

Company announcement no. 9 2021

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**Customer activity and strong capital markets performance drive progress
together with cost focus and strong credit quality**
Progress towards full profitability potential. Return on equity expected to be 8.5-9% in 2023
Net profit of DKK 9.3 billion and return on equity of 7.3% for the first nine months of 2021

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

“In the first nine months of 2021, the positive development in our business was driven primarily by good customer activity within our corporate and institutional segments as the leading Nordic bank on many fronts, resulting in an increase in total income. Together with our customers and society, we have weathered a pandemic, while still investing in our future. We continued our automation and digitalisation efforts to create better customer journeys, while we saw increased profitability, especially at our Personal & Business Customers business. Total costs continued to decrease as all of our initiatives to become a more efficient bank continued to deliver. Together with strong credit quality, this resulted in our profitability increasing and a return on equity of 7.3%.”

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

“We continue to build a resilient and diversified business with an improved trajectory for both income and costs. However, we have had to adapt to significant challenges over the past two years, and we now have more line of sight of our commercial challenges within retail banking, and the prolonged investments in strengthening our compliance and remediation efforts, leading us to adjust our financial targets for 2023 as we focus on securing a strong, sustainable business beyond that point.”

First nine months of 2021 vs first nine months of 2020

Total income of DKK 31.5 billion (up 4%)

Operating expenses of DKK 18.9 billion (down 2%)

Impairments of DKK 587 million (against DKK 6.3 billion in the first nine months of 2020)

Net profit of DKK 9.3 billion (against DKK 3.1 billion in the first nine months of 2020)

Return on shareholders' equity of 7.3% (against 2.3% in the first nine months of 2020)

Strong capital position, with a total capital ratio of 23.4% and a CET1 capital ratio of 18.1%

The roadmap towards 2023

Two years ago, we set out an ambitious plan, and we are making solid progress with all of our 2023 ambitions. We have fundamentally transformed and modernised our development organisation, put our cost base on the right trajectory and launched a comprehensive Financial Crime Plan, which is already showing results from a quality and efficiency point of view.

Strong advisory services, innovative digital solutions and relevant products for all of our customers are at the core of our business. We are steadily growing our Nordic retail activities. We have a strong value proposition for business customers. And we already have extensive commercial momentum within capital markets activities, while also being a leader within sustainable finance on a global scale.

We confirm that in a normalised state, our business model can deliver on our financial ambitions of a cost/income ratio in the low 50s and a return on equity of 9-10%. Adjustments are, however, necessary due to the significant headwinds we have faced in the past two years in the form of increased competition, continuous margin pressure, a more extensive compliance scope and remediation work resulting in image challenges affecting especially our retail business in Denmark. Finally, we have yet to reach a more normalised capital level, due mainly to unresolved settlement of regulatory issues.

On the basis of delivering a total income level of more than DKK 43 billion and costs of around DKK 23.5 billion, as well as a normalised capital level, we expect to deliver a cost/income ratio in the mid-50s and a return on equity of 8.5-9% in 2023. This continues to build on a solid foundation and relentless execution on our commercial priorities, coupled with bringing structural costs down by building on the progress we have made with enhancing and digitising processes, a continuous and natural adjustment of our organisation and managing our non-personnel costs.

“With a clearer focus on increasing our commercial momentum while reducing costs in a sustainable way, our revised financial targets remain ambitious and will ensure growth beyond 2023. We will focus on building on our strong position and momentum within the LC&I and business customer segments by leveraging our market-leading position to continue to deliver high value to our customers while also supporting their green transition. We will focus on regaining momentum in Personal Customers Denmark, aiming at strengthening our position towards young customers and further enhancing our offerings to customers seeking expert advisory services, digital services and sustainable products. A sharpened focus on partnerships will also ensure that we maintain our growth and improve profitability in our retail banking activities across the Nordic countries,” says Carsten Egeriis.

Strong recovery in the Nordic economies

The recovery following the pandemic is evident in all the Nordic economies with strong labour markets and consumer spending, albeit with some inflation fears and scarcity of labour. The Danish economy has essentially fully recovered from the corona crisis, and the attention has shifted to mitigating the risk of overheating. Even though the economy is doing well, the government support packages have, and still are, contributing to subdued credit demand in the banking sector in Denmark. The scaling down of these packages is likely to generate more lending at banks from the first half of 2022, thus supporting our income streams.

Credit quality remains strong, and we continue to see more normalised impairment levels than in the first nine months of 2020.

Solid performance drives income growth

We have strengthened our market position within capital markets-related activities during the first nine months, reaffirming our position as the leading Nordic bank within debt capital markets and continuing to capture market shares from our competitors within equity capital markets business. This is supported by our strong position on a global scale within sustainable finance.

Moreover, our efforts to capitalise on the favourable market conditions for increased investment activities are paying off, and the growing momentum comes on top of a more stable development in other income streams, driving total income 4% above the level of the same period last year.

Combined with low impairment charges based on strong credit quality and a 2% decrease in expenses driven by our constant focus on lowering the cost base in general, this led to the return on equity improving from 2.3% in the first nine months of 2020 to 7.3% in the same period this year.

“We continued to see a positive trajectory across our income lines during the first nine months of 2021, as our business delivered good growth in many of our segments. We have stabilised net interest income, compensating for continued margin pressure, while our strong capital markets performance and landmark transactions as well as solid business and retail customer activity ensured a very positive development in net fee income. Our cost initiatives continue to drive down expenses and this remains a priority in order to become an even more efficient bank,” says Stephan Engels, CFO.

Personal & Business Customers

The gradual reopening of societies after the coronavirus pandemic lockdown gave rise to increased activity among our personal customers, while subdued activity still lingers among our business customers, and we have not yet seen credit demand return to pre-pandemic levels. Investment activity, however, increased and we had growth in assets under management, while partnerships continue to be a key driver of growth across the Nordic countries. The first nine months of 2021 saw an increase in profit before tax, which was up DKK 2.1 billion from the same period last year, due

primarily to lower loan impairment charges and lower costs in relation to the Better Bank transformation.

Large Corporates & Institutions

Economic activity improved during the first nine months of 2021 as societies gradually opened up, which translated into high customer activity within capital markets advisory services and strong growth in demand for sustainable finance and investment solutions. We continued to work alongside our customers to help them adjust to the post-COVID-19 operating environment and to the sustainability transition. This led to a continued number one position among Nordic banks within both debt and equity capital markets transactions in terms of volumes supported in the first nine months of 2021 – ensuring record-high fee income from our capital markets activities, while also affirming our position as the leading Nordic bank within sustainable finance. The first nine months of 2021 saw an increase in profit before tax, which was up DKK 4.1 billion from the same period last year and amounted to DKK 4.9 billion, due to significantly lower loan impairment charges and higher income.

Danica Pension

Danica Pension delivered strong returns to our customers, and assets under management increased 9% as a result of the favourable trend in the financial markets. Danica Pension saw an increase in growth in premiums of 39% from the level in the same period last year, reflecting our strong position in the market and the fact that more business customers have chosen Danica Pension. The strong position is due to solid investment returns, a strong advisory services platform, a leading portfolio of health solutions and our focus on ESG and green investments. Net income from insurance business increased 19% to DKK 1.6 billion, due to improved health and accident business, good investment results and a healthy underlying business that is growing rapidly.

Northern Ireland

Our Northern Ireland business continues to work towards becoming more efficient, geographically diverse and digitally orientated. The first nine months of 2021 saw an increase in profit before tax, which was DKK 217 million higher than in the same period last year, due to lower loan impairment charges.

Outlook for 2021

We maintain our expectation of a net profit of more than DKK 12 billion in 2021.

Danske Bank

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