Pre-close brief for the third quarter of 2023

Ahead of the publication of Jyske Bank's Q1-3 2023 interim report on 31 October, 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, on volumes, commenting the expected volume development by segment based on recent trends and sector statistics as of August:

- Nominal mortgage lending growth could be flattish q/q. The sector mortgage lending to households and non-financials was up 0.6% at the end of August vs. the end of Q2 2023. The growth was driven by non-financial corporations.

- Leasing volumes could also be close to unchanged as growth recently has been muted and mainly driven by large corporates.

- Bank lending (excl. repo) has recently been subdued and could be negative based on sector statistics. Sector bank lending to households and non-financial corporations was thus down 1.9% at the end of August compared with the end of Q2 2023. The decrease could partly be related the postponement of tax and VAT payments due in July and August. Furthermore, please note that our mortgage-like bank lending is likely to gradually be moved to our mortgage subsidiary, thereby reducing bank lending growth and increasing mortgage lending growth.

- Sector deposits (excl. repo) from households and non-financial corporations was up 1.7% as of the end of August vs. the end of Q2 2023. The growth was caused by corporates.

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

- Mortgage administration margins have been largely stable in recent quarters for the sector.

- Leasing net interest income has been impacted by higher internal funding costs, as interest rate increases are passed on to customers with a lag. Given the continued rise of short-term interest rates in Q3, this trend could to some extent persist with a higher level of lending income partly counteracted by increased funding costs for the segment.

- Banking activities should benefit from the interest rate changes implemented in Q2 and Q3.

  Lending rates, in general, reflect the changes to policy rates, albeit with a slight lag. For the sector, bank lending rates were up 34bp in July-August vs. the average level of Q2 2023.

  Deposit rates for the sector were up 20bp in July-August vs. the average level of Q2 2023. Rates for transactional deposits was unchanged. However, given increased time/savings deposit rates and ongoing migration, the increase in deposit rates should counteract the higher lending rates to some extent.

  For Q4, please note that we will increase lending and deposit rates by 25bp while also increasing time/savings deposits rates by up to 50bp. The changes will take effect on 27 November 2023.

The average 3-month CIBOR rate increased 40bp in Q3 compared with the average of Q2 2023. Jyske Bank's interest rate sensitivity remains c. DKK 500m within a 12-month period per 100bp parallel shift of interest rate curves.

There is an additional day of interest in Q3 2023 vs. Q2 2023 with a net interest income impact of approx. DKK 15m-20m per day.

In terms of wholesale funding, we do not expect any significant changes to net interest income compared with the preceding quarter.

Net fee and commission income

Below we provide some comments to keep in mind regarding the net fee and commission income line as shown in Jyske Bank's fact book.

- Firstly, on securities trading and safe-custody fees, we could see a higher level than the DKK 231m of Q3 2022. Higher assets under management following the acquisition of Handelsbanken Denmark should thus more than compensate any potential negative impact from lower trading activity.

- Secondly, on mortgage fees: Sector mortgage lending offers declined 48% y/y as of July-August, and we could thus see a significantly lower level of mortgage fees vs. the Q3 2022 level of DKK 185m. Additionally, mortgage fees remain subject to the usual seasonality of refinancing income (Q3>Q1>Q2/Q4).

- Thirdly, loan application fees should decline from an elevated level of DKK 71m given a significantly lower level of lending activity than in Q3 2022.
- Fourthly, money tranfers and card payments fees should increase compared to the Q3 2022 level of DKK 73m following the acquisition of Handelsbanken Denmark.
- Fifthly, other fees and commissions could also increase slightly vs. the Q3 2022 level of DKK 142m due to the acquisition of Handelsbanken Denmark.
- Lastly, fee and commission expenses could be nearly unchanged vs. the Q3 2022 level, as lower activity levels could counteract the impact from the acquisition of Handelsbanken Denmark to some extent.

Value adj. and investment portfolio income

Turning to value adjustments and investment portfolio income, we usually refer to 3-year Danish mortgage bonds as a very rough proxy of our exposure.

The option-adjusted spread of 3-year Danish mortgage bonds tightened c. 2bp in Q3 2023.

Based on the historical relation since 2016, this indicates value adjustments somewhat above the historical average as well as positive investment portfolio income in Q3.

Please note that this is a very simplistic and crude measure to give you some rough sense of magnitude. Importantly, the indication does not reflect potential changes in our positioning, uncorrelated price movements in other instruments, changes in interest rate curves, FX movements, seasonality of dividends, one-off items, etc.

Other income

We have nothing to add on other income. For reference, other income amounted to DKK 20m in Q3 2022.

Income from operating lease (net)

Sales conditions in the market for used cars remain somewhat favorable compared to book value of the cars. However, please note that prices for used cars are normalising from elevated levels, thereby eventually reducing income from operating lease (net). The average level of income from operating lease (net) since 2016 is DKK 35m per quarter.

Core expenses

Total core expenses and one-off items was at DKK 1,553m in Q2 2023, which should be an appropriate starting point for Q3 2023. However, please note that a sector-wide prescribed salary increase of 4.5% took effect on 1 July 2023. Also, the preparations for the upcoming IT migration of Handelsbanken are ongoing. We continue to expect back-end loaded integration costs of c. DKK 0.3bn in 2023, of which DKK 97m was booked in H1.

We have guided for significantly higher core expenses in 2023 than in 2022 due to the acquisition of Handelsbanken Denmark.

Credit quality

The underlying quality of the book remains solid. The share of stage 3 exposures as well as the level of write-offs remained at low levels in Q2. We have guided for loan impairment charges to be an expense in 2023.

Capital

On capital, we target a common equity tier 1 ratio target of 15%-17%. We endeavour to recommence capital distribution in the second half of 2023.

Other remarks

The acquisition of PFA Bank A/S was completed on 1 October 2023. Please refer to the Q2 2023 investor presentation (p. 4) for further information.

Contact

Please do not hesitate to reach out to Investor Relations (IR@jyskebank.dk) if you have any questions. We will be entering our silent period on 7 October 2023.