



## Annual Report 2019

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## Management's Review

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## Financial Highlights

### Core profit and net profit for the year, DKKm

	2019	2018	Index 19/18	2017	2016	2015
Administration margin income, etc. <sup>1</sup>	2,334	1,896	123	1,881	1,785	1,687
Other net interest income <sup>2</sup>	58	77	75	-60	-53	-80
Net fee and commission income, etc. <sup>1</sup>	-641	256	-	262	207	244
Value adjustments, etc.	6	-84	-	28	39	-22
Other income	22	216	10	24	50	45
<b>Core income</b>	<b>1,778</b>	<b>2,361</b>	75	<b>2,135</b>	<b>2,028</b>	<b>1,872</b>
Core expenses <sup>1</sup>	310	730	42	851	840	873
<b>Core profit before loan impairment charges</b>	<b>1,468</b>	<b>1,631</b>	90	<b>1,284</b>	<b>1,188</b>	<b>999</b>
Loan impairment charges (- = income)	35	-38	-	202	-32	186
<b>Core profit</b>	<b>1,434</b>	<b>1,669</b>	86	<b>1,082</b>	<b>1,220</b>	<b>813</b>
Investment portfolio earnings <sup>2</sup>	-	-	-	49	80	89
<b>Profit before IFRS 9 implementation</b>	<b>1,434</b>	<b>1,669</b>	86	<b>1,131</b>	<b>1,299</b>	<b>902</b>
IFRS 9-derived adjustment of impairment charges, beginning of 2018	-	407	-	-	-	-
<b>Pre-tax profit</b>	<b>1,434</b>	<b>1,262</b>	114	<b>1,131</b>	<b>1,299</b>	<b>902</b>
Tax	316	263	120	245	284	218
<b>Net profit for the year</b>	<b>1,117</b>	<b>999</b>	112	<b>886</b>	<b>1,015</b>	<b>685</b>

<sup>1</sup> New intra-group agreements on distribution fees as well as intra-group costs for Jyske Bank affect the items: Administration margin income, etc., Net fee and commission income, etc. as well as Core expenses as of and including 2019.

<sup>2</sup> As of 2018, the return on Jyske Realkredit's portfolio of securities (investment portfolio earnings) has been recognised as core income under 'Other net interest income' and 'Value adjustments, etc.' as the purpose of the portfolio of securities is to support mortgage operations, including compliance with LCR rules, etc.

Relationships between income statement items under Jyske Realkredit (key financial data) and the income statement appear from note 2.

### Summary of Balance Sheet, end of year, DKKm

Mortgage loans, fair value	338,666	327,403	103	308,121	278,407	250,892
Bonds and shares, etc.	18,565	18,593	100	18,397	16,307	8,127
Total assets	384,899	353,280	109	337,732	307,027	269,975
Issued bonds, fair value	361,388	332,955	109	316,305	285,676	249,772
Equity	18,861	17,744	106	15,731	12,812	11,781

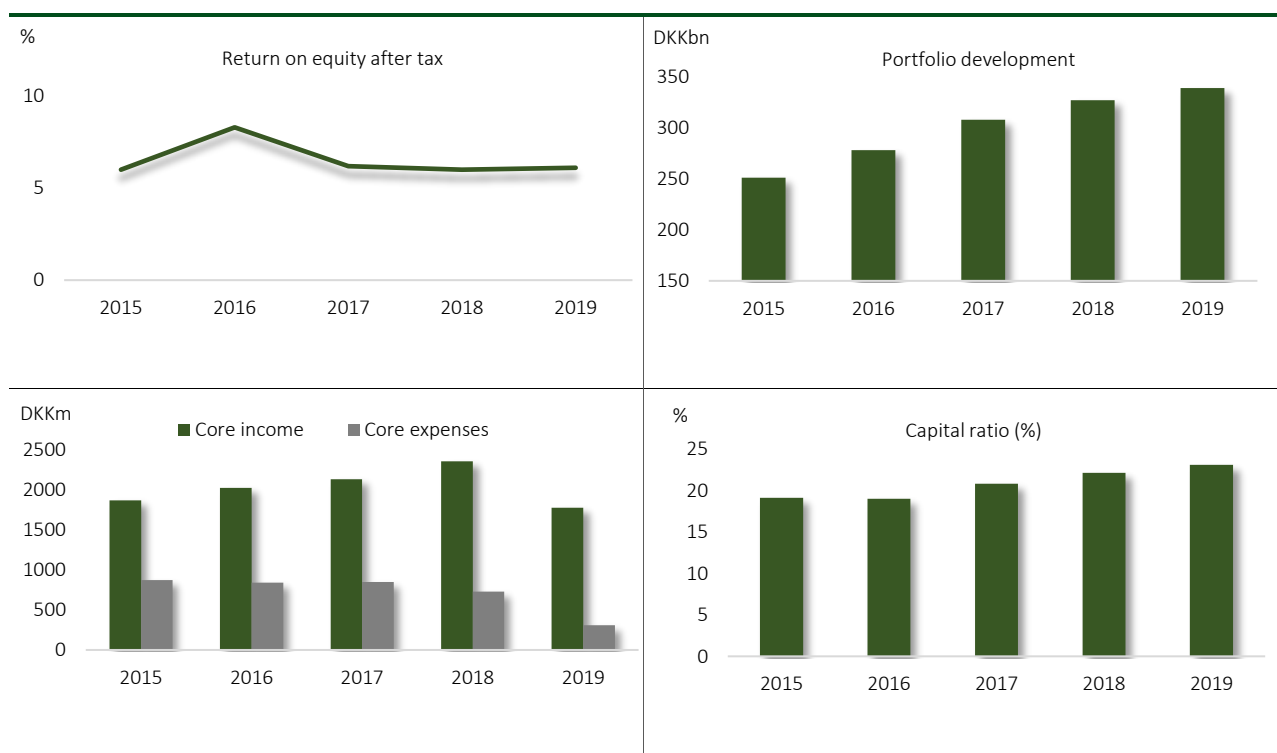
### Financial ratios and key figures

Pre-tax profit as a pct. of average equity	7.8	7.5	-	7.9	10.6	7.9
Net profit as a percentage of average equity	6.1	6.0	-	6.2	8.3	6.0
Expenses as a percentage of income	17.4	31.0	-	39.9	41.4	46.6
Capital ratio (%)	23.1	22.1	-	20.8	19.0	19.1
Common Equity Tier 1 capital ratio (CET1) (%)	23.1	22.1	-	20.8	19.0	18.8
Individual solvency requirement (%)	10.1	9.7	-	9.3	9.3	9.6
Capital base (DKKm)	18,811	17,687	-	15,529	12,593	11,820
Weighted risk exposure (DKKm)	81,321	79,976	-	74,686	66,426	62,033
No. of employees at year-end	23	28	-	212	694	706
No. of employees split between the companies, at year-end <sup>1</sup>	474	358	-	272	-	-

<sup>1</sup> Employees split between the companies are included in the number of employees stated in the annual report for Jyske Bank A/S, and their salaries are paid through Jyske Bank A/S. Jyske Realkredit A/S pays this expense for employees split between the companies through a service agreement with Jyske Bank A/S, and it is recognised under the item 'Core expenses'.

## Summary

- Profit before tax amounted to DKK 1,434m (2018: DKK 1,262m, inclusive of effects of DKK -407m derived from IFRS 9) corresponding to a return of 7.8% on average equity (2018: 7.5%).
- Net profit for the year amounted to DKK 1,117m (2018: DKK 999m, inclusive of effects of DKK -317m derived from IFRS 9) corresponding to a return of 6.1% on average equity (2018: 6.0%).
- Core profit amounted to DKK 1,434m (2018: DKK 1,669m).
- Core expenses amounted to DKK 310m, falling by 58% relative to 2018, and this decline can chiefly be attributed to the new intra-group settlement model.
- Impairment charges affected core profit by an expense of DKK 35m (2018: an income of DKK 38m before recognition of effects derived from IFRS 9, which amounted to an expense of DKK 407m).
- At the end of 2019, the capital ratio and the core capital ratio amounted to 23.1% (end of 2018: 22.1%).



## Comments by Management

In connection with the presentation of the Annual Report 2019, Carsten Tirsbæk Madsen, Chief Executive Officer, states:

'Today, Jyske Realkredit announces a profit of DKK 1,117m, which is an increase relative to the profit for 2018. The profit for the year is considered satisfactory and is within the expected range for the year. The year 2019 was characterised by a high degree of refinancing activity, as, to a great extent, Jyske Realkredit's clients took advantage of the low interest-rate level to refinance their mortgages to a mortgage with a fixed, low interest rate. The extensive refinancing will result in loans with lower payments and, on average, lower administration margin rates. Due to the high activity level in 2019, Jyske Realkredit's fee income increases in the short term, but the same level of refinancing activity is not expected in the future. Refinancing to fixed-rate mortgages will reduce the average lending margins due to lower administration margin rates and lower income from price spreads on loans with longer interest rate fixation. In addition, the return on Jyske Realkredit's fixed portfolio of securities was negative in 2019.'

The capital base is solid at a capital ratio of 23.1%.'

## Outlook

For 2020, lower lending growth is expected relative to growth in 2019 amounting to DKK 11.3 bn. In addition, the increasing capital requirements, the low interest-rate level and the reduction of the average administration margin rate will altogether result in a lower profit for 2020 and a return on equity below 6%.

## Full year 2019

In 2019, Jyske Realkredit increased lending by DKK 11.3 bn. Since the merger with Jyske Bank, Jyske Realkredit's loan portfolio has grown by about DKK 130 bn, which is evidence of the Group's strong market position with respect to products and prices.

### Refinancing activity

The year 2019 was characterised by a high level of refinancing activity, as clients took advantage of the possibility of locking in the interest rate on their mortgage loans at the historically low level. This refinancing activity was seen both in respect of clients who refinance their fixed-rate loans to loans with a lower interest rate and clients who refinance their floating-rate loans to fixed-rate loans. Due to the refinancing, clients obtain loans with lower payments and, on average, lower administration margin rates. Due to the activity, Jyske Realkredit's fee income increases in the short term, but in future the refinancing activity will lower the average lending margins due to lower administration margin rates and lower income due to price spreads on loans with longer interest rate fixation periods.

### Company-specific circumstances

The Jyske Bank Group implemented an organisational change with effect as from 1 September 2019. For Jyske Realkredit, the consequences of the change were the following:

- Lars Waalen Sandberg stepped down as CEO of Jyske Realkredit and took up the position as Unit Director of Business Concepts at Jyske Bank. At the same time Lars Waalen Sandberg joined the Supervisory Board of Jyske Realkredit.
- Carsten Tirsbæk Madsen resigned from Jyske Realkredit's Supervisory Board and took up the position as new CEO of Jyske Realkredit.

Now the Supervisory Board consists of Niels Erik Jakobsen (Chairman), Lars Waalen Sandberg (Deputy Chairman), Per Skovhus, Peter Schleidt as well as Kim Henriksen and Steen Brastrup Clasen, the latter two elected by the employees.

### Changes to the settlement model between Jyske Bank and Jyske Realkredit

At the beginning of 2019, an agreement was concluded on a new intra-group settlement model on the distribution of mortgage loans, etc. from Jyske Bank to Jyske Realkredit. The agreement covers all mortgage loans with Jyske Realkredit, inclusive of jointly funded home loans from Jyske Bank. In consequence of the agreement, Jyske Realkredit pays as of 2019 a distribution fee to Jyske Bank, which is calculated on the basis of the earnings from the loan-related activities. Under the agreement, Jyske Realkredit has the right to set off established losses on loans.

In consequence of the agreement, interest income from jointly funded loans is recognised on a gross basis under the item Administration margin income, etc. Previously only Jyske Realkredit's earnings on these loans were included, as the part of the interest relating to Jyske Bank's proportion of the earnings was set off. In future, Jyske Bank will receive a distribution fee on these loans, calculated on similar terms and conditions as earlier and in line with other mortgage loans with Jyske Realkredit.

Also, a new intra-group service agreement has been concluded relating to settlement of intra-group costs. As from 2019, this agreement covers the employees' direct work for Jyske Realkredit.

## Comments on the financial statements

### Core profit and net profit for the year, DKKm

	2019	2018	Index 19/18	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Administration margin income, etc.	2,334	1,896	123	590	586	582	576	483
Other net interest income	58	77	75	16	9	21	12	16
Net fee and commission income, etc.	-641	256	-	-145	-199	-166	-132	74
Value adjustments, etc.	6	-84	-	-21	-23	24	26	-23
Other income	22	216	10	3	18	1	-	21
<b>Core income</b>	<b>1,778</b>	<b>2,361</b>	75	<b>443</b>	<b>391</b>	<b>462</b>	<b>482</b>	<b>571</b>
Core expenses	310	730	42	76	76	78	79	178
<b>Core profit before loan impairment charges</b>	<b>1,468</b>	<b>1,631</b>	90	<b>366</b>	<b>315</b>	<b>384</b>	<b>403</b>	<b>394</b>
Loan impairment charges (- = income)	35	-38	-	40	-22	43	-26	-81
<b>Core profit/ Profit before IFRS 9 implementation</b>	<b>1,434</b>	<b>1,669</b>	86	<b>326</b>	<b>337</b>	<b>341</b>	<b>429</b>	<b>475</b>
IFRS 9-derived adjustment of impairment charges, beginning of 2018	-	407	-	-	-	-	-	-
<b>Pre-tax profit</b>	<b>1,434</b>	<b>1,262</b>	114	<b>326</b>	<b>337</b>	<b>341</b>	<b>429</b>	<b>475</b>
Tax	316	263	120	73	74	76	93	109
<b>Net profit for the year</b>	<b>1,117</b>	<b>999</b>	112	<b>253</b>	<b>263</b>	<b>265</b>	<b>336</b>	<b>366</b>

### Net profit for the year

For the year, Jyske Realkredit generated a pre-tax profit of DKK 1,434m against DKK 1,262m in 2018. Calculated tax amounted to DKK 316m (2018: DKK 263m), and hence the net profit for the year amounted to DKK 1,117m against DKK 999m for 2018. The net profit for the year corresponds to a return on average equity of 6.1%, compared 6.0% in 2018.

The introduction of the new settlement model between Jyske Bank and Jyske Realkredit affected several items. In addition, 2018 was affected by large non-recurring items (IFRS 9 implementation to the tune of DKK -407m and a gain of DKK 185m from the sale of an owner-occupied property). These circumstances make a comparison of the accounting figures for 2019 and 2018 difficult.

### Core profit

In 2019, core profit before loan impairment charges amounted to DKK 1,468m against DKK 1,631m in 2018.

In 2019, core profit amounted to DKK 1,434m against DKK 1,669m in 2018.

### Core income

Core income consisting primarily of administration margin income, etc. as well as brokerage and fee income from mortgage activities amounted to DKK 1,778m in 2019 against DKK 2,361m in 2018. The difference is due to the intra-group settlement model, which took effect in early 2019, and the difference has been recognised as an expense under Net fee and commission income, etc.

Administration margin income amounted to DKK 2,334m in 2019 against DKK 1,896m in 2018. A significant part of the increase can be attributed to the new settlement model, according to which interest on jointly funded home loans is recognised on a gross basis in Jyske Realkredit's financial statements. If this principle had also been applied in 2018, a pro forma statement of Administration margin income, etc. would by comparison have looked like this:

### Pro forma statement of Administration margin income, etc., DKKm

	2019	2018	Index 19/18	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Administration margin income, etc. according to new settlement model	2,334	2,256	103	590	586	582	576	576

Administration margin income, etc. in 2019 amounted to DKK 2,334m against pro forma DKK 2,256m in 2018, corresponding to an increase by 3%. Mortgage loans stated at nominal value also grew by 3% over the same period.

Hence the administration margin income was positively affected by the increasing portfolios relating to both personal and corporate clients. However, at the same time, a trend of falling average administration margin rates was seen. Hence, the net inflow of loans to personal clients relates typically to fixed rate products, where the administration margin/risk is lower, which resulted in a small decline in the average administration margin rate.

Other net interest income consists of interest on the portfolio of securities as well as various interest income and amounted to an income of DKK 58m in 2019 against an income of DKK 77m in 2018. The decline by DKK 19m can primarily be attributed to negative interest income from the fixed portfolio of securities.

Net fee and commission income, etc. amounted to an expense of DKK 641m in 2019 against an income of DKK 256m in 2018. The difference can primarily be attributed to the new agreement on distribution fees relating to mortgage loans, etc. to Jyske Bank, which after setting off recognised losses was calculated at DKK 1,223m in 2019. On the other hand, other net fee and commission income rose from DKK 256m in 2018 to DKK 582m in 2019, which increase can chiefly be attributed to the extensive refinancing activity in 2019.

Value adjustments, etc. amounted to an income of DKK 6m against an expense of DKK 84m in 2018. Difference of DKK 90m can be attributed to positive value adjustments on bonds relating to core operations, driven by the extensive refinancing activity as well as a minor negative return on the fixed portfolio of securities. In 2019, the fixed portfolio of securities consisted to a greater extent of floating-rate bonds, which resulted in a negative interest yield, yet also a minor negative value adjustment.

In 2019, Other income amounted to DKK 22m against DKK 216m in 2018. The decline of DKK 194m could primarily be attributed to the recognition in 2018 of a gain of DKK 185m from the sale of Jyske Realkredit's owner-occupied property.

#### **Core expenses**

Core expenses amounted to DKK 310m in 2019 against DKK 730m in 2018. Of the decline of DKK 420m, DKK 386m can be attributed to the implementation of a new intra-group service agreement, according to which, as of 2019, only the employees' direct work for Jyske Realkredit is paid for. The remaining savings related primarily to costs incurred in connection with a number of work functions performed by Jyske Bank and settled as part of the distribution fee.

#### **Loan impairment charges**

Impairment charges amounted to an expense of DKK 35m in 2019 against an income of DKK 38m (exclusive of effects derived from IFRS 9) in 2018.

Relative to total loans, the effect from the impairment charges on the income statement amounted to 0.01% in 2019 against -0.01% (exclusive of the effects derived effects from IFRS 9) in 2018 (0.11% inclusive of the effects derived from IFRS 9).

The effect on the income statement was in 2019 distributed with an income of DKK 24m (2018: expense of DKK 449m) on personal clients and an expense of DKK 59m (2018: an income of DKK 80m) on corporate clients.

The total balance of impairment charges amounted to DKK 1,330m at the end of 2019 (end of 2018: DKK 1,380m) corresponding to 0.4% of total loans (0.4% at the end of 2018).

Impairment charges based on management's estimates amounted to DKK 199m at the end of 2019 compared to DKK 111m at the end of 2018. Of these impairment charges, DKK 104m related to the Personal client area (2018: DKK 108m) and DKK 95m to the Corporate client area (2018: DKK 3m). Impairment charges due to management's estimates relate to circumstances that the company's impairment model does not allow for. The increase in 2019 relating to the Corporate client area was due to increasing uncertainty as to the development of the future commercial property market and the effects from future regulation.

Jyske Realkredit's holding of assets held temporarily amounted to DKK 107m at the end of 2019 against DKK 376m at the end of 2018. The decline can be attributed to the fact that in 2019 some major properties acquired through foreclosure were sold. The sales prices of these were close to the carrying amount, and therefore the sale did not affect the profit for 2019 in any material way.

Jyske Realkredit had no exposures after deductions that accounted for more than 10% of the capital base. The concentration risk is followed closely and all large exposures are monitored on an on-going basis.



Increasing property prices in the major urban areas have a positive effect on Jyske Realkredit's collateral, even though the increase fell relative to previous years. The number of credit events observed was at an unchanged low level, both in the personal client as well as the corporate client segment.

#### Loans, advances and guarantees, DKKm

	2019	2018	Index 19/18	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Non-performing loans and guarantees:								
Loans, advances and guarantees before impairment charges	3,888	4,485	87	3,888	3,950	4,028	3,945	4,485
Impairment charges	457	508	90	457	462	463	413	508
Loans, advances and guarantees after impairment charges	3,431	3,977	86	3,431	3,488	3,565	3,532	3,977
NPL ratio (%)	1.0	1.2	83	1.0	1.0	1.1	1.1	1.2
NPL contribution ratio (%)	11.8	11.3	104	11.8	11.7	11.5	10.5	11.3
Past due mortgage loans (90 days)	450	406	111	450	530	571	428	406
Operational loan impairment charges	35	-38	-	40	-22	43	-26	-82
IFRS 9-derived adjustment of impairment charges, beginning of 2018	-	407	-	-	-	-	-	-
Operating loss	148	280	53	59	16	40	57	53

#### Arrears rate

The arrears rate measured 90 days after the September repayment date amounted to 0.2%, i.e. an unchanged level relative to the corresponding repayment date in 2018. The arrears rate measured 15 days after the December 2019 repayment date amounted to 0.8% against 0.7% in the corresponding period of 2018.

#### Arrears rate

	Dec. 2019	Sept. 2019	June 2019	March 2019	Dec. 2018	Sept. 2018
After 90 days		0.2	0.2	0.3	0.2	0.2
After 15 days <sup>1</sup>	0.8	0.8	0.9	1.0	0.7	1.6

<sup>1</sup> The arrears rate measured 15 days after the September 2018 repayment date increased by 1.6%. The increase related primarily to one property for which the entire outstanding debt owed on the loan fell due for payment. Exclusive of this property, the arrears rate measured 15 days after the September 2018 repayment date amounted to 1.1%.

#### Balance Sheet

At the end of 2019, Jyske Realkredit's balance sheet amounted to DKK 384 bn (DKK 353 bn at the end of 2018).

The positive business volume growth seen in previous years continued in 2019 as the volume grew from DKK 327 bn at the end of 2018 to DKK 339 bn at the end of 2019, corresponding to an increase by 3.4%. Of the increase, DKK 4.4 bn related the personal client area and DKK 6.9 bn to the corporate client area, of which DKK 5.1 bn are in the property category of private rental properties.

#### Summary of Balance Sheet, end of year, DKKm

	2019	2018	Index 19/18	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Assets / equity and liabilities	384,899	353,280	109	384,899	391,582	380,237	363,847	353,280
Mortgage loans, nominal value	329,043	319,454	103	329,043	326,132	324,513	322,971	319,454
Loans and advances, fair value	338,666	327,403	103	338,666	339,778	338,067	334,379	327,403
Issued bonds, fair value	361,388	332,955	109	361,388	367,591	358,435	342,341	332,955
Equity	18,861	17,744	106	18,861	18,608	18,345	18,079	17,744

Issued bonds, fair value exceeded Loans and advances, fair value. The difference can primarily be attributed to the fact that bonds are pre-issued in connection with fixed-price agreements and refinancing, and that in connection with immediate repayments and termination, loans are paid off before the issued bonds are redeemed.

## Equity

Equity was affected by the profit for the year by DKK 1,117m and amounted to DKK 18,861m at the end of 2019 (DKK 17,744m at the end of 2018).

Over the years 2015-2018, Jyske Realkredit's equity rose from DKK 11,084m to DKK 18,861m. The increase can be attributed to capital injections in the amount of DKK 3,000m from the parent company Jyske Bank, the results for the individual years totalling DKK 4,698m as well as other comprehensive income of DKK 78m.

No dividend was distributed over the period.

### Changes in equity, end of year, DKKm

	2019	2018	2017	2016	2015	2015 -2019
Equity, beginning of year	17,744	15,731	12,812	11,781	11,084	11,084
Capital injection	-	1,000	2,000	-	-	3,000
Profit/loss for the year	1. 117	999	886	1,011	685	4,698
Other comprehensive income	-	13	33	20	12	78
Dividend	-	-	-	-	-	-
<b>Equity, end of year</b>	<b>18,861</b>	<b>17,744</b>	<b>15,731</b>	<b>12,812</b>	<b>11,781</b>	<b>18,861</b>

### The fourth quarter of 2019 compared to the third quarter of 2019

Profit before tax for the fourth quarter amounted to DKK 326m against DKK 337m for the third quarter.

Administration margin income etc. rose from DKK 586m in the third quarter to DKK 590m in the fourth quarter. The increase can primarily be attributed to growth of the loan portfolio.

Other net interest income amounted to DKK 16m in the fourth quarter against DKK 9m in the third quarter. The increase related to various circumstances, for instance a minor negative interest yield on the portfolio of securities.

Net fee and commission income, etc. amounted to an expense of DKK 145m in the fourth quarter against an expense of DKK 199m in the third quarter. Distribution fees to Jyske Bank amounted to DKK 311m in the fourth quarter against DKK 400m in the third quarter. The decline in the distribution fee paid to Jyske Bank relates, for one thing to the fact that the fourth quarter saw slightly lower fee income, and for another that a higher volume of recognised losses was set off in the fourth quarter. Recognised losses can be set off against the distribution fee.

Other Net fee and commission income fell from an income of DKK 201m in the third quarter to an income of DKK 166m in the fourth quarter. Of the decline, DKK 27m related to the lower extent of refinancing in the fourth quarter compared to the third quarter, while refinancing activity was at the same level as in the third quarter.

Value adjustments amounted to an expense of DKK 21m in the fourth quarter against an expense of DKK 23m in the third quarter. The fourth quarter saw a minor negative return on the fixed portfolio of securities, yet on the other hand fewer positive value adjustments of bonds relating to core operations. Hence, total value adjustments were almost unchanged in the fourth quarter.

In the fourth quarter, other income, etc. amounted to DKK 3m against DKK 18m in the third quarter. The difference can be attributed to dividend received on a share holding in third quarter.

Relative to the third quarter, core expenses still amounted to DKK 76m in the fourth quarter.

Losses and impairment charges amounted to an expense of DKK 40m in the fourth quarter against an income of DKK 22m in the third quarter. Impairment charges in the fourth quarter were affected by an increase in the management's estimates of DKK 90m due to the increased uncertainty regarding the development of the future commercial property market and the effects from future regulation.

**Profit for the year relative to outlook**

The Annual Report for 2018 expressed expectations of a profit for 2019 (exclusive of one-off effects) just below the level for 2018 provided an unchanged level of impairment charges and return on securities.

The net profit for the year at DKK 1,117m was slightly lower than the expected level. The deviation can materially be attributed to loan impairment charges.

## Capital

### Capital management

Jyske Realkredit's capital management takes place with a view to ensuring mortgage activities on the basis of the strategy defined by the Supervisory Board. Jyske Realkredit's desired risk profile aims to reach a solvency ratio sufficient for Jyske Realkredit to continue its lending activities during a period of difficult business conditions. The available capital must be such that regulatory and internal capital requirements are met during such a period, and it must be possible for Jyske Realkredit to weather heavy unexpected losses.

### Capital base

Jyske Realkredit's capital base amounts to DKK 18.8 bn and consists solely of equity i.e. paid-up share capital as well as retained profits. Hence, Jyske Realkredit's capital base does not include any loan capital, which is in line with Jyske Realkredit's wish to have a high quality of its capital base.

### Capital requirement

The regulatory capital requirement (Tier I) is based on the measurement of the risk exposure for the risk types credit, market and operational risk, for which various methods of accounting can be applied. As regards the majority of Jyske Realkredit's loan portfolio, Jyske Realkredit has obtained permission to use internally developed risk models (AIRB) for the determination of the credit risk, whereas the standardised approach is used for the remaining loans. When determining market risk and operational risk, the standardised approach is applied to the two risk types.

The total risk exposure amounted to DKK 81.3 bn at the end of 2019 against DKK 80.0 bn at the end of 2018. The increase of DKK 1.3 bn in the total risk exposure can be attributed to the corporate client segment, which accounted for the largest proportion of the loan growth seen at Jyske Realkredit in 2019.

At the end of 2019, the capital ratio at 23.1 was higher than the ratio at the end of 2018, and constituted therefore a solid level relative to Jyske Realkredit's long-term capital management objective of 17.5%. The capital ratio level is identical to the level of the Common Equity Tier 1 capital ratio and the core capital ratio.

#### Own funds, risk exposure and solvency

DKKm	2019	2018
Equity	18,861	17,744
Intangible assets	-	-0
Prudent valuation	-23	-23
Deferred tax assets	-4	-4
Diff. between expected loss and impairment charges (deduction)	-23	-29
<b>Common Equity Tier 1 capital / Core capital</b>	<b>18,811</b>	<b>17,687</b>
<b>Capital base</b>	<b>18,811</b>	<b>17,687</b>
Credit risk	77,665	76,396
Market risk	20	29
Operational risk	3,636	3,551
<b>Total risk exposure</b>	<b>81,321</b>	<b>79,976</b>
Common Equity Tier 1 capital ratio (%)	23.1	22.1
Tier 1 Capital ratio (%)	23.1	22.1
Capital ratio (%)	23.1	22.1

### ICAAP and individual solvency requirement

Jyske Realkredit's ICAAP (Internal Capital Adequacy Assessment Process) forms the basis of the assessment of Jyske Realkredit's capital structure and hence the determination of the company's adequate capital base as well as its individual solvency requirement. The assessment is based on the current relation between the company's risk profile and capital structure as well as forward-looking considerations that may affect this.

### Adequate capital base

The determination of the adequate capital base (Pillar + Pillar II) for Jyske Realkredit takes place according to the 8+ method based on the capital requirement of 8% of the total risk exposure with additions to cover further risks that are assessed not to be covered by the capital requirement. These may be either risks that are assessed not to be covered by

the capital requirement or risks that are assessed to above normal in relation to the capital requirement for the risk type in question.

When assessing the adequate capital base, all circumstances as mentioned in appendix 1 in the Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need are included. Based on Jyske Realkredit's business model and risk profile, the importance of the individual circumstances on Jyske Realkredit's capital structure is assessed. For the circumstances that are assessed to be most material, the size of the capital addition is quantified, among other things based on the guidelines in the instructions on adequate capital base and solvency requirements.

At the end of 2019, Jyske Realkredit was exposed to credit risks, market risks and operational risks that necessitated a separate addition to the Pillar I capital requirement.

The adequate capital base for Jyske Realkredit amounted to DKK 8.2 bn at the end of 2019, corresponding to an individual solvency requirement of 10.1%, i.e. an increase by 0.4 percentage point relative to the end of 2018.

#### Buffer requirements and excess capital adequacy

The combined capital buffer requirement consists of the statutory buffers in the form of the systemic risk buffer, the capital conservation buffer as well as the countercyclical buffer. The two former have been fully phased in and amount to 1.5% and 2.5% of the total risk exposure amount, whereas the size of the countercyclical buffer depends on the economic trends. Right now the countercyclical buffer amounts to 1.0% of the total risk exposure amount, however, it will in two stages increase by another 0.5 percentage point over the coming year, and at the end of 2020 it will amount to 2.0% of the total risk exposure amount.

Hence, Jyske Realkredit's adequate capital base plus the combined capital buffer requirement amounts to DKK 12.3 bn, corresponding to an individual solvency requirement, inclusive of statutory buffers, of 15.1% of the total risk exposure amount.

Given the capital base of DKK 18.8 bn, Jyske Realkredit has an excess capital adequacy of DKK 6.6 bn, which, therefore, is sufficient to cover the future increase of the countercyclical buffer.

#### Adequate capital base, combined capital buffer requirement and excess capital adequacy

DKKm/% of REA	2019		2018	
Credit risk	6,213	7.6	6,112	7.6
Market risk	2	0.0	2	0.0
Operational risk	291	0.3	284	0.4
<b>Capital requirement, Tier I</b>	<b>6,506</b>	<b>8.0</b>	<b>6,398</b>	<b>8.0</b>
Credit risk	1,485	1.8	1,240	1.6
Market risk	144	0.2	88	0.1
Operational risk	60	0.1	50	0.1
<b>Capital requirement, Pillar II</b>	<b>1,689</b>	<b>2.1</b>	<b>1,378</b>	<b>1.7</b>
<b>Adequate capital base</b>	<b>8,194</b>	<b>10.1</b>	<b>7,776</b>	<b>9.7</b>
Capital conservation buffer	2,033	2.5	1,500	1.9
Systemic risk buffer	1,220	1.5	960	1.2
Countercyclical buffer	813	1.0	0	0.0
<b>Combined capital buffer requirement</b>	<b>4,066</b>	<b>5.0</b>	<b>2,460</b>	<b>3.1</b>
<b>Adequate capital base, incl. combined capital buffer requirement</b>	<b>12,260</b>	<b>15.1</b>	<b>10,236</b>	<b>12.8</b>
<b>Excess capital adequacy</b>	<b>6,550</b>	<b>8.1</b>	<b>7,451</b>	<b>9.3</b>

#### Debt buffer requirement

Mortgage credit institutions are exempt from the minimum requirement for own funds and eligible liabilities (MREL), but on the other hand, they must meet a debt buffer requirement, which - when fully phased in in 2020 - will amount to 2% of non-weighted loans. In addition to applying the unused part of the capital base, the debt buffer requirement can be met by issuing senior debt. Currently Jyske Realkredit has issued senior debt in the amount of DKK 750m, maturing in September 2024. At the end of 2019, the debt buffer requirement amounted to DKK 6.1 bn.

Jyske Realkredit is part of the Jyske Bank Group, which as a consolidated company has been appointed a systemically important financial institution (SIFI). For the Jyske Bank Group, a requirement must be set at the size of the Group's eligible liabilities at a consolidated level, where the debt buffer is set at a level, minimum 2%, to ensure that the overall requirement of the Group's debt buffer, capital base and eligible liabilities amount to at least 8% of the Group's total liabilities. The overall requirement must be met no later than 1 January 2022.

### Leverage Ratio

The leverage ratio is defined as the ratio between Jyske Realkredit's core capital and total unweighted exposures (inclusive of items not recognised in the balance sheet) and must amount to at least 3%. The leverage ratio, which does not include the risk relating to the exposures, may be a significant limitation for an institution with a large proportion of loans with a low risk weighting. At the end of 2019, the leverage ratio for Jyske Realkredit was 4.84% against 4.95% at the end of 2018.

<b>Leverage ratio</b>		
DKKm/%	2019	2018
Core capital	18,811	17,687
Total exposure value	389,003	356,954
<b>Leverage ratio</b>	<b>4.84</b>	<b>4.95</b>

### Other capital requirements

In addition to the regulatory capital requirements, there are further requirements as to the size of Jyske Realkredit's capital in the form of the requirement from Standard & Poor's as to over-collateralisation (OC requirement) as well as the requirement as to supplementary collateral for covered bonds (SDO requirement).

To maintain the AAA rating for all Jyske Realkredit's capital centres (B, E and General Capital Centre), Jyske Realkredit must meet the overcollateralisation from Standard & Poor's. The individual capital centres must meet various requirements depending on the composition of the portfolios. At the end of 2019, the OC requirement amounted to DKK 11.8 bn against DKK 10.8 bn at the end of 2018 and can be met through liquid assets financed with both debt instruments and capital instruments.

Issue of covered bonds (SDO) for the financing of loans takes place in Jyske Realkredit via capital centres E and S. Loans based on the issue of covered bonds (SDO) must be monitored on an on-going basis to ensure that the LTV limit is complied with for each individual property. If the LTV limit is exceeded, for instance, due to a decline in the value of the property value, Jyske Realkredit must provide supplementary collateral. At the end of 2019, the SDO requirement amounted to DKK 5.9 bn against DKK 6.6 bn at the end of 2018.

### Basel III/IV

Over the coming years, the final implementation of Basel III (also referred to as Basel IV) will be completed due to the CRR Amendment Regulation and the CRD IV amending directive. Among other things, the changes involve rules with the purpose of curbing the capital reduction through the use of internal models rather than standardised approaches. The future rules for the calculation of risk-weighted assets for the capital statement will include the minimum levels for the AIRB model as well as the minimum level for the total risk-weighted assets. In consequence of this the capital requirements for Jyske Realkredit will increase. The new rules will introduce an input floor requirement in the AIRB models, which will raise the average risk weights, and an output floor requirement will be implemented, with the result that credit institutions will be subject to a capital requirement of at least 72.5% of the risk-weighted assets calculated on the basis of the standardised approach in 2027. The gradual implementation of the output floor requirement will take place as of 2022 and it will be fully phased in in 2027, whereas it is expected that the input floor requirement will take effect in 2022 without any gradual phasing in.

Jyske Realkredit participates in the European Banking Authority's (EBA) trial reporting of possible effects of the future regulation and meets the future, fully phased-in capital requirements.

### Stress test and capital requirements

Jyske Realkredit performs a series of stress tests of the capital structure and overcollateralisation on the basis of various scenarios. Jyske Realkredit prepares and conducts stress tests according to internal scenarios as well as scenarios defined by the FSA. These stress tests analyse on a continuous basis the capital structure under an economic downturn involving

steep value declines in the property markets. The stress tests must demonstrate that Jyske Realkredit's capital is in compliance with the capital requirements and the related capital buffers. Therefore Jyske Realkredit must maintain a level of capital somewhat in excess of the capital requirement plus capital buffers, otherwise the capital level would not suffice to meet the requirements of one of the demanding capital stress tests. The ongoing capital stress tests form a key part of Jyske Realkredit's capital planning and form part of the Group's capital planning. The stress tests conducted show that the capital structures are robust.

## Loan mix

The continued progress in the property market has affected the development of the total mortgage loans granted by Jyske Realkredit, which at the end of 2019 amounted to nominally DKK 329 bn against DKK 319 bn the previous year. Jyske Realkredit's loans to the private market - owner-occupied homes and vacation homes - rose by DKK 4 bn to a total of DKK 175 bn. In respect of the commercial market, inclusive of loans for subsidised housing, loans rose by DKK 6 bn to a total of DKK 154 bn.

### Breakdown of loans by property category (%)

	2019	2018	2017	2016	2015
<b>Personal clients</b>	<b>53.1</b>	<b>53.4</b>	<b>53.5</b>	<b>51.8</b>	<b>50.6</b>
- ow which owner-occupied homes	50.7	50.8	51.0	49.3	48.0
- of which vacation homes	2.5	2.5	2.5	2.5	2.6
<b>Corporate clients</b>	<b>46.9</b>	<b>46.6</b>	<b>46.5</b>	<b>48.2</b>	<b>49.4</b>
- of which subsidised housing	14.8	15.4	16.2	17.4	18.0
- of which private rental properties (rental housing)	14.7	13.6	12.1	11.7	11.5
- of which cooperative housing	4.3	4.9	5.2	5.5	5.9
- of which office and commercial properties	10.6	10.7	11.2	11.7	12.1

Private rental properties (rental housing) account for a still increasing proportion of the total loan portfolio, whereas for the first time in the past ten years, subsidised housing accounts for less than 15% of the total loans. On the whole, about 87% of Jyske Realkredit's loan portfolio still consists of properties for residential purposes.

### Breakdown of loans by loan type (%)

	2019	2018	2017	2016	2015
<b>Adjustable-rate loans</b>	<b>52.7</b>	<b>53.2</b>	<b>54.7</b>	<b>59.7</b>	<b>55.8</b>
- without interest-only option	25.2	23.4	22.7	25.6	21.9
- with interest-only option	27.5	29.8	32.0	34.1	34.0
<b>Fixed-rate loans</b>	<b>33.2</b>	<b>31.4</b>	<b>31.6</b>	<b>30.9</b>	<b>29.4</b>
- without interest-only option	25.3	24.5	25.3	26.1	23.5
- with interest-only option	7.8	6.9	6.3	4.8	5.8
<b>Interest rate capped mortgages, etc.</b>	<b>11.3</b>	<b>12.3</b>	<b>10.3</b>	<b>5.3</b>	<b>10.1</b>
- without interest-only option	4.8	5.4	4.4	2.0	2.5
- with interest-only option	6.5	7.0	5.9	3.3	7.6
<b>Other loans, including index-linked loans</b>	<b>2.9</b>	<b>3.1</b>	<b>3.5</b>	<b>4.1</b>	<b>4.7</b>
<b>Mortgage loans, total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
- without interest-only option	58.2	56.3	55.8	57.8	52.6
- with interest-only option	41.8	43.7	44.2	42.2	47.4

Despite the record low level of short-term interest rates, recent years' trend of interest-rate hedging continued as the proportion of fixed-rate loans increased. In consequence of the low interest rates, even more of Jyske Realkredit's clients have chosen not to use the interest-only option in connection with their loans, which only confirms the trend of recent years.



#### Average loan-to-value ratio by property category

	2019	2018	2017	2016	2015
<b>Personal clients</b>	<b>61.3</b>	<b>61.9</b>	<b>63.4</b>	<b>64.0</b>	<b>66.2</b>
- of which owner-occupied homes	61.6	62.2	63.8	64.3	66.7
- of which vacation homes	53.8	53.9	56.2	58.0	58.2
<b>Corporate clients</b>	<b>57.4</b>	<b>58.9</b>	<b>61.4</b>	<b>64.5</b>	<b>66.9</b>
- of which subsidised housing	27.2	31.5	43.0	44.7	47.4
- of which private rental properties (rental housing)	62.6	64.2	66.3	70.1	73.5
- of which cooperative housing	53.0	54.4	59.2	61.9	63.9
- of which office and commercial properties	54.7	55.8	58.7	61.7	64.0
<b>Mortgage loans, total</b>	<b>54.6</b>	<b>56.0</b>	<b>59.4</b>	<b>60.7</b>	<b>62.9</b>

From a credit perspective, the loan portfolio developed positively in 2019, and the level of security provided for the loans has increased. Over a four-year period, the average loan-to-value ratio has fallen by 5 percentage points for mortgages for owner-occupied homes. Also within the corporate client segment, a significant decline has been seen in the average loan-to-value ratio. However, the development within subsidised housing can be attributed to the on-going transfer of loans to the government-guaranteed Capital Centre S.

## Liquidity and market conditions

### Liquidity Coverage Ratio (LCR)

In connection with the determination and compliance with the LCR requirement, Jyske Realkredit has been allowed to offset interdependent incoming and outgoing cash flows related to mortgage loans, cf. Article 26 of the LCR regulation. This permission came with a specific liquidity floor requirement of 2.5% of the total mortgage loans stipulated by the FSA.

The binding requirement for Jyske Realkredit's holding of liquid assets originates from the LCR floor requirement of 2.5% of total mortgage loans, which at the end of period 2019 corresponded to almost DKK 8.5 bn (DKK 8.2 bn at the end of 2018). Jyske Realkredit had unencumbered liquid assets in the amount of almost DKK 14.2 bn at the end of 2019 (DKK 9.9 at the end of 2018) and hence a significant liquidity surplus relative to the LCR floor requirement.

Jyske Realkredit's HQLA (high-quality liquid assets) is primarily made up by the bond portfolio. The liquidity coverage ratio (LCR) was calculated at 9,711% at the end of 2019 (315% at the end of 2018).

### Net Stable Funding Ratio (NSFR)

The purpose of the NSFR is to ensure that the funding profiles of the credit institutions are of a sufficiently long-term nature and are stable over a period of one year under both normal as stressed conditions.

Following the implementation of CRR II, Jyske Realkredit must comply with a structural Net Stable Funding Ratio (NSFR). The purpose of the ratio is to secure stable funding of the institutions' assets in the 12-month term. The funding of Jyske Realkredit's loans is stable, as loans and issued ROs and SDOs can be considered mutually dependent. The precondition for the mutual dependency is that the loans are match-funded or financed through bonds for which the maturity can be extended for 12 months or longer in the event of failing refinancing. Maturity extensions can only take place until the financed loans expire.

### The supervisory diamond for mortgage credit institutions

The supervisory diamond defines a number of special risk areas including specified limits that financial institutions should generally not exceed. At the end of 2019, Jyske Realkredit met all benchmarks of the supervisory.

#### Supervisory diamond - benchmarks, %

	2019	2018
Concentration risk <100%	47.9	46.2
Increase in loans <15% annually in the segment:		
- Owner-occupied home and vacation homes	2.4	6.3
- Residential rental property	0.2	2.6
- Other sectors	6.1	4.0
Borrower's interest-rate risk <25%		
- Residential property	17.8	19.7
Interest-only schemes <10%		
- Owner-occupied home and vacation homes	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

On an on-going basis, Jyske Realkredit reviews the company's positions relative to the benchmarks.

### Market risk

Market risk is the risk of loss following movements in the financial markets (interest rate, share price and foreign currency risks). Jyske Realkredit's market risks relate to the securities portfolio for which the interest-rate risk and the spread risk on the bond portfolio are the most important ones. Jyske Realkredit's currency risk is limited, and the funding

denominated in EUR was hedged through currency swaps. Market risks that stem from the other part of the balance sheet are modest due to the balance principle and the close correlation between loans and funding.

Interest-rate risk expresses the risk of loss following changes in interest rates corresponding to a parallel shift of the yield curve by 1 percentage point and is measured on a daily basis. Jyske Realkredit's interest-rate instruments, etc. are chiefly placed in bonds with a short time to maturity with a limited interest-rate sensitivity. At the end of 2019, Jyske Realkredit's interest-rate risk calculated according to the standardised approach of the FSA came to DKK 24m (2018: DKK 43m), which is considerably below the limit defined by the Supervisory Board as well as the statutory limit.

Jyske Realkredit's shareholding consisted solely of infrastructure shares and strategic shares outside the trading portfolio. If share prices in general fall by 10%, Jyske Realkredit will suffer an investment loss of DKK 19m (2018: DKK 21m).

The currency positions are very modest in Jyske Realkredit's balance sheet and amounted to 0.5% of the capital base (2018: 0.8%).

### **Group recovery plan**

Being part of the Jyske Bank Group, Jyske Realkredit is covered by the Group's recovery plan, which can be used in the event that the Group or one of the companies gets into critical financial problems.

The recovery plan specifies a number of qualitative and quantitative recovery indicators. The purpose of the indicators is, at an early point in time, to identify an adverse development in the Group's or Jyske Realkredit's capital, liquidity, profitability or asset quality as well as in relevant macroeconomic and market-based indicators.

The recovery plan aims to ensure continuation of the Group's critical business processes in a situation of significant financial stress. Also, the recovery plan includes a series of recovery options that can be initiated with a view to improvement of solvency, etc. The Group recovery plan is revised annually and is submitted to the FSA in October.

In addition, as other Danish credit institutions, Jyske Realkredit pays an annual contribution to the Resolution Fund, which is administered by Finansiel Stabilitet (the Danish resolution authority).

### **Risk and Capital Management 2019**

Additional information about Jyske Realkredit's internal risk and capital management as well as the regulatory capital requirements is available in the report 'Risk and Capital Management 2019' for Jyske Bank, available on [jyske-bank.dk/ir/kapitalforhold](https://jyske-bank.dk/ir/kapitalforhold).

## Funding and bond issues

In 2019, Jyske Realkredit implemented several measures in order to comply with national and international regulation while at the same time still being able to offer the clients the products they demand.

### Mortgage bond issues

In the recent year, large amounts of particularly long-term callable mortgage bonds were issued by Jyske Realkredit. In the course of 2019, bond prices changed extensively, which resulted in the largest refinancing activity ever seen in the Danish mortgage credit sector. At the beginning of the year, Jyske Realkredit offered 30-year fixed-rate loans at a rate of interest of 2%. The underlying bonds closed quickly, and then 30-year bonds were opened with a coupon of both 1.5% and 1.0%, before Jyske Realkredit as the first Danish mortgage credit institution opened a 30-year callable bond with a coupon of 0.5% in August. Also, in August 2019, Jyske Realkredit was the first Danish mortgage credit institution ever to open a callable bond with a negative coupon, when the 10-year callable bond with a coupon of -0.5% opened.

Prices of certain Jyske Realkredit 30-year callable SDO bonds without interest-only option



### Issues in euro

As the first Danish mortgage credit institution, Jyske Realkredit issued in 2016 bonds denominated in euro to be used for the funding of 1-year adjustable-rate loans in Danish kroner. Issues take place at fixed benchmark sizes of minimum EUR 500m.

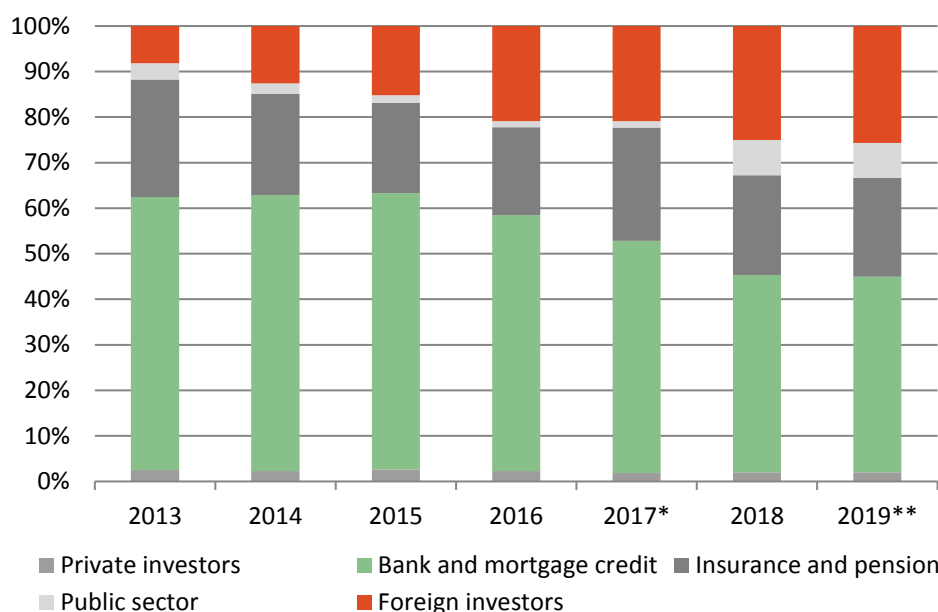
In the first quarter of 2019, Jyske Realkredit issued a benchmark-size covered bond (SDO) in the amount of EUR 500m. The issue saw a good reception as bids totalling more than EUR 2 bn were submitted by more than 90 national and international investors. Due to bids four times the announced issue volume of EUR 500m, this was the most oversubscribed benchmark bond issue in 2019.

In 2020, Jyske Realkredit will look into the possibilities of issuing another euro bond in the benchmark size.

### Breakdown of equity interest

Also in 2019, foreign investors expressed great interest in Jyske Realkredit's bonds.

### Distribution of investors in Jyske Realkredit's bond issues



\* Changes to the statement by Danmarks Nationalbank, the central bank of Denmark. Danish companies' foreign fund holdings changed to domestic investors.

\*\* November 2019

Source: Nationalbanken.dk and own calculations

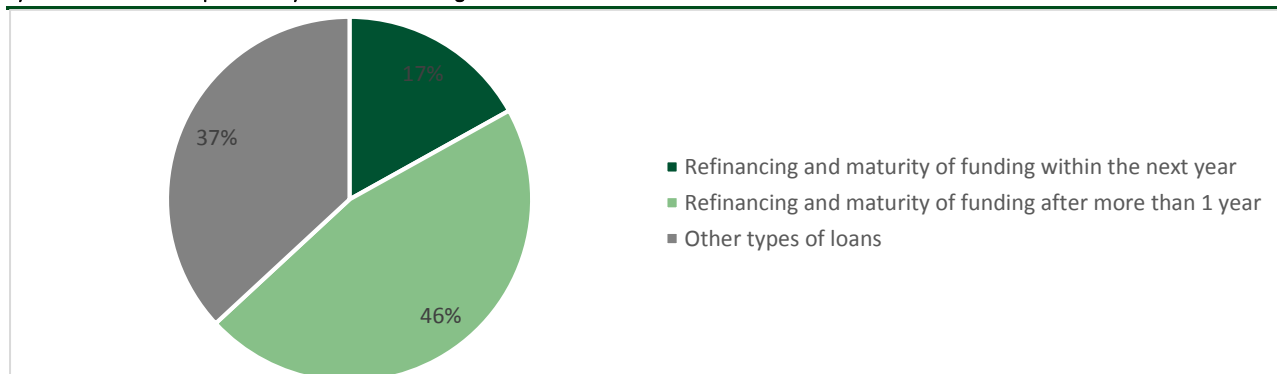
Jyske Realkredit's mortgage bonds are mainly owned by Danish institutional investors, i.e. banks, investment associations/mutual funds, pension funds, insurance companies, etc. Over the past couple of years, an increasing number of foreign investors buy Jyske Realkredit bonds. This trend continued in 2019. Foreign investors are especially interested in callable bonds.

Danmarks Nationalbank's (The central bank of Denmark) purchases of mortgage bonds increased due to the purchase of bonds from Capital Centre S for the financing of loans to the subsidised housing sector.

### Funding of home loans

Due to the very low interest rates on long-term callable bonds, an increasing proportion of Jyske Realkredit's personal clients choose to finance their properties with a loan at a fixed rate throughout the term of the loan. This helps to minimise the refinancing risk as callable bonds are not to be refinanced but will run throughout the term of the loan.

### Jyske Realkredit's loan portfolio by time of refinancing



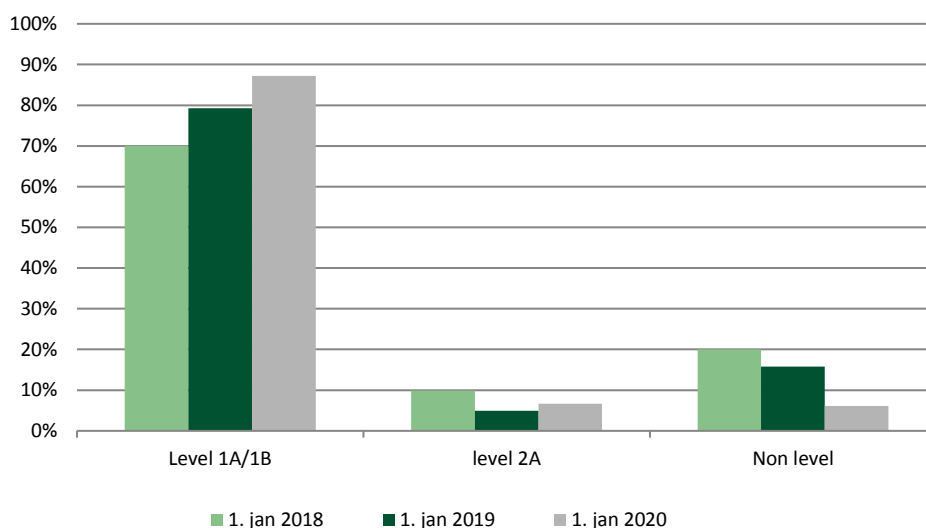
### Sizes of series under LCR

To ensure that the issued bond series are of a sufficient size to qualify as High Quality Liquid Assets (HQLA) in the LCR statement, Jyske Realkredit carries out the refinancing of F2 - F10 loans in April; the refinancing of F1 loans in January and October; and the loans funded by CIBOR in July.

Due to the gathering of the refinancing events for bonds issued in EUR benchmark sizes and due to the general increase in the portfolio, the proportion of bonds meeting the series size requirements of liquid bonds in LCR increased over 2019.

Due to the 100% guarantee against losses issued by the Danish government, bonds by Capital Centre S are classified as Level 1A according to LCR.

**Proportion of issued open bonds by LCR level for open Capital Centres (B, E and S)**



### CRR Article 129(7)

The information according to CRR Article 129(7) on covered bonds (SDO) - such as disclosure of the value of the cover pool and outstanding covered bonds (SDO), geographical distribution and type of covered assets, maturity structure and loans more than 90 days past due - will be disclosed in an ECBC label template quarterly simultaneously with interim and annual reports. Please see [jyskerealkredit.dk](http://jyskerealkredit.dk).

### Rating

In 2019, Jyske Bank's and Jyske Realkredit's joint issuer rating from Standard and Poor's (S&P) was upgraded from single A minus (A-) to single A (A) with "A-" to "A" stable outlook. Jyske Realkredit's bonds issued out of Capital Centre E, Capital Centre B and the General Capital Centre have still not been assigned a triple A (AAA) rating (Stable).

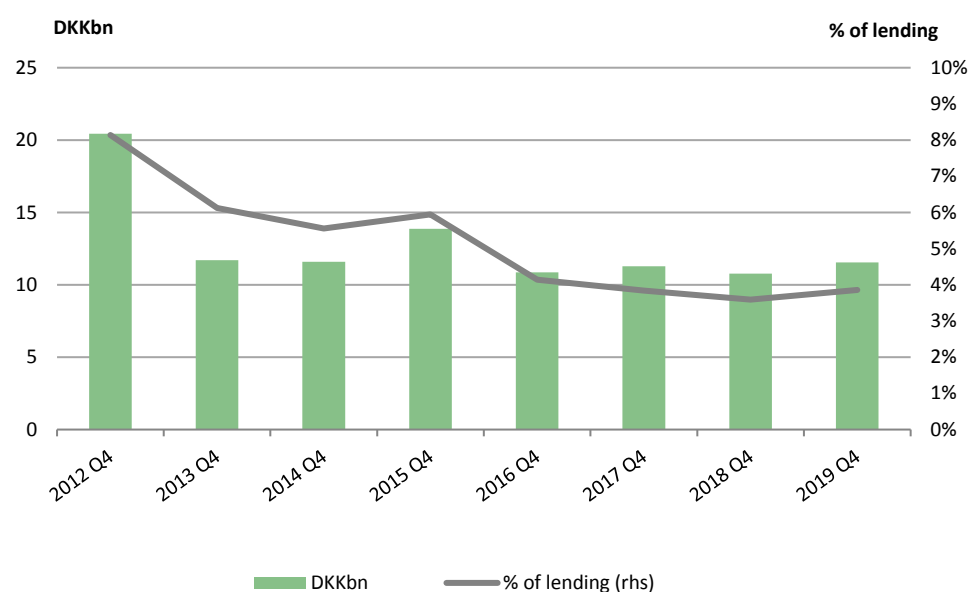
#### Ratings

As at 31 December 2019	Rating	Date of rating / change of rating
Covered bonds		
- issued out of Capital Centre E	AAA	17-10-2011
Mortgage credit bonds		
- issued out of Capital Centre B	AAA	17-10-2011
- issued out of the General Capital Centre	AAA	27-12-2013
Issuer rating (long-term rating)	A <sup>1</sup>	23-10-2019
Issuer rating (short-term rating)	A-1 <sup>1</sup>	23-10-2019

<sup>1</sup> On 23 October 2019, S&P upgraded Jyske Realkredit's issuer rating to A/ Stable/A-1

In the course of 2019, Standard & Poor's percentage requirement of supplementary collateral for AAA ratings of Jyske Realkredit's bonds rose by 0.3 percentage point. The increase was driven by changes in the portfolio composition at Jyske Realkredit's capital centres, where - among other things - a large proportion of loans for subsidised housing was transferred to Capital Centre S, which is not rated.

#### Supplementary collateral requirement to achieve an AAA rating from S&P

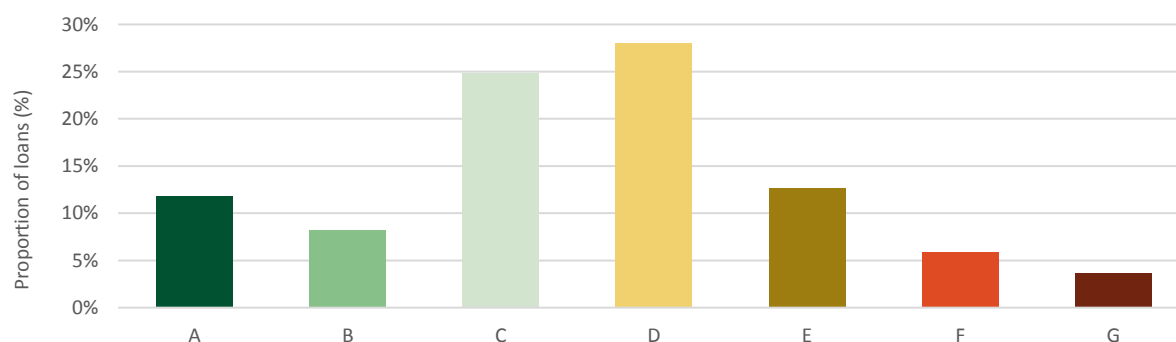


S&P's overcollateralisation requirement for the capital centres are met through funds from Jyske Realkredit's equity. The overcollateralisation relative to S&P's AAA rating requirements is so high that Jyske Realkredit's issuer rating can be downgraded by three notches without this having any effect on the rating of Jyske Realkredit's bonds. Jyske Realkredit anticipates stable requirements of overcollateralisation in 2020 and is therefore expected, with the current level of equity to meet the AAA requirement.

#### Sustainable Transparency Template

Jyske Realkredit is the first financial institution to launch a Sustainable Transparency Template. The template was prepared by Jyske Realkredit to offer investors insight into both the energy standard of the homes for which Jyske Realkredit has granted loans and the energy used in the homes broken down by resource. The template is available at [jyskerealkredit.dk](http://jyskerealkredit.dk).

#### Jyske Realkredit's loan portfolio by energy rating



In its attempts to increase the transparency for investors of how Jyske Realkredit through its lending contributes to the green transition, Jyske Realkredit will in future in addition to publishing the breakdown of energy ratings also publish the total CO2 emission of the properties for which Jyske Realkredit grants mortgages.

## Corporate governance

### Organisation and management

Jyske Realkredit A/S is 100% owned by Jyske Bank A/S.

The Supervisory Board consists of six members, of which two are elected by the employees. The Executive Board has two members.

The guidelines for corporate governance are stated in the Jyske Bank Group's Annual Report 2019 and reference is made to this.

See also the 2019 Annual Report for the Jyske Bank Group for information as regards issues such as corporate social responsibility, employee issues, Group Audit Committee and Risk Committee, diversity and gender composition.

### Outsourcing

Jyske Bank and Jyske Realkredit cooperate in respect of staff functions as well as business functions. Jyske Realkredit has outsourced a number of material areas of activity to Jyske Bank, including:

- Sales, advisory services, credit processing and granting of mortgage loans for personal clients as well as client relationship management and servicing of these borrowers.
- Sales, advisory services and credit-improving work when granting mortgage loans secured on commercial properties as well as client relationship management of these borrowers.
- Development, maintenance and operation of Jyske Realkredit's system area and data exchange and data management for Jyske Realkredit.
- Operation and maintenance of the statutory whistleblower programme for Jyske Realkredit, which is operated jointly with Jyske Bank.

Based on existing legislation on outsourcing and the EBA guidelines expected to be incorporated in new instructions in the area, Jyske Realkredit has made a number of changes to its organisation with a view to accommodating the FSA's order in relation to outsourcing.

### Internal control and risk-management systems relating to financial reporting

The Supervisory Board and the Executive Board have overall responsibility for Jyske Realkredit's financial reporting. The financial reporting process is based on the assumption that all relevant financial transactions are entered correctly in the financial management system. To ensure that all financial transactions are entered correctly in the financial management system, and for the purpose of preventing, detecting and correcting any errors, deviations and omissions, daily, monthly and quarterly internal controls are performed as described in procedures.

Controls comprise both system controls and manual controls. Internal controls are performed regularly through reconciliation and proof on a balance of probability for all financial accounts, and the finance function checks and verifies the reconciliation made. The extent of reconciliation and control is based on an assessment of the risk of errors, deviations and omissions in the financial transactions and accounting items. Special focus is on the financial transactions and accounting items where estimates and assessments can have a significant impact on the value of assets and liabilities. See note 49 in the financial statements for a detailed specification.

Reporting to the Supervisory Board, the Executive Board and business area managements takes place on an on-going basis. This reporting includes, among other:

- Income statement and balance sheet with comments on main items
- Review of assets
- Risks on Jyske Realkredit's securities portfolio, including interest rate and foreign currency risk
- Credit risks, loan losses and impairment charges
- Counterparty risks
- Operational risks
- Capital adequacy and solvency requirement



- Liquidity
- Outsourced activities

All reporting is based on joint data. Jyske Realkredit monitors developments in relevant legislation and regulations with a view to ensuring full compliance. In connection with the financial reporting process, detailed checklists are also filled in to ensure that all requirements are met.

The Internal Audit Department continuously reviews and reports on significant areas relating to internal controls, risk management and reporting. Moreover, the Group Audit Committee of the Jyske Bank Group, to which Jyske Realkredit belongs, will also review accounting, auditing and security matters.

### **Risk Management function**

The purpose of the risk management function is to assist the Executive Board of Jyske Realkredit in gaining an overview of all materials risks, ensuring a clear and unambiguous allocation of responsibility for proactive risk management, assessing the adequacy of the risk targets, reports and models employed in risk management and communicating its positions on the material risks and their size. Risk management at Jyske Realkredit forms part of the Jyske Bank Group's overall risk management. The function is an entity in Risk Management at Jyske Bank, with which professional interaction has been established.

For a more detailed description of Jyske Realkredit's risk management, reference is made to the report 'Risk and Capital Management 2019' for Jyske Bank which is available on [jyskebank.dk/ir/kapitalforhold](https://jyskebank.dk/ir/kapitalforhold).

### **Compliance function**

In accordance with Danish legislation, Jyske Realkredit has a compliance function responsible for assisting management in ensuring that Jyske Realkredit complies with current laws and regulations as well as ethical standards to minimise the risk of financial losses and loss of trust from clients, public authorities and the external environment in general. The compliance activities primarily consist of reviews of selected areas. The compliance function reports on an ongoing basis, at least semi-annually, to the Executive Board of Jyske Realkredit on the results of the reviews and controls performed. Likewise, ongoing reporting takes place to the business areas that have been reviewed. In addition, twice a year, the Compliance function prepares a report to the Supervisory Board of Jyske Realkredit, stating the main conclusions of the reports submitted to the Executive Board as well as the status on any outstanding measures.

### **Internal control procedures**

The Supervisory Board sets policies and limits for the conduct of business, and the Supervisory Board and the Executive Board lay down and approve the overall requirements for business procedures and internal controls in key business areas. The internal control system is based on a separation of functions between client-oriented functions, authorisation and control. Controls are performed at several levels and are initiated through self-reviews in the business areas and the securities area as well as regular controls performed by the credit function, the compliance function and the finance function.

In addition, the internal audit regularly reviews selected areas in accordance with the audit plan approved by the Group Audit Committee. The finance function collects and checks financial data on a monthly basis and reports this to Jyske Realkredit's Executive Board.

The Group Audit Committee and the Executive Board continuously monitor compliance with business procedures, internal controls, relevant legislation and other rules and regulations in connection with financial reporting and submit reports to the entire Supervisory Board.

### **Company auditors**

The Annual General Meeting elects an independent auditor on the recommendation of the Supervisory Board. Prior to the election, the Group Audit Committee has evaluated the skills, the independence, etc. of the nominated auditor.

Jyske Realkredit is also covered by the Jyske Bank Group's Internal Audit, which reports to the Supervisory Board. Internal Audit audits the annual report in cooperation with the auditors elected by the Annual General Meeting.

Internal Audit performs audits of selected areas in accordance with an audit plan approved by the independent auditors and submitted to the Group Audit Committee and the Supervisory Board.

As part of the audit, the auditors will report any weaknesses identified in business procedures and internal controls etc. to the Executive Board and the Supervisory Board, and also Internal Audit will regularly follow up on the implementation of recommendations made. The Head of Internal Audit participates in Group Audit Committee meetings.

**Money laundering**

Prevention of money laundering and financing of terrorism is a top priority of the Jyske Bank Group.

Jyske Bank has appointed a MLRO (money-laundering reporting officer), who is in charge of the overall reporting to the Group Executive and Supervisory Boards. Jyske Realkredit has also appointed a MLRO, who refers to the Group MLRO.

As part of the Jyske Bank Group's endeavours to prevent and fight money laundering and financing of terrorism, the employees of Jyske Realkredit have participated in various training programmes targeting the individual employee's function.

## The mortgage credit market 2019

### 2019 was a year of refinancing

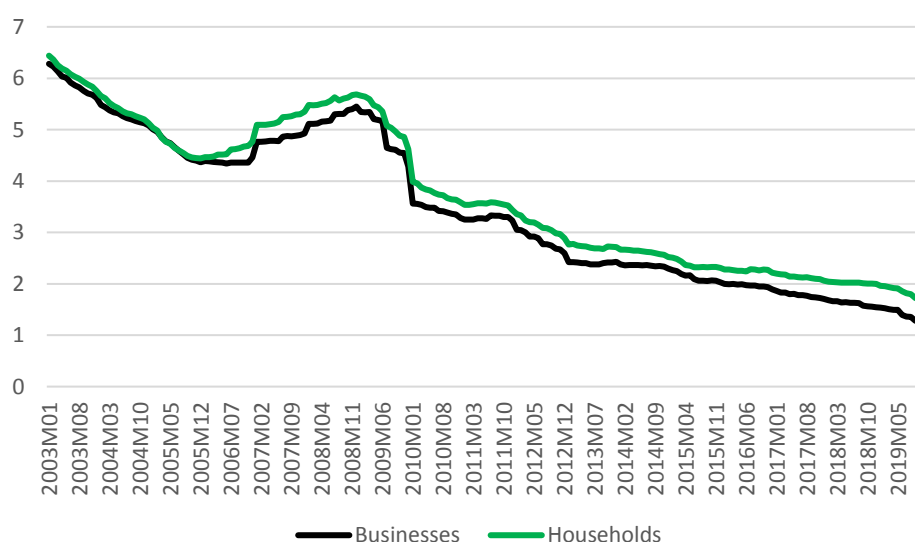
Due to significant declines in interest rates, 2019 was the year that saw the highest refinancing activity since the financial crisis. Hence, throughout the year, several refinancing opportunities were offered, where particularly the offering of 30-year loans based on 1% and 0.5% bonds were the leading ones.

However, the significant declines in interest rates also gave rise to the offering of new 10-year loans. Initially at a coupon of 0%, then a coupon of minus 0.5%. These are loan types never before introduced in Denmark, and Jyske Realkredit was a first mover in the market. The new loan opportunities attracted much attention and affected the mortgage market throughout the year.

The Danish mortgage credit system proved its efficiency as both households and businesses refinanced loans, hence reducing their interest expenses.

Since the financial crisis, the interest-rate level on outstanding mortgages has been reduced to a fifth of the previous level. Throughout 2019 alone, the interest-rate level fell by about 0.3 percentage point, which development adds to the strengthening of the financial stability in Denmark, hence supporting the economic development.

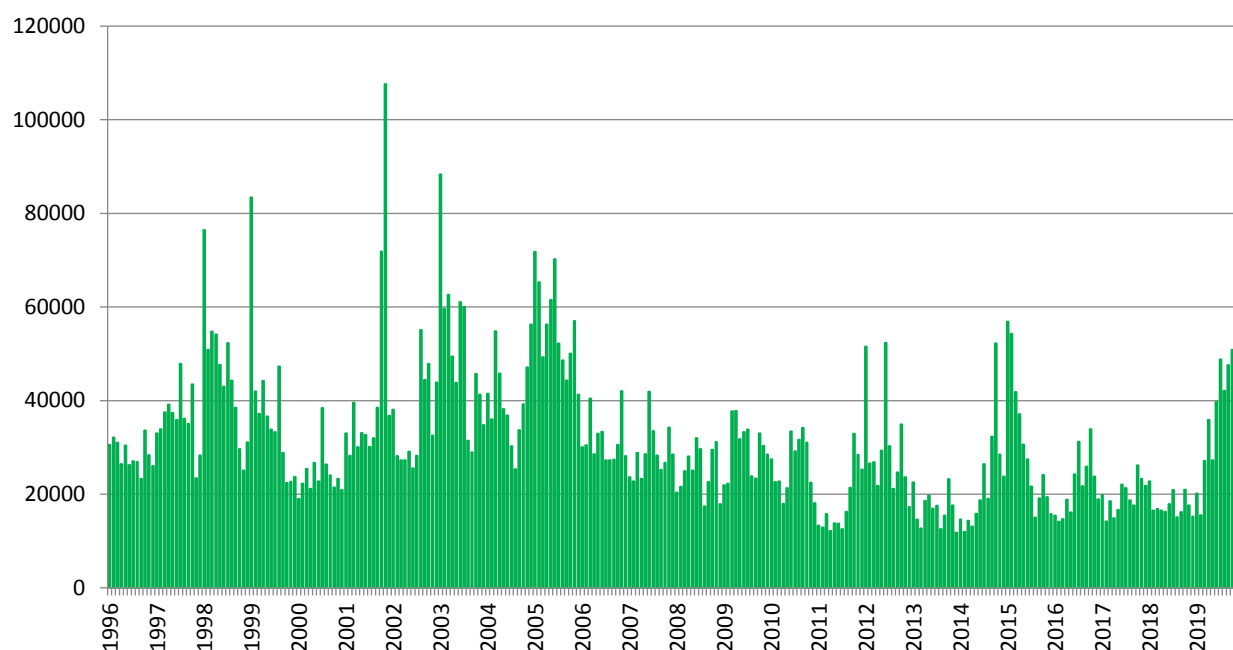
Development of the yield to maturity on outstanding mortgages inclusive of administration margin



Source: Danmarks Nationalbank, the central bank of Denmark

The extensive refinancing caused a high level of activity in the mortgage-credit sector. This is evident from the statistics of offers. In 2019, the sector produced just above 400,000 mortgage offers. The busiest months were September and October, as in each of these months about 50,000 offers were produced.

### Number of mortgage loan offers

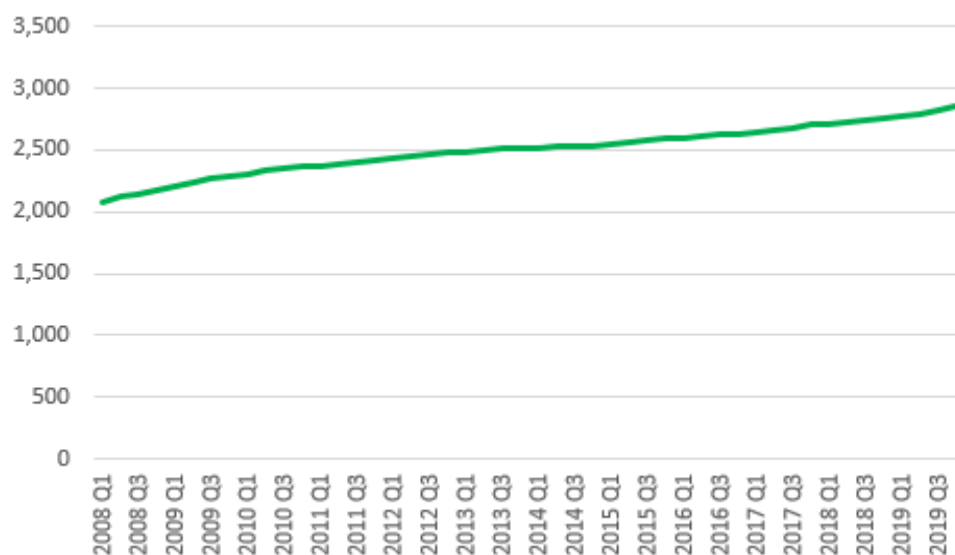


Source: Finans Danmark

Due to the extensive loan activity, the total level of mortgage lending in Denmark increased. On the whole, net loans in the mortgage-credit sector rose by almost DKK 90 bn in the course of 2019, of which Jyske Realkredit has a market share of almost 10%.

A look at the total loans, as stated by Finance Denmark's loan statistics, shows that Jyske Realkredit has loan portfolio of just above DKK 327 bn, corresponding to a market share of about 11.5% of the total mortgage credit market in Denmark.

### Total mortgage lending in Denmark



Source: Finans Danmark

### Geographical breakdown of loans

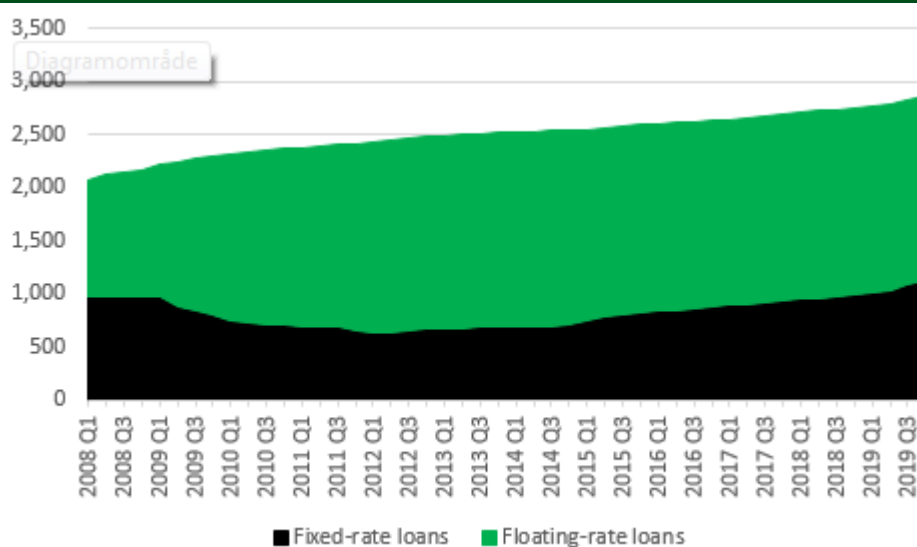
Geographically, mortgage lending is broadly based, and in 2019 Jyske Realkredit granted mortgage loans in all 98 municipal districts in Denmark. This indicates that the refinancing opportunities in 2019 benefited all parts of society, and also the upswing in the housing market is broadly based and that to a somewhat greater extent than was the case a few years ago.

### Danes go for fixed interest rates

There is no doubt that in 2019 the loans that were most attractive to the Danes were fixed-rate amortised mortgage loans. The development can be attributed to several circumstances, where the extent of refinancing plays a certain role. Hence, refinancing took place primarily from floating-rate to fixed-rate loans. However, in cases with change of ownership, fixed-rate loans have also become the most popular type of loan. This is due, not least, to regulation, as it has become easier to be approved for a fixed-rate loan than for a floating-rate loan. Consequently, the total volume of fixed-rate loans account for almost 40% of total mortgage lending.

In 2019, the total volume of fixed-rate loans rose by about DKK 370 bn, while the volume of floating-rate loans fell by almost DKK 40 bn. Hence refinancing took place out of floating-rate loans into fixed-rate loans. The development from floating rate to fixed rate take place slowly and primarily in connection with change of ownership.

Total volume of mortgage loans by fixed-rate and floating-rate loans

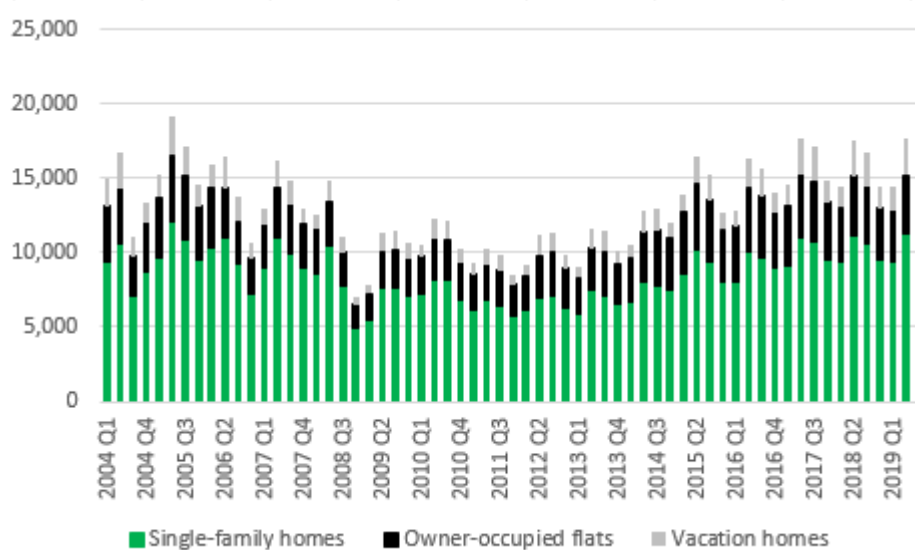


Source: Finans Danmark

### Housing market transition from urban to rural areas

The low rate of interest has also affected the housing market. 2019 saw a record number of changes of ownership in the private housing market. The many changes of ownership reflects a development primarily seen in the market for single-family homes. The market for single-family homes is much larger than the market for owner-occupied flats, which accounts for almost 10% of the total property market. Jyske Realkredit granted loans in connection with about 10% of the changes of ownership. The trend, where the market for single-family homes is the strongest driver, also supports the activity level from a geographical aspect, as the market for single-family homes is more widely distributed over the country than the market for owner-occupied flats.

### Total volume of mortgage loans by property type

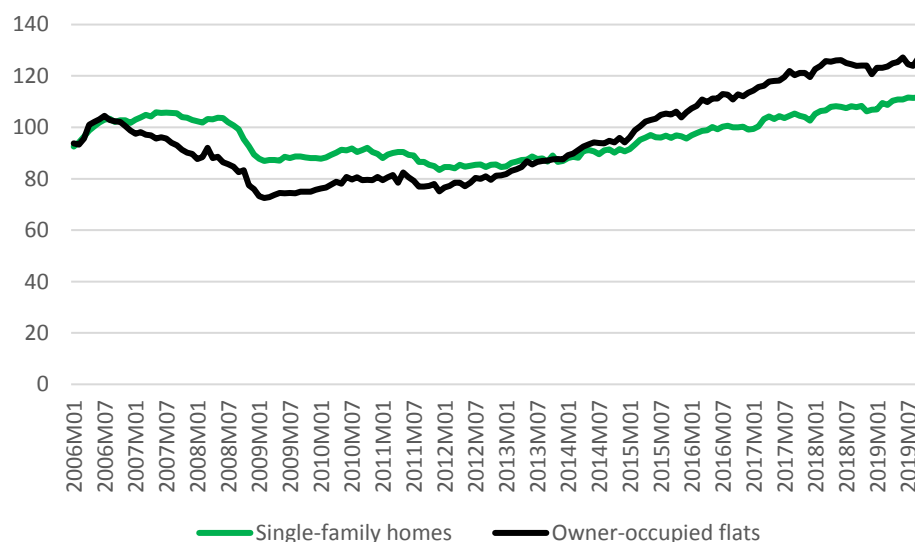


Source: Finans Danmark

The many property transactions also caused prices to rise. Hence prices in the market for single-family homes rose by an average of 2.8% across the country.

The market for owner-occupied flats saw a more modest development as the growth rate was at 0.3%. The slowdown in the market for owner-occupied flats can very much be attributed to regulation such as the growth guidelines, the executive order on good business practice, etc. These are initiatives that slow down the market despite the low interest rate and the high underlying demand.

### Price development in the housing market in Denmark (2006 = 100)



Source: Statistics Denmark

## Business areas

Jyske Realkredit offers loans and financial services to personal clients, corporate clients and clients in the subsidised housing segment. The basis of the loan is the client's property. With a view to ensuring the best possible offer in relation to the client's individual needs and requirements, Jyske Realkredit is organised in an area catering to personal clients and an area catering to corporate and subsidised housing clients.

It is the ambition of Jyske Realkredit to simplify property financing for existing and future homeowners. This is reflected, among other things in the ongoing product development. An example of this would be the added features on loans such as 'Jyske Frihed'.

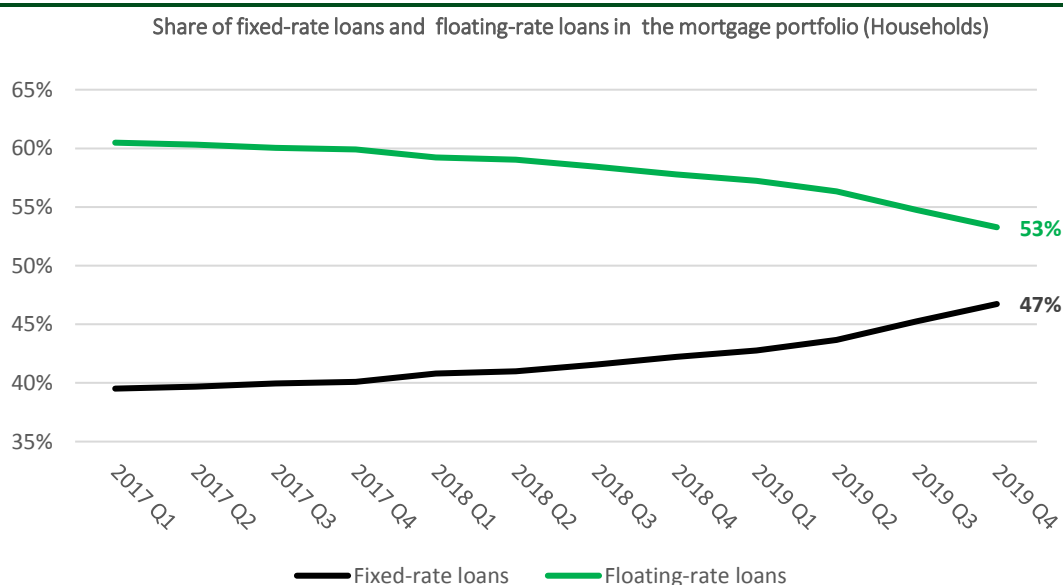
### Personal clients

The personal client area covers lending to owner-occupied homes and vacation homes in Denmark.

Throughout 2019, the activity level was high, and Jyske Realkredit communicated extensively with new and existing clients in a market where the interest rate has fallen a lot and new bond series were opened. This was reflected, for instance in many discussions of refinancing, and many homeowners refinanced to obtain interest savings. The refinancing activity was at the highest level since 2005. The low interest-rate level also resulted in many changes of ownership. Hence, 2019 saw a record high level of sales of single-family homes and owner-occupied flats. This resulted in 34,000 loan offers, in the amount of DKK 62.6 bn, and to this must be added a number of loan offers for bank mortgage loans that are jointly funded in Jyske Realkredit.

In 2019, the majority of Danish homeowners still chose fixed-rate home loans. The strong demand for fixed-rate loans is to be seen in the light of the regulation in the form of growth guidelines and the Executive Order on Good Business Practice, as these make it increasingly favourable for homeowners to opt for fixed-rate loans. However, generally, the floating-rate loans are still most widely used.

### Homeowners' choice of loans



Source: Finans Danmark

Jyske Realkredit's loans for personal clients are distributed through Jyske Bank. In addition, Jyske Bank cooperates with a number of independent estate agents and other players in respect of referral of clients.

### Corporate clients

Corporate clients are serviced by Corporate and Institutional Banking and Jyske Bank's other corporate client branches.

In the corporate client area, cooperation takes place with the largest players in the professional property market. Focus is primarily on residential rental property as well as office and business properties. The level of transactions in 2019 fell

relative to 2018. This must be seen in the light of the fact that 2018 was a record year, but also in the light of the uncertainty seen in 2019 as regards housing policy measures such as S.5(2) of the Danish Housing Regulations Act (boligreguleringsloven).

The market for cooperative housing societies was positively affected by the low interest-rate level, resulting in favourable opportunities for advantageous financing. Hence many cooperative housing societies have refinanced their loans to fixed-rate loans and hence strengthened the society's finances. To the benefit of the societies and their members. However, in respect of establishment of new cooperative housing societies, the market was negatively affected by new government regulation.

Within subsidised housing, Jyske Realkredit has made the strategic choice of holding back a bit granting new loans. Therefore the portfolio has been reduced marginally. This must be seen in the light of the high market share in this segment. Like other areas, this one was characterised by a high refinancing activity.

Even though, 2019 saw fewer transactions than 2018, the business area was busy. The business community has also taken advantage of the opportunity to refinance loans to obtain a lower rate of interest. Hence, the business community has - all other things being equal - improved its cash position and gained a higher degree of certainty as regards interest payments. The extensive refinancing activity generally resulted in a satisfactory lending activity, where loans for corporate clients now amount to almost DKK 105 bn.



## Other information

For further information, please see [jyskerealkredit.dk](https://jyskerealkredit.dk), which website gives detailed financial information about Jyske Realkredit.

### Dividend

At the Annual General Meeting, the Supervisory Board will propose that no dividend be distributed for 2019.

### Financial calendar

Jyske Realkredit anticipates releasing financial statements on the following dates in 2020:

5 May	Interim Financial Report, first quarter of 2020
18 August	Interim Financial Report, first half of 2020
3 November	Interim Financial Report, first nine months of 2020

### Events after the end of the financial year

No events have occurred after the balance sheet date that would influence the income statement or balance sheet set out in these financial statements.

# Income Statement and Statement of Comprehensive Income

DKK m

Note	2019	2018
<b>Income Statement</b>		
4 Interest income	6,240	6,029
5 Interest expenses	3,790	4,069
<b>Net interest income</b>	<b>2,450</b>	<b>1,960</b>
Dividends, etc.	22	27
6 Fees and commission income	662	317
Fees and commission expenses	1,304	60
<b>Net interest and fee income</b>	<b>1,830</b>	<b>2,243</b>
7 Value adjustment (- is an expense)	-53	-81
8 Other operating income	0	189
9.10 Employee and administrative expenses	283	707
19 Amortisation, depreciation and impairment charges	2	4
Other operating expenses	24	18
11 Loan impairment charges	35	369
Profit on investments in associates and group enterprises	0	10
<b>Pre-tax profit</b>	<b>1,434</b>	<b>1,262</b>
12 Tax	316	263
<b>Profit for the year</b>	<b>1,117</b>	<b>999</b>
Distributed to:		
Jyske Realkredit A/S shareholders	1,117	999
<b>Total</b>	<b>1,117</b>	<b>999</b>
<b>Statement of Comprehensive Income</b>		
Profit for the year	1,117	999
Other comprehensive income:		
Items that cannot be recycled to the income statement:		
Value adjustment of owner-occupied properties	-	17
Tax on other comprehensive income	-	-4
<b>Other comprehensive income after tax</b>	<b>-</b>	<b>13</b>
<b>Comprehensive income for the year</b>	<b>1,117</b>	<b>1,013</b>
Distributed to:		
Jyske Realkredit A/S shareholders	1,117	1,013
<b>Total</b>	<b>1,117</b>	<b>1,013</b>

# Balance Sheet

DKKkm

Note		2019	2018
<b>Assets</b>			
	Cash balance and demand deposits with central banks	41	49
14	Due from credit institutions and central banks	26,435	6,438
15.16	Loans and advances at fair value	338,666	327,403
18	Bonds at fair value	18,373	18,381
	Shares, etc.	192	212
	Intangible assets	-	0
19	Other property, plant and equipment	1	3
20	Deferred tax assets	4	4
21	Assets in temporary possession	107	376
22	Other assets	1,075	414
	Prepayments	6	1
	<b>Total assets</b>	<b>384,899</b>	<b>353,280</b>
<b>Equity and liabilities</b>			
<b>Liabilities</b>			
23	Due to credit institutions and central banks	1,102	76
24	Issued bonds at fair value	361,388	332,955
	Issued bonds at amortised cost	750	-
	Current tax liabilities	315	262
	Liabilities relating to assets held temporarily	5	7
25	Other liabilities	2,466	2,228
	Prepayments	10	4
	<b>Liabilities, total</b>	<b>366,036</b>	<b>335,533</b>
<b>Provisions</b>			
26	Other provisions	2	3
	<b>Total provisions</b>	<b>2</b>	<b>3</b>
<b>Equity</b>			
	Share capital	4,306	4,306
	Share premium	102	102
	Retained profit	14,453	13,335
	<b>Total equity</b>	<b>18,861</b>	<b>17,744</b>
	<b>Total equity and liabilities</b>	<b>384,899</b>	<b>353,280</b>
<b>Off-balance sheet items</b>			
	Guarantees, etc.	0	0
	Other contingent liabilities, etc. (loan offers, etc.)	14,449	15,434
	<b>Total guarantees and other contingent liabilities</b>	<b>14,449</b>	<b>15,434</b>

## Statement of Changes in Equity

DKK m

	Share capital <sup>1</sup>	Share premium	Revaluation reserve	Reserve according to the equity method	Retained profit	Total equity <sup>2</sup>
Equity at 1 January 2019	4,306	102	-	-	13,335	17,744
Profit for the year	-	-	-	-	1,117	1,117
Comprehensive income for the year	-	-	-	-	1,117	1,117
<b>Equity at 31 December 2019</b>	<b>4,306</b>	<b>102</b>	<b>-</b>	<b>-</b>	<b>14,453</b>	<b>18,861</b>
Equity at 1 January 2018	3,306	102	73	74	12,176	15,731
Adjustment at beginning of year according to new accounting rules <sup>3</sup>	-	-	-	-	-0	-0
Equity after adjustment at beginning of year	3,306	102	73	74	12,176	15,731
Profit for the year	-	-	-	-	999	999
Transferred from Retained profit	-	-	-87	-74	160	-
Other comprehensive income	-	-	13	-	-	13
Comprehensive income for the year	-	-	-73	-74	1,160	1,013
Capital injection	1,000	-	-	-	-	1,000
<b>Equity at 31 December 2018</b>	<b>4,306</b>	<b>102</b>	<b>-</b>	<b>-</b>	<b>13,335</b>	<b>17,744</b>

<sup>1</sup> Share capital: All shares are owned by Jyske Bank A/S, and the share capital consists of 43,064,800 shares of DKK 100 each.

<sup>2</sup> Of the equity an amount of DKK 18,049m (2018: DKK 16,942m) was allocated to meet the capital requirement at Capital centre E, Capital centre B, Capital Centre S, Jyske Realkredit's series with joint and several liability and Husejernes Kreditkasse. The remaining equity of DKK 812m (DKK 802m) was allocated to meet the capital requirement of the General Capital Centre. Reference is also made to note 51, summary of Series financial statements

<sup>3</sup> Adjustments at beginning of year according to new accounting rules relate to impairment charges on the item Due from credit institutions and central banks, etc. in the amount of DKK 72,000.

## Capital Statement

	2019	2018
Equity	18,861	17,744
Intangible assets	-	-0
Difference between expected loss and the carrying amount of impairment charges	-23	-29
Prudent valuation	-23	-23
Deferred tax assets	-4	-4
<b>Common Equity Tier 1 capital / Core capital</b>	<b>18,811</b>	<b>17,687</b>
<b>Capital base</b>	<b>18,811</b>	<b>17,687</b>
Weighted risk exposure involving credit risk etc.	77,665	76,396
Weighted risk exposure involving market risk	20	29
Weighted risk exposure involving operational risk	3,636	3,551
<b>Total weighted risk exposure</b>	<b>81,321</b>	<b>79,976</b>
Capital requirement, Pillar I	6,506	6,398
<b>Capital requirement, total</b>	<b>6,506</b>	<b>6,398</b>
Capital ratio (%)	23.1	22.1
Core capital ratio (%)	23.1	22.1
Common Equity Tier 1 capital ratio (%)	23.1	22.1

For further information on the individual solvency requirement, please see the section in the management's review on "Capital structure".

The determination of the individual solvency requirement was not covered by the audit.

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## 1 Financial highlights and ratios

	2019	2018	2017	2016	2015
Net interest and fee income	<b>1,830</b>	2,243	2,212	2,128	2,196
Value adjustment (- is an expense)	<b>-53</b>	-81	-67	-67	-270
Employee and administrative expenses	<b>283</b>	707	823	815	848
Loan impairment charges (- is income)	<b>35</b>	369	202	-32	186
Profit on investments in associates and group enterprises	<b>-</b>	10	19	4	0
Profit for the year	<b>1,117</b>	999	886	1,015	685
Loans and advances	<b>338,666</b>	327,403	308,121	278,407	250,892
Equity	<b>18,861</b>	17,744	15,731	12,812	11,781
Total assets	<b>384,899</b>	353,280	337,732	307,027	269,975
Capital ratio (%)	<b>23.1</b>	22.1	20.8	19.0	19.1
Core capital ratio (%)	<b>23.1</b>	22.1	20.8	19.0	18.8
Common Equity Tier 1 capital ratio (%)	<b>23.1</b>	22.1	20.8	19.0	18.8
Pre-tax profit as a pct. of average equity	<b>7.8</b>	7.5	7.9	10.6	7.9
Net profit as a percentage of average equity	<b>6.1</b>	6.0	6.2	8.3	6.0
Income/cost ratio (%)	<b>5.2</b>	2.1	2.1	2.6	1.9
Currency position (%)	<b>0.5</b>	0.8	1.4	1.1	1.2
Accumulated impairment ratio (%)	<b>0.4</b>	0.4	0.4	0.4	0.6
Impairment ratio for the year (%)	<b>0.01</b>	0.11	0.07	-0.01	0.07
Increase in loans and advances for the year (%)	<b>3.0</b>	6.7	9.8	10.0	16.5
Loans and advances relative to equity	<b>18.0</b>	18.5	19.6	21.7	21.3
Return on capital employed	<b>0.29</b>	0.28	0.26	0.33	0.25

Reference is made to definitions of financial ratios, cf. note 50.

## 2 Segmental financial statements

	2019			2018		
	Core profit (Mortgage loans)	Reclassi- fication	Total	Core profit (Mortgage loans)	Reclassi- fication	Total
Administration margin income, etc.	2,334	-	2,334	1,896	-	1,896
Other net interest income, etc.	58	58	117	77	-13	64
Net interest income	2,392	58	2,450	1,973	-13	1,960
Dividends, etc.	-	22	22	-	27	27
Net fee and commission income	-641	-	-641	256	-	256
Net interest and fee income	1,750	80	1,830	2,229	14	2,243
Value adjustments	6	-58	-53	-84	3	-81
Profit from equity investments	-	-	-	-	10	10
Other income	22	-22	0	216	-27	189
Income	1,778	-	1,778	2,361	-	2,361
Expenses	310	-	310	730	-	730
Profit before loan impairment charges guarantees	1,468	-	1,468	1,631	-	1,631
Loan impairment charges (- = income)	35	-	35	-38	407	369
IFRS 9-derived adjustment of impairment charges, beginning of 2018	-	-	-	407	-407	-
<b>Pre-tax profit</b>	<b>1,434</b>	<b>-</b>	<b>1,434</b>	<b>1,262</b>	<b>-</b>	<b>1,262</b>

The alternative performance targets applied in the management's review constitute valuable information for readers of financial statements as they provide a more uniform basis for comparison of accounting periods. No adjusting entries are made, and therefore the pre-tax profit for the year will be the same in the alternative performance targets of the management's review and in the profit according to the provisions of the Danish Executive Order on the Preparation of Financial Statements.

The above table illustrates relationships between income statement items under Jyske Realkredit (key financial data), page 2, and income statement items prepared according to the Danish Executive Order on the Preparation of Financial Statements, page 31. Expenses in the above table relate to Employee and administrative expenses, Amortisation, depreciation and impairment charges as well as Other operating expenses in the income statement according to the Danish Executive Order on the Preparation of Financial Statements.

Reclassification relates to the following:

- Expenses of DKK 58m (2018: an income of DKK 13m) due to value adjustments relating to the balance principle were reclassified from value adjustments to interest income.
- Dividend on shares, etc. of DKK 22m (2018: DKK 27m) is recognised under Other income.
- Profit from equity investments of DKK - m (2018: DKK 10m) is recognised under Value adjustments.
- IFRS 9-derived adjustment of impairment charges of DKK - m (2018: DKK 407m) is shown on a separate line.

## 3 Segments - sales, geography and public subsidies

In 2019, Jyske Realkredit's total sales amounted to DKK 7,110m (2018: DKK 6,687m).

The only activity of Jyske Realkredit is mortgage lending, which takes place solely in Denmark (inclusive of the Faroe Islands).

In 2019, Jyske Realkredit did not receive any special subsidies related to mortgage banking activities.

# Notes

DKKm

	2019	2018
<b>4 Interest income</b>		
Due from credit institutions and central banks <sup>1</sup>	-63	-8
Loans and advances	4,081	4,182
Administration margin	1,779	1,660
Bonds	150	201
Derivatives	212	49
Other interest income	0	0
Interest income before offsetting of interest on own bonds	6,159	6,085
Interest on own bonds, set off against interest on issued bonds	125	162
<b>Total after offsetting of negative interest income</b>	<b>6,035</b>	<b>5,923</b>
Negative interest income set off against interest income	100	29
Negative interest expenses set off against interest expenses	105	77
<b>Total before offsetting of negative interest income</b>	<b>6,240</b>	<b>6,029</b>
<sup>1</sup> Of which interest income on reverse repos carried under "Due from credit institutions and central banks"	-56	-5

<b>5 Interest expenses</b>		
Due to credit institutions and central banks <sup>1</sup>	14	18
Issued bonds	3,733	4,117
Other interest expenses	-37	-10
Interest expenses before offsetting of interest on own bonds	3,709	4,125
Interest on own mortgage bonds, set off against interest on issued bonds	125	162
<b>Total after offsetting of negative interest expenses</b>	<b>3,584</b>	<b>3,963</b>
Negative interest expenses set off against interest expenses	105	77
Negative interest income set off against interest income	100	29
<b>Total before offsetting of negative interest income</b>	<b>3,790</b>	<b>4,069</b>
<sup>1</sup> Of which interest expenses on repos carried under "Due to credit institutions and central banks"	-4	-4

Interest for swaps, etc. that were entered into in connection with the funding of mortgage loans, where the interest on some of the issued bonds is swapped to interest corresponding to interest on the mortgage loan, are, as of 2019, recognised under Other interest expenses. Hence the total interest expense for the funding of mortgage loans will be recognised as a whole under Interest expenses. In this connection, interest income from swaps in the amount of DKK 147m was in 2019 recognised under Other interest expenses (2018: DKK 125m). Comparative figures for 2018 have been adjusted.

<b>6 Fees and commission income</b>		
Securities trading	401	211
Loan application fees	260	105
Other fees and commissions	0	0
<b>Total</b>	<b>662</b>	<b>317</b>



# Notes

DKKm

	2019	2018
<b>7 Value adjustment (- is an expense)</b>		
Mortgage loans <sup>1</sup>	1,631	-434
Other loans, advances and receivables at fair value	0	0
Bonds	21	-149
Shares, etc.	-19	-0
Currency	-3	-1
Currency, interest-rate and other contracts as well as other derivatives <sup>1</sup>	343	254
Issued bonds <sup>1</sup>	-2,026	251
<b>Total</b>	<b>-53</b>	<b>-81</b>

<sup>1</sup> Value adjustments of the balance principle for Jyske Realkredit amounted to a total expense of DKK 15m (2018: DKK -16m), resulting from net value adjustments of the following items: Mortgage loans by DKK +1,631m (DKK -434m), issued mortgage bonds by DKK -2,026m (DKK +251m) and derivatives by DKK +380m (DKK +167m), recognised under "Currency, interest-rate and other contracts as well as other derivatives".

## 8 Other operating income

Under Other operating income, a gain of DKK 185m was in 2018 recognised relating to the sale of the company's owner-occupied property.

## 9 Employee and administrative expenses

### Employee expenses

Wages and salaries, etc.	24	32
Pensions	2	4
Payroll tax	2	8
Social security	0	0
<b>Total</b>	<b>29</b>	<b>44</b>

### Salaries and remuneration to the Executive Board and the Supervisory Board

Executive Board	6	6
Supervisory Board	0	0
<b>Total</b>	<b>6</b>	<b>6</b>

### Other administrative expenses

IT	15	24
Other administrative expenses inclusive of intra-group service agreement	234	632
<b>Total</b>	<b>249</b>	<b>657</b>

<b>Employee and administrative expenses, total</b>	<b>283</b>	<b>707</b>
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### Wages and salaries, etc.

Wages, salaries and short-term employee benefits	24	32
<b>Total</b>	<b>24</b>	<b>32</b>

### Remuneration of the Supervisory Board (DKK '000)

Kim Henriksen	120	60
Steen Brastrup Clasen (joined on 26 March 2019)	90	-
Laila Busted (resigned on 30 June 2018)	-	15
Anette Lykke Poulsen (joined on 1 July 2018 - resigned on 30 November 2018)	-	25

<b>Directors' remunerations, total</b>	<b>210</b>	<b>100</b>
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Except for employee-elected members of the Supervisory Board, members employed by Jyske Bank do not receive any directors' remuneration from Jyske Realkredit.

Members of the Supervisory Board receive no shares, options, warrants or any other types of incentive pay. Moreover, members of the Supervisory Board receive no pension in the performance of their duties and obligations as members of the Supervisory Board.

The following members of Jyske Realkredit's Supervisory Boards have as members of other supervisory boards or executive boards of other companies in the Jyske Bank Group earned remuneration from these companies in 2019: Per Skovhus an amount of DKK 8.7m (2018: DKK 8.5m), Niels Erik Jakobsen an amount of DKK 7.9m (DKK 7.8m), Peter Schleidt an amount of DKK 8.7m (DKK 8.3m).

2019 2018

## 9 Employee and administrative expenses, cont.

**Remuneration of the Executive Board**

Carsten Tirsbæk Madsen (resigned on 30 June 2018 and joined again on 1 September 2019)	1.5	2.1
Lars Waalen Sandberg (resigned on 1 September 2019)	2.8	3.8
Torben Hansen (joined on 1 October 2018)	2.0	0.5
<b>Total remuneration of the Executive Board</b>	<b>6.3</b>	<b>6.4</b>

The above allows for the value for tax purposes of provisions such as company car, company-paid telephone, etc. No variable remuneration was paid in 2019 (Lars Waalen Sandberg received a variable remuneration amount of DKK 0.1m in 2018). Other amounts are fixed remuneration amounts. The Executive Board does not participate in any incentive programme. Jyske Realkredit has no contractual obligations concerning annual contributions to the Executive Board's pension schemes. Jyske Realkredit has no pension obligations or special termination obligations towards the Executive Board.

**Remuneration of risk takers**

Number of members	12	10
Contractual remuneration	7.5	9.8
Variable remuneration	1.0	-
Defined contribution pensions	0.8	1.3

The group comprises employees (exclusive of the Executive Board) with a special impact on the company's risk profile. Of the above-mentioned 12 persons, 4 are employees split between the companies and salaried by Jyske Bank A/S, and settlement with Jyske Realkredit takes place through the intra-group service agreement. The above-mentioned remuneration amount relate to the remaining eight persons, who are salaried directly by Jyske Realkredit. Of the variable remuneration amount of DKK 1.0m (2018: DKK - m), an amount of DKK 0.9m was in the form of severance pay. For further information of the Jyske Bank Group's remuneration policy, reference is made to:

<https://www.jyskebank.dk/wps/wcm/connect/jfo/24e6c342-e6d4-4899-99b3-1c1d2350bf6f/Lonpolitik-210317.pdf?MOD=AJPERES&CVID=mOeZn4j>

## 10 Number of employees

Average number of employees for the financial year (full-time employees)	27	48
No. of employees at year-end	23	28
No. of employees split between the companies, end of the year	474	358

	2019	2018		
11 <b>Loan impairment charges</b>				
Loan impairment charges for the year	-18	220		
Recognised as a loss, not covered by impairment charges	116	221		
Recoveries	-63	-72		
<b>Total</b>	<b>35</b>	<b>369</b>		
<b>Balance of impairment charges</b>				
Balance of impairment charges, beginning of year	1,380	1,219		
Implementation of IFRS 9 (changes to accounting rules)	-	0		
Loan impairment charges for the year	-18	220		
Recognised as a loss, covered by impairment charges	-32	-59		
<b>Balance of impairment charges, end of year</b>	<b>1,330</b>	<b>1,380</b>		
Mortgage loan impairment charges	1,286	1,317		
Impairment charges on other loans and receivables, etc.	44	63		
Impairment charges on balances due from credit institutions and central banks, etc.	0	0		
<b>Balance of impairment charges, end of year</b>	<b>1,330</b>	<b>1,380</b>		
<b>Breakdown of balance of impairment charges by stage</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Balance at the beginning of year	248	705	427	1,380
Transfer of impairment charges at the beginning of the year to stage 1	173	-137	-35	-
Transfer of impairment charges at the beginning of the year to stage 2	-8	69	-61	-
Transfer of impairment charges at the beginning of the year to stage 3	-1	-37	38	-
Impairment charges relating to new loans	118	129	23	270
Decline in the balance of impairment charges due to repayment of loans	-77	-109	-93	-279
Effect from recalculation	-141	50	82	-9
Previously recognized as impairment charges, now losses	0	-5	-26	-32
<b>Balance of impairment charges, end of year</b>	<b>311</b>	<b>665</b>	<b>354</b>	<b>1,330</b>
The above primarily relate to Loans and advances at fair value through the income statement.				
Neither in 2018 nor in 2019, did Jyske Realkredit grant loans that were credit-impaired at initial recognition.				
The extent of the recalculation reflects some migration between stages over the period. In addition, some minor model adjustments also affected the recalculation. Due to a general improvement of the clients' credit quality, the period saw more migration from stage 3 to stages 1 and 2 than vice versa. To a great extent, the development relating to new loans and repaid loans in Stages 2 and 3 can be ascribed to refinancing of loans.				

<b>12 Tax</b>		
Current tax	316	267
Change in deferred tax	0	-8
Adjustment of tax for previous years	0	4
<b>Total</b>	<b>316</b>	<b>263</b>
<b>Effective tax rate</b>		
Current tax rate	22.0	22.0
Adjustments as regards previous years	0.0	0.3
Non-taxable income and non-deductible expenses, etc.	0.0	-1.5
<b>Effective tax rate</b>	<b>22.1</b>	<b>20.8</b>

The effective tax rate for 2018 was affected by the sale of the property Klampenborgvej 205, as the accounting gain exceeded the taxable gain.

# Notes

DKKkm

	2019	2018
<b>13 Contractual time to maturity</b>		
<b>Assets</b>		
<b>Due from credit institutions and central banks</b>		
Demand deposits	705	754
Up to 3 months	25,730	5,684
Over 3 months and up to 1 year	-	-
Over 1 year and up to 5 years	-	-
Over 5 years	-	-
<b>Total</b>	<b>26,435</b>	<b>6,438</b>
<b>Loans and advances at fair value <sup>1</sup></b>		
Up to 3 months	2,076	2,082
Over 3 months and up to 1 year	7,019	6,590
Over 1 year and up to 5 years	40,670	37,740
Over 5 years	288,901	280,991
<b>Total</b>	<b>338,666</b>	<b>327,403</b>
<b>Bonds at fair value</b>		
Up to 3 months	1,314	1,474
Over 3 months and up to 1 year	10,014	6,639
Over 1 year and up to 5 years	7,014	10,221
Over 5 years	30	47
<b>Total</b>	<b>18,373</b>	<b>18,381</b>
<b>Liabilities</b>		
<b>Due to credit institutions and central banks</b>		
Demand deposits	89	57
Up to 3 months	1,013	19
Over 3 months and up to 1 year	-	-
Over 1 year and up to 5 years	-	-
Over 5 years	-	-
<b>Total</b>	<b>1,102</b>	<b>76</b>
<b>Issued bonds at fair value <sup>1</sup></b>		
Up to 3 months	24,709	5,083
Over 3 months and up to 1 year	55,175	45,544
Over 1 year and up to 5 years	134,398	151,147
Over 5 years	147,106	131,181
<b>Total</b>	<b>361,388</b>	<b>332,955</b>
<b>Issued bonds at amortised cost</b>		
Up to 3 months	-	-
Over 3 months and up to 1 year	-	-
Over 1 year and up to 5 years	750	-
Over 5 years	-	-
<b>Total</b>	<b>750</b>	<b>-</b>

The above amounts are exclusive of interest.

<sup>1</sup> The cash flow imbalance between mortgage loans (the main item of "Loans and advances at fair value") and "Issued bonds at fair value" is due to the fact that 30-year adjustable rate mortgage loans (ARM) are financed by bonds with maturities of 1-10 years.

For further details on Jyske Realkredit's liquidity risk, please see note 44.

# Notes

DKKm

	2019	2018
<b>14 Due from credit institutions and central banks</b>		
At notice with central banks	9,810	-
Due from credit institutions	1,599	6,438
Reverse repos	15,026	-
<b>Total</b>	<b>26,435</b>	<b>6,438</b>

The major part of 'Due from credit institutions' were reduced in connection with the mortgage payments due on 02 January 2020. Cash is deposited with Danmarks Nationalbank, the central bank of Denmark, and Danish banks with ratings between A- and AA- (Standard & Poor's).

<b>15 Loans and advances at fair value</b>		
Mortgage loans, nominal value	329,043	319,454
Adjustment for interest-rate risk, etc.	10,410	8,762
Adjustment for credit risk <sup>1</sup>	-1,286	-1,317
Mortgage loans at fair value	338,167	326,899
Arrears and outlays, total	148	97
Other loans and receivables	351	406
<b>Total</b>	<b>338,666</b>	<b>327,403</b>

<sup>1</sup> Adjustment for credit risk is calculated so it allows for objective evidence whether loans and advances are impaired compared to the time of the establishment of the loans and advances.

<b>16 Mortgage loans at fair value broken down by property category</b>		
Owner-occupied homes	168,479	164,271
Vacation homes	8,285	8,136
Subsidised housing (rental housing)	53,989	53,116
Cooperative housing	14,820	16,300
Private rental properties (rental housing)	49,366	44,219
Industrial properties	2,630	1,783
Office and business properties	34,982	34,380
Agricultural properties, etc.	63	83
Properties for social, cultural and educational purposes	5,415	4,508
Other properties	137	103
<b>Total</b>	<b>338,167</b>	<b>326,899</b>

<b>17 Collateral by type</b>		
Guarantees	40,190	37,722
Real property, residential	173,161	169,020
Real property, commercial	122,516	118,026
<b>Total</b>	<b>335,867</b>	<b>324,768</b>

The amounts are determined at fair value.

No material changes were made to the practice relating to provision of collateral.

Guarantees mainly relate to central and local government guarantees that were provided in connection with loans for subsidised housing societies, etc. as well as urban renewal projects.

Collateral relating to real property was calculated at Jyske Realkredit's current assessment of the mortgaged properties less a haircut of 5%. Hence the collateral value of mortgages on real property equals loans at a LTV ratio of up to 95%.

# Notes

DKKm

	2019	2018
<b>18 Bonds at fair value</b>		
Own mortgage bonds	15,177	17,837
Other mortgage bonds	18,373	17,819
Government bonds	-	561
Total before offsetting of own mortgage bonds	33,550	36,218
Own bonds (offset against Issued bonds)	-15,177	-17,837
<b>Total</b>	<b>18,373</b>	<b>18,381</b>

An important part of the holding of securities is included in Jyske Realkredit's fixed portfolio of securities.

Other securities relate to the investment of temporary excess liquidity resulting from bonds for refinancing of ARM loans, immediate redemptions at par where the bonds have not yet been drawn as well as advance issues of bonds in connection with hedging of fixed-price agreements with loan clients. Investment is solely made in bonds where the issuer's credit rating is within the limits of the company's risk policy.

<b>19 Other property, plant and equipment</b>		
Total cost, beginning of year	30	30
Additions	-	1
Disposals	-	1
Total cost, end of year	30	30
Amortisation, depreciation and impairment charges, beginning of year	27	25
Amortisation for the year	2	3
Reversed amortisation, depreciation and impairment	-	1
Amortisation, depreciation and impairment charges, end of year	29	27
<b>Recognised value, end of year</b>	<b>1</b>	<b>3</b>

Other property, plant and equipment consisted primarily of IT hardware, etc.

<b>20 Deferred tax assets</b>					
	Intangible assets and property, plant and equipment	Provisions for liabilities	Issued bonds at amortised cost	Other	Total
Broken down into the following balance sheet items:					
Carrying amount at beginning of 2018	-1	1	-1	-	-0
Adjustment in other comprehensive income (through equity)	-4	-	-	0	-4
Adjustment in income statement	8	-1	1	-	8
Carrying amount at end of 2018	4	1	-	0	4
Adjustment in income statement	-0	-0	-	-0	-0
<b>Carrying amount at end of 2019</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>4</b>

<b>21 Assets held temporarily</b>		
Properties acquired through foreclosure <sup>1</sup>	107	181
Subsidiary in possession with a view to sale <sup>2</sup>	-	195
<b>Total</b>	<b>107</b>	<b>376</b>

The sales strategy for all assets acquired temporarily by the company is to ensure that active efforts are made to sell these assets as quickly as possible at a realistic price and within 12 months.

<sup>1</sup> This includes properties acquired temporarily in connection with loan facilities. At end of 2019, Jyske Realkredit had 32 (2018: 37) properties acquired through foreclosure, of which 15 were acquired within the last 12 months.

<sup>2</sup> At the end of 2018, Jyske Realkredit had 1 property company in temporary possession connection with loans granted.

# Notes

DKKm

	2019	2018
<b>22 Other assets</b>		
Positive fair value of derivatives, etc. <sup>1</sup>	595	165
Interest and commission receivable	23	58
Loan applications in process	345	154
Other assets	112	36
<b>Total</b>	<b>1,075</b>	<b>414</b>

<sup>1</sup> Financial derivatives are used for hedging transactions solely where the counterparty's credit rating is within the limits of the company's risk policy.

<b>23 Due to credit institutions and central banks</b>		
Due to credit institutions	801	76
Repos	301	-
<b>Total</b>	<b>1,102</b>	<b>76</b>

<b>24 Issued bonds at fair value</b>		
Issued mortgage bonds, nominal value	365,563	341,859
Adjustment to fair value	11,003	8,933
Own mortgage bonds, fair value	-15,177	-17,837
<b>Total</b>	<b>361,388</b>	<b>332,955</b>
<b>Of issued mortgage bonds, nominal value:</b>		
Pre-issued	6,962	11,700
Drawn for redemption at next repayment date	30,224	17,264

<b>25 Other liabilities</b>		
Negative fair value of derivatives	247	260
Interest and commission payable	1,489	1,767
Other liabilities	730	202
<b>Total</b>	<b>2,466</b>	<b>2,228</b>

Financial derivatives are used for hedging transactions solely where the counterparty's credit rating is within the limits of the company's risk policy

<b>26 Other provisions</b>		
Beginning of year	3	5
Additions	1	-
Provisions used	0	0
Provisions reversed	1	3
<b>End of year</b>	<b>2</b>	<b>3</b>
<b>Provisions are expected to fall due:</b>		
Within 1 year	0	1
Over 1 years	2	2

Other provisions relate to payable expenses, liabilities in the form of commitments of support and other liabilities where either the size of the amount or the due date is uncertain. The uncertainty of the provisions made is considered limited.

# Notes

DKK m

	2019	2018
<b>27 Off-balance sheet items</b>		
<b>Guarantees, etc.</b>		
Other guarantees	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

Other guarantees include other forms of guarantees, etc. with a limited risk.

## Other contingent liabilities, etc.

Other long-term contracts	0	1
Irrevocable loan commitments (mortgage offers)	14,427	15,406
Other contingent liabilities	22	28
<b>Total</b>	<b>14,449</b>	<b>15,434</b>

## Irrevocable credit commitments

Irrevocable credit commitments relate materially to the obligation to pay out loans according to offers for mortgage loans with a term of up to six months made by Jyske Realkredit (the term may be longer within the subsidised housing sector). All offers were made in accordance with Jyske Realkredit's credit policy and constitute a customary part of the process of paying out mortgage loans. However, in the event that a client is subsequently registered with the RKI debtor register, etc., Jyske Realkredit shall not be bound by the loan offer.

Jyske Realkredit is jointly taxed with the Jyske Bank Group, of which Jyske Bank A/S is the administration company. Therefore, Jyske Realkredit is liable according to the rules of the Danish Corporation Tax Act on income tax, etc. for jointly taxed companies.

Jyske Realkredit is registered jointly with the Jyske Bank Group for settlement of VAT and payroll tax. The companies are jointly and severally liable for such settlement.

Jyske Realkredit has entered into an agreement with Danmarks Nationalbank, the central bank of Denmark, on the establishment of T2S Auto collateralisation.

At the balance sheet date, Jyske Realkredit was not a party to any pending lawsuits.

<b>28 Collateral</b>		
Margin accounts, derivatives, etc.	144	109
<b>Total</b>	<b>144</b>	<b>109</b>

Repo transactions involve an arrangement where bonds are provided as collateral for the amount borrowed. See note 29 for further details.



## 29 Security provided for financial assets and liabilities

	Carrying amount	Offsetting, master netting agreement	Collateral	Net value
<b>2019</b>				
<b>Financial assets</b>				
Derivatives with positive fair value	595	179	666	-251
Reverse repos	15,026	-	15,026	-
<b>Total</b>	<b>15,621</b>	<b>179</b>	<b>15,692</b>	<b>-251</b>
<b>Financial liabilities</b>				
Derivatives with negative fair value	247	179	100	-32
Repo transactions	301	-	301	-
<b>Total</b>	<b>548</b>	<b>179</b>	<b>401</b>	<b>-32</b>
<b>2018</b>				
<b>Financial assets</b>				
Derivatives with positive fair value	165	149	9	8
<b>Total</b>	<b>165</b>	<b>149</b>	<b>9</b>	<b>8</b>
<b>Financial liabilities</b>				
Derivatives with negative fair value	260	149	97	14
<b>Total</b>	<b>260</b>	<b>149</b>	<b>97</b>	<b>14</b>

On the balance sheet, reverse repo transactions are classified as 'Due from credit institutions and central banks'. On the balance sheet, repo transactions are classified as 'Due to credit institutions and central banks'.

Master netting agreements and similar agreements will entitle a party to offsetting if a counterparty is in default. It lowers the exposure further when a counterparty is in default, but this does not meet the conditions for accounting offsetting on the balance sheet.

Mortgage loans at fair value in the amount of DKK 338,167m (2018: DKK 326,899m) and other assets of DKK 38,495m (20,842m) were at the end of 2019 registered as collateral for issued mortgage bonds, including covered bonds (SDO).

According to the Danish mortgage legislation, the issued mortgage bonds, including covered bonds, are secured against the underlying mortgage loans.

## 30 Notes on fair value

**Methods for measuring fair value**

Fair value is the price which can be obtained at the time of measurement by selling an asset or which must be paid for transferring a liability in an ordinary transaction between independent market participants (exit value).

For all assets listed on active markets, fair values are measured at official prices. Where no price is quoted, a different official price is used which is taken to reflect most closely the fair value. Financial assets and liabilities of which quoted prices or other official prices are not available or are not taken to reflect the fair value are measured at fair value according to other evaluation techniques and other observable market information. In cases where observable prices based on market information are not available or are not taken to be useful for measuring fair value, the fair value is measured by recognised techniques, including discounted future cash flows, and our own expertise. The basis of the measurement may be recent transactions involving comparable assets or liabilities, interest rates, exchange rates, volatility, credit spreads, etc.

Generally, quoted prices and observable data are obtained in the form of interest rates, share and bond prices, exchange rates, forward premiums, volatilities, etc. from recognised stock exchanges and providers.

**Specific details on methods for measuring fair value**

Bonds at fair value, Shares, Derivatives, Loans and advances at fair value and Issued bonds are measured at fair value in the financial statements.

Generally *bonds* are measured at prices quoted on a recognised stock exchange. If such listed price is not available for the past 5 business days, a calculated price based on the official market rate will be applied for determining the value. The calculated price is received from SIX Financial Information.

*Shares* that are listed are measured at prices quoted on a recognised stock exchange. However, at the end of 2019, Jyske Realkredit's holding consisted solely of unlisted shares, where the value is measured, among other things, on the basis of the companies' most recent financial statements available.

*Derivatives* are valued on the basis of discounted future interest payments. Interest payments are calculated by taking into account payment frequencies and market conventions. Variable interest payments are estimated on the basis of market expectations for future values of the benchmark interest rate.

### 30 Notes on fair value, cont.

*Loans at fair value* comprise mortgage loans. These are generally measured at prices of the underlying issued bonds quoted on a recognised stock exchange. If such a market price is not available for the preceding 5 business days, a calculated price based on the official market rate will be applied for determining the value. The calculated price is received from SIX Financial Information. If derivatives are part of the funding of the loans, the value of these will be integrated in the valuation of the loans.

Generally *issued bonds at fair value* are measured at prices quoted on a recognised stock exchange. If such a market price is not available for the preceding 5 business days, a calculated price based on the official market rate will be applied for determining the value. The calculated price is received from SIX Financial Information.

#### Information about differences between recognised value and measurement of fair value

A small holding of the issued bonds is measured at amortised cost supplemented with the fair value of the hedged interest-rate risk. The difference to fair value was calculated on the basis of own-issue prices obtained externally.

For the items 'Cash, cash equivalents and demand deposits with central banks', 'Due from credit institutions and central banks' and 'Due to credit institutions and central banks', the carrying amount is assessed to amount to a reasonable approximation of fair value.

	2019	2018
<b>31 Recognised financial instruments</b>		
<b>Financial assets at fair value adjusted through the income statement</b>		
Bonds	18,373	18,381
Other assets - derivatives	595	165
Shares, etc.	192	212
Loans and advances	338,666	327,403
<b>Financial assets at amortised cost</b>		
Cash balance and demand deposits with central banks	41	49
Due from credit institutions and central banks	26,435	6,438
<b>Financial liabilities at fair value adjusted through the income statement</b>		
Other liabilities - derivatives	247	260
Issued bonds	361,388	332,955
<b>Financial liabilities at amortised cost</b>		
Due to credit institutions and central banks	1,102	76
Issued bonds	750	-

## 32 The fair value hierarchy

	Quoted prices	Observable prices	Non- observable prices	Fair value, total	Recognised value
<b>2019</b>					
<b>Financial assets</b>					
Loans and advances at fair value	-	338,666	-	338,666	338,666
Bonds at fair value	17,823	549	-	18,373	18,373
Shares, etc.	-	-	192	192	192
Derivatives	4	591	-	595	595
<b>Total</b>	<b>17,827</b>	<b>339,807</b>	<b>192</b>	<b>357,826</b>	<b>357,826</b>
<b>Financial liabilities</b>					
Derivatives	2	245	-	247	247
Issued bonds at fair value	277,180	84,208	-	361,388	361,388
<b>Total</b>	<b>277,181</b>	<b>84,454</b>	<b>-</b>	<b>361,635</b>	<b>361,635</b>
<b>2018</b>					
<b>Financial assets</b>					
Loans and advances at fair value	-	327,403	-	327,403	327,403
Bonds at fair value	17,346	1,035	-	18,381	18,381
Shares, etc.	-	-	212	212	212
Derivatives	6	159	-	165	165
<b>Total</b>	<b>17,353</b>	<b>328,596</b>	<b>212</b>	<b>346,161</b>	<b>346,161</b>
<b>Financial liabilities</b>					
Derivatives	-	260	-	260	260
Issued bonds at fair value	272,930	60,025	-	332,955	332,955
<b>Total</b>	<b>272,930</b>	<b>60,285</b>	<b>-</b>	<b>333,215</b>	<b>333,215</b>

	2019	2018
<b>Non-observable prices</b>		
Fair value, beginning of year	212	215
Capital gain and loss recognised in the income statement	-19	-0
Purchases made over the year	0	0
Sales or redemption	-1	-2
<b>Fair value, end of year</b>	<b>192</b>	<b>212</b>

No considerable transfers took place between the three levels in 2018 and in 2019.

**Non-observable prices**

Non-observable prices at the end of 2019 referred to unlisted shares recognised at DKK 192m (2018: DKK 212m). At the end of 2019, Jyske Realkredit's shareholding consisted solely of unlisted shares, where the value is measured on the basis of the companies' most recent financial statements available. Individual assessment of the individual financial statements is regarded as the best valuation technique. As the majority of the company's assets (most of which are properties) and liabilities is recognised at fair value, the majority of the unlisted shares is measured at net asset value. The measurement of the fair value of a property will, however, be subject to some uncertainty, and it is therefore assessed that there is an uncertainty of +/-10% in connection with the price determination.

Jyske Realkredit finds it of little probability that the application of alternative prices in the measurement of fair value would result in a material deviation from the recognised fair value.

# Notes

DKKm

## 33 Fair value of non-financial assets and liabilities

	Quoted prices	Observable prices	Non- observable prices	Total
<b>2019</b>				
<b>Non-financial assets</b>				
Assets held temporarily	-	-	107	107
<b>Total</b>	-	-	<b>107</b>	<b>107</b>
<b>2018</b>				
<b>Non-financial assets</b>				
Assets held temporarily	-	-	376	376
<b>Total</b>	-	-	<b>376</b>	<b>376</b>

No transfers took place between the three levels in 2018 and in 2019.

### Assets held temporarily

Assets held temporarily comprise properties and a property company (2018) acquired temporarily in connection with loan facilities.

The value of this group of assets is determined according to the returns method where the operating income of the property is set in relation to the required return on the property. Valuations are made by the company's internal valuers who have specialised in property valuation. The valuations are less of estimated sales costs.

## 34 Fair value of financial assets and liabilities recognised at amortised cost

The re-statement at fair value of financial assets and liabilities recognised at amortised cost shows that for neither 2018 nor 2019 there was no total non-recognised unrealised loss.

	<b>2019</b>		<b>2018</b>	
	Recognised value	Fair value	Recognised value	Fair value
<b>Financial liabilities</b>				
Issued bonds at amortised cost	750	750	-	-
<b>Total</b>	<b>750</b>	<b>750</b>	<b>-</b>	<b>-</b>

For other financial assets and liabilities that are not recognised at fair value, the carrying amount corresponds in essence to fair value.

## 35 Risk exposure

The risk involved in Jyske Realkredit's activities is materially related to credit risks on loans granted. The market risk assumed by Jyske Realkredit consists primarily of interest-rate risk from the portfolio of securities. Risk management in Jyske Realkredit is a central element of day-to-day operations and contributes actively to ensuring that the Supervisory Board and Executive Board have the necessary decision-making basis for conducting Jyske Realkredit's business. Focus is continuously on the quality of risk management, particularly on the credit risk models. This is a natural step in the company's continued ambition to develop tools and establish procedures for valid quantification of the various risks to which the company is exposed.

## 36 Credit risk

By credit risk is understood the risk of a loss resulting from a counterparty's failure to meet its payment obligation to the company. Jyske Realkredit's business model is lending secured against real property. Therefore loans will always be secured by mortgages on immovable property and, also, in a number of cases guarantees are provided by third parties. In connection with loans for social housing, guarantees are provided by municipalities and the state.

Jyske Realkredit's credit risk is calculated on the basis of internal models approved by the FSA.

### Credit policy and responsibility

The Supervisory Board determines the general lending limits at Jyske Realkredit, including requirements of the types of properties that can be mortgaged with a view to ensuring that only properties of a good quality are mortgaged. Moreover, the Supervisory Board delegates authority to the members of the Executive Board.

### 36 Credit risk, cont.

Credit risk is managed through the credit policy, of which the objective is to keep Jyske Realkredit's risk at an acceptable level in relation to the capital base and business volume of Jyske Realkredit, given the general trend in the Danish economy. Client transactions with Jyske Realkredit must generate a satisfactory long-term return according to RAROC principles.

Specific credit policies have been formulated for all areas in which Jyske Realkredit assumes credit risk. The credit policies define the credit risk levels and identify undesirable business and property types.

#### Limits and authorisation

Jyske Realkredit attaches importance to its decentralised credit-authorisation process. The limit structure states which amounts, instances and segments are covered by the limit. The main principle is that regularly occurring credit cases can be authorised locally, and credit-related decisions for major or more complicated cases are authorised centrally.

#### Credit risk and property price models

Jyske Realkredit uses the advanced internal rating-based method (AIRB) to calculate the capital requirement for the majority of the credit risk. For other exposures - including government exposures and exposures to financial institutions - the standardised approach is used.

The use of the AIRB approach means that Jyske Realkredit calculates credit risk for the individual client on the basis of internally developed credit models. The models estimate the client's probability of default (PD), loss given default (LGD) and exposure at default (EAD) to Jyske Realkredit.

Many factors are relevant for the calculation of a client's PD. Specific factors relating to the client are considered, but factors relating to the situation of the client are also taken into account. The calculation of PD therefore takes into account financial data, changes in transaction data, management and market circumstances, industrial assessments, etc. Also included are specific danger signals in relation to the client's credit quality, payment profile and loss history.

At Jyske Realkredit, the PD is translated into 9 rating classes, where rating class 9 designates clients in default. In order to reach the best possible overview of client credit quality across the Jyske Bank Group, PD is mapped into internal credit ratings ("STY"), cf. the below mapping.

Internal rating and PD band			
Jyske Bank STY	Jyske Realkredit rating	PD band (%)	External rating
1		0.00-0.10	Aaa-A3
2	1	0.10-0.15	Baa1
3		0.15-0.22	Baa2
4		0.22-0.33	Baa3
5	2	0.33-0.48	Ba1
6		0.48-0.70	Ba2
7	3	0.70-1.02	Ba3
8		1.02-1.48	B1
9	4	1.48-2.15	B1-B2
10	5	2.15-3.13	B2
11		3.13-4.59	B3
12	6	4.59-6.79	Caa1
13		6.79-10.21	Caa2
14	7 and 8 <sup>1</sup>	10.21-20.00	Caa3/Ca/C

<sup>1</sup> Jyske Realkredit rating 8 includes PDs above 20%.

In the calculation of the capital requirement, LGD estimates are used which reflect the expected loss rates of the Group in the event of an economic slowdown. The levels of loss have been calibrated to the period at the end of the 1980s and the beginning of the 1990s.

The models are used for various purposes, including advisory services for Jyske Realkredit's clients, automatic approval of properties for mortgaging, compliance with covered bond requirements and reporting to management.

## 36 Credit risk, cont.

**Risk categories**

At Jyske Realkredit exposures with objective evidence of impairment are divided into three categories: exposures with low, high and full risk. The latter two risk categories consist of defaulted clients. Exposures with low risk are exposures for which it is assessed more probable that the exposure will again become sound, while exposures with high risk are exposures for which it is assessed more probable that the exposure will result in losses and/or forced sale of assets provided as security.

The loan-to-value (LTV) ratio is a key risk management element for Jyske Realkredit as LTV expresses the ratio between the unpaid principal amount of a home loan and the market value of the mortgaged property. In addition to physical surveys, Jyske Realkredit uses property price models in its on-going monitoring of market values.

**Mortgage loans before impairment charges by LTV band and per property category**

(DKKbn)	0%-20%	20%-40%	40%-60%	60%-80%	>80%	Total	LTV
Owner-occupied homes	56.8	51.9	38.7	17.3	2.1	166.8	80%
Vacation homes	3.3	2.9	1.6	0.3	0.1	8.2	75%
Residential property incl. cooperative housing	20.1	17.9	15.1	8.3	1.4	62.7	80%
Office and retail properties	12.3	12.2	8.1	1.6	0.7	34.8	60%-70%
Other property categories	3.9	2.4	1.4	0.3	0.2	8.2	60%-80%
Total excl. Subsidised Housing (rental housing)	96.3	87.2	64.8	27.9	4.4	280.7	

Loans for Subsidised Housing (residential housing) are not included in the statement of LTV bands as the loans are guaranteed in full or in part by central and/or local government.

**Loan impairment charges**

Jyske Realkredit recognises loan impairment charges and provisions for guarantees already as of the first recognition. All loans are divided into three stages, depending on the credit-impairment of the individual loans relative to the initial recognition:

1. Loans with no significant increase in credit risk
2. Loans with significant increase in credit risk
3. Credit-impaired loans

On an on-going basis, account managers secure that the credit assessment and the credit rating are true and fair, and they assess on an on-going basis - and at least every quarter - the risk classification of the largest exposures, including whether objective evidence of impairment has been established for Jyske Realkredit's clients. For small clients, some of the monitoring takes place automatically. Where easier conditions have been granted to clients with financial problems, this will be regarded as individual objective evidence of impairment.

At Jyske Realkredit, all loans are assessed for objective evidence of impairment. Objective evidence of impairment exists if one or more of the following events have occurred:

- The borrower is facing considerable financial difficulties.
- The borrower is in serious breach of contract, for instance by failing to observe its liability to pay instalments and interest.
- The borrower is granted easier terms that would not be considered if the borrower was not facing financial difficulties.
- The borrower is likely to go bankrupt or undergo some other financial restructuring.

**Foreclosures**

Jyske Realkredit acquires properties by forced sale if it turns out that no buyers are willing to pay a reasonable market price. In essence, Jyske Realkredit's strategy for selling the foreclosed properties is to sell them within a relatively short period of time, but with due regard to the importance of obtaining a reasonable market price for the property.

### 37 Credit exposures by rating class

		DKKbn			
Rating category (STY)	PD level (%)	Stage 1	Stage 2	Stage 3	Total
Loans and advances at fair value					
1	0.00-0.10	19.6	-	-	19.6
2	0.10-0.15	0.7	-	-	0.7
3	0.15-0.22	18.6	0.0	-	18.6
4	0.22-0.33	20.8	0.0	-	20.8
5	0.33-0.48	77.2	0.4	-	77.5
6	0.48-0.70	62.9	0.2	-	63.1
7	0.70-1.02	59.2	0.4	-	59.6
8	1.02-1.48	31.1	0.3	-	31.3
9	1.48-2.15	16.7	1.0	-	17.7
10	2.15-3.13	5.8	0.6	-	6.4
11	3.13-4.59	3.7	2.0	-	5.7
12	4.59-6.79	1.4	1.7	-	3.0
13	6.79-10.21	0.9	2.4	-	3.3
14	10.21-20.00	1.2	4.5	-	5.6
Non performing loans	0.00-100.00	0.2	0.5	2.8	3.4
Loans not calculated according to the IRB model		2.2	0.0	-	2.2
Total		322.0	13.9	2.8	338.7
Irrevocable loan commitments (mortgage offers)					
3	0.15-0.22	5.5	-	-	5.5
4	0.22-0.33	1.9	-	-	1.9
5	0.33-0.48	7.0	-	-	7.0
Total		14.4	-	-	14.4

Neither in 2018 nor in 2019, did Jyske Realkredit grant loans that were credit-impaired at initial recognition.

### 38 Maximum credit exposure

Jyske Realkredit's maximum credit exposure consisted of the following:

- Jyske Realkredit's receivables from credit institutions and central banks amounted to DKK 26.4 bn (2018: DKK 6.4 bn).
- Jyske Realkredit's loans and other receivables at fair value amounted to DKK 338.7 bn (2018: DKK 327.4 bn).
- Jyske Realkredit's irrevocable loan commitments (mortgage offers) amounted to DKK 14.4 bn. (2018: DKK 15.4 bn).
- Jyske Realkredit's guarantees amounted to DKK 0.0 bn (2018: DKK 0.0 bn).
- Jyske Realkredit's interest-bearing investments in bonds, etc. amounted to DKK 18.4 bn (2018: DKK 18.4 bn).
- Jyske Realkredit's shareholding amounted to DKK 0.2 bn (2018: DKK 0.2 bn).

The calculation of maximum credit risk is theoretically based on the carrying amounts of the financial assets listed above. In practice, the credit risk is significantly lower, and if defined on the basis of the statutory capital requirement, it amounted to DKK 6.5 bn (2018: DKK 6.4 bn).

	2019	2018
<b>39 Financial assets credit-impaired on the balance sheet date</b>		
<b>Balance before impairment charges:</b>		
Personal clients	1,581	1,695
Commercial	1,618	2,084
<b>Total</b>	<b>3,199</b>	<b>3,779</b>
<b>Collateral:</b>		
Real property, residential	1,490	1,496
Real property, commercial	1,407	1,829
<b>Total</b>	<b>2,897</b>	<b>3,325</b>

#### 40 Market risk

Market risk is the risk of loss following movements in the financial markets (interest rate, share price and foreign currency risks). The most material market risks relate to Jyske Realkredit's securities portfolio for which the interest-rate risk and the price risk on the bond portfolio are the most important ones. Jyske Realkredit has practically no exposure to foreign currencies. Market risks that stem from the other part of the balance sheet are modest due to the balance principle and the close correlation between loans and funding.

Legislation and market risk policy limits ensure that Jyske Realkredit's market risks are at a moderate level, and the on-going close monitoring of risks, combined with short decision-making paths at Jyske Realkredit, means that a reduction of market risks can quickly be implemented if considered necessary in the interests of Jyske Realkredit's general risk profile and capital requirements.

For the determination of market risk relative to solvency, Jyske Realkredit's portfolio of securities is classified as being outside the trading portfolio, and therefore credit risk has been calculated in connection with the portfolio of securities. At the end of 2019, risk-weighted assets caused by the portfolio of securities amounted to DKK 1,840m (2018: DKK 1,820m) in credit risk as well as DKK 20m (DKK 29m) due to foreign-currency risk. Jyske Realkredit has a large holding of bonds, which can, among other things, be attributed to compliance with the LCR requirement (see note 44).

	2019	2018
<b>41 Interest-rate risk</b>		
Interest-rate risk, the FSA's method	43	43
Interest-rate risk, internal method	24	43

Interest-rate risk expresses the risk of loss following changes in interest rates corresponding to a parallel shift of the yield curve by 1 percentage point and is measured on a daily basis. In line with legislation, an interest-rate risk of 8% of the capital base is allowed. At the end of 2019, this amounted to DKK 1,505m (2018: DKK 1,415m).

In this statement, only partial offsetting between Danish kroner and euros is allowed. Also, due to the close correlation between the Danish krone and the euro, the interest-rate risk of Jyske Realkredit is measured on the basis of an internal method allowing full offsetting between Danish kroner and euros. Jyske Realkredit's Supervisory Board has chosen to reduce the limits in the internal method considerably relative to the statutory provisions.

The scope of responsibilities delegated by the Supervisory Board to the Executive Board has also been delegated to the securities area with additional restrictions. For risk management purposes, daily updated option-adjusted risk ratios are used to calculate the interest rate risk on Jyske Realkredit's portfolio of mortgage bonds. Interest-rate risk is managed on the basis of measurement of net interest-rate risk as well as risk measurements that limit Jyske Realkredit's interest-rate risk across currencies and maturities. In addition, supplementary limits have been set for other types of risk, such as OAS and gamma risk, associated with interest bearing investments.

Jyske Realkredit's interest rate risk essentially stems from its bond portfolio, which is mainly made up of Danish mortgage bonds, and from derivatives, which are used to manage overall interest rate risk. Jyske Realkredit's activities are close to being risk neutral to general changes in interest rates, but due to the strong concentration in Danish mortgage bonds, Jyske Realkredit is sensitive to changes in the mortgage yield spread.

To manage interest-rate risk, Jyske Realkredit uses derivatives, and to limit counterparty risk Jyske Realkredit has entered into relevant netting agreements.



## 42 Currency risk

Jyske Realkredit's currency risk on its securities portfolio is limited as most investments are denominated in Danish kroner. As a result of its trading in euro-denominated interest rate swaps, Jyske Realkredit has a small exposure in euro.

The currency exposure for other items that are not included in the portfolio of securities was also very limited. Jyske Realkredit's funding denominated in euro is fully hedged and does not, therefore, involve any foreign-currency risk.

Overall, at the end of 2019, Jyske Realkredit's foreign exchange risk was calculated at 0.5% of the capital base (2018: 0.8%).

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## 43 Equity risk

The share price risk expresses the risk of loss caused by changing share prices. Jyske Realkredit's shareholding consists solely of infrastructure shares and strategic positions. At the end of 2019, Jyske Realkredit's shareholding measured at market value amounted to DKK 192m (2018: DKK 212m), corresponding to 1% (2018: 1%) of the capital base. If share prices in general fall by 10%, Jyske Realkredit will suffer an investment loss of DKK 19m (2018: DKK 21m).

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## 44 Liquidity risk

The Danish mortgage legislation prescribes a balance within a narrow range between payments on issued bonds and mortgage loans granted. Hence, the liquidity risk of Jyske Realkredit's loan portfolio is very limited as Jyske Realkredit funds mortgage lending through continuous issuance of bonds. Furthermore, there is a limited liquidity risk associated with clients who default on their mortgage payment. Furthermore, there is a limited liquidity risk associated with clients who do not make their mortgage payments on time, and therefore Jyske Realkredit operates with a very low liquidity risk given the Danish mortgage finance model.

LCR expresses a ratio defined by regulation between liquid assets and the amount of net payments over the next 30 days. The ratio must always be at least 100%. Jyske Realkredit meets the requirement. In addition to meeting the LCR requirement, Jyske Realkredit performs on an on-going basis liquidity stress tests as part of the on-going monitoring of the robustness of the liquidity buffer.

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## 45 Operational risk

By operational risk is understood the risk of a loss arising from inappropriate or inadequate internal procedures, human or system errors as well as external events, including legal risks. Losses arising from operational risks are thus due to a non-financial event.

As a natural part of its business management, Jyske Realkredit is focused on identifying and managing operational risks. Hence, Jyske Realkredit pays particular attention to minimising the risk of losses arising from system errors, computer breakdowns, procedural mistakes, fraud, wrong advice, etc. Jyske Realkredit continuously updates business procedures and work routines and has also established emergency plans and safety procedures to ensure swift resumption of operations in case of errors, computer breakdowns or the like.

To meet operational risks, Jyske Realkredit's Supervisory Board has adopted a policy on how to manage operational risks.

The risk management function of Jyske Realkredit reviews the company once a year to identify operational risks. Jyske Realkredit calculates the capital requirements for operational risk on the basis of the standardised approach.

For further information about Jyske Realkredit's risks, management of risks as well as capital structure, see the report on the Jyske Bank Group's Risk And Capital Management 2019, available at [jyskebank.dk](http://jyskebank.dk).

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# Notes

DKKm

## 46 Derivatives

	Net fair value				Gross fair value			Principal amount
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Positive	Negative	Net	Nominal value
<b>2019</b>								
<b>Currency contracts</b>								
Swaps	-	-	58	16	79	-6	74	22,260
<b>Total</b>	<b>-</b>	<b>-</b>	<b>58</b>	<b>16</b>	<b>79</b>	<b>-6</b>	<b>74</b>	<b>22,260</b>
<b>Interest-rate contracts</b>								
Forwards/futures, bought	0	-	-	-	0	-	0	132
Forwards/futures, sold	6	-	-	-	7	-2	6	7,434
Swaps	-7	15	104	210	508	-186	322	86,928
Caps	-	-	-30	-24	-	-54	-54	8,848
<b>Total</b>	<b>-1</b>	<b>15</b>	<b>74</b>	<b>186</b>	<b>515</b>	<b>-241</b>	<b>274</b>	<b>103,341</b>
<b>Total</b>	<b>-1</b>	<b>15</b>	<b>132</b>	<b>201</b>	<b>594</b>	<b>-247</b>	<b>347</b>	<b>125,601</b>
<b>Outstanding spot transactions</b>					1	-0	1	52
<b>2018</b>								
<b>Currency contracts</b>								
Swaps	-	-	57	46	102	-	102	18,529
<b>Total</b>	<b>-</b>	<b>-</b>	<b>57</b>	<b>46</b>	<b>102</b>	<b>-</b>	<b>102</b>	<b>18,529</b>
<b>Interest-rate contracts</b>								
Forwards/futures, bought	0	-	-	-	0	-	0	0
Forwards/futures, sold	6	-	-	-	9	-3	6	7,975
Swaps	-7	-40	-28	-90	57	-222	-165	76,961
Caps	-	-	-8	-30	-	-38	-38	7,875
<b>Total</b>	<b>-1</b>	<b>-40</b>	<b>-36</b>	<b>-120</b>	<b>66</b>	<b>-263</b>	<b>-197</b>	<b>92,811</b>
<b>Total</b>	<b>-1</b>	<b>-40</b>	<b>21</b>	<b>-74</b>	<b>168</b>	<b>-263</b>	<b>-95</b>	<b>111,340</b>
<b>Outstanding spot transactions</b>					0	-0	0	8,731

## 47 Transactions involving related parties

Jyske Realkredit A/S is 100% owned by Jyske Bank A/S.

In the financial year 2019, Jyske Realkredit's related parties comprise:

- the parent company, Jyske Bank.
- subsidiaries and associates of Jyske Bank.
- a company in temporary possession, Bytorv Horsens ApS, until this was sold in mid-2019.
- Byggeriets Realkreditfonds Understøttelsesfond, which is a pension fund for certain employees of the company.
- the company's Supervisory Board and Executive Board and the parent company's Supervisory Board and Executive Board and also their related parties.

Jyske Realkredit has, on an on-going basis transactions with a number of related parties, characterised as regular financial transactions and services of an operational nature.

Jyske Realkredit has concluded agreements on joint administrative tasks with the parent company, Jyske Bank A/S, and Byggeriets Realkreditfond's Understøttelsesfond.

Transactions between Jyske Realkredit and related parties were executed on an arm's length basis.

For the management's remuneration, see note 9.

## 47 Transactions involving related parties, cont.

The following transactions have been concluded with related parties:

	Interest income	Interest expenses	Fees and commission expenses	Value adjustments	Other ordinary income	Employee and administrative expenses
<b>2019</b>						
The parent company	10	4	1,229	273	-	218
Subsidiaries	-	-	-	-	-	-
Associates	-	-	-	-	-	-
Supervisory Board and Executive Board, etc.	1	-	-	-	-	7
Other related parties	-	1	-	-6	0	-
<b>Total</b>	<b>11</b>	<b>6</b>	<b>1,229</b>	<b>267</b>	<b>0</b>	<b>224</b>
<b>2018</b>						
The parent company	113	485	7	247	4	604
Subsidiaries	-	-	-	-	-	-
Associates	-	-	-	-	-	-
Supervisory Board and Executive Board, etc.	1	-	-	-	-	7
Other related parties	-	2	-	1	0	-
<b>Total</b>	<b>114</b>	<b>486</b>	<b>7</b>	<b>248</b>	<b>4</b>	<b>611</b>

The parent company did not receive dividend from subsidiaries in 2019 (2018: DKK -).

The following outstanding balances with related parties existed at year-end:

	Due from credit institutions, etc.	Loans and advances at fair value	Other assets	Due to credit institutions, etc.	Issued bonds at fair value	Issued bonds at amortised cost	Other liabilities, etc.
<b>2019</b>							
The parent company	13,851	1,121	467	1,003	4,350	750	431
Subsidiaries	-	-	-	-	-	-	-
Associates	-	-	-	-	-	-	-
Supervisory Board and Executive Board, etc.	-	53	-	-	-	-	-
Other related parties	-	-	-	-	82	-	1
<b>Total</b>	<b>13,851</b>	<b>1,174</b>	<b>467</b>	<b>1,003</b>	<b>4,432</b>	<b>750</b>	<b>432</b>
<b>2018</b>							
The parent company	6,304	1,116	137	57	8,231	-	165
Subsidiaries	-	-	-	-	-	-	-
Associates	-	-	-	-	-	-	-
Supervisory Board and Executive Board, etc.	-	47	-	-	-	-	-
Other related parties	-	-	-	-	80	-	1
<b>Total</b>	<b>6,304</b>	<b>1,163</b>	<b>137</b>	<b>57</b>	<b>8,312</b>	<b>-</b>	<b>166</b>

Supervisory Board and Executive Board, etc. comprise Jyske Realkredit's Supervisory Board and Executive Board as well as the Supervisory Board and Executive Board of the parent company Jyske Bank and their related parties.

Jyske Realkredit did not receive any new share capital from the parent company Jyske Bank (2018: DKK 1,000m).

In 2019, Jyske Realkredit bought loans in the amount of DKK 5,431m from the parent company Jyske Bank (2018: DKK 21,915m).

In 2019, a joint taxation contribution in the amount of DKK 263m was paid to companies in the Jyske Bank Group (2018: DKK 256m).

Jyske Realkredit has granted mortgage loans to members of its Supervisory Board and the Executive Board and their related parties with an outstanding loan balance of DKK 24m at 31 December 2019 (2018: DKK 18m). All the loans have been granted on normal business terms. Floating-rate loans amounted to DKK 14m (2018: DKK 11m), carrying interest at -0.4% to 1.3%, and fixed-rate loans amounted to DKK 10m (2018: DKK 7m), carrying interest at 0.5% to 2.0%.

Jyske Realkredit has granted mortgage loans to members of the parent company's Supervisory Board and Executive Board (exclusive of the members of Jyske Realkredit's Supervisory Board) and their related parties with an outstanding loan balance of DKK 29m at 31 December 2019 (2018: DKK 28m). All the loans have been granted on normal business terms. Floating-rate loans amounted to DKK 22m (2018: DKK 20m), carrying interest at -0.2% to 2.0%, and fixed-rate loans amounted to DKK 7m (2018: DKK 8m), carrying interest at 0.0% to 1.0%.

The company has not provided guarantees to the Supervisory Board and Executive Board of the company, the parent company Jyske Bank's Supervisory Board and Executive Board or their related parties.

#### 48 Group overview

At the end of 2019, Jyske Realkredit had no subsidiaries.

#### Parent company prepares consolidated financial statements

Jyske Realkredit A/S is a subsidiary 100% owned by Jyske Bank A/S, which is domiciled in Silkeborg.

Jyske Realkredit is included in the consolidated financial statements of the Jyske Bank Group, which are the largest and smallest consolidated financial statements in which the company is included.

#### 49 Accounting policies

##### IN GENEREL

The Annual Report of Jyske Realkredit has been prepared in accordance with the Danish Financial Business Act, including the Danish Executive Order on Financial Reports for Credit Institutions, Stockbrokers, etc., which is consistent with IFRS.

The financial statements are presented in Danish kroner (DKK), which is the company's functional currency and presentation currency.

All figures in the financial statements are presented in millions of DKK rounded to zero decimal places. Grand totals in the financial statements are based on actual figures, which is the most correct method of calculation from a mathematical point of view. A control check to verify the correctness of the grand totals will in some cases result in a rounding difference, which indicates that the hidden decimals are not visible to the reader of the financial statements. Where '-' is stated instead of a figure in the financial statements, it means that the actual figure for the relevant accounting item is DKK 0.00, whereas '0' means that the figure for the item is between DKK 0.01 and DKK 499,999.99 and, therefore, has been rounded to zero.

On 1 January 2019, due to IFRS 16, new and changed rules took effect in the Danish Executive Order on the Preparation of Financial Statements relating to Leases.

In consequence of the change, practically all lease agreements must be recognised in the balance sheet of the lessee's financial statements in the form of a lease liability and an asset representing the lessee's right of use of the underlying asset. A distinction will no longer be made between operating and financial leases. The accounting treatment of leasing in the lessor's financial statements is practically unchanged. The changes have not had any material effect on Jyske Realkredit's financial statements as Jyske Realkredit only has a few, insignificant lease agreements.

In addition to this, no changes relative to previous years took place to the accounting policies.

##### *Measurement of mortgage loans, etc., own bond portfolio and issued mortgage bonds*

Mortgage loans etc., own bond portfolio and issued mortgage bonds in Jyske Realkredit are recognised in the category of fair value recognized through the income statement according to the provisions of the Danish Executive Order on the Preparation of Financial Statements (exemption clauses in IFRS 9 on accounting mismatch). This is so to avoid the accounting mismatch, which will arise if the above-mentioned financial assets and liabilities are recognised at amortised cost while at the same time continuous purchases and sales of own issued bonds take place, for instance in Jyske Realkredit's own securities portfolio.

##### Future standards and interpretations

At the time of the publication of the Annual Report, no new rules or changes to rules under the Danish accounting legislation applicable to financial services companies have been proposed or adopted.

## Notes

### 49 Accounting Policies, cont.

#### Accounting estimates

When preparing the annual report in accordance with generally accepted accounting principles, management needs to make estimates and set assumptions affecting the financial reporting. Management bases its estimate on experience and various other assumptions considered reasonable and relevant by management under the given circumstances. The management of Jyske Realkredit considers the following estimates and related assessments to be material to the preparation of the financial statements:

#### *Loans and advances at fair value*

Mortgage lending is the company's most important asset. Mortgage loans are measured at fair value, which is determined on the basis of the market price of the bonds as well as related derivatives issued to finance loans. Despite a difference in the credit risk of the mortgage loans and issued bonds etc., the opinion is that the additional earnings on mortgage loans in the form of administration margins, etc. have been determined in an efficient market and hedge the higher credit risk in relation to the issued bonds, administrative expenses, capital adequacy costs and an appropriate profit. Consequently, management is of the opinion that the method applied gives a true and fair view.

In addition, for mortgage loans and other loans and advances, adjustment takes place for credit risk (impairment charges), which is measured as described in the section "Loans and advances at fair value". Loans with objective evidence of impairment (OEI) are subject to significant uncertainty as regards the value that the mortgaged property might fetch in the event of compulsory realisation, meaning that the impairment in such cases is subjectively estimated. Valuation of the mortgage includes an assessment of the value of the mortgaged properties, the realisable value of the claim, time-on-market expenses in an estimated settlement period and sales costs. Valuation is made by valuers specialised in assessing properties. For a detailed description of the calculation of impairment charges, please see the section on Loans and advances at fair value.

#### *Assets held temporarily*

Assets held temporarily comprise properties that have been acquired through foreclosure and companies with properties in distress, and Jyske Realkredit attempts actively to sell these. There is significant uncertainty about the value the properties might fetch in the event of a sale, as the valuation of such assets is subjectively estimated, see the description under 'Mortgage loans and other loans' above.

#### Intra-group transactions

Transactions between Jyske Realkredit and companies which are directly or indirectly affiliated to Jyske Realkredit are settled according to written guidelines on an arm's length basis or at cost.

#### Foreign currency transactions

Transactions in currencies other than Danish kroner are translated at the official exchange rates on the day of the transactions.

Gains and losses arising from the translation of balance sheet items in foreign currencies are translated into Danish kroner at the official rates of exchange ruling at the balance sheet date.

All currency translation adjustments are recognised in the income statement.

#### Offsetting

Assets and liabilities are offset when the company has a legal right to offset the recognised amounts and also intends to net or realise the asset and settle the liability at the same time.

#### Financial instruments

Financial instruments comprise demand deposits with central banks, receivables from credit institutions and central banks, loans at fair value, bonds at fair value, shares, derivatives, debt to credit institutions and central banks and issued bonds.

Financial instruments are recognised either at the trade date or at the settlement date. When recognition takes place at the trade date, recognition is subsequently said to have taken place according to the trade date approach. When recognition takes place at the settlement date, recognition is subsequently said to have taken place according to the settlement approach.

Recognition of financial instruments ceases when the right to receive or deliver cash flows from the financial instrument has expired, or if the financial instrument has been transferred, and the company has essentially transferred all risks and returns associated with the ownership.

Financial instruments are measured at fair value or amortised cost.

Fair value means the amount at which an asset can be sold or a liability transferred at in a transaction between informed, willing and mutually independent parties. The publicly available market price is used for financial instruments traded in a marketplace. Different accepted valuation methods, depending on the type of instrument, are used for financial instruments that are not traded in a marketplace. The valuation of fixed-income instruments is based on the zero-coupon yield curve at the balance sheet date.

Amortised cost means the amount at which a financial asset or a financial liability is measured for the first time, less principal payments and plus or less accumulated amortisation by application of the effective interest method to any premium or discount.

## Notes

### 49 Accounting Policies, cont.

#### Tax

Jyske Realkredit A/S is assessed for Danish tax purposes jointly with Jyske Bank A/S and its Danish subsidiaries. Full intercompany allocation of tax takes place, and tax is allocated between the individual companies on a pro-rata basis. Domestic tax is paid in accordance with the Danish tax prepayment scheme.

The calculated tax on profit or loss for the year is charged to the income statement. The following elements are recognised in tax on profit or loss for the year:

- Current tax on taxable income for the year.
- Changes in all timing differences between accounting and taxation treatment (deferred tax).
- Any difference between the amount of tax actually paid and calculated tax for prior years.

Deferred tax is recognised in respect of all timing differences between the carrying amount and the tax base of assets and liabilities. Deferred tax is measured on the basis of the statutory tax rules and tax rates that apply on the balance sheet date and when the deferred tax liability is expected to crystallise as current tax.

Changes in deferred tax as a result of changed tax rates are recognised in the income statement.

Deferred tax linked to items recognised as an expense or income, other comprehensive income is recognised in other comprehensive income.

Deferred tax assets and liabilities are offset where attributable to tax levied by the same tax authority, and where it is the intention of the Group to net its current tax assets and liabilities.

#### BALANCE SHEET

##### Demand deposits at central banks and amounts due from credit institutions and central banks

Demand deposits at central banks, money market investments (deposits) and demand deposits with credit institutions are measured on initial recognition at fair value plus directly attributable transaction costs less fees and commissions received which are directly associated with the amount due.

Subsequently, money market investments (deposits) and demand deposits with credit institutions are measured at amortised cost in accordance with the effective interest method.

The item also includes reverse transactions in the form of securities purchased, where, at the time of the purchase, a sell-back at a specific price at a later time is agreed.

Furthermore, the item includes margins receivable in connection with financial instruments where the counterparty is a credit institution.

##### Loans and advances at fair value

Mortgage loans are recognised according to the trade date approach and classified as 'Loans at fair value'. Mortgage loans are measured at fair value on initial and subsequent recognition through the income statement. Index-linked loans are measured on the basis of the index value at the end of the year. The fair value is generally measured at prices of the underlying issued bonds quoted on a recognised stock exchange. If no market price is available for the past 5 business days, a calculated price based on the official market rate will be applied for determining the value. If derivatives are part of the funding of the mortgage loans, the value of these will be integrated in the valuation of the loans.

Other loans related to mortgage operations are measured at fair value on the initial and subsequent recognition through the income statement.

The fair value is reduced by the calculated impairment charge, which for loans at fair value is measured according to the same principles that apply to impairments of loans and advances at amortised cost. The impairment charges at Jyske Realkredit are calculated by a joint impairment model used in the Jyske Bank Group.

##### Grouping of loans

The Jyske Bank Group's impairment model is based on calculations of expected losses where the loans are divided into three stages depending on the individual loan's credit impairment relative to the first recognition:

1. Loans with no significant increase in credit risk
2. Loans with significant increase in credit risk
3. Credit-impaired loans

For loans in stage 1, impairment charges corresponding to the expected loss over the following 12 months are recognised, while for loans in stages 2 and 3, impairment charges corresponding to expected losses over the remaining life of the exposures are recognised. At the initial recognition, the individual loans are generally placed in stage 1, which means that impairment charges corresponding to the expected losses over the following 12 months are recognised.

Loans with a very low probability of default (PD below to 0.2% and without any other indications of significant increases in the credit risk are considered having a low credit risk and are placed in stage 1 regardless of the probability of default since the initial recognition.

The ranking in the various stages will affect the calculation method applied, and it is determined, among other things, on the basis of the change in the probability of default (PD) over the expected remaining life of the loans. Loans in stage 3 are considered to be in default and the same definition that is used in the Group's advanced IRB set-up is used. See note 36 for specified descriptions of default and the rating classes.

## Notes

### 49 Accounting Policies, cont.

#### *Assessment of changes in credit risk*

Assessment of whether any significant increase in credit risk has taken place since the first recognition is based on the following circumstances:

- a) An increase in the PD for the expected remaining life of the financial asset by 100% an increase in the 12-month PD by 0.5 percentage point when, at the first recognition, the 12-month PD was below 1.0%.
- b) An increase in the PD for the expected remaining life of the financial asset by 100% an increase in the 12-month PD by 2.0 percentage points when, at the first recognition, the 12-month PD was 1.0% or above.
- c) Loans in arrears by 30 days or more.
- d) The account manager's risk assessment (risk classification), which among other things is based on an assessment of the client's ability and will to honour his payment obligations, possible arrears and/or changes to the initial assumptions on which the client relationship rests.

Clients for which the credit risk has increased significantly and with a probability of default (PD above 5%) will be placed in the weak part of stage 2. If the Group's most likely scenario points to losses, the client is considered credit-impaired and will be ranked in stage 3.

Hence, the Group's most important credit management tools are used directly in the segmentation and the determination of the expected future credit loss. Please see note 36 on risk classification, credit rating process and monitoring.

#### *Calculation of future losses*

The expected future loss is calculated on the basis of the probability of default (PD), the exposure at default (EaD) and the loss given default (LGD). These parameters rest on the Group's advanced IRB set-up, which is based on the Group's experience of loss history and early repayment, among other things. These parameters are adjusted to IFRS 9 in a number of specific areas. The purpose of the adjustments is to ensure that the parameters reflect a true and fair picture that comprise available information and expectations of the future, including the Group's expectations of the real economy trends in GDP, unemployment, house prices, etc. Hence the parameters are adjusted to cover a longer time horizon. The projection allows for client-specific circumstances such as client segment, credit rating, industry, etc. Advanced quantitative credit models are applied to all clients in stages 1 and 2 for which there is not evidence of credit impairment.

The forward-looking part of the calculation is based on the Group's expectations of the macroeconomic development, which is divided into four scenarios (Good, Base, Weak and Hard). The scenarios are defined by a unit in the Group, which is independent of the impairment process. The 'Hard' scenario is equal to the hard scenario used in the Group's internal stress tests. For each scenario, the probability of default (PD) and the value of securities are re-calculated. Hence it is ensured that the results of the models are balanced. The impairment effect of the scenarios are calculated by weighting the results against the assessed event probability, which is defined by management. If a loan is secured in full in all scenarios, the impairment charge is zero.

For most loans in stages 2 and 3, the expected time to maturity is limited to the contractual time to maturity. However, for mortgage loans, allowances are made for expected early repayment.

The assessment of the indication of impairment of loans in the weakest part of stage 2 and loans in stage 3 is based on individual expert assessments of the probability-weighted expected loss. In connection with the most important loans, an individual assessment of the scenarios are made, including definition of cash flows, security values and scenario probability. At the individual assessment, up to 13 scenarios are applied.

In addition to the calculations, a management's assessment is performed of the models and the ability of the expert-assessed impairment calculations to take expectations of the future development into consideration. To the extent that it is assessed that circumstances and risks are not included in the models, an addition to the impairment calculations is made which is based on a management's estimate. This estimate is based on specific observations and is calculated on the basis of the expected risks of the loan portfolio.

Loans are written off as a loss when there are no reasonable prospects of collecting the debt. Indications of this are, for instance bankruptcy and debt rescheduling. The company still seeks to collect debts even though they are written off as losses.

Impairment charges determined in this manner are deducted from the respective asset items whereas the shifts in impairment charges over the year and losses realised over the year are charged to the income statement.

#### **Bonds at fair value**

All listed bonds and other claims priced in active markets are recognised in 'Bonds at fair value', the exception being own mortgage bonds, which are set off against 'Issued bonds at fair value'. Recognition takes place according to the settlement approach.

The bonds are measured at fair value on initial and subsequent recognition through the income statement. The fair value is generally measured at prices of the underlying issued bonds quoted on a recognised stock exchange. If no market price is available for the past 5 business days, a calculated price based on the official market rate will be applied for determining the value.

Bonds drawn for redemption and repayable immediately after the financial year end are measured at par, whereas bonds drawn for redemption and repayable at a later repayment date are recognised at a calculated market value.

Index-linked bonds are measured at index values at 31 December.

## Notes

### 49 Accounting Policies, cont.

#### Shares, etc.

All shares are recognised according to the settlement approach.

Shares are measured at fair value on initial and subsequent recognition through the income statement.

Unlisted shares are recognised at an estimated fair value on the basis of the available accounting or expected cash flows, etc. of the issuer in question or at management's best estimate.

#### Intangible assets

All intangible assets with an estimated useful life of more than of 1 year are recognised, including IT software, etc.

Intangible assets acquired separately are capitalised at cost less accumulated amortisation and impairment. Amortisation is provided on a straight-line basis over the expected useful lives of the assets, typically 1-3 years.

Internally generated intangible assets which are not merely maintenance of existing software are capitalised at cost, which is determined as the necessary costs directly related to the generation of the intangible asset.

Amortisation is provided on a straight-line basis over the expected useful lives of the assets, typically 1-3 years.

The residual values and useful lives of the assets are assessed and adjusted if need be on each balance sheet date. Basically, residual value and useful life are 0 in respect of intangible assets

#### Other property, plant and equipment

Plant and equipment are measured at cost less accumulated depreciation, amortisation and impairment.

Amortisation is provided on a straight-line basis over the estimated useful life. The item comprises IT hardware etc. with a typical expected useful life of 2-4 years and various property, plant and equipment with an expected useful life of 5 years.

Costs of repair and maintenance are recognised directly in the income statement

Gains and losses arising from the sale or other disposal of a tangible asset are measured as the difference between the sales amount and the carrying amount. Gains or losses are recognised in the income statement as Other operating income or Other operating expenses.

The carrying amount is assessed annually to establish whether there is indication of impairment in excess of what is recognised through amortisation or depreciation. In that case, an impairment test is conducted to establish whether the recoverable amount is lower than the carrying amount. The recoverable amount is the higher value of the net sales price and the value in use.

#### Assets held temporarily

Assets in temporary possession primarily comprise properties acquired through foreclosure, etc. that are only held temporarily and where a sale is very likely.

Properties held temporarily are recognised at the lower of fair value less costs of sale and the carrying amount

Liabilities relating to the assets in question are presented in the balance sheet as liabilities relating to assets held temporarily.

#### Other assets

Interest receivable and balances with clients in connection with loan applications in process etc. are recognised in 'Other assets'. These assets are measured at amortised cost.

The item also includes positive market values of fixed-rate agreements with clients and derivatives (swap transactions, etc.), which are measured at fair value through the income statement on the initial and subsequent recognition.

#### Due to credit institutions and central banks

Money market loans and other debt due to credit institutions are on initial recognition measured at fair value fair value equal to payments received less directly attributable transaction costs incurred. Subsequently, they are measured at amortised cost according to the effective interest method.

The item also includes repo transactions in the form of securities sold, where, at the time of the sale, a buy-back at a specific price at a later time is agreed. The amount received is recognised as Due to credit institutions and central banks, whereas the 'lent' securities remain recognised in the balance sheet.



## Notes

### 49 Accounting Policies, cont.

#### Issued bonds at fair value

Issued mortgage bonds are recognised according to the settlement approach and measured at fair value through the income statement on initial and subsequent recognition. The fair value is generally measured at prices of the underlying issued bonds quoted on a recognised stock exchange. If no market price is available for the past 5 business days, a calculated price based on the official market rate will be applied for determining the value.

Mortgage bonds drawn for redemption and repayable immediately after the financial year-end are measured at par.

The portfolio of own mortgage bonds is deducted.

#### Issued bonds at amortised cost

Issued senior debt is on the initial recognition measured according to the settlement approach at fair value equal to payments received less directly attributable transaction costs incurred. Subsequently, the senior debt is measured at amortised cost according to the effective interest method.

#### Other liabilities

Interest payable and balances in connection with loan applications in process are recognised in 'Other liabilities'. These liabilities are measured at amortised cost.

Negative bond portfolios (bonds received as collateral for a reverse transaction and sold) are also recognised. These negative portfolios, which equal the repurchase obligation, are recognised according to the settlement approach and measured at fair value on initial and subsequent recognition.

The item also includes negative market values of derivatives (swap transactions, etc.), which are measured at fair value through the income statement on the initial and subsequent recognition.

#### Provisions

Provisions are recognised when as a result of an event occurred on or before the balance sheet date a legal or factual obligation exists, and it is probable that an outflow of economic benefits will be required to settle the obligation, and that a reliable estimate of the liability can be made. Provisions for debt expected to be payable later than 12 months after the balance sheet date are measured at present value, if this is considered of material importance, otherwise at cost.

Provisions are measured at management's best estimate of the amount which is expected to be required to settle the liability.

#### Equity

Share capital is classified as equity where there is no obligation to transfer cash or other assets. A proposed dividend is recognised as a liability when the motion has been approved at the Annual General Meeting. Dividend for the year is stated separately under equity.

Share premium comprises amounts paid as share premium when subscribing for the shares.

Reserves in series relate to capital set aside to meet the capital requirement in "Series not subject to reimbursement/repayment obligation".

### INCOME STATEMENT

Income is recognised in the income statement as earned. This includes recognition of value adjustments of financial assets and liabilities measured at fair value through the income statement. All costs and expenses incurred to generate earnings for the year are also recognised in the income statement.

#### Interest income and interest expenses

All interest and interest-like items that are determined according to the effective interest method are recognised under Interest income and Interest expenses. All interest income and expenses as well as administration margin are recognised on an accruals basis, i.e. taken to the income statement for the financial year to which they relate.

Interest on mortgage loans and issued mortgage bonds that are governed by the specific balance principle is recognised at the nominal rate of interest on the outstanding bond debt.

Interest on mortgage loans, issued mortgage bonds and relating derivatives that are governed by the general balance principle is recognised at the yield to maturity. Interest relating to the related derivatives is presented together with the interest on the issued mortgage bonds so that the net interest expenses on these are recognised as a whole under Interest expenses.

Negative interest income is recognised under Interest expenses, while negative interest expenses are recognised under Interest income. In the notes to Interest income and Interest expenses, negative interest is initially recognised under the original note item and is then transferred net between Interest income and Interest expenses at the bottom of the notes.

## Notes

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### 49 Accounting Policies, cont.

#### **Dividends, etc.**

Dividends on investments in shares are recognised as income in the income statement in the financial year in which the dividends are declared.

#### **Fees and commission income**

Income from fees, charges and commissions and expenses from fees and charges are recognised in the income statement as paid. Fees, charges, etc. that are part of transaction costs in connection with financial assets and financial liabilities, which are measured at amortised cost, are included in the calculation by application of the effective interest method.

#### **Value adjustments**

Value adjustments comprise realised and unrealised value adjustments of loans and advances at fair value, bonds at fair value and issued bonds at fair value. Moreover, currency translation adjustment and realised and unrealised gains and losses regarding financial derivatives are included.

Exceptions are value adjustment of credit risk on loans and advances recognised in the income statement under Loan impairment charges and provisions for guarantees.

#### **Other operating income**

Other operating income comprises gains from sales of tangible and intangible assets.

#### **Employee and administrative expenses**

All payroll costs as well as expenses for administration, sales activities, etc., including expenses resulting from intra-group service agreements, are included in Employee and administrative expenses.

#### **Other operating expenses**

Other operating expenses comprise commission payments to the Resolution Fund as well as losses on sales of intangible and tangible fixed assets.

#### **Loan impairment charges**

Value adjustments of loans and advances, etc. that can be attributed to changes in the credit risk of the loan as well as recognised losses are recognised under Loan impairment charges. Here also recoveries of claims previously written off as well as value adjustments of properties acquired through foreclosure are recognised.

### **OTHER REMARKS**

#### **Comprehensive income**

Comprehensive income comprises the profit or loss for the year plus other comprehensive income.

#### **Segmental financial statements**

Information is given about the company's business segments. Segment information has been prepared in accordance with the internal reporting applied by Jyske Realkredit. The presentation of the segments is based on the on-going reporting to the company's management and thus the principles used in internal financial planning and control. The segments reflect the company's return and risks and are considered to be the company's primary segments. The distribution of costs and expenses between segments is based on a qualified estimate.

Since Jyske Realkredit mainly operates in Denmark, no geographical segmentation has been made.

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## Notes

### 50 Definition of financial ratios

Financial ratios and key figures	Definition
Capital ratio (%)	Capital base divided by weighted risk exposure.
Tier 1 Capital ratio (%)	Tier 1 Capital after deductions divided by weighted risk exposure.
Common Equity Tier 1 capital ratio (%)	Tier 1 Capital after deductions divided by weighted risk exposure.
Pre-tax profit as a pct. of average equity	Pre-tax profit divided by average equity during the year.
Net profit as a percentage of average equity	Net profit divided by average equity during the year.
Income/cost ratio (%)	Income divided by expenses inclusive of loan impairment charges.
Currency position (%)	Currency exposure indicator 1 at year-end divided by core capital after deductions at year-end.
Accumulated impairment ratio (%)	Total of loan impairment charges and provisions for loss on guarantees at year-end divided by total loans, advances, guarantees, provisions and impairment charges at year-end. Discount for acquired loans and advances is not included.
Impairment ratio for the year (%)	The year's loan impairments charges divided by total loans, advances, guarantees and provisions and impairment charges at year-end.
Increase in loans and advances for the year (%)	The increase in loans and advances divided by opening loans and advances.
Loans and advances relative to equity	Loans and advances at year-end divided by equity at year-end
Return on capital employed	Net profit for the year divided by total assets
The above financial ratios are used in note 1 and are based on the definitions and guidelines laid down by the Danish Financial Supervisory Authority.	

# Summary of series financial statements

DKKm

## 51 Summary of series financial statements

The series financial statements of Jyske Realkredit have been prepared in compliance with the FSA's Order of 20 November 1995 on series financial statements of mortgage credit institution. The series financial statements have been summarised below at 'association level', cf. section 30(3) of the Order.

The summary and the transfers between the series have been prepared in compliance with the Supervisory Board's proposal for distribution of net profit. The full and complete series financial statements are available from Jyske Realkredit on demand.

Summary of series financial statements	Husejerners Kreditkasse	Jyske Realkredit Series with joint and several liability	Jyske Realkredit Capital Centre B	Jyske Realkredit Capital Centre E	Jyske Realkredit Capital Centre S	General Capital Centre	Total
<b>Income statement for the financial year 2019</b>							
Income from lending	0	11	52	1,634	72	10	1,779
Interest, etc. net	0	2	96	893	5	45	1,042
Administrative expenses, etc. net	0	3	122	1,133	37	57	1,352
Loan impairment charges and provisions (- is income)	-	-0	-60	95	-0	0	35
Tax (- is income)	0	2	19	287	9	-0	316
<b>Profit</b>	<b>0</b>	<b>8</b>	<b>67</b>	<b>1,012</b>	<b>31</b>	<b>-2</b>	<b>1,117</b>
<b>Balance sheet at 31 December 2019</b>							
<b>Assets <sup>1</sup></b>							
Mortgage loans, etc.	15	8,103	5,840	293,029	25,982	5,354	338,322
Other assets	4	271	2,311	56,961	609	1,722	61,878
<b>Total assets</b>	<b>18</b>	<b>8,374</b>	<b>8,150</b>	<b>349,989</b>	<b>26,590</b>	<b>7,077</b>	<b>400,199</b>
<b>Equity and liabilities</b>							
Issued mortgage bonds, etc.	18	8,290	6,371	331,687	26,330	6,224	378,920
Other liabilities	0	54	46	2,106	172	41	2,418
Equity	0	30	1,734	16,197	88	812	18,861
<b>Total equity and liabilities</b>	<b>18</b>	<b>8,374</b>	<b>8,150</b>	<b>349,989</b>	<b>26,590</b>	<b>7,077</b>	<b>400,199</b>
<b><sup>1</sup> Assets in series financial statements</b>							
Assets in the financial statements							384,899
Assets in series financial statements							400,199
<b>Difference</b>							<b>-15,300</b>
<b>The difference is due to:</b>							
Offsetting of own issued mortgage bonds - note 24							-15,177
Offsetting of interest receivable on own issued bonds							-123
<b>Total</b>							<b>-15,300</b>

## Statement by the Management and Supervisory Boards on the Annual Report

The Supervisory Board and the Executive Board have today considered and approved the 2018 Annual Report of Jyske Realkredit A/S.

The financial statements and the Management's Review for Jyske Realkredit A/S have been prepared in accordance with the Danish Financial Business Act. Furthermore, the Annual Report was prepared in accordance with the additional Danish disclosure requirements for financial reports of issuers of listed bonds.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2019 and also of its financial performance for the financial year 1 January to 31 December 2019.

In our opinion, the Management's Review gives a fair presentation of the development in the company's performance and financial position as well as a description of the most material risks and elements of uncertainty that may affect the company.

The Annual Report is recommended for adoption at the Annual General Meeting.

Kgs. Lyngby, 25 February 2020

### Executive Board

Carsten Tirsbæk Madsen  
Managing Director

Torben Hansen  
Director

### Supervisory Board

Niels Erik Jakobsen  
Chairman

Lars Waalen Sandberg  
Deputy Chairman

Per Skovhus

Peter Schleidt

Kim Henriksen  
Employee Representative

Steen Brastrup Clasen  
Employee Representative

## Internal Auditors' Report

### Audit opinion

In our opinion, the Financial Statements give a true and fair view of the company's financial position at 31 December 2019 and of its financial performance for the financial year 1 January to 31 December 2019 in accordance with the Danish Financial Business Act.

### Basis of opinion

We have audited the financial statements of Jyske Realkredit A/S for the financial year 1 January - 31 December 2019. The financial statements have been prepared in accordance with the Danish Financial Business Act.

We conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Enterprises, etc. as well as Financial Groups and in accordance with international auditing standards on planning and performance of the audit.

We planned and performed our audit with a view to obtaining a high degree of certainty that the consolidated financial statements and the Parent's financial statements do not contain any material misstatements. We participated in the audit of significant and risky areas.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Statement on the Management's Review

We have read the Management's Review pursuant to the Danish Financial Business Act. We did not perform any procedures additional to those pertaining to the audit of the Financial Statements.

Based on this, we believe that the Management's Review was prepared in accordance with the Danish Financial Business Act and the disclosures in the Management's Review are consistent with the financial statements.

Silkeborg, 25 February 2020

Henning Sørensen  
Head of Audit

## Independent Auditors' Report

### To the shareholders of Jyske Realkredit A/S

#### Audit opinion

We have audited the financial statements for Jyske Realkredit A/S the financial year 1 January – 31 December 2019 comprising the income statement, statement of comprehensive income, balance sheet, – statement of changes in equity, capital statement and notes, including accounting policies. The financial statements have been prepared in accordance with the Danish Financial Business Act.

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31 December 2019 and of its financial performance for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds.

Our audit opinion is in line with our long-form audit report to the Audit Committee and the Supervisory Board.

### Basis of the audit opinion

We conducted our audit in accordance with the International Standards on Auditing and the additional requirements applicable in Denmark. Our responsibility according to these standards and requirements is described in detail in the Auditors' Report under the heading 'The auditor's responsibility for the audit of the financial statements'. We are independent of the company in accordance with the code of ethics of the International Ethics Standard Board for Accountants (IESBA) and also in accordance with the additional requirements applicable in Denmark; also, we have met our ethical obligations according to this code of ethics and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the best of our knowledge, no prohibited non-audit services as stated in Art. 5(1) of Regulation (EU) No. 537/2014, have been performed.

We were elected auditors of the financial year for the first time Jyske Realkredit on 24 March 2015. We have been re-elected annually by the annual general meeting for a total continuous task period of 5 years until and including the financial year 2019.

### Key audit matters

Key audit matters are the matters that in our professional opinion were the most important ones in connection with our audit of the financial statements for the financial year 1 January – 31 December 2019. These matters were discussed in the course of our audit of the financial statements as a whole and the preparation of our audit opinion. We do not issue a separate audit opinion about these matters.

### Loan impairment charges

Loans amounted to DKK 338,666m on 31 December 2019 (DKK 327,403m on 31 December 2018) and impairment charges on these amounted to DKK 1,330m on 31 December 2019 (DKK 1,380m on 31 December 2018).

Determination of the indication of loan impairment is associated with considerable uncertainty and to some extent based on the management's estimate. Due to the materiality of these estimates and the volume of commercial loans, the audit of loan impairment charges on commercial loans is a key audit matter.

The principles for the determination of the indication of impairment is described under accounting policies, and the management has described in detail the handling of credit risks as well as the assessment of the indication of impairment in notes 36-39.

Lending issues that involve the most extensive estimation and therefore require most attention during the auditing are:

- Identification of exposures that are credit-impaired
- Parameters and management's estimates in the calculation model applied for the determination of the expected losses in stages one and two.
- Measurement of securities and future cash flows, including management's estimates in connection with the determination of expected losses in stage three
- Identification and determination of management's additions to the model

### The audit has dealt with the matter in this way

Based on our risk assessment, the audit included an examination of the institution's relevant business procedures for loans, tests of relevant controls and analysis of the development of the credit quality of loans and advances, etc., including the extent of the impairment charges.

Our audit procedure consisted of tests of design and implementation as well as tests of the operational efficiency of relevant controls relating to

- On-going assessment of the credit risk
- Assessment and validation of input and assumptions used when calculating the impairment charges
- Determination of management's estimates in the model's determination of loan impairment charges in stages one and two as well as the individual measurement of loans in stage three

Our audit procedures also included:

- Examination by random sampling of exposures for the assessment of credit impairment
- Test of input applied for the calculation of the impairment charges with focus on security values in stages one and two
- Challenge of the usual assumptions in the calculation model applied with special focus on objectivity and the data used.
- For loans classified for stage three, we have through sampling tested whether the established indication of impairment is in line with the guidelines of the legislation as well as those of the institution. This included tests of security values and scenario determination.
- Challenge of management's additions to the model, including an examination of the documentation of this.

### Management responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that offer a true and fair view in accordance with the Danish Financial Business Act and the additional Danish disclosure requirements for issuers of listed bonds. Moreover, management is responsible for the internal control that management finds necessary to prepare financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the financial statements, management is responsible for assessing the company's ability to continue operations, and for disclosing circumstances relating to the continued operations, where relevant, and to prepare the financial statements on the basis of the accounting principle on continued operations, unless management intends to wind up the company, discontinue operations or does not have any other realistic alternative than doing so.



### **The auditor's responsibility for the audit of the financial statements**

The objective of our audit is that of obtaining a high level of assurance and audit evidence that the financial statements are free of material misstatements, whether or not due to fraud or error, and that of issuing an Auditors' Report expressing an audit opinion. A high degree of assurance is a high level of assurance, but no guarantee that an audit performed in accordance with the International Standards on Auditing and the additional requirements applicable in Denmark will always reveal any material misstatement if such misstatement has been made. Misstatements can also be given due to fraud or error and can be considered material if it is reasonable to assume that such misstatements will individually or collectively affect the financial decisions that financial statement users make on the basis of the financial statements.

In the course of the audit that is performed in accordance with the International Standards on Auditing and the additional requirements applicable in Denmark, we make professional assessments with an attitude of professional scepticism during the audit. In addition:

- We identify and assess the risk of material misstatements in the financial statements, whether or not such misstatements are due to fraud or error; we design and perform audit procedures in reaction to these risks and also obtain audit evidence sufficient and suitable for the basis of our audit opinion. The risk of not detecting any material misstatement due to fraud is higher than that in connection with material misstatements caused by error, as fraud may comprise conspiracy, forgery, conscious omissions, misrepresentation or disregard of internal control.
- We gain an understanding of the internal control relevant for the audit in order to prepare audit procedures that are appropriate under the circumstances, but not to express an audit opinion on the efficiency of the company's internal control.
- We make a decision whether the accounting policies applied by management are suitable, and whether the accounting estimates and relevant information that management has prepared are reasonable.
- We determine whether management's preparation of the financial statements on the basis of the accounting principle on going concern is suitable, as well as whether, on the basis of the audit evidence obtained, there is any material uncertainty linked to events or circumstances that may result in considerable doubt as to the company's ability to

continue operations. If we determine that there is material uncertainty, we must in our auditors' report draw attention to information of this in the financial statements, or if such information is not sufficient modify our audit opinion. Our audit opinion is based on the audit evidence that is obtained until the date of our auditors' report. However, future events or circumstances may result in the company not being able to continue operations any longer.

- We make a decision on the overall presentation, structure and contents of the financial statements, including disclosures in the notes, and whether the financial statements reflect the underlying transactions and events in such a way that they render a true and fair view of these.

We communicate with senior management, among other things, on the planned extent and the timing of the audit as well as considerable audit observations, including any considerable shortcomings in the internal control that we identify during our audit.

We also make a statement to senior management to the effect that we comply with relevant ethical requirements as to independence and disclose to senior management all relations and other circumstances that may reasonably affect our independence and, where relevant, related security measures.

Based on the circumstances communicated to senior management, we establish the circumstances that were of greatest importance during our audit of the financial statements covering the relevant period and therefore constituted key audit matters. We describe these circumstances in our auditors' report, unless acts of law or other regulation preclude publication of the circumstance, or in the most rare cases where we establish that the circumstance is not to be communicated in our auditors' report because the negative consequences from this could reasonably be expected to carry a heavier weight than the benefit from such communication that would be in the public interest.

### **Statement on the Management's Review**

The management is responsible for the Management's Review.

Our audit opinion on the financial statements does not cover the Management's Review, and we do not express any kind of unmodified audit opinion on the Management's Review.

In connection with our audit of the financial statements, it is our responsibility to read the Management's Review and in that connection

consider whether the Management's Review is materially inconsistent with the financial statements or our knowledge attained through the audit or in other ways seems to contain any material misstatement.

In addition, it is our responsibility to consider whether the Management's Review contains the

Silkeborg, 25 February 2020

**Deloitte**

Statsautoriseret Revisionspartnerselskab  
Business Reg. No. (CVR-nr.): 33 96 35 56

Hans Trærup  
State-Authorised Public Accountant  
Identification No. (MNE) 10648

required information according to the Danish Financial Business Act.

Based on the work performed, we believe that the Management's Review is consistent with the financial statements and that it has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not find any material misstatement in the Management's Review.

Kasper Bruhn Udam  
State-Authorised Public Accountant  
Identification No. (MNE) 29421

## Directorships held by members of the Supervisory Board in other commercial enterprises at 31 December 2019

Member of the Supervisory Board	Directorships in other commercial enterprises at 31 December 2019
Niels Erik Jakobsen, Director	<ul style="list-style-type: none"> <li>Board member (deputy chairman), Letpension A/S</li> <li>Board member, BI Holding A/S as well as the fully owned BI Asset Management Fondsmæglerselskab A/S</li> </ul>
Lars Waalen Sandberg,, Deputy Chairman	<ul style="list-style-type: none"> <li>Board member, E-nettet A/S</li> </ul>
Per Damborg Skovhus, Managing Director	<ul style="list-style-type: none"> <li>-</li> </ul>
Peter Trier Schleidt, Managing Director	<ul style="list-style-type: none"> <li>Board member (deputy chairman), JN Data A/S</li> <li>Board member (deputy chairman), VP Securities A/S</li> </ul>
Kim Henriksen, Employee Representative	<ul style="list-style-type: none"> <li>-</li> </ul>
Steen Brastrup Clasen, Employee Representative	<ul style="list-style-type: none"> <li>-</li> </ul>

### Members of the Supervisory Board at 31 December 2019

Name	Born	Appointed a Board member	Nomination committee
Niels Erik Jakobsen, Managing Director, Chairman	1958	2014	Chairman
Lars Waalen Sandberg, Managing Director, Deputy Chairman	1970	2019	Member
Per Skovhus, Managing Director	1959	2014	
Peter Schleidt, Managing Director	1964	2018	
Employee representatives:			
Kim Henriksen	1960	2015	Member
Steen Brastrup Clasen	1967	2019	

## Directorships held by members of the Executive Board in other commercial enterprises at 31 December 2019

Member of the Executive Board	Directorships in other commercial enterprises at 31 December 2019
Carsten Tirsbæk Madsen	<ul style="list-style-type: none"> <li>-</li> </ul>
Torben Hansen	<ul style="list-style-type: none"> <li>-</li> </ul>