JYSKE BANK

Pre-close brief for Q2 2024

Ahead of the publication of Jyske Bank's Q2 2024 interim report on 20 August, we would like to bring relevant public data as well as one-off items to your attention on a line-by-line basis.

Net interest income

Firstly, commenting the volume development by segment based on recent trends and sector statistics as of May:

- Sector nominal mortgage lending was up 0.7% at the end of May vs. the end of Q1 2024.

- For leasing activities, lending was close to unchanged in Q1 2024, and growth has recently mainly been driven by large corporate clients in recent quarters.

- Sector bank lending (excl. repo) was down 1.2% at the end of May compared with the end of Q1 2024.

  Mortgage-like bank lending continues to be transferred to our mortgage subsidiary, thereby gradually reducing bank lending and increasing mortgage lending.

- Sector deposits (excl. repo) were up 3.9% as of the end of May vs. the end of Q1 2024.

Secondly, commenting the development in rates by segment based on recent trends and sector statistics:

- Mortgage administration margins have exhibited a slightly decreasing trend in recent quarters.

- For leasing activities, higher interest income from leasing has been matched by higher internal funding costs, entailing somewhat stable trend of net interest income in recent quarters.

- Sector bank lending rates to non-financial corporations decreased 18bp in April-May vs. Q1 2024. For households, bank lending rates decreased 13bp. Competition related to new bank lending to private clients for housing purposes intensified during Q2 2024.

  Sector deposit rates for non-financial corporations decreased 3bp in April-May vs. Q1 2024. On the other hand, sector deposit rates for households increased 4bp. In Q2 2024, Jyske Bank introduced high-yielding time deposits for private clients with deposit rates of up to 3.25% p.a. Also, please note the ongoing migration of private client deposits from transaction accounts to savings accounts.

Nationalbanken's certificate of deposit rate was lowered 25bp on 7 June. Consequently, variable corporate bank lending rates will be reduced 25bp, while variable private bank lending rates and savings deposit rates will be reduced 25bp. The changes will be implemented on 1 August. Additionally, please note that the lower policy rate should decrease interest income from placings with central banks, etc., thus impacting other net interest income as stated in the fact book.

As of 26 June, the average 3-month CIBOR rate had decreased 13bp in Q2 2024 compared with the average of Q1 2024. In general, lower reference rates influence bank lending rates to a significant degree and to a lesser extent also deposit rates.

Q2 2024 had the same number of days as Q1 2024.

Wholesale funding costs should be impacted by the issuance of EUR 500m non-preferred senior debt on 6 June 2024 at a 3-month CIBOR-equivalent spread of 95bp as well as the full impact from the issuance of EUR 500m tier 2 capital on 1 February 2024 at a 3-month CIBOR-equivalent spread of 224bp, partly counteracted by call of EUR 300m tier 2 capital in April.

Overall, based on the statements above, net interest income is likely to decline in Q2 2024 compared with Q1 2024.

Net fee and commission income

Below we provide some comments to keep in mind regarding some of the elements of the net fee and commission income line shown in the fact book.

- Firstly, securities trading and safe-custody fees could increase compared to the DKK 272m of Q2 2023 driven by higher average assets under management.

- Secondly, on mortgage fees, sector mortgage lending offers remained at a low level and declined 1% y/y as of April-May. This indicates a close to unchanged level of mortgage fees vs. the Q2 2023 level of DKK 80m. Mortgage fees remains subject to the seasonal refinancing of adjustable-rate mortgages which historically has been at a low level in Q2.

- Thirdly, money transfers and card payments as well as guarantee commission was affected by the IT migration of Handelsbanken Denmark in

Q4 2023, entailing a regrouping of fees to other fee income. Consequently, income from money transfers and card payments as well as guarantee commission should be at lower levels in Q2 2024 than the Q2 2023 levels. The Q1 2024 should be more appropriate starting points.

- Fourthly, other fees and commissions was at a slightly elevated level in Q2 2023 but could stay close to the Q2 2023 level of DKK 160m, benefitting from the aforementioned regrouping of fees.

Overall, based on the statements above, net fee and commission income is likely to show a mixed development in Q2 2024 compared with Q2 2023.

Value adjustments and investment portfolio earnings

As of 27 June, spreads of 3-year non-callable Danish mortgage bonds had tightened to a minor degree vs. 3-month CIBOR in Q2 2024. Additionally, 3-year DKK swap rates had decreased somewhat compared with the end of Q1 2024.

While these factors should underpin value adjustments compared with Q1 2024 to some degree, please note that a higher level of dividend payments from sector shares will have a negative impact on value adjustments (and an equivalent positive impact on other income).

Lastly, investment portfolio earnings continue to be impacted by higher internal funding costs than the net interest income generated by the portfolio, resulting in negative net interest income booked under investment portfolio earnings.

Other income

The starting point for other income could be the Q2 2023 level of DKK 26m. However, please note that some dividends from shares booked in Q1 of 2023 will be booked in Q2 of 2024. For reference, dividends in H1 2023 in total amounted to DKK 64m.

Income from operating lease (net)

The favorable sales conditions in the market for used cars has been normalising in recent quarters, entailing a lower level of income from operating lease (net).

Please note that 2021-2023 was characterised by an above-normal level of income from operating lease (net) with an average of DKK 74m per quarter compared to the average of DKK 24m per quarter in the preceding three-year period of 2018-2020.

Core expenses

Total core expenses and one-off items amounted to DKK 1,553m in Q2 2023, incl. DKK 69m of one-off items.

Excluding one-off items, the underlying level of DKK 1,484m should be an appropriate starting point for Q2 2024. However, please note that several elements should be added to the starting point:

- Firstly, a collectively prescribed, sector-wide salary increase of 4.5% was implemented on 1 July 2023.
- Secondly, a further 0.5% increase in salaries related to the removal of the Danish Great Prayer Day holiday was implemented on 1 January 2024.
- Thirdly, the acquisition of PFA Bank in Q4 2023 should add less than DKK 0.1bn p.a. of total costs, incl. amortisation of customer relations of DKK 17m p.a.
- Fourthly, integration costs of up to DKK 0.2bn relating to the acquisitions of Handelsbanken Denmark and PFA Bank are expected in 2024, of which DKK 22m was booked in Q1 2024.

For 2024, we expect to able to maintain largely unchanged total core expenses and one-off items (2023: DKK 6,338m).

Credit quality

The underlying quality of the book remains solid. The share of stage 3 exposures as well as the level of actual write-offs remained at low levels in Q1 2024. Post-model adjustments amounted to DKK 1,997m at the end of Q1 2024, equivalent to more than three years of normalised loan losses.

We have guided for loan impairment charges in 2024 to be higher than the expense of DKK 127m in 2023.

Capital

The targeted annual dividend of 30% of shareholders' profit entails an equivalent CET1 deduction of 30% of shareholders' profit in H1 2024.

Also, please note that the DKK 1.5bn share repurchase programme initiated on 3 June 2024 will be deducted from the CET1 capital position from Q2 2024, net of the DKK 318m already deducted as of Q1 2024, cf. EBA Q&A 2023_6887.

Other remarks

Q2 2024 should see the full impact from the issuance of EUR 300m additional tier 1 (AT1) capital on 13 February 2024 with a coupon rate of 7.0% p.a., partly counteracted by the call of SEK 1bn AT1 capital in April 2024.

Contact

Please do not hesitate to reach out to Investor Relations if you have any questions. We will be entering our silent period on 4 July 2024.