



# Conference call

Annual report 2018

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Investor Relations

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## SPEECH

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### Jesper Nielsen – Danske Bank – Interim CEO

Hello, and welcome to the presentation of Danske Bank's financial results for 2018. Thank you all for taking the time to listen in on this call today.

My name is Jesper Nielsen, interim CEO. And with me, I have our CFO, Christian Baltzer, and our Head of Investor Relations, Claus Ingar Jensen.

Slide 1, please. In today's call, we will present Danske Bank's financial results for 2018. We aim to keep this presentation to around 20 minutes. After the presentation, we'll 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. 2018 was a challenging year for Danske Bank, primarily due to the very serious issues arising from the activities of the previous non-resident customers at the Estonia branch, but also due to the financial results, which did not meet our own expectations as they were at the beginning of the year.

Net profit for the year came in at DKK 15 billion, which was in line with our latest outlook announcement, against DKK 20.9 billion the year before. The result was affected by our decision to donate the estimated gross income from the terminated non-resident portfolio in Estonia, and by difficult conditions for trading income-related activities in particular, throughout the year.

The result represents a return on shareholder's equity of 9.8%, against 13.6% the year before.

In 2018, the Nordic economies were generally characterised by stability and good activity levels. The positive business momentum led to an increase in lending of 3% from 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.

Lending at Banking DK, which represents around half of total lending, grew 1% year-on-year, driven by our commercial activities. Lending at Banking Nordic, which represents 1/3 of total lending, grew 5% year-on-year, or 7% in local currency, with growth in most segments.

As expected, the impact of the Estonia case on our retail business in Denmark seen in the third quarter continued for the rest of the year, whereas the number of commercial customers remained flat.

On a net basis, approximately 11,000 core retail customers, the so-called NEM-konto customers, left Danske Bank in 2018. Through a large number of dialogue meetings, we have taken every opportunity to engage in dialogue with our customers. The outflow of retail customers is very much concentrated in the Danish part of the business, whereas we saw stable trends and increasing business volumes in the other Nordic countries.

The impact of the Estonian case also affected customer satisfaction, however, with some variation. In Norway and Finland, we remain on target, ranking in the top 2 for both commercial and retail customers. Whereas in Sweden, we saw a negative effect, predominantly among retail customers. In Denmark, customer satisfaction declined one notch in both segments. And in Denmark as well as in Sweden, we are below our target of being in the top 2.

The significant decline in income from trading activities in the financial markets can be attributed to uncertainty related to future interest rate developments and challenging conditions in the rates markets. The uncertainty in the financial markets also had an impact on our Wealth Management business, where fee and trading income were negatively affected.

Expenses came in significantly higher than the year before as a result of the donation of the estimated gross income of DKK 1.5 billion from the non-resident portfolio in Estonia in particular. Expenses were also affected by the inclusion of SEB Pension Danmark in the cost base, increased costs for regulatory compliance as well as the costs of the Estonia investigations.

Our credit quality benefited from benign macroeconomic conditions and remained strong. A continuation of loan impairment reversals through most of the year had a positive impact on the financial results.

Our capital position remained strong. The common equity tier 1 capital ratio of 17% is well above the minimum regulatory requirement and also above the target level of around 16%.

In 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 a total of DKK 6.9 billion.

Our funding activities in non-preferred senior format resumed in January, when we issued a total of USD 3 billion. The transaction met with very solid interest from investors, with order books totalling more than USD 10 billion across the U.S., Europe and Asia, and was a strong evidence that we retain good market access.

However, we fully acknowledge that the funding spread largely reflects the negative impact of the Estonian case. On the basis of our result, the Board of Directors is proposing a dividend of DKK 8.5 per share, representing a pay-out ratio of 51%.

Finally, for 2019, we expect net profit in the range of DKK 14 billion to DKK 16 billion, excluding any potential gain on the sale of Danica Pension in Sweden. Christian Baltzer will make comments that are more detailed on the outlook for 2019 later in this presentation.

Slide 3, please. Before we go into details about the financial results, let me just say a few words about the Estonia case, which gave rise to considerable attention in the media and turbulence in the financial markets during 2018, especially after we published the findings of the internal investigations in September.

We have included a comprehensive description of the course of events in our annual report, and so I will not go into detail in this call. We're still working tirelessly on the remaining part of the portfolio investigation in order to identify suspicious activity. However, as stated previously, the timing of the completion is uncertain and subject to dialogue with the authorities. It is also not yet possible to estimate the timing or amount of any potential settlement or fines.

We are 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. In the U.S., 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. In addition, a class action lawsuit has been filed in the U.S. related to our ADR programme.

In January, we received a letter from a French court in Paris summoning Danske Bank to an interview relating to the ongoing French investigation of organized money laundering. The letter states that the judge envisages changing Danske Bank's status from that of an assisted witness to being placed under formal investigation.

It is very important for us to stress that we cooperate fully with all the authorities.

The internal work on the remaining part of the internal investigation is a key priority for us. We have established a separate governance structure in order to optimise both internal and external resources and to strengthen our dialogue with all relevant authorities. The day-to-day work is now anchored with 2 members of the Executive Board.

Slide 4, please. Now, I would like to talk about our efforts within AML. As you know, since 2014, we have significantly improved our setup, capabilities and competencies through substantial IT investments and allocation of resources to combat financial crime. However, as financial crime continues to evolve, we will continue to invest substantially.

Our upscaling of efforts within AML has added around 600 FTEs to this area in 2018. This creates both a cost overhang in 2019 and a high dependency on manual processes. Further, a management review has concluded that more resources are needed in 2019 as a continuation of our efforts to improve and strengthen our work within AML. This creates further expense pressure from additional resource allocation in 2019.

In light of the rapidly increasing resource allocation we've seen over the last year, it is a key priority for us to launch measures to improve the efficiency and the quality of our AML work. The purpose is twofold: firstly, it is paramount for us that we become best-in-class among our peers, especially on the back of the Estonia case; and secondly, improved efficiency for AML procedures is essential for our ambition to offer the best customer experience. Therefore, we have decided to accelerate our digitalisation efforts in order to avoid manual processes and future cost increases in this area. Detailed identification and scoping of specific

areas are ongoing, and we expect to provide an update regarding our initiatives within AML digitalisation efforts during 2019.

The total planned investments amount to up to DKK 2 billion over the next 3 years, earmarked for AML digitalisation efforts. The impact on expenses in 2019 is estimated to be around DKK 0.3 billion.

Christian, please proceed.

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#### Christian Baltzer – Danske Bank – CFO

So, slide 5, please. And thank you, Jesper. Let's take a look at the main items of our financial results. Net interest income for the year came in at DKK 23.6 billion. This was slightly down from the level the year before. Excluding currency effects, NII was up 1%, driven mainly by lending growth of 3%. In addition to the currency effect, lower margins and transfer of the Baltic business to the Non-core unit had a negative effect on NII. Issuance of AT1 in the second quarter also had a negative effect.

Net fees came in at DKK 15.4 billion, down 2% from the year before. Fee income was adversely affected by lower customer activity in the capital markets. Mitigated, however, by the inclusion of the SEB Pension Denmark in Wealth Management, with full effect from the third quarter.

Net trading income came in at DKK 4.7 billion, down 34% from the year before when income was high. Through the year, income was increasingly affected by challenging market conditions in FI&C in particular.

In Q4, we had a positive one-off impact of DKK 0.2 billion from the sales of assets. Other income came in at DKK 0.7 billion, down 55% from the year before, owing to the sales of Krogsveen and weaker risk results in the health and accident business at Wealth Management.

Operating expenses came in at DKK 25 billion, up 10%, affected in particular by the donation of the estimated gross income from the non-resident portfolio in Estonia of DKK 1.5 billion.

Finally, we saw net loan impairment reversals of DKK 0.7 billion as credit quality continued to be strong.

Slide 6, please. During 2018, we continued to see strong business momentum in our banking units, based on an increasing lending in almost all segments because of higher customer activity than last year and a good inflow of new business.

In Banking Denmark, we continue to see good customer activity and stable lending growth of around 1%, driven by commercial lending, which was up 3%. Profit before loan impairment charges was down 2% due to an increase in the cost of regulatory compliance.

Overall, credit quality remained strong, and we saw a high level of net impairment reversals, although the level was lower than the year before.

At Banking Nordic, we continue the progress in all markets based on a good inflow of business from both retail and commercial customers. Measured in local currency, lending volume was up in almost all markets, most notably in Sweden, where volumes within retail and commercial rose 12% and 10%, respectively. In Norway, growth in lending was led by retail lending, which was up 6%. In Finland, lending to commercial customers was up 12% from the year before.

Total income was slightly down, despite NII being up 5% from the level of the year before, as the sale of Krogsveen in the first quarter lowered other income. The sale also affected expenses, which were down 3%. Overall, credit quality remained strong, and we saw net reversals in 2018, against net charges the year before. This trend was driven by a couple of cases in Norway.

In Northern Ireland, the business in 2018 was characterised by good underlying performance and good customer activity, despite continued uncertainty around Brexit. Measured in local currency, lending and deposits were up 8% and 7%, respectively. Profit before loan impairment charges was down 23%, as the result in 2017 included a positive one-off of DKK 0.3 billion related to staff pension agreements.

Slide 7, please. Let's take a look at the units that are more dependent on the financial markets. At C&I, profit before impairment declined 33% from the level last year when income was very high. The main reason for the decline was significantly lower income from FI&C as a combination of difficult factors in the financial markets had a negative impact on our ability to generate income from facilitating customer transactions for most of the year.

Total income declined 22% from the level the year before, mainly because of lower trading and fee income. Income was adversely affected by the transfer of the Baltic exposure to Non-core, however, this effect was offset by one-off income from the sales of assets. Expenses were down 7% due to a lower performance-related cost and transfer of the majority of the Baltic exposure to Non-core.

Impairments showed a charge of DKK 0.3 billion as the credit quality of the oil-related exposure continued to stabilise in 2018. In the fourth quarter, however, we saw charges against a few single-name exposures. At Wealth Management, profit before tax was down 30% from the level of the year before. The negative development was caused in particular by the health and accident business.

The acquisition of SEB Pension Denmark was approved in the second quarter and included in the numbers as of June. Fee income was up 1% from the level of the year before, due mainly to the acquisition of SEB Pension Denmark. At Asset Management, performance fees in the fourth quarter amounted to DKK 154 million, against DKK 368 million the same quarter the year before.

Trading income and other income came in lower than last year, adversely affected by lower investment and risk results in the health and accident business. Expenses were up 18% due mainly to the increased regulatory costs and the effect of the acquisition and integration of SEB Pension

Danmark. Asset under management were up 3%, owing mainly to the acquisition of SEB Pension Danmark. In 2018, net sales at asset management amounted to a negative DKK 18.4 billion, mainly because of the outflow of a few large customers. Premiums in Danica Pension amount to DKK 44.1 billion, against DKK 39.7 billion the year before, and included premiums from SEB Pension Danmark of DKK 5.6 billion. In December 2018, Danica Pension announced the sale of the Swedish part of the business. As the deal is subject to approval by the authorities, the financial impact is expected in 2019.

Slide 8, please. Moving to expenses. Total expenses for the year amounted to DKK 25 billion, up DKK 2.3 billion, or 10%, from the level last year. Excluding the donation of DKK 1.5 billion, expenses were up DKK 0.8 billion, or 3%. In 2017, expenses included a positive one-off of DKK 0.3 billion related to a staff pension scheme in Northern Ireland. The increase in staff and consultancy costs includes higher expenses for compliance, the investigation of the Estonia branch and expenses related to the acquisition of SEB Pension Danmark. Lower performance-related expenses had a mitigating effect.

In 2019, expenses are expected to be at around the level of last year, including the donation of DKK 1.5 billion. The increase in underlying costs is caused by AML-related costs, which include both an overhang from upscaling in 2018 and an estimated cost of DKK 0.3 billion in 2019 for our dedicated efforts to improve the quality and the efficiency of AML processes. Higher VAT cost and the full year effect of the acquisition of SEB Pension Danmark will also affect expenses in 2019, as will the expected higher activity-related cost.

Slide 9, please. Credit quality remained strong. In fourth quarter, loan impairment charges for our core activities showed a small reversal. Excluding a positive one-off of DKK 0.1 billion, we had a small charge in Q4.

The loan loss ratio for the quarter, excluding Non-core activities, was negative 1 basis point. All Nordic banking units showed net reversals in the fourth quarter. At Banking Nordic, the impairment figures benefited from a sale of debt claims of around DKK 0.1 billion. At C&I, impairment charges amounted to DKK 0.2 billion in the fourth quarter, driven by single-name exposure within oil-related exposure. At Banking DK, the impairments were lower than the previous quarter due to lower charges against exposure in the agricultural segment.

Slide 10, please. Our capital position remains strong, with the reported CET1 ratio of 17% at the end of the fourth quarter. In October, our CET1 capital target was increased to around 16%, following the increase in Pillar II. The total capital ratio of 21.3% reflects the increase in CET1 of 0.4 of a percentage point from the preceding quarters. The total capital target is above 20%.

The development in the CET1 ratio benefited from the effect of the discontinued share buy-back programme. However, this effect was partly offset by the move of Swedish mortgage risk-weight floor from Pillar II to Pillar I, which partly explained the increase in the credit risk REA. The

leverage ratio was 4.6% according to transitional rules and 4.5% on the basis of fully phased-in rules.

Slide 11, please. Finally, the outlook for 2019. We expect net interest income to be around the level of 2018 as volume growth will offset higher funding costs and margin pressure. This is subject to changes in funding spreads.

Net fee income is expected to be higher due mainly to the effect of the acquisition of SEB Pension Danmark and subject to customer activity.

Expenses are expected to be around the level in 2018, including the donation of DKK 1.5 billion due to higher costs related to AML, SEB Pension Danmark, VAT and activity. The outlook includes a cost of DKK 0.3 billion earmarked to AML digitalisation efforts.

Loan impairment charges are expected to be higher. And finally, we expect net profit for 2019 to be in the range of DKK 14 billion to DKK 16 billion.

Slide 12, please. And over to you, Jesper.

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**Jesper Nielsen – Danske Bank – Interim CEO**

Thanks, Christian. So those were our initial comments and messages. We are now ready for your questions. Please limit yourself to 2 questions. If you're listening to the conference call from our website, you are welcome to ask questions by email.

Operator, we're ready for the Q&A session.

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**Operator**

(Operator Instructions).

We will now take our first question from Robin Rane.

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**Robin Rane – Kepler Cheuvreux**

So you're guiding for flat expenses basically, 2019 versus '20 including the donation. How much of cost in 2019 would you say is of a more temporary nature? And then secondly, given that we were not provided by new details from the investigated suspicious customers or the investigations, should we take that as good news that nothing of new substance has surfaced? Or contrary reading something like that into the no news?

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**Christian Baltzer – Danske Bank – CFO**

Okay. I'll take your first questions. And thank you for that. So you're asking which part of this cost increase we can regard as more temporary. I think it's important to kind of comment that the VAT and the SEB are of a more permanent nature, of course. Then we have the overhang from our off-staffing in AML, which is basically what we're trying to offset when we invest this amount in IT digitalisation. So some of the increases that you're seeing for more manual labour, we are going to, over time, take back down so that we can have a more efficient way of dealing with our

AML activity and compliance activities. So, you should kind of see the AML and IT investment as an upscaling for a period that will eventually come down again as we have digitalised most of our processes.

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**Jesper Nielsen – Danske Bank – Interim CEO**

And for the second question, in terms of the investigation. I think, as we said in relation to Q3, the picture that stood from the publication of our internal investigation on 19 September still stands. We have no intention of updating the market on a continuous basis. We have that dialogue with the authorities. And that also means, of course, that the picture painted at that point in time seems to be the right one.

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**Operator**

Our next question comes from the line of Johan Ekblom.

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**Johan Ekblom – UBS**

I just have 2 things. Just, in terms of the customer flows, you sort of indicated there's been some acceleration in net-net decline of customers. How should we think about that going forward? Do you think we're kind of at the peak in terms of negative customer flows? And how long should we expect this to last? And maybe related to that, what kind of action are you taking to reduce the potential impact in terms of customer flows? And the second thing is just really on the fees in Wealth Management. So, we've seen a very sharp increase in the underlying gross margin if we exclude the performance fees. To what extent is this related to the full SEB integration or any other things? Or is this more of a technical accounting nature?

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**Jesper Nielsen – Danske Bank – Interim CEO**

Let me take the first question in regards to customer flows. I think if you look sort of across the board in terms of customer movements, it's fair to say that on the corporate side in general and the business side, we have very stable customer numbers and no outflow. Actually, it seems that the book in general is increasing, especially in terms of volumes. Then we have good customer traction in Norway and Sweden, especially on the personal side. And if you add Finland, you have the same picture on the business side, that we are moving forward also in terms of number of customers and volumes. So, I think we can isolate, sort of, the undercurrent from the Estonia case in terms of customer outflow at this point in time to the 11,000 core retail clients that we have lost in Denmark. Now, I think it's important to note that even though we're obviously sad to lose any customer of the bank, this does not have a size that materially impacts the results of our Danish franchise. So, this seems to be manageable. But obviously, we're doing everything we can to stop the outflow. And I think it's a simple formula we have in that regard, it's meeting as many customers as possible, telling them about where we are in terms of the Estonia case, that we take full responsibility, that we make sure that we do the clean-up on the portfolio in Estonia. And then for almost everybody, we agreed to continue to do business. But I think it's basically just doing that, making sure that we make ourselves available and proving everyday that we are a good bank for our customers.

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**Christian Baltzer – Danske Bank – CFO**

I'll take the second question. I think the overarching story of Wealth Management and the fee income is that we had SEB joining us in June, which actually gave us the uplift we expected. However, I think we're also -- it's very clear for us that in 2018, we had less fee than anticipated originally, but primarily because of the kind of tough markets in Q4 as assets under management dropped due to the market conditions and not necessarily due to outflow. You talked some about the margins. I think that the -- Claus is seeming like he wants to take that off-line with you, if there's something specific on the accounting side you want to go through. But the overarching theme and also what we're guiding into '19 is that SEB is a great asset for us. It's going to definitely give us the extra income on the fee side. And it fits very nicely into our 'one wealth' strategy.

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**Johan Ekblom – UBS**

Yes. No, no, we can take it off-line. It's just this kind of a 13% increase in management fees quarter-on-quarter, despite the fact that AuM is falling. Was just trying to square that, but we can take that off-line.

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**Claus I. Jensen – Danske Bank – Head of IR**

Johan, we can add to that question, that there has been some accounting challenges when we have included SEB Pension. So, the increase you have seen in management fees is, to some extent, mitigated by or explained by a lower risk allowance fee in Danica Pension. That is something that will be corrected in Q1. But we can take that after this call.

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**Operator**

Our next question comes from the line of Adrian Cighi.

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**Adrian Cighi – RBC**

Two questions, please. On the 2019 net interest income guidance, can we try to unpack that guidance a little bit more, please? Because on funding costs, we know that we have some headwind from the non-preferred senior issuance, but also tailwinds from the lower refinancing costs for covered bonds and we should also have some benefits from the rate increase in Norway and Sweden. My question to you is, are you being too conservative with your guidance? And then maybe one follow-up question on the Estonia case. We know that the customer flows are probably imperfect metrics as customers sometimes change banks without actually closing their account, but instead they leave by becoming dormant and moving their business to a different bank. When I looked at group deposits, they declined by DKK 45 billion, or 5%, from the beginning of the year, with half of this coming from Wealth Management. Do you believe this deposit outflow is related at least in part to AML case? And do you see this sort of equally split across your client base? Or is it more sort of targeted Wealth Management clients?

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**Christian Baltzer – Danske Bank – CFO**

I'll take the first one on the guidance, and I'm assuming you're specifically talking about our NII part of the guidance. I think for us, we're definitely

seeing -- we're going into a period of time where we are having elevated spreads on a lot of our issuance. It has been predominantly to senior non-preferred and not covered bonds. I think the headwind is then offset by the growth in our lending that we are having in the different markets. Do also bear in mind that we are increasing our funding range, where we say DKK 70 billion to DKK 90 billion, that is also giving us a little bit of the headwind. And then lastly, as we are also communicating, there are some margin pressures that we need to be aware of. So for us to guide in the range of where we landed NII this year, we feel very comfortable with, and I don't feel that is overly conservative.

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**Jesper Nielsen – Danske Bank – Interim CEO**

Okay. And if I take the second question, in terms of the effects of the Estonia case. As I understand, your question is -- so when we say core retail clients, do we also see an outflow of other types of clients? And I think it's fair to say that in terms of the 11,000, that would be what we consider household customers, if you like, or full-service customers. If you look at the total population of customers, the number is a bit bigger. It's 29,000, but that's the total movement in our customer portfolio. And as you know, our customer portfolio is 1.4 million people. So that also contrives different kinds of movements, but also single-name or single-product customers. It usually also is partly clean-up activities, account numbers that haven't been closed for a period of time, stuff like that. So, I think the right number to concentrate on here is the 11,000 core retail clients. In terms of our deposits, we don't see any structural change in our deposit book over the course of the year. We cannot identify these to certain types of clients. Usually, these numbers move a little bit also from month-to-month, but we don't see any structural changes.

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**Operator**

Our next question comes from the line of Mads Thinggaard.

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**Mads Thinggaard – ABG Sundal Collier**

This is Mads from ABG. The first one is on your long-term ROE goal of being in Nordic top 3. Looking at your net profit guidance for 2019, including the higher underlying costs in '19, it looks a bit like you're stuck with a ROE below 10% even with low loan loss provisions. When is that -- I mean, when do you expect to actually be in top 3 in the Nordic space? Is that like post AML digitalisation in 2022? Or when do you or do we see that happening?

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**Jesper Nielsen – Danske Bank – Interim CEO**

That's a very good question, Mads. I think, obviously, we're only guiding for 2019. But if I'm to put a few words on, we think, if you look at our underlying business and you sort of mentally, if you like, exclude for the Estonia case, we still think we have a lot to offer to the market. We think we're underlying, actually becoming more and more efficient as well. So I think there's 2 things that determine when we're sort of into normal territory where we can compete in the top 3 again. One is when will the repercussions of the Estonia case cease off? Because that also means that a lot of the extra cost will die away. A lot of the extra heavy burden, if you like, in terms of also keeping our customer base intact, that you can

lift your eyes a little bit and look forward. So, I think that's one key thing. The second key thing is, how fast are we able to make the right solutions for our customers on AML? How fast are we able to digitalise some of the customer journeys in this respect? So, I think whether that is 1, 2 years, I'm not sure, but the ambition remains. But I think those are the 2 most important factors as to when will we see Danske Bank at sort of a normal level in terms of competing with our peers.

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**Mads Thinggaard – ABG Sundal Collier**

Okay. Okay. And then my second question, I was just wondering a bit about is C&I here in Q4. It seems NII and lending is going in quite opposite directions with very high lending growth but NII down. I don't know if you could put a bit of a flavour on what happened here?

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**Christian Baltzer – Danske Bank – CFO**

I can take that one. This is -- we pushed our Non-core business -- sorry, our Baltic loan book has been pushed to Non-core. And that's actually affecting the numbers, which might be the confusion that you're reading in the numbers.

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**Mads Thinggaard – ABG Sundal Collier**

Okay. Again in Q4, that is affecting...

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**Christian Baltzer – Danske Bank – CFO**

You are talking about the Q4 versus Q3 numbers in general?

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**Mads Thinggaard – ABG Sundal Collier**

Yes, Q4 versus Q3. Yes.

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**Christian Baltzer – Danske Bank – CFO**

Yes. So...

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**Mads Thinggaard – ABG Sundal Collier**

The lending is going up by 6% right? And NII down by 4%?

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**Claus I. Jensen – Danske Bank – Head of IR**

Yes. There is an effect coming from the Baltic transfer. There is no doubt about that.

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**Mads Thinggaard – ABG Sundal Collier**

Okay. Some sort of effect there?

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**Jesper Nielsen – Danske Bank – Interim CEO**

It may take a bit of time to move all of the portfolio in this case. So there's a prolonged effect over the year.

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**Mads Thinggaard – ABG Sundal Collier**

Okay. And then lending is something else that doesn't contribute to NII?

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**Jesper Nielsen – Danske Bank – Interim CEO**

No.

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**Operator**

Our next question comes from the line of Bruce Hamilton.

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**Bruce Hamilton – Morgan Stanley**

So just wanted to go back to NII and funding. Just to check, what you've baked into your guidance is around what? DKK 40 billion of non-preferred, just to check. And then I think you said DKK 70 billion to DKK 90 billion is your expectation in total. So it feels like you're sort of front loading. Is there a specific reason for that? I mean, you're assuming, I guess, that funding costs aren't likely to come down over the next 2, 3 years, so you just get on with it? Just keen to understand that. And then secondly, and I know we're still relatively early stage of the AML stuff, but as you -- to get further along, I assume you'll seek to settle with all authorities in one go? Or would you expect you end up doing it sequentially? I suspect if it's the latter the risk is, it ends up costing you more. Have you thought about how you approach that?

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**Claus I. Jensen – Danske Bank – Head of IR**

Yes. I will take your first question on the funding side. It's usually so that we tend to be front loading our annual funding need in the first half of the year. We know that this is where the market is more receptive to funding. And that's why, if you go back, you would see that historically, we have normally completed more than 50% of our funding need when we approach the summer period. So there are no unusual things about that.

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**Bruce Hamilton – Morgan Stanley**

And we should expect that DKK 40 billion...

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**Christian Baltzer – Danske Bank – CFO**

Yes, just add to that, I think you're absolutely right. We're guiding to DKK 70 billion to DKK 90 billion in funding needs. And I think we have roughly said that around half of that will be in non-preferred senior instruments. So that is still the expectation that we are aiming for.

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**Jesper Nielsen – Danske Bank – Interim CEO**

And I can take your second question in terms of how we proceed and what will be our strategy in terms of settling the case. Obviously, this is very early days. We've only started the dialogue and the investigations. They've only been starting by authorities. So all of this is really early days. Now if we could choose a combined settlement covering all countries in one go, that would obviously be nice, and we would like to work towards that. Unfortunately, it's not us who calls the shots in this regard, it's the authorities and how they want to approach this. And I think it's way too early to say how exactly that will play out across the different countries where we are under investigation. But obviously, if we can do what we can do to move things in that direction, that would obviously be a good thing for us.

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**Operator**

Our next question comes from the line of Martin Birk.

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**Martin Birk – Carnegie**

I have 2 questions. The first one relates to your corporate lending in Norway and Sweden. It seems like there was a bit of a step change here. Could you maybe elaborate a little bit about the dynamics? And then finally, it seems like you have front-loaded a lot of funding, and this is maybe back to what Claus said, but there is also a deadline coming up. It seems like that -- or I expect that the Danish FSA are going to come out with a report on your MREL need here in the beginning of February. What do you guys expect from that? Those are my 2 questions.

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**Jesper Nielsen – Danske Bank – Interim CEO**

Okay. Should I start, just on the lending side. It's true that we see very solid growth in both Norway and Sweden. It stems mainly from what you could call mid-corp business in both countries where we've had very good traction lately. So we're very pleased with that development.

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**Christian Baltzer – Danske Bank – CFO**

And on the funding side, you're absolutely right that here on 1 July we'll be needing to meet the Danish FSA's MREL requirements. So most of our non-preferred senior is something that we we'll be working on in the first half of the year.

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**Martin Birk – Carnegie**

Okay. Just back to my first question. If I look at it on slide 15, it looks actually like your commercial lending in Norway and Sweden is, when I say step change, I mean in the negative direction. So, I do not really understand that. It seems like your retail lending continues to perform, where your commercial lending is coming down quite a bit. And then on to the MREL requirement. I'm aware that this is going to be met by July. But as far as I understand, there are also questions as to whether your final MREL need will be -- will need to be met based on your Q4 '17 numbers or your Q4 '18 numbers. And capital requirements for you, they have gone up over the year, which would mean that you guys would need to issue extra NPS in order to meet the MREL requirement, right?

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**Christian Baltzer – Danske Bank – CFO**

Okay, so Martin I'll just take the last one first. You're absolutely right, that we need to figure out from the Danish authority what is their basis for the MREL requirement. We are planning on them being the hardest to us, so actually, taking the Q4 '18 numbers or the Q4 plus our Pillar II add on. So that's what we're planning for. And we'll get to the information from the FSA during the next couple of months on what they expect us to meet. Once we have that information, we'll plan accordingly. But currently, we are planning for the toughest amount.



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**Jesper Nielsen – Danske Bank – Interim CEO**

So, I can just revert to the other thing. So, I mean, I thought you meant year-on-year. If you look at the quarter, it's true that we have an easing off, especially in Norway, and we don't think that's anything structural.

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**Claus I. Jensen – Danske Bank – Head of IR**

Yes, and if I may add on that. The decline you saw in Norway is due to a capital market transaction, where we took a single exposure off the balance sheet for the customer and did a capital market issue instead.

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**Operator**

Our next question comes from the line of Riccardo Rovere.

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**Riccardo Rovere – Mediobanca**

Couple of questions, if I may. The first one is, do you expect the Danish FSA to add extra buffers, extra add-ons on anything on your capital requirements over the foreseeable future? And the second question I have is, do you see any headwind on your capital from tightening regulation like IFRS 16 or maybe TRIM?

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**Christian Baltzer – Danske Bank – CFO**

I'll take the first one. Currently, we have no knowledge of the Danish FSA wanting to add additional capital strength to Danske Bank. They asked us last time that we were to reassess the level of capital, and this is the Board then reassessing the capital needs for Danske Bank and getting it approved by the Danish FSA, which we have agreed with. But currently, there are no -- we have no knowledge of any further commands from the FSA. Claus, you want to take that?

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**Claus I. Jensen – Danske Bank – Head of IR**

Yes, and on your question on IFRS 16, I think we can say that it's only having a very, very limited impact on our capital position.

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**Riccardo Rovere – Mediobanca**

Okay. And on TRIM, do you have any idea, or is it too early to say?

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**Christian Baltzer – Danske Bank – CFO**

Can you repeat the question?

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**Riccardo Rovere – Mediobanca**

On TRIM, the review of internal models by the EBA. Is it too early to say? Do you expect any headwind from that?

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**Christian Baltzer – Danske Bank – CFO**

I think it's too early to say. But we're also having the Danish FSA's reviewing our model.

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**Claus I. Jensen – Danske Bank – Head of IR**

No, I think, in -- we are normally very cautious in making any outlook for the development in the risk exposure amount during the coming year. But I can say that we expect an impact coming from growth and then it's subject to activity. Any other impact coming from model changes is something that is not material as we can see it for the time being.

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**Operator**

Our next question comes from the line of Per Grønberg.

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**Per Grønberg – SEB**

A couple of questions from my side. First of all, your profit warning in December was on trading. I think the explanation of what has went wrong has been quite vague. Can you be a bit more precise, how much of this is loss of business momentum, and why should we expect that to come back in '19? And how much of this is a spread movement? If you see a number of your peers addressing the profit warnings they have come out with the widening of the spread from Danish mortgage bonds. That was my first question.

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**Claus I. Jensen – Danske Bank – Head of IR**

Okay. I can say that we have seen a deterioration of the market conditions for our FI&C business. It's our FI&C's business and it's especially the Danish part of the FI&C business that has suffered during 2018. This doesn't only go for Danske Bank. I think we have, over the last couple of weeks, seen enough of evidence that other European and U.S. banks, which are involved in FI&C business, also have suffered, especially in Q4. What we have seen in Q4 is a further lowering of the volatility in the market and that is having an adverse effect on our FI&C business. That is creating tighter bid/offer spreads and that's why we have communicated in our report that it has become increasingly difficult to make a profit on our customer flow. But, of course, there are also other elements that have contributed to the development in the FI&C business. We had very flat yield curves, and we had very tight risk premiums on Danish mortgages, which is of course an important part of the business that we have in FI&C. And then we can say when it comes to market share, no, we maintain our strong market share in the Danish business. And it's also our perception that other banks have suffered for the same reasons as I've just explained.

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**Christian Baltzer – Danske Bank – CFO**

And if I can add to that, Claus. I think, when we came out with the profit warning, we went out at that point not knowing whether or not the sale of the assets that has also affected trading was going to come through or not. And it did, which give us the additional roughly DKK 200million in our trading uplift. So that was kind of an off-setting where trading didn't look as bad when we ended the year compared to when we were issuing the profit warning, there on the 20th.

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**Per Grønberg – SEB**

Well, what you're saying here is that there's basically no value adjustments hitting this one, like we're seeing in most other Danish banks. The key question of mine is, why should we expect your FI&C revenues to be above DKK 0.5 billion per quarter as run rate going into 2019?

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**Claus I. Jensen – Danske Bank – Head of IR**

Yes, I think the bigger picture here is that we have had a very strong performance in 2016 and '17. And that was driven by a significant interest and inflow into Danish krone products. 2018 was unusually low. I guess the truth probably lies somewhere in between. But as you know, we are not guiding for trading income as such, but I would definitely say that 2018 was unusually low.

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**Per Grønberg – SEB**

Okay, but you're not giving us any reasoning why it's low. You might not be guiding, but our job is still to guess on a number on 2019. And basically, it's a bit difficult not to guess on a very, very low number on the FI&C business. Then adding on top that you'll probably not make DKK 500 million on own shares again next year?

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**Claus I. Jensen – Danske Bank – Head of IR**

I think there are a number of factors that are having an influence on the FI&C business and that is a yield curve volatility and the absolute level of yields. Also, credit spreads and the development within our DCM secondary business also had an adverse effect. So, I think it's a combination of those factors that you should look for when you're trying to estimate the market conditions for FI&C.

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**Per Grønberg – SEB**

Okay. I have 2 very short questions besides that. On your cost for 2019, you went a bit out into the future. You're addressing DKK 2 billion in investments to be taken over the next 3 years. The expense impact of DKK 300 million in 2019, I assume that's the amortisation of those activated costs and something that will also be there after 2019. Is that correctly understood?

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**Christian Baltzer – Danske Bank – CFO**

Per, you're right that the DKK 2 billion is not something that's going to get burned off in 2019. And the DKK 0.3 billion effect is the kind of amortisation and kind of the burn rate that you would see impacting our P&L in 2019. I think when we go out into the other years, where we've kind of been talking about having a similar run rate on the amortisation of the costs going forward for a period of time, as we start seeing benefits from the investment taking place and actually reducing the impact on the P&L from the amortisation. I would expect maybe a little lift up before it actually starts coming down, so it's not going to be a complete flat line. But again, the DKK 2 billion in something that we are not going to put it up on the balance sheet in '19, it'll be pushed over the 3 years. And then

the amortisation will probably be over a 6-7-year period until that is all taken off as immaterial assets.

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**Per Grønberg – SEB**

Okay. Perfect. My final question, just a clarification. If during your investigation on the Estonian scandal, you are coming across any material breaches of U.S. sanctions. I assume it's fair that the market would have been informed about that. Is that a fair perception?

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**Jesper Nielsen – Danske Bank – Interim CEO**

I think the perception that if anything material changes in picture we have put up on 19 September, I think it will be natural to inform the market.

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**Operator**

Our next question comes from the line of Joakim Svingen.

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**Joakim Svingen – Arctic Securities**

I have 2 questions as well. The first one is quite general, regarding the return of equity target, the long-term one. Just to be clear, are you dependent on a lower core equity tier 1 target to achieve that? Or do you see that as possible also with the current core equity tier 1 target? And my second question is related to the outflow of customers. I was just curious because in my view, you're quite aggressive on retail pricing in Norway. So are these discussions with clients on the retail and corporate side met with price reductions in Denmark? Or is it purely dialogue?

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**Jesper Nielsen – Danske Bank – Interim CEO**

Let me just take the ROE question first. I think if you look long term, it will be a combination of factors. I think, obviously, we will also, at some point, run at more normal capital levels. I think that's natural. But given the circumstances, it's important for us to send the signal that we are rock solid all-in-all in terms of withstanding sanctions or any material effects on our business from the Estonia case. So, I think a normalised capital level would also be part of meeting the long-term target as I see it right now. But obviously, that is to be shown into the future. If you look at the outflow, I think we have a very competitive offering in Denmark. And I have no intention of changing the structure on that at this point in time. So, if you look at the strategy in Denmark as compared to Norway, obviously, we're the incumbent in Denmark. We have many customers, we still have many customers. We've succeeded in retaining most and have not had outflow that sort of impacts our financials. So, this is definitely not the time for any sort of draconian actions in Denmark concerning price. So we're still focused on having a good and competitive offering. That's sort of the license to play. And if you look at the business in Denmark, I'm sure we have that as we speak now.

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**Joakim Svingen – Arctic Securities**

That's very clear, thanks.

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**Operator**

Our next question comes from the line of Jakob Brink.

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**Jakob Brink - Nordea**

Jakob from Nordea. 2 questions as well. On the lending margin from your fact book. For the past 2 quarters as well as in this quarter, the lending margin has been coming down somewhat, around DKK 50 million. But in the past 2 quarters, it's been driven by changes to the FTP model. And we have had opposite, or sort of the same, impact on the deposit margin, just being positive this quarter. There is no change to the deposit margins, it looks like it's just a squeeze to the lending margin. And also there are some strange movements in Sweden of the margin. Could you maybe elaborate a bit on what's going on with the lending margin and how much is FTP, et cetera?

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**Claus I. Jensen - Danske Bank - Head of IR**

Yes. We haven't seen any significant FTP impacts on the lending margin. But we have seen a trend over the latter part of last year, where there has been an increased pressure on margins in general. And, of course, also on lending margins. And that is, of course, also the background why we have mentioned that in our outlook for this year.

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**Jakob Brink - Nordea**

But then just coming back to your net interest income guidance. Because if you're going to issue the amount of funding you said before and you're going to front-load it so you get around the same spread as last time, and you're seeing margins basically offsetting lending, why should net interest income be flat?

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**Claus I. Jensen - Danske Bank - Head of IR**

Because there's a growth element in it as well.

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**Jakob Brink - Nordea**

Yes. But this quarter, the margin squeeze was exactly the same size as the volume growth. So zero impact?

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**Claus I. Jensen - Danske Bank - Head of IR**

Yes. But we have also seen a lower growth rate in the last quarter than we had seen before. We tend to have a full year view when we are making our outlook, and that is why the development that we have seen only in Q4 is not totally applicable to our outlook for the full year.

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**Jakob Brink - Nordea**

But according to your fact book, the volume support in Q4 was the biggest in the past 3 quarters. Okay. But anyway, my second question was on the health and accident results. It's been weak, basically Q2, Q3, and Q4. And now in Q4, even more weak. We heard from one of your competitors in Denmark that it's due to the new law on how to account

for health and accident. But could you give us some guidance of what we should expect in 2019? Is this the same low level? Or are you going to raise prices on health and accident?

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**Christian Baltzer - Danske Bank - CFO**

So I'll take that, Jakob. So, I think there was a push through of a good amount of price increases in the beginning of the year, 2018, that has not gained its full effect. We did see some increase in accidents over the year. However, we're also working on other remediations such as procurement and making sure to get cost control around this health and accident book. Do bear in mind that some of this is also impacted by the investment in the health and accident business, so there's a risk side and there's the investment side. And the investment side is also impacting the trading. So guiding into 2019, the activities that I have seen Danica working on to get this under control seem to be at the right level. There can always be volatility around this, as you know. But I feel that there has been put the right actions in motion to get back on track on that book that is currently not performing as we'd like it to.

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**Operator**

Our next question comes from the line of Jacob Kruse.

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**Jacob Kruse - Autonomous**

Just 2 questions. Could I just clarify, we had the discussion a little while ago. Just on the trading side. Are you effectively saying there are no mark-to-market effects in terms of liquidity portfolios? Or similar things or xVAs that are impacting the Q4 trading numbers? Apart from the valuation gain that you talk about the sale of collateral. And my second question was just, in terms of your international banking activities, has the AML crisis had any impact on non-Estonian corresponding banking relationships and your ability to do that kind of global business?

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**Claus I. Jensen - Danske Bank - Head of IR**

No, we can confirm that we don't have any mark-to-market effects on the C&I trading income from any portfolio. The bank's liquidity portfolio is now managed by Group Treasury. So that's another activity item. The positions we see in C&I are very small positions that are specifically related to servicing our customers. We don't take any positions on our own, so no prop trading and as such, no mark-to-market effect from that on the trading income.

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**Christian Baltzer - Danske Bank - CFO**

And if I can just elaborate a little bit on that, Claus. I think we have to take a couple steps back and remember that Danske Bank has been through a transition in its FI&C business, where if you look at before 2016, there was prop trading, there was other activities. Right now, we are facilitating customer transactions and carry very little risk on our own books during this. Now that means that we are subject to customer activities. And I think there is no doubt in '17 and '16, we saw a lot of customer activities coming from a very high level. And it's been subdued in 2018, the customer activities. Now that is kind of a different level than we have

been at and we've had some tailwind in '16 and '17 and had headwinds in '18. You can do your averaging maybe on those to figure out what we might be looking for. But we are very much affected by customer activities on this.

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**Jesper Nielsen - Danske Bank - Interim CEO**

Okay, now I'll take the second question regarding our access to international banking facilities. I guess that's in terms of correspondent banks, payments access, et cetera. We see unhindered access, if you like, to payments around the world and to our correspondent banks. I think on top of that, it's fair to say that obviously, the case around Estonia attracts a lot of attention. So in terms of answering questions as to where is Danske Bank in terms of performance, in terms of where are we on the case, there's much more international dialogue with our counterparts in different parts of the financial world, if you like, around the world. But I think that's natural. So far we don't see any access problems across the space of correspondent banks.

I think that was the last question. Thank you all for your interest in Danske Bank and for your questions. As always, you're all welcome to contact our Investor Relations department if you have more questions after you've had time to look at the financial results in more detail and maybe also have extra questions on top of the ones you've asked here. A transcript of this conference call will be added to our website and the Investor Relations app within the next few days.

Thank you very much.