

# Financial results for H1 2020

Lasse Nyby, CEO

13 August 2020

# Net profit of DKK 255 million and ROE of 5.1%

## Headlines from the income statement

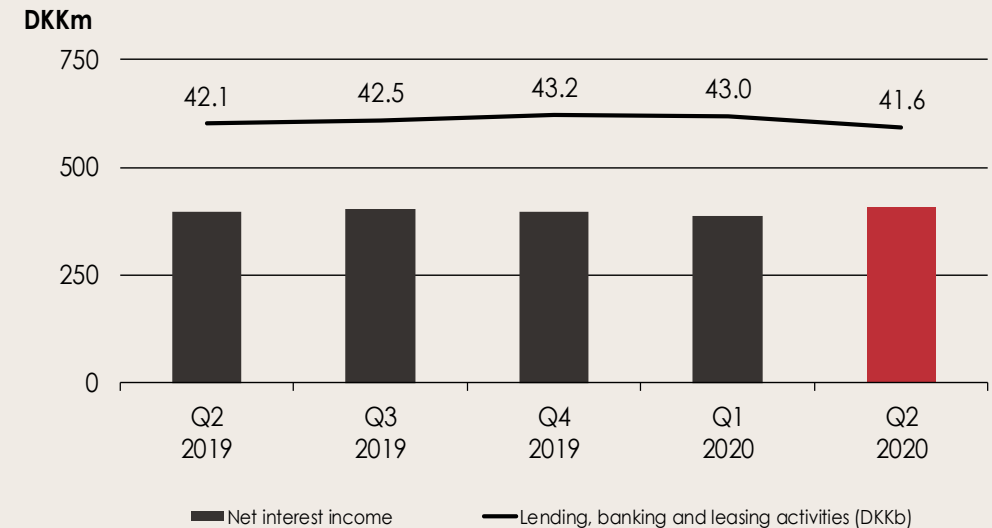
- Net interest income up by 3 % (y/y) and net fee income sustained at high level
- Positive trend in market value adjustments on bonds and equities following turbulent Q1
- Costs up by 4 % (y/y): One-off severance pay – savings identified on other costs types
- Impairment charges down from Q1 but still influenced by COVID-19
- Lending to corporates down – growth in total business volume driven by mortgage, deposits and pensions
- Strategic liquidity at record level and very comfortable capital position

DKKm	YTD 2020	YTD 2019	Index	Q2 2020	Q1 2020	Index
Net interest income	795	775	103	408	387	105
Net fees, charges and commissions	618	620	100	296	322	92
Market-value adjustments and dividends	164	226	72	174	-11	-
Other income	27	66	42	7	21	32
<b>Core income</b>	<b>1,604</b>	<b>1,687</b>	<b>95</b>	<b>885</b>	<b>719</b>	<b>123</b>
Staff costs	660	613	108	344	315	109
Operating expenses	392	396	99	188	204	92
<b>Costs and expenses</b>	<b>1,052</b>	<b>1,009</b>	<b>104</b>	<b>532</b>	<b>520</b>	<b>102</b>
<b>Core earnings before impairment</b>	<b>552</b>	<b>678</b>	<b>81</b>	<b>353</b>	<b>199</b>	<b>178</b>
Impairments of loans and advances, etc.	234	1	-	59	175	34
<b>Profit before tax</b>	<b>318</b>	<b>677</b>	<b>47</b>	<b>294</b>	<b>24</b>	<b>-</b>
Tax	63	132	48	63	0	-
<b>Profit</b>	<b>255</b>	<b>546</b>	<b>47</b>	<b>231</b>	<b>24</b>	<b>967</b>

# Net interest income up by 3 %

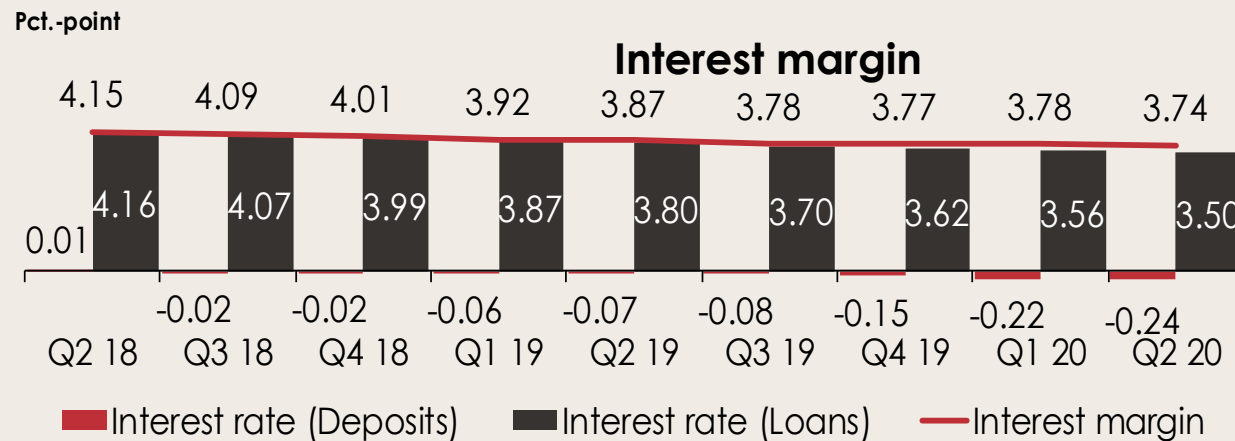
- **Net interest income amounted to DKK 795 million versus DKK 775 million in H1 last year**
  - Interest expenses on deposits reduced by DKK 46 million via active measures
  - Higher interest income from placing of surplus liquidity (DKK 20 million)
  - Interest income from lending down by DKK 35 due to margin pressure
- **Lending has contracted by DKK 1.5 billion (4 %) year-to-date**
  - Lending to household customers is stable
  - Lending to corporates and SMEs down by 1.9 billion (due to relief packages)
  - Leasing business has grown by DKK 0.4 billion
- **From Q1 to Q2 Nil has grown from DKK 387 million to DKK 408 million**
  - Further drop in Interest expenses on deposits
  - Higher interest income related to bonds and financial instruments

## Net interest income and volume trend



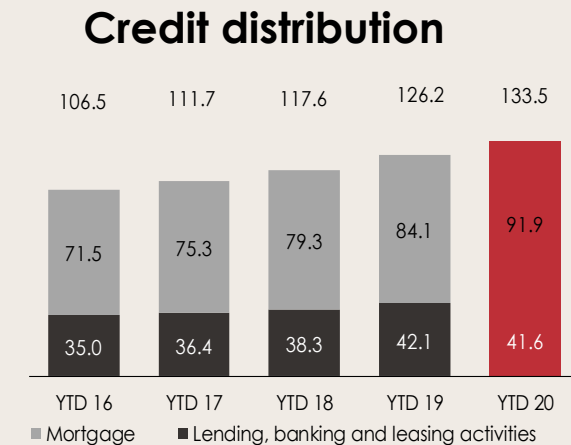
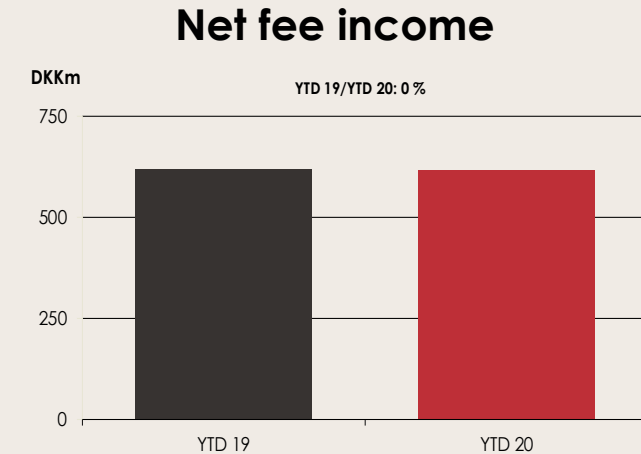
# Pressure on lending margin – active measures on deposits

- **Total interest margin has declined by 3 basis points since year-end 2019**
  - Lending margin in down 12 basis points
  - Active measures on pricing lead to 9 basis points improvement of deposit margin
- **Compared to 12 months ago, total interest margin is down by 13 basis points**
  - Lending margin in down 30 basis points
  - Active measures on pricing lead to 17 basis points improvement of deposit margin

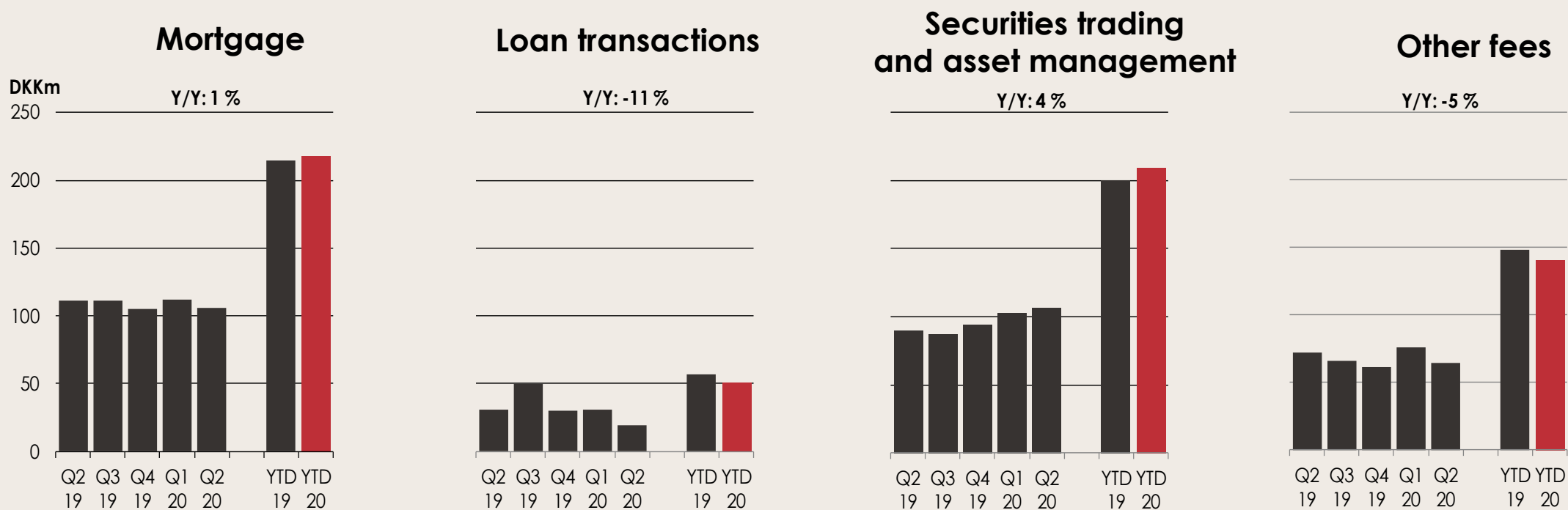


# Net fee income sustained at record level

- **Net fee income amounted to DKK 618 million versus DKK 620 million in H1 2019**
  - Income from mortgage distribution up 1 % driven by volume growth
  - Other loan transactions fees down 11 % due to lower refinancing activity
  - Securities trading and asset management grew by 4 % follow strong trading activity in volatile markets
  - Fee income from payments, insurance sales etc. down by 5 %
- **From Q1 to Q2 net fee income fell from DKK 322 million to DKK 296 million**
  - Lower refinancing activity in Q2
  - Changed periodization of income from Letpension



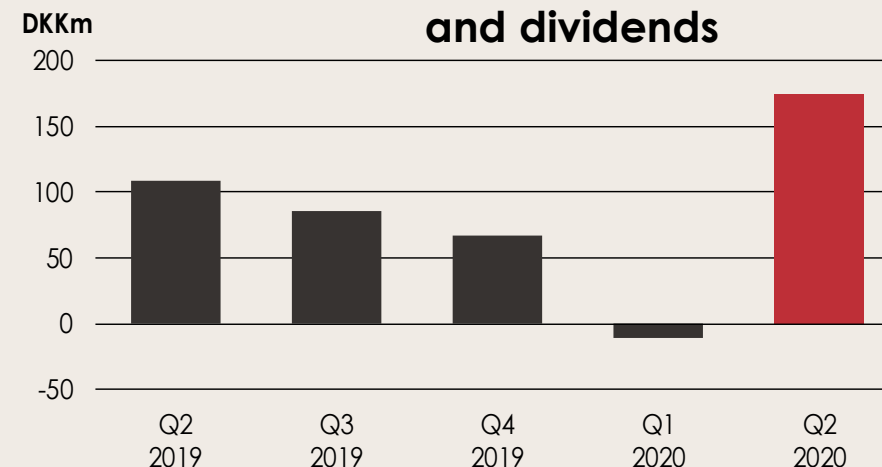
# Net fee income sustained at record level



# Positive trend in market value adjustments on bonds and equities in Q2

- **Market value adjustments and dividends amounted to DKK 164 million versus DKK 226 million in H1 2019**
  - Market value adjustments on bonds and equities down DKK 54 million following turbulent Q1 with falling prices and expanded credit spreads
- **Market value adjustments and dividends on shareholdings in financial sector down DKK 13 million (y/y)**
  - Lower positive contribution from DLR Kredit, PRAS etc.
- **Highly positive development from Q1 to Q2**
  - Favorable trend in credit spreads
  - Increasing share prices

Market value adjustments and dividends

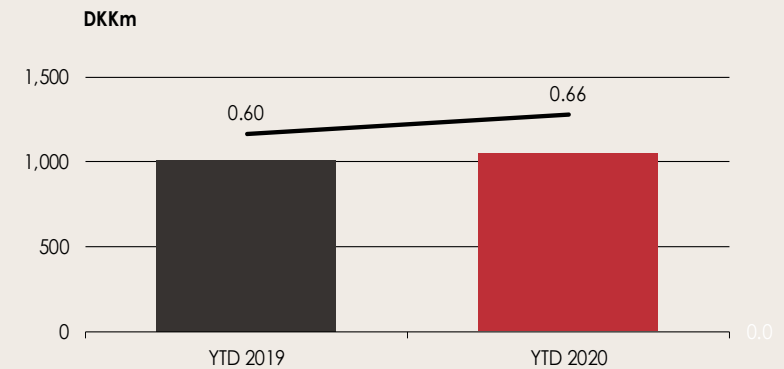


DKKm	Q2 2020	Q1 2020	Q2 2019
Market-valued adjustments in Trading Division	66	-68	119
Tangible assets incl. dividends	67	39	80
Currency trade and -agio	30	18	27
<b>Total</b>	<b>164</b>	<b>-11</b>	<b>226</b>

# One-off related to severance pay – savings identified on other costs types

- Total costs amounted to DKK 1,052 million versus DKK 1,009 million in H1 2019
- Payroll costs were DKK 47 million (8 %) higher than last year
  - Growth in headcount and collective wage increases: DKK 22 million
  - Severance pay: DKK 23 million
- Operating expenses and depreciation down by DKK 4 million (1 %)
  - Active measures in most cost categories (marketing, staff-related expenses etc.)
  - Own IT expenses lower than expected – higher costs to IT center (BEC)
- Cost/Income Ratio of 0.66 – in line with strategic target

Total costs and CIR



Breakdown on cost types

Costs (DKKm)	YTD 2020	YTD 2019	Change
Staff costs	660	613	47
Operating expenses	392	396	-4
<b>Costs and expenses</b>	<b>1,052</b>	<b>1,009</b>	<b>43</b>

Operating expenses (DKKm)	YTD 2020	YTD 2019	Change
Staff-related expenses	16	19	-3
Travel expenses	5	10	-5
Marketing costs	34	45	-11
IT expenses	214	196	18
Cost of premises	26	27	-1
Other administrative expenses	57	58	-1
Depreciation	40	42	-2
<b>Operating expenses</b>	<b>392</b>	<b>396</b>	<b>-4</b>



# Loan impairments influenced by COVID-19

- **Loan impairments amounted to an expense of DKK 234 million against DKK 1 million in H1 last year**

- Reduction from DKK 175 million in Q1 to DKK 59 million in Q2

- **Breakdown on segments**

- Private : DKK 97 million (Q1: DKK 69 million)
- Consumer finance: DKK 4 million (Q1: DKK 3 million)
- Corporate ex. agriculture: DKK 161 million (Q1: DKK 132 million)
- Agriculture: DKK -28 million (Q1: DKK -29 million)

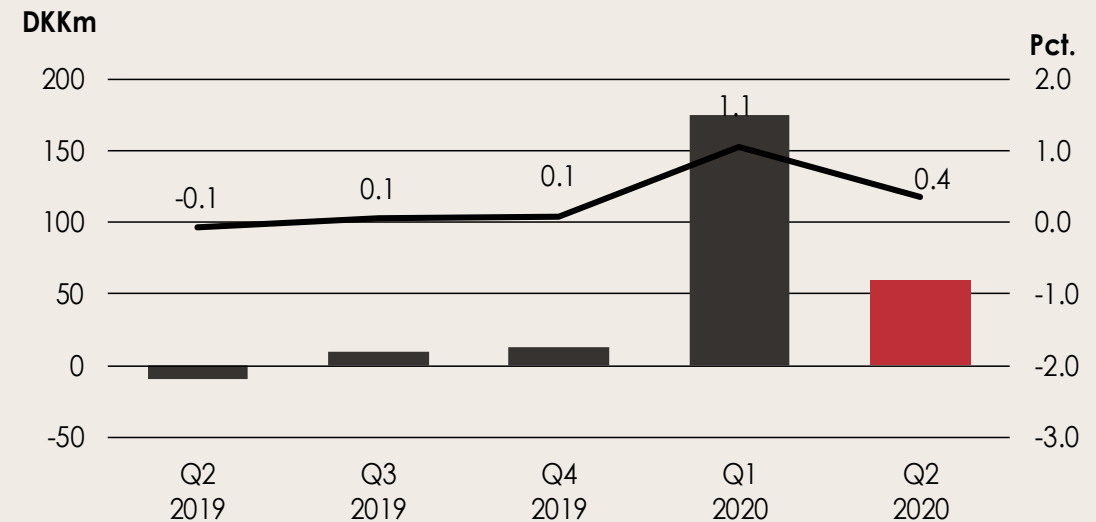
- **Management judgement of DKK 255 million related to COVID-19**

- Total management judgements of DKK 532 million (year-end 2019: DKK 303 million)

- **Impairments broken down on stages (IFRS 9)**

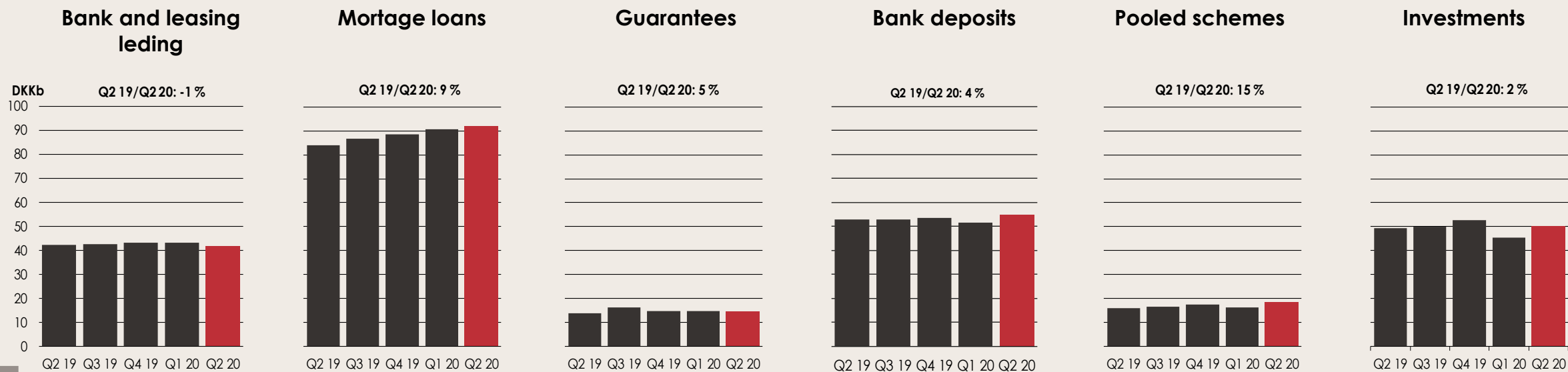
- Individual impairments (stage 3): DKK 953 million (DKK 1,083 million at YE19)
- Stage 1 and 2: DKK 725 million (DKK 420 million)

**Impairments and impairment percentage**



# Continued growth in total business volume

- At year-end, total business volume amounts to DKK 274.0 billion – DKK 1.5 billion (1 %) higher than end-2019
- Positive trend in total credit distribution
  - Bank and leasing lending is down by 1.5 billion (4 %) and distribution of mortgage loans has grown by DKK 3.3 billion (4 %) YTD
- Deposits and pooled pension savings are still growing
  - Bank deposits are up DKK 1.6 billion (3 %) and deposits in pooled schemes are up DKK 0.9 billion (5 %) YTD
- Customers' invested assets are down by DKK 2.5 billion (4 %)



# Very solid capital position

- **Capital ratios**

- CET1: 16.4 (strategic target: 13.5)
- Own funds ratio: 20.2 (strategic target: 17.5)

- **Individual solvency requirement of 9.7 % and combined buffer requirement of 3.0 %**

- Excess coverage of 7.5 percentage points or 4.1 billion

- **New regulatory capital relief**

- Changed principles regarding SME exposure (~0.5 percentage points)
- Adjusted transmission regime regarding IFRS9 effect (~0.4 percentage points)

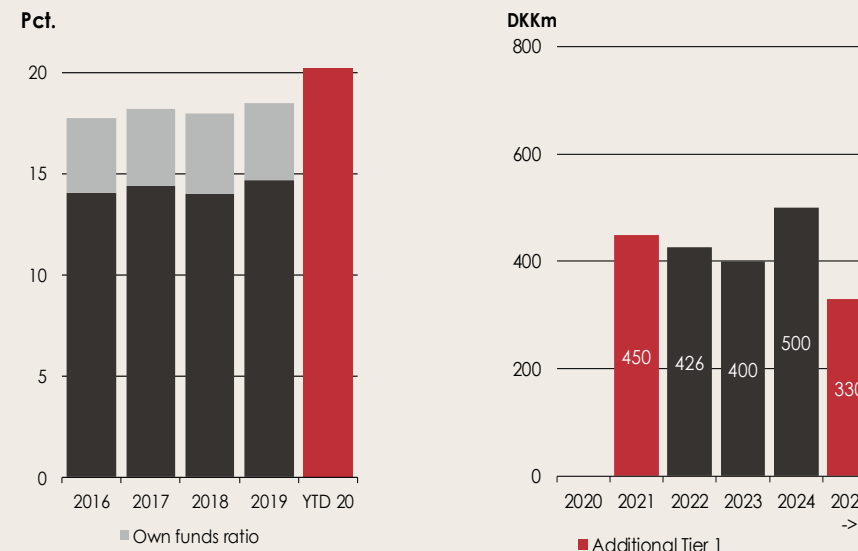
- **REA reduced by DKK 1.9 billion in Q2**

- Decline in lending and lower SME weights

- **Capital ratios with IFRS9 effect fully phased-in**

- CET 1: 15.8
- Own funds ratio: 19.6

## Own funds ratio and subordinated capital



## Capital base

Pct.	Q2 2020	2019	2018	2017
<b>Common equity Tier 1 capital ratio</b>	<b>16.4</b>	<b>14.6</b>	<b>14.0</b>	<b>14.4</b>
Additional Tier 1	1.4	1.5	1.6	1.7
Deductions in additional Tier 1	0.0	0.0	0.0	-0.1
<b>Tier 1 capital ratio</b>	<b>17.8</b>	<b>16.1</b>	<b>15.6</b>	<b>16.0</b>
Tier 2 capital	2.4	2.3	2.4	2.3
Deductions in own funds	0.0	0.0	0.0	-0.1
<b>Own funds ratio</b>	<b>20.2</b>	<b>18.5</b>	<b>18.0</b>	<b>18.2</b>

# Strategic liquidity at record level

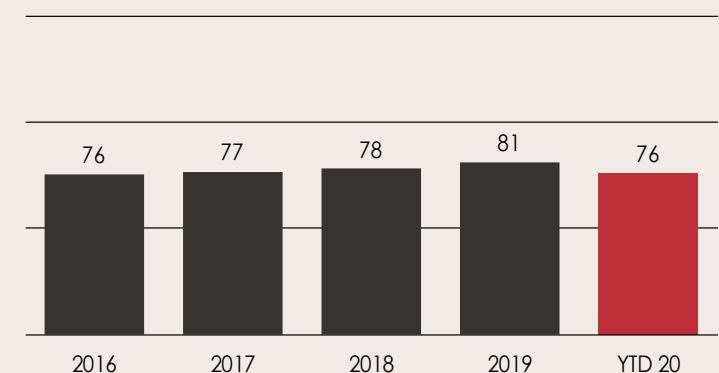
- **Definition**
  - Difference between bank and leasing lending and long-term funding
- **Strategic liquidity further strengthened in 2020**
  - Higher deposits combined with declining lending
- **At the end of H1, LCR stands at 231**
- **Plan to issue DKK ~750 million in MREL capital in H2**

## Strategic liquidity

DKKb	YTD 2020	2019	2018
Deposits, banking activities	54.8	53.3	50.8
Seniorfunding	2.6	2.6	0.0
Core capital and sub. capital	11.2	11.1	10.6
<b>Stable long term funding</b>	<b>68.7</b>	<b>67.0</b>	<b>61.3</b>
Loans, banking and leasing activities	41.6	43.2	39.6
Maturity < 1 year	0.0	0.4	0.0
<b>Liquidity target</b>	<b>27.1</b>	<b>23.4</b>	<b>21.8</b>

## Loan to deposit ratio

Pct.



# Updated guidance for 2020

- **Core earnings before impairments**

- At the beginning of 2020, we expected core earnings before impairments of DKK 900-1,100 million
- Following a temporary suspension due to COVID-19, guidance was re-introduced in the Q1 report – at DKK 700-1,000 million
- In June, based on development in Q2 and forecasts for the coming quarters, guidance was hiked to **DKK 800-1,050 million**

- **Impairments of loans**

- Based on management decisions made in H1, loan impairment charges are expected to be lower in H2 – subject to a continued gradual reopening of society

- **Net profits**

- At the beginning of 2020, we expected net profits of DKK 625-825 million
- Following a temporary suspension guidance was re-introduced in June – at **DKK 350-550 million**