

Jyske Realkredit

Interim report 1st quarter 2020

Published 5 May 2020

Result in Q1 2020 affected by Covid-19

Result in Q1 2020

- Pre-tax profit was DKK -95m
- Return on equity was -0.5 % p.a.
- Management estimate of impairments charges of DKK 400m as a consequence of the Covid-19 outbreak

Q1 2020 (compared to Q1 2019)

- Higher income from administration margin
- Core earnings almost at same level
- Expenses increases due to change in intra-group settlement model
- Impairment charges affected by management estimate of DKK 400m

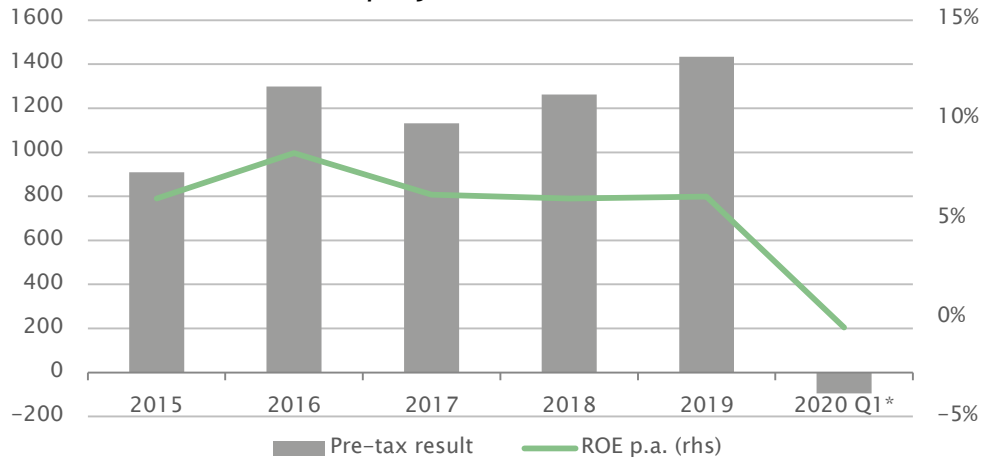
Expectations for rest of 2020

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

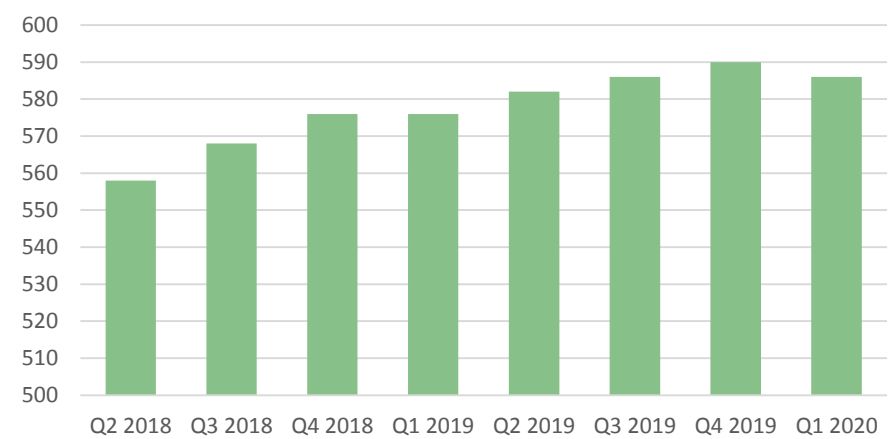
Core profit and net profit for the period DKKm	Q1 2020	Q1 2019	Index 20/19
Core operations			
Administration margin, etc.	586	576	102
Other net interest income	6	12	49
Net fees, charges and commission income etc.	-119	-132	90
Value adjustments	4	26	16
Other income	0	0	-
Core earnings	477	482	99
Core expenses	87	79	111
Core earnings before loan impairment charges etc.	390	403	97
Loan impairment charges etc.	485	-26	-
Pre-tax profit	-95	429	-
Tax	-21	93	-
Net profit or loss for the period	-74	336	-

Financials - selected graphs

Result and return on equity

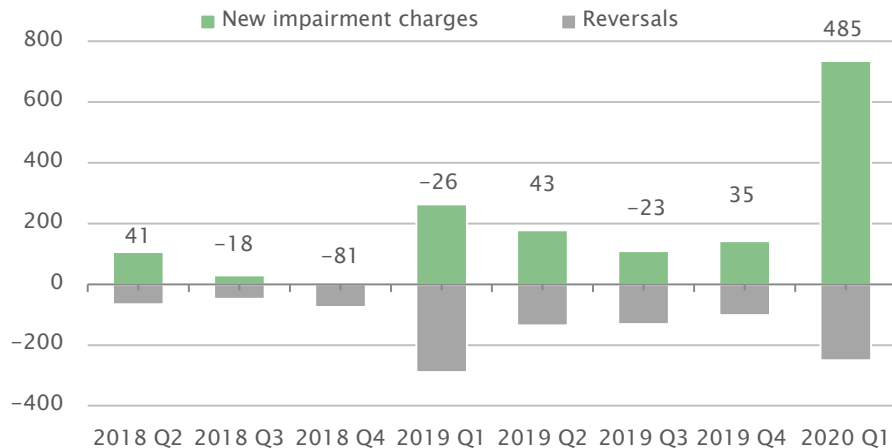


Administrative margin (DKKm)

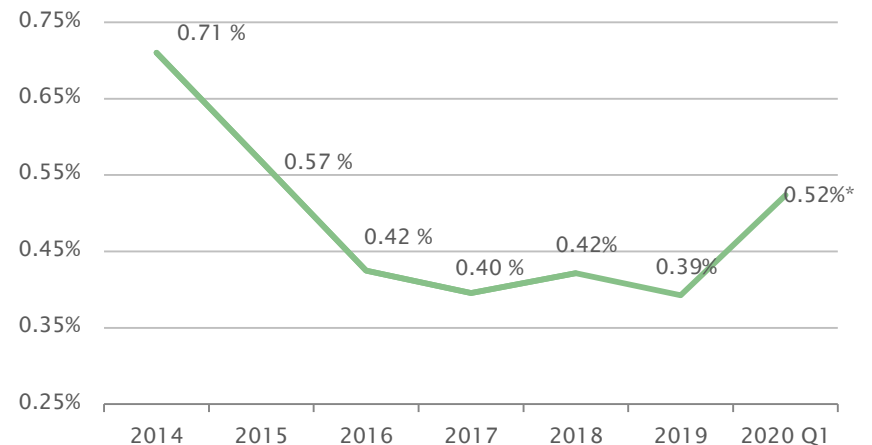


*Annualised

Impairment charges and reversals (DKKm)



Balance of loan impairments in % of lending

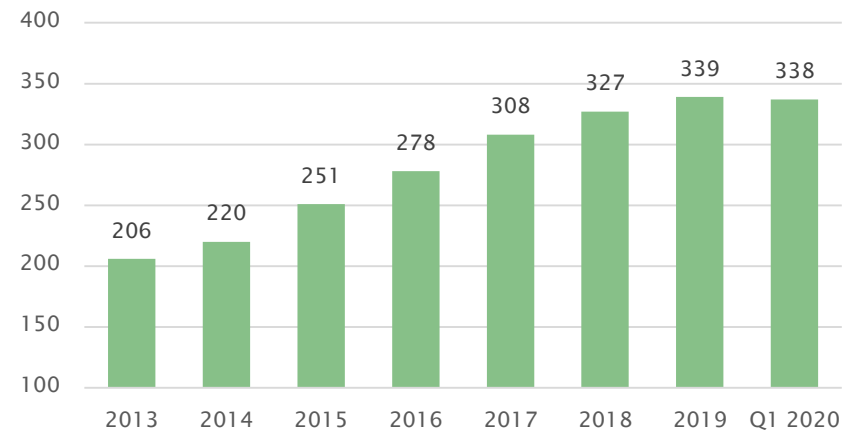


* Management adjustment of DKK 400m due to Covid-19

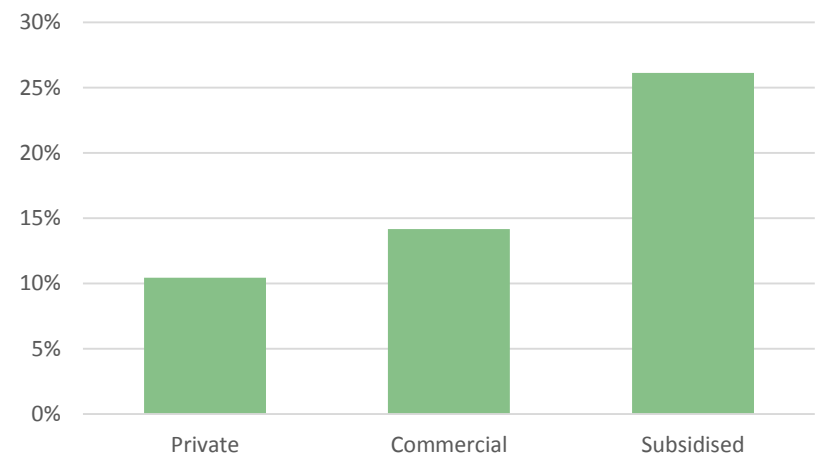
Growth in mortgage lending

- Loan at fair value decreased, due to decreasing bond prices
- Nominal lending growth in Q1 2020
- Net growth in mortgage lending of more than 60 % over last six years
- Net growth primarily in residential segment
- Commercial and subsidised lending growing with DKK 42bn (DKK 33bn 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

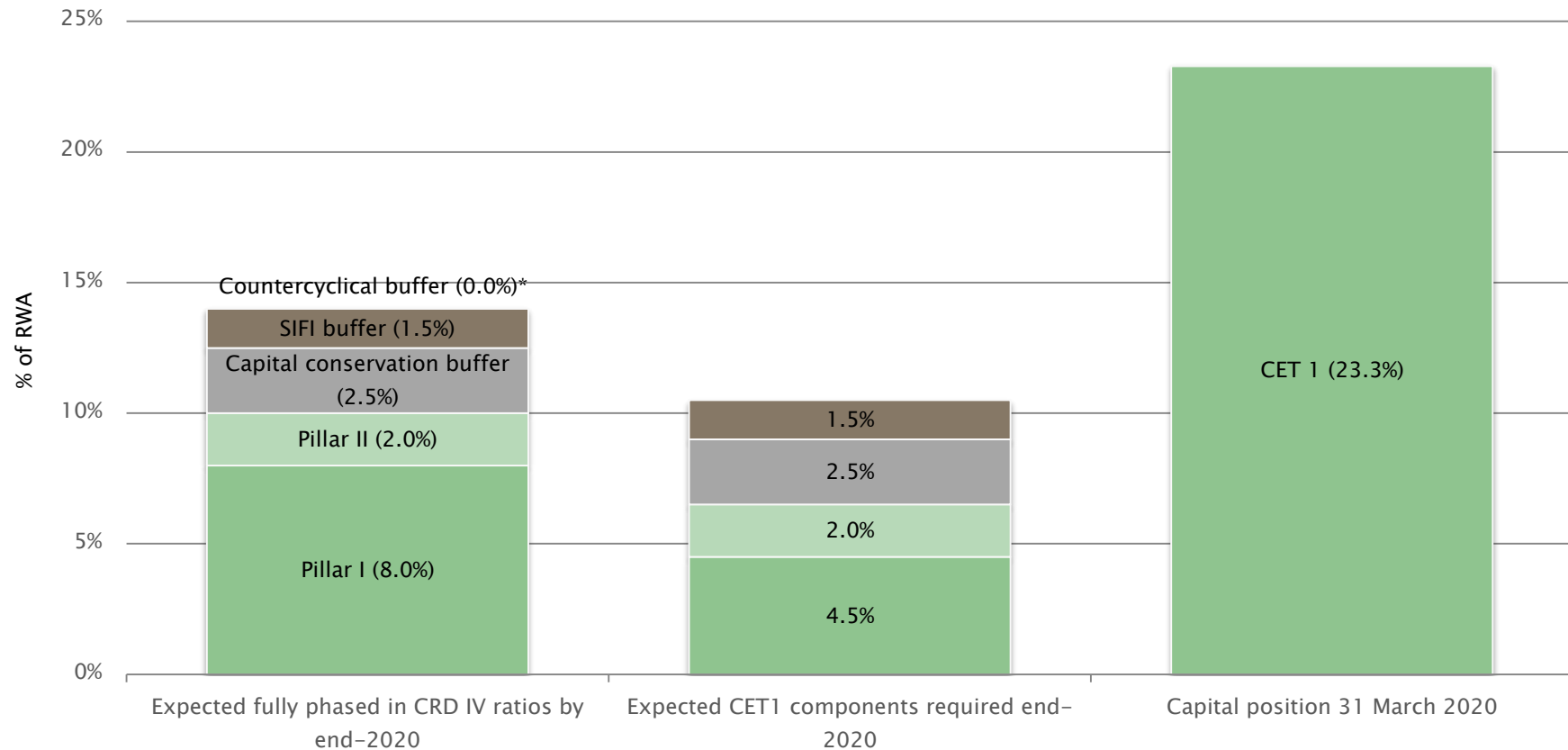
Total mortgage lending at market value (DKKbn)



Market share of mortgage market (%)



Expected fully implemented CRD IV & Danish SIFI demands

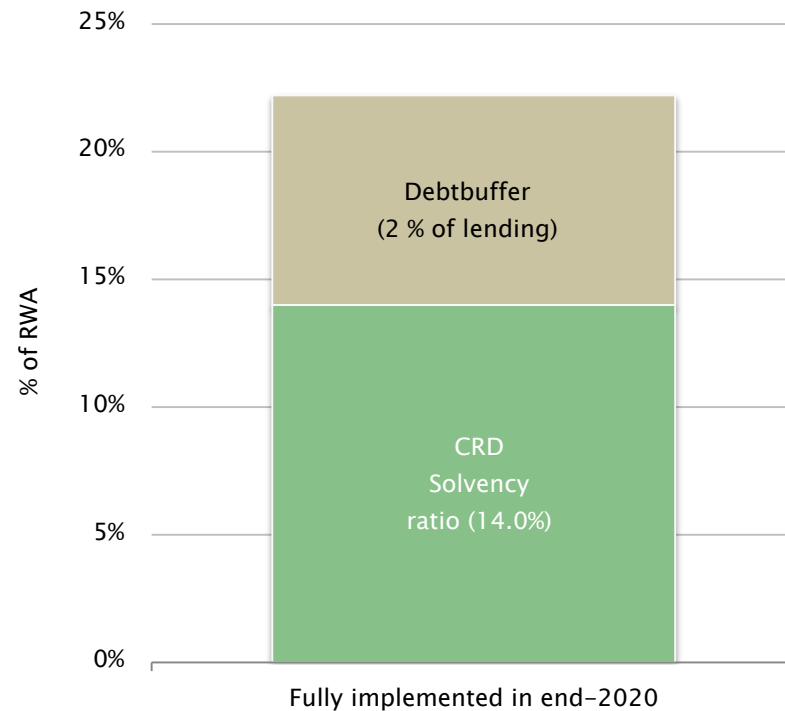


*) Countercyclical buffer set at 0.0 % in Q1 2020 due to Covid-19

- 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 Q1 2020 with CET1 and senior debt



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

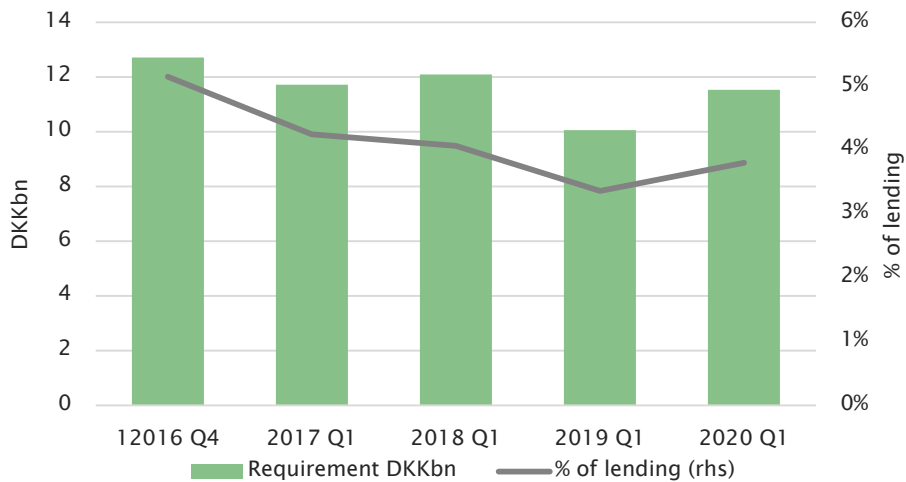
Rating

- Jyske Bank and Jyske Realkredit issuer credit rating upgraded by S&P to A in October 2019
- Upgrade due to ALAC buffer above 5 %
- Nominel OC-requirements is at a lower level than in 2016 despite growth of mortgage loans of DKK +90bn
- Improvement in credit quality and composition of cover pool

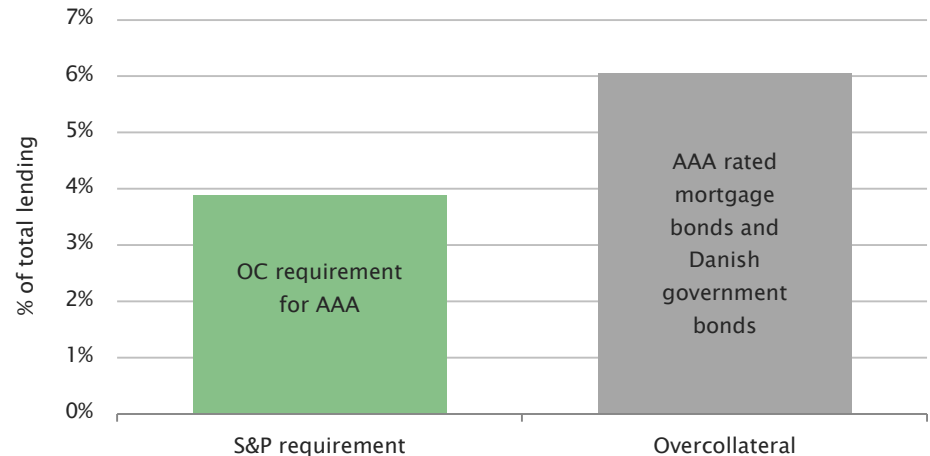
Rating Standard and Poor's

Jyske Realkredit ICR	A
Outlook	Neutral
Capitalcenter B	AAA
Capitalcenter E	AAA
Capitalcenter General	AAA
Free notches over AAA	4

AAA rating requirement



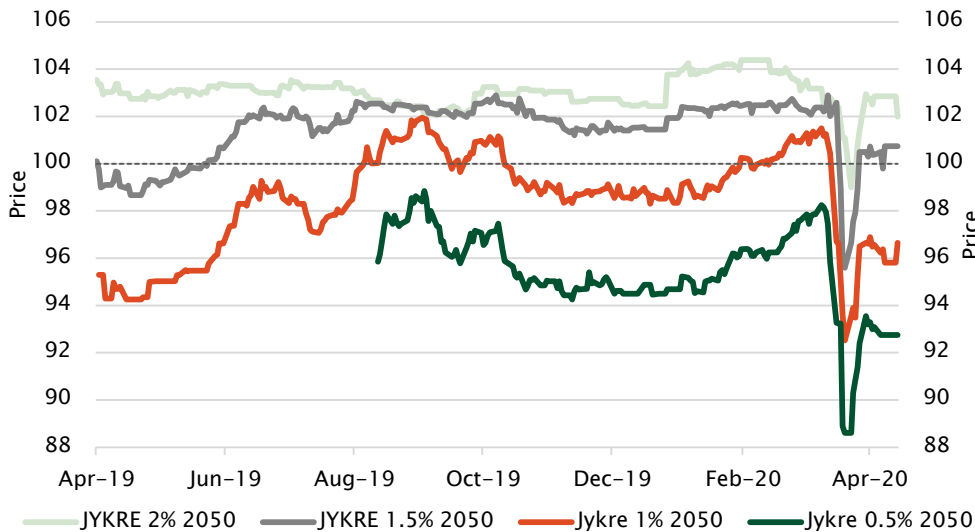
Rating requirement and overcollateral



DKK bond prices in volatile Q1 2020

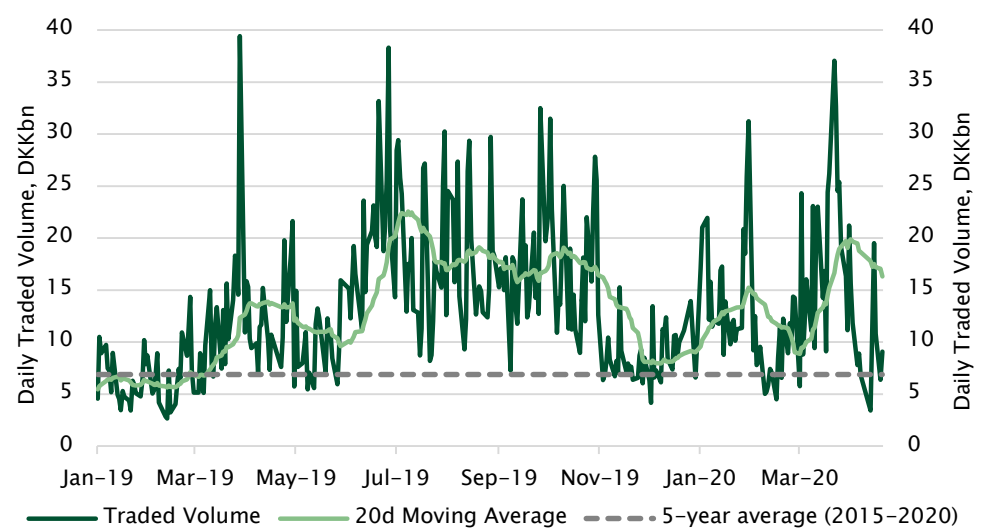
- Volatility in Danish covered bond prices in Q1 2020 due to Covid-19
- Sharp drop in prices for callable bonds in beginning of March - prices have partly recovered
- Open series for financing 30 year fixed interest mortgage loans are at the moment 1.0% and 1.0% IO
- Despite economic turmoil there is still high activity in the Danish covered bond market
 - Average daily traded amounts in March 2020 of DKK 18.7bn (in March 2019 DKK 12.0bn)

Prices for selected Jvske Realkredit callable bonds



Source: Bloomberg

Daily traded callable DKK covered bonds 2019-2020

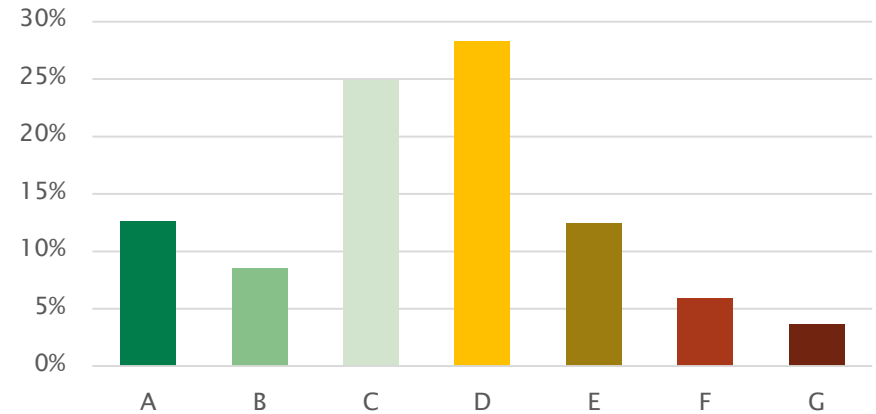


Source: Nasdaq Copenhagen

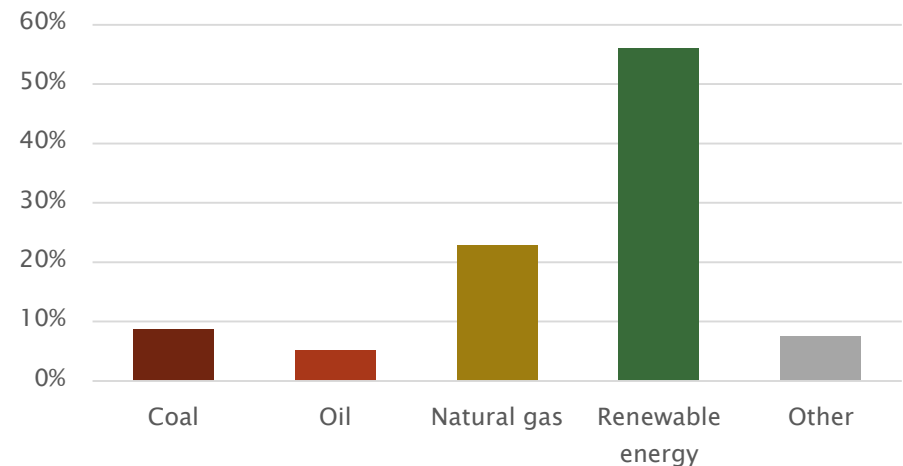
Sustainable Transparency Template

- As the first financial institution Jyske Realkredit publish Sustainable Transparency Template
- Very different definitions of "green" covered bonds
- Available public information about energi labels in Denmark
- Majority of energy production 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 (% of lending in Kap. E)



Distribution of heat production (% of total lending)



CO₂-emissions in Sustainable Transparency Template

- Jyske Realkredit now 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

Calculated CO₂-emissions for Jyske Realkredit capital center E

Property type	Ton CO ₂	Kg CO ₂ /m ²
Owner-occupied homes	335,584	23.1
Subsidised Housing	21,398	10.4
Cooperative Housing	9,997	10.1
Private rental	37,698	9.9
Office, Business, Manufacturing and Manual Industries	73,943	16.9
Other	19,918	15.7
Total	498,538	17.9

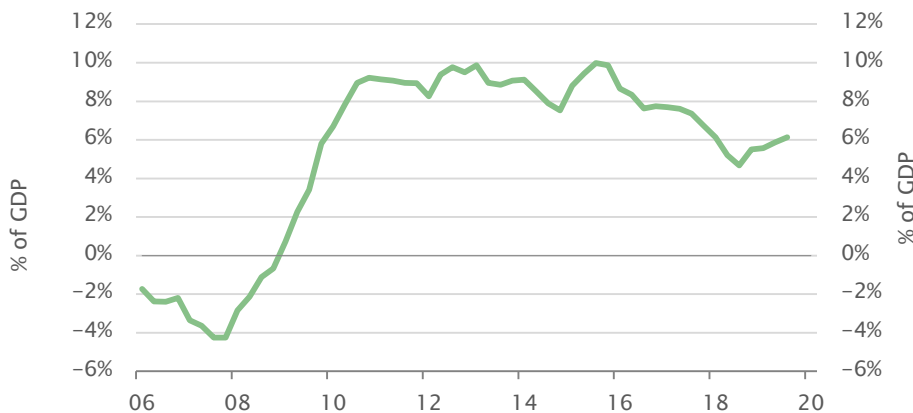
Household behavior

- Sharp drop in consumer expectations due to development of Covid-19
- ...but the private sector is well prepared for a potential economic downturn
- There is still a large purchasing power in the private sector
- The Private sector is still saving up
- Household debt is at a low level

Consumer expectations

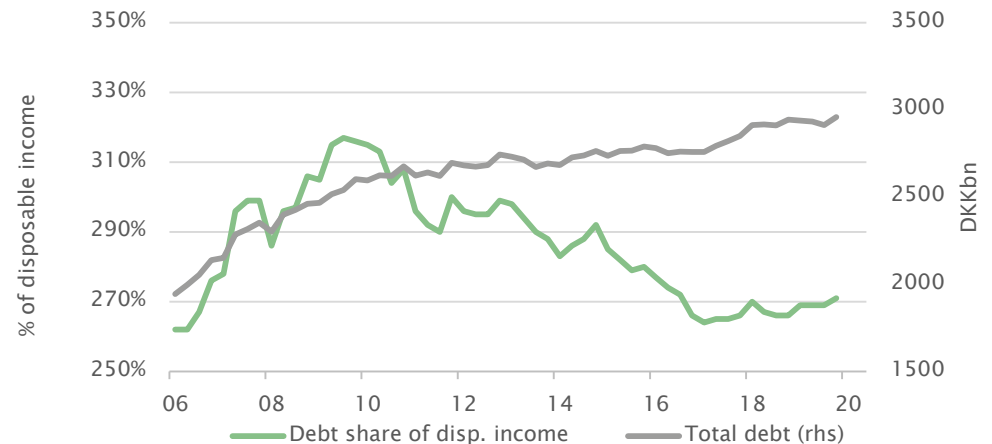


Private sector financial savings



Source: Statistics Denmark

Household gross debt

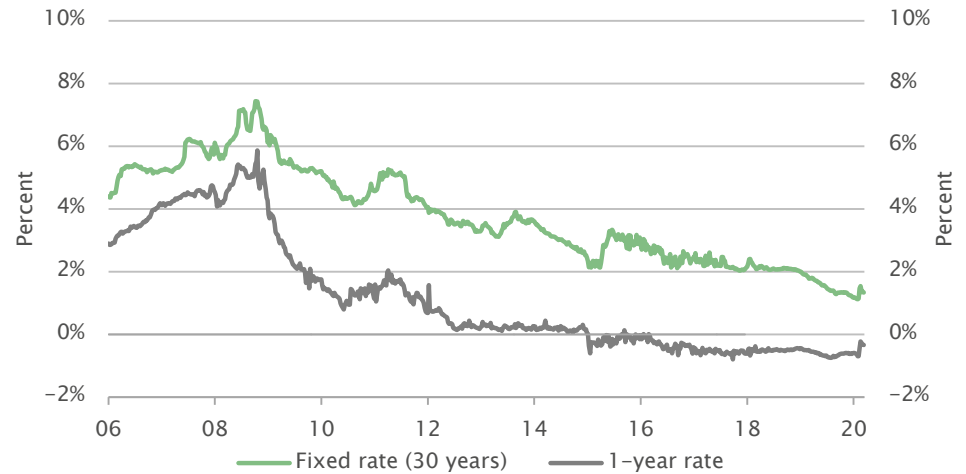


Source: Statistics Denmark

Household finances

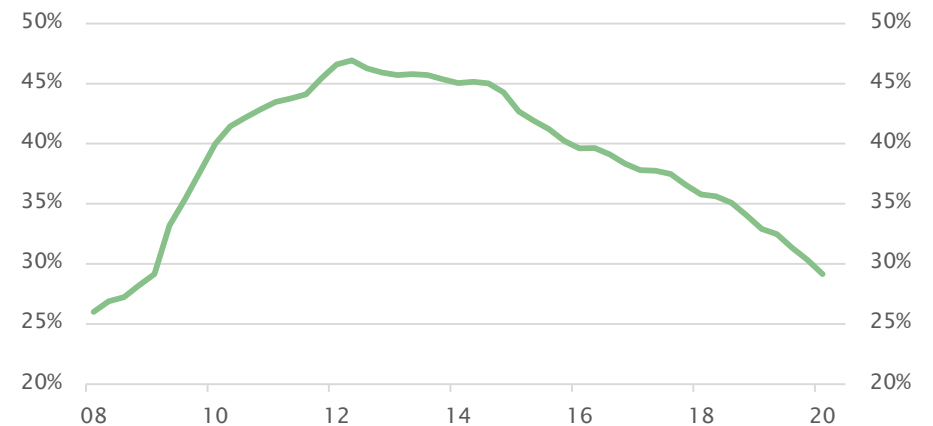
- Interests rates are historical low
- Average 30-year fixed interest rate at 1.3 %
- Housing burden also at a historical low level
 - Price of owning own house is low
 - Increasing property prices and decreasing interests
- Private consumers remortgage to loans with interest rate fixed until maturity and with amortization

Interests rates



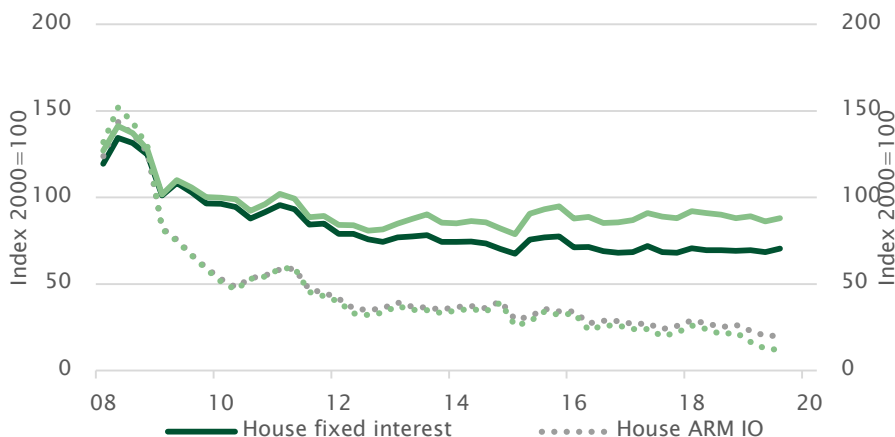
Source: Association of Danish Mortgage Banks

Private mortgages with IO and variable interest rate



Source: Association of Danish Mortgage Banks

Housing burden

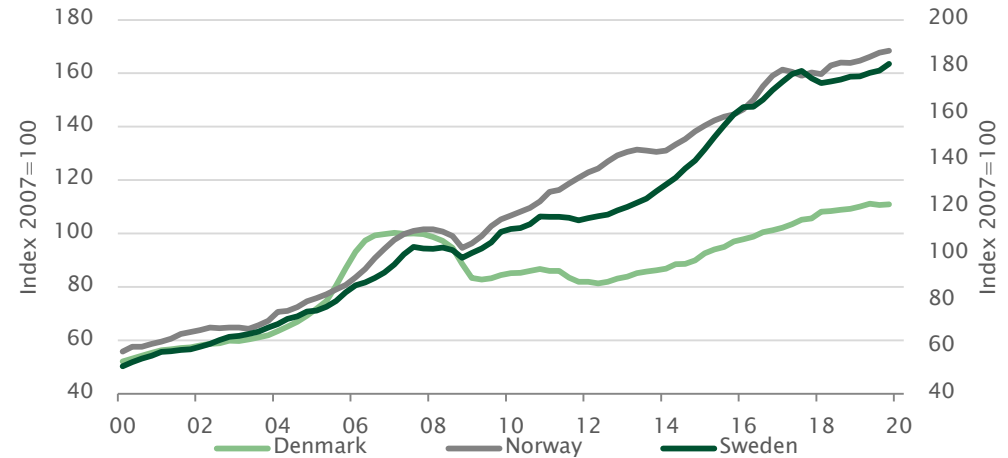


Source: Jyske Realkredit

Danish housing market

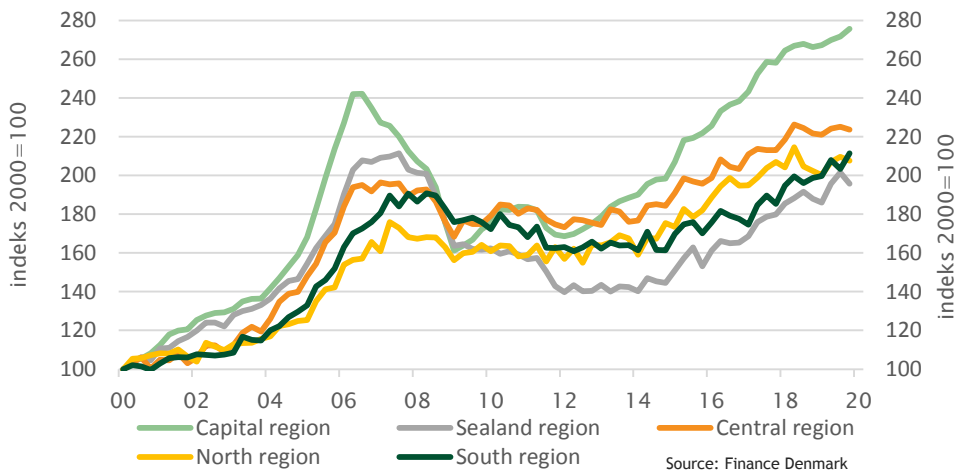
- Increasing house prices after the financial crisis
- Compared to Sweden and Norway Denmark has repriced
- Historical increasing prices in urban areas and increasing/stagging prices in non-urban areas
- Stable apartment prices in Capital Region
- Population growth strongest in Capital Region and Central Region

Nordic house prices



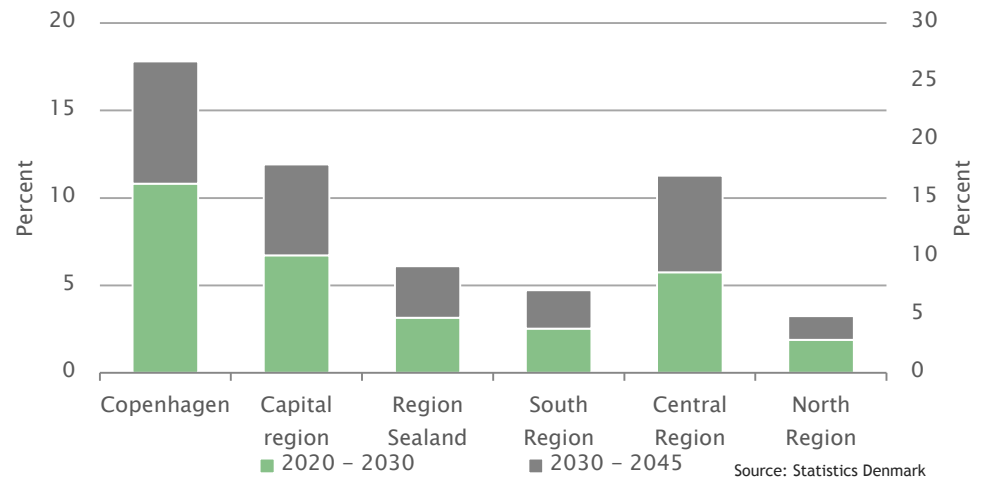
Source: OECD.Stat

Regional house prices in Denmark



Source: Finance Denmark

Expected population growth 2020 - 2045

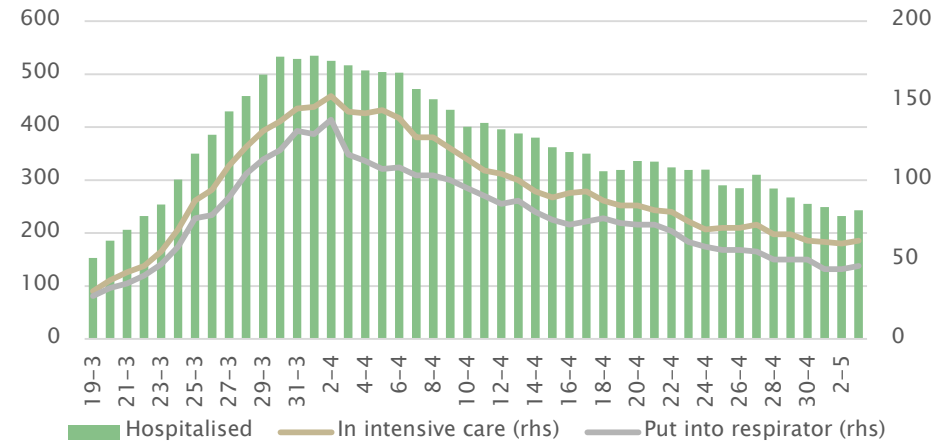


Source: Statistics Denmark

Covid-19 effects on Danish economy

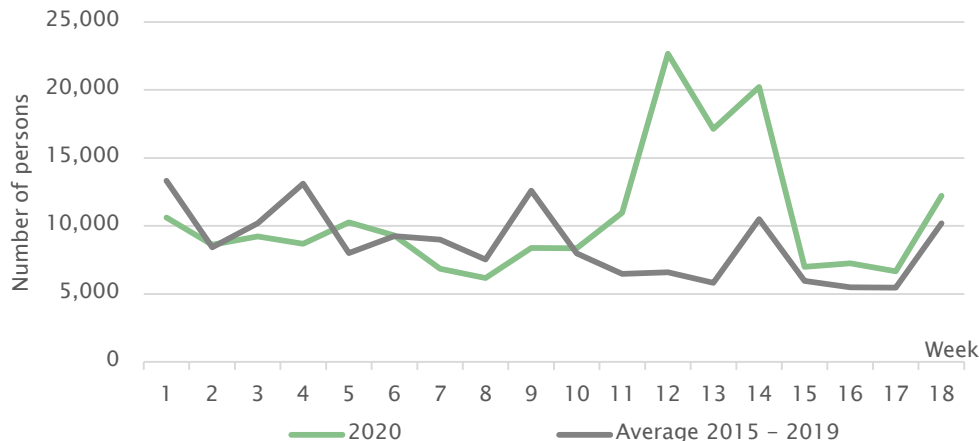
- Decreasing number of hospitalized persons in Denmark
- Denmark is slowly starting to open up again
- Number of new unemployed persons has increased with 50,000 persons
- The number could increase with more persons
- Largest effect of Covid-19 for businesses working within service and retail

Number of hospitalised persons in Denmark



Source: Statens Seruminstitut

Number of new unemployed persons



Source: Styrelse for Arbejdsmarked og Rekruttering

Expectations from corporates

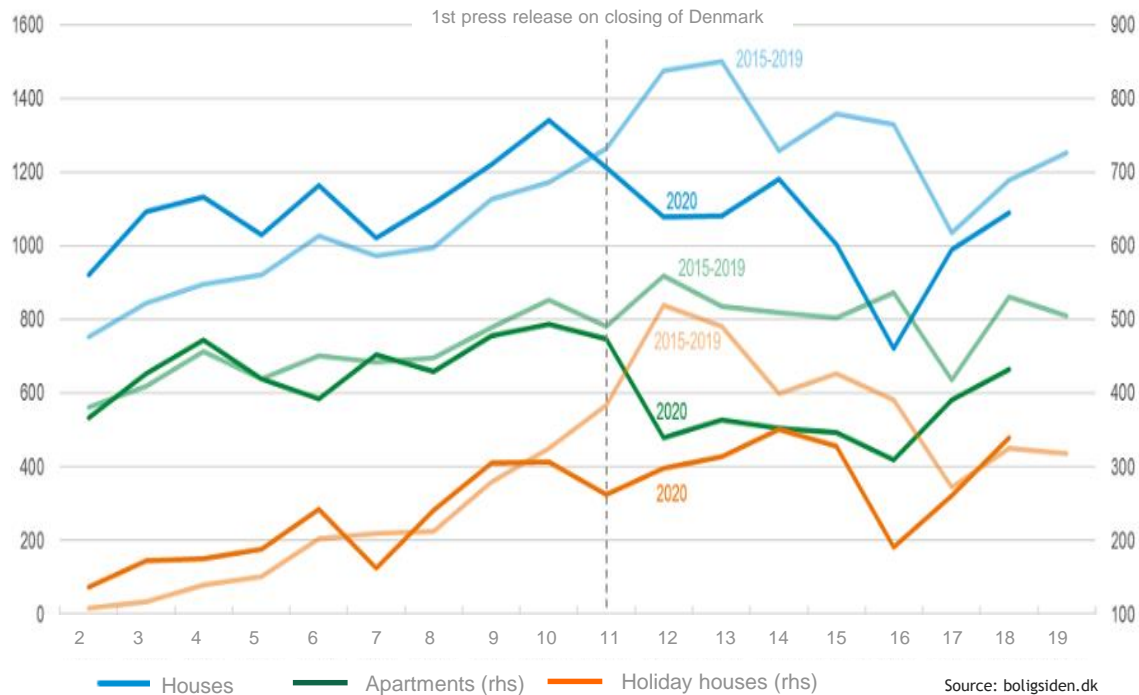
Effect of Covid-19	Industri	Construction	Service	Retail
None	6%	13%	7%	5%
Little	29%	58%	16%	20%
Some	50%	19%	30%	27%
Large	15%	10%	48%	49%

Source: Statistics Denmark

Covid-19 and the Danish mortgage market

- Covid-19 will have an effect on the Danish mortgage market, but it is still too early to predict the final outcome
- Expectation that apartment prices in urban areas will be affected more by Covid-19 than house prices
- The expectations from Jyske Bank is moderate decreasing property prices

Number of new properties for sale



Sold properties relative to 2015-2019 average

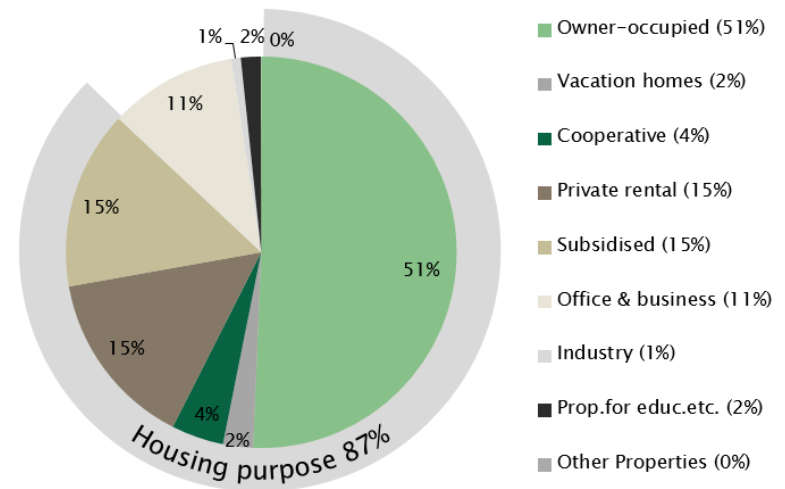
Week	Houses	Apartments	Summer houses
11	7%	-6%	63%
12	-6%	-48%	42%
13	-18%	-43%	6%
14	-9%	-42%	33%
15	-36%	-51%	20%
16	-17%	-42%	51%
17	8%	-13%	93%

Source: boligsiden.dk

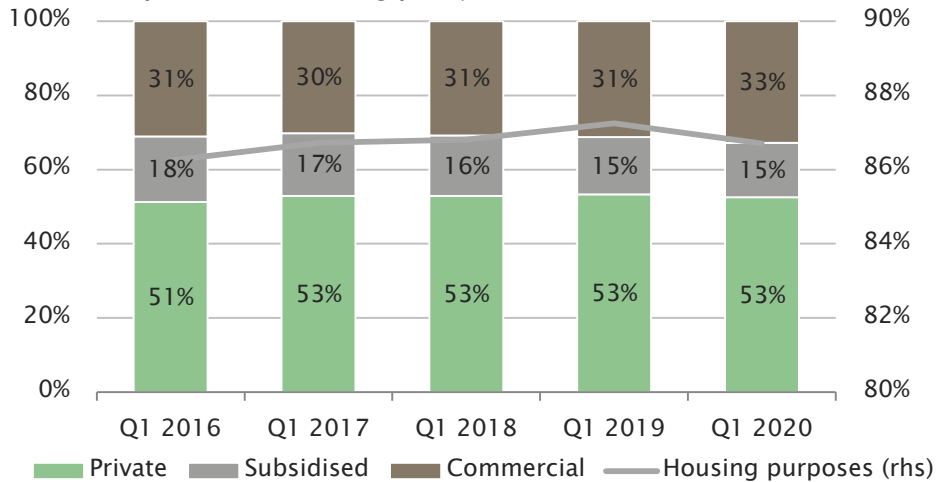
Portfolio

- 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

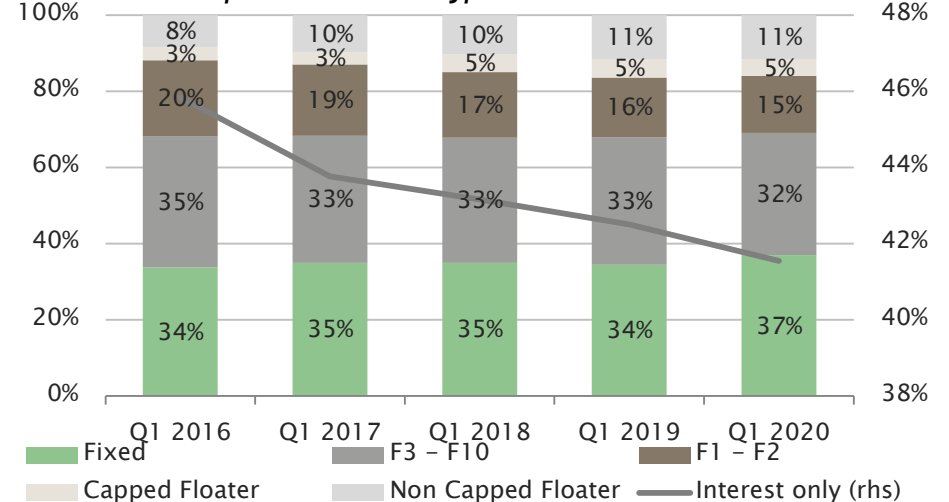
Lending portfolio



Development in lending portfolio



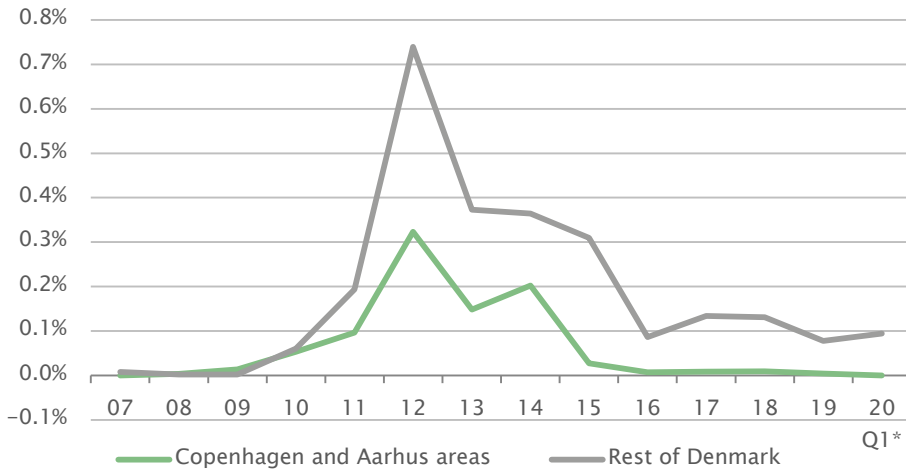
Development in loan types



Geographical distribution

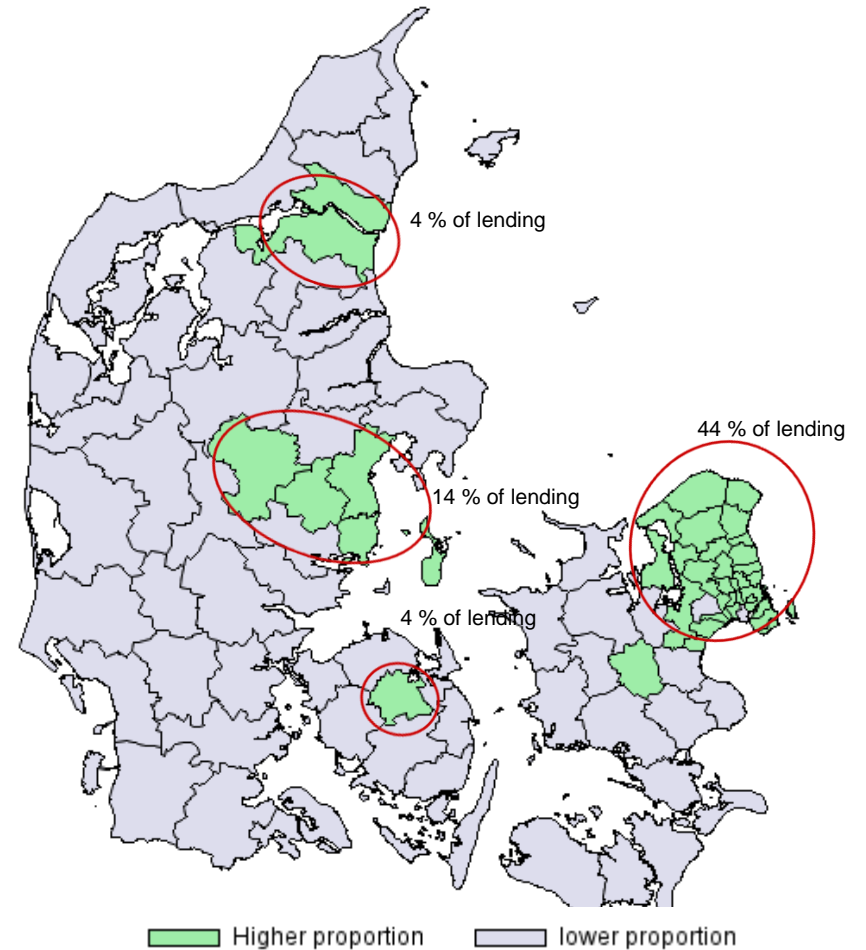
- East - East strategy
- The primary portfolio is focused around largest cities - areas with increasing housing prices and expected population growth
- Concentration in four largest cities, but lending all across Denmark
- Relative small losses in urban areas through the financial crisis
- High tradability prevent losses

Yearly Loss in % of lending for residential properties



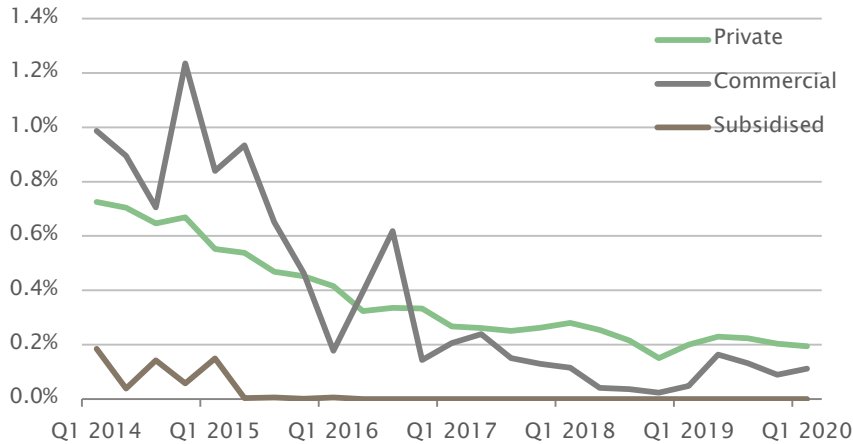
*Annualised

Proportion of residential lending to proportion of population

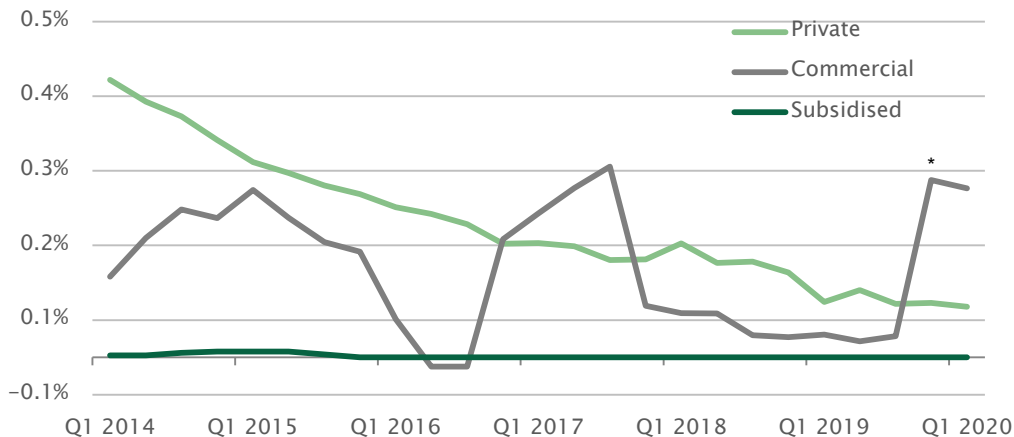


Credit quality

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

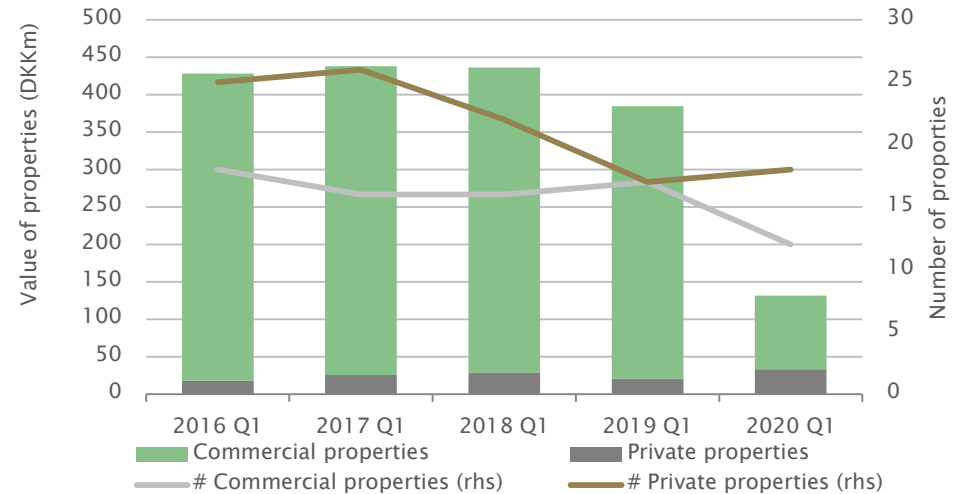


Yearly realised losses (running year)

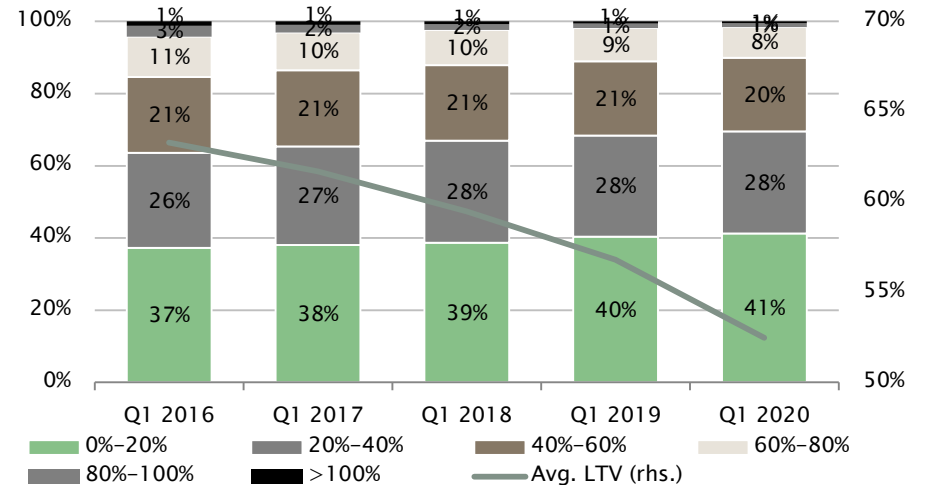


* Single commercial property – impairment charges was already taken

Repossessed properties (DKK/m/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 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 2019 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	Q1 2020	Q1 2019
Concentration risk	< 100 %	47.9%	46.2%
Increase in loans			
- Owner-occupied home and vacation homes	< 15%	2.4%	6.3%
- Residential rental property	< 15%	0.2%	2.6%
- Agriculture	< 15%		
- Other sectors	< 15%	6.1%	4.0%
Borrower's interest-rate risk			
- Residential properties	< 25%	17.8%	19.7%
Interest-only schemes			
- Owner-occupied home and vacation homes	< 10%	6.4%	7.3%
Loans with frequent interest-rate fixing			
- Refinancing (annually)*	< 25%	15.0%	14.7%
- Refinancing (quarterly)	< 12.5%	1.7%	3.1%

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Appendices



First mortgage institute to open a callable bond with negative coupon

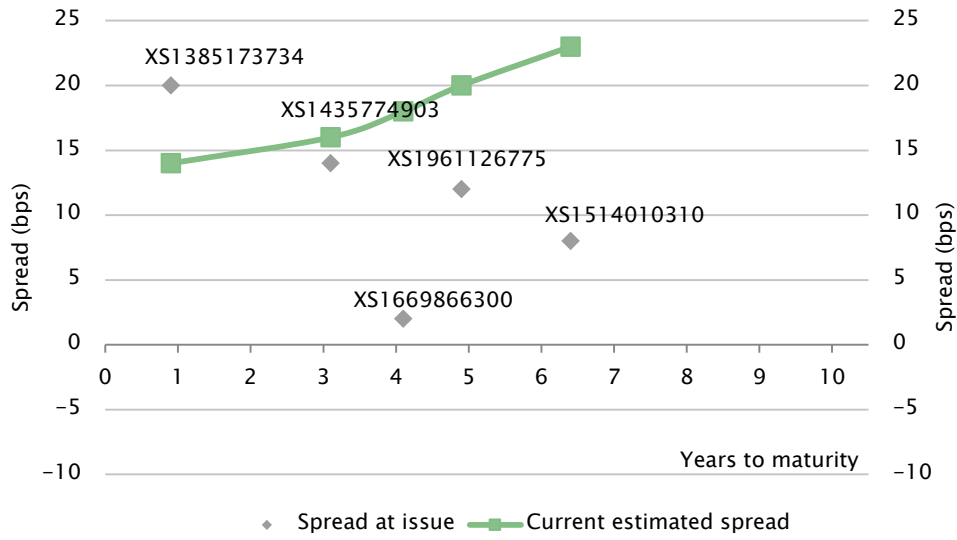
- Jyske Realkredit is the first Danish mortgage institute to open both a 10-year callable bond with a coupon of 0 % and also the first to open a 10-year callable bond with a coupon of -0.5%
- The bonds are used for financing of 10-year loans with amortization
- The amortization of the bond with a negative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

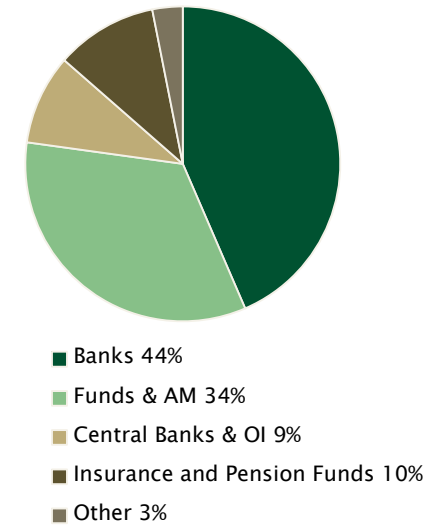
Jyske Realkredit EUR covered bonds

Jyske Realkredit EUR covered bond issuances*



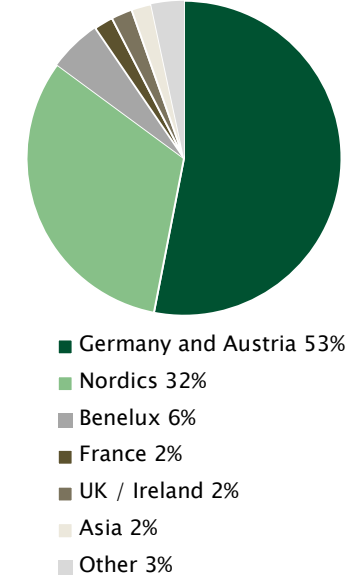
*Pricing indications February 2019

Investor distribution*



*Figures are based on allocated amounts

Geographical distribution*



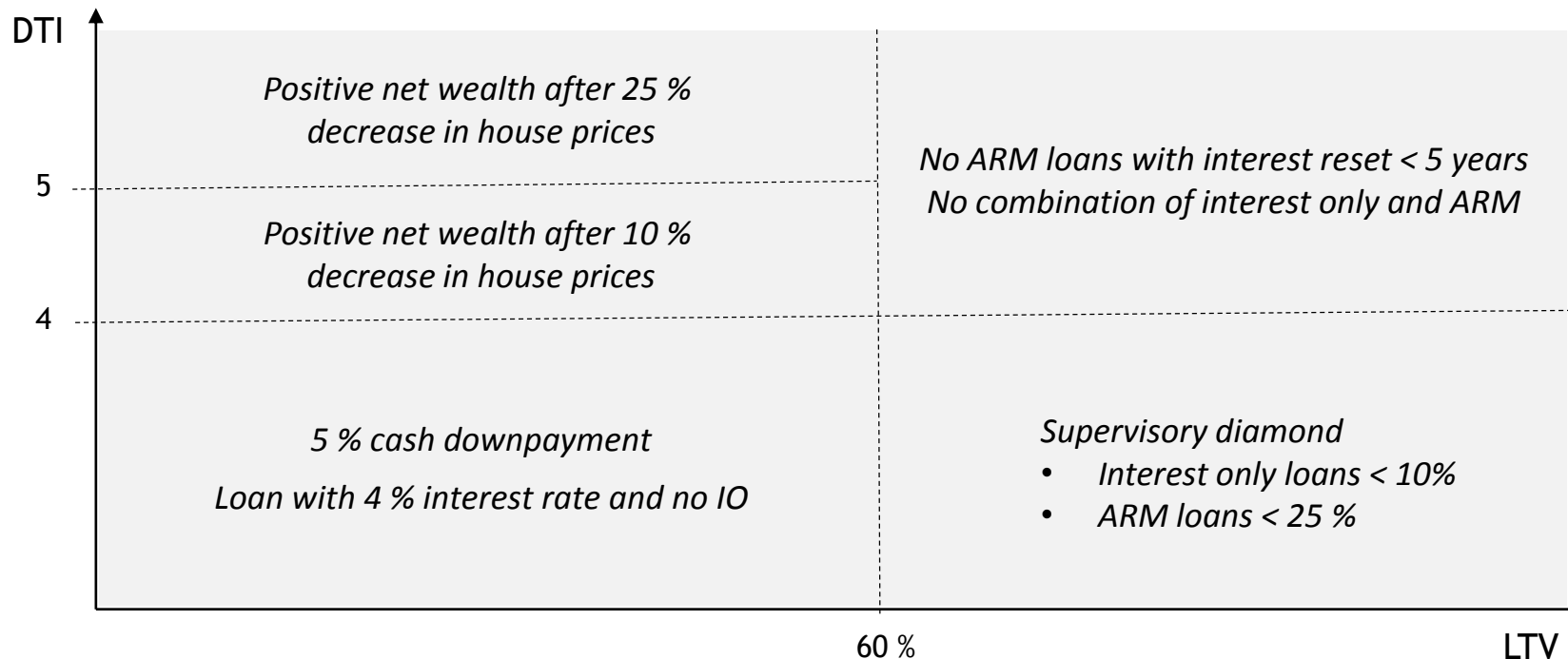
- Three first successful EUR covered bond issuances in 2016 of 5 years (EUR 500m), 7 years (EUR 750m) and 10 years (EUR 750m). One issue in August 2017 (EUR 500m) og one in March 2019 (EUR 500m).
- Large interest from a wide variety of investor from different countries
- Good performance from issuances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

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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