



# Pre-close call Q3 2020

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Investor Relations

## CORPORATE PARTICIPANTS

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## SPEECH

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

Good afternoon and welcome to the Danske Bank Q3 2020 pre-close call. My name is Claus Ingar Jensen, and I am Head of Investor Relations. With me, I have John Bäckman and Robin Løfgren from our IR team. Please note that this call is being recorded for compliance reasons, and the script used for this call will be published on the Investor Relations website after the call.

In today's call, I will highlight relevant data and one-offs that you should be aware of before the start of the silent period on 14th October ahead of the publication of our interim report for the first nine months of 2020 on 4th November. I will go through the P&L statement line by line and remark briefly on capital at the end. Afterwards, we will open up for a Q&A session.

But before we start, I would like to briefly highlight the obvious: I will be commenting only on already disclosed information and one-offs as well as publicly available data. In this connection, I wish to stress that developments in specific indices may not always have the same effect on our performance. I will limit my response to follow-up questions so as to not include non-published information or qualitative remarks on performance in Q3.

That said, let's start by having a look at net interest income. Please remember that Q3 has one more interest day than Q2. Our usual guidance is for an NII impact of around DKK 30-40 million per day. During the quarter, the Norwegian krone and the Swedish krona appreciated around 2% each on average against the Danish krone, while the pound sterling depreciated around 1% on average. Please note that these effects are calculated averages.

On the funding side, we issued both Tier 2 capital and non-preferred senior debt in the third quarter:

- Effective 2 September, we issued 500 million euros in Tier 2 capital at 196 bps over the 3-month EURIBOR.
- Effective 11 September, we issued 1.25 billion dollars and 750 million dollars in the non-preferred senior format at 3-month EURIBOR plus 81 basis points and 3-month EURIBOR plus 110 basis points, respectively.

Please also revisit page 35 of our Q2 conference call presentation to see the redemption profile for maturing funding.

With regard to volume developments, we refer to publicly available sector statistics as the only externally available source of insight. According to these statistics, the upward trend in commercial deposits in Denmark seems to have continued into Q3. We have nothing to add to these statistics. However, please note our comments from Q2 that the elevated level of deposits as well as some of the short-term lending facilities provided to corporate customers should be seen in the context of the current uncertainty and are therefore not necessarily of a permanent nature.

Market rates have declined during Q3, with 3-month STIBOR and NIBOR decreasing 20 basis points and 18 basis points, respectively, while 3-month CIBOR decreased 7 basis points on the basis of quarterly averages.

To adapt to current market conditions, we cut the rate on Swedish fixed-rate mortgages with interest-reset intervals of 2-10 years by between 11 and 47 basis points with effect from 1st October. This affects the front book immediately and the back book at the next interest reset. Please note that just over half of Swedish mortgages on our books are fixed-rate.

As a response to the competitive situation in the Norwegian mortgage market, we have announced a cut of 5 basis points for our partnership customers in Akademikerne on both loans and deposits. For mortgages, this affects the front book from 17th August and the back book from 24th August. For deposits, the change takes effect on 20th October.

On 15th September, we announced that commercial customers in Denmark will now be charged negative interest rates on their entire deposits. Previously, only deposits above DKK 200,000 were subject to negative interest rates. This affects the front book from 16th September 2020 and the back book from 1st January 2021.

This concludes our messages on net interest income.

Looking at fee income, please remember that Pension & Insurance fees benefited from two extraordinary items in the second quarter, amounting to approx. DKK 200 million in total, as Q2 included a one-off tax gain and a reversal of a guarantee provision taken in Q1. Please also refer to the press release dated 4th September 2020, in which we expect a compensation of DKK 80-100 million for customers in the managed account solution Danske Porteføljepleje. This compensation will be booked in Q3 with the majority booked on the fee line and the rest booked under costs.

Apart from these items, fee income at Danske Bank is, as always, dependent on market developments in relation to our Asset Management business and on activity levels in relation to our banking operations.

The markets have performed well in the second quarter, with an 11% increase in the OMX C25 index in Copenhagen and an 8% increase in the S&P 500 index, just to give a couple of examples.

At Banking DK, remortgaging activity continues to be subdued compared to the very high levels in 2019. For Q3 specifically, remortgaging amounted to DKK 19 billion at Realkredit Danmark, which is slightly below the Q1 2020 level. As a rule-of-thumb, we typically earn around 50 basis points on remortgaging, with the majority booked as fee income and the rest split between trading income and Nil, in that order. Please note that the actual effect is uncertain, as some customers may have chosen to leave Danske Bank. The significant slowdown in remortgaging activity is as expected and in line with our full-year guidance for fee income.

Turning to trading income, please note that we do not guide on this specific line item. Q2 was affected by unusually high activity after a very difficult Q1, which is why Q2 cannot be extrapolated to Q3, which is typically affected by lower activity due to the summer holiday period. Also, please note that Q2 included positive xVA amounting to around DKK 200 million. For reference, the OAS on Danish 30-year callable bonds and swap spread on 5-year non-callable bonds have narrowed by a further 6-8 basis points since the end of Q2, while the spread between Danish and German 10-year government bonds has been rather stable in the same period.

Please note that income from the auctions of Danish variable-rate mortgage bonds for refinancing purposes is typically booked in Q4 and Q1, and therefore no material income is expected in Q3 2020. Please also note that trading income includes the investment result from the health and accident business at Danica Pension.

We do not have any specific comments on Other income.

This concludes our comments on the income lines.

If we look at the cost line, we have not communicated any one-off items, and we have no specific comments to add on cost developments during the quarter.

With regard to loan impairment charges, we reiterate our message from Q2 that we expect most of the impairment charges needed for 2020 to have been recognised in the first half of the year.

We do not have any specific comments on the Non-core and tax lines.

This concludes our comments on the P&L.

As a final point, I would like to touch on capital. As always, our capital position will be impacted by earnings less a 60% dividend accrual. The risk exposure amount is, as always, subject to general market volatility and FX movements as well as growth.

Please note that in Q2, we guided that the REA is expected to increase by around 3% during the second half of 2020 and to continue to increase into 2021, due mainly to the implementation of revised EBA guidelines and technical standards. We expect this to partly impact Q3.

This concludes our initial comments in this pre-close call. Before we move on to the Q&A session, I would like to highlight that we enter our silent period on 14th October. Shortly, we will also start collecting consensus estimates with a contribution deadline on 20th October. Finally, we will publish our interim report for the first nine months of 2020 on 4th November.

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