

Company announcement no. 11

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Increased customer activity and volume growth drive continually solid progress in core banking activities in a challenging operating environment
Net profit of DKK 4.6 billion for the first half of 2022

Carsten Egeriis, Chief Executive Officer, comments on the financial results:

“The first half of the year was characterised by high volatility in the financial markets and general economic turbulence, which have increased the uncertainty and operational complexity for our customers. Especially in hard times, customers need support from a strong bank, and we are determined to keep delivering that support to our customers when they need it, as visibility will most likely remain low, also because of the effects of the continuing, terrible war in Ukraine.

Our business and institutional customers continue to hold our offering and customer centric service model in high regard, while satisfaction among our focus personal customer segments in Denmark is on the rise, and customer activity remained robust for the first six months of the year. This resulted in volume growth across our business, and we see that our core banking activities continue to deliver solid progress with net interest income increasing for the sixth consecutive quarter, while underlying costs continue their downward trajectory.

Two years into our comprehensive transformation, we have laid the tracks for a profitable growth journey in the years ahead, as we are becoming increasingly efficient and focused in our activities while continuing to deliver solid progress with our sustainability agenda. Despite the need to drive down costs, ensure remediation of legacy issues and tackle headwinds from a challenging operating environment, in particular the adverse impact of the rapidly rising interest rates, the underlying business remains robust, and we remain committed to delivering on the targets with a strong belief in our long-term potential.”

First half 2022 vs first half 2021

Total income of DKK 19.1 billion (down 10%)

Operating expenses of DKK 12.8 billion (flat)

Impairments of DKK 426 million (against DKK 737 million in the first half of 2021)
 Net profit of DKK 4.6 billion (against DKK 5.9 billion in the first half of 2021)
 Return on shareholders' equity of 5.2% (against 7.0% in the first half of 2021)
 Strong capital position, with a total capital ratio of 21.3% and a CET1 capital ratio of 17.1%

Supporting customers in an uncertain environment

The first half of 2022 was marked by significant geopolitical events. The Russian invasion of Ukraine and the sanctions and counter-sanctions that have followed have caused renewed supply disruption and a further rise in inflation and energy prices. Consequently, we are seeing a more uncertain operating environment.

As a result of that, and fuelled by central bank rate hikes, we have in a short period of time moved from a remarkable economic recovery since the reopening of the economies last year to a weaker economic outlook. However, we still see a high level of activity and tight labour markets in the Nordic economies, which provides a solid cushion against the impact of a generally weaker economic outlook.

We feel confident that Danske Bank, as a well-capitalised financial institution with a high level of expertise and a diversified and agile business model, continues to be in a strong position to keep supporting our customers and societies in the uncertain times that lie ahead.

Commercial momentum with higher volumes

Despite the uncertain macroeconomic environment, we continued to deliver on our strategy execution and to support customers effectively. We see continued progress on our path towards becoming a better bank for all our stakeholders. The focus is on our core business with a clear aspiration to be the leading retail bank in Denmark, a true challenger bank for retail customers in the other Nordic countries, and a leading corporate and institutional bank across the Nordic countries. We continued to deliver solid progress on our sustainability agenda. We started offering more attractive home loans for energy improvements in Denmark, and in the corporate segment, we continued to be ranked number one among Nordic banks among arrangers of both sustainability-linked loans and sustainable bonds.

In the first half of 2022, we saw commercial momentum with higher volumes, as total lending increased 1% year-on-year, and resilient income streams owing to our diversified and more efficient business model. Our core banking activities continued to deliver good commercial progress with, among other things, strong lending growth at Large Corporates & Institutions of 24% year-on-year and deposit repricing leading to an increase of 4% in net interest income. Net fee income was resilient, as high customer activity supported activity-related fees and everyday banking fees at Large Corporates & Institutions, while capital markets activity was subdued.

Unfavourable financial market conditions, in particular the significant magnitude and pace of interest rate changes during the second quarter, had a negative effect on trading income and income

from insurance business. However, it is important to note that this 20-year event related to interest rates is not expected to further impact Danske Bank to the same degree. Trading income was negatively impacted by extraordinarily high volatility and lower liquidity in the Nordic fixed income markets, which created a challenging operating environment for providing market-making services that led to negative trading income in our fixed income at Large Corporates & Institutions. Our currency franchise, on the other hand, continued to see good demand from customers. Income from insurance was also negatively affected by the financial market turmoil in the first half of 2022. However, some of the effect was offset by the gain of DKK 415 million on the sale of Danica Norway.

Underlying costs continued to decrease, as we continued our efforts to become a more efficient bank. Operating expenses were, however, higher in the first half of 2022 than in the same period in 2021 due to continually elevated remediation costs and costs related to the Estonia case.

Loan impairments charges continued to be low, even given the deteriorating macroeconomic outlook and geopolitical uncertainty, underpinning the strong credit quality.

“Our core banking lines have shown continued commercial momentum, driven by customer activity and volume growth, while the uncertain macroeconomic outlook, question marks pertaining to the resilience of economic growth, and rising volatility in the financial markets had a negative impact on our other income lines. Our Business Customers unit continued the good traction from the beginning of the year, with good customer activity as societies reopened and a positive effect from repricing initiatives for deposits. Also personal customer activity remained high, with rising interest rates driving high remortgaging activity in Denmark. We saw an increase in demand for credit from our large corporate and institutional customers due to the challenging operating environment, which, however, also resulted in lower trading activity. The underlying cost base continued the downward trajectory, while costs remained impacted by the remediation of legacy issues. Continuing our commercial momentum while becoming a more efficient bank remains a priority,” says Stephan Engels, CFO.

Personal Customers

In the second quarter of 2022, Personal Customers continued to see progress and commercial momentum. Customer activity remained high, with higher interest rates driving high remortgaging activity in Denmark. However, inflation rates, higher energy prices and the war in Ukraine continue to impact the financial markets. This adversely affected assets under management and investment income, and resulted in a general slowdown in new lending as a result of a more subdued housing market. Profit before tax in the first half of 2022 amounted to DKK 1.7 billion, a decrease of 7% from the level in the same period in 2021. This was due to higher loan impairment charges, driven by macroeconomic developments, especially inflation. Total income increased 8% due to a one-off gain on the sale of the customer portfolio in Luxembourg as well as increased fee and trading income from higher customer activity following the reopening of societies, whereas the first half of 2021 was affected by lockdowns.

Business Customers

In the first half of 2022, Business Customers continued the good traction from the beginning of the year. Customer activity was supported by the reopening of the markets and societies in the Nordic countries following the discontinuation of COVID-19 restrictions. Lockdown in China, however, impacted the global supply of new assets, but fuelled income from the sale of existing assets in our leasing company. The rising inflation and interest rate levels continue to put pressure on the financial markets and create uncertainty for our customers. We are supporting our customers with help and guidance and, combined with the new service model that was implemented end of last year, this means that we are now even better equipped to match our customers' needs. Profit before tax in the first half of 2022 amounted to DKK 2.8 billion, an improvement of 36% from the first half of 2021. This was driven primarily by repricing initiatives for deposits as a result of the negative interest rates as well as higher income from the reopening of societies following the COVID-19 pandemic, combined with lower loan impairment charges.

Large Corporates & Institutions

In the first half of 2022, the operating environment became increasingly challenging, as rising inflation caused central banks to tighten monetary policy more and sooner than expected. Combined with an uncertain economic outlook, the demand for credit and risk hedging increased, and we supported customers with almost DKK 40 billion in additional lending. This demonstrates the value of our diversified business model, as higher net interest income helps mitigate the effect of lower net fee income from capital markets activities. The large repricing on the financial markets also led to extraordinarily high volatility and low liquidity in the Nordic fixed income markets, creating a challenging environment for providing market-making services and managing the risk held to support our debt capital markets franchise. We have continued to support our customers, but saw negative trading income in the second quarter as a result of losses in Rates & Credit. Notwithstanding the negative macroeconomic impact, we continue to see a positive underlying momentum, as illustrated by high growth in everyday banking fees, by our leading position in sustainable finance and by the inflow of new customers in Sweden. Profit before tax in first half of 2022 was DKK 2.2 billion, a decline from the same period last year as a result of significantly lower net trading income following losses in Rates & Credit in the second quarter.

Danica Pension

The turbulence in the financial markets during the first half of 2022, which was caused by the rise in inflation, the shortage of commodities and the rapidly rising interest rates, affected the financial performance of Danica Pension and thereby our customers' pension savings. The underlying business continues to develop positively, as more customers choose Danica Pension.

Northern Ireland

Underlying income performance is strong, and impairments remained low. UK central bank interest rates rose in the first half of 2022 in response to inflationary pressure, supporting an increase in net

interest income. However, increasing market expectations of future UK rate rises had a negative impact on trading income in the period.

Dividend for 2021

To ensure prudent capital management with a high degree of flexibility in light of the Estonia matter, the general meeting on 17 March 2022 adopted the proposal for an initial dividend payment of DKK 2 per share that was paid out in March. The remaining DKK 5.5 per share was intended to be paid out in three tranches following the publication of the interim reports in 2022, subject to a decision by the Board of Directors.

On 28 April 2022, the Board of Directors decided that Danske Bank would not pay out dividends in connection with the interim report for the first quarter of 2022, as Danske Bank had entered into initial discussions with U.S. and Danish authorities on the resolution of the Estonia matter. These discussions have not been concluded, and, consequently, the Board of Directors has decided that Danske Bank will not pay out dividends for 2021 in connection with the announcement of the interim report for the second quarter of 2022. Danske Bank is not yet able to reliably estimate the timing, form of resolution or amount of a potential settlement or fines, which is likely to be material, and will not comment on discussions with authorities.

Outlook for 2022

On 10 July 2022, we changed the outlook for 2022 to a net profit in the range of DKK 10-12 billion from DKK 13-15 billion as communicated earlier in the year.

Danske Bank

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