



Pre-close call Q1 2024

5 April 2024

Danske Bank – Investor Relations

SPEECH

Claus I. Jensen – Danske Bank – Head of IR

Intro

Good afternoon and welcome to the Danske Bank Q1 2024 pre-close call. My name is Claus Ingar Jensen, and I am Head of Investor Relations. With me, I have Katrine Strøbech, Olav Jørgensen and Nicolai Tvernø from our IR team. Please note that this call is being recorded for compliance reasons, and the script used for this call will be published on the Investor Relations website after the call. Given that we conduct this call via Teams, please be aware that if you want to ask questions, you must log on via the Teams app or your browser. If you participate via a telephone line, the IR team will be available for questions after the call.

In today's call, I will highlight relevant public data and macroeconomic trends in our markets before the start of the silent period on 12th April ahead of the publication of our 2024 Q1 report on 3rd May. I will go through the P&L statement line by line and comment on capital at the end. Afterwards, we will open-up for a Q&A session.

In today's call, I would also like to highlight an upcoming restatement of our financials as we are aligning our reporting fully with IFRS17, which I will go through in more detail later.

For the sake of good order, I would also like to highlight the following. I will only answer questions related to already disclosed information as well as publicly available data. In this connection, I wish to stress that developments in specific indices may not always have the same effect on our performance.

Macro

Before going through the income lines, I would like to start with a brief comment on the most recent macroeconomic development.

During the first quarter of 2024, the Nordic economies continue to show resilience despite monetary policy tightening and critical geopolitical situations across the world. The benign environment is particularly evident in Denmark where unemployment remains very low supported by a service-based economy, including the strong pharmaceutical sector, and where household finances remain strong. In this regard we have also noted the latest upward revision of 2023 GDP from Statistics Denmark, which supports the growth prospects.

The housing market has stabilised faster than anticipated and prices are expected to increase during 2024 despite the uncertainty around a new tax appraisal system that took effect on January 1st this year. Generally, turnover in the housing market has recovered somewhat from very low levels, but it varies across regions and segments of the markets with especially owner-occupied apartments in the Capital region seeing lower activity. This would lead to lower credit demand all else equal.

With an expected rise in real wages, this should support activity and consumer spending however sentiment continues to be negatively impacted by the geopolitical uncertainty.

Now, let us have a look at net interest income.

Net interest income

There were no changes to policy rates in Q1 in any of our Nordic markets, nor from the European Central Bank.

In the fourth quarter of 2023 only the Norwegian central bank changed its policy rate when they hiked by 25 basis points on December 13. Given the lagging effect in connection with the notice period to customers, we are expecting limited Q1 impact as most of the rate changes we have subsequently implemented did not take effect until February 22nd.

Kindly note that Q1 2024 has one less interest day than Q4 2023. However, given that 2024 is a leap year, Q1 2024 has one more interest day than Q1 2023. The estimated day effect is around DKK 80 million.

Regarding recent volume developments, we refer to publicly available data.

In terms of lending, we note that overall credit demand remained somewhat muted. In addition, we remind you that we expect to see continued attrition from the PC Norway portfolio throughout the transition period.

On retail deposit volumes, we continue to expect a stable level benefiting from diversification and healthy household balances. Corporate deposits also benefit from the sound degree of operational deposits, but be mindful that this level may be impacted by tax and dividend payments, that are typically made in Q1.

Looking at funding costs, we note that NIBOR and STIBOR saw a largely flat development during the quarter.

As always, please be mindful of currency fluctuations in the markets where we operate. Both SEK and NOK depreciated around 3% in Q1 while GBP appreciated just about 1%.

In terms of wholesale funding, we issued around DKK 30 bn during Q1, progressing in line with our full year guidance of DKK 80-100 bn of debt issuance across instruments. Our year to date issuance includes a EUR Tier-2 Benchmark transaction of EUR 750m, priced at 3M EURIBOR + 203 bps, along with a EUR 750m Non-preferred Senior priced at 3M EURIBOR + 149.

We have also issued a USD 2.25bn dual tranche Senior Preferred / Senior Non-preferred equivalent to 3m EURIBOR +81 and +129, respectively.

Though the impact to the Q1 result is modest, you should also keep in mind that we have now called an USD 750m AT1 at a spread equivalent to 3M EURIBOR + 321.

Please visit [Danskebank.com Debt section](https://www.danskebank.com/Debt-section) for further details on terms and pricing for each issuance.

Finally on NII sensitivity, we reiterate our guidance of approximately DKK +500 and -500 million per 25 bps change across all currencies, on average over the next 100 bps within a 12-month period.

As the balance sheet effects from our hold-to-maturity portfolio and unhedged fixed-rate assets are gradually taking hold, we would, all else equal, expect to see a year 2 and year 3 impact of another DKK 300 million and DKK 200 million, respectively.

Please note that by far most of our sensitivity relates to DKK and EUR, in that order.

Fee income

In respect of fee income, the development is as always subject to market conditions in the financial markets, housing market activity and the general activity level among our customers.

Starting off with investment fees, this will be impacted by the development in assets under management as well as the investment activity among our customers.

Year-to-date, we have noted that equity markets globally continue the positive trend observed during the last part of 2023. In the fixed income markets, the expectation of fewer Fed rate cuts has resulted in higher yields for both EUR and USD rates, which all else equal reduces Asset under management in our Fixed Income funds.

Also, I would like to remind you that investment fees for Q4 2023 were positively impacted by around 0.3bn from the seasonality effect of the booking of performance fees in Asset Management.

Turning to activity driven fees, we note that Danish consumer sentiment, as measured by Statistics Denmark, continued its upward trend, however still negative. Looking at consumer spending for February, we saw an uplift in real term spending above 3%, when comparing to the same period last year, making it the largest increase in real spending since April 2022.

Looking at fees from lending activities, we are mindful of the current state of the Danish housing market as mentioned earlier. You should however note that, as in other years, the refinancing auction at Realkredit Denmark takes place in Q1 similarly to other years. Remortgaging activity remained low, however.

And finally, on capital markets activity we note that the recovery from the low level last year has continued with improved financial market sentiment, and especially DCM activity remained constructive.

Trading

Now turning our focus to trading income.

Noting that the main driver of our trading income is customer activity. In general credit spreads improved in Q1, including spreads on Danish mortgage bonds, and government bonds.

Danica

No specific comments for Q1. Please be aware that Danica's results are always subject to developments in the financial markets and in the Health & Accident business.

Other income

We have no comments on Other Income.

One-offs

There are no new one-off items to be communicated for Q1.

Costs

We have no specific comments regarding the quarterly development in costs.

But in terms of the announced DKK 0.6bn of non-recurring cost for 2024, please note that most of these costs relate to our new domicile and will be largely evenly distributed over Q2, Q3 and Q4. The remaining costs related to our PC Norway divestment are more evenly distributed over the year.

Impairments & credit quality

We have no specific comments on asset quality other than to note that the benign macroeconomic environment continues to support our full-year impairment guidance of around 8 basis points.

Tax

We do not have any comments with respect to tax.

Capital

We do not have any specific comments on REA, besides noting that market risk remains subject to volatility in the market.

In Q1, our Total capital and CET1 capital ratios will be reflecting the full deduction of the DKK 5.5 billion share buy-back programme, that was initiated in February. All else equal the execution of the full programme would have reduced our Q4'23 CET1 capital ratio by around 66 basis points.

Restatement

As mentioned at the beginning, I would like to highlight two changes to our disclosure going forward.

Firstly, as of Q1 we will fully align our reporting to IFRS17 and therefore no longer show the financial highlights.

This change implies a reclassification of part of our trading income, which hereafter will be classified as fee income as it relates to fees associated with income from automatic FX transactions.

Using 2023 full year numbers, around DKK 1.3 bn of trading income would be reclassified as fee income, with an insignificant amount allocated to net interest income.

Naturally, this will alter our general expectations for normalized trading income from previous around DKK 4 bn p.a. to now around DKK 3 bn p.a., subject to market conditions. There are no changes to our full year guidance for total income.

For the upcoming consensus contribution, please keep this in mind. No later than Monday, we will publish a file with restated number going back 8 quarters.

Secondly, in our Personal Customers business unit, we will only disclose a full P&L for PC. For each of the countries, we will disclose NII, fee income and loan impairment charges, along with volumes. The changes will take effect from Q1 2024 and comparable figures for the previous 8 quarters will also be part of the file I just mentioned.

And briefly on the PC Norway transaction, in February, the Norwegian Financial Supervisory Authority granted their approval of the sale of our PC Norway business to Nordea. Expected deal closing is still during Q4 2024.

Concluding remarks

This concludes our initial comments in this pre-close call.

Before we move on to the Q&A session, I would like to highlight that we enter our silent period on 12th April. At the beginning of next week, we will also start collecting consensus estimates with a contribution deadline on Friday the 12th, at noon. Please note that we will publish our Q1 2024 results on 3rd May at 7.30am CET and that the conference call for investors and analysts will take place at 8.30am.

We are now ready for the Q&A session. If you wish to ask a question, please use the “raise your hand” function.