

Pre-close brief for the fourth quarter of 2023

Ahead of the publication of Jyske Bank's 2023 annual report on 27 February, we would like to bring relevant public data as well as one-off items to your attention on a line-by-line basis.

Net profit guidance for 2023 was revised in December from the upper end of DKK 4.7bn-5.3bn to DKK 5.4bn-5.7bn.

Net interest income

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

- Sector nominal mortgage lending to households and non-financials was up 1.1% at the end of November vs. the end of Q3 2023.
- Leasing volumes have slightly increased in recent quarters driven by large corporate clients.
- Sector bank lending to households and non-financial corporations was down 2.2% at the end of November compared with the end of Q3 2023. The decrease was caused by lower bank lending to households.

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

- Sector deposits (excl. repo) from households and non-financial corporations was down 0.2% as of the end of November vs. the end of Q3 2023. The decrease was caused by corporates.

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

- Sector mortgage administration margins has exhibited a minor decrease in recent quarters.
- Leasing net interest income has been impacted by higher internal funding costs due to the increasing level of short-term interest rates in recent quarters. The higher funding costs are to some degree passed on to customers with a lag.
- Bank lending rates, in general, reflect the changes to policy rates, albeit with a slight lag. For the sector, bank lending rates were up 28bp in October-November vs. the average level of Q3 2023.

Deposit rates for the sector were up 28bp in October-November vs. the average level of Q3 2023.

On 27 November 2023, Jyske Bank increased lending and deposit rates by 25bp and time/savings deposits rates by up to 50bp.

The average 3-month CIBOR rate increased 13bp in Q4 compared with the average of Q3 2023. Jyske Bank's interest rate sensitivity remains c. DKK 0.5bn within a 12-month period per 100bp parallel shift of interest rate curves.

The number of days of interest was unchanged in Q4 2023 vs. Q3 2023.

We expect a minor increase in wholesale funding costs compared with the preceding quarter following the issuance of EUR 500m non-preferred senior debt on 10 November 2023 at a 3-month CIBOR-equivalent spread of 158bp.

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 slightly higher level than the DKK 346m of Q4 2022 driven by higher average assets under management following the acquisition of Handelsbanken Denmark and PFA Bank.
- Secondly, on mortgage fees, sector mortgage lending offers declined 42% y/y as of October-November, which seems to indicate a lower level of mortgage fees vs. the Q4 2022 level of DKK 115m. 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 76m given a significantly lower level of lending activity than in Q4 2022.
- Fourthly, income from money transfers and card payments should increase from the DKK 76m of Q4 2022 due to the full inclusion of Handelsbanken Denmark.
- Fifthly, other fees and commissions could increase slightly vs. the Q4 2022 level of DKK 150m due to the full impact from the acquisition of Handelsbanken Denmark.

- Lastly, fee and commission expenses should increase vs. the low Q4 2022 level following the full impact from the acquisition of Handelsbanken Denmark.

Value adj. and investment portfolio income

Interest rates decreased significantly in Q4 2023, which is a positive for the value of financial instruments used for hedging purposes. For reference, e.g. the 5-year Danish swap rate decreased 1.0pp in Q4 2023. Comparably, in Q3 2022, the rate *increased* 0.9pp, thus contributing to a DKK 0.5bn loss booked under value adjustments from strategic balance and risk management.

Also, the option-adjusted spread of 3-year Danish mortgage bonds tightened c. 1bp in Q3 2023. This should further underpin the level of value adjustments and investment portfolio income in Q4 2023.

Please note that the comments above merely provide a very simplistic and crude measure to give you some rough sense of magnitude and that the effects of market movements are subject to positioning, etc.

Other income

Other income benefitted from extraordinary profit on investments in associates in Q4 2022.

Consequently, the starting point for your estimates should be closer to the underlying level of DKK 29m in Q4 2022.

Income from operating lease (net)

Sales conditions in the market for used cars remain somewhat favorable compared to book value of the cars returned to us. However, please note that prices for used cars continue to decrease, thereby eventually reducing income from operating lease (net). The average level of income from operating lease (net) since 2016 is DKK 36m per quarter.

Core expenses

Total core expenses and one-off items was at DKK 1,583m in Q3 2023, which should be an appropriate starting point for Q4 2023. However, please note that the seasonality of core expenses historically has entailed a higher level of costs in Q4 than Q3.

Additionally, the level of one-off items will increase in Q4 due to the migration of Handelsbanken Denmark from BEC to Bankdata.

We continue to expect back-end loaded integration costs of c. DKK 0.3bn in 2023, of which DKK 156m was booked in Q1-Q3.

Lastly, please note that the removal of the Danish Great Prayer Day holiday entails an increase in staff costs of 0.45% p.a. from 1 January 2024.

Credit quality

The underlying quality of the book remains solid. The share of stage 3 exposures remained at a low level in Q3. We have guided for loan impairment charges to be a minor expense in 2023.

Capital

On capital, we target a common equity tier 1 ratio target of 15%-17%. We distributed a dividend of DKK 7.78 per share equivalent to DKK 500m to shareholders in December 2023.

Other remarks

The acquisition of PFA Bank A/S was completed on 1 October 2023. Please refer to the Q3 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 11 January 2024.

Disclaimer

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