Pre-close call Q3 2021

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Danske Bank – Investor Relations

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SPEECH

Claus I. Jensen – Danske Bank – Head of IR

Good afternoon and welcome to the Danske Bank Q3 2021 pre-close call. My name is Claus Ingar Jensen, and I am Head of Investor Relations. With me, I have Olav Jørgensen, Patrick Skydsgaard, Sofie Friis and Nicolai Tvernø 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 public data and macro trends in our markets as well as one-offs that you should be aware of before the start of the silent period on 8th October ahead of the publication of our Q3 report on 29th October. I will go through the P&L statement line by line and remark on capital at the end. Afterwards, we will open up for a Q&A session.

But before we start, for sake of good order, I would like to highlight the following. I will only answer questions related to already disclosed information and one-offs as well as publicly available data as of 27th September unless otherwise noted. In this connection, I wish to stress that developments in specific indices may not always have the same effect on our performance.

Let's quickly touch upon the macroeconomic outlook, before we move through the line items. I want to highlight that a number of macro forecasters, including the Danish central bank, continue to have a positive outlook for the remainder of 2021 as the global economy normalises and the Nordic economies reach full or close to full recovery of economic activity post the COVID-19 restrictions. Data points indicate that consumers quickly return to their former spending patterns once they get the opportunity to do so, and the primary concerns are now related to inflationary pressures and the risk of overheating, as a number of indicators points to that the global recovery has peaked.

That said; let us start by having a look at net interest income.
Please remember that Q3 has 1 interest day more than Q2 with an NII impact of around DKK 30-40 million per day. During the quarter until this week, the Swedish krona and the pound sterling have been roughly flat against the Danish krone, while the exchange rate of the Norwegian krone has appreciated around 1% against the Danish krone on the basis of public data. Regarding volume developments, we refer to publicly available sector statistics as the only externally available source of insight. According to these statistics, lending volumes in Denmark have remained flat while business deposits have been lower and household deposits have been somewhat down post the re-opening of societies. We have nothing to add to these statistics.

With regard to margin developments, we also refer to publicly available sector statistics as the only externally available source of insight. In general, we observe sustained margin pressure.

Since Q2, 3-month STIBOR has increased ~1 basis point while NIBOR has increased ~10 basis points and CIBOR has been close to flat, all on the basis of quarterly averages.

With regards to deposit repricing, we have not announced any further changes since the initiatives we took ahead of the Q1 release. The initiatives announced on 26th April took effect on 1st July and are expected to have a positive impact of around DKK 250 million, all else equal, in the second half of 2021. Further to this, we reiterate our previous comment on sustained margin pressure. Additionally, Norway's central bank raised its benchmark interest rate to 0.25% on 23rd September. Further to this we have increased our lending rates with up to 30 bps and deposit rates with up to 15 bps for certain customers with effective dates 10 November and 24 November, respectively.

Then, on the funding side, we issued a dual tranche senior unsecured USD benchmark in Q3. Both tranches were USD 1 bn and were priced at T+55 (Euribor + 36 bp) for 4NC3 and T+73 (Euribor + 54 bp) for 6NC5, respectively. On the redemption side, we gave notice on 7th September of early redemption of our USD 1bn NPS notes with a coupon rate of 3.001%. The notes were effectively redeemed at par on 20th September. Please revisit page 31 of our Q2 2021 conference call presentation to see the redemption profile for maturing funding.

This concludes our messages on net interest income.

Looking at net fee income, we want to highlight four drivers: investment fees, activity-driven fees, housing markets-related fees and Capital Markets related fees.
We can see that the equity markets have been developing positively during the quarter, with an increase of approximately 4% in the OMX C25 index in Copenhagen and an increase of around 4% in the S&P 500 index, which will likely support investment fees and activity in our Capital Markets franchise, just to give a couple of examples however please note that Q3 could be impacted by the holiday season.
Secondly, activity-driven fee income is supported by the economic recovery following the final leg of the re-opening, especially in Denmark, where consumer spending remains above pre-covid levels. In addition, remortgaging activity continues to be at a low level. We also again note that the interest rate development could affect borrower loan preferences as we saw in Q2. Apart from these factors, 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.

Turning to net trading income, please note that Q3 is typically affected by lower activity due to the summer holiday period. Moreover, we have seen higher interest rates, a steeping of the yield curve and a significant widening of spreads on mortgage bonds, where callables have widened ~20-30bps, whereas spreads on non-callable bonds have been unchanged from the level last quarter. The yield spread between Danish bonds and German government bonds has widened ~3-4bps in the 10-year segment.

On 7th September, Danske Bank A/S announced the sale of its shares in Aiia to Mastercard, subject to final approval, which is expected by year-end 2021. The sale does not have any operational effects and will lead to a one-off gain of around DKK 0.1 billion in Q4.

Looking at net income from insurance business, we expect a negative one-off of approximately DKK 0.2 billion in Q3, while the previously announced one-off related to PAL tax in Danica H&A is expected in Q4.

We do not have any specific comments on Other Income.

This concludes our comments on the income lines.

On our costs, please be aware that the Q2 numbers included a negative one-off of DKK 350 million related to the changes in our VAT setup however, recognition of expenses related to remediation of legacy issues will impact Q3. Other than that, we do not have any specific comments regarding our cost development.

In respect of credit quality, we have nothing to add from when we published our Q2 report.

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.
We re-iterate our guidance on implementation of EBA guidelines, where we expect REA to increase by DKK 50-70bn for 2021. Of this amount, approximately 35bn was implemented in H1-21, and we expect around DKK 17bn in Q3. The risk exposure amount is, as always, subject to general market volatility and FX movements as well as growth.

In respect of the Norwegian Systemic Risk Buffer, the Danish Ministry for Industry, Business and Financial Affairs will await CRD V implementation in Norway. We will comment on the impact for the Group once we have further clarity from the Danish Ministry.

On 29 September 2021, the Swedish FSA announced their decision to increase the countercyclical buffer from 0% to 1% with effect from Q3 2022, which is preliminary assessed to increase the Group's fully-phased in CET1 capital requirement by around 0.2%-point as of Q3 2021 all else equal.
We note, that the reactivation of the countercyclical buffer in Denmark to 1.0% from 30 September 2022, and the increase in the countercyclical buffer rate in Norway from 1.0% to 1.5% from June 2022, was already included in the Group's fully-phased in CET1 capital requirement as of Q2 2021.

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 8th October. Shortly, we will also start collecting consensus estimates with a contribution deadline on 14th October EOB. Please note that we will publish our Q3 2021 report on 29th October at 08:00am CET and that the conference call for investors and analysts will take place at 08:30am.

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