# Conference call

## Interim Report – first quarter 2017

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Investor Relations

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## SPEECH

**Operator**

Good day, and welcome to the first quarter 2017 conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Thomas Borgen. Please go ahead, sir.

**Thomas Borgen - Danske Bank - CEO**

Thank you, operator, and thank you all for taking the time to listen in to this call today. Today, I have with me the CFO, Jacob Aarup-Andersen; and Head of IR, Claus Ingar Jensen.

Slide 1, please. In today's call, we have the pleasure of presenting Danske Bank's financial results for the first quarter of 2017. We aim to keep this presentation to around 15 minutes, and after presentation, we will open up for Q&A, as usual. Afterwards, feel free to contact our IR department if you have any more questions on your mind.

Slide 2, please. With a net profit of DKK 5.5 billion for the first quarter of 2017, we had a good start to the year. We continued on a solid path as our earnings came in 12% higher than in the same period the year before. The result for the first quarter represents a return on shareholders' equity of 14.4%, in other words well above our longer-term financial ambitions of at least 12.5%.

Our Nordic universal banking model showed that it's robust, and we are making progress executing on our strategy. During the period, we saw increased customer activity across all our Nordic business units. Loan growth for the Group was up 4% from the same period last year. We saw particularly good inflow of new business in Norway and Sweden, with positive effects from new and existing partnership agreements. Improved macroeconomic conditions in the Nordic regions also contributed to the positive trend.

Developments in the financial markets in the first quarter also had a positive effect on the customer activity. The rebound in activity we saw in the second half of last year continued, as various geopolitical events continue to favour the Nordic markets. The higher activity level had a positive effect on trading income and fee income which also benefited from good demand in our Capital Markets division.

Expenses rose from an unusually lower level in the first quarter of last year as we booked higher activity-based expenses and also increased IT investments because of our focus on a strong compliance organisation and digitalisation.

Credit quality remained strong in the first quarter. As in the preceding quarter, we booked a net reversal which of course had a positive effect on the financial results.

Our capital position remains solid. The core capital ratio of 15.5%, which is above our target level, is net of the total share buy-back program of DKK 10 billion we are currently executing.

All in all, a good start to the year, and we're maintaining our guidance for the full year of a net profit in the range of DKK 17 billion to DKK 19 billion.

I will now turn the presentation over to Jacob, who will take you through the financial results in greater detail.

**Jacob Aarup-Andersen - Danske Bank - CFO**

Slide 3, please. Thank you, Thomas. Let's take a look at the main items of our financial results. Net interest income came in at DKK 5.7 billion. This was a 9% increase over the level in the same period a year before, and it was driven by lending growth of 4%. In Q1, there were two fewer interest days than in preceding quarter.

Net fee income came in at DKK 3.9 billion, which was 14% higher than last year when fee income was low because of subdued investment activity. The increase came from all of our business units.

Net trading income came in at DKK 2.7 billion; that's up 69% due to strong client activity at C&I, primarily in the beginning of the quarter. Other income fell significantly from the level last year, when we benefited from the sale of our domicile property in Copenhagen. Adjusted for the sale, other income was only down slightly.

Looking at operating expenses, they were up 8% to DKK 5.7 billion, from an unusually low level last year, which saw one-offs and low customer activity. In the first quarter of this year, expenses reflect higher activity and investments related to compliance and regulatory requirements. The cost/income ratio came in at 45.3%. That's a decline of 1 percentage point from the year before.

Finally, we saw net reversals of loan impairment charges of DKK 0.2 billion, as a result of improved credit quality at Business Banking, in particular.

Slide 4, please. In the first quarter, we saw good developments at our two Nordic banking units: Personal Banking and Business Banking. The improvement in the results was based on a general rebound in customer activity from the low level last year and also inflows of new business in both Norway and in Sweden, in particular. In Northern Ireland, lower UK rates and increased expenses had a negative effect on the underlying business.

Let's take a closer look at the three units. Personal Banking delivered good results with profit before loan impairment charges up 9% to DKK 1.3 billion. Total income was 7% higher than last year owing to improvements in all income lines. In the first quarter last year, both fee and trading income were adversely affected by low customer activity. Expenses were up 6% owing primarily to regulatory-driven investments and higher customer activity. Impairment charges were low, and I will comment on this later.

The return on allocated capital at Personal Banking was 20.6%. Total lending volume was up 3% owing to growth in Norway and Sweden, where lending volume measured in local currency rose 13% and 15%, respectively. These strong gains came primarily from our partnership agreements. In Denmark, where volume was almost stable, the trend towards higher mortgage lending and lower lending in conventional loan products continued. In Finland, volume was up 1%.

Looking at Business Banking, we made good progress in all markets. Lending volume measured in local currency was up in all markets, most notably in Sweden, where it rose 11%, followed by Norway and Finland, where it was up 6% and 5%, respectively. In Denmark, excluding Realkredit Danmark, our mortgage bank, lending rose 4%. Overall profit before loan impairment charges were up 9%.

Total income at Business Banking was 4% higher than in 2016, when customer activity in Denmark in particular was low. NII and fee income benefited from higher lending and generally improved customer activity. Expenses were down 3% owing to efficiency measures and despite higher regulatory cost. Impairment charges showed a reversal in the quarter, which I will comment on later in this call. The return on allocated capital was 18.2%.

Finally, Northern Ireland, where the result was adversely affected by the depreciation of the British pound after the UK referendum last year. Lower interest rates and restructuring costs also reduced the reported result from the level in the same period last year. Total income fell 10%. But adjusted for the depreciation of the currency, it was down 1% despite an interest rate cut in the UK in August.

Expenses were up 8%. Again, adjusting for the exchange rate effect, they were up 19% because of restructuring costs. Underlying costs in Northern Ireland were broadly flat. The return on allocated capital was 15.9%. In comparison with the preceding quarter, however, profit before loan impairment charges was up 26%, reflecting good progress in the underlying business.

Slide 5, please. So then let's have a look at the units that are more dependent on the capital markets. At Corporates & Institutions, or C&I, profit before impairments rose 84% over the level last year, when challenging market conditions caused client activity to be low. The higher activity this year, which came primarily in the beginning of the quarter, was fuelled by a number of geopolitical events as in the second half of 2016. All business areas in C&I took advantage of opportunities arising from higher client activity and income exceeded the level in Q4 by 30%.

Total income rose 50% owing to improvements in all the income lines. Fee income benefited from intense issuance activity within debt capital markets and good corporate finance fees. Expenses were up 10% because of higher activity and positive one-offs in the first quarter of 2016. Impairments, which by nature fluctuate at C&I, amounted to DKK 0.1 billion. The charges were primarily against exposure to the oil sector.

Despite high activity at C&I, capital consumption remained stable and was down slightly from the level in Q4 because of lower market risk.

At Wealth Management, profit before tax was up 3% as the unit, like the other business units, benefited from improved market conditions and higher customer activity. Fee income was up 13% from the level last year, mainly because of an increase in assets under management and higher customer activity. Expenses were up 11% because of higher activity and restructuring costs.

Assets under management were up 8% from the level at the end of the first quarter last year. In Q1 this year, net sales from asset management and premiums amounted to DKK 21 billion.

Slide 6, please. Moving on to expenses. Total expenses for the first quarter amounted to DKK 5.7 billion; that's up 8% from the level last year. The increase reflects an unusually low level in Q1 last year, when we saw positive one-offs and low customer activity. Expenses in the first quarter were affected by higher activity-based expenses. The increase in expenses for IT was driven mainly by regulatory requirements, compliance and digitalisation. The higher run rate in the first quarter is not indicative of a change in trend, and we confirm our outlook for the full year for expenses to be somewhat lower than in 2016.

Slide 7, please. The positive trend in credit quality continued in the first quarter, and as in the preceding quarter, we had a net reversal for the group. The reversal in the first quarter was DKK 0.2 billion against a net reversal of DKK 0.1 billion in the same period in 2016. The loan loss ratio for the quarter, excluding Non-core, was minus 5 basis points. With a net reversal of DKK 0.3 billion, Business Banking had the largest decline as the positive effects of increased collateral values in the commercial property segment, mainly in Denmark, continued. Market conditions for the agricultural industry improved slightly, and charges against this industry were unchanged in Q1.

At Personal Banking, charges were very low but higher than in the preceding quarter owing to a technical adjustment of individual impairments. The credit quality of the portfolio remained strong and stable. At C&I, we booked impairment charges of DKK 0.1 billion in the first quarter, mainly against oil exposure as we continue to see difficult market conditions for subcontractors in the oil and gas industry. The individual impairments against this industry amounted to DKK 0.2 billion. Collective charges stood at DKK 1.2 billion, broadly unchanged from the preceding quarter.

Slide 8, please. Our capital position remains strong. With a reported common equity tier 1 capital ratio of 15.5%, which was above our target range of 14% to 15%. This expected decline from 16.3% at the end of last year was caused by full deduction up to DKK 10 billion share buy-back program which amounted to 1.2 percentage point decline in core tier 1. The total capital ratio was 20.4% net of the share buyback, down from 21.8% at the end of 2016. The REA level fell DKK 16 billion in the first quarter. That is only mainly to the implementation of a new IRB model for retail exposure in Finland. That effect amounted to DKK 15 billion. The leverage ratio was 4.1% according to transitional rules and 4.0% when the new rules are fully phased in.

Finally, the share buyback for DKK 10 billion in 2017 is progressing according to plan. As of the end of week 16, we had bought back close to 10 million shares, representing a gross value of DKK 2.3 billion.

Slide 9, please. On the outlook, I will be very short. As Thomas mentioned in the beginning of the call, we are maintaining our outlook for net profit for 2017 to be in the range of DKK 17 billion to DKK 19 billion. The individual components are all also unchanged.

Slide 10, please.

### Thomas Borgen - Danske Bank - CEO

Those were our initial comments and messages. We are now ready for your questions.

### Operator

(Operator Instructions) We'll take our first question from Jan Wolter from Credit Suisse.

### Jan Wolter – Credit Suisse

Yes, Jan Wolter, Credit Suisse. So first, Jacob, on the cost there. I understand that the guidance remains. But still, when we look at the cost run rate in the first quarter, excluding variable compensation and severance pay, then that still suggest we could end up close to the 2016 level. So if I just annualise the Q1 level without the variable comp, then it's around DKK 21.5 billion. And then adding what could be paid in bonuses over the year, then we get close to the last year's level. So if you could just give us what kind of factors we should take into account looking at the Q1 cost base in terms of unusually high cost. So that's my first question. And the second one is on fees. When we look at the first quarter, again, if we annualise that level, and I know that's not right because there is seasonality every quarter. But then, we still would end up 8%, 9% above the 2016 level. So it does look like a very conservative guidance when you talk about somewhat higher fees in 2016. So any colour on that or are you just being conservative here? Or is there anything else that we should think about? So that's my second question. And the third one is just … if you could update us on the NII sensitivity now for 25 bp or higher bp, 100 bp higher short rates, please.

### Jacob Aarup-Andersen - Danske Bank - CFO

Okay. Jan, good questions. And I appreciate your urge to annualise a lot of numbers here, so I do appreciate that. And you seem faster at annualising the cost than the fees, though, so we'll have a conversation around that. If we start with the cost, it is correct as I confirmed, just a second ago, we are confirming our guidance on cost. The higher run rate for expenses in the first quarter does not change anything in terms of the outlook. The higher IT expenses are expected to somewhat smoothen the Q4 seasonality. Obviously, that smoothening is subject to activity levels when we get to Q4. But as you may recall, and as I also alluded to a little bit here, Q1 last year was exceptionally low. So there is a smoothing of seasonality. When we look at the delta from Q1 '16 to Q1 '17, that's around DKK 400 million on the cost side. And as you know, around DKK 134 million of that was one-offs. The rest can be split relatively evenly between bonus, severance, IT and rent from the sale and leaseback. What we made very clear is that we have been investing fully here from the beginning of the year, especially on the digitalisation agenda and on the regulatory projects. You know there are many regulatory projects in European banks at the moment, whether it's on the compliance side, the MiFID 2 side or GDPR, et cetera, et cetera. And so we will not point to any specific items that were too high and will be going down. But we obviously had a number of measures towards the end of last year, which will be coming through during the year. And at the same time, we're saying that we have been … we have not had the usual very low seasonality from the beginning of the year, which is definitely on purpose. And so there is that confidence. So we reiterate that guidance. And obviously, we're still firm also on 2018 bridge on the cost side. When we look at the fees, you have a very good point. We have come up to a very good start on the fees side. And which is, as I also alluded to, driven by all four business units. We actually see good activity levels across all four units. It is not just the C&I capital markets fees that we mentioned and the Wealth fees, it's also both Business Banking and Personal Banking. And we'll be cautious in terms of just annualising that effect. It's been a very, very strong customer activity in this, beginning of the year. You will have your own view on where customer activity goes, but it's early days in the year but we're very pleased to come off to a good start. And I guess, it confirms our decision to be positive on the fees for the year. But beyond that, I think it's very dangerous to start concluding a lot for the full year based on this first quarter. On the NII, I'll let Claus answer that one.

**Claus Ingar Jensen – Danske Bank – Head of IR**

Yes, our sensitivity on NII is based on 25 basis points move, up or down. And there, sensitivity for the moment would be around DKK 700 million for 25 basis points up in short-term interest rates, and close to DKK 500 million for 25 basis points down across all the currencies where we're operating in.

**Jan Wolter – Credit Suisse**

Just to double-check, that guidance or indication includes any floored loans to the Cibor, Euribor, Stibor or any other interbank rate or other benchmark rate, please?

**Claus Ingar Jensen – Danske Bank – Head of IR**

Yes, that's correct.

**Operator**

We'll take our next question from Anton Kryachok from UBS.

**Anton Kryachok – UBS**

I have two questions, please. Firstly, can you please shed a little bit more light on the strong fees you had in the C&I division? How sustainable are those? And what were the underlying drivers, please? And secondly, just a question on your expansion strategy in the Swedish mortgage market. We've noticed that you've signed a deal with TCO, so if you can guide us a little bit on how you expect volumes to ramp up in your Swedish business. And also, it would be also very helpful to understand the profitability of the Swedish funding that you are doing in comparison to the Danish spreads that you're seeing. And why do you find the Swedish market attractive? Is it the pricing? Is it just easier to pay in volumes? Or is it the return on capital that is more attractive in that business?

**Jacob Aarup-Andersen - Danske Bank – CFO**

Thank you, Anton. Let me start on the fees and C&I. So if we look at C&I, it's ... when we look at the fees and we go back on a quarterly basis, the fees have been between DKK 500 million and DKK 700 million on a quarterly basis. The Q1 was very strong, as you also allude to. What we said is, it's very much capital markets-driven. There has been a lot of activity in the first quarter. But we are also taking, say, our fair share and in some instances, more than our fair share, but it's been a strong performance. DCM is an important part here. So there's been a lot of issuance activity in the Nordic region, and we've have a good DCM flow and market share there. Corporate finance activity has also been good, which is another driver of fees here, and then the general equities business. So I'd say, in general, it's your classic capital markets business that have been driving the delta in terms of the fees. And then, obviously, there is all the recurring fees coming out of C&I, such as the transaction banking, et cetera. So it's your classic capital markets business. In terms of where that goes from here, this is market activity-driven to a large extent, so I think most market participants would say that it looks like there are relatively benign market conditions. But you will probably be as big an expert as we are in terms of the, say, forecasting where activity goes in the coming quarters. But it's obviously a good start.

**Thomas Borgen - Danske Bank - CEO**

To your second question, which is of more strategic character, you need to take a step back and put into the perspective of that we see ourselves as a Nordic universal bank. That means that we have now four very well-functioning divisions, working very efficiently in four markets. And of course, we have Northern Ireland somewhat on the side. And a couple of comments on that part is that we have a very good platform in Personal Banking, both in Norway but you alluded to Sweden, in particular. But also, there we have a relatively low market share in a very well-functioning market. And one of our strategic levers to expand in a healthy fashion, both quality-wise and profit-wise, is to do it with partnerships. We have done that for several years in Norway. We started that last year in Sweden with Saco. And this year, we will continue with Saco, but also join TCO. That will commence or actually has commenced the 1st of April this year. The Swedish market is, in our view, healthy in the sense that there is a healthy profit pool. It's a well-functioning market. And we're able to give our customers a very good value proposition. And we can see that by the feedback we get from our customers. Actually, we were for the second year in a row voted as the best bank in Sweden. If you look at the relative profitability, that will always move through times, but we can confirm that the profit we are getting in Sweden, and Personal Banking in particular, is good, and it is not profit which are behind any of the other markets. Maybe slightly above, but that can always change over time, but it gives us a good diversification effect and a good growth to utilise our capital in an efficient way. If we didn't find it profitable, we would not grow and then we would rather redistribute that capital, other places or back to the shareholders.

**Operator**

We'll move to our next question from Jakob Brink from ABG.

**Jakob Brink – ABG Sundal Collier**

I have two questions please on net interest income. So the first one is actually getting back to Sweden. And as you said, Thomas, it's been a month now since you initiated with TCO. Can you say anything about sort of the initial reactions? I mean, of course it seems like a very big agreement or at least quite a big potential. So it could be interesting to hear a bit more of the small details. And then secondly, one of your competitors yesterday were out with, I guess, the conclusion was that they felt more confident in new regulation like MREL. And hence they could keep a lower funding buffer. How are you on the funding buffers going forward? Also taking into consideration that the Danish MREL proposal is out. And those were my questions.

**Thomas Borgen - Danske Bank - CEO**

Thanks, Jakob. I think it's fair to say that the TCO agreement has come off to a good start. As we can see that the platform is working well and that our customers can onboard themselves digitally, which is very important for the customer and ourselves. And when it comes to the concrete business volumes, number of clients, I will explain and comment on that as we are in the quarter. But I think we have some experiences from the previous partnerships which make us optimistic for the future. But let's now wait to see how it works. But so far, so good.

**Jacob Aarup-Andersen - Danske Bank – CFO**

And, Jakob, thanks for the other question, as well. I'm pleased to hear that our competitors are feeling confident. That's good. When we look at MREL, yes, we've obviously been in dialogue around the more clarity we've been receiving here in Denmark. We don't have the full clarity yet, as you also know; there are some restrictions in Danish law that are being worked on. So we are not in a particular hurry in terms of starting to change our funding strategy until we have the final clarity. You can say it doesn't make us more confident. We don't think we have been particularly lacking confidence in terms of our funding buffer. The level we have calibrated our funding buffers around will not change materially due to this. There was not a specific uncertainty in our funding buffers due to MREL. And we will wait and see if I can get the final clarity on this. But I would echo the fact that things are moving in the right direction on MREL, but it doesn't really change our strategy on the funding side.

**Operator**

Our next question comes from Willis Palermo from Goldman Sachs.

**Willis Palermo – Goldman Sachs**

The first one is, when I look at the trading line, which has been quite strong for a few quarters in a row now, even on a clean basis. Could you maybe point to as how much of that amount is sustainable going forward, maybe looking at how it was in April? And then related to that, I also have a question on costs. I appreciate that a large part of the year-on-year inflation is related to other expenses and IT expenses. But then if the trading income remains strong, is it fair to assume that a large part of the cost will follow and therefore, it will be difficult to have them down year-on-year?

**Jacob Aarup-Andersen - Danske Bank – CFO**

Thank you for the questions. Let's start on the trading income. I think it's a very fair question. And I can see where you're coming from. If we go back in history, I think we have some years back been trying to guide on the trading income. And I think most of us banks have decided that it's a futile exercise, so we stopped doing it. When you look at our business, obviously the majority of our trading income comes out of our markets business, our FICC business. And as we are a business now that does not run proprietary risk but runs a market ... sorry, a client-driven book, we are ... we will fluctuate with market activity. In terms of customer flow, that is what will define our trading income. So I will not sit and venture into what is the right level. It is correct that we have delivered good results for now a number of quarters in our trading business. We have previously said that we feel that the underlying earnings base of our FICC business has improved. But we will not start venturing into what the normalised level is. It's been a good start to the year and we're pleased with that. April, I will not comment on ... we never comment on the current quarter. In terms of the cost side, you raised a good point in terms of activity-based expenses. You are right that the reason why our expenses are higher in Q1 is predominantly driven by activity-based expenses. If our trading income continues at the levels of Q1, as was implicit in your question, that will obviously have some sort of spillover effect on our activity-based expenses. That is a natural fact from the way that we also reward people for performance. And I think most of you, I hope, would acknowledge that that is a good thing. And therefore, you will see some effect from that. As we look into the rest of the year and as we look at the numbers here, we have obviously repeated our cost guidance and therefore that is firm. But it's a good point you're raising.

**Willis Palermo – Goldman Sachs**

Just to follow up quickly on cost and specifically on the Wealth Management division, where I saw there were some changing during the quarter. The cost/incomes remain quite high in the division. Do you have any ambition of decreasing it from the cost base? Or is it more revenue investment for higher revenues going forward?

**Jacob Aarup-Andersen - Danske Bank – CFO**

Thank you, that's a good question. So it's driven by two things. It's activity-based expenses there, as well. And then there was an element of ... certain elements of the Wealth organisation still being put into place, and therefore, there are some restructuring cost as we also try to highlight. Going forward, Wealth is not a cost game for us. Wealth is very much a top-line and scale game. And therefore, we're not running a specific cost agenda in Wealth. Obviously, all of our businesses have to be efficient. But we are not targeting certain cost/income ratio, et cetera, under Wealth. It has to be good profitable growth from here.

**Operator**

Our next question now is from Yafei Tian from Citibank.

**Yafei Tian – Citi**

I wanted to understand a little bit about the competitive dynamics environment in Sweden and secondly in Norway. We know that the Swedish bank laws you have been very much focused on extending their mortgage margins. And this year in the conference call increasingly they are talking about they wanted to grow more in line with market after losing market share in the first quarter. So my question is that first, who is gaining market share in the first quarter? Are you seeing Sweden to be a very easy market for you to grow into? And then how do you see that dynamic change going forward, when the local Swedish banks are getting more competitive in pricing? And secondly, in Norway, do you see further main expansion potential on the retail side from the mortgage repricing that was done earlier this year?

**Thomas Borgen - Danske Bank - CEO**

Okay. Thank you very much. I think both Norway, Sweden, Denmark and Finland are characterised by good competition, with very competent players in all those markets. And Sweden, there are many good players in the market, making good offers to customers every day. Rightly, we have gained some market share during Q1. Also, as we have re-established the platform, basically back in late 2015 into mid-2016. We are cautiously optimistic that we have a very good value proposition towards Swedish private clients, and I think it's been evidenced by the attraction ... actually and traction we're getting in the Swedish market. But we are humble on the competition taking place. And it will be the customers' choices. But so far, it looks good. And I am pretty confident that we will continue to grow in a healthy pace. When it comes to Norway, basically the same. We have grown very fast in the last couple of years. There we have had these partnerships for a longer time. However, the margin has been under some compression during particularly '16. There seems to be some less compression taking place in Q1. And then, we need to see how it looks going forward. But again, Norway is a healthy competitive market. But I think, I will not be surprised if there will be some margin expansions in Personal Banking in Norway moving forward.

**Operator**

We'll now take our next question from Daniel Do-Thoi from J.P. Morgan.

**Daniel Do-Thoi – J.P. Morgan**

Two questions, first one is on funding. On slide 27, if I look at that, the funding plan that you presented, if I sort of just assume you can maintain the Q1 spreads, I get to about a DKK 200 million annualised tailwind in funding costs that you'll carry over into 2018. Just wanted to check if that's the number you … or the magnitude of the number that you recognise. And secondly, in Sweden Personal Banking, I mean, you're clearly growing your loan book there very nicely. But at the same time deposits and fee income have not really grown at all over the last, let's say, eight quarters or so. And I guess, one way to interpret that is that you're struggling to make your customers see you as their primary bank. Is that a fair observation? And what's the potential to grow non-NII revenues in Sweden?

**Claus Ingar Jensen – Danske Bank – Head of IR**

Yes, I can take the first question on the tailwind, on the funding side. If we assume that spreads are where they are for the time being, which is at an attractive low level, we believe that we will have a tailwind of between DKK 150 million and DKK 200 million for 2017. And I think it's too premature to discuss '18. You can see the redemption profile in our presentation, but there is a long time until '18, so that's why we cannot make any comments on how funding levels would be at that time.

**Thomas Borgen - Danske Bank - CEO**

And then back to your question in Sweden. We can see that the cross-sales are coming on immediately on the basic products when they onboard, but usually to get a full cross-sales potential, it usually takes six to nine months. And take into account that many of the clients are just being onboarded in Sweden. So we expect the cross-sales to reach the level of the back book. So we're very comfortable on that. And cross-sales is of course both on the fees side and the deposits side. However, deposits may go at a slower pace, and that's also why we have applied to establish our funding institution or mortgage institution in Sweden and that application is with the Swedish FSA. And we are looking forward to get that approved any time soon now. And then we will start also issuing Swedish covered bonds as is common in the Swedish market.

**Daniel Do-Thoi – J.P. Morgan**

And can I just follow up on that, you mentioned the back book, front book in terms of cross-sales. Can you just give us … or attach some numbers to that either the number of products on average for a new customer than your onboarding versus those that have been with you for some time? And then secondly, would you expect the non-NII revenue to sort of pick-up to levels that you have in other markets from here? Or is that just a structural difference in Sweden versus let's say Denmark?

**Thomas Borgen - Danske Bank - CEO**

There's no structural differences in Sweden when it comes to, let's use your word, additional income, compared to other markets. These are all structural differences but not particular something I like to point out. So over time, the cross-sales should be as healthy in Sweden as in other markets. When it comes to the number of products, we don't disclose that because that can be very misleading. And we are also very cautious on having any particular targets when it comes to cross-sales because that can force the organisation in the wrong direction. So we are always looking at the customers' perspective, what is the customer needing? And then, there will be one or several products each customer needs, and then we optimise it, how the customer sees it. So we don't run around with particular cross-sales targets in that respect.

**Operator**

We'll now take our next question from Jacob Kruse from Autonomous.

**Jacob Kruse – Autonomous**

Just two questions on Sweden and Norway again. If I look at the margins you're making in Personal Banking in Sweden and Norway, and this is, I guess, 2016. They're not that high there. They're about 1.1% or 1% to loans on net interest income, which is below Swedish peers. Is that a funding disadvantage that you have and does that change with this new covered bond company? Or are there other things that are missing when I look at that? And my second question was on the volume growth. Is there any limitation to how much you can take on given the FSA in Denmark being somewhat sensitive to excess growth in banks?

**Jacob Aarup-Andersen - Danske Bank – CFO**

Thanks, Jacob. Let me start on the funding question. So when you look at the margins of us versus the Swedish peers, that does not reflect a funding disadvantage. When you look at the levels that Thomas alluded to a second ago, that we are in the last steps in terms of launching Danske Hypotek, our mortgage credit banking institution in Sweden. We're doing that in terms of the long-term sustainable funding of this bank. We're not doing it to get any funding advantage, as we today fund the same levels as Swedish peers. We're also ... when we fund our Swedish mortgages. So what you're seeing is a mix effect, which amongst other things reflect the fact that, as you know, we have gone out with this and especially focused on these association agreements, especially with SACO over the last year. And so for us, the focus internally is on the risk-adjusted returns on these mortgages, not on the headline margins. We are adding a strong customer base, with low expected losses and good cross-sales opportunities. And that is more important for us than the headline margin. So the risk-adjusted returns are good on these clients.

**Thomas Borgen - Danske Bank - CEO**

And to your second question, no. Of course that to say it's not the limitation. What is the limitation is that customer satisfaction that we're able to handle the onboarding in an orderly fashion. So each customer feels they are well taken care of, and that we can get their service – the quality of the cross-sales – right. Secondly is that we continue to have a very high quality of our portfolio as we have built up that, so far; we continue to do that. And finally that we remain a very solid, balanced and predictable bank, and that means that we are very prudent on the capital position. In brackets, I can say that we have a very good dialogue with the FSA. And we have the same interest as the FSA to expand in a very good and orderly fashion, and that's happening today and that will also happen tomorrow.

**Operator**

Our next question is now coming from Martin Birk from Carnegie Investment Bank.

**Martin Birk – Carnegie**

I have a question regarding the last partnership agreement you guys have with Akava in Finland. This has now been running for a full quarter. And I can't really see the pick-up in the lending numbers in Personal Banking in Finland. And then my second question just may be a bit more technical. It's regarding REA and these internal rating base models. So I assume when house prices in the Nordics, if they rise, REA is also supposed to go down because the LGDs, they go down. Do you guys have any sensitivity to that? Those are my two questions.

**Jacob Aarup-Andersen - Danske Bank – CFO**

Thanks, Martin. Let me start with the house prices. First of all, when we run our setup here, we run it through-the-cycle set up and therefore we are not hypersensitive to house prices as such. And you can say the sensitivity you're seeing over the last couple of years ... one of those sensitivities has been in terms of reversing the previous provisions as house prices have gone up. In areas where provisions have been reversed or in particularly client segments where that has happened, further collateral increases are obviously good in terms of increasing the collateral backing the loans, but it does not have a massive effect in terms of releasing additional REA or risk-weighted assets. We do not give sensitivities on risk-weight releases versus house price sensitivity. So I'll have to disappoint you on that. But obviously there is a positive correlation which is completely correct.

**Thomas Borgen - Danske Bank - CEO**

On your first question, there's a slight or substantial difference between the agreement we have with Akava in Finland and, for example, the TCO in Sweden. With TCO in Sweden we are the exclusive partner. In Akava, we are the preferred partner type of agreements. Secondly, the agreement has only started on covering, what we call, graduating segment. Actually, that is young customers just out of school or out of university. So there will be a lower or, let's call it, lower growth in that market until we expand that agreement further to more mature segments. But so far, it started good with the youth segment. But you should not expect the same growth in 2017 in Finland as we see in Norway or as we expect in Sweden. Also the underlying growth in Finland is also much slower.

**Martin Birk – Carnegie**

Just a quick follow-up here now, it seems like a ... sort of almost a proven strategy for you guys to expand your personal, your retail books through these union agreements. Would it be unlikely to see any further agreements with new unions?

**Thomas Borgen - Danske Bank - CEO**

No it would not be unlikely.

**Claus Ingar Jensen – Danske Bank – Head of IR**

Then we would like to have the last question, please.

**Operator**

Our final question now comes from Per Grønborg from SEB.

**Per Grønborg – SEB**

A couple of questions from me, as well. Starting off on the commissions, specifically portfolio fees from investment products. When I look at that line and take out the performance fees and the risk allowance, which are the fluctuating part, we saw it last year declining from DKK 1,581 million in the first quarter down to underlying DKK 1.4 billion in the fourth quarter. Now we are back above the Q1 level last year. Any seasonality or what is the driver of this? If a look at assets under management, that does not really explain anything of this one. My second question is on the other income. We are now down to a run rate of some DKK 360 million without any one-off items. Is this the new run rate after the property divestments that we should expect, of course, plus the divestment gains that probably will come down the road?

**Jacob Aarup-Andersen - Danske Bank – CFO**

So your first question on the fees: You are right that we are reporting a higher run rate here in Q1 than if you compare to last year. There's a technicality which we also highlighted in the slide deck around management fees where one of our changes to one of our insurance products means somewhat higher management fees, which comes out of other income. But beyond that, we have also, as you highlighted, we have also increased our margin on the AuM, but not as materially as it would look due to those changes. But beyond that, also in the investment fees, we obviously book when we establish new funds, and one of the things we highlighted is the fact that we are back to establishing new funds amongst others in the private banking segment. So generally it is fair to say, there is a slightly higher run rate on fees here compared to last year. So it's a good start for Wealth, but I think some of these effects need to be adjusted for. On the other income, in terms of run rate, we never really guided on other income to be fair. There is a lot of fluctuations here, a lot of things that go through. It is fair to say that we are at a level now that this quarter has not reflected any major disposals or sales or these types of things. So it is not far off from a normalised level here in the beginning of the year. But generally, as you know, we don't guide for it. But it is not miles off where it should be on a quarterly basis without any potential one-offs.

**Per Grønborg – SEB**

Okay. Perfect, can I add one small thing more? Your IR department have guided that the Q4 effect on cost should be materially lower this year. Can you give us any hint about what sort of Q4 tick-up should we expect this year on cost?

**Jacob Aarup-Andersen - Danske Bank – CFO**

It's early days sitting here in Q1. But I think what the IR department has been guiding you to is that some of the effect we see in Q1 is a smoothing-out effect, especially on the IT. Whether it is materially lower also depends on how the activity levels are towards the end of the year. But this does not mean that we eliminate the Q4 seasonality. We will always have that, but we're taking some of that off due to the Q1.

**Thomas Borgen - Danske Bank - CEO**

Thank you all for your keen interest in Danske Bank and for your very good questions. As always, you are all welcome to contact our IR department if you have more questions, after you have time to look at our final results in detail. A transcript of this conference call will be added to our website and the IR app within the next few days. Thank you very much and have a good afternoon.

**Operator**

Thank you, sir. Ladies and gentlemen, that will now conclude today's conference call. Thank you for your participation. You may now disconnect.