

# **Jyske Realkredit A/S**

**Interim report Q1 2022**

Published 3 May 2022

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## Result Q1 2022

### Result in Q1 2022

- Pre-tax profit was DKK 393m
- Return on equity was 5.9 % p.a.
- No deterioration of credit quality from Covid-19 outbreak or war in Ukraine

### Q1 2022 (compared to Q1 2021)

- Administration margin at stable level
- Net fee increases due to higher expenses in intra-group settlement model
- Core expenses increased with 9%
- Low level of loan impairment charges in Q1 2022 and Q4 2021

### Expectations for 2022

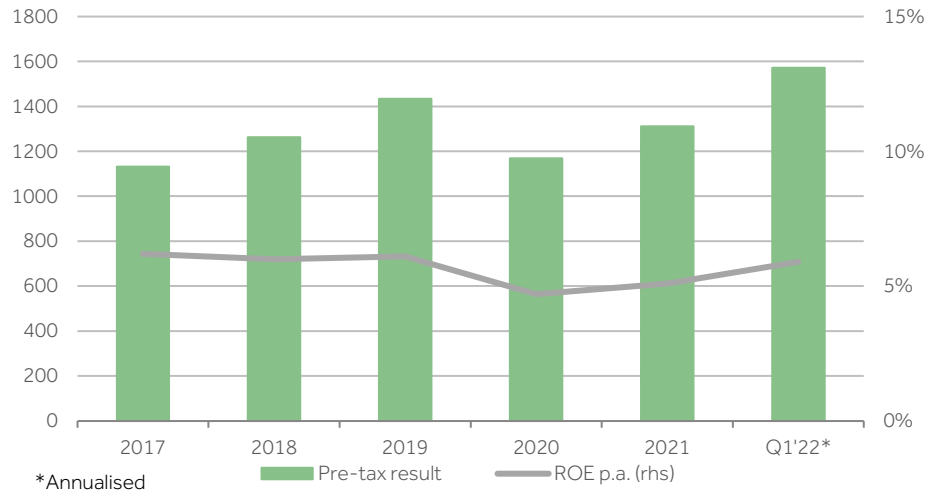
- Expect a full year result for 2022 of DKK 0.9bn – 1.1bn

### Core income statement (DKKm)

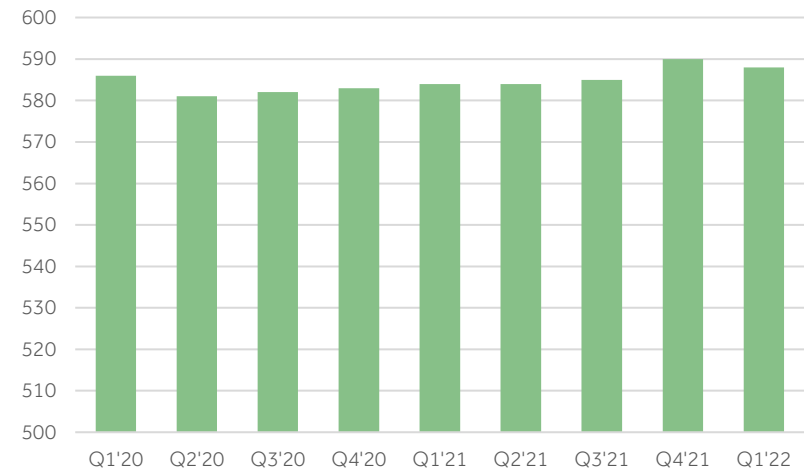
Core profit and net profit for the period	Q1'22	Q1'21	Index 22/21	Q1'22	Q4'21	Index q/q
<b>Core operations</b>						
Administration margin, etc.	588	584	101	588	590	100
Other net interest income 1)	-2	4	-56	-2	3	-
Net fees, charges and commission income etc.	-121	-193	63	-	-172	70
Value adjustments	-9	46	-	-9	34	486
Other income	-	-	-	-	-	-
<b>Core earnings</b>	<b>456</b>	<b>440</b>	<b>104</b>	<b>456</b>	<b>456</b>	<b>100</b>
Core expenses	100	92	109	100	99	101
<b>Core earnings before loan impairment charges etc.</b>	<b>356</b>	<b>348</b>	<b>102</b>	<b>356</b>	<b>357</b>	<b>100</b>
Loan impairment charges etc.	-37	90	-	-37	-49	76
<b>Pre-tax profit</b>	<b>393</b>	<b>258</b>	<b>152</b>	<b>393</b>	<b>407</b>	<b>97</b>
Tax	86	52	165	86	89	97
<b>Net profit or loss for the period</b>	<b>307</b>	<b>206</b>	<b>149</b>	<b>307</b>	<b>317</b>	<b>97</b>

## Financials - selected graphs

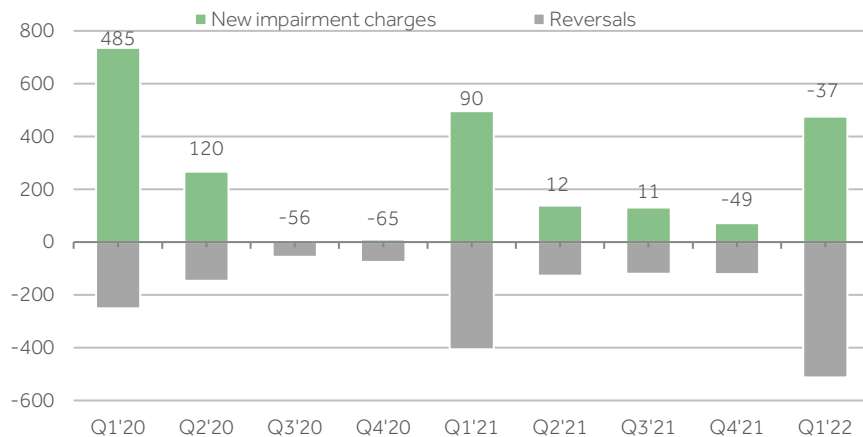
Result and return on equity



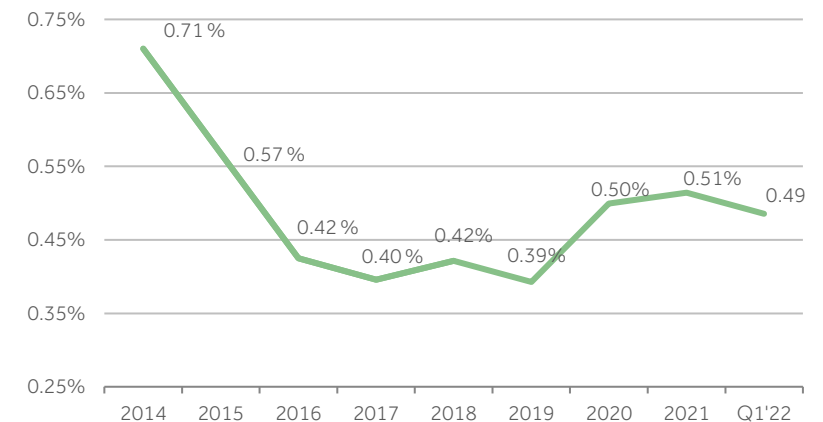
Administrative margin (DKK m)



Impairment charges and reversals (DKK m)



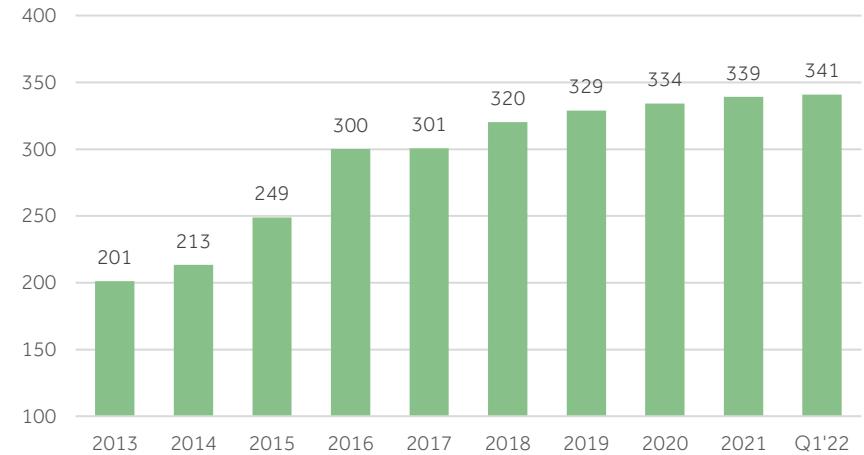
Balance of loan impairments in % of lending



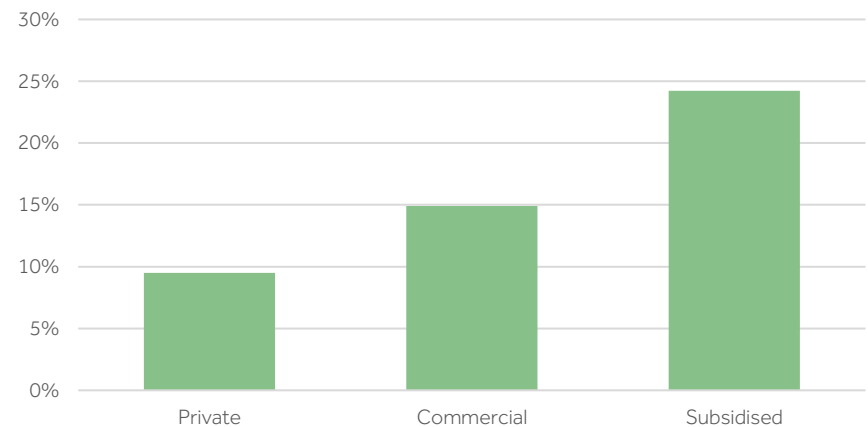
## Growth in mortgage lending

- Nominal mortgage lending increased
  - Nominal mortgage lending increased with DKK 2.2bn in Q1 2022
  - 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

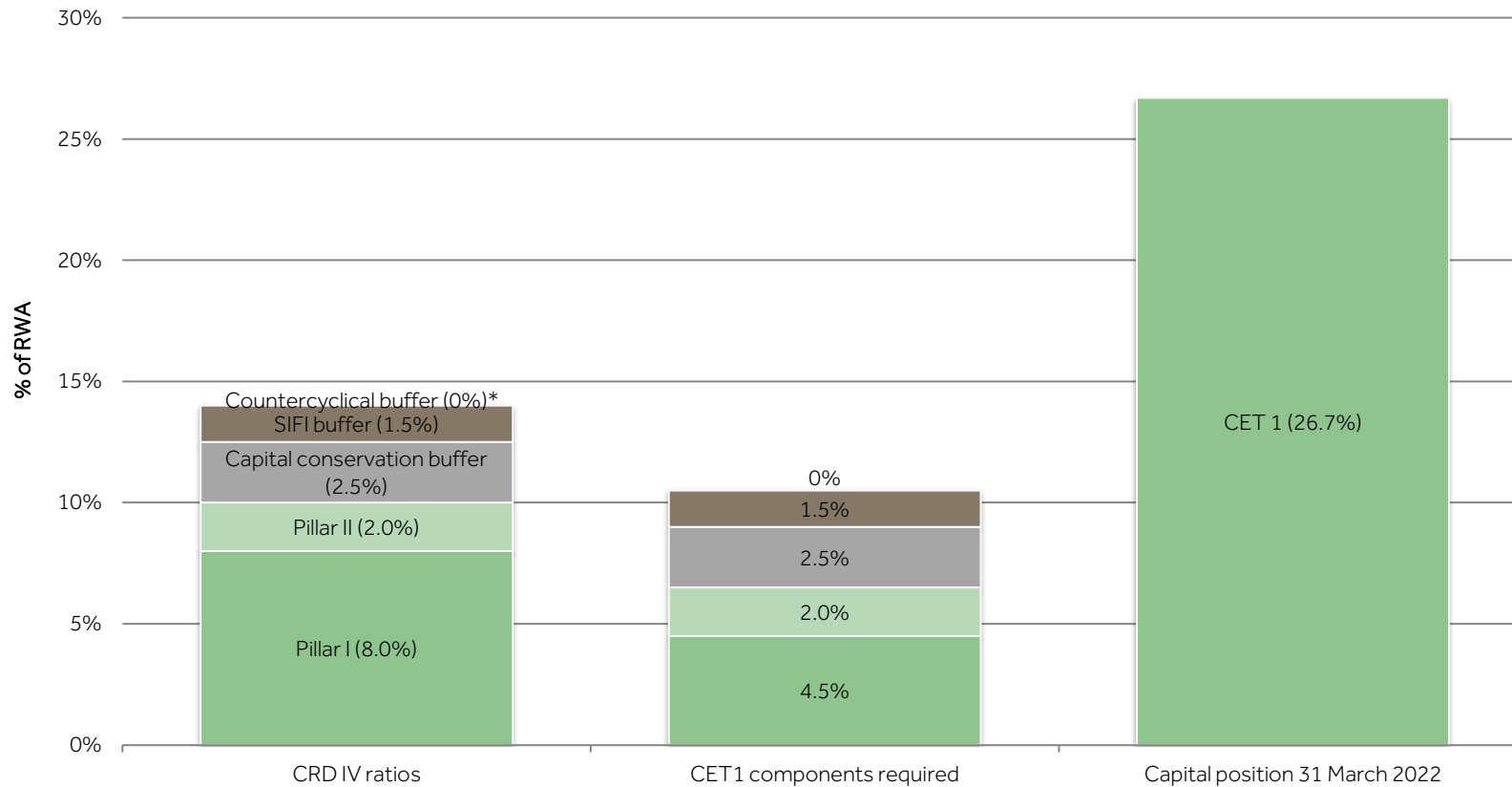
Total mortgage lending at nominal value (DKKbn)



Market share of mortgage market (%)



# Jyske Realkredit is well capitalised

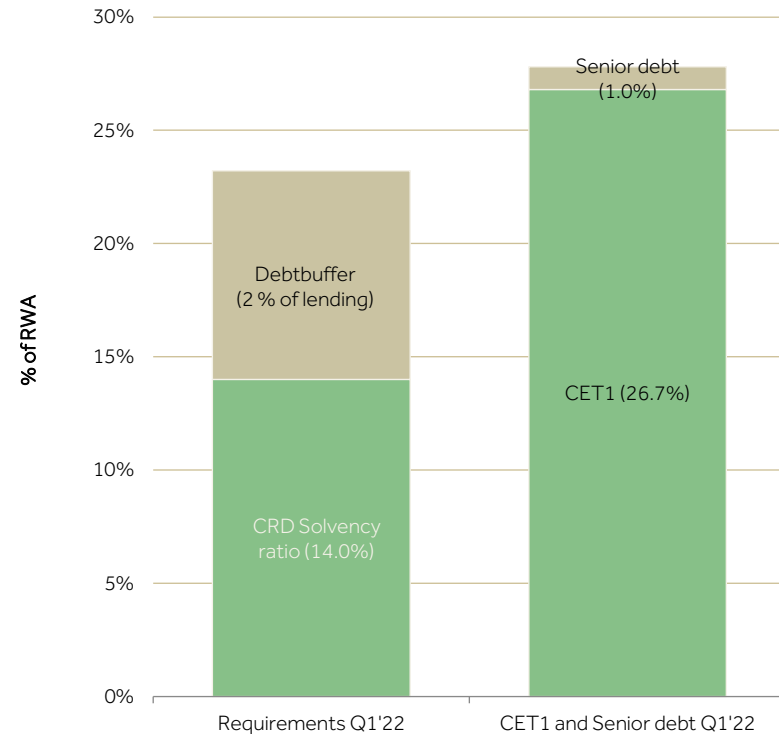


\*) Countercyclical buffer set at 0.0% in Q1 2020 due to Covid-19. It is expected to change to 1% from 30 September 2022 and 2% from 31 December 2022.

- The solvency need is at 14 % at the end of Q1 2022, 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 Q1 2022 with CET1 and senior debt



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

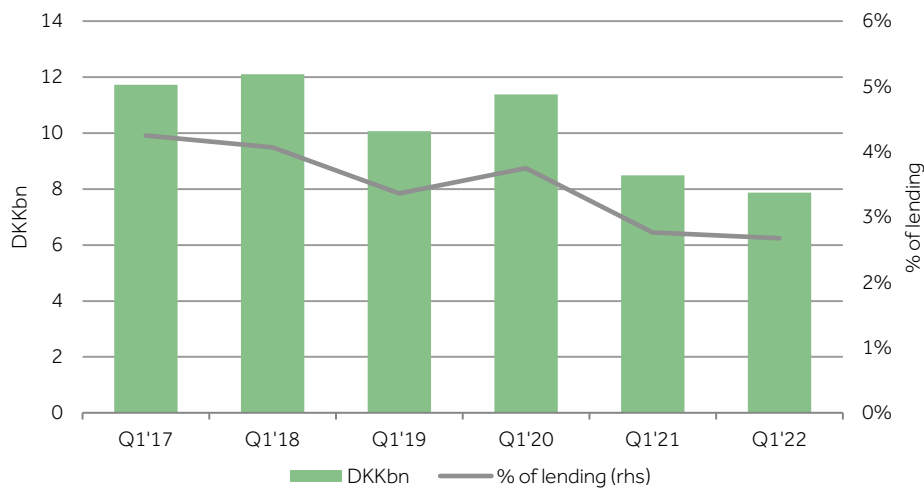
# Rating

- 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 %

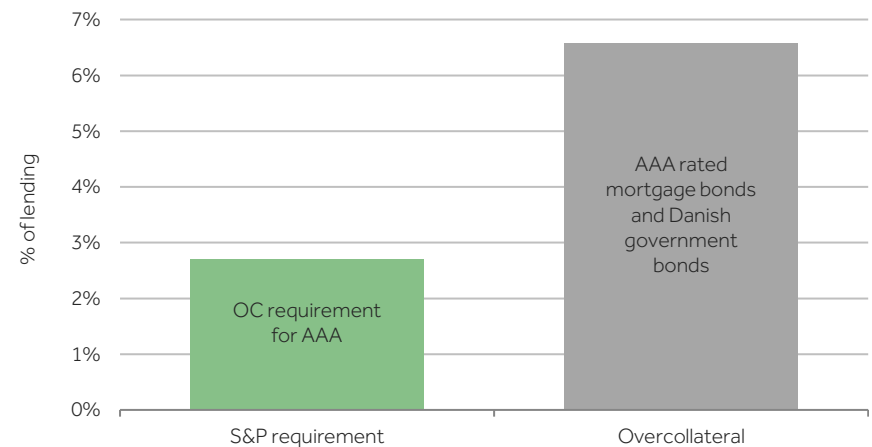
## Rating Standard and Poor's

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

AAA rating requirement



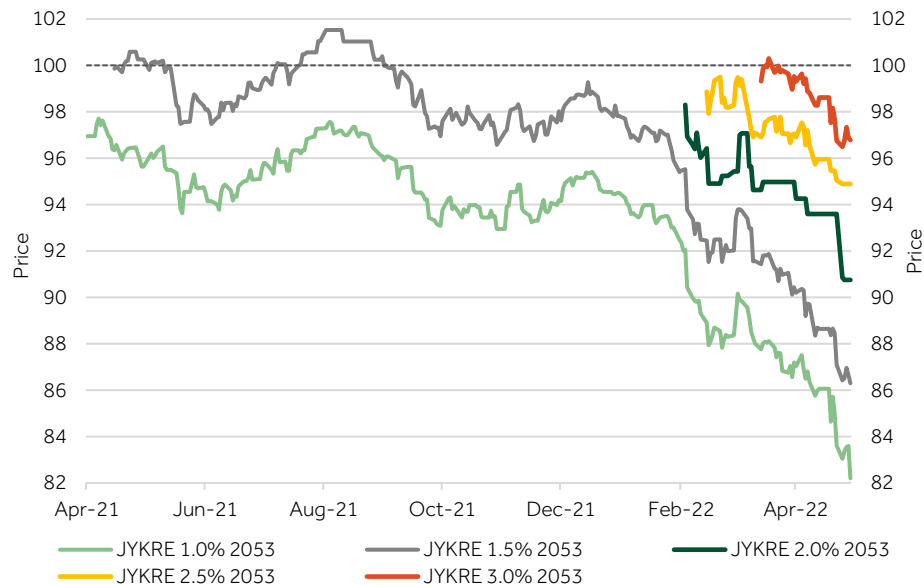
AAA rating requirement and overcollateral



## Decreasing bond prices in Q1 2022

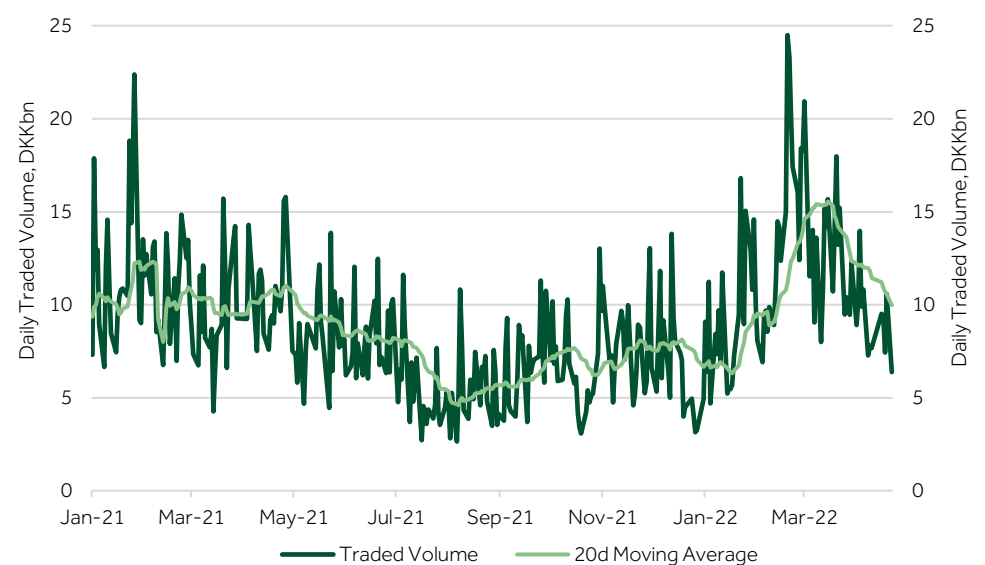
- After a year with increasing bond prices after the first outbreak of covid-19, prices decreased in 2021, regained value in Q2 2021 and dropped again
- Open series for financing 30-year fixed interest mortgage loans are at end of April 2022 at 3.0% and 3.5% 10YIO and 4.0% 30YIO
- The activity in the Danish covered bond market was higher in Q1 2022 than in Q1 2021
  - Average daily traded amounts in Q1 2022 of DKK 11.7bn (Q4 2020 DKK 10.9bn)
  - Higher activity due to higher remortgage activity on the Danish mortgage market

Prices for selected Jyske Realkredit callable bonds



Source: Bloomberg

Daily traded callable DKK covered bonds 2021-2022



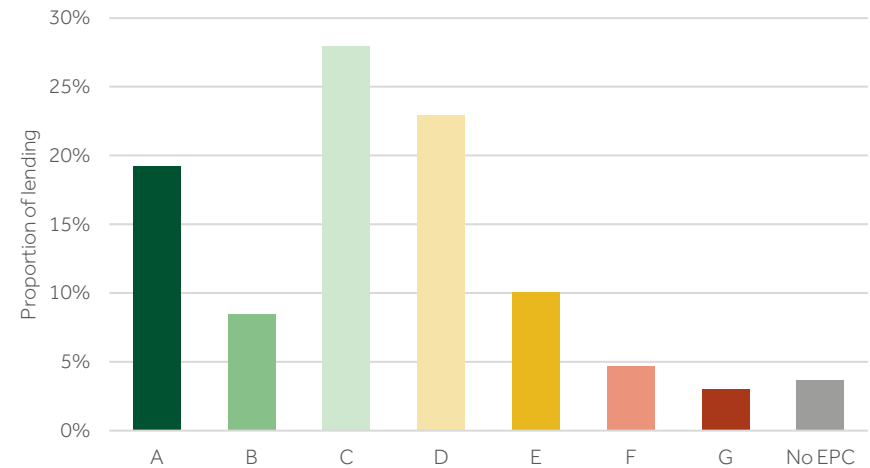
Source: Nasdaq Copenhagen



# Sustainable Transparency Template

- As the first financial institution Jyske Realkredit publish Sustainable Transparency Template
- Investors can follow the development over time and compare to other institutes
- From Q1 2021 the template also shows lending supporting UN Sustainable Development Goals (SDG)
- From Q4 2021 the tamplate also reports on lending in compliant with technical screening criteria of EU Taxonomy
- From end-2021 sustainability also included in financial reporting for Jyske Realkredit
- External audit has verified data published on sustainability

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



*Lending supporting UN SDGs*

Property type	SDG	Lending (DKKm)	Prop. of lending
Renewable energy	7.2	1,116	0.3%
Green buildings	7.3, 9.4	88,234	25.9%
Social housing	11.3	30,493	8.9%
<b>Total</b>		<b>119,483</b>	<b>35.1%</b>

## Reporting on CO<sub>2</sub> emissions

- Jyske Realkredit also reports CO<sub>2</sub> emissions in Sustainable Transparency Template
- Calculated CO<sub>2</sub> emissions are based on EPCs and type of heating source
- Gives the investor a possibility to follow the development in CO<sub>2</sub> emissions in lending behind covered bonds from Jyske Realkredit
- Follows the recommendations from Forum for Sustainable Finance

### *CO<sub>2</sub>e emissions for Jyske Realkredit*

Property type	Ton CO <sub>2</sub> e (LTV adjusted)	Kg CO <sub>2</sub> e/m <sup>2</sup>
Owner-occupied homes	112.589	15,4
Subsidised Housing	33.168	7,3
Cooperative Housing	5.248	7,4
Private rental	24.112	7,0
Office, Business, Manufacturing	41.930	13,1
Other	11.573	8,7
<b>Total</b>	<b>228.620</b>	<b>10,7</b>

# It is becoming more expensive to live in Denmark

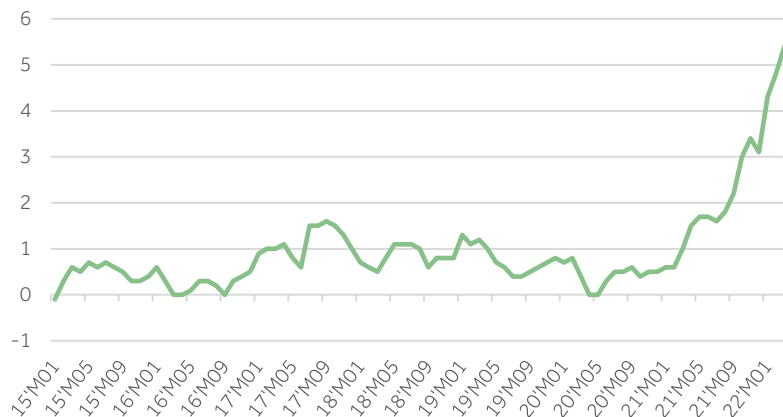
- Interest rates are increasing, but are still at a relatively low level
  - 30-year fixed mortgage interest rate at 3%
- Consumer prices are increasing significantly
- Much of this increase is driven by increasing energy prices
- 25 % of private residential properties in Jyske Realkredit are heated by natural gas...
  - ... and 46% are heated by central heating

Average interest rates on mortgage loans



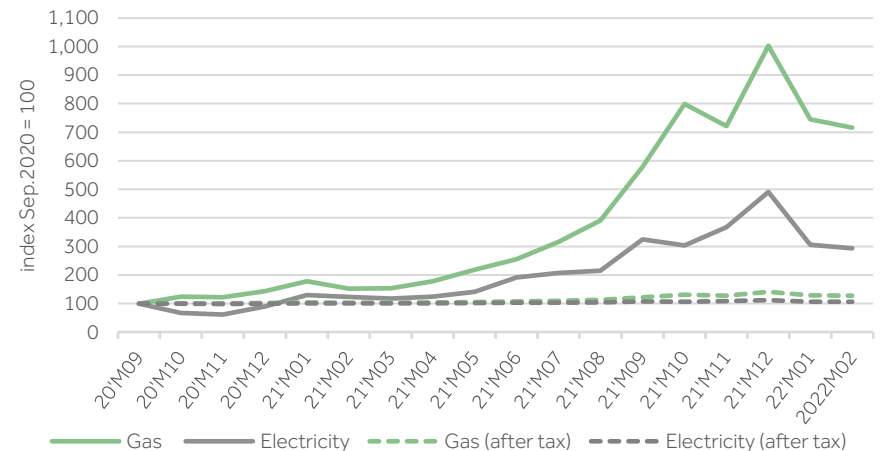
Source: Statistics Denmark

Consumer prices development %, y/y



Source: Statistics Denmark

Price on gas and electricity for Danish households

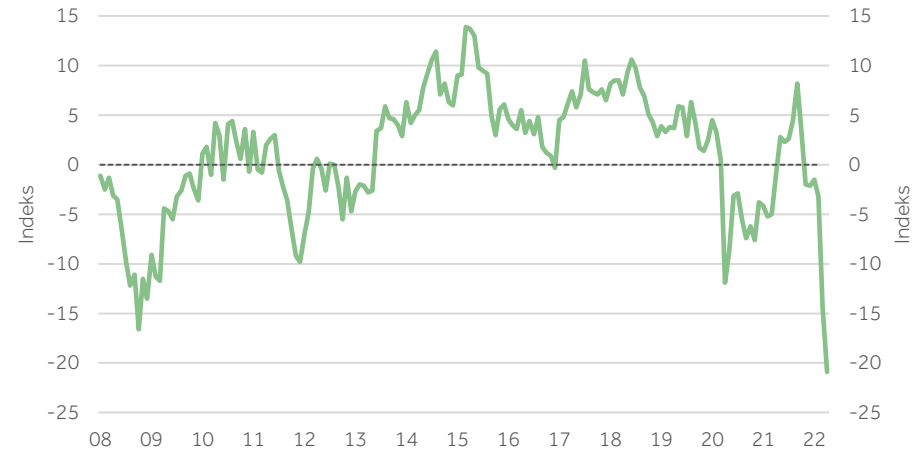


Source: Statistics Denmark

# Household behavior

- Large drop in consumer expectations in Q1 2022
  - Below level of the financial crisis
- Still high financial savings in 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

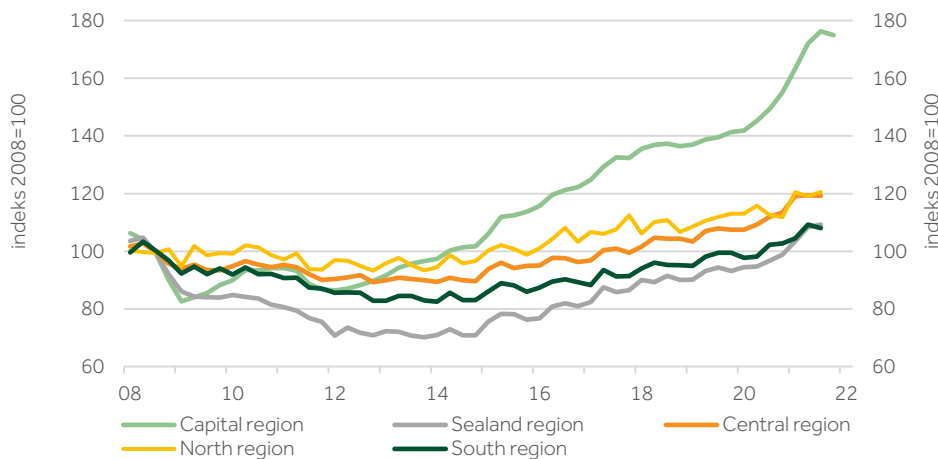
Household gross debt



# Danish housing market

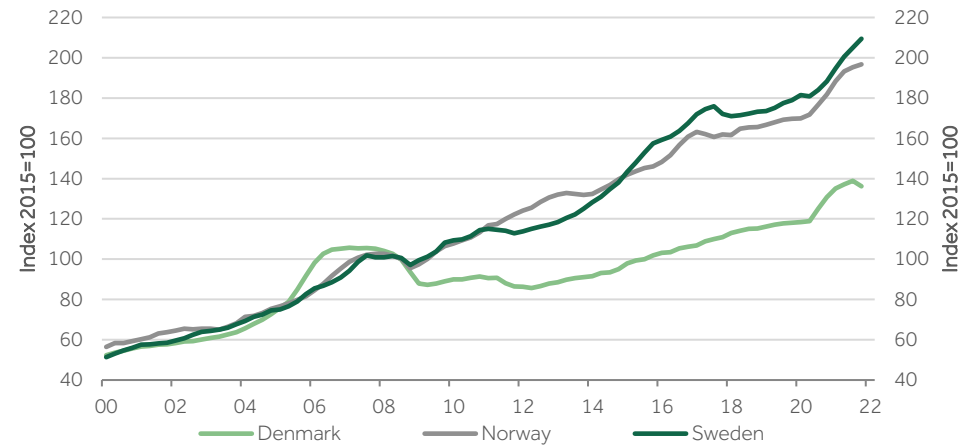
- Increasing house prices driven by high demand for properties
- Compared to Sweden and Norway prices on Danish housing market hasn't grown with same pace
- Price increase in capital region mainly driven by apartment prices
- Growth in house prices has been until recently following wage-growth and development in interest rates
- Housing market has not yet reacted to increasing interest rates

*Regional house prices in Denmark*



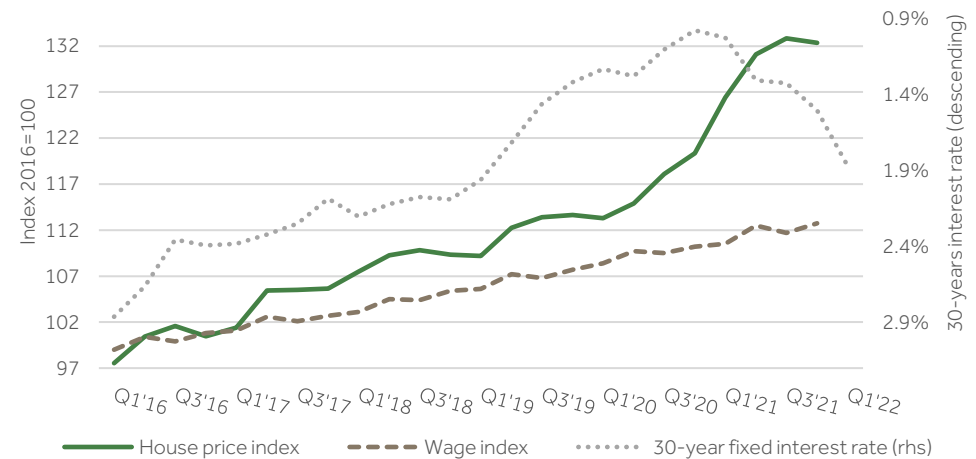
Source: Association of Danish Mortgage Banks

*Nordic house prices*



Source: OECD.Stat

*Houseprices, wages and interest rate*

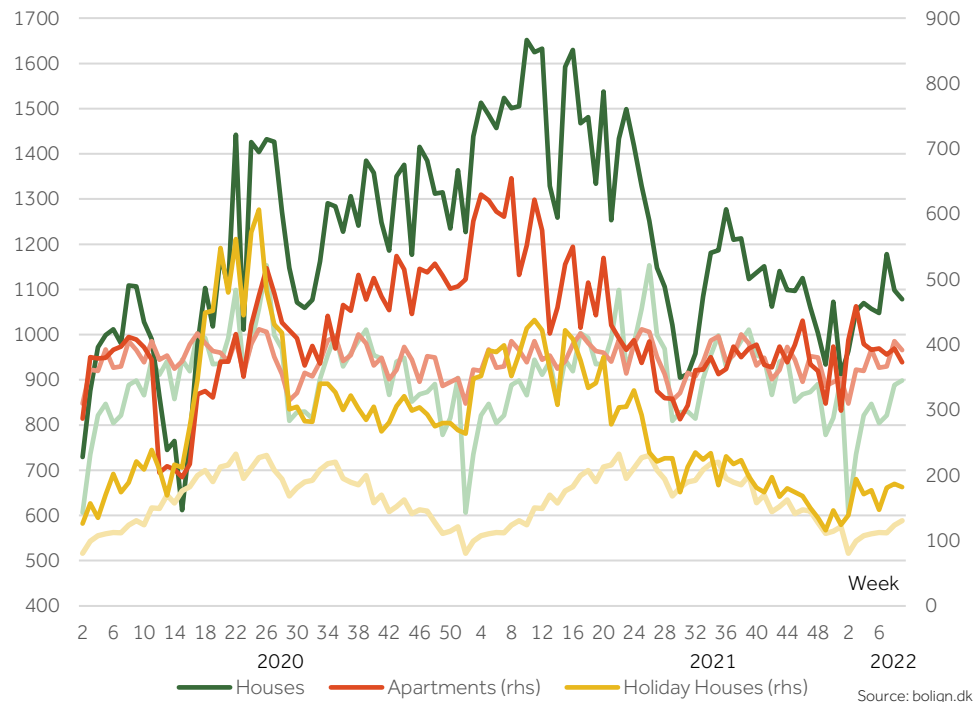


Source: Statistics Denmark

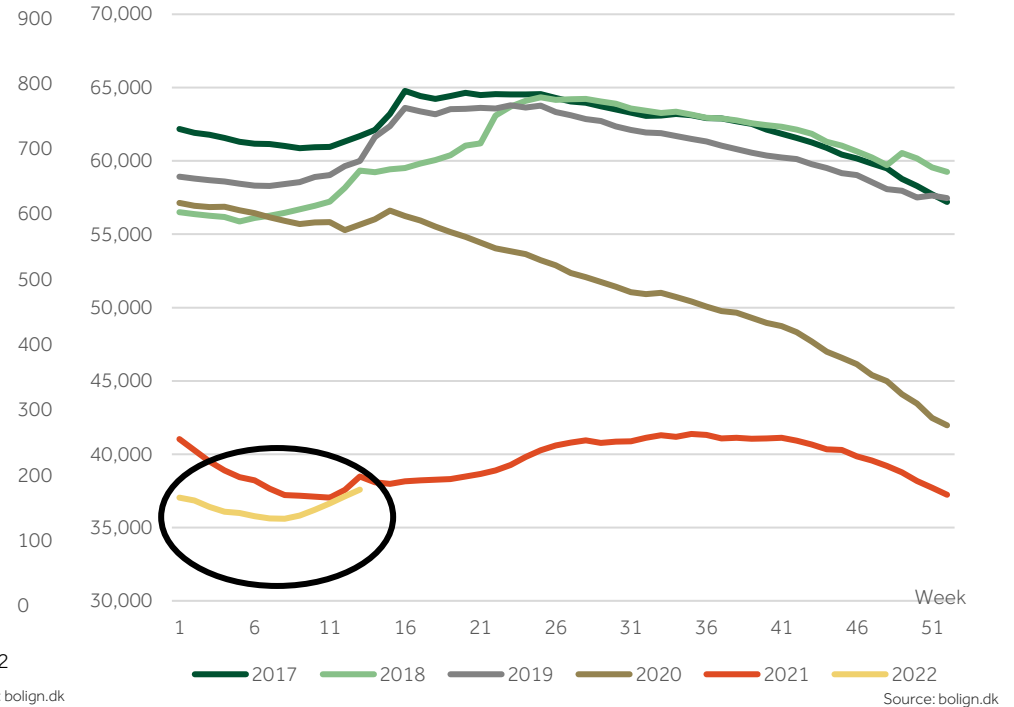
## High activity and few properties for sale

- Despite increasing interest rates and energy prices houseprices have not to been negatively affected
- Very high activity on housing market after outbreak of Covid-19 has led to increasing house prices
  - 8,5% growth in 2020 and 10,5% in 2021
- Historically few properties listed for sale on the Danish housing market could effect on houseprices

Number of sold properties per week (Avg. '15-'19 and '20/'21/'22)



Number of properties listed for sale



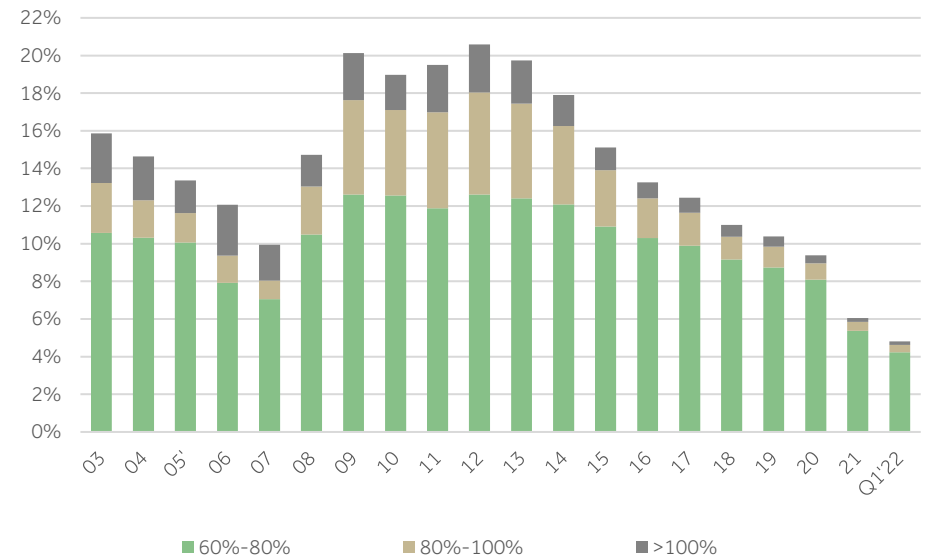
## Development in credit risk

- The covid-19 and situation in Ukraine do for now not seem to have affected the credit risk of the portfolio
  - Increasing/stable 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)
- Impairments increased in due to Covid-19 in Jyske Realkredit with DKK 195m as management estimate

15-day arrears for Jyske Realkredit

Segment	Q1'18	Q1'19	Q1'20	Q1'21	Q1'22
Private	1.1%	1.1%	1.0%	0.7%	0,8%
Commercial	0.5%	0.9%	1.0%	0.6%	0,1%
<b>Total</b>	<b>0.71%</b>	<b>0.81%</b>	0.80%	0.55%	<b>0.45%</b>

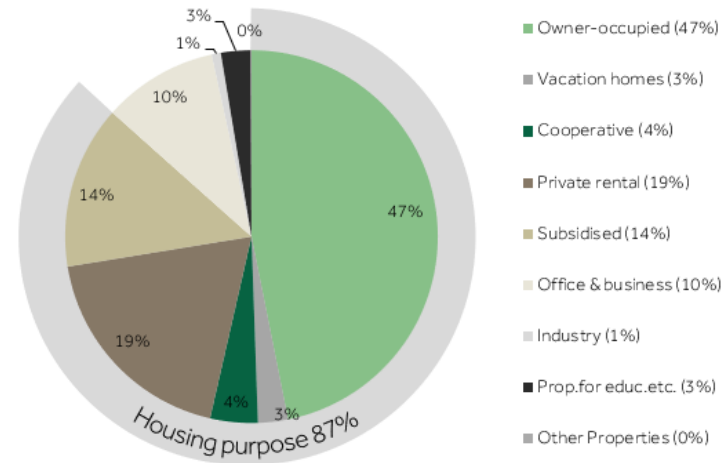
Loan-to-value above 60% as percentage of total lending



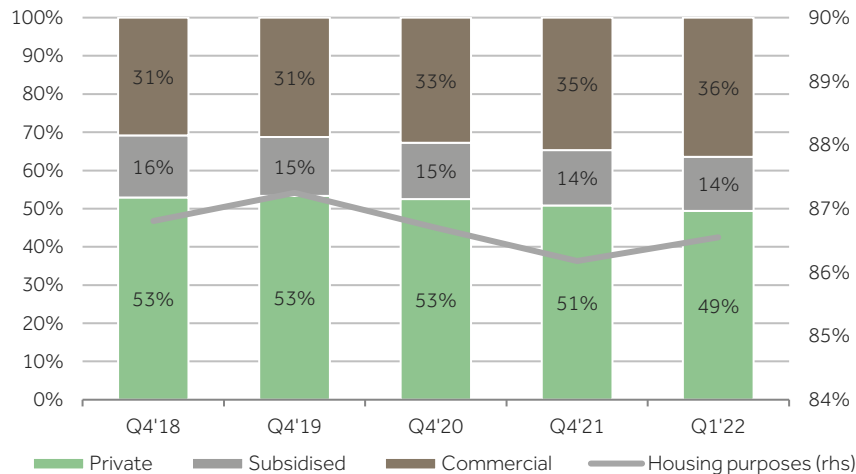
# Portfolio

- 87 % of lending to properties with housing purposes
  - Majority of these to private owner-occupied 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 Q1 2022

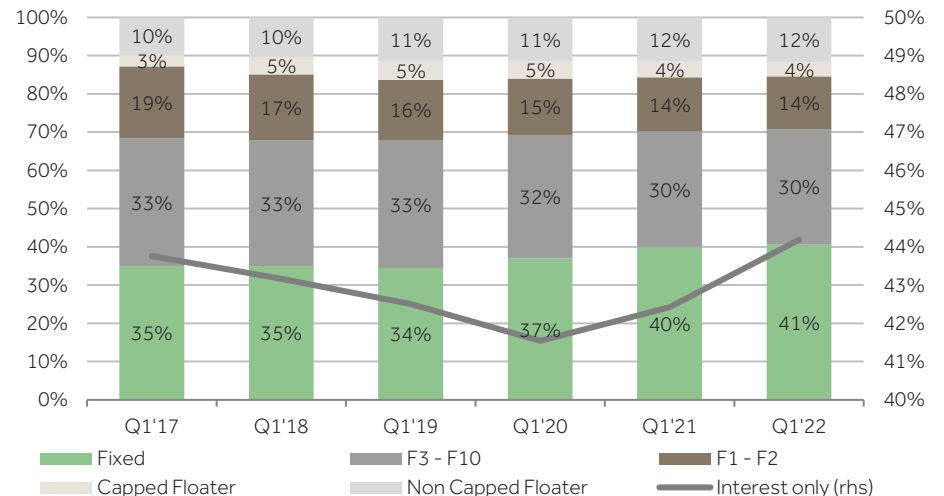
*Lending portfolio*



*Development in lending portfolio*



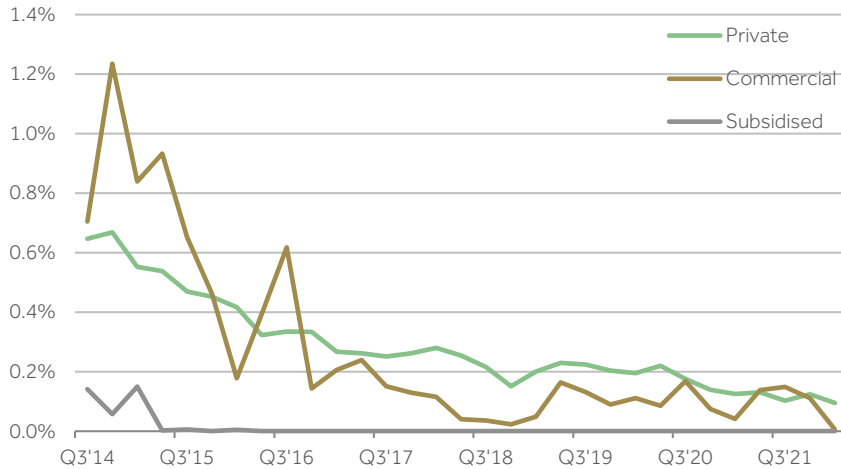
*Development in loan types*



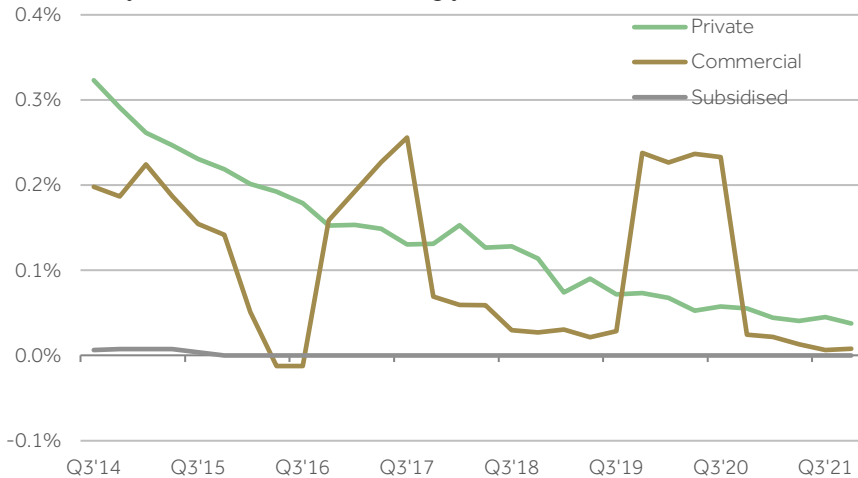


# Credit quality

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

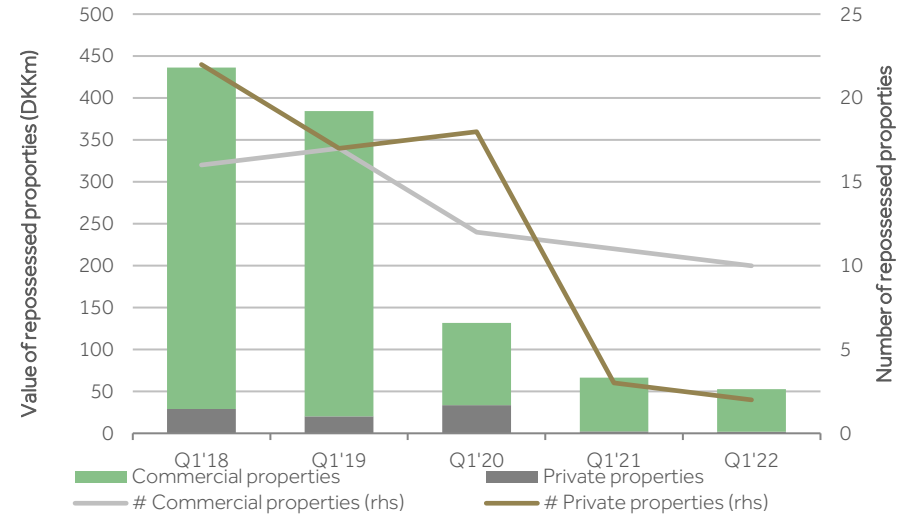


*Yearly realised losses (running year)*

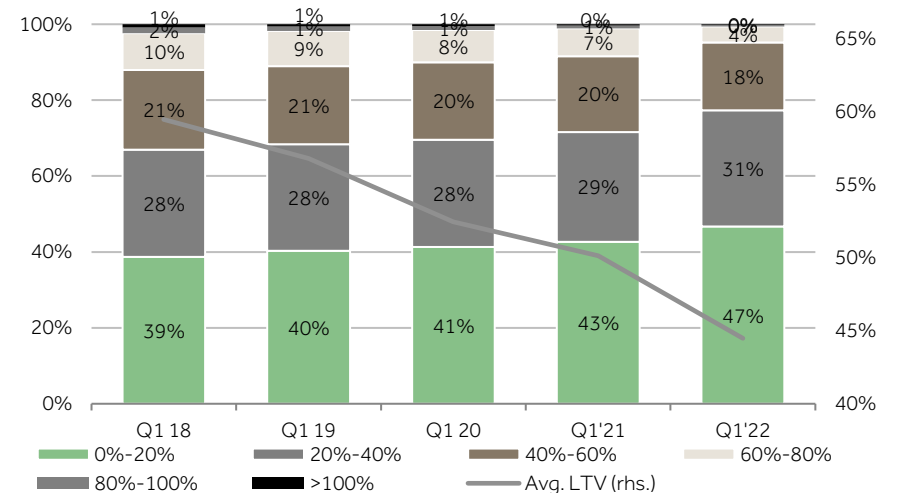


\* Single commercial property – impairment charges was already taken

*Repossessed properties (DKKm/number)*



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



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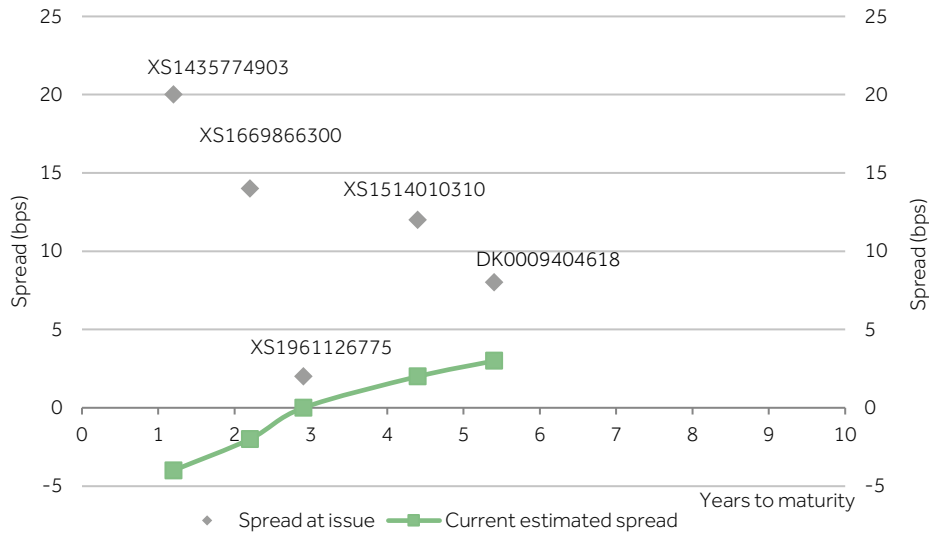
<http://www.jyskerealkredit.com>

# Appendices



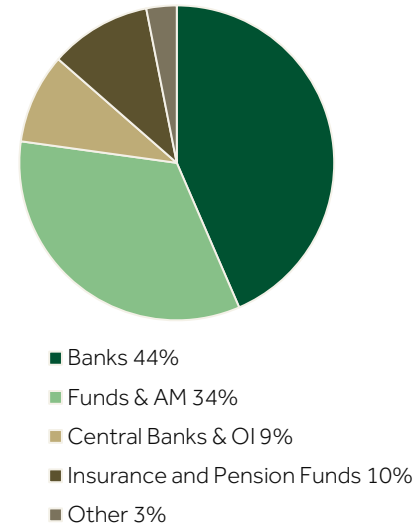
# Jyske Realkredit EUR covered bonds

Jyske Realkredit EUR covered bond issuances\*



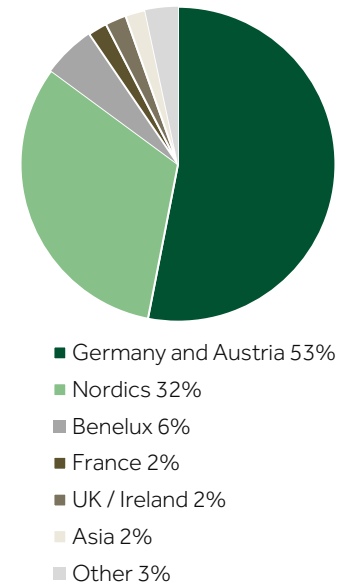
\*Pricing indications end-April 2022

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 relative to peers






## 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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