



Pre-close call Q3 2024

4 October 2024

Danske Bank – Investor Relations

SPEECH

Claus I. Jensen – Danske Bank – Head of IR

Intro

Good afternoon and welcome to the Danske Bank Q3 2024 pre-close call. My name is Claus Ingar Jensen, and I am Head of Investor Relations. With me, I have Nicolai Tvernø and Olav Jørgensen 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 before the start of the silent period on 10th October ahead of the publication of our Q3-2024 report on 31st October. I will go through the P&L statement line by line and comment on capital at the end. Afterwards, we will open for a Q&A session. For the sake of good order, I would also like to highlight the following. I will only answer questions related to already disclosed information as well as publicly available information, unless otherwise noted. Connected to this, I wish to highlight that developments in specific indices may not always have the same effect on our performance.

Macro

Before going through the income lines, I would like to start with a brief comment on the most recent macroeconomic development based on our Nordic Outlook from September.

During 2024 to date, the Nordic economies have shown resilience, including continually low unemployment, decent growth and a path to normalised interest rate levels. As inflation is getting under control, there are prospects for more interest rate cuts, and this also lays the foundation for more stable growth expectations across the Nordic countries.

Especially in Denmark, the macro-economic indicators look healthy, even when adjusting for the contribution from the uplift in the pharmaceutical sector. Consumers have been reluctant to channel wage growth into increased consumption, but future real wage growth could provide a solid basis for increasing consumption and credit demand. The restoration of consumer purchasing power is helping the housing market recover somewhat from a low level, which can also be observed in the housing-market statistics published by Finans Danmark.

Having said that, the risk of a downturn is still looming and although the outlook is relatively positive, uncertainty persists, driven by the geopolitical environment.

Now, let us have a look at net interest income.

Net interest income

Firstly, let me start by reminding you of the changes to central policy rates that we have seen in the Nordic countries in the third quarter. On 20th August, the Swedish Central Bank decided to lower its policy rate by 25 bps and then again on 25th September so it's now at 3.25%. After the cut in June, ECB again lowered its policy rates on 12th September by 25 bps to 3.50%, which was also followed by Nationalbanken in Denmark setting the policy rate at 3.10%.

Following the cuts by Nationalbanken, Danske Bank has lowered our retail customer rates with effect from 1st August and after the second cut, we again have lowered retail customer rates, namely on savings products in Denmark, which will be effective from 23rd of October. Notably, we have kept the rate on regular transaction accounts at 0.25% in Denmark, whereas in Sweden the transaction account rate has been lowered to 0%, while savings rates have broadly been lowered by 25 bps. Rates on business customer products have in general been lowered by 25 bps with varying effective dates.

Regarding recent volume developments, we refer to publicly available data.

In terms of lending, we note that overall credit demand remained generally muted. Although the sector has seen some pickup for private borrowing, corporate lending demand largely appears flat in Denmark according to the latest statistics from 26th September.

In addition, we remind you that we cannot exclude continued attrition from the PC Norway portfolio, which may have a negative effect on NII.

Kindly note that Q3 2024 has one interest day more than Q2 2024. The day effect is estimated around DKK 90 million.

With respect to our NII sensitivity, we note that balance sheet effects continue to have an effect. Additionally, we reiterate our guidance of approximately DKK +500 and -500 million per 25 bps change 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.

In respect to what we communicated for FY NII in our Q2 release, please note this was based on an “as is” point of view at the time for forward rates, which reflected higher market rates and fewer rate cuts. Since then, central banks have cut rates earlier than expected and we have seen a further decline in forward rates, which all else equal could impact NII in the second half of the year with the effect in Q3 being limited.

Looking at funding costs, we note that NIBOR increased around 2bps whereas STIBOR is around 35bps lower during the quarter on the basis of quarterly averages.

As always, please be mindful of currency fluctuations in the markets where we operate. GBP appreciated up to 2% in the third quarter, while SEK was flat and the NOK depreciated around 3%.

In terms of wholesale funding, we issued around DKK 3 billion in the third quarter, progressing in line with our full-year funding plan of DKK 80-100 billion of debt issuance across instruments. In late September, we also issued an EUR 500 million 3NC2 preferred senior priced 3M EURIBOR +45 bps and a USD 1 billion 6NC5 non-preferred senior priced at +114 bps in EUR equivalent, both of which were well received by the market, but will not settle until the fourth quarter and thus do not impact NII in the third quarter.

Please visit [Danskebank.com Debt section](https://Danskebank.com/Debt-section) for further details on terms and pricing for each issuance.

Fee income

In respect to fee income, we will start by noting that development is as always subject to conditions in the financial markets, housing market activity and the general activity level among our customers. Moreover, the third quarter is a summer vacation period, which could have a negative impact on activity, for example in capital markets.

Let's then look at investment fees, which naturally are impacted by the development in assets under management as well as the investment activity among our customers. In the third quarter, we noted that equity markets globally continued the positive trend observed during the first half of the year, yet with significant periods of volatility, which may have affected the investment appetite of our customers.

Turning to activity driven fees, according to the latest consumer spending monitor from Danske Bank Research, we saw a slight increase in spending in real terms in July and August, meaning that consumer spending may continue to grow, albeit at a slow pace. Consumer sentiment in Denmark, as measured by Statistics Denmark, however, remains in negative territory. Please also remember that in the second quarter, we recognised DKK 0.1 billion due to a non-recurring reduction in fee expenses related to activity driven fees.

Turning to fees from our lending activities, we note that we have seen some positive signs in the Danish housing market, even though overall activity remains subdued. Regarding the refinancing of adjustable-rate mortgages, we generally see lower activity in the third quarter. Remortgaging activity remained at a very low level in the third quarter.

And finally, with respect to capital markets activity, in DCM we have seen a slowing of the positive momentum we witnessed in the first half of the year, while primary equity capital markets activity has remained at a low level.

Trading income

Now turning our focus to trading income.

Market conditions and customer activity were constructive in the third quarter. Lower yields were the main driver in the DKK mortgage market during Q3, while spreads on 5Y non-callable bonds widened, mostly due to the risk of larger supply, and spreads on short-term non-callable bonds were broadly unchanged. In addition, in the third quarter, Danish government bonds continued the performance vs. Germany. Currently, the 10Y spread is around -3bp, and it is the first time since 2019, where 10Y Danish government bonds trade with a negative spread to Germany.

Danica

No specific comments for Q3. Please be aware that Danica's results are always subject to developments in the financial markets and in the Health & Accident business.

Other income

Other income has been affected by a low level of assets available for resale in our leasing business through the first half of the year, and this effect may have continued in the third quarter.

Costs

We have no specific comments regarding the quarterly development in costs.

Earlier this year we announced DKK 0.6 billion of non-recurring cost for 2024 related primarily to our new domicile and PC Norway. Firstly, we reiterate that DKK 0.1 billion was recognised in the second quarter and secondly, we expect to recognise most of the residual amount in the third and fourth quarters.

In addition, we expect to recognise a positive one-off item in our expense line in Q3 of approximately DKK 0.2 billion related to a reimbursement of insurance costs.

Impairments and credit quality

In the second quarter, we guided that we expect full-year loan impairment charges to be up to DKK 0.6 billion. We have no specific comments in respect to the third quarter other than to note that the strong macroeconomic environment continues to support credit quality.

Tax

We do not have any comments with respect to tax.

One-offs

Please note the one-off mentioned above. For year on year comparison, we reiterate the one-off items recognised in the third quarter of 2023, which had an effect on NII, trading income, net income from insurance, other income and the tax line.

Capital

Kindly note that as communicated in Q2 2024 we have front-loaded most of the expected Basel IV impact from January 2025 with a DKK 20 billion increase in REA in the second quarter. That aside, 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 10th October. At the beginning of next week, we will also start collecting consensus estimates with a contribution deadline on Friday, 11th October, at noon.

Regarding consensus numbers, we reiterate that the number you input wrt. share buyback should be the announced amount for that particular calendar period.

Please note that we will publish our Q3 2024 results on 31st October 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.