

# **Jyske Realkredit**

## **Interim report Q1 2021**

Published 4 May 2021

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## Result in Q1 2021

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- Pre-tax profit was DKK 259m
- Return on equity was 4.2 % p.a.
- Impairment charges affected by uncertainty of effects from covid-19
- No deterioration of credit quality from Covid-19 outbreak

### Q1 2021 (compared to Q1 2020)

- Core earnings has decreased with 8 %
- Net fee increases due to higher expenses in intra-group settlement model
- Loan impairment charges decreased with 81 %

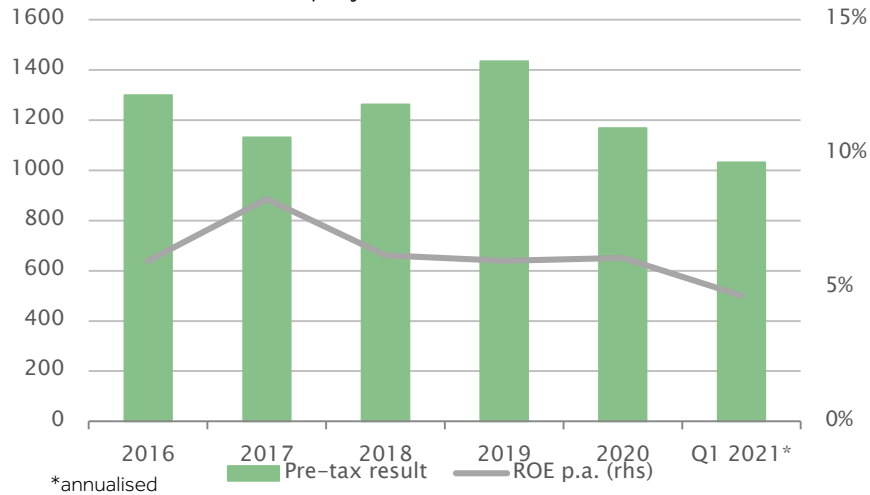
### Expectations for 2021

- Expect a result for 2021 close to the result for 2020
- Due to Covid-19 expectations on profit are uncertain

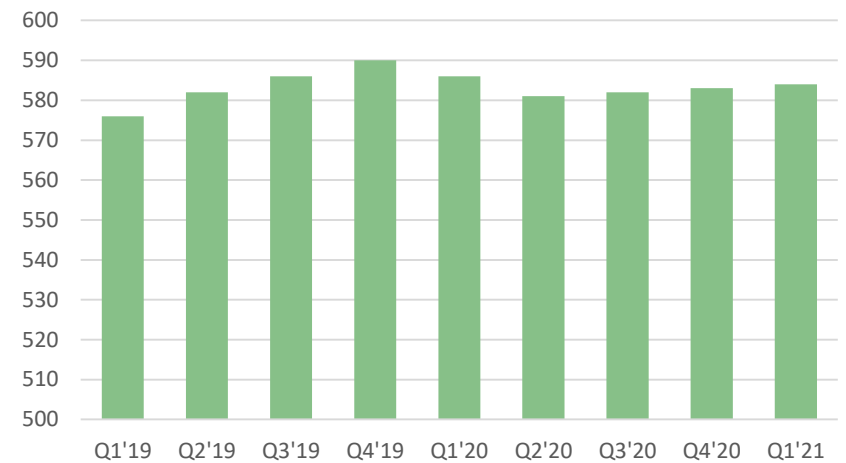
Core profit and net profit for the period DKKm	Q1 2021	Q1 2020	Index 21/20
<b>Core operations</b>			
Administration margin, etc.	584	586	100
Other net interest income 1)	4	6	67
Net fees, charges and commission income etc.	-193	-119	162
Value adjustments	46	4	1150
Other income	-	-	-
<b>Core earnings</b>	<b>441</b>	<b>477</b>	92
Core expenses	92	87	106
<b>Core earnings before loan impairment charges etc.</b>	<b>349</b>	<b>390</b>	89
Loan impairment charges etc.	90	485	19
<b>Pre-tax profit</b>	<b>259</b>	<b>-95</b>	-
Tax	52	-21	-
<b>Net profit or loss for the period</b>	<b>207</b>	<b>-74</b>	-

# Financials - selected graphs

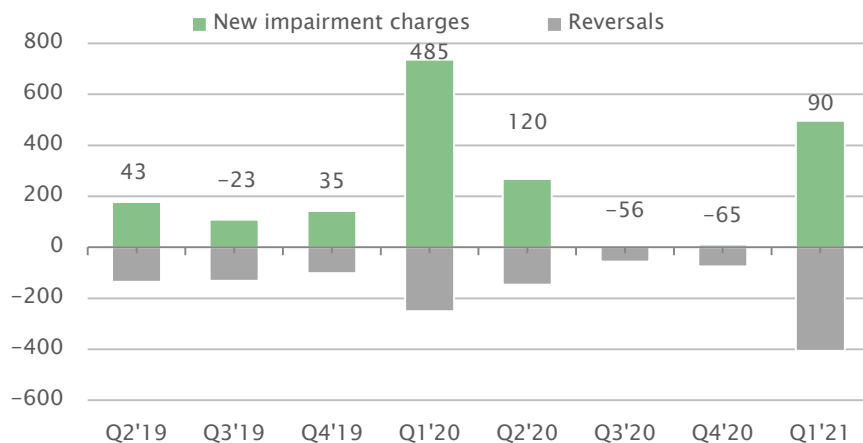
Result and return on equity



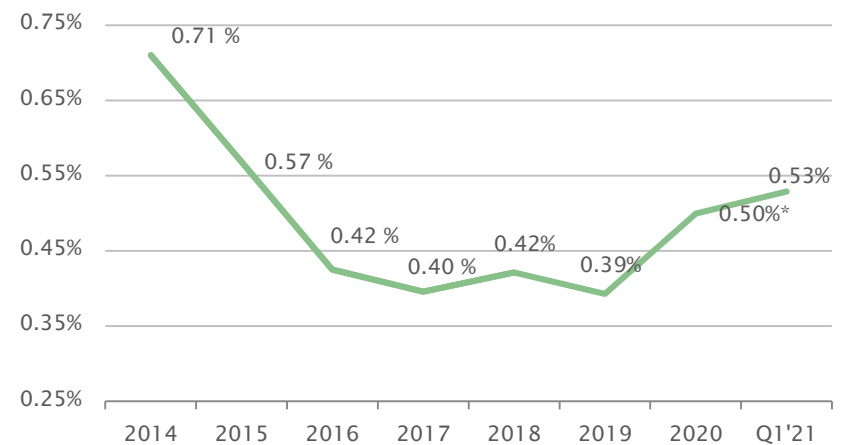
Administrative margin (DKKm)



Impairment charges and reversals (DKKm)



Balance of loan impairments in % of lending

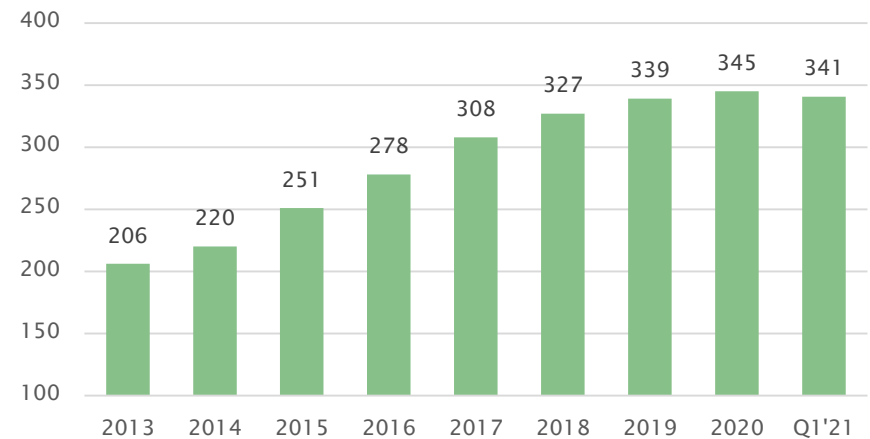


\* Management adjustment of DKK 415m due to Covid-19

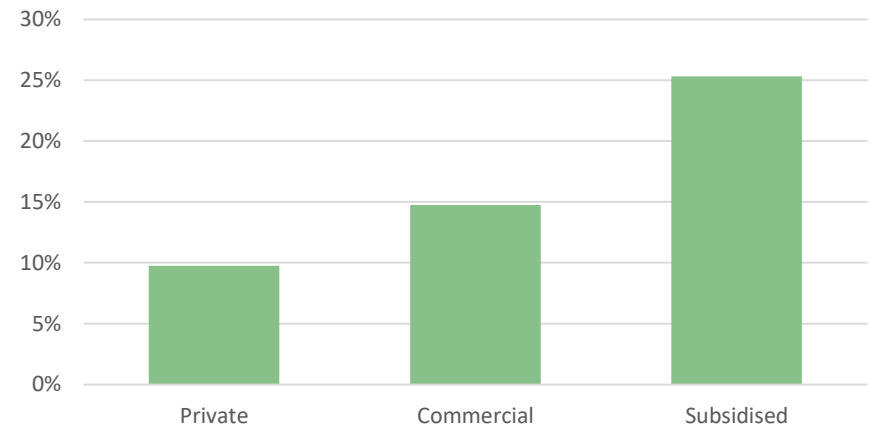
## Growth in mortgage lending

- Nominal mortgage lending increased with
  - Nominal mortgage lending increased with DKK 1.5bn
  - Decline in lending at market value due to declining bond prices
- Net growth in mortgage lending of more than 65 % since 2014
- Net growth primarily in rental segment
- Commercial and subsidised lending growing with DKK 50bn (DKK 37bn 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

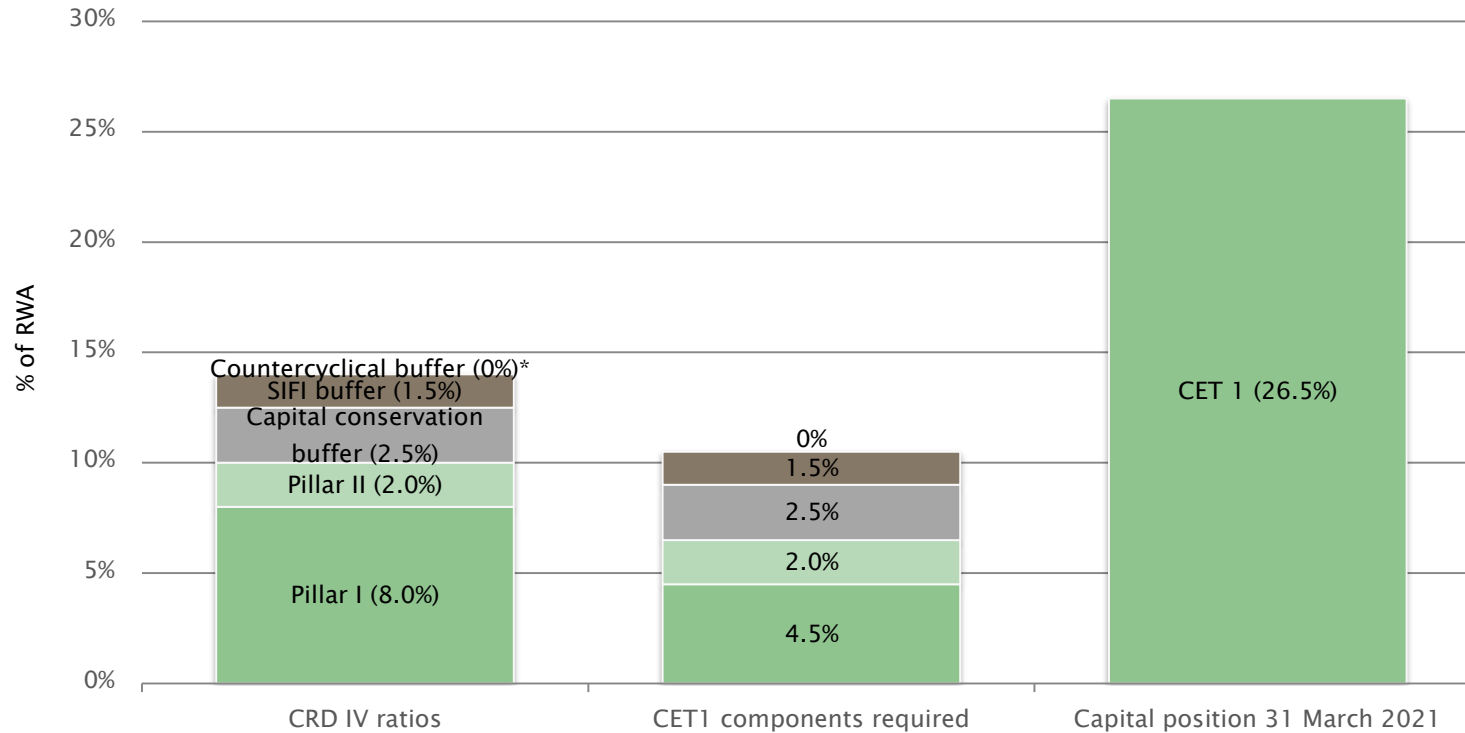
Total mortgage lending at market value (DKKbn)



Market share of mortgage market (%)



# Jyske Realkredit is well capitalised

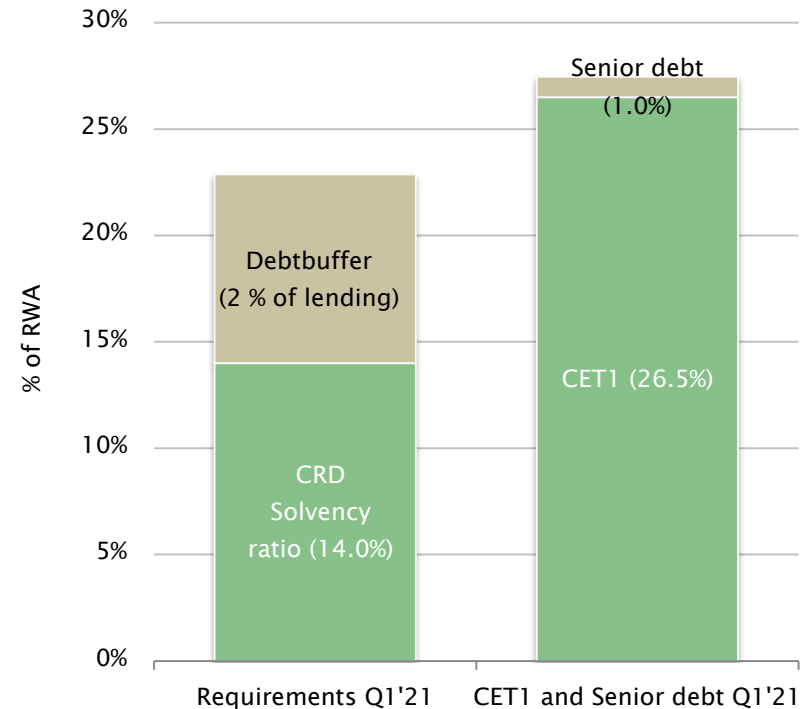


\*) Countercyclical buffer set at 0.0% in Q1 2020 due to Covid-19

- 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 Q1 2021 with CET1 and senior debt



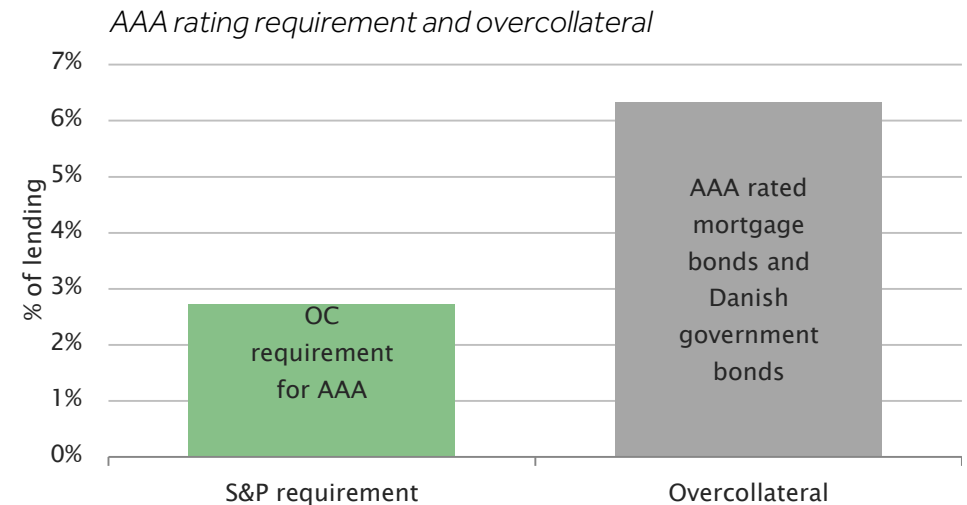
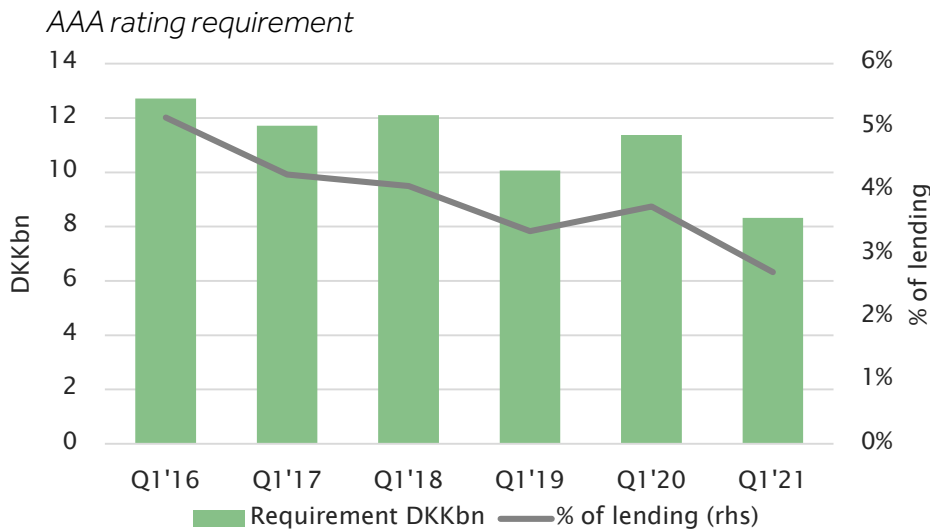
Countercyclical buffer set at 0.0% in Q1 2020 due to Covid-19

# 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

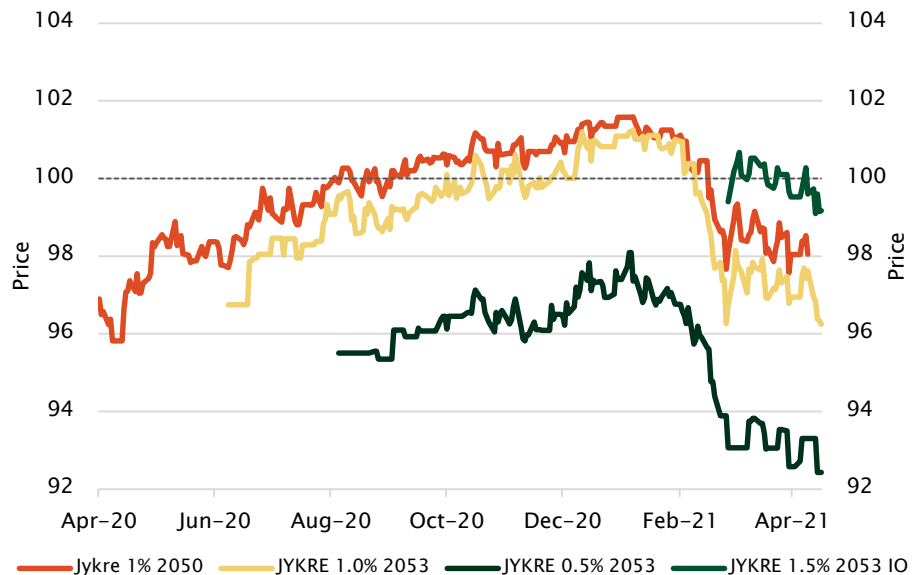
Jyske Realkredit ICR	A
Outlook	Neutral
Capitalcenter B	AAA
Capitalcenter E	AAA
Capitalcenter General	AAA
Free notches over AAA	2/3



## Decreasing bond prices in Q1 2021

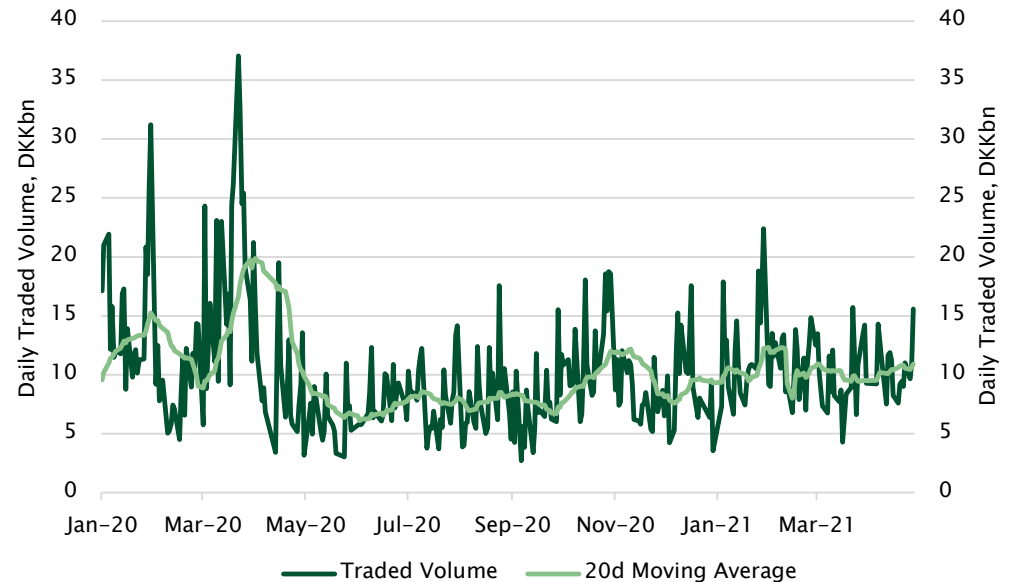
- After a year with increasing bond prices after the first outbreak of covid-19 we observed a drop in prices in Q1 2021
- Open series for financing 30-year fixed interest mortgage loans are at end of April at 1.5% and 1.5% IO
- The activity in the Danish covered bond market was lower in Q1 2021 than in Q1 2020
  - Average daily traded amounts in Q1 2021 of DKK 7.0bn (Q1 2020 DKK 14.6bn)
  - 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

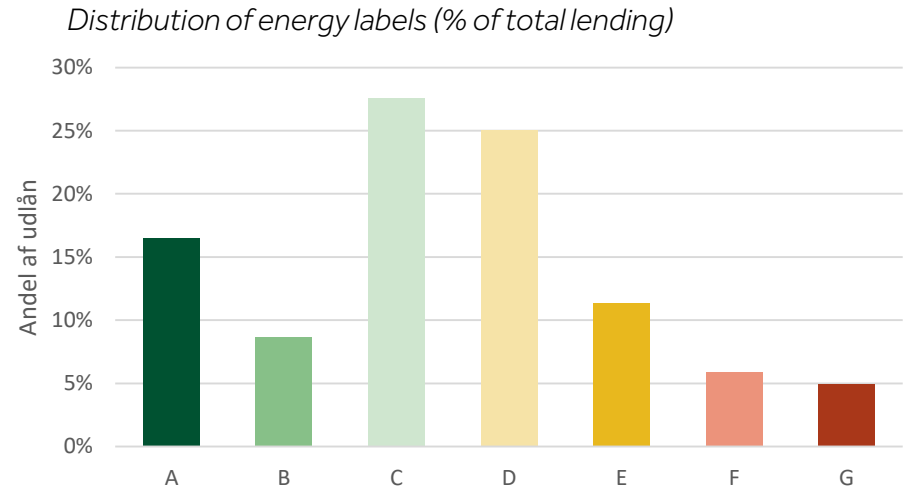


Source: Nasdaq Copenhagen



# 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 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
- From Q1 2021 the template also shows lending supporting UN Sustainable Development Goals (SDG)



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

Property type	Ton CO <sub>2</sub> e (LTV adjusted)	Kg CO <sub>2</sub> e/m <sup>2</sup>
Owner-occupied homes	156.272	18,1
Subsidised Housing	34.166	8,5
Cooperative Housing	4.247	8,5
Private rental	24.065	8,5
Office and Business	30.000	10,7
Other	40.235	5,8
<b>Total</b>	<b>288.984</b>	<b>15,0</b>

# 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

Private sector financial savings



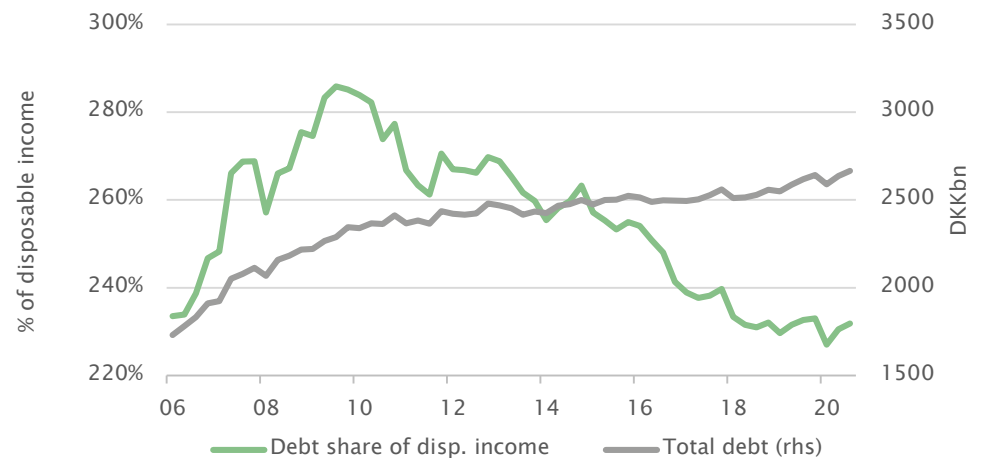
Source: Statistics Denmark

Consumer expectations



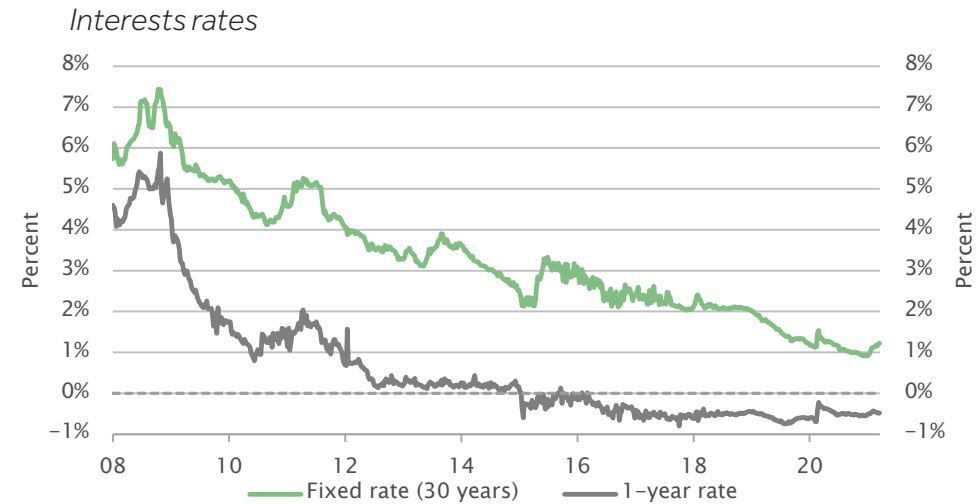
Source: Statistics Denmark

Household gross debt



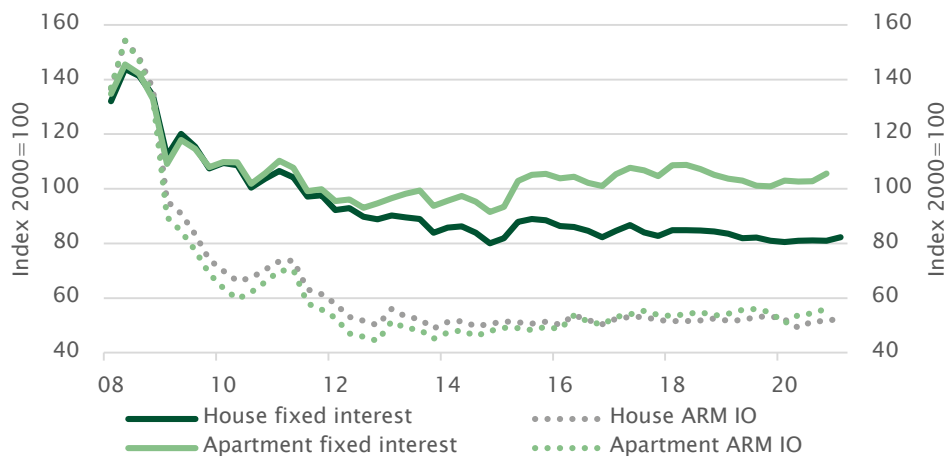
# Household finances

- 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



Source: Association of Danish Mortgage Banks

## *Housing burden*



Source: Jyske Realkredit

## *Private mortgages with IO and variable interest rate*

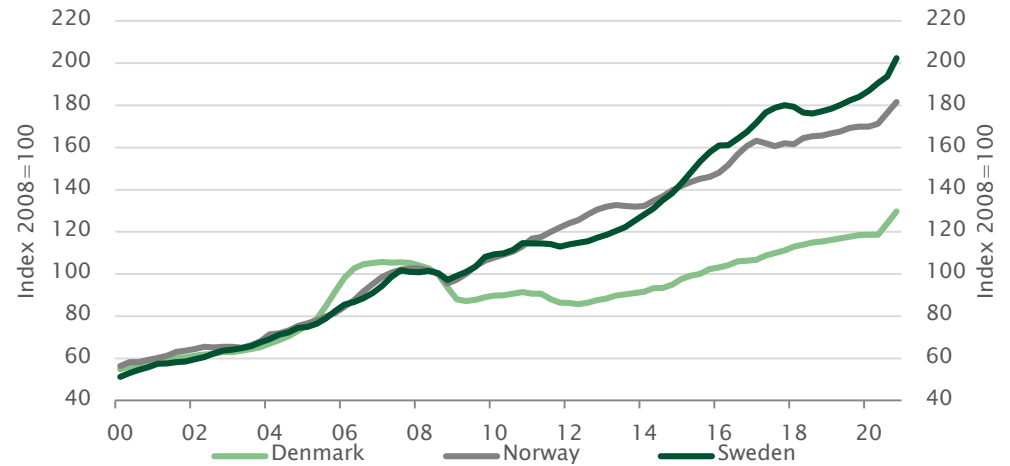


Source: Association of Danish Mortgage Banks

# Danish housing market

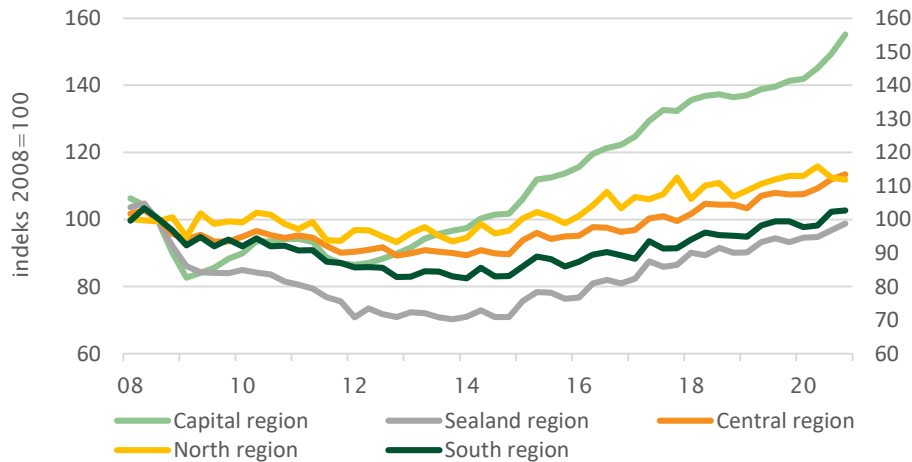
- Increasing house prices driven by high demand for rental properties
- Compared to Sweden and Norway Danish housing market has repriced
- Price increase in capital region mainly driven by apartment prices
- Growth in house prices has been following wage-growth and development in interest rates

Nordic house prices



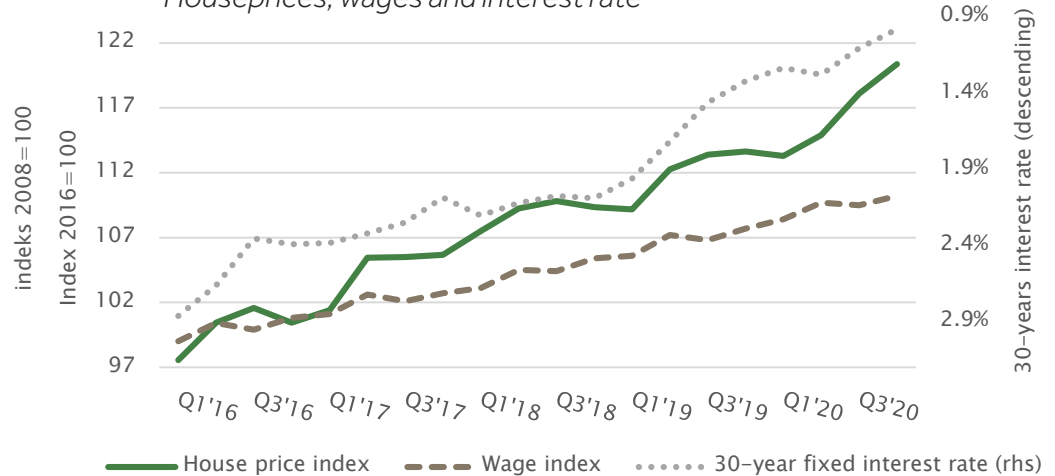
Source: OECD.Stat

Regional house prices in Denmark



Source: Association of Danish Mortgage Banks

Houseprices, wages and interest rate

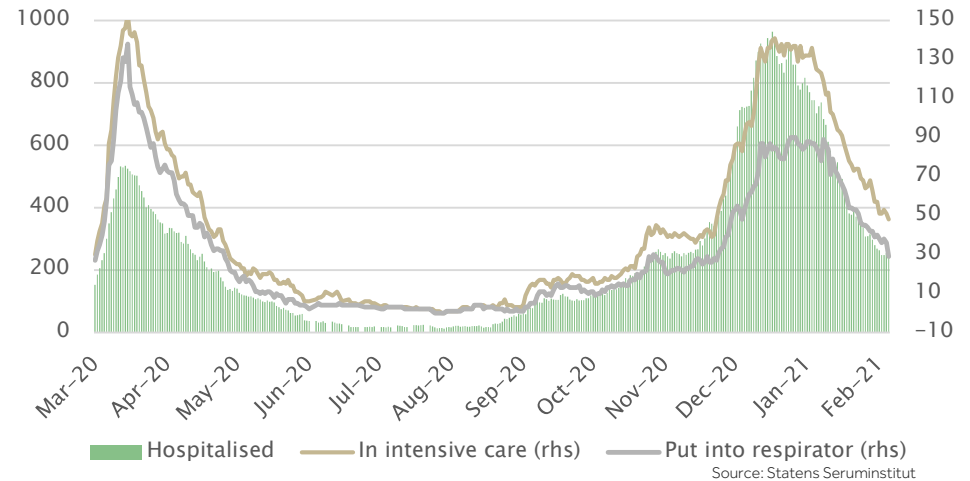


Source: Statistics Denmark

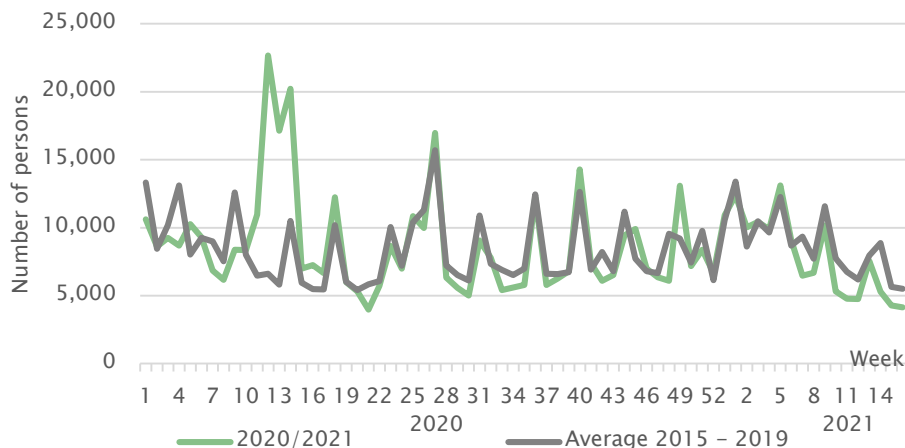
# Covid-19 effects on Danish economy

- 2nd wave of Covid-19 has hit Denmark
  - Fewer persons put into respirator than in 1st wave
  - After 2nd closing of Denmark we now again see a positive trend in the number of hospitalized persons
- Number of new unemployed persons has not increased significantly since march 2020
- After gradual reopening of Denmark, few corporates expect covid-19 to have large impact on their business

Number of hospitalised persons in Denmark



Number of new unemployed persons



Expectations from corporates (April 2021)

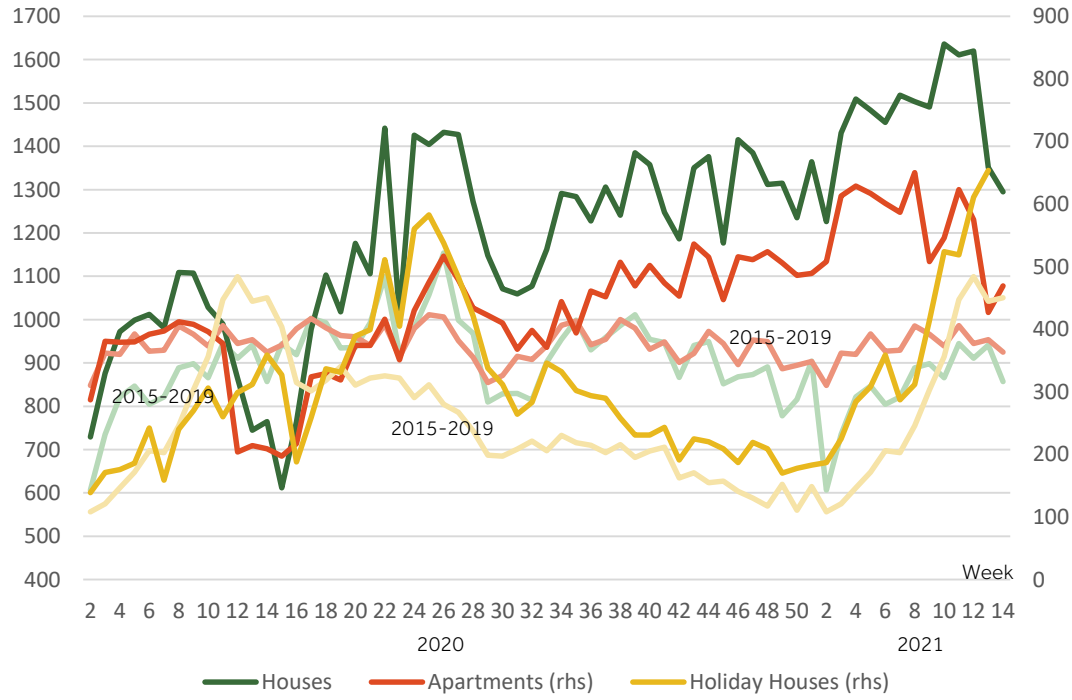
Bankruptcy within 3 mth	Industri	Construction	Service	Retail
No risk	92%	87%	90%	88%
Small risk	6%	11%	9%	10%
Some risk	2%	2%	1%	3%
Large risk	0%	0%	0%	0%

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 2021

Number of sold properties per week (Avg. 2015-2019 and 2020/2021)



Changes in property prices

Property type	Change in prices March 2021	Change in prices 2020
Houses	2.3%	6.5%
Apartments	2.1%	8.8%
Holiday houses	3.8%	9.1%

Source: bolign.dk

## Development in credit risk

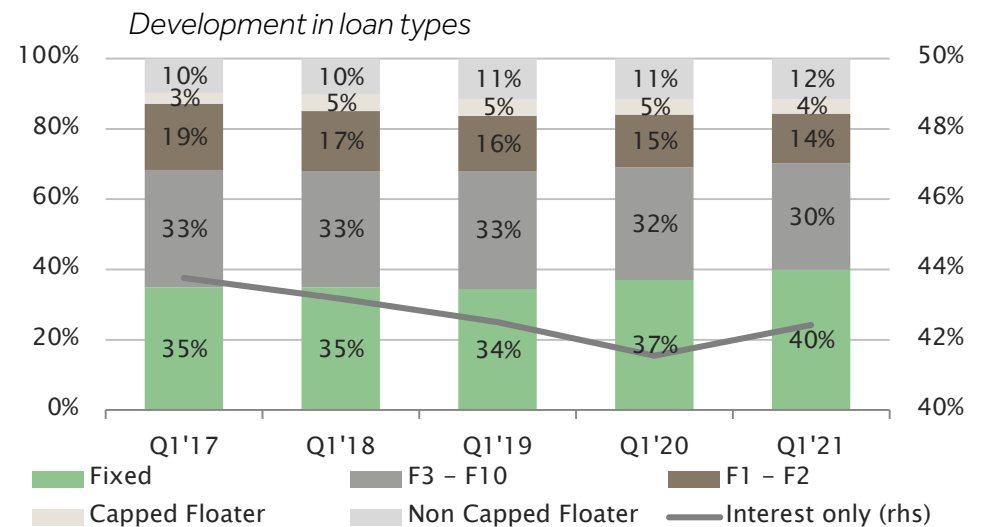
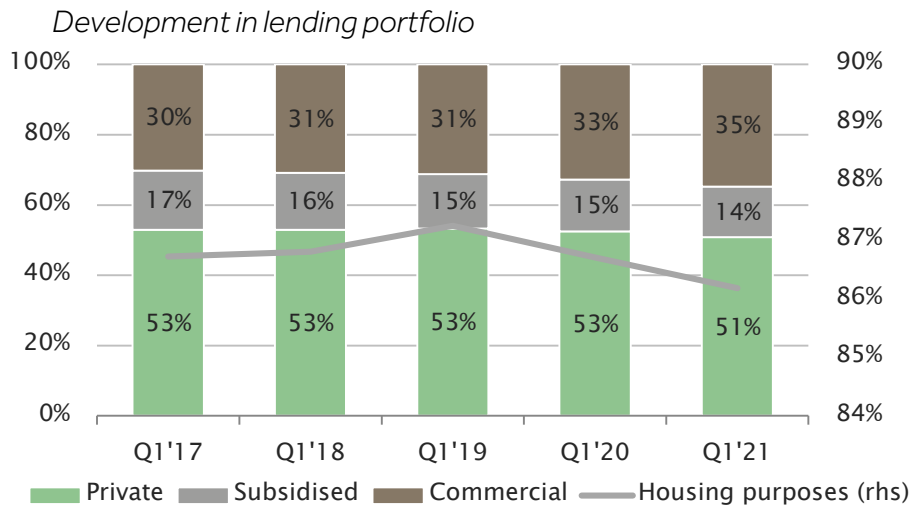
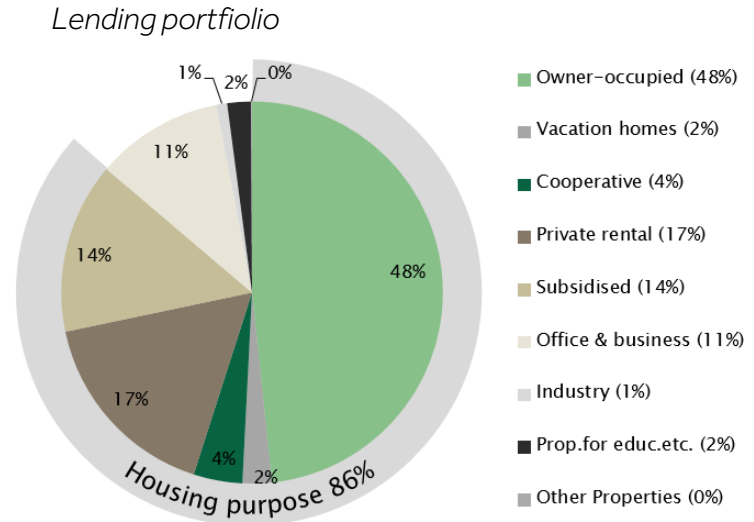
- The covid-19 situation does for now not seem to have affected the credit risk of the portfolio
  - Increasing house prices in all segments
  - No large increase in the unemployment level
  - Arrears at a very low level for both commercial and private rental
  - Limited exposure in Jyske Realkredit 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 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Private	1.0%	1.0%	1.0%	0.8%	0.8%	0.7%	0.7%
Commercial	0.4%	0.7%	1.0%	0.6%	0.8%	0.5%	0.6%
<b>Total</b>	<b>0.66%</b>	<b>0.67%</b>	<b>0.80%</b>	<b>0.55%</b>	<b>0.63%</b>	<b>0.49%</b>	<b>0.55%</b>

# Portfolio

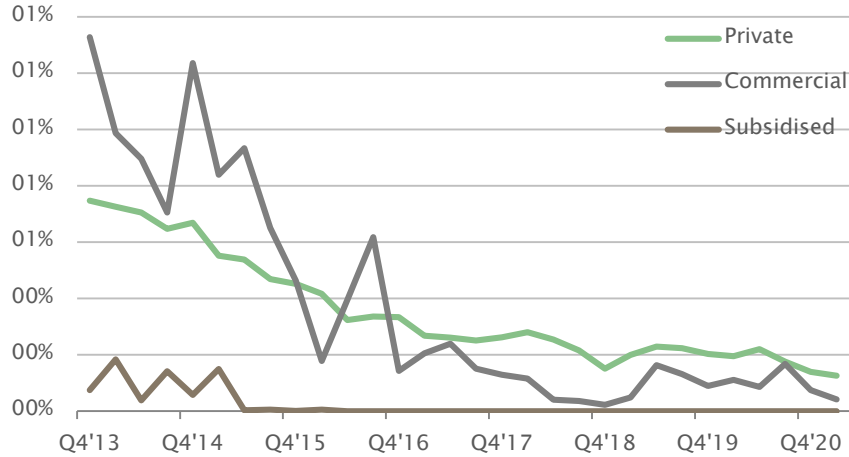
- 86 % of lending to properties with housing purposes
- No lending to agriculture and other primary production
- Stable share of private and commercial lending
- Increase in share of fixed rate mortgages and decreasing share of F1 and F2
- Increasing proportion of interest only loans in Q1 2021



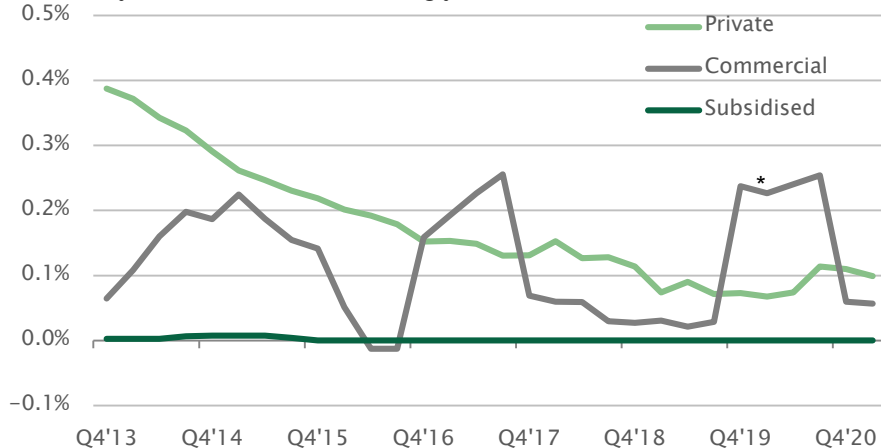


# Credit quality

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

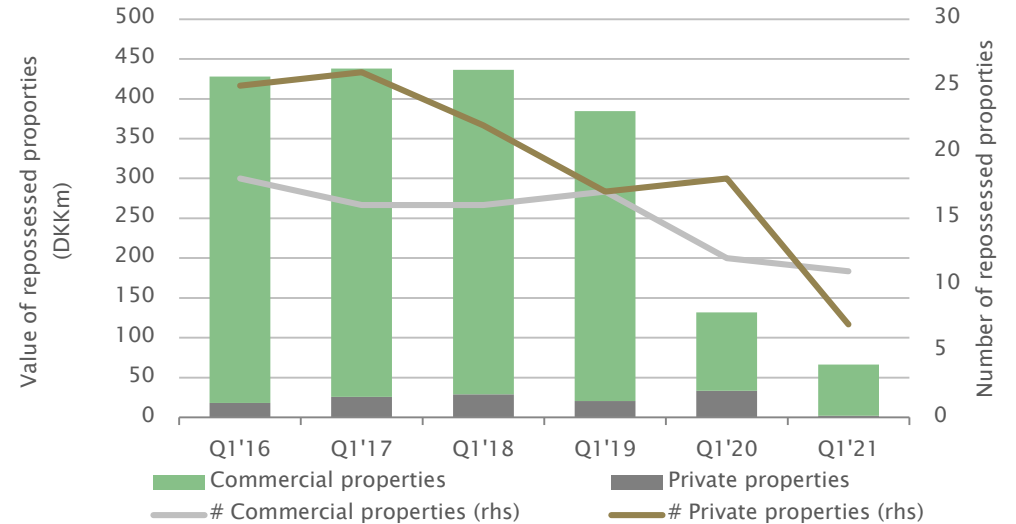


Yearly realised losses (running year)

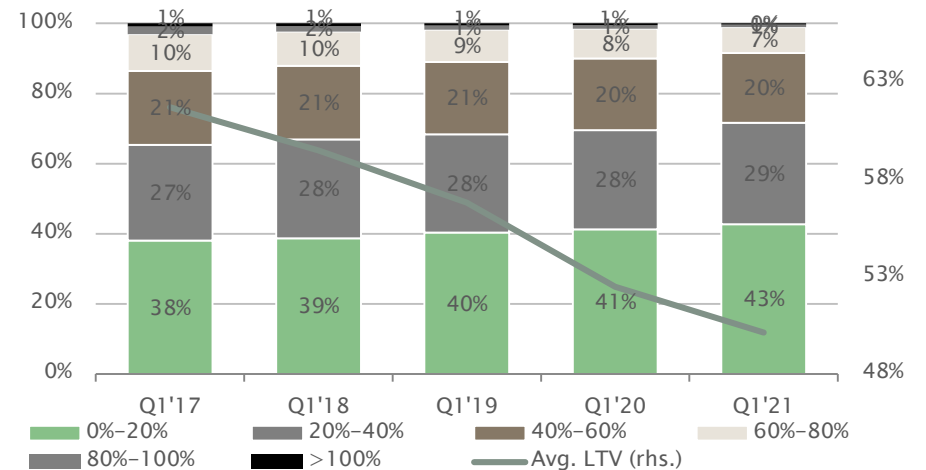


\* Single commercial property – impairment charges was already taken

Repossessed properties (DKKm/number)



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



## 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

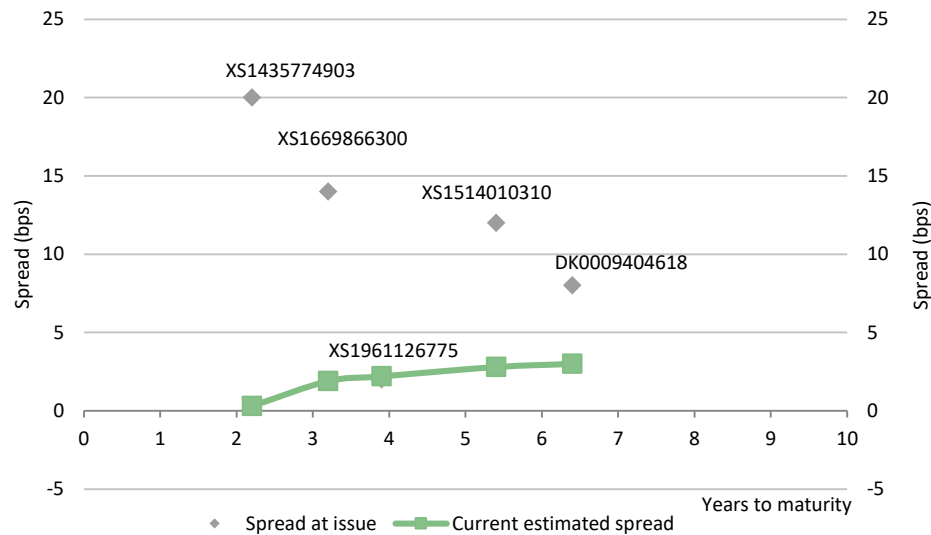
- Jyske Realkredit is the first Danish mortgage institute to open both a 10-year callable bond with a coupon of 0% and also the first to open a 10-year callable bond with a coupon of -0.5%
- The bonds are used for financing of 10-year loans with amortization
- The amortization of the bond with a negative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

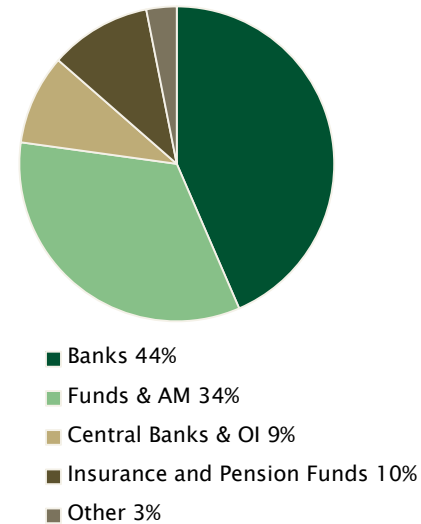
# Jyske Realkredit EUR covered bonds

Jyske Realkredit EUR covered bond issuances\*



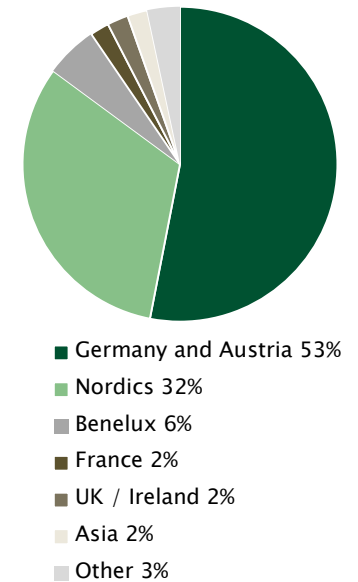
\*Pricing indications end-April 2021

Investor distribution\*



\*Figures are based on allocated amounts

Geographical distribution\*



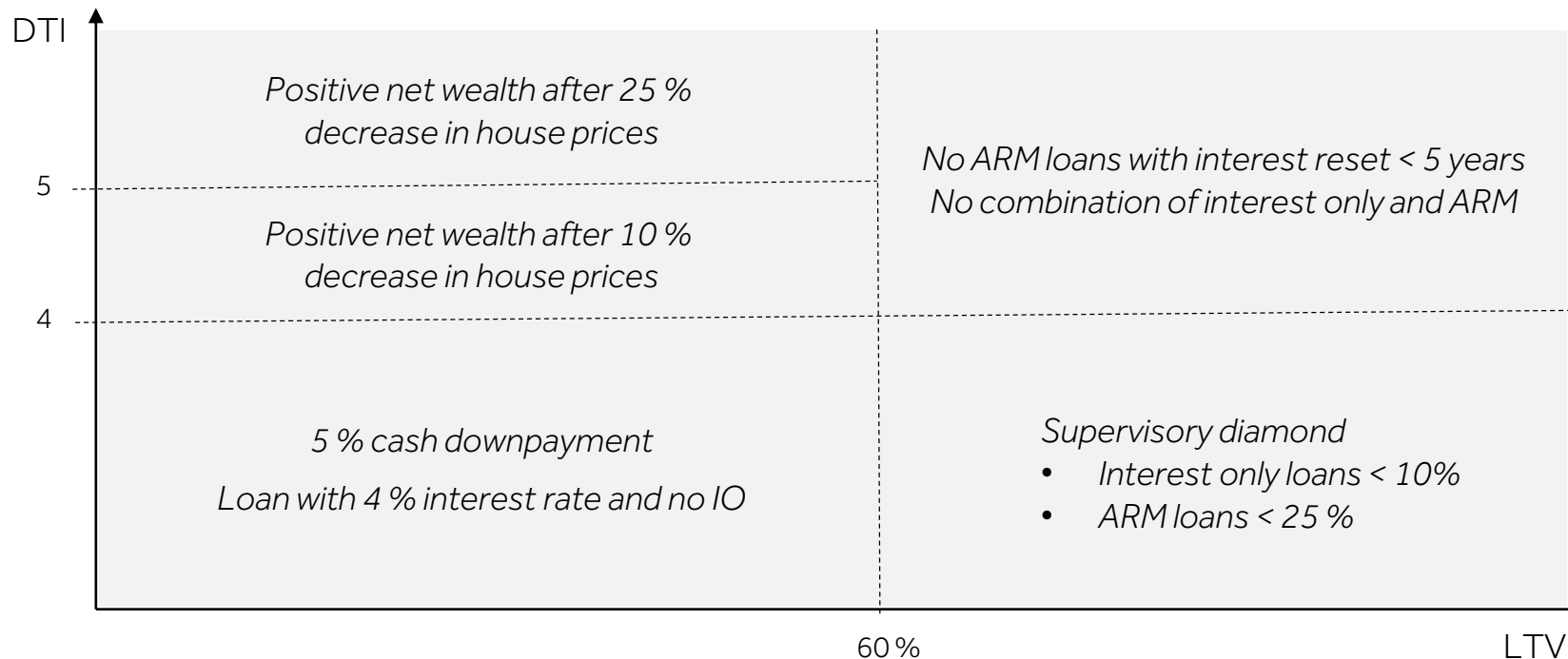
- Three first successful EUR covered bond issuances in 2016 of 5 years (EUR 500m), 7 years (EUR 750m) and 10 years (EUR 750m). One issue in August 2017 (EUR 500m) and one in March 2019 (EUR 500m)
- Latest issue in January 2021
- Large interest from a wide variety of investor from different countries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