Financial results - first half 2022

Presentation for Q2 conference call

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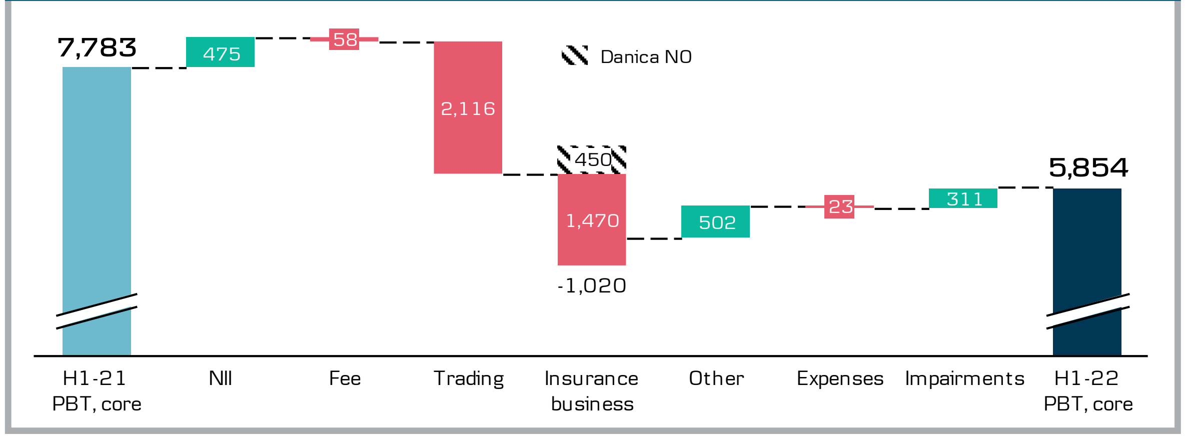
Danske Bank

H1 highlights – business momentum continues, despite turbulent conditions for rates business. Credit quality remains strong with limited impairments and healthy provisions

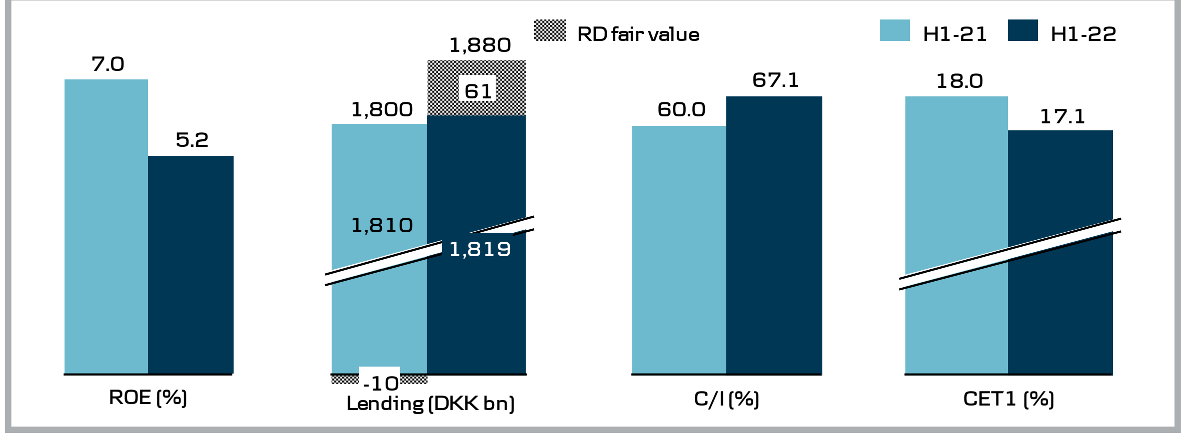
Highlights

- Despite the uncertain operating environment, we have continued to execute on our strategy and support customers, resulting in continued commercial momentum and underlying efficiency gains
- Core banking income supported by commercial momentum, and our resilient business model mitigated the impact from turbulent financial markets in certain areas of our business
- Fixed income business and certain investment products in Danica significantly impacted by rapid increase in interest rates
- Macro outlook and geopolitical uncertainty did not affect our customers significantly in H1, and loan impairment charges continued to be low, underpinning the strong credit quality with limited risky CRE exposures and PMAs in place across sectors
- The outlook for FY 2022 was revised on 10 July on account of the lower than expected financial markets related income in H1 and based on a modest recovery in H2, subject to financial markets conditions

Profit development H1-22 vs H1-21 (DKK m)



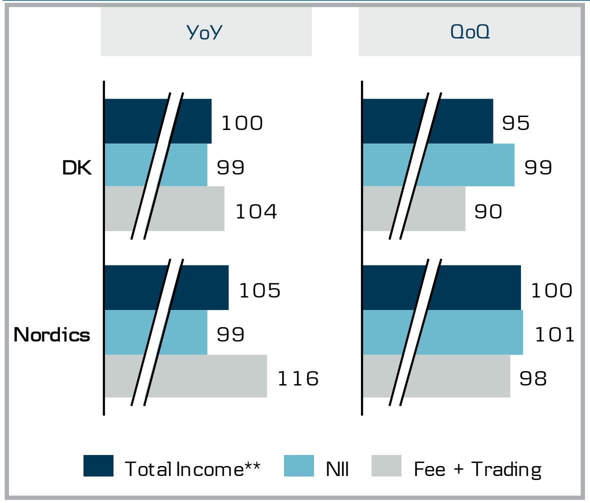
Financial metrics

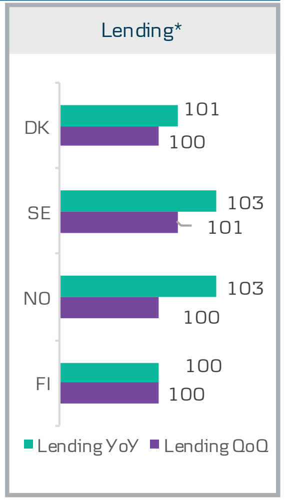


Business unit progress: Continued progress on our journey towards 2023 ambitions (1/2)

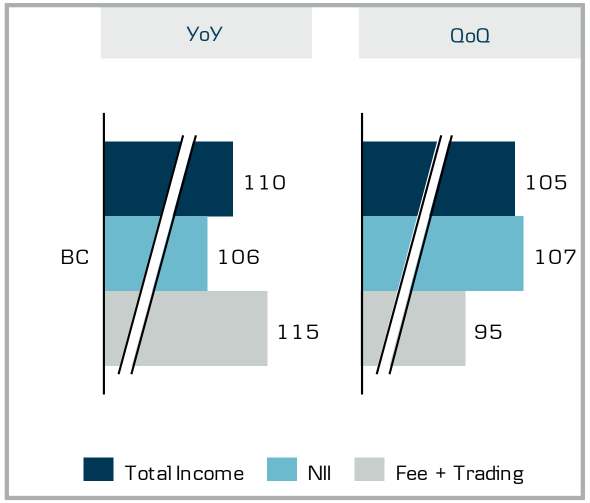
Key financial metrics

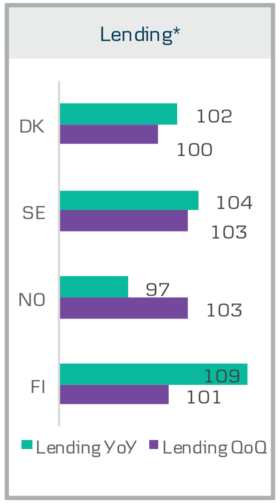
Personal Customers DK & Nordic





Business Customers





Key commercial highlights

Personal Customers DK & Nordic

- PC DK: Momentum in terms of regaining our fair share of the market for bank loans and customer flow continue to improve (15-25% less outflow over the last year)
- PC Nordic: Continued traction on lending in SE and NO, as well as enhanced profitability outlook for NO after extension of partnership agreement
- Despite financial market volatility, investment advisory meetings increased ~10% in Q2 and there is continually inflow into investment agreements
- Continued traction on increasing share of customers onboarded digtally to free up advisory time by digitalising day-to-day banking meetings

Business Customers

- Solid income uplift driven by both NII and fee
- Good momentum on lending volumes in DK and SE, both in which we captured market share on bank lending during 2022
- Expanded green product offering with the launch of new green loans, available for all business customers, within electric transportation, energy (solar and wind) as well as energy efficient buildings
- Activity through digital channels and self-service continues to increase and new third party solution for expense management implemented

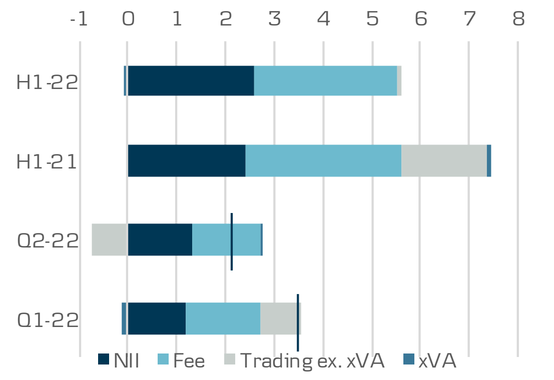
*In local currency and excluding fair-value effects in DK
** Total income adjusted for effects from the sale of DB Luxembourg

Business unit progress: Continued progress on our journey towards 2023 ambitions (2/2)

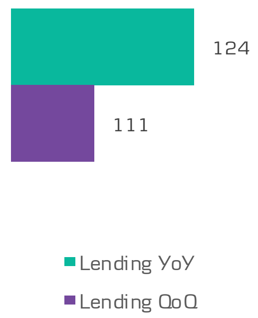
Key financial metrics (index)

LC&I

Income breakdown (DKKbn)



Lending General Banking



Business highlights

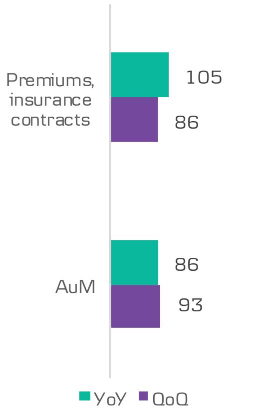
- Significant lending growth as we supported customers with credit since access to capital markets funding was limited as well as a successful strategic focus on institutional lending
- Tier 1 LC&I franchise underpinned by number one position in Merger Market M&A league table and number one in Bloomberg league table for arrangers of both sustainability-linked loans and sustainable bonds
- Slowdown in ECM activity and extraordinarily challenging financial markets conditions within fixed income
- Solid investment fee despite lower AuM from financial market turmoil

Danica Pension

H1 22/ H1 21 (DKKbn)

Q2-22/Q1-22 (DKKbn)

Premiums and AuM



- Underlying business develops positively as more customers choose Danica Pension, yet the financial performance of Danica Pension was negatively affected by the turbulence in the financial markets in the first half of 2022
- Negative investment results for life insurance products where Danica Pension has the investment risk primarily driven by valuation effects
- In the health and accident business, the underlying result was positively affected by a fall in claims of 25% over the last three years and improved recovery rates, driven by preventive efforts. However, the investment result decreased considerably from the level in the first half of 2021, which included a provision for pension yield tax of DKK 200 million

Income from core banking activities up 2% y-o-y driven by improved NII trend; trading and insurance income significantly impacted by rates; credit quality remain robust

Key points, H122 vs H121

- Net interest income uplift from deposit repricing initiatives implemented during 2021 and contribution from continually improving trend in lending volumes as well as recent rate hikes in Norway, Sweden and N. Ireland
- Fee income remained activity offset lower ECM activity and investment related fees
- Trading & insurance income significantly impacted by the rapidly rising interest rates, e.g. through valuation adjustments
- Stable cost development despite legal costs associated with the Estonia matter and a continually elevated level of remediation costs
- Strong credit quality continue to lead to single-name reversals while macro models and additional PMAs mitigate tail risk

Key points, Q222 vs Q122

- NII up q-o-q benefitting from recent rate hikes, as well as continued lending growth particular for corporate clients
- Fee income lower, driven mainly by seasonality effects (high refinancing in Q1) as well as reduced capital markets and investment related fees
- LC&I trading income and Danica impacted by adverse financial markets with significant impact from our rates business and in the investment result in Danica, as well as valuation adjustments
- Total expenses on par with Q1 despite additional remediation and legal costs, underpinning the progress improving underlying efficiency
- Strong credit quality led to continually low impairments despite added PMAs and additional adjustment of macro models as lending book, including potentially exposed industries, shows negligible impact of current uncertainties

Income statement and key figures (DKK m)

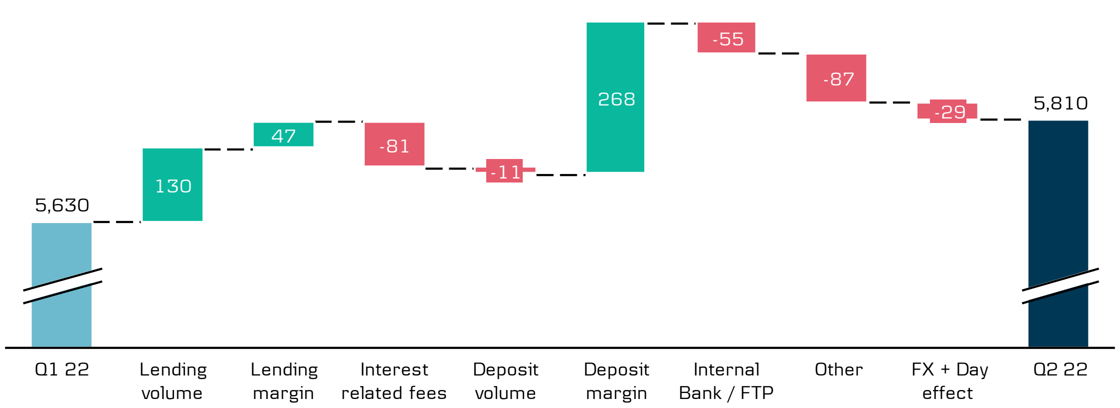
	H1 22	H1 21	Index	Q2 22	Q122	Index
Net interest income	11,440	10,965	104	5,810	5,630	103
Net fee income	6,537	6,595	99	3,157	3,379	93
Net trading income	175	2,291	8	-390	565	-
Net income from insurance business	-38	982	-	-122	84	-
Other income	959	457	210	291	669	43
Total income	**19,073**	**21,291**	**90**	**8,746**	**10,327**	**85**
Expenses	12,793	12,770	100	6,421	6,371	101
Profit before loan impairment charges	**6,280**	**8,521**	**74**	**2,325**	**3,955**	**59**
Loan impairment charges	426	737	58	192	234	82
Profit before tax, core	**5,854**	**7,783**	**75**	**2,133**	**3,721**	**57**
Profit before tax, Non-core	17	17	100	31	-14	-
Profit before tax	5,871	7,801	75	2,164	3,707	58
Tax	1,320	1,869	71	458	862	53
Net profit	**4,551**	**5,932**	**77**	**1,705**	**2,845**	**60**

NII: Positive volumes and improving credit demand coupled with full effect from repricing initiatives continue to support the improving NII trend

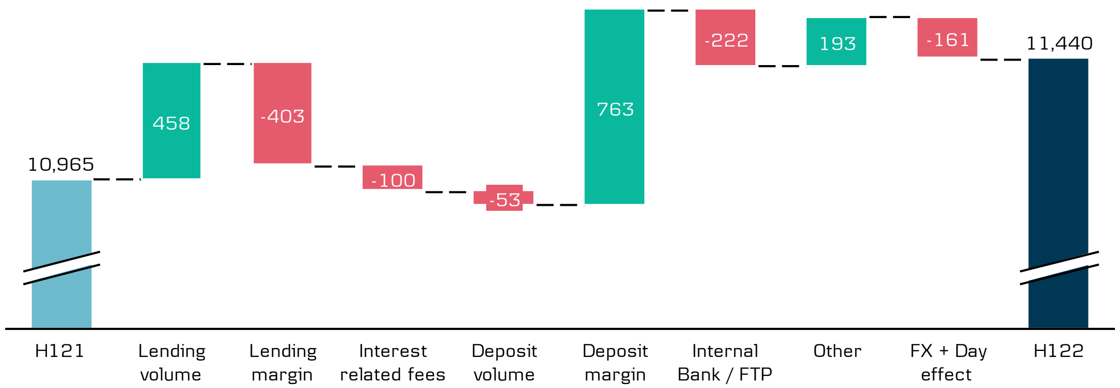
Highlights

- Net interest income continued the positive trend, supported by lending volumes which increased y-o-y across all Nordic segments. Additional effect from the implemented deposit repricing initiatives along with higher short-term rates provided further support for deposit margins
- Q-o-Q: Higher lending and effects from recent deposit repricing initiatives coupled with interest rate hikes support the positive trend, driven primarily by Northern Ireland and our corporate customers.

Net interest income, Q222 / Q1 22 (DKK m)



Net interest income, YTD-22 vs YTD-21 (DKK m)



Margin development (bp)

	Q320	Q420	Q121	Q221	Q321	Q421	Q122	Q222
PC lending	0.95	0.92	0.90	0.91	0.91	0.86	0.85	0.85
PC deposit	0.17	0.06	0.14	0.12	0.16	0.17	0.18	0.23
BC lending	1.14	1.15	1.14	1.13	1.11	1.12	1.12	1.15
BC deposit	0.46	0.34	0.34	0.31	0.36	0.38	0.40	0.48
LC&I lending	1.06	1.12	1.13	1.15	1.14	1.10	1.11	1.14
LC&I deposit	0.33	0.23	0.19	0.16	0.23	0.23	0.23	0.26

Fee: Fee performance remain strong in core banking activities, mitigating impact from lower AuM and financial markets headwinds

Highlights

Capital markets

- Y-o-Y: Excl. landmark ECM deal, income is largely in line with H1-21, despite conditions and slowdown in market
- Q-o-Q: Adverse financial market conditions have accelerated slightly QoQ.

Activity-driven fees / money transfers, accounts etc.

- Y-o-Y: Up 20% from continually strong trend for everyday banking services at LC&I & BC (FX and cash mngmt.) combined with continued strong general customer activity

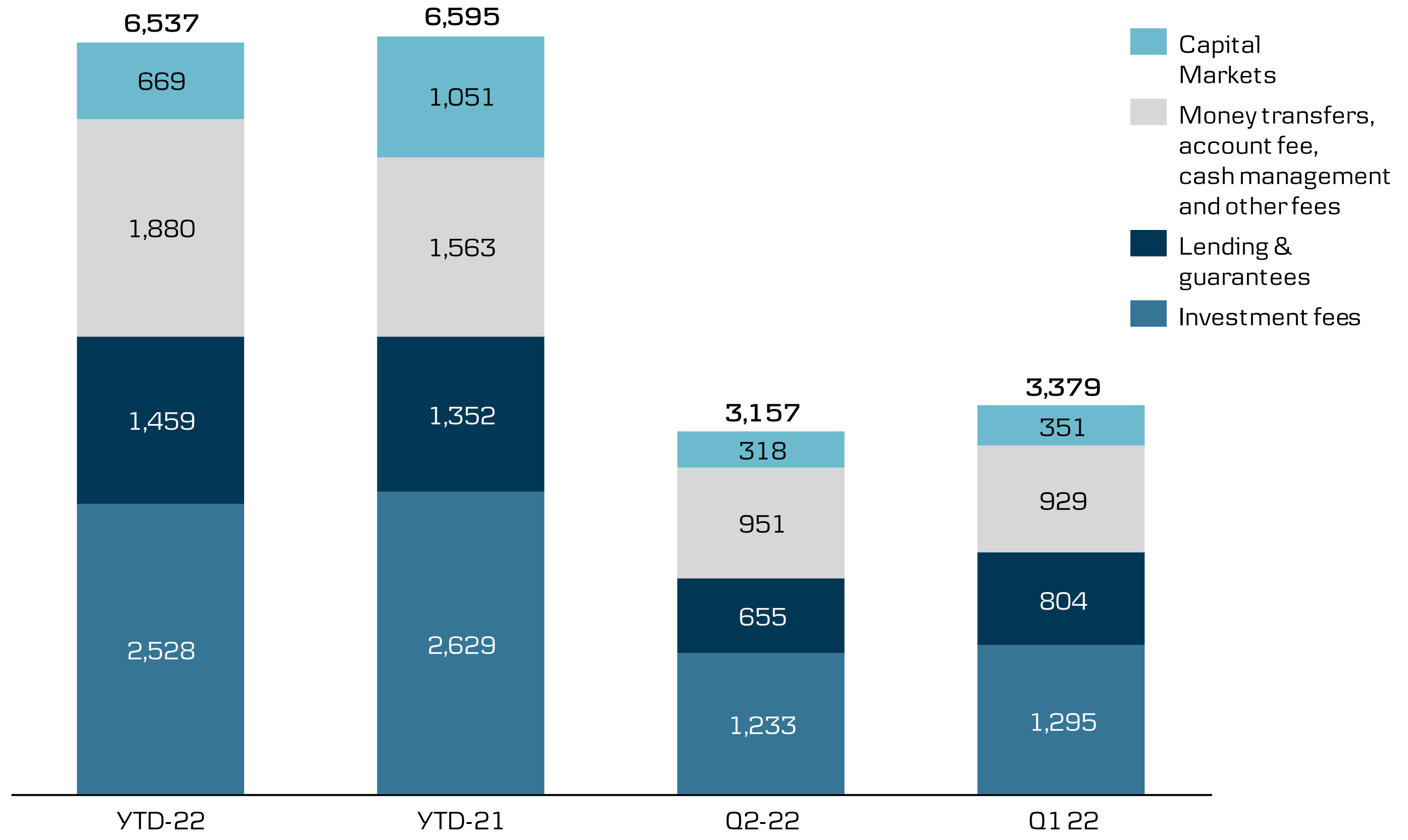
Lending and guarantees

- Y-o-Y: Up 8%, as the high level of remortgaging activity countered a slowdown in housing market
- Q-o-Q: -19% from a very strong Q1, where most of our refinancing activity happens

Investment fees

- Y-o-Y: Held up well despite lower asset under management and reduced investment appetite among our customers

Net fee income, YTD and QoQ



Trading: Continued support to customers through extraordinary fixed income market conditions; trading income negative in Q2, driven by losses in Rates & Credit at LC&I

Highlights

LC&I

- Extraordinarily high volatility, wider credit spreads and lower liquidity in core Nordic fixed income markets led to losses in fixed income market making inventory but also trading losses as spreads used for hedging widened
- Somewhat mitigated by higher income in Currencies

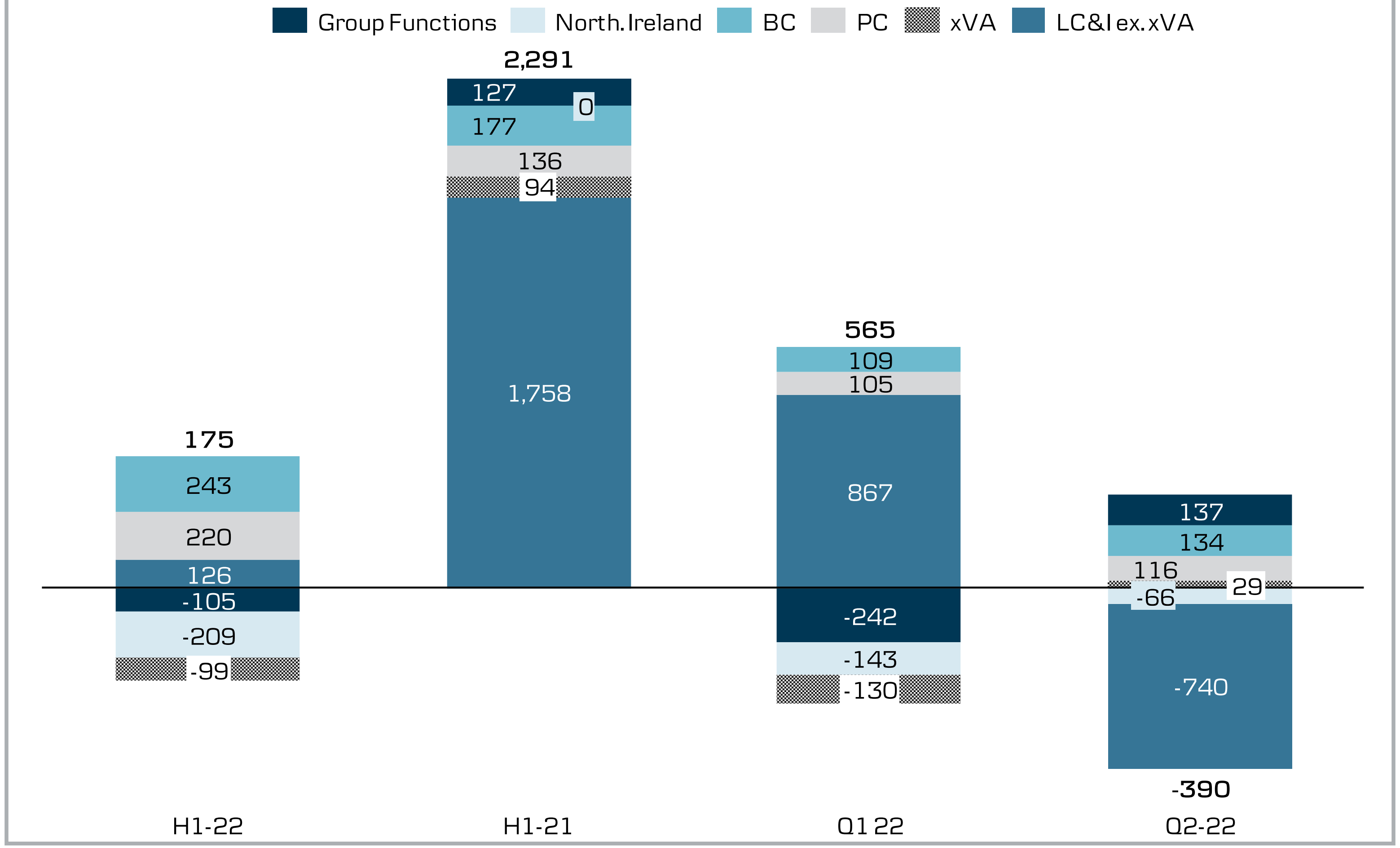
Northern Ireland

- Rate increases drove mark-to-market movements on the hedging portfolio

Group Functions

- Bond portfolios negatively affected by market value adjustments of Danish mortgage bond investments
- Note that H1-21 included a gain of DKK 0.2 bn related to the sale of shares in VISA

Net trading income (DKK m)



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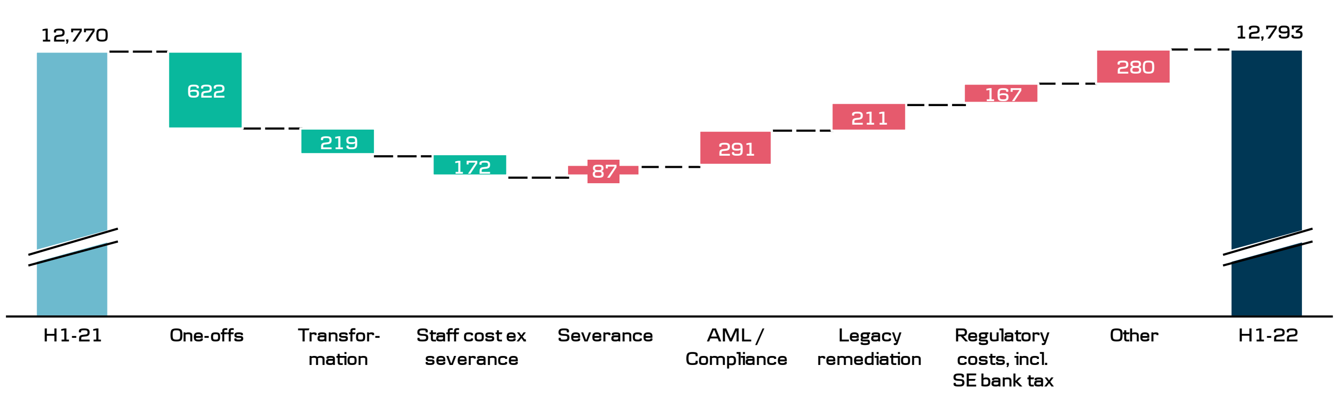
Expenses: Underlying progress on efficiency despite continually high remediation costs

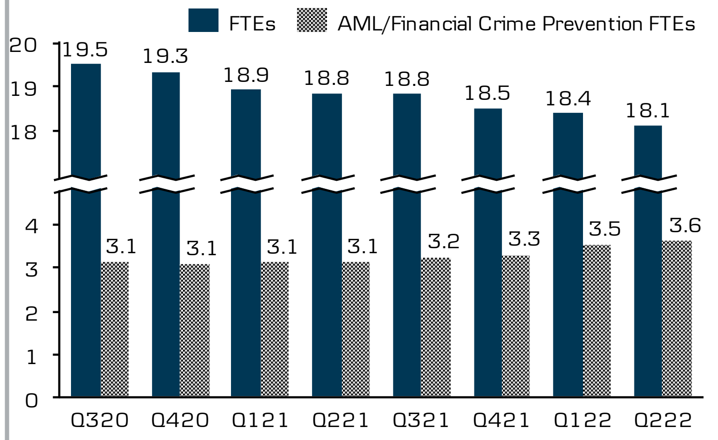
Highlights

- Progress on structural cost take-out despite ramp-up of AML/compliance and remediation work, as well as SE bank tax. Other costs up, due to a partly normalisation of travelling, higher amortisation costs, and IT expenses including one-off related to re-contracting
- Number of FTEs continued to decline. Adjusting for AML/FCP, FTEs are down 7% from peak in Q3 20, reflecting efficiency gains and underlying improvement
- Lower FTEs and underlying cost savings support trajectory towards 2023 target as the elevated remediation costs and legal costs etc. from 2022 are being reduced to more normalised level

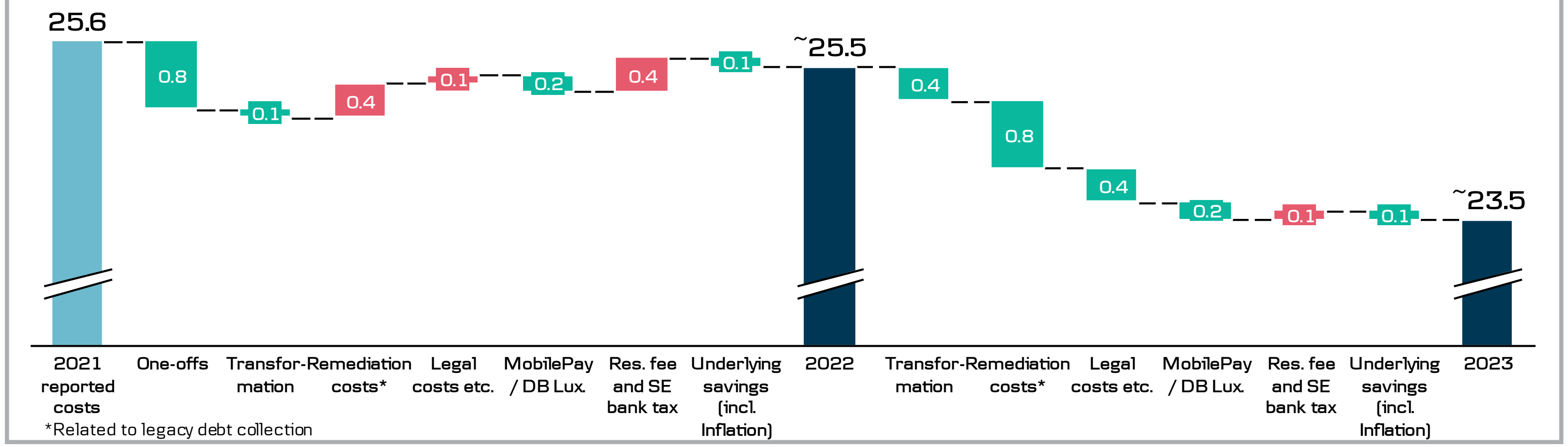
Expenses, H1-22 vs H1-21 (DKK m)



FTEs (#,thousand)



Expense trajectory towards 2023 (DKK bn)



*Related to legacy debt collection

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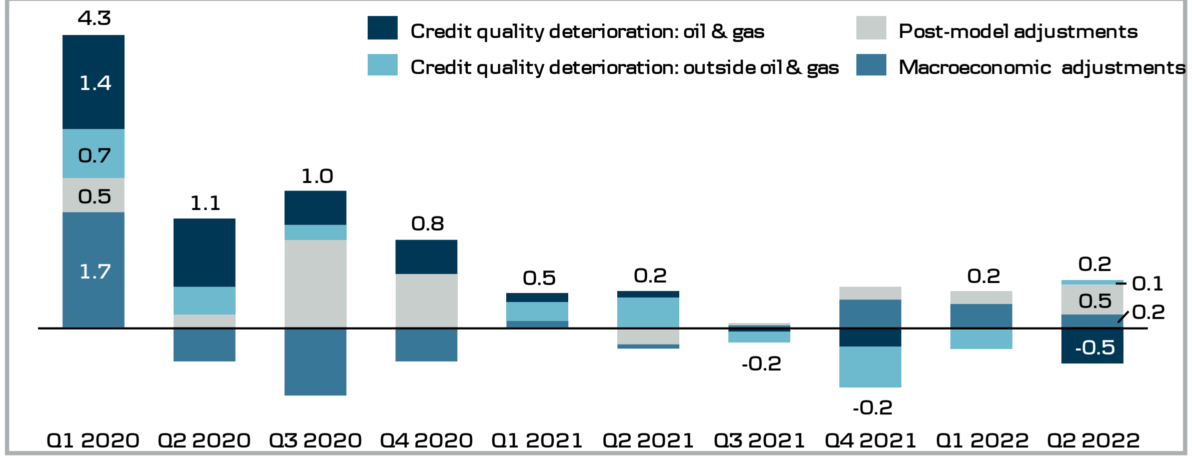
Impairments: Continually strong credit quality and prudent buffers in place; modest macro-charges albeit updated outlook

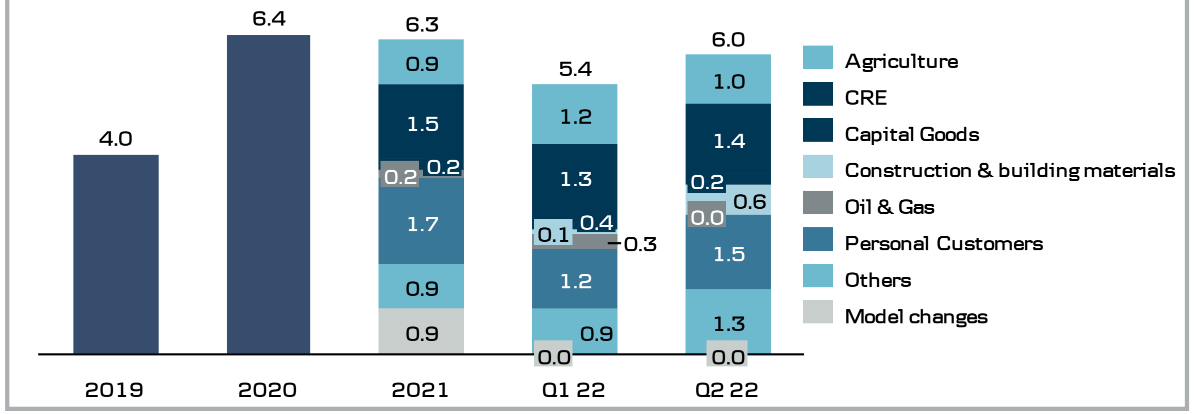
Highlights

- Credit quality remains strong with positive underlying trends
- Macro scenarios have been updated and additional PMAs put in place to reflect increasing downside risk from inflation and interest rates, resulting in modest charges due to the provisions already booked in Q4-21 and Q1-22
- PMAs now stand at DKK 6 bn with additional overlays related to exposures within construction and building materials. PMAs also include DKK 250m established in PC DK to account for potential lower recovery for debt collection legacy cases

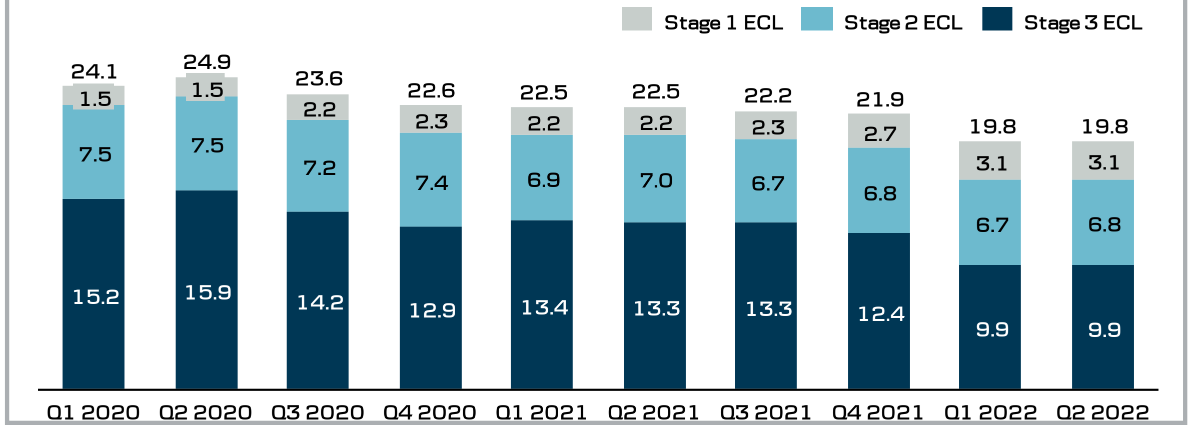
Impairment charges by category* (DKK bn)



PMAs



Allowance account by stages (DKK bn)

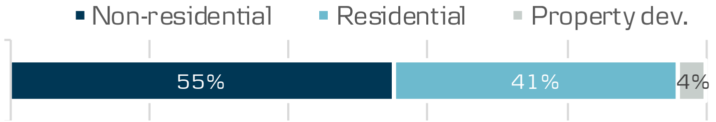


Overall strong credit quality in portfolios exposed to current macro developments

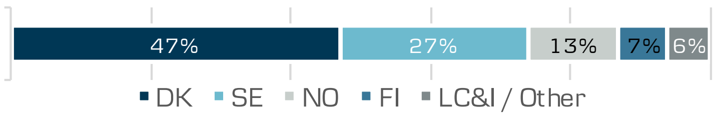
CRE: Generally low exposure to property development activities

DKK 301 bn in gross exposure and ECL ~1%

Segment gross exposure



Country gross exposure

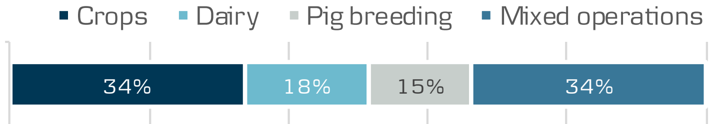


- Historical lending growth modest (-3% 3Y-CAGR in non-resi. since Q1-19, +3% in resi.) given caps and concentration limits within sub-segments and markets, as well as for single-names, limiting downside risks
- Due to our conservative approach, our SE exposure has remained stable, despite market growth, and book is well-diversified with lower concentration risk over the past years
- The group's credit underwriting standards maintain strong focus on cash flows, interest rate sensitivity, LTV and the ability to withstand significant stress.
- PMAs of DKK 1.4 bn made to cover uncertainties regarding the affect of rapid interest rate increases and macroeconomic situation

Agriculture: Well-provisioned agriculture book

DKK 66 bn in gross exposure of which 51% RD and average stage 3 coverage ratio of 81% in Nordics

Segment gross exposure



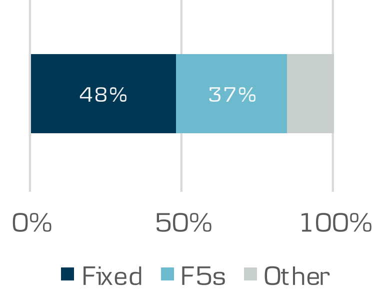
Country gross exposure

- The credit quality of the portfolio has improved over the past few years, recovering from legacy exposures from the financial crisis
- The current credit risk appetite takes into account the volatility of the sector and remains in place. Furthermore, the group maintains strong underwriting standards on LTV, interest-only loans and interest rate sensitivity
- Post-model adjustments of DKK 1 bn have been made for potential future portfolio detoriation due to uncertainties such as African Swine Fewer (ASF), Chinese imports and the RU/UA war

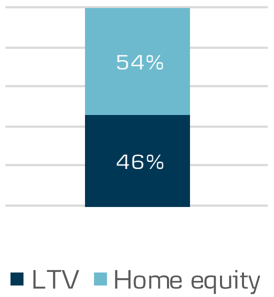
Retail customers: Strong household finances and mortgage back-book mainly fixed rates for +5 years

48% of RD back-book are fixed-rate mortgages, and of the variable rates ~70% are fixed for 5 years

RD back-book



Avg. LTV RD-retail



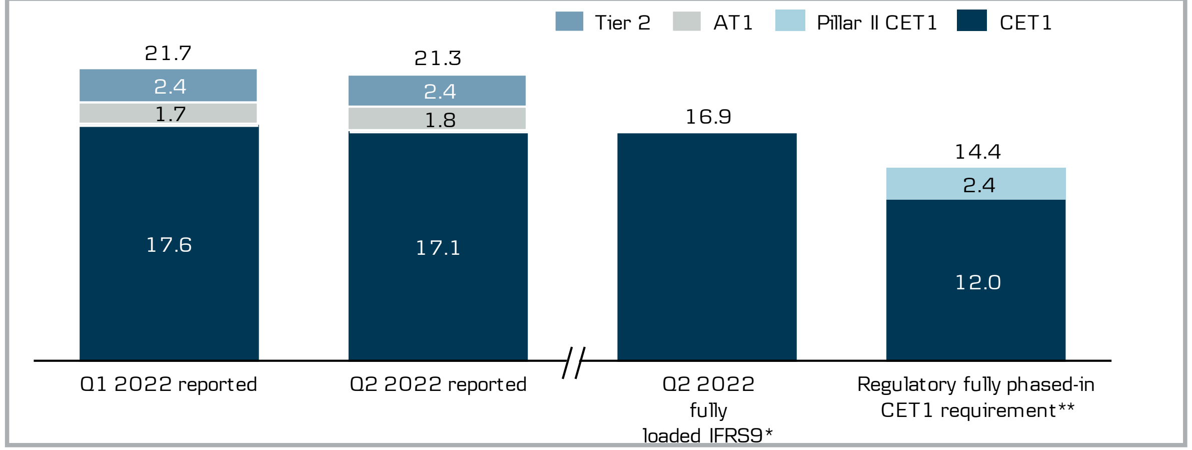
- Average LTVs have been decreasing over the past year supported by increasing house prices
- Affordability measures in general look strong, and both affordability and debt-to-income (DTI) levels remain stable overall
- Portfolio uncertainty risks are being mitigated by continuous monitoring and review of underwriting standards covering interest rate-related stress of affordability and other measures
- Low near-term refinancing risk on RD flex loans.
- Post-model adjustments related to personal customers total DKK 1.5 bn

Capital: CET1 ratio at 17.1%, resulting in a 450bps buffer to regulatory requirements

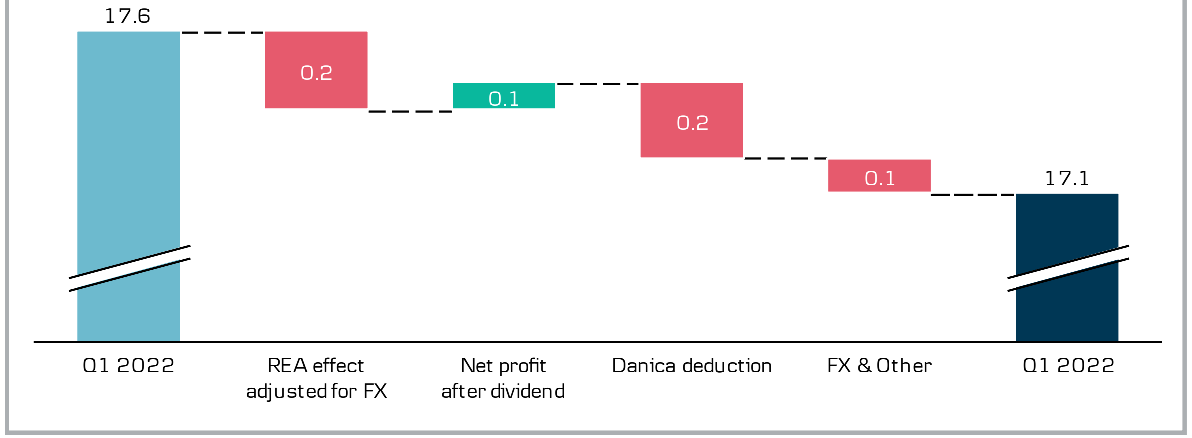
Highlights

- CET1 ratio decreased 0.5% as effect from net profit was offset by higher REA and an increase in the deduction for Danica
- The Group's total REA increased DKK 5 bn driven mainly by higher REA for market risk due to volatility in the financial markets, partly countered by lower REA for credit risk.
- During Q2, it was announced that the Swedish CCyB will be fully reactivated to 2% by the end of H1 2023
- The leverage ratio was 4.7% according to transitional rules and 4.7% under fully phased-in rules

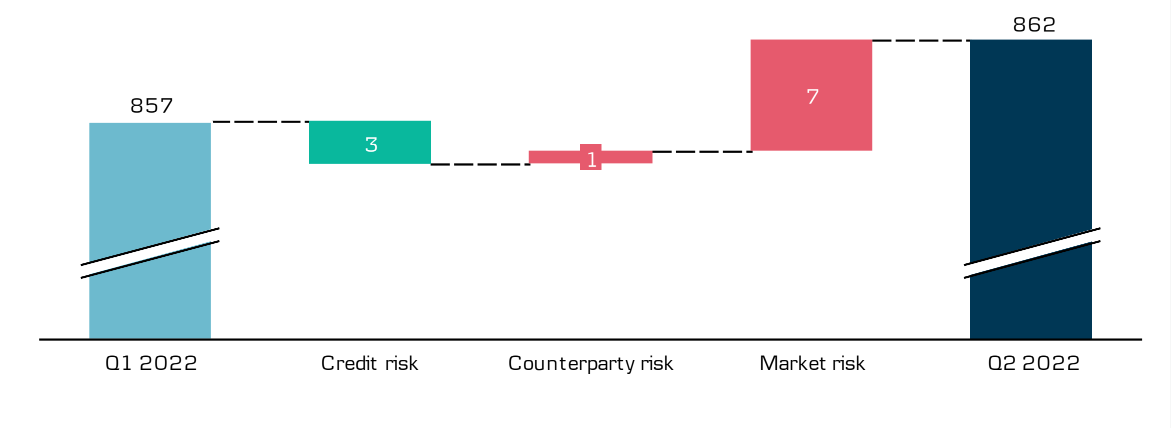
Capital ratios (%)



CET1 (%)



Total REA (DKK bn)



* Based on fully loaded impact on capital ratio from IFRS 9. ** Pro forma fully phased-in min. CET1 requirement of 4.5%, plus CET1 component of pillar II add-on and including combined buffer requirements consisting of capital conservation buffer of 2.5%, SIFI requirement of 3%, and countercyclical buffer of 1.8%.

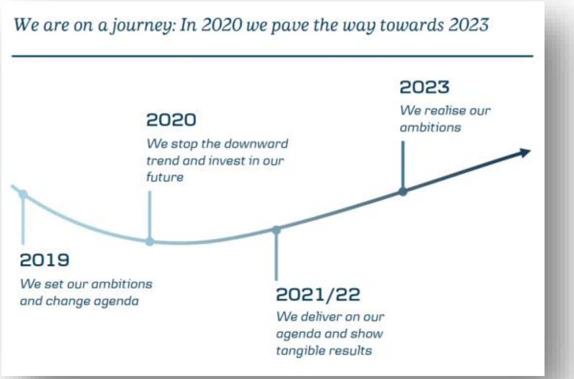
Net profit outlook for 2022*: We expect net profit to be in the range of DKK 10-12 bn, driven by volume growth and continued solid credit quality

Income	*Revised 10 July 2022*	We continue to expect income from core banking activities to be higher in 2022, as higher net interest income driven by good economic activity will more than offset lower capital market and investment related fee income. Net income from insurance business and trading activities are expected below normalized levels based on significant lower income in the first six month of the year and a modest recovery in income in the second half of the year subject to market conditions. The degree of uncertainty is higher than usual
Expenses	*Revised 10 July 2022*	We expect costs in 2022 to reflect continued focus on cost management and to be around DKK 25.5 billion due to sustained elevated remediation costs. The outlook does not include any effects from a potential settlement of the Estonia matter in 2022 and from alternative approaches in order to accelerate the timeline for the debt collection issue
Impairments	*Maintained*	Loan impairments are expected to be below normalised level, given our overall strong credit quality
Net profit*	*Revised 10 July 2022*	We expect net profit to be in the range of DKK 10-12 bn, including the gains from MobilePay, Danske Bank International and Danica Norway

* Note – The outlook is subject to uncertainty and depends on economic conditions.

Taking stock as we are approaching the final phase of the Better Bank plan; good traction towards our 2023 ambitions and 8.5 - 9% ROE target

2019: Inception



2021: Adjust plan on top of solid foundation

Our strong position in the corporate segments makes us well-positioned to execute on our commercial priorities. Key focus on regaining momentum within our retail business

		Foundation		Top commercial priorities	
~60% of current total income	Corporate	LC&I	Increasing momentum built up over past years; a leading position across Nordic debt and equity capital markets and as arranger of Green Bonds – even globally	Sustaining our strong momentum	by leveraging our market leading position and capitalising on the growing Nordic capital markets
		Business Customers	Good momentum; ancillary business trending upwards; strong digital offerings have enhanced our value proposition	Enhancing our momentum	by expanding digital offerings and servicing customers more efficiently, and improving sustainable offerings supporting their green transition
	Retail	PC DK	Proven digitalisation efforts and strong advisory offerings, but challenged brand and commercial momentum	Regaining momentum in the short term	by regaining fair housing market position and market share and building on momentum in the investment area
		PC Nordic	High-quality growth driven by new active target customers; potential for profitability uplift and improving cost to serve	Maintaining growth and improving profitability	through cross-sales building on optimised service models with enhanced digital offerings

Today

More robust and efficient organisation

- ✓ Invested in strengthening the control environment: Currently +4,000 FTEs allocated towards Compliance/FCP and DKK ~10bn accumulated spend for FCP since launch of Better Bank agenda
- ✓ FTEs ex. FCP trending down ~1,400 FTEs down vs 2020 peak
- ✓ More efficient development; +60% more software deployments vs 2020 with fewer FTEs

Enhanced commercial focus and strong underlying business momentum

- ✓ Trend shift in Danish retail business and improved profitability in the Nordic countries
- ✓ Continually strong CSAT among LC&I customers and traction on SME offerings to both complex needs and digital mass-market needs
- ✓ Adjusted commercial organisation accelerating a strengthening of segment-specific value chains

Strong platform and continued momentum within sustainable finance

- ✓ Well under way towards our ambition of being a leading player within sustainability, underpinned by our strong position in league tables, enhanced advisory capabilities and new products
- ✓ We continue to set and execute according to ambitious targets; targets in place for high-emission sectors, which make up two-thirds of total financed emissions

Danske Bank

Danske Bank

We have the foundation

We have invested in our operational setup

We are ready to deliver sustainable value creation

Q&A session

Press 01 to ask a question
Press 02 to cancel

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