Conference call

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Investor Relations

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SPEECH

Claus I. Jensen – Head of IR

Welcome to the conference call for Danske Bank's Financial Results for 2021. Thank you all for taking the time to listen in on this call today. My name is Claus Ingar Jensen. I am Head of Danske Bank's Investor Relations. With me today, I have our CEO, Carsten Egeriis, and our CFO, Stephan Engels.

Slide 1 please.

In today's call, we will present Danske Bank's financial results for 2021. We aim to keep this presentation to around 30 minutes. After the presentation, we will open up for a Q&A session, as usual. And afterwards, 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. 2021 has been a very busy year at Danske Bank, where 2020 marked a year in which we turned the corner and laid the foundation for continued execution of our plans, 2021 was a year that saw the first results of our significant efforts. The year started with a more or less complete lockdown in many countries, followed by a complete reopening of the societies over the summer, thanks to the successful rollout of vaccine programmes.

However, the combination of a new coronavirus and the winter season led to the renewed lockdown measures we have recently seen in many countries. Despite different degrees of lockdown, economic activity was at a very high level during the year and was characterised by potential capacity constraints in the labour market and higher inflation.

In this somewhat turbulent environment, we saw strong customer activity in all segments of our business, especially in our capital markets business, we saw strong progress and high activity levels. I am very pleased that not only our strong competencies within advisory and digital services, but also our strong value propositions within sustainable products have been able to meet our customers' needs and expectations.

In order to facilitate our ongoing transformation and strengthen our focus on commercial momentum, we made and announced changes to our organisational setup in the last few months. Firstly, in order to strengthen execution, we will reorganise our commercial organisation with the aim of supporting an even stronger focus on delivering value to our personal and business customers by separating P&BC into Personal Customers and Business Customers.

Secondly, in order to accelerate our progress and to further focus on creating a great customer experience, we have appointed Philippe Vollot as Chief Administrative Officer to enhance our end-to-end focus on our comprehensive Financial Crime Plan.

In terms of our sustainability agenda, we made important and tangible progress on all our various targets through 2021. And we continue to raise the bar and lead the industry to the benefit of our customers, society and all our stakeholders.

Just yesterday, I was proud to announce that as the first Nordic bank to do so, we are setting CO_2 reduction targets for selected key sectors towards 2030 in relation to our loan portfolio. With these targets, together with our customers, we are making a commitment, and as a bank, we are fully focused on offering our customers the best advisory services and attractive financing options to support and to facilitate our customers' sustainable transitions.

In 2021, we reached the midpoint of our ambitious 2023 plan, and we took the opportunity to adjust the plan due to the headwinds we have faced in some areas in the past two years. This work confirmed that in a normalised state, we can deliver on our financial ambitions of a return on equity of 9-10% and a cost/income ratio in the low 50s.

For 2023 specifically, we expect to deliver a return on equity of 8.5-9% and a cost/income ratio in the mid-50s. One of our key messages from our communication at Q3 was an even stronger focus on execution of our commercial priorities, with a key focus on regaining momentum in the retail segment. In this context, I am happy to note that already in Q4 we started to see an uplift in lending volumes in our retail business in Denmark, and towards the end of the quarter, a higher market share for new lending at Realkredit Danmark.

Financially, 2021 was a further step in the right direction. Due to stronger income as a result of high customer activity and continually diligent execution of our cost initiatives, we managed to increase profit before loan impairment charges by 22% from the level in 2020. Loan impairment charges came in significantly lower than normalised levels, and thus contributed to a net profit of approximately DKK13 billion or almost three times the level from last year. The return on equity improved from 2.6% in 2020 to 7.6% in 2021.

In accordance with Danske Bank's dividend policy, we intend to pay out a total dividend of DKK 7.5 per share corresponding to 50% of reported net profit. The Board of Directors proposes an initial dividend payment of DKK 2 to the Annual General Meeting, and the remaining DKK 5.5 is intended to be paid out in three tranches following the publication of interim reports in 2022, subject to a decision by the Board of Directors in accordance with the authorisation given to the Board and based on the usual assessment of Danske Bank's capital position at the end of each interim period.

This approach is taken to preserve the dividend policy of the bank, while also ensuring prudent capital management with a high degree of flexibility in light of the Estonia matter, as we remain unable to estimate any potential outcome or timing. Thus, Danske Bank's dividend policy remained unchanged, targeting a dividend of 40% to 60% of net profit.

For 2022, we expect net profit to be in the range of DKK 13 billion to DKK 15 billion, which Stephan will elaborate on later.

Next slide, please.

With the progress we have made throughout the year, we are now on the right path to accelerate our commercial momentum and to keep improving operational efficiency.

The key strategic aspects which we will emphasise in all of our initiatives will centre around three pillars. First, through digital convenience, we will empower our customers in their daily banking needs and enhance our efficiency and further enable our advisory. This leads to the second pillar, specialised and tailored advisory, where our service model and value proposition will strengthen the focus on our customers' more complex needs, for example, in relation to the green transition, which leads me to the third pillar, which is providing the right solutions and advice in relation to sustainability.

For our corporate segment, we continue to expand offerings through our District platform, a key enabler of our newly implemented service model, and our ability to capitalise on ancillary business. At the same time, we have equipped our business advisers to become more efficient. Towards 2023, we aim to have close to three out of four credit cases for small business customers handled digitally. We are already seeing good progress, with 50% of credit cases being handled in our digital process, and this will further improve our time-to-market and also free up capacity for advisers.

For the retail segment, we continue to develop innovative solutions and to nudge our customers using fee incentives. This has already led to our advisers spending less time on daily banking needs and more time on home finance needs and investment opportunities, which in turn supports our efforts to enhance the value proposition for selected segments, such as private banking, mass affluent and young potentials.

Moreover, we are seeing an increasing use of our digital tool for re-mortgaging, including around 900 daily calculations. Overall activity on our RD site has in fact increased 23% since we launched the revamped site, underpinning again the improving trend we have seen for front-book market share.

Within retail investments, we saw strong activity with positive net sales for each quarter of the year, particularly in Denmark and Sweden. In Denmark, we see our customers placing more of their investments under our advisory, whether this be in Danske Invest products or products offered by other providers.

For our corporate franchise, customers continued to appreciate our strong advisory offerings. And throughout 2021, we have maintained our number one position in the Nordic ECM and DCM league tables. And recent Prospera surveys have also been very satisfactory.

Finally, in relation to our market-leading position within sustainability, we continued to train our advisers to service our customers' growing need for green transition services. We are all well-positioned to maintain our number one position as the leading Nordic bank within sustainability advisory and fundraising.

In addition, we have also been focusing on upscaling our retail advisory capabilities to better identify sustainability-related opportunities in which we can help our customers to make sustainable choices. This is, for example, when it comes to sustainable home renovation.

We will continue to improve our digital solutions, our advisory services and to solidify our position within sustainability.

So before I hand over to Stefan, I would just like to take a step back. In 2021, it was a very eventful year for Danske Bank, we managed to uplift our top line by 4% with increasing momentum on key parameters in Q4 and also to enhance efficiency and to sharpen our organisational setup.

We continue to see improvements in how we service our customers. Together with our franchise, our strong franchise in the LC&I segment, a solid platform for business customers, and also the green shoots that we are seeing in our retail business, the foundation is there for continued progress in 2022.

Now I will hand over to Stephan to review our financial performance.

Stephan Engels – CFO

Thank you, Carsten. Slide four, please. As Carsten just mentioned, we had good results in 2021, including continually strong performance in Q4. Overall, the results were founded on good progress for all key reporting lines, including total income, expenses, and loan impairment charges.

Total income benefited from a positive development in all income lines. NII was stable from last year, as deposit repricing initiatives mitigated continued margin pressure. In Q4, we saw a small improvement in underlying NII, which for the first time in 2021 was attributable to higher lending volumes.

Net fee income benefited from stronger customer activity and came in 11% higher than in 2020, not only on the basis of strong demand for capital market financing solutions among our customers, but also on the basis of a rebound in activity-related fee income from personal and business customers.

In Q4, fee income continued to benefit from strong customer activity in all areas as well as from the annual booking of performance fees in our Asset Management unit.

Trading income contributed more than DKK 4 billion of total income, only slightly less than in 2020. In Q4, trading income was up from the preceding quarter, due to a gain of DKK 0.2 billion from the sale of Aiia to Mastercard.

Our insurance activities also contributed strongly, and above a normalised level, to the improvement in total income. Danica benefited from a combination of solid progress in the underlying business and a better investment result based on improved market conditions.

Other income, for which we usually do not have many comments, was up 34%, due mainly to good activity in Asset Finance and higher income from our real estate agency *home* in Denmark, driven by generally higher turnover in the housing market.

Operating expenses came in 4% lower than last year, as we saw the expected decline in transformation and compliance costs.

Furthermore, our initiatives to reduce costs continue to yield results and contributed positively in the form of lower staff costs. This was partly countered by one-off items and higher performance-based compensation. In Q4, costs came in slightly higher than expected due primarily to higher performance-based compensation. The elevated level of costs for our legacy cases also had a negative impact on expenses. I will comment on the cost development in more detail later in this call.

The change in impairment charges was a very significant driver of the improvement in profit before tax in our core activities. Total charges for 2021 amounted to DKK 0.3 billion. In Q4, we booked a reversal of DKK 0.2 billion, reflecting strong credit quality. As such, net profit for the year amounted to DKK 12.9 billion, up from DKK 4.6 billion in 2020.

Slide five, please.

Now, looking at our P&BC business unit, we have made solid and consistent progress. While we continue to navigate in a low interest rate environment, we ended 2021 with several green shoots that are worth recognising, including the uptick in lending we see both in PC DK, PC Nordic and for our business customers.

Clearly, we still need to improve our retail position in Denmark, but we have recently seen that the value proposition that we offer to our customers is being recognised, as the trend in the front-book lending keeps improving, with Realkredit Danmark recently accounting for market share of 18%, as Carsten alluded to before. Part of this can be ascribed to our fixed-rate FlexLife loan, which has already reached more than DKK 20 billion in new loan agreements.
Specifically, the month of December marked a very strong return, as new Realkredit Danmark lending amounted to 24% of the market in a month that is especially important given the high amount of refinancing.

And while we have mitigated margin pressure through several deposit repricing initiatives that have yet to fully materialise in our full-year numbers, we have also managed to capitalise on the incentive that creates that for our customers to allocate cash savings into our recognised investment solutions and thereby support fee income across the Nordic countries, in particular, Denmark and Sweden. Our retail net sales have increased in all quarters of 2021.

In general, we have seen a strong inflow of assets under custody, which combined with market developments resulted in assets under custody in P&BC increasing by 20%.

We continue to make progress in respect of our underlying expenses to enhance our operational efficiency, which together with a very strong quality of our loan book have underpinned a solid 40% uplift in profit before tax.

Slide six, please.

Turning to LC&I, profit before tax was up significantly as a result of a 15% increase in fee income for the full year, significantly lower impairment charges and lower operating expenses.

The record-high fee income from capital market activities made 2021 a remarkable year. The development demonstrates that the investments we have made over recent years to build a strong capital markets advisory offering to achieve a larger proportion of capital-light income have been very prudent.

For the full year, the strong fee income also compensated for lower NII, as increasing corporate credit demand towards the end of the year could not offset the negative impact from NII from lower income from deposits.

Income from our activities in investment banking and securities came in around DKK 1.9 billion for the full year, translating into a 55% increase from last year and cementing our position as a leading Nordic bank in terms of volumes and providing a strong foundation for the future.

Through 2021, LC&I continued to partner with our customers in executing their strategic agendas. This was especially evident as we have supported issuers and investors alike in a substantial number of green transactions, affirming our position as a leading Nordic bank within sustainable finance.

In terms of volumes, we have arranged sustainable bonds in the amount of USD 12 billion for our customers, which is more than we or any Nordic arranger has ever arranged in a full year.

Our asset management activities are also developing favourably, and we saw a continually good momentum in 2021 with 68% of our funds performing above benchmark, supporting sustained fee generation for our investment offerings.

In conclusion, LC&I in 2021 contributed strongly to the Group's 2023 ambitions by leveraging a strong market position and capitalising on the growing Nordic capital markets, for instance, within sustainable finance and investments, and thereby growing capital-light income.

Slide seven, please.

Now, let us take a look at Danica Pension and our activities in Northern Ireland. Danica delivered very strong financial results for 2021, in particular due to favourable financial market conditions that underpinned products where Danica bears the investment risk. Additionally, the positive performance was attributed to sound underlying business development, as Danica was able to boost premiums by 30% after securing new key mandates.

Life insurance continued its solid underlying performance in Q4, although the step-up from Q3 was due largely to the accounting correction of DKK 250 million recognised in Q3.

The health and accident business saw underlying business progress but was also in 2021 affected by provisions related to the pension yield tax. Assets under management ended the year up 3% and largely flat quarter-over-quarter but were affected by the Danica Norway transaction we announced in December. Consequently, we have reclassified almost DKK 24 billion of assets held for sale. Adjusting for this, assets under management would have been up almost 9% year-over-year and 5% in the fourth quarter alone.

Due to the strong equity markets in 2021, combined with the uncertainty related to financial markets that we have already seen in the month of January, we would be cautious to commit to the strong results we have seen in 2021 going forward. Our operations in Northern Ireland progressed steadily in 2021 on the back of our strong competitive position, with market-leading levels of customer satisfaction in both personal and business banking.

While total income was down for the year, this was largely attributable to negative mark-to-market movements on the hedging portfolios, reflecting UK interest rate expectations. Even so, profit before tax improved by DKK 240 million due to strong credit quality and significant impairment reversals for the year.

Lending activity remained subdued, with many personal and business customers continuing to pay off debt and hold additional liquidity. On the other hand, we maintained the healthy quality of our loan book, and the economic outlook for Northern Ireland continues to improve.

In the fourth quarter, we saw continued improvement in commercial activity and the impact of pricing actions. Higher UK rates, in combination with an improved outlook for the economy, supports our constructive view going forward.

Next slide, please.

Now let us take a closer look at the underlying development in net interest income for the Group. On NII, we have managed to navigate through a difficult operating environment where margin pressure and retail lending dynamics countered our deposit repricing initiatives. NII for the year ended in line with 2020, but we have seen small and gradual improvements in all quarters of 2021.

In Q4, we continued our efforts to optimise deposit pricing structures for business customers in Denmark. Further, while we have yet to see the full contribution from the lower retail threshold we introduced earlier in the year, we would continue to adjust and optimise our pricing for both retail and corporates to the competitive landscape.

For the first time in a while, we reversed the trend on lending volumes as they contributed positively in Q4. This was a result of lending in Realkredit Danmark improving in combination with the continually positive development in retail Norway as well as green shoots within corporate credit demand that are emerging.

We expect corporate lending to improve further in 2022 as business sentiment remains constructive, and corporates are likely to expand their credit facilities to account for the rising inflationary pressure to invest further in optimising their supply chains or to obtain transition financing related to their green agenda. At the same time, we also expect to assist our customers by taking over credits from the government support packages.

The drag from lending margins in Q4 can largely be attributed to timing effects in terms of the Norwegian rate hike, as our customer rates lag NIBOR due to the notice period customers have.

Finally, Q4 was affected by a positive contribution from TLTRO, which countered the NII costs related to our one-off taxation of business travellers.

Slide nine, please.

Let us have a look at fee income. As we discussed on some of our previous slides, fee income was strong and grew 11% from the level last year. It is the highest level we have seen for three years, and fee income made a valuable contribution to the good result for the year.

The increase was due mainly to much stronger income from almost all fee-generating business activities. Capital markets-related activities in particular, which were up 36% from last year, saw strong customer activity throughout the year, including continually good momentum in Q4. Fees generated by investment activities benefited from higher customer activity, stronger investment offerings and a positive development in assets under management.

Income in Q4 included the annual booking of performance fees of DKK 0.3 billion in asset management. Both year-over-year and relative to the preceding quarter, activity-related fees were up, positively impacted by the higher customer activity, for example, through cash management activities in transaction banking, and further supported by the reopening of societies during the year and the strong economic activity in general.

For lending and guarantee-related income, however, we saw a decline due to a lower amount of refinancing of variable-rate mortgages and very high remortgaging activity in 2020. The uplift in Q4 was due partly to stronger customer activity and income from the refinancing auction that takes place towards the end of the year.

Slide 10, please.

Trading income came in at DKK 4.1 billion for the year, slightly lower than the level in 2020, which benefited from very high activity in the financial markets. Income in 2021 included gains of DKK 0.4 billion from the sale of Visa shares and Aiia, whereas trading income in 2020 benefited from higher positive xVA adjustments.

At P&BC, trading income was up 17% from the level in 2020, driven by stronger customer activity following the reopening of societies. At LC&I, which is the main contributor to this item, 2021 was characterised by good customer activity, albeit not at the level in 2020 when the trading environment was more supportive and driven by higher volatility and easier monetary policy.

In Q4, trading income was up 11% excluding value adjustments due to more volatile markets. The result for the trading line, which has been relatively stable over the last five quarters, reflects both cyclical as well as structural changes in our markets business.

Slide 11, please.

Now let us take a look at our operating expenses. For the full year, the main contributors to our improving cost trajectory were a decrease in costs for transformation, for which we booked significant amounts in 2020, and lower costs for AML, including, in particular, the Estonia case, where we concluded our internal investigation in Q4 2020.

These significant improvements were countered by a high amount of one-off costs, higher activity-driven performance-based compensation, additional legacy remediation costs, as well as a higher resolution fund contribution due to the inflow of deposits.

Adjusting for one-offs, our underlying costs were 6% lower year-over-year, and the digital efficiency gains that Carsten alluded to earlier are already starting to show and will continue to materialise in 2020 [2022, editor] and beyond. This will have a positive effect on staff costs as the number of FTEs continued to decline. Adjusting for the compliance-related upscaling, we ended the year with a reduction in FTEs of more than 1,100.

We expect further effects from natural attrition and our announced divestments of business areas to underpin our ongoing improvements in operational efficiency. In Q4, expenses came in higher against the previous quarter, partly ascribed to seasonality effects, but also from remediation costs at an elevated level, as expected. With high activity and the corresponding uplift in fee income described earlier, performance-based income compensation also increased.

In addition, we saw higher expenses related to a one-off provisioning from the ruling around taxation of business travellers as well as the corona-related staff costs of DKK 0.2 billion related to unused vacation days, which is considered of a more one-off nature.

As we continue with our Better Bank agenda, we have seen solid improvements in our underlying cost take-out. In line with the communication around our 2023 ambitions, we remain confident that we have passed the peak in financial crime costs.

We will keep redeploying resources to our financial crime agenda throughout 2023, but, once we conclude our remediation programme in 2023, we have line of sight for material cost take-out. We still have work to do to simplify our cost structure, but the entire ELT is committed to improving the cost/income ratio.

Slide 12, please.

Turning to credit quality and impairments, the improvement we have seen throughout the year continued in Q4. Actual single-name credit deterioration and losses remained limited, and we therefore ended the year with a loan loss level of 1 basis point for the Group.

While some sectors remain impacted by the recent restrictions, the quality of our loan book continued to improve, and we saw net reversals during the quarter, particularly among corporates at LC&I. Due to the uncertainties that the rapidly rising inflation has created, coupled with the restrictions imposed because of the Omicron variant and the fact that new potential variants could result in similar uncertainties, we saw a slight increase in provisions related to our macro models as we prudently adjust our economic scenarios.

In addition, we made a slight amendment to our post-model adjustments, as we continue to maintain a healthy buffer to account for tail risk associated with the pandemic, including the repayment of corona-related state loans that is due to start on 1 April.

But overall, we remain very comfortable with the quality of our loan book. While we expect impairment levels to normalise somewhat going forward, we are reassured by the significant de-risking our balance sheet has undergone in recent years.

Next slide, please.

Now let us take a look at our capital position, which remains strong and with a healthy buffer to regulatory requirements. Our reported CET1 capital ratio decreased to 17.7% following the final REA increase associated with the implementation of EBA guidelines.

In total, we have increased REA by DKK 98 billion in relation to the EBA guidelines during 2021. Along with this increase, we have, as guided for previously, now received the relief from our initially established Pillar II add-on. As a result, our current CET1 requirement has been reduced to 12.5% and compared to Q3, our capital buffer improved to more than 500 basis points.

In addition to the effect from the increase in REA, our total capital ratio was affected by the redemption of DKK 3 billion AT1 notes that were effectively redeemed at par on 23 November.

In our capital planning, we remain mindful of the regulatory landscape, including the announcement to raise the Danish countercyclical buffer to 2%. We continue to generate and preserve a healthy level of capital. But even today, we are comfortable with the buffer we have to the fully phased-in requirements, and we continue to expect a limited REA impact from Basel IV.

The bank's leverage ratio was at 4.9 according to transitional rules and 4.8 under fully phased-in rules.

Next slide, please.

Finally, to our outlook in 2022. Our significant progress in 2021 marked an important stepping stone as we further enhanced our platform and commercial momentum. From here on, we continue to execute on our outlined initiatives in order to reach our profitability targets in 2023 and beyond.

For 2022, we expect income from core banking activities to be higher than in 2021, while net income from insurance is expected to normalise from the strong performance we saw this year. And like trading income, this will be subject to the development in the financial markets.

We expect costs in 2022 to reflect our ongoing focus on cost management and to be around DKK 25 billion. Besides mitigating actions to account for the rising inflationary pressure, our cost base will continue to reflect elevated remediation costs, as well as the inclusion of the Swedish bank tax and regulatory expenses of around DKK 0.4 billion in total.

Credit quality is expected to remain strong and underpins impairments that will remain below 8 basis points, which we view as our normalised loan loss ratio. Net profit for 2022, which will include the gains from MobilePay, DB Luxembourg and Danica Norway, is expected to be in the range of DKK 13 billion to DKK 15 billion.

Slide 15, please, and over to Claus.

Claus I. Jensen – Head of IR

Thank you, Stephan. Those were our initial comments and messages. We are now ready for your questions. Please limit yourself to two questions. If you are listening to the conference call from our website, you are welcome to ask questions by email. A transcript of this conference call will be added to our website and the IR app 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 Sofie Peterzen of JP Morgan. Please go ahead your line is open.

Sofie Peterzéns (JP Morgan)

Good morning, here is Sofie from JP Morgan. Given that you still have the US overhang, if there is a potential fine, what is your view on potential share buybacks given that your stock trades below book value? How do you think about share buybacks? Is that really something you are not considering, or would you consider that in future?

And then my second question would be on the cost line. There were some headlines in the local press last week or earlier this week that you expect quite continuation of very high level of AML costs until 2025. The cost guidance is a little bit higher than expected for 2022. How should we think about the costs beyond 2022? So if you could comment there.

Carsten Egeriis – CEO

Hi morning, Let me take those in turn. No, I mean, we would consider share buybacks in the future, but as at now, we continue with the dividend policy, 40-60%, and that is something that we would consider as we get potential line of sight into the Estonia matter.

Then on the cost line, the AML costs we presented, I believe in Q3, the trajectory on AML costs, we see a normalised AML cost of DKK 1.5 billion from 2025 and out. We have not changed that. So that continues to be the case. Likewise, in terms of costs in 2022 going into 2023, we remain committed to the mid-50s cost/income ratio and DKK 23.5 billion of costs in 2023.

Sofie Peterzéns (JP Morgan)

Okay that is clear, thank you

OperatorThank you our next question comes from the line of Robin Rane of Kepler Cheuvreux. Please go ahead your line is open.

Robin Rane (Kepler Cheuvreux)

Hi, so thank you for taking the question.

The first question is on the development on the AT1 payment in the coming years. How should we look at that?

Stephan Engels – CFO

Hi, the AT1 payments fall basically into categories, as we have equity- and debt-accounted AT1s. The equity-accounted AT1s are distribution of shareholder profit. Those we expect to go down as we change the setup. In general, and that applies for both the lines, given that we are redeeming instruments here that partly have been issued during our, call it, higher credit spread times, we expect a positive funding effect from those actions.

Robin Rane (Kepler Cheuvreux)

Okay great. Secondly, on the fees and the activity pipeline. I mean, the fees in the year were, as you said, very strong. How does the pipeline look going into 2022? Are we to expect a similar activity level? Also, if we should see that targets that feed into higher performance-based compensation? Thank you.

Stephan Engels - CFO

Yeah. I mean, we are guiding to a higher core banking income in 2022, so the combination of NII and fees. Obviously, we had a very strong Q4 in fees, so we would expect to roughly maintain fee income, but have an overall higher banking income, driven particularly by NII. We see strong customer activity and strong customer demand. We see the escape velocity from Q4 and also November, December continuing into 2022.

Then you asked a question on performance pay, which will be a function of particularly the capital market-based income. But again, I would expect that to be more or less in line with what we have seen in 2021 in 2022.

Robin Rane (Kepler Cheuvreux)

Okay thank you very much.

Operator

Thank you our next question comes from the line of Per Grønborg of SEB. Please go ahead your line is open.

Per Grønborg (SEB)

Yes, thank you. Two questions from my side. Just first a comment. I am wondering a bit as you call this a good result. You have generated 7.6% return on equity. I hope you do not perceive that to be a good result. Then to my questions. On the cost guidance, I could hear from the earlier question that you are still guiding for DKK 23.5 billion in 2023. Can you give a bit more light on 2022, and especially what is the impact of the sale of Luxembourg, MobilePay, Danica Norway? When do we expect that to kick into the costs? Are those divestments included in your guidance?

Carsten Egeriis - CEO

Hi, Per. On whether or not it is a good result, we are proud of the progress. For me, it is about progress, and it is about momentum, and we feel very good about the momentum that we are seeing across all our business areas and the significant improvement that we have seen across all the lines and all the businesses over 2021.

Then in terms of the impact of the various different one-offs, and we have both MobilePay, Luxembourg and the Danica transaction most likely hitting us in the first half of this year. We expect a gain from divestments of MobilePay of around DKK 450 million, Lux around DKK 350 million and Danica Norway about DKK 400 million. It is about a DKK 1.2 billion impact altogether.

Per Grønborg (SEB)

But how much is... There would be a lower cost due to those divestments. How much will that give you a tailwind on 2022 costs?

Stephan Engels - CFO

Per, it depends a little bit on when the transactions will really happen, because until then we will still account for those costs. We expect probably a net positive of DKK 400 million in 2023, and maybe a slightly lower amount in 2022, that depends a little bit.

Per Grønborg (SEB)

Okay. My second question is on this business traveller tax. I am just wondering when I look at your bridge on NII, you have a negative others which you addressed to be that However, in the slide Claus sent out this morning, you stated that there is plus DKK 50 million in one-off in Q4. You say that it is linked to the expense line. I am just a bit confused what the impact of this is on the NII line.

Stephan Engels - CFO

The business traveller tax agreement, or the payment that we have made, falls in two pieces. One is staff cost and the other part is an interest charge for basically the time this thing has been hanging out. That interest part goes into the NII line. That is roughly, call it, DKK 60-70 million. Also, we have as stated in my little speech, we have a positive effect from TLTRO on Q4, which basically wipes that out, but that is in normal NII.

Per Grønborg (SEB)

Okay so it is plus DKK 50 million from the internal bank that is addressed in Claus' slides.

Claus I. Jensen – Head of IR

No Per, the DKK 50 million is a minus. It is a negative one-off on the NII line.

Per Grønborg (SEB)

Okay, There is a minus in front of it. Then I understand it better. Thank you.

Operator

Thank you our next question comes from the line of Jakob Brink from Nordea. Please go ahead your line is open.

Jakob Brink (Nordea)

Thank you. Just coming back to the question on your divestment in the first half of 2022. Are those DKK 1.2 billion, are they included in the net profit line with DKK 1.2 billion or are they taxed? I do not think you have told us that before if they are taxed or not.

Stephan Engels - CFO

First of all, they are included in the net profit guidance, obviously, as stated. Secondly, they all differ a bit in tax treatment. Some of it is basically tax-free.

Jakob Brink (Nordea)

But after DKK 1.2 billion, how much of that will be taxed?

Claus I. Jensen – Head of IR

Well, if you take them one by one, you can say all of them are tax-free, except from the Luxembourg, where there is a tax element in it. The other one is not to be taxed.

Jakob Brink (Nordea)

Only Luxembourg is taxed?

Claus I. Jensen – Head of IR

Correct.

Jakob Brink (Nordea)

Okay thank you. And then on the guidance for 2022, just trying to reconcile your bits and pieces here. You say around DKK 14 billion is the midpoint of the guidance, then after or before tax, that is around DKK 18 billion. You are adding DKK 25 billion of costs and then no loan losses. In my small example here, I get to DKK 43 billion of revenues. Is that how you look at it? Or is it too early to get to DKK 43 billion already in 2022? Hence, we have to put in positive loan losses, or what are the moving parts here?

Carsten Egeriis - CEO

Look, I think probably we are not going to give exact figures here, but we remain committed to DKK 43.5 billion of income in 2023. We see that there will be a gradual improvement and momentum in the business towards the DKK 43.5 billion number.

Stephan Engels - CFO

Again, Jakob, I think you need to keep in mind, if you work the way backwards, which you just did – the other way of doing it is to exclude the one-offs from the net profits range that we have given and then apply the normal tax line, then you are getting, call it, a second holding point to understand, because I think the way you did it now upwards was creating a bit too much of a profit before tax

.Jakob Brink (Nordea)

Yeah okay, I get it, thank you, that was my questions.

Operator

Thank you our next question comes from the line of Johan Ekblom of UBS. Please go ahead your line is open.

Johan Ekblom (UBS)

Thank you very much. Can I maybe just start on the dividend decision? When you are moving to a quarterly dividend, should we view that as this is a change in policy that has been requested by shareholders or is this a reflection of an increased uncertainty around AML investigations or timing, given that you were paying annual dividends while this was ongoing in the past? Maybe start with that – that is the first question.

Carsten Egeriis - CEO

Hi, Johan. We do not have any news or insight around the timing of the investigation. This is really about preserving the dividend policy of the bank while ensuring a prudent management of the bank's capital and ensuring that we have a high degree of flexibility prior to possible outcomes of the Estonia matter.

Then, look, I mean, please also keep in mind that the past couple of years, we have had restrictions clearly on dividends. Therefore, it just has not been relevant to look at it in the way we are looking at it now. Then I think your second question around, look, I mean, do we expect this going forward? That is too premature to comment on or plan for the following years, right? So for now, we are planning on 2022.

Johan Ekblom (UBS)

Then maybe a second completely unrelated question. On Northern Ireland, we are seeing rate hikes in the UK. You have an extreme excess liquidity position in the Northern Irish business. It is small at a Group level. But, when I play around with the numbers, clearly, the interest rate sensitivity in that business is substantial and disproportionately larger to some of your other businesses. How much of your overall rate sensitivity is Northern Ireland? Or can you give us some more colour as to how to think of how big that could be in 2022?

Carsten Egeriis – CEO

I do not have the details on how big it is. I mean, clearly, there will be tailwinds. There are no questions about it. Claus, do you have the details on the NII sensitivity?

Claus I. Jensen – Head of IR

No. The interest rate sensitivity we provide is on a Group level, and we do not have it on a divisional level. But, I think we have discussed this issue before, and where we have said that quite a significant part of that is linked to the Danish franchise. And also bear in mind that the size of the balance sheet in Northern Ireland is pretty limited compared to the whole Group. So we do not have any specific number to provide for Northern Ireland rate sensitivity, unfortunately.

Johan Ekblom (UBS)

Thank you.

Stephan Engels - CFO

If the Bank of England keeps on hiking rates, it is definitely good news.

Johan Ekblom (UBS)

And it is by far the lowest loan to deposit ratio in the Group, right, which should help?

[Inaudible]

Operator

Thank you. Our next question comes from the line of Jan Erik Gjerland from ABG Sundal Collier. Please go ahead your line is open.

Jan Erik Gjerland (ABG Sundal Collier)

Yes, good morning. Thank you for taking my questions. I was thinking about the lending growth in Denmark. It looks like it is coming off towards the end of the year. Is this the business momentum you expect to continue into 2022 or was it something particular that happened at the end of the year? I know that remortgaging is, of course, more seasonal, but if you look at the corporate side, it looks also quite strong and good. Is there a particular reason why we should not expect that to continue in a [inaudible]?

Carsten Egeriis - CEO

No, I mean, we remain cautiously optimistic about the credit demand and the momentum on the credit side. As you state, we saw good momentum in Realkredit Danmark on the mortgage side. We also saw good momentum on the large corporate and institution side, as well as on real estate more broadly. We would expect that there would be credit demand in the business banking sector as well, as we phase out government lending in April. So we are cautiously optimistic on the lending credit demand side.

Jan Erik Gjerland (ABG Sundal Collier)

Perfect, thank you. Could you just remind us on the sensitivity that we talked about in the previous question on the higher rates? As you mentioned, most of this is related to Denmark. What kind of sensitivity do you have? Is it anything from 25 basis points or 100 basis points or how do you view it?

Carsten Egeriis - CEO

Yeah. I mean, it is about DKK 800 million for 25 bps, right, and then 600 on the other way. So 25 up is around DKK 800 million, and 25 down is around DKK 600 million. [Inaudible]

Stephan Engels – CFO

Parallel shift of the curve. Which never happens.

Jan Erik Gjerland (ABG Sundal Collier)

Thanks a lot for your time.

Operator

Thank you. Our next question comes from the line of Riccardo Rovere from Mediobanca. Please go ahead your line is open.

Riccardo Rovere (Mediobanca)

Thanks and good morning everybody. Thanks for taking my questions. I have a couple if I may. I think getting back one second to the dividend. The fact that you are changing the approach to the dividend payment, can we see it as a sign that maybe the Estonia case is getting closer to an end, or am I reading too much into that? If that is not the case, and assuming this case goes on for another two, three, four, whatever the number of years it is, should we expect this kind of approach to continue every single year till the moment the Estonia case comes to an end?

Carsten Egeriis - CEO

Yeah. Thanks, Riccardo. So again, we do not have any news or insight around timing of the investigation. This is again about preserving the dividend policy while ensuring prudent management of the bank's capital and retaining flexibility. We cannot speculate on this in detail in terms of timing and period of future dividend payments.

Riccardo Rovere (Mediobanca)

All right thanks. If I may, instead of proposing DKK 7.5, but paying it in instalments, did you think about paying maybe proposing a little less or paying it everything in one go? Was this kind of possibility ever discussed?

Carsten Egeriis - CEO

No. I mean, we believe that the DKK 7.5 dividend is again a reflection of our dividend policy of the bank. And the payment structure is again a reflection of ensuring prudent management of our capital position and retaining flexibility in terms of potential outcomes.

Riccardo Rovere (Mediobanca)
Okay, Thanks got it, thanks.
Operator

Thank you our next question comes from the line of Martin Gregers of Carnegie. Please go ahead your line is open.

Martin Gregers Birk (Carnegie)

Thank you. Just two questions also on guidance. Now that you insinuate basically flat fees year-over-year and still expect core banking income to increase, then when you say increasing, what kind of NII run rate in 2022 should we think of in terms of percentage increase? That is going to be my first question.

Then the second question is also on guidance. That is also to your comments around normalising income in Danica. My question simply is, what is the normalised income level in Danica, especially in the light of the recent repricing initiatives you guys have launched within your health and accident business?

Carsten Egeriis - CEO

Yes. Thanks, Martin. On Danica, we would say normalised income is in the range of DKK 1.5 billion to DKK 1.7 billion. Then on your question on NII, again, we would expect that a significant part of the income progress from this year towards the 43.5 in 2023 will come from NII, which again reflects that we see a favourable momentum on the credit book and in general on expectation of favourable credit demand in 2022.

Martin Gregers Birk (Carnegie)

Okay. But, I guess this is a little bit of a game of words since you would not give me a number, right? When you say increasing NII, what threshold does it have to be over before it is increasing in your book?

Carsten Egeriis - CEO

Yeah. I mean, it is not so much a game of words. It is just we have guided on 43.5 in 2023 and a big part of that will come from NII, but we are not going to go into details on the exact numbers.

Martin Gregers Birk (Carnegie)

Okay all right, okay all right very clear, thanks.

Claus I. Jensen – Head of IR

Can we have the last question, please?

Operator

Thank you. Our next question comes from the line of Martin Leitgeb of Goldman Sachs. Please go ahead your line is open.

Martin Leitgeb (Goldman Sachs)

Yes, good morning. Thank you for taking my questions. The first question, just a follow-up on the NII question. I was just wondering if you could give us in terms of how to think about overall margins for the

Group as we head into 2022? Should we think that this is more going to stabilise from this level, in particular, given obviously the various deposit repricings done over the course of 2021?

Secondly, you have referred to the bank tax in Sweden. I was just wondering in terms of similar initiatives for Denmark. What is the latest development there, and how you are thinking about the potential for Danish financial sector tax going forward? Thank you.

Carsten Egeriis - CEO

On margins, I would expect them to stabilise, but clearly, there is also upside potential as we see more demand for higher margin bank lending, which would be the expectation. So stable to potential upside on the margin side. Then, Stephan, do you want to talk on the tax?

Stephan Engels - CFO

Yeah. On the tax part, keep in mind, not all of our business is covered by the Swedish bank tax. We expect roughly DKK 0.3 billion as an impact from the Swedish bank tax.

The other question, if I understood it correctly, was more about the changes in the Danish tax line, the Arne tax, if I get it right. There, again, it needs to be seen what it will look like, where our first guess is out. I think, as everybody else has clearly stated, that probably will flow back its way into pricing and also reflecting the competitive environment on this matter.

Martin Gregers Birk (Carnegie)

Thank you very much.

Carsten Egeriis - CEO

Well, thank you very much all for your interest in Danske Bank and for your questions. Very much appreciated. Then as always, you are very welcome to contact our Investor Relations department if you have more questions after you have had a chance to take a look at the financial results in detail. Thanks very much and have a good day.