Pre-close call Q4 2021

7 January 2022

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 Q4 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 the 13th of January ahead of the publication of our Annual Report on the 3rd of February. 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 3rd of January 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. Despite the development with the Omicron variant of coronavirus, recent restrictions do not lead to significant changes in our economic outlook for 2022. Overall, the Nordic economies are doing well with strong labour markets, among other things.

That said; let us 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 depreciated around 1% against the Danish krone, while the exchange rate of the pound sterling and the Norwegian krone have appreciated around 3 % and 2 % against the Danish krone on the basis of publicly available data. Regarding volume developments, we refer to publicly available sector statistics as the only externally available source of insight. According to these statistics covering the first two months of the quarter, lending volumes in Denmark have remained relatively flat for households while they were slightly up for corporates. Looking at deposits they have come down somewhat but remain at an elevated level. 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 Q3, 3-month STIBOR has decreased ~7 basis point while NIBOR has increased ~39 basis points and CIBOR has decreased ~6 basis point, all on the basis of quarterly averages.

With regards to our retail deposits, we have not announced any further initiatives since the one that took effect on 1st July. On October 1st the Danish Central Bank announced a lowering of its rate by 10bps to -0.6% and subsequently we lowered our deposit rate similarly in Denmark to -0.70%.
For our Danish business customers we have changed the interest rate to -1.1%. At the same time, we have eliminated the yield spread of between -0.75% and -1.00%, within which the standard interest rate was previously set. The change

for business customers took effect on 1st of December 2021, and the estimated impact from this initiative alone is approximately DKK 0.1bn all else equal on a full year basis.

Additionally, Norway's central bank raised its benchmark interest rate to 0.50% on 16th December. In relation to this we increased our lending and deposit rates by up to 25 bps for almost all customers effective from 1st of February and 23rd of February, respectively. Furthermore the Bank of England also raised its benchmark interest rate to 0.25% on the 16th December. Please note that none of these changes will impact Q4 numbers.

As a reminder our Group level interest rate sensitivity following a 25 bps parallel shift of the interest rate curve up/down is around DKK +1000/-600 million. Further to this, we reiterate our previous comment on sustained margin pressure.

Then, in Q4 on the funding side, it is worth highlighting that we issued a EUR 1.25bn 3NC2 senior unsecured, at a price equal to 3M EURIBOR +30 bps. At Danske Mortgage bank in Sweden we also issued a EUR 500m covered bond at a spread of 1 basis points over 3-month EURIBOR. On the redemption side, we gave notice on 15th October of early redemption of our DKK 3 bn Additional Tier 1 Notes equal to a price of 3M EURIBOR + 495 bps issued in November 2016. The notes were effectively redeemed at par on 23rd of November 2021.

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 observe that the equity markets have been more volatile during the quarter, with the OMX C25 index in Copenhagen closing the quarter up around 4.5% and 17% for the year whereas the S&P 500 index was up around 10% in the quarter and almost 30% for the full year. This will likely support investment fees and activity in our Capital Markets franchise, which are booked in Q4, just to give a couple of examples.

Activity-driven fee income is expected to benefit from high economic activity in general as we have seen in previous quarters. Especially in Denmark, where consumer spending remains above pre-covid levels. However, remortgaging activity continues to be at a relative low level. We also again note that the interest rate development could affect borrower loan preferences as we saw in Q3, where preference towards variable rate loans increased.

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.

Please also note the usual seasonality of performance fees, which are typically booked in Q4. It is worth mentioning that during 2021 we have booked higher performance fees in Asset Management on a quarterly basis than previous years amounting to DKK 80 million for the first nine months of 2021. Please also note that we had exceptionally high performance fees in 2020 of DKK 640 million. For comparison we booked on average 401 million for each of the years between 2015 and 2019.

Turning to net trading income. In Q4, we saw that the volatility in spreads on callable bonds was much higher than usual. Overall, callable spreads tightened some 5-10bps during the quarter, whereas spreads on non-callable bonds have been very stable during the same period and been unchanged to 2bps wider in spreads. The yield spread between Danish and German government bonds are unchanged in the 10Y segment.

Looking at net income from insurance business, the previously expected pension yield tax provision for the quarter is no longer deemed necessary.

As previously mentioned, Danske Bank A/S announced on 7th September the sale of its shares in Aiia to Mastercard. The sale does not have any operational effects and will lead to a one-off gain of around DKK 0.1 billion in Q4. This gain is exempt from tax. Please also note that the closing of the transactions from the sale of our business activities in Luxembourg and MobilePay's merger is expected in 2022.

We do not have any other specific comments on Other Income.

This concludes our comments on the income lines.

If we look at the cost line, please note that Q4 includes various cost items always booked at year-end. Activity driven expenses, including adjustments for performance related compensation due to strong financial markets could potentially be higher. As in Q3, expenses related to remediation of legacy issues are expected to continue in Q4 and finally, the costs in Q4 will include a one-off item in the form of tax related expenses of approximately DKK 0.2bn as previously announced.

In respect of credit portfolio, we expect a continued strong credit quality in line with the third quarter.

We do not have any comments on the Non-core or 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 will be impacted by earnings less the dividend payout.

In Q4 2021, we implemented the remaining REA increase driven by the implementation of EBA guidelines which amounted to approximately DKK 45bn. The implementation has allowed us to get a Pillar II relief of DKK 4.1bn in Q4 2021.The risk exposure amount is, as always, subject to general market volatility and FX movements as well as growth.

On December 15th the Danish Ministry for Industry, Business and Financial Affairs announced their decision to increase the countercyclical buffer in Denmark to 2.0 % with effect from the end of 2022, which is preliminarily assessed to increase the Group's fully-phased in CET1 capital requirement by around 0.5 %.

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 13th January. Shortly, we will also start collecting consensus estimates with a contribution deadline on 19th January EOB. Please note that we will publish our Q4 2021 report on 3rd February at 07:30am 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.