
Acquisition of Handelsbanken Denmark

Monday, 20 June 2022

Lars Mørch Thank you to everybody for joining the call here today. We are very pleased and excited to present this acquisition that we just announced today of Svenska Handelsbanken's activities in Denmark. We think it's one of those occasions where it's possible to do a deal that makes sense strategically for the clients, for the employers, and also financially. So, we're excited to present this to you today. Next to me, I have our Group CFO, Birger Nielsen, who'll be the main man here on the majority of the presentation today.

So, if we take a brief look at the acquisition that we've just announced, we have announced that we've reached an agreement to buy the business activities in Denmark of Svenska Handelsbanken. We've also announced that that would be done by paying a DKK 3 billion total goodwill for the business. And also, in terms of financing, we have communicated that we have a very strong capital base today, and we'll be issuing AT1 and T2 instruments of approximately DKK 2.5 billion, as well as senior debt.

The timeline for this acquisition would be that we expect a closing subject, obviously, to the needed acceptances, in terms of antitrust clearing and so on by the end of this year, and then we expect to have a full migration by the end of 2023. And then synergies will be fully realised during 2024, so 2025 will be the first full financial year with full effect.

If we then take a look at what we have chosen to call a unique opportunity here to strengthen our market position further, there are a number of things in relation to strategy. There are a number of things to the capabilities in the organisation, and there's a number of things, in relation to both customers and employees, that we think are very attractive in this deal.

So, if we take the first one, which is, predominantly, a strategic point, Jyske Bank regained important scale advantages by this acquisition. We'll get new strong talent in, and we'll get a critical mass within existing business and geographies. There will be good opportunities for strong people coming in from Svenska Handelsbanken with strong track records. This is a deal that we are doing in country in the only country where we operate.

It's a deal that we do within business units and products that we already have on the shelves, so in that sense, it's gaining scale from quality assets onto the platform that we're operating today. Moving onto the next one, I think it's fair to say that we have a fairly clear picture that, when we started looking into this possible acquisition, the corporate cultures were compatible. And that picture has been strengthened throughout the process here.

There's no doubt that the corporate cultures is underpinned by decades of stable, professional and sustainable banking in both organisations. In terms of the clients, we see this as a, potentially, strength of the value proposition that the Svenska Handelsbanken customers have already today. We can service the clients with the products that they have now. We have them, generally, on the shelf here, and on top of that, we have product areas and service offerings outside what is available today.

We do not need to develop a lot of new products or services. We generally do not need to develop any new services from scratch to Svenska Handelsbanken's clients and to accommodate that business, which makes the integration also that much simpler, and which, from a customer value perspective, means that the customers know that we can handle the businesses that they are doing today.

Then we have experience in the bank. The bank itself has been doing a number of different integrations and migrations

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in the past, and there's a number of people around the senior management, who have been part of this in the past. The data platforms have been doing similar migrations a number of times, also recently. So, it's fair to say that we believe that we have the experience and the competences in-house and at the data centres to do this.

In terms of the financial path, we have a strong capital and funding position, and that allows us for an all-cash deal, and no need for an equity raise. The transaction is then, as a consequence of this, expected to increase the EPS, but it's also expected to increase the EPS by more than what we could have done with a standalone business plan, ie, including buying own shares.

So, to take a look at the business that we are adding to the existing Jyske Bank, it's a business that is headquartered in Copenhagen, with 43 branches and approximately 600 employees. It's a full-service bank. It has a larger share of personal clients than business clients, but is a strong bank in both areas and has the necessary products and capabilities. Our view is, and I think the market would share that view, that Handelsbanken have shown a remarkable track record, in terms of asset quality.

And we have had, obviously, a chance throughout this process, to get a deeper understanding of the portfolio, which, to us, looks very attractive, also from a credit risk perspective. The performance of Handelsbanken in Denmark has been strong, and they've delivered fairly good results. It's not a business that has remarkably outgrown the market. It has been rather stable instead, and growing at rates that are not extremely high. Instead, there has been a clear focus on building quality, which is one of the key things that we have been looking for.

They've had a profit before tax of DKK 0.7 billion cost/income in the high 50s, and non-performing loans on 0.5%. Altogether, market share of approximately 2%. When we are adding the 80 branches that Jyske Bank has today with the 43 branches in Svenska Handelsbanken in Denmark, we will have, by far, the largest net of branches in Denmark.

Obviously, that gives very good possibilities for integrating some of the branches here, and it also gives good opportunities for getting critical scale in important areas in important parts of the country, ie, Northern Zealand is important, and a part where Svenska Handelsbanken is very strong.

If we're looking at the portfolio, well-diversified, and if we look at the country, with the branches, we'd basically be covering all of the country, even with a slight reduction or a reduction in the branches that we are planning.

Birger, would you take the next slide?

Birger Nielsen Thank you, Lars. I would be happy to do that. Looking at the next slide, it's important for us to stress that transaction adds critical scale to Jyske Bank in several areas. One, if we look at the financials, we will approximately add one fifth to the profits. We will approximately add one fifth to the volumes, and we'll approximately add between one fifth and one sixth of the employees of the existing group.

And if we look at the right-hand side at the bottom, you can see that it actually also adds to diversifying the portfolio of Jyske Bank, since there is a higher concentration of private customers with the acquired entity. 70% is retail, 30% is corporate, so that adds to the stability or the cashflow within the new entity going forward.

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From day one, this transaction will have a positive impact on our financials. Even in the transition year 2023, we'll deliver, expectedly, an add-on to pre-tax profit of DKK 0.3 billion, and if you look at the composition of that calculation, you can see that, from a standpoint of a normalised provision year or impairment year, we expect the profit from Svenska Handelsbanken Denmark of DKK 0.6 billion.

Then we expect to see core synergies of DKK 0.2 billion, which primarily relates to replacing costs paid for the group services. And then we start the integration and restructuring, which will cost us, expectedly, DKK 0.4 billion in 2023, mainly driven by IT costs.

Be aware that the exit costs from leaving BEC will be paid by Handelsbanken.

On the income side, there will be a slight negative from customer churn and higher funding costs in the year of 2023, adding that together to DKK 0.3 billion on pre-tax profit. If we then move ahead and look longer term, '24 onwards, we expect pre-tax profit to be lifted by approximately 25% in the long run, approximately 1 billion pre-tax from '25 onwards. And if we, again, look at the projections here and the composition, you can see that, in the third column, the cost synergies will now be expectedly DKK 0.4 billion.

Again, replacement of group services is one element to it. A second element is a common IT platform and common platform for products. And finally, we expect to see some FTE reduction in the years ahead via natural attrition in the whole group. And then, in 2024, we expect to spend the last 100 million in integrating restructuring costs, ie, a one-off that will then be finalised by the end of '24.

And looking at the income synergies, we haven't yet spelt out any specific numbers here, but it's obvious that there are upsides to the income synergies, from higher interest rates, from different deposit margins, and maybe also from increased repatriation of existing loans total credit. So, we see potential and upsides to the numbers that we present here in the very long run.

If we then look at the capital side of things, Lars has mentioned that this transaction will take place without need for an equity raise. We are at 17.2% as of now, here in Q1 in the existing group. Then we pay DKK 3 billion in a fixed goodwill payment. And further to that, we estimate DKK 25 billion of REA of risk transferred via this transaction. And finally, we will see a healthy income, retained earnings from the end Q1 numbers that will add to the character levels.

Summing that together gives us, expectedly, a CET1 level well above 14% at the time of closing, slightly below our management interval, which we have stated in the market of 15 to 17% long term. But it's also, despite slightly below the 15%, it's well above the regulatory requirements, which, as of now, is around 10%. And we will spend the coming quarters after the closure to rebuild capital, bringing it back into the interval between 15 and 17%.

And we will also, during the course of '23, reconsider starting buying back shares again, depending on the development in the market and our actual ability to grow the capital levels.

When we look at the funding overview, as you can see on the slide, we have a very strong funding position, and the consideration here is, expectedly, a net asset value number of around DKK 30 billion, which will be precise at the day of closing. And then we can add the DKK 3 billion in goodwill, amounting to, all in, DKK 33 billion. On the sources, from

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the top, we will deliver retained earnings. Adding to that, we will issue AT1 in the very short term, and also Tier 2, shortly, probably after summer break, of approximately DKK 2.5 billion.

We will issue unsecured debt to some extent, and then the last year's part of the funding vehicle will stem from covered bonds funding out of Jyske via credit. And finally, in the bottom, you can see, we have excess liquidity, simply because our liquidity metric, as of today, is very strong.

This transaction, if we could sum it up with some milestones, is announced today, 20th June, and we will, between signing and closing, manage the funding needs, AT1 and Tier 2 instruments will be issued in the market, and a smaller degree of senior debt as well. And we expect the closure of this deal to happen in the fourth quarter of this year and the completion of the transaction with migration of data from BEC to [unclear] will take place in the second half of next year, expectedly.

And finally, the full realisation of synergies will be in place during the year 2024, i.e., with full financial impact from 2025.

Lars Mørch Thanks a lot, Birger. And then, just to sum it up, we feel that this is a highly compelling transaction for, basically, all stakeholders involved. And I think, during the day, the view that we get from customers and employees supports that strongly. The customers of Handelsbanken are strong clients. They will still be able to deal with many of the same employees going forward. They'll still be able to get the main offerings that they are happy about, that will not add any extra costs to Jyske Bank.

And on top of that, they will get the benefit of Jyske Bank's stronger platform, i.e., also in terms of digital solutions. It's also highly attractive to employees, because that will give good career opportunities, and strong people will find a good place and home in Jyske Bank. For the shareholders, this is, we believe, a very unique value-enhancing opportunity.

It has been a possibility for us to add extra volume to the bank for the last couple of years, but we've been looking for the right quality. And we think that we have found the best quality in the market by going together here with the Handelsbanken Danish activities. Thank you.

Operator Thank you. if you'd like to ask a question, please use the Raised Hand button, located at the bottom of your screen. Alternatively, you can type your question in the Q&A chat box. If you've joined us on the telephone today and want to ask a question, it's star followed by the number one on your telephone keypad. Our first question today comes from Sophie Peterzens of J.P. Morgan. Your line is open. Please go ahead.

Sofie Peterzens Hi. Here is Sophie from J.P. Morgan. I hope you can hear me. my question would be on the risk-weighted assets or the REA. So, you're going for around DKK 25 billion of REA in Danish kroner, whereas Handelsbanken is saying that the REA benefit for them will be around SEK 22 billion in Swedish kroner. So, if I convert Swedish kroner into Danish kroner, it's only around 15 billion Danish kroner. So, 25 billion Danish kroner versus 15 billion Danish kroner is a quite big difference.

Could you just explain why the REA is so much higher at Jyske, compared to the Handelsbanken, and should we expect,

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over time, that there is some REA benefit? I don't know if you can ask for model approvals or, yes, anything that we should take into consideration? So, that would be my first question.

My second question would be, on the payout, you mentioned that you will consider starting the buybacks in 2023. So, how should we think about buyback levels? If you could give us some guidance that, I don't know, core equity Tier 1 is within a certain bucket, that this means that you will consider a certain payout?

And then, lastly, could you just comment on the rate sensitivity of Handelsbanken Denmark and how much upside we should, potentially, expect from higher interest rates, in terms of the income synergies? Thank you.

Birger Nielsen Thank you, Sophie, for the very good questions. If I should take them one by one, the RWA, or the REA, DKK 25 billion, is based on our assessment. Given our internal risk weights in the portfolio to date, it is so that we are able, until the customer data is available, to use our internal risk weights on this portfolio. And that adds around DKK 25 billion in REA. The difference between our calculation and the ones in Sweden, I'm not able to answer, but this is our assessment.

Number two, the payouts, we will, as I said, reconsider buybacks during the course of '23, when capital level, CET1 level, is again, reassured in the interval between 15 and 17%, and the number or the amounts being paid back, of course, very much depends on the retained earnings and the market situation as of at that point in time. Finally, the risk sensitivity of the new entity, we are not able to provide you with specific numbers, but it's our ambition that they will not deviate very much from what you expect Jyske Bank to have of sensitivity in our group.

Sofie Peterzens Thank you, that's very clear.

Operator Thank you. Our next question today comes from Jakob Brink of Nordea. Please go ahead. Your line is open. Hello, Jakob. Your line is open. Unfortunately, we're not receiving any audio from that line, but as a reminder, if you would like to ask a question and you've joined via Zoom, please raise your hand or type in the Q&A chat box. Whilst we wait for the questions to come through over Zoom, we'll move to the conference call.

We have a question on the line from Asbjørn Mørk from Danske Bank. Your line is open. Please go ahead.

Asbjørn Mørk Yes, hi. Thanks for taking my questions. Asbjørn from Danske Bank here, and congratulations on the deal as well. Couple of questions on my side. First, on your assumptions for normalised profit in Handelsbanken going forward, the DKK 600 million versus the DKK 735 million that was delivered last year, could you just give me a little bit of a guidance on how do you get to the DKK 600 million level? I guess, loan losses were eight basis points less here, so maybe that's one of the reasons, and fee income as well. But just a little bit of clarity on that one would be quite nice.

And then on the negative synergies, the DKK 100 million, just to make sure I got it right, so the total lending book is DKK 66 billion. The total consideration is DKK 33 billion, of which DKK 3 billion is goodwill. So, I guess, there's something like 36 billion of loans that are not on the balance sheet. Is that correct? I understood that would be to take credit loans that you could risk losing income on going forward?

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And just a little bit on the assumptions on the funding side as well. What are you assuming, just get a struggle to go, get to only DKK 100 million negatives on the opportunity side there? Thanks.

Birger Nielsen Thank you very much, Asbjørn. I'll be happy to answer them. The normalised profit in '24, as you say, has normalised, given the long-term average of impairments, around DKK 600 million plus/minus, but that's our rough estimate as of now. The DKK 735 million in '21 was the strongest year ever, and of course, that entails very strong performance on all the lines in the P&L. And what we now sense is that the DKK 600 million, in a normalised year, impairments would be an appropriate starting point for looking at this case.

When you talk about the synergies and the DKK 66 billion in loans, we have DKK 66 billion loans, DKK 36 billion in deposits. That's a gap of DKK 30 billion, plus the DKK 3 billion in goodwill, which will be paid to Handelsbanken. I think that adds to the equation very well, so please correct me if I didn't understand your question.

Lars Mørch I think there was a part to the question here, which was about what is the total credit amount? And I think, just to add a little bit of flavour to that one, Asbjørn, the total credit amount is roughly DKK 9 billion. So, that's not the DKK 36 billion. That's approximately DKK 9 billion.

Asbjørn Mørk So, there's only DKK 9 billion of total credit lending?

Birger Nielsen Correct. And then you asked about the funding side and the negative implications of that. We will issue AT1 and Tier 2 at the amount of around DKK 2.5 billion. We will probably also issue some senior debt. The estimate is, of course, based on the market conditions, and we are also incorporating in our calculations slightly higher spread than what we have seen formerly due to the market situation, as of now. So, we believe, in the calculations we calculate and incorporate, also some uncertainty as to developments in issuing that capital instrument as well as debt.

Asbjørn Mørk Okay. If I then could just, a follow-up question, but basically, on the last, you mentioned that this will be fully factored in by 2025, and then you say that the EPS boost will be 10% by 2024. If I look at the slide 7 in your presentation and try to extrapolate that to 2025, I guess, cost synergies could be higher, but I guess, the moving factor here would be the integration cost that will come off by 2025. So, is it fair to assume that the 10% boost for 2024 will be, all things equal, around 11% plus for 2025? Is that how you think about it?

Birger Nielsen Yes, it's based, if you do it on a capital-neutral sense and level, we will see it slightly lower.

The main difference here is based on the fact that we, at the outset, bring our capital level slightly below our long-term levels, and also the levels that we initially will keep if we were running Jyske Bank as a standalone entity.

Asbjørn Mørk Okay. Final question from my side will be on the SIFI status. So, do you think this acquisition will have any impacts on your SIFI surcharge going forward?

Lars Mørch Well, if you look at the calculation of the SIFI today, yes, I believe, 12 different triggers, and adding a 2% market share, well-run bank to Jyske Bank, will not jeopardise any stability on [unclear]. So, the 1.5 pp. uplift is still solid and valid after the inclusion of Svenska Handelsbanken.

Asbjørn Mørk Okay, that was very clear. Thanks a lot.

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Operator Thank you. And the next question from the telephone line is from Martin Gregers Birk of SEB. Please go ahead, Martin.

Martin Gregers Birk Thank you so much. Just a couple of questions. Now, I assume, you don't want to tell us your 2024 business plan, but if you look at Jyske Bank as standalone, this is a bank that is going to buy roughly 10 to 15% annually of your market cap in share buybacks in the market. Why wasn't that a more attractive value proposition for your shareholders, rather than buying someone else's shares?

Birger Nielsen Well, I can start. Maybe you can comment further, Lars. But if I look at the acquisition, it is very crucial, what Lars said at the outset, that it's at critical mass that the group's possibilities to deploy resources, competences, IT system setups, etc. And this is the strategic view on this transaction, point number one. And, as we also alluded to, adding a strong bank at a decent slice actually also lifts the EPS, relative to a standalone comparison, which you also referred to here.

So, we think these elements in common make very good sense, compared to where we stand at present.

Lars Mørch Yes, and I agree to your comments here, Birger. If I should just add one thing, that is that, with the bigger frame, the bank we have, going forward, driving efficiencies will also be easier.

Martin Gregers Birk But I feel like this is a story that we have heard before from your CEO. He's been talking about achieving critical mass. He's been talking about achieving a market share of 15% for years now, but what does it actually mean for you guys to have critical mass? Because it's not like synergies, at least the cost synergies, measure them as a function of Handelsbanken's running cost base, are flattering.

Lars Mørch Yes, I think, if you look at Jyske Bank, we have all the head office functions of a fairly large bank, but the volumes are not that large. And over time, we'll be able to add extra volume without increasing the general cost of the frame of running the bank here. And I think that's an important point. So, efficiencies, with a 15% market share, will be a lot better than half the size. Then I think, in terms of practical terms, we're running a business, which is a mix of physical presence and digital solutions.

And we're running a bank across the totality of Denmark. In order to be able to do that, you need to have, also, critical mass locally. And that will be difficult, also, with a lower market year than the one that we have now.

Martin Gregers Birk Okay. And maybe just a final question. So, when we move into 2023 and you guys are, potentially, looking at returning to share buybacks, Birger, what's going to be your guiding rock here? Previously, we have talked a lot about the RAC ratio. Is that going to come back into play?

Birger Nielsen Yes, well, I think there are several triggers as to when we start buying back shares. Of course, as we well know, the Board today decides on a quarterly basis, and that also applies, going forward. One thing, which is crucial is, of course, the levels, that we stay within the guided levels, longer term, point number one. Point number two is the ability of retained earnings in the group, which has been very strong and steady for some quarters now and hopefully can continue. That's the second trigger.

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And as you said and alluded to, the RAC ratio is the third one. We are quite reassured that, with these metrics we provide here and the way to manifest transaction, that the REC will stay in a safe and sound territory as to stability of our rates.

Martin Gregers Birk And you haven't had any comments from the S&P? As I assume that this is going to be a slightly credit-negative event as more of your capital base will be based on non-equity instruments?

Birger Nielsen S&P is fully aware of what is going on, and we expect them to give some message to the market in the near future.

Martin Gregers Birk Okay, thank you. That's it.

Operator Thank you. We'll move back to questions come through via Zoom. We have a question from Maria Semikhatova of Citi. Please go ahead. Your line is open.

Maria Semikhatova Yes, thank you. I hope you can hear me. A couple of questions. First of all, you mentioned that you are in dialogue with Handelsbanken on a selected large corporate portfolio. Just wanted to get a sense, what is the potential size of this portfolio? And what is the return on equity on these specific operations? Second, on cost synergies, you mentioned expected natural attrition from 2024. What is the natural FD attrition for Jyske, or combined? If you can disclose that, and is there any differential on salary levels for both entities?

And just one final question for me. You mentioned the option to issue equity of up to DKK 1.5 billion. Just wanted to get a sense, under which circumstances you would consider this option?

Lars Mørch Yes, thank you very much, Maria. We have stated, yes, there can be, and will probably be, dialogues regarding large corporates.

It is the fact that the very large Nordic corporations, which they have in their portfolio today is excluded from this transaction, simply due to some special terms and conditions they have in the agreement with Svenska Handelsbanken. Going forward, if some of those customers want to engage with Jyske Bank, we would be happy to have a dialogue with them. And that could, potentially, lead, of course, to higher volumes and higher engagement with that segment as well. Birger?

Birger Nielsen Yes, I think I can add to this that if you look into this portfolio, it's a very limited portfolio, in terms of numbers of clients, and what they have in their contracts is very normal, in terms of clauses. And we expect that a number of these clients will be happy to see Jyske Bank as a bank going forward, whereas some of them would have specific needs that are better handled by other banks.

And some of them will be less attractive also from a return perspective from Jyske. So, we expect to have some extra volume, based on these dialogues that are starting now.

Lars Mørch Yes, and to your point, Maria, cost synergies via natural attrition, that is our clear expectations going forward, I believe that the natural attrition in Jyske Bank, it's very much aligned with market conformity or market levels, ie, in the high single-digit percentages.

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And then, point number three, you alluded to, yes, there is an option to raising equity up to DKK 1.5 billion. The reason for that is that we, in the process here, in the project, have, assist the possibility or the option of going to issue equity. As you know, this is not the case, because the transaction is fully aligned with the existing capital levels. But as of now, yes, we maintain that option, but the transaction itself doesn't need it.

Maria Semikhatova Okay, thank you very much.

Operator Thank you. Our next question today comes from Jakob Brink again of Nordea. Please go ahead.

Jakob Brink Good morning. I hope you hear me now?

Lars Mørch Yes.

Birger Nielsen Yes.

Jakob Brink Thanks a lot. Zoom is not my best friend, apparently. And just coming back to page, was it 5 and 6, Birger, on the old Handelsbanken profit of DKK 735 million, down to DKK 600 million, is the difference...? How much of that normalisation is due to the year, roughly DKK 15 billion of lower lending from those larger customers, and how much of it is due to loan loss normalisation?

Birger Nielsen Yes, well, first of all, the DKK 600 million is the new perimeter, so to speak, the customers involved in the transaction that will add to DKK 600 million. And the main difference still lies within the difference between the impairments in 21 and the impairments in a normalised year.

Jakob Brink But just so I understand, but in that difference also lies the fact that some of the customers, roughly 14 billion, will not come along in the agreement?

Birger Nielsen Yes, everything... Just one second. Simon, you have a comment here?

Simon Hagbart Yes, just to clarify quickly. All the numbers stated in the material are based on the perimeter, excluding the few selected Danish large corporates. That would also entail that the DKK 735 million is excluding those. So, the main difference, moving from the DKK 735 million down to DKK 0.6 billion, is from normalisation of credit quality where you should note that they had reversals of DKK 51 million in 2021.

Jakob Brink Okay. So, the large customers are already out of the...? Okay, fair enough. Okay, then on the FTE reduction or cost synergies of DKK 400 million, potentially higher later on, could you just...? How is it with Bankdata? How much of...? When you take over, I think they have had around DKK 200 million in IT costs on BEC platform, what will that number be in the Bankdata setup? I guess, some of your fees are fixed fee, and some of it is activity-driven fees. So, how much do you expect to save from IT?

Birger Nielsen As we said in '23, the main difference is the payments for group services, and then, going forwards, the difference between BEC and a new entity with Jyske Bank as Bankdata.

We expect and have estimated slightly lower numbers, due to the fact that we make synergies in the coming years, bring down the total number of FTEs in the two entities. So, we're bringing those together. We'll add to, or bring down,

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the total cost, relative to what we pay in separately today.

Jakob Brink So, a small saving from IT, you say, when everything is...?

Birger Nielsen A decent saving from IT, because some of it, as you said, is driven by transactions and amounts, and some of it is driven simply by the number of FTEs that we attach from each group as [unclear].

Jakob Brink Okay, and how much does that leave of the DKK 400 million to come from FTEs?

Lars Mørch We haven't yet spelled out that number, so please, accept that this is the full number that we can provide today.

Jakob Brink It's just, when you say 10% or high single-digit natural attrition, is that then on the whole new group? Because otherwise, I guess, it doesn't quite add up to a number large enough, if it's only on the Handelsbanken platform that you [unclear]...

Lars Mørch Jakob, it's on the total group. So, you have 3,200 employees in Jyske, and you have a tune of approximately 10%, and fairly high during the next couple of years, because it's larger generations who are living for pensions right now. And you'd have, approximately, also 10% from Handelsbanken. So, that actually adds to more than half of their organisation in one year.

Jakob Brink Okay, thank you. And then, just last question from my side. Why is Handelsbanken paying the exit fee on BC? Is there any sort of tax reasons or any sort of fees that will be lower if you do it this way? Or why isn't it just added on top of what you have to pay, or reducing the DKK 3 billion instead?

Birger Nielsen Well, it's straightforward. They are a member at BC today, so they have to pay the exit cost. And what we delivered to them is a goodwill that is an all-in number for the premium on the book, as well as other costs that are related to its recession from their side.

Jakob Brink Okay, fair enough. Makes sense. Thanks a lot.

Operator Thank you. Next, we move onto Jacob Kruse of Autonomous. Your line is open. Please go ahead. Hello, Jacob, your line is open. Unfortunately, the audio didn't seem to be working, but Jacob did submit four questions orally, so I'll read those out for you. These were, on the cost synergies, does this include branch closures and staff reductions? And is it more on the acquired entity, or is this an opportunity to review efficiency in the existing Jyske business?

I believe Handelsbanken has issued buyer NI credit. Are there any complications with transferring this back to Jyske Bank? On the consideration, what do you view as the P/E multiple you pay for the acquired entity?

Birger Nielsen Thank you very much, Jacob. Cost synergies, yes, they include all the cost synergies that we expect, going forward, and that, actually, covers the whole group. And, yes, as Lars also said, we can grow the scale, and we can grow the efficiency in many areas of the group, going forward. But transferring of total credit is, if I just fully understood the question... Please, rephrase it? Can you do that?

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Okay, I'll just jump to the P/E ratio. Well, the P/E ratio is a difficult task. If you talk about price/book or P/E ratios, they all rely on an equity in a subsidiary or in a company. Since we buy activities, we are not able to provide you with a specific equity in this case, so we'll not be able to provide you with any P/E multiples, as of now. And then the question from total credit?

Yes, okay, thank you very much. We will, of course, do our utmost to repatriate as many loans as possible from total credit. We see no complications in approaching the customers when we're allowed to, and ask them to look at the total credit portfolio and see whether this would be suitable in Jyske Bank. And be aware that if I look at the pricing along the curve of total credit products, as opposed to Jyske Bank, we seem to be fully competitive.

Operator Thank you. And Jacob's final question was, what do you use for AT1 and T2 costs?

Birger Nielsen It depends on the market situation, but it's obvious that prices and spreads have gone out, to some extent, over the last few weeks and months. So, we incorporate that into the issuances that we are making. The exact numbers is not for us to say now, because it depends on the actual day that we do the issuance, but it's obvious that prices have gone up, both in terms of AT1 issuance, as well as Tier 2 issuance.

Operator Thank you. As a reminder, if you'd like to ask a question, please raise your hand on Zoom, or press star followed by one on the telephone. We do have a question from Asbjørn Mørk again on the telephone. Your line is open.

Asbjørn Mørk Yes, thank you. Two follow-up questions from my side. If we go back to slide number 5, so basically, the DKK 51 million of loan loss reversals last year is eight basis points. If I just apply ten basis points of normalised loan losses, that's around DKK 120 million of headwinds. So, that brings us DKK 735 million to close to the DKK 600 million you guide for.

And then, if I look at fee income, which has been growing DKK 150 million in two years, I guess, normalising that line could provide some sort of headwinds as well. So, I'm just trying to understand why DKK 600 million is a fair, through-the-cycle number and not a little bit ambitious numbers for the business standalone?

Birger Nielsen Well, [unclear] you're right, when we normalise impairment, we come to these, around 600 million. Looking at the C income list, it has grown simply because asset management has been significantly growing the business for all banks, including Handelsbanken over the last few years. But we have a clear ambition in the field of private banking, to grow the new united entity even further.

As you may know, we have been approved seven years in a row now, as the best one to provide service for private banking clients, which we are very proud of. And we want, actually, to merge the competencies in this field to grow that book even stronger.

So, we don't see that this is a too ambitious starting point for the new entity.

Asbjørn Mørk But wouldn't your asset management ambitions be under your potential synergies of the deal? And I guess, asset management volumes are down around 10% so far this year, so I guess, that's a tough comp,

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compared to last year?

Birger Nielsen Well, it's, of course, a long-term haul we are talking about here, two/three years ahead. We certainly expect markets to come back, but of course, timing is uncertain. When it comes to growth, we believe that we can deliver the same growth in Handelsbanken as we expect for Jyske Bank, and we have ambitions to outgrow the market in this field in the coming years.

Asbjørn Mørk Okay, fair enough. Then, final question on my side, on my numbers, you do make quite a decent return on your investment on today's deal, and that's despite the fact that you, of course, had some disadvantages on the IT side, versus some of your competitors that, at least on a rumour basis, were interested in this deal. So, maybe just some reflections from your side on what was your competitive edge in this transaction that made you seal the deal?

Lars Mørch Yes, thank you, Asbjørn. This is, obviously, a question that's better suited for Svenska Handelsbanken, but I'll try to portray the view that we have had, in terms of our position here. I think Handelsbanken have communicated that they wanted to exit Denmark, and they wanted to exit Denmark in the best possible way.

And I think, in terms of that, the simplicity and the way that they could exit has been important for Handelsbanken. That has been our view. We do not think that this been a price competition, predominantly.

We think that they've been looking for a buyer with the right quality competences and size to take over the client in a good way and to take over the responsibility for the employees also, and a client that has been able to provide a structure for the deal that's not too complex to execute. So, I think these have been, that's our view at least, has been very important for striking this deal.

Asbjørn Mørk Okay, thanks a lot. That's all from my side.

Operator Thank you, and moving back to Zoom, we have a follow-up question from Jakob Brink of Nordea. Your line is open again.

Jakob Brink Thanks a lot. Just one follow-up from my side. On asset quality, I think, at least historically, even you might have said that, but at least someone has speculated whether Danish FSA Guidelines on provisions has maybe been a bit tougher than what we have seen in the Swedish market. So, when looking through Handelsbanken Denmark's book, what have you found? Do you think it is the same rules that have been applied, or do you maybe feel that there's a need for some upfront provisioning?

Birger Nielsen It's correct, we've done a thorough due diligence in all fields, of course, surrounding this transaction. The FSA Guidelines could, potentially, differ between Denmark and Sweden, but we are very reassured that what we have seen and spoken with experts about is quality, both when it comes to retail customers, when it comes to corporate, and also the split between bank and mortgage loans.

So, we are very reassured that what we are taking on board is a top-quality portfolio, and the adjustments to be made, relative Swedish versus Danish guidelines, will be managed properly in the coming quarters. We see no need

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whatsoever of making significant changes at the outset, because it is a quality group that we are looking at.

Jakob Brink Okay, thank you.

Operator Thank you. As a final reminder, if you'd like to ask a question, please raise your hand, or press star followed by one on your telephone keypad. We have a question from Guergouri. Could you please state your company name and proceed with your question?

Hadia Guergouri You can hear me?

Lars Mørch Yes, we can hear you.

Hadia Guergouri Yes, Hadia Guergouri from Allianz Global Investors. Two questions on my side. The cost of income ratio of the business you are acquiring is 58%, so I wonder if you have an idea of the level you want to achieve, in terms of cost/income ratio, and for the business you are acquiring?

And my second question is about the equipment rate of the customer you are acquiring. This is just to have an idea of the cross-selling potential.

Birger Nielsen If I take them one by one, the cost/income was, yes, 58% last year, very much aligned with a very strong bank in Denmark. We have, in Jyske Bank, a level of, in the mid-50s, well, 53, so to speak, so mid-50s for last year, which was also due to the fact that we have synergies with [unclear] on the mortgage side. Looking at the new entity going forward, we will very much focus on the whole group, and not just separate solutions or metrics for the acquired entity.

So, going forward, we have an ambition, of course, to keep the group's cost/income ratio in the mid-50s. Talking about cross-selling elements, we haven't spelled out, in the investment material, any specifics about cross-selling potential. We will be very happy to dig into it in further detail when we can get access and are allowed to do so. We have some potential fields where we can see cross-selling possibilities, but as of now, this is, kind of, an income upside, as you can see, stated on the slide.

Hadia Guergouri Okay, thanks.

Birger Nielsen Sorry, maybe just to clarify, to make it very clear that the 58%, as a standalone entity, will, of course, be lower. But when we calculate it going forward, we very much focus on the group's total cost/income ratio, which we expect to keep low or lower than they were, as we talked about in '21.

Hadia Guergouri Okay.

Operator Thank you. We have no further questions on Zoom or on the telephone line, so I will hand back for any closing remarks.

Birger Nielsen Okay, that was difficult to get unmuted here. Thanks a lot to everybody for listening in. Don't hesitate to come back if we can help with answers on some of the questions, or if we need to be more clear on some of the answers also. But thanks a lot for listening in. We hope that this transaction makes almost as much sense to you

as it does for us. Thank you, and have a nice day.