

Jyske Realkredit A/S

Interim report H1 2021

Published 17 August 2021

Result in H1 2021

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- Pre-tax profit was DKK 473m
- Return on equity was 4.7 % p.a.
- No deterioration of credit quality from Covid-19 outbreak

H1 2021 (compared to H1 2020)

- Administration margin at stable level
- Net fee increases due to higher expenses in intra-group settlement model
- Core expenses increased with 10%
- Low level of loan impairment charges in Q2 2021

Expectations for 2021

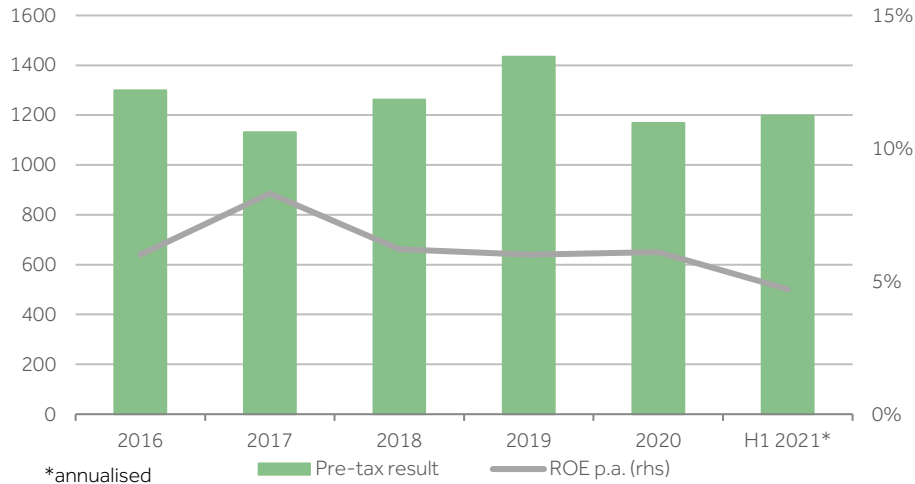
- Expect a full year result for 2021 of DKK 1.2bn – 1.4bn
- Due to possible effects from Covid-19, expectations on profit are uncertain

Core income statement (DKKm)

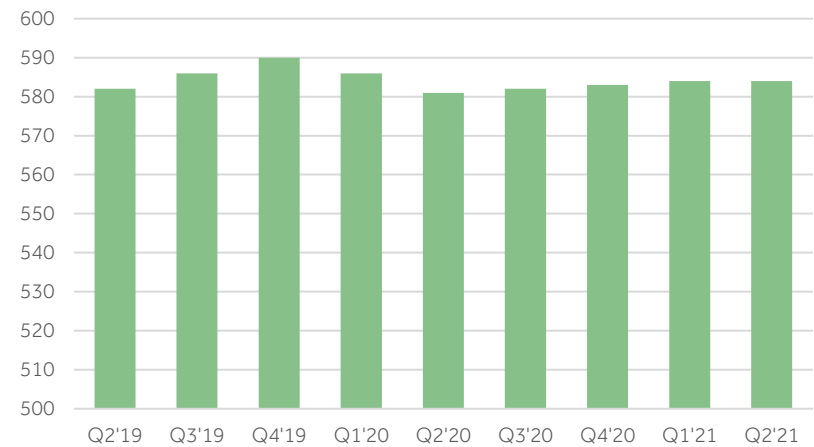
Core profit and net profit for the period	H1'21	H1'20	Index	Q2'21	Q1'21	Index
Core operations						
Administration margin, etc.	1.168	1.167	100	584	584	100
Other net interest income 1)	9	21	43	5	4	125
Net fees, charges and commission income etc.	-353	-247	143	-160	-193	83
Value adjustments	66	77	86	20	46	43
Other income	-	-	-	0	0	-
Core earnings	890	1.018	87	450	440	102
Core expenses	189	172	110	97	92	105
Core earnings before loan impairment charges etc.	701	846	83	353	348	101
Loan impairment charges etc.	102	606	17	12	90	13
Pre-tax profit	599	240	250	341	258	132
Tax	126	59	214	74	52	142
Net profit or loss for the period	473	181	261	267	206	130

Financials - selected graphs

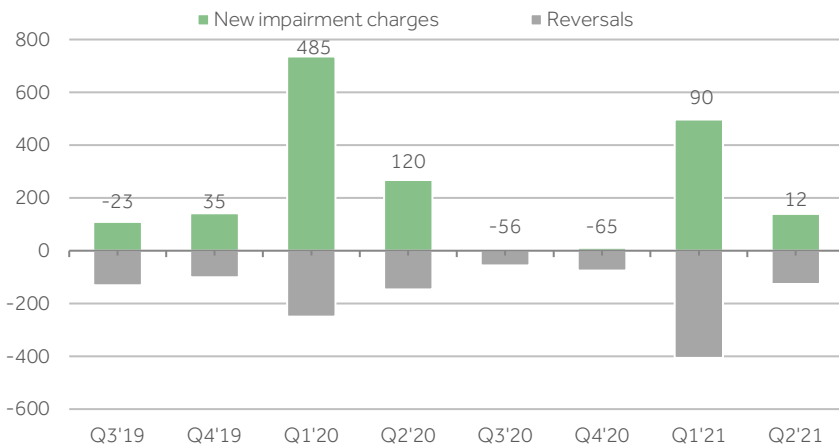
Result and return on equity



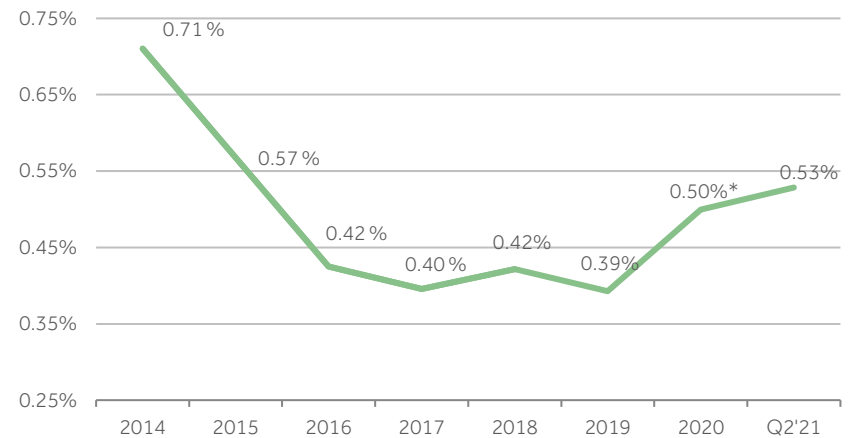
Administrative margin (DKKm)



Impairment charges and reversals (DKKm)



Balance of loan impairments in % of lending

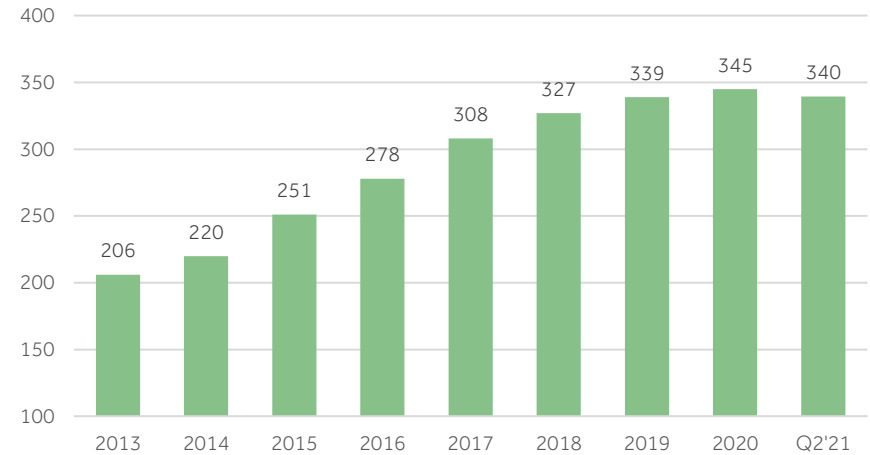


* Management adjustment of DKK 415m due to Covid-19

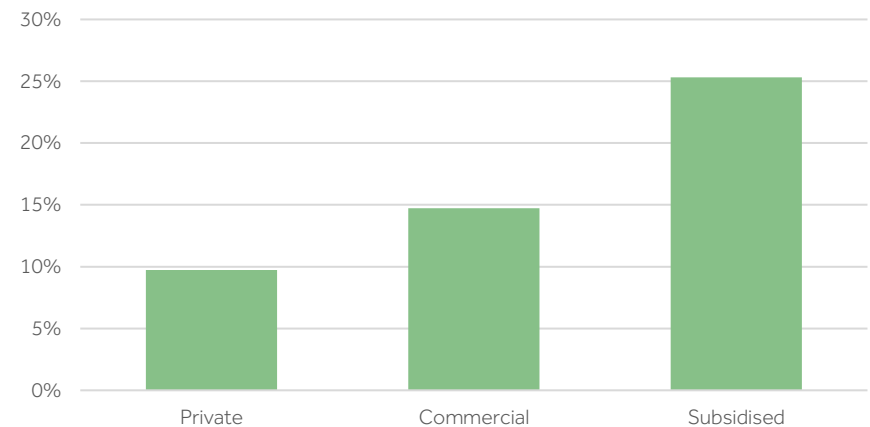
Growth in mortgage lending

- Nominal mortgage lending increased
 - Nominal mortgage lending increased with DKK 1.9bn in H1 2021
 - Decline in market value of loans due to declining bond prices
- Net growth in mortgage lending of more than 65 % since 2014
- Net growth primarily in residential segment
- Commercial and subsidised lending growing with DKK 55bn (DKK 42bn in residential properties) since beginning of 2014
- Growth in the portfolio creates larger issuances and lower funding costs
 - The proportion of level 1B series is increased

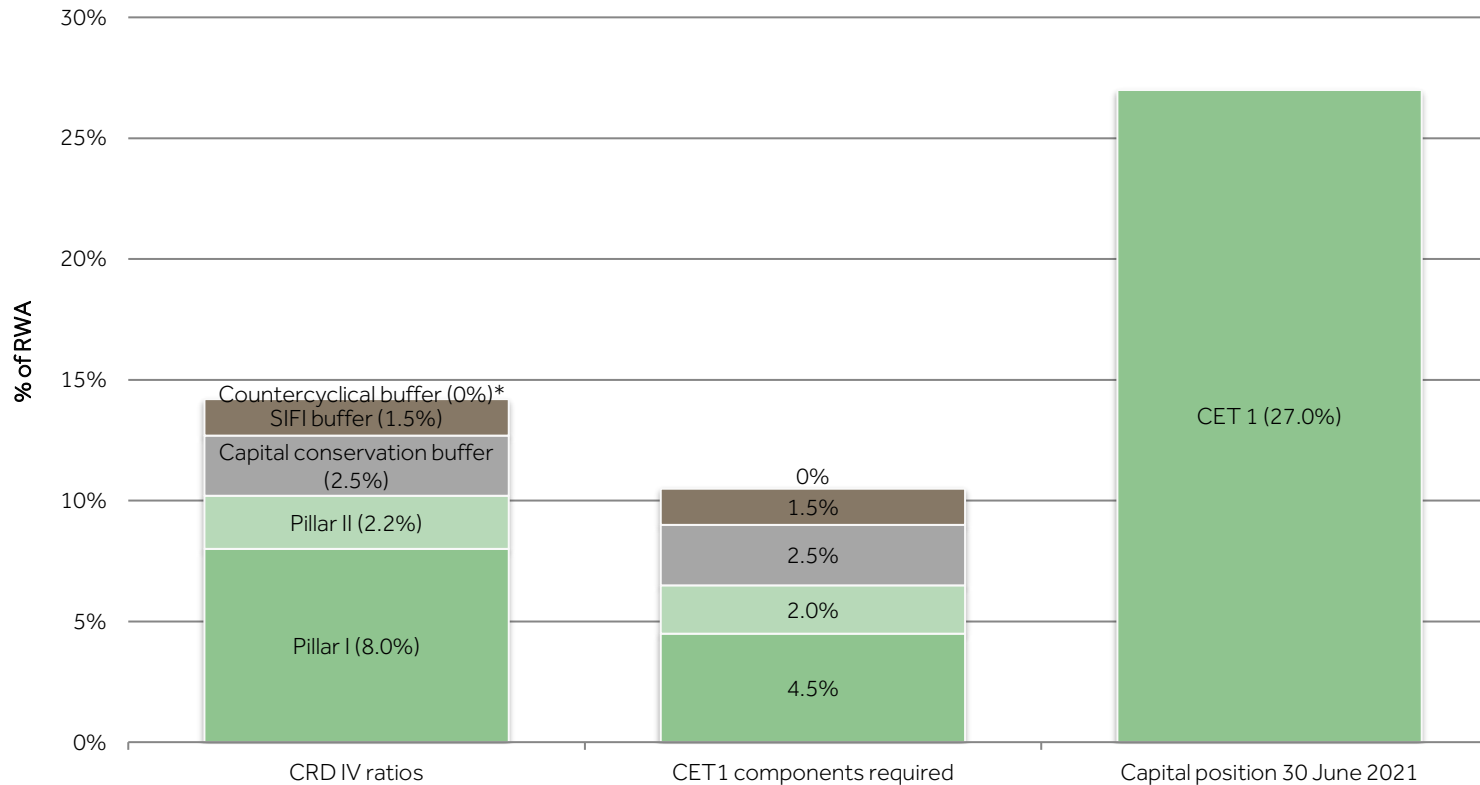
Total mortgage lending at market value (DKKbn)



Market share of mortgage market (%)



Jyske Realkredit is well capitalised

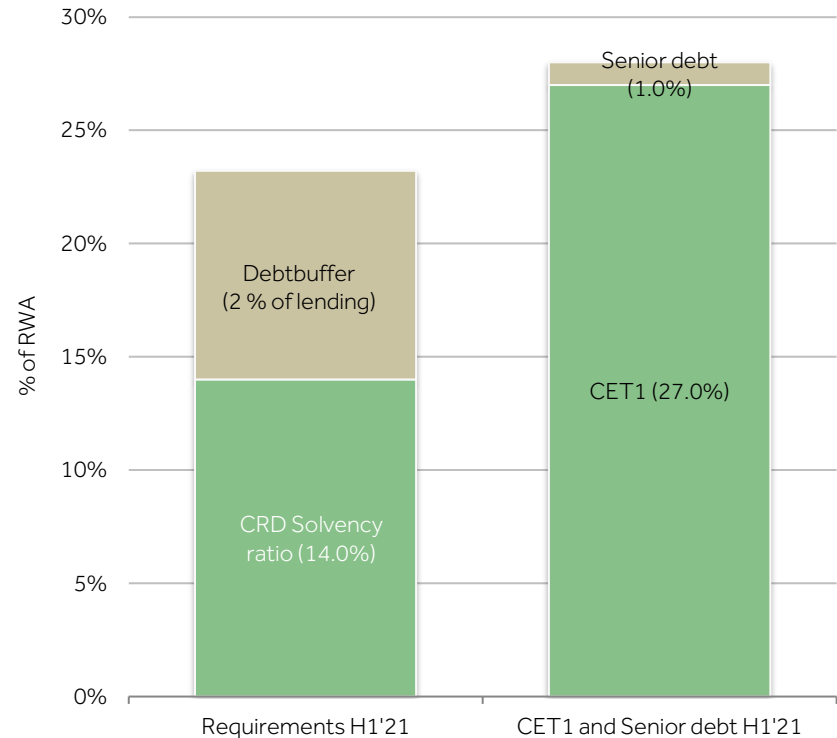


*) Countercyclical buffer set at 0.0 % in Q1 2020 due to Covid-19

- The solvency need is expected to be at 14 % at the end of 2021, of which 10.5 % should be covered with core equity
- Jyske Realkredit is compliant with the fully implemented requirement
- Growth not constrained by capital requirements

Debt buffer for Danish mortgage institutes

- MREL-debt buffer is fully implemented
- 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 2021 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 +100bn
- 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 %

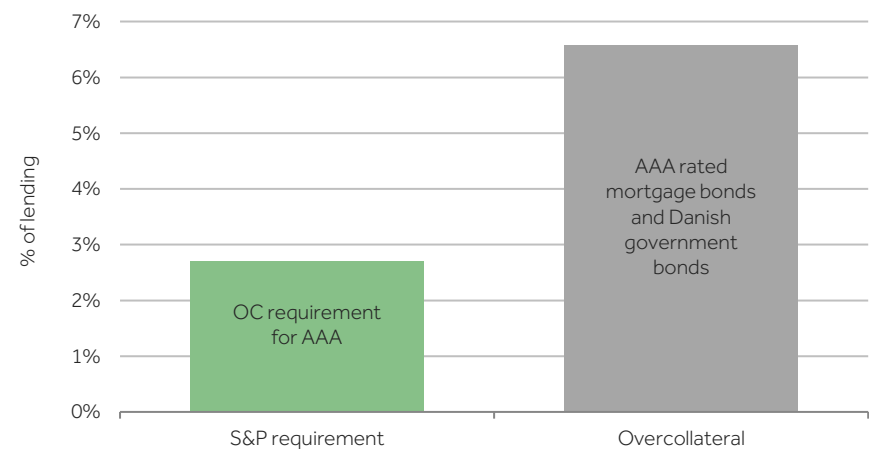
Rating Standard and Poor's

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

AAA rating requirement



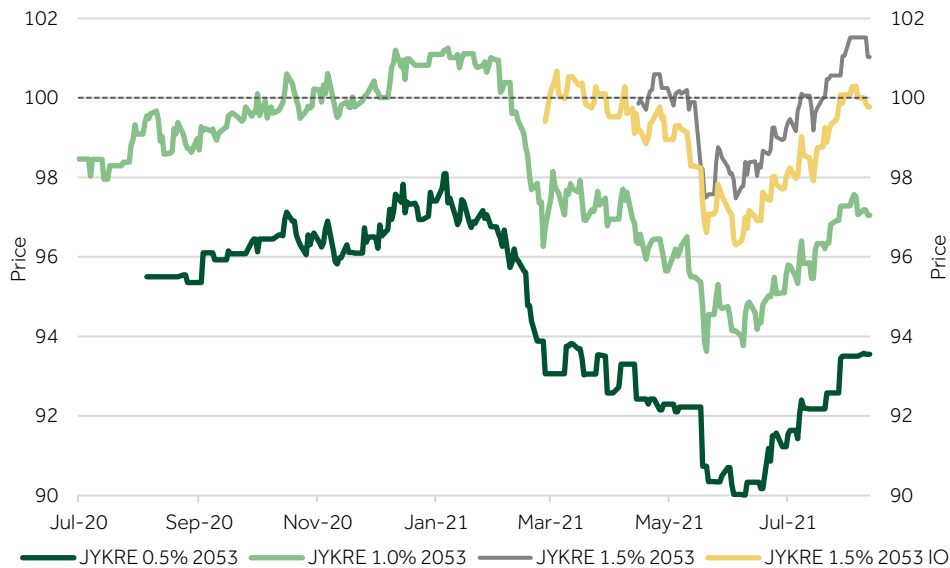
AAA rating requirement and overcollateral



Increasing bond prices in Q2 2021

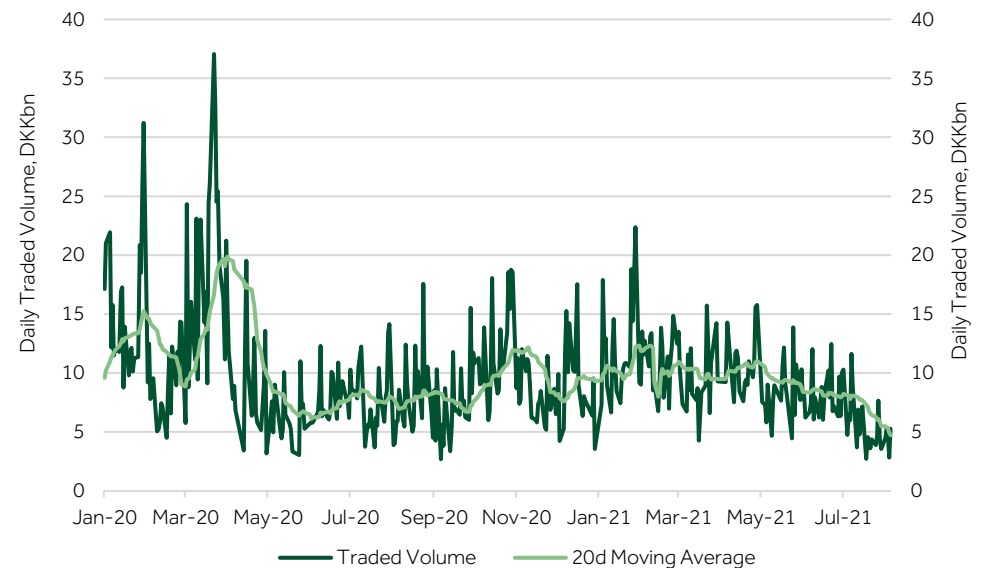
- After a year with increasing bond prices after the first outbreak of covid-19, prices dropped in Q1 2021 but has regained value in Q2 2021
- Open series for financing 30-year fixed interest mortgage loans are at beginning of August at 1.0% and 1.5% IO
- The activity in the Danish covered bond market was lower in Q1 2021 than in Q1 2020
 - Average daily traded amounts in Q2 2021 of DKK 9.0bn (Q2 2021 DKK 8.1bn)
 - Lower activity due to lower remortgage activity on the Danish mortgage market

Prices for selected Jyske Realkredit callable bonds



Source: Bloomberg

Daily traded callable DKK covered bonds 2020-2021

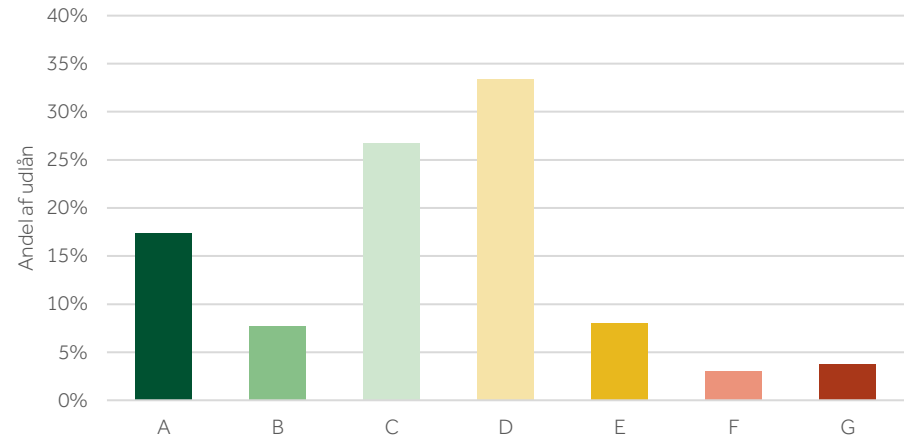


Source: Nasdaq Copenhagen

Sustainable Transparency Template

- As the first financial institution Jyske Realkredit publish Sustainable Transparency Template
- Available public information about energy labels in Denmark
- Jyske Realkredit also reports on calculated CO₂-emissions in Sustainable Transparency Template
- Calculated CO₂-emissions based on EPC
- Enables investors to follow development in CO₂-emissions in assets behind Jyske Realkredit covered bonds
- Follows the recommendation from Forum for Sustainable Finance
- From Q1 2021 the template also shows lending supporting UN Sustainable Development Goals (SDG)

Distribution of energy labels (% of total lending)



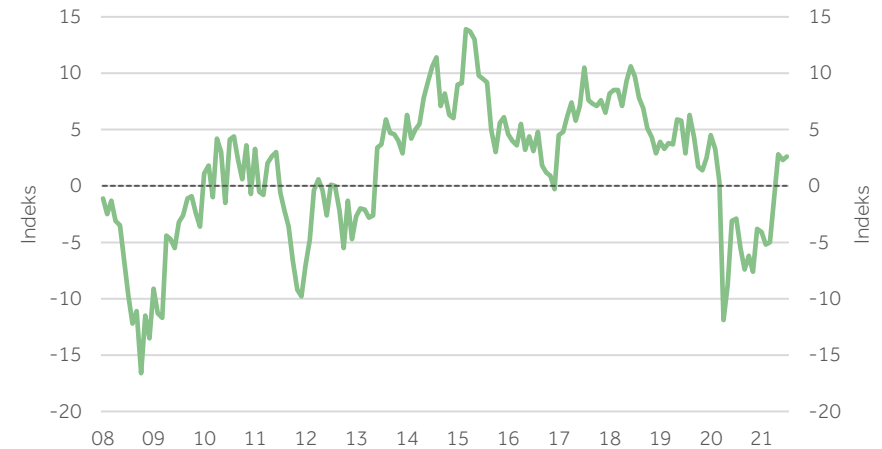
Calculated CO₂-emissions for Jyske Realkredit

Property type	Ton CO ₂ e (LTV adjusted)	Kg CO ₂ e/m ²
Owner-occupied homes	145.854	17,6
Subsidised Housing	34.170	8,5
Cooperative Housing	4.022	8,4
Private rental	24.060	8,4
Office and Business	28.745	10,6
Other	33.873	13,3
Total	270.724	13,4

Household behavior

- Most positive development in consumer expectations since outbreak of covid-19
- Increase in the financial savings of the private sector
- 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

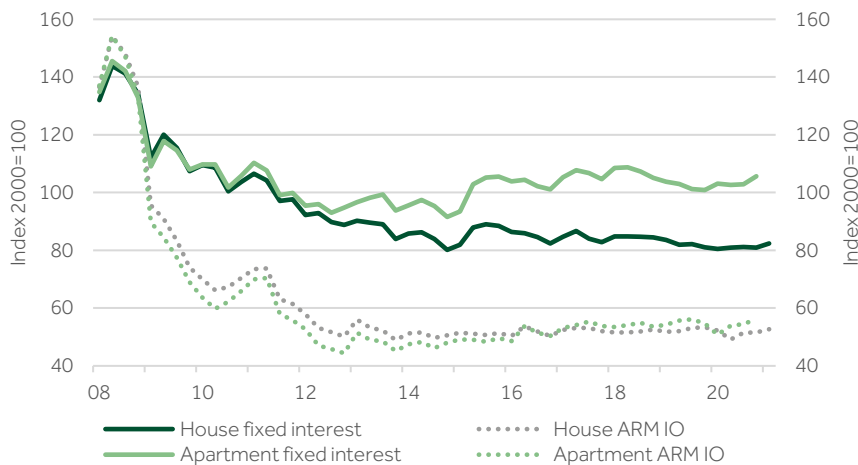
- Interest rates are historical low
- Average 30-year fixed interest rate at 1.0 %
- Housing burden also at a low level
 - Price of owning own house is low
 - Increasing property prices and decreasing interests
- Private consumers remortgage to loans with interest rate fixed until maturity and with amortization

Mortgage interests rates



Source: Association of Danish Mortgage Banks

Housing burden



Source: Jyske Realkredit

Private mortgages with IO and variable interest rate

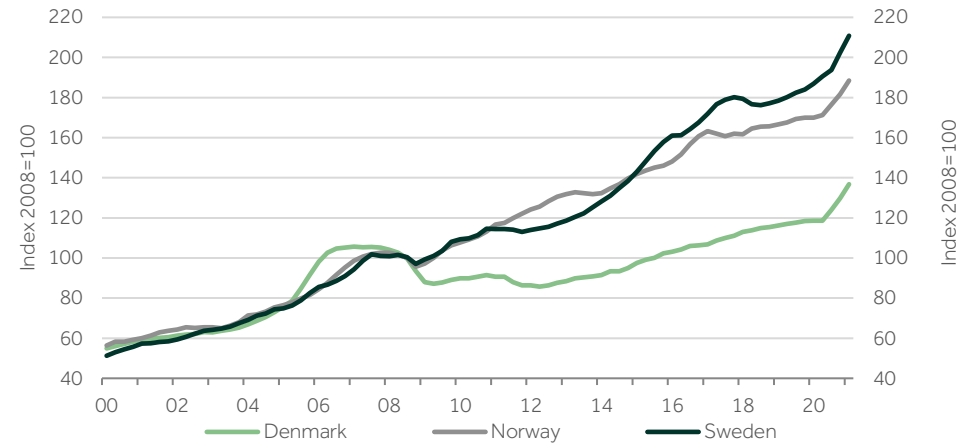


Source: Association of Danish Mortgage Banks

Danish housing market

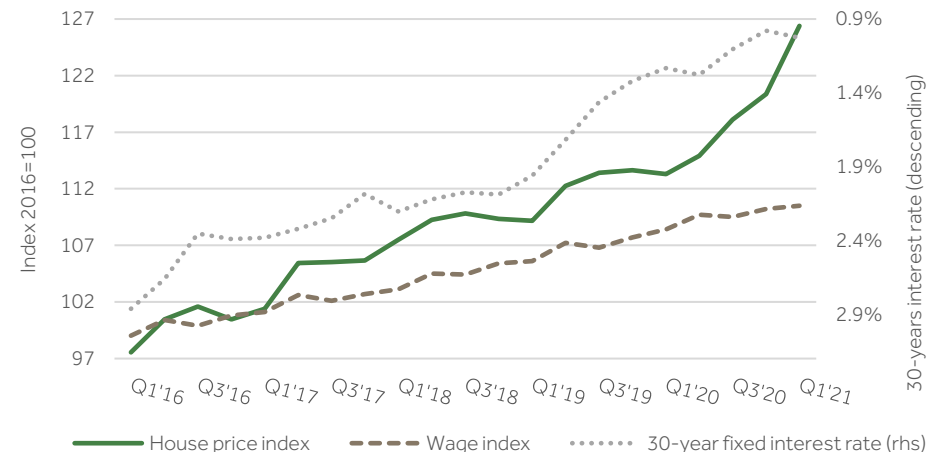
- Increasing house prices driven by high demand for rental properties
- Compared to Sweden and Norway Danish housing market has repriced
- Price increase in capital region mainly driven by apartment prices
- Growth in house prices has been following wage-growth and development in interest rates

Nordic house prices



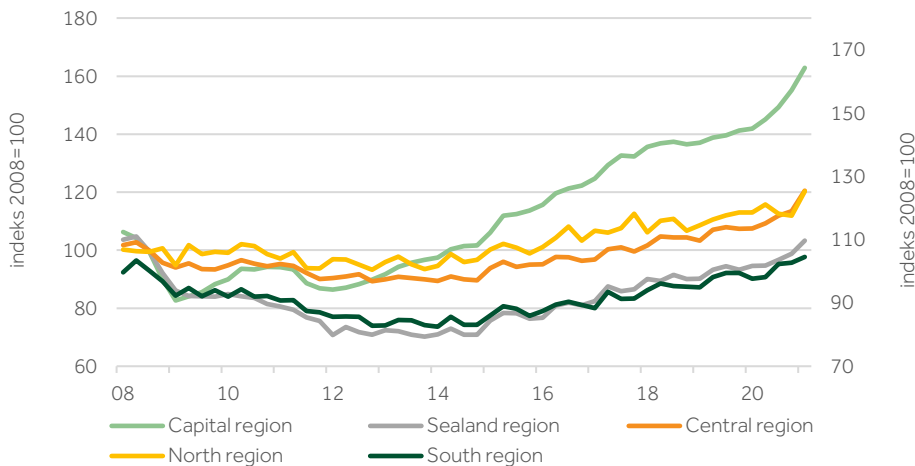
Source: OECD.Stat

Houseprices, wages and interest rate



Source: Statistics Denmark

Regional house prices in Denmark

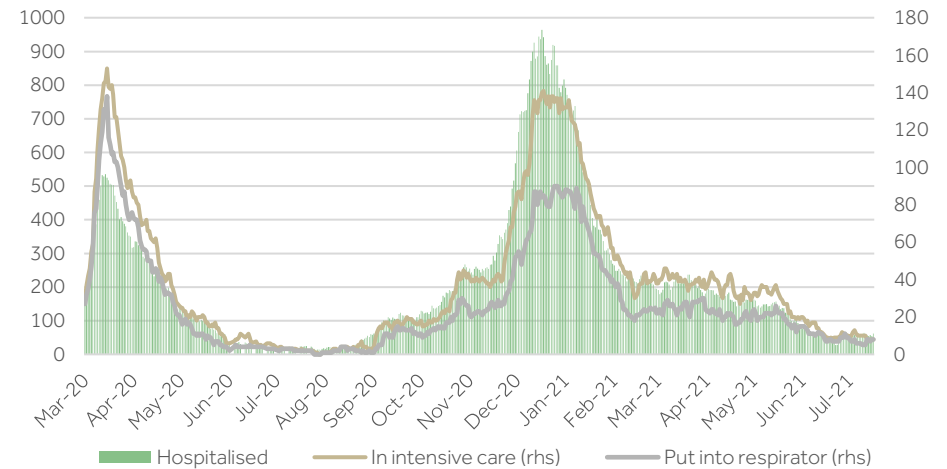


Source: Association of Danish Mortgage Banks

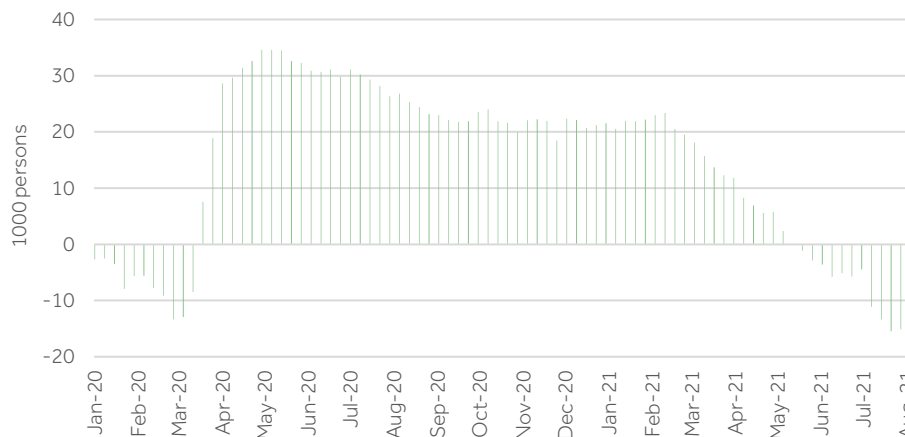
Covid-19 effects on Danish economy

- 2nd wave of Covid-19 is over for Denmark
 - After 2nd closing of Denmark we have see a positive trend in the number of hospitalized persons
- 74 % of population have been vaccinated first time
- 62 % is fully vaccinated
- Sum of unemployed persons since january 2020 is lower than average from last five years
- After reopening of Denmark, few companies expect covid-19 to have large impact on their business

Number of hospitalised persons in Denmark



Cumulative change in new unemployed persons to avg. 2015-2019



Source: Styrelse for Arbejdsmarked og Rekruttering

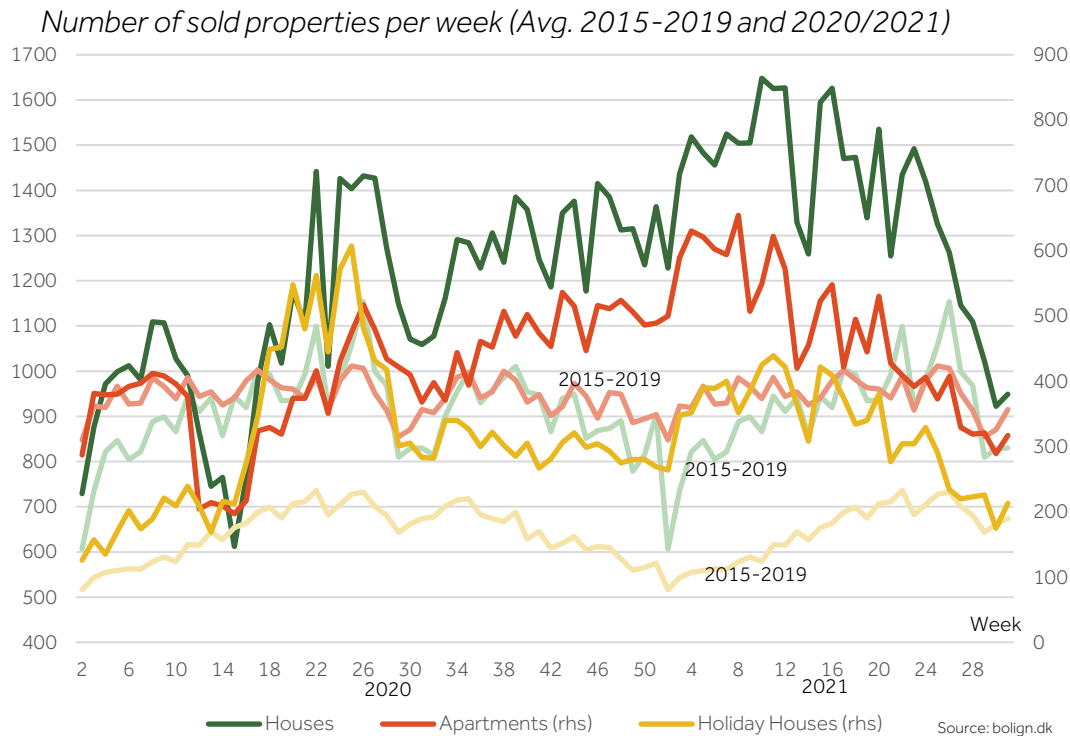
Expectations from corporates (August 2021)

Bankruptcy within 3 mth	Industri	Construction	Service	Retail
No risk	92%	91%	93%	95%
Small risk	8%	7%	6%	4%
Some risk	0%	1%	1%	1%
Large risk	0%	0%	0%	0%

Source: Statistics Denmark

Covid-19 and the Danish mortgage market

- The Danish housing market has not been 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 activity seems to be slowing down with number of sold properties close to normal in beginning of August



Changes in property prices

Property type	Change in prices 2020	Change in prices 2021 (Jan-Jul)
Houses	7.5%	9.1%
Apartments	10.3%	6.0%
Holiday houses	11.0%	16.9%

Source: bolign.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 increase in the unemployment level
 - Arrears at a very low level for both commercial and private rental
 - Limited exposure in Jyske Realkredit to the most affected sectors (restaurants, hotels, travel business)
- The situation could potentially change when helping packages stops
 - Impairments increased in Q1 2020 in Jyske Realkredit with DKK 415m as management estimate

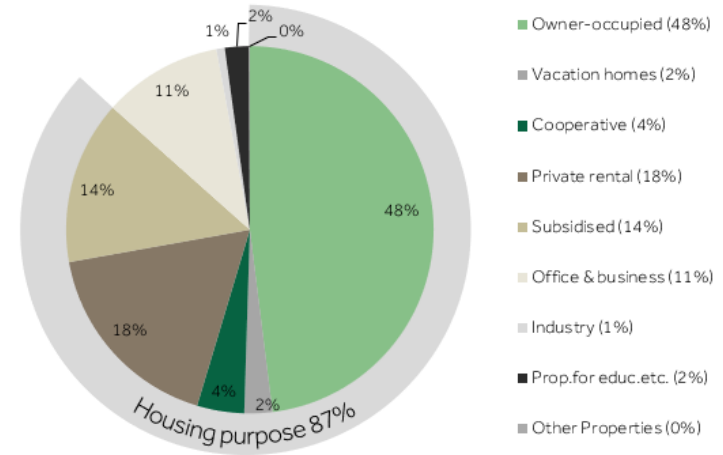
15-day arrears for Jyske Realkredit

Segment	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21
Private	1.0%	1.0%	1.0%	0.8%	0.8%	0.7%	0.7%	0.7%
Commercial	0.4%	0.7%	1.0%	0.6%	0.8%	0.5%	0.6%	0.3%
Total	0.66%	0.67%	0.80%	0.55%	0.63%	0.49%	0.55%	0.39%

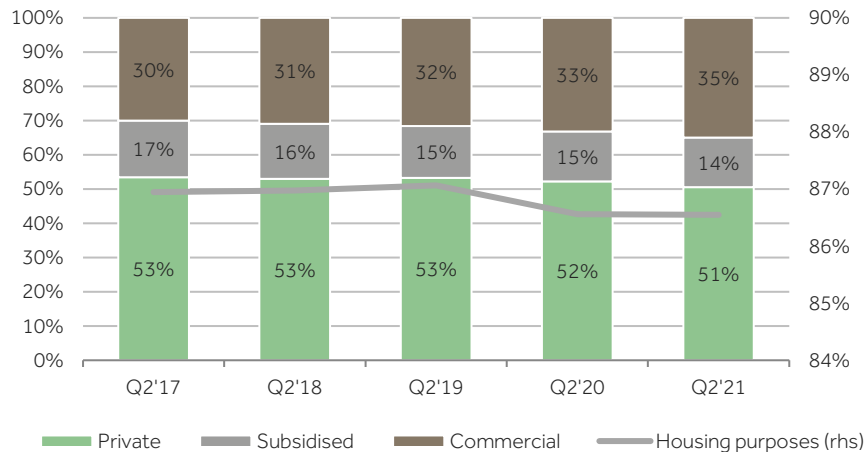
Portfolio

- 87 % of lending to properties with housing purposes
 - Majority of these to private owner-coopied properties
- 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
- Increasing proportion of interest only loans in H1 2021

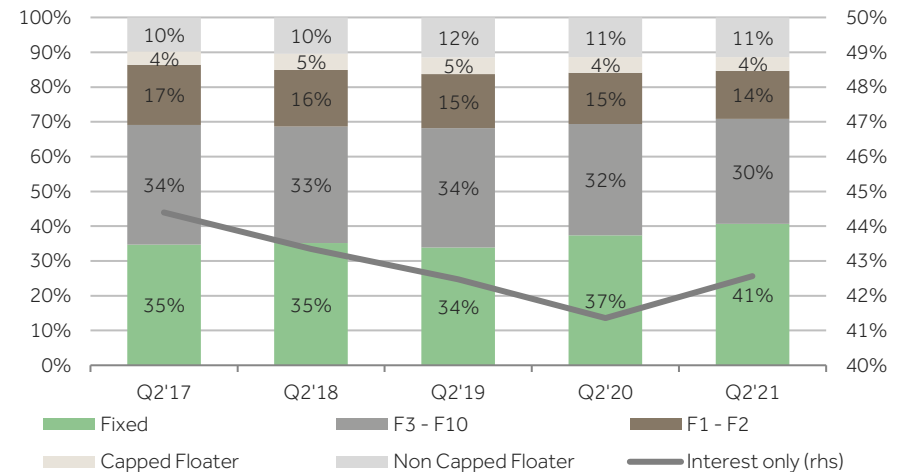
Lending portfolio



Development in lending portfolio

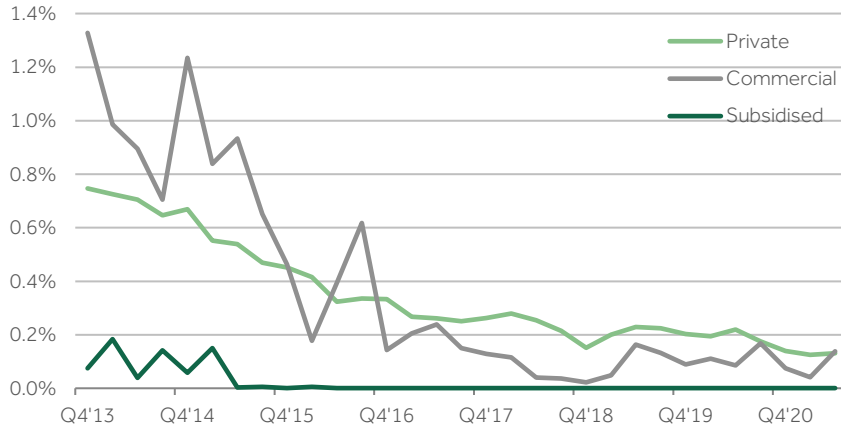


Development in loan types

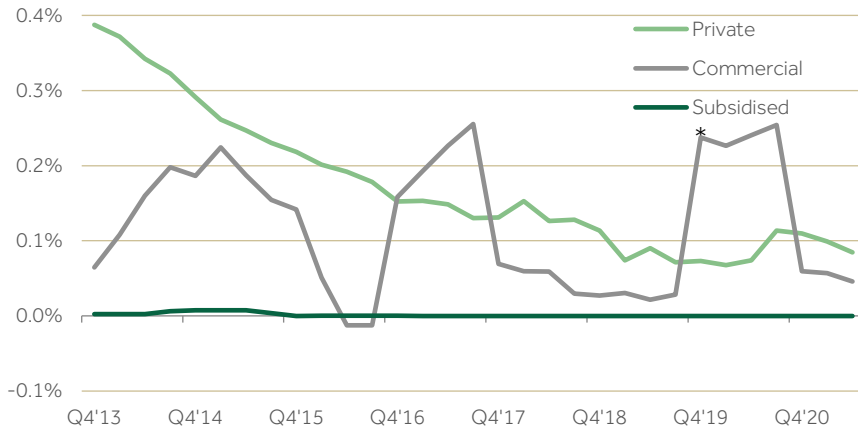


Credit quality

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

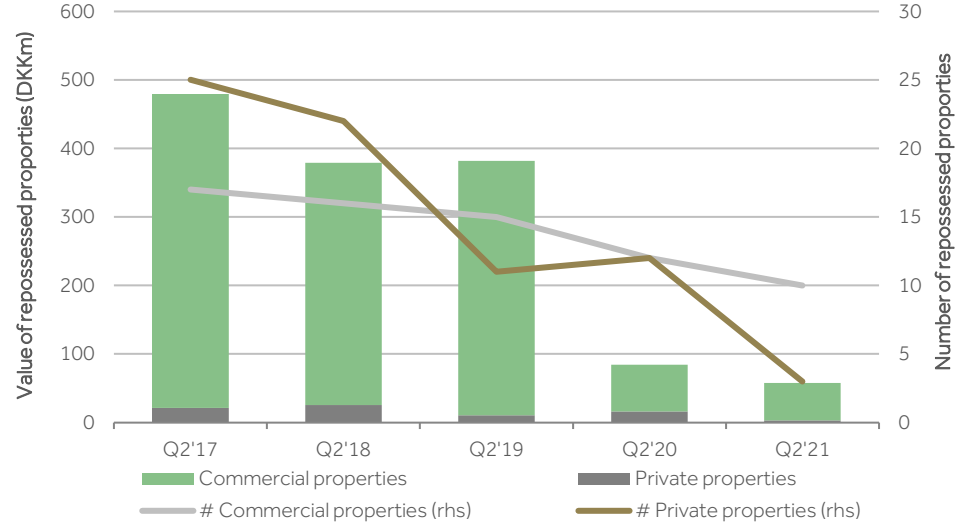


Yearly realised losses (running year)

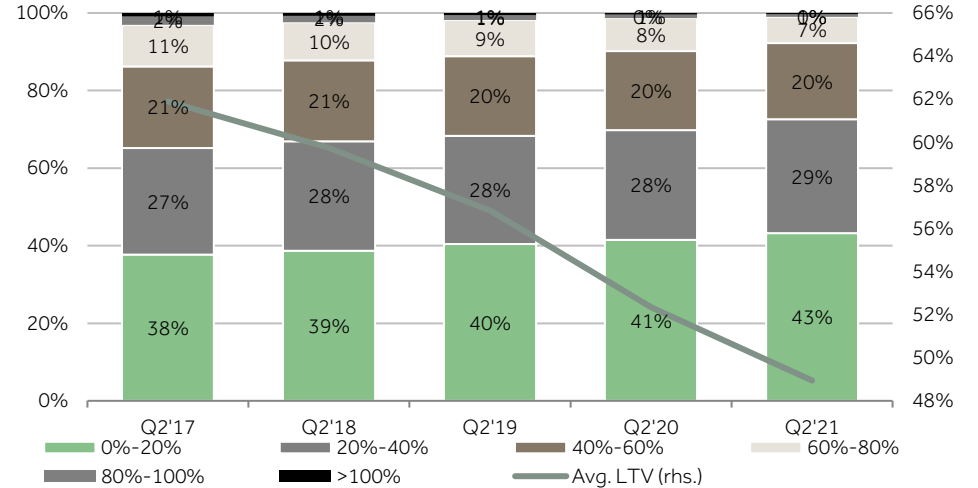


* Single commercial property – impairment charges was already taken

Reposessed properties (DKKm/number)



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 rental 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

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Appendices



First mortgage institute to open a callable bond with negative coupon

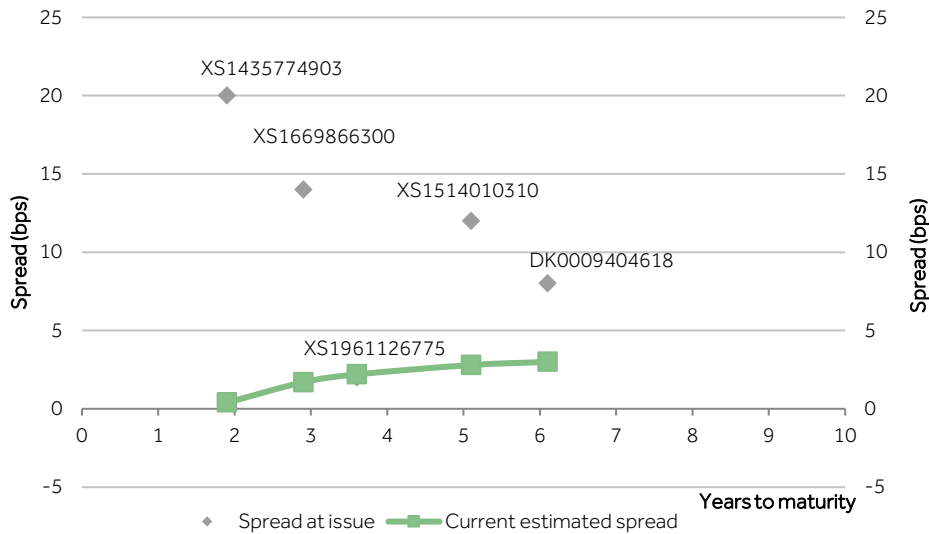
- Jyske Realkredit is the first Danish mortgage institute to open both a 10-year callable bond with a coupon of 0% and also the first to open a 10-year callable bond with a coupon of -0.5%
- The bonds are used for financing of 10-year loans with amortization
- The amortization of the bond with a negative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

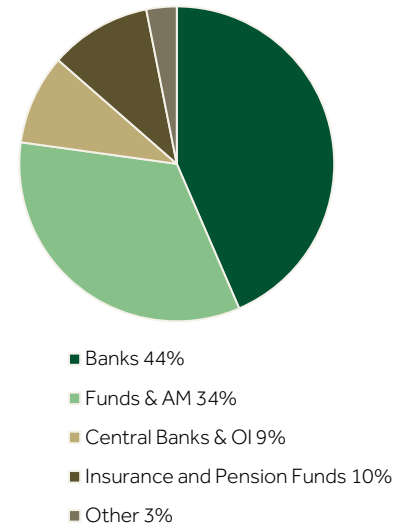
Jyske Realkredit EUR covered bonds

Jyske Realkredit EUR covered bond issuances*



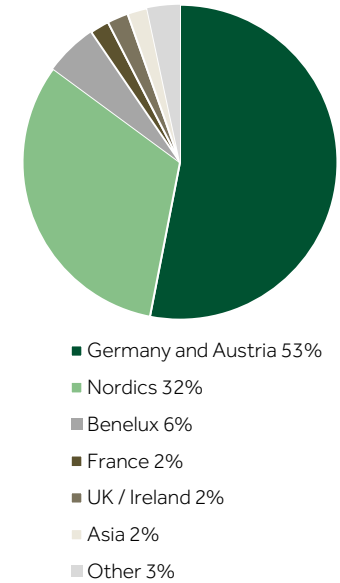
*Pricing indications mid-August 2021

Investor distribution*



*Figures are based on allocated amounts

Geographical distribution*



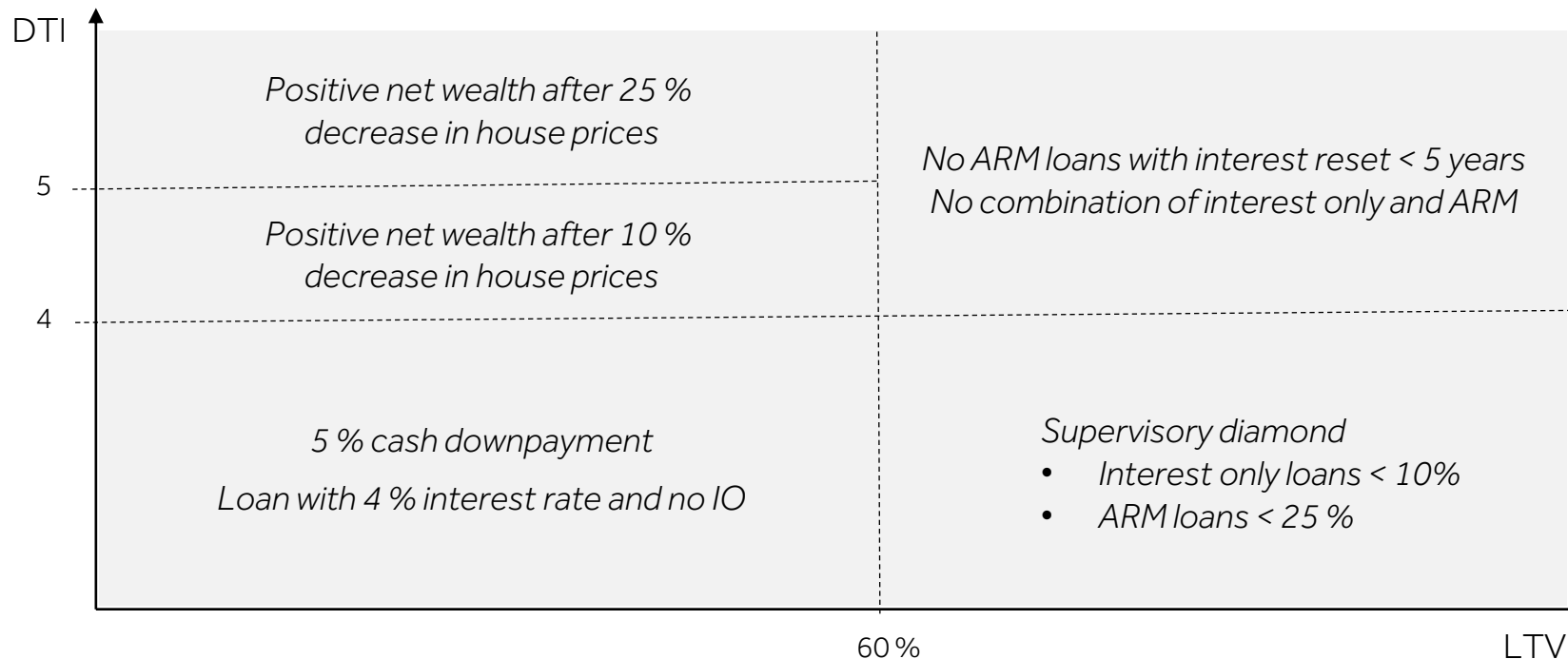
- Three first successful EUR covered bond issuances in 2016 of 5 years (EUR 500m), 7 years (EUR 750m) and 10 years (EUR 750m). One issue in August 2017 (EUR 500m) and one in March 2019 (EUR 500m)
- Latest issue in January 2021
- Large interest from a wide variety of investor from different countries
- 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



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