Conference call

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Investor Relations

CORPORATE PARTICIPANTS

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SPEECH

Operator

Good day, ladies and gentlemen, and welcome to the Danske Bank Annual Report 2017 Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Thomas Borgen, CEO of Danske Bank. Please go ahead, sir.

Thomas Borgen - Danske Bank - CEO

Thank you, operator, and thank you all for taking time to listen in to this call today. Other participants on the call today are our CFO, Jacob Aarup-Andersen, and our Head of IR, Claus Ingar Jensen.

Slide 1, please. In today's call, we have the pleasure of presenting Danske Bank's financial results for 2017. We aim to keep this presentation to around 20 minutes. After the presentation, we will open up for Q&A, as usual. Afterwards, feel free to contact our IR department if you have any more questions.

Slide 2, please. With a profit of DKK 20.9 billion, 2017 was a year with strong financial results for Danske Bank. Net profit came in 5% higher than the year before, and the return on shareholder's equity was 13.6%, an increase of 0.5 percentage points from 2016. The financial results, which are the strongest in our history, demonstrate that we have come a long way by focusing on becoming a customer-centric, simple and efficient bank. The financial results for the year were reached on the back of good developments in the Nordic economies, with Denmark, and to some degree, Finland, experiencing a good uplift in GDP growth during the year.

Overall, the operating environment improved in 2017, resulting in a strong underlying momentum, where we, despite a highly competitive environment, saw a solid and well balanced inflow of new business from personal and business customers across our markets.

Loan growth for the group, which was adversely affected by currency effects, was up 2% from the year before, in particular due to business initiatives in our designated growth markets, Sweden and Norway. The good momentum generated by the partnership agreements at Personal Banking continued throughout the year, and was accompanied by strong development at Business Banking. In both countries, where lending growth is above the Group average, we maintained a strong focus on credit quality. We expect to further exploit the potential of the partnership agreements and our new customer relationships going forward.

As regards our capital market-related activities, 2017 was, overall, a good year. The geopolitical events that had a significant impact the year before were less pronounced in 2017. However, activity remained high in all areas of Corporates & Institutions and reflected the strength of our customer-driven and diversified business model.

In the Wealth Management market, we benefited from strong activity, evidenced by a net inflow of customers and a strong increase in premiums. The announced acquisition of SEB Pension in Denmark late in the year is a strategically good fit for Danica and will strengthen both scale and innovation capacity for the benefit of our customers.

Expenses were broadly in line with the level of the year before. Initiatives taken to meet increased regulatory requirements had a significant impact, while we continued to enhance digital capabilities in order to secure Danske Bank's long-term competitive position. Higher costs related to increased customer activity were mitigated by efficiency measures.

Credit quality was very strong due to favourable macroeconomic conditions and had a positive impact on the financial results. Overall, the financial results for 2017 clearly demonstrate that we continue to develop Danske Bank as a solid, balanced and predictable financial institution.

As we have now delivered a return on shareholders' equity above 12.5% for the second year in a row, we consider our financial target to have been met ahead of plan. In order to better reflect our longer-term ambition of maintaining our position as a top-tier Nordic bank, we have decided to introduce a new target based on relative performance, which is able to accommodate a changing environment. From 2018, our long-term ambition will be to rank in the top three among Nordic peers in terms of return on shareholder's equity.

We believe we are strategically very well positioned to continue to develop solid long-term value for all stakeholders.

Finally, for 2018, we expect a net profit in the range of DKK 18 billion to DKK 20 billion.

Slide 3, please. Our capital position is very strong. Over the past four years, we have seen a significant build-up of capital on the basis of solid earnings and a dedicated focus on overall de-risking, including the sale of Non-core assets, and from initiatives to improve credit quality. At the same time, we have been able to accommodate expansion in our designated growth markets. The common equity tier 1 capital ratio, which is net of the total share buy-back programme of DKK 10 billion we recently completed, stood at 17.6% by the end of the year. It is thus significantly above our target and also represents a comfortable margin above the regulatory requirements. On that basis, the Board of Directors is proposing a dividend of DKK 10 per share, which represents a payout ratio of 45%. We have also decided to launch a new share buy-back programme of DKK 10 billion.

Today, we have also announced a change in our dividend policy. Going forward, the dividend payout ratio will be 40% to 60%. This new dividend range will allow for more flexibility in capital distributions, while we maintain ample capacity for handling profitable growth and potential effects of regulation.

I will now turn the presentation over to Jacob, who will take you through the financial results in more detail.

Slide 4, please

Jacob Aarup-Andersen - Danske Bank – CFO

Thank you, Thomas. Let's take a look at the main items of our financial results. Net interest income came in at DKK 23.4 billion. This was a 6% increase from the level seen in the year before. Excluding currency effects, NII was up 7%, driven mainly by lending growth of 2%. Net interest margins were almost unchanged in the fourth quarter.

Net fee income came in at DKK 15.3 billion. That's up 8% from the level last year when fee income was affected by subdued investment activity. All Nordic business units contributed to the increase, but Wealth Management and C&I in particular. In the fourth quarter, fee income benefited from performance fees of DKK 0.4 billion.

Net trading income came in at DKK 7.8 billion, down 9% from the same period the year before, when we booked income related to the sale of shares in associated companies. Trading income was driven by good customer activity at C&I, primarily early in the year.

Other income fell significantly from the level last year, when we benefited from the sale of our domicile properties.

Operating expenses were broadly flat. The figure for last year was based on lower IT-related costs and included positive one-offs. The cost/income ratio came in at 47.2%, the same as in 2016. Finally, we saw a net loan impairment reversal of DKK 0.9 billion as a result of improved credit quality, in particular at Business Banking.

Slide 5, please. In 2017, our two Nordic banking units, Personal Banking and Business Banking, benefited from good business momentum in almost all markets. The improvement in results was based on higher customer activity than last year and a good inflow of new business in Norway and Sweden in particular. In Finland, we saw signs of incipient growth, mainly at Business Banking, whereas in Northern Ireland, volume growth mitigated the adverse effects of lower U.K. rates and the development in the pound.

Let's look more closely at the three units.

At Personal Banking, we delivered good results, with profit before loan impairment charges up 15% to DKK 5.1 billion. Total income was 4% higher than last year, owing to improvement in all income lines. Expenses were down 2% despite higher activity and regulation-driven investments. Impairment charges showed a small reversal and reflect overall strong credit quality. The return on allocated capital was 21.3%. Total lending volume was up 2%, owing to growth in Norway and Sweden, where lending volumes rose 8% and 17%, respectively, measured in local currency. The depreciation of the Swedish and Norwegian krone led to lower reported growth rates in Danish kroner. These strong gains came primarily from our partnership agreements, under which we continue to see a good inflow of new customers, particularly in Sweden. In Denmark, where volume was slightly higher, the trend towards higher mortgage lending and lower lending within conventional loan products continued to slow down. In Finland, our lending volume was up 1%.

At Business Banking, we continued the solid progress in all markets. Overall, profit before loan impairment charges was up 11%. Measured in local currencies, lending volume was up in all markets, most notably in Norway and Sweden, where volumes rose 12% and 11%, respectively. In Finland, growth in lending gained further momentum and was up 10% from the year before. In Denmark, excluding Realkredit Danmark, our mortgage institute, lending rose 1%. Total income was 5% higher than last year due to higher customer activity. The improvement was driven by both NII and fee income.

Expenses were down 4%, owing to efficiency measures offsetting higher regulatory and activity-related costs. Impairment charges showed a significant reversal of DKK 0.8 billion as a result of strong and improved credit quality. The return on allocated capital was 17.8%.

Finally, in Northern Ireland, our growth in new business was able to mitigate the adverse impact of the depreciation of the pound, lower interest rates and reduced loan impairment reversals. Total income fell 5%. Adjusted for the depreciation of the currency, it was up 1%, as volume growth mitigated the effects of weak GDP growth and lower interest rates. Expenses fell 23%, 18% in local currency. A change in our pension liabilities entailed a one-off gain, which was partially offset by the cost of restructuring initiatives. Excluding the one-off gain, expenses were up 2%. The return on allocated capital was 20.1%.

Slide 6, please. Let's have a look at the units that are more dependent on the capital markets. At C&I, profit before impairments rose 14% from the level last year, when customer activity was low due to challenging market conditions. All business areas at C&I saw an increase in activity, driven by the persistently low interest rates and higher economic activity in general. The customer search for yield benefited FICC, but also Capital Markets saw higher activity.

In corporate finance, we experienced strong demand for M&A services, and this further strengthened our competitive position in the Nordic market. Total income rose 9%, owing to improvement in all major income lines. NII and fee income benefited from higher volumes and increased customer activity. Expenses were slightly higher, driven by higher activity and performance-related pay.

Impairments, which by nature fluctuate at C&I, amounted to DKK 0.4 billion. That's down 67% from the level last year due to reduced impairments against oil-related exposures. Despite higher activity at C&I, capital consumption was down 6% from the level last year due to lower counterparty and market risks.

At Wealth Management, profit before tax was down 5% from the level the year before. Like the other business units, Wealth Management benefited from higher customer activity and a net inflow of customers, which had a positive impact on premiums and assets under management. Fee income was 8% up from the level last year, driven mainly by an increase in assets under management and higher customer activity. Performance fees, the vast majority of which were booked in the fourth quarter, amounted to DKK 0.4 billion. Trading income was 32% lower than in 2016, when we booked one-off income of DKK 0.2 billion relating to insurance contracts. Expenses were up 5% due to higher activity and an increase in costs for the implementation of new regulation. Assets under management were up 8% from the level in 2016. In 2017, premiums in Danica and net sales from asset management amounted to DKK 40 billion and DKK 21 billion, respectively.

Slide 7, please. Moving on to expenses. Total expenses for 2017 amounted to DKK 22.7 billion and were broadly flat relative to the level in 2016 and in line with our expectations. In 2017, expenses reflected increased expenses for regulatory compliance projects and a continued focus on digitalisation. The increase in expenses for regulatory compliance projects related to IT projects, enabling us to implement and comply with regulatory requirements, such as MiFID II, the General Data Protection Regulation, PSD2 and other regulation. Furthermore, we continued to prioritise our digital capabilities as a key driver for enhancing the customer experience and achieving more efficient end-to-end processes. The increase in costs related to higher activity was mitigated by efficiency measures.

The figure for 2017 also includes a one-off gain related to an amended pension liability in Northern Ireland, but also negative one-offs, such as the one-off transaction costs from the acquisition of SEB Pension in Denmark.

Slide 8, please. The improvement in credit quality we have experienced during the last couple of years continued in 2017. Net reversals for our core activities amounted to DKK 0.9 billion for the full year. In the fourth quarter, we had a net reversal of DKK 0.2 billion as a result of net reversals at all business units. The loan loss ratio for 2017, excluding Non-core, was minus 4 basis points. With a net reversal of DKK 0.1 billion in the fourth quarter, Business Banking had lower reversals than in the previous quarters in 2017. The reversals were driven by a positive development in agriculture and a continuation of positive outcomes of workout cases, mainly in Denmark. At C&I, we booked a small reversal in the fourth quarter, while the previous quarters had seen the booking of charges against oil-related exposure. Despite difficult market conditions for subcontractors in the oil and gas industry, we did not see any further deterioration in the credit quality in the fourth quarter. Collective charges against oil-related exposure at C&I stood at DKK 1.1 billion, slightly down from the preceding quarter. At Non-core, reversals in the fourth quarter amounted to DKK 0.5 billion. That's relating to exposure in Non-core banking in connection with the disposal of the Irish Non-core portfolio.

Slide 9, please. Our capital position remained very strong, with a reported common equity tier 1 capital ratio of 17.6%, that's up 0.9 percentage points from the preceding quarter and significantly above our target range of 14% to 15%. The full deduction of the DKK 10 billion share buy-back programme we recently completed was booked in the first quarter of last year.

The total capital ratio was 22.6%, up 1 full percentage point from the preceding quarter. The REA level fell DKK 16 billion in the fourth quarter, primarily owing to a reduction in credit risk due to the previously announced disposal of assets at Non-core and FX effects due to the appreciation of the Danish krone versus the other Nordic currencies. The leverage ratio was 4.4% according to both the transitional rules and the fully phased-in rules. The share buy-back programme of DKK 10 billion in 2018 will affect the core tier 1 capital ratio by 1.3 percentage points pro forma at the end of 2017. The fourth quarter pro forma figure also includes the deduction of 0.2 percentage points for the fully phased-in effect of the implementation of IFRS 9. The reduction in regulatory capital will be subject to a 5-year phase-in period, whereas the full effect on shareholder's equity will be recognised as at 1st of January this year. The new share buy-back programme will start on 5th of February and run for no more than 12 months.

Slide 10, please. Let's have a look at our guidance for 2018 and our new long-term financial target. As usual, our guidance is subject to uncertainty and macroeconomic developments. We expect net interest income to be higher than in 2017, as we will benefit mainly from volume growth. Fee income is expected to remain strong, subject to customer activity. Expenses are expected to be slightly higher than in 2017. Loan impairment charges are expected to be higher, but still at a low level. Impairments will be based on the new expected credit loss impairment model in IFRS 9. Finally, that means we expect net profit to be in the range of DKK 18 billion to DKK 20 billion.

As Thomas mentioned at the beginning of this call, we have decided to introduce a new financial target based on relative performance measured against our Nordic peers. As the latest developments have clearly shown, we are performing at the top end of Nordic banks, with a financial performance comfortably above our target of a return on shareholder's equity of at least 12.5% in 2018 at the latest. Consequently, we have reviewed our long-term financial ambition in order to achieve a sustainable target that clearly reflects two objectives: our wish to maintain a top-tier position amongst peers; and the ability to accommodate changes in the operating environment, whether positive or negative. The new relative financial target, where our long-term ambition is to rank in the top three among major Nordic peers in terms of return on shareholders' equity, is, therefore, truly aligned with our ambition to be a stable, balanced and predictable bank.

Slide 11, please, and over to Thomas.

Thomas Borgen - Danske Bank - CEO

Thank you, Jacob, and those were our initial comments and messages, we're now ready for your questions. Please limit yourself to two questions. And if you're listening to the conference call from our website, you're more than welcome to ask questions by e-mail.

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

Operator

(Operator Instructions) We'll now take our first question from Mads Thinggaard from ABG.

Mads Thinggard – ABG Sundal Collier

This is Mads from ABG with a couple of questions, and the first one is regarding your new long-term ambition and financial target of being in the top three among the Nordic banks. I wondered if you could perhaps elaborate a bit on how you think this, and how we should -- I mean, of course, I mean, top three, you're already there. I think, you mentioned -- I mean, couldn't you -- I mean, would it kind of -- did you kind of discuss whether you could be #1 in the Nordic space? And also, your old 2018 ROE target of 12.5%, is that over and out now? Or does it still apply for 2018? That was the first question. And the second question is regarding Basel IV. That seems to be, I mean, a bit distant still for Danske and like it's not really -- I mean, we don't really get much flavour in the report on the -- I mean, on what you expect at the known rules as we see them now before EU implementation. I don't know if you could perhaps put a bit of words on when you expect to be able to communicate something on the Basel IV effect on CET1?

Thomas Borgen - Danske Bank - CEO

Okay. Thanks very much, Mads. Jacob will try to respond to your last question. I'll take your first. You and all your colleagues should not be worried about the management's ambitions. We always will strive to be at the top of the league. And when we say we will be top three, it's that to be consistently among the top-performing banks in the Nordics through the cycle. It's not always about ambitions, it's also about delivering. And I think we have, during the last three years, been delivering very solid, balanced and predictable results. So that's why. And secondly, we think it's much more relevant for all of you that you compare us in relativity, as the world is relative. Second, yes, 12.5% is ditched, because we are above that number now, and 12.5% is an absolute number, and you can't manage both on a relative term and on an absolute term. So you have to now move completely over to relative terms. That means that, of course, we will always strive to meet, at least, in downturns, the cost of capital. But it's, again, all about relativity. Jacob?

Jacob Aarup-Andersen - Danske Bank – CFO

Okay. Yes, thanks for the question, Mads. Basel IV is a topic we all love to discuss, as you know. We -- you are right that we are facing a long EU process, and that's -- in the end, that's also part of the reason why we're not giving you firm numbers here. We have a long EU process ahead of us with probably -- likely a number of changes. And then you have the very long phasing-in afterwards, probably to 2027 or later. There are many estimates out there in terms of potential impacts, and we've seen analysts estimating from Danske, everything from 0% to 5% core tier 1. The gross number from the current proposals will most likely be reduced in this European political process and will also be reduced from us, like most other banks, gradually positioning our exposures in a capital-efficient way under the new regime of costs. What you need to take away, and what we're also making very clear here, is that we are very comfortable that we are in a position to manage any potential impact and still continue our balanced approach. We have a strong capital level today. We just reported numbers here with 560 basis points of excess capital to our fully phased-in capital requirement. We have strong annual capital generation of more than 2%. And at the same time, we would also expect Pillar II requirements to fall somewhat under Basel IV, as you will also have heard from other banks. So there's a significant buffer here to weather the impact of Basel IV. But given the uncertainty we still have at this stage, it will be shadowboxing to start giving you numbers. But I hope you are -- you also see the comfort we have here with a very strong capital position.

Operator

We'll now move to our next question from Willis Palermo from Goldman Sachs.

Willis Palermo – Goldman Sachs

The first one is on capital, again. If you could elaborate, please, on the underlying reasons of raising the payout ratio on the dividend side. Is it a way to increase the more certain fixed part, but then maybe a sign that the buy-back might be lower going forward? And the second question is on the cost side and the targets. When guiding for slightly higher cost base, what slightly means? And maybe more specifically, what are the moving parts that you incorporate in the guidance going into '18? And on that point, as you benefited from the DKK 200 million buffer in '17, was it an opportunity to upfront some of any other '18-related costs, such as acquisition-related, for example?

Thomas Borgen - Danske Bank - CEO

Thank you very much. I'll take the first question, and Jacob will elaborate on your second question. Our capital strategy is very firm, as it has been for the last many years, and it will also be that going forward. It is built up on the following assumptions: first of all, we will have a capital position which meets our target and all stakeholders' expectations. Thereafter, we will have a dividend policy, which is predictable and sustainable through economic cycles. Thirdly, we will then take what we deem to be profitable and sustainable growth, which enhances the value to our investors. And then if we have any excess capital, we will distribute it back to the shareholders in one way or another, which we have done, historically, as you know very well, with share buy-backs, as we also announced today. Historically, we have had, as you alluded to, a dividend between 40% and 50%. But to give us slightly more flexibility and have the ability to have a slightly higher dividend, we have actually now widened that gap. It just gives us more balance and more flexibility. It does not change the overall strategy, but it gives us the ability to produce a slightly higher dividend if we find that opportunity.

Jacob Aarup-Andersen - Danske Bank – CFO

Okay, and Willis, let me just take the cost question. So there were a couple of questions in the question there. I guess, in terms of slightly up, that -- we haven't given you a specific number for that, because otherwise, we would've given it. So slightly, I see a number of your peers are interpreting that as around 1%. But we are sticking to the slightly as a guidance here, of course. When we look at the overall number, you ask about '18, the moving parts, and I think that's a good question. Let's just take the backdrop here and take just a quick step back. So we have maintained a very strong cost discipline for five years running now, reducing absolute costs and this year, despite a number of investments in 2017, we kept costs flat. And we will continue on that account in the coming years. We believe we are striking the right balance in terms of seeing costs slightly up, because we will continue high investments in delivering on all the key regulatory projects that we also mentioned here, MiFID II, Data Protection, AML, et cetera, that drives both staff costs, IT costs and consultants as a prerequisite. Secondly, we will continue to invest heavily in the digitalisation agenda, and as part of our guidance, lies also that overall IT costs will be higher next year than they were in 2017. To fund that, we will continue our focus on taking out structural costs throughout the bank, through investing in digitalisation across the bank and end-to-end processes. So that – from that perspective, continue the cost journey we have been on. You also asked specifically around the DKK 300 million in Northern Ireland and whether that had created a buffer, I believe you said. The DKK 300 million is a one-off, but we have many one-offs moving both on the negative and the positive side. I mentioned some of them earlier, with one of them being the SEB Pension transaction. Also here in Q4, there are also some regulatory costs, et cetera. So there are moving parts on the up and downside, and in an organisation of our size, you will always have that. So we won't see that impacting our 2018.

Operator

Our next question now comes from Jan Wolter from Credit Suisse.

Jan Wolter – Credit Suisse

Yes, Jan Wolter here, Credit Suisse. I was cut off, so maybe my questions have been answered. But two questions. First, on the underlying cost level in Q4, I think we did see a little bit more seasonality there than usual. And adjusting for the DKK 300 million positive one-off there, could you just say or quantify what the other, if any, one-offs were, just so we can have a starting point, given that the DKK 6 billion cost level that will imply a run rate, I think, which is far above the guidance? So that would be my first question. Secondly, the Danish FSA late in last year flagged that perhaps banks should have a look at the level of payout ratios. And I think that also Danske commented that buy-backs and growth, there has to be a balance there. Could you just talk a little bit around that? What kind of buy-back level - or rather than quantifying, just conceptually, isn't it time to look more for organic growth now and boost the top line rather than having a DKK 10 billion buy-back programme in place? How do you see that and put your capital position in context?

Jacob Aarup-Andersen - Danske Bank – CFO

Jan, Jacob here. Let me start on the cost side. Yes, to be fair, if you were cut off, we did just discuss this a bit, but let me just give you a bit of colour on it anyway. So the point I made a second ago was that the DKK 300 million one-off in Q4 was also mitigated by other one-offs. So there's a number of moving parts here. One of them is the transaction cost around

SEB Pension. We haven't given out the number, but it is, obviously, not in-substantial, as you know, the business you're in as well. There's also D&A, so depreciation and amortisation around the IT side. There was regulatory investments here in Q4. So there are number of items that add up. We - as you know, we have a threshold in terms of when we announce one-offs. But a good amount of the Northern Irish one-off is mitigated by one-offs going the other way.

Thomas Borgen - Danske Bank - CEO

Okay. And to your second question, that was also discussed while he was cut off. We are very firm on our capital strategy, and that is about having a very solid capital position. And then we are having a very predictable dividend policy, which we now have increased. And then we will take any organic growth we see as sustainable and profitable. And then if we have any excess capital, we'll give it a back. So that means there is no change in the strategy, because share buyback in itself is not a goal in itself, it's a residual, after we have been building a very solid, stable and predictable business. But it gives us the opportunity to take profitable growth, and if there is not profitable growth, we'll give it back in one way or another. You also implied the FSA's comments, of course, it is very prudent by the regulator to require and want banks to be very solid going into maybe peak of the cycle, in their view, at least, or at least, that you could be a part of being able to cope with any regulatory changes. We have, today, reported one of the most solid positions we ever had, if not the most solid. We have a very solid position, where we can both handle any uncertainties when it comes to regulatory changes going forward, but we also have the capacity to do profitable growth, and we also have the capacity to have a decent return to the shareholders going forward. But that would follow the strategy we have laid out very clearly the last four years, which we intend also to keep going forward.

Jan Wolter – Credit Suisse

Very clear. If I just could ask a follow-up there, Jacob, on the cost side. You're not prepared to give any quantification around the negative one-offs, so to speak, in the quarter. Are they of similar size at the DKK 300 million, when you take into account transaction costs for the SEB Pension investment, MiFID II, et cetera?

Jacob Aarup-Andersen - Danske Bank – CFO

Yes. No, it's a fair question. And I said, it broadly mitigates the amount, a bit below, but broadly mitigates it. You can see in the bridge in the appendix in our IR presentation when you get to that over the weekend. There's a good little bridge on the quarterly expenses. You'll also there see the increase in consultancy spend in Q4, which is, obviously, a mix of the SEB transaction and some of these regulatory projects.

Operator

Our next question now comes from Andreas Håkansson from Exane.

Andreas Håkansson – Exane BNP Paribas

Just a question coming back to the comments, Jacob, you made on net interest income. You said that the net interest income has grown by 6%, 7%, and the main driver was the 2% loan growth. But there seems to also be a very -- another very big driver. Could you tell us what were the other drivers? Margins were relatively flat. And what's the outlook of that portion of NII going into 2018?

Jacob Aarup-Andersen - Danske Bank – CFO

Andreas, on NII, as you know, there's a lot of moving parts, and you've also seen our loan growth having been stronger year-on-year in the recent quarters, and now this quarter, we have the FX effect bringing the loan growth down a bit. When you look at the NII year-on-year, so the 6% year-on-year, lending volumes driving a lot of that, lending margins also driving a decent amount of that. And then you're right, there's also the other NII. The other NII is roughly around 2% of that 6% growth. You know, and we discussed this, not you and I, but it's an often topic on these calls that NII other moves up and down quarter-to-quarter. And when you look at this quarter, it's actually down DKK 70 million compared to Q3. So there's these fluctuations quarter-to-quarter depending on the internal bank. The internal bank has seen a lot of movements and also in this quarter, you're seeing, technically, our lending and deposit margins moving a bit in opposite directions to reflect the fact that the spreads at the short end are also developing, where we're also moving. In the end, it just shows you the movements in the balance sheet of our size will give internal bank movements, and that flows through to the other NII. You asked me for the impact in 2018. We - all things equal, we don't expect any major impact from NII other. But if we do get major moves in interest rates, from a quarter-to-quarter, you can see NII other both having positive and negative effects. So it really depends on movements in the markets.

Andreas Håkansson – Exane BNP Paribas

And just on the decline in the NII other in the quarter, is it fair to say that we see that being reflected in the operational division, as more is transferred out there?

Jacob Aarup-Andersen - Danske Bank – CFO

Yes, we do see the movements in internal bank reflected with a lag in the business units. That is a fair reflection.

Operator

Our next question now is from Martin Birk from Carnegie Investment Bank.

Martin Birk – Carnegie

My first question is on Norway and the margin development and sort of if you could elaborate a little bit on the competitive environment, especially within the retail side. And my second question relates to your market risk and counterparty risk. We have seen some volatility in rates here in the beginning of the year. And if that continues in Q1, what should we think about your CVA and your market - how should we think about your CVA and market risk going forward?

Jacob Aarup-Andersen - Danske Bank – CFO

Thank you. Let's start with Norway, you asked about margin developments and competitive environment out there. You - as you know, we - in December, we announced some targeted price adjustments in Norway in Personal Banking. And that is the - you've seen the effect of some of that here. We are not seeing a major change in the competitive environment in Norway. We, you can say, we did some changes on the price side to reflect also an improvement in the overall value proposition. We still have good traction in Norway. You saw our growth rates in 2017. Part of that is through the partnership agreements, where we've had now for a number of years good success. And we continue to believe that, that traction will continue in 2018. So the value proposition adjustments we did here are a reflection of that, but no major change. Also, Business Banking doing very well in Norway, as you will have noted, with a combination of good growth and also margins doing well. So I think you also need to look at Norway as holistically across these banking units, where we are very pleased with the development. When you look at the other question, which was on the market risk and counterparty risk, I hate to sound like a broken record, but I've said for a number of quarters that we have seen very low volatility in markets over - and especially very low rate volatility. We are seeing a bit more now, that's correct. So let's see how that pans out. Our expectation would obviously be, if we start using more capital on the market risk side and the counterparty risk side, that also implies that we're doing more business for our customers. So you know our business model changed over the last couple of years in C&I, it's very much a customer-driven model. We don't run prop risk anymore, and therefore, I'll be very pleased to allocate more capital to these guys, because it will probably -- it would be -- due to them supporting customer activity. So let's see. It's too early to say how it will go in Q1.

Martin Birk – Carnegie

Just a follow-up on my Norwegian question. If I recall correctly on Q3, you talked to one player in Norway deviating off its list prices, is that still same case?

Jacob Aarup-Andersen - Danske Bank - CFO

We don't see any major changes in the Norwegian environment in Q4. So nothing new to report there.

Operator

Next question now comes from Kim Bergøe from Deutsche Bank.

Kim Bergøe – Deutsche Bank

My first question is in the Personal Bank. When I look at your slide 19 in the Fact Book and look at the deposit margin, that looks like it's taking quite a big sort of step down in Q4, just if you could elaborate on what's been driving that. And then secondly, when I look at your market share, so I can see, in several places, it's ticking down slightly. Is that something -- is there anything to read into that, or if you could add a few words to your market share position?

Thomas Borgen - Danske Bank - CEO

I'll do the second question. Our market share is very stable. And I think -- I presume you're alluding to Denmark?

Kim Bergøe – Deutsche Bank

I think this sort of - not across the board, it's not everywhere. But in many places, it's sort of - at least, the trend is sort of slightly downwards. I don't know if that's just fluctuations or...

Thomas Borgen - Danske Bank - CEO

I think you're reading the stats wrong, actually we're taking market share in most markets. So I'm not sure where we are getting that information from. So our market share in 2017 has grown in most markets, and we have, basically, kept the market position in Denmark. So I think we have a very solid platform.

Kim Bergøe – Deutsche Bank

Okay. I'm looking at the ones, again, in your Fact Book on page 40 and these sort of -- it's small movements, but if there was anything...

Thomas Borgen - Danske Bank - CEO

If we move one quarter from 26.7% to 26.6%, I mean, that means, basically, nothing.

Kim Bergøe – Deutsche Bank

Yes, yes, no, exactly. But there are a couple of others sort of where...

Thomas Borgen - Danske Bank - CEO

Yes, when you have a market of our size in Denmark, our ambition is to stay plus/minus the market. And that reflective for one quarter. So we have exactly the same market share in the end of the year as we had in beginning of year. If you look at Sweden, for example, where our market share, which has grown from approximately 3.7% to above 4%. In Norway, we grown from 5.5% to 5.9%. So I think, don't look into quarter-to-quarter. Look on a year trend, and the deposits we've grown even more. So one should always be cautious when looking at market share. But I think as a challenger, and that's using the capital wise, I think it looks very solid, and I'm very comfortable with what the team has done throughout 2006 -- sorry, 2017.

Jacob Aarup-Andersen - Danske Bank - CFO

And Kim, just following up on your other question, I think that's a very fair question. I'm afraid to give you an answer which may be unsatisfying, because this is a technicality. So if you noticed, movements in lending and deposit margins in the same units here, they are moving in opposite directions. And it's -- there's hardly any move on the total margin. It basically reflects an internal bank effect, reflecting the development in spreads in the very short end in Q4. And therefore, that development meant less payment for deposits and a better funding rate for lending. And that gave you that spread development. So it's one of these classic quarter-to-quarter internal bank effects. We're not seeing a deterioration or change in the competitive environment around deposit pricing, which is, I guess, implied in your question.

Operator

We will now move to the next question from Bruce Hamilton from Morgan Stanley.

Bruce Hamilton – Morgan Stanley

Just, I mean, firstly, going back to capital return. I mean, I guess, if this is capped at 100%, which sounds like it's the case, then -- you then run with, basically, excess trapped capital for a prolonged period. Is that right? Or do you think there's any chance that the local regulator might allow you to go above 100%? Because clearly, if not, the risk is that you start overinvesting and driving down margins if you're not disciplined. It's a good problem to have, but I'm just interested if there's any scope there. And then secondly, thinking about the scope for further provision write-backs, given your sort of existing collective provisions and the improvements in the macro. I mean, how should we best think about that? Are there still problem areas? Or is there any reason why you can't see net reversals again through 2018?

Thomas Borgen - Danske Bank - CEO

First of all, of course, we don't have trapped capital. But I have to go back. I'm sorry, I'm very repetitive. We have a very solid, balanced, predictable strategy when it comes to capital. And I have to repeat, it's about having a solid capital position, and we are very comfortable where we are now due to those uncertainties we are seeing, which has been raised by some of you in the various calls. And we have also the ability to generate good capital going forward. We also have the ability to have a very stable and predictable dividend. And we can also then capture any growth that we see that is sustainable, which is balanced. And we will not take growth which is not sustainable and of quality because then we will return the capital back to you. There is no change, it's all about being solid, balanced and predictable. And I think we have been that if you look at the three to four years last history, that will go -- also go forward. If we, at a certain point in time, feel that we have more capital than we need, we will give it back to you. Do not worry. But it's about making sure that all stakeholders are comfortable with us on this journey. And your second question about write-back. As we all know, and everybody on this call knows, it is not natural for a bank over a continuous period of time to have write-backs, because it doesn't fit the business model. So at a certain point in time, you have to, at least, move to zero and then from zero and outwards, to what we call some sort of expected loss through the cycle. It will also change partly as a consequence of IFRS 9. We have guided you very clearly that impairments in 2018 will be low, but higher than in 2017. Let's now see where that brings us, but it has to, at a certain point of time, convert towards zero. And it is too early to guide you further, but there is, of course depending on the economic development, which underneath looks good, it depends on the development of the credit book, underneath it looks good, and it depends on our allowance account, which is healthy. So everything looks that we will deliver low impairments, but at what level, I cannot guide you further for the present time.

Operator

We will now move to our next question from Amal Shah from Redburn.

Amal Shah – Redburn

So just coming back to the price changes in Norway. Can you say a little bit more about the rationale? I mean, did you do this to encourage more loan growth or was there some sort of a mechanical adjustment?

Jacob Aarup-Andersen - Danske Bank - CFO

Amal, listen, our teams in every market area in every business units are constantly assessing the environment they are in and what the right value proposition is. We felt that there was a need for a price adjustment in certain segments in the Norwegian personal banking market, as the team were making sure that they were being competitive. And that was the reaction. I think it's hard to go into much more detail around that specific move. But we -- our teams are empowered across the Group to constantly make sure that they deliver competitive offerings to their clients.

Amal Shah – Redburn

Okay. And the second question on the TCO agreement. So you previously said, you're approaching sub-unions one at a time. Can you say something about how many sub-unions or portion of the members that you've already approached?

Jacob Aarup-Andersen - Danske Bank - CFO

It's a fair question. I guess, what we can say is that we're staying to the implementation plan. So we're gradually rolling out the TCO agreement. We can't give you details on the exact number of unions, et cetera. But things are going according to plan, and if you look at the local currency growth in Sweden, it also reflects that.

Operator

We now move to our next question. It's from Per Grønborg from SEB.

Per Grønborg – SEB

Two questions for me. Your new dividend policy, looking at your cash dividend in the last two years, you heightened it by DKK 1 per year. This sounds a bit like the board would like to see a steady increase in nominal dividend, or is that putting too much into it? The second question is maybe a bit nitty gritty. The DKK 70 million you have reclassified to NII, can you in big numbers tell us what is the impact on C&I, and what is the impact on Business Banking Denmark?

Thomas Borgen - Danske Bank - CEO

Okay. I'll take our first question. I don't think you should read a specific change in dividend policy. You should read as it gives the board a flexibility to be very predictable, stable and balanced going forward. But as you then increase the span, you have the ability to grow dividend, yes.

Jacob Aarup-Andersen - Danske Bank - CFO

Per, it's Jacob here. So on your question, the answer is that it's -- the vast majority of this is C&I.

Operator

We take our next question now from Paulina Sokolova from Barclays.

Paulina Sokolova – Barclays

Most of my questions have been answered. But maybe just one clarification. Just coming back to the cost guidance for 2018. When you say costs will be slightly higher, could you please clarify what you're thinking of as the 2017 base? Is it the as-reported number? Or is it the underlying cost base adjusted for the major one-offs you've disclosed this year?

Jacob Aarup-Andersen - Danske Bank - CFO

That's -- so the answer there is pretty easy. So it's the reported number that we -- when we guide -- we always guide on the reported numbers. And one thing we have been asked, so let me just clarify that here as well, we obviously announced the acquisition of SEB Pension in December. And just to be clear that with that acquisition, we also announced a number of restructuring costs that would come once the deal was consummated. You're fully aware that the deal be consummated -- needs competition approval, which will happen, hopefully, in Q2, as we have said. So at that point, we will have some restructuring costs in connection with the deal. And those costs we expect to be broadly even to the positive effect we get off the sale of our Norwegian real estate chain, which we announced last week. So we've had a number of questions off the call here on the effect of the sale last week in Norway of the real estate chain and the effect of the SEB Pension acquisition in terms of restructuring cost in '18. And just to make it clear, those two effects, they go up against each other. So they're broadly neutral. That also means that when you look at the effects into '18, you should just be focusing on the number we reported in '17, and then that's slightly up.

Thomas Borgen - Danske Bank - CEO

Okay. Thank you. Can we then please have the last question, operator?

Operator

Of course. So the next question is from Jacob Kruse from Autonomous.

Thomas Borgen - Danske Bank - CEO

Well, that was an easy question.

Operator

(Operator Instructions)

Jacob Kruse – Autonomous

Sorry, I think I was on mute. I just wanted to ask the AML investigation. Could you comment at all on that in terms of the size of volumes that you're examining or anything to give some idea what the scale here is?

Thomas Borgen - Danske Bank - CEO

What I presume you are referring to is the investigation, which we announced we were doing back in September last year, where we go back into the portfolio of, what was called the non-residential book in Estonia between 2007 and 2015. This is a department which, you all know, is closed, but we are taking due measures to investigate what happened and report to the authorities if anything should have been reported which has not been reported. And we're also doing this investigation to ensure that we learn from any mistakes, which may have been taking place, so they will not be repeated. Of course, this is very unfortunate and unacceptable, but we've taken the necessary measures and putting on these investigations. So it's a wide investigation, and it's also led by the board. So it's a very solid one to take those learnings.

Operator

So just to confirm that, that will now conclude today's question-and-answer session. So I'll turn the call back to our hosts for any additional remarks.

Thomas Borgen - Danske Bank - CEO

Thank you very much. Those were our initial comments and messages, and thanks for your interest in Danske Bank and for all your patience. As always, you're welcome to contact our IR department if you have more questions, as you have had time to look at the financial results in detail. A transcript of this conference call will be added to our website and IR within the next few days. Thank you very much, and have a good afternoon.

Operator

Thank you. Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation. You may now disconnect.