



Conference call

Interim report - first nine months 2018

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Investor Relations

CORPORATE PARTICIPANTS

Jesper Nielsen

Danske Bank - Interim CEO and Head of Banking DK

Christian Baltzer

Danske Bank - CFO

Morten Mosegaard Christensen

Danske Bank - Chief of Staff

Claus I. Jensen

Danske Bank - Head of IR

SPEECH

Operator

Good day, and welcome to Danske Bank's Q3 Report 2018 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Jesper Nielsen, CEO. Please go ahead, sir.

Jesper Nielsen - Danske Bank - Interim CEO

Thank you, operator. Thank you all for taking the time to listen in on this call today. The participants around the table are CFO Christian Baltzer; Chief of Staff Morten Mosegaard, and Head of Investor Relations Claus Ingar Jensen.

Slide 1, please. In today's call, we have the pleasure of presenting Danske Bank's financial results for the first nine months of 2018. We aim to keep this presentation to around 15 minutes. After the presentation, we will open up for a Q&A session as usual. Afterwards, feel free to contact our Investor Relations department if you have any more questions.

Slide 2, please. With a net profit of DKK 11.6 billion, the first nine months of 2018 was a period of mixed financial results for Danske Bank. The result represents a return on shareholder's equity of 10.1%. The result came in lower than in the same period the year before due to our decision to donate the estimated gross income from the closed-down non-resident portfolio in Estonia and difficult conditions for trading income-related activities, in particular.

The financial results for the period were based on continued stability in the Nordic economies. The positive business momentum led to an increase in lending of 2% from the same period the year before, based on good customer activity in most markets. However, currency effects and margin pressure had a negative effect on income and net interest income, in particular.

Banking DK, representing around half of total lending, grew 1% year-on-year. Banking Nordic, which represents one third of total lending, grew 4% year-on-year, or 7% in local currency, with growth in all countries.

The significant decline in income from trading activities in the financial markets can be attributed to uncertainty related to geopolitical events and challenging conditions in some rates markets. We consider the underlying conditions for trading income we have seen most of this year to be of a cyclical nature, and we expect to benefit from our solid customer-driven business model in FI&C once market conditions become more benign again.

The uncertainty in the financial markets also had an impact on our Wealth Management business, with trading income in particular being negatively affected by a lower investment result in the health and accident business.

Expenses came in significantly higher than in the same period last year as a result of the donation of the estimated gross income of DKK 1.5

billion from the non-resident portfolio in Estonia. Expenses were also affected by the inclusion of SEB Pension Danmark in the cost base and increased costs for regulatory compliance, which were, however, partly offset by lower performance-based compensation.

Our capital position remains strong. The common equity Tier 1 capital ratio of 16.4% is well above the minimum regulatory requirement and also above our new target level of around 16%. On 4 October, we announced that we have decided to discontinue the share buy-back programme. The programme, therefore, ended after our having bought back shares for total of DKK 6.9 billion.

The continuation of benign macroeconomic conditions had a positive impact on credit quality and the financial result. The impairments in Q3 were driven by agriculture and single name exposure. The underlying credit quality remains strong.

All in all, in the first nine months of 2018, we continued to see a positive underlying trend in our business, characterised by continued lending growth. However, the major focus point for all our stakeholders has been the situation around the Estonia case, which I will comment on when we have the next slide.

Finally, we expect net interest income to be slightly lower than in 2017, as volume growth is offset by margin pressure. As we announced on 19 September, we have adjusted our net profit outlook to be in the range of DKK 16 billion to DKK 17 billion, owing to the DKK 1.5 billion donation and the continuation of the subdued development in trading income.

Slide 3, please. Before we go into details about the financial results, let me just say a few words about the Estonia case, which has dominated the news flow about Danske Bank in the last couple of months. We're still working tirelessly with the remaining part of the portfolio investigation in order to identify suspicious activity. We continue to use a risk-based approach. This approach means that the customers we have already looked at were the ones with the most risk factors, and now we work our way through the ones with fewer risk factors.

Slide 4, please. As I am sure you have noticed, the Estonia case gave rise to considerable attention as evidenced by intense media coverage and turbulence in the financial markets, but we also have a very intensive dialogue with all our stakeholders. Let me talk about that and what we're doing. We're being investigated by Danish, Estonian and U.S. authorities. In Denmark, the Danish FSA and the Danish State Prosecutor for Serious Economic and International Crime are investigating us. In Estonia, the FSA and the Estonian Office of the Prosecutor General are looking into the case. And last, but not least, we've had an information request from the U.S. Department of Justice in connection with a criminal investigation in relation to our Estonian branch. We cannot comment on our dialogue with the authorities or speculate regarding any potential fines. However, it is very important for us to stress that we cooperate fully with all authorities. We have made it very clear that we do not wish to benefit financially from suspicious activities. That is why we have decided to donate the estimated DKK 1.5 billion in gross income from the non-resident portfolio to initiatives aimed at combating financial crime.

The Danish FSA has ordered us to reassess our solvency need, suggesting a minimum Pillar II add-on of DKK 10 billion. We have complied with this, and we have reassessed our total capital and common equity Tier 1 capital targets, increasing them to above 20% and around 16%, respectively. Furthermore, we have discontinued the share buy-back programme for 2018. This will add 0.4 percentage points to our common equity Tier 1 ratio in the fourth quarter.

Our share price, our funding spreads and our ratings have also suffered from the Estonia case. Not surprisingly, our stakeholders are worried about the long-term impact. And although we cannot say anything about future events, it is extremely important for us that we continue the close dialogue we have with all relevant stakeholders. Furthermore, we spent a lot of time communicating how we have improved and continue to improve our efforts within financial crime compliance.

Finally, I would like to make some comments regarding our customers. We fully understand the negative reactions we've had from our customers. Obviously, this is one of our biggest worries. There are customers who'll no longer trust us and will not want to do business with us. Restoring the trust of our customers and society in us is a key priority for us. So far, we have not seen a significant customer outflow, but there is a lot of negative attention. That is why we reach out to our customers, retail and business alike, to send a very clear message that what happened in Estonia from 2007 to 2015 does not reflect the kind of bank we want to be. It does not reflect our values or the way we work in this bank. The feedback from these meetings has been positive. But given the negative sentiment out there, we cannot rule out a further negative impact on the customer side.

Slide 5, please. Now let us look at what we're doing within the bank to combat financial crime. First of all, it is important to underline that the historic setup in Estonia and the setup on the Group platform are very different. However, as financial crime continues to evolve, Danske Bank, like all other Nordic banks, is continuously developing our financial crime compliance.

Financial crime compliance has been the #1 focus area for the Executive Board for several years, and the Group has anchored the comprehensive transformation in a Group-wide AML programme, shared by the Chief Operating Officer and with two other Executive Board members on the Steering Committee.

The work with financial crime compliance is an immense task, touching many different processes and systems across the Group. The bank will continue to invest in improving the setup around financial crime compliance and to develop our internal and customer-facing processes.

The investments will touch all areas of financial crime compliance, and the bank will seek to apply new technologies as we mature.

Christian, please proceed.

Christian Baltzer – Danske Bank – CFO

Thank you. Slide 6, please. Thank you, Jesper. So let's take a look at the main items of our financial results. Our net interest income for the first nine months of the year came in at DKK 17.7 billion. This was unchanged from the level seen in the same period last year. Excluding currency effects, NII was up 1%, driven mainly by lending growth of 2%. Net interest income was affected by lower margins, FX effects and the transfer of the Baltic business to the Non-core unit.

Issuance of AT1 and non-preferred senior capital in the second quarter had a negative effect on the third-quarter numbers.

Net fee income came in at DKK 11.3 billion, unchanged from last year. Fee income was adversely affected by seasonally low customer activity in the capital markets, mitigated, however, by the inclusion of SEB Pension Danmark into Wealth Management with full effect from the third quarter.

Net trading income came in at DKK 3.7 billion, down 37% from the same period last year when income was high. Income in the period was affected by challenging market conditions in some rates markets in particular.

Other income came in at DKK 0.7 billion, down 41% from the same period last year, owing to the sale of Krogsveen and a weaker risk result in the health and accident business at Wealth Management.

Operating expenses came in at DKK 18.8 billion, up 11%, affected by the donation of the estimated gross income from the non-resident portfolio in Estonia of DKK 1.5 billion and increased costs for regulatory compliance, including the cost of the investigation of the Estonia branch. However, lower activity-related costs and continued focus on efficiency measures had a positive impact.

Finally, we saw a net loan impairment reversal of DKK 0.6 billion, as a result of credit quality remaining strong, in particular at Banking Denmark.

Slide 7, please. In our interim report, we have now started to report under two new business units as we announced as part of the Nordic Integrator strategy launched in May. Banking Denmark includes all retail and commercial activities in Denmark, formerly known as Personal and Business Banking Denmark. Banking Nordic includes the same kinds of activities in Norway, Sweden and Finland.

In the first nine months of the year, we continued to see strong business momentum in our Nordic banking unit based on increased lending in almost all segments as a result of higher customer activity than last year and a good inflow of new business.

In the Danish banking unit, we continue to see stable lending growth of around 1%, driven by commercial customers. In Northern Ireland, the business momentum was good, with an increase in both volume and income despite continued Brexit uncertainty.

Looking more closely at the three business units, we see that in Banking Denmark, they delivered a stable result with profit before loan impairment charges almost unchanged at DKK 5 billion. Lending was up 1%, driven by business customers. Total income was stable, due mainly to fee income, which was up 2%. Expenses were up 2%, driven by higher costs for regulatory compliance. Impairment charges showed a net reversal of DKK 0.6 billion from both retail and commercial exposures, as credit quality overall remains strong. The return on allocated capital was 21.9% for Banking Denmark.

At Banking Nordic, we continued the solid progress in all markets. Overall, profit before loan impairment charges was up 4%. Measured in local currency, lending volume was up in all markets, most notably in Sweden, where volumes within retail and commercial rose 13% and 11%, respectively.

In Norway, growth in lending was up around 6% in both segments. In Finland, lending to commercial customers was up 14% from the year before. The total income was unchanged from the same period last year, despite the sale of Krogsveen in the first quarter and FX effects.

NII was up 6%, as lending grew 4%. Expenses were down 4%, impacted by the sale of Krogsveen in Norway. Impairment charges showed a reversal of DKK 0.1 billion as a result of strong credit quality. The return on allocated capital was 17.4%.

In Northern Ireland, profit before loan impairment charges rose 13%, measured in local currency. Supported by good underlying performance and customer activity, despite continued uncertainty around Brexit, total income was up 4%. NII was up 8%, as loans grew by 10%. Expenses fell 2%, reflecting the effect of restructuring initiatives. Impairment charges showed a small expense owing to a few cases in the first quarter. The return on allocated capital was 10.9% for Northern Ireland.

Slide 8, please. Let's have a look at the units that are more dependent on the financial markets. At C&I, profit before impairments declined 32% from the level in the same period last year, when income was very high in FI&C in particular. In the first nine months of this year, C&I experienced challenging market conditions due to geopolitical events and lower customer activity.

Total income declined 21%, mainly because of lower trading income, whereas NII was up 5%. Expenses were down 5% due to efficiency gains and lower performance-related costs. Impairments show a charge of DKK 0.1 billion as credit quality of the oil-related exposure continued to stabilise despite increased charges in the third quarter due to single name exposure.

At Wealth Management, profit before tax was down 20% from the level in the first nine months of last year. The negative developments were due mainly to an adverse development in the health and accident business. Danica Pension saw a positive development with premiums up 15%. Fee income was up 2%, due mainly to the acquisition of SEB Pension Danmark. Trading income came in lower, adversely affected by a lower investment result in the health and accident business. Other income

showed a small negative result due to a lower risk result in the health and accident business. Expenses were up 13%, due mainly to increased regulatory costs and the effect of the acquisition of SEB Pension Danmark.

Assets under management were up 10%, helped by the acquisition of SEB Pension Danmark. In the first nine months of this year, net sales at Asset Management amounted to a negative DKK 9.6 billion because of outflow from a few large customers.

Premiums in Danica Pension amounted to DKK 33.7 billion, against DKK 29.3 billion in the first nine months of last year, and included premiums from SEB Pension Danmark.

Slide 9, please. So moving onto expenses. Total expenses for the first nine months of the year amounted to DKK 18.8 billion, up 11% from the level last year. Excluding the donation, expenses were up 2%, as regulatory compliance costs remained high. Excluding the donation and consultancy costs, our expenses were broadly flat. This reflects a mix of lower performance-based compensation, the sale of Krogsveen, but also costs related to the acquisition of SEB Pension and the cost for the reorganisation for the implementation of our new strategy.

The increase in staff and consultancy costs includes higher expenses for compliance and the expenses for the investigation of the Estonian branch. We now expect expenses to be significantly higher in 2017 due primarily to the donation of DKK 1.5 billion as well as the effect of the acquisition of SEB Pension Danmark.

Slide 10, please. Credit quality remained strong in the third quarter. Loan impairment charges for our core activities amounted to DKK 0.1 billion. The loan loss ratio for the quarter, excluding Non-core activity, was 2 basis points. All business units, except C&I, showed a net reversal in the third quarter. At C&I, impairment charges amounted to DKK 0.2 billion in the third quarter, driven by single name exposure within our oil-related exposure.

At Banking Denmark, impairments were higher than the previous quarter due to single name exposure and charges against the agricultural segment.

Slide 11, please. So as Jesper mentioned, our capital position remains strong with a reported common equity Tier 1 ratio of 16.4% at the end of the third quarter. Our CET1 target has been increased to around 16%, following the increase in Pillar II.

The total capital ratio was 20.9%, down 0.7 percentage points from the preceding quarters due to a lower amount of Tier 2 capital instruments. The total capital target has been increased to above 20%.

The REA level came in lower due to a fall in credit risk, counterparty risk and market risk. The decrease in credit risk follows a technical adjustment to the risk weight model for SMEs and corporate customers.

The leverage ratio was 4.3% according to the transitional rules. Under fully phased-in rules, the leverage ratio is 4.2%.

The fully phased-in minimum CET1 requirement increased from 12.6% to 13.9%, due mainly to the additional increase in Pillar II of DKK 5 billion for higher compliance and reputational risks as a result of the orders issued to Danske Bank by the Danish FSA on October 4.

The DKK 10 billion, as Jesper mentioned, share buy-back programme was discontinued on 4 October. A total of DKK 6.9 billion shares were bought back under the programme.

Slide 12, please. And finally, our outlook for 2018, which has been updated since the second-quarter report. You have had some updates since 19 September. And we expect net interest income to be slightly lower than in 2017, as volume growth is offset by margin pressure. This is an update from our previous outlook.

The outlook for expenses has been updated. We now expect expenses to be significantly higher than in 2017 due primarily to the donation of DKK 1.5 billion as well as the effect of the acquisition of SEB Pension Danmark.

And finally, as announced on 19 September, we expect net profit to be in the range of DKK 16 billion to DKK 17 billion.

Slide 13, please, and over to you, Jesper.

Jesper Nielsen – Danske Bank – Interim CEO

Thank you, Christian. Those were our initial comments and messages. We are now ready for your questions. Please limit yourself to two questions. If you are listening to the conference call from our website, you're welcome to ask questions by e-mail.

Operator, we are ready for the Q&A session.

Operator

(Operator Instructions) We will now take our first question from Pawel Dzedzic from Goldman Sachs.

Pawel Dzedzic – Goldman Sachs

Two questions from my side. The first one is on your dividend policy. You reiterated that it remains unchanged in your disclosure. But I was wondering if you can give us any indication if you have discussions with the FSA after the cancellation of the buy-back programme and what gives you confidence that the authorities will not, let's say, impact the way you think about the capital distribution between now and, let's say, March next year? And the second question is on costs associated with the AML case, but perhaps outside of the regulatory fines. When you look at your outlook for 2019, I know you haven't disclosed it yet, but when you think about 2019 and you look at incremental things that you might need to do related with these proactive customer meetings, incremental regulatory

compliance costs, higher funding spreads and so on, how much of a difference does it make really to your results going forward? Is this something that we should be aware of and take into consideration? Or do you think this is something that you can perhaps manage quite well going forward?

Morten Mosegaard Christensen - Danske Bank - Chief of Staff

Thank you for the questions. This is Morten here. On your questions on dividend policy and maybe on distribution policy in general, usually, our approach here is that we have a discussion with the FSA on buy-backs and we also have a discussion with the FSA upon approving a dividend policy as such. But generally, we do not need the approval to continue paying dividends as a regular part of our business, and this is as of now our intention to do so with regards to the dividends. On your second question, in terms of the impact of Estonia and AML costs in general, I think what we can say is and what we have said before is that the regulatory costs that this entails in terms of being more diligent on financial crime is a journey that started several years ago. So we have basically been manning up to make sure that we can manage all the regulatory requirements. And this is ongoing work and something that is basically in the numbers as we speak. In terms of any headwind that we might face on funding, obviously, if spreads remain elevated, that will have an effect. And then you can sort of try and estimate that effect by looking at the amount of funding that we will need, but it would be very difficult for me to speculate on what they will be in 2019.

Pawel Dziedzic - Goldman Sachs

And just perhaps on this initiative to reassure clients, to increase number of meetings with retail clients, corporate clients and so on. Is this something that is, let's say, incremental to your day-to-day activity or within that? So that is the first follow-up. And if I may have another follow-up as well on the dividend policy. I fully understand that you don't need, in normal circumstances, approval from the FSA to continue paying dividends, but these are perhaps, to some extent, exceptional circumstances. So I guess, would you be able to tell us if you had these conversations around dividend policy with the FSA already? Or for instance, if they indicated that they would have nothing against, let's say, you continuing your dividend policy or perhaps hinted that this might need to be reassessed more closely in the future?

Jesper Nielsen - Danske Bank - Interim CEO

You say that in terms of our elevated number of meetings, let's say, with our customers, that's a thing that we basically do within the resources that we have allocated to that kind of activity today. So that would not impact our numbers going forward. To the other case, we have no discussions regarding dividend policy with the FSA, and we see no problems in this area going forward.

Operator

We will now take our next question from Richard Smith from KBW.

Richard Smith - KBW

Two from me, if that's possible, please. Firstly, I think just in terms of the ongoing investigation that you mentioned, what your expectation was in terms of how much more that would cost, firstly? And then, just in terms of the second side of things, you mentioned, in response to the previous question around funding costs, noting from the debt presentation that you have somewhere in the region of sort of DKK 65 billion to DKK 90 billion of MREL requirements coming through over the next few years. I wondered, given where funding spreads are and given the structural subordination premium that that would carry, if you would consider perhaps back-end loading that? Or if there was anything you could do in terms of the phasing of issuance that we would see over the next few years to sort of mitigate or put off some of that headwind coming through into margin?

Jesper Nielsen - Danske Bank - Interim CEO

Maybe I can take the first question, which is the cost regarding the investigation. I think in terms of the actual investigation, costs will be lower into 2019. On the other hand, we see authorities starting up examinations in terms of Danske Bank. So probably, we'll see increased litigating cost in that area. Exactly where that will be, we don't know. But we are strongly committed to finalising analysing the customer base in the non-resident portfolio in Estonia. Morten, will you take the other question?

Morten Mosegaard Christensen - Danske Bank - Chief of Staff

Yes. So the question as I heard you was whether we're going to back-end-load MREL funding in the event of elevated spreads. I think that we will commit our funding as part of the usual course of business. I'm not going to comment on the exact timing of that, but we will obviously do the funding we need to do in an appropriate and prudent manner.

Operator

We will now take our next question from Mads Thinggaard from ABG.

Mads Thinggaard - ABG Sundal Collier

This is Mads from ABG. The first one is regarding the money laundering. Jesper, I think I saw in Danish media today that you said, it could take one to three years, I mean, to settle things with U.S. authorities. I mean, if that is correct? I don't if you could kind of elaborate a bit on where you get that kind of period length from? And also what you could do to shorten it? And then the second question is looking into your new segments, there is kind of a, I don't know if you would recall it sort of a weird picture, but we do have something with, I mean, lending up, I think, in Sweden by 5%, but with flat Nil quarter-on-quarter. Also, I think, the same picture for Northern Ireland. And also a bit on the Swedish commercial lending, if you could say a few words what is behind the uptick here of 4% quarter-on-quarter?

Jesper Nielsen – Danske Bank – Interim CEO

I will take the first question. It is correct that I'm quoted for saying that, I think my first comment though was, it was way too early to speculate in terms of time horizon for this. And then, hard-pressed, I said this could take up to one, even two or three years. Whether that would actually take place, I don't know. But obviously, we work to settle this as fast as possible, and we fully cooperate with all authorities, making sure they have all the information available to us.

Mads Thinggaard – ABG Sundal Collier

Can you do anything to push it?

Jesper Nielsen – Danske Bank – Interim CEO

I think that the authorities are in charge of their investigations themselves, and I think the best we can do is to cooperate and make our information available. In terms of the timing, that's the authorities that make the call.

Mads Thinggaard – ABG Sundal Collier

Okay, okay.

Jesper Nielsen – Danske Bank – Interim CEO

Morten?

Morten Mosegaard Christensen – Danske Bank – Chief of Staff

Yes. So in terms of the comment you had on the new segments and on lending, so in terms of lending growth, I think, lending growth is pretty much as we've seen over the last few quarters in terms of trend on both corporate and retail, with a slight pickup over the last few quarters on retail compared to the start of the year. So that is pretty much in line with what we've seen. Do note that there's actually a slight positive on the balance sheet at the closing date from FX, which is not really evident on the average. So there is a little bit of average versus end in terms of the NII. Also, you'll see that the margin is slightly compressed and also from a bit of movements in mix and interest rates.

Mads Thinggaard – ABG Sundal Collier

Okay. Did you do something with the FTP model this quarter, changing how you allocate funding costs, etc.?

Morten Mosegaard Christensen – Danske Bank – Chief of Staff

No. The FTP model has been unchanged in this quarter.

Mads Thinggaard – ABG Sundal Collier

Okay.

Jesper Nielsen – Danske Bank – Interim CEO

Again, just to add on that is, it's important for us that we take some of these costs top of the house and keep our customers free of potentially elevated funding costs.

Mads Thinggaard – ABG Sundal Collier

Okay, okay. And what about the commercial lending in Sweden? Could you say what -- kind of what sectors that relates to in Q3, the growth you have then?

Claus I. Jensen – Danske Bank – Head of IR

I think that all industries are represented in the growth and that has been the case over the recent quarters.

Operator

We will now take our next question from Per Grønberg from SEB.

Per Grønberg – SEB

It's Per from SEB. Two questions from my side. The first on client retention. I guess, the real game is not Q3, the real game is Q4. You stated there have been some client reaction. Seems like you also indicated there has been some client outflow. What have you seen the last month? Can you give any indications on that? My second question, there is a Danish news flash out that the Danish Tax Minister has ordered the FSA to look into the dividend case. To what extent your name has specifically been named that you'll be one of the banks investigated? To what extent have you been engaged in stock lending related to the dividend payments?

Jesper Nielsen – Danske Bank – Interim CEO

Yes. Let me take the first question. First, in terms of outflow of customers, it is true that we have seen a slight outflow of customers, especially on the personal banking side in Denmark. That amounts to roughly 1,500 customers at the end of the quarter. I think it is fair to say that we don't think we've seen the end of that, and that there will be a certain undercurrent in especially that segment. On all other segments, it's very limited effects from the Estonia case as we can see it right now. So we expect, mainly personal customers, mainly in Denmark, we will see a bit of elevated outflow over the coming period. However, we expect it to be low to moderate.

Per Grønberg – SEB

What's your perception? Has it peaked or is it still trending upwards?

Jesper Nielsen – Danske Bank – Interim CEO

I think that's too early to say, to be honest. So I would refrain from commenting on that because it also depends on the developments in the coming weeks, where there will also be attention around this regarding parliamentary hearings and stuff like that. So we'll watch out for the undercurrent in these numbers, and we'll obviously fight not to lose more

customers, but that's going to be a tough situation in the coming months for sure.

Per Grønberg – SEB

It sounds like the corporate side, you are not really hugely concerned about that one?

Jesper Nielsen – Danske Bank – Interim CEO

Sorry?

Per Grønberg – SEB

It sounds like the corporate side, you are not overly concerned about that side?

Jesper Nielsen – Danske Bank – Interim CEO

I'm not overly concerned, but obviously, this does not reflect well on us in that segment either. But in terms of outflow, that is very limited.

Per Grønberg – SEB

Okay.

Jesper Nielsen – Danske Bank – Interim CEO

Okay. On your other question, in terms of the things just raised by the tax ministry, I can say that we will make all data available, that's also what we believe we have done so far. We had very strict policies in terms of not participating in any tax speculation at all. So we take it as a question for us to investigate, but we do not expect that we, in any way, are involved in this case.

Operator

We will now take our next question from Sofie Peterzéns from J.P. Morgan.

Sofie Peterzéns – J.P. Morgan

Here is Sofie from J.P. Morgan. I have one question regarding the DKK 200 billion of flows that you had in the report that you published a bit over a month ago. The data from the Central Bank of Estonia that we got last week basically suggest that you included all the cross-border payments in the DKK 200 billion flow data that you gave. Is this correct? And if so, why do you think all these cross-border payments are suspicious given that many of the other Nordic banks are saying that many of these cross-border payments relate to normal ongoing transactions that you have? And also, is the U.S. looking at these cross-border payment data from the Estonian authorities? So that would be my first question. And second question will be, you had slightly higher losses from agriculture and oil. Could you just elaborate a little bit more on these losses? And how we should think about the asset quality in these two segments going forward?

Jesper Nielsen – Danske Bank – Interim CEO

I think that you had several questions on your first question, but fair enough. Let me try to see if I got you right. We cannot speculate, first of all, in terms of other banks and messages from other banks. You have to talk to the other banks around those statements. It is true that a lot of payments in the DKK 200 billion flow were international transactions. So a big part, obviously, of what we report to authorities about the non-resident portfolio and suspicious activity will also be cross-border. And we also see it flow through several countries, mainly Cyprus, U.K. and Russia and also internally in Estonia. Did that answer your question?

Sofie Peterzéns – J.P. Morgan

Well, I mean, obviously, if I look at the data from the Central Bank of Estonia, basically, I mean, they had that you had payments from abroad of roughly EUR 150 billion. And that goes quite nicely with your kind of data that are on the ongoing funds. How many of these were basically from abroad? So I'm just wondering if you included all the cross-border payments, if the data is basically comparable from Bank of Estonia and what you put in your report?

Jesper Nielsen – Danske Bank – Interim CEO

I'm not sure they are completely comparable. Remember that our examinations run over several years. So that we would have to look further into.

Claus I. Jensen – Danske Bank – Head of IR

And remember, Sofie, that we have made a risk approach to the investigation, by which we have screened the customers in the non-resident portfolio. And the most suspicious of those customers are those who are mentioned in the report, which is the background for the suspicious activities reports we have sent to the FIU in Estonia.

Christian Baltzer – Danske Bank – CFO

So, Sofie, to your other question on impairments. I think, in fact, as you're mentioning, we have the agricultural and the oil and gas kind of being the areas where we're seeing some impairments. I think, when you look at the oil and gas, in our mind, it's in single exposures, but we're also seeing an improvement in the overall credit quality of the oil and gas kind of exposure that we have. It has been where we have seen a lot of our impairments come from before, but it's actually tailing off. And with respect to the agriculture, those are not actually single names, those are more of an expectation given the drought and given the season that we have had during the summer, that we anticipate some impairments on that book. So that is a precautionary, I mean, kind of right time manner of putting those things aside.

Operator

(Operator Instructions) We will now take our next question from Adrian Cighi from RBC.

Adrian Cighi – RBC

So this is Adrian. Two questions, please. One on margin and one on deposits. On deposits, your deposits declined by DKK 18 billion quarter-on-quarter, versus an increase of DKK 10 billion last year over the same period. Is this driven by the 1,500 customers leaving the bank? Or do you see some other customers maybe moving funds, but not leaving the bank? And then secondly, the margin pressure you flagged. A lot of this is self-imposed given your strategy as a price leader in challenging markets like Sweden and Norway. Do see any potential change in strategy given now that you have significantly lower excess capital than before?

Christian Baltzer – Danske Bank – CFO

Do you want to take the margin one, Jesper?

Jesper Nielsen – Danske Bank – Interim CEO

No, you do that. Just to say, the situation, we have right now, has no impact on our strategies in Sweden and Norway. We are continuing to take market share and be the price leader on certain products to make sure we grow in the market. So that will not be changed going forward.

Christian Baltzer – Danske Bank – CFO

And with respect to the deposits, I think that when you do quarter-on-quarter, there is some seasonality you need to be aware of. And if you do them on a year-on-year basis, you actually will see that the deposits are somewhat flattish, whereas in C&I, it's coming down. Those are into some kind of institutional large ones, but nothing that is related to the kind of 1,500 customers flowing out. So hopefully that gives you a little bit more of colour on that.

Jesper Nielsen – Danske Bank – Interim CEO

And in terms of retail, we can say that, particularly, our market share is increasing in Denmark in terms of deposits.

Operator

We will now take our next question from Martin Birk from Carnegie.

Martin Birk – Carnegie

I have two questions. The first is on SEB Pension and capital optimisation. As far as I recall, then in your Q2 presentation, you had a little box that indicated 50 basis points hit on your CET1 ratio from SEB Pension. And I also recall that you had a former CFO who said that you guys would do capital optimisation and the hit would only be 10 basis points within a couple of quarters. I can't really see any effect in your CET1 ratio in this quarter from capital optimisations on the SEB Pension part of it. So that's my first question. My second question is, is now that we have seen two quarters in a row with bad health and accident results. And I wonder if you could sort of elaborate on what we should expect going forward, and sort of maybe I'm also lacking a bit of understanding of sort of the true reason why these results are coming out so poorly.

Morten Mosegaard Christensen – Danske Bank – Chief of Staff

Thank you, Martin, and you're very right. You will not be able to see the effect of the capital optimisation in SEB in the numbers for this quarter because that hasn't been done yet and that's something we will complete at some point over the near term. Whether it will be this year or next year, I will not be completely sure of. It may run into 2019 before we execute on that. But you are very right, it's not in the base as of now. In terms of the health and accident, I think, it's a little bit difficult for me to give exact guidance, but what we can do is give a little bit of guidance on the moving parts within that. Obviously, it's an area where the investment results strike directly into our P&L and affect our results. So when you have a poor result in the investment side in health and accident, that will affect the trading line of the bank and that will be seen in Wealth Management, obviously. And then, the other part is that if you have losses or you have change in actuarial assumptions and similar stuff, then you will see a movement in the risk result, which is booked under Other income. So that is something, which is obviously somewhat volatile and, therefore, a little bit difficult to guide on.

Martin Birk – Carnegie

Okay. Just two follow-ups here. The SEB Pension follow-up. What is the reasoning for not doing this right away and thereby gaining an extra 40 basis points on your CET1 ratio? That was the first follow-up. The second follow-up is on health and accident results. So I don't really understand why are these two quarters so specific on the health and accident results in particular?

Morten Mosegaard Christensen – Danske Bank – Chief of Staff

So in terms of the timing, there are obviously a number of moving parts since this will be a public issuance requiring a rating. And there will be some timings considerations, both for internal reasons as well as for market reasons. I think, that's as close as I can get to that. In terms of health and accident, what you'll see is that it has actually been a little bit different moving factors over the different quarters, with the investments results moving according to the market and the other being more idiosyncratic reasons that are taking effect.

Operator

We will now take our next question from Riccardo Rovere from Mediobanca.

Riccardo Rovere – Mediobanca

Just a couple of questions, if I may. The first one is, again, on client retention. Just to better understand, if the clients as you are trying to retain after taking decisions whether to continue banking with Danske or not, do you think the vast majority of those clients will take their decisions over the next 6 months? So if we don't see a massive outage of clients over the next couple of quarters, we might be fairly, let's say, sure that what has to come out has gone out. Do you think 6 months is a kind of reasonable period of time? The second question I have is on credit losses. You have posted DKK 100 million, if I remember correctly, credit losses

at Group level this quarter after a stream of quarters posting reversals. Do you think that the age of reversals is over?

Jesper Nielsen – Danske Bank – Interim CEO

I will start with the client retention. I think, it's obviously hard to say when we look sort of across the board, we see very limited outflow at this point in time, except for our personal banking portfolio in Denmark, which is still at a fairly low level in terms of outflow and nothing that we can see in our volume numbers, for instance. So we expect this to be low to moderate. I think you are right that we will see sort of the effect within the next six to nine months. That also, obviously, depends on how big the media attention to this topic will be in the coming time. Christian?

Christian Baltzer – Danske Bank – CFO

Yes, so you're asking whether the age of reversals is over. So I think we don't really guide on that. I think, it's really notable that we have a strong credit quality, we have a strong book and I don't know, Claus, if you want to chime in, but we can over the cycle see what 15 to 20 basis point is like over the cycle impairments, right? And we've had a couple of years with good macroeconomics that have given us reversals.

Claus I. Jensen – Danske Bank – Head of IR

Yes, that's right, we have had reversals for many quarters in a row, and to be completely honest, we have also been surprised to see that we have been able to continue reversals for such a long period. There is no doubt that this is not a stable situation, and at some time, we are not able to do more reversals. No doubt that credit quality is strong and impairments will remain at a low level, but exactly guiding on when reversals will stop, that is not possible for the time being.

Operator

We will now take our next question from Robin Rane, Kepler Cheuvreux.

Robin Rane – Kepler Cheuvreux

Can you please remind us on the accounting rules that Danske Bank is subject to? At what point of clarity do you have to make a provision for potential fines or settlements? And secondly, given the discussion of customer retention, is there any risk of losing partnerships with the unions in Sweden and Norway?

Morten Mosegaard Christensen – Danske Bank – Chief of Staff

So in terms of the accounting rules for doing provisions, first of all, we have to be in a situation where we can say, it's more likely than not that we will actually get a fine. And second, we will have to be in a position where we will need to reliably estimate the size of the fine. So both of those conditions needs to be fulfilled before we can start setting aside any number as an exact provision. And that is why we've guided before that we will communicate this in terms of Pillar II add-ons, in terms of the language we use in Note 10, and then ultimately, if we get in a situation where we can reliably estimate a fine, then we will obviously do that.

Jesper Nielsen – Danske Bank – Interim CEO

And to your second question, we have very strong partnership agreements in both Norway, Sweden and now also, from the start of this year, in Finland. We expect that the commitment still in the partnerships will remain strong, both from us and our partners.

Claus I. Jensen – Danske Bank – Head of IR

And then we would like the last question, please, operator.

Operator

We will now take our last question from Bruce Hamilton, Morgan Stanley.

Bruce Hamilton – Morgan Stanley

First one, just on the progress on the internal investigation. I know that when you reported in September, you were 6,200 clients through the 15,000 and, obviously, you've dealt with the riskier ones first. Can you give us any sense of time line to when we might expect the remainder to be completed? And I guess, importantly

(technical difficulty)

Claus I. Jensen – Danske Bank – Head of IR

Bruce, can you please repeat the question?

Bruce Hamilton – Morgan Stanley

Yes, sure. So first one was just on the timing of the internal investigation. Whether you can give us any sense, having worked through the riskier clients first, when you might be able to give the full detail of the investigation? And linked to that, any evidence of sanctions breaches because, obviously, the good news, I guess, in the initial release in September was that there wasn't any so far. And then, secondly, on the trading and fee lines you talked about some pressure given the sort of macro geopolitics, etc. But as we've entered into Q4, has there being any sign of improvements? A number of your peers, albeit in some different geographies, I guess, have been more optimistic on certainly the fee outlook in Q4 whereas trading is more mixed, but any sort of commentary around outlook, that would be helpful.

Jesper Nielsen – Danske Bank – Interim CEO

Let me take the first question. We are more interested in quality than time when we go through the rest of the portfolio. And in terms of sanction breaches, we refer back to the report of 19 September and say that the picture has not changed from then. Morten?

Morten Mosegaard Christensen – Danske Bank – Chief of Staff

Yes, so and you asked in terms of trade and fee outlook, and what we can say, obviously, is that Q3 is usually a seasonal low on both those lines, as activity is usually lower over summer. We did see a little bit of a pickup on trading activity towards the end of the quarter. But whether that's

going to be a sustainable pickup is something that still remains to be seen, I would say. And in terms of fees, I think we have a decent trajectory if you compare to the situation last year. Generally, there was a difference due to the inclusion now of SEB. And then, there are some headwinds on FX in terms of fees. But otherwise, we do see a good trajectory in fees, overall.

Operator

There are no further questions in the phone queue. At this time, I would like to hand the call back over to Mr. Nielsen for any additional or closing remarks.

Jesper Nielsen - Danske Bank - Interim CEO

Yes, just a few final words from me. Thank you all for your interest in Danske Bank and for your questions. As always, you're welcome to contact our Investor Relations department, if you have more questions after you've had time to look at the financial 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.

Operator

This will conclude today's conference call. Thank you all for your participation. You may now disconnect.