Conference call

first half 2021

23 July 2021

Investor Relations

CORPORATE PARTICIPANTS

Carsten Rasch Egeriis

Danske Bank – CEO

Stephan Engels

Danske Bank – CFO

Claus I. Jensen

Danske Bank – Head of IR

SPEECH

Claus I. Jensen – Head of IR

Thank you, Operator, and hello, everyone. Welcome to the conference call for Danske Bank's financial results for the first half of 2021. Thank you all for taking the time to listen in on this call today. My name is Claus Ingar Jensen, and I am Head of Danske Bank's Investor Relations. With me today, I have our CEO, Carsten Egeriis, and our CFO, Stephan Engels.

Slide one, please.

In today's call, we will present Danske Bank's financial results for the first half of 2021. We aim to keep this presentation to around 30 minutes, and after the presentation, we will open up for a Q&A session, as usual. Afterwards, feel free to contact our Investor Relations department if you have any more questions.

I will now hand over to Carsten.

Carsten Rasch Egeriis – CEO

Thanks, Claus. In many ways, the first half of 2021 was a period with a lot of changes, not only for the societies, but also for Danske Bank.

The year started with a more or less complete lockdown in many countries, whereas the status at the end of the first half year was an almost complete reopening of the societies in which we operate, thanks to a successful roll-out of vaccines programmes. This reopening also allowed for a solid recovery of the economies, led by improved consumer spending which is now at levels higher than the levels before the corona crisis.

In Denmark, the housing market has remained surprisingly strong throughout the pandemic, and together with other macroeconomic indicators, it serves as a strong evidence of an economy in good shape. For us, at Danske Bank, this continuing rebound has translated into higher customer activity, in particular driven by customer activity in the capital markets, where we benefit from strong value propositions, not least within the fast-growing area of sustainable finance.

Despite some uncertainty still existing with regard to the impact of the phasing out of government support facilities, the outlook for the remaining part of the year is promising. And on that basis, on 8 July, we announced a revised net profit outlook for the full year. We now expect net profit for 2021 to be more than DKK 12 billion, based on lower-than-expected loan impairment charges as well as higher customer activity.

Financially, we had a good first half of the year. Our profit before tax came in at DKK 7.8 billion, up from DKK 1.5 billion in the same period the year before, driven by stronger income, lower operating expenses, and a significant decline in loan impairment charges. The result is equivalent to a return on shareholders' equity of 7%. It is clearly a step in the right direction, however, it is not at the desired level, and we still have a lot of work ahead of us to ensure we can meet our financial ambitions.

We have continued execution of cost management initiatives, as evidenced by lower expenses in the first half of the year. Expenses were down 7% from the same period last year, when excluding primarily tax-related one-offs in the first half of this year.

One of my key priorities after taking up the CEO role has been to assess our progress on the ambitious targets we set for our stakeholders in Q3 2019, and our focus areas for 2020 and 2021, to ensure that we focus our attention on the right things. We have clearly stated that in the short term, we would get compliance and costs under control, while at the same time gaining commercial momentum. We continue to deliver on these targets, especially with regard to compliance, but also on the cost side, where we can see that our cost initiatives are yielding results, as underlying costs are gradually coming down.

It is also clear that we had areas of the bank in which we are top ranked by our customers and performance is thriving from a commercial perspective. This is especially true at LC&I, where our capital market offerings perform extremely well, and over the course of several quarters now, our efforts within sustainable finance are becoming an even more important part of the value proposition to our customers.

However, parts of our retail banking division are not seeing momentum at the desired level, due not only to increased competition in the Nordic countries and the interest rate environment, but also to reputational issues in Denmark. Further, our operating platform outside Denmark is not yet at a sufficient scale, and therefore we still need to become a simpler and a more efficient bank. We do, however, have tremendous potential to leverage in these markets with our top-tier offerings across the Nordic region and our extensive customer base in Denmark.

The decision to sell our business activities in Luxembourg also reflects our efforts to simplify our footprint and allow us to focus on the Nordic customers. Moreover, during the second quarter, the Commercial Leadership Team has further accelerated its effort to identify areas of weak performance and profitability potential, which will be in scope for targeted business initiatives. Moreover, we are now approaching the midpoint of our Better Bank Plan, and a lot has happened both in terms of execution but also in terms of the operating environment and the macroeconomic conditions that have changed since 2019. We are therefore in the process of sharpening already planned initiatives and recalibrating our assumptions for the remaining period towards 2023, in order to illustrate how we deliver on our financial ambitions, and we expect to update the market on this at the presentation of our Q3 results.

Slide 3, please.

I am confident that improving our market position in Denmark and the momentum across our Nordic platform is achievable. What we have accomplished with regard to various parts of the Better Bank Plan clearly demonstrates a strong foundation and the ability to execute on our priorities, and I want to highlight the three pillars that demonstrate this.

The first pillar is how we have managed to upgrade the compliance function over the past years. The compliance function has been completely rebuilt based on best practice and with strong profiles in leading roles, who have both extensive and international experience. Moreover, we have launched and seen good progress on our Financial Crime Plan, which covers all regulatory requirements and best practice recommendations.

And finally, our compliance related to IT systems and processes has been significantly upgraded. We have successfully developed and launched an important first solution that will allow customers to submit their personal information digitally. In addition, we successfully embedded an automated review capability to support the assessment of customer information and customers' use of our product and services.

The second pillar is how we have completely transformed our development organisation, which comprises around 4,000 employees. Just changing the governance structure, the incentives, resource allocations, and so on, is an achievement when the number of employees and scope are of this size. However, we are now roughly seven months into after the launch, and we have managed to do the change while staying on schedule in respect of planned deliverables and new solutions and infrastructure.

Building even further on this momentum within digitalisation will be crucial in order to regain our commercial momentum in Denmark, in Sweden, and in Norway by delivering better and more efficient digital solutions to our customers. Just by way of examples, I want to highlight the progress made on the Swedish mortgage processes, as 95% of all mortgage applications now run through a digital flow, and also the recent improvements to our 'click-to- remortgage' process for personal customers in Denmark, which now offers more efficient processes and additional calculation options. Similarly, also in Norway, we reduced the time to 'yes' from 14 days to just under 3 hours for our digital car loan solution, something which has already improved customer satisfaction and increased volumes.

I believe it is safe to say that these first results are important elements in supporting our commercial momentum. However, as digital transformation is more of a constant, we are far from done. For the second half of the year, we plan further digitalisation initiatives to ensure we capture the before-mentioned potential, but also to ensure that we establish a foundation to build on in the years to come. For instance, we are further expanding the toolbox available to our customers to self-service their remortgaging needs. We will also make it far easier for them to ensure an ongoing inflow of deposits into investment funds through the Mobile Banking app.

Finally, we will further expand the functionality of our District platform for business customers and pilot a new fully-digital sales channel for low and medium-complexity products to our corporate customers which will be a stepping stone towards increasing the rate of digital sales. And in addition to these initiatives, we will of course continue to allocate a sizeable amount of our development capacity to fulfilling regulatory requirements and supporting our compliance and AML agenda. However, importantly, both are to a large extent also important enablers of our general digitalisation efforts.

The optimisation of our customer journeys feeds directly into the third pillar; namely, how we are on the forefront of supporting customers' commercial and sustainability ambitions. The importance of sustainability transitioning is growing rapidly, and we do our utmost constantly to adapt our capabilities in this field to support our customers' goals. As late as last week, we tripled our 2023 target for volumes within sustainable financing from well above DKK 100 billion to DKK 300 billion, a level we consider quite ambitious.

We continue to make sustainable financing and investments accessible for our customers through new products, such as the two new mutual funds, Global Sustainable Future and Danica Green Balance, and also by supporting issuers and investors in a substantial amount of transactions, which confirms our position as a leading bank and our top ten ranking globally as arranger of green bonds. Moreover, our position within sustainable financing also supports the continuously strong momentum we have when it comes to corporate and institutional customers in general.

We continue to see the fruits of our investments in our capital markets platform, as our customer satisfaction ranking remains the highest among the pack, and we capture an increasing volume of opportunities within ECM and DCM. I believe that this underpins the value of our diversified business model, especially in the current environment with subdued demand for credit from businesses.

Finally, the offerings we have within asset management remain attractive, as evidenced also by net sales growing for several quarters now, and the majority of our investment funds perform above benchmark.

So - taking a step back after my first quarter as CEO, I am encouraged by the commercial priorities that we have set out. And from what I have also experienced first-hand from our frontline officers and my constructive dialogue with existing and with new customers and clients, I am confident that we have the foundation and the capabilities for navigating in the current operating environment and also playing a leading part in terms of the sustainability agenda, as our customers and society as a whole transition to meet the realities of tomorrow.

I am looking very much to providing you with more details later in the year and of course taking questions later on in this call. And then I will hand over to Stephan for the financial results in more detail.

Stephan Engels - CFO

Slide 4, please, and thank you, Carsten.

I will now go through our Group income statement before we provide more detailed insight into the performance of our business units. As Carsten just mentioned, we had good results for the first six months. Overall, the results were founded on good progress for all key reporting lines, including total income, expenses, and loan impairment charges.

Total income benefited from a positive development in all income lines. NII was stable from last year, as well as the preceding quarter, as deposit repricing initiatives partly mitigated continued margin pressure. Net fee income benefited from stronger customer activity and came in 11% higher than the year before, not only on the basis of strong demand for capital market financing solutions among our customers, but also on the basis of a rebound in activity-rated fee income from personal and business customers. Compared with the preceding quarter, we saw a positive impact from a couple of large capital market transactions and mortgage bond refinancing. The strong momentum for customer activity, driven primarily by LC&I, continued, and fee income held up well.

Trading income benefited from improved market conditions. Compared with the same period last year, trading income was up 21%, however, stable against the preceding quarter when adjusted for the gain from the sale of our shares in VISA. Our insurance activities also contributed to the improvement in total income, as improved market conditions and growth had a positive impact on the result in the life insurance business.

Other income, for which we usually do not have many comments, was up 48%, due mainly to higher income from our Danish real estate broker, home, driven by generally higher turnover in the housing market.

Operating expenses came in lower, as our initiatives to reduce costs continued to yield results, and we saw the expected decline in costs for transformation and remediation. Expenses in the first month included one-off items of DKK 0.6 billion, mainly against tax-related items. Excluding one-offs, operating expenses were down 7% from the level in the same period last year, and slightly up against the preceding quarter, due mainly to an increase in performance-based compensation. As a result, profit before loan impairment charges adjusted for one-offs for the first six months was 27% up from the same period last year, whereas it was 9% against the preceding quarter as a result of slightly lower income and higher costs.

The change in impairment charges was the most significant driver of the improvement in profit before tax in our core activities. The charges for the first six months amounted to DKK 0.7 billion, and DKK 0.2 billion for the second quarter, due to an overall improvement in credit quality. The result of our non-core activities improved as the first half of 2020 was impacted by losses related to the final exit from Estonia.

Slide 5, please.

At Personal and Business Customers (P&BC), we saw a significant uplift in profit before tax of 34% against the same period last year, due mainly to significantly lower impairment charges, which are now resuming a more normalised level following a positive revision of the macroeconomic outlook.

Total income was down 2%, as higher volumes could not compensate for margin pressure, which resulted in slightly lower net interest income. However, the repricing initiatives in Denmark that took effect in the first half of the year stabilised net interest income at Personal Customers Denmark.

The growth in lending at P&BC was driven by our Nordic retail business, for which lending was up 9% from the level in the same period last year, however, partly offset by a lack of growth and increased repayment of loans at Personal Customers Denmark.

Underlying fee income benefited from higher customer activity in general and was up 2%, adjusted for a value adjustment for our distribution agreement and the effect from structurally lower income from mortgage bond refinancing. However, to some extent, the effects of our cost management initiatives and lower transformation costs countered the decline in total income. Costs were down 4%, resulting in a decrease in the cost/income ratio of one percentage point. Although this is a positive trend, it is not at the desired level in view of where we want to be in the longer term, especially with the current margin environment and only fragmented commercial momentum.

There is no doubt that our efforts to improve cross-sale through investment offerings combined with the current environment have led to a significant increase in investment activities at both Personal

Customers Denmark and especially at Personal Customers Sweden. Here we are succeeding in harvesting the fruits of our new investment centres, which allows us to provide more holistic advisory services to our customers. In fact, the number of investment advisory meetings in Sweden was up 13%, and AuM for managed accounts almost doubled for the period, together with an up-tick in cross-sales for existing as well as new customers. The latter was also a result of improvements to our onboarding process.

Slide 6, please.

Turning to LC&I, profit before tax was also significantly up, as a result of a 12% increase in total income and significantly lower impairment charges, especially fee income as a contributing factor to our strong income development, following the extraordinarily positive development we have seen within the capital markets business, which compensates for slightly lower NII that was due to lower credit demand. In fact, the combination of our strong offerings and the constructive market conditions in the past quarters has resulted in higher income from capital markets offerings and serves as a strong proof-point for our strategic focus on customer-driven and less capital-consuming income.

Income from our activities within investment banking and securities ended at a record-high level of more than DKK 1 billion for the first half of 2021, translating into a 63% increase from the same period last year. The strong momentum further underpins our position as the leading Nordic bank in terms of volumes.

Similarly, within sustainable financing, we continue to see a high level of demand, allowing us to continuously support our customers with their needs for financing. In the first half of the year, we arranged sustainable bond issues in the amount of $8 billion for our customers – more than we have ever arranged even in a full year.

Our asset management activities are also developing favourably. AuM increased 16%, both in the institutional and in the retail segment, and net sales in the retail segment have now been positive for three consecutive quarters.

Slide 7, please.

Now, let us have a look at Danica Pension and our activities in Northern Ireland. Danica delivered a strong financial performance in the first half of the year. Net income amounted to DKK 1 billion, up 14% from the level in the first half of 2020. The result saw a positive effect from an improved result in life insurance and benign developments in the financial markets. Solid growth in premiums and assets under management, up 22% and 12%, respectively, also added to the positive development.

Quarter-on-quarter, net income at Danica was up 6%, due mainly to an improved result in the health and accident (H&A) business, which was impacted by a tax-related provision in the first quarter. Premiums as well as assets under management continued to grow in the second quarter.

Our business in Northern Ireland is showing good progress, despite constraints in the operating environment from subdued activity in the UK economy following Brexit and the pandemic. The improvement in profit before tax from the same period last year was mainly due to significantly lower impairment charges but also to ongoing cost-management initiatives. Lending and deposit volumes increased, however, the sharp decline in UK interest rates had an adverse effect on net interest income.

Against the preceding quarter, we saw further progress in Q2, as profit before tax benefited from higher income and reversal of loan impairment charges. Lending was up 3% on a reported basis, and in combination with an improved outlook for the economy, we remain optimistic for the coming quarters.

Slight 8, please.

NII came in slightly lower than in the same period last year. The first half of 2020 deposit margins benefited to a large degree from elevated xIBOR levels, whereas lower xIBOR levels this year had the opposite effect and reduced deposit compensation to the business units. Approximately half of the impact on deposit margins came from the lower value of surplus deposits at LC&I, whereas the other half was evenly split between P&BC and Northern Ireland, with a decline in value in Northern Ireland being due to a sharp decline in UK interest rates. Obviously, this movement between our business units and the internal bank had no impact on Group net interest income.

When we look at Q2 against Q1, NII was up slightly, due mainly to the day effect and a positive effect on lending margins from lower NIBOR rates. The negative effect on deposit margins was due to lower deposit compensation from FTP, comparable to the development I just described.

As we communicated in connection with the announcement of our results for Q1, further action in the form of lower thresholds and pricing initiatives has been taken with regard to deposits in order to improve profitability. These initiatives took effect on 1 July, and we expect an effect of approximately DKK 250 million, all else equal, for 2021.

Year-over-year lending volumes were up at P&BC, due mainly to growth for Personal Customers in Norway and Sweden and for Business Customers. Deposit volumes were up at Personal Customers Nordic and Business Customers, whereas deposits were flat at Personal Customers Denmark, and down from Q1 to Q2, partly reflecting a positive development in AuM, where net sales for retail customers grew.

Slide 9, please.

Let us have a look at fee income. As we have discussed on some of our previous slides, fee income, which was up 11% from the same period last year, made a valuable contribution to the good result for the period. The increase was due mainly to a much stronger income from capital markets-related activities, which was up 63% for the first half of last year, and only slightly down from the preceding quarter, as the high level of activity continued into the second quarter.

Fees generated by investment activities benefited from higher customer activity and a positive development in assets under management, whereas there was a slight decline in fees from the preceding quarter. Both year-over-year and relative to the preceding quarter, activity-related fees were up 16% and 4%, respectively, positively impacted by higher customer activity as a result of the reopening of societies. In addition, in Q2, this fee category was impacted by a negative value adjustment for a distribution agreement.

For lending and guaranteed-related income, however, we saw a decline due to a lower amount of refinancing of variable-rate mortgages. The decline in Q2 was due partly to the refinancing auction that takes place in Q1 and lower lending at Personal Customers Denmark.

Slide10, please.

Trading income came in at DKK 2.3 billion in the first half year, up 21% from the same period last year, and benefiting from good customer activity at LC&I in the first quarter in particular. At LC&I, which is the main contributor to this item, Q1 saw higher trading income than Q2, due to seasonality driven mainly by equities and markets business.

The result of the trading line, which has been relatively stable over the last four quarters, reflects cyclical as well as structural changes in our markets business. In general, the trading environment was more supportive following the recession last year, driven among other factors by higher volatility and easier monetary policy. As a result, trading income was on average higher in the past five quarters than in 2018 and 2019, when trading conditions were more challenging. Our risk appetite, however, remains structurally lower than historical levels, reflecting the strategic decision to reposition our LC&I unit towards more capital-light and fee-driven activities and to improve the capital efficiency of the markets area.

In the first half of the year, we also saw a positive impact from the gain from the sale of our shares in VISA of DKK 0.2 billion and small positive value adjustments.

Slide 11, please.

Now, let us turn to operating expenses, which in line with our expectations came in lower. The main contributors were a decrease in costs for transformation for which we booked significant amounts in 2020, and lower costs for AML, including in particular the Estonia case. The initiatives we announced in October of 2020 continue to have a positive effect on staff costs, as numbers of FTE continue to decline, as we continue to execute on our plan to discontinue positions. We expect further effects, primarily natural attrition and discontinuation of business areas going forward.

Expenses were down 7% from the level of the first half of 2020, adjusted for items of a one-off nature, and down 2% on a reported basis. The one-off items were mainly tax-related following the rulings by the European Court of Justice and the Swedish Supreme Administrative Court.

We have also seen a positive effect from our strict focus on non-personnel costs, as we continue to see a decline in travelling activity, among other things, including lower costs for rent and premises because of an adaptation to a new working environment. Lower IT expenses and lower amortisation of intangibles also contributed to the decline in operating expenses relative to the first half of last year.

In the second quarter, costs were impacted by additional tax-related one-offs and performance-based compensation due to strong results in our capital markets-related business in particular. According to plan, costs for transformation remained flat. In respect of the cost development for the remaining part of the year, we will comment in more detail later on this call.

Slide 12, please.

Overall, credit quality remained strong as we continue to see a low level of actual credit deterioration in combination with positive macroeconomic trends based on the reopening of the societies and the rebound in economic activity. This led us to change our outlook for the impairment charges for the full year. Impairment charges are now expected to be no more than DKK 1.5 billion.

Impairment charges for the second quarter came in at DKK 0.2 billion, down from DKK 0.5 billion in Q1, and equivalent to a loan loss ratio of five basis points. The charges in Q2 consisted of charges recognised due to updated credit models and a few charges against segments impacted by the corona-related lockdowns.

We saw a reversal of DKK 0.1 billion related to macroeconomic adjustments and DKK 0.2 billion related to post-model adjustments. However, the vast majority of the corona-related post-model adjustments recognised in 2020 remain in place, while we continue to monitor the potential effects of the phase-out of government support packages. We continue to see a very small impact from the oil-related exposure in Q2, for which impairment charges were on par with the level in Q1.

From the business unit perspective, LC&I accounted for most of the impairments recognised in Q2. The charges at LC&I were against a few single-name exposures affected by the coronavirus pandemic.

Slide 13, please.

Our capital position remains strong with a reported CET1 capital ratio of 18% at the end of the second quarter. The total capital ratio decreased by 0.1 percentage points relative to Q1, due primarily to an increase in the REA, although the increase was counted by an AT1 issue in May, and other small effects. The CET1 capital ratio saw a 0.1 point decrease driven mainly by a higher REA, while net profit and other effects somewhat counted the higher REA somewhat. The fully-loaded CET1 capital ratio was 17.8%.

Total REA came in around DKK 18 billion higher than at the end of last quarter, mainly because of credit risk REA, up DKK 21 billion, including an increase of DKK 23 billion related to the implementation of EBA guidelines, but also partly due to a decline in market risk of DKK 5 billion.

We expect the remaining part related to EBA guidelines, which amounts to around DKK 50 70 billion for the full year, to be implemented in the second half of the year.

The leverage ratio increased by 0.3 percentage points to 4.7 according to transitional rules and 4.6% under the fully phased-in rules.

Slide 14, please.

And finally, the revised version of financial outlook for 2021, which we announced of 8 July based on lower-than-expected loan impairment charges, due to a faster than anticipated macroeconomic recovery as well as higher customer activity. We therefore adjusted the net profit guidance for 2021 from DKK 9-11 billion to now more than DKK 12 billion.

We now expect total income to be higher than the level last year, including the gain from the sale of the business activity in Luxembourg and higher customer activity. The gain from the merger of MobilePay of approximately DKK 400-500 million is subject to final approval from the authorities and is expected in the second half of 2021 or early 2022, and is therefore not included in our current outlook for the full year.

We have revised the outlook for expenses, and we now expect underlying expenses to be lower than DKK 24.5 billion. Total expenses are expected to be no more than DKK 25 billion, and include tax-related one-offs of DKK 0.7 billion, of which DKK 0.2 billion will be recognised in the second half of the year.

In addition, in the second half of the year, we expect higher charges for pension yield tax at Danica Pension, which will be recognised in net income from insurance business.

And finally, impairment charges are now expected to be no more than DKK 1.5 billion due to primarily lower model-driven impairment charges as a result of a better-than-expected macroeconomic recovery and overall improved credit quality.

Slide 15, please, and over to Claus.

Claus I. Jensen – Head of IR

Those were our initial comments and messages. We are now ready for your questions. Please limit yourself to two questions. If you are listening to the conference call from our website, you are welcome to ask questions by email. A transcript of this conference call will be added to our website within the next few days.

Operator, we are ready for the Q&A session.

Operator

(Operator Instructions). Our first question comes from the line of Jakob Brink from Nordea.

Jakob Brink – Nordea

Thank you and good morning, first question on systemic risk buffer. Have you heard anything more? And apart from just the mechanics, what do you think is the strategic impact for your Norwegian business if this 4.5% systemic risk buffer is to be implemented? Thank you.

Carsten Egeriis - CEO

Yeah. Hi, morning Jakob. No, we have not heard anything yet, so we are still waiting to see what will happen. A lot can happen, and obviously timing is also uncertain, so we will wait and see, and update you when we know more.

Jakob Brink – Nordea

Okay, fair enough. My second question is actually, you briefly mentioned now as well, Carsten, but also in the Q1 conference call, you mentioned that of course that you were sticking to the 9-10% return on equity target next year – or in 2023, sorry. Looking at my own estimates and consensus, we would need to lift our estimates by around 15-20% to get to that level. Where do you think that we and consensus are wrong?

Carsten Egeriis - CEO

Yeah. I won't comment on your consensus as such, but we continue to maintain our ambition of 9-10% ROE in 2023, and we believe that we have shown in the last few quarters that we are heading in the right direction. There are clearly areas where we can do better, and that is what we are fully focused on. And we will update as part of Q3 more on the moving parts of the plan, the progress of the plan. And also, of course, some things have changed since we originally set out our plan in Q3 2019, so we will update on what that means, both in terms of the revenue components and the cost components of the plan.

Jakob Brink – Nordea

Just to get that right, so basically, you think that that what you will tell us in Q3 will still be above 9% but the components have changed, so it could be also lower loan losses helping you to get to 9%?

Carsten Egeriis - CEO

Correct that we maintain overall 9-10% target, and correct that some of the moving parts will change, given what has happened over the last couple of years, and we will update on that in Q3.

Jakob Brink – Nordea

Okay. We will have to wait and see. Thanks a lot.

Operator

Thank you, our next question comes from the line of Robin Rane of Kepler Cheuvreux. Please go ahead the line is open.

Robin Rane – Kepler Cheuvreux

Yes. Good morning, thank you for taking the questions. Stage 3 loans increased in the quarter. I think you say it is in the Personal Customers area. Can you please give some more colour on that move? And then, secondly, on capital. Given all the developments on the requirements on capital that you see ahead, will you consider yourself to have excess capital now or would you be more hesitant on that? Thank you.

Carsten Egeriis - CEO

Yeah. Look, on the capital side of things, we feel very comfortable with our capital position. But clearly, we continue to go through the Estonia process, and until we have got more clarity on that, we will not update on our capital excess position and what comes from there, but we continue to, of course, maintain our dividend policy of 40-60%.

Now, I did not quite catch the first question on loans?

Stephan Engels - CFO

If I understood it right, you were asking a little bit how does our lending develop in the PB&C segment. If you flip in our presentation to page 18, there you can see a pretty good representation. It is mainly growing in Personal Customers Nordic and also in Business Customers. And we are, as mentioned also earlier, seeing a little bit less lending in Personal Customers DK, reflecting some of the trends I also alluded to in the speech.

Robin Rane – Kepler Cheuvreux

Thank you for that. Actually, my question on lending was the stage 3 lending increased quite a lot in the quarter. I guess it is in the personal customers. Do you have any comment on that?

Stephan Engels - CFO

Yeah, sorry, then I did not get your question right. That is mainly a fraction of adapting to the upcoming EBA guidelines around the definition of default, so this is more model-driven than reflecting any real loss experience.

Robin Rane – Kepler Cheuvreux

Okay, so no impact really on line quality, it is more of a technicality.

Stephan Engels - CFO

No. In general, as I said before, the real loss experience is still very limited, and if you look at the split also in the presentation, you can see that there is quite a bit of a model-driven adjustments and movements. Again, we are currently seeing very, very small credit deterioration.

Robin Rane – Kepler Cheuvreux

Okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of Sofie Peterzens of JP Morgan. Please go ahead your line is open.

Sofie Peterzens - JP Morgan

Yeah. Hi, here is Sofie Peterzens from JP Morgan, thanks for taking my questions. My first question would be just around the Estonia case. In your report, on page 12, I think, you say that continue to cooperate with the authorities, but you might need to do some more internal investigations in 2021. I thought the internal investigations were completed by now, so could you just comment why you might have to do more internal investigations, and also what your latest is for the US? Have you submitted all the information from your side, or are they still waiting for data or some information from Danske? So that would be my first question.

And my second question would be TLTRO. Did you take any TLTRO in Finland or elsewhere in the Group, and has that had any positive impact on your net interest income, and if so, how much? Thank you.

Carsten Egeriis - CEO

Yeah. Hi, Sofie, I will take the first one, and then I will let you take the TLTRO question. On the Estonia case, there really is not anything new. We have finalised our own internal investigation, exactly as you say. And I think the commentary should only just be seen in the light that of course questions could come up from authorities, and if they come up, then we are ready to respond. And all questions that we have received over time, we of course have responded to, so nothing else new to add.

Stephan Engels - CFO

On TLTRO, we have reduced our level a bit during the first half of this year, following, let us say, a good liquidity situation of the bank in general. I do not have the complete exact numbers off the top of my head, there is a remainder still being done. However, we will get you the numbers if you need them now.

Sofie Peterzens - JP Morgan

Okay. However, have you booked any TLTRO benefit in your net interest income?

Stephan Engels - CFO

No.

Sofie Peterzens - JP Morgan

Okay. And should we expect any TLTRO benefit to come through the net interest income at some point?

Stephan Engels - CFO

Let us again keep in mind that it is basically the euro, and extremely small, so that is not going to be anything to write home about, in all honesty.

Sofie Peterzens - JP Morgan

Okay. And just a follow-up on the Estonia case, so basically the ball is now with the other authorities or it is in Danske's court? If I understood it correctly, you are just waiting for the US authorities, and other authorities to get back to you, is that correct?

Carsten Egeriis - CEO

Correct. We have done the work that we needed to do, so we are waiting what the further process is from here.

Sofie Peterzens - JP Morgan

Okay, great. Thank you.

Operator

Thank you. Our next question comes from the line of Johan Ekblom of UBS. Please go ahead your line is open.

Johan Ekblom - UBS

Thank you. Just two quick questions. First of all, on the asset quality, if I sum up the post-model adjustment, I think you still have some DKK 2.5 billion or so. What kind of time frame should we think about in terms of this potentially being released, and is that a major part of your loan loss guidance for this year?

Then the second question is the broader question on business momentum. You talked about good expectations for customer activity in the second half, but when I look at official statistics, it looks like you are giving up market share in Swedish mortgages, you are giving up market share in terms of AuM in Denmark, in Norway, and in Finland. How much of that do you think is due to internal focus, and how much of that is – or is anything else driving that, and when do you think you can get back to your natural market share?

Carsten Egeriis - CEO

Yeah. Thanks. I will take the business momentum, and then I will hand over to Stephan on the asset quality question.

On the business momentum, if you step back, there is clearly parts of the business where we have seen strong momentum, as highlighted, where we have gained market share and where we have very strong customer satisfaction, and that is very much in our LC&I business. If you look at the Business Banking business, again, a large part of our business, we have actually seen quite a stable performance, but also some growth and also ability to maintain our current positioning.

You are then right, that when you look at the retail businesses, both in Denmark and Nordics, if I take Denmark, first of all, we need more momentum, we need more commercial momentum in Denmark. I think there are some positive signs, for example, increasing AuMs. And so, we are seeing some momentum on the back on some of the initiatives that were taken, but we need to do more.

In the Nordic retail businesses, although we continue to grow, you are right, that the market shares have not grown as much as they have in other quarters, and I think we have also said before that we continue to want to manage that; continue to want to increase the relationship with our customers. For example, in the retail business in Sweden, we have in fact increased our ability to deepen relationships through more advice and sales of investments.

Those are the kind of things that we continue to focus on, and we need to continue to take that momentum with us, and relentlessly execute on a lot of smaller and larger different things on those business areas to get even more traction.

Stephan Engels - CFO

And on asset quality, on your questions, first of all, the post-model adjustments that we currently hold are more in the range of just shy of DKK 2 billion. We have said consistently over the last quarters that we want to see basically the end of the government support packages, including the delays for tax-related payments, as one of the main corner points to start adjusting these PMAs on any bigger scale.

We also mentioned tapering of the central banks as one of the possible points. After the ECB announcement yesterday, I am not sure whether that might be a bit too far out. And in that sense, these PMA releases, other than if they are done for specific clients or smaller portfolios, we do not expect them to be part of the 2021 guidance.

Johan Ekblom - UBS

Thank you.

Operator

Thank you. Our next question comes from the line of Mads Thinggard of ABG Sundal Collier. Please go ahead the line is open.

Mads Thinggaard - ABG Sundal Collier

Yes. Thank you, and two questions from me as well. The first one is on the FTE reductions. I can see on your slide 11 that you point to a 700 net FTE reduction from the plan. I guess that was announced in October last year, which was the last time we really heard anything new about initiatives. I do not know if you could put a bit of flavour on that – if we could expect a new round, perhaps timed before or with the update you are going to give on Q3, on the Better Bank Plan progress, that would be quite helpful.

And then looking into the numbers here on Q2, I do not know if you could put a bit more flavour on the drop you have in LC&I lending volumes? I think Carsten, you mentioned a bit high rankings that you could leverage on, but it seems volumes are down quite a bit, NII, perhaps just half of that, but if you could address the 7% lending drop quarter-on-quarter that would be helpful as well.

Carsten Egeriis - CEO

Yeah. Let me start with that and then I think Stephan, you will take the cost question. I think the point on the LC&I lending volumes is that you have seen a significant shift from credit demand and then into capital market demand in terms of both raising equity and bonds, and other activity. What we have seen, and again I point out the diversified nature of our LC&I platform, is that you have seen a very successful ability to capture the capital markets business and also several landmark transactions, but there is no question that corporates in general have had a reduced demand for credit. So a lot of the credit facilities that have been granted through corona, those are simply not being used due to the 'wait and see' right now in terms of the requirement for credit, frankly, to make investments and so forth.

I do expect that activity will pick up in the second half of the year, as we have more clarity, but those are the dynamics on that front.

Mads Thinggaard - ABG Sundal Collier

[Inaudible] and a rebound, yeah.

Stephan Engels - CFO

Sorry, you have another question?

Mads Thinggaard - ABG Sundal Collier

No, it is okay.

Stephan Engels - CFO

On the FTE number, first of all, you need to keep in mind that the original clear communication was that we will discontinue 1,600 positions, so it is obviously a mix of both real FTE net reductions. And on the 700 you mentioned, I would expect that we will probably again see half the size of the first tranche happening towards the rest of the year. So in that sense, we will meet our goal. Currently, that is the expectation of having 1,600 positions closed, in comparison to the starting point.

As I have also mentioned in the speech, we expect to achieve that goal at least for 2021 by a mix of natural attrition as well as existing arrangements and agreements that we have available to our employees. In short, for 2021, we do not see another big round.

Mads Thinggaard - ABG Sundal Collier

Okay, just execution of the first round from last year.

Stephan Engels - CFO

Yeah.

Mads Thinggaard - ABG Sundal Collier

Okay, thanks.

Operator

Thank you. Our next question comes from the line of Namita Samtani of Barclays. Please go ahead your line is open.

Namita Samtani - Barclays

Hi. Thanks. I have got two questions, please. Firstly, the RWA inflation we see this year related to the EBA guidelines, is that expected to continue into 2022? And secondly, given the new 2021 net profit guidance, I guess you are including the gains in the sale of the Luxembourg business and lowering the threshold for negative rates because revenue would still need to grow. Is it the investment banking fees which are sustainable or which part of the revenue line do you see growth for in the second half of the year? Thanks.

Carsten Egeriis – CEO

Yeah, if I take the first one, and then I will let you comment on the RWA inflation and the EBA guidance.

I think if we look at the second half of the year, overall, we expect that activity will pick up across the board. Now, we had a very strong Q1 on fees and trading, also a good Q2, that is always hard to extrapolate exactly on. However, we expect that both the capital markets business, but also general credit demand, will pick up in the second half, given also what we see in general in the macro environment, which is a good pick-up in spending, strong confidence across the Nordic countries, and also our feeling from our conversations and discussions with customer and clients.

And then on RWA?

Stephan Engels - CFO

RWA inflation, we have seen roughly DKK 35 billion of re-inflation for the EBA guidelines in the first half of the year. We expect the full year to be between, call it, DKK 50-70 billion, and that would then get us to our goal that we have stated.

Namita Samtani - Barclays

Thanks very much.

Operator

Thank you. Our next question comes from the line of Per Grønborg of SEB. Please go ahead your line is open.

Per Grønborg - SEB

Yes. Thank you, good morning. Also, two questions from my side, first, on the VAT ruling. One thing is the amount you are paying right now. What will that add to future costs in Sweden, and what are the risks related to primarily Norway? I do not know whether there is also a risk related to Northern Ireland? I know you have taken the charge for Finland earlier. That was the first question.

Stephan Engels - CFO

Shall I directly answer? Hi, Per. There is two components around the VAT matter. One, is that we have the historic charges that we have booked a provision for in Q2. We will also restructure our VAT group for which we have taken a provision in Q1. We expect to be able to organise or to kind of adapt to the new rules in a way that will slightly – but only slightly – impact costs through slightly higher VAT than in the current set up. The exact split has not been finally agreed upon. We will update you towards the end of the year on that one.

Per Grønborg - SEB

Are we talking about a low double-digit number of millions per annum or?

Stephan Engels - CFO

Yeah, call it a mid-double-digit number.

Per Grønborg - SEB

Okay, that is nothing that really can be potted. Thank you. My second question is on your investment products. When I look at your investment products income, excluding performance fees, it is largely flat year-over-year. Your assets under management is up by 15-16%. Any flavour on why you have such a smaller growth in your revenue versus your AuM?

Stephan Engels - CFO

Two answers to that. One, is you need to keep in mind that we are not booking any performance fees throughout the year. We only book those in Q4, which is true for both years, but also reflects also a little bit the comparison to the industry. A second part, we have obviously a bit of margin pressure on the institutional business, as you would expect. And the pick-up in net sales in the private clients business has only started if you want. So it has a positive trajectory, but we are still, Per, punching below our back book weight in a way, so I think it will need another few quarters until we are getting front book and back book stuff in sync, which then should also be more visible in the income line.

Per Grønborg - SEB

However, still your flow numbers they are not great, but they have improved tremendously versus how bad they looked last year. It looks like the margin pressure must be quite eminent for 15% volume growth not to get any revenue impact.

Stephan Engels - CFO

Yeah. Again, volume movement specifically in institutional business, I would not overestimate because there is partly higher volumes at very little fees being moved. We are also kind of reviewing the, call it, overall approach there a bit, and will probably also adapt a little bit in the sense of being more focussed on the more fee-driven part rather than volume only.

Per Grønborg - SEB
Okay, thank you.

Claus Ingar Jensen - Head of IR
Thank you, operator can we have the last question, please?

Operator
Yeah, we have one last question comes from the line of Riccardo Rovere of Mediobanca

Riccardo Rovere – Mediobanca

Thanks, and good morning, everybody – very quick one. With regard to the risk outlook, what could drive from now on a sharp deterioration of PDs and LGDs in retail and corporate exposures?

Stephan Engels - CFO

Sorry, I am not sure I got the question?

Riccardo Rovere – Mediobanca

Yeah. From now on, what could drive a sharp deterioration in probability of defaults and in loss given defaults when you calculate expected further losses from now on?

Carsten Egeriis – CEO

Look, I think in general, we are very comfortable with our asset quality. We see a strong and diversified portfolio. And the real sort of problem areas, as you know, over the last has been in oil and gas, which is significantly de-risked and is a small part of our portfolio at this stage with a higher coverage. I do not see any concerned areas at this stage. Clearly, the biggest area if you will, is going to be in the hardest-hit corona parts of the book, so the hotel industry, the entertainment industry, where we are very well impaired and have very significant post-model adjustments. Clearly, we still wait to see what the outcome is of reducing government support schemes on that, but that is how I would answer that, Ricarddo. Does that answer your question?

Riccardo Rovere – Mediobanca

Yes, it does, and it is actually a very clear answer. If I may follow-up very, very quickly. Let us say if they took out measures and all of a sudden, the vulnerable sectors find themselves in trouble, do you not think they will reinstate the subsidies once again or the support measures once again? What is the point of not doing it?

Carsten Egeriis – CEO

My personal opinion is that the most likely scenario is a gradual weaning off of the government support, and therefore many SMEs and larger companies, but it is really mostly SMEs that are impacted, will have some time to regain and re-earn capital and therefore have an ability to repay the various different loan schemes and support schemes, but clearly there will be some that will be impacted. But I do not see that as a big asset quality issue for us.

Riccardo Rovere – Mediobanca

Thanks. Thank you very much. Very, very clear. Thanks.

Carsten Egeriis – CEO

Very good. Well, thank you all very much for your interest and your questions in Danske Bank, very much appreciated. As always, you are welcome to contact our Investors Relations department if you have more questions after you have had time to look at the financial results in detail. Thank you very much.