Pre-close call Q2 2023

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Danske Bank – Investor Relations

Claus I. Jensen – Danske Bank – Head of IR

Intro

Good afternoon and welcome to the Danske Bank Q2 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 participate 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 30th June ahead of the publication of our interim report on 21st July. I will go through the P&L statement line by line and comment 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 as well as publicly available data as of 20th June, 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.

Macro

I would like to start by commenting on the current macroeconomic backdrop before we go through the line items.

The short-term economic sentiment has improved recently supported by strong labour markets and more positive datapoints concerning the Danish housing market, however, the longer-term economic outlook remains uncertain and the full effects of monetary tightening remain to be seen. Central banks' mandates are to bring down inflation and despite lower energy prices which have helped improve inflation indicators lately, core inflation still remains above target.

Our most recent economic outlook from 20th June projects higher central bank rates, expected to reach peak level in 2024.

With that, let us have a look at net interest income.

Net interest income

As always, please note the impact of currency fluctuations in the regions in which we operate. In the period from the beginning of the quarter until the 20th June, we have seen deprecation of the Swedish krona and the Norwegian krone of approx. 4%, whereas the GBP has appreciated around 3%. Also please further note that Q2 has one more interest day than Q1 with an estimated effect of DKK 80-85m.

Regarding volume developments, we refer to publicly available sector statistics as the only externally available source of insight. The most recent data as of April 2023 points to a largely flat volume development compared to the first quarter. Overall we note that the housing market activity remains subdued compared to the previous quarter.

Since Q1, 3-month STIBOR and NIBOR have risen around 50 basis points – on the basis of quarterly averages. Please be aware that when we observe increases in NIBOR and STIBOR, the immediate impact on our NII is negative as higher customer rates are subject to notice periods of up to 6 weeks.

In the first quarter, ECB and the Danish central bank hiked rates in February by 50 bps and 35 bps respectively and again in March each by 50 bps. In the second quarter, ECB and the Danish central bank hiked rates in May by 25 bps and each by 25 bps on 15th June. We confirm our current NII sensitivity of approx. DKK 700 million per 25 bps uplift across all currencies, on average over the next 100 bps within a 12-month period. Please note that by far most of our sensitivity relates to DKK and EUR, in that order.

Further to the increases in policy rates, we have adjusted our deposit rates for certain products in Denmark. The interest rates on saving products for retail have been raised by approx. 25 bps with effect from 1 May. The interest rates on transaction accounts which represent the vast majority of retail deposits in Denmark, are currently unchanged at 0%.
With respect to our operations in the Nordics, we continued to adjust pricing following central bank hikes and local market competition.

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 so far this year, which in total amount to debt transactions of more than DKK 50 billion year to date. On 14th June, we executed EUR 1bn GREEN 7NC6 non-preferred senior bond priced MS+170bps.

Please see Danskebank.com Debt section for further details on terms and pricing for each issuance.

Finally on NII, please be aware that the move you saw in Q1 from trading to NII related to our interest rate risk management, will be allocated to the appropriate business units from Q2. Going forward this will be reflected in the BU margins. To be clear this move does not affect Group NII.

Fee income

In respect of fee income, the development is subject to market conditions in the financial markets, housing market activity and the general activity level among our customers.

Let us start with the development in investment fees. These will as always be subject to assets under management and the investment appetite of our customers, which could be negatively affected by uncertainty in the financial markets. Please note that the higher interest rates we have observed in Q2 may have a negative valuation impact on AuM, all else equal.

Turning to activity-driven fees, we have noted that the latest consumer sentiment measures from Statistics Denmark are still negative however, slightly improving.
According to our recent spending monitor by Danske Bank Macro Research we are not able to point to material changes in consumer spending Q/Q as service spending continues to perform well whereas spending on goods is overall down.

Turning to fees from lending activities. Despite improving housing market activity in DK from a very low level, the number of transactions including May this year is approximately 35% lower compared to the peak in 2021. Lending volume measured by new RD loans to the retail segment is down more than 50% from Q1-22 to Q1-23. Also, please be aware that we saw a positive seasonal effect from refinancing fees in the first quarter of DKK 0.1 bn, while we do not have any significant refinancing activity in the second quarter. In addition, remortgaging activity is well below the high level from last year.

Activity in the capital markets has improved during Q2, driven by higher activity in debt capital markets, while activity remains very low in equity capital markets.

Trading & Danica

Now turning the focus to trading income, please note that the continued uncertainty about central bank rates has continued to drive bond yields higher in a volatile market environment.
Additionally, spreads on DKK mortgage bonds have widened during Q2 driven by banking turmoil at the end of Q1 and spill-over effects from perceived higher risk in the Swedish real estate sector. The 10Y yield spread between Danish and German government bonds has widened 8bp due to low interest in Danish government bonds and weak market sentiment.

Regarding our insurance activities, please be aware that higher longer-term interest rates and credit spreads may have a negative valuation effect on investment portfolios.

Other income

In connection with the planned disposal of our Personal Customers business in Norway, we will incur a negative one-off in Other Income related to prudent valuation of the portfolio and expected transaction costs. This negative one-off will, however, be slightly offset by a positive one-off booked under trading income and a positive tax-related one-off, meaning that the total sum of these one-offs are expected to have a minor positive impact on net profit for Q2. In addition as the calculation of the final effect is still ongoing, we will elaborate on the exact impact in the interim report for Q2.

This concludes our comments on the income lines.

Cost

We have no comments regarding the quarterly development in costs. The result of a new collective agreement for employees in Denmark will not take effect until 1st July.

Tax

We refer to our previous comment concerning a potential tax-related one-off.

Impairments & credit quality

In general we remain comfortable with our credit quality and we note that the risk of recession appears to be easing as per our latest Nordic Outlook from 20th June. While uncertainty related to the macroeconomic outlook in the second half of the year remains, these effects will naturally be reflected in our model-driven impairments for the period.

This concludes our comments on the P&L.

Capital

Finally, as we announced at the Investor Day that we intend to pay an accelerated dividend by the H1 result targeting the higher end of our 40-60% policy range, subject to approval by the Board of Directors. The record date will be 25th July, and the payment date will be 26th July.

We do not have any specific comments on REA, besides noting that market risk remains subject to volatility in the market.

Concluding remarks

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 30th of June. Shortly after today's call, we will also start collecting consensus estimates with a contribution deadline on 3rd July end of day. Please note that we will publish our Q2 interim report on 21st July 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.