

Jyske Realkredit

Interim report Full year 2019

Published 25 February 2020

The positive trend in earnings continues

Result in 2019

- Pre-tax profit was DKK 1,117m
- Return on equity was 7.8 % p.a.

2019 (compared to 2018)

- Change in core earnings and expenses due to new intra-group settlement model
- Low loan impairment charges
- Pre-tax profit after IFRS 9-implementation in 2018 increased by 14 %

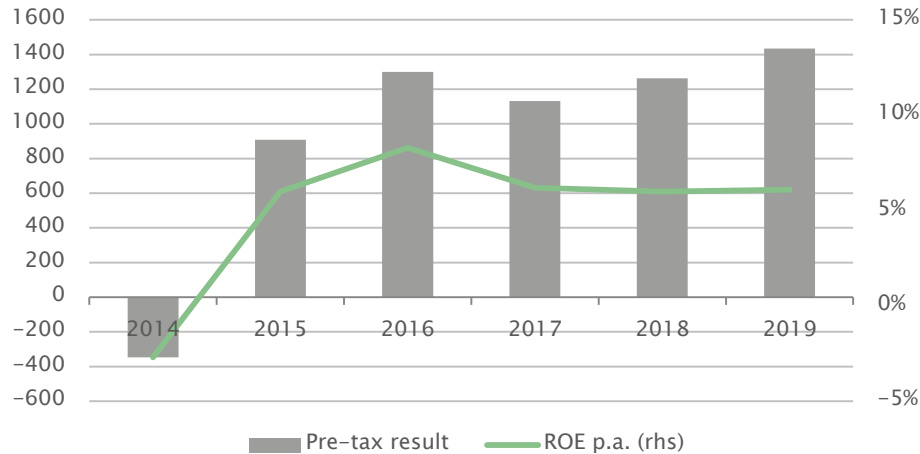
Expectations for 2020

- The increase in the portfolio is expected to continue, but at a lower moderate pace than in 2019
- Profit is expected to be at the same level as in 2019 or below

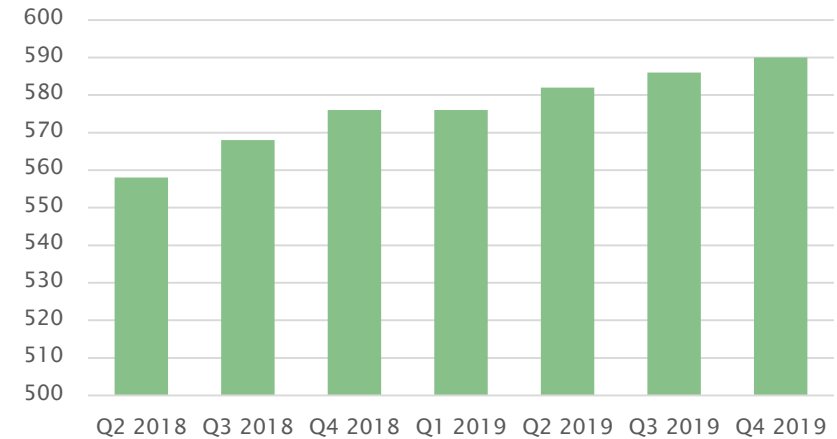
Core profit and net profit for the period DKKm	2019	2018	Index 19/18
Core operations			
Administration margin, etc.	2,334	1,896	123
Other net interest income	58	77	75
Net fees, charges and commission income etc.	-641	256	-
Value adjustments	6	-84	-
Other income	22	216	10
Core earnings	1,778	2,361	75
Core expenses	310	730	42
Core earnings before loan impairment charges etc.	1,468	1,631	90
Loan impairment charges etc.	35	-38	-92
Pre-tax profit before IFRS 9-implementation	1,433	1,669	86
IFRS 9 regulation of impairments early 2018	0	407	-
Pre-tax profit	1,433	1,262	114
Tax	316	263	120
Net profit or loss for the period	1,117	999	112

Financials - selected graphs

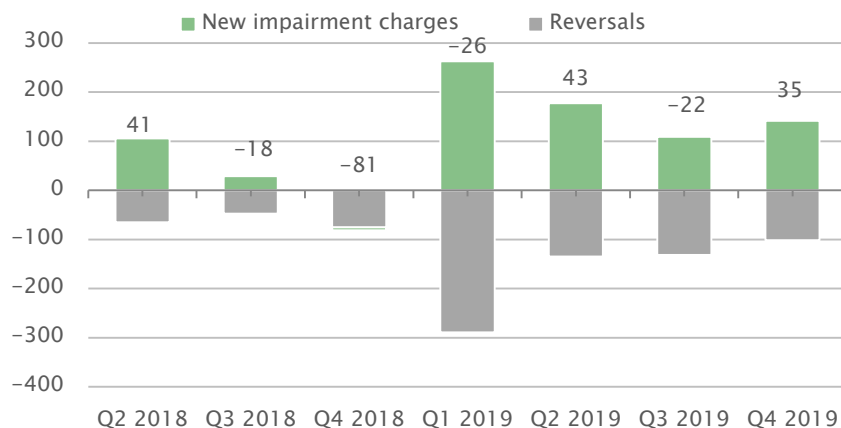
Result and return on equity



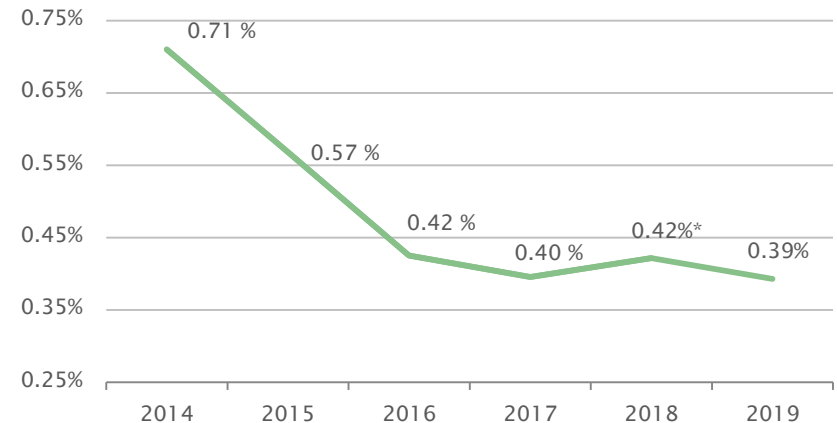
Administrative margin (DKKm)



Impairment charges and reversals (DKKm)



Balance of loan impairments in % of lending

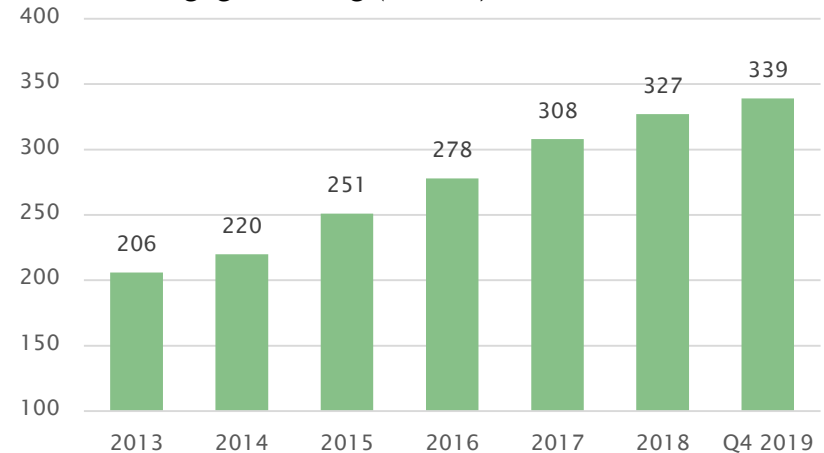


*Implementation of IFRS 9

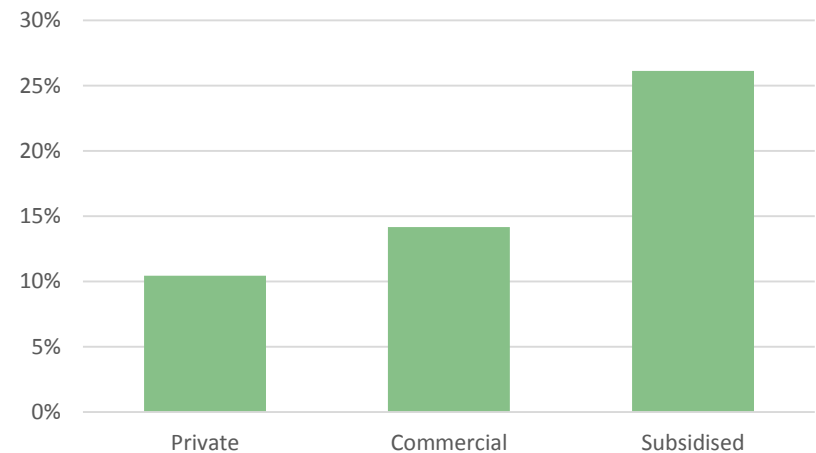
Continued growth in mortgage lending

- Lending growth of DKK 11.3bn in 2019
- 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 41bn (DKK 32bn 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
 - Same mortgage funding price as larger competitors in the DKK market

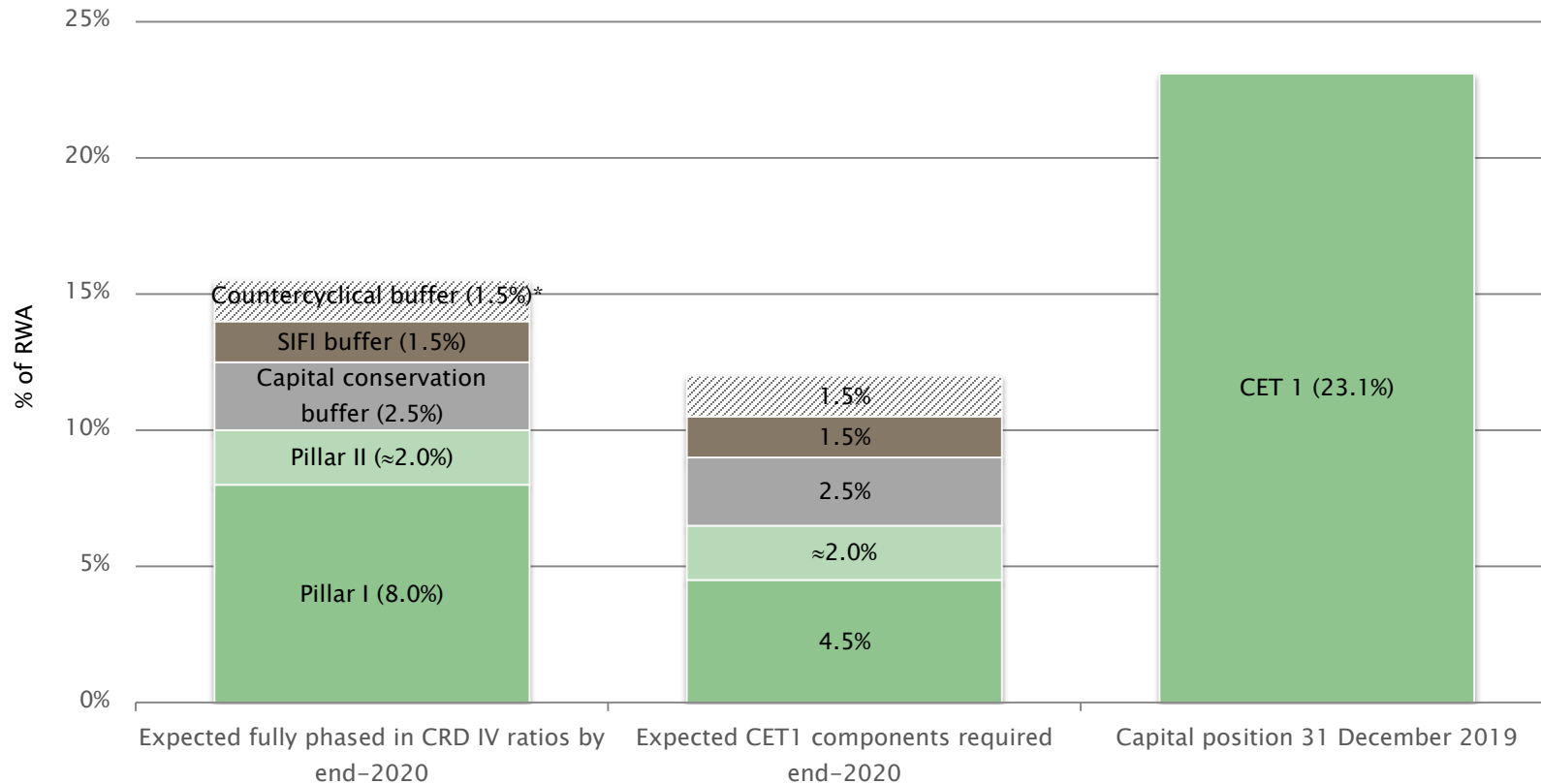
Total mortgage lending (DKKbn)



Market share of mortgage market (%)



Expected fully implemented CRD IV & Danish SIFI demands

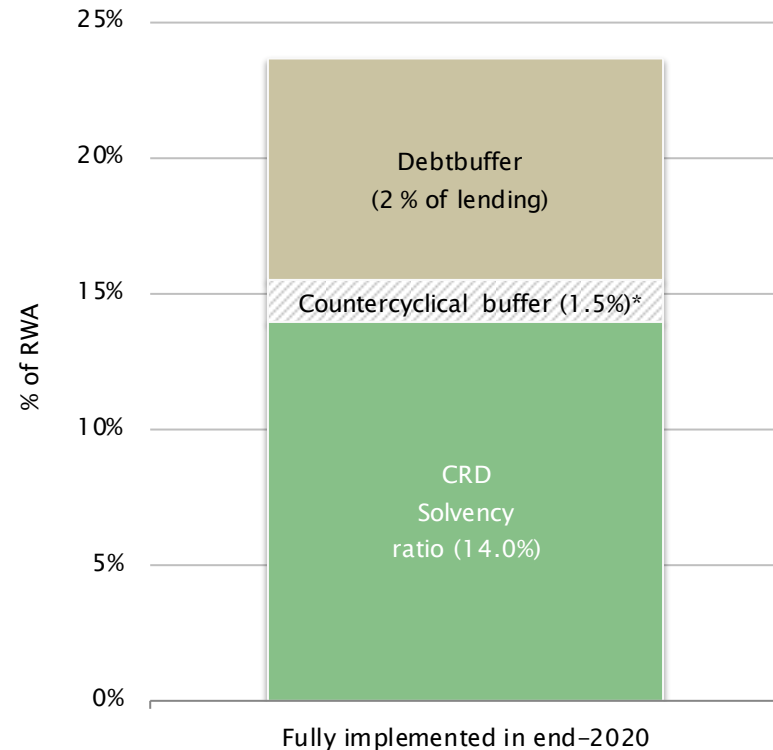


*) Countercyclical buffer is expected to be 1.5 % from end-Q2 2020

- The solvency need is expected to be at 15.5 % at the end of 2020, of which 12.0 % 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 Q4 2019 with CET1 and senior debt



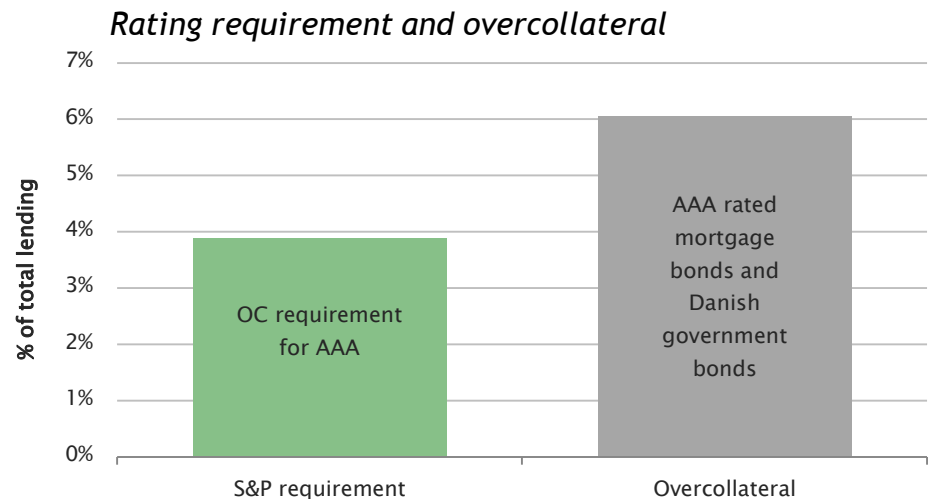
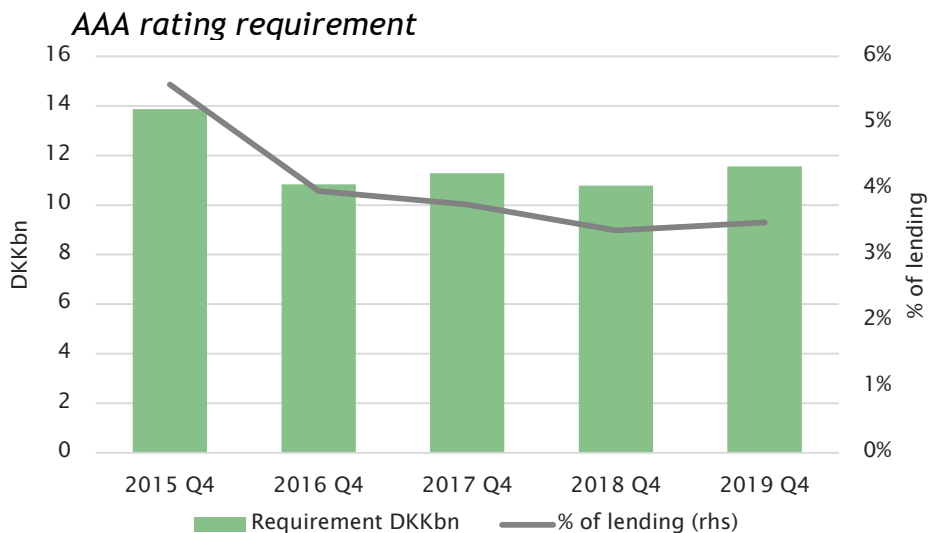
*) Countercyclical buffer is expected to be 1.5 % form end-Q2 2020

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 2015 despite growth of mortgage loans of DKK +135bn
- Improvement in credit quality and composition of cover pool

Rating Standard and Poor's

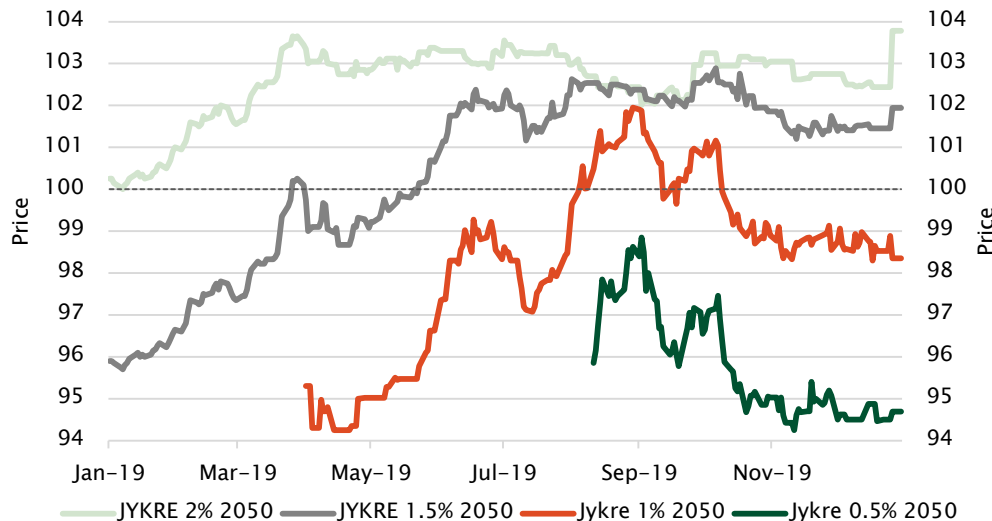
Jyske Realkredit ICR	A
Outlook	Neutral
Capitalcenter B	AAA
Capitalcenter E	AAA
Capitalcenter General	AAA
Free notches over AAA	4



Historically high remortgage activity

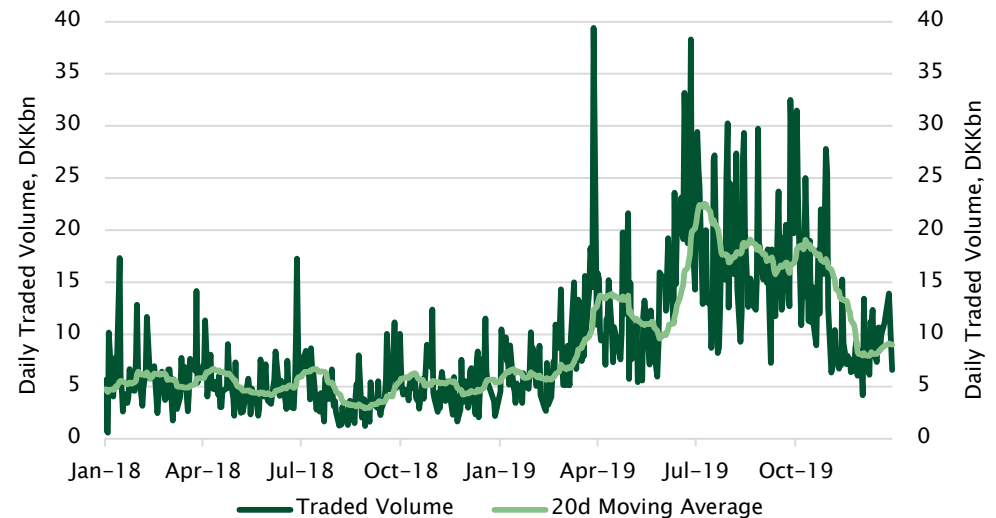
- Increasing prices on callable DKK covered bonds from beginning of 2019 - especially in first half of 2019
- Open series for financing 30 year fixed interest mortgage loans are at the moment 1.0% and 1.0% IO
- Borrowers are taking advantage of high bond prices and converting to loans with lower interests
- This has led to high activity in DKK callable bonds
 - Average daily traded amounts in June 2019 of DKK 20.7bn (in 2018 DKK 5.9bn)

Prices for selected Jyske Realkredit callable bonds



Source: Jyske Bank Markets

Daily traded callable DKK covered bonds 2018-2019

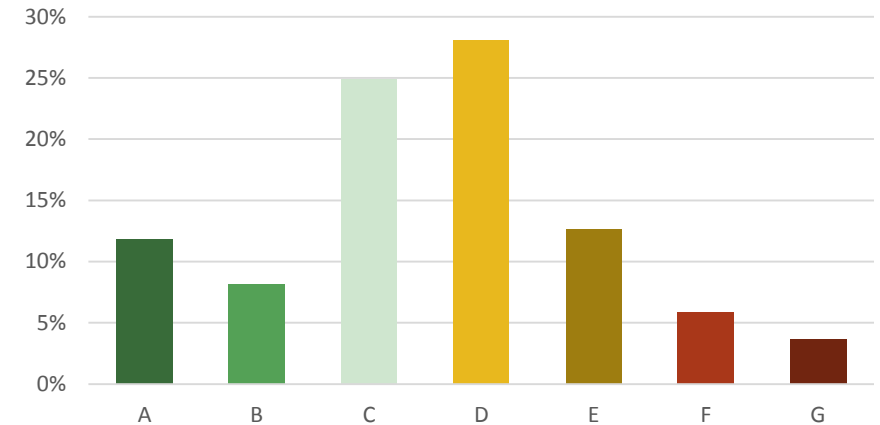


Source: Nasdaq Copenhagen

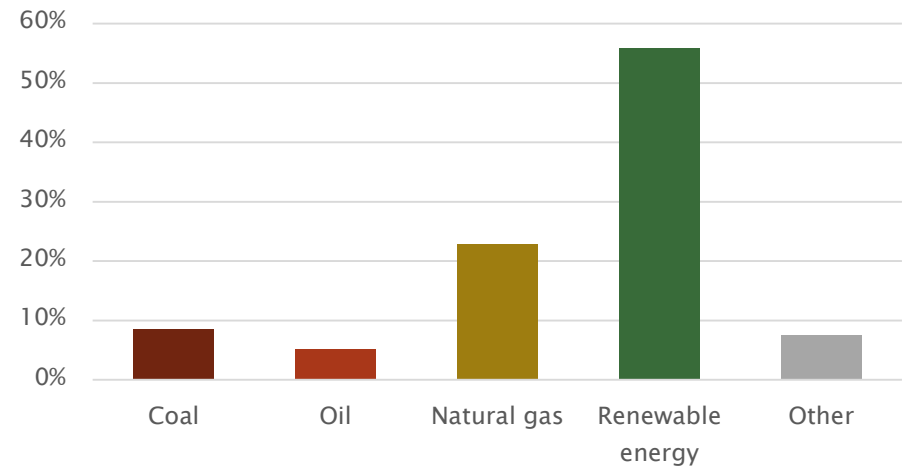
Sustainable Transparency Template

- 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 total lending)



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	324,672	22.2
Subsidised Housing	21,328	10.3
Cooperative Housing	10,458	10.2
Private rental	36,643	9.8
Office, Business, Manufacturing and Manual Industries	71,944	16.8
Other	17,480	13.6
Total	482,524	17.9

Household behavior

- Private consumer expectations are at the lowest level since end 2016...
- ...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 declining

Consumer expectations



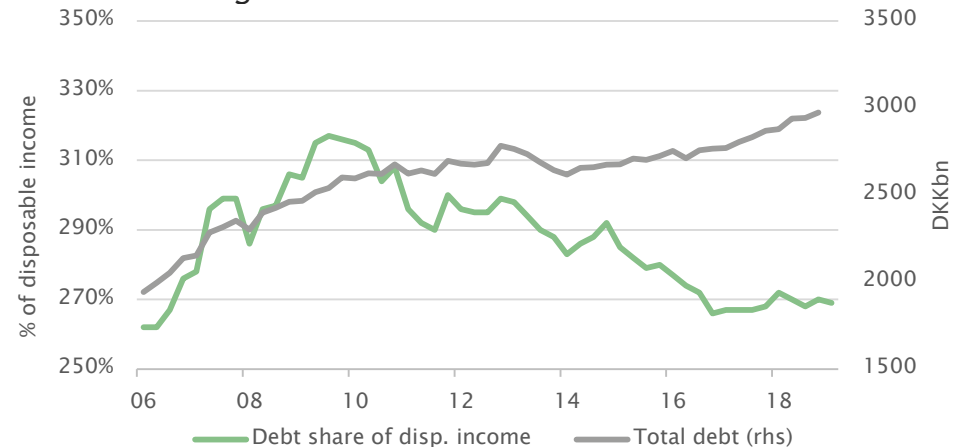
Source: Statistics Denmark

Private sector financial savings



Source: Statistics Denmark

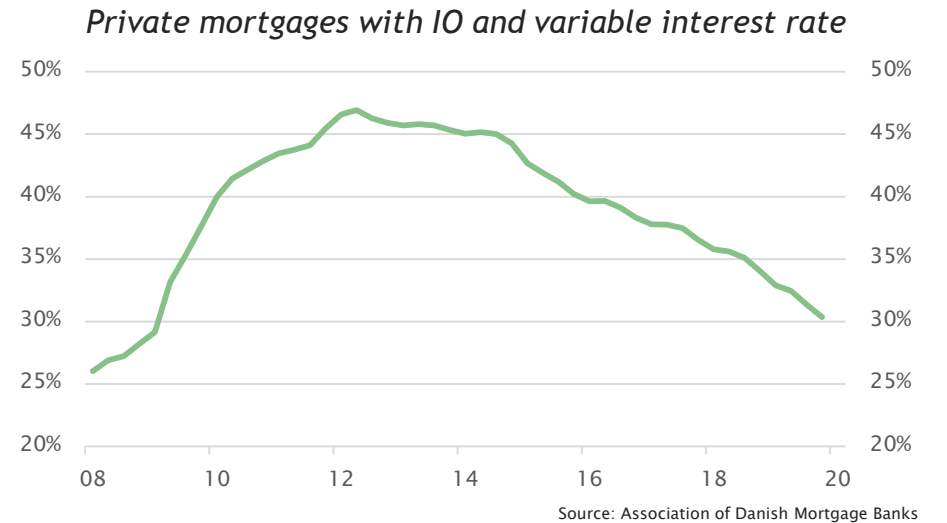
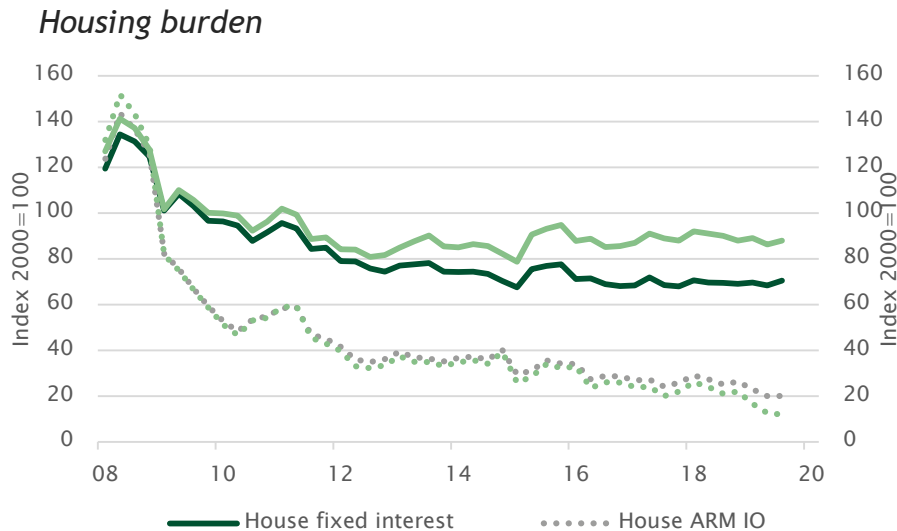
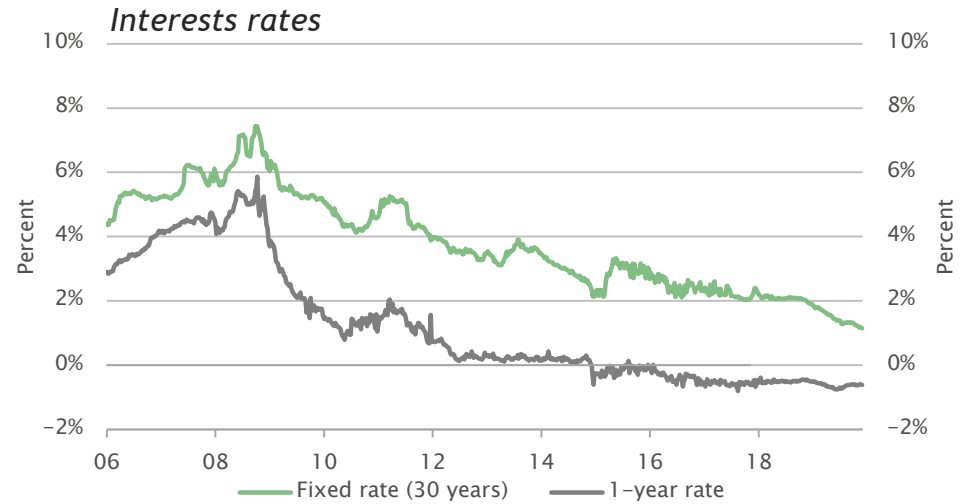
Household gross debt



Source: Statistics Denmark

Household finances

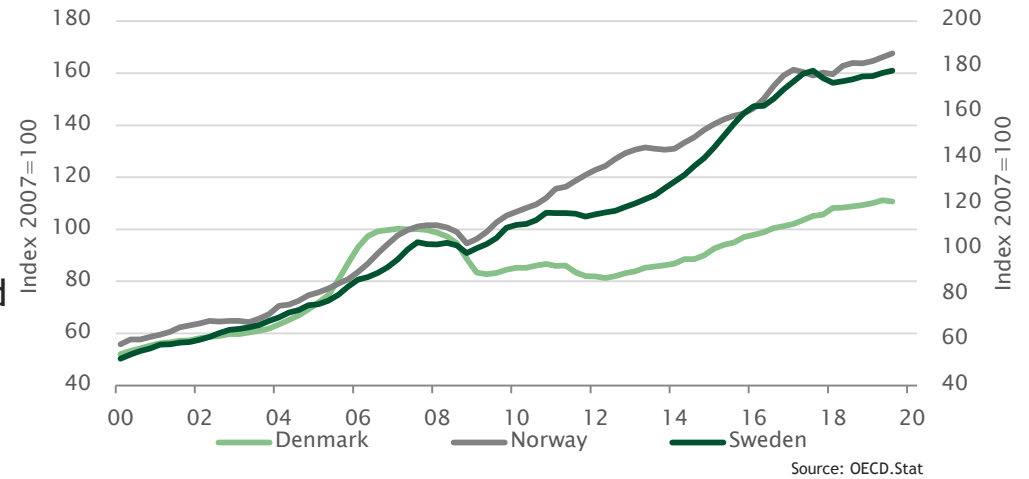
- Interests rates are historical low
- Average 30-year fixed interest rate at 1.3 %
- Housing burden also at a historical low level
 - Price of owning own house is low
 - Increasing property prices and decreasing interests
- Private consumers remortgage to loans with interest rate fixed until maturity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



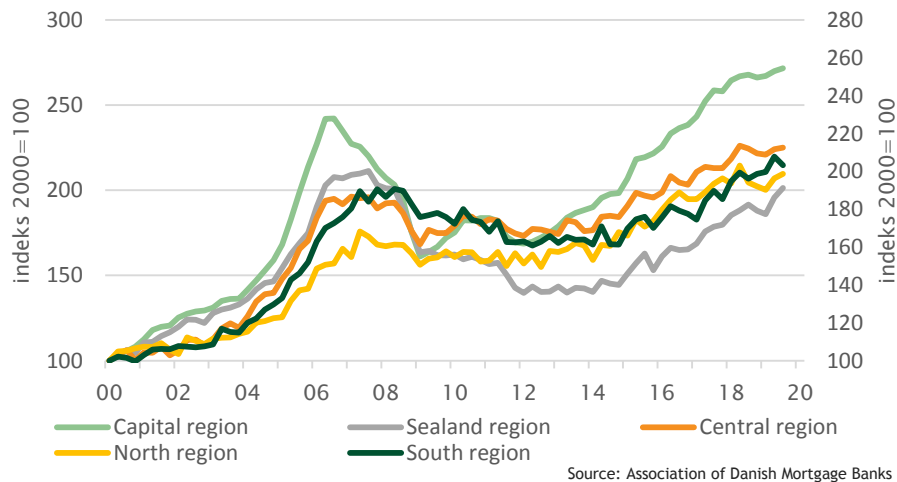
Danish housing market

- 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

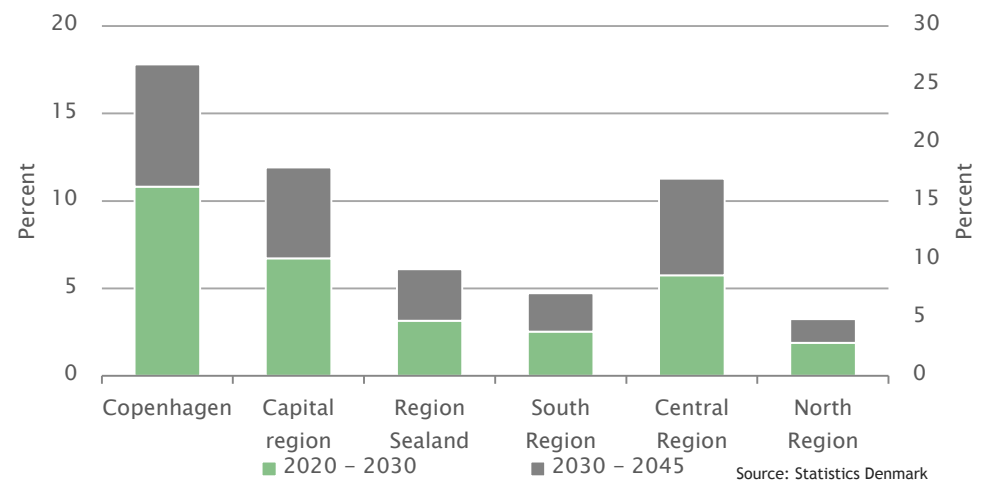
Nordic house prices



Regional house prices in Denmark



Expected population growth 2020 - 2045



Property tax reform

Current property tax system

Property tax	
Value < DKK 3.040t	1,00%
Value > DKK 3.040t	3,00%
Based on value in 2001/2002	

Tax on land	
Value (Average)	2,60%
Current public value	

New property tax sytem 2024

Property tax	
Value < DKK 7.500t	0,55%
Value > DKK 7.500t	1,40%
Based on current total property value	

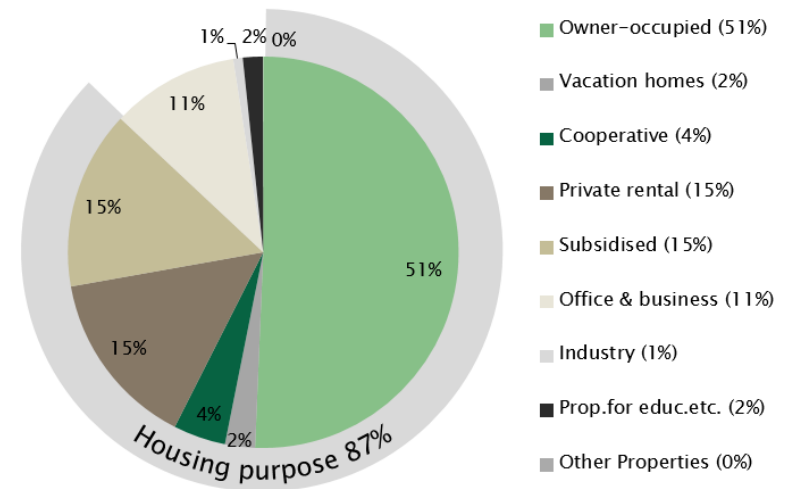
Tax on land	
Value (average)	1,60%
20 % of current total property value	

- The taxation should be not be higher than with current rules
 - Current property owners will not be affected negatively
 - New owners from 2024 could pay higher taxes
- Increase in taxes for properties with high increases in property value since 2001/2002
 - Taxation on expensive properties is expected to increase
- Current public value of land is low for apartments in larger cities
 - Total taxation on apartments in the larger cities area will increase
 - Expected effect on apartment prices is a decrease of 5 - 10 %

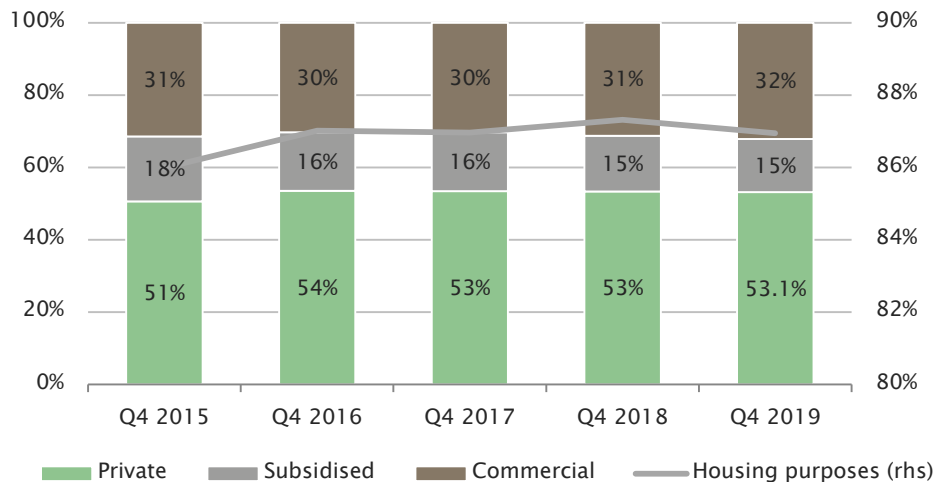
Portfolio

- 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

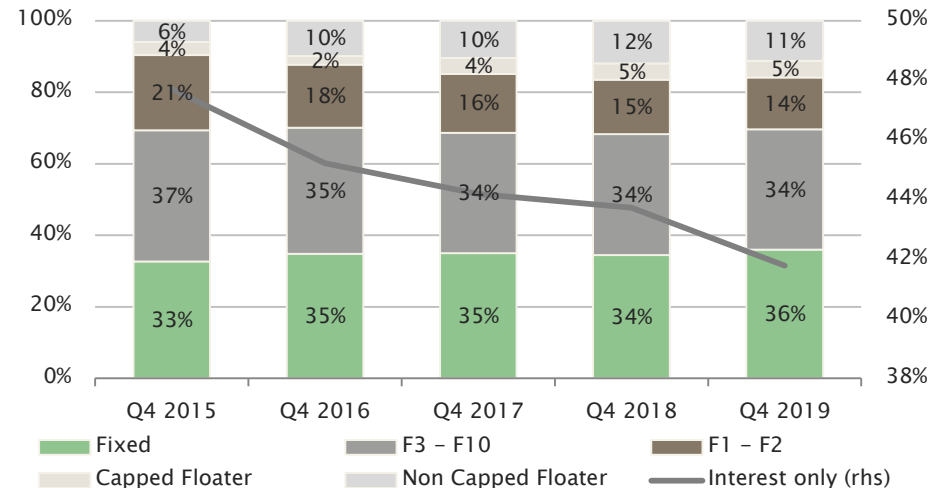
Lending portfolio



Development in lending portfolio



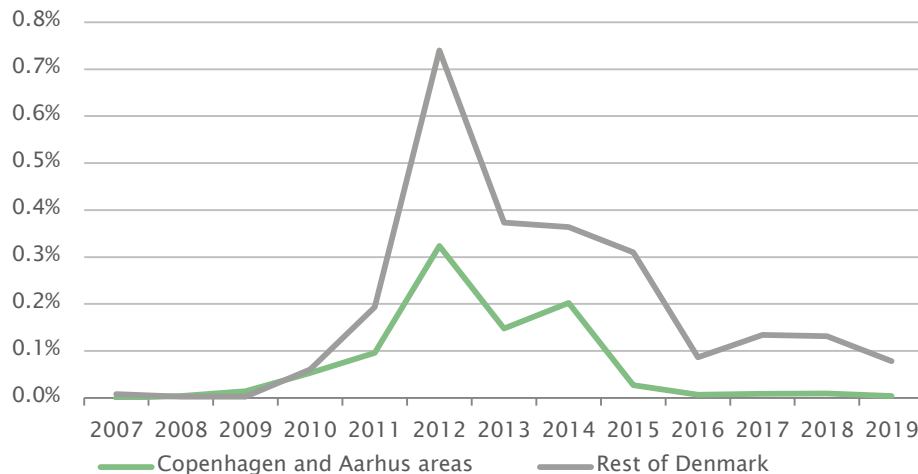
Development in loan types



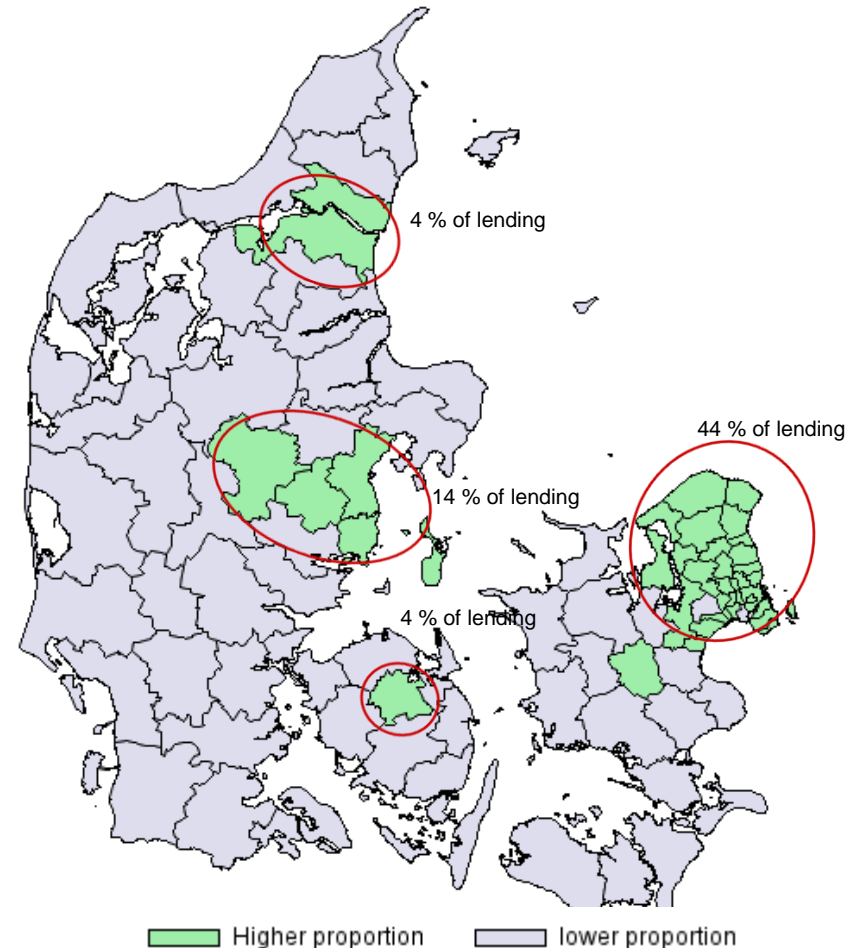
Geographical distribution

- 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

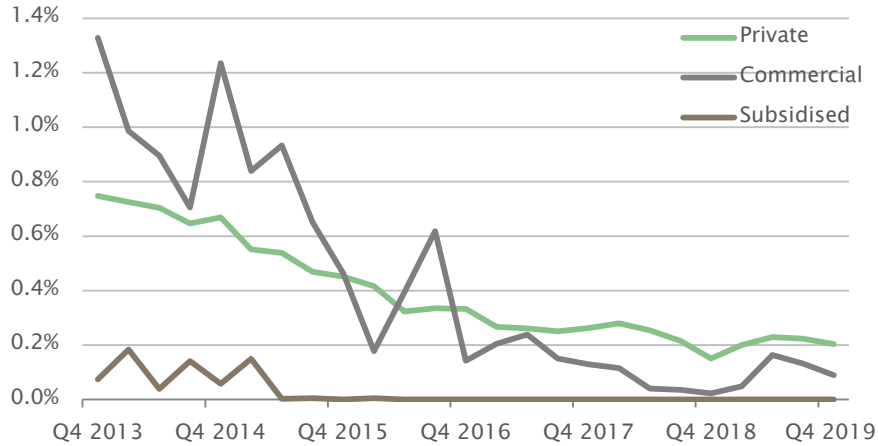


Proportion of residential lending to proportion of population

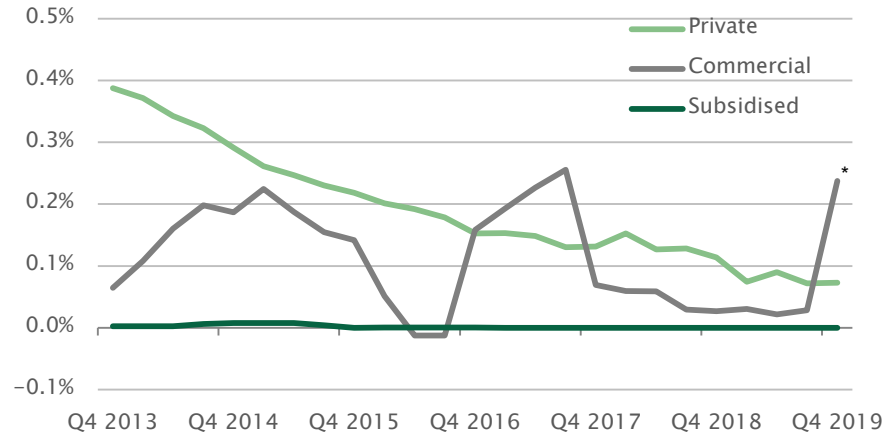


Credit quality

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

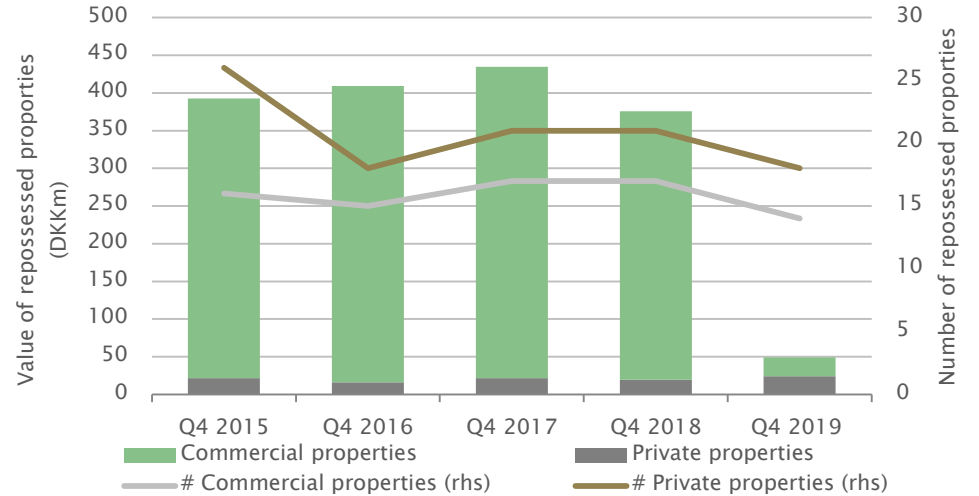


Yearly realised losses (running year)

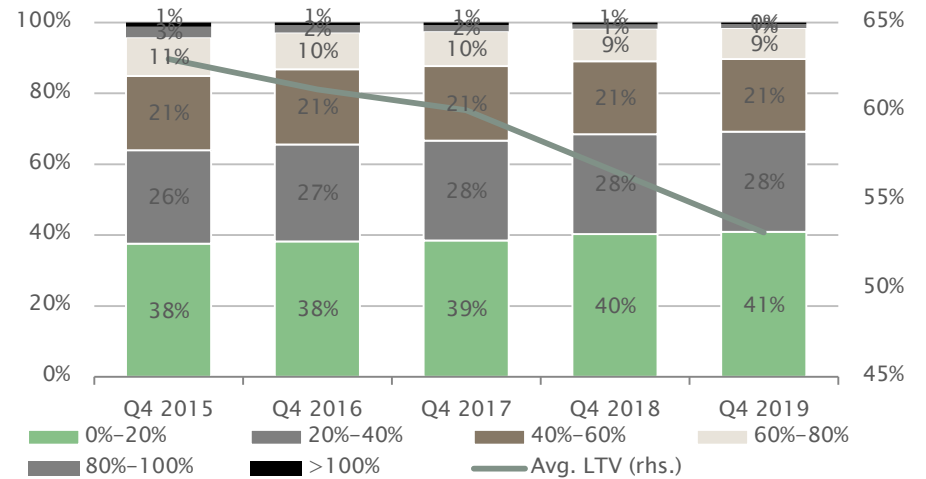


* Single commercial property – impairment charges was already taken

Reposessed properties (DKKk/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	2019	2018
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

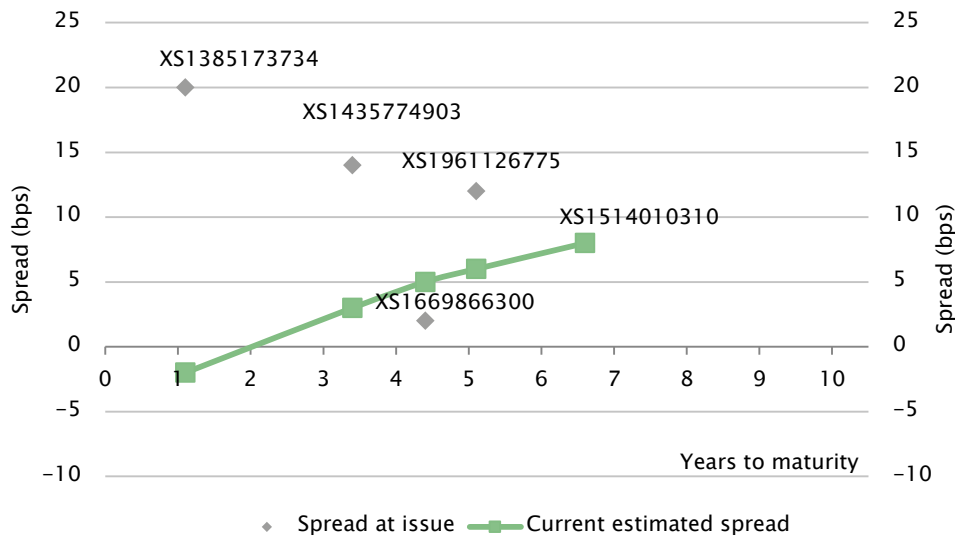
- Jyske Realkredit is the first Danish mortgage institute to open both a 10-year callable bond with a coupon of 0 % and also the first to open a 10-year callable bond with a coupon of -0.5%
- The bonds are used for financing of 10-year loans with amortization
- The amortization of the bond with a negative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

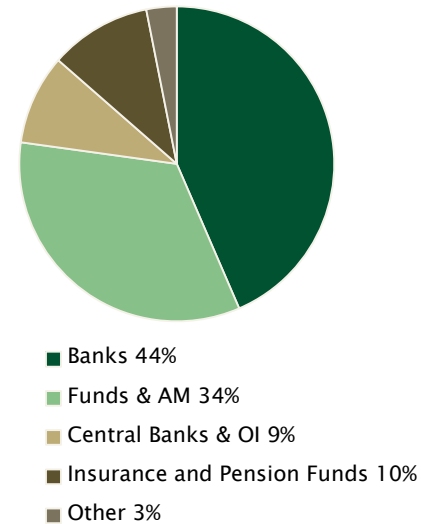
Jyske Realkredit EUR covered bonds

Jyske Realkredit EUR covered bond issuances*



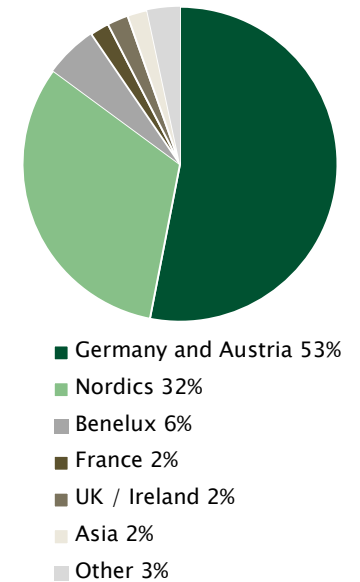
*Pricing indications February 2019

Investor distribution*



*Figures are based on allocated amounts

Geographical distribution*



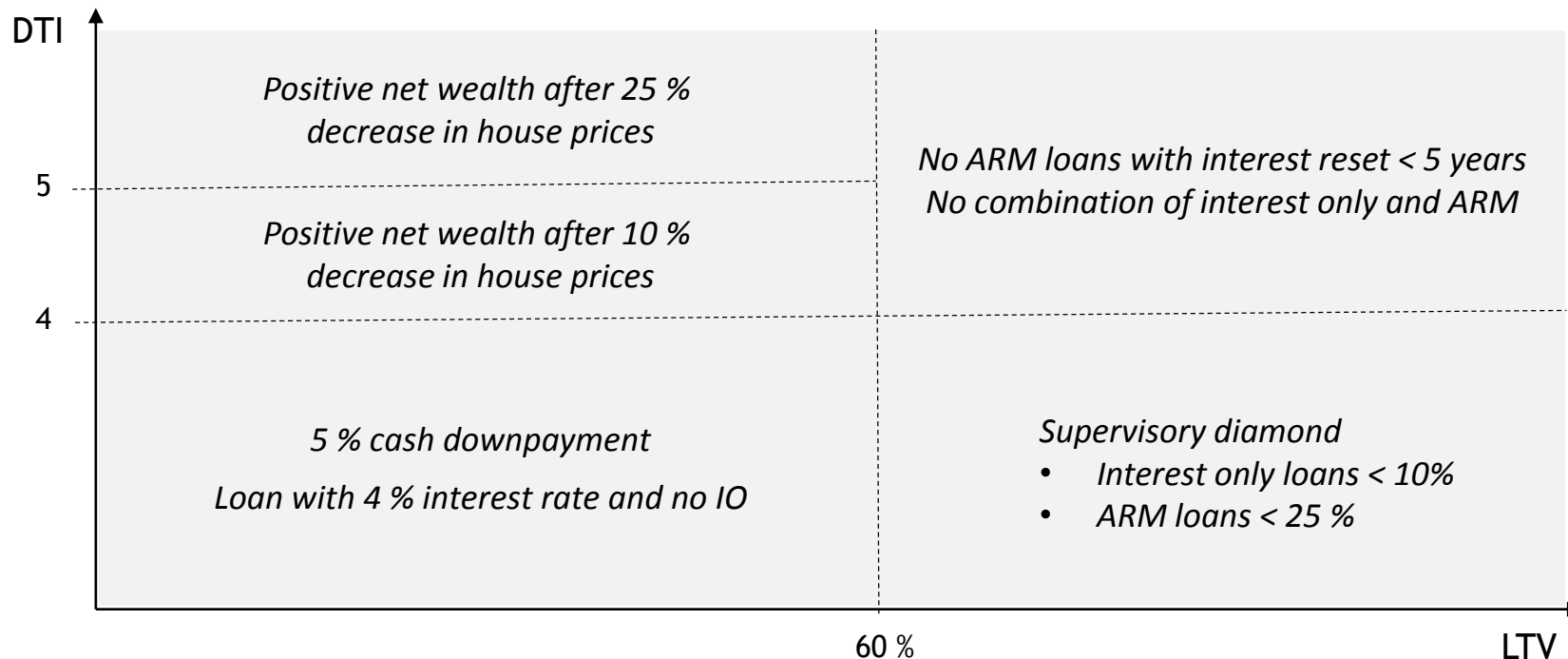
- Three first successful EUR covered bond issuances in 2016 of 5 years (EUR 500m), 7 years (EUR 750m) and 10 years (EUR 750m). One issue in August 2017 (EUR 500m) og one in March 2019 (EUR 500m).
- Large interest from a wide variety of investor from different countries
- Good performance from issuances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