Company announcement

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Net profit of DKK 10.0 billion earned during a period of continuing challenges.
Return on equity of 8.5%. New ambitions to be realised by 2023.
Outlook for 2019 net profit narrowed to lower end of range.

Danske Bank A/S has announced its financial results for the first nine months of 2019.

Chris Vogelzang, Chief Executive Officer, comments on the financial results:

"The first nine months of 2019 were characterised by challenging interest rate levels and margins as well as higher impairment levels and an increase in costs, related especially to compliance. We saw a good underlying business with high customer activity and lending growth, but overall, our performance is under pressure. Therefore, we today present a new set of ambitions for 2023 and the key elements of the plan that will enable us to realise them. Through diligent cost management, significant investments in digitalisation and in our organisation as well as disciplined execution, we are committed to becoming a better bank for all our stakeholders: customers, employees, society and shareholders."

The report is available at danskebank.com. Highlights are shown below:

First nine months of 2019 vs first nine months of 2018
In the first nine months of 2019, Danske Bank delivered a net profit of DKK 10.0 billion, a decrease of 14% from the level in the first nine months of 2018. The challenging trends of the first half of the year continued into the third quarter and had a negative effect on the results. Customer activity was good, and the underlying business remains solid, but performance is under pressure.

The return on shareholders' equity after tax in the first nine months of 2019 was 8.5%, against 10.1% in the first nine months of 2018.

Total income amounted to DKK 32.8 billion, a decrease of 2% from the level in the first nine months of 2018:

- Net interest income totalled DKK 16.3 billion, a decrease of 8%. Lending grew (in local currency) in all markets, but this was more than offset by higher funding costs and margin pressure.

- Net fee income amounted to DKK 11.7 billion, an increase of 3% from the level in the first nine months of 2018 and 11% from the level in the second quarter of 2019. Net fee income benefited from significant remortgaging activity in Denmark and the inclusion of SEB Pension Danmark, but was adversely affected by the provision for the compensation payable in relation to the Flexinvest Fri case made in the second quarter of 2019.

- Net trading income totalled DKK 2.9 billion, a decrease of 22% from the level in the first nine months of 2018 as the challenging conditions on the financial markets continued.

- Other income amounted to DKK 1.9 billion, against DKK 0.7 billion in the first nine months of 2018. The increase was due mainly to the sale of Danica Pension Sweden.

Operating expenses amounted to DKK 19.2 billion, an increase of 2% from the level in the first nine months of 2018. The increase was primarily a result of higher compliance costs, including costs for our anti-money laundering activities, as well as investments in further digitalisation.

Our strong focus on maintaining a high-quality loan book meant that credit quality remained strong. Loan impairments recorded a charge of DKK 813 million in the first nine months of 2019, against a net reversal of DKK 607 million in the first nine months of 2018. The increase was driven mainly by increased impairments against a few single-name exposures and lower reversals in Denmark. In addition, loan impairments were adversely affected by a minor deterioration of the macroeconomic outlook.

Total lending was up 3% and total deposits were up 4% from the levels at the end of December 2018. Lending increased (in local currency) in all core markets.

Developments at business units in the first nine months of 2019

At **Banking DK,** profit before tax was DKK 4.4 billion for the first nine months of 2019, a decrease of 21% from the level in 2018. The strong competition and the increase in regulatory costs and compliance investments continued into the third quarter of the year, adversely affecting the result. As expected, we also continued to see higher impairments. However, these effects were somewhat mitigated by significant remortgaging activity, fuelled by historically low interest rates, increasing business activity and lending growth.

Banking Nordic delivered a profit before tax of DKK 3.3 billion, equivalent to a decrease of 22% from the level in the same period in 2018. The decrease was caused mainly by a decline in net interest income due to margin pressure as well as an increase in operating expenses caused by investments in compliance and higher costs for regulatory requirements.

Corporates & Institutions contributed a profit before tax of DKK 1.9 billion in the first nine months of 2019, a decrease of 48% from the same period last year. The decline was driven by increased loan impairment charges, lower trading income and negative developments in value adjustments. Operating expenses were unchanged from the same period in 2018 despite an underlying cost pressure from regulatory compliance-related activities.

At **Wealth Management,** profit before tax amounted to DKK 3.6 billion, an increase of 39% from the level in the first nine months of 2018, due mainly to the gain of DKK 1.3 billion from the sale of Danica Pension Sweden. Net fee income benefited from the inclusion of SEB Pension Danmark. Trading income saw a negative impact from a regulatory change to the discount curve for life insurance provisions in the first quarter of 2019. The increase in operating expenses was due mainly to the operation of SEB Pension Danmark and the provision for the compensation payable to certain Flexinvest Fri customers.

At **Danske Bank Northern Ireland,** profit before tax was DKK 648 million, up 16% from the level in the same period last year, despite continued Brexit uncertainty. The increase reflects a combination of higher income, reduced costs and lower loan impairment charges.

Capital position still solid

Danske Bank continues to have a solid capital position, with a total capital ratio of 21.0%, and a CET1 capital ratio of 16.4%. Our targets in the short to medium term are to have a total capital ratio of above 20% and a CET1 capital ratio of above 16%.

On the basis of fully phased-in rules, our CET1 capital ratio stood at 16.3% versus our current fully phased-in regulatory CET1 capital requirement of 14.8%. Consequently, we meet both regulatory requirements and our own targets.

As expected, the Danish FSA has required us to reassess our solvency need to reflect general product governance risk following the Flexinvest Fri investigation and increased risk following an inspection of our IT governance structure. As of the third quarter of 2019, we have increased our Pillar II add-ons by DKK 4 billion, leading to a 0.5 percentage points increase of the solvency need and a 0.3 percentage points increase of our CET1 capital requirement.

Outlook for 2019

On the basis of trends in the first nine months of the year, we now expect a net profit for 2019 at the lower end of the DKK 13-15 billion range announced in the report for the first half of 2019.

The outlook is subject to uncertainty and macroeconomic developments.

Ambitions for the period towards 2023

As promised when we published our report for the first half of 2019, we have spent the past three months looking at how to improve our performance.

In this connection, we have set the following ambitions to be realised by 2023:

- We want, on average, to be among the top two on customer satisfaction in everything we do.
- More than 90% of employees should be “engaged” (as measured in our Employee Engagement Index).
- We operate sustainably, ethically and transparently, and we measure progress across seven identified focus categories (Sustainable Investing, Sustainable Financing, Governance, Diversity & Inclusion, Environmental Footprint, Entrepreneurship and Financial Literacy).
- We must achieve a return on shareholders’ equity of 9-10% and a cost/income ratio in the low 50s by continuously improving the profitability level – leveraging our full potential. Unchanged dividend policy of 40-60%.

To support our ambitions to develop our business in the period towards 2023, we will, among other initiatives, invest considerably in further digitisation of core processes across the bank and extensive simplification of our products, operations and processes. This is described in more detail in Conference call presentation – first nine months 2019.

The planned investments will have a significant effect on the result for 2020, for which we expect a return on shareholders’ equity in the range of 5-6%.

Danske Bank

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More information about Danske Bank’s financial results is available at danskebank.com/reports.