

Press release

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Danske Bank: Steady progress in a challenging environment Net profit of DKK 3.1 billion for the first nine months of 2020

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

“Despite a challenging environment, we saw steady progress in several areas in the first nine months, and we have recently revised our net profit outlook upwards. Our underlying business remained stable, and we saw good customer activity resulting in stable income, driven by most of our Nordic markets and large corporates. We continued to support our customers during the corona crisis, and with our strong capital base we are in a good position to continue to do so. We also made progress on our 2023 plan that will make us a simpler, faster and more efficient organisation to the benefit of all our stakeholders.”

First nine months of 2020 vs first nine months of 2019

Danske Bank posted a net profit of DKK 3.1 billion for the first nine months of 2020, against a net profit of DKK 10.0 billion for the same period in the year before, which, however, included a DKK 1.3 billion one-off gain from the sale of Danica Pension Sweden in the second quarter of 2019. Excluding that one-off gain, total income was at around the same level as in the year before. The decrease in net profit was due mainly to higher impairments in the first nine months of this year.

Total income of DKK 31.4 billion (down 4%)

Operating expenses of DKK 20.4 billion (up 6%)

Impairments of DKK 6.3 billion (against DKK 0.8 billion in the first nine months of 2019)

Net profit of DKK 3.1 billion (against DKK 10.0 billion in the first nine months of 2019)

Return on shareholders' equity of 2.3% (against 8.5% in the first nine months of 2019)

Strong capital position, with a total capital ratio of 23.3% and a CET1 capital ratio of 18.2%

Nordic economies have held up relatively well

The Nordic economies have held up relatively well in the corona crisis so far, with better than expected developments in the housing market and unemployment rates, a rebound in consumer spending and few bankruptcies, and with direct government support measures having an effect. This

resulted in good customer activity, which in turn led to a stable income development. It is also reflected in credit quality, which continued to be overall strong. The level of impairments was due primarily to our timely approach to the macroeconomic effects of the coronavirus pandemic as well as to charges made against exposures in the oil sector. Visibility regarding the global economic recovery is still limited, however, and Danske Bank continues to take a cautious approach to risks, retaining strong liquidity and capital positions, which means that we are able to help customers if and when the need arises.

“We have seen a return of some of the restrictions introduced at the beginning of the pandemic, and there are still many uncertainties. We are, however, well prepared to support our customers as we have done throughout this period on the basis of strong analyses, relevant products, timely impairments and a proven and tested ability to work efficiently and serve our customers well,” says Chris Vogelzang.

Stable income in a challenging environment

The underlying business was stable throughout the first nine months, and net interest income reflected the steady progress our business is making, up slightly from the year-earlier level, despite the challenging business environment. Net fee income and net trading income maintained the good momentum, despite significantly lower remortgaging activity and difficult conditions in the financial markets in the beginning of the year.

“We saw good business activity in the first nine months of the year, despite lower economic activity in general. The drivers of income continue to be large corporate customers and Banking Nordic, where we see stable lending and good growth from our partnership agreements. But overall, our performance continues to be under pressure,” says Stephan Engels, CFO.

Continued effects of cost focus

We are seeing the effects of our cost management initiatives, and expenses were lower in the third quarter than in the second quarter. Expenses in the first nine months, however, came in higher than in the same period the year before as a result of the planned costs for the Better Bank transformation as well as costs for ongoing compliance remediation and the Estonia case. To further the necessary progress towards becoming a more efficient bank, we have previously communicated that we would take additional cost initiatives, and we recently announced a discontinuation of up to 1,600 positions. We continue to aim to reduce operating expenses to around DKK 26 billion next year.

“The realisation of our 2023 plan and the continued transformation to become a simpler and more efficient bank is starting to have the necessary effect on costs. Danske Bank’s cost level is considerably higher than that of many of our competitors, and if we are to remain competitive towards our customers and offer them the best advisory services and products in a market characterised by intense competition with low margins and significant structural changes, we have to bring costs down,” says Stephan Engels.

Lower threshold for negative interest rates

Deposits continue to increase, and we see a need to align our pricing more with the market in general. We also expect the negative interest rate environment to continue for a prolonged period of time, and effective from 1 January 2021, we will therefore lower the threshold for applying negative interest rates to retail deposits in Denmark to DKK 250,000 for customers with a Danske Bank NemKonto.

“We continue to be in the extraordinary situation that negative interest rates have almost become the norm or at least will continue for a prolonged period of time. It would not be viable for this situation not to be reflected in our interest terms, and this is the reason why we choose to lower the threshold for applying negative interest rates to large deposits,” says Stephan Engels.

Developments in business units

In the first nine months of 2020, **Banking DK** launched several initiatives to support customers through the turmoil resulting from the corona crisis, and they have been well received. Banking DK continued to make progress on the journey towards becoming a better bank by launching a number of business initiatives, including the launch of a fixed-rate FlexLife® loan type. A new set-up for serving retail customers and a new offering to mass-affluent customers to be implemented in 2021 were also announced. In relation to commercial customers, Banking DK continued the efforts to become a strong strategic financial adviser. Profit before tax was, however, affected by the corona crisis.

Banking Nordic continued to support customers through the effects of the corona crisis. Furthermore, Banking Nordic continued to make progress in relation to the Better Bank transformation, most recently with the Better Nordic Retail Bank transformation initiative to create a stronger and more harmonised set-up for serving retail customers across the Nordic countries combined with an acceleration of our digital offerings. Despite the global turmoil, Banking Nordic experienced a large inflow of retail customers in Sweden and Norway in particular in the first nine months of 2020. In Norway, the value proposition for our partnership customers facilitated growth and in Sweden, we saw increased deposits in particular on the back of a successful migration of HSB partnership customers. Profit before tax was, however, affected by the corona crisis.

At **Corporates & Institutions**, total income increased 25% in the first nine months of 2020 amid high customer activity and market volatility. The increase was driven by improved net trading income, including positive value adjustments, and higher net interest income as a result of the credit facilities provided to support customers during the corona crisis and significantly higher deposit volumes. Corporates & Institutions continued to support customers with ESG transactions by providing support in the primary debt market to customers wanting to raise capital with a strong sustainable focus and by providing green loans. Profit before tax was negatively impacted by increased loan impairment charges against exposures in the oil and gas industry and increasing costs for compliance-related activities and the planned costs for the Better Bank transformation.

At Wealth Management, Danica Pension introduced its newest investment solution, Danica Balance Sustainable Choice, which gives customers the possibility of investing pension savings with an even stronger focus on sustainability. In addition, Danske Invest launched a new fund product called Danske Invest Global Sustainable Future, which invests in companies that have a leading role in the work towards a more sustainable future. Profit before tax amounted to DKK 1.5 billion, against DKK 1.7 billion in the first nine months of 2019, when adjusting for the DKK 1.3 billion gain from the sale of Danica Pension Sweden in 2019.

At Danske Bank Northern Ireland, profit before tax amounted to DKK 136 million in the first nine months of 2020, against DKK 648 million in the same period last year. This reflects higher loan impairment charges, sharply reduced UK interest rates and continued activity disruption as a result of the corona crisis. In a competitive marketplace, our service efforts continue to be recognised, with customer satisfaction rankings of no. 1 in both personal banking and business banking.

Executing on the 2023 plan

We continue to make progress on our plan to become a better bank for all our stakeholders. In the first nine months of 2020, we started an agile transformation project to change the way in which we work at Danske Bank, enabling us to respond better and faster to customers' changing expectations, ensuring a better and more digital customer experience as well as bringing down costs. We have also begun to significantly simplify the product offering at Banking Nordic, streamlining and aligning our portfolio across Norway, Sweden and Finland. This will make it even easier to become a customer at Danske Bank and for customers to do their day-to-day banking with us.

These initiatives will be supported by the already announced new business unit structure aimed at becoming a less complex and more competitive bank, as well as the establishing of a new Commercial Leadership Team to drive our commercial and customer agenda.

“We continued to make tangible progress in a number of areas, including compliance remediation, societal impact initiatives and new ways of working. This next step will break down silos in our organisation and will link directly to the ongoing radical changes to how we work – one of the key initiatives in the Better Bank plan. The combination of a simpler organisation and a more agile setup directed towards business development will increase our execution power, achieve a faster time to market and realise synergies across our operations, all aimed at becoming even more competitive for our customers,” says Chris Vogelzang.

Outlook for 2020

As stated in company announcement of 27 October 2020, the outlook for net profit has been adjusted upwards, as we now expect a net profit of DKK 4-4.5 billion.

“We have raised our guidance for net profit for the full year based on generally improved developments in the financial markets, continually good progress in the underlying business as well as lower costs,” says Stephan Engels.

The outlook is subject to uncertainty and depends on economic conditions, including government support packages.

Danske Bank

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More information about Danske Bank's financial results is available at [danskebank.com/reports](https://www.danskebank.com/reports).