

# **Jyske Realkredit**

## **Interim report Q1-Q3 2020**

Published 3 November 2020

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## Result in Q1-Q3 2020 affected by Covid-19

### Result in Q1-Q3 2020

- Pre-tax profit was DKK 677m
- Return on equity was 3.6 % p.a.
- Management estimate of impairments charges of DKK 415m as a consequence of the Covid-19 outbreak

### Q1-Q3 2020 (compared to Q1-Q3 2019)

- Core earnings has increased with 11 %
- Expenses increases due to higher expenses in intra-group settlement model
- Impairment charges affected by management estimate of DKK 415m
- No deterioration of credit quality due to Covid-19

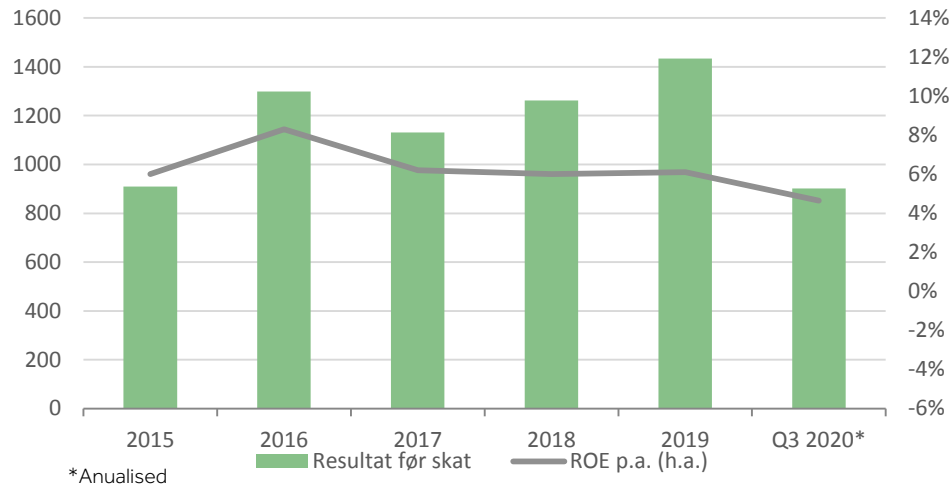
### Expectations for rest of 2020

- Core earnings before impairment charges are expected to be higher than in 2019

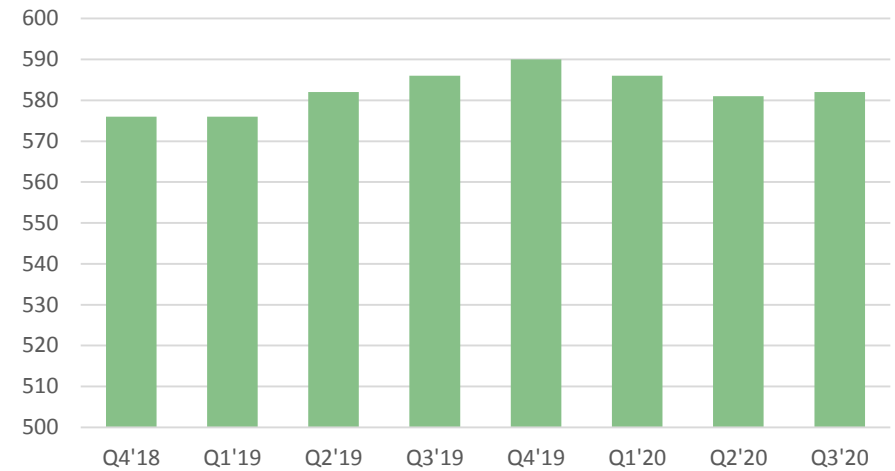
Core profit and net profit for the period DKKm	Q1-Q3 2020	Q1-Q3 2019	Index 20/19
<b>Core operations</b>			
Administration margin, etc.	1,749	1,744	100
Other net interest income 1)	23	43	53
Net fees, charges and commission income etc.	-423	-497	85
Value adjustments	125	27	463
Other income	10	18	-
<b>Core earnings</b>	<b>1,484</b>	<b>1,335</b>	111
Core expenses	258	233	111
<b>Core earnings before loan impairment charges etc.</b>	<b>1,226</b>	<b>1,102</b>	111
Loan impairment charges etc.	549	-5	-
<b>Pre-tax profit</b>	<b>677</b>	<b>1,107</b>	-
Tax	153	243	63
<b>Net profit or loss for the period</b>	<b>524</b>	<b>864</b>	61

# Financials - selected graphs

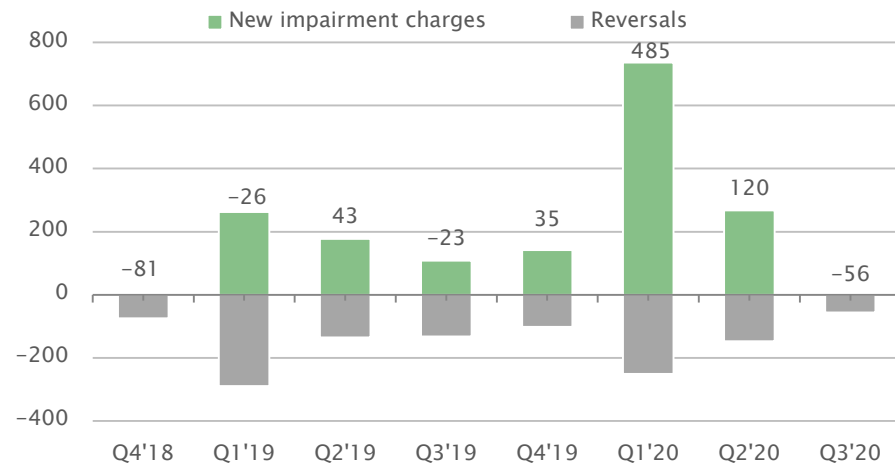
Result and return on equity



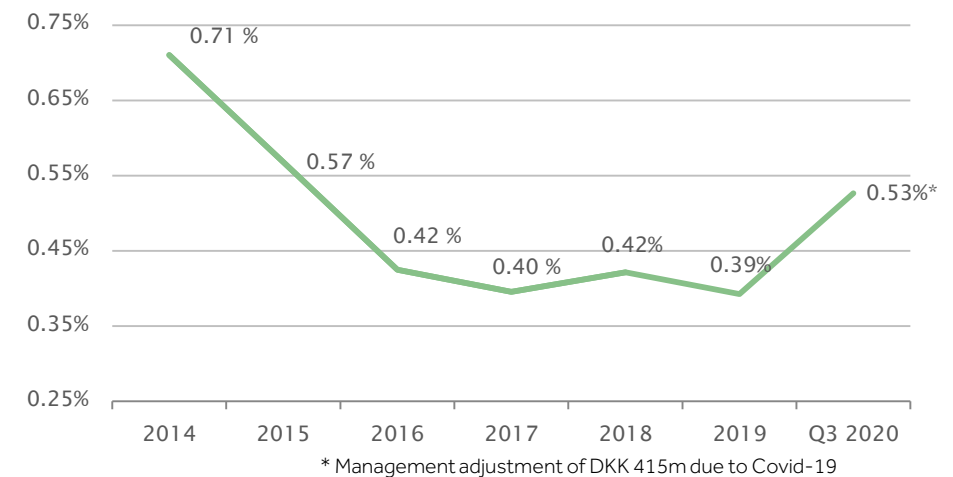
Administrative marain (DKK m)



Impairment charges and reversals (DKK m)



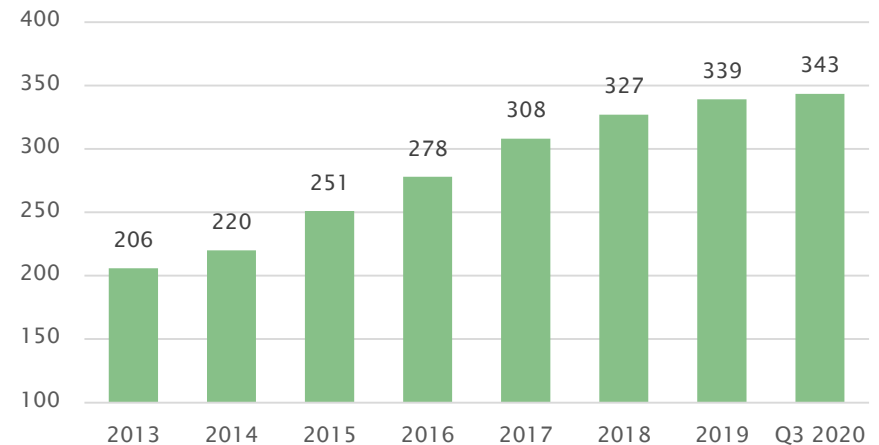
Balance of loan impairments in % of lending



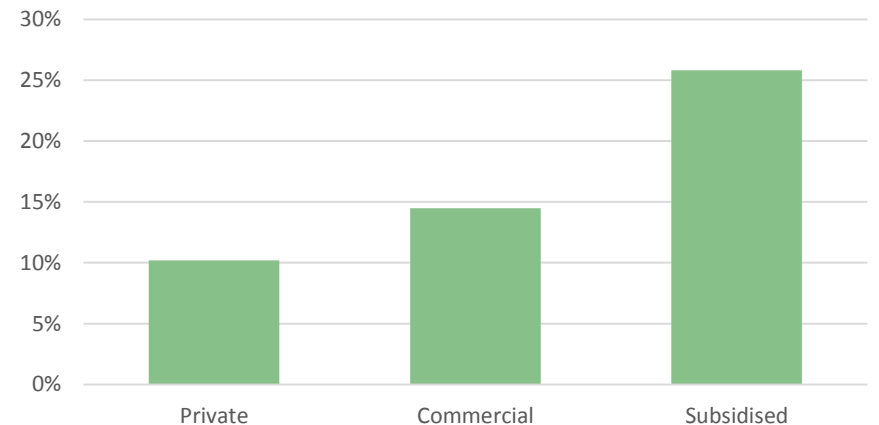
## Growth in mortgage lending

- Lending growth in first three quarters of 2020
  - Nominal mortgage lending increased with 0.8%
  - Primarily growth in commercial segment
- Net growth in mortgage lending of more than 65 % since 2014
- Net growth primarily in residential segment
- Commercial and subsidised lending growing with DKK 48bn (DKK 35bn 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

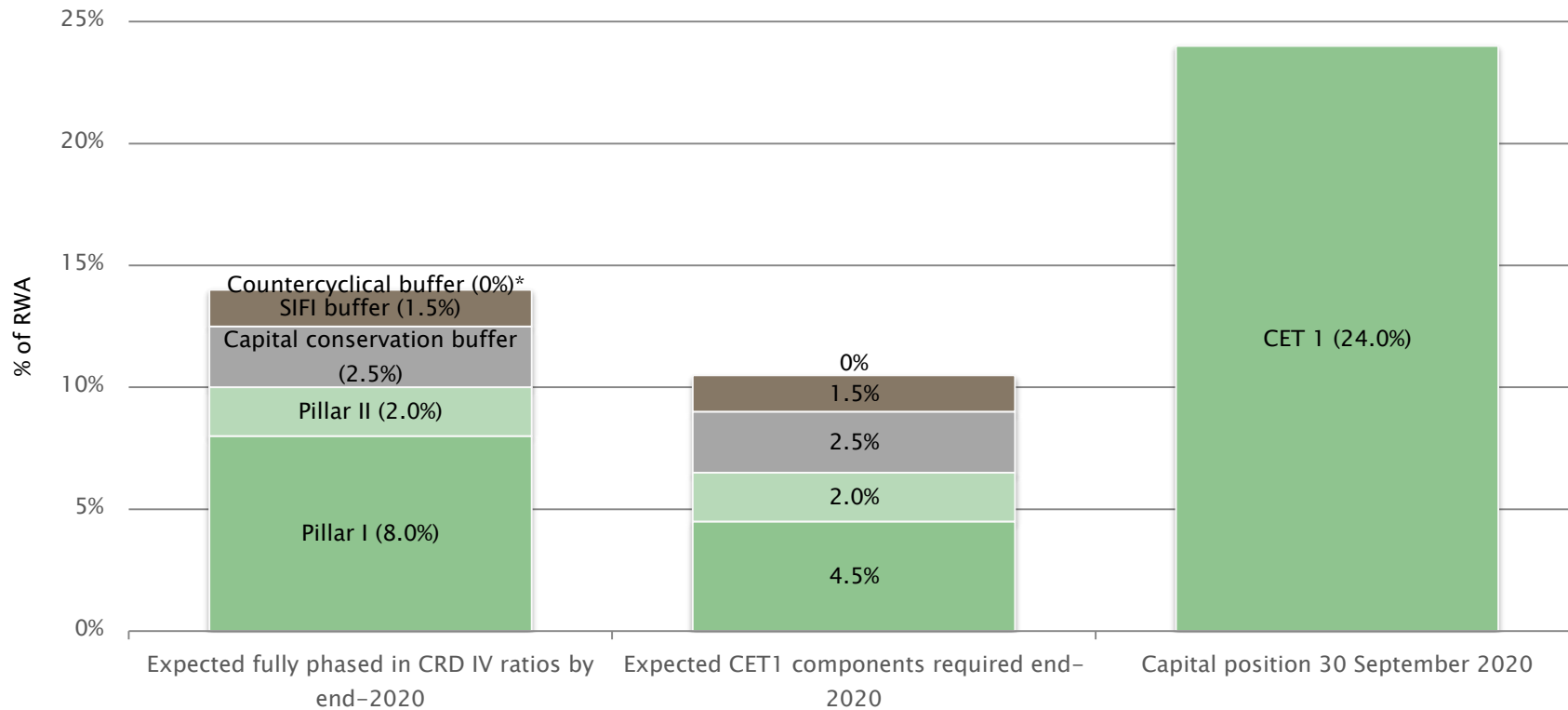
Total mortgage lending at market value (DKKbn)



Market share of mortgage market (%)



## Expected fully implemented CRD IV & Danish SIFI demands

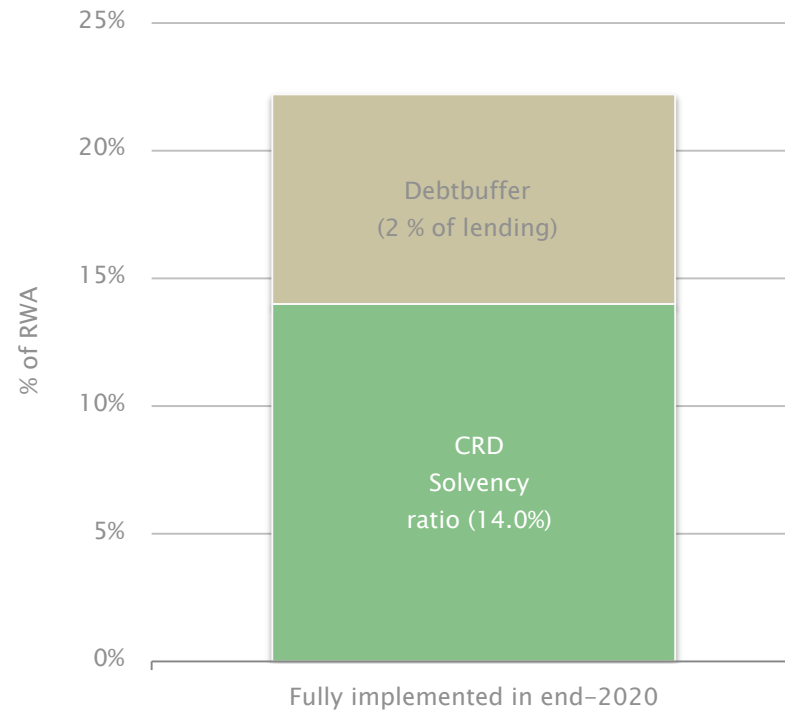


\*) Countercyclical buffer set at 0.0% in Q1 2020 due to Covid-19

- The solvency need is expected to be at 14 % at the end of 2020, of which 10.5 % 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 2020 with CET1 and senior debt



Countercyclical buffer set at 0.0% in Q1 2020 due to Covid-19

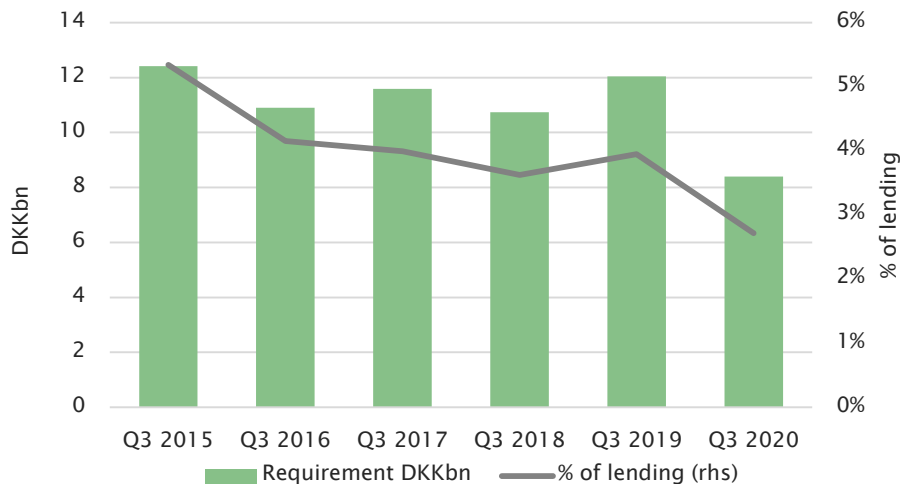
# Rating

- Decrease in AAA OC-requirement
  - Capital Center E at S&P minimum AAA OC-requirement
- AAA OC-requirements is at a lower level than in 2015 despite growth of mortgage loans of DKK +90bn
- Improvement in credit quality and composition of cover pool
- Jyske Bank and Jyske Realkredit issuer credit rating upgraded by S&P to A in October 2019
  - Upgrade due to ALAC buffer above 5 %

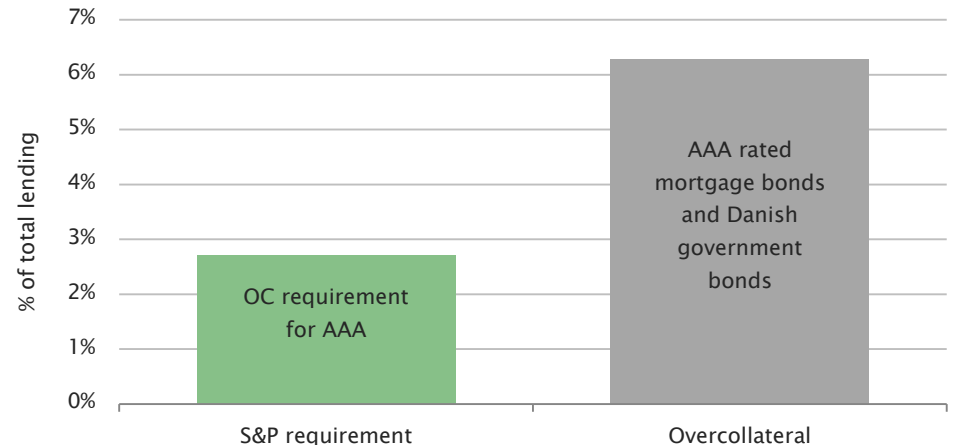
### Rating Standard and Poor's

Jyske Realkredit ICR	A
Outlook	Neutral
Capitalcenter B	AAA
Capitalcenter E	AAA
Capitalcenter General	AAA
Free notches over AAA	2/3

AAA rating requirement



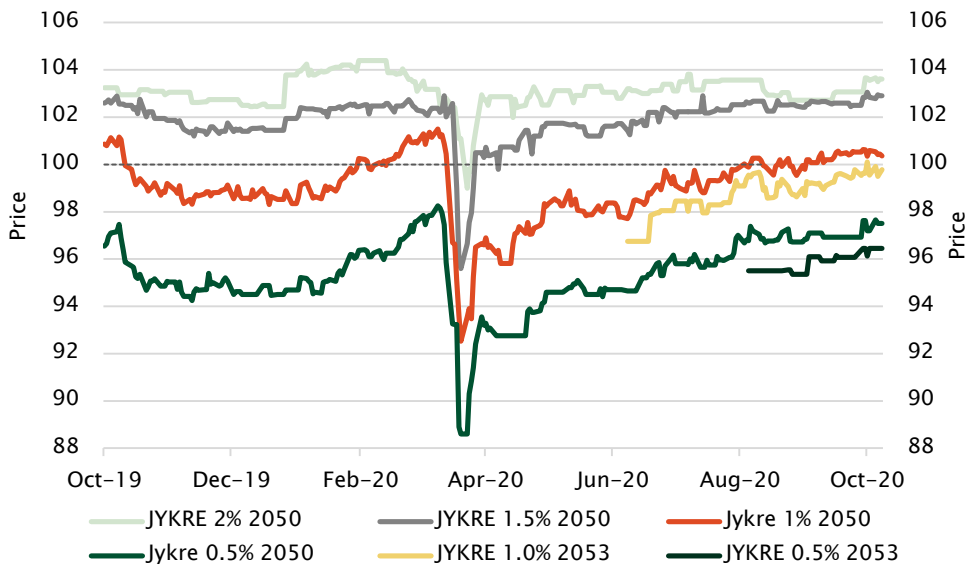
AAA rating requirement and overcollateral



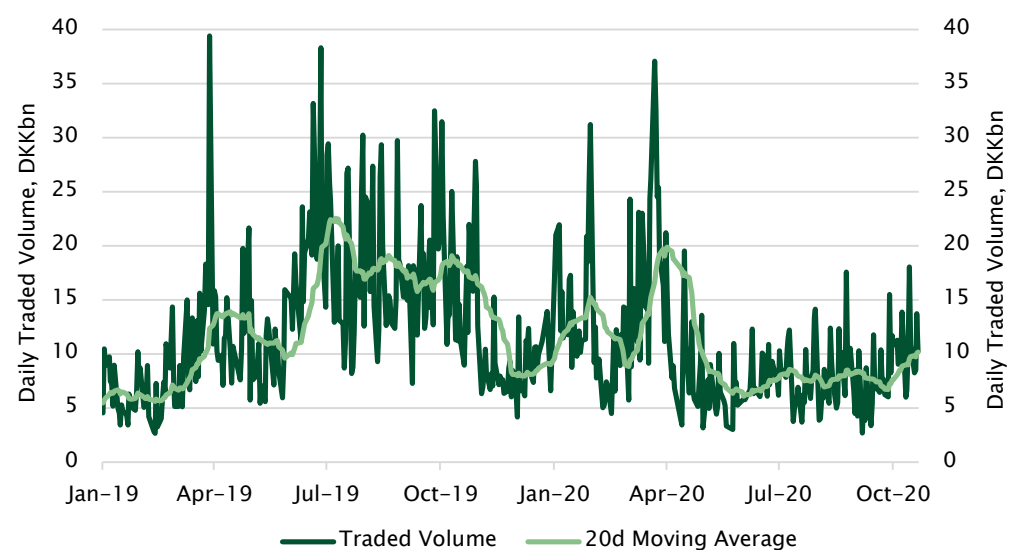
## DKK bond prices are almost back at pre-covid 19 level

- Volatility in Danish covered bond prices in Q1 2020 due to Covid-19
- Sharp drop in prices for callable bonds in beginning of March – prices have partly recovered
- Open series for financing 30 year fixed interest mortgage loans are at 1.0% and 1.0% IO
- The activity in the Danish covered bond market was lower in Q2 2020 than in previous quarters
  - Average daily traded amounts in September 2020 of DKK 7.2bn (in October 2019 DKK 18.4bn)

Prices for selected Jyske Realkredit callable bonds



Daily traded callable DKK covered bonds 2019-2020

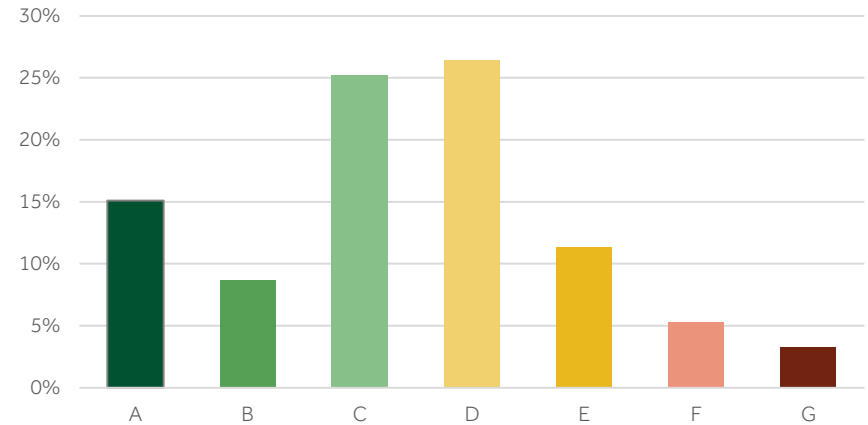




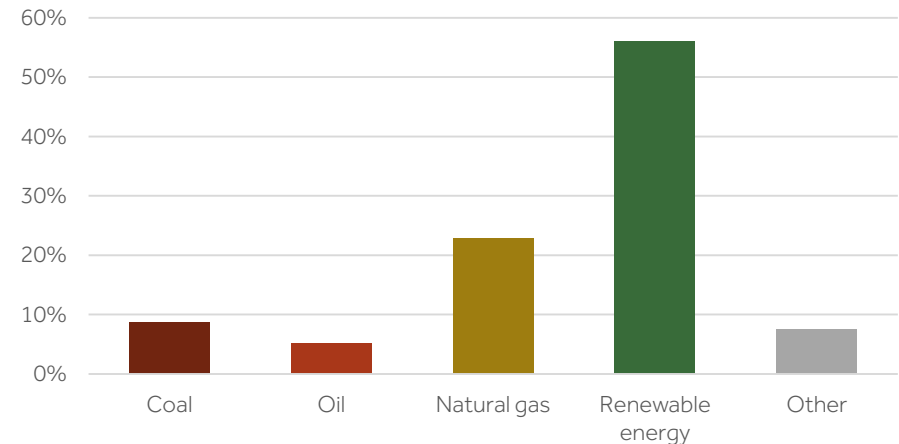
# Sustainable Transparency Template

- As the first financial institution Jyske Realkredit publish Sustainable Transparency Template
  - Template created by Jyske Realkredit
- Very different definitions of "green" covered bonds
- Available public information about energi labels in Denmark
- Majority of energy production in Denmark 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*



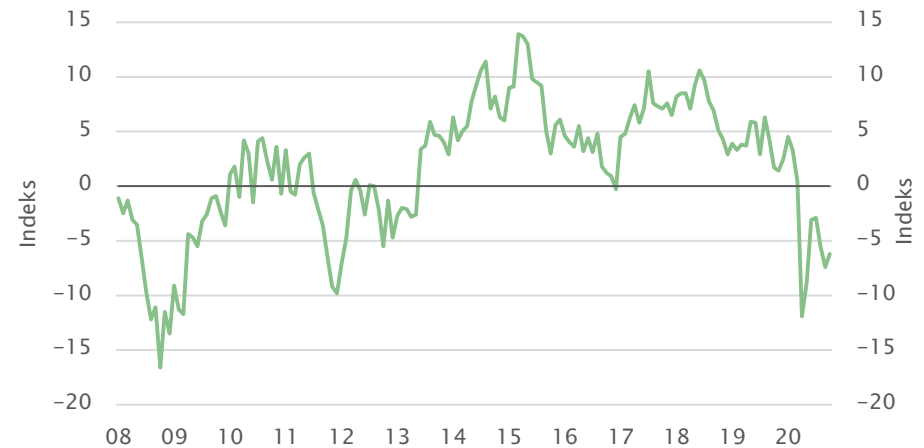
*Distribution of heat production (% of total lending)*



# Household behavior

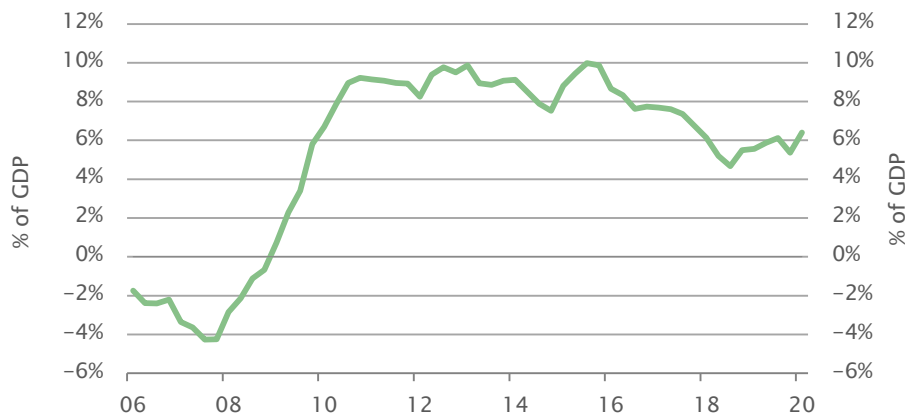
- Sharp drop in consumer expectations in Q1 2020 due to development of Covid-19...
- ... but less negative view in June and July
- The private sector is well prepared for a potential economic downturn
- There is still a large purchasing power in the private sector
- Household debt is at a low level

Consumer expectations



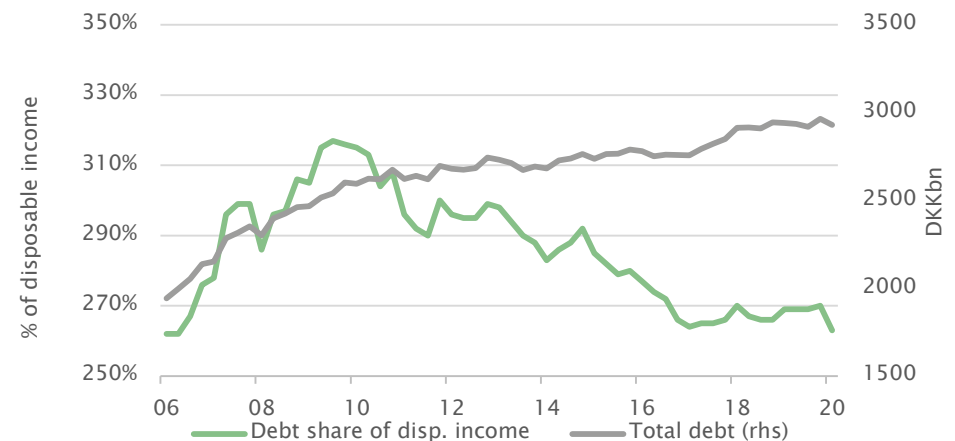
Source: Statistics Denmark

Private sector financial savings



Source: Statistics Denmark

Household gross debt

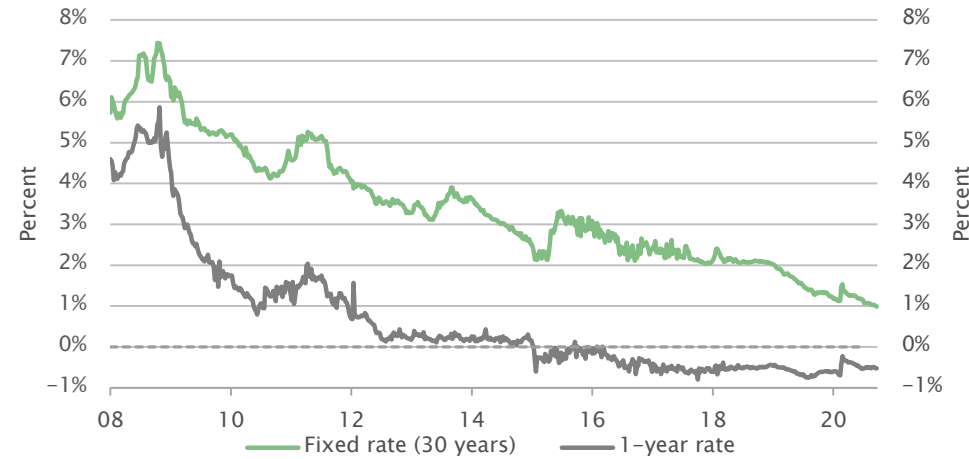


Source: Statistics Denmark

# Household finances

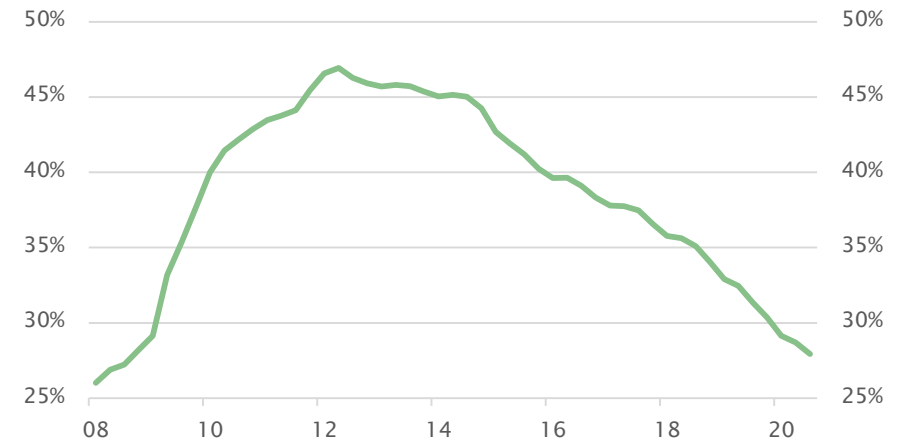
- Interests rates are historical low
- Average 30-year fixed interest rate at 1.0 %
- Housing burden also at a low level
  - Price of owning own house is low
  - Increasing property prices and decreasing interests
- Private consumers remortgage to loans with interest rate fixed until maturity and with amortization

Interests rates



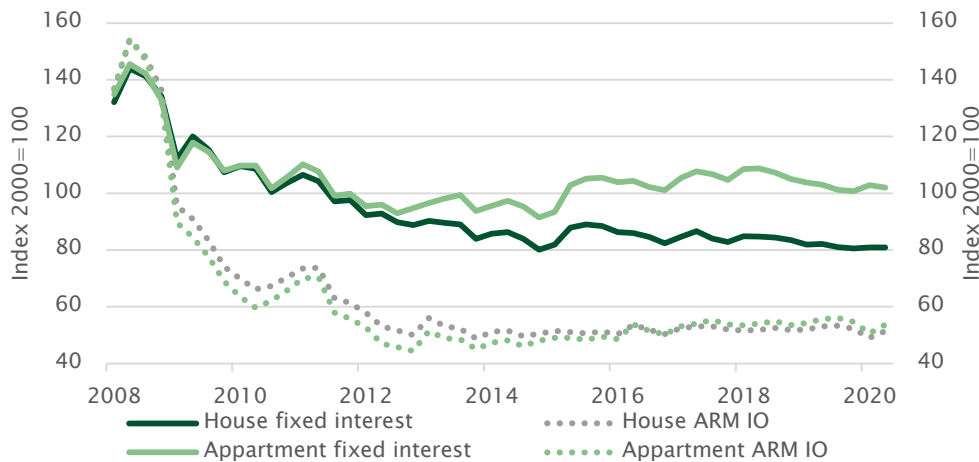
Source: Association of Danish Mortgage Banks

Private mortgages with IO and variable interest rate



Source: Association of Danish Mortgage Banks

Housing burden

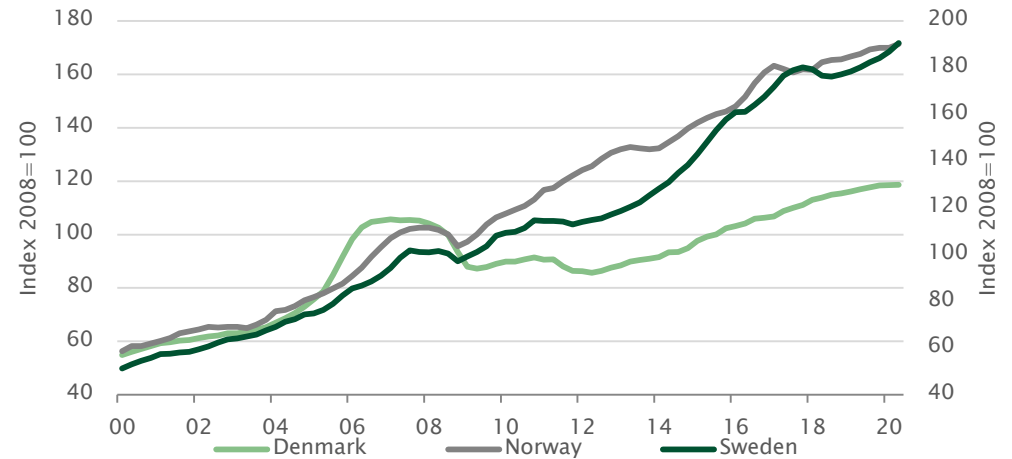


Source: Jyske Realkredit

# Danish housing market

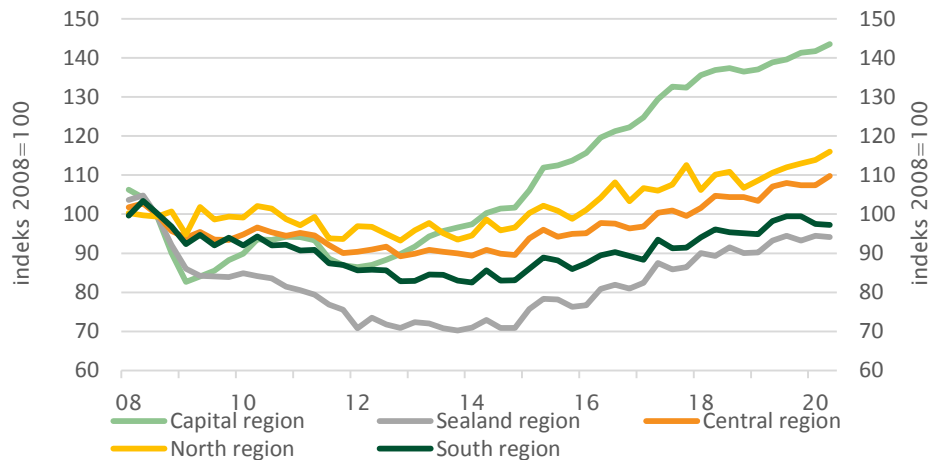
- Increasing house prices after the financial crisis
- Compared to Sweden and Norway Danish housing market has repriced
- Price increase in capital region mainly driven by apartment prices
- Growth in house prices has been following wage-growth and development in interest rates

Nordic house prices



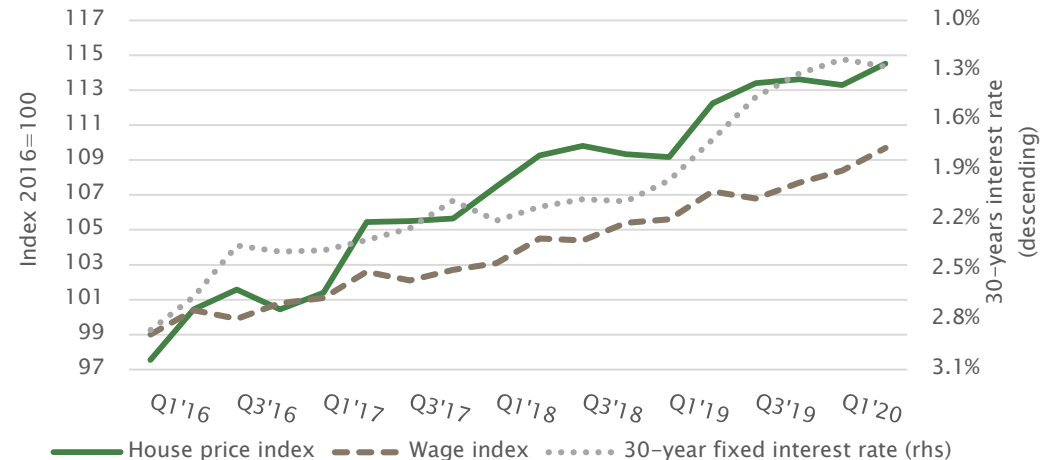
Source: OECD.Stat

Regional house prices in Denmark



Source: Association of Danish Mortgage Banks

Houseprices, wages and interest rate

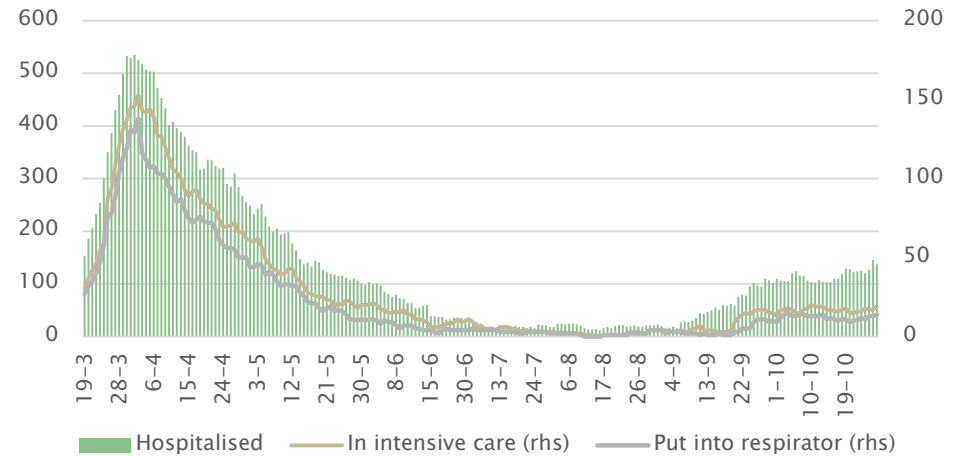


Source: Statistics Denmark

# Covid-19 effects on Danish economy

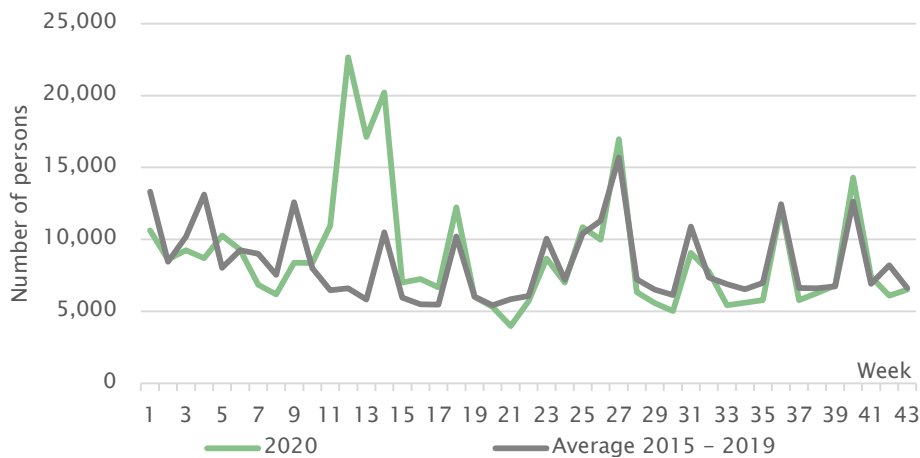
- 2nd wave of Covid-19 has hit Denmark
  - Fewer hospitalized persons than in 1st wave
  - Mainly young people are infected
- Number of new unemployed persons has increased with approx. 25,000 persons more than on average
- Largest effect of Covid-19 for businesses working within service

Number of hospitalised persons in Denmark



Source: Statens Seruminstitut

Number of new unemployed persons



Source: Styrelse for Arbejdsmarked og Rekruttering

Expectations from corporates (October 2020)

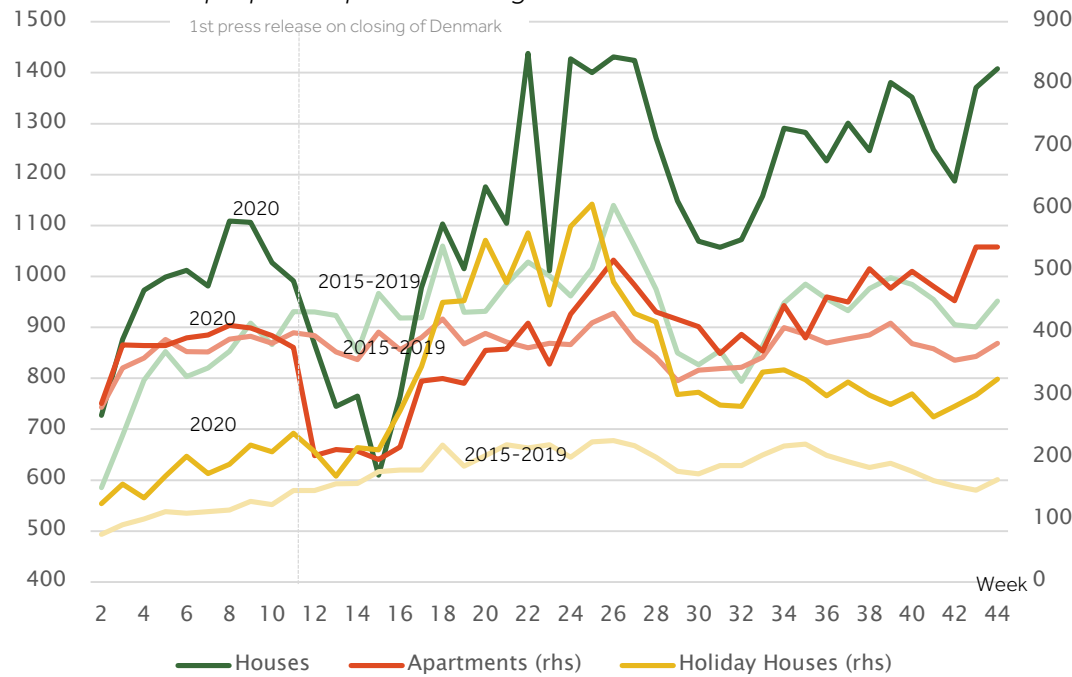
Bankruptcy within 3 mth	Industri	Construction	Service	Retail
No risk	92%	86%	86%	95%
Small risk	6%	12%	9%	5%
Some risk	2%	1%	4%	1%
Large risk	0%	0%	0%	0%

Source: Statistics Denmark

# Covid-19 and the Danish mortgage market

- The Danish housing market does at the moment not seem to be negatively affected by Covid-19
- After a down period due to the outbreak of Covid-19 the Danish property market has been busy
  - Increasing number of sold houses, apartments and holiday houses
  - Increasing prices for houses, apartments and holiday houses
- The expectations from Jyske Bank is increasing property prices for the full year 2020

Number of sold properties per week (Avg. 2015-2019 and 2020)



Changes in property prices

Property type	Change in property prices September 2020	Change in property prices from October 2019
Houses	1.1%	4.3%
Apartments	2.1%	6.9%
Holiday houses	2.2%	12.8%

Source: boligsiden.dk

## Development in credit risk

- The covid-19 situation does for now not seem to have affected the credit risk of the portfolio
  - Increasing house prices in all segments
  - No large increase in the unemployment level
  - Arrears at a very low level for both commercial and private residential
  - Limited exposure | Jyske Realkredit to the most affected sectors (restaurants, hotels, travel business)
- The situation could potentially change when helping packages stops
  - Impairments increased in Jyske Realkredit with DKK 415m as management estimate

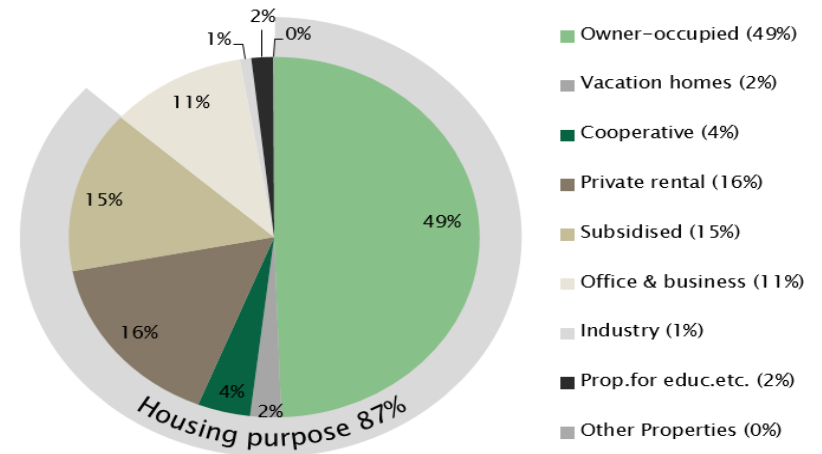
*15-day arrears for Jyske Realkredit*

Segment	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Private	1.5%	1.4%	1.3%	1.1%	1.0%
Commercial	0.4%	0.7%	1.0%	0.6%	0.8%
<b>Total</b>	<b>0.8%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>0.6%</b>	<b>0.7%</b>

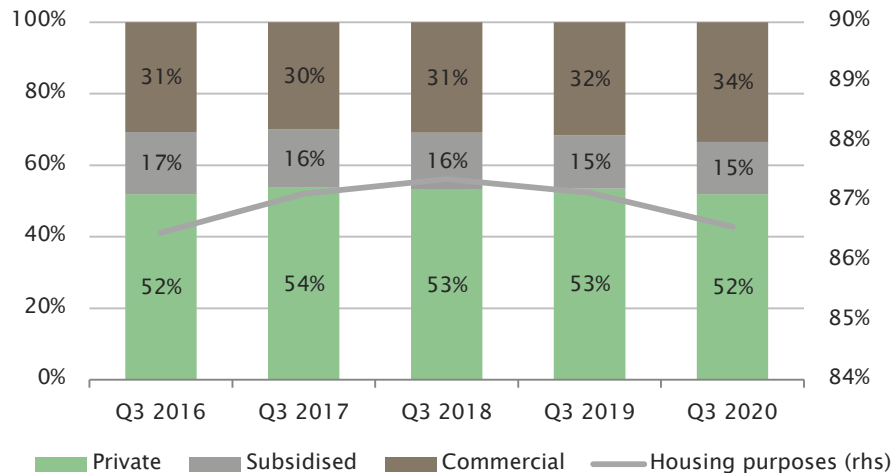
# Portfolio

- 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

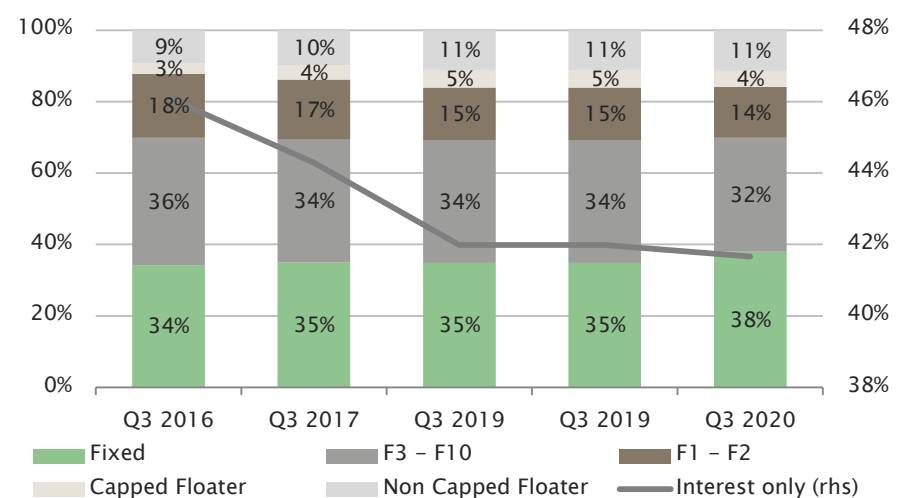
*Lending portfolio*



*Development in lending portfolio*



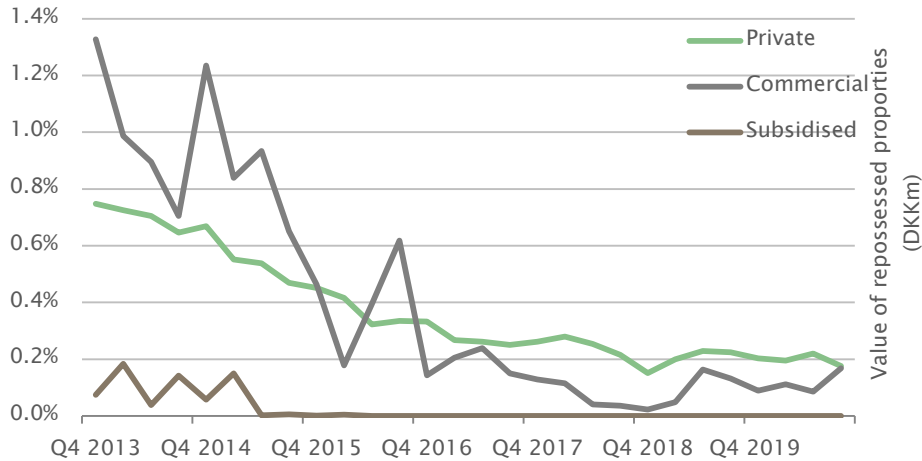
*Development in loan types*



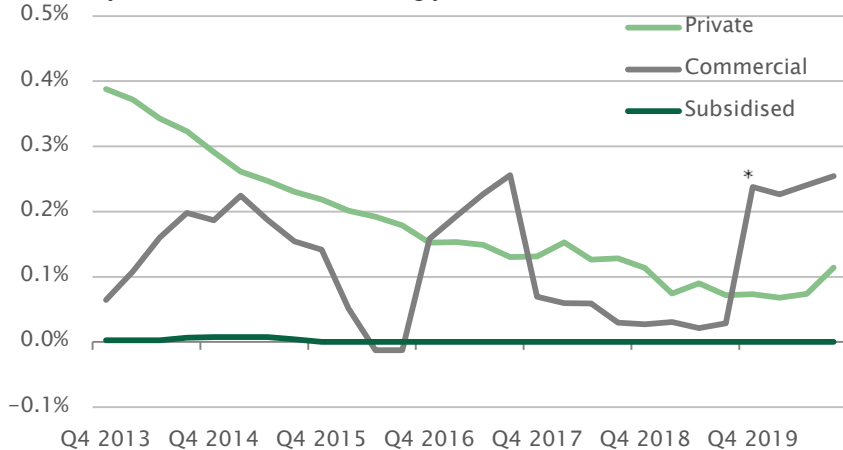


# Credit quality

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

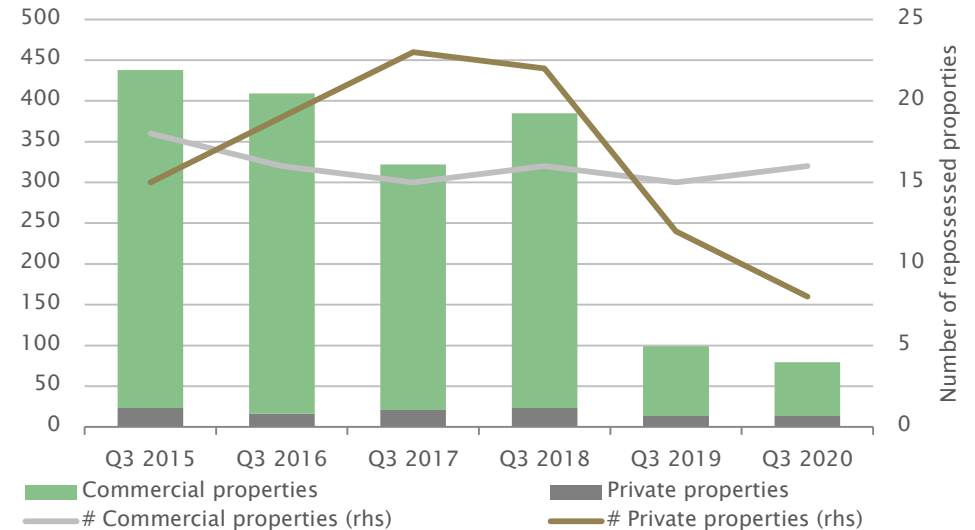


Yearly realised losses (running year)

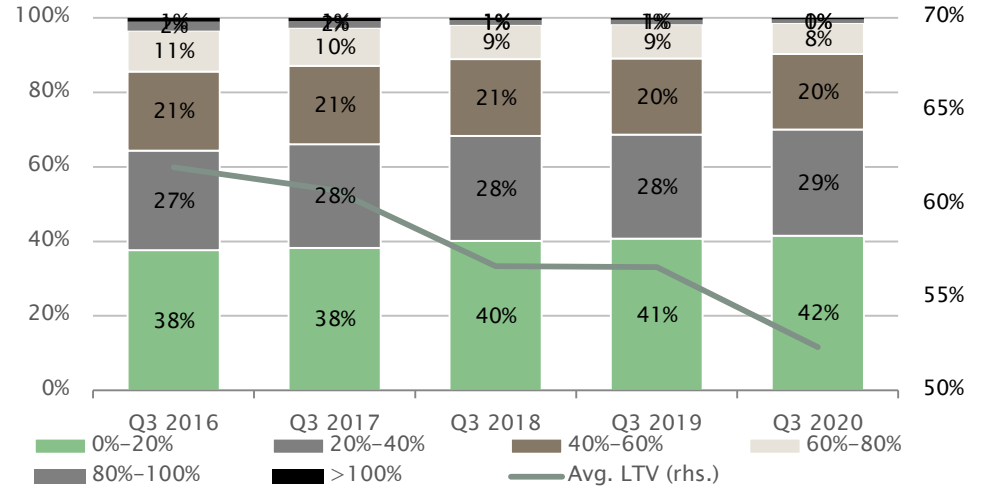


\* Single commercial property – impairment charges was already taken

Repossessed properties (DKKk/number)



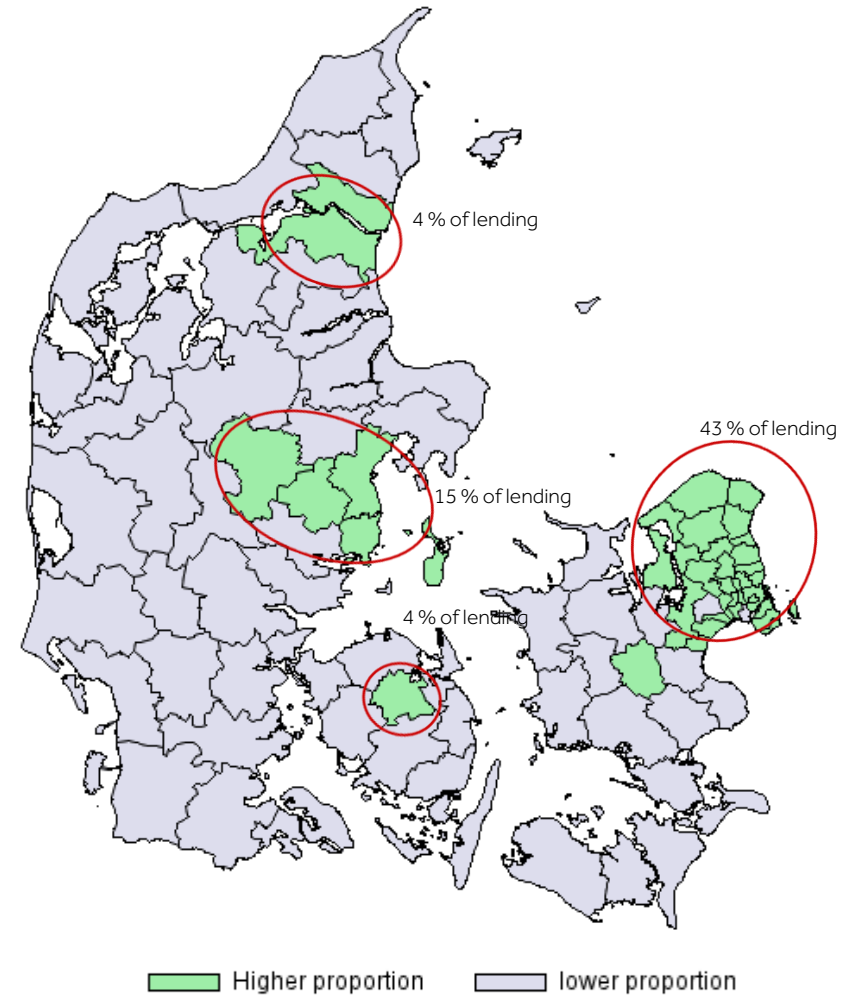
Loan-to-Value brackets (per cent of lending)



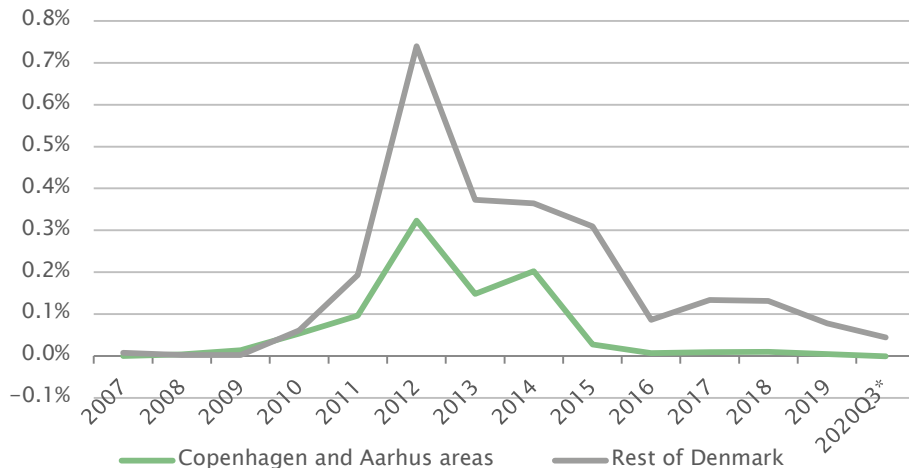
# Geographical distribution

- 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

Proportion of residential lending to proportion of population



Yearly Loss in % of lending for residential properties



\*Annualised

## 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 2020 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	Q3 2020	Q3 2019
<b>Concentration risk</b>	< 100 %	48.1%	48.1%
<b>Increase in loans</b>			
- Owner-occupied home and vacation homes	< 15%	-0.8%	4.1%
- Residential rental property	< 15%	6.5%	-4.2%
- Agriculture	< 15%		
- Other sectors	< 15%	6.7%	5.8%
<b>Borrower's interest-rate risk</b>			
- Residential properties	< 25%	17.0%	18.6%
<b>Interest-only schemes</b>			
- Owner-occupied home and vacation homes	< 10%	6.0%	6.6%
<b>Loans with frequent interest-rate fixing</b>			
- Refinancing (annually)*	< 25%	16.5%	16.6%
- Refinancing (quarterly)	< 12.5%	5.4%	5.4%

## Contact information

**Chief Executive Officer**

Carsten Tirsbæk Madsen  
+45 89 89 90 50  
ctm@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.jyskerealkredit.com>

# Appendices



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

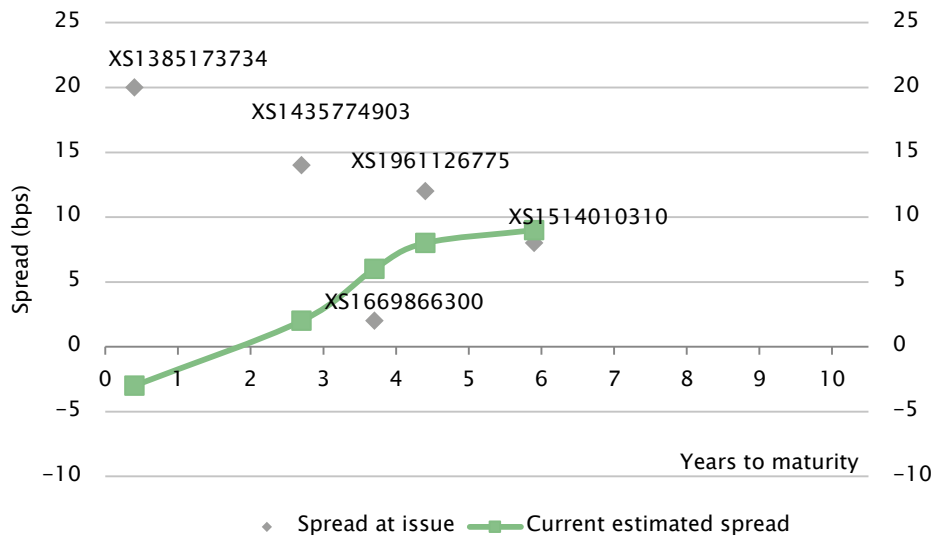
- Jyske Realkredit is the first Danish mortgage institute to open both a 10-year callable bond with a coupon of 0 % and also the first to open a 10-year callable bond with a coupon of -0.5%
- The bonds are used for financing of 10-year loans with amortization
- The amortization of the bond with a negative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

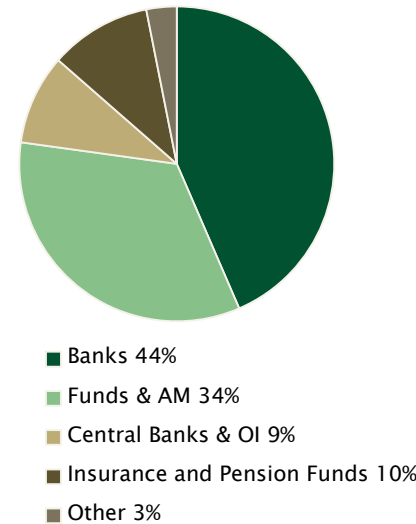
# Jyske Realkredit EUR covered bonds

Jyske Realkredit EUR covered bond issuances\*



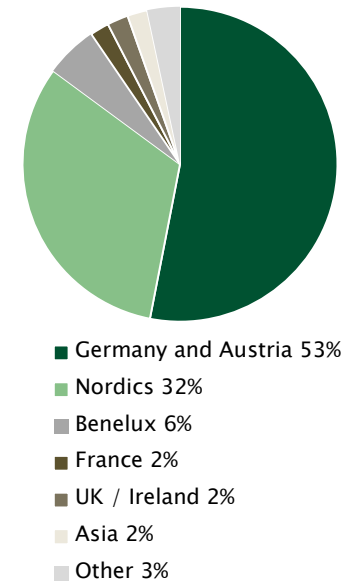
\*Pricing indications end-October 2020

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



## CO<sub>2</sub>-emissions in Sustainable Transparency Template

- Jyske Realkredit now also reports on calculated CO<sub>2</sub>-emissions in Sustainable Transparency Template
- Calculated CO<sub>2</sub>-emissions based on EPC
- Enables investors to follow development in CO<sub>2</sub>-emissions in assets behind Jyske Realkredit covered bonds
- Follows the recommendation from Forum for Sustainable Finance

*Calculated CO<sub>2</sub>-emissions for Jyske Realkredit capital center E*

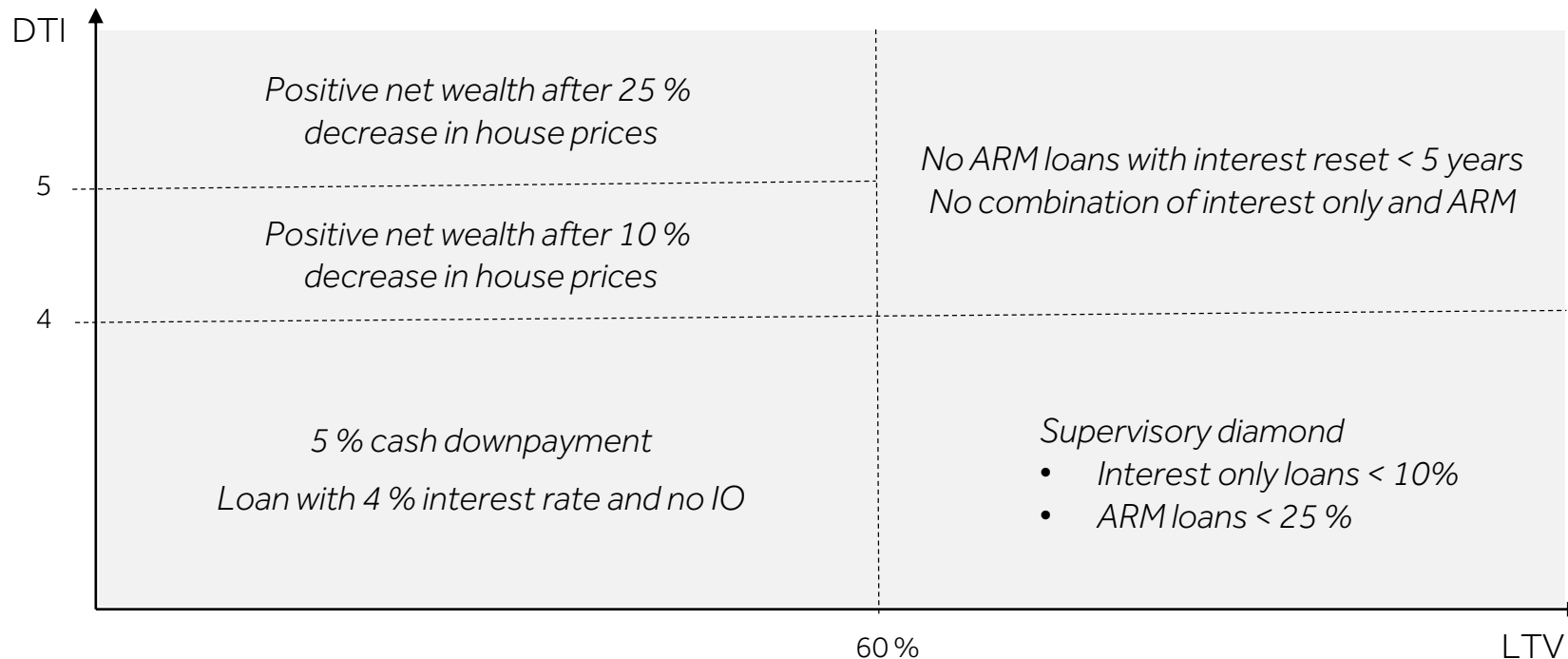
Property type	Ton CO <sub>2</sub>	Ton CO <sub>2</sub> (LTV adjusted)	Kg CO <sub>2</sub> /m <sup>2</sup>
Owner-occupied homes	334,960	205,368	22.8
Subsidised Housing	22,895	22,895	11.0
Cooperative Housing	9,903	4,519	10.1
Private rental	42,439	28,435	11.1
Office, Business, Manufacturing and Manual Industries	87,950	46,690	19.8
Other	24,272	20,964	18.2
<b>Total</b>	<b>522.420</b>	<b>328,870</b>	<b>19.1</b>

## 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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