

Company announcement no 6/2023

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**Solid business performance and strong credit quality lead to
further progress in core banking activities
Net profit of DKK 10.2 billion for the first half of 2023
2023 net profit outlook revised upwards
Now expects a net profit of DKK 18.5-20.5 billion, against previously 16.5-18.5 billion**

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

“In the first half of the year, we improved our profitability and continued to make progress towards meeting our ambitions for 2023. The solid increase in total income of 34% was driven mainly by strong net interest income and a significant improvement in net trading income. Net fee income decreased due to the general slowdown in the housing market and uncertainty in the financial markets, while costs remained stable and loan impairments remained at a very low level on the back of continually strong credit quality.

Through a successful execution of our Better Bank strategy, we have created a strong foundation for remaining the market’s most attractive financial partner for our customers across all segments. We are pleased to see that customers increasingly recognise our enhanced service models, which is reflected in both internal and external customer satisfaction surveys. To strengthen this position further and unleash Danske Bank’s full potential, we recently announced our new Forward ’28 strategy and financial targets for 2026. With the new strategy, we are raising the bar by setting new ambitions and committing to making significant investments in our customer offerings within digital platforms, expert advisory services and sustainability.

I am happy that we can now resume capital distribution in the form of dividend, which is in line with our announcement at our recent Investor Update. On the basis of the net profit of DKK 10.2 billion for the period, the Board of Directors has decided to distribute a dividend of DKK 7 per share, which represents a pay-out ratio of 59%.”

H1 2023 vs H1 2022

Total income of DKK 25.6 billion (against DKK 19.1 billion in the first half of 2022)

Operating expenses of DKK 12.6 billion (against DKK 12.8 billion in the first half of 2022)

Loan impairments of DKK -28 million (against DKK 426 million in the first half of 2022)

Net profit of DKK 10.2 billion (against DKK 4.5 billion in the first half of 2022)

Return on shareholders' equity of 12.4% (against 5.2% in the first half of 2022)

Strong capital position, with a total capital ratio of 22.4% and a CET1 capital ratio of 18.1%

Supporting customers on the basis of a strong capital position

In the current macroeconomic landscape, our solid financial results, well-capitalised balance sheet and strong liquidity position continued to allow us to help our customers and other stakeholders navigate the macroeconomic and operating uncertainty by providing expert advisory services and credit.

Our underlying business is strong, our treasury asset and liability management is prudent, and our capital and liquidity positions continue to be strong, with significant buffers well above the regulatory requirements.

Solid core banking performance

Throughout the first half of 2023, the commercial momentum has been positive across our core banking business.

Net profit increased to DKK 10.2 billion as a result of significant increases in net interest income, net trading income and income from insurance business. The increase in net interest income was due primarily to repricing actions and income from deposits driven by the rise in market rates, while net fee income was down 13%, impacted by lower assets under management (AuM) and by lower activity in the housing market.

Operating expenses benefited from currency developments, with the effect being partly offset by inflation. Underlying expenses continued to develop according to plan. Loan impairments in core business segments remained low overall in the first half of 2023, amounting to a net reversal of DKK 28 million and reflecting continually strong credit quality.

“Our core banking activities continued to deliver commercial progress in the first half of the year. We improved profitability, primarily through higher income from deposits as a result of the margin expansion and our repricing actions, while net trading income recovered significantly from the low level in the first half of 2022. The solid financial performance should be viewed in light of headwinds from currency depreciation. Furthermore, underlying expenses continued to develop according to plan, despite elevated remediation costs and the higher inflationary pressure, leading to a cost/income ratio of 49% for the period. Credit quality remained strong, with a low level of actual loan impairments so far this year, along with reversals owing to workout activities and a better-than-anticipated macroeconomic environment,” says Stephan Engels, CFO.

Preparing shift from Better Bank execution to focus on Forward '28 strategy

We are in the last six months of our Better Bank transformation cycle, we see continued progress on our ambitions towards customers, employees, shareholders and society. Our efforts to become a simpler bank are exemplified, for instance, by our customers finding it easier to choose the product that best suits their needs. We are now also reaping the benefits of rigorously redesigning governance and processes related to bringing new products to market, reducing the time-to-market and making the organisation more agile in responding to changing customer needs.

During the first half of 2023, we took several important steps to advance our sustainability agenda, including the launch of our Climate Action Plan and the inclusion of sustainability as one of the strategic themes in our Forward '28 strategy. Our commercial momentum recently benefited, for instance, from campaigns for homeowners get financing for energy improvements and recognition by the Danish Consumer Council for one of the market's best loans for electric cars.

Supported by our continued commercial momentum, strong capital position and ongoing efficiency improvements, we remain fully committed to our updated 2023 financial targets, while we at the same time prepare to shift our focus to delivering on our Forward '28 strategy.

As part of Forward '28, we announced our ambition to be a leading bank in a digital age. To support us in this digital and technology transformation, we recently entered into a strategic partnership to sell Danske IT to Infosys. This is part of our plan to streamline the organisation, become more focused and apply our resources where we are the strongest, and it means that although a large part of our IT support function will be operated by Infosys, we will keep the required IT competencies close to our business.

Personal customer business in Norway

Following the Forward '28 strategy announcement in June, we have entered into an agreement to sell our personal customer business in Norway to Nordea, as announced on 19 July 2023. The sale of the personal customer business includes the management of 15 Danske Invest Horisont funds, which are primarily distributed to personal customers in Norway. The transaction is subject to regulatory approvals. Pending these approvals and preparation of the transfer of the customers, the transaction is expected to close in the fourth quarter of 2024.

Personal Customers

In the first half of 2023, Personal Customers saw an increase in net interest income of 81% from the same period last year, mainly as a result of repricing actions and higher income from deposits that was driven by market developments. Although there have been small signs of improvement on the housing market and more optimism on the financial markets, we have seen only initial signs of a pick-up in activity. Profit before tax in the first half of 2023 amounted to DKK 3.6 billion, an increase of 109% from the same period in 2022 that was driven by higher net interest income and lower operating expenses due to a reduction in the number of FTEs. Following the announced exit plan for our personal customer portfolio in Norway, a provision of DKK 694 million was made in

the second quarter of 2023. Credit quality remained solid, but due to the macroeconomic outlook, loan impairment charges increased to DKK 478 million.

Business Customers

Business Customers continued to benefit from slightly better market conditions. Profitability increased, driven primarily by higher income from deposits that was a result of repricing actions and the rise in market rates. We saw growth in lending volumes across markets. Despite small improvements in the economy and more stability on the financial markets, customer activity remained somewhat subdued, which affected activity-driven fees and fees from new lending. We continued to support our customers in navigating through these challenging times with expert financial advisory services and continued to see high customer satisfaction. In the first half of 2023, profit before tax amounted to DKK 5.0 billion, an improvement of 77% from the level in the same period in 2022.

Large Corporates & Institutions

During the first half of 2023, market volatility decreased, but risks remained, stemming from an uncertain monetary policy outlook, sticky inflation and tight labour markets. We maintain a close dialogue with our customers and support them with advisory services and credit and risk management solutions, and we are proud to be strategically well positioned to meet the increased demand arising from the sustainable transition. We continue to see a positive underlying momentum with a robust credit portfolio and improved activity in Capital Markets. Moreover, with an increasing market share in cash management services – exemplified by new house bank mandates across all Nordic countries – and with a continued inflow of new customers in Sweden, we continued to see growth in net interest income. In addition, we are proud to have maintained our leading position in sustainable finance, arranging more green bonds for European borrowers than any other arranger in the first half of 2023. Profit before tax amounted to DKK 5.0 billion, an increase of 125% from the same period last year, due primarily to higher net trading income and net interest income.

Danica Pension

In the first half of 2023, the financial markets were overall more stable and positive than in the tumultuous 2022. However, the optimistic start to the year was affected by instability in the global financial sector following a liquidity crisis among a number of US and European banks. The financial markets have since stabilised, and this favoured our customers' pension savings. Net income at Danica Pension amounted to DKK 689 million in the first half of 2023 and recovered from the level in the same period in 2022, as the net financial result improved due to the positive developments in the financial markets.

Northern Ireland

Our focus in Northern Ireland is on remaining a stable, strong and risk-astute bank, consolidating our market-leading position in Northern Ireland alongside pursuing prudent low-cost growth opportunities in the rest of the UK. This is supported by a continually strong income and profitability performance, with profit before tax of DKK 941 million in the first half of 2023.

Dividend

Based on our strong performance in the first half of 2023 and our strong capital position at the end of the period, the Board of Directors has approved an interim dividend of DKK 7 per share, corresponding to 59% of reported net profit for the period.

The payment of the dividend will take place on 26 July 2023 with ex-dividend on 24 July 2023. Danske Bank's dividend policy remains unchanged, targeting a dividend payout of 40-60% of net profit. Danske Bank has strong capital and liquidity positions, and the Board of Directors remains committed to our capital distribution policy.

Outlook for 2023

The outlook for 2023 is revised upwards to a net profit in the range of DKK 18.5-20.5 billion, including the impact of the new Danish bank tax and further positive tax-related one-offs. At the release of our upward adjustment on 13 April 2023, we guided for a full-year 2023 net profit in the range of DKK 16.5-18.5 billion.

We expect net interest income to continue to grow on the basis of the announced central bank rate hikes and our commercial momentum, while fee income is expected to be below the level in 2022. Trading income is expected to be impacted by the release of a loss of DKK 0.8 billion from Other comprehensive income on the CET1 FX hedge related to the sale of our personal customer business in Norway which is subject to regulatory approval. Income from insurance is expected to be lower than the normalised level due to negative valuation effects and higher claims.

We expect costs in 2023 to be in the range of DKK 25-25.5 billion, reflecting our focus on cost management and despite the inflationary pressure. The outlook includes continually elevated remediation costs for approximately DKK 1.1 billion.

We expect loan impairment charges of up to DKK 1.5 billion due to continually strong credit quality, recoveries in the first half of the year and lower-than-expected impact in the first half from model-driven charges related to weaker macroeconomic outlook.

The outlook is subject to uncertainty and depends on volume growth and macroeconomic conditions.

Danske Bank

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