

Interim Financial Report, H1 2020

- **Net profit of DKK 862m in Q2 2020, corresponding to a return of 10.4% p.a. on average equity (Q1 2020: DKK -780m and -10.3% p.a., respectively)**
 - Net profit DKK of 82m in H1 2020, corresponding to a return of 0.0% p.a. on average equity (H1 2019: DKK 1,109m and 6.6% p.a., respectively)
- **Impairment charges of DKK 8m in Q2 2020 (Q1 2020: DKK 1,003m)**
 - Management's estimate related to COVID-19 of DKK 1bn in Q1 2020 remains intact.
 - Share of non-performing loans continued to decline in Q2 2020.
- **Value adjustments and investment portfolio earnings of DKK 554m in Q2 2020 (Q1 2020: DKK -563m)**
 - Contrary to Q1, narrowing of credit spreads and FX positions contributed positively in Q2.
- **Core income of DKK 2,050m in Q2 2020 (Q1 2020: DKK 1,803m)**
- **Core expenses of DKK 1,164m in Q2 2020 (Q1 2020: DKK 1,346m)**
 - The decrease in Q2 was driven by reduced costs following the outbreak of COVID-19 as well as the sale of Jyske Bank (Gibraltar).
- **Capital ratio of 22.2% in Q2 2020 (Q1 2020: 21.5%), hereof CET1 ratio of 17.3% (Q1 2020: 16.7%)**
- **The extraordinary general meeting in July adopted a reduction of the share capital of 4,992,980 shares**
 - Since 2015, Jyske Bank has bought back 24% of the share capital and paid out DKK 2.5bn in dividends. When the economic consequences of the COVID-19 outbreak have been clarified to a greater extent, the capital distribution policy is to be activated.

Summary

"The results for the first half of 2020 are affected by the impact of the COVID-19 outbreak on impairment charges and investment portfolio earnings by about DKK -1.3 bn before tax in comparison with the first half of 2019. The credit quality remains strong with insignificant individual impairment charges in the first half of the year as well as a low proportion of non-performing loans. In the first half of the year, during difficult circumstances and during the entire lockdown period, the Jyske Bank organisation's operational performance was satisfactory. Also, due to its solid capital and liquidity position, Jyske Bank is in a good position to handle the consequences of the COVID-19 outbreak", states Anders Dam, CEO and Managing Director.

In Denmark, the reopening of the economy as well as the extraordinary economic support from the Danish government has reduced the risk of the worst crisis scenarios materialising after the outbreak of COVID-19, even though there is still limited visibility. So far, after the reopening, the Danish economy has developed in a stable manner with a low level of bankruptcies as well as stabilisation of the housing market and consumer spending.

The clients' capital and liquidity position is strong and supported by compensation schemes relating to COVID-19 as well as deferment of tax and VAT payments. This, in combination with a lower activity and investment level in the economy, resulted in a lower demand for credit. As the extraordinary economic support will be partially phased out in the second half of the year, it is expected that the economic consequences of the outbreak of COVID-19 will be increasingly pronounced. Therefore, Jyske Bank recognised as an expense DKK 1 bn in the first quarter in the form of a management's estimate for impairment charges.

In addition to the economic challenges, the outbreak of COVID-19 also resulted in adjustments in society, among other things of work habits and client behaviour. This caused, for instance a stronger trend towards digital client interactions and an increasingly cashless society.

Net profit of DKK 82m in first half of 2020

The net profit for the period corresponded to a return on equity of 0.0% p.a. against 6.6% p.a. for the corresponding period of 2019. The lower profit can chiefly be attributed to an increased management's estimate for impairment charges in the amount of DKK 1 bn after the outbreak of COVID-19, to the turbulent financial markets and to expenses relating to the sale of Jyske Bank (Gibraltar).

Moreover, activity levels were adversely affected by the outbreak of COVID-19. Hence, core income fell by 4% relative to the first half of 2019, among other things due to lower bank loans and advances. The lower bank loans and advances contributed to an increase in the deposit surplus by DKK 8 bn to DKK 33 bn in the first half of the year despite the introduction of negative deposit rates for parts of personal clients' deposits as of 1 December 2019.

However, the second quarter saw signs of improvement as net interest income rose by 5% due to a lower limit of DKK 250,000 for zero interest on personal clients' deposit as of 1 May. Hence, this initiative countered the lower demand for credit as well as a higher deposit rate on clients' deposits in e.g. NemKonto, to -0.60% from -0.75%.

Adjusted for costs relating to the sale of Jyske Bank (Gibraltar), core expenses fell by 4%, as the number of full-time employees was reduced by 7%, and the changed work routines after the outbreak of COVID-19 reduced expenses for e.g. travelling.

In the first half of the year, credit quality remained strong, and the proportion of non-performing loans and advances continued to fall. In the first quarter, an amount of DKK 1 bn was recognised as an expense for potential impairment charges in consequence of the outbreak of COVID-19, and this management's estimate was still intact at the end of the first half of the year. Jyske Bank's direct exposure to especially affected industries, such as the airline, shipping and retail industries, hotels and restaurants as well as the leisure industry is estimated to be smaller than would be implied by the bank's normal market share.

At the end of the first half of 2020, Jyske Bank had a historically high capital ratio of 22.2% with a capital buffer of DKK 13 bn and a liquidity coverage (LCR) of DKK 92 bn. The capital and liquidity buffer continues to be able to withstand severe stress scenarios.

Outlook

Jyske Bank anticipates that the economic activity level in Denmark will deteriorate significantly in 2020 due to the outbreak of COVID-19.

It is expected that a lower level of core income will be generated compared to 2019 due to more moderate fee income, while it is still expected that net interest income over the coming quarters will be higher than in the first quarter of 2020.

Jyske Bank aims to keep core expenses, inclusive of expenses of a one-off nature of DKK 75m, at an unchanged level in 2020, through continuing focus on costs.

Due to the expected economic and technological development the number of employees is expected to decrease by 150-200 by mid-2021. The natural employee turnover is normally 200-300 annually, and the reduction is thus expected to be realised primarily by natural attrition. Additionally, a decrease in the number of branches of approximately 20% is expected by mid-2021 due to changed customer behaviour.

It is expected that loan impairment charges will be at a higher level than in 2019 due to a management's estimate relating to COVID-19.

For 2020, a net profit of DKK 1.0 bn - 1.5 bn is expected. The expectations are based on the assumption that the financial markets will show a stable development, and the expectations are exclusive of expenses of a one-off nature, which amounted to DKK 75m in the first half of the year.

Yours faithfully,
Jyske Bank

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