Pre-close call Q4 2023

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Danske Bank – Investor Relations

Claus I. Jensen – Danske Bank – Head of IR

Intro
Good afternoon and welcome to the Danske Bank Q4 2023 pre-close call. My name is Claus Ingar Jensen, and I am Head of Investor Relations. With me, I have Katrine Strøbech, Olav Jørgensen and Nicolai Tvernø from our IR team. Please note that this call is being recorded for compliance reasons, and the script used for this call will be published on the Investor Relations website after the call. Given that we conduct this call via Teams, please be aware that if you want to ask questions, you must log on via the Teams app or your browser. If you participate via a telephone line, the IR team will be available for questions after the call.

In today's call, I will highlight relevant public data and macroeconomic trends in our markets as well as one-offs that you should be aware of before the start of the silent period on 12th January ahead of the publication of our 2023 annual report on 2nd February. I will go through the P&L statement line by line and comment on capital at the end. Afterwards, we will open-up for a Q&A session.

For the sake of good order, I would like to highlight the following. I will only answer questions related to already disclosed information as well as publicly available data as of 31st December, unless otherwise noted. In this connection, I wish to stress that developments in specific indices may not always have the same effect on our performance.

Macro

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

Compared to the uncertainty we faced in the beginning of 2023, the economic outlook now points increasingly to a soft landing across the major economies. Although market expectations clearly indicate that central bank policy rates have peaked, the long-term policies and inflation development remains uncertain. Additionally, the worrying development in the geopolitical landscape may lead to serious consequences across the global economies as supply chains and commodity prices can quickly be disrupted.

In the Nordic countries we have seen a slowdown of GDP growth but overall the economies remain resilient. Particularly in Denmark, where the economy has been supported by the pharmaceutical sector, we see historically high employment rates and household finances remain strong.
For a more detailed macroeconomic outline, please refer to our most recent economic outlook from 5th December.

The solid macroeconomic backdrop also drove the profit upgrade we announced on 8th December, as the quality of our credit portfolio remain strong, and we now expect negligible loan impairment charges for the fourth quarter.

As always be mindful about currency fluctuations in the regions we operate in.SEK has appreciated by around 3% while NOK has appreciated slightly, and GBP has been roughly flat in Q4.

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

Net interest income

Firstly, I would like to remind you that Q3 NII benefitted from a DKK 300 million one-off. Also note that there were no policy rate hikes in Q4 by the ECB, the Danish Central Bank, and neither by the Swedish Riksbank.

On 13th December, the Norwegian central bank increased the policy rate by 25 bps and we have notified customers of various price changes which will take affect during Q1.

Specifically, for Q4 and following the latest increase of 25 bps in ECB and Danish policy rates back in September, we would like to reiterate an annual impact of around DKK 0.1 billion. This is obviously below our guided NII sensitivity as we repriced both transaction accounts as well as term deposits. As such, we announced that we would start paying 25 basis points on all transaction accounts in Denmark with deposits of up to DKK 50,000, effective from 1st October. We have also raised the interest rate on several savings products, effective from 18th September. The significant pass-through should be viewed as a catching up of previous rate hikes.

Looking at the sector overall, where we refer to publicly available data, the volume development is expected to be fairly muted. Across business segments, lending demand may be impacted by uncertainties related to the macroeconomic slowdown and property price uncertainty. Please be aware that in respect to the lending statistics for Denmark from November, which recently have been published, we are not able to confirm the trend in private lending volumes.
Also keep in mind that it is fair to assume a decrease in PC volumes to continue in Norway through the transition period. We continue to expect the transaction to close by the end of 2024.

On deposits, we expect an overall stable and elevated level to continue in Q4. The higher rates offered on our well-recognised savings products are likely to add further to the migration into these products in Q4.
Additionally, the Swedish market in particular, has been susceptible to fierce deposit price competition.

Please note that Q4 has the same number of interest days as Q3.

Related to our funding costs, the 3-month STIBOR and NIBOR have risen by around 8 and 6 basis points respectively in Q4 – on the basis of quarterly averages. Please be aware that when we observe increases in NIBOR and STIBOR, the immediate impact on our NII is negative as higher customer rates in particular in Norway are subject to notice periods.

Through the year we have issued funding in various formats, including senior, covered bonds and private placements, bringing the total amount of debt transactions to around DKK 95 billion year to date. This is in line with our public target to raise DKK 80-100 million in 2023. Activity in Q4 included a green EUR 500m 5NC4 Non-Preferred Senior priced at 3 month Euribor+145 bps with settlement date on 9thNovember. On the other hand we also redeemed a EUR 1.25 billion Preferred senior on 10th November with a spread of 3month Euribor + 30 basis points.
Please see Danskebank.com Debt section for further details on terms and pricing for each issuance.

Finally, we reiterate our NII sensitivity of approximately DKK +600 and -500 million per 25 bps change across all currencies, on average over the next 100 bps within a 12-month period. As the balance sheet effects from our hold-to-maturity portfolio and unhedged fixed rate assets are gradually taking hold, we would, all else equal, expect to see a year 2 and year 3 benefit of another DKK 300 million and DKK 200 million, respectively.
Please note that by far most of our sensitivity relates to DKK and EUR, in that order.

Fee income

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

Let us start with the development in investment fees. These will be subject to the development in assets under management and the investment appetite of our customers.
In respect of performance fees from Asset Management, please recall that we normally book the majority of these in Q4 and we refer to table 2.3.4 in our Q3 factbook as a recent reference regarding our funds' performance.
To that end, we have noted a positive development in equity markets and performance in fixed income markets towards the end of the year.

Moving to activity-driven fees, we observe that while consumer sentiment as measured by Statistics Denmark has remained negative, the latest spending monitor by Danske Bank Macro Research shows an increase in November of around 2% in consumer spending in real terms comparing to the same period last year.

Turning to fees from lending activities, housing market activity in Denmark has improved slightly, but remains at a subdued level relative to the peak in 2021. Also, please be aware that we had refinancing auctions of adjustable-rate mortgages in November. As a reference, income related to Q4-2022 refinancing auctions amounted to approximately DKK 50 million. We should also add, that remortgaging activity has remained low in the fourth quarter.

Capital markets activity has been overall stable in Q4 as customer activity in DCM remained solid while activity in ECM continued to be muted. The level of M&A activity also continues to be low but improved toward the end of the year.

Trading & Danica

Now turning our focus to trading income. While we have observed benign financial market conditions, Q4 has historically been subject to seasonality from lower customer activity. We have observed lower Danish mortgage rates and the 5% callable mortgage bonds have closed due to lower yield. Spreads on 5Y non-callable bonds have tightened close to 1 percentage point. Additionally, we have seen strong sentiment on Danish government bonds in Q4 that performed versus EU peers, where e.g. 10Y yield spread to German government bonds tightened 5bp.

In respect to our insurance activities, the investment result is always subject to valuation effects from developments in the financial markets.

Other income

We have no comments on Other Income.

One-offs

There are no one-off items for Q4.

Cost

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

Impairments & credit quality

As mentioned at the beginning and as we communicated our Company Announcement of 8th December 2023, we expect negligible impairments for the fourth quarter of 2023. Therefore, we expect full-year loan impairment charges to be around DKK 0.3 billion.

Tax

Only comment related to tax is that we expect a reduced tax expense of around DKK 0.3 – 0.4 billion from the year-end tax assessment related to tax from previous years, as we also announced on 8th December.

Capital

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

Concluding remarks

This concludes our initial comments in this pre-close call.

Before we move on to the Q&A session, I would like to highlight that we enter our silent period on 12th January. Shortly after today's call, we will also start collecting consensus estimates with a contribution deadline on 15th January, at noon. Please note that we will publish our 2023 annual report on 2nd February at 7.30am CET and that the conference call for investors and analysts will take place at 8.30am.

We are now ready for the Q&A session. If you wish to ask a question, please use the "raise your hand" function.