



Conference call

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Investor Relations

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SPEECH

Operator

Good day and welcome to the Danske Bank Annual Report 2016 conference call. Today's conference is being recorded. At this time I'd like to turn the conference over to Mr. Thomas Borgen, CEO. Please go ahead.

Thomas Borgen - Danske Bank - CEO

Thank you operator and thank you all for taking the time to listen in to this call today. With me in the room today I have our CFO Jacob Aarup-Andersen and 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 2016. We aim to keep this presentation to around 20 minutes. After the presentation, we will open for a Q&A session as usual. Afterwards, feel free to contact our IR department if you have any more questions.

Slide 2 please. 2016 was a satisfactory year for Danske Bank. We are pleased to report steady progress in our financial performance, as well as continued improvement in customer satisfaction.

Net profit came in at DKK 19.9 billion, up 12% from the level in 2015 excluding goodwill impairment charges.

This gave a return on shareholders' equity of 13.1%, which fulfils our longer-term financial ambition of at least 12.5%.

The operating environment remained challenging throughout the year with a continuation of negative rates, low to moderate growth and increased geopolitical uncertainty. As a result, the market generally saw subdued demand and strong competition in many areas.

We are therefore very much encouraged by the results which demonstrate the strength of our diversified business model and also show that we have successfully executed our strategy of becoming a more customer-centric, simple and efficient bank.

Macroeconomic developments in 2016 were characterised by modest growth in Denmark and Finland, whereas in

Sweden, growth declined slightly during the year from a high level.

In Norway, where we also saw modest growth, economic activity outside the oil industry picked up towards the end of the year.

In Northern Ireland, uncertainty increased after the UK referendum in June, although the outcome did not have a large effect on the economy.

Developments in the financial markets were a key factor in the period. Early in 2016, global uncertainty caused a slowdown in customer activity that was followed by a robust rebound in the second half of the year. This was particularly true for our C&I business with only slight interruptions around the UK referendum on EU membership in June and the US presidential election in November. The strong customer activity had a positive effect on our trading income.

We saw good progress in lending activity as volume grew 5% over the level last year. Growth was strongest at Personal Banking and Business Banking in Norway and Sweden, reflecting our strategy of realising our Nordic potential.

Partnerships agreements, both new and existing ones, were strong facilitators of growth at Personal Banking, and in the second half of 2016, we signed promising new agreements in Finland and in Sweden.

In Denmark, we continue to see demand for mortgage loans, while unsecured lending declined.

Expenses came in according to plan in 2016, as we continued to focus on costs. We made good progress improving cost efficiency through digitalisation and improved internal processes. Going forward, we will remain vigilant regarding expenses to ensure that we remain competitive.

Credit quality was strong and it improved further in 2016. Impairments remained unusually low, although a couple of industries to which we have limited exposure were still challenged because of weak market conditions.

Our capital position remained very solid. On the basis of sound earnings and continuous business optimisation, we strengthened our capital ratios during the year despite the

effect of the share buy-back programme that we recently completed.

On that basis, the Board of Directors is proposing a dividend of DKK 9 per share, which represents a payout ratio of 45%. We have also decided to launch a new share buy-back programme for DKK 10 billion.

In 2016, we continued our efforts to improve the customer experience. Digitalisation and accessibility are focus areas for us and we launched many initiatives across our business units in order to strengthen our customer relations. As a result, customer satisfaction improved further during the year and we are now on target in most markets.

All in all, a satisfactory year with good progress in most areas, despite a challenging environment.

Finally, for 2017 we expect a net profit in the range of DKK 17 billion to DKK 19 billion.

I will now turn the presentation over to Jacob, who will take you through the financial results in greater detail. Slide 3 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 22 billion. This is 3% higher than in the year before.

Lending growth of 5% and lower funding costs offset margin pressure, which we saw especially in the first half of 2016.

Adjusted for FX effects, NII was up 4%. In Q4, NII was up 5%, owing partly to the repricing of Danish mortgages and volume growth.

Net fee income declined 6% from the level in the year before when we benefited from strong customer activity. It fell mainly because of subdued investment activity. In Q4 however, it benefited from performance fees and the booking of the shadow account balance from our life and pension business.

Net trading income came in at DKK 8.6 billion, up 26%, as a result of strong client activity at C&I during most of the year. The figure reflects negative credit value adjustments of DKK

0.6 billion because of a model improvement, and a gain of DKK 0.8 billion relating to the sale of VISA Europe and Danish Ship Finance, including DKK 0.4 billion in Q4.

Other income rose 34%, primarily because of property sales.

Operating expenses fell 3% to DKK 22.6 billion. That decline reflects our focus on cost efficiency, and we achieved it despite increased costs related to regulatory requirements. A lower net contribution to the Danish Resolution Fund and lower depreciation of intangible assets also had positive effects.

The cost to income ratio came in at 47.2%. That's a decline of more than 3 percentage points from the year before.

Finally, we saw net reversals of loan impairment charges as a result of benign credit conditions in most areas. Net reversals in Q4 of DKK 0.2 billion were made mainly at Personal Banking and Business Banking.

Slide 4 please. In 2016, we saw satisfactory developments at our two Nordic banking units Personal Banking and Business Banking. Income was lower than the year before when fee income in particular benefited from high customer activity that was related to investments and remortgaging. At both units, the underlying business continued to improve with a good inflow of new business, strong credit quality and improvements in customer satisfaction.

In Northern Ireland, we saw positive underlying business developments net of currency effects.

Let's look more closely at the three units. Personal Banking delivered good results with profit before tax and goodwill up 34% to DKK 5 billion. Total income was 3% lower than in the year before, owing to pressure on NII and fee income. In 2015, activity-driven income, particularly from remortgaging activity in Denmark, was very high.

Expenses were down 9%, owing primarily to cost efficiency, lower depreciation of intangible assets and lower costs for guarantee funds. The return on allocated capital was 21.8%.

Total lending volume was up 3%, owing to growth in Norway and Sweden where lending volume measured in local currency rose 13% in both countries. These strong gains came primarily from partnership agreements.

In Denmark, where volume was almost stable, the trend towards higher mortgage lending and lower lending in conventional loan products continued throughout the year.

In Finland, volumes were almost unchanged.

At Business Banking, we made good progress in all markets. Lending volume measured in local currency was up in all markets, most notably in Denmark, excluding Realkredit Danmark, and in Sweden, where it rose 8% and 10%, respectively.

Overall, profit before tax was up 3%.

Total income was almost unchanged from the level in 2015 when customer activity in Denmark in particular was very high. NII benefited from higher lending whereas low customer activity had an adverse effect on fees and trading income.

Expenses were up 2%, partly because of higher regulatory costs.

The return on allocated capital was 16.1%.

And then finally in Northern Ireland, where our business showed satisfactory developments, although a significant drop in the exchange rate had an adverse effect on the reported results. Total income fell 7%. Adjusted for the depreciation of the currency, it was up 3%, despite a UK interest rate cut in August.

Expenses were down 9%, and again adjusted, they were up 2% because of restructuring costs and increased indirect taxation. The return on allocated capital in Northern Ireland was 14.5%.

Since the UK referendum on EU membership in June, there has been uncertainty about future economic growth. Economic data suggests that there was no significant effect on the Northern Ireland economy in 2016, however, and our business performance remained robust.

Slide 5 please. At C&I, profit before impairments rose 8% over the level from last year, but higher impairments caused profit before tax to be 10% lower. The year had a challenging start with difficult market conditions and subdued client activity. Conditions improved significantly however, most notably in our

FICC business, which took advantage of opportunities arising from high client activity.

Total income rose 7%, mainly because of higher NII and trading income.

Fee income was lower because of a decline in activity in the beginning of the year, but it increased in Q4, owing to higher activity within corporate finance and equities.

Expenses were up 5% because of higher activity and increased costs for the Danish Resolution Fund.

Impairments, which by nature fluctuate at C&I, amounted to DKK 1.1 billion, including DKK 1 billion in collective charges. Oil-related exposure accounted for all of the charges.

The overall result in Q4 contributed significantly to a robust full-year performance, which reflects our efforts to reposition C&I towards a more client-driven business model with lower risk and income volatility.

At Wealth Management, profit before tax was in line with the year before as market developments and high volatility caused lower customer activity, mainly in the beginning of the year. Market conditions improved in the second half and activity rose.

Fee income fell 4% from the level last year, mainly because of lower management fees, while performance fees, the vast majority of which were booked in Q4, amounted to DKK 0.5 billion. Fee income in Q4 also benefited from a transfer from the shadow account in Danica.

Expenses were up 5%, mainly because of establishment costs for the new business unit.

Assets under management were up 4%, owing to an inflow of DKK 43 billion from net sales and premiums.

Slide 6 please. Moving on to expenses, total expenses for 2016 amounted to DKK 22.6 billion, down 3% from the level last year. The number is in line with our expectations. The decline reflects a continued focus on cost efficiency measures, a lower net contribution to the Resolution Fund and lower depreciation of intangible assets.

The increases in staff costs and consulting costs can be attributed primarily to increased customer activity and regulatory requirements for compliance and AML measures. The number of FTEs was 1% higher than the level last year. This occurred because of the insourcing of IT resources and increased staffing in compliance functions.

Slide 7 please. The positive trend in credit quality continued in 2016, and for the second year in a row, we had a net reversal for the Group. The reversal was DKK 0.2 billion, compared with a net reversal of DKK 0.1 billion in 2015.

The loan loss ratio, excluding non-core activities, was zero basis points for the full year.

With a net reversal of DKK 0.5 billion, Personal Banking had the largest decline, as the positive effect of increased collateral values, mainly in Denmark, continued throughout the year.

At Business Banking, the net reversal of DKK 0.2 billion derived mainly from the commercial property segment in Denmark.

Market conditions for the agriculture industry also remained challenging, although they improved slightly towards the end of 2016 as a result of higher output prices.

At C&I, we booked impairment charges of DKK 1.1 billion for the full year, of which DKK 450 million in Q4. The vast majority were against oil exposure as we continued to see difficult market conditions for subcontractors in the oil and gas industry. Most of the charges, DKK 1 billion of the DKK 1.1 billion, were collective impairments since we expect weak market conditions to persist.

In Northern Ireland, we posted another reversal of charges on the basis of better conditions in the property market and customers' finances, although the reversal was less than half the amount in 2015.

Slide 8 please. Our capital position remains strong and with a reported common equity Tier 1 capital ratio of 16.3% at the end of the year, we are significantly above our target range of 14% to 15%. The total capital ratio was 21.8%, up from 21% at the end of 2015. The REA level was almost unchanged in Q4, as slight decreases in credit and counterparty risk were offset by small increases in market and operational risk. The

leverage ratio was 4.6% according to the transitional rules and 4.3% when the new rules are fully phased-in.

The implementation of IFRS 9, which is the new accounting standard for financial instruments, will begin on 1 January 2018. The requirement for earlier recognition of expected credit losses is expected to increase the allowance account balance by DKK 3 billion to DKK 5 billion.

The accompanying capital effect is expected to be phased-in according to transitional rules that have not yet been settled.

The share buy-back of DKK 10 billion in 2017 will affect the core tier 1 capital ratio by 1.2 percentage points pro forma at the end of 2016. The new share buy-back programme will start on February 3 and run for no more than 12 months.

Slide 9 please. Finally, I would like to present our guidance for 2017. As usual, it is subject to uncertainty and macroeconomic developments. We expect largely unchanged macroeconomic conditions in 2017 with a continuation of very low short-term interest rates, although significant uncertainty about geopolitical risks persists.

For net interest income, we expect it to be higher than in 2016 as we benefit from volume growth and lower funding costs.

Fee income is expected to be somewhat higher than last year, subject to customer activity.

Net trading income and other income are expected to be less impacted by positive special items compared to 2016.

We expect expenses to decline somewhat from the level in 2016.

For loan impairments, we expect the charges to remain low, although higher than in 2016.

Finally, we expect net profit to be in the range of DKK 17 billion to DKK 19 billion for the year.

We maintain our longer-term ambition for a return on shareholders' equity of at least 12.5% on the basis of unchanged assumptions.

Slide 10 please.

Thomas Borgen - Danske Bank - CEO

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're welcome to ask questions by e-mail. Operator, we are ready for the Q&A session.

Operator

(Operator Instructions). We will now take our first question from Mads Thinggaard from Handelsbanken. Please go ahead, your line is open.

Mads Thinggaard - Handelsbanken Capital Markets

Yes hello. This is Mads Thinggaard from Handelsbanken Capital Markets here. My first question is digging a bit into the thing -- I mean the development we're seeing in Personal Banking in Norway. I don't know if you could put a bit of light on what is happening with the margins here and also perhaps give a bit of an outlook? We just heard DNB on their conference call talking about perhaps a bit higher margins going forward.

And also, perhaps with the volumes being a bit lower now here by the end of the year in Norway, I mean the increase in the volumes being a bit lower, could you kind of give an outlook here also?

And then I was also a bit curious if you could kind of mention the deal with Akademikerne in Norway, when is that actually maturing or expiring, or is there kind of running negotiations on that one? So that could be quite interesting to hear. That was the first question. And take that first.

Thomas Borgen - Danske Bank - CEO

Okay, that was a long introduction of questions. First of all, there is no question that we've been able to attract a substantial number of very high-quality Personal Banking customers in Norway during the last two and a half years. Many of these clients are coming through the Akademikerne strategic relationship.

Second, it is rightly observed that the margins in the Norwegian mortgage market have been under pressure throughout the latter part of 2015 and throughout 2016. There has been what we will refer to as healthy competition.

Where margins are going from here, it's always an uncertainty, but it is our belief that we are close to the bottom of the cycle. So we are comfortable that it's highly likely that we will have a margin expansion in Norway going forward, also due to NIBOR being lower, which increases what we call the difference in the funding rate and the customer rate.

Finally, we also did recently a rate hike which has been announced, which also had the effect during Q1. So all of this together should make a good platform for a healthy development going forward.

When it comes to the volume, it has been a very high volume in 2015 and 2016. It is natural that that volume may ease off somewhat, but we will believe that it will be a double-digit and then we will need to see at what level of double-digit it will be. But we will probably still increase our market share.

The strategic deal with Akademikerne was a five-year agreement, which is now running.

Mads Thinggaard - Handelsbanken Capital Markets

Okay, great. Thanks. And then just a second question on if we look at the very high NII you have, a considerable part is coming from your -- from Other Activities, Treasury, and it seems that some fund transfer pricing changes are behind this. Is that kind of an unsustainable element of the DKK 300 million uptick in NII from Q3 or is Q4 more or less the basis for looking forward?

Jacob Aarup-Andersen - Danske Bank - CFO

Hi Mads, it's Jacob. When we look at NII, it is correct when you look at the delta in Q4 versus Q3, and I think the delta is around DKK 300 million, the growth there. Roughly half of it comes from the business units in terms of reporting, and the other half comes from the internal bank, as you also referred to.

The increase in internal bank is very natural when you have a growing lending book and stable deposit margins. So that's more a technicality in the way we run the internal bank, and you should expect that to balance out in the coming quarters. So there is nothing unsustainable about that. That's simply just an effect of the way the model works. So that will -- that NII will be spread out on the BUs in the coming quarters. So it's just as high quality NII as the BU reported NII.

Mads Thinggaard - Handelsbanken Capital Markets

Okay, great. Thanks.

Operator

Our next question comes from Omar Keenan from Deutsche Bank. Please go ahead, your line is open.

Omar Keenan - Deutsche Bank

Good afternoon. Thanks very much for taking the questions. Firstly, I had a question on your DKK 3.2 billion rate sensitivity. I was wondering if you could give us a little bit more colour of how NII will behave when rates increase. There's been a bit of discussion around some banks saying that there's quite a lot of floors in the lending book, so the sensitivity might not be as high as these guided numbers. So just wondering if you could comment on if we get out of negative rates, will we see the full -- is the DKK 3.2 billion quite close to reality?

And just my second question is I guess with a month out of the way, how have trading and wholesale banking activities been so far in 2017? Thank you.

Thomas Borgen - Danske Bank - CEO

Okay, I'll do the last one because that's the easy one. We do not comment on a period, which we are in the midst of and as we release Q1 you will get more colour.

Omar Keenan - Deutsche Bank

Fair enough.

Jacob Aarup-Andersen - Danske Bank - CFO

But it's a fair try Omar. Then it's -- on the other one, I think you're referring to the fact that we mentioned that 25 basis points sensitivity gives you DKK 750 million to DKK 800 million. I think that when you're saying 100 basis points it is DKK 3.2 billion. Is that the reference you're making?

Omar Keenan - Deutsche Bank

Yes.

Jacob Aarup-Andersen - Danske Bank - CFO

Okay, fine, good, I just wanted to make sure. Listen, that is as always an everything -- sorry, all else equal statement. I cannot guarantee you that that is the sensitivity we will have because it always also depends on how the other market participants behave etc. But it's the best estimate we can give you on the rate sensitivity on the book.

Obviously, one thing I can guarantee you is it will probably not be exactly that number, but it really depends on market conditions. But that is the all else equal number we can give you.

Omar Keenan - Deutsche Bank

Yes, okay. I think some other banks were saying that it would actually be far away from that number. So I understand it's not precise but for some banks they weren't factoring in floors in the lending book for instance. So, as long as that's ballpark accurate, that's okay.

Jacob Aarup-Andersen - Danske Bank - CFO

We have given that number because we believe it's ballpark accurate.

Omar Keenan - Deutsche Bank

Great. Thank you.

Operator

Our next question comes from Jakob Brink from ABG. Please go ahead, your line is open.

Jakob Brink - ABG Sundal Collier

Thank you. So the first question is regarding net interest income. If I do the calculation from your slide pack on the positive impact from lower funding cost in 2017 versus 2016, or a running impact or annualised impact, I get to around DKK 245 million. However, when we did the same calculation about a year ago, it also showed a significant positive impact for 2016 but it never really got to be utilised. Could we expect some of this to actually happen in 2017? That was my first question.

The second question is regarding the dividend payout. So you guide for DKK 17 billion to DKK 19 billion. I guess there is

some conservatism, but still you guide for DKK 17 billion to DKK 19 billion. If we assume that you'll keep your dividend policy of around the 46% or up to 50%, you could actually see a decline in the dividend per share in 2017. I just want to hear how is your strategy actually? Could that happen or do you actually have a strategy of trying to keep the nominal krone dividend per share increasing or could it theoretically bump up and down? Thank you.

Jacob Aarup-Andersen - Danske Bank - CFO

Okay, thanks Jakob. Let me start with the NII. So on the funding calculation, I think when we do the math quickly, we end a little bit lower than your number but not materially different. It is around the DKK 200 million level.

You can't really say that you didn't see it in 2016 because do remember that the funding benefit is then -- goes through the internal bank and goes out in the customer rate. So it is -- in the end, we never report it as a separate item. But I do recognise the fact that in some of our markets, we were in severe competition so there can be an argument that some of that funding benefit was passed on to customers.

We're giving you that sensitivity because we do expect that this is a tailwind in 2017. So the best answer I can give you is that we are expecting to achieve these benefits, and that is part of the guidance we're giving in terms of NII growth for the full year.

Thomas Borgen - Danske Bank - CEO

Okay Jakob, when it comes to dividend we have a very clear policy, as you alluded to, that we will pay between 40% and 50%. We have not stated that we should increase the nominal amount year on year, because that would be a different strategy than what we have given you as approved by the Board of Directors.

45% this year or for the accounting year 2016 amounted to DKK 9. If we reach the mid-point of DKK 18 billion in 2017 and do 50%, we will also reach the DKK 9.

You asked the question could it be bumped up and down. It is not our intention to have it bumped up and down. It's our intention to continuously try to improve the bottom line and then have the flexibility within the dividend policy between 40% and 50% to have a predictable dividend.

How the final earnings will be adjusted accordingly, the year will see it come through, but we try to be very balanced and predictable, and you shouldn't expect anything else.

Jakob Brink - ABG Sundal Collier

Many thanks.

Operator

Our next question comes from Per Grønberg from SEB. Please go ahead, your line is open.

Per Grønberg - SEB

Yes, good morning. It's Per from Danske. Two questions from myself related to NII. You had in the report that part of your strong Q4 NII is due to better utilisation of your liquidity buffer. Was this clever positioning this quarter, or is this something where you have changed the strategy, so we should expect this improvement to be lasting also the coming quarters?

And more specifically also, a question related to your margin hike on the mortgage book. It looks like the outcome has been significantly higher than what your IR department has been guiding for the last half year. Have you seen any impact besides the residential book? Have you also seen these price hikes getting impact on, for instance, the corporate book? That was my two questions.

Jacob Aarup-Andersen - Danske Bank - CFO

Hi, Per, it's Jacob. I assume you're at SEB now, by the way. You said you're from Danske.

Per Grønberg - SEB

Yes, sorry.

Jacob Aarup-Andersen - Danske Bank - CFO

I'll take question number two there. In terms of RD and the hikes there, I think our effects are where they have been guided to. So I'm a little bit confused in terms of the impact you're stating.

Per Grønberg - SEB

Well the guiding is 300 per annum and it is up 94 Q over Q.

Jacob Aarup-Andersen - Danske Bank - CFO

I think when you look at -- when you look at the details and we can take them afterwards, the pure RD mortgage margin is a smaller effect than the 90, so we can take that afterwards. The guidance from--

Per Grønberg - SEB

Let's do that.

Claus Ingar Jensen - Danske Bank - Head of IR

Okay, this is Claus here. Then your question around the liquidity buffer impact on NII, it is true that there is a part of the impact on NII this quarter due to a more efficient use of our liquidity buffer. But it's as we -- it is not something that we usually can predict from quarter to quarter, so I am not able to give you any guidance on whether this will be lasting. But it is, nevertheless, a minor part of the delta you have seen in our NII in Other Activities.

Per Grønberg - SEB

What is a minor part? Is that a three digit amount, or is it a two digit amount?

Claus Ingar Jensen - Danske Bank - Head of IR

Well you are essentially asking me to separate cold and hot water and I'm not able to do that.

Jacob Aarup-Andersen - Danske Bank - CFO

But it's not a three digit, no.

Per Grønberg - SEB

It's not, okay, that's the important part. Thank you.

Operator

Our next question comes from Jan Wolter from Credit Suisse. Please go ahead, your line is open.

Jan Wolter - Credit Suisse

Yes, hi, Jan Wolter, Credit Suisse. Thanks for taking the questions. First, on the guidance of the NII for 2017, you say that you expect NII to be higher than in 2016. Just wondering have you built in any changes in interest rates in that guidance?

And secondly, also on the NII guidance, what kind of volume assumptions you have? That's my first question.

And the second on the cost guidance below the 2016 number, what base should we use then, or which base are you using? Is that the reported DKK 22.6 billion?

And my third question is on the Danish SME margins. We're seeing the more stable picture now in the fourth quarter. Can you just talk to what is driving that? Have you seen any change in the competitive behaviour in the Danish SME market? Thank you.

Jacob Aarup-Andersen - Danske Bank - CFO

Thank you. Hi Jan. Let me start with the NII question you asked in terms of what we expect on interest rates when we do the guidance. We never assume changes in the interest rates on guidance here. So when we guide here we are assuming the current levels.

So you may assume that if there is a move up in the short end of the curve, which we are not expecting in the short term, that that could have an additional cost of impact. But we never guide on interest rates and therefore, it's based on flat rates.

In terms of volume assumptions, we are not giving you the explicit assumptions on volume, but we're entering the year 2017 with a good trajectory. You know that we have been talking about in our 2018 bridge, which we have referred to many times, of a couple of per cent of annual volume growth. We know we're running higher in 2016.

There are some reasons why we could believe that that volume growth could be a little bit higher than the 2%, as you've seen our partnership agreements in Sweden, etc. But there is not a significantly high volume assumption behind that, so it is business as usual on the volume side.

Thomas Borgen - Danske Bank - CEO

And regarding SME margins, you alluded to and that's correct, they have been flattish for the last period. We also expect them to be flattish going forward. There may be some intra-country movements, some up, some down, but over the Group, more or less flattish. That's how we see it for the time being.

Jacob Aarup-Andersen - Danske Bank - CFO

And sorry, you also asked on cost. The base here is 22.6. There's no -- it's the reported number of cost.

Jan Wolter - Credit Suisse

Okay, that is very clear. Many thanks for that.

Jacob Aarup-Andersen - Danske Bank - CFO

Thanks.

Operator

Our next question comes from Willis Palermo from Goldman Sachs. Please go ahead, your line is open.

Willis Palermo - Goldman Sachs

Hi. Thank you for taking my question and for the presentations. The first one is just to come back on the targets again, the DKK 17 billion to DKK 19 billion, I was just trying to understand if you had to give a proportion of what is controllable and what is not to reach the DKK 19 billion, what is it in your view?

So what is depending on your initiatives or re-pricing and so on and what is depending on just market activity, so, i.e., a bit better trading? That's the first question.

And then the second one is on the asset gathering part of the business. I was just wondering if you could talk a little bit on the initiatives you are currently implementing in that business. We saw there was a new CIO in asset management and also the flows were a bit better at the end of the year. So did you set up new targets for that business and what do you expect in terms of fee growth this year?

Jacob Aarup-Andersen - Danske Bank - CFO

Okay, thank you very much, let me start out on the target side. If you look at what is controllable, you know there are different degrees as what we can control within this guidance. We are

very much a mirror of the economy that we're operating in, as you know, but basically if you look at the top lines, the NII side, volume growth will be the volume growth that we can achieve, but it's hard to say we can control that.

We have implemented some price increases that you are aware of, so obviously that is a tactic we will continue to focus on in terms of driving our NII growth. But you should not see our top line as something we can control as such. Obviously, fees we set, but again, fees are driven by customer activity.

You mentioned trading income. We are not guiding specifically for trading income. We are only saying that we have had some positive one-offs in 2016 on the trading side that will not occur again in 2017. So top line, there is an element, of course, of us being able to control the fees and the rates, but a lot of it is driven by market activity. The one line we can control to a much larger extent is obviously costs, where we will be very focused and vigilant again in 2017.

And then, finally, the credit side, or the loan impairment side, which to a large extent obviously reflects the underlying performance of our clients. So sorry to not be able to be more specific on it, but there are different degrees across the different lines of the income statement.

Thomas Borgen - Danske Bank - CEO

And to your second question about our new unit, Wealth Management, which we established on 1 April 2016. As you recall, it's a combination of the old Danske Capital, in other words the asset management unit, Danica, our life insurance company, and Private Banking.

We really believe that the underlying trends, in other words, asset accumulation in the Nordics and also the demographics and also the longevity makes this a very interesting business for us going forward.

Various analysts are out expecting the underlying market development should be in the range of 6% to 9% towards 2020. Where exactly it will be, we don't know, but we think we are in a megatrend. Our ambition is, of course, to take an over-proportion of that market growth.

During 2016, management has been put in place with substantial changes. So the platform is in place, management in place, and some internal ambitions are put in place. We have

so far not communicated any particular divisional targets to the market, and we have no intention to do that now, but we will, as we did with C&I, when we find it prudent to give you and your colleagues some more insight into what do we think Wealth Management can contribute with going forward.

Willis Palermo - Goldman Sachs

All right. Thank you very much.

Operator

Our next question comes from Kim Bergøe from Nordea. Please go ahead, your line is open.

Kim Bergøe - Nordea

Hi, just one question for me and it's just trying to sort of square the circle on net interest income again, I'm afraid, and also looking into the guidance. So if I look at what's been driving the margin and net interest income for the full year and Q4 in isolation and then looking forward, it looks like in Q4, the lending margin has been quite strong, whereas the deposit margin has actually been the negative, whereas it's the opposite looking at the full year.

And then when I look at your guidance, I'm just trying to understand if it's a continuation of the same kind of drivers, or is it something else that you're expecting in your NII guidance. I'm referring to your fact book to page 7 where you show the different drivers.

Jacob Aarup-Andersen - Danske Bank - CFO

No, that's fair. Kim, let me just give you some colour and then hopefully that helps a bit. Let's just take a step back and look at what we've been through in 2016.

So you referred to some of the trends yourself, and it is correct that we saw a different NII development towards the end of the year versus when you just look at the full-year picture. If you look at the full-year picture, NII was up 3%, FX adjusted up 4%. The positives in NII was the lending volume and it was the deposit margins, especially in C&I and partly also in Business Banking, as we re-priced the deposit side of things.

But the negative on the full year has been the lending margin. As you know, a lot of that development was in the first part of the year and it became better in the latter part of the year.

In Q4, we then saw continued lending volume growth, so that's been a positive throughout the year, but we saw lending margins starting to actually be a positive contributor to our NII. So you see in the bridge you refer to, you'll see a positive impact from lending margins.

There is a smaller negative effect on deposit margins in Q4. That is not a new trend, but it purely reflects the fact that we have been growing deposits a bit in our Swedish and Norwegian units where we are paying a bit more for deposits given where rates are. So that is not a change as such.

So when you look into the new year, we are looking at a stabilisation of margins to one -- stabilisation of margins we've seen here in Q4, with basically stable deposit margins, as you've seen in the last couple of quarters, and lending margins in most countries being stable. And with a bit of upside, especially in Norway on Personal Banking and Business Banking.

So the margin picture is more constructive. Combine that with the fact that we are seeing continued good lending growth and combine that with the fact that we are seeing a continued tailwind from the funding roll on the wholesale side. So I would say the combination of those three factors makes us constructive on NII going into 2017.

Kim Bergoe - Nordea

And I sort of assume obviously it takes into account what you've been describing in terms of the mix effect, that where you are growing is on the lower margins, the secured lending and actually beyond [technical difficulty].

Jacob Aarup-Andersen - Danske Bank - CFO

Sorry?

Kim Bergoe - Nordea

What I'm saying is that when looking at volumes, it looks like you're having stronger volume growth on the lending side, you're having stronger volume growth on the lower margin, the sort of household product, your housing products and you're

actually seeing a decline in some of the unsecured lending. So there is a negative mix effect, but I'm checking that's part of that picture as well.

Jacob Aarup-Andersen - Danske Bank - CFO

Yes, I can confirm that that's part of the guidance. So we're not expecting a sudden mix change. The mix we've seen in the recent period is the one we expect to continue. Thank you.

Kim Bergoe - Nordea

Okay, thank you.

Operator

Our next question comes from Martin Birk from Carnegie Investment Bank. Please go ahead, your line is open.

Martin Birk - Carnegie Investment Bank

Thanks for taking my questions. So both of my questions relates to Personal Banking. I see the lending volumes are both up in Sweden and Norway and how much in per cent comes from Saco and Akademikerne and how big is the delta effect that can still be gained from these two?

And then my second question is that once the agreement with Akava and TCO kicks in in 2017, should we expect to see similar patterns from these two as we have seen in Saco and with Akademikerne?

Jacob Aarup-Andersen - Danske Bank - CFO

Yes, thanks, let me try to address that. We will not give you specific numbers on each of the different partnerships, but we can confirm that it is when you look at the growth we're seeing in these countries, it's more than half of the growth that is coming from these partnership agreements. So it is a significant part.

When you refer to the different partnerships and the effects we should expect to see, it is fair to say, as Thomas alluded to in the beginning in one of the other questions, Akademikerne has been a very strong growth story and we do continue to expect to see good growth from Akademikerne. But in terms of the base effect, it does mean that the growth rates will come down a bit compared to what you've seen.

On the other hand, Saco was a strong contributor, especially in the second half of last year, as the agreement fully came into force. We have told you that the TCO agreement will come into force probably effectively in the second quarter of this year. So again, you will see some momentum coming from that.

We will not speculate exactly as to what the growth impact will be as each country has its different characteristics, etc., each agreement has its own characteristics. But there is no doubt that we expect that this is a positive contributor to our growth and thereby maintaining the good growth momentum in all of our Nordic countries in Personal Banking.

Thomas Borgen - Danske Bank - CEO

And just an addition, it's no question that having the strategic agreement as a base also gives the various units a good buzz, which attracts also non-clients or clients not related to the strategic partnerships. Overall, this is very positive for us.

Martin Birk - Carnegie Investment Bank

Okay. Thank you so much.

Operator

(Operator Instructions). We'll now take our next question from Jacob Kruse from Autonomous. Please go ahead, your line is open.

Jacob Kruse - Autonomous

Hi, thanks. This is Jacob from Autonomous. I just wanted to ask firstly, on the payout, you're paying out 100% cash this year or near enough. Would you say that's a limit that you cannot breach with the FSA and the current regulatory framework that you have, or regulatory uncertainty that exists?

And secondly, just on this TCO deal, could you -- I notice that you're already the most aggressive for list prices in Sweden when it comes to mortgages. How much further does this bring down pricing relative to where you are today, if at all? Thank you.

Thomas Borgen - Danske Bank - CEO

Let's take your first question first. Of course, there is no legal limitations of the payout and you need to separate it, that when it comes to dividend, that's to be approved by the AGM. And when it comes to the share buy-back, it needs to be approved by the national or the relevant regulators.

We believe we have a very solid capital strategy, which is a combination, as you know, between a very stable and predictable dividend. And then we take the profit growth and after we meet the capital targets and if we have any excess capital, we will distribute that back to the shareholders.

If there was a theoretical situation where we're above 100%, we would need to deal with it at that time. But the probability for us to be in a position where we will distribute more than 100%, where we are seeing several places of growth opportunity, it's highly unlikely. So I think that will be my response to that question.

Jacob Aarup-Andersen - Danske Bank - CFO

Okay, Jacob, on your TCO question, first of all, we don't comment on the pricing of different agreements, but there is no reason to expect that this should be struck at a lower level than what else we've been doing in the Swedish market.

Jacob Kruse - Autonomous

And would you say, given where you're priced at the moment, have you shifted growth towards Sweden rather than Norway in terms of where you're the more aggressive? Or is that reading too much into it?

Thomas Borgen - Danske Bank - CEO

No, that's reading too much into it. We have an ambition to have profitable growth in Norway, in Sweden and in Finland. In Finland, we have not grown that much due to competition, due to pricing and the macroeconomic environment and we will probably see some more growth due to the agreement with Akava. And, in Norway, Sweden we will continue with that balance and healthy growth. So it's no change in our strategy.

Could I have the final question please?

Operator

Certainly, we'll now take our final question from Daniel Do-Thoi from J.P. Morgan. Please go ahead, your line is open.

Daniel Do-Thoi - J.P. Morgan

Hi, thank you, just two quick questions. The first one was a follow-up on the NII sensitivity. Just wondering whether that also includes -- or the 750,800, does that also include the fact that you've got negative deposit rates in C&I and Danish Business Banking? That's my first question, i.e. are the sensitivities actually lower for the first 50 basis points of a rate hike?

And then secondly, when it comes to Sweden, can you just remind us again at a high level what kind of market share you're targeting in the longer term? Yes, what market share you need to ensure sufficient profitability in Sweden. Thank you.

Jacob Aarup-Andersen - Danske Bank - CFO

Thanks, Daniel, let's start on the NII side. No, there is not a lower sensitivity in the first 50 basis points you referred to. So that is not a material impact, so you should expect that to be the sensitivity from the level we're at right now.

Thomas Borgen - Danske Bank - CEO

And when it comes to your second question, we have not guided and will not guide on any particular market share overall in Sweden, as we are profitable as of today, but we think we can be even more profitable as we grow going forward.

The market share of today is very diverse, where we have a very small market share in Personal Banking, we have a sizeable market share in Business Banking and actually in C&I, we may be one of the leading players, particularly within what we call the trading activity, institutional clients and parts of corporate banking.

The last new unit, Wealth Management, is also where we have a small market share, where we see a great potential to grow. So we have a good platform, we have a good management in place, so it's more of the same and make sure that we grow profitably. But we already are at the place which is very solid.

Daniel Do-Thoi - J.P. Morgan

Thanks, just on the first one, so the assumption here is that you can maintain current negative rates in C&I and in Business Banking, even in the face of another rate hike?

Jacob Aarup-Andersen - Danske Bank - CFO

We'll first of all, we never comment on what our price behaviour would be, but we're saying underlying that assumption is that they will not have a major impact on the NII side, yes. But there are many, many assumptions when you do this given the diversity of the book across different currencies, etc. So we do not expect a large impact.

Daniel Do-Thoi - J.P. Morgan

Okay, thank you.

Thomas Borgen - Danske Bank - CEO

Okay. Thank you for your interest in Danske Bank and for your good questions. As always, you are welcome to contact our IR department if you have more questions as you have time to look further into the financial results.

A transcript of this conference call will be added on our website and the IR app within the next few days. Thank you very much and have a nice afternoon.

Operator

That will conclude today's call. Thank you for your participation, ladies and gentlemen. You may now disconnect.