Conference call

Interim report – first quarter 2019

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Investor Relations

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Jesper Nielsen – Danske Bank – Interim CEO

Hello, and welcome to the presentation of Danske Bank's financial results for the first quarter of 2019. 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 the first quarter of 2019. We aim to keep this presentation to around 20 minutes. After the presentation, we'll open 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. The first quarter of 2019 posted a weak financial result compared with the result for the same period the year before. Net profit for the period came in at DKK 3 billion, against DKK 4.9 billion in the first quarter of 2018. The result was affected by lower net interest income, higher expenses and an increase in loan impairment charges but also by a one-off value adjustment in our Non-core activities. The result, which represents a return on shareholders' equity of 7.7%, against 12.6% in the same period the year before, does not live up to our financial ambition.

Given this clearly disappointing development, we have revised our net profit outlook for 2019. The previous outlook for a net profit of between DKK 14 billion and DKK 16 billion is maintained, but we actually guide for a lower net profit as the outlook now includes the expected gain from the sale of Danica Pension Sweden of approximately DKK 1.3 billion, subject to closing of the transaction. The outlook also includes a revised estimate for net interest income, which we now expect to be lower than the level in 2018.

Overall, customer activity remained at a good level, and we continue to see a good inflow of business, in particular at Banking Nordic. Lending grew 3% from the level in the same period the year before and 1% from the level in the preceding quarter. The stable macroeconomic environment continues to offer good underlying business conditions, however, the development differs somewhat among the Nordic countries.

In Denmark, we have started to see a slowdown in the housing market in particular, which affected Banking DK in the quarter.

Although we saw satisfying growth in lending, net interest income suffered from a combination of margin pressure due to strong competition and an increase in market rates and higher funding costs.

Following the last quarter of 2018, during which we did not issue any non-preferred senior bonds, we had significant issuance activity in the first quarter through which we obtained a major part of the funding planned in the form of non-preferred senior bonds for 2019. Throughout the quarter, we executed a number of successful benchmark transactions that attracted broadly-based attention from global as well as local investors. Against this background, higher funding costs impacted the first quarter, in which we also had only very limited redemptions of old funding.

The acquisition of SEB Pension Danmark in 2018 had a positive effect on Wealth Management, whereas items of a one-off nature had a negative effect on trading income. Trading income at C&I recovered, however, from the very low level in the preceding quarter due to less challenging market conditions.

Expenses were up 9% from the level in the same period last year as a result of increased costs for regulatory compliance, further AML efforts and continued investments in digital transformation. Expenses also include costs for SEB Pension Danmark.

Our capital position remains strong. The CET1 capital ratio of 16.7% is well above the minimum regulatory requirement and above our target level of around 16%.

Slide 3, please. Now let me just briefly touch upon the Estonia case, which is obviously still on everybody's mind. We remain under investigation by a number of authorities. But unfortunately, we have nothing new to share with you concerning timing, the size of potential fines or anything of the like. As usual, we will inform the market of any important developments.

Our investigation continues and we continue to share all our findings with the relevant authorities. We still cannot say when we expect the investigation to be completed as this is also subject to our dialogue with the authorities, who may ask for further information on the customers or transactions we report to them.

Since September 2017, when we launched the investigation, we have spent around DKK 450 million on the Estonia case. Looking at our franchise, the impact of the Estonia case on our retail business in Denmark seen last year continued in the first quarter, however, at a slightly slower pace. On a net basis, some 8,500 core retail customers, the so-called NemKonto customers, left Danske Bank in the first quarter, against an outflow of 9,900 customers in the preceding quarter. During the last month, inflow and outflow data indicate a better balance between customer inflow and outflow, hopefully a sign that the outflow that we have seen in the last couple of quarters has peaked.

We also continued to invest in improving our AML efforts. We now have around 1,700 full-time employees working with AML, an increase of more than 850 people since 2017. In the first quarter of 2019 alone, we up-staffed this area with around 300 people. However, our goal is to digitalise many of the AML processes, which is why we will invest up to DKK 2 billion in digitalisation over the next 3 years. That process has already started and will be intensified in the coming quarters. We are now in a detailed planning phase, which means that there is no material impact on expenses in the first quarter. We expect to be able to present more details in connection with the Q2 presentation.

Now I will give the word to Christian for more detailed comments on the numbers. Christian, please proceed.

Christian Baltzer – Danske Bank – CFO

Thank you, Jesper. Slide 4, please. So let me make some overall comments on our result for the first quarter before we take a more thorough look on the various items of the income statement on the following slides.

As Jesper mentioned in his introduction, net profit amounted to DKK 3 billion in the first quarter. This was a fall of 39% from the same period the year before. Profit before impairment charges came in 20% lower at DKK 4.7 billion due to an almost even split between lower total income and higher expenses. Total income was down 6%, and the decline can be attributed to almost all income lines except fee income, which was up 3% from the level in the same period last year. The decline in fee income of 5% from the preceding quarter was due mainly to seasonality. Total income was only slightly lower than in the preceding quarter as trading income, despite a negative one-off, rebounded from the very low level we saw in Q4 last year.

Expenses, which I will comment on in more details later, were up 9% due mainly to costs for regulatory requirements and compliance and the inclusion of SEB Pension Danmark in our cost base. Loan impairment charges showed a net charge in the first quarter of DKK 0.4 billion, up from the year before and the preceding quarter when we had a net reversal.

Finally, the result in our Non-core activities, which was a negative DKK 0.3 billion for the period, was due mainly to a one-off value adjustment. This also had an adverse effect on the financial result for the first quarter.

Slide 5, please. Now let's take a closer look at the underlying development in net interest income. NII was down 7% from the level in Q1 2018. The increase in lending volume had a positive effect, however, this was more than offset by an unfavorable margin development. NII was down 6% from the level in Q4'18. Three factors affected the business in the first quarter: Firstly, competition continued to be very intense in most markets. Secondly, we saw higher short-term rates in Norway and Sweden in particular. Thirdly, as Jesper alluded to earlier, the dynamics from funding activities was significant. We saw a rise in funding costs for a large amount of MREL eligible instruments, for which the issue volume amounted to DKK 36 billion.

As we have previously communicated clearly, the part of the higher funding costs that exceeds a comparable level for our peers will be held internally and will therefore not deteriorate our competitive position. These costs are included in the ‘other' item shown on the slide.

Slide 6, please. The pressure on margins was most significant in Banking Nordic. The effect of higher short-term rates also had a negative impact on floored loans within commercial lending in Sweden. We do not expect to see any further negative impact on this type of loans from additional rate hikes in Sweden.

Corrective pricing action has now been initiated in line with the development we have seen among our peers. The effort of these actions will be seen in the second quarter, however, only for part of the quarter.

At C&I, the decline in NII as well as in lending volume was due to the transfer of portfolios to Non-core. We continued to see solid lending growth in Banking Nordic, driven by most segments. In Norway, retail lending, measured in local currency, was up 8% from the level in the preceding quarter, mainly because of a strong inflow of customers from our partnership agreement with Tekna.

At Banking DK, lending was up 2% from the level in the same period last year. Lending was flat, however, from the level in the fourth quarter of 2018 partly due to a slowdown in the housing market and lower risk appetite.

Slide 7, please. Let's have a look at fee income. Compared with the same quarter last year, fee income was up 3% due mainly to the acquisition of SEB Pension Danmark that had effect from June 2018. The acquisition explains a significant part of the increase in fee income at Wealth Management from the level in Q1 2018, whereas the decline of 5% from the preceding quarter was due to seasonality as we usually recognise performance fees as income in Q4.

Investments fee saw a decrease from the same period last year, due mainly to lower margins from a change in the product mix in asset management.

Capital-market-related fee income came in lower than in the year-earlier period as well as the preceding quarter due to lower customer activity at Corporates & Institutions. Fee income from lending and guarantees was lower. The decline can be attributed to Banking DK where we saw lower customer activity in the housing market-related business in particular.

Slide 8, please. Trading income was down 9% from the same period last year but up 38% from the level in the preceding quarter when trading income was very low. In Q4 last year, trading income even benefited from a positive one-off of DKK 0.2 billion.

At Corporates & Institutions, which accounts for the bulk of our trading income, market conditions were less challenging in the first quarter, which benefited from slightly higher volatility and tighter credit spreads. This had a positive effect on trading income in FI&C and DCM, however, there was a negative impact from value adjustments on the derivative portfolio.

Income from the refinancing of adjustable-rate mortgages was flat at the level for the year-earlier period. At Wealth Management, a negative one-off of DKK 140 million was booked in the first quarter due to a regulatory change in the discounting curve for valuation of liabilities in our life insurance business. This change also had an impact on our capital position, which I'll comment on later.

Slide 9, please. Moving onto expenses. Total expenses for the first quarter amounted to DKK 6.1 billion, and were up 9% from the level in the same period last year. Compared with expenses for the preceding quarter, there was a 2% decline due to seasonality. The increase in staff and consultancy costs includes higher expenses for compliance, the investigation related to Estonia and all costs related to SEB Pension Danmark, which is now part of our cost base. All business units are impacted by higher costs for regulatory requirements and compliance. The headline number for C&I is lower, however, due to a transfer of portfolios to Non-core. The positive impact from rent is of a more technical nature and relates to the implementation of IFRS 16 with the counter-entry being depreciation of tangibles.

Slide 10, please. Loan impairment charges in core activities amount to DKK 0.4 billion for the first quarter, corresponding to a loan loss ratio of 8 basis points. Credit quality overall remained strong due to the stable macroeconomic environment and strong collateral values. However, the increase in loan impairment charges was caused by lower reversals at Banking DK in particular, but also by higher impairment charges against agriculture exposure as well as model adjustments. We now have total accumulated impairments against exposure to agriculture of DKK 3.4 billion, and this is a level that we consider to be very sufficient.

At C&I, single-name exposure pushed impairment charges up to a slightly higher level than in the preceding quarters. In our Non-core activities, impairment charges amount to DKK 0.3 billion as a result of fewer reversals and negative value adjustments.

Slide 11, please. Our capital position remains strong. With a reported CET1 capital ratio of 16.7% at the end of the first quarter, the CET1 capital ratio is still well above our target of around 16%. The total capital ratio was 21.8%, also well above our capital target of above 20%, and was up 0.5% following a new euro tier 2 issuance from March. The development in the CET1 capital ratio was affected by a higher REA due mainly to a higher credit risk as a result of a technical implementation of IFRS 16. The CET1 capital ratio was also affected by a higher deduction of Danica Pension related to the reduction of the VA add-on. The leverage ratio was 4.5% according to the transitional rules as well as fully phased-in rules.

Slide 12, please. And then finally, the outlook for 2019. We have changed the outlook for NII and net profit from the outlook stated in the annual report 2018. We now expect net interest income to be lower than the level in 2018 as volume growth will be more than offset by higher funding costs and margin pressure. Finally, we continue to expect net profit for 2019 to be in the range of DKK 14 billion to DKK 16 billion, however, this now includes the expected gain on the sale of Danica Pension Sweden of approximately DKK 1.3 billion subject to closing of the transaction.

Slide 13, and over to you, Jesper.

Jesper Nielsen – Danske Bank – Interim CEO

Thank you, Christian. We are ready for the Q&A session after our initial comments and messages. (Operator Instructions) Operator, we are ready for the Q&A session. Thanks.

Operator

(Operator Instructions) And our first question comes from the line of Jakob Brink from Nordea.

Jakob Brink – Nordea

Two questions. The first one is regarding what you just mentioned briefly before about the pricing initiatives in Norway and Sweden with the impact into Q2 and Q3. Could you maybe help us a bit? How much should we expect from Q1 to Q2 and from Q2 to Q3 in basically all the Nordic countries?

And then secondly on SEB Pension, when you acquired it, I just looked through the slides and your stated synergy targets, et cetera. Could you maybe give an update on that especially in the light of the quite negative development on illness and accident, which you booked in your other line? Then at the same time, maybe give us a little guidance for other income going forward, which seems to be quite weak. And I do understand from you that you're mentioning the SEB Pension as part of the reason why it's so weak. So could you give us an update on that? That will be appreciated. Thank you.

Christian Baltzer – Danske Bank – CFO

Thank you, Jakob. I'll try to give a little bit of colour on the pricing. So in Sweden, we have hiked our prices around 20 basis point across selected maturities. So this has a large effect into Q2, and we had only very little effect in Q1, so you'll see a full year effect of that also in Q3.

In Norway, we have a little bit of a delay before we can actually reprice the back book. So we priced the front book up 15 to 25 basis point in general. Predominantly, the 25 basis point range is where we've had most of our both front and back book has been priced to. So those are kind of the effects, and you'll start seeing the effect of this in May because that is the timing for the delay of repricing some of our agreements, and then you'll have full effect in Q3 and Q4. So hopefully, that gives you a little more colour both on the numbers and the rate hikes that we have done, but we basically followed our competitors in the market more or less.

So with respect to the SEB. So the integration is going very well. Also, we're starting to see significant, on our cost savings, synergy savings on SEB. You're absolutely right that we have seen some adverse development in the other line, and some of this is due to the accident and health. There has been some kind of detailed understanding of the accident and health book over the past year, which has kind of made us put more reservation on repricing. Currently, we don't anticipate the other line to be affected by accident and health more. In the future, it's always, of course, hard to predict on this line. But we have actually seen some more technicality adjustments here in Q1 on the other line. As some of the reserving models for accident and health have been updated that are giving some adverse effect. So you should see more the Q1 numbers as more technical character and not as much as a going level for the profit on the accident and health book.

But in general, I would say the SEB, as you can also read in our impairment section of the Fact Book, we believe that there is a great value in the acquisition that we did even though there's been a little bit of an adverse development on the accident and health areas. So -- and we are seeing the benefits of our synergies rolling in quite nicely.

Jakob Brink – Nordea

So you used to be at DKK 400 million per quarter in the other income line. Then you sold the Norwegian real estate brokerage, and you're down to around DKK 300 million. And now we're at DKK 100 million. So are you basically saying we're going to go back to DKK 300 million? Or will there still be some adverse impacts?

Christian Baltzer – Danske Bank – CFO

I think the other income line does have some more volatility. I think that the DKK 100 million is a low level in my mind, and it should be coming up higher. But we are not really guiding for that line. But I think you're -- what you're saying seems more or less in the right range, so yes.

Operator

Our next question comes from the line of Per Grønborg from SEB.

Per Grønborg – SEB

Let's start off on the commission line. Your fees for investment products are down 10% q-on-q even if we exclude performance fees. What drives this? And how should we look at the timing aspect of the strong rebound you have seen in asset values during the first quarter? My second question, more structural, if I look at your numbers for Finland, cost/income ratio now in the 70s, how do you see Finland proceed from here? I assume this is not satisfactory the performance you are seeing currently.

Christian Baltzer – Danske Bank – CFO

So, okay. I'll try to explain to you Finland. I would actually say that, on our Finland, a lot of the costs that are coming in here are central driven costs that are being allocated out. So it's more of a technical - it's not the underlying cost income ratio of Finland. I think in Finland, we are generally seeing a strong growth in our corporate segment. We are still working hard on our retail segment. I think some of the products that we have been pushing out with the top floor and whatnot are showing good traction in the market. We're happy to have MobilePay in Finland and actually seeing to gain some momentum there. But you should not read the cost/income in Finland too much into that. It is a little bit of an allocation thing internally that with the high amount of additional cost from our investigation and as AML activity is kind of pushing a little bit on some of our allocation keys. And then you had a comment about commission, -- Jesper, you want to?

Jesper Nielsen – Danske Bank – Interim CEO

No, you. Please, you take it.

Christian Baltzer – Danske Bank – CFO

So I think that what we have seen in general, if I'm answering your question, is that we have had assets under management that has been reduced also from a market share perspective. We're having net assets under management, net sales, that are positive. But I think in general, we are seeing some insourcing of mandates. We are seeing some customers kind of leaving because of the Estonia case. It's a very little amount of what we have lost. So I think with the strong performance in our Q1 numbers, that should hopefully start gaining some more momentum and also selling some of our portfolios and get commissions from that. So I don't know if that was what you were alluding to, Per. But please ask your follow-up question.

Per Grønborg – SEB

Yes. If we start by going back to Finland, your income in Q1 is the lowest ever you have had in Finland. So it doesn't look like you have any great momentum on the sales side in Finland. I, of course, understand if we should be reluctant to look at the cost due to the AML issue. That's fair enough.

Christian Baltzer – Danske Bank – CFO

So I think -- I mean -- I don't -- Claus, you want to? I think in general, the lending growth is good in Finland, Per. And I think that on the income lines, I don't recall right now what the actual put together of the income line in Finland could be. But maybe I'll follow up with you later on that?

Per Grønborg – SEB

Let's do that. And on the commission side...

Christian Baltzer – Danske Bank – CFO

Hold on, Per. Per, I have -- Claus is happy to help here.

Claus I. Jensen – Danske Bank – Head of IR

Yes. No, it's -- we have seen decent growth in the commercial lending but no reason to hide that on the retail side, we have struggled to get momentum on the growth. Secondly, Finland is, as you know, one of the most competitive countries where we are operating in. So Finland has always been, I would say, the least profitable of the Nordic countries. And that's confirmed by the numbers we have seen in Q1.

Per Grønborg – SEB

Okay. Back to the commission and investment fees. You're down 10% q-on-q. I assume you haven't had the 10% outflow of assets. Is this such a strong pressure on margins? Or is this a reflection of the rebound in asset prices coming in with some delay into your asset fees?

Claus I. Jensen – Danske Bank – Head of IR

I think it would be fair to say that there would be some delay. But on the other hand, there is a pressure on margins, yes, and there is also a shift in products, which is trending towards more lower-margin products. And that's also having an effect on the fees in Wealth Management.

Per Grønborg – SEB

Meaning minus 5%, 10% next quarter is not unrealistic?

Claus I. Jensen – Danske Bank – Head of IR

I think that's too early to conclude anything around the run rate on that development for now.

Operator

Our next question comes from the line of Bruce Hamilton from Morgan Stanley.

Bruce Hamilton – Morgan Stanley

Firstly, just on the internal investigation, I know you can't give us a time frame for when that might complete. But do you plan to share what you learn from that with the market? Or is it that just going to be for the regulators? Because I guess, for example, if you were to find no sanctions breach having done the full clean, then clearly, that is probably quite an interesting and important data point for the market. So I'm just trying to understand, will you share that? Or should we not expect anything, and therefore, it's going to be only when we get through this sort of regulatory process?

And then secondly, in terms of the competitive dynamics in Norway and Sweden, I hear what you're saying the structure of the balance sheet means that you're probably suffering a bit more on the short-term funding moves. Is there any push to try and increase the deposit funding to reduce some of the impact, I know that would take time. But do you think that the structure of your balance sheet is how you would like it to be in Sweden and Norway at this point?

Jesper Nielsen – Danske Bank – Interim CEO

Thanks, Bruce. Let me just answer first on the internal investigation. There is no news here, basically we will share everything we know basically with authorities, and we'll only get back to the market if there is things that we think we need to address. This is a combination of factors, if you like. But I think the most important reason for that is we do not want to upset the investigations of the authorities by providing a lot of news to the market around this. So unless the story changes in terms of what we presented on the 19th of September, when we presented the Bruun & Hjejle report, we will not actively go into the market unless there's news. But if something happens, we'll come back on that.

Then in terms of the competitive dynamics in the Nordics, I think it's fair to say we've been very good at dealing with or getting lending growth. The cross sales in general and our split between lending and deposits, we think could be strengthened both in Norway and Sweden. It's more important for us in Norway since we've launched the Danske Hypotek in Sweden. But we would like to see deposits coming up in both countries, and we would like a better balance between lending and deposits in both markets.

Bruce Hamilton – Morgan Stanley

And so just to clarify, if at the end of your internal investigation you have not found any evidence of sanctions breaches, you wouldn't share that with the market because it wouldn't be a change to what you said back in September?

Jesper Nielsen – Danske Bank – Interim CEO

Correct.

Operator

Our next question comes from the line of Mads Thinggaard from ABG.

Mads Thinggaard – ABG Sundal Collier

This is Mads from ABG. The first one is moving a bit back to NII, and I think I was a bit puzzled when you guided for flat NII in 2019 back in February, and I think a lot of investors had the same view. Could you kind of elaborate a bit, I mean, what has surprised you? Is this merely due to doing more funding than you expected? Or have you also seen more margin pressure in the market than you actually expected there back in the start of 2019? And perhaps also, if you could shed a bit of light on, I mean, how you see that moving forward, the margin pressure.

And then I would like to ask about the large rebound in the FI&C income that you see here on Q1. Is that something that is sustainable? Is this -- I mean, around a bit below DKK 1 billion in FI&C income at Q1, is that kind of what we could expect going through 2019 per quarter? Or do you think it will move a bit down from here?

Jesper Nielsen – Danske Bank – Interim CEO

Thanks, Mads. Let me take question #1 in terms of NII. I think when we look back, we have increased the amount of funding we got in the markets, probably more than we had expected from the start. And we've issued around DKK 51 billion. So that is the primary - one of the primary change drivers here. Then it was hard to see at the time the full effect of exactly what was going on in Norway and Sweden. And there, we have sort of the structural issue that Christian explained about. And then I think, to your point, as well, margin pressure is really fierce, and that goes across the markets. So a lot of competition across the board, which is probably higher than we would have anticipated.

Christian Baltzer – Danske Bank – CFO

And it would be fair just to add a little bit, Jesper. Because I think when you look at Denmark, if you go back a quarter, we have actually tightened up on some of our kind of lending guidelines where we find ourselves to be a little bit more hesitant on the Danish cycle, where we are in the cycle. So that's also a change in our activity. We think it's the right thing to do from a long-term perspective, but it does hit, short-term, our NII.

Claus I. Jensen – Danske Bank – Head of IR

True. And then on your question on FI&C income, of course, we were satisfied to see that there was a rebound from the very low level we saw in Q4. That was based on a more favorable development in the market, which made it more easy for us to generate an income on the customer flow we have seen. But there is no doubt that some of the underlying conditions in the market, as we described them in connection with the annual report, are still out there, relatively low volatility and negative rates. So whether we can maintain the same level is not something we can comment on. It is exactly why we find it difficult to guide on trading income.

So we will just have to wait and see whether this can be maintained. But so far, we have been pleased to see that business conditions improved. But as we also have described in our messaging, we saw business conditions as being less challenging in Q1.

Operator

Our next question comes from the line of Jacob Kruse from Autonomous Research.

Jacob Kruse – Autonomous

Could I just go back a little bit to the funding impact? So could you just go through how much of this other move was related to issuance of non-preferred senior in the quarter? And also, when I look at the next three quarters for this year, should I assume that there will be continuous rolls of funding that will put further pressure on net interest income?

Christian Baltzer – Danske Bank – CFO

So just to take your last question first. I think that we have been very front-loaded in our issuing, and we are having some issuing here in Q2 rolling off, so to speak -- not issuing but funding. We also see ourselves actually going to be accessing the market here in Q2.

When it comes to the other line, I think there are several movements in here, and Claus, please chime in here if you have. But there's definitely some of this that is due to the fact that we have not allocated this additional out to the business areas. We have said there's around 1/3 of that, that is kind of where -- that is not being allocated out to the business. We also have some movement in our hold-to-maturity portfolio. So there are other things in our NII composition. In here, you will also find the IFRS 16 effect on our NII.

So there's a couple of components in here that are giving us headwinds. Unfortunately, they all have the same directions in the changes that we have seen. I don't know if you have anything more to add, Claus.

Claus I. Jensen – Danske Bank – Head of IR

No. I think that's a fair description.

Jacob Kruse – Autonomous

And just those other headwinds, are they -- are any of those temporary? Or is that a persistent effect?

Christian Baltzer – Danske Bank – CFO

So the IFRS 16 you can argue is a move between lines or in the balance sheet so it's not really changing the net profit. You'd say there are some of the funding which is impacted more long-term, and then there are the areas that more have a volatile nature. If we have interest going back up, it might change our hold-to-maturity portfolio as we reinvest some of our off-balance sheet stuff. So I think there is -- it is not all one-off. It's not all kind of stay there. It's a little bit of a mix. And sorry to be somewhat blurry around this, but it is a bucket of a lot of smaller parts.

Claus I. Jensen – Danske Bank – Head of IR

And you can say, Jacob, that in respect to the funding that we took up in Q1, there is an additional effect from that going into Q2, which is around DKK 80 million to DKK 90 million. And then it's, of course, subject to how the funding activity will be for the remaining part of the year. Even though that we have taken up a lot of funding, there would still be some funding.

Also, note that there hasn't been any effect from the redemptions we are going to see this year. We had redemptions of DKK 6 billion out of the total number of DKK 59 billion for the full year. So the effect from the redemptions we are seeing, especially on the covered bonds side, which was extremely expensive compared to today's levels, will kick in, in the second half of the year.

Operator

Our next question comes from the line of Håkon Astrup from DNB.

Håkon Astrup – DNB

Håkon Astrup from DNB Markets. One question on Norway, please. So since Q1 2018, your Norwegian lending book has increased by around 11%. At the same time, the net interest income of the Norwegian operation is down by 8%. So given this context, are you focusing too much on growth in Norway over profitability?

Jesper Nielsen – Danske Bank – Interim CEO

We would say no to that question. We think we have a short-term item in terms of rebalancing on the back of interest rate hikes. If you look at the growth in Norway for the last period of time and also when we look a little bit into the future, we are pretty confident that we will improve profitability again. So we do not grow just to grow, we grow obviously to run a profitable business, and we still think we can do that.

Håkon Astrup – DNB

Okay. And just one question on the agreements that you have with the unions in the Nordics. Is there anything that prohibits you here to increase these prices and margins if you want? Or is it -- or is the pricing linked to interbank rates or other participants in the markets?

Jesper Nielsen – Danske Bank – Interim CEO

I think without going too much into detail, we have obviously a premium towards market rates that we are obliged to do. But otherwise, we have relatively free hands in our agreements.

Operator

(Operator Instructions) And our next question comes from the line of Adrian Cighi from RBC.

Adrian Cighi – RBC

Two questions, one on impairments and one on capital. On impairments, should we consider Q1 as a sort of a one-off higher than what you expect the run rate for the rest of the year to be? Or should we expect this run rate going forward? And then on capital, you have previously mentioned particularly around the SEB Pension acquisition that you are planning some sort of optimisation to offset some of the impact on capital. Is that something you could maybe guide us on the timing of? Is this something we can expect this year?

Jesper Nielsen – Danske Bank – Interim CEO

Let me just start touching on the impairments. I think we have a number of one-offs in Q1. We don't see any deterioration in our credit quality. When we look at the impairments, it's basically related to Non-core and the Baltic portfolio. It's related to agriculture in Denmark, where we have now gotten accounts in on the back of the drought in 2018, and we have just adjusted our credit models and are a little bit more cautious now in that segment. And then we see single-name cases in C&I and Banking DK, mainly within oil and gas and retail. So nothing structurally here as we see it.

Christian Baltzer – Danske Bank – CFO

And with respect to your capital question, you're absolutely right that in our acquisition of SEB, there is a potential for some capital increases. So we are not guiding on a timing, but it's definitely something that is still on the table for us to be looking at in the near future. So it's still on the table.

Operator

And our next question comes from the line of Jakob Brink from Nordea.

Jakob Brink – Nordea

Sorry, I just have one follow-up. Your question previously about -- or your answer to the question previously about investment fees, isn't it true that margins in the asset management business are actually quite healthy this quarter and it's the non-asset management driven income that's weak? Or do I misunderstand something?

Claus I. Jensen – Danske Bank – Head of IR

No. I think if you look at the -- if you are making a reference to the management fees that we have in Wealth Management, which is down q-on-q, there was very high number coming into Q4 of last year based on a couple of one-offs in Wealth Management. That's why when you make a comparison to Q4 of last year, it looks quite odd.

Jakob Brink – Nordea

But I actually think more than - if we compare to the Q1 of last year, it's a significant increase, and now it's for the second quarter in a row that we are seeing much better margins in management fees.

Claus I. Jensen – Danske Bank – Head of IR

Our management fees are up from the first quarter of last year. But we could take it bilaterally afterwards, if that's better.

Jakob Brink – Nordea

Okay. And then just on capital as well, the dividend, it seems like you have changed it so instead of deducting 60% of net profit after AT1 cost. It seems like you have changed it to 60% of net profit. Is that correct and why?

Claus I. Jensen – Danske Bank – Head of IR

Well, I mean we're always deducting 60% of net profit. That's an obligation we have due to the rules from the Danish FSA.

And then we have a couple of questions coming in on the website. The first one is from Harald Havnen from Carn Capital.

You stated in your report we do see signs that we are now at a late stage in their economic cycle. Could you provide some more colour to this for Nordic country? And what levels of impairment charges should we expect going forward?

Jesper Nielsen – Danske Bank – Interim CEO

Should I start? And I can take -- and you just kick in, Christian. I think when we are cautious, we refer mainly to Denmark, where we see especially price falls on apartments in the largest cities. That is also where we have a big market share. We don't necessarily see that as something that will create impairments, but it might be something that impacts our ambition to grow in exactly those places. The same goes for property in general where we are a little bit more cautious also on the corporate side. This is not, in any way, a hard stop or anything like that. It's merely a cautionary thing where we adjust just a little bit in our appetite. So we don't see this as driving higher impairments for the remainder of the year. I think there is a more stable picture if you look to the three other countries.

Christian Baltzer – Danske Bank – CFO

I'll also add, I mean, it is definitely where we're seeing a lot of the late cycle stuff. It's also that the terms -- we're seeing much more loosening of the terms, which we are not really thinking is the right time in the cycle to actually have looser terms on our loans.

Claus I. Jensen – Danske Bank – Head of IR

And then we have the second question from the website from Karl Storvik from Centra Gruppen.

In Norway, your current mortgage rate is currently some 10 basis points lower than peers, and with limited cross-sales, this is obviously not producing an attractive return on equity. Is there really a need to be a clear market leader on price in this particular market when NII is under pressure?

Jesper Nielsen – Danske Bank – Interim CEO

I think, as I said before, we need to look at this over the cycle. We still have an ambition to grow, not at any cost. It is a fair point that we need more cross-sales, but we're very comfortable with the profitability in our Norwegian portfolio.

Claus I. Jensen – Danske Bank – Head of IR

And then we would like to have the last question, please.

Operator

Our next question comes from Per Grønborg from SEB.

Per Grønborg – SEB

A couple of follow-ups from me. On the one-off items, Danica Sweden, what's the tax situation on that gain? LR Realkredit, is that still a 2020 closing? That was the first question. The second question, if I read the accounts of your mortgage company, they advise that the delta on the loan losses is largely due to model changes and updates. Can you put a number on that? Is that the charge they have in the first quarter? Or is it the full delta versus last year, in which case it would be almost DKK 200 million?

Claus I. Jensen – Danske Bank – Head of IR

Well, I can take the first one. And the gain is tax-free on the sale of Danica Pension Sweden.

Jesper Nielsen – Danske Bank – Interim CEO

I have difficulties hearing you, Per. Can you...

Per Grønborg – SEB

The sale of LR, is that still a 2020 closing?

Christian Baltzer – Danske Bank – CFO

The sale of LR is something we anticipate. We have not said a 2020 closing. I think we have said it's in the process. So whether it comes in '19 or 2020 is -- we have not guided for, Per.

Per Grønborg – SEB

But that will also be a tax-free gain, I assume?

Christian Baltzer – Danske Bank – CFO

Yes.

Per Grønborg – SEB

Okay. And then to what the mortgage companies are writing in their accounting on changed models and model updates, what's the impact of that?

Claus I. Jensen – Danske Bank – Head of IR

I think we can say that the impact from the adjustment of the LGD model that we have done in Q1 is approximately DKK 100 million.

Christian Baltzer – Danske Bank – CFO

And it's fully charged in Q1, Per. So you won't see -- it's not something that's flattened out over the year. It is something we are taking upfront as a one-off in Q1 '19. I think that was a little bit into your question also, right?

Per Grønborg – SEB

Exactly. Perfect.

Jesper Nielsen – Danske Bank – Interim CEO

Thank you all for your interest in Danske Bank and for your questions. As always, you are welcome to contact our Investor Relations department if you have more questions after you have 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.