

# **Jyske Realkredit**

## **Full year report 2020**

Published 23 February 2021

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## Result in 2020 affected by Covid-19

### Result in 2020

- Pre-tax profit was DKK 1,167m
- Return on equity was 4.7 % p.a.
- Management estimate of impairments charges of DKK 415m as a consequence of the Covid-19 outbreak

### FY 2020 (compared to FY 2019)

- Core earnings has increased with 12 %
- 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 from Covid-19 outbreak

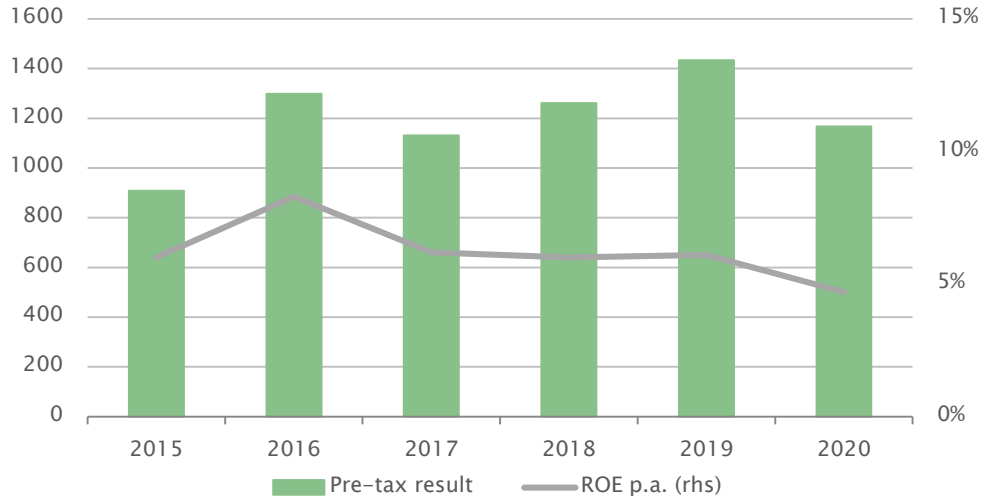
### Expectations for 2021

- Due to Covid-19 expectations on profit are uncertain
- Lending growth is expected to be in line with market development

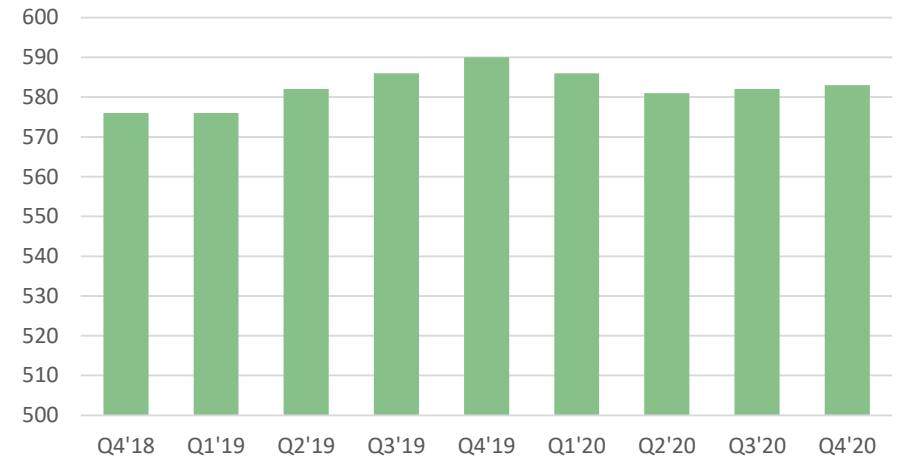
Core profit and net profit for the period DKKm	2020	219	Index 20/19
<b>Core operations</b>			
Administration margin, etc.	2,332	2,334	100
Other net interest income 1)	36	58	62
Net fees, charges and commission income etc.	-603	-641	94
Value adjustments	218	6	3633
Other income	14	22	-
<b>Core earnings</b>	<b>1,997</b>	<b>1,779</b>	112
Core expenses	345	310	111
<b>Core earnings before loan impairment charges etc.</b>	<b>1,652</b>	<b>1,469</b>	112
Loan impairment charges etc.	485	35	-
<b>Pre-tax profit</b>	<b>1,167</b>	<b>1,434</b>	-
Tax	259	316	82
<b>Net profit or loss for the period</b>	<b>908</b>	<b>1,118</b>	81

# Financials - selected graphs

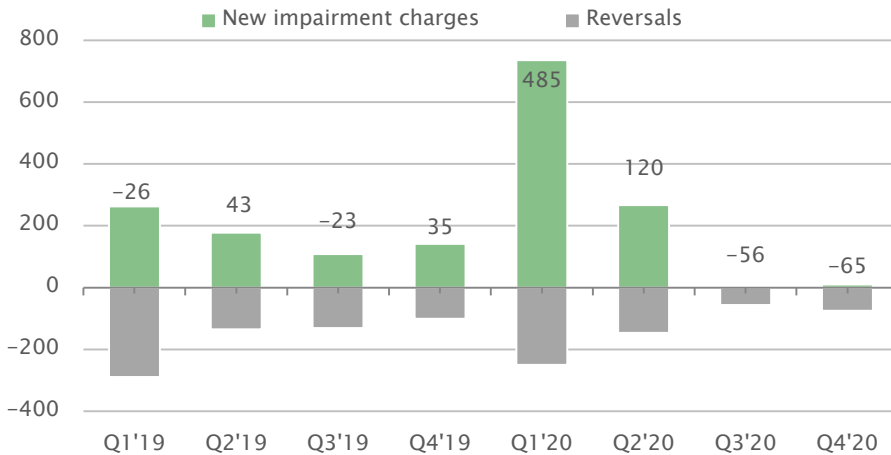
Result and return on equity



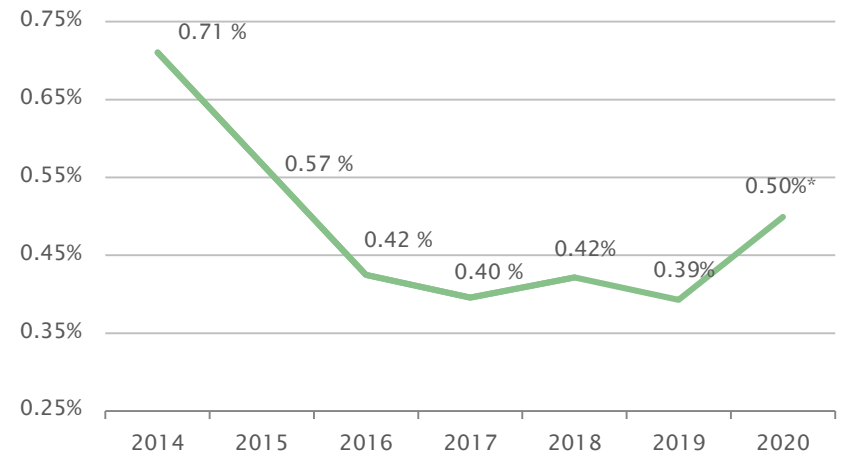
Administrative margin (DKKm)



Impairment charges and reversals (DKKm)



Balance of loan impairments in % of lending

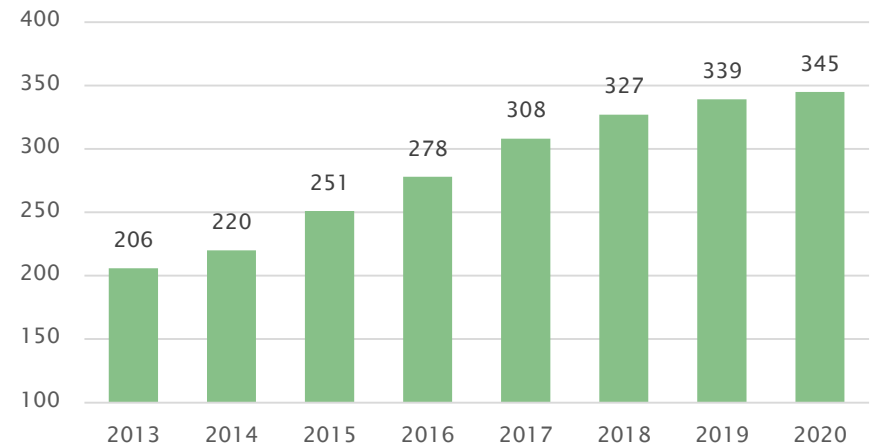


\* Management adjustment of DKK 415m due to Covid-19

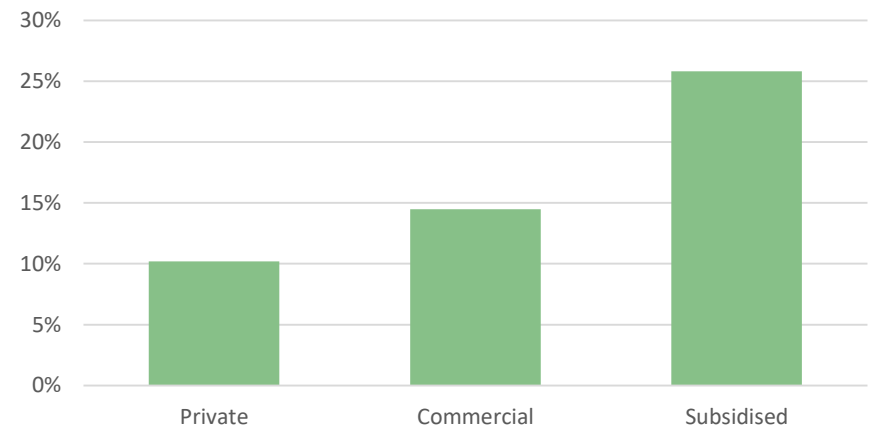
## Growth in mortgage lending

- Lending growth in 2020
  - Mortgage lending increased with DKK 6 bn
  - Primarily growth in commercial multifamily housing 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

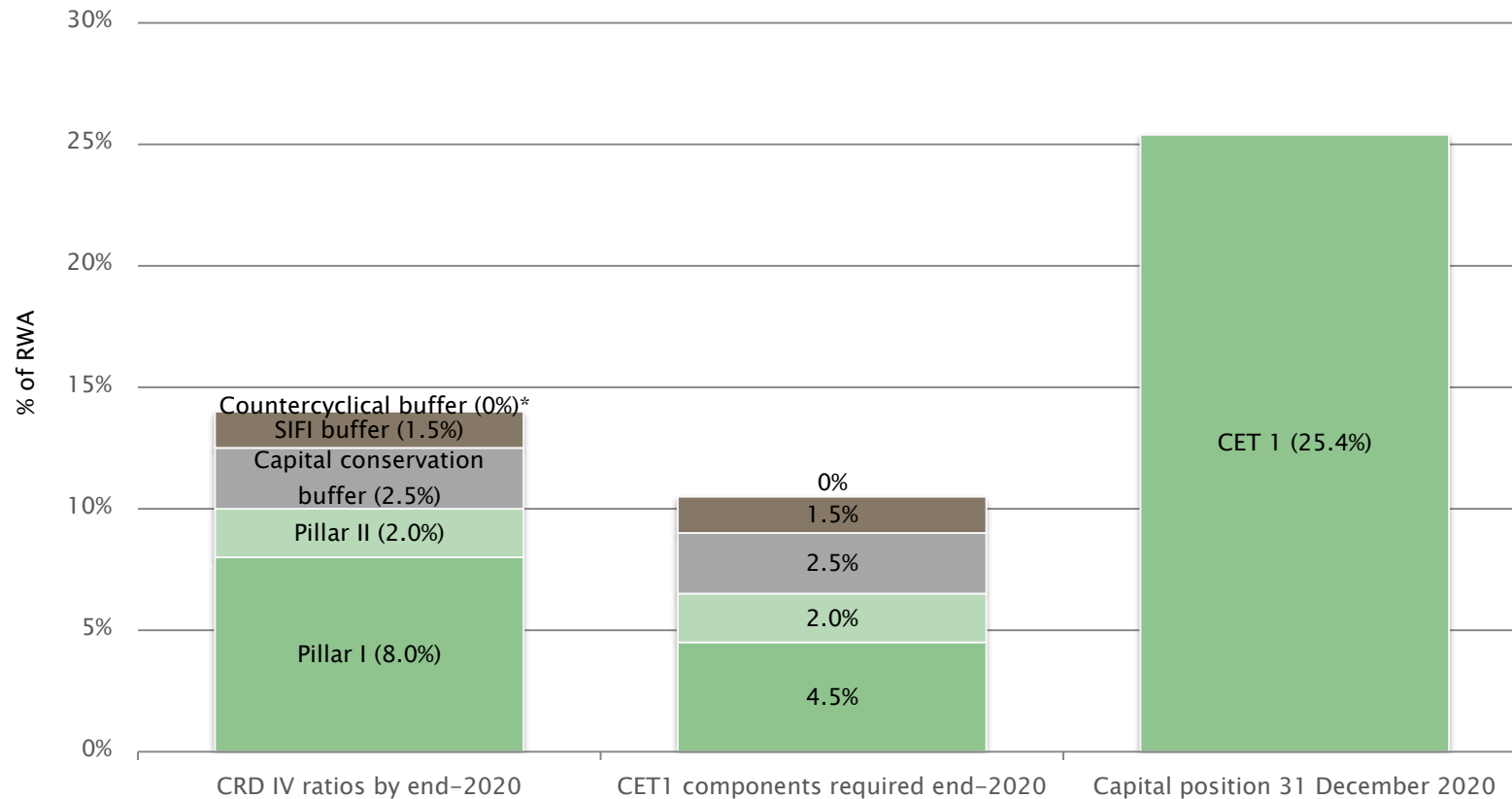
Total mortgage lending at market value (DKKbn)



Market share of mortgage market (%)



# Jyske Realkredit is well capitalised

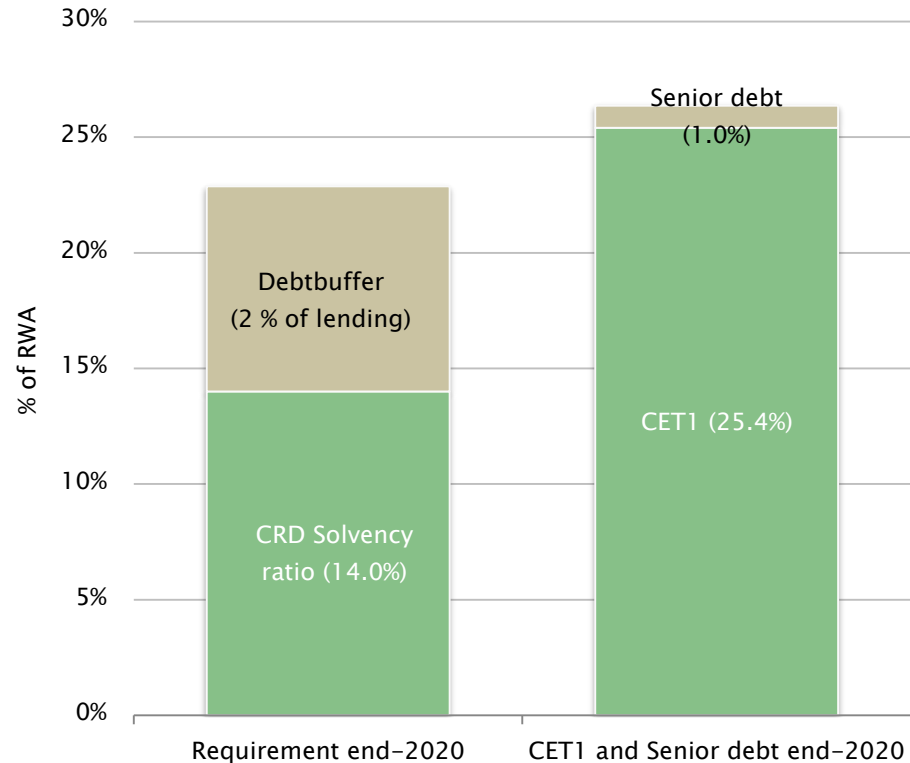


\*) Countercyclical buffer set at 0.0 % in Q1 2020 due to Covid-19

- The solvency need is expected to be at 14 % at the end of 2020, 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 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 Q4 2020 with CET1 and senior debt



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

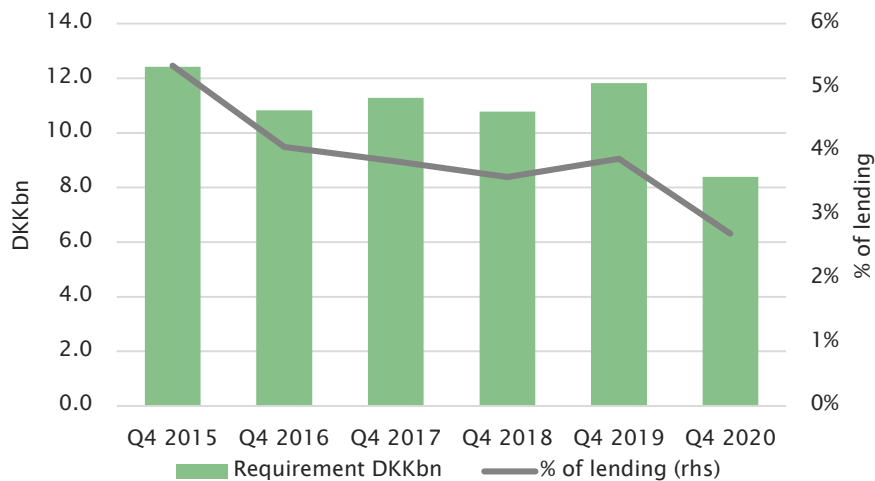
# Rating

- 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 %

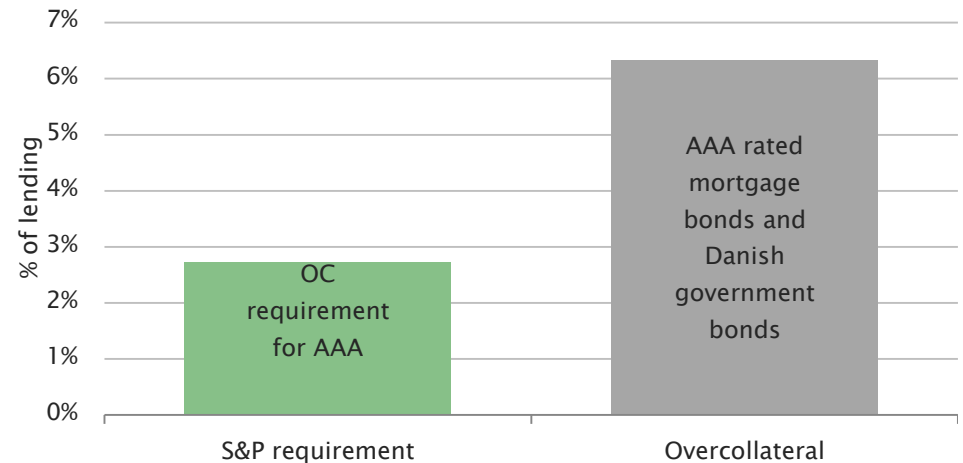
### Rating Standard and Poor's

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

AAA rating requirement



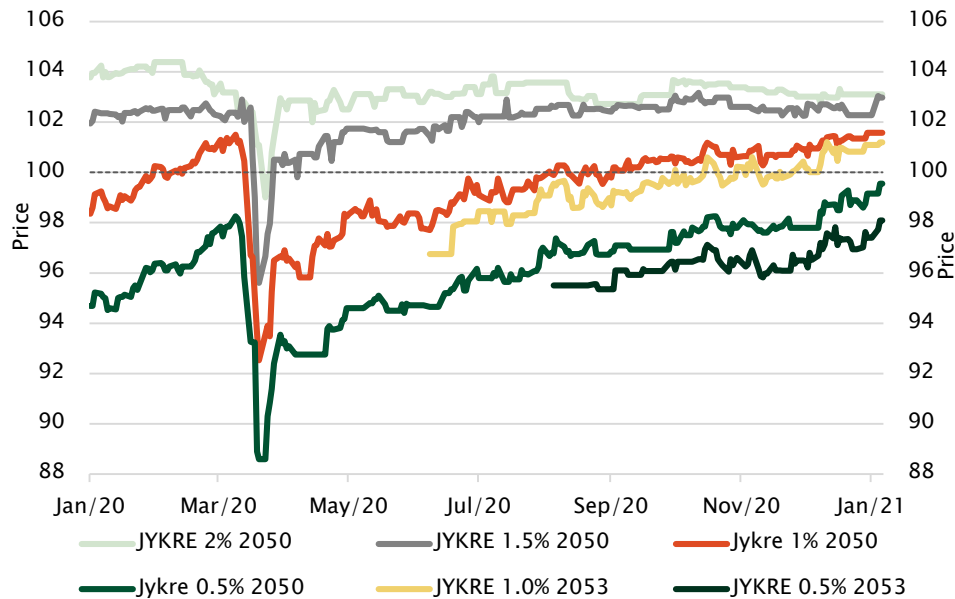
AAA rating requirement and overcollateral



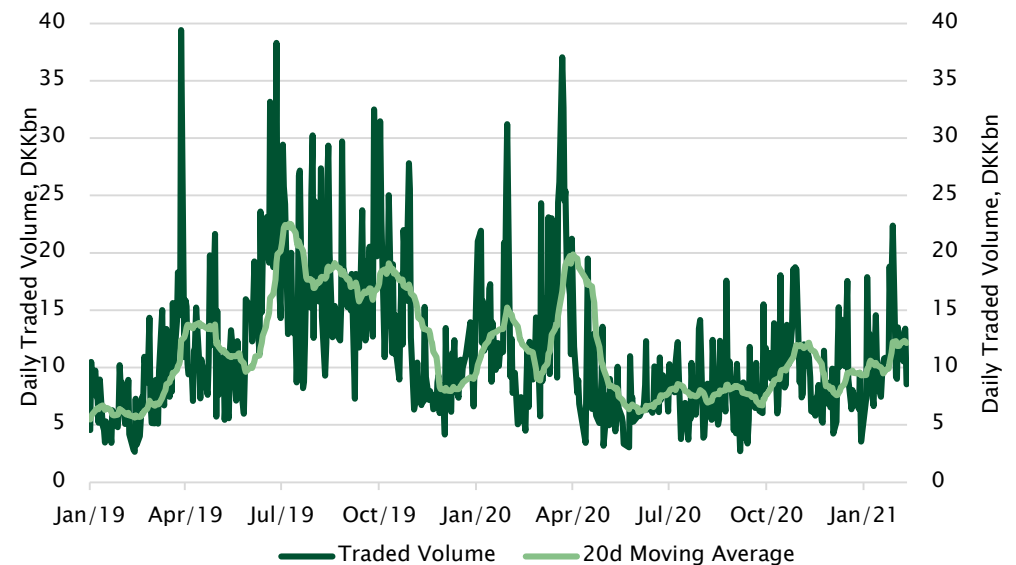
## DKK bond prices are almost back at pre-covid 19 level

- 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 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 2020 than in 2019
  - Average daily traded amounts in 2020 of DKK 10.3bn (in 2019 DKK 13.2bn)

Prices for selected Jyske Realkredit callable bonds



Daily traded callable DKK covered bonds 2019-2020



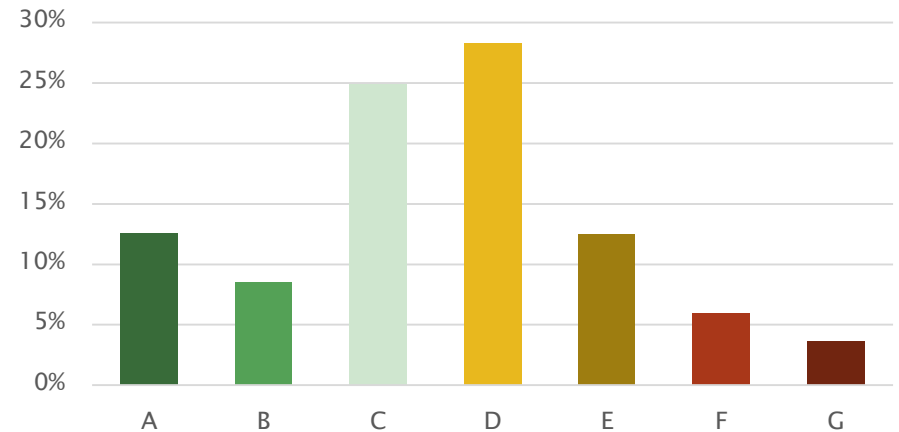
Source: Nasdaq Copenhagen



# 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 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

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



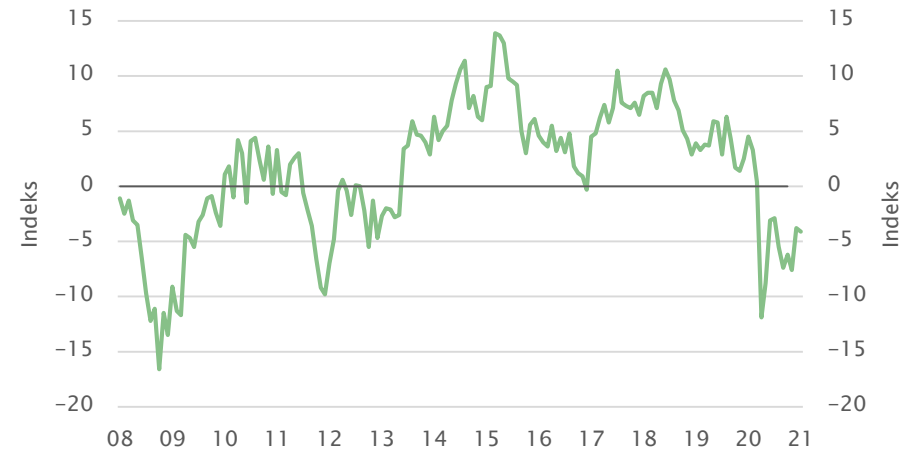
*Calculated CO<sub>2</sub>-emissions for Jyske Realkredit capital center E*

Property type	Ton CO <sub>2</sub> e (LTV adjusted)	Kg CO <sub>2</sub> e/m <sup>2</sup>
Owner-occupied homes	197.803	22,7
Subsidised Housing	21.825	10,7
Cooperative Housing	4.268	10,0
Private rental	25.868	10,4
Office and Business	46.068	19,3
Other	20.354	18,1
<b>Total</b>	<b>316.185</b>	<b>19,1</b>

# 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



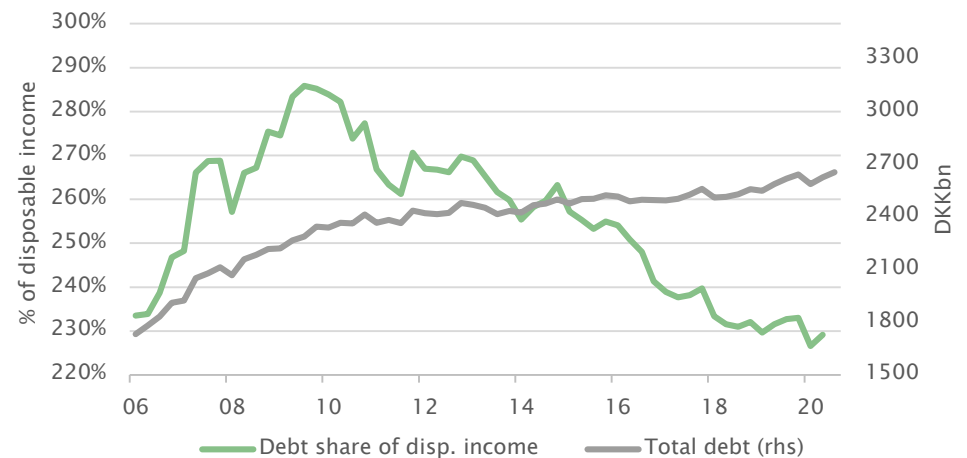
Source: Statistics Denmark

Private sector financial savings



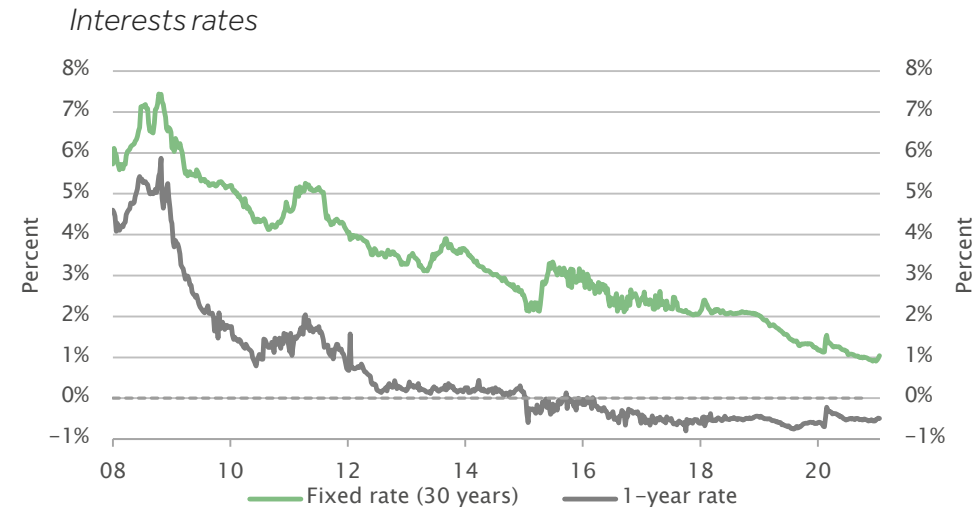
Source: Statistics Denmark

Household gross debt

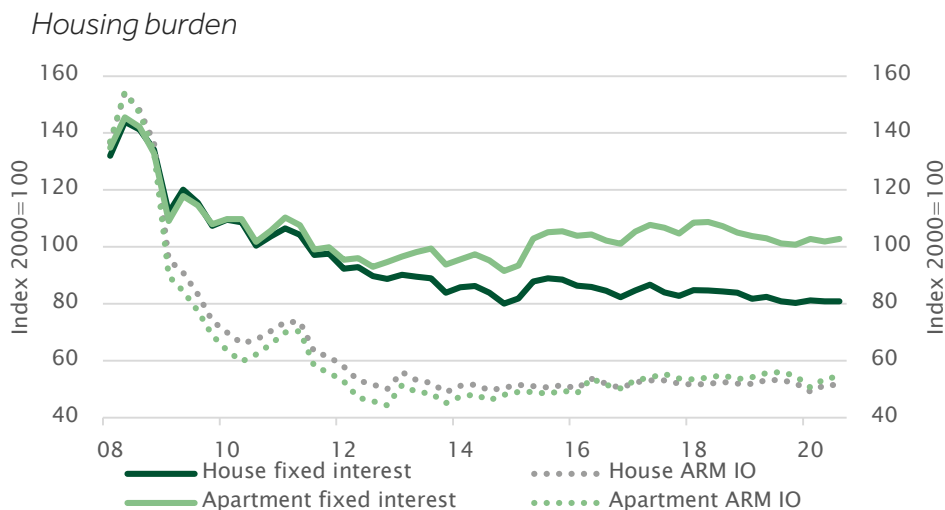


# Household finances

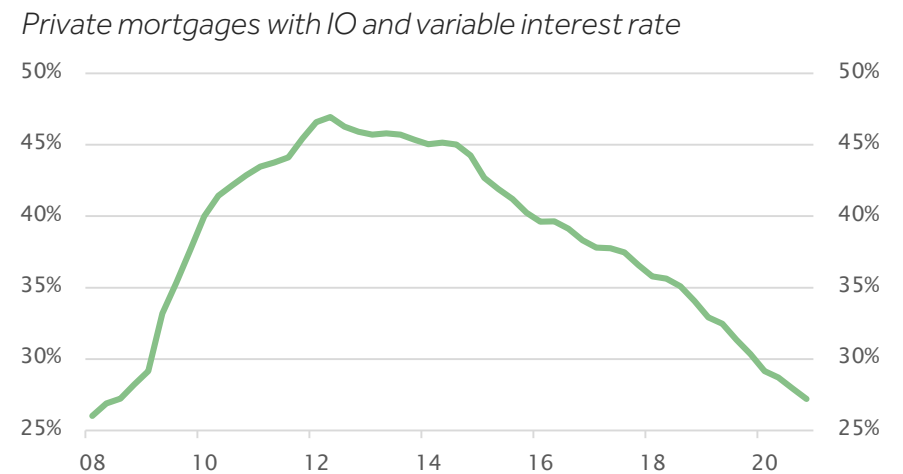
- Interests rates are historical low
- Average 30-year fixed interest rate at 1.0 %
- Housing burden also at a low level
  - Price of owning own house is low
  - Increasing property prices and decreasing interests
- Private consumers remortgage to loans with interest rate fixed until maturity and with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



Source: Association of Danish Mortgage Banks



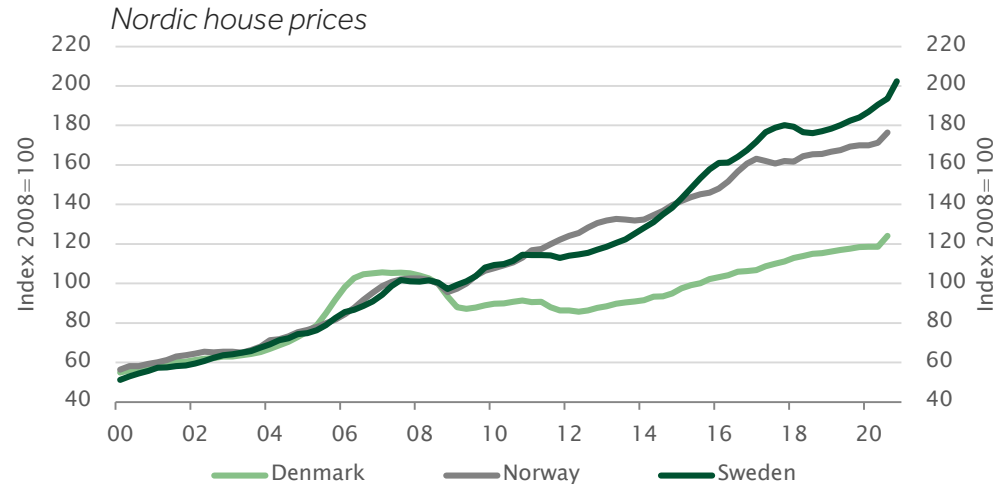
Source: Jyske Realkredit



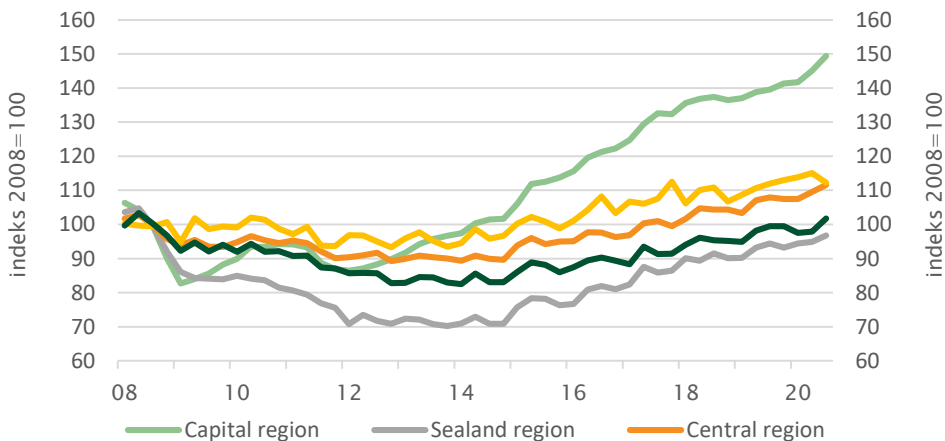
Source: Association of Danish Mortgage Banks

# Danish housing market

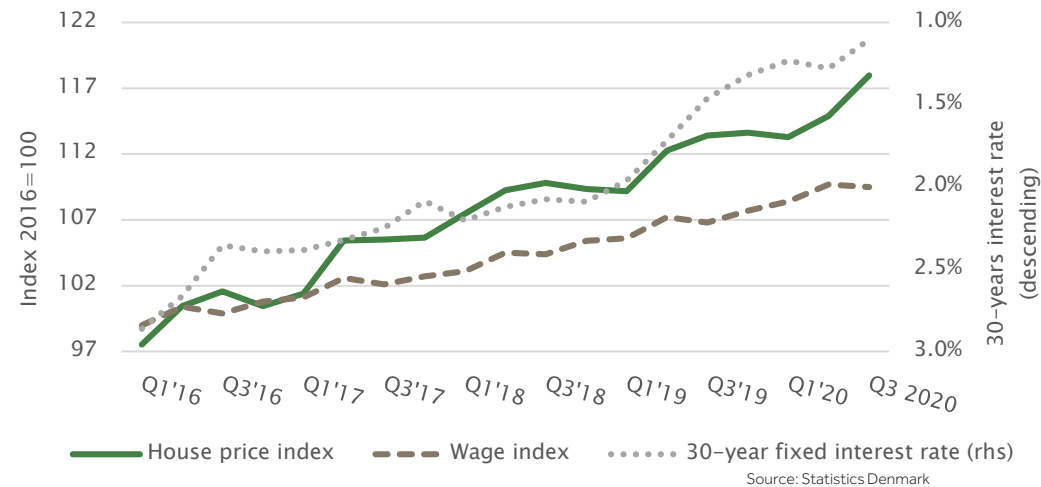
- Increasing house prices after the financial crisis
- Compared to Sweden and Norway Danish housing market has repriced
- Price increase in capital region mainly driven by apartment prices
- Growth in house prices has been following wage-growth and development in interest rates



*Regional house prices in Denmark*



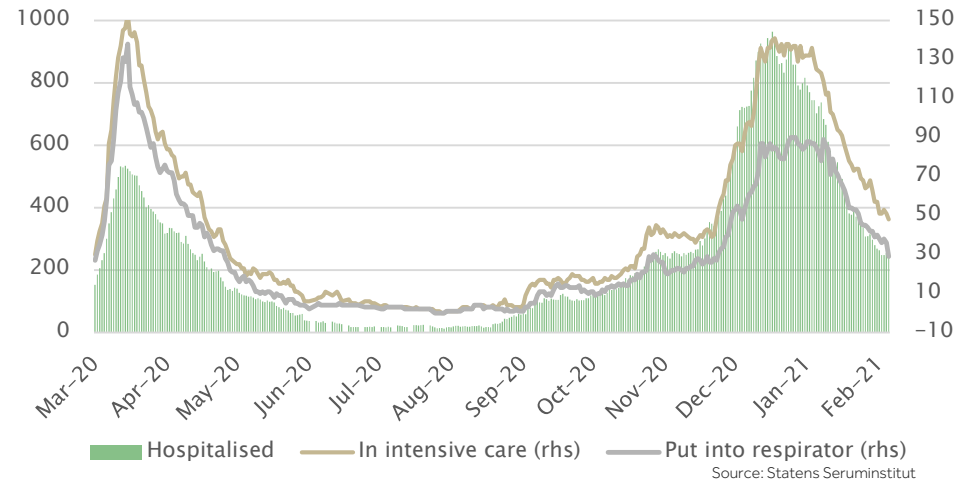
*Houseprices, wages and interest rate*



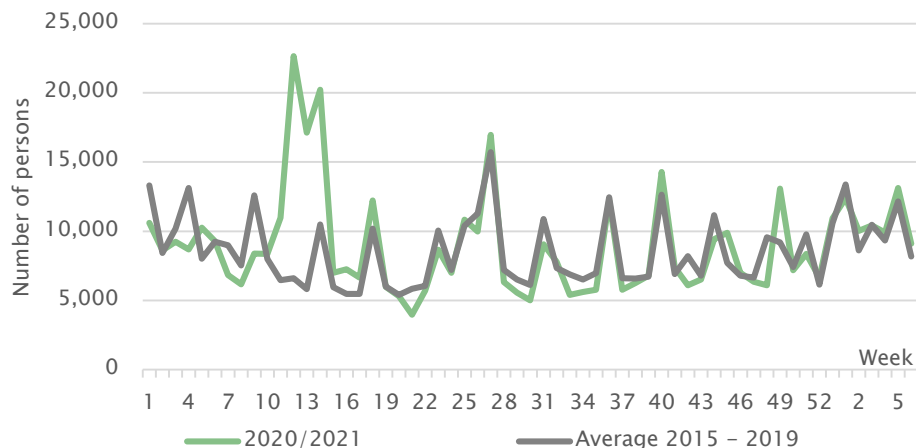
# Covid-19 effects on Danish economy

- 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 increased with approx. 25,000 persons more than on average
- Largest effect of Covid-19 for businesses working within retail

Number of hospitalised persons in Denmark



Number of new unemployed persons



Expectations from corporates (October 2020)

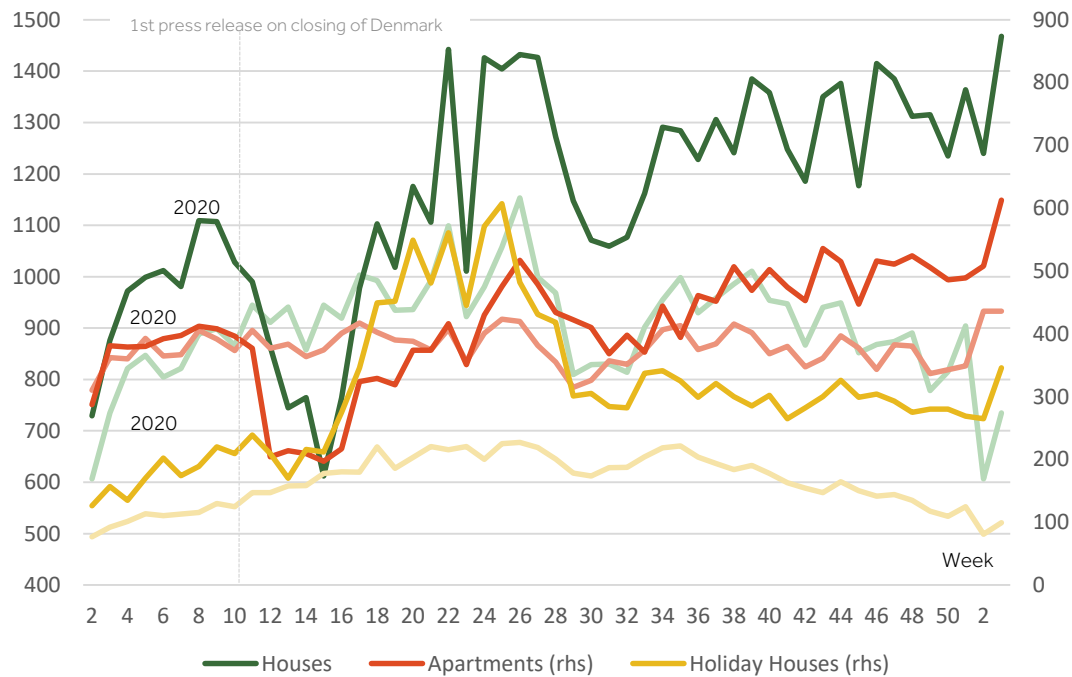
Bankruptcy within 3 mth	Industri	Construction	Service	Retail
No risk	92%	87%	90%	88%
Small risk	6%	11%	9%	10%
Some risk	2%	2%	1%	3%
Large risk	0%	0%	0%	0%

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 January 2021	Change in prices 2020
Houses	1.0%	6.5%
Apartments	1.3%	8.8%
Holiday houses	1.0%	9.1%

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 in Jyske Realkredit to the most affected sectors (restaurants, hotels, travel business)
- The situation could potentially change when helping packages stops
  - Impairments increased in 2020 in Jyske Realkredit with DKK 415m as management estimate

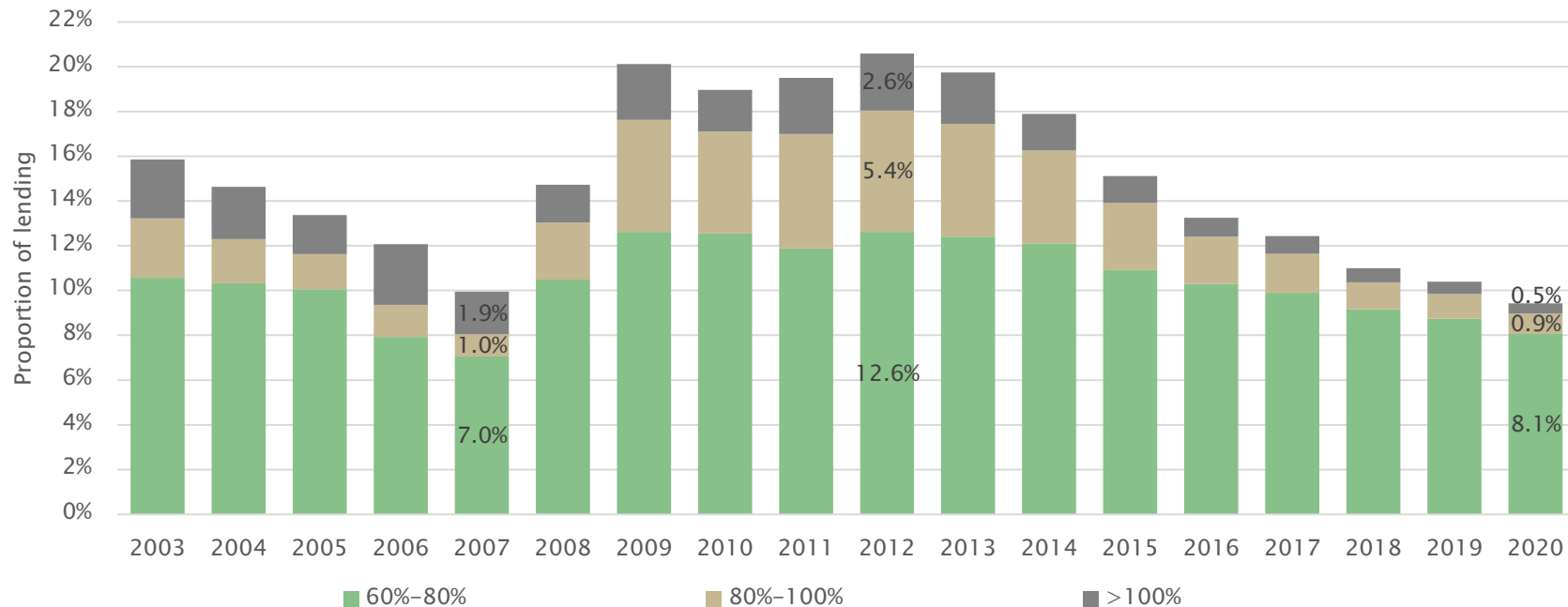
*15-day arrears for Jyske Realkredit*

Segment	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Private	1.0%	1.0%	1.0%	0.8%	0.8%	0.7%
Commercial	0.4%	0.7%	1.0%	0.6%	0.8%	0.5%
<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>

## Historically low LTV

- Historically low loan-to-value in Jyske Realkredit
- Level of loan-to-value is lower than before the financial crisis
- Jyske Realkredit is well prepared for a potential worsening of the Covid-19 situation
  - ... and for alternatives if this does not happen

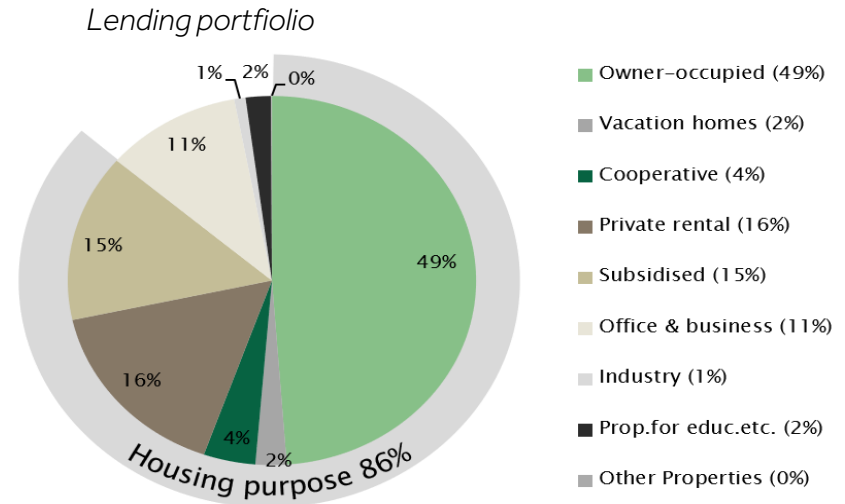
*Development in loan-to-value for Jyske Realkredit*



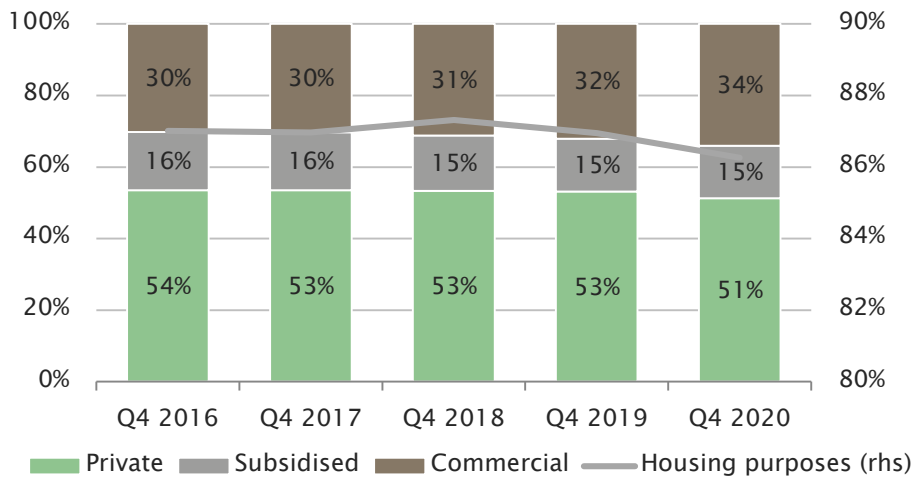


# Portfolio

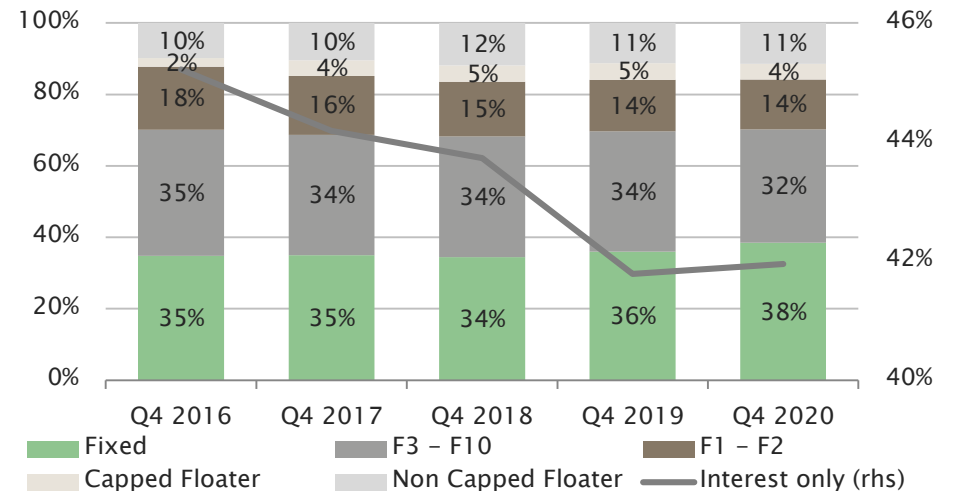
- 86 % of lending to properties with housing purposes
- No lending to agriculture and other primary production
- Stable share of private and commercial lending
- Increase in share of fixed rate mortgages and decreasing share of F1 and F2
- Decreasing proportion of interest only loans



*Development in lending portfolio*

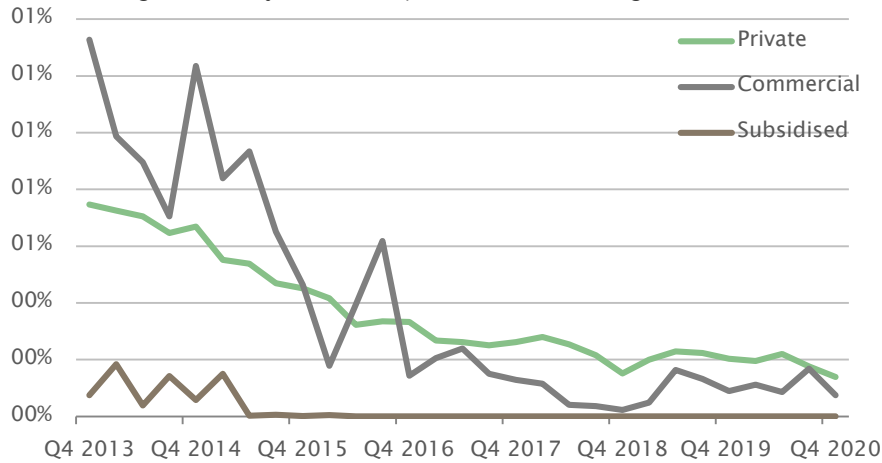


*Development in loan types*

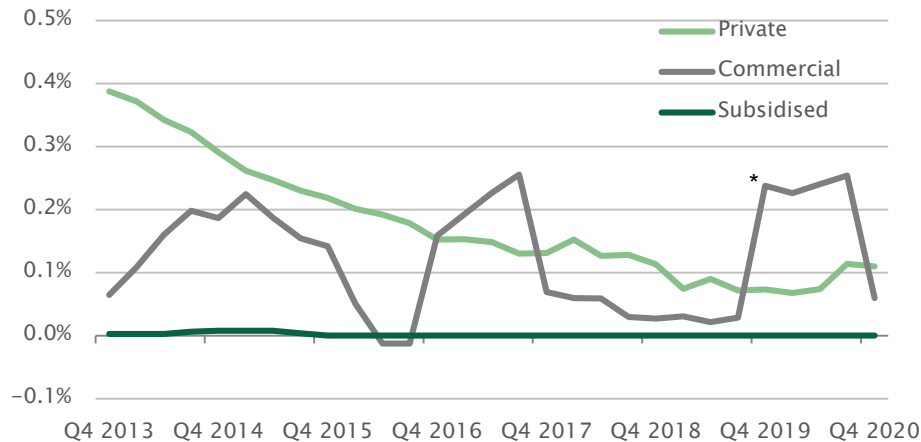


# Credit quality

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

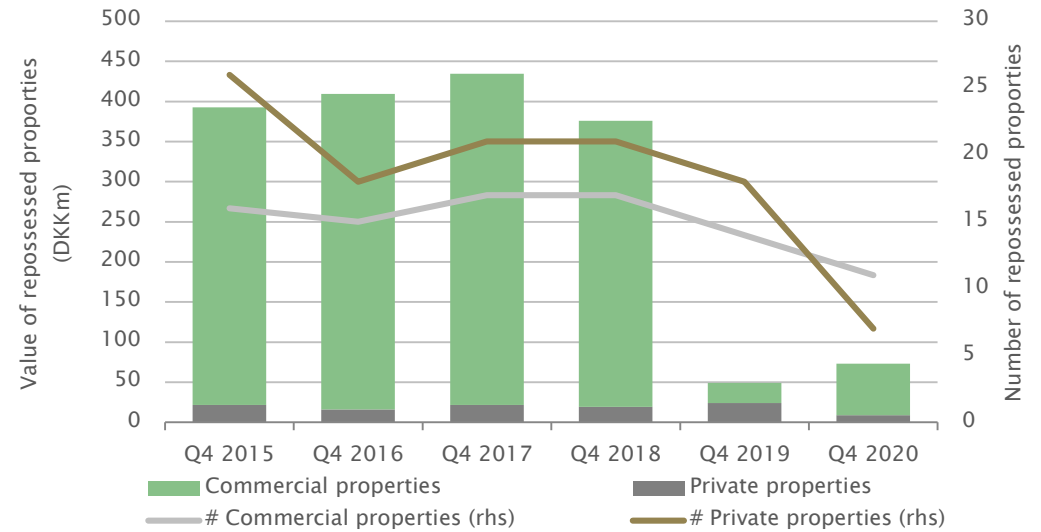


Yearly realised losses (running year)

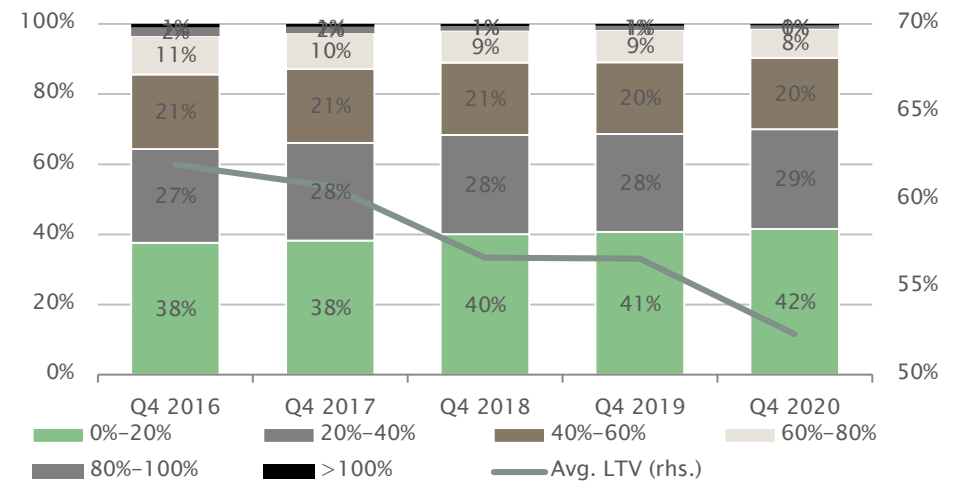


\* Single commercial property – impairment charges was already taken

Repossessed properties (DKKm/number)



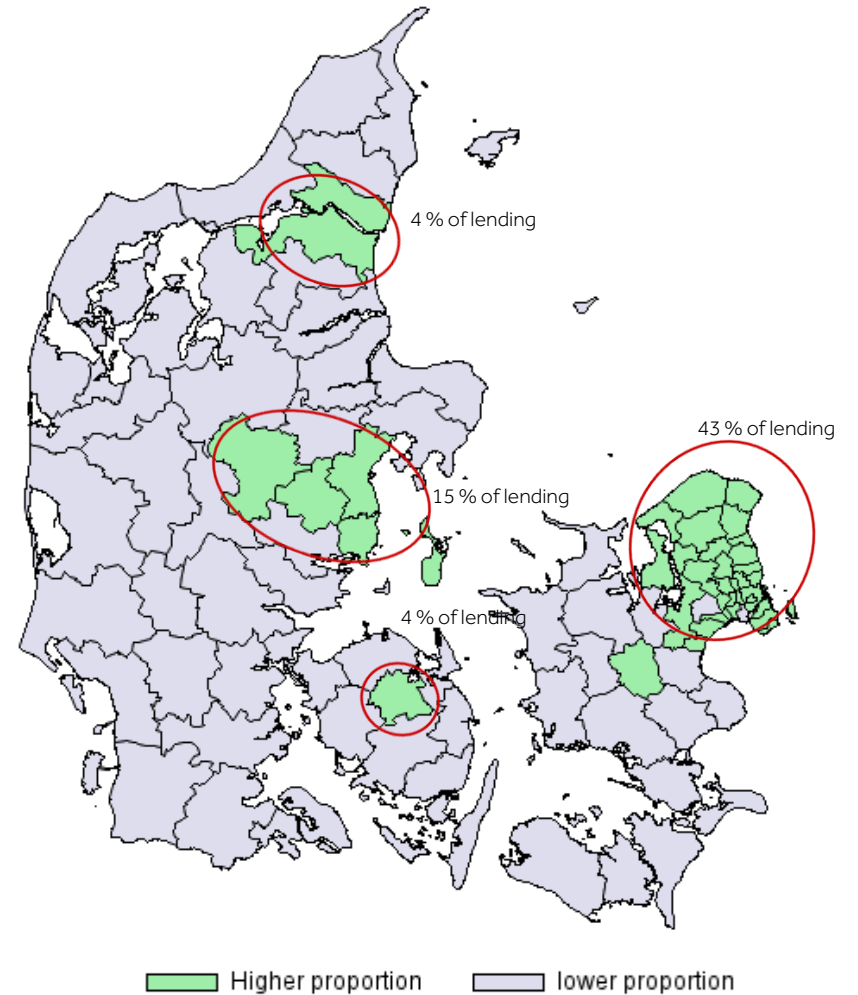
Loan-to-Value brackets (per cent of lending)



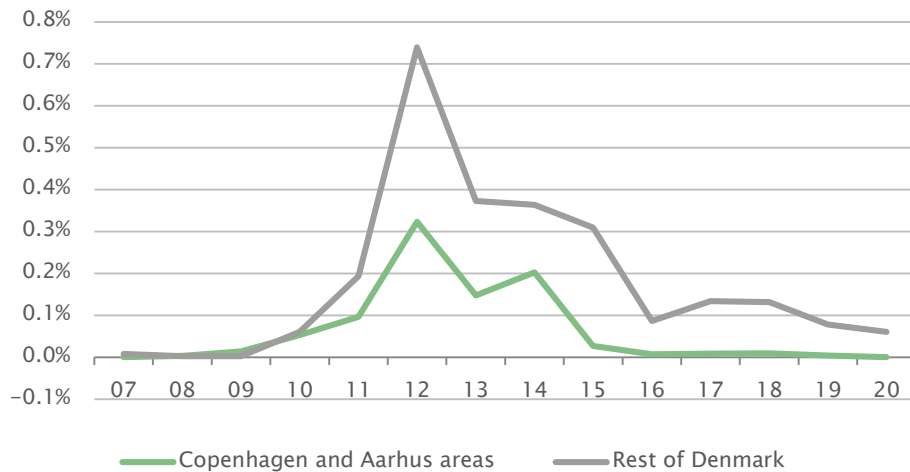
# Geographical distribution

- 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 Q4 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	Q4 2020	Q4 2019
<b>Concentration risk</b>	< 100 %	51.0%	47.9%
<b>Increase in loans</b>			
- Owner-occupied home and vacation homes	< 15%	-0.8%	2.4%
- Residential rental property	< 15%	6.5%	0.2%
- Agriculture	< 15%		
- Other sectors	< 15%	6.7%	6.1%
<b>Borrower's interest-rate risk</b>			
- Residential properties	< 25%	17.0%	17.8%
<b>Interest-only schemes</b>			
- Owner-occupied home and vacation homes	< 10%	6.0%	6.4%
<b>Loans with frequent interest-rate fixing</b>			
- Refinancing (annually)*	< 25%	16.2%	15.0%
- Refinancing (quarterly)	< 12.5%	1.4%	1.7%

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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

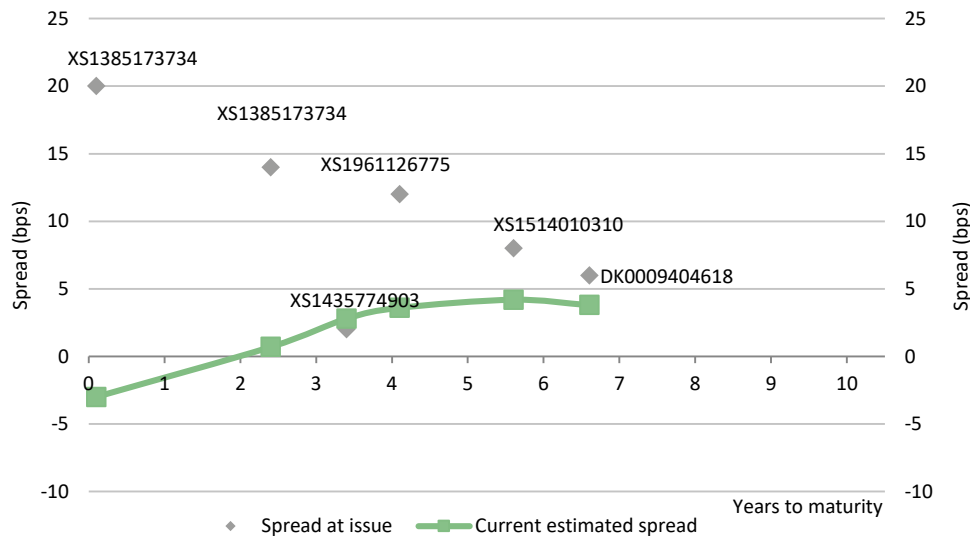
*Cash flows for a 10-year mortgage loan of DKK 1,000,000 and funding, -0.5% coupon (at par)*

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



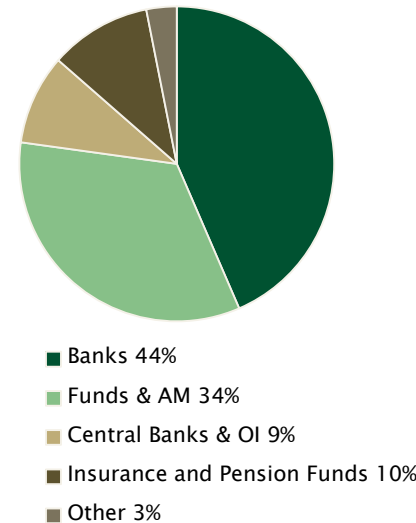
# Jyske Realkredit EUR covered bonds

Jyske Realkredit EUR covered bond issuances\*



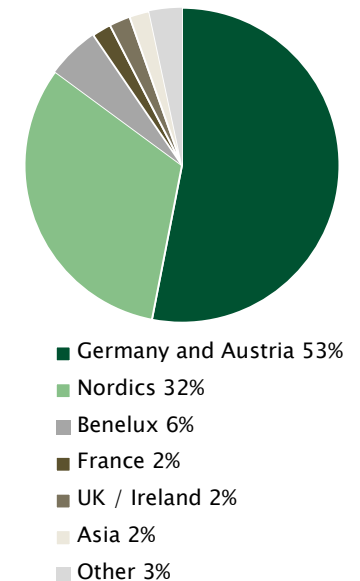
\*Pricing indications mid-February 2021

Investor distribution\*



\*Figures are based on allocated amounts

Geographical distribution\*



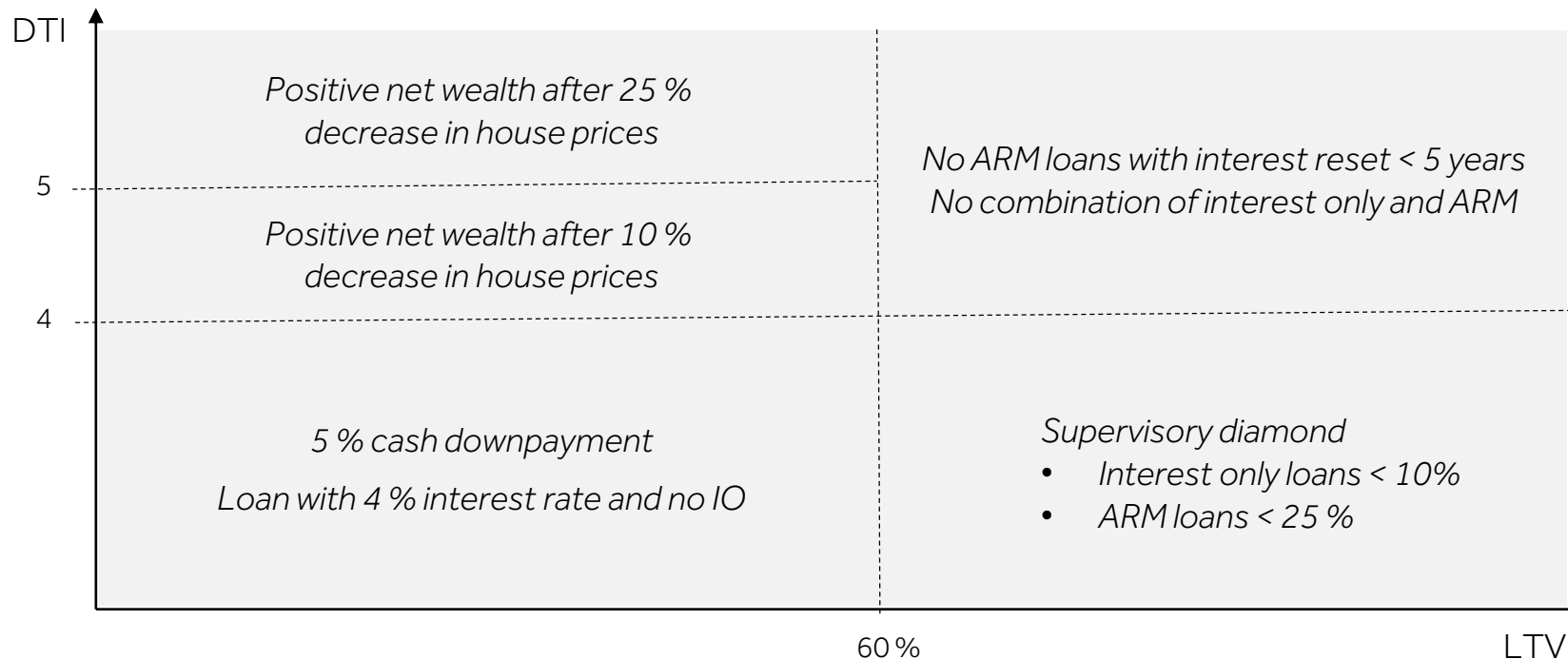
- Three first successful EUR covered bond issuances in 2016 of 5 years (EUR 500m), 7 years (EUR 750m) and 10 years (EUR 750m). One issue in August 2017 (EUR 500m) and one in March 2019 (EUR 500m)
- Latest issue in January 2021
- Large interest from a wide variety of investor from different countries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