Danske Bank

Press release

Holmens Kanal 2-12
DK-1092 København K
Tel. +45 45 14 14 00

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Net profit of DKK 7.0 billion after tax in a challenging half year
Return on shareholders' equity of 9.0%

Danske Bank has announced its financial results for the first half of 2019.

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

"In the first half of 2019, we faced a challenging rates and margin environment as well as increased costs for compliance measures. But we also saw continued growth in lending and solid credit quality. Our focus in the coming weeks and months will be to analyse our business and strategy. Later this year, we will come back with an update on how we will make sure that Danske Bank can continue to deliver an excellent customer experience, make a positive societal impact, be a great place to work for our employees and create long-term value for our shareholders."

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

First half 2019 vs first half 2018
The Danske Bank Group delivered a net profit for the first half of 2019 of DKK 7.0 billion, representing a fall of 24% from net profit for the first half of 2018. The first half of the year was characterised by a continuation of the challenging interest rate environment as well as a drawback in the conditions in the financial markets.

The return on shareholders' equity after tax was 9.0%, against 11.9% in the first half of 2018.

Total income amounted to DKK 22.3 billion and remained at the same level as in the first half of 2018:

- Net interest income totalled DKK 10.9 billion, a decrease of 8% from the level in the first half of 2018. We saw lending growth in most markets, but the effect of this growth was offset by margin pressure and higher funding costs.

- Net fee income amounted to DKK 7.6 billion and was at the same level as in the first half of 2018. Net fee income benefited from the acquisition of SEB Pension Danmark, however, the positive effect was offset by a decrease in net fee income, which was caused by lower investment activity and the estimated compensation payable to customers with the Flexinvest Fri product in the form of repayment of fees.

- Net trading income totalled DKK 2.1 billion, a decrease of 15% from the level in the first half of 2018. The decrease was due to challenging conditions in the financial markets, lower customer activity and margin pressure.

- Other income amounted to DKK 1.7 billion, against DKK 0.5 billion in the first half of 2018. The increase in other income was due to the sale of Danica Pension Sweden that generated a gain of DKK 1.3 billion.

Operating expenses amounted to DKK 12.8 billion, an increase of 12% from the level in the first half of 2018, primarily as a result of investments within compliance and anti-money laundering. We have thus started our announced investment programme of up to DKK 2 billion over three years. The estimated compensation payable to Flexinvest Fri customers also affected expenses.

Credit quality remained strong on the back of our focus on this and stable macroeconomic conditions. Loan impairments amounted to DKK 470 million in the first half of 2019, against a net reversal of DKK 707 million in the first half of 2018. The increase was driven mainly by a few single-name exposures and generally lower reversals in Denmark.

Total lending was up 2% from the level at the end of December 2018, and deposits were up 4%. Lending increased in most markets.

Developments at business units in the first half of 2019

At **Banking DK**, the first half of the year was characterised by strong competition, a decline in impairment reversals and higher costs for regulatory requirements and investments in compliance. Profit before tax fell 32% from the level in the same period last year to DKK 2.7 billion. We did, however, see increasing business activity and lending growth as well as an improvement in customer satisfaction.

At **Banking Nordic**, profit before tax was down 18% to DKK 2.3 billion. The decrease was caused mainly by a decline in net interest income due to higher interest rates in Norway and Sweden putting pressure on margins along with an increase in operating expenses caused by investments in compliance and higher regulatory costs.

Corporates & Institutions contributed a profit before tax of DKK 1.6 billion, a decrease of 40% from the same period last year. The decline was driven by increased loan impairment charges and negative developments in value adjustments of the derivatives portfolio. Income was also negatively affected by weak trading income in FI&C in the second quarter.

At **Wealth Management**, profit before tax amounted to DKK 2.6 billion, an increase of 56% from the level in the first half 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. The increase in operating expenses was due mainly to the operation of SEB Pension Danmark and the compensation payable to customers in relation to the Flexinvest Fri product.

Danske Bank in Northern Ireland achieved an increase in profit before tax of 13% (in local currency) from the first half of 2018 despite continued Brexit uncertainty. The increase reflects a combination of higher income, lower loan impairments and costs at the same level as in the first half of 2018.

Customer satisfaction

The Estonia case continues to have a negative impact in terms of customer satisfaction and outflow among retail customers in Denmark. In terms of NemKonto customers, we saw an outflow of around 13,600, equivalent to 1.0% of NemKonto customers in Denmark, in the first half of 2019. However, in the second quarter, we did see some improvement from the preceding quarters with an outflow of around 4,300.

Customer satisfaction levels have also improved from the end-2018 levels among both retail and medium-sized commercial customers in Denmark. The levels are still unsatisfactory, however, and we continue to focus on improving customer satisfaction.

Capital position remains strong

Our capital position remained strong with a total capital ratio of 21.2% and a CET1 capital ratio of 16.6%.

On the basis of fully phased-in rules, our CET1 capital ratio stood at 16.5% versus our current fully phased-in regulatory CET1 capital requirement of 14.3%. Our targets in the short to medium term are to have a total capital ratio of above 20% and a CET1 capital ratio of around 16%. Consequently, both ratios are above regulatory requirements and our own targets.

We have an ongoing dialogue with the Danish FSA, and we expect capital requirements to be subject to change going forward. This is a result of general product governance risk following the Flexinvest Fri investigation and inspection of our IT governance structure. We anticipate an additional Pillar II add-on in the mid-single-digit billion range. On the basis of our earnings capacity and capitalisation, we are confident that we will be able to adapt to these changes in our capital requirements.

Outlook for 2019

The outlook for 2019 has been changed from that stated in the interim report for the first quarter (see our company announcement no. 14 of 8 July 2019).

We now expect net profit for 2019 to be in the range of DKK 13-15 billion.

We now expect expenses to be in the range of DKK 25.5-26 billion.

The outlook is subject to uncertainty and macroeconomic developments.

We maintain our longer-term ambition of being in the top three among major Nordic peers in terms of return on shareholders' equity.

Danske Bank

Contact: Kenni Leth, Group Press Officer, tel. +45 45 14 14 00

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