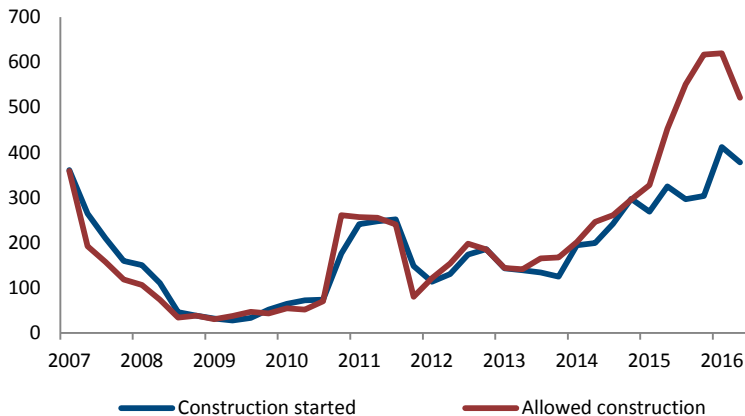
Year-to-year changes in corrected* apartment prices



*Prices corrected with income, interest rate and margin

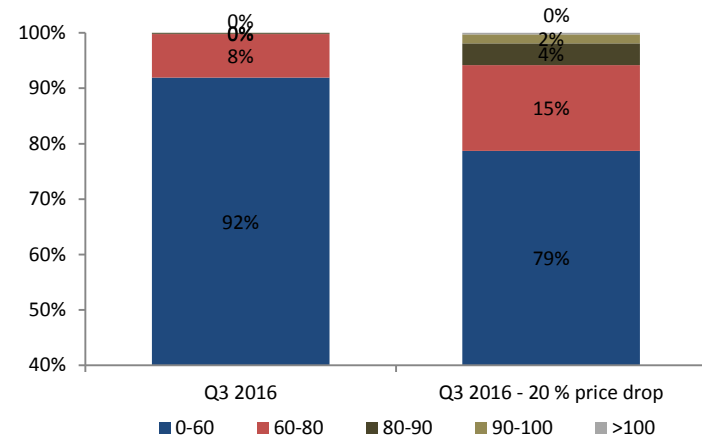
Source: Danish National Bank

Construction of residential properties (1000 m² per year)



Source: Statistics Denmark

Residential LTV in BRFkredit



Source: BRFkredit

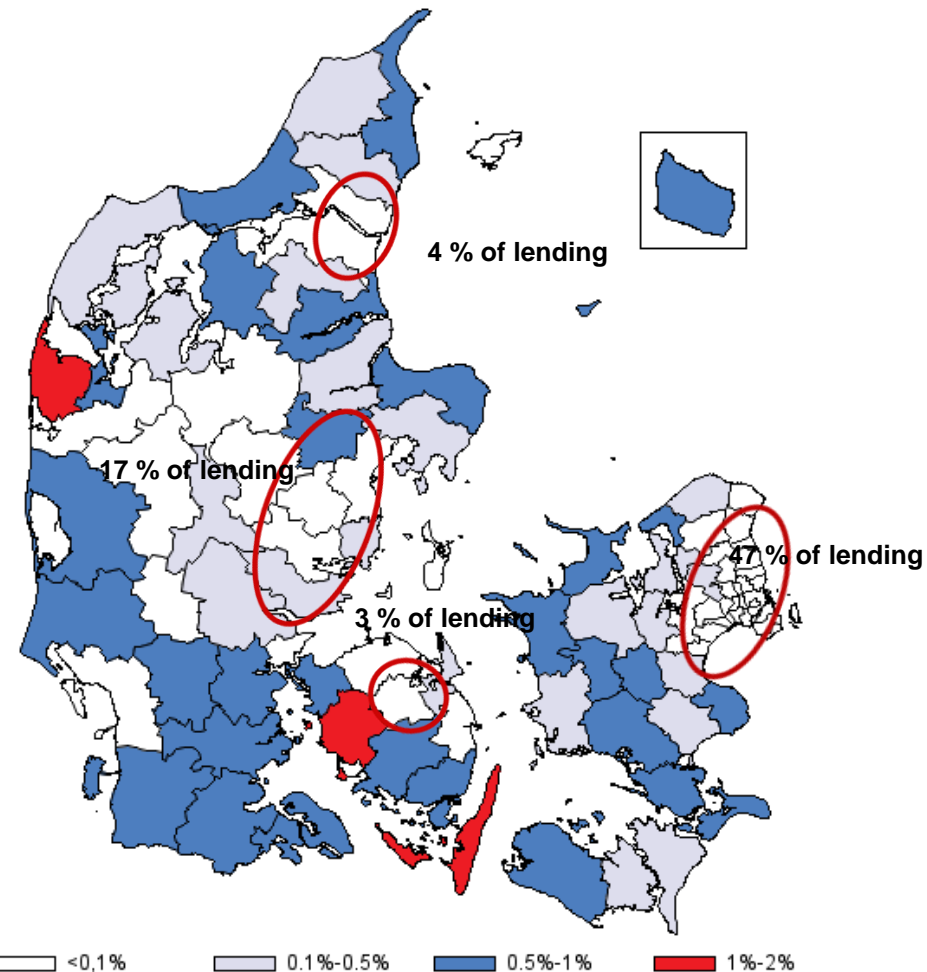
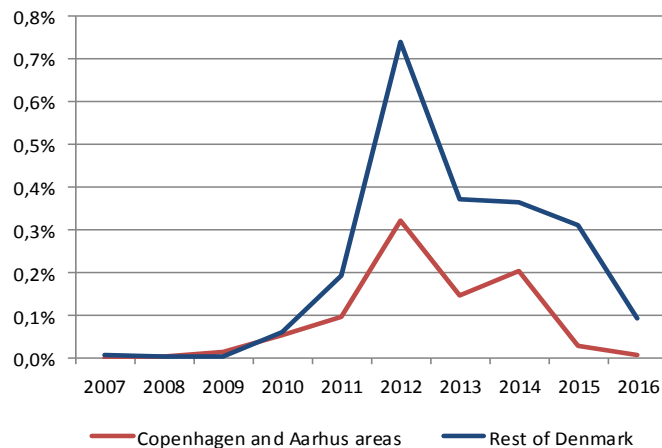
Geographical exposure

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

Loss in 2015 and 2016 for housing properties

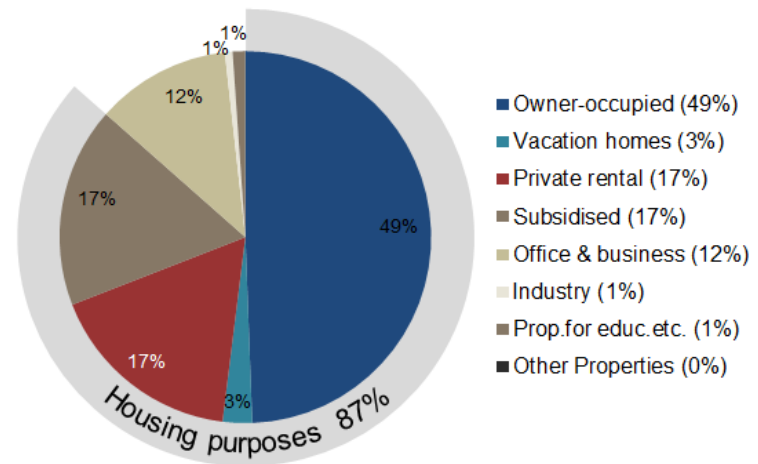
Average yearly loss (% of lending)



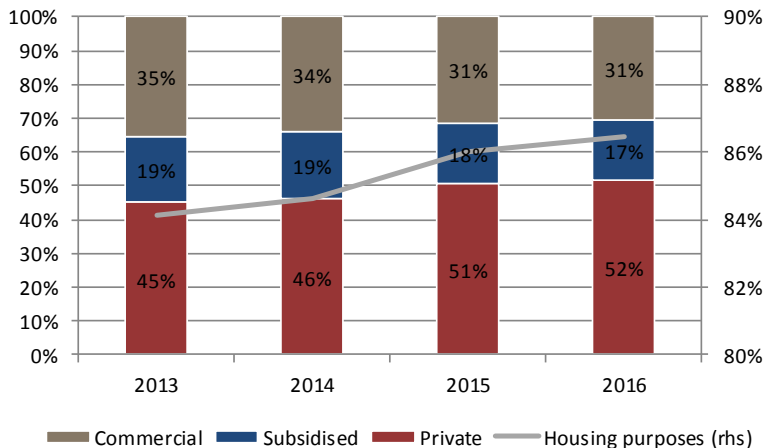
Portfolio

- 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

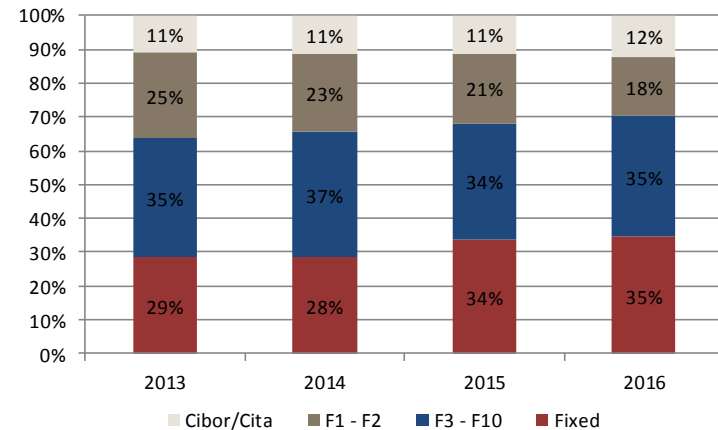
Lending portfolio



Development in lending portfolio

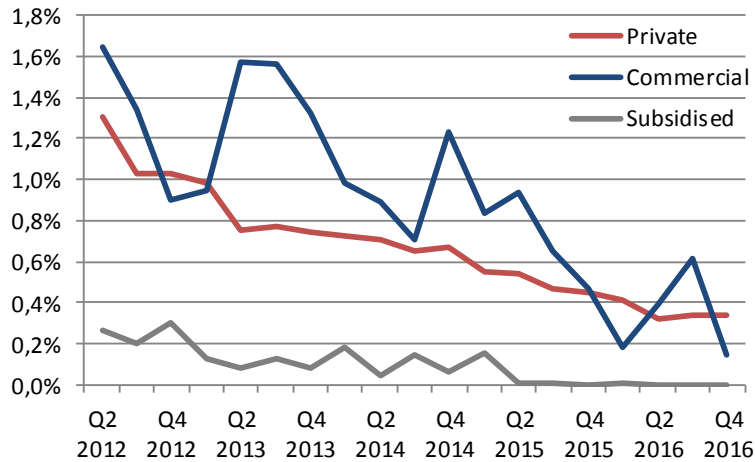


Development in loan types

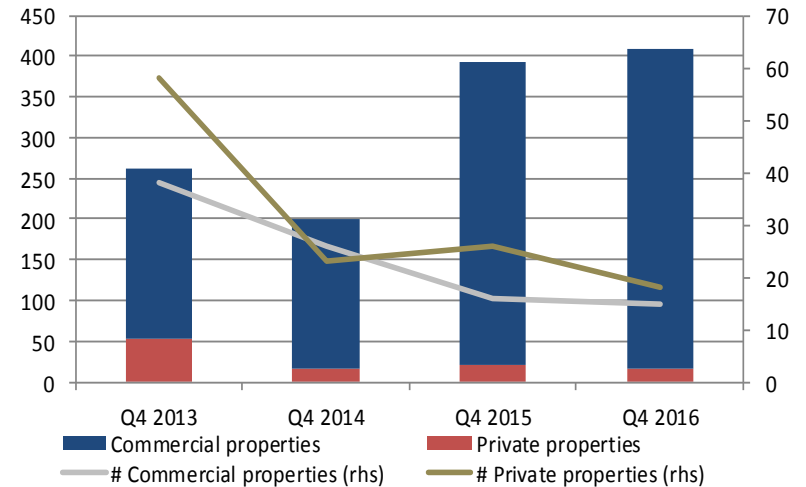


Credit quality

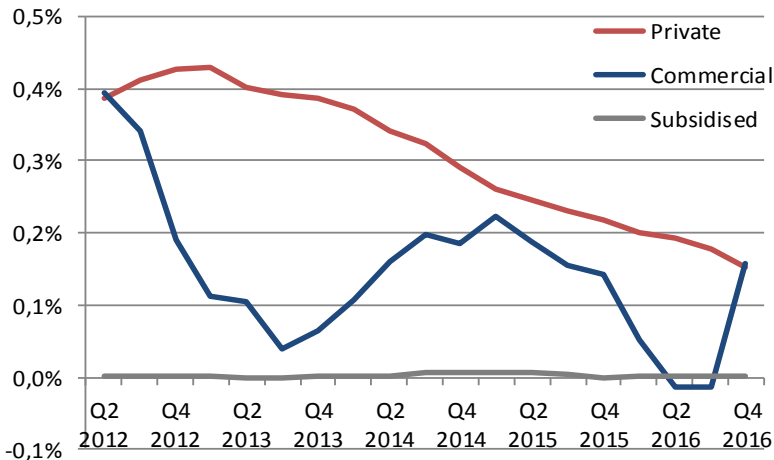
Lending in 90-days arrears (per cent of lending)



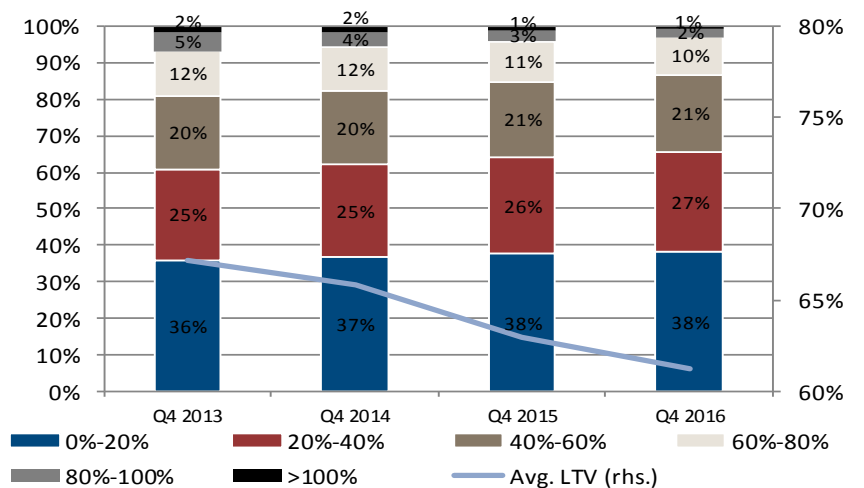
Repossessed properties (DKKm/number)



Yearly realised losses (running year)



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



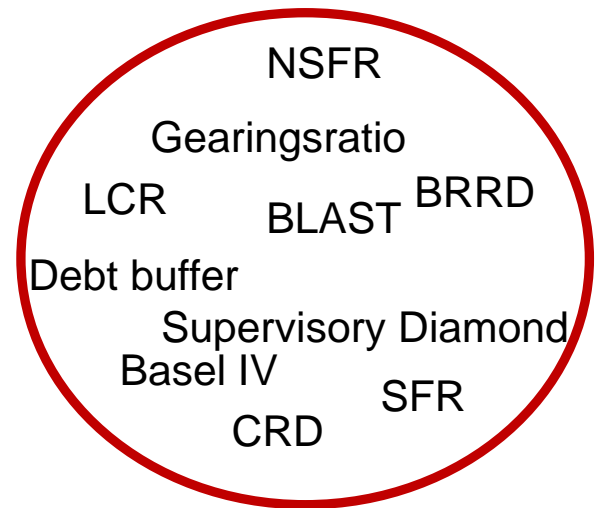
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The group has been working to solve the challenges in the future regulation

- 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

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)

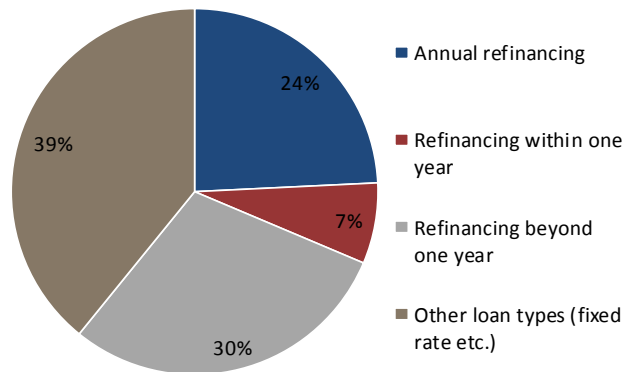
Funding of short term funding loans (F1) with longer maturing bonds and derivatives

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

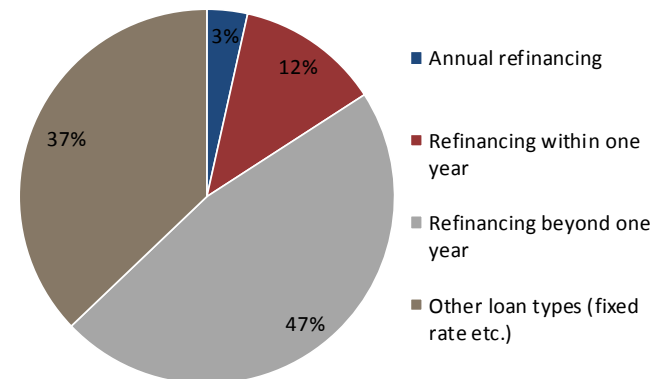
Ensure liquidity in issued bonds from BRFkredit

- 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 Q4 2016

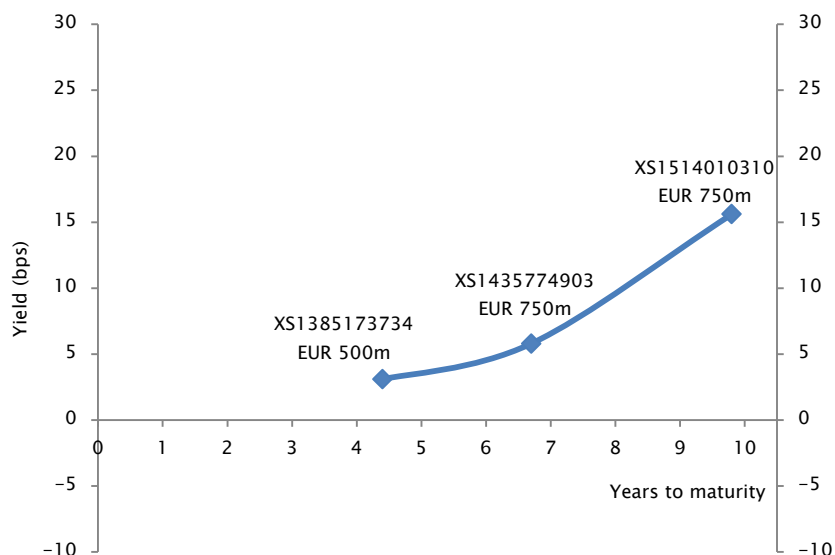


EUR funding of DKK loans

- 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

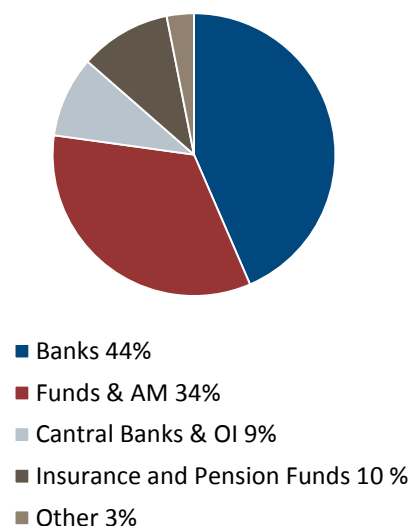
Details on first EUR covered bonds

BRFkredit EUR covered bond issuances*



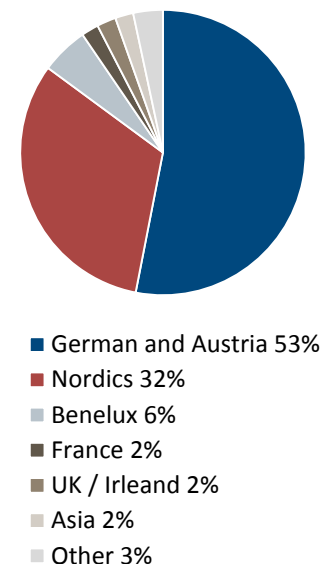
*Prices from 2 January 2017

Investor distribution**



**Figures are based on allocated amounts

Geographical distribution**



- Three 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
- At the end of 2016 BRFkredit was compliant with all the benchmarks in the supervisory diamond
- In the years to come BRFkredit will introduce initiatives to fulfill the benchmarks in the diamond
- BRFkredit has already implemented initiatives to comply with the supervisory diamond
 - Prolonged the funding with EUR covered bonds and derivatives
 - Introduced floater loans with a cap on the interest rate

	Benchmark	Q4 2016	Q4 2015
Concentration risk	< 100 %	65,3%	81,1%
Increase in loans			
- Owner-occupied home and vacation homes	< 15%	12,7%	27,4%
- Residential rental property	< 15%	7,5%	7,8%
- Agriculture	< 15%		
- Other sectors	< 15%	6,2%	6,4%
Borrower's interest-rate risk			
- Residential properties	< 25%	24,5%	27,2%
Interest-only schemes			
- Owner-occupied home and vacation homes	< 10%	9,2%	10,5%
Loans with frequent interest-rate fixing			
- Refinancing (annually)*	< 25%	16,2%	22,4%
- Refinancing (quarterly)	< 12,5%	10,3%	15,7%

*Last 12 months

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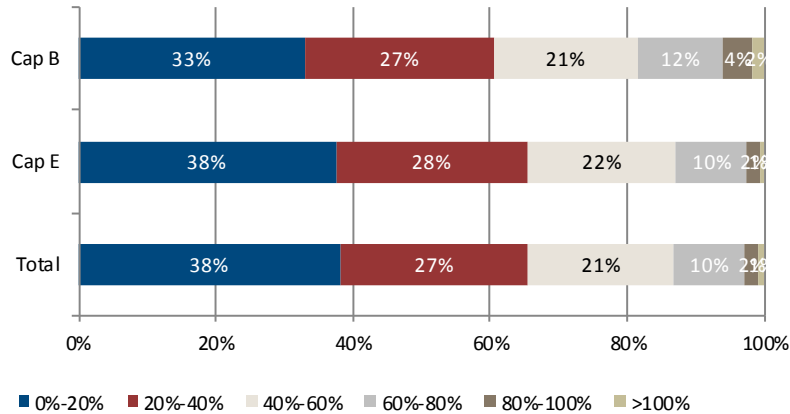
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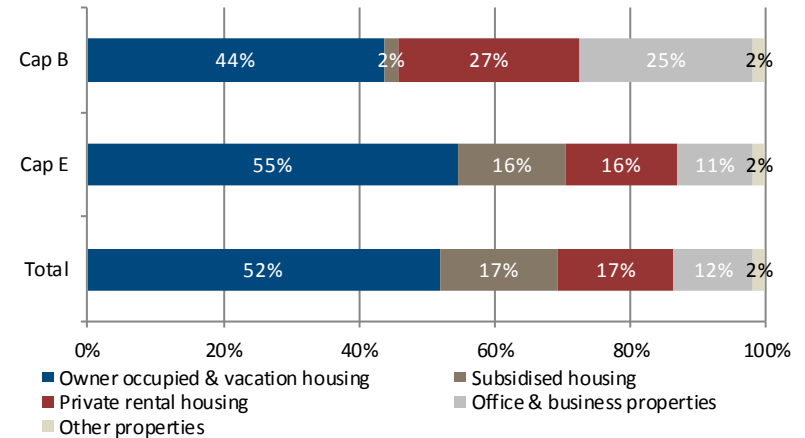
Portfolio composition

2016

Portfolio by Loan to Value (LTV)



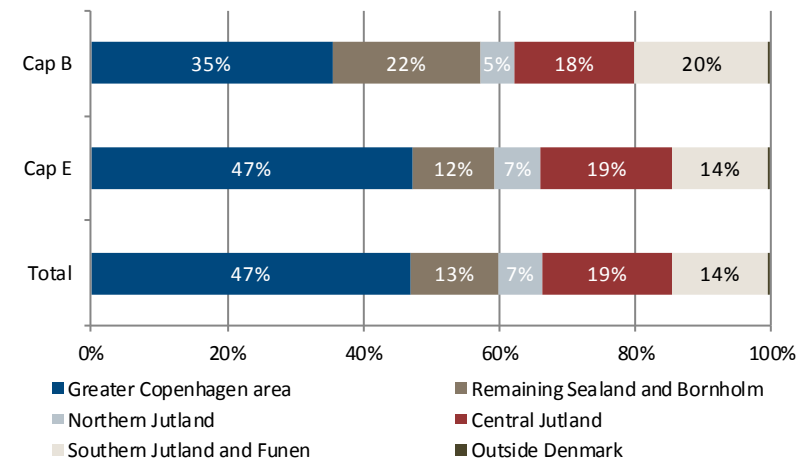
Portfolio split by property category



Average LTV by property segment

Average LTV by property segment	Total	Cap E	Cap B
Owner occupied & vacation housing	64%	64%	62%
Subsidised housing	47%	44%	32%
Private rental housing	68%	68%	70%
Office & business properties	62%	60%	71%
Other properties	55%	56%	50%
Lending, average LTV	61%	61%	66%
<i>Total lending (DKK bn)</i>	<i>273</i>	<i>245</i>	<i>17</i>

Portfolio split by geography



BRFkredit senior secured and senior debt

As of 31th December 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 31 December 2016 as million in the currency stated

Disclaimer

Disclaimer

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For further information please visit

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