



Pre-close call Q1 2023

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Danske Bank – Investor Relations

SPEECH

Claus I. Jensen - Danske Bank - Head of IR

Good afternoon and welcome to the Danske Bank Q1 2023 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 7th April ahead of the publication of our Interim Report on 28th April. 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 20th March, 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 to start by commenting on the current macroeconomic backdrop before we go through the line items.

The risk of recession appears to be easing, however, the environment overall continues to be characterised by high uncertainty. Central banks also still seem committed to bring down inflation given the recent hikes announced on 16th March, albeit concerns have been voiced about potential knock-on effects' on financial stability of rapid rate increases.

In this context, we view the speculation lately about the banking sector following the events involving Silicon Valley Bank and Credit Suisse as idiosyncratic for specific institutions rather than systemic problems. Danske Bank's exposure to Silicon Valley Bank and Credit Suisse is immaterial and our capital and liquidity positions remain strong with significant buffers well above the regulatory requirements. However, we further note that the financial market volatility has caused additional uncertainty for the future rate trajectory.

Our most recent economic outlook from early January projects rising central bank rates, and although unemployment is expected to rise and property prices will decline further, we continue to see resilient household finances.

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 please further note that Q1 has two fewer interest days than Q4 2022. Due to higher Net Interest Income, the day effect is now estimated at DKK 70-75m.

Regarding volume developments, we refer to publicly available sector statistics as the only externally available source of insight. Most recent data from Denmark and Sweden as of January 2023 points to a largely flat volume development, although with slightly higher volumes for Swedish corporates. We note that the housing market has continued to slow further into 2023, and demand for credit from business customers and large corporates is also likely to slow if economic activity slows.

Since Q4, 3-month STIBOR and CIBOR have risen around 83 and 73 basis points, respectively, while NIBOR has been largely stable - all on the basis of quarterly averages. Please be aware that when we observe increases in NIBOR and STIBOR, the impact on our NII comes with a lagged effect due to notice periods.

We have seen several central bank hikes during the first quarter of 2023. ECB and The Danish Centralbank hiked rates in February with 50 bps and 35 bps respectively and again in March with 50

bps from each. Furthermore, we confirm our current NII sensitivity of 700 to 800 million DKK per 25 basis point uplift across all currencies, on average over the next 100 bps. Please note that by far most of our sensitivity relates to DKK and EUR, in that order.

In this context, it is also relevant to highlight, that we have raised rates on our “Danske Indlån” savings product with effect from 1st February and introduced the “Danske Toprente” account, which offers an even higher deposit rate against a minimum commitment period of six months. Further to these initiatives, we expect further migration of deposits into savings accounts, although it is uncertain how exactly customer behaviour will develop.

Further to the increases in policy rates, we have adjusted our deposit and lending rates for certain customers. However, as always, these adjustments are implemented with a slight delay due to notice periods for certain products. The interest rate on transaction accounts which represents the vast majority of retail deposits, 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 benchmark issuances we have executed earlier this year, which included debt transactions for almost DKK 40 billion through the quarter. *Please see [Danskebank.com Debt section](https://www.danskebank.com/Debt-section) for further details on terms and pricing for each issuance.*

In respect of fee income, we are dependent on market conditions in the financial markets and the general activity level in our banking operations.

Let us start with the development in investment fees. These will as always be subject to assets under management and investment appetite from our customers, which could be negatively affected by the volatility in the financial markets.

Turning to activity driven fees, we have noted that the latest consumer sentiment measures from Statistics Denmark is still negative. Although we also note, that our recent spending monitor by Danske Bank Macro Research shows that retail spending holds up compared to the low last year.

Turning to fees from lending activities. Housing market activity in general has been subdued and we would expect remortgaging activity to moderate relative to the strong activity we saw last year. Please note that fees from refinancing auctions are as usual booked in Q1.

Activity remained muted in the capital markets during Q1, with low issuance activity in primary ECM markets in particular.

Looking at trading income please be mindful that Q1 is normally a quarter with healthy customer activity.

Spreads on mortgages bonds in general have widened slightly during Q1 in a market environment characterized by large volatility. The yield spread between Danish and German government bonds has been broadly unchanged, while the DKK-EUR swap spread has narrowed in the short end.

Regarding our insurance activities, please note that we overall have seen more constructive financial markets conditions during the quarter.

This concludes our comments on the income lines.

If we turn to look at the cost line, we take note of the new two year collective agreement in Denmark that have been reached giving salary increases of 4.5 per cent in 2023 and 3.7 per cent in 2024, if approved by the members.

In conclusion, we reiterate our cost guidance for the full year.

In general we remain comfortable with our credit quality. As I previously mentioned, the risk of recession appear to be easing however, as uncertainty remains high, it is still unclear for now to what extent this will affect model driven impairment charges in Q1.

This concludes our comments on the P&L.

Finally, we note that the AGM has approved the Board’s proposal not to pay out any dividend for 2022.

We do not have any specific comments on 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 7th of April. Shortly after today's call, we will also start collecting consensus estimates with a contribution deadline on Tuesday 11th April end of day. Please note that we will publish our Q1 Interim Report on 28th April 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.