



Pre-close call Q2 2020

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Investor Relations

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Claus I. Jensen – Danske Bank – Head of IR

Good afternoon and welcome to the Danske Bank Q2 2020 pre-close call. My name is Claus Ingar Jensen, and I am Head of Investor Relations. With me, I have Heidi Nielsen 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 26th June ahead of the publication of our interim report for the first half of 2020 on 17th July. 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 Q2.

That said, let's start by having a look at net interest income. Please remember that Q2 has the same number of interest days as Q1. In the quarter until mid-June, the Swedish krona appreciated 2% on average against the Danish krone, while both the Norwegian krone and the pound sterling depreciated around 3% on average. Please note that these effects are calculated averages, and that, for instance, the Norwegian krone has appreciated since the end of Q1.

On the funding side, we issued both covered bonds and senior preferred debt in the second quarter. Effective 12th May, we issued 1 billion euros in senior preferred debt at 112 bps over the 3-month EURIBOR. Effective 14 May, we issued 5.5 billion Swedish kroner in covered bonds through Danske Hypotek at 3-month EURIBOR plus 15 basis points. Effective 18 June, we issued 6 billion Norwegian kroner in covered bonds at 3-month EURIBOR plus 29 basis points. Effective 22 June, we issued 1.25 billion US dollars in the senior preferred format at 3-month EURIBOR plus 74 basis points. Please also revisit page 33 of our Q1 conference call presentation to see the redemption profile for maturing funding. On 1 May, an MREL subordination cap was introduced, meaning we can now meet part of the MREL requirement by issuing senior preferred bonds.

With regard to volume developments, we refer to publicly available sector statistics as the only externally available source of insight. We have nothing to add to this.

Market rates have developed in opposite directions, with 3-month NIBOR decreasing 117 basis points while 3-month CIBOR and STIBOR increased 26 basis points and 3 basis points, respectively, on the basis of quarterly averages.

To reflect current market conditions as well as increased funding costs, we hiked the rate on Swedish 3-month and 3-year mortgages by 5 and 10 basis points, respectively, with effect from 30th April. This affects the front book immediately and

the back book at the next interest reset, and it covers regular customers as well as our partnership agreements with SACO and TCO.

On 7 May, the Norwegian central bank cut their official rate by 25 basis points to 0.00%. In response to this as well as market conditions, we have announced a cut of up to 40 basis points for both loans and deposits. For mortgages, this affects the front book from 14th May and the back book from 25th May. For deposits, the effective date is 15th July.

As previously announced, on 1st June we introduced negative deposit rates for retail customers in Denmark. Deposits above 1.5 million kroner carry a negative interest rate of 0.60%. As a result of the extraordinary situation caused by the coronavirus pandemic, we have suspended the charging of negative interest for up to 90,000 small businesses with deposits of less than 500,000 kroner.

This concludes our messages on net interest income.

Looking at fee income, please note that 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 a 17% increase in the OMX C25 index in Copenhagen and a 19% increase in the S&P 500 index, just to give a couple of examples.

At Banking DK, remortgaging activity has almost completely halted. Sector statistics show that Realkredit Danmark has seen 1 billion kroner worth of early redemptions in Q2, against 17 billion kroner in Q1. 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 NII, 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. Late in Q1, the global financial markets saw very high volatility, including wider credit spreads and yield spreads between Denmark and Germany, which had a negative impact on trading income in the quarter. In the second quarter, we have seen a swift recovery in the markets although spreads are still slightly elevated. For reference, the OASs on Danish 30-year callable bonds and 5-year non-callable bonds have narrowed by a further 7 basis points and 14 basis points, respectively, since the end of Q1. As a further reference, the spread between Danish and German 10-year government bonds has narrowed by around 8 basis points since the end of Q1.

Please note that trading income in Q1 was impacted by income from the auctions of Danish variable-rate mortgage bonds for refinancing purposes. These auctions typically affect Q4 and Q1, and for Q1 2020, income from the auction amounted to 120 million kroner. Please also note that trading income includes the investment result from the health and accident business at Danica Pension.

Please also note that the sale of shares in VP Securities was carried out in Q2, resulting in a gain of below 100 million kroner. This gain is booked under trading income in Other activities.

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 that we still expect further impairments related to the effect of the coronavirus pandemic, however with a large part recognised in Q1. The extensive changes to forward-looking estimates in Q1 are believed to capture the substantial downside from a macroeconomic downturn.

At Non-core, we have sold our Estonian commercial loan portfolio during Q2, causing a negative value adjustment of around 125 million kroner.

We do not have any specific comments on the tax line.

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, including any potential materialisation of Covid-19-related lending during Q2.

Please note that in Q1, we guided that REA is expected to increase by a low double-digit billion amount in Q2, due mainly to increasing market risk and assuming unchanged positions and market volatility. Further, we now expect the SME discount factor to be implemented in Q2, and this is expected to cause a decrease in the REA of a low double-digit billion amount and thus to mitigate the increase in market risk.

This concludes our initial comments in this pre-close call. Before we move to the Q&A session, I would like to highlight that we enter our silent period on 26th June. Shortly, we will also start collecting consensus estimates with a contribution deadline on 2nd July. Finally, we will publish our interim report for the first half of 2020 on 17th July.

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