

# What is a Danish mortgage bond?

A Danish mortgage bond is, in principle, a loan to a borrower who has taken out a mortgage on his or her home.

Mortgage bonds are issued by mortgage credit institutions. These institutions often have a high credit rating.

Some of the Danish mortgage bonds are callable, often at par (100). If you buy a callable mortgage bond, you should be aware that you may risk early redemption of your bond since callable bonds can always be redeemed at 100 (par) although the bond is trading above par on the stock exchange. To compensate for this risk, you will typically receive a

higher rate of interest than would be the case in connection with a corresponding non-callable bond.

## For which investors are mortgage bonds relevant?

Danish mortgage bonds are relevant for investors wanting a relatively reliable investment with a relatively safe and stable return. Danish mortgage bonds will typically be considered slightly riskier than Danish government bonds and hence offer a slightly higher yield.

## Pros and cons

### MORTGAGE BONDS

#### Pros

- It is possible to obtain a relatively safe and stable return.
- You will receive coupon (interest) on an on-going basis.
- Over a long period, you will typically receive a slightly higher yield than that on government bonds.

#### Cons

- Over a long period, you will typically receive a slightly lower return than you would have received, had you invested in shares.
- Basically the mortgage credit market is less liquid than the equity market.
- The liquidity of bond series may vary greatly, and so may the possibility of selling if you want to sell the mortgage bond before maturity.
- Some Danish mortgage bonds, such as callable fixed-rate bonds and bonds with a floating rate of minimum zero per cent, include option elements, for which it may be complex to determine the value and the risk.

### **What happens in practice?**

To buy bonds you must have the full purchase price at your disposal in your account. After the purchase, you will regularly receive interest on the bond. The price of the bond is determined by supply and demand and by investors' expectations of the issuing company.

### **Return**

Bonds are generally a relatively safe investment. The total return depends on both the price and the coupon (interest) on your bonds. If you purchased a bond with a fixed coupon, you can expect fixed coupon payments. The price may vary over time and may influence your total return if you sell the bond before maturity.

### **About risk**

Several risk factors must be considered when investing in Danish mortgage bonds. A mortgage bond may become worthless if the capital centre that issued the mortgage bonds goes bankrupt.

The price may change if the creditworthiness of the bond changes, which for most bonds is expressed through a rating. A poor rating typically means a higher risk of default. Ratings are issued by rating agencies such as Moody's, S&P and Fitch, and they have different scales ranging from the best to the poorest rating. You should therefore consider the rating of the bond. Typically, there is a correlation between the credit rating of the issuer, the risk and the expected return. The lower the credit rating, the higher the risk and the higher the potential reward. Prices on your bonds fluctuate in step with changes in the interest-rate level. This is especially true for fixed-rate bonds as the price of these bonds will rise when interest rates fall and, conversely, the price will fall when interest rates rise. The longer the maturity of the bonds, the more sensitive the price will be to changes in the interest rate level.

Liquidity in mortgage bonds varies considerably. Generally, large bond series are more liquid than small bond series.

If you buy a bond denominated in another currency (for instance, euro) than your base currency (for instance, the Danish krone), you assume an exchange-rate risk.

When using benchmarks (e.g. interest rate benchmarks) in mortgage bonds, you must be aware of the risk that these benchmarks are or can be subject to national, international or other initiatives, which may mean that the composition of the benchmark is changed or that the benchmark completely disappears.

Further information is available at:  
[jyskebank.dk/omjyskebank/aftaler/fallbackplans](https://jyskebank.dk/omjyskebank/aftaler/fallbackplans).

Mortgage bonds issued by Danish mortgage credit institutions are categorised as green according to the risk classification.

Read more about the risk classification of investment products at:  
[jyskebank.dk/investmentinfo](https://jyskebank.dk/investmentinfo).

### **What you should know before trading**

We recommend that your investment profile is reviewed before you engage in transactions. Your relationship manager can help you with that. We also recommend that you contact your relationship manager if you have any questions in relation to anything described in this fact sheet, or if you would like to have some points clarified.

### **Tax**

We give advice on tax issues in connection with specific transactions. However, the tax rules differ depending on whether you trade as a private individual, as a personally owned enterprise, as a company or if you invest retirement money.



If you wish to learn about the specific importance of the tax rules for you, we recommend that you consult your accountant.