Pre-close brief for the second quarter of 2023

Ahead of the publication of Jyske Bank's H1 2023 interim report on 15 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, on volumes, commenting the expected volume development by segment based on recent trends and sector statistics as of May:

- Nominal mortgage lending growth could be flattish q/q. The sector mortgage lending to households and non-financials continues was up 0.4% at the end of May vs. the end of Q1 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 due to supply chain issues in the car industry as well as macroeconomic uncertainty.

- 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 1.1% at the end of May compared with the end of Q1 2023. 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.

- On deposits (excl. repo), sector statistics also indicate a flat development, growing 0.1% as of the end of May vs. the end of Q1 2023. Sector corporate deposit growth was negative for the same period. Please note that we saw exceptionally strong corporate deposit growth in Q1 2023 driven by time deposits, which in total grew DKK 22bn q/q and is likely to partly be short-term in nature.

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

- Mortgage administration margins have been trending slightly downward 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 Q2, 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 Q1 and Q2.

  Lending rates thus fully reflect the changes to policy rates, albeit with a slight lag. For the sector, bank lending rates were up 64bp in April-May vs. the average level of Jan.-Mar. 2023.

  Rates for transactional deposits, on the other hand, remain unchanged. However, given increased time/savings deposit rates and ongoing migration, you should expect the increase in deposit rates to counteract the higher lending rates to some extent. For the sector, deposit rates were up 26bp in April-May vs. the average level of Jan.-Mar. 2023.

As of 26 June, the average 3-month CIBOR rate had increased 55bp compared with the average of Q1 2023. Jyske Bank's interest rate sensitivity remains c. DKK 500m within a 12-month period per 100bp parallel shift of interest rate curves.

Moving on from the comments on volumes and rates to other notes on NII, there is an additional day of interest in Q2 2023 vs. Q1 2023 with a net interest income impact of approx. DKK 15m per day.

In terms of wholesale funding, we will see the full-quarter effect from issuances made at the beginning of February as well as the effect from EUR 500m non-preferred senior issued at the end of April at a spread equivalent to 3-month CIBOR +150bp.

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 like-for-like level than the DKK 242m of Q2 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 49% y/y as of April-May, and we could thus see a significantly lower level of mortgage fees vs. the Q2 2022 level of DKK 136m.

- Thirdly, loan application fees should decline from an elevated level of DKK 71m given a significantly lower level of lending activity than in Q2 2022.

- Fourthly, money tranfers and card payments fees should increase compared to the Q2 2022 level of DKK 78m following the acquisition of Handelsbanken Denmark.

- Fifthly, other fees and commissions could also increase somewhat vs. the Q2 2022 level of DKK 133m due to the acquisition of Handelsbanken Denmark.

- Lastly, fee and commission expenses could increase vs. the Q2 2022 level following the acquisition of Handelsbanken Denmark, partly counteracted by lower activity levels.

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 rough proxy of our exposure.

As of 26 June, the option-adjusted spread of 3-year Danish mortgage bonds had widened 5bp vs. the end of Q1 2023.

Based on the historical relation since 2016, this indicates minor positive value adjustments as well as slightly negative investment portfolio income in Q2. The latter will also be impacted by increasing internal funding costs due to a continued rise in interest rates, thereby reducing investment portfolio income in the short term.

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, price movements in other instruments, changes in interest rate curves, FX movements, seasonality of dividends, one-off items, etc.

Other income

The DKK 70m of other income booked in Q2 2022 was elevated due to a high level of dividends. In 2023, the majority of the dividends were booked in Q1 instead. Excluding dividends, Q2 2022 other income was DKK 18m.

Income from operating lease (net)

Sales conditions in the market for used cars remain favorable compared to book values of the cars. Consequently, the income from operating lease (net) could remain at a somewhat elevated level in Q2 2023. For reference, we booked DKK 84m on this line in the preceding quarter.

Core expenses

The Q1 2023 level of core expenses should be an appropriate starting point for Q2 2023. However, please note that we expect back-end loaded integration costs of c. DKK 0.3bn in 2023, of which DKK 38m was booked in Q1. The level of core expenses and one-off items was thus at DKK 1,518m in Q1.

We maintain our guidance of 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 decreased in Q1 and the level of write-offs continued to be at a low level. However, we continue to expect a minor slowdown in the Danish economy and guide for loan impairment charges to be an expense for 2023.

Capital

On capital, we maintain our common equity tier 1 ratio target of 15-17% and expect to consider recommencing capital distribution in the second half of 2023.

Contact

Please do not hesitate to reach out to Investor Relations if you have any questions. We will be entering our silent period on 8 July 2023.

Best regards,

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