

Press release

Holmens Kanal 2 - 12
DK-1092 København K
Tel. +45 45 14 14 00

30 April 2020

Good developments in the underlying business with continued lending growth but lower result as coronavirus pandemic affected impairments and net trading income.

Net loss of DKK 1.3 billion for the first quarter of 2020.

We now aim for a net profit for 2020 of at least DKK 3 billion.

Danske Bank has announced its financial results for the first quarter of 2020.

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

“The first two months of 2020 showed good momentum in the underlying business, with solid customer activity and lending growth in most markets. However, the coronavirus pandemic impacted the results significantly towards the end of the quarter. The key drivers were impairments made mainly because of the assumptions of a worsened macroeconomic scenario, the decline in oil prices and charges against exposure to certain sectors. We also saw the highly turbulent markets result in extraordinarily low trading income. Danske Bank continues to be one of the best-capitalised banks in Europe, which puts us in a good position to continue to support our customers through the downturn with a broad range of initiatives, and this remains our key priority. Our more than 20,000 colleagues have done a tremendous job keeping the bank fully operational and serving our customers while working from home, and we also continued to make real progress on our plan to become a better bank for all our stakeholders.”

The interim report is available at [danskebank.com](https://www.danskebank.com). Highlights are shown below:

First quarter 2020 vs first quarter 2019

Danske Bank posted a net loss of DKK 1.3 billion for the first quarter of 2020, against a net profit of DKK 3.0 billion for the same period in 2019. The first months of the quarter benefited from good developments in the underlying business with lending growth in local currency at Banking Nordic and good remortgaging activity in Denmark. The loss was caused primarily by a considerable increase in loan impairment charges that was directly related to the outbreak of the coronavirus pandemic late in the quarter and a decline in net trading income caused by the turbulence in the financial markets.

The increase in impairments is the result primarily of a timely approach and adaptation to the macroeconomic and sector effects of the coronavirus pandemic.

The return on shareholders' equity was -3.8%, against 7.7% in the first quarter of 2019.

Total income amounted to DKK 9.6 billion, a decrease of 11% from the level in the first quarter of 2019 that was caused mainly by lower net trading income. Net interest income remained at a good level, while net fee income rose:

- Net interest income amounted to DKK 5.5 billion. The decline of 1% from the level in the first quarter of 2019 was the result primarily of currency effects as well as margin pressure and increased demand for longer-term mortgage loans.
- Net fee income amounted to DKK 3.7 billion, up 3% from the year-earlier level, due primarily to the good remortgaging activity in Denmark in the first part of the quarter when interest rates were declining.
- Net trading income amounted to DKK 291 million, a decrease of 82% from the level in the first quarter of 2019. The decrease was caused by the turbulence in the financial markets, which adversely affected the financial results of both Corporates & Institutions and Danica Pension. In addition, net trading income was also affected by negative developments in value adjustments of the derivatives portfolio at Corporates & Institutions.

Operating expenses amounted to DKK 6.8 billion, an increase of 10% from the level in the first quarter of 2019. This was due mainly to the planned upstaffing within compliance and AML throughout 2019. Other costs for regulatory compliance and investments to combat financial crime as well as costs for the Estonia case also contributed to the increase.

Loan impairments driven by model changes

Loan impairment charges amounted to DKK 4.3 billion for the first quarter of 2020, against a charge of DKK 0.4 billion for the first quarter of 2019. Impairments of DKK 3.9 billion made in the first quarter of 2020 were related directly to the coronavirus pandemic, the subsequent economic downturn and the significant decline in oil prices.

Impairments were driven by three factors:

Firstly, changes were made to the model assumptions used for calculating expected credit losses. The model is now based on a base scenario that reflects a decline in economic activity in 2020 followed by a recovery in 2021. Secondly, sector-wide impairments have been recognised against exposures to highly-affected industries such as leisure, hotels and transportation as well as oil and gas. Thirdly, for non-performing loans with ongoing restructuring, particularly in the oil & gas industry, the drop in oil prices led to higher impairments.

Prior to the outbreak of the coronavirus pandemic, loan impairments were in line with the previous impairment trend and our expectations.

Total lending was down 2% from the level at the end of 2019. The decrease was due mainly to negative currency effects as the Norwegian krone and Swedish krona both depreciated vis-à-vis the Danish krone. Banking Nordic saw lending growth in all market areas. Total deposits were up 3% from the level at the end of 2019.

Developments at business units

Banking DK posted a profit before tax of DKK 0.6 billion, a decrease of 58% from the same period last year. Loan impairment charges increased significantly, reflecting changes in the economic outlook due to the coronavirus pandemic. Furthermore, continued margin pressure and increases in costs for regulatory compliance and investments to combat financial crime adversely affected the result. However, these effects were partly offset by stronger remortgaging activity among retail customers.

Banking Nordic delivered a profit before tax of DKK 0.2 billion – a decline of 83%. This was due to a significant increase in loan impairments of DKK 1 billion from the level in the first quarter of 2019 due to the outbreak of the coronavirus pandemic. However, profit before loan impairment charges was DKK 1.2 billion, an increase of 2% from the level in Q1 2019. The increase was the result of the growth strategy and a benign interest rate environment, especially in Norway.

At **Corporates & Institutions**, profit before tax was negative by DKK 1.9 billion for the first quarter of 2020 as the result of significantly higher loan impairment charges and lower trading income in FI&C and Equities. The macroeconomic environment saw a significant negative impact from the coronavirus pandemic, which in March led to unprecedented market volatility. This also meant that we saw a surge in corporates asking for short-term liquidity facilities along with a strong increase in the need for risk hedging.

Wealth Management posted a profit before tax of DKK 0.2 billion, a decrease of 70% from the level in the first quarter of 2019. Net fee and net trading income were significantly impacted by the negative development on the financial markets due to the coronavirus pandemic.

At **Danske Bank Northern Ireland**, profit before tax was DKK 49 million, 78% lower than in the year-earlier period. The decline was driven by loan impairments made as a result of the coronavirus pandemic. Profit before loan impairment charges was up 1% from the level in the same period last year as lending in local currency grew.

Strong capital position

Danske Bank continues to have a strong capital position, with a total capital ratio of 22.3%, and a CET1 capital ratio of 17.6%. This is in line with the Group's target of a CET1 capital ratio of above 16% in the short term and a total capital ratio of above 20%.

Danske Bank is thus well prepared for supporting our customers during the present crisis.

Initiatives to support our customers during the crisis

As Denmark's largest bank and a significant financial institution in the other Nordic economies, we recognise that we play a vital role in minimising the damage the coronavirus pandemic is causing to society, and we are doing our utmost to help our customers through these challenging times. We will continue to support the Danish economy by providing financial support to retail and commercial customers affected by the crisis. This approach also applies to our Nordic markets and Northern Ireland.

The initiatives taken by Danske Bank across markets include deferred payments, new or extended overdraft and credit facilities, bridge financing, interest-only loans, raising the threshold for the charging of negative interest on deposits and many other actions.

Financial outlook for 2020

The uncertainty connected with the economic situation and the impact of the coronavirus pandemic meant that on 16 March, we suspended our financial outlook for 2020.

As uncertainty as a result of the impact of the coronavirus pandemic prevails, the uncertainty related to our guidance is also higher than usual, reflecting the limited visibility for the macroeconomic situation and developments in the financial markets.

On that basis, we now aim for a net profit of at least DKK 3 billion. This represents our best estimate based on a timely assessment of the current situation and the likely impact on our business for the rest of the year.

The outlook is subject to uncertainty and depends on economic conditions, including developments in monetary policy at central banks.

Danske Bank

Contact: Stefan Singh Kailay, Head of Group Press, tel. +45 45 14 14 00

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