Conference call

Q1 2023

28 April 2023

Investor Relations

CORPORATE PARTICIPANTS

Carsten Rasch Egeriis
Danske Bank – CEO

Stephan Engels
Danske Bank – CFO

Claus I. Jensen
Danske Bank – Head of Investor Relations

SPEECH

Claus Ingar Jensen – Head of Investor Relations

Thank you, operator and hello everyone. Welcome to the conference call for Danske Bank's financial results for the first quarter of 2023. My name is Claus Ingar Jensen, and I am head of Danske Bank's Investor Relations. With me today, I have our CEO, Carsten Egeriis, and our CFO, Stephan Engels. We aim to keep this presentation to around 30 minutes. After the presentation, we will open up for a Q&A session as usual. Afterwards, feel free to contact the Investor Relations department if you have any more questions. I will now hand over to Carsten.

Slide 1, please.

Carsten Egeriis – CEO
Thanks Claus, and I would also like to welcome you to our conference call for the financial report for the first quarter.

There is no doubt that we have overall had a good start to the year. Despite the elevated level of global uncertainty, our customers have been able to navigate well in this environment and we have seen good activity in many areas of our business.

A key observation in the first three months has been a high degree of variation among economists' views on what direction the global and local economies will take. Earlier forecasts of a broad recession scenario have softened and despite central banks continuing to be in tightening mode given the underlying inflationary pressure. Despite a small increase in bankruptcies for specific sectors, employment continues to be strong and consumption is holding up well backed by solid liquidity positions among households as well as corporates. However, housing market activity remains at a low level given the uncertain outlook for interest rate development and house prices.

The first quarter was unfortunately also characterised by events in the financial sector that led to concern for financial stability. The failure of primarily Silicon Valley Bank and the takeover of Credit Suisse by UBS led to additional volatility and speculation around the liquidity positions and capital instruments issued by banks. The improved regulatory framework for banks in our part of the world post the GFC has proven critical in maintaining confidence in the financial sector. In this context, I am pleased to note that our well-capitalised balance sheet and strong liquidity position enable us to continue to help our customers navigate the macroeconomic uncertainty.

Under these circumstances I am also pleased with the continued commercial momentum that we saw in the first quarter. We saw a high level of corporate banking activity that supported activity-driven fees, including a good inflow of corporate customers in Sweden, which is a clear strategic focus area for us. In addition, we saw an improved trend in customer flow in Personal Customers Denmark, we continued to adapt our product suite to a more normalised interest rate environment, and we provided significantly more green loans which I will come back to in more detail later in this presentation.

Financially, the first quarter exceeded our expectations with a net profit of 5.2 billion, equivalent to a return on equity of 12.7 per cent. On that basis, on 13th April, we pre-announced the financial results for the first quarter and announced a revised net profit outlook for 2023 in the range of 16.5 to 18.5 billion for the full year, up from the previous outlook of 15 to 17 billion.

The result for the first quarter benefited from broadly based improvements across our business. These included NII, net trading and insurance income as well as continually strong credit quality. Net interest income benefited from the normalisation of interest rates whereas the higher trading income was driven by good customer activity and facilitated by our new Fixed Income strategy. Furthermore, supportive financial market conditions further contributed to income from our insurance business, and impairment charges remained at a low level due to continually strong credit quality and reversals in the quarter.

Operating expenses progressed according to plan and relative to the level a year ago, we have benefited from the efficiency measures launched over the past few years. Importantly, we have managed to significantly reduce our C/I ratio.

During the first quarter we continued to see elevated but stable deposits whereas lending was impacted by fair value adjustments as well as currency depreciation. Net of these effects lending was up 2 per cent from the same period last year and largely stable from the preceding quarter.

Our funding and liquidity position remains strong, and our capital ratio increased to 18 per cent again highlighting the balance sheet strength I spoke about earlier and which I will comment on in more detail on the next slide.

But before we go there, let me conclude on the development in the beginning of this year. The positive financial traction and continually good business momentum we have seen so far, give me confidence in the future direction for Danske Bank and I am truly looking forward to presenting our plans at the Investor Update in June.

Slide 2, please

While we have started the year better than expected and are seeing the benefit of our diversified business model, we have obviously taken note of the turbulence in the financial sector following the SVB and Credit Suisse events.

So on this slide, I want to highlight how prudently managed our balance sheet is including our strong liquidity position. We have a sound and structural advantage at Danske Bank given the fully-funded pass-through mortgages at Realkredit Danmark. This provides a structural deposit surplus and an effective loan-to-deposit ratio of around 0.9, thus reducing our dependence on whole-sale funding.

Looking at our deposit composition, it is well diversified and not concentrated towards any particular sector. Our retail deposit base is largely covered by the deposit guarantee schemes, and there is a high degree of operational deposits across industries from our diversified corporate client base.
So despite the turbulent headlines caused by market events in the first quarter, deposit flows remained largely unaffected.

Our sound funding structure also means that we are comfortable with operating at lower LCR levels as we have ample abilities to take additional measures and enhance our liquidity position further, including through issuance of covered bonds.
For 2023, we have a total funding plan of 80-100 billion, which in addition to covered bonds includes unsecured senior and non-preferred senior bonds which have the sole purpose of fulfilling MREL requirements. In total, we have already executed and completed around 40 billion of our funding plan with the majority being MREL eligible unsecured bonds, and we therefore have the flexibility to assess how spreads are evolving going forward.

Finally, we continue to operate with ample liquidity reserves as highlighted by our coverage ratio of 169 per cent, which is solidly above regulatory requirements and factor in a stressed cash outflow scenario. A significant part of this ratio also includes a strong cash position that is able to cover a significant part of our deposit base.
I remain very comfortable with our low-risk and prudently managed balance sheet. This is true both for our asset-and-liability management and our funding position, but also when we talk about the de-risking of our credit portfolio and the commercial property exposure which I will outline on the next slide.

Slide 3, please

As focus has shifted to the commercial real estate sector yet again, it is important for me as CEO to address our position.

Our Commercial property portfolio represents 11 per cent on our total credit exposure. This measure of Commercial property also factors in letting of residential assets, which accounts for more than 40 per cent. If you benchmark the actual non-residential part of our portfolio as a share of total exposure we are well positioned compared to our Nordic peers.

This follows prudent credit policies with concentration limits and caps that we have in place, particularly for the non-residential segment, that have resulted in a negative CAGR of 4 per cent since 2019 and kept the total commercial real estate exposure flat and below market growth in the Nordics.

Of course, our prudent and cash flow based underwriting policies cannot rule out that we could see a downward migration of exposures if the sector, for example in Sweden, takes a severe downturn. However, as we are carefully monitoring and stress testing our portfolio and individual exposures, we remain comfortable with the asset quality and healthy LTV levels of our book. We have yet to identify any material deterioration and associated rise in expected credit losses but to mitigate any risks not currently evident in our portfolio, we have also have added a sizeable amount of our total 6.5 billion post-model adjustments to commercial real estate and as you can see, more than half of the allowance account for commercial property now consists of a buffer.

So to sum up on the main messages on this and the preceding slide, our deeply rooted risk management practices coupled with a robust balance sheet and strong capital and liquidity positions support our comfortable position and enable us to further assist customers in navigating the current uncertainties.

Let's have a look at the commercial highlights in our three main business units on the next slide.

Slide 4, please

Overall we continue to see a good financial performance across all business units with strong commercial momentum among corporate customers in particular.

At Personal Customers, profit before tax improved to the highest level in 2 years.
In the current environment we have seen a shift in customer demand towards more stable savings products which has also contributed to a 3 per cent increase in deposit volumes for PC Denmark relative to the same period last year. Along with normalisation of interest rates and repricing initiatives, this supported the strong uplift in profitability driven by a 76 per cent increase in NII.
At PC Denmark we also saw healthy demand for bank lending, with an 8 per cent increase from the same period last year, driven primarily by Danske Bolig Fri home loan product which was up 53 per cent from the same period last year. Lending volumes in Norway, Sweden and Finland were negatively affected by a slowdown in the housing market as well as the depreciation of currencies.
Fee income held up well on the basis of solid consumer related activity and a recovery in investment fees compared to the previous quarter, which mitigated the slowdown on the housing market and the impact from lower remortgaging activity which contributed positively in 2022.
The significantly improved profitability is accompanied by our continued focus on enhancing the value proposition for our customers. We have recently launched new higher yielding savings products and enhanced self-service investment solutions with "Danske Monthly Investment", which is easily accessible in the mobile banking app.
As a part of our sharpened focus on capturing market share and expanding our revenue stream we have further expanded our collaboration with insurance provider TRYG, including a new insurance product, covering home loan payments if customers lose their regular income.

We have also launched the new Global Private Banking organisation, gathering the Private Banking units of the Nordic countries, ensuring scalability of product offerings, and sharpening our value proposition. This remains a high priority segment for us and I am looking forward to seeing good traction towards our customers.

Looking at our Business Customers unit, we got a strong start to the year. Rising deposit margins constituted a main driver of the 48 per cent uplift in NII. Non-NII income remained stable including the effects of fee repricing initiatives and a new service-based fee service model. This was, however, slightly mitigated by the continued slowdown in activity in the property market.
In general, we saw good activity although our customers are still navigating high uncertainty in a challenging environments. Our expert financial advisory and targeted service model also helped managing customers' working capital needs supporting the lending uplift compared to the same quarter last year.
Sustainability remains a high priority for us, and the key focus area for the Business Customers segment is specifically emission targets for Commercial Real Estate and Agriculture. In this context, we are pleased to see that our green lending volumes increased 49 per cent, from the same period last year.
Aligned with our Better Bank strategic target of supporting new businesses and creating sustainable growth, we have set up a focused Growth Team for the Nordic scale-up Business Customers. This is a dedicated effort to serve our customers even better, and provide advisory services on increasingly important and complex topics such as ESG and legislation.

At LC&I, the first quarter of 2023 marked another period of high activity for our corporate and institutional customers. Our strong balance sheet, combined with our position as a leading risk facilitator and advisory expertise enabled us to support our customers with relevant risk management solutions.

We saw an increase in reported lending volumes of 15 per cent, and 21 per cent when adjusting for currency effects, from the level at the end of the first quarter of 2022, reflecting customer demand and our ambition to grow in Sweden.
Deposits were down slightly from the same period last year and remained stable at an elevated level compared to the preceding quarter.
Total income was up 20 per cent from last year driven by higher NII and trading income.
Trading income benefited from our new Fixed Income strategy and the increase more than mitigated the decline we have seen in fee income.
In combination with flat costs and net reversals, profit before tax was up 69 per cent from the same period last year and 9 per cent from the preceding quarter and was achieved on the basis of lower capital consumption.

Moreover, we are delighted that our continuous efforts to expand our leading pan-Nordic wholesale bank offering are paying off, as our M&A franchise was ranked #number one in the Nordic M&A league table.

In the market for sustainable finance, we have supported issuers and investors in a substantial number of transactions in the first quarter of 2023. This is a good start to the year and affirms our position as the leading Nordic arranger looking at for instance the Bloomberg Sustainable Bond League table.

We continue to invest in our sustainability advisory offering and have staffed up in our Project Finance team to build competences and contribute to a more sustainable society.

Finally, and before I hand over to Stephan, being at the last stage of our 2023 Better Bank Strategy, cost enhancements and efficiency gains are coming to fruition across our business units and the strong foundation only adds to the strategic potential of our franchise.

Slide 5, please and over to Stephan

Thank you, Carsten.

I will now briefly go through the reporting lines in the income statement and reserve comments that are more detailed for the following slides.

As Carsten just mentioned, we had a strong start of the year driven by good commercial momentum, cost under control and normalisation of interest rates which had a positive impact across our business units.

Income from core banking activities performed well and was in line with expectations. NII was up 43 per cent from the level a year ago, as the normalisation of interest rates had a strong positive impact on deposit margins as well as from a modest increase in lending volumes. The improvements accelerated in the first quarter where NII was up 8 percent from the preceding quarter as the effects from normalised interest rates continued to materialise in our numbers. Adjusted for the adverse depreciation of currencies, NII was up 48 and 9 per cent respectively.

Net fee income came in lower than the level a year ago. The decline was driven by lower housing market activity and from lower investments fees primarily from lower AuM whereas activity related fees maintained a strong level. In Q1 which benefitted from refinancing of variable rate mortgages and higher investment fees in Personal Customers, income was almost stable compared to the previous quarter as customer activity held up well.

The recovery in net trading income from a low level a year ago, when financial market uncertainty was even higher, reflects stronger customer activity and more supportive market conditions. Relative to the preceding quarter, we saw a further pick-up in customer activity underpinned by continued supportive market conditions and furthermore benefited from the new Fixed Income strategy.

For net interest income as well as trading income, the numbers include reclassification of income which I will comment on later.

Net income from insurance income came in at a strong level and significantly higher than a year ago when financial market uncertainty led to negative valuation effects. The underlying business improved due to an increase in premiums resulting from an inflow of new customers in earlier periods.

Other income amounted to 0.3 billion in the first quarter. This is lower than last year when we had a positive impact from the sale of our business activities in Luxembourg, and also lower compared to the preceding quarter which benefitted from the gain on the sale of MobilePay.

Operating expenses came in almost unchanged from the level a year ago. Through further efficiency measures and lower transformation costs we have been able to mitigate the impact from elevated remediation costs and higher inflation. Expenses were also lower relative to the preceding quarter due mainly to seasonality effects and a one-off effect in Q4. Our C/I ratio saw a very strong improvement and amounted to 46.8 per cent against 62.5 per cent a year ago.

Loan impairment charges reflect continually strong credit quality and amounted to a modest amount of 0.1 billion for the first quarter, similar to the level in the same period last year. New impairments recognised in the quarter were driven by updated macro scenarios and lower property prices, which were however, offset by net reversals which I will comment on later.

Finally, the tax expense of 1.8 billion mainly reflected an increase in the Danish tax rate for financial institutions.

Net profit for the year thus amounted to 5.2 billion up 89 per cent from the same period last year and up 13 per cent from the preceding quarter. The result represents a return on shareholders' equity of 12.7 per cent, up from 6.2 per cent a year ago.

Slide 6, please

Let's take a closer look at the positive trajectory in net interest income for the Group.

Overall, NII saw a significant improvement of 48 per cent year-over-year adjusted for currency depreciation. The improvement was driven by the re-establishment of deposit margins as well as growth in lending volumes driven primarily by our corporate customers. The positive effect was partly countered by various lending margin effects including floored credit facilities where margins momentarily were impacted as rates moved from negative to positive territory.

The solid credit demand we have seen over the last year includes liquidity facilities to some of our larger and better rated corporate customers, which is contributing positively, but at the same time lowered our average lending margin.

Additionally, we continue to see a lagging effect due to notice periods and the timing of re-pricing of loans in general when you are in the middle of a rate hike cycle.
As expected, the trend in lending volumes slowed at the beginning of this year but repricing initiatives, particularly at BC supported, lending margins Q over Q.

Total deposit volumes remained elevated throughout the year with a slightly varying development between quarters and segments. In PC Denmark for example, we have continued to see inflow.

Finally, the management of our interest rate risks in the banking book contributed negatively to the net interest income. This is shown in "other" and should be viewed in light of the significant contribution from improved deposit margins. This impact is from Q1 2023 reclassified from trading income to NII.

As Carsten mentioned, deposits overall remained stable at an elevated level. During the first quarter, we continued to see further customer demand for saving products in Denmark in particular, where we have launched a new time deposit account at the same time as we have raised deposit rates for other saving products following further central bank hikes.

Our interest rate sensitivity for rate hikes remains unchanged at 700 to 800 million but trending towards the lower level reflecting that we now are firmly in a positive rate environment but also that we expect increased migration to savings accounts and potential effects from quantitative tightening.

Slide 7, please

Next, let's have a look at fee income.

The continued uncertainty in the financial markets and the unusually low housing market activity led to a decline of 13 per cent in fee income, when comparing to the level from last year.

The development was driven primarily by lower investment fees due to lower AuM despite positive net sales in Asset Management in the first quarter of 2023.
An increase in our customers investment activities however, had a positive impact on investment fees when comparing to the previous quarter.

Substantially lower housing market activity driven by interest rate uncertainty and lower remortgaging activity, was a key driver for lower fee income from lending and guarantees compared to a year ago however, refinancing of variable-rate mortgage loans had a mitigating effect when comparing to the previous quarter.

Fee income related to customer activity within everyday banking services, such as cash management, maintained a good level and also benefitted from repricing initiatives as well customers moving to the new service-based fee model implemented in 2022.

Slide 8, please

The last income line for me to comment on is trading income.
Trading income in the first quarter came in at 1.6 billion, a significant improvement from 0.7 billion in the same period last year primarily due to strong customer activity in LC&I, more supportive market conditions and a positive effect from the implementation of the new strategy for fixed income at LC&I.

At Personal Customers and Business Customers the combined net trading income held up well compared to the same period last year as good demand from corporates was able to mitigate lower income from retail customers.

The interest rate hedge in Northern Ireland led to a positive impact year-over-year reflecting a combination of the interest rates expectations and the reduced remaining life of the hedging instruments however market volatility had an adverse impact when comparing to the previous quarter.

Trading income in Group Functions was positively impacted by the reclassification that I mentioned previously related to the management of our interest rate risk in the banking book that took effect this year. From 2023, this effect will no longer impact the trading, instead it has been reclassified as described in my comments on the development in net interest income.

Slide 9, please

Now, let's take a look at our operating expenses.

Overall, our cost development continues to show progress as a result of our efficiency measures and I am pleased to report a decline of 1 per cent from the level in the same period last year and a 9 per cent decline in the headline number when comparing to the preceding quarter. Net of the remediation related one-off we booked in Q4, cost were down by 5 percent Q-on-Q, as the last quarter of the year usually include some seasonality effects.

Compared to the same period last year, we saw a positive contribution from lower
staff costs as a result of initiatives launched during 2022. Lower planned transformation costs also had a positive impact on costs both year-over-year as well as quarter-over-quarter.

The cost of our continued work with legacy remediation remained at a slightly higher and elevated level.

An increase in our contribution to the resolution fund and higher bank tax in Sweden had a negative impact on operating expenses. The uplift we have seen in inflation throughout the last year also had an adverse impact on our cost base however, I am pleased to report that our continued focus on cost efficiency has been able to more than mitigate this impact and thereby contributed to an improvement in our cost/income ratio which came in at 47 per cent for the first quarter.

Slide 10, please

Let us take a closer look at our strong credit portfolio and the drivers behind the provisions we recognised in the first quarter.

Generally, our credit quality remains very strong, and we continue to see modest downward migration of exposures in our portfolio. The associated expected credit loss thus remained low in Q1 with net zero single name impairments. We ended the quarter with charges of 147 million, equivalent to just 3 basis point of our lending.

The modest charges in the quarter were related to a further adjustment of our macro models, including a more uncertain outlook mainly related to a more adverse housing price development.

Our management buffer was kept around 6.5 billion, accounting for about one third of our total allowance account, which provides additional comfort in light of the uncertain macro picture.
So while we remain comfortable with our asset quality and the well-diversified and low-risk credit portfolio, the post-model adjustments provide an additional cushion if unforeseen risks emerge in pockets of our portfolio that are not yet reflected in our portfolio or captured through our macro scenarios.

And to be clear, in our recent profit upgrade, we kept a conservative view of impairments for the remainder of 2023, and as such not a reflection of any release of PMAs nor any guidance as to what we are actually seeing in the portfolio. I will touch more on the outlook for 2023 in a moment, but let us first have a look at our robust capital position.

Slide 11, please

Our capital position continued to improve in Q1 and our reported CET1 ratio rose to 18 per cent from 17.8 per cent at the end of the preceding quarter. The increase included the retained net profit in the quarter after accrued dividend of 60 per cent in line with the high end of the range of our dividend policy as per normal practice.

Additionally, lower REA from reduced credit and market risks contributed to the increase in the CET1 ratio.

Our CET1 capital requirement increased to 13.5 per cent as the countercyclical buffer was fully activated in both Denmark and Norway. The fully phased-in CET1 requirement stood at 13.7 per cent reflecting the last part of the implementation of the counter cyclical buffer in Sweden that is to take place in Q2.

In respect to the recommendation made by the ESRB a couple of weeks ago to reciprocate the Systemic Risk Buffer implemented by the Norwegian authorities, the impact on Danske Bank depends on what approach the Danish authorities will take. Currently we do not have any estimate regarding the timing of a potential implementation however, please be aware that it has been part of our ongoing capital planning process why a potential implementation will not have any implications for the Group's capital target.

We remain comfortable with Danske Bank's solid foundation and healthy buffer to current and future regulatory requirements

Slide 12, please

And then, I would like to comment on our outlook for 2023 which on the 13th of April was revised upwards to a net profit in the range of 16.5 to 18.5 billion from our previous guidance of between 15 and 17 billion.

We continue to expect core income lines to grow, driven mainly by higher net interest income following normalisation of interest rates and our continued efforts to drive commercial momentum whereas fee income is expected to be slightly below the level in 2022.

Income from trading and insurance activities is expected to recover towards normalised levels.

The outlook is as usual subject to financial market conditions.

We maintain our outlook for operating expenses to be in the range of 25 to 25.5 billion, including continued elevated remediation costs of approximately 1.1 billion. The outlook reflects our continued focus on cost management and despite inflationary pressure.

We now expect loan impairment charges of up to 2.5 billion due to continued strong credit quality and recoveries in the first quarter of 2023. Loan impairment charges, will primarily be driven by a weaker macroeconomic outlook affecting model driven impairments.

Slide 13, please and back to Claus

Thank you, Stephan

Those were our initial comments and messages.
We are now ready for your questions. Please limit yourself to two questions.
If you are listening to the conference call from our website, you are welcome to ask questions by email.
A transcript of this conference call will be added to our website within the next few days.

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

Q&A

Sofie Peterzens (JP Morgan): Hi. Thanks a lot for taking my questions. I guess if you could give a little bit more details around this interest rate risk management impact? Because if I take on net interest income line, it seems that Other was almost close to DKK 0.7 billion negative quarter-on-quarter, over DKK 1 billion year-on-year. Then, when I got to the trading line, the Group functions, it was a positive of close to DKK

0.5 billion quarter-on-quarter, but only around DKK 200 million year-on-year.

How should we think about this interest rate risk management swap or hedge? How should we think about the negative drag on NII, going forward? What is a good run rate to assume? Should we assume that trading income will not be higher and by how much? If you could just give a little bit more details around this?

Then, my second question is that we see that your deposits and loans were down. You moved businesses quarter-on-quarter. How should we think about what you are paying for deposits? Are you planning to pay more for deposits? One of your competitors is already paying for transaction deposits in Norway. How should we think about that?

Then, the last question would be with the new banking tax in Denmark, how should we think about the tax rate, going forward? Thank you.

Carsten Egeriis: Thanks, Sofie. Let me answer a couple of the questions and then I will turn over to Stephan on the NII reclassification from trading to NII and also on the tax.

One of your questions was around trading income. We have significantly reduced our inventory risk and, in fact, also utilisation of lines and capital consumption in trading since mid-half year, where we clearly saw a lot of significant volatility in rates.

We have repositioned the business to be lower inventory, lower risk business, but have really been able to capture market share and really seeing strong activity in our Fixed Income business across the Nordics. I think this is really a testament to the strong relationships we have with corporate institutions and our ability to distribute that risk and facilitate that risk.

Both Q4 and Q1 were strong quarters on underlying trading income. We continue to see a good environment and we expect a good environment for the trading business, given the interest rate environment that we are in.

Then, you asked about deposit and loan trends. I think you need to be very careful here. We actually see a slight increase in core deposits and core operational deposits. You also see that on the second slide of the presentation.

When you think about the core insured deposits and the core operational deposits in our personal and business bank, that remains very robust. As I said, a slight increase in Denmark and slight increase in the operational deposits. You should really see the reduction in overall deposits as more non-sticky, non operational deposits in the institutional, large corporate space.

Then, I think one question is perhaps also how do we think about deposit movements from transactional accounts to saving accounts. There, we have seen movements from transaction accounts to saving accounts, but probably a little bit lower than expected and well within the NII sensitivities and deposit betas, if you will, that we expect. On the other hand, we do expect to see movements towards saving products pick up, in line with what we are seeing in the market dynamics.

Stephan, I hand over to you.

Stephan Engels: Yes. Hi, Sofie. I think if I got your question right, at least let me start with the easy one. For the tax rate, I would just simply assume 26%, going forward. That should be a good indicator of what we will see at Group level.

Then, the reclassification. If I got your question right, yes, I can confirm that in the previous quarter, that number would have probably reduced trading and elevated NII. Year-over-year, the effect is more or less flattish. The reason why we have reclassified is because these are really interest rate risk management costs, which we are basically managing in Treasury.

The way to think about this, going forward, is as the book that creates the interest rate risk management is running off, this number in tendency should flatten out over time. Then, the interesting part, obviously, is what happens if interest rates move up and down, going forward. At least that would be my guidance for now, there will be a bit of a negative number for the next quarters to come.

I think that were the two parts.

Sofie Peterzens: Yes. Maybe could you just give us detail around how large is the interest rate risk book that you are running? It would just be a little bit more helpful to have maybe the magnitude of the potential headwind? Will it be another DKK 600 million quarter on quarter? Will the impact be less magnitude or is it current at the run rate? Also, if I look at your trading income, year-on-year trading improved functions was up only DKK 200 million whereas NII was down DKK 1 billion. Is that –

Stephan Engels: Again, in a flat rate environment, you would expect the number to come down to zero most likely, call it over three years, I think, is a halfway fair way of modelling it. Then again, it depends on what interest rate risk management decision we have and what rate movements we have. For now, I would for the next couple of quarters, stay around the number that we have seen in Q1.

Sofie Peterzens: Could you maybe then give a little bit details? What products are these? Is it just basic interest rate swaps, cross-currency swaps, interest rate options? What is the underlying products that you have hedged?

Stephan Engels: I think I would, for many reasons, try to shy away a little bit from giving you too much detail of our interest rate hedging strategy here. Forgive me, I am going to be a bit tight lipped on this.

Sofie Peterzens: Okay. Okay, I understand. Thank you very much.

Jakob Brink (Nordea): Good morning. Sorry for going back to where you left on the second or the previous question.

I guess I am a bit surprised that you are running such a mismatch that it can cost DKK 668 million in a quarter. Is it some hedges that expired in the beginning of Q1 or have you changed anything materially? Maybe also what was the impact in Q3 and Q4, where rates also had started to go up? It would be nice to know.

Then, my second question also on NII. You sent out a restatement recently where, among others, you moved the Danica equity interest income out of NII into Danica. What has been the impact in Q1 – so the negative impact on NII from doing that move, please?

Stephan Engels: Jakob, my simple answer would be if you look at the other line in basically all our peers, I think you will find very similar numbers, if not higher ones. I think that gives you an indication that that is probably more a reflection of the relatively quick rate environment, interest rate hedging strategies across the Nordics. I do not think that is anything specific.

Again, as I said, year-over-year, the number is completely flattish. Quarter-over-quarter, it is also very, very similar. I think there is only a smaller delta.
On the NII from Danica, I need to revert to Claus a bit.

Claus Jensen: No, I think that also goes from the restatement file that we have delivered on 16th April that the NII impact is actually fairly small. Of course, I am not able to give you the precise, but it is a small double-digit number in millions.
Jakob Brink: Okay. Just coming back to your answer on the first one, Stephan. If I take the Swedish Retail book, it is DKK 89 billion in Q1 end in DKK. As far as I know, roughly half of it is three years, so let us call it DKK 45. You are losing DKK 889 million in one quarter, so that is 6%. That sounds like a lot.

Stephan Engels: I am not sure whether looking for the Danish Retail book is the right place to start with.
Jakob Brink: The Swedish one. I thought that was the problem, right?
Stephan Engels: Yes. All I am saying, you will find in – you said that the DKK 686 million is big. All I said is if you compare the other line in our friendly competitors, they are at similar sizes.
Jakob Brink: Okay. Disregarding what competitors said, I am just still trying to understand. DKK 670 million times four divided by half of your Swedish book is 6%. Why is the lag effect all of a sudden 6% in a quarter?
Stephan Engels: Jakob, I think you are trying to get to the same level of detail that I already refused, friendly enough, to answer to Sofie.
Jakob Brink: Yes. Yes, I am sorry. I am not trying to be rude. I am just trying to understand for my estimates for next quarter. It is just a big increase in the costs, so that is why, but okay. Fair enough. I will leave it.

Jan Erik Gjerland (ABG Sundal Collier): Two questions from my side as well.
The first one goes back to this, of course, this change in the strategy. Why on earth do you actually want this kind of volatility into your net interest income line when it has been a kept secret inside the trading line? The impact – is just the banking book you are taking on risk or is it the liquidity portfolio you are taking on that brings back to the NII line? That is my first question.
Stephan Engels: I am not sure whether there is any real excessive volatility in the NII. If you compare our guidance and sensitivity since the end of 2021 and then multiply it what has been happening, you basically get exactly to the numbers where we are right now. I think in guidance, we have been pretty clear. That has been following these lines pretty well, maybe with the exception of one or the other currency effect that we have seen lately.
Again, I think what we have been giving here, and that is why we have been making it so explicit and clear, we are just following the higher attention on managing the interest rate and the banking book. We have moved a certain position into, call it, basically Treasury responsibility. We have called that out clearly. You have the number. I think I have given guidance in respect of what this number would look like in an unchanged interest rate environment, going forward. I think that is as much as we going to discuss there.

Carsten Egeriis: Yes, just to add, I think this is very important to recognise, this has nothing to do with market positioning. There is two things happening here. There is a reclassification of hedges relating to managing our interest rate risk in the banking book, which is moved to NII, where it really should be. That is, therefore, how we manage our lending and our deposits and the hedging of that.
Then, there is the trading book – the trading book standalone, when we talk about our new Fixed Income strategy. There we talk about how we are reducing the risk, how we are reducing inventory, how we are thinking about facilitating customer flows in a lower-risk model, where we are more focussed on how we facilitate and distribute risk. There we see a really positive momentum. Those are the pieces, and I hope that is clear.
Then, I understand that there was a question around the details of the NII hedges, what the impact has been quarter-on-quarter and also what the impact will be over the next two or three years as some of those hedges run off. There, I think Stephan has answered that so I hope that is clear. Thank you.

Jan Erik Gjerland: Absolutely. Really, just want to confirm that your customer trading book – the book of bonds you keep for helping clients – that is then kept inside the trading or is that not part of the NII? Just if you could –
Carsten Egeriis: That is trading. What we have moved to NII are only the interest rate risk management – so the hedges related to assets and liabilities. Those are Treasury functions that we believe should sit within NII and that is what we have moved.
That is really important. I hope we are really clear on that. Now, you really see a clear, clean trading P&L and you see a clean interest rate risk in the management related to NII. Is that clear, Jan Erik?

Jan Erik Gjerland: Yes, of course, it is just that when we did look at the trading line, nobody cares about whether it is good or bad so you do not get any multiple expansion on it. When it is just only your NII fees, you get the multiple expansion and paid multiples. I am just a little bit curious why you did this change in your accounting to made it worse, I do not know. However, lay that aside. You have done it, so that is fair.
When it comes to the full-time employees, I see it is actually up by some 100 persons in this quarter. You said on the expense line that it was some near-shoring transition. Could you explain a little bit more why you are up on the FTEs, please?
Carsten Egeriis: Yes. Again, for us, this is, of course, not about multiple expansion. This is about doing it the right way and having very clear accounting and having the dynamics clearer. There, I would again say that it could be that multiple expansion are different on trading income, but again, this is core customer facilitated trading income. A lot of it actually is fee income within that. That is the way the dynamics work at a lower risk. It is important to have that separated from interest rate risk in the banking book.
On FTE, we do have a slight upward FTEs. Most of these FTEs are driven by some of the remediation work that we alluded to at the Q4 year-end discussions. Most of those FTEs are in low-cost jurisdictions.
Therefore, we continue to feel comfortable with the underlying costs and also our outlook on underlying costs and FTEs.

Jan Erik Gjerland: Thank you for your answers. Just one follow-up on the lending volume and deposit volume.
You say that, of course, there are some market changes to the housing, etc., in Denmark, which takes your book negatively. However, could you just confirm the underlying growth level Q-on-Q in the different geographies, please?
Carsten Egeriis: Yes. It is probably best to look at currency adjusted, right?
Jan Erik Gjerland: Yes.
Carsten Egeriis: Yes. We see a slight growth in our personal customers in Denmark. We see flat in business customers in Denmark. I am talking quarter-on-quarter. We see more or less flat in Sweden and Finland, slightly down in Norway. That is PC. On business, I would say, more or less flat to slightly up against currency-adjusted local. Then, on LC&I, again constant FX slightly up.
I think it is a story of slightly up to stable. There is a few that is slightly down, but overall, stable to slightly up on lending, currency-adjusted. Activity –
Jan Erik Gjerland: Thank you very much for that clarification.
Carsten Egeriis: Activity remains fairly good, overall. Clearly, housing market is somewhat subdued in all the markets.
Jan Erik Gjerland: Thank you for your time, again.
Carsten Egeriis: Thank you.

Martin Birk (SEB): Thank you so much. Two questions, please.
The first question is on market shares, especially Danish market shares. Any inputs to what is happening there?
Then, second of all, we also talked about this last quarter, Carsten, when you said that lending margins would start to trend up from this quarter. Some of the lending margins that you report on, they are indeed trending up, but probably not as much as I would have liked. What do you see out there in the market? Is it more difficult to reprice the lending side, compared to what you expected this a quarter ago?
Carsten Egeriis: Hi, Martin, thanks. If I look at the market shares – and we only have market shares for February. We are told market shares for Q1 – you asked for Denmark – will be out on 2nd May.
However, if I look at the latest market shares from February, if I take personal customers in Denmark, we see slight increases on bank lending, driven again by Danske Porteføljepleje, and we see pretty flat on mortgage. In business, we see a slight decrease on bank lending, but slight increase on mortgages. It is a little bit up and a little bit down. I would say overall, market share is pretty stable.
We continue to feel okay about Realkredit Danmark. If you look at gross lending, we have maintained the higher level of new loan market shares on gross lending that we saw throughout last year. Of course, on net lending, I think the total market in Danish Realkredit was DKK 3 billion to DKK 4 billion so it is insignificant.
Lending margins, as you said, we do see some upward margins on PC, still pressure on business customers. We will continue to reprice. There is a lag effect on business probably by five, six weeks. We will continue to reprice. Therefore, you should also continue to see lending margins trend upwards. However, as you also alluded to, perhaps lower than expected, given time lag. I hope that answers.
Martin Birk: Yes. When should we really expect a pickup here? I guess when you guys see the forward curve, you would be worried that all of a sudden, the forward curve is behind you and you still have deposit betas sticking up. However, you are not really repricing on the lending side as much as you should do. I guess we should be seeing quite a material pickup in lending margins pretty soon, right?
Carsten Egeriis: Yes. You should expect, over the coming quarters, that lending margin will continue to improve.
Claus, do you want to comment?
Claus Jensen: Yes. I just want to add, Martin, just to give you the full picture, there is still this lag effect from our lending in Norway that are coming in over time. That is part of the explanation why lending margins show a negative in the NII bridge.
Martin Birk: Okay. All right. Thanks.

Alexander Demetriou (Crédit Suisse): Hi. Good morning, everybody. Thank you for taking my questions. Just two from me.
Firstly, on remediation expenses. They remain elevated at DKK 1.1 billion in 2023. Could you just remind us of the trajectory on how much it is likely to reduce over the coming years?
Secondly, just on lending volumes. Would you be able to provide some guidance on what you expect for the remainder of the year? Are we likely to see a pickup in the personal customer segment towards the end of the year or do you still see that quite muted towards the end of the year? Thank you.
Carsten Egeriis: Thanks for that. Remediation costs, we said that a very material part of that remediation cost will go out as we go into 2024. There will still be some tail of remediation, but it will be substantially reduced. Really, the remediation cost is the debt collections case. Then, some costs still related to the Estonia case, but substantially lower. If you then go out in 2025, it should be substantially completely out.
Then, lending volumes, it is really difficult to say. We do see that the housing market is picking up a little bit. I would expect more volumes on the housing side, as I look into Q2. I think it is very difficult to predict lending volumes, if I look across the corporate space, given the economic environment. However, so far, flows, activity, pipeline looks decent.

To all, we really appreciate your interest in Danske Bank and also for all your questions.

Of course, as always, please reach out to Claus and his team in Investor Relations if you have any questions. Have a great day.
Thanks very much.

[END OF TRANSCRIPT]