



# Pre-close call Q4 2022

6 January 2023

Danske Bank - Investor Relations

## SPEECH

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

Good afternoon and welcome to the Danske Bank Q4 2022 pre-close call. My name is Claus Ingar Jensen, and I am Head of Investor Relations. With me, I have Olav Jørgensen, Katrine Strøbech, 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. Given that we conduct this call via Teams, please be aware that if you want to ask questions, you must log on via the Teams app or your browser. If you are online via a telephone line, the IR team will be available for questions after the call.

In today's call, I will highlight relevant public data and macroeconomic trends in our markets as well as one-offs that you should be aware of before the start of the silent period on 12<sup>th</sup> of January ahead of the publication of our Annual Report on February 2<sup>nd</sup>. 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 the 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 31<sup>st</sup> of December, 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.

I would like start by commenting on the current macroeconomic outlook before we go through the line items. The environment overall continues to be characterised by uncertainty. Central banks remain committed to bringing down the rapid rise in inflation, highlighted by the recent ECB rate hike of 50bps on December 15, with the Danish Central bank following suit.

Our most recent economic outlook indicates some additional uplift in central bank rates, and although unemployment is expected to rise, we still see it being at a relatively low level. While the housing market has slowed and property prices are down from the peak earlier in 2022, economic activity has remained good and household finances remain healthy – a good starting point for entering an uncertain year.

That said; let us have a look at net interest income.

As always, please note the impact of currency fluctuations in the regions in which we operate, and further note that Q4 has the same number of interest days as Q3.

Regarding volume developments, we refer to publicly available sector statistics as the only externally available source of insight. We do note that the housing market has slowed down further while up until the end of November, we saw more resilient business lending. For large corporates, we would expect the lending volume should normalize following the demand for liquidity facilities related to the energy price volatility that we saw in Q3.

As we have seen throughout the year, please be mindful of the potential fair-value effects on the reported lending volume at Realkredit Danmark when rates move up. For Q4 however, we have seen a slight reversal, as for example the rate on 30year fixed rate mortgage bonds in Denmark have moved down during the quarter.

Since Q3, 3-month STIBOR, NIBOR, and CIBOR have increased around 83, 91, and 129 basis points, respectively, all on the basis of quarterly averages. Please be aware that such increases in STIBOR and NIBOR in particular will lead to higher funding costs, all else being equal.

We have seen several central bank hikes during the second half of 2022 across the markets in which we operate. Please note the two rate hikes in July and September of 50bps and 75bps respectively from the ECB and the Danish Central Bank, will have full effect in Q4. We confirm current NII sensitivity of 800 to 900million Danish kroner per 25 basispoint uplift across all currencies, on average over the next 100 bps.

Further to the increases in policy rates, we have adjusted our deposit and lending rates for certain customers. However, as always, these adjustments will be implemented with a slight delay due to notice periods for certain products. For the vast majority of retail deposits, namely transaction accounts, the rate given to customers is currently at 0%.

Turning to wholesale funding, we remain comfortable with our overall funding position and market access which was underpinned by the strong demand for the euro and dollar benchmark issuances we have executed this week.

In Q4, and due to Estonia matter we have refrained from issuing any senior preferred and non-preferred senior as well as capital instruments. The only benchmark issuance in Q4 was thus the NOK 6 billion covered bond we issued on the 23<sup>rd</sup> of November, priced at NIBOR + 58bps.

In respect of our fee income in the fourth quarter, we have noted that activity has started to slow towards the end of the quarter. Our recent spending monitor highlighted that, based on card data for Denmark, spending was down another 0.6% in November from the same period last year, after falling 3.4% in October Y/Y.

Additionally, we reiterate that the development in interest rates in Denmark has enabled some of our customers to benefit from remortgaging, although this is levelling off relative to the activity we witnessed earlier in the year and for Q4 it will likely be countered by a general slowdown on the housing market.

Finally, in respect of activity-driven fees, business activity generally remained at a good level, as indicated by public volume statistics.

Activity remained subdued in the capital markets during Q4, with low issuance activity in primary ECM markets in particular. The development in investment fees will as always be subject to assets under management in particular. An important part of fee income in Q4 is typically performance fees in asset management where a primary source of income is generated by fixed income products and these have been challenged throughout the year. We refer to Danske Invest website regarding benchmark performance for further details.

Looking at trading income please be mindful that Q4 is normally a quarter with low activity and also subject to fair value adjustments of specific portfolios, including treasury and Northern Ireland.

Spread on callable as well as non-collable bonds have reversed in Q4 from the levels we saw in the previous quarter. And we have seen the same directional development for the yield spread between Danish and German government bonds.

Regarding our insurance activities, please note that we have seen slightly better performing financial markets. Please note that when comparing income from insurance to the level in the preceding quarter, we took a one-off product-related costs of approximately DKK 150 million in Danica in Q3.

Finally, regarding the merger of MobilePay which affects Other income, the transaction was approved by the relevant authorities as announced on October 21<sup>st</sup> in company announcement no. 14/2022. The tax-exempted one-off gain on the transaction is expected to be approximately DKK 400 million, which will be booked in Q4, and on the basis of the merger and the distribution of shares in the new parent company, Danske Bank will have an ownership share of 27.8%.

This concludes our comments on the income lines.

If we look at the cost line, we would like to reiterate our guidance for elevated remediation costs for the full year, and in Q4 we started to see additional inflationary pressure, particularly in the region of our main operational hub as well as for utility and energy related costs for data centres for example. Other than that, we do not have any specific comments regarding our cost development, and we have no changes to our underlying cost guidance for the full year, when you disregard the impact of the Estonia settlement, the Danica goodwill write-down, and the solution for our legacy debt collection case in the third quarter. But you should note the slightly lower settlement amount than the DKK 15.5 billion provision we had made in total by the end of Q3, which led to a small adjustment of the net profit outlook.

Specifically for impairments, we are mindful of the impact of the deteriorating macroeconomic environment and how that effects our macro model charges as well as PMAs in Q4. Please note that our economists published the updated Nordic Outlook yesterday with lower growth forecast and a further revision of house prices and spending. In general we remain comfortable with the quality of our lending book. We therefore do not have any immediate concerns with regard to credit quality in Q4. Finally, please note that the Q3 number was affected by the DKK 650m one-off impairment charges we took in relation to the accelerated solution for our debt collection legacy case.

We do not have any comments on Non-core.

As announced on December 13, we reached a final resolution of the Estonia matter with the US and Danish authorities, with the financial impact in line with provisions previously made. As part of the announcement we adjusted the net profit outlook for 2022 to a net loss better than minus 5.3 billion Danish kroner.

This concludes our comments on the P&L.

Finally, our capital position will in Q4 be impacted by the entire net profit as a result with the Board's proposal not to pay out any dividend for 2022. We do not have any specific comments on the REA, besides noting that market risk remains subject to volatility in the market.

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 the 12<sup>th</sup> of January. Shortly after today's call, we will also start collecting consensus estimates with a contribution deadline on Friday the 13<sup>th</sup> of January end of day. Please note that we will publish our Annual report on the 2<sup>nd</sup> of February at 7.30am CET and that the conference call for investors and analysts will take place at 8.30am.

We are now ready for the Q&A session. If you wish to ask a question, please use the "raise your hand" function.