

# **Jyske Realkredit**

## **Interim report H1 2019**

Published 20 August 2019

---

# The positive trend in earnings continues

## Result in H1 2019

- Pre-tax profit was DKK 770m for H1 2019
- Return on equity was 6.7 % p.a.

## H1 2019 (compared to H1 2018)

- Change in core earnings due to new intra-group settlement model
- Core expenses reduced
- Reduction in loan impairment charges
- Pre-tax profit after IFRS 9-implementation in 2018 increased by 104 %

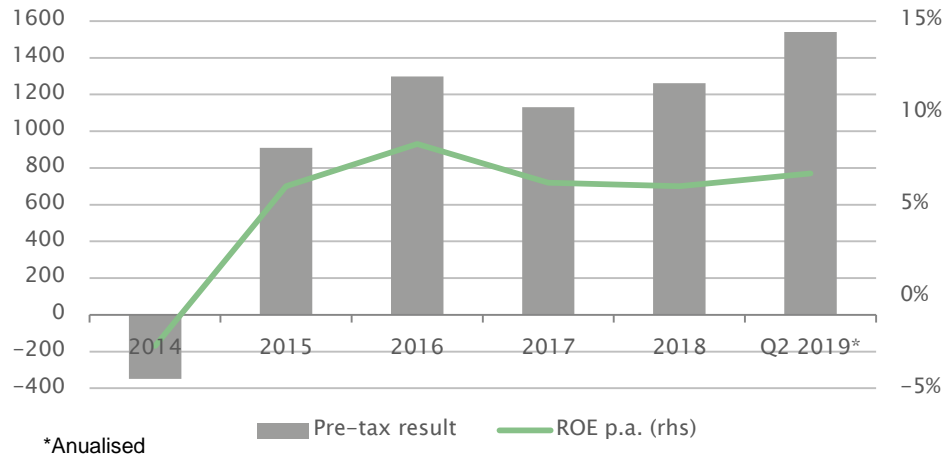
## Expectations for rest of 2019

- The increase in the portfolio is expected to continue, but at a more moderate pace
- Core earnings are expected to be at the same level as in 2018

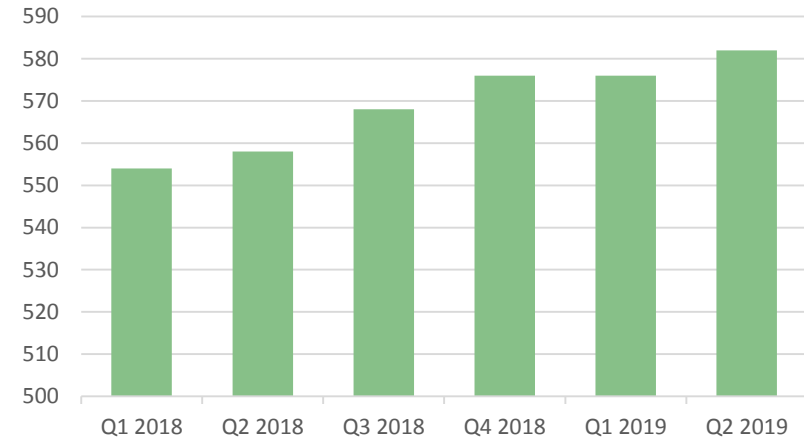
Core profit and net profit for the period DKKm	H1 2019	H1 2018	Index 19/18
<b>Core operations</b>			
Administration margin, etc.	1.158	937	124
Other net interest income 1)	33	48	69
Net fees, charges and commission income etc.	-298	91	-
Value adjustments	50	-49	-
Other income	1	194	-
<b>Core earnings</b>	<b>944</b>	<b>1.221</b>	<b>77</b>
Core expenses	157	375	42
<b>Core earnings before loan impairment charges etc.</b>	<b>787</b>	<b>846</b>	<b>93</b>
Loan impairment charges etc.	17	62	27
<b>Pre-tax profit before IFRS 9-implementation</b>	<b>770</b>	<b>784</b>	<b>98</b>
IFRS 9 regulation of impairments early 2018	0	407	-
<b>Pre-tax profit</b>	<b>770</b>	<b>377</b>	<b>204</b>
Tax	169	65	260
<b>Net profit or loss for the period</b>	<b>601</b>	<b>312</b>	<b>193</b>

# Financials - selected graphs

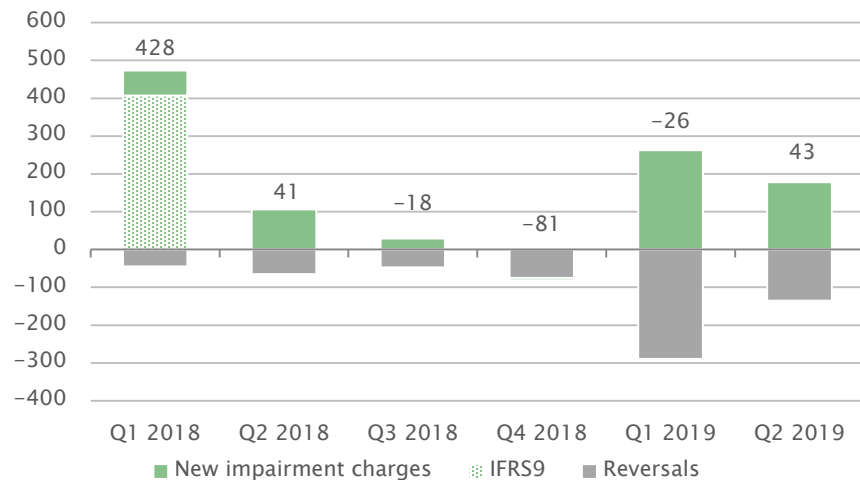
Result and return on equity



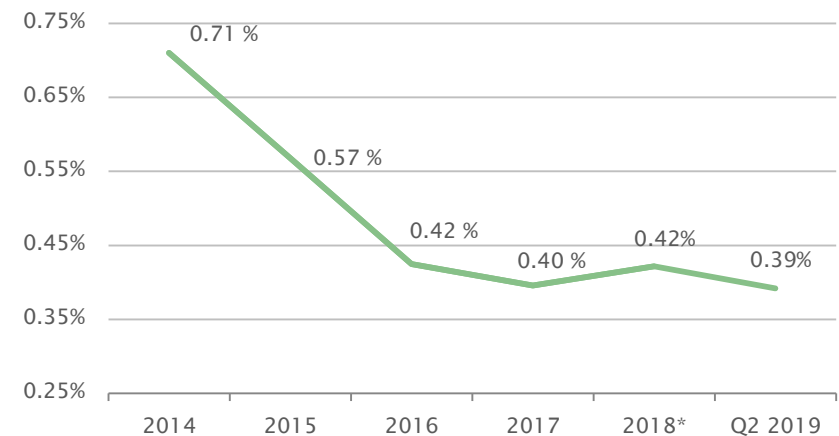
Administrative margin (DKKm)



Impairment charges and reversals (DKKm)



Balance of loan impairments in % of lending

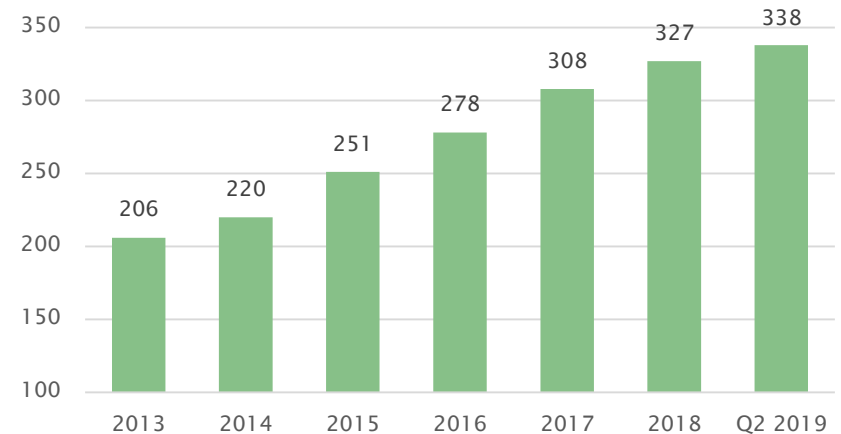


\*Implementation of IFRS 9

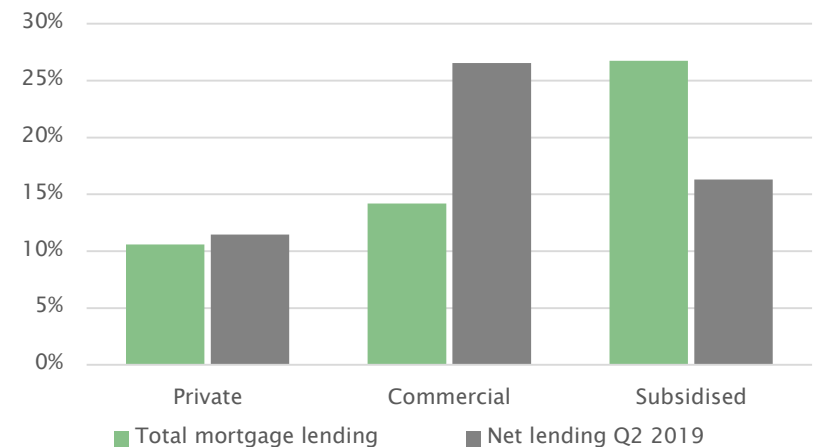
# Continued growth in mortgage lending

- Net growth in mortgage lending of more than 55 % over last five years
- Net growth primarily in residential segment
- Commercial and subsidised lending growing with DKK 41bn (DKK 32bn in housing properties) since beginning of 2014
- Growth in the portfolio creates larger issuances and lower funding costs
  - The proportion of level 1B series is increased
  - Same mortgage funding price as larger competitors in the DKK market

*Total mortgage lending (DKKbn)*



*Market share of mortgage market (%)*



# Mortgage strategies

## Target of total mortgage loans of DKK 350bn in 2020

### Private segment:

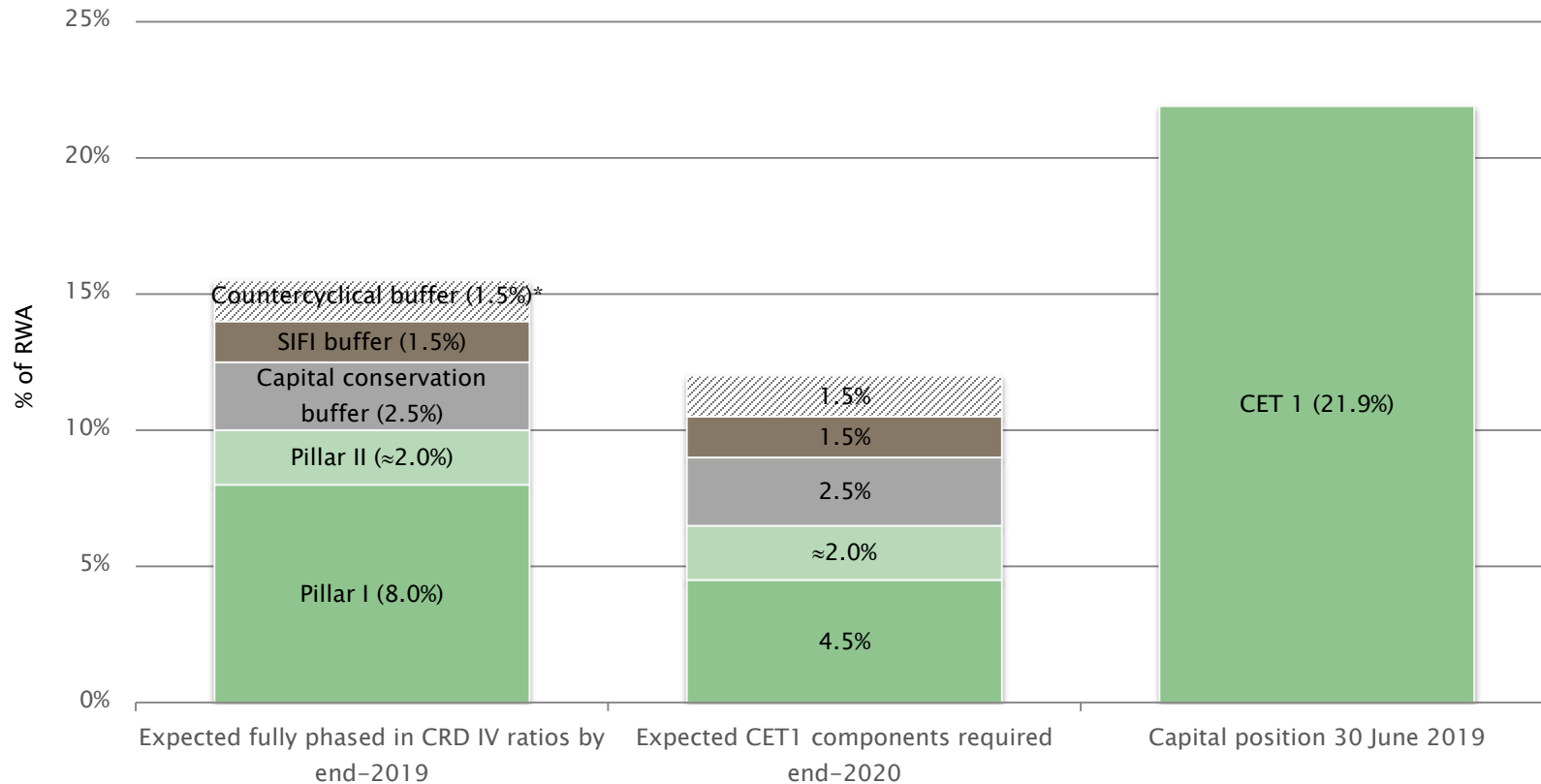
- One product line in the group
  - We offer the broadest variety of products in the industry
  - Product characteristics (capped floaters, 5 days' notice, repay at par)
- Change your mortgage loan without changing your bank
  - Most attractive prices are offered to both full-line clients and mortgage-only clients

### Commercial segment:

- Strategy targets selected commercial banking clients - Banking relationship used as lever



# Expected fully implemented CRD IV & Danish SIFI demands

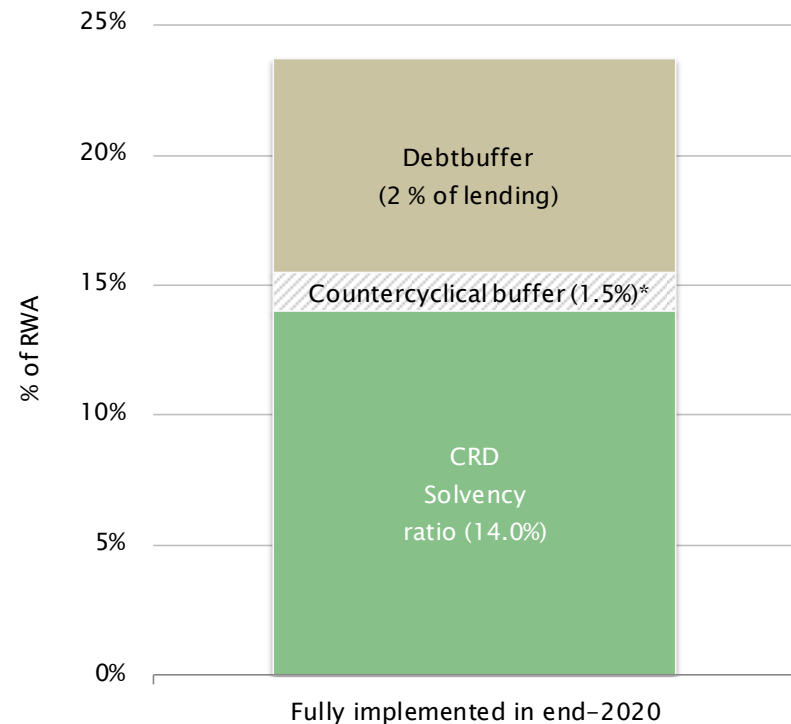


\*) Countercyclical buffer is expected to be 1.5 % from end-Q2 2020

- The solvency need is expected to be at 15.5 % at the end of 2020, of which 12.0 % should be covered with core equity
- Jyske Realkredit is already compliant with the fully implemented requirement
- Growth not constrained by capital requirements

# Debt buffer for Danish mortgage institutes

- MREL-debt buffer to be implemented gradually from 2016 to 2020
- Debtbuffer must be covered by CET1, AT1, AT2 or senior (unsecured) debt
- For capital instruments to be compliant with the debt buffer, the following must apply:
  - Original time to maturity at least two years
  - Appropriate maturity diversification
- The Danish FSA can decide that the debt buffer should be covered fully or partly with bail-inable debt instruments
- Jyske Realkredit fulfils the debt buffer in Q2 2019 with CET1



\*) Countercyclical buffer is expected to be 1.5 % form end-Q2 2020

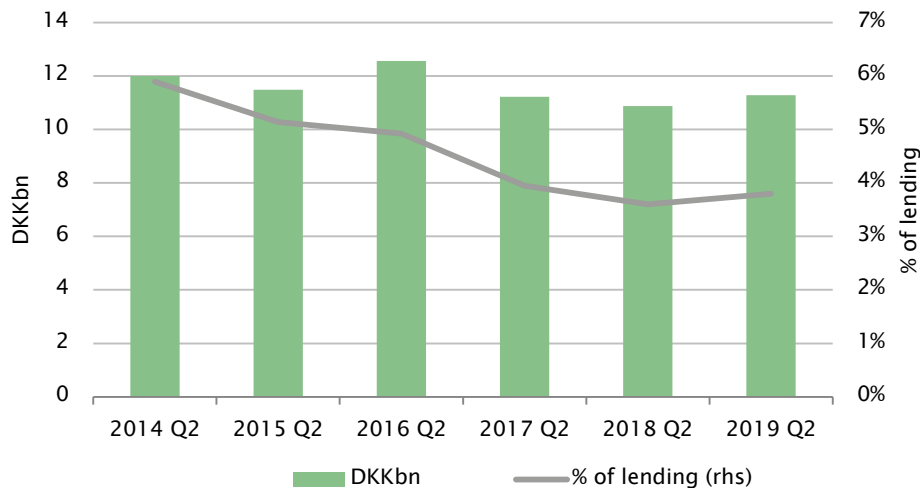
# Rating

- Jyske Bank and Jyske Realkredit issuer rating put on "positive" outlook by S&P in Q1 2018
- Nominel OC-requirements is at a lower level than in 2014 despite growth of mortgage loans of DKK +130bn
- Improvement in credit quality and composition of cover pool

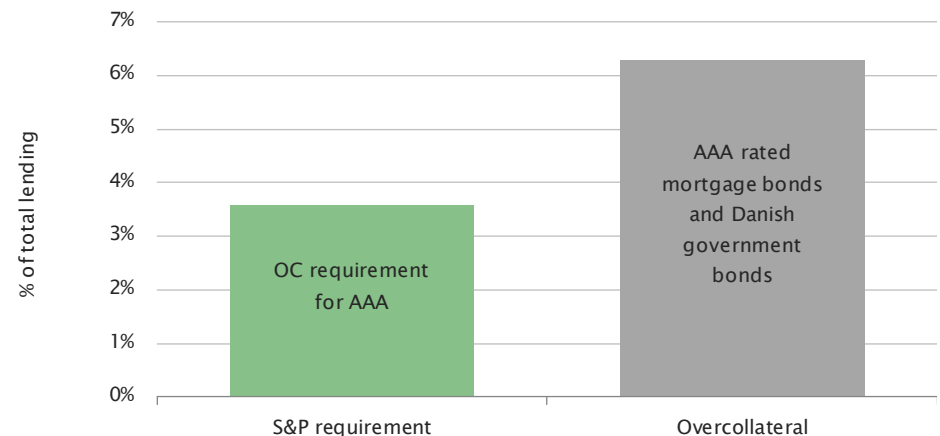
## Rating Standard and Poor's

Jyske Realkredit	A-
Outlook	Positive
Capital Center B	AAA
Capital Center E	AAA
Capital Center General	AAA
Free notches over AAA	2

### AAA rating requirement



### Rating requirement and overcollateral

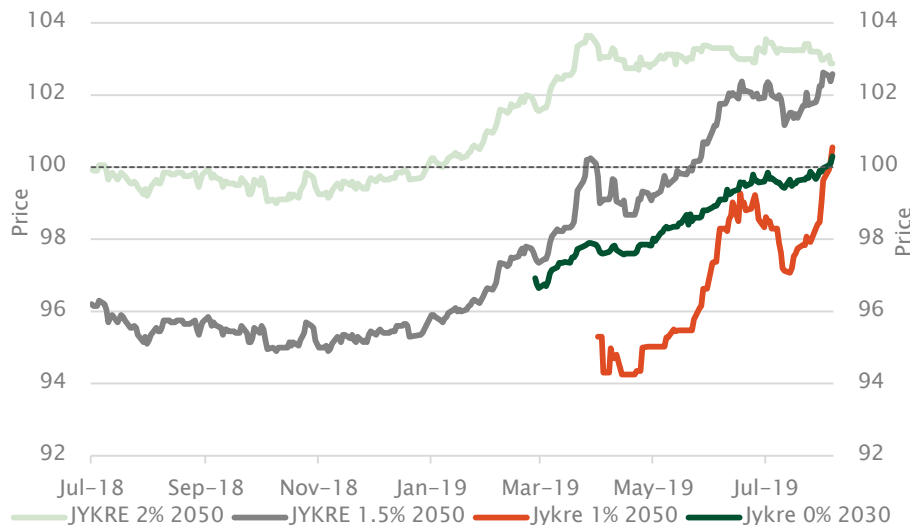




## Recent price movements in DKK callable bonds

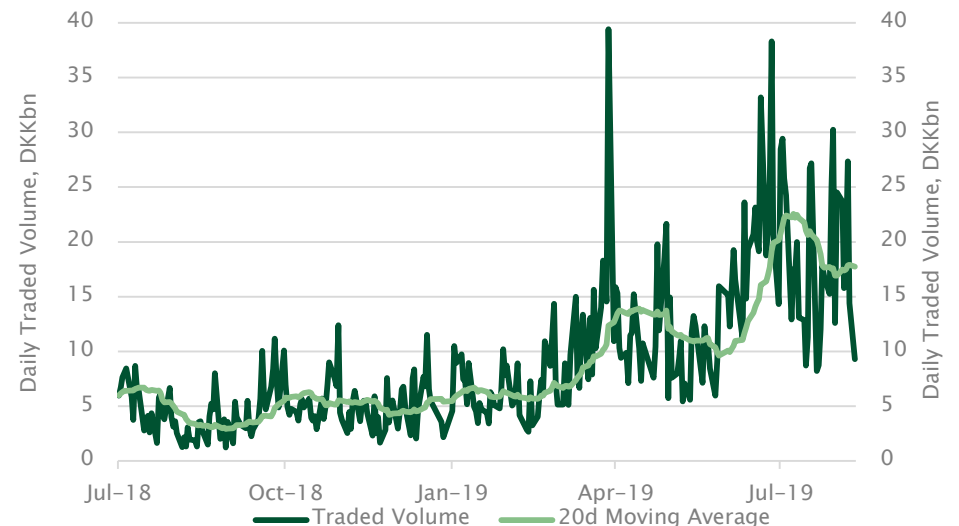
- Increasing prices on callable DKK covered bonds over the last year – especially since beginning of 2019
- Open series for financing 30 year fixed interest mortgage loans are at the moment 0.5% and 0.5% IO
- Borrowers are taking advantage of high bond prices and converting to loans with lower interests
- This has led to increasing activity in DKK callable bonds
  - Average daily traded amounts in June 2019 of DKK 20.7bn (last year DKK 5.9bn)

Prices for selected Jyske Realkredit callable bonds



Source: Jyske Bank Markets

Daily traded callable DKK covered bonds

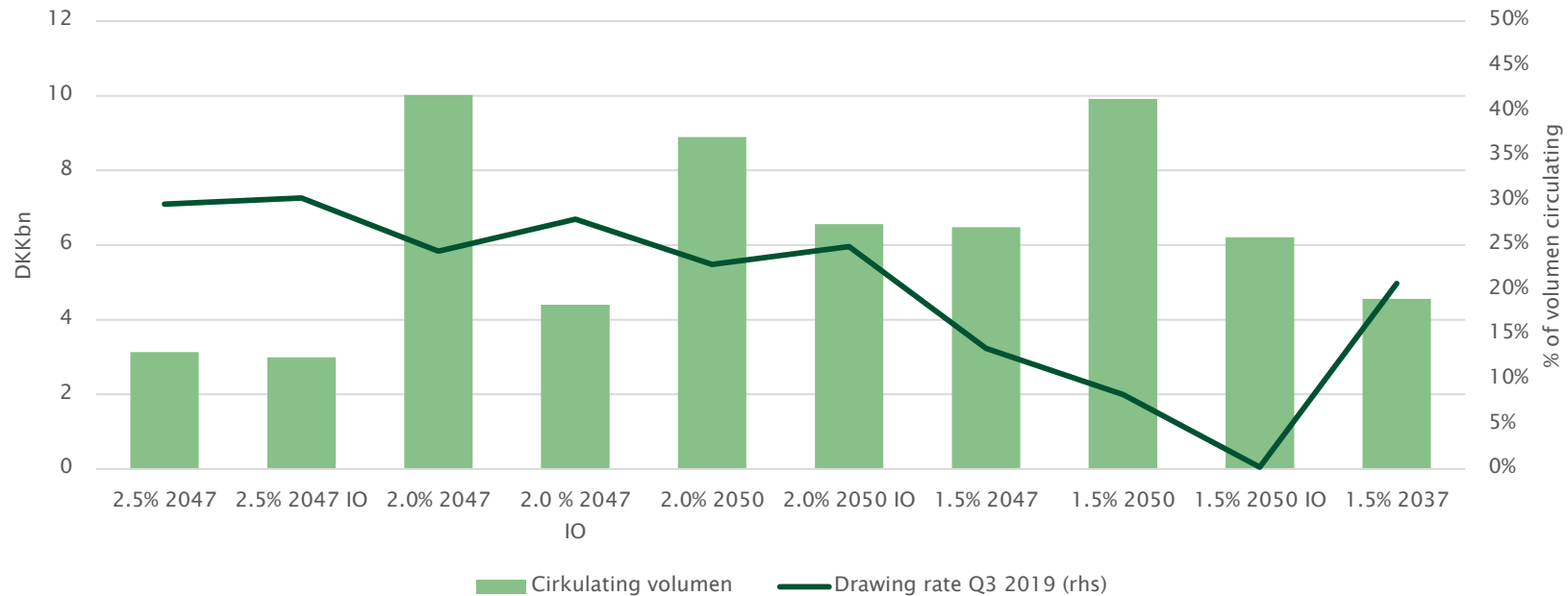


Source: Nasdaq Copenhagen

## The trading activity could continue

- Many borrower have already taken advantage of the low interests and converted existing loans with a fixed interest rate into a new loan with a lower fixed interest rate
- High prepayments in callable bonds with 2.5% and 2.0% coupon
- Still borrowers that could take advantage of lower interest rates
- DKK 36bn callable bonds with maturity in 2047 or 2050 with coupon of 2.5% or 2.0%

Volume circulating and drawing rates in selected Jyske Realkredit callable bonds (mid-august 2019)



Note: The volume have been adjusted for drawings end Q3 2019

## First mortgage institute to open a callable bond with negative coupon

- Jyske Realkredit is the first Danish mortgage institute to open both a 10-year callable bond with a coupon of 0 % and also the first to open a 10-year callable bond with a coupon of -0.5%
- The bonds are used for financing of 10-year loans with amortization
- The amortization of the bond with a negative coupon follows a standard annuity amortization with quarterly redemptions
- The bondholder will not pay the negative interests to Jyske Realkredit – instead an amount equal to the negative interest will be redeemed

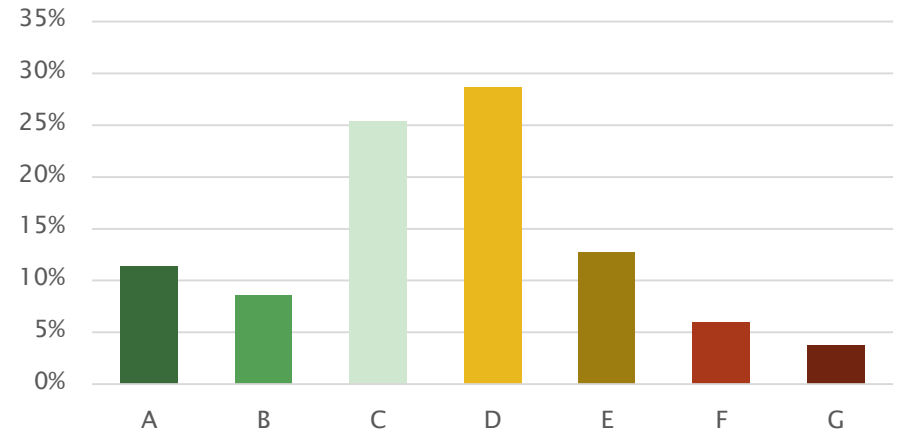
*Cash flows for a 10-year mortgage loan of DKK 1,000,000 and funding, -0.5 % coupon (at par)*

Quarter	Asset/loan				Liability/bond		
	Outstanding	Amortization	Interests	Payment	Outstanding	Redemption	Payment
1	1,000,000	25,615	-1,250	24,364	1,000,000	25,615	24,364
2	974,385	25,583	-1,218	24,364	997,385	25,583	24,364
3	948,803	25,551	-1,186	24,364	948,803	25,551	24,364
4	923,252	25,519	-1,154	24,364	923,252	25,519	24,364
...	...	...	...	...	...	...	...
40	24,395	24,395	-31	24,364	24,395	24,395	24,364

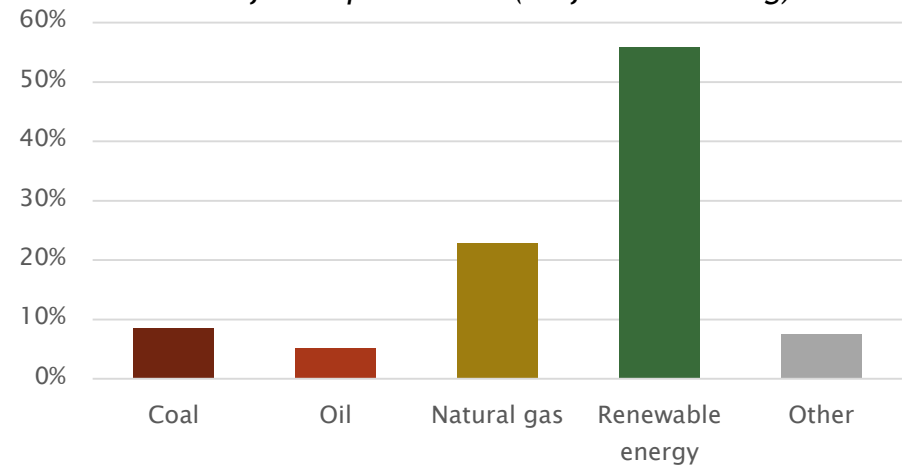
# Sustainable Transparency Template

- As the first financial institution Jyske Realkredit publish Sustainable Transparency Template
- Very different definitions of "green" covered bonds
- Available public information about energi labels in Denmark
- Majority of energy production is based on renewable energy
- Instead of focus on definition of "green" Jyske Realkredit want to be transparent
  - Cover pool specific information about the green assets in the cover pool
  - Distribution of EPC-scores
  - Distribution of input in the heat end electricity production

*Distribution of energy labels (% of total lending)*



*Distribution of heat production (% of total lending)*



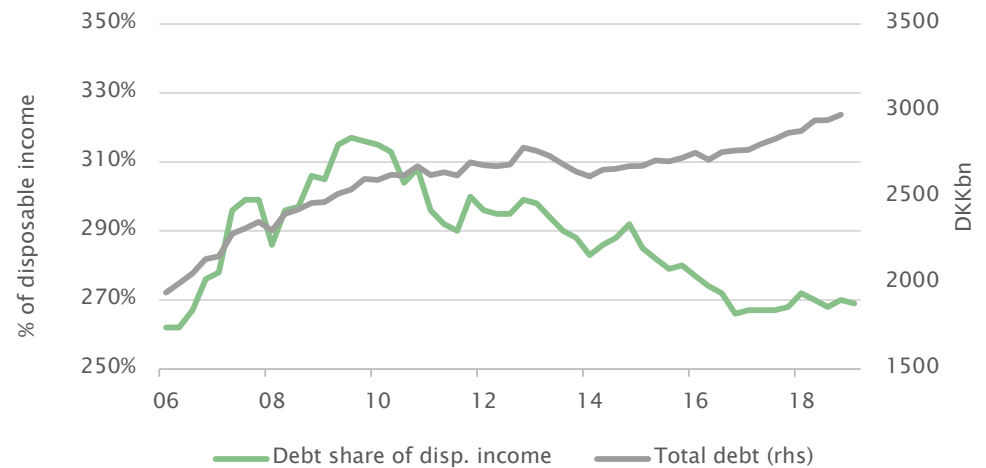
# Household behavior

- Consumer expectations have gone down by a little
  - Still positive expectations for the future
- There is still a large purchasing power in the private sector
- The Private sector is still saving up
- Household debt is declining

Consumer expectations



Household gross debt



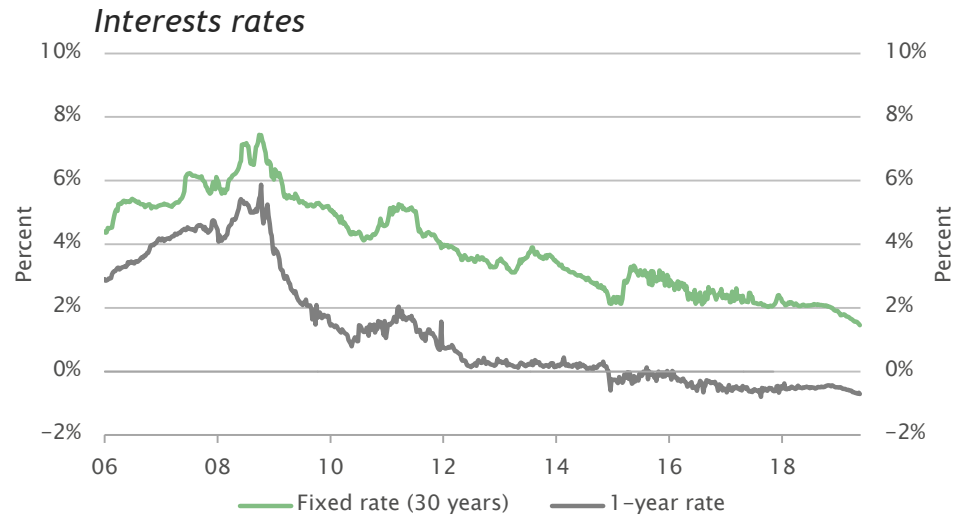
Private sector financial savings



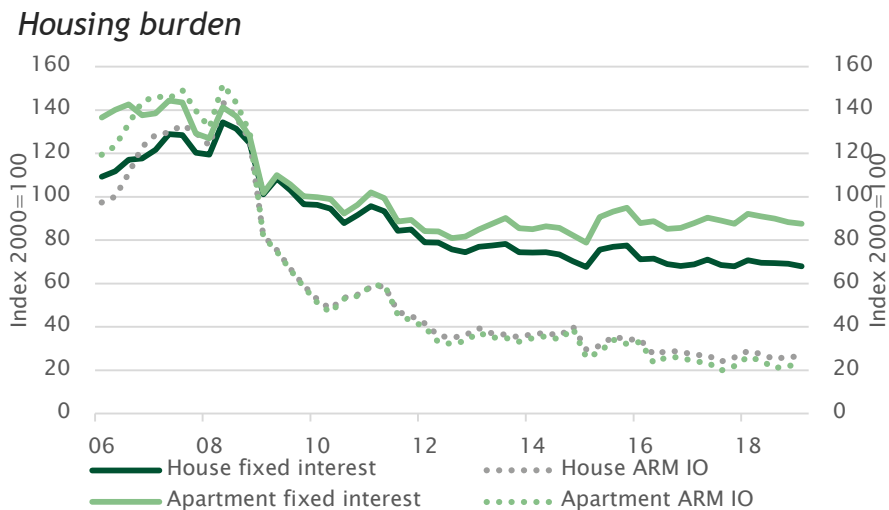
Source: Statistics Denmark

# Household finances

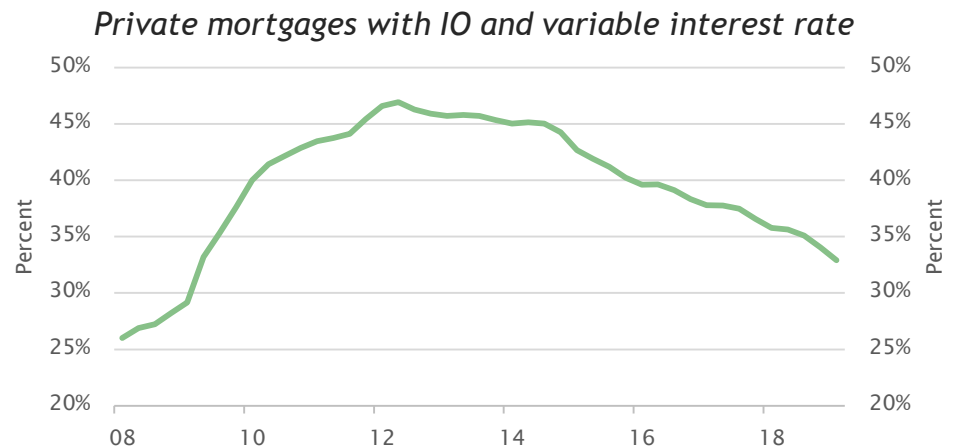
- Interests rates are historical low
- Housing burden also at a historical low level
  - Price of owning own house is low
  - Increasing property prices and decreasing interests
- Private consumers are chose loans with interest rate fixed until maturity and to amortize



Source: Association of Danish Mortgage Banks



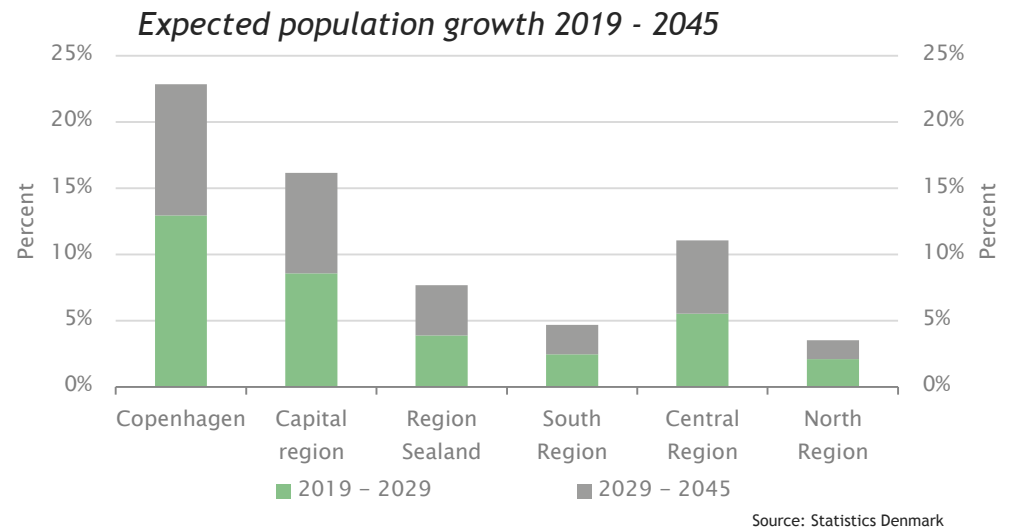
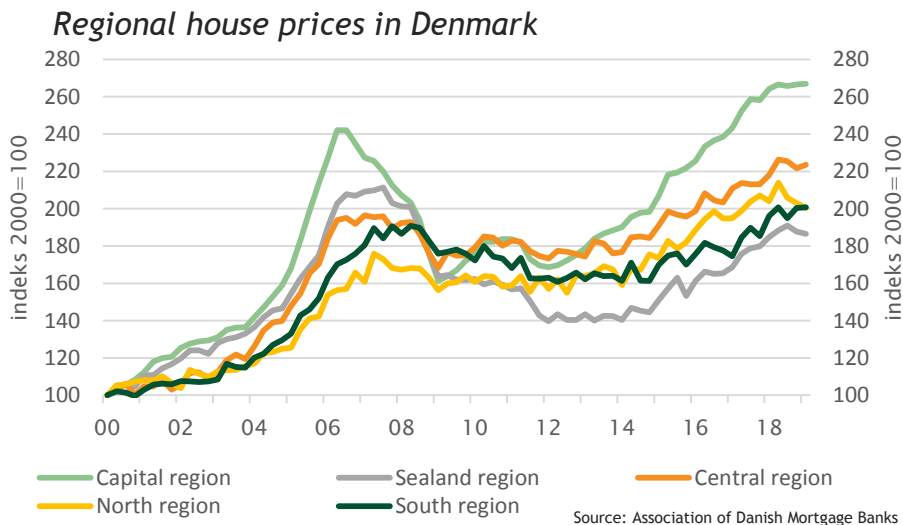
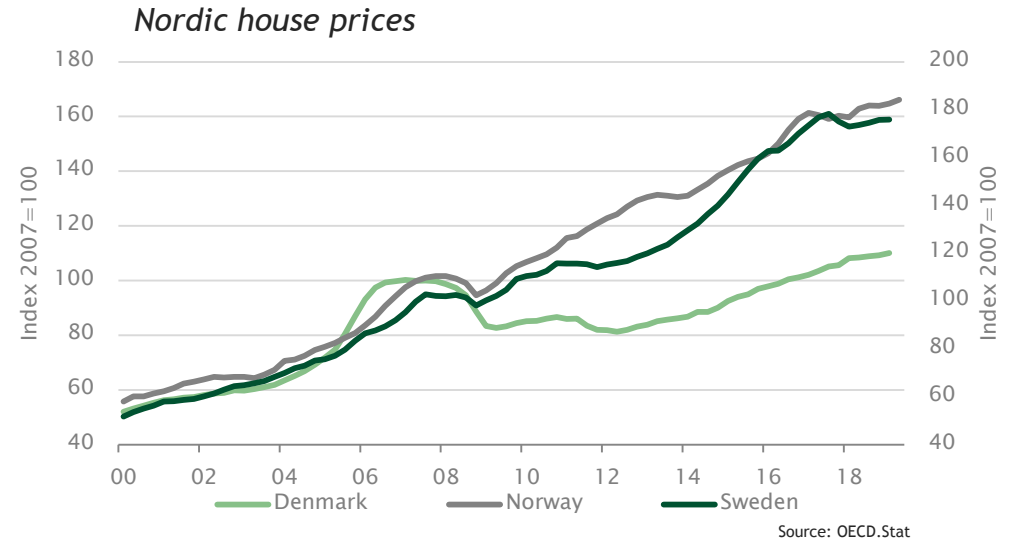
Source: Jyske Realkredit



Source: Association of Danish Mortgage Banks

# Danish housing market

- Increasing house prices after the financial crisis
- Compared to Sweden and Norway Denmark has repriced
- Historical increasing prices in urban areas and increasing/stagging prices in non-urban areas
- Stable apartment prices in Urban areas
- Population growth strongest in growth areas



## Property tax reform

### *Current property tax system*

Property tax	
Value < DKK 3.040t	1,00%
Value > DKK 3.040t	3,00%
Based on value in 2001/2002	

Tax on land	
Value (Average)	2,60%
Current public value	

### *New property tax system 2021-2022*

Property tax	
Value < DKK 7.500t	0,55%
Value > DKK 7.500t	1,40%
Based on current total property value	

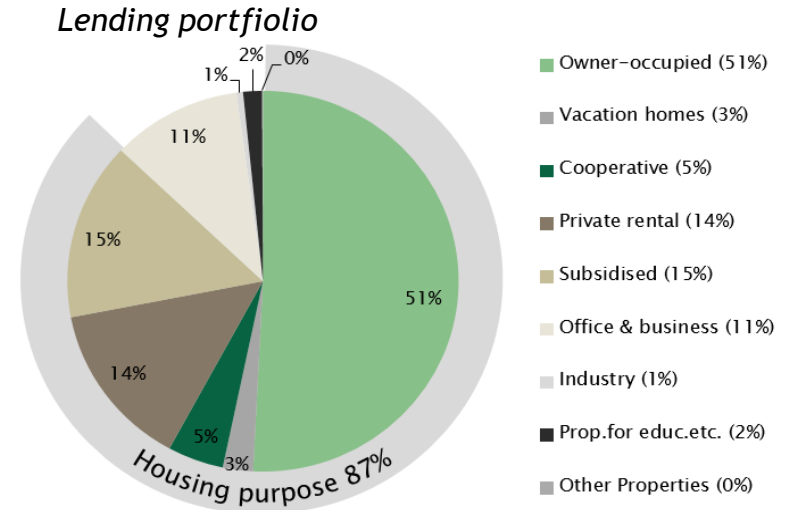
Tax on land	
Value (average)	1,60%
20 % of current total property value	

- The taxation should be not be higher than with current rules
  - Current property owners will not be affected negatively
  - New owners from 2022 could pay higher taxes
- Increase in taxes for properties with high increases in property value since 2001/2002
  - Taxation on expensive properties is expected to increase
- Current public value of land is low for apartments in larger cities
  - Total taxation on apartments in the larger cities area will increase
  - Expected effect on apartment prices is a decrease of 5 - 10 %

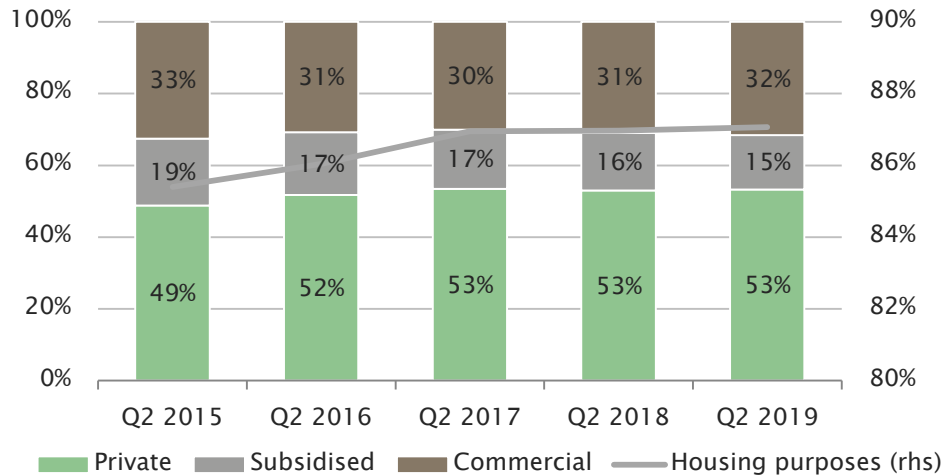


# Portfolio

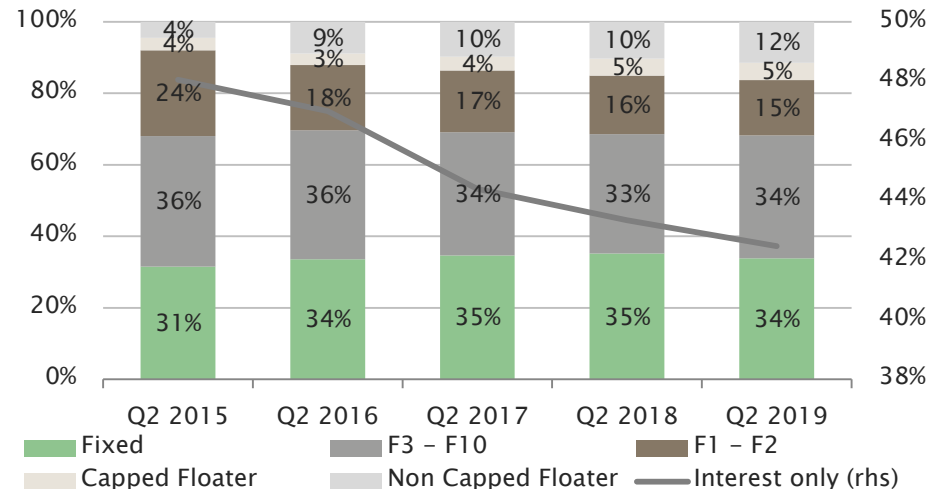
- 87 % of lending to properties with housing purposes
  - No loans to cooperative housing with swaps
  - No lending to agriculture and other primary production
- Increasing share of private lending
  - The increase is expected to continue
- Increase in share of fixed rate mortgages and decreasing share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



Development in lending portfolio



Development in loan types



# Geographical distribution

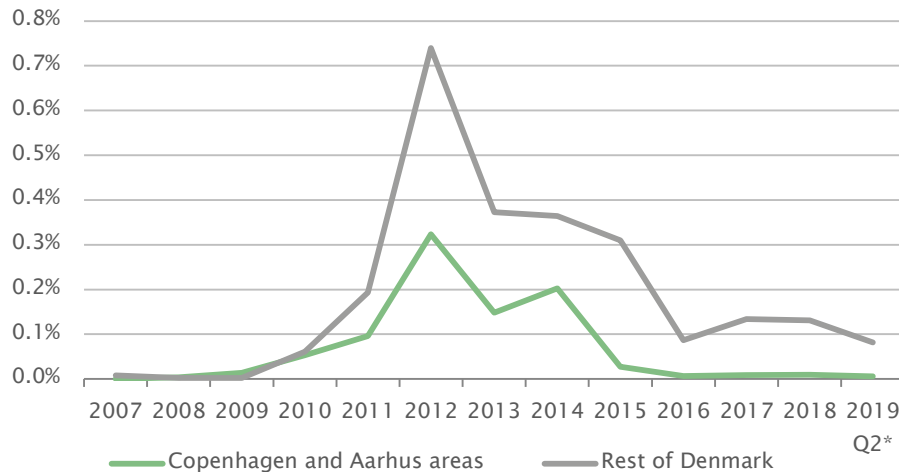
## East - East strategy

- The primary portfolio is focused around largest cities - areas with increasing housing prices and expected population growth
- Relative small losses in urban areas through the financial crisis
- High tradability prevent losses

Proportion of residential lending to proportion of population

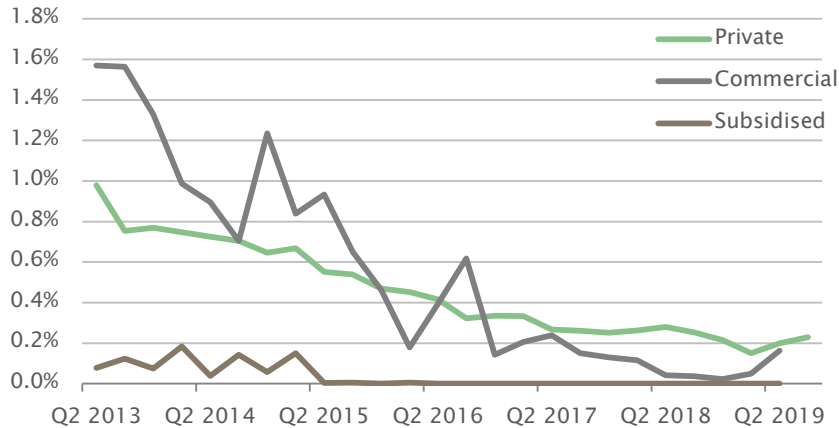


Yearly Loss in % of lending for residential properties

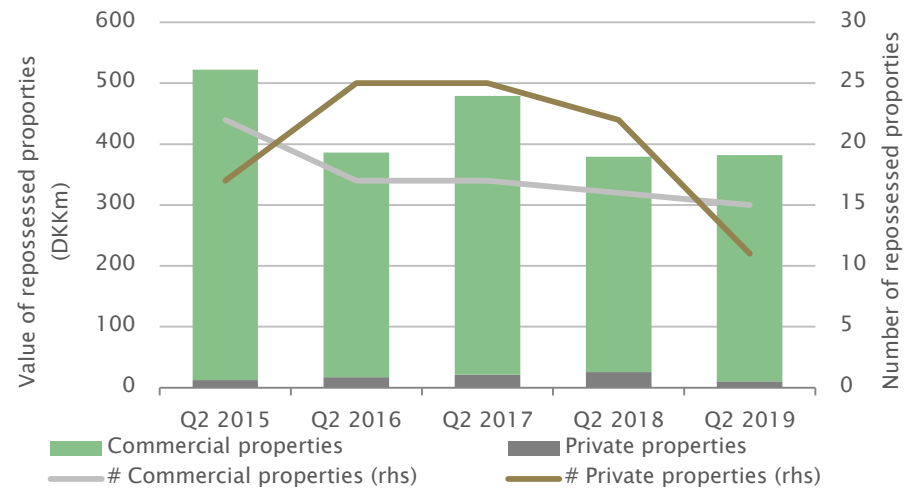


# Credit quality

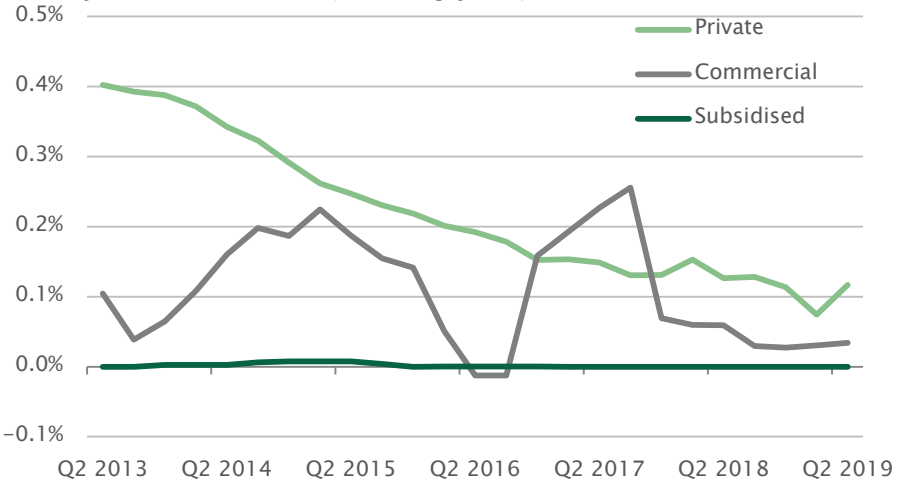
Lending in 90-days arrears (per cent of lending)



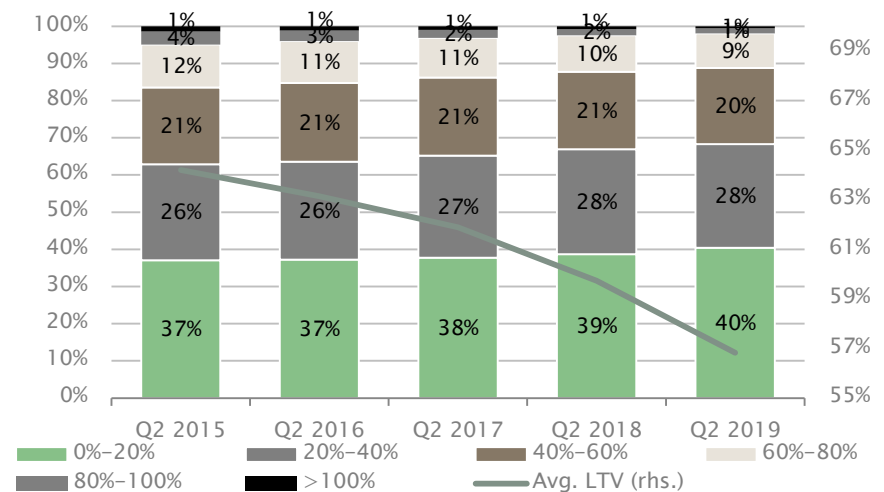
Reposessed properties (DKKm/number)



Yearly realised losses (running year)



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



## New European covered bond directive

New European covered bond directive will come into force by end 2021 / beginning 2022

### Key takeaways for Danish covered bonds

- Large liquidity buffer will force covered bonds to have a soft bullet structure
  - Soft bullet structure already implemented in Denmark
  - Not relevant for DKK callable bonds
- Introduction of an OC rule
  - Minimum level of 5 % overcollateralization (OC)
  - Can be lowered a minimum of 2 % if the financial institute take account of risk of underlying asset
- Further loan-to-value (LTV) wording has been clarified in the regulation
  - Limit of 80 % for residential and 60 %/70 % for commercial
- Premium and non-premium bonds
  - All bonds have to live up to the directive
  - Premium bonds will also live up to Article 129 of Regulation (EU) No 575/2013
- Existing bonds will be grandfathered, meaning investors current holdings are left unaffected

# 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 H1 2019 Jyske Realkredit was compliant with all the benchmarks in the supervisory diamond
- Jyske Realkredit has 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	H1 2019	H1 2018
<b>Concentration risk</b>	< 100 %	45,4%	50.3%
<b>Increase in loans</b>			
- Owner-occupied home and vacation homes	< 15%	5,9%	5.2%
- Residential rental property	< 15%	-3,0%	7.8%
- Agriculture	< 15%		
- Other sectors	< 15%	4,7%	5.9%
<b>Borrower's interest-rate risk</b>			
- Residential properties	< 25%	19,2%	19.9%
<b>Interest-only schemes</b>			
- Owner-occupied home and vacation homes	< 10%	6,8%	7.4%
<b>Loans with frequent interest-rate fixing</b>			
- Refinancing (annually)*	< 25%	17,6%	12.5%
- Refinancing (quarterly)	< 12.5%	1,9%	0,0%

## Contact information

**Chief Executive Officer**

Lars Waalen Sandberg  
+45 89 89 79 79  
lwa@jyskerealkredit.dk

**Group Mortgage Funding**

Anders Lund Hansen  
+45 89 89 92 20  
alh@jyskerealkredit.dk

**Head of Rating & IR**

Christian Bech-Ravn  
+45 89 89 92 25  
cbr@jyskerealkredit.dk

**Jyske Realkredit A/S**

Klampenborgvej 205  
DK-2800 Kgs. Lyngby

Phone: 45 93 45 93

Fax: 45 88 99 64

E-mail: [investors@jyskerealkredit.dk](mailto:investors@jyskerealkredit.dk)

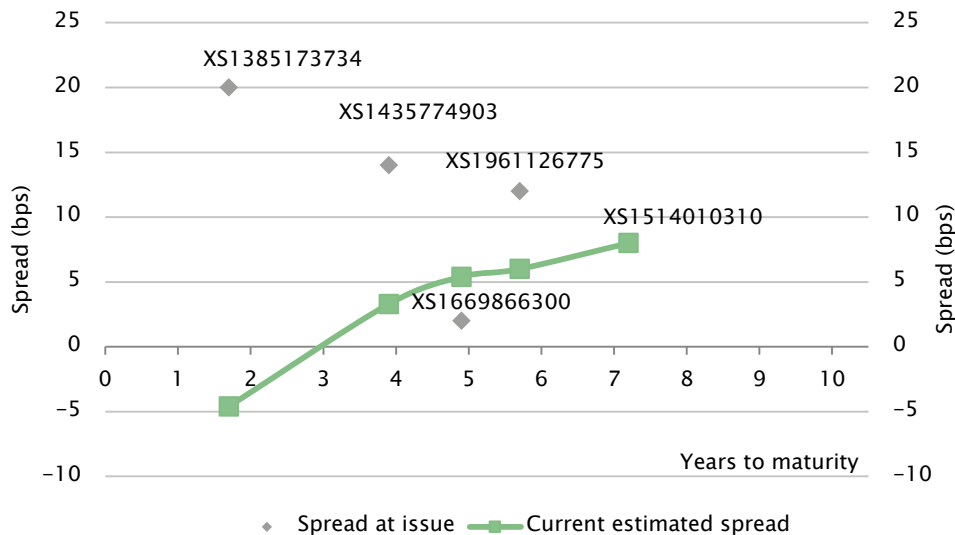
[http://www.Jyske Realkredit.com](http://www.JyskeRealkredit.com)

# Appendices



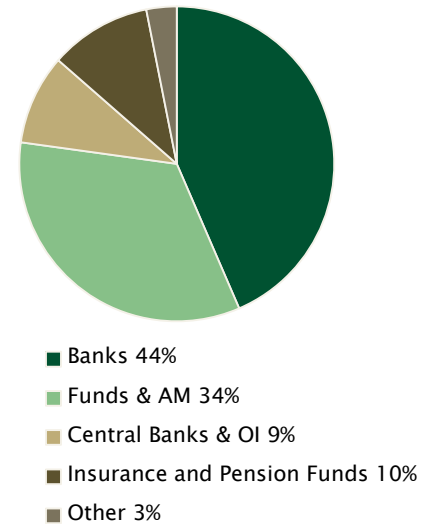
# Jyske Realkredit EUR covered bonds

Jyske Realkredit EUR covered bond issuances\*



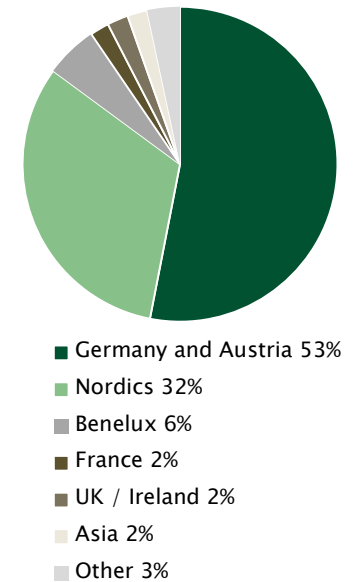
\*Pricing indications August 2019

Investor distribution\*



\*Figures are based on allocated amounts

Geographical distribution\*



- Three first successful EUR covered bond issuances in 2016 of 5 years (EUR 500m), 7 years (EUR 750m) and 10 years (EUR 750m). One issue in August 2017 (EUR 500m) og one in March 2019 (EUR 500m).
- Large interest from a wide variety of investor from different countries
- Good performance from issuances relative to peers

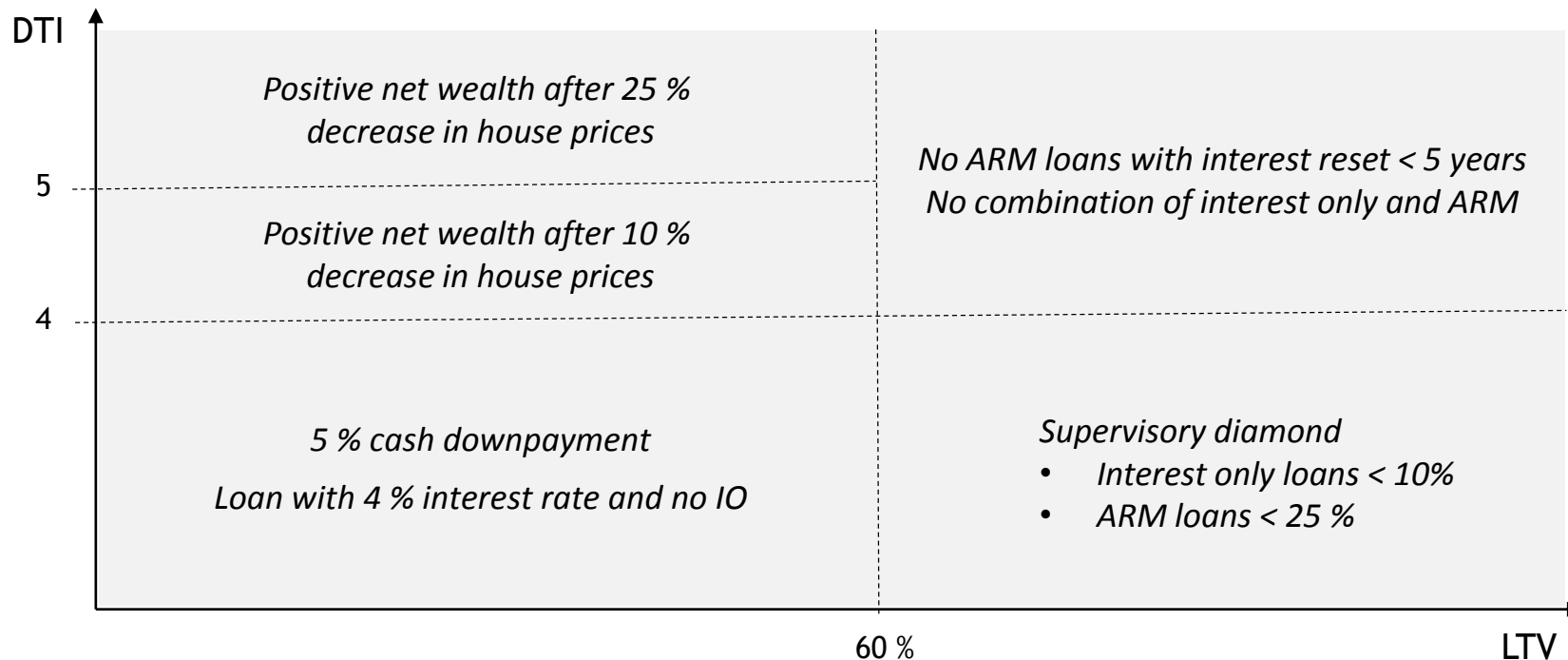


# Danish FSA measure to limit certain products






## FSA measure introduced

- Limit the proportion of customers with debt-to-income above 4 and ARM or interest-only loans
- Should dampen growth in house prices

*Illustrative example of lending rules and guidances from the Danish FSA*



## General legal disclaimer

-  This presentation and the information contained therein is furnished and has been prepared solely for information purposes by Jyske Bank Group. It is furnished for your private information with the express understanding, which recipient acknowledges, that it is not an offer, recommendation or solicitation to buy, hold or sell, or a means by which any security may be offered or sold.
-  The information contained and presented in this presentation, other than the information emanating from and relating to Jyske Bank Group itself, has been obtained by Jyske Bank Group from sources believed to be reliable. Jyske Bank Group can not verify such information, however, and because of the possibility of human or mechanical error by our sources, Jyske Bank Group or others, no representation is made that such information contained herein is accurate in all material respects or complete. Jyske Bank Group does not accept any liability for the accuracy, up-to-dateness, adequacy, or completeness of any such information and is not responsible for any errors or omissions or the result obtained from the use of such information. The statements contained herein are statements of our non-binding opinion, not statement of fact or recommendations to buy, hold or sell any securities. Changes to assumptions may have a material impact on any performance detailed. Historic information on performance is not indicative of future performance. Jyske Bank Group may have issued, and may in the future issue, other presentations or information that are inconsistent with, and reach different conclusions from, the information presented herein. Those presentations or the information reflect the different assumptions, views and analytical methods of the analysts who prepared them and Jyske Bank Group is under no obligation to ensure that such other presentations or information are brought to the attention of any recipient of the information contained herein.
-  Nothing in this presentation constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. This presentation is intended only for and directed to persons sufficiently expert to understand the risks involved, namely market professionals. This publication does not replace personal consultancy. Prior to taking any investment decision you should contact your independent investment adviser, your legal or tax adviser, or any other specialist for further and more up-to-date information on specific investment opportunities and for individual investment advice and in order to confirm that the transaction complies with your objectives and constraints, regarding the appropriateness of investing in any securities or investment strategies discussed herein.
-  Jyske Bank Group or its affiliates (and their directors, officers or employees) may have effected or may effect transactions for its own account (buy or sell or have a long or short position) in any investment outlined herein or any investment related to such an investment. Jyske Bank Group or its affiliates may also have investment banking or other commercial relationship with the issuer of any security mentioned herein. Please note that Jyske Bank Group or an associated enterprise of Jyske Bank Group may have been a member of a syndicate of banks, which has underwritten the most recent offering of securities of any company mentioned herein in the last five years. Jyske Bank Group or an associated enterprise may also have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned herein or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.
-  Any particular security or investment referred to in this presentation may involve a high degree of risk, which may include principal, interest rate, index, currency, credit, political, liquidity, time value, commodity and market risk and is not suitable for all investors. Any securities may experience sudden and large falls in their value causing losses equal to the original investment when that investment is realized. Any transaction entered into is in reliance only upon your judgment as to both financial, suitability and risk criteria. Jyske Bank Group does not hold itself out to be an advisor in these circumstances, nor does any of its staff have the authority to do so.