



Pre-close call Q4 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 Q4 2020 pre-close call. My name is Claus Ingar Jensen, and I am Head of Investor Relations. With me, I have Robin Løfgren, Olav Jørgensen and Sofie Heerup Friis 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 January ahead of the publication of our Annual Report 2020 on 4th February. 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 Q4.

That said, let's start by having a look at net interest income. Please remember that Q4 has the same number of interest days as Q3. During the quarter, the Swedish krona appreciated around 2% on average against the Danish krone, while the exchange rates of the Norwegian krone and the pound sterling were flat. Please note that these effects are calculated averages.

On the funding side, we did not issue any benchmark funding in Q4. Please revisit page 30 of our Q3 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, commercial deposits in Denmark seem to have stabilised at an elevated level, while lending volumes seem to be subdued. We have nothing to add to these statistics. Covid-19 is still expected to be a key determinant of demand for business loans and credit facilities, and thus the future demand for business credit facilities to mitigate the impact of the coronavirus pandemic is highly uncertain.

With regard to margin development, we also refer to publicly available sector statistics as the only externally available source of insight. According to these statistics, the margin pressure continues in Denmark in certain areas, which confirms our view that the trend from Q3 of flat to lower margins would continue into Q4.

During Q4, 3-month STIBOR and CIBOR decreased 8 basis points and 2 basis points, respectively, while 3-month NIBOR increased 10 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 1-10 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. On 15th September, we announced that commercial customers in Denmark would 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 the compensation of DKK 80-100 million to customers with the Danske Porteføljepleje managed account solution booked in Q3. Most of it was booked on the fee line and the rest was booked under costs. Please also note the usual seasonality of performance fees, which are typically booked in Q4. We cannot comment on the size of performance fees for full year 2020. In the past three years, Q4 performance fees have ranged from 134 to 368 million kroner. In Q4 2019, the performance fees amounted to 358 million kroner.

Apart from this, 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 fourth quarter, with an 8% increase in the OMX C25 index in Copenhagen and a 12% increase in the S&P 500 index, just to give a couple of examples.

At Banking DK, remortgaging activity remained at a lower level after the 2019 record year. Remortgaging amounted to DKK 18 billion in Q4, in line with Q3 but a significant decrease from the Q4 2019 level, which was DKK 55 billion. 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. Q3 saw decent activity despite the summer holiday period. Activity levels among our customers are typically subdued in Q4. Also, please note that Q3 included positive xVA amounting to around DKK 300 million. For reference, the OASs on Danish 30-year callable bonds have tightened 12-15 basis points and the swap spreads on 5-year non-callable bonds have narrowed by a further 6-7 basis points since the end of Q3, while the spread between Danish and German 10-year government bonds remained unchanged.

Please note that income from the auctions of Danish variable-rate mortgage bonds for refinancing purposes is typically booked in Q4 and Q1. In Q4 2020, we expect lower income from refinancing as the auction size was smaller than in Q4 2019, when we booked DKK 61 million in refinancing income. Please also note that the high remortgaging activity in Q4 2019 had a positive impact on net trading income. The investment result of the health and accident business at Danica Pension is included in trading income.

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 stick to our guidance for full-year costs to land around DKK 28 billion. In addition, full-year may also include an extraordinary amortisation of intangible assets. Please note that Q4 normally includes various cost items always booked at year-end.

With regard to loan impairment charges, we reiterate our message from Q3 that we expect by far most of the impairment charges needed for 2020 to have been recognised in the first nine months 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 will be impacted by earnings less the dividend payout. As we have accrued 60% of net profit for dividends over the first three quarters of 2020, the dividend accrual amount in Q4 will be adjusted to achieve the full-year payout ratio that the Board of Directors decides to propose and which will be stated in the annual report.

The risk exposure amount is, as always, subject to general market volatility and FX movements as well as growth. Please note that in Q3, we guided that the REA is expected to increase by DKK 20-30 billion during Q4 due to model updates related to further implementation of EBA guidelines.

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 January. Shortly, we will also start collecting consensus estimates with a contribution deadline on 20th January. Finally, we will publish our Annual Report 2020 on 4th February.

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