# Conference call

First nine months 2021

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Investor Relations

## CORPORATE PARTICIPANTS

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## SPEECH

**Claus I. Jensen – Head of IR**
Hello everyone. Welcome to the conference call for Danske Bank's financial results for the first nine months of 2021. Thank you all for taking the time to listen in to this call today.

My name is Claus Ingar Jensen and I am Head of Danske Bank's Investor Relations. With me today, I have CEO Carsten Egeriis and our CFO Stephan Engels.

Slide 1 please

In today's call, we will present Danske Bank's financial results for the first nine months of 2021 and provide an update on our 2023 ambitions. We aim to keep this presentation to around 30 minutes. After the presentation, we will open up for a Q&A session as usual. Afterwards, please feel free to contact the Investor Relations department if you have any more questions. I will now hand over to Carsten.

**Carsten Rasch Egeriis – CEO**
Thanks, Claus. Let me start by saying that in today's presentation of our financial results, I will start with a summary of developments in the past period, then Stephan will follow up with more detailed comments on the financial numbers, before I present the update of our plan towards 2023.

In many ways, the first nine months of 2021 was a period of steady progress, not only for the Nordic societies, which have returned to normal after a successful rollout of vaccine programmes, but also progress for us at Danske Bank. In all of our markets, the reopening of society has been followed by a strong recovery in almost all sectors of the economies. This has led to high customer activity, including demand for financial advice and solutions, and we have clearly benefited from that.

Growth in new lending, however, continued to be at low levels, due not only to government support facilities and elevated deposit levels for both personal and corporate customers, but also to a shift in preference among corporates from traditional bank lending to finance solutions in the capital markets. That led to higher activity and strong growth for sustainable finance solutions in particular, an area where we continue to capitalise on our strong platform and unique advisory competencies.

There was also clear progress in relation to our personal customers. In this segment, our increased focus on investment advisory services is paying off, and this clearly underpinned our financial performance. Furthermore, in the personal customer segment in Denmark, the repricing initiatives for deposits initiated with effect in 2021 had a stabilising effect on net interest income. In the third quarter, improvements in deposit margins more than offset the pressure from negative lending effects.

From a digital perspective, we are also making progress on becoming a more efficient bank. We have come a long way with our transformation, as evidenced by simplification of internal processes and improvement of customer journeys, where we have seen high adoption rates of 95% on our District platform for business customers and also positive feedback from both advisers and customers after having increased e-meetings to more than 60%.

Financially, the first nine months showed good progress, with Q3 representing another quarter of sustained improvement. Profit before tax came in at DKK 12 billion, up from DKK 4.7 billion in the same period the year before, driven by stronger income, lower operating expenses and a significant decline in loan impairment charges. The result is equivalent to a return on shareholder equity of 7.3% – clearly a step in the right direction. However, not at the desired level and, as I will explain later, we have updated our plan to ensure that we can meet our updated financial ambitions.

We continued the execution of planned cost management initiatives, as evidenced by lower expenses in the first nine months of the year. Credit quality remained strong, supported not only by the strong macroeconomic conditions we have seen in connection with the reopening of societies, but also by the fact that financially, our customers have fared well during the pandemic.

So, all in all, a result for the first nine months characterised by good progress in many areas and thus a solid starting point for our dedicated work on further improvements in the coming period.

And then over to Stephan for more details on the financial results.

**Stephan Engels - CFO**
Slide 3 please. Thank you, Carsten. Overall, the results were founded on good progress for all key reporting lines. Based on reported net profit, our result almost tripled from the same period last year, and the result for the third quarter was up 19%. Total income came in 4% higher than in the same period the year before, based on a positive development in all income lines. Net interest income stabilised because of the repricing initiatives we have taken for deposits. However, the effect was offset by overall margin pressure, lower lending volume and a change in the loan product mix.

Looking at the third quarter in isolation, the repricing effect was clearly visible and more than offsets the effects of primarily lower volumes, as well as the lower effect from the TLTRO funding.

Our fee income was up 13% and was the most significant driver of the increase in income compared to the same period last year. As Carsten just mentioned, two drivers are behind this positive development. Firstly, strong business momentum in our capital markets-related business following increased demand for sustainable finance solutions, and secondly, an increase in investment activity among retail customers. The increase in overall economic activity following the reopening of the societies also made a positive contribution to fee income.

In the third quarter, fee income was slightly down, despite increased momentum in income from investment activities. Income from capital markets-related activities, which was extraordinarily high in Q2, was also impacted by summer holiday seasonality.

Income from trading activities was lower compared to last year, which benefited from high customer activity following the rebound in the financial markets after the outbreak of the pandemic. In the third quarter, trading income came in lower due to more difficult market conditions for LC&I and seasonality. However, we continued to see a positive development for trading income at P&BC as a result of higher customer activity.

Our insurance activities at Danica Pension saw a positive development, and the result was up 19% from the year-earlier period. The improved result came from strong business momentum and a positive investment result, but also from a better result in health and accident business. The strong business momentum was driven by a good inflow of new customers, resulting in an increase of 39% in premiums.

In the third quarter, we continued to see a strong development, including further improvement in health and accident business. Net income was up 21% from the level in Q2, despite the effect of an accounting correction of DKK 250 million. Other income was up 25%, due mainly to higher income from our real estate broker in Denmark, home, driven by generally higher turnover in the housing market.

Operating expenses came in lower, as our initiatives to reduce costs continued to yield results and we saw the expected decline in cost of transformation and remediation. Excluding one-offs, mainly against tax-related items, expenses were down 6%. In the third quarter, costs were down 6% compared to the preceding quarter, as we continued to see steady progress according to plan. However, higher costs for remediation of legacy issues impacted the result. Profit before loan impairment charges for the first nine months was thus up 15% from the same period last year, and was up 3% against the preceding quarter, mainly due to lower expenses.

Besides the improvement in income, the change in impairment charges was a significant driver of the improvement in profit before tax, as charges for the first nine months amounted to only DKK 0.6 billion, against DKK6.3 billion for the same period last year. The corona-related post-model adjustments we recognised during 2020, however, largely have been kept to mitigate any pandemic-related tail risk. In the third quarter, impairment charges were further down, with a net reversal of DKK 0.2 billion, driven mainly by models.

The result of our Non-core activities improved as the first nine months of 2020 were impacted by losses related to the final exit from Estonia.

Finally, let me touch on our capital position, which remains strong, with a core tier one ratio (CET1 capital ratio) of 18.1% by the end of the third quarter. The risk exposure amount increased only slightly, as the increase related to the implementation of EBA guidelines of DKK 22 billion in the third quarter was partly mitigated by other changes. The total EBA-related increase for the full year is now expected to be around DKK 90 billion compared to our previous guidance of DKK 50 billion to DKK 70 billion. In a joint decision with the FSA, the Pillar II add-ons to be fulfilled by CET1 will be reduced by around 0.5 percentage points in Q4 to 2.5%, as a result of agreed REA increases associated with EBA guidelines.

Slide 4 please. And finally, from our side, we would like to comment on the revised financial outlook for 2021, where we maintain our expectation of a net profit of more than DKK 12 billion. However, changes have been made to some of the individual lines. We still expect total income in 2021 to be higher than the level last year. In our previous guidance we included the sale of our business activities in Luxembourg. However, the closing of the transaction will not take place until the first quarter next year. Total income will, however, include the gain from the sale of Aiia of approximately DKK 150 million.

We have revised the outlook for total expenses, and we now expect total expenses to be slightly more than DKK 25 billion, as a result of higher costs for compliance and remediation of legacy issues. The total expenses include tax-related one-offs of DKK 0.7 billion, of which DKK 0.2 billion will be recognised in Q4.

Underlying expenses are still expected to be lower than DKK 24.5 billion.

In addition, in Q4 we expect higher charges for pension yield tax at Danica Pension, which will be recognised in net income from insurance business.

Impairment charges are now expected to be no more than DKK 750 million, due primarily to lower model-driven impairment charges, as a result of a better-than-expected macroeconomic recovery and overall improved credit quality.

Slide 6 please and back to Carsten.

**Carsten Rasch Egeriis – CEO**
Thank you, Stephan. Now, let us have a look at our 2023 ambitions.

In 2019, we showed this slide when we announced our plan towards 2023. Today, we provide you with an update on where we are in this journey and how we have gradually enhanced our foundation and operational set-up, making us well-positioned to deliver sustainable value creation. We recognise that there are still a number of challenges that need to be addressed, including completing our compliance remediation process, as well as fully regaining our fair share of the retail business in Denmark. We have, however, already seen tangible progress and our operational efficiency and profitability is moving in the right direction towards a return on shareholders' equity of 8.5%-9% by 2023, with line of sight to sustainably delivering a return on shareholders' equity of 9%-10%.

As CEO of Danske Bank, my objectives extend beyond reaching a point-in-time profitability target in 2023. Doing what is right for the bank in the long run is the over-arching principle according to which I steer. This has also been the principle underlying our review of our current plans. Over the past month, it has been extremely important for me to ensure that we had a thorough process with all relevant stakeholders in the organisation, and also that we sufficiently scrutinised all aspects of our business model to properly leverage our strengths and address our challenges. With this increased level of transparency regarding our assumptions and business model, we're confident that our Nordic franchise allows for an RoE level of 9%-10% in a normalised state.

As a result of our dedication to our transformation agenda, we will, despite headwinds, deliver 8.5%-9% in 2023 in a sustainable way, with a line of sight to a further uplift.

Next slide please. As we planned for two years ago, the key focus in 2020 and partly in 2021 was reversing the downward trend we saw at the time. The structural progress made since 2019 has been significant and has laid the tracks not only for 2023 but also for the years to come. We have accelerated our efforts to become a more efficient bank and have set up the required commercial organisation and governance while at the same time fundamentally revamping our development organisation of more than 4,000 people, taking us to the next level in terms of catalysing the digital journey.

These efforts, among other things, have enabled solid progress in more recent quarters, and we have seen the commercial momentum pick up across our segments and continued progress with our financial crime remediation plans, where we're now moving into a business-as-usual operating model for KYC work and see both increased efficiency and quality. This solid progress has only been possible through a stringent focus on prioritisation and execution and by continuously adapting to all the changes happening around us.

Next slide please. As with any long-term plan, there comes a point when you have to review your assumptions and adjust accordingly, and it was clearly difficult to anticipate the extent of the changes that we have had to adapt to. Taking a closer look at what has changed, I think it is obvious that our compliance remediation is significant. As we have grown our capabilities in this area, our understanding of what needs to be done has also developed, and therefore, our scope had grown beyond what we initially anticipated. It is clear as we made progress that the need for further investment in our control environment has been substantial.

Continuing to allocate resources is the right course of action in order to improve the resilience of Danske Bank for the benefit of all our stakeholders. This is a journey that requires thorough effort, and I want to emphasise that it is not an area in which we are willing to make compromises.

Similarly, reversing the negative effect the Estonia cases had on our brand also takes time. Although we continue to have a strong value proposition for all customer segments, our brand is particularly impacted in the personal customer segment in Denmark, and this has also negatively contributed to the growth assumptions of our original plan, as we have not seen the expected growth materialise.There is no quick fix for such a situation. It requires time and it requires dedication. This is something we have also included as part of our commercial priorities, and our enhanced brand and marketing efforts are closely interlinked. We see no other way than to walk the talk, by ensuring that it is clear to each individual customer, especially in the upper personal customer segment and for private banking and business customers, how strong our offerings are.

Lastly, the unresolved settlement of our legacy cases has also resulted in a need to carry additional capital buffers – something we had hoped would have been resolved by now, allowing us to better manage our capital position. As none of these factors will change overnight, we have gradually adjusted our plans to prudently compensate as much as possible, which is now enabling us to execute our commercial plans to continuously provide tangible financial uplift.

Next slide please. Our strengthened position and performance are particularly evident in corporate segments in which we are a leading Nordic wholesale bank and have seen increasing momentum being built up over the years. We have a strong value proposition in place, we are recognised for it, and the momentum is building. From here, we have to sustain the strong momentum for LC&I, building on the high level of capital raising activity in 2021 to date, when our capabilities have been cemented in the market, as evidenced also by our ranking among the top institutions in league tables for a long period.

We are ready to capture our customers' changing preferences for financing solutions, whether this be traditional balance-sheet lending or capital raising, also within green and sustainability-linked products. The strong offerings and expertise that LC&I also support our focus on building momentum in relation to our business customers. In this segment, we see ancillary business continuously increasing, for instance within investments, ECM, DCM and green products. We see tremendous growth potential in this segment, and we have a strong position to capitalise on. Being a leader within sustainable financing in both a Nordic and a global context serves as a good backdrop for supporting our business customers' green transition.

To fully capture these growing opportunities, we will implement an improved service model to cater to the growing demand for more complex solutions that require specialist advisory services, while expanding our self-service solutions for everyday banking and financing needs through additional digital offerings on our District platform, ultimately enabling a more efficient use of resources.

LC&I and business customers have the right toolbox and platform in place to generate a sizeable part of our required income uplift in the period towards 2023.

Moving to our Danish retail business, we have a strong foundation. We have decades of experience and skilled employees, but given recent headwinds, we have struggled to capture our fair share of the growing market. Nevertheless, our offerings and broad value proposition provide a strong platform to build from, and we are very focused on regaining our position in the housing market and improving our trajectory. Knowing we have an immediate need to break the recent years' trend, we have launched a series of relatively simple actions to reduce churn and to leverage our large customer base.

Furthermore, in Denmark and our other Nordic markets, we will build on our growing momentum within investment sales to ensure they remain a key income driver.

Having increased our income from investment activities by 20% over the past year, especially within private banking and personal customers, we believe the foundation is there. However, we remain more ambitious. We will strengthen our investment offerings through specialised advisory services and digital solutions, as well as further embed our sustainability expertise into investment products.

Finally, specifically for our personal customer business in other Nordic countries, we will ensure our partnership agreements are sufficiently profitable and further leverage the additional growth potential these agreements provide through our digital solutions to service customers more efficiently and profitably. Sweden in particular is a market where we see profitability opportunities by further leveraging the steadily growing customer base, and this is something we are already seeing results on.

Later today, my fellow ELT colleagues will go through the initiatives in more detail. However, it should be clear that the sum of all of these initiatives and our recent progress sharpens our business model and provides the necessary uplift of our operational performance.

Next slide please. Accelerating our commercial momentum and enhancing our operational efficiency have been my key focuses taking over as CEO. With our enhanced business model, coupled with momentum in our corporate segments and already launched initiatives, we are on the right track to deliver around DKK 43.5 billion by 2023 on our top line. On the cost side, we will continue to bring down underlying costs in a sustainable way through our focus on digital tools that enable self-service and increase adoption to allow for a better customer experience with lower structural costs. The progress we have already made on digitising our processes serves as a strong enabler for further enhancement, coupled with ongoing adjustment of our organisation and stringent focus on non-personnel costs.

In parallel, the extended scope of our financial crime compliance remediation means an elevated need for resources until 2023. With the current scope and trajectory, we expect to finalise our financial crime remediation by the end of 2023. Subsequently, and then within 18 to 24 months, our financial crime compliance cost level will improve towards a steady state level, broadly in line with our original plan. As a result, we expect total costs to come in at around DKK 23.5 billion in 2023 and thus to keep improving our cost-income ratio throughout the period.

So as a result of our dedicated focus on and continuous prioritisation of enhancing our foundation, we are now well-positioned to execute on our next phase and to reach our profitability potential. It will not happen overnight, but we have line of sight towards a cost-income ratio in the low 50s and to sustainably improving profitability.

Next slide please. So let's take a look at how we arrive at our RoE target. As mentioned, we remain confident in our ability to enhance operational efficiency, and with our current trajectory we have a line of sight to a normalised return on equity of 9%-10%.But let's first focus on getting above 8.5% by 2023.

From our current position, we will see the necessary uplift from the outlined income growth, which, coupled with our structural cost improvements, will enhance profitability by 2023, although we do assume a drag from credit risks as impairments will start to normalise.

That leaves the last component, which is our capital position. Right-sizing our capital position is a key element while factoring in new requirements in a prudent manner, but it is clear that for some time now, we have been operating with a capital position well above our target of 16%. For the purpose of calculating our RoE in 2023, we assume a normalised equity level and a resolution of current uncertainties.

We know however that the timing of when we reach a normalised equity level is subject to uncertainty, but we have made the following assumptions: The first one is we consider our projected equity level for the end of 2021 to be sufficiently prudent and also around the level it should be in 2023. Number two, we remain mindful about incorporating future regulatory requirements, as we always do, and this includes the Norwegian systemic risk buffer and the re-activation of the counter-cyclical buffer. Point three, the vast majority of the REA increases related to EBA guidelines also address the majority of Basel IV and will have been implemented by the end of the year, 2021. And the fourth point, while we have no clarity on the outcome related to the AML settlement, we do assume some Pillar II relief on the back of a potential AML resolution. In addition, along with the Basel IV implementation, we expect that it going forward will lead to a review of our capital requirements in order to avoid double-counting.

So factoring all these things in, we believe that by being well above our 16% capital target, which remains sufficiently prudent, and as a result, with all reasonable and prudent assumptions, the basis for our 8.5%-9% RoE is a common equity level in line with what we expect to end up with in 2021.

Beyond this point, profitability will be further enhanced, as the effects of our commercial initiatives will fully materialise and our AML and compliance costs reach a steady state. As such, we are confident in our ability to sustainably deliver 9%-10%.

So before we open for Q&A, let me make it clear that Danske Bank has a very strong foundation. We have invested materially in our operational set-up, and we are now ready to continue to deliver sustainable value creation.

Next slide please and then, Claus, I will hand over to you.

**Claus I. Jensen – Head of IR**

Thank you, Carsten. Those were our initial comments and messages. We are now ready for your questions. Please limit yourself to two questions, and if you are listening to the conference call from our website, you are welcome to ask questions by email. A transcript of this conference call will be added to our website within the next few days.

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

**Operator**

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

**Jakob Brink – Nordea**

Thanks a lot and good morning. On the absolute revenue target in 2023, could you maybe elaborate a bit on the growth from the current roughly DKK 42 billion level to the DKK43.5 billion? What will be the drivers if you should split this between pricing initiatives and activities/volumes?

**Carsten Egeriis - CEO**

Hi. Morning, Jakob. Thanks for that question. By the way, we will go much more into the machine room on that this afternoon, with our business unit heads. But, roughly speaking, if you look at the DKK 1 billion to DKK 1.5 billion of revenue increase, it is about a 2% CAGR year-on-year, and as we look at the momentum that we are seeing in the business today, the revenue increases will be broadly split by our three key business areas, so LC&I, business banking and then across retail banking, so let us say roughly DKK 0.5 billion – a third coming from each business. It is going to be a mix obviously between what drives those key business areas, but we see it as very much a continuation of the momentum that we are seeing across those three main business areas. Then as I said, we will go into much more detail on it this afternoon.

**Jakob Brink – Nordea**

Okay. Thanks. And I guess just a follow-up on that, you mentioned in your presentation that you will do or have done initiatives to stop the market share losses on mortgages in Denmark. I am just a bit curious what are those initiatives, please?

**Carsten Egeriis - CEO**
Yes. I mean, the Danish mortgage business is clearly very important for us. We see some momentum in the third quarter, so we are seeing a larger net lending and market share in the third quarter. But look, we have a number of initiatives. That includes things like decision in principle or loan 'bevis' (certificate) that we are rolling out, much more focused and a better proposition for younger customers, improving our remortgaging processes, including the digital capabilities around that, slicker credit processes, including how we look at affordability. So, we have a long list of different levers that are in execution as we speak.

**Jakob Brink – Nordea**
Okay, thanks. If I may, just a last one, on costs. As far as I can see from your graph, roughly DKK 600 million to DKK 700 million, or so basically you are increasing the implicit cost target in 2023 by around DKK 1.5 billion since the original plan, but you have also sold MobilePay in the meantime, which I guess you did not know, so maybe around DKK 2 billion. Only DKK 600 million, DKK 700 million of this seems to come from the lower compliance costs, if I read your graph correctly. So, what is the remaining roughly DKK 1.4 billion or so? What kind of investments are we talking about here?

**Carsten Egeriis - CEO**
If you look at the cost-out and you really look at underlying costs between 2021 and 2023, it is probably around DKK 1 billion of underlying costs that we are taking out. That underlying cost is going to come from continuing digitisation and automation of our processes. We have already shown progress on this. We have e-meetings at over 60% now, we have adoption rates across many of our digital tools going up, and that will get more momentum and will allow us to take costs out. We are also going to have some of that underlying cost-out come from compliance, as our Chief Compliance Officer will also talk about later this afternoon. That is about a couple of hundred million. More of it will come in 2024 and 2025, but it is also important. Then we also have a number of remediation cases ongoing right now, both the debt collection case but also obviously the ongoing costs related to Estonia are not immaterial cost-outs that will also contribute to the underlying cost-out between 2021 and 2023.

**Jakob Brink – Nordea**
Sorry, I was maybe unclear. Basically, what I meant was that when you gave the target in the 2019 Q3 report, the implicit cost target for 2023 was around the same level, DKK 23.5 billion, but since then you have reallocated Danica, so now the implicit target is around DKK 22 billion, or it was. Today, you tell us that it is DKK 23.5 billion, so why is it higher by DKK 1.5 billion?

**Carsten Egeriis – CEO**
Stephan, why do you not go through the details on that?

**Stephan Engels - CFO**
Hi, Jakob. Stephan here. Good morning. A very rough bridge. One part is obviously, as you mentioned yourself, a higher compliance cost. Then we have factored in the Swedish banking tax, which is roughly another DKK 300 million or DKK 400 million, and we also expect slightly higher resolution costs, so that covers quite a bit of it. Then let us also be very transparent on this one: we originally in 2019 said low-50s cost-income ratio and for 2023, at least on our way to the 9%-10% of trajectory, we are more like mid-50s cost-income ratio, and that is driven by a number of the topics that Carsten just mentioned.

**Jakob Brink – Nordea**
Okay. Thanks a lot. Very clear.

**Operator**
And the next question comes from the line of Per Grønborg from SEB. Please go ahead.

**Per Grønborg - SEB**
Yes, good morning. I think I will just limit me to a single question at this early stage. Continuing along the lines that Jakob asked into, of the original target, DKK 5 billion in cost reductions, how much have you delivered by now and how much do you expect to be able to deliver by 2023?

**Carsten Egeriis – CEO**
Yes. Hi. Morning, Per. Look I think underlying, and I am not going to go into the exact numbers, but if you look at underlying over the last couple of years, at the top FTE level we have taken roughly 500 FTEs out, and 65% of our cost base is FTEs. Now, if you normalise for compliance, it is probably more like double. So, we have seen underlying cost-out from digitisation and automation, as evidenced by the FTE trajectory and also normalising for the higher level of FTEs we have in compliance and financial crime, which is transitory in nature, as I discussed before. Then also, the extra high costs that we have in relation to other remediation cases. I do not know, Stephan, if you want to say anything further?

**Stephan Engels – CFO**
Yes. Again, it is always tricky to bridge to old assumptions and plans, but let me try to say at least or shed some light on it. One, if we compare the 2019 old 2023 goal with the new 2023 goal, you need to obviously have in mind the additional call it DKK 1 billion for compliance, plus Swedish banking tax and the little topics I just mentioned a second ago. Then you need to keep in mind that the Danica restatement lies between these two numbers as well. If you then look against where have we started and where are we going to end in 2023, then you can see that we have probably a comparable cost take-out of somewhere between DKK 4 billion and DKK 4.5 billion, so we have not really gotten the DKK 5 billion, but in total it is between DKK 4 billion and DKK 4.5 billion, and Claus is probably happy after the call to go through the more specific details, but that is what the rough number is.

**Per Grønborg - SEB**

Per Grønborg: Okay. I will take it with Claus afterwards. Thank you.

**Carsten Egeriis – CEO**
Thanks, Per

**Operator**
The next question comes from the line of Sofie Peterzens from JP Morgan. Please go ahead.

**Sofie Peterzens - JP Morgan**
Yes, thank you. My first question would be on your insurance income. You say that there was an increase in the single premiums due to an inflow of new business customers. How sustainable is this? Is it more like a one-off or should we expect this trend to continue? Then my second question would be on Handelsbanken exiting Denmark. What kind of opportunities do you see here? Is it something that you would consider buying? Do you see customers switching from Handelsbanken into Danske? What are your thoughts there? Then just a final clarification question: on the EBA guidelines, now that you guys were DKK 90 billion off EBA or REA increases from the EBA guidelines, what do you expect for Basel IV? If you could just give the details there. Thank you.

**Carsten Egeriis – CEO**
Thanks, Sofie. Let me take the Denmark business opportunities and then I will hand over to Stephan on the insurance income and the Basel IV. If you look at the third quarter, we do see momentum in the Danish retail business. We have seen increased investment activity. We have seen, as I mentioned before, increasing lending and increasing market share on the housing side. We have also seen a slight increase in our NII quarter-on-quarter, driven by the repricing activities that we have done. If we look at our customer flows, although we still have a negative net flow of customers, it has stabilised and it is at lower levels than it has been before. So, we see momentum. It is clearly not where we would like it to be, and so we are fully focused on continuing to accelerate that momentum. It is about more investment products. It is about better digital services. It is about sustainable products. I mentioned before some of the initiatives that we are doing on the housing front. Those would be some examples.

**Stephan Engels – CFO**
Yes, and on the other two questions, the insurance business indeed has seen an extremely strong year in 2021, also on the back of a number of, call it, first places in league tables in terms of customer returns and the like, so that obviously has sparked interest. Also, the link with our private clients business, obviously driven by the negative interest-rate environment, I guess has probably helped a bit. In general, though, I would make the remark that the result of the insurance business this year is obviously also driven by extremely good returns in the assets under management, so in that sense, it is not a one-off, but I would still think that going forward, the profit levels that we are seeing this year are probably at the upper end of any range that I would expect, so I would not extrapolate that into the future. On Basel IV, I think, also reflecting what Carsten said earlier, the REA increases reflecting EBA guidelines are obviously our way to cater for the Basel IV requirements, so if you look at our capital assumptions for the 2023 capital, that includes our understanding of what a Basel IV requirement would look like. I have to say on the basis of pre the latest release from the European Commission, again we all know that still needs to find its way into legal requirements on a country basis, but at first glance, if that is what it is, it definitely does not hold any downside to the current view we have on the 2023 and thereby starting point 2024 capital for Danske.

**Sofie Peterzens - JP Morgan**
Just to clarify, the Basel IV basically will not have any impact once the DKK 90 billion of EBA guidelines are fully adopted?

**Stephan Engels – CFO**
The implementation of the EBA guidelines basically buffers or mitigates the Basel IV impact, that was also the stated intention in the 2019 plan, to avoid any cliff kind of edge at the end of 2023, when it was originally anticipated Basel IV would start in 2024 – it is now delayed by another year – but the simple message is that the capital ratio of 16% reflects our understanding of a pre-EC release requirement of Basel IV for Danske Bank.

**Sofie Peterzens - JP Morgan**
Okay. And if I may, just a final one. On the cost side, your target is DKK26.6 billion of costs… No, nothing, sorry, sorry. That is fine. That looks fine. Okay. That was everything from my side.

**Carsten Egeriis – CEO**
Okay, no problem. Thanks, Sofie.

**Operator**
And the next question comes from the line of Mads Thinggard from ABG. Please go ahead.

**Mads Thinggaard - ABG**
Yes, thank you. I would like the first question to start with, you are seeing a CET1 level around 16% normalised from I guess above 16% short-term or medium-term before. Do you count in a potential Danish systemic risk buffer in that view, that would be one thing I would like to hear about. Then also on your Nordic strategy, I think Sofie mentioned it before, with looking into Handelsbanken in Denmark, but are you looking at your Nordic franchise? Are you having a strategic review of Norway and Sweden and Finland, or how does that fit into this strategy update? Thanks.

**Carsten Egeriis – CEO**

Yes. Hi Mads. Thanks. We have not calculated any on the speculation on the additional Danish systemic risk buffer, just to be clear on that. On the Nordic strategy, we are fully focused on our Nordic universal banking model, including being a challenger retail bank across our Nordic countries. We feel that we have had good traction on our partnership model over the last years, and we have also seen progress on actually being able to deepen relationships with our customers across Norway and Sweden particularly. However, clearly the growth needs to be profitable, and that is a key focus from my side, from the team's side – to continue to improve profitability with the partnership agreements that we have across the Nordics, and that of course, we are continuing to watch very closely.

**Mads Thinggaard - ABG**
Yes. Now I guess we saw that Handelsbanken, they lost patience I guess with under-performance. How big is your patience with these areas?

**Carsten Egeriis – CEO**
I think we have a very different model in fact than Handelsbanken. I think we also have strong corporate and SME businesses across our Nordic

countries and clearly one-on-one platform. I think you have to be patient to build out a sustainable strong share of wallet and relationships with customers, but clearly, it needs to be profitable and that is what we are very focused on.

**Mads Thinggaard - ABG**
Okay. Then just to come back to the capital question, just to get an overview here, so if we do get a Danish systemic risk buffer and you are not doing a global AML settlement before 2023, then that is a drag compared to your new RoE target, or is it in the kind of span?

**Carsten Egeriis – CEO**
I do not want to speculate too much on that. Clearly, the Estonia case is not something that is within our gift, but we also felt that it was prudent to set our guidance in 2023 also from a comparable perspective with assumption that a resolution has been made, but we are not in control of timing on the resolution, and so that would be speculation.

**Mads Thinggaard - ABG**
Okay.

**Stephan Engels – CFO**
And you can also add by the way, we have included, as we have said, the Norwegian risk buffer completely in the calculation. You can also speculate whether all the pre-requisites that have been publicly aired, including the full introduction of the CRD5 will really happen by the end of the 2023, so I think that, as always, there are so some pros and cons, some threats and opportunities. Let us see.

**Mads Thinggaard - ABG**
Okay. Okay. Fair enough. Thank you.

**Carsten Egeriis – CEO**
Thanks, Mads.

**Operator**
And the next question comes from the line of Jacob Kruse from Autonomous. Please go ahead.

**Jacob Kruse - Autonomous**

Hi. Thank you. Two questions, firstly on the capital levels. The DKK 90 billion RWA inflation from guidelines – could you just say how much of that was already in numbers by the end of Q3? I found the language a bit difficult to follow in the interim report there. Secondly, on cost, you say you have taken out about 500 staff. I think the implied levels for the previous plan was closer to 5,000 staff in the back office – at least that was my understanding of it. So, when you say you have another DKK 4 billion to DKK 4.5 billion of costs to be taken out, does that still mean that for the next couple of years, you are looking at very significant staff reductions at the bank? Thank you.

**Carsten Egeriis – CEO**
Yes, I mean, let me just take the cost question and then, Stephan, you can add both on that and the capital levels. As I said before, I mean, that is 500, but the actual number, if you normalise for the compliance FTE, is quite a lot higher. Also, if you then look at FTEs out to 2023, we will continue to see – and that is going to be a natural adaptation to increased automation, digitisation and our customers using the various digital tools that I also spoke about before – you will see a natural reduction in FTEs. I am not going to speculate on the number that you mentioned. That FTE number is not something that I recognise. Stephan?

**Stephan Engels – CFO**
Yes. On the REA inflation, the guidance for the year consistently has been between DKK 50 billion and DKK 70 billion of REA inflation, and keep in mind that was REA inflation basically, among other things, on our way to Basel IV or Basel III final framework. The new guidance is DKK 90 billion for the year, but we also have a Pillar II relief for that as an exchange, as I have mentioned in our speech.

**Jacob Kruse - Autonomous**
Yes, but you say in the interim for the first nine months of 2021 you saw REA increase by about DKK 18 billion due to the EBA roadmap, so does that mean we have DKK 72 billion? That sounds wrong, because I think you did more than that in the first half of the year, so just how much is the Q4 REA increase to get to DKK 90 billion?

**Stephan Engels – CFO**
It is about DKK 30 billion. So, you take the DKK 50 billion to DKK 70 billion and the midpoint is roughly DKK 60 billion, which is what we have been trailing on, so it adds another DKK 30 billion.

**Jacob Kruse - Autonomous**

Okay, you did DKK 50 billion to DKK 70 billion in the interval.

**Stephan Engels – CFO**
Yes.

**Jacob Kruse - Autonomous**
Okay. Thank you.

**Carsten Egeriis – CEO**
Thanks, Jacob.

**Jacob Kruse - Autonomous**
Thank you.

**Operator**
And the next question comes from the line of Martin Gregers Birk from Carnegie. Please go ahead.

**Martin Gregers Birk - Carnegie**
Thank you. I am just sort of tagging along the lines of previous questions. I mean, I guess you addressed both your Danish mortgage market, which you again this quarter show another loss of market share. Is the key problem here not price, that you have a big competitor, which is significantly cheaper on all products than you are? Then when you look at your Nordic personal banking, I guess sort of this topic on cross sales, that is a topic that we had talked about since 2017. It has not worked so far. Why is that going to work going forward?

**Carsten Egeriis – CEO**

Yes. Thank you, Martin. On Danish mortgages, you are right, we are still below our natural mortgage share, but as I mentioned, we have actually been increasing our mortgage market share versus the first couple of quarters in Q3. I do not believe that it is only a price game. I believe that it is about "time to yes", it is about fulfilment process, it is about the digital tools, it is about what kind of total bank relationship and experience that you can create, so of course price is important, but other things are also important. On the Nordic cross sales, as I mentioned before, we have seen progress in cross-sale activity. We have seen progress in increasing, for instance, investment sales and ancillary income across Norway and Sweden. And as I mentioned before, it does take time, and I understand and appreciate that we have talked about it since 2017, but we will accelerate that and we will do it with a very, very key focus on doing it from a profitable perspective. That is a must.

**Martin Gregers Birk – Carnegie**
Okay. Do you think it is realistic that Danske Bank in the personal customer Nordic markets is going to deliver returns similar to the returns generated by the incumbent banks?

**Carsten Egeriis – CEO**
I think that over time, if the partnerships, the digital tools and the value proposition is there, that it is entirely feasible to have a digital retail model, which is competitive on returns to the incumbent banks.

**Martin Gregers Birk – Carnegie**
Okay. So, is that a key argument for being in those markets, that you need to deliver returns similar to the incumbent banks?

**Carsten Egeriis – CEO**
Yes, that is a key requirement.

**Martin Gregers Birk – Carnegie**
Okay, okay. Thank you. And just maybe a quick question. I do not know if I understood this correctly, but your Pillar II add-on that you assume should go away before 2023, does that also mean that the AML case will be so to speak done and dusted by 2023, or how should I think about that?

**Carsten Egeriis – CEO**
No, as I said before, the way you should think about it is we have no control or no insight as to when the case will be resolved, but for the matter of having a comparable RoE target for 2023, we are assuming that that Pillar II requirement can be taken out.

**Martin Gregers Birk – Carnegie**

Okay. Okay. Okay. Very clear. Thanks.

**Carsten Egeriis – CEO**
Thanks, Martin.

**Operator**
And the next question comes from the line of Antonio Reale from Morgan Stanley. Please go ahead.

**Antonio Reale - Morgan Stanley**

Hi. Good morning, everyone. It is Antonio from Morgan Stanley. I have three questions please, and apologies if they have been addressed already. I had some connection problems. The first one is on NII. So, if I look at your initiatives, back at the beginning of the year you changed the threshold for negative rates on deposits from retail customers, and you have removed the threshold also on deposits from corporates. Then you have taken more initiatives in July and repriced deposits further, and I think you got it for a cumulative of DKK 500 million for the first measure, another DKK 250 million for the rest of the year, so DKK 750 million positive contribution on NII from repricing of deposits, which pays down sort of the DKK 20 billion deliverable in NII in the first nine months, implies quite a sharp underlying NII drop, of about 4% year-on-year. Can you help us understand better what are the main drivers of such a large drop, and how much of that you think you can recover next year? That is my first question. My second question is on costs. Maybe you have addressed this, but can you remind us already how much of your AML remediation expenses are included in your DKK 25 billion-plus guidance for this year, and how do you see that progressing going forward in 2022 and 2023? If I remember right, I think you had something like DKK 3 billion or so of Danish krone costs related to AML. What are they now and where is that going in your expectations? And very lastly, we have seen a number of banks of course announce a special distribution to shareholders. Can you remind us how shall we think about the mix of dividends and buybacks going forward, and how do you balance retaining the right amount of capital to provide for AML uncertainty without the potential capital headwinds you have discussed? Thank you.

**Carsten Egeriis – CEO**
Yes. Hi Antonio. Thanks. Let me take these, and then I will ask Stephan to come in on further. On NII, look the positives are as you mentioned them. Then the offsets to that are: one, reducing demand for credit, so you do see the credit book stable, slightly decreasing in some of our retail and business banking businesses, and then at the same time, you see margin compression because of reduced higher-margin bank lending and more, for example, lower LTV lending or longer-term fixed lending at lower margins. So basically, that is how you should think about it, that you get tailwinds from the deposit repricing, but you get headwinds from reduced lending and then margin compression and mix. If I look ahead, and we also just executed updated deposit repricing last week, as you saw, if I look ahead, we will continue to have tailwinds on deposit repricing and that is a continued focus also on our LC&I business, and then we do believe that credit demand will pick up as government guarantee schemes and other things like that will fall away and therefore, business lending demand will pick up. At the same time, I also believe that that margin pick-up would be evident in our retail lending business, given the market dynamics that we see. Then the second question on costs on AML, we will in fact show a more detailed slide this afternoon with our Chief Compliance Officer, just explaining the compliance cost trends. They are at a higher level than what we had anticipated, as mentioned before, and those higher levels will stay in 2022, come slightly down in 2023 and then will normalise towards 2024 and 2025, and you will see a detailed page on that I believe in the presentation decks sent out and also what we will discuss this afternoon. And then on capital distribution, we continue to maintain a 40%-60% dividend policy, and we are not at this stage commenting on any mix between that capital distribution or foresee any difference in that policy.

**Stephan Engels – CFO**
It is fine.

**Antonio Reale - Morgan Stanley**
Okay, thank you.

**Claus Ingar Jensen - Head of IR**
Operator can we have the last question, please?

**Operator**
The last question comes from the line of Riccardo Rovere of Mediobanca

**Riccardo Rovere – Mediobanca**
Thanks. Thanks for taking my question. Just a couple, if I may. First of all, can you shed a little bit of light, when you provide us with guidance for 2023 revenues and costs, what kind of rates do you expect over the next couple of years, and inflation too, especially wage inflation? The second question I have is on when I look at slide 11, when you give the capital, when I see DKK 170 billion equity, which should remain more or less the same, but in the meantime, in the grey box, you also say that RWA – or hold it for requirement, it is not clear to me – should also take into account Basel IV. So, just for me to understand, your common equity tier one today is 18%, if I understand it correctly, should go to 16%. That should bring the equity down, but in the meantime, your risk weighted assets, because of the EBA guidelines, and I do not know about Basel IV implementation, will go up and the two things will balance each other. Do I get it right in looking at that slide? Thanks

**Carsten Egeriis – CEO**
Thanks, Riccardo. Stephan, do you want to take the capital question?

**Stephan Engels - CFO**
I hope I got it right. So, there are two messages here. One is if you look at the capital ratio, we are going to go down, or we see a normalised level – I think that is the more proper way to phrase it – of 16% as our CET1 goal, and that includes on the regulatory minimum requirement the Norwegian risk buffer as well as the projected development of the counter-cyclical buffer. So, that is one. Secondly, if you talk about what does it mean at nominal levels, it means that we will probably from growth of the lending book see some REA inflation, but we do believe that at the end of this year, we have basically implemented REA inflation from implementing EBA guidelines. There are little bits and pieces to be done on models and other stuff, but in principle, we arrive at in 2023 with our normalised capital assumption, it is something that covers all the at least more or less known additional capital requirements, and also is reflective of Basel IV. And on triangulation for the nominal level, we are basically around the same DKK 170 billion of equity that we are right now. Then, you can ask the question how to get there, and that is also on page 11. There is obviously in this normalised model excess capital, but, as Carsten just said, that is more a post-settlement discussion rather than a pre-settlement discussion.

**Claus Ingar Jensen - Head of Investor Relations**

Then on your first question, Riccardo, on the assumptions, we have assumed unchanged rates, so basically as is, including an inflation which is basically wage inflation of around 2.5%. So, no artificial tailwinds are included in the planning.

**Riccardo Rovere – Mediobanca**
Thank you. Thank you very much. Very clear, thanks.

**Carsten Egeriis – CEO**
Very good. Then thank you all for your interest in Danske Bank, for your questions this morning. As always, you can reach out to Investor Relations if any questions, and then I hope to see many of you this afternoon in our discussion with some of my ELT members. So, thanks for that, and hopefully see you this afternoon.