Conference call

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Investor Relations

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Claus Ingar Jensen – Head of Investor Relations

Thank you, operator and hello everyone. Welcome to the conference call for Danske Bank's financial results for the first nine months of 2022.

Please be aware that due to the company announcement no. 15 from this morning, this call replaces the conference call planned for Friday morning.

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

In today's call, we will present Danske Bank's financial results for the first nine months of 2022.

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, feel free to contact the Investor Relations department if you have any more questions.
I will now hand over to Carsten.

Slide 1, please.

Carsten Egeriis – CEO

Thanks Claus.

I would also like to welcome all of you to our quarterly conference call, which we host a day before scheduled due to the sizable provisions related to primarily the Estonia matter which we have booked with effect in the third quarter.

I will address this a little bit later in this presentation, as I will start with comments related to our operating environment and our financial performance.

Back in July, when I had the opportunity to address the bank's performance for the first half of 2022, the background was a high degree of geopolitical and macroeconomic uncertainty. Unfortunately, we have not seen any changes to the better during the last quarter as inflation has continued upwards. Despite prices for some energy sources starting to come down, they fall from historically very high levels, and we only have little visibility for the future, not only for prices but also from other disruptions, as the recent and unfortunately on-going geopolitical tensions clearly show.

However, overall activity in the Nordic societies remains relatively high, despite very low consumer confidence. Employment levels are holding up well despite signs of slowdown in specific sectors and a negative economic outlook. This translates into a continuation of strong credit

quality and low impairment charges, which we will comment on in more detail later in this call.

Despite the turbulent environment, we have seen good commercial progress as evidenced by continually robust lending growth of 7 per cent compared to last year and a derived positive impact on our core banking income, driven by NII up 8 percent compared to last year. We have been focussing on a stringent execution of strategic pricing initiatives, and higher central bank rates have supported our efforts to partly re-establish deposit margins.

The lending growth is also reflected in our market shares, as we continue to see relative improvements within different segments.

Our business activities within trading and insurance that are closely linked to the developments in the financial markets have been impacted by very difficult market conditions due to a significant repricing of almost all assets. This repricing has happened over a relative short period of time and with a magnitude we usually only know from stress test scenarios. We took corrective actions for our risk appetite in our Rates & Credit business over the summer, and despite this, we are happy to see an improvement in performance to an expected level in the third quarter. However, our insurance business in particular continues to be impacted from negative valuation effects despite good development for the underlying business.

We have also invested a lot of efforts in making progress on our sustainability agenda and with special focus on maintaining our position as a market leader within issuance of green bonds. Another proof point has been the recognition we have received from Position Green as being outstanding in terms of sustainability reporting – we were one out of only seven listed companies in Denmark.

In respect to expenses, we continue to make progress on lowering underlying costs, driven by continued efficiency and digitalisation. Compared to the level two years ago, the number of FTEs is down 8 per cent when excluding AML/Compliance.

For the third quarter in isolation, our total expenses include one-offs reflecting good progress towards final solutions to the bank's legacy cases.

Firstly, at the end of August, we communicated an accelerated solution to the debt collection case, where we have set the debt of 90,000 customers to zero. The solution entailed a one-off cost of 600 million and a one-off impairment charge of 650 million.

Secondly, as it appears from the company announcement published earlier today, we have made progress in our discussions with the authorities in relation to the Estonia matter, which I will now comment on in more detail.

Slide 2, please.

On the 27th of April, we announced that we were in initial discussions with U.S. and Danish authorities on a resolution of the Estonia matter. Today, we are now at a stage in our discussions where we reliably can estimate the total financial impact of a potential resolution.

The estimate amounts to 15.5 billion and includes the provision of 1.5 billion recognized in 2018, hence the additional provision amounts to 14 billion, which is fully recognised in the financial result for Q3.

On that basis, the Board of Directors have decided to cancel the remaining dividend from 2021 and retain accrued dividend for 2022, hence no dividend for 2022 will be paid in 2023.

The isolated effect on the CET1 capital ratio from the additional Estonia-related provision is 1.7 per cent and the CET1 ratio now stands at 16.9 per cent. The minimum regulatory capital requirement reflects a release of the Pillar 2 add-on of 7.5 billion as a result of the provision made and on the basis of a dialogue with the Danish FSA.

Our dialogue with the authorities on the final resolution continues, and while there is still uncertainty around timing and whether a resolution will be reached, we are working towards a resolution before the end of the year. At this stage, we are not able to comment further on details for a potential final resolution.

Based on the additional provision for the Estonia matter and a goodwill impairment charge in Danica, we revise our net profit outlook for this year from 10 to 12 billion to a net loss better than 5.5 billion, which I will comment on in more detail at the end of this presentation.

Slide 3, please

At our Personal Customer business unit, we continue to see positive traction towards strengthening our Danish retail position. Progress on our legacy cases should support our efforts even further, but we are already seeing improving customer flows, and for some of our key segments, we have seen a net inflow of customers. In terms of market shares in RD, we see the upward momentum in front book shares continuing, tracking 2.6 percentage points higher than a year ago with a clear positive trend through the past quarters. Our bank lending market share has increased to 19.5 per cent, which is more than one percentage-point higher than a year ago.

Together with the benefits from improved deposit margins, this led to a 22 per cent increase in NII in this quarter alone at PCDK, which is supporting the significant uplift in profit before impairments.

Within PC Nordics, we continue our focus on profitable growth through utilising our partnership agreements. This will further support our strategy of enhancing profitability across the region, and our cross-selling efforts are already becoming evident in the 10% year-on-year uplift we are seeing for fee and trading income.

For our Business Customers, we have continued to develop the close dialogue with our customers as they navigate the current uncertainties, and we are pleased to see solid volume gains materialising across the Nordic region. Our ability to support our customers with transition financing and credit facilities along with more ancillary offerings underpin our position as a focused relationship bank that can leverage our expert advisory services in times of turmoil. And at the same time, the broad mix of services are contributing to our resilient business model where in particular cash management and FX products have shown a strong development this year, underpinning a 9% year-on-year uplift in ancillary income, which is also a result of our fee pricing initiatives.

So while the operating environment is certainly changing, and our customers within both Personal and Business Customers require a whole new aspect to their financing needs, our universal banking offerings and prioritised digital solutions have further supported our value proposition. By leveraging these further in the period ahead, I am confident that we will continue to capture market shares based on profitable growth and provide an additional uplift to our efficiency and financial performance.

Slide 4, please.

Let us then move on to walk you through LC&I.

It has been a busy year for LC&I with high customer activity. We experienced strong demand for our lending, advisory and risk management solutions as we supported our customers in managing this uncertain environment.

Our strong position within advisory and expertise, coupled with the significant demand for credit, enabled us to support customers with more than DKK 60 billion in additional lending so far this year. Measured in relative terms, lending volumes at LC&I increased 33 per cent compared to the level the year before. Overall, our customers have drawn on new and existing facilities on the backdrop of a challenging operating environment given for instance the rapid increase in energy prices and challenging access to capital markets. We have seen growth across our Nordic franchise and in Denmark and Sweden in particular.

The strong growth in lending volume as well as higher deposit margins were key drivers for NII, which increased 13 per cent year over year. Notwithstanding, the increase in NII, total income in the first nine months of 2022 was down 16 per cent from the same period last year as a result of lower fee income and significantly lower net trading income.

The decline in fee income of 9 per cent from last year stemmed from lower capital markets-related activity, primarily reduced ECM activity. The slowdown in activity was less pronounced within Nordic sustainable bonds issuance and loans, where we maintained our leading league table position in the Nordics. Higher net fee income from M&A advisory and corporate everyday banking services, such as cash management, mitigated lower income from capital markets.

The turmoil in the financial markets had a significant impact on our trading activities. As a leading Nordic fixed income house, we supported our customers through the volatile periods. In the third quarter, trading income recovered based on robust customer activity and came in at a more normalised level as market conditions improved and despite initiatives taken in the second quarter to lower risk utilisation.

Our asset management activities saw an impact from adverse financial market conditions, which led to a decline in assets under management. However, increased fee income from improved margins in Asset Management mitigated the negative effect.

Danica

Next, I will focus on our insurance activities.

While the persistently turbulent financial markets have negatively impacted the performance in Danica Pension in general, the underlying business continues to be sound. We note that as part of our continued focus on ensuring profitability after a period of high growth, we have seen a decrease in premiums recently, albeit from a high level. Moreover, we continue to see a more positive development in the health & accident business than expected - with fewer claims and people returning faster to work. In 2022, claims have remained at a stable and lower level compared to previous years.

The result for the first nine months of this year and the result for the third quarter came in significantly lower than the result for the same period last year and for the preceding quarter, respectively. The turbulent financial markets with rising interest rates and rising inflation led to negative valuation adjustments and therefore had a negative impact on the investment results on life insurance products where Danica holds the investment risk as well as on the investment result in the Health & Accident business.

Please note that the result for the first 9 months included the gain from the sale of Danica Norway of 0.4 billion and a product related one-of charge of 150 million booked in the third quarter.

Furthermore, a goodwill impairment charge in Danica of 1.6 billion related to a higher applied discount rate is booked as a separate line item in our income statement.

Slide 5, please and over to Stephan

Thank you, Carsten.

I will now go briefly through the reporting lines in the income statement and reserve comments that are more detailed for the following slides.

As Carsten just mentioned, we saw good progress for our core banking activities in the first nine months of the year where a strong commercial momentum led to an increase in lending volume primarily with our corporate customers followed by execution of pricing initiatives.

Income from core banking activities performed well and was in line with expectations. NII was up 8 per cent from the same period last year, as deposit-repricing initiatives and higher volumes more than mitigated the margin pressure from lending activities. The improvements accelerated in the third quarter where NII was up 9 percent from the preceding quarter as higher central bank rates led to further repricing of deposits.

Net fee income was in line with the level in the same period last year, when fee income benefited from strong capital market activity and one significant ECM transaction in particular. The slowdown we have seen in the first nine months is primarily due to lower activity in capital markets business, however, the effect is almost fully mitigated by higher activity-related income from the reopening of societies post the pandemic. When comparing Q3 with the preceding quarter, fee income came in lower primarily due to lower investment activity.

For net trading income we have seen an impact from volatile and difficult financial markets on our rates business. Moreover, negative valuation effects added to the decline in income. In the third quarter, the development in our rates business reversed income to a more normalised level partly as a result of the recalibration of our risk appetite we implemented at the end of the previous quarter. However, due to higher interest rates we continued to see negative valuation effects, also in the third quarter.

The difficult conditions in the financial markets had a significant impact on our insurance business. As Carsten mentioned earlier, the underlying business at Danica performed well with high premiums and a modest level of claims. However, net income from insurance business came in significantly lower due to negative investment results on life insurance products where Danica has the investment risk. The result for first nine months included one-off effects, as Carsten just explained.

Other income amounted to 1.2 billion for the first nine months, including the gain of 0.4 billion from the sale of our business activities in Luxembourg in Q1.

Operating expenses, excluding the additional provision for the potential resolution of the Estonia matter, came in 4 per cent higher than the same period last year. The increase can mainly be attributed to the solution to the debt collection case, which entailed a one-off cost of 0.6 billion recognised in Q3. Remediation costs remained elevated during the first nine months, however, we continue to improve our underlying costs quarter by quarter, which I will comment on in more detail later.

Loan impairment charges reflects continued strong credit quality and amounted to 0.4 billion in Q3, slightly up from Q2. The charges for the third quarter include the one-off effect of 0.7 billion from the debt collection case. Excluding this, we saw net reversals in the quarter driven by individual customer exposure and despite an increase related to macroeconomic adjustments. We continue to have sufficient post-model adjustments in place, which I will also comment on later.

Finally, the tax line where the effective tax rate reflects primarily the non-deductible status of the goodwill impairment charge and the additional provision for the potential resolution of the Estonia matter.

Net profit for the period thus amounted to -9.2 billion, down from 9.3 billion for the same period last year.

Slide 6, please.

Now let us take a closer look at the development in net interest income for the Group.

Overall, NII saw a healthy improvement of 8 per cent in the first nine months of 2022 from the level in the same period last year and 9 per cent quarter on quarter driven by deposit margins as well as the robust lending volumes we highlighted earlier. The positive effect was partly countered by various lending margin effects.

On the deposit side, the uplift was driven by the pricing initiatives we did when navigating in the negative interest rate territory as well as recent changes when the ECB and the Danish Central Bank moved into positive territory, which has allowed us to partly re-establish deposit margins.

On the contribution from lending, we continue to see the positive effects from volumes particularly due to strong demand from our corporate customers. This effect was however, offset by various margin effects, including delay effects in our Nordic business, lower margins for Danish mortgage loans driven by lower LTVs, and an impact from credit facilities that had been floored at zero.

And finally, the credit demand we have seen recently includes liquidity facilities to some of our larger and better rated corporate customers, which is contributing positively, but at the same time has lowered our average lending margin.

Given the level of uncertainty in the financial markets and the associated elevated credit spreads, as well as the status of the Estonia matter, we have largely refrained from issuing new funding outside covered bonds. We remain comfortable with our overall funding position, and we are confident in our ability to access the capital markets.

Finally, the decision we saw from the ECB a few hours ago to raise its policy rate by another 75 basis points will be an additional tailwind to NII going forward.
Our sensitivity to changes in interest rates beyond what we have seen today is comparable to our previous guidance. We expect a positive impact of approximately 800 million per 25 basis points based on a parallel shift of the yield curve across all currencies.

Slide 7, please

Next, I will comment on our fee income development.

We report slightly lower fee income, down 2 per cent year on year, as the volatile conditions in the financial markets have continued to impact our capital markets-related activities. However, please note that our income last year saw a positive contribution from a significant landmark deal. Excluding this deal, fee income is largely in line.

In this environment, we were pleased to note that our diversified business model enabled us to balance different trends for fee income during the year. The lower capital market-related fee income and investment fees were to a high degree mitigated by activity driven fees, which were up 22 per cent, and lending fees, which were up 9 per cent year-over-year.

When compared to the previous quarter, the trends in Q3 for almost all fee categories were essentially the same as my previous description. In the third quarter, activity driven fees were up 4 per cent, whereas fees related to lending and guarantees slipped slightly due to slowdown in housing market activity.

Slide 8, please.

Next, let us turn to the development in trading income.

As mentioned previously, the high volatility in the financial markets and the general repricing of almost all assets we have seen for most of the year had an adverse impact on trading income.

The negative impact came primarily from our Rates business, with the effect being partly mitigated by our FX business that continues to develop positively.

Initiatives taken in the second quarter to lower risk utilisations had the desired positive effect in LC&I in Q3 where income recovered to a more normalised level.

Income from strong customer activity in the banking activities was up almost 45% since last year and maintained good momentum compared to the previous quarter.

The result from other activities was negatively impacted by value adjustments related to an interest rate hedge in Northern Ireland. However, this should be seen in the context of strong uplift in NII in Northern Ireland.

Slide 9, please,

Now, let's take a look at our operating expenses.

Total costs in the period were clearly affected by the additional Estonia-related provision and the goodwill impairment charge in Danica. Outside of these effects, our operating expenses came in higher compared to last year, partly explained by expected elevated remediation costs that also led to our accelerated solution we announced earlier in the quarter. Increased Swedish resolution fund contribution and IT costs driven by expenses of a one-off nature also drove costs higher compared to last year.

Expenses in the third quarter were also impacted by the provision and the goodwill impairment charge and furthermore included the 600 million one-off we took this quarter in relation to debt collection compensation. Looking at our underlying cost development in the third quarter, we continued our efforts to reduce complexity, and outside the aforementioned one-offs, our cost base was down 4 per cent despite an increase in IT costs, which was caused by higher energy prices for servers. The improvement was driven by continued progress on our underlying staff costs as a result of further FTE reductions. The FTE count has been reduced by 8 per cent since the peak in 2020 when you disregard the planned AML upstaffing. We have, however, started to see an impact from salary-related inflation in parts of our businesses as well as from indexation of supplier contracts.

We continue to allocate significant resources to our AML/Compliance agenda in order to remain on track towards completion of our FCP plan by 2023. In the third quarter, we saw a decline in costs from a high level in the second quarter.

Continuing our efforts to improve operational efficiency is increasingly a key focus area for us, given that we must foresee an increase in inflationary pressure that will be a headwind going forward.

No doubt, the level in 2022 has been higher than initially anticipated, but it has been driven by our deliberate decisions, and it is in many cases characterised by items of a one-off nature that put legacy cases behind us and enhance the foundation to meet the cost/income targets we have outlined.

Slide 10, please

Now, let's have a look at our credit portfolio and impairment trends.

While the deteriorating macro outlook and higher interest rates are expected to impact both corporates and households, the quality of our lending book remain strong. We have seen limited downward migration in exposures between stages, and the share of net exposure in stage 3 continues to trend down as single-name deteriorations remain very modest.

As such, net new impairments would have led to reversals for the quarter if it hadn't been for the one-off charge of 650 million we previously announced would be booked in Q3.

The total of 368 million booked in Q3 equates to an annualised loan loss ratio of 8 basis points, which also includes additional macro model charges of 150 million. These were driven by adjusted scenarios to reflect the lower growth expectations. We are generally conservative in

our application of macro estimates in our models and this also includes a severe recession scenario.

Our post-model adjustments were kept at 6 billion despite the outcome of our debt collection case, and this provides an additional cushion equivalent to around 4 years of normalised loan losses.

So looking ahead, we remain comfortable with the composition of our balance sheet, including the sound household finances that are further supported by very low LTV levels. Headwinds in the corporate segment could naturally be expected, but the financial resilience of our corporate clients provides comfort at this point. In addition, we can mitigate future uncertainties and tail risks not visible in our portfolio or captured through our models with the sizeable provisions we have made through our post-model adjustments.

Slide 11, please

On this slide, I want to focus on our capital position.

Our reported CET1 ratio was impacted by the additional Estonia-related provision we highlighted in the beginning of the presentation.

The impact on capital was, however, mitigated by the decision to cancel the remaining portion of the dividend for 2021 as well as the retained accrued dividend for 2022.

Furthermore, the CET1 ratio benefitted from lower market risk REA in general including recalibration of risk appetite and the associated capital consumption, while the Credit risk REA was stable in the quarter as indicated on the previous slide.

Finally, the deduction related to Danica improved after the volatility impact we saw in Q2 and it further benefitted by the regulatory treatment of the goodwill impairment charge in the capital deduction.

With the above in mind, our reported CET1 ratio now stands at 16.9% at the end of Q3. The release part of the Pillar 2 capital add-on of 7.5 billion was partly off-set by the expected increase related to the countercyclical buffer reactivation.

We remain comfortable with Danske Bank's solid foundation and healthy buffer to current and future regulatory requirements.

Slide 12, please

And then, I would like to comment on our outlook for the remaining part of the year.

We are revising the outlook due to the booking of the additional provision for the Estonia matter and the goodwill impairment charge. As you will see from our financial results, which we have presented today, our performance is according to plan and reflect good activity and continued progress for our business despite the adverse developments in the financial markets we have seen this year.

The effect from the provisions entail a decline in the expected net profit from between 10 to 12 billion to a net loss better than minus 5.5 billion, of course subject to uncertainty from macroeconomic conditions and from financial markets in particular.

The revised outlook includes the gains from MobilePay, Danske Bank International and Danica Norway.

For 2023, we maintain our ambition for a return of shareholders' equity. As usual, we expect to provide more details on our financial outlook for next year in connection with our full-year report in the beginning of February.

And with that I will hand it back to you, Claus.

Claus I. Jensen – Head of Investor Relations

Thank you, Stephan. Those were our initial comments and messages. We are now ready for your questions, and please limit yourself to two questions. If you are listening to the conference call from our website, you are welcome to ask questions by email. And the 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

Thank you. To ask a question, you will need to press star one and one on your telephone and wait for your name to be announced. Once again, please press star one and one on your telephone to ask a question. We will now take our first question, please stand by. And your first question comes from the line of Jakob Brink from Nordea. Please go ahead, your line is open.

Jakob Brink (Nordea): Thanks a lot, and good afternoon. Just on cost if I may start there, just to get a bit of sense of where you are in relation to efficiency measures also going into next year. So, now I guess the target

for this year is around 26.1 billion DKK; 600 DKK is related to the debt collection case and also, if I look at your initial guidance early this year, it was 1.5 billion DKK reduction you expected from '22 to '23. Is that still the case and, if so, we would be down to around an underlying level of 24 billion DKK? How much inflation should we be adding to that, 4%, 5%, 6% or what are your – what are we looking for in 2023, please? That was my first question.

Stephan Engels: Yeah, maybe if I can pick up directly on that. Our original assumption on how to, how cost would look in 2023 included an inflation assumption of roughly 500 million DKK. Again, we need to look at the stuff in more detail and we are still trying to get to grips with the matters going on. But I think there is obviously some clear signals already now, both on the indexed supply agreements, wages, and other things, that will likely lead to some more pressure on that matter. Whether we can fully mitigate these with additional cost measures is something that we are currently in discussion. But I think that basically puts it where we are right now.

Jakob Brink: Okay, so but the on-built, sort of the, let's say, okay, so at least your starting point efficiency measures still stand but they might be larger, that's what you're saying. And then, what we need to do, you have put in around 2% cost inflation it sounds like. So, if I believe in 5, then that would be the difference. Is that how to look at it, or has anything else changed?

Stephan Engels: I would think that given that our main cost driver obviously is staff cost and let's call it 60%, I would more think that we are, if you net for FTE development, more looking like a 4 – 5% inflation assumption in our original bridge that we gave to you. And that is something that we need to look at now. Again, the aim has to be to mitigate as much as we can. Again, it needs further detailed analysis. But, let's be honest, I think we all understand that there is a bit of an inflationary pressure that is, at least, partly out of control. And it remains to be seen how quick we can react to these things.

Jakob Brink: Okay, thank you.

Stephan Engels: If I may add, I think our cost/income ratio ambition and that is, I think, maybe also important in this context, our cost/income ratio ambition clearly remains completely the same as before.

Jakob Brink: On net interest income and loan growth, especially in LC&I, could you maybe give us a bit more detail about the sustainability of the growth? How long is the lending you've got on the books? It also looks like, if I just try to calculate the margin on the new lending, it seems to be somewhat lower than the back book, is that correct? And is it a mixed change, or it is just that it's lower-risk lending that has come onto the books? And then, maybe lastly, if you can give some indication on what sectors the growth has come from?

Stephan Engels: It is mainly a reflection of better credit quality and lower duration drawing on revolving facilities. Some of it is obviously a reflection of relatively unattractive bond markets, at least for some of our customers. If that would move out once capital markets are either opening again or the customers decide to go there, then, basically that part of the income line would probably move from NII into capital market related fees. So, in that sense, we are looking at this with quite a level of comfort.

The other one, sorry, was, the second question you had, sorry?

Jakob Brink: Just what sectors, I guess you partly did explain that it was due to bond markets not functioning, but can you say anything more? Energy, private equity or what, real estate?

Stephan Engels: I think, I would say the usual suspects. Energy is definitely one of them, but it goes well across our corporate book. So, we see that as being something that is still a reflection of good activity and good economic underlying, yeah, activity in the customer base.

Jakob Brink: Okay. Very clear, thanks a lot.

Operator: Thank you. We will now go to our next question, one moment please. And your next question comes from Sofie Peterzéns from JP Morgan. Please go ahead, your line is open.

Sofie Peterzéns (JP Morgan): Yeah, hi. Here is Sofie from JP Morgan. So, my first question would be on your rate sensitivity guide and on the pre-call that you had a few weeks ago, you guided that NII would be up around 330 to 340 million DKK in 2022 and you could have a two-month impact in the third quarter from this. So, not net interest to income is up around 500 million DKK quarter on quarter, I know you've maintained your rate sensitivity guidance unchanged going forward, but I am just wondering, why such a big, or how should I think about the big difference? Because if I take two months from 340 million, it is roughly 135 million, but your NII, which is mostly outside the better deposit margin was up 500 million quarter on quarter. So, that would be my first question.

And then my second question would be, you show in one of your slides that you had 3,600 employees working with AML, but could you just remind us how large your AML and other kind of related costs are to the Estonia case have been so far year to date? Thank you.

Carsten Egeriis: Thanks, Sofie. Carsten here. I am not sure I understood the entire question on AML but let me give you a shot. I mean, we've invested, of course, significantly in AML and compliance and we have said that AML related costs would flatten out this year and into next year at around 2.2 – 2.3 billion and then that they would normalise at somewhere between 1.5 – 1.6 as we go out in 2025. And we continue to feel comfortable about that plan. And a significant amount of that cost reduction will, of course, come from FT reductions in line with sort of the process improvements, digitisation, and transaction monitoring improvements that we're making.

And then Claus, I'll maybe ask you just to come in on the rate sensitivity point?

Claus Ingar Jensen: Yes, I will be happy to do so. Hi, Sofie. The amount you were referring to from the pre-close call were a comment we made in respect to the isolated effect we saw from the rate hike in ECB and the Danish Central Bank. But there has also been further effects during

the quarter from some of the other countries, from the Bank of England hikes and also higher rates in the other Nordic countries. So, that's something that one should add to what we have guided for in respect Euros and Danish Kroner.

And then, of course, also because we are getting into positive territory, there are a couple of effects here where I would say we have been maybe slightly surprised to see that the deposit volumes have actually kept up very well during the quarter, and that's of course also something that adds a little bit of uncertainty to the exact NII development in the quarter.

Sofie Peterzéns: Okay, thank you. Just a quick follow up on the amount of those. Did I understand it correctly that currently that the amounts are somewhere, should be somewhere around 2.2 – 2.3 billion and that will go down to 1.5 – 1.6. So, basically, we are talking about a 700 million, or a 700 million roughly lowered costs by 2025 all else equal?

Claus Ingar Jensen: That's correct.

Operator: Thank you. We will now go to our next question. Please stand by, and your next question comes from the line of Martin Birk from SEB. Please go ahead, your line is open.

Martin Birk (SEB): Thank you. My first question goes on capital where I note that you guys have, you've got relief on 75% of the Danish FSA's Pillar 2 requirement, and my thinking is that why is your capital target still 16%? Shouldn't that also be reduced correspondingly to 15%? That would be my first question.

Then, so that's just on timing, I mean, it is, now you guys are approaching Q4 and with the settlement almost done and dusted what should we expect in terms of communication around future strategies, et cetera?

Carsten Egeriis: Hi, Martin, thanks for the question. Can you just repeat the future strategy, you mean in general the strategy of the bank?

Martin Birk: Yeah, I mean, basically, right now you have a strategy where it's all about working out this case, right, and now it's –

Carsten Egeriis: Yeah, yeah, no, I just wanted to clarify, that's fine, Martin, thank you. I think if I just take the strategy question first and foremost. We are very focussed on ensuring that we, of course, deliver our 2023 target, which we continue to be comfortable with. And that those 2023 goals are very much continuing, of course, to execute on the strategy that we have in place.

We will, during 2023, of course, come out with an updated strategy that will look forward beyond 2023, and so, you can expect that from us during next year and probably before summer.

Then, on your second question around capital, I think we've said that we would aim toward an above 16% CET1 target post-resolution and considering the release of the relevant part of the Pillar 2. Currently we stand at 16.9%. I think it's too early to talk at this stage around sort of the forward-looking capital targets in more detail given the continued uncertainty. So, again, we'll update you on that as part of the year end results early next year. And then we will also update you on 2023 and talk a little bit more about the forward-looking strategy and more details on timing with that.

Martin Birk: Okay. And then, can you just, maybe just a follow up on your comments on uncertainty, is the big amount that I can sum up in your contingent liabilities, is that a part of the uncertainties that you talk to, or does that have any relevance at all?

Carsten Egeriis: No. In terms of sort of – when we think about sort of ongoing capital targets, et cetera, I am not referring to that. I am just more referring to the general uncertainty and also the many moving parts there are both in terms of interest rate movements, cost movements, risk movements. And therefore, before we, you know, update more firmly on capital targets and strategy as we go forward, we would like to work through those things and update you at the beginning of next year as part of the year end results.

Martin Birk: Okay, thanks.

Operator: Thank you. We will now take our next question. One moment please. And your next question comes from the line of Ricardo Rovere from Mediobanca. Please go ahead, your line is open.

Ricardo Rovere (Mediobanca): Thank you. Thank you very much for taking my questions. I have a couple if I may? The first one relates to the 14 billion. Once the whole change is settled, could this have an impact on operational risk, RWA, maybe in 2023? Something then related to that, market risk RWA were down significantly this quarter, which is a bit counter-intuitive given the volatilities in the market generally tracks exactly the opposite, and the question I wanted to ask you is, your 2023 ambitions are unchanged. Those targets were set in one year ago when inflation was not the one we've seen when [inaudible] another one we've seen when your generalised macro outlook was not the one we see today. Is it fair to say that basically [inaudible] that higher rates will compensate for costs and eventually credit losses? And, if that is the case, what kind of macro scenario do you have in mind when you are reconfirming 8.5 to 9% ROE target for '23 despite a completely different macro environment? Thank you.

Stephan Engels: Yeah, thanks Ricardo. If I take the last question, you are right in saying that the confirmation of the targets next year today have different components than when we set the targets at Q3 last year. And you are also right in saying that we believe that there will be a higher level of top line income driven by NII, as we also see in the results the last few quarters, and that would be offset somewhat by inflation and cost of risk.

We are assuming a difficult macro environment within that very much in line with the uncertainties that we're seeing today. So, you could say that we are assuming that we would have a mild recession within those assumptions.

Market risk REA is down because we have a quite significantly decreased market risk over the summer and into Q3, less positioning in our credit and rates business. So, that's what's driving market risk REA

down. The exact impact on operational risk RWAs, I do not believe that that is material, but we'll continue to look at that.

Ricardo Rovere: Okay, okay, thank you.

Carsten Egeriis: I would definitely summarise that with the 16.9 capital ratio that we have right now. We have no restrictions in fully supporting our customer base where needed and where profitable.

Ricardo Rovere: Okay, thanks, thanks.

Operator: Thank you. We will now go to our next question. One moment please. And your next question comes from the line of Jan Erik Gjerland, ABGSC. Please go ahead, your line is open.

Jan Erik Gjerland (ABGSC): Thank you. I have two questions as well. Could you just elaborate a little bit more on the cost base and initiatives you are doing from '22 to '23 and especially the remaining part of the 700, which you mentioned just these questions regarding the increasing costs. So how could they work more on costs to get them down here and what is the details on the level of costs you are actually getting down from '22 to '23? And what has been elevated in '22, if you can help me with that?

The second one is, you have this possible adjustment of 6 billion; that's typically what's happened to Stage 1 and Stage 2 if I recall correctly. So, what is going to be happening when Stage 3 credits are done, is going more wrongly so to speak? Will the drop on this 6 billion, if they are charges from Section 2 to Section 3 or how it should be reviewed this 6 billion modelled into your commissioning book? Thank you

Carsten Egeriis: Thanks for that Erik, I'll let Stephan comment on the costs, bridge to '23 from '22. Let me just briefly comment on the post-model adjustment. I think you should see the 6 billion post model adjustment as ensuring that we're robustly and prudently reserved and provisioned for a future macro uncertainty. E.g., we believe that there has been, let's say on a broad basis, a credit event incurred that we cannot see in the models yet. And therefore, we have these PMAs and essentially you can think about it in the way that all of the COVID PMAs that we had, slightly in excess of 2 billion, that that has all been repositioned to macro uncertainty.

If you look at the actual Stage 1/Stage 2/Stage 3, you actually see some improvements in Stage 3 in line with having seen some larger single impairments in fact being released over this year. And that goes back to in fact that we have seen pretty robust activity and a pretty robust economy and therefore that's benefitted some of those Stage 3 impairments. So, that's how I would look at it.

Stephan Engels: On the cost bridge, very briefly, just to remind what is it that we saw as the positive delta topics between '22 and '23, it's mainly transformation costs, which we see a positive effect for '23 of roughly 400 million. Then the remediation costs around the legacy, mainly the debt collection cash will be going down by about 800 million. Then mobile pay, which we expect to close very soon, will reduce the cost base by a further 200 million. And then, we expect the cost around the Estonia matter also to be lower by almost 400 million. Against that is slightly has Swedish banking tax and resolution fund. And, as we discussed earlier, inflation. So, underlying cost savings to meet the target were about, or are about 600 million and that includes roughly 200 million from lower financial crime plan costs, which we, at least from today's point of view, believe we will definitely see. And the 600 million in total is basically a result of process optimisation and digitalisation, workforce footprint and also some of the more non-personal costs, which we still believe we can work on. And that are the many levers that we are now very closely looking at trying to find out how we can mitigate as much of the inflation pressure as possible.

Jan Erik Gjerland: Okay, thank you. Just on the Stage 3 there, when you have brought customers back from Stage 3 into Stage 2 or whatever you've done, has that impacted your net interest income in any significant way this quarter?

Carsten Egeriis: No, I would not say so. No.

Jan Erik Gjerland: Thank you.

Operator: We will take our next question, please stand by. And your next questions comes from the line of Johannes Thormann from HSBC. Please go ahead, your line is open.

Johannes Thormann (HSBC): Good afternoon, everybody. Johannes from HSBC. First of all a question on your dividend policy. You talk about a buffer of 440 bps and yeah, even if you would have paid a minor dividend of 2 kronor or whatever, it wouldn't have changed the investment base but it wouldn't have changed your capital base much either. Is the cancellation triggered by an agreement with the regulator, or is this just due to extreme management caution?

And secondly, in this agreement with the regulators and so on, is there any limitation on M&A deals for the next quarters or years even, where you are limited, or are you completely free to step out in the next weeks, just theoretically, and do a deal?

And secondly, on the Danica impairment, why did you do it now? Is the loss-making, the quarterly loss-making now to be expected to continue in the next quarters? When do you see a re-birth of there and is this company still a strategic part of your group, because it's probably getting too small in a consolidating insurance industry if we look at the yields today or also in another small north-western European market, wouldn't this make sense for you as well? Thank you.

Stephan Engels: Hi Johannes, thanks for the questions. So, on dividend, I think the very simple answer is, as we expect to end the year with a loss it is a very unlikely assumption that there is anything that we can distribute, regardless of what our distribution policy would be. So, I think that is the very simple and clear answer, with a loss, you don't pay a dividend. Other than that, our dividend policy of distributing 40 to 60% obviously remains unchanged.

Your question with respect to details around the final settlement, I will unfortunately have to postpone until we have the final settlement. Which, as Carsten said, is still subject to uncertainty, but we expect to get it done before the end of the year.

Danica remains an integral and strategic part of the group. There is huge business and customer connectivity, and it is a very important part on the savings proposition that we have towards our customers. So, that view remains completely unchanged. The technical answer to why a goodwill impairment now is relatively simple, typically you look at your goodwill impairment procedures at least once a year. And, given the interest rate hikes we have just looked at the discount rate for future cash flow and felt that we needed to increase them given the current red environment that has driven and mainly that has driven the correction. It does not reflect any of the more recent quarterly performances that we have seen.

Johannes Thormann: Understood, thank you.

Claus Ingar Jensen: Operator, can we have the last question please?

Operator: Thank you. We will now take your last question. Please stand by. And your last question comes from the line of Maria Semikhatova from Citi, please go ahead.

Maria Semikhatova (Citigroup): Yes, thank you for the presentation. Just four questions. The first one is on the cost out, look, I appreciate that you will provide more detail when the fourth quarter is out, but could you tell us how much of the remediation costs you already booked in nine months? And what issues are still pending? I believe it's a debt collection outside of Denmark, but if there is any other case extant. As I understand that is not, but if you could confirm that?

And then, just following up on the insurance business, I know you previously guided that there is a normalised return about 1.5 - 1.7 billion, I don't know if your view changed given the moving rates? And you highlighted in the presentation that you expect some stabilisation in the fourth quarter. Just want to confirm what's your outlook for insurance and maybe trading income as well, which is included in your comment? Thank you.

Stephan Engels: Okay. Thanks, thanks Maria. I think in terms of your question of remediation, we would still expect that there will be some tails left on the debt case, as you mentioned. Because we actually are spending money to execute the actual compensation but it will be lower than this year. I think that's the major part of the remediation cost that's relevant to highlight.

In terms of the insurance business, we can confirm that the underlying month income is around 120 million and we continue to believe that, so that has not changed as such with this discussion.

And then in terms of trading, we continue to see a robust trading environment as with what we have seen in Q3, but no question that that, of course, remains uncertain, given the environment.

Maria Semikhatova: Okay, thank you.

Carsten Egeriis: Okay, well then, I would like to thank you all very much for your interest in Danske Bank and all your questions and, as always please do reach out to Claus and our investor relation department if you have any questions. And thanks again for joining today on short notice and have a good afternoon. Thanks very much.

[END OF TRANSCRIPT]