

Jyske Realkredit

Interim report Q1-Q3 2019

Published 30 October 2019

The positive trend in earnings continues

Result in Q1-Q3 2019

- Pre-tax profit was DKK 1,107m
- Return on equity was 6.3 % p.a.

Q1-Q3 2019 (compared to Q1-Q3 2018)

- Change in core earnings and expenses due to new intra-group settlement model
- Reduction in loan impairment charges
- Pre-tax profit after IFRS 9-implementation in 2018 increased by 41 %

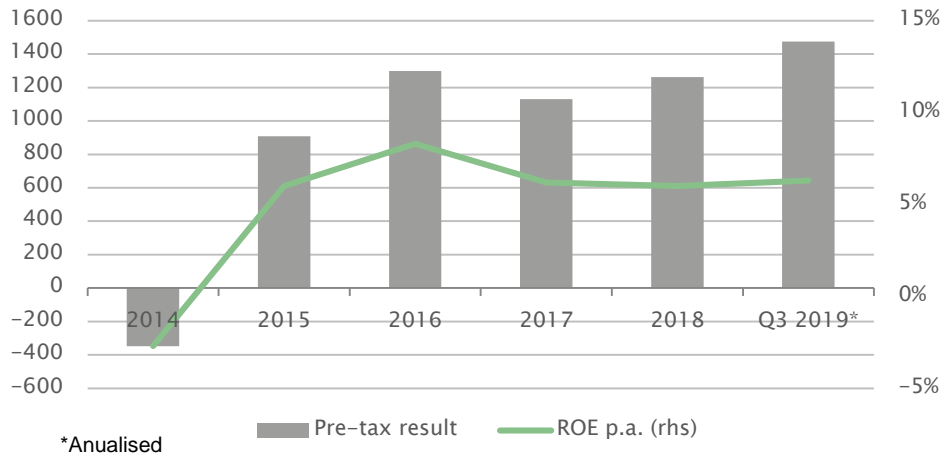
Expectations for rest of 2019

- 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

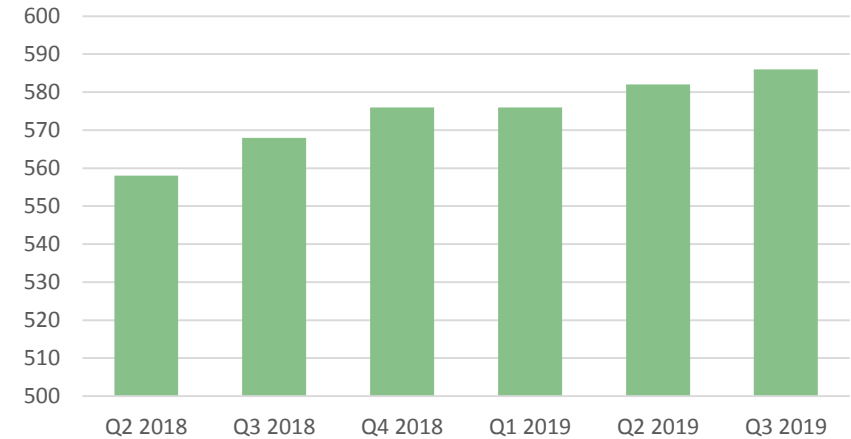
Core profit and net profit for the period DKKm	Q1-Q3 2019	Q1-Q3 2018	Index 19/18
Core operations			
Administration margin, etc.	1.744	1.412	124
Other net interest income 1)	43	61	70
Net fees, charges and commission income etc.	-497	182	-
Value adjustments	27	-61	-
Other income	18	195	9
Core earnings	1.335	1.790	75
Core expenses	233	552	42
Core earnings before loan impairment charges etc.	1.102	1.238	89
Loan impairment charges etc.	-5	44	-
Pre-tax profit before IFRS 9-implementation	1.107	1.194	93
IFRS 9 regulation of impairments early 2018	0	407	-
Pre-tax profit	1.107	787	141
Tax	243	153	159
Net profit or loss for the period	864	634	136

Financials - selected graphs

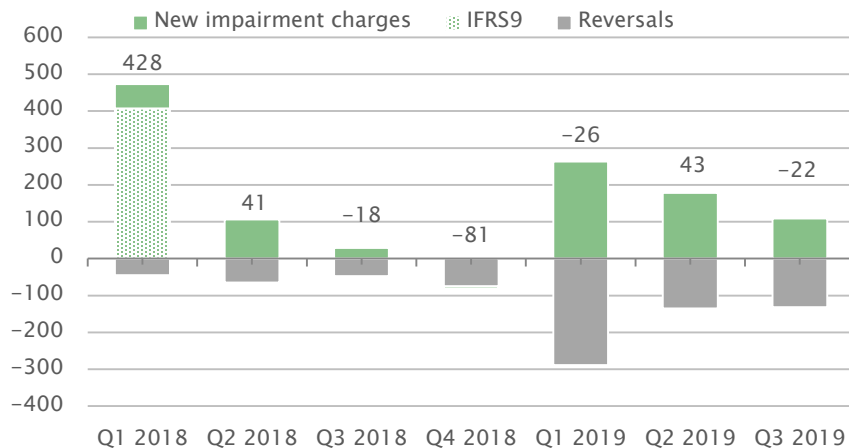
Result and return on equity



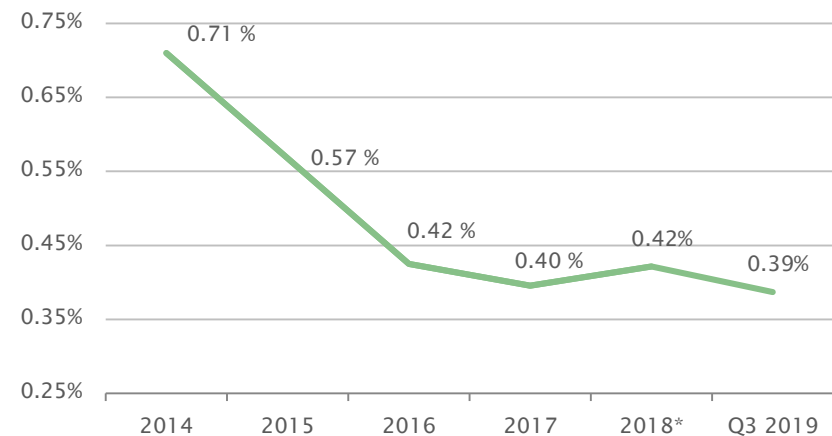
Administrative margin (DKKm)



Impairment charges and reversals (DKKm)



Balance of loan impairments in % of lending

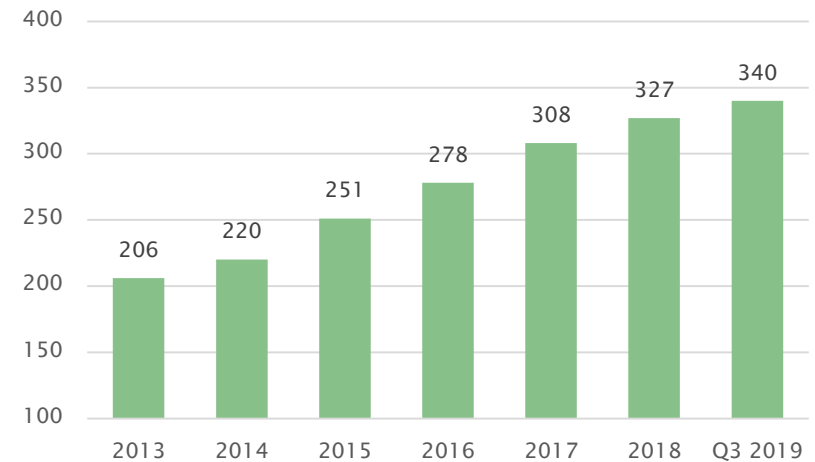


*Implementation of IFRS 9

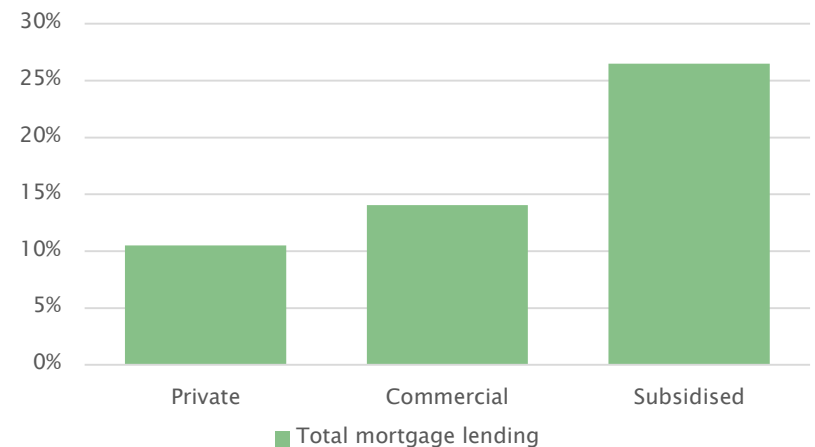
Continued growth in mortgage lending

- 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:

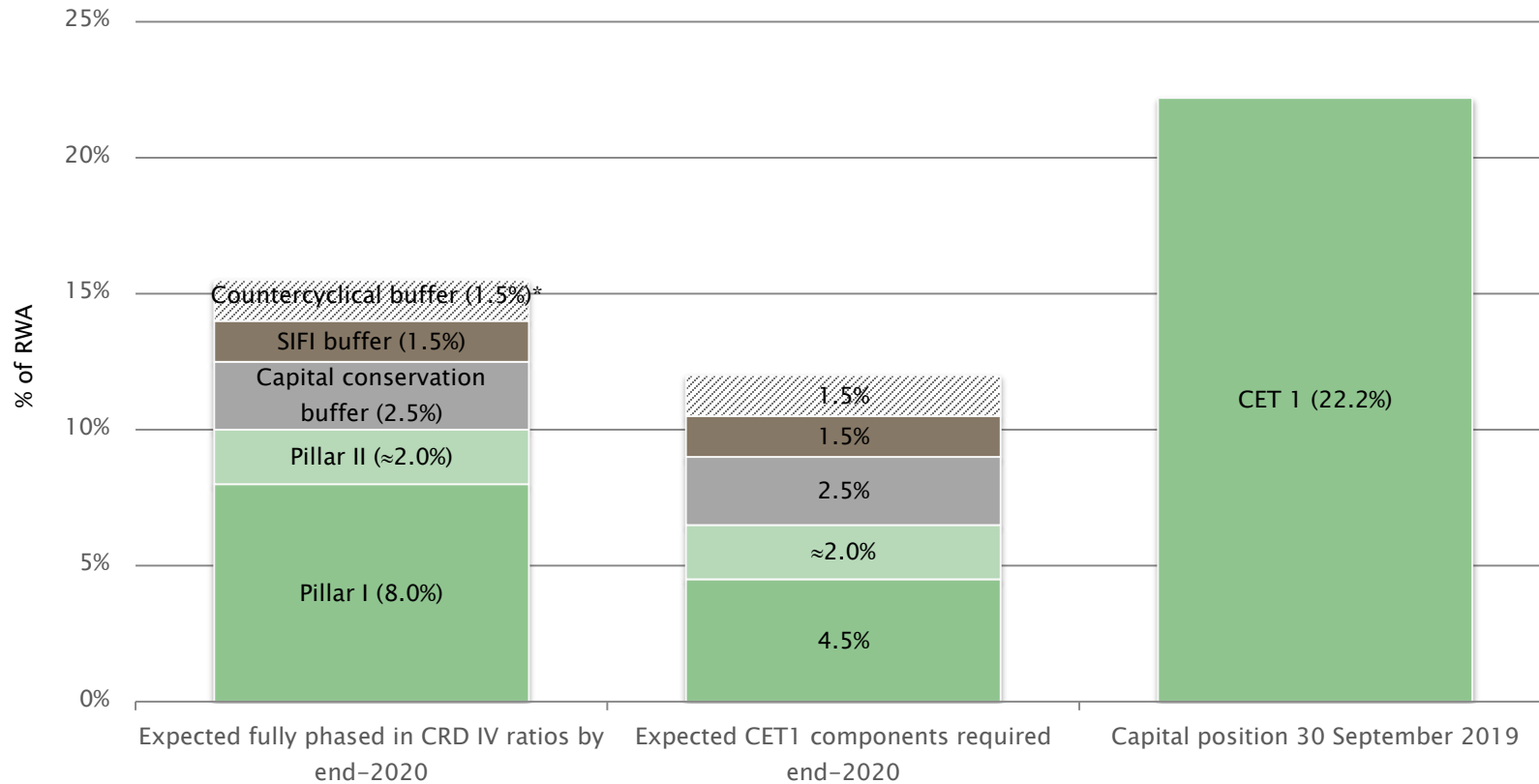
- One product line in the group
 - We offer the broadest variety of products in the industry
 - Product characteristics (capped floaters, 5 days' notice, repay at par)
- Change your mortgage loan without changing your bank
 - Most attractive prices are offered to both full-line clients and mortgage-only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

Commercial segment:

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



Expected fully implemented CRD IV & Danish SIFI demands

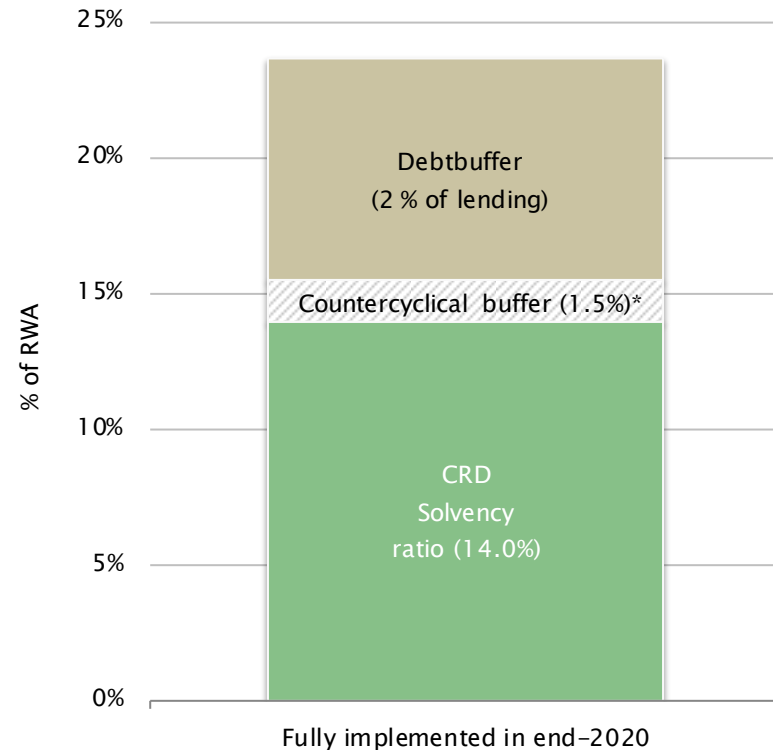


*) Countercyclical buffer is expected to be 1.5 % from end-Q2 2020

- 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 Q3 2019 with CET1 and senior debt



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

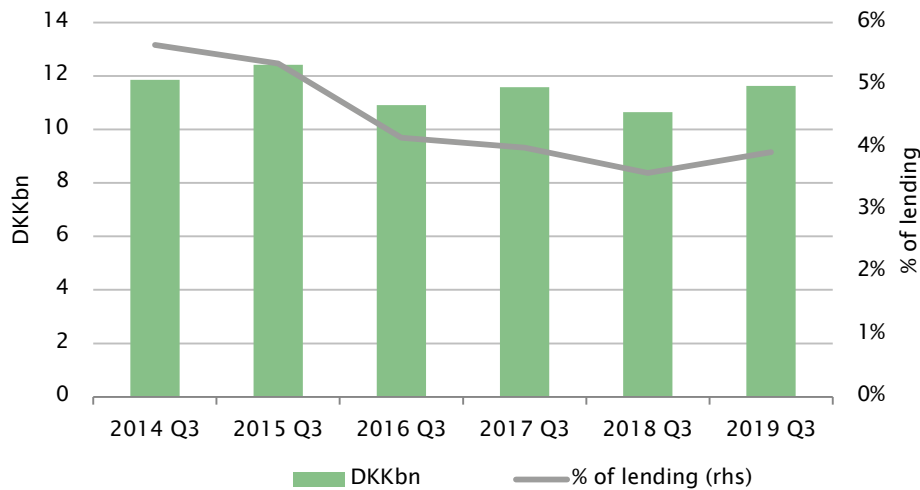
Rating

- Jyske Bank and Jyske Realkredit issuer credit rating upgraded to A in October 2019
- Upgrade due to ALAC buffer above 5 %
- Nominel OC-requirements is at a lower level than in 2014 despite growth of mortgage loans of DKK +135bn
- Improvement in credit quality and composition of cover pool

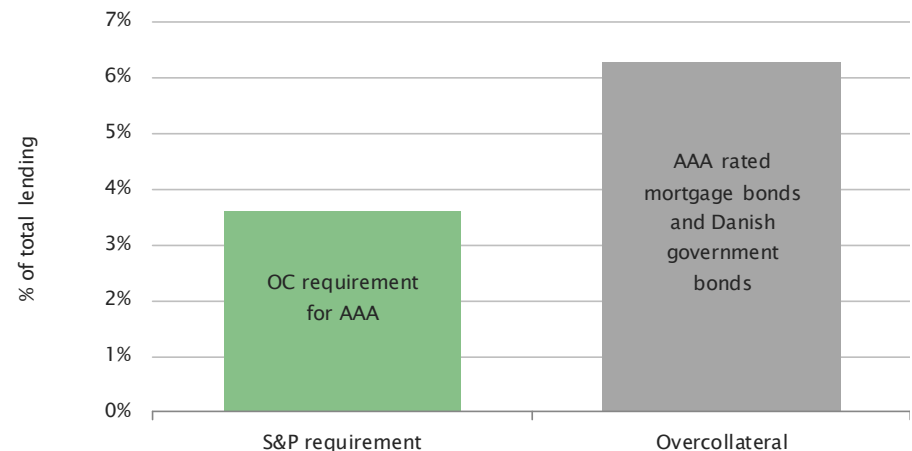
Rating Standard and Poor's

Jyske Realkredit	A
Outlook	Neutral
Capital Center B	AAA
Capital Center E	AAA
Capital Center General	AAA
Free notches over AAA	4

AAA rating requirement



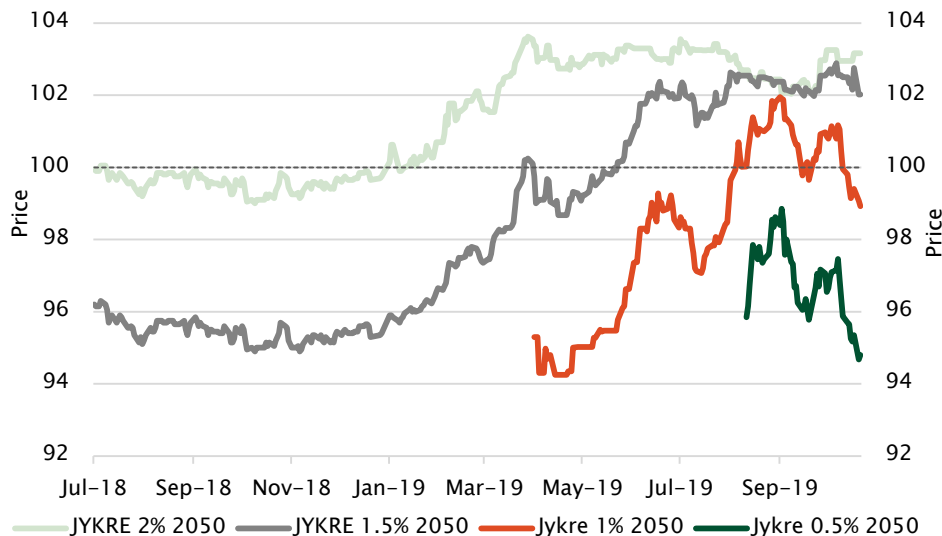
Rating requirement and overcollateral



Recent price movements in DKK callable bonds

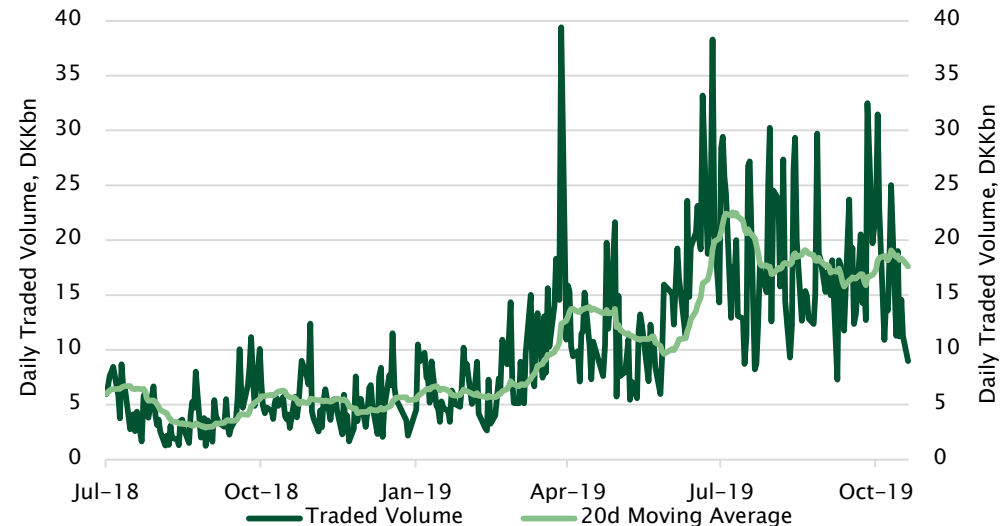
- Increasing prices on callable DKK covered bonds over the last year – especially since beginning of 2019
- Open series for financing 30 year fixed interest mortgage loans are at the moment 1.0% and 1.0% IO
- Borrowers are taking advantage of high bond prices and converting to loans with lower interests
- 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

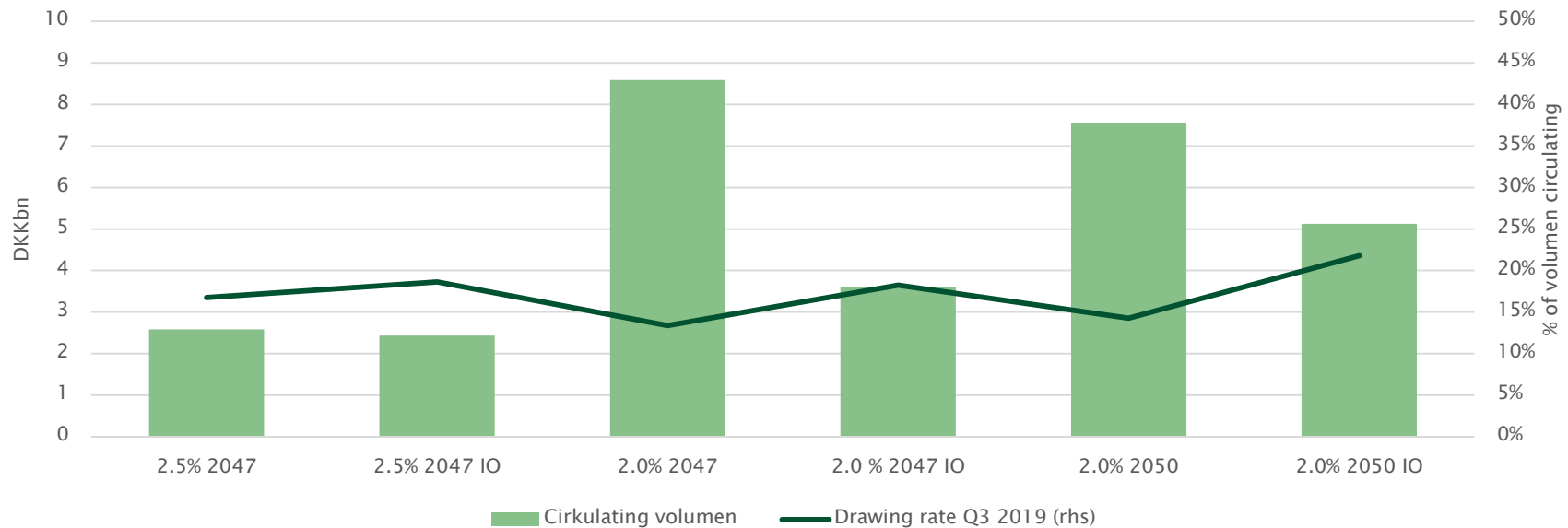


Source: Nasdaq Copenhagen

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 30bn 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 (end-October 2019)

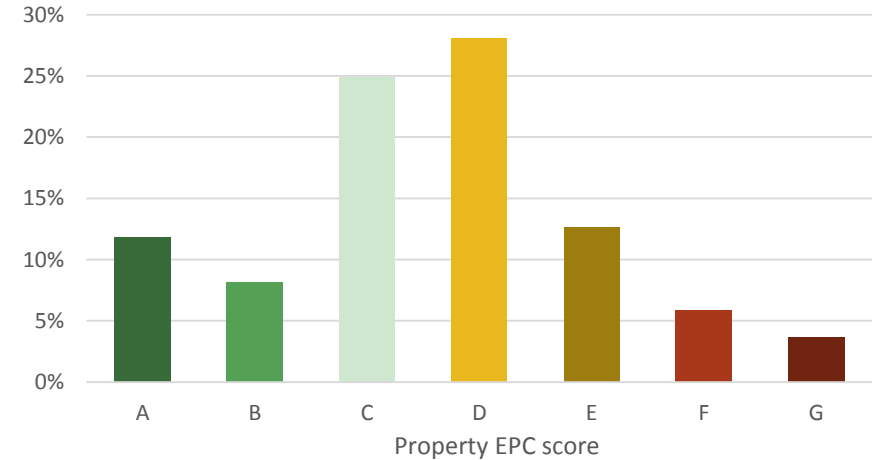


Note: The volume have been adjusted for drawings end Q3 2019

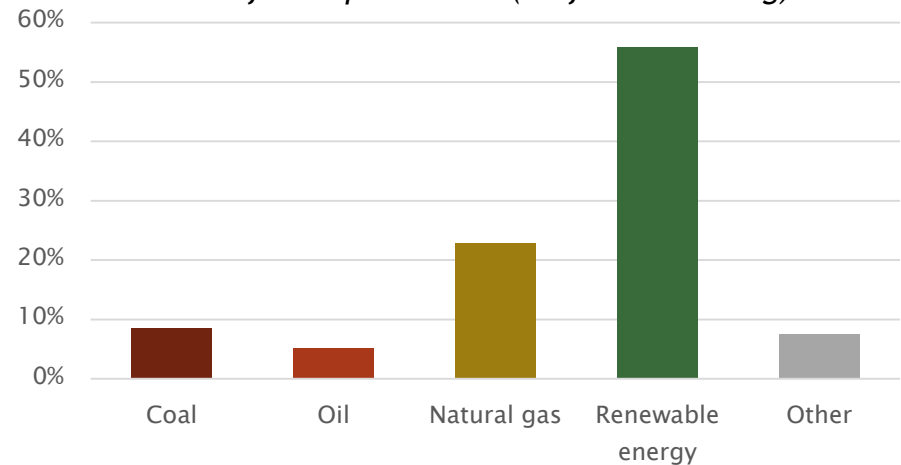
Sustainable Transparency Template

- 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 and electricity production

Distribution of energy labels (% of total lending)



Distribution of heat production (% of total lending)



Household behavior

- Private consumer expectations are at the lowest level since 2016...
- ...but the private sector is well prepared for an economic downturn
- There is still a large purchasing power in the private sector
- The Private sector is still saving up
- Household debt is declining

Consumer expectations



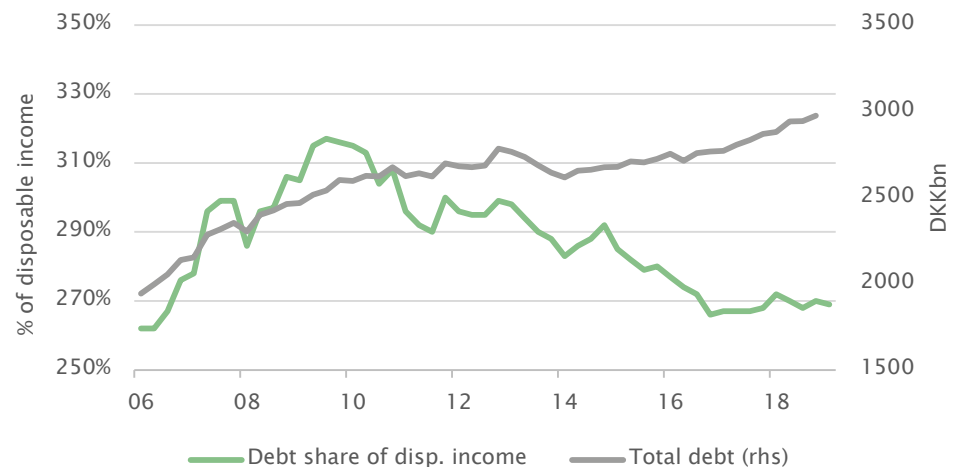
Source: Statistics Denmark

Private sector financial savings



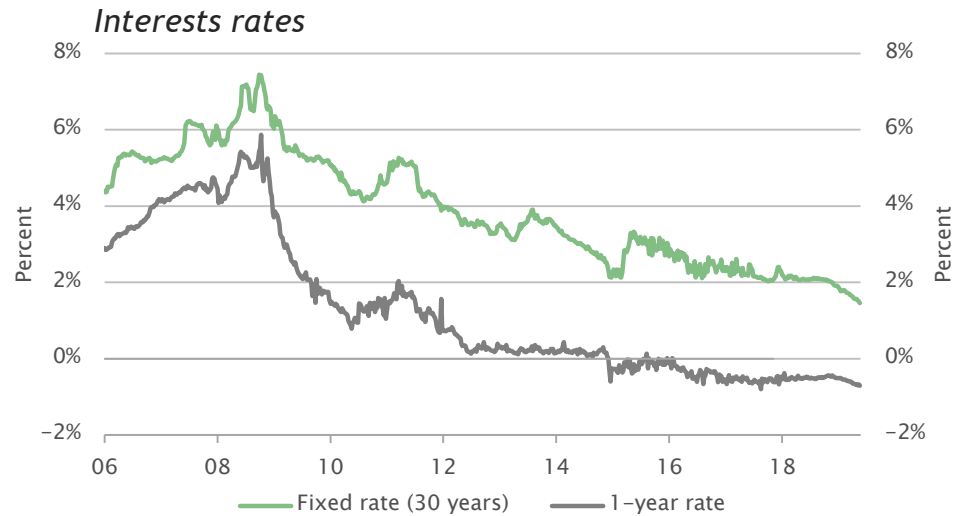
Source: Statistics Denmark

Household gross debt

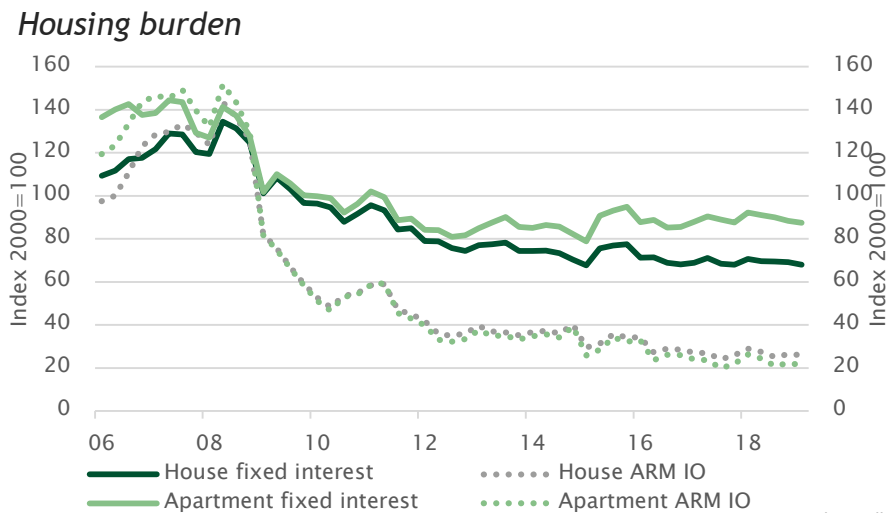


Household finances

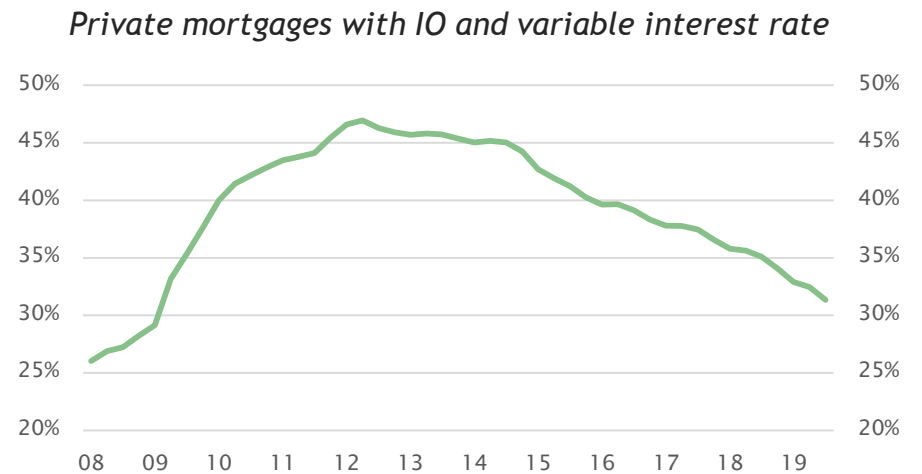
- Interests rates are historical low
- Average 30-year fixed interest rate at 1.3 %
- Housing burden also at a historical low level
 - Price of owning own house is low
 - Increasing property prices and decreasing interests
- Private consumers remortgage to loans with interest rate fixed until maturity and with amortization



Source: Association of Danish Mortgage Banks



Source: Jyske Realkredit

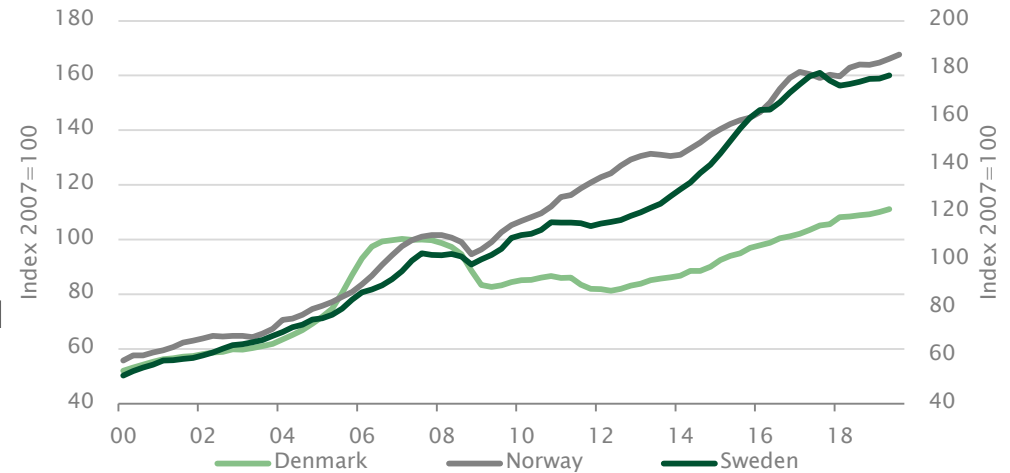


Source: Association of Danish Mortgage Banks

Danish housing market

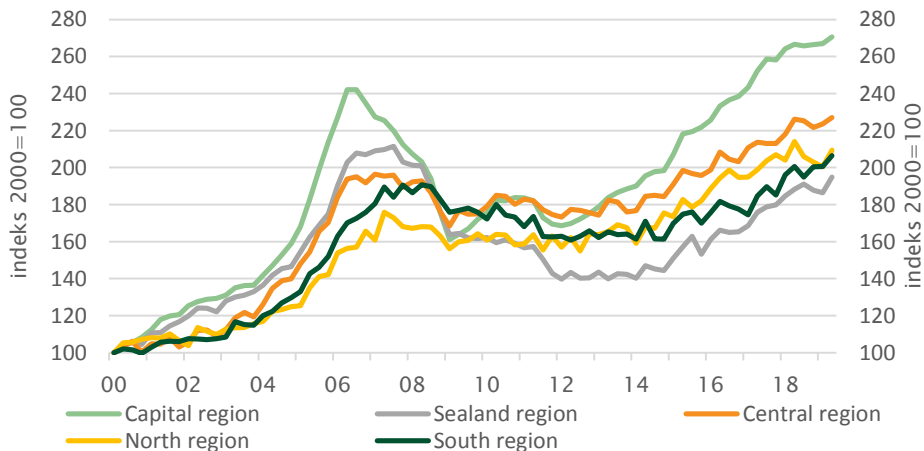
- Increasing house prices after the financial crisis
- Compared to Sweden and Norway Denmark has repriced
- Historical increasing prices in urban areas and increasing/stagging prices in non-urban areas
- Stable apartment prices in Capital Region
- Population growth strongest in Capital Region and Central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

Nordic house prices



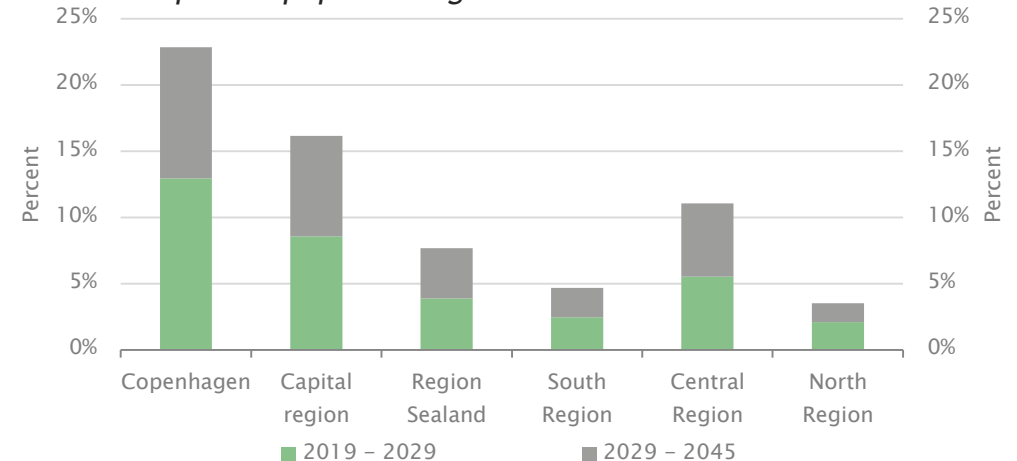
Source: OECD.Stat

Regional house prices in Denmark



Source: Association of Danish Mortgage Banks

Expected population growth 2019 - 2045



Source: Statistics Denmark

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 sytem 2024

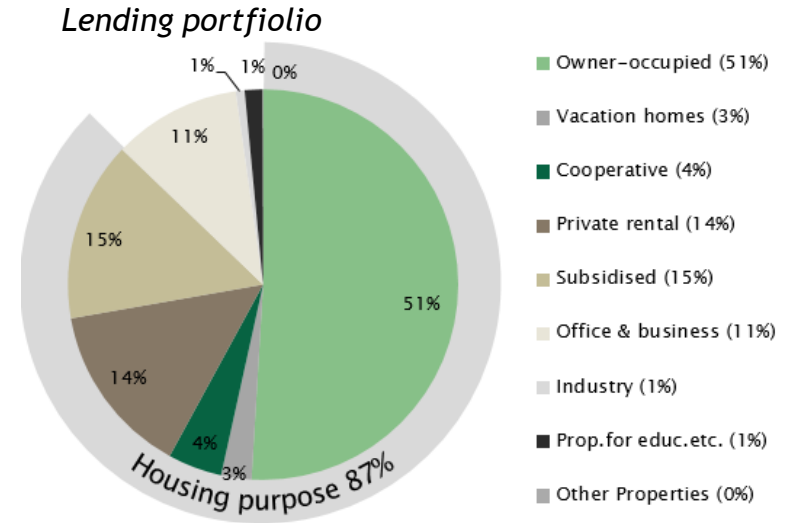
Property tax	
Value < DKK 7.500t	0,55%
Value > DKK 7.500t	1,40%
Based on current total property value	

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

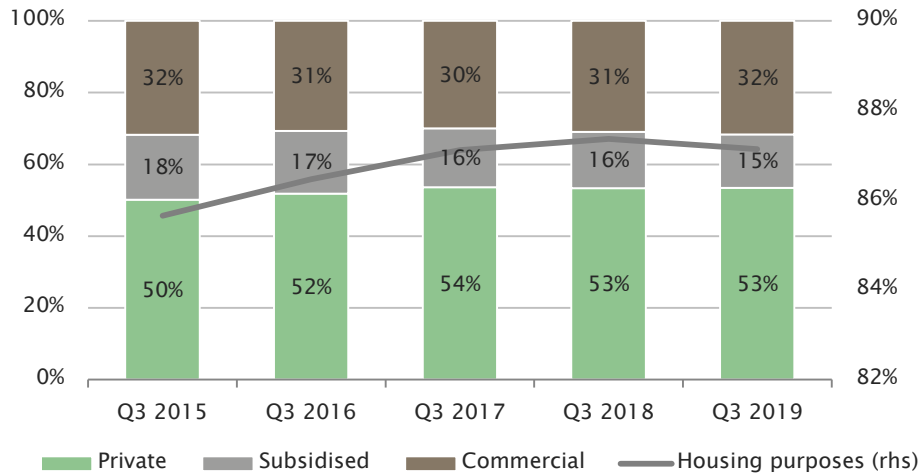
- The taxation should be not be higher than with current rules
 - Current property owners will not be affected negatively
 - New owners from 2024 could pay higher taxes
- Increase in taxes for properties with high increases in property value since 2001/2002
 - Taxation on expensive properties is expected 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

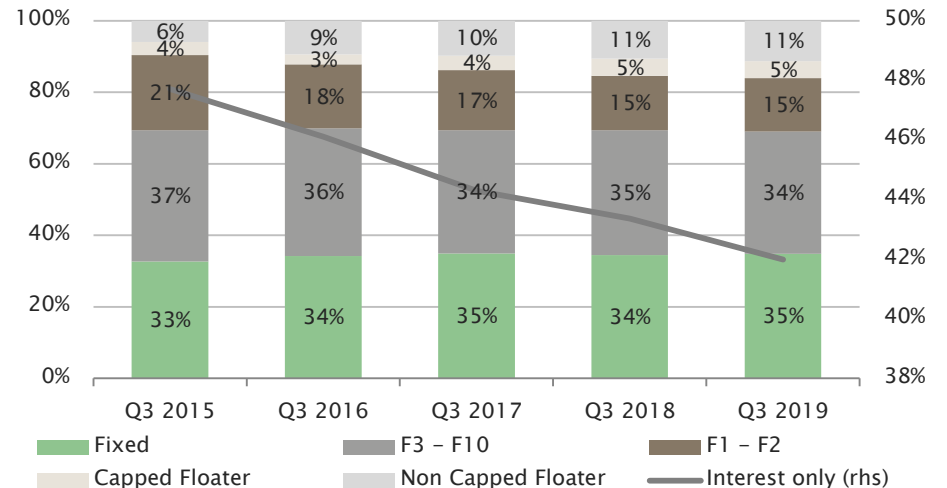
- 87 % of lending to properties with housing purposes
 - No lending to agriculture and other primary production
- Stable share of private and commercial lending
- Increase in share of fixed rate mortgages and decreasing share of F1 and F2
- Decreasing proportion of interest only loans



Development in lending portfolio



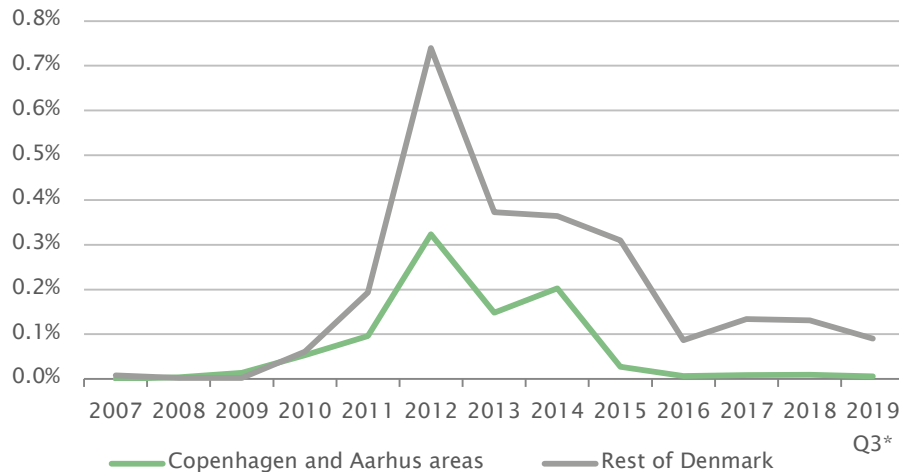
Development in loan types



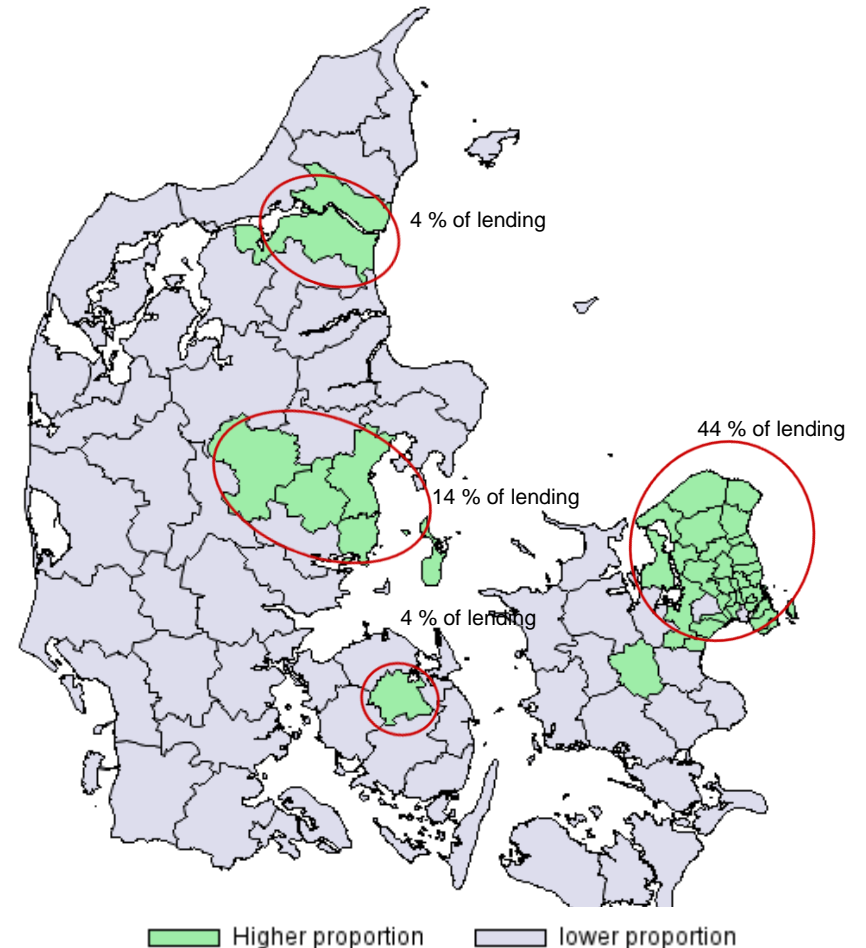
Geographical distribution

- East - East strategy
- The primary portfolio is focused around largest cities - areas with increasing housing prices and expected population growth
- Concentration in four largest cities, but lending all across Denmark
- Relative small losses in urban areas through the financial crisis
- High tradability prevent losses

Yearly Loss in % of lending for residential properties

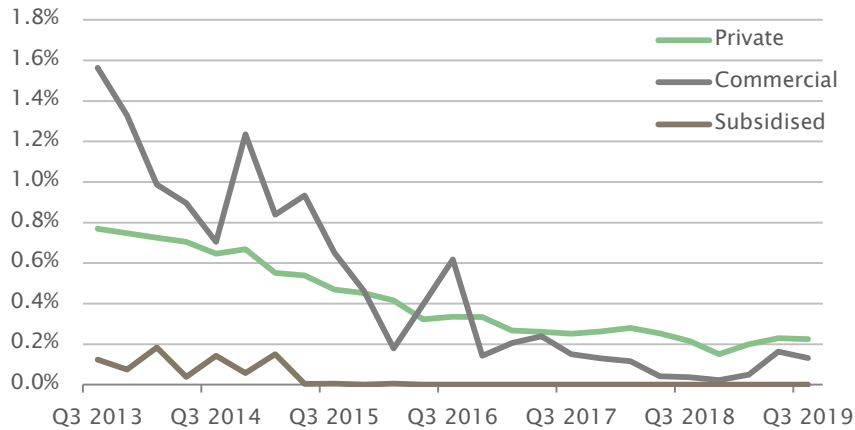


Proportion of residential lending to proportion of population

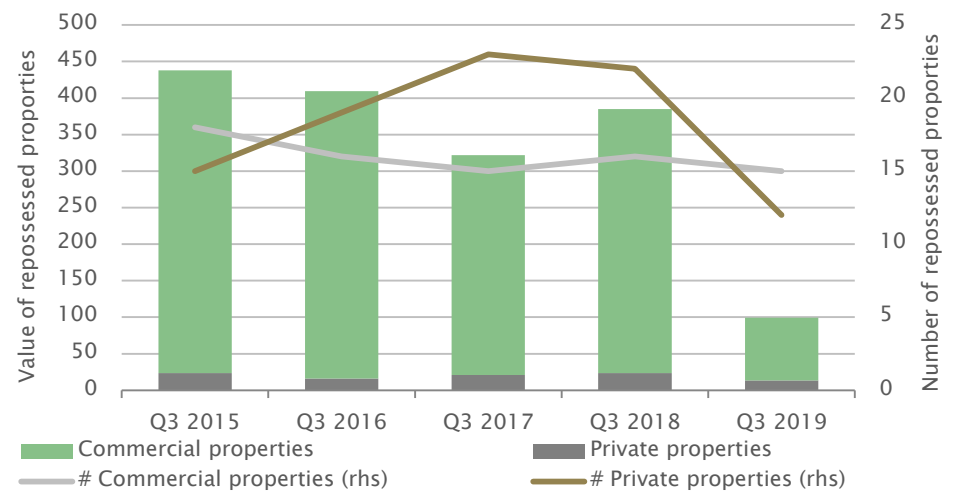


Credit quality

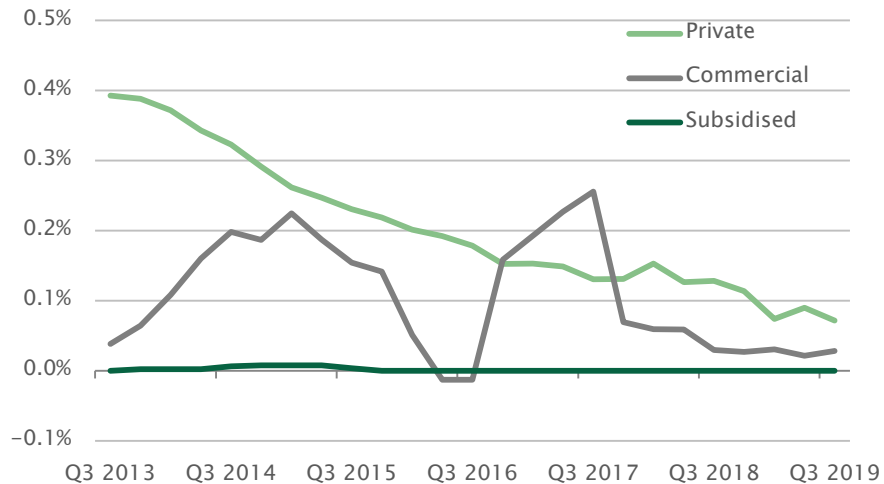
Lending in 90-days arrears (per cent of lending)



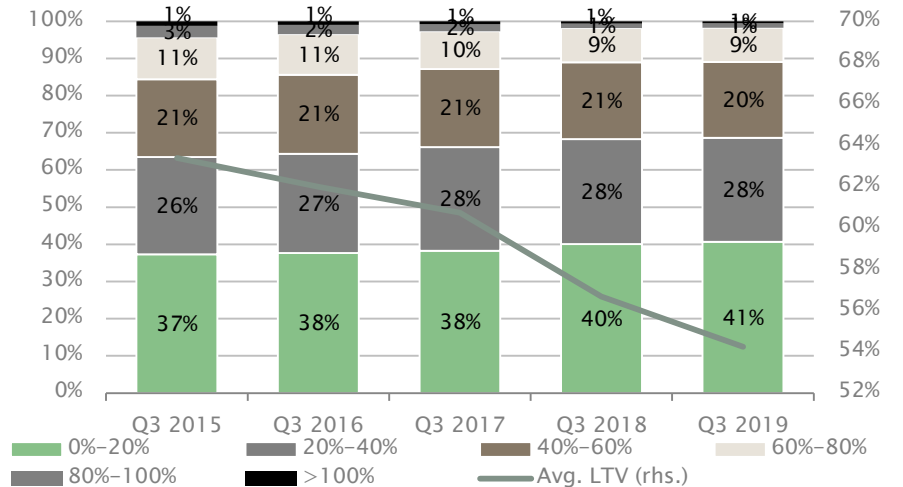
Reposessed properties (DKKm/number)



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 Q3 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	Q1-Q3 2019	Q1-Q3 2018
Concentration risk	< 100 %	48.1%	46.2%
Increase in loans			
- Owner-occupied home and vacation homes	< 15%	4.1%	6.3%
- Residential rental property	< 15%	-4.2%	2.6%
- Agriculture	< 15%		
- Other sectors	< 15%	5.8%	4.0%
Borrower's interest-rate risk			
- Residential properties	< 25%	18.6%	19.7%
Interest-only schemes			
- Owner-occupied home and vacation homes	< 10%	6.6%	7.3%
Loans with frequent interest-rate fixing			
- Refinancing (annually)*	< 25%	16.6%	14.7%
- Refinancing (quarterly)	< 12.5%	5.4%	3.1%

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Appendices



First mortgage institute to open a callable bond with negative coupon

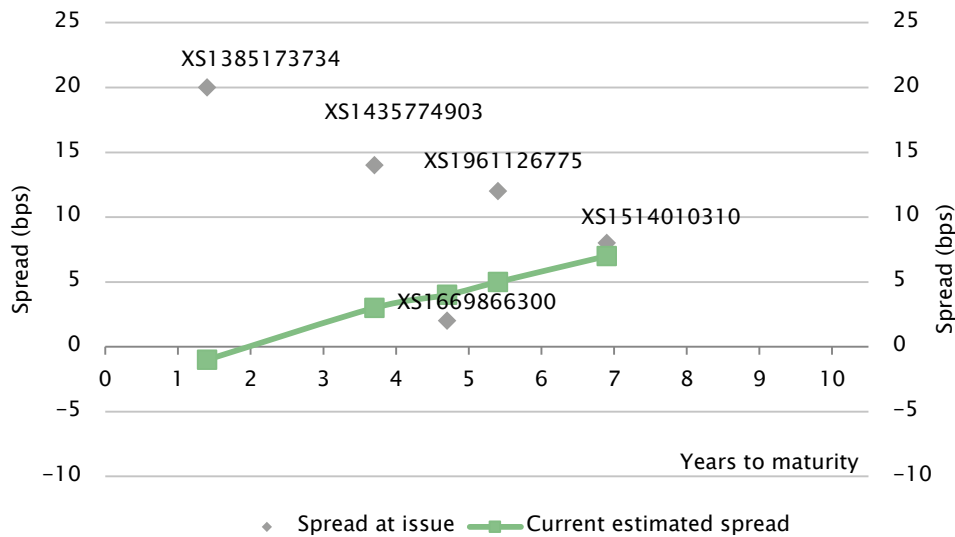
- Jyske Realkredit is the first Danish mortgage institute to open both a 10-year callable bond with a coupon of 0 % and also the first to open a 10-year callable bond with a coupon of -0.5%
- The bonds are used for financing of 10-year loans with amortization
- The amortization of the bond with a negative 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

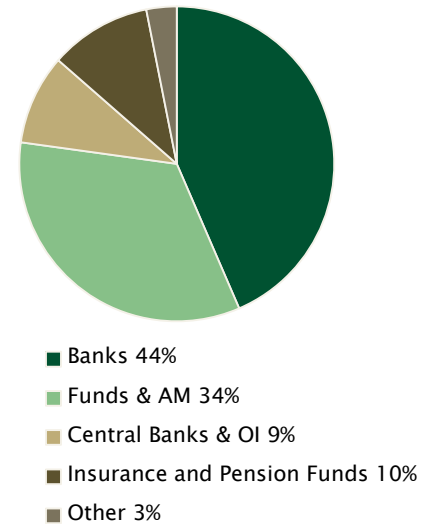
Jyske Realkredit EUR covered bonds

Jyske Realkredit EUR covered bond issuances*



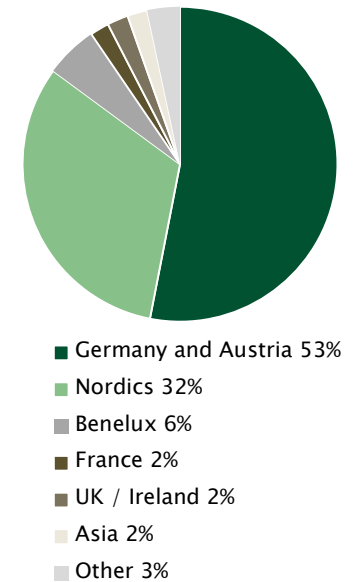
*Pricing indications October 2019

Investor distribution*



*Figures are based on allocated amounts

Geographical distribution*



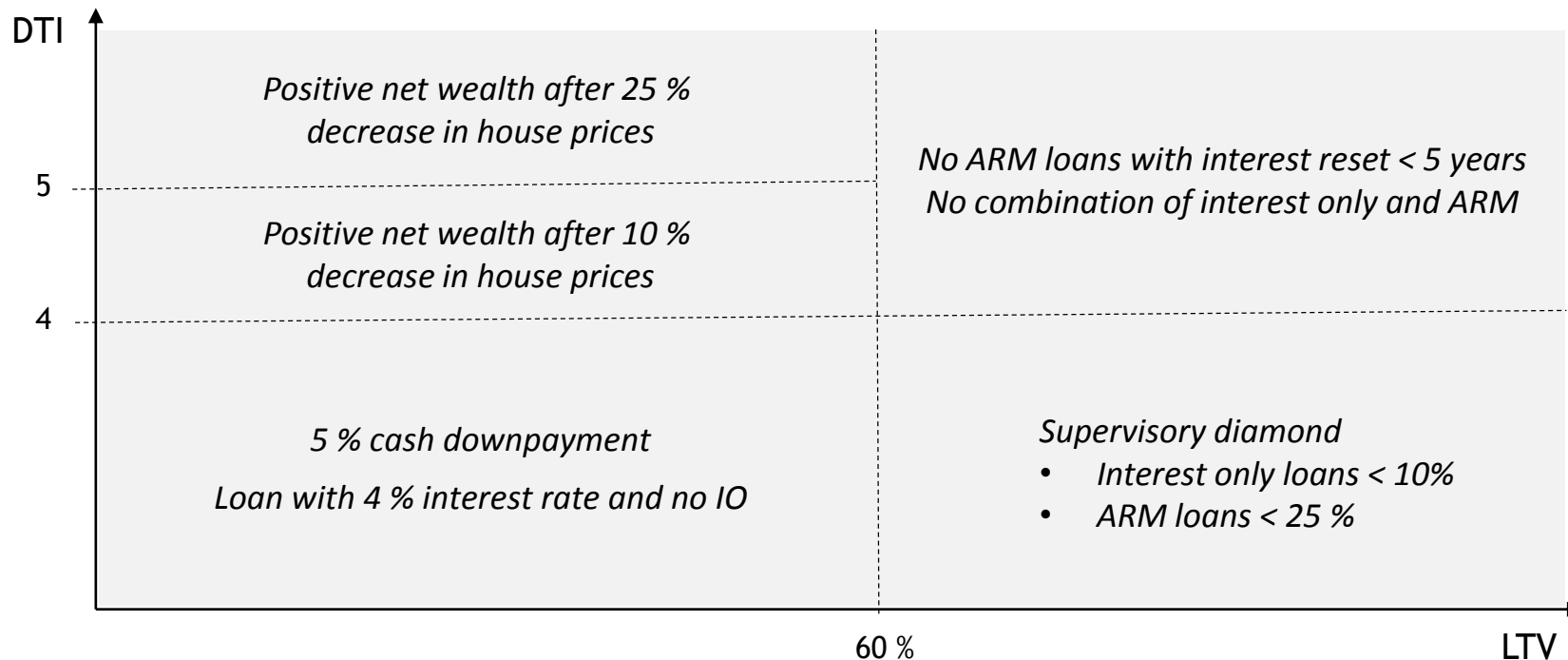
- Three first successful EUR covered bond issuances in 2016 of 5 years (EUR 500m), 7 years (EUR 750m) and 10 years (EUR 750m). One issue in August 2017 (EUR 500m) og one in March 2019 (EUR 500m).
- Large interest from a vide variety of investor from different countries
- Good performance from issuances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



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