Conference call

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Investor Relations

CORPORATE PARTICIPANTS

Chris Vogelzang
Danske Bank – CEO

Jacob Aarup-Andersen
Danske Bank – CFO

Claus I. Jensen
Danske Bank – Head of IR

SPEECH

Chris Vogelzang – Danske Bank – CEO

Hello, and welcome to the presentation of Danske Bank's financial results for 2019. Thank you all for taking the time to listen in on this call today. My name is Chris Vogelzang, I'm the CEO. And with me, I have our CFO, Jacob Aarup-Andersen; and Head of Investor Relations, Claus Ingar Jensen.

Let's move into the presentation immediately, slide 1. In today's call, we will present Danske Bank's financial results for 2019. We aim to keep this presentation to around 20 minutes. After the presentation, we'll be open for Q&A as usual. And of course, feel free to contact our IR people, if you have any more questions.

Slide 2, please. In many ways, 2019 was a very busy year for Danske Bank. We maintained the same level of lending growth as we saw in 2018, based on good growth continuing at Banking Nordic, in particular. Across our core markets, we saw a good level of customer activity. For example in Denmark, where historically low interest rates led to significant remortgaging activity. Net profit for the year came in at DKK 15.1 billion, in line with our latest outlook announcements from December and in line with the results for the year before. However, a number of non-recurring items had a net positive effect on the results. These items included, among others, the sale of Danica Pension Sweden and LR Realkredit as well as goodwill impairment charges and tax adjustments.

Excluding the non-recurring items, our financial performance was under pressure in 2019. The results for the year represent a return on shareholders' equity of 9.6%, against 9.8% for the year before. The result for the year was affected by significantly higher expenses than in the year before. This was due to an elevated level of investments in compliance and AML-related activities, initiated in 2018 and continued in 2019 in order to get compliance under control. Expenses for the Estonia case also had a significant impact. Our capital position remained strong. The core Tier 1 capital ratio of 17.3% is well above the minimum regulatory requirement and in line with our target level of above 16%. On the basis of our results, the Board of Directors is proposing a dividend of DKK 8.5 per share, representing a pay-out ratio of 49%.

Finally, for 2020, we expect a net profit in the range of DKK 8 billion to DKK 10 billion, which corresponds to the return on equity guidance of 5% to 6% as presented in the Q3 interim report as part of our 2023 plan.

Slide 3, please. As we have communicated earlier, we have an ambitious agenda for Danske Bank for the period towards 2023. We're pursuing 4 clear objectives to become a better bank for customers, employees, societies and shareholders. In order to accelerate delivery, we've got a transformation process, which we call the Better Bank transformation. Within the scope of this transformation, we will bundle our efforts as a combination of Group-wide initiatives as well as key initiatives from our business units to optimise execution from a Group perspective. You can see the focus areas for our transformation on the right-hand side. And let me quickly talk about the various points. Compliance under control. This is essential for us in our current situation, but also with tangible proof points, for example, where we're making good progress on AML efforts. Cost programme and complexity reduction. We launched a dedicated programme to manage costs more efficiently and to reach our cost ambitions for 2023. We focus on reduced complexity to achieve a more efficient organisation and cost optimisation.

Agile and digital transformation: We started a Group-wide initiative, which includes the digitalisation of all our customer journeys, a new setup for all development units within Danske Bank as well as the readiness of our IT platforms to support new ways of working. In financing development, a key area for our customers, which includes mortgages to retail customers as well as financing to small business customers, we will set up our first agile teams in the next few months. Service model optimisation: Across the various customer segments, we are reviewing our current senior service models to enhance the customer experience and integrate offerings across the Group more to -- integrate offerings across the Group more to service our customers more holistically. Finally, we have a social impact agenda, for which we communicate today specific metrics and targets.

Slide 4, please. As you may recall, as part of our Better Bank plan towards 2023, we have defined goals for all our four stakeholder groups: customers, employees, society and investors. This was communicated together with our Q3 results on the 1st of November. And we thus took a decisive step by placing our societal impact and sustainability activities on an equal footing with other priorities. Now we're specifying further with quantified targets for 2023 for the seven focus areas that were announced.

To provide some context for these targets, please allow me to comment a bit on our ambitions because our ambitions are what we are truly aiming for and the targets are instruments to point us in the right direction and communicate our progress transparently. I would also like to stress that our ambitions are broader than the targets in both scope and timeframe. Because from a societal impact of sustainability perspective, 2023 is right around the corner. As for the specific ambitions and targets, beginning with sustainable investing, our aim is to increase our volume of sustainable investments, develop more sustainable offerings and further integrate ESG factors into our investment processes. In addition, our target is to increase the level of green investment by Danica Pension to DKK 30 billion by 2023. For sustainable financing, our ambition is really to support our customers' transition towards sustainability, while in time also aligning our loan portfolio with the Paris Climate Agreement. Here, our target is to reach well above DKK 100 billion in a range of green and sustainable bonds as well as green loans, and to set a climate target for our commercial loan portfolio by 2023.

Moving on to governance. The overall ambition is quite simply to ensure that we operate our businesses in a sustainable, ethical and transparent manner. The target is to ensure that more than 95% of our employees complete training in compliance and risk management on an annual basis. A key aspect here is that we will also be working to continuously enhance and improve the contents of that training. Moreover, in parallel, we are currently working to develop an outcome-oriented target. As for diversity and inclusion, it's very important to be clear that our ambition is an acceleration on the full agenda, not just gender. However, our initial target is to increase the share of women in senior leadership positions from 23% to 35%, because we know gender diversity is a recognised multiplier for other areas of diversity and because we're challenged on the number of female senior leaders across the bank. Concerning our own environmental footprint, our vision is to minimise our negative impact. Our focus is on emissions, which we aim to reduce by 10% from the level in 2019, but which is a -- corresponds to a 75% reduction since 2010, in line with the Paris Climate Agreement goals.

For our efforts within entrepreneurship, we aim to support 10,000 start-ups and scale-ups in growing their business and increasing the positive impact, which we do by offering a range of tools, services and expertise.

Finally, on financial literacy, our ambition is to support children across the Nordic countries in developing good money habits, which we aim to do with tools, events and expertise for 2 million children and parents.

Let me conclude this slide by noting that because the sustainability area is moving fast and methodologies are maturing as we speak, we fully recognise that these targets may well need to be calibrated during the period towards 2023. Nonetheless, we believe that we're taking an important step in lifting the bar for ourselves with these new ambitions and targets.

Jacob, can you do the next part?

Jacob Aarup-Andersen – Danske Bank – CFO

Thank you, Chris. So this is on Slide 5. As Chris mentioned in the executive summary, net profit for the year came in at DKK 15.1 billion, which is almost unchanged from the year before. The result of Q4 amounted to DKK 5 billion, against DKK 3 billion in Q3. The result for 2019 included significant non-recurring items that had a net positive effect on the result. These non-recurring items affected all line items in the income statement except NII. Excluding these items, net profit came in lower. That's due to a decline in underlying total income and an increase in both costs and loan impairment charges. Net interest income was adversely affected by significantly higher funding costs, changes in the product mix and intense competition, which is all putting pressure on margins. Whereas fee income benefited from the inclusion of SEB Pension Danmark, increased performance fees and high remortgaging activity in Denmark. That’s despite the provision for the compensation related to the Flexinvest Fri case.

However, in Q4, we saw an increase in both NII and fee income. Net trading income was affected by lower income at C&I, where FI&C was challenged by difficult conditions in the rates market for most of the year. However, FI&C saw an improvement in income in Q4 from the low level in the preceding quarters. Trading income benefited from the sale of LR Realkredit but saw a negative impact from the VA add-on at Danica Pension.

Other income of DKK 2.2 billion included the gain from the sale of Danica Pension Sweden of DKK 1.3 billion mentioned by Chris earlier. Expenses came in 10% higher than the year before, which was affected by the donation of DKK 1.5 billion of income from the Estonian branch. The increase in expenses was due mainly to upstaffing, investments in the compliance and AML-related activities, but also to non-recurring items. Goodwill impairment charges amounted to DKK 1.6 billion. That's almost evenly split between C&I and Wealth Management. Loan impairment charges amounted to DKK 1.5 billion, against a net reversal of DKK 0.7 billion the year before. The charges relate mostly to C&I and include extraordinary charges of DKK 450 million, as announced in December. The result of our Non-core activities was a negative DKK 0.5 billion for the year, due mainly to a negative value adjustment caused by the transfer of the Baltic portfolios to Non-core.

Finally, the tax line showed an income of DKK 1.2 billion as a result of one-off effects. Our decision not to enter the International Joint Taxation scheme for a new period caused a one-off positive effect of DKK 5.2 billion, whereas a provision for a deferred tax adjustment had a negative effect of DKK 1.1 billion.

Slide 6, please. So now let's take a closer look at the underlying development in net interest income. NII was down 7% from the level the year before. However, up 2% from the level in the preceding quarter. The increase in volume had a positive effect. However, this was more than offset by an unfavourable margin development. The increase in NII we saw in Q4 was due mainly to improvement in deposit margins. A number of factors affected the business in 2019. Firstly, higher funding costs, a change in the product mix resulting from high remortgaging activity at Banking DK and intense competition all put pressure on margins. The margin pressure was also a result of higher short-term rates in Norway and Sweden in particular. Secondly, the significant issuance of non-preferred senior bonds in order to meet the specific MREL requirements set by the Danish FSA. And thirdly, a lower return on the hold-to-maturity portfolio and higher cost for AT1 and Tier 2 instruments also explained part of the decline despite being partly mitigated by the FX hedge of the core Tier 1.

During 2019, we have issued new funding of DKK 100 billion, with more than half in the form of non-preferred senior funding. The NPS funding, which is clearly more expensive than preferred senior funding was issued mainly in the first half of the year. So on the positive side, the funding spread for NPS debt narrowed significantly during 2019.

Slide 7, please. At Banking DK, lending was up 1% from the level in the same period the year before. That's driven by an increase in lending to retail customers. A decline in net interest income was most significant at Banking DK, due primarily to higher funding costs, a change in the product mix and intense competition. At Banking Nordic, lending was up 5% with growth in Norway and Finland. However, NII declined as a result of higher funding costs and increased margin pressure. On the back of higher central bank rates, corrective pricing action has been initiated in both Norway and Sweden, in line with our peers. In Norway in particular, we saw a positive effect of this in Q4. At C&I, a major part of the decline in NII was due to the transfer of the Baltic and Russian exposures to Non-core. Lending, excluding reversed transactions, was up 5%, driven by the value of collateral, whereas bank lending was up 2%. In Northern Ireland, lending was up 9% in 2019, despite continued Brexit uncertainty for most of the year. This corresponds to a 3% increase in local currency.

Slide 8, please. So let's have a look at fee income. Fee income was up 3% in 2019, driven by the positive effects of the acquisition of SEB Pension Danmark and high remortgaging activity in the second half of the year in particular. Fee income was negatively affected by lower investment activity and the compensation related to the Flexinvest Fri case. Fee income in Q4 was up 3% from Q3, due mainly to the year-end booking of performance fees. Investment fees were down 7% from the year before due to the compensation of DKK 0.2 billion related to the Flexinvest Fri case and reduced customer appetite for investment products at Banking DK in particular. In Q4, investment fees came in 25% higher than in the preceding quarter due to performance fees of DKK 0.4 billion at Wealth Management, up from DKK 0.1 billion in the Q4 of '18.

Fee income from pension and insurance activities came in 15% higher than the year before as a result of the acquisition of SEB Pension Danmark. However, the sale of Danica Pension Sweden had a small negative effect. Fee income was lower in Q4 than in Q3 due to lower income from the Tidspension product. Fee income from lending and guarantees was up 17% on the year before. That's benefiting from higher remarketing activity. However, a lower activity in the housing market in general had an adverse effect.

Finally, capital market-related fee income. That was in line with the level of the year before, but was actually up 71% from the preceding quarter due to good activity within corporate finance and C&I.

Slide 9, please. Trading income came in 7% higher than the year before, including a gain of DKK 0.8 billion from the sale of LR Realkredit. Excluding this gain, trading income was down 10% from the level in 2018. At Corporates & Institutions, which accounts for the bulk of our trading income, trading income was down 13% from the year before due mainly to lower income from FI&C as a result of difficult market conditions and negative value adjustments. However, trading income at C&I was up in Q4 from a low level in Q3 due to a rebound in the fixed income business. At Banking DK, trading income benefited from the higher remortgaging activity, primarily in the second half of the year, whereas the increase in other activities was due mainly to the gain from the sale of LR Realkredit. Income from the refinancing of adjustable rate mortgages in Q4 came in lower than in the same period the year before as a result of the change in the product mix in Realkredit Denmark.

Slide 10, please. Moving on to expenses. Total expenses for 2019 amounted to DKK 27.5 billion, that's up 10% from the year before and 17% adjusted for the donation of DKK 1.5 billion related to the Estonia case. In 2019, expenses rose mainly because of investments in our compliance area, including AML-related activities and also costs for the Estonia case. As announced in our company announcement of 5th December, expenses of a one-off nature had a significant impact in Q4. The increase in staff and consultancy costs relates to upstaffing within compliance and AML-related activities as well as expenses related to the

Estonia case. Expenses were also higher due to the inclusion of SEB Pension Danmark in our cost base and the compensation related to the Flexinvest Fri case. Compared to '18, all business units, and Banking DK and Banking Nordic in particular, were impacted by higher costs for regulatory requirements and compliance. Part of the increase at Banking Nordic was of a one-off nature and related to a portfolio adjustment.

Slide 11, please. As I just mentioned, the cost for our AML work and other compliance activities rose significantly during 2019. Total cost for these areas increased by more than DKK 1 billion, of which costs associated with the Estonia case accounted for DKK 0.6 billion. Our investments will continue to increase in 2020, as we communicated in our Q3 report, we will continue to strengthen and improve controls and systems for combating money laundering and other types of financial crime via additional investments in both people and better IT systems for more automated processes. We still expect expenses in this area to peak in 2020. After 2020, we expect AML costs to gradually decrease and reach a steady-state level of DKK 1.1 billion to DKK 1.3 billion in 2023.

Slide 12, please. Loan impairment charges in core activities amounted to DKK 1.5 billion for the year. That corresponds to a loan loss ratio of 8 basis points. Overall credit quality remains strong on the back of a stable macroeconomic environment and strong collateral values. However, as expected, the level of reversals has fallen significantly from the level in the past couple of years. At Banking DK, we continue to see reversals, however, at a lower level than in the year before. C&I accounted for the main part of the impairment charges, with charges at the unit driven by single-name exposures, especially in the shipping, oil and gas and retailing industries. The increase in impairment charges we saw in Q4 was due mainly to the portfolio review we communicated in our company announcement of 5th December. This review led to additional charges of DKK 450 million, affecting primarily Banking Nordic and Banking DK.

Slide 13, please. Our capital position remains strong, with a reported core Tier 1 capital ratio of 17.3% at the end of the year. That's well above our target of a capital ratio of above 16%. The total capital ratio was 22.7%, well above the target of above 20%, and up 1.7 percentage points following issuance of Tier 2 capital instruments in Q4. The development in the core Tier 1 capital ratio in Q4 resulted from retained earnings due to the higher net profit and a lower risk exposure amount due mainly to a reduction in counterparty risk. The impact of the proposed dividend in Q4 reflects a payout ratio of 49% for 2019. The regulatory core Tier 1 requirements were up slightly in Q4. However, it rose 0.9% from the level at the end of 2018 due to the announced increase in the Danish countercyclical buffer in 2020 and an increase in the solvency need ratio in 2019. The leverage ratio was 4.7% according to transitional rules and 4.6% on the basis of fully phased-in rules.

Slide 14, please. Then finally, the outlook for 2020. We expect net interest income to be lower than it was in 2019 as margin pressure and higher funding costs will more than offset continued volume growth. Net fee income is expected to be slightly lower than in 2019 due to lower remortgaging activity and subject to customer activity and market developments. Expenses are expected to be in the range of DKK 28 billion to DKK 29 billion, driven by acceleration of investments of up to DKK 2 billion and a continued increase in compliance costs. Loan impairments are expected to be higher. And finally, we expect net profit for 2020 to be in the range of DKK 8 billion to DKK 10 billion, equivalent to a return on equity of 5% to 6%, as also communicated in November.

Slide 15, please, and over to Chris.

Chris Vogelzang – Danske Bank – CEO

Thank you. Jacob. Those were our initial comments and messages, we are now ready for your questions. (Operator Instructions)

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

Operator

(Operator Instructions) Our first question comes from the line of Jakob Brink from Nordea.

Jakob Brink – Nordea

I have two questions, please. The first one, I know you've probably been asked about this 1,000 times already. But negative deposit rates. You don't mention it in the report and also not in your presentation. The FSA was out basically giving a green light for it the other day. Your owners want it -- I guess, your employees want it and your customers don't really care, at least other banks' customers don't really care. So what is it that is holding you back from introducing negative deposit rates to private clients in Denmark? That's the first question. And the second one, in connection with the second upgrade you did back in December, you stated that some of the expenses that was supposed to have been booked in 2020 was moved forward to Q4. Could you quantify how much has been moved forward?

Chris Vogelzang – Danske Bank – CEO

Yes. Our position is not changed on negative interest rates. We do not intend, like the other banks also don't, to impose negative interest rates on the average Danish customers, and we are currently looking at the situation with regards to the customers with higher wealth. I really don't want to add anything to that.

Jacob Aarup-Andersen – Danske Bank – CFO

And then Jakob, the other question was around the transformation cost. It's correct that when you look at the December announcement, there was also an element of transformation cost. That element is around DKK 280 million, I think we've communicated, which pertains to the 2023 transformation. We have also, as you know, maintained the DKK 1.5 billion to DKK 2 billion range in terms of our investments -- potential investments for this year in the transformation. But on your specific question, the DKK 280 million of those expenses were relating to transformation costs.

Operator

And the next question comes from the line of Per Grønborg from SEB.

Per Grønborg – SEB

Also two questions from my side. On the costs, you have a spike in cost in 2020, you have addressed that this is creating better IT systems. I'm just wondering, these costs, if this will be cash cost, but the significant part of that not -- will not have to activate those and amortise them over the lifetime of the IT systems, is that reflected in your guidance? Or is this something that we will see turning out as lower cost and higher activation during the year? That was my first question.

My second question, when I look at the asset quality development outside Denmark, basically, I have two options, either this was a clean-up quarter or we are seeing a quite general worsening of the asset quality on the non-Danish markets. Take into account that you now intend to grow your Nordic banking book by 5%. How are you looking at non-Danish asset quality at a moment?

Jacob Aarup-Andersen – Danske Bank – CFO

Okay. Thanks, Per. Jacob here. So on the cost side, the -- I believe you were referring to there was something on the lines to begin with -- I think you were referring to the DKK 1.5 billion to DKK 2 billion investment guidance, correct?

Per Grønborg – SEB

Exactly. Yes.

Jacob Aarup-Andersen – Danske Bank – CFO

Okay. Super. So that guidance is a P&L guidance, all right? We have said that that is potential P&L spend. If some of it - if there are activated costs related to this, that is not part of the DKK 1.5 billion - DKK 2 billion. We've also said that we expect the significant part of this cost - additional accelerated cost - to be P&L costs. So there might be some activation, but not to the extent that you usually see, part of it is, without becoming too detailed, part of it is, as we accelerate this in a temporary fashion, we will also be bringing in external help to do this acceleration, et cetera. And therefore, it's harder for us to capitalise these types of... -- if it was internally generated with IT expenses, it would be a different thing. So don't expect too much capitalisation out of the DKK 1.5 billion to DKK 2 billion. But when we guide on these types of numbers, we guide on what you see through the income statement.

On the other point on asset quality, I think it's a fair question. We had high loan impairments in the quarter. We also have to say that they're quite specific. Obviously, we go as close as we can by saying it's - there's an element of this being a larger single-name stories within some very specific segments. That is also our way of guiding you to the fact that we think that the credit quality across the bank is in a very strong position. We do not see a deterioration of credit quality. You ask specifically in our Nordic business, we do not see a deterioration in our credit quality. The growth that you are seeing in Banking Nordic pertains to a very large extent to the mortgage markets. And as you also know, the impairments we booked in Q4 when we talk about large single names, that is C&I exposures, which is different exposures compared to where we are growing in Banking Nordic. So no, we do not see a deterioration here. It's in a quarter where several things just collide, it does create a higher number.

Per Grønborg – SEB

Just to clarify, on the cost side, should we expect any additional build-up of intangibles due to the programmes you're running in 2020?

Jacob Aarup-Andersen – Danske Bank – CFO

No. We are -- if there is any build-up, we are still early as you know, we just entered February. And so that guidance may change, but we've been very clear that the DKK 1.5 billion and DKK 2 billion is for the vast majority that's a P&L expense. If there is any build-up, it will be very small.

Per Grønborg – SEB

On to the loan losses, you address single names. You've been doing that for quite a number of quarters especially in the large corporate segment. Is the single -- is continuously single-name exposure, not a clear sign that things are turning to the worse?

Jacob Aarup-Andersen – Danske Bank – CFO

If you look at -- I think that's a fair question. If you look at where the impairments are booked, they are booked in the -- in Corporates & Institutions, which means that it's large corporates. We've also said specifically for the last couple of quarters that this is specifically within the offshore shipping and all services segments in particular, and you also know what our exposure is there. I think we actually will give you more details in the -- I think it's slide 25 in the IR presentation, where you will find more details. So there's a limit to the extent of how many continuous single-name write-offs you can have in that or impairments you can have in that segment. So no, we don't see this as a massive trend.

Operator

And the next question comes from the line of Sofie Peterzéns from JP Morgan.

Sofie Peterzéns – J.P. Morgan

Sofie from JP Morgan. I had a follow-up question on the negative interest rates. Can you just clarify what you mean with the wealthier customer, how do you quantify this? And also related to negative rates, from a system standpoint, could you just confirm that there are no obstacles for you to introduce negative rates. And just one final one on NII. How do you view a potential rate hike in Denmark? And could you remind us on -- of the sensitivity to higher rates. And then my final question would be on the U.S. investigations and sanction breaches. There was an article out last week saying that Danske might not be fined in the U.S. given that you don't have a banking license there. Do you have any views on this? And could you also give an update on any potential sanctions breaches?

Chris Vogelzang – Danske Bank – CEO

Okay. This is Chris. On -- in terms of the negative interest rates, there are no legal issues for us to charge negative interest rates. So the decision is one we take from a commercial perspective, and from a client focus perspective. And when we say that we are not ruling out negative interest rates for the wealthier customer, the exact split between a wealthy customer and the average customer, we also don't divulge for competitive reasons at the moment. But we're watching the situation very carefully, and we know exactly what's happening and we discuss it all the time. But for the moment, we're holding on to the position we have just explained. Your last question with regards to the sanctions. We are also reading all those articles with great interest. We don't have any new information. What we are doing is focusing on what we need to do in our investigations and to work together with the authorities. And we expect that work to be finalised in the course of Q4 of 2020. So we do not have an opinion on the basis of these articles on how the fine or the potential fine will be. On your sub-question with regards to sanction breaches. Of course, if there would be any material sanction breach, you will be the first to know, we will immediately inform the market. But there has been no change, and we still haven't come across that at the moment. Then there was a question about NII.

Claus Ingar Jensen – Danske Bank – Head of Investor Relations

There was a question from you, Sofie on the likelihood of higher interest rates. And we know that over the last four months, the Danish Central Bank has been involved in operations, supporting the Danish currency, which has led a number of people in the market to believe that we are getting closer to a Danish rate hike. So that's the common belief in the market, and we are talking about a potential 10 basis points increase in the central bank rates. That's what the market rumours are about for the time being. During the third quarter, we got a rate cut by the ECB that has increased our interest-rate sensitivity. So if interest rates are coming up by 25 basis points across all the currencies where we're operating, that would -- that's equivalent to around close to DKK 1 billion on the NII line.

Sofie Peterzéns – J.P. Morgan

Okay. That's very clear. And just a quick follow-up on the sanctions and the U.S. potential fine. Is there any chance we could see a settlement before year-end?

Chris Vogelzang – Danske Bank – CEO

I would love to answer that question. We just don't know. There is -- if you look at other banks, the moment that this thing has been resolved in other banks, varies widely, either during the remediation process and the investigation process or well after the remediation and investigation process. And we truly don't know.

Operator

And the next question comes from the line of Johan Ekblom from UBS.

Johan Ekblom – UBS

Just firstly, on the decision around the dividend. I mean, it's right in the middle of your payout range. But I guess, should we read anything into it on your comfort around the adequacy of your capital, including potential fines? And I think Jacob commented in the media earlier that you are confident to be able to meet any financial penalties that may come out of this. Maybe if you could elaborate a little bit around your thinking of being at the middle of the range rather than the low end of the range.
And then, I guess, the second question, just in terms of trading, I mean, so it looks like we've seen a pretty nice pickup in fixed income in the fourth quarter, broad-based across the banks in Europe. Can you talk a little bit about what drove that and how we should think about the environment in 2020? I mean, is -- was Q4 kind of a one-off good quarter? Or do you think that we could see some improvement in what's been a pretty dire trend for the last 18 months or so?

Jacob Aarup-Andersen – Danske Bank – CFO

Thanks, Johan. Why don't I start on the dividend and capital side and Claus will speak a little bit about trading. So on the capital side, I think what I'm quoted for earlier today is nothing new. It is the fact that we have a strong capital position. And when we look at this quarter, we just have to say that - not that we should rate our own performance - but one of the strong points of the quarterly report here is the capital position. So we generate 90 basis points of capital, core Tier 1 capital in the quarter, going from 16.4% to 17.3%. And that leaves us with an excess versus our fully phased capital requirement of 220 basis points. That strong capital build is a signal around for us around the strong capital position of the bank. That also gives us comfort in terms of delivering a pay-out in the middle of the guided range. We think that was a balanced approach to all stakeholders to deliver a pay-out in the middle of the range. And it's also an unchanged signal from this bank that we think we have a strong capital position. And we are in a position to deal with the uncertainty we have in front of us that you mentioned. We said when we came out with a revised capital target of above 16% for core Tier 1 that it is also to reflect the continued uncertainty around the Estonia case. We continue to have that uncertainty, and therefore it's important for us to maintain a very strong capital position. So we have that confidence and that is also what is reflected in the dividend. It is, as Chris says, not a view on where a potential settlement around that case could end up, et cetera. It is simply a reflection of the fact that stand-alone here, we have a very strong capital position.

Claus, do you want to take the fixed income question?

Claus I. Jensen – Danske Bank – Head of IR

Yes. The trading income in C&I was better in Q4, and we are happy to see that. But please note that it's also coming from a very low level in the third quarter. In Q4, we had a more benign trading environment. We saw slightly higher rates and a slightly steeper yield curve. So that was the main reasons why activity in our FIC operation were better in Q4 than in the previous quarter. That doesn't mean that we cancel the comments we had around the challenges for the FIC business as we presented at the Q3 result. We'll still see a number of both cyclical as well as structural issues also going forward. So our medium- to longer-term view hasn't changed, but we are happy to see that there was a turnaround in the business in Q4.

Johan Ekblom – UBS

And maybe just to try my luck. Do you have any early indications on the success of the voluntary retirement programme that you launched in Denmark?

Chris Vogelzang – Danske Bank – CEO

We have some early indications, but that was a very small programme targeted at 2,000 employees, i.e., not -- with the target of 2,000 employees, but targeted at a few departments. And the number of voluntary reductions is about 100, so not very high. But this is a thing which we do in Danske Bank on a semi-regular basis if we think there is opportunity to do things there, that we at least give the staff that chance to do that.

Operator

And the next question comes from the line of Mads Thinggaard from ABG.

Mads Thinggaard – ABG Sundal Collier

This is Mads from ABG. The first one is on NII. The guidance of NII down in 2020. I don't know if you could put a bit more flavour on that, I think, annualising in Q4, we would be a bit ahead. And I assume volume growth is already from Q1 that you expect that. So I don't know if you could elaborate a bit on the underlying assumptions here and also whether, I mean, the funding, the DKK 70 million to DKK 90 billion you tend to do is front-end or back-end loaded. That would be the first one. And then the second one, more plainly, just on the transformation plan. Could you -- I mean, when should we expect or could we expect large changes in, I guess, in the organisation of Danske to be announced during 2020? And when -- I mean, if something is cooking then when should we -- when do you plan for announcing such changes?

Jacob Aarup-Andersen – Danske Bank – CFO

Thanks, Mads. I'll start with the NII question, and thanks for the curiosity there. You are right that if you just annualise this quarter, then you'll probably be slightly up. When we look at 2020, I think the big differentiator is the one you referred to yourself, which is the funding side. So yes, we are expecting volume growth in -- possible volume growth in 2020. We also expect a competitive environment that is not giving us a let up. So we do expect continued competitive pressure on margins. There is the technicality, which is not unimportant, of the massive remortgaging activity we've seen in Denmark in 2019, which means that we have rebased a not unsubstantial part of our book to lower contribution margins as people have converted into longer duration products.

We have had DKK 155 billion of our mortgage book converted in 2019. And that is obviously a big number that has moved on to a lower margin. Then the big element is the one you referred to, which is the funding. The total impact year-on-year from the funding side, could be up to DKK 700 million, which is the combination of the annualisation of the funding we have issued during 2019 and the further NPS issuance that we need to do in 2020 to be fully on board. So, it is the funding side and it is especially the remortgaging in Denmark that are the two negative drivers in that equation. And I'll ask Chris on the other one.

Chris Vogelzang – Danske Bank – CEO

Yes. What we -- there's two answers here. The first answer is that we expect in the Q1 results to be far more detailed on the progress we're making on our transformation plans. And update you on progress initiatives, potential outcomes, et cetera, et cetera. So we have started on the journey. There's hundreds of people involved on that at the moment, and we're making good progress. But it is a bit too early to give you a lot of information about it, but that will be done at the Q1 results, which I expect in early May.

With regards to your question on organisational changes or organisational interventions, again, we're not saying that there will be any in the next few months. But if there will be, you are the first to know, and we'll be sending out, of course, press releases and et cetera. So it is either on early May that we give you an update, and if there's anything happening earlier, we will immediately inform you.

Operator

And the next question comes from the line of Robin Rane from Kepler Cheuvreux.

Robin Rane – Kepler Cheuvreux

It's Robin from Kepler Cheuvreux. Two questions, one following up on the trading. In Q4, we could read in the press that there had been some adjustments to the workforce within the fixed income unit. Has this in any way been disadvantage to the income in the units where the market was stronger in Q4? And secondly, on capital, do you have an estimate of risk-weighted asset inflation from Basel IV and other regulation that will, in some form or other, be introduced going forward?

Chris Vogelzang – Danske Bank – CEO

Okay. The FICC reductions we exercise, I'm pleased to say that the team, which was kept, of course, the vast majority of the people, they were in full execution mode immediately. So we haven't seen any teams not having their eye on the ball during that process. And I think that process was well-managed by Jacob Groot, who is responsible for C&I. So no issues there, apart from the fact, of course, that we had to say goodbye to 50 colleagues.

Jacob Aarup-Andersen – Danske Bank – CFO

Yes. And then on the capital side. As you know, we don't give a specific number on the Basel IV impact. What we've done is when we gave the 2023 bridge in the Q3 announcement, we did alert you to the fact that it included the phasing in of Basel IV up until 2023. But didn't have the full impact of output floors to give you a sense for how we were planning and how we were developing during the plan on that basis. Up to 2022, we expect to update internal models, including implementing EBA guidelines. And up to 2023, we expect effects from the revised standard methods and also constraints on internal models. So that in itself will drive some risk weight inflation through the period. What is also important to acknowledge as we will seek risk-weighted inflation from Basel IV, that's very clear, we are a bank with lower risk rates due to the businesses we're in, You should also remember that we currently have a number of add-ons in our capital requirements reflecting that, and therefore, a number of these add-ons will also fall away as we implement these -- a number of these model changes. That is also why the 2023 bridge is relatively benign in terms of us dealing with the capital impact.

Operator

And the next question comes from the line of Maria Semikhatova from Citi.

Maria Semikhatova - Citi

A couple of questions. First of all, on the remortgaging activity you've seen last year. Could you maybe quantify what was the contribution to the result in -- on the fee and trading line? And on fees, specifically, is there any other areas where you see headwinds for fee generation this year? And separate on asset quality, one clarification question. You mentioned that the top-up of provision was in connection with the portfolio review, which is still ongoing. I just want to hear your thoughts you think there is potential for additional charges? Or when this review is expected to be completed? And maybe more general, you had a cost of 8 basis points last year. I mean, what you are saying is a very strong asset quality in the region. How comfortable are you with your normalised cost of risk guidance of 10 basis points, which you envisioned for 2023?

Jacob Aarup-Andersen – Danske Bank – CFO

Okay. Thank you for the questions. The -- on the first question of the impact of remortgaging activity in 2019, the impact is around DKK 700 million of one-off impacts. That is split relatively equally between fees and trading income – it depends on how people remortgage and what bonds they remortgage, whether it's fees or trading income. So that's pretty clear. And then I missed the second question, which was around other fee impacts in 2019. Was that -- how we should understand it? Could you just repeat that?

Maria Semikhatova - Citi

Yes. You mentioned that -- of course, of course. You are seeing fees weaker in 2020? Is it simply from the base effect from this remortgaging activity or you're seeing some further margin pressure? Or are there other headwinds for fees this year?

Jacob Aarup-Andersen – Danske Bank – CFO

Super, super. Thank you very much -- thanks for clarifying. So no doubt that in our base case, we do not expect the same remortgaging activity as we just saw. It was the highest in the history of the Danish banking market. So that falls out, an element of that is -- should be falling out of the numbers. And on top of that, yes, we are seeing margin pressure on, especially Wealth Management products, which is obviously a significant part of our fee earnings, so that leads to a bit of caution. We -- when we guided at the beginning of the year, it's also a bit uncertain how AuM will develop because that will depend on how markets develop, et cetera. So as you know, a large part of our fees are generated either out of the Wealth Management business, i.e. fees on AuM, or via more transactional-related businesses like remortgaging, transaction banking, et cetera. So I think the big lever -- difference in levers here is the remortgaging, but there's also continued margin pressure on the investment side.

Then on the FSA review, so listen, if we expected further loan impairments as we said here today, then we would be making sure that they were communicated to you. So you can rest assured that we're putting forward the best estimate of our impairments to you.

In terms of the in terms of the conservatism and confidence around the 10 basis points guidance, I think we are equally confident as when we came out with that number. Yes, Q4 was a special quarter. But if you look at the remaining quarters preceding that, I think 10 basis points is definitely something that looks conservative and realistic in -- from that sense. So no change in our view on asset quality, no change in our view on what the normalised level would be within this forecast period. And do remember, when we talk about 10 basis points within the forecast period, it is in the context of a world with zero rates. Historically, banks like us have had higher normalised loan losses, but they have also been in an environment where rates have not been zero. So those two assumptions are connected as well.

Operator

And the next question comes from the line of Jacob Kruse from Autonomous.

Jacob Kruse – Autonomous

Could I just ask the legal process and potential fines in Denmark? Do you have any sense of the time line there? And do you think that they would need to wait until they see the outcome of your own internal review by Q4.

Chris Vogelzang – Danske Bank – CEO

The Danish timeline and the U.S. timeline are -- there are similar uncertainties about that. In the U.S. has in the past, come up with fines only after 60% of the diagnosis has been done, but there's also weighted well after 100%. For the Danish authorities, this is the first time that they do something of this magnitude. But I don't see any difference in their -- how they could look at it, they could decide to go earlier, they can decide to wait. So I'm not trying to be -- talk around it or something. It's just something we truly don't know.

Jacob Kruse – Autonomous

Yes. And could I just ask, secondly, on the net interest income guidance you gave of DKK 1 billion for 100 basis points across the curve. Do you have any -- the more direct guidance to what would happen if only Danish rates went up?

Chris Vogelzang – Danske Bank – CEO

We don't have any specific number on the Danish rate sensitivity. But please remember that the rate sensitivity is to a high extent related to deposits, as we are running with very low negative central bank rates and we have a majority of our deposits in Denmark. So I will assume that there will be a significant part of our rate sensitivity connected to an interest rate hike in the Danish part of the business.

Operator

(Operator Instructions) The next question comes from the line of Martin Birk from Carnegie.

Martin Birk – Carnegie

I saw yesterday that Jyske Bank were out saying that they could see fair value adjustments on andelsboliger up to 15% following till latest intervention from the Danish government. How do you guys knew this area? And what kind of charges could we expect based on this? That's my first question.

Jacob Aarup-Andersen – Danske Bank – CFO

Martin, thanks for the question. So yes, that new legislation is very new and very raw. So everyone is right now coming up with views and statements on what it means. We echo the general perspective that if this has an impact, it is likely to have a negative impact on cooperative housing and is fully, as you referred to. We think it's too early to estimate as to what impact it will have on house prices, we will not be that sure of an impact. It's an important segment in terms of the housing market, especially in the larger cities in Denmark, and it's an important segment that we have specialist advisers around because it is a complicated area. We'll have to see how the market digest this information, but there is a risk. We acknowledge that, just like Jyske, and you referred to that this could lead to a negative price reaction. But we -- let's see, it's early days, and let's see how the market develops here. But we will struggle to see it leading to a positive price impact, that's for sure.

Martin Birk – Carnegie

Okay. My second question is regarding the DKK 800 million goodwill impairment you guys take in Danica Pension. I assume some of it comes out of SEB Pension. And I wonder whether it's a similar guidance you guys gave when you guys acquired SEB Pension, if that still holds up. And then just a quick one. Also, could you also please elaborate on the q-on-q development on fees and the pension and insurance lines?

Jacob Aarup-Andersen – Danske Bank – CFO

Yes. Okay. So on the DKK 800 million goodwill impairment. Yes, so I think we also wrote that in the announcement in December, and so the Danica impairment is SEB Pension. We don't have goodwill on other things in Danica, that's the acquisition they've done. And we also made it clear, and it's -- hopefully, it's well written here in the report, otherwise, we'll have a look at it that this relates to the regulatory changes we're facing. So the impact of Solvency II in the coming years have led to a recalibration of the models and the capital required to hold the business. So that's an impact that also impacts the old Danica business, et cetera. And, by the way, all of the peers in the market. So the business case around SEB for us, it's the same. This is a charge we'll have to take on the goodwill side, but the running impact, i.e., the ongoing earnings impact on Danske Bank and Danica from the SEB Pension acquisition is unchanged. So from that perspective, it doesn't change the value of this asset going forward for us.

Then on the other question on fees. I know Claus, you have it in front of you.

Claus I. Jensen – Danske Bank – Head of IR

Yes. Can you please repeat your question?

Martin Birk – Carnegie

Yes. Is the q-on-q development on your pension and insurance fee line that I'm particularly interested in, what is the moving part here?

Claus I. Jensen – Danske Bank – Head of IR

That is also what Jacob mentioned in his speech that the -- there was a negative impact from a hedge in a product called Tidspension that had an impact of between DKK 200 million and DKK 300 million in the third -- sorry, in Q4. And now we are touching upon that topic. That is something that will be moved going forward. So now where all the analysts are listening in. On the fee income, you should read Note 41 in the annual report, where we are making some comments on a change in the segment reporting of the -- of our other income into fee, but also the effect from the Tidspension hedge that will be moved from the fee income line because it's a volatile component that are more related to trading, and that's why that will be moved into trading going forward.

Operator

And the last question comes from the line of Riccardo Rovere from Mediobanca.

Riccardo Rovere – Mediobanca

My very final consideration. Just one thing, 1 year, actually more than 1.5 years after the AML story exploded, is it fair to say that if there is any weakness in weakening in the franchise, that 1.5 years after should now be fully visible? This client -- the clients had to leave, they have already left. Would you agree with that after 1.5 years or more?

Chris Vogelzang – Danske Bank – CEO

I mean, that's a judgment call. I mean, you also know that we have still -- you also heard that we still lost some customers in the course of last year. We also had an issue around Flexinvest Fri. But let's face it that way, for 2020 will be for us a year where we will be more on the front foot than on the back foot. And you also see that in the engagement of our people, the activity levels, et cetera. So without being able to pinpoint it exactly with numbers, I do feel that we are moving ahead again and regaining commercial momentum.

Operator

I now hand it back to the speakers.

Chris Vogelzang – Danske Bank – CEO

Yes. Thank you all for your interest in Danske Bank and for your questions. As always, you are welcome to contact our IR department, if you have more questions after you had time to look at the financial results in detail. A transcript of this conference call will be added to our website and IR app within the next few days. Thank you very much.